AMBIT
Acumen at work

NBFCs

THEMATIC	HOUSING FINANCE	January 16, 2024

Scale looks unaffordable

Affordable HFCs' (AHFCs) focus on informal income customers/tier-2/3 markets yielded AUM CAGR of 32-43% CAGR (FY17-23). However, given small ticket size (₹1-1.2mn) and intensive operations (15 staff/branch), opex ratios are elevated at 2.6-3.8% vs 0.4-0.6% for mid/large HFCs. Opex intensity is due to high manpower requirement through loan life cycle, low approval rates and high competition leading to high employee attrition. We believe sustaining current AUM growth (>20-25%) while improving efficiency/ROE is difficult. Current valuations (18-20x FY26E EPS), implying 10-year AUM CAGR of 20-25%/17-22% ROE, overlook multiple challenges: (i) stagnant employee productivity, (ii) increasing competition and (iii) high attrition. Downgrade Aavas to SELL as industry/company-specific challenges will weigh on growth/ROE (cut FY25/26E EPS by 3%/5%). KMP exit, high attrition and business disruption due to tech implementation raise doubts on long-term execution/scalability; we lower valuation multiple in line with peers.

Niche-play as long as scale is low

Given high cost of operations (distribution + underwriting) for banks, small ticket home loans (₹1-1.2mn) have been the forte of AHFCs. Given deep distribution and extensive manpower, AHFCs' AUM clocked 32-43% CAGR (FY17-23), vs 14% CAGR for systemic home loans, helped by a low base.

Stagnant productivity unlikely to yield growth sustainability, efficiency

A typical sales officer logs in 3-5 files/month; disbursement is lower depending on credit filter. AHFCs invest heavily in branches in expanding up to ₹50-100bn AUM, aiding higher AUM growth. But at a larger scale (₹120-150bn), branch expansion tends to slow down. This, with stagnant employee productivity, impacts AUM growth. So, sustaining >25% YoY AUM growth is unlikely post ₹150bn AUM. Opex of <2.7% is unlikely due to minimum business requirements in low-ticket lending. As AUM growth slows, coupled with competitive pressure on NIM and elevated opex (110-150bps higher than mid/large HFCs), ROE will be capped at 16-17% for most, lower than 18-20% guidance.

Valuations unjustified; overlook scalability challenges

AHFC stocks trade at 2.5-3.7x/18-20x FY26E BVPS/EPS. These valuations factor in AUM CAGR (FY23-33E) of 20-26% YoY and 17-22% ROE. These expectations overlook challenges due to (i) stagnant employee productivity as base grows larger and (ii) rising competition. High attrition is another challenge, impacting near-term prospects. Given risks to sustaining AUM growth and long-term ROE cap of 16-17% (lower than guidance), AHFCs' premium valuations are unjustified. Within AHFCs, we prefer AAVAS<HFFC<APTUS due to higher focus on self-employed/informal customers and deeper distribution.

Aavas – differentiation won't help escape scalability challenges

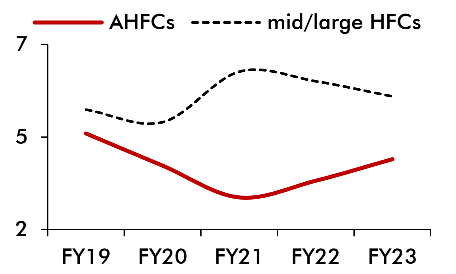
Aavas has faced multiple headwinds over the last 12 months like KMP exit, business impact due to tech implementation and highest attrition. So, AUM growth declined to 22% YoY in 1HFY24 vs 25% YoY in FY23. ROE, at 13.5% (1HFY24), is below peers due to high opex. As anticipated earlier, differentiation in terms of customer/geographies has not translated into higher productivity/AUM growth. Increasing competition, stagnant employee productivity and high attrition will continue to impact growth/efficiency, especially as base grows larger (AUM: ~₹250bn by FY26E). Downgrade Aavas to SELL due to scalability issues.

Key recommendations

Company	Mcap (₹bn)	Ambit Reco.
Aavas Financiers	128	SELL
Aptus Value HF	172	SELL
Home First Finance	85	SELL
Can Fin Homes	102	SELL
LIC Housing Finance	316	BUY

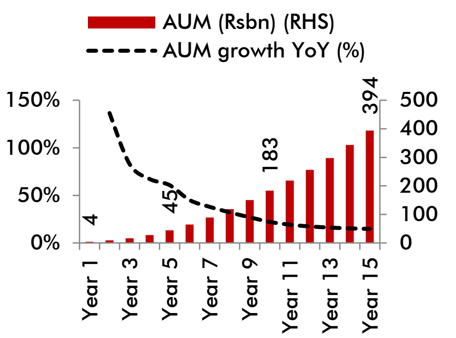
Source: Ambit Capital research, Company

Industry employee productivity is sub-par/stagnant...



Source: Ambit Capital research

...which would weigh on AUM growth as base grows larger and competition rises



Source: Ambit Capital research

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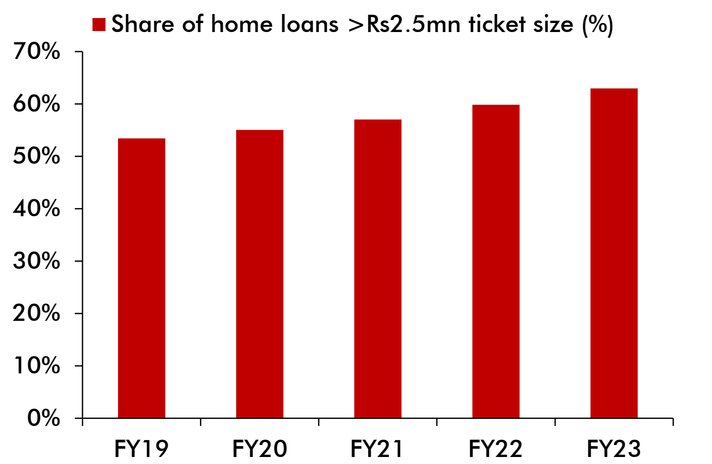
Growth sustainability requires defying productivity norms

AHFCs' AUM has grown at 32-43% CAGR (FY17-23), higher than industry, as they catered to home loan demand from the self-employed/informal income segment in tier-2/3/below markets. For banks, key challenges are credit underwriting and high distribution costs. However, due to operational intensity (heavy investments in branches/employees), opex ratios are higher at 2.6-3.8%. Considering industry's productivity norm of 3-5 log-ins per employee/month, AHFCs face scalability challenges as AUM grows larger. AUM growth of 50-100% YoY is easily achievable up to ₹50bn AUM, but sustaining >20%/>16% YoY AUM growth beyond >₹200/350bn AUM is difficult. Further, opex of <2.7% is unlikely due to minimum business requirements in low-ticket lending. As AUM growth slows down, along with competitive pressure on NIM and elevated opex (110-150bps higher than mid/large HFCs), ROE will be capped at 16-17% for most, lower than 18-20% guidance.

AHFCs have grown ahead of the industry

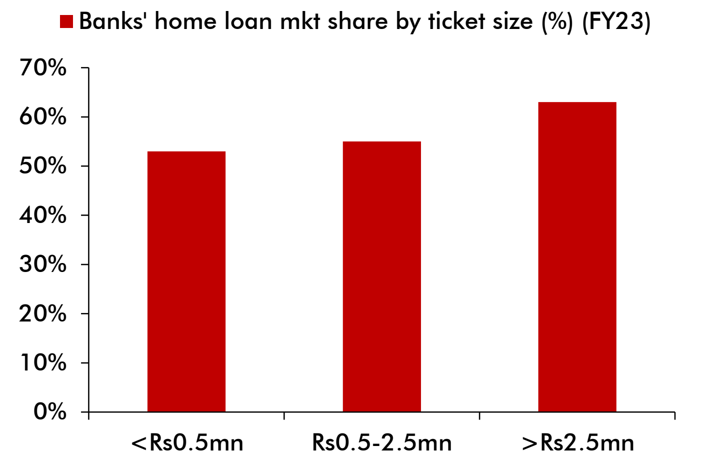
Affordable housing finance has been a difficult market to tap profitably for banks/large HFCs due to low ticket sizes and opportunity scattered across semi-urban/rural markets leading to higher operating expenses. As the target customer operates in the informal sector, underwriting becomes quite challenging. Hence, historically, large ticket size/urban mortgages form a major (~60%) chunk of housing finance business in India.

Exhibit 1: Overall home loan market is dominated by >₹2.5mn ticket size loans...



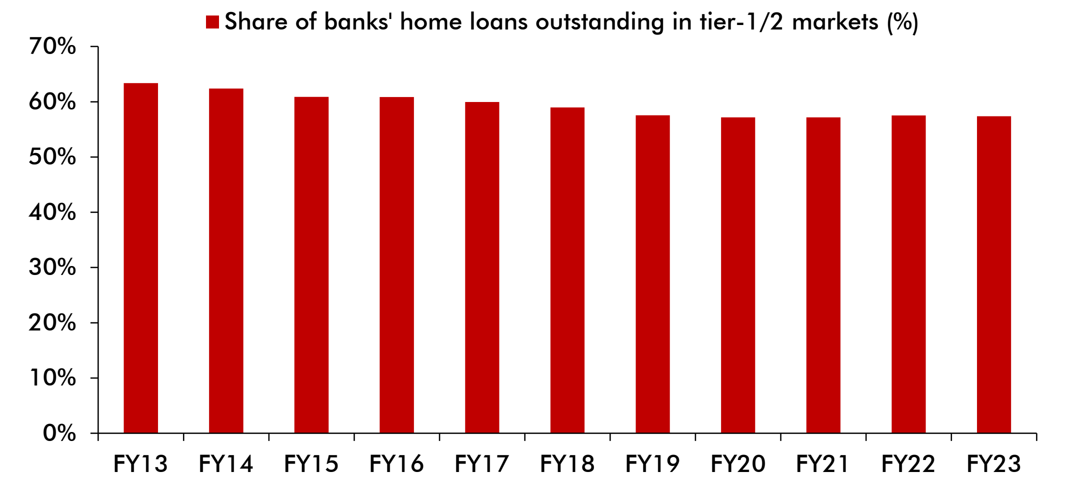
Source: CRIF, CRISIL, Ambit Capital research

Exhibit 2: ...as such larger ticket size loans are easier to underwrite for banks/large HFCs



Source: CRIF, CRISIL, Ambit Capital research

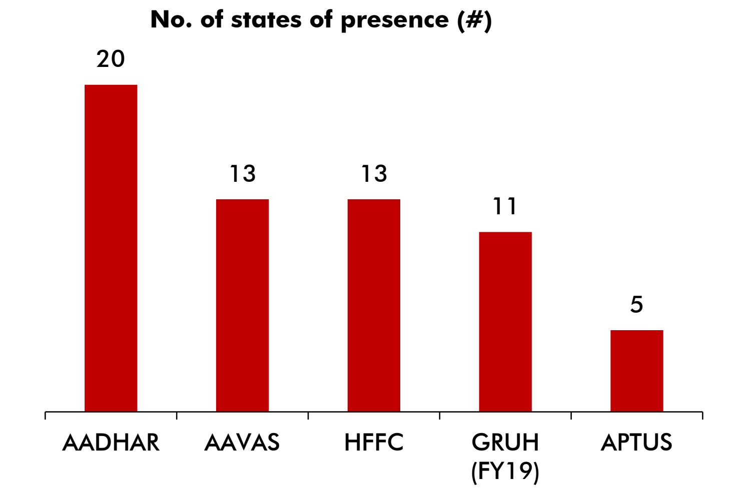
Exhibit 3: Within banks (ex HDFC Ltd), most (53-63%) business comes from tier-1/2 markets



Source: RBI, Ambit Capital research

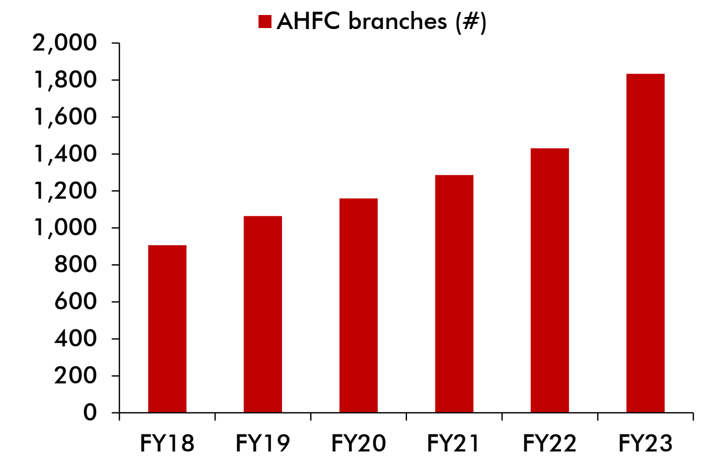
Some regional housing finance companies have tried to bridge the supply gap in the low-ticket/affordable housing finance segment. They have expanded operations in various, developed specialized underwriting (cash flow assessment, 60 occupation profiles) and created separate in-house/branch-based collection teams. For example, aggregate branch network for 8 AHFCs has grown at 15% CAGR in the last 5 years (FY18-23).

