



TM

**SYSTEMATIX GROUP**

Investments Re-defined

**INITIATING COVERAGE**

# **AFFORDABLE HOUSING FINANCE**

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# Affordable Housing Finance

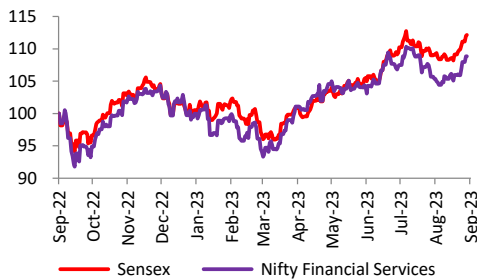
15 September 2023

## SECTOR REPORT

Industry

NBFCs

### BSE Sensex v/s Nifty Financial Services



Source: Bloomberg, Systematix Institutional Research

### Initiating Coverage

Company	Mkt Cap (Rs bn)	TP (Rs)	Upside (%)	Rating
APTUS	137	350	31	BUY
HFFC	74	1,000	18	BUY
AAVAS	133	2,000	20	BUY
CANFIN	103	960	23	BUY

Source: Systematix Institutional Research

## A secular growth story with long runway for growth

We initiate coverage on affordable housing finance companies (AHFCs), viz., Aptus Value Housing Finance (APTUS), Home First Finance (HOMEFIRS), Aavas (AAVAS) and Canfin Homes (CANF), with a BUY rating. Our positive view on the affordable housing finance space is premised on factors such as a) favourable demographics, b) rising urbanisation, c) low mortgage penetration, d) rising per capita income, and e) government push to affordable housing, which we believe would continue to boost the demand for housing loans for decades. Even as these companies together have grown at a CAGR of 25% over last 5 years, outpacing Industry growth of 15%, their combined market share remains a paltry 2% vs 40% share of low-ticket size loan (<2.5mn) in Rs 29tn housing loan industry. Despite their focus on the affordable segment (Rs<1.5 mn) and the perceived riskier salaried and self-employed segments in tier 3 & 4 towns, the profitability and asset quality of these four companies stayed healthy over the years - a testimony to their superior underwriting and process-driven approaches that would continue to drive their performances, in our view. APTUS and CANF are our top picks in the sector. Key risks: 1) Pressure on NIMs and growth, arising from higher competition and 2) further rise in cost of funds.

### Favourable demographics + low mortgage penetration = Huge growth opportunity

India's housing loan industry is in a sweet spot and should continue to benefit from the country's favourable demographics. Rising urbanisation (from 17.6% in 1955 to 35.0% in FY20), b) increasing number of households (2% CAGR) due to nuclearisation and c) higher share of earning population in India (~60% are in the age bracket of 18 to 59 years) will likely continue to drive demand for housing loans. Individual housing loans now constitute ~16% share in the overall systemic credit (Rs 180trn), having meaningfully improved from ~11% a decade ago. Despite healthy pace of growth, mortgage penetration (mortgage to GDP ratio) in India remains sub optimal at ~11%, presenting a huge growth opportunity for HFCs. We expect HFFC, AAVAS, APTUS and CANF to expand at 34%, 24%, 31% and 19% CAGR over FY23-25E.

### AFHC's strong business model is a cocktail of high pricing power and low credit cost

AHFCs cater to a relatively riskier customer profile which leads them to charge a premium on interest. This is why they have higher yields compared to normal housing finance players. Despite their riskier segment focus, AHFCs' asset quality was healthy even during the COVID period bearing testimony to their robust underwriting practices. This explains why these companies' RoA profile ranges at a healthy 3%-7% (Ex CANF), which in our view should stay largely intact over FY23-25E. As these companies scale up their businesses, their leverage should improve and boost their RoE profiles.

**Valuation and view:** AFHCs have managed to maintain/ improve their return profiles through higher yields, lower cost of funds and well managed asset quality. Continued branch expansion in existing and newer geographies, along with price inflation and government focus would continue to support their growth. We forecast earnings CAGR of 20% over FY23-25E supported by higher growth. Moreover with balance sheet leverage building up, the RoE will further improve by 100-250 bps for these companies. We expect the initiated companies to trade at higher valuations, supported by strong growth and profitability, in addition to stable asset quality. We initiate coverage on APTUS, HFFC, AAVAS and CANFIN with a BUY rating, valuing them at 4.0x/ 3.7x/ 3.7x/ 2.5X respectively.

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## Exhibit 1: Peer valuation

	CMP	Rating	TP (Rs)	MCAP (Rs bn)	RoA (%)			RoE (%)			BV (Rs)			P/BV (x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
APTUS	268	BUY	350	137	7.8	7.4	6.8	16.1	17.4	18.4	67.1	75.7	86.2	4.0	3.5	3.1
HFFC	850	BUY	1,000	74	3.9	3.6	3.3	13.5	15.0	16.2	206.5	234.7	269.3	4.2	3.7	3.3
AAVAS	1,661	BUY	2,000	133	3.5	3.4	3.5	14.1	14.7	15.7	413.6	472.1	543.7	4.1	3.6	3.1
CANFIN	781	BUY	960	103	2.0	2.0	1.9	18.5	18.4	18.0	273.9	324.9	383.9	2.9	2.5	2.1

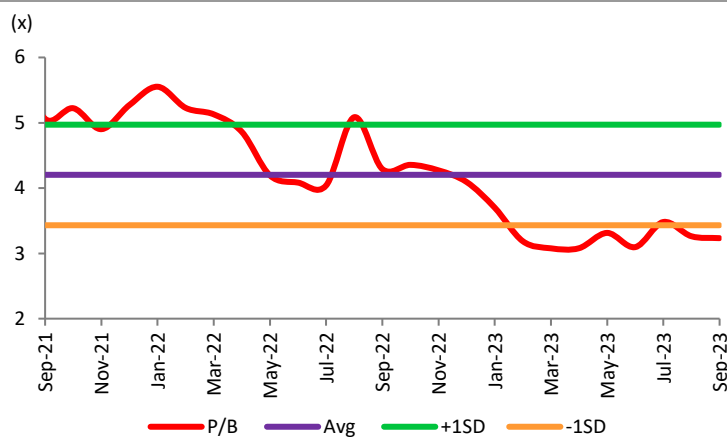
Source: Company, Systematix Institutional Research

## Exhibit 2: Key business parameters

FY23	Business Matrix (%)				Margin (%)			Cost ratios (%)		Provisioning (%)		Capital adequacy (%)		Asset quality (%)	
	AUM (Rs bn)	CAGR (FY19-FY23)	HL share	Salaried share	Yield	CoB	NIM	Opex/AUM	Cost/Income %	Credit cost	ECL prov.	Tier 1	CAR	Stage 2	Stage 3
APTUS	67	32	58	29	18.1	8.5	13.1	2.8	19.4	0.5	25.0	76.6	77.4	4.7	1.2
HFFC	72	31	88	70	14.0	7.3	6.6	2.8	35.5	0.4	34.0	48.9	49.4	1.1	1.6
AAVAS	115	25	70	40	13.5	6.6	6.3	3.6	45.0	0.1	26.9	46.5	46.9	1.8	0.9
CANFIN	316	14	89	73	9.4	6.3	3.5	0.6	16.9	0.1	52.3	21.7	23.1	6.0	0.5

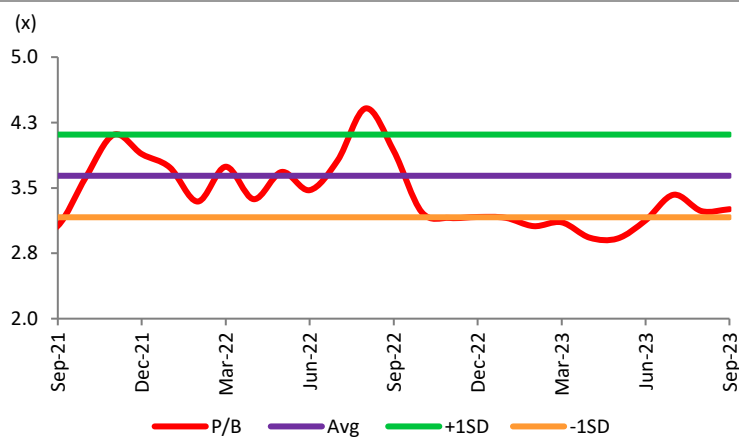
Source: Company, Systematix Institutional Research

## Exhibit 3: One year forward P/BV - APTUS



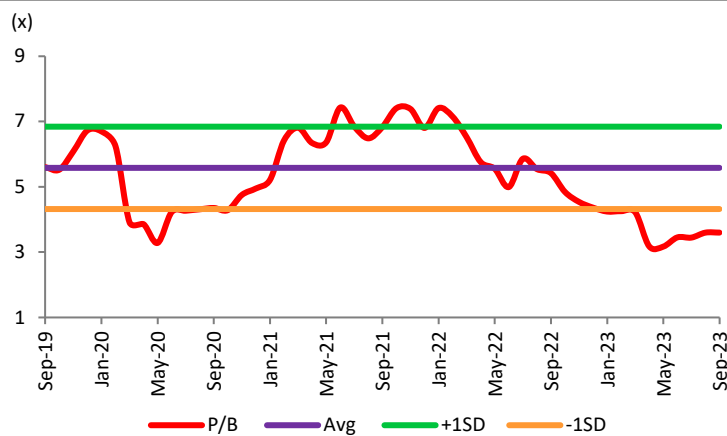
Source: Company, Systematix Institutional Research

## Exhibit 4: One year forward P/BV - HFFC



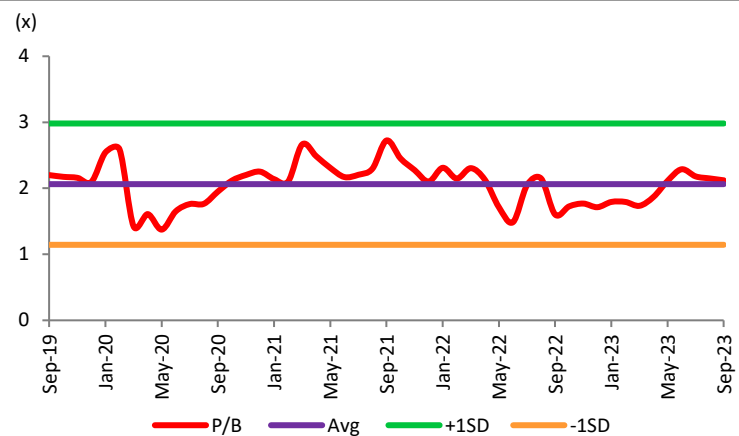
Source: Company, Systematix Institutional Research

## Exhibit 5: One year forward P/BV - AAVAS



Source: Company, Systematix Institutional Research

## Exhibit 6: One year forward P/BV - CANF



Source: Company, Systematix Institutional Research

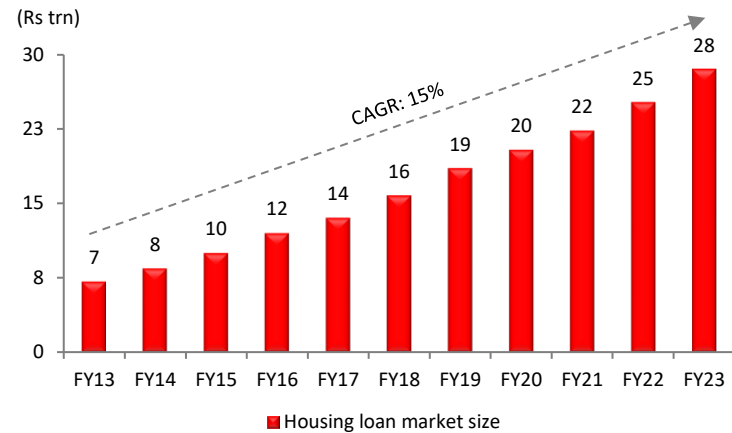
## Snapshot of key players in the affordable housing segment

### Exhibit 7: Business profile

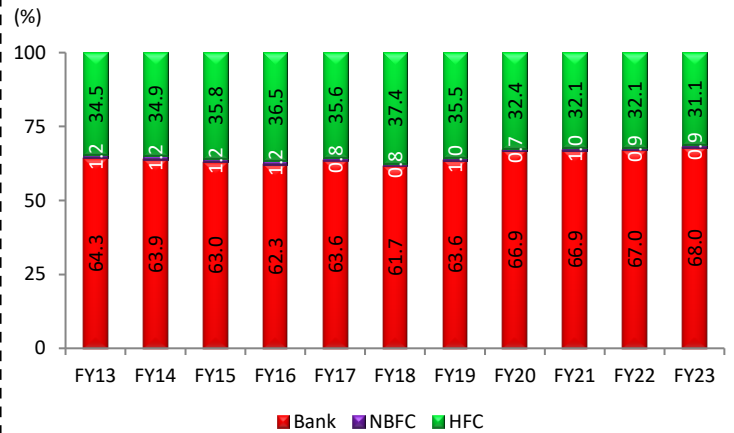
Particulars (FY23)	APTUS	HFFC	AAVAS	CANF
AUM (Rs mn)	67,380	71,980	141,667	315,630
1-year growth (%)	30.1	33.8	30.1	18.1
3-year CAGR (%)	45.6	41.0	45.6	23.5
5-year CAGR (%)	47.7	51.8	47.7	19.0
<b>AUM mix - by product (%)</b>				
Housing loan	58	88	70	89
Non - housing loan	42	12	30	11
<b>AUM mix - by customer (%)</b>				
Salaried and professionals	29	70	40	73
Self-employed	71	30	60	27
<b>AUM mix - on book/ off book (%)</b>				
On book	100	85	74	100
Off book	0	15	26	0
<b>Network details</b>				
Branch (Nos.)	231	111	346	205
Employee (Nos.)	2,405	993	6,034	976
Customers (Nos.)	107,000	77,512	187,149	241,000
<b>No. of States</b>	5	13	12	21
<b>Key States as % of AUM</b>	Tamil Nadu – 43% Andhra Pradesh – 35%	Gujarat – 33% Maharashtra – 14% Tamil Nadu – 14% Telangana – 9%	Rajasthan – 30-35% Maharashtra – ~15% Madhya Pradesh – ~15% Gujarat - ~15%	South – 65% Non-South – 35%
<b>Product details</b>				
ATS (Rsmn)	0.8	1.0	0.8	2.2
Portfolio yield (%)	18.1	14.0	13.5	9.3
<b>Company details</b>				
Year of incorporation	2009	2010	2011	1987
Year of listing	2021	2021	2018	1989
<b>Promoter stake</b>	<b>Total stake: 62.2%</b> Munuswamy Anandan- 19.3% Padma Anandan -4.5% Westbridge crossover fund LLC - 34.5% JIH LLC - 2.2%	<b>Total stake: 33.5%</b> True north fund VLLP - 20.1% Aether (Mauritius) Limited - 13.3%	<b>Total stake: 39.1</b> Kedaara capital – 23.6% Partner group – 16.1%	<b>Total stake: 29.9</b> Canara Bank 29.9%
<b>Auditor</b>	T R Chadha & Co LLP	Deloitte Haskins & Sells	M/s Walker Chandio & Co LLP,	M/s. B Srinivasa Rao & Co. and M/s B K Ramadhyani & Co. LLP
<b>Credit Rating</b>	ICRA:AA-/Stable CARE:AA-/Stable	IND RA: AA-/Stable CARE: AA-/Stable	ICRA: AA/Stable CARE: AA/Stable	ICRA:AA+/Stable CARE:AAA/Stable IND-RA:AA+/Stable

Source: Company, Systematix Institutional Research

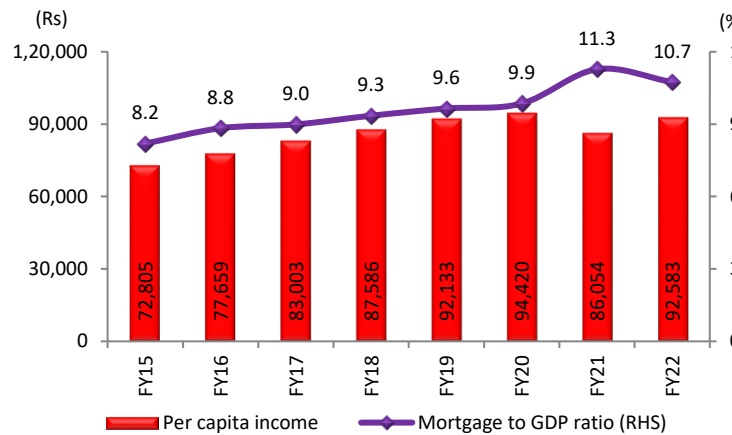
## Story in charts

**Exhibit 8: Size of India's housing loan industry**


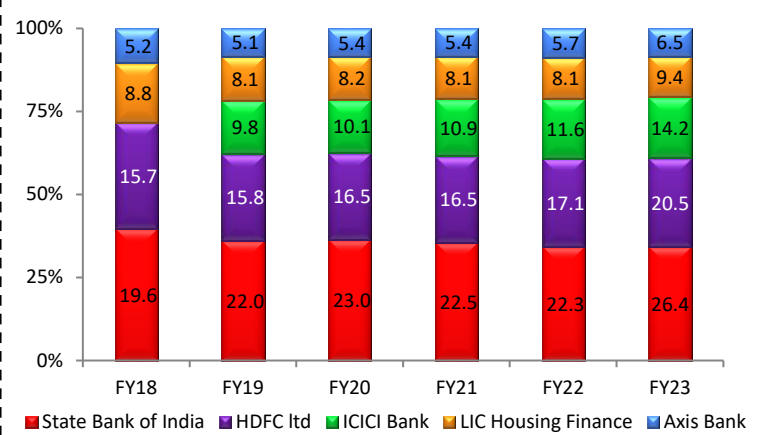
Source: RBI, NHB, Systematix Institutional Research

**Exhibit 9: Banks and HFCs dominate the housing loan market**


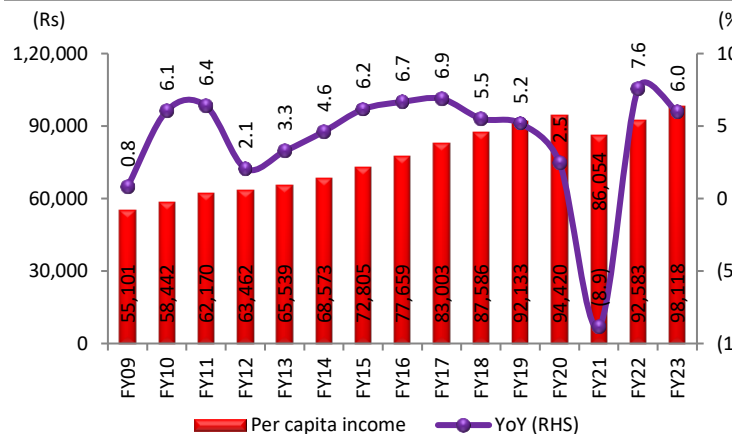
Source: RBI, NHB, Systematix Institutional Research

**Exhibit 10: Mortgage penetration in India is low**


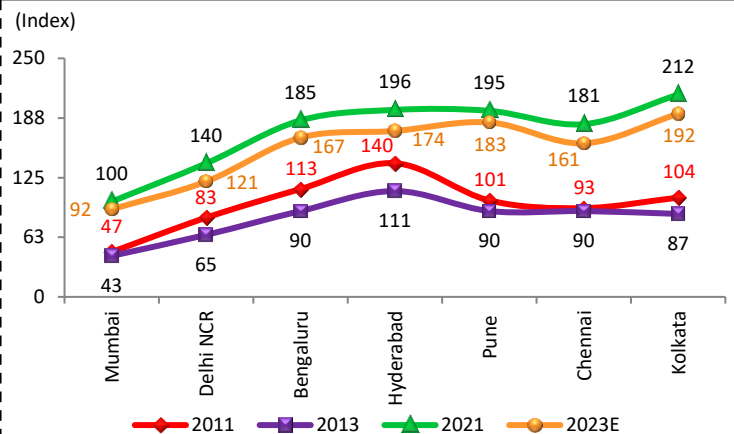
Source: RBI, NHB, Systematix Institutional Research

**Exhibit 11: Share of Top 5 institutions in loan/AUM terms**


Source: RBI, NHB, Systematix Institutional Research

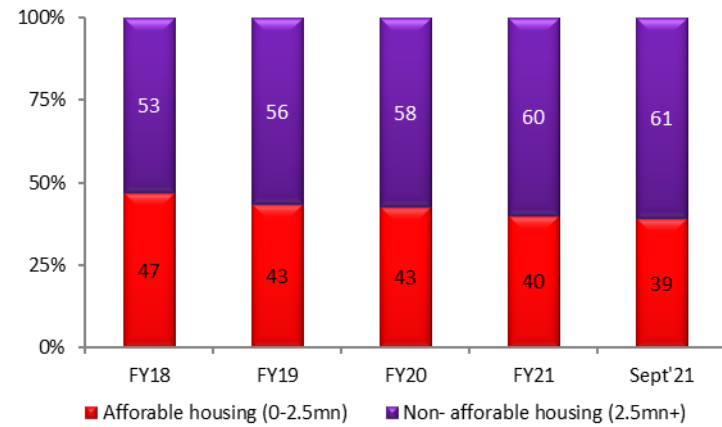
**Exhibit 12: Rising per capita income**


Source: Global data, Systematix Institutional Research

**Exhibit 13: Affordability index rationalised in FY23**


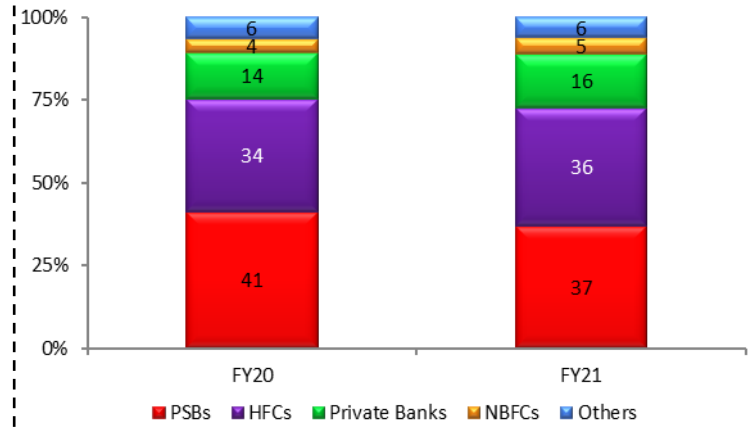
Source: JLL research, Systematix Institutional Research

Exhibit 14: Affordable &amp; non-affordable portfolio mix



Source: Aadhar DRHP, Systematix Institutional Research

Exhibit 15: Player-wise mix in affordable housing disbursements



Source: Aadhar DRHP, Systematix Institutional Research

Exhibit 16: Business growth trend

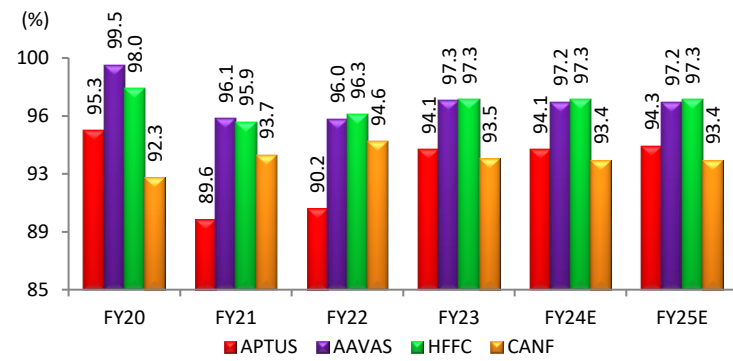
	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	CAGR
<b>AUM (Rs mn)</b>								
APTUS	22,470	31,830	40,670	51,800	67,380	88,005	114,748	31.6
HFFC	24,436	36,184	41,411	53,803	71,980	98,191	129,476	31.0
AAVAS	47,595	62,019	75,729	91,177	115,479	141,360	168,991	24.8
CANF	183,810	207,060	221,050	267,110	315,630	374,606	446,012	14.5
<b>AUM Growth (%)</b>								
APTUS	59	42	28	27	30	31	30	
HFFC	80	48	14	30	34	36	32	
AAVAS	42	30	22	20	27	22	20	
CANF	17	13	7	21	18	19	19	

Source: Company, Systematix Institutional Research

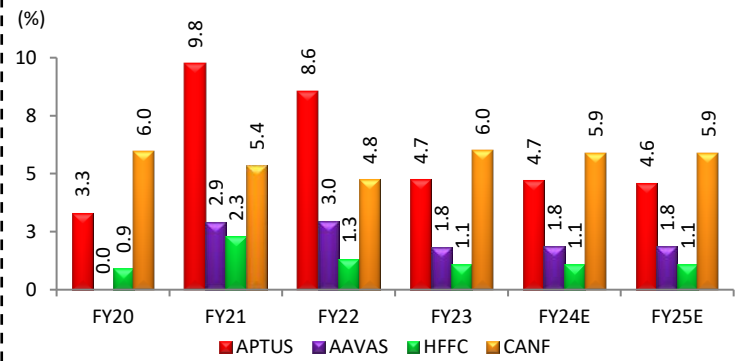
Exhibit 17: Margin profile of Affordable Housing Finance players

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Yield (%)</b>							
APTUS	17.2	18.2	17.6	17.5	18.1	17.7	17.5
HFFC	13.5	13.8	13.6	13.4	14.0	14.6	14.5
AAVAS	14.7	14.4	14.3	13.6	13.5	13.8	14.0
CANF	10.1	10.4	9.5	8.2	9.4	10.1	9.9
<b>Cost of borrowing (%)</b>							
APTUS	9.5	10.2	9.1	8.0	8.5	8.6	8.8
HFFC	8.6	8.8	7.8	6.6	7.3	8.2	8.3
AAVAS	8.0	7.9	7.8	6.7	6.6	7.2	7.2
CANF	7.6	7.5	6.4	5.3	6.3	7.1	7.0
<b>NIMs (%)</b>							
APTUS	10.6	11.1	11.6	12.6	13.1	12.2	11.5
HFFC	5.6	5.3	5.5	6.2	6.6	6.6	6.3
AAVAS	6.8	6.3	6.0	6.3	6.3	6.1	6.0
CANF	3.2	3.5	3.7	3.3	3.48	3.59	3.47
<b>Spreads (%)</b>							
APTUS	7.8	8.0	8.5	9.5	9.7	9.2	8.8
HFFC	4.9	5.0	5.7	6.8	6.7	6.4	6.2
AAVAS	6.7	6.5	6.4	6.9	6.9	6.6	6.8
CANF	2.5	2.9	3.1	2.9	3.1	3.0	2.9

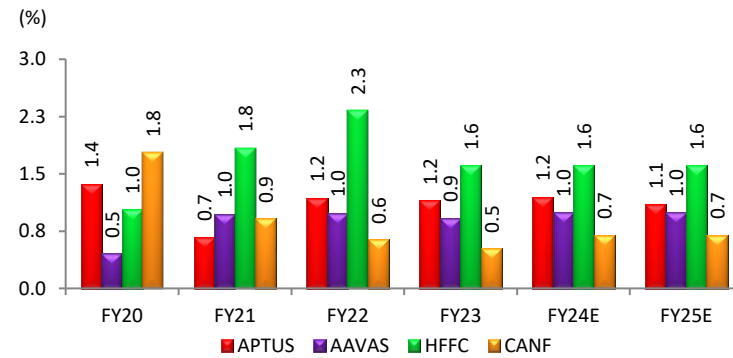
Source: Company, Systematix Institutional Research

**Exhibit 18: Movement in stage 1 assets**

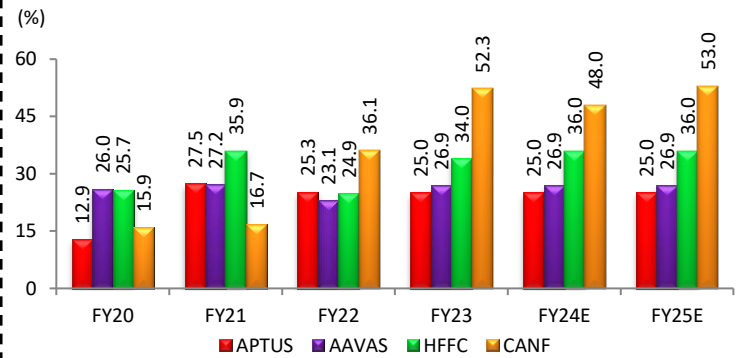
Source: Company, Systematix Institutional Research

**Exhibit 19: Movement in stage 2 assets**

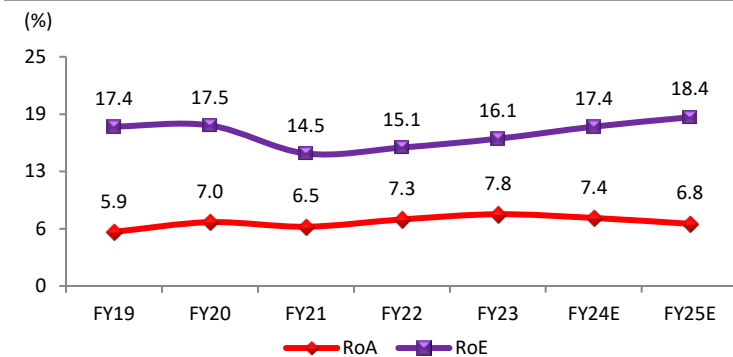
Source: Company, Systematix Institutional Research

**Exhibit 20: Movement in stage 3 assets**

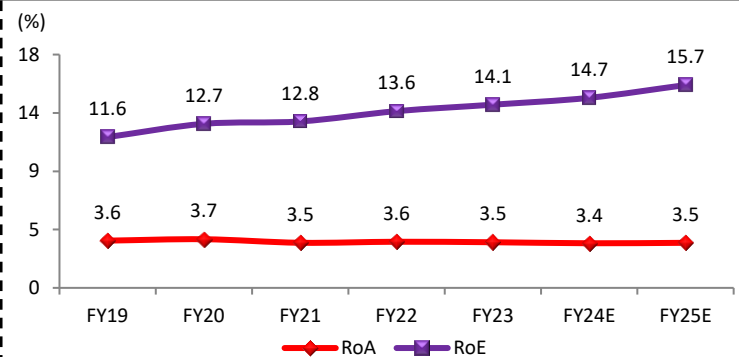
Source: Company, Systematix Institutional Research

**Exhibit 21: Credit costs to be benign**

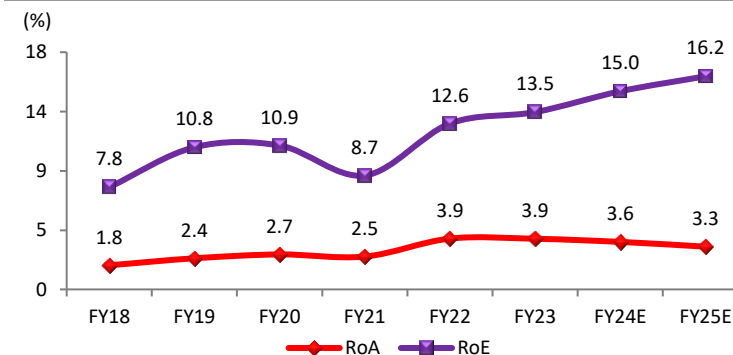
Source: Company, Systematix Institutional Research

**Exhibit 22: Return ratio profile - APTUS**

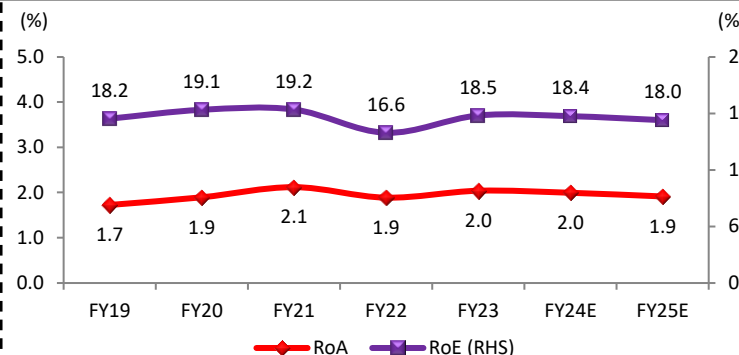
Source: Company, Systematix Institutional Research

**Exhibit 23: Return ratio profile - AAVAS**

Source: Company, Systematix Institutional Research

**Exhibit 24: Return ratio profile - HFFC**

Source: Company, Systematix Institutional Research

**Exhibit 25: Return ratio profile - CANF**

Source: Company, Systematix Institutional Research

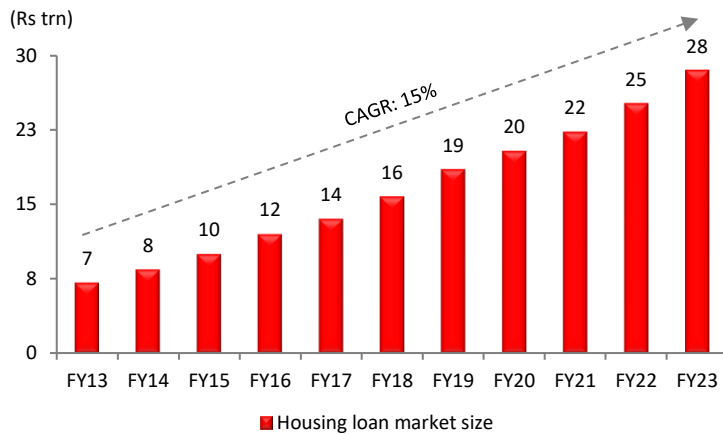


## Housing loan market in India

### The share of housing loans in overall systemic credit is increasing

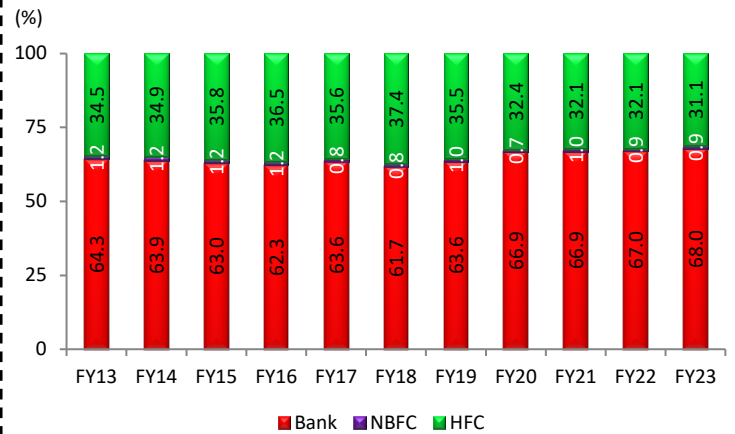
Indian housing loan (Individual loans) industry has grown at 15% CAGR over the last decade, and currently stands at Rs ~29 trn. The Individual housing loans has ~16% share in the overall systemic credit (Rs 180 trn), which has meaningfully improved from ~11% a decade ago. Despite a healthy pace of growth, mortgage penetration (mortgage to GDP ratio) in India still remains sub optimal at ~11%, presenting a huge growth opportunity for bank and HFCs. Schedule commercial banks (SCBs) command the highest market share in the housing loan market at ~68%, followed by HFCs at 31%, and NBFCs having miniscule 1% share.

