

## Robust Quarter Operationally, Asset Quality Improving!

Aptus Value Housing Finance Ltd. (Aptus) reported a strong set of numbers which stood above our expectations. The business momentum remained robust with disbursements at Rs 519 Cr (+26% YoY, +14% QoQ) which translated into a healthy AUM growth of 27% YoY. AUM stood at Rs 5,180 Cr, with the product mix remaining largely stable QoQ. **The management remains confident of ample growth opportunities available in the self-employed segment, especially in the Tier III/IV markets where Aptus is well-positioned. Thus, it expects to outperform the overall industry growth at 2x of the industry's growth rate. We expect the book to grow at 26% CAGR over FY22-24E.**

On the asset quality front, GNPA/NNPA improved to 1.19/0.88% vs 1.53/1.16% QoQ. Barring the impact of the RBI circular on NPA recognition, GNPA would be at 0.99% vs 1.1% QoQ. The restructured book stands at a manageable level of 1.2% of the total AUM, while the collection in the book remains healthy. Collection Efficiency (CE) remained healthy at 103% vs 98% QoQ. As a result, 30+dpd book declined to 9.9% vs. 13% QoQ, however remains significantly higher than peers. The management has indicated that the 30+dpd is higher than peers due to the selective approach of management, thereby resulting in a lower quantum of restructuring.

## Key Result Highlights

- NII** stood at Rs 168 Cr (+46% YoY, +8% QoQ), ahead of our expectations of Rs 165 Cr. NIMs stood at 9.15% vs 8.89% QoQ and 8.6% YoY. NIM improvement was largely aided by a decline in CoF QoQ (down 26bps), even as yields remained stable QoQ at 16.9%.
- Non-interest income** was reported at Rs 17 Cr, higher than our expectation of Rs 13 Cr, primarily driven by improving fee income aided by strong business momentum and higher than usual recoveries yielding penal interest.
- Opex** grew by 17% YoY. However, a robust top-line growth kept the C-I ratio stable at 16.4% vs 16.2% QoQ. PPOP stood at Rs 155 Cr (+53% YoY, +10% QoQ) ahead of our expectations of Rs 146 Cr.
- Provisions** remained elevated at Rs 10.5 Cr, which included Rs 4.3 Cr provisions towards a loan of Rs 6.5 Cr, which was written off during the quarter. Resultantly, credit costs (calc) inched up to 91bps vs 81bps QoQ. PAT growth remained healthy at 45% YoY.

## Management Concall Key Takeaways

- Margins to be maintained** – ~77% of the loans are fixed-rate while ~62% of the borrowings are fixed rate. The balance of 38% is primarily bank loans which are MCLR linked. The management remains confident of improving CoF owing to the recent rating upgrade in Dec'21. While the rate differential from the upgrade is 1-1.25%, the management expects a benefit of 25-50bps to flow in FY23. Aptus has borrowed from NHB a 10-year loan at 5.5% which will further help it maintain CoF. In FY24E, some high-cost borrowings will be repaid and will be re-priced at a lower rate.

## Valuation and Recommendation

Aptus remains well-placed in the high-growth market that exhibits lower competition due to the expertise required to cater to the un/underserved self-employed customers. A large addressable market facilitating ample growth opportunities over the medium term, and a best-in-the-industry return profile underpin the company's premium valuations. Improving collections have resulted in declining 30+dpd book and the restructured pool at manageable levels with collections remaining healthy is encouraging. Additionally, the rating upgrades will help the company maintain its CoF even in an increasing rate environment, thereby supporting NIMs. Driven by improving performance, we revise our EPS estimates upwards by 3/4% over FY23/24E. **We maintain our BUY rating on the stock with a target price of Rs 400/share (5.1x FY24E ABV), implying an upside of 31% from the CMP.**

## Key Financials (Consolidated)

(Rs. Cr)	FY21	FY22P	FY23E	FY24E
NII	417	583	729	876
PPOP	351	514	626	743
Net Profit	267	370	459	551
EPS (Rs)	5.6	7.4	9.2	11.1
ABV	41.3	57.8	66.9	78.0
P/ABV	7.4	5.3	4.6	3.9
ROAA	6.5	7.3	7.2	6.9
NNPA (%)	0.5	0.9	0.8	0.6

Source: Company, Axis Research

(CMP as of May 09, 2022)