Exhibit 4: With the intention of becoming pan-India players, AHFCs diversified outside their home markets



Source: Companies, Ambit Capital research

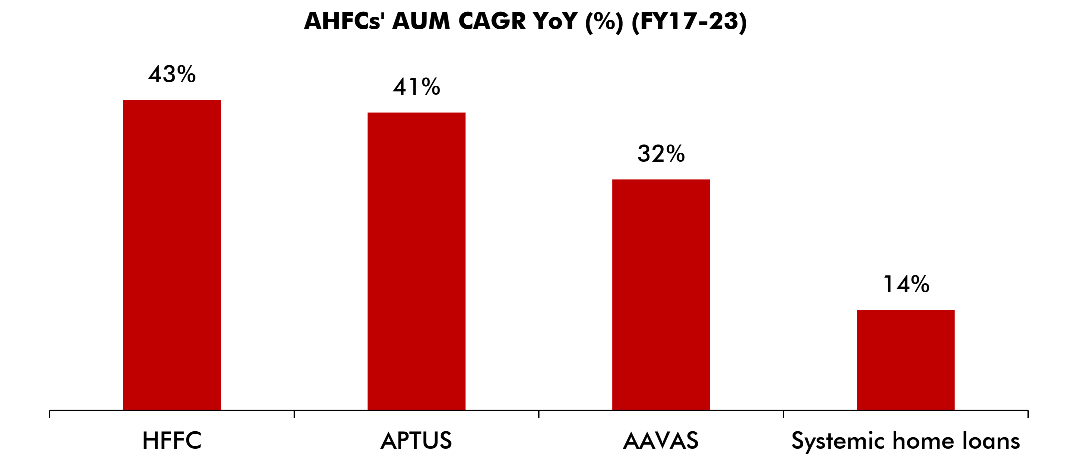
Exhibit 5: Given smaller ticket sizes (<₹1.5mn average), investments required in touchpoints is higher, hence the higher branch count



Source: Companies, Ambit Capital research: Note: Companies considered for branch count are Aavas, Home First, Aptus, Aadhar, Vastu, India Shelter, Shriram HF, Repco.

Given the investments undertaken in branch distribution, specialized underwriting and collections, AHFCs (under coverage) have been able to deliver 32-43% AUM CAGR vs ~14% CAGR in overall home loans during FY17-23.

Exhibit 6: Given the un/under-served market segments in affordable home loans, AHFCs have grown at a higher rate, also supported by a low base

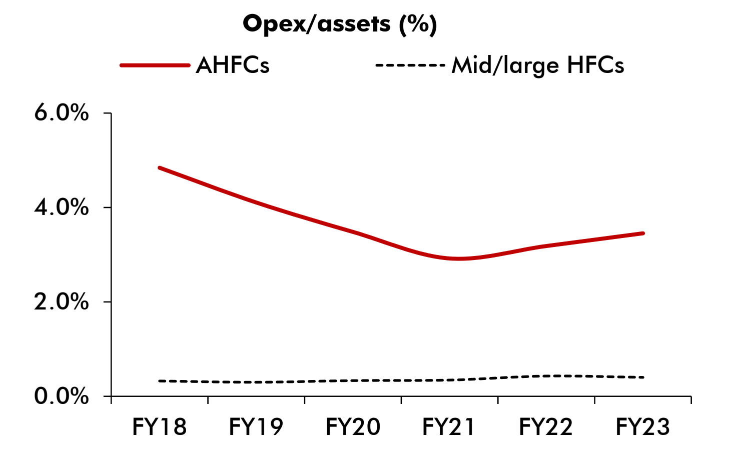


Source: RBI, NHB, Companies, Ambit Capital research

…but growth is coming at high cost

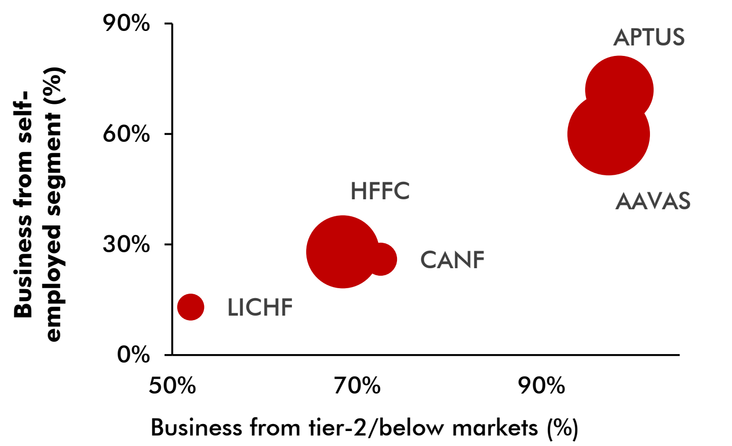
High investments in branches/manpower, to produce growth, have led to high opex ratios. Coverage AHFCs operate at opex ratio of 2.6-3.8%. This is substantially higher than 0.4-0.6% for mid/large HFCs like CANF/LICHF.

Exhibit 7: High opex ratios are a direct outcome of higher branch/manpower investments along with smaller ticket sizes…



Source: Companies, Ambit Capital research

Exhibit 8: …while mid/large HFCs, which focus on safer customer segment (documented income) and outsource sales, tend to have lower opex



Source: Companies, Ambit Capital research. Note: Size of the bubble indicates opex/assets ratio.

Key reasons for AHFCs' higher opex:

- In lower ticket size/affordable housing finance (₹0.9-1.2mn), opex incurred is higher to create a given level of AUM compared to a mid/large HFC (₹2.5-5mn).
- AHFCs' operations (sourcing, underwriting, collections) are manpower intensive. Due to informal income/lack of documentation to support creditworthiness, an officer spends half to one day at the customer's workplace to assess daily cashflow by counting customer footfall/checking raw material invoices. The officer also visits the neighbourhood of the prospective customer's residence/workplace for third-party reference checks. Further, higher share of direct sourcing for AHFCs vs mid/large-size HFCs requires higher manpower.
- AHFCs tend to keep function-specific employees. Typically, employees for sales, credit and collections are distinct from each other.

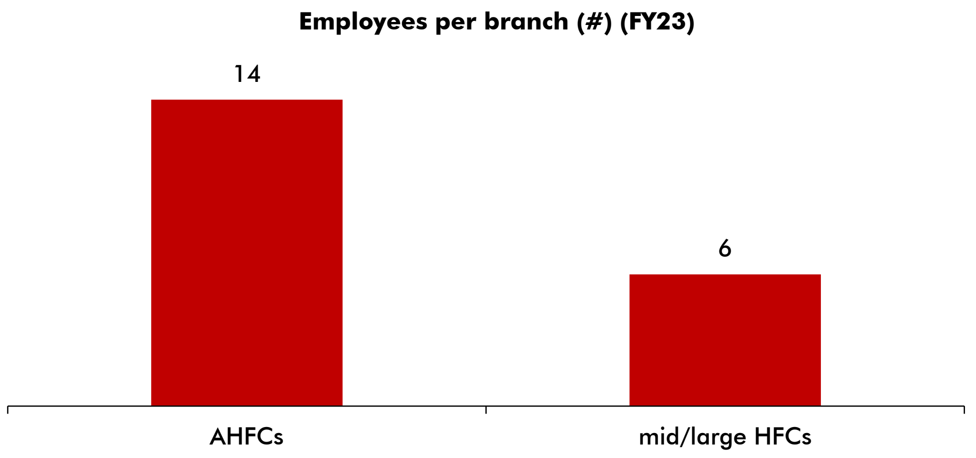
Exhibit 9: The operating characteristics of AHFCs include in-house functions, informal income assessment, lower ticket size, all of which are not adequately serviced by banks but are time/effort consuming at the same time, resulting in high opex ratio

Description	AHFCs	Mid/large HFCs
Targeted customer profile	Self-employed with undocumented/informal income proofs, cash salaried	Salaried/self-employed with documented income proofs
Average ticket size (₹ mn)	0.9-1.2	2.5-5mn
Borrower income/credit assessment	Subjective cashflow assessment (checking raw material invoices, estimating daily/weekly customer footfalls/sales), market intelligence, personal discussions	Credit assessment is based completely on documented income proofs like salary slips, ITR documents.
Targeted geographies	Majority of branches located in tier-3/below locations. In tier-1, markets, AHFCs focus on peripheries and certain properties which are not financed by banks.	Tier-1 markets which are highly urbanised, inhabited by formally employed customers.
Product preference	Home loans; majorly self-construction/individual houses.	Home loans, LAP, developer loans
Functions:		
- Lead generation/ Sales/origination	In-house	Outsourced (DSAs mostly)
- Underwriting	In-house	In-house
- Valuation/technical/legal	Outsourced	Outsourced
- Collections	In-house	Hybrid

Source: Company, Ambit Capital research

Hence, AHFCs' manpower requirements are 2x of large HFCs, adding to overall opex intensity. For AHFCs, employees per branch is 9-17 compared to 5-8 for matured/larger HFCs.

Exhibit 10: Along with smaller ticket sizes, keeping separate responsibilities for sales, underwriting and collections has led to higher investments in manpower/manpower requirement per branch



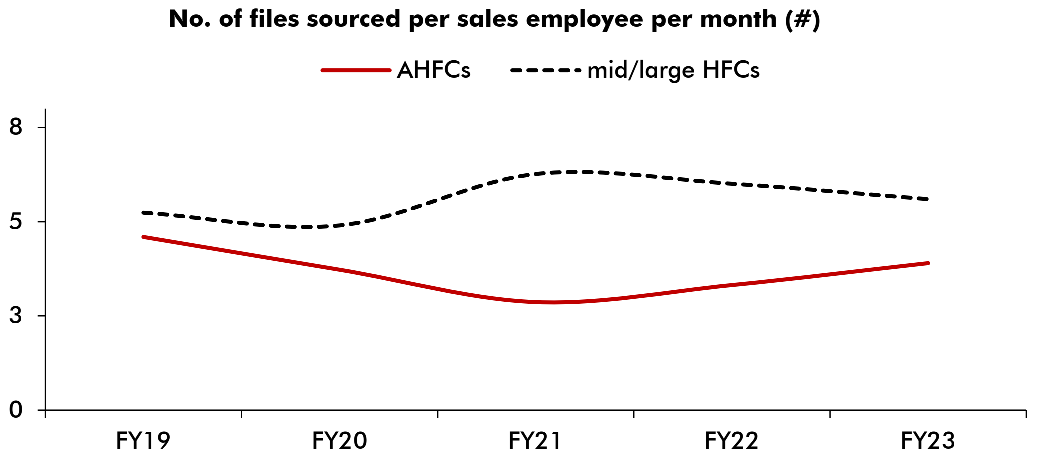
Source: Company, Ambit Capital research. Note: AHFCs = AAVAS, HFFC, APTUS; mid/large HFCs = CANF, LICHF.

Opex ratio is unlikely to decline meaningfully

Typical sales officer productivity is stagnant; underwhelming at scale

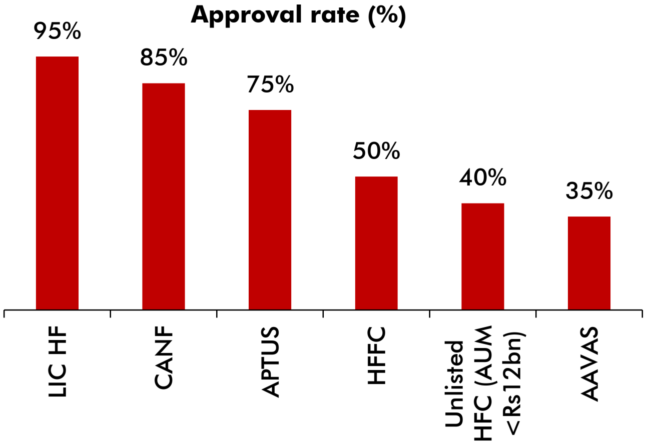
Given smaller ticket size, higher volumes per branch and per employee is critical for high operational efficiency/low opex ratio. Our analysis/industry interactions indicate that on average a sales officer sources 3-5 loans/month. Due to subprime nature of customer, approval rates are low (35-75%) for affordable HFCs. Actual disbursal is only 1-3 files/employee/month leading to low employee productivity and higher opex/assets ratio (3-4%). On other hand, LICHF operates in large ticket size prime loans and outsources sales to DSAs/LIC agents (63% of business). This results in ~8 log-ins/employee/month. With low rejection rate of ~5% (due to prime nature of customer), LIC HF is able to disburse 7-8 files/employee/month resulting in low opex of ~0.4%.