**Exhibit 26: Size of India's housing loan industry**



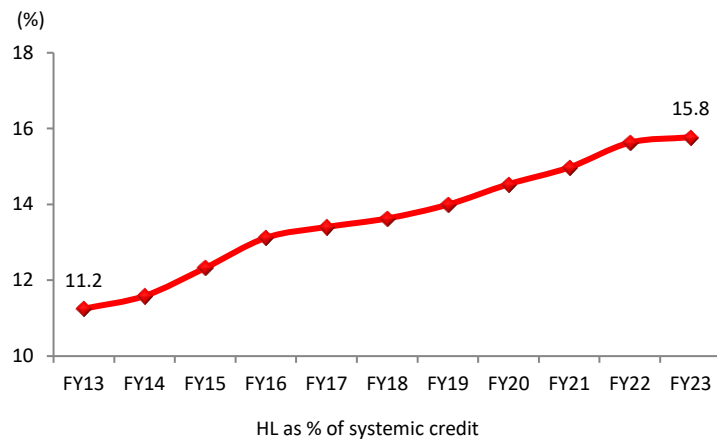
Source: RBI, NHB, Systematix Institutional Research

**Exhibit 27: Banks and HFCs dominate the housing loan market**



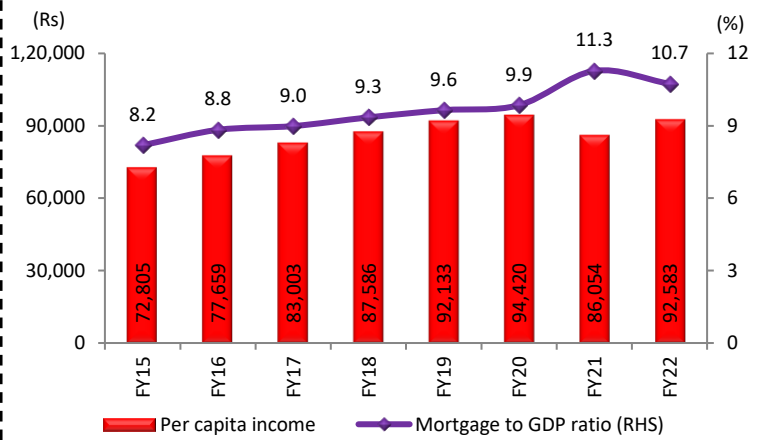
Source: RBI, NHB, Systematix Institutional Research

**Exhibit 28: HL share in systematic credit on rising trend**



Source: RBI, NHB, Systematix Institutional Research

**Exhibit 29: Mortgage penetration in India is low**



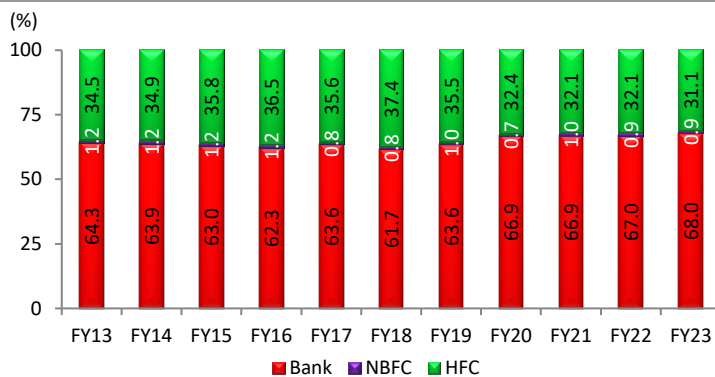
Source: RBI, NHB, Systematix Institutional Research

## Banks / HFCs dominate India's housing loan market

Banks and HFCs dominate the India's housing loan market with ~99% share, with NBFCs having a miniscule share of ~1%. Although banks have been a significant player in this segment, their share had declined from 71% in FY07 to 63% in FY18, as HFCs grew their loan book at 19% CAGR over FY07-FY18 vs 16% in the case of banks. Government of India's initiatives to boost affordable housing accentuated the growth for HFCs during the latter part of FY18-19. However, the trend reversed again over FY18-23, evident from the increase in banks' market share from 63% in FY18 to 68% in FY23. During this period, HFCs' loan book growth moderated to 8% CAGR, while banks broadly maintaining CAGR at 15%.

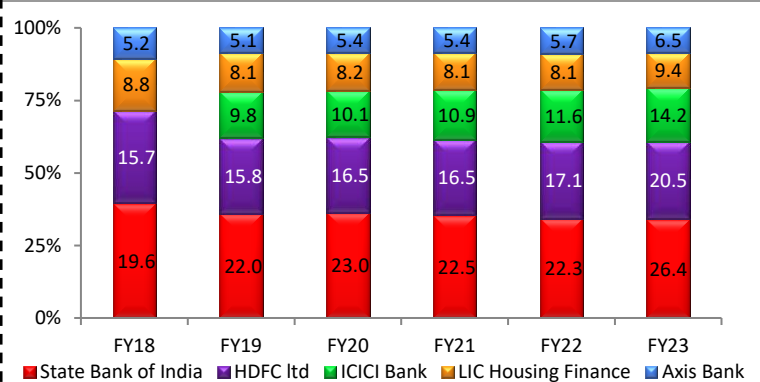
At the primary lending institution (PLI) level, top five institutions, i.e., State Bank of India, HDFC Limited (now merged with HDFC Bank), ICICI Bank, LIC Housing Finance and Axis Bank, account for ~57% of the total individual housing loan market.

**Exhibit 30: Category wise market share of housing loan of players**



Source: RBI, NHB, Systematix Institutional Research

**Exhibit 31: Share of Top 5 institutions in loan/AUM terms**

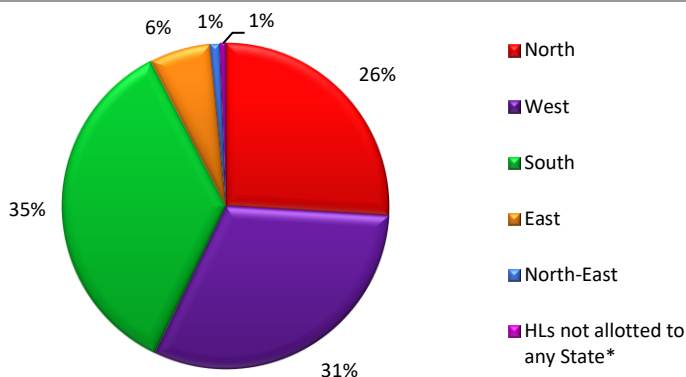


Source: RBI, Systematix Institutional Research

## High regional concentration with greater skewness at the state level

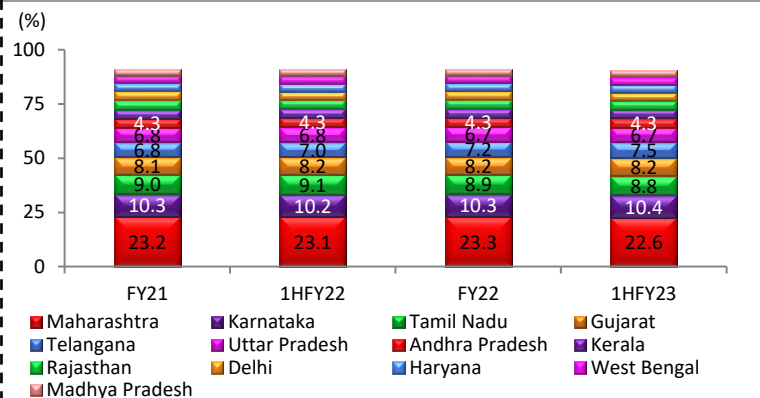
Geographically, housing loan market is relatively skewed towards South and Western region with share of 35% and 31% respectively. North region has ~26% share while Eastern region accounts for balance 6% share in outstanding housing loans. At state level the skewness is even more with top 13 states, contributing ~90% of overall Individual Housing loan portfolio. (viz. Maharashtra, Karnataka, Tamil Nadu, Gujarat, Telangana, Uttar Pradesh, Andhra Pradesh, Kerala, Rajasthan, Haryana, Delhi, West Bengal & Madhya Pradesh).

**Exhibit 32: Region-wise AUM breakup**



Source: NHB, Systematix Institutional Research

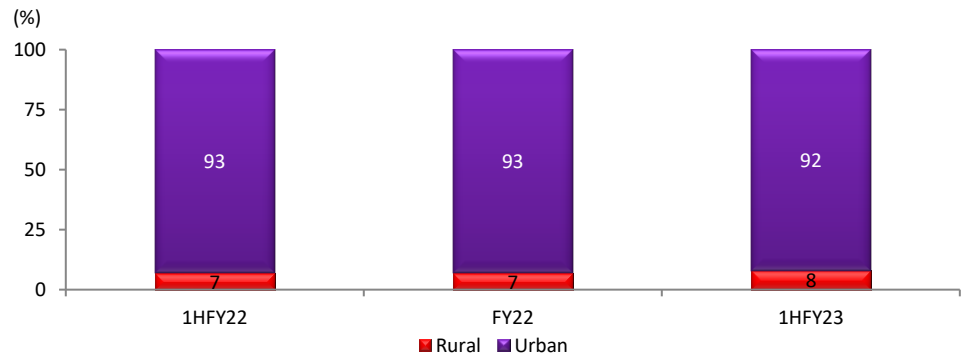
**Exhibit 33: Share of top 13 states in housing loans**



Source: NHB, Systematix Institutional Research

While the share of rural housing loans in IHL portfolio remain low at just ~8%, off late it is demonstrating a superior growth vs urban portfolio. Institution wise, HFCs has the highest share of their portfolio in rural at 8.9% followed by PSBs (7.6%) and PVBs (6.2%).

**Exhibit 34: Rural / Urban housing loan split in IHL at Industry level**

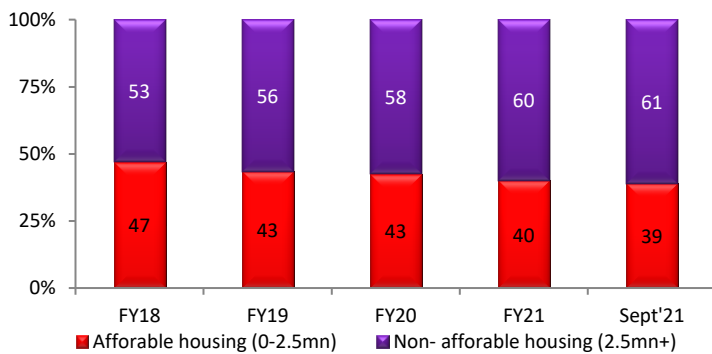


Source: Company, Systematix Institutional Research

### Affordable segment form a sizable chunk in overall housing loans

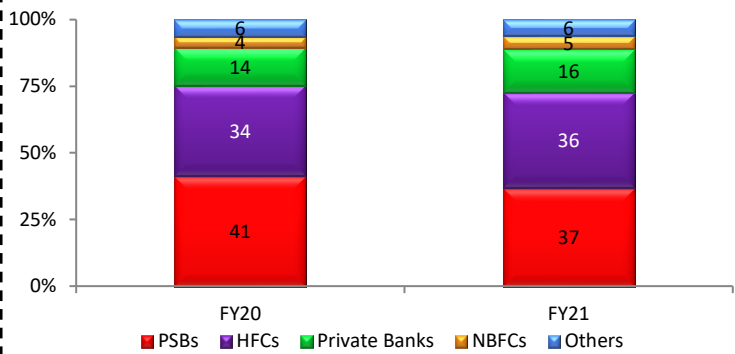
The overall size of housing finance industry in India, focusing on low-income segment (ticket size of less than Rs 2.5mn) was around Rs 8.5trn as of FY21, constituting ~39% share in the overall housing finance industry. PSBs held 37% share (highest) in the low-income housing loan, followed by HFCs (36%) and PVBs (16%), all other player groups (foreign banks, NBFCs, SFBs, RRBs (rural regional banks) and co-operative banks) had a cumulative 11% market share in low-income housing loan segment.

**Exhibit 35: Affordable & non-affordable portfolio mix**



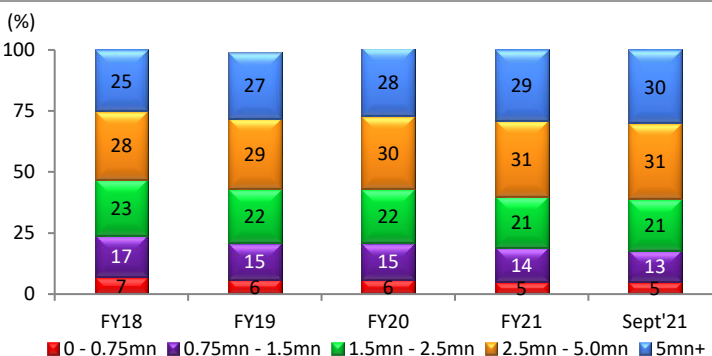
Source: Aadhar DRHP, Systematix Institutional Research

**Exhibit 36: Player-wise mix in affordable housing disbursements**



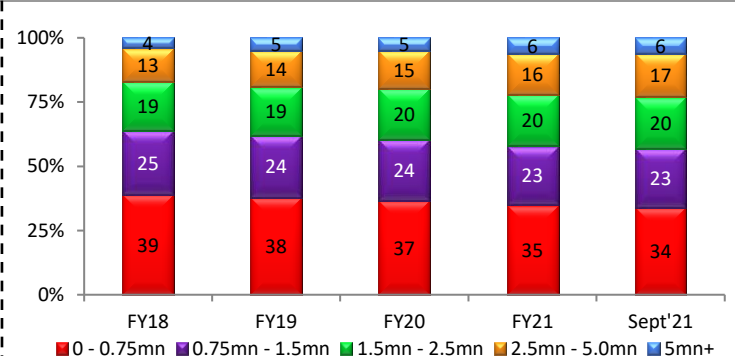
Source: Aadhar DRHP, Systematix Institutional Research

**Exhibit 37: Ticket-wise break up of AUM**



Source: Aadhar DRHP, Systematix Institutional Research

**Exhibit 38: Ticket-wise break up of loan accounts**



Source: Aadhar DRHP, Systematix Institutional Research

## Favourable macro factors aiding growth

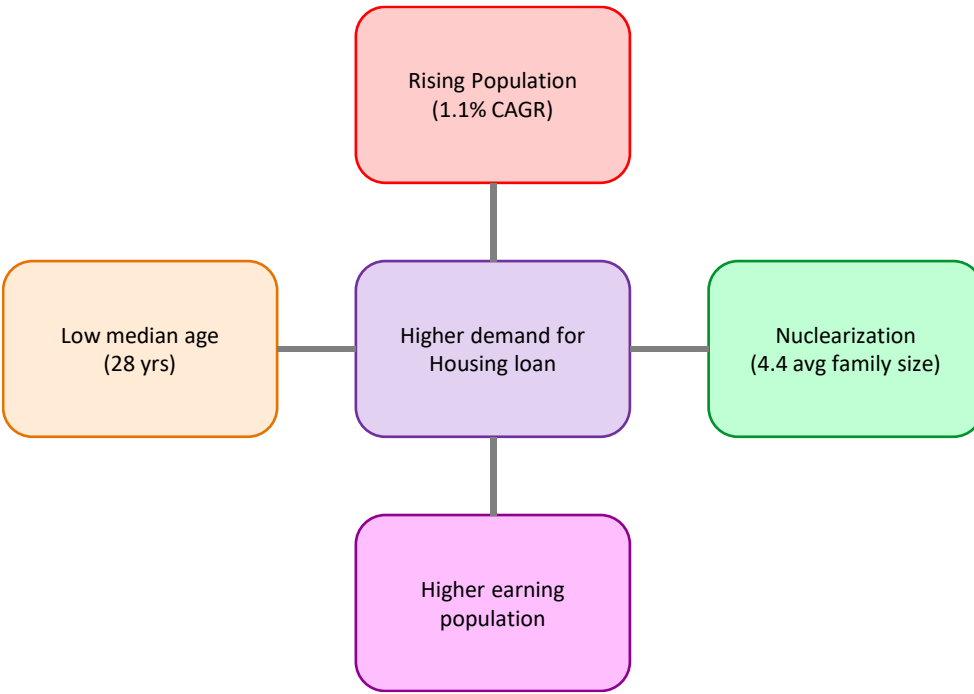
### Favourable demographics

India’s housing loan industry is in a sweet spot and should continue to benefit from the country's favourable demographics. We expect to see an increase in the number of home buyers, which should eventually translate into higher demand for home loans, aided by factors such as a) rising urbanisation (from 17.6% in 1955 to 35.0% in FY20), b) increasing number of households due to nuclearisation and c) higher share of earning population in India.

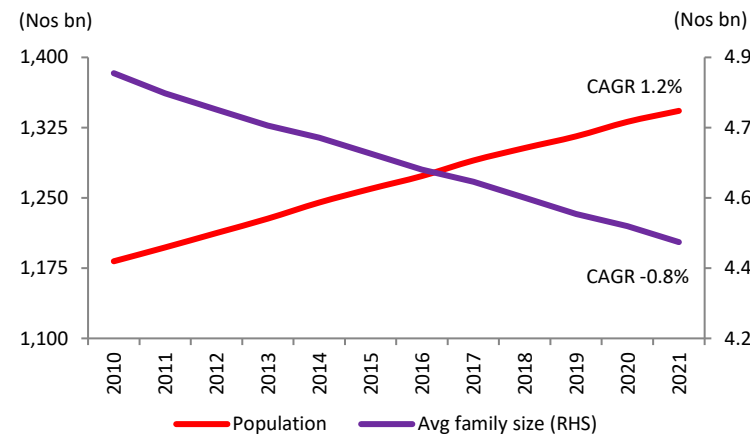
Over the past decade, India’s population has expanded at 1.1% CAGR, even as average family size reduced from 4.9 in FY10 to 4.4 in FY21 (compounded degrowth of 0.8%). A shift towards nuclearization of families led to this scenario, resulting in number of households to expand at 2% CAGR during the same period. We expect this trend to continue over the next few decades, a scenario witnessed earlier in other geographies like China.

Demographic of Indian population is quite favorable as India has largest youngest population with a median age of 28 years. 90% of Indians are below 60 years of age, of which 63% are in the age bracket of 15 to 59 years in FY21. While United States, China and Brazil had 77%, 83% and 86% respectively, of their population below the age of 60 (FY20).

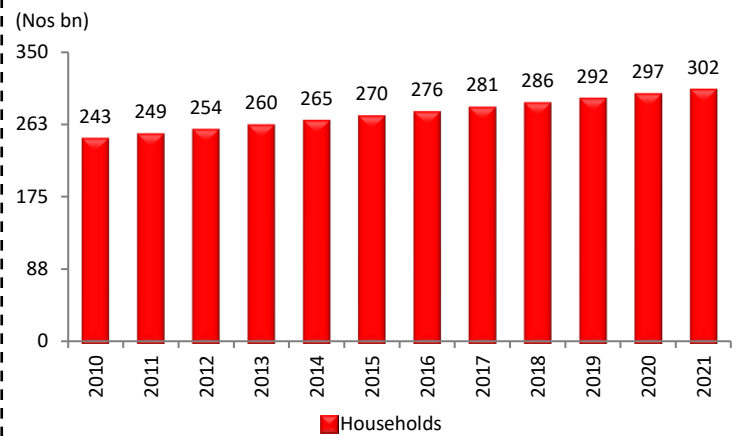
Exhibit 39: Key growth drivers



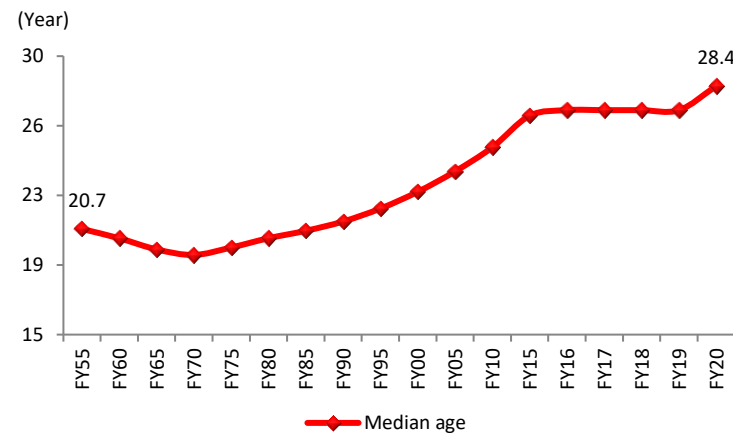
Source: Company, Systematix Institutional Research

**Exhibit 40: Rising population and decline in avg. family size**

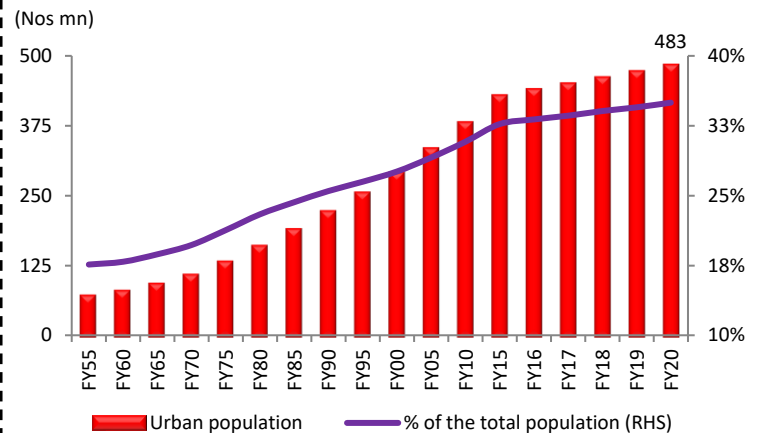
Source: Global data, Systematix Institutional Research

**Exhibit 41: ...aided 2% CAGR in the no. of households in last decade**

Source: Global data, Systematix Institutional Research

**Exhibit 42: Rising median age of Indian population**

Source: Global data, Systematix Institutional Research

**Exhibit 43: Rising urban population**

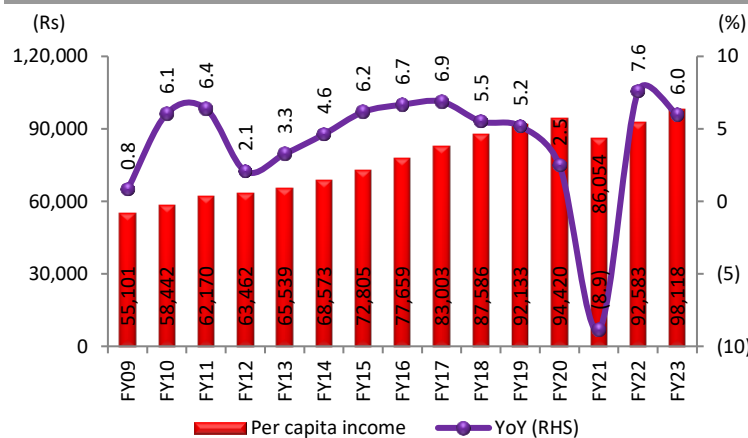
Source: Global data, Systematix Institutional Research

## Rising income levels to support demand

Favourable demographics, increase in per capita income, affordability and government support have created a robust demand for housing finance. India's per capita income has been trending upwards YoY since the last decade, except during pandemic period (FY20-FY21), post which, it bounced back in FY22-FY23. Exhibit 44, depicts the YoY improvement in the affordability index, which rationalized in FY23. The high index during FY21 was aided by lower interest rates and reasonable property prices.

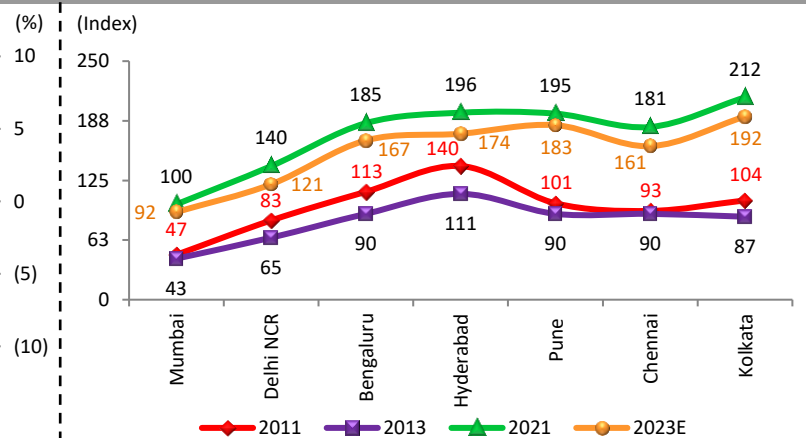
The past trend reveals that the interest rate alone is not a key factor that drives the demand. Hence, we believe, the current high interest rate environment is unlikely to have any major impact on the demand side. Further, higher interest rates are invariably adjusted through increased tenure and not by raising EMIs. As a result, affordability is not much impacted by surge in interest rates.

**Exhibit 44: Rising per capita income**



Source: Global data, Systematix Institutional Research

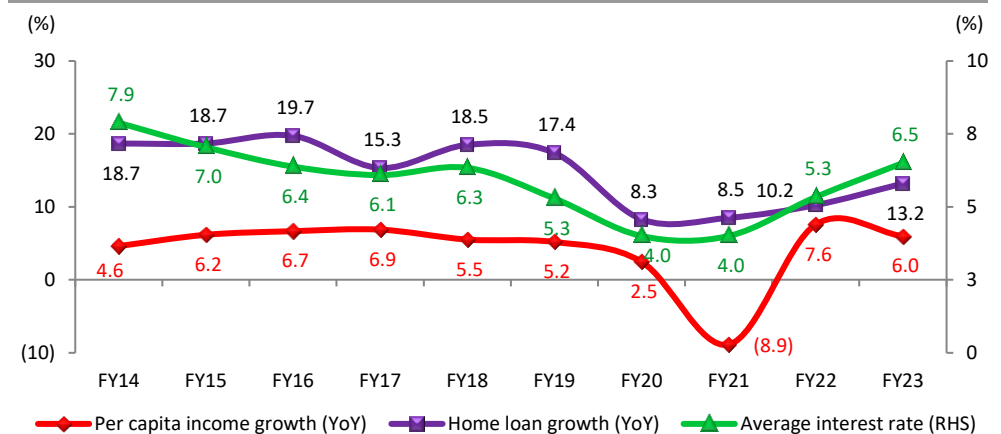
**Exhibit 45: Affordability index rationalised in FY23**



Source: JLL research, Systematix Institutional Research

Note: Affordability index is the ratio of the average household income to the eligible household income. Eligible household income is defined as the minimum income that a household should earn in order to qualify for a home loan on a 1000 sq.ft apartment at the prevailing market price. A value of 100 means that a household has exactly enough income to qualify for the loan.

**Exhibit 46: Per capita income, home loan growth and average interest rates co-relation**

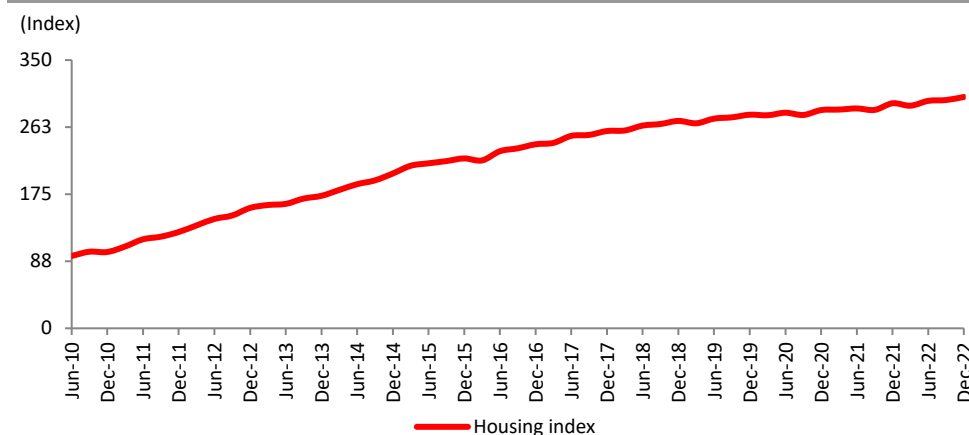


Source: Global data, RBI, NHB, Systematix Institutional Research

## Rising housing prices and supply shortfall to spur growth

Increased demand for houses and shortfall in supply have been driving housing prices higher. Over FY10-FY23, housing price index increased by a whopping 3.5x, driving substantial increase in the average housing loan ticket size. Recent estimates indicate a combined shortfall of 100mn units across all income category customers. This would not only continue to cushion housing prices for a prolonged period, but also provide potential market opportunity of Rs 58trn at current prices.

