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Sector Thematic: Housing Finance

New market structures open up investment universe

India's home loan (HL) market (INR26trn; 17% of overall credit) is poised to double by FY28E on the back of secular trends around improving affordability, rising urbanisation and penetration beyond Tier-I locations. Driven by the combination of a sustained funding cost advantage, structural shift in sourcing models, renewed focus on retail HL, and transient rate cycle tailwinds, banks (~67% of HL market) are likely to continue dominating the prime HL segment. Affordable-focused HFCs (~INR1trn; 4% of HL market) have emerged as high-growth, high-RoA businesses; however, given the superior economics, this segment is witnessing rising competitive intensity. Going forward, the market micro-structure is likely to reflect newer collaborative models which are still evolving. We initiate coverage on CANF (BUY) and PNBHOUSING (ADD) as emerging value plays and AAVAS (ADD), HOMEFIRST (ADD) and APTUS (REDUCE) among affordable-focused HFCs.




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INSTITUTIONAL RESEARCH

Housing Finance

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- **Secular demand trends:** We expect India's housing demand (largely end-use) to witness ~15-16% CAGR during FY23-28E on the back of improving affordability, increasing penetration beyond Tier-I locations, and rising pace of urbanisation. Although affordability gains reversed during FY23 on the back of a 250bps rate hike, we believe that the secular trends will help sustain the longer-term expansionary stage of the cycle.
- **Banks to dominate prime HL; business models being optimised:** Banks are likely to sustain their dominant market share in the HL segment (~67% market share) with the added advantage of stable spreads (~300bps+ for stronger liability franchises), further accentuated by the rate cycle and continued optimisation, driving strong unit economics (~1.3-1.5% RoA). We identify SBIN and ICICIBC as the most dominant banking franchises on our proprietary HSIE Housing Finance Dashboard (Banks) (Pg. 45).
- **Affordable-focused HFCs (AHFCs) - sweet but crowded trade:** Affordable-focused HFCs (~INR1trn) have emerged as a high-growth (FY18-FY22 CAGR at 18%+) profit pool (RoA of ~3%) within the sub-INR2.5mn segment. While even 2-year lagged credit costs for AHFCs are healthy at ~140bps (vs. pricing premium of ~300bps), the early growth-RoA dynamic has attracted intense competition, and is likely to exert pressure on either the growth curve or the super-normal spreads (~5%+). Our proprietary HSIE Housing Finance Dashboard (AHFCs) identifies AAVAS as the most durable franchise (Pg. 37).
- **Multiple asset-light models at play:** We believe that the HL market micro-structure is headed for re-jig as collaborative lending matures over the next few years. Banks and HFCs are experimenting with multiple asset-light models (co-lending, DA etc.) to optimise their portfolio, capital structures and liquidity. Teething troubles notwithstanding, our analysis suggests that the co-lending model is likely to take off the most among the prevailing models.
- **Supply side funding - a seismic shift:** Developer funding (~INR 3.5trn) has undergone a tectonic shift post the 2019 developer crisis driven by regulatory changes to early-stage funding of projects (including land). While large banks chase market share gains beyond Grade-A developers, HFCs/NBFCs are likely to claw back some share of construction finance.
- **Identifying winners:** We see value emerging in select HFCs post the steep price correction since 2017. We initiate coverage on CANF (BUY; TP INR750) and PNBHOUSING (ADD; TP INR590). AHFCs, while poised for strong growth and profitability, are operating at peak growth/margins, with likely headwinds on both fronts. We initiate on AAVAS (ADD; TP INR1,850), HOMEFIRST (ADD; TP INR765) and APTUS (REDUCE; TP INR210).

HFCs

Company	Mcap (INR bn)	CMP (INR)	Reco.	TP (INR)
AAVAS	132	1,670	ADD	1,850
APTUS	119	239	REDUCE	210
CANF	73	544	BUY	750
HOMEFIRST	63	711	ADD	765
LICHF	181	328	REDUCE	345
PNBHOUSI	78	463	ADD	590
REPCO	11	182	ADD	238

Banks

Company	Mcap (INR bn)	CMP (INR)	Reco.	TP (INR)
AUBANK	372	558	REDUCE	610
AXSB	2,648	860	BUY	1,200
BANDHAN	333	207	ADD	256
CUBK	93	125	BUY	230
DCBB	33	105	ADD	140
FB	272	129	BUY	176
ICICIBC	6,176	884	BUY	1,105
IIB	827	1,066	REDUCE	1,060
KMB	3,481	1,752	ADD	2,290
KVB	77	97	ADD	130
RBK	84	141	REDUCE	150
SBIN	4,666	523	BUY	740
UJJIVANS	52	27	ADD	45

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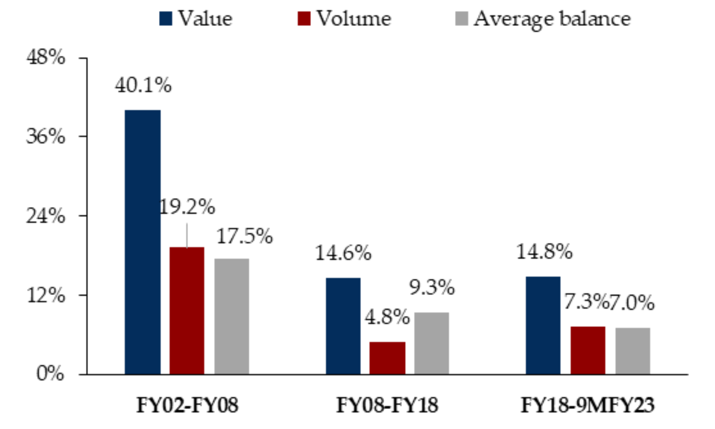
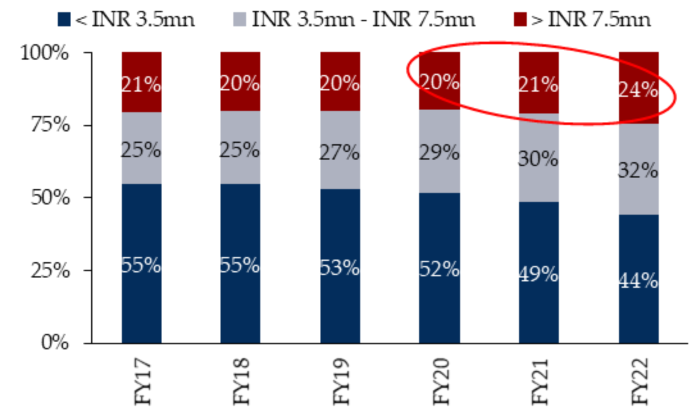
Focus charts

Exhibit 1: Banks' Home loans (HL) portfolio driven by healthy mix of volume, pricing growth



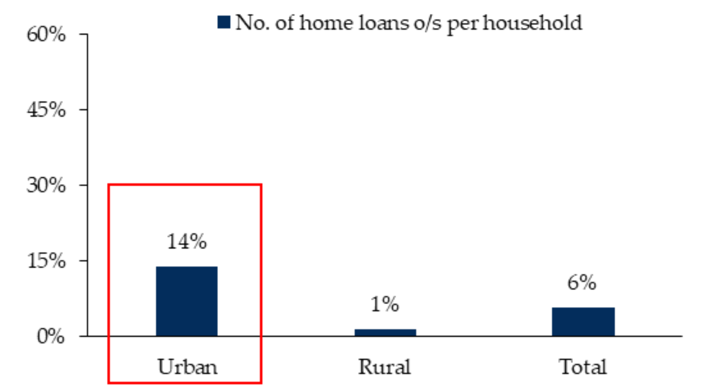
Source: RBI, HSIE Research

Exhibit 2: Rising share of premium segment (>INR 7.5mn) in HL disbursements mix for the industry



Note: CRIF Highmark, HSIE Research

Exhibit 3: Low mortgage penetration in terms of no. of home loans per household (Mar-22)

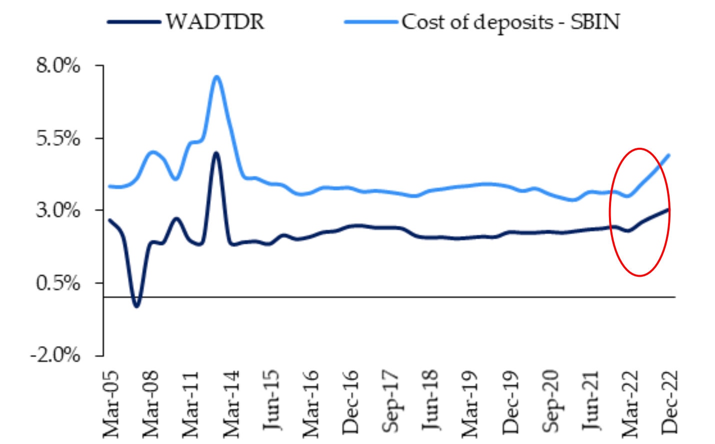


Source: RBI, CRIF Highmark, Census 2011, World Bank, HSIE Research | HL penetration = No. of home loans o/s divided by no. of households | Excludes HL with ticket size <INR 0.5mn

Exhibit 4: Banks' market share in HL across cycles

Source: RBI, NHB, HSIE Research

Exhibit 5: Spread of average HL pricing over term deposit rates



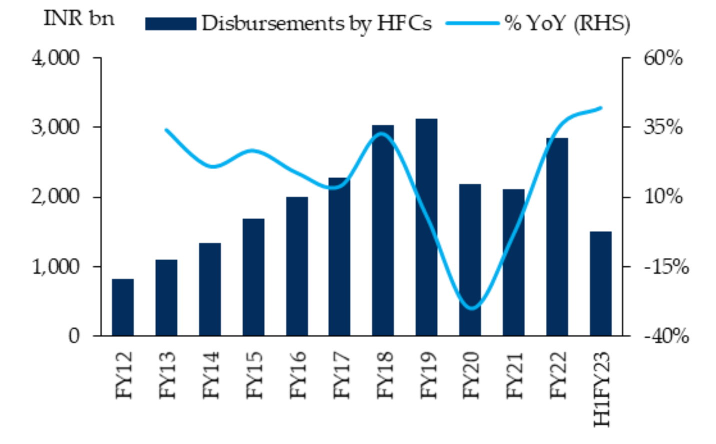
Source: RBI, Company, HSIE Research

Exhibit 6: Earnings profile for SBI and ICICI Bank for HL portfolio

% of assets	SBIN	ICICIBC
Interest earned	8.0%	8.1%
Interest expended	4.7%	4.4%
Net interest income	**3.2%**	**3.7%**
Non-interest income	0.1%	0.1%
Operating expenses	1.5%	1.4%
Pre-provisioning profit	1.8%	2.4%
Provisions	0.2%	0.2%
Tax	0.4%	0.5%
ROA	**1.2%**	**1.6%**
Assets/ Equity	16.0	8.2
ROE	**18.9%**	**13.5%**

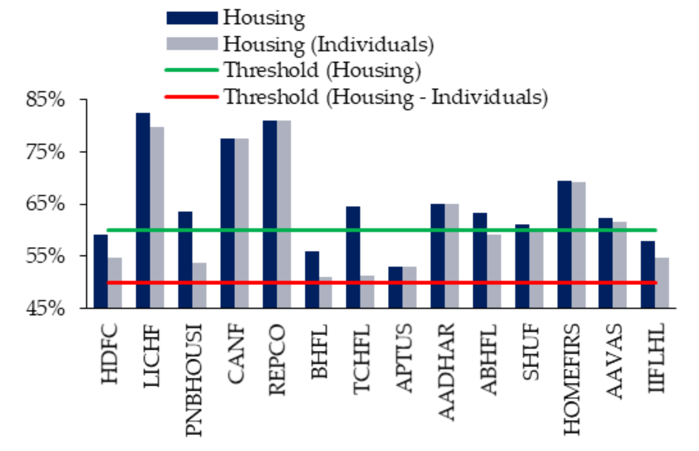
Source: Company, HSIE Research | Note: For detailed workings of the exercise, please refer page no. 16

Exhibit 7: Strong rebound in disbursals by HFCs during the pandemic



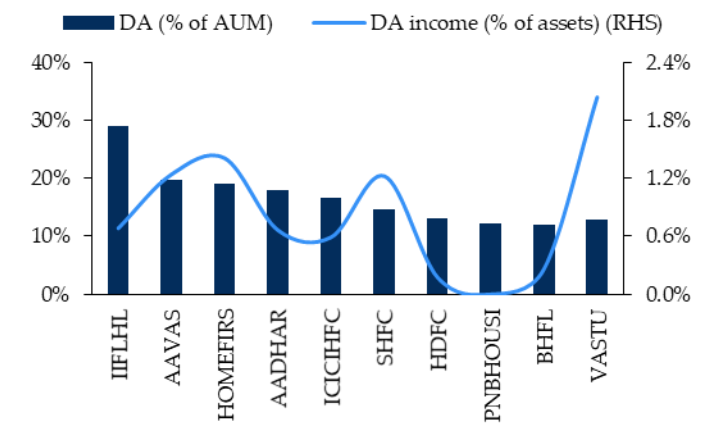
Source: NHB, HSIE Research

Exhibit 8: Share of HL and thresholds set by RBI for HFCs (Mar-22)



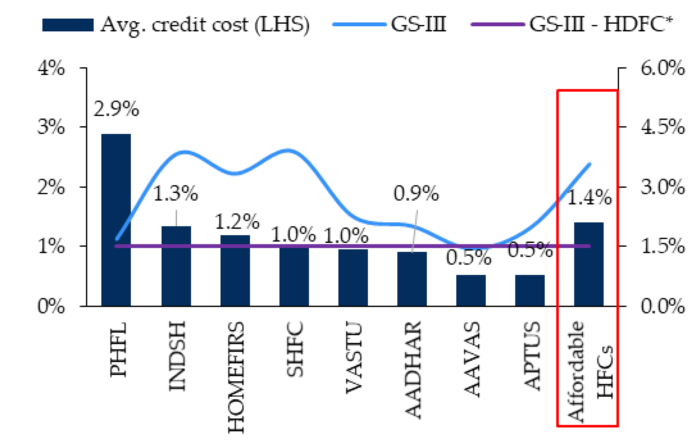
Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 9: Direct assignment driving liquidity plus fee income for HFCs (FY22)



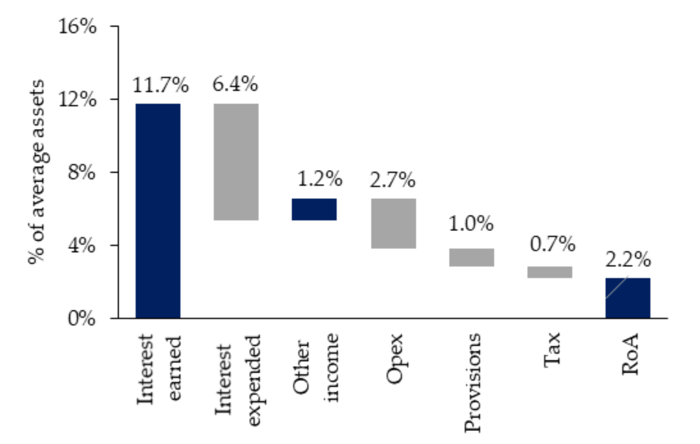
Source: Company, HSIE Research

Exhibit 10: Lagged credit costs/GS III for affordable-focused HFCs – higher compared to prime home loans



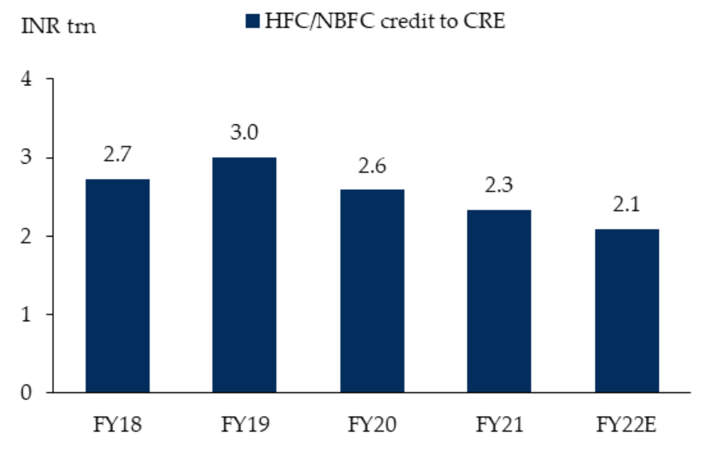
Source: Company, HSIE Research | 2 year lagged credit costs = Credit costs for year N divided by Gross advances for year N-2; similarly for GS-III | GS-III for HDFC for Individual segment | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 11: Lucrative earnings profile for AHFCs*



Source: Company, HSIE Research | Note: *For Top 20 AHFCs

Exhibit 12: HFC/NBFC exposure to CRE on a decline



Source: RBI, NHB, HSIE Research

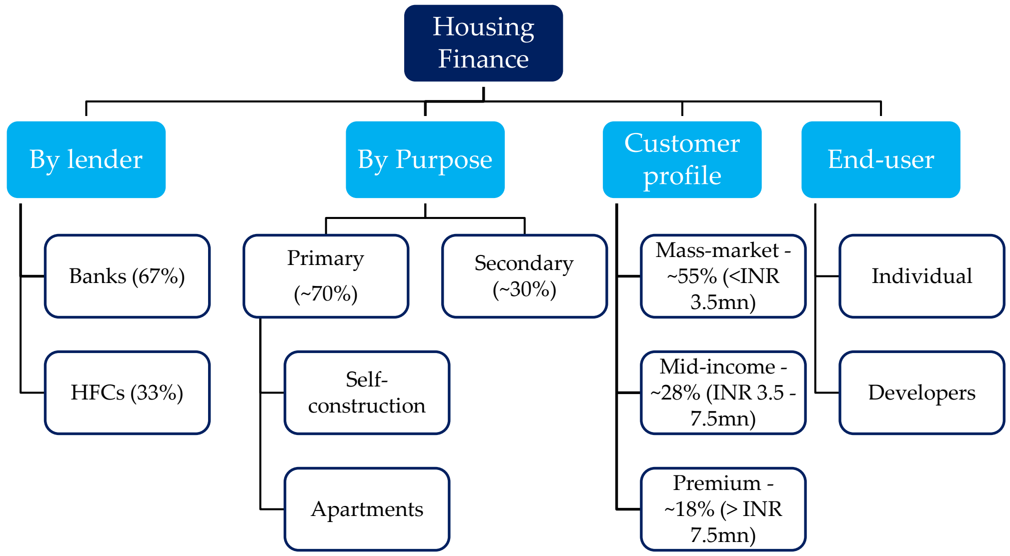
Contents

Secular demand trends

India's massive home loans (HL) market (~INR26trn as of Sep-22, ~17% of system-wide credit) is poised to grow at a secular pace (~15-16% CAGR during FY23-FY28E), driven by multiple tailwinds supporting a secular growth in demand.

The HL market can be segregated across lender type (banks/HFCs), transaction type (primary/secondary) and customer profile (mass-market/mid-income/premium). Including the developer funding portfolio of ~INR3.5trn, the combined housing finance market is at ~INR29.5trn.

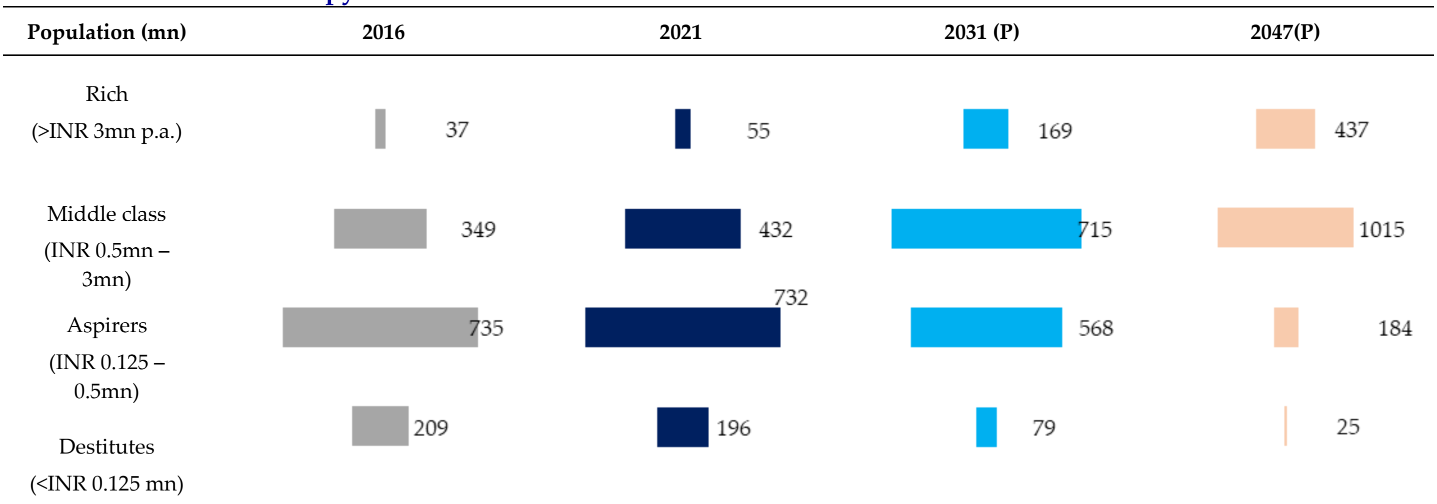
Exhibit 13: Home loans landscaping (Mar-22)



Source: CRIF Highmark, RBI, NHB, Industry, HSIE Research

- **Structural tailwinds to sustain housing demand**: India's housing demand is poised to remain robust with structural-demographic tailwinds such as a large population base, a burgeoning middle class (emerging as the largest category of consumers), a rising pace of urbanisation (expected to increase from ~34% to ~52% by FY47), increasing trend towards home ownership, improving affordability and paucity of quality dwelling units for lower-income segments.

Exhibit 14: India's income pyramid

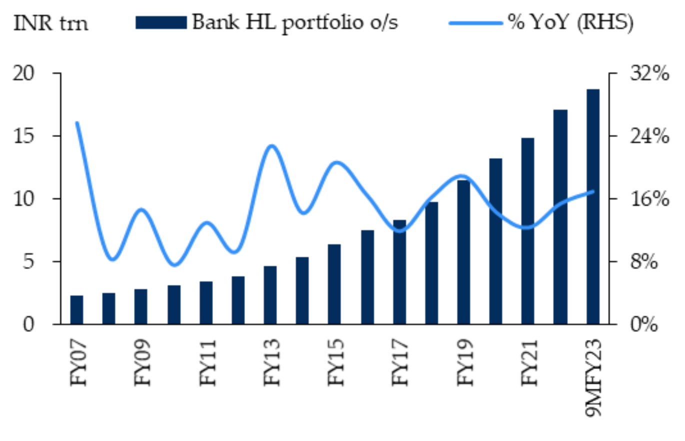


Source: ICE 360 Household Survey 2021, HSIE Research | Annual household income at 2020-21 prices

The demand witnessed a significant fillip during the pandemic and is expected to sustain with rising premiumisation among the affluent category and improving affordability in the mass segment due to muted increase in asset prices (~4% CAGR in All-India Housing Prices Index during FY15-FY22 vs. per capita income growth of 8% during the same period.

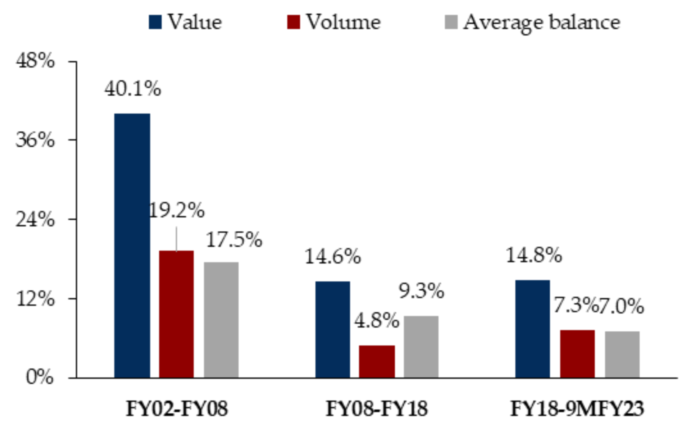
Our discussions with stakeholders suggest that developers have imbibed a key lesson from the recent crisis and are beginning to **prioritise volume-led growth over pricing-led growth**.

Exhibit 15: Bank HL portfolio – steady growth



Source: RBI, HSIE Research

Exhibit 16: Banks' HL portfolios driven by healthy mix of volume, pricing growth

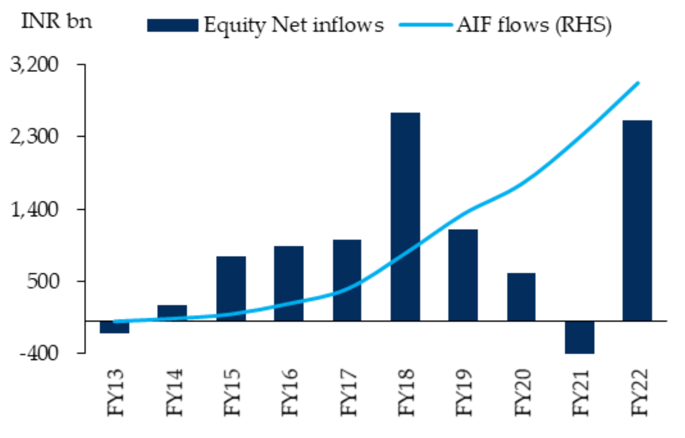


Source: RBI, HSIE Research

- **Investor demand muted, alternate asset classes providing deployment opportunities**: Investor demand has been gradually wiped out on the back of shrinking regulatory arbitrage and multiple headwinds such as higher transaction costs (GST, stamp duty, etc.), withdrawal of tax benefits, narrowing of market prices and ready reckoner rates in key metros, muted price appreciation during the past decade and emergence of alternative asset classes offering higher liquidity.

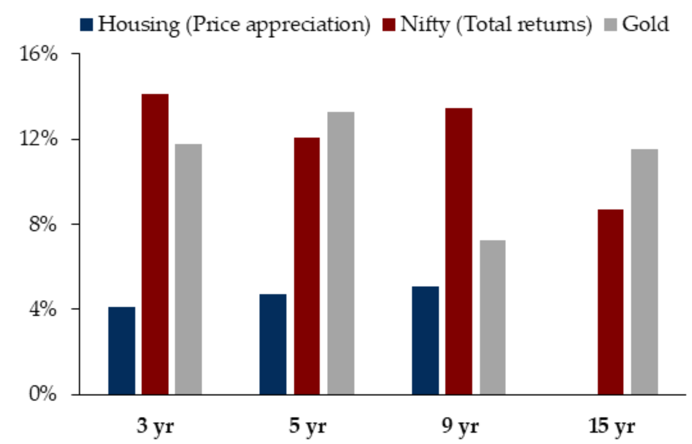
  As a corollary, given the diminishing incentives and limited catalysts for capital appreciation, we expect investor demand for housing to be muted and largely outside the scope of formal financing.

Exhibit 17: Inflows in equity MFs (net), AIFs



Source: SEBI, AMFI, HSIE Research

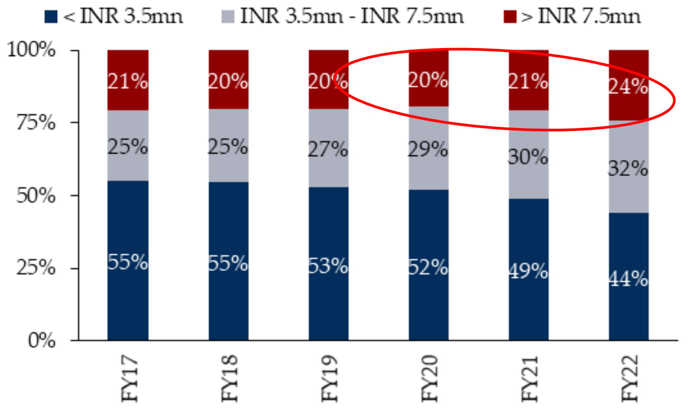
Exhibit 18: Returns across asset classes



Source: NHB, Bloomberg, HSIE Research | MCX Gold Spot price taken for Gold prices; Housing prices for Top 8 cities | Returns till Dec-22

- **Premiumisation at play:** The revival of housing demand since the pandemic has been anchored on increased preference for home ownership as well as significant up-scaling/premiumisation among homebuyers with a preference for bigger houses and better-rated developers. This is reflected in increasing contribution of mid-income and premium ticket-sizes for both lenders as well as developers.

Exhibit 19: Rising share of premium segment (>INR 7.5mn) in home loans disbursements mix



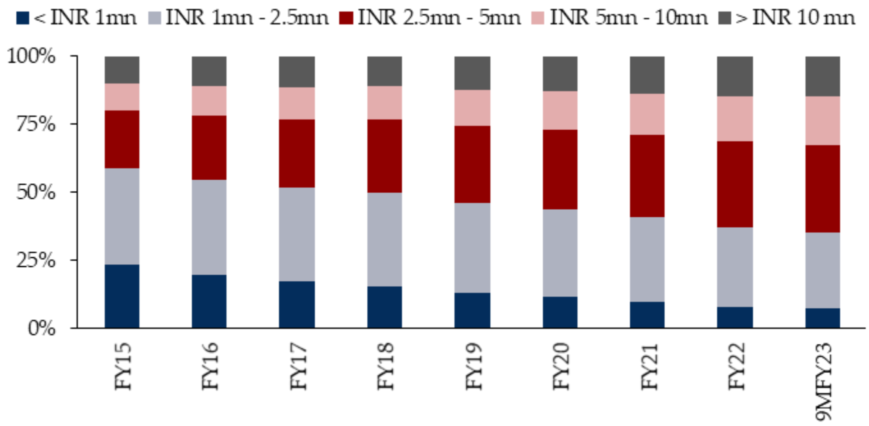
Source: CRIF Highmark, HSIE Research

Exhibit 20: Home loans outstanding market share (Dec-20)

% of loans o/s (Dec-20)	PSBs	Private Banks	HFCs/ Others	Total
Mass-market	27%	8%	25%	60%
Mid-income	11%	4%	10%	25%
Premium	4%	5%	6%	15%
Total	42%	17%	40%	100%

Source: CRIF Highmark, HSIE Research | Mass-market: HL ticket size less than INR 3.5mn; Mid-income: Ticket size between INR 3.5mn and INR 7.5mn; Premium: Ticket size > INR 7.5mn

Exhibit 21: Banks' HL portfolio by ticket size

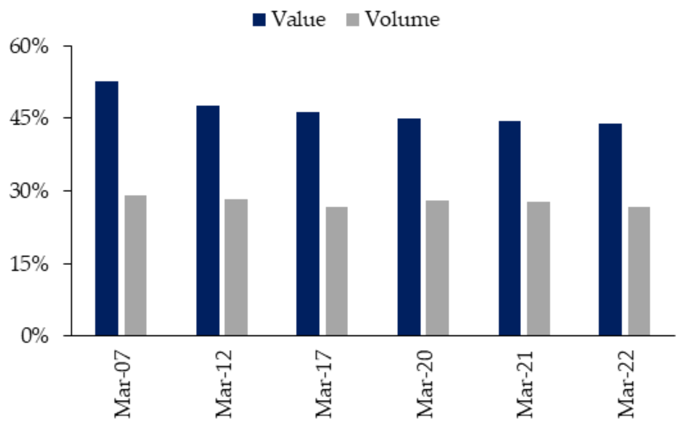


Source: RBI, HSIE Research

- **Large addressable market beyond Tier I cities:** India's housing (and home loans) demand remains fairly widespread beyond Tier I cities, with ~60% contribution coming from non-Tier I cities, as per our analysis. Further, the top 12 listed developers contribute to ~8% of total home loan disbursements in the primary market, as per our analysis.

  With lenders increasing focus beyond the Tier I cities, we expect the share of Tier II & beyond cities to gradually continue to inch up.

Exhibit 22: Share of top 10 metro centres* to banks' home loans outstanding declining



Source: CRIF Highmark, Company, HSIE Research | Top 13 metro centres constitute 14 districts as per RBI classification

Exhibit 23: Share of Top 12 listed developers in HL disbursements at sub-10%

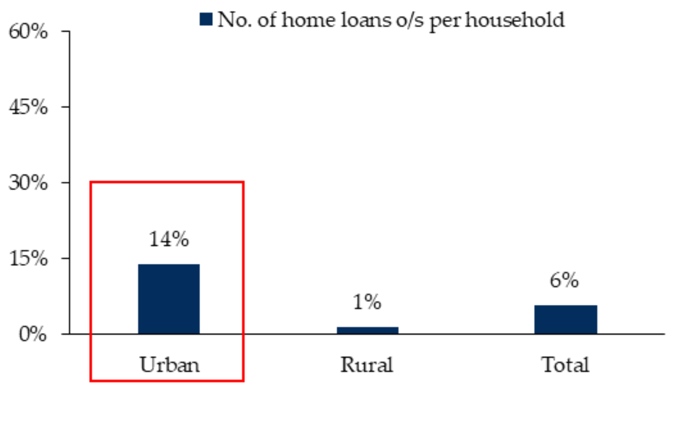
FY22	INR trn
Home loans sanctions	7.4
Loan sanctions for primary purchases (~70%)	5.2
Loan sanctions adjusted for BT-out	4.7
Pre-sales bookings of top 12 listed developers	0.6
Finance penetration (%)	85%
LTV (%)	85%
Home loans sanctions – top 12 developers	0.4
Contribution to home loans for primary purchases	**8%**

Source: CRIF Highmark, Company, HSIE Research | Assuming BT-out rate of ~15%

- **Low mortgage penetration, affordability remains key:** India's urban mortgage penetration (~0.14 home loans per household) remains significantly low. While housing demand continues to remain high, affordability and pace of urbanisation remain the key for translating into housing purchases.

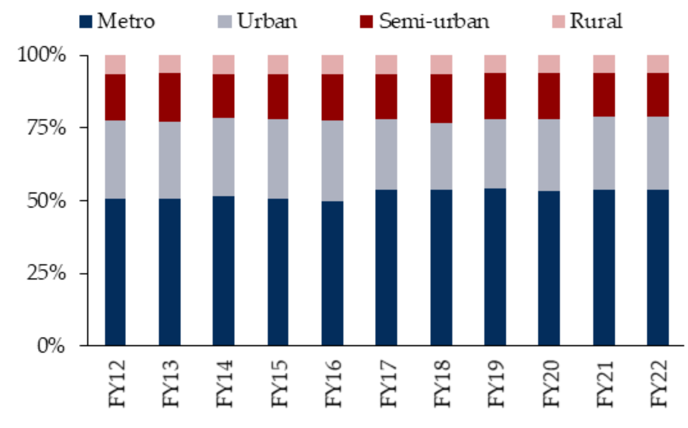
  Incremental housing demand is typically a function of affordability, urbanisation rate and population growth. Affordability can be categorised in terms of real asset prices, household incomes and interest rates. These variables turned favourable during the pandemic with repo rate at 4% and a muted increase in home prices.

Exhibit 24: Low mortgage penetration in terms of no. of home loans per household (Mar-22)



Source: RBI, CRIF Highmark, Census 2011, World Bank, HSIE Research | Home loans penetration = No. of home loans o/s divided by no. of households | Excludes loans sub-INR 0.5mn

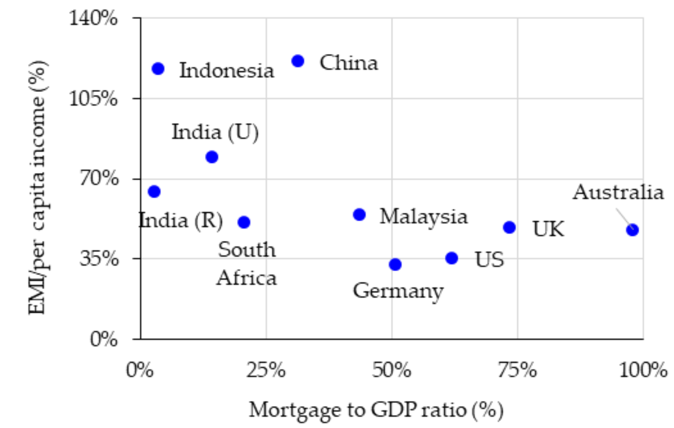
Exhibit 25: ~80% of Banks' HL outstanding remains in metro+urban centres



Source: RBI, HSIE Research

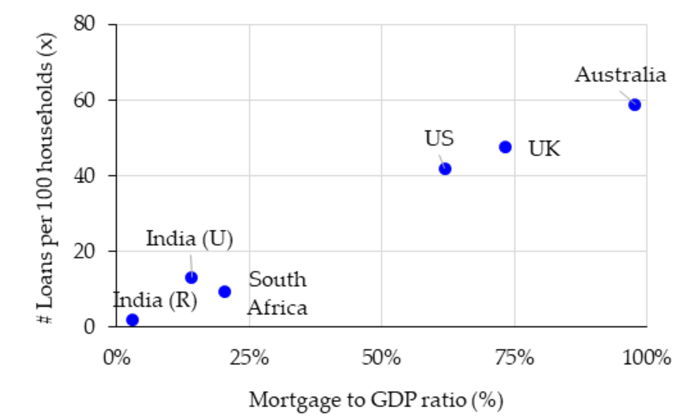
- **Low mortgage penetration in line with affordability index**: Our cross-country analysis suggests a high correlation between affordability (income to EMI) and mortgage penetration. India's low mortgage penetration, in terms of home ownership or housing loans, offers significant room for improvement on the back of rising affordability.

Exhibit 26: High EMI component drives low mortgage penetration



Source: RBI, US Federal Reserve, ABS, ONS – UK, SARB, HOFINET, WorldBank, HSIE Research | EMI per capita income based on median housing price with lending rate 200bps above benchmark rate as on Feb-23 and loan tenure of 20 years and 20% down payment

Exhibit 27: Mortgage loans per household vs. mortgage to GDP ratio

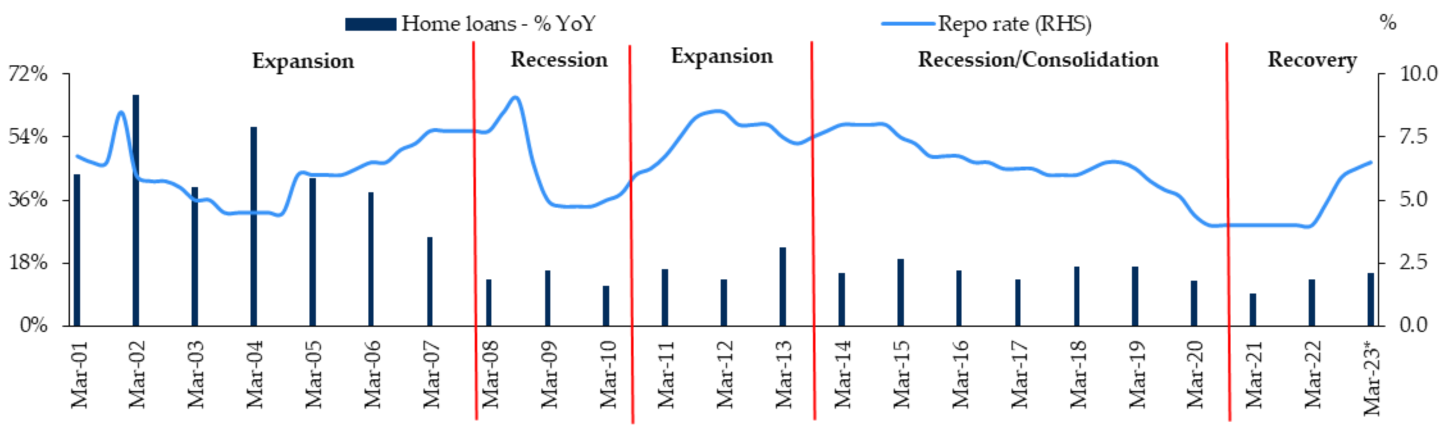


Source: RBI, US Federal Reserve, ABS, ONS – UK, SARB, WorldBank, HSIE Research

"Where are we in the cycle?"

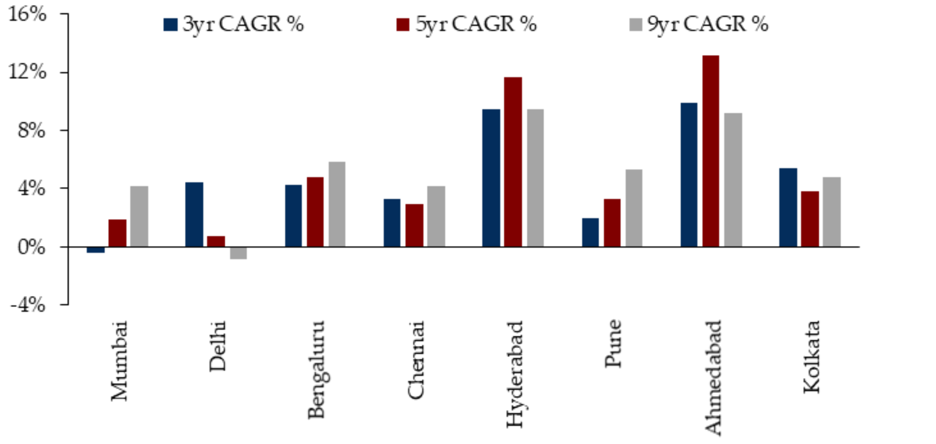
- **Early stage of expansion cycle at play**: India's housing market has recovered from a prolonged slowdown during 2013-2020 with strong housing sales momentum since the pandemic. Our analysis of multiple cycles in Indian and global housing markets suggest a longer recovery/expansion period (early stage of expansion phase), such as witnessed during 2002-07.
  Housing cycles could typically be broken into four key phases: a) Recovery phase—witnessing early pick-up in sales/prices, post a down cycle; b) Expansion phase—steady traction in asset prices/sales; c) Hyper-supply phase—increase in speculation activity from buyers as well as developers; d) Recession phase—correction in asset prices and slump in sales.

Exhibit 28: Housing cycle in India



Source: RBI, Company, HSIE Research | Note:* For Dec-22; Home loans – Banks + HDFC + LICHF | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd.

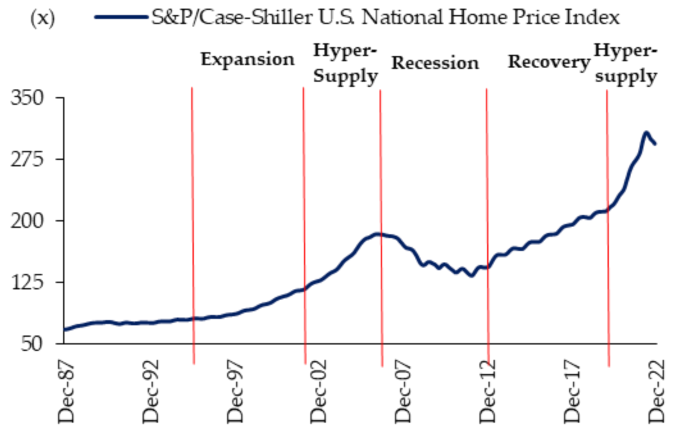
Exhibit 29: Housing prices across major markets – muted price increases during FY15-FY22



Source: NHB, HSIE Research | Based on NHB's Housing Price Index at assessment prices

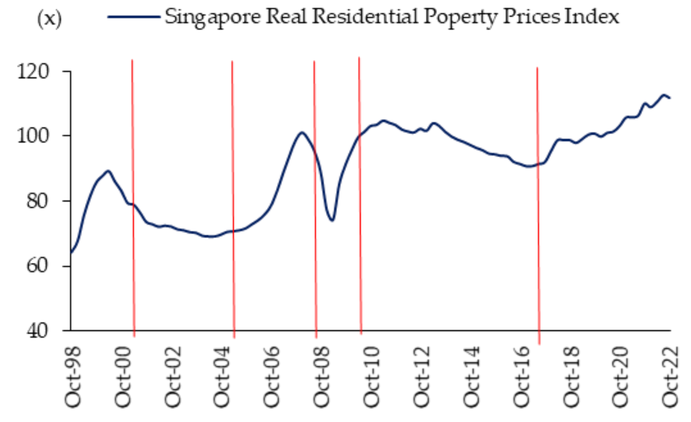
- **A slowdown in housing globally, after a strong housing upcycle**: "Easy money" during the covid pandemic had driven property prices sharply across several markets. However, the sharp rate hikes in order to contain inflation has led to declining affordability with dampening of demand for property, leading to price corrections. With the tightening liquidity across the globe, several markets are now in early stages of a recession cycle.

Exhibit 30: US – revsersal after sharp spike post pandemic



Source: US FRED, HSIE Research | Index 2000 = 100, Not seasonally adjusted

Exhibit 31: Singapore – marginal correction at play



Source: US FRED, HSIE Research | Index 2010 = 100

- **Affordability gains reversing; impact on demand yet to play out:** The combination of decadal low-interest rates, attractive pricing schemes and household income recovery meant that affordability was at its highest during 2021. However, rising interest rates and concomitant high inflation are increasingly playing spoilsport with the affordability quotient, which had improved dramatically during the pandemic. Despite rising interest rates, the impact on demand may not have completely played out, as witnessed by sustained healthy inquiries and disbursals growth as recently as Q4FY23.

Exhibit 32: Sensitivty of affordability to change in income and lending rates

Δ Lending rate (bps)	Increase in income →	4%	8%	12%	16%	20%
	50	0%	4%	8%	12%	16%
	100	-3%	0%	4%	8%	12%
	150	-7%	-3%	1%	4%	8%
	200	-10%	-6%	-3%	1%	4%
	250	-13%	-10%	-6%	-3%	1%
	300	-16%	-12%	-9%	-6%	-3%

Source: HSIE Research | Assuming base lending rate of 7% with loan tenure of 20 years and LTV of ~75%

Exhibit 33: Sensitivity of affordability to change in property prices and lending rates

Δ Lending rate (bps)	Increase in property price →	4%	8%	12%	16%	20%
	50	0%	5%	9%	15%	20%
	100	-3%	1%	5%	10%	16%
	150	-7%	-3%	2%	6%	12%
	200	-10%	-6%	-2%	3%	8%
	250	-13%	-10%	-5%	-1%	4%
	300	-16%	-13%	-9%	-4%	0%

Source: HSIE Research | Assuming base lending rate of 7% with loan tenure of 20 years and LTV of ~75%

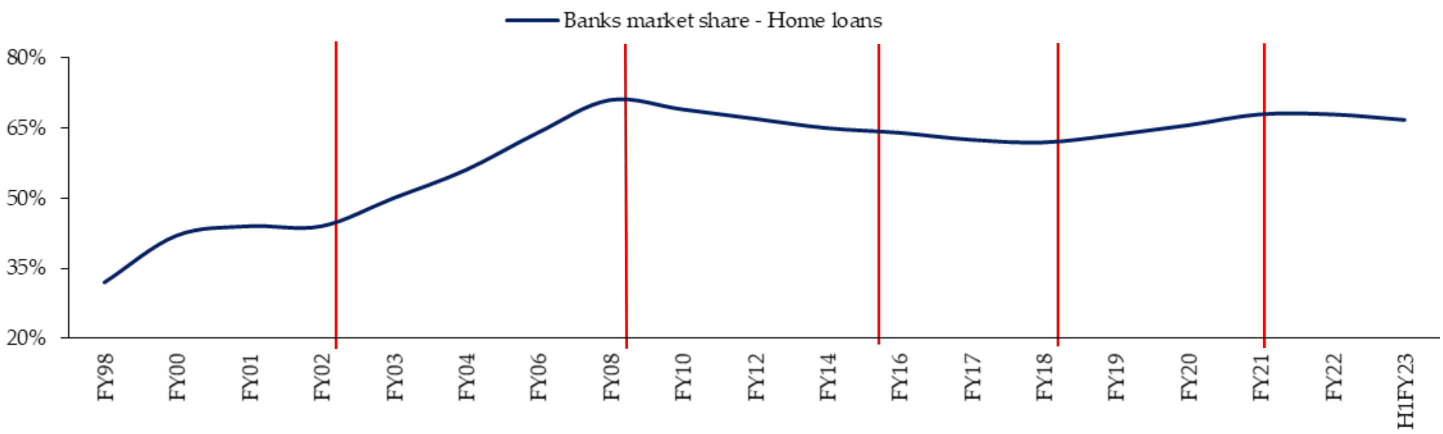
Banks | In the driver's seat

Having gained ~600bps HL market share during FY18-22, banks are seeking further gains to their dominant ~67% market share. With the advantage of stable spreads (~300bps+ for stronger deposit franchises), and constant efforts at optimisation, incremental unit economics has further improved (~1.3-1.5% RoA). We identify SBIN and ICICIBC as the most dominant banking franchises on our proprietary HSIE Housing Finance Dashboard (Banks).

- **Shifts in market micro-structure - part structural, part cyclical:** With sustained focus on retail segments, and funding cost tailwinds during the pandemic, banks are dominant players in the HL segment (~67% market share). As HFCs jump on the growth bandwagon, competitive intensity is bound to further increase, with little signs of letting up. There have been similar episodes of multiple players seeking simultaneous market share gains (2003-07; and 2011-13), which were typically followed by aggressive underwriting practices, resulting in asset quality accidents. We believe that rising interest rates and a tight liquidity environment could keep competitive intensity in check.