Exhibit 11: A typical sales officer sourcing/log-in productivity maximizes at 3-5 files/month. LIC HF leads on productivity metrics due to most competitively priced product and outsourced sales



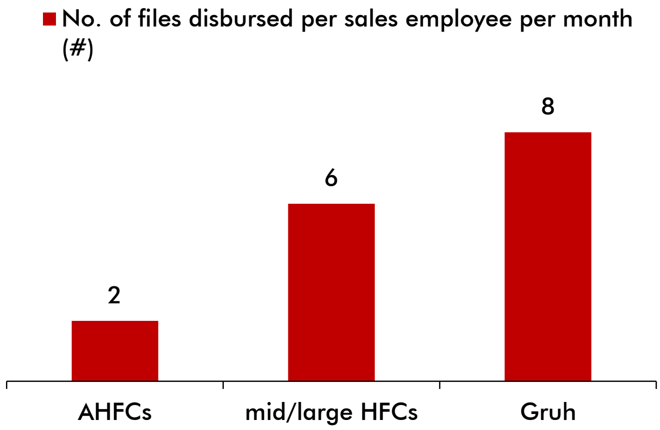
Source: Companies, Ambit Capital research. Note: No. of files sourced = Total files sourced per month divided by total number of sales employees. Percentage of sales employees is taken from various company disclosures (transcripts, annual reports, RHP). No. of files sourced/logged in is estimated based on no. of files disbursed divided by log-in approval rate. Approval rate for each company is based on company disclosures. Companies considered are AAVAS, HFFC, APTUS, LIC HF, CANF.

Exhibit 12: Approval/rejection rates depend on a company's risk appetite/credit filters...



Source: Companies, Ambit Capital research

Exhibit 13: ...in cases as Aavas, high rejection rate dents disbursements/productivity and thus weighs on opex



Source: Companies, Ambit Capital research. Companies considered are AAVAS, HFFC, APTUS, LIC HF, CANF.

On growing scale, stagnant employee productivity impacts growth

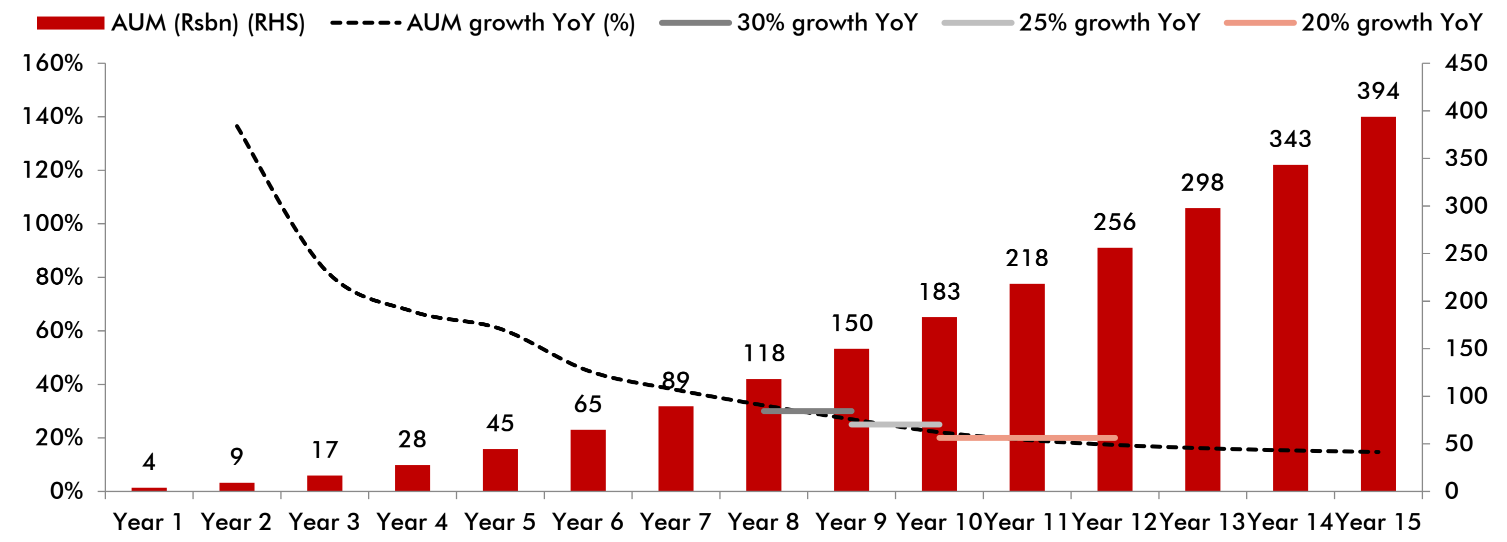
We estimate that AUM growth rates of 50-100% YoY are a relatively easy outcome up to ₹50bn AUM. This is aided by high rate of investments in branches and manpower on a smaller base. On a higher base, slowing branch growth weighs on AUM growth despite maximizing employee productivity (3-5 log-ins/month). As AUM reaches ₹200bn, growth rates are likely to dip to <20% YoY; 15-16% YoY at ₹350bn. Further, we estimate that the minimum opex/AUM for an AHFC is 2.5-3%; unlikely to be lower.

Exhibit 14: Our model branch construct shows that unless employee productivity improves, AUM growth rates tend to decline sharply as scale grows larger

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
No. of branches (#)	20	30	45	68	101	127	158	190	218	240	264	291	320	352	387
Growth (%)		*50%*	*50%*	*50%*	*50%*	*25%*	*25%*	*20%*	*15%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
No. of sales employees/branch (#)	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
No. of files sourced/month/employee (#)	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
No. of files sourced/annum/employee (#)	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Approval rate (%)	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
No. of files disbursed/annum/employee (#)	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Total no. of files disbursed/annum (#)	3,840	5,760	8,640	12,960	19,440	24,300	30,375	36,450	41,918	46,109	50,720	55,792	61,371	67,509	74,259
Average ticket size (ATS) (₹ mn)	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.5
Growth in ATS (%)		*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Value of loans disbursed (₹ mn)	3,840	5,933	9,166	14,162	21,880	28,170	36,269	44,829	53,100	60,162	68,164	77,229	87,501	99,139	112,324
Repayment rate (%)	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
AUM (₹ bn) (RHS)	4	9	17	28	45	65	89	118	150	183	218	256	298	343	394
AUM growth YoY (%)		*137%*	*83%*	*67%*	*61%*	*45%*	*38%*	*32%*	*27%*	*22%*	*19%*	*17%*	*16%*	*15%*	*15%*

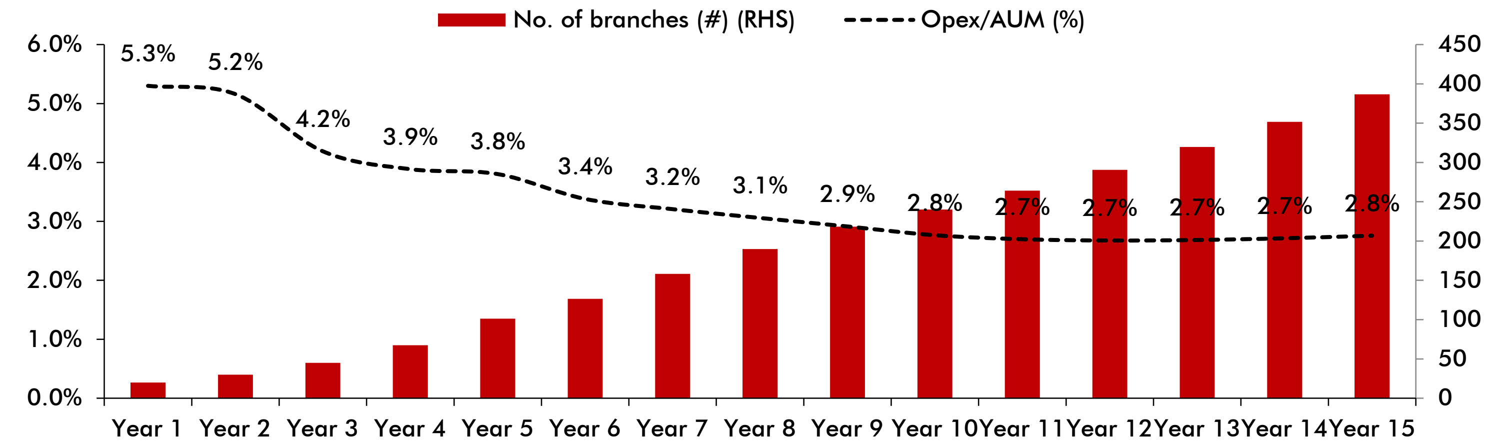
Source: Ambit Capital estimates, Ambit Capital research. Note: Our assumptions regarding branch expansion rate, no. of sales employees/branch, log-in productivity, approval rate, average ticket size, repayment rate are based on historical trends observed for various affordable HFCs.

Exhibit 15: Model branch indicates various scenarios of growth slow down as scale increases: (i) <30% YoY at ₹120-150bn, (ii) <25% YoY at ₹150-180bn and (iii) <20% YoY at ₹180-210bn



Source: Ambit Capital estimates, Ambit Capital research.

Exhibit 16: To sustain 15% YoY AUM growth, AHFCs need to incur 2.7% opex/AUM; higher growth run-rate would require higher investments in branches and employees, leading to higher opex



Source: Ambit Capital estimates, Ambit Capital research.

At a later stage (years 10-15), higher branch opening than usual can fetch higher growth but comes with higher opex/assets. For example, if an AHFC decides to expand branch network at a higher rate of 20% (scenario 2), it would also lead to higher opex/assets of 3.1% (40bps higher than in case of 10% CAGR in branches). Note that foraying into higher ticket size segment would attract competition, which would be negative for NIMs.

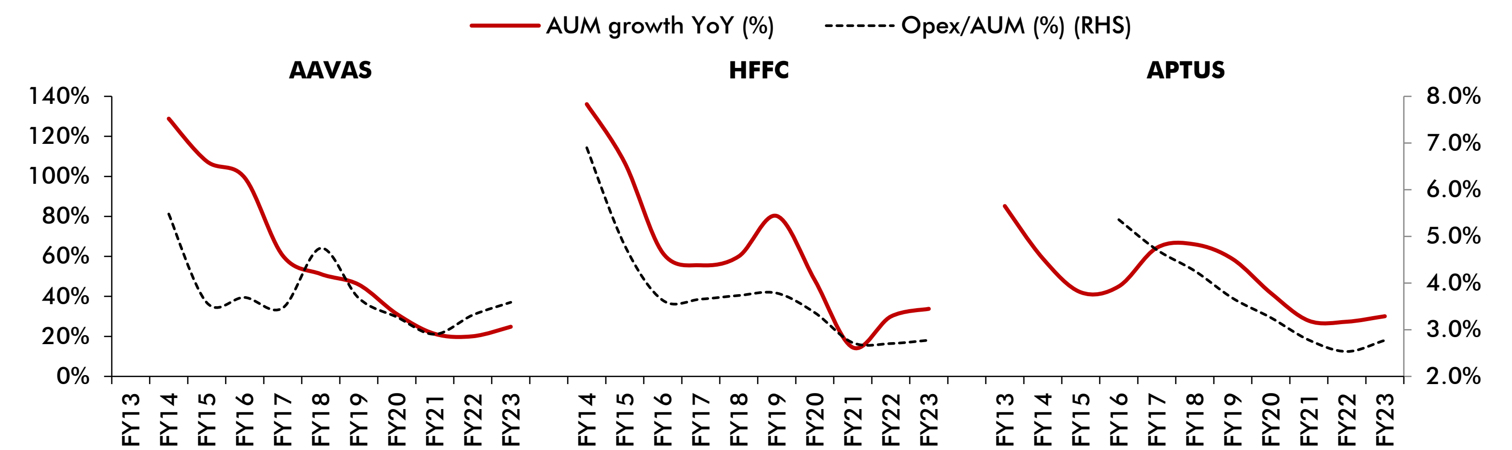
Exhibit 17: Scenario analysis indicates that in order to sustain growth rates at higher levels, AHFCs will need to incur higher opex, which impacts profitability

Particulars	Scenario 1	Scenario 2	Scenario 3
Branches CAGR (%) (year 10-15)	10%	20%	5%
AUM growth CAGR (%) (year 10-15)	17%	24%	13%
Average opex/AUM (%) (year 10-15)	2.7%	3.1%	2.5%

Source: Ambit Capital estimates, Ambit Capital research.

