

...differentiated strategy stands out

**Company Overview:**

"Aptus Value Housing Finance" is a retail-focused housing finance company that primarily serves low and middle-income self-employed customers in the rural and semi-urban markets of India. The company offers home loans to retail customers to purchase homes, construct residential property, house improvement and extension, loans against property, and business loans. It undertakes all types of lending activities such as sourcing, underwriting, valuation, and legal assessment of collateral, credit assessment, and collection. The company's only segment being providing long term housing finance, loans against property, and refinance loans. Geographically, it derives revenue from southern India (ex. Kerala), Tamil Nadu, AP, Telangana and Karnataka.

**Investment Argument:**

**Best in class ROA:** The Company has consistently delivered ROA of more than 6% since FY16. A high capital base and lower leverage keeps the ROE at a standard level of above 12%. A best in class ROA led by superlative NIMs (despite higher COF) along with controlled operating expenses (C/I ratio: ~22%). We believe the company's ROA will stay above 7% in coming years driven by exceptional NIMs of above 9%. However, we believe, the yields (YOA: 17% on 2QFY22) may squeeze marginally. Nevertheless, lowering COF (7.9% on 2QFY22) may keep the spread (as well as NIMs) intact. We are expecting NIMs of above 10% in FY22E. The reducing operating margin (C/I: 21% on 2QFY22) is likely to deliver 30% PPOP growth for FY22E. We estimate a ROA/ROE of 7%/15% for FY22E.

**Collection efficacy level high; Negligible NPA formation:** Collection efficiency improved to pre-covid level and stood at 99.7% in Sept'21 compared to 95% in Jun'21. Further, 30+ DPD loan also declined to 10.1% in Sept'21 from 11% in Jun'21, which is still higher vs. the low of 8.7% in Mar'21. The management expects further improvement in 30+DPD in the coming quarters. The company's Gross Stage – 3 stands a 0.8% of loan portfolio. Despite covid and various lockdowns the collection efficiency remain robust and asset quality remained unharmed. We are expecting a Gross stage – 3 of 60bps and Net Stage – 3 of 20bps for FY22E. Furthermore, we estimate an ECL provision (PCR) of 26%. A lower stress is likely to keep the credit cost in check, which may translate into better profitability in coming years.

Key Financials (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
Loans & Advances	31,171	39,898	46,326	58,833	74,719
Total Assets	37,467	45,202	51,981	64,913	81,459
Net-worth	17,090	19,794	23,289	27,691	33,264
Net Interest income	3,007	4,174	5,340	6,826	8,737
Pre Provision Profit	2,508	3,510	4,548	5,800	7,347
PAT	2,111	2,669	3,453	4,402	5,573

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
NIM (calculated, %)	10	10	11	11	11
C/I Ratio (%)	26	22	20	20	20
GNPA (%)	0.7	0.7	0.6	0.5	0.4
ROA (%)	6	6	7	7	7
ROE (%)	12	13	15	16	17
P/BVPS (x)	9	8	7	6	5

Rating	Buy
Current Market Price (₹)	340
12 M Price Target (₹)	477
Potential upside (%)	40

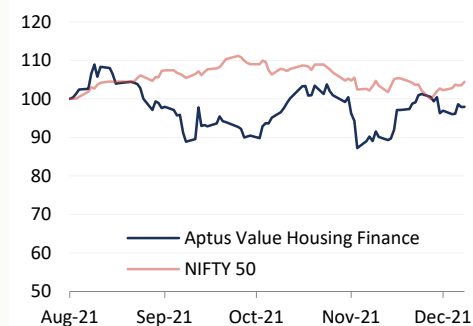
**Stock Data**

FV (₹) :	2
Total Market Cap (₹ bn) :	171
Free Float Market Cap (₹ bn) :	27
52-Week High / Low (₹) :	381 / 279
BSE Code / NSE Symbol	543335 / APTUS
Bloomberg :	APTUS IN

**Major Shareholder (%) - September 2021**

Promoter	25.14
West Bridge Cross Over Fund LLC	34.65
Foreign Portfolio Investors	7.61
Malabar India Fund Ltd.	7.67
Steadview Capital Opportunities	3.25
SCI Investments	3.22
Madison India Opportunities	2.80
JIH II LLC	2.72
WF Asian Reconnaissance Fund Ltd.	1.61
Alternate Investment Funds	1.31
A R Chadha & Co India Pvt Ltd.	1.23
M A Alagappan	1.19
Mutual Funds	1.16
Smallcap World Fund Inc	1.06

