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# Aptus Value Housing Finance Limited

**IPO Report**

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**10th Aug 21**

## Snapshot

Aptus Value Housing Finance Ltd (AVHFL) 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. AVHFL offer customers home loans for the purchase and self-construction of residential property, home improvement and extension loans; loans against property; and business loans.

**VALUATION**

Company is bringing the issue at price band of Rs 346-353 per share at p/b multiple of 8x.
We like the fundamentals of company due to its superior financial performance compare to its peers, large presence in south india where percapita income is relatively higher & strong management team.
On pricing side we feel that issue is fully priced, but looking after fundamentals of company, we recommend "Subscribe" on issue.

| | |
|---|---|
| **Price Band (Rs./Share)** | **346-353** |
| **Opening date of the issue** | **10th August 2021** |
| **Closing Date of the issue** | **12th August 2021** |
| **No of shares pre issue** | 481,416,290 Eq Shares |
| **Issue size (Rs)** | Approx Rs 27800 Million |
| **Offer For Sale (No)** | 64590695 Eq Shares |
| **Fresh Issue (Rs)** | Rs 5000 Million |
| **Face Value (Rs/ share)** | 2 |
| **Bid Lot** | 42 |
| **BIDDING DETAILS** | |
| **QIBs (Including Anchor)** | 50% of the offer (Approx 39377500 Cr Eq Shares) |
| **Non-Institutional** | 15% of the offer ( Approx 11813250 Cr Eq Shares) |
| **Retail** | 35 % of the offer ( Approx 27564250 Cr Eq Shares) |
| **Lead managers** | ICICI Securities Ltd, Citigroup Global Markets India Pvt Ltd, Kotak Mahindra Capital, Edelweiss Financial |
| **Registrar to the issue** | KFIN Technologies Pvt. Ltd. |

## WHAT WE LIKE

### Superior Financial Performance

AVHFL had the highest RoA of 5.7% among the peer set during the financial year 2021. Company's AUM have increased from ₹22,472.33 million, as of March 31, 2019 to ₹40,677.62 million, as of March 31, 2021, at a CAGR of 34.54%. Company had the lowest cost to income ratio among the peers during the financial year 2021. Company's Operating Expenses to Net Income Ratio for the financial year 2021 was 21.80%.

### Presence in large, underpenetrated markets with strong growth potential

AVHFL had the largest branch network in south India among the peers, as of March 31, 2021. These four states have high per-capita incomes, better financial literacy and GDP growth rates. During the financial year 2020, the per capita income of Tamil Nadu, Andhra Pradesh, Karnataka and Telangana was ₹0.15 million, ₹0.12 million, ₹0.16 million and ₹0.15 million, respectively, while the per capita income of India was ₹0.11 million. Further, company's market share for home loans among housing finance companies with assets under management of up to ₹150 billion in Tamil Nadu, Andhra Pradesh, Karnataka and Telangana was 21.3%, 11.7%, 7.7% and 6.5% as of December 31, 2020, respectively ensuring that company's leading position in these states offers it high growth potential. As a result, company is well positioned to capitalize on growth opportunities and cater to the housing finance requirements of its target customer base in these geographies.

### Experienced and stable management team with marquee shareholders

Company's Promoter, Chairman and Managing Director, M. Anandan, has over 40 years of experience in the financial services sector, and has previously served as the managing director of Cholamandalam Investment and Finance Company Limited, part of the Murugappa Group and was also managing director of Cholamandalam MS General Insurance Company Limited . Company's marquee shareholders include WestBridge Crossover Fund, LLC, Malabar India Fund Limited (an affiliate of Malabar Investments), SCI Investments VI (an affiliate of Sequoia Capital), Madison India Opportunities IV (Madison India Capital) and Steadview Capital Mauritius Limited (an affiliate of Steadview Capital Management). WestBridge Crossover Fund, LLC has been an investor in company since November 2014, and as of March 31, 2021, WestBridge Capital Management, LLC had total assets under management of US$ 5.6 billion.