Coverage AHFCs saw similar trends over the years. Initially, coverage AHFCs saw growth rates of >100% YoY (on a small base). However, with increasing base, growth rates declined to 30-35% YoY since achieving AUM of ₹50bn. For instance, post ₹100bn AUM, Aavas' growth rate declined further to <25% YoY. Currently, at ~₹150bn AUM, Aavas' AUM growth run-rate is 22% YoY.

Exhibit 18: Traditional AHFCs have seen growth rates taper over time as scale increased; barring AAVAS, opex for HFFC/APTUS has likely settled at the minimum required run-rate

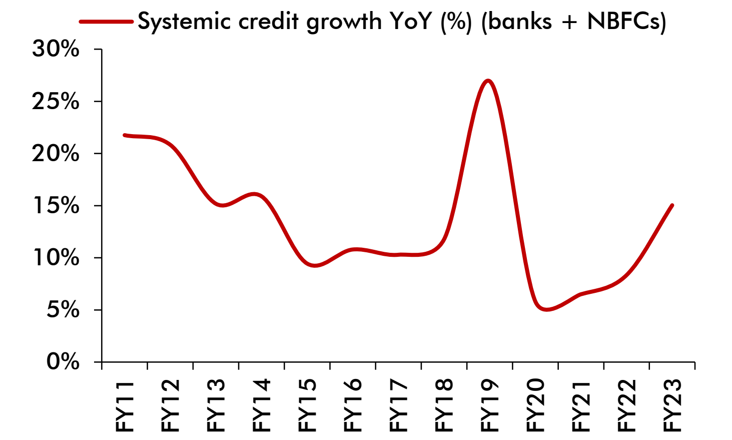


Source: Companies, Ambit Capital research

Employee attrition to remain high, adversely impacting productivity

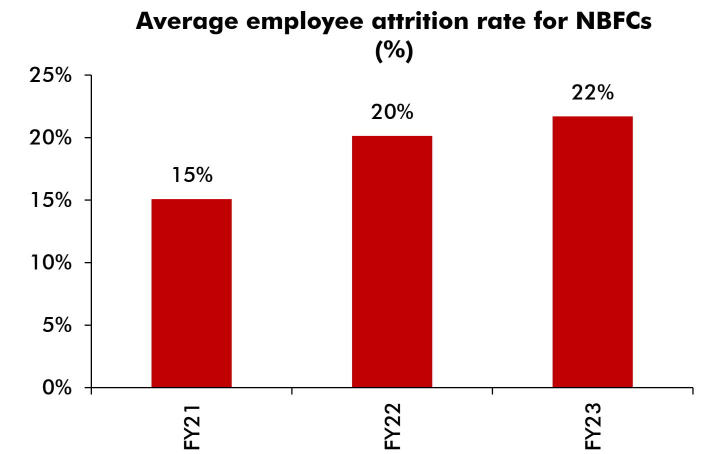
In recent years, NBFCs faced high employee attrition (20-50%; higher for smaller companies). In post-Covid credit growth bounceback (especially retail), demand for sales talent has been high. AHFCs too have been impacted as affordable housing finance is a highly sought after sector (long tenor, high margins/ROAs). Their attrition rates increased from 24% in FY21 to 37% in FY23. Ground checks/management interactions indicate that a typical AHFC sales officer takes about 3 months to get trained and become productive. Due to high average attrition rate of ~37% (FY23), workforce is only 50-60% productive, resulting in higher opex/assets. For a larger HFC, like LIC HF, lower attrition (3%) and outsourced sales contribute to higher productivity and thus lower opex/assets.

Exhibit 19: After Covid (FY21/22) run-rate of 7-8% YoY, credit growth recovered to 15% YoY in FY23...



Source: RBI, Ambit Capital research

Exhibit 20: ...thus increasing demand for sales talent and higher attrition



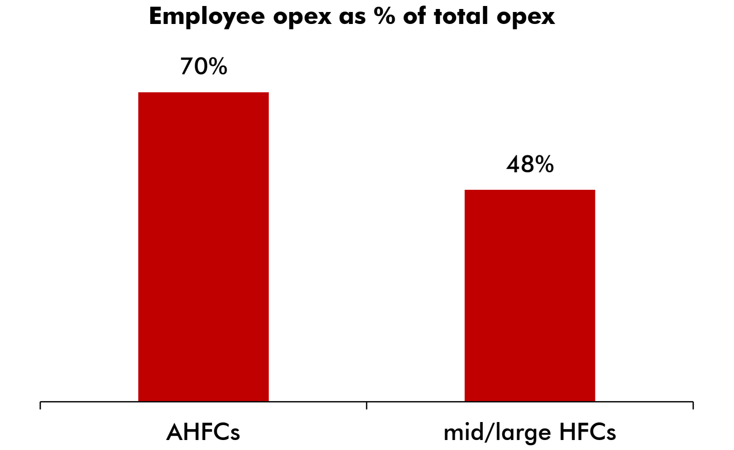
Source: Company, Ambit Capital research. Note: Companies considered for calculating average employee attrition rate are AAVAS, HFFC, APTUS, CANFIN, HDFC Ltd, LIC HF, BAF, CIFC, SHFL, MMFS.

Exhibit 21: TeamLease, one of the leading staffing/HR companies in India, says that BFSI has been a top sector in terms of hiring in recent times with higher focus on sales profile

4QFY23 earnings call	"In terms of absolute growth in associate base, our top 2 segments would be financial services and consumables, followed closely by telecom. Consumables and banking finance has registered a growth of over 20% and 18%, respectively, over the last year.
2QFY24 earnings call	...the largest expansion, which is taking place is with respect to sales profiles as far as banking finance is concerned. So these are individual sales folks selling asset and liability products. So that is one large area of expansion. We are expecting that to sustain over the next several quarters."

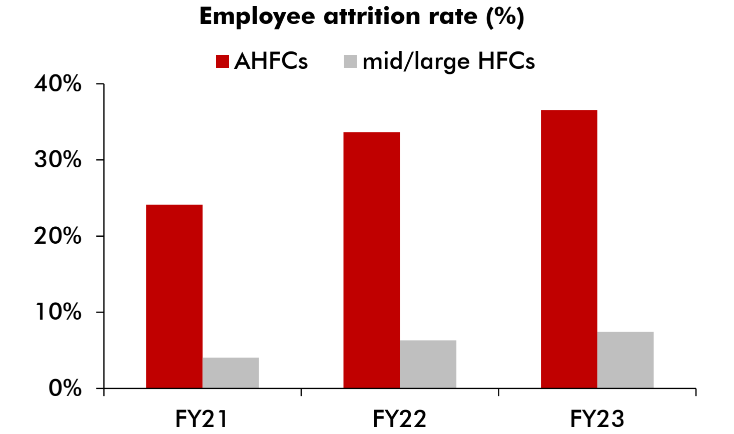
Source: Company, Ambit Capital research

Exhibit 22: AHFCs, being small ticket retail lending play, are highly dependent on on-ground manpower for producing growth



Source: Companies, Ambit Capital research

Exhibit 23: With home finance being one of the most sought after sectors by lenders, given attractive product economics, best of AHFCs have seen high churn in frontline talent



Source: Companies, Ambit Capital research

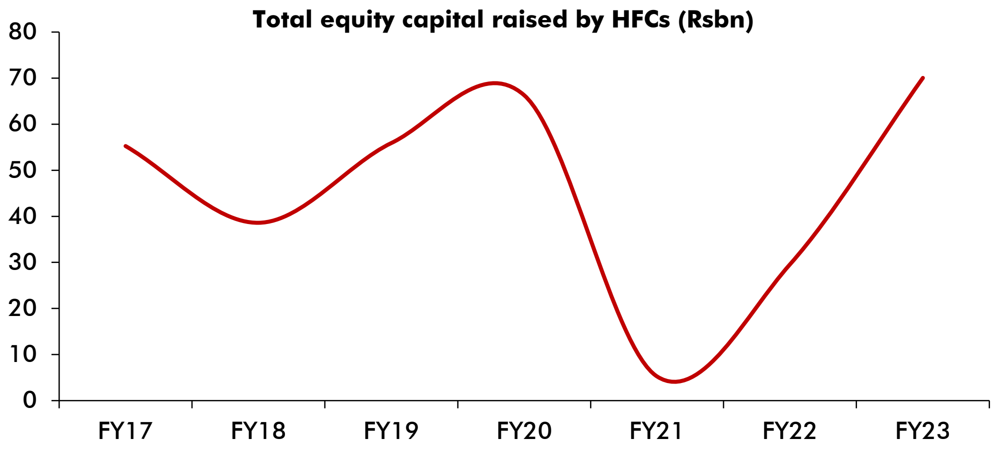
Exhibit 24: Hiring in housing finance more intense than other loan product categories

Comments	
"...some segments like broking and distribution, and **housing finance facing higher talent exits in the range of 50-70%**, industry executives said… Experts attributed this high exit rates to lower frontline wages compared to other industry sectors…"	Industry executive (Economic Times)
"We are **aggressively hiring in housing finance** led by increased demand for affordable housing"	Niren Srivastava, CHRO, Motilal Oswal
"Hiring trends in India have been on an upswing since the beginning of the new financial year. This was particularly true for sectors like Real Estate, BFSI and Oil & Gas and in emerging tier 2 cities"	Ruhie Pande, CHRO, Godrej Capital
A small HFC (AUM: <7bn) has poached entire team of a prominent, large AHFC in UP.	Branch head, large AHFC (AUM: ₹172bn)
A large NBFC (AUM: ~₹1.2tn), which is building out its home loans business, is hiring aggressively pan-India.	Credit operations manager, large NBFC

Source: Ambit Capital research

Checks across north/south India indicate that new entrants/smaller players are targeting the well-experienced frontline staff from larger companies (₹7-15bn in AUM). Recently (FY22/23), several HFCs raised primary equity capital for growth (₹69bn/US$0.8bn in FY23). This indicates elevated competitive intensity in the near future, driving demand for experienced talent. Further, several NBFCs (MFIs, MSME-focused NBFCs), currently catering to bottom-of-the-pyramid customers, intend to enter affordable housing finance over the next 3-5 years. As such NBFCs (CredAG, Fusion, Five Star) are already underwriting micro-LAP loans, replicating similar process for affordable home loans is a high-probability outcome. This would intensify competition further. As a result, we expect high attrition rates to continue, thus impacting employee efficiency.

Exhibit 25: After Covid lull, growth capital inflow into housing finance has rebounded sharply, leading to increased competitive intensity and demand for frontline talent

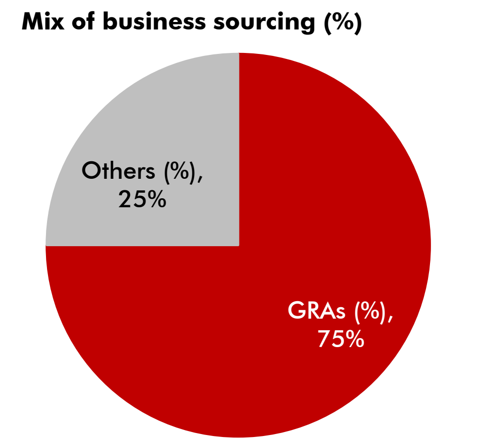


Source: Ace Equity, Ambit Capital research. Note: Companies considered for above analysis: Can Fin, PNB HF, Bajaj HF, Piramal HF, Aditya Birla HF, IIFL HF, Repco HF, Aavas, Sundaram HF, Mahindra Rural HF, Shriram HF, Aptus Value, HFFC, Capri Global HF, Muthoot Homefin, Edewleiss HF/Nido HF, Fullerton/SMFG HF, ICICI Home Finance, Poonawalla HF, Tata Capital HF, Akme Star, Manappuram HF, Aadhar HF, DMI HF, Hinduja HF, India Shelter HF, Svatantra Micro HF, Muthoot HF, SEWA Grih Rin, Shubham HF, SRG HF, Vastu HF, Umeed HF. FY23 includes ₹1.5bn raised by Vridhi Home Finance in Oct'23.

