CENTRUM

Affordable Housing Finance Companies

Building a profitable future

Thematic

India I Affordable Housing Finance Companies

26 September 2023

Institutional Research

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Industry Section

Company Section

Affordable Housing Finance Companies

Building a profitable future

We initiate coverage on three Afforable Housing Finance Companies (AHFCs) viz., Aavas Financiers (TP Rs 2070), Aptus Value Housing Finance (TP Rs 380) and Home First Finance (TP Rs 1130) with a BUY rating. Affordable Housing Finance is a multiyear growth opportunity. The AHFCs have registered 5-yr AUM CAGR in the range of 28% to 40% with RoA's>3.5% and low credit costs (0.2%-0.5% 5-yr avg). The underwriting practices have stood the test of covid with minimal write-offs despite lending to informal customer segment. Competition from large banks/ NBFCs is at bay due to (i) Branch/people intensive business model (ii) customer cashflow based income assessment, low ATS (between 0.8mn-1.1mn) and understanding of local nuances. Yields across players have remained strong and healthy across cycles while Cost of Funding has been in control due to NHB borrowings. PPOP/Assets have remained strong in the range of 4.6% to 10.7% despite opex intensive business. The AHFC's are well capitalized to support growth over next few years. Higher leverage may impact RoA however improve RoE profile. We build in avg RoE at 15.3%/18.6%/15.9% for Aavas, Aptus & Home First for FY24-26E, respectively.

Growth outlook strong

It is a well-recognized fact that housing finance is a secular growth story in India. Affordable Housing Finance emerge stronger as it provides strong growth runway due to lower competition given the customer profile (informal income and low ATS) and operation intensive nature of business. AHFCs that we cover have market share of less than 2-3% in the geographies that they operate suggesting a strong growth potential through further penetration. Our study of CMI data published by CIBIL Transunion suggests some slowdown in Home Loan enquiry volumes in Dec'22 & Mar'23 likely due to rise in benchmark repo rates. However, demand from customers in affordable housing is relatively less elastic. We build in 22% -30% AUM growth CAGR over FY23-26E driven by (i) addition of 25-30 branches each year; (ii) higher ATS and (iii) improved productivity.

Asset Quality pristine despite multiple headwinds over the last few years

AHFCs have faced multiple challenges in the form of slow economic growth, NBFC liquidity crisis and covid 19 over the last few years. However, write-offs have been controlled due to strong underwriting practices, granular book, and low LTVs in the underlying property. Credit costs remained below 0.8% during covid and has now reverted to pre-covid levels for Aavas and Home First. Exposure to developer finance has been minimal (only Home First) and is running down.

RoE's set to increase as leverage improves

AHFCs enjoys strong yields due to limited competition while CoF have remained under check due to low cost NHB borrowings (~20% of borrowings mix). Despite higher opex, PPOP/Avg. Assets has remained strong (4.6% to 10.7%) for companies under our coverage. These alongside low loan loss provisions supported AHFCs to report RoA's in the range of 3.5% to 7.8%. However, RoE's remained from low to mid-teens due to low leverage. We build in avg RoE at 15.3%/18.6%/15.9% for Aavas, Aptus & Home First for FY24E-26E as leverage improves. We expect earnings CAGR of 22%-25% for these companies over FY23-26E. The AHFCs are well capitalized with Tier I capital in the range of 46% to 77%, suggesting remote dilution probability in near to mid-term.

Valuations premium to sustain for strong AUM and earnings growth

AHFCs are trading a FY25E P/ABV in the range of 3.0x to 3.3x, for 22%-30% AUM CAGR and 20%-26% earnings CAGR over FY23-26E. We value Aavas/Aptus/Home First at 3.5x/4.0x/4.0x P/ABV multiple (H1FY26E) to arrive at our Target Price of Rs 2070/ Rs 380/ Rs 1130, respectively. **Home First remains our preferred pick** due to lean business model, strong growth outlook, levers available to maintain NIMs, controlled opex, expectation of low credit costs and continuity in senior management. Risk – High PE stake across covered AHFCs, geography specific risk, increase in competition, high inflation and economic slowdown affecting customer cashflows.

Thematic

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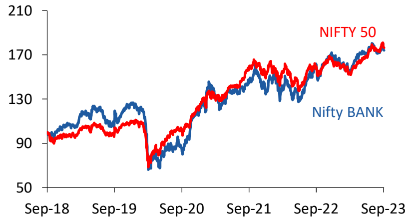
NIFTY 50: 19,675

BSE Sensex: 66,024

Nifty 50 vs Nifty Bank



Source: Bloomberg

Company	Rating	CMP* (Rs)	Target price (Rs)
Aavas Financiers	BUY	1,696	2,070
Aptus Value Housing	BUY	283	380
Home First Finance	BUY	839	1,130

Source: Centrum Broking, *as on 25 September 2023

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Affordable Housing Finance Companies

Exhibit 1: Key Financial Metrics

Company	Rating	Market Cap		CMP	Target	Up/Down	P/BV				P/ABV				RoE			
		Rs bn	US$ bn	(Rs)	Price	(%)	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aavas Financiers	Buy	134	1.6	1707	2070	21.3%	4.1	3.5	3.0	2.6	4.2	3.6	3.1	2.6	14.2	14.1	15.2	16.5
Aptus Value Housing	Buy	141	1.7	283	380	34.0%	4.2	3.8	3.2	2.8	4.3	3.8	3.3	2.8	16.1	17.0	18.8	20.1
Home First Finance	Buy	74	0.9	839	1130	34.0%	4.1	3.6	3.1	2.7	4.2	3.7	3.2	2.7	13.5	14.8	15.9	17.1

Source: HFCs, Centrum Broking Ltd

Company	AUM (Rs bn)				Disbursements (Rs bn)				NII (Rs mn)				PPOP (Rs mn)				PAT (Rs mn)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aavas Financiers	141.7	173.0	212.5	259.2	50.2	58.3	71.5	86.1	9.5	11.2	13.8	16.9	5.6	6.6	8.3	10.5	4.3	5.0	6.2	7.9
Aptus Value Housing	67.4	87.1	112.8	143.2	23.9	31.1	40.0	48.9	7.8	9.3	11.7	14.7	6.9	8.0	10.2	12.7	5.0	6.0	7.6	9.5
Home First Finance	72.0	94.8	123.2	156.9	30.1	38.5	47.8	58.8	4.5	5.8	7.2	9.0	3.2	4.0	4.9	6.2	2.3	2.9	3.5	4.4

Source: HFCs, Centrum Broking Ltd

Company	CAGR (FY20-23)					CAGR (FY23-26E)				
	AUM	Disb	NII	PPOP	PAT	AUM	Disb	NII	PPOP	PAT
Aavas Financiers	22.0%	19.7%	23.2%	20.9%	20.0%	22.3%	19.6%	21.3%	23.3%	22.5%
Aptus Value Housing	28.4%	23.2%	37.6%	40.1%	33.6%	28.6%	26.8%	23.5%	22.7%	23.6%
Home First Finance	25.8%	23.0%	31.7%	36.8%	42.1%	29.7%	25.0%	25.7%	24.9%	24.5%

Source: HFCs, Centrum Broking Ltd

Exhibit 2: Du Pont Analysis

Du Pont Analysis	Aavas						Aptus						Home First					
	FY21	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Interest yield	12.8%	12.5%	12.6%	13.0%	13.2%	13.3%	15.2%	15.5%	16.5%	16.2%	16.4%	16.4%	11.9%	12.0%	12.8%	13.7%	13.4%	13.5%
CoF	5.5%	4.8%	4.8%	5.5%	5.5%	5.4%	5.0%	4.1%	4.3%	4.8%	5.2%	5.4%	5.5%	4.5%	5.2%	6.2%	6.2%	6.3%
NIMs	**7.3%**	**7.8%**	**7.8%**	**7.6%**	**7.8%**	**7.9%**	**10.2%**	**11.4%**	**12.2%**	**11.4%**	**11.2%**	**11.0%**	**6.3%**	**7.5%**	**7.6%**	**7.5%**	**7.3%**	**7.2%**
Other income	0.5%	0.5%	0.6%	0.6%	0.5%	0.5%	0.8%	1.0%	1.1%	1.0%	1.0%	0.9%	0.4%	0.3%	0.6%	0.6%	0.6%	0.5%
Total Income	7.8%	8.3%	8.3%	8.2%	8.3%	8.4%	10.9%	12.4%	13.3%	12.5%	12.3%	11.9%	6.7%	7.8%	8.2%	8.1%	7.8%	7.7%
Employee cost/Assets	2.1%	2.3%	2.5%	2.4%	2.4%	2.3%	1.7%	1.7%	1.9%	1.9%	1.8%	1.7%	1.7%	1.7%	1.8%	1.8%	1.8%	1.7%
Other cost/Assets	1.0%	1.2%	1.3%	1.2%	1.2%	1.2%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.9%	0.9%	1.1%	1.1%	1.1%	1.0%
Opex/Assets	3.1%	3.5%	3.7%	3.7%	3.6%	3.5%	2.4%	2.3%	2.6%	2.6%	2.5%	2.4%	2.6%	2.6%	2.9%	3.0%	2.9%	2.8%
PPOP	**4.7%**	**4.8%**	**4.6%**	**4.5%**	**4.7%**	**4.9%**	**8.5%**	**10.1%**	**10.7%**	**9.9%**	**9.7%**	**9.5%**	**4.2%**	**5.2%**	**5.3%**	**5.2%**	**5.0%**	**4.9%**
Credit costs	0.4%	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	0.7%	0.5%	0.3%	0.3%	0.3%	0.8%	0.5%	0.4%	0.4%	0.4%	0.4%
Tax	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.9%	2.2%	2.3%	2.1%	2.1%	2.1%	0.8%	0.8%	1.1%	1.1%	1.0%	1.0%
RoA	**3.5%**	**3.6%**	**3.5%**	**3.4%**	**3.5%**	**3.7%**	**6.5%**	**7.3%**	**7.8%**	**7.4%**	**7.3%**	**7.1%**	**2.5%**	**3.9%**	**3.9%**	**3.7%**	**3.6%**	**3.5%**
Leverage	3.7	3.8	4.0	4.2	4.3	4.5	2.2	2.1	2.1	2.3	2.6	2.8	3.5	3.3	3.5	4.0	4.5	4.9
RoE	**12.9%**	**13.7%**	**14.2%**	**14.1%**	**15.2%**	**16.5%**	**14.5%**	**15.1%**	**16.1%**	**17.0%**	**18.8%**	**20.1%**	**8.7%**	**12.6%**	**13.5%**	**14.8%**	**15.9%**	**17.1%**

Source: HFCs, Centrum Broking Ltd

Homogeneous yet heterogeneous

AHFCs we cover are more region specific catering to specific set of customers. Aavas started its operation in Rajasthan and West India (4 states) contribute 70% of its AUM. It is focused on self-employed customers in Tier 2, 3, 4 & 5 markets with all decentralized underwriting functions. Aptus is South focused (100% AUM) and has contiguously expanded its branches in Tamil Nadu & Andhra Pradesh. It is focused on self-employed customer largely doing self - construction. Underwriting is centralized. Home First Finance started from Gujarat and West India contributes 58% of AUM. It largely operates in peripheries of large towns and focused on salaried customer segment. Underwriting if centralized and it depends on connectors for lead generation.

Exhibit 3: Parameters

Key Financial Metrics	Aavas	Aptus	Home First
AUM (Rs mn)	1,41,667	67,380	71,980
AUM growth (5 yr CAGR)	28.30%	36.65%	39.6%
AUM Mix, FY23 (%)			
Housing	69.9%	58%	87.0%
LAP	30.1%	0%	12.0%
Others	0%	42%	1.0%
Disbursements (Rs mn)	50,245	23,940	30,130
Disbursements growth (5 yr CAGR)	19.6%	26.1%	32.2%
Credit costs (5 yr avg)	0.2%	0.3%	0.5%
Stage 2 assets (5 yr avg)	2.07%	10.2%	1.3%
Stage 3 assets (5 yr avg)	0.76%	1.0%	1.5%
Avg yield (Reported)	13.1%	17.0%	13.1%
Yield on Home loan (Reported)	~13%	~13% to 15%	~13.5%
Yield on non-home loans (Reported)	14.5%	~21%	~15% - 15.5%
CoF (Reported)	7.6%	8.1%	7.4%
Assets Mix			
Fixed (%)	~45-50%	77%	~10% (NHB loans)
Floating (%)	~50-55%	23%	~90%
Borrowings portfolio			
Fixed (%)	28%	59%	~15%
Floating (%)	72%	41%	~85%
Tenor of outstanding borrowings (years)	10.4 yrs	7.0 yrs	~6.5 yrs
Cost to Income Ratio	44.9%	19.4%	35.0%
Write-off	Rs 250mn in Rs220bn cumulative disbursements	Write-offs have been negligible	~Rs500 mn written off in last 6 years
RoA	3.5%	7.8%	3.9%
RoE	14.2%	16.1%	13.5%
Tier 1 Capital	46.7%	76.6%	48.9%
Capital Adequacy Ratio	47.0%	77.4%	49.4%

Source: HFCs, Centrum Broking Ltd

Exhibit 4: Customer Profile

Customer Profile	Aavas	Aptus	Home First
Customer segment	EWS+LIG (63%)	LIG (68%) & MIG (10%)	EWS/LIG (68%)
Customer Mix			
Salaried customers	39.9%	29.0%	69.5%
Self employed	60.1%	71.0%	30.3%
Corporate	0.0%	0.0%	0.2%
Customer Sourcing	Majority direct sourcing	Majority in-house	Majority through connectors
Sourcing Mix	Majority through internal sales & referrals; Digital ~10%, DSA ~1%, Aavas Mitra ~7%	~86% in-house, ~6% through construction eco-system, ~ 5% customer referrals, 2% social media	~78% through connectors, ~8% through builder eco-system, ~4.6% through marketing, 3.2% through construction community, rest others
Type of property financed	SORP constitutes 95% of loans	Majority of loans are against SORP	Majority of loans are against SORP
ATS	1.17 mn at disbursements and 0.83mn on book	Rs0.8-0.9mn	Rs 1.11mn
Tenure	Behavioural tenure of 7 to 8 years	Behavioural tenure of 6 to 7 years	Behavioural tenure of 6 to 7 years
LTV	45 to 50%	~40%	55.8% on origination, 46.1% on book
NTC	35%	38%	20%
Customer monthly income	< Rs 50,000	~Rs 50,000	<Rs 50,000
Rejection rate	70-75%	~35%	~55%
Key State	Rajasthan (29% of branch network), 35% of AUM	Tamil Nadu (43% of AUM)	Gujarat (32.6% of AUM)
Key Region	West India (~70% of branches)	South India (100% of AUM)	West India (58% of AUM)
States/UT present	12	5	13
Tier wise branch presence	Tier 2,3,4 & 5 cities	Rural	Peripheries or outskirts of large cities. Company will venture into smaller towns
Active customers	130000+	83000+	100000+

Source: HFCs, Centrum Broking Ltd

Exhibit 5: Operating parameters

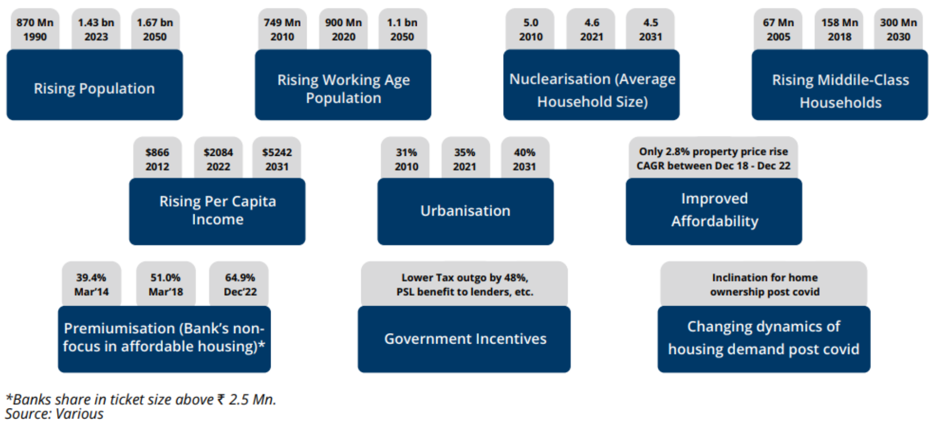
Operating Parameters			
Branches (FY23, Nos)	346	231	111
Employees (FY23, Nos)	6034	2405	993
Employee/Branch (FY23, Nos)	17.4	10.4	8.9
AUM/Branch (Rs mn)	429.3	307.0	753.7
Disbursements/Branch (Rs mn)	152.3	109.1	315.5
AUM/Employee (Rs mn)	25.2	28.8	78.1
Disbursement/Employee (Rs mn)	8.9	10.2	32.7
Underwriting Method	Branch driven underwriting model	Centralised credit underwriting.	Centralised credit underwriting.
Branch Breakeven	Tier 1 take about 2-3 years while tier 2-5 take ~12 months	Average of 4-6 months to breakeven	Once a touchpoint reaches Rs 50mn and there is a visibility of AUM growth to Rs0.5-1.0bn, the touchpoint is converted into a branch Hence, it is at breakeven at opening itself
Avg TAT	TAT of 11 days	Loans approved within 72 hours	Loan approved within 48 hours
Collections	~500+ FOS	~450 staff deployed in collections	Relationship manager responsible for sales and collections.
Borrowings Profile			
Bank Term Loans	45.0%	60.0%	57.8%
NHB	20.8%	26.0%	15.3%
DA/Securitisation	22.0%		19.2%
NCD	12.2%	10.0%	5.8%
Others	0.0%	4.0%	1.9%
Focus on DA/Securitisation	Yes	No, very small portion of securitisation done through PTC's	Yes, plans to do Rs ~1bn of DA +/- Rs200mn each quarter
Rating	AA/Stable (CARE & ICRA)	AA-/Stable (CARE & ICRA)	AA-/Stable (ICRA)
Guidance			
AUM Growth	20-25%	~30%	~30%
Focus states/geographies	-	Contiguous expansion in Telangana & Karnataka. Open more branches in Odisha and enter Maharashtra & Chattisgarh	Expand in Gujarat, Maharashtra, AP, Telangana, Karnataka & Tamil Nadu

Source: NBFCs, Centrum Broking Ltd

Growth outlook strong

Low housing finance penetration is a well-established fact

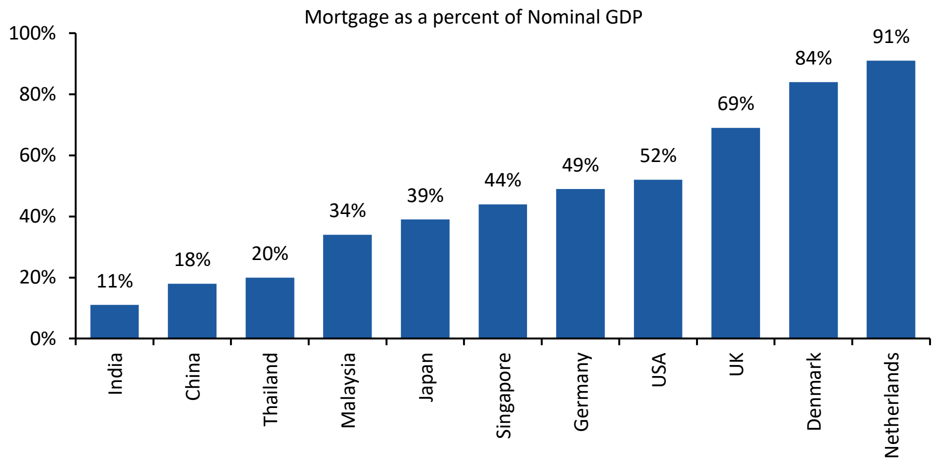
Exhibit 6: Housing growth drivers



Source: HFCs, Centrum Broking Ltd

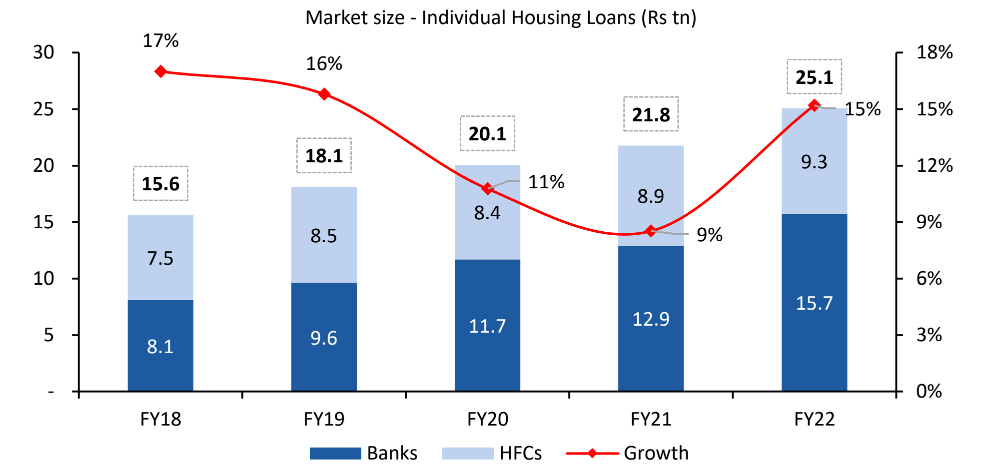
Housing finance penetration in India remains low as compared to other developed and developing countries. Banks and large NBFCs catered to prime and above customers due to ease in underwriting and collections. According to GOI estimates, there is a **shortage of 100mn units with large gap witnessed in housing for EWS & LIG customers**. **This provides financing opportunity to the tune of Rs58 tn.**

Exhibit 7: Mortgage as a percent of Nominal GDP



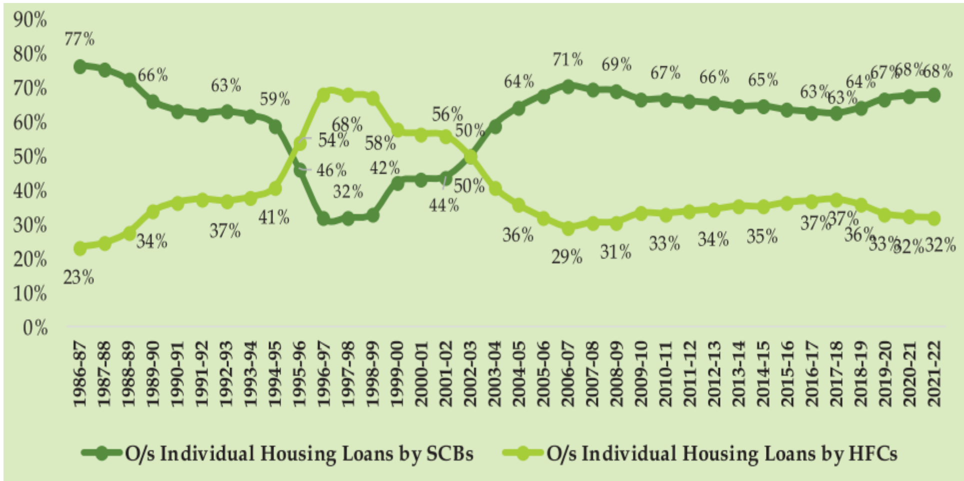
Source: NHB, Centrum Broking Ltd

Exhibit 8: Housing Finance Market size



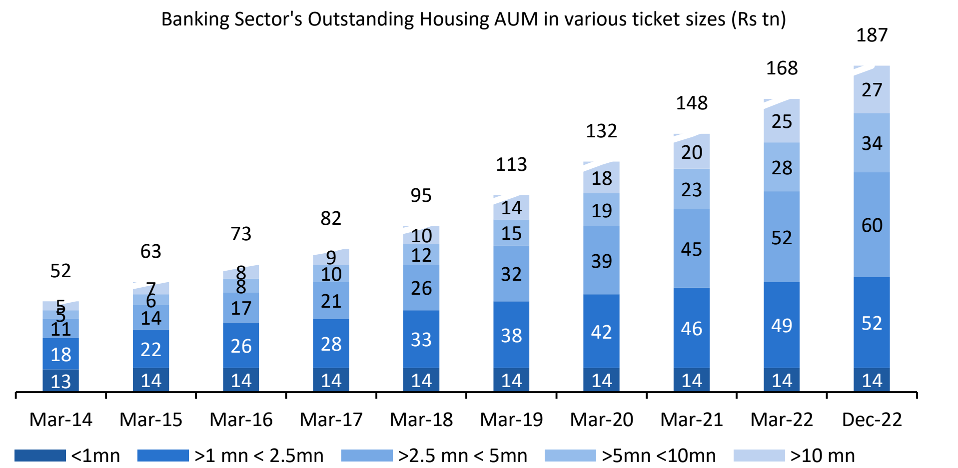
Source: NHB, Centrum Broking Ltd

Exhibit 9: 68% of Individual housing loan market is contributed by banks



Source: NHB, Centrum Broking Ltd

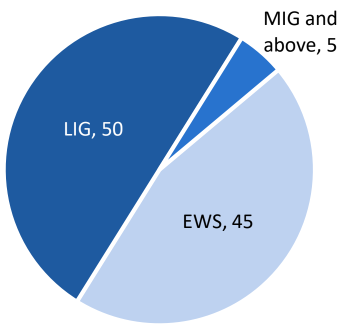
Exhibit 10: Banks are focused on loan size of >2.5mn



Source: RBI, Centrum Broking Ltd

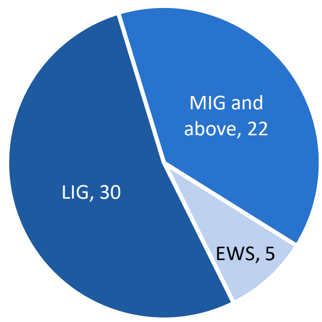
68% of Individual housing loan AUM is concentrated with Scheduled Commercial banks who are focused on ticket sizes above Rs 2.5mn. Rest 32% is with HFCs, whose share has declined over years due to increase in competitive intensity from banks. Strong financing opportunity is present in LIG segment where AHFCs have a strong footing. Despite strong opportunity, disbursements by HFC in ticket size between Rs 0.5mn to Rs 2.5mn grew at 7.6% CAGR over FY20-22 (covid period) as against 23.8% disbursements CAGR in ticket size >Rs2.5mn. AHFC's we cover have registered strong growth due to its branch reach and penetration in South & West India which enjoys higher mortgage penetration and large financing opportunity.

Exhibit 11: Shortage of 100mn units majorly from EWS & LIG…



Source: Source: GOI estimates, RBI, Centrum Broking Ltd

Exhibit 12: …providing financing opportunity of Rs58 trillion



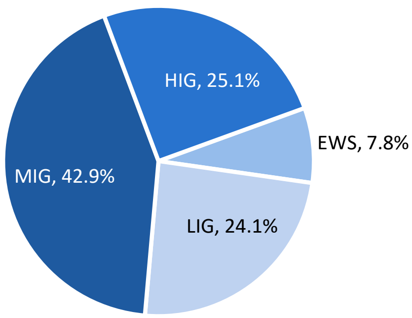
Source: Source: GOI estimates, RBI, Centrum Broking Ltd

Exhibit 13: Disbursements by HFC strong in ATS >Rs2.5mn over FY20-22, suggesting less competition in small ticket size loans

HFC disbursements	**FY20**	**FY21**	**FY22**	**CAGR**
< 5 lakh	3,386	2,194	3,451	**1.0%**
> Rs5 lakh and upto Rs10 lakh	13,014	12,135	14,615	**6.0%**
> Rs 10 lakh and upto Rs 15 lakh	19,278	18,379	21,505	**5.6%**
> Rs 15 lakh and upto Rs 25 lakh	40,849	40,446	48,557	**9.0%**
> Rs 25 lakh	1,11,707	1,17,841	1,71,124	**23.8%**
Total	1,88,234	1,90,995	2,59,252	**17.4%**
> Rs 5 lakh to Rs 25 lakh	73,141	70,960	84,677	**7.6%**
Total disbursements by AHFC we cover	**5,828**	**5,052**	**7,274**	**11.7%**

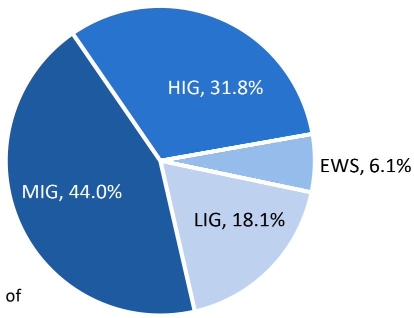
Source: NHB, Centrum Broking Ltd

Exhibit 14: EWS & LIG contribute 32% to o/s loan mix of HFCs



Source: Source: NHB, Centrum Broking Ltd

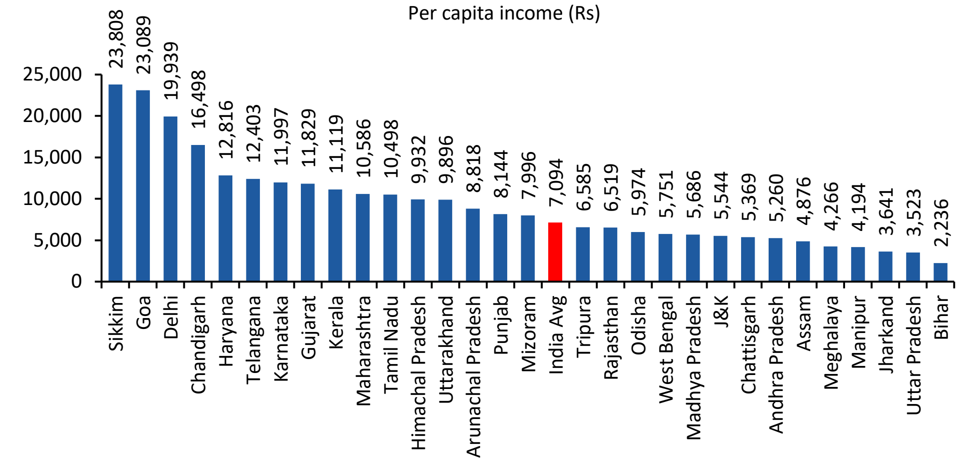
Exhibit 15: EWS & LIG at 24% to H1FY23 disbursements of HFCs



Source: Source: NHB, Centrum Broking Ltd

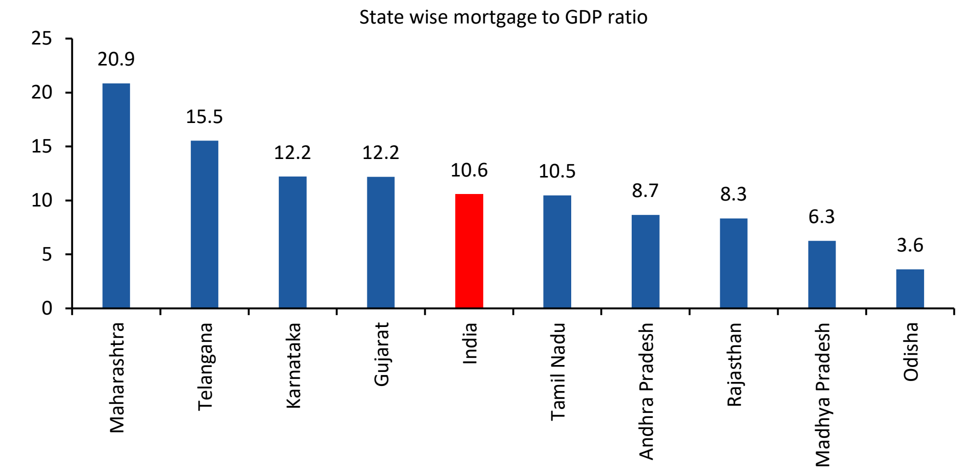
Higher per capita income states have high correlation with mortgage penetration. Maharashtra, Telangana, Karnataka, Gujarat, Haryana, etc are high GDP states and also have high mortgage penetration. However, they are witnessing urban housing shortage due to rapid urbanization and nuclearisation.

Exhibit 16: State wise per capita Income



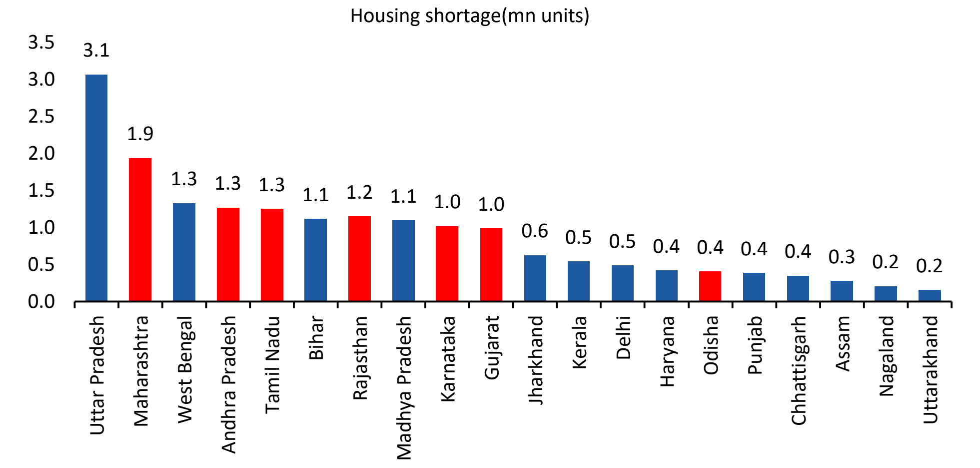
Source: Home First FY23 Annual Report, Centrum Broking Ltd

Exhibit 17: State wise mortgage to GDP penetration



Source: Home First FY23 Annual Report, Centrum Broking Ltd

Exhibit 18: Urban housing shortage over 1 million units in key growth states for AHFC we cover



Source: Home First Finance RHP, Centrum Broking Ltd

CMI data suggests slowdown in enquiry and origination of home loans likely due to increase in baseline repo rates. However, disbursements for AHFCs have remained strong suggesting relatively less elastic demand.

Exhibit 19: Inquiry & Origination volumes

	Inquiry Volumes (YoY growth)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Home Loan	11%	80%	9%	-1%	9%
LAP	24%	112%	32%	29%	33%
Auto Loan	10%	99%	30%	15%	26%
Two Wheeler Loan	6%	71%	30%	1%	30%
Personal Loan	93%	160%	109%	50%	43%
Credit Card	42%	88%	102%	77%	70%
Consumer Durable Loan	22%	37%	9%	3%	52%
	Origination volumes (YoY growth)				
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Home Loan	5%	37%	9%	-6%	-11%
LAP	13%	77%	21%	11%	2%
Auto Loan	-17%	53%	16%	12%	13%
Two Wheeler Loan	-3%	66%	21%	23%	25%
Personal Loan	125%	96%	64%	23%	21%
Credit Card	59%	98%	55%	24%	11%
Consumer Durable Loan	21%	87%	35%	13%	15%

Source: CIBIL Transunion, Centrum Broking Ltd

Government Policies aided growth in Affordable Housing Finance Companies

Urban Infrastructure Development Fund: The Indian government will establish this fund to develop urban infrastructure through public agencies in tier-II and tier-III cities. The fund is expected to be managed by the National Housing Bank with an estimated allocation of H10,000 crore annually.