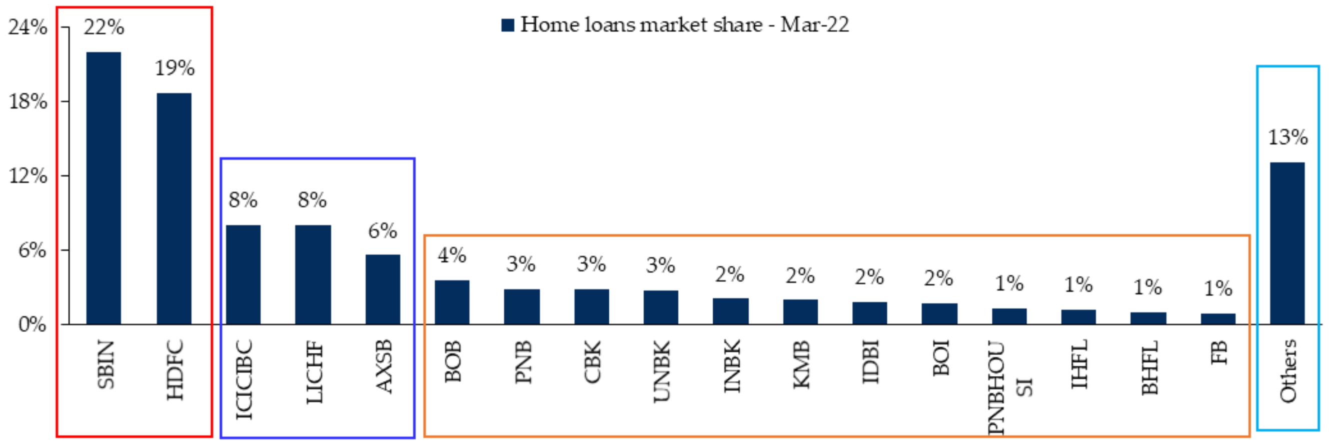
Exhibit 34: Home loans - market share dynamics over the last 3 decades

Banks making inroads in HL in a meaningful way	PSBs, Private banks get very aggressive with teaser rates etc.	RBI intervention - higher provisioning, risk weights, ICICIBC withdrawal, GFC	Banks' AQR, PSBs in PCA etc., aggressive lending by select HFCs	Liquidity, Developer crisis, HFCs receding	All lenders seeking growth



Source: RBI, NHB, HSIE Research

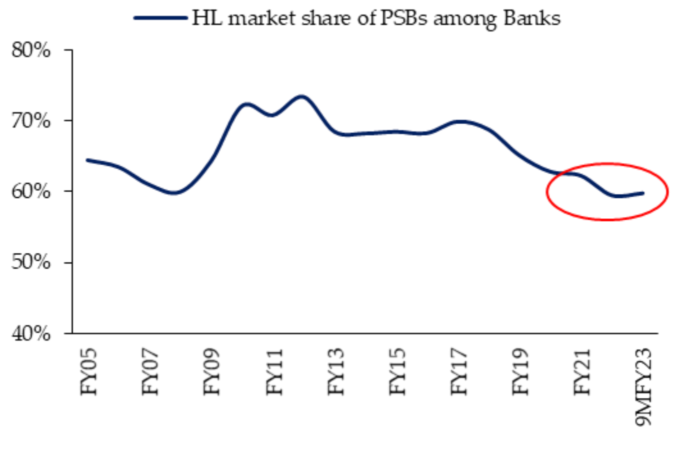
Exhibit 35: Fragmented market beyond the top 4 players (~57% of the market) – loans o/s (Mar-22)



Source: CRIF Highmark, Company, HSIE Research | Net advances in case of HFCs; HDFC includes loans assigned to HDFC Bank | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

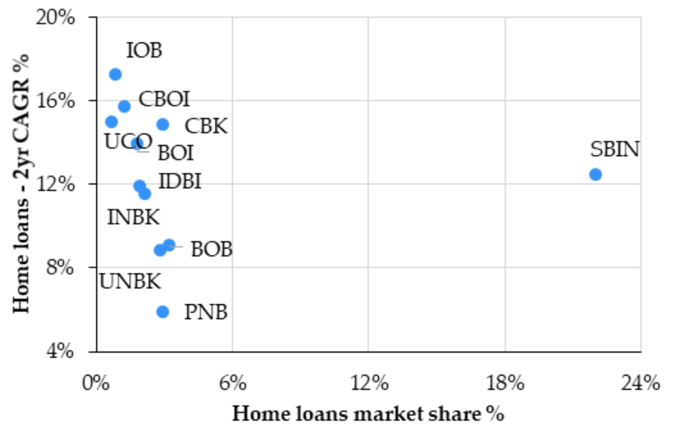
- **PSBs ex-SBIN making a strong comeback**: PSBs have been aggressively chasing market share gains in home loans, with surplus capital and deposits, little distraction from asset quality and growing impetus for credit growth. They have emerged the most aggressive on pricing (base home loan rates even lower than SBIN, nil processing fees, etc.) and loan-to-value. Further, as per our channel checks, their TAT for disbursals has improved significantly, along with relaxed FOIR and bureau score requirements. This is likely to impede the growth or HL economics for private banks and HFCs such as LICHF.

Exhibit 36: PSBs finally arresting loss of market share in home loans among Banks



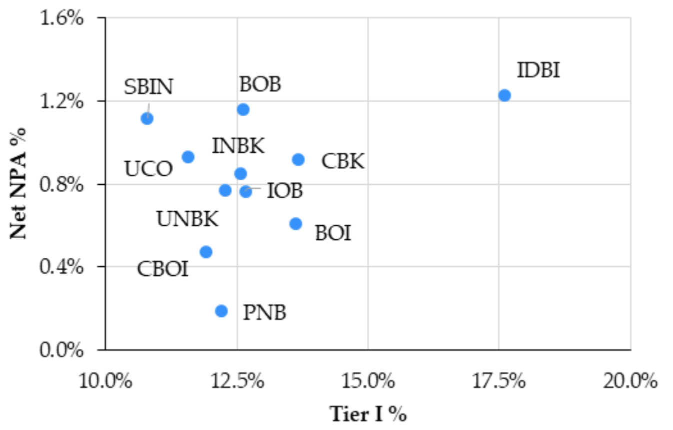
Source: RBI, HSIE Research

Exhibit 37: Select PSBs clocking home loan growth above the industry average



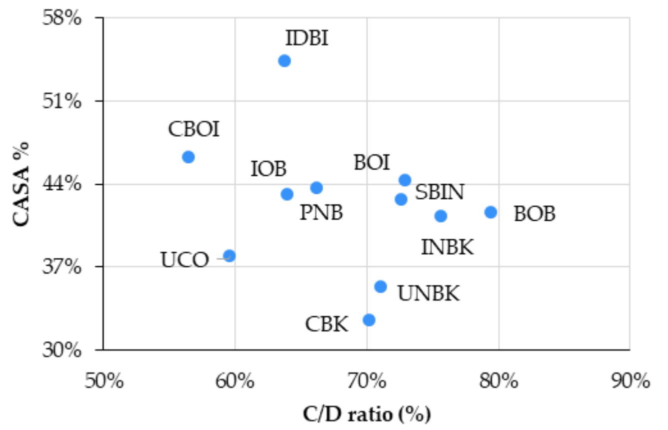
Source: CRIF Highmark, Company, HSIE Research | Home loans market share as on Mar-22; 2 year home loans CAGR from Dec-20 to Dec-22

Exhibit 38: PSBs – strong capital adequacy and low NPAs (Dec-22)



Source: Company, HSIE Research

Exhibit 39: PSBs – Comfortable C/D ratio with high CASA ratio to drive low cost of funds (Dec-22)



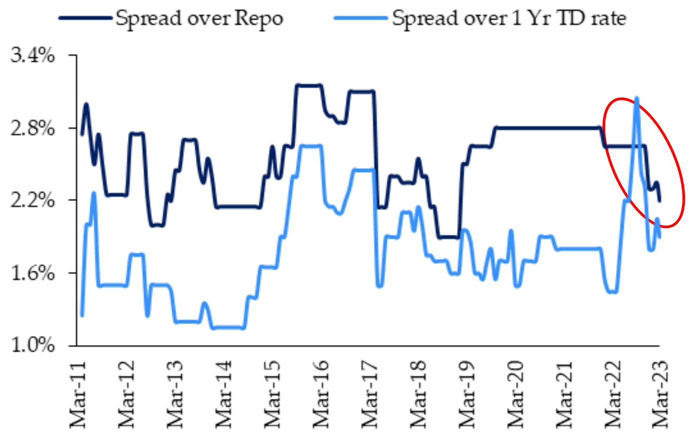
Source: Company, HSIE Research

- **Spreads largely inelastic to competitive intensity:** Our analysis of SBI's (the largest lender and typically, the market-maker) home loan pricing over the past 12 years indicates healthy cross-cycle spreads (over 1-yr TD rates and repo rate) even during the Covid pandemic (HL pricing as low as 6.7%) despite the high competitive intensity.

  The sharp repo rate hikes during FY23 (250bps) have resulted in further margin expansion (spread over 1-yr TD rates in excess of 50bps) for the HL portfolio of banks and HFCs on the back-book as well as incremental home loans. While deposit re-pricing (borrowings in the case of HFCs) is yet to catch up fully, we believe lenders will be able to retain ~10-20bps of the margin expansion. Several lenders also switched their reset period for HL re-pricing (from quarterly to monthly or real-time) as the repo rate hikes became more frequent.

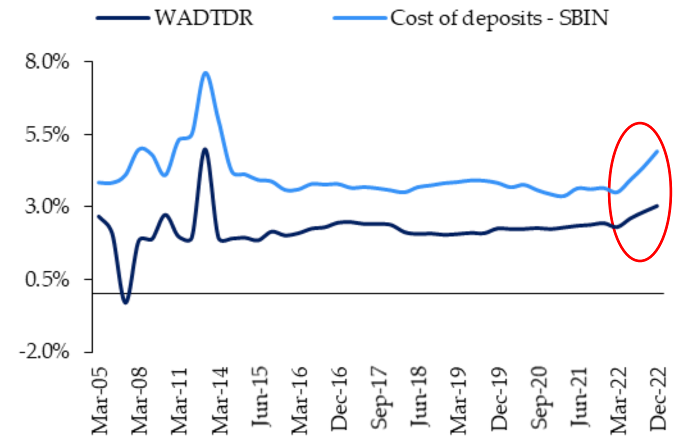
  However, a true test of the external benchmarking regime will only emerge from how spreads behave during the rate-easing cycle—we believe the RBI will look for signs of symmetrical transmission in a declining interest rate environment.

Exhibit 40: SBI's home loans spread for salaried super-prime customer (on incremental disbursals)



Source: Bloomberg, Company, HSIE Research | Home loan rate for salaried customer with bureau score above 800, ticket size below INR 3.5mn and LTV < 75%

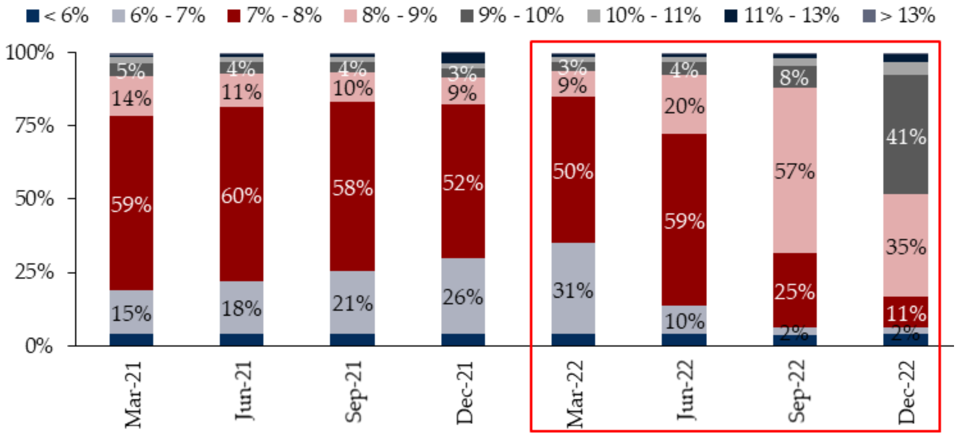
Exhibit 41: Spread of term deposit rates over weighted average lending rates for HL



Source: RBI, Company, HSIE Research | Lending rate and WADTDR for banking system; Annual time series during Mar-05 to Mar-14; WADTDR – weighted average of domestic term deposit rates

The transition to the EBLR interest rate regime has driven rapid interest-rate transmission for floating-rate home loans. As can be seen from the exhibit below, the share of loans priced below 8% has shrunk from ~82% in Mar-22 to ~13% in Dec-22, while the share of loans priced between 8%-10% has increased from ~12% to ~76% within the same period.

Exhibit 42: Banks' HL portfolio by interest-rate – rapid transmission at play



Source: RBI, HSIE Research

- **Impact of rate hikes on back-book asset quality to be limited:** The impact of sharp increase in home loan rates on delinquencies seems limited for the industry, in our view. The rate hike has largely been absorbed through increase in loan tenures of home loans by most lenders.

  However, as can be seen from the exhibit below, the room for increase in loan tenure is incrementally limited (average loan tenure of 20 years and max tenure of 30 years), and incremental rate hikes would have an impact on EMIs.

Exhibit 43: Sensitivity of EMI to change in lending rate and loan tenure

		Increase in loan tenure (years)					
	% chg	0	2	4	6	8	10
Increase in lending rate (bps)	50	4%	0%	-3%	-6%	-8%	-10%
	100	8%	4%	1%	-2%	-4%	-5%
	150	12%	8%	5%	3%	1%	-1%
	200	16%	12%	9%	7%	5%	4%
	250	20%	17%	14%	12%	10%	8%
	300	24%	21%	18%	16%	15%	13%

Source: HSIE Research | Assuming home loan of INR 3mn with base interest rate of 7% and base tenure of 20 years

- **Large profit pool for banks; yet peak-RoEs behind:** Home loans are the largest retail products for most banks (~20% of total loans for large private banks and ~10% for PSBs excluding SBI). Large banks have a funding cost advantage, which allows them to compete aggressively on pricing vis-à-vis HFCs in the prime/super-prime segment. As a highly secured loan product with low credit costs (~30bps) and low-risk weights (~35%), the high leverage allows banks to deliver healthy RoE (~15%+) on pure HL portfolio. However, peak RoEs seem largely behind with lagged deposit re-pricing.

  Risk weights for home loans across ticket sizes and LTVs are at historic lows, except for the exposure to commercial real estate. Any further reduction in risk weights appears unlikely.

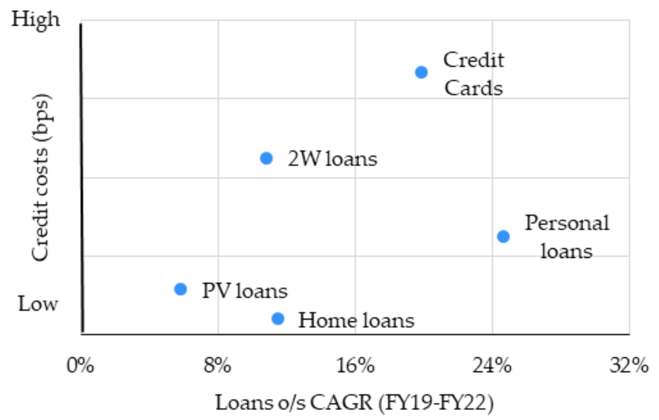
Exhibit 44: Banks' RoE profile - SBI and ICICI Bank

% of assets	SBIN	ICICIBC	Comments
Interest earned	8.0%	8.1%	Based on current lending rates and customer portfolio mix, inclusive of regulatory costs
Interest expended	4.7%	4.4%	Blended cost of funds based on marginal SA and TD rates
Net interest income	**3.2%**	**3.7%**	
Non-interest income	0.1%	0.1%	Processing fees, cross-sell income (insurance etc.)
Operating expenses	1.5%	1.4%	Variable opex plus overheads
Pre-provisioning profit	1.8%	2.4%	
Provisions	0.2%	0.2%	Average of provisions for HDFC, LICHF during FY01-FY19
Tax	0.4%	0.6%	
ROAA	**1.2%**	**1.7%**	
Leverage (x)	16.0	8.2	Overall portfolio leverage
ROAE	**18.9%**	**13.5%**	Based on current lending rates and customer portfolio mix, inclusive of regulatory costs

Source: Company, HSIE Research | Assuming repo rate of 6.5%; The RoE profile is calculated based on our internal estimates

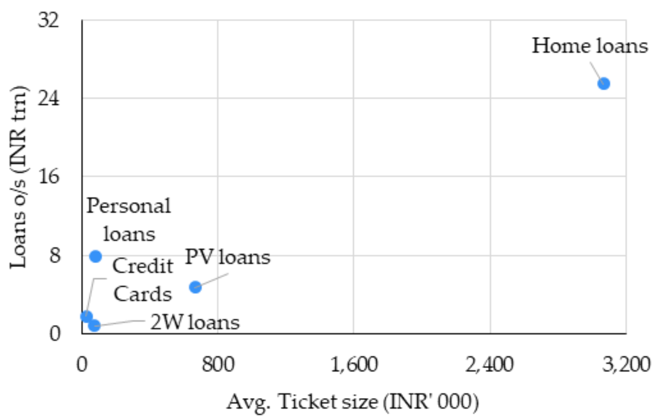
- **Home loans - perpetually attractive to banks:** Home loans constitute a lion's share of banks' retail portfolios (~14% of overall loan book; ~50% of retail loan book). Home loans generate healthy RoE, particularly for banks with strong low-cost deposit franchise (highlighted earlier), and strong underwriting (low credit costs). The long tenure and large-ticket size helps scale up the portfolio and drives customer stickiness on the liabilities side.

Exhibit 45: Loan growth vs. credit costs across retail loan products



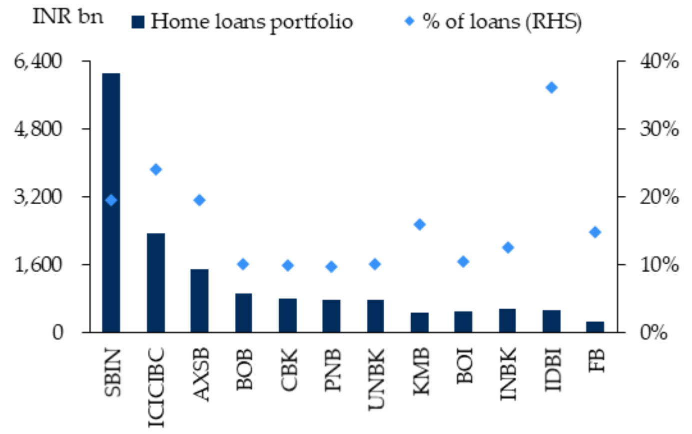
Source: CRIF Highmark, Industry, HSIE Research | Credit costs – based on historic trends and internal estimates

Exhibit 46: Loans o/s vs. average ticket size (Mar-22)



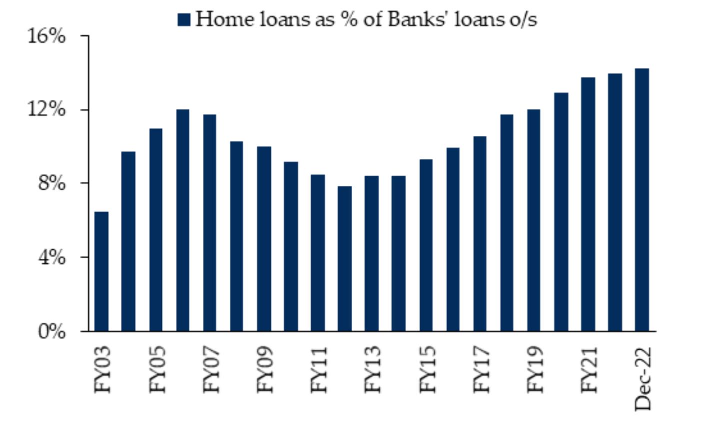
Source: CRIF Highmark, HSIE Research

Exhibit 47: Home loans portfolio of Banks (Dec-22)



Source: Company, HSIE Research

Exhibit 48: Home loans contribution to overall portfolio

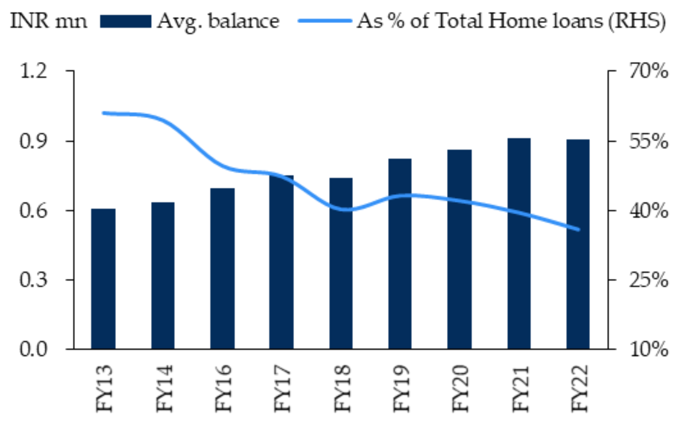


Source: RBI, HSIE Research

- **Reducing mix of PSL-compliant home loans:** Premiumisation of housing demand, with fixed threshold for defining PSL-loans, is leading to declining share of PSL-compliant home loans in the home loans mix for banks. Further, the share of home loans within PSL-portfolio for banks is gradually declining.

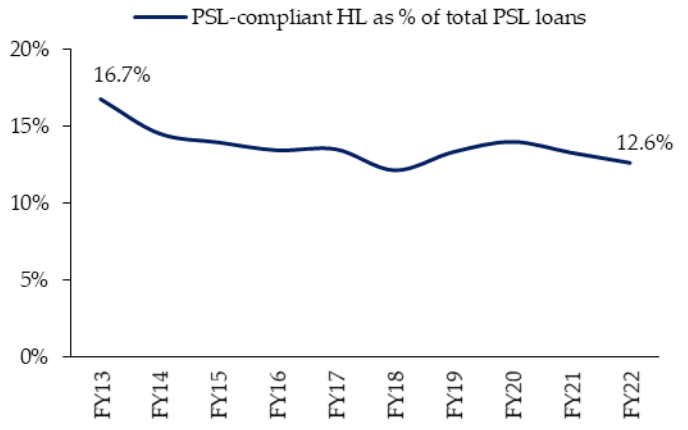
  This is likely to drive the incremental demand towards smaller-ticket or affordable housing loans either through direct sourcing, portfolio buyout (DA) or through co-lending with HFCs.

Exhibit 49: Contribution of PSL-compliant HL to overall home loans reducing



Source: RBI, HSIE Research

Exhibit 50: PSL-compliant HL – reducing share in aggregate PSL



Source: RBI, HSIE Research

Changing contours of sourcing—beyond DSAs

Amidst rising competitive intensity, banks are gradually beginning to shift their home loan (HL) origination models based on their target customer segment - this approach is beneficial not only from a risk-management perspective but also offers levers on the optimisation front. This approach was most famously adopted in the arrangement between HDFC and HDFC Sales—subsequently, such arrangements were mirrored by Axis Bank (Axis Securities) until FY19 and most recently visible in the way SBI has re-wired its home loan origination model.

- **The SBI Securities case study - an emerging template for PSBs:** Over the past five years, SBI has pivoted to extensive use of its step-down subsidiary, SBI Securities, as a channel for open-market sourcing of home loans. This channel now contributes ~1/4th of the overall home loan disbursements for SBI.

  SBI Securities serves the sourcing function for SBI for HL originations through their employees (feet-on-street). The sourcing cost for SBI is limited to pay outs that are linked to disbursements (blended 75bps for HL and auto loans) and hence, purely variable in nature.

Exhibit 51: SBI Securities sourcing home loans for SBI

	Units	FY19	FY20	FY21	FY22
Cities SBI Securities is present in	x	28	52	102	192
Disbursements through SBI Securities	INR bn	150	228	262	307
LTV – Sanctions	%	69.7%	71.4%	76.1%	79.2%
Contribution to SBI business	%	NA	20%	22%	23%
Contribution to SBI business (Cities present in)	**%**	**NA**	**31%**	**34%**	**NA**
Business per sales executive per month	INR mn	7.5	10.8	11.0	11.4
Blended pay-out ratio* (%)	%	***0.73%***	***0.73%***	***0.73%***	***0.75%***

Source: Company, HSIE Research | Note: **Blended for Home loans and Auto loans*

A few other PSBs have now begun mirroring SBI's approach and started shifting their retail loan originations, especially home loans, to off-payroll employees, through their subsidiaries. This arrangement improves PSBs' competitiveness vis-a-vis private peers and drives higher productivity (led by incentives) and better cost efficiency.

Exhibit 52: Other PSBs pivoting towards variable-cost model

Bank	Subsidiary	Comments
Bank of Baroda	Baroda Global Shared Services	Cumulatively sanctioned INR73bn of retail loans till Dec-22
Union Bank of India	UBI Services	Began sourcing from FY23 onwards

Source: Company, HSIE Research

- **Digital, ETB cross-sell—emerging low-cost sourcing channels:** Lenders with a large captive customer base such as ICICIBC, SBIN, BAF etc. are driving portfolio growth by focusing on their existing customers through pre-approved offers and digital channels, to enhance customer stickiness and reduce sourcing costs.

  HFCs such as Navi are experimenting with direct digital channels by providing incentives to customers (up to ~50bps), which they save via the sourcing costs (end-to-end digital process).

- **Affordable HFCs—shift towards inhouse sourcing:** While the sourcing function resides off-payroll for traditional HFCs such as HDFC, LICHF, PNBHF (through subsidiaries, and parent entity channels), new-age affordable-focused HFCs such as AAVAS and APTUS adopt an inhouse sales team for robust risk management. However, this drives lower cost efficiencies driving higher hurdle rate on pricing.

Exhibit 53: Different customer sourcing models at play

	Digital	Sales executives	DSA	Connectors
Ease of scale	Low	Low	High	Low
Pay outs	Nil	Low	High	Medium
Fixed salary	NA	Yes	No	No
Customer stickiness	High	High	Low	Medium
Connect with the customer	Low	High	Low	Medium
Lenders	HDFC, BAF, ICICIBC	AAVAS, APTUS	PNBHOUSING, CANF, PSBs, LICHF	HOMEFIRST

Source: Industry, HSIE Research | Note: Name of companies are not exhaustive

SBI - home loan market leader

- SBI, the largest bank in the country, also has built the largest home loan portfolio (INR 6.1trn as on Dec-22), driven by its strong brand and the largest distribution network.
- SBI has gradually diversified its sourcing mix, through both Open market (SBI securities, DSAs) and branch sourcing (walk-ins, home loan counsellors, ETB customer cross-sell etc.) to drive its portfolio. The operations have been streamlined to reduce TAT, thus improving the competitivebess in the market.
- Average ticket size remains broadly in line with overall market, while delinquencies (GNPA) remain sub-1%.

Exhibit 54: SBIN's home loan portfolio

SBIN	Units	FY19	FY20	FY21	FY22	H1FY23
Home loans o/s	INR trn	4.0	4.6	5.0	5.6	5.9
Market share	*%*	*22.1%*	*23.1%*	*23.0%*	*22.4%*	*22.8%*
Home loans customers	mn	3.3	3.6	4.1	4.5	
Disbursements	INR trn	NA	1.1	1.2	1.3	
No. of loans disbursed	mn	NA	0.4	0.5	0.4	
Average ticket size	INR mn	NA	3.3	2.4	3.2	
Repayment rate	*%*	*NA*	*14.6%*	*15.3%*	*15.0%*	
PSL-compliant	INR trn	1.5	1.5	2.1	2.1	
% of home loans	*%*	*39%*	*33%*	*41%*	*37%*	
GNPA	%	0.83%	0.95%	0.80%	0.74%	0.75%

Source: CRIF Highmark, NHB, Company, HSIE Research | *Note: Calculations of disbursements, ticket size and repayment rates based on disclosures from annual report of SBI and SBI Securities*

HFCs | Multiple headwinds to thwart gradual recovery

HFCs are in the early stages of the next up-cycle with improving operating performance, impetus on growth and gradually increasing non-home loans exposure. However, increasing regulatory headwinds, tighter liquidity, and relentless competitive intensity from banks, are likely to exert pressure on loan growth and margins.

Post the 2019 developer and NBFC/HFC crisis, there has been a clear demarcation of HFCs among growth champions and laggards (due to asset quality distractions, funding issues etc. leading to withdrawal from the market).

Affordable-focused HFCs (detailed discussion in the next section) have emerged as high-growth, and highly-profitable franchises, although their contribution to total HFCs loans remains low (top 20 affordable-focused HFCs contribute to ~9% of HFCs' portfolio).

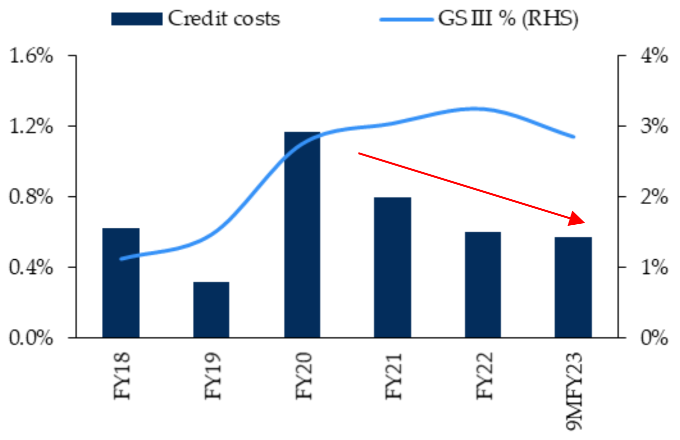
Exhibit 55: HFCs landscaping (Mar-22)

Mar-22		AUM (INR bn)	% YoY	3yr CAGR (%)	Avg. RoE 3yr (%)	NS-III %
Category I Prime segment high growth	HDFC	6,539	14.7%	12.3%	15.4%	1.1%
	BHFL	533	37.2%	44.8%	9.3%	0.1%
	CANF	267	20.8%	13.3%	18.3%	0.4%
Category II Growth headwinds	LICHF	2,511	8.2%	8.9%	12.7%	2.7%
	ABHFL	120	1.1%	1.7%	9.9%	1.5%
	IIFLHL	236	14.1%	9.2%	19.6%	1.3%
	REPCO	118	-3.0%	2.3%	13.6%	5.5%
	TCHFL	293	15.2%	3.4%	12.5%	0.7%
	SHUF	95	3.5%	0.8%	11.7%	1.6%
Category III NPA woes, shrinking balance sheet	ICICIHFC	179	5.3%	10.2%	3.2%	4.3%
	IHFL	722	-10.6%	-15.7%	9.5%	1.9%
	PIRAMAL	652	NA	NA	5.3%	1.6%
	PNBHOUSING	660	-11.4%	-8.0%	9.4%	5.3%
	MRHFL	76	-0.6%	-1.9%	9.1%	8.9%
Affordable Segment High growth	AAVAS	114	20.1%	24.1%	13.0%	0.8%
	AADHAR	148	10.9%	13.8%	13.5%	1.1%
	APTUS	52	27.3%	32.1%	15.7%	0.9%
	HOMEFIRST	54	29.9%	30.1%	10.7%	1.8%
	SHFC	54	36.3%	42.6%	10.1%	1.3%

Source: Company, HSIE Research | *Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd | PIRAMAL growth numbers are not mentioned due to acquisition of DHFL*

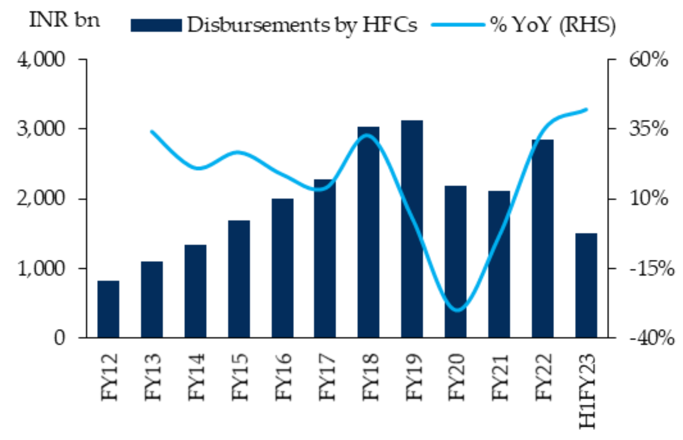
- **Back on growth trajectory, waning credit costs**: HFCs have gradually reverted to growth phase with strong housing demand, ceding of asset quality woes and relatively improving liquidity environment.

Exhibit 56: Credit costs/GNPA waning off



Source: Company, HSIE Research | *Credit costs and GS III for the following HFCs (contributing to >82% of HFCs advances): HDFC, IHFL, LICHF, PNBHOUSING, CANF, REPCO, BHFL, ICICIHFC, AAVAS, APTUS, HOMEFIRST, ABHFL, SHUF and MRHFL* | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 57: Strong momentum in disbursals during FY21-H1FY23



Source: NHB, HSIE Research

- **Multiple regulatory headwinds for HFCs, more may be in the offing**: The slew of regulatory changes by RBI, post taking over as the regulatory authority for HFCs from NHB, has led to rising regulatory costs such as LCR norms, NPA recognition norms, floor for exposure towards housing finance etc., leading to a gradual impact on profitability for most HFCs.

Exhibit 58: Changing regulatory landscape for HFCs

Regulation	Effective from	Impact	Intensity of impact	Most impacted
LCR >= 100%	Graded manner – 100% by Dec-25	Higher liquidity on the balance sheet leading to lower NIM	**Medium**	Most HFCs
Minimum share of Housing Finance in total assets (netted off by intangible assets)	60% towards Housing Finance; 50% towards Housing Finance for Individuals by Mar-24	Limited portfolio diversification could impact yields	**Low to medium**	PNBHOUSING, BHFL, IIFLHL
NPA recognition and up gradation norms	Daily tagging of NPA and up gradation only post full recoveries	Higher reported GNPA	**Low**	AAVAS, APTUS, HOMEFIRST

Source: RBI, HSIE Research

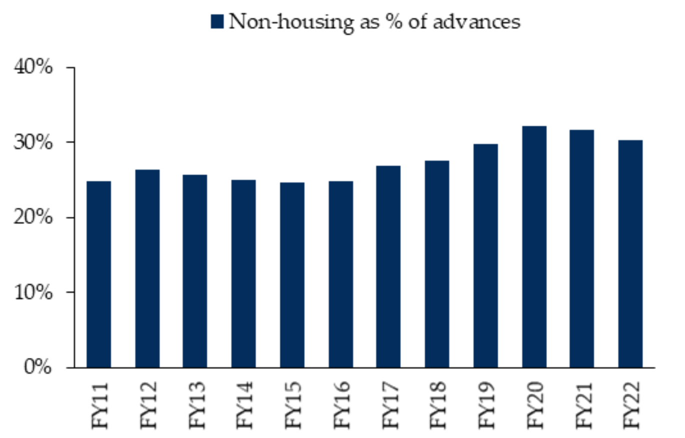
HFCs have been kept out of the PCA framework compared to NBFCs. **However, home loan pricing continues to be the biggest regulatory arbitrage for HFCs compared to banks**. Banks have to mandatorily offer external-benchmark-linked floating-rate or fixed-rate loans to retail/MSME customers, with no such restriction on HFCs. This arbitrage has significant implications, particularly in a declining interest rate environment, with lopsided monetary transmission for the customers of HFCs.

- **Product diversification cap - impact on select HFCs:** The RBI's new guidelines on minimum exposure to housing finance and housing finance for individuals is likely to impact select HFCs, which are already full-optimised on non-home loans portfolio to drive higher margins. The current asset mix and regulatory thresholds could constrain growth in non-home loans (LAP/CF etc.) for several HFCs, to the extent of growth in the core HL portfolio.

  While the threshold kick-in by Mar-24 in a graded manner, BHFL and APTUS seem to be falling short of the regulatory thresholds at this stage. Most other HFCs have increased their share of core HL during FY20-FY22, offering incremental room for exposure to non-home loans (LAP etc.).

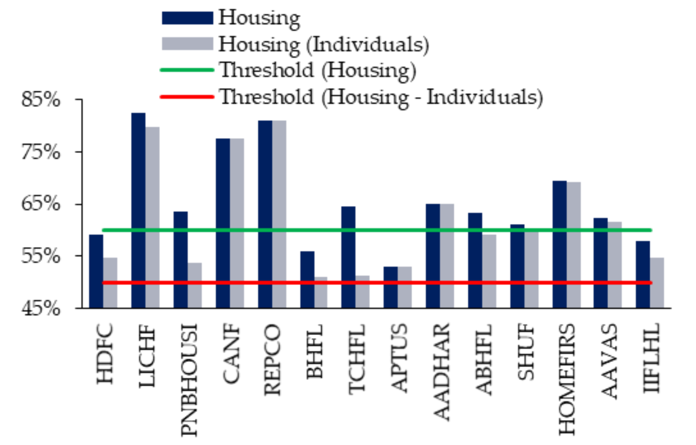
  We note that select HFCs such as BHFL, TCHFL, ABHFL, SHUF and IIFLHL have either a parent or subsidiary NBFCs, which could build out the LAP/CF portfolio, given the non-home loans exposure cap on the HFC.

Exhibit 59: Non-housing loans as % of total loans for HFCs



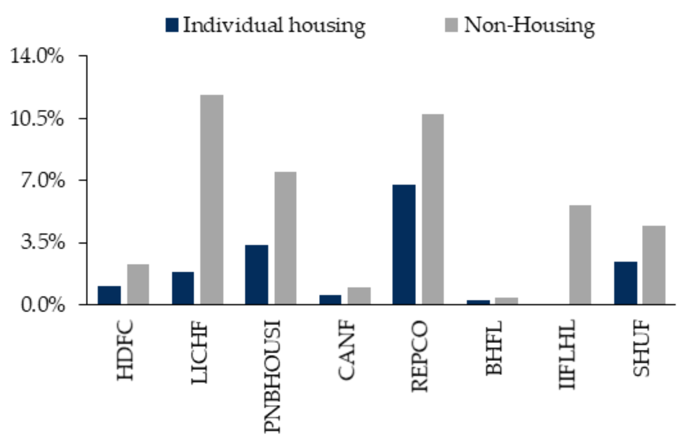
Source: NHB, HSIE Research

Exhibit 60: Share of home loans and thresholds set by RBI (Mar-22)



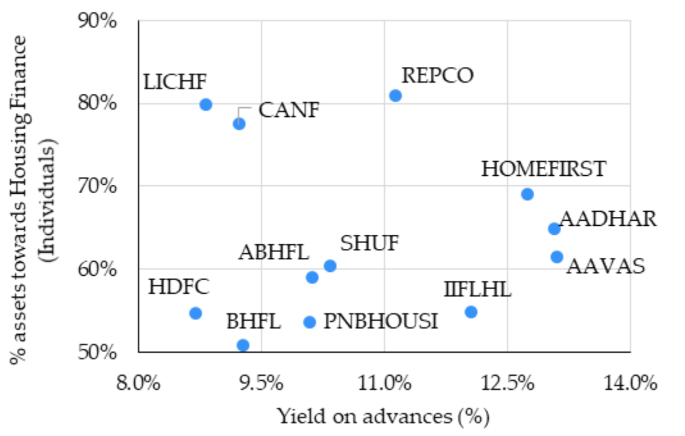
Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 61: GNPAs in the Non-Housing segment signficantly higher compared to Individual HL (Mar-22)



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd | Individual Housing, Non-Housing classification as per NHB norms

Exhibit 62: Yields (avg. of FY20-FY22) vs. Individual HL assets (Mar-22)



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

- **LAP - large growth canvas:** Loans against property (LAP), ~INR 8.5trn market, continue to be one of the major avenues for MSMEs and small businesses to raise funds for business needs, along with various personal needs. While the collateral is similar to that of a home loan (mostly residential property), the vagaries of the business and subsequently cash flows and little end-use monitoring entails several credit risk for the lenders, reflecting in higher delinquencies and credit costs compared to home loans.

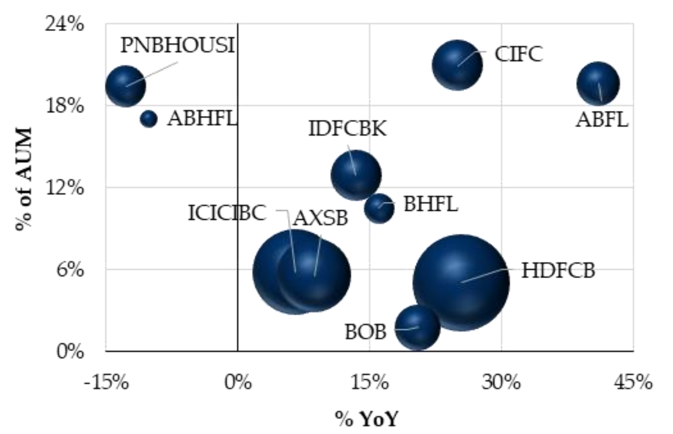
  Micro-LAPs (ticket-size of sub-INR1.5mn) or small business loans (~15% of the LAP market) has emerged a high RoA product for select lenders (SFBs, HFCs, NBFCs etc.) with focused underwriting approach driving superior pricing power (yields of ~15%+). However, the opex intensity in terms of underwriting, due-diligence, collections intensity etc. is fairly high necessitating high focus and calibrated portfolio build-up.

Exhibit 63: LAP – different product segments

	LAP	Micro-LAP
Market size	~ INR 7 trn	~ INR 1.2 - 1.5 trn
Average Ticket size	INR 1.5mn – 30mn	Up to INR 1.5mn
Sourcing	DSA, Branch-led	DST, DSA
Tenure	~10 years	~5-10 years
Average yield	~10-13%	~15% - 20%
Delinquencies	~100 bps	~150 – 250bps
ROA	~1.5% - 2.5%	3% – 5%
Key players	Private Banks, NBFCs (ABFL, CIFC etc.), HFCs (BHFL, PNBHOUSI, ABHFL	All affordable housing HFCs (IIFLHL, AAVAS, APTUS, HOMEFIRST, AADHAR etc.)

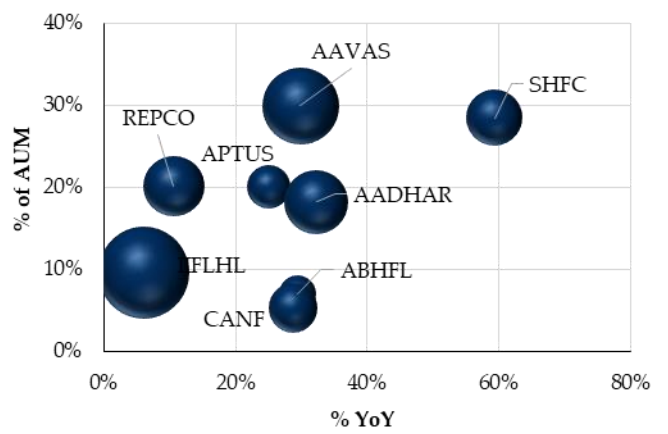
Source: CRISIL Research, Industry, HSIE Research

Exhibit 64: LAP portfolio - dominated by banks (Dec-22)



Source: Company, HSIE Research | Size of the bubble denotes AUM of LAP portfolio as on Dec-22 | Note: HDFC securities is a subsidiary of HDFC Bank

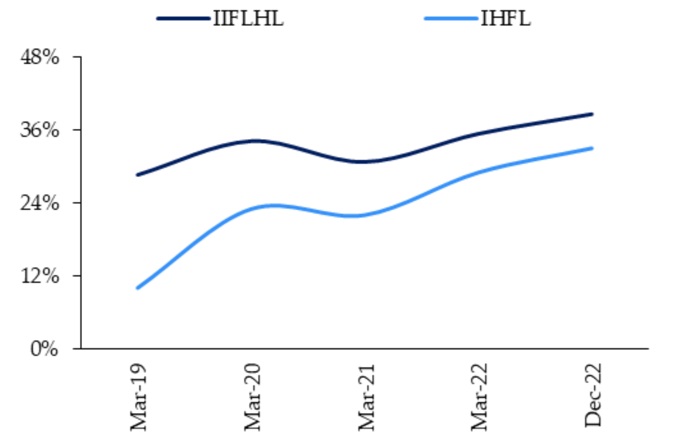
Exhibit 65: Micro-LAP portfolio (Dec-22)



Source: Company, HSIE Research | Size of the bubble denotes AUM of Micro-LAP portfolio as on Dec-22

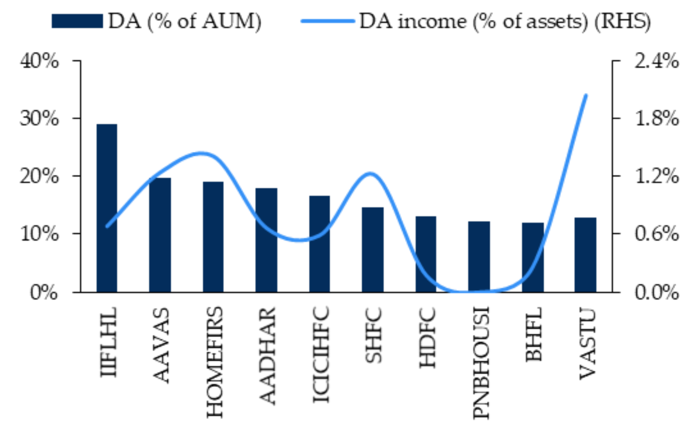
- **Asset-light models at play for select HFCs:** Select HFCs such as IIFL Home Finance and Indiabulls Housing Finance have pivoted towards an asset-light model (off-balance sheet) with a high focus on portfolio sell-down, co-lending and securitisation in order to preserve liquidity, as well as to drive higher income with low capital deployment. The Direct Assignment (DA) model accounts for 90% of the mortgage securitisation transactions.

Exhibit 66: Off-balance sheet as % of AUM



Source: Company, HSIE Research

Exhibit 67: Direct assignment – liquidity plus fee income (FY22)



Source: Company, HSIE Research | Note: List is not exhaustive | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

The RBI's revised co-lending guidelines (CLM), announced in Nov-20, provide an avenue for banks to build their PSL portfolio, while offering liquidity support and fee income to HFCs.

Exhibit 68: Direct assignment vs. co-lending model

	Direct assignment	Co-lending
Description	Portfolio sell-down to another lender on lump-sum basis	Origination of loans as per pre-agreed policy b/w co-lenders with sharing on 80:20 basis with joint underwriting
Type of loans	All loans except revolving credit, bullet payment loans, exposure to other lenders	Priority and non-priority sector loans
Portfolio retained by originator	MRR – 10%	Minimum 20%
Minimum holding period	MHP – 6 months/2 quarters	NA
Revenue streams	Interest spread over the lifetime of the loan plus servicing fee	Origination fee, service fee, Interest spread over the lifetime of the loan
Credit risk	No credit risk to the originator	Credit risk in proportion to the share of the loan with the originator
Credit appraisal	Originator	Concurrent underwriting
Top originators	HDFC, IHFL, PNBHOUSING	IHFL, IIFLHL

Source: RBI, Company, HSIE Research

- **Banks - opportunity to tap into the affordable segment:** Co-lending model (CLM) offers banks an avenue to originate PSL-compliant loans through HFCs/NBFCs, without the investments (in distribution and underwriting capabilities) for those segments. Several PSBs such as SBI, UNBK, CBOI etc. have entered into co-lending arrangements with HFC/NBFCs to drive PSL-compliant retail portfolio growth. For instance, CBOI has an outstanding portfolio of INR48bn across retail and MSME.

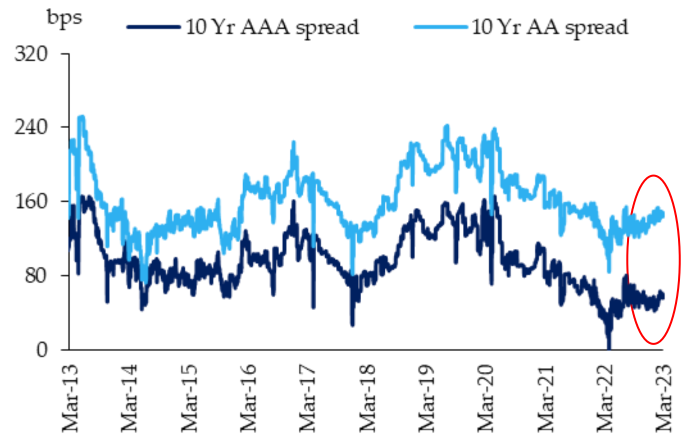
- **Margin compression amidst tightening liquidity environment**: The rising interest rate environment is likely to be margin dilutive for HFCs. While the assets side is largely floating-rate, liabilities are either fixed-rate (NCDs etc.) or MCLR-linked borrowings (MCLR hiked by ~120bps during 9MFY23 and another ~30bps during Q4FY23). The spreads for AA-rated and even AAA-rated NBFCs has moved up across tenors.

  For affordable-focused HFCs, the passing of rate hikes to borrowers has been gradual (~50bps to 125bps) with large comfort on the spreads. APTUS, which has a high fixed-rate portfolio (~76%) is likely to witness higher NIM compression compared to other HFCs.

  While prime-focused HFCs have passed on a lion's share of the rate hike to borrowers (145bps-225bps during 9MFY23), incremental transmission of rate hikes is likely to be calibrated as lenders trade off growth, asset quality and margins.

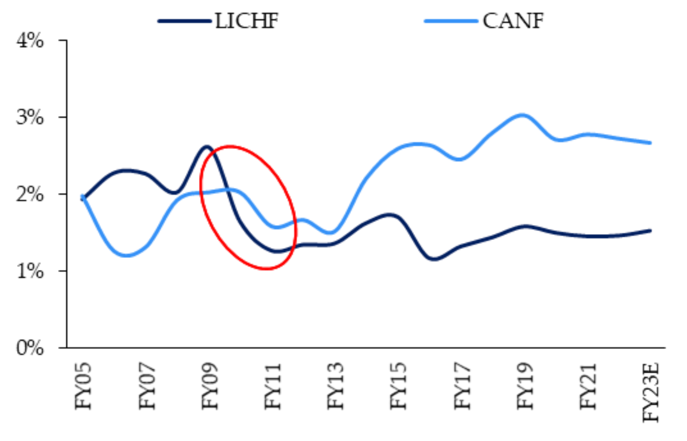
  We expect the cost of funds for HFCs to increase by another 40-50bps during FY24-FY25E (assuming similar levels of competitive intensity).