## COMPANY BACKGROUND

AVHFL is one of the largest housing finance companies in south India in terms of AUM, as of March 31, 2021. Company only offer loans to retail customers and do not provide any loans to builders or for commercial real estate. Company target first time home buyers where the collateral is a self-occupied residential property. Loans to self-employed customers accounted for ₹29,308.79 million, or 72.05% of company's AUM, while loans to salaried customer accounted for ₹11,368.83 million, or 27.95%, as of March 31, 2021. As of March 31, 2021, ₹40,459.85 million, or 99.46% of company's AUM were from customers who belonged to the low and middle income groups, earning less than ₹ 50,000 per month, and ₹14,947.98 million of its AUM, or 39.88% of its customers were new to credit. Further, as of March 31, 2021, ₹25,186.99 million, or 61.92% of company's AUM were from customers located in rural regions. Company do not provide any loans with a ticket size above ₹2.50 million and the average ticket size of company's home loans, loans against property and business loans on the basis of disbursement amounts was ₹0.72 million, ₹0.71 million and ₹0.62 million, as of March 31, 2021, respectively. As of the same date, company's home loans, loans against property and business loans had an average loan-to-value of 38.89%, 38.27% and 39.21%, respectively, at the time of sanctioning of the loans.
Company's financing requirements historically have been met from several sources, including refinancing from the NHB, financing from IFC, term loans, working capital loans and issuance of non-convertible debentures ("NCDs") to meet company's capital requirements. Company also monetize loans through securitization to banks and financial institutions, which enables it to optimize Company's cost of borrowings, liquidity and capital. As of March 31, 2021, March 31, 2020 and March 31, 2019, company's total borrowings were ₹25,150.66 million, ₹ 20,216.45 million and ₹16,060.62 million and its average cost of borrowings was 9.11%, 10.17% and 9.48%, respectively. Company's average cost of incremental borrowings for March 31, 2021 was 7.70%, as compared to 9.45% for the financial year 2020 and 10.11% for the financial year 2019. As of March 31, 2021, company had borrowing relationships with the NHB, as well as with 17 banks and other financial institutions. As of March 31, 2021, the weighted average tenure of company's outstanding borrowings was 83.3 months and its credit ratings were ICRA A+ (Stable) and CARE A+ (Stable). As of the same date, company had a positive asset-liability position across all maturity buckets. The following table sets forth details of company's Gross Loan Assets, disbursements and average ticket size for its home loans, loans against property and small business loans, for the periods indicated:

| Metric | As of & for the FY ended 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| (Rs Mn) | | | |
| AUM/ Gross Loan Assets | | | |
| Home loans | 21032.10 | 16615.91 | 12194.43 |
| Loans against property | 8903.39 | 5809.89 | 3029.06 |
| Business loans | 10742.13 | 9361.14 | 7248.84 |
| Total | 40677.62 | 31786.94 | 22472.22 |
| Disbursements | | | |
| Home loans | 6652.49 | 6274.74 | 5640.71 |
| Loans against property | 3698.02 | 3142.29 | 2184.97 |
| Business loans | 2631.30 | 3292.77 | 3064.74 |
| Total | 12981.81 | 12709.80 | 10890.42 |
| Average Ticket Size on Disbursements | | | |
| Home loans | 0.72 | 0.76 | 0.78 |
| Loans against property | 0.71 | 0.72 | 0.74 |
| Business loans | 0.62 | 0.64 | 0.67 |
| Total | 0.70 | 0.70 | 0.74 |

**Branch Network**

| State | Number of Branches | Number of Districts covered | District Peneteration | Percentage of AUM |
|---|---|---|---|---|
| Tamil Nadu (including the union territory 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% |

