

Diversified Financials

India

Sector View: **Attractive** NIFTY-50: **24,368**

August 12, 2024

Affordable HFCs: Getting a fillip

The much-awaited PMAY scheme was announced over the weekend. Launched with some tweaking, the CLSS scheme can help sustain high growth in the sector. Most affordable HFCs continue to deliver high growth and stable asset quality performance, albeit with some margin pressure. On a separate note, the large stake sale by Aavas's promoters reduces the overhang of PE shareholding and augurs well for the entire sector. Retain a positive stance on affordable HFCs.

Cabinet approves the PMAY scheme

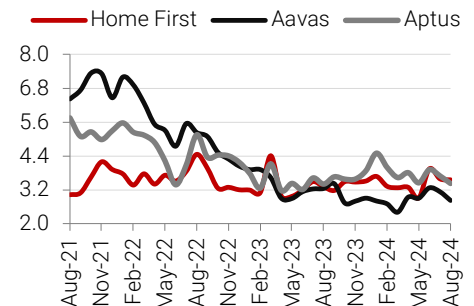
During the weekend, the Cabinet approved the PMAY-U 2.0 scheme. The government expects to provide assistance of Rs2.3 tn to 10 mn households through various parts of the scheme. About 8.55 mn houses have been constructed and delivered to the beneficiaries under PMAY-U (the previous version of the scheme). The 2.0 version has various components (1) 'benefited construction' assistance to EWS families (annual income below Rs0.3 mn) to construct houses on their own available vacant land; (2) 'affordable housing in partnerships' to provide financial assistance to EWS families for owning housing built under partnerships between the Government and private agencies; (3) 'affordable rental housing' for creating adequate rental housing for working women/industrial workers/urban migrants/homeless and others; and (4) ISS.

The government has relaunched the interest subsidy scheme (ISS, formerly CLSS). The vertical will provide benefits of subsidy on home loans for EWS (income up to Rs0.3 mn)/LIG (income of Rs0.3-0.6 mn) and MIG (income of Rs0.6-0.9 mn) families. Beneficiaries taking loans up to Rs2.5 mn and houses of Rs3.5 mn will be eligible for a 4% interest subsidy on the first Rs0.8 mn, up to a 12-year tenure; the maximum cap is Rs0.18 mn. This will be paid in five yearly installments. The benefits under the previous scheme were about Rs0.2-0.25 mn and paid once the home loan proposal was approved by the authorities; this may be 1-2 years after the loan is disbursed.

The staggered repayment reduces the annual liability of the borrower, indirectly improving cashflows for the borrower. The press release is silent on the quantum of budgetary allocation for ISS; Exhibit 1 shows CLSS subsidy released over the years aggregated to Rs398 bn.

One-shot repayment of CLSS subsidy led to a reduction in home loan principal upon approval of the home loan proposal. Exhibit 2 shows that the repayment rate of HFCs was elevated (for select HFCs) and declined in FY2024 after the scheme was discontinued. Reimbursements under the new scheme will be more gradual.

Company data and valuation summary



Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of August 09, 2024

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Government disbursed Rs398 bn of subsidy since FY2016

Exhibit 1: CLSS subsidy disbursed over the years, March fiscal year-ends, 2016-24 (Rs bn)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cumulative subsidy disbursement under PMAY-CLSS(U)									
EWS/LIG	1	5	24	89	143	185	274	394	398
MIG	-	-	6	35	60	89	98	97	97
Subsidy disbursed during year under PMAY-CLSS(U)									
EWS/LIG	1	4	19	65	55	41	89	121	3
MIG	-	-	6	29	26	28	9		

Source: NHB, Kotak Institutional Equities

Repayment rate has moderated for most players in FY2024

Exhibit 2: Repayment rates of select HFCs, March fiscal year-ends, 2015-24 (%)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Aavas	24.7	25.3	22.5	24.9	19.7	18.1	12.8	18.0	19.6	17.2
Aptus	23.4	22.9	19.0	20.1	18.2	15.1	12.9	13.0	15.5	15.1
Home First	22.7	19.6	22.8	28.0	35.8	18.1	15.9	19.1	20.5	20.6
India Shelter	NA	NA	21.7	27.6	22.4	17.7	14.2	19.1	22.1	21.1