Source: BSE

**Aptus vs Nifty 50**

**Robust Capital position; Strong ALM:** Aptus has healthy capital position (Tier 1: ~100% of RWA) post equity infusion. The capital won't be a concern for balance sheet growth. We believe, the company will clock a credit growth of ~25% in coming years. Aptus has comfortable liquidity position with cash & cash equivalents of ₹7.4bn (as on Sep'21) and ₹8.2bn available for business up-to March'22. The company also has strong ALM practices. As on Sep'21, Aptus carries an ALM surplus of ₹8.3bn for <3months and ₹2.1bn for 1 – 3 Years.

**Outlook and Valuation:**

Aptus would continue to command a premium valuation, as it delivers best-in-class ROA among its peers, led by continued focus on affordable housing in Tier-II/III cities along with rigorous underwriting practice, which has helped it to withstand covid-led disruptions. We expect strong AUM growth, stable NIM of 10.6% and opex at 2.2% of average asset will help Aptus to deliver strong PAT (27% CAGR) over FY21-FY24E. We value the company at 7.1x FY24E book value and arrive at target price of ₹477.

## Recent quarter Performance

## Exhibit 1: Quarterly Finances (₹mn)

Qtr End	2QFY21	1QFY21	2QFY22	YoY (%)	QoQ (%)
Interest Income	1,507	1,786	1,917	27	7
Interest Expenses	498	556	552	11	-1
<b>Net Interest income</b>	<b>1,009</b>	<b>1,230</b>	<b>1,365</b>	<b>35</b>	<b>11</b>
<i>NIM (calculated, %)</i>	8	9	9	15	1
Other income	64	73	115	80	58
Net Operating Revenue	1,073	1,303	1,480	38	14
Employee cost	176	210	238	35	13
Other Opex	49	71	73	49	3
Total Opex	225	281	311	38	11
<i>C/I Ratio (%)</i>	21	22	21	0.2	-3
<b>Pre Provision Profit</b>	<b>848</b>	<b>1,022</b>	<b>1,169</b>	<b>38</b>	<b>14</b>
Provisions	11	71	75	582	6
PBT	837	951	1,094	31	15
Tax	184	216	241	31	12
<b>PAT</b>	<b>653</b>	<b>735</b>	<b>853</b>	<b>31</b>	<b>16</b>
<i>YoA (%)</i>	17	17	17	-1	-0.2
<i>COF (%)</i>	9	8	8	-15	-1
<i>NIM (%)</i>	8	9	9	15	1
Advances	34,547	42,157	43,790	27	4
Investments	204	528	202	-1	-62
Total Assets	35,781	42,685	51,679	44	21
Borrowings	18,754	20,875	19,737	5	-5
<i>ROA (%)</i>	7	7	7	2	2

Source: Company, LKP Research

## Exhibit 2: Credit Quality (₹mn)

Qtr End	2QFY21	1QFY21	2QFY22	YoY (%)	QoQ (%)
Gross Stage 3	272	449	362	33	-19
<i>% portfolio in Stage 3</i>	0.67	1.06	0.81	20.9	-23.6
ECL Provision Stage 3	118	107	91	-23	-15
Net Stage 3	154	342	271	76	-21
<i>PCR (%)</i>	43.4	23.9	25.2	-42.0	5.3
Gross Stage 1&2	40,406	42,094	44,459	10	6
<i>% portfolio in Stage 1&amp;2</i>	99.3	98.9	99.2	-0.2	0.2
ECL Provision Stage 1&2	50	139	230	356	66
Net Stage 1&2	40,355	41,955	44,228	10	5
<i>PCR (%)</i>	0.12	0.33	0.52	333	58
Total AUM	40,678	42,543	44,821	10	5
ECL Provision	168	246	321	91	31
<i>PCR (%)</i>	0.41	0.58	0.72	76	24

Source: Company, LKP Research

**Exhibit 3: ALM Surplus (as on 30th Sep 2021)**

	Inflow	Outflow	Surplus
< 3 months	1,239	414	825
3 - 6 months	348	257	91
6 - 12 months	745	535	210
1 - 3 Years	1,940	1,393	547
3 - 5 Years	1,847	747	1,100
5 - 7 Years	1,556	254	1,302
7 - 10 Years	1,467	222	1,245
> 10 Years	633	152	481