Source:RHP

## INVESTMENT RATIONALE

| | |
|---|---|
| ***Presence in large, underpenetrated markets with strong growth potential*** | Company is one of the largest housing finance companies in south India in terms of AUM, as of March 31, 2021. Company's AUM have grown at a CAGR of 34.54% from ₹22,472.33 million as of March 31, 2019 to ₹40,677.62 million as of March 31, 2021. As of March 31, 2021, the states of Tamil Nadu (including the union territory of Puducherry), Andhra Pradesh, Karnataka and Telangana accounted for ₹21,263.74 million, or 52.27%, ₹11,116.08 million, or 27.33%, ₹4,038.13. |
| ***Robust risk management architecture from origination to collections leading to superior asset quality*** | Company have implemented a robust risk management architecture to identify, monitor and mitigate risks inherent in its lending operations. As a result, company have maintained its asset quality across economic cycles including events such as demonetization, the implementation of the Goods and Services Tax, the liquidity crisis that was triggered by defaults by large financial services companies and the COVID-19 pandemic. As of March 31, 2021, March 31, 2020, and March 31, 2019, company's Gross NPAs expressed as a percentage of its Gross Loan Book were 0.68%, 0.70% and 0.40%, (the GNPA for rural portfolio was 0.68%, 0.72% and 0.49% and the same for its urban portfolio was 0.71%, 0.67% and 0.28%) while company's Net NPAs expressed as a percentage of its Net Loan Assets were 0.49%, 0.54% and 0.30%, respectively. Further, company have not restructured any loans or written-off any loans receivable since the inception of company. |
| ***Domain expertise built over time resulting in a business model difficult to replicate by others in company's geographies*** | Company have developed an in-depth understanding of the requirements of customers in these regions and methods to determine their credit worthiness. Over years, company have studied and developed credit assessment models specific to over 60 types of customer profiles. Some of company's profiles are customized to regions and specific types of employment. Company update these profiles on a frequent basis for regional and local market specific developments and macro disruptions such as the COVID-19 pandemic. This has helped company reduce subjectivity in forecasting the future income of potential customers, thus enabling robust credit underwriting. On account of company's domain expertise to underwrite self-employed customers with limited income proofs, company have been able to effectively serve customers, grow its business and create a business model that is difficult to replicate in its geographies. |
| ***Established track record of financial performance with industry leading profitability*** | Company's access to diversified and cost effective sources of borrowings have helped reduce company's credit costs. As of March 31, 2021, March 31, 2020 and March 31, 2019, company's total borrowings were ₹25,150.66 million, ₹20,216.45 million ₹16,060.62 million, and company's average cost of borrowings was 9.11%, 10.17% and 9.48%, respectively. For the financial years 2021, 2020 and 2019, Company's profit for the year was ₹2,669.44 million, ₹2,110.12 million and ₹1,114.83 million, respectively. Company's stronger yields and cost control measures have enabled it to achieve a superior return on assets of 6.46%, 6.95% and 5.91% during the financial years 2021, 2020, 2019, respectively. Company had the highest RoA of 5.7% among the peer set during the financial year 2021. Company reported return on average equity of 14.47%, 17.53% and 17.38% during the financial years 2021, 2020 and 2019, respectively. |

## CREDIT RATINGS

**Company's current credit ratings are set forth below:**

| Rating Agency | Instrument | Credit Ratings as of March 31, | | | | |
|---|---|---|---|---|---|---|
| | | 2021 | 2020 | 2019 | 2018 | 2017 |
| **ICRA Limited** | Non Convertible debentures | ICRA A+ (Stable) | ICRA A+ (Stable) | ICRA A (Stable) | ICRA A (Stable) | Not applicable# |
| | Bank term loans | ICRA A+ (Stable) | ICRA A+ (Stable) | ICRA A (Stable) | ICRA A (Stable) | ICRA A-(Stable) |
| **Care Ratings** | Non Convertible debentures | CARE A+; Stable | CARE A+; Stable | CARE A; Stable | CARE A; Stable | CARE A-; Positive |
| | Bank term loans | CARE A+; Stable | CARE A+; Stable | CARE A; Stable | CARE A; Stable | CARE A-; Positive |

*The Company had not obtained any credit ratings from ICRA Limited for the non-convertible debentures as of March 31, 2017.*

*Source : RHP*

## OBJECTS OF ISSUE

**Company proposes to utilize the net proceeds from the fresh issue towards fully augmenting the tier I capital requirements of Company. Considering company's tier I position, company has no plans to augment the tier II capital in the near future. In case company decides to augment its tier II capital in the future, it shall be in compliance with the RBI Master Directions for the HFCs.**

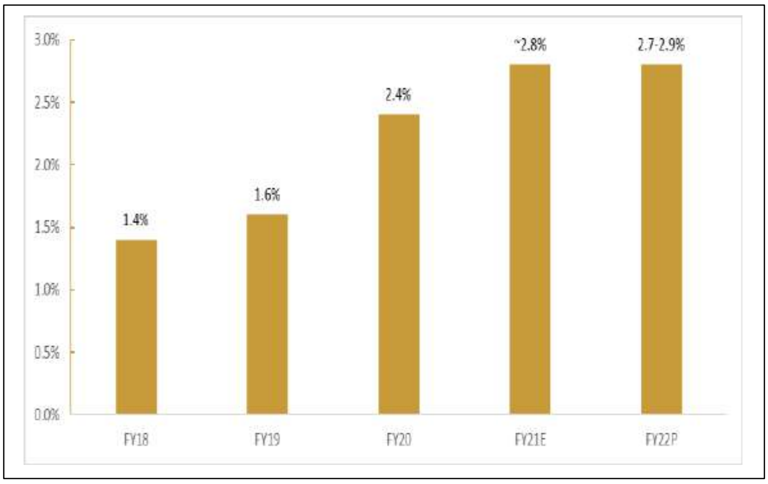
## RISKS

**Company's operations are primarily focused in the states of Tamil Nadu and Andhra Pradesh and any adverse developments in these regions could have an adverse effect on company's business and results of operations.**