### Exhibit 47: India's housing index (HPI) trend



Source: RBI, Systematix Institutional Research

### Exhibit 48: Estimated housing loan demand of Rs 58trn

Category	Shortage (mn)	Value of units (Rs trn)	Estimated loan demand (Rs trn)
EWS	45	34	5
LIG	50	75	30
MIG and above	5	40	22
<b>Total</b>	<b>100</b>	<b>149</b>	<b>58</b>

Source: Aadhar DRHP, Systematix Institutional Research

Note: Economically weaker section (EWS) – income upto Rs 0.3mn p.a, Low income group (LIG) – Income above Rs 0.3mn to Rs 0.6mn p.a and Mid income group (MIG) and above – Income of Rs 0.6mn p.a and above.

## Government schemes/assistance

To address the housing requirements of eligible families and the urban poor, including slum dwellers, Government of India (GoI) launched 'Housing for All' scheme in 2015. It also restructured 'Indira Awas Yojana' to 'Pradhan Mantri Awas Yojana - Gramin (PMAY-G)' with the aim to provide pucca houses with basic amenities to all houseless and households living in kutcha/dilapidated houses in India's rural areas.

**Exhibit 49: Progress of the housing schemes**

	PMAY (U)		
Particulars	ISR In-situ slum redevelopment	CLSS Credit linked subsidy scheme	AHP Affordable housing in partnership
Timeline	March 2022	June 2015 – March 2022	March 2022
Objective	<p>This scheme is admissible for all houses built for eligible slum dwellers under the component of ISSR using land as resource with participation of private developers.</p> <p>After redevelopment, de-notification of slums by State/UT Government is recommended under the guidelines.</p> <p>Flexibility is given to States/Cities to deploy this Central Assistance for other slums being redeveloped.</p> <p>States/Cities provide additional FSI/FAR or TDR to make projects financially viable. For slums on private owned land,</p> <p>States/Cities provide additional FSI/FAR or TDR to landowner as per its policy. No Central Assistance is admissible in such case.</p>	<p>Beneficiaries of economically weaker section (EWS)/ low income group (LIG), middle income group (MIG)-I and middle income group (MIG)-II seeking housing loans from banks, housing finance companies and other such institutions for acquiring, new construction or extension of houses are eligible for an interest subsidy of 6.5%, 4% and 3% on loan amount of up to Rs 6 lakh, Rs 9 lakh and Rs 12 lakh, respectively.</p>	<p>An affordable housing project can be a mix of houses for different categories, but it will be eligible for central assistance, if at least 35% of the houses in the project are for the EWS category.</p> <p>The states/UTs decide on an upper ceiling on the sale price of EWS houses, with the objective to make them affordable and accessible to the intended beneficiaries.</p> <p>State and cities also extend other concessions such as their state share, land at affordable cost, stamp duty exemption, etc.</p>
Subsidy	Government of India grant @ Rs 1 lakh per house	Benefit up to Rs 2.67 lakh through subsidy	Government of India grant @ Rs 1.5 lakh per house
Status of the scheme	<p>Sanctioned - 3.52 lakh</p> <p>Grounded - 6.36 lakh</p> <p>Completed - 4.95 lakh</p>	<p>Total of 25.04 lakh houses completed</p> <p>EWS/LIG - 18.96 lakh</p> <p>MIG - 6.08 lakh</p> <p>Rs 589bn of interest subsidy under CLSS is disbursed, of which:</p> <p>EWS/LIG – Rs 460 bn</p> <p>MIG – Rs 129 bn</p>	<p>Sanctioned - 17.76 lakh</p> <p>Grounded - 13.94 lakh</p> <p>Completed - 7.47 lakh</p>

Particulars	BLC Subsidy for beneficiary led individual house construction or enhancement	PMAY-G	Rural housing interest subsidy scheme (RHISS)
Timeline	March 2022	March 2024	June 2017
Objective	<p>Provided to eligible families belonging to the EWS category for individual house construction/enhancement.</p> <p>The urban local bodies validate the information and building plan submitted by the beneficiary so that ownership of land and other details like economic status and eligibility can be ascertained.</p>	<p>The aim of PMAY-G is to provide a pucca house with basic amenities to all houseless and households living in kutcha/dilapidated houses in rural areas of the country.</p>	<p>Interest subsidy to eligible households who avail housing loans for construction or modification of houses in the rural areas.</p>
Subsidy	GoI grant @ Rs 1.5 lakh per house	To complete total target of 29.5mn houses by March 2024.	Interest subsidy @3% on the principal amount of the loan and it is the admissible maximum loan amount of the first Rs 2 lakh, irrespective of the quantum of housing loan for 20 years or for the full period of the loan, whichever is less.



Particulars	BLC Subsidy for beneficiary led individual house construction or enhancement	PMAY-G	Rural housing interest subsidy scheme (RHISS)
Status of the scheme	Sanctioned - 73.30 lakh Grounded - 65.28lakh Completed - 36.77 lakh	Total number of houses completed till Dec 2022 – 20.7mn.	Executed MoUs with 100 PLIs for the implementation of the scheme and disbursed Rs 181.3 mn (net).

Source: Company, Systematix Institutional Research

### Tax benefits

The government provides certain tax benefits to promote home ownership among individuals. Interest on home loans is allowed as a deduction under section 24, 80EE, 80EEA of the Income Tax Act, while the principal amount is allowed as a deduction under section 80C of the Income Tax Act.

#### Exhibit 50: Tax benefits under various sections

Parameter	Under Section 24	Under Section 80EE	Under Section 80EEA
Eligibility	Only Individual taxpayers	Only Individual taxpayers	Only Individual taxpayers
Deduction limit	Up to Rs 0.2mn (including preconstruction interest in 5 equal instalments starting from the year in which the house is purchased, or construction is completed)	Rs 50,000	Rs 1,50,000
Applicability of section 24	N.A.	Can be claimed up to Rs 2.5 lakh (Rs 2 lakh + Rs 50,000)	Can be claimed up to Rs 3.50 lakh (Rs 2 lakh + Rs 1.5 lakh)
Date of loan sanctioned	Taxpayers get the deduction if their loans are sanctioned on or after 1 <sup>st</sup> April 1999	Taxpayers get the deduction if their loans are sanctioned from April 2016 to 31 <sup>st</sup> March 2017	Taxpayers get the deduction if their loans are sanctioned from 1 <sup>st</sup> April 2019 to 31 <sup>st</sup> March 2022
Loan amount	N.A	The amount of the loan should not exceed Rs 35 lakh	There is no such limit on the loan amount
Condition	The deduction on interest is limited to Rs 30,000, if the below conditions are not met: <ul style="list-style-type: none"> <li>The home loan must be for the purchase and construction of a property</li> <li>The purchase or construction must be completed within 5 years from the end of the FY in which the loan was taken</li> <li>Further, if the house is rented out, the entire interest is allowed as a deduction</li> </ul>	The taxpayer must be a first-time homebuyer	The taxpayer has to be a first-time home buyer and shouldn't have availed of any deductions under section 80EE

Source: Company, Systematix Institutional Research

## AHFCs growth to outpace prime housing players on a low base

Housing finance companies are broadly classified under prime housing and affordable housing, based on the average ticket size of the loans. The ticket size in affordable housing segment is <Rs 2.5mn vs. >25 lakhs for prime housing. Housing finance players focused on the low-income segment (Avg ticket size of <Rs 10 lakh) account for 10-11% of the total housing loans, which indicates there is huge scope for affordable housing players to grow. On average, the loan to value (LTV) of an affordable housing finance companies (AHFCs) is ~68%, while that of a normal housing finance player is ~75%.

**Exhibit 51: DuPont analysis of key players in Affordable and prime segment**

Particulars (FY23)	Affordable lending players				Prime lending players	
	APTUS	CANF	AAVAS	HFFC	LIC HF	HDFC #
Interest Income	16.5	8.9	11.4	12.2	8.5	8.0
Interest Expense	4.3	5.6	4.8	5.1	6.1	5.3
Net Interest Income	12.2	3.3	6.5	7.1	2.4	2.8
Other income total	1.1	0.1	1.8	1.2	0.1	0.8
Net Income total	13.3	3.4	8.3	8.3	2.5	3.5
Operating expenses total	2.6	0.6	3.8	2.9	0.4	0.4
Pre-provision profit	10.7	2.8	4.6	5.3	2.1	3.2
Provisions	0.5	0.1	0.1	0.4	0.7	0.3
Profit before tax and exceptional items	10.2	2.7	4.5	5.0	1.3	2.9
Profit before tax	10.2	2.7	4.5	5.0	1.3	2.9
Tax total	2.3	0.7	1.0	1.1	0.3	0.6
Reported Profit after tax	7.8	2.0	3.5	3.9	1.1	2.4
Adjusted Profit after tax	7.8	2.0	3.5	3.9	1.1	2.4

Source: Company, Systematix Institutional Research; Note: # now merged with HDFC Bank

Affordable housing finance companies cater to a relatively riskier customer profile and hence charge a premium on interest, which explains their higher yields compared to normal housing finance players. AHFCs enjoy superior profitability vs normal housing players, given their higher yields, lower cost of funds, higher securitization/assignment income, partially offset by higher opex cost.

AHFCs have advantage of lower cost of funds, as they have National Housing Bank (NHB) funding benefit (15-20% of total borrowings) vs. prime housing segment players (0-6% of total borrowings). Even though credit risk is perceived to be higher in the affordable housing segment, credit costs historically have been more or less similar for both the segments.

Operating cost in the prime housing segment is lower due to low collection costs and lesser marketing spend than the affordable housing segment. Also, the productivity and efficiency is higher compared with AHFCs primarily led by scalability of operations.

**Exhibit 52: Comparison of key operational parameters**

Particulars (FY23)	APTUS	CANF	AAVAS	HFFC	Range	HDFC #	LIC HF	Range
Avg. ticket size	0.8	2.2	0.8	1.0	0.72 - 2.2	3.3	2.6	2.6-3.3
Cost of funds	4.6%	5.8%	4.6%	4.8%	4.1% – 6.8%	5.0%	6.1%	
Provisions	0.6%	0.1%	0.1%	0.3%	0.1% – 0.8%	0.4%	0.7%	0.2% – 1.2%
AUM/employee (mn)	28	323	23	72	17-294	1,630	1,030	843 - 1767
Customer/employee	44	247	31	78	22 – 78	2,488*	1209	1,126- 2,488

Source: Company, Systematix Institutional Research; Note: # now merged with HDFC Bank

R\* Range for the last five years

All the other data is the average for the last three years.

## Peer comparison of key players in the affordable housing segment

### Exhibit 53: Business profile

Particulars (FY23)	APTUS	HFFC	AAVAS	CANF
AUM (Rs mn)	67,380	71,980	141,667	315,630
1-year growth (%)	30.1	33.8	30.1	18.1
3-year CAGR (%)	45.6	41.0	45.6	23.5
5-year CAGR (%)	47.7	51.8	47.7	19.0
<b>AUM mix - by product (%)</b>				
Housing loan	58	88	70	89
Non - housing loan	42	12	30	11
<b>AUM mix - by customer (%)</b>				
Salaried and professionals	29	70	40	73
Self-employed	71	30	60	27
<b>AUM mix - on book/ off book (%)</b>				
On book	100	85	74	100
Off book	0	15	26	0
<b>Network details</b>				
Branch (Nos.)	231	111	346	205
Employee (Nos.)	2,405	993	6,034	976
Customers (Nos.)	107,000	77,512	187,149	241,000
<b>No. of States</b>	5	13	12	21
<b>Key States as % of AUM</b>	Tamil Nadu – 43% Andhra Pradesh – 35%	Gujarat – 33% Maharashtra – 14% Tamil Nadu – 14% Telangana – 9%	Rajasthan – 30-35% Maharashtra – ~15% Madhya Pradesh – ~15% Gujarat - ~15%	South – 65% Non-South - 35%
<b>Product details</b>				
ATS (Rsmn)	0.8	1.0	0.8	2.2
Portfolio yield (%)	18.1	14.0	13.5	9.3
<b>Company details</b>				
Year of incorporation	2009	2010	2011	1987
Year of listing	2021	2021	2018	1989
<b>Promoter stake</b>	<b>Total stake: 62.2%</b> Munuswamy Anandan- 19.3% Padma Anandan -4.5% Westbridge crossover fund LLC - 34.5% JIH LLC - 2.2%	<b>Total stake: 33.5%</b> True north fund VLLP - 20.1% Aether (Mauritius) Limited - 13.3%	<b>Total stake: 39.1</b> Kedaara capital – 23.6% Partner group – 16.1%	<b>Total stake: 29.9</b> Canara Bank 29.9%
<b>Auditor</b>	T R Chadha & Co LLP	Deloitte Haskins & Sells	M/s Walker Chandio & Co LLP,	M/s. B Srinivasa Rao & Co. and M/s B K Ramadhyani & Co. LLP
<b>Credit Rating</b>	ICRA:AA-/Stable CARE:AA-/Stable	IND RA: AA-/Stable CARE: AA-/Stable	ICRA: AA/Stable CARE: AA/Stable	ICRA:AA+/Stable CARE:AAA/Stable IND-RA:AA+/Stable

Source: Company, Systematix Institutional Research

**Exhibit 54: DuPont Analysis**

Particulars	APTUS	HFFC	AAVAS	CANF
Interest Income	16.5	12.2	11.4	8.9
Interest Expense	4.3	5.1	4.8	5.6
Net Interest Income	12.2	7.1	6.5	3.3
Other income	1.1	1.2	1.8	0.1
Total Net Income	13.3	8.3	8.3	3.4
Total operating expenses	2.6	2.9	3.8	0.6
Pre-provision profit	10.7	5.3	4.6	2.8
Provisions	0.5	0.4	0.1	0.1
Profit before tax and exceptional items	10.2	5.0	4.5	2.7
Profit before tax	10.2	5.0	4.5	2.7
Tax total	2.3	1.1	1.0	0.7
Reported Profit after tax	7.8	3.9	3.5	2.0
Adjusted Profit after tax	7.8	3.9	3.5	2.0
RoAA	7.8	3.9	3.5	2.0
Leverage	2.1	3.5	4.0	9.1
RoAE	16.1	13.5	14.1	18.5

Source: Company, Systematix Institutional Research

CANF and HFFC are predominantly focused on housing loans with ~90% of AUM, while APTUS and AAVAS have a diverse product mix. APTUS and AAVAS are more focused on the self-employed segment, which contribute 60% and 70% of their AUM, respectively, while CANF and HFFC focus on the salaried segment.

AUMs of APTUS, HFFC, AAVAS and CANF registered 31.6%, 31.0%, 24.3% and 14.5% CAGR, respectively, over FY19-FY23. Most of their growth came from a low base, significant investments in technology, which translated into operating efficiency and branch expansion.

**Exhibit 55: Business growth**

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	CAGR
<b>AUM (Rs mn)</b>								
APTUS	22,470	31,830	40,670	51,800	67,380	88,005	114,748	<b>31.6</b>
HFFC	24,436	36,184	41,411	53,803	71,980	98,191	129,476	<b>31.0</b>
AAVAS	47,595	62,019	75,729	91,177	115,479	141,360	168,991	<b>24.8</b>
CANF	183,810	207,060	221,050	267,110	315,630	374,606	446,012	<b>14.5</b>
<b>AUM Growth (%)</b>								
APTUS	59	42	28	27	30	31	30	
HFFC	80	48	14	30	34	36	32	
AAVAS	42	30	22	20	27	22	20	
CANF	17	13	7	21	18	19	19	

Source: Company, Systematix Institutional Research

AHFCs are largely dependent on borrowings, primarily from banks (45-60% of total borrowings), followed by NHB (15-25%). While HFFC and AAVAS have ~20% share from direct assignments/securitisation, that for APTUS stands at ~4%. While CANF has the lowest cost of borrowing at 6.3%, aided by strong promoter backing, good credit rating and a stable borrowing mix, that of AAVAS is slightly higher at 6.6%.

**Exhibit 56: Borrowing Mix Profile**

(%)	FY19	FY20	FY21	FY22	FY23
<b>APTUS</b>					
Banks	42	49	52	50	60
NCD	44	32	17	-	10
NHB	9	14	23	32	26
Others (including IFC, MF)	6	5	8	18	4
<b>HFFC</b>					
Banks	71	58	44	45	58
NCD	-	-	6	4	6
NHB	26	21	29	27	15
Securitisation/DA	-	19	20	23	19
Others	3	2	1	1	2
<b>AAVAS</b>					
Banks	42	43	34	38	45
Market borrowings	11	18	19	18	12
NHB	19	14	23	22	21
Securitisation/DA	28	25	24	23	22
<b>CANF</b>					
Banks	52	57	51	51	53
Market borrowings	34	22	26	25	22
NHB	12	19	21	22	23
Deposits	2	2	2	2	2

Source: Company, Systematix Institutional Research

**Exhibit 57: Cost of borrowings trend of AHFCs**

(%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
APTUS	9.5	10.2	9.1	8.0	8.5	8.6	8.8
HFFC	8.6	8.8	7.8	6.6	7.3	8.2	8.3
AAVAS	8.0	7.9	7.8	6.7	6.6	7.2	7.2
CANF	7.6	7.5	6.4	5.3	6.3	7.1	7.0

Source: Company, Systematix Institutional Research

Yields of AHFCs within our coverage, range between 9.5% and 18.0%, with NIMs hovering at 3-13%. Yields are directly proportional to the customer mix and ticket size, i.e., companies catering to a higher proportion of self-employed individuals in the low-ticket bracket tend to have higher yields (e.g. APTUS) vs. players that offer services to a high proportion of the salaried segment in the high-ticket bracket (e.g., CANF). Hence, CANF and HFFC have lower spreads, as more than 70% of their customers are salaried professionals and operate in a highly competitive market. Between the two, CANF has a lower spread, as it has an average ticket size of Rs 2.5mn vs. HFFC, which has an average ticket size of Rs 1.1mn. While APTUS serve ~70% of self-employed individuals, this is ~60% for AAVAS, with both their average ticket sizes between Rs 0.8mn and Rs 0.9mn.

**Exhibit 58: Margin profile**

(%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Yield</b>							
APTUS	17.2	18.2	17.6	17.5	18.1	17.7	17.5
HFFC	13.5	13.8	13.6	13.4	14.0	14.6	14.5
AAVAS	14.7	14.4	14.3	13.6	13.5	13.8	14.0
CANF	10.1	10.4	9.5	8.2	9.4	10.1	9.9
<b>Cost of borrowing</b>							
APTUS	9.5	10.2	9.1	8.0	8.5	8.6	8.8
HFFC	8.6	8.8	7.8	6.6	7.3	8.2	8.3
AAVAS	8.0	7.9	7.8	6.7	6.6	7.2	7.2
CANF	7.6	7.5	6.4	5.3	6.3	7.1	7.0
<b>NIMs</b>							
APTUS	10.6	11.1	11.6	12.6	13.1	12.2	11.5
HFFC	5.6	5.3	5.5	6.2	6.6	6.6	6.3
AAVAS	6.8	6.3	6.0	6.3	6.3	6.1	6.0
CANF	3.2	3.5	3.7	3.3	3.5	3.6	3.5
<b>Spreads</b>							
APTUS	7.8	8.0	8.5	9.5	9.7	9.2	8.8
HFFC	4.9	5.0	5.7	6.8	6.7	6.4	6.2
AAVAS	6.7	6.5	6.4	6.9	6.9	6.6	6.8
CANF	2.5	2.9	3.1	2.9	3.1	3.0	2.9

Source: Company, Systematix Institutional Research

HFCs have managed to maintain their gross stage 3 (GS3) ratios and credit costs due to lower delinquencies (compared to other retail loans), given their strong credit underwriting practices and loan security against homes or shops of borrowers. However, credit costs of HFCs that have a higher share of the self-employed segment and non-housing loans, are comparatively higher (e.g., APTUS). Even during COVID, there was just ~100 bps increase in GS3, and since then the trend has been improving which shows business resilience. In terms of GS3 assets, CANF and AAVAS have managed their GS3 assets at <1% across cycles (barring the COVID period), given their low-risk business model. GS3 assets of APTUS and HFFC are comparatively higher among affordable housing finance players.

**Exhibit 59: Asset quality**

(%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Gross Stage 3</b>							
APTUS	0.5	1.4	0.7	1.2	1.2	1.2	1.1
HFFC	1.0	1.0	1.8	2.3	1.6	1.6	1.6
AAVAS	0.5	0.5	1.0	1.0	0.9	1.0	1.0
CANF	0.6	1.8	0.9	0.6	0.5	0.7	0.7
<b>Net Stage 3</b>							
APTUS	0.4	1.2	0.5	0.9	0.9	0.9	0.8
HFFC	0.8	0.8	1.2	1.8	1.1	1.0	1.0
AAVAS	0.4	0.3	0.7	0.8	0.7	0.7	0.7
CANF	0.4	1.5	0.8	0.4	0.3	0.4	0.3
<b>Credit cost</b>							
APTUS	0.1	0.1	0.1	0.7	0.5	0.3	0.3
HFFC	0.4	0.6	0.8	0.5	0.4	0.5	0.5
AAVAS	0.2	0.2	0.4	0.2	0.1	0.2	0.2
CANF	0.0	0.3	0.3	0.2	0.1	0.2	0.2

Source: Company, Systematix Institutional Research

Opex/income of APTUS and CANF are comparatively lower at ~19% and ~17%, respectively. The former has a lean cost structure, as all its processes are in-house, right from sourcing, underwriting, valuation to collections, which reduce its variable costs. Comparatively, CANF leverages on enhanced productivity on the back of strategic branch expansion and efficient sourcing channels. AAVAS' opex is higher at ~45% than that of CANF (~17%), due to higher technology-related investments and an in-house execution model, which necessitate higher employee count (6,000 vs. average requirement of 1,000-1,500 employees). Similarly, HFFC too has a higher opex/AUM of ~36%, which the company believes would come down gradually; also, its tie-ups with the construction and housing ecosystem participants to source customers add to its overall operating cost.

**Exhibit 60: Cost efficiency**

(%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Opex/income</b>							
APTUS	30.4	26.1	22.3	18.5	19.4	20.4	21.7
HFFC	49.8	45.2	38.8	33.9	35.5	37.0	39.2
AAVAS	41.5	42.0	39.8	42.6	45.0	45.8	46.0
CANF	16.3	15.7	15.3	18.3	16.9	17.3	17.9
<b>Opex/AUM</b>							
APTUS	3.7	3.2	2.8	2.5	2.8	2.7	2.7
HFFC	3.8	3.4	2.7	2.7	2.8	2.9	3.0
AAVAS	3.8	3.3	3.0	3.4	3.60	3.61	3.61
CANF	0.5	0.6	0.6	0.6	0.6	0.6	0.6

Source: Company, Systematix Institutional Research

In terms of profitability, APTUS' RoA of 7.8% is comparatively higher than that of CANF, while its RoE of ~16% is lower because of low leverage (~2.1x). Inversely, CANF has lower RoA of ~2% and higher RoE of ~19% due to higher leverage (~9x). Return ratios of AAVAS and HFFC are on an improving trend. We expect all four players to witness healthy return ratios over FY23-FY25, led by strong growth, healthy margin profile, lower cost of funds, and excess capital buffers to aid business growth.

**Exhibit 61: Return ratios**

<b>Profitability</b>	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>RoA (%)</b>							
APTUS	5.9	7.0	6.5	7.3	7.8	7.4	6.8
HFFC	2.4	2.7	2.5	3.9	3.9	3.6	3.3
AAVAS	3.6	3.7	3.5	3.6	3.5	3.4	3.5
CANF	1.7	1.9	2.1	1.9	2.0	2.0	1.9
<b>Leverage (x)</b>							
APTUS	3.0	2.5	2.2	2.1	2.1	2.3	2.7
HFFC	4.5	4.1	3.5	3.3	3.5	4.2	5.0
AAVAS	3.2	3.4	3.7	3.8	4.0	4.3	4.5
CANF	10.5	10.1	9.1	8.8	9.1	9.3	9.4
<b>RoE (%)</b>							
APTUS	17.4	17.5	14.5	15.1	16.1	17.4	18.4
HFFC	10.8	10.9	8.7	12.6	13.5	15.0	16.2
AAVAS	11.6	12.7	12.8	13.6	14.1	14.7	15.7
CANF	18.2	19.1	19.2	16.6	18.5	18.4	18.0

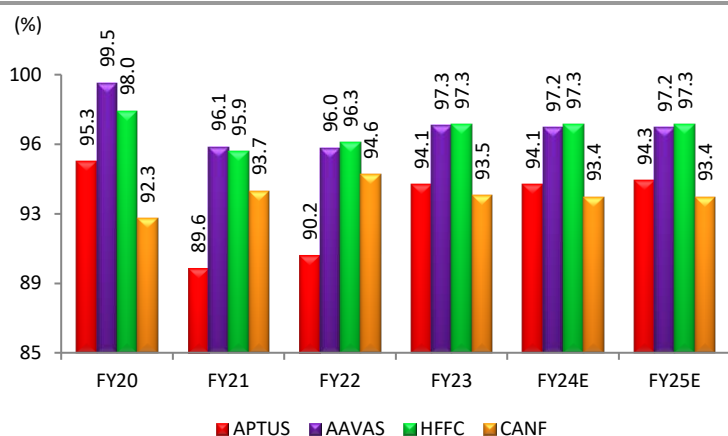
Source: Company, Systematix Institutional Research

## Exhibit 62: Other details

Parameters (Nos)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Branch</b>							
APTUS	143	175	190	208	231	254	280
HFFC	60	68	72	80	111	128	145
AAVAS	210	250	280	314	346	381	419
CANF	189	200	200	201	205	220	236
<b>Employee</b>							
APTUS	1,322	1,702	1,913	2,270	2,405	2,646	2,910
HFFC	675	696	687	851	993	1,145	1,297
AAVAS	3,190	4,581	5,679	5,222	6,034	6,818	7,637
CANF	792	838	887	909	976	1,074	1,181
<b>Customers</b>							
APTUS	30,749	43,987	58,069	83,000	107,000	132,680	164,523
HFFC	29,085	42,768	50,088	61,684	77,512	99,592	124,724
AAVAS	77,400	104,700	125,500	150,800	187,149	226,319	270,135
CANF	146,000	158,000	170,000	205,500	241,000	274,387	312,400

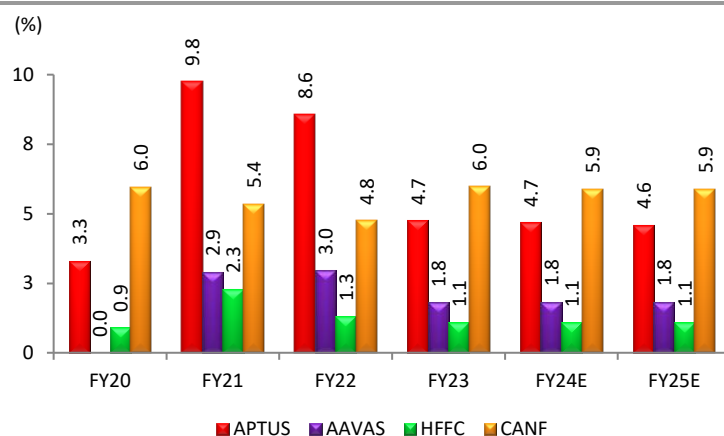
Source: Company, Systematix Institutional Research

## Exhibit 63: Movement in stage 1 assets



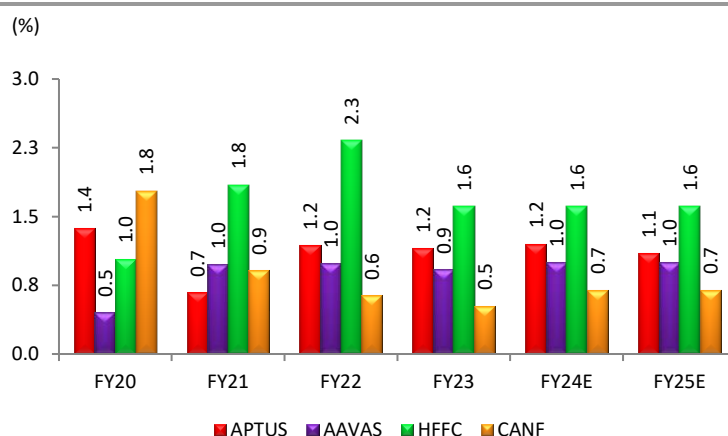
Source: Company, Systematix Institutional Research

## Exhibit 64: Movement in stage 2 assets



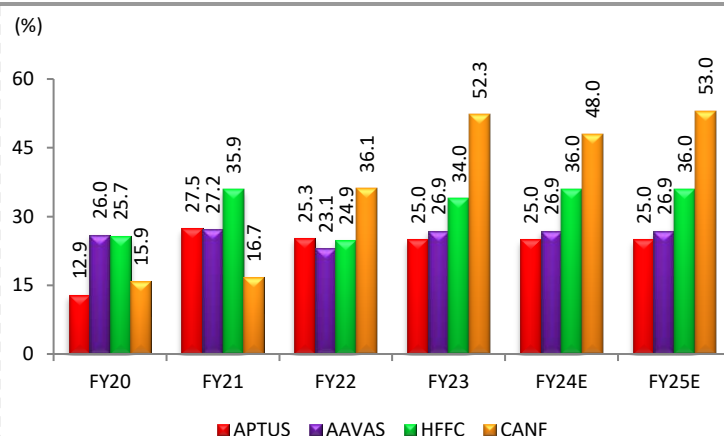
Source: Company, Systematix Institutional Research

## Exhibit 65: Movement in stage 3 assets



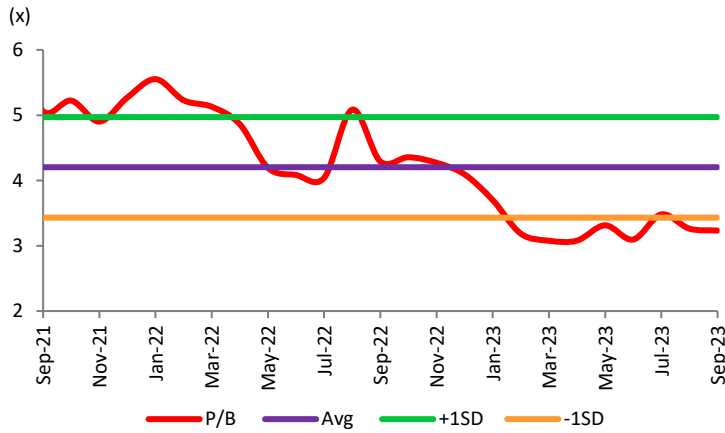
Source: Company, Systematix Institutional Research