Alternative Investment Fund: The Union Cabinet set up an Alternative Investment Fund with a corpus worth Rs250bn. This will provide relief to developers with unfinished projects and ensure timely delivery of homes to buyers.

Pradhan Mantri Awas Yojana (Urban): The government of India has been facilitating higher budget allocations towards affordable housing — the Pradhan Mantri Awas Yojana (PMAY) launched in June 2015 to provide quicker urban housing approvals, was allocated an outlay of H79,000 crore from the Union Budget 2023–24

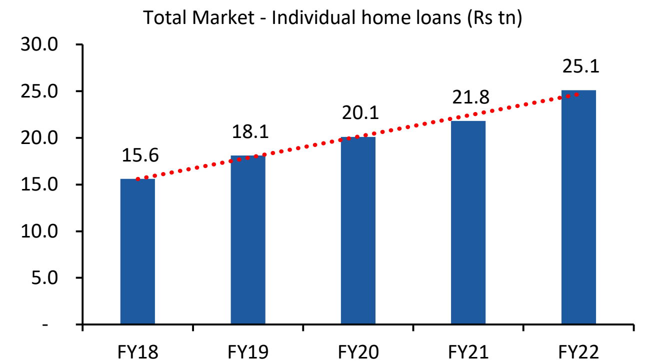
Pradhan Mantri Awas Yojana (Gramin): In FY 22-23, the government has targeted to complete around 5.3 million rural houses, a growth of 25% from the previous year. In FY 21-22, the centre targeted to build around 6.1 million rural houses out of which over 4.3 million were completed. The overall target is to build 29.5 million houses under the scheme to ensure Housing for all by FY 23-24

Tax moderation: Homebuyers have to pay a goods and services tax (GST) on the purchase of under-construction properties like flats, apartments and bungalows at the rate of 1% for affordable housing. The GST rate stood at 5% for properties under the luxury residential building category

AHFCs have grown >2.5x the system growth rate

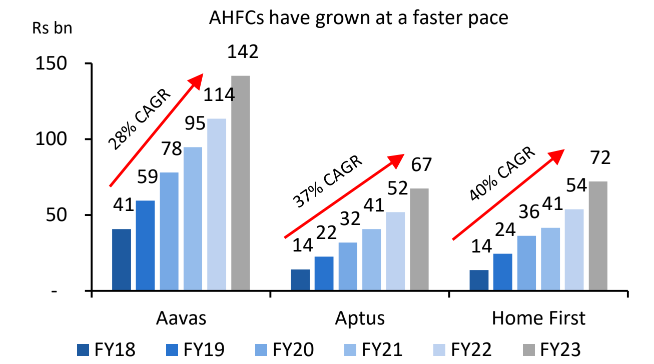
AHFCs that we cover have grown at a faster clip, registering a 33% AUM CAGR over FY18-23. Lending to Individual Home Loans, in contrast has grown at a 13% CAGR over FY18-FY22. Banks have grown at a faster pace at 18% CAGR while HFC's registered a meagre 5.5% CAGR over FY18-22.

Exhibit 20: IHL market grew at 13% CAGR over FY18-22



Source: HFC's, Centrum Broking Ltd

Exhibit 21: AHFCs recorded 33% AUM CAGR over last 5 years



Source: HFC's, Centrum Broking Ltd

Exhibit 22: Regional HFCs & AHFC – growth trend

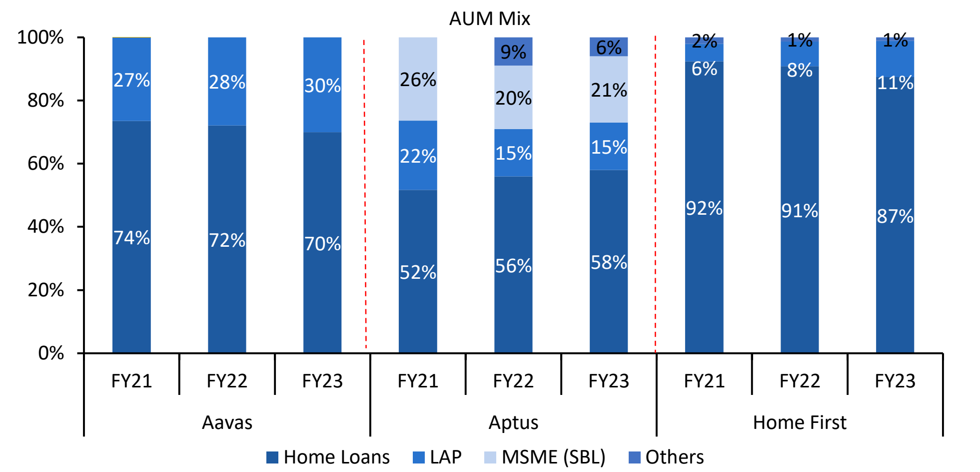
AUM (Rs bn)	FY20	FY21	FY22	FY23
Aavas	78	95	114	142
Aptus	32	41	52	67
Home First	36	41	54	72
Repco	118	121	118	124
Can Fin Homes	207	221	267	316
Aadhar	114	133	148	172
Shriram Housing	23	39	54	80
Sundaram Home	96	92	95	111

AUM growth	FY20	FY21	FY22	FY23
Aavas	31.2%	21.3%	20.1%	24.8%
Aptus	41.7%	27.8%	27.4%	30.0%
Home First	48.0%	14.5%	29.9%	33.8%
Repco	7.1%	2.5%	-3.0%	5.9%
Can Fin Homes	12.7%	6.7%	20.8%	18.2%
Aadhar	14.1%	16.6%	10.9%	16.5%
Shriram Housing	24.7%	70.5%	36.3%	50.3%
Sundaram Home	4.1%	-4.8%	3.5%	16.5%
Average	**23.0%**	**19.4%**	**18.2%**	**24.5%**

Source: HFC's, Centrum Broking Ltd

Branch expansion and business diversification into LAP/SME loans have aided companies that we cover to register faster growth. Aptus, witnessed an increase in share of home loans due to regulatory requirement on 60% of AUM towards Individual Home Loans.

Exhibit 23: AUM Mix



Source: HFC's, Centrum Broking Ltd

Asset Quality holding up well

AHFCs have faced multiple challenges in the form of slow economic growth, NBFC liquidity crisis and covid 19 over the last few years. However, write-offs have been controlled due to strong underwriting practices, granular book, and higher equity of the borrower in the underlying property (LTVs in the range of 40% to 55%). Credit costs remained below <0.8% during covid and has now reverted to pre-covid levels for Aavas and Home First. Exposure to developer finance has been minimal (only Home First) and is running down.

Exhibit 24: Avg credit costs<0.5% barring covid disrupted FY22

Credit costs (on assets)	FY19	FY20	FY21	FY22	FY23
Aavas	0.18%	0.23%	0.45%	0.23%	0.10%
Aptus	0.07%	0.09%	0.14%	0.68%	0.53%
Home First	0.38%	0.55%	0.80%	0.52%	0.36%
Repco	0.52%	0.16%	0.66%	1.90%	0.42%
Can Fin Homes	0.01%	0.30%	0.32%	0.19%	0.14%
Aadhar	0.06%	0.20%	0.42%	0.35%	0.32%
Shriram Housing	-0.65%	1.09%	0.64%	0.24%	0.15%
Sundaram Home	0.53%	0.51%	0.53%	0.81%	0.58%
Average	**0.14%**	**0.39%**	**0.49%**	**0.61%**	**0.33%**

Source: HFC's, Centrum Broking Ltd

Exhibit 25: Gross Stage 3 assets across HFCs

Gross Stage 3	FY19	FY20	FY21	FY22	FY23
Aavas	0.5%	0.5%	1.0%	1.0%	0.9%
Aptus	0.5%	1.7%	0.7%	1.2%	1.2%
Home First	0.8%	1.0%	1.8%	2.3%	1.6%
Repco	3.0%	4.3%	3.7%	7.0%	5.8%
Can Fin Homes	0.6%	0.8%	0.6%	0.6%	0.6%
Aadhar	1.2%	1.3%	1.2%	1.5%	1.2%
Shriram Housing	2.8%	2.4%	1.9%	1.7%	0.9%
Sundaram Home	3.0%	3.8%	4.5%	3.0%	2.3%
Average	**1.5%**	**2.0%**	**1.9%**	**2.3%**	**1.8%**

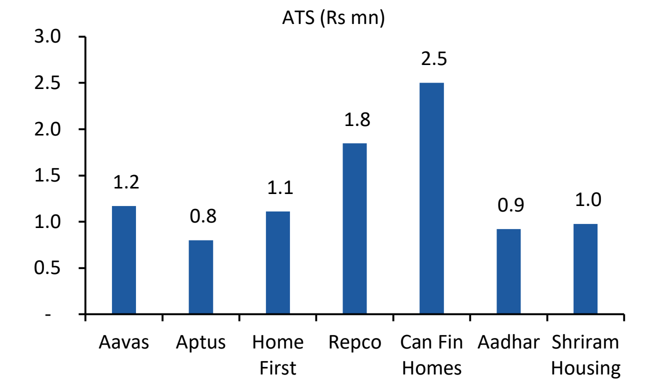
Source: HFC's, Centrum Broking Ltd

FY20 to FY22 was a challenging period for AHFCs due to covid led increase in stress assets. However, credit costs remained lower than <1% for companies that we cover due to (i) granular nature of book; (ii) low LTV's; and (iii) cash flow assessment based underwriting and (iv) strong collection mechanism. Gross stage 3 spiked in FY22 and still remains over pre-covid levels due to change in NPA recognition and standardization norms.

Granular book size with low LTVs

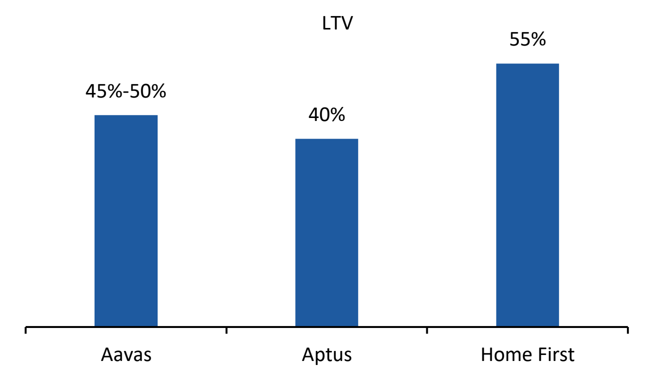
ATS across players is in the range of Rs0.8mn to Rs1.1mn, with LTV's in the range of 40-55%. Higher equity of the customer in the underlying property ensure lower delinquencies despite higher bounce rate.

Exhibit 26: ATS in the range of Rs 0.8mn to Rs1.1mn



Source: HFC's, Centrum Broking Ltd

Exhibit 27: Low LTV's



Source: HFC's, Centrum Broking Ltd

Cash flow assessment based underwriting

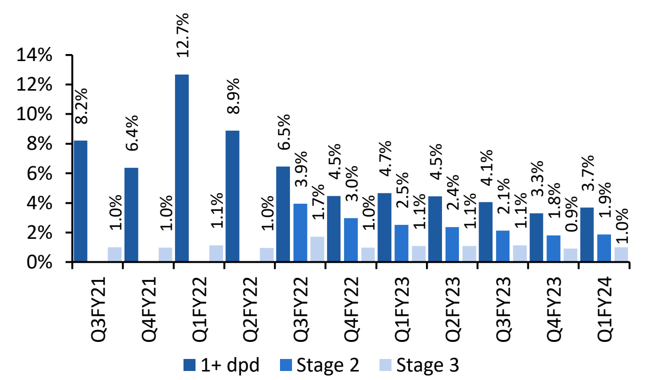
Affordable housing finance is considered a sub-prime lending segment as it caters to customers with informal income or are new to credit. Either they are self-employed or are salaried in smaller organization. Thereby it is important to assess their income which may have a significant part of cash inflows. AFHFCs have thereby developed cash flow assessment based underwriting model to evaluate customer credit worthiness. While all the three companies that we cover use cash flow based assessment for underwriting, however, there is a difference in the way they operate.

Aavas Financiers follows an in-house, de-centralised, geography specific underwriting model. Sales, risk and underwriting functions are separated. Risk encompasses legal (document verification, marketability of property), technical (valuation) and fraud risk (due-diligence on customer). The underwriting managers separately visit the customer to understand their business and revenue streams and estimate income and loan eligibility. The Company has developed over 60+ credit underwriting templates to assess the borrower's income. Underwriting also encompasses evaluation of risk associated with the property. Over 600+ employees are working in underwriting vertical which includes 150+ Chartered Accountants. Collection officer maintains a close connect with the borrower for timely collection and detect any early signs of default.

Aptus Value Housing Finance: Aptus follows a centralized underwriting model i.e., all loan approval decision are done by centralized underwriting team at HO. The credit underwriting team has customized ~60 credit assessment models to determine borrower's income/cash flows. The models are based on customer profiles across multiple regions. Savings/investments in chit funds, vehicle ownership and other properties are considered to verify customer's income. In-house legal and technical team verifies deeds and title to the property before approval. Further, site visits are conducted after 3 months of loan disbursal and periodically afterwards to conduct post disbursement audit. Aptus has 256 employees deployed in credit vertical. Collections is done through auto debit facility through NACH mandate.

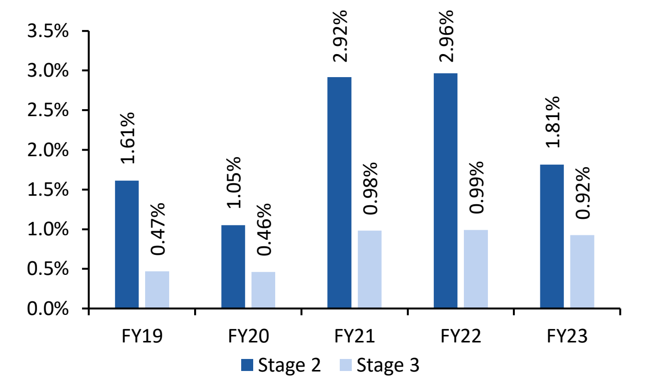
Home First Finance follows centralized underwriting model. It has a dedicated relationship manager who has detailed personal discussion with the borrower as well as acquaintances and neighbours in order to assess the source of income and cash inflows and outflows as well as the stability and habits of the customer. The RM then assists in doorstep collection of all documents needed for loan processing which are digitized and saved on cloud and accessed at HO for credit underwriting. All formal and informal sources of income, alternative documents like life insurance policies, property deeds, etc are used for credit evaluation. It evaluates 100 data points of a customer like fraud related data, banking, investment and taxation in addition to credit bureau data for effective underwriting. It has deployed proprietary machine learning customer scoring models to predict bounce probability and early warning signals of default. Relationship manager assists in collection.

Exhibit 28: Aavas – Significant reduction in 1+dpd



Source: HFC's, Centrum Broking Ltd

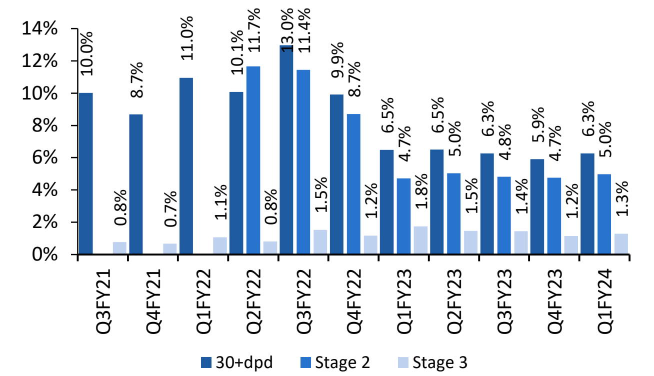
Exhibit 29: Aavas - Stage 3 assets lower than peers



Source: HFC's, Centrum Broking Ltd

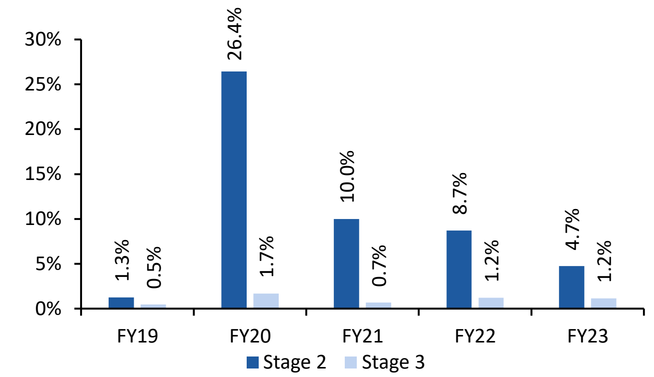
Aavas achieved significant reduction in 1+ dpd while Stage 3 assets have remained at ~1% over last 11 quarters. FY22 & FY23 stage 3 is impacted due to change in NPA recognition and standardization. Stage 3> 90 dpd (comparable to previous years from FY19-FY21) for FY 22/FY23 stood at 0.68% and 0.81%, respectively.

Exhibit 30: Aptus – 30+ dpd remains sticky



Source: HFC's, Centrum Broking Ltd

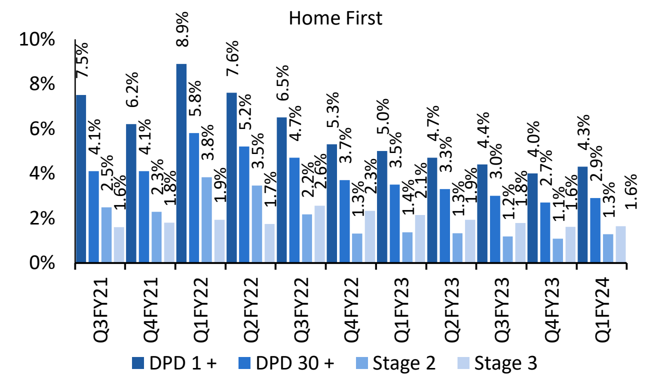
Exhibit 31: Aptus - Stage 3 controlled despite higher Stage 2



Source: HFC's, Centrum Broking Ltd

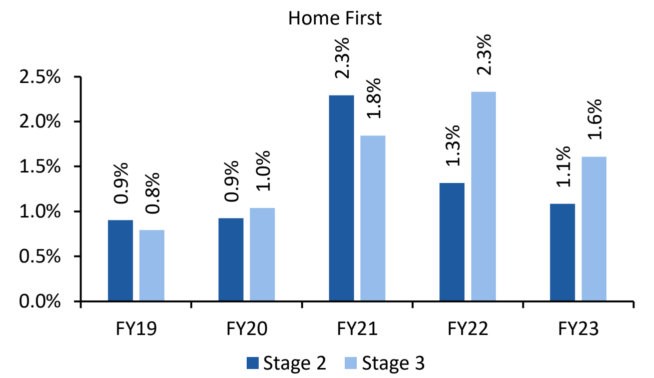
Stage 2 went up significantly for Aptus in FY20 as the company encouraged customers to not opt-in for moratorium and instead continue with their regular installments. The customers who could not pay slipped into stage 2. Reduction in stage 2 is encouraging. However, remains above pre-covid. Stage 3 has been under control suggesting strong collection mechanism of Aptus.

Exhibit 32: Home First – Stage 2 lower than Stage 3 assets



Source: HFC's, Centrum Broking Ltd

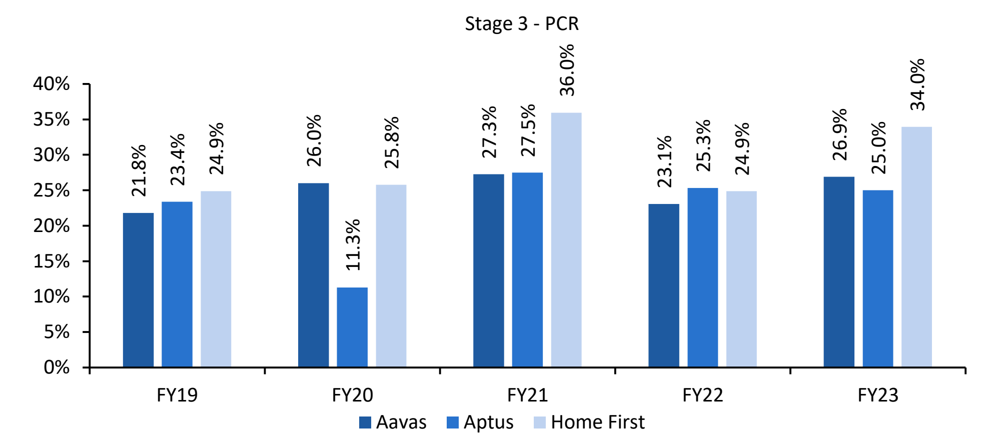
Exhibit 33: Home First – Strong control in 30-90 dpd bucket



Source: HFC's, Centrum Broking Ltd

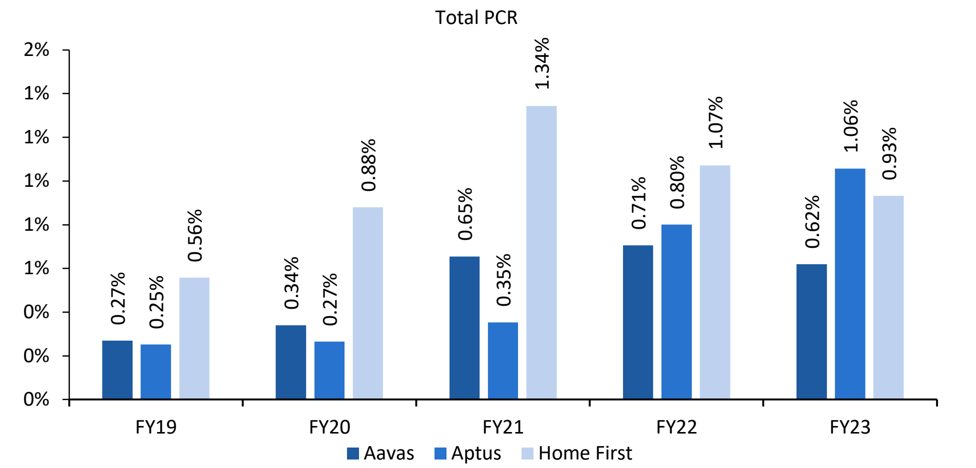
Stage 3 > 90 dpd for Home First stood at 1.3% and 0.9% for FY22 and FY23, respectively. It is quickly reverting to pre-covid levels aided by collections as well as write-offs.

Exhibit 34: Stage 3 Provisions coverage ratio



Source: HFC's, Centrum Broking Ltd

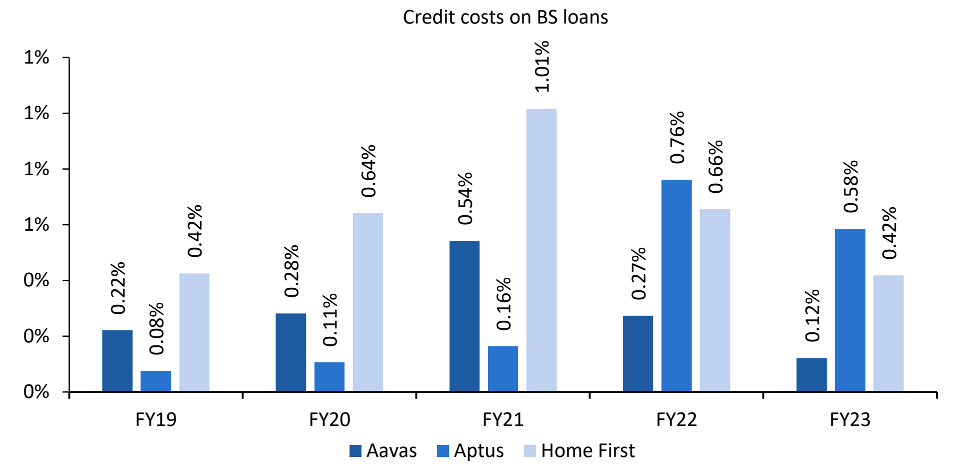
Exhibit 35: Total Provisions coverage ratio(PCR)



Source: HFC's, Centrum Broking Ltd

Aptus has increased provisions cover on total loans in line with peers over the last two years. 56%/77% of credit costs in FY22/FY23 is attributable to increase in provision coverage ratio.

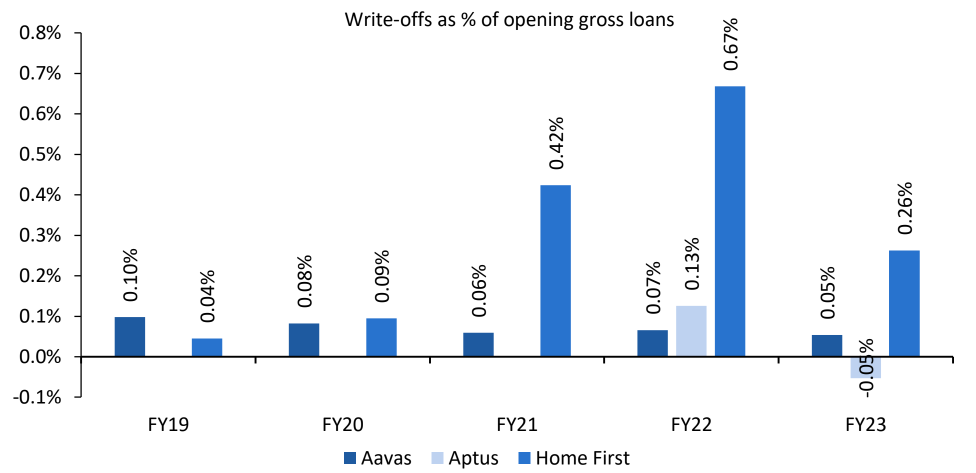
Exhibit 36: Credit costs remained low even during covid despite increase in PCR



Source: HFC's, Centrum Broking Ltd

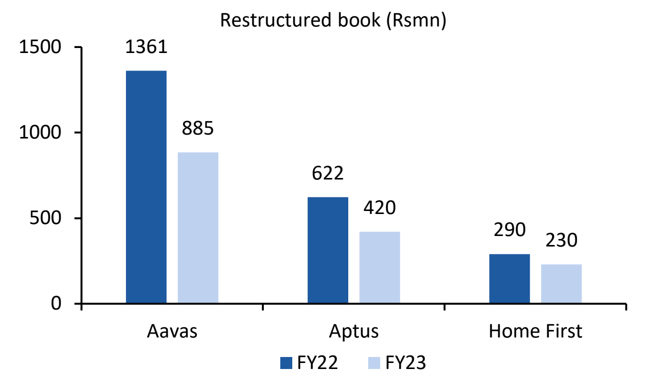
Aptus had to take write-offs in FY22, prior to which it had nil write-offs. Write-offs for Aavas ranged between 5 to 10bps while Home First had higher write offs during covid period.

Exhibit 37: Write-offs remained low due to secured nature of book



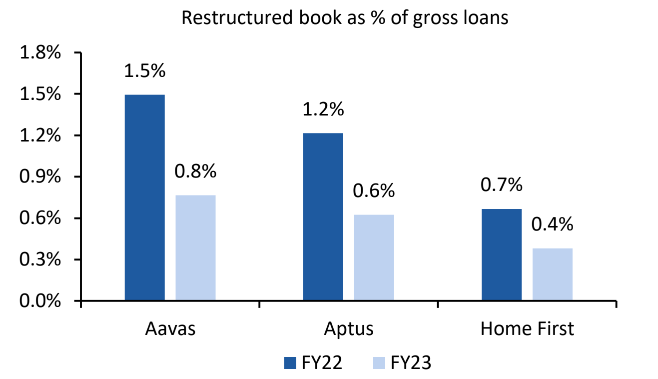
Source: HFC's, Centrum Broking Ltd

Exhibit 38: Restructured book improved across AHFCs



Source: HFC's, Centrum Broking Ltd

Exhibit 39: Restructured book as % of gross loans



Source: HFC's, Centrum Broking Ltd

RoE's set to increase as leverage improves

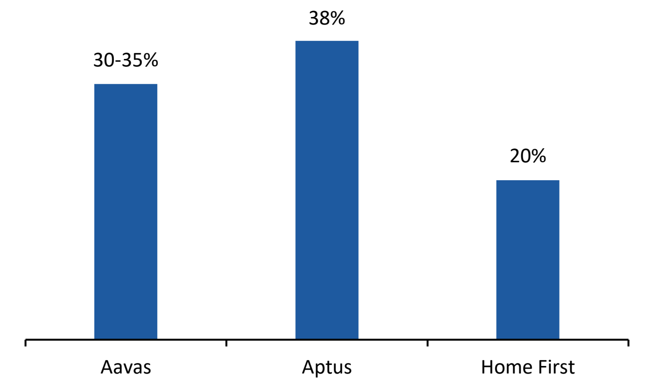
AHFCs enjoys strong yields due to limited competition while CoF have remained under check due to low cost NHB borrowings (~20% of borrowings mix). Despite higher opex, PPOP/Avg. Assets has remained strong (4.6% to 10.7%) for companies under our coverage. These alongside low loan loss provisions supported AHFCs to report RoA's in the range of 3.5% to 7.8%. However, RoE's remained from low to mid-teens due to low leverage. We build in avg RoE at 15.3%/18.6%/15.9% for Aavas, Aptus & Home First for FY24-26E as leverage improves. We expect earnings CAGR of 22%-25% for these companies over FY23-26E. The AHFCs are well capitalized with Tier I capital in the range of 46% to 77%, suggesting remote dilution probability in near to mid-term.

AHFCs command high interest yields due to presence in un/underserved markets

Core interest yields for AHFCs have ranged in between 12% to 18%. Housing Finance portfolio is priced in the range of 12% to 15% while LAP and other businesses command higher yields. Aptus enjoys industry leading yields due to exposure in SME business which is priced at 21% while the affordable housing loans are also offered in the range of 13%-15%.

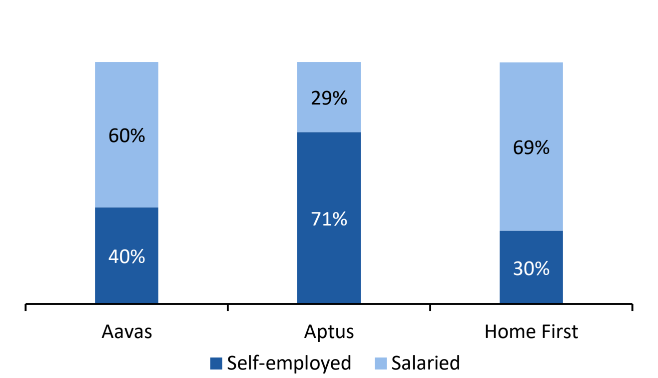
AHFCs have been able to command a premium due to its exposure to un-served and under-served customer segment who are either self-employed or salaried in informal segment or at lower levels. Due to lack of proper documentation, access to banks/large NBFCs is unavailable. AHFCs have set up opex intensive operational models to assess customer cash flows basis which they are able to underwrite. Limited competition and penetration has allowed AHFCs to command a premium in interest yields which has been less cyclical. Our interaction with some of the players indicate that the interest yields on affordable home loans may go down gradually over the medium term however, they are looking at other ancillary products like MSME loans which may aid in maintaining yields on a gross level.

Exhibit 40: NTC customer forms 20%-40% of customer base



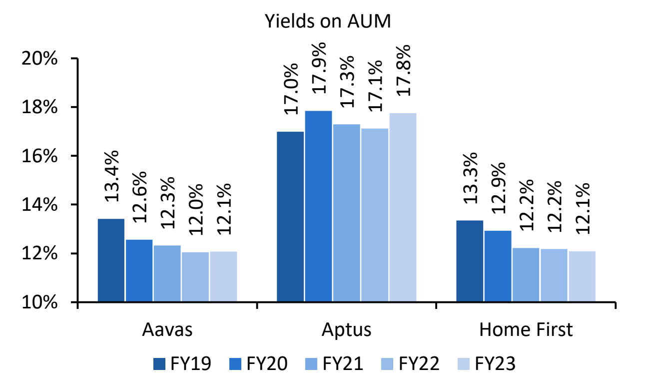
Source: HFC's, Centrum Broking Ltd

Exhibit 41: Customer occupation



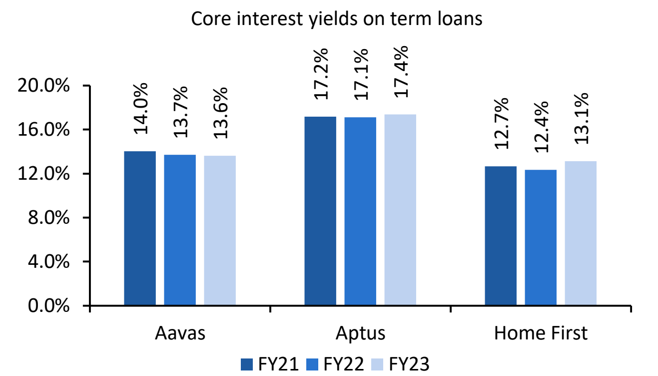
Source: HFC's, Centrum Broking Ltd

Exhibit 42: Trends in interest yields (on AUM)



Source: HFC's, Centrum Broking Ltd

Exhibit 43: Core yields on term loans (as % of gross loans)



Source: HFC's, Centrum Broking Ltd

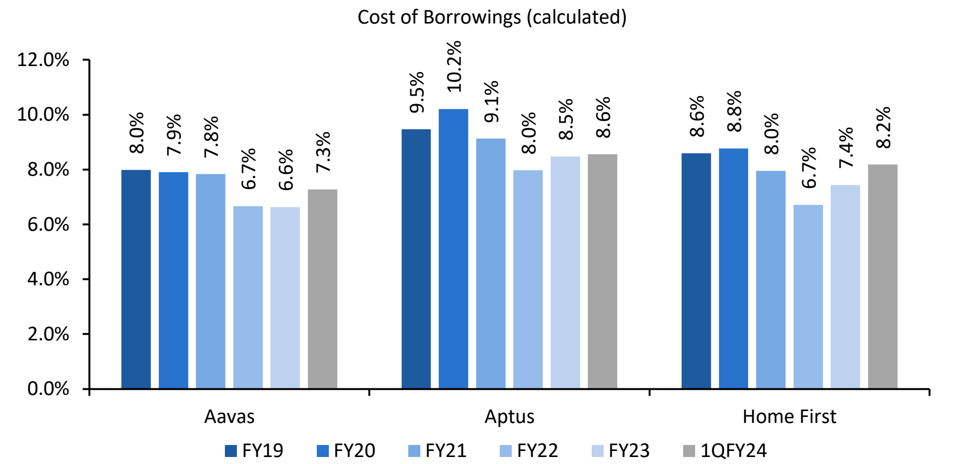
Home First mostly operates in peripheries of urban & semi-urban towns because of which it has low core interest yields as compared to peers. Aavas operates in semi-urban and rural areas. Aptus is present in rural regions (74%) aiding in higher yields. With rise in repo rates, the AHFCs have taken hikes in interest rates (PLR) over the last 5 quarters.