Exhibit 69: 10-year spreads for NBFCs - inching up from decadal lows



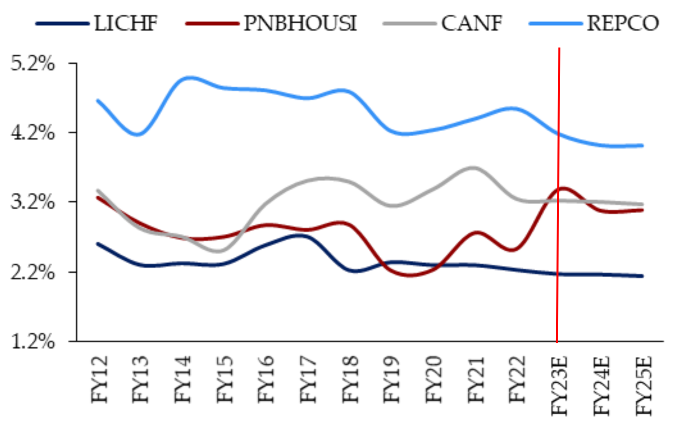
Source: Bloomberg, HSIE Research

Exhibit 70: Impact on spreads in a rising interest rate environment



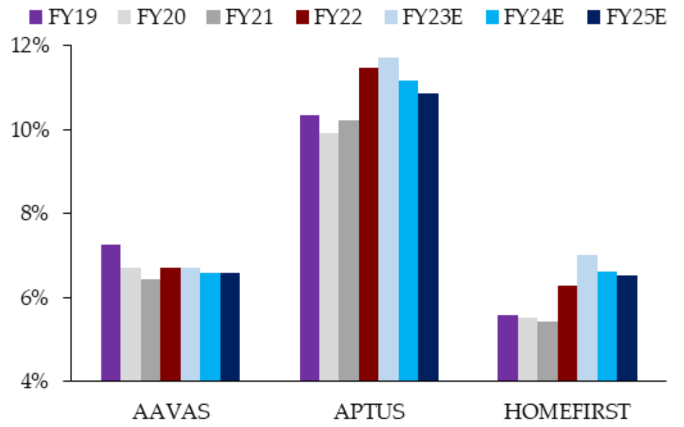
Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 71: NIM - expect marginal compression during FY24-FY25E



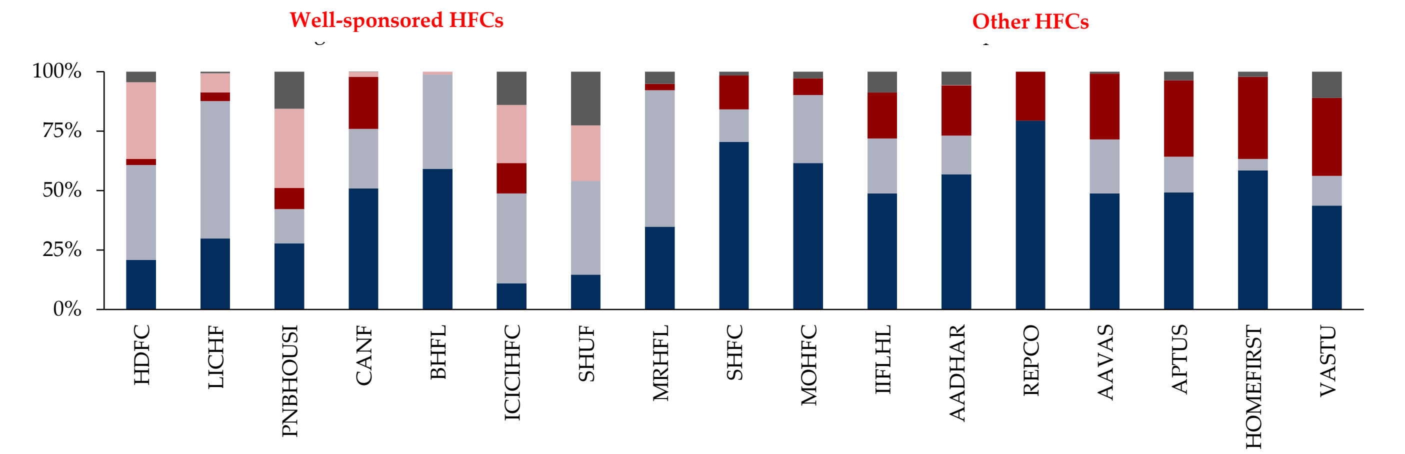
Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 72: NIM (calculated) for affordable-focused HFCs to come under pressure



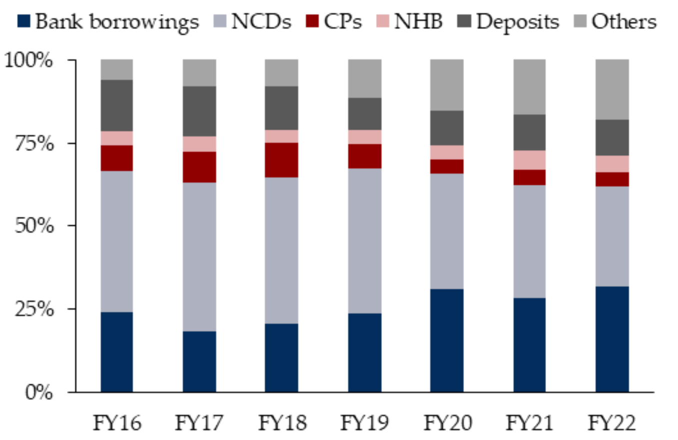
Source: Company, HSIE Research

Exhibit 73: Borrowings mix of HFCs (Mar-22)



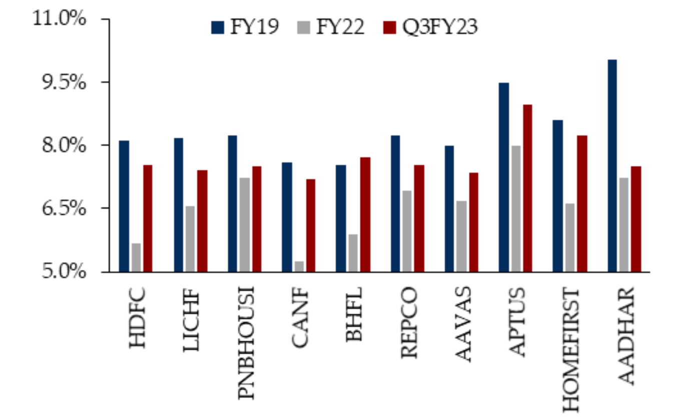
Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 74: Borrowings mix of HFCs



Source: Company, HSIE Research

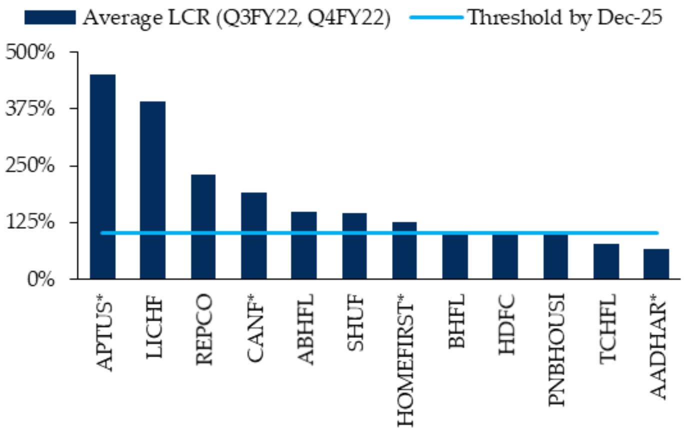
Exhibit 75: Cost of funds (calculated) for HFCs



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

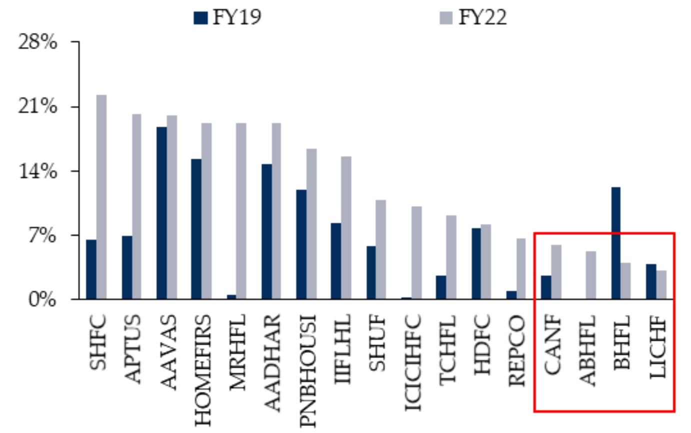
- **LCR impact on margins - a gradual impact**: The implementation of LCR norms in a graded manner is likely to impact the margins for HFCs due to additional negative carry on the balance sheet, given they are mostly wholesale-funded. This is most likely to impact well-sponsored HFCs, which have been optimising to the fullest on liquidity to drive margins.

Exhibit 76: LCR for H2FY22 - several HFCs are below 100% (target by Dec-25)



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd | Note:* Average LCR for Q3FY22 not available

Exhibit 77: Surplus liquidity (Cash plus investments) as % of borrowings

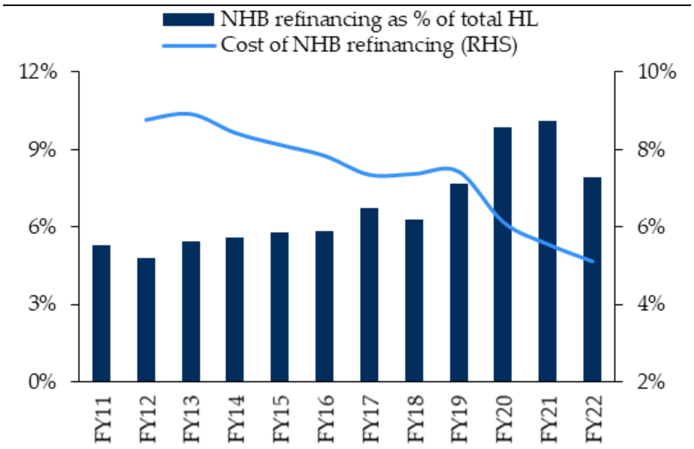


Source: Company, HSIE Research | Investments exclude investments in subsidiaries & associates | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

- **NHB refinancing offers breather to smaller HFCs:** NHB refinancing continues to offer liquidity and low-cost funding avenue (through select schemes) for affordable-focused HFCs (AHFCs), particularly during periods of tight liquidity. NHB refinance accounts for ~20-35% of borrowings for most HFCs.

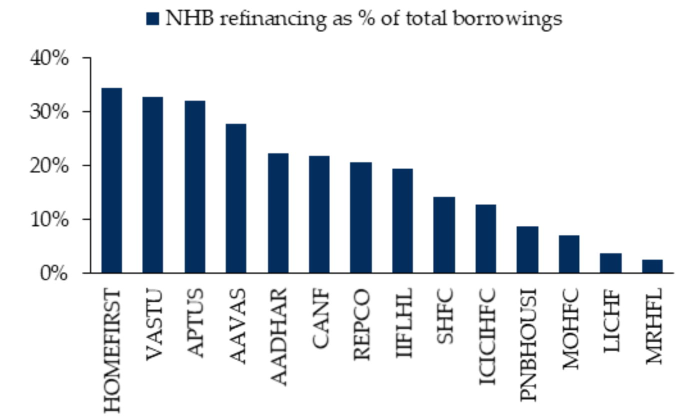
  Going forward, we expect the share of NHB borrowings for these HFCs to come off with scale, driving cost of funds higher.

Exhibit 78: NHB refinancing to HFCs



Source: NHB, HSIE Research

Exhibit 79:NHB refinancing as % of total borrowings (Mar-22)



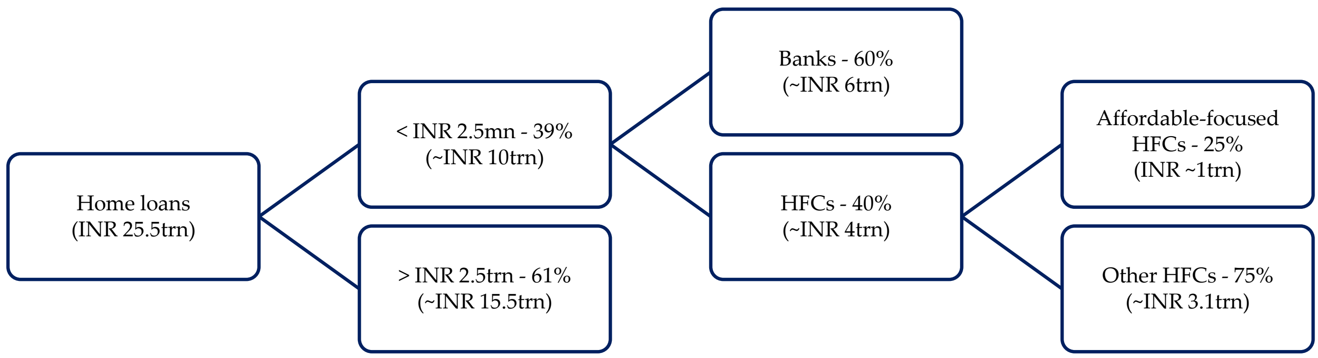
Source: Company, HSIE Research

Affordable-focused HFCs | High-potential niche

- **Low on current scale; high on potential**: Home loans with ticket size < INR 2.5mn (~37% of loans outstanding) have grown at a relatively muted pace (~11% CAGR during FY15-FY22 vs. industry growth rate of ~14% CAGR).

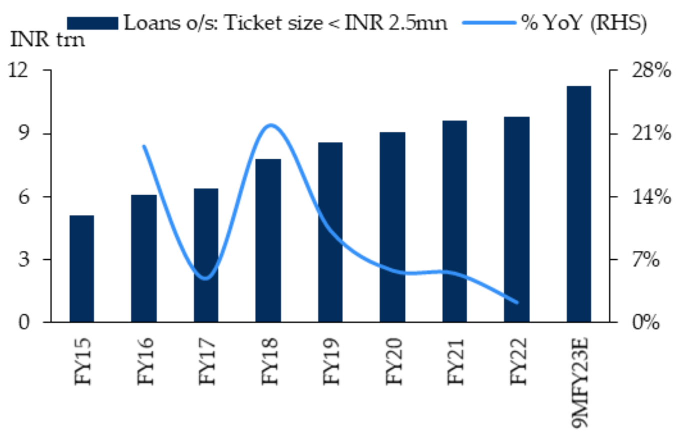
  Our bottom-up analysis of the top 20 largest AHFCs (accounting for ~4% of HL outstanding) indicates that AHFCs are gradually emerging as high-growth (~17% CAGR during FY19-FY22), high-RoA (average of 2.2% during FY19-FY22) franchises. The superior pricing power (average yields of ~13%) offsets higher opex intensity (opex to assets at ~2.7%) and credit costs (~110bps), driving super-normal profitability. AHFCs are predominantly focused on the EWS/LIG segments with an average ticket size of ~INR0.5mn-2.5mn.

Exhibit 80: Home loans landscape (Mar-22)



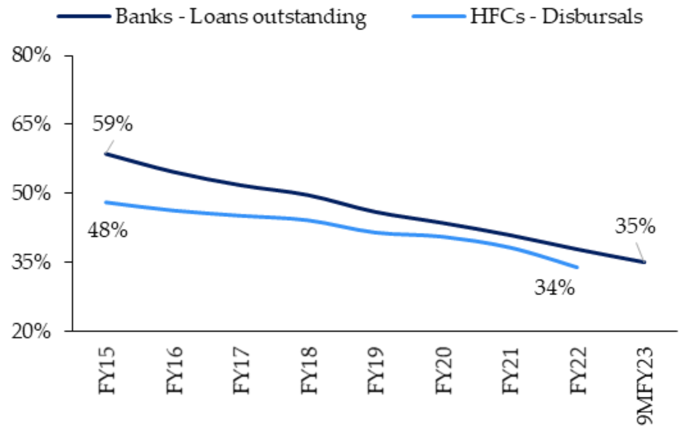
Source: CRIF Highmark, CRISIL Report, Industry, HSIE Research | Top 20 Affordable-focused HFCs

Exhibit 81: HL (ticket-size < INR 2.5mn) – growth impacted during FY19-FY22



Source: CRIF Highmark, CRISIL report, HSIE Research

Exhibit 82: Share of HL with ticket-size < INR 2.5mn for banks (loans o/s) and HFCs (disbursals by value)



Source: RBI, NHB, HSIE Research

- **Defining affordable housing loans:** While the RBI defines priority sector housing loans based on ticket sizes (<=INR 3.5mn/INR 2.5mn for metros/non-metros) and property value (<=INR 4.5mn/INR 3.5mn for metros/non-metros), our analysis of the affordable housing segment in this report is based on the customer/income profile and the dwelling unit size. Key characteristics of an affordable housing loan are as follows:
    - **Customer profile:** Limited formal documentation of income which typically leads to higher interest rates (due to higher assessed risk profile) and low LTV (due to income/instalment criteria)
    - **Dwelling unit size:** ~300-600 sq. ft. carpet area (depending on population group), leading to lower average ticket size (~INR 0.5 - 2.5 mn)

Exhibit 83: Affordable home loans vs. Prime home loans

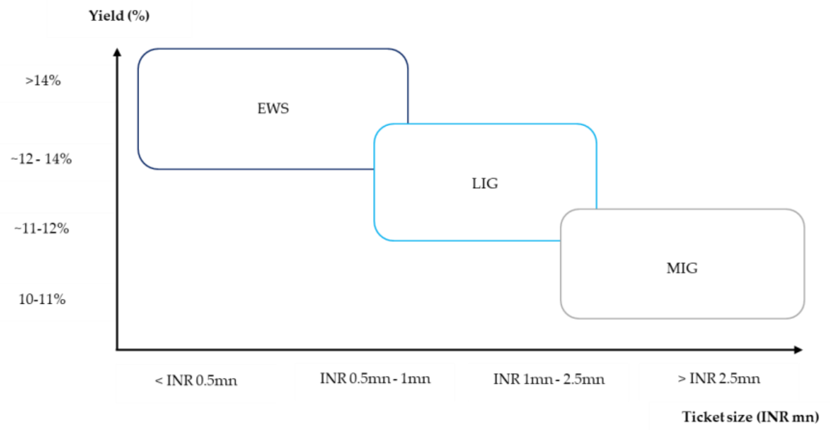
	Units	Prime home loans	Affordable home loans
Customer profile			
Income/salary profile		Formal income	Low documentation of formal income, high informal/cash income
Unit size (Carpet area)	Sq ft	> 500	< 500
Average monthly income*	INR' 000	>50	<50
Share of NTC customers		Low	High
Asset pricing			
Pricing**	%	Up to 10 - 11%	~12% - 17%
Average ticket size	INR mn	2 – 15	Up to 2.5
Average LTV	%	70% - 90%	~50%
Processing fees	%	Low (Nil to 0.5%)	High (~2%+)
Opex intensity			
Branch productivity	INR mn/month	>30	10 – 20
Employee productivity	INR mn/month	5 - 15	2 – 3
TAT (till disbursal)	Days	3-4	10 - 12
Application rejection rate		Low	Medium to High
Asset Quality			
Early delinquencies		Low	High
Underwriting		Formal documentation	Surrogate assessment
Credit costs***		Low	Low to Medium

Source: Company, Industry, HSIE Research | Note: * Depends on the customer profile as well; ** Assuming Repo rate of 6.5%; *** Based on historic trends of affordable-focused HFCs; Metrics in the exhibit may vary from one lender to another

- **Affordable housing landscape:** The affordable housing segment could be segmented based on income profile (EWS/LIG/MIG), source of income (formal/informal salaried/self-employed) and ticket size, which typically determine the yields.

  The EWS segment remains the most vulnerable and hence is typically levied high yields for home loans (~>13%) to factor in high delinquencies. The LIG and MIG segment remains the sweet spot for most affordable HFCs driving high yields adjusted for the credit costs.

Exhibit 84: Affordable housing landscape



Source: Industry, HSIE Research I Yield for base repo rate at 6.5%; The above chart is indicative in nature

- **Large growth canvas, but improving affordability remains the key:** Our analysis of Census 2011 data indicates fairly low proportion of housing stock in good condition (35%/49% for rural/urban), while NFHS-5 survey indicates ~48%/85% of housing stock in permanent structures. This indicates a large demand for housing up gradation/construction in both rural and urban areas.

Exhibit 85: ~35%/50% of housing stock was in good condition in rural/urban areas as per Census 2011

	Rural				Urban			
	1991	2001	2011	2021*	1991	2001	2011	2021*
No. of housing stock	**112**	**138**	**169**	**238**	**39**	**56**	**81**	**128**
% in Good condition		*34%*	*35%*	*NA*	*0%*	*47%*	*49%*	*NA*
% Permanent structures		*22%*	*39%*	*48%*	*0%*	*61%*	*60%*	*85%*
% Concrete roof	***3%***	***8%***	***14%***	***NA***	***23%***	***31%***	***37%***	***NA***
People per household	5.6	5.4	4.9	NA	5.5	5.1	4.7	NA
Population CAGR	**2.2%**	**1.7%**	**1.2%**	**0.8%**	**3.3%**	**2.8%**	**2.8%**	**2.6%**

Source: Census Data, NHFS-5, World Bank, HSIE Research I*Note: * Estimates for housing stock I % Permanent structures – Puccha houses as per NFHS-5 Survey*

While the government's "Housing-for-All" schemes (PMAY-G and PMAY-U) during FY15-22 have aided in narrowing this gap materially, the potential for growth in housing stock still remains high. It is worth highlighting that ~96% of the shortage in housing in urban areas, as per the Planning Commission estimates, was for EWS/LIG segment—the target segment for affordable-focused HFCs.

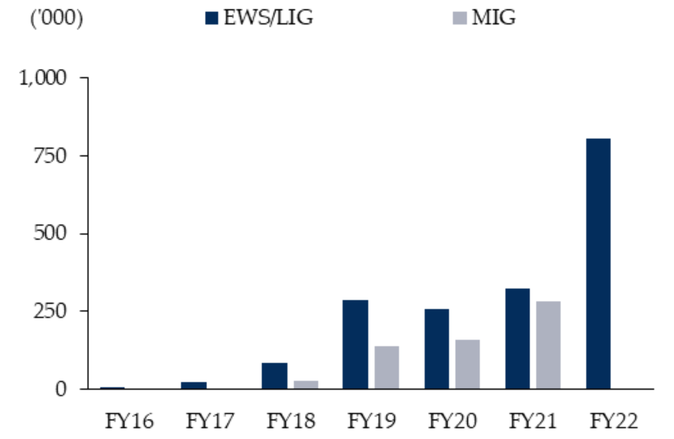
However, this untapped demand is likely to materialise gradually with the improving income levels and affordability in the LIG/EWS segment, as home loan is typically a "**pull product**" rather than a "push" product in this category.

Exhibit 86: Government schemes have accelerated the coverage of housing shortfall

(mn)	Urban	Rural
Housing shortage in 2012 as per Government estimates	19	40
Incremental shortage during 2012-2022	29	25
Total shortage	48	65
Houses constructed under PMAY & earlier schemes	22	39
% houses constructed under Government schemes	*47%*	*59%*

Source: MoHUA, MoRD, Deloitte Analysis, HSIE Research

Exhibit 87: ~2.5mn beneficiaries under PMAY-U (CLSS) scheme, ~75% from the EWS/LIG segments



Source: MoHUA, HSIE Research

- **CLSS schemes— withdrawal unlikely to materially dampen demand:** The discontinuation of CLSS scheme under PMAY-U from Mar-21 for the MIG segment and Mar-22 for EWS/LIG segments is unlikely to have material impact on the housing demand, as these schemes acted as enablers rather than being the primary driver. The same is evident in the strong disbursals during FY22-FY23 for affordable-focused HFCs.

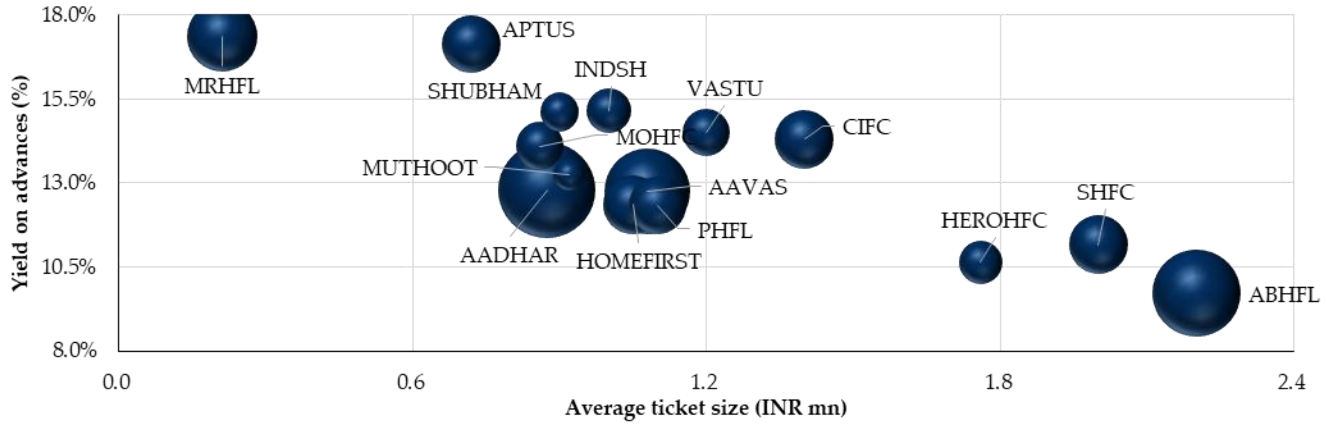
  The schemes provided healthy interest subsidy of up to ~INR 0.2mn (~15-20% of average loan amount) for the EWS/LIG segments, driving lower LTV and higher comfort level for lenders in this segment.

- **Decoding high risk-adjusted yields in affordable home loans:** Affordable-focused HFCs enjoy significant risk-adjusted pricing power as they operate in a higher risk segment compared to banks/traditional HFCs basis either the customer profile (informal salaried/self-employed with low formal documentation) or the property type (outside municipal limits).

  Further, **the high processing fees, insurance cross-sell** and other penal charges help drive the effective yields and fee income higher.

  As highlighted earlier, yields in this segment vary from ~11-12% to ~17-18% depending on the customer profile (sources of income, occupation etc.) and the underlying property.

Exhibit 88: Affordable-focused HFCs – average ticket size and yield on advances (FY22)



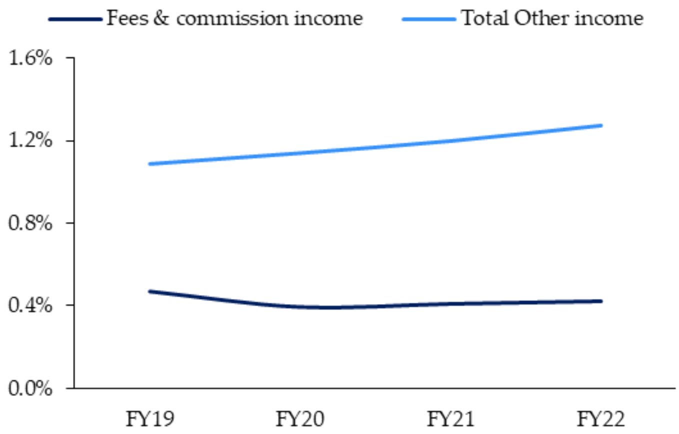
Source: Industry, HSIE Research | Size of the balloon denotes AUM as on Mar-22 | Only HL portfolio in case of CIFC

Exhibit 89: Affordable-focused HFCs - impact of asset mix on all-in pricing

Q3FY23	Rate of interest - Housing			Rate of interest - LAP			Non-Housing mix %	Wt. Avg.	Processing fees	Fee income/AUM
	Min	Max	Mean	Min	Max	Mean				
AAVAS	8.50%	24.00%	12.99%	9.50%	24.00%	15.47%	29.9%	13.7%	~2%	0.44%
AADHAR	9.00%	16.75%	13.56%	12.50%	18.00%	16.51%	18.0%	14.1%	~INR 8.5K	0.71%
PHFL	6.95%	22.00%	13.68%	10.00%	26.50%	15.92%	36.0%	14.5%	~1% - 2%	0.34%
INDSH	9.75%	20.00%	13.73%	11.50%	20.50%	15.93%	31.4%	14.4%	~2% - 3%	0.61%
SHUBHAM	9.90%	20.00%	13.09%	10.50%	22.00%	17.35%	29.0%	14.3%	~INR 6K	0.50%

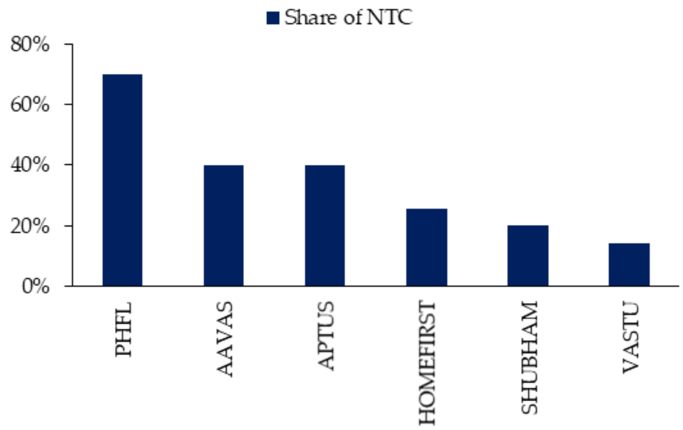
Source: Company, HSIE Research | *Note: Processing fees excludes the admin charges required for documentation purposes such as Legal, Technical, Valuation etc.* | *Share of Non-Housing as of Dec-22 for AAVAS, Mar-22 in case of others*

Exhibit 90: Healthy non-interest income (% of AUM) for affordable-focused HFCs



Source: Company, HSIE Research | For Top 20 affordable-focused HFCs

Exhibit 91: Share of NTC customers (Mar-22) - affordable segment (Mar-22)



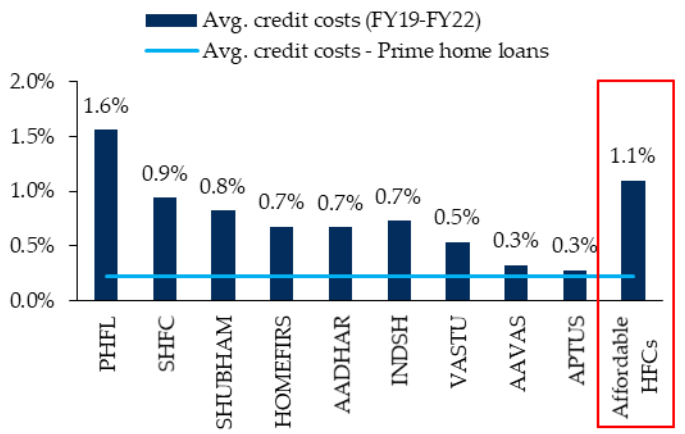
Source: Company, HSIE Research

- **Credit costs—favourable risk-reward at play:** Delinquencies in the affordable segment for most HFCs, while higher than prime home loans, are relatively subdued, compared to the yields. Even after adjustment for the high-growth phase (two-year lagged analysis for credit costs and GNPA), credit costs are ~50-70bps higher than that for prime home loans even during the pandemic period (vs. ~300-400bps premium in yields). While the early delinquencies are higher (1dpd+ at ~5-10%), robust collections architecture ensures low translation into NPAs.

  This is largely on account of the stringent underwriting approach reflecting in lower approval rates (~40-50%) and LTV (~50%) and lending in the ticket size range of INR 0.5-2.5mn. EWS segment with low ticket size (< INR 0.5mn) continues to witness high delinquencies. Deviation from the above framework could lead to the ballooning of NPAs, as evidenced in the case of MOHFC.

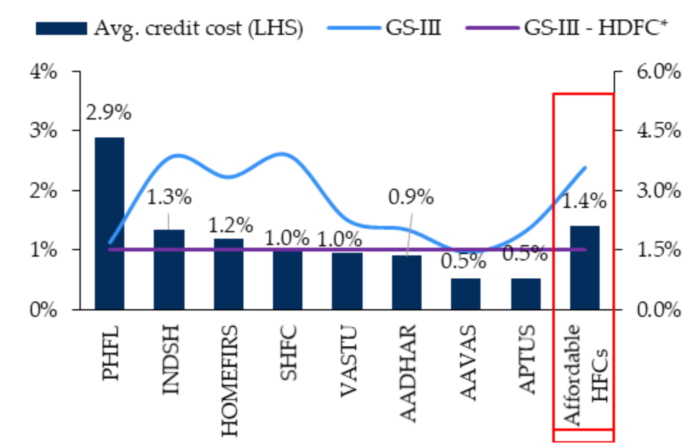
  Going forward, the credit costs for the affordable-focused HFCs, in general, are likely to inch up, if underwriting norms get relatively lenient in response to growth pressures in a rising competitive environment.

Exhibit 92: Credit costs (provisions) have been relatively muted



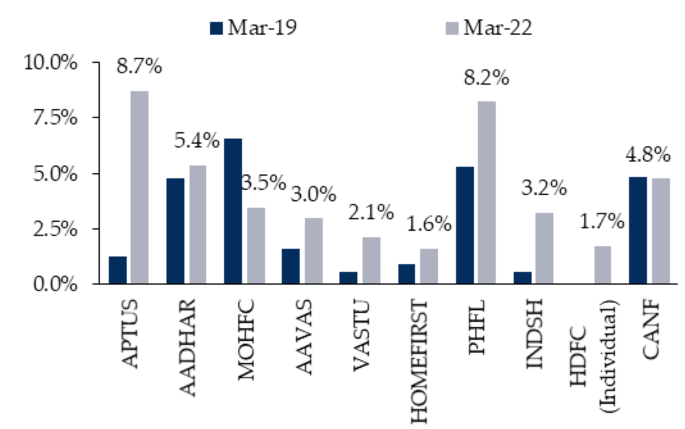
Source: Company, HSIE Research | Credit costs for Prime home loans – Average of provisions for HDFC and LICHF during FY01-FY19 | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 93: 2-year lagged analysis - GS-III (Mar-22) and Credit costs (average of FY20 - FY22)



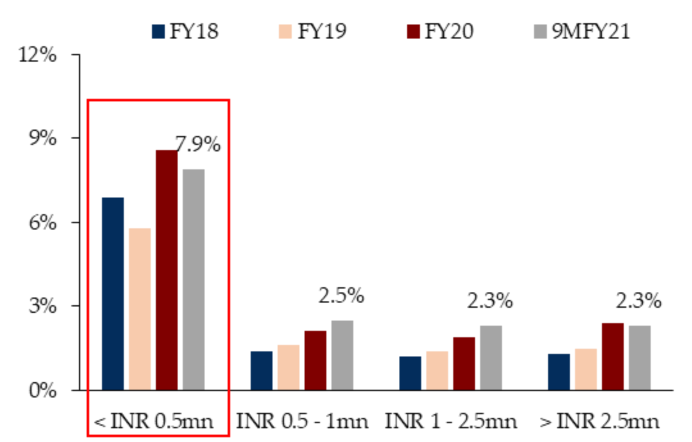
Source: Company, HSIE Research | 2 year lagged credit costs = Credit costs for year N divided by Gross advances for year N-2; similarly for GS-III | GS-III for HDFC for Individual segment | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 94: GS-II for affordable-focused HFCs



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 95: Home loans GNPA by ticket size for HFCs

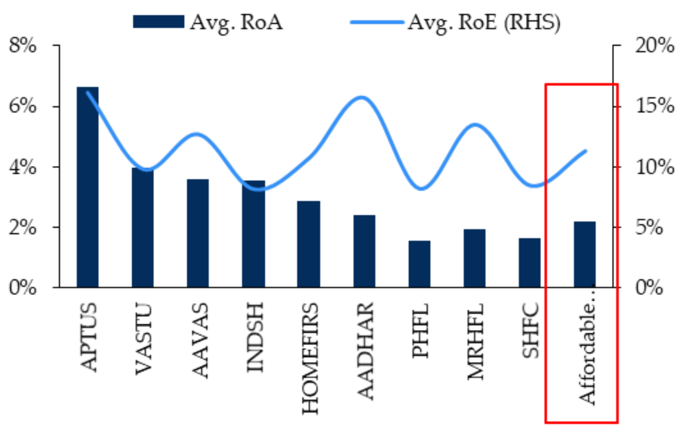


Source: APTUS RHP, HSIE Research

- **Lucrative profit pools -> umpteen new entrants -> growth/margin pressure:** High risk-adjusted pricing power has driven competition from numerous new entrants) and existing players, in the affordable segment. The number of HFCs had surged during FY15-FY19 (~41 HFCs added during FY15-FY19), with most of them operating in the affordable segment.

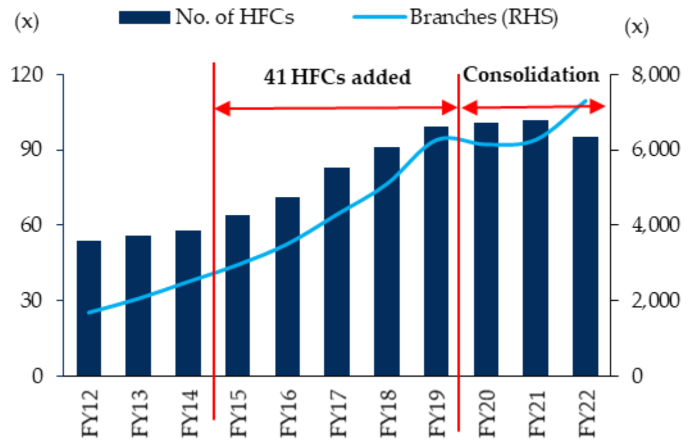
  While the growth runway remains large, the increasing competitive intensity is likely to drive lower loan growth aspirations in the near to medium-term or exert pressure on margins as more affordable-focused HFCs continue to gain scale. Given most of these affordable-focused HFCs are flush with equity capital with relatively few distractions, consolidation within the industry may be a while away.

Exhibit 96: RoA of affordable-focused HFCs (average of FY19-FY22)



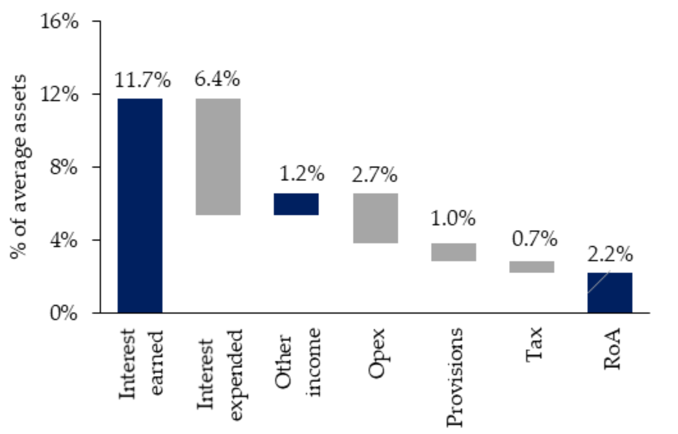
Source: Company, HSIE Research | Avg. RoE for FY20-FY22 in case of MOHFC| RoA/RoE for Top 20 Affordable-focused HFCs

Exhibit 97: New addition of HFCs has moderated after an astronomical surge during 2015-19



Source: NHB, HSIE Research | Year ending 30th June

Exhibit 98: Earnings profile of affordable-focused HFCs (% of average assets) (average of FY19-FY22)



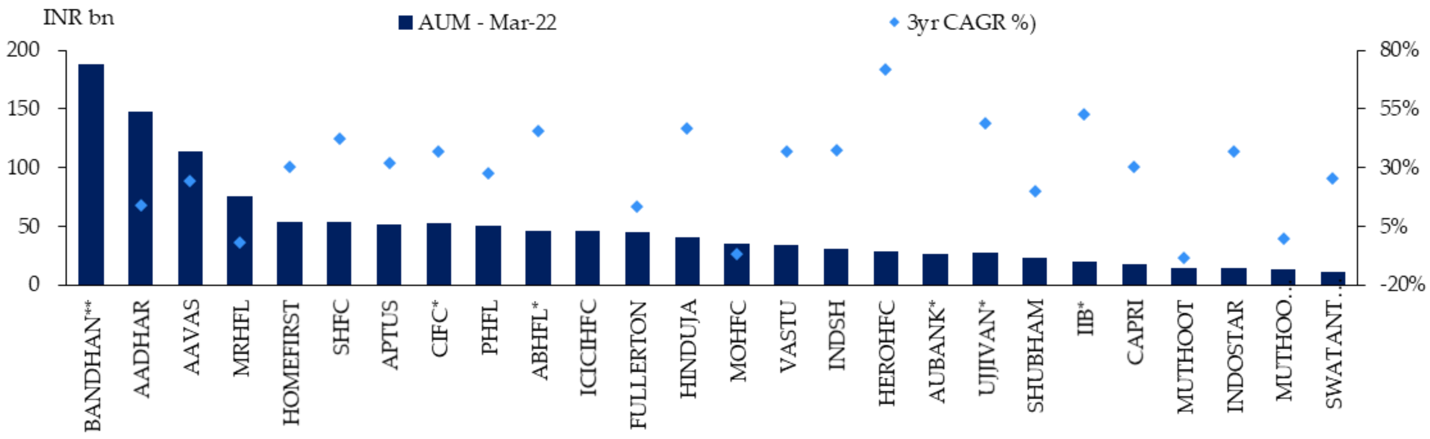
Source: Company, HSIE Research | RoA tree for Top 20 affordable-focused HFCs

Exhibit 99: Select key metrics for affordable-focused HFCs

	FY19	FY20	FY21	FY22
Yield on advances	13.3%	13.2%	12.9%	12.6%
Cost of funds	9.1%	9.0%	8.3%	7.3%
Opex to assets	3.1%	2.8%	2.4%	2.8%
Credit costs	0.9%	1.1%	1.3%	1.1%
GS-III	NA	NA	3.1%	2.8%
Lagged GS III	NA	NA	3.8%	3.6%
Lagged Credit costs	NA	1.4%	1.5%	1.3%
AUM growth	29.6%	13.0%	11.5%	15.3%

Source: Company, HSIE Research | For Top 20 affordable-focused HFCs

Exhibit 100: AUM CAGR for affordable-focused lenders (Mar-22)



Source: Company, HSIE Research | Note:* AUM for ABHFL, AUBANK, IIB, ICICICHFC and UJJIVANSFB includes only affordable home loans; ** as on Dec-22

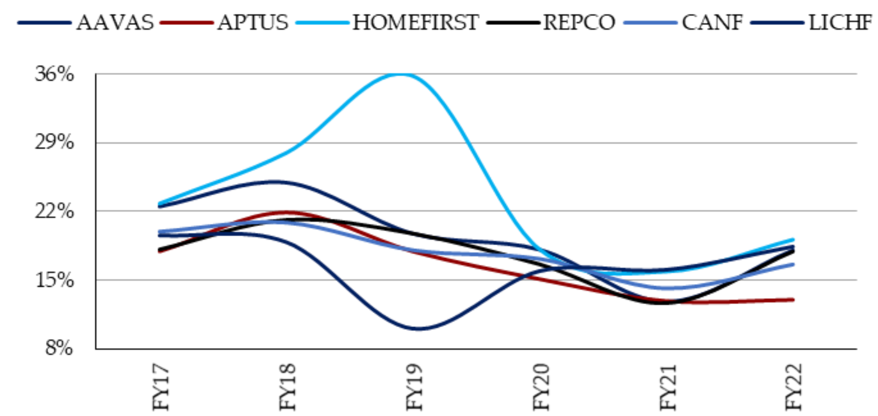
- **Can banks disrupt the affordable segment?** Given lucrative profit pools with a long growth runway, select banks have been targeting this segment in a calibrated manner through different approaches - co-lending, subsidiary, separate vertical, portfolio buyouts etc. Given the growth opportunity in the prime segment still remains large, banks and large HFCs are likely to continue their calibrated approach in the near-term. Incrementally, their focus is likely to be at the top end of the spectrum - LIG/MIG segment with relatively higher ticket sizes compared to most affordable-focused HFCs.

Exhibit 101: Different approaches by banks and large HFCs in the affordable housing segment

	Approach	Description
ICICI Bank	Subsidiary ICICI Home Finance	Lead generation for ICICIHFC, Portfolio buyouts
Axis Bank	Separate vertical - ASHA Home loans	Targeting disbursals of INR 100bn by FY24
HDFC	Separate vertical - HDFC Reach	Focused on top spectrum of affordable segment (Yield of ~11-12%)
LIC Housing Finance	IMGC (Credit guarantee)	Self-employed customers with low bureau score
PSBs	Co-lending, Portfolio buyouts	Co-lending arrangement with HFCs such as IIFLHL, HOMEFIRST
IndusInd Bank, AU SFB etc.	Core offering to the customer	Cost of funds obviates prime home loans, hence skewed towards affordable home loans

Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 102: Repayment rate for affordable-focused HFCs



Source: Company, HSIE Research

- **What makes a robust affordable housing franchise:** With targeted customer and product profile a notch below the traditional HFCs and banks, it is imperative for affordable-focused HFCs to have a robust underwriting and operational architecture, along with a disciplined thrust on throughput (due to low ticket sizes).

  As per our analysis, the following key parameters define a robust affordable housing franchise:

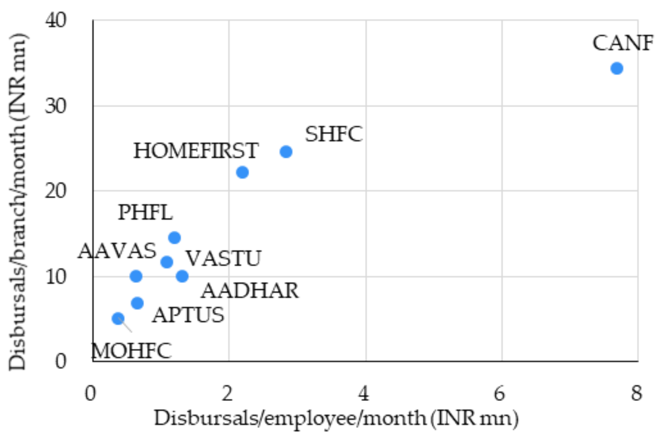
  - **Tight control on operational aspects:** Being a high-touch lending product, affordable housing finance is fraught with multiple operational risks such as customer due-diligence and property due-diligence. The critical functionalities such as legal, technical, site visits/customer income assessment etc. need to be done either inhouse or rigorously monitored (maker-checker policy etc.). This becomes even more critical, given the high attrition among employees in this segment.

  - **Stringent underwriting and collections framework:** While decentralised underwriting is inevitable in this segment, standardising the underwriting process (with additional layer for appraisal on selective basis) to a large extent, becomes critical. With the customer vulnerable to income shocks, high-risk thresholds such as FOIR, LTV etc. become equally important. Similarly, a robust collections framework with thorough follow-up on the early delinquent accounts, aids in containing delinquencies as well as opex.

  - **Productivity/throughput:** Given the prevalence of low ticket-sizes and high opex intensity, employee productivity is a critical metric to drive economies of scale. Opex ratios for almost all affordable-focused HFCs are high largely on account of low productivity, which gets transmitted to the customer in the form of higher pricing.

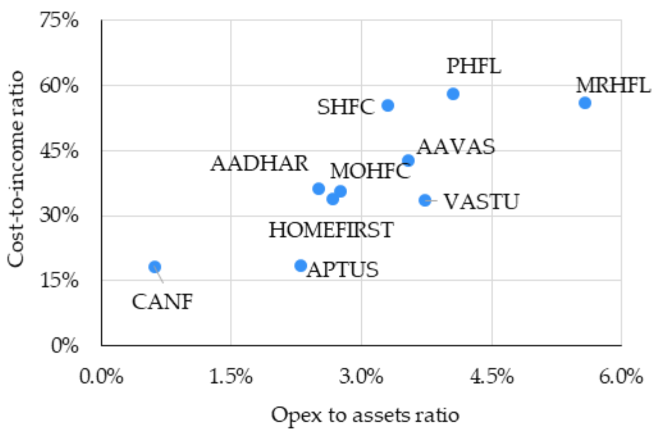
  - **Liabilities management:** Given the absence of strong parentage for most new-age affordable-focused HFCs, it becomes imperative to optimise on the liabilities mix, particularly in a tight liquidity environment. A healthy mix of bank borrowings, NHB refinancing and off-balance sheet is likely to drive optimal cost of funds as well as reduce the concentration risk.

Exhibit 103: Low branch and employee productivity (FY22)



Source: Company, HSIE Research

Exhibit 104: High cost-to-income ratio despite high yields (FY22)



Source: Company, HSIE Research

Benchmarking the affordable-focused HFCs

- **AAVAS emerging as a strong durable franchise:** Our proprietary affordable housing framework indicates AAVAS as the leading affordable housing franchise among its peers. As per our analysis, risk framework (and risk-based pricing), target customer profile, liabilities, and productivity are the key parameters for assessing such franchises.

