JM FINANCIAL

Affordable HFCs

Scalable, Profitable and now Affordable

Large growth opportunity | Strong profitability | Valuations now reasonable

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India's significant housing shortage (100mn units housing demand), huge mortgage underpenetration (11.7% as at FY22), improving trends of nuclearisation, urbanization, and rising share of working population set a strong undercurrent of multi-year growth in mortgage demand. Within this, government impetus on Housing for All, multiple initiatives to drive home ownership mean a conducive growth environment for affordable HFCs. Post the slowdown in last 2 years due to Covid, small ticket affordable housing finance segment has rebounded strongly and is set to increase its share in the overall mortgage pie (loans below INR2.5m form 34%).

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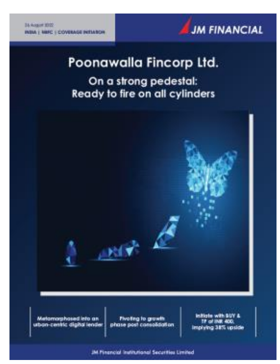

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Affordable HFCs – scalable, profitable and now affordable

We initiate coverage on two Affordable Housing Finance Companies (AHFCs) viz. Home First Finance and Aptus Value Housing Finance with a BUY rating and reiterate our positive stance on Aavas Financiers (rated BUY as well). Our favorable view stems from large growth runway given significant under penetration, strong RoRWA profile and valuations which are now more palatable. The opportunity in the housing finance space in India remains a multi-decadal one with significant underpenetration (~100m units housing shortage), rising urbanization trends (40% population by 2030e), low mortgage penetration (11.7% of GDP) - more so in states with large housing shortages and policy environment which bodes well for affordable home ownership.

Riding on the growth opportunity, these companies have built robust business models around the affordable segment (avg ticket sizes of 0.8-1.2m) with focus on both salaried as well as self-employed customers. The underwriting practices have now been time tested through difficult periods of Covid19, periods of NBFC liquidity crises as well tepid economic growth environment. Credit costs have been low despite the perceived risk in the customer segment though the models remain operationally intensive and process adherence, understanding of local nuances and cashflow profile of customers remain critical parameters for profitability. Overall, what stands out is the strong RoRWA profile of these entities with healthy growth outlook (Avg RoRWA over FY24/FY25 for HFFC, Aavas and Aptus at 6.5%/6.9%/12.1% respectively).

We expect HFFC, Aavas and Aptus to deliver avg ROEs of 15.4%/15.5%/17.4% over FY24-25e with avg RoAs of 3.6%/3.6%/7.1% respectively. Valuations are now much below highs seen over the last couple of years (~50% correction in valuations in last 18mths for Aavas and 30% for Aptus) while the fundamental performance only reinforces strong medium-term upsides. We rate all the three names as BUY with HFFC as our top pick.

Growth opportunity for AHFCs well established

India's significant housing shortage (100mn units housing demand), huge mortgage underpenetration, improving trends of nuclearisation, urbanization, and rising share of working population set a strong undercurrent of multi-year growth in mortgage demand. Within this, government impetus on Housing for All, multiple initiatives to drive home ownership mean a conducive growth environment for affordable HFCs. Post the slowdown in last 2 years due to Covid, small ticket affordable housing finance segment has rebounded strongly and is set to increase its share in the overall mortgage pie (loans below INR2.5m form 34%). With this backdrop, we expect major AHFCs - HFFC, Aavas and Aptus to record a strong CAGR of ~32%, ~25% and ~32% over FY23-25, respectively.

AHFC model offers healthy RoRWAs; asset quality performance validates the strength

We observe that the yield profile of AFHCs is strong across products, and it has remained relatively healthy and sticky across cycles. The business models are relatively operationally intensive and thus entail higher opex, the strong yield profile and access to low cost NHB funding drives a strong PPOP profile (PPOP/AUM at 4.4-11.5% for coverage companies). Importantly, the asset quality profile of the segment has been tested through tough times of Covid19 and as well as other prior events (avg credit costs at 0.3-0.7% over FY21-23) and validates the strong return potential for these businesses. As a consequence, the attractive RoRWA profile (6.9-13.8% RoRWA for FY23) should be relatively protected over the medium-to-long term, in our view.

Valuations now palatable; initiate with BUY on all three names

We expect earnings CAGR of 22%-26% for these companies over FY23-25 led by continued growth momentum, increasing distribution presence and continued healthy asset quality. RoEs are likely to expand to mid-to-high teens as balance sheet leverage builds up and we expect these stocks to trade at premium valuations given strong growth and profitability outlook. We initiate with a BUY rating on HFFC and Aptus and reiterate our BUY recommendation on Aavas. HFFC is our top pick in the space.

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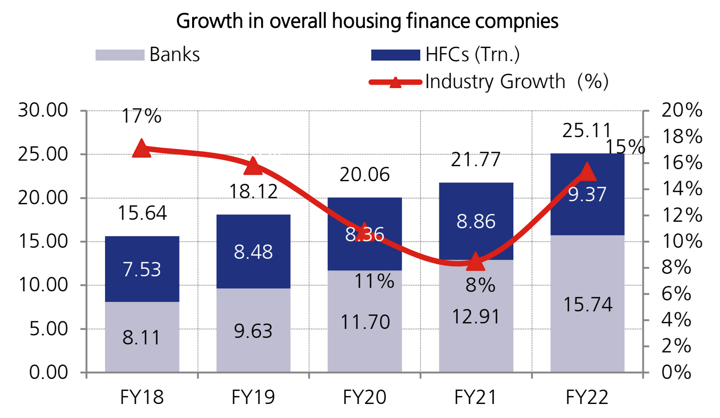
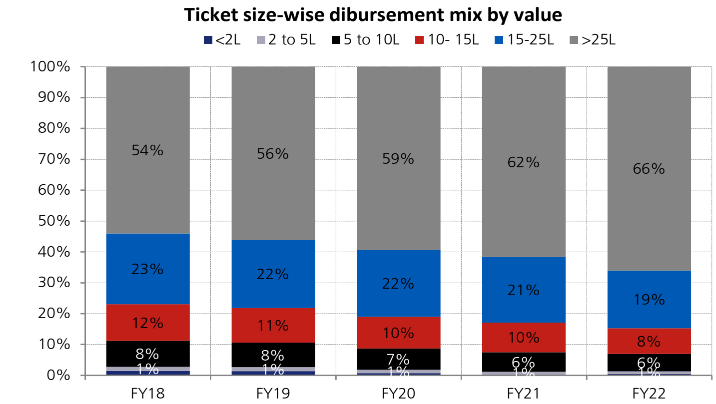
Focus Charts…

Exhibit 1. Revival in housing loans growth



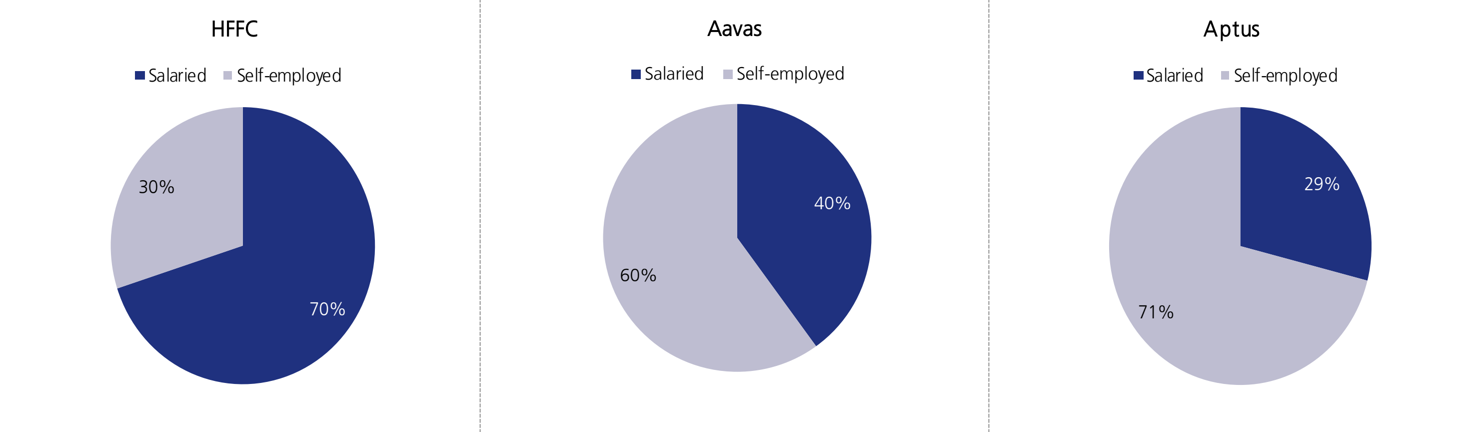
Source: NHB, JM Financial

Exhibit 2. AHFC share expected to increase



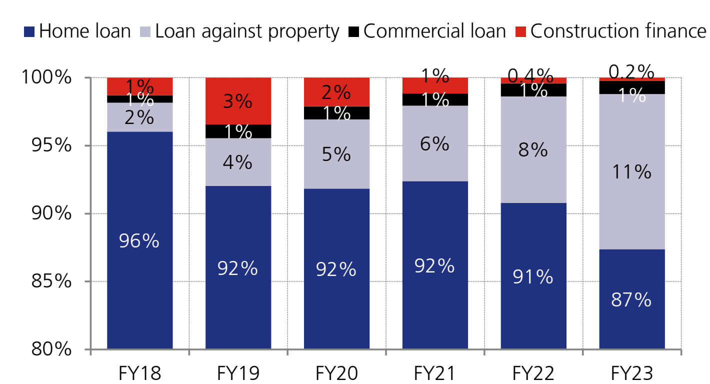
Source: NHB, JM Financial

Exhibit 3. Customer mix for Aavas, Aptus & HFFC



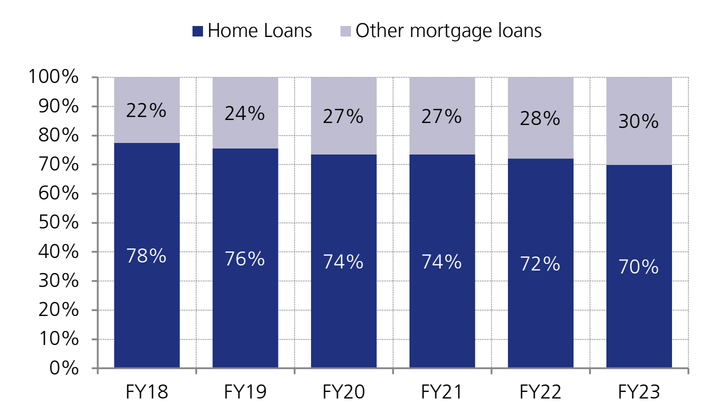
Source: Company, JM Financial

Exhibit 4. Loan mix for HFFC



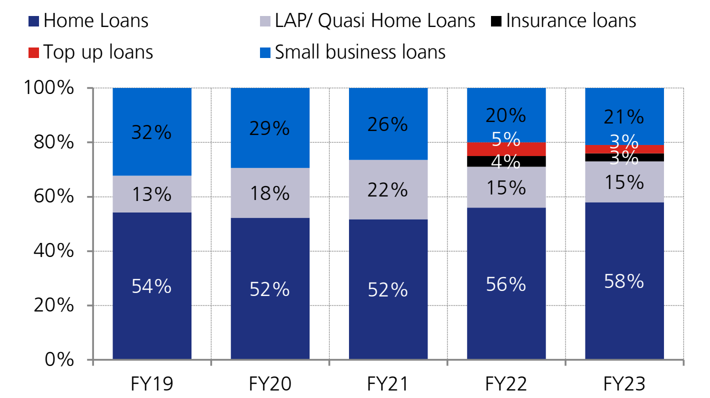
Source: Company, JM Financial

Exhibit 5. Loan mix for Aavas



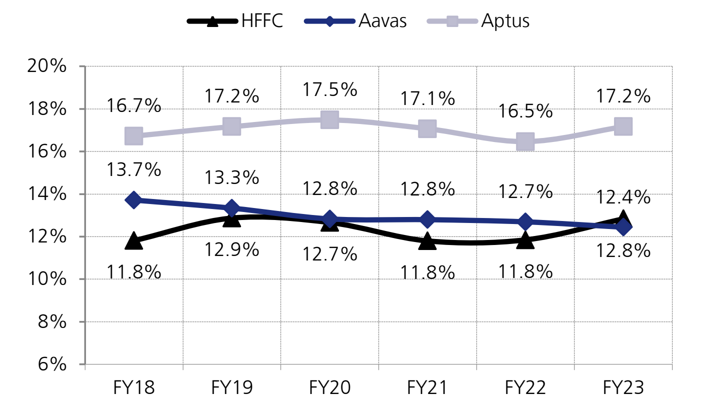
Source: Company, JM Financial

Exhibit 6. Loan mix for Aptus



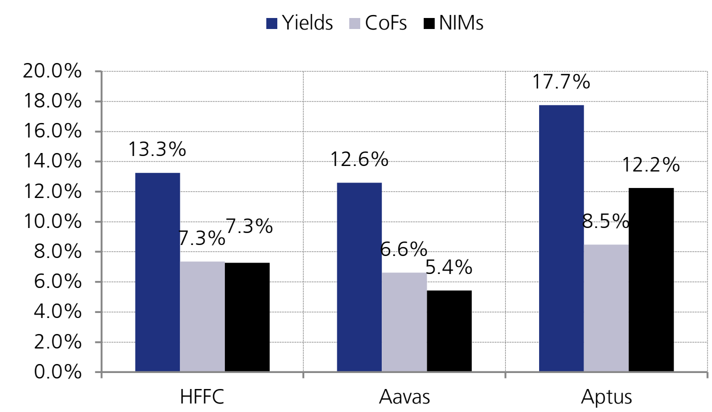
Source: Company, JM Financial

Exhibit 7. Risk adjusted yield for AHFC's



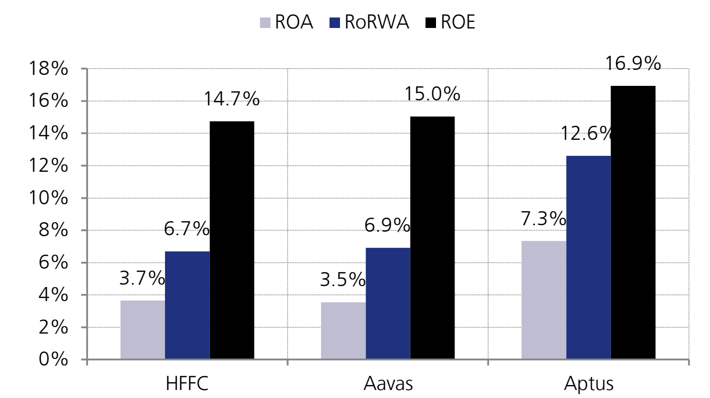
Source: Company, JM Financial; risk adjusted yield is calculated as NIM less credit costs

Exhibit 8. Yields, CoFs and NIMs across AHFCs



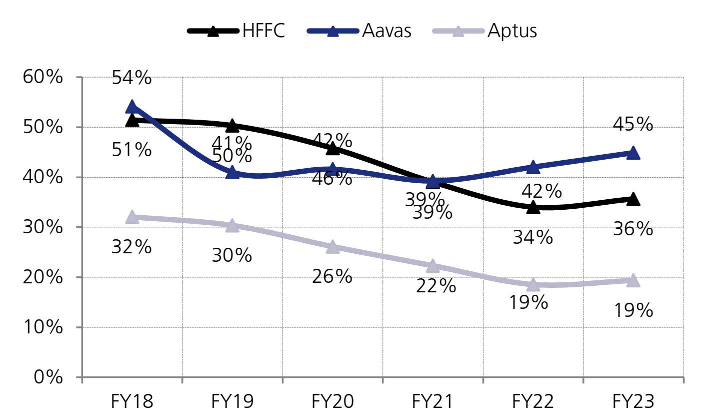
Source: Company, JM Financial

Exhibit 9. Robust return ratios (FY23)



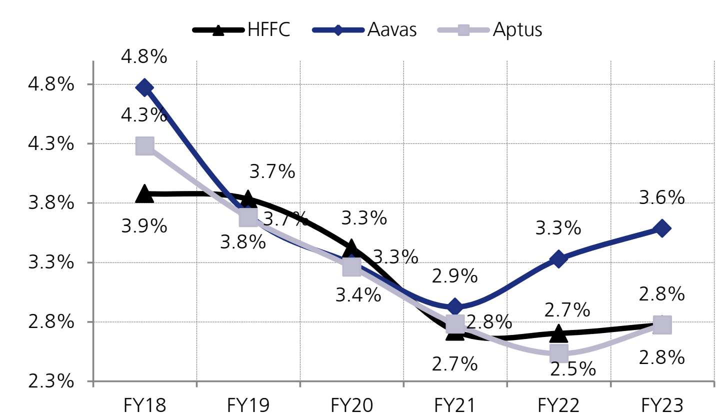
Source: Company, JM Financial, FY18/FY19 calculations based on IGAAP Financials

Exhibit 10. Gradual decline in C/I but branch expansion to continue to keep it range bound



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 11. Branch expansion and tech spends higher among AHFCs and thus higher Opex/AAUM



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Opportunity for HFCs focused on affordable housing (AHFCs) well established

India's housing demand has been largely structural given persistent shortage and sizeable population: India's housing shortage has been well documented over the years through multiple sources with potential demand for housing by 2022 pegged at 100m units as per the Reserve Bank of India's Report of the Committee on the Development of Housing Finance Securitisation Market in Sep'19.

LIG (Low Income Group) and EWS (Economic Weaker Section) account for 95% of the shortage while MIG (Middle Income Group) and above account for the remaining 5%.

Total demand to fulfil the entire shortage in value terms is estimated ~INR 174trln-INR 175trln. The cost of building these additional units could be INR 100trln-INR 115trln. Hence, there is significant housing underlying potential in the housing finance market.

Exhibit 12. Projected housing requirement as per GOI estimates

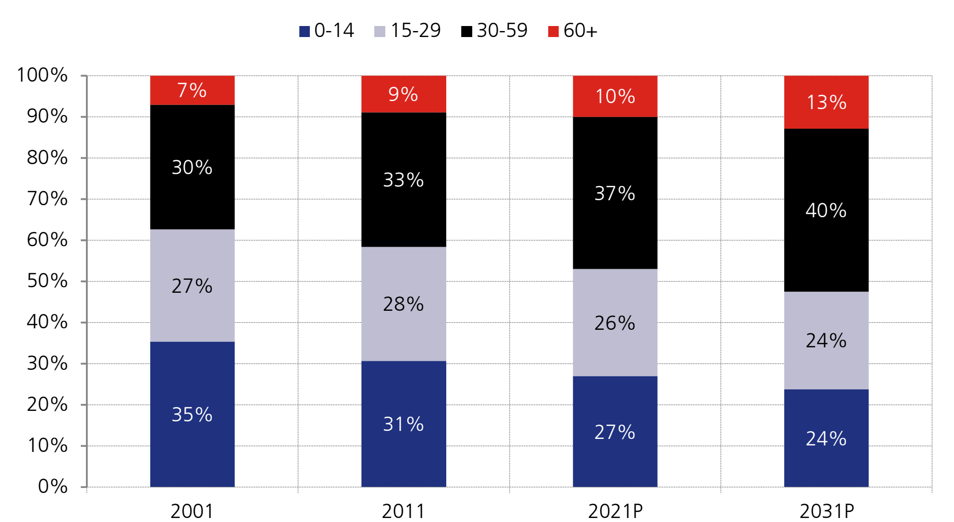
Income segment	Housing shortage (mn units)	Avg. ticket size est. (INR mn)	Value of units (INR trn)	LTV (%)	Credit penetration (%)	Aggregate Loan Demand (INR trn)
EWS	45	0.75	34	40%	40%	5
LIG	50	2.00	100	50%	80%	40
MIG & Above	5	8.00	40	65%	85%	22
Total	**100**		**174**			**68**

Source: RBI Committee discussion (Sep19), JM Financial

Large working populace offers significantly long growth runway

Currently, India is one of the largest nations in terms of size of young population; the median age is 28 years. CRISIL Research estimates that approximately 90% of Indians would have been below the age of 60 years by the calendar year 2020, of which 63% would have been between 15 and 59 years; comparatively, US, China and Brazil are expected to have had 77%, 83% and 86% of their population below the age of 60 years at the same time.

Exhibit 13. India's demographic dividend (2001-2031P)

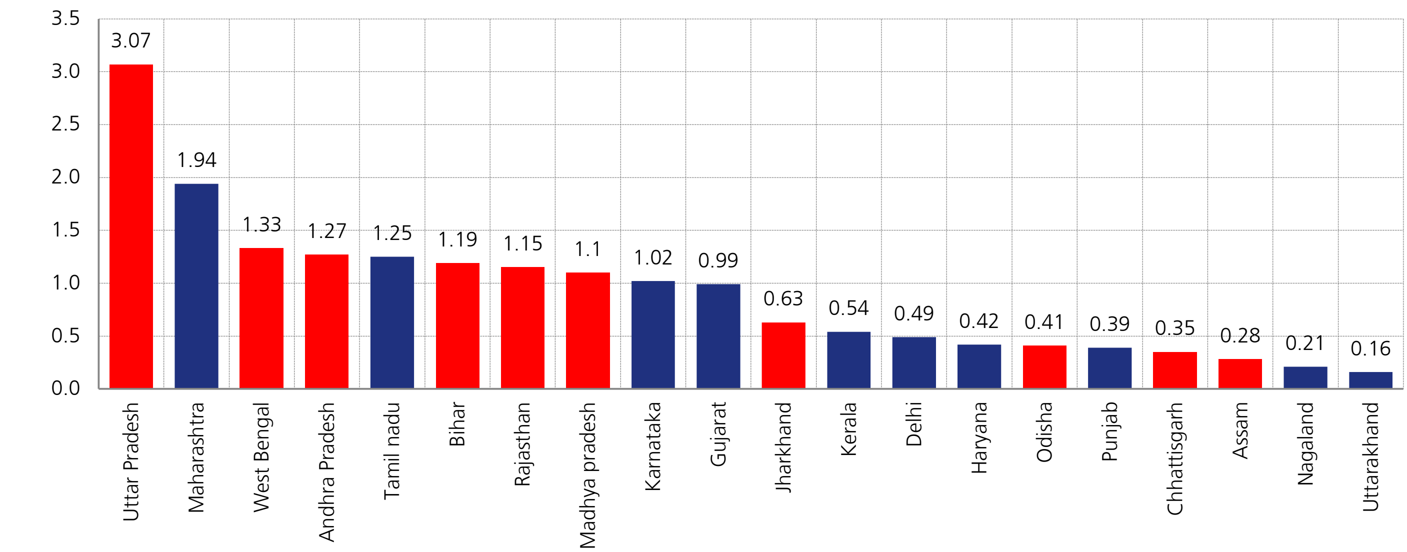


Source: IMF, JM Financial

The average age of borrowers has been declining over the years and was estimated at 33 years in FY20. CRISIL Research expects this figure to decline further to 30 years in FY25 with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose and tax benefits.

Housing shortage acute in states with lower per capita income and higher population: As per the estimates of the Twelfth Five Year Plan (2012-2017), 10 states accounted for approximately 76% of the urban housing shortage. Uttar Pradesh has a housing shortage of over 3mn, followed by Maharashtra (1.94mn), West Bengal (1.33mn), Andhra Pradesh (1.27mn) and Tamil Nadu (1.25mn).

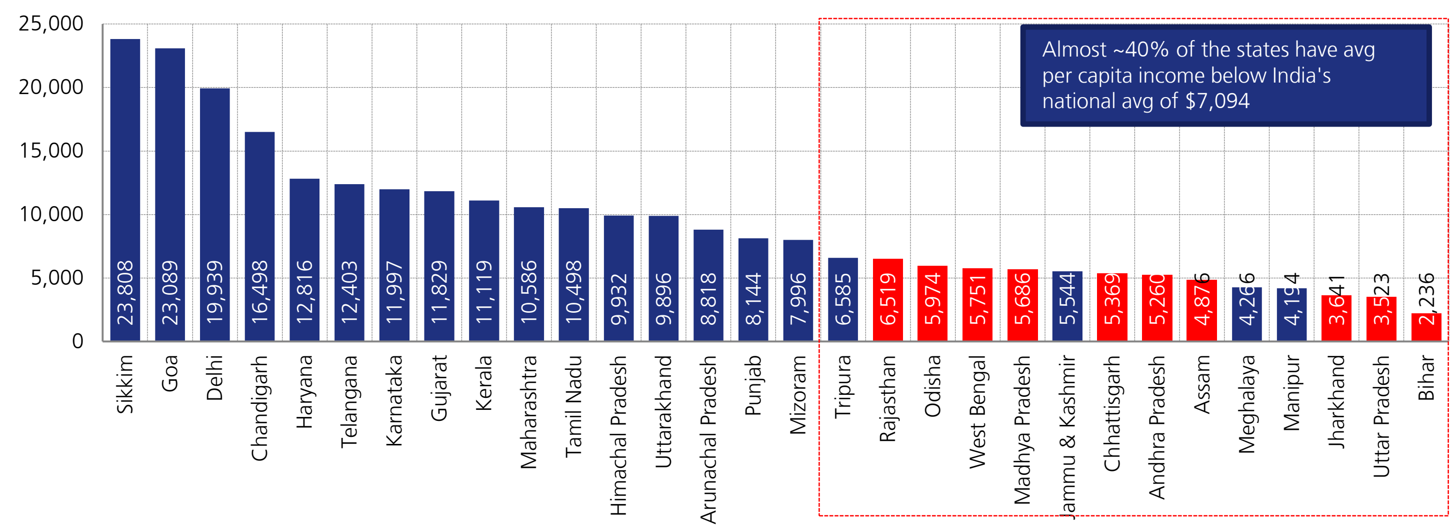
Exhibit 14. ~76% of the total urban housing shortage is contributed by 10 states – (units)



Source: Home First Finance Company IPO Red Herring Prospectus, JM Financial

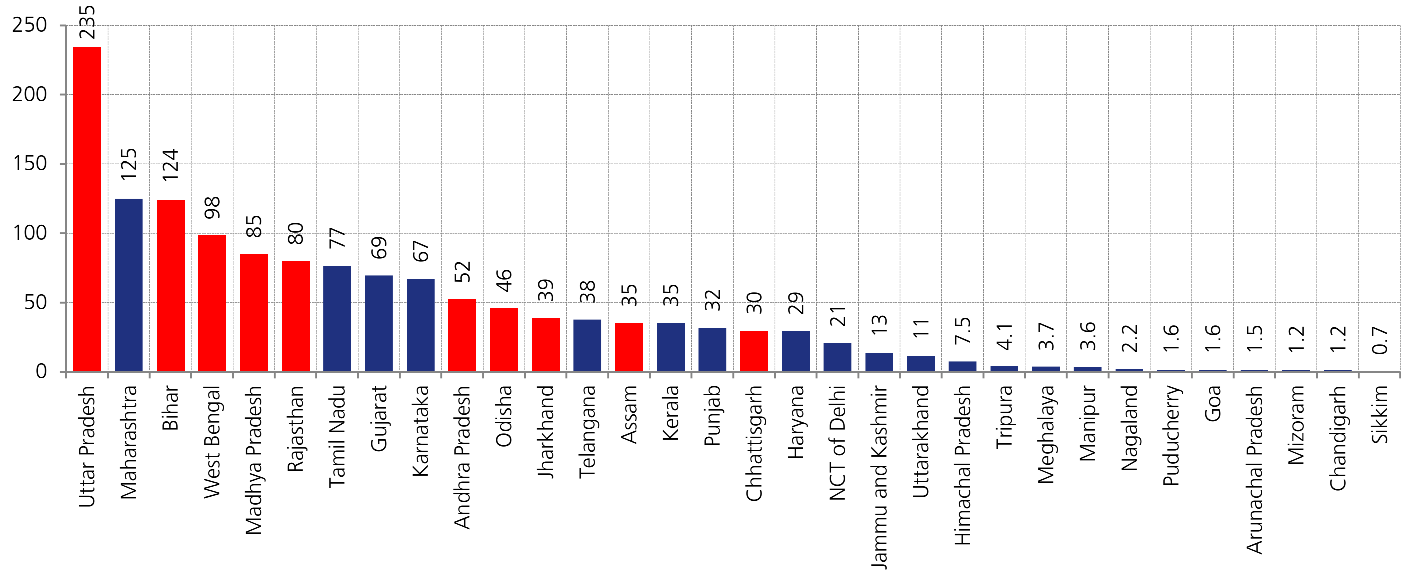
Importantly, most of the states with acute housing shortage have per capital income less than the national average and house a sizeable proportion of the national population.

