Aptus Value Housing Finance

Price Band ₹ 346-353

UNRATED

August 9, 2021

Aptus Value Housing Finance is a retail focused housing finance company that targets low & middle self-employed customers in rural and semi-urban areas. The company targets first time home buyers where collateral is self-occupied residential property. Aptus offers home loans for purchase and self-construction of residential property, home improvement & extension loans; loans against property; and business loans. The company's AUM has grown at 34.5% CAGR in FY19-21 to ₹ 4,068 crore. Of total AUM, 99.46% belonged to low and middle-income groups earning less than ₹ 50,000 per month. Loans to self-employed were at 72% of AUM.

As of March 31, 2021, the company had a network of 190 branches covering 75 districts in southern India. Among the peer group, Aptus had the largest branch network in south India with 52% of AUM in Tamil Nadu.

Focused on low, middle income customers

Aptus has focused on disbursing loans with average ticket size of ₹ 5-15 lakh. It intends to continue to tap the huge opportunity and increase market share. By 2022, housing shortage in India is estimated to increase to 10 crore units, 95% of which will be from the weaker section and lower income group, thereby creating significant growth opportunity.

Increasing penetration in existing markets

The company is currently operating in Tamil Nadu, Andhra Pradesh, Karnataka, Telangana and the union territory of Puducherry. Aptus is focused on expanding its presence and deepening penetration in existing regions. The company intends to expand its branch network in large housing markets - Odisha, Maharashtra and Chhattisgarh. With a scalable operating model, Aptus is aiming to expand its operations with relatively lower incremental costs, which will further drive efficiency and profitability.

Robust asset quality focused financier

Aptus has maintained asset quality across economic cycles and events like demonetisation, Covid-19, etc. As of March 31, 2021, GNPA was at 0.68%, while for FY20 and FY19 it was at 0.70% and 0.40%, respectively. NNPA for the same was 0.49%, 0.54% and 0.30%, respectively. The company has not restructured or written off any loans receivable as on March 31, 2021.

Key risks and concerns

- Significant portion of first time borrowers increases risk of default
- Geographical concentration of business operation poses risk

Priced at P/BV of 8.6x FY21 (post issue) on upper band

Aptus is a fast growing home financier. Utilising technology, the company focuses on enhancing operational efficiency, return ratios (14%) and asset quality (0.68%). At the higher end of the price band of ₹ 353/share, the stock is available at a P/BV of ~8.6x on FY21 BV (post issue).

Particulars

Issue Details	
Issue Opens	10th August 2021
Issue Closes	12th Auhust 2021
Issue Size (₹ crore)	2780
Fresh Issue (₹crore)	500
Offer for Sale (₹crore)	2280
Price Band (₹)	346-353
No. of shares on offer (in crore)	6.5
Post issue market cap (₹crore)	17157-17494
QIB (%)	50
Retail (%)	35
Min Lot size (No. of shares)	42

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	74.87	72.23
Public	25.13	27.77

Objects of issue

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To utlize net proceeds to augment the company's capital base to meet the future capital requirements

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Key Financial Summary

	FY18	FY19	FY20	FY21	CAGR (FY18-21)
NII	148.9	220.9	339.2	448.7	144.5%
PAT	66.6	111.5	211.0	266.9	158.9%
EPS	1.7	2.8	4.8	5.6	148.7%
BVPS	14.9	17.7	35.7	41.1	
RoA%	5.8	5.9	7.0	6.5	
RoNW%	11.4	16.0	12.3	13.5	

Source: ICICI Direct Research, RHP

Company background

Aptus Value Housing Finance is an entirely retail focused housing finance company that targets low and middle self-employed customers in the rural and semi-urban areas. Aptus is one of the largest housing finance companies in south India in terms of AUM. With primary focus on retail customers, it does not provide loans to builders or commercial real estate. The company targets first time home buyers where the collateral is self-occupied residential property. Aptus offers various types of loans such as home loans for purchase and self-construction of residential property, home improvement and extension loans; loans against property and business loans. The company's AUM has grown at a CAGR of 34.5% from FY19 to FY21 increasing from ₹ 2,247 crore to ₹ 4,068 crore. Of total AUM, 99.46% belonged to low and middle-income groups earning less than ₹ 50,000 per month. Loans to self-employed were at 72% of AUM while loan to salaried was at 28% of AUM.

As of March 31, 2021, the company had a network of 190 branches covering 75 districts in southern India in Tamil Nadu, Andhra Pradesh, Karnataka, Telangana and the union territory of Puducherry. Among the peer group, Aptus had the largest branch network in south India. The company's home state, Tamil Nadu (including Puducherry) alone accounts for ~52% of AUM.

