

Press Release

APAC FINANCIAL SERVICES PRIVATE LIMITED

July 05, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Shc R
Bank Loan Ratings	100.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	125.00	ACUITE A Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	225.00	-	-



Rating Rationale

Acuite has reaffirmed the long term rating of 'ACUITE A' (read as ACUITE A) on Rs. 125.00 Cr. bank facilities of APAC Financial Services Private Limited (AFSPL). The outlook continues to be 'Stable'.

Acuite has assigned the long term rating of 'ACUITE A' (read as ACUITE A) on Rs. 100.00 Cr. bank facilities of APAC Financial Services Private Limited (AFSPL). The outlook is 'Stable'.

Rationale for the rating

The rating factors in the sustained increase in scale of operations with improvement in earning profile. APAC's AUM grew ~ 80 % to Rs. 1054.19 Cr. (Rs. 1051.09 Cr in Own book) as on March 31, 2023 from Rs. 586.06 Cr. (Rs. 581.27 Cr. In own book) as on March 31, 2022. The group's earning profile also saw an improvement with consolidated PAT levels at Rs. 23.97 Cs. for FY 23 as compared to Rs. 11.15 Cr. for FY 22. The disbursement volume for APAC group also saw an improvement while maintaining healthy asset quality with GNPA and NNPA levels at 1.25 % and 0.94 % as on March 31, 2023 respectively on consolidated level. The rating continues to factor in the experienced management team supported by presence of seasoned investors/funds. The rating continues to factor in comfortable gearing levels of APAC Group at 1.38 times as on March 31, 2023 as against 0.37 times as on March 31, 2022. The rating further factors in the Group's comfortable liquidity profile for the short term and the increase in the granularity of portfolio through a planned expansion of APAC branches within the chosen geographies.

The rating, however, continues to be constrained by limited track record in building and managing a retail portfolio. Given that the portfolio has grown by ~80% in FY23, the majority portfolio has limited seasoning and the performance has to be monitored. Acuite believes that the ability of the Group to deploy the funds across various asset classes while maintaining an optimal risk return trade-off will remain key monitorable.

About the company

Mumbai based APAC Group comprises of two companies, AFSPL and its wholly owned subsidiary, APAC Housing Finance Private Limited (AHFPL). AFSPL was incorporated in May 2017, it is a non-deposit taking Non-Banking Finance Company (NBFC) registered with RBI. The company is engaged in extending credit to Micro Small and Medium Enterprises (MSMEs). The Group has a branch network of 122 branches spread across 7 states and reported AUM of Rs. 1054.19 Cr. (Rs. 1051.09 Cr in Own book).

Analytical Approach

Acuite has adopted a consolidated approach of the business and financial risk profiles of

APAC Financial Services Limited (AFSPL) along with its wholly owned subsidiary, APAC Housing Finance Private Limited (AHFPL) together referred to as the 'APAC Group'. The consolidation is in view of the common promoter, common management, shared brand name and financial synergies between the companies.

Extent of Consolidation: Full

Key Rating Drivers

Strength

Seasoned Management Team supported by reputed investors:

APAC Group commenced its operation in FY2018. As on March 31, 2023 Mr. Gunit Chadha, the founder promoter of the Group, held 52.39% of the stake in AFSPL. Multiples Private Equity Fund & Plenty Private Equity Fund collectively hold 40.21% in AFSPL and the balance equity is with the Group's leadership team and other investors. AFSPL currently has a six-member board of directors. Mr. Gunit Chadha has occupied top positions such as CEO of Deutsche Bank (Asia Pacific region) and CEO of IDBI Bank. He has infused about Rs.159.6 Cr. as his equity contribution including infusion of Rs.45 Cr. in December 2021 towards share capital. The other members of the board include Mr. Shankar Dey, a seasoned banking and finance professional with over four decades experience in BFSI sector. The board also has Ms. Nithya Easwaran, who has over two decades experience in financial services and is also the Managing Director of Multiples Alternate Asset Management Company Limited (Multiples).

The board also have Mr. Sanjay Maliah, Mr. Sanjay Athalye and Mr. Neeraj Bhai, all having more than two decades of experience in BFSI and other industries. Besides the Board members the Group also relies on the expertise of seasoned professionals such as Ms. Varsha Purandare & Mr. Arijit Chanda who are the independent members of the credit committee. Ms. Varsha has over three decades experience in banking and has occupied senior positions including ex-Chief Credit & Risk Officer, SBI group in her career. Mr. Arijit has 29 years of financial services experience, including in start-ups, in risk, credit and collections across Citi Group, Fullerton etc.

Comfortable Capitalization Profile and improved profitability metrics:

APAC Group's consolidated gearing levels are low at 1.38 times as on March 31, 2023 (0.37 times as on March 31, 2022) since the operations are largely funded by equity. The CAR on consolidate levels stood at 43.59%. The networth stood at Rs. 488.53 Cr. as on March 31, 2023 (Rs. 459.51 Cr. as on March 31, 2022), while the debt stood at Rs. 674.60 Cr. as on March 31, 2023 (Rs. 168.77 Cr. as on March 31, 2022). On standalone basis, networth stood at Rs. Cr. 486.79 as on March 31, 2023 (Rs. 460.69 Cr. as on March 31, 2022) and gearing remained at comfortable levels at 1.39 times as on March 31, 2023 (0.39 as on March 31, 2022). The PAT levels improved to Rs. 23.97 Cr. for FY 23 as compared to Rs. 11.15 Cr. for FY 22 on the consolidated level. The PAT for FY23 stood at Rs. 21.05 Cr. As against Rs.5.15 Cr in FY22 on the standalone entity. The RoAA and NIM on the consolidated level stood at 2.62% and 14.16% respectively as against 1.98% and 13.07% for FY22.