How did Gruh manage productivity?

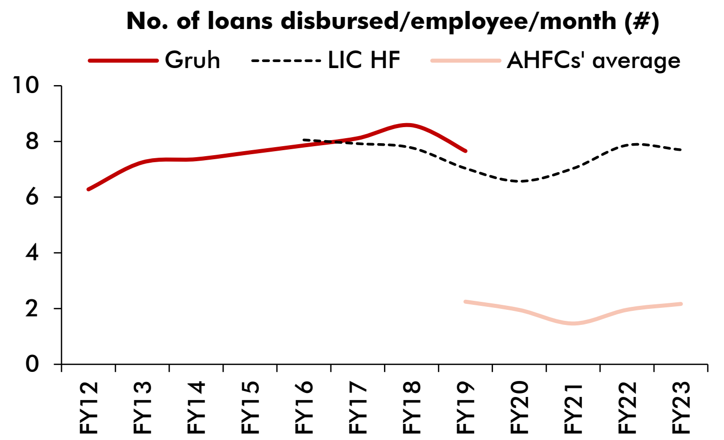
Gruh was the most efficiently run affordable HFC (opex/asset: 0.7%) as it managed employee productivity better. Files disbursed/employee/month were 8 for Gruh, >2x the run-rate for AHFCs today. Gruh's high productivity was due to a single officer handling multiple responsibilities through the loan life cycle. After becoming CEO at Gruh Finance in 1998, one of Sudhin Choksey's primary tasks was to redeploy manpower more efficiently. Across smaller towns, new branches were managed by just two people. For example, the officer who would sanction a loan was also responsible for collection/recovery. Loan approval process was decentralised. Lead generation was outsourced to Gruh Referral Associates (GRAs), who were compensated through referral fees based on the business sourced by them.

Exhibit 26: Having outsourced sales to Gruh Referral Associates, Gruh employees focused mainly on underwriting, which minimized per branch manpower requirements



Source: Company, Ambit Capital research

Exhibit 27: As a result of a highly efficient allocation of employee responsibilities, Gruh was also able to maximize employee productivity



Source: Companies, Ambit Capital research

Among the more efficiently run HFCs today, like Can Fin and LIC HF, outsourced sales function is a common trait. Among the smaller ones (AHFCs), HFFC has delivered highest productivity by outsourcing sales to connectors.

Sub-par productivity unlikely to yield further efficiency; will cap ROE

As mortgages are a highly sought-after product (especially by banks), pricing is very competitive, resulting in low/declining spreads. HDFC made ~2% spreads while LICHF makes the same levels. In case of AHFCs, current spreads are high (5-6%). However, increasing competition over time will lead to lower spreads for AHFCs. Increasing leverage (from 3.5-4x currently to 5-6x) will also impact NIMs. Credit cost for AHFCs is 30-50bps; unlikely to be lower due to riskier customer profile. Hence, the only way to mitigate ROA compression is by improving opex/assets. However, as discussed above, sub-par productivity on increasing scale is unlikely to yield opex of <2.5-3%. In view of slowing AUM growth, declining NIMs and minimum average opex of ~2.7%, we believe long-term ROE is capped at 16-17%. This is lower than not only AHFCs' own long-term guidance of 18-20% but also lower than average of 25-30%/18% for Gruh/Can Fin. LIC HF, despite operating in the most competitive mortgage segment, earned average ROE of ~16% (FY13-23).

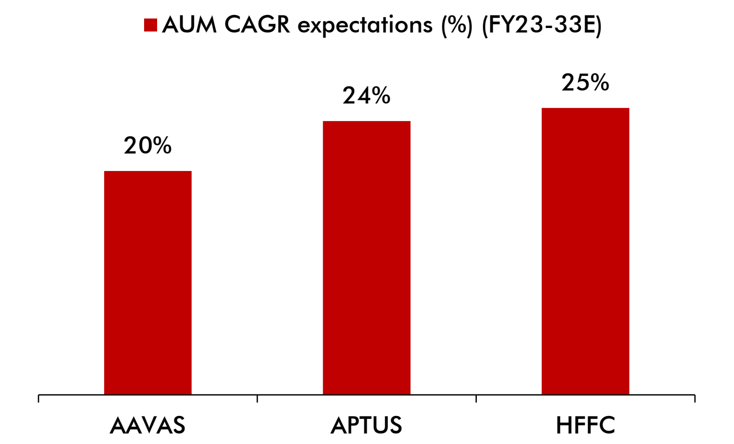
Scalability is being mispriced

AHFCs are trading at 2.5-3.7x/18-20x FY26E BVPS/EPS, implying growth/average ROE expectations of 20-25%/17-22% (FY23-33E). The narrative is their underwriting/distribution strengths will aid high growth in tier-3/below markets along with improving opex/ROE. However, employee productivity of 3-5 log-ins/month (industry norm), a key hurdle to current growth expectations, is being overlooked. With AHFCs reaching AUM of ₹140-250bn by FY26E, sustaining more than 20-25% growth rates would be difficult. Competitive pressure on NIMs and elevated opex (~2.7%) will cap ROE at 16-17% for most. These ROEs are lower than AHFCs' own long-term guidance (18-20%) and 25-30%/18% for Gruh/Can Fin; nearly same as ~16% for LICHF (FY13-23). In view of scalability challenges along with unexciting ROE (relatively), current valuations are not justified.

Un/under-served home loan narrative overlooks productivity challenges

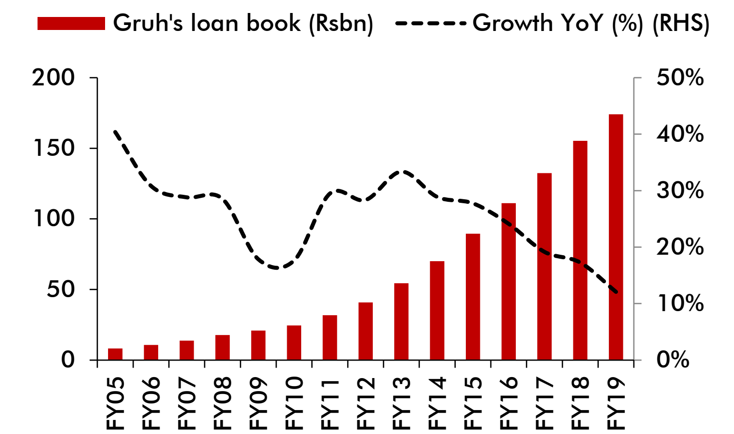
AHFCs trade at 2.5-3.7x/18-20x FY26E BVPS/EPS, implying 20-25% YoY growth expectations (FY23-33E). The narrative is anchored to current growth rates of 20-30% YoY and prospects of home loan demand in tier-3/below markets, where AHFCs specialize. However, growth expectations overlook multiple challenges (stagnant productivity, high competition, employee attrition). Even Gruh, the most efficient AHFC, saw AUM growth slow down to 17-19% YoY in FY17/18 as it reached ₹130-155bn AUM. In view of competitive pressure on yields/spreads and elevated opex (~2.7%: 150-180bps higher than mid/large HFCs), ROE expectations of 17-22% are likely to be disappointed.

Exhibit 28: Current valuations of AHFCs imply 20-25% long-term AUM CAGR, overlooking staff productivity challenges



Source: Companies, Ambit Capital research

Exhibit 29: Even Gruh, the sector bellwether, saw growth rates tapering as it reached a scale of ₹150-170bn



Source: Company, Ambit Capital research

Exhibit 30: With AHFCs reaching ₹140-250bn in the next couple of years, we expect AUM growth to slow down

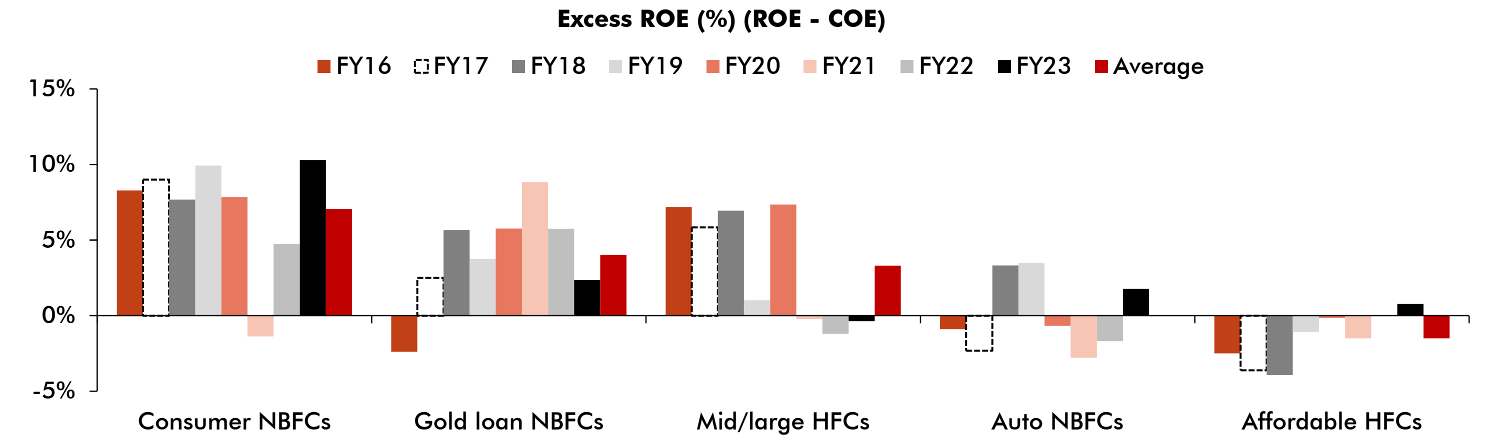
Ambit AUM growth estimates (%)	FY23	FY24E	FY25E	FY26E
AAVAS	25%	22%	21%	20%
APTUS	30%	28%	27%	24%
HFFC	34%	32%	28%	25%

Source: Companies, Ambit Capital research

Inferior excess ROE generation does not justify valuation premium

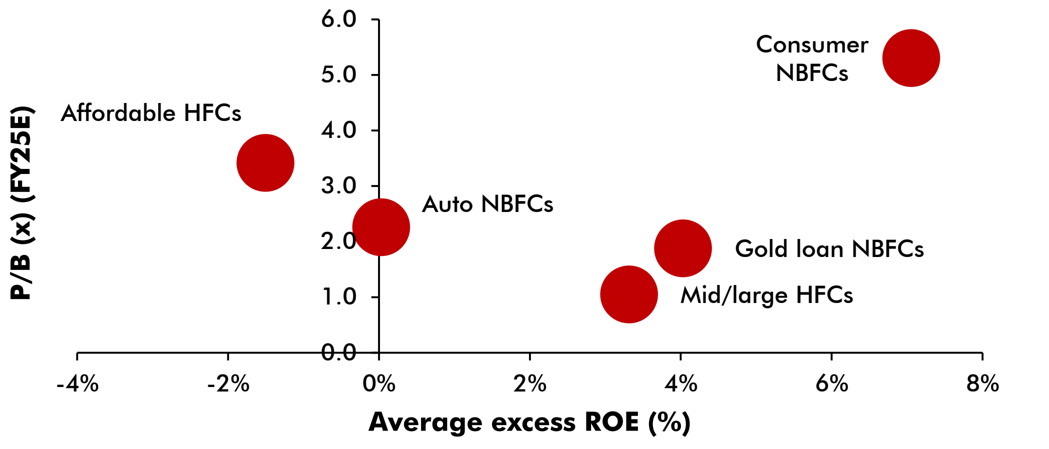
AHFCs (AAVAS/HFFC/APTUS) have an operating history of more than 10 years. Yet, excess ROE for such companies is inferior to other sub-sectors like auto/gold loan NBFCs. Given the lacklustre excess ROE generation over the last several years, AHFCs' premium valuations are not justified.