Exhibit 15. ~40% of the states in India have per-capita income below national average (US$)



Source: Home First Finance Company Annual report FY23, JM Financial

Exhibit 16. Population by state (persons in mn)



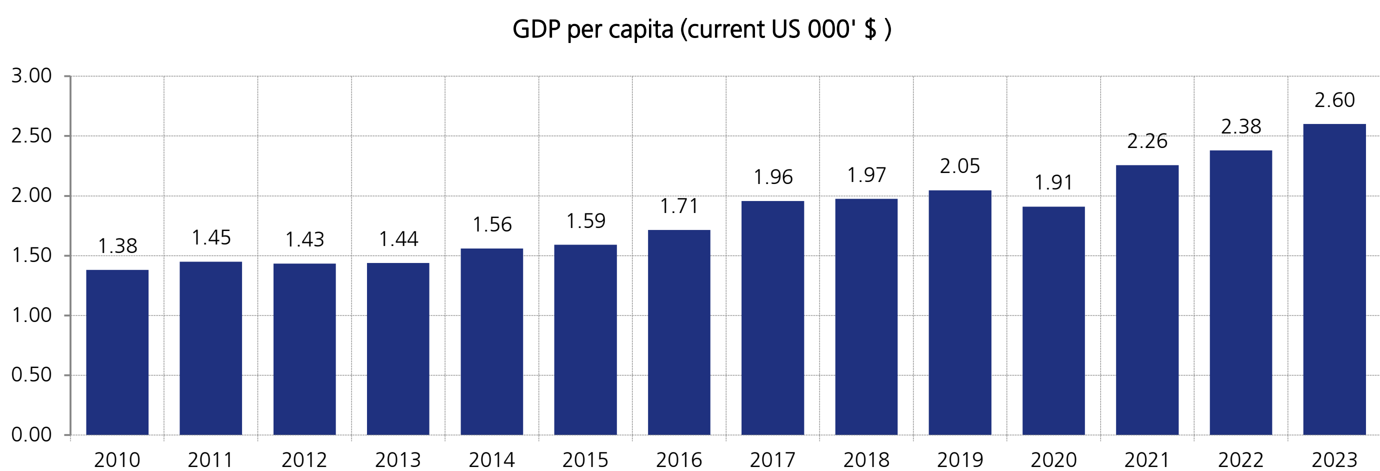
Source: India Census 2022, JM Financial

Upswing in disposable income bodes well for affordable housing demand

India's lower per capita income acts as a constraint to deeper mortgage penetration. This is driven by the fact that increasing per capita income is a function of greater formal sector share in employment, higher propensity to take mortgage and increased housing ownership, all of which aid mortgage penetration, in our view.

India's per capita income has grown at ~6% CAGR over CY14-19. In CY20, per capita income slipped marginally owing to the Covid-related lockdown. However, per capita income grew substantially post CY20 on account of a supportive macro environment. This along with attractive interest rates aided housing demand.

Exhibit 17. Rise in GDP per capita income

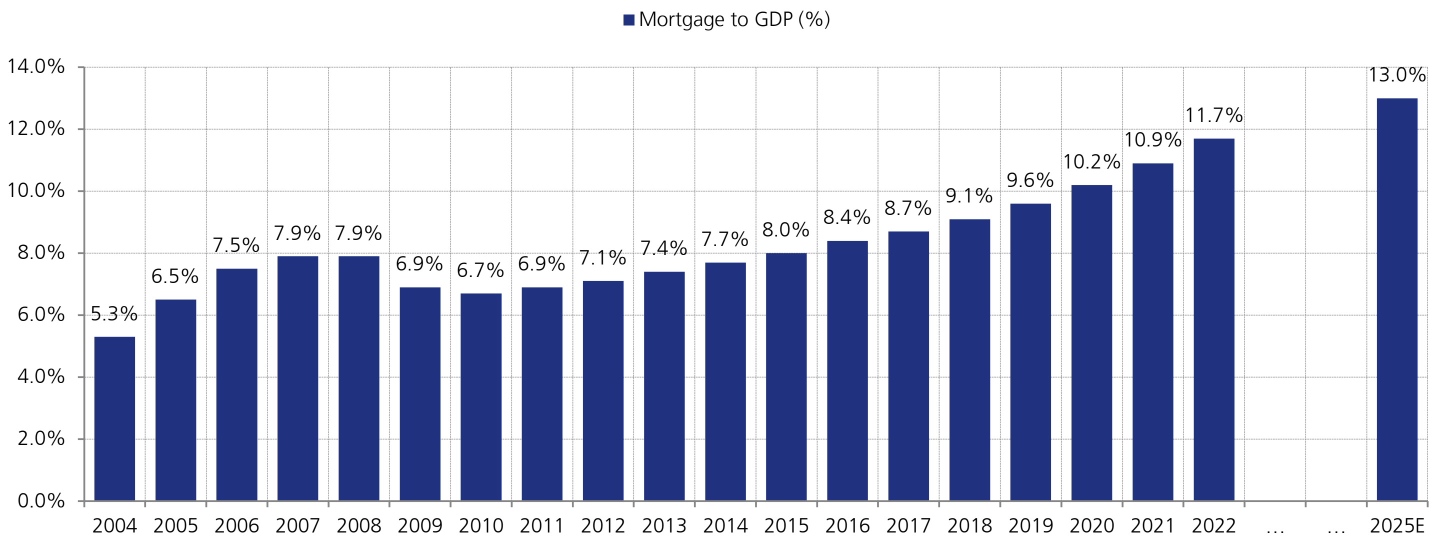


Source: IMF, JM Financial

Mortgage penetration is low for multiple reasons and provides room for ample growth

India's mortgage-to-GDP ratio was 11.7% in 2022, a significant improvement from 6.9% in 2009. The factors that contributed to this are rising incomes, improving affordability, growing urbanisation and nuclearisation of families, emergence of tier-2 and tier-3 cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth, it is expected to grow to 13% by 2025.

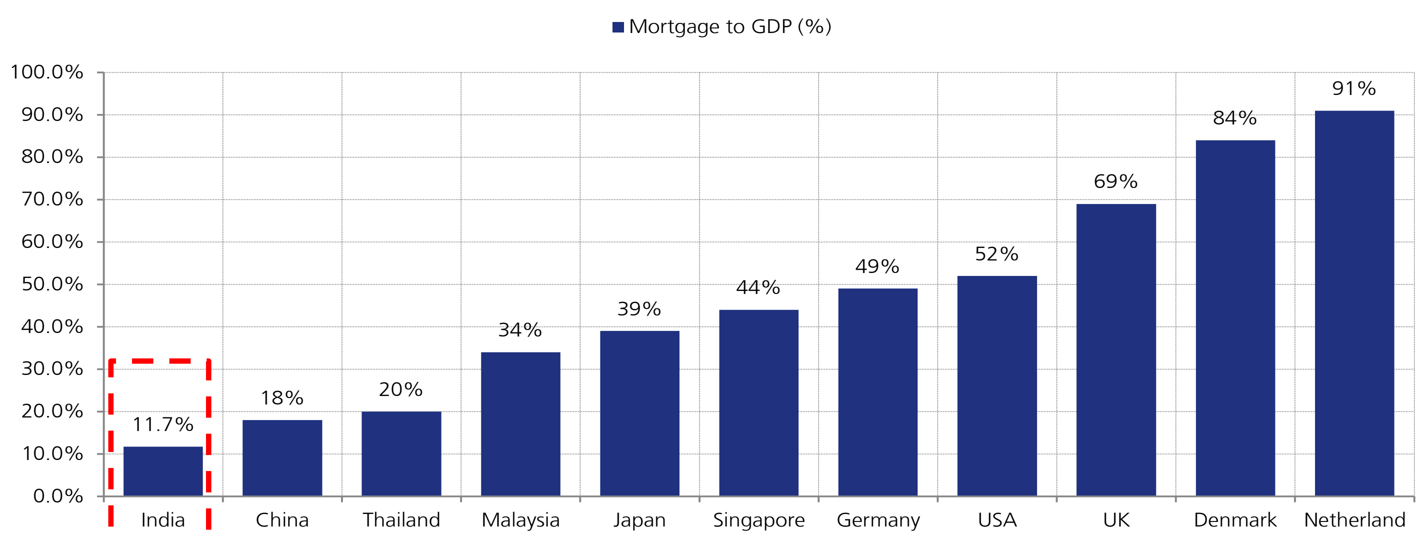
Exhibit 18. Rising mortgage-to-GDP ratio: To reach 13% by 2025



Source: Home First Finance Company Annual report FY23, JM Financial

While mortgage to GDP ratio has improved over the last few years, it is still lower than that in several other emerging and developed economies mainly due to lower per capita income and higher proportion of informal employment in the country.

Exhibit 19. Relatively lower mortgage penetration compared to other developing/developed countries

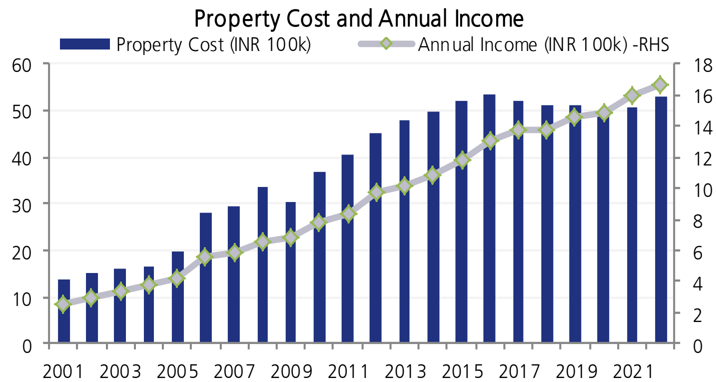


Source: Home First Finance Company Annual report FY23, HDFC Ltd Investor Presentation, JM Financial

Real estate prices relatively higher though affordability has only improved historically

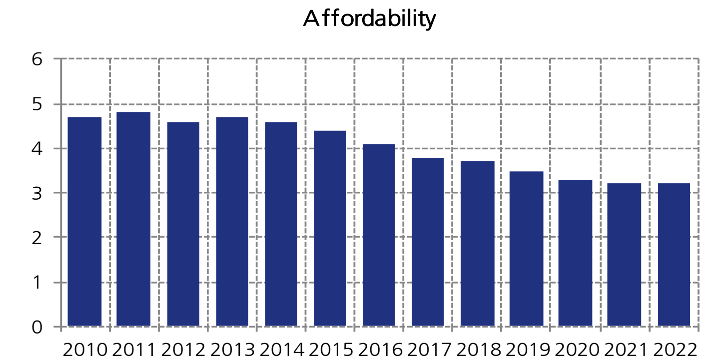
Lack of transparency and less regulatory infrastructure meant that housing prices remained relatively elevated vs. income levels, thus making it unaffordable to large sections of the society. With greater government thrust on regulation and transparency, affordability has improved meaningfully.

Exhibit 20. Property prices have remained stagnant since 2015



Source: HDFC Ltd Q4FY23 Investor presentation, JM Financial

Exhibit 21. All-time best affordability ratio in 2022



Source: HDFC, JM Financial; Note: Affordability = property prices/annual income

High share of population in informal employment: Higher proportion of informal employment makes income assessment difficult and increases credit risk premiums, thereby impacting growth of the mortgage market. According to a report by the International Labour Organisation (ILO), the overall proportion of informal workers in total employment is nearly 92% in India based on a survey conducted from 2011 to 2012. These informal workers include workers in both unorganised and organised sectors (i.e., workers without access to social security).

Information asymmetry in smaller cities: Data availability in India has improved with people having access to a number of online property portals and databases. However, information asymmetry persists, especially in smaller cities, where reliable valuation of property is also generally difficult to obtain.

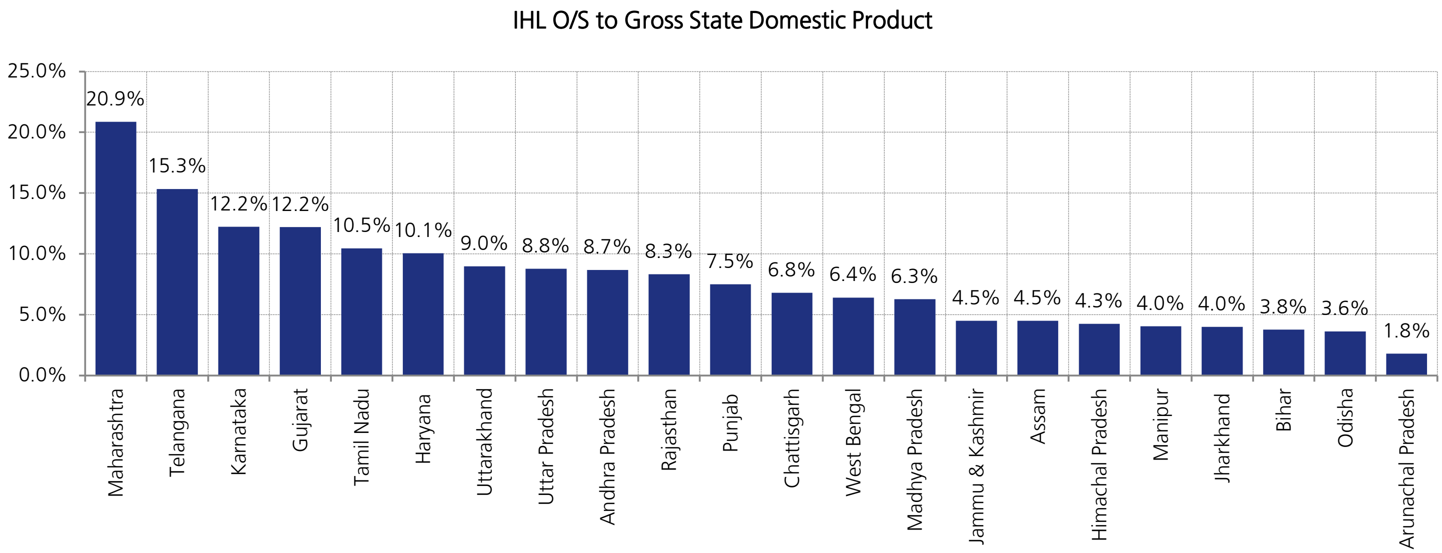
Inadequate legal infrastructure: According to the World Bank's Ease of Doing Business index, India ranks very low at 154 in registering property. A country's legal and regulatory support that ensures ease in dealing with property-related matters and cost-effective foreclosure of loans in a timely manner is critical for development of the housing loan (HL) market. However, India lags many other nations in this respect.

We believe rising urbanisation, growing disposable income, and favourable demographics will lead to higher mortgage penetration, going forward.

As explained earlier, a large housing shortage exists in states with low per capita income and high population; the same states are also relatively worse off with respect to mortgage penetration in the country.

The individual housing loan-to-state GDP ratio as of Mar'22 varies widely for the top 15 states, and ranges between 4.49% and 20.85%. Maharashtra has the highest mortgage penetration at 20.85% followed by Telangana (15.33%), Karnataka (12.22%) and Gujarat (12.2%).

Exhibit 22. Housing mortgage to state-wise GDP



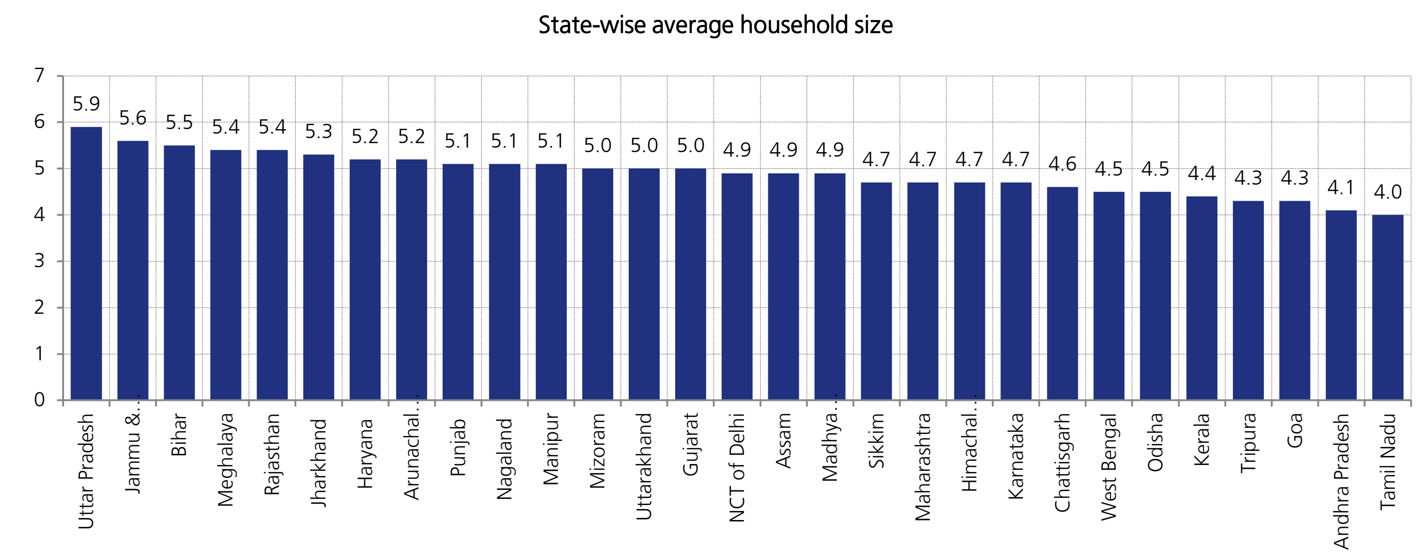
Source: NHB Annual Report, FY22; IHL – Individual Housing Loans, JM Financial

Urbanisation and nuclearisation of families has only aided demand: As per Census 2011, the urban population constituted 31% of the total population and urban households were 68% of the total households (168mn urban households and 79mn rural households). The country's urban population has been rising consistently over the decades. As per the 2018 revision of World Urbanisation prospects, it was an estimated 34.9% for India. It is estimated to rise to 37.4% by 2025 and 40% by 2030.

With increased urbanisation, India is also moving towards higher nuclearisation, leading to smaller family size. This is also reflected in the steady reduction in average household size from 5.5 members per household as of 1991 to 5.3 members in 2001 to 4.8 members, as per Census 2011.

Furthermore, according to the Census of India, 2011, a majority of the Indian households live in one-room or two-room houses. According to the National Sample Survey Organisation (NSSO) Survey on Housing Conditions conducted in 2012, the average floor area of a dwelling unit was 40.03 sq. m in rural India and 39.20 sq. m in urban India during 2012. The average household size in India was 4.5. It was 4.8 in rural India and 4.2 in urban India. The states of Uttar Pradesh and Jammu and Kashmir had the highest average household size of 5.9 and 5.6 respectively, whereas in the states of Andhra Pradesh and Tamil Nadu, the average household size was 4.1 and 4.0 respectively.

Exhibit 23. State wise average house hold size (units)



Source: Home First Finance Company IPO Red Herring Prospectus

Government initiatives directed towards improving affordable home ownership

In Jun'15, the government announced Housing for All by 2022, which was targeted towards upliftment of poor, economically weaker sections of the population. The government opted for various initiatives to propel growth in the housing sector like Pradhan Mantri Awas Yojana (PMAY), Rural Housing Interest Subsidy Scheme (RHISS), Credit Linked Subsidy Scheme (CLSS) and RERA.

PMAY - Urban and Gramin: PMAY was introduced to focus on providing housing with basic amenities and pucca houses for those residing in damaged/kutcha houses by Mar'22. The government subsequently extended the deadline for PMAY (both gramin and urban schemes) to Dec'24 while it ended the CLSS subsidy scheme. The status of PMAY-Gramin as of 5th Jun'23 stood at ~22.8mn completed houses as against 29.3mn targeted towards rural regions, which indicates an opportunity to sanction loans for the remaining ~6.5mn houses under the scheme. PMAY - Urban has a ceiling of 12.27mn houses, and during the extended period it will not sanction any additional houses. Within this ceiling, states and Union territories are allowed to curtail the sanctioned non-starter houses and replace them with new BLC houses.

Rural Housing Interest Subsidy Scheme (RHISS): On 19th Jun'17, the Ministry of Rural Development launched the Rural Housing Interest Subsidy Scheme (RHISS) to provide interest rate subsidy for construction or modification of houses in rural areas. RHISS is applicable to all rural households who are not part of the Permanent Wait List (PWL) of PMAY-G. Under the scheme, interest subsidy is provided at the rate of 3.0% on the principal amount of the loan and the subsidy is admissible for a maximum loan amount of the first INR 2 lakh irrespective of the quantum of housing loan, for 20 years or full period of loan whichever is less. NHB (National Housing Bank) has executed MoUs with 100 PLIs for the implementation of the scheme and disbursed INR 181.3mn (net) to 91,000 beneficiary households under the RHISS Scheme until Sep'22.

Credit Linked Subsidy Scheme (CLSS): Credit Linked Subsidy Scheme (CLSS) is one of the four verticals under PMAY (U), which has been implemented through scheduled commercial banks (SCBs), housing finance companies (HFCs), regional rural banks (RRBs), cooperative banks, small finance banks (SFCs) and non-banking finance companies – microfinance institutions (NBFC-MFIs). CLSS caters to two categories, namely, CLSS for Economically Weaker Section/Low Income Group and CLSS for Middle Income Group (CLSS for MIG).

CLSS for EWS/ LIG was launched on 17th Jun'15 and operational up to 31st Mar'22. Households belonging to EWS (with annual income up to INR 3 lakh) and LIG (with annual income more than INR 3 lakh and up to INR 6 lakh) segments seeking housing loans from banks, HFCs and other such notified institutions would be eligible for an interest subsidy at the rate of 6.5% for a maximum tenure of 20 years or the actual tenure of the loan, whichever is less (up to 31st Dec'16, maximum tenure was 15 years).

CLSS for MIG was launched on 1st Jan'17 and operational till 31st Mar'21. The CLSS for MIG covered two annual income segments, viz., above INR 6 lakh and up to INR 12 lakh under MIG-I, and above INR 12 lakh and up to INR 18 lakh under MIG-II. In MIG-I, an interest subsidy of 4% has been provided for loan amount up to INR 9 lakh, while in MIG-II an interest subsidy of 3% has been provided for loan amount up to INR 12 lakh; carpet area limit for MIG-I is 160 sq. m for MIG-I and 200 sq. m for MIG-II.

Real Estate (Regulation and Development) Act, 2016: The implementation of the Real Estate (Regulation and Development) Act in 2016 had a direct impact on the demand-supply dynamics in the sector. The RERA Act brought improved transparency in the system with timely delivery of projects.

GST: In 2017, the government rolled out GST for affordable housing at 8% on under-construction properties. This was revised downwards for under-construction property to 5% from 12%, and to 1% from 8% on affordable housing. This was introduced to boost end-user confidence towards under-construction properties, resulting in growth in the housing segment.

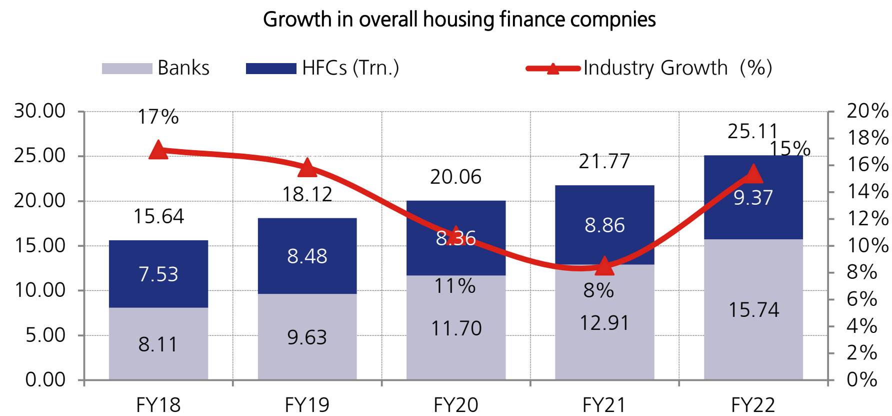
Risk weight rationalisation on housing loans: Risk weight for housing loans was allocated on the basis on the basis of ticket size and loan-to-value (LTV) ratio till Oct'20. However, for all new housing loans sanctioned up to 31st Mar'22, risk weight was allocated only on the basis of the LTV ratio. While such revised risk weight allocation will be applicable to all ticket sizes, LTV less than or equal to 80% has a risk weight of 35% and LTV greater than 80% and less than 90% has risk weight of 50%.

Increase in public sector lending eligibility: The RBI (Reserve bank of India) has increased the eligibility for public sector lending (PSL) in housing loans with a view to converge PSL guidelines with PMAY. The eligibility has been increased to INR 3.5mn for metropolitan centres and INR 2.5mn for other centres. The cost of the dwelling unit has been capped at INR 4.5mn in metropolitan centres and INR 3mn in other centres.

Share of AHFCs in overall pie set to increase

HFC home loans outstanding stands at INR 13.42trln as at FY22 of which Individual Housing Loans (IHL) accounts for INR 9.37trn for the same period. HFCs home loans outstanding clocked a healthy 15% CAGR between FY15 and FY20, driven by increasing demand from tier-2 and -3 cities, rising disposable incomes and government initiatives such as Pradhan Mantri Awas Yojana (PMAY), interest rate subvention schemes and fiscal incentives. Loans with ticket size < INR 25 lakh contributed to 34% of the total housing loans disbursed during FY22, indicating robust demand from the affordable housing space.