Source: Company, Kotak Institutional Equities

HFCs fared well in 1QFY25: Growth on track, trends in NIM monitorable

Exhibit 1 shows the trend in quarterly performance of affordable HFCs. Disbursement growth (5-30% yoy in 1QFY25) for tempered by RBI regulations on RTGS norms for loan disbursements; loan growth was strong at 3-8% qoq, leading to 22-36% yoy loan growth. Asset quality performance is holding on well with some yoy rise (max of 10-13 bps yoy for select players); we don't expect any major deterioration even as we watch the trends. NIM (down 50-100 bps yoy excluding India Shelter) compression led to lower NII growth (versus loan growth). Apart from increase in cost of funds, yield compression (down up to 10 bps qoq and 50-60 bps yoy), reflecting downward rate renegotiation, is visible. Select players (Aavas and now Home First) are raising benchmark lending rates acknowledging cyclically low margins. While most rate transmission is already reflected, diversification of borrowings may lead to higher liability costs; NHB funding, under low cost (fixed spread) scheme may be lower this year for select players.

Loan growth remains strong

Exhibit 3: AUM and disbursement growth for select HFCs, March fiscal year-ends, 1QFY24-1QFY25 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
AUM growth yoy (%)					
Aavas Financiers	23.2	22.1	22.9	22.2	21.8
Aptus	29.1	28.2	28.0	29.4	27.4
Home First	33.3	33.3	33.5	34.7	34.7
India Shelter	NA	NA	41.9	39.6	36.5
AUM growth qoq (%)					
Aavas Financiers	3.4	4.6	5.0	7.7	3.1
Aptus	5.7	6.8	6.2	8.1	4.0
Home First	8.0	7.6	7.8	7.6	8.0
India Shelter	9.4	8.6	8.3	8.5	7.0
Disbursements growth yoy (%)					
Aavas Financiers	(2.3)	9.7	13.3	18.3	13.4
Aptus	23.0	23.3	26.9	46.7	4.5
Home First	35.4	36.6	29.1	26.8	29.9
India Shelter	NA	NA	36.1	23.8	22.9
Disbursements growth qoq (%)					
Aavas Financiers	(33.2)	17.8	8.3	39.0	(36.0)
Aptus	(2.1)	15.3	3.1	26.0	(30.3)
Home First	3.0	7.1	5.0	9.4	5.5
India Shelter	(3.5)	9.6	6.4	10.0	(4.3)

Source: Company, Kotak Institutional Equities

Earnings growth was strong for most players

Exhibit 4: Earnings growth for select HFCs, March fiscal year-ends, 1QFY24-1QFY25 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
PBT growth yoy					
Aavas Financiers	23	14	9	12	14
Aptus	20	21	22	22	21
Home First	36	39	36	32	26
India Shelter	79	64	54	46	77
PAT growth yoy					
Aavas Financiers	23	14	9	13	15
Aptus	20	20	25	21	21
Home First	35	37	34	30	27
India Shelter	80	67	54	47	77
Core PBT growth yoy					
Aavas Financiers	19	28	3	5	21
Aptus	16	20	21	19	21
Home First	34	31	14	24	18
India Shelter	20	51	41	80	112

Source: Company, Kotak Institutional Equities

NIM compressed for most players

Exhibit 5: Yields, cost of borrowings and NIM of select HFCs, March fiscal year-ends, 4QFY23-1QFY25 (%)

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Yields (%)						
Aavas Financiers	14.0	14.1	14.0	13.8	13.6	13.5
Aptus	17.8	17.1	17.6	17.3	17.1	17.1
Home First	14.3	14.7	14.6	14.4	14.3	14.2
India Shelter	15.5	15.7	16.0	15.5	16.5	15.6
Cost of funds (%)						
Aavas Financiers	6.9	7.3	7.5	7.7	7.4	7.5
Aptus	8.3	8.5	9.1	8.8	8.8	8.9
Home First	7.8	8.2	8.1	8.1	8.4	8.5
India Shelter	8.1	8.9	8.8	8.9	8.6	8.6
NIM (%)						
Aavas Financiers	8.0	7.7	7.3	7.0	7.0	6.9
Aptus	13.1	12.2	12.4	12.2	12.0	11.7
Home First	7.9	7.9	7.7	7.3	6.9	6.9
India Shelter	9.2	8.6	9.2	9.0	10.5	9.9

Source: Company, Kotak Institutional Equities

Asset quality performance is holding on well

Exhibit 6: Stressed loans across select HFCs, March fiscal year-ends, 1QFY24-1QFY25, 2021-24 (%)