Net Interest income has grown at ~209.9% CAGR from FY19-21 to ₹ 417 crore while net profit during the same period showed growth of 154.7% CAGR to ₹ 266.9 crore. NIMs for FY19, FY20 and FY21 were at 10.32%, 9.9% and 10.1%, respectively. Gross NPA and net NPA as on March, 31, 2021 were at 0.68% and 0.49%, respectively.

Exhibit 1: Product break-up (₹ crore)

₹ crore	AUM	Average Yield	Tenure (in months)	LTV	Average Ticket size (in lakh)
Home Loan	2103.2	15.4%	147	38.89%	7.2
Loans against property	890.3	17.0%	133	38.27%	7.1
Business Loan	1074.2	20.5%	101	39.21%	6.2
Total/Average	**4067.8**	**16.9%**			**7.0**

Source: RHP, ICICI Direct Research

Exhibit 2: Borrowing break-up (₹ crore)

₹ crore	FY19	FY20	FY21
Term Loans - Secured			
Banks (excluding NHB)	667.6	987.5	1313.9
NHB	145.5	282.4	577.2
Debt Securities - Secured			
Non-Convertible Debentures	701.4	644.6	430.2
Others	**91.6**	**107.3**	**193.8**
Total	**1606.1**	**2021.6**	**2515.1**

Source: RHP, ICICI Direct Research

Investment Rationale

Focused on low, middle income customers in rural & semi-urban markets

Aptus continues to focus and primarily serves low and middle income self-employed customers, which enables it to capture a large base of customer. Aptus has focused on disbursing loans with average ticket size of ₹ 5-15 lakh. It intends to continue to focus on such a customer base as it provides an opportunity to increase market share. By 2022, it is estimated that housing shortage in India will increase to 10 crore units, 95% of which will be from weaker section and lower income group. This segment of customer base creates a significant growth opportunity for Aptus. As part of risk mitigation strategy, the company will only focus on disbursing loans to retail customers.

Increase penetration, expanding branch network in large housing markets

The company is currently focused on operating in Tamil Nadu, Andhra Pradesh, Karnataka, Telangana and the union territory of Puducherry. Aptus has 190 branches in these states as of March 31, 2021. It is focused on expanding its presence in an on-ground contiguous manner in order to achieve deeper penetration in the existing regions. The company conducts a thorough research before setting up the branches such as regional demographics, level of urbanisation and competitive landscape. Apart from this, the company intends to expand its branch network in large housing markets in Odisha, Maharashtra and Chhattisgarh. With a scalable operating model, Aptus is aiming to expand its operations with relatively lower incremental costs, which will further drive efficiency and profitability.

Exhibit 3: State wise breakup of branches

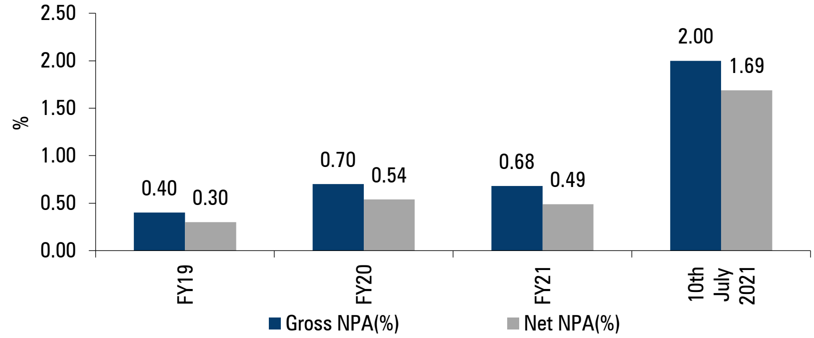
State	No. of Branches	No. of Districts Covered	District Penetration
Tamil Nadu (including UT of Puducherry)	79	33	86.8%
Andhra Pradesh	65	13	100.0%
Telangana	25	15	48.4%
Karnataka	21	14	45.2%
Total	**190**	**75**	

Source: RHP, ICICI Direct Research

Robust asset quality focused financier

Aptus is focused and intends to grow the business while also focusing on maintaining the asset quality. The asset quality has been maintained across economic cycles through events like demonetisation, liquidity crises lead by defaults by large financial services companies and the Covid-19 pandemic. During the Covid-19 pandemic, the company strengthened its underwriting process and monitored customer accounts that were affected by the pandemic. As of March 31, 2021 GNPA was at 0.68%, while for FY20 and FY19 it was at 0.70% and 0.40%, respectively. GNPA for rural portfolio for FY21, FY20, FY19 was 0.68%, 0.72%, 0.49%, respectively, while the same for urban portfolio was 0.71%, 0.67% and 0.28%, respectively. NNPA for the same was 0.49%, 0.54% and 0.30%, respectively. The company has not restructured or written off any loans receivable as on March 31, 2021.