Exhibit 31: AHFC, as a sector, has demonstrated negative excess ROE vs other NBFC segments, implying lower shareholder value creation



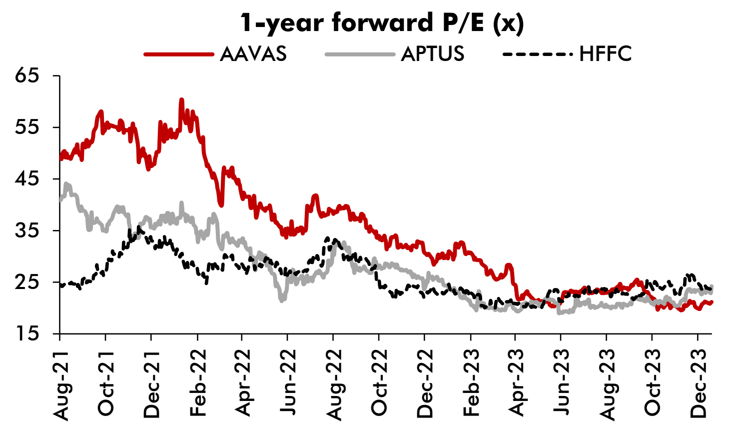
Source: Company, Ambit Capital research. Note: Consumer NBFCs = Bajaj Finance, SBI Cards, Gold loan NBFCs = Muthoot Finance, Manappuram Finance, Mid/large HFCs = HDFC Ltd, LIC HF, Can Fin Homes, Auto NBFCs = Shriram Finance, Cholamandalam Finance, M&M Finance, Affordable HFCs = Aavas Financiers, Home First Finance, Aptus Value Housing Finance. We have assumed cost of equity as follows: 13.8% for auto NBFCs, 14% for affordable HFCs, 13.5% for consumer NBFCs, 13% for mid/large HFCs.

Exhibit 32: Despite the lower/negative excess ROE historically, AHFCs are the second most expensive basket of stocks in the NBFC space



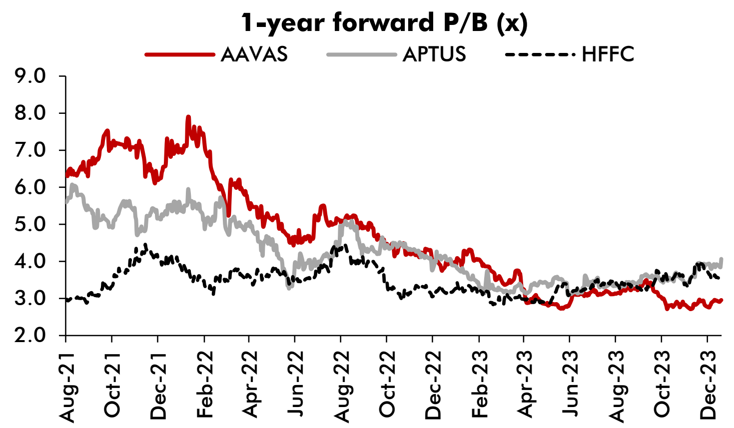
Source: Bloomberg, Companies, Ambit Capital research

Exhibit 33: Over the last 2-3 years, AHFCs' valuations corrected due to increasing interest rate environment



Source: Companies, Ambit Capital research

Exhibit 34: But in recent months, stock valuations started to climb up again on prospects of lower interest rates over next 12-15 months along with high growth sustainability



Source: Companies, Ambit Capital research

Exhibit 35: Earnings revision – Reduce Aavas' EPS estimates due to lower AUM growth; increase for HFFC due to higher NIMs

EPS (₹)	New estimates			Previous estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Aavas Financiers	63	77	92	63	80	96	0%	-3%	-5%
Home First Finance	33	40	50	34	38	47	-3%	6%	5%
Aptus Value Housing Finance	12	14	17	12	14	17	0%	0%	1%

Source: Company, Ambit Capital research

Exhibit 36: Ambit earnings estimates are 2-6% lower than consensus as we build in lower AUM growth

EPS estimates (₹)	Consensus			Ambit			Deviation (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Aavas Financiers	63	79	97	63	77	92	0%	-2%	-6%
Home First Finance	34	42	52	33	40	50	-2%	-3%	-5%
Aptus Value Housing Finance	12	15	18	12	14	17	-2%	-4%	-4%

Source: Bloomberg, Company, Ambit Capital research

Valuation methodology

We have used the excess RoE model to arrive at fair value for AAVAS/HFFC/APTUS. We have assumed average asset growth of 18-22%, average RoE of 16-21%, cost of equity of 14.0% and terminal growth rate of 5%.

Risks to SELL call on affordable HFCs

- Productivity improvement in terms of sales and underwriting due to the technology investments (existing/new). This would lead to higher growth/lower opex than expected.
- Ramping up non-housing loans (LAP/MSME), tapping small developer segment and adding new channels of growth (DSAs) could lead to higher growth.
- Inability of banks to reach deeper markets would mean lower competition, thus aiding growth sustainability/pricing power for AHFCs.

Exhibit 37: Relative valuations

Companies	Ticker	CMP (₹)	Rating	Upside/ (downside) (%)	P/E (x)			P/B (x)			ROE (%)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Auto NBFCs													
Cholamandal Inv	CIFC IN	1,280	SELL	-24	33	26	21	5.4	4.6	3.8	18.8	18.8	19.5
Shriram Fin.	SHFL IN	2,306	BUY	4	10	9	7	1.5	1.3	1.2	15.5	16.4	16.8
M&M Fin.	MMFS IN	284	SELL	-21	19	16	13	1.8	1.7	1.5	10.0	11.0	11.9
HFCs													
LIC Housing Fin.	LICHF IN	574	BUY	13	6	6	5	0.9	0.8	0.7	16.5	15.1	14.4
Aptus Value Hous. Fin.	APTUS IN	345	SELL	-20	29	24	20	4.6	4.2	3.7	17.0	18.1	19.7
Aavas Fin.	AAVAS IN	1,613	SELL	-13	25	21	18	3.4	2.9	2.5	14.2	15.0	15.3
Can Fin Homes	CANF IN	763	SELL	-24	14	12	10	2.3	2.0	1.7	18.2	18.0	17.4
Home First Finance	HOMEFIRS IN	961	SELL	-25	30	24	20	4.1	3.6	3.1	14.9	15.9	16.8
Diversified NBFCs													
Bajaj Fin.	BAF IN	7,528	SELL	-21	34	28	23	6.1	5.2	4.3	21.0	19.9	20.5
Gold loan NBFCs													
Muthoot Fin.	MUTH IN	1,469	BUY	17	14	12	11	2.4	2.1	1.8	18.0	18.6	18.5
NBFC-MFIs													
Fusion Microfin.	FUSION IN	646	BUY	26	11	9	7	2.0	1.7	1.4	19.8	20.7	20.5

Source: Bloomberg, Company, Ambit Capital research

Aavas Financiers (AAVAS, Downgrade to SELL)

We liked Aavas for its differentiated focus on self-employed/informal income customer profile and deep distribution. Our earlier target multiple on Aavas reflected expectations of higher growth longevity (>20%), supported by wide management bandwidth and competitive cost of funds. However, in the last 12 months, there were multiple headwinds: (i) exit of founding CEO, (ii) business disruption due tech implementation and (iii) highest frontline attrition vs peers. As a result, AUM growth declined to 22% YoY in 1HFY24 from 25% YoY in FY23. Opex is elevated at 3.6-3.8%, 80-100bps higher than HFFC/APTUS. Aavas is over-invested in manpower, leading to sourcing/disbursement volume productivity being 16%/60% lower than industry. This will be a key hurdle to growth/ROE. Further, increasing competition and high attrition are further challenges as the base grows larger (FY26E AUM: ~₹250bn). In view of scalability challenges and ~16% ROE cap, we cut TP to ₹1402 (18.2x/2.5x FY25E EPS/BVPS) as we reduce long-term growth/ROE assumptions.

Why were we BUYers?

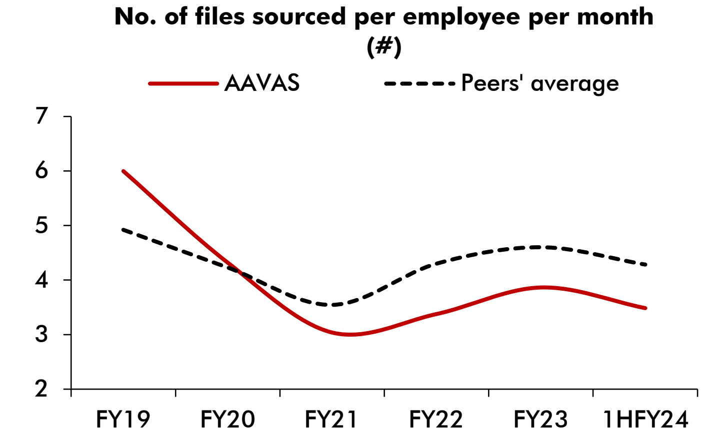
Aavas was our only BUY among AHFCs. Deep distribution (most branches in tier-3/below markets) and self-employed/informal income customer focus (60% of AUM) aids business model differentiation. Lower home loan penetration in tier-3/below markets (2.5% vs 12.8% in tier-1) provides growth tailwinds. Home loans in tier-3/below markets posted 17% CAGR (FY13-23) vs 13% in tier-1. Despite decentralized operations, Aavas' tight credit filters have ensured better asset quality (GNPA: <1% vs 1.2%/1.7% for APTUS/HFFC). A separate collections team is another reason for keeping asset quality pristine. Noting the customer/geographic differentiation, extensive branches/manpower investments and high quality liabilities (one of the lowest CoF levels among AHFCs), we anticipated higher branch throughput/productivity to aid AUM growth/opex efficiency. We were building 23% AUM CAGR and average opex/ROE of 3.4%/15.2% over FY24-26E. Extensive, well-experienced management and valuation discount to peers were other factors driving our BUY stance.

Why are we downgrading to SELL?

Employee productivity issues to weigh on growth and opex

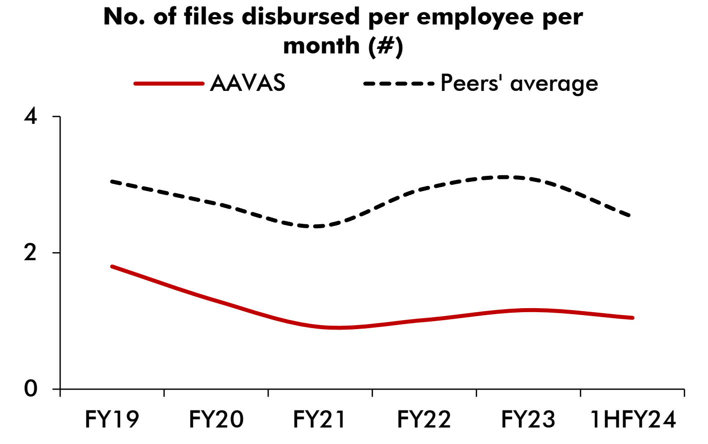
In the last 12 months, Aavas hasn't shown any material improvement in productivity metrics. In view of increasing competition, high employee attrition and par-industry productivity metrics, high opex structure weighed on profitability. Aavas' ROE (1HFY24) is lower at 13.6% vs 15.3%/17% for HFFC/APTUS. As competition is expected to stay high in affordable housing finance, scope for Aavas' productivity improvement seems limited. Having reached AUM of ~150bn in 1HFY24 and ~₹250bn expected by FY26E, 30 new branches annually and 1-2 files disbursements per month per employee won't suffice for >20% growth requirement (large base effect). Over FY24-26E, we expect AUM CAGR at 20% vs 22% over FY20-23. Near 100% decentralization and function-specific/separate verticals has entailed highest manpower requirement (employees/branch: 15-17). This, coupled with recent migration to Salesforce has led to opex/assets of 3.7%, the highest among peers. We expect opex/assets to remain elevated at ~3.5% over FY24-26E.

Exhibit 38: Aavas has underperformed vs industry on employee sourcing productivity



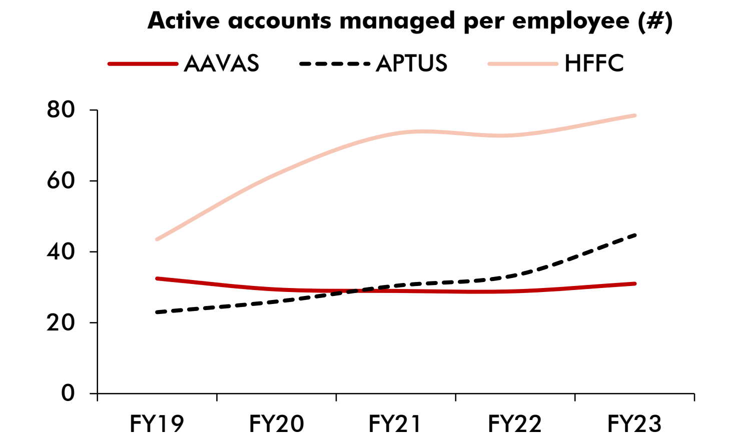
Source: Company, Ambit Capital research. Note: For peers, we have considered HFFC and Aptus Value Housing Finance.

