

Nov 05, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Aptus Value Housing Finance

Good quarter, Strong commentary

Pick-up in disbursements and improvement in asset quality were key highlights

Aptus delivered an in-line performance which was characterized by acceleration in disbursement momentum, sustained strong AUM growth, stable portfolio spread and marginal improvement in asset quality. Annualized RoA/RoE for the quarter was 8.1%/17%.

Disbursements at Rs7.45bn, higher 15% qoq and 23% yoy, broke-out from the range of Rs6-6.6bn of the preceding four quarters. The acceleration in business activity has been a function of controlled attrition in TN market, addition of branches in other markets and renewed focus on growing SBL. AUM grew 7% qoq and the annual growth was maintained at 28% yoy.

Portfolio spread was largely stable at 8.8% even as CoF increased by 11 bps qoq. There was an improvement in portfolio yield with the co. having taken a rate increase of 50 bps w.e.f Sept 1st. Opex was significantly higher qoq due to a) addition of significant branches and employees, b) higher variable payouts on higher business and 3) strengthening of middle management in business and support functions (across IT, Credit, Finance & Technical).

There was a decline of 50bps/30bps/10bps in 1+ dpd/Stage-2/Stage-3 loan assets with sequential improvement in collection efficiency. Credit cost was at annualized 30 bps; while coverage on Stage-3 was maintained, it was enhanced on Stage-2 loans.

Management remains confident of 30%+ AUM growth, steady margins, and moderate credit cost

Aptus expects further increase in its disbursement run-rate in coming quarters, aided by stabilized attrition in TN and significant branch additions. Co. plans to add 30-35 branches p.a. and it added 20 branches in H1 FY24 (all in Q2). The distribution expansion strategy would be a combination of increasing penetration in existing markets (AP, TL & KTK) and commencing/scaling-up operations in contiguous markets (OR & MH). Management targets ~Rs32bn disbursements in the current year (30% growth yoy), ~Rs22bn expected under HFC and ~Rs10bn estimated under the NBFC. Loan pre-closure/BT Out rate has been stable at near ~8%/~2.5% annualized for the past many quarters.

Portfolio Spread is expected to be maintained between 8.5-9%. Increase in lending rates by 50 bps from Sep 1st and availment of relatively lower-costing NHB borrowings of Rs3bn should help in keeping the spread stable. Management expects collection efficiency to improve further in coming quarters and is focused on improving the Stage-2 bucket. Bounce rates have been stable in the range of 15-20%.

Remains a structural BUY; strong growth/quality at palatable valuation

Our FY24/25 earnings estimates are broadly unchanged, and we expect a delivery of 27.5% AUM CAGR and 24% earnings CAGR over FY23-26. With structural uptick in leverage and continuance of dividend payout, the RoE is expected to reach 21% in FY26. Aptus' business model can deliver 23-25% RoE on optimal leverage of 4-5x. Growth and competition/pricing are less of an issue for the co. as it operates in deeper markets and in customer/ticket-size segment which is below peers. The diversified product mix of Aptus also implies better growth prospects. We believe that long-term investment risk-reward is favourable at current valuation of 3x PABV and 15x PE on FY26 estimates. Aptus remains our most preferred pick in affordable housing space.

Reco : **BUY**

CMP : Rs 293

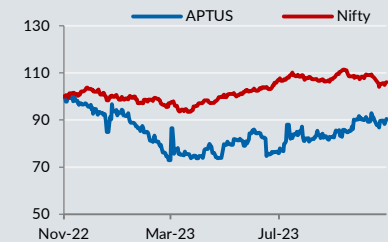
Target Price : Rs 350

Potential Return : 19.6%

Stock data (as on Nov 03, 2023)

Nifty	19,231
52 Week h/l (Rs)	339 / 234
Market cap (Rs/USD mn)	146320 / 1760
Outstanding Shares (mn)	499
6m Avg t/o (Rs mn):	174
Div. yield (%):	0.7
Bloomberg code:	APTUS IN
NSE code:	APTUS