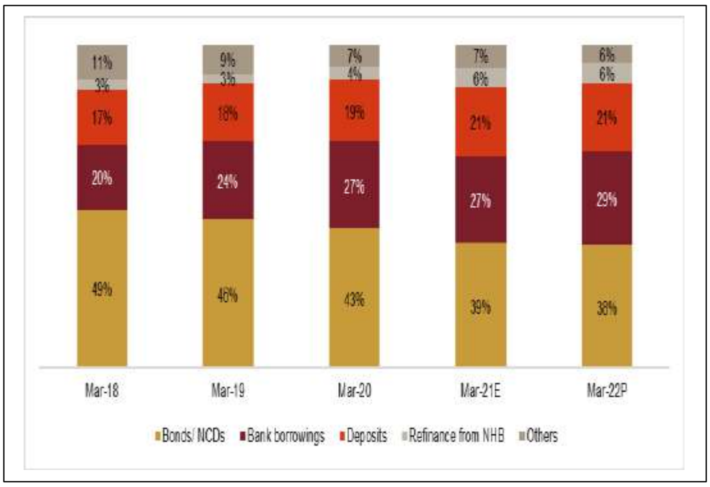
Source:RHP

## INDUSTRY OVERVIEW

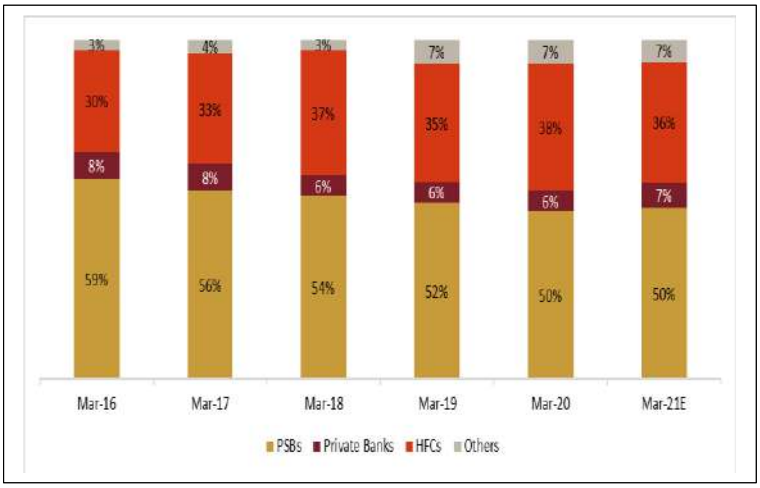
GNPA levels are expected to moderate down