CMP (Rs)	306
Upside /Downside (%)	31%
High/Low (Rs)	394/283
Market cap (Cr)	15,223
Avg. daily vol. (6m) Shrs.	3,97,084
No. of shares (Cr)	49.7

## Shareholding (%)

	Mar-22	Dec-21	Sep-21
Promoter	62.4	62.4	62.5
FIIIs	11.4	11.0	10.3
MFs	1.4	1.2	1.2
Others	24.8	25.4	26.0

## Financial & Valuations

Y/E Mar (Rs. Cr)	FY22P	FY23E	FY24E
NII	583	729	876
PPOP	514	626	743
Net Profit	370	459	551
EPS (Rs)	7.4	9.2	11.1
BV	57.8	66.9	78.0
P/BV	5.3	4.6	3.9
ROAA	7.3	7.2	6.9
NNPA (%)	0.9	0.8	0.6

## Change in Estimates (%)

Y/E Mar	FY23E	FY24E
Revenues	2.3	2.9
PBT	3.6	5.0
PAT	2.7	4.4

## Axis vs Consensus

EPS Estimates	FY23E	FY24E
Axis	9.2	11.1
Consensus	8.8	10.6
Mean Consensus TP (12M)		399

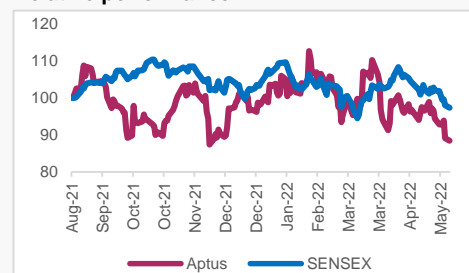
## ESG disclosure Score\*\*

Environmental Disclosure	N.A
Social Disclosure Score	N.A
Governance Disclosure Score	N.A
Total ESG Disclosure Score	N.A

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

## Relative performance



Source: Capitaline, Axis Securities

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### Additional Concall Highlights (Contd...)

- **Distribution Network to expand** – Aptus added 16 branches during FY22 and will look to add ~20 branches in FY23E. Amongst the branches that were added in the past 12-18 months, ~24 branches which were added <12 months and ~48 branches which were added <24 months back, will now begin contributing to overall growth. Additionally, growth will be supported by improving employee productivity. Currently, the company serves ~85K+ customers which is likely to grow to 100K over the next 12-18 months. Most of the new customer sourcing will be through references generated from existing customers as Aptus is looking to generate 4-5 leads from existing customers through the customer app. ***The company will continue to source new customers through the direct sourcing channel with support from its branch network and existing customers through references rather than relying on DSAs.***
- **Focus on deeper penetration geographically** – The management indicated that it would continue to focus on penetrating deeper into existing geographies rather than expanding geographically. Aptus does not intend to become a pan-India player and will continue to expand its network following the contiguous approach. The company forayed into the new geography of Orissa and opened a branch at a location which is closer to the geography that Aptus has deeply penetrated into thereby making it easy for the company to replicate the business model.
- **Cost-Opex to inch up** – The company will look to invest in expanding the branch network (~20 branches in FY23) along with tech advancements. Aptus has also beefed up its sales and collection teams. C-A and C-I Ratio is one of the best amongst peers and is likely to inch up however will not move up significantly. Similarly, cost ratios do not have further scope for improvement. We expect the C-I Ratio to inch up given the continued investment in the business and towards tech advancements. However, management expects the higher Opex to be adequately offset by higher business volumes.
- **Asset Quality improving** – Headline asset quality improved with GNPA at 1.19% vs 1.53%. Improvement was aided by a write-off of Rs 6.5 Cr wherein the account was overdue for more than 24 months. The exposure is secured and recovery efforts are underway. ***As a policy, the company will either provide 100% or write off the exposure which is overdue for more than 24 months.***

Pre-closures are currently at ~7.5-8% off which ~80% is out of customers' own funds and not due to BT-outs. The management indicated that collections were impacted due to unseasonal rainfall in the key markets in Q3FY22 but improved in Q4FY22. However, 30+dpd book remains elevated at 9.9% and higher than peers, which is likely to keep the credit costs elevated. ***We have baked in higher credit costs over FY23-24E and expect them to range between 0.4-0.6%***

### Change in Estimates (Rs Cr)

	Revised		Old		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	729	876	712	852	2.3	2.9
PPOP	626	743	604	708	3.6	5.0
Provisions	32	31	26	26	23.7	22.5
PAT	459	551	447	528	2.7	4.4