Exhibit 39: Higher rejection rate, due to tight credit metrics, led to far lower business generation per employee



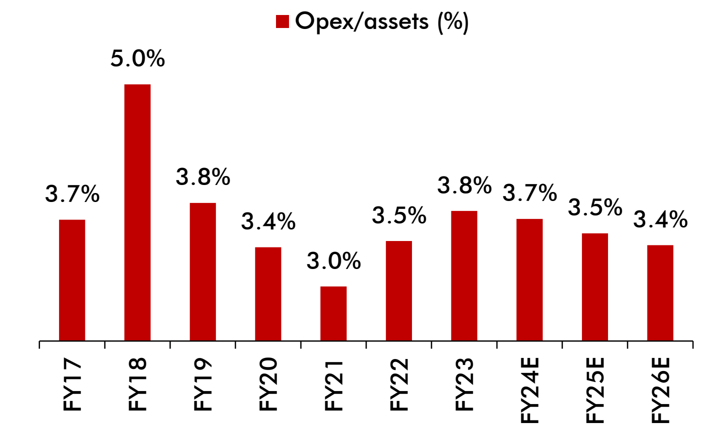
Source: Company, Ambit Capital research. Note: For peers, we have considered HFFC and Aptus Value Housing Finance.

Exhibit 40: Low active accounts managed per employee gives an overall sense of the large base of employees at Aavas, possibly also indicating productivity leakage



Source: Companies, Ambit Capital research

Exhibit 41: Given lower-than-industry productivity metrics, expect Aavas' opex ratio to remain elevated



Source: Companies, Ambit Capital research

Exhibit 42: Having reached a scale of ~₹250bn by FY26E, 30 new branches annual run-rate is unlikely to suffice for a growth sustainability requirement of 20-22%

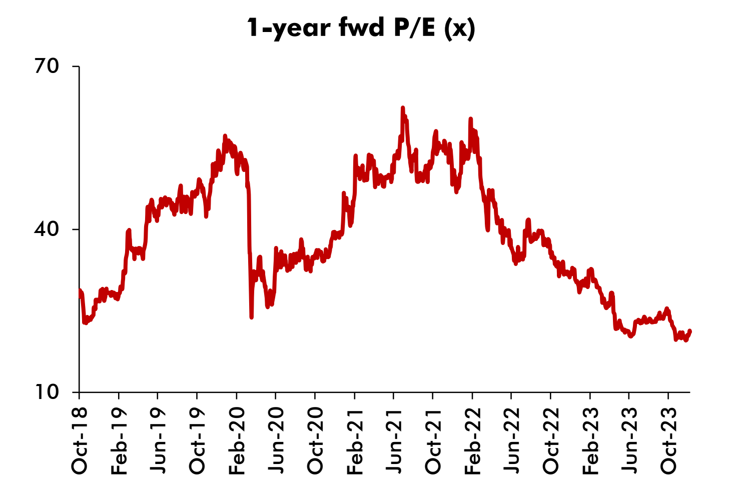
Aavas' productivity model	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
No. of branches (#)	44	94	165	210	250	280	314	346	376	406	436	466	496	526	556
New branches added (#)	2	50	71	45	40	30	34	32	30	30	30	30	30	30	30
Staff/branch (#)	16	10	11	11	14	15	17	17	17	17	17	17	17	17	17
No. of staff (#)	704	940	1,862	2,384	3,564	4,336	5,222	6,034	6,542	7,064	7,586	8,108	8,630	9,152	9,674
Share of sales-only staff (%)	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%
No. of sales staff (#)	401	536	1,061	1,359	2,031	2,472	2,977	3,439	3,729	4,027	4,324	4,622	4,919	5,217	5,514
Sales staff/branch (#)	9	6	6	6	8	9	9	10	10	10	10	10	10	10	10
Files sourced/sales staff (#)	69	82	61	63	47	32	35	41	39	41	43	46	48	50	53
Sourcing productivity improvement (%)	53%	18%	-26%	4%	-25%	-32%	9%	16%	-3%	5%	5%	5%	5%	5%	5%
No. of loans sourced (#)	28	44	64	85	96	80	104	140	147	167	188	211	235	262	291
No. of loans disbursed (#)	10	15	22	30	34	28	37	49	51	58	66	74	82	92	102
Approval rate (%)	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Disbursement ATS (₹ mn)	1.1	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4
Growth (%)	17%	-19%	1%	0%	2%	6%	1%	5%	5%	4%	4%	4%	4%	4%	4%
Behavioural tenor (years)	4	4	4	5	6	8	6	5	6	6	6	6	6	6	6
Total AUM (₹ bn)	17	27	41	59	78	95	114	142	173	209	249	296	349	409	478
Growth (%)	99%	60%	51%	46%	31%	21%	20%	25%	22%	21%	20%	19%	18%	17%	17%

Source: Company, Ambit Capital research

Faltering execution doesn't merit valuation premium

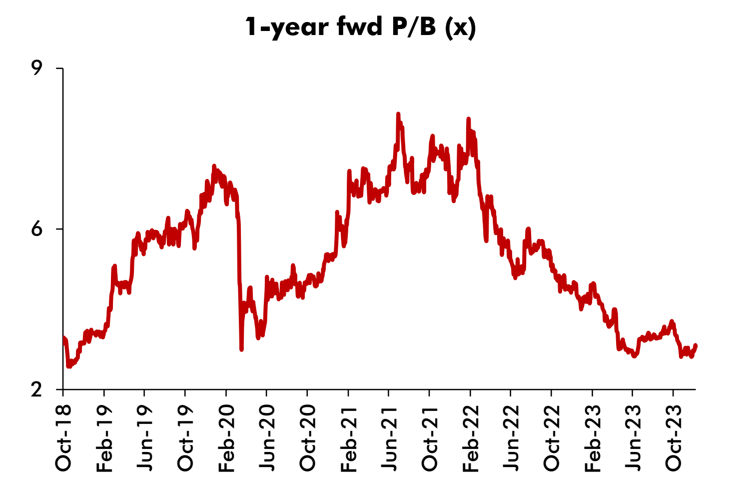
We downgrade AAVAS to SELL and cut TP by 20% to ₹1,402, (13% downside). We cut EPS estimates by 3-5% (FY25-26E) due to lower AUM growth. IT implementation-led business disruption, high frontline attrition (management exits too) and increasing competition raise doubts over execution capabilities. Growth rates declined to 22% YoY in 2QFY24 vs 25% in FY23. As a result, AAVAS now trades at 15-20% discount to HFFC/APTUS vs 25-30% premium earlier. Current valuations (18x/2.5x FY26E EPS/BVPS) imply AUM CAGR/average ROE expectations of 20%/~17% (FY23-33E), which is difficult given sector's scalability/productivity challenges. Valuation implied by revised TP (18.2x/2.5x FY25E EPS/BVPS) is in line with the broader AHFC framework; implies 18%/19% AUM/PAT CAGR and average ROE of 15.6% (FY23-33E). Risks to our call: (i) improving disbursal productivity due to better quality log-ins, translating into higher acceptance rate and (ii) leveraging sales officers for collections, resulting in more efficient use of manpower, leading to lower opex.

Exhibit 43: Aavas was once touted as the new Gruh based on a differentiated business model, led by credible leadership…



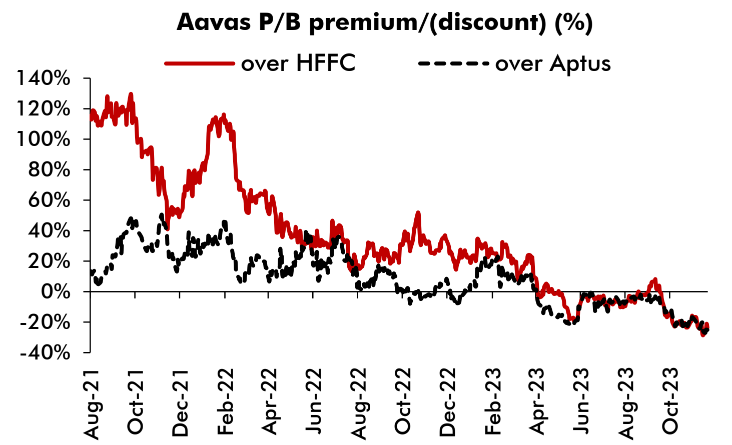
Source: Bloomberg, Company, Ambit Capital research

Exhibit 44: ….but attrition (junior/senior), high opex and decaying of high growth rates led to a de-rating



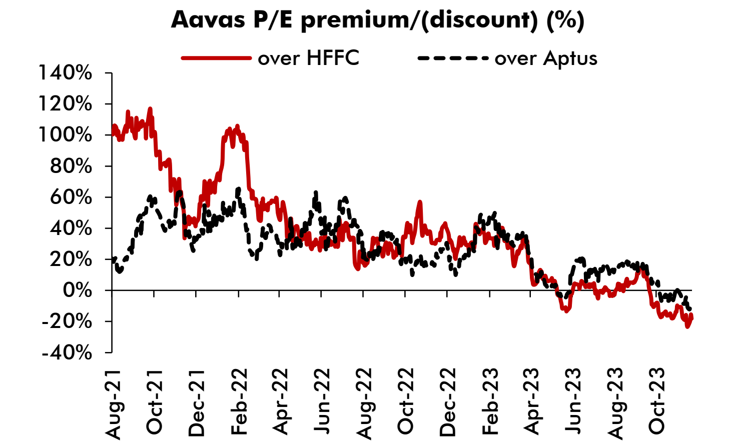
Source: Bloomberg, Company, Ambit Capital research

Exhibit 45: From trading at 25-30% premium to peers…



Source: Bloomberg, Company, Ambit Capital research

Exhibit 46: …Aavas now trades at 15-20% discount as expectations have been set lower



Source: Bloomberg, Company, Ambit Capital research

Exhibit 47: We cut near/medium-term earnings estimates by 3-5% due to lower AUM growth; cut TP by ~20% as increasing competition will pose challenges to long-term execution, that too on a large base

Particulars	New estimates			Old estimates			Change in estimates		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Recommendation		**SELL**			**BUY**				
Target price (₹)		**1,402**			**1,756**			**-20%**	
Assumptions:									
AUM (₹ bn)	173	209	249	176	216	264	-1.7%	-3.5%	-5.5%
YoY assets growth	22.0%	20.7%	19.6%	24.2%	22.9%	22.1%	-2.2%	-2.3%	-2.5%
Net operating income (% of assets)	8.2%	8.1%	8.0%	8.2%	8.1%	8.0%	0.0%	0.0%	0.0%
Opex (% of assets)	3.7%	3.5%	3.4%	3.7%	3.5%	3.4%	0.0%	0.0%	0.0%
Credit cost (%)	0.3%	0.3%	0.4%	0.3%	0.3%	0.4%	0.0%	0.0%	0.0%
Output:									
Net operating income (₹ mn)	12,199	14,664	17,497	12,304	15,149	18,384	-1%	-3%	-5%
Operating profit (₹ mn)	6,716	8,255	10,044	6,719	8,536	10,594	0%	-3%	-5%
Profit after tax (₹ mn)	4,993	6,102	7,237	4,982	6,297	7,613	0%	-3%	-5%
Diluted EPS (₹)	63	77	92	63	80	96	0%	-3%	-5%
BVPS (₹)	477	554	645	477	556	653	0%	0%	-1%
RoAA	3.3%	3.4%	3.3%	3.3%	3.4%	3.3%	0.0%	0.0%	0.0%
RoE	14.2%	15.0%	15.3%	14.2%	15.4%	15.9%	0.0%	-0.4%	-0.7%

Source: Company, Ambit Capital research

Exhibit 48: Our new earnings estimates are 2-6% lower than consensus primarily on account of lower AUM growth

Particulars	Actual	Consensus estimates			Ambit estimates			Deviation (%)		
	FY23	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net operating income	10,191	12,243	14,980	17,798	12,199	14,664	17,497	0%	-2%	-2%
Net revenue/assets (%)	8.4%	8.1%	8.0%	7.8%	8.2%	8.1%	8.0%	5bps	9bps	23bps
PAT	4,301	4,982	6,211	7,660	4,993	6,102	7,237	0%	-2%	-6%
Assets	134,105	166,922	207,235	248,718	164,162	198,232	237,150	-2%	-4%	-5%
Growth (%)	*22%*	*24%*	*24%*	*20%*	*22%*	*21%*	*20%*	-206bps	-340bps	-38bps
EPS (₹)	54	63	79	97	63	77	92	0%	-2%	-6%
BVPS (₹)	414	477	554	653	477	554	645	0%	0%	-1%
ROA (%)	3.5%	3.3%	3.3%	3.4%	3.3%	3.4%	3.3%	4bps	5bps	-4bps
ROE (%)	14.2%	14.1%	15.1%	15.8%	14.2%	15.0%	15.3%	9bps	-12bps	-54bps