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Change		2021	2022	2023	2024	YoY (%)
						1QFY24 (bps)	4QFY24 (bps)					
Aavas Financier												
1+ dpd (1)	3.7	3.6	3.8	3.1	3.7	(3)	53	6.4	4.5	3.3	3.1	(18)
SMA-0 (0-30 dpd)	0.8	0.8	1.0	0.7	1.1	30	35	2.5	0.5	0.6	0.7	15
Gross stage-2 loans (30-90 dpd, 2)	1.9	1.7	1.7	1.5	1.6	(32)	11	2.9	3.0	1.8	1.5	(35)
Gross stage-3 loans (3)	1.0	1.1	1.1	0.9	1.0	(1)	7	1.0	1.0	0.9	0.9	1
Write-offs (% of opening AUM, annualized, 5)	0.0	0.1	0.1	0.1	0.1	4	(4)	-	-	0.1	0.1	1
Overall stressed loans (6:1+4+5)	3.8	3.8	3.9	3.3	3.8	(1)	49	6.5	4.6	3.5	3.3	(19)
Stressed loans (excluding 0-30 dpd, 7: 2+3+5)	2.9	2.9	2.8	2.5	2.6	(29)	14	4.0	4.1	2.9	2.6	(34)
Aptus Value Housing												
30+ dpd	6.3	6.0	6.0	5.4	6.3	4	90	2.4	2.4	4.7	5.4	73
Gross stage-2 (8)	5.0	4.8	4.9	4.3	5.0	3	67	1.3	1.3	3.1	4.3	125
Gross stage-3 (9)	1.3	1.2	1.2	1.1	1.3	1	24	0.7	1.2	1.2	1.1	(8)
Write-offs (% of opening AUM, 10)	(0.1)	0.0	0.2	0.1	0.1	17	(6)	0.0	(0.0)	0.2	0.1	(9)
Stressed loans (excluding 0-30 dpd, 11:8+9+10)	6.2	6.0	6.2	5.5	6.4	21	84	2.5	2.4	4.9	5.5	65
Home First Finance												
1+ dpd	4.3	4.5	4.5	4.2	4.5	20	30	6.2	5.3	4.0	4.2	20
Gross stage-1	97.1	97.1	97.0	97.2	97.1	5	(6)	94.8	96.3	97.3	97.2	(12)
Current	95.7	95.5	95.5	95.8	95.5	(20)	(30)	92.4	94.7	96.0	95.8	(20)
1-29 dpd (12)	1.4	1.6	1.5	1.4	1.6	25	24	2.4	1.6	1.3	1.4	8
Gross stage-2 (13)	1.3	1.2	1.3	1.1	1.1	(14)	2	3.5	2.3	1.1	1.1	3
Gross stage-3 (14)	1.6	1.7	1.7	1.7	1.7	10	4	1.7	1.3	1.6	1.7	9
Write-offs (% of opening AUM, 15)	0.2	0.2	0.2	(0.0)	0.1	(10)	13	0.4	0.6	0.2	0.2	(4)
Overall stressed loans (16:12+13+14+15)	4.5	4.7	4.7	4.2	4.6	10	43	8.0	5.9	4.2	4.4	16
Stressed loans (excluding 1-29 dpd, 17:16-12)	3.1	3.2	3.2	2.8	3.0	(15)	19	5.6	4.2	2.9	3.0	8
India Shelter												
30+ dpd	2.9	3.2	3.5	2.4	3.5	60	110	4.0	4.0	2.4	2.4	(1)
Gross stage-2 (18)	2.6	2.6	2.6	2.2	2.7	12	49	3.2	3.2	2.1	2.2	6
Gross stage-3 (19)	1.0	1.0	1.2	1.0	1.1	13	17	1.9	2.1	1.1	1.0	(17)
Write-offs (% of opening AUM, 20)	(0.0)	0.1	0.0	0.1	0.0	0	(13)	0.3	0.4	0.3	0.1	(28)
Stressed loans (21: 18+19+20)	3.6	3.7	3.8	3.3	3.8	25	54	5.4	5.7	3.6	3.2	(39)