Exhibit 105: HSIE Affordable Housing dashboard

FY22	AAVAS	APTUS	HOMEFIRST	AADHAR
Risk framework				
Customer/asset assessment	◕	●	◔	◑
LTV %	▮▮▯▯	▮▮▮▯	▮▯▯▯	▮▯▯▯
Lagged GNPA (incl. write-off)	▮▮▮▮	▮▮▮▮	▮▯▯▯	▮▮▮▮
Risk-adjusted Spread	▮▮▯▯	▮▮▮▮	▮▯▯▯	▮▯▯▯
Collections	●	●	○	◑
Customer overlap				
In-house sourcing	◕	●	○	◕
Self-employed	◕	●	○	◔
Semi-Urban/Rural	●	●	○	◕
Liabilities				
Credit Rating - ICRA	▮▮▮▮	▯▯▯▯	▯▯▯▯	▮▮▮▮
Cost of funds %	▮▮▮▮	▯▯▯▯	▮▮▮▮	▮▮▯▯
Funding diversification	◕	◕	◑	◔
Assignment portfolio	▮▮▮▮	▯▯▯▯	▮▮▮▮	▮▮▮▮
Productivity/Throughput				
Disbursals/branch	▮▯▯▯	▯▯▯▯	▮▮▮▮	▮▯▯▯
Disbursals/employee	▯▯▯▯	▯▯▯▯	▮▮▮▮	▮▮▯▯
Opex to assets %	▯▯▯▯	▮▮▮▮	▮▮▮▯	▮▮▮▮
Cost to income ratio %	▯▯▯▯	▮▮▮▮	▮▯▯▯	▮▯▯▯
AUM growth - 3yr CAGR %	▮▮▯▯	▮▮▮▮	▮▮▮▮	▯▯▯▯
Scale	▮▮▮▯	▯▯▯▯	▯▯▯▯	▮▮▮▮

Source: Company, HSIE Research | Customer/assset assessment: Share of processes done in-house; Lagged GNPA - 2 year lag, including the write-off in the last 2 years

Exhibit 106: Affordable-focused HFCs comparison

	Units	AAVAS	APTUS	HOMEFIRST	AADHAR
AUM (Dec-22)	**INR bn**	**131**	**63**	**68**	**166**
ROA profile (Avg of FY18 - FY22)					
Interest earned	%	11.9%	15.8%	11.2%	11.0%
Interest expended	%	5.4%	5.2%	5.7%	6.7%
Net interest income	%	6.5%	10.7%	5.5%	4.3%
Non-interest income	%	2.1%	1.2%	1.8%	1.5%
Operating expenses	%	3.8%	3.1%	3.2%	2.4%
Pre-provisioning profit	%	4.8%	8.8%	4.1%	3.4%
Provisions	%	0.2%	0.2%	0.5%	0.5%
ROAA	%	**3.5%**	**6.5%**	**2.7%**	**2.2%**
Avg. assets/avg. equity (x)	%	3.6	2.4	3.8	7.7
RoAE	%	**12.3%**	**15.3%**	**10.1%**	**15.8%**
RoAUM	%	**3.3%**	**7.0%**	**2.8%**	**2.3%**
Portfolio mix - Mar-22					
Housing loans	%	72%	56%	91%	82%
Average ticket size - Housing	INR mn	1.1	0.7	1.1	0.9
LTV	%	52%	38%	57%	58%
Self-employed mix %	%	60%	72%	28%	38%
EWS+LIG mix	%	~64%	~75%	75%	80%
Semi-urban/Rural/Tier III+	%	~70%	~68%	~30%	NA
NTC customers %	%	NA	40%	26%	~27%
Fixed-rate book	%	44%	77%	Low	~7%
Productivity - FY22					
AUM/branch	INR mn	382	260	708	448
AUM/employee	INR mn	24	25	70	58
Disbursements/branch	INR mn	121	82	267	121
Disbursements/employee	INR mn	8	8	26	16
No. of customers o/s/branch	x	508	417	817	618
No. of customers sourced/branch	x	112	115	255	138
No. of customers sourced/employee	x	7	11	25	18
Distribution network - Mar-22					
Branches	x	314	208	80	341
Employees	x	5,222	2,271	851	2,769
Margins - FY22					
Yield on advances	%	12.8%	17.1%	12.4%	12.8%
Cost of funds	%	6.7%	8.0%	6.6%	7.2%
Spread	%	6.1%	9.1%	5.7%	5.6%
NIM	%	6.7%	11.5%	6.3%	5.6%
Cost efficiency - FY22					
Cost-to-income ratio	%	42.6%	18.5%	33.9%	36.3%
Opex to AUM ratio	%	3.4%	2.5%	2.7%	2.5%
Opex/branch	INR mn	3.0	1.3	5.3	2.7
Expense/employee	INR mn	0.5	0.4	1.1	1.0
Growth - 3yr CAGR %					
AUM	%	24.1%	32.1%	30.1%	13.8%
Disbursements	%	10.5%	14.6%	8.9%	7.7%
PPOP	%	21.2%	49.4%	51.3%	29.8%
PAT	%	26.4%	49.1%	59.7%	39.9%
Asset Quality - Mar-22					
GS III	%	1.0%	1.2%	2.3%	1.5%
NS III	%	0.8%	0.9%	1.8%	1.1%
GS II	%	3.0%	8.7%	1.6%	5.4%
Restructured book	%	1.2%	1.2%	0.5%	NA
PCR	%	23.1%	25.3%	24.9%	29.8%
Credit costs	%	0.2%	0.7%	0.5%	0.3%

Source: Company, HSIE Research | For APTUS – Only LIG and Rural share available; For AADHAR - NTC customers, Fixed rate book for as on Sep-20

GRUH Finance | Affordable Housing G.O.A.T.

- GRUH Finance (now acquired by Bandhan Bank) was an affordable-focused HFC (promoted by HDFC Ltd.) with an impeccable record of superior profitability (average RoE of 25% during FY00-FY19) and strong growth (AUM CAGR of ~22% during FY00-FY19).
- The company was focused on retail home loans (~93% of AUM) in rural (~36% by volume) and semi-urban (~27% by volume) areas in the EWS (~39% by volume) and LIG segment (~45% by volume) with average ticket-size of ~INR 1mn. The customer segment was well balanced between customers with formal income proof (~50% of AUM) and informal income proof (~32% of AUM).

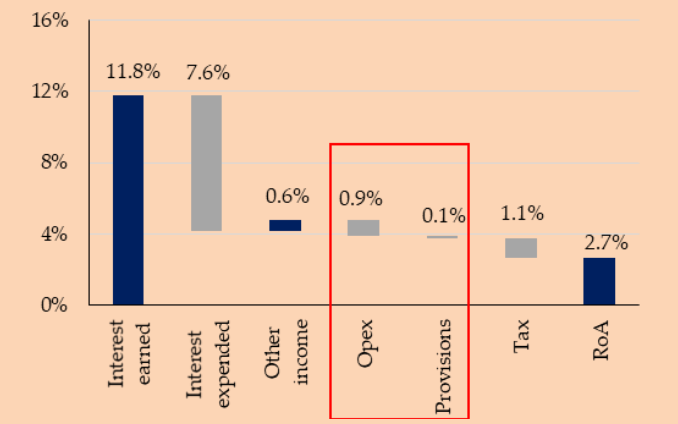
Where GRUH Finance was different

- GRUH's productivity metrics were far superior compared to new-age affordable HFCs in terms of employee throughput (nearly ~3x that of best competitor) along with high cost optimisation. This was driven by their connector sourcing model (GRUH Referral Associates) and decentralised operating structure at branch level.
- While the competitive landscape was relatively benign for GRUH for nearly a decade till 2015, the company's focus on getting the customer-product fit right and its efforts on asset quality ensured prisitine asset quality with low delinquencies and minimal credit costs (~20bps).

Key snippets from interaction with Mr. Sudhin Choksey (ex-MD & CEO, GRUH Finance)

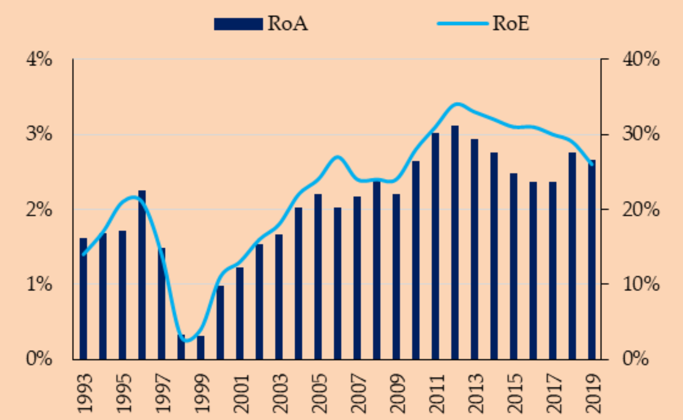
- Demand in the affordable housing segment will gradually play out over the next couple of decades with improving affordability of the target customer segments (indicating need for a "pull" approach)
- Risk management through standardisation of underwriting processses, maker-checker policy etc. are paramount with periodic need for oversight (audits etc.).
- There is a need for cost optimisation for a durable affordable housing franchise due to low ticket size and higher customer due-diligence, an issue for most of the new-age affordable HFCs. Further, the existing high margins (~5-6%) are unsustainable and are likely to gradually taper off.

Exhibit 107: GRUH's earnings profile (FY10-FY19)



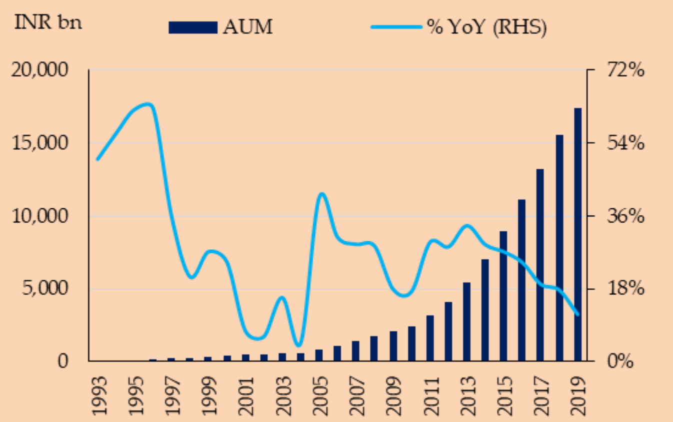
Source: Company, HSIE Research

Exhibit 108: RoA, RoE over the years



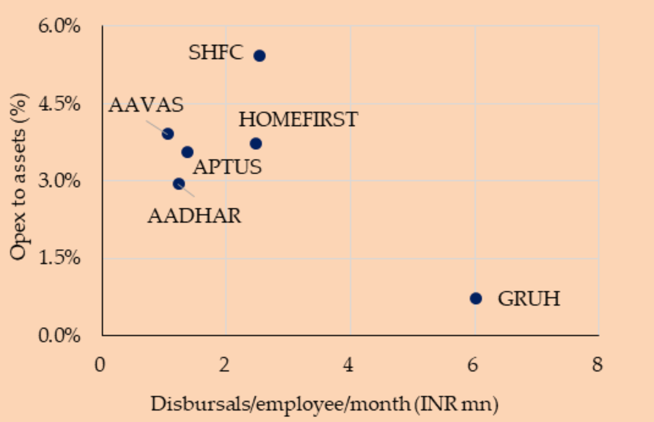
Source: Company, HSIE Research

Exhibit 109: GRUH's loan growth over past 3 decades



Source: Company, HSIE Research

Exhibit 110: Productivity vs. peers (FY19)



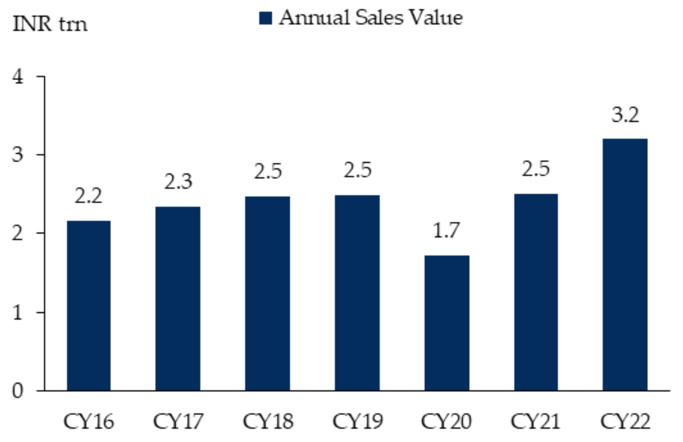
Source: Company, HSIE Research

Funding the supply side | Approaching a new normal

- **Covid-led revival sustains for developers:** The sharp uptick in housing sales since the pandemic has led to a revival in sales velocity and cash flows for residential developers, especially for mid and small developers. A confluence of favourable policy measures during the pandemic helped unwind the inventory overhang through organic improvement in the sales velocity. This has driven the next cycle of new launches, with limited price hikes taken despite high inflation, in order to sustain the sales velocity.

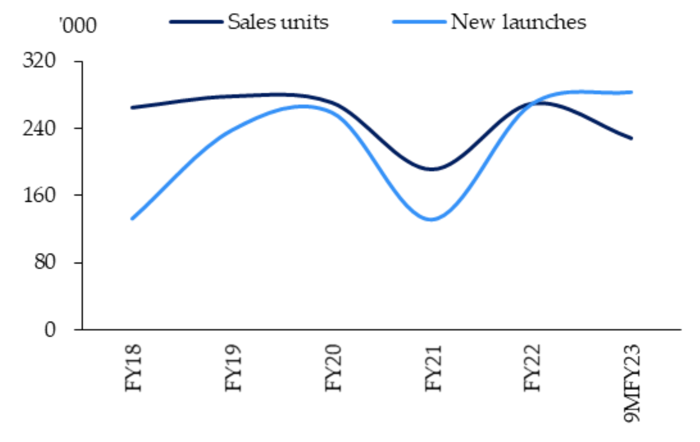
  However, large listed developers have been steadily gaining market share in select Tier I cities such as Bengaluru, Pune, etc. driven by increasing customer preference for brands in the premium and luxury segment, access to lower-cost capital and stronger balance sheets.

Exhibit 111: Sharp pick-up in sales post Covid by developers in metro cities



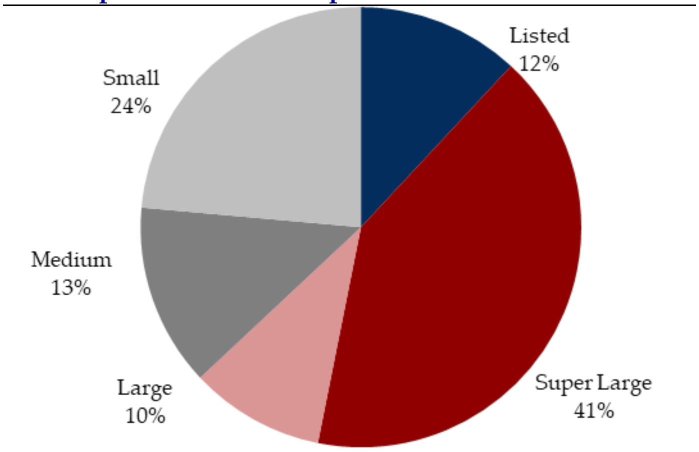
Source: Liases Foras, HSIE Research | Sales value pertains to primary sales by developers in Top 60 cities

Exhibit 112: New launches gradually overtaking sales volumes



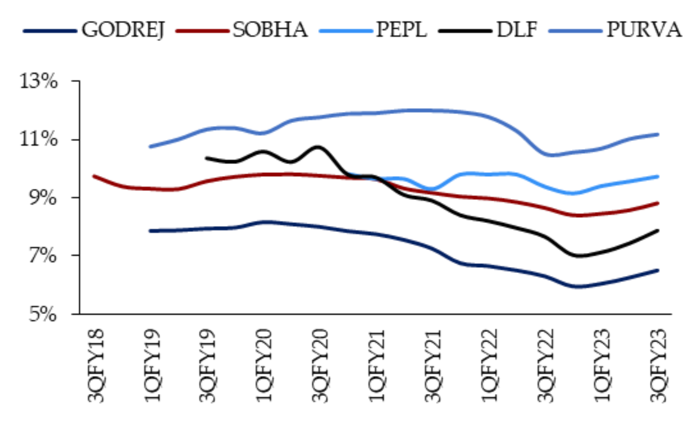
Source: Liases Foras, HSIE Research | Data for Top 8 cities

Exhibit 113: FY22 pre-sales bookings by type of developer – Listed developers at ~12%



Source: Liases Foraes, HSIE Research | Data for Top 60 cities

Exhibit 114: Cost of funds (reported) for select listed developers – access to relatively low-cost funds



Source: Company, HSIE Research

- **Developer funding—tiptoeing its way back:** With a shrinking pool of stranded projects and stressed developers (thanks to the organic improvement in sales velocity) developer funding has gradually revived over the past 18 months. However, the developer funding landscape is likely to follow a new normal compared to the pre-crisis period (prior to 2018). Given a combination of regulatory changes, supply-side reforms and changes in consumer preferences, projects are increasingly becoming more equity-funded during the early stages. Especially in the case of non-Grade A developers, consumer preferences have clearly shifted towards completed/late stage purchases, which concomitant with RERA norms (escrow accounts etc.) has resulted in longer cash conversion cycle for such developers.

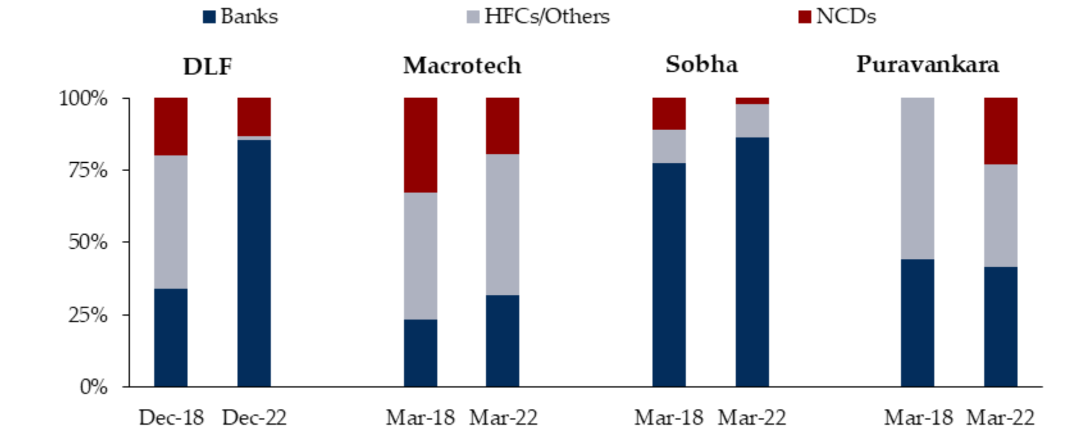
Exhibit 115: Avenues of funding for developers at various stages of construction

	Land	Early-Stage construction	Mid-Stage Construction	Late-Stage construction
Funding requirements	Highest	High	Medium	Low
Listed	Equity/JV	Banks	Banks	Banks (Low requirement)
Grade A (Large)	AIFs/JDA/Redev	Banks/NBFC/HFC	Banks	Banks
Grade B (Medium)	AIFs/JDA	HFCs/NBFCs/AIF	HFCs/NBFCs	Banks/HFCs/NBFCs
Grade C (Small)	Equity/JDA	Equity	HFCs/NBFCs	HFCs/NBFCs

Source: Industry, HSIE Research

With annual sales of ~INR 3-3.5trn for developers (in metro cities), the construction finance requirement for residential market is currently estimated at ~INR 1.5trn.

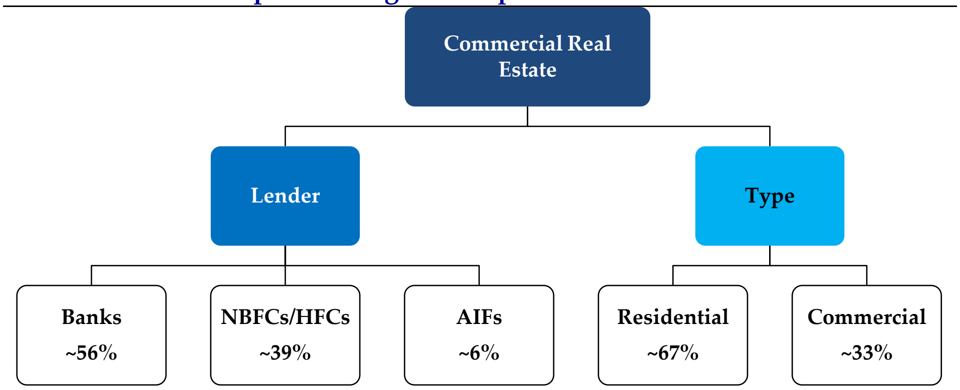
Exhibit 116: Changing debt profile of listed large developers



Source: Company, HSIE Research

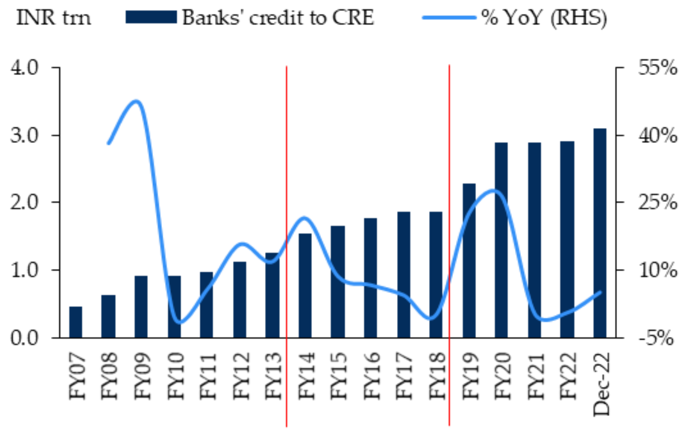
- **Bank credit to CRE—positive outlook:** Bank credit to commercial real estate (CRE) has traditionally been limited to Grade-A/Large developers (few exceptions). With rising consolidation and increasingly disciplined approach by developers, banks are incrementally gaining comfort in taking CF exposure to mid-sized and smaller developers. Our channel checks suggest SBI is emerging as one of the largest financiers in this segment, while ICICI Bank is looking at this space constructively.

Exhibit 117: Developer funding landscape



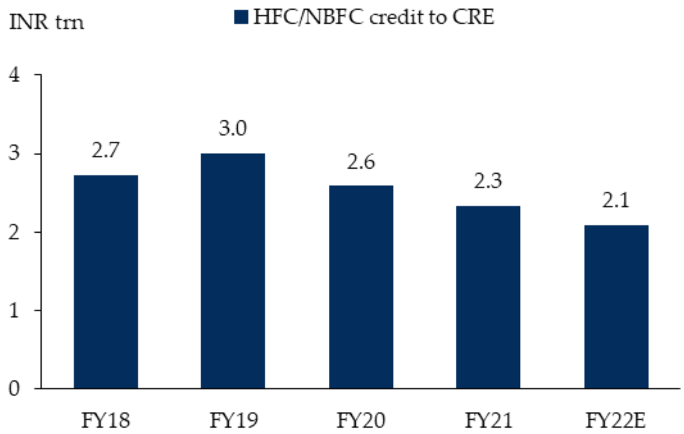
Source: RBI, NHB, Industry, HSIE Research

Exhibit 118: Bank credit to real estate developers – strong surge during 2018-19 crisis and Covid



Source: RBI, HSIE Research

Exhibit 119: NBFC/HFC exposure to developers gradually declining

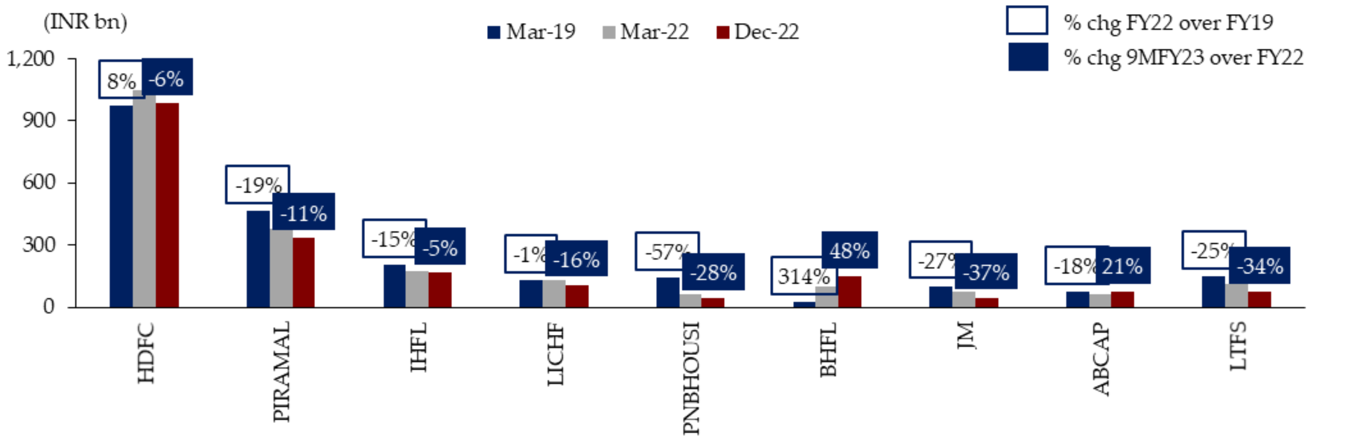


Source: RBI, NHB, HSIE Research

- **NBFCs/HFCs - gradual revival from developer crisis**: NBFC/HFC developer book has come off significantly (by ~30-40%) since the 2019 crisis for several lenders. However, revival in housing demand, coupled with an increasingly disciplined approach by developers and wafer-thin margins in retail home loans, is leading to HFCs relooking at the developer funding space.

  Incrementally, BHFL, Tata Capital Housing Finance and ABCAP, among HFCs are gaining market share, while other HFCs/NBFCs such as Piramal Housing etc. are gradually disbursing towards developer funding.

Exhibit 120: CRE book for HFCs/NBFCs - significant run-down during FY19-FY22

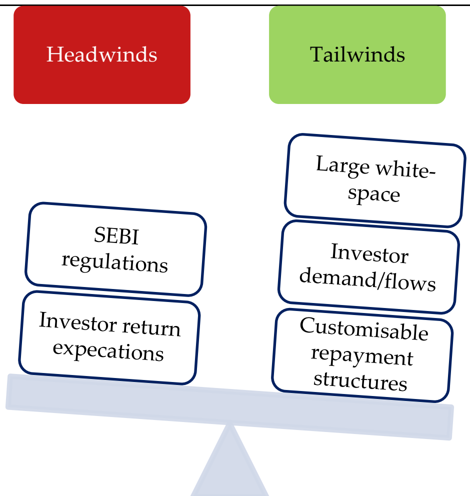


Source: RBI, NHB, HSIE Research | Note: CRE portfolio includes CF and LRD; ABCAP – ABFL + ABHFL; Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd.

- **AIFs - bridging the funding gap:** Real estate AIFs are increasingly seeking to address the funding gap, particularly for land/early-stage funding. With in-depth expertise in the evaluation of projects, flexible repayment structures and ring-fencing of project cash flows, AIFs are better placed to bridge this gap.

  However, AIF funding to real estate is currently a small pool (US$ 3.5 - 4bn) and faces a few headwinds in the form of increasing scrutiny by SEBI (consultation paper on disclosures) and growing mismatch in returns expectations between capital providers and capital seekers.

Exhibit 121: Real-estate AIFs – mix of headwinds and tailwinds



Source: Industry, HSIE Research

Key snippets from our discussion with leading AIFs

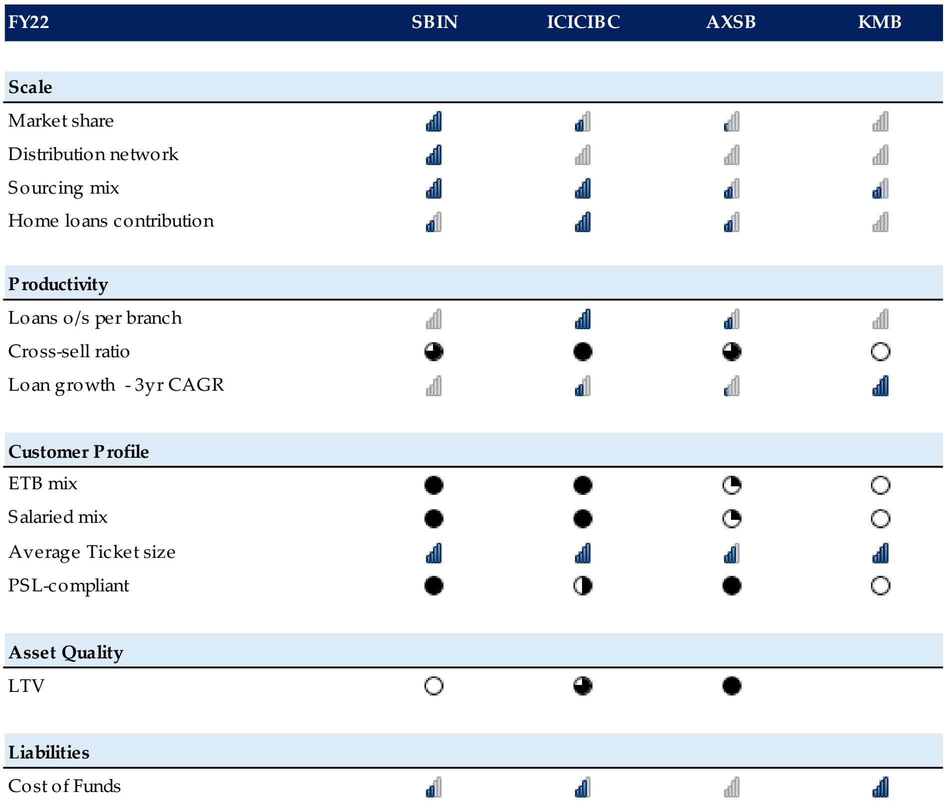
- Like-for-like IRRs are shrinking; deals typically in the ~16-18% range now compared to ~20-24% range prevailing earlier
- Pandemic was a blessing for developers (consumer behaviour, higher sales velocity driven absorption of unsold inventory, special policies and schemes to stimulate demand)
- Revival of housing sales during pandemic ensured availability of developer funding from PE funds, HFCs/NBFCs on selective basis since early CY21 for viable projects for completion (no re-financing etc.)
- Developers learnt a key lesson from the crisis – sales velocity is very crucial for IRR - hence focus on volumes rather than pricing
- Given demand for construction finance (annual housing sales of INR3trn - INR3.5trn), most NBFCs/HFCs are likely to bounce back, however this time with a more calibrated approach, also aided by higher regulatory scrutiny (no funding for approval costs etc.)

Banks - ICICIBC, SBIN remain our top picks

- **Home loans - advantage large banks, likely to sustain:** Large banks continue to remain dominant in the housing segment with a right-to-win in this rate-sensitive asset class on the back of a superior cost of funds, large captive customer base and pan-India distribution network.

  Our proprietary HSIE Housing Dashboard (Banks) evaluates the top 4 franchises under coverage - SBIN, ICICIBC, AXSB and KMB - based on four critical parameters: Liabilities (low-cost deposits), Distribution strength (highly competitive segment), Throughput (Cross-sell ratio, Throughput per branch etc.) and Customer profile (ETB, Salaried, LTV etc.). Given the limited segment-specific public disclosures, some of these values reflect our internal assessment based on discussions with industry experts.

Exhibit 122: HSIE Banks Housing portfolio dashboard



Source: CRIF Highmark, Company, Industry, HSIE Research | *Distribution network: No. of branches; Sourcing mix: Contribution of internal sourcing; Cross-sell ratio: No. of home loans (estimated) divided by total no. of debit cards; LTV – Full dark circle denotes lowest LTV; Loan growth for ICICIBC and KMB for the mortgage portfolio (Home loans + LAP); Based on internal estimates and company disclosures, which may vary at different time periods*

- **ICICIBC, SBIN - our top picks in HL franchise as well:** While ICICIBC and SBIN remain our top picks among banks, they score high on our proprietary housing framework as well. SBI, with its in-house sourcing channels, has been seeking aggressive market share gains across markets with seamless execution. ICICI Bank, the 3rd largest lender in home loans, has been steadily building its book with healthy mix of branch-led, digital sourcing and builder tie-ups. Kotak Mahindra Bank, on the back of its low-cost franchise, has been building out its HL portfolio focused on affluent ETB and NTB customers at competitive rates.

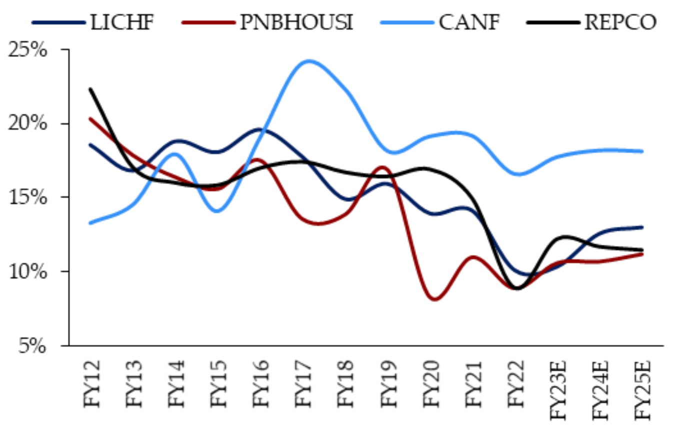
HFCs - Emerging value buys | Initiate coverage on Can Fin Homes (BUY) and PNB Housing Finance (ADD)

- **Pessimism overplayed; value buys emerging among HFCs:** HFCs have delivered mediocre returns since 2018 on the back of muted asset growth and erosion in profitability. However, a few HFCs are emerging as value buys with improving growth and profitability outlook.

  We initiate on Can Fin Homes (CANF) with a BUY and RI-based TP of INR750 (2x Mar-25 ABVPS, 12x FY25 EPS). CANF has emerged as a high-quality franchise with a competitive moat to deliver superior returns and growth over the medium term.

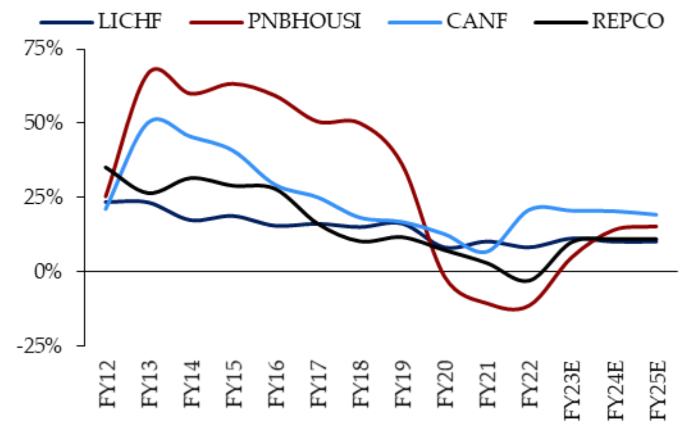
  We initiate on PNB Housing Finance (PNBHOUSING) with an ADD and RI-based TP of INR590 (0.9x Mar-25 ABVPS). Post a steep correction in the stock price and credible efforts at balance sheet consolidation over the past three years, PNBHOUSING is course correcting towards non-lumpy exposures, turning risk-reward incrementally favourable.

Exhibit 123: RoEs of most HFCs have come off during the decade…



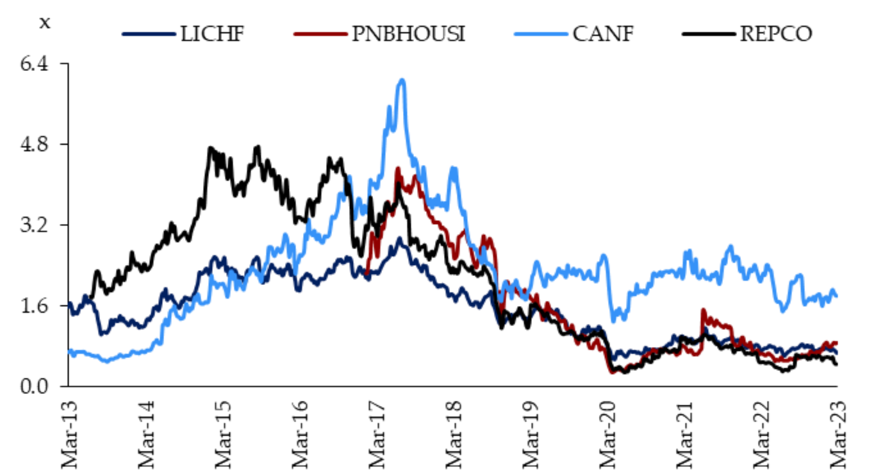
Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 124: AUM growth of HFCs have also come under pressure



Source: Company, HSIE Research

Exhibit 125: Declining RoEs and growth have taken a toll on valuations (1-yr fwd P/BV)



Source: Bloomberg, HSIE Research

Exhibit 126: HFCs comparison

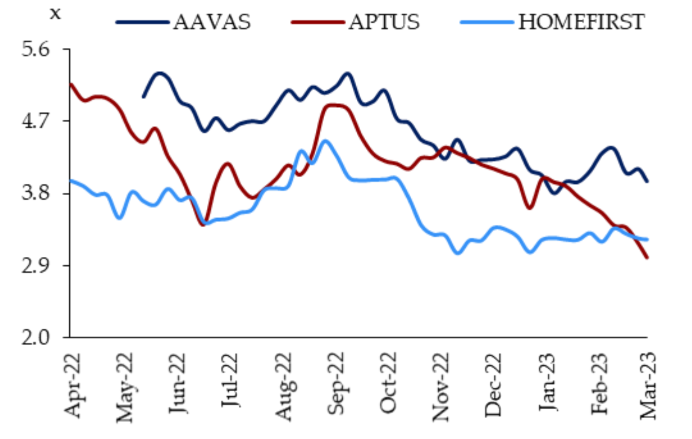
	Units	HDFC*	LICHF	PNBHOUSI	BHFL**	CANF
AUM (Dec-22)	**INR bn**	**7,015**	**2,684**	**658**	**656**	**301**
ROA profile (Average of FY18 - FY22)						
Interest earned	%	8.3%	8.9%	9.3%	8.5%	9.5%
Interest expended	%	5.8%	6.6%	6.7%	5.7%	6.1%
Net interest income	%	2.6%	2.3%	2.5%	2.8%	3.4%
Non-interest income	%	0.6%	0.1%	0.8%	0.9%	0.1%
Operating expenses	%	0.4%	0.3%	0.7%	1.1%	0.6%
Pre-provisioning profit	%	2.8%	2.0%	2.6%	2.6%	2.9%
Provisions	%	0.6%	0.5%	0.9%	0.5%	0.2%
RoAA	%	**1.7%**	**1.2%**	**1.3%**	**1.5%**	**1.9%**
Leverage (x)	%	7.8	11.8	9.2	6.1	10.0
RoAE	%	**12.6%**	**13.8%**	**11.8%**	**9.3%**	**19.1%**
Productivity – FY22						
AUM/branch	INR mn	10,314	8,906	5,312	3,716	1,332
AUM/employee	INR mn	1,916	1,026	469	176	297
Disbursements/branch	INR mn	NA	2,193	907	1,824	413
Disbursements/employee	INR mn	NA	253	80	86	92
No. of customers/branch	x	NA	10,638	2,016	NA	2,793
Distribution network - Mar-22						
Branches	x	675	282	137	167	201
Employees	x	3,599	2,467	1,425	3,705	909
Margins - FY22						
Yield on advances	%	7.7%	8.1%	9.2%	8.6%	8.0%
Cost of funds	%	5.7%	6.6%	7.2%	5.9%	5.3%
Spread	%	2.0%	1.5%	2.0%	2.7%	2.7%
NIM	%	2.8%	2.2%	2.5%	3.1%	3.3%
Cost efficiency - FY22						
Cost-to-income ratio	%	9.8%	17.8%	22.3%	29.2%	18.3%
Opex-to-AUM ratio	%	0.3%	0.4%	0.7%	1.0%	0.6%
Other opex/branch	INR mn	16.0	16.7	22.5	8.5	3.8
Expense/employee	INR mn	3.1	2.3	1.5	1.2	0.9
Growth - 3yr CAGR %						
AUM	%	12.3%	8.9%	-8.0%	44.8%	13.3%
Disbursements	%	NA	12.0%	-32.2%	20.4%	14.7%
PPOP	%	10.9%	6.1%	-4.8%	89.6%	13.2%
PAT	%	12.6%	-2.0%	-11.1%	86.3%	16.7%
Asset Quality - Mar-22						
GS III	%	2.3%	4.6%	8.1%	0.3%	0.6%
NS III	%	1.1%	2.7%	5.3%	0.1%	0.4%
GS II	%	4.4%	3.1%	3.4%	1.3%	4.8%
Restructured book	%	0.7%	3.1%	3.7%	0.7%	2.5%
PCR	%	54.3%	43.2%	37.7%	54.3%	36.1%
Credit costs	%	0.3%	0.8%	0.8%	0.4%	0.2%
Portfolio mix - Mar-22						
Housing loans	%	79.0%	81.3%	61.0%	62.3%	89.6%
Average ticket size - Housing	INR mn	3.3	2.5	2.8	4.9	2.1
LTV	%	70%	48%	72%	70%	61%
Salaried mix	%	78%	88%	49%	91%	74%

Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd; *RoA, RoAUM and RoE adjusted for gain from stake sale in subsidiaries; **RoA profile for FY20-FY22

- **Muted stock price performance offers valuation comfort on AHFCs:** AHFCs have witnessed muted stock price performance over the past couple of years, driving down valuations from astronomical valuations (~30x P/E) to more palatable levels.

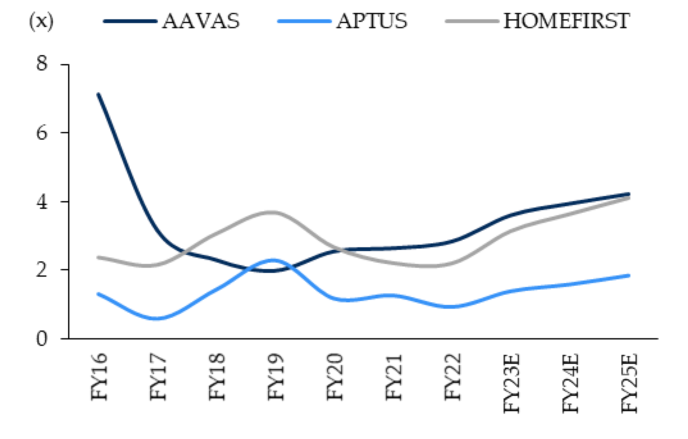
  We initiate coverage on Aavas Financiers (ADD; TP: INR1,850), Home First Finance Company (ADD; TP: INR765) and Aptus Value Housing Finance (REDUCE; TP: INR210).

Exhibit 127: 1 yr-fwd P/BV – multiples have corrected significantly from the peak



Source: Bloomberg, HSIE Research | Based on consensus estimates

Exhibit 128: Gross D/E muted for affordable-focused HFCs

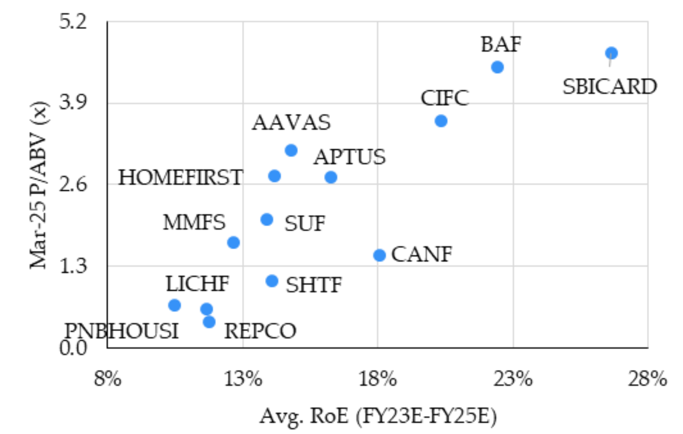


Source: Company, HSIE Research

- **RoEs to remain below potential due to leverage:** Most new-age AHFCs such as AAVAS, APTUS, and HOMEFIRST are over-capitalised, resulting in sub-optimal RoEs despite high RoAs. With improving leverage, incremental RoEs are likely to improve, partially offset by higher cost of capital and compression in RoAs.

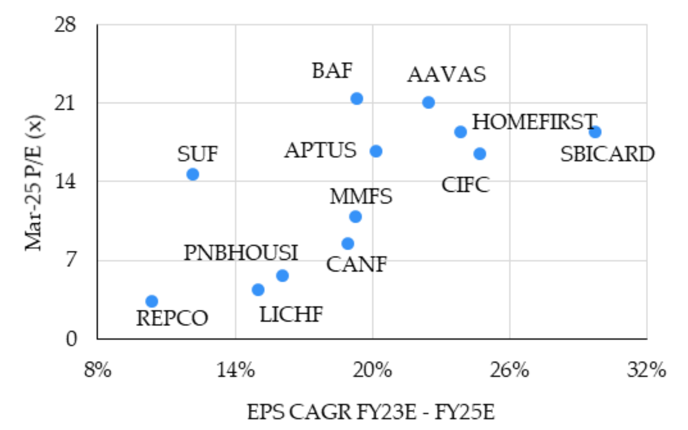
  However, the absence of strong parentage for these AHFCs and their presence in relatively high-risk customer segments is likely to cap leverage, compared to HFCs with strong parentage such as LICHF, CANF etc. We factor in a steady-state RoA and optimal leverage ratio in our valuation framework.

Exhibit 129: P/BV vs. average RoE



Source: Company, HSIE Research

Exhibit 130: P/E vs. earnings growth



Source: Company, HSIE Research

Exhibit 131: Valuation - HFCs

	Rating	TP (INR)	P/E (x)			P/ABV (x)			RoAE (%)			PPOP CAGR FY22 - FY25E
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
AAVAS	ADD	1,850	31.5	26.0	21.0	4.3	3.7	3.1	14.0	14.7	15.6	22.8%
APTUS	REDUCE	210	24.1	20.0	16.7	3.6	3.1	2.7	15.6	16.3	16.9	25.4%
CANF	BUY	750	12.1	10.1	8.5	2.1	1.8	1.5	17.9	18.1	18.1	21.0%
HOMEFIRS	ADD	765	28.2	22.9	18.4	3.7	3.2	2.7	13.1	14.2	15.2	25.0%
LICHF	REDUCE	345	6.8	5.3	4.6	0.9	0.8	0.7	10.3	12.1	12.6	9.1%
PNBHOUSI	ADD	590	7.1	6.4	5.6	1.0	0.8	0.7	10.6	10.7	11.2	12.1%
REPCO	ADD	298	4.0	3.7	3.3	0.5	0.5	0.4	12.1	11.6	11.5	3.2%

Source: Company, HSIE Research

COMPANIES SECTION

Can Fin Homes

Clear focus; Consistent execution

Can Fin Homes (CANF), sponsored by Canara Bank, has emerged as a conservative franchise, delivering consistently on profitability (average RoE of ~19% during FY18-FY22) and growth (~15% loan CAGR during FY18-FY22). The company's relentless focus on the core individual HL portfolio in the mass-market segment (ATS of INR2.1mn) has paid rich dividends over the years, particularly during the 2019 NBFC/HFC crisis, reflecting in robust asset quality and sustained profitability. The recent appointment of Mr. Suresh Iyer as the new MD & CEO offers us comfort on the franchise continuing with its conservative and "slow & steady" strategy. We initiate on CANF with BUY and RI-based TP of INR750 (2x Mar-25 ABVPS). CANF is our top pick among HFCs due to its steady execution, long runway for growth and strong sponsorship.

	Risk framework	Customer profile	Liabilities	Throughput	Overall
CANF	●	◕	●	◕	●

- **Steady execution—the key to robust performance:** CANF's relentless focus on home loans (~89% of AUM as of Dec-22) with a conservative underwriting approach (LTV, FOIR, product mix etc.) has helped drive robust asset quality, high-cost efficiency and superior profitability (~1.7%-1.8% RoA) across cycles. CANF remains focused on the mass-market segment with a ticket size of INR 2.1mn (~3% portfolio > INR 5mn) and salaried customers (salaried & professionals at ~74%). Low exposure to large-ticket LAP, developers' loans etc. has led to little shocks during the 2019 crisis.
- **Upside levers to scale**: CANF is likely to sustain its steady loan growth momentum (~18-20%) over the medium term, led by a large target customer base, strong brand, expanding distribution network and improving productivity. CANF is gradually diversifying beyond the core Southern markets (~2/3rd of loan book) towards western states. However, the low diversification of sourcing channels (high share of DSAs) remains a risk.
- **Liabilities management driving higher margins:** CANF's parentage, healthy track record of profitability and optimisation of liabilities has led to superior funding costs, compared to peers. Proactive use of CPs (peak at ~19% of borrowings at Mar-21), while posing ALM risks in the short tenures, are mostly backed by undrawn bank credit lines. Further, lagged re-pricing on the asset side (annual reset) is likely to offset NIM compression.
- **Robust franchise at attractive valuation; initiate coverage with BUY**: CANF is poised to sustain its profitability metrics (~1.7% RoA, ~18% RoE) with steady loan growth (~18%+) over the medium term, despite the rising competitive intensity and tightening liquidity environment. To that extent, the current valuation (~1.5x Mar-25 ABVPS) seems very attractive.

Financial summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	5.4	6.7	8.0	8.2	10.0	12.0	14.1
PPOP	4.7	5.8	6.9	6.8	8.5	10.2	12.1
PAT	3.0	3.8	4.6	4.7	6.0	7.2	8.5
EPS (INR)	22.3	28.2	34.3	35.4	45.0	53.7	63.7
ROAE (%)	18.2	19.1	19.2	16.6	17.9	18.1	18.1
ROAA (%)	1.7	1.9	2.1	1.9	1.9	1.9	1.9
ABVPS (INR)	127.9	153.1	185.9	224.2	263.2	310.6	367.5
P/ABV (x)	4.3	3.6	2.9	2.4	2.1	1.8	1.5
P/E (x)	24.5	19.3	15.9	15.4	12.1	10.1	8.6

Source: Company, HSIE Research

BUY

CMP *(as on 05 Apr 2023)*	INR 544
Target Price	INR 750
NIFTY	17,557

KEY STOCK DATA	
Bloomberg code	CANF IN
No. of Shares (mn)	133
MCap (INR bn) / ($ mn)	73/883
6m avg traded value (INR mn)	470
52 Week high / low	685/407

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.2)	9.9	(16.1)
Relative (%)	1.4	7.1	(14.6)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	30.0	30.0
FIs & Local MFs	23.3	23.5
FPIs	9.3	10.0
Public & Others	37.4	36.5
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

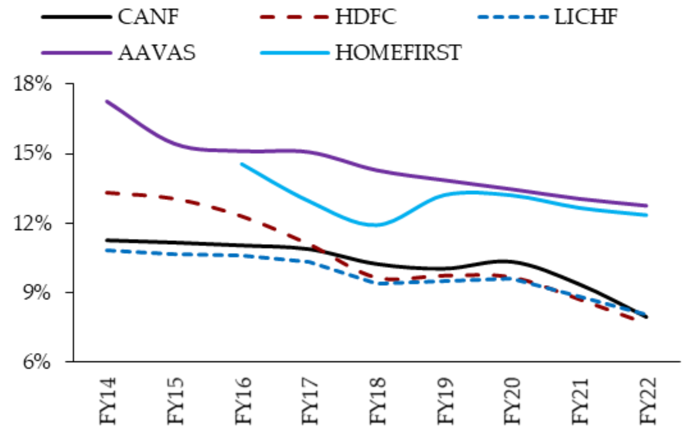
Neelam Bhatia
neelam.bhatia@hdfcsec.com
+91-22-6171-7341

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

Strategic clarity drives focus

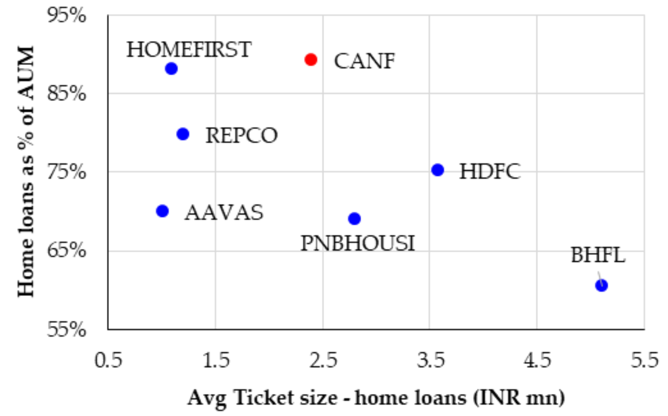
- **Identifying mass-market as niche:** CANF's relentless focus on home loans for the mass-market segment (Ticket size of INR1.5mn-INR3.5mn; ~97% of portfolio sub-INR 5mn) salaried customers has yielded steady results, in terms of asset quality and profitability. Positioned between banks and HFCs such as HDFC, LICHF etc. on one side and affordable-focused HFCs such as AAVAS, HOMEFIRST, etc. on the other, CANF typically focuses on self-construction (~40% of portfolio) and apartments with Cat B/Cat C developers providing relatively higher yields compared to banks.