Exhibit 24. Outstanding for housing finance industry (Banks + NBFCs/HFCs)

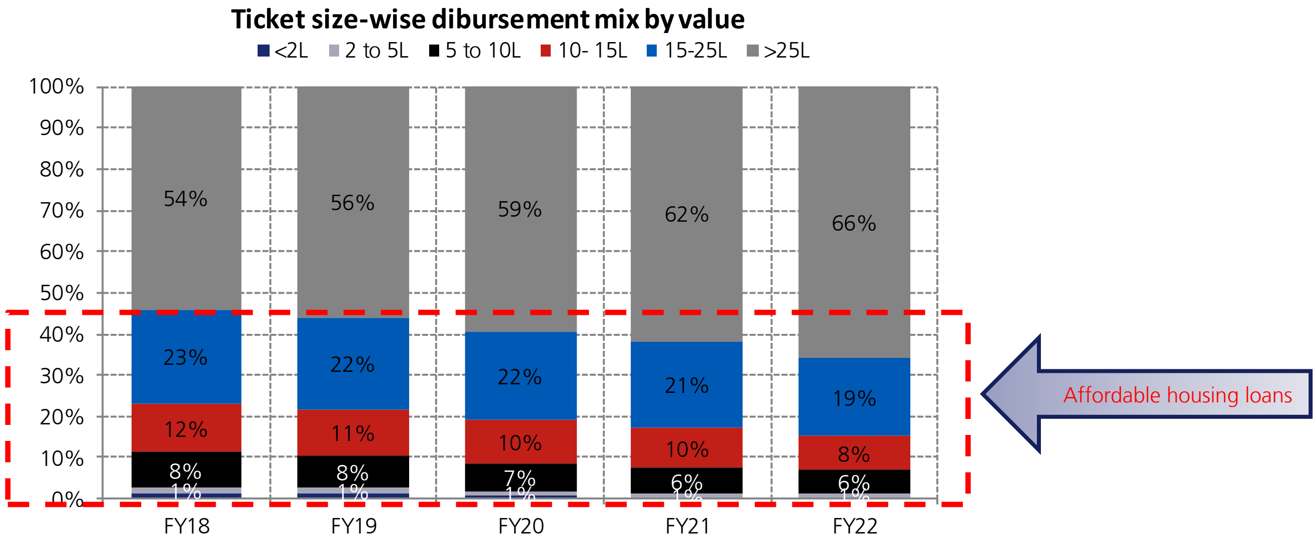


Source: NHB Annual Report FY22, JM Financial

Affordable housing finance players are poised for growth with strong demand witnessed in semi-urban and rural regions. Housing segment is divided into two segments by ticket size at disbursement, i.e., loans with ticket size > INR 1.5mn and loans with ticket size < INR 1.5mn. The former is prominent in the metro/ urban areas, given land price is embedded and forms a large part of the house, whereas the latter generally includes houses on the outskirts of these areas and semi-urban and rural areas with large focus on LIG and EWS customers. This LIG/EWS segment is also the focus of government schemes such as In-situ Slum Redevelopment (ISSR), Affordable Housing in Partnership (AHP), Credit Linked Subsidy Scheme (CLSS), Beneficiary-led Individual House Construction/ Enhancement (BLC-N/E) under PMAY, and refinance under the NHB's affordable housing fund.

Affordable Housing is defined as a housing project using at least 50% of the Floor Area Ratio (FAR)/Floor Space Index (FSI) for dwelling units with carpet area of not more than 60 sq. m. The RBI defined affordable housing loans as eligible under priority sector lending. Housing loans to individuals up to INR 50 lakh for houses of values up to INR 65 lakh located in the six metropolitan centres (Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad) and INR 40 lakh for houses of values up to INR 50 lakh in other centres for purchase/construction of dwelling unit per family are classified under affordable housing by RBI.

Exhibit 25. Share of higher ticket size loan increased as affordable players remained cautious in last few years



Source: NHB Annual Report FY22, JM Financial

We categorise all loans below INR 25 lakh as affordable housing loans; we observed that the share of these loans disbursed has declined from 46% in FY18 to 34% in FY22 on account of a cautious approach adopted by these players post the liquidity crisis and onset of Covid-19. We expect this trend to reverse as larger HFCs have seen moderation in growth while the affordable housing industry is poised for strong growth supported by demand and macro factors.

AHFCs – a lucrative model with strong RoRWAs

Who is a typical customer? Affordable housing players broadly focus on a) low and middle income group customers, b) unserved, unreached and underserved markets c) semi-urban or rural locations, and d) with or without documented income proofs. These include bottom-of-the-pyramid customers normally identified as local tradesmen, daily wage labourers, small business owners and salaried employees working in small firms or at junior positions in larger companies.

These players help to fill the home financing gap for this segment that large NBFCs/HFC/banks normally don't cater to because of operational costs and lack of credit score or proven credit history. This requires specialised eye for underwriting to analyse the non-volatile cashflow from all income sources for the borrower and his/her capacity to payback on a consistent basis.

Banks majorly cater to customers with formal credit history while informal customers fail to obtain loans from banks due to lack of formal income proofs. This creates an opportunity for NBFC/ HFCs to service this unserved portion of the pie which majorly comprises both salaried and self-employed customers with a certain degree of informal income. While large HFCs target metros and tier-1/2/3 cities, below tier-3 regions still remain underpenetrated, which leaves an opportunity for AHFCs to tap customers belonging to EWS/LIG/MIG from semi-urban and rural markets.

Exhibit 26. Snapshot of target customer base for Aavas, Aptus & HFFC

Parameters	Home First Finance Company	Aavas Financiers Ltd.	Aptus Value Housing Finance India Ltd.
Customer segment Focus (%)	EWS + LIG (68%)	EWS + LIG (65%)	LIG (78%)
AUM	71.98bn	141.67bn	67.38bn
AUM Mix (%)			
Housing	88%	70%	58%
Non-housing	12%	30%	42%
Active customers	1,00,000+	1,29,000+	83,000+
Salaried customers (%)	70%	40%	29%
Self-employed (%)	30%	60%	71%
Average ticket size	~11.1 lakh	~8.9 lakh	~8.5 lakh
New to credit (%)	20%	~30-35%	38%
Yield (%)	13.10%	13.12%	17%
Yield on home loan (%)	~13.2%	~12%	13.5- 15%
Yield on non-housing loan (%)	~13.5%	~14.5%	17-21%
Borrowings portfolio			
Floating (%)	85%	70%	41%
Fixed (%)	15%	30%	59%
Rating	AA- (Stable)	AA/Stable	AA- (Stable)
Tenure	~6.5yrs	~10.5yrs	~8yrs
Target market	Urban & Semi-urban	Semi -urban & Rural	Rural (74%)
Dominant presence	West and South	North & West	South
Branches	111 (265 touchpoints)	346	231
Average monthly income (INR)	20-50k	<50k	50-70k

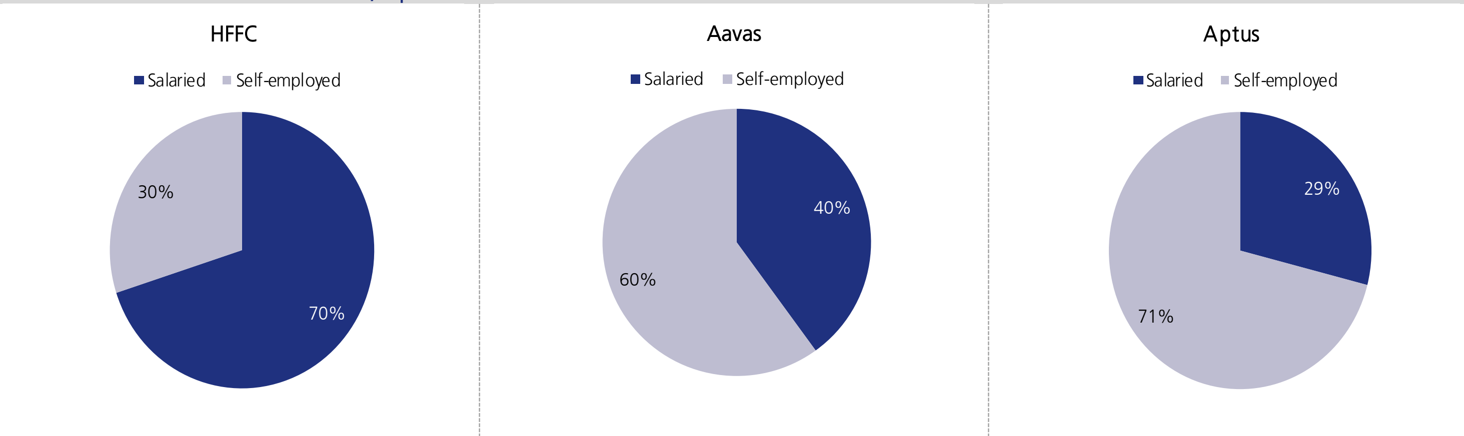
Source: Company, JM Financial

HFFC primarily caters to salaried and self-employed customers in low and middle-income groups, which account for ~70% of the total customers in urban areas. Of these, ~30% are the informal salaried who typically earn in cash only. Salaried customers are typically employed by small firms or work in junior positions in companies, while self-employed customers are generally small business owners. Monthly income of these customers ranges from INR 20,000 to INR 50,000 per month with ATS of INR ~11.1 lakh.

Among the three AHFCs in discussion, **Aavas focuses on** self-employed customers in the low to middle income groups with significant focus on either semi-urban or rural geographies. Customers earning less than INR 50,000 per month belonging to EWS and LIG form 65.4% of its gross loan assets.

Aptus focuses on self-employed customers in LIG majorly in rural geographies. Aptus provides loans with ticket size of INR 5 lakh-25 lakh. The average ticket size (ATS) for home loans, loans against property and business loans on the basis of sanctioned amounts as of Mar'22 was INR 7.2 lakh, INR 7.1 lakh and INR 6.2 lakh respectively and more than 93% of the loans were less than INR 10 lakh.

Exhibit 27. Customer mix for Aavas, Aptus & HFFC



Source: Company, JM Financial

AHFCs – Yield profile is healthy and relatively sticky across cycles

We observe that the yield profile of AFHCs is strong across products, and it has remained relatively healthy and sticky across cycles. The affordable housing segment attracts relatively higher yields for the customer/borrower as compared to prime/near-prime urban housing lenders. This is driven by:

a) relatively underpenetrated nature of the segment, which drives a huge opportunity,

b) specialised skills needed to assess the customer segment,

c) sizeable share of new-to-credit customer and,

d) most players in this segment being NBFCs (and HFCs), thus implying higher cost of funds (vs. banks).

In addition, this customer segment is also perceived relatively more vulnerable to economic cycles, and geographical idiosyncrasies among others, which entails relatively higher risk premium by lenders. The AHFCs cater to a set of customers that are not very sensitive to interest rate changes unlike large HFCs, whose customers are mainly prime borrowers (large ticket loans in metros and tier 1/2/3 cities); thus, they have pricing power and do not find it difficult to pass on the rate hike to customers.

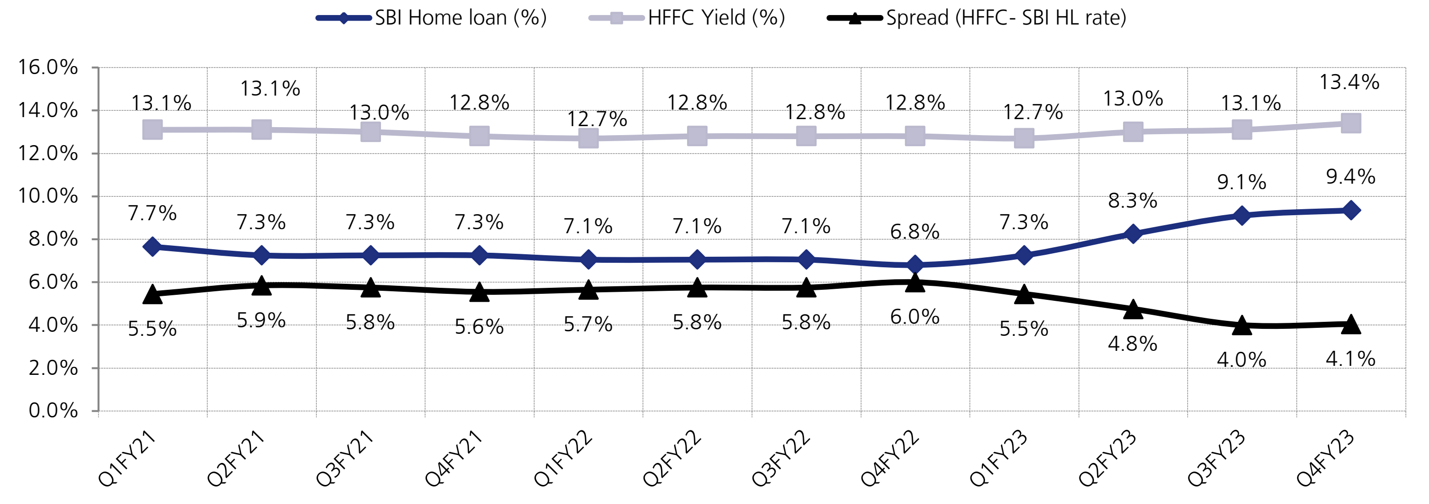
Customer segment: The affordable housing players cater to informal salaried or self-employed customers as against banks who cater to the prime segment customers with more focus towards the salaried, which makes them less risker. These players also focus on customers at the lower end of the pyramid (EWS+LIG) along with geographical concentration on rural and semi-urban geographies (lower than tier3) as against banks who focus majorly on outskirts of metros and tier-2 cities. This combination tilts towards the riskier segment, giving these companies the liberty to charge higher yields to end-customers.

Less competition from banks: The customer segment that these players cater to requires specialised underwriting and deeper customer connect, leading to higher opex cost, which is why banks do not aggressively focus on this segment. These customers are also not very sensitive on pricing and prefer AHFCs with strong local presence. Banks prefer to participate in this model largely via co-lending partnerships. Under the co-lending model, two different lenders (NBFC + Banks) come together to finance the same borrower. Co-lending partnerships are not only used by banks to accelerated the loan growth but, importantly, it also opens up avenues to build a scalable PSL-compliant retail portfolio to tap the underserved and unserved segments. Banks leverage their balance sheet strength to house the majority of the loan (typically ~80%), while HFCs facilitate the origination and collection of the loan. It reduces the interest rates and loan turnaround time for the borrower, lowers the cost of operations for the bank, and facilitates asset-light growth for the NBFCs with minimum capital requirement creating a win-win situation for all the parties involved, in turn reducing competition between both entities.

Interest rate sensitivity: Customers they cater to are niche and not very sensitive to interest rate changes unlike larger HFC's/ banks whose majority customer falls in the prime borrower category.

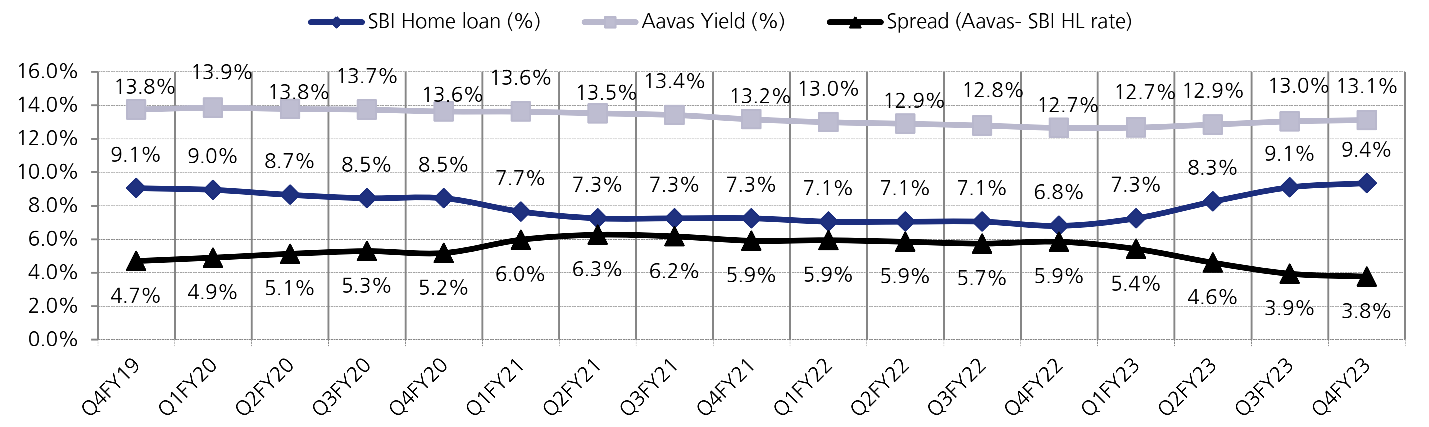
Diversification in high yielding assets: Though housing loans (>55% as at FY23 and 60% as at FY24 - as per RBI guidelines) account for a majority share of their lending, they also service other loans like LAP, small business loans, insurance loans, etc., which benefit them, resulting in higher blended yield on their portfolio.

Exhibit 28. HFFCs spread against SBI home loan rate declined over last 1 year



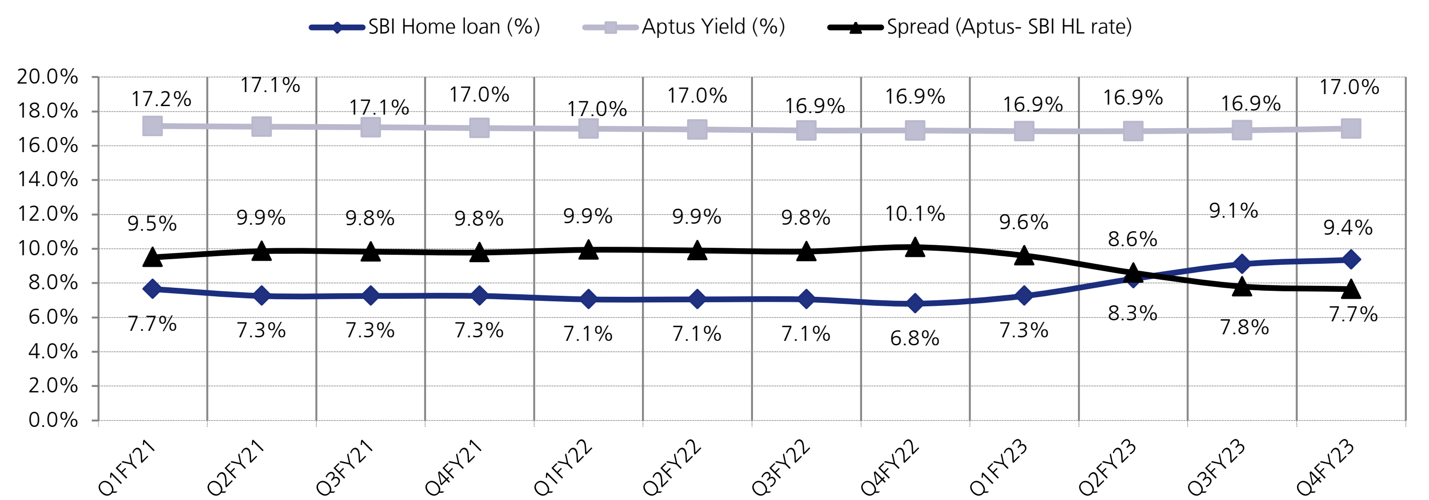
Source: Company, JM Financial

Exhibit 29. Spread for Aavas against SBI home loan has declined in last 1 year



Source: Company, JM Financial

Exhibit 30. Aptus maintains its yield around 17%



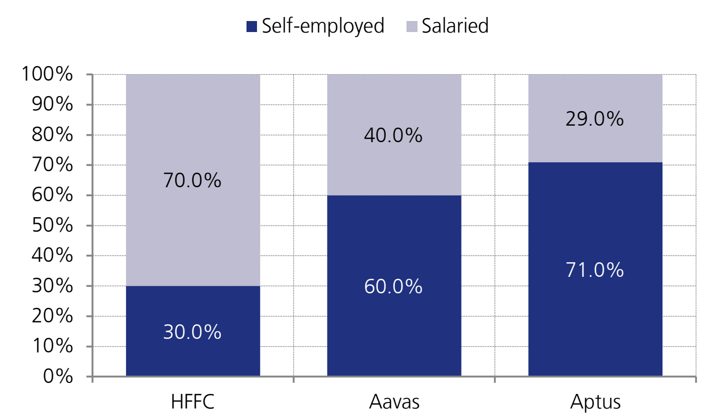
Source: Company, JM Financial

AHFCs' spread profile relatively higher than prime/near-prime HFCs

While large NBFCs and banks majorly focus on salaried and high ticket size loans, AHFCs cater to low-ticket first-time home buyers with major focus on informal salaried and self-employed customers. Since lending to informal salaried and self-employed customers is inherently riskier, it requires strong underwriting practices and thorough investigation. Higher yields also partly compensate for the operationally intensive model while the perceived underwriting risks allow them to gain healthy premium on spreads over prime HFCs.

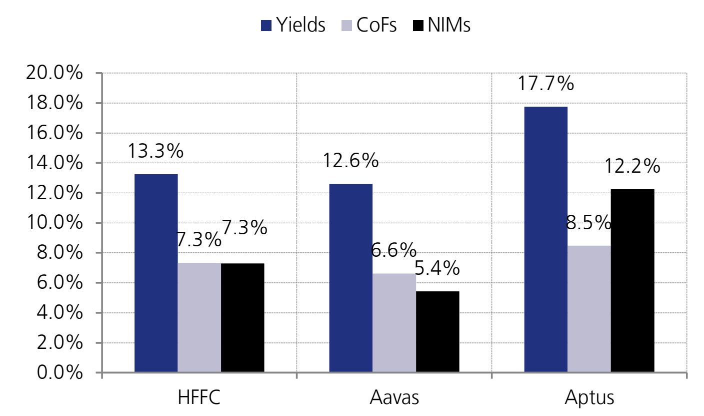
Yields for HFFC (70% salaried mix) are comparable to Aavas, which has 60% self-employed book. Aptus, on the other hand, which has higher share of self-employed book (71% of total book) charges higher yields as compared to HFFC, which has 30% salaried book. Since the risk from self-employed book is higher, the margins for the same are also higher.

Exhibit 31. Catering to slightly informal customer segments



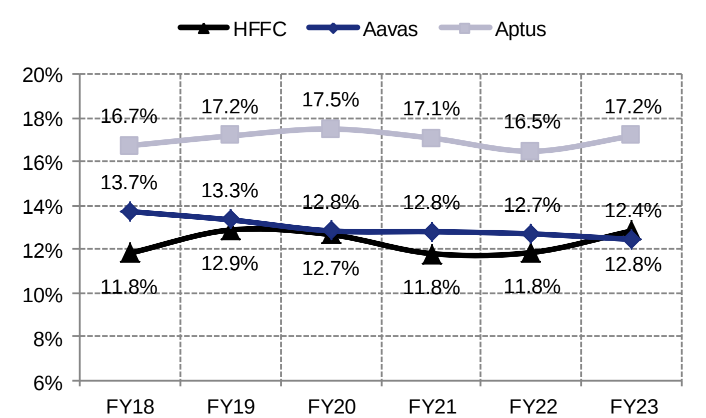
Source: Company, JM Financial

Exhibit 32. Strong margin profile



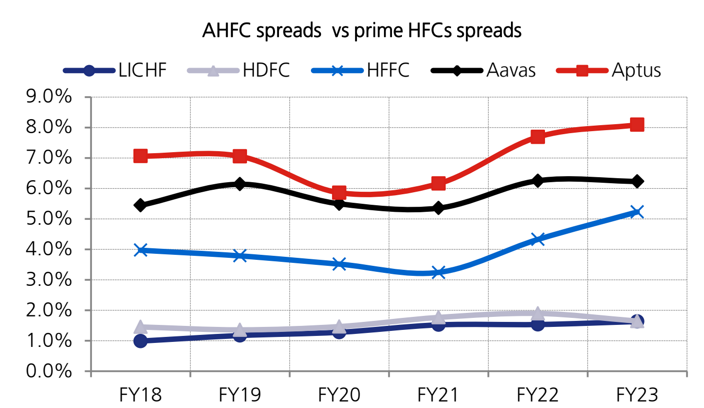
Source: Company, JM Financial

Exhibit 33. Risk adjusted yields for AHFCs



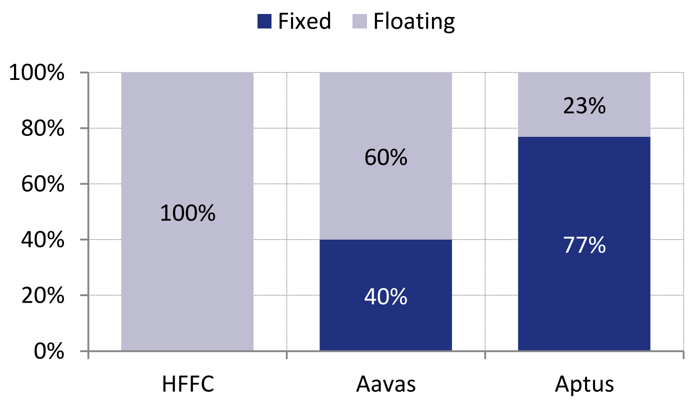
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 34. Spreads across HFCs



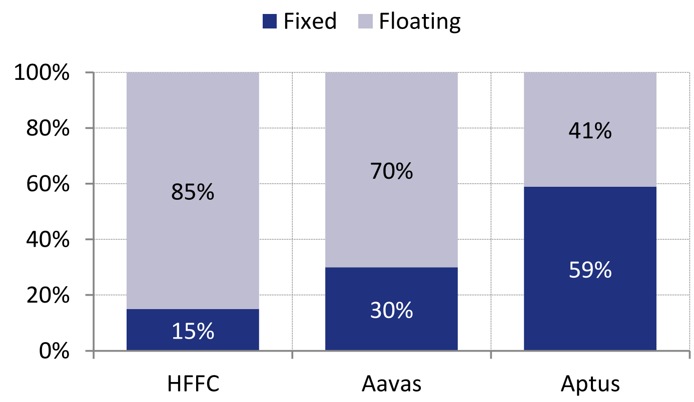
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 35. Fixed vs Floating rate assets



Source: Company, JM Financial

Exhibit 36. Fixed vs Floating rate borrowings



Source: Company, JM Financial

Operationally intensive model though technology and scale will aid operational efficiency

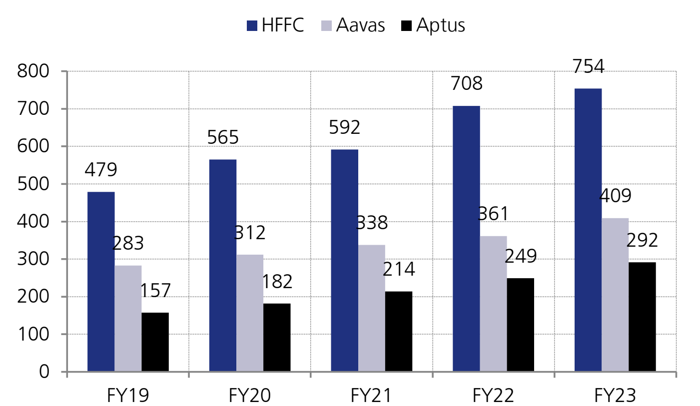
Customer segment, collection model entails greater operational intensity: Given the a) nature of the customer segment (semi-formal income, rural, self-employed, under banked), b) lower ticket sizes, c) requirement of a relatively higher degree of physical presence w.r.t. to customer assessment and d) Development of tech prowess, the model is relatively operationally intensive in nature which in turn lead to higher operating expenses for AHFCs.

