



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## APTUS VALUE HOUSING FINANCE

### WHAT WE LIKE

**TAILWINDS, TAILWINDS, TAILWINDS!**

- Low penetration of mortgages (Mortgage to GDP ratio < 11%)
- Govt push (Tax incentives, Infra status, PMAY)
- Favorable demographics
- Urbanization
- Affordable Home Finance loans can be securitized as PSL

### THE BIG DADDY OF HF WILL NOT ENTER THIS SPACE

There are multiple reasons why an HDFC will not come here:

- Small Ticket Size: Less than 15 Lac
- Self-employed Borrowers
- New to Credit Borrowers
- High Touch Segment
- Property is a state Subject
- Not a repeat purchase

An efficient lender like HDFC will find it inefficient to enter this space.

### SCALABLE OPERATING MODEL



### RESILIENT BUSINESS MODEL

	GST Implementation FY 18	NBFC Liquidity Crisis FY 20	Covid-19 (first wave) FY 21	Covid-19 (Second wave) FY 22
AUM growth	66%	41%	28%	27%
Yield	17%	18%	17%	17%
GNPA	0.5%	0.7%	0.7%	1.19% (#)
ROA	6.0%	7.8%	7.4%	8.00%

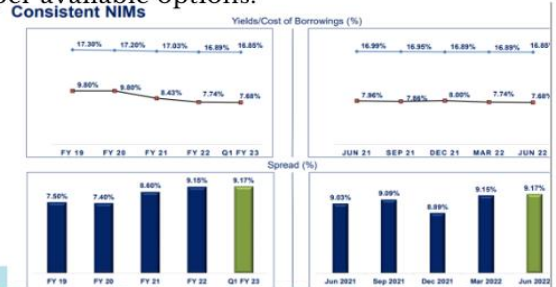
### CONSERVATIVE BALANCE SHEET

- How many listed financial businesses has a debt/equity ratio of less than 1 times?
- Even HDFC Ltd has ~3 times debt/equity ratio.
- Growing at 30% CAGR and keeping leverage so low is a rare combination.
- Even its closest peer, Aavas Financiers is at 3 times D/E.

### WHAT WE DON'T LIKE

**INCREASING SPREAD**

While the cost of funds are going down, Aptus has not passed it on to its borrowers. It helps you in the short term in terms of profitability but may hurt long term performance as customers may switch to cheaper available options.



### LENDING IS A DOUBLE EDGED SWORD

Lending business is the riskiest of all. You would have seen in the last several years from time to time, something external happens that dents the performance of the financial sector. For example, demonetization in 2016, IL&FS crisis in 2018, & Covid-19 in 2020. We at SSS note that Aptus in the past has shown remarkable strength in its business during these tough times, but the risk in the long term still persists.

### LENDING TO VULNERABLE BORROWER PROFILE

Aptus has a big exposure (76% to LIG, 69% in rural) to relatively vulnerable borrowers' profile. These people are more likely to get effected during downturns as they have limited options to absorb sudden shocks. However, the track record of collections and NPA shows that Aptus has done a commendable job of managing these issues well.

### GEOGRAPHICAL CONCENTRATION

State	No of branches	% of AUM as on		
		Q1 FY 23	FY 22	FY 21
TamilNadu	83	47%	48%	52%
AndhraPradesh	74	32%	31%	28%
Telangana	32	13%	12%	10%
Karnataka	21	9%	9%	10%
Odisha	1	0%	0%	-
Total	211	100%	100%	100%

### INCREASING COMPETITION & STRETCHED VALUATION

Aptus, Aavas & HomeFirst are already there in the listed space. Similarly, there are an increasing number of privately held NBFCs. High consistent growth in earnings & book value coupled with maintaining asset quality & containing NPAs to a very reasonable levels have led to stretched valuation of more than 5x price to book. While growth commands some premium, it also means that due to any unforeseen scenario if growth disappoints, expect time or/and price correction.