Exhibit 132: Yield on advances – marginally above prime home loans HFCs despite low portfolio diversification



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

Exhibit 133: Home loans ticket size vs. share of home loans as % of AUM (Dec-22)

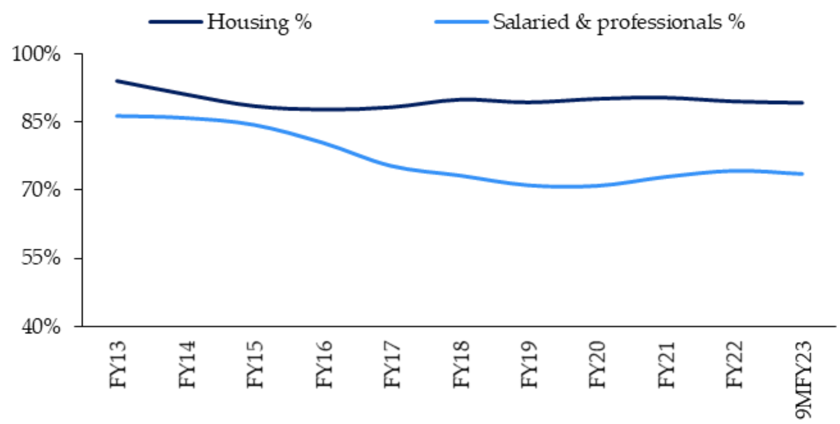


Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

- **Gradual portfolio diversification**: CANF's portfolio is concentrated around home loans to salaried customers, with a gradual pace of diversification in customer (SENP at ~26% of AUM) and product segments (non-home loans at ~11% of AUM), particularly during FY16-FY19. With the normalisation of the economic environment post-pandemic, the share of these segments is likely to inch up further.

  Share of non-southern states in AUM (nearly 1/3rd) continues to inch up steadily, with incremental growth likely to be driven from the states of Maharashtra, Gujarat and Rajasthan.

Exhibit 134: Portfolio mix - share of home loans and salaried & professionals segment in AUM



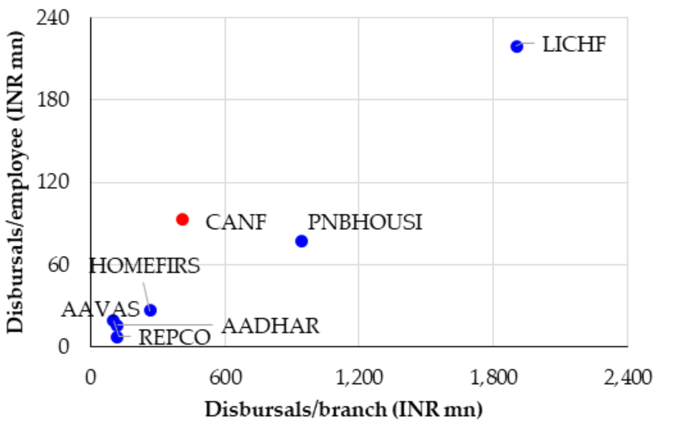
Source: Company, HSIE Research

- **Robust portfolio growth to sustain:** CANF's loan book has grown at a robust pace (~26% CAGR during FY12-FY22), largely driven by volume growth (home loans average ticket-size CAGR of 2.4% during the same period). The productivity metrics, which had remained muted during FY15-FY20, have begun to inch up with muted branch additions in recent years and are likely to improve further.

  CANF is unique in terms of its relatively high dependence on DSAs (>70%), especially smaller DSAs (reflected in low pay outs at ~40bps). However, given the growing AUM, we believe that CANF will need to diversify its sourcing mix beyond DSAs and branches (deploying DSTs, leveraging parent entity distribution network etc.) in order to further scale its portfolio.

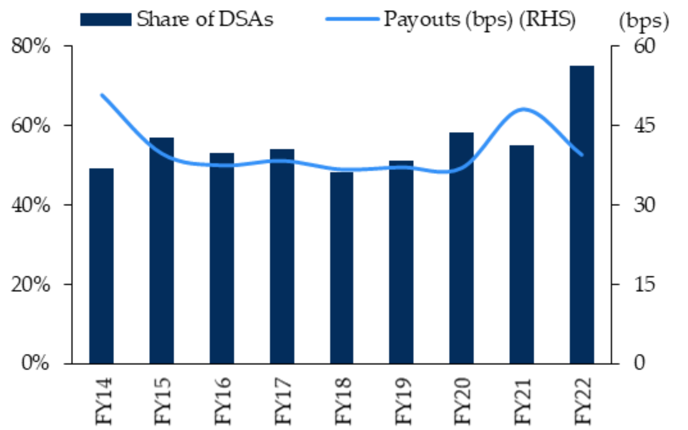
  We expect the share of DSA-sourced business to normalise to steady-state levels of 50-55% over the next 24 months.

Exhibit 135: Productivity metrics – CANF between prime HL and affordable-focused HFCs (FY22)



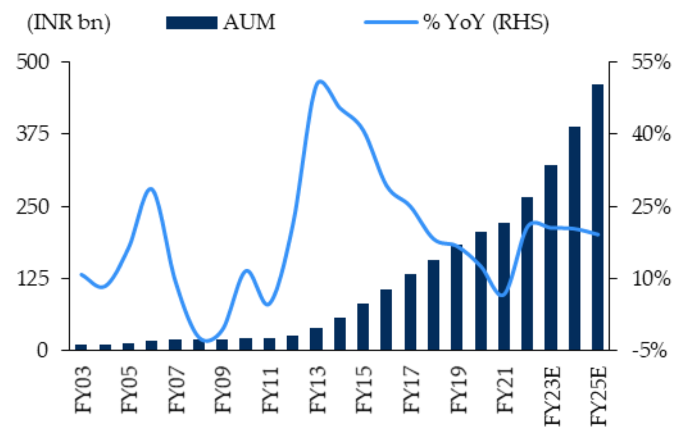
Source: Company, HSIE Research | Retail loans disbursals for LICHF and PNBHOUSING

Exhibit 136: High share of DSAs in the sourcing mix



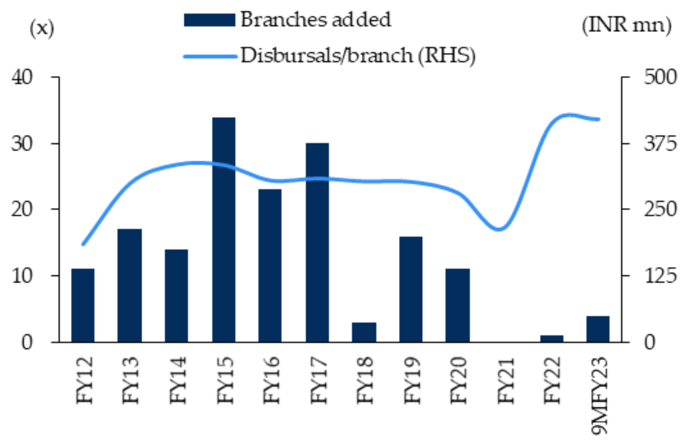
Source: Company, HSIE Research

Exhibit 137: We expect AUM CAGR of ~20% during FY22-FY25E



Source: Company, HSIE Research

Exhibit 138: Productivity gains in recent years



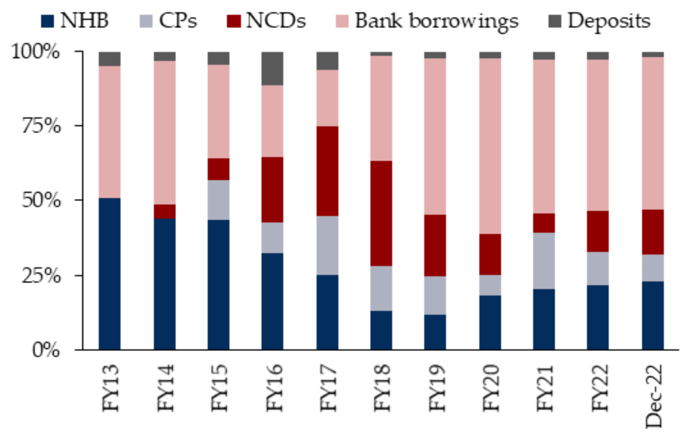
Source: Company, HSIE Research

- **Liabilities management driving superior cost of funds:** On the liabilities side of the balance sheet, CANF has a disproportionately high dependence on short-term borrowings (~22%) and NHB borrowings (~23%) reflecting in a superior cost of funds, even when compared to AAA-rated HFCs such as HDFC and LICHF. While short-term borrowings (CPs, Bank borrowings etc.) creates ALM risks in the shorter tenure buckets, the sponsorship of Canara Bank, concomitant with unutilised credit lines from multiple Banks, gives comfort on the liquidity front (to the rating agencies as well).

  The rising cost of funds, amidst the tightening liquidity environment has put pressure on spreads/NIM during FY23 and is likely to sustain in the near term. However, the lagged re-pricing on the assets side (annual reset; ~72% of loan book yet to be re-priced) is likely to offer some respite.

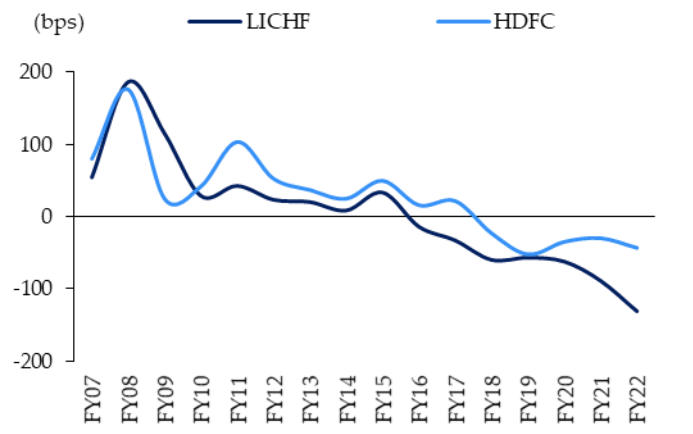
  The annual reset on floating-rate home loans helps ensure a stickier customer base (low volatility in EMIs/tenure), although impacting margins, particularly during periods of sharp rate hikes.

Exhibit 139: CANF's borrowings mix



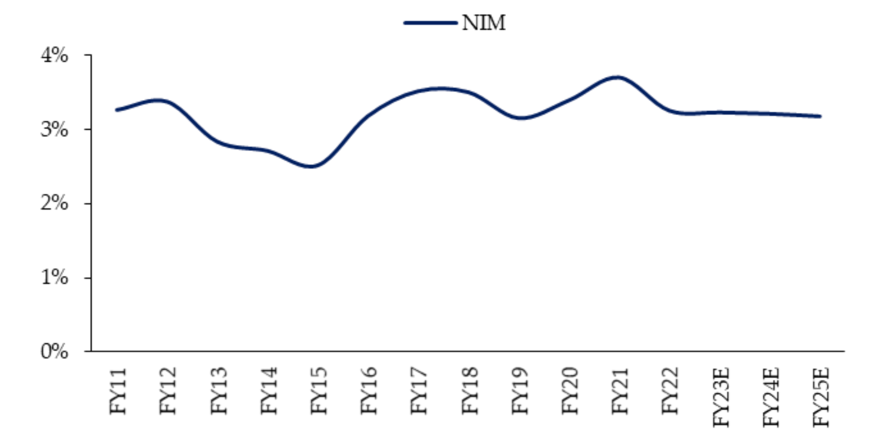
Source: Company, HSIE Research

Exhibit 140: CANF's cost of funds (calculated) spread over larger peers



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd

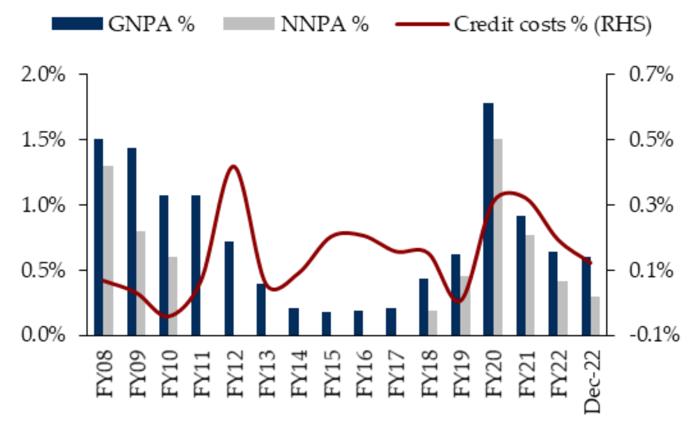
Exhibit 141: Marginal NIM compression expected during FY23-FY25E



Source: Company, HSIE Research

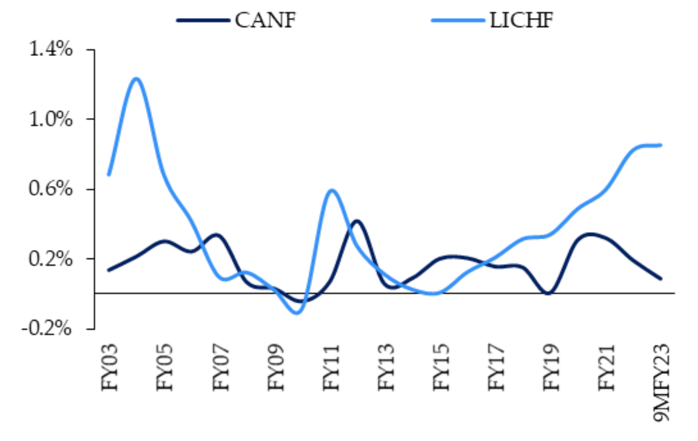
- **Disciplined approach drives pristine asset quality:** CANF's relentless focus on its chosen customer segment (salaried segment) and conservative approach to underwriting (ticket sizes, FOIR, LTV, high share of self-construction home loans etc.) have led to steady asset quality across cycles, with peak provisioning of ~0.4% in the last two decades. The absence of developer loans and large-ticket LAP loans helped mitigate any adverse impact from the 2019 NBFCs/HFCs NPA crisis.

Exhibit 142: GNPA, NNPA remain sub-1%, credit costs average at 20bps



Source: Company, HSIE Research

Exhibit 143: CANF's credit costs (provisions) vs. LICHF across cyles

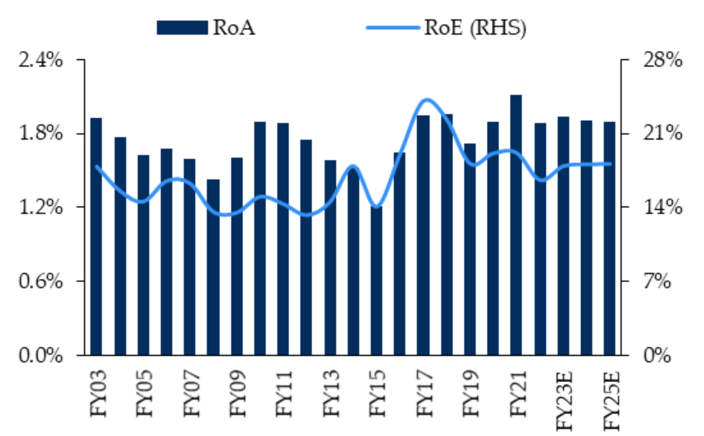


Source: Company, HSIE Research | IND AS from FY18 onwards

- **Robust franchise at attractive valuation; initiate with BUY:** CANF is well poised to deliver steady profitability and growth metrics despite a rising cost of funds environment. While the rising competitive intensity from the PSBs could emerge as a headwind for growth, calibrated expansion in non-South markets and improvement in productivity metrics is likely to drive ~20% loan growth. We see relatively lower risk to CANF's profitability from the RBI's regulatory changes.

  We initiate coverage on CANF with a BUY and RI-based target price of INR 750, implying 2x Mar-25 BVPS and 12x FY25 EPS. Our target price implies valuation premium to LICHF and REPCO, which we believe is justified based on steady and superior performance and visibility on growth.

Exhibit 144: RoA/RoE to remain healthy



Source: Company, HSIE Research

Exhibit 145: CANF trading below long-term average

Source: Bloomberg, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	17,134	20,189	20,064	19,697	26,566	32,796	39,421
Interest expended	11,693	13,442	12,083	11,535	16,528	20,826	25,276
Net interest income	**5,441**	**6,747**	**7,980**	**8,162**	**10,038**	**11,970**	**14,145**
Other income	179	115	121	188	191	221	258
Total income	5,621	6,862	8,101	8,350	10,229	12,192	14,402
Operating expenditure	915	1,076	1,240	1,530	1,693	1,995	2,306
Pre-provisioning operating profit	**4,706**	**5,786**	**6,861**	**6,820**	**8,536**	**10,197**	**12,097**
Non-tax provisions	11	603	685	469	433	629	762
Profit before tax	4,695	5,183	6,176	6,351	8,103	9,568	11,335
Tax expenditure	1,728	1,422	1,614	1,640	2,107	2,411	2,856
Profit after tax	**2,967**	**3,761**	**4,562**	**4,711**	**5,996**	**7,157**	**8,479**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	266	266	266	266	266	266	266
Reserves and surplus	17,556	21,234	25,832	30,400	35,997	42,621	50,433
Net worth	17,822	21,501	26,098	30,666	36,263	42,887	50,700
Borrowings	168,801	187,484	192,929	246,477	301,994	361,750	432,244
Other liabilities and provisions	672	1,451	1,710	2,300	3,214	3,839	4,577
Total equity and liabilities	**187,295**	**210,436**	**220,737**	**279,443**	**341,471**	**408,475**	**487,521**
Cash and cash equivalents	4,203	3,924	215	3,241	6,477	10,155	14,425
Investments	163	243	496	11,260	11,823	12,414	13,035
Advances	182,342	205,257	218,915	263,781	321,438	383,884	457,699
Fixed assets	99	379	378	346	367	389	412
Other assets	489	633	733	816	1,366	1,634	1,950
Total assets	**187,295**	**210,436**	**220,737**	**279,443**	**341,471**	**408,475**	**487,521**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	22.3	28.2	34.3	35.4	45.0	53.7	63.7
Earnings Growth (%)	3.7%	26.8%	21.3%	3.3%	27.3%	19.4%	18.5%
BVPS (ex reval.)	134	161	196	230	272	322	381
Adj. BVPS (ex reval. & 100% cover)	128	153	186	224	263	311	368
ROAA (%)	1.7%	1.9%	2.1%	1.9%	1.9%	1.9%	1.9%
ROAE (%)	18.2%	19.1%	19.2%	16.6%	17.9%	18.1%	18.1%
P/E (x)	24.5	19.3	15.9	15.4	12.1	10.1	8.6
P/ABV (x)	4.3	3.6	2.9	2.4	2.1	1.8	1.5
P/PPOP (x)	15.4	12.5	10.6	10.6	8.5	7.1	6.0
Dividend yield (%)	0.4%	0.4%	0.4%	0.6%	0.7%	0.9%	1.0%
PROFITABILITY (%)							
Yield on Advances (%)	10.0%	10.3%	9.4%	8.0%	8.8%	9.0%	9.1%
Cost of Funds (%)	7.6%	7.5%	6.4%	5.3%	6.0%	6.3%	6.4%
Core Spread (%)	2.4%	2.8%	3.0%	2.7%	2.7%	2.7%	2.7%
NIM (%)	3.1%	3.4%	3.7%	3.3%	3.2%	3.2%	3.2%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%
Cost-income ratio (%)	16.3%	15.7%	15.3%	18.3%	16.6%	16.4%	16.0%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	16.6%	12.6%	6.7%	20.5%	21.9%	19.4%	19.2%
AUM growth (%)	16.8%	12.6%	6.8%	20.8%	20.6%	19.4%	19.2%
Borrowing growth (%)	21.3%	11.1%	2.9%	27.8%	22.5%	19.8%	19.5%
Debt/Equity (x)	9.5	8.7	7.4	8.0	8.3	8.4	8.5
Equity/Assets (%)	9.5%	10.2%	11.8%	11.0%	10.6%	10.5%	10.4%
Equity/Loans (%)	9.8%	10.5%	11.9%	11.6%	11.3%	11.2%	11.1%
Total Capital Adequacy Ratio (CAR) (%)	16.4%	22.3%	25.5%	23.2%	22.0%	21.6%	21.3%
Tier I CAR (%)	14.6%	20.5%	23.7%	21.6%	20.8%	20.5%	20.4%
ASSET QUALITY							
GS III (INR mn)	1,135	1,571	2,019	1,706	2,321	2,945	3,482
NS III (INR mn)	795	1,118	1,343	807	1,215	1,526	1,760
GS III (%)	0.6%	1.8%	0.9%	0.6%	0.7%	0.8%	0.8%
NS III (%)	0.4%	1.5%	0.8%	0.4%	0.4%	0.4%	0.4%
Coverage Ratio (%)	27.5%	15.9%	16.7%	36.1%	47.7%	48.2%	49.4%
Provision/Gross advances (%)	0.0%	0.3%	0.3%	0.2%	0.1%	0.2%	0.2%
DUPONT ANALYSIS							
Interest earned	9.9%	10.2%	9.3%	7.9%	8.6%	8.7%	8.8%
Interest expended	6.8%	6.8%	5.6%	4.6%	5.3%	5.6%	5.6%
Net interest income	3.2%	3.4%	3.7%	3.3%	3.2%	3.2%	3.2%
Non-interest income	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Operating expenses	0.5%	0.5%	0.6%	0.6%	0.5%	0.5%	0.5%
Pre-provisioning profit	2.7%	2.9%	3.2%	2.7%	2.7%	2.7%	2.7%
Provisions	0.0%	0.3%	0.3%	0.2%	0.1%	0.2%	0.2%
Tax	1.0%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%
ROAA	**1.7%**	**1.89%**	**2.12%**	**1.88%**	**1.9%**	**1.9%**	**1.9%**
Average assets/Average equity (x)	10.5	10.1	9.1	8.8	9.3	9.5	9.6
ROAE	**18.2%**	**19.1%**	**19.2%**	**16.6%**	**17.9%**	**18.1%**	**18.1%**

Source: Company, HSIE Research

Aavas Financiers

Catch this cub young

Aavas Financiers (AAVAS) is one of the new-age affordable-focused HFCs with the right ingredients for a robust housing franchise. The company predominately focuses on home loans (70%) and micro-LAP (~30%) to self-employed customers (60%) in semi-urban/rural areas with an average ticket size of ~INR 1mn. A combination of stringent credit assessment and completely in-house cross-functional execution ensures low delinquencies leading to superior risk-adjusted spreads (>5%). AAVAS had established a right-to-win in its core markets (Rajasthan, MP, Gujarat, MH etc.) under the parentage of AU Financiers (now AU SFB) and is now making calibrated investments in newer geographies, which is a key monitorable amidst rising competitive intensity. Stock price correction by ~33% in the past 12 months has turned risk-reward favourable. We initiate coverage on AAVAS with an ADD and RI-based target price of INR 1,850 (3.5x Mar-25 ABVPS, 23x FY25 EPS).

	Risk framework	Customer profile	Liabilities	Throughput	Overall
AAVAS	●	◕	◕	○	●

- **A robust business model in the making:** AAVAS has maintained pristine asset quality (average credit costs of 30bps during FY14 - 9MFY23; 1+ dpd at 4.1% as of Dec-22) in the informal segment in semi-urban/rural areas (~70% of AUM), with in-house execution and stringent underwriting (approval rate at sub-40%; LTV at ~50%). We believe AAVAS's calibrated approach is likely to cushion them well during economic downturn.
- **Core market strengths known, diversifying into other markets**: With an established right-to-win in its core markets (Top 5 states at ~80-85% of AUM), AAVAS is gradually foraying into other geographies (~40% of net new branches opened during FY20-9MFY23 outside Top 5 states). Performance in newer markets (productivity, profitability etc.) remains a key monitorable for AAVAS to deliver AUM growth of ~20-22% CAGR over the medium term.
- **Muted operating efficiency a concern**: AAVAS's productivity metrics (per employee, per branch) and cost efficiency ratios are currently muted due to heavy investments in distribution (existing and newer geographies) and Tech to make the franchise more scalable. The focus on in-house execution is likely to keep the opex ratios elevated.
- **High RoAs to sustain; RoEs to improve gradually**: AAVAS's superior RoA (~3.4%) is likely to translate into reflating RoEs (~15% by FY25E) with increasing leverage (~2.9x as on Dec-22). Recent price correction turns risk-reward favourable, driving our ADD rating. Key risks are pressure on loan growth or margins amidst increasing scale and high competitive intensity in the affordable segment.

Financial Summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	3.4	4.3	5.2	6.5	8.0	9.7	11.8
PPOP	2.7	3.2	3.9	4.8	5.6	7.1	8.8
PAT	1.8	2.5	2.9	3.6	4.2	5.1	6.3
EPS (INR)	22.5	31.8	36.8	45.0	53.1	64.2	79.5
ROAE (%)	11.6	12.7	12.8	13.6	14.0	14.7	15.6
ROAA (%)	3.6	3.7	3.5	3.6	3.4	3.4	3.4
ABVPS (INR)	233.8	265.7	299.0	346.7	393.2	454.8	531.0
P/ABV (x)	7.2	6.3	5.6	4.8	4.3	3.7	3.1
P/E (x)	74.2	52.6	45.4	37.2	31.5	26.0	21.0

Source: Company, HSIE Research

ADD

CMP *(as on 05 Apr 2023)*	INR 1,670
Target Price	INR 1,850
NIFTY	17,557

KEY STOCK DATA	
Bloomberg code	AAVAS IN
No. of Shares (mn)	79
MCap (INR bn) / ($ mn)	132/1,609
6m avg traded value (INR mn)	266
52 Week high / low	INR 2,635/1,590

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.6)	(24.0)	(34.0)
Relative (%)	(2.0)	(26.8)	(32.5)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	39.2	39.2
FIs & Local MFs	11.0	10.9
FPIs	37.7	37.9
Public & Others	12.1	12.0
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Neelam Bhatia
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Sahej Mittal
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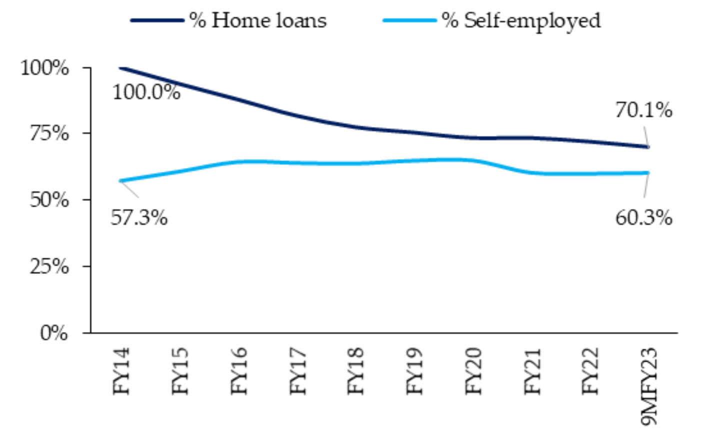
Robust execution model

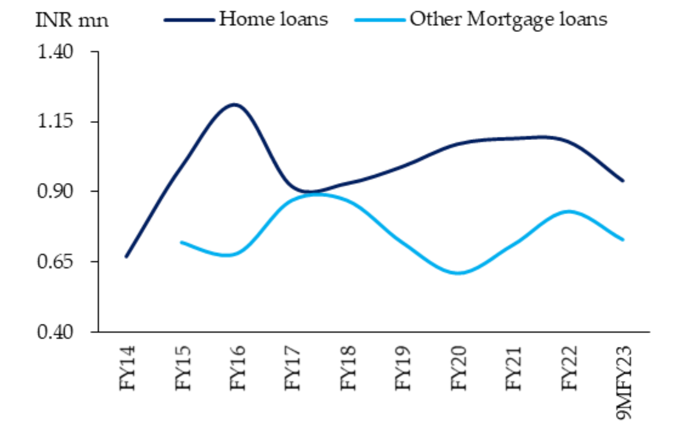
- **Diversifying portfolio, risk assessment remains at the core:** With the parentage of AU Small Finance Bank (erstwhile AU Financiers) at the time of inception, Aavas Financiers (earlier AU Housing Finance) finances the under-served customer segment with a high margin of safety in terms of risk-based pricing. Given the nature of its flagship customer segment, AAVAS has been operating on the core principles of conservative FOIR (sub-50%) and LTV (~50%) while gradually diversifying its portfolio (non-HL @ 30% as of 9MFY23). The non-housing loans comprise micro-LAP, MSME loans (backed by property as collateral) and top-up home loans.

Exhibit 146: Increasing share of non-home loans in AUM, share of Self-employed customers remain steady



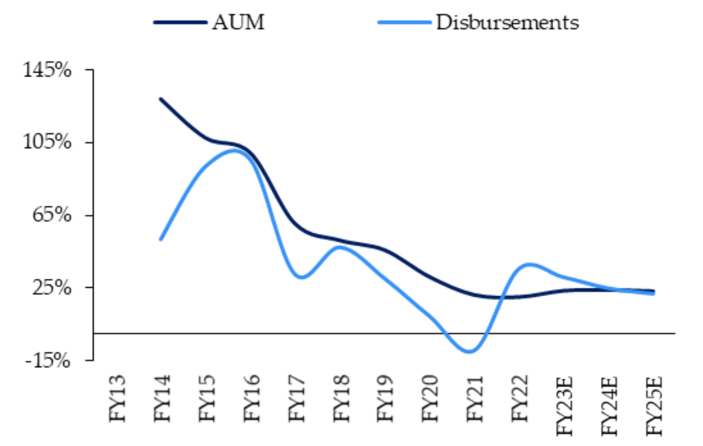
Source: Company, HSIE Research

Exhibit 147: Steady average ticket size (on disbursals)



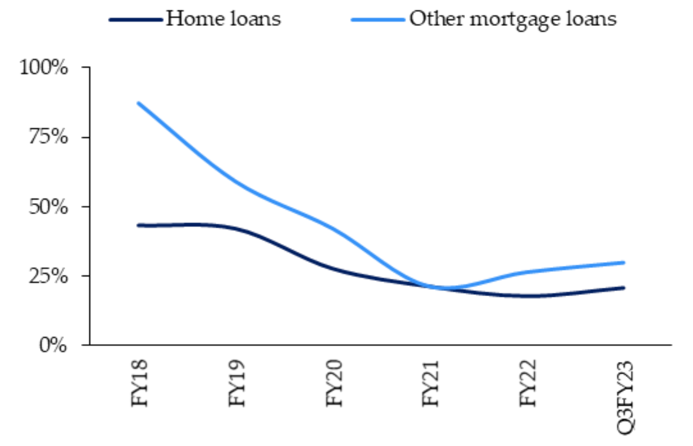
Source: Company, HSIE Research

Exhibit 148: Tapering off of balance sheet growth with increasing size



Source: Company, HSIE Research

Exhibit 149: Segmental AUM growth

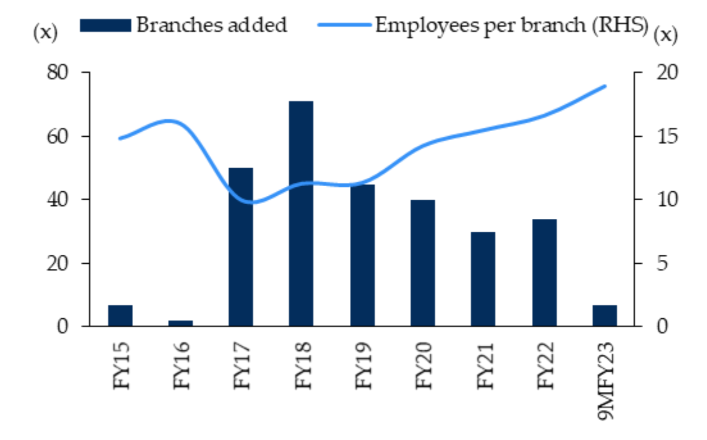


Source: Company, HSIE Research

- **Target AUM CAGR of ~20-22%; currently in high-investment phase:** AAVAS has guided for an AUM growth of ~20-22% growth during 2018-2028. To that extent, the company is making significant investments in people, branches (~35 branches to be added every year) and new technological platforms (~INR 1.5bn of investments). The incremental branch additions are into newer geographies (~50% on an incremental basis). AAVAS has largely an in-house team for most functions such as legal, technical, and credit appraisal (decentralised) to ensure low operational risk and quick TAT.

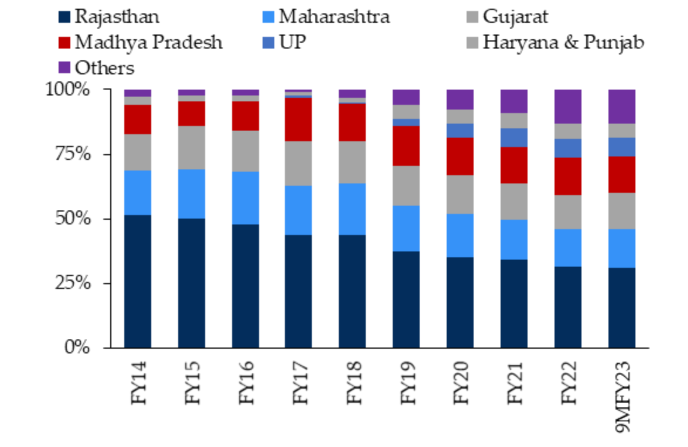
  Given the underlying operating model, while the evolving branch maturity is likely to improve productivity metrics, these are still likely to remain lower than peers.

Exhibit 150: Steady pace of branches and employees additions



Source: Company, HSIE Research

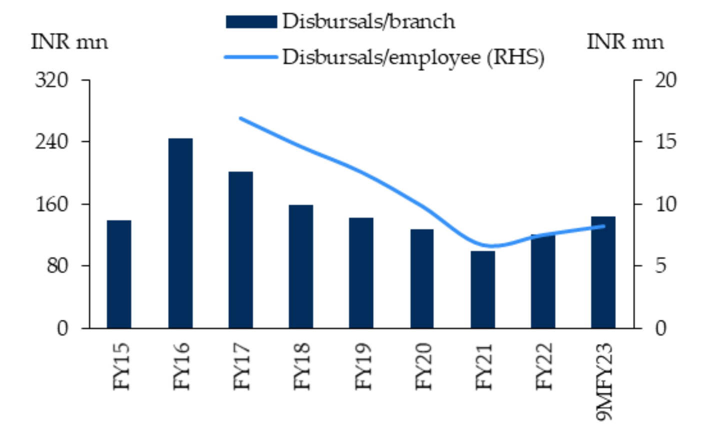
Exhibit 151: Branch distribution mix—shifting towards non-core states



Source: Company, HSIE Research

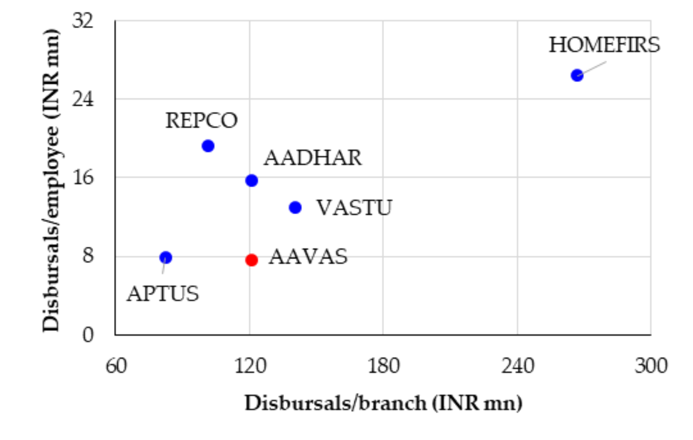
- **Need for productivity ramp-up:** AAVAS's productivity ratios (per employee, per branch etc.) are muted compared to its peers due to (a) near-100% in-house execution of employees for all functions; and (b) the rapid pace of investments in the distribution network. While the maturing of the branches is likely to improve the productivity metrics, they are still likely to remain sub-par compared to peers due to the underlying operating structure.

Exhibit 152: Productivity—per branch and per employee



Source: Company, HSIE Research

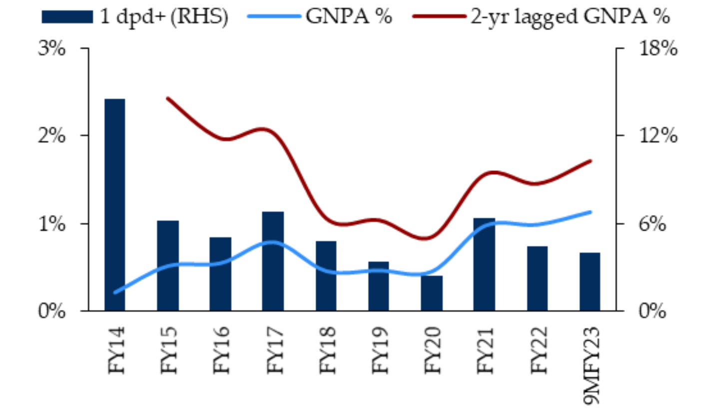
Exhibit 153: Productivity vs. peers (FY22)



Source: Company, HSIE Research | Note: HOMEFIRST's branch count excludes digital branches and new branch locations

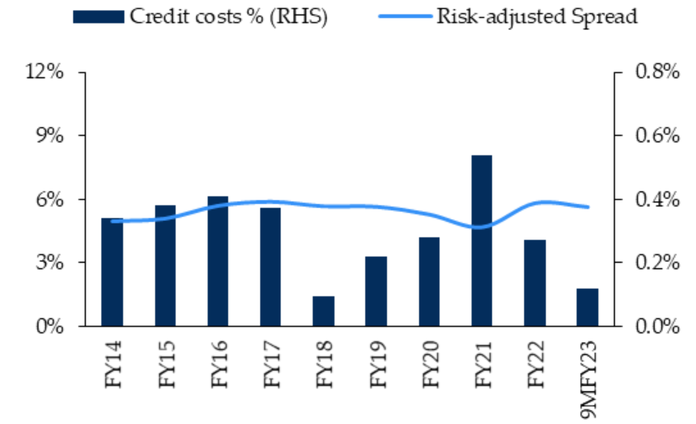
- **Robust risk management and benign credit cycle drive low credit costs:** AAVAS's credit costs (provisions) have averaged around ~30bps during FY14-9MFY23, owing to its robust risk architecture further benefitting from a benign credit cycle witnessed in affordable home loans. Even on a 2-year lag basis, GNPA/GS-III remains below 2% for loans priced with average yields of ~13% (restructured book at 0.9% as of Dec-22). This drives super-normal risk-adjusted spreads of ~6%.

Exhibit 154: Robust asset quality in the informal customer segment



Source: Company, HSIE Research

Exhibit 155: Risk-adjusted spreads

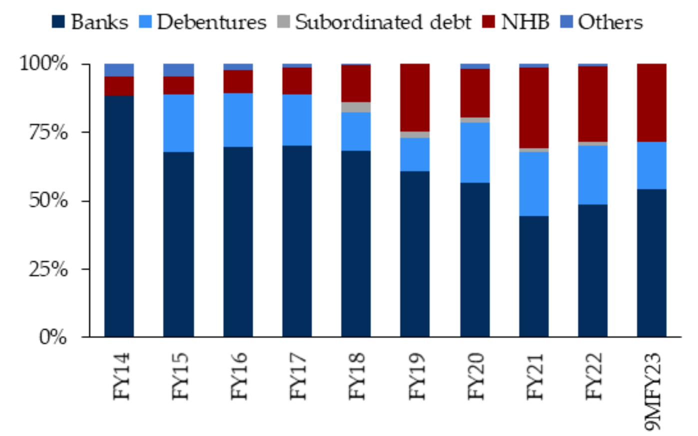


Source: Company, HSIE Research | IND AS from FY18 onwards

- **Gradual improvement in liability mix:** Despite the absence of a strong parentage, AAVAS has been able to gradually diversify its liability mix beyond bank borrowings to NCDs, NHB-refinancing and subordinated debt. NHB re-financing and NCDs constitute nearly half of the borrowings (excluding assignment), although incrementally, bank borrowings are likely to increase in the borrowings mix, given the tightening liquidity environment.

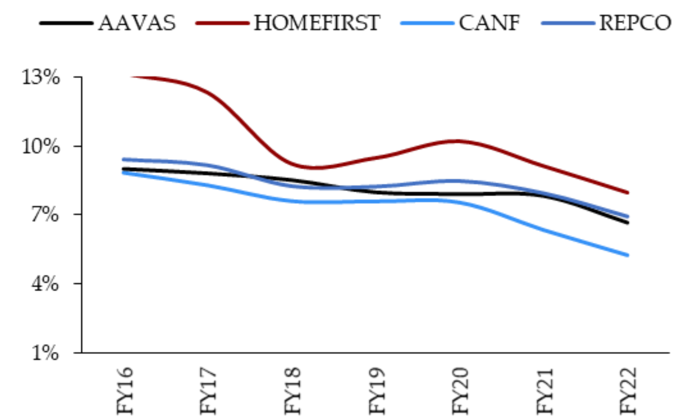
  Direct assignment constitutes ~18% of the AUM (Dec-22) and provides a healthy contribution to the bottom line (fee income at ~1.5-2% of assets).

Exhibit 156: Gradual diversification of borrowings



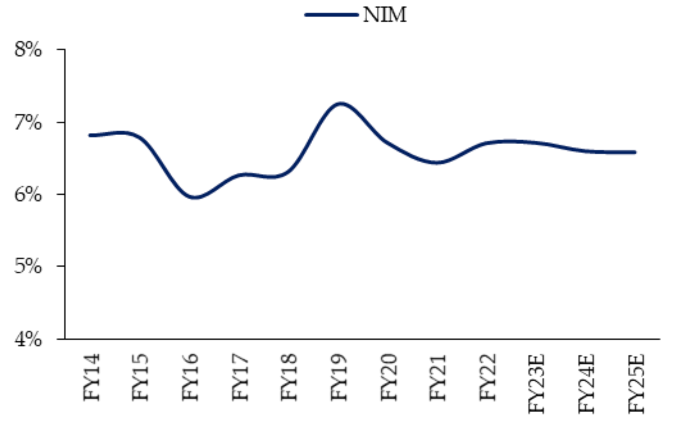
Source: Company, HSIE Research

Exhibit 157: Cost of funds—in-line with peers



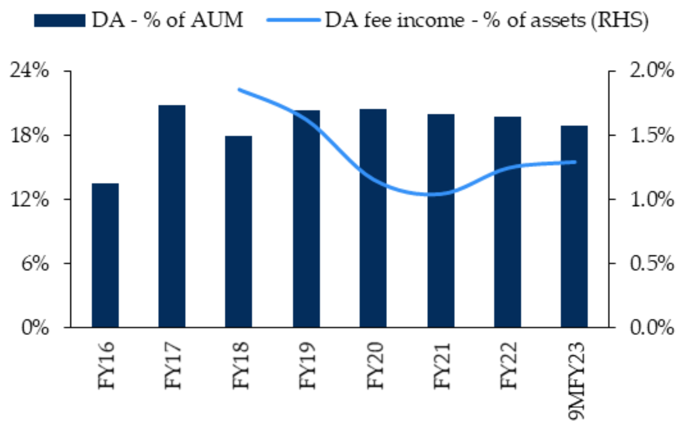
Source: Company, HSIE Research

Exhibit 158: NIM—expect marginal compression during FY22-FY25E



Source: Company, HSIE Research | IND AS from FY18

Exhibit 159: ~18% of portfolio is assigned, generating healthy fee income

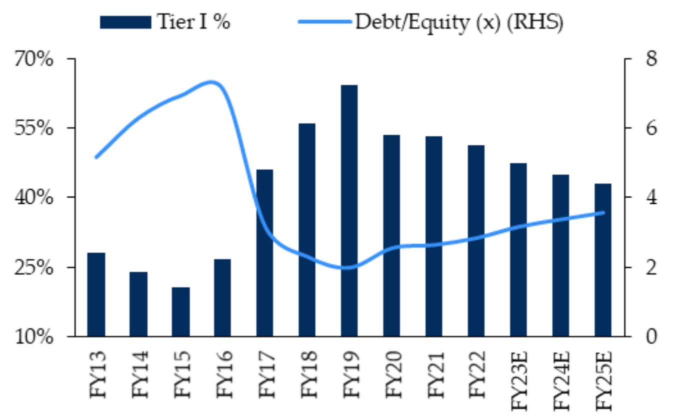


Source: Company, HSIE Research | IND AS from FY18

- **Low leverage drives below-potential RoEs; initiate with ADD**: AAVAS's low leverage (D/E of ~2.9x as on Dec-22) drives below-potential RoE of ~15% despite high RoA of ~4%. While the absence of strong parentage is likely to keep the target leverage ratio much below that of LICHF, CANF etc. (~5-6x), RoEs are poised for gradual improvement as the leverage increases from current levels.

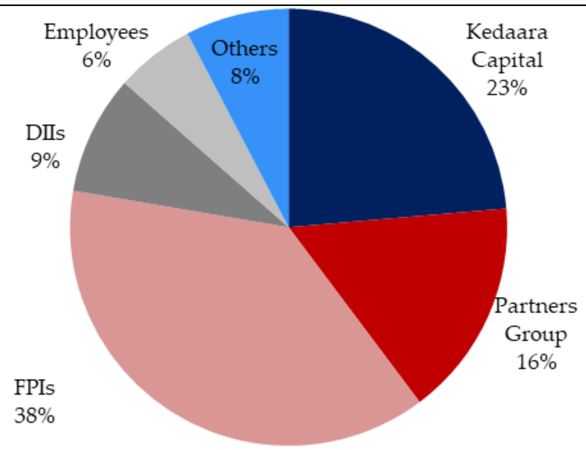
  We initiate on AAVAS with an ADD and RI-based TP of INR 1,850 (implying 3.5x Mar-25 ABVPS, 23x FY25 EPS). The valuation premium compared to peers is largely due to robust risk management and visibility on loan growth and scalability.