## Exhibit 66: Credit costs to be benign

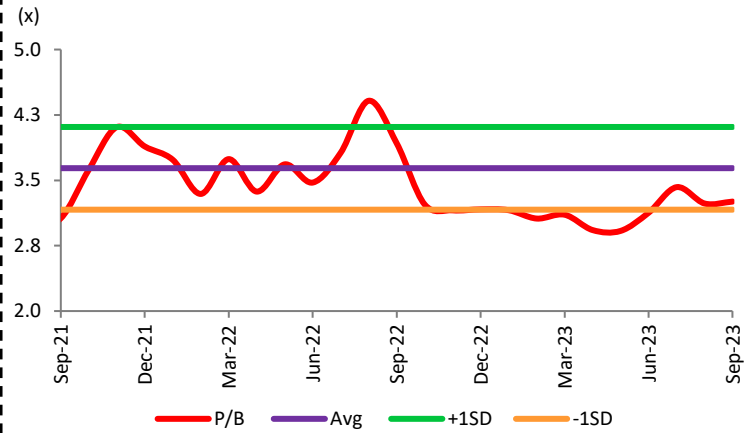


Source: Company, Systematix Institutional Research

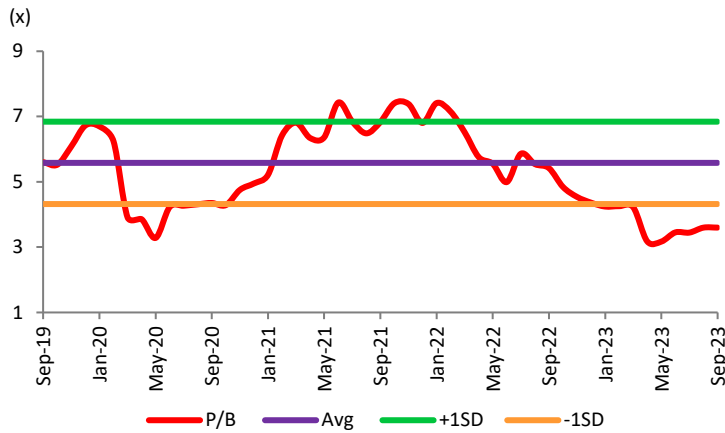


**Exhibit 67: One year forward P/BV - APTUS**

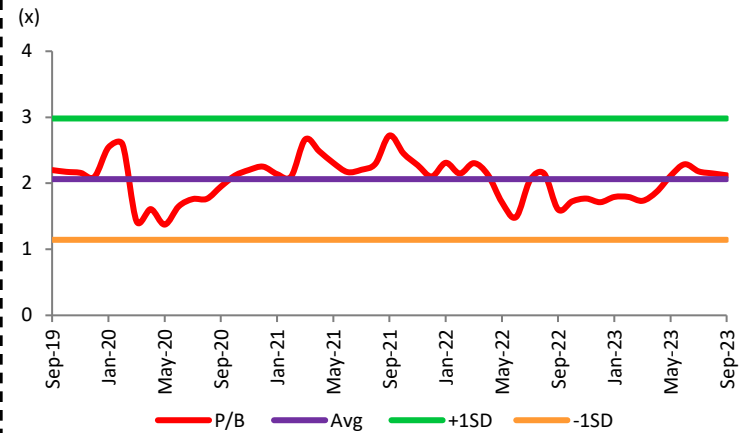
Source: Company, Systematix Institutional Research

**Exhibit 68: One year forward P/BV - HFFC**

Source: Company, Systematix Institutional Research

**Exhibit 69: One year forward P/BV - AAVAS**

Source: Company, Systematix Institutional Research

**Exhibit 70: One year forward P/BV - CANF**

Source: Company, Systematix Institutional Research

# COMPANY SECTION



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

## Aptus Value Housing Finance

15 September 2023

## Niche player with superior margin profile

## INITIATING COVERAGE

Sector: NBFCs Rating: BUY

CMP: Rs 268 Target Price: Rs 350

## Stock Info

Sensex/Nifty	67,838/20,192
Bloomberg	APTUS IN
Equity shares	498mn
52-wk High/Low	350/234
Face value	Rs 2
M-Cap	Rs 137bn/USD1.7bn
3-m Avg volume	USD 3.0mn

## Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	7,825	9,510	11,608
PPP	6,878	8,271	10,003
PAT	5,030	6,185	7,424
EPS (Rs)	10.1	12.4	14.9
EPS Gr. (%)	35.9	23.0	20.0
BV/Sh (Rs)	67	76	86

## Ratios

NIM (%)	13.1	12.2	11.5
C/I ratio (%)	19.4	20.4	21.7
RoA (%)	7.8	7.4	6.8
RoE (%)	16.1	17.4	18.4
Payout (%)	39.6	30.0	30.0

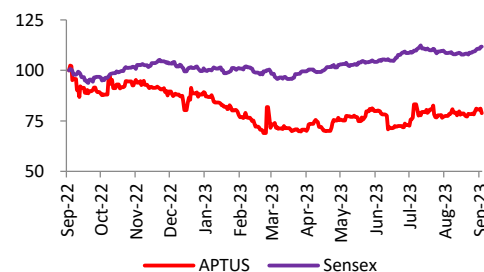
## Valuations

P/E (x)	26.4	21.5	17.9
P/BV (x)	4.0	3.5	3.1
Div. Yield (%)	1.5	1.4	1.7

## Shareholding pattern (%)

	Dec'22	Mar'23	Jun'23
Promoter	62.21	62.21	62.21
FII	14.05	14.06	14.15
DII	2.57	2.59	2.96
Others	21.18	21.15	20.68

## Stock Performance (1-year)



We initiate coverage on Aptus Value Housing Finance Ltd (APTUS) with BUY rating and TP of Rs 350, valuing the company at 4.0x FY25BV. The company's core strength lies in 1) healthy AUM mix 2) focus on niche customer segment, 3) robust in-house underwriting practices 3) best-in-class return ratios generated from higher yields, controlled opex and lower credit costs. APTUS has maintained healthy performance, registering 46% CAGR in earnings over FY19-FY23, to record average RoA/RoE of ~7%/~16%, respectively. Moreover, Mr P Balaji's recent elevation to the CEO position and Mr Anandan's willingness to continue on the board despite his term ending in Dec 2024, lends stability to the management team. Enormous growth opportunities in key markets, coupled with business expansion in newer geographies place APTUS in a sweet spot to deliver consistent growth over the medium to long term. The stock valuation is reasonable at ~3.0x FY25E ABV and presents a favourable risk-reward opportunity for long-term investors, in our view. We estimate 22% CAGR in NII over FY23-25E to Rs 11.6bn, with PAT expected to grow at 21% CAGR to Rs 7.4bn.

## A niche south-based player with focus on the self-employed segment

APTUS mainly focuses on the self-employed segment, which constituted 71% of its total AUM as of Q1FY24. Despite high self-employed customer share, its asset quality trend is in line with the industry, alluding to strong underwriting and collections. Home loan constituted 59% of total AUM, while small business loans and loan against property (LAP - a high yield segment) cumulatively comprised 37% of AUM in Q1FY24. About 78% of its total customers are from the low-income group (LIG) and 75% of AUM is rural focused. More than 93% of total loans are with average ticket size of < Rs 1mn. APTUS has dominant presence in south India, with 231 branches spread across Tamil Nadu (42% of AUM), Andhra Pradesh (36%), Telangana (14%), Karnataka (8%) and Odisha (<1%), with focus on Tier 3&4 locations.

## Multiple drivers in place to capture potential growth

APTUS posted healthy 32% CAGR in its AUM over FY19-FY23. We expect growth to stay healthy over the medium to long term, considering management's continued focus on rural and semi-urban areas through penetration into existing and newer geographies. Recently, APTUS started operations in Odisha (to add 3-4 more branches) and plans to enter Maharashtra. Management is confident of robust growth in Telangana and is looking to add 15 more branches there. Overall, ~25-30 branches will be added by FY24. Moreover, management is optimistic on achieving growth through capacity expansion in terms of: (I) Increased login per sales staff from 3-3.2 to 4, (II) Higher average ticket size from Rs 0.8 mn to Rs 1 mn without impacting the LTV and EMI instalment ratios, (III) Increasing sales staff from 4 to 5 people per branch to generate more leads and disbursals. We estimate 30% CAGR in AUM over FY23-FY25E, which will be driven by 1) healthy AUM mix, 2) focus on underpenetrated segment, which has huge growth potential, 3) deeper penetration into existing and new geographies, and 4) capacity expansion.

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Investors are advised to refer disclosures made at the end of the research report.

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix Research is also available on Bloomberg SSSL &lt;Go&gt;, Thomson &amp; Reuters

Systematix Shares and Stocks (India) Limited

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### Higher yields to keep margins steady despite rise in cost of funds

APTUS is primarily focused on a) self-employed segment, which is prone to economic downturn and b) business segments like business loans (~21% of AUM) and LAP (~16% of AUM), which gives them high pricing power. The overall yields stood higher than peers at ~18% (avg) over FY19-FY23. Recently, the company has increased the interest rates on its non-housing portfolio and small business loans by 50bps, which should keep yields higher.

In addition, APTUS has a balanced funding mix, which consists of banks (60%), NHB (28%), NCDs (9%) and others (3%). Its meaningful borrowings from NHB gives them access to low-cost funding and management is confident of additional sanctions from NHB in Q3FY24. Hence, we expect the overall cost of its borrowings to rise only marginally to 8.8% over FY24E-FY25E from 8.5% in FY23 and 8.3% in Q1FY24. Despite marginal increase in cost of borrowings, we expect NIMs to remain at a healthy ~12% in FY24E/FY25E.

### Robust underwriting and collection process to maintain best-in-class asset quality

The customer segment (Self-employed) which APTUS focuses on, needs superior credit assessment, which necessitates robust underwriting practices to be in place. APTUS follows a centralized underwriting system that helps in mitigating credit defaults at early stages. As APTUS conducts all aspects of lending operations (from sourcing to collections) in-house, such practices help them in maintaining direct and personal contacts with customers, and thereby identifying potential default signals early on. The sourcing is done via lead generation through customer reference and branch network and there is no tie up with DSAs/builders.

The company has been able to maintain asset quality across economic cycles (demonetization, COVID-19), despite operating in the risky customer profile segment. APTUS' robust risk management framework (from origination to collection) supports them in improving its collection efficiency and controlling delinquencies. The company has efficaciously maintained collection efficiency ratio at >100% since the past few quarters. Strong focus on collection efforts significantly improved its delinquency rates. The 30+ DPD rate improved from 9.91% in Mar 2022 to 6.3% in Jun 2023, indicating better management of loan portfolio.

Gross stage 3 (GS3) assets, which peaked at 1.7% in Q1FY23 (due to the RBI circular dated 12<sup>th</sup> Nov 2021), improved to 1.3% in Q1FY24. During FY19-FY23, its average GS3 ratio was ~1%, while average credit cost was lower at 0.3%. APTUS' Gross stage 2 (GS2) assets was on the higher side at ~5% in Q1FY24 compared with peers (AAVAS – 1.86%, HFFC – 1.3%) as the company had given a lesser moratorium as compared to other companies at that point of time, which RBI had announced. Because of that, the DPD freeze which was available for the other companies was not available to Aptus, which resulted in higher stage 2 assets. With healthy collection efficiency (at ~100%) and strong provision coverage, management aims to maintain GS3 at ~1.15% levels on a steady-state basis, and hence, credit cost too is expected to remain at ~0.3% over FY23-FY25E.

### Cost efficiency to keep RoA profile healthy

APTUS has managed to lower its operating costs over the last few years led by technological infrastructure. The company has established end-to-end digital platform and processes through applications for customer onboarding, lending software, collections, customer relationships and services, business intelligence and analytics and human resources. These digital processes aid in enhancing employee productivity and in reducing the cost of operations. As it has already developed most of the platforms and processes, management has no plans to further significantly

invest in technology. APTUS has a lean cost structure, as all its processes like sourcing, underwriting, valuation and collections are in-house. Moreover, as the company largely relies on referrals and walk-ins to source customers, it does not intend to spend significantly on advertising and promotions, going forward.

APTUS' Opex/AUM and cost/income ratio has significantly improved from 3.7%/30.4% in FY19 to 2.8%/19.4% in FY23, respectively, as it benefits from growth in business and tech-led efficiencies. Although management expects opex/AUM ratio to remain at 2.5-2.6%, focus on expanding branch network (20-30 branches every year) and other related expenses could keep the opex ratio slightly elevated at ~2.7% over FY24E-FY25E, in our view. With immense growth opportunities in core markets and business ramp-up in new geographies, APTUS is placed in a sweet spot to deliver healthy consistent growth. Asset quality is on the mend post seasonal weakness seen in Q1, which we believe should remain stable at FY23 levels. Collectively, factors such as a) healthy NIMs, supported by pricing power that the company commands, b) a lean cost structure, and c) steady credit costs should enable APTUS to deliver RoA/RoE of ~7%/~18% respectively, over FY24-FY25.

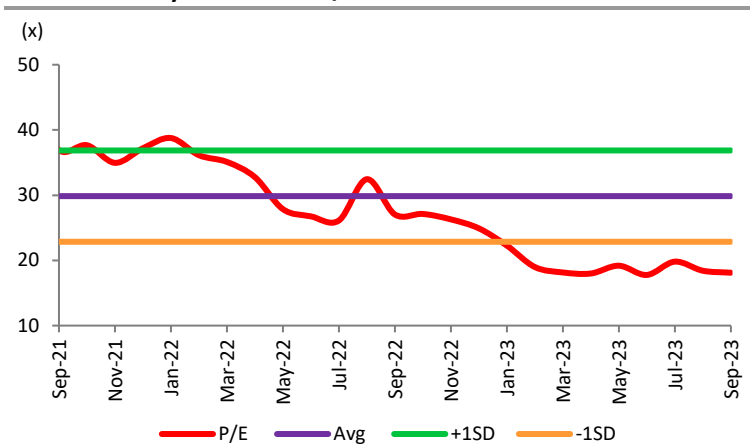
### Stability at the management level

Mr P Balaji has recently been elevated to the position of a CEO, and Mr Anandan is willing to continue to be on the Board (subject to approval) (his term ends in Dec 2024). These developments indicate stability at the top-level management, in our view.

### Valuation

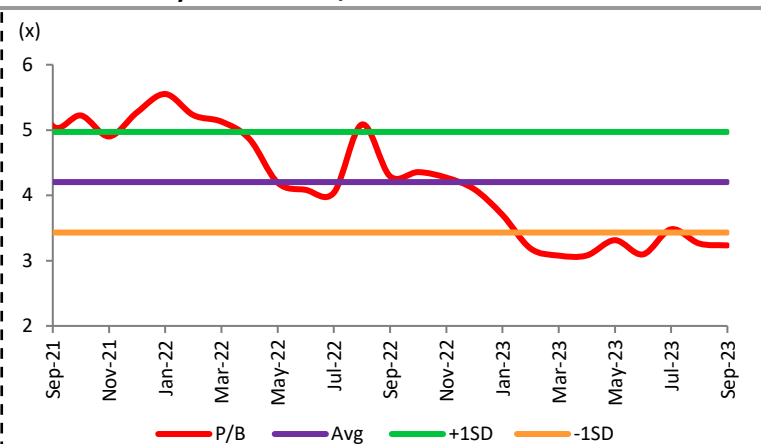
The core strength of APTUS lies in 1) healthy mix of housing and non-housing loans and 2) focus on niche customer segment, which has huge growth potential, 3) robust underwriting practices that have enabled APTUS to manage its asset quality across cycles, 4) best-in-class return ratios, supported by high yields, controlled opex and lower credit costs. APTUS has maintained its healthy performance and registered an earnings CAGR of 46% over FY19-FY23 leading to average RoA / RoE of ~8% / ~16% respectively. We expect NII to grow at a CAGR of 22% in FY23-25E to Rs 11.6bn while PAT is expected to grow at 21% CAGR over the same period to Rs 7.4bn. The stock currently trades at ~3x FY25E ABV with RoA/ RoE of ~7%/~18%, which we believe is reasonable and give favourable risk reward opportunity for long term investors. Thus, we initiate coverage on the stock with a BUY rating and a target price of Rs 350 per share.

**Exhibit 1: One year forward P/E**



Source: Company, Systematic Institutional Research

**Exhibit 2: One year forward P/B**



Source: Company, Systematic Institutional Research

## Story in charts

### Exhibit 3: Product mix

Particulars	Home loans	Quasi loans	Small business loans
<b>Description</b>	Loans are offered to construct their own homes	Offered for business purposes secured by their own homes. This product category deals with customers who have cashed out while constructing their own homes and then realized the need for cash	Offered for business purposes
<b>Yield</b>	14-15%	16-17%	21%
<b>Range of loans offered (mn)</b>	0.5-1.5 (Only 2-3% in 0.15 – 0.25 range)	0.5-1.5	0.5-1.5
<b>Tenor (Years)</b>	15	10	7
<b>Average ticket size (Rs mn)</b>	0.9	0.7	0.6
<b>Proportion of AUM</b>	58	15	21
<b>Ideal product mix guidance (%)</b>	60	15-18	20-22

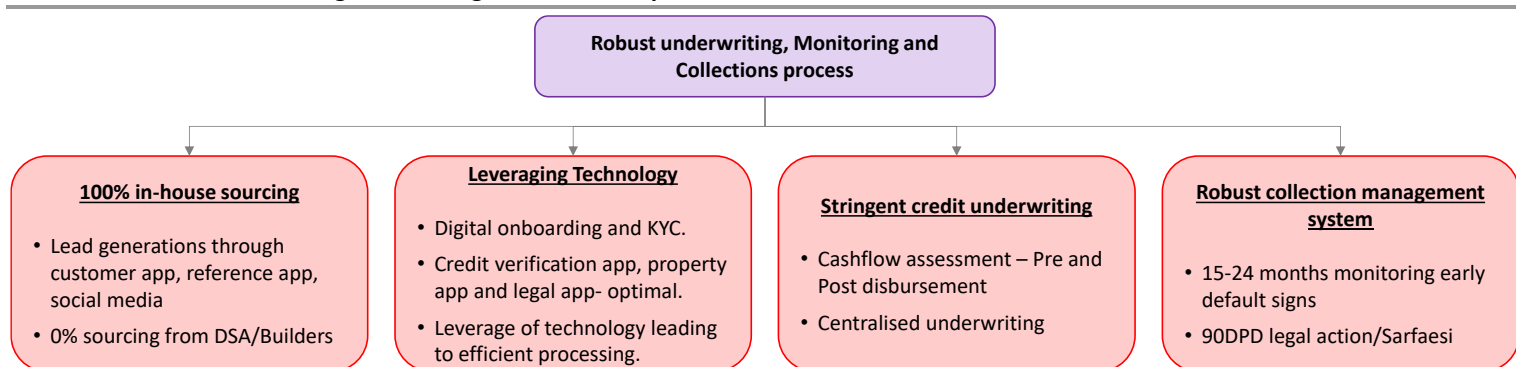
Source: Company, Systematix Institutional Research

### Exhibit 4: Dupont

P&L Dupont analysis (as a % of average assets)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	15.2	15.5	16.5	16.2	16.0
Interest Expense	5.0	4.1	4.3	4.8	5.4
Net Interest Income	10.2	11.4	12.2	11.4	10.6
Other income total	0.8	1.0	1.1	1.1	1.1
Net Income total	10.9	12.4	13.3	12.5	11.7
Operating expenses total	2.4	2.3	2.6	2.55	2.53
Pre-provision profit	8.5	10.1	10.7	9.9	9.1
Provisions	0.1	0.7	0.5	0.3	0.3
Profit before tax and exce. items	8.3	9.4	10.2	9.6	8.8
Profit before tax	8.3	9.4	10.2	9.6	8.8
Tax total	1.9	2.2	2.3	2.2	2.0
Profit after tax	6.5	7.3	7.8	7.4	6.8

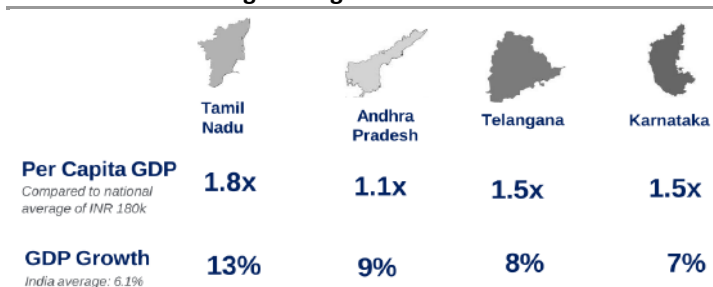
Source: Company, Systematix Institutional Research

### Exhibit 5: Robust underwriting, monitoring and collection process



Source: Company, Systematix Institutional Research

Exhibit 6: Focus on high GDP growth states



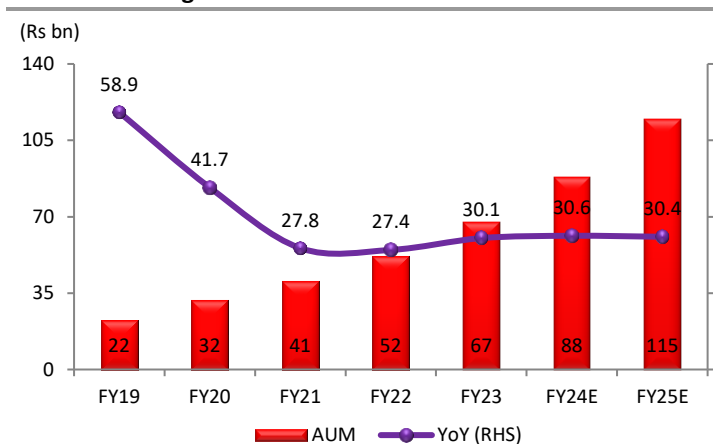
Source Company, Systematix Institutional Research

Exhibit 7: South-dominated player; 78% of AUM comes from TN &amp; AP

As % of total AUM	FY19	FY20	FY21	FY22	FY23
Tamil Nadu	60	56	52	48	43
Andhra Pradesh	21	24	28	31	35
Telangana	9	10	10	12	14
Karnataka	11	10	10	9	8
Odisha	0	0	0	0	0
<b>Total branches</b>	<b>143</b>	<b>175</b>	<b>190</b>	<b>208</b>	<b>231</b>

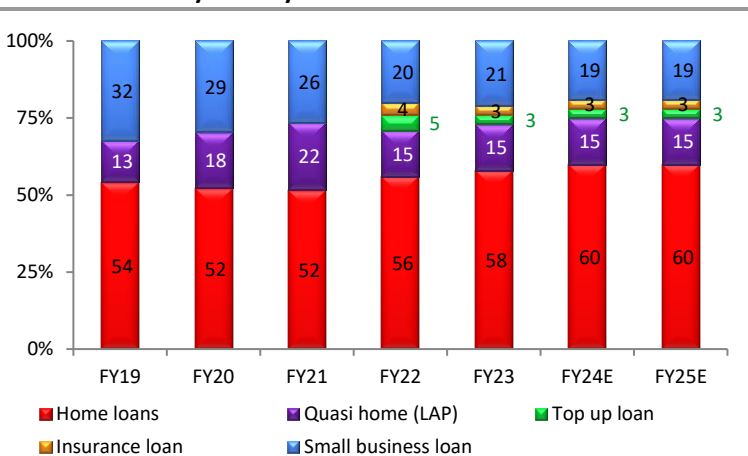
Source: Company, Systematix Institutional Research

Exhibit 8: AUM growth to remain robust...



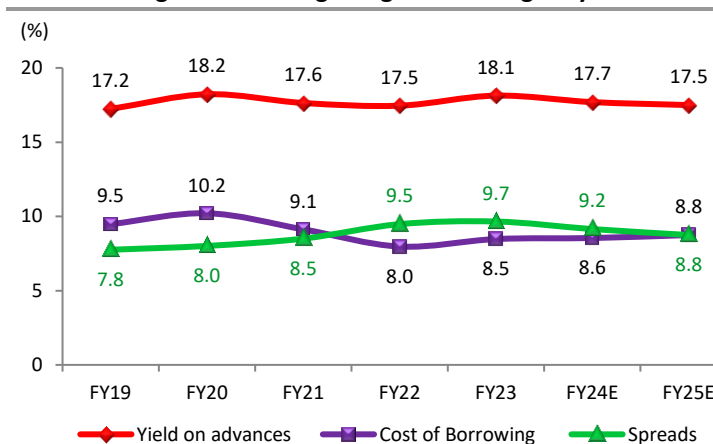
Source Company, Systematix Institutional Research

Exhibit 9: ...led by healthy AUM mix



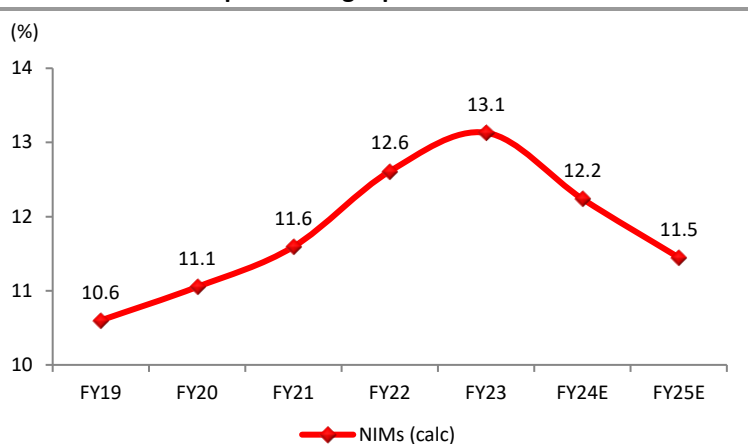
Source: Company, Systematix Institutional Research

Exhibit 10: High Non housing mix generated higher yields...

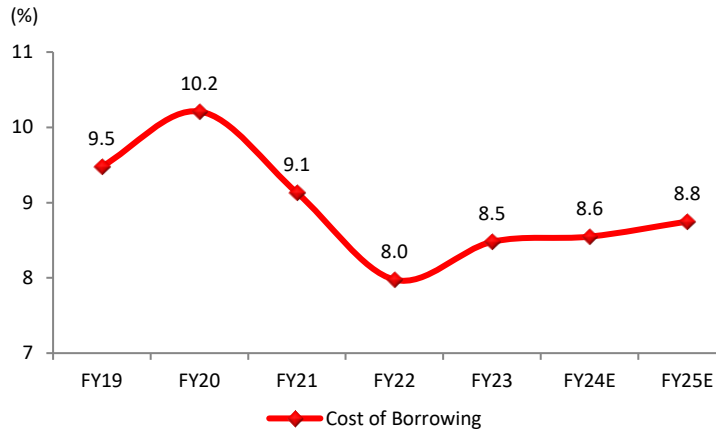


Source: Company, Systematix Institutional Research

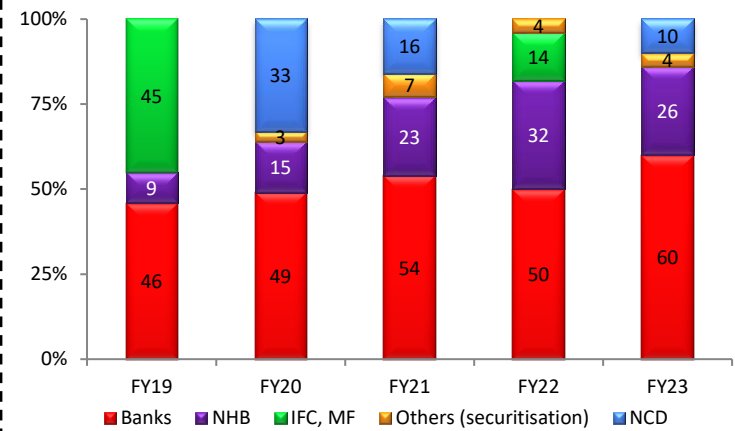
Exhibit 11: ...and superior margin profile



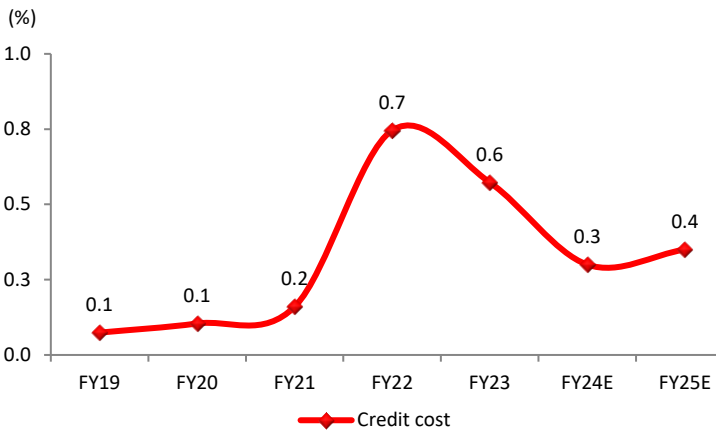
Source: Company, Systematix Institutional Research

**Exhibit 12: Cost of funds to rise marginally...**

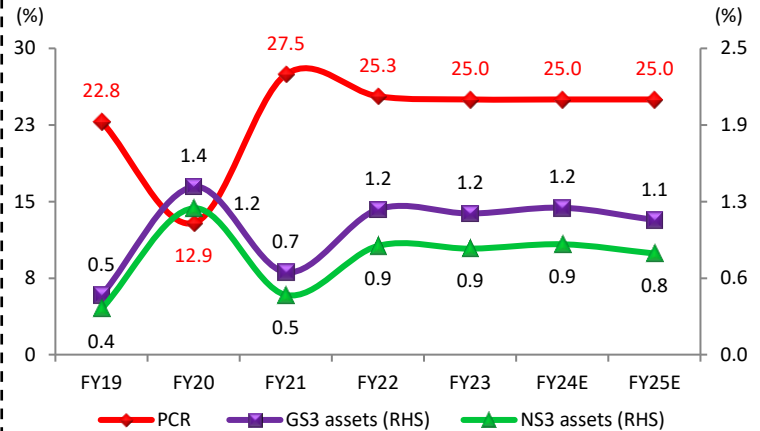
Source: Company, Systematix Institutional Research

**Exhibit 13: ...led by favourable borrowing mix**

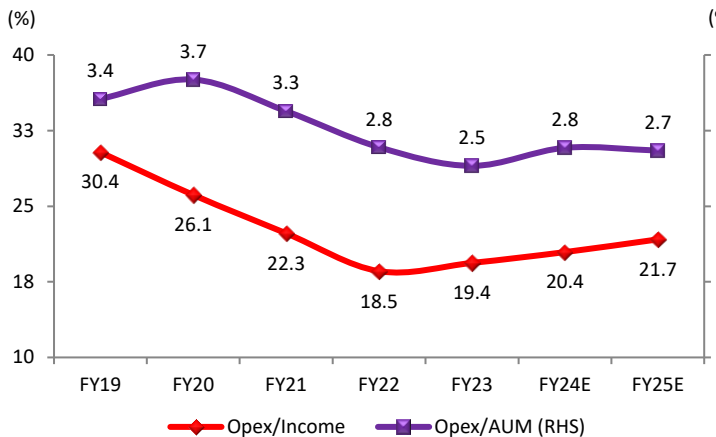
Source: Company, Systematix Institutional Research

**Exhibit 14: Credit cost to remain range bound...**

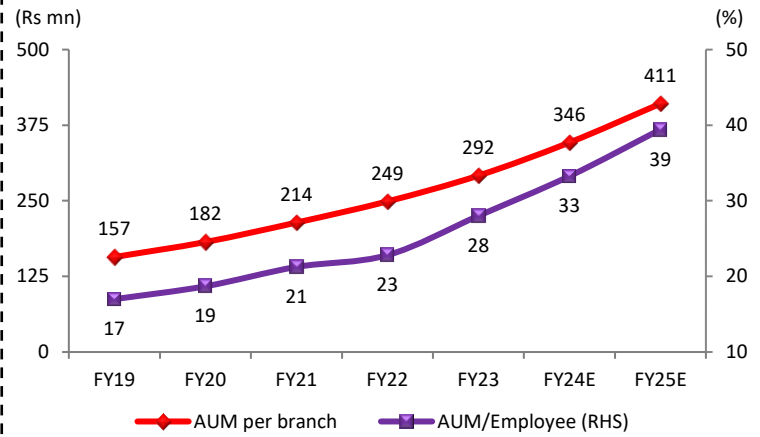
Source: Company, Systematix Institutional Research

**Exhibit 15: ...and lead to a stable GS3 ratio**

Source: Company, Systematix Institutional Research

**Exhibit 16: Cost ratios to remain at the upper end of the guidance**

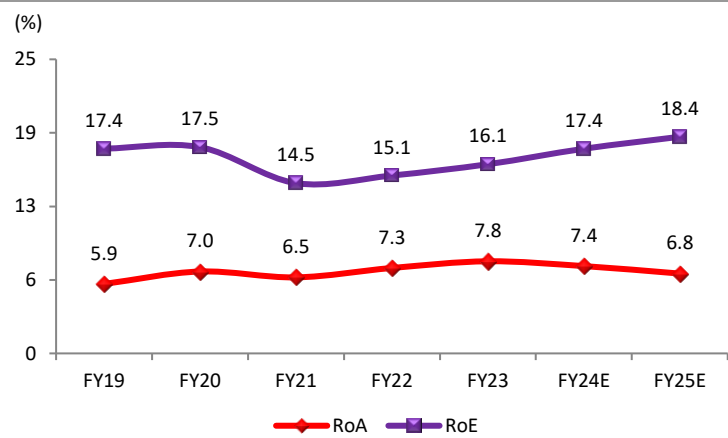
Source: Company, Systematix Institutional Research

**Exhibit 17: Efficiency to improve simultaneously**

Source: Company, Systematix Institutional Research

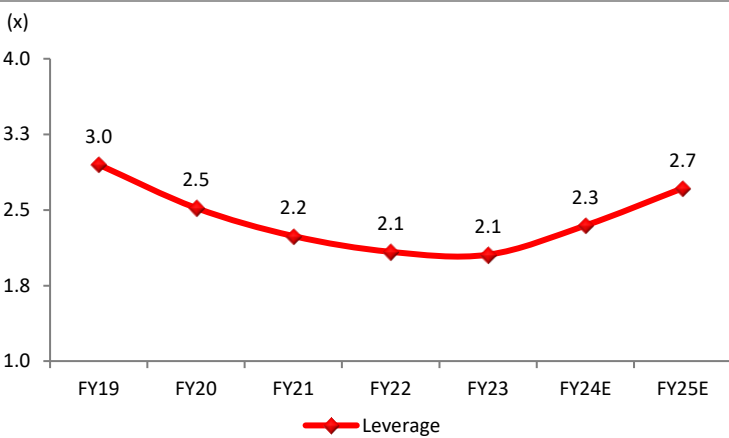


Exhibit 18: RoE profile to improve further...