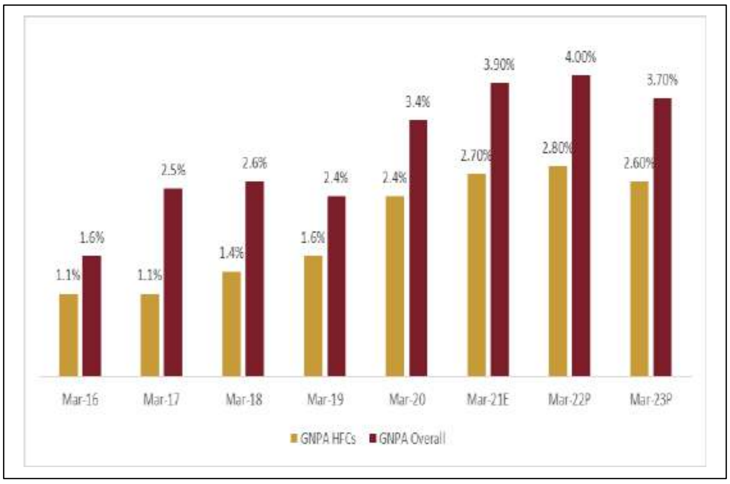

Resources mix of HFCs: Share of bank borrowings is rising



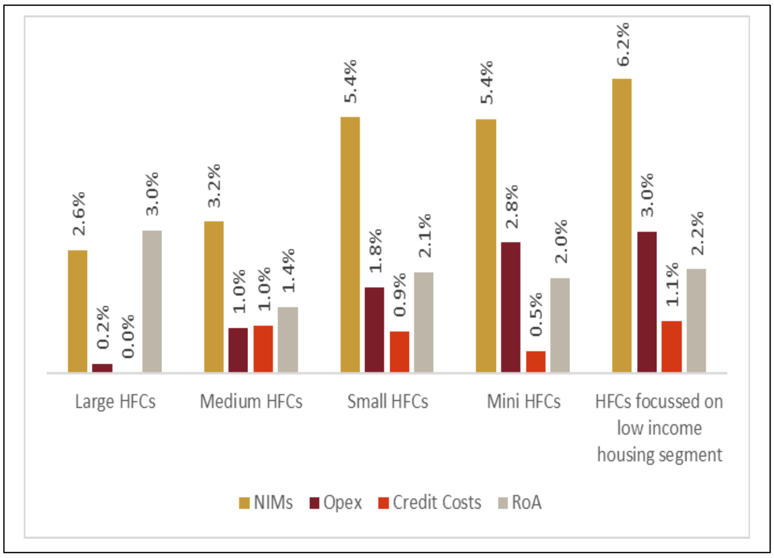

Share of HFCs in the low cost housing segment is on the rise over the years



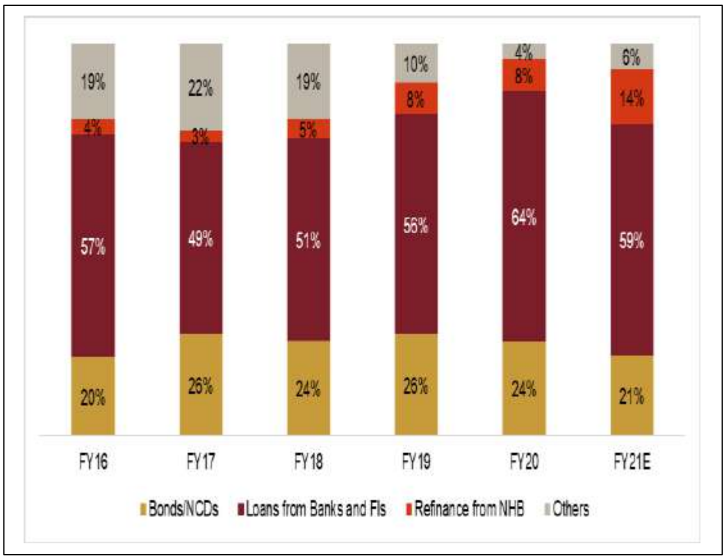

Asset quality trend and outlook for HFCs




Profitability parameters - Fiscal 2021 (estimated)




Funding mix of HFCs focused on low income housing




Source: RHP

**(Rs in Mn)**

| Financials | FY21 | FY20 | FY19 |
|---|---|---|---|
| Total Income | 6552.42 | 5237.20 | 3371.15 |
| Total Expenses | 3043.33 | 2729.98 | 1832.36 |
| Pre Provision Profit | 3509.09 | 2507.22 | 1538.79 |
| Provisions | 58.18 | 34.32 | 11.73 |
| PBT | 3450.91 | 2472.90 | 1527.06 |
| Tax | 781.47 | 362.78 | 412.23 |
| PAT | 2669.44 | 2110.12 | 1114.83 |
| Eq Cap | 949.33 | 945.13 | 787.83 |
| Net Worth | 19,794.54 | 17,090.13 | 6,983.75 |
| EPS | 5.6 | 4.5 | 2.8 |
| Book Value | 41.70 | 36.16 | 17.73 |
| NIM % | 10.10 | 9.90 | 10.32 |
| Operating Expenses To Net Income Ratio | 21.80 | 26.08 | 30.34 |
| CRAR | 73.63 | 82.49 | 43.64 |
| GNPA% | 0.68 | 0.70 | 0.40 |
| NNPA% | 0.49 | 0.54 | 0.30 |
| ROA% | 6.46 | 6.95 | 5.91 |
| ROE% | 14.47 | 17.53 | 17.38 |

## PEERS ANALYSIS

### Following is peer group analysis:

Financial ratios for FY21

| FY21 | Yield on Advances | Cost of borrowings | NIM | Opex | Employee Expenses | Retuen 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% |
| Home First Finance Company | 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 Finance | 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 Finance | 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% |
| ***Aptus Value*** | ***16.98%*** | ***9.13%*** | ***9.72%*** | ***2.38%*** | ***1.60%*** | ***5.73%*** | ***1.1*** | ***12.23%*** |

Source: RHP

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