Exhibit 160: Debt/equity ratio remains muted post large capital raises during FY17-FY19



Source: Company, HSIE Research

Exhibit 161: ~40% shareholding with 2 PE firms (Dec-22)



Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	5,937	7,867	9,766	11,289	14,233	18,000	22,153
Interest expended	2,554	3,561	4,582	4,775	6,195	8,312	10,350
Net interest income	**3,384**	**4,306**	**5,183**	**6,514**	**8,039**	**9,688**	**11,804**
Other income	1,174	1,167	1,289	1,768	2,185	2,719	3,310
Total income	4,558	5,473	6,473	8,281	10,224	12,407	15,114
Operating expenditure	1,891	2,300	2,576	3,528	4,603	5,281	6,320
Pre-provisioning operating profit	**2,667**	**3,173**	**3,897**	**4,753**	**5,621**	**7,126**	**8,793**
Non-tax provisions	89	153	371	226	215	365	422
Profit before tax	2,578	3,019	3,526	4,527	5,406	6,761	8,371
Tax expenditure	818	529	636	975	1,216	1,690	2,093
Profit after tax	1,760	2,490	2,889	3,552	4,190	5,070	6,278

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	781	783	785	789	789	789	789
Reserves and surplus	17,515	20,079	23,042	26,968	31,157	36,228	42,506
Net worth	18,370	20,979	24,008	28,064	31,947	37,017	43,296
Borrowings	36,533	53,520	63,454	79,725	101,139	125,049	154,677
Other liabilities and provisions	1,366	2,081	2,130	2,386	2,932	3,629	4,491
Total equity and liabilities	**56,269**	**76,580**	**89,593**	**110,175**	**136,019**	**165,696**	**202,464**
Cash and cash equivalents	6,838	11,967	11,252	15,457	18,222	20,321	22,812
Investments	0	0	0	525	578	635	699
Advances	47,245	61,808	75,233	90,534	112,782	139,575	172,729
Fixed assets	229	606	587	683	765	856	959
Other assets	1,957	2,199	2,521	2,975	3,672	4,308	5,264
Total assets	**56,269**	**76,580**	**89,593**	**110,175**	**136,019**	**165,696**	**202,464**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	53	64	80	53	64	80	53
Earnings Growth (%)	18.0%	21.0%	23.8%	18.0%	21.0%	23.8%	18.0%
BVPS (ex reval.)	405	469	548	405	469	548	405
Adj. BVPS (ex reval. & 100% cover)	393	455	531	393	455	531	393
ROAA (%)	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
ROAE (%)	14.0%	14.7%	15.6%	14.0%	14.7%	15.6%	14.0%
P/E (x)	31.5	26.0	21.0	31.5	26.0	21.0	31.5
P/ABV (x)	4.3	3.7	3.1	4.3	3.7	3.1	4.3
P/PPOP (x)	23.5	18.5	15.0	23.5	18.5	15.0	23.5
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PROFITABILITY (%)							
Yield on Advances (%)	13.1%	13.4%	13.4%	13.1%	13.4%	13.4%	13.1%
Cost of Funds (%)	6.9%	7.4%	7.4%	6.9%	7.4%	7.4%	6.9%
Core Spread (%)	6.3%	6.1%	6.0%	6.3%	6.1%	6.0%	6.3%
NIM (%)	6.7%	6.6%	6.6%	6.7%	6.6%	6.6%	6.7%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	3.8%	3.3%	3.0%	3.4%	3.6%	3.4%	3.2%
Cost-income ratio (%)	41.5%	42.0%	39.8%	42.6%	45.0%	42.6%	41.8%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	41.7%	30.8%	21.7%	20.3%	24.6%	23.8%	23.8%
AUM growth (%)	45.9%	31.2%	21.3%	20.1%	23.6%	24.0%	24.0%
Borrowing growth (%)	33.4%	46.5%	18.6%	25.6%	26.9%	23.6%	23.7%
Debt/Equity (x)	2.0	2.6	2.6	2.8	3.2	3.4	3.6
Equity/Assets (%)	32.6%	27.4%	26.8%	25.5%	23.5%	22.3%	21.4%
Equity/Loans (%)	38.9%	33.9%	31.9%	31.0%	28.3%	26.5%	25.1%
Total Capital Adequacy Ratio (CAR) (%)	67.8%	55.9%	54.4%	51.9%	48.0%	45.5%	43.4%
Tier I CAR (%)	64.3%	53.7%	53.2%	51.3%	47.4%	45.0%	43.1%
ASSET QUALITY							
GS III (INR mn)	158	210	739	904	1,184	1,511	1,863
NS III (INR mn)	112	171	538	695	913	1,121	1,378
GS III (%)	0.5%	0.5%	1.0%	1.0%	1.0%	1.1%	1.1%
NS III (%)	0.4%	0.3%	0.7%	0.8%	0.8%	0.8%	0.8%
Coverage Ratio (%)	21.8%	26.0%	27.2%	23.1%	22.9%	25.8%	26.1%
Provision/Gross advances (%)	0.2%	0.3%	0.5%	0.3%	0.2%	0.3%	0.3%
DUPONT ANALYSIS							
Interest earned	12.3%	11.8%	11.8%	11.3%	11.6%	11.9%	12.0%
Interest expended	5.3%	5.4%	5.5%	4.8%	5.0%	5.5%	5.6%
Net interest income	7.0%	6.5%	6.2%	6.5%	6.5%	6.4%	6.4%
Non-interest income	2.4%	1.8%	1.6%	1.8%	1.8%	1.8%	1.8%
Operating expenses	3.9%	3.5%	3.1%	3.5%	3.7%	3.5%	3.4%
Pre-provisioning profit	5.5%	4.8%	4.7%	4.8%	4.6%	4.7%	4.8%
Provisions	0.2%	0.2%	0.4%	0.2%	0.2%	0.2%	0.2%
Tax	1.7%	0.8%	0.8%	1.0%	1.0%	1.1%	1.1%
ROAA	3.6%	3.7%	3.5%	3.6%	3.4%	3.4%	3.4%
Leverage (x)	3.2	3.4	3.7	3.8	4.1	4.4	4.6
ROAE	**11.6%**	**12.7%**	**12.8%**	**13.6%**	**14.0%**	**14.7%**	**15.6%**

Source: Company, HSIE Research

Home First Finance Company

Distribution-light approach offers interesting trade-offs

Home First Finance Company (HOMEFIRST) is one of the new-age affordable HFCs, predominantly focused on Tier I/II markets (~70% of disbursals) and salaried customers (~70% of AUM). A relatively resilient customer franchise within the affordable housing segment offers the company superior risk-adjusted pricing power reflecting in RoA sustaining above 3.5%. Gradual portfolio diversification beyond Tier I/II and towards self-employed segment is likely to augment strong loan growth. Its distribution-light, digital-first approach (102 branches vs. 261 sourcing touch points), while driving better efficiencies, poses higher operational risk. However, lack of strong parentage is likely to cap leverage, driving below-potential RoEs (sub-15%). We initiate with ADD and RI-based TP of INR765 (2.9x Mar-25 ABVPS, 20x FY25 EPS).

	Risk framework	Customer profile	Liabilities	Throughput	Overall
HOMEFIRST	◑	◑	◕	●	◑

- **Digital-first model—balancing risk and efficiency**: HOMEFIRST has adopted a digital-first approach, largely anchored on centralised underwriting, connector-based sourcing model (~72% of disbursals) and a tech-based lean operating structure. While this differentiated model drives higher throughput and efficiency compared to peers, a relatively lower physical presence especially in an informal customer segment entails higher operational risk calling for mitigants in the form of sustained tech investment.
- **Gradual diversification of loan portfolio:** Given the conservative loan mix (core HL at ~88% of AUM; ~72% of AUM towards salaried customers), HOMEFIRST enjoys the maximum elbow room for steady portfolio diversification. Early evidence of this steady diversification is visible in the gradual inching up of the share of self-employed and non-HL portfolio alongside a simultaneous decline in the share of NTC customers (9MFY23: 22%; FY18: 46%), further accentuated by incremental branch additions beyond Tier II cities.
- **Absence of strong parentage to cap leverage**: With a good mix of bank borrowings and NHB refinance and unutilised lines (INR 7.6bn) from both sources, HOMEFIRST has fairly diversified its funding profile, including DA and co-lending (~16% of AUM). However, the absence of strong parentage is likely to structurally cap leverage and hence RoEs at ~15%. As a result, we believe HOMEFIRST will need to continue finding ways to optimise its funding costs to maintain its impressive RoA trajectory (~3.5%).

Financial summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	1.1	1.6	2.1	3.0	4.1	5.1	6.4
PPOP	0.7	1.2	1.7	2.5	3.1	4.0	4.9
PAT	0.5	0.8	1.0	1.9	2.2	2.7	3.4
EPS (INR)	36.1	10.2	11.5	21.2	25.2	31.1	38.6
ROAE (%)	10.7	10.9	8.7	12.6	13.1	14.2	15.2
ROAA (%)	2.4	2.7	2.5	3.9	3.7	3.5	3.5
ABVPS (INR)	311.5	116.2	153.4	170.9	193.8	223.6	259.5
P/ABV (x)	2.3	6.2	4.7	4.2	3.7	3.2	2.8
P/E (x)	19.8	70.4	62.4	33.7	28.4	23.0	18.5

Source: Company, HSIE Research

ADD

CMP *(as on 05 Apr 2023)*	INR 711
Target Price	INR 765
NIFTY	17,557

KEY STOCK DATA	
Bloomberg code	HOMEFIRST IN
No. of Shares (mn)	88
MCap (INR bn) / ($ mn)	63/763
6m avg traded value (INR mn)	173
52 Week high / low	INR 1,005/652

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.2)	(19.3)	(8.9)
Relative (%)	(3.6)	(22.1)	(7.4)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	33.6	33.5
FIs & Local MFs	6.4	6.5
FPIs	46.8	45.8
Public & Others	13.2	14.2
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
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+91-22-6171-7323

Krishnan ASV
venkata.krishnan@hdfcsec.com
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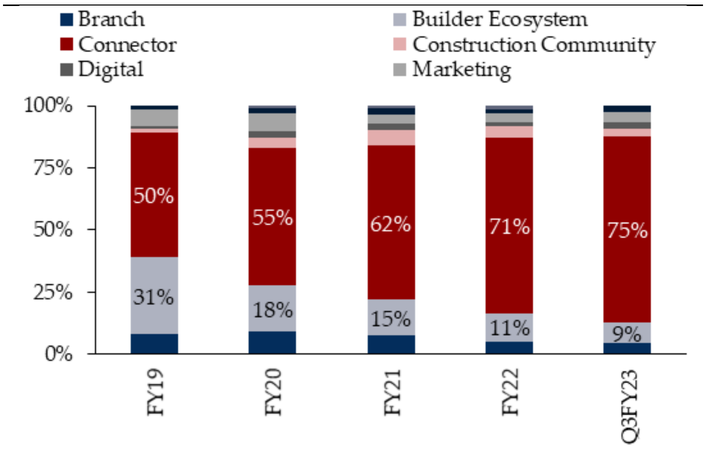
Lean execution model

- **Tech-driven lean operating model in the mortgage business:** HOMEFIRST's lean operating model in the opex-intensive affordable home loans segment enables it to drive higher throughput and productivity vs. peers. Centralised underwriting along with connector-model of sourcing and end-to-end digitised processes (no paperwork etc.) ensures low TAT and higher cost efficiency. Further, the company sources business (~30% of disbursals) from locations without physical branches, further aiding the opex ratios.
- **Distribution-light/digital-first approach aids in improving scale/reach but adds operational risk**: While the current approach aids in improving the reach and operational efficiency, it adds several operational risks in the mortgage business, exacerbated by high attrition rates in the industry.

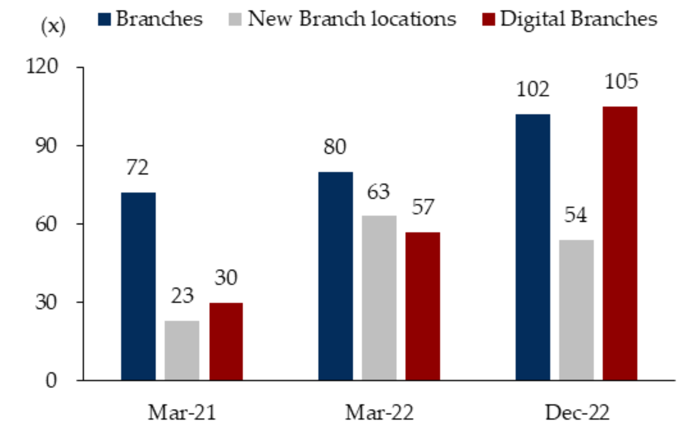
  However, HOMEFIRST's centralised underwriting, which leverages further due-diligence with alternative data sources, along with conservative lending approach (LTV, FOIR etc.), aids in mitigating such operational risks to a great extent, reflecting in subdued credit costs.

Exhibit 162: Sourcing heavily dependent on connectors



Source: Company, HSIE Research

Exhibit 163: Increasing share of digital branches in the distribution network



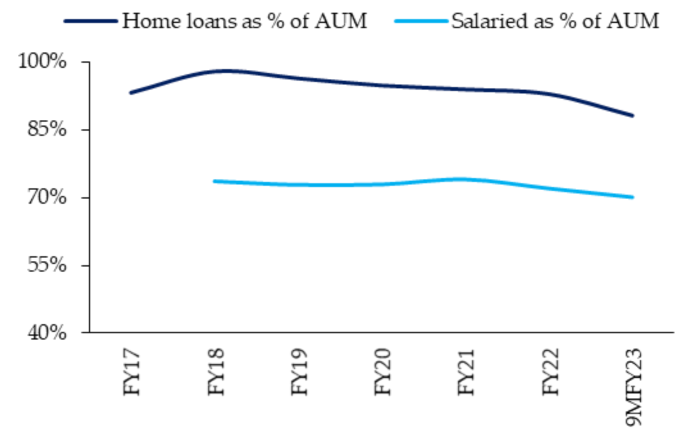
Source: Company, HSIE Research

- **Gradual portfolio diversification at play:** HOMEFIRST's portfolio remains skewed towards salaried customers and affordable home loans. However, the company is incrementally shifting towards self-employed and LAP portfolios in a calibrated manner to drive portfolio growth and profitability. The shift towards Tier III cities in terms of new branch additions is likely to drive the share of the self-employed segment higher.

  The salaried customer segment is broadly split between the formal salaried and informal salaried segments. With increasing bureau penetration, the share of NTC customers has come off from ~46% in FY18 to ~22% in Dec-22.

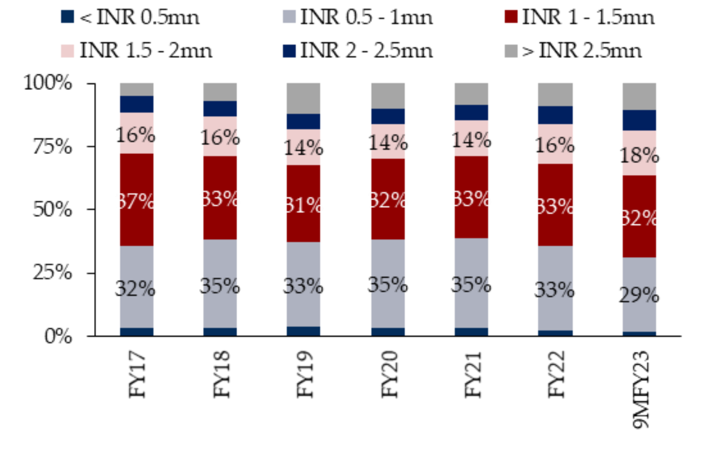
  With rising competitive intensity as well as high opex intensity, HOMEFIRST is increasingly focusing on the ~INR 1mn+ ticket size.

Exhibit 164: Home loans, salaried customers remain the dominant part of the portfolio



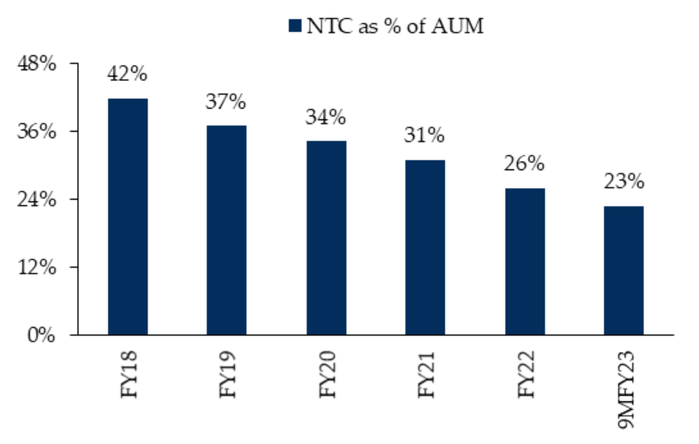
Source: Company, HSIE Research

Exhibit 165: AUM by ticket size – INR 1 - 2mn remains the sweet spot



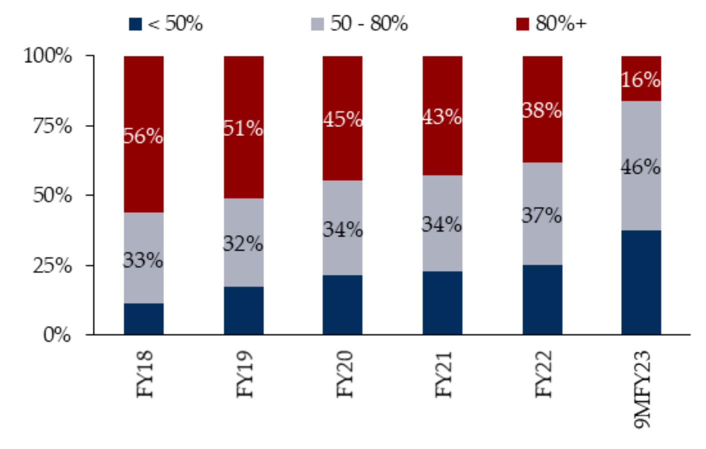
Source: Company, HSIE Research

Exhibit 166: Share of NTC customers on a declining trend



Source: Company, HSIE Research

Exhibit 167: LTV on origination reducing



Source: Company, HSIE Research

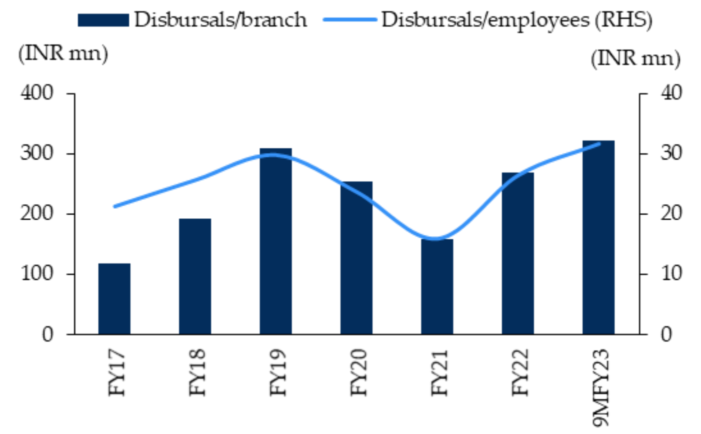
- **Comparison with peer - AAVAS:** In comparison to AAVAS, HOMEFIRST relies heavily on a distribution-light approach and connector-led sourcing. The customer profile of HOMEFIRST is skewed towards salaried segment, a segment that has a high overlap with banks. However, HOMEFIRST is far superior than AAVAS on productivity metrics, on the back of structural differences in distribution network and mode of operations.

Exhibit 168: Comparison with Aavas Financiers

9MFY23/Dec-22	HOMEFIRST	AAVAS
Sourcing	Connectors	In-house sales executives
Customer profile		
Salaried %	70%	40%
Share of home loans %	88%	70%
EWS + LIG	~70%	~63%
AUM - above INR 1mn	69%	~55%
Distribution network	Distribution-Light	Distribution-Heavy
Productivity (Disbursals/branch/month)	26.8	12.4
Yield on advances	13.0%	12.9%
Cost of funds	7.4%	7.3%
Credit costs	0.4%	0.1%
GS III %	1.8%	1.1%
RoA	3.9%	3.6%

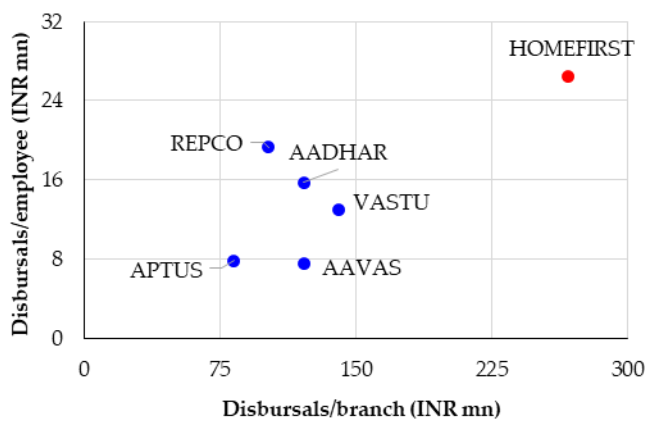
Source: Company, HSIE Research

Exhibit 169: Productivity metrics on an improving trend



Source: Company, HSIE Research

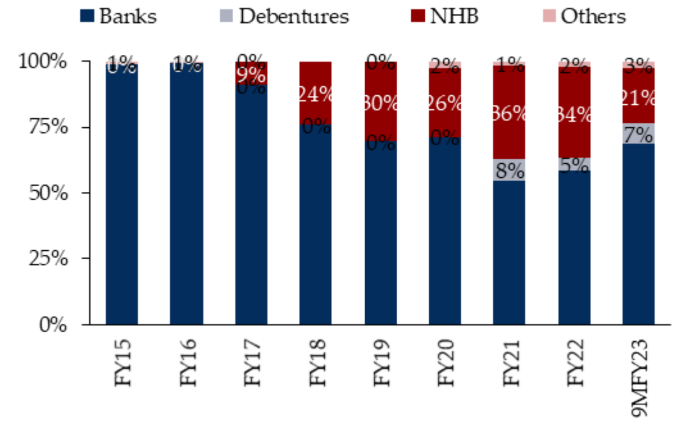
Exhibit 170: Superior productivity vs. peers (FY22)



Source: Company, HSIE Research | Note: Branch count for HOMEFIRST excludes digital branches and new branch locations

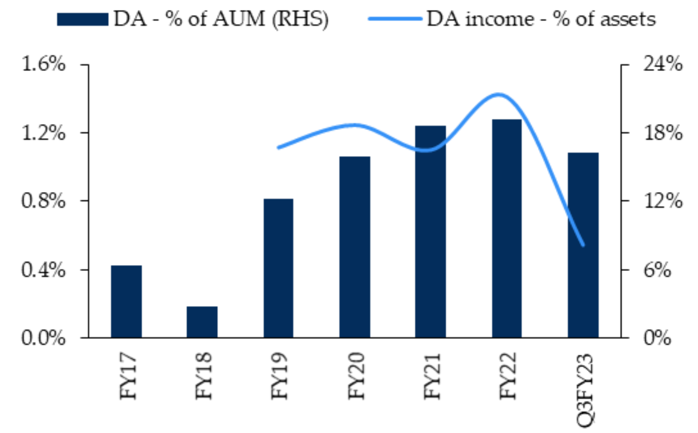
- **Gradual diversification of borrowings at play:** HOMEFIRST's liabilities mix still remains fairly concentrated towards banks, due to the absence of strong parentage and relatively limited track record. However, the company is looking to optimise on the liabilities side with NHB refinancing, assignment and co-lending and incrementally raising funds through NCDs as well.

Exhibit 171: Borrowings mix



Source: Company, HSIE Research

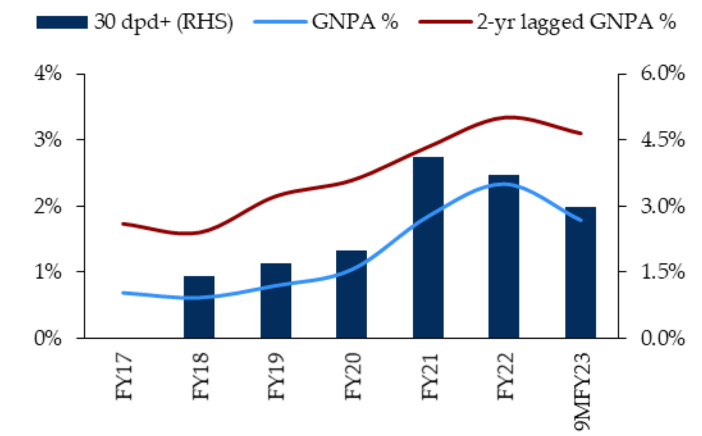
Exhibit 172: Optimisation of liquidity with assignment transactions



Source: Company, HSIE Research

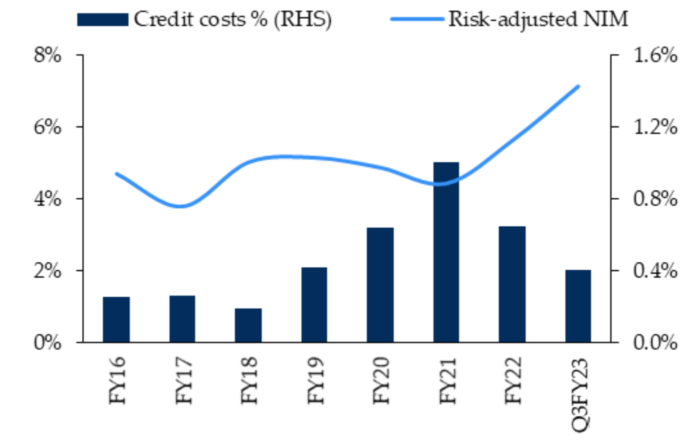
- **Steady asset quality:** HOMEFIRST's asset quality has remained steady on the back of a benign credit environment and conservative lending approach. However, the credit costs are higher compared to AAVAS, despite a higher share of salaried and home loans in the portfolio (partially offset by higher management overlay).

Exhibit 173: Steady asset quality



Source: Company, HSIE Research

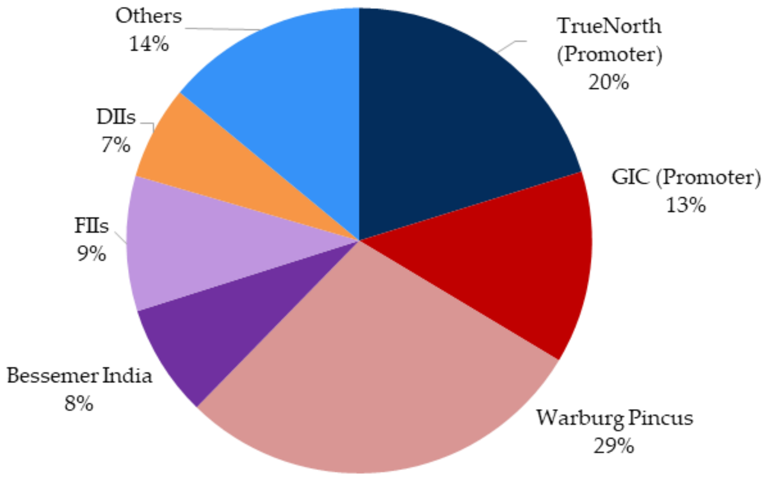
Exhibit 174: Credit costs



Source: Company, HSIE Research

- **Lack of strong parentage to cap leverage, initiate with ADD**: We initiate coverage on HOMEFIRST with an ADD and RI-based TP of INR 765 (2.9x Mar-25 ABVPS; 20x FY25 EPS). We believe, the company's lean operating structure with focus on the target segment is likely to deliver healthy RoA (~3.4%) and strong loan growth (~25%+). However, the absence of strong parentage is likely to cap the leverage compared to other HFCs such as CANF, LIHF etc.

Exhibit 175: Shareholding pattern (as of Jan-23)—high ownership with PEs



Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	2,320	3,548	4,301	5,117	7,080	9,342	11,891
Interest expended	1,265	1,938	2,174	2,157	2,940	4,251	5,503
Net interest income	**1,055**	**1,610**	**2,127**	**2,960**	**4,140**	**5,092**	**6,388**
Other income	390	648	590	840	663	1,145	1,345
Total income	1,445	2,258	2,718	3,800	4,803	6,237	7,733
Operating expenditure	719	1,020	1,056	1,287	1,728	2,240	2,826
Pre-provisioning operating profit	**726**	**1,238**	**1,662**	**2,513**	**3,075**	**3,997**	**4,908**
Non-tax provisions	73	165	322	250	231	358	390
Profit before tax	653	1,073	1,340	2,263	2,844	3,639	4,517
Tax expenditure	196	278	339	402	640	917	1,138
Profit after tax	457	796	1,001	1,861	2,204	2,722	3,379

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	127	157	175	175	175	175	175
Reserves and surplus	5,058	9,103	13,534	15,424	17,628	20,350	23,729
Net worth	5,227	9,334	13,805	15,737	17,803	20,525	23,904
Borrowings	19,256	24,938	30,537	34,668	49,455	64,420	82,718
Other liabilities and provisions	332	530	759	764	1,391	1,771	2,236
Total equity and liabilities	**24,815**	**34,802**	**45,101**	**51,169**	**68,649**	**86,717**	**108,858**
Cash and cash equivalents	1,920	2,221	6,799	6,678	8,749	10,383	12,527
Investments	1,029	1,456	3,750	0	0	0	0
Advances	21,347	30,139	33,265	43,049	57,942	73,793	93,163
Fixed assets	174	210	167	202	243	286	338
Other assets	345	777	1,121	1,239	1,716	2,255	2,830
Total assets	**24,815**	**34,802**	**45,101**	**51,169**	**68,649**	**86,717**	**108,858**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	36.1	10.2	11.5	21.2	25.2	31.1	38.6
Earnings Growth (%)	81.4%	74.0%	25.9%	85.8%	18.4%	23.5%	24.2%
BVPS (ex reval.)	413	119	158	180	203	234	273
Adj. BVPS (ex reval. & 100% cover)	312	116	153	171	194	224	259
ROAA (%)	2.4%	2.7%	2.5%	3.9%	3.7%	3.5%	3.5%
ROAE (%)	10.7%	10.9%	8.7%	12.6%	13.1%	14.2%	15.2%
P/E (x)	19.8	70.4	62.4	33.7	28.4	23.0	18.5
P/ABV (x)	2.3	6.2	4.7	4.2	3.7	3.2	2.8
P/PPOP (x)	12.5	45.2	37.6	24.9	20.4	15.7	12.8
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PROFITABILITY (%)							
Yield on Advances (%)	13.2%	13.2%	12.7%	12.4%	13.2%	13.4%	13.5%
Cost of Funds (%)	8.6%	8.8%	7.8%	6.6%	7.0%	7.5%	7.5%
Core Spread (%)	4.6%	4.4%	4.8%	5.7%	6.2%	5.9%	6.0%
NIM (%)	5.6%	5.5%	5.4%	6.3%	7.1%	6.7%	6.7%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	3.8%	3.4%	2.7%	2.7%	2.8%	2.8%	2.7%
Cost-income ratio (%)	49.8%	45.2%	38.8%	33.9%	36.0%	35.9%	36.5%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	61.9%	41.2%	10.4%	29.4%	34.6%	27.4%	26.2%
AUM growth (%)	80.2%	48.1%	14.4%	29.9%	32.6%	28.0%	27.2%
Borrowing growth (%)	88.4%	29.5%	22.5%	13.5%	42.7%	30.3%	28.4%
Debt/Equity (x)	3.7	2.7	2.2	2.2	2.8	3.1	3.5
Equity/Assets (%)	21.1%	26.8%	30.6%	30.8%	25.9%	23.7%	22.0%
Equity/Loans (%)	24.5%	31.0%	41.5%	36.6%	30.7%	27.8%	25.7%
Total Capital Adequacy Ratio (CAR) (%)	38.5%	49.0%	56.2%	58.6%	52.7%	48.0%	44.4%
Tier I CAR (%)	37.7%	47.7%	55.2%	58.1%	52.3%	47.7%	44.2%
ASSET QUALITY							
GS III (INR mn)	170	315	622	1,015	1,082	1,322	1,672
NS III (INR mn)	1,281	234	398	763	822	933	1,167
GS III (%)	0.8%	1.0%	1.8%	2.3%	1.9%	1.8%	1.8%
NS III (%)	0.6%	0.8%	1.2%	1.8%	1.4%	1.3%	1.3%
Coverage Ratio (%)	24.9%	25.8%	36.0%	24.9%	24.0%	29.4%	30.2%
Provision/Gross advances (%)	0.4%	0.6%	1.0%	0.6%	0.5%	0.5%	0.5%
DUPONT ANALYSIS							
Interest earned	12.0%	11.9%	10.8%	10.6%	11.8%	12.0%	12.2%
Interest expended	6.6%	6.5%	5.4%	4.5%	4.9%	5.5%	5.6%
Net interest income	5.5%	5.4%	5.3%	6.1%	6.9%	6.6%	6.5%
Non-interest income	2.0%	2.2%	1.5%	1.7%	1.1%	1.5%	1.4%
Operating expenses	3.7%	3.4%	2.6%	2.7%	2.9%	2.9%	2.9%
Pre-provisioning profit	3.8%	4.2%	4.2%	5.2%	5.1%	5.1%	5.0%
Provisions	0.4%	0.6%	0.8%	0.5%	0.4%	0.5%	0.4%
Tax	1.0%	0.9%	0.8%	0.8%	1.1%	1.2%	1.2%
ROAA	**2.4%**	**2.7%**	**2.5%**	**3.9%**	**3.7%**	**3.5%**	**3.5%**
Leverage (x)	4.5	4.1	3.5	3.3	3.6	4.1	4.4
ROAE	**10.7%**	**10.9%**	**8.7%**	**12.6%**	**13.1%**	**14.2%**	**15.2%**

Source: Company, HSIE Research

PNB Housing Finance

Overhaul complete; back to basics

Post the 2019 crisis, PNB Housing Finance (PNBHOUSING) has had to engineer a forced course correction resulting in a 27% AUM drawdown and withdrawal from a few product segments. Following the appointment of a new MD & CEO (Sep-22), PNBHOUSING's strategic shift towards plain vanilla home loans to salaried customers (65%/53% of loan book as of Dec-22) stands further reinforced. The much-needed investments in the distribution network is likely to keep opex intensity elevated in the near term. More importantly, PNBHOUSING is yet to establish its right-to-win in these segments, unlike in its traditional strong areas (LAP + self-employed). However, the stock offers favourable risk-reward given significant underperformance. We initiate coverage with an ADD and RI-based TP of INR590 (0.9x Mar-25 ABVPS).

	Risk framework	Customer profile	Liabilities	Throughput	Overall
PNBHOUSING	◑	◑	◕	◑	◑

- **Back to basics - vanilla home loans to salaried customers:** PNBHOUSING's pivot towards home loans to the prime and mass-market salaried customers (ticket size of INR 1.5mn – 5mn), compared to its traditional competitive advantage in the self-employed segment (~38% of loan book) and LAP segment (~22% of loan book) is likely to drive steady NIM (~3.2% - 3.4%) and steady asset quality. However, we await evidence for build-up in the mass-market segment (average ticket size of INR 1.5 -2mn), given it is a new segment for the company and requires relatively high opex intensity.
- **Investments to build granularity to dilute opex ratios:** PNBHOUSING has added 75 branches between Mar-21 and Dec-22 (compared to 64 added during the previous five years) along with setting up a dedicated affordable housing vertical focused on INR 1.5 - 2mn ATS. While these investments (including better incentives to employees) are critical to building a granular retail portfolio, near-term opex ratios are likely to stay under pressure.
- **Back-book pain seems largely behind:** With corporate GNPA of ~27% and ~73% run-down of the corporate book from the peak, the pruning of the problem portfolio seems largely complete with incremental focus on resolutions and recoveries. Incremental disbursements to developers has remained muted (sub-5% of disbursements) despite the sharp recovery in the housing demand. However, PNBHOUSING's venture into this segment remains a key monitorable.
- **Rights issue to further bolster capital:** PNBHOUSING's rights issue would further strengthen the capital position (Tier I currently at 22.4%) to drive growth. Impact of royalty to be paid by PNBHOUSING would be limited (~1.5% of PBT), post rights issue in case of full subscription of the rights issue.

Financial summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	16.3	18.1	20.9	17.6	23.3	23.4	26.7
PPOP	19.2	20.6	20.7	16.6	21.9	20.9	23.4
PAT	11.9	6.5	9.3	8.4	10.3	11.9	13.9
EPS (INR)	71.1	38.4	55.3	49.6	61.4	70.3	82.7
ROAE (%)	16.9	8.3	11.0	8.9	10.0	10.4	11.1
ROAA (%)	1.6	0.8	1.2	1.2	1.5	1.6	1.6
ABVPS (INR)	433.8	384.3	426.3	411.7	486.7	585.2	685.0
P/ABV (x)	1.1	1.2	1.1	1.1	1.0	0.8	0.7
P/E (x)	6.6	12.2	8.5	9.4	7.6	6.6	5.6

Source: Company, HSIE Research

ADD

CMP *(as on 05 Apr 2023)*	**INR 463**
Target Price	**INR 590**
NIFTY	**17,557**

KEY STOCK DATA	
Bloomberg code	PNBHOUSI IN
No. of Shares (mn)	169
MCap (INR bn) / ($ mn)	78/953
6m avg traded value (INR mn)	644
52 Week high / low	INR 542/258

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.6)	41.2	36.6
Relative (%)	1.0	38.4	38.1

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	32.6	32.5
FIs & Local MFs	3.3	3.0
FPIs	55.4	55.7
Public & Others	8.8	8.7
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

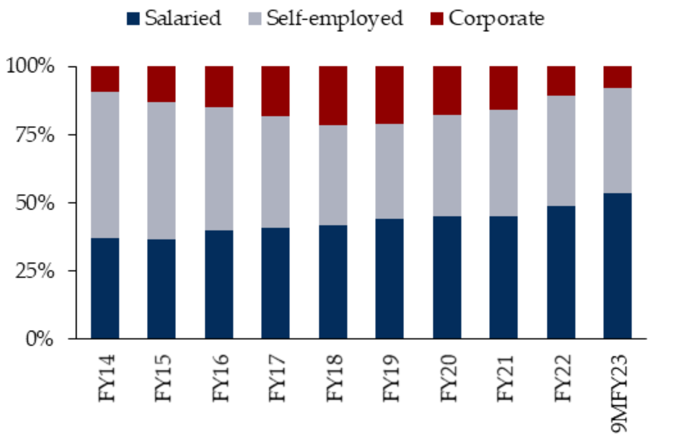
Neelam Bhatia
neelam.bhatia@hdfcsec.com
+91-22-6171-7341

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

- **In search of new core competencies:** PNBHOUSING is looking to build its competencies in the prime and mass-market home loans segment (Ticket-size between INR 1.5mn – INR 5mn). The objective is to build a granular retail portfolio, with a shift towards salaried, better-profile customers and a relatively smaller ticket size, a deviation from its traditional focus on the self-employed/LAP segment. This is largely on account of elevated stress levels in the corporate and large-ticket retail portfolio, which led to a significant draw-down of the portfolio (~5% in retail and ~73% in corporate) from the peak in FY19.
- **Dedicated vertical to build up mass-market home loans portfolio:** The company has set up a dedicated affordable home loan vertical with separate 86 branches (called Roshni branches) and a separate policy for pricing, underwriting, etc. The company is aiming for ~25% of disbursements from this vertical in the next few years (currently very low) with the formal salaried customer i.e. with documented income proof etc. as the target customer segment (average ticket size of INR 1.5 - 2mn).

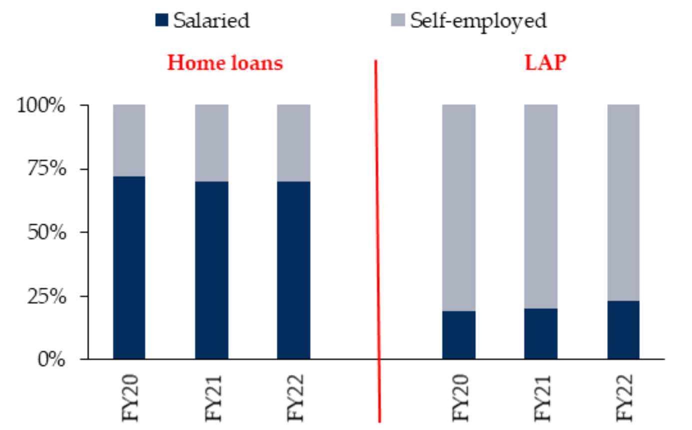
  However, we are yet to see evidence of PNBHOUSING's right-to-win in this segment given the competitive intensity and the traditional strengths of PNBHF towards the self-employed and LAP segments.

Exhibit 176: Salaried customers constitute ~50% of the AUM



Source: Company, HSIE Research

Exhibit 177: Salaried vs. self-employed customers mix in home loans and LAP

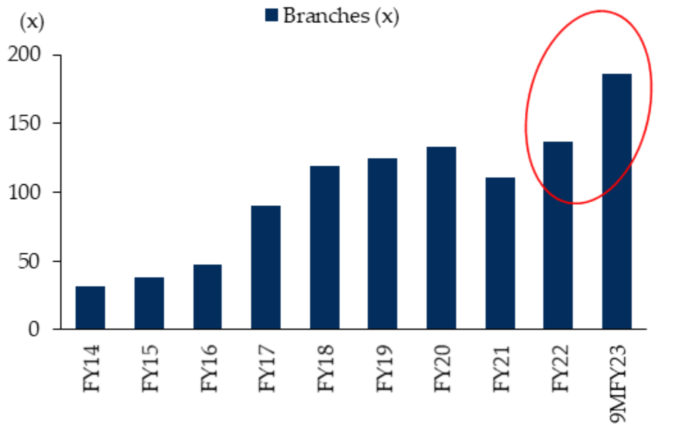


Source: Company, HSIE Research

- **Scaling up investments in the distribution network:** PNBHOUSING has rapidly ramped up its distribution network (75 branches/outreach locations added during Mar-21 to Dec-22) compared to muted branch additions for several years in the past. Given PNBHF's aspirations to build granular HL portfolio, these investments are much needed and may need further reinforcements.

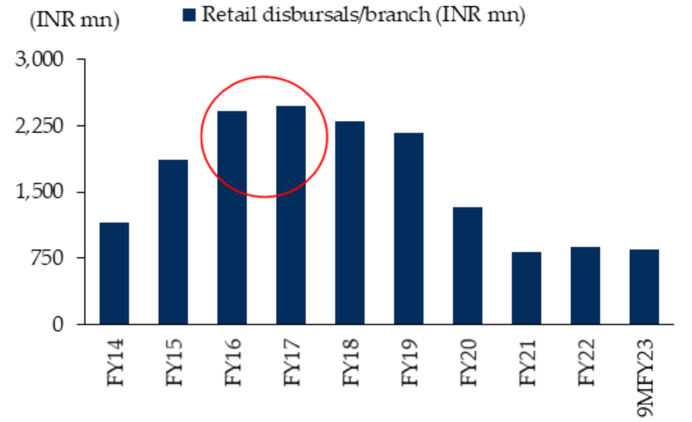
  The company's branch throughput on retail loans till FY18 was well ahead of the larger peers as well, eventually reflecting in higher delinquencies in the portfolio.

Exhibit 178: Branch additions – signficant step-up post FY21



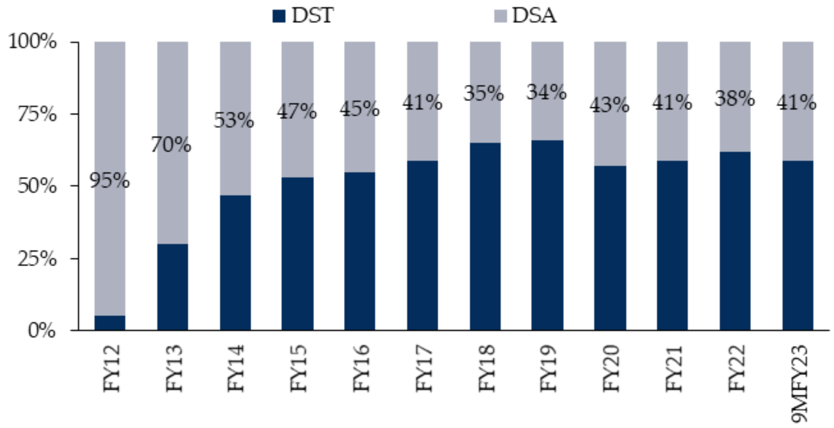
Source: Company, HSIE Research | Note: Branch count includes outreach locations

Exhibit 179: Branch throughput has tapered off significantly



Source: Company, HSIE Research

Exhibit 180: Share of DSAs has remained fairly high in the sourcing mix

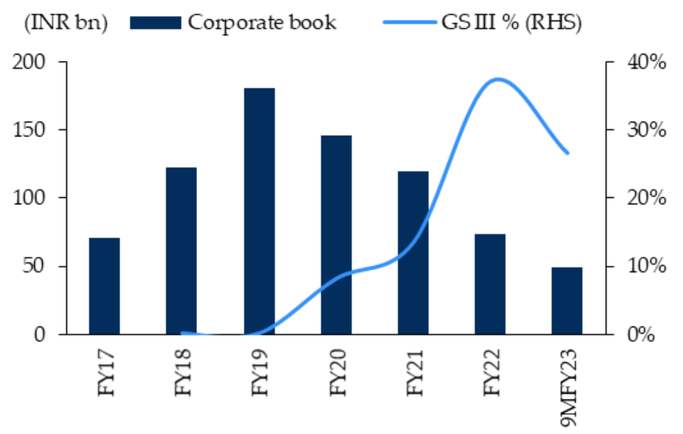


Source: Company, HSIE Research

- **Back-book stress seems largely behind:** PNBHOUSING's woes in terms of impairment recognition from the corporate book seem largely behind, with ~73% draw-down in the loan book, negligible early-stage delinquencies as of Mar-22 and an improving environment in the housing demand over the past couple of years. Restructured book of ~3.5% remains a key monitorable.

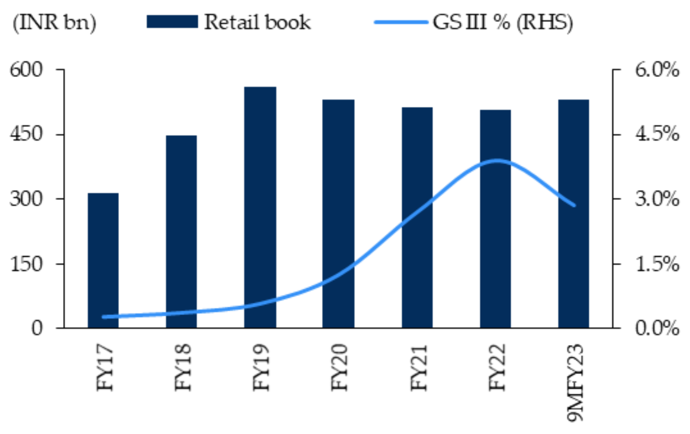
  However, we highlight the relatively high delinquencies in the retail portfolio (home loans and LAP) as well. This is largely due to large-ticket exposures (INR 10mn+ etc.), as per the management.

Exhibit 181: ~73% draw-down in the corporate loan book



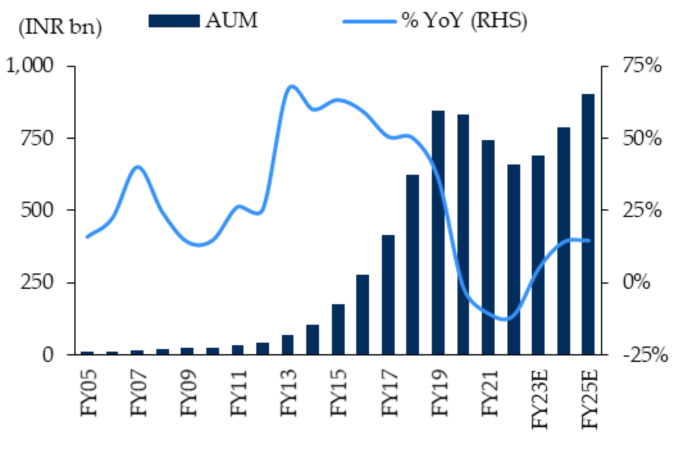
Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 182: Retail GNPAs also fairly elevated



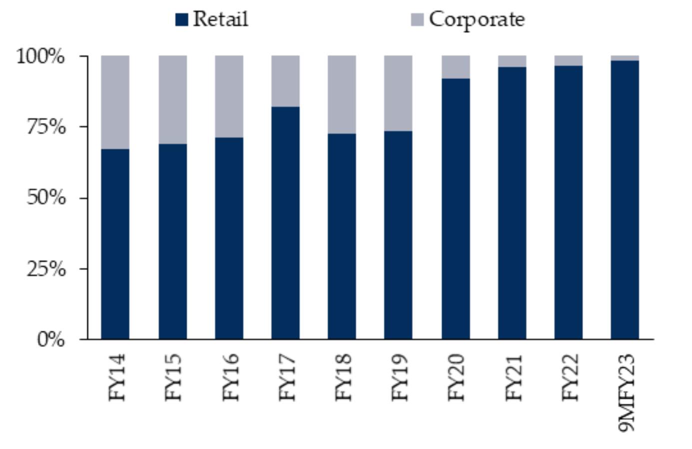
Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 183: AUM growth falls off a clip after witnessing astronomical growth during FY12-FY18



Source: Company, HSIE Research

Exhibit 184: Near-100% disbursements towards retail loans since FY20

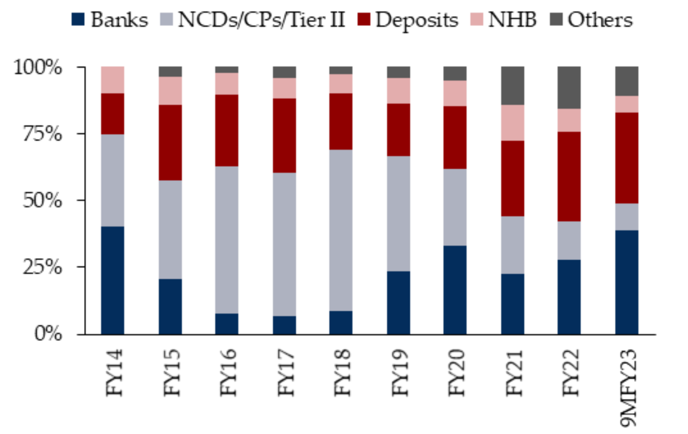


Source: Company, HSIE Research

- **Cost of funds disadvantage with peers despite strong parentage:** PNBHOUSING's liabilities mix has been skewed towards NCDs and retail deposits, which along with deterioration in asset quality (leading to rating downgrades), have driven the cost of funds higher compared to peers (CRISIL rating of AA/Stable).

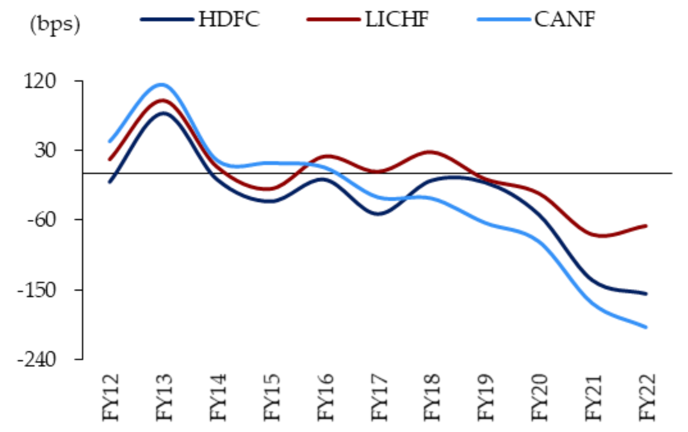
  While the tightening liquidity environment is likely to drive cost of funds higher, with increasing smaller-ticket size home loans portfolio, the company is seeking to increase the share of NHB refinancing in the funding mix to offset the spike in funding costs.

Exhibit 185: Borrowing mix



Source: Company, HSIE Research

Exhibit 186: Widening cost-of-funds (calculated) gap with peers

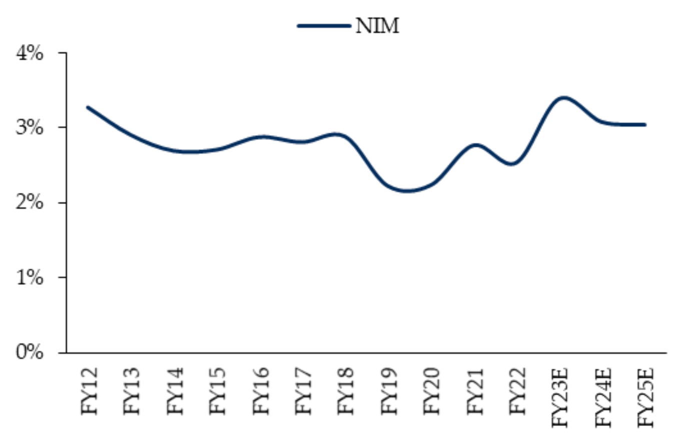


Source: Company, HSIE Research | IND AS from FY18 | Note: HDFC securities is a subsidiary of HDFC Bank, which is an associate company of HDFC Ltd.