Source: Company, LKP Research

## Annual Data

## Exhibit 4: Balance Sheet (₹mn)

Year End	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	945	949	991	991	991
Reserves	16,145	18,845	22,298	26,700	32,273
<b>Net-worth</b>	<b>17,090</b>	<b>19,794</b>	<b>23,289</b>	<b>27,691</b>	<b>33,264</b>
Deposits	-	-	-	-	-
Borrowings	20,150	25,080	28,340	36,843	47,895
Other Liabilities & Provisions	227	327	351	379	299
<b>Total Liabilities</b>	<b>37,467</b>	<b>45,201</b>	<b>51,981</b>	<b>64,913</b>	<b>81,459</b>
Cash & Cash Equivalent	6,027	4,378	4,684	5,059	5,666
Investments	-	528	533	539	544
Loans & Advances	31,171	39,898	46,326	58,833	74,719
YoY (%)	42	28	16	27	27
Fixed asset	33	25	28	30	33
Other assets	236	373	410	451	496
<b>Total Assets</b>	<b>37,467</b>	<b>45,202</b>	<b>51,981</b>	<b>64,913</b>	<b>81,459</b>

Source: Company, LKP Research

## Exhibit 5: Income statement (₹mn)

Year End	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	4,852	6,239	7,612	9,438	12,081
Interest Expenses	1,845	2,065	2,272	2,612	3,344
<b>Net Interest income</b>	<b>3,007</b>	<b>4,174</b>	<b>5,340</b>	<b>6,826</b>	<b>8,737</b>
<b>NIM (calculated, %)</b>	<b>9.9</b>	<b>10.2</b>	<b>10.7</b>	<b>10.7</b>	<b>10.8</b>
Other income	385	314	345	380	418
Net Operating Revenue	3,392	4,488	5,685	7,206	9,155
Employee cost	648	714	821	1,026	1,314
Other Opex	236	264	317	380	494
Total Opex	884	978	1,138	1,407	1,808
C/I Ratio (%)	26	22	20	20	20
<b>Pre Provision Profit</b>	<b>2,508</b>	<b>3,510</b>	<b>4,548</b>	<b>5,800</b>	<b>7,347</b>
<b>PPOP Growth (YoY, %)</b>	<b>63</b>	<b>40</b>	<b>30</b>	<b>28</b>	<b>27</b>
Provisions	34	58	80	105	138
PBT	2,474	3,452	4,468	5,695	7,209
Tax	363	783	1,014	1,293	1,637
<b>PAT</b>	<b>2,111</b>	<b>2,669</b>	<b>3,453</b>	<b>4,402</b>	<b>5,573</b>
<b>PAT Growth (YoY, %)</b>	<b>89</b>	<b>26</b>	<b>29</b>	<b>27</b>	<b>27</b>

Source: Company, LKP Research

**Exhibit 6: Valuation**

Year End	FY20	FY21	FY22E	FY23E	FY24E
FV (₹)	2	2	2	2	2
Shares O/s (calculation)	473	475	496	496	496
EPS (₹)	4.5	5.6	7.0	8.9	11.2
BVPS (₹)	36	42	47	56	67
ROA (%)	6	6	7	7	7
ROE (%)	12	13	15	16	17
P/BVPS (x)	9	8	7	6	5

Source: Company, LKP Research

**Exhibit 7: Asset Quality**

Year End	FY20	FY21	FY22E	FY23E	FY24E
<b>Slippages Ratio</b>	<b>0.7</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
GNPA (₹mn)	222	276	314	323	451
<b>GNPA (%)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>
NNPA (₹mn)	52	75	85	98	111
<b>NNPA (%)</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

Source: Company, LKP Research

**Exhibit 8: Capital Adequacy**

Year End	FY20	FY21	FY22E	FY23E	FY24E
RWA	19,694	25,228	29,421	36,741	46,106
RWA (% of assets)	52.6	55.8	56.6	56.6	56.6
CET 1 (%)	82.2	73.8	101.0	103.0	106.0
Tier 1 (%)	82.2	73.8	101.0	103.0	106.0
Tier 2 (%)	0.2	0.1	0.1	0.1	0.1
<b>Total CRAR (%)</b>	<b>82.4</b>	<b>73.9</b>	<b>101.1</b>	<b>103.1</b>	<b>106.1</b>

Source: Company, LKP Research

## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.Lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.