Source: Bloomberg, Company, Ambit Capital research

Aavas Financiers - Financials - Standalone

Income statement

Particulars (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	**7,696**	**9,490**	**11,098**	**13,329**	**15,894**
Non-interest Income	528	701	1,101	1,335	1,603
Total Income	**8,223**	**10,191**	**12,199**	**14,664**	**17,497**
Total opex	3,449	4,577	5,483	6,409	7,453
Pre provision profit	**4,775**	**5,614**	**6,716**	**8,255**	**10,044**
Provisions	226	124	339	461	802
Profit before tax	**4,549**	**5,490**	**6,377**	**7,793**	**9,242**
Tax	981	1,189	1,384	1,691	2,006
PAT	**3,568**	**4,301**	**4,993**	**6,102**	**7,237**

Source: Ambit Capital research, Company

Balance sheet

Particulars (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Net worth	28,086	32,697	37,690	43,792	51,029
Borrowings	79,725	98,407	122,517	149,470	180,112
Total liabilities	**109,840**	**134,105**	**164,162**	**198,232**	**237,150**
Loans (on-book)	90,534	114,763	139,986	168,806	201,749
Cash & investments	15,977	15,047	18,990	23,168	27,917
Other assets	3,328	4,295	5,186	6,258	7,483
Total assets	**109,840**	**134,105**	**164,162**	**198,232**	**237,150**
AUM	**113,502**	**141,667**	**172,871**	**208,606**	**249,442**

Source: Ambit Capital research, Company

Key Ratios

Particulars (%)	FY22	FY23	FY24E	FY25E	FY26E
AUM growth (%)	20	25	22	21	20
Disbursements growth (%)	36	39	13	18	17
EPS growth (%)	22.6	20.4	16.1	22.2	18.6
Net interest margin (NIM) (%)	7.4	7.4	7.1	7.0	6.9
Cost to income (%)	41.9	44.9	44.9	43.7	42.6
Opex (% of AAUM)	3.3	3.6	3.5	3.4	3.3
Gross NPAs (%)	1.0	0.9	1.0	1.0	1.0
Credit costs (% of AAUM)	0.3	0.1	0.3	0.3	0.4
Provision Coverage (%)	23.1	26.9	28.0	30.0	35.0
Tier-1 (%)	50.7	46.5	43.7	42.1	41.0
Leverage (x)	3.8	4.0	4.2	4.4	4.6

Source: Ambit Capital research, Company

Valuation analysis

Particulars	FY22	FY23	FY24E	FY25E	FY26E
BVPS (₹)	356	414	477	554	645
EPS (₹)	45.2	54.4	63.2	77.2	91.5
ROA (%)	3.6	3.5	3.3	3.4	3.3
ROE (%)	13.7	14.2	14.2	15.0	15.3
P/E	35.5	29.5	25.4	20.8	17.5
P/BV	4.5	3.9	3.4	2.9	2.5

Source: Ambit Capital research, Company

Home First Finance - Financials - Standalone

Income statement

Particulars (₹ mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Net interest income	**3,775**	**4,739**	**5,842**	**7,318**	**9,044**
Non-interest Income	25	175	625	808	1,019
Total Income	**3,800**	**4,913**	**6,467**	**8,127**	**10,064**
Total opex	1,287	1,746	2,345	3,033	3,838
Pre provision profit	**2,513**	**3,167**	**4,122**	**5,093**	**6,225**
Provisions	250	215	350	452	533
Profit before tax	**2,263**	**2,952**	**3,772**	**4,642**	**5,692**
Tax	402	669	875	1,077	1,321
PAT	**1,861**	**2,283**	**2,897**	**3,565**	**4,371**

Source: Ambit Capital research, Company

Balance sheet

Particulars (₹ mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Net worth	15,737	18,173	20,781	23,989	27,923
Borrowings	34,668	48,135	68,111	89,906	114,181
Total liabilities	**51,169**	**67,370**	**90,385**	**115,850**	**144,819**
Loans (on-book)	43,049	59,957	78,862	100,724	125,666
Cash & investments	6,678	5,792	9,535	12,587	15,985
Other assets	1,442	1,621	1,988	2,539	3,168
Total assets	**51,169**	**67,370**	**90,385**	**115,850**	**144,819**
AUM	**53,803**	**71,980**	**94,662**	**120,919**	**150,861**

Source: Ambit Capital research, Company

Key ratios

Particulars (%)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
AUM growth (%)	30	34	32	28	25
Disbursements growth (%)	85	48	28	22	20
EPS growth (%)	85.3	22.1	26.9	23.0	22.6
Net interest margin (NIM) (%)	7.9	7.5	7.0	6.8	6.7
Cost to income (%)	33.9	35.5	36.3	37.3	38.1
Opex (% of AAUM)	2.7	2.8	2.8	2.8	2.8
Gross NPAs (%)	2.3	1.6	1.7	1.7	1.7
Credit costs (% of AAUM)	0.6	0.4	0.5	0.5	0.5
Provision Coverage (%)	24.9	34.0	30.5	30.5	30.5
Tier-1 (%)	58.0	48.9	41.6	37.4	34.8
Leverage (x)	3.3	3.5	4.0	4.6	5.0

Source: Ambit Capital research, Company

Valuation

Particulars	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
BVPS (₹)	180	206	236	273	317
EPS (₹)	21.2	25.9	32.9	40.5	49.7
ROA (%)	3.9	3.9	3.7	3.5	3.4
ROE (%)	12.6	13.5	14.9	15.9	16.8
P/E	45.8	37.5	29.6	24.0	19.6
P/BV	5.4	4.7	4.1	3.6	3.1

Source: Ambit Capital research, Company

Aptus Value HF - Financials - Consolidated

Income statement

Particulars (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	**5,884**	**7,910**	**9,323**	**11,326**	**13,664**
Non-interest Income	432	621	770	982	1,230
Total Income	**6,316**	**8,531**	**10,093**	**12,308**	**14,893**
Total opex	1,171	1,652	2,084	2,645	3,255
Pre provision profit	**5,145**	**6,879**	**8,008**	**9,663**	**11,638**
Provisions	345	341	258	449	435
Profit before tax	**4,800**	**6,537**	**7,750**	**9,214**	**11,203**
Tax	1,099	1,507	1,783	2,119	2,577
PAT	**3,701**	**5,030**	**5,968**	**7,095**	**8,626**

Source: Ambit Capital research, Company

Balance sheet

Particulars (₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Net worth	29,162	33,393	36,974	41,231	46,406
Borrowings	27,206	37,861	54,519	75,236	98,560
Total liabilities	**56,840**	**71,761**	**92,171**	**117,504**	**146,232**
Loans (on-book)	50,787	65,921	84,763	107,377	133,044
Cash & investments	5,476	5,115	6,542	9,028	11,827
Other assets	577	725	866	1,098	1,361
Total assets	**56,840**	**71,761**	**92,171**	**117,504**	**146,232**
AUM	**51,800**	**67,380**	**86,560**	**109,807**	**136,111**

Source: Ambit Capital research, Company

Ratio analysis

Particulars (%)	FY22	FY23	FY24E	FY25E	FY26E
AUM growth (%)	27	30	28	27	24
Disbursements growth (%)	26	46	23	24	18
EPS growth (%)	34.3	35.6	18.6	18.9	21.6
Net interest margin (NIM) (%)	12.7	13.3	12.1	11.5	11.1
Cost to income (%)	18.5	19.4	20.7	21.5	21.9
Opex (% of AAUM)	2.5	2.8	2.7	2.7	2.6
Gross NPAs (%)	1.2	1.2	1.2	1.2	1.2
Credit costs (% of AAUM)	0.8	0.6	0.3	0.5	0.4
Provision Coverage (%)	25.3	25.0	25.0	25.0	25.0
Tier-1 (%)	85.4	76.6	69.8	61.1	55.2
Leverage (x)	2.1	2.1	2.3	2.7	3.0

Source: Ambit Capital research, Company

Valuation analysis

Particulars	FY22	FY23	FY24E	FY25E	FY26E
BVPS (₹) - Consol.	59	67	74	83	93
EPS (₹) - Consol.	7.4	10.1	12.0	14.2	17.3
ROA (%)	7.3	7.8	7.3	6.8	6.5
ROE (%)	15.1	16.1	17.0	18.1	19.7
P/E	46.2	34.1	28.7	24.1	19.9
P/BV	5.9	5.1	4.6	4.2	3.7

Source: Ambit Capital research, Company

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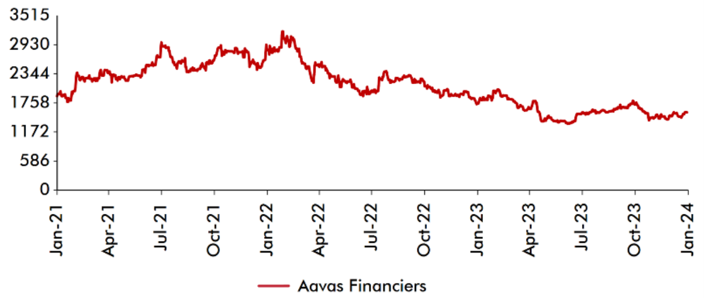
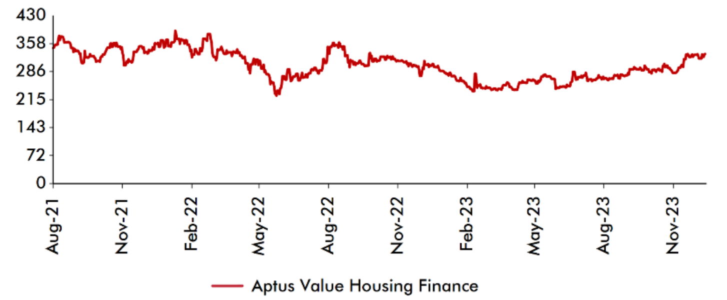
Aavas Financiers (Aavas IN, SELL)



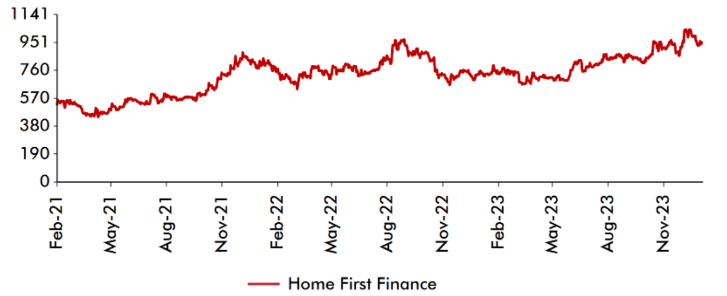
Source: ICE, Ambit Capital research

Aptus Value Housing Finance (APTUS IN, SELL)



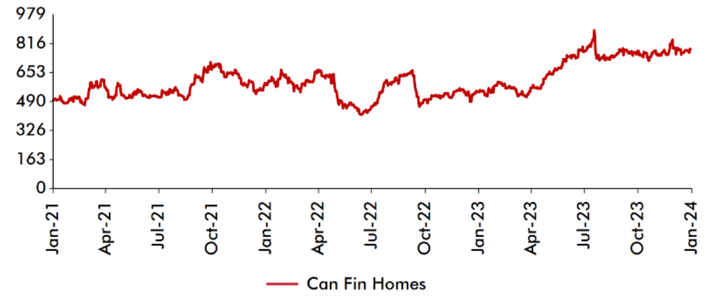
Source: ICE, Ambit Capital research

Home First Finance (HOMEFIRS IN, SELL)



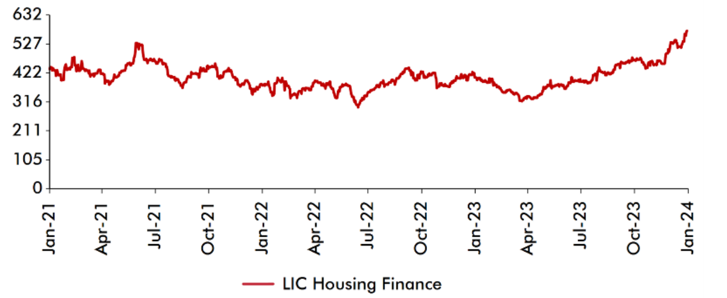
Source: ICE, Ambit Capital research

Can Fin Homes (CANF IN, SELL)



Source: ICE, Ambit Capital research

LIC Housing Finance (LICHF IN, BUY)



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