

Aptus Value Housing Finance India Limited



Aptus Value Housing Finance India Limited

Issue Opens On
Aug 10, 2021

Issue Closes On
Aug 12, 2021

Price Band (INR)
346-353

Issue Size (INR Cr)
2780

Rating
SUBSCRIBE for Listing Gains

Incorporated in 2009, “Aptus Value Housing Finance” or “Aptus” is an entirely retail focussed housing finance company primarily serving low and middle income self-employed customers in the rural and semi-urban markets of India. It is one of the largest housing finance companies in south India in terms of AUM at INR 4,068 Cr (FY21). Aptus offers home loans for the purchase and self-construction of residential property, home improvement and extension loans; loans against property; and business loans. Company only offers loans to retail customers, with no exposure to real estate developers or for commercial real estate. It primarily targets first time home buyers where the collateral is a self-occupied residential property, and with average ticket sizes across products ranging between INR 600k to INR 720k.

OFFER STRUCTURE

Particulars		IPO Details	
No. of shares under IPO (#)	7,87,55,001		
Net offer (# shares)	7,87,55,001		
Price band (INR)	346-353		
Post issue MCAP (INR Cr.)	17,494		

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Aug 12, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 18 th Aug 2021
Initiation of Refunds	On or about 20 th Aug 2021
Credit of Equity Shares to Demat accounts	On or about 23 th Aug 2021
Commencement of Trading of Equity shares on NSE	On or about 24 th Aug 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	3,93,77,500	1,390	50%
NIB	1,18,13,250	417	15%
Retail	2,75,64,250	973	35%
Net Offer	7,87,55,001	2,780	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose		
Augmenting the tier I capital requirements of the Company [●]		
Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	74.9%	72.2%
Others	25.1%	27.8%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)	FY19	FY20	FY21
NII	195	301	417
PPOP	153	247	345
PAT	111	211	267
EPS (INR / Share)	2.8	4.7	5.6
BVPS (INR / Share)	17.7	38.4	41.2
NIM (%)	10.3%	9.9%	10.1%
AUM Growth YoY (%)	59%	41%	28%

Source: IPO Prospectus

Aptus Value Housing Finance India Limited

Company Overview

“Aptus Value Housing Finance” or “Aptus” is an entirely retail focussed housing finance company (HFC) primarily serving low and middle income self-employed customers in the rural and semi-urban markets of India. Founded by one of its promoter M. Anandan (currently CMD), Aptus commenced operations in 2010, and is today **one of the largest** housing finance companies in **south India** in terms of AUM at INR 4,068 Cr (FY21). Aptus offers home loans for the purchase and self-construction of residential property, home improvement and extension loans (HL); loans against property (LAP); and business loans (BL). Company only offers loans to retail customers and do not provide any loans to builders or for commercial real estate (CRE). It primarily targets first time home buyers where the collateral is a self-occupied residential property. It does not provide any loans with a ticket size above INR 25 Cr, with average ticket sizes across products ranging between INR 600k to INR 720k.

Aptus’ AUM has grown at a **CAGR of 34.5%** from INR 2,247 Cr for FY19 to **INR 4,068 Cr** in FY21. Its Operating Expenses to Net Income Ratio for the FY21 was 21.80%. Since inception, company has not restructured any loans or written-off any loans receivable. Aptus’ Gross NPAs expressed as a percentage of Gross Loan Assets was 0.68%, 0.70% and 0.40%, respectively for FY21, FY20 and FY19. Credit Costs to Average Total Assets was 0.14%, 0.11% and 0.06%, respectively, for the comparable periods. Amongst its peer set, it had the highest RoA of 5.7% and lowest cost to income ratio at 24.5% during FY21, according to CRISIL.

Overall, HL, LAP and BL accounted for INR 2,103 Cr (52%), INR 890 Cr (22%) and INR 1,074 Cr (26%) of its FY21 AUM respectively. Also, HL, LAP and BL had an average **loan-to-value less than 40%** at the time of sanctioning of the loans.

	As of and for the financial year ended March 31,					
	2021		2020		2019	
	AuM	Disbursements	AuM	Disbursements	AuM	Disbursements
Home loans	2,103	665	1,662	627	1,219	564
Loans against property	890	370	581	314	303	218
Business loans	1,074	263	936	329	725	306
Total	4,068	1,298	3,179	1,271	2,247	1,089

Source: IPO Prospectus

Loans to self-employed customers accounted for INR 2931 Cr (72%) of its AUM, while loans to salaried customer accounted for INR 1137 Cr (28%) for FY21. Overall 99.5% of total AUM was from customers belonging to the low and middle income groups, earning <INR 50k per month, with ~40% of customers being new to credit and 62% of customers located in rural regions.

