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July 04, 2023

COMPANY UPDATE | Sector: Financials

Aptus Value Housing Finance

Strong growth/quality at reasonable valuation

Aptus Value Home offers a favourable long-term risk-reward at current valuation (2.7x PABV and 16x PE on FY25E), wherein structural business model positives seem underemphasized. While concerns over stock supply in the longer run are tenable, the apprehensions around management transition and business scalability appear stretched. We view the appointment of Mr. Balaji as MD (erstwhile ED & CFO) as a non-disruptive development with growth/quality execution fairly verticalized and institutionalized at Aptus, and the likelihood of Mr. Anandan guiding strategy even after current term (ending in Dec'24) by being a Non-executive Chairman. Aptus has demonstrated regional diversification/scalability with comparable asset quality across disparate Southern markets. While existing markets can comfortably support 25-30% growth in coming years, the contiguous and calibrated entry/expansion in new states would aid long run prospects.

Structurally, portfolio spread and opex metric should remain in a narrow band underpinned by benefits from niche positioning, scale, tech investments and credit rating. Aptus' strong customer and property underwriting, and focused collection mechanism gets reflected in low credit cost and GNPLs, and negligible actual loan write-offs. We estimate 27-28% AUM CAGR and 23-24% earnings CAGR over FY23-26 with RoE crossing 18% in FY26 (without assuming further dividend payouts). At potentially 4-5x leverage in the very long run, Aptus can deliver 22-25% RoE. Reiterate BUY on favourable risk-reward with a 12m PT of Rs350.

Robust growth to continue - competition, pricing, management transition and new markets less of an issue

Demand and competition are apparently not a significant risk to growth for affordable housing financiers in general, and more so for Aptus which operates in interior demography and in relatively lower-ticket segment. The differentiated franchise profile (70%+ share of Rural/LIG/Self-employed borrowers and 35%+ New-to-credit) and significant contribution of non-HL products (SBL 21% and LAP 15%) imply substantial long-term growth opportunity. **The streamlined execution model (sourcing, credit, collection and operational structure) has underpinned strong growth and scalability (37% AUM CAGR over FY18-23) without dilution of the yield (tapping of largely unserved customer segment and locations).** Another indicator of negligible-to-low competitive pressure is balance transfer of loans being at just 2-4%.

Aptus has demonstrated regional diversification with comparable asset quality across disparate Southern markets/states. Key drivers of such scalability are 1) well-institutionalized policies & processes, 2) verticalized/focused credit and collection functions, 3) local property underwriting & centralized credit underwriting, 4) sound HR practices of local hires, near-industry salaries, monthly incentives, etc. and 5) optimal deployment of tech in fulfillment. The co.'s foray in new markets of OR and MH would be facilitated by above-mentioned practices and a contiguous expansion strategy (familiarity with next location). The portfolio scale-up would be calibrated in new markets, as **Aptus is confident of sustained strong growth in existing markets with room for market share growth even in its larger states of TN and AP.**

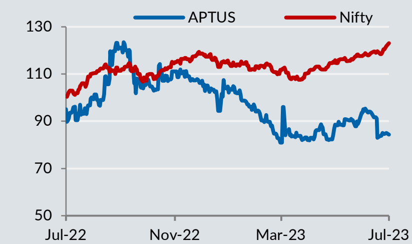
Recent elevation of Mr. Balaji as MD (erstwhile ED & CFO - 12 years with Aptus) is a neutral development from growth execution standpoint. **Mr. Anandan (Founder) remains Executive Chairman till Dec 2024 and may well continue to guide strategy even after as Non-executive Chairman.** The co. has a verticalized operating structure with each function headed by a competent person. Tech team is being strengthened and investments are being incurred towards increasing sourcing contribution from customer referral app, ecosystem partner app and social media. **The growth focus on SBL is being sharpened by having a separate credit team, business team (in identified branches) and product head.**

Reco	:	**BUY**
CMP	:	Rs 246
Target Price	:	Rs 350
Potential Return	:	42.3%

Stock data (as on July 04, 2023)

Nifty	19,389
52 Week h/l (Rs)	368 / 234
Market cap (Rs/USD mn)	123720 / 1510
Outstanding Shares (mn)	498
6m Avg t/o (Rs mn):	122.2
Div. yield (%):	0.7
Bloomberg code:	APTUS IN
NSE code:	APTUS

Stock performance



	1M	3M	1Y
Absolute return	-10.0%	2.8%	-11.3%

Shareholding pattern

Promoter	62.2%
FII+DII	16.7%
Others	21.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	350	350

