

RETAIL EQUITY RESEARCH

Aptus Value Housing Finance India Ltd.

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NBFC- Housing Finance

SENSEX: 54,278

NIFTY: 16,238

Price Range Rs. 346- Rs. 353

South India based rural focused HFC...

Aptus Value Housing Finance India Limited (AVHFIL) is an entirely rural focused housing finance company primarily serving low and middle income self-employed customers in the rural and semi-urban markets of India. Incorporated in 2009, they are one of the largest housing finance companies in south India in terms of AUM, as of Q4FY21. The Gross Loan Assets have grown at a CAGR of 34.54% from Rs.2247.2cr, in FY19 to Rs.4067.8cr, in FY21. As of FY21, they conduct the operations in the states of Tamil Nadu (including the union territory of Puducherry), Andhra Pradesh, Karnataka and Telangana through 190 branches.

- Overall housing finance market to log a CAGR of 11-12% and the low income housing segment to grow at ~9% CAGR between FY21 and FY25 on account of a rise in disposable income, healthy demand, attractive interest rates and government impetus on housing.
- AVHFIL has a diversified loan portfolio of home loans, loans against property and business loans, which accounted for 51.7%, 21.9% and 26.4% of the AUM, respectively, as of Q4FY21.
- Focus on rural lending especially in mid and lower income group has helped AVHFIL to enjoy premium margins. For FY21, FY20 and FY19, the calculated net interest margin was 11.7%, 11.3% and 8.8%, respectively.
- All of the loans are secured and the average ticket size is in the range of Rs.5lakhs to Rs.15lakhs with a safe average loan-to-value of 38.5%.
- During FY21, FY20 and FY19, AVHFIL was able to maintain a superior collection efficiency of 99.7%, 99.3% and 99.5% respectively.
- As of FY21, the calculated average yield on disbursements was 17.2%, where the business loan segment has the highest yield followed by property loans and home loans.
- According to the CRISIL Report, AVHFIL had the highest RoA of 6.5% among the peers in FY21 and has an average RoE of 11.1%, 11.4% and 9.3% in FY21, FY20 and FY19 respectively.
- They only offer loans to retail customers and do not provide any loans to builders or for commercial real estate.
- Despite its focus on low and mid income group, AVHFIL was able to keep slippages under control resulting in lower NPA levels. As on FY21, the Gross NPAs were 0.68%, while the Net NPAs were 0.49%.
- They intend to expand the branch networks to Maharashtra, Odisha and Chhattisgarh along with deeper penetration in the existing markets with an average addition of 30 branches per year.
- At the upper price band of Rs.353, AVHFIL is available at P/BV of 8.8x (FY21) which appears to be fully priced. We assign a "Subscribe" rating for the issue on a long-term basis considering its strong return ratios, impressive growth and attractive margins.

Purpose of IPO

The offer comprises of the fresh issue and the offer for sale. The proceeds from the offer for sale will go to the selling shareholders, while the amount received from the sale of fresh issue will be utilized for fully augmenting the tier I capital requirements of the Company.

Key Risks

- COVID-19 has had adverse effects on the business, operations, cash flows and financial condition and may continue to do so in the near future.
- The operations are primarily focused in the states of Tamil Nadu(52.3% of AUM) and Andhra Pradesh(27.3%).

Peer Valuation

| Company | MCap (₹ cr) | NII (₹ cr) | PAT (₹ cr) | RoA(%) | RoE (%) | BV (₹) | P/E(x) | P/BV(x) |
|----------------------|-------------|------------|------------|--------|---------|--------|--------|---------|
| APTUS Value Housing | 17,494 | 417 | 266.9 | 6.5 | 11.1 | 39.9 | 66 | 8.8 |
| Aavas Financiers Ltd | 20,076 | 514 | 315.5 | 3.5 | 12.8 | 306.6 | 68 | 8.3 |

Source: Geojit Research, Bloomberg; Valuations of AVHFIL are based on upper end of the price band (post Issue), Financials as per FY21 Consolidated.

Business Operations...