Stock performance



	1M	3M	1Y
Absolute return	-0.6%	10.1%	-9.5%

Shareholding pattern

Promoter	62.1%
FII+DII	17.6%
Others	20.3%

Δ in stance

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

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	12.1	15.3	19.1
EPS (Old)	12.1	15.3	-
% Change	-	-	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	10,148	12,940	16,221
PPOP	8,029	10,286	12,935
Net profit	6,011	7,607	9,509
Growth (%)	19.5	26.5	25.0
EPS (Rs)	12.1	15.3	19.1
ABVPS (Rs)	73.2	83.4	97.3
P/E (x)	24.3	19.2	15.3
sP/ABV (x)	4.0	3.5	3.0
ROAE (%)	17.1	19.2	20.7
ROAA (%)	7.4	7.5	7.4

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Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	3,336	3,056	9.1	2,682	24.4
Interest expended	(961)	(847)	13.5	(668)	43.9
Net Interest Income	2,374	2,209	7.5	2,014	17.9
Other Income	109	92	17.8	88	23.4
Total Income	2,483	2,301	7.9	2,102	18.1
Operating expenses	(532)	(442)	20.3	(446)	19.4
PPOP	1,951	1,859	5.0	1,657	17.8
Provisions	(56)	(25)	123.3	(91)	(38.7)
PBT	1,896	1,834	3.3	1,566	21.1
Tax	(415)	(412)	0.9	(333)	24.8
Reported PAT	1,480	1,423	4.1	1,233	20.0

Source: Company, YES Sec

Exhibit 2: Business data and Key ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
AUM (Rs mn)	76,040	71,230	6.8	59,320	28.2
Disbursements (Rs mn)	7,450	6,460	15.3	6,040	23.3
Yields (%)	17.2	17.2	0.1	16.9	0.3
CoB (%)	8.4	8.3	0.1	7.7	0.7
NIM (%)	8.8	8.9	(0.1)	9.2	(0.4)
Opex (%)	2.7	2.6	0.2	2.8	(0.1)
RoA (%)	8.1	8.2	(0.1)	8.7	(0.6)

Source: Company, YES Sec

Exhibit 3: AUM Concentration in Southern States

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Tamil Nadu	46.0	44.0	43.0	42.0	40.0
Andhra Pradesh	33.0	34.0	35.0	36.0	38.0
Telangana	13.0	13.0	14.0	14.0	14.0
Karnataka	8.0	8.0	8.0	8.0	8.0

Source: Company, YES Sec

Exhibit 4: Asset Quality trend

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
CE (%)	100.2	100.3	102.9	99.5	99.7
30+ DPD (%)	6.5	6.3	5.9	6.3	6.0
GNPA (%)	1.5	1.4	1.2	1.3	1.2
NNPA (%)	1.1	1.1	0.9	1.0	0.9

Source: Company, YES Sec

Exhibit 5: ECL Summary

Particulars	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Gross Stage 3 GNPA	869	911	777	922	906
Gross Stage 3 GNPA (%)	1.5	1.4	1.2	1.3	1.2
ECL Provision Stage 3	217	228	194	231	227
Net Stage 3	652	683	583	692	680
Provision Coverage ratio (%)	25.0	25.0	25.0	25.0	25.0
<hr/>					
Gross Stage 1 & 2	58,453	62,156	66,606	70,311	75,131
Gross Stage 1 & 2 (%)	98.5	98.6	98.9	98.7	98.8
ECL Provision Stage 1 & 2	380	439	518	525	579.4
Net Stage 1 & 2	58,073	61,717	66,089	69,786	74,551.3
Provision Coverage ratio (%)	0.7	0.7	0.8	0.7	0.8
ECL Provisions	597	667	712	755	805.9
PCR (%)	1.0	1.1	1.1	1.1	1.1

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Disbursements and AUM Growth

- Sharp business focus and deep penetration in existing markets underpinned good growth in Q2 FY24.
- Confident about further increasing the disbursements run rate in coming quarters, aided by corrected attrition in TN and significant branch addition in other markets.
- Rs32bn disbursements targeted for the year, of which Rs22bn expected under HFC and Rs10bn estimated under the NBFC.
- Aptus plans to add 30-35 branches every year - co. added 20 branches in H1 FY24 (all in Q2).
- The distribution expansion strategy would be a combination of increasing penetration in existing markets and commencing operations in contiguous markets.
- Management remains confident about delivering 30%+ AUM growth in the current year.
- Loan pre-closure rate has been stable at near 8% annualized, of which ~70% is from own money and the balance ~2.5% is BT Out to SFBs and other NBFCs.
- 17% of business in Q2 (14% in Q1) has come from construction ecosystem app, customer referral app and social media leads - this is expected to keep improving in coming quarters as significant efforts are being made.