- Aavas has taken cumulative rate hike of 200bps in PLR over last 5 quarters.
- Aptus has taken PLR hike of 50bps (in Nov'22) on its floating rate book (23% of AUM) and 50bps on non-housing and SME portfolio in Aug'23 (~40% of AUM).
- Home First has hiked interest rates by 125 bps so far with last hike of 50bps done in April'23.

Cost of borrowings near peak

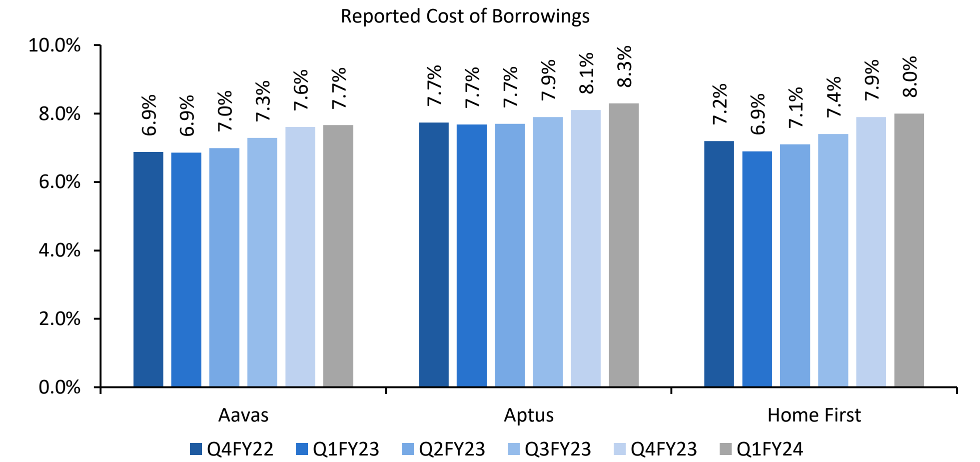
HFCs have an advantage of raising low cost borrowing from NHB, which comprise ~15%-20% of overall borrowings mix. Also, term loans dominate the borrowing where the MCLR reset is already done. Cost of borrowing is up 60-150bps since lows in FY22. Since majority of borrowing is dominated by bank term loans, MCLR reset is likely done suggesting lower increase in CoB from hereon.

Exhibit 44: Cost of Borrowings



Source: HFC's, Centrum Broking Ltd

Exhibit 45: Reported Cost of borrowings



Source: HFC's, Centrum Broking Ltd

Excerpts from recent concalls on Cost of Borrowings

Aptus – 'We are getting (funds) in the range of 8.2% to 8.5%. But what will happen going forward is during the third quarter, NHB is likely to sanction more refinance. So that will be at a lesser rate of interest. With the result, the cost of borrowing is likely to remain for the year at around 8.3%.'

Home First – 'On cost of borrowings, most impact of MCLR has already come through. There is some lag effect still to come. Based on our projection, 8.20% - 8.30% is where we are seeing the peak to happen. This also assumes that there is no further policy rate change in India. With that assumption, I think, another 20 to 25 basis points at best is what we should look at.'

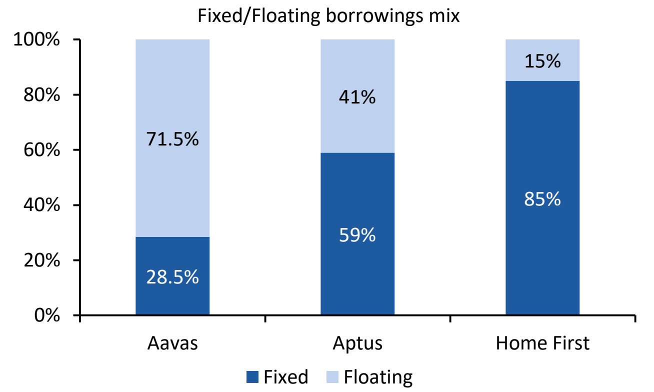
Exhibit 46: Borrowings Mix

Borrowings Profile	Aavas			Aptus			Home First		
	FY22	FY23	1QFY24	FY22	FY23	1QFY24	FY22	FY23	1QFY24
Bank Term Loans	37.9%	45.0%	46.6%	50.0%	60.0%	60.0%	45.1%	57.8%	54.0%
NHB	21.5%	20.8%	21.3%	32.0%	26.0%	28.0%	26.6%	15.3%	22.0%
DA/Securitisation	22.9%	22.0%	20.9%	-	-	-	22.8%	19.2%	17.0%
NCD	17.7%	12.2%	11.2%	14.0%	10.0%	9.0%	3.8%	5.8%	4.0%
Others	0.0%	0.0%	0.0%	4.0%	4.0%	3.0%	1.8%	1.9%	3.0%

Source: HFC's, Centrum Broking Ltd

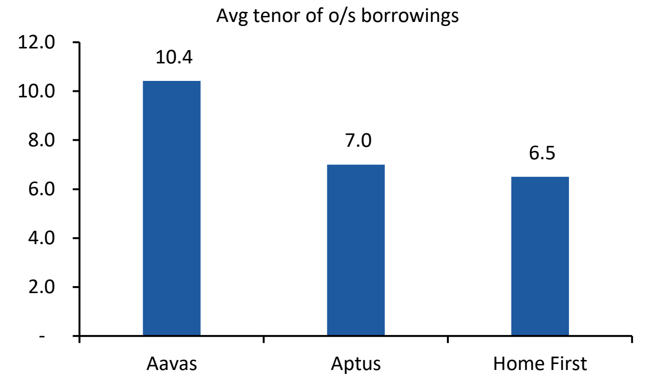
AHFCs that we cover do not rely on short term Commercial papers to meet their funding requirement. The companies are carrying excess surplus due to low leverage (high CAR) and focus on long term borrowings.

Exhibit 47: Fixed/Floating borrowings mix



Source: HFC's, Centrum Broking Ltd

Exhibit 48: Avg tenor of o/s borrowings



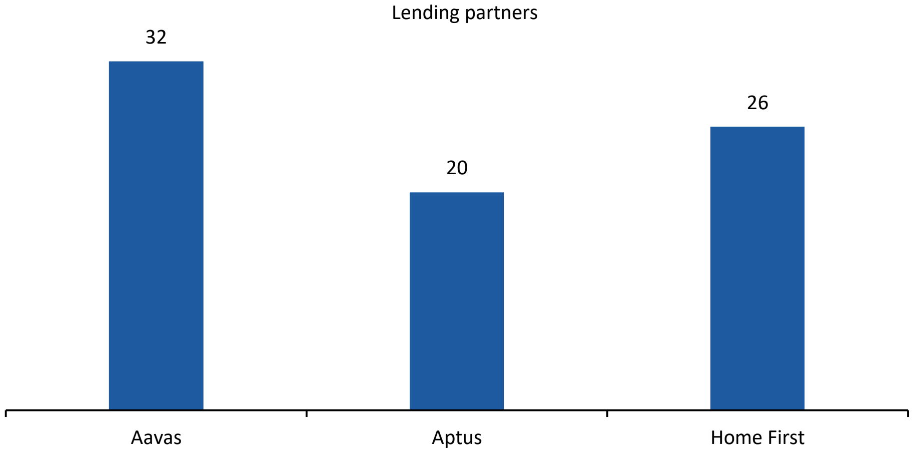
Source: HFC's, Centrum Broking Ltd

Exhibit 49: Credit rating strong

Aavas	Long term	AA/Stable	ICRA
		AA/Stable	CARE
	Short term	A1 +	ICRA
		A1+	CARE
		A1+	INDIA RATINGS
Aptus	Long term	AA-/Stable	ICRA
		AA-/Stable	CARE
Home First	Long term	AA-/Stable	ICRA
		AA-/Stable	CARE
		AA-/Stable	India Ratings
	Short term	A1+	ICRA
		A1+	India Ratings

Source: HFC's, Centrum Broking Ltd

Exhibit 50: Partnership with lending institutions



Source: HFC's, Centrum Broking Ltd

Opex to remain range bound in near term

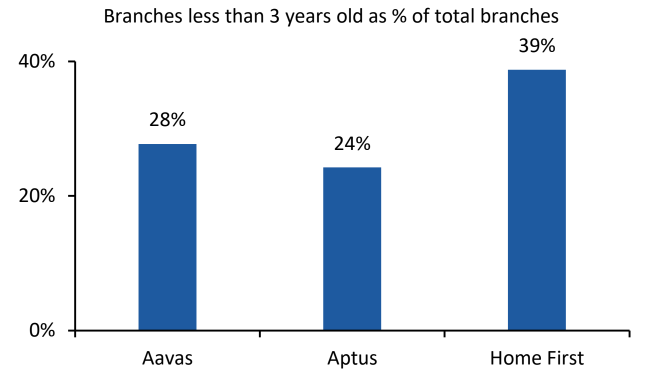
AHFCs business model is operationally intensive due to underwriting of informal segment with low ticket sizes and investments in collection mechanism. Investment in tech and branch expansion has led to further increase in opex last year. Aavas/Aptus/Home First added 32/23/31 branches, taking their total branch network up by 10%/11%/39% in FY23, thereby resulting in higher opex.

Aavas has earmarked ~Rs1.4bn towards IT transformation of which Rs400-Rs500 mn will be towards capex and Rs150-200 mn will be spent as opex over the next 4 years. Home First' software tech expenses contributed 8%+ of total expenses over the last 2 years. Based on IT spends, Aptus is comparatively lagging its peer set with IT expenses contributing an avg of 1.1% of total expenses over the last two years.

In our view AHFCs may see operating efficiencies improving as the percentage of mature branches (>3 years old) start increasing in total number of branches and tech transformation leads to improved efficiencies and scalability.

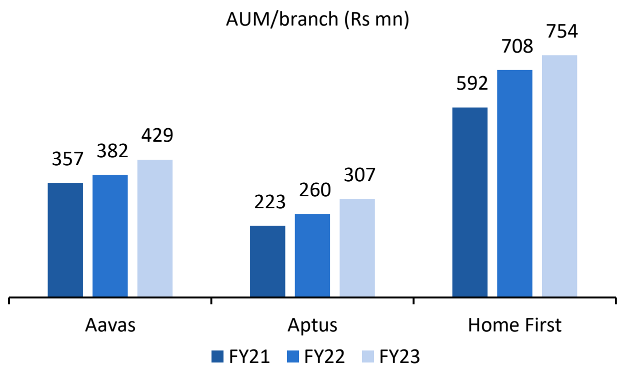
Home First's highest grossing branches in Gujarat has an AUM of Rs2bn+, as against an average AUM/branch of Rs754mn. It converts a touchpoint into a branch only when the location has a potential of reaching an AUM of Rs1bn in 4-5 years. Aptus' >3 year old branches have an AUM of Rs 358.7mn, 1-3 year old branches have an AUM of Rs 175.2mn and <1 year old branches have an AUM of Rs16.4mn.

Exhibit 51: Branches less than 3 years old



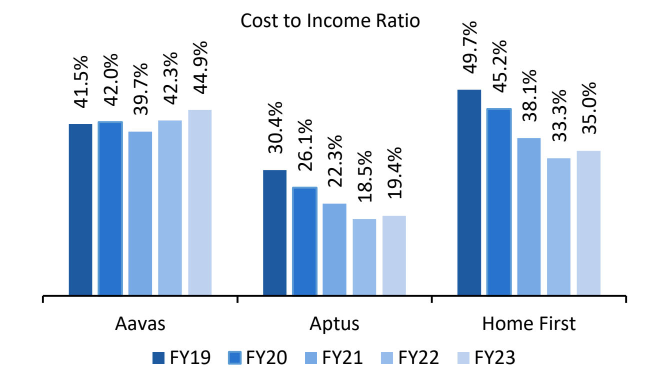
Source: HFC's, Centrum Broking Ltd

Exhibit 52: AUM per branch



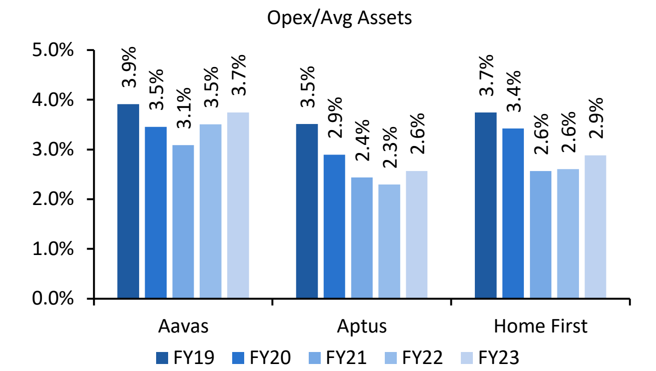
Source: HFC's, Centrum Broking Ltd

Exhibit 53: Cost to Income ratio



Source: HFC's, Centrum Broking Ltd

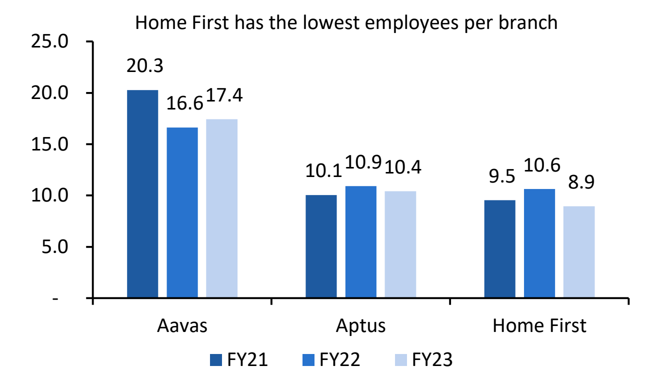
Exhibit 54: Trends in opex to average assets



Source: HFC's, Centrum Broking Ltd

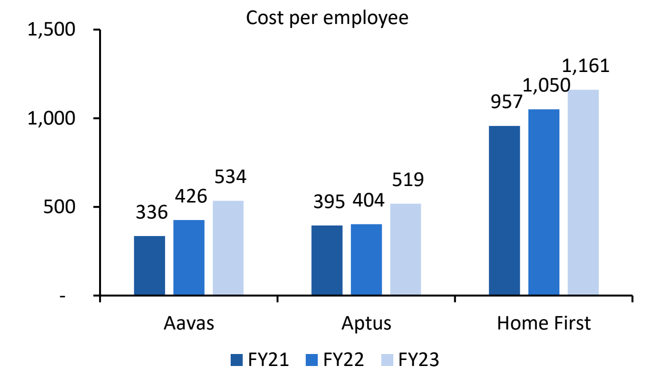
Home First has seen significant reduction in C/I ratio as operational efficiencies (operating leverage) kicked in. Aptus has the lowest opex as its branches are concentrated mostly in rural areas of 4 states, with all functions performed in-house. Employees/branch are low for Home First and Aptus while it is highest for Aavas. Aavas has decentralised operations with underwriters separately evaluating all cases. Also functions like sales, collections, etc are separated. Apart from ~6000 permanent employees, Aavas has ~1k employees off roll, mostly in sales and collection functions.

Exhibit 55: Employees /Branch



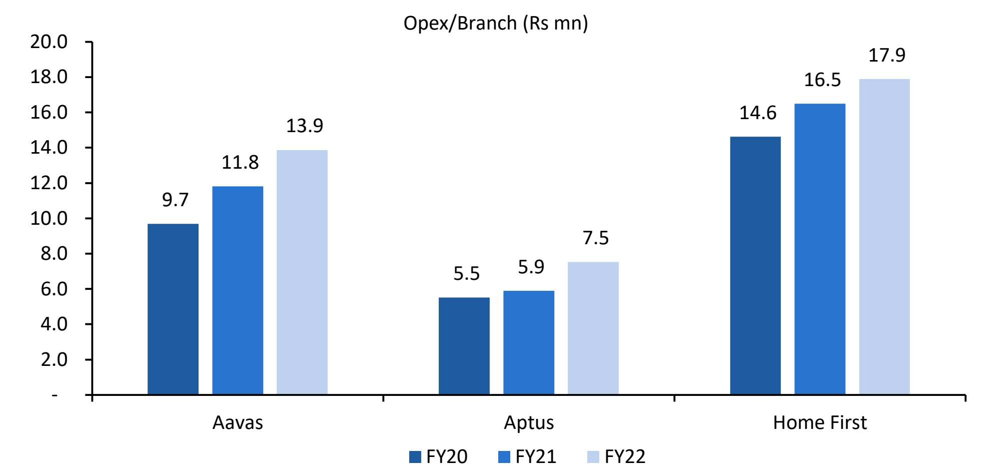
Source: HFC's, Centrum Broking Ltd

Exhibit 56: Cost per employee



Source: HFC's, Centrum Broking Ltd

Exhibit 57: Opex/Branch



Source: HFC's, Centrum Broking Ltd

Opex /branch for Home First is 29% higher than Aavas and 138% higher than Aptus. However, AUM/ branch is 76% higher than Aavas and 145% higher than Aptus.

Business build to achieve ~3.5% RoA on a steady state basis

In the below illustration, we try to estimate steady-state RoA's for AHFCs. Our calculation suggests that AHFCs can achieve 3.5% RoA despite us being slightly conservative on interest yields (can increase proportion of LAP and other high yield products in AUM mix) alongside higher credit cost estimates. However, we expect operating efficiencies to build in and expect C/I ratio at 35% (Aavas/Aptus/Home First C/I ratio at 45%/19%/35% in FY23, respectively). RoA's for Aavas/Aptus/Home First stood at 3.5%/7.8%/3.9% in FY23.

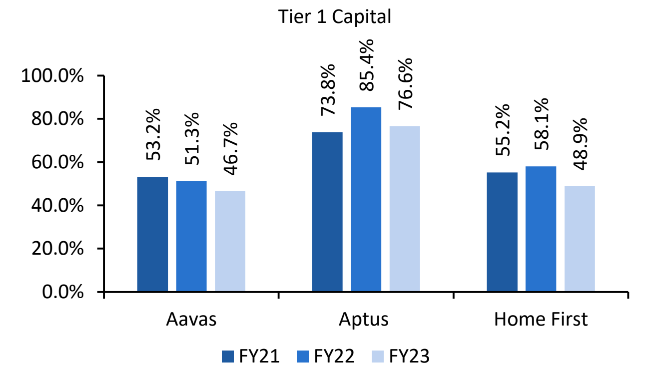
Exhibit 58: Steady state RoA illustration

Interest income	13.5	**Assumptions**	
Interest expenses	6.4	Total Assets	100
Net Interest Income/NIMs	**7.1**	Borrowings	80
Other Income	0.6	Networth	20
Total Income	7.7	A/E	5
Opex	2.7		
PPOP	**5.0**	Yields	13.5%
Credit cost	0.5	CoB	8.0%
PBT	4.5	C/I ratio	35%
Tax @22%	1.0	Credit cost	0.5%
PAT (RoA)	3.5		
Leverage	5.0		
RoE	17.6		

Source: HFC's, Centrum Broking Ltd

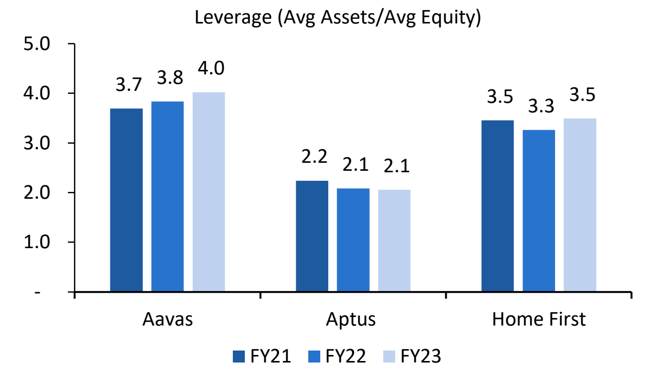
AHFCs have strong Tier I capital and low leverage and may not require any additional growth capital to achieve 25%-30% AUM CAGR over the next few years.

Exhibit 59: Strong capital adequacy



Source: HFC's, Centrum Broking Ltd

Exhibit 60: Leverage remains low



Source: HFC's, Centrum Broking Ltd

Our model suggests avg RoA's of 3.5%/7.3%/3.6% over FY24E-26E for Aavas/Aptus/Home First, respectively. Better utilisation of capital should lead to increase in leverage and expansion in RoE's to 16.5%/20.1%/17.1% for Aavas/Aptus/Home First in FY26E as against 14.2%/16.1%/13.5% in FY23, respectively.

Valuations premium to sustain for strong AUM and earnings growth

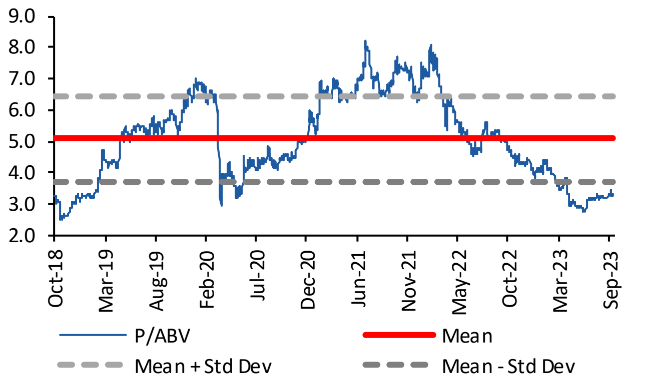
AHFCs are trading at FY25E P/ABV in the range of 3.0x to 3.3x, for 22%-30% AUM CAGR and 22%-25% earnings CAGR over FY23-26E. We value Aavas/Aptus/Home First at 3.5x/4.0x/4.0x P/ABV multiple (H1FY26E) to arrive at our Target Price of Rs 2070/ Rs 380/ Rs 1130, respectively. We assign a higher multiple to Home First & Aptus due to strong growth outlook, strong yields, controlled opex, expectation of lower credit costs and continuity in senior management. Home First is our preferred pick. High PE stake across covered AHFCs, increase in competitive intensity, high inflation and economic slowdown are key risks to our call.

Home First – We assign a 4x multiple to Home First due to faster AUM growth, geographical spread, lean business model and sharp improvement in RoE profile over the next two years. The key management team is intact which in our view a pre-requisite to achieve the stated growth and earnings guidance.

Aptus – We value Aptus at 4.0x H1FY26E P/ABV multiple. Despite higher profitability, we do not assign higher multiple due to geographical concentration in South India. We expect it to continue to grow at a faster clip and enjoy industry leading RoA's due to diversified business in high yielding portfolio. C/I ratio remains lowest amongst peers due to rural focus and in-house operations. Minimal write-offs since inception gives comfort in its underwriting practices.

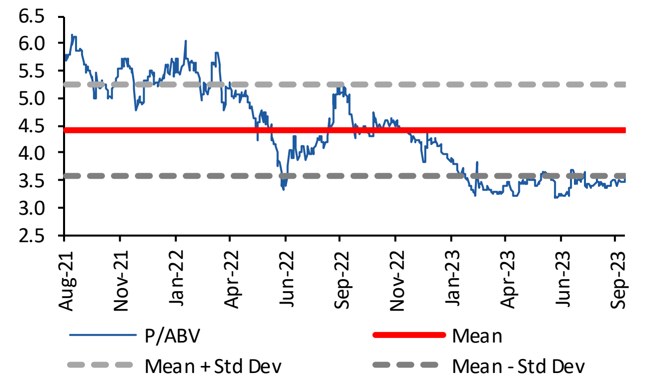
Aavas – Aavas has strong internal control processes as reflected in its lower credit cost over a decade. Given the high base, we expect Aavas to grow at a 22% CAGR over FY23-26E and reach an avg RoA's of 3.5% (FY24E-FY26E). Given the peer lagging growth and RoE expansion, we value Aavas at 3.5x H1FY26E P/ABV to arrive at our Target Price of Rs 2070. Initiate with a BUY.

Exhibit 61: Valuation chart (Aavas)



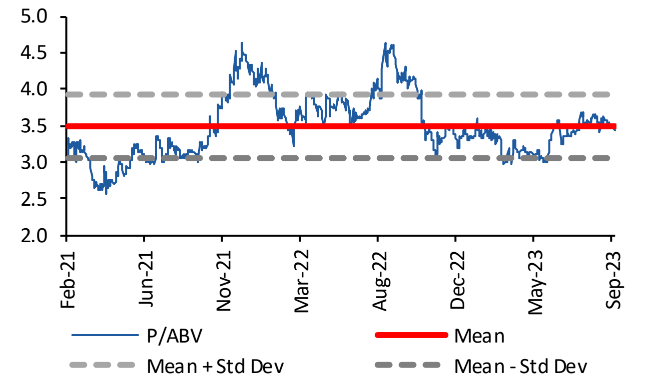
Source: : NBFC, Centrum Broking

Exhibit 62: Valuation chart (Aptus)



Source: Centrum Broking, Bloomberg

Exhibit 63: Valuation chart (Home First)



Source: : NBFC, Centrum Broking

CENTRUM

AAVAS Financier

Strong franchise

Initiating Coverage

India I Affordable Housing Finance Companies

26 September, 2023

Institutional Research

BUY

Price: Rs1,695.5

Target Price: Rs2,070.0

Forecast return: 22%

We initiate coverage on Aavas Financiers (Aavas) with BUY rating and a Target Price of Rs2,070. The company's strong execution track record is reflected in AUM CAGR at 28% over last 5 years and best-in-class asset quality (5yr avg GS3 at 0.71%) despite focus on EWS & LIG customer segments with large self-employed asset mix. Aavas' expansion into newer states should ensure growth momentum to continue at 22% CAGR over the next three years. Aavas' AUM (Rs141.7bn as on FY23) is twice that of Home First and Aptus. Further, growth is likely to moderate in comparison to peers, however better utilization of capital will increase in leverage leading to improved RoE profile. Aavas has made significant investments in tech and digital capabilities which should support growth and improve operational efficiencies going ahead. We expect operating leverage to kick in from FY24E. We expect AUM/profit at a CAGR of 22%/23% over FY23-26E, with RoA and RoE of 3.7% and 16.5% by FY26E, respectively. We value Aavas at 3.5x H1FY26E P/ABV to arrive at our Target Price of Rs 2,070. Initiate with a Buy for 22% upside.

Large market opportunity to support 22% AUM CAGR over FY23-26E

Aavas is a formidable player in affordable housing with 346 branches spread across North and West of India; 60% of its customers are self-employed while remaining 40% are salaried in non-formal segments. ATS at disbursements is low at Rs1.17mn. The operationally intensive business model and low ATS has kept competition from banks and large NBFCs at bay. Aavas plans to add 30-35 branches every year and enter one new state every 3-5 years. Notably, the focus on tier 3/4/5 towns with low mortgage penetration of 2-3%, branch additions and maturity of >3 years old branches should support AUM growth of 20-25% over next few years. We build in 22% AUM CAGR over FY23-26E.

Significant investments in branches, manpower and tech to keep Opex range-bound

Aggressive branch additions and significant investments in tech infra has led to higher Opex in FY23. Aavas' thorough underwriting model (decentralized) and multiple checkpoints is manpower intensive as reflected in higher employee count/branch and high Opex/branch as compared to peers. Further, the company is spending ~Rs1.5bn in tech upgradation, of which Rs0.4bn is towards capex and Rs0.15-0.20bn towards Opex spread over four years. The tech upgradation will improve efficiencies and reduce TAT for loan approval from current ~11 days to 6 days. We, therefore, estimate Opex/AAUM at 3.7%/3.6% in FY24E/FY25E as against an avg. of 3.5% over last 5 years due to guided tech expenses and branch expansion.

Superior asset quality; underwriting strength validated through covid

Aavas reported 0.92% GS3 ratio in FY23 out of which 0.11% is < 90dpd. Aavas' asset quality metrics are superior as compared to peers despite a higher mix of self-employed customers. Write-offs stood at ~11bps of total cumulative disbursements so far.

Strong franchise with high return profile

Aavas enjoys 12-15% core interest yields due to focus on EWS+LIG and self-employed customer segment. High NIMs, low credit costs and range bound Opex should aid Aavas to maintain ~3.5% RoAs. It is in talks with large PSUs and private sector banks for RoA accretive co-lending arrangement (will contribute ~10% of funding mix in next 3-5 years). Introduction of small ticket loan product which enjoys high yields will be RoA accretive too.

Financial and valuation summary

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	7,753	9,490	11,181	13,822	16,927
PPoP	4,775	5,614	6,592	8,294	10,530
Provisions	226	124	210	304	385
PAT	3,568	4,301	4,978	6,232	7,914
AUM growth (%)	20.1	24.8	22.1	22.8	22.0
NIM (%)	7.5	7.4	7.1	7.2	7.2
C / I (%)	42.3	44.9	45.2	43.5	41.4
GNPA (%)	1.0	0.9	0.9	0.8	0.8
RoA (%)	3.6	3.5	3.4	3.5	3.7
RoE (%)	13.7	14.2	14.1	15.2	16.5
P/BV (x)	4.8	4.1	3.5	3.0	2.6

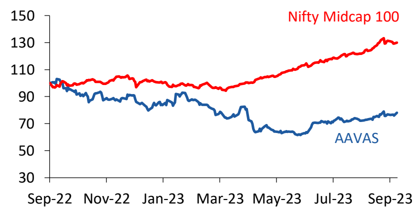
Source: Company, Centrum Broking

Market Data

Bloomberg:	AAVAS IN
52 week H/L:	2,270/1,335
Market cap:	Rs134.2bn
Shares Outstanding:	79.1mn
Free float:	59.7%
Avg. daily vol. 3mth:	3,61,464

Source: Bloomberg

AAVAS relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	39.1	39.1	39.2	39.2
FIIs	35.0	37.9	37.9	37.9
DIIs	14.4	10.9	10.9	10.9
Public/other	11.5	12.1	12.0	12.0

Source: BSE

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Affordable Housing Finance Companies

Thesis Snapshot

Centrum vs. consensus

YE Mar (Rs bn)	Centrum FY24E	Consensus FY24E	Variance (%)	Centrum FY25E	Consensus FY25E	Variance (%)
Total income	12,023	12,319	-2.4%	14,688	15,154	-3.1%
PPOP	6,654	6,811	-2.3%	8,542	8,456	1.0%
PAT	5,031	5,101	-1.4%	6,417	6,415	nm

Source: Bloomberg, Centrum Broking

Aavas Financier vs. NIFTY Midcap 100

	1m	6m	1 year
AAVAS IN	6.6	0.7	(22.1)
NSE Midcap 100	5.0	36.7	30.0

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY24E	FY25E
Disbursement growth	16.1%	22.6%
AUM growth	22.1%	22.8%
NIMs	7.6%	7.8%
C/I ratio	45.2%	43.5%
Credit costs	0.1%	0.2%

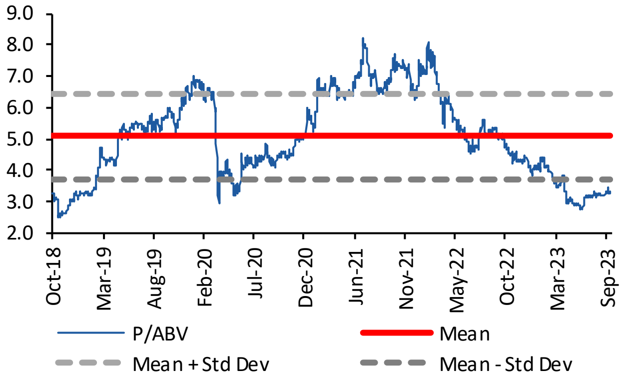
Source: Centrum Broking

Valuations

We expect Aavas to maintain RoAs above 3.5% due to its niche business model. Strong growth, superior asset quality and high profitability deserves premium. We value Aavas at 3.5x H1FY26E P/ABV to arrive at our Target Price of Rs2,070.

Valuations	Rs/share
H1FY26	591.0
Target multiple	3.5
Target Price	2,070
CMP	1,696
Upside to CMP	22%

P/ABV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US $bn	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E
Aptus value	141	1.7	4.1	3.8	3.2	2.8	4.2	3.8	3.3	2.8	16.0	17.1	18.8	20.1
Aavas financiers	**134**	**1.6**	**4.1**	**3.5**	**3.0**	**2.6**	**4.2**	**3.6**	**3.1**	**2.6**	**14.2**	**14.1**	**15.2**	**16.5**
Home first	74	0.9	4.1	3.6	3.1	2.7	4.2	3.7	3.2	2.8	13.5	14.8	15.9	17.1

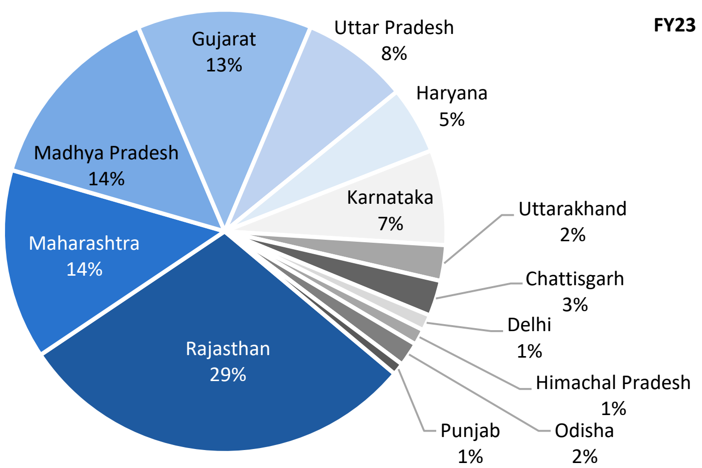
Source: Company, Centrum Broking

Large market opportunity to support 24% AUM CAGR over FY23-25E

Aavas is a formidable player in affordable housing with 346 branches spread across North and West of India; 60% of its customers are self-employed while remaining 40% are salaried in non-formal segments. ATS at disbursements is low at Rs1.17mn. The operationally intensive business model and low ATS have kept competition from banks and large NBFCs at bay. Aavas plans to add 30-35 branches every year and enter one new state every 3-5 years. Further, the focus on tier 3/4/5 towns with low mortgage penetration of 2-3%, branch additions and maturity of >3 years old branches should support AUM growth of 20-25% over next few years. We build in 22% AUM CAGR over FY23-26E.

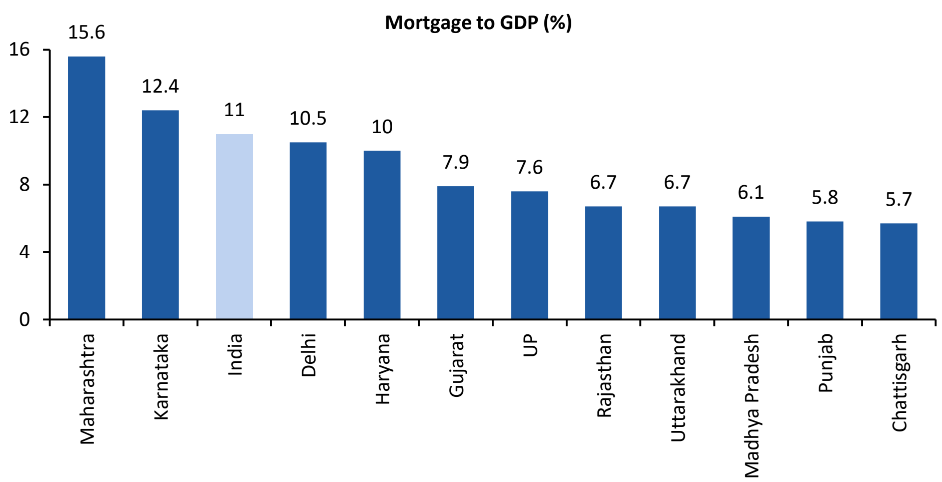
India has low mortgage penetration as compared to other emerging and developed countries. We note that key states where Aavas has presence have mortgage penetration lower than the national average and provide large growth opportunity. Aavas is present across 346 branches in 13 states and covers 2,500 towns. Typically, the mortgage penetration in these towns is in the range of 2-2.5%.