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	12.2	15.2	18.9
EPS (Old)	12.0	15.0	-
% Change	1.6%	1.5%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	10,459	13,122	16,310
PPOP	8,279	10,400	12,949
Net profit	6,074	7,584	9,432
Growth (%)	20.7	24.9	24.4
EPS (Rs)	12.2	15.2	18.9
ABVPS (Rs)	78.0	92.8	111.3
P/E (x)	20.2	16.2	13.0
P/ABV (x)	3.2	2.6	2.2
ROAE (%)	16.7	17.5	18.2
ROAA (%)	7.4	7.2	7.1

RAJIV MEHTA
Lead Analyst
rajiv.mehta@ysil.in
+91 22 6885 0521

MANUJ OBEROI, Associate

Asset quality on strong footing - credit cost to remain moderate

Aptus' strong customer and property underwriting, and focused collection mechanism gets reflected in 1) average 30 bps credit cost in past six years, 2) almost zero actual loan write-off in lifetime, 3) low Gross NPAs, 4) prompt correction of 30-90 delinquency bucket after Covid second wave and 5) almost similar asset quality metrics across the four Southern states. Management expects credit cost of <50 bps to continue with GNPA expected to remain near 1%. There is no requirement for raising ECL coverage across buckets as PDs (defaults and forward flow) & LGD are under control and the co. had raised provisions on Stage-2 assets in recent quarters (now in-line with peers). Since lending rate hike taken by Aptus was limited to only 50 bps, none of the customers have gone through an EMI increase.

All branches have a Credit Officer who does an independent assessment of customer CF/income/lifestyle. Branches also have dedicated Collection Staff, and recently their incentive policy has been bettered for augmenting collection of overdue buckets. Stringent property evaluation and low LTVs enable Aptus to recover full principal even from deep delinquent accounts.

Portfolio Spread can be sustained at existing high level; opex metric to remain elevated in near term

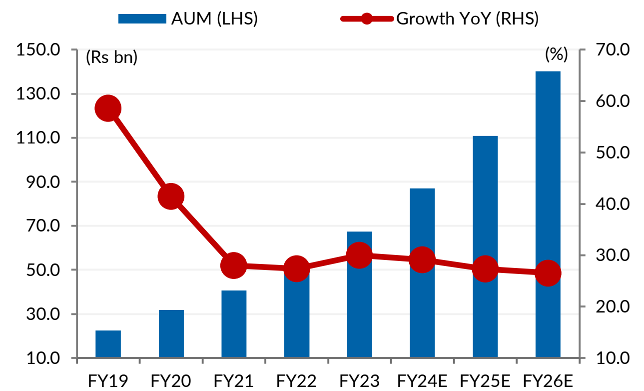
Aptus can sustain portfolio yield (with likely same product mix) without losing meaningful business due to pricing. **The pricing in SBL at 21% and Quasi HL/LAP at 15-17% is either in-line or slightly lower than the market. While pricing in HL appears ~100 bps higher than some of the competition, the differential is not as high when adjusted for the higher proportion of fixed rate book for Aptus.** There is unlikely to be any competitive pressure on pricing going ahead, as loan BT too is marginal. Further, any increase in share of SBL would lift blended portfolio yield. About 77% of the loan book is on fixed rate comprising of all SBL and Quasi HL/LAP loans and major part of HL, and this also underpins yield stability.

Recent rate up-cycle caused only limited increase in Aptus' CoF (despite increased dependence on bank loans) as increasing scale, strong profitability performance and rating upgrade acted as structural deflators. Company would continue to reap these benefits in the future. In the near-term, CoF is expected to remain stable as 1) upward re-pricing of bank loans is largely behind, 2) some high-cost funds would mature and be replaced, 3) finer pricing is being negotiated on new fixed-rate term loans from banks and 4) incremental floating-rate bank loans are being linked to 3m/6m MCLRs (would result in quicker transmission when rates come down).

Investments in distribution, people and tech would likely drive slight increase in Opex/AUM ratio in the near term. On the tech side investments are being made for strengthening the team, using tech for broadening the customer acquisition funnel (customer ref/eco partner app and leads evaluation from social media) and developing a credit scoring model for automated credit decisioning. Employee side investments include adding certain layers in operational management like state-level credit heads and creating a separate team for driving SBL growth. As per the management, employee compensation (including the incentives) across layers is around industry level. In the longer run, Opex/AUM ratio can stabilize at moderate level aided by scale and tech driven productivity/efficiencies. Aptus branches have historically demonstrated significant scalability with the avg. AUM of more than 3-yr old branches at Rs350mn+ and for 1-3 year-old branches at Rs175mn+.