Exhibit 4: Asset quality



Source: RHP, ICICI Direct Research

Reduced cost of borrowing through diversified sources

The company has adopted a strategy to reduce its average cost of borrowings through diversifying its borrowing profile and through improved credit rating. Through secured source of financing from private and public sector banks, issuance of NCDs, NHB, and securitisation of transactions, Aptus has been able to obtain cost-effective financing and further optimise borrowing costs, which has led to improved credit ratings and resulted in a good financial performance. The company has been able to maintain A+ credit rating by CARE and ICRA. The average cost of borrowing for FY21 was at 10.17%, for FY20 at 9.11%. The average incremental cost of borrowing declined from 10.11% in FY19 to 7.7% in FY21 with a reduction of 241 bps. As on date, the company borrows from 17 sources, up from 14 in FY19. Aptus further expects to reduce its cost of borrowing further as the sources of borrowings increase. Lower cost of borrowing will further help the NIMs and would drive better ratios.

Experienced, stable management team

Aptus has an experienced management team, which is supported by qualified and experienced operational personnel. The company's promoter, Chairman and Managing Director, M Anandan, has over 40 years of experience in the financial services sector and has previous experience of serving as the managing director of Cholamandalam Investment and Finance Company. He was also managing director of Cholamandalam MS General Insurance. The company's Chief of Business and Risk, Subramaniam G, has several years of experience in the fields of operations, risk management, fraud control and collections. The company's Chief Financial Officer, P Balaji, has over several years of experience in the textiles, telecom and finance sectors. Senior managers have diverse experience in various financial services and functions. Such knowledge and experience of senior and mid-level management team members provides the lender with a significant competitive advantage.

Peer comparison

Exhibit 4: Peer Comparison (FY21)

₹ billion	AUM	NIM%	Yield on Advance %	GNPA %	ROA %	ROE%
Aadhar Housing Finance	13330	5.65%	13.35%	1.10%	2.62%	13.51%
Aavas Financieries	9450	7.79%	14.25%	1.00%	3.49%	12.91%
Aptus Value Housing Finance	**4070**	**9.72%**	**16.98%**	**0.70%**	**5.73%**	**12.23%**
Home First Finance Company	4140	6.73%	13.36%	1.80%	2.50%	8.63%
India Shelter Finance	1930	10.21%	15.89%	1.30%	4.09%	9.76%
Motilal Oswal Housing Finance	3510	6.59%	14.90%	2.20%	1.04%	4.57%
Repco Home Finance	12120	4.80%	11.54%	3.70%	0.24%	14.98%
Shiram Housing Finance	3930	6.96%	12.28%	1.90%	1.97%	11.46%
Shubham Housing	1940	9.34%	16.32%	2.20%	2.81%	12.26%
Vastu Housing Finance	2410	8.94%	14.71%	0.50%	3.98%	10.65%

Source: RHP, ICICI Direct Research

Key risks and concerns

Significant portion of first time borrowers increases risks of non-payment or default

As of March 31, 2021, the company has 36.75% of its AUM or 39.88% of customer as new to credit. Such a set of customers usually has higher risk of non-payment or default due to a number of reasons such as not having experience of payment of interest and repayment of principal as well as other reasons applicable to other customers such as business failure, insolvency, lack of liquidity, loss of employment, or personal emergencies. To the extent the company is unable to successfully manage the risks associated with lending to new to credit customers, it may become more difficult to recover outstanding loan amounts provided to such customers.

Geographical concentration of business operation poses risk

The company's operations are concentrated in Tamil Nadu and Andhra Pradesh. As on March 31, 2021, 55.84% of AUM was from Tamil Nadu and 24.47% was from Andhra Pradesh. Out of total 190 branches, 144 were located in Tamil Nadu and Andhra Pradesh. The real estate and housing finance markets in these two states may perform differently and may be subject to market conditions that could be different from the housing finance markets in other regions of India. In both states, a majority of customers are in the self-employed category and operate family-owned business. Any significant social, political or economic disruption, or natural calamities could disrupt their business operations, which will require the company to make a significant expenditure and change in business strategies. The occurrence or inability to effectively respond to any such event, could have an adverse effect on the business and results of operations.