Exhibit 64: Aavas Financiers – Branch mix



Source: HFC, Centrum Broking

Exhibit 65: Mortgage penetration in key states where Aavas is present vis-à-vis national average

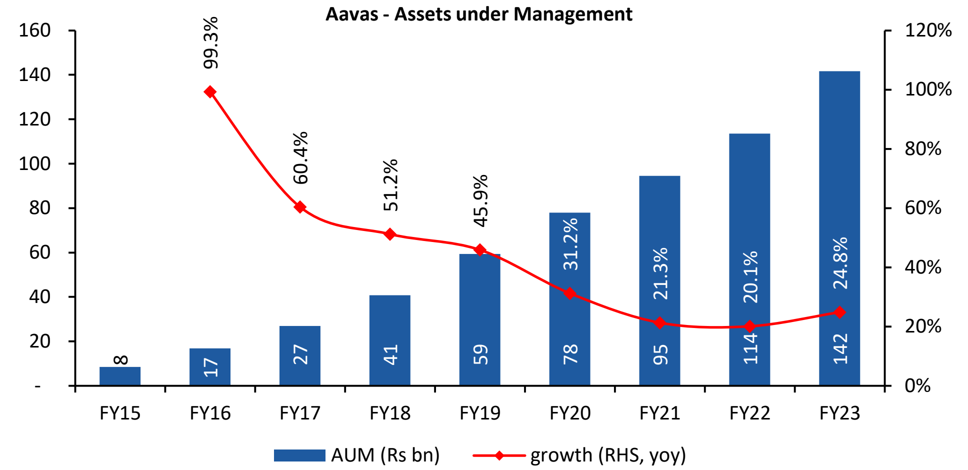


Source: HFC, Centrum Broking

Aavas was incorporated as an affordable HFC at Jaipur, Rajasthan in February 2011. In 2016, AUSFB sold 90% stake to Kedaara Capital to comply with regulatory requirements while pursuing the SFB licence. Aavas focuses on self-employed customers (60% of AUM in FY23) most of whom lack formal income proofs. ATS at disbursements is Rs1.1mn. Hiring is done locally, as people have understanding of local nuances. Also, origination, sales and collections are in-house functions which are manpower heavy. However, this has led to better underwriting and collections which has been validated around Covid. Extensive on-ground workforce, branch network and ability to gather local database, enables appropriate risk-pricing of customers. Aavas is focussed on Tier 3 and below locations where competition is low and provides long growth runway.

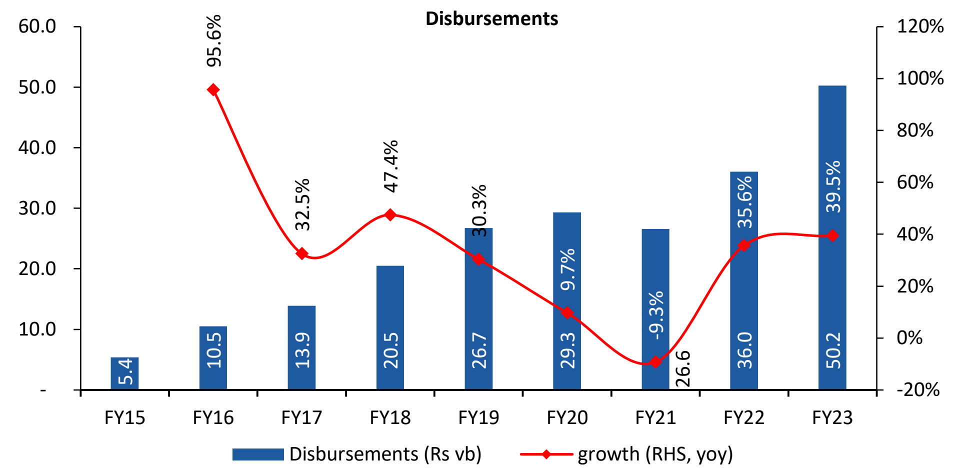
Aavas' AUM/disbursements have grown at 42%/32% CAGR over FY15-23. The number of branches increased from 42 in FY15 to 346 in FY23 while the employee headcount increased ~10x from 623 in FY15 to 6,034 in FY23.

Exhibit 66: AUM growth has been 2x of the industry growth rate



Source: HFC, Centrum Broking

Exhibit 67: Disbursement growth strong



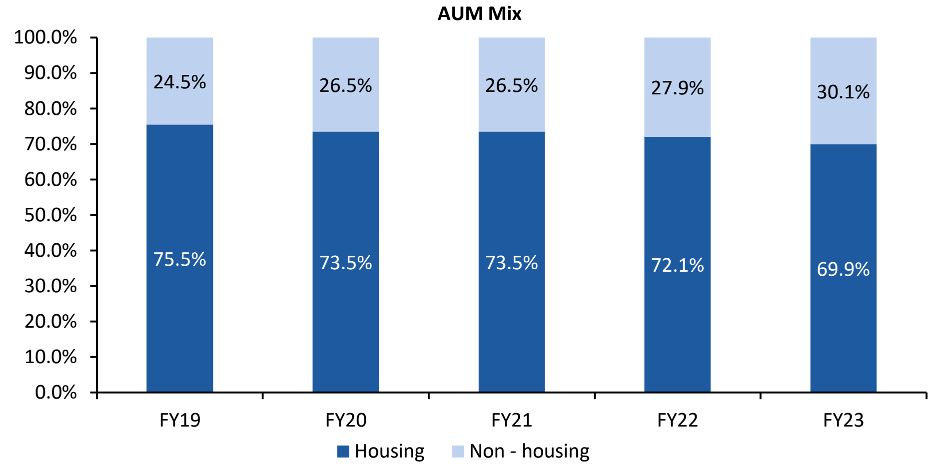
Source: HFC, Centrum Broking

Aavas **directly sources** the business leads. DSA contributes ~1% of lead generation and is likely to remain <1.5%. The company is deploying alternate sourcing channels like Mitra, digital app, etc. for lead generation.

Balance transfers increased from Q3FY22 until Q2FY23 as the interest rates system was on a downward trajectory and there was an increase in competitive intensity from PSU Banks, NBFCs and SFBs. However, lower repayment rates in Q4FY23 & Q1FY24 indicate that the competitive intensity has normalized with increase in repo rates by 250bps.

Aavas is focused on self-construction Housing loans in tier 3 to tier 5 towns and hard to underwrite informal segment where the competition is less intense. Housing/Non-housing AUM mix is at 70%/30% and share of Non-housing loans is likely to contribute 30-35%. As of March 31, 2023, 63% of Aavas' gross loan assets were from customers who belonged to the economically weaker section (EWS) and low-income group (LIG), earning less than Rs50,000 per month.

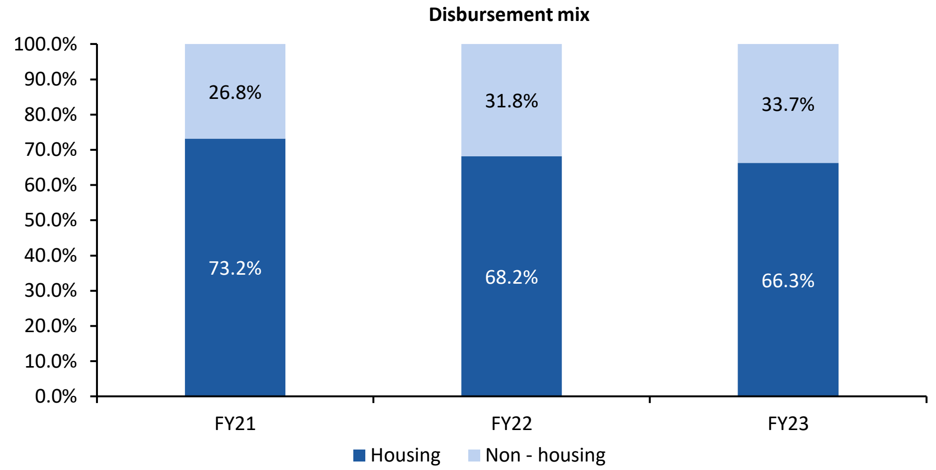
Exhibit 68: Share of housing loans declined



Source: HFC, Centrum Broking

Aavas is investing in tools and technology despite branch and employee led model in order to improve productivity, customer satisfaction and reduce TAT.

Exhibit 69: Disbursement mix



Source: HFC, Centrum Broking

The company is looking at co-lending arrangement to increase return on assets going ahead. They are targeting around 10% of the entire book (AUM) from co-lending arrangements in next 3-5 years, which will add to the profitability.

Significant investments in branches, manpower and tech to keep Opex range-bound

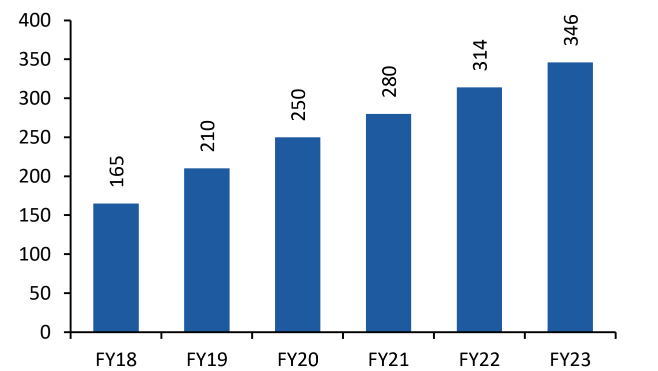
Aavas made significant investments in manpower and branches over the last few years to build a complete in-house model right from sourcing to collections. It is investing heavily in digital, technology and data to support growth, remove inefficiencies and offer faster TAT. The company is spending ~Rs1.5bn in tech upgradation, of which Rs0.4bn is towards capex and Rs0.15-0.20bn towards Opex spread over 4-5 years. The company has guided for 10% branch and employee addition every year. This, along with tech spends, should keep Opex/Avg. assets range bound in our view. We, therefore, estimate Opex/AAUM at 3.7%/3.6% in FY24E/FY25E as against an avg. of 3.5% over last 5 years.

The company is using Salesforce, cloud based digital platform, as Loan Origination System with Mulesoft for integration. Loan Management and Financial Systems are being upgraded with Oracle Flexcube Core Banking and Oracle Fusion ERP Applications. Integration with Perfios, Karza, Signzy, Finbit, etc., are done to make loan origination journey seamless for the customers.

The contracts have been locked for five years on usage model. The payouts will keep increasing on usage basis. **These system will help Aavas to scale up from current 2 lakh active loan accounts to 10x seamlessly.** The company is integrating account aggregator platform with loan underwriting system for faster assessment of cashflows.

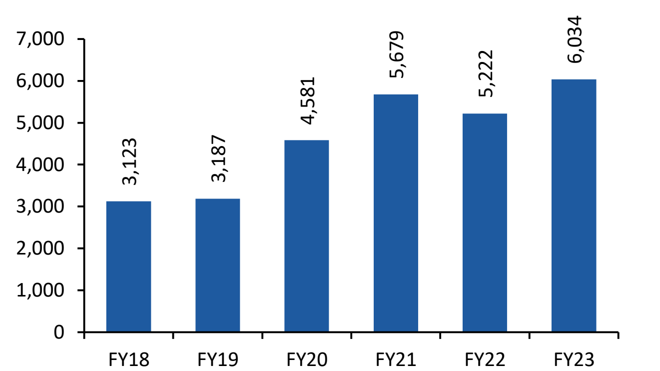
The tech integration is expected to reduce TAT from 11 days to 6 days. Under the revamped system, the lead generation is entered into mobile app which goes to the centralized CRM system. The call goes from call center to customer within 15 minutes. Around 10% of current disbursements are happening to leads generated through the digital channels; 95% of collections have moved to digital aiding improvement in portfolio quality.

Exhibit 70: Branch addition



Source: HFC, Centrum Broking

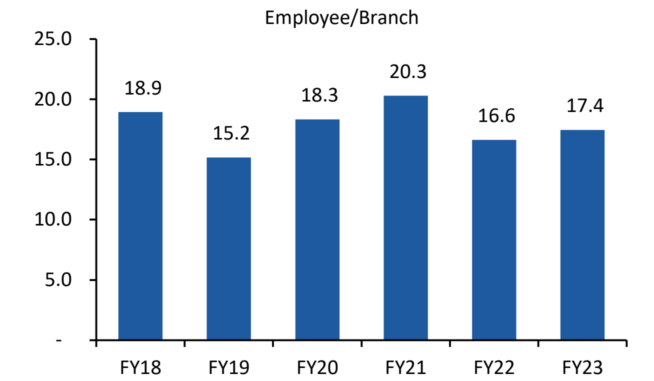
Exhibit 71: Manpower addition



Source: HFC, Centrum Broking

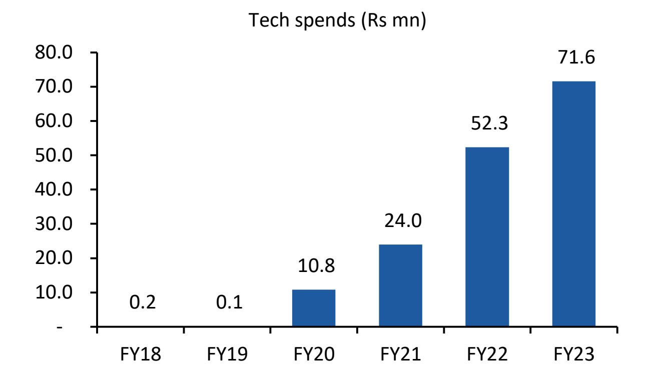
The company indicated that it enjoys RoEs of ~20% for branches which are three years old in the system. It takes about 12-15 months for most of the branches to recover Opex and thereon become RoE positive. Company has guided for 10% employee and branch additions each year.

Exhibit 72: Employee per branch



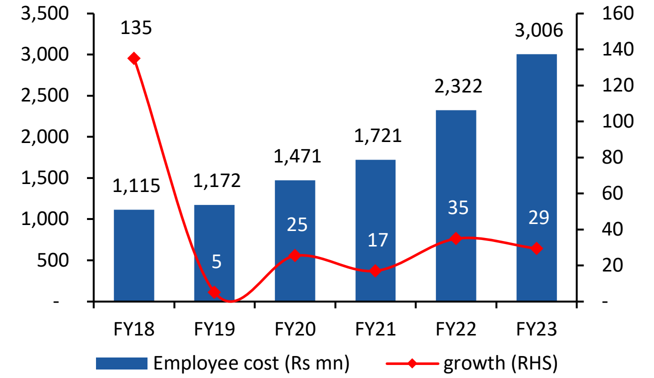
Source: HFC, Centrum Broking

Exhibit 73: Tech spends



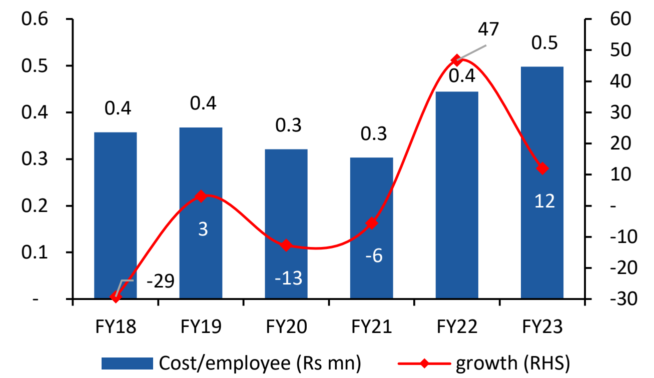
Source: HFC, Centrum Broking

Exhibit 74: Employee cost



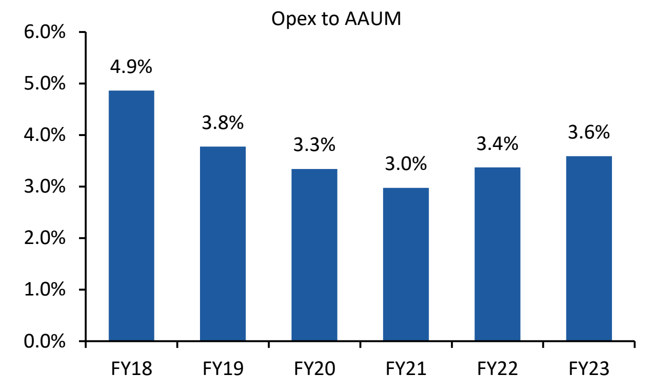
Source: HFC, Centrum Broking

Exhibit 75: Cost per employee



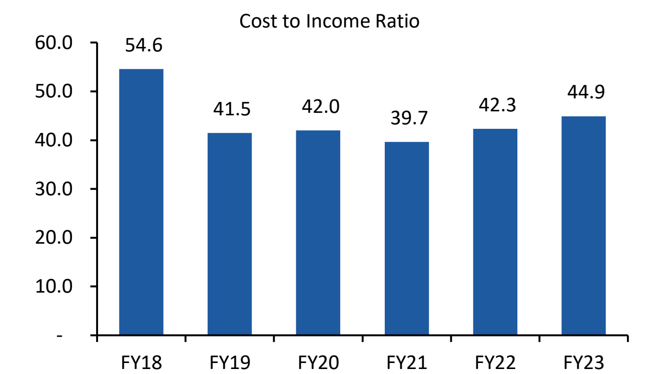
Source: HFC, Centrum Broking

Exhibit 76: Opex to AAUM



Source: HFC, Centrum Broking

Exhibit 77: Cost to Income Ratio



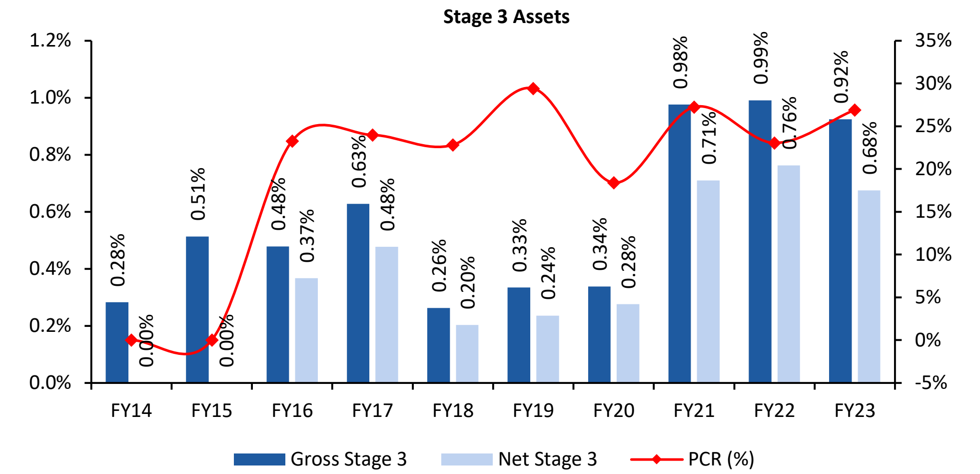
Source: HFC, Centrum Broking

Superior asset quality; underwriting strength validated through Covid

Aavas reported 0.92% GS3 ratio in FY23 out of which 0.11% is < 90dpd. Aavas' asset quality metrics are superior as compared to peers despite a higher mix of self-employed customers. Write-offs stood at ~11bps of total cumulative disbursements since inception of Rs220bn.

Aavas sources all its customers directly mostly through referrals. Majority of customers avail loans for standalone units for self-occupation. Initial screening is done through bureau records wherever available. The underwriting team assesses the customer profile based on templates developed over time. The cash flow based assessment is carried out to understand the applicant's income and family income. For certain loans, the company obtains guarantees from a guarantor. For salaried customers, the company obtains a guarantee from the employer. Credit/underwriting manager visits the customers to understand their revenue streams and expenses and based on income validations, determine loan eligibility, followed by preparation of cash flow analysis. Legal team verifies the authenticity of the documents. The intensive in-house underwriting and credit appraisal process has led to superior asset quality performance vis-à-vis peers. Forward flows from 1+DPD is lower due to stringent credit appraisal and deep connect with customers.

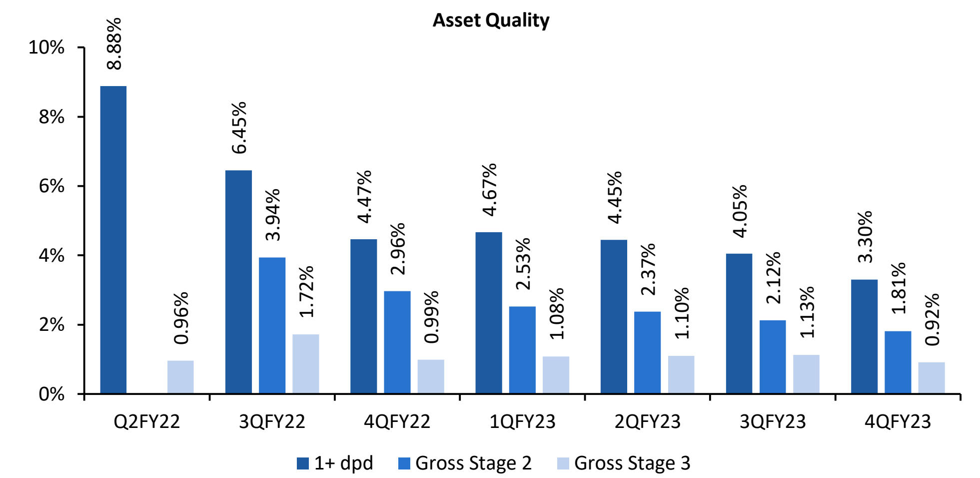
Exhibit 78: Stage 3 assets – yearly performance



Source: HFC, Centrum Broking

Stage 3 assets for Aavas Financiers increased during Covid times and later on due to change in NPA recognition norms in November 2021 based on (1) daily NPA tagging, and (2) re-classification as standard post clearance of all EMI dues. NPA as per Ind AS stood at 0.68% for FY22 and 0.81% for FY23 as against 0.99% and 0.92% under IRACP norms, respectively.

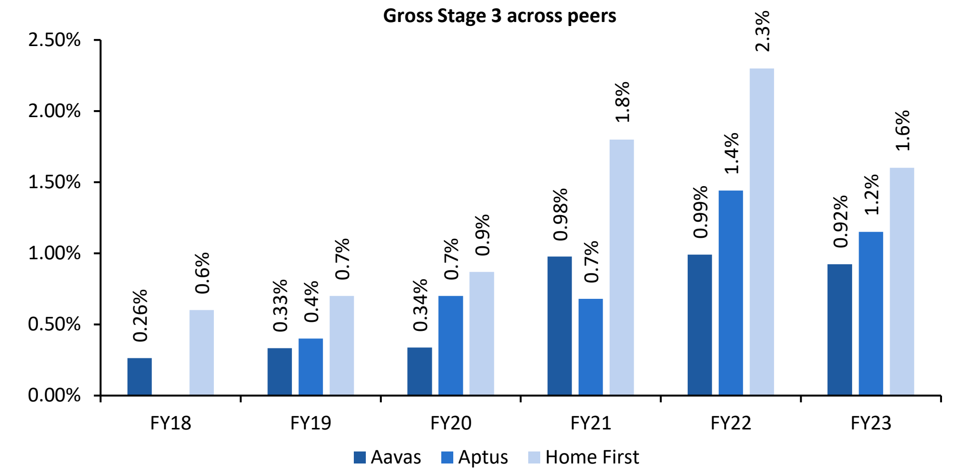
Exhibit 79: Forward flows from 1+ dpd is lower



Source: HFC, Centrum Broking

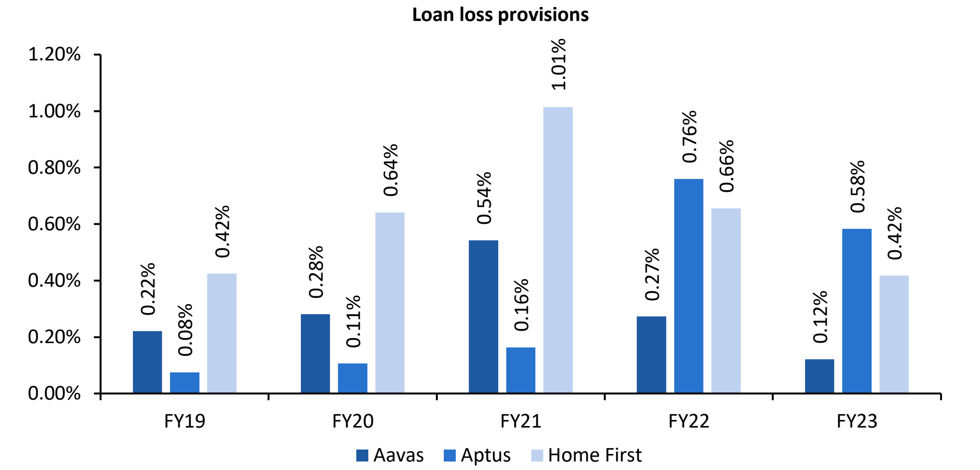
Company entered in UP, Orissa, Chattisgarh and Karnataka over last 4-5 years and 1+dpd is at 2.07% and 90+dpd at 0.3% vis-à-vis 3.3% and 0.92% at the company level, respectively.

Exhibit 80: Stage 3 assets – Peer comparison



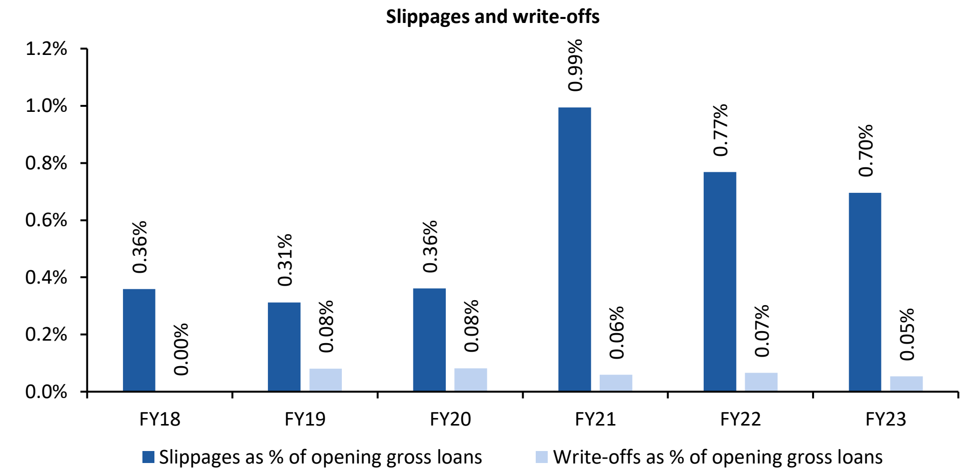
Source: HFC, Centrum Broking

Exhibit 81: Loan loss provisions – Peer comparison



Source: HFC, Centrum Broking

Exhibit 82: Slippages < 1% and write-offs below 10bps



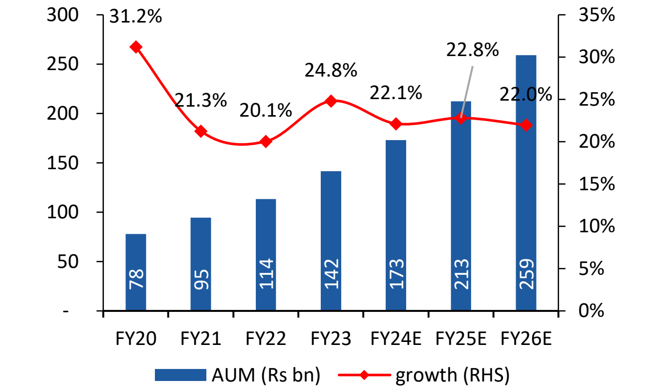
Source: HFC, Centrum Broking

Strong franchise with high return profile

Aavas enjoys 12-15% interest yields due to focus on EWS+LIG and self-employed customer segment. High NIMs, low credit costs and range bound Opex should aid Aavas to maintain around 3.5% RoAs. It is in talks with large PSUs and private sector banks for co-lending arrangements, which is RoA accretive. Aavas plans to add low ticket small ticket size MSME/ Small Business Loans too, which will aid profitability. The company remains adequately capitalised with ~47% Tier 1 capital and a diversified borrowing profile as compared to peers.

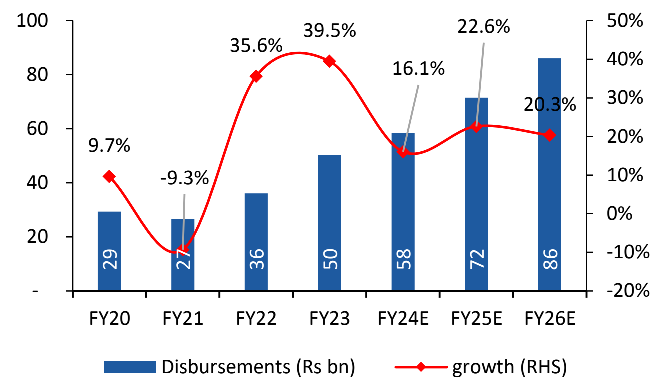
We expect Aavas to deliver 22% AUM and 20% disbursement growth over FY23-26E. We expect company to add 88 branches over next 3 years. We anticipate NIMs to contract 33bps in FY24E to 7.10% (on AUM) and improve marginally in FY25E as company has taken PLR hike of 200bps until June 2023. We pencil in Opex growth at 18% CAGR and average loan loss provisions of 19bps over FY24-26E. This should culminate in avg. RoA of ~3.5% over next 3 years.

Exhibit 83: AUM growth



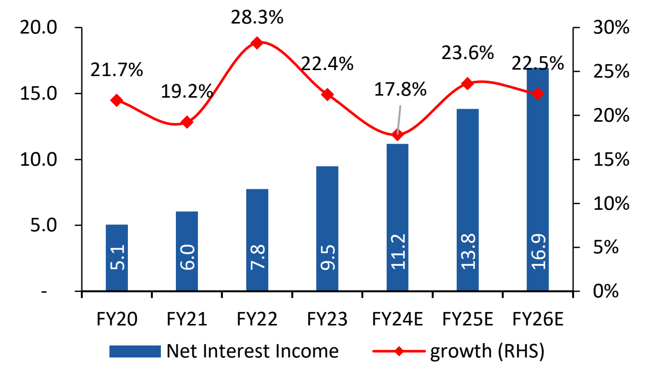
Source: HFC, Centrum Broking

Exhibit 84: Disbursement growth



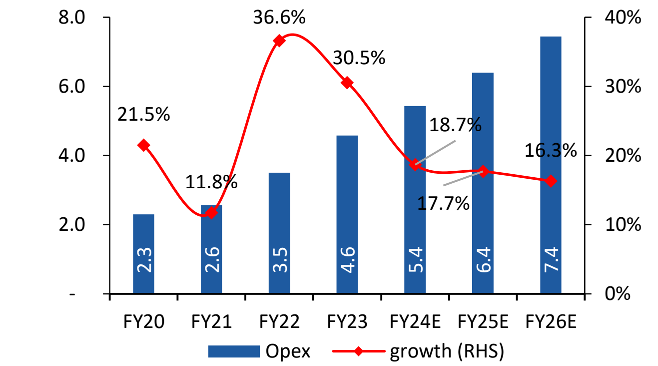
Source: HFC, Centrum Broking

Exhibit 85: NII growth



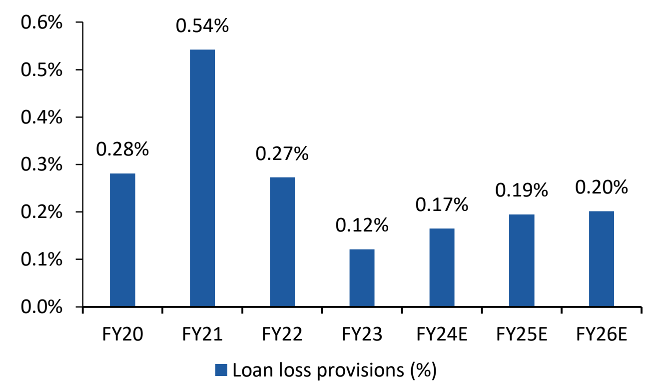
Source: HFC, Centrum Broking

Exhibit 86: Opex growth



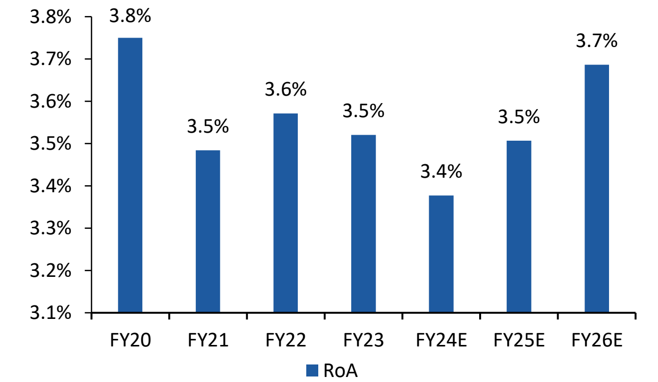
Source: HFC, Centrum Broking

Exhibit 87: Loan loss provisions as % of BS loans



Source: HFC, Centrum Broking

Exhibit 88: RoA



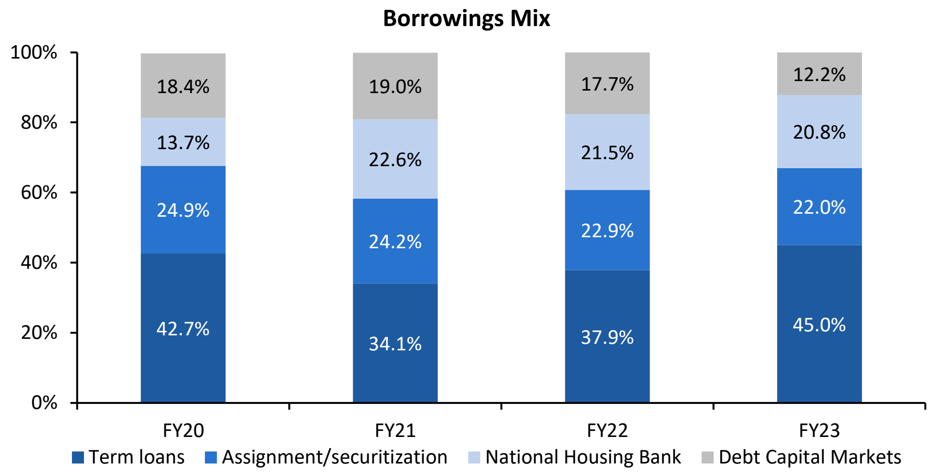
Source: HFC, Centrum Broking

Exhibit 89: Du-pont Analysis

Du-pont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	13.9%	13.0%	12.8%	12.5%	12.6%	13.0%	13.2%	13.3%
Interest expense	5.3%	5.4%	5.5%	4.8%	4.8%	5.5%	5.5%	5.4%
Net Interest Income	8.6%	7.6%	7.3%	7.8%	7.8%	7.6%	7.8%	7.9%
Other Income	0.8%	0.6%	0.5%	0.5%	0.6%	0.6%	0.5%	0.5%
Total Income	9.4%	8.2%	7.8%	8.3%	8.3%	8.2%	8.3%	8.4%
Employee expenses	2.4%	2.2%	2.1%	2.3%	2.5%	2.4%	2.4%	2.3%
Other expenses	1.5%	1.2%	1.0%	1.2%	1.3%	1.2%	1.2%	1.2%
Total Expenses	3.9%	3.5%	3.1%	3.5%	3.7%	3.7%	3.6%	3.5%
PPOP	5.5%	4.8%	4.7%	4.8%	4.60%	4.47%	4.67%	4.91%
Credit costs	0.18%	0.23%	0.45%	0.23%	0.10%	0.14%	0.17%	0.18%
PBT	5.3%	4.5%	4.3%	4.6%	4.5%	4.3%	4.5%	4.7%
Tax	1.7%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%
RoAA	3.6%	3.8%	3.5%	3.6%	3.5%	3.4%	3.5%	3.7%
Leverage	3.2	3.4	3.7	3.8	4.0	4.2	4.3	4.5
RoAE	11.6%	12.7%	12.9%	13.7%	14.2%	14.1%	15.2%	16.5%

Source: HFC, Centrum Broking

Exhibit 90: Diversified borrowings profile

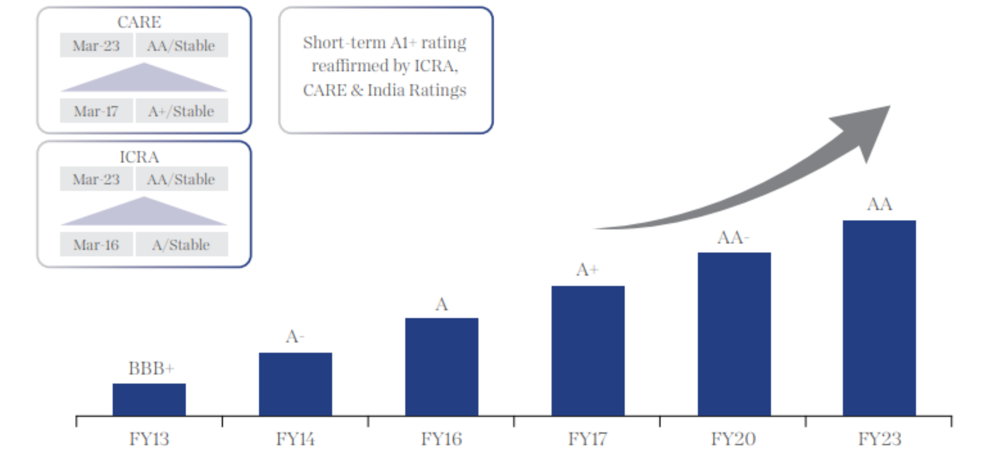


Source: HFC, Centrum Broking

Aavas has been able to maintain lower CoF as compared to peers despite larger asset book due to diversified nature of its borrowings; ~72% of its borrowings is on a floating rate basis which should benefit from falling interest rate scenario. As against 50% of its assets are on a floating rate, which should provide some margin expansion when repo rates start reducing.