	March 31, 2021	March 31, 2020	March 31, 2019
Number of total loan accounts (#)	58,069	43,987	30,749
Self-employed loan accounts (#)	41,704	32,159	23,582
Salaried loan accounts (#)	16,365	11,828	7,167
New to credit accounts (%)	39.88%	42.24%	44.96%

Source: IPO Prospectus

Aptus AUM exposure is well diversified in its core region (South India), achieved through contiguous expansion across regions and deeper penetration in existing markets. For FY21, the states of Tamil Nadu (including the UT of Puducherry), Andhra Pradesh, Karnataka and Telangana accounted for INR 2126 Cr (52%), INR 1112 Cr (27%), INR 404 Cr (9.9%) and INR 426 (10.5%) of its AUM, respectively, through a network of 190 branches covering 75 districts in above states (including UT of Puducherry). It had the largest branch network in south India among the Peer Set, according to CRISIL. TN, Aptus’ home state, continues to be the major state of presence accounting for 52% of AuM in FY21, down from 59.7% in FY19. Overall branch strength has increased from 142 in FY19 to 190 in FY21, of which 108 branches were operational for over 3 years with AUM of INR 3232 Cr and 82 branches for <3 years with AuM of INR 838 Cr.

Company has been able to raise both equity and debt from diversified and stable sources of capital. This includes refinancing from the NHB, financing from IFC and term debt including loans and debentures. Aptus has also regularly used securitization to monetize assets and optimize cost of borrowings and liquidity. Total Borrowings for FY21 were INR 2515 Cr, with average cost at 9.11%, down significantly from 10.17% for FY20. Average cost of incremental borrowings for the year was 7.70%, much improved compared to 9.45% for FY20 and 10.11% for FY19. Company’s credit profile was strong, reflected in the credit ratings - **ICRA A+** (Stable) and **CARE A+** (Stable), with positive asset-liability position across all maturity buckets.

Aptus Value Housing Finance India Limited

Investment Rationale

Presence in large, underpenetrated markets with strong growth potential

Aptus is one of the largest HFC in south India in terms of AUM. Its overall portfolio is spread across TN, AP, Karnataka and Telangana through a network of 190 branches covering 75 districts in such states and the UT of Puducherry. These four states have high per-capita incomes, better financial literacy and GDP growth rates. During FY20, the per capita income of TN, AP, Karnataka and Telangana was INR 1.5 Lacs, INR 1.2 Lacs, INR 1.6 Lacs and INR 1.5 Lacs, respectively, while the per capita income of India was INR 1.1 Lacs (Source: CRISIL Report). Further, it had a dominant market share in HL, with 21% in TN, alongside 12%, 8% and 7% in AP, Karnataka and Telangana, ensuring that Aptus' leading position in these states offers high growth potential.

State	Branches (#)	Districts (#)	District Penetration	% of AUM
Tamil Nadu (incl UT of Puducherry)	79	33	86.8%	52.3%
Andhra Pradesh	65	13	100.0%	27.3%
Telangana	25	15	48.4%	10.5%
Karnataka	21	14	45.2%	9.9%
Total	190	75		100.0%

Superior asset quality with a diversified granular book due to robust risk management architecture

Aptus has implemented a robust risk management architecture to identify, monitor and mitigate risks inherent in lending operations. This has helped it to preserve asset quality across economic cycles including demonetization, GST implementation, NBFC liquidity crisis and the COVID-19 pandemic. Company has not restructured any loans or written-off any loans receivable since inception. Credit policy mandates financing only retail customers for HL, LAP and BL where almost all the collateral is self-occupied homes. Company primarily targets customers whose sources of income according to the internally defined criteria are more resilient to economic cycles, while keeping average loan-to-value under 40% across the products. Also, company has focused to grow the book by increasing our customer base, while maintaining low average loan ticket sizes, resulting in a diversified, granular book.

	As of and for the financial year ended March 31,		
	2021	2020	2019
Gross NPAs / Gross Loan Assets	0.7%	0.7%	0.4%
Net NPAs/ Gross Loan Assets	0.5%	0.5%	0.3%

In-house operations leading to desired business outcomes

Company conducts all aspects of lending operations **in-house** including sourcing, underwriting, valuation and legal assessment of collateral and collections, enabling the company to maintain direct contact with customers, reduce TAT and the risk of fraud. It sources customers directly through a **sales team of 1,085 personnel** (FY21) which helps to establish strong relationships with them, leading to customer referrals, higher customer satisfaction and increased loyalty. It has also helped to mitigate underwriting and default risks by enabling a customer base with a better credit profile.