Source: Company, Kotak Institutional Equities

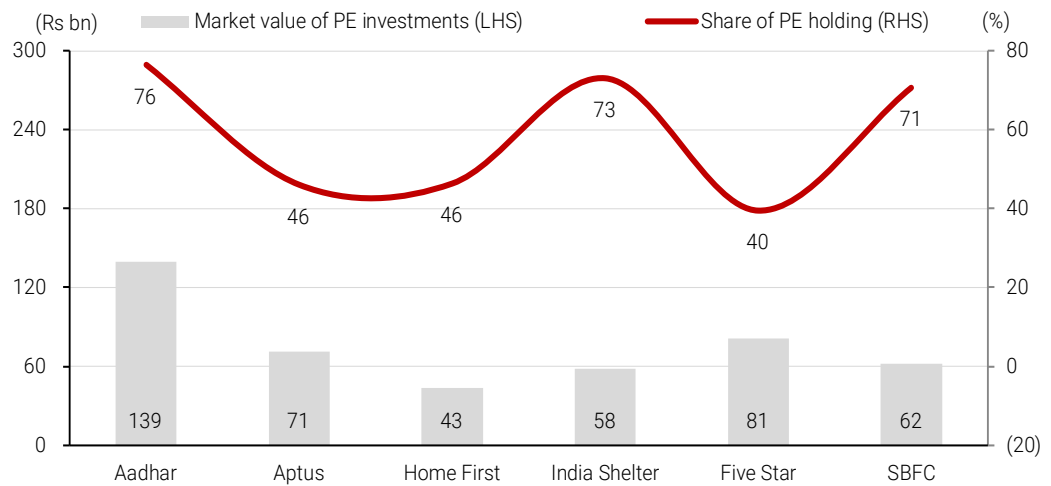
PE overhang reducing

PE promoters of Aavas (Kedaara and Partners) plan to sell their entire 26.5% stake to CVC Capital; thus, CVC will be the new promoter of Aavas. This ends the overhang of PE stake sale in Aavas for now. The new promoters will make an open offer for acquiring 26% stake in the company at Rs1,767/share (8% premium over CMP of Rs1,645; transaction price of Rs1,635).

Exhibit 7 shows that private equity players own about Rs455 bn of investments in affordable HFCs and small business loan NBFCs (Five Star and SBFC). Large PE ownership has been an overhang on affordable HFCs; the above transaction help reduce the overhang and reflects investors' appetite for the fast-growing affordable housing space.

PE players own about Rs455 bn of investments in affordable HFCs and small business loan NBFCs

Exhibit 7: PE shareholding in select HFC/NBFCs, August 2024



Source: Company, Kotak Institutional Equities

Exhibit 8: Peer comparison of select HFC/NBFCs, March fiscal year-ends, 2024-27E

	Aavas				Aptus				Home First				India Shelter			
	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E	2024	2025E	2026E	2027E
AUM (Rs bn)	173	210	257	316	87	111	139	174	97	129	167	213	61	81	107	135
AUM growth yoy (%)	22	22	22	23	29	27	26	25	35	33	29	28	40	34	31	27
PAT (Rs bn)	4.9	5.9	7.3	8.9	6.1	7.3	8.6	10.1	3.1	3.7	4.8	6.1	2.5	3.5	4.2	5.0
Yield (%)	13.5	13.4	13.4	13.2	17.1	17.0	17.0	16.7	14.4	14.2	14.1	14.1	15.8	15.2	15.0	14.9
Cost of borrowing (%)	7.5	7.4	7.3	7.2	8.6	8.9	8.8	8.8	8.3	8.4	8.3	8.3	9.0	8.6	8.5	8.4
Spread (%)	6.1	6.0	6.1	6.0	8.5	8.1	8.2	8.0	6.2	5.8	5.8	5.8	6.8	6.6	6.5	6.6
NIM (%)	6.0	5.9	5.9	6.0	12.1	11.5	11.2	10.8	7.4	6.7	6.6	6.6	9.3	9.1	8.5	8.2
Cost-to-AAUM (%)	3.4	3.2	3.1	2.9	2.7	2.7	2.8	2.9	2.7	2.5	2.4	2.4	4.5	4.0	3.8	3.7
Credit cost (% of AAUM)	0.2	0.2	0.2	0.2	0.3	0.4	0.7	0.7	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6
RoA (%)	2.7	2.7	2.7	2.8	7.6	7.1	6.7	6.3	3.2	2.9	2.9	2.9	4.2	4.4	4.0	3.7
Leverage (X)	5.1	5.4	5.6	5.8	2.3	2.5	2.8	3.0	4.8	5.6	6.1	6.6	3.3	3.2	3.7	4.1
RoE (%)	13.9	14.4	15.4	16.1	17.2	18.0	18.7	19.2	15.5	16.3	17.9	19.2	14.0	14.0	14.6	15.1
EPS (Rs)	62	74	92	112	12	15	17	20	35	42	54	69	25	33	39	47
EPS growth (%)	14	19	24	22	22	19	18	18	33	22	29	27	45	29	21	20
BPS (Rs)	477	551	642	755	76	86	98	112	240	277	326	388	216	248	288	335
Networth (Rs bn)	38	44	51	60	38	43	49	56	21	25	29	34	23	26	31	36
PBR (X)	3.5	3.0	2.6	2.2	4.1	3.6	3.1	2.7	4.4	3.8	3.2	2.7	3.4	3.0	2.6	2.2
PER (X)	27	22	18	15	25	21	18	15	30	25	19	15	29	23	19	16