The assessment involves greater degree of checks with respect to assessing customer incomes (given less formal income sources, referral checks, co-borrower assessment). Thus a significant emphasis is placed on channel and quality of sourcing/referral. There are multiple channels of sourcing which have evolved right from direct in-house sourcing, connectors, digital partnerships, Direct Selling Agents (DSAs), etc. In certain cases, collection costs are also relatively higher for this segment which drives relatively higher opex for these players.

For the three companies, opex has increased over the last year due to expansion plans and tech spends. HFFC continues to invest in branch expansion and process improvement, which drove opex higher, leading to cost to income at 36% and Opex/ AAUM at 2.8%. Aavas had invested INR 1.5bn in FY22 to improve its tech setup resulting in elevated cost to income at 45% and Opex/ AAUM at 3.6%. Aptus has the lowest C/I ratio at 19% and opex to AAUM at 2.8% as it has dominant presence in only 5 states although it plans to increase its penetration in present geographies and expand gradually in Maharashtra and Odisha, going forward.

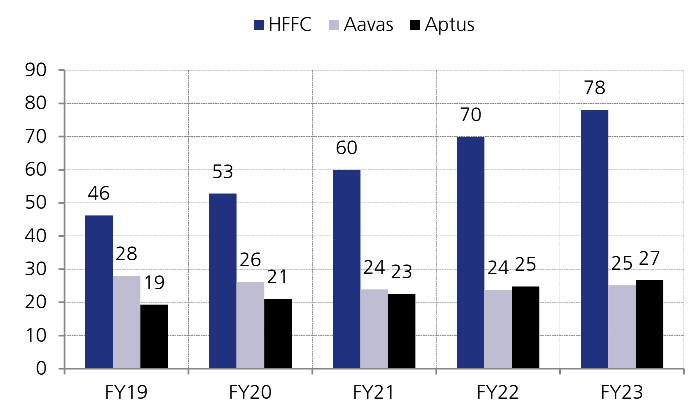
We believe that as the business continues to scale up in the next few years, improving operating leverage as well as greater degree of efficiency improvement (especially due to technology) should drive better cost ratios.

Exhibit 37. Consistent improvement in AUM/Branch



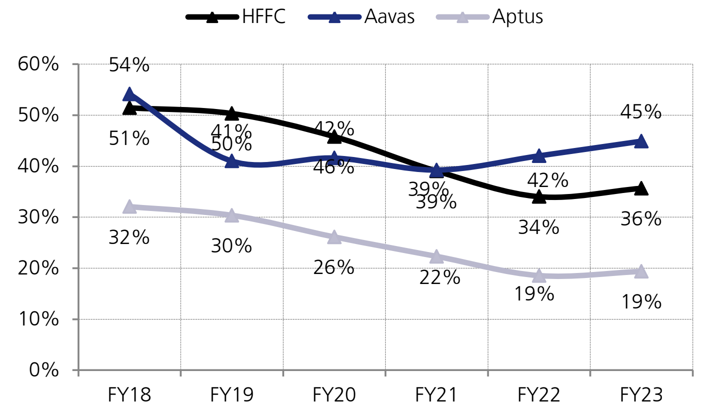
Source: Company, JM Financial

Exhibit 38. Consistent improvement in AUM/Employee



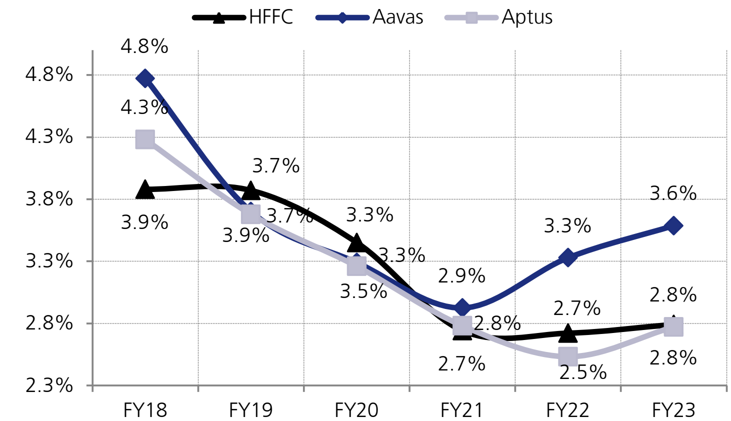
Source: Company, JM Financial

Exhibit 39. Gradual decline in C/I but branch expansion to continue to keep it range bound



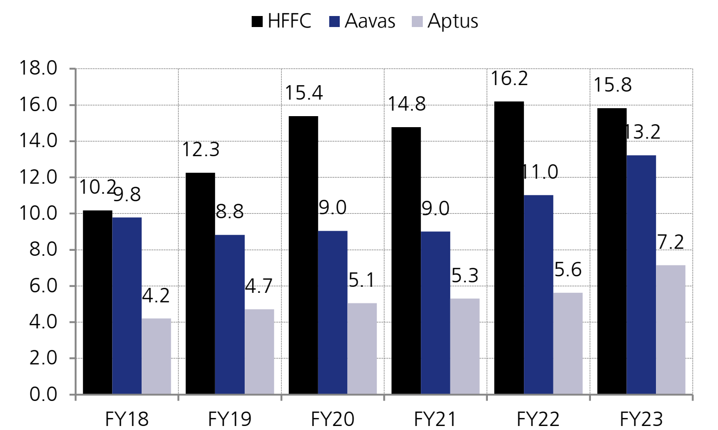
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 40. Branch expansion and tech spends higher among AHFCs and thus higher Opex/AAUM



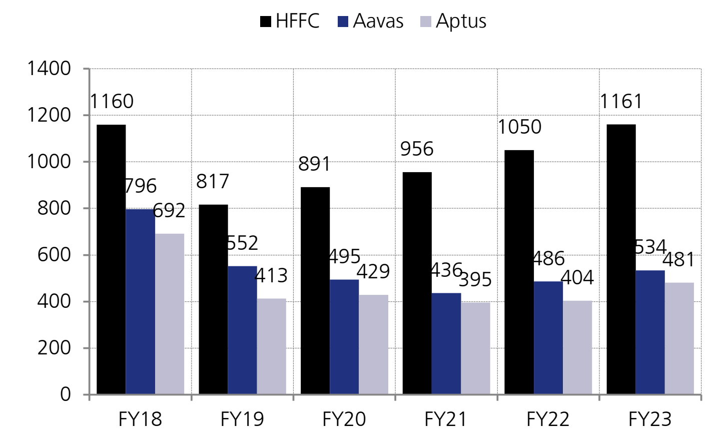
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 41. Trends in Opex/Branch



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 42. Trends in average employee remuneration (Rs 000')



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Underwriting processes involve cash-flow assessment enabling healthy asset quality performance

Underwriting models – various strategies across players; underlying principle remains cashflow assessment

HFFC has a dedicated relationship manager assigned to a customer, who assists the customer at his/her doorstep for loan processing to ensure minimal disruption in their regular routine. This coupled with paperless procedures ensures quick processing of loans, as all the document scans and data points are stored on a single cloud server which is then accessed by centralised underwriting team. These documents include proofs of all the alternative formal/informal income sources (including life insurance policy, property deeds, etc.) of the customers. HFFC makes use of other third party databases for API integration (like Hunter, Perfios, etc.) which store 100+ data points of the customers; the data is then processed through machine learning models to bifurcate customers into different risk buckets, which is then used by underwriting teams for evaluating their customers' credit quality. This ensures turnaround time of ~48 hours for a majority of approvals. Further, ML models are also used to predict bounce probability, thus giving early signals of default. HFFC has a dedicated customer app to access important loan documents, statements, and prepayments, and to raise service requests/queries.

Aavas has an in-house execution model with separate risk measurement methods for each of the geographies it operates in. Its credit underwriting team is separate from the sales team and majority of the loans are guaranteed by guarantors. The underwriting managers visit customers to understand their business and revenue streams and, based on their income validation, loan eligibility is determined. Aavas follows 100% app-based geo-tagging of properties under collateral, which ensures security in case of defaults. For collections, the field executives maintain direct contact with customers assigned to them in order to detect any early warning signs of default in payments.

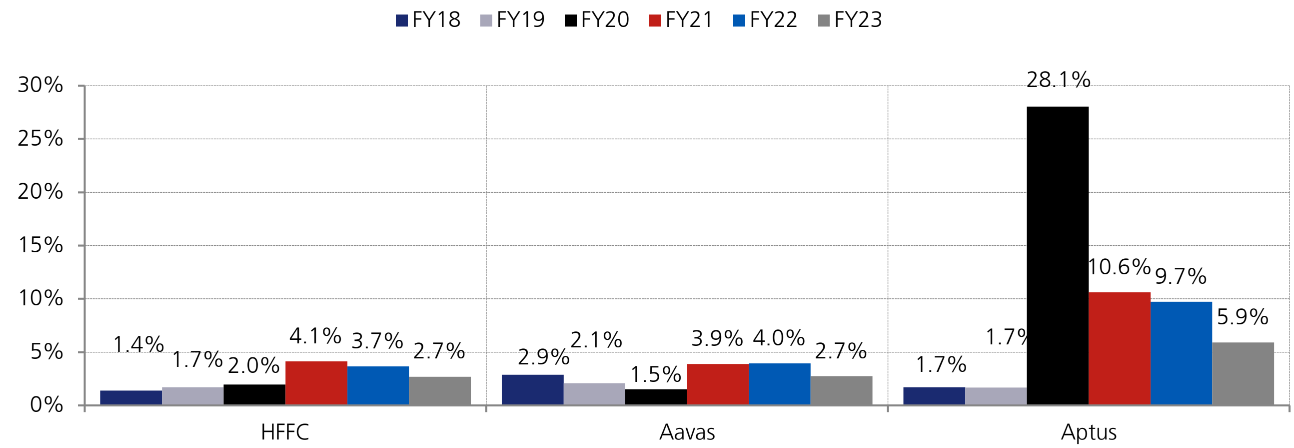
Aptus too follows a centralised underwriting process with credit officers responsible for field visits and document verification. The income is accessed by closely monitoring borrowers' lifestyle and assets owned like vehicle, other properties, etc. The in-house technical and legal team verifies deeds and legal property documents before approval. Collections are done digitally via auto debit facility and by regular site visits on a quarterly basis.

Asset quality tested through tough times; ensures healthy risk-adjusted margins through cycles

The profiles that affordable housing players service are highly prone to economic shocks and vulnerabilities. As such, most players saw deterioration in asset quality in the aftermath of Covid-19.

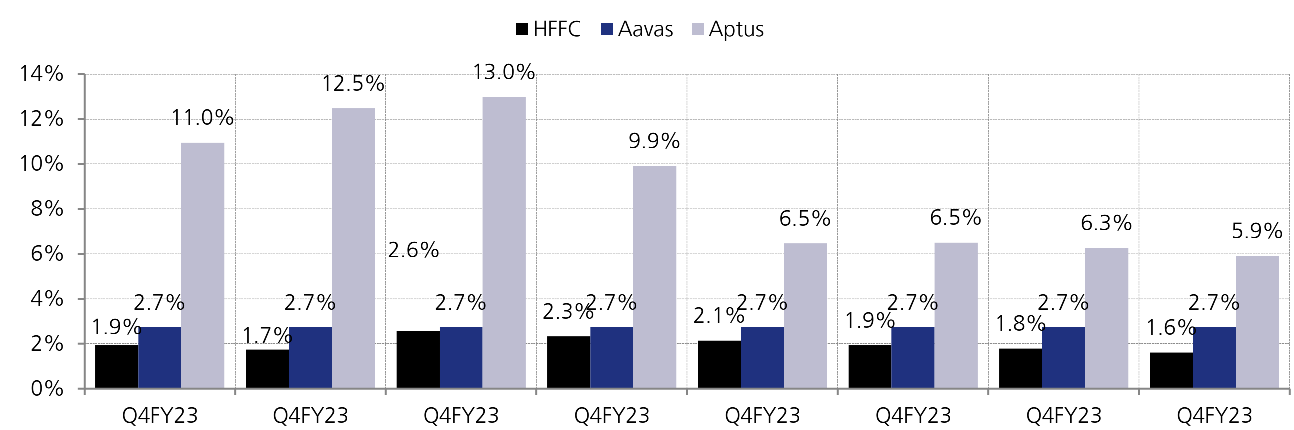
Total for Stage 2 and Stage 3 assets rose to ~4% (Aptus peaked to 28%) and most players affected restructuring to the tune of 80-175bps during this period. In addition, migration to RBI norms w.r.t. to asset quality contributed in a small way to the increase in GNPAs.

Exhibit 43. Trends in stressed assets (stage 2 + stage 3)



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 44. Quarterly Trend of stressed assets (stage 2 + stage 3)



Source: Company, JM Financial

However, most players have been able to contain eventual losses to sub ~40bps and collection efficiencies all through FY23 have been quite strong.

Asset quality performance has been of prime importance, especially in the last few years, with the setbacks faced by NBFCs/HFCs including events such as demonetisation and liquidity crisis followed by onset of Covid-19. Most players adopted stringent underwriting policies to focus on improvement in collections while improving their IT infrastructure (introducing auto-debit facilities, mobile apps for constant tracking and online payments, etc.).

Affordable players exhibited resilient collection efficiency with cautious growth, which resulted in moderate delinquencies due to proactive measures taken by the players. Exhibit 15 highlights the restructured book for individual affordable housing players. However, in FY22, GNPAs rose across the market with change in regulatory reporting as per the RBI circular dated 12th Nov'21 and the delinquencies were a tad elevated post the 2nd wave of Covid-19 as well as impact of change in RBI norms.

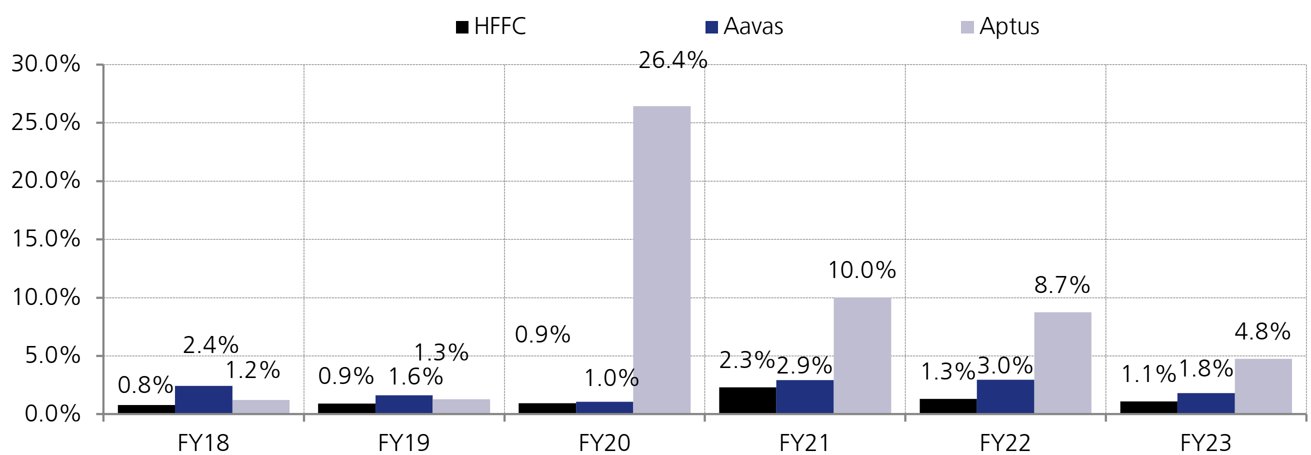
The overall economy recovered in FY23, resulting in normalisation in asset quality with low credit costs. Most of the HFCs made more-than-sufficient provisions against the stressed book, which was mainly affected by the pandemic while reversals have been minimal as they plan to keep excess provisions in case of any further delinquencies, going forward.

HFFC has witnessed consistent rise in stage 3 assets until FY22 on account of the pandemic while improvement was seen in FY23 due to better macros. However, 0.7% of HFFC's current gross stage 3 is primarily induced by RBI's norms and not delinquent.

Aavas Financiers has observed pristine asset quality with stressed book (gross stage 2 + stage 3) remaining under control even during the peak of the pandemic – it was 3.96% in FY22 and is now at 2.74%. Aavas has been successful at containing stage 3 assets below 1% across cycles with its expertise in underwriting and collections.

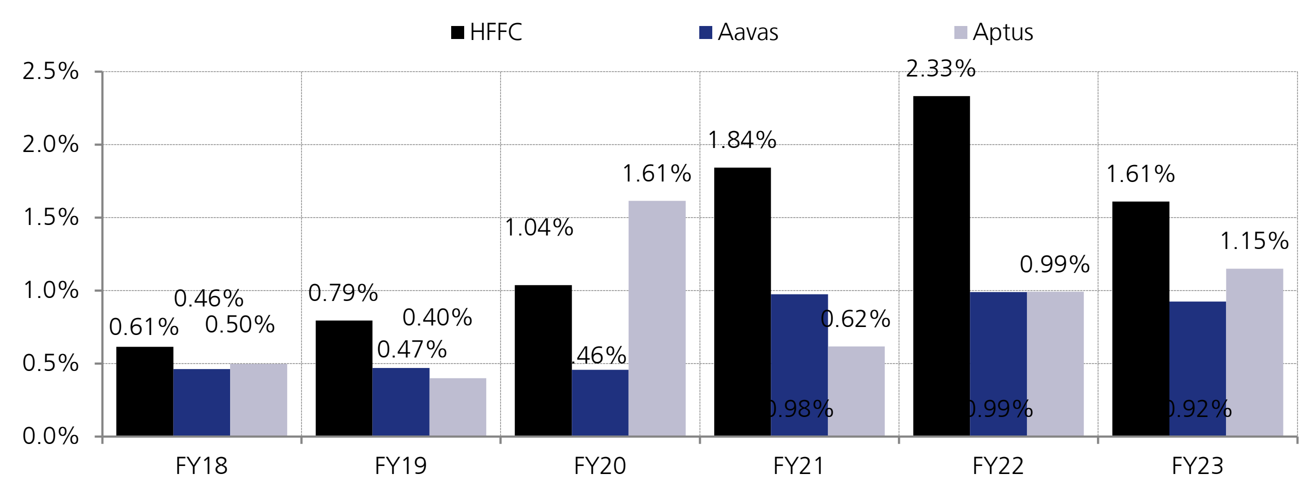
Aptus witnessed a sharp jump in stage 2 overdue at ~26% in FY20 although it did not significantly translate into stage 3 assets, which peaked at 1.61% in FY20. However, its stressed book improved significantly to 5.9% post the peak.

Exhibit 45. Trends in stage 2 assets



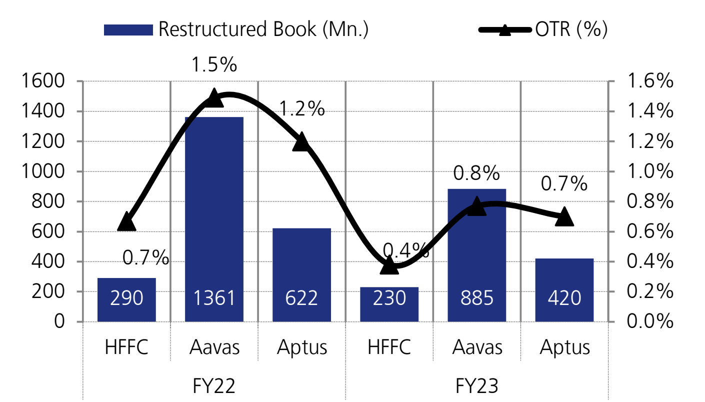
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 46. Trends in stage 3 assets



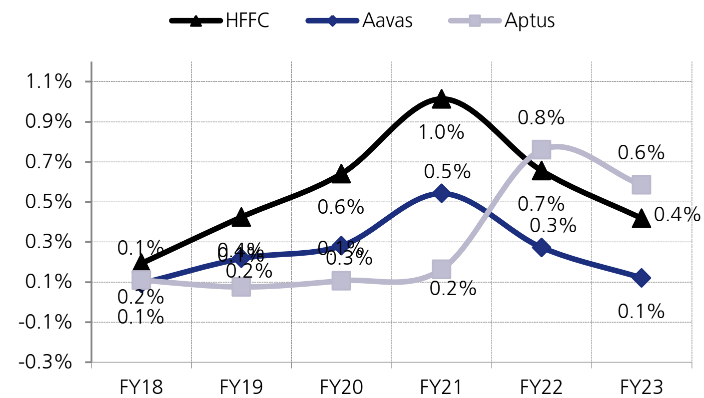
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 47. Improving OTR book



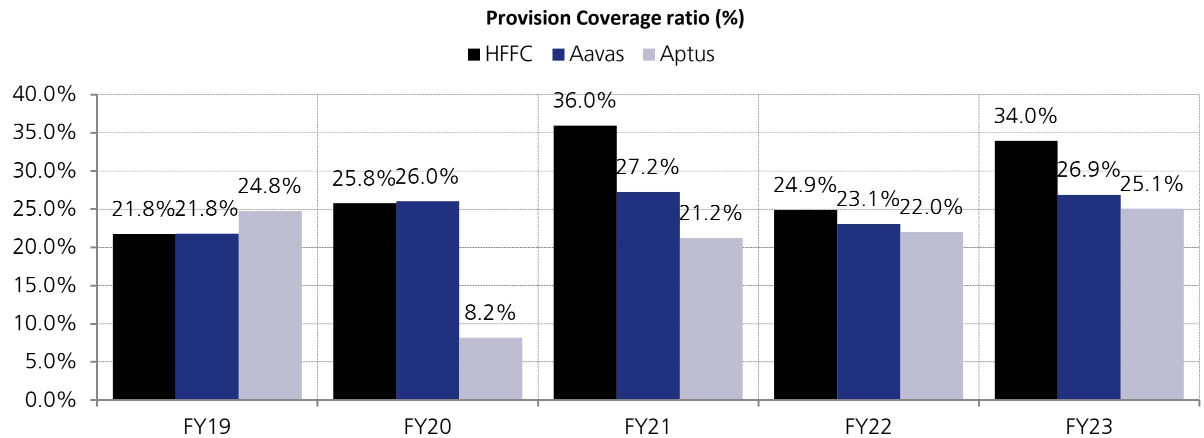
Source: Company, JM Financial

Exhibit 48. Credit cost remained low even during testing times



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 49. AHFCs focus on increasing coverage during pandemic to shield from unforeseen losses



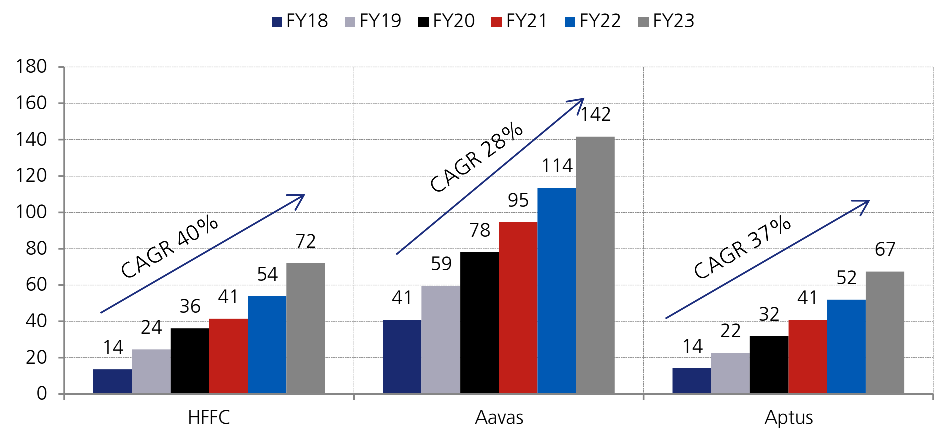
Source: Company, JM Financial

All the three players have ramped up coverage levels through the pandemic, which offers comfort w.r.t to future credit costs. HFFC has indicated it would look to maintain coverage levels at ~1% of the portfolio.

Consistently healthy growth in loan book across all AHFCs

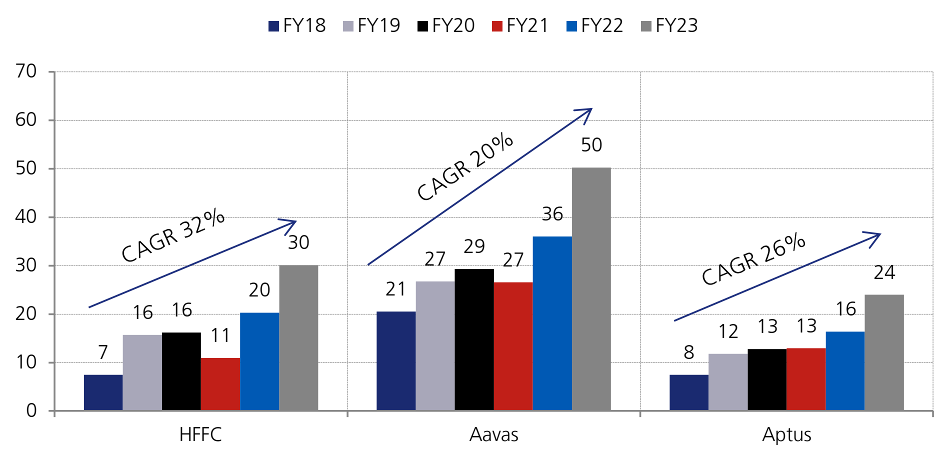
AHFCs have reported healthy growth since the last 6 years despite challenges like Covid and demonetisation. Aggressive branch expansion and government push on "Housing for All" and "PMAY" has led to 25%+ CAGR growth over last 5 years in AHFCs. While CLSS subsidy (valid till FY23) played a vital role in higher disbursements in the last 5 years, we believe growth from hereon would continue to sustain on the back of lower mortgage penetration, improved affordability and rising rural income.