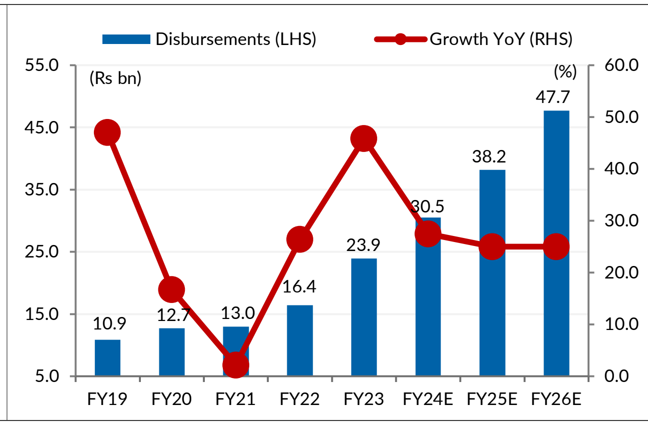
STORY IN CHARTS

Exhibit 1: AUM to grow at 25-30% pa



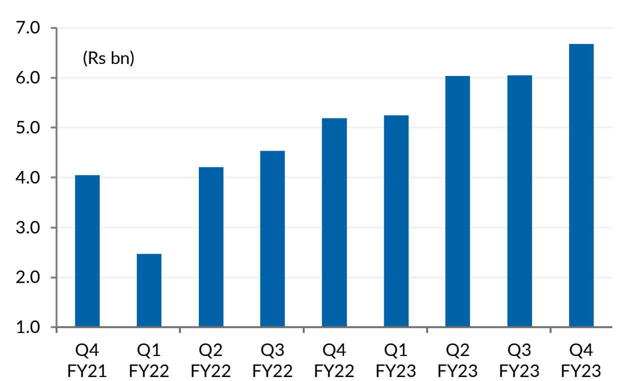
Source: Company, YES Sec

Exhibit 2: ... aided by strong disbursements growth



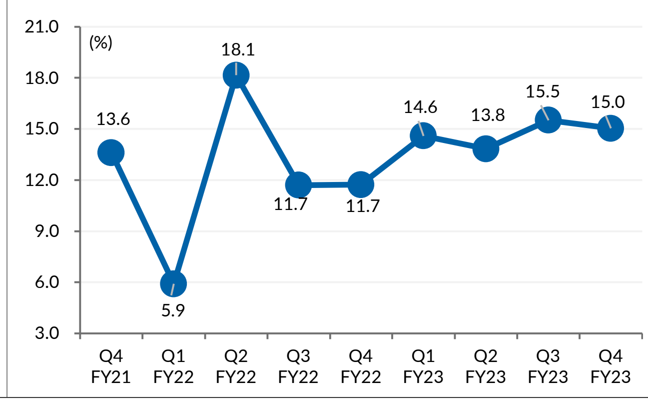
Source: Company, YES Sec

Exhibit 3: Consistent growth in Originations after Covid



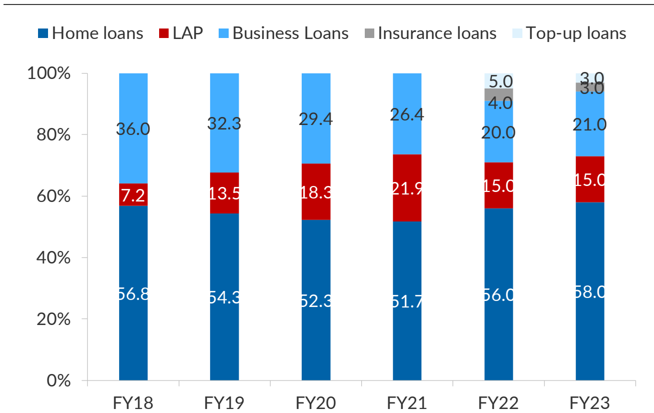
Source: Company, YES Sec

Exhibit 4: Stable portfolio run-off



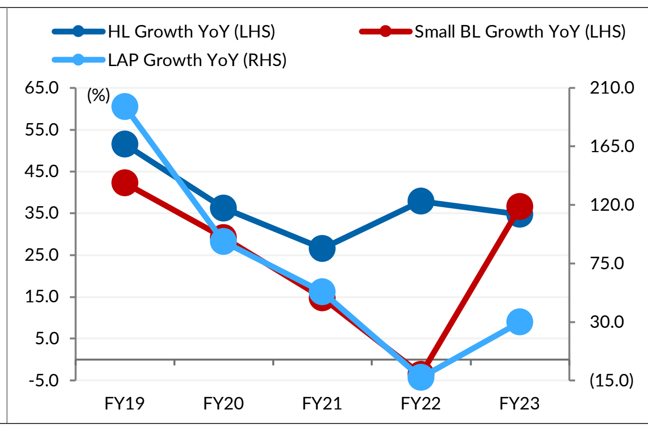
Source: Company, YES Sec

Exhibit 5: Share of SBL & LAP to increase