Domain expertise in company's focused region is difficult to replicate

Primarily catering to self-employed customers, many of who are new to credit and do not have formal income proofs, company assesses their income through various methods and conducts a cash flow assessment to determine repayment ability. It has developed an in-depth understanding of the requirements of customers in these regions (TN, AP, Karnataka & Telangana) and methods to determine their credit worthiness. Aptus has also invested in efforts to study, develop and update credit assessment models specific to over **60 types of customer profiles**, some of which are customized to regions and specific types of employment. This has helped in reducing subjectivity in forecasting the future income of potential customers, thus enabling robust credit underwriting. Based on company's domain expertise to underwrite self-employed customers with limited income proofs, it has been able to effectively serve customers, grow business and create a business model that is difficult to replicate in its geographies.

Strong and experienced management team with marquee shareholders

Promoter & CMD M. Anandan has over 40 years of experience in financial services, having previously worked with Cholamandalam Investment and Finance. Company's senior management comprises experienced professionals whose knowledge and experience provides Aptus with a significant competitive advantage as it seeks to grow business and expand to new geographies. Shareholders include WestBridge, Malabar Investments, Sequoia, Madison India and Steadview Capital. Company would benefit from strong capital sponsorship and professional expertise of its marquee shareholders that have assisted Aptus in implementing strong corporate governance standards, capital raising and strategic business advice, which has been critical to the growth of business.

Strong financial performance leading profitability across industry

Company's focus on serving self-employed customers has resulted in high yields for its loan portfolio. Average yields on disbursements have historically averaged between 15% to 20% across products, while loan portfolio also qualified for priority sector lending. Company closely monitors and controls operating costs, resulting in lowest cost to income ratio among the Peer Set in FY21. AuM per employee has grown from INR 17mn in FY19 to INR 21.26mn for FY21, resulting in high Return on Assets. Company has also been able to access borrowings at a competitive cost from a diversified lender base, delivering high returns to the stakeholders.

Aptus Value Housing Finance India Limited

Continue to focus on low and middle income self-employed customers in rural and semi-urban markets

Aptus has been catering to low and middle income self-employed customers in rural and semi-urban markets, thus operating a financially inclusive customer centric business model. It seeks to improve the standard of living of unserved/underseved customers and include them into the financial mainstream. Average ticket sizes of the loans disbursed has been in the range of INR 0.5mn to INR 1.5mn which is expected to continue in future, coupled with increase in overall market share. CRISIL estimates housing shortage in India to increase to 100mn units by 2022, of which 95% will be from LIG and EWS, while the remaining 5% will be from MIG and above. Given the significant growth opportunities offered by the sector it will continue to disburse loans only to retail customers as part of its risk mitigation strategy.

Grow penetration in existing markets and expand branch network in large housing markets

Company operations currently are confined to the 4 states of TN (incl. UT of Puducherry), AP, Karnataka and Telangana through a network of 190 branches, which is intended to be expanded in an on-ground contiguous manner to achieve deeper penetration. Before setting up new branches, Company conducts research before branch set up while considering factors including regional demographics, level of urbanization and the competitive landscape. It also intends to expand the branch network in large housing markets in the states of Maharashtra, Odisha and Chhattisgarh. Company views this operating model as scalable and assistive in expansion with lower incremental costs to drive efficiency and profitability.

Maintain focus on quality while growing the asset book

Aptus has focused on maintaining its asset quality across economic cycles through risk management architecture, strong management team and proactive measures which has helped it to consistently perform well through such macro-economic challenges. It has strengthened underwriting processes and monitored customer accounts that were more likely to be affected by the Covid-19 pandemic. It also enhanced collection efforts and set up a task force to monitor all crucial activities at company's head office. As a result, gross NPAs have continued to be under control below 0.7% over last 3 years, while net NPAs were below 0.55% during the same period. Further, since the inception Aptus has not restructured any loans or written-off any loans receivable.

Further reduction in cost of borrowings through diversification and improvement in credit rating

Company would be seeking to reduce average cost of long term borrowings going forward through improved credit ratings and diversification of borrowing sources. Aptus estimates it has been able to obtain cost-effective financing and optimize borrowing costs through improved credit ratings and strong financial performance. Company is rated A+ (stable) from both ICRA and CARE. As it continues to grow the scale of operations, it will seek to reduce dependence on term loans and cost of funds, along with increase in the lender base (currently 17). Lower cost of borrowings should improve net interest margins, competitively price loan products and deliver better return ratios.