Exhibit 50. Consistent robust growth across all AHFCs



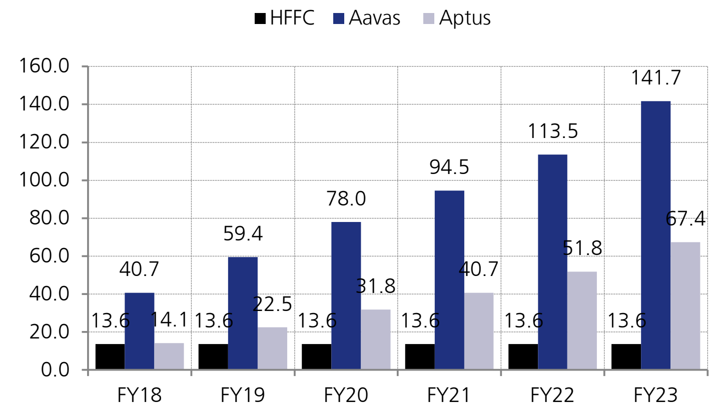
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 51. Healthy Disbursements Growth Trend



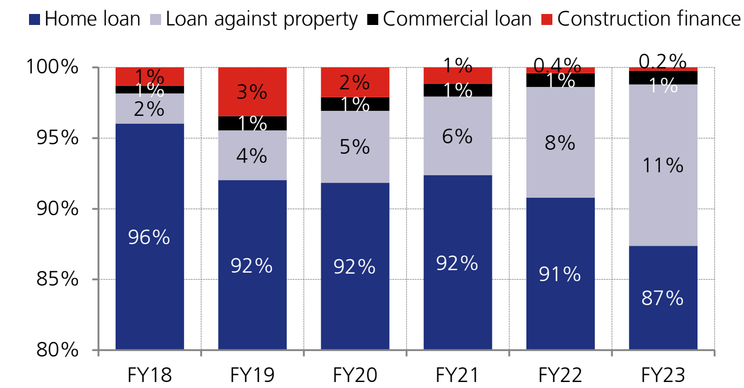
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 52. AUM trend for last 5 years



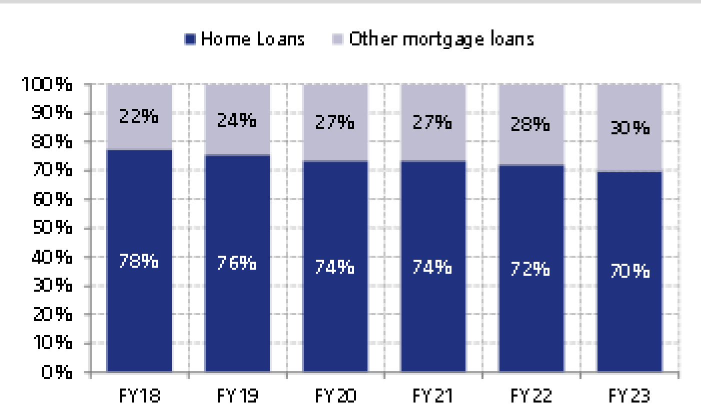
Source: Company, JM ; FY18/FY19 calculations based on IGAAP Financials

Exhibit 53. Trends in loan mix - HFFC



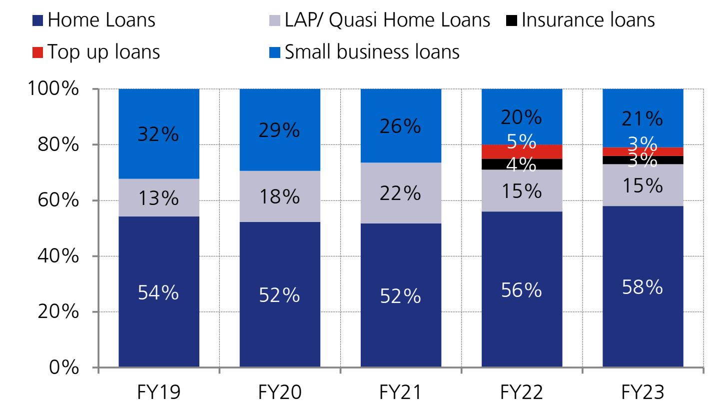
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 54. Trends in loan mix – Aavas



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 55. Trends in loan mix - Aptus



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Presence in underpenetrated geographies and mindful expansion strategies

AHFCs are majorly present in underpenetrated geographies, especially rural/semi-urban areas with relatively lower financial penetration.

HFFC caters to customers on the outskirts of metro cities and certain semi urban locations where there is less competition from banks. It majorly operates in Gujarat, Maharashtra, Tamil Nadu, Karnataka, Telangana and Andhra Pradesh. Tier-3 market constitutes 30% of HFFC's AUM. Its strategy is to initially open virtual touch-points in new regions to check for opportunities and then convert them into a permanent branch on witnessing potential in that area to reach INR 1000mn AUM in 4-5 years.

Aavas focuses on semi-urban and rural markets (expanding in below tier-3 cities) where it targets towns with penetration levels below 5%. It targets 10-15 loans per month with a ticket size of ~INR 10 lakh while focusing its opex in such a way that the branch turns RoE positive in 12-15 months' time. It expands its network into new states every 3-5 years with 30-35 branches added each year.

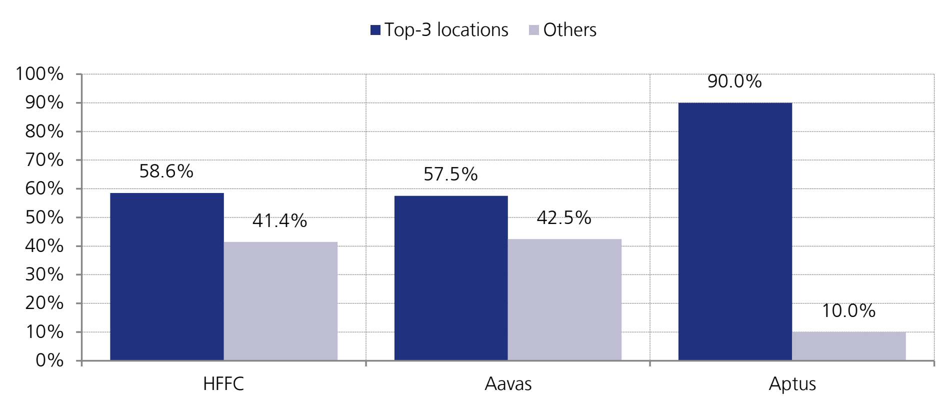
Aptus is a rural focused AHFC with 86% of the branches located in below tier-3 locations and is currently operating in five states. Aptus strategises to expand into newer geographies once it achieves deeper penetration in existing states. It plans to focus on growing its presence in Chhattisgarh and Maharashtra in the near term.

Exhibit 56. Branch split across underpenetrated states

HFFC		Aavas		Aptus	
State	Branch	State	Branch	State	Branch
Gujarat	24	Rajasthan	102	Andhra Pradesh	86
Tamil Nadu	22	Madhya Pradesh	49	Tamil Nadu	86
Maharashtra	19	Maharashtra	48	Telangana	36
Andhra Pradesh	9	Gujarat	44	Karnataka	21
Telangana	8	Uttar Pradesh	27	Odisha	2
Madhya Pradesh	8	Karnataka	24	**Total**	**231**
Rajasthan	8	Haryana & Punjab	20		
Karnataka	6	Uttarakhand	9		
Chhattisgarh	3	Chhattisgarh	9		
Uttar Pradesh & Uttarakhand	3	Orissa	6		
Haryana & NCR	1	Himachal Pradesh	4		
Total	**111**	Delhi	4		
		Total	**346**		

Source: Company, JM Financial

Exhibit 57. HFFC and Aavas are fairly diversified compared to Aptus



Source: Company, JM Financial

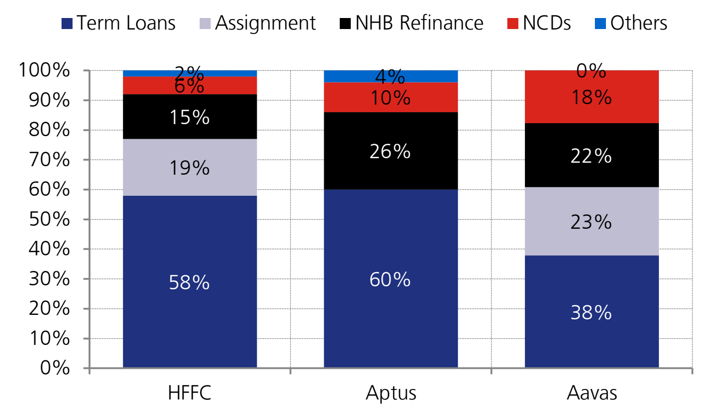
Higher mix of NHB borrowings and co-lending book to support cost of funds in rising interest rate scenario

HFCs enjoy lower borrowing costs due to NHB refinancing, which helps them restrict their CoF (cost of funds) at lower levels as compared to other loans. Apart from NHB, co-lending/assignment plays a vital role especially in AHFCs in order to keep their liquidity intact and contain CoF. Aavas and HFFC has 23% and 19% of the borrowings respectively from direct assignment.

Aavas enjoys a well-diversified borrowing mix in comparison to Aptus and HFFC, who will look towards various sources of funds with growth in the asset book and increased market confidence.

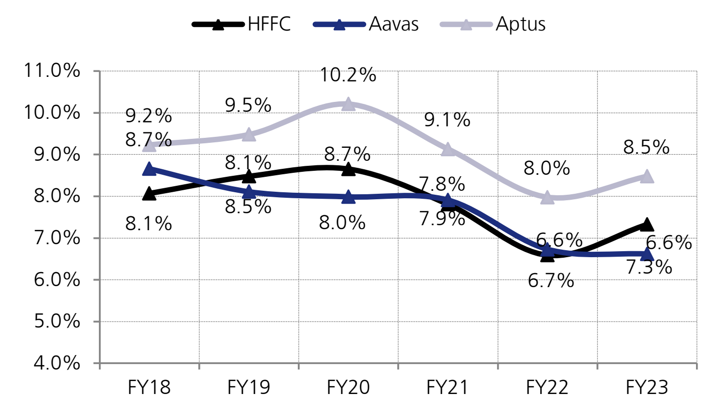
Aavas has higher contribution of assignment and NHB borrowings, which makes it less vulnerable to rising interest rates. Aptus' CoF is higher in comparison to Aavas and HFFC due to its higher share of self-employed book (71% of total book). HFFC aims to do direct assignments at a rate of 10% of total disbursements per quarter on a regularly basis, which aided in flattish growth in CoF between FY22 and FY23 despite the 250bps interest repo rate hike.

Exhibit 58. Higher share of NHB and co-lending book



Source: Company, JM Financial

Exhibit 59. NHB funding benefits HFFC and Aavas' funding costs



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 60. Favourable Credit Ratings

Company	Long Term/Short Term	Rating Agency	Ratings
Aavas	LT Rating	ICRA	AA/Stable
		CARE	AA/Stable
	ST Rating	ICRA	A1+
		CARE	A1+
		INDIA RATINGS	A1+
Aptus	LT Rating	ICRA	AA-/Stable
		CARE	AA-/Stable
HFFC	LT Rating	ICRA	AA- /Stable
		CARE	AA- /Stable
		INDIA RATINGS	AA- /Stable
	ST Rating	ICRA	A1+
		INDIA RATINGS	A1+

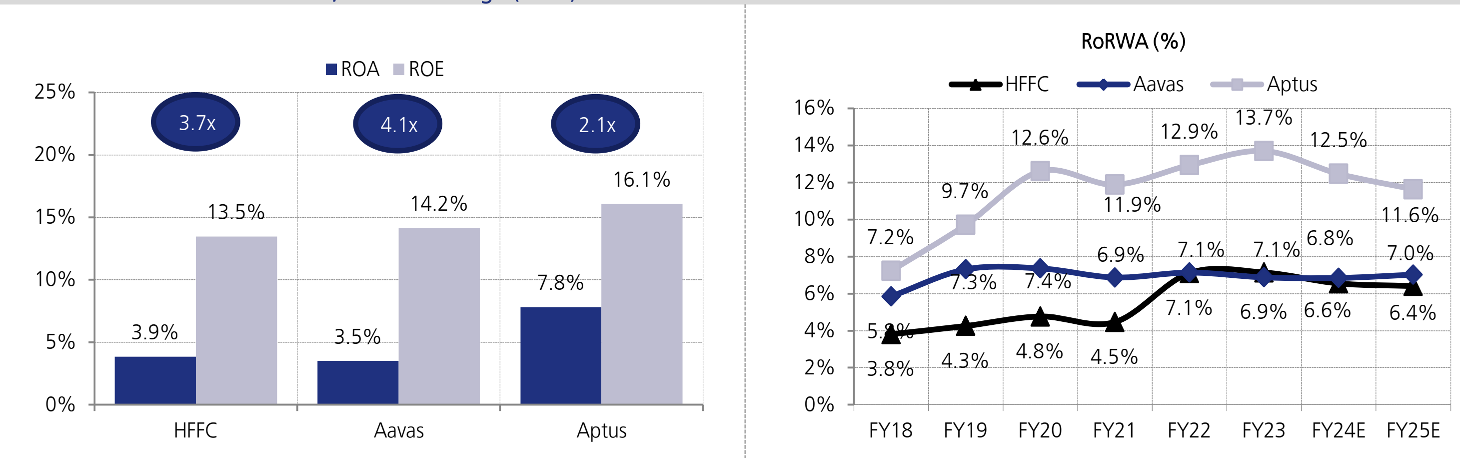
Source: Company, JM Financial

Expect healthy RoA; RoE expansion to follow as leverage builds up

We expect all the three players to witness largely stable RoAs over the next couple of years. However, healthy growth and build-up of leverage are likely to drive RoE expansion for these companies.

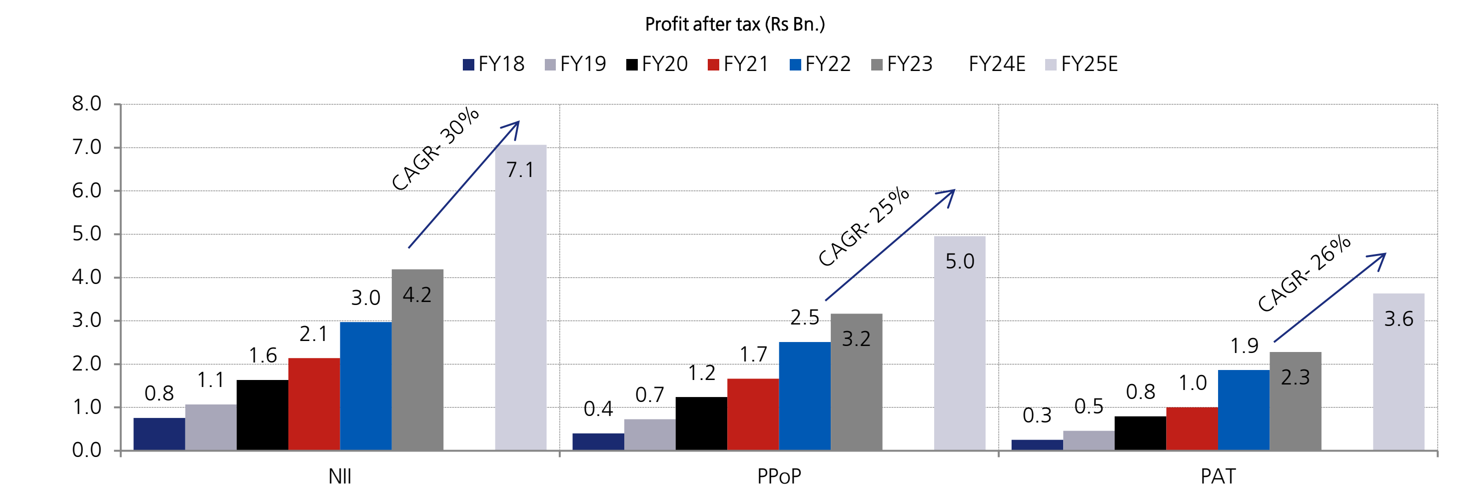
Return ratios for all three players looks lucrative with superior performance by Aptus on the back of higher spread on account of higher self-employed book and lower leverage. Aavas and HFFC have comparable return ratios at similar leverage levels of ~4-4.3x.

Exhibit 61. Robust Return Ratios; Lower Leverage (FY23)



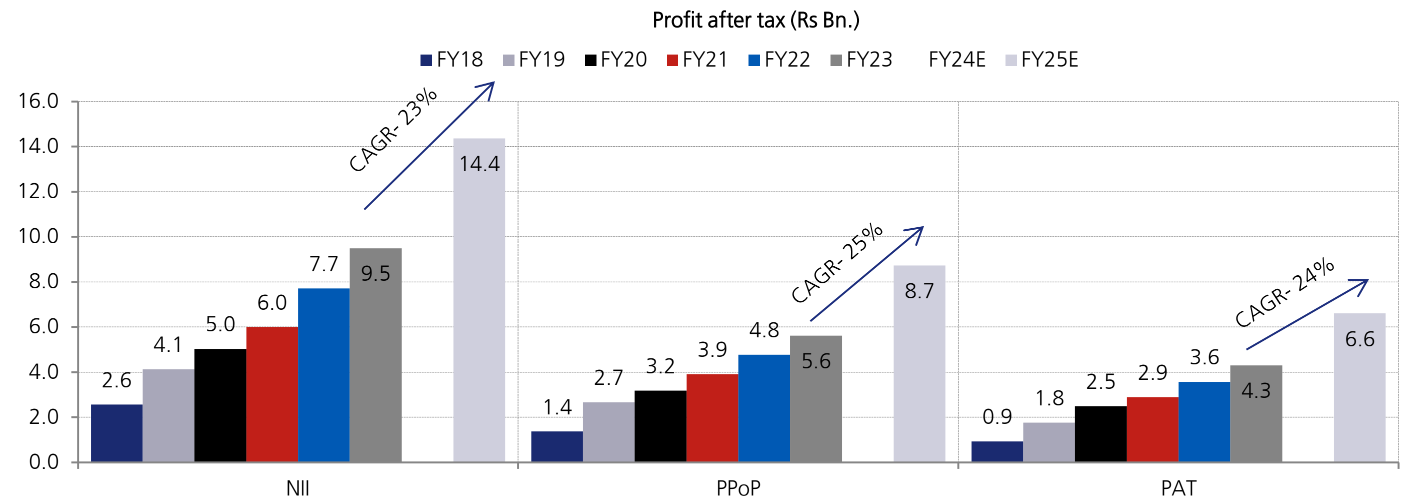
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 62. HFFC profitability growth trends



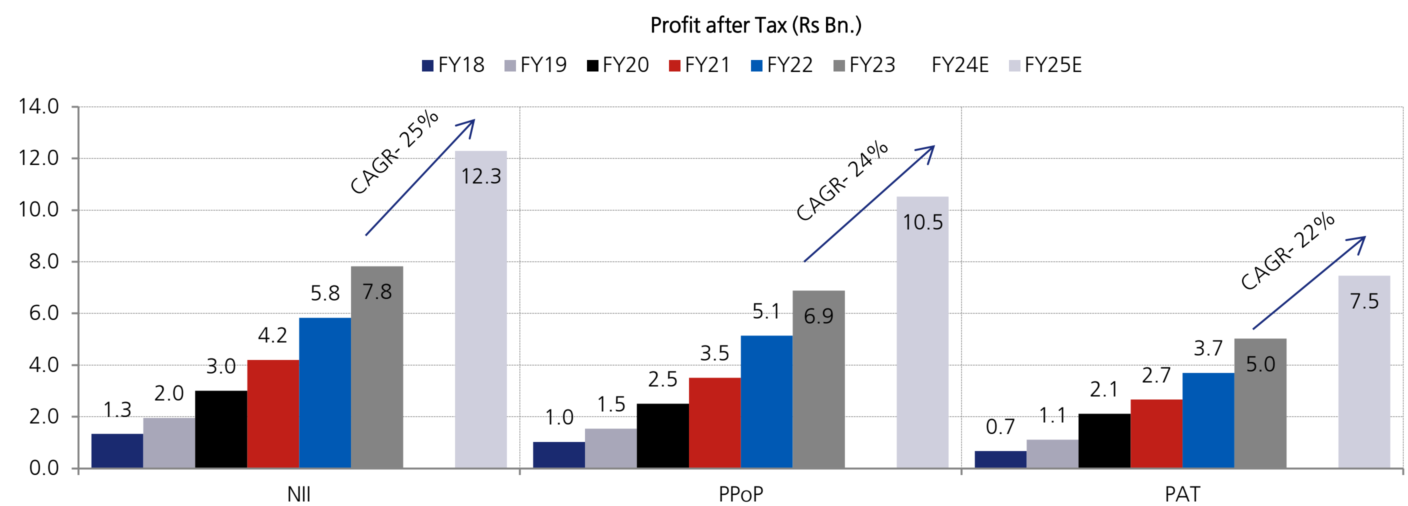
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 63. Aavas profitability growth trends



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 64. Aptus profitability growth trends



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 65. HFFC – Du-Pont Analysis

Du-pont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / Assets	5.6%	5.5%	5.3%	6.2%	7.1%	6.9%	6.8%
Other income / Assets	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Total Income / Assets	7.6%	7.7%	6.8%	7.9%	8.3%	7.8%	7.6%
Employee Cost to Assets	2.2%	2.0%	1.7%	1.7%	1.8%	1.8%	1.8%
Other Cost to Assets	1.6%	1.5%	1.0%	1.0%	1.2%	1.1%	1.1%
Cost to Assets	3.8%	3.5%	2.7%	2.7%	3.0%	2.9%	2.8%
PPP / Assets	3.8%	4.2%	4.2%	5.2%	5.3%	4.9%	4.8%
Provisions / Assets	0.4%	0.6%	0.8%	0.5%	0.4%	0.2%	0.3%
PBT / Assets	3.4%	3.6%	3.4%	4.7%	5.0%	4.6%	4.5%
ROA	**2.4%**	**2.7%**	**2.5%**	**3.9%**	**3.9%**	**3.6%**	**3.5%**

Source: Company, JM Financial; FY19 calculations based on IGAAP Financials

Exhibit 66. Aavas - Du-Pont Analysis

Du-pont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / Assets	8.5%	7.6%	7.2%	7.7%	7.8%	7.8%	7.8%
Other income / Assets	0.8%	0.6%	0.5%	0.5%	0.6%	0.6%	0.6%
Total Income / Assets	9.4%	8.2%	7.7%	8.2%	8.3%	8.4%	8.4%
Employee Cost to Assets	2.4%	2.2%	2.1%	2.3%	2.5%	2.5%	2.4%
Other Cost to Assets	1.4%	1.2%	1.0%	1.1%	1.3%	1.3%	1.2%
Cost to Assets	3.8%	3.4%	3.0%	3.5%	3.7%	3.7%	3.7%
PPP / Assets	5.5%	4.8%	4.7%	4.8%	4.6%	4.7%	4.7%
Provisions / Assets	0.2%	0.2%	0.4%	0.2%	0.1%	0.1%	0.1%
PBT / Assets	5.3%	4.5%	4.3%	4.6%	4.5%	4.6%	4.6%
ROA	**3.6%**	**3.8%**	**3.5%**	**3.6%**	**3.5%**	**3.5%**	**3.6%**

Source: Company, JM Financial; FY19 calculations based on IGAAP Financials

Exhibit 67. Aptus – Du-Pont Analysis

Du-pont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
NII / Assets	10.3%	9.9%	10.2%	11.4%	12.2%	11.9%	11.4%
Other income / Assets	1.4%	1.3%	0.8%	1.0%	1.1%	0.9%	0.8%
Total Income / Assets	11.7%	11.2%	10.9%	12.4%	13.3%	12.8%	12.2%
Employee Cost to Assets	2.5%	2.1%	1.7%	1.7%	1.9%	1.9%	1.9%
Other Cost to Assets	1.0%	0.8%	0.7%	0.6%	0.7%	0.7%	0.6%
Cost to Assets	3.6%	2.9%	2.4%	2.3%	2.6%	2.6%	2.5%
PPP / Assets	8.2%	8.2%	8.5%	10.1%	10.7%	10.2%	9.7%
Provisions / Assets	0.1%	0.1%	0.1%	0.7%	0.5%	0.5%	0.5%
PBT / Assets	8.1%	8.2%	8.3%	9.4%	10.2%	9.7%	9.2%
ROA	**5.9%**	**7.0%**	**6.5%**	**7.3%**	**7.8%**	**7.3%**	**6.9%**

Source: Company, JM Financial; FY19 calculations based on IGAAP Financials

Key Risks:

Pressure on yields due to increased competition: AHFCs are able to charge higher yields of 13-22 to customers given that they enjoy a competitive advantage over banks and other NBFCs (on ticket size and underwriting capabilities built over time). If there is an increase in competition in its target segment, it could put pressure on the company's yields and margins.

Inability to maintain healthy asset quality parameters: While AHFCs have successfully maintained asset quality within a comfortable range despite higher early buckets delinquencies on the back of strong monitoring and collection mechanism, any failure to sustain asset quality metrics in future, leading to an increase in credit costs, will be a risk.

Broad-based economic slowdown: Broad-based slowdown in the Indian economy may pose as a risk to our AUM and earnings growth estimates.

Geographical concentration bias: While ~57 of HFFC and Aavas' books are from the top 3 states, 80 of Aptus' book belongs to Andhra Pradesh, Telangana and Tamil Nadu. Any political/natural calamity could affect growth/asset quality directly.

Home First Finance Company | BUY

JM FINANCIAL

In pole position

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Home First Finance Company (HFFC) is our preferred play on the affordable housing opportunity in the country. With its unique technology-focused model, high focus on the salaried segment with self-constructed homes as the fulcrum of the product proposition, we believe HFFC can grow at 30%+ over the next 5-7 years. The company has demonstrated strong asset quality delivery, continued improvement in efficiency ratios and remains committed to the individual HL as a segment. We expect HFFC to deliver 32% CAGR in AUMs, improve ROEs to 16.3% FY25E with strong asset quality. Incremental growth will be driven by newer geographies as well as deeper presence in existing locations. HFFC's adroit balance sheet management with co-lending mechanism, improving funding costs and conservative provisioning give us greater confidence w.r.t to its ability to deliver healthy through-cycle returns. We initiative coverage with a BUY rating and target price of INR 950 (valuing HFFC at 3.5x FY25e P/BV). Protracted slowdown leading job losses in HFFC's target segment are key risks to our call.

- **Careful consideration and smart approach towards branch expansion offers effective growth:** HFFC carefully analyses each location before setting its footprint there. It opens a virtual touch-point (with only relationship managers and connectors) in the location after careful consideration of the opportunities in the area. Once the virtual touch-point is capable of breaching INR 100mn AUM, it converts it into a physical branch. This thorough analysis on demand to expand its branches across new locations would drive ~30%+ CAGR growth over FY23-25E.

- **Diverse lead generation channels:** HFFC has multiple sourcing channels, which include branch employees, builder ecosystem, referrals and strategic connectors. Connectors are the major source of loans for the company, which include people from construction or finance industries who indirectly come across customers looking for home loans. The company has tie-ups with digital aggregators like PayTM, Paisabazaar, Homelane, QuikrIndia, Credit Mantri, etc., who generate leads and are given a commission of 0.4% of the disbursed amount.

- **Diversified liability franchisee and better co-lending partnerships:** HFFC has been able to expand its lender relationships with private, public and international banks in the last 6 years. It has also increased borrowings from NHB to ~15% of total borrowings in FY23 (raised more INR 6bn through NHB in 1QFY24) from ~9% in FY17, which has benefitted the company largely in lowering its CoF. HFFC intends to do co-lending for ~10% of total disbursements, which would improve profitability.