As of March 31, 2021, AVHFIL serviced 58,069 active loan accounts. Loans to self-employed customers accounted for Rs.29,30.9cr or 72.05% of the AUM, while loans to salaried customer accounted for Rs.1,136.9cr. 27.95%, as of March 31, 2021. As of March 31, 2021, Rs.4,045.9cr or 99.46% of the AUM were from customers who belonged to the low and middle income group, earning less than Rs.50,000 per month, and Rs.1,494.8cr of the AUM, or 39.88% of the customers were new to credit. AVHFIL targets first time home buyers where the collateral is a self-occupied residential property. All the loans are to retail customers and they do not provide any loans to builders or for commercial real estate.

Aptus offers customers home loans for the purchase and self-construction of residential property, home improvement and extension loans; loans against property; and business loans, which accounted for Rs.2,103.2cr, or 51.70%, Rs.890.3cr or 21.89% and Rs.1,074.2cr or 26.41% of the AUM, as of March 31, 2021, respectively.

Competitive Strengths

- Presence in large, underpenetrated markets with strong growth potential
- Robust risk management architecture from origination to collections leading to superior asset quality
- In-house operations leading to desired business outcomes
- Domain expertise resulting in a business model difficult to replicate by others in the geographies
- Experienced and stable management team with marquee shareholders
- Established track record of financial performance with industry leading profitability
- Focus on the social impact of the business.

Key Strategies

- ◆ Continue to focus on low and middle income self-employed customers in rural and semi-urban markets.
- ◆ Increase penetration in the existing markets and expand the branch network in large housing markets.
- ◆ Continue to be an asset quality focused financier.
- ◆ Reduce cost of borrowings by diversifying sources of borrowing and improving credit rating.

Industry Outlook

The Indian housing finance market clocked a healthy CAGR of approximately 12% (growth in loan outstanding) over FY18 to FY21 on account of a rise in disposable income, healthy demand emanating from smaller cities and markets, attractive interest rates and government impetus on housing. In the past also, the housing finance market has shown secular growth with outstanding loans increasing from Rs. 9.9 billion as of FY15 to Rs 16 trillion as of FY18, translating into a CAGR of 17.4%.

With low disbursements and low repayments in the first half of FY21, growth of housing loans outstanding of HFCs and NBFCs was low at 1% to 3% on-year as on September 2020 as compared to March 2020. Sharp revival of the economy subsequently propelled an increase in disbursements to all-time highs in the third and fourth quarters of FY21, with disbursements even crossing the quarterly averages of FY20. CRISIL Research expects the home loan market to bounce back more strongly in the long term and grow at 11-12% CAGR in between FY21 and FY25.

The housing finance market focused on low income housing segment logged a growth of ~5.9% CAGR between FY16 and FY21 after growing at a higher cliff in the years before that. CRISIL Research expects the industry to pick up steam gradually and the loans outstanding in housing finance focused on low income housing segment to touch Rs. 4,100 billion by March 2025, translating into a ~9% CAGR between Fiscals 2021 and 2025 after a strong growth of ~10% in Fiscal 2021.

Promoter and promoter group

The Promoters of the company are M. Anandan, Padma Anandan, and WestBridge Crossover Fund, LLC. Currently Promoters hold 292,893,920 Equity Shares equivalent to 60.84% of the issued, subscribed and paid-up Equity Share capital of the company.

Brief Biographies of directors

- **M Anandan** is the Chairman and Managing Director of the company. He has served as the Chairman and Managing Director on the Board of the company from December 11, 2009.
- **Kandheri Munuswamy Mohandas** is the Non-Executive Independent Director of the company.
- **Sankaran Krishnamurthy** is the Non-Executive Independent Director of the company.
- **Krishnamurthy Vijayan** is the Non-Executive Independent Director of the company.
- **VG Kannan** is the Non-Executive Independent Director of the company. He is also on the boards of AU Small Finance Bank Ltd, Ageas Federal Life Insurance Co Ltd and OCM India Opportunities Arc Management Pvt Ltd.
- **Mona Kachhwaha** is the Non – Executive Independent Director on the Board of the company.
- **Shailesh Jayantilal Mehta** is the Non – Executive Director on the Board of the company.
- **Kanarath Payattiyath Balaraj** is the Non-Executive Nominee Director on the Board of the company. He is also a partner at Waimea Bay Advisors LLP.
- **Sumir Chadha** is the Non – Executive Nominee Director on the Board of the company. He is the co-founder of WestBridge Capital.
- **Suman Bollina** is the Non – Executive Director on the Board of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