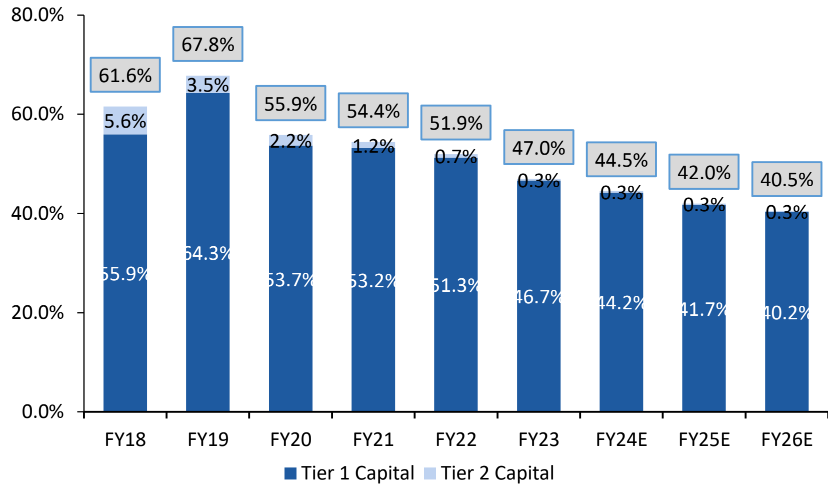
The company has maintained pristine asset quality despite strong growth leading to multiple credit ratings upgrade over the last 10 years.

Exhibit 91: Credit rating upgraded over the years



Source: HFC, Centrum Broking

Exhibit 92: Capital Adequacy to remain strong



Source: HFC, Centrum Broking

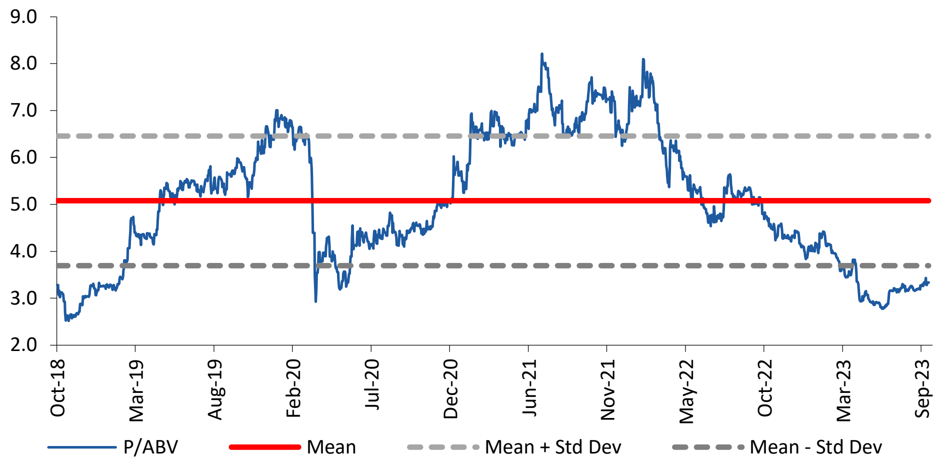
Valuations

Aavas has demonstrated superior performance over a decade and created a niche for itself in a difficult to assess informal customer segment. India is an under-penetrated market and the penetration level in towns where Aavas is present further stands below 3%, providing large runway to growth. The company has validated strength of its business model by arresting slippages at <1% during Covid and write-offs below 10bps. Aavas' AUM is 2x of its peer set, despite that it has been able to grow at 22% CAGR in last 3 years while profits have lagged, growing at 20% CAGR over FY20-23 due to investments in tech and branches. We expect profit and AUM to grow at 22%/23% CAGR over FY23-26E, as operating leverage plays out.

In our view, balance transfers have now normalised at system level and investment in tech and data analytics will aid company in offering better risk adjusted pricing to its customers.

We value Aavas at 3.5x P/ABV on H1FY26E to arrive at Target Price of Rs2,070 and initiate with a Buy Rating for an upside of 22%

Exhibit 93: Valuation chart



Source: HFC, Centrum Broking

Recent Concerns:

Mr. Sushil Agarwal ex-MD, resigned from his position in May 2023. Board appointed Mr. Sachinder Bhinder as MD & CEO, for a period of 5 years. Mr. Bhinder was appointed CEO in early Feb, after having joined as CEO MSME Business in January 2020. The company does not have any non-compete agreement in place with Mr. Agarwal who has been with Aavas since its inception. PE promoters hold 39.13% stake in Aavas Financiers. The promoter group entity indicated that it does not plan to sell any stake over the next one year however, an eventual sell might act as an overhang on the stock price.

Key Management Personnel

Name	Designation	Profile
Mr Sachinder Bhinder	MD & CEO	Mr. Bhinder is an Engineer, MBA and Member of Royal Institute of Chartered Surveyors. He has been with Aavas as CEO of MSME business since 2019. Mr Bhinder has over 25 years of experience with leadership roles in P & L Management, Business Development, Partnerships, Strategic Alliances, Compliance & Governance with Kotak Mahindra Bank, ICICI Lombard GIC, Standard Chartered and HDFC Ltd.
Mr Ghanshyam Rawat	President & Chief Financial Officer	He has been associated with the Company since 2013. He presently heads their Finance & Treasury, Accounts, Internal Audit, Compliance, Budget and Analytics departments. He holds a Bachelor's degree in Commerce from the Rajasthan University and is a fellow member of the Institute of Chartered Accountants of India. He has been previously associated with First Blue Home Finance Limited, Accenture India Private Limited and Deutsche Postbank Home Finance Limited. Further, he has also worked with Pan Asia Industries and Indo Rama Synthetics (I) Ltd.
Mr. Ashutosh Atre	President & Chief Risk Officer	Mr. Ashutosh Atre holds Diploma in Finance and engineering from NMIMS and from M.P Board of technical education respectively. He has 31 years of rich experience in sales, credit and risk across retail and SME products. Prior to joining Aavas, he worked with leading banks, NBFCs and HFCs including Equitas Housing Finance Pvt Ltd, Equitas Micro Finance India Private Limited, ICICI Bank Limited, ICICI Personal Financial Services Company Ltd, Cholamandalam Investment & Finance.
Mr. Sharad Pathak	Company Secretary and Compliance Officer	He holds a Bachelor's degree in Commerce from the Rajasthan University and is a qualified Company Secretary. He has been previously associated with Star Agri warehousing & Collateral Management Limited as its Company Secretary.
Mr Siddharth Srivastava	Chief Business Officer	He has done Masters in Business administration from Institute of Management Studies, Indore. He has worked in sectors like FMCG and Banking and has a rich experience of more than 20yrs. He is a Retail Asset specialist with an overall experience in unsecured loans, collection and mortgage business development and strategy. He has previously worked with ITC & ICICI Bank.
Mr Ripudaman Bandral	Chief Credit Officer	He has done Masters in Finance & Control from Punjab University, Patiala. He possesses around 25 years of experience in the field of Business Development, Strategic Planning, Credit and Risk Assessment, Client Relationship Management and Team Building. He was previously associated with ICICI Bank Ltd, HDFC Ltd., Indiabulls Home Loans, Transamerica Apple Distribution Finance and Trident Group.
Mr Sunrendra Kumar	Chief Collection Officer	He holds a Law degree from the University of Rajasthan and Master of Business Administration from Periyar University. He started his career with a law firm, and then joined Cholamandalam in year 2004. Before Aavas, he was with Bajaj Finance.
Mr Anshul Bhargava	Chief People Officer – Human Resource	He holds a certification in Business Management from IIM Calcutta. He has diverse experience of over 3 decades in multiple leadership positions in the Indian army and financial sector. Mr. Bhargava has hands on experience in managing change, transforming businesses and accelerating business growth. Prior to joining Aavas, he was Director (Human Resource), Power System Operation Corporation Limited and Chief People Officer, PNB Housing Finance Ltd.
Ms Jijy Oommen	Chief Technology Officer	She is M.Tech in Computer Science and MBA in Information Systems. Jijy is an alumnus of Birla Institute of Technology & Science and has been trained and certified in Advanced Project Management from IIM Kozhikode and Project Management Institute – USA. She is also trained in Strategic Management by IIM Bangalore, Cyber Security by Data Security Counsel of India and Fintech by Warton Business School. She is an acclaimed technology leader in the Financial Services and Fintech space having over two decades of experience in building, managing and transforming robust and scalable technology architectures, business systems, digital assets, operational frameworks and high performing teams.
Mr Rajaram Balasubramaniam	Chief Strategy Officer and Head of Analytics	He is a Chartered Accountant and holds all India rank of 37 and also holds Bachelor of Commerce degree. He has over 21 years of experience in the field of consumer banking covering risk management, product and P&L management, sales and finance. Prior to joining Aavas, he was associated with Citibank and Standard Chartered Bank in India.

P&L

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12,528	15,400	19,225	23,515	28,572
Interest expense	4,775	5,910	8,045	9,693	11,645
NII	7,753	9,490	11,181	13,822	16,927
Other income	528	701	842	865	1,041
Total income	8,281	10,191	12,023	14,688	17,968
Operating expenses	3,506	4,577	5,431	6,394	7,438
Employee	2,322	3,006	3,593	4,204	4,866
Others	1,184	1,571	1,838	2,190	2,571
PPOP	4,775	5,614	6,592	8,294	10,530
Provisions	226	124	210	304	385
PBT	4,549	5,490	6,382	7,989	10,146
Tax	981	1,189	1,404	1,758	2,232
PAT	3,568	4,301	4,978	6,232	7,914

Ratios

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	20.1	24.8	22.1	22.8	22.0
Borrowings	25.6	23.4	21.1	22.9	21.3
NII	28.3	22.4	17.8	23.6	22.5
Other income	23.9	33.0	20.1	2.7	20.3
Opex	36.6	30.5	18.7	17.7	16.3
PPoP	22.3	17.6	17.4	25.8	27.0
Provisions	(39.1)	(45.0)	69.4	44.7	26.4
PAT	23.2	20.5	15.7	25.2	27.0
Profitability (%)					
Yield on advances	12.0	12.1	12.2	12.2	12.1
Cost of funds	6.7	6.6	7.4	7.3	7.2
NIM (on AuM)	7.5	7.4	7.1	7.2	7.2
Other Income/ Total Income	6.4	6.9	7.0	5.9	5.8
Other Income / Total Assets	0.5	0.5	0.5	0.4	0.4
Cost/Income	42.3	44.9	45.2	43.5	41.4
Employee	28.0	29.5	29.9	28.6	27.1
Others	14.3	15.4	15.3	14.9	14.3
Opex/ Avg AuM	3.4	3.6	3.5	3.3	3.2
Provisions	0.2	0.1	0.1	0.2	0.2
Tax Rate	21.6	21.7	22.0	22.0	22.0
RoA	3.6	3.5	3.4	3.5	3.7
RoE	13.7	14.2	14.1	15.2	16.5

DuPont (% avg assets)

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12.5	12.6	13.0	13.2	13.3
Interest expense	4.8	4.8	5.5	5.5	5.4
NII	7.8	7.8	7.6	7.8	7.9
Other income	0.5	0.6	0.6	0.5	0.5
Total income	8.3	8.3	8.2	8.3	8.4
Operating expenses	3.5	3.7	3.7	3.6	3.5
Employee	2.3	2.5	2.4	2.4	2.3
Others	1.2	1.3	1.2	1.2	1.2
PPOP	4.8	4.6	4.5	4.7	4.9
Provisions	0.2	0.1	0.1	0.2	0.2
PBT	4.6	4.5	4.3	4.5	4.7
Tax	1.0	1.0	1.0	1.0	1.0
PAT	3.6	3.5	3.4	3.5	3.7

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	**1,06,512**	**1,29,810**	**1,55,459**	**1,89,344**	**2,27,301**
Cash	15,302	13,816	13,673	15,375	15,299
Loans	90,534	1,14,763	1,40,170	1,72,219	2,10,109
Investment	675	1,231	1,616	1,749	1,894
Non-financial assets	**3,692**	**4,295**	**5,202**	**5,427**	**7,284**
Deferred tax assets	0	0	0	0	0
Fixed Assets	269	316	328	342	355
Other Non-fin. assets	3,423	3,980	4,873	5,085	6,929
Total Assets	**1,10,204**	**1,34,105**	**1,60,661**	**1,94,771**	**2,34,585**
Financial liabilities	**79,725**	**98,407**	**1,19,144**	**1,46,386**	**1,77,542**
Borrowings	79,725	98,407	1,19,144	1,46,386	1,77,542
Non-financial liabilities	**2,392**	**3,002**	**3,749**	**4,386**	**5,131**
Other Non-fin liabilities	2,392	3,002	3,749	4,386	5,131
Total equity	**28,086**	**32,697**	**37,767**	**43,999**	**51,912**
Share capital	789	791	791	791	791
Other equity	27,297	31,906	36,976	43,208	51,122
Total Liabilities	**1,10,204**	**1,34,105**	**1,60,661**	**1,94,771**	**2,34,585**
Balance Sheet ratios (%)					
Debt / Equity	2.8	3.0	3.2	3.3	3.4
Assets / Equity	3.8	4.0	4.2	4.3	4.5
Cash / Borrowings	19.2	14.0	11.5	10.5	8.6
Details on loans					
AUM	1,13,502	1,41,667	1,73,038	2,12,534	2,59,248
Disbursements	36,022	50,245	58,319	71,516	86,057
Capital Adequacy (%)					
CRAR	51.9	47.0	44.5	42.0	40.5
Tier-1	51.2	46.7	44.2	41.7	40.2
Tier-2	0.7	0.3	0.3	0.3	0.3
Asset quality (%)					
GNPA (Rs mn)	904	1,067	1,241	1,420	1,648
Growth (%)	22.3	18.1	16.3	14.5	16.0
NNPA (Rs mn)	695	780	894	1,023	1,187
Growth (%)	29.3	12.2	14.6	14.5	16.0
GNPA	1.0	0.9	0.9	0.8	0.8
NNPA	0.8	0.7	0.6	0.6	0.6
PCR	23.1	26.9	28.0	28.0	28.0
NNPA / Equity	2.5	2.4	2.4	2.3	2.3
Per share (Rs)					
EPS	45.2	54.4	63.0	78.8	100.1
BVPS	355.8	413.6	477.7	556.5	656.6
ABVPS	347.0	403.7	466.4	543.6	641.6
DPS	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	37.5	31.2	26.9	21.5	16.9
P/BV	4.8	4.1	3.5	3.0	2.6
P/ABV	4.9	4.2	3.6	3.1	2.6
Dividend yield	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Aptus Value Housing Finance

Most profitable amongst peers

Initiating Coverage

India I Affordable Housing Finance Companies

26 September, 2023

Institutional Research

BUY

Price: Rs282.8
Target Price: Rs380.0
Forecast return: 34%

Aptus Value Housing Finance (Aptus) operates in a niche segment of affordable housing finance and small business loans. Its target customer segment is self-employed (71% of AUM) in rural and semi-urban areas in South India. The company's underwriting is validated through minimal write-offs (13bps of op gross loans in FY22) during Covid despite 78% of its customer base coming from LIG & MIG segment. Pricing power and low opex aided Aptus to deliver healthy RoA of 7.8% and RoE of 16.1% (leverage at 2.1x) in FY23. Small size (AUM at Rs71.2bn), deep penetration, geographic expansion and improved productivity should aid Aptus to deliver 29% AUM CAGR and 24% earnings CAGR over FY23-26E. We expect RoA/RoE at 7.1%/20.1% in FY26E. Aptus is currently trading at 3.5x 1-yr fwd P/ABVPS. We assign a multiple of 4x H1FY26E P/ABV. We initiate with a BUY for a target price of Rs380.

Growth outlook robust

Aptus targets self-employed segment with low household income (<Rs0.6mn/year) in underserved rural and semi-urban areas. Tamil Nadu & Andhra Pradesh contribute 78% of its AUM (1QFY24) while it is contiguously expanding its network in Telangana & Karnataka. It is also entering new states of Odisha & Maharashtra. Its core geographies are quite underpenetrated. Further penetration in existing geographies and geographical expansion provides long growth runway. Aptus grew at 37% AUM CAGR over FY18-23 and we build in 29% AUM CAGR over FY23-26E.

Asset quality resilient across economic cycles

Aptus follows in-house sourcing, underwriting and collections which aid in better process control. Low ATS (~Rs0.8-0.9mn) & LTV (~40%) for a self-occupied residential property has led to minimal asset quality issues in the past. Further, avg. credit costs for FY19-21 stood at 11bps while it increased to 76bps/58bps in FY22/FY23 driven by increase in provision coverage ratios. The company witnessed write-off of 13bps (of opening gross loans) in FY22 (Covid peak), highlighting its underwriting strength. Bounce rates are high at ~25%, however company is able to bring it down to 8-10% in 2/3 days. Stage 2 peaked to 26.4% in FY20 due to different approach followed towards moratorium. Stage 2/Stage 3 stands at 5%/1.3% as on 1QFY24 with strong PCR of 7.3%/25%, despite negligible write-offs. We expect avg. credit costs of 37bps over FY24E-FY26E.

Most profitable amongst peers

Aptus is able to command high yields on home loans (59% of AUM) at 14-14.5% due to its presence in rural areas and high share of NTC and self-employed customers. Quasi home loans (16% of AUM) and small business loans (21% of AUM) enjoy ~17% and 21% yields, respectively, leading to overall yields at >17%. Aptus has leaner employee structure than Aavas and less salary/employee than Home First, resulting in efficient cost structure and low costs over peers. High NIMs and low opex has led to strong RoAs and profitability. We expect RoAs to remain at >7% overFY24E-FY26E and RoEs to improve to 20% as leverage increases to 2.8x by FY26E.

Financial and valuation summary

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	5,831	7,825	9,315	11,747	14,724
PPoP	5,145	6,879	8,040	10,176	12,720
Provisions	345	341	285	348	464
PAT	3,702	5,030	6,011	7,617	9,498
AUM growth (%)	27.4	30.0	29.3	29.4	27.0
NIM (%)	12.6	13.1	12.1	11.8	11.5
C / I (%)	18.5	19.4	20.8	20.5	20.0
GNPA (%)	1.2	1.2	1.1	0.9	0.9
RoA (%)	7.3	7.8	7.4	7.3	7.1
RoE (%)	15.1	16.1	17.0	18.8	20.1
P/BV (x)	4.8	4.2	3.8	3.2	2.8

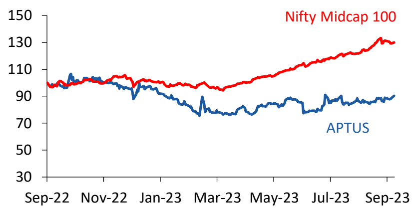
Source: Company, Centrum Broking

Market Data

Bloomberg:	APTUS IN
52 week H/L:	342/234
Market cap:	Rs141.0bn
Shares Outstanding:	498.7mn
Free float:	30.0%
Avg. daily vol. 3mth:	8,27,990

Source: Bloomberg

APTUS relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	62.2	62.2	62.2	62.2
FIIs	14.2	14.1	14.1	12.4
DIIs	3.0	2.6	2.6	2.6
Public/other	20.7	21.2	21.2	22.7

Source: BSE

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Affordable Housing Finance Companies

Thesis Snapshot

Centrum vs consensus

YE Mar (Rs bn)	Centrum FY24E	Consensus FY24E	Variance (%)	Centrum FY25E	Consensus FY25E	Variance (%)
Total income	10,152	11,421	-11.1	12,806	13,956	-8.2
PPOP	8,040	8,251	-2.6	10,176	10,289	-1.1
PAT	6,011	6,077	-1.1	7,617	7,469	2.0

Source: Bloomberg, Centrum Broking

Aptus versus NIFTY Midcap 100

	1m	6m	1 year
APTUS IN	4.9	15.5	(9.7)
NIFTY Midcap 100	5.0	36.7	30.0

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY24E	FY25E
Disbursement growth	29.9%	28.5%
AUM growth	29.3%	29.4%
NIMs	12.1%	11.8%
C/I	20.8%	20.5%
Credit costs	0.38%	0.35%

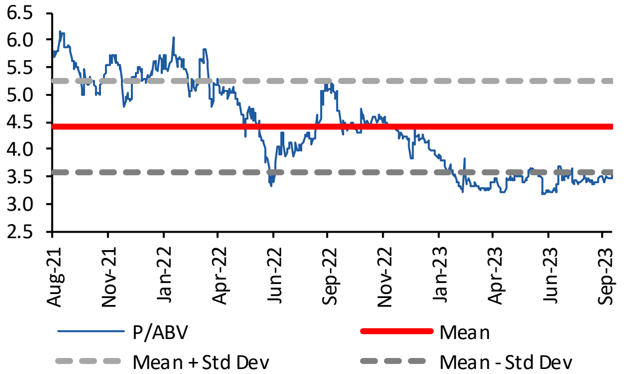
Source: Centrum Broking

Valuations

We value Aptus at 4.0x H1FY26 P/ABV to arrive at our Target Price of Rs 380. Aptus has leaner employee structure than Aavas and less salary/employee than Home First, resulting in efficient cost structure and low costs over peers. High NIMs and low opex has led to strong RoAs and profitability. We expect RoAs to remain at >7% overFY24E-FY26E and RoEs to improve to 20% as leverage increases to 2.8x by FY26E.

Valuations	Rs/share
1HFY26	94.7
Target multiple	4.0
Target Price	380
CMP	283
Upside to CMP	34%

P/ABV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US $bn	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E
Aptus value	**141**	**1.7**	**4.1**	**3.8**	**3.2**	**2.8**	**4.2**	**3.8**	**3.3**	**2.8**	**16.0**	**17.1**	**18.8**	**20.1**
Aavas financiers	134	1.6	4.1	3.5	3.0	2.6	4.2	3.6	3.1	2.6	14.2	14.1	15.2	16.5
Home first	74	0.9	4.1	3.6	3.1	2.7	4.2	3.7	3.2	2.8	13.5	14.8	15.9	17.1

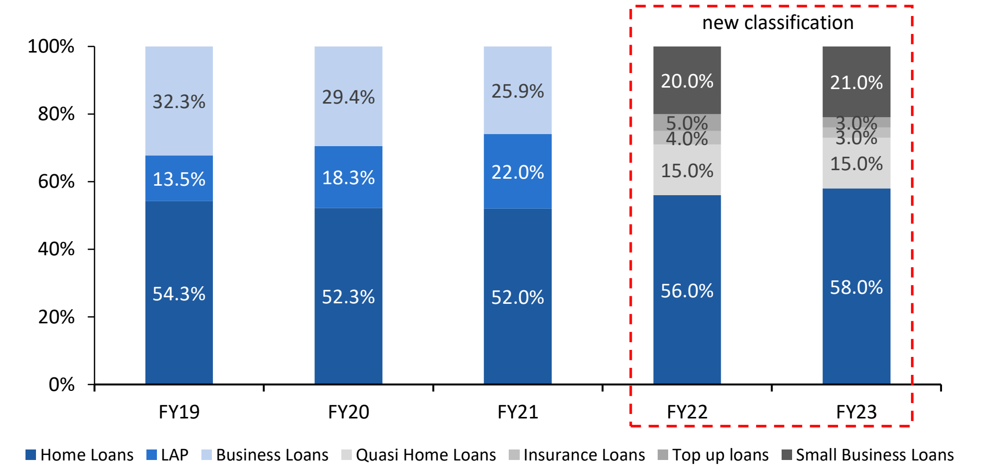
Source: Company, Centrum Broking

Growth Outlook robust

Aptus targets self-employed segment with low household income (<Rs0.6mn/year) in underserved rural and urban areas. Tamil Nadu & Andhra Pradesh contribute 78% of its AUM (1QFY24) while it is contiguously expanding its network in Telangana & Karnataka. It is also entering new states of Odisha & Maharashtra. Its core geographies are quite underpenetrated, giving opportunity for growth along with branch expansion and geographic expansion. Aptus grew at 37% AUM CAGR over FY18-23 and we build in 29% AUM CAGR over FY23-26E.

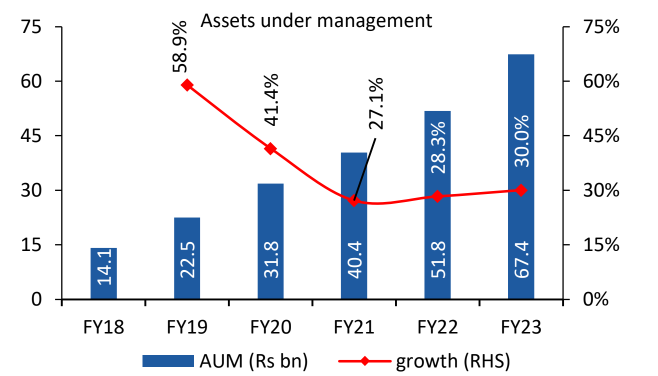
Aptus follows a contiguous expansion and deeper penetration strategy rather than spreading thinly in multiple geographies. It started its operations from Tamil Nadu which contributes ~42% of its AUM as on 1QFY24. Share of Tamil Nadu is down 10pp. in last 9 quarters as it increased its presence in Andhra Pradesh by adding more branches and penetrating deeper. Now company plans to grow contiguously in Telangana & Karnataka and enter new geographies of Odisha, Maharashtra & Chhatisgarh.

Exhibit 94: Share of home loans increasing in AUM mix



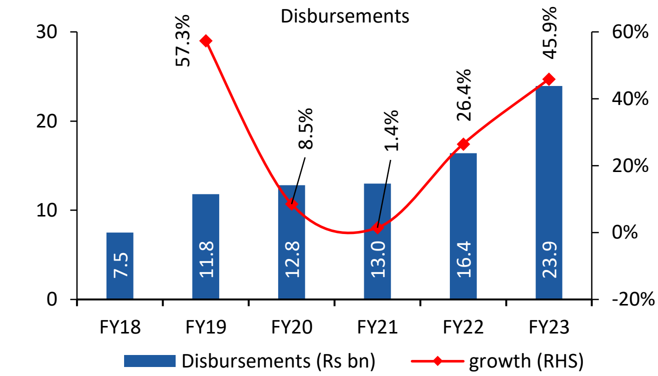
Source: HFC, Centrum Broking Ltd

Exhibit 95: AUM registered 37% CAGR over FY18-23



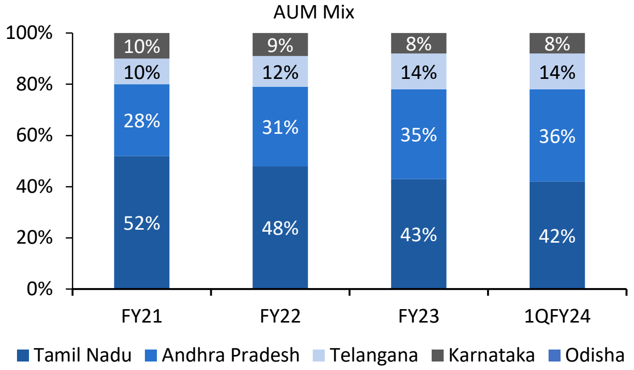
Source: HFC, Centrum Broking Ltd

Exhibit 96: Disbursement registered 26% CAGR over FY18-23



Source: HFC, Centrum Broking Ltd

Exhibit 97: AUM Mix – Concentrated in Tamil Nadu & Andhra Pradesh



Source: HFC, Centrum Broking Ltd

Exhibit 98: Branch network - Regional

Branch network	FY21	FY22	FY23	1QFY24
Tamil Nadu	79	81	86	86
Andhra Pradesh	65	73	86	86
Telangana	25	32	36	36
Karnataka	21	21	21	21
Odisha	0	1	2	2
Total Branches	**190**	**208**	**231**	**231**

Source: HFC, Centrum Broking Ltd

Company has ~231 branches and plans to add 30-35 branches in FY24. It plans to penetrate further in states of Telangana & Karnataka, increase presence in Odisha and enter state of Maharashtra.

Exhibit 99: Products offered

Product	Description
Home loan	Loans for constructing independent houses or apartments on the land owned by the customer
Quasi Home Loan	Extended to customers who use the funds from their business to build homes, but in the process fall short of funds to meet their business requirements
Small Business Loan	Provided to individuals for business enhancement purposes. Self-occupied property is offered as a collateral
Insurance Loan	Tie-up with insurance companies to provide credit shield insurance and property insurance to customers

Source: HFC, Centrum Broking Ltd

Exhibit 100: Product wise details

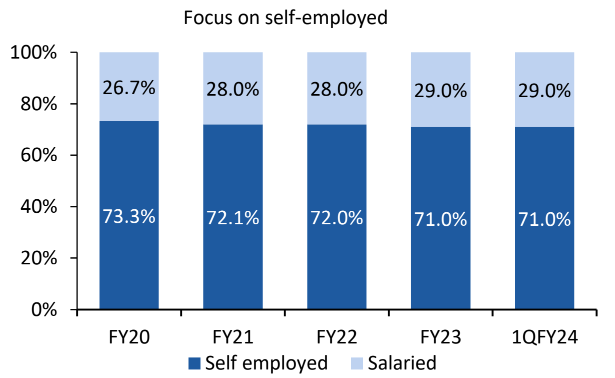
	FY21			FY20		
Product wise details - FY21	**HL**	**LAP**	**BL**	**HL**	**LAP**	**BL**
ATS, at disbursements (Rs mn)	0.72	0.71	0.62	0.76	0.72	0.64
Yield (%)	15.4%	17.0%	20.5%	15.6%	17.0%	20.4%
LTV	38.9%	38.3%	39.2%	39.0%	38.3%	38.7%
Tenure (months, at origination)	147	133	101	154	140	105
BT Out	2.0%	1.2%	1.5%	3.6%	2.3%	3.7%

Source: HFC, Centrum Broking Ltd

As on FY23, yields on Home Loans, Small Business Loans & Quasi Home Loans stood at ~14.5%, 21% & 17%, respectively with LTV of ~40%. ATS in Home loans stood at Rs0.8mn to Rs 1.0mn. BT Out rate stood at <2.5%.

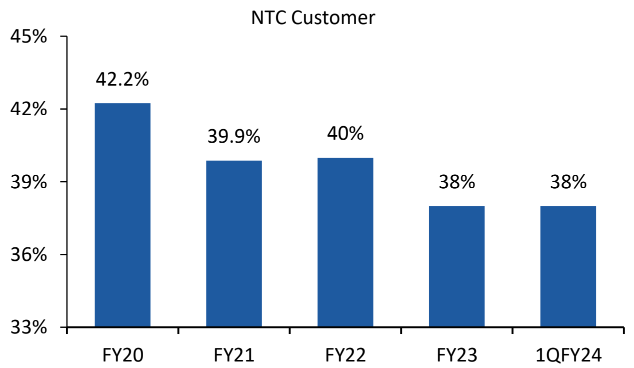
The equated monthly instalment for the customer is at Rs12,500 with >93% book having an ATS of <Rs1 mn.