- **Spreads in line with peers despite relatively higher salaried book:** Due to steady yields of ~11-13% over the last 6 years and declining CoF (from ~8 % in FY18 to 7.4% in FY23), NIM has expanded from 6.6% in FY18 to 7.3% in FY23. HFFC's spread (5.2% for FY23) is more or less at similar levels vis-à-vis peers despite a comparatively larger salaried book. Amid rising interest rates, the company received a ratings upgrade in Q1FY23 to ICRA AA- (Stable), which helped it maintain CoF to some extent, while increasing the share of

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	950
Upside/(Downside)	25.8%

Key Data – HOMEFIRS IN	
Current Market Price	INR755
Market cap (bn)	INR66.6/US$0.8
Free Float	33%
Shares in issue (mn)	88.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR207.1/US$2.5
52-week range	1,005/652
Sensex/Nifty	62,979/18,666
INR/US$	82.0

Price Performance			
%	1M	6M	12M
Absolute	9.0	8.7	2.9
Relative*	8.2	4.5	-13.9

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	1,001	1,861	2,283	2,822	3,632
Net Profit (YoY) (%)	25.9%	85.8%	22.7%	23.6%	28.7%
Assets (YoY) (%)	29.6%	13.5%	31.7%	33.2%	30.4%
ROA (%)	2.51%	3.87%	3.85%	3.59%	3.51%
ROE (%)	8.7%	12.6%	13.5%	14.5%	16.3%
EPS	11.5	21.2	25.9	32.1	41.3
EPS (YoY) (%)	12.8%	85.3%	22.1%	23.6%	28.7%
P/E (x)	**65.9**	**35.6**	**29.1**	**23.5**	**18.3**
BV	158	180	206	235	272
BV (YoY) (%)	33%	14%	15%	14%	16%
P/BV (x)	**4.78**	**4.20**	**3.66**	**3.21**	**2.77**

Source: Company data, JM Financial. Note: Valuations as of 23/Jun/2023

LAP book helped offset rising CoF. Going forward, we expect margin to contract by 25-30bps due to transmission lag.

- Enhanced technology usage offers cost advantage and improved productivity: HFFC's tech-driven business model has been a major differentiating factor as majority of the operations of the company are handled digitally with lowest turnaround time for loan processing of as low as 48 hours. The cost-to-income of the company has declined significantly from ~50% in FY18 to ~35% in FY23 driven mainly by cost benefits from tech investments. Opex/AAUM has also declined from 3.9% in FY18 to 2.8% in FY22. Currently, HFFC has the best AUM/employee and AUM/Branch among its peers due to its efficient workflow applications.
- Steady asset quality with healthy provision cover: HFFC has a Stage 3 of 1.6%, of which 0.7% is <90dpd loans, which has already started payments. Against this Stage 3, the company holds provisions of 34%, which, we believe, is sufficient for a highly secured business given that most of its loans are pure housing loans and have been given to salaried and self employed individuals. On the overall book, the company holds provisions cover of 1%. With the economy recovering, we do not expect any major delinquencies, going forward, given the company's collection mechanism and stringent underwriting process; thus, we assume ~28-29bps credit cost for FY24-25E.
- Robust return ratios to result from improving operating leverage: Growth from branch expansion and higher demand in housing sector, marginal decline in spreads, consistent improvement in efficiency and limited credit costs from superior credit underwriting will lead to healthy RoA/RoE of ~3.5%/16.3% over FY25E. We initiate coverage on HFFC with a BUY rating valuing the company at 3.5x on FY25E book with TP of INR 950.

Valuation and View

A high yield portfolio, controlled opex and low credit cost should help sustain HFFC's strong return metrics. While near-term RoE is suppressed due to high capital adequacy (48.9% Tier1), we expect it to expand to 16.3% by FY25E and forecast earnings CAGR of 26% over FY23-25E. We value HFFC at 3.5x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 950. HFFC's inability to maintain healthy collections especially from informal salaried customers and sharp broad-based deceleration in economic activity are key risks to our call.

Exhibit 68. HFFC: Steady State (Schematic) RoE

NII / Assets (%)	7.00%
Other income / Assets (%)	0.86%
Total Income / Assets (%)	7.86%
Cost to Assets (%)	2.90%
PPP / Assets (%)	4.96%
Provisions / Assets (%)	0.36%
PBT / Assets (%)	4.60%
ROA (%)	3.45%
Leverage (x)	5.5
ROE (%)	19.0%

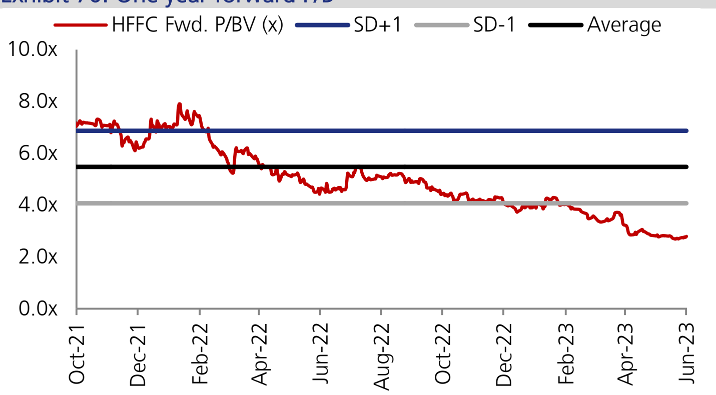
Source: Company, JM Financial

Exhibit 69. HFFC: Computation of Valuation multiple

RoE	19.0%
g	16.1%
r	11.7%
gn	4.7%
n	10
payout1	15%
payoutn	75%
K1	1.87
K2	16.51
P/BV	3.49x

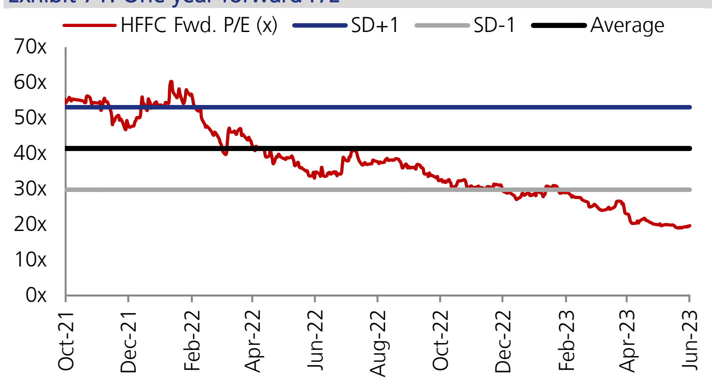
Source: Company, JM Financial

Exhibit 70. One year forward P/B



Source: Company, JM Financial

Exhibit 71. One year forward P/E



Source: Company, JM Financial

Exhibit 72. Our estimates vs Consensus estimates

	JMFe		Consensus		Variance	
INR mn	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	5,441	7,069	6,242	7,895	-13%	-10%
PPoP	3,834	4,953	3,931	4,956	-2%	0%
PAT	2,822	3,632	2,847	3,581	-1%	1%
EPS	32.1	41.3	32.3	40.6	-1%	2%
BVPS	235.3	272.5	236.4	274.8	0%	-1%
ROA (%)	3.6%	3.5%	3.7%	3.6%	9 bps	7 bps
ROE (%)	14.5%	16.3%	14.6%	15.8%	4 bps	-49 bps

Source: Company, Bloomberg, JM Financial

About the company:

Founded in 2010, Home First Finance Company (HFFC) is a non-deposit taking housing finance company focused on lending to ordinary home buyers belonging to salaried (~40 formal salaried and ~30% informal salaried) and self-employed segments having income less than INR 50k per month. As of FY23, the company had an AUM of ~INR 72bn, 88% of which comprises pure housing loans, 11% LAP and 1% commercial/shop loans. It is majorly a technology driven lender with end-end loan process being handled digitally.

Management Profile:

The management team of HFFC is well experienced in the lending business. It is led by MD Mr Manoj Viswanathan who spent a majority of his career in Citi's retail lending division. Each of the management heads have experience across consumer lending and are assigned relevant roles in the company. They are responsible for the company's impressive run so far. The management team owns around ~4.5-5% of the company.

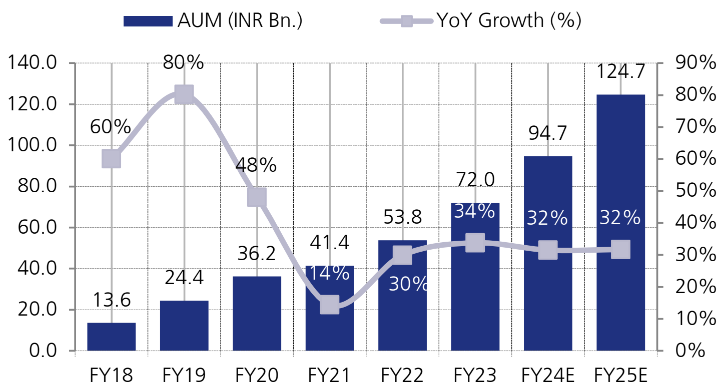
Exhibit 73. Key Management Personnel

Sr No.	Name	Designation	Profile
1	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.
2	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.
3	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.
4	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.
5	Ms. Nutan Gaba Patwari	Chief Financial Officer	She has more than 15 years of experience in Supply Chain Finance, Financial Planning & Analysis at HUL, ITC and Philip Morris.
6	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 Limited and Clearing Corporation of India Limited.
7	Mr. Ramakrishna Vyamajala	Chief Human Resource Officer	He has done post graduate diploma in management from T.A. Pai Management Institute. He has over 17 years of experience in human resources, rewards and recognition, compensation and benefits. He has previously worked with Sterlite Technologies Limited and IDFC Bank Limited.

Source: Company, JM Financial

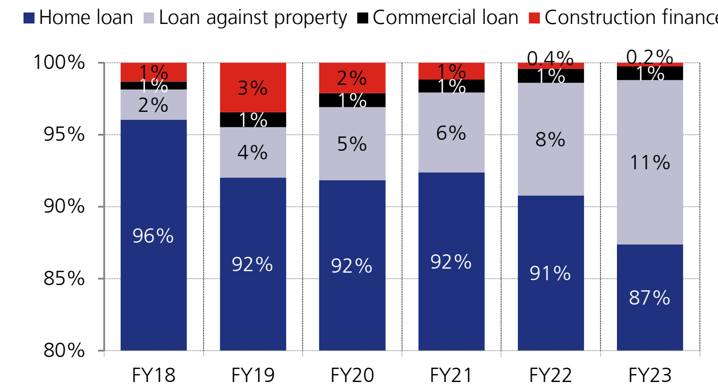
Story in Charts…

Exhibit 74. Healthy AUM growth barring Covid years



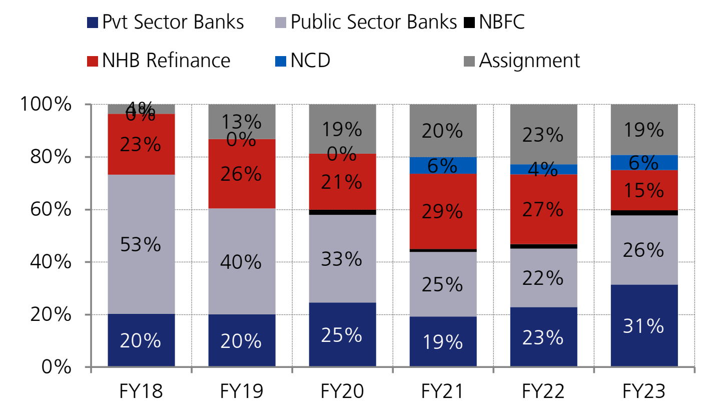
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 75. Moving towards granular mix



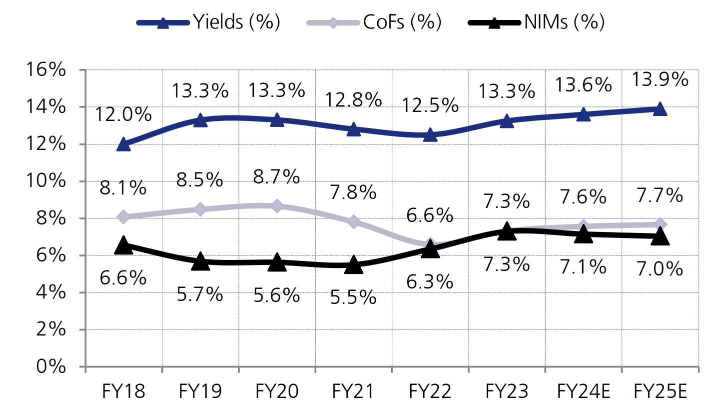
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 76. Diversified Borrowings with active rebalancing



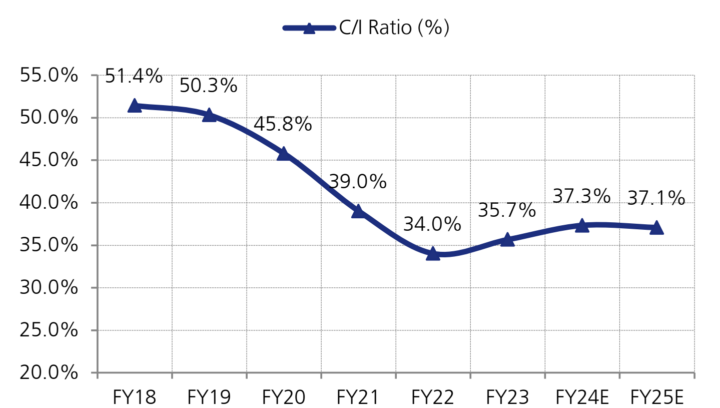
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 77. Trend in Yields, CoF, NIMs



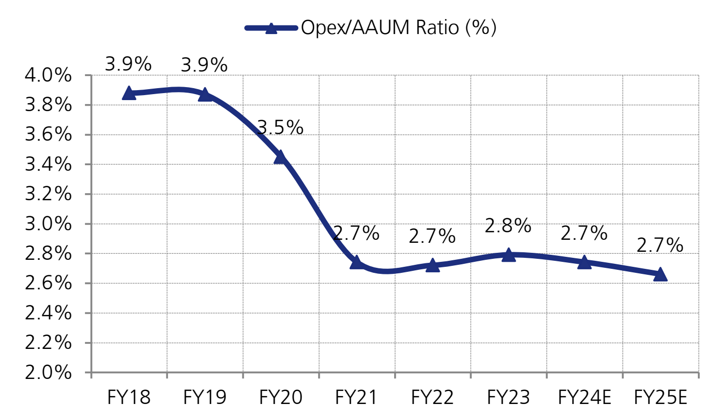
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 78. Cost-to-Income Ratio



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

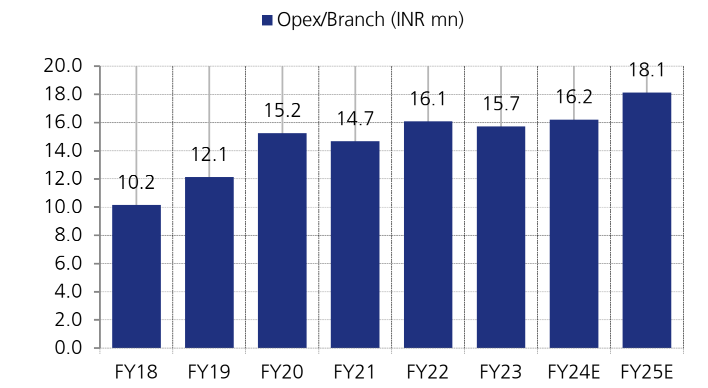
Exhibit 79. Opex/AAUM Ratio



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

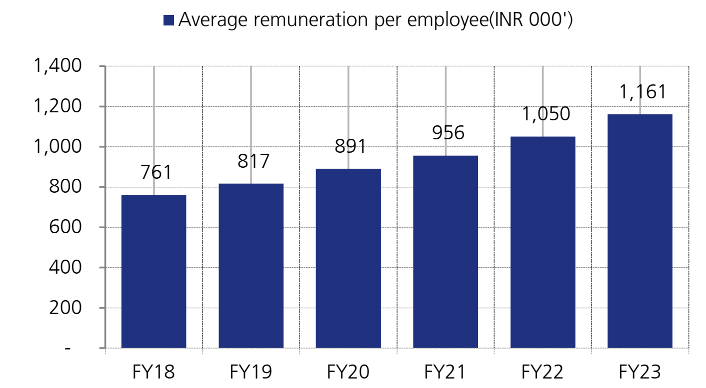
Story in Charts…

Exhibit 80. Opex/Branch



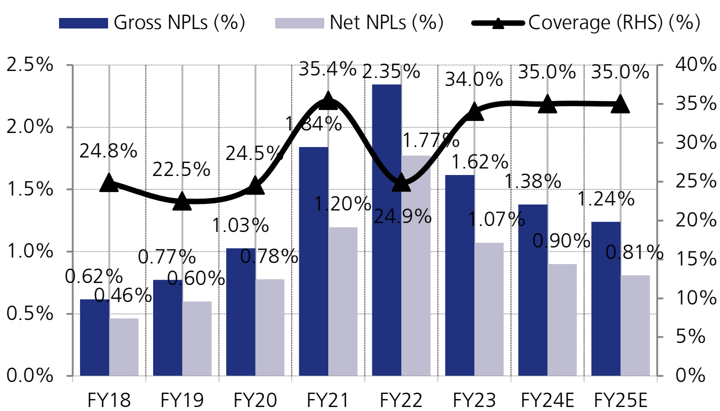
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 81. Average employee remuneration



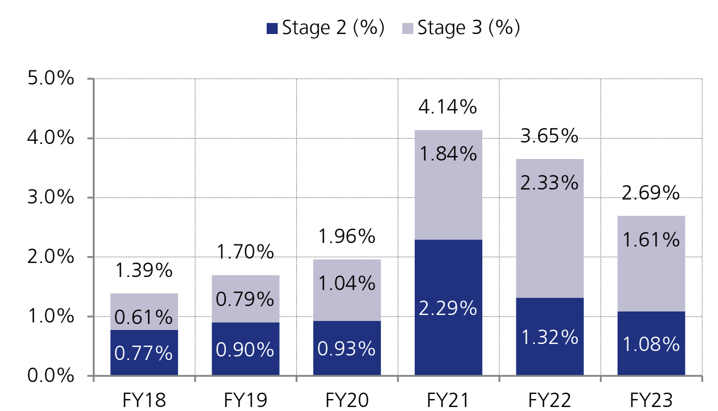
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 82. Stage 3 without <90dpd assets back to pre-Covid levels



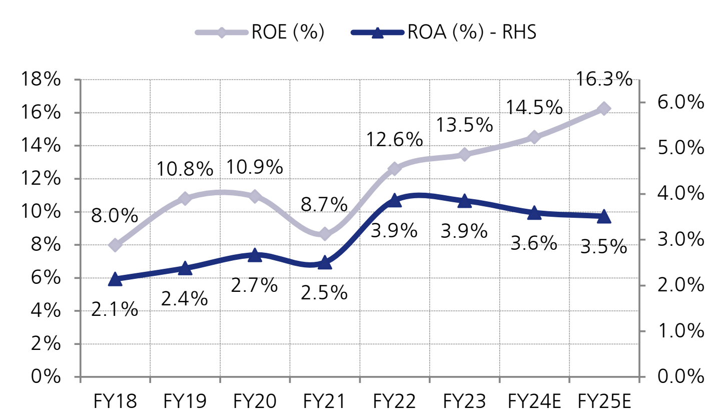
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 83. Total stress book approaching pre-Covid levels



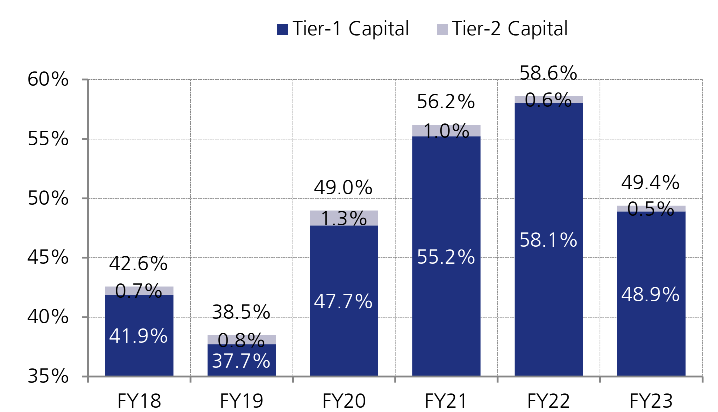
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 84. Return Ratios



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 85. Comfortable liquidity



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	2,135	2,969	4,190	5,441	7,069
Non Interest Income	590	840	734	678	803
Total Income	2,726	3,809	4,923	6,119	7,872
Operating Expenses	1,064	1,296	1,756	2,285	2,919
Pre-provisioning Profits	1,662	2,513	3,167	3,834	4,953
Loan-Loss Provisions	315	241	216	146	177
Others Provisions	7	10	-1	47	89
Total Provisions	322	250	215	193	266
PBT	1,340	2,263	2,952	3,641	4,687
Tax	339	402	669	819	1,055
PAT (Pre-Extra ordinaries)	1,001	1,861	2,283	2,822	3,632
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	1,001	1,861	2,283	2,822	3,632
Dividend	0	0	229	282	363
Retained Profits	1,001	1,861	2,054	2,540	3,269

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	175	175	176	176	176
Reserves & Surplus	13,631	15,562	17,997	20,537	23,806
Stock option outstanding	0	0	0	0	0
Borrowed Funds	30,537	34,668	48,135	65,945	89,025
Deferred tax liabilities	80	17	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	680	747	1,062	3,050	3,977
Total Liabilities	45,102	51,169	67,370	89,708	1,16,985
Net Advances	33,265	43,049	59,957	78,483	1,02,979
Investments	3,750	0	2,808	3,139	4,119
Cash & Bank Balances	6,799	6,678	2,984	5,494	6,694
Other Current Assets	1,124	1,242	1,368	2,265	2,767
Fixed Assets	164	200	253	326	425
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0
Total Assets	45,102	51,169	67,370	89,708	1,16,985

Source: Company, JM Financial

Key Ratios

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	22.5%	13.5%	38.8%	37.0%	35.0%
Advances	10.4%	29.4%	39.3%	30.9%	31.2%
Total Assets	29.6%	13.5%	31.7%	33.2%	30.4%
NII	30.5%	39.0%	41.1%	29.9%	29.9%
Non-interest Income	-8.9%	42.3%	-12.7%	-7.6%	18.5%
Operating Expenses	1.7%	21.8%	35.5%	30.1%	27.7%
Operating Profits	34.2%	51.2%	26.0%	21.1%	29.2%
Core Operating profit	41.0%	50.1%	51.9%	20.3%	30.4%
Provisions	94.8%	-22.2%	-14.0%	-10.2%	37.7%
Reported PAT	25.9%	85.8%	22.7%	23.6%	28.7%
Yields / Margins (%)					
Interest Spread	3.27%	4.35%	5.25%	5.25%	5.28%
NIM	5.50%	6.35%	7.30%	7.15%	7.04%
Profitability (%)					
ROA	2.51%	3.87%	3.85%	3.59%	3.51%
ROE	8.7%	12.6%	13.5%	14.5%	16.3%
Cost to Income	39.0%	34.0%	35.7%	37.3%	37.1%
Asset quality (%)					
Gross NPA	1.84%	2.35%	1.62%	1.38%	1.24%
LLP	1.01%	0.66%	0.42%	0.28%	0.29%
Capital Adequacy (%)					
Tier I	55.23%	58.05%	48.89%	41.88%	37.21%
CAR	56.19%	58.61%	49.38%	42.25%	37.49%

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	5.34%	6.17%	7.07%	6.93%	6.84%
Other Income / Assets	1.48%	1.75%	1.24%	0.86%	0.78%
Total Income / Assets	6.82%	7.91%	8.31%	7.79%	7.62%
Cost / Assets	2.66%	2.69%	2.96%	2.91%	2.82%
PPP / Assets	4.16%	5.22%	5.34%	4.88%	4.79%
Provisions / Assets	0.80%	0.52%	0.36%	0.25%	0.26%
PBT / Assets	3.36%	4.70%	4.98%	4.64%	4.53%
Tax rate	25.29%	17.76%	22.67%	22.50%	22.50%
ROA	2.51%	3.87%	3.85%	3.59%	3.51%
Leverage	3.5	3.3	3.5	4.0	4.6
ROE	8.66%	12.60%	13.46%	14.51%	16.25%

Source: Company, JM Financial

Valuations

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	87.4	87.6	88.0	88.0	88.0
EPS (INR)	11.5	21.2	25.9	32.1	41.3
EPS (YoY) (%)	12.8%	85.3%	22.1%	23.6%	28.7%
P/E (x)	65.9	35.6	29.1	23.5	18.3
BV (INR)	158	180	206	235	272
BV (YoY) (%)	33%	14%	15%	14%	16%
P/BV (x)	4.78	4.20	3.66	3.21	2.77
DPS (INR)	0.0	0.0	2.6	3.2	4.1
Div. yield (%)	0.0%	0.0%	0.3%	0.4%	0.5%

Source: Company, JM Financial

JM FINANCIAL

Aavas Financiers | BUY

Strong fundamentals intact; Concerns priced in

We initiate coverage on Aavas Financiers (Aavas) with a BUY rating and a target price of INR 1,840. We believe Aavas' execution track record w.r.t strong risk adjusted returns despite a large self-employed asset mix, healthy growth trajectory continue to be its key strengths. Recent leadership changes have caused a significant valuation correction for Aavas though fundamental performance is unlikely to meaningfully impact in our view. Aavas' expansion into newer states should ensure continued growth momentum (25% AUM CAGR over FY23-25e). Aavas' continued investments in technology should hold it in a good stead over the medium-to-longer term. While growth rates could moderate that past levels given large size (Aavas is ~2 times in size than HFFC and Aptus), we expect uptick in ROE profile over FY23-25e as financial leverage kicks in. Its healthy capitalization levels, improving opex profile and strong track record lead us to our target price of INR 1,840 (valuing 3.26x Aavas at FY25e P/BV). Initiate with BUY. Significant slowdown in growth and abrupt exits by promoters (Kedaara and or Partners Group) are key risks to our call.

- Focus on niche customers and underpenetrated markets offer strong growth opportunities: With a focus on the LIG/MIG segment, predominantly self-employed (~60% of book) and customers in semi-urban/ rural locations, Aavas has tapped into a market where mortgage penetration is a mere ~1. With presence in 13 states via 346 branches with overall tehsil penetration of ~65% (vs. target of 85%), we believe Aavas can deliver 25% AUM CAGR over FY23-25E as it goes deeper into existing markets while also expanding to newer geographies.

- Margins to remain healthy with larger self-employed mix: With increased use of data analytics, Aavas is increasingly able to offer sharper risk-adjusted pricing, which has managed to keep book yields to ~12-15% in recent years. With its higher focus on below Tier-3 regions, the company enjoys a premium over the yields while the borrowings profile of the company also remains fairly diversified with AA- Stable rating offering favourable CoF from banks borrowings. We build in NII CAGR of 23% over FY23-25E with NIMs of ~6.7%.

- Aggressive investments in branches, manpower and tech to keep Opex/AAUM range-bound: Aavas has continued to aggressively expand its branch network, which has led to higher opex so far. Further, the company invests in manpower as all of the value chain of the loan process is done in-house. This has resulted in elevated employee count since the last 3 years and employees/branch has grown from 11% in FY19 to 17% in FY23. Further, the company invested INR 1.5bn spread between FY21 and FY22 in technology upgrade to enhance its operational efficiency. It plans to reduce its TAT for loan approval from current 11 days to 6 days. We, therefore, estimate Opex/AAUM to remain range-bound ~3.5% in FY24-25E as it continues to guide for tech investments of INR 150-200mn per year and 10-15% growth in branches and employees.