Acuité believes that APAC Group will continue to benefit from its experienced management and continued support from its investors.

Healthy asset quality and granular portfolio:

AFSPL focuses on business loan segment which extends credit to MSMEs, which are secured in nature. The company posted GNPA and NNPA levels at 1.25 % and 0.94 % as on March 31, 2023 respectively on consolidated level. The company has been able to create a secured granular portfolio with an average loan size of Rs.5.5 Lakhs. The top 20 borrower concentration came down to 3.99% in FY23 from 11.85% in FY22. The ticket size of more than 90% of the new loans sanctioned in FY23 were less than Rs. 10 lakh. The APAC Group's AUM stood at Rs. 1054.19 Cr. (Rs. 1051.09 Cr in Own book) as on March 31, 2023.

Weakness

Limited seasoning of the new portfolio and risk inherent to MSME Sector:

The group's portfolio grew by ~80% Y-o-Y and disbursements of Rs.629 Cr. were done in FY2023. The APAC Group's AUM stood at Rs. 1054.19 Cr. (Rs. 1051.09 Cr in Own book) as on March 31, 2023. The majority portfolio has less seasoning and the performance of the new portfolio created has to be monitored.

APAC group is fairly diversified with presence in 7 states with major focus toward MSME segment in the Tier 2 and 3 cities. Occurrence of events such as slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting credit profile of APAC group. Acuité believes that the company's ability to maintain its asset quality given the low seasoned loan book and increased presence in the newer geographies will remain a key rating monitorables.

ESG Factors Relevant for Rating

APAC has significant Institutional ownership with policies and processes in place to ensure transparent, fair & ethical conduct with its Customers and other stakeholders. Empowerment, Innovation & Excellence, Governance, Respect & Integrity and Collaboration are part of APAC's core values. APAC has two independent directors in our Board & constituted board committees such as Risk Management Committee, Audit Committee, Nomination and Remuneration Committee, IT Strategy Committee and CSR Committee to ensure high governance standards. Also, APAC's credit committee has two independent members with more than two decades of experience across financial services.

Rating Sensitivity

- Sustaining Scale up in business operations
- Maintaining granularity in the portfolio
- Changes in Asset quality
- Maintenance of adequate Liquidity

Material Covenants

The Group is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation from the Group, "The Group is adhering to all terms and conditions stipulated as covenants by all its lenders/investors."

Liquidity Position

Adequate

At Group level, liquidity stood at Rs. 140.40 Cr. as on March'23 with debt obligations for next six months at Rs. 106.44 Cr. as per ALM statement dated March 31, 2023. Portfolio of Rs. 68.75 Cr is due for collection in the same period. There is a mismatch in the 1 to 3 year bucket of the ALM statement, but Acuite belives that this gap would be met through further capital infusion or through other borrowing. Acuite notes that during FY23, APAC more than doubled its Lender base with existing lenders regularly enhancing their sanction limits and tenor.

Outlook : Stable

Acuité believes APAC Group will maintain a 'Stable' outlook given its experienced management team and investor support. The outlook may be revised to 'Positive' if there is significant scale up of the operations, while maintaining profitability and healthy asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the Group faces asset quality or profitability related challenges

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total	Rs.	1178.53	648.35

Assets#	Cr.		
Total Income*	Rs. Cr.	129.31	68.74
PAT	Rs. Cr.	21.05	5.15
Net Worth	Rs. Cr.	486.79	460.69
R e t u r n on Average Assets (RoAA)	(%)	2.30	0.91
R e t u r n on Average Net Worth (RoNW)	(%)	4.44	1.19
Total Debt/ Net worth (Gearing)	Times	1.39	0.39
Gross NPA	(%)	0.96	1.15
Net NPA	(%)	0.75	0.97

#Excluding deferred tax assets

*Total income equals to Net Interest Income plus other income

Key Financials - Consolidated

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets#	Rs. Cr.	1180.14	648.71
Total Income*	Rs. Cr.	136.74	77.77
PAT	Rs. Cr.	23.97	11.15
Net Worth	Rs. Cr.	488.53	459.51
Ret urn on Average Assets (RoAA)	(%)	2.62	1.98
Ret urn on A v e r a g e Net Worth (RoNW)	(%)	5.06	2.59

Total Debt/ Net worth (Gearing)	Times	1.38	0.37
Gross NPA	(%)	1.25	1.37
Net NPA	(%)	0.94	1.13

Excluding deferred tax assets

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2022	Proposed Bank Facility	Long Term	75.00	ACUITE A Stable (Assigned)
	Proposed Bank Facility	Long Term	5.00	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	25.00	ACUITE A Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE A Stable (Reaffirmed)
13 Jul 2022	Term Loan	Long Term	25.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Proposed Bank Facility	Long Term	5.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Term Loan	Long Term	20.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
28 Jan 2022	Term Loan	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
29 Jul 2021	Proposed Bank Facility	Long Term	50.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	70.00	ACUITE A Stable Reaffirmed
STCI Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE A Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE A Stable Reaffirmed

Annexure 2: List of companies under consolidation

- 1.APAC Financial Services Limited (AFSPL)
- 2.APAC Housing Finance Private Limited (AHFPL)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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