Management

M Anandan, Founder, Chairman and Managing Director

Has founded and led Aptus as the Chairman and Managing Director since 2009; has over 40 years of experience in the financial services sector while previously leading Cholamandalam Investment and Finance along with Cholamandalam MS General Insurance. Holds a bachelor's degree in commerce from University of Madras and member of ICAI.

Balaji P, Chief Financial Officer

He has been working with the Company as the CFO since 2010; has various years of experience in the textiles, telecom and finance sectors. Previously associated with the Bombay Dyeing, Hutchison Max Telecom and Cholamandalam MS General Insurance. Holds a bachelor's in commerce from University of Madras and CA from ICAI.

Sanin Panicker, Company Secretary and Compliance Officer

Joined Aptus as the Company Secretary in 2020 and appointed as the Compliance Officer in May 2021; has various years of experience in the consulting and finance sectors. He was previously associated with Madura Micro Finance Limited. Holds a bachelor's in commerce from University of Kerala.

Aptus Value Housing Finance India Limited

Outlook and Valuation:

Aptus has been achieve strong growth in assets under management, while controlling costs and maintaining quality leading to strong financial performance. AUM has grown at a **CAGR of 34.5%** from INR 2,247 Cr for FY19 to **INR 4,068Cr** in FY21. Net interest income has grown at a CAGR of 46% from INR 195 Cr to INR 417 Cr over FY19-Fy21. PPOP has grown at a CAGR of 50% to INR 345 Cr while PAT has grown at a CAGR of 54.7% to INR 267 Cr. Amongst its peer set, it had the highest RoA of 5.7% and lowest cost to income ratio at 24.5% during FY21, according to CRISIL.

Company is a leader in the attractive south market and has been able to grow the loan book while maintaining high quality and lower costs. The costs of borrowing have been under control due to high credit ratings, leading to improved yields and margins. IPO's higher price band of INR 353 per share **implies a P/E of 63.6x and P/B of 8.6x**, which is **significantly higher than the Industry average of 58.6x and 6.0x respectively**. Considering relatively higher yields, leadership status in attractive south market, potential for growth in larger housing markets, low cost income ratio, strong capital adequacy and expected reduction in borrowing costs, **we recommend a 'Subscribe' to Aptus issue for listing gains.**

Peer Comparison:

Company Name	CMP (INR)	AUM (INR Cr)	Mkt Cap (INR Cr)	EPS (INR)	BVPS (INR)	P/E (x)	P/B (x)
Aptus Value Housing Finance	(•)	4070	17,494^	5.6	41	63.6^	8.6^
Home First Finance	573	4140	5015	12.2	158	47.0	3.6
Aavas Financiers Limited	2566	9450	20138	36.6	306	70.1	8.4

Source: IPO Prospectus, KRChoksey Research, ^ estimated at the higher price band of INR 353

Risks and Concerns:

- Impact of Covid-19:** The pandemic has earlier led to general slowdown in business activity for Aptus including slower disbursements , higher delinquencies, lower collection efficiencies and disruption of financial discipline due to moratorium
- High portion of customers are first-time borrowers:** ~40% of Aptus customers in FY21 were new to credit, which generally may have higher risk of non-payment or default due to a variety of reasons such as not having the experience of payment of interest and repayment of principal, in addition to risk from business failure, insolvency, lack of liquidity and loss of employment
- Concentration of business in TN and AP:** Aptus' combined exposure to states of TN and AP is nearly 80% of overall AuM; real estate and housing finance markets in these two states may perform differently from the housing finance markets in other regions of India
- Inability to sustain growth similar to the growth rates in recent years :** Company has recorded high growth of 35% in AuM in recent years; going forward as company grows in scale it could be difficult to maintain high growth rates

Aptus Value Housing Finance India Limited

Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
Interest Income	311	485	624
Interest Expense	116	185	207
Net Interest Income	195	301	417
Non interest income	26	38	31
Operating income	221	339	449
- Employee expense	48	65	71
- Other operating expense	20	27	32
Operating Expense	68	92	104
PPOP	153	247	345
Provisions	0	0	0
PBT	153	247	345
Tax Expense	41	36	78
PAT	111	211	267
Diluted EPS (INR)	2.8	4.7	5.6

Balance Sheet (INR Cr)	FY19	FY20	FY21
Source of Funds			
Share capital	79	95	95
Reserves & Surplus	620	1615	1885
Networth	698	1709	1979
Borrowings	1600	2015	2508
Other financial liabilities	12	13	22
Other liabilities & provisions	17	10	10
Total Equity & Liabilities	2328	3747	4520
Uses of Funds			
Cash and cash equivalents	107	484	423
Balance w/ banks & others	4	119	15
Net investments	-		53
Loans & advances	2200	3117	3990
Other financial assets	3	3	12
Fixed assets	10	10	10
Other assets	3	14	19
Total Assets	2328	3747	4520