Exhibit 101: AUM distribution by customer type



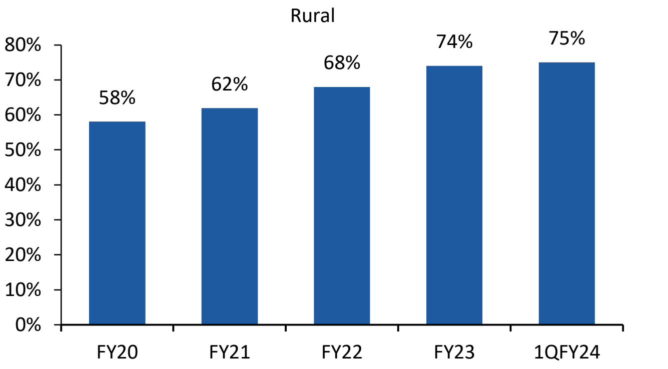
Source: HFC, Centrum Broking Ltd

Exhibit 102: NTC customer



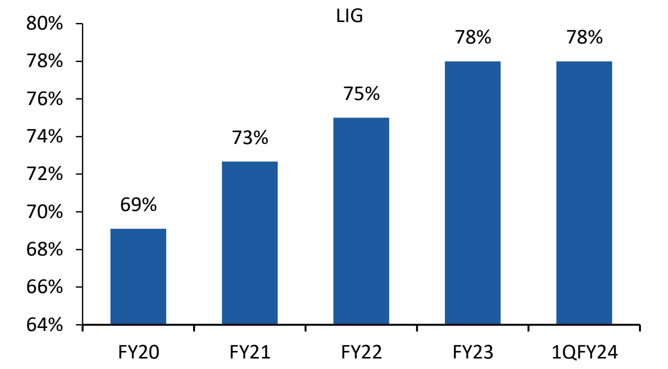
Source: HFC, Centrum Broking Ltd

Exhibit 103: Majority of customers are from rural areas…



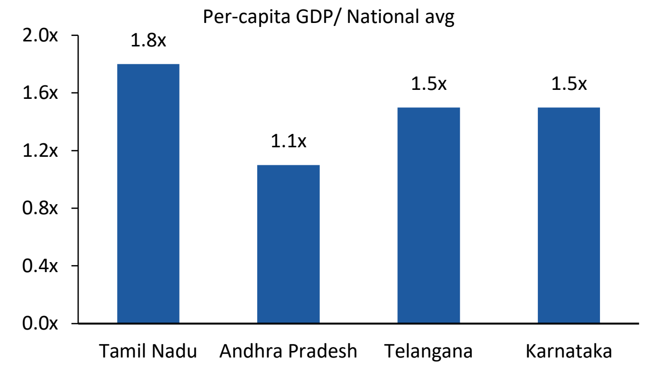
Source: HFC, Centrum Broking Ltd

Exhibit 104: …and belong to Low Income Group



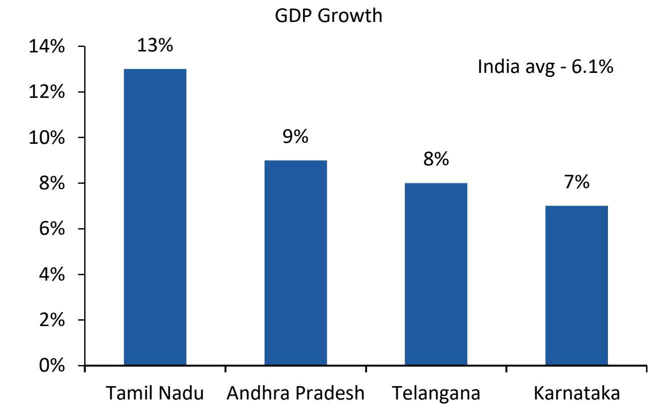
Source: HFC, Centrum Broking Ltd

Exhibit 105: Per capita GDP of states (Aptus' presence) > national average



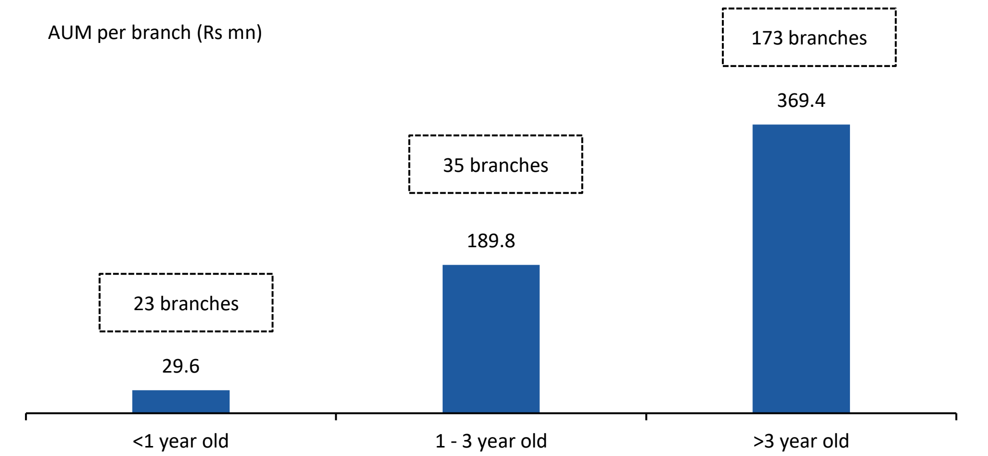
Source: HFC, Centrum Broking

Exhibit 106: GDP CAGR higher than national average



Source: HFC, Centrum Broking

Exhibit 107: Branch productivity – 25% branches <3 years old



Source: HFC, Centrum Broking Ltd

Aptus majorly sources its customers through in-house sales team (86%) while it is also using digital media, customer referrals and construction eco-system for lead generation.

Exhibit 108: Customer sourcing

Source: HFC, Centrum Broking Ltd; Note: *Digital marketing commenced in 4QFY23

Integrated tech app: Aptus has co-created and customised technology stack with IT vendors for its customer profile and loan life cycle. It has a sales app used by front end sales team to digitally on-board customers and capture relevant details in the system. It has credit verification app, technical valuation app, and collections & customer service app. All documents are eStamped and eSigned. Robotic Process Automation (RPA) is used to eliminate manual processes. It is using Machine Learning (ML) and Artificial Intelligence (AI) enabled score cards in evaluating customer profiles and cash flow based income assessment. It is also using analytics and ML for bounce prediction, loan foreclosure prediction and Probability of Default.

Asset quality resilient across economic cycles

Aptus follows in-house sourcing, underwriting and collections which aid in better process control. Low ATS (~Rs0.8-0.9mn) & LTV (~40%) for a self-occupied residential property has led to minimal asset quality issues in the past. Further, avg. credit costs for FY19-21 stood at 11bps while it increased to 76bps/58bps in FY22/FY23 majorly driven by increase in provision coverage ratios. The company witnessed write-off of 13bps (of opening gross loans) in FY22 (Covid peak), highlighting its underwriting strength. Bounce rates are high at ~25%, however company is able to bring it down to 8-10% (1+dpd) in 2/3 days. Stage 2 peaked to 26.4% in FY20 due to different approach followed by company towards moratorium. Stage 2/Stage 3 stands at 5%/1.3% as on 1QFY24 with strong PCR of 7.3%/25%, despite negligible write-offs. We expect avg. credit costs of 37bps over FY24E-26E.

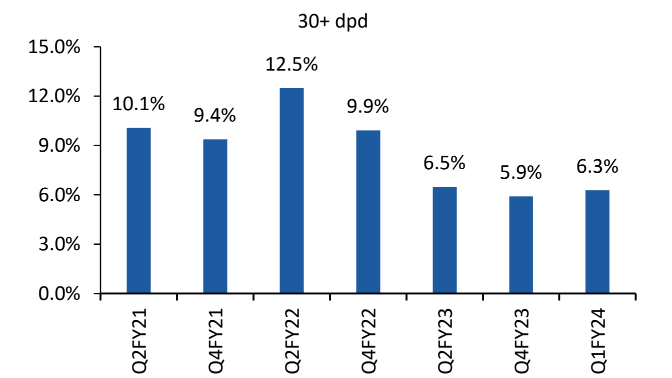
The company targets first time home buyers where the collateral is a self-occupied residential property. Many customers are new to credit and do not have formal income proofs such as pay slips or income tax returns. The company assess their income through various methods and conducts a cash flow assessment of their income to determine their ability to repay loans.

All aspects of lending operations are done in-house including sourcing, underwriting, valuation and legal assessment of collateral and collections, which enables it to maintain direct contact with customers, reduce turn-around-times and the risk of fraud. Customer sourcing is done by sales team which leads to selection of customer with a better credit profile. The sales team spends time to understand the formal and informal income sources of customers as well as that of their family members, savings capacity and repayment track record with their formal and informal borrowings. The sales employee visits a customer’s residence and place of business, gathers detailed information about the customer from the neighbourhood, locality and their customers and suppliers and conducts a cash flow assessment of their income to enable the company to make informed decisions while approving loans.

Aptus follows a centralized underwriting model i.e., all loan approval decisions are done by centralized underwriting team at HO. Centralised underwriting ensures consistency in underwriting with expertise in state-wise analysis. The credit underwriting team has customized ~60 credit assessment models to determine borrower’s income/cash flows; 50+ key data points are collected for customer profile analysis across multiple regions. In-house legal and technical team verifies deeds and title to the property before approval. Further, site visits are conducted after 3 months of loan disbursal and periodically afterwards to conduct post disbursement audit. Aptus has 256 employees deployed in credit vertical.

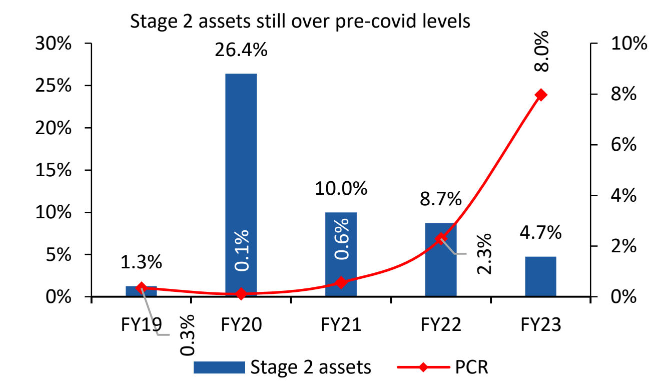
Tech based centralized underwriting has led to improvement in Turn Around times with >90% of loans being approved within 72 hours.

Exhibit 109: 30+dpd has remained sticky over last 3 quarters



Source: Source: HFC, Centrum Broking

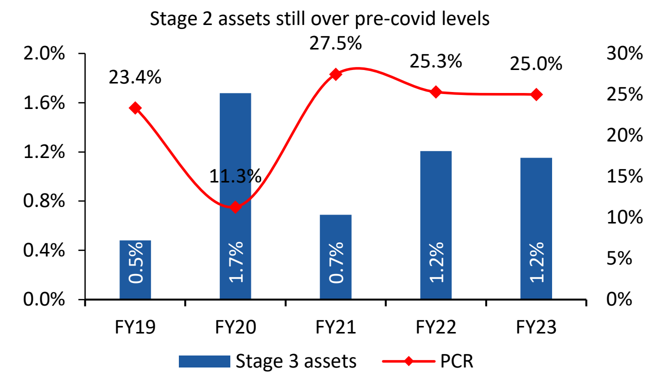
Exhibit 110: Stage 2 assets and provision coverage ratio



Source: Source: HFC, Centrum Broking

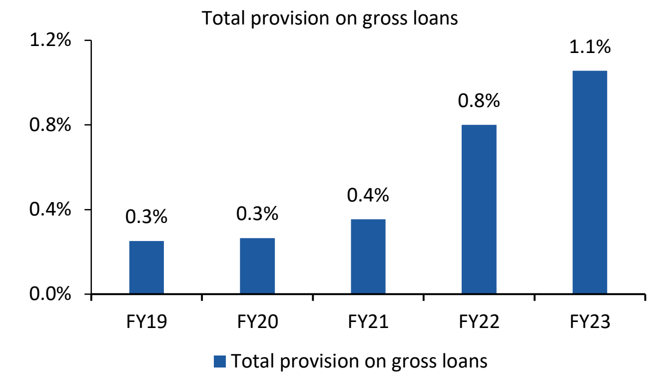
Stage 2 went up significantly for Aptus in FY20 as the company encouraged customers to not opt-in for moratorium and instead continue with their regular installments. The customers who could not pay slipped into stage 2; reduction in stage 2 is encouraging, however, remains above pre-covid. Stage 3 has been under control suggesting strong collection mechanism of Aptus.

Exhibit 111: Stage 3 assets and provision coverage ratio



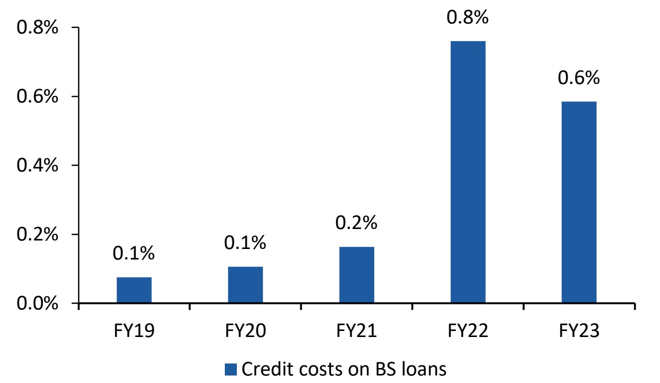
Source: HFC, Centrum Broking

Exhibit 112: Total provision on gross loans



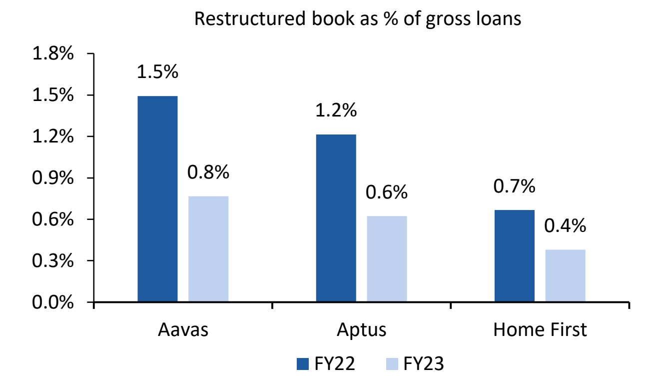
Source: HFC, Centrum Broking

Exhibit 113: Credit costs



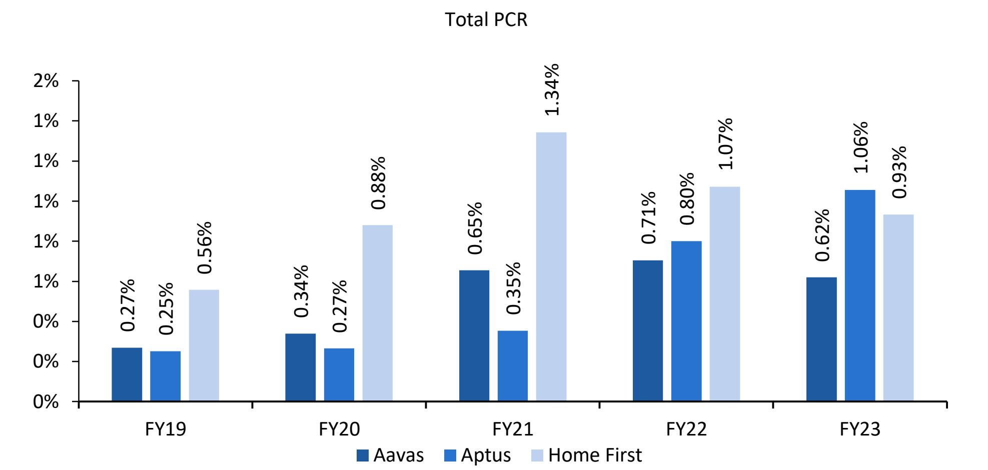
Source: HFC, Centrum Broking

Exhibit 114: Restructured book – Peer comparison



Source: HFC, Centrum Broking

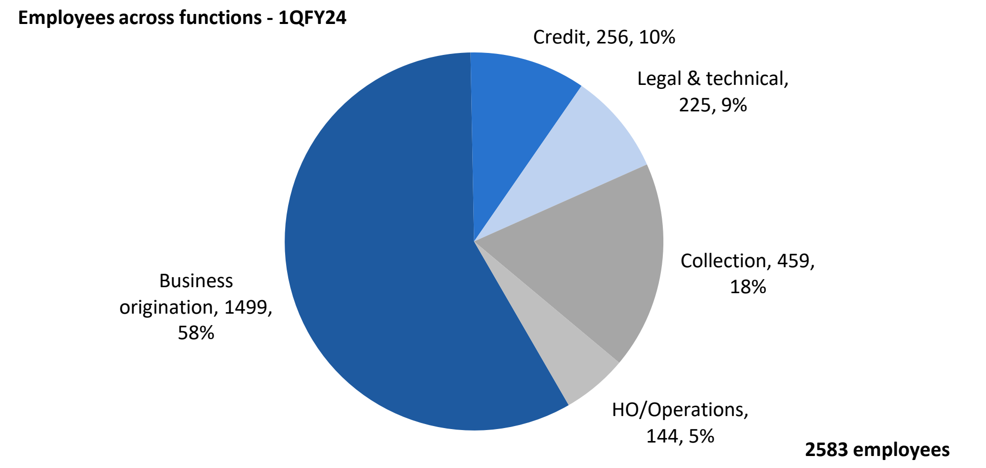
Exhibit 115: PCR across players – Aptus stands tall in FY23



Source: HFC's, Centrum Broking Ltd

Aptus witnessed significant jump in credit costs in FY22 & FY23 largely due to increase in its provision coverage ratio. Write-offs have remained minimal with company only writing off ~Rs50mn in FY22 (13bps of opening AUM).

Exhibit 116: 37% employees deployed in underwriting & collections



Source: HFC's, Centrum Broking Ltd

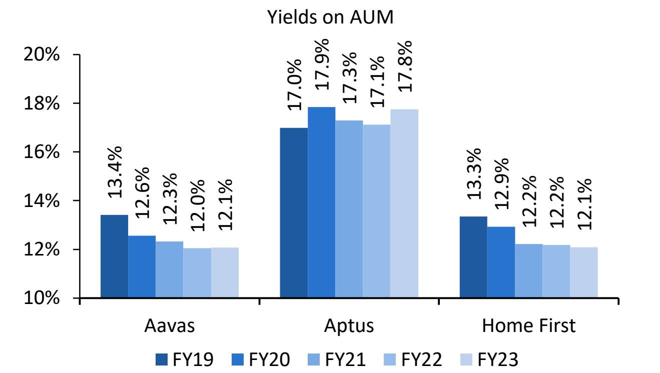
High NIMs and low costs lead to high return ratios

Aptus is able to command high yields on home loans (59% of AUM) at 14-14.5% due to its presence in rural areas and high share of NTC and self-employed customers. Quasi home loans (16% of AUM) and small business loans (21% of AUM) enjoy ~17% and 21% yields, respectively, resulting in overall yields at >17%. Aptus has leaner employee structure than Aavas and less salary/employee than Home First, resulting in efficient cost structure and low costs over peers. High NIMs and low opex has led to strong RoAs and profitability. We expect RoAs to remain >7% over FY24-26E and RoEs to improve to 20% as leverage increases to 2.8x by FY26E.

Aptus' AUM per branch is lower than its peers (28% lower than Aavas and 59% lower than Home First) providing scope for improvement in productivity. However, opex/branch is 46% lower than Aavas and 58% lower than Home First. Despite all in-house functions and negligible write-offs, Aptus' productivity in our view is at par with Home First. High yields, controlled opex and low credit costs make it a highly profitable model.

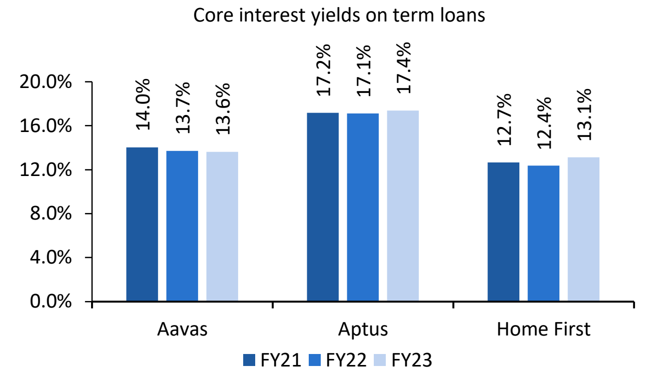
Risks – In our view, low opex is also an outcome of geographic concentration in South of India. Successful implementation of similar model with low opex in other geographies over medium term needs to be watched.

Exhibit 117: Trends in interest yields (on AUM)



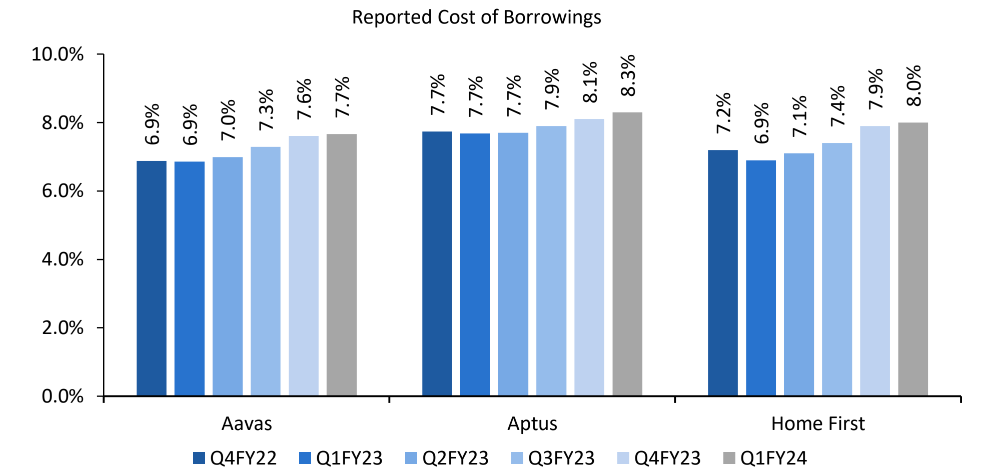
Source: HFC's, Centrum Broking Ltd

Exhibit 118: Core yields on term loans (as % of gross loans)



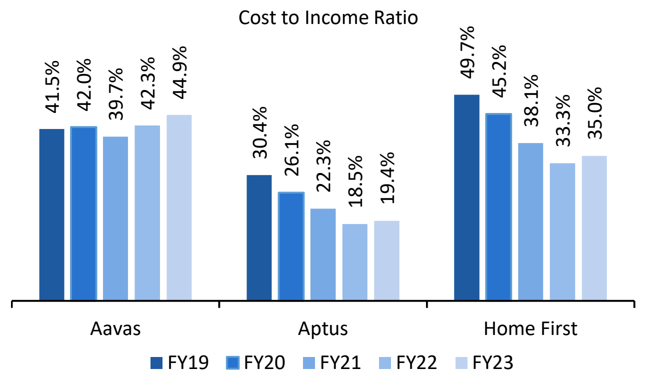
Source: HFC's, Centrum Broking Ltd

Exhibit 119: Reported cost of borrowings



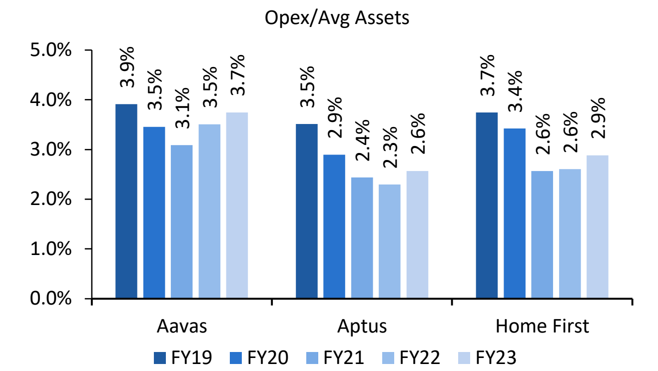
Source: HFC's, Centrum Broking Ltd

Exhibit 120: Cost to Income ratio



Source: HFC's, Centrum Broking Ltd

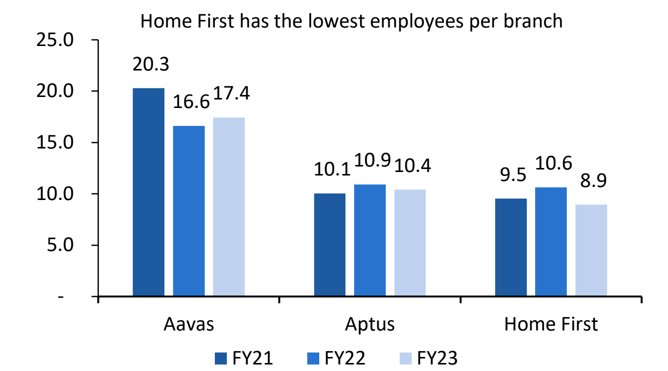
Exhibit 121: Trends in opex to average assets



Source: HFC's, Centrum Broking Ltd

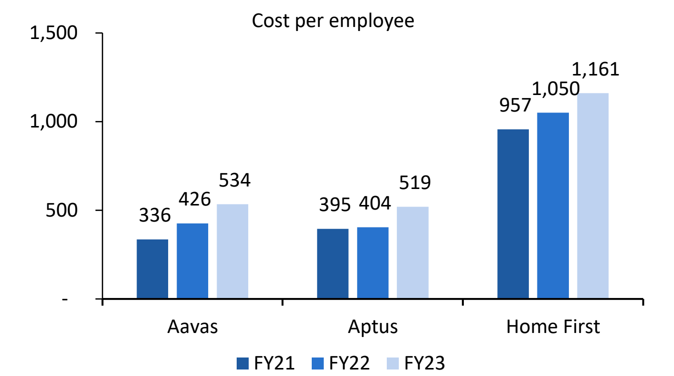
Aptus has the lowest opex as its branches are concentrated mostly in rural areas of 4 states, with all functions performed in-house. Employees/branch are low for Home First and Aptus while it is highest for Aavas. Further, Aavas has decentralised operations with underwriters separately evaluating all cases.

Exhibit 122: Employees /Branch



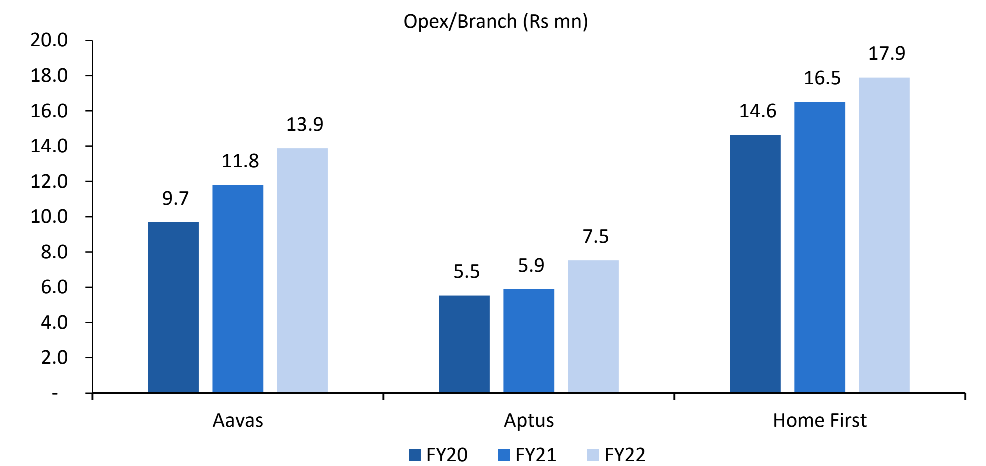
Source: HFC's, Centrum Broking Ltd

Exhibit 123: Cost per employee



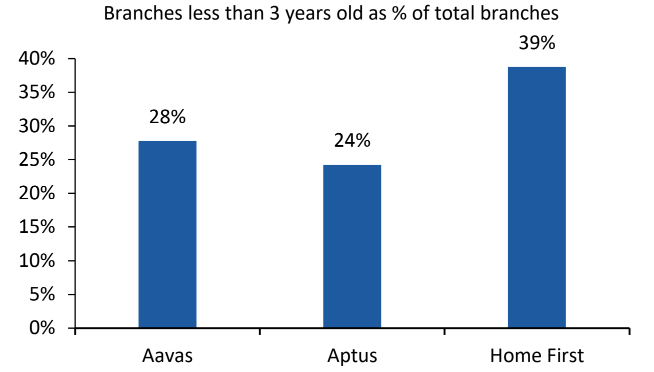
Source: HFC's, Centrum Broking Ltd

Exhibit 124: Opex/Branch



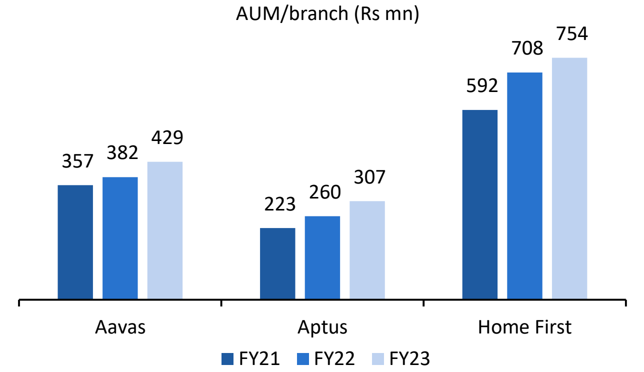
Source: HFC's, Centrum Broking Ltd

Exhibit 125: Branches less than 3 years old



Source: HFC's, Centrum Broking Ltd

Exhibit 126: AUM per branch



Source: HFC's, Centrum Broking Ltd

We forecast Aptus to add 30 branches in FY24E and ~25 branches each year in FY25E & FY26E. We build in 27% disbursement CAGR and 29% AUM CAGR over FY23-26E. NIMs on asset will go down due to increase in leverage. We build in slight operating leverage and flat credit costs, avg. of 37bps over FY24-26E. High interest expense (leverage) will lead to ~70bps moderation in RoAs over FY23-26E to 7.1% however, improved RoE profile.

Exhibit 127: Du-Pont Analysis

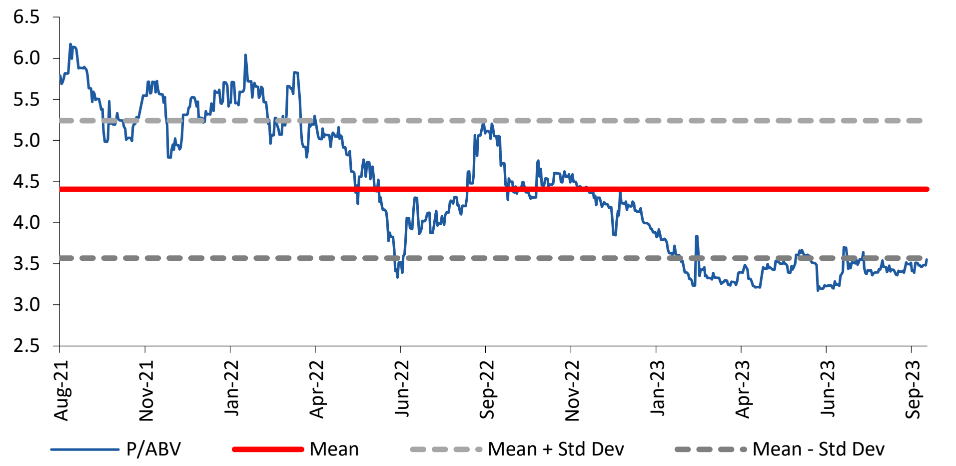
Du-pont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	15.2%	15.5%	16.5%	16.2%	16.4%	16.4%
Interest expense	5.0%	4.1%	4.3%	4.8%	5.2%	5.4%
Net Interest Income	10.2%	11.4%	12.2%	11.4%	11.2%	11.0%
Other Income	0.8%	1.0%	1.1%	1.0%	1.0%	0.9%
Total Income	10.9%	12.4%	13.3%	12.5%	12.3%	11.9%
Employee expenses	1.7%	1.7%	1.9%	1.9%	1.8%	1.7%
Other expenses	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%
Total Expenses	2.4%	2.3%	2.6%	2.6%	2.5%	2.4%
PPOP	8.5%	10.1%	10.7%	9.9%	9.7%	9.5%
Credit costs	0.1%	0.7%	0.5%	0.3%	0.3%	0.3%
PBT	8.3%	9.4%	10.2%	9.5%	9.4%	9.2%
Tax	1.9%	2.2%	2.3%	2.1%	2.1%	2.1%
RoAA	6.5%	7.3%	7.8%	7.4%	7.3%	7.1%
Leverage	2.2	2.1	2.1	2.3	2.6	2.8
RoAE	14.5%	15.1%	16.1%	17.0%	18.8%	20.1%

Source: HFC's, Centrum Broking Ltd

Valuations and View

Aptus enjoys strong profitability due to its presence in niche market, strong underwriting and cost control. The company's focus on growth, quality underwriting and profitability should aid to deliver industry leading return ratios. We value Aptus at 4x H1FY26 P/ABV to arrive at our Target Price of Rs380. Key downside risks will be (1) inability to maintain similar asset quality while expanding into newer geographies; (2) South specific negative event which may impact borrower cash flows.