- Best-in-class asset quality with cautious approach to select customers: Aavas reported 0.92% GS3 ratio in FY23 out of which 0.11% is <90dpd. Aavas' asset quality metrics are

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Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,840
Upside/(Downside)	32.0%
Previous Price Target	2875
Change	-35%

Key Data – AAVAS IN	
Current Market Price	INR1,394
Market cap (bn)	INR110.2/US$1.3
Free Float	54%
Shares in issue (mn)	79.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR543.5/US$6.66.6 6.6
52-week range	2,411/1,335
Sensex/Nifty	62,979/18,666
INR/US$	82.0

Price Performance

%	1M	6M	12M
Absolute	0.6	-25.5	-30.2
Relative*	-0.1	-28.4	-41.6

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	2,895	3,568	4,301	5,288	6,603
Net Profit (YoY) (%)	16.2%	23.2%	20.5%	23.0%	24.9%
Assets (YoY) (%)	17.0%	23.0%	21.7%	23.2%	23.2%
ROA (%)	3.5%	3.6%	3.5%	3.5%	3.6%
ROE (%)	12.9%	13.7%	14.2%	15.0%	16.0%
EPS	36.9	45.2	54.4	66.9	83.5
EPS (YoY) (%)	15.9%	22.6%	20.3%	23.0%	24.9%
P/E (x)	**37.8**	**30.8**	**25.6**	**20.8**	**16.7**
BV	306	356	414	480	564
BV (YoY) (%)	14.2%	16.3%	16.2%	16.2%	17.4%
P/BV (x)	**4.56**	**3.92**	**3.37**	**2.90**	**2.47**

Source: Company data, JM Financial. Note: Valuations as of 23/Jun/2023

far superior vis-à-vis other HFCs despite its higher self-employed book. This is mainly a result of a) a strong underwriting team (~600 people) consisting of MBAs and CAs, and b) stringent screening with high rejection rates of ~75%, and c) technology investments to improve underwriting / collections. This is also evident from its write-offs, which stands at only ~11bps of total cumulative disbursements so far. We expect asset quality to remain range-bound from hereon with recoveries to come in from <90dpd book.

- To generate consistent RoA of ~3.5-3.6%; deserves premium valuation: Current valuations of 2.4x FY25E P/B suggest discounted valuation considering its granular loan book, consistent efforts to improve efficiency, long growth runway and best-in-class asset quality. We initiate coverage on the stock with a BUY rating and target price of INR 1,840, valuing Aavas at 3.3x FY25E BVPS in return for RoA of 3.6% (leverage of ~5.5x).

Valuation and View

A high-yield portfolio emanating from larger proportion of self-employed customers, strong asset quality metrics and improving operating leverage with aggressive growth investments should help sustain Aavas' strong return metrics. While near-term RoE is suppressed due to high capital adequacy (46.5% Tier-1), we expect RoE to expand to 16% by FY25E and forecast earnings CAGR of 24% over FY23-25E. We value Aavas at 3.3x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 1,840. Higher self-employed book and economic downturn are key risks to our call.

Exhibit 86. Aavas: Steady State (Schematic) RoE

NII / Assets (%)	7.79
Other income / Assets (%)	0.61
Total Income / Assets (%)	8.40
Cost to Assets (%)	3.67
PPP / Assets (%)	4.73
Provisions / Assets (%)	0.11
PBT / Assets (%)	4.62
ROA (%)	**3.58**
Leverage (x)	5.5
ROE (%)	**19.5**

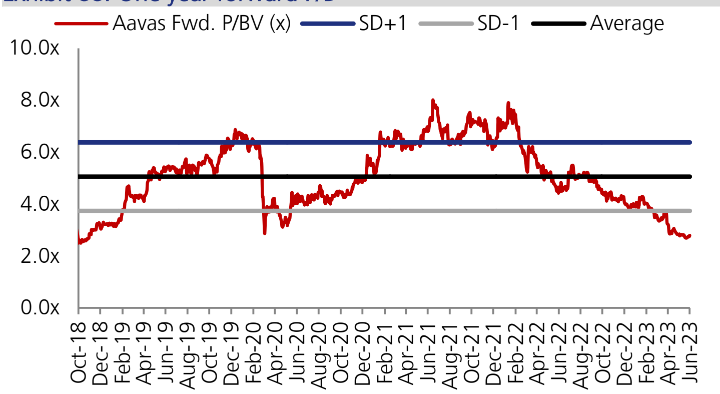
Source: Company, JM Financial

Exhibit 87. Aavas: Computation of Valuation multiple

Blended ROE	18.6
g (initial growth)	15.8
r (Cost of equity)	11.5
gn (perpetual growth rate)	3.7
n (initial growth period, years)	10
Payout 1	15%
Payout n	80%
K1	1.86
K2	15.64
P/BV	3.26x

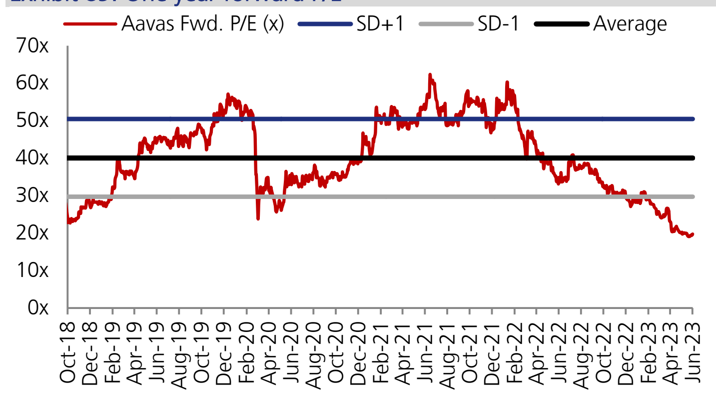
Source: Company, JM Financial

Exhibit 88. One year forward P/B



Source: Company, JM Financial

Exhibit 89. One year forward P/E



Source: Company, JM Financial

Exhibit 90. Our estimates vs Consensus estimates

	JMFe		Consensus		Variance	
INR mn	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	11,669	14,359	12,320	14,825	-5%	-3%
PPoP	6,988	8,723	6,792	8,449	3%	3%
PAT	5,288	6,603	5,059	6,304	5%	5%
EPS	66.9	83.5	64.9	78.1	3%	7%
BVPS	480.5	564.0	479.2	542.6	0%	4%
ROA (%)	3.5%	3.6%	3.3%	3.4%	-23 bps	-22 bps
ROE (%)	15.0%	16.0%	14.4%	15.3%	-53 bps	-73 bps

Source: Company, Bloomberg, JM Financial

About the company:

Founded in 2011, Aavas Financiers (Aavas) is a non-deposit taking housing finance company focused on products which include finance for purchase of house/construction/home extension. As at FY23, the company had an AUM of ~INR 142bn, 70 of which is pure housing loans and the remaining 30 is other mortgage loans. It majorly caters to LIG and EWS customers, offering them small ticket loans (ATS - INR 0.97mn)

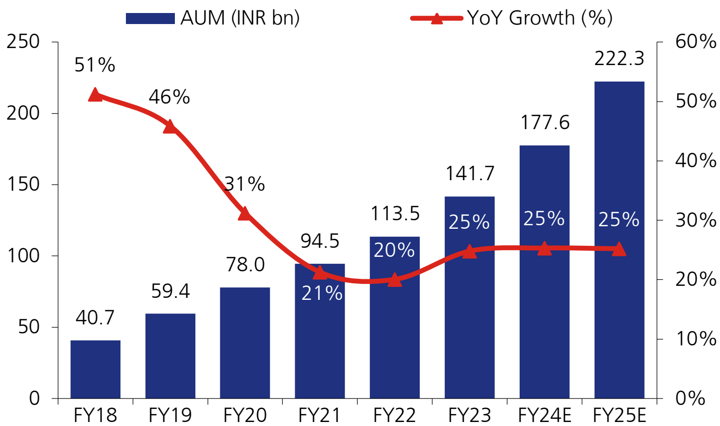
Management Profile:

Exhibit 91. Key Management Personnel

Sr No.	Name	Designation	Profile
1	Mr. Sachinder Bhinder	Managing Director & Chief Executive Officer	Mr. Bhinder is an Engineer, MBA and MRICS (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 Limited.
2	Mr. Ghanshyam Rawat	President & Chief Financial Officer	He has been associated with the Company since 2013. He presently heads their Finance and 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 Limited and Indo Rama Synthetics (I) Limited.
3	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 HFC including Equitas Housing Finance Private Limited, Equitas Micro Finance India Private Limited, ICICI Bank Limited, ICICI Personal Financial Services Company Limited, Cholamandalam Investment & Finance Company Limited.
4	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.
5	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 Ltd and ICICI Bank.
6	Mr. Ripudaman Bandral	Chief Credit Officer	He has done Masters in Finance & Control from Punjabi University, Patiala. He possess 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.
7	Mr. Surendra Kumar Sihag	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 he joined Cholamandalam in year 2004. Before Aavas, he was with Bajaj Fin.
8	Mr. Anshul Bhargava	Chief People Officer – Human Resource	He holds a certification in Business Management from IIM Calcutta. He has diverse experience of about 34 years 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 us, he was Director (Human Resource), Power System Operation Corporation Limited and Chief People Officer, PNB Housing Finance Ltd.
9	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.
10	Mr. Rajaram Balasubramaniam	Chief Strategy Officer and Head of Analytics	He is a Chartered Accountant and holds 37th all India rank 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.

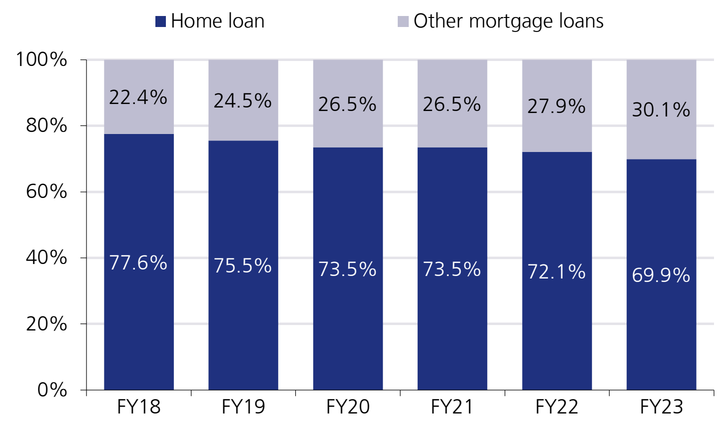
Source: Company, JM Financial

Exhibit 92. Healthy AUM growth barring Covid years



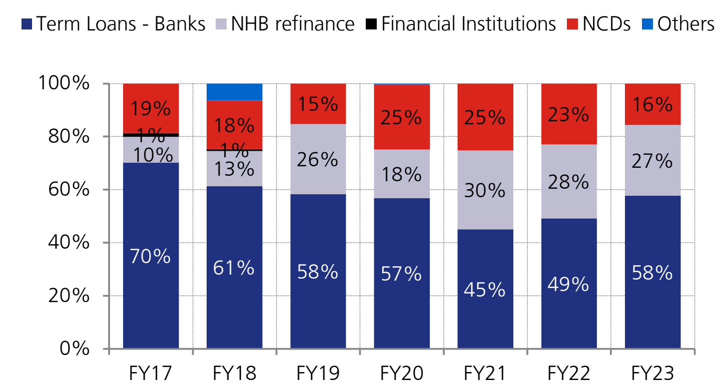
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 93. Moving towards granular mix



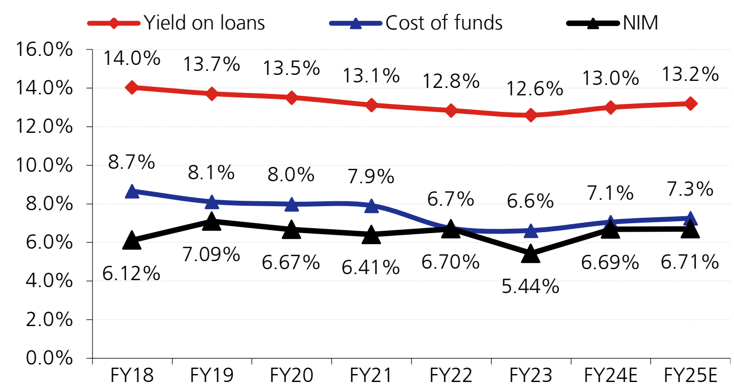
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 94. Higher mix of low cost borrowings DA and NHB



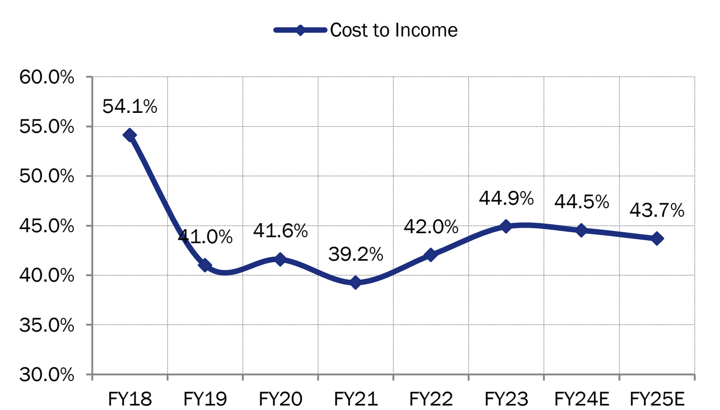
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 95. Strong margins profile



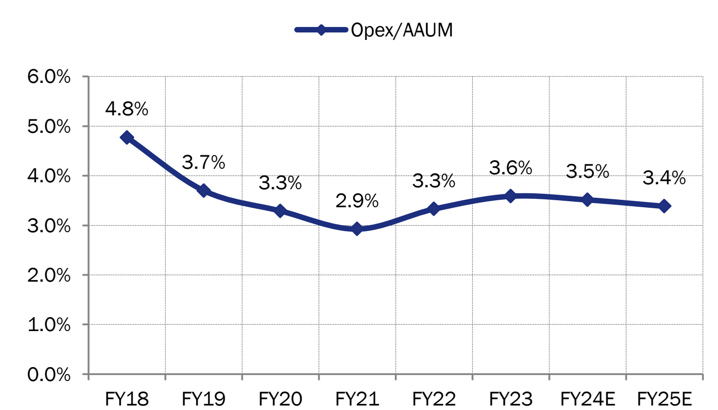
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 96. Cost-to-Income Ratio



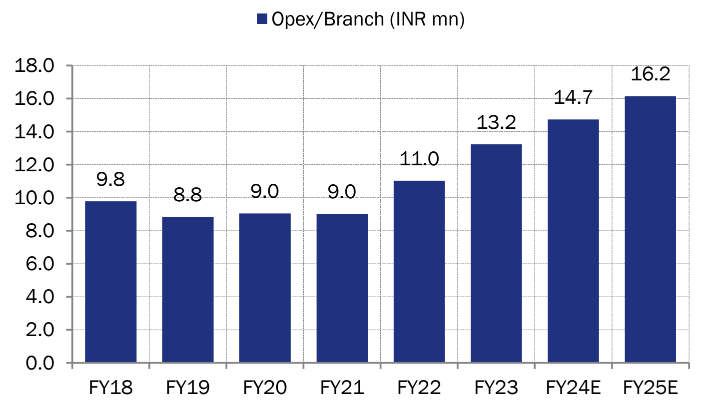
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 97. Opex/AAUM Ratio



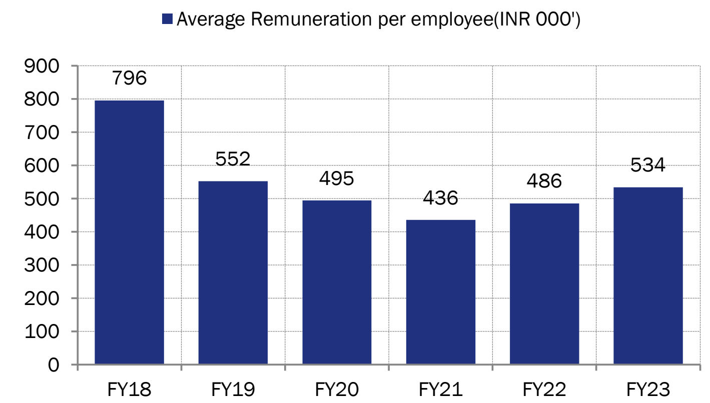
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 98. Opex / Branch



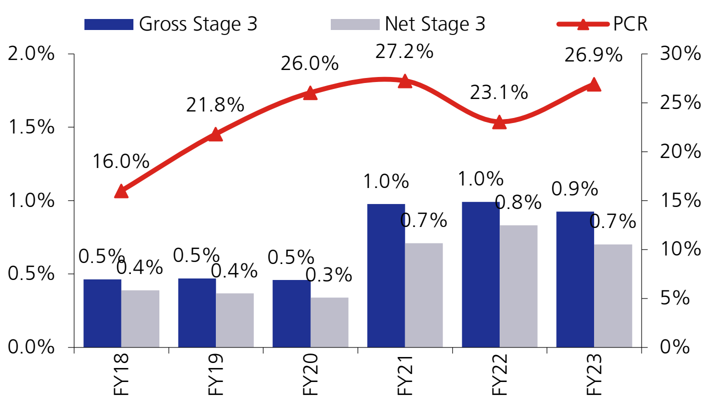
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 99. Average Remuneration per employee



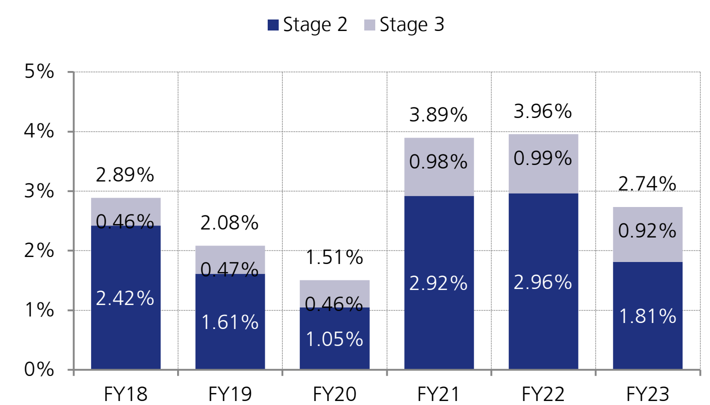
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 100. Stage 3 back to pre-Covid levels



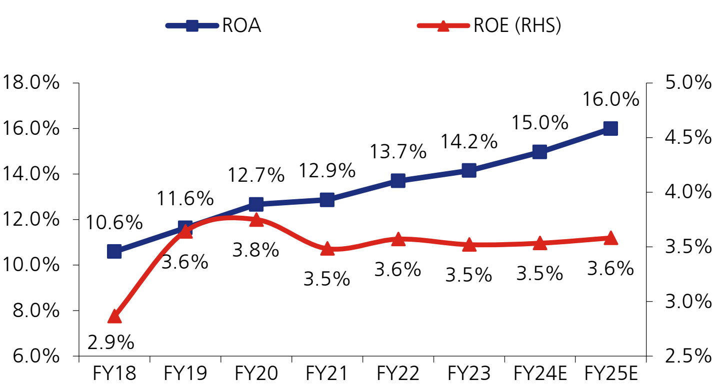
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 101. Total Stressed assets



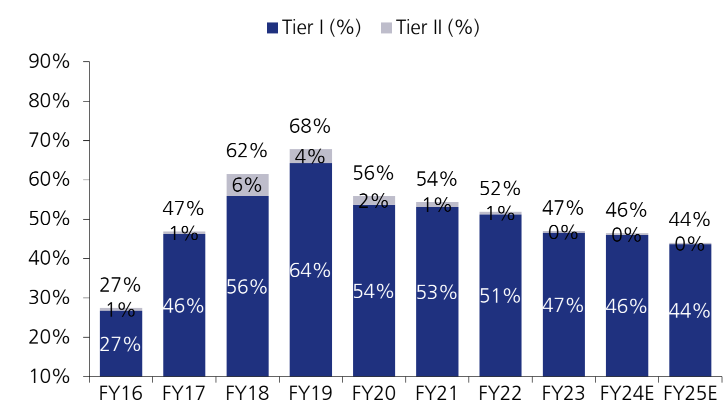
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 102. Robust Return Ratios



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 103. Comfortable liquidity



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	6,001	7,710	9,490	11,669	14,359
Non Interest Income	426	528	701	926	1,131
Total Income	**6,427**	**8,237**	**10,191**	**12,596**	**15,489**
Operating Expenses	2,523	3,463	4,577	5,607	6,766
Pre-provisioning Profits	**3,905**	**4,775**	**5,614**	**6,988**	**8,723**
Loan-Loss Provisions	335	176	124	165	203
Others Provisions	27	31	0	0	0
Total Provisions	**371**	**226**	**124**	**165**	**203**
PBT	**3,533**	**4,549**	**5,490**	**6,824**	**8,520**
Tax	866	981	1,189	1,535	1,917
PAT (Pre-Extra ordinaries)	**2,668**	**3,568**	**4,301**	**5,288**	**6,603**
Extra ordinaries (Net of Tax)	227	0	0	0	0
Reported Profits	**2,895**	**3,568**	**4,301**	**5,288**	**6,603**
Dividend	0	0	0	0	0
Retained Profits	**2,895**	**3,568**	**4,301**	**5,288**	**6,603**

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	785	789	791	791	791
Reserves & Surplus	23,229	27,297	31,906	37,194	43,797
Stock option outstanding	0	0	0	0	0
Borrowed Funds	63,454	79,725	98,873	1,23,591	1,54,489
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	2,132	2,393	2,536	3,586	4,418
Total Liabilities	**89,600**	**1,10,204**	**1,34,105**	**1,65,162**	**2,03,495**
Net Advances	75,233	90,534	1,14,763	1,41,132	1,76,731
Investments	45	675	1,231	141	177
Cash & Bank Balances	11,210	15,302	17,214	19,053	19,440
Loans and Advances	0	0	0	0	0
Other Current Assets	2,526	3,010	336	3,813	5,886
Fixed Assets	587	683	561	1,023	1,260
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0
Total Assets	**89,600**	**1,10,204**	**1,34,105**	**1,65,162**	**2,03,495**

Source: Company, JM Financial

Key Ratios

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	18.6%	25.6%	24.0%	25.0%	25.0%
Advances	21.7%	20.3%	26.8%	23.0%	25.2%
Total Assets	17.0%	23.0%	21.7%	23.2%	23.2%
NII	19.2%	28.5%	23.1%	23.0%	23.0%
Non-interest Income	6.3%	23.9%	33.0%	32.1%	22.0%
Operating Expenses	11.6%	37.3%	32.2%	22.5%	20.7%
Operating Profits	23.0%	22.3%	17.6%	24.5%	24.8%
Core Operating profit	24.5%	21.9%	18.1%	24.8%	25.2%
Provisions	142.1%	-39.1%	-45.0%	32.6%	23.2%
Reported PAT	16.2%	23.2%	20.5%	23.0%	24.9%
Yields / Margins (%)					
Interest Spread	5.35%	6.25%	6.23%	6.24%	6.45%
NIM	6.41%	6.70%	5.44%	6.69%	6.71%
Profitability (%)					
ROA	3.48%	3.57%	3.52%	3.53%	3.58%
ROE	12.9%	13.7%	14.2%	15.0%	16.0%
Cost to Income	39.2%	42.0%	44.9%	44.5%	43.7%
Asset quality (%)					
Gross NPA	0.98%	1.00%	0.93%	0.90%	0.88%
LLP	0.24%	0.05%	0.31%	0.13%	0.13%
Capital Adequacy (%)					
Tier I	53.17%	51.25%	46.54%	45.95%	43.65%
CAR	54.38%	51.93%	46.94%	46.40%	44.02%

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	7.22%	7.72%	7.77%	7.80%	7.79%
Other Income / Assets	0.51%	0.53%	0.57%	0.62%	0.61%
Total Income / Assets	7.74%	8.25%	8.34%	8.42%	8.40%
Cost / Assets	3.04%	3.47%	3.75%	3.75%	3.67%
PPP / Assets	4.70%	4.78%	4.60%	4.67%	4.73%
Provisions / Assets	0.45%	0.23%	0.10%	0.11%	0.11%
PBT / Assets	4.25%	4.55%	4.49%	4.56%	4.62%
Tax rate	24.5%	21.6%	21.7%	22.5%	22.5%
ROA	3.48%	3.57%	3.52%	3.53%	3.58%
Leverage	3.7	3.9	4.1	4.3	4.6
ROE	12.9%	13.7%	14.2%	15.0%	16.0%

Source: Company, JM Financial

Valuations

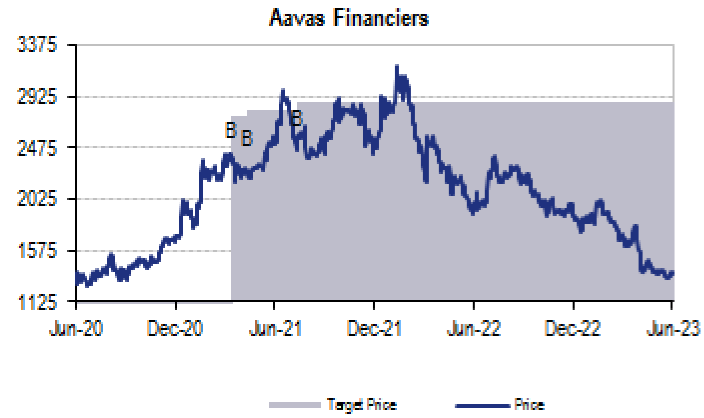
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	78.5	78.9	79.1	79.1	79.1
EPS (INR)	36.9	45.2	54.4	66.9	83.5
EPS (YoY) (%)	15.9%	22.6%	20.3%	23.0%	24.9%
P/E (x)	37.8	30.8	25.6	20.8	16.7
BV (INR)	306	356	414	480	564
BV (YoY) (%)	14.2%	16.3%	16.2%	16.2%	17.4%
P/BV (x)	4.56	3.92	3.37	2.90	2.47
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Apr-21	Buy	2,750	
3-May-21	Buy	2,810	2.2
2-Aug-21	Buy	2,875	2.3

Recommendation History



Aptus Value Housing Finance India | BUY

JM FINANCIAL

Highly profitable model; scale set to follow

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Aptus Value Housing Finance (Aptus) is a play on the opportunity in affordable housing as well as small business lending. We believe Aptus superior yield profile (7.82% RoA in FY23) and presence in relatively underpenetrated markets sets it apart w.r.t to other players in the segment. Ability to manage asset quality across cycles despite relatively higher early delinquencies and ensuring minimal losses across cycles demonstrates the strength of Aptus' business model. We expect Aptus to deliver 32% CAGR in AUMs over FY23-25e though geographical diversification will be critical to ensure longer term growth. We estimate 22% CAGR in earnings, 7.1%/17.4% avg RoAs/RoEs over FY24/25 for Aptus. While acknowledging that Aptus could deliver meaningfully higher through-cycle profitability (given its superior RoA profile), we believe execution w.r.t newer states will be a key monitorable and a successful execution could see further valuation upsides. Initiate with BUY and a target price of INR315.

- **Focus on home loan and SBL loans in medium to long term:** Aptus is an affordable housing player with dominant share in housing loan (contributing to 58 of the loan mix); it services other products like small business loans, LAP, insurance loans and top-up loans (21%,15%,3% and 3% respectively of the loan mix). Aptus plans to focus on two key business segments in the long term, viz., home loan and small business loans. The company is expected to increase its share in housing finance to greater than 60% by FY24 in order to comply with the RBI's guidelines for housing finance companies.