| Y.E March (Rs cr) | FY19 | FY20 | FY21 |
|--------------------------------------|--------------|--------------|--------------|
| Interest Income | 311 | 485 | 624 |
| Interest Expense | 116 | 185 | 207 |
| Net Interest Income | 195 | 301 | 417 |
| % Change | - | 54 | 39 |
| Non-Interest Income | 26 | 38 | 31 |
| Operating income | 221 | 339 | 449 |
| Pre-Prov.Profit | 154 | 251 | 351 |
| Provisions | 1 | 3 | 6 |
| PBT | 152.7 | 247.3 | 345.1 |
| Tax | 41 | 36 | 78 |
| Tax Rate % | 27 | 15 | 23 |
| Reported PAT | 111.5 | 211.0 | 266.9 |
| Adj. | - | - | - |
| Adj. PAT | 111.5 | 211.0 | 266.9 |
| % Change | - | 89 | 27 |
| <i>Post Issue No.of Shares (Cr.)</i> | 49.6 | 49.6 | 49.6 |
| Adj. EPS (Rs) | 2.2 | 4.3 | 5.4 |
| % Change | - | 89 | 27 |

BALANCE SHEET

| Y.E March (Rs cr) | FY19 | FY20 | FY21 |
|-------------------------------|--------------|--------------|--------------|
| Liabilities | | | |
| Capital | 79 | 95 | 95 |
| Reserve & Surplus | 620 | 1,615 | 1,885 |
| Deposit | - | - | - |
| Borrowings | 1,600 | 2,015 | 2,508 |
| Provision & Other Liabilities | 30 | 23 | 33 |
| Total Liabilities | 2,328 | 3,747 | 4,520 |
| Assets | | | |
| Fixed Assets | 9 | 10 | 9 |
| Investments | - | - | 52.8 |
| Advances | 2,200 | 3,117 | 3,990 |
| Other Assets | 5 | 4 | 14 |
| Cash & Bank Balances | 111 | 603 | 438 |
| Def. Tax Assets | 2 | 13 | 17 |
| Total Assets | 2,328 | 3,747 | 4,520 |
| BVPS (Rs) | 14.1 | 34.5 | 39.9 |

RATIOS

| Y.E March | FY19 | FY20 | FY21 |
|-----------------------------|------|------|------|
| Per Share Data (Rs.) | | | |
| EPS | 2 | 4 | 5 |
| BV | 14.1 | 34.5 | 39.9 |
| ABV | 14.0 | 34.1 | 39.5 |
| Spread % | | | |
| NIM | 8.8 | 11.3 | 11.7 |
| Yield on Funds | 13.8 | 17.9 | 17.2 |
| Cost of Borrowing | 6.4 | 8.2 | 8.2 |
| Interest Spread | 7.4 | 9.7 | 9.0 |
| Capital % | | | |
| CAR | 44 | 82 | 74 |
| Tier I | 43 | 82 | 74 |
| Tier II | 0.4 | 0.3 | -0.2 |
| Asset Quality % | | | |
| GNPA | 0.4 | 0.7 | 0.7 |
| NNPA | 0.3 | 0.5 | 0.5 |
| Return Ratios (%) | | | |
| RoE | 9.3 | 11.4 | 11.1 |
| RoA | 4.8 | 6.9 | 6.5 |
| Valuations | | | |
| P/E (x) | 157 | 83 | 66 |
| P/BV (x) | 25.1 | 10.2 | 8.8 |
| P/ABV (x) | 25.3 | 10.3 | 8.9 |

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