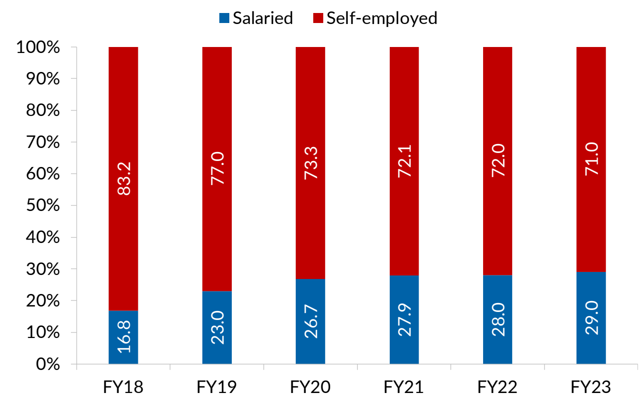
Source: Company, YES Sec

Exhibit 6: Return of growth in SBL and LAP



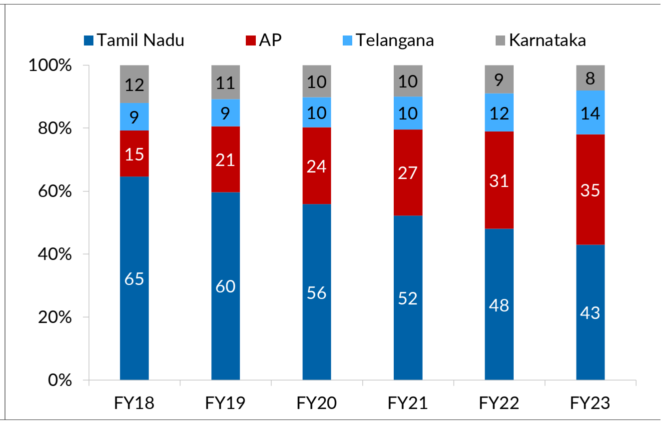
Source: Company, YES Sec

Exhibit 7: Occupation Mix to stabilize incrementally



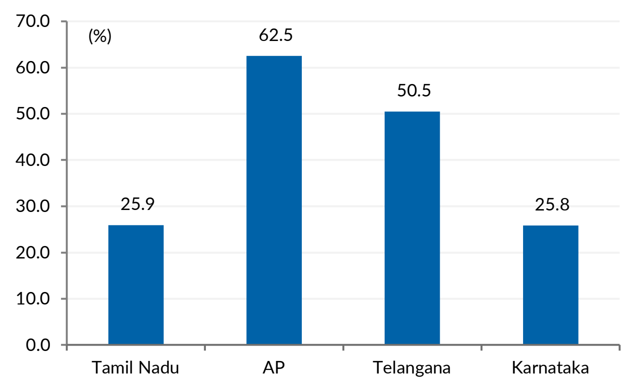
Source: Company, YES Sec

Exhibit 8: Demonstrated regional diversification of book



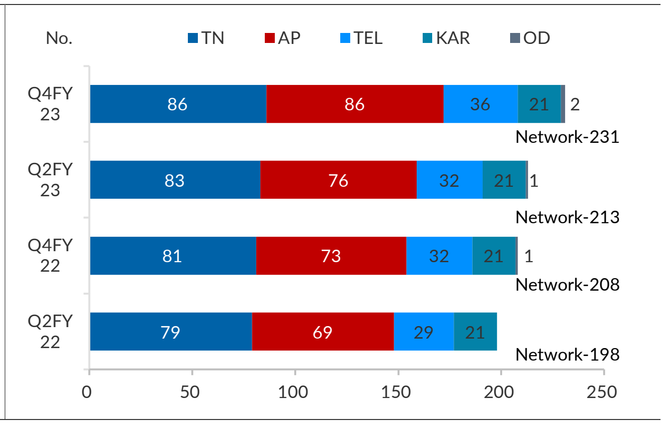
Source: Company, YES Sec

Exhibit 9: AP & TL spearheading growth



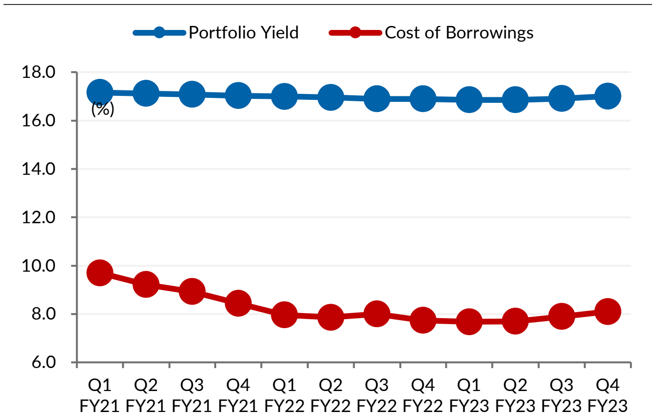
Source: Company, YES Sec, *% represents States AUM CAGR over FY18-23.