Exhibit 128: Valuation chart



Source: HFC's, Centrum Broking Ltd

Key Management Personnel

Management	Designation	Profile
M. Anandan	Founder	He is a Member of the ICAI. He has an experience of over 4 decades in the financial services industry during which he has held positions as ED and MD of Cholamandalam Investments and Finance, MD of Cholamandalam MS General Insurance Co. and CEO/Director of the Financial Services Businesses in Murugappa Group. Between 2008 – 2015 he was non-whole time Director in Equitas Micro Finance Ltd, Independent Director in Manappuram Finance Ltd and Chairman of Five Star Business Credits Ltd. He is the founder promoter of the company and has served as the Chairman and Managing Director on the Board since inception.
Mr. Balaji P	Managing Director	Mr. Balaji holds a bachelor's degree in commerce from the University of Madras. He is also a member of the Institute of Chartered Accountants of India. Prior to joining Aptus, he was associated with the Bombay Dyeing and Manufacturing Company Limited, Hutchison Max Telecom Limited, Cholamandalam MS General Insurance Company Limited and SKS Microfinance Limited.
Mr. Manoharan C T	Chief Business Officer	Mr. Manoharan holds a Post Graduate Degree in Physics from Calicut University and also has completed a Financial Management certificate course with ICFAI. He has over 18 years of experience in the Housing Finance industry. Prior to joining Aptus, he was engaged with Can Fin Homes and Dewan Housing in various capacities across sales, channel management and credit.
Mr. John Vijayan Rayappa	Chief Financial Officer	Mr. Rayappa is an Associate member of the Institute of Chartered Accountants of India and Institute of Cost Accountants of India. He is also a Certified Information Systems Auditor (CISA) from the Institute of Systems Audit and Control Association, USA. Prior to joining Aptus, he was with Shiksha Financial Services India Pvt Ltd as Associate Vice President. He has also worked with Organisations like Cholamandalam Investment & Finance Company, DBS Cholamandalam Asset Management Ltd and L&T Investment Management Ltd in areas of Operations, Treasury, Risk management, Custody, Customer Servicing, software implementation covering deposits, customer servicing and retail lending operations.
Mr. Krishnaswami V	Senior Vice President – IT	Mr. Krishnaswami holds M.sc – IT from the Institute of Advance Studies and Education and is certified as Scrum Master. He also holds a diploma in Design Thinking from Stanford University through online learning. He has more than 18 years of experience in IT Consulting, Project management, Technology solutions, customization & implementation, IT infrastructure and Information security in various MNC companies.
Mr. Ramesh K	Vice President – Credit	Mr. Ramesh holds an MBA from Madras University. He has more than 15 years of experience in areas of Credit & Risk Management, Fraud Control and operations in retail finance. Prior to joining Aptus, he was associated with Cholamandalam Investments and Finance, Barclays, ICICI Bank and GE Capital.
Mr. Sundara Kumar V	Vice President – Legal & Receivable	Mr. Kumar holds B.com, B.L., from Madras University. He has also completed the ICWAI (Inter) and ACS (Inter). He has over 14 years of legal experience in financial services, housing finance/mortgages, in particular. Prior to joining Aptus, he was associated with Standard Chartered Bank looking after the legal function relating to retail and mortgages portfolio and M/s. King & Partridge, Law firm.
Mr. Srikanth N	Vice President – Human Resource	Mr Srikanth holds a Master's degree (MHRM) in Human Resources from Pondicherry University. He has an overall 20+ years, of qualitative experience in Human Resource. Prior to joining Aptus, he was associated with CSS Corp Pvt Ltd, (Software Development and Testing Division), Viveks Ltd and Sundaram Fasteners Ltd (TVS).
Mr. Naveen Kumar R	Associate VP – Operations & Compliance	Naveen is a graduate in engineering and also holds post-graduation degree in Master of Business Administration (MBA) from Anna University. He has almost 12 years of varied experience in financial services and more importantly in the Housing Finance Industry and has been mostly associated with hands on work experience in handling operations at various levels of the company and at present, he is leading the Operations and Customer Care Unit of the company.
Mr. Sanin Panicker	Company Secretary & Compliance Officer	Mr. Panicker holds a bachelor's degree in commerce from the University of Kerala. He is also an Associate Member of the Institute of Company Secretaries of India. Prior to joining Aptus, he was associated with Madura Micro Finance Limited. His professional expertise spans across Secretarial Compliance, Listing Regulations, Corporate Governance, Mergers & Acquisitions and IPO.

P&L

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	7,917	10,584	13,227	17,158	21,927
Interest expense	2,086	2,759	3,912	5,411	7,204
NII	5,831	7,825	9,315	11,747	14,724
Other income	485	706	836	1,060	1,177
Total income	6,316	8,531	10,152	12,806	15,901
Operating expenses	1,171	1,652	2,112	2,631	3,181
Employee	844	1,213	1,565	1,919	2,286
Others	328	439	547	712	896
PPOP	5,145	6,879	8,040	10,176	12,720
Provisions	345	341	285	348	464
PBT	4,800	6,537	7,755	9,828	12,256
Tax	1,099	1,507	1,744	2,211	2,758
PAT	3,702	5,030	6,011	7,617	9,498

Ratios

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	27.4	30.0	29.3	29.4	27.0
Borrowings	8.5	39.2	41.0	37.8	33.1
NII	38.7	34.2	19.0	26.1	25.3
Other income	54.8	45.4	18.5	26.7	11.1
Opex	16.3	41.1	27.8	24.6	20.9
PPoP	46.6	33.7	16.9	26.6	25.0
Provisions	492.5	(1.0)	(16.5)	22.0	33.5
PAT	38.7	35.9	19.5	26.7	24.7
Profitability (%)					
Yield on advances	17.1	17.8	17.1	17.2	17.1
Cost of funds	8.0	8.5	8.6	8.5	8.4
NIM (on AuM)	12.6	13.1	12.1	11.8	11.5
Other Income/ Total Income	7.7	8.3	8.2	8.3	7.4
Other Income / Total Assets	0.9	1.0	0.9	0.9	0.8
Cost/Income	18.5	19.4	20.8	20.5	20.0
Employee	13.4	14.2	15.4	15.0	14.4
Others	5.2	5.1	5.4	5.6	5.6
Opex/ Avg AuM	2.5	2.8	2.7	2.6	2.5
Provisions	0.7	0.6	0.4	0.3	0.4
Tax Rate	22.9	23.1	22.5	22.5	22.5
RoA	7.3	7.8	7.4	7.3	7.1
RoE	15.1	16.1	17.0	18.8	20.1

DuPont (% avg assets)

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	15.5	16.5	16.2	16.4	16.4
Interest expense	4.1	4.3	4.8	5.2	5.4
NII	11.4	12.2	11.4	11.2	11.0
Other income	1.0	1.1	1.0	1.0	0.9
Total income	12.4	13.3	12.5	12.3	11.9
Operating expenses	2.3	2.6	2.6	2.5	2.4
Employee	1.7	1.9	1.9	1.8	1.7
Others	0.6	0.7	0.7	0.7	0.7
PPOP	10.1	10.7	9.9	9.7	9.5
Provisions	0.7	0.5	0.3	0.3	0.3
PBT	9.4	10.2	9.5	9.4	9.2
Tax	2.2	2.3	2.1	2.1	2.1
PAT	7.3	7.8	7.4	7.3	7.1

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	**56,263**	**71,038**	**90,907**	**1,17,276**	**1,48,611**
Cash	4,459	4,600	4,961	6,141	7,575
Loans	50,787	65,923	85,431	1,10,620	1,40,521
Investment	1,017	515	515	515	515
Non-financial assets	**577**	**725**	**378**	**459**	**1,225**
Deferred tax assets	226	197	197	197	197
Fixed Assets	34	37	40	45	50
Other Non-fin. assets	317	491	141	217	978
Total Assets	**56,840**	**71,763**	**91,284**	**1,17,735**	**1,49,836**
Financial liabilities	**27,206**	**37,861**	**53,394**	**73,563**	**97,943**
Borrowings	27,206	37,861	53,394	73,563	97,943
Non-financial liabilities	**473**	**509**	**481**	**642**	**856**
Other Non-fin liabilities	473	509	481	642	856
Total equity	**29,162**	**33,393**	**37,409**	**43,531**	**51,037**
Share capital	994	996	996	996	996
Other equity	28,168	32,397	36,413	42,535	50,041
Total Liabilities	**56,840**	**71,763**	**91,284**	**1,17,735**	**1,49,836**
Balance Sheet ratios (%)					
Debt / Equity	0.9	1.1	1.4	1.7	1.9
Assets / Equity	2.1	2.1	2.3	2.6	2.8
Cash / Borrowings	16.4	12.2	9.3	8.3	7.7
Details on loans					
AUM	51,830	67,380	87,149	1,12,766	1,43,209
Disbursements	16,410	23,940	31,088	39,963	48,863
Capital Adequacy (%)					
CRAR	85.6	77.4	67.4	60.8	56.0
Tier-1	85.4	76.6	67.4	60.8	56.0
Tier-2	0.2	0.8	0.6	0.5	0.4
Asset quality (%)					
GNPA (Rs mn)	618	777	959	1,015	1,289
Growth (%)	123.9	25.6	23.4	5.9	27.0
NNPA (Rs mn)	462	583	719	761	973
Growth (%)	130.6	26.1	23.4	5.9	27.8
GNPA	1.2	1.2	1.1	0.9	0.9
NNPA	0.9	0.9	0.8	0.7	0.7
PCR	25.3	25.0	25.0	25.0	24.5
NNPA / Equity	1.6	1.7	1.9	1.7	1.9
Per share (Rs)					
EPS	7.4	10.1	12.1	15.3	19.1
BVPS	58.7	67.0	75.1	87.4	102.5
ABVPS	57.8	65.9	73.7	85.9	100.5
DPS	0.0	2.0	2.0	3.0	4.0
Valuation (x)					
P/E	38.0	28.0	23.4	18.5	14.8
P/BV	4.8	4.2	3.8	3.2	2.8
P/ABV	4.9	4.3	3.8	3.3	2.8
Dividend yield	0.0	0.7	0.7	1.1	1.4

Source: Company, Centrum Broking

CENTRUM

Home First Finance

Ahead of the curve

Initiating Coverage

India I Affordable Housing Finance Companies

26 September 2023

Institutional Research

BUY

Price: Rs839.5
Target Price: Rs1,130.0
Forecast return: 35%

Home First (HFFC) is our preferred pick in affordable housing finance. It operates a lean business model and enjoys strong productivity metrics vis-à-vis peers. The company is focused on Housing Loans in EWS+LIG segment (78%), salaried customer base (70%) and financing of self-constructed residential properties. It operates in peripheries of larger cities and plans to increase its presence in Tier 1, Tier 2 and Tier 3 levels of towns. HFFC targets large markets and presence in key areas of Gujarat, Maharashtra, Andhra Pradesh, Telangana, Karnataka and Tamil Nadu gives it an access to 50% of affordable housing finance markets. Asset quality has been validated through covid where HFFC's customer segment has shown resilience and bounced back quickly. We expect HFFC to report 30% AUM CAGR and 25% earnings CAGR over FY23-26E. Our AUM growth assumptions are underpinned by (1) distribution expansion; (2) market share gains, and (3) expanding addressable market through co-lending. We build in RoA/RoE at 3.5%/17.1% in FY26E. We value Home First at 4x H1FY26E P/ABV to arrive at our target price of Rs1,130. We initiate with a BUY rating. Increase in co-lending, higher mix of LAP and upgrade in credit rating provide upside risk while economic slowdown resulting in job losses is a key downside risk to our target price.

Strong productivity metrics amongst AHFCs

HFFC stands tall in productivity metrics against peers with disbursements per employee and disbursements per branch at Rs32.7mn (>3.4x of peers) and Rs315.5mn (~2.5x of peers), respectively. HFFC has the lowest branch network and employees/branch driven by three factors – (i) sourcing largely through connectors, (ii) centralized underwriting, and (iii) technology adoption (tech fees at 7%-8% of total opex) which has reduced loan sanction TAT to <48 hours. Lean touchpoint models ensure day 1 break-even for branches once the scalability of market is established, resulting in controlled opex. HFFC was one of the earliest adopters of the cloud based Saleforce platform and applies robust technology infrastructure across its business functions.

Strong growth and increased leverage to support ROEs to expand >17% by FY26E

HFFC enjoys strong interest yields (core yields between 12-13%) despite focus on salaried customer segment (70% of AUM) and lower mix of non-HL (~13% of AUM). DA income is up fronted under IND AS. However, company has maintained DA share at 20% (+/- 3%) as part of its liquidity strategy. We build in NIMs compression of 40bps over FY23-26E due to (1) slight yield compression, and (2) increase in CoF with higher leverage. Controlled opex and low credit costs should support RoAs at >3.5% over next 3 years. We expect RoE to expand from 13.5% in FY23 to 17.1% by FY26E as leverage increases. Further RoA/RoE expansion levers – (i) increase in non HL share, (ii) credit rating upgrade, (iii) increase in co-lending.

Asset quality withstood the test of covid

HFFC has seen significant improvement in stage 2+ stage 3 assets to 2.9% (1QFY24) from its peak of 5.8% in 1QFY22 driven by granular nature of its book. Further, avg. credit costs over last 5 years stood at 0.63% and have returned to pre-covid levels of 0.42% in FY23. Stage 3 assets stood at 1.6% (1% before RBI circular) with PCR of 31%. Total PCR on gross loans stood at 0.9% (1QFY24). We build in credit costs at an avg of 42bps over FY24E-26E, due to strong provision coverage and improved economic environment.

Financial and valuation summary

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	3,605	4,522	5,805	7,212	8,973
PPoP	2,513	3,168	4,013	4,933	6,179
Provisions	250	215	302	383	494
PAT	1,861	2,283	2,865	3,526	4,406
AUM growth (%)	29.9	33.8	31.8	29.9	27.4
NIM (%)	7.6	7.2	7.0	6.6	6.4
C / I (%)	33.3	35.0	36.3	36.5	35.9
GNPA (%)	2.3	1.6	1.5	1.3	1.2
RoA (%)	3.9	3.9	3.7	3.6	3.5
RoE (%)	12.6	13.5	14.8	15.9	17.1
P/BV (x)	4.7	4.1	3.6	3.1	2.7

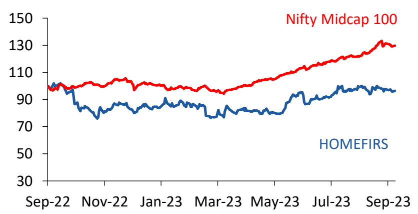
Source: Company, Centrum Broking

Market Data

Bloomberg:	HOMEFIRS IN
52 week H/L:	922/652
Market cap:	Rs74.0bn
Shares Outstanding:	88.2mn
Free float:	35.2%
Avg. daily vol. 3mth:	2,00,966

Source: Bloomberg

HOMEFIRS relative to Midcap 100



Source: Bloomberg

Shareholding pattern

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	30.2	33.5	33.5	33.6
FIIs	17.6	15.7	9.4	10.3
DIIs	10.0	8.4	6.5	6.4
Public/other	42.2	42.4	50.6	49.7

Source: BSE

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Affordable Housing Finance Companies

Thesis Snapshot

Centrum vs. consensus

YE Mar (Rs bn)	Centrum FY24E	Consensus FY24E	Variance (%)	Centrum FY25E	Consensus FY25E	Variance (%)
Total income	6,298	6,320	-0.4	7,768	8,043	-3.4
PPOP	4,013	4,167	-3.7	4,933	5,235	-5.8
PAT	2,865	2,926	-2.1	3,526	3,610	-2.3

Source: Bloomberg, Centrum Broking

Home First Finance vs. NIFTY Midcap 100

	1m	6m	1 year
HOMEFIRS IN	(1.1)	22.0	(3.6)
NSE Midcap 100	5.0	36.7	30.0

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY24E	FY25E
Disbursement growth	27.7%	24.3%
AUM growth	31.8%	29.9%
NIMs	7.0%	6.6%
C/I	36.3%	36.5%
Credit costs	0.43%	0.42%

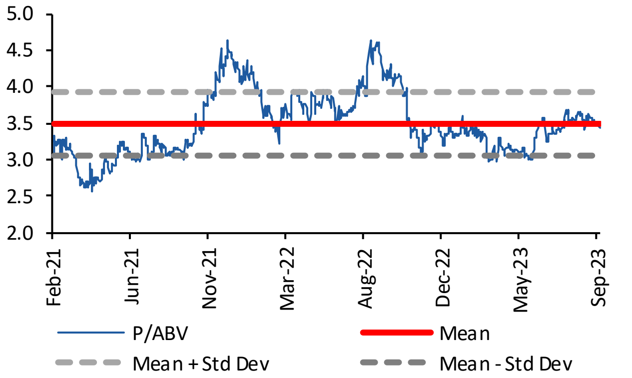
Source: Centrum Broking

Valuations

We expect HFFC to report 30% AUM CAGR and 25% earnings CAGR over FY23-26E. Our AUM growth assumptions are underpinned by (1) distribution expansion; (2) market share gains, and (3) expanding addressable market through co-lending. We build in RoA/RoE at 3.5%/17.1% in FY26E. We value Home First at 4x H1FY26E P/ABV to arrive at our target price of Rs1,130. We initiate with a BUY rating.

Valuations	Rs/share
H1FY26	282
Target multiple	4.0
Target Price	1,130
CMP	839
Upside to CMP	35%

P/ABV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

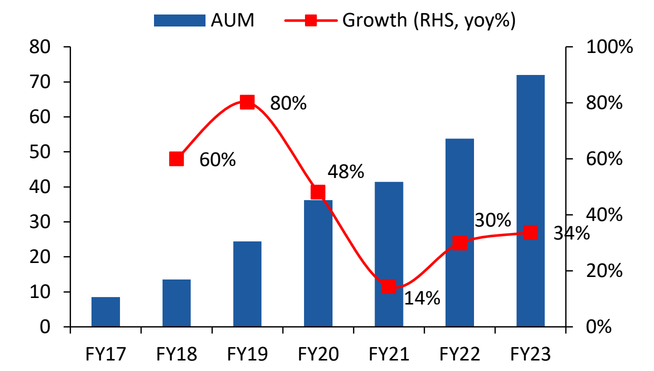
Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US $bn	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E
Aptus value	141	1.7	4.1	3.8	3.2	2.8	4.2	3.8	3.3	2.8	16.0	17.1	18.8	20.1
Aavas financiers	134	1.6	4.1	3.5	3.0	2.6	4.2	3.6	3.1	2.6	14.2	14.1	15.2	16.5
Home first	**74**	**0.9**	**4.1**	**3.6**	**3.1**	**2.7**	**4.2**	**3.7**	**3.2**	**2.8**	**13.5**	**14.8**	**15.9**	**17.1**

Source: Company, Centrum Broking

Business Overview

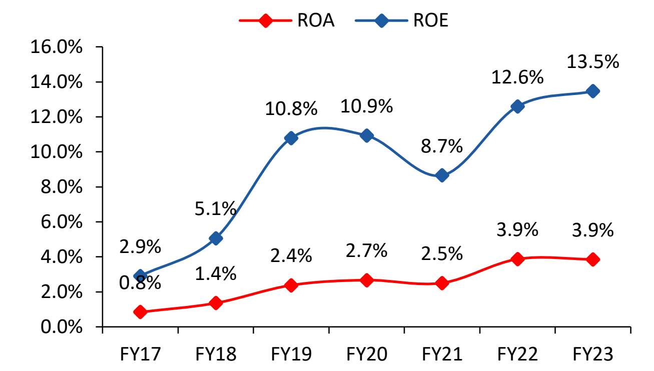
Home First Finance is a technology driven affordable housing finance company that targets first time home buyers in low and middle-income groups in peripheries of larger cities. The company primarily offers customers housing loans (87% of AUM) for the purchase or construction of homes, serves salaried customers in low and middle-income groups which account for 69% of the AUM. LAP/Shop loans constitute 12%/1% of the AUM while developer finance is 0.2% and has been running down. Company targets dense markets which already has home loan penetration and low delinquency and captures market share in ticket size of Rs5 lakh to Rs25 lakh. Company has pan-India presence and operates through a network of over 111 branches in 123 districts across 13 states/UTs. It follows centralised model for underwriting and operates lean branches. Given its presence in larger cities and salaried customers, it is prone to risk of balance transfers.

Exhibit 129: AUM grew at 40% CAGR over last 5 years



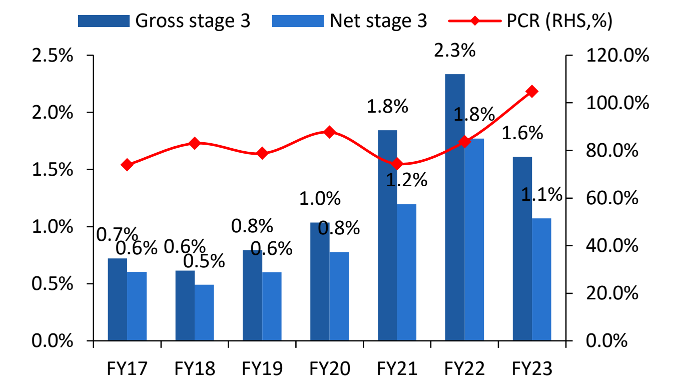
Source: HFC, Centrum Broking

Exhibit 130: RoA/RoE profile improved steadily



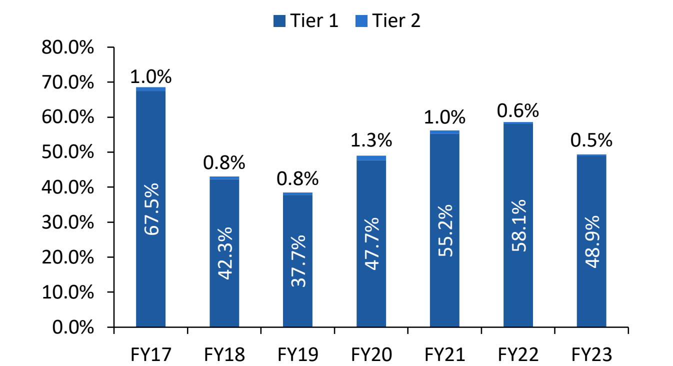
Source: HFC, Centrum Broking

Exhibit 131: Asset quality under control with strong PCR



Source: HFC, Centrum Broking

Exhibit 132: Comfortable liquidity



Source: HFC, Centrum Broking

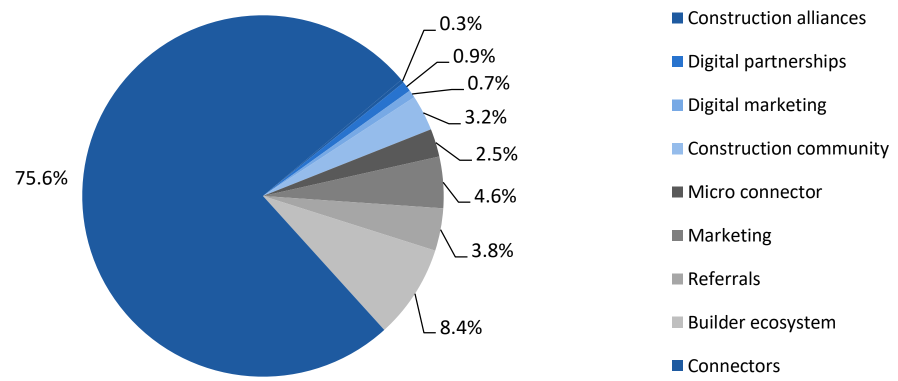
Strong productivity metrics amongst AHFCs

HFFC stands tall in productivity metrics against peers with disbursements per employee and disbursements per branch at Rs32.7mn (>3.4x of peers) and Rs315.5mn (~2.5x of peers), respectively. HFFC has the lowest branch network and employees/branch driven by three factors – (i) business sourcing largely through connectors, (ii) centralized underwriting, and (iii) technology adoption (tech fees at 7-8% of total opex) which has reduced loan sanction TAT to <48 hours. Lean touchpoint models ensure day 1 break-even for branches once the scalability of market is established, resulting in controlled opex.

Home First Finance follows centralized underwriting model. It has a dedicated relationship manager who has detailed personal discussion with the borrower as well as acquaintances and neighbors in order to assess the source of income and cash inflows and outflows as well as the income stability and habits of the customer. The RM then assists in doorstep collection of all documents needed for loan processing which are digitized and saved on cloud and accessed at HO for credit underwriting. All formal and informal sources of income, alternative documents like life insurance policies, property deeds, etc., are used for credit evaluation. It evaluates 100 data points of a customer like fraud related data, banking, investment and taxation in addition to credit bureau data for effective underwriting. It has deployed proprietary machine learning customer scoring models to predict bounce probability and early warning signals of default. Tech integration across functions aids lean business model. There is no separate collection team. Relationship manager assists in collections too.

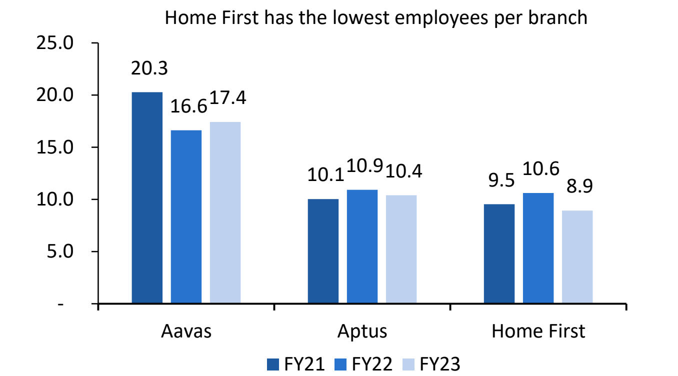
Tech integration, sourcing largely through connectors, centralised underwriting and RM responsible for lead conversion as well as collections has led to lower opex for Home First. It is ahead of peers in term of productivity.

Exhibit 133: Connectors are major source of lead generation



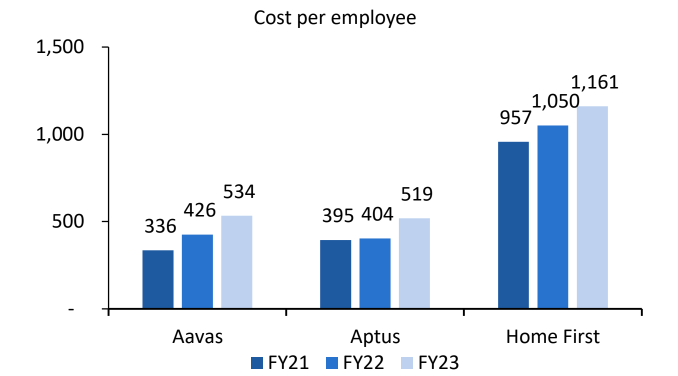
Source: HFC, Centrum Broking

Exhibit 134: Home First has the lowest employees per branch



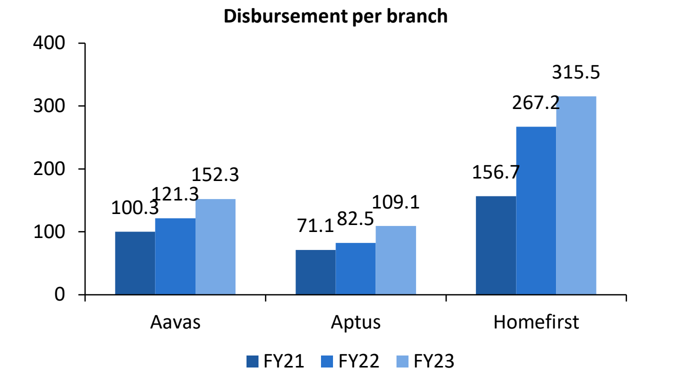
Source: HFC, Centrum Broking

Exhibit 135: Cost per employee is highest for Home First



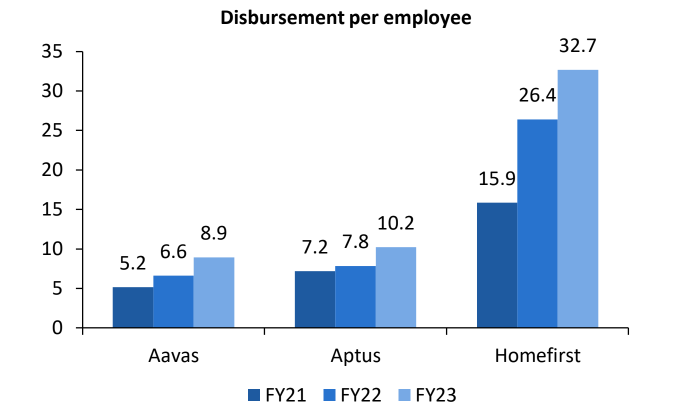
Source: HFC, Centrum Broking

Exhibit 136: Home First has the highest disbursement per branch and…



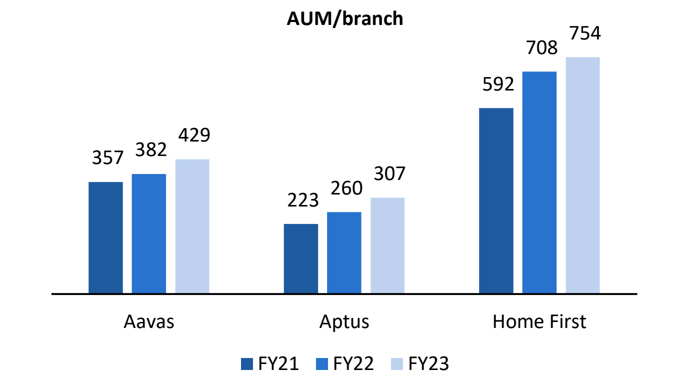
Source: HFC, Centrum Broking

Exhibit 137: …disbursement per employee



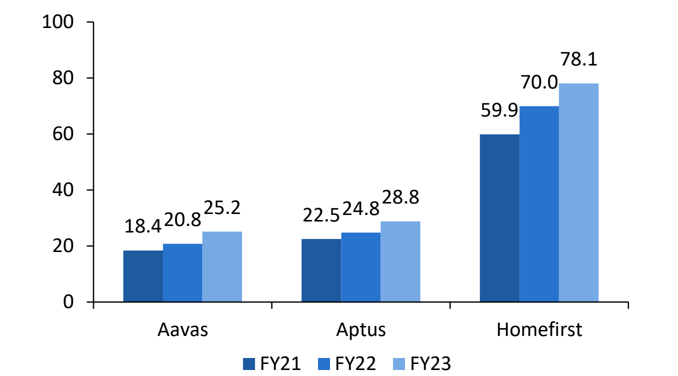
Source: HFC, Centrum Broking

Exhibit 138: AUM per branch across industry



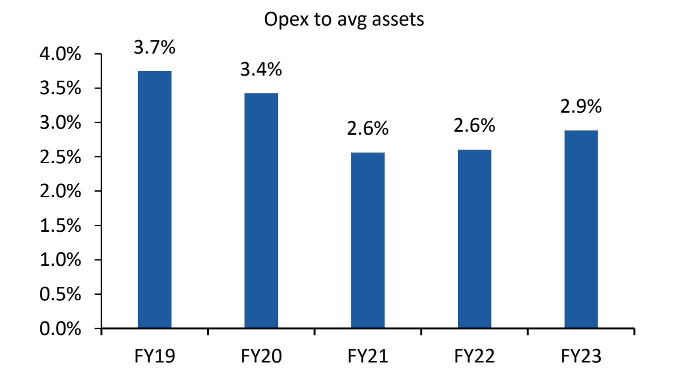
Source: HFC, Centrum Broking

Exhibit 139: AUM per employee



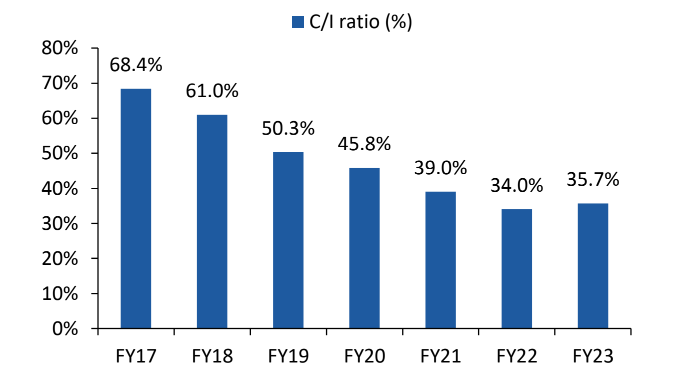
Source: HFC, Centrum Broking

Exhibit 140: Opex to assets



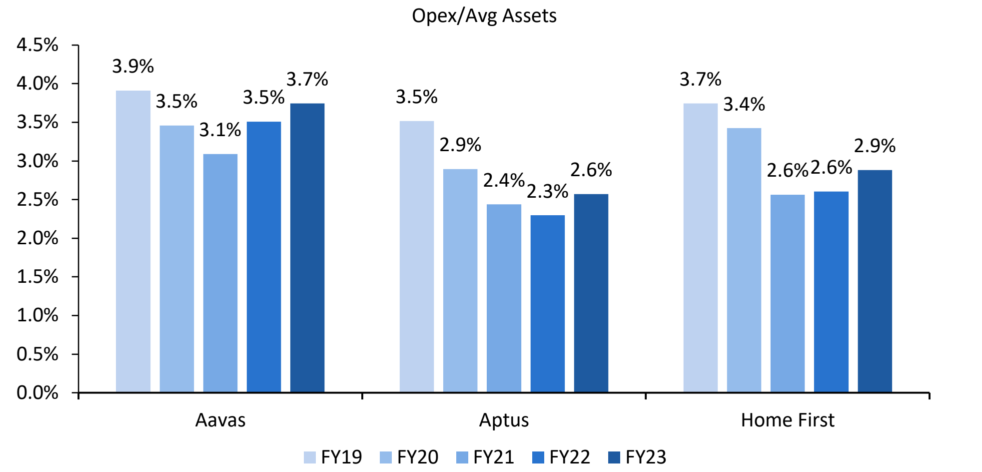
Source: HFC, Centrum Broking

Exhibit 141: Cost to Income Ratio



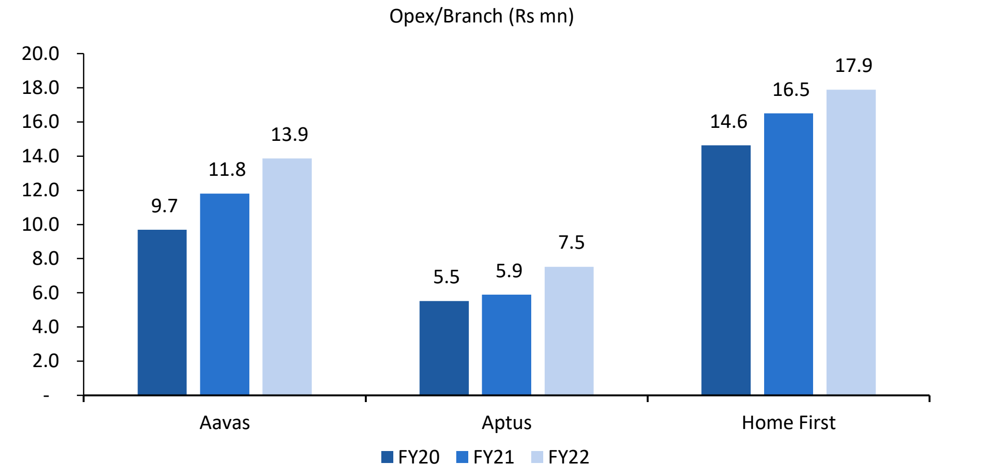
Source: HFC, Centrum Broking

Exhibit 142: Opex to avg. assets peer comparison



Source: HFC, Centrum Broking

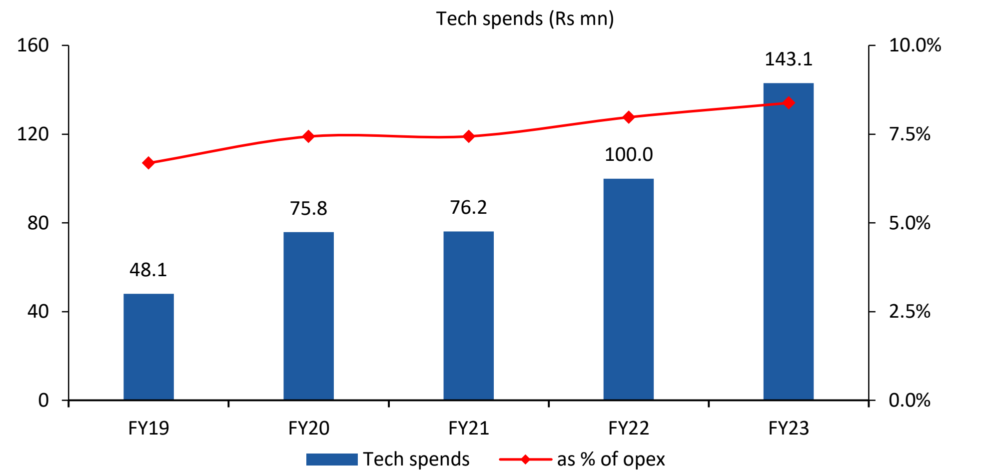
Exhibit 143: Opex/Branch peer comparison



Source: HFC, Centrum Broking

Opex/branch for Home First is 29% higher than Aavas and 138% higher than Aptus. However, AUM/branch is 76% higher than Aavas and 145% higher than Aptus.