Source: Company, Systematix Institutional Research

Exhibit 19: ...as the leverage increases



Source: Company, Systematix Institutional Research

## Company description

Incorporated in 2009, Aptus Value Housing Finance India Ltd is a housing finance company which provide loans to low and middle-income class in rural and semi urban areas. The focus is primarily on self-employed segment who own small businesses, provision shop, pharmacy, bakery, vegetable vendors, fruit merchants, two-wheeler service centers, distributors etc. As of Q1FY24, the consolidated AUM stood at Rs 71.2 bn in which 59% are home loans and remaining 41% are business loans. ~93% of the loan book has average ticket size of less than Rs 1 mn. The company operates through a network of 231 branches spread across 5 states (Tamil Nadu, Andhra Pradesh, Telangana, Karnataka and Odisha).

### Exhibit 20: Key management

Name	Designation	Profile
<b>Mr. M Anandan</b>	Executive Chairman	<ul style="list-style-type: none"> <li>• Founder promoter and Chairman &amp; MD on the board since inception</li> <li>• He is a chartered accountant (CA) with four decades of experience in the financial services Industry</li> <li>• Previously worked with various entities of Cholamandalam group, Equitas Micro Finance, Manappuram Finance and Five Star Business Credits</li> </ul>
<b>Mr. Balaji P</b>	Managing Director	<ul style="list-style-type: none"> <li>• Joined as CFO in August 2010</li> <li>• He is a CA with a bachelor's degree from University of Madras</li> <li>• Previously worked with Bombay Dyeing, Hutchison Max Telecom Limited and SKS Microfinance Limited</li> </ul>
<b>Mr. Manoharan C. T</b>	Executive Vice President - Business Development	<ul style="list-style-type: none"> <li>• Joined Aptus in June 2010</li> <li>• He is a postgraduate in Physics from Calicut University and has completed financial management certificate course with ICFAI</li> <li>• Previously worked with Can Fin Homes, Dewan Housing across sales, channel management and credit</li> </ul>
<b>Mr. John Vijayan Rayappa</b>	Chief Financial Officer	<ul style="list-style-type: none"> <li>• Joined Aptus in July 2011</li> <li>• He is a Chartered Accountant and a certified information system auditor (CISA)</li> <li>• Previously worked with Shikha Financial Services India Ltd, Cholamandalam Asset Management Ltd, L&amp;T Investment Management Ltd. across operations, treasury, risk management, etc.</li> </ul>
<b>Mr Sanin Panicker</b>	Company Secretary & Compliance Officer	<ul style="list-style-type: none"> <li>• He joined Aptus in August 2020</li> <li>• He holds a bachelor's degree in commerce and is an associate member of ICSI. He has experience across Secretarial Compliance, Listing Regulations, Corporate Governance, Mergers &amp; Acquisitions and IPOs.</li> <li>• Previously worked with Madura Micro Finance Ltd</li> </ul>

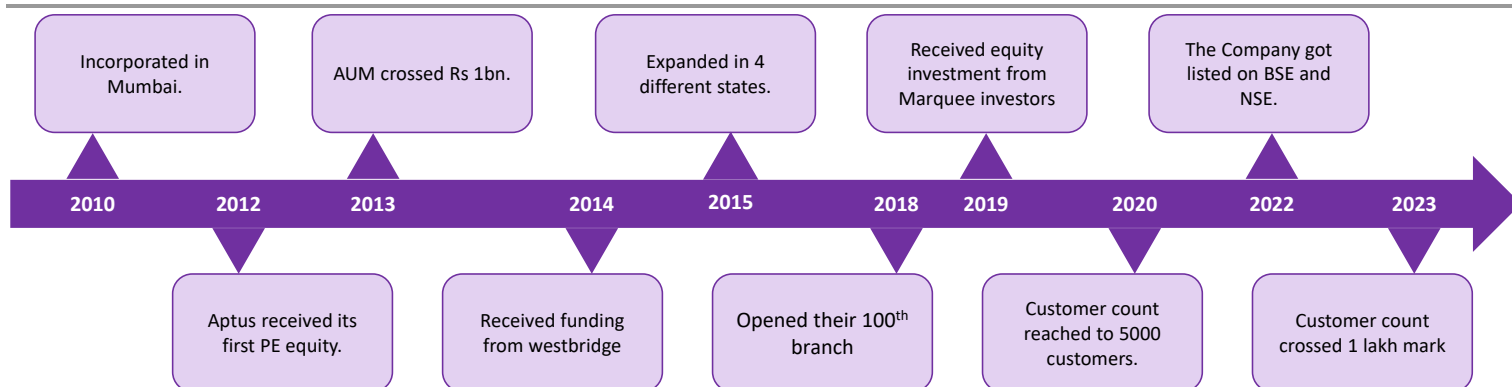
Source: Company, Systematix Institutional Research

**Exhibit 21: Shareholding pattern**

Particulars	% of Shareholding (Jun'23)
Promoters	62.2
• Founder promoter - M Anandan	25.0
• Investor promoter – WestBridge	37.2
FII	14.2
DII	2.9
Others	20.7
<b>Total</b>	<b>100</b>

Key Institutional Investors	% of holding
Malabar group	8.3
Capital Research	3.4
Steadview Capital	3.2
Ward Ferry	3.1
Sequoia	2.6
Aberdeen	1.7
Vanguard	1.4
Genesis	1.1

Source: Company, Systematix Institutional Research

**Exhibit 22: Timeline**

Source: Company, Systematix Institutional Research

**Key risks**

- As the company's operations are concentrated in south India, any adverse regional situation may impact its growth and asset quality.
- Rebalancing of portfolio mix towards housing loans could bring down the yields and consequently NIMs.
- Any slowdown in demand for affordable housing loans can impact the AUM growth and profitability.

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	4,203	5,831	7,825	9,510	11,608
Other income	314	485	706	887	1,169
Net Income	4,517	6,316	8,531	10,397	12,777
Operating expenses	1,008	1,171	1,652	2,126	2,774
Preprovision profit	3,509	5,145	6,878	8,271	10,003
Provisions	58	345	341	233	355
Profit before tax	3,451	4,800	6,537	8,038	9,649
Tax	781	1,099	1,507	1,853	2,224
Tax rate	22.6	22.9	23.1	23.1	23.1
Reported Profit after tax	2,669	3,701	5,030	6,185	7,424

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	949	994	996	996	996
Reserves	18,845	28,168	32,397	36,727	41,924
Net worth	19,795	29,162	33,393	37,723	42,920
Borrowings	25,080	27,206	37,861	56,412	79,541
Others	327	473	507	923	1,519
Total liabilities	45,202	56,840	71,761	95,059	123,981
Cash	4,378	4,459	4,600	6,160	8,032
Investments	528	1,017	515	880	1,147
Loans	39,898	50,787	65,921	87,071	113,566
Others	303	457	572	747	974
Total assets	45,202	56,840	71,761	95,059	123,981

Source: Company, Systematix Institutional Research

### Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	15.2	15.5	16.5	16.2	16.0
Interest Expense	5.0	4.1	4.3	4.8	5.4
Net Interest Income	10.2	11.4	12.2	11.4	10.6
Other income total	0.8	1.0	1.1	1.1	1.1
Net Income total	10.9	12.4	13.3	12.5	11.7
Operating expenses total	2.4	2.3	2.6	2.55	2.53
Preprovision profit	8.5	10.1	10.7	9.9	9.1
Provisions	0.1	0.7	0.5	0.3	0.3
Profit before tax and exce. items	8.3	9.4	10.2	9.6	8.8
Profit before tax	8.3	9.4	10.2	9.6	8.8
Tax total	1.9	2.2	2.3	2.2	2.0
Profit after tax	6.5	7.3	7.8	7.4	6.8

Source: Company, Systematix Institutional Research

### Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	17.6	17.5	18.1	17.7	17.5
cost of borrowings	9.1	8.0	8.5	8.6	8.8
Interest Spread	8.5	9.5	9.7	9.2	8.8
NIM (on AUM)	11.6	12.6	13.1	12.2	11.5
Cost/ Income (%)	22.3	18.5	19.4	20.4	21.7
Credit cost (%)	0.1	0.7	0.5	0.3	0.3
RoA(%)	6.5	7.3	7.8	7.4	6.8
RoE(%)	14.5	15.1	16.1	17.4	18.4
Leverage (x)	2.2	2.1	2.1	2.3	2.7
Tier I (%)	73.8	85.4	76.6	66.3	58.6
CAR (%)	73.6	85.6	77.4	66.9	59.1
Gross NPA (%)	0.7	1.2	1.2	1.2	1.1
Net NPA (%)	0.5	0.9	0.9	0.9	0.8
Provision coverage (%)	27.5	25.3	25.0	25.0	25.0

### Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	40.1	38.7	34.2	21.5	22.1
Net Income total	33.4	39.8	35.1	21.9	22.9
Preprovision profit	40.3	46.6	33.7	20.2	20.9
Profit before tax	39.5	39.1	36.2	23.0	20.0
Profit after tax	26.5	38.7	35.9	23.0	20.0
Loan	28.0	27.3	29.8	32.1	30.4
Disbursement	1.4	26.4	45.9	34.0	30.0
AUM	27.8	27.4	30.1	30.6	30.4

Source: Company, Systematix Institutional Research

### Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	5.4	7.4	10.1	12.4	14.9
PER (x)	49.8	35.9	26.4	21.5	17.9
Book value (Rs)	39.7	58.6	67.1	75.7	86.2
P/BV (Rs)	6.7	4.6	4.0	3.5	3.1
Adjusted book value (Rs)	39.3	57.6	65.9	74.2	84.3
P/ABV (Rs)	6.8	4.6	4.1	3.6	3.2
P/PPP (x)	37.9	25.8	19.3	16.1	13.3
Dividend yield (%)	0.0	0.0	1.5	1.4	1.7

Source: Company, Systematix Institutional Research



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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# Home First Finance

15 September 2023

## Tech-driven affordable housing finance player

Home First Finance company Ltd (HFFC) is a tech-driven Affordable housing finance player. Its robust business model and sound underwriting practices is exhibited in healthy earnings growth and controlled delinquencies. HFFCs primary focus on less risky segment (housing loans forms ~87% of loan book) and customer category (salaried segment which ~70% of loan book) expected to keep GNPA's at ~1.6% over FY23-FY25. Strong growth in business with healthy operational efficiency should aid its earnings and return ratios ahead. We estimate 25% CAGR in earnings and ~3.5% RoA over FY23-FY25, which should boost its valuations. Hence, we initiate coverage on HFFC with a BUY rating and a TP of Rs 1,000, valuing the company at 3.7x FY25BV.

### Focus on the salaried segment in the western region

HFFC's key focus area is western part of India where Gujarat (33%) and Maharashtra (14%) together contributes ~47% of total AUM (Q1FY24) and has over 282 touch points (Branches – 113, Proposed branches – 62, and Digital branches – 107). Housing loan segment constitute ~87% of total AUM, balance 12% is LAP and ~1% is shop loans. The main target customer is low- and mid-income group (with average ticket size of Rs 1.12 mn). HFFC has strong emphasis on salaried customer segment which comprises ~70% of AUM and balance ~30% is self-employed.

### A tech-driven entity...

HFFC is a tech-driven affordable housing finance player with scalable operating model which has enabled it to generate high revenues and lower costs. The company has an end-to-end digital process e.g. lead generation & management, underwriting and risk management, collections to data analytics. In addition, the company has developed proprietary tools like cloud services, data lake and mobility applications which has improved the operating efficiency. Hence, initially technology related cost had elevated the cost to income ratio at ~50% levels which has been trending downwards (FY19 – 49.8%, FY20 – 45.2%, FY21 – 38.8%, FY22 – 33.9% and FY23 – 35.5%). As of Q1FY24, ~93% of its customers were registered on the app, unique user logins were 55%, with steady service requests raised on the app. Technology usage has been HFFC's core strength since inception that has helped them in driving scalability and earnings growth. Management aims to deepen its technology systems by investing more and creating an advanced end-to-end digital process.

### ...enhanced operating efficiency and return ratios

The elevated tech spends has gradually improved its operating efficiencies, such as, a) faster turnaround time (TAT; average TAT is ~48 hours for approval), b) improved customer service, and c) high operating leverage. Over FY19-FY23, AUM / employee grew at 19% CAGR (from Rs 36 mn in FY19 to Rs 72 mn in FY23), AUM / branch at 12% (from Rs 407 mn in FY19 to Rs 648 mn in FY23), opex / branch from 12mn in FY19 to ~16mn in FY23, and PAT / branch from Rs 7.6mn to Rs 20.6mn. Operating efficiency rendered superior return ratios, with RoA / RoE improving from 2.4% / 10.9% in FY19 to 3.9% / 13.5% in FY23. Sustained robust trend in AUM growth coupled with better operating efficiency and lower credit costs should translate into RoA / RoE of ~3.5%+ / ~15-16% in FY24E / FY25E, respectively.

## INITIATING COVERAGE

Sector: NBFCs Rating: BUY

CMP: Rs 850 Target Price: Rs 1,000

### Stock Info

Sensex/Nifty	67,838/20,192
Bloomberg	HOMEFIRS IN
Equity shares	88mn
52-wk High/Low	920/652
Face value	Rs 2
M-Cap	Rs 74bn/USD0.9bn
3-m Avg volume	USD 2.0mn

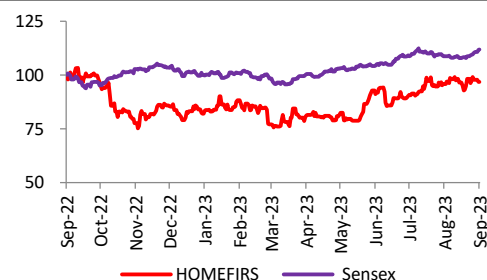
### Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	4,179	5,611	7,138
PPP	3,167	4,278	5,297
PAT	2,283	2,921	3,589
EPS (Rs)	25.9	33.2	40.8
EPS Gr. (%)	22.7	28.0	22.9
BV/Sh (Rs)	206	235	269
<b>Ratios</b>			
NIM (%)	6.6	6.6	6.3
C/I ratio (%)	35.5	37.0	39.2
RoA (%)	3.9	3.6	3.3
RoE (%)	13.5	15.0	16.2
Payout (%)	11.7	15.0	15.0
<b>Valuations</b>			
P/E (x)	32.2	25.2	20.5
P/BV (x)	4.0	3.6	3.1
Div. Yield (%)	0.3	0.6	0.7

### Shareholding pattern (%)

	Dec'22	Mar'23	Jun'23
Promoter	33.53	33.46	30.21
FII	9.37	15.69	17.56
DII	6.51	8.41	10.00
Others	50.58	42.44	42.24

### Stock Performance (1-year)



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Investors are advised to refer disclosures made at the end of the research report.

**Business momentum to remain strong led by multiple growth levers**

Disbursement and AUM registered a strong 18% and 31% CAGR over FY19-FY23 and expected to report 27% and 34% CAGR over FY23-FY25E led by healthy demand, increased affordability and government support. In addition, HFFC has co-lending agreement with couple of PSU banks which help them in expanding its offerings. We expect the co-lending business to contribute to ~10% of disbursements in the near term (vs ~4% currently). Management is confident of achieving Rs 9bn of disbursements every quarter.

HFFC has diverse lead generating channels such as connectors, builder ecosystem, digital, etc. As of Q1FY24, ~75.6% of the leads are generated through connectors, which included professionals like CAs, architects, tax consultants, insurance practitioners, affordable housing developers, etc. The company plans to add 5-6 branches in Q2FY24 and 15 branches in H2FY24. We believe HFFC has multiple growth levers: 1) healthy disbursement growth, 2) diverse lead-generating channels, 3) branch expansion in existing and new geographies 4) low BT out (4-6%). Hence, we expect HFFC to deliver 34% CAGR in AUM over FY23-FY25E.

**Data analytics-backed underwriting has kept NPAs in check**

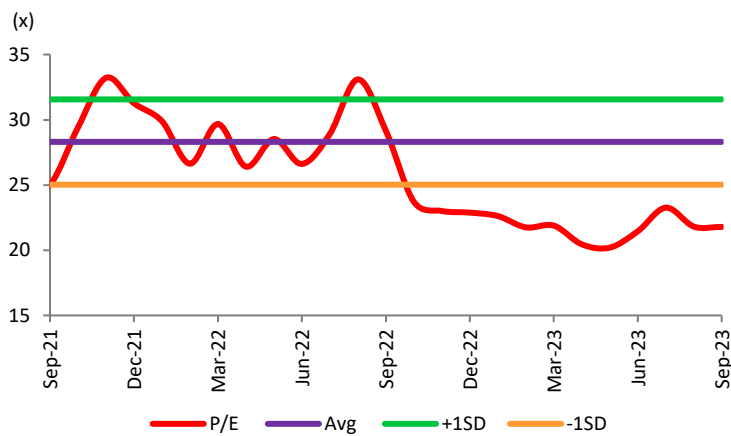
Data analytics helps HFFC in assessing customer's credibility and worthiness. The company follows a robust underwriting process that has helped it in controlling GS3 at ~1.5% (average FY19-FY23). Its asset quality deteriorated during the pandemic (GS3 assets rose to 1.8% in FY21), following RBI's circular on NPA classification (GS3 assets rose to 2.3% in FY22). However, there was an improvement in FY23 to 1.6% and stood steady in Q1FY24.

Strong focus on early bucket collections has kept its collection efficiency largely steady (98%+ levels). Healthy collections have helped the company in improving 1+ DPD (days past due) and 30+ DPD from 6.2% and 4.1% in FY21 to 4.3% and 2.9% in Q1FY24, respectively. The bounce rate has also been improving consistently (at ~15% in Q1FY24) and moving towards the pre-COVID levels (10.5%-11%). We believe, HFFC is on track to maintain its asset quality at ~1.6% over FY23-FY25E, led by robust underwriting practices coupled with healthy collections processes.

**Valuation**

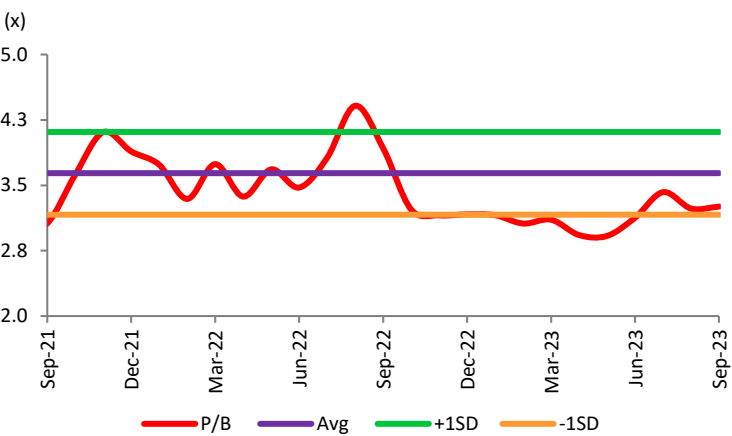
HFFC is a technology-driven affordable housing finance player focused on the low-income segment (with ATS of Rs 1.12 mn). It mainly offers housing loans (87% of AUM) to salaried customers (~69% of AUM). HFFC delivered 31% CAGR in AUM over FY19-FY23. Strong focus on technology and analytics has rendered operating efficiency on an improving trend. In addition, robust underwriting process has kept delinquencies and credit cost in control, thereby aiding earnings. The company registered 49% CAGR in earnings over FY19-FY23 to generate average RoA and RoE of ~3% and ~11%, respectively. Over FY23-25E, we expect NII to grow at 31% CAGR to Rs 7.1 bn and PAT to grow at 25% CAGR to Rs 3.6 bn. We believe HFFC has multiple growth levers in place to capture growth in the affordable housing space, given its small scale of operations. We initiate coverage on the stock with a BUY rating and a target price of Rs 1000 valuing the company at 3.7x FY25 BV.

Exhibit 1: One year forward P/E



Source: Company, Systematix Institutional Research

Exhibit 2: One year forward P/B



Source: Company, Systematix Institutional Research

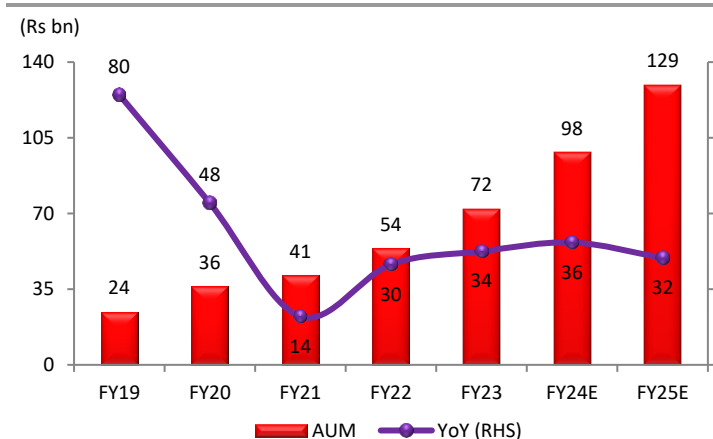
## Story in charts

**Exhibit 3: Dupont analysis**

P&L Dupont analysis (as a % of average assets)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	10.8	10.6	12.2	13.0	13.0
Interest Expense	5.4	4.5	5.1	6.1	6.5
Net Interest Income	5.3	6.1	7.1	6.9	6.5
Other income total	1.5	1.7	1.2	1.5	1.4
Net Income total	6.8	7.9	8.3	8.4	7.9
Operating expenses total	2.6	2.7	2.9	3.1	3.1
Pre-provision profit	4.2	5.2	5.3	5.3	4.8
Provisions	0.8	0.5	0.4	0.5	0.5
Profit before tax and exce. items	3.4	4.7	5.0	4.8	4.3
Profit before tax	3.4	4.7	5.0	4.8	4.3
Tax total	0.8	0.8	1.1	1.2	1.1
Profit after tax	2.5	3.9	3.9	3.6	3.3

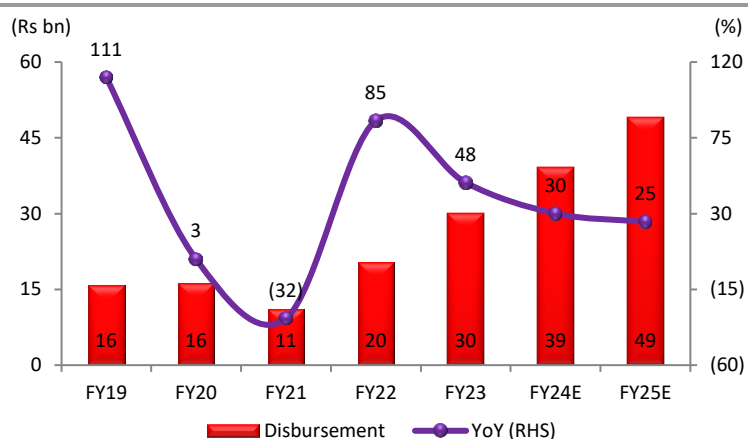
Source: Company, Systematix Institutional Research

**Exhibit 4: AUM to grow at healthy 34% CAGR over FY23-FY25E...**



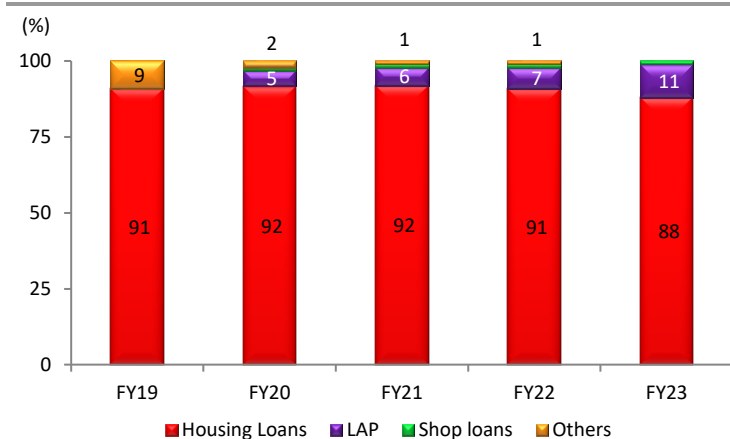
Source Company, Systematix Institutional Research

**Exhibit 5: ...led by 27% CAGR in disbursements**



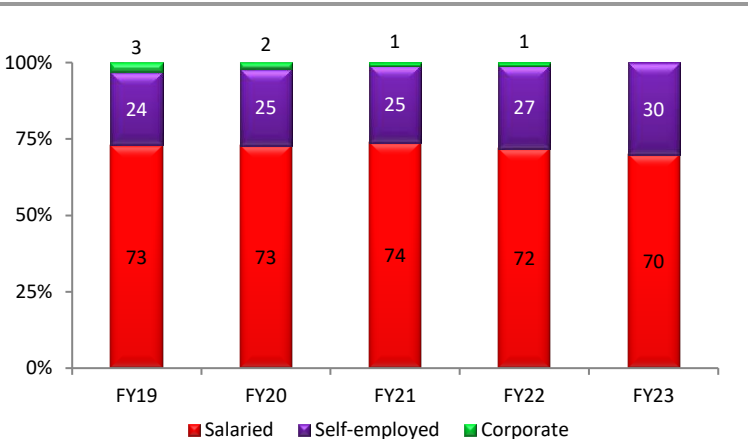
Source: Company, Systematix Institutional Research

**Exhibit 6: Housing loan forms major proportion of AUM...**



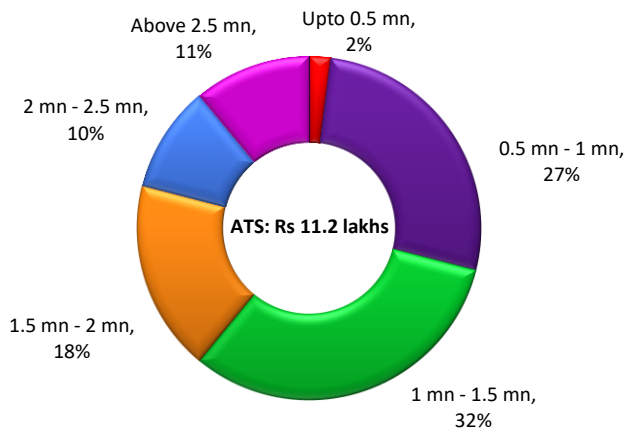
Source Company, Systematix Institutional Research

**Exhibit 7: ...with predominant focus on salaried segment**

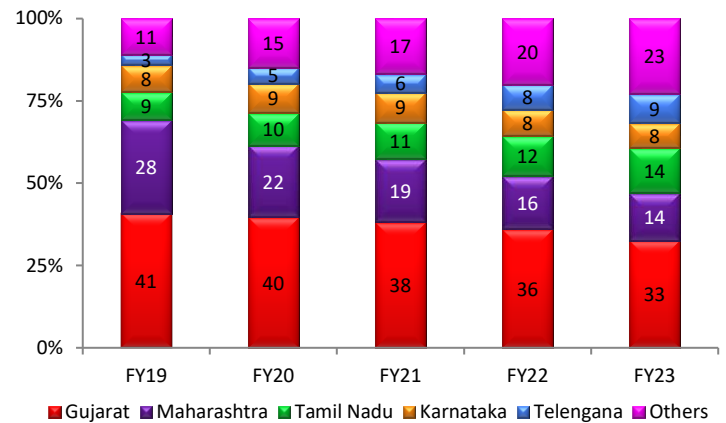


Source: Company, Systematix Institutional Research

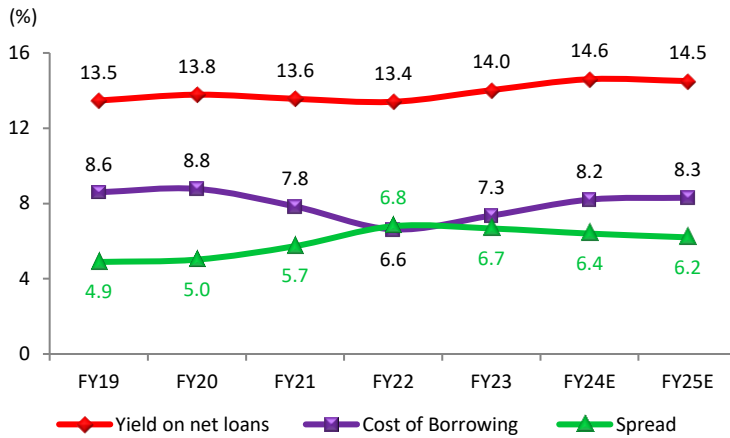


**Exhibit 8: HFFC mainly focus on low-income group**

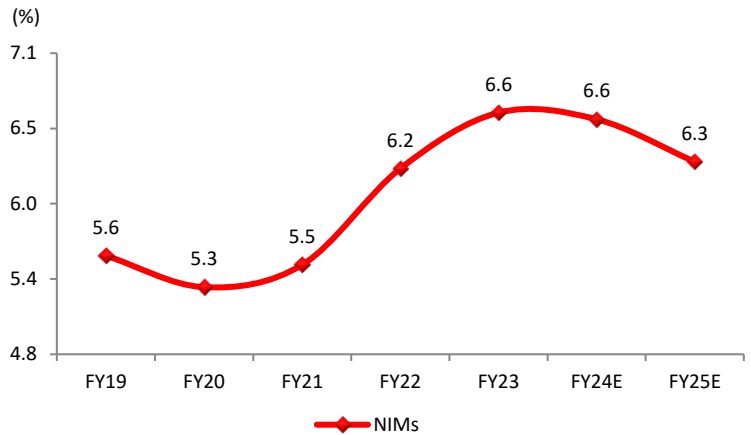
Source: Company, Systematix Institutional Research