Exhibit 10: Branch addition across markets



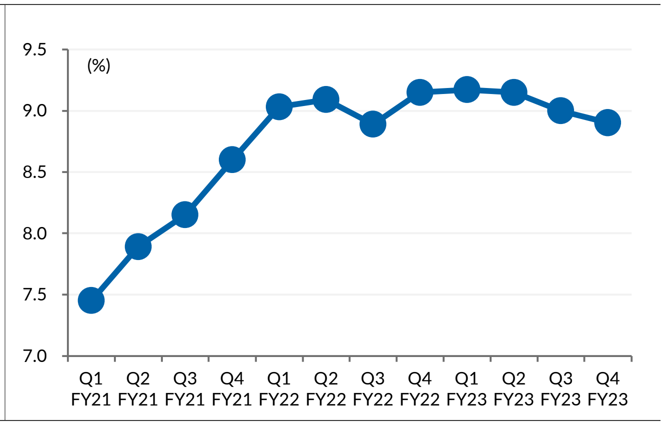
Source: Company, YES Sec

Exhibit 11: No competitive pressure on Yields



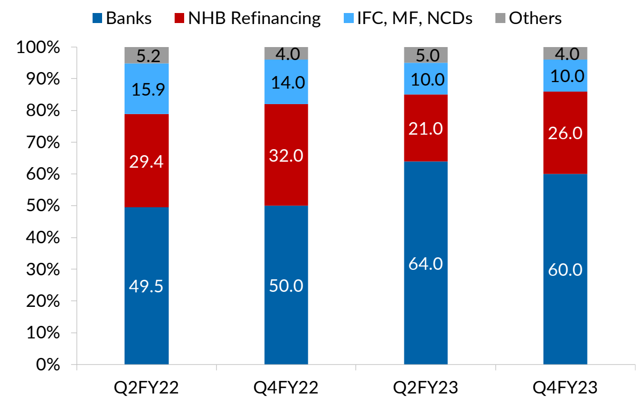
Source: Company, YES Sec

Exhibit 12: Portfolio Spread has structurally improved



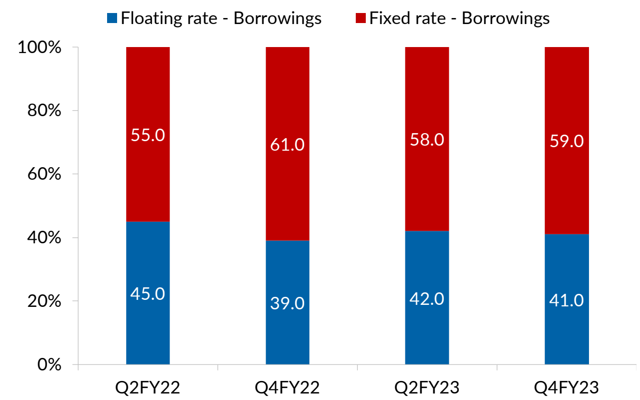
Source: Company, YES Sec

Exhibit 13: Borrowing mix shifting towards Banks



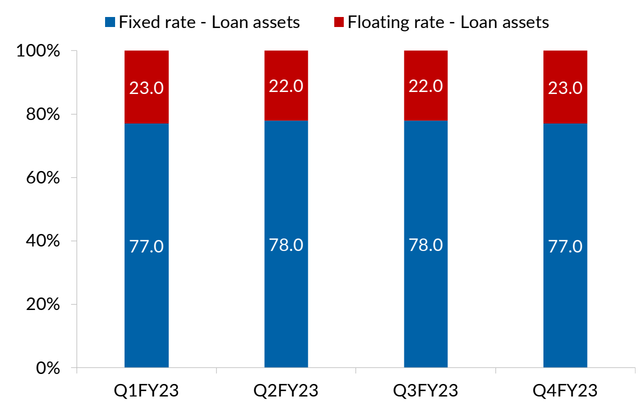
Source: Company, YES Sec

Exhibit 14: Majority share of fixed-rate borrowings



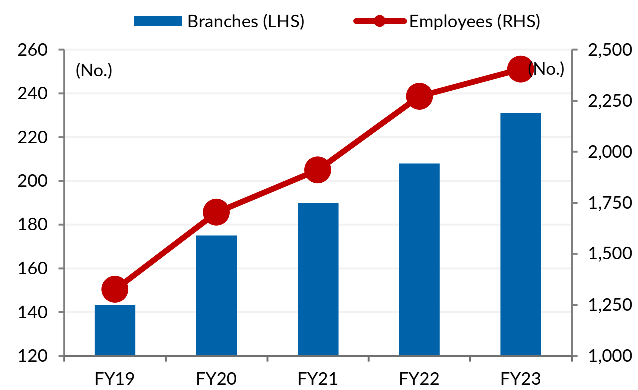
Source: Company, YES Sec

Exhibit 15: SBL, LAP & majority HL on fixed rate



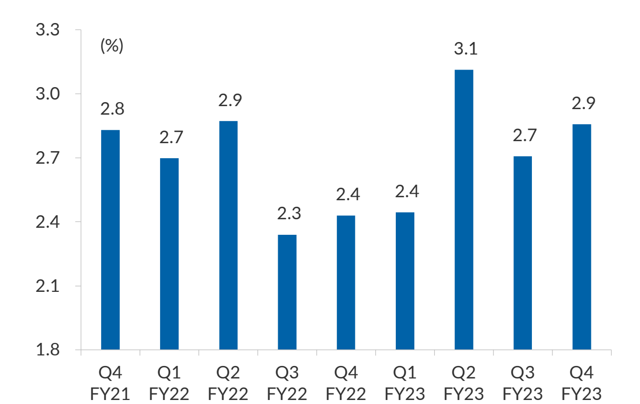
Source: Company, YES Sec

Exhibit 16: Consistent investment in distribution & resources



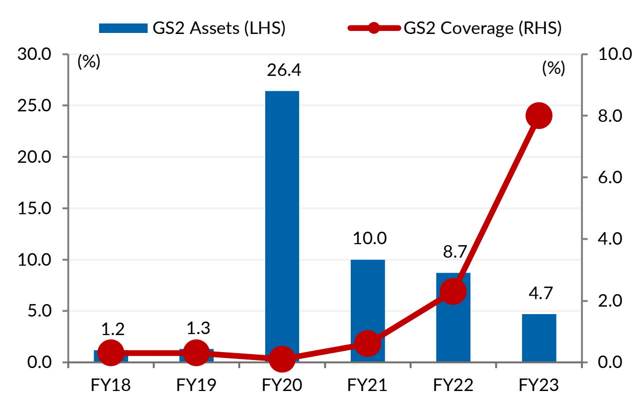
Source: Company, YES Sec

Exhibit 17: Investment in Tech and People increased Opex/AAUM



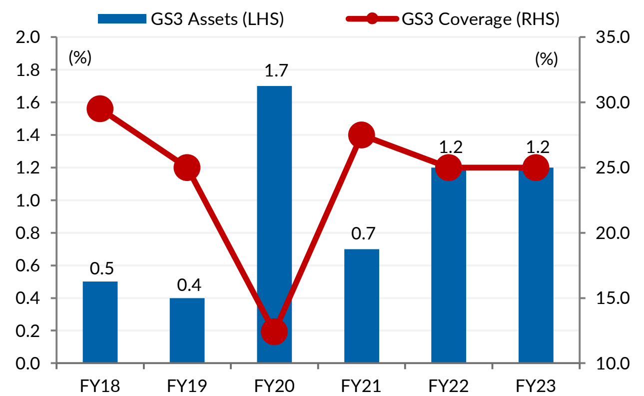
Source: Company, YES Sec