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Valuation comparison across select HFC/NBFCs, March fiscal year-ends, 2023-26E

	CMP (Rs)	Mcap (Rs bn)	FV (Rs)	Rating	EPS (Rs)				PER (X)				BVPS (Rs)				PBR (X)				ROE (%)			
					2023	2024E	2025E	2026E	2023	2024	2025E	2026E	2023	2024	2025E	2026E	2023	2024	2025E	2026E	2023	2024	2025E	2026E
HFC																								
Aavas Financiers	1,645	130	2,200	BUY	54	62	74	92	30	27	22	18	414	477	551	642	4.0	3.5	3.0	2.6	14.1	13.9	14.4	15.4
Aptus Housing	308	154	380	ADD	10	12	15	17	31	25	21	18	67	76	86	98	4.6	4.1	3.6	3.1	16.1	17.2	18.0	18.7
Can Fin Homes	803	107		NR	47	56	64	75	17	14	12	11	274	326	384	453	2.9	2.5	2.1	1.8	18.5	18.5	18.0	17.6
GIC Housing Finance	390	683		NR	11	3	8	96	34	143	49	11	205	239	277	322	1.9	1.6	1.4	1.2	21.3	NA	NA	NA
Home First Finance	1,044	93	1,300	BUY	26	35	42	54	40	30	25	19	206	240	277	326	5.1	4.4	3.8	3.2	13.5	15.5	16.3	17.9
India Shelter	740	79	750	BUY	17	25	33	39	42	29	23	19	141	216	248	288	5.2	3.4	3.0	2.6	13.4	14.0	14.0	14.6
LIC Housing Finance	638	351	800	BUY	53	87	85	95	12	7	8	7	492	570	641	713	1.3	1.1	1.0	0.9	11.2	16.3	14.0	12.6
PNB Housing Finance	821	213		NR	51	55	68	78	16	15	12	11	540	577	638	712	1.5	1.4	1.3	1.2	10.0	12.1	12.1	12.1
Repco Home Finance	478	30		NR	51	61	67	73	9	8	7	7	414	477	523	589	1.2	1.0	0.9	0.8	13.0	14.1	13.2	12.8
SME Financiers																								
FedFina	122	45	0	NC	6	7	10	12	22	18	13	10	42	61	70	83	2.9	2.0	1.7	1.5	14.4	14.2	14.9	16.2
Five Star	703	206	900	ADD	21	29	36	44	34	25	19	16	149	178	214	259	4.7	3.9	3.3	2.7	15.0	17.5	18.4	18.7
SBFC	81	87	95	ADD	2	2	3	4	50	38	26	20	16	23	26	30	5.1	3.6	3.1	2.7	9.9	10.5	11.6	13.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

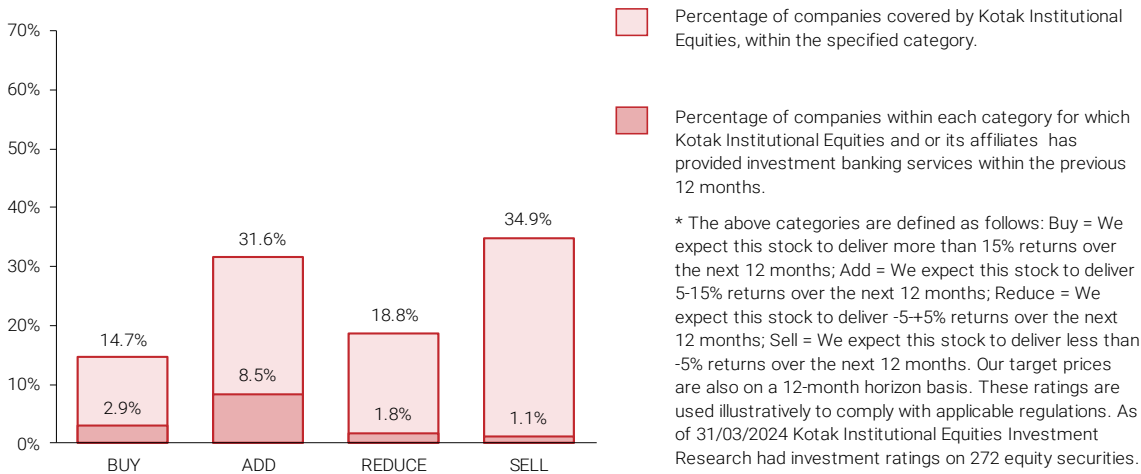
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

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