Source: Axis Securities

## Result Update (Consolidated)

	Q4FY22	Q4FY21	% YoY	Q3FY22	% QoQ
Net Interest Income	168	115	45.7	155	8.4
Non Interest Income	17	11	50.3	13	35.4
Operating expenses	30	26	17.5	27	11.7
Staff Cost	19	19	-0.4	21	-8.0
Pre provision profits	155	101	53.4	141	10.2
Provisions and contingencies	10	3	243.5	9	11.7
PBT	144	98	47.5	131	10.0
Provision for Tax	34	22	54.4	30	16.1
PAT	110	76	45.4	101	8.3

### Business Update

Disbursements	519	N.A	N.A	454	14.3
AUM	5180	4068	27.3	4805	7.8
Cost-Income ratio (%)	16.4%	20.4%	-399bps	16.2%	19bps

### Asset Quality

Gross NPA (%)	1.2%	0.7%		1.5%	
Net NPA (%)	0.9%	0.4%		1.2%	
PCR (%)	26%	43%		25%	

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Interest Income	624	792	982	1,219
Interest Expenses	207	209	253	342
<b>Net Interest Income</b>	<b>417</b>	<b>583</b>	<b>729</b>	<b>876</b>
Non Interest Income	31	49	58	73
<b>Total Income</b>	<b>449</b>	<b>632</b>	<b>787</b>	<b>949</b>
Operating Expenses	98	117	161	206
<b>Pre Provision Profits</b>	<b>351</b>	<b>514</b>	<b>626</b>	<b>743</b>
Provisions	6	34	32	31
<b>PBT</b>	<b>345</b>	<b>480</b>	<b>594</b>	<b>712</b>
Tax	78	110	134	161
<b>Profit After Tax</b>	<b>267</b>	<b>370</b>	<b>459</b>	<b>551</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Equity Share Capital	95	99	99	99
Reserves & Surplus	1,885	2,817	3,276	3,827
<b>Net Worth</b>	<b>1,979</b>	<b>2,916</b>	<b>3,375</b>	<b>3,926</b>
Borrowings	<b>2,515</b>	<b>2,728</b>	<b>3,625</b>	<b>4,775</b>
Other Liabilities	26	39	99	159
<b>Total Liabilities</b>	<b>4,520</b>	<b>5,684</b>	<b>7,100</b>	<b>8,860</b>
Cash & Bank balances	438	446	499	548
Loans	53	102	128	162
Investments	3,990	5,079	6,411	8,083
Fixed Assets & Others	40	58	62	67
<b>Total Assets</b>	<b>4,520</b>	<b>5,684</b>	<b>7,100</b>	<b>8,860</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY21	FY22E	FY23E	FY24E
<b>Asset Quality</b>				
GNPA	28	62	67	70
NNPA	20	46	50	52
GNPA Ratio	0.7%	1.2%	1.0%	0.9%
NNPA Ratio	0.5%	0.9%	0.8%	0.6%
PCR	22%	26%	26%	26%
<b>Spread Analysis</b>				
Yield on Advances	16.9	17.4	17.2	17.1
Cost of Borrowings	9.1	8.0	8.0	8.2
Spread	8.1	9.8	9.6	9.3
Net Interest Margin	10.1	11.4	11.4	11.0
<b>Profitability &amp; Efficiency Ratios</b>				
RoE	14.5	15.2	14.6	15.1
RoA	6.5	7.3	7.2	6.9
Cost to Income	21.8	18.5	20.4	21.7
<b>Valuation</b>				
BVPS	41.7	58.7	67.9	79.0
Change	15%	41%	16%	16%
Price-BV (x)	7.3	5.2	4.5	3.9
Adj. BVPS	41.3	57.8	66.9	78.0
Change	15%	40%	16%	16%
Price-ABV (x)	7.4	5.3	4.6	3.9
EPS	5.6	7.4	9.2	11.1
Change	26%	32%	24%	20%
Price-Earnings (x)	54.5	41.1	33.1	27.6
Dividend Per Share	-	-	-	-
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company, Axis Securities

## Aptus Value Housing Finance Price Chart and Recommendation History



Date	Reco	TP	Research
28-Mar-22	BUY	400	Initiating Coverage
10-May-22	BUY	400	Result Update

Source: Axis Securities

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