Exhibit 18: Improvement in GS2 Bucket and enhancement of coverage



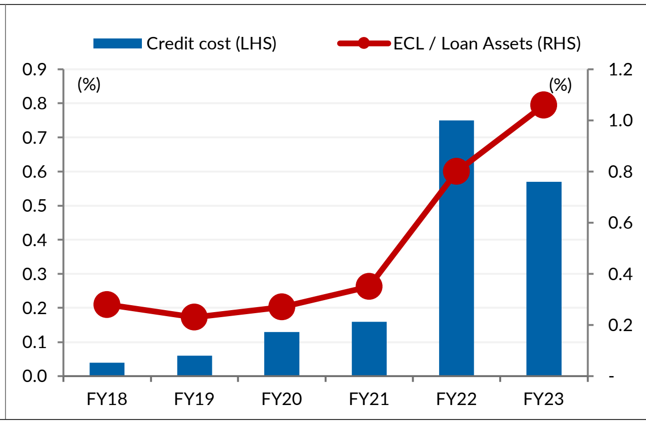
Source: Company, YES Sec

Exhibit 19: Stabilization of GS3 Bucket and coverage



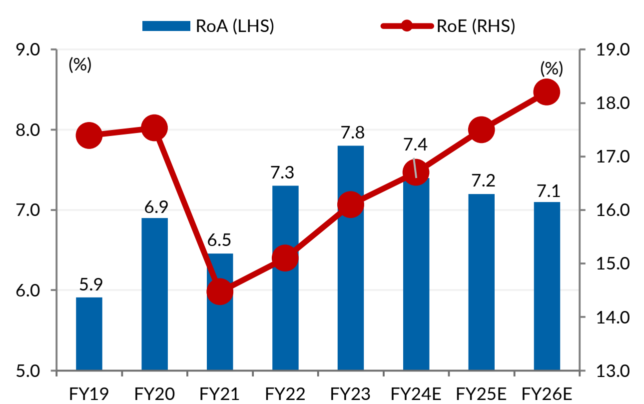
Source: Company, YES Sec

Exhibit 20: Credit cost to moderate



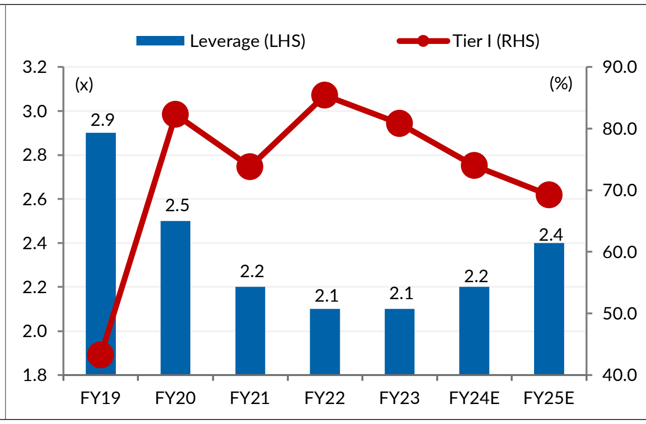
Source: Company, YES Sec

Exhibit 21: Secular improvement in RoE



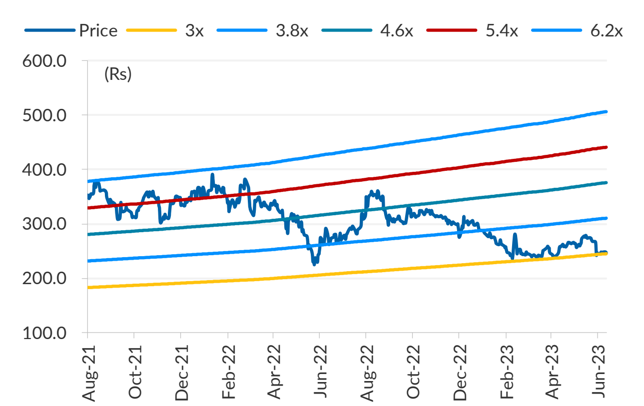
Source: Company, YES Sec

Exhibit 22: Leverage to gradually increase with strong profitability



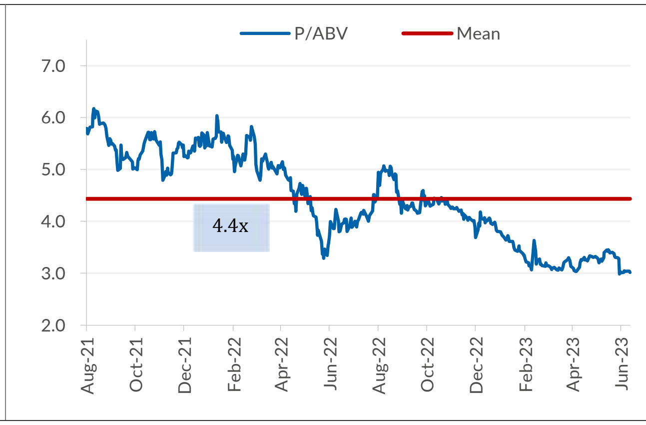
Source: Company, YES Sec

Exhibit 23: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 24: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 25: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	994	996	996	996	996
Reserves	28,168	32,397	38,471	46,055	55,487
Shareholder's funds	**29,162**	**33,393**	**39,467**	**47,051**	**56,483**
Provisions	41	45	49	54	59
Deferred Tax Liabilities	31	0	0	0	0
Total Non-Financial liabilities	**111**	**104**	**114**	**125**	**138**
Debt Securities	4,102	3,900	5,343	7,160	9,308
Borrowings (Other than Debt Securities)	23,104	33,961	46,526	62,345	81,048
Other Financial Liabilities	283	229	313	420	545
Total Financial liabilities	**27,568**	**38,264**	**52,357**	**70,099**	**91,076**
Total Equities and Liabilities	**56,840**	**71,761**	**91,938**	**117,275**	**147,698**
Assets					
Cash and Cash Equivalents	4,052	3,718	4,457	6,216	7,512
Bank balances	407	882	1,058	1,270	1,524
Loans	50,787	65,921	85,113	108,398	137,173
Investments in Associates	1,017	515	515	515	515
Other Financial Assets	205	284	340	408	490
Total Financial assets	**56,469**	**71,320**	**91,484**	**116,807**	**147,214**
Property, Plant and Equipment	34	37	41	45	49
Other Intangible Assets	80	107	107	107	107
Other Non-Financial Assets	26	92	101	111	122
Total Non-Financial assets	**372**	**441**	**454**	**468**	**484**
Total Assets	**56,840**	**71,761**	**91,938**	**117,275**	**147,698**