**Exhibit 9: Top 3 states contributes ~61% of AUM**

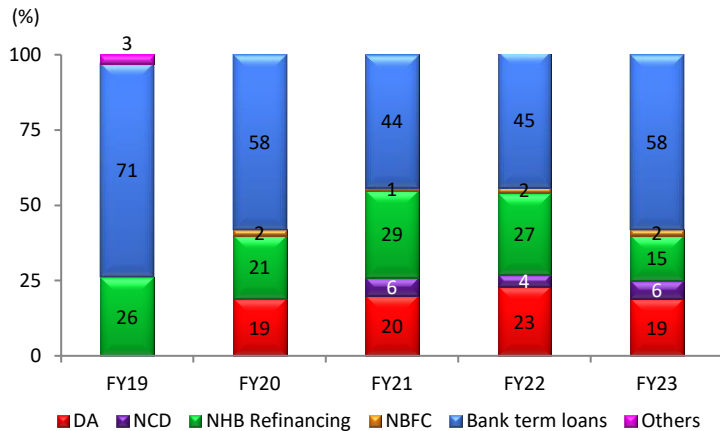
Source: Company, Systematix Institutional Research

**Exhibit 10: Higher cost of borrowings to keep spreads soft...**

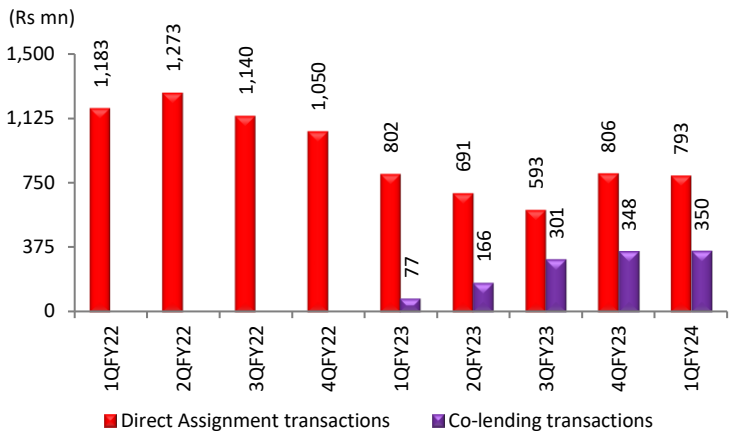
Source: Company, Systematix Institutional Research

**Exhibit 11: ...impacting NIMs by 30-40bps**

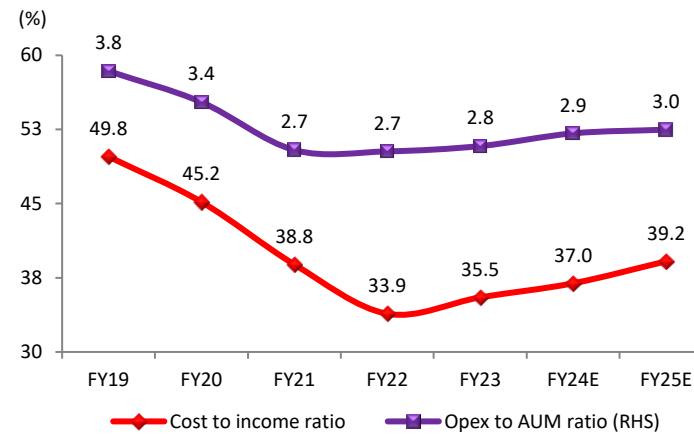
Source: Company, Systematix Institutional Research

**Exhibit 12: Borrowing mix dominated by bank loans**

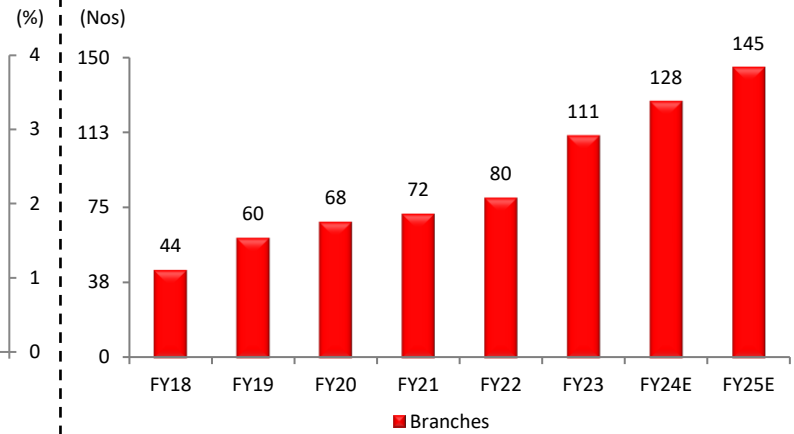
Source: Company, Systematix Institutional Research

**Exhibit 13: Co-lending to contribute ~10% of disbursements**

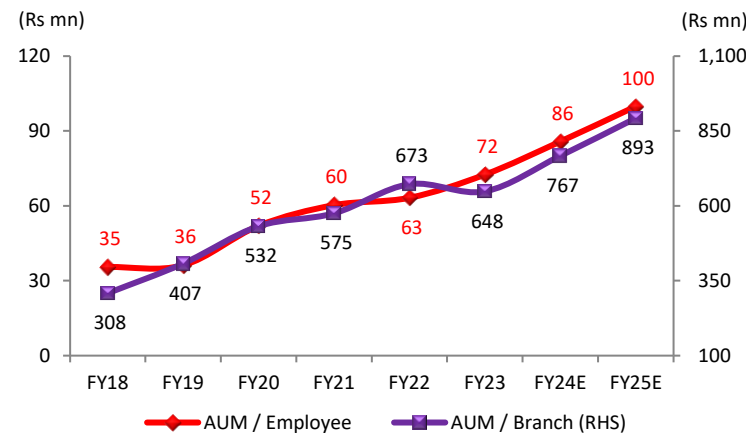
Source: Company, Systematix Institutional Research

**Exhibit 14: Cost ratios to remain elevated...**

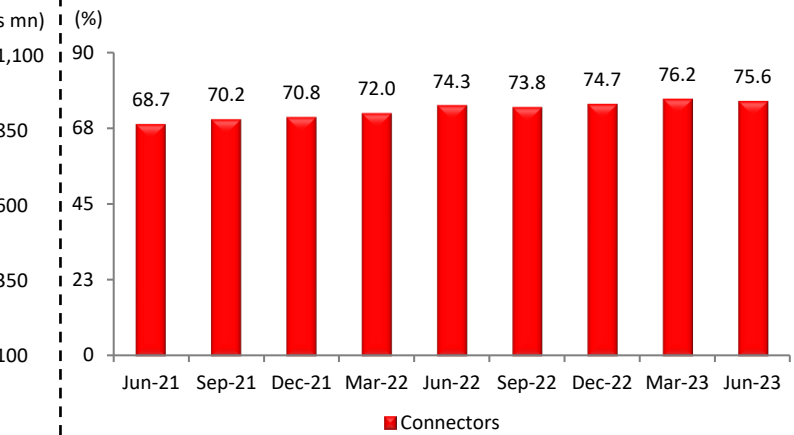
Source: Company, Systematix Institutional Research

**Exhibit 15: ...partly led by branch expansion**

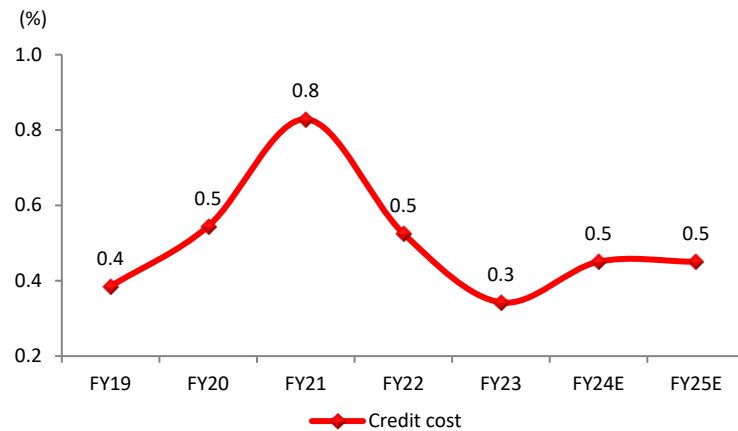
Source: Company, Systematix Institutional Research

**Exhibit 16: Productivity and efficiency to improve**

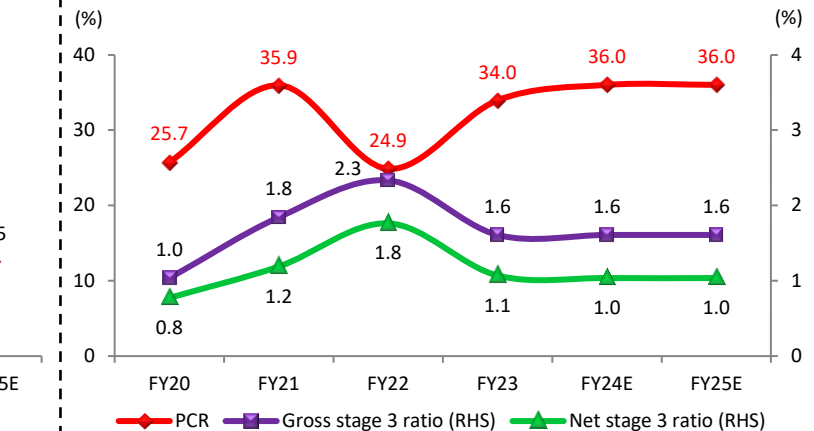
Source: Company, Systematix Institutional Research

**Exhibit 17: ~76% leads are generated via connectors**

Source: Company, Systematix Institutional Research

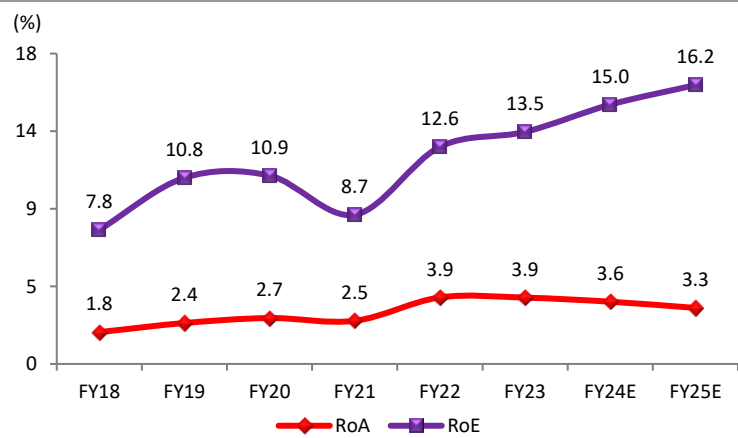
**Exhibit 18: Credit cost to remain benign**

Source: Company, Systematix Institutional Research

**Exhibit 19: HFFC continues to witness healthy asset quality trend**

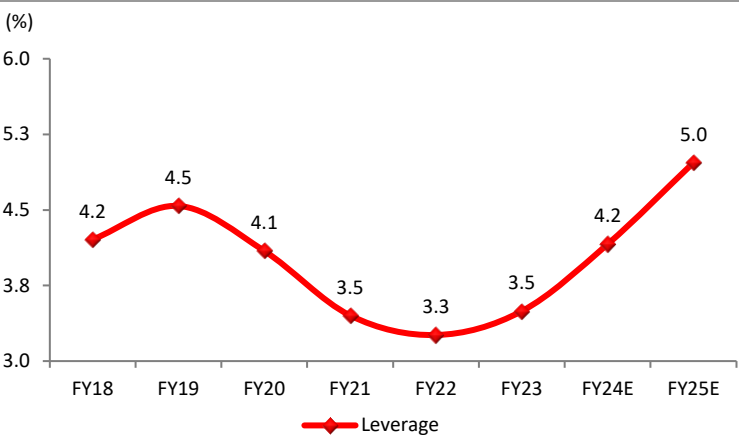
Source: Company, Systematix Institutional Research

Exhibit 20: RoE to improve



Source: Company, Systematix Institutional Research

Exhibit 21: ...as balance sheet leverage builds up



Source: Company, Systematix Institutional Research

## Company description

A tech driven Home First Finance Company Ltd (HFFC) is promoted by True North Fund V LLP and Aether (Mauritius) Ltd., which holds ~30% stake (Q1FY24). The company primarily offers housing loans (~87% of AUM) to salaried customers (~69% of AUM) through its 113 branches spread across 13 states and UTs. It is mainly present in Gujarat (32.6% of AUM), Maharashtra (14% of AUM) and Tamil Nadu (13.9% of AUM), which cumulatively account for more than 60% of its total AUM. As of Q1FY24, the company had 81,842 customers. HFFC is equipped with end-to-end digital process that ranges from lead generation & management, underwriting and risk management, collections to data analytics.

### Exhibit 22: Key management

Name	Designation	Profile
<b>Mr. Deepak Satwalekar</b>	Chairman / Independent / Non-Executive Director	<ul style="list-style-type: none"> <li>Holds bachelor's degree in mechanical engineering and master's degree in business administration.</li> <li>Previously worked with HDFC Ltd as MD and HDFC Life as CEO.</li> </ul>
<b>Mr. Manoj Viswanathan</b>	MD and CEO	<ul style="list-style-type: none"> <li>Holds a bachelor's degree in electrical &amp; electronics engineering and post graduate diploma in business management.</li> <li>Previously worked with Asian Paints Ltd, Citi Bank and Citi Financial Consumer Finance India Ltd.</li> </ul>
<b>Mr. Ajay Ketan</b>	Chief Business Officer	<ul style="list-style-type: none"> <li>He is a mechanical engineer and holds a post graduate diploma in management.</li> <li>Previously worked with companies like Macquarie Finance Private Ltd, Hewlett Packard Financial Services Private Ltd, Citi Financial Consumer Finance India Private Ltd.</li> </ul>
<b>Ms. Nutan Gaba Patwari</b>	Chief Financial Officer	<ul style="list-style-type: none"> <li>She is a Chartered Account with over 16 years of experience in finance.</li> <li>Previously worked with True North, Hindustan Unilever, ITC Ltd and Philip Morris Asia Ltd.</li> </ul>
<b>Mr. Gaurav Mohta</b>	Chief Marketing Officer	<ul style="list-style-type: none"> <li>He is a mechanical engineer and holds a post graduate diploma in business administration.</li> <li>Previously worked with Kotak Mahindra Bank Ltd, Citi Financial Consumer Finance India Private Ltd, Food World Supermarkets Private Ltd.</li> </ul>
<b>Ms. Vilasini Subramaniam</b>	Head- Strategic Alliance	<ul style="list-style-type: none"> <li>She is a Chartered Accountant with over 20 years of experience in consumer finance and credit.</li> <li>Previously worked with Micro Housing Finance Corporation, Janalakshmi Finance Services, Citibank India.</li> </ul>

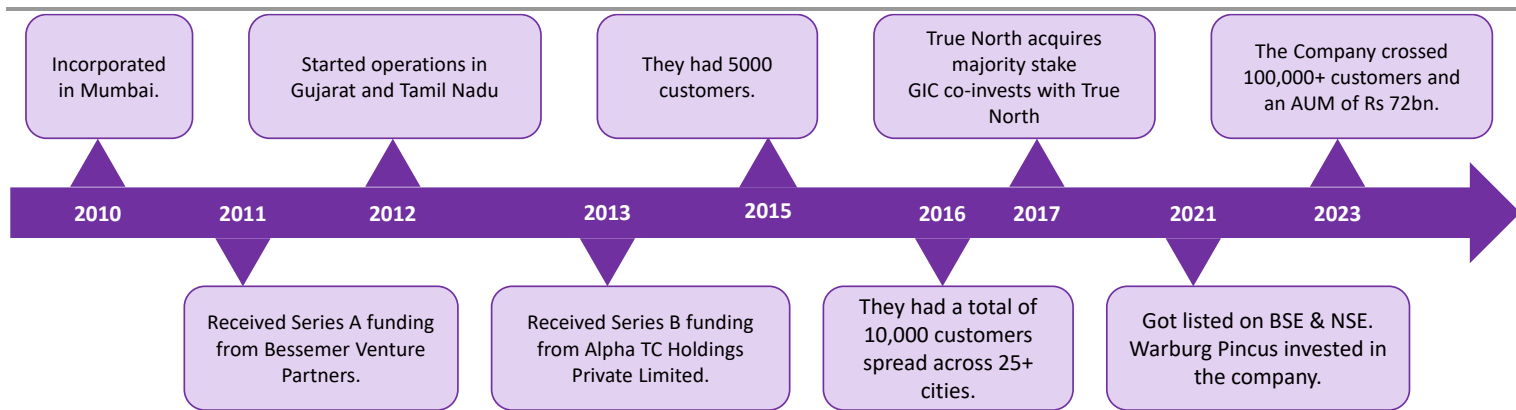
Source: Company, Systematix Institutional Research

### Exhibit 23: Shareholding

Particulars	% of Shareholding (Jun'23)
Promoter and Promoter Group.	
True North Fund V LLP	18.2
Aether (Mauritius) Limited	12.0
FII's	17.6
DII's	10.0
Public and Others	42.2

Key Institutional Investors	% of the holding
Orange Clove Investments B.V (Warburg Pincus)	26.5
Norges Fund	3.3
Invesco India	3.1
Goldman Sachs	2.5
Fidelity International	2.3
Aditya Birla Sunlife	1.8

Source: Company, Systematix Institutional Research

**Exhibit 24: Timeline of events**

Source: Company, Systematix Institutional Research

**Key risks**

- More than 60% of AUM is concentrated in the top three states (Gujarat, Maharashtra and Tamil Nadu).
- Higher balance transfers (BT out) may impact AUM growth.
- Inability to pass on the rates may keep yields and margins under pressure.

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	2,127	2,960	4,179	5,611	7,138
Other income	590	840	734	1,173	1,570
Net Income	2,718	3,800	4,913	6,785	8,708
Operating expenses	1,056	1,287	1,746	2,507	3,411
Preprovision profit	1,662	2,513	3,167	4,278	5,297
Provisions	322	250	215	383	512
Profit before tax	1,340	2,263	2,952	3,895	4,785
Tax	339	402	669	974	1,196
Tax rate	25.3	17.8	22.7	25.0	25.0
Reported Profit after tax	1,001	1,861	2,283	2,921	3,589

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	175	175	176	176	176
Reserves	13,631	15,562	17,997	20,480	23,531
Net worth	13,805	15,737	18,173	20,656	23,707
Borrowings	30,537	34,668	48,135	71,480	100,787
Others	759	764	1,062	2,065	1,819
Total liabilities	45,102	51,169	67,370	94,202	126,313
Cash	6,799	6,678	2,984	4,071	5,368
Investments	3,750	-	2,808	3,831	5,051
Loans	33,265	43,049	59,957	84,089	112,978
Others	1,121	1,239	1,364	1,861	2,453
Total assets	45,102	51,169	67,370	94,202	126,313

Source: Company, Systematix Institutional Research

### Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	10.8	10.6	12.2	13.0	13.0
Interest Expense	5.4	4.5	5.1	6.1	6.5
Net Interest Income	5.3	6.1	7.1	6.9	6.5
Other income total	1.5	1.7	1.2	1.5	1.4
Net Income total	6.8	7.9	8.3	8.4	7.9
Operating expenses total	2.6	2.7	2.9	3.1	3.1
Preprovision profit	4.2	5.2	5.3	5.3	4.8
Provisions	0.8	0.5	0.4	0.5	0.5
Profit before tax and exce. items	3.4	4.7	5.0	4.8	4.3
Profit before tax	3.4	4.7	5.0	4.8	4.3
Tax total	0.8	0.8	1.1	1.2	1.1
Profit after tax	2.5	3.9	3.9	3.6	3.3

Source: Company, Systematix Institutional Research

### Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	13.6	13.4	14.0	14.6	14.5
cost of borrowings	7.8	6.6	7.3	8.2	8.3
Interest Spread	5.7	6.8	6.7	6.4	6.2
NIM (on AUM)	5.5	6.2	6.6	6.6	6.3
Cost/ Income (%)	38.8	33.9	35.5	37.0	39.2
Credit cost (%)	0.8	0.5	0.4	0.5	0.5
RoA(%)	2.5	3.9	3.9	3.6	3.3
RoE(%)	8.7	12.6	13.5	15.0	16.2
Leverage (x)	3.5	3.3	3.5	4.2	5.0
Tier I (%)	55.2	58.0	48.9	39.8	34.1
CAR (%)	56.2	58.6	49.4	40.1	34.3
Gross NPA (%)	1.8	2.3	1.6	1.6	1.6
Net NPA (%)	1.2	1.8	1.1	1.0	1.0
Provision coverage (%)	35.9	24.9	34.0	36.0	36.0

Source: Company, Systematix Institutional Research

### Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	32.1	39.2	41.2	34.3	27.2
Net Income total	20.3	39.8	29.3	38.1	28.4
Preprovision profit	34.2	51.2	26.0	35.0	23.8
Profit before tax	24.9	68.8	30.5	31.9	22.9
Profit after tax	25.9	85.8	22.7	28.0	22.9
Loan	10.4	29.4	39.3	40.2	34.4
Disbursement	-32.2	85.2	48.4	30.0	25.0
AUM	14.4	29.9	33.8	36.4	31.9

Source: Company, Systematix Institutional Research

### Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	11.4	21.1	25.9	33.2	40.8
PER (x)	73.5	39.5	32.2	25.2	20.5
Book value (Rs)	156.9	178.8	206.5	234.7	269.3
P/BV (Rs)	5.3	4.7	4.0	3.6	3.1
Adjusted book value (Rs)	152.3	170.1	199.2	224.8	256.0
P/ABV (Rs)	5.5	4.9	4.2	3.7	3.3
P/PPP (x)	44.3	29.3	23.2	17.2	13.9
Dividend yield (%)	0.0	0.0	0.3	0.6	0.7

Source: Company, Systematix Institutional Research



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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## AAVAS Financiers

15 September 2023

### Geeting ready for the next level

We initiate coverage on AAVAS Financiers Ltd (AAVAS) with a BUY rating and TP of Rs 2,000. AAVAS is a dominant player in the affordable housing finance space, focusing on the self-employed segment – a segment not much catered by banks and NBFCs. Despite catering to a comparatively high-risk customer segment, the company has managed to restrict its NPA below 1% and credit costs below 0.2%, led by healthy underwriting practices. Investments in technology could keep C/I ratio elevated in the near term, while result at the bottom line should come gradually. Branch expansion into newer states should drive AUM growth trajectory, hence going ahead, we expect robust 24% AUM CAGR translating into NII/ PAT growth at a CAGR of 21% in FY23-25E.

### Leading affordable housing finance player

AAVAS is a niche housing finance player in the affordable housing finance space, which primarily provides housing loans (70% of AUM) to the unserved, unreached and underserved markets. The self-employed segment constitutes 60% of its AUM. Management aims to maintain its housing and non-housing loan mix at around current levels. The average ticket size of loan is less than Rs 1mn. Around 63% of AAVAS' loans come from customers who belonged to the economically weaker section (EWS) and low-income group (LIG) – those who earn less than Rs 0.6mn per annum.

### Deeper penetration into the underserved markets to aid growth

The AUM has grown at a CAGR of 24% over FY19-FY23 and as of Q1FY24, the AUM stood at Rs 146 bn. Management has guided 20-25% growth in AUM for FY24, which would be driven by investments in branches, technology, processes and people. New products like MSME loans and co-lending arrangements are also expected to aid the overall momentum in AUM going ahead. AAVAS is expanding its branch network and penetrating deeper into existing as well as new geographies. Its branch network expanded at 13% CAGR over FY19-FY23. During FY23, the company added 32 branches, taking its total branch count to 346 and two more in Q1FY24 (348 branches). These branches were added predominantly in Karnataka, Madhya Pradesh, Rajasthan, Maharashtra and Uttar Pradesh. Management aims to deepen its market penetration in existing as well as new geographies by adding 30-35 branches every year. A combination of physical branch network and technology infrastructure places AAVAS in a better position to capture its targeted growth. Moreover, AAVAS's lower balance transfers (BT out was 1.4% as of Q1FY24) compared with peers' at ~6% (APTUS -2%, HFFC -4-6%) provides comfort. We expect the AUM to grow at a CAGR of 24% over FY23-FY25E.

### Diversified liability profile to keep spreads steady

AAVAS has a well-diversified liability profile with a mix of term loans (46.6%), assignment (20.9%), NHB financing (21.3%), and NCDs (11.2%). The company has zero exposure towards commercial papers (CPs). It has well-established relationships with 32 lenders, which include International Finance Corporation (IFC), Asian Development Bank (ADB), British International Investment (BII), banks and mutual funds. As of Q1FY24, Assignments and NHB refinancing cumulatively accounted for ~42% of the total borrowings, which is comparatively cheap source of funding and provides cushion during tight liquidity period.

#### INITIATING COVERAGE

Sector: NBFCs Rating: BUY

CMP: Rs 1,661 Target Price: Rs 2,000

#### Stock Info

Sensex/Nifty	67,838/20,192
Bloomberg	AAVAS IN
Equity shares	79mn
52-wk High/Low	2283/1335
Face value	Rs 10
M-Cap	Rs 133bn/USD1.6bn
3-m Avg volume	USD 7.0mn

#### Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	7,976	9,649	11,749
PPP	5,608	6,797	8,323
PAT	4,296	5,138	6,290
EPS (Rs)	54.3	65.0	79.6
EPS Gr. (%)	21.0	19.6	22.4
BV/Sh (Rs)	414	472	544

#### Ratios

NIM (%)	6.3	6.1	6.0
C/I ratio (%)	45.0	45.8	46.0
RoA (%)	3.5	3.4	3.5
RoE (%)	14.1	14.7	15.7
Payout (%)	0.0	10.0	10.0

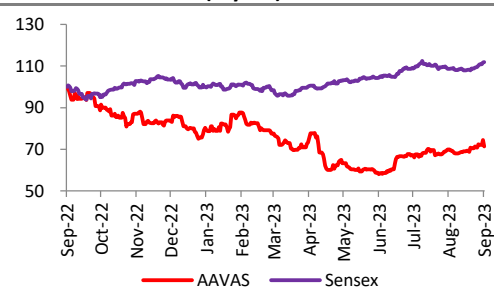
#### Valuations

P/E (x)	30.5	25.5	20.9
P/BV (x)	4.0	3.5	3.1
Div. Yield (%)	0.0	0.4	0.5

#### Shareholding pattern (%)

	Dec'22	Mar'23	Jun'23
Promoter	39.15	39.14	39.13
FII	37.91	38.83	35.01
DII	10.91	12.49	14.34
Others	12.03	9.53	11.51

#### Stock Performance (1-year)



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About 63% of the loan assets comes from areas where the population has an income of less than Rs 0.6mn per annum, which qualifies for rural housing finance and eligible for low-cost funding from NHB. During FY23, AAVAS received a fresh sanction of refinance assistance of Rs 9 bn under the NHB refinance scheme.

In addition, AAVAS has a prudent approach towards ALM (Asset liability management) and prefers funding assets with long-term funds only. The company continues to maintain positive surplus across buckets with an overall surplus funds of Rs 37.6 bn and high-quality liquidity of Rs 21.3 bn. The company can borrow at competitive rates through its diversified funding sources.

An improvement in the company's credit rating from AA-/Stable (CARE) and A+/positive (ICRA) in Mar 2019 to AA/Stable (CARE and ICRA) in June 2023, has resultantly improved the cost of funds (CoF) from 8.7% in FY19 to 7.6% in FY23; CoF was at 7.7% in Q1FY24. Since the last few years, the declining trend in yields has been compensated by the fall in cost of borrowings. Over FY19-FY23, yields fell by 63bps, while cost of borrowings declined 114bps generating spreads at 5%+. Yields in the non-housing segment hovered at 13%-15%, and that for the housing segment floated at 10.5%-12%, resulting in NIMs at 6%+ levels. A diversified sourcing mix coupled with superior credit ratings since the last few years should enable AAVAS to improve its pricing power and maintain spreads at 5%+.

#### **Investments in tech and branch expansion should keep the C/I ratio elevated**

AAVAS's cost to income (C/I) ratio and cost to assets ratio is highest compared to peers at ~45.0%/3.7% (Aptus-19.4%/2.8%), (HFFC-35.5%/2.8%), (CANF-16.9%/2.8%). The higher C/I ratio can be attributed to company's ongoing investments in technology and analytical platform and in-house execution model. Digital channels contribute ~10% of total business. AAVAS will invest ~1500 mn across new technology platforms over a period of five years.

The company has in-house execution model which helped them in 1) reduced average TAT from ~13 days to ~11 days, 2) improved its ability to price risk effectively, resulting in yields of 13%+, and 3) enabled high collection efficiency and low GNPA's.

#### **The in house- execution model is based on:**

- **Lead generation and sourcing:** (i) Focussed approach to directly source business leads, (ii) Leveraged technology & data analytics to generate leads through alternate channels, (iii) Application / platform scorecard to evaluate risk profiles: Streamlined approval process and reduced incidence of error.
- **Risk management:** (i) In-house underwriting and legal team, (ii) Digital app-based valuation reports with 100% geo tagging, and (iii) risk rating of files by in-house risk containment unit.
- **Collections:** (i) 4-tiered collection architecture with high focus on early delinquencies, (ii) AI/ML analytics-led bounce prediction model, (iii) Call centers in multiple languages: initiate collection process in a timely fashion, and (iv) Real-time tracking of collections.

Over the past few years, AAVAS has also been investing in IT transformation - Project Gati (to fasten the loan origination process) and Unnati (loan management system), which is an end-to-end digital journey from origination to servicing. At present, Unnati is in the testing phase and is expected to go live in Q2/Q3 FY24. Management aim is to deepen its market penetration in existing as well as new geographies by adding 30-35 branches every year and entering in a new state every 3-5 years. Considering the combination of physical branch network and upcoming strong



technology infrastructure, we expect C/I ratio to remain elevated in the near term at ~46%. However, the benefit at the bottom line would come gradually.

#### Pristine asset quality to be maintained with GS3 assets at <1%

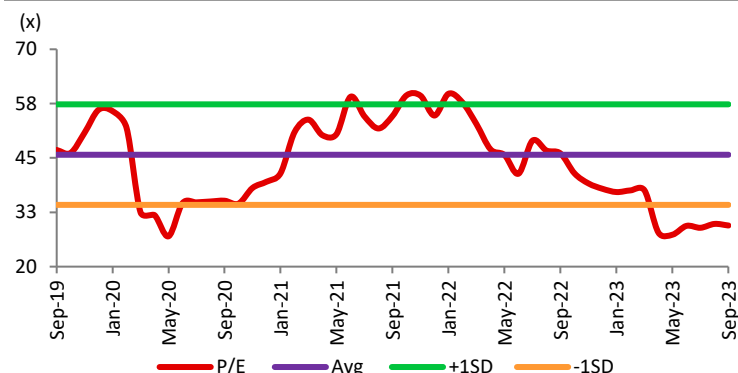
AAVAS has been maintaining conservative lending practices and has created a robust risk management framework driven by technology and analytics. The risk mitigation processes include a) verifying a borrower's credit history from credit bureaus, b) verifying a borrower's business place or residence, c) in-house technical and legal verification, and d) conservative loan to value (LTV) parameters. In addition, the company has an in-house underwriting, legal and risk management team that is an added advantage. AAVAS has a separate credit underwriting team based at branches, which undertakes field visits; the sales staff is also responsible for monitoring and maintaining delinquencies. Coupled with strong credit underwriting, the company also has a strong collection team backed on technology and data analytics, which is built on a bounce prediction model through which they can identify early delinquencies.