Exhibit 144: Tech spends consistently on rise



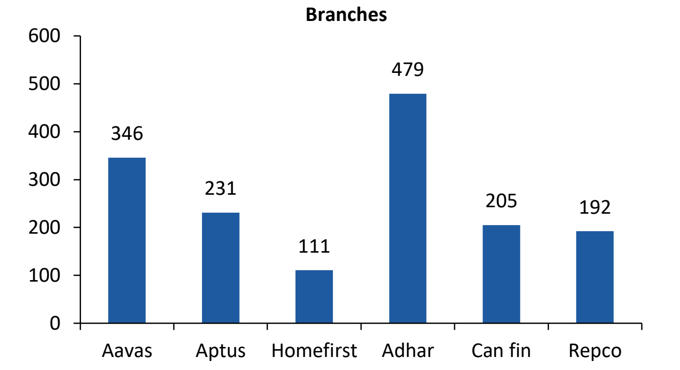
Source: HFC, Centrum Broking

Branch expansion to drive growth in core affordable housing finance markets

HFFC started its operations from Gujarat and expanded in 13 states and UTs. It carefully evaluates each location based on its economic growth potential, regional delinquency and social-economic risk profile. It sets its footprint by establishing a virtual touch point and once it reaches an AUM of Rs50mn, a call on conversion into a branch is taken. It has identified states of Gujarat, Maharashtra, Tamil Nadu, Telangana, Andhra Pradesh and Karnataka for expansion supplemented by gradual and contiguous expansion in the other states where they are present. Identified states contribute ~50% of affordable housing finance market. Home First largely operates in peripheries/outskirts of large cities and plans to increase its presence in Tier 1, Tier 2 and Tier 3 markets.

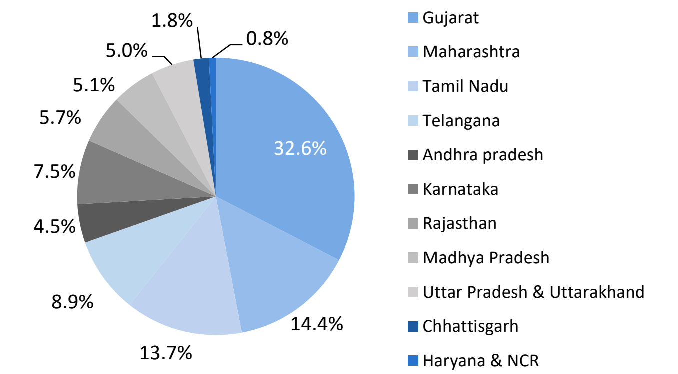
West of India contributes 58% of Home First's AUM. It's operation in peripheries of large towns has led to higher share of salaried customer segment. Home First is expected to add 20 branches in FY24, and targeting to reach 400 touch points by March 2025. The company will continue to focus on large affordable housing finance markets across the regions it operates in. In FY2023, 61% of Home First's business came from the top three states. As a result, the company remains a small player in the markets it operates in. However, the company's market share is higher in Gujarat, reaching 5-6%.

Exhibit 145: Home First has low number of branches



Source: HFC, Centrum Broking

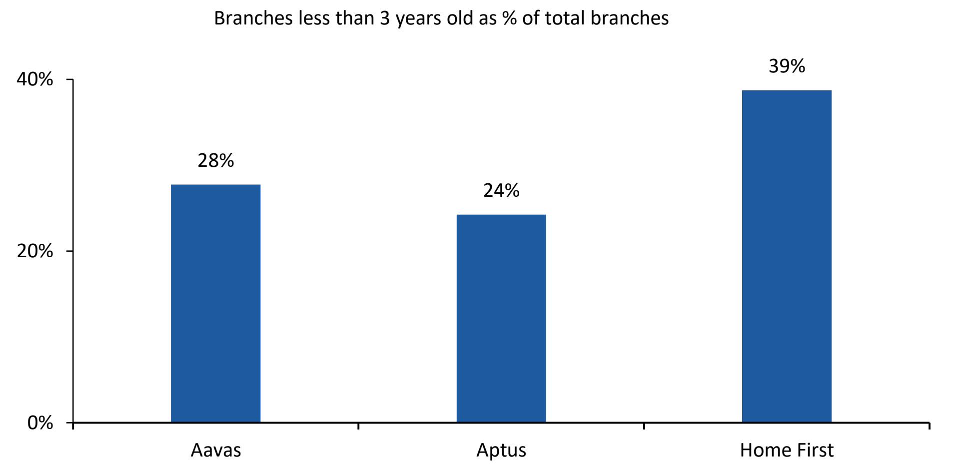
Exhibit 146: Home First – Branch mix as on FY23



Source: HFC, Centrum Broking

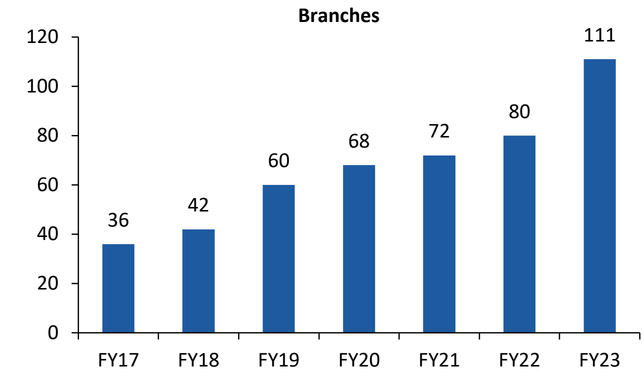
Home First's highest grossing branches in Gujarat have an AUM of Rs2bn+, as against an average AUM/branch of Rs754mn. It converts a touchpoint into a branch only when the location has a potential of reaching an AUM of Rs1bn in 4-5 years.

Exhibit 147: Home First has higher share of branches which are <3 years old



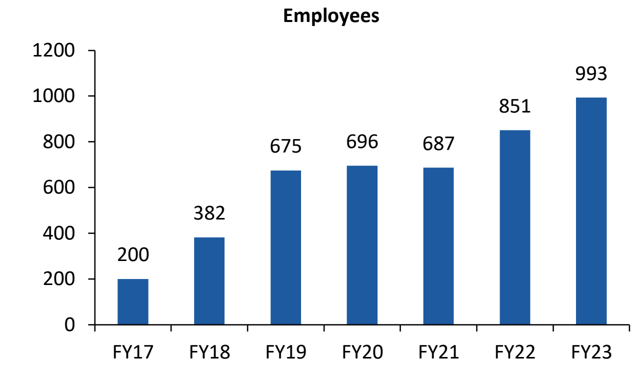
Source: HFC, Centrum Broking

Exhibit 148: Branch addition



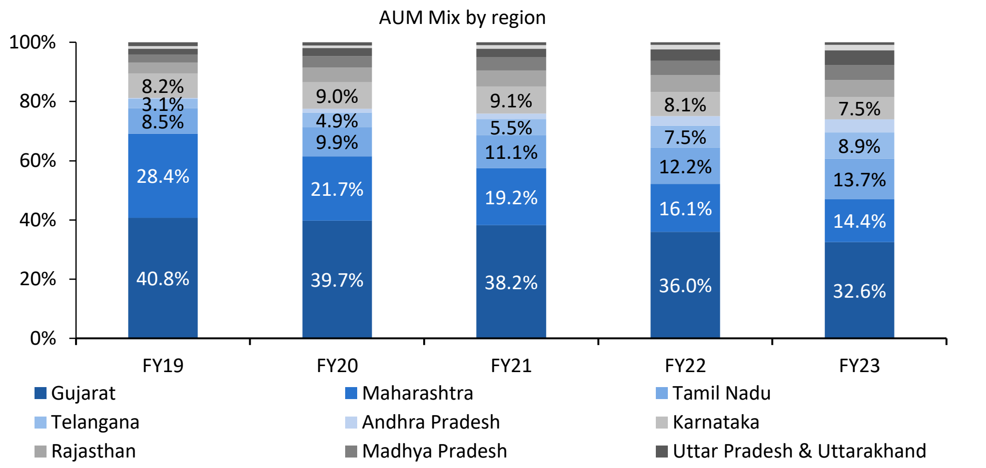
Source: HFC, Centrum Broking

Exhibit 149: Employee addition



Source: HFC, Centrum Broking

Exhibit 150: Strong geographic diversification at play



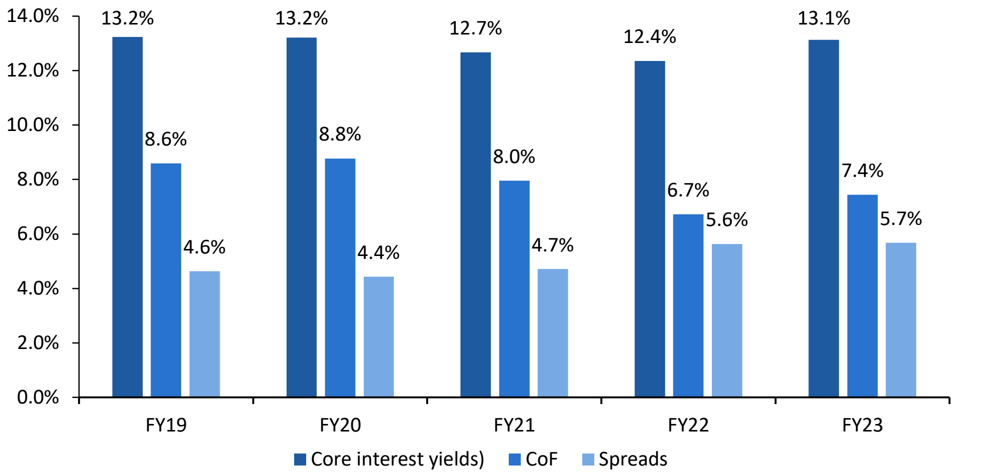
Source: HFC, Centrum Broking

Strong growth and increased leverage to support ROE expansion

HFFC enjoys strong interest yields despite focus on salaried customer segment (70% of AUM) and lower mix of high yields LAP or MSME portfolio (~13% of AUM). DA income is up fronted under IND AS. However, company has maintained DA share at 20% (+/- 3%) as part of its liquidity strategy. We build in NIMs compression of 40bps over FY23-26E due to (1) slight compression in yields, and (2) increase in CoF with increase in leverage. We build Opex/assets to remain at similar level as FY23 as company invests in branch expansion and manpower addition. These along with low credit costs should support RoA at >3.5% over next 3 years. We expect RoE to expand from 13.5% in FY23 to 17.1% by FY26E as leverage increases. Further RoA/RoE expansion levers – (i) increase in LAP share, (ii) credit rating upgrade, and (iii) increase in co-lending

Home First enjoys core interest yields between 12-13% as it largely caters to EWS+LIG customer segment. It has taken PLR hike of 125bps so far. CoF has consistently declined until FY22 due to credit rating upgrade and diversification in liability profile. Company has been using DA route at 20% +/- 3% as part of its liquidity strategy.

Exhibit 151: Interest yields, CoF & spreads

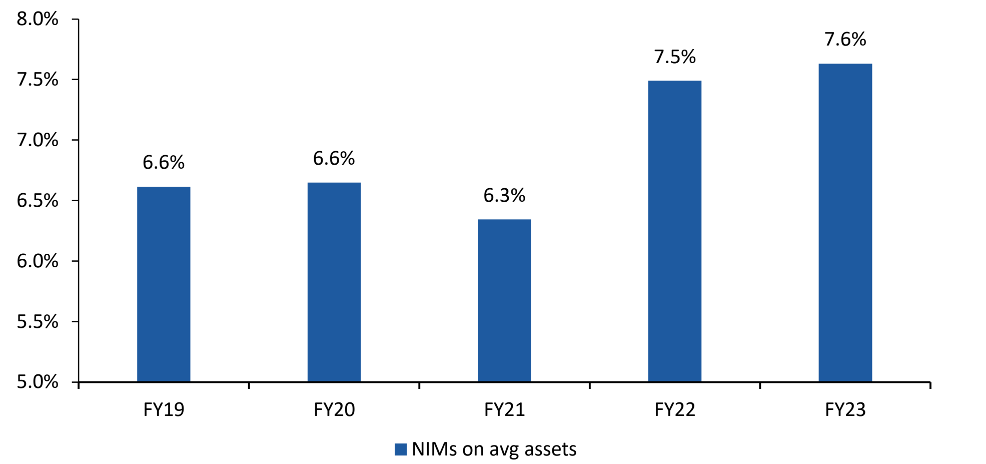


Source: HFC, Centrum Broking

There are multiple levers on NIMs expansion in our view (1) expansion in tier 1/2/3 cities where company can have high pricing power, (2) co-lending arrangement up to 10% of disbursements, which can lead to spreads of ~6.25%, (3) credit rating upgrade, and (4) increase in share of non-HL portfolio, however, company remains committed to maintaining its share at 15%.

Co-lending will aid expansion of addressable market of Home Loans up to Rs2.5-3.5 mn. The spreads (on 80% sitting on co-lending partners book) will be RoA/RoE accretive. It will lead to better RM productivity and increase its strength in the underlying market and improve connector stickiness. Currently, UBI and Central Bank of India are co-lending partners. The company is looking to add few more partnerships.

Exhibit 152: NIMs on average assets



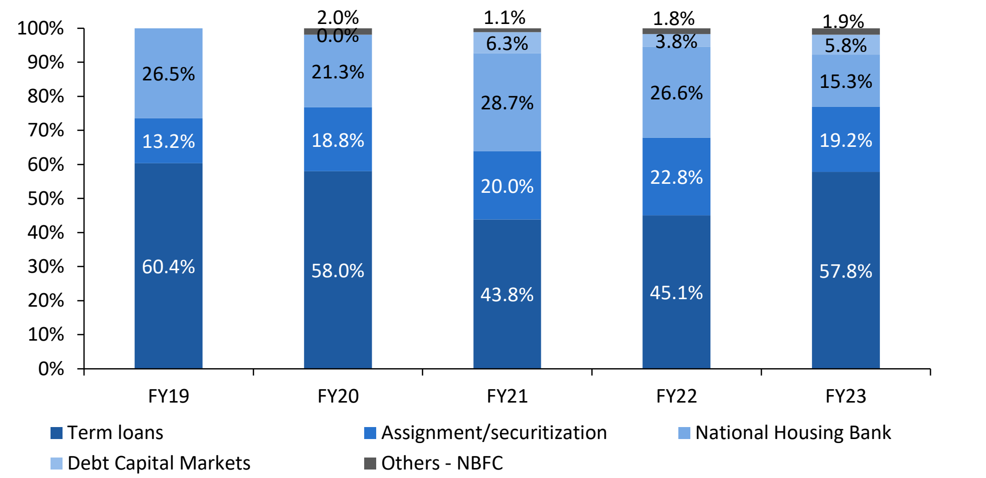
Source: HFC, Centrum Broking

Exhibit 153: RoEs to expand to 17% with increase in leverage

`Du-pont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	13.2%	13.2%	11.9%	12.0%	12.8%	13.7%	13.4%	13.5%
Interest expense	6.6%	6.5%	5.5%	4.5%	5.2%	6.2%	6.2%	6.3%
Net Interest Income	6.6%	6.6%	6.3%	7.5%	7.6%	7.5%	7.3%	7.2%
Other Income	0.9%	0.9%	0.4%	0.3%	0.6%	0.6%	0.6%	0.5%
Total Income	7.5%	7.6%	6.7%	7.8%	8.2%	8.1%	7.8%	7.7%
Employee expenses	2.2%	2.0%	1.7%	1.7%	1.8%	1.8%	1.8%	1.7%
Other expenses	1.5%	1.4%	0.9%	0.9%	1.1%	1.1%	1.1%	1.0%
Total Expenses	3.7%	3.4%	2.6%	2.6%	2.9%	3.0%	2.9%	2.8%
PPOP	3.8%	4.2%	4.2%	5.2%	5.3%	5.2%	5.0%	4.9%
Credit costs	0.4%	0.6%	0.8%	0.5%	0.4%	0.4%	0.4%	0.4%
PBT	3.4%	3.6%	3.4%	4.7%	5.0%	4.8%	4.6%	4.6%
Tax	1.0%	0.9%	0.8%	0.8%	1.1%	1.1%	1.0%	1.0%
RoAA	2.4%	2.7%	2.5%	3.9%	3.9%	3.70%	3.55%	3.53%
Leverage	4.5	4.1	3.5	3.3	3.5	4.0	4.5	4.9
RoAE	10.8%	10.9%	8.7%	12.6%	13.5%	14.8%	15.9%	17.1%

Source: : HFC, Centrum Broking

Exhibit 154: Diversified borrowings profile

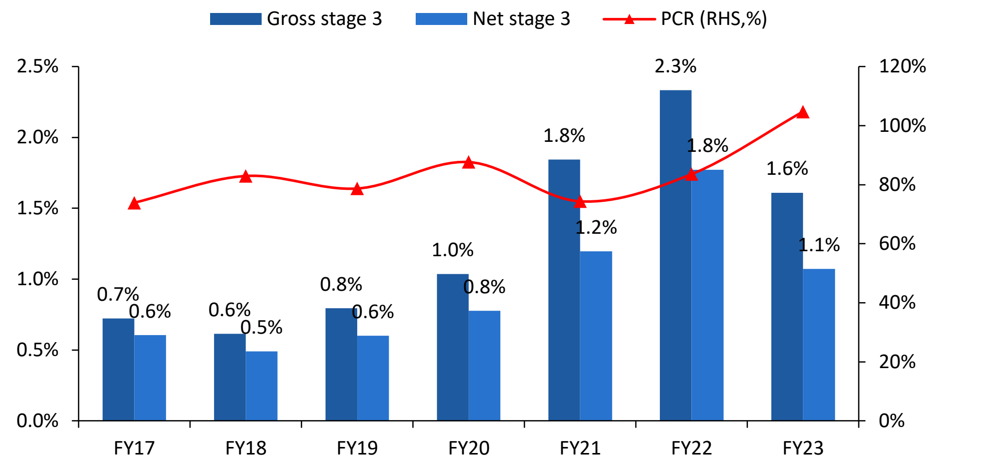


Source: HFC, Centrum Broking

Asset quality withstood the test of covid:

HFFC has seen higher write-offs than peers (here, Aavas & Aptus) during Covid. However, its asset quality has bounced back quickly with 30+ dpd at 2.9% (1QFY24) from its peak of 5.8% in 1QFY22. It's focus on home loans over other products (MSME/developer finance) and centralised underwriting has kept loan losses lower than 1%. Also, avg. credit costs over last 5 years stood at 63bps and has returned to pre-covid levels of 42bps in FY23. Stage 3 assets declined to 1.6% (1% before RBI circular). However, it maintains PCR of 31% despite underlying asset being fully secured business with low LTVs. Total PCR on gross loans is strong at 0.9% as on 1QFY24. We build in credit costs (on balance sheet loans) at an avg. of 43bps over FY24E-26E due to strong provision coverage and improved economic environment.

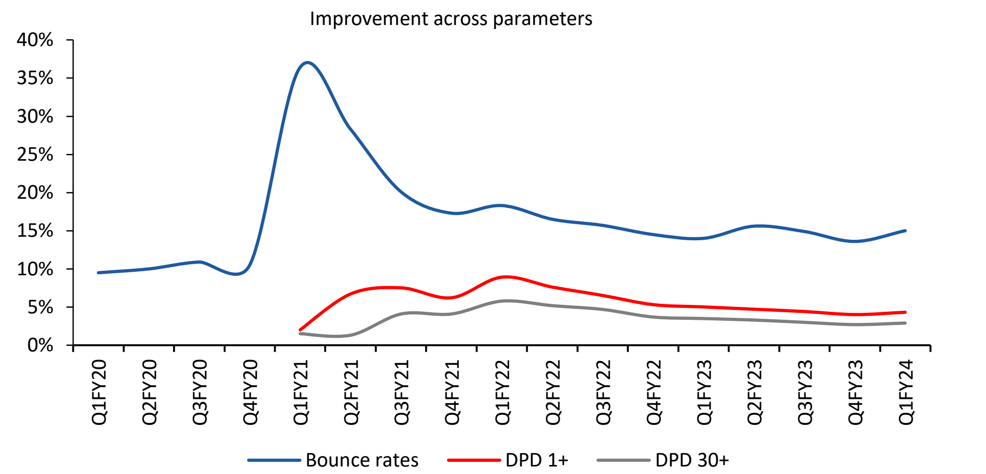
Exhibit 155: Stage 3 assets – yearly performance



Source: HFC, Centrum Broking

Stage 3 over 90 dpd for Home First stood at 1.3% and 0.9% for FY22 and FY23, respectively. It is quickly reverting to pre-covid levels aided by collections and write-offs.

Exhibit 156: Bounce rates are down however, remain over pre-covid levels



Source: HFC, Centrum Broking

Exhibit 157: Asset quality details

Description	FY2019	FY2020	FY2021	FY2022	FY2023	1QFY24
Stage 1 (%)	98.3%	98.0%	95.9%	96.3%	97.3%	97.1%
Stage 2 (%)	0.9%	0.9%	2.3%	1.3%	1.1%	1.3%
Stage 3 (%)	0.8%	1.0%	1.8%	2.3%	1.6%	1.6%
Stage 3 PCR	24.9%	25.8%	36.0%	24.9%	34.0%	31.0%
Total PCR	0.6%	0.9%	1.3%	1.1%	0.9%	0.91%
Write-offs (Rs mn)	6	20	129	225	114	41
Write-offs on opening gross loans	0.04%	0.09%	0.42%	0.67%	0.26%	0.27%
Net slippages as % of opening gross loans	0.68%	0.68%	1.01%	1.17%	-0.09%	N/A

Source: HFC, Centrum Broking Ltd

LGDs for last 5 years (average) is at 22% despite covid in the base. Company holds stage 3 PCR of 31% and total provisions of Rs600mn (1QFY24) which provides 57% coverage on Stage 3 assets. In our view, provision coverage remains strong given low LGDs.

30+ dpd has increased from 1.7% in FY19 to 2.9% in 1QFY24 as there is still some lag impact of covid which is visible in other HFCs too. However, collection efficiency has hovered in the range of 98-99.5% over the last 8 quarters, suggesting normalcy in its operations.

Tech based centralised underwriting

HFFC captures and stores data on a secure cloud-based platform enabling the company to streamline centralized underwriting processes and achieve fast turnaround times. Underwriting is divided into (1) Consumer underwriting, and (2) Property underwriting.

Consumer underwriting

The company has API integration with credit bureau such as CIBIL & Experian, fraud check databases like Hunter and IDV, financial statement analysis tools with Account Aggregator and Perfios, third party validation like Karza. It uses Credit Algo system which predicts the probability of default and only the cases which are within the threshold are accepted and move to next stage. RM spends time with the customer to understand his source of income, repayment capacity and cross-checks the data provided with his employer/business contacts to validate the same. The company has also set up infrastructure for E-NACH, E-Signing, E-stamping, E-vaulting and Kaisys. Kaisys is an internally developed lead management system with omnichannel communication and a personalized sales journey, integrated with bureau and third-party data sources.

Property underwriting

The company has a dedicated portal for legal and technical vendors. It has integrated property rate predictor and ML models to assist in underwriting. The valuer checks the data/videos uploaded by RM and physically checks the same. Property predictor also helps to ensure that there is not much deviation in the technical reports submitted by the third-party vendors. Legal check is done by empanelled lawyers.

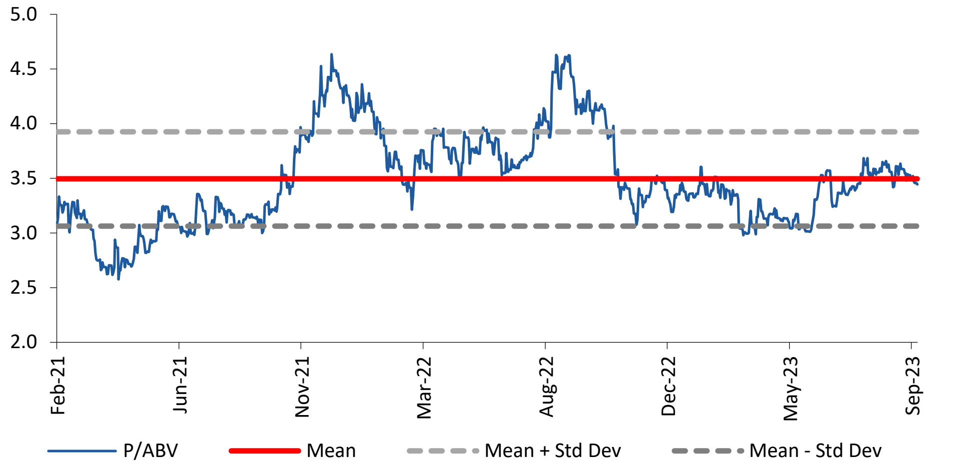
Collections

Home First runs predictive analytics to predict customers that may default in the coming payment cycle and initiates actions to prevent such default. At 1dpd, RM calls customer and visits them to understand the reason of default. At 30 dpd, default notices are sent. At 60 dpd SARFAESI notice is sent to the customer with increased visit frequency. At 90 dpd. SARFAESI is initiated.

Valuations

Home First is in a strong position to leverage growth in affordable housing finance sector due to its lean branch model, higher productivity, centralized underwriting and growth focused culture. Continuity in senior management should aid company to achieve its stated guidance. While write-offs have been higher during Covid, the cost ratios have been well managed despite operating near larger towns. With improvement in economic environment, we do not expect any material red flags to emerge on asset quality. We expect HFFC to register 30%/25% AUM/earnings CAGR over FY23-26E with improvement in asset quality. We build in RoA/RoE at 3.5%/17.1% for FY26E. Increase in share of LAP, high co-lending and penetration in smaller towns can lead to further expansion in profitability. Home First is trading at 3.4x 1-yr fwd P/ABVPS. We assign a multiple of 4x H1FY26 P/ABVPS to arrive at our Target Price of Rs1,130. We initiate with a BUY rating. High PE stake across covered AHFCs, pressure on BT out, and economic slowdown are some of the key downside risks to our call.

Exhibit 158: Valuation chart



Source: HFC, Centrum Broking

Key Management Personnel

Name	Designation	Profile
Mr. Manoj Viswanathan	Founder, Managing director and CEO	He holds a Bachelor's degree in Electrical & Electronics Engineering from BITS, Pilani and an MBA from XLRI Jamshedpur. He possesses an experience of more than 18 years in consumer lending, encompassing sectors such as automobile loans, mortgages, and unsecured lending.
Mr. Ajay Khetan	Chief Business Officer	He has more than 18 years of experience in Consumer Lending & Technology at Macquarie Group, HP Financial Services, Citigroup and Tech Pacific.
Mr. Gaurav Mohta	Chief Marketing Officer	He has more than 15 years of experience in Consumer Lending and Product Management with Kotak Bank, Citigroup & RPG-Foodworld.
Ms. Vilasini Subramanium	Head- Strategic alliances	She has more than 15 years of experience in Product Development, Analytics, & Business Strategy at Citigroup, MHFC & Janalakshmi Financial Services.
Ms. Nutan Gaba	Chief Financial Officer	She has more than 15 years of experience in Supply Chain Finance, Financial Planning & Analysis at HUL, ITC and Philip Morris.
Mr. Ashishkumar Darji	Chief Risk officer	He is a Chartered Accountant and has also completed his bachelor's degree in law and banking from the University of Mumbai. He is a risk management professional with an experience of 18 years in the Banking and Financial Services sector. His experience spans regulatory compliance, risk management and risk modelling. He has previously worked with KPMG, State Bank of India, Kotak Securities and Clearing Corporation of India Limited.
Mr. Ramakrishna Vyamajala	Chief Human Resource Officer	He has done post graduate diploma in management from T.A. Pai Management Institute. He has previously worked with Sterlite Technologies Limited and IDFC Bank Limited.

Source: HFC, Centrum Broking

P&L

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	5,795	7,603	10,604	13,327	16,845
Interest expense	2,190	3,081	4,799	6,115	7,872
NII	3,605	4,522	5,805	7,212	8,973
Other income	162	353	493	556	667
Total income	3,767	4,875	6,298	7,768	9,640
Operating expenses	1,254	1,708	2,285	2,834	3,462
Employee	808	1,070	1,431	1,784	2,181
Others	446	638	854	1,050	1,280
PPOP	2,513	3,168	4,013	4,933	6,179
Provisions	250	215	302	383	494
PBT	2,263	2,952	3,711	4,550	5,685
Tax	402	669	846	1,024	1,279
PAT	1,861	2,283	2,865	3,526	4,406

Ratios

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	29.9	33.8	31.8	29.9	27.4
Borrowings	22.5	13.5	38.8	36.5	30.4
NII	42.2	25.4	28.4	24.2	24.4
Other income	6.7	118.7	39.5	12.8	20.0
Opex	22.4	36.2	33.8	24.0	22.1
PPoP	51.2	26.0	26.7	22.9	25.2
Provisions	(22.2)	(14.0)	40.2	26.9	29.0
PAT	85.8	22.7	25.5	23.1	24.9
Profitability (%)					
Yield on advances	10.9	12.5	13.4	13.1	13.1
Cost of funds	6.7	7.4	8.4	8.1	8.1
NIM (on AuM)	7.6	7.2	7.0	6.6	6.4
Other Income/ Total Income	4.3	7.2	7.8	7.2	6.9
Other Income / Total Assets	0.3	0.5	0.6	0.5	0.5
Cost/Income	33.3	35.0	36.3	36.5	35.9
Employee	21.4	21.9	22.7	23.0	22.6
Others	11.8	13.1	13.6	13.5	13.3
Opex/ Avg AuM	2.6	2.7	2.7	2.6	2.5
Provisions	0.2	0.4	0.4	0.4	0.4
Tax Rate	17.8	22.7	22.8	22.5	22.5
RoA	3.9	3.9	3.7	3.6	3.5
RoE	12.6	13.5	14.8	15.9	17.1

DuPont (% avg assets)

YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12.0	12.8	13.7	13.4	13.5
Interest expense	4.5	5.2	6.2	6.2	6.3
NII	7.5	7.6	7.5	7.3	7.2
Other income	0.3	0.6	0.6	0.6	0.5
Total income	7.8	8.2	8.1	7.8	7.7
Operating expenses	2.6	2.9	3.0	2.9	2.8
Employee	1.7	1.8	1.8	1.8	1.7
Others	0.9	1.1	1.1	1.1	1.0
PPOP	5.2	5.3	5.2	5.0	4.9
Provisions	0.5	0.4	0.4	0.4	0.4
PBT	4.7	5.0	4.8	4.6	4.6
Tax	0.8	1.1	1.1	1.0	1.0
PAT	3.9	3.9	3.7	3.6	3.5

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	**49,727**	**65,749**	**85,203**	**1,08,601**	**1,36,530**
Cash	6,678	2,984	2,569	2,313	2,082
Loans	43,049	59,957	78,977	1,02,632	1,30,791
Investment	0	2,808	3,657	3,657	3,657
Non-financial assets	**1,442**	**1,593**	**2,364**	**2,406**	**2,293**
Deferred tax assets	0	0	0	0	0
Fixed Assets	202	257	295	335	375
Other Non-fin. assets	1,239	1,336	2,069	2,071	1,918
Total Assets	**51,169**	**67,342**	**87,566**	**1,11,007**	**1,38,823**
Financial liabilities	**34,668**	**48,135**	**65,709**	**85,698**	**1,09,210**
Borrowings	34,668	48,135	65,709	85,698	1,09,210
Non-financial liabilities	**764**	**1,034**	**1,291**	**1,569**	**1,907**
Other Non-fin liabilities	764	1,034	1,291	1,569	1,907
Total equity	**15,737**	**18,173**	**20,567**	**23,741**	**27,706**
Share capital	175	176	176	176	176
Other equity	15,562	17,997	20,391	23,565	27,530
Total Liabilities	**51,169**	**67,342**	**87,566**	**1,11,007**	**1,38,823**
Balance Sheet ratios (%)					
Debt / Equity	2.2	2.6	3.2	3.6	3.9
Assets / Equity	3.3	3.5	4.0	4.5	4.9
Cash / Borrowings	19.3	6.2	3.9	2.7	1.9
Details on loans					
AUM	53,803	71,980	94,835	1,23,167	1,56,899
Disbursements	20,305	30,129	38,465	47,817	58,849
Capital Adequacy (%)					
CRAR	58.6	49.4	41.7	37.3	34.8
Tier-1	58.1	48.9	41.5	37.1	34.7
Tier-2	0.6	0.5	0.2	0.2	0.2
Asset quality (%)					
GNPA (Rs mn)	1,015	974	1,169	1,322	1,525
Growth (%)	63.3	(4.1)	20.0	13.1	15.4
NNPA (Rs mn)	763	643	807	912	1,053
Growth (%)	91.6	(15.7)	25.4	13.1	15.4
GNPA	2.3	1.6	1.5	1.3	1.2
NNPA	1.8	1.1	1.0	0.9	0.8
PCR	24.9	34.0	31.0	31.0	31.0
NNPA / Equity	4.8	3.5	3.9	3.8	3.8
Per share (Rs)					
EPS	21.0	26.0	32.6	40.1	50.1
BVPS	180.0	206.0	231.7	267.7	312.8
ABVPS	170.9	199.2	224.5	259.4	302.8
DPS	0.0	2.6	3.3	4.0	5.0
Valuation (x)					
P/E	40.0	32.3	25.8	21.0	16.8
P/BV	4.7	4.1	3.6	3.1	2.7
P/ABV	4.9	4.2	3.7	3.2	2.8
Dividend yield	0.0	0.0	0.3	0.4	0.5

Source: Company, Centrum Broking

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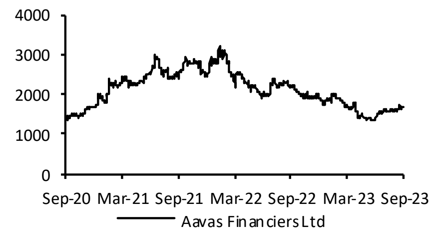

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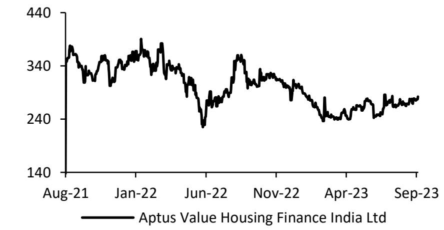

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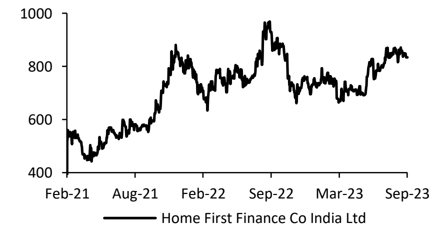

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