Source: Company, YES Sec

Exhibit 26: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	8,147	10,934	14,007	17,944	22,754
Interest expense	(2,086)	(2,759)	(3,940)	(5,253)	(6,919)
Net interest income	**6,061**	**8,174**	**10,067**	**12,691**	**15,836**
Non-interest income	255	356	392	431	474
Total op income	6,316	8,531	10,459	13,122	16,310
Total op expenses	(1,171)	(1,652)	(2,180)	(2,722)	(3,361)
PPoP	**5,145**	**6,878**	**8,279**	**10,400**	**12,949**
Provisions	(345)	(341)	(386)	(544)	(690)
Profit before tax	4,800	6,537	7,893	9,856	12,258
Taxes	(1,099)	(1,507)	(1,820)	(2,272)	(2,826)
Net profit	**3,701**	**5,030**	**6,074**	**7,584**	**9,432**

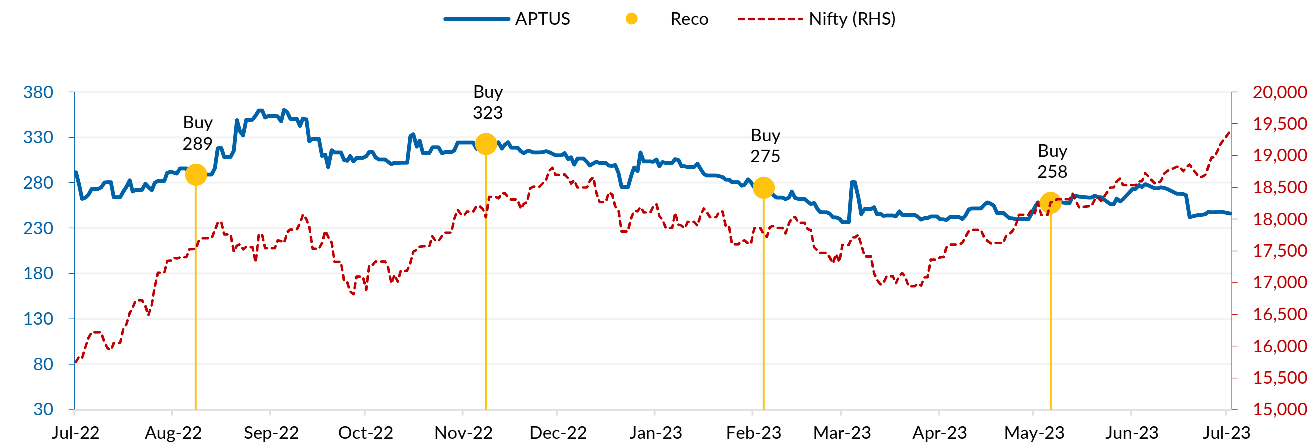
Source: Company, YES Sec

Exhibit 27: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	40.0	34.9	23.2	26.1	24.8
Total op income	39.8	35.1	22.6	25.5	24.3
Op profit (pre-provision)	46.6	33.7	20.4	25.6	24.5
Net profit	38.7	35.9	20.7	24.9	24.4
Loans	27.3	29.8	29.1	27.4	26.5
Borrowings + Debt	8.5	39.2	37.0	34.0	30.0
Total assets	25.7	26.3	28.1	27.6	25.9
Profitability Ratios (%)					
NIM	13.1	13.7	13.0	12.8	12.6
Non-interest income/Total income	4.0	4.2	3.7	3.3	2.9
Return on Average Equity	15.1	16.1	16.7	17.5	18.2
Return on Average Assets	7.3	7.8	7.4	7.2	7.1
Per share ratios (Rs)					
EPS	7.4	10.1	12.2	15.2	18.9
ABVPS	57.8	65.9	78.0	92.8	111.3
Other key ratios (%)					
Loans/Borrowings	186.7	174.1	164.1	156.0	151.8
Cost/Income	18.5	19.4	20.8	20.7	20.6
Gross Stage 3 (%)	1.2	1.2	1.0	1.0	1.0
Credit Cost	0.7	0.6	0.5	0.6	0.6
Tax rate	22.9	23.1	23.1	23.1	23.1

Source: Company, YES Sec

Recommendation Tracker



Aptus Value Housing Finance

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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

+91 22 68850521 | research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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