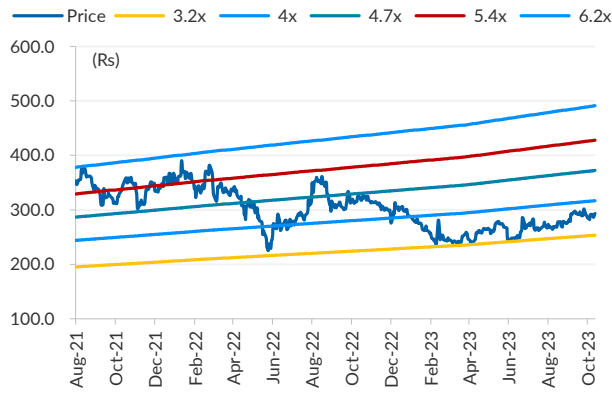
NIM, CoF and Opex

- Incremental borrowing rate under the HFC was 8.25-8.3% and at 8.5-8.75% under the NBFC.
- Sequential increase in CoF has been due to larger amount of borrowing in the NBFC.
- Portfolio Spread is expected to be maintained between 8.5%-9%.
- Increase in lending rates by 50 bps from Sep 1st should keep spread stable in coming quarters.
- NHB borrowing (Rs3bn sanction) benefit can increase NIM/Spread, as the cost of such borrowing is around 7.5%.
- Attrition much lower at middle and senior management levels - branch attrition rate for Aptus has been lower than industry.
- Opex was higher qoq due to a) addition of significant branches and employees, b) higher variable payouts on higher business and 3) strengthening of middle management in business and support functions (across IT, Credit, Finance & Technical).

Asset Quality and credit cost

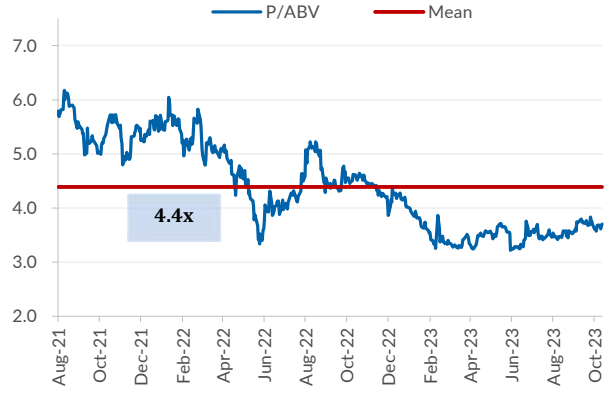
- 1+ dpd declined from 8.5% as of June to 8% as of September - 30+ dpd improved by 30 bps qoq.
- Bounce rate has been consistent at 15-20% - had risen to 27-28% during Covid.
- Collection efficiency is expected to improve further.
- Company is focused on improving the Stage-2 bucket in coming quarters.

Exhibit 6: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	994	996	996	996	996
Reserves	28,168	32,397	36,077	41,353	48,532
Shareholder's funds	29,162	33,393	37,074	42,350	49,528
Provisions	41	45	49	54	59
Deferred Tax Liabilities	31	0	0	0	0
Total Non-Financial liabilities	111	104	114	125	138
Debt Securities	4,102	3,900	5,382	7,266	9,591
Borrowings (Other than Debt Securities)	23,104	33,961	46,866	63,268	83,514
Other Financial Liabilities	283	229	315	426	562
Total Financial liabilities	27,568	38,264	52,738	71,135	93,842
Total Equities and Liabilities	56,840	71,761	89,926	113,610	143,508
Assets					
Cash and Cash Equivalents	4,052	3,718	2,065	741	(55)
Bank balances	407	882	1,058	1,270	1,524
Loans	50,787	65,921	85,493	110,208	140,551
Investments in Associates	1,017	515	515	515	515
Other Financial Assets	205	284	340	408	490
Total Financial assets	56,469	71,320	89,471	113,142	143,024
Property, Plant and Equipment	34	37	41	45	49
Other Intangible Assets	80	107	107	107	107
Other Non-Financial Assets	26	92	101	111	122
Total Non-Financial assets	372	441	454	468	484
Total Assets	56,840	71,761	89,926	113,610	143,508