Indian housing finance industry highly competitive

The housing finance industry in India is highly competitive and the company competes with banks, other HFCs, small finance banks and NBFCs in each of the geographies in which it operates. Competitors may have more resources, a wider branch and distribution network, access to cheaper funding, superior technology and may have a better understanding of and relationships with customers in these markets. Competition in the segment has also increased because of interest rate deregulation and other liberalisation measures affecting the housing finance industry in India. It is expected that competition will intensify further. The ability to compete effectively will depend, in part, on ability to maintain or increase margins.

Extended impact of pandemic may impact liquidity, which may affect ability to continue to operate, grow business

As of March 31, 2021, Aptus has 46.37% as fixed and 53.63% as floating interest rate borrowings of total borrowings. Given the impact of Covid-19 on financial markets, the ability to borrow money to fund its current and future customer demand is uncertain. The liquidity could also be affected as the lenders reassess their exposure to HFCs or affordable housing finance companies (AHFCs) and curtail access to financing facilities or impose higher costs to access such facilities. The company's liquidity position may be further constrained as there may be less demand by investors to acquire the loans in the secondary market. Even if such demand exists, the company faces higher risk as a result of Covid-19 pandemic stemming from its customer's inability to repay the underlying loans. As on March 31, 2021, 78.77% and 21.23% of the total AUM represents fixed and floating rates, respectively.

Financial Summary

Exhibit 5: Profit & loss statement (₹ crore)

PARTICULARS	FY18	FY19	FY20	FY21
Interest income	191.6	310.9	485.2	623.9
Finance costs	53.3	116.2	184.5	206.5
Net interest income	**138.3**	**194.7**	**300.7**	**417.4**
Other income	10.6	26.2	38.5	31.4
Net total income	**148.9**	**220.9**	**339.2**	**448.7**
Expenses				
Employee benefits expense	33.8	48.1	64.8	71.4
Depreciation and amortisation	4.4	5.5	5.8	5.7
Other expenses	8.9	13.4	17.8	20.7
Total expenses	**47.0**	**67.0**	**88.4**	**97.8**
Operating profit	**101.8**	**153.9**	**250.7**	**350.9**
Impairment on financial instruments	0.8	1.2	3.4	5.8
PBT	**101.0**	**152.7**	**247.3**	**345.1**
Tax	34.4	41.2	36.3	78.1
PAT	**66.6**	**111.5**	**211.0**	**266.9**
Earnings per equity share				
Basic earnings per share (Rs.)	1.7	2.8	4.8	5.6
Diluted earnings per share (Rs.)	1.7	2.8	4.7	5.6

Source: RHP, ICICI Direct Research

Exhibit 6: Balance Sheet (₹ crore)

PARTICULARS	FY18	FY19	FY20	FY21
Cash, Cash equivalents and Bank	13.6	110.9	602.7	437.8
Investments	44.6	0.0	0.0	52.8
Loans	1374.6	2200.2	3117.1	3989.8
Fixed assets, CWIP and intangible	8.7	10.1	10.1	9.6
Other assets	3.8	6.4	16.8	30.3
Total Assets	**1445.3**	**2327.7**	**3746.7**	**4520.2**
Share Capital	78.6	78.8	94.5	94.9
Other equity	506.2	619.6	1614.5	1884.5
Total Equity	**584.8**	**698.4**	**1709.0**	**1979.5**
Borrowings	539.6	898.3	1370.4	2077.8
Other liabilities	321.0	731.0	667.3	462.9
Total Equity and Liabilities	**1445.3**	**2327.7**	**3746.7**	**4520.2**

Source: RHP, ICICI Direct Research

Exhibit 7: Key ratios (%)

PARTICULARS	FY18	FY19	FY20	FY21
Gross Loan Assets (₹ crore)	1416.7	2247.2	3178.7	4067.8
Growth rate of Gross Loan (%)	65.9	58.6	41.5	28.0
Asset Quality				
Gross NPA(%)	0.5	0.4	0.7	0.7
Net NPA(%)	0.4	0.3	0.5	0.5
Operational Ratios				
Average Yield on Loans (%)	17.3	17.1	18.0	17.2
Avg Cost of Borrowings (%)	9.3	9.5	10.2	9.1
NIM %	12.1	10.3	9.9	10.1
Operating Expenses / Average Total Assets	4.1	3.6	2.9	2.4
Cost to Income Ratio	31.6	30.3	26.1	21.8
Return Ratios				
ROE %	12.1	17.4	17.5	14.5
ROA%	5.8	5.9	7.0	6.5
BVPS	14.9	17.7	35.7	41.1
P/BVPS	23.7	19.9	9.9	8.6

Source: RHP, ICICI Direct Research,

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