On an average the GS3 ratio stood at 0.8% and NS3 at 0.6% over FY19-FY23. Despite COVID-led disruptions, AAVAS managed to maintain its asset quality and credit costs within a range, which enhances our confidence on the company's business model and underwriting practices. AAVAS largely focuses on the self-employed segment, which is considered a bit risky, even though the company has managed to sustain its asset quality across years. We believe GS3 assets would continue to remain below 1% levels over FY24E-FY25E.

#### Valuation

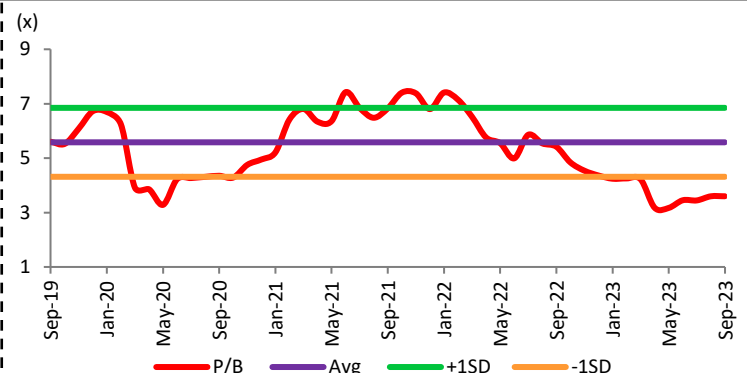
AAVAS has a robust in house operating & sourcing model with superior asset quality and strong operational performance. AAVAS is a niche dominant player in the affordable housing finance space and focuses on the self-employed segment – an area not much catered to by banks and other NBFCs. We believe AAVAS is best placed to tap the opportunities present in the affordable housing finance space, especially the self-employed segment. Even though AAVAS caters to a high-risk customer segment, the company has managed to restrict its NPA below 1% and credit cost below 0.2%, thanks to its conservative lending practices. Investments in technology could keep C/I ratio elevated in the near term, with the impact on the bottom line to be visible over medium term. Branch expansion into newer states should drive growth trajectory. Hence, going ahead, we expect robust 24% AUM CAGR translating into NII/ PAT growth at a CAGR of 21% in FY23-25E. At CMP stock trades at 3.7x BV with RoA/ RoE of 3.5%/ ~16% for FY25. We initiate coverage on the stock with a BUY rating and target price of Rs 2000, valuing AAVAS at 3.7x FY25E BV.

Exhibit 1: One year forward P/E



Source: Company, Systematix Institutional Research

Exhibit 2: One year forward P/B



Source: Company, Systematix Institutional Research

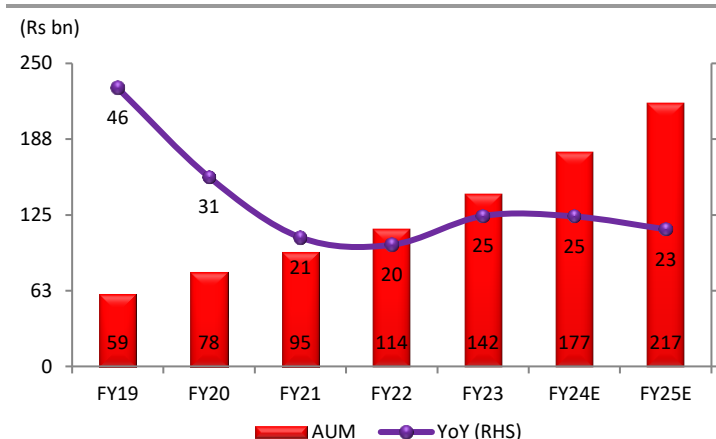
## Story in charts

**Exhibit 3: Dupont**

P&L Dupont analysis (as a % of average assets)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	11.8	11.3	11.4	11.8	11.9
Interest Expense	5.5	4.8	4.8	5.3	5.4
Net Interest Income	6.2	6.5	6.5	6.5	6.5
Other income total	1.6	1.8	1.8	1.9	2.0
Net Income total	7.8	8.3	8.3	8.4	8.5
Operating expenses total	3.1	3.5	3.8	3.8	3.9
Pre-provision profit	4.7	4.8	4.6	4.6	4.6
Provisions	0.4	0.2	0.1	0.2	0.2
Profit before tax and exce. items	4.2	4.5	4.5	4.4	4.4
Profit before tax	4.2	4.5	4.5	4.4	4.4
Tax total	0.8	1.0	1.0	1.0	1.0
Profit after tax	3.5	3.6	3.5	3.4	3.5

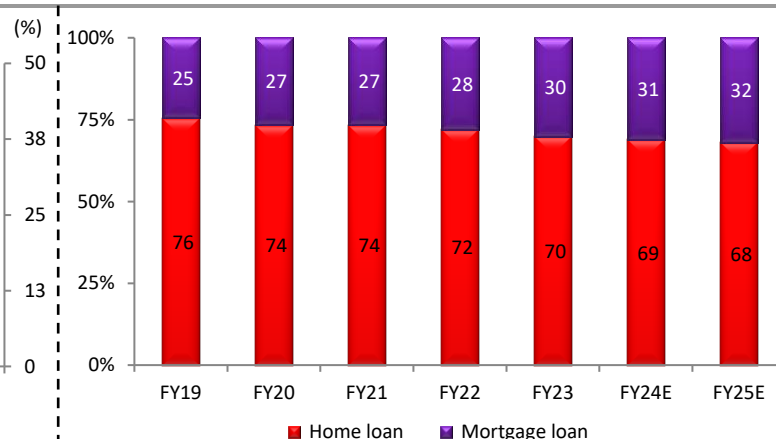
Source: Company, Systematix Institutional Research

**Exhibit 4: Growth momentum to remain healthy**



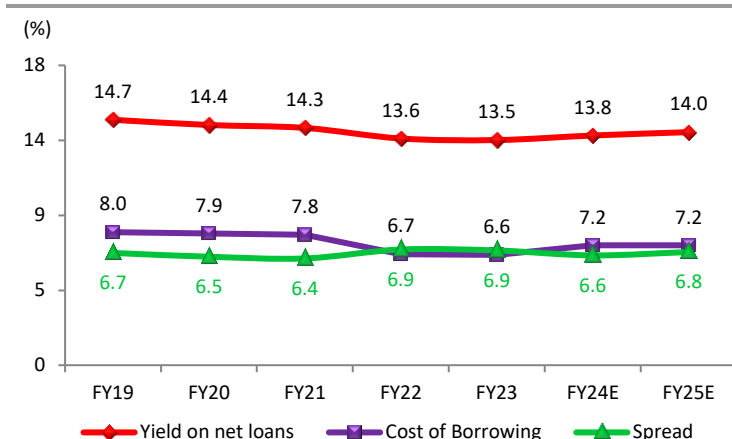
Source: Company, Systematix Institutional Research

**Exhibit 5: Proportion of Non housing loans increasing gradually...**



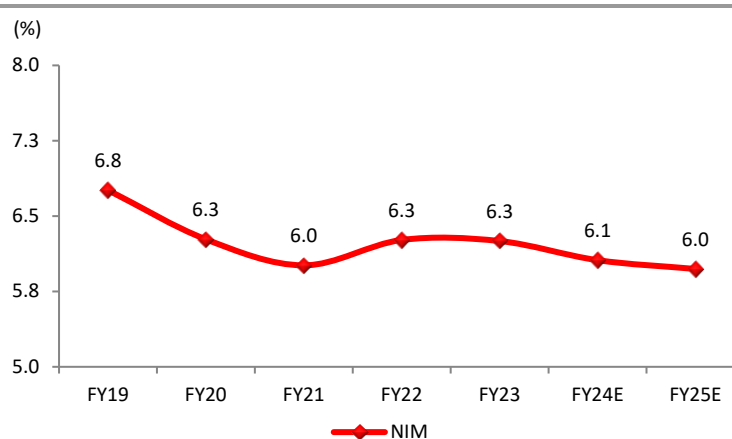
Source: Company, Systematix Institutional Research

**Exhibit 6: ...leading to an improvement in yields**



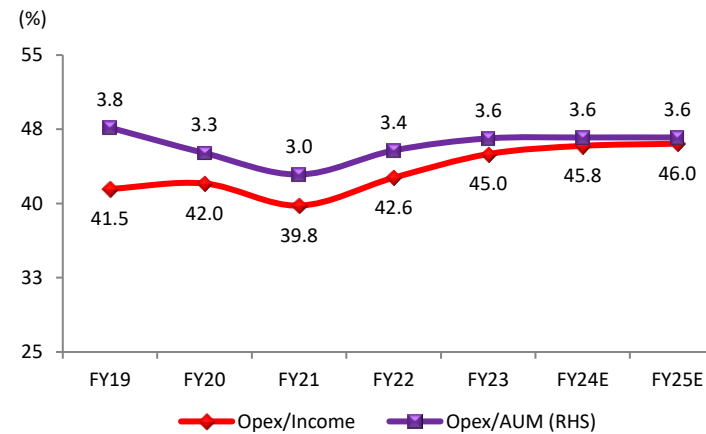
Source: Company, Systematix Institutional Research

**Exhibit 7: ...thus, a largely steady margin profile**



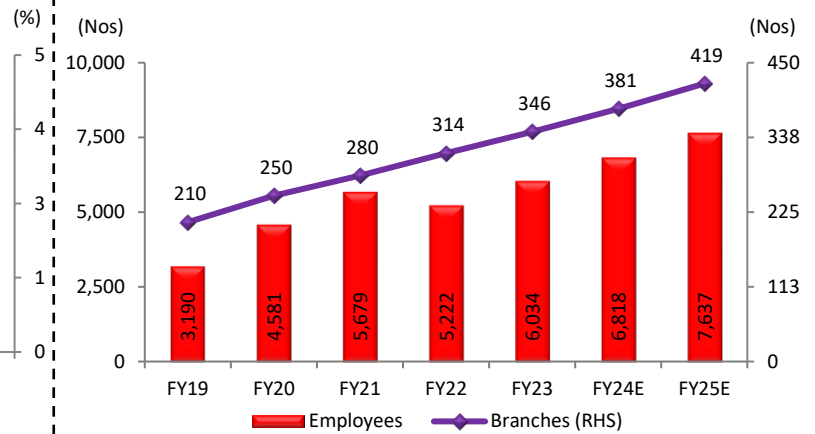
Source: Company, Systematix Institutional Research

Exhibit 8: Opex to remain elevated...



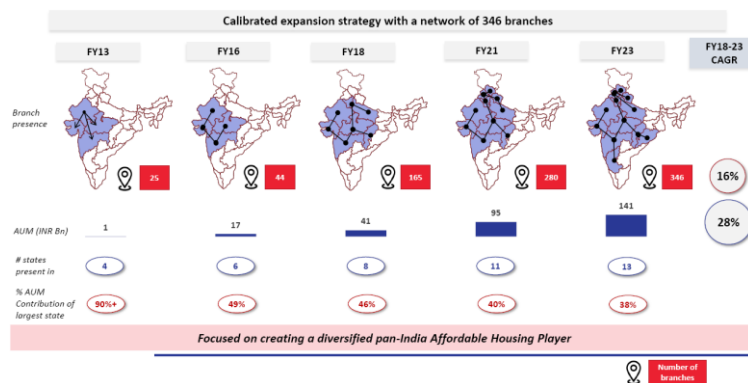
Source: Company, Systematix Institutional Research

Exhibit 9: ...on account of continued branch expansion



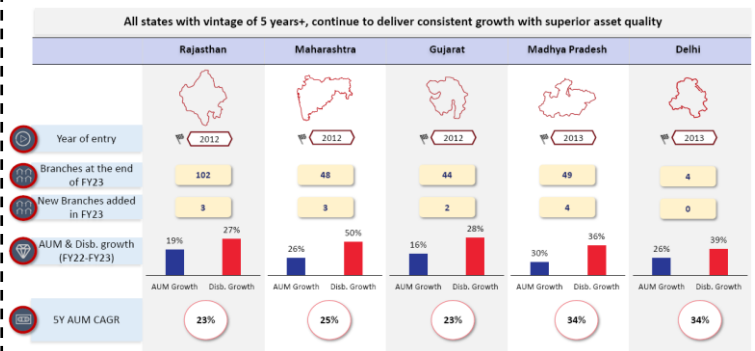
Source: Company, Systematix Institutional Research

Exhibit 10: Contiguous geographic expansion strategy



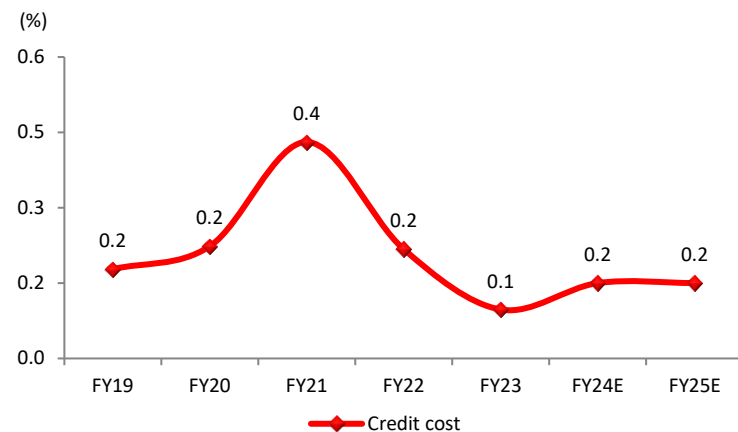
Source: Company, Systematix Institutional Research

Exhibit 11: Deeper penetration in core geographies



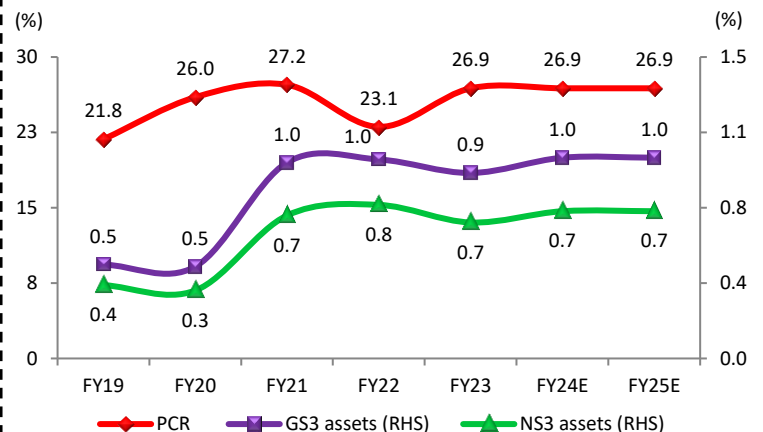
Source: Company, Systematix Institutional Research

Exhibit 12: Credit cost normalised to pre-COVID levels

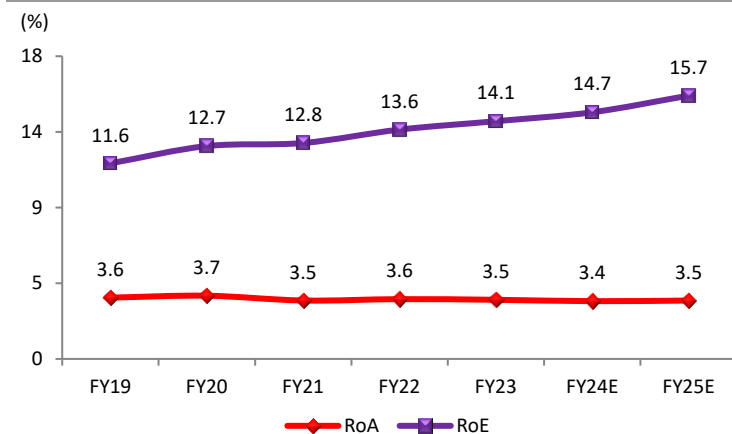


Source: Company, Systematix Institutional Research

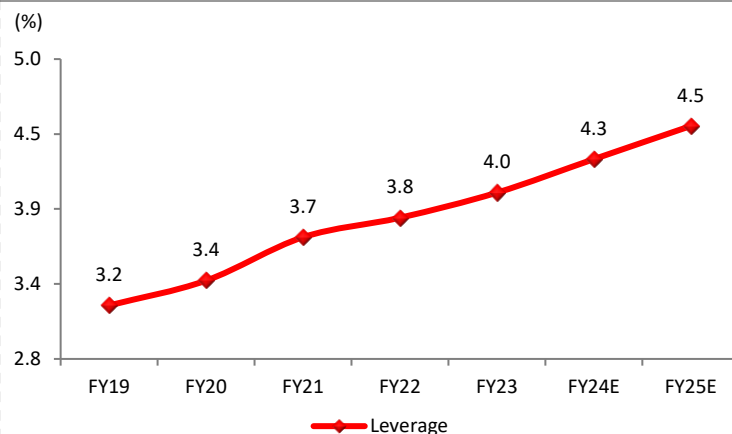
Exhibit 13: Asset quality to remain steady at ~1% levels



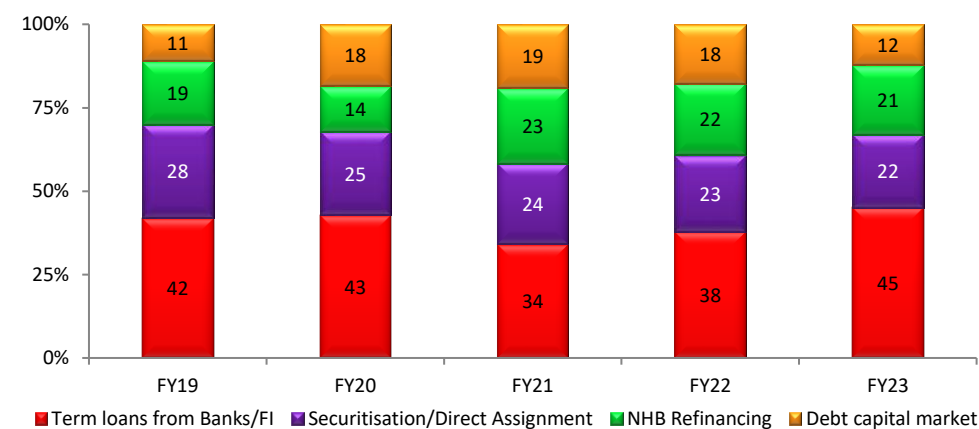
Source: Company, Systematix Institutional Research

**Exhibit 14: Stable and healthy return profile**

Source: Company, Systematix Institutional Research

**Exhibit 15: Leverage has been inching up, driving RoEs higher**

Source: Company, Systematix Institutional Research

**Exhibit 16: Well-diversified borrowing mix aids in lower cost of funds**

Source Company, Systematix Institutional Research

## Company description

The company was incorporated in 2011 as AU Housing Finance Pvt Ltd and subsequently changed its name to AAVAS Financiers Ltd in 2017. AAVAS is a Rajasthan-based housing finance company that offers home loans in the underpenetrated rural and semi-urban markets of India. About 70% of its offering constitutes home loans, with mortgage loans (includes loan products like MSME business loan, LAP, ECLGS, Small ticket size loans) constituting the remaining 30%. The company operated through a network of 348 branches in 13 states during Q1FY24. Around 56% branches are concentrated in 3 states i.e. Rajasthan (29%), Maharashtra (14%) and Gujarat (13%).

### Exhibit 17: Key management

Name	Designation	Profile
<b>Mr. Sachinder Bhinder</b>	MD & CEO	<ul style="list-style-type: none"> <li>25+ years of experience</li> <li>Prior associations were with Kotak Mahindra Bank (EVP and Business Head of Home Finance), HDFC, Standard Chartered</li> </ul>
<b>Mr Ghanshyam Rawat</b>	President and CFO	<ul style="list-style-type: none"> <li>30+ years of experience in financial services</li> <li>Prior associations were with Indorama Synthetics, Accenture, First Blue Home Finance, Deutsche Postbank Home Finance</li> </ul>
<b>Mr Ashutosh Atre</b>	President and CRO	<ul style="list-style-type: none"> <li>30+ years of experience in credit management</li> <li>Prior associations were with Equitas, ICICI Bank, Chola mandalam</li> </ul>
<b>Mr Siddharth Srivastava</b>	Chief business officer	<ul style="list-style-type: none"> <li>20+ years of experience in FMCG and Banking</li> <li>Experience in secured &amp; unsecured lending and business development. Prior associations were with ICICI Bank, Tata Infomedia, ITC</li> </ul>
<b>Mr Sharad Pathak</b>	Company Secretary and compliance officer	<ul style="list-style-type: none"> <li>12+ years of experience in the corporate sector</li> <li>Associated with Aavas Financiers since May 2012</li> </ul>

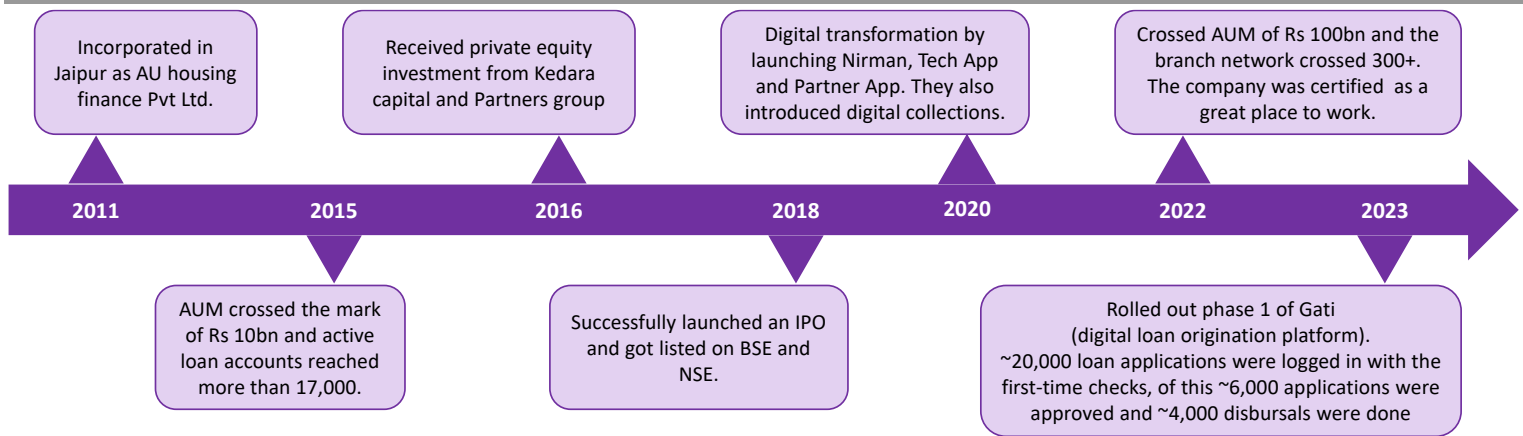
Source: Company, Systematix Institutional Research

### Exhibit 18: Shareholding

Particulars	% of Shareholding (Jun'23)
<b>Promoter group:</b>	
Kedaara Capital	23.6
Partners group	16.1
Management employee and board members	2.3
DII	13.7
FII	35.0
Others	9.2

key Institutional Investors	% of the holding
Wasatch Global Investors	6.11
Stewart Investors	6.08
UTI Asset Management	4.12
Kotak Mahindra Bank	3.62
Capital Group	2.45
Nomura Asset Management	2.28
ADAI	2.01
Vanguard	1.97
Bank of America	1.75
Sundaram Mutual Fund	1.52
<b>Top 10 Share</b>	<b>31.91%</b>

Source: Company, Systematix Institutional Research

**Exhibit 19: Timeline**

Source: Company, Systematix Institutional Research

**Key risks**

- **Geographic concentration:** ~56% branches are concentrated in top 3 states i.e. Rajasthan (~29%), Maharashtra (~14%) and Gujarat (~13%). Any significant change in government policies, economic or political disruptions or natural calamities in these states could impact business activities.
- **Change in regulatory policies:** Any major change in regulatory policies, e.g., increase in regulation by NHB, reduced government incentives for housing loans, increase in risk weights and cap on interest spread under refinancing schemes may impact growth and profitability of the company.
- **Focus on the vulnerable customer segment is huge:** AAVAS is largely focused on self-employed segment (~60% of AUM as of Q1FY24), which is comparatively more vulnerable to economic disruptions than the salaried, as there is no fixed regular income. An event like COVID-19, which has impacted many small businesses in the past could have immense bearing on the operating efficiencies and asset quality of the company.

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	5,183	6,514	7,976	9,649	11,749
Other income	1,289	1,768	2,220	2,896	3,677
Net Income	6,473	8,281	10,196	12,545	15,425
Operating expenses	2,576	3,528	4,587	5,748	7,102
Preprovision profit	3,897	4,753	5,608	6,797	8,323
Provisions	371	226	124	239	295
Profit before tax	3,526	4,527	5,484	6,558	8,028
Tax	636	975	1,188	1,420	1,739
Tax rate	18.0	21.5	21.7	21.7	21.7
Reported Profit after tax	2,889	3,552	4,296	5,138	6,290

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	785	789	791	791	791
Reserves	23,223	27,275	31,906	36,530	42,191
Net worth	24,008	28,064	32,697	37,320	42,981
Borrowings	63,454	79,725	98,407	122,742	150,496
Others	2,130	2,386	2,993	4,506	3,998
Total liabilities	89,593	110,175	134,096	164,568	197,475
Cash	11,252	15,457	13,928	17,373	21,301
Investments	-	525	1,107	1,381	1,693
Loans	75,233	90,534	114,763	140,454	167,908
Others	2,521	2,975	3,310	4,129	5,063
Total assets	89,593	110,175	134,096	164,568	197,475

Source: Company, Systematix Institutional Research

### Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	11.8	11.3	11.4	11.8	11.9
Interest Expense	5.5	4.8	4.8	5.3	5.4
Net Interest Income	6.2	6.5	6.5	6.5	6.5
Other income total	1.6	1.8	1.8	1.9	2.0
Net Income total	7.8	8.3	8.3	8.4	8.5
Operating expenses total	3.1	3.5	3.8	3.8	3.9
Preprovision profit	4.7	4.8	4.6	4.6	4.6
Provisions	0.4	0.2	0.1	0.2	0.2
Profit before tax and exce. items	4.2	4.5	4.5	4.4	4.4
Profit before tax	4.2	4.5	4.5	4.4	4.4
Tax total	0.8	1.0	1.0	1.0	1.0
Profit after tax	3.5	3.6	3.5	3.4	3.5

Source: Company, Systematix Institutional Research

### Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	14.3	13.6	13.5	13.8	14.0
cost of borrowings	7.8	6.7	6.6	7.2	7.2
Interest Spread	6.4	6.9	6.9	6.6	6.8
NIM (on AUM)	6.0	6.3	6.3	6.1	6.0
Cost/ Income (%)	39.8	42.6	45.0	45.8	46.0
Credit cost (%)	0.4	0.2	0.1	0.2	0.2
RoA(%)	3.5	3.6	3.5	3.4	3.5
RoE(%)	12.8	13.6	14.1	14.7	15.7
Leverage (x)	3.7	3.8	4.0	4.3	4.5
Tier I (%)	53.3	50.7	46.5	44.6	42.9
CAR (%)	54.5	51.4	46.9	44.9	43.2
Gross NPA (%)	1.0	1.0	0.9	1.0	1.0
Net NPA (%)	0.7	0.8	0.7	0.7	0.7
Provision coverage (%)	27.2	23.1	26.9	26.9	26.9

Source: Company, Systematix Institutional Research

### Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	20.4	25.7	22.5	21.0	21.8
Net Income total	18.3	27.9	23.1	23.0	23.0
Preprovision profit	22.8	22.0	18.0	21.2	22.5
Profit before tax	16.8	28.4	21.1	19.6	22.4
Profit after tax	16.0	22.9	21.0	19.6	22.4
Loan	21.7	20.3	26.8	22.4	19.5
Disbursement	-9.3	35.6	39.5	24.0	20.0
AUM	21.3	20.1	24.8	24.7	22.6

Source: Company, Systematix Institutional Research

### Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	36.5	44.9	54.3	65.0	79.6
PER (x)	45.4	36.9	30.5	25.5	20.9
Book value (Rs)	303.7	355.0	413.6	472.1	543.7
P/BV (Rs)	5.5	4.7	4.0	3.5	3.1
Adjusted book value (Rs)	296.9	346.2	403.7	459.0	528.0
P/ABV (Rs)	5.6	4.8	4.1	3.6	3.1
P/PPP (x)	33.7	27.6	23.4	19.3	15.8
Dividend yield (%)	0.0	0.0	0.0	0.4	0.5

Source: Company, Systematix Institutional Research



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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

## Can Fin Homes

15 September 2023

### Focused and steady performer

Can Fin Homes (CANF) is best-in-class housing finance player with robust business model and underwriting practices, coupled with healthy earnings growth and moderate stress. Its primary focus on housing loans (~89% of loan book) and salaried segment (~73% of loan book) should aid in steady GNPA (below 1% levels). Strong parentage, coupled with a superior asset quality gives them advantage of lower cost of funding. Consistent business growth, with focus on operational efficiency should aid healthy earnings CAGR of 19% over FY23-25 with RoA of ~2% in FY25E. Hence, we initiate coverage on CANF with a BUY rating and a TP of Rs 960, valuing the company at 2.5x FY25BV.

### Branch addition + price inflation + Builder tie ups = Higher growth

CANF has delivered healthy loan book growth on a consistent basis in the past with focus on a selective segment and customer approach, which has led to an above industry growth in AUM. Over FY18-23 the AUM has grown at 18% CAGR vs industry growth rate of 13% aided by 9% CAGR in branch network and 4% CAGR in ticket size over the period. Going ahead management expect 18-20% annual growth in AUM which will be aided by increase in average ticket size due to inflation (~3-4% growth), tie-ups with builders for approved projects (~3-4% growth) and branches expansion (10% growth).

The average ticket size (ATS) for housing loans is Rs 2.2mn and for non-housing loans ATS is Rs 0.8mn. Management expects ticket size to increase to Rs 2.7mn on account of 1) inflationary pressure and 2) builder tie up for high ticket size loans with unit ticket size of Rs 2.5mn to Rs 10mn.

### Prudent underwriting and focus on low-risk segment to maintain asset quality

CANF follows a robust onboarding system, prudent underwriting practices and focus primarily on the salaried segment (~73% of loan book), a comparatively low-risk segment. This has resulted in more stable and reliable customer base, resulting in lower delinquency. Since the past few years, the company has managed to keep GNPA below 1%, which exhibits its prudent underwriting practices. The company currently has healthy GNPA and NNPA of 0.63% and 0.34%, respectively, with a restructured book of Rs 2,160mn (0.7% of total loans) and provision coverage ratio of 47% in Q1FY24. Apart from conservative provisioning, CANF has an additional management overlay provision of Rs 170mn and restructuring provision of Rs 697mn, which provides comfort.

In addition, management has clarified that the recent fraud at one of its branches is unlikely to have any significant impact on its asset quality. As per the guidance, GNPA to be at ~0.7% and credit cost of not more than 10bps. Although slippages from restructured book may keep GNPA's a bit volatile in the near future, we expect GNPA's to continue to remain under 1% level in FY24.