Source: Company, YES Sec

Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	8,147	10,934	13,762	17,890	22,904
Interest expense	(2,086)	(2,759)	(4,024)	(5,421)	(7,225)
Net interest income	6,061	8,174	9,738	12,468	15,679
Non-interest income	255	356	410	471	542
Total op income	6,316	8,531	10,148	12,940	16,221
Total op expenses	(1,171)	(1,652)	(2,119)	(2,654)	(3,286)
PPoP	5,145	6,878	8,029	10,286	12,935
Provisions	(345)	(341)	(217)	(400)	(577)
Profit before tax	4,800	6,537	7,812	9,886	12,358
Taxes	(1,099)	(1,507)	(1,801)	(2,279)	(2,849)
Net profit	3,701	5,030	6,011	7,607	9,509

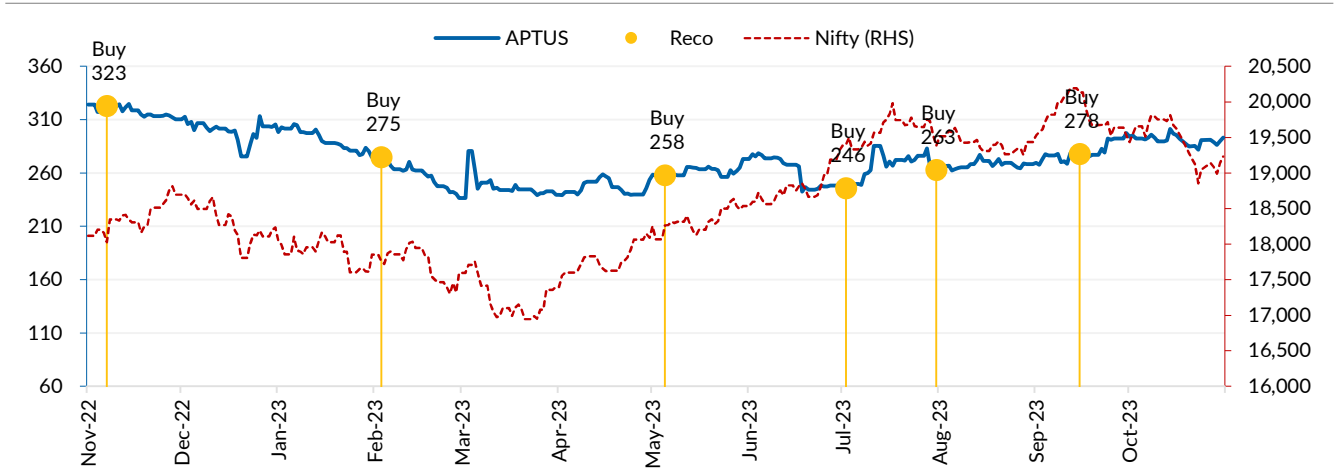
Source: Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	40.0	34.9	19.1	28.0	25.8
Total op income	39.8	35.1	19.0	27.5	25.4
Op profit (pre-provision)	46.6	33.7	16.7	28.1	25.8
Net profit	38.7	35.9	19.5	26.5	25.0
Loans	27.3	29.8	29.7	28.9	27.5
Borrowings + Debt	8.5	39.2	38.0	35.0	32.0
Total assets	25.7	26.3	25.3	26.3	26.3
Profitability Ratios (%)					
NIM	13.1	13.7	12.6	12.5	12.2
Non-interest income/Total income	4.0	4.2	4.0	3.6	3.3
Return on Average Equity	15.1	16.1	17.1	19.2	20.7
Return on Average Assets	7.3	7.8	7.4	7.5	7.4
Per share ratios (Rs)					
EPS	7.4	10.1	12.1	15.3	19.1
ABVPS	57.8	65.9	73.2	83.4	97.3
Other key ratios (%)					
Loans/Borrowings	186.7	174.1	163.6	156.2	151.0
Cost/Income	18.5	19.4	20.9	20.5	20.3
Gross Stage 3 (%)	1.2	1.2	1.0	1.0	1.0
Credit Cost	0.7	0.6	0.3	0.4	0.5
Tax rate	22.9	23.1	23.1	23.1	23.1

Source: Company, YES Sec

Recommendation Tracker



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