Aptus Value Housing Finance India Limited

Financials:

	2021	2020	2019
	(₹ in crore, except percentages)		
AUM	4,068	3,179	2,247
Growth rate of AUM	28%	41%	59%
Disbursements	1,298	1,271	1,089
Total Interest-earning Assets	4,426	3,719	2,309
Average Interest-earning Assets	4,072	3,014	1,848
Average Total Assets	4,133	3,037	1,887
Average Interest-bearing liabilities	2,268	1,814	1,226
Average yield on Loan Book	17.2%	18.0%	17.1%
Average Cost of Borrowings (incl Sec)	9.1%	10.2%	9.5%
Spread	8.1%	7.8%	7.7%
Net Interest Margin (%)	10.1%	9.9%	10.3%
Incremental Cost of Borrowings(%)	7.7%	9.5%	10.1%
Incremental Borrowings	967	785	781
Average cost of borrowings (incl Sec)	9.1%	10.2%	9.5%
Return on Total Assets (%)	6.5%	7.0%	5.9%
Return on Equity	14.5%	17.5%	17.4%
Capital Adequacy Ratio	73.6%	82.5%	43.6%
Number of branches	190	174	142
Live accounts (incl Securitised)	58069	43987	30749

Aptus Value Housing Finance India Limited

Industry Comparison

AUM Split (FY21)	By Products			By Income Type		Avg ticket size (INR Mn)
	Home Loans	LAP	Others*	Salaried	Self employed	
Aadhar Housing Finance	85%	15%	-	64%	36%	0.85
Aavas Financiers	74%	-	27%	40%	60%	0.85
Aptus Value Housing Finance	52%	22%	26%	28%	72%	0.70
Home First Finance Company	92%	6%	2%	74%	26%	1.01
India Shelter Finance	61%	-	39%	NA	NA	NA
Motilal Oswal Home Finance	88%	12%	-	55%	45%	0.86
Repco Home Finance	81%	19%	-	49%	52%	1.5
Shriram Housing Finance	63%	33%	4%	17%	83%	NA
Shubham Housing	76%	24%	-	57%	43%	0.8
Vastu Housing Finance	61%	39%	-	20%	80%	1.20

Ratios (FY21)	Yield on Advances	Cost of borrowings	NIM	Opex	Employee expenses	Return on Assets (ROA)	Leverage (In Times)	Return on Equity (ROE)
Aadhar Housing Finance	13.35%	8.27%	5.65%	2.32%	1.21%	2.62%	3.8	13.51%
Aavas Financiers	14.25%	7.97%	7.79%	3.54%	1.92%	3.49%	2.6	12.91%
Aptus Value Housing	16.98%	9.13%	9.72%	2.38%	1.60%	5.73%	1.1	12.23%
Home First Finance	13.36%	7.94%	6.73%	3.38%	1.47%	2.50%	2.2	8.63%
India Shelter Finance	15.89%	8.69%	10.21%	4.90%	2.50%	4.09%	1.6	9.76%
Motilal Oswal Home	14.90%	9.97%	6.59%	4.27%	1.48%	1.04%	3.1	4.57%
Repco Home Finance	11.54%	7.95%	4.80%	1.60%	0.58%	0.24%	5.0	14.98%
Shriram Housing	12.28%	8.24%	6.96%	4.30%	1.73%	1.97%	5.5	11.46%
Shubham Housing	16.32%	9.73%	9.34%	5.70%	3.61%	2.81%	3.1	12.26%
Vastu Housing Finance	14.71%	9.08%	8.94%	3.65%	2.22%	3.98%	1.5	10.65%

Branch Network & Emp Strength (FY21)	Total number of branches as on March 2021	Total Branches in South India	% Branches in South India	Number of employees as on March 2021
Aadhar Housing Finance	319	93	29.2%	2310
Aavas Financiers	280	0	0.0%	4581
Aptus Value Housing Finance	190	190	100.0%	1913
Home First Finance Company	72	23	31.9%	687
India Shelter Finance	97	16	16.5%	1126
Motilal Oswal Home Finance	104	31	29.8%	1316
Repco Home Finance	177	137	77.4%	980
Shriram Housing Finance	80	30	37.5%	798
Shubham Housing	94	0	0.0%	1914
Vastu Housing Finance	75	18	24.0%	582

Aptus Value Housing Finance India Limited

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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