- **In pursuit of stable earnings profile; initiate with ADD:** PNBHOUSING's earnings profile is likely to undergo a gradual change with shift in product mix and stabilising asset quality. While credit costs are likely to be lower going ahead, this model would drive higher opex, with pressure on asset yields with rising competitive intensity and tightening liquidity.

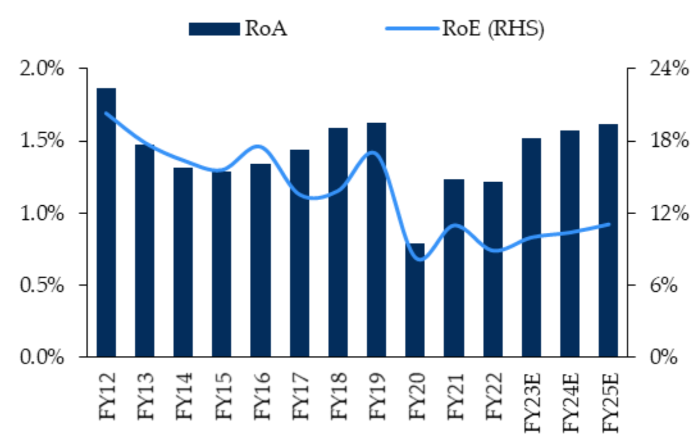
  We initiate coverage on PNBHOUSING with an ADD and RI-based TP of INR 590 (0.9x Mar-25 ABVPS). The company's current strategy gives visibility of ~12% RoE during FY24-FY25E and improving loan growth trajectory post material portfolio rebalancing during FY20-FY22.

Exhibit 187: NIM exepcted to witness compression after sharp reflation during FY23



Source: Company, HSIE Research | IND AS from FY18

Exhibit 188: RoE unlikely to revert to pre-covid levels in a hurry



Source: Company, HSIE Research | IND AS from FY18

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	67,929	76,882	71,898	58,220	63,619	70,963	81,495
Interest expended	51,664	58,750	51,007	40,645	40,295	47,602	54,826
Net interest income	16,265	18,133	20,891	17,575	23,324	23,361	26,670
Other income	8,904	8,013	4,343	3,787	3,792	4,131	4,638
Total income	25,169	26,146	25,234	21,362	27,116	27,492	31,307
Operating expenditure	5,935	5,522	4,544	4,760	5,225	6,620	7,905
Pre-provisioning operating profit	19,233	20,624	20,689	16,603	21,890	20,872	23,402
Non-tax provisions	1,890	12,514	8,619	5,764	8,054	5,025	4,756
Profit before tax	17,344	8,110	12,070	10,839	13,836	15,847	18,647
Tax expenditure	5,429	1,648	2,771	2,475	3,487	3,993	4,699
Profit after tax	11,915	6,462	9,299	8,364	10,350	11,854	13,948

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,675	1,682	1,683	1,686	1,686	1,686	1,686
Reserves and surplus	73,203	77,623	86,815	96,475	106,825	117,835	130,687
Net worth	75,439	79,978	89,230	98,716	108,511	119,521	132,373
Borrowings	718,589	677,351	593,924	530,050	566,614	649,621	752,476
Other liabilities and provisions	44,662	31,969	30,767	28,530	30,332	34,986	40,516
Total equity and liabilities	**838,690**	**789,297**	**713,922**	**657,296**	**705,456**	**804,128**	**925,364**
Cash and cash equivalents	40,341	85,144	69,686	52,161	44,422	46,442	52,870
Investments	45,607	20,757	20,448	34,827	36,479	37,613	38,849
Advances	742,879	666,280	606,447	553,359	606,636	699,714	810,313
Fixed assets	1,083	2,551	1,836	1,539	1,693	1,863	2,049
Other assets	8,781	14,564	15,504	15,409	16,225	18,495	21,283
Total assets	**838,690**	**789,297**	**713,922**	**657,296**	**705,456**	**804,128**	**925,364**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	71.1	38.4	55.3	49.6	61.4	70.3	82.7
Earnings Growth (%)	41.7%	-45.8%	43.9%	-10.1%	23.7%	14.5%	17.7%
BVPS (ex reval.)	450	476	530	586	644	709	785
Adj. BVPS (ex reval. & 100% cover)	434	384	426	412	487	585	685
ROAA (%)	1.6%	0.8%	1.2%	1.2%	1.5%	1.6%	1.6%
ROAE (%)	16.9%	8.3%	11.0%	8.9%	10.0%	10.4%	11.1%
P/E (x)	6.6	12.2	8.5	9.4	7.6	6.6	5.6
P/ABV (x)	1.1	1.2	1.1	1.1	1.0	0.8	0.7
P/PPOP (x)	4.1	3.8	3.8	4.7	3.6	3.8	3.4
Dividend yield (%)	2.3%	0.0%	0.0%	0.0%	1.1%	1.4%	1.4%
PROFITABILITY (%)							
Yield on Advances (%)	10.0%	10.5%	10.6%	9.2%	10.0%	10.1%	10.1%
Cost of Funds (%)	8.2%	8.4%	8.0%	7.2%	7.3%	7.8%	7.8%
Core Spread (%)	1.8%	2.0%	2.6%	2.0%	2.7%	2.2%	2.3%
NIM (% of AUM)	2.2%	2.2%	2.8%	2.5%	3.4%	3.1%	3.1%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	0.8%	0.7%	0.6%	0.7%	0.8%	0.9%	0.9%
Cost-income ratio (%)	23.6%	21.1%	18.0%	22.3%	19.3%	24.1%	25.2%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	30.0%	-10.3%	-9.0%	-8.8%	9.6%	15.3%	15.8%
AUM growth (%)	36.1%	-1.6%	-10.7%	-11.4%	4.8%	14.1%	14.6%
Borrowing growth (%)	33.6%	-5.7%	-12.3%	-10.8%	6.9%	14.6%	15.8%
Debt/Equity (x)	9.5	8.5	6.7	5.4	5.2	5.4	5.7
Equity/Assets (%)	9.0%	10.1%	12.5%	15.0%	15.4%	14.9%	14.3%
Equity/Loans (%)	10.2%	12.0%	14.7%	17.8%	17.9%	17.1%	16.3%
Total Capital Adequacy Ratio (CAR) (%)	14.0%	17.9%	18.7%	23.4%	23.1%	22.1%	21.3%
Tier I CAR (%)	11.0%	15.1%	15.5%	20.7%	20.7%	20.0%	19.5%
ASSET QUALITY							
GS III (INR mn)	3,549	18,562	29,984	47,062	42,276	33,931	28,479
NS III (INR mn)	2,784	15,348	17,492	29,310	26,446	20,855	16,891
GS III (%)	0.5%	2.7%	4.7%	8.1%	7.0%	4.8%	3.5%
NS III (%)	0.4%	1.8%	2.9%	5.3%	4.5%	3.1%	2.1%
Coverage Ratio (%)	20.9%	36.2%	41.7%	37.7%	37.4%	38.5%	40.7%
Provision/Gross advances (%)	0.3%	1.7%	1.3%	1.0%	1.3%	0.7%	0.6%
DUPONT ANALYSIS							
Interest earned	9.2%	9.4%	9.6%	8.5%	9.3%	9.4%	9.4%
Interest expended	7.0%	7.2%	6.8%	5.9%	5.9%	6.3%	6.3%
Net interest income	2.2%	2.2%	2.8%	2.6%	3.4%	3.1%	3.1%
Non-interest income	1.2%	1.0%	0.6%	0.6%	0.6%	0.5%	0.5%
Operating expenses	0.8%	0.7%	0.6%	0.7%	0.8%	0.9%	0.9%
Pre-provisioning profit	2.6%	2.5%	2.8%	2.4%	3.2%	2.8%	2.7%
Provisions	0.3%	1.5%	1.1%	0.8%	1.2%	0.7%	0.5%
Tax	0.7%	0.2%	0.4%	0.4%	0.5%	0.5%	0.5%
ROAA	1.6%	0.8%	1.2%	1.2%	1.5%	1.6%	1.6%
Leverage (x)	10.4	10.5	8.9	7.3	6.6	6.6	6.9
ROAE	16.9%	8.3%	11.0%	8.9%	10.0%	10.4%	11.1%

Source: Company, HSIE Research

Aptus Value Housing Finance

High-beta franchise; fully optimised

Aptus Value Housing Finance (APTUS), is a south-based affordable-focused HFC lending predominantly to LIG, self-employed, rural-based customers for small-ticket (<INR 1mn) home loans and business loans (through NBFC subsidiary). The company's robust in-house model (sourcing, underwriting, collections etc.) and fully-optimised loan mix have driven superior risk-adjusted yields (~16%), which along with an optimal cost structure, has led to super-normal profitability (RoA of 7-8%). However, APTUS's equity-heavy balance sheet (D/E at 1.1x as of Dec-22), while boosting its RoA, is driving below-potential RoE (~15-16%) and poses an incremental capital allocation challenge, reflected in dividends distribution despite being in high-growth phase (~25-30% AUM growth target). We initiate with a REDUCE and RI-based TP of INR210 (2.4x Mar-25 ABVPS, 15x FY25 EPS).

	Risk framework	Customer profile	Liabilities	Throughput	Overall
APTUS	●	◑	○	◔	◑

- **Modest borrower profile:** APTUS has a disproportionately high exposure to the informal segment - with each of LIG, self-employed and rural areas (most vulnerable to income shocks) accounting for over 70% of the AUM. A modest borrower profile with limited access to credit from formal channels offers APTUS immense pricing power (average yields of 15-17%) but also poses high credit risk in a down-cycle. APTUS also offers small business loans (ATS < INR1mn) to the under-served segment through its captive NBFC.
- **Fully optimised franchise at peak RoA:** Its sub-prime borrower profile notwithstanding, APTUS boasts of prudent internal controls thanks to in-house credit underwriting and a conservative loan-to-value (over 80% of the portfolio had LTV<50%). A fully-optimised loan mix (non home-loans at 41%), significant pricing power, benign credit costs and a largely equity-funded balance sheet have propelled the franchise to peak RoAs of 7-8%, which we believe is hard to sustain in the rest of the cycle.
- **Scalability outside core markets and products remains a key monitorable**: While APTUS's current strategy has helped drive strong loan growth (~32% CAGR during FY19-FY22) and profitability, the company's scale-up beyond its core markets of Tamil Nadu, Telangana and Andhra Pradesh (~91% of AUM) remains a key monitorable.
- **Leverage to remain constraint on RoE reflation, initiate with REDUCE**: APTUS's RoA profile is currently optimised to the brink across all fronts. While the improving leverage will help reflating RoEs, a largely fixed-rate loan book (in rising interest rate environment), scaling up of portfolio outside core states and increasing investments is likely to dilute the RoAs.

Financial summary (Consolidated)

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	2.0	3.0	4.2	5.8	7.7	9.4	11.5
PPOP	1.5	2.5	3.5	5.1	6.8	8.3	10.1
PAT	1.1	2.1	2.7	3.7	4.9	5.9	7.1
EPS (INR)	14.2	22.3	5.6	7.4	9.9	12.0	14.3
ROAE (%)	17.4	17.5	14.5	15.1	15.6	16.3	16.9
ROAA (%)	5.9	7.0	6.5	7.3	7.5	7.0	6.7
ABVPS (INR)	87.6	175.9	41.3	57.8	67.1	76.7	88.0
P/ABV (x)	2.7	1.4	5.8	4.2	3.6	3.1	2.7
P/E (x)	16.9	10.7	42.7	32.2	24.2	20.1	16.8

Source: Company, HSIE Research

REDUCE

CMP *(as on 05 Apr 2023)*	INR 239
Target Price	INR 210
NIFTY	17,557

KEY STOCK DATA

Bloomberg code	APTUS IN
No. of Shares (mn)	498
MCap (INR bn) / ($ mn)	119/1,450
6m avg traded value (INR mn)	118
52 Week high / low	INR 368/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.1)	(23.9)	(30.6)
Relative (%)	(19.5)	(26.7)	(29.1)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	62.2	62.2
FIs & Local MFs	2.6	2.6
FPIs	21.6	22.1
Public & Others	13.6	13.1
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
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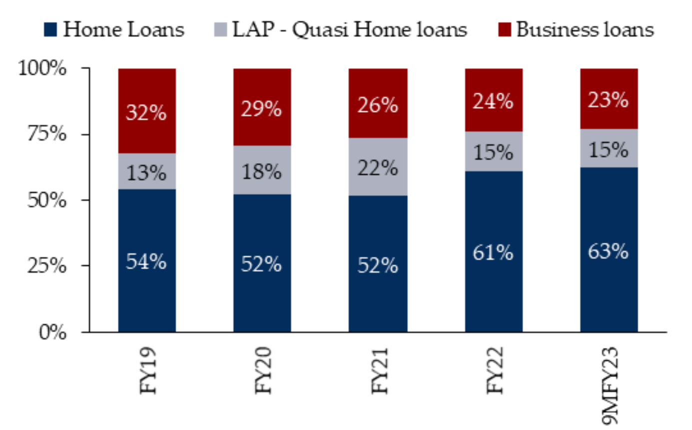
Wired for informal segment lending

- **Focused approach on the informal segment with in-house execution driving superior profitability:** APTUS's business model is largely centred on the informal segment – LIG (~77%), self-employed (~72%) from the rural economy (~72%) and limited access to credit (~40% are NTC customers). The chosen target segment enables APTUS to drive superior pricing power (average yields of ~15-17%) for loans with an average ticket size of ~INR 1mn, conservative exposure (average LTV < 40%) and relatively low competitive intensity.

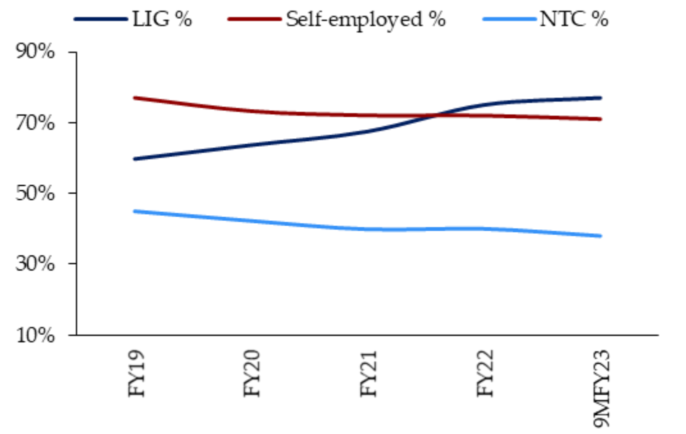
  Complete in-house execution from sourcing of loans to legal, underwriting and collections (vertical structure) ensure lower operational risk.

Exhibit 189: AUM mix (consolidated)—rising share of home loans



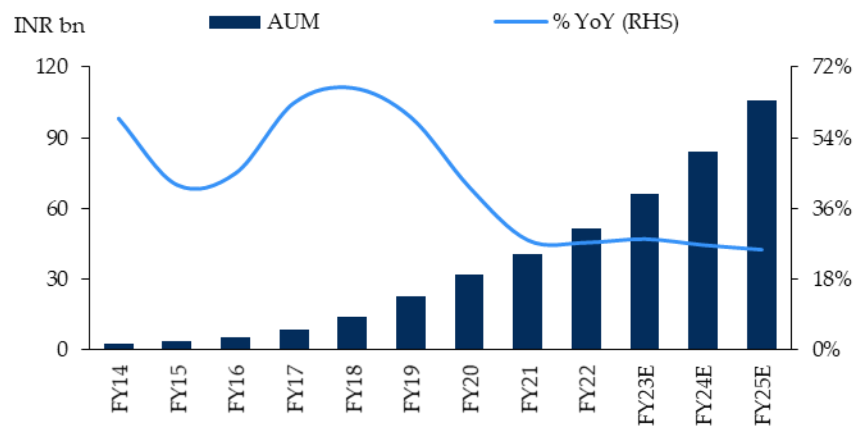
Source: Company, HSIE Research

Exhibit 190: Customer profile remains broadly steady



Source: Company, HSIE Research

Exhibit 191: AUM growth (consolidated)—expect ~26% CAGR during FY23-FY25E

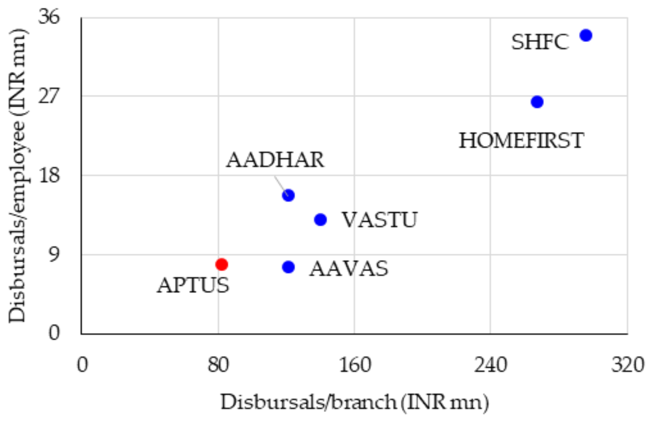


Source: Company, HSIE Research

- **Low on throughput, high on cost efficiency**: APTUS's in-house model has led to lower throughput (per branch, per employee) compared to peers. This is largely on account of high opex intensity in chosen customer segment (low formal documentation requiring higher credit assessment and smaller ticket sizes).

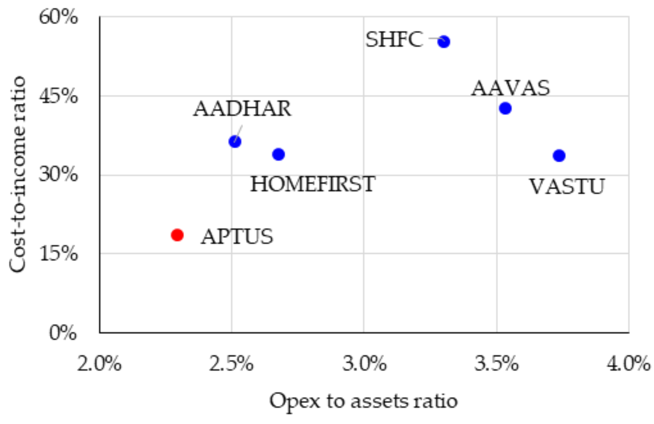
  However, a lean operating structure, concomitant with limited outsourcing has driven higher cost efficiency. Increasingly, APTUS is seeking to make investments in people (to contain attrition rates), IT infrastructure (improving TAT, operating costs etc.), which is likely to drive up opex ratios.

Exhibit 192: Low productivity vs. peers (FY22)



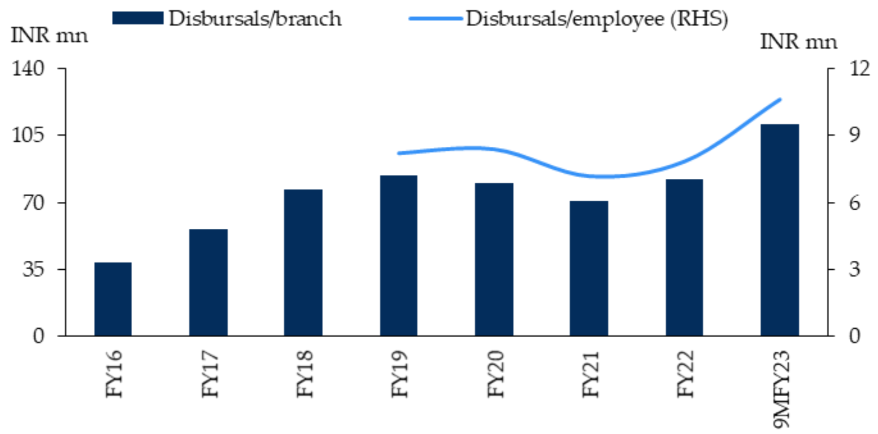
Source: Company, HSIE Research

Exhibit 193: Superior cost efficiency (FY22)



Source: Company, HSIE Research

Exhibit 194: Steady improvement in productivity metrics

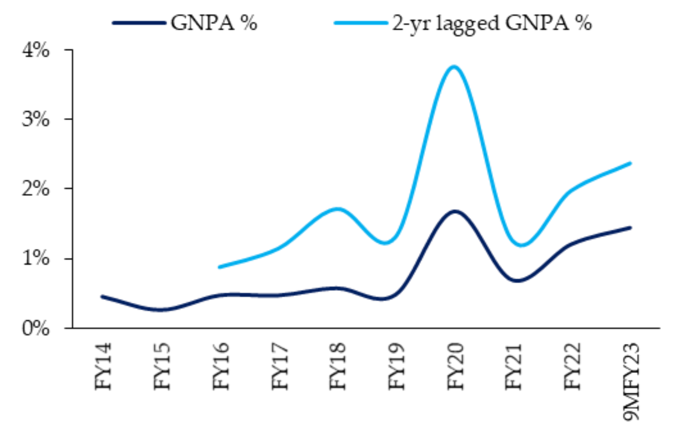


Source: Company, HSIE Research

- **Steady asset quality in a vulnerable customer segment:** APTUS has maintained relatively robust asset quality in a vulnerable business segment (LIG, self-employed, rural etc.). Even on a 2-year lagged basis, GNPA has remained sub-4% during the pandemic, with credit costs sub-1%. While the early delinquencies are on the higher side (~5%), rigorous follow-up and collections help drive GNPL lower (~1.4%).

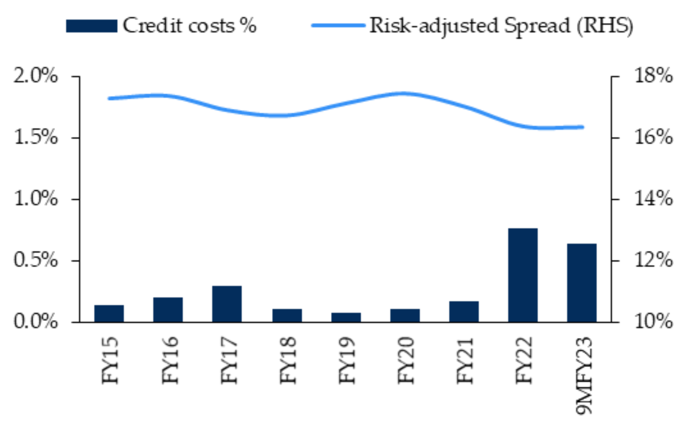
  APTUS's delinquencies are lower than those of MRHFL, although the two are not strictly comparable (MRHFL focused more on the EWS segment with an average ticket size of INR 0.2mn). While credit costs in the current environment have remained benign, APTUS's yields are sufficiently adequate to absorb any spikes in the credit costs.

Exhibit 195: GNPA – peak of ~4% (on a 2-year lag basis) during the pandemic



Source: Company, HSIE Research

Exhibit 196: Credit costs remain sub-1%

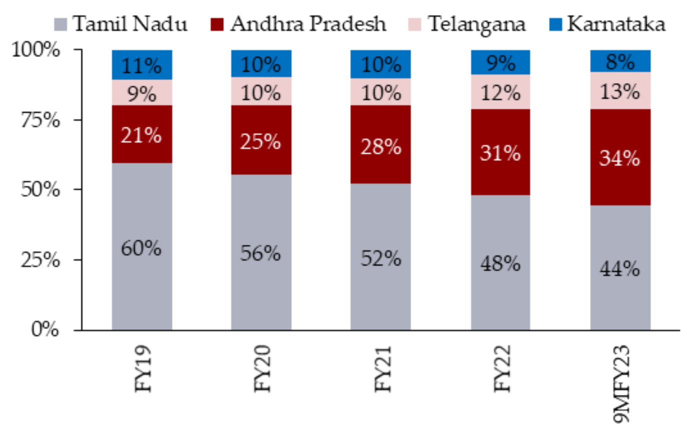


Source: Company, HSIE Research | IND AS from FY18 onwards

- **Scalability beyond core markets a key monitorable**: APTUS's understanding of its core markets (Tamil Nadu, Andhra Pradesh and Telangana constituting ~91% of AUM) has helped drive the portfolio growth with strong profitability. The expansion of distribution network has been steady to drive the portfolio growth.

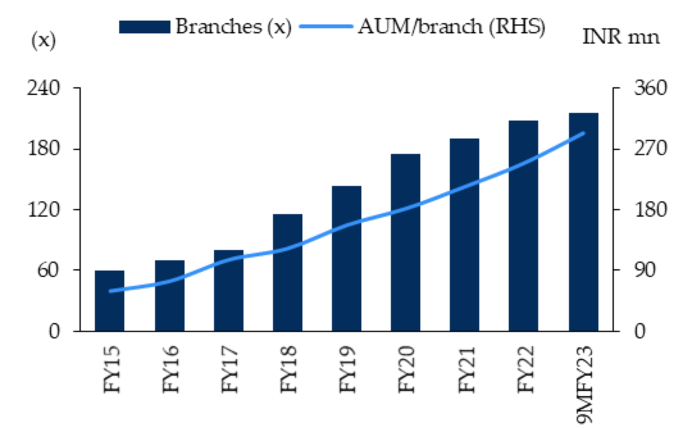
  However, the scalability of the portfolio beyond core markets and the low-ticket size home loans and micro-LAP remains a key monitorable.

Exhibit 197: Geographical mix of AUM



Source: Company, HSIE Research

Exhibit 198: Steady expansion in distribution network



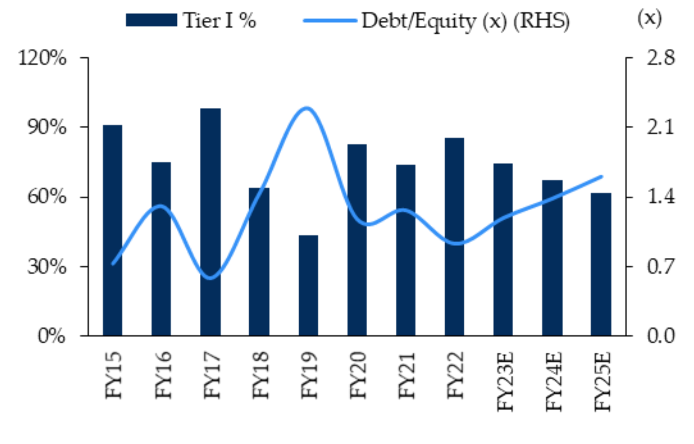
Source: Company, HSIE Research

- **Fully-optimised franchise at peak-RoA:** APTUS is currently delivering best-in-class RoAs (~7-8%) on the back of superior risk-adjusted pricing (yield of ~16%), superior cost efficiency and high equity-funded balance sheet (D/E at 1.1x).

  However, RoAs are incrementally likely to come off with rising cost of funds and increasing leverage. Further, the cost efficiencies are one of the best among the peers, increasing investments in tech etc. are likely to inch up the opex ratios higher.

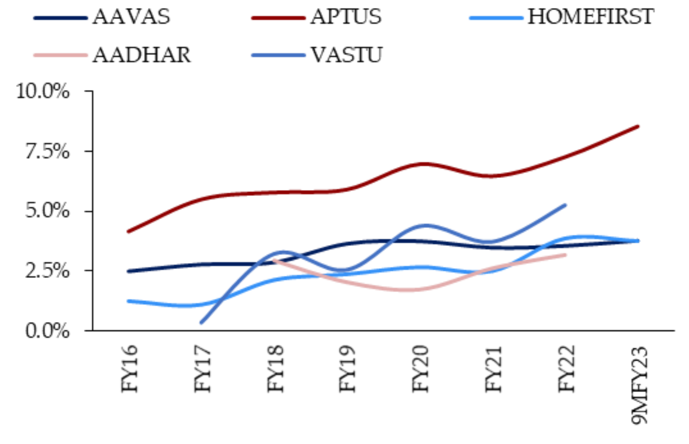
  Scalability beyond core markets and customer segment remains a key monitorable for APTUS, given the franchise is wired for informal segment lending.

Exhibit 199: Muted D/E ratio



Source: Company, HSIE Research

Exhibit 200: Superior RoA vs. peers

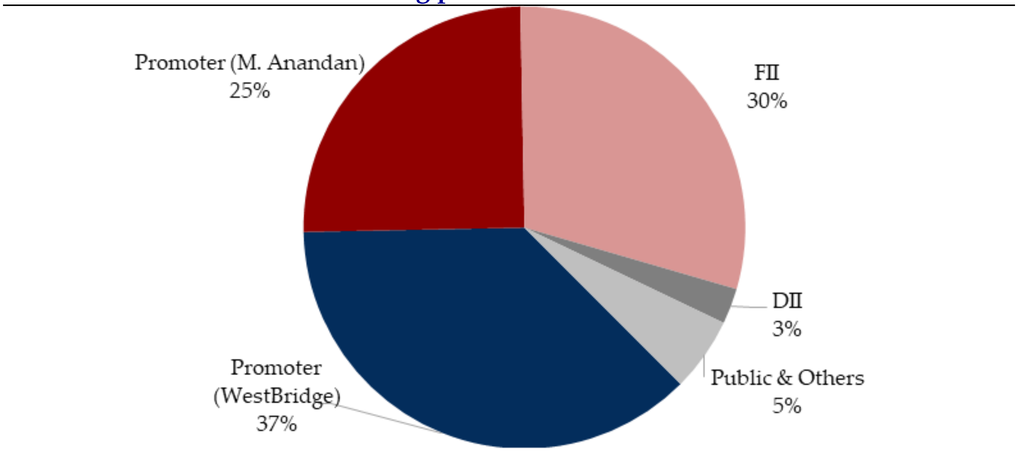


Source: Company, HSIE Research | IND AS from FY18 onwards

- **Equity-funded balance sheet capping the RoE; initiate with REDUCE:** While the franchise delivers best-in-class RoA, optimisation on most fronts and equity-funded balance sheet with several headwinds such as tightening liquidity, concerns on scalability etc. are likely to lead to compression in RoA. We initiate coverage on APTUS with a REDUCE and RI-based TP of INR 210 (2.4x Mar-25 ABVPS; 15x FY25 EPS).

  APTUS is promoted by Mr. Munuswamy Anandan, a veteran from Murugappa Group (associated with CIFC for nearly 2 decades) and WestBridge Capital. Mr. Anandan is the current Chairman and Managing Director and has been at the helm since the inception of the company.

Exhibit 201: APTUS Shareholding pattern (Dec-22)



Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	3,111	4,846	6,269	7,917	10,565	13,643	17,137
Interest expended	1,157	1,845	2,065	2,086	2,839	4,227	5,684
Net interest income	**1,954**	**3,001**	**4,203**	**5,831**	**7,727**	**9,415**	**11,453**
Other income	262	385	314	485	689	854	1,105
Total income	2,216	3,386	4,517	6,316	8,416	10,269	12,558
Operating expenditure	673	884	1,008	1,171	1,591	2,008	2,482
Pre-provisioning operating profit	**1,544**	**2,501**	**3,509**	**5,145**	**6,825**	**8,261**	**10,076**
Non-tax provisions	14	28	58	345	349	438	580
Profit before tax	1,530	2,473	3,451	4,800	6,477	7,823	9,496
Tax expenditure	413	363	781	1,099	1,554	1,878	2,393
Profit after tax	1,117	2,110	2,669	3,701	4,922	5,946	7,103

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	788	945	949	994	994	994	994
Reserves and surplus	6,178	16,128	18,838	28,124	33,046	37,998	43,859
Net worth	6,986	17,090	19,795	29,162	34,040	38,992	44,852
Borrowings	15,997	20,150	25,080	27,206	40,580	54,108	72,172
Other liabilities and provisions	233	227	327	473	657	994	1,249
Total equity and liabilities	**23,216**	**37,467**	**45,202**	**56,840**	**75,277**	**94,094**	**118,274**
Cash and cash equivalents	1,109	6,027	4,378	4,459	7,357	8,423	10,581
Investments	0	0	528	1,017	1,314	1,823	2,498
Advances	22,002	31,171	39,898	50,787	65,715	82,843	104,066
Fixed assets	40	101	96	120	138	158	182
Other assets	64	168	303	457	753	847	946
Total assets	**23,216**	**37,467**	**45,202**	**56,840**	**75,277**	**94,094**	**118,274**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	14.2	22.3	5.6	7.4	9.9	12.0	14.3
Earnings Growth (%)	67.4%	88.9%	26.5%	38.7%	33.0%	20.8%	19.5%
BVPS (ex reval.)	89	181	42	59	69	78	90
Adj. BVPS (ex reval. & 100% cover)	88	176	41	58	67	77	88
ROAA (%)	5.9%	7.0%	6.5%	7.3%	7.5%	7.0%	6.7%
ROAE (%)	17.4%	17.5%	14.5%	15.1%	15.6%	16.3%	16.9%
P/E (x)	16.9	10.7	42.7	32.2	24.2	20.1	16.8
P/ABV (x)	2.7	1.4	5.8	4.2	3.6	3.1	2.7
P/PPOP (x)	12.2	9.1	32.5	23.2	17.5	14.4	11.8
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.8%	1.0%	1.3%
PROFITABILITY (%)							
Yield on Advances (%)	17.2%	17.5%	17.2%	17.1%	17.7%	17.8%	17.8%
Cost of Funds (%)	9.5%	10.2%	9.1%	8.0%	8.4%	8.9%	9.0%
Core Spread (%)	7.7%	7.3%	8.0%	9.1%	9.3%	8.9%	8.8%
NIM (%)	10.4%	9.9%	10.2%	11.5%	11.7%	11.1%	10.8%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	3.7%	3.3%	2.8%	2.5%	2.7%	2.7%	2.6%
Cost-income ratio (%)	30.4%	26.1%	22.3%	18.5%	18.9%	19.6%	19.8%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	57.9%	41.7%	28.0%	27.3%	29.4%	26.1%	25.6%
AUM growth (%)	59.3%	41.4%	28.0%	27.3%	28.3%	26.0%	25.6%
Borrowing growth (%)	90.4%	26.0%	24.5%	8.5%	49.2%	33.3%	33.4%
Debt/Equity (x)	2.3	1.2	1.3	0.9	1.2	1.4	1.6
Equity/Assets (%)	30.1%	45.6%	43.8%	51.3%	45.2%	41.4%	37.9%
Equity/Loans (%)	31.8%	54.8%	49.6%	57.4%	51.8%	47.1%	43.1%
Total Capital Adequacy Ratio (CAR) (%)	43.6%	82.5%	73.6%	85.6%	74.3%	67.2%	61.8%
Tier I CAR (%)	43.2%	82.3%	73.8%	85.4%	74.1%	67.0%	61.7%
ASSET QUALITY							
GS III (INR mn)	106	525	276	618	980	1,271	1,616
NS III (INR mn)	82	466	200	462	685	887	1,099
GS III (%)	0.5%	1.7%	0.7%	1.2%	1.5%	1.5%	1.6%
NS III (%)	0.4%	1.5%	0.5%	0.9%	1.1%	1.1%	1.1%
Coverage Ratio (%)	23.4%	11.3%	27.5%	25.3%	30.1%	30.2%	32.0%
Provision/Gross Advances (%)	0.1%	0.1%	0.2%	0.8%	0.6%	0.6%	0.6%
DUPONT ANALYSIS							
Interest earned	16.4%	16.0%	15.2%	15.5%	16.0%	16.1%	16.1%
Interest expended	6.1%	6.1%	5.0%	4.1%	4.3%	5.0%	5.4%
Net interest income	10.3%	9.9%	10.2%	11.4%	11.7%	11.1%	10.8%
Non-interest income	1.4%	1.3%	0.8%	1.0%	1.0%	1.0%	1.0%
Operating expenses	3.6%	2.9%	2.4%	2.3%	2.4%	2.4%	2.3%
Pre-provisioning profit	8.2%	8.2%	8.5%	10.1%	10.3%	9.8%	9.5%
Provisions	0.1%	0.1%	0.1%	0.7%	0.5%	0.5%	0.5%
Tax	2.2%	1.2%	1.9%	2.2%	2.4%	2.2%	2.3%
ROAA	5.9%	7.0%	6.5%	7.3%	7.5%	7.0%	6.7%
Leverage (x)	3.0	2.5	2.2	2.1	2.1	2.3	2.5
ROAE	17.4%	17.5%	14.5%	15.1%	15.6%	16.3%	16.9%

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Repco Home Finance

Improving at the margin

Repco Home Finance's (REPCO) gradual transition under the current management has begun to fructify marginally—both on growth and asset quality, with most low-hanging fruits getting picked out. Changes at the branch and organisation level are likely to improve the performance further at the margin. However, the challenge of scaling up the franchise from ~INR 112bn (Dec-22) with a limited brand presence outside the core states and impact of relatively weak parentage on the liabilities side, remains a concern and may require significant investments into the business. The rising focus on the prime salaried segment (average ticket size of ~INR 1.5 – 2.5mn) is likely to lead to NIM compression; however, it may provide some stability on the asset quality front, which has remained fairly volatile, particularly for LAP (GNPA @ 7.5%) and self-employed segment (GNPA @ 9.1%). We maintain our ADD rating with TP of INR 238 as the current valuation (0.4x Mar-25 ABVPS) provides favourable risk-reward for a franchise with ~12% RoE/~15% earnings growth.

	Risk framework	Customer profile	Liabilities	Throughput	Overall
REPCO					

- **Slow and steady approach—a welcome move**: The new MD & CEO's gradual implementation of changes has yielded results after the dismal performance during FY19-FY22. Shrinking of AUM has been arrested and fresh disbursals have picked up pace (72% YoY during 9MFY23).
- **Pivot towards salaried segment—NIM dilutive but greater stability**: REPCO's recent pivot towards the salaried segment (Target of ~70%) against a near-equal split between salaried and self-employed in the past, while positive from an asset quality perspective, is likely to lead to NIM compression. The traditional moats had increasingly come under scrutiny with ~9%/8% GNPA in the self-employed/LAP segment.
- **Asset quality—need to arrest early delinquency trends:** REPCO's asset quality is gradually on the mend with improving economic activity and enhanced focus on collections and recoveries. REPCO's GS II has hovered in double digits (except FY20) probably due to underlying customer segment weakness and lack of rigour on collections. With a largely performing restructured pool and high collection efficiencies, we expect credit costs to normalise in the near term, although the steady-state Stage II remains a key monitorable.
- **Cost of funds headwinds ahead impacting margins:** With ~100% borrowings from Banks and NHB, REPCO's cost of funds is likely to increase substantially (~60-70 bps during FY22-FY24). Improving asset quality and visibility of portfolio growth could enhance ratings, allowing them to borrow from bond markets at competitive rates.

Financial summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	4.4	4.9	5.4	5.7	5.5	5.9	6.6
PPOP	3.8	4.2	4.7	4.9	4.5	4.8	5.4
PAT	2.3	2.8	2.9	1.9	2.9	3.1	3.4
EPS (INR)	37.5	44.8	46.0	30.6	46.0	49.3	54.4
ROAE (%)	16.4	16.9	15.0	8.9	12.1	11.6	11.5
ROAA (%)	2.2	2.4	2.4	1.6	2.3	2.2	2.2
ABVPS (INR)	220.1	249.9	277.2	258.1	337.1	388.6	442.1
P/ABV (x)	0.8	0.7	0.7	0.7	0.5	0.5	0.4
P/E (x)	4.9	4.1	4.0	5.9	4.0	3.7	3.3

Source: Company, HSIE Research

ADD

CMP *(as on 05 Apr 2023)*	INR 182
Target Price	INR 238
NIFTY	17,557

KEY STOCK DATA	
Bloomberg code	REPCO IN
No. of Shares (mn)	63
MCap (INR bn) / ($ mn)	11/139
6m avg traded value (INR mn)	56
52 Week high / low	INR 278/113

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.1)	(22.2)	(5.5)
Relative (%)	(19.5)	(25.0)	(4.0)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	37.1	37.1
FIs & Local MFs	16.9	16.9
FPIs	18.8	16.7
Public & Others	27.1	29.2
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

Deepak Shinde
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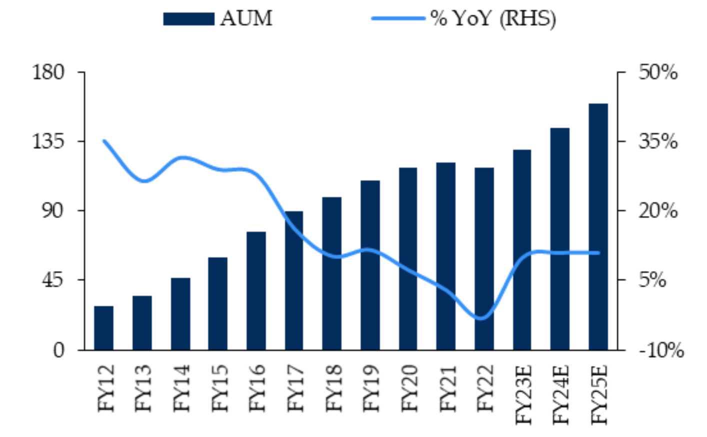
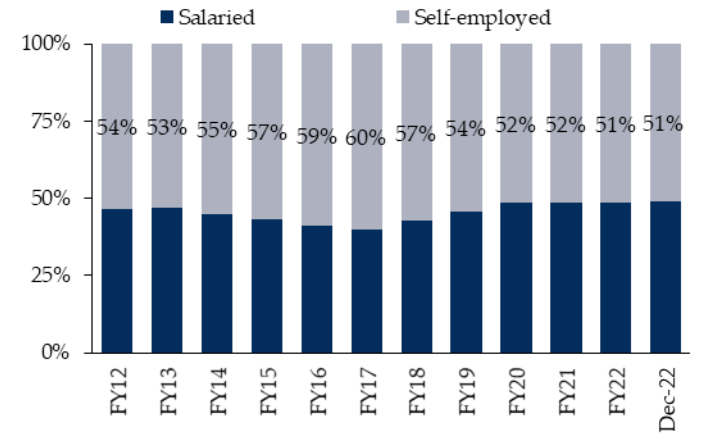
+91-22-6171-7325

Exhibit 202: REPCO's AUM growth has tapered off substantially



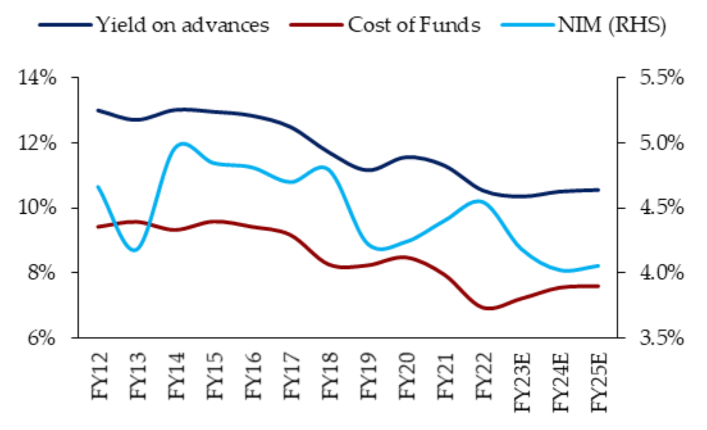
Source: Company, HSIE Research

Exhibit 203: Incremental shift towards salaried segment going ahead (AUM mix)



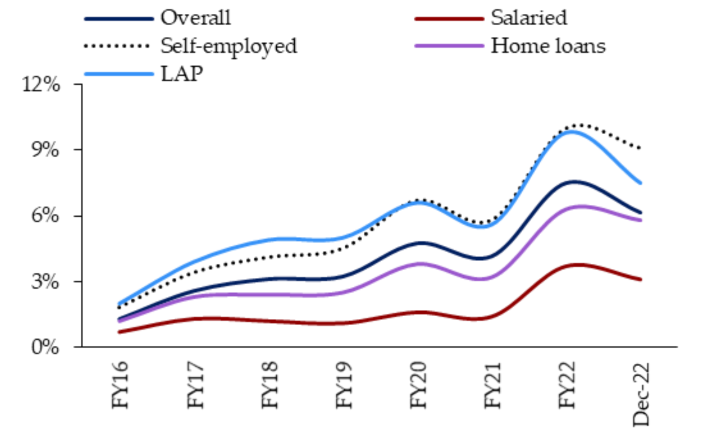
Source: Company, HSIE Research

Exhibit 204: Expect NIMs to stabilise during FY24-FY25E



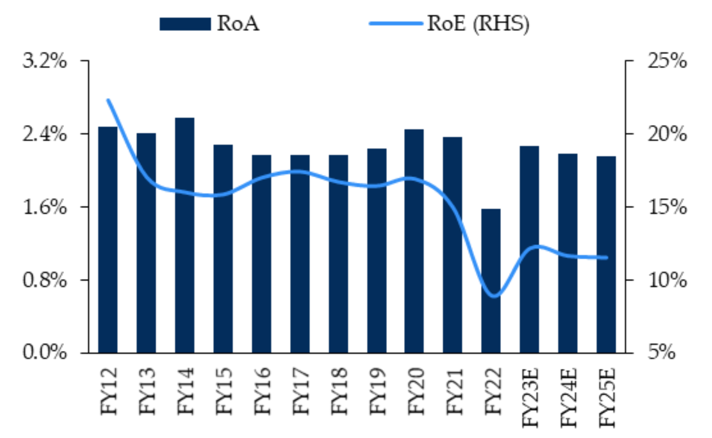
Source: Company, HSIE Research

Exhibit 205: GNPA – LAP, self-employed most affected



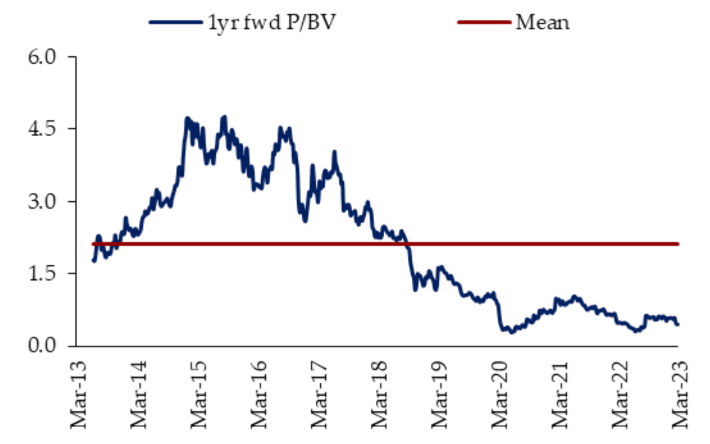
Source: Company, HSIE Research | GS III from FY18 onwards

Exhibit 206: Steady RoA; RoE impacted with lower leverage



Source: Company, HSIE Research

Exhibit 207: Material correction in valuation



Source: Bloomberg, HSIE Research

Exhibit 208: Change in estimates

(INR bn)	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
AUM	129	130	0.1%	144	144	0.1%	159	160	0.1%
NIM (%)	4.2	4.2	0 bps	4.0	4.0	-1 bps	4.1	4.1	-1 bps
NII	5.6	5.5	-1.5%	6.1	5.9	-3.1%	6.7	6.6	-2.3%
PPOP	4.7	4.5	-3.6%	5.0	4.8	-3.9%	5.6	5.4	-3.2%
PAT	2.8	2.9	3.0%	3.2	3.1	-4.0%	3.6	3.4	-4.8%
Adj. BVPS (INR)	334	337	1.0%	400	389	-2.8%	461	442	-4.1%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	11,634	13,174	13,518	12,582	12,870	14,455	16,177
Interest expended	7,200	8,250	8,072	6,899	7,382	8,590	9,611
Net interest income	**4,434**	**4,924**	**5,446**	**5,682**	**5,489**	**5,865**	**6,565**
Other income	318	337	404	484	491	515	575
Total income	4,752	5,261	5,850	6,166	5,979	6,380	7,140
Operating expenditure	984	1,065	1,145	1,241	1,448	1,546	1,721
Pre-provisioning operating profit	**3,768**	**4,196**	**4,706**	**4,926**	**4,532**	**4,834**	**5,418**
Non-tax provisions	170	594	808	2,331	667	712	870
Profit before tax	3,598	3,602	3,898	2,595	3,865	4,122	4,548
Tax expenditure	1,252	798	1,022	680	986	1,039	1,146
Profit after tax	2,346	2,803	2,876	1,915	2,880	3,083	3,402

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	626	626	626	626	626	626	626
Reserves and surplus	14,648	17,243	19,967	21,730	24,422	27,298	30,481
Net worth	15,274	17,869	20,593	22,356	25,047	27,924	31,107
Borrowings	93,487	101,090	101,974	96,920	107,750	119,815	133,259
Other liabilities and provisions	809	987	1,093	698	1,242	1,383	1,538
Total equity and liabilities	**109,570**	**119,946**	**123,659**	**119,974**	**134,039**	**149,122**	**165,904**
Cash and cash equivalents	576	3,244	4,550	6,077	8,592	9,485	10,725
Investments	220	220	220	316	316	316	316
Advances	108,379	115,884	118,356	112,918	124,218	138,325	153,775
Fixed assets	155	372	314	356	377	400	424
Other assets	239	226	220	308	536	596	664
Total assets	**109,570**	**119,946**	**123,659**	**119,974**	**134,039**	**149,122**	**165,904**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	37.5	44.8	46.0	30.6	46.0	49.3	54.4
Earnings Growth (%)	13.9%	19.5%	2.6%	-33.4%	50.3%	7.1%	10.3%
BVPS (ex reval.)	244	286	329	357	400	446	497
Adj. BVPS (ex reval. & 100% cover)	220	250	277	258	337	389	442
ROAA (%)	2.2%	2.4%	2.4%	1.6%	2.3%	2.2%	2.2%
ROAE (%)	16.4%	16.9%	15.0%	8.9%	12.1%	11.6%	11.5%
P/E (x)	4.9	4.1	4.0	6.0	4.0	3.7	3.3
P/ABV (x)	0.8	0.7	0.7	0.7	0.5	0.5	0.4
P/PPOP (x)	3.0	2.7	2.4	2.3	2.5	2.4	2.1
Dividend yield (%)	1.4%	1.4%	1.4%	1.4%	1.6%	1.8%	1.9%
PROFITABILITY (%)							
Yield on Advances (%)	11.2%	11.6%	11.3%	10.5%	10.3%	10.5%	10.6%
Cost of Funds (%)	8.2%	8.5%	8.0%	6.9%	7.2%	7.5%	7.6%
Core Spread (%)	2.9%	3.1%	3.3%	3.6%	3.1%	3.0%	3.0%
NIM (% of AUM)	4.2%	4.2%	4.4%	4.5%	4.2%	4.0%	4.1%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	0.9%	0.9%	1.0%	1.0%	1.2%	1.1%	1.1%
Cost-income ratio (%)	20.7%	20.2%	19.6%	20.1%	24.2%	24.2%	24.1%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	10.0%	6.9%	2.1%	-4.6%	10.0%	11.4%	11.2%
AUM growth (%)	11.6%	7.3%	2.9%	-3.0%	9.9%	11.0%	11.0%
Borrowing growth (%)	14.9%	8.1%	0.9%	-5.0%	11.2%	11.2%	11.2%
Debt/Equity (x)	6.1	5.7	5.0	4.3	4.3	4.3	4.3
Equity/Assets (%)	13.9%	14.9%	16.7%	18.6%	18.7%	18.7%	18.7%
Equity/Loans (%)	14.1%	15.4%	17.4%	19.8%	20.2%	20.2%	20.2%
Total Capital Adequacy Ratio (CAR) (%)	24.1%	25.9%	28.5%	33.3%	31.1%	31.2%	31.2%
Tier I CAR (%)	24.1%	25.9%	28.5%	32.8%	31.1%	31.2%	31.2%
ASSET QUALITY							
Gross NPL (INR mn)	3,555	5,606	5,037	8,820	7,512	7,552	7,871
Net NPL (INR mn)	1,507	2,234	3,251	6,209	3,961	3,612	3,450
Gross NPL (%)	3.2%	4.8%	4.2%	7.5%	5.8%	5.3%	4.9%
Net NPL (%)	2.2%	3.3%	2.7%	5.5%	3.2%	2.6%	2.2%
Coverage Ratio (%)	33.1%	32.6%	35.5%	29.6%	47.3%	52.2%	56.2%
Provision/Avg. AUM (%)	0.2%	0.5%	0.7%	2.0%	0.5%	0.5%	0.6%
DUPONT ANALYSIS							
Interest earned	11.1%	11.5%	11.1%	10.3%	10.1%	10.2%	10.3%
Interest expended	6.9%	7.2%	6.6%	5.7%	5.8%	6.1%	6.1%
Net interest income	**4.2%**	**4.3%**	**4.5%**	**4.7%**	**4.3%**	**4.1%**	**4.2%**
Non-interest income	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
Operating expenses	0.9%	0.9%	0.9%	1.0%	1.1%	1.1%	1.1%
Pre-provisioning profit	3.6%	3.7%	3.9%	4.0%	3.6%	3.4%	3.4%
Provisions	0.2%	0.5%	0.7%	1.9%	0.5%	0.5%	0.6%
Tax	1.2%	0.7%	0.8%	0.6%	0.8%	0.7%	0.7%
ROAA	**2.2%**	**2.4%**	**2.4%**	**1.6%**	**2.3%**	**2.2%**	**2.2%**
Leverage (x)	7.3	6.9	6.3	5.7	5.4	5.3	5.3
ROAE	16.4%	16.9%	15.0%	8.9%	12.1%	11.6%	11.5%

Source: Company, HSIE Research

LIC Housing Finance

Existential concerns on model

LIC Housing Finance, the second largest HFC (AUM of INR 2.7trn as of Dec-22), is faced with increasing headwinds to drive growth as well as healthy profitability. With a portfolio comprising largely of prime home loans, the resurgence of PSBs with a superior cost of funds advantage and hunger for growth (reflecting in improving process efficiencies) is increasingly becoming a challenge for asset growth as well as any room for exercising pricing power. The traditional sourcing strengths of the brand and distribution strength of the parent LIC is getting challenged. Further, the rising interest rate environment is likely to contain NIM reflation with rising funding costs on the liabilities side and competitive intensity on pricing on the asset side. Asset quality, even in the core HL portfolio, has been disappointing of late, while incremental disbursement towards developers is a key monitorable for asset quality. We maintain REDUCE with an RI-based TP of INR 345 (0.7x Mar-25 ABVPS).