### NIMs to remain steady, led by re-pricing of loans

CANF has the lowest funding cost among peers, as it enjoys AAA credit rating on the back of 1) strong parentage, 2) consistent and superior asset quality vs peers, and 3) a healthy overall performance. CANF's well-diversified funding mix in Q1FY24 comprised ~54% is from banks, 22% from National Housing Bank (NHB), 16% from non-convertible debentures, 7% from commercial papers and the balance 1% from

#### INITIATING COVERAGE

Sector: NBFCs Rating: BUY

CMP: Rs 781 Target Price: Rs 960

#### Stock Info

Sensex/Nifty	67,838/20,192
Bloomberg	CANF IN
Equity shares	133mn
52-wk High/Low	905/451
Face value	Rs 2
M-Cap	Rs 103bn/USD1.3bn
3-m Avg volume	USD 11.1mn

#### Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	10,146	12,386	14,255
PPP	8,658	10,575	12,164
PAT	6,212	7,348	8,490
EPS (Rs)	46.6	55.2	63.8
EPS Gr. (%)	31.9	18.3	15.5
BV/Sh (Rs)	274	325	384

#### Ratios

NIM (%)	3.5	3.6	3.5
C/I ratio (%)	16.9	17.3	17.9
RoA (%)	2.0	2.0	1.9
RoE (%)	18.5	18.4	18.0
Payout (%)	8.5	7.5	7.5

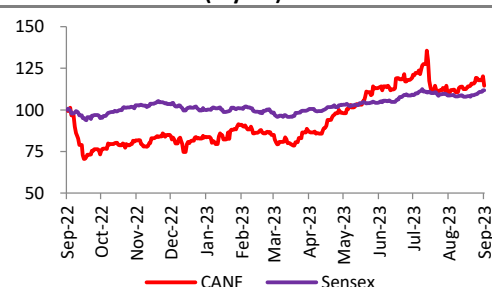
#### Valuations

P/E (x)	16.6	14.1	12.2
P/BV (x)	2.8	2.4	2.0
Div. Yield (%)	0.5	0.5	0.6

#### Shareholding pattern (%)

	Dec'22	Mar'23	Jun'23
Promoter	29.99	29.99	29.99
FII	9.95	10.35	10.72
DII	23.52	24.97	27.97
Others	36.53	34.68	31.32

#### Stock Performance (1-year)



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public deposits. Until Q4FY23, cost of funds inched upwards and gradually softened by ~19bps QoQ to 7.32% in Q1FY24, as most bank borrowings were linked to the repo rate and incremental borrowings were raised at a lower cost.

Over the past few years, CANF has been able to maintain its spread at ~2.5% levels as any increase/decrease in the cost of funds has been passed on to customers, as most of the loan book is on floating rate. The entire book is expected to get repriced by December 2023, which should keep yields healthy and we do not expect significant increase in cost of funds going ahead. This will keep NIMs largely steady ahead. Management has also guided that NIMs and spreads to be maintained at 3.5% and 2.5% levels respectively.

### Operational efficiency to aid earnings growth and return ratios

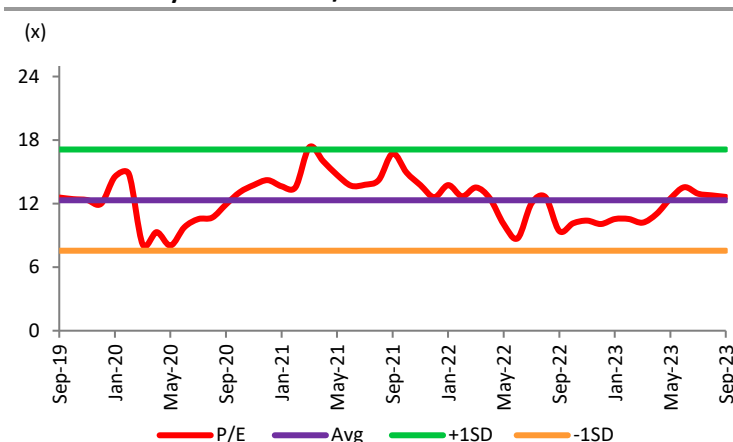
Despite significant branch additions during FY23, CANF's C/I ratio hovered at ~16-17%, as improvement in branch and employee productivity offset some of the increase. Its average business per branch and average business per employee has been increasing gradually from Rs 1.2bn/ Rs 259 mn in FY19 to Rs 1.5bn /Rs 323 mn in FY23, respectively. Digital and technological initiatives have driven the productivity and turnaround time (TAT) at the branch levels. The company has approved a budget of Rs 2.5bn as IT infrastructure costs, which includes 0.6bn for capital expenditure over FY24E-FY25E, and the remaining Rs 1.8bn opex to be spent over 7 years.

CANF plans to open around 15 branches (9 in west and north India, 4 in the south and 2 in the east) in FY24. Scaling up of branches and employee addition could keep the C/I ratio elevated in the near term. However, benefit at earnings to flow in gradually. We thus expect healthy 19% CAGR in NII and 20% in earnings to record RoA and RoE of ~2% and ~19%, respectively, over FY23-FY25E.

### Valuation

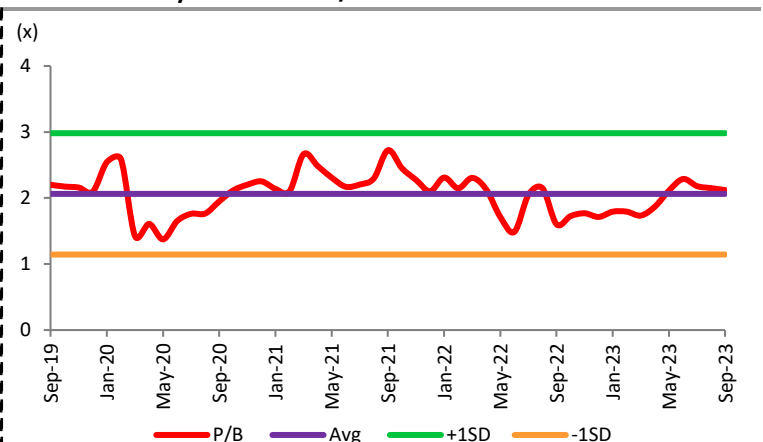
CANF is a best-in-class housing finance player with robust business model and underwriting practices, which has demonstrated healthy earnings growth with moderate stress. Its primary focus on salaried segment and lower ticket size are expected to maintain GNPA <1% levels (vs. peers). CANF has maintained its healthy growth trajectory across cycle and registered an earnings CAGR of 20% over FY19-FY23 resulting in RoA and RoE of 2% and 18% respectively. We expect NII to grow at a CAGR of 19% in FY23-25E to Rs 14.3 bn while PAT is expected to grow at 17% CAGR over the same period to Rs 8.5 bn. CANF currently trades at ~2.5x FY25E ABV, which is at a lower valuation compared to its peers. Hence, we initiate coverage on the stock with a BUY rating and a target price of Rs 960.

Exhibit 1: One year forward P/E



Source: Company, Systematix Institutional Research

Exhibit 2: One year forward P/B



Source: Company, Systematix Institutional Research

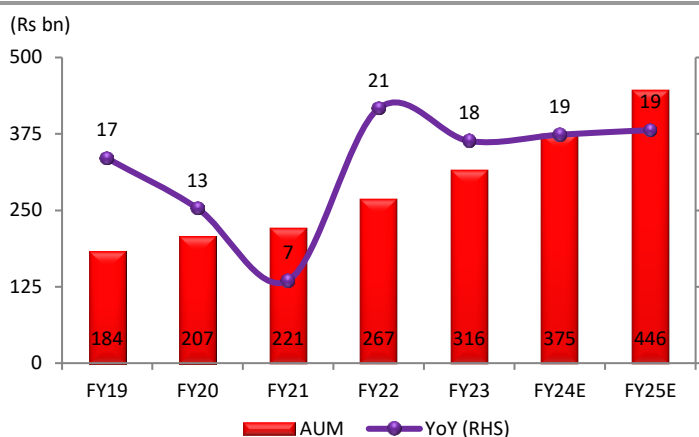
## Story in charts

**Exhibit 3: Dupont analysis**

P&L Dupont analysis (as a % of average assets)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	9.3	7.9	8.9	9.5	9.3
Interest Expense	5.6	4.6	5.6	6.2	6.1
Net Interest Income	3.7	3.3	3.3	3.4	3.2
Other income total	0.1	0.1	0.1	0.1	0.1
Net Income total	3.8	3.3	3.4	3.5	3.3
Operating expenses total	0.6	0.6	0.6	0.6	0.6
Pre-provision profit	3.2	2.7	2.8	2.9	2.7
Provisions	0.3	0.2	0.1	0.2	0.2
Profit before tax and exce. items	2.9	2.5	2.7	2.6	2.5
Profit before tax	2.9	2.5	2.7	2.6	2.5
Tax total	0.7	0.7	0.7	0.7	0.6
Profit after tax	2.1	1.9	2.0	2.0	1.9

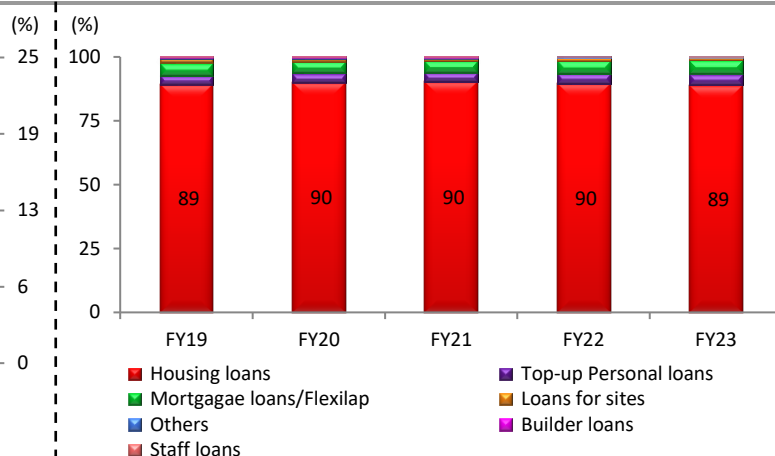
Source: Company, Systematix Institutional Research

**Exhibit 4: AUM to grow at a healthy pace of 18-20% YoY**



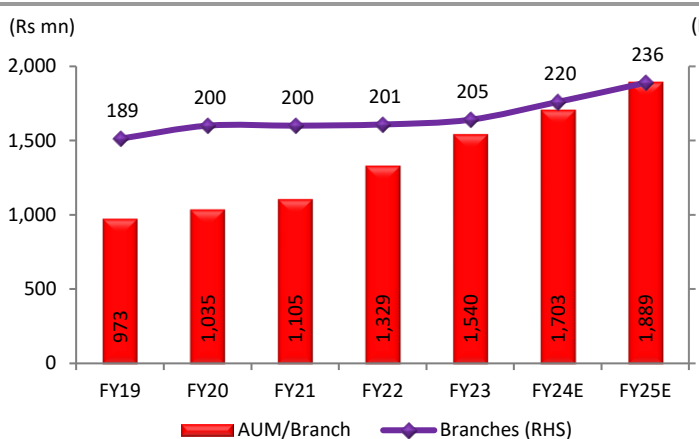
Source Company, Systematix Institutional Research

**Exhibit 5: Housing loan segment is the key focus area**



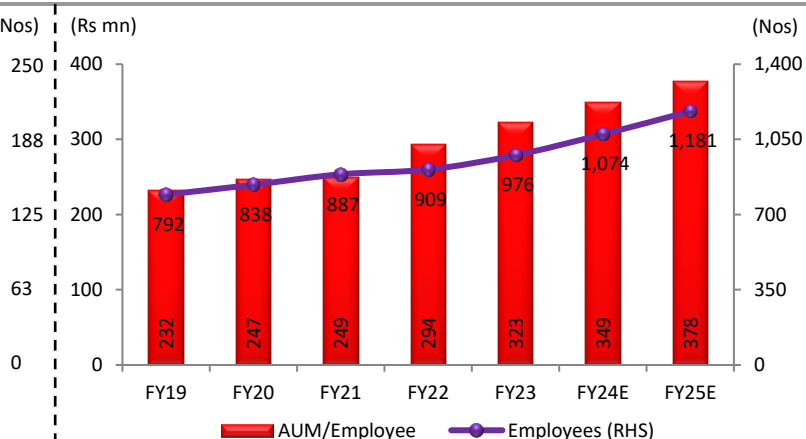
Source: Company, Systematix Institutional Research

**Exhibit 6: AUM/branch continue to improve**

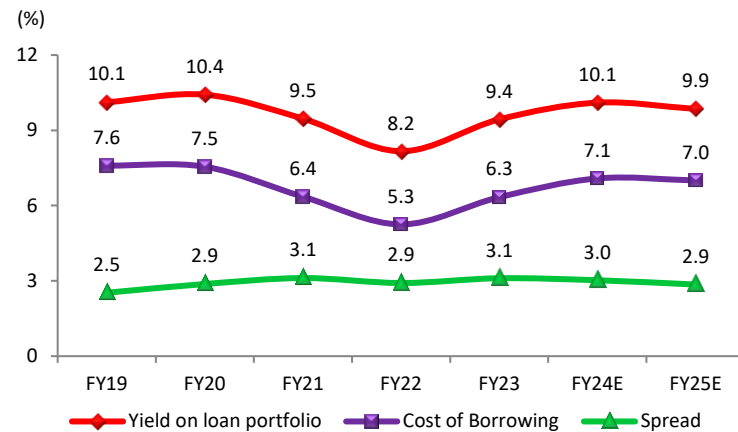


Source Company, Systematix Institutional Research

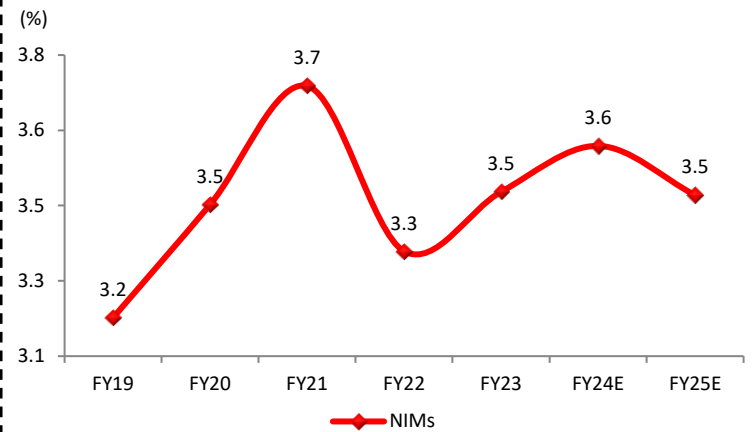
**Exhibit 7: ...so is AUM/employee**



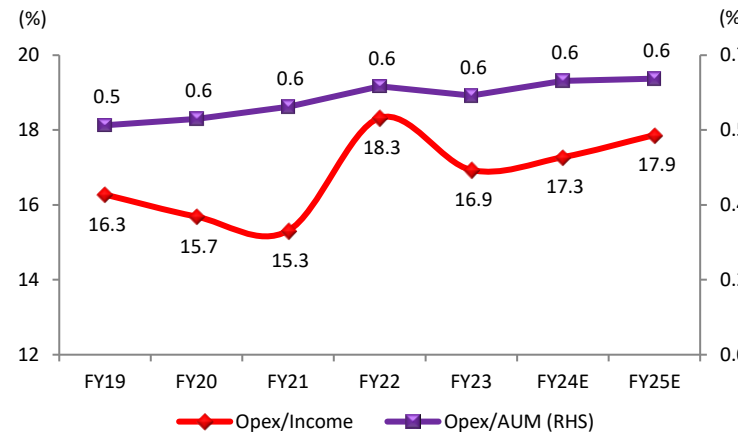
Source: Company, Systematix Institutional Research

**Exhibit 8: Spreads guidance maintained at ~2.5% levels...**

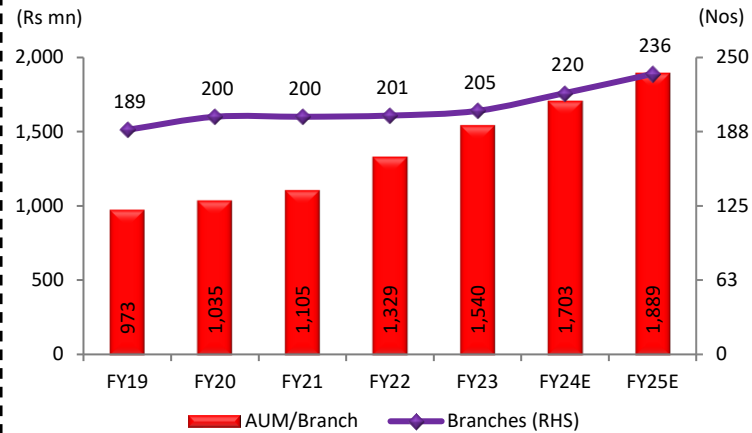
Source: Company, Systematix Institutional Research

**Exhibit 9: ...keeping NIMs steady at 3.5%**

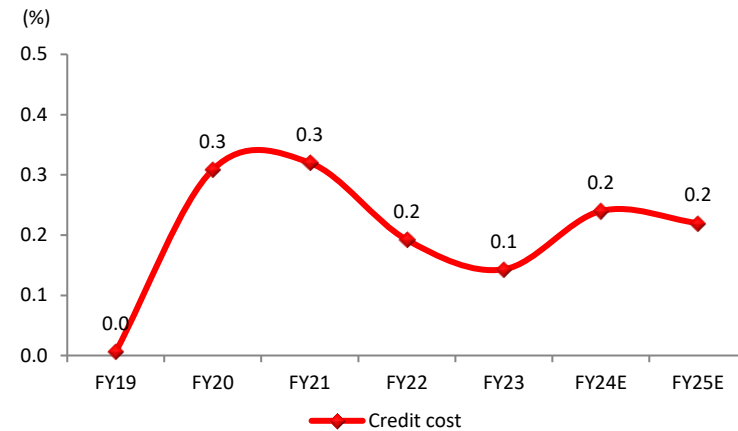
Source: Company, Systematix Institutional Research

**Exhibit 10: Cost to remain elevated due to higher spends**

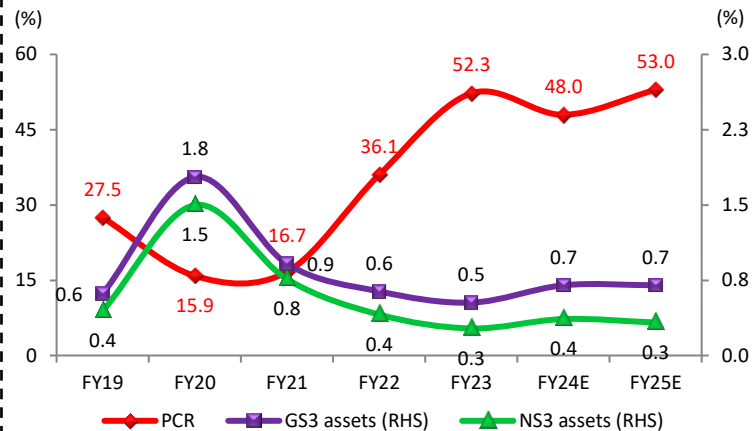
Source: Company, Systematix Institutional Research

**Exhibit 11: Branch efficiency to continue to improve**

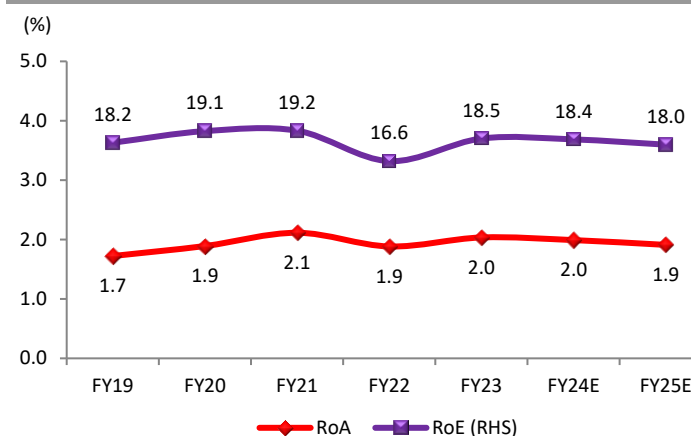
Source: Company, Systematix Institutional Research

**Exhibit 12: Credit cost to remain low...**

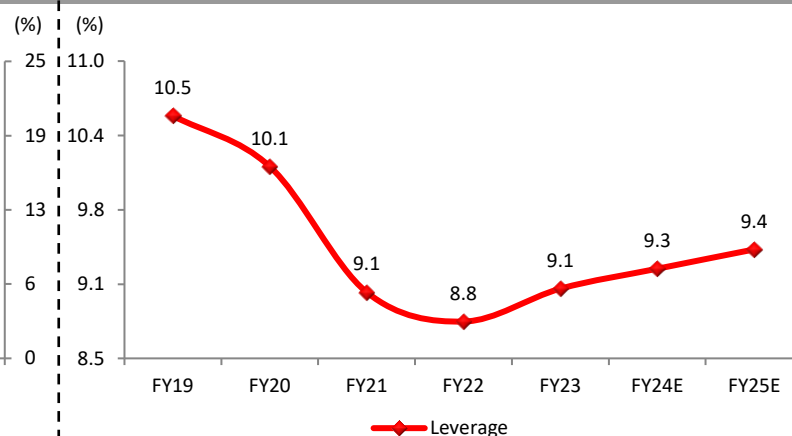
Source: Company, Systematix Institutional Research

**Exhibit 13: ...and result in stable GS3/NS3 ratios**

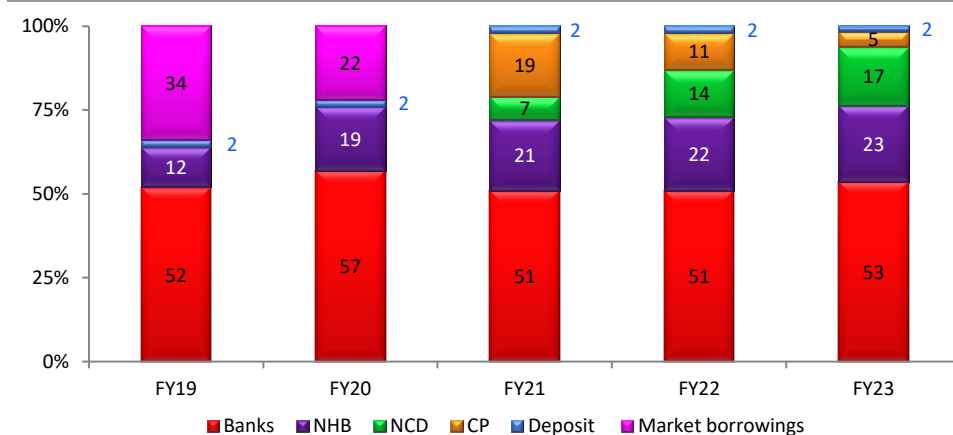
Source: Company, Systematix Institutional Research

**Exhibit 14: RoA/RoE to remain steady at ~ 2% and ~18%**

Source: Company, Systematix Institutional Research

**Exhibit 15: Leverage ratio to be maintained at ~9x**

Source: Company, Systematix Institutional Research

**Exhibit 16: Diversified borrowing mix**

Source: Company, Systematix Institutional Research

## Company description

Headquartered in Bengaluru, Can Fin Homes (CANF) was promoted by Canara Bank in 1987. As of June 2023, Canara Bank held ~30% stake in CANF. The company offers housing loans to individuals and non-housing loans (including mortgage loans, site loans, loans for commercial properties, loan against rent receivables, top up loans and personal loans). CANF is primarily focused on housing loans to individuals which constitutes ~89% of loan book and balance ~11% is non-housing loans. The company caters to customers in the mid and affordable segment with average ticket size of loan at Rs 2.2-2.5 mn for housing loans and Rs 0.8 mn for non-housing loans. Most borrowers are first time home buyers with an average age of 32-36 years. CANF branches are spread across 21 states and union territories via 205 locations with ~71% of its loans concentrated in southern branches.

### Exhibit 17: Key management

Name	Designation	Profile
Mr. Suresh S Iyer	MD & CEO	<ul style="list-style-type: none"> <li>Graduate in B.Sc. (Statistics) and post graduate in Business Administration (Finance).</li> <li>Previously worked with Gruh finance for 25 years across multiple positions and different functions, i.e., sales, operations, IT strategy, policy and pricing, risk, recovery, and legal.</li> </ul>
Mr. Apurva Agrawal	CFO	<ul style="list-style-type: none"> <li>Chartered Accountant.</li> <li>Previously worked with DMI Finance Private Limited as Head F&amp;A (NBFC). He has more than 13 years of work experience.</li> </ul>
Ms. Veena G Kamath	DGM & Company Secretary	<ul style="list-style-type: none"> <li>She holds a degree in business management and law. She is a member of ICSI.</li> <li>She heads the Board Secretariat Department apart from being a compliance officer.</li> </ul>

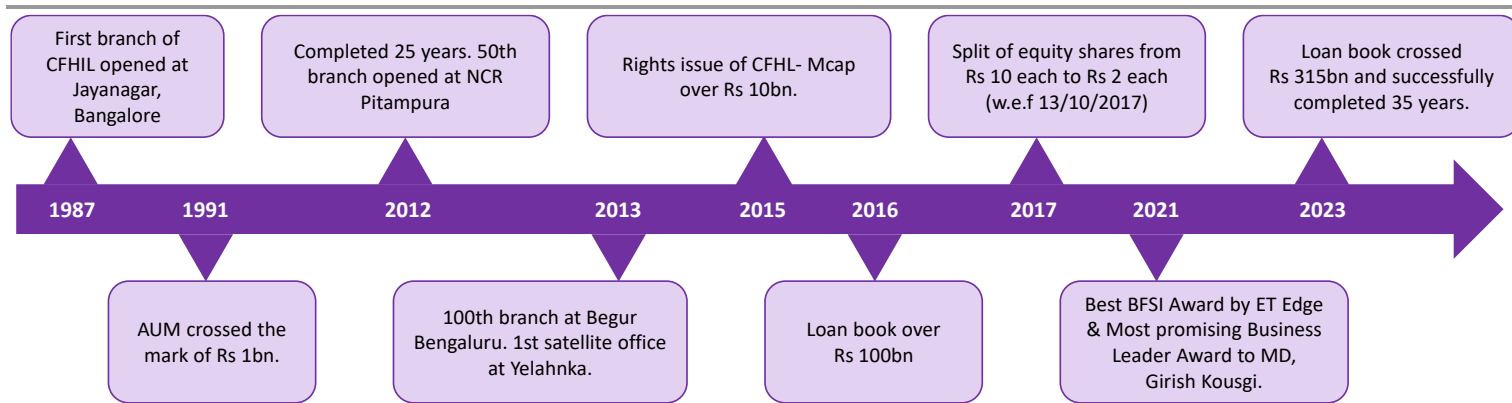
Source: Company, Systematix Institutional Research

### Exhibit 18: Shareholding

Particulars	% of Shareholding (June'23)
Promoter (Canara Bank)	29.9
FII	10.7
DII	27.9
Others	31.5
<b>Total shareholding</b>	<b>100.0</b>

Key institutional investors	% of the holding
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Small Cap Fund	4.3
DSP Flei Cap Fund	4.6
Edelweiss Trusteeship Co Ltd Ac- Edelweiss MF A/C- Edelweiss Mid Cap Fund	1.9
Canara Robeco Mutual Fund A/C Canara Robeco Small Cap Fund	1.3
Invesco India Arbitrage Fund	1.2
Sundaram Mutual Fund A/C Sundaram Multi Cap Fund	1.4
Uti- Arbitrage Fund	2.4
HSBC Value Fund	3.1
Chhattisgarh Investment Limited	6.2
Sarda Energy and Mineral Limited	1.5
<b>Total</b>	<b>27.9</b>

Source: BSE, Systematix Institutional Research

**Exhibit 19: Timeline of events**

Source: Company, Systematix Institutional Research

**Key risks**

- Change in parentage may impact borrowing costs and leverage.
- Slowdown in housing demand due to inflationary pressure.
- Increasing competitive intensity.

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	7,980	8,162	10,146	12,386	14,255
Other income	121	188	277	397	554
Net Income	8,101	8,350	10,423	12,783	14,810
Operating expenses	1,240	1,530	1,765	2,208	2,646
Preprovision profit	6,861	6,820	8,658	10,575	12,164
Provisions	685	469	418	828	903
Profit before tax	6,176	6,351	8,240	9,747	11,261
Tax	1,615	1,640	2,028	2,399	2,772
Tax rate	26.2	25.8	24.6	24.6	24.6
Reported Profit after tax	4,561	4,711	6,212	7,348	8,490

Source: Company, Systematix Institutional Research

### Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	9.3	7.9	8.9	9.5	9.3
Interest Expense	5.6	4.6	5.6	6.2	6.1
Net Interest Income	3.7	3.3	3.3	3.4	3.2
Other income total	0.1	0.1	0.1	0.1	0.1
Net Income total	3.8	3.3	3.4	3.5	3.3
Operating expenses total	0.6	0.6	0.6	0.6	0.6
Preprovision profit	3.2	2.7	2.8	2.9	2.7
Provisions	0.3	0.2	0.1	0.2	0.2
Profit before tax and exce. items	2.9	2.5	2.7	2.6	2.5
Profit before tax	2.9	2.5	2.7	2.6	2.5
Tax total	0.7	0.7	0.7	0.7	0.6
Profit after tax	2.1	1.9	2.0	2.0	1.9

Source: Company, Systematix Institutional Research

### Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	18.3	2.3	24.3	22.1	15.1
Net Income total	18.0	3.1	24.8	22.6	15.9
Preprovision profit	18.6	-0.6	26.9	22.1	15.0
Profit before tax	19.2	2.8	29.8	18.3	15.5
Profit after tax	21.3	3.3	31.9	18.3	15.5
Loan	6.7	20.5	18.3	23.4	18.2
Disbursement	-21.0	91.1	8.1	20.0	20.0
AUM	6.8	20.8	18.2	18.7	19.1

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	266	266	266	266	266
Reserves	25,832	30,400	36,206	43,002	50,855
Net worth	26,098	30,666	36,473	43,269	51,121
Borrowings	192,929	246,477	290,681	353,715	421,140
Others	1,710	2,300	3,551	10,341	9,326
Total liabilities	220,737	279,443	330,705	407,325	481,586
Cash	215	3,241	3,085	3,661	4,359
Investments	496	11,260	14,590	17,317	20,617
Loans	218,915	263,781	311,933	385,046	455,060
Others	733	816	643	763	908
Total assets	220,737	279,443	330,705	407,325	481,586

### Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	9.5	8.2	9.4	10.1	9.9
cost of borrowings	6.4	5.3	6.3	7.1	7.0
Interest Spread	3.1	2.9	3.1	3.0	2.9
NIM (on AUM)	3.7	3.3	3.5	3.6	3.5
Cost/ Income (%)	15.3	18.3	16.9	17.3	17.9
Credit cost (%)	0.3	0.2	0.1	0.2	0.2
RoA(%)	2.1	1.9	2.0	2.0	1.9
RoE(%)	19.2	16.6	18.5	18.4	18.0
Leverage (x)	9.1	8.8	9.1	9.3	9.4
Tier I (%)	23.7	21.6	21.7	20.9	21.0
CAR (%)	26.0	23.2	23.1	22.1	21.9
Gross NPA (%)	0.9	0.6	0.5	0.7	0.7
Net NPA (%)	0.8	0.4	0.3	0.4	0.3
Provision coverage (%)	16.7	36.1	52.3	48.0	53.0

Source: Company, Systematix Institutional Research

### Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	34.2	35.4	46.6	55.2	63.8
PER (x)	22.7	21.9	16.6	14.1	12.2
Book value (Rs)	196.0	230.3	273.9	324.9	383.9
P/BV (Rs)	4.0	3.4	2.8	2.4	2.0
Adjusted book value (Rs)	183.4	222.1	267.2	314.3	372.6
P/ABV (Rs)	4.2	3.5	2.9	2.5	2.1
P/PPP (x)	15.1	15.2	11.9	9.8	8.5
Dividend yield (%)	0.3	0.4	0.5	0.5	0.6

Source: Company, Systematix Institutional Research

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