- **Supreme profitability in comparison to the peers:** Aptus has average yields of ~13.5-15% for home loan as against 17-21% for other products. The company has been successful at maintaining yields ~17% over cycles, implying pricing power in the industry with the peers lending at an average yield of 13-15%. the company's focus on LAP and small business loans helps it to increase its blended yield to 17%, thus improving profitability. Aptus had NIM of 12.25% in FY23 and we expect it to maintain that ~11.87% over FY24-25E. Aptus has delivered best-in-class RoA over the years (7.82% in FY23); we expect this trend to continue even with increasing cost of borrowing and marginal increase in operational expense. We build RoA/ RoE at 6.9%/18.0% by FY25E.

- **Pristine asset quality:** Aptus focuses on rural, self-employed customers in the low income group who are highly prone to economic shocks and vulnerabilities; hence, it becomes important to have strong focus on underwriting to be able to predict cashflows from all sources and restrict NPAs with superior collection techniques. Aptus has been able to confine its delinquencies with gross stage 3 peaking at 1.6% in FY20 and declining to 1.15% in FY23 as against and net NPA peaking at 1.43% in FY20 (since improved to 0.86% in FY23). A razor-sharp focus on collections keeps credit cost low; we expect average credit cost of 58bps over FY24-25E.

- **Dominant presence in South, eyeing expansion in newer states: The company operates** with 231 branches spread across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Odisha. It has a dominant presence in the South with more than 78% of the AUM

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	315
Upside/(Downside)	28.8%

Key Data – APTUS IN	
Current Market Price	INR245
Market cap (bn)	INR121.8/US$1.5
Free Float	30%
Shares in issue (mn)	498.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR195.3/US$2.4
52-week range	368/234
Sensex/Nifty	62,979/18,666
INR/US$	82.0

Price Performance			
%	1M	6M	12M
Absolute	-7.3	-11.2	-10.9
Relative*	-8.0	-14.6	-25.4

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	2,669	3,701	5,030	6,012	7,456
Net Profit (YoY) (%)	26.5%	38.7%	35.9%	19.5%	24.0%
Assets (YoY) (%)	20.6%	25.7%	26.3%	30.5%	30.7%
ROA (%)	6.5%	7.3%	7.8%	7.3%	6.9%
ROE (%)	14.5%	15.1%	16.1%	16.8%	18.0%
EPS	5.6	7.4	10.1	12.1	15.0
EPS (YoY) (%)	25.9%	32.4%	35.6%	19.5%	24.0%
P/E (x)	43.6	32.9	24.3	20.3	16.4
BV	42	59	67	77	89
BV (YoY) (%)	15.3%	40.7%	14.3%	14.9%	16.1%
P/BV (x)	5.88	4.17	3.65	3.18	2.74

Source: Company data, JM Financial. Note: Valuations as of 23/Jun/2023

contribution from Tamil Nadu and Andhra Pradesh. Aptus strategises to deepen penetration in existing markets and then plans to move towards expansion into adjacent geographies. The management has highlighted that it would look to expand the company's presence in Maharashtra and Odisha in the coming years. The company guides to expand ~30 branches per year with 2-3 in newer geographies and rest coming from the present ones. Branch productivity for Aptus stands at INR 292mn/ branch with 27 branches less than 1 year at 16mn, 34 branches between 1-3yrs at 175.2mn and 170 branches greater than 3 years at 358.7mn.

Valuation and view

We believe Aptus will deliver on its return ratios on the back of a) benign credit environment, b) a high-yielding portfolio, c) pristine asset quality, and d) low credit costs. RoE was 16.1% in FY23, and we expect it to expand to 18% over FY25E and forecast PAT CAGR of 22% over FY23-25E. We value Aptus at 3.5x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 315. Aptus' inability to execute growth plans while maintaining asset quality based on macro factors, impacting customers, are key risks to our call.

Exhibit 104. Schematic RoE on a steady state basis

NII / Assets (%)	9.50%
Other income / Assets (%)	0.80%
Total Income / Assets (%)	10.30%
Cost to Assets (%)	2.60%
PPP / Assets (%)	7.70%
Provisions / Assets (%)	0.65%
PBT / Assets (%)	7.05%
ROA (%)	5.29%
Leverage (x)	4.0
ROE (%)	21.15%

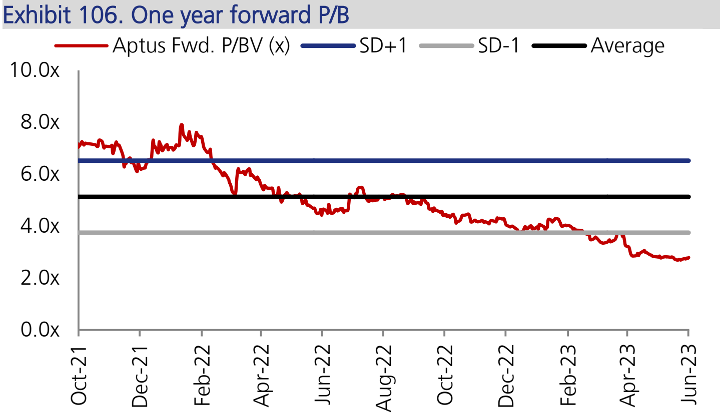
Source: Company, JM Financial

Exhibit 105. Aptus: Computation of valuation multiple

RoE	20.5%
g	17.4%
r	12.5%
gn	4.1%
n	10
payout1	15%
payoutn	80%
K1	1.92
K2	15.27
P/BV	3.53x

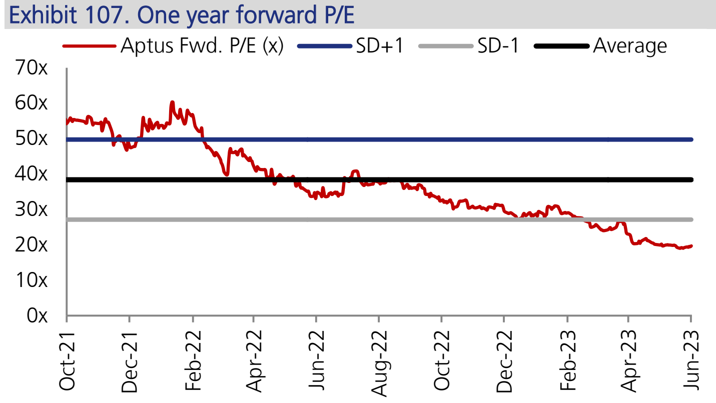
Source: Company, JM Financial

Exhibit 106. One year forward P/B



Source: Company, JM Financial

Exhibit 107. One year forward P/E



Source: Company, JM Financial

Exhibit 108. Our estimates vs Consensus estimates

INR mn	JMFe		Consensus		Variance	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	9,805	12,297	10,865	13,541	-10%	-9%
PPoP	8,470	10,523	8,310	10,306	2%	2%
PAT	6,012	7,456	6,050	7,435	-1%	0%
EPS	12.1	15.0	12.0	14.7	0%	2%
BVPS	77.1	89.5	75.9	87.8	2%	2%
ROA (%)	7.3%	6.9%	7.4%	7.1%	13 bps	22 bps
ROE (%)	16.8%	18.0%	16.8%	18.0%	9 bps	2 bps

Source: Company, Bloomberg, JM Financial

About the company

Aptus is a housing finance company incorporated in 2009 and headquartered in Chennai with focus on affordable housing loans. The company offers home loans to LIG and MIG in rural and semi-urban areas for purchase and self-construction of residential properties or for home improvement. The company targets first time home buyers where primary collateral is self-occupied residential property.

Management Profile

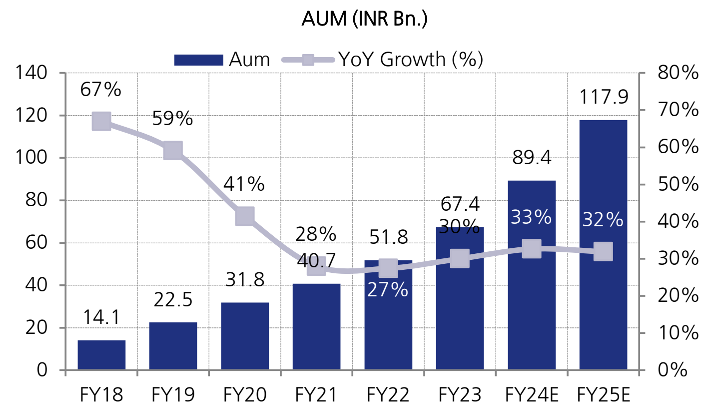
Exhibit 109. Key Management Personnel

Sr No.	Name	Designation	Profile
1	Mr. 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.
2	Mr. Balaji P	Managing Director	He 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.
3	Mr. Manoharan C T	Chief Business Officer	He 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.
4	Mr. John Vijayan Rayappa	Chief Financial Officer	He 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.
5	Mr. Krishnaswami V	Senior Vice President – IT	He 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.
6	Mr. Ramesh K	Vice President – Credit	He 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.
7	Mr. Sundara Kumar V	Vice President – Legal & Receivable	He 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.
8	Mr. Srikanth N	Vice President – Human Resource	He 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).
9	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.
10	Mr. Sanin Panicker	Company Secretary & Compliance Officer	He 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.

Source: Company, JM Financial

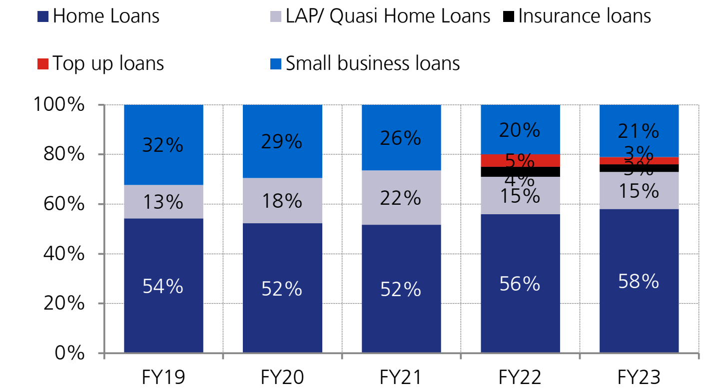
Story in charts

Exhibit 110. Trends in AUM



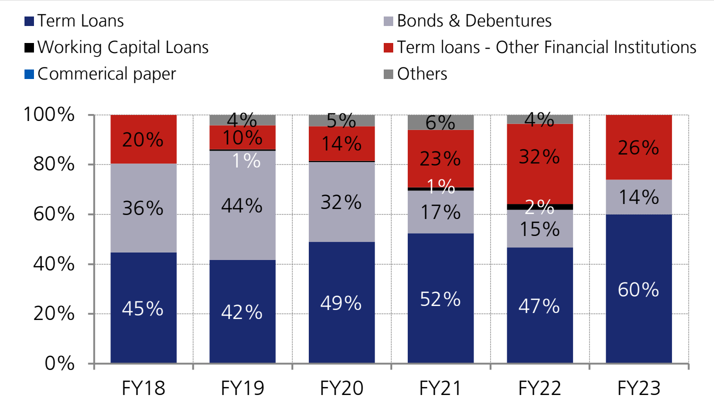
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 111. Trends in portfolio mix



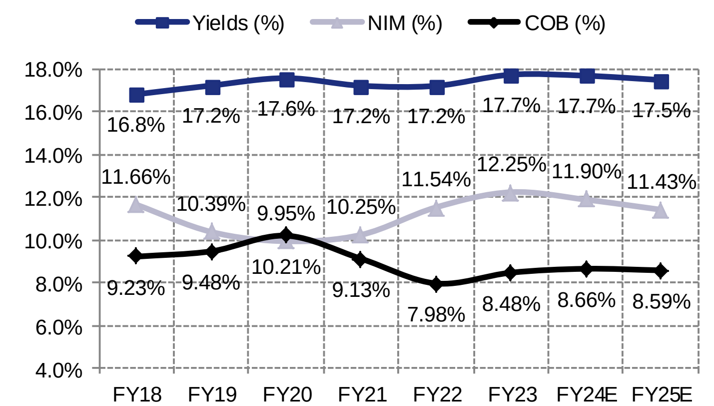
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 112. Trends in AUM mix



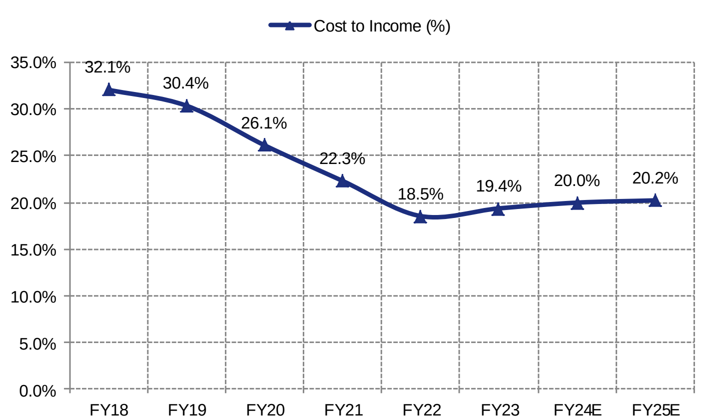
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 113. Trend in Yields, CoF, NIMs



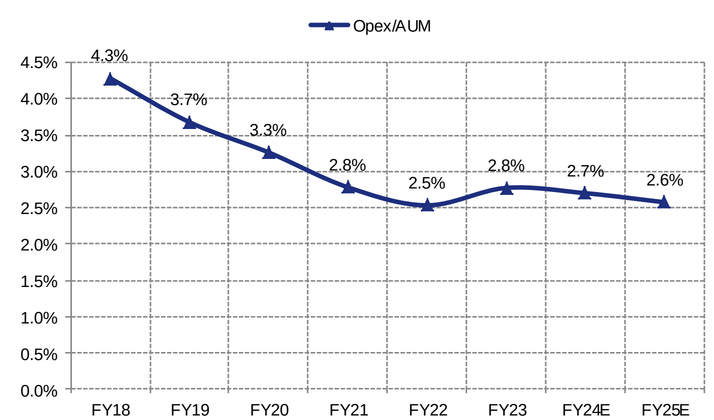
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 114. Trends in Cost to Income



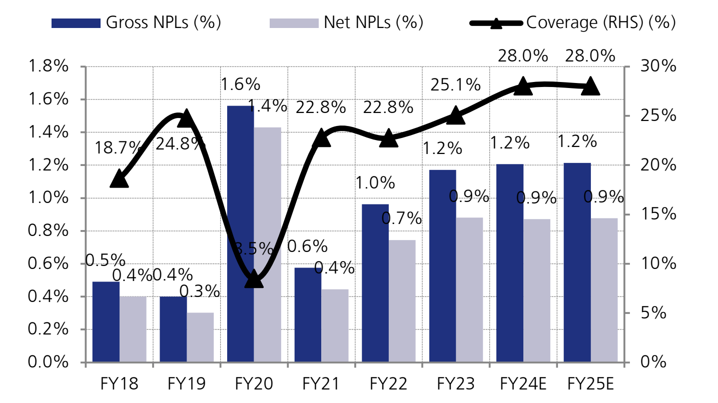
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 115. Trends in Opex to AUM



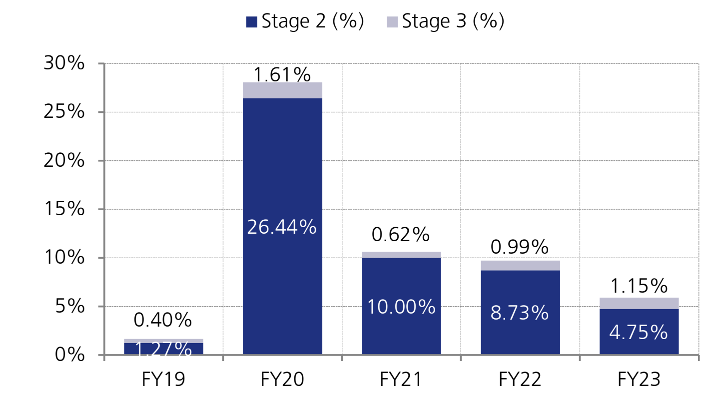
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 116. Trends in asset quality



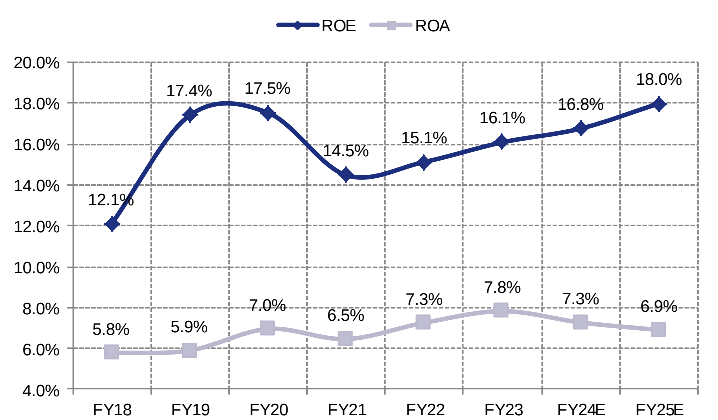
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 117. Trend in stage 2 and stage 3 assets



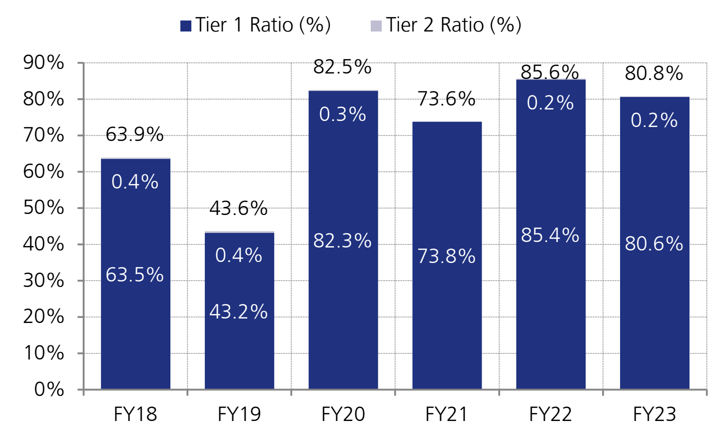
Source: Company, JM Financial; FY19 calculations based on IGAAP Financials

Exhibit 118. Trends in return ratios



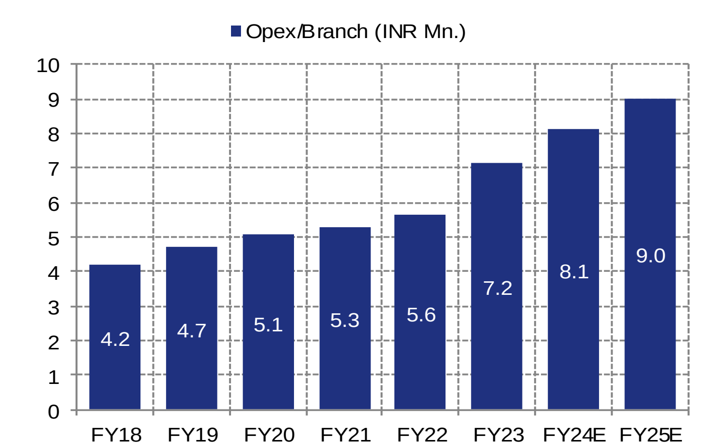
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 119. Trends in capital adequacy



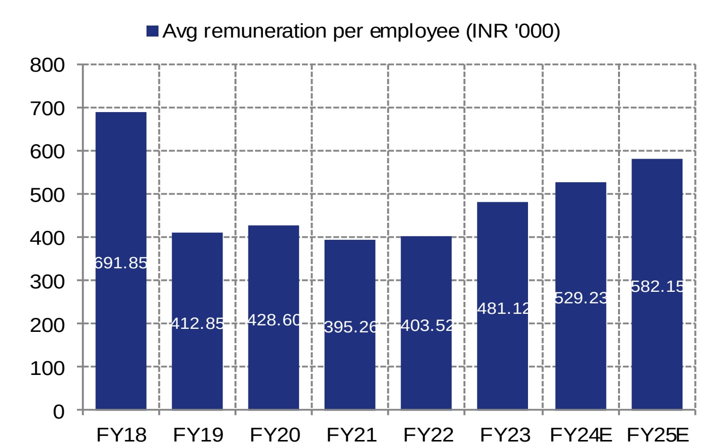
Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 120. Trends in return ratios



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Exhibit 121. Trends in capital adequacy



Source: Company, JM Financial; FY18/FY19 calculations based on IGAAP Financials

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	4,203	5,831	7,825	9,805	12,297
Non Interest Income	314	485	706	781	894
Total Income	**4,517**	**6,316**	**8,531**	**10,586**	**13,191**
Operating Expenses	1,008	1,171	1,652	2,116	2,668
Pre-provisioning Profits	**3,509**	**5,145**	**6,878**	**8,470**	**10,523**
Loan-Loss Provisions	58	294	341	454	581
Others Provisions	0	50	0	0	0
Total Provisions	**58**	**345**	**341**	**454**	**581**
PBT	**3,451**	**4,800**	**6,537**	**8,016**	**9,942**
Tax	781	1,099	1,507	2,004	2,485
PAT (Pre-Extra ordinaries)	**2,669**	**3,701**	**5,030**	**6,012**	**7,456**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**2,669**	**3,701**	**5,030**	**6,012**	**7,456**
Dividend	0	0	1,992	1,022	1,268
Retained Profits	**2,669**	**3,701**	**3,038**	**4,990**	**6,189**

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	949	994	996	996	996
Reserves & Surplus	18,845	28,168	32,397	37,387	43,576
Stock option outstanding	0	0	0	0	0
Borrowed Funds	25,080	27,206	37,861	54,519	76,872
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	327	473	507	749	979
Total Liabilities	**45,202**	**56,840**	**71,761**	**93,652**	**1,22,424**
Net Advances	39,898	50,787	65,921	87,429	1,15,317
Investments	528	1,017	989	1,049	1,384
Cash & Bank Balances	4,378	4,459	4,600	4,809	5,189
Loans and Advances	0	0	0	0	0
Other Current Assets	133	231	133	213	334
Fixed Assets	96	120	46	59	78
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	170	226	72	94	122
Total Assets	**45,202**	**56,840**	**71,761**	**93,652**	**1,22,424**

Source: Company, JM Financial

Key Ratios

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	24.5%	8.5%	39.2%	44.0%	41.0%
Advances	28.0%	27.3%	29.8%	32.6%	31.9%
Total Assets	20.6%	25.7%	26.3%	30.5%	30.7%
NII	40.1%	38.7%	34.2%	25.3%	25.4%
Non-interest Income	-18.5%	54.8%	45.4%	10.6%	14.5%
Operating Expenses	13.9%	16.3%	41.1%	28.0%	26.1%
Operating Profits	40.3%	46.6%	33.7%	23.1%	24.2%
Core Operating profit	41.8%	45.4%	33.4%	24.7%	24.2%
Provisions	104.9%	492.5%	-1.0%	33.0%	28.1%
Reported PAT	26.5%	38.7%	35.9%	19.5%	24.0%
Yields / Margins (%)					
Interest Spread	6.16%	7.69%	8.09%	8.09%	8.08%
NIM	10.25%	11.54%	12.25%	11.90%	11.43%
Profitability (%)					
ROA	6.46%	7.25%	7.82%	7.27%	6.90%
ROE	14.5%	15.1%	16.1%	16.8%	18.0%
Cost to Income	22.3%	18.5%	19.4%	20.0%	20.2%
Asset quality (%)					
Gross NPA	0.58%	0.96%	1.17%	1.22%	1.23%
LLP	0.16%	0.76%	1.04%	0.24%	0.65%
Capital Adequacy (%)					
Tier I	73.78%	85.39%	76.75%	66.94%	58.87%
CAR	73.63%	85.61%	77.04%	67.35%	59.32%

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	10.17%	11.43%	12.17%	11.86%	11.38%
Other Income / Assets	0.76%	0.95%	1.10%	0.94%	0.83%
Total Income / Assets	10.93%	12.38%	13.27%	12.80%	12.21%
Cost / Assets	2.44%	2.30%	2.57%	2.56%	2.47%
PPP / Assets	8.49%	10.08%	10.70%	10.24%	9.74%
Provisions / Assets	0.14%	0.68%	0.53%	0.55%	0.54%
PBT / Assets	8.35%	9.41%	10.17%	9.69%	9.20%
Tax rate	22.6%	22.9%	23.1%	25.0%	25.0%
ROA	6.46%	7.25%	7.82%	7.27%	6.90%
Leverage	2.3	1.9	2.1	2.4	2.7
ROE	14.5%	15.1%	16.1%	16.8%	18.0%

Source: Company, JM Financial

Valuations

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	474.7	496.9	498.1	498.1	498.1
EPS (INR)	5.6	7.4	10.1	12.1	15.0
EPS (YoY) (%)	25.9%	32.4%	35.6%	19.5%	24.0%
P/E (x)	43.6	32.9	24.3	20.3	16.4
BV (INR)	42	59	67	77	89
BV (YoY) (%)	15.3%	40.7%	14.3%	14.9%	16.1%
P/BV (x)	5.88	4.17	3.65	3.18	2.74
DPS (INR)	0.0	0.0	4.0	2.1	2.5
Div. yield (%)	0.0%	0.0%	1.6%	0.8%	1.0%

Source: Company, JM Financial

Appendix

RBI classification on income groups for AHFCs

As per the RBI, various HL customer segments are classified as follows: a) Economically Weaker Section (EWS), b) Low Income Group (LIG), and c) Middle Income Group (MIG) and above' (MIG+). These segments are typically defined either with the income range of the principal home-owner (Exhibit 1) or the loan value taken; the two variables tend to be correlated. The loan value cut-off in each segment is INR 10 lakh, between INR 10 lakh and INR 25 lakh, and above INR 25 lakh, respectively. This segmentation also provides a good sense of the typical profile of the borrower/homeowner in each category.

As per the housing ministry's income-wise classification of customers, affordable housing players focus on EWS, LIG and MIG segment who have an annual income upto INR 18 lakh.

Exhibit 122. Annual Income Classification

Classification	Annual income of the household
Economically weaker section (EWS)	INR 3 lakh and below
Lower Income Group (LIG)	INR 3 lakh to INR 6 lakh
Middle income group-1 (MIG-1)	INR 6 lakh to INR 12 lakh
Middle income group-2 (MIG-2)	INR 12 lakh to INR 18 lakh
High Income Group (HIG)	INR 18 lakh and above

Source: Housing Ministry, JM Financial

HFCs to comply with RBI's minimum pure housing loan limit

As per RBI guidelines, all NBFCs in the business of providing finance for housing should have at-least 60 of their total assets towards housing finance loans which is expected to be complied with by FY24; out of the total assets, not less than 50 should be by way of housing finance for individuals.

Exhibit 123. Timeline of HFC norms as per RBI regulations

Timeline as per RBI	Minimum percentage to total assets towards housing finance	Minimum percentage to total assets towards housing finance for individuals
Mar 31, 2022	50	40
Mar 31, 2023	55	45
Mar 31, 2024	60	50

Source: RBI, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

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