	Risk framework	Customer profile	Liabilities	Throughput	Overall
LICHF	○	◑	◑	◕	◔

- **PSBs getting back-in-action - massive headwind**: The resurgence of PSBs, along with their changing variable-opex model, has elevated the competitive intensity in the prime home loans segment, the company's bread-and-butter. LICHF's cost of funds disadvantage compared to PSBs (~250bps+), and significantly reduced TAT by PSBs, are likely to lead to market share erosion for LICHF.
- **Margin pressure in a rising interest rate environment**: The rising interest rate environment and elevated competitive intensity are likely to keep NIM under pressure. While the repo rate regime of banks provides a cushion for LICHF for increasing their benchmark rates (~250bps during FY23), the low spreads on the incremental portfolio (sub-150bps) are likely to check reflation in margins. However, the impending merger of the largest HFC could benefit the cost of funds through market borrowing route.
- **Core portfolio witnessing stress, competency beyond home loans questionable**: While the asset quality challenges in the developer book is tenable, the relatively high NPA in the core mortgage portfolio remains perplexing. Further, the resumption of developer financing is likely to remain a key monitorable, given the poor performance in this segment in the past.
- **Valuations to remain suppressed, maintain REDUCE**: LICHF's valuation is currently lower compared to its historical average as well as when compared to peers. However, the rising headwinds in the segment, along with a large base (INR 2.7 trn loan book), are likely to keep reflation in RoE and loan book growth in check driving lower valuation multiples.

Financial summary

(INR bn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	43.6	48.2	52.4	55.3	59.7	64.6	71.4
PPOP	40.0	42.6	46.7	47.7	51.5	56.2	62.0
PAT	24.3	24.0	27.3	22.9	26.5	34.1	39.4
EPS (INR)	48.2	47.6	54.2	41.6	48.1	61.9	71.7
ROAE (%)	15.9%	13.9%	14.1%	10.1%	10.3%	12.1%	12.6%
ROAA (%)	1.3%	1.2%	1.2%	0.9%	1.0%	1.1%	1.2%
ABVPS (INR)	293.9	287.1	289.4	328.6	370.6	435.0	503.7
P/ABV (x)	1.1	1.1	1.1	1.0	0.9	0.8	0.7
P/E (x)	6.8	6.9	6.1	7.9	6.8	5.3	4.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 05 Apr 2023)*	INR 328
Target Price	INR 345
NIFTY	17,557

KEY STOCK DATA	
Bloomberg code	LICHF IN
No. of Shares (mn)	550
MCap (INR bn) / ($ mn)	181/2,201
6m avg traded value (INR mn)	881
52 Week high / low	INR 444/292

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(21.9)	(21.4)	(14.6)
Relative (%)	(20.3)	(24.2)	(13.0)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	45.2	45.2
FIs & Local MFs	20.7	22.7
FPIs	21.0	19.3
Public & Others	13.1	12.7
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

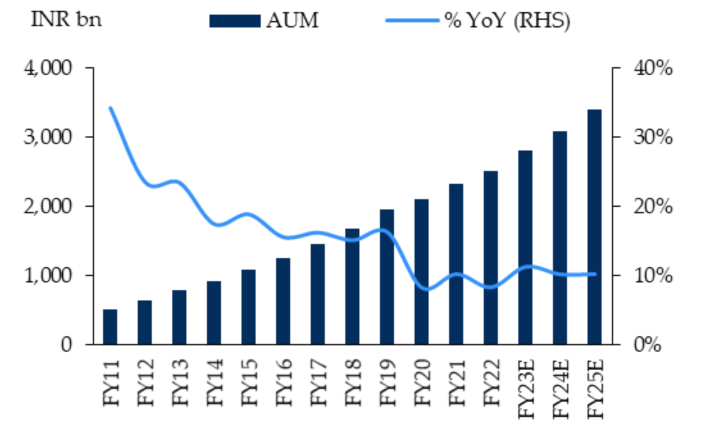
Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Neelam Bhatia
neelam.bhatia@hdfcsec.com
+91-22-6171-7341

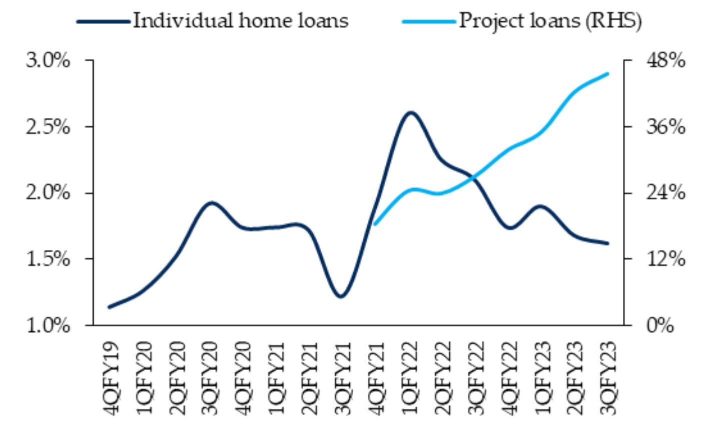
Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

Exhibit 209: AUM growth has tapered off meaningfully



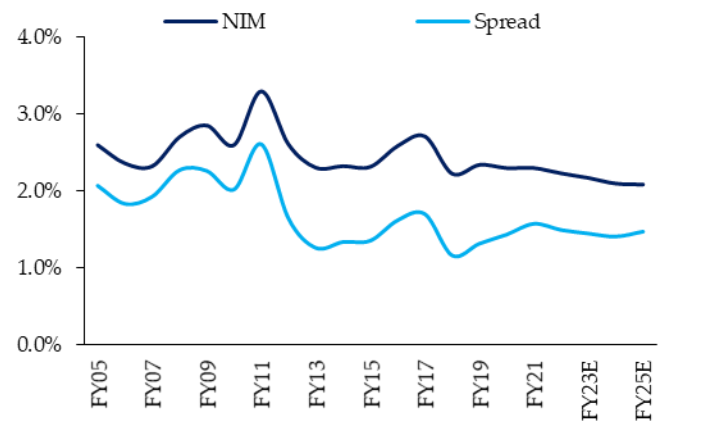
Source: Company, HSIE Research

Exhibit 210: Both individual home loans and project loans GNPA rose post pandemic



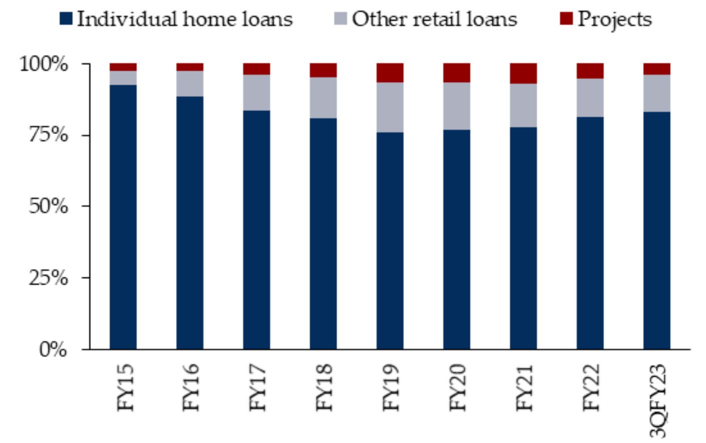
Source: Company, HSIE Research

Exhibit 211: NIM to remain under pressure



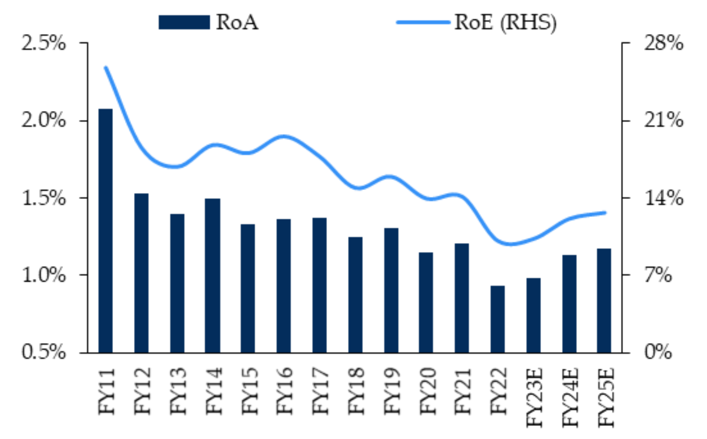
Source: Company, HSIE Research

Exhibit 212: Loan mix – increasing share of home loans



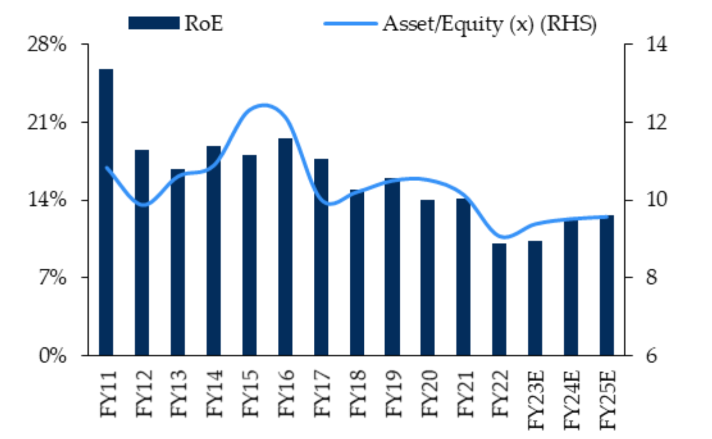
Source: Company, HSIE Research

Exhibit 213: Profitability to remain muted



Source: Company, HSIE Research

Exhibit 214: Capping of leverage to impact RoE



Source: Company, HSIE Research

Exhibit 215: Change in estimates

(INR bn)	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
AUM	2,793	2,793	0.0%	3,076	3,076	0.0%	3,388	3,388	0.0%
NIM (%)	2.2	2.2	0 bps	2.2	2.1	-7 bps	2.2	2.1	-10 bps
NII	59.6	59.7	0.0%	66.5	64.6	-2.8%	74.3	71.4	-3.9%
PPOP	51.7	51.5	-0.3%	58.1	56.2	-3.2%	64.8	62.0	-4.4%
PAT	25.0	26.5	6.1%	35.0	34.1	-2.8%	41.1	39.4	-4.0%
Adj. BVPS (INR)	368	371	0.7%	434	435	0.1%	508	504	-0.8%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest earned	172,561	196,054	196,971	196,885	220,921	254,117	284,493
Interest expended	128,915	147,839	144,526	141,537	161,265	189,538	213,130
Net interest income	43,646	48,215	52,445	55,348	59,656	64,579	71,363
Other income	1,085	644	1,506	2,646	2,088	2,834	3,020
Total income	44,730	48,859	53,951	57,994	61,744	67,413	74,382
Operating expenditure	4,775	6,285	7,289	10,330	10,209	11,163	12,422
Pre-provisioning operating profit	39,956	42,574	46,662	47,664	51,536	56,250	61,960
Non-tax provisions	6,160	9,884	13,176	19,882	17,582	10,694	9,267
Profit before tax	33,796	32,690	33,486	27,782	33,954	45,555	52,693
Tax expenditure	9,486	8,672	6,142	4,909	7,470	11,480	13,279
Profit after tax	24,310	24,018	27,343	22,873	26,484	34,075	39,415

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,009	1,009	1,009	1,100	1,100	1,100	1,100
Reserves and surplus	161,583	180,921	204,203	245,618	266,601	294,626	327,439
Net worth	162,592	181,930	205,212	246,718	267,701	295,726	328,539
Borrowings	1,706,670	1,913,317	2,078,615	2,236,582	2,511,355	2,807,780	3,126,909
Other liabilities and provisions	136,573	72,809	72,506	62,375	76,207	84,129	92,923
Total equity and liabilities	2,005,835	2,168,056	2,356,333	2,545,675	2,855,263	3,187,635	3,548,371
Cash and cash equivalents	30,135	19,790	13,467	9,374	40,788	86,842	123,810
Investments	35,951	54,964	46,356	61,986	78,355	80,265	88,375
Advances	1,929,927	2,079,880	2,281,143	2,452,963	2,721,679	3,004,607	3,318,663
Fixed assets	1,359	2,544	2,470	2,876	3,020	3,171	3,330
Other assets	8,463	10,879	12,897	18,475	11,421	12,751	14,193
Total assets	**2,005,835**	**2,168,056**	**2,356,333**	**2,545,675**	**2,855,263**	**3,187,635**	**3,548,371**

Source: Company, HSIE Research

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS	48	48	54	42	48	62	72
Earnings Growth (%)	21.4%	-1.2%	13.8%	-16.3%	15.8%	28.7%	15.7%
BVPS (ex reval.)	322	360	407	449	487	538	597
Adj. BVPS (ex reval. & 100% cover)	294	287	289	329	371	435	504
ROAA (%)	1.3%	1.2%	1.2%	0.9%	1.0%	1.1%	1.2%
ROAE (%)	15.9%	13.9%	14.1%	10.1%	10.3%	12.1%	12.6%
P/E (x)	6.9	7.0	6.2	8.0	6.9	5.4	4.7
P/ABV (x)	1.1	1.2	1.2	1.0	0.9	0.8	0.7
P/PPOP (x)	4.2	4.0	3.6	3.9	3.6	3.3	3.0
Dividend yield (%)	2.3%	2.4%	2.5%	2.5%	3.0%	3.3%	3.6%
PROFITABILITY (%)							
Yield on Advances (%)	9.5%	9.6%	8.8%	8.1%	8.2%	8.5%	8.7%
Cost of Funds (%)	8.2%	8.2%	7.2%	6.6%	6.8%	7.1%	7.2%
Core Spread (%)	1.3%	1.4%	1.6%	1.5%	1.5%	1.4%	1.5%
NIM (% of AUM)	2.3%	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
Cost-income ratio (%)	10.7%	12.9%	13.5%	17.8%	16.5%	16.6%	16.7%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	16.1%	7.8%	9.7%	7.5%	11.0%	10.4%	10.5%
AUM growth (%)	16.2%	8.2%	10.2%	8.2%	11.2%	10.1%	10.2%
Borrowing growth (%)	17.5%	12.1%	8.6%	7.6%	12.3%	11.8%	11.4%
Debt/Equity (x)	10.5	10.5	10.1	9.1	9.4	9.5	9.5
Equity/Assets (%)	8.1%	8.4%	8.7%	9.7%	9.4%	9.3%	9.3%
Equity/Loans (%)	8.4%	8.7%	9.0%	10.1%	9.8%	9.8%	9.9%
Total Capital Adequacy Ratio (CAR) (%)	14.4%	13.9%	15.3%	18.1%	17.5%	17.0%	16.6%
Tier I CAR (%)	12.3%	12.2%	13.9%	16.2%	15.9%	15.5%	15.3%
ASSET QUALITY							
Gross NPL (INR mn)	29,526	63,161	96,591	116,164	128,193	120,493	112,765
Net NPL (INR mn)	14,286	37,040	59,139	65,967	63,846	56,468	51,453
Gross NPL (%)	1.5%	3.0%	4.2%	4.6%	4.6%	3.9%	3.3%
Net NPL (%)	0.7%	1.8%	2.6%	2.7%	2.3%	1.9%	1.6%
Coverage Ratio (%)	51.6%	41.4%	38.8%	43.2%	50.2%	53.1%	54.4%
Provision/Avg. AUM (%)	0.3%	0.5%	0.6%	0.8%	0.7%	0.4%	0.3%
DUPONT ANALYSIS							
Interest earned	9.3%	9.4%	8.7%	8.0%	8.2%	8.4%	8.4%
Interest expended	6.9%	7.1%	6.4%	5.8%	6.0%	6.3%	6.3%
Net interest income	2.3%	2.3%	2.3%	2.3%	2.2%	2.1%	2.1%
Non-interest income	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Operating expenses	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
Pre-provisioning profit	2.2%	2.0%	2.1%	1.9%	1.9%	1.9%	1.8%
Provisions	0.3%	0.5%	0.6%	0.8%	0.7%	0.4%	0.3%
Tax	0.5%	0.4%	0.3%	0.2%	0.3%	0.4%	0.4%
ROAA	1.3%	1.2%	1.2%	0.9%	1.0%	1.1%	1.2%
Leverage (x)	12.2	12.1	11.7	10.8	10.5	10.7	10.8
ROAE	15.9%	13.9%	14.1%	10.1%	10.3%	12.1%	12.6%

Source: Company, HSIE Research

Aadhar Housing Finance

Steady franchise; need for growth momentum

Aadhar Housing Finance (AADHAR), currently promoted by Blackstone, is one of the largest affordable housing-focused HFCs by AUM (INR 166bn as of Dec-22), with an increasing pan-India presence. The company is predominantly into affordable home loans and micro-LAP focused on EWS/LIG segments with an average ticket size of ~INR 0.9mn. The wide distribution network, along with a diversified sourcing model, is likely to drive the AUM growth, which has been relatively muted compared to peers (~14% CAGR during FY19-FY22). With improving liabilities mix along with focus on the affordable segment, AADHAR's profitability has been steadily inching up (>3% ROA).

- **Affordable segment-focused HFC with a differentiated approach:** AADHAR is predominantly into the affordable segment with EWS+LIG constituting ~80% of AUM (average ticket size of ~INR 0.9mn). The customer profile is fairly diversified with ~62% of AUM as salaried (out of which ~82% are formal salaried) and ~38% as self-employed. AADHAR's strategy of diversified underwriting approach (centralised for formal salaried segment and decentralised for informal segment) helps drive strong risk assessment along with higher efficiency.
- **Expanding distribution network, need for sweating of assets:** AADHAR has steadily expanded its distribution network across major states (341 branches in 20 States as on Mar-22). Its sourcing model is one of the most diversified with DSTs, DSAs and connectors driving loan originations (~69% originations from in-house channels). This provides room for further improving the throughput and driving AUM growth.
- **Strong profitability on the back of robust execution, optimising of liabilities mix:** AADHAR's robust execution in the target customer segment, strong underwriting framework and higher cost efficiency compared to peers, has helped drive strong profitability (>3% RoA, ~16% RoE). The cost of funds tailwinds with optimising of liabilities mix (NHB refinancing etc.) has also helped in improving the spreads.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	2.4	3.6	4.2	6.1	7.8	7.1
PPOP	1.9	2.8	3.4	4.9	6.2	5.7
PAT	1.1	1.6	1.9	3.4	4.4	4.0
EPS (INR)	53.4	64.1	58.3	8.4	10.9	9.9
Balance Sheet						
Net worth	7.2	8.6	23.5	26.9	31.5	35.5
Borrowings	63.8	81.9	96.4	103.7	106.7	117.2
Net advances	72.7	80.3	89.1	106.1	119.6	134.1
Total assets	77.9	94.6	123.7	136.3	143.8	158.9
AUM	79.7	100.2	114.3	133.3	147.8	165.7
Disbursements	39.0	31.9	31.9	35.4	39.9	39.4
Profitability						
NIM (%)	3.2%	4.3%	3.9%	4.8%	5.6%	NA
Credit costs (%)	0.4%	0.4%	1.3%	0.6%	0.4%	0.6%
ROAE (%)	16.0%	22.3%	11.8%	13.5%	15.2%	16.4%
ROAA (%)	1.5%	1.9%	1.7%	2.6%	3.2%	3.6%
CRAR (%)	18.8%	18.3%	51.4%	44.1%	45.4%	44.9%

Source: Company, HSIE Research

NOT RATED

Key shareholders	Mar-22
Promoters (Blackstone)	98.72%

Source : Company

Key management	
Deo Shankar Tripathi	Executive Vice Chairman
Rishi Anand	MD & CEO

Evolution	
Incorporated in	1990
Merger with Aadhar Housing Finance	2017
Blackstone buys majority stake	2019
DRHP filed	2021

Credit Rating	
IND RA	AA/Stable
ICRA	AA/Stable

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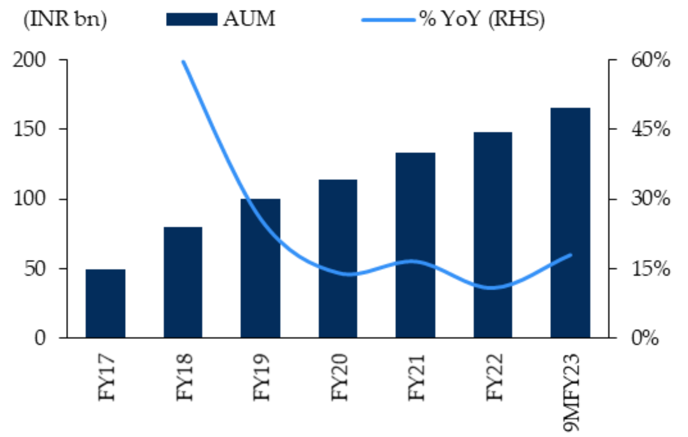
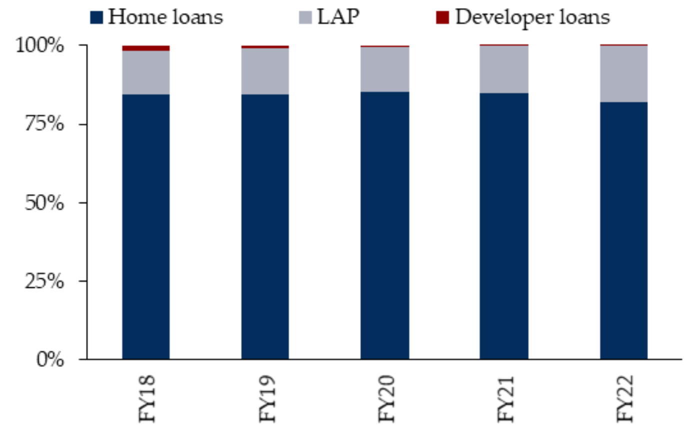
Exhibit 216: AUM growth impacted during the pandemic



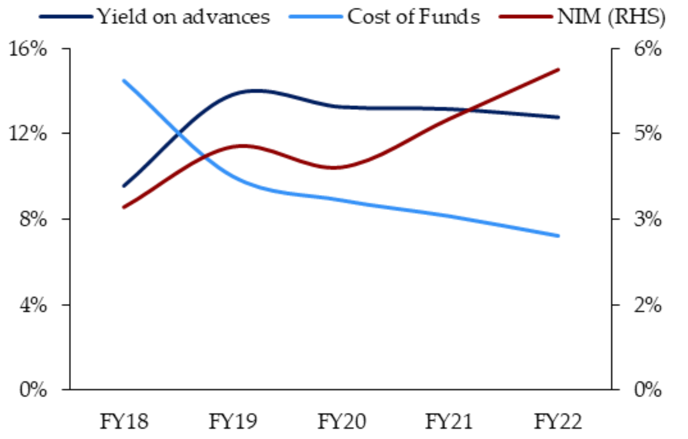
Source: Company, HSIE Research

Exhibit 217: Portfolio mix – predominantly home loans and Micro-LAP



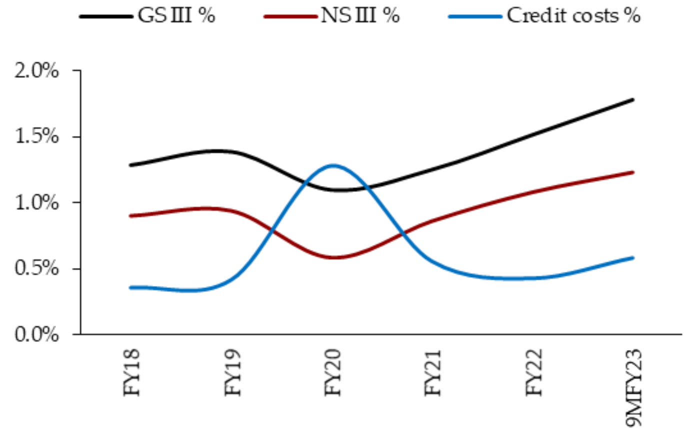
Source: Company, HSIE Research

Exhibit 218: Healthy yields driving super-normal NIM



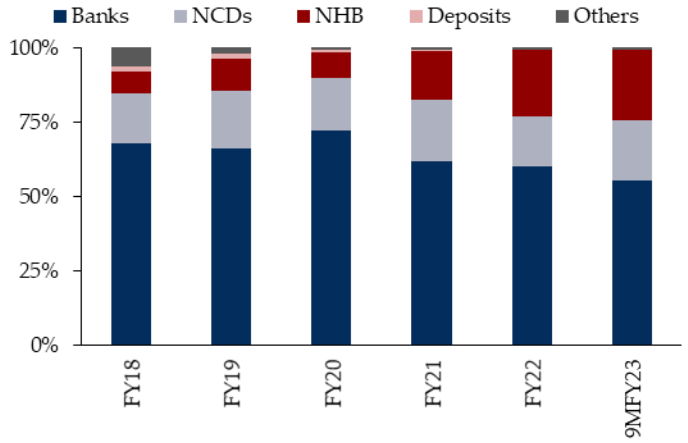
Source: Company, HSIE Research

Exhibit 219: Asset quality remains steady



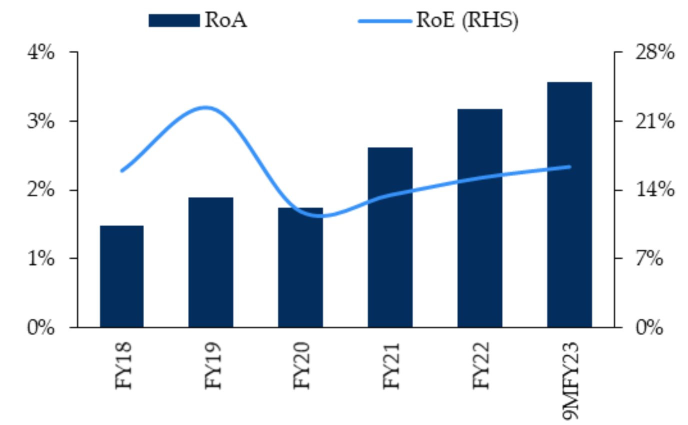
Source: Company, HSIE Research

Exhibit 220: Steady diversification of borrowings



Source: Company, HSIE Research

Exhibit 221: RoA/RoE on an improving trajectory



Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Aditya Birla Housing Finance

Portfolio rebalancing at play

Aditya Birla Housing Finance (ABHFL), a wholly-owned subsidiary of Aditya Birla Capital (ABCAP), continues to pivot towards the affordable segment (target of 65% vs. 42% in Dec-22), in order to drive superior profitability. The company's portfolio is currently fairly balanced between the prime (~51% of AUM) and affordable loans (~42%), alongside a small exposure (~7%) to construction finance. While ABHFL was relatively unscathed during the 2019 crisis with construction finance exposure at peak of ~12% in Mar-17, the company pivoted towards affordable loans since FY19 in order to bolster sub-par RoAs (sub-1%). The increasing investments in distribution (branches, employees), while driving higher opex ratios, are likely to drive higher throughput and loan growth. Muted AUM growth (~2% CAGR during FY19-FY22) is likely to improve going ahead, driven by the affordable segment.

- **Affordable segment — the key focus area:** ABHFL's pivot towards the affordable segment has been at a rapid pace (42% of AUM in Dec-22 vs. 5% in FY18) driving better RoA (~1.9% in 9MFY23). The segment helps drive superior risk-adjusted yields with an average ticket size of INR 1.4mn (FY22). The total HL portfolio remains well balanced between the salaried and self-employed segments, with >80% of disbursals with a bureau score above 700.
- **Scaling up distribution to drive portfolio growth, in-house sourcing**: ABHFL is scaling up its distribution network (Target branches of 200 by Mar-23 vs. 62 in Jun-20; Target RMs of ~2K in Mar-23 vs. ~600 in Mar-21), focused in Tier III/IV cities to drive the affordable portfolio growth. This is driving higher in-house sourcing (~71% in Q1FY23 vs. 47% in Q1FY21) and is likely to improve throughput going ahead, albeit with higher opex ratios.
- **Growth impaired by portfolio rebalancing, new normal in earnings profile:** With a gradual shift in the underlying portfolio mix and concomitant investments in distribution, ABHFL's earnings profile is undergoing a secular shift and is likely to change further in the near term. NIMs are likely to reflate further, partially offset by higher opex and credit costs. RoA is likely to stabilise at ~1.5-1.6% (in line with management guidance), with rising opex intensity and funding costs.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	1.8	2.8	3.2	3.9	4.9	4.6
PPOP	0.6	1.3	2.1	2.6	3.2	2.9
PAT	0.3	0.7	1.0	1.4	2.0	1.8
EPS (INR)	0.8	1.6	2.0	2.7	3.9	3.5
Balance Sheet						
Net worth	7.7	11.9	13.8	15.2	17.2	19.0
Borrowings	73.0	102.2	116.7	106.9	107.2	111.1
Net advances	81.6	114.4	121.1	118.0	119.0	124.3
Total assets	82.1	115.0	131.6	123.8	125.9	132.3
AUM	81.4	114.1	121.0	118.7	120.1	128.7
Disbursements	NA	NA	NA	27.4	37.0	34.9
Profitability						
NIM (%)	2.9%	2.8%	2.6%	3.0%	3.9%	NA
Credit costs (%)	0.4%	0.2%	0.6%	0.7%	0.5%	0.7%
ROAE (%)	6.0%	7.6%	8.0%	9.5%	12.2%	13.1%
ROAA (%)	0.6%	0.8%	0.8%	1.1%	1.6%	1.9%
CRAR (%)	17.9%	17.5%	18.9%	21.7%	23.9%	23.7%

Source: Company, HSIE Research

NOT RATED

Key shareholders	Dec-22
Aditya Birla Capital	100%

Source : Company

Key management	
Pankaj Gadgil	MD & CEO

Evolution	
Incorporated	2009
Registered with NHB	2014
Last round of equity infusion	2020

Credit Rating	
IND RA	AAA/Stable
ICRA	AAA/Stable

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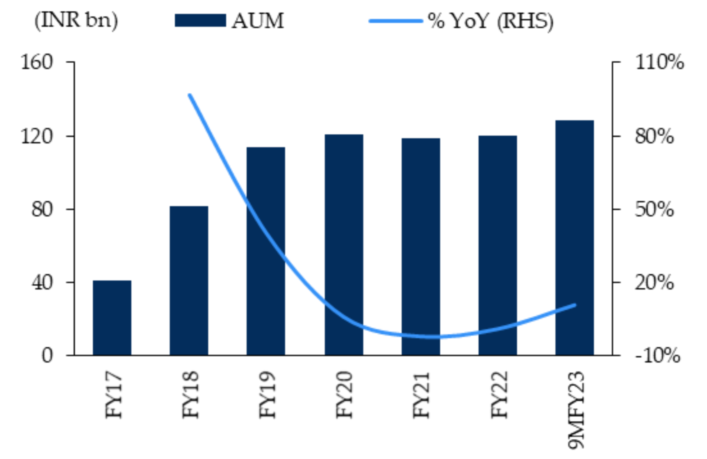
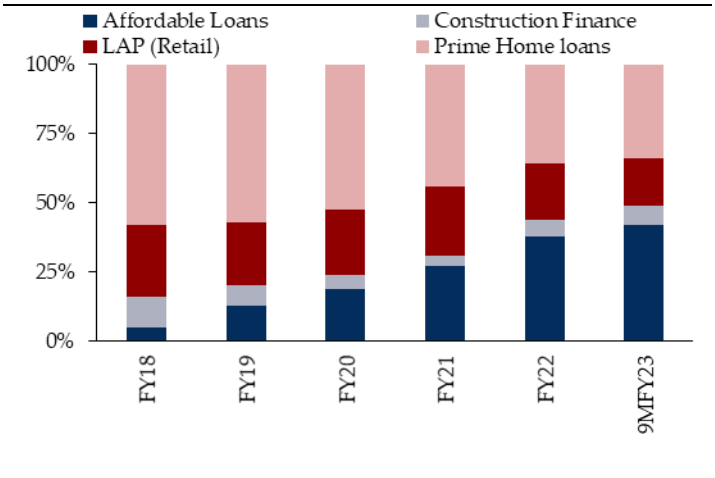
Exhibit 222: Loan growth picking up gradually after portfolio re-balancing



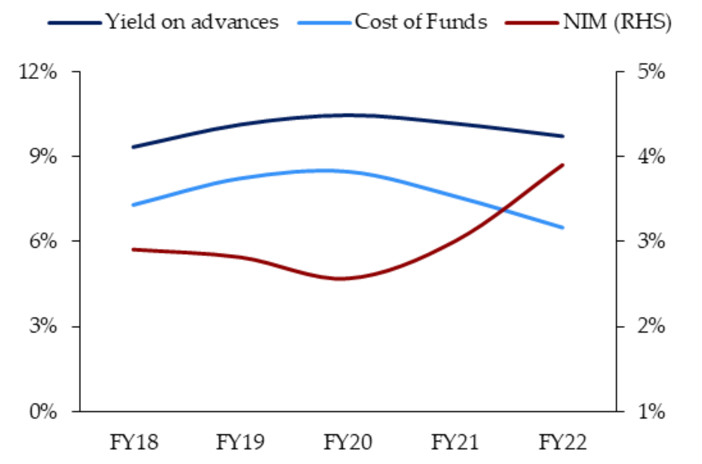
Source: Company, HSIE Research

Exhibit 223: Increasing share of affordable loans (Home loans + LAP) in the loan mix



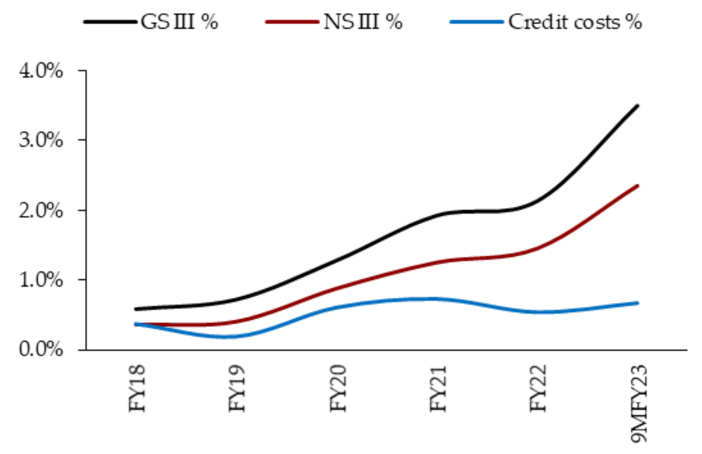
Source: Company, HSIE Research

Exhibit 224: Healthy reflation in NIM



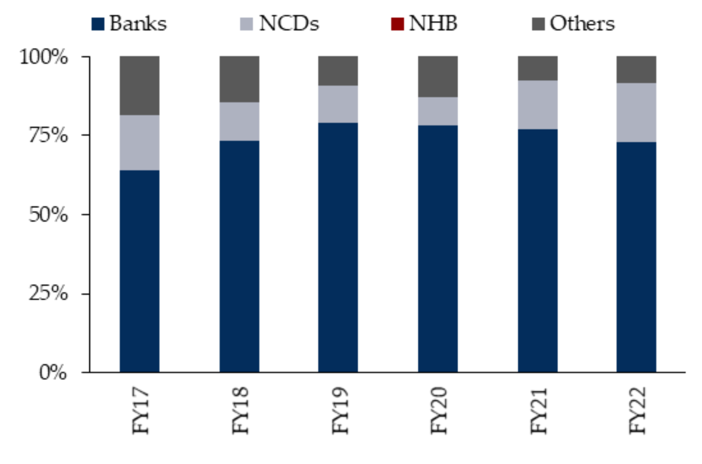
Source: Company, HSIE Research

Exhibit 225: GNPA, NNPA on the rise



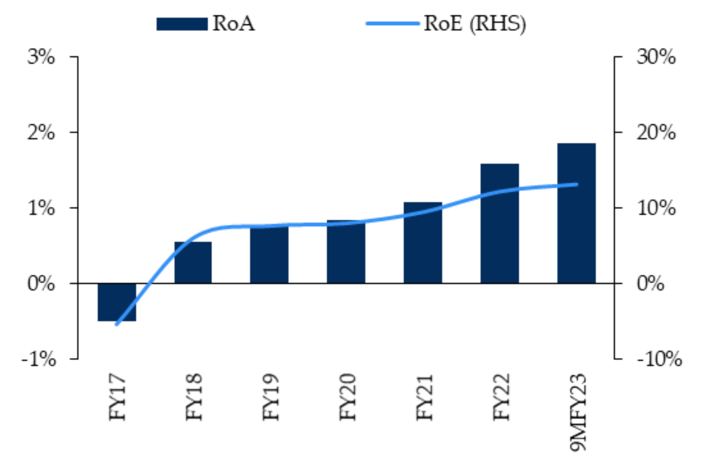
Source: Company, HSIE Research

Exhibit 226: High dependence on bank borrowings (Borrowings mix)



Source: Company, HSIE Research

Exhibit 227: Steadily improving RoA/RoE



Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Bajaj Housing Finance

Fast & furious growth – likely to taper off

NOT RATED

Key shareholders	Dec-22
Bajaj Finance	100%

Source : Company

Key management	
Atul Jain	MD & CEO

Evolution	
Incorporated	2008
Acquired by BAF from BJFIN	2014
Registered with NHB	2015
Commenced operations as HFC	2018

Credit Rating	
CRISIL	AAA/Stable
IND RA	AAA/Stable

Bajaj Housing Finance (BHFL), a wholly-owned subsidiary of Bajaj Finance (BAF), has rapidly scaled up to INR 656bn of AUM as of Dec-22, within a short span of five years of operations. BHFL has leveraged the strengths of the parent entity on both sides of the balance sheet, as well as capitalising on the strong distribution network (channel partners, developer touch points, etc.). The loan book is fairly diversified with non-home loans at ~39% of AUM, driving higher yields and profitability (RoA of ~2%). The core home loan business is predominantly towards the affluent salaried segment (~91% salaried), with an average ticket size of ~INR 5mn. While BHFL is poised to deliver strong AUM growth (~25%+) and RoA/RoE of ~2%/15%, it remains a drag on BAF's overall profitability. Impending listing of the BHFL by Oct-25, being an upper-layer HFC, is unlikely to disrupt the execution engine.

- **Portfolio/cross-sell approach to drive profitability**: BHFL is leveraging the strengths of a large cross-sell franchise of BAF (~39mn as on Dec-22) and distribution network strengths to consistently gain market share in the prime salaried home loans segment. The portfolio approach with other products – Top-up home loans (~11%), LAP (~10%), LRD (~15%), developer funding (~7%) and rural (~4%) help drive profitability, along with higher cross-sell/up-sell of financial products such as insurance etc. However, the room for further portfolio diversification seems limited with RBI's defined floor for exposure towards housing finance.
- **Headwinds to furious pace of growth; asset quality remains pristine**: BHFL's astronomical AUM growth (~41% CAGR during FY19-9MFY23) is likely to come under pressure, amidst rising competitive intensity from Banks, particularly in the prime home loans segment. The resurgence of the PSBs and select HFCs is likely to drive the competitive intensity higher.
- **Margin pressure likely; a few tailwinds emerging**: BHFL's margins are likely to come under pressure with limited incremental product diversification avenues and the rising cost of funds in a tight liquidity environment and competitive intensity. However, NHB refinancing could provide some respite with increasing small-ticket portfolio (Rural etc.) and venture into the affordable housing segment. Further, the merger of the largest HFC could provide some tailwinds in the bonds market in terms of improved spreads.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	0.3	3.1	6.9	9.1	13.3	14.9
PPOP	0.2	1.7	6.9	8.6	11.4	13.6
PAT	0.1	1.1	4.2	4.5	7.1	9.6
EPS (INR)	0.1	0.3	0.9	0.9	1.5	1.4
Balance Sheet						
Net worth	15.5	36.6	55.9	60.3	67.4	102.0
Borrowings	29.3	152.4	256.0	316.0	414.9	519.8
Net advances	35.7	173.3	279.8	334.2	464.8	NA
Total assets	47.0	192.6	313.7	378.6	485.3	NA
AUM	35.7	175.6	327.1	388.7	533.2	655.8
Disbursements	37.5	150.0	213.6	151.9	261.8	253.1
Profitability						
NIM (%)	1.5%	3.0%	2.7%	2.5%	2.9%	NA
Credit costs (%)	0.3%	0.2%	0.5%	0.8%	0.4%	0.2%
ROAE (%)	1.3%	4.0%	9.1%	7.8%	11.1%	15.0%
ROAA (%)	0.4%	0.9%	1.7%	1.3%	1.6%	2.4%
CRAR (%)	45.1%	25.8%	25.2%	21.3%	19.7%	23.0%

Source: Company, HSIE Research

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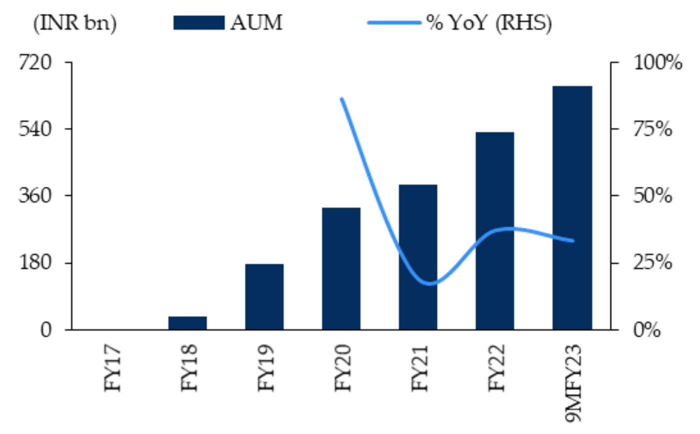
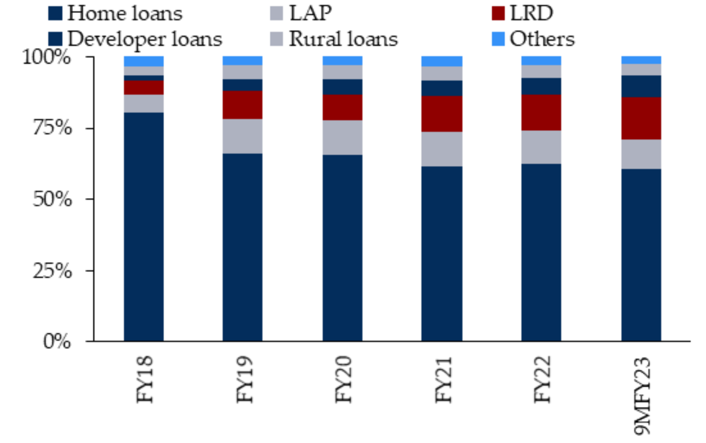
Exhibit 228: Strong AUM growth



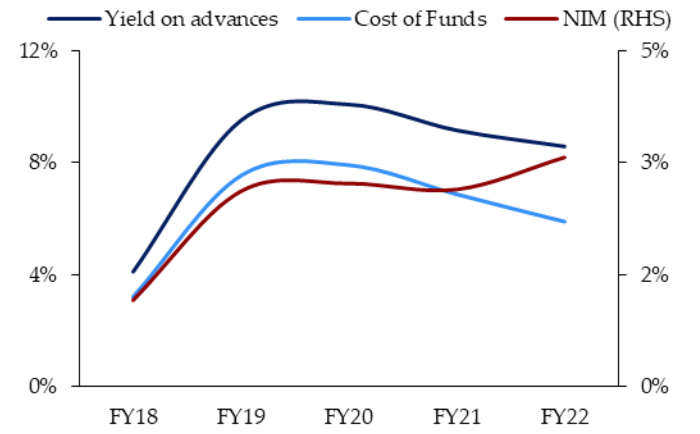
Source: Company, HSIE Research

Exhibit 229: Diversified loan portfolio



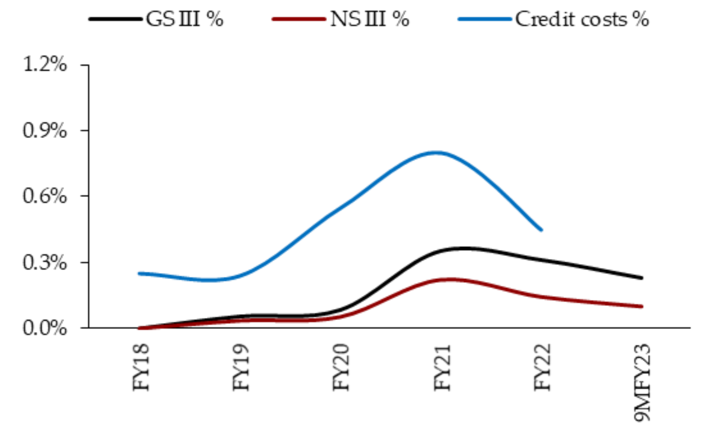
Source: Company, HSIE Research

Exhibit 230: Steady NIM



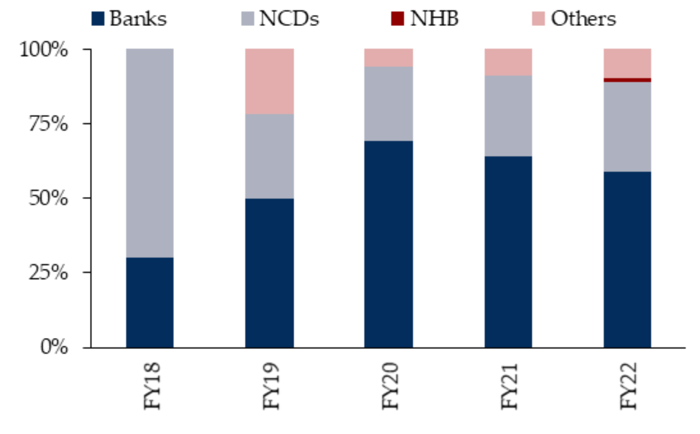
Source: Company, HSIE Research

Exhibit 231: GNPA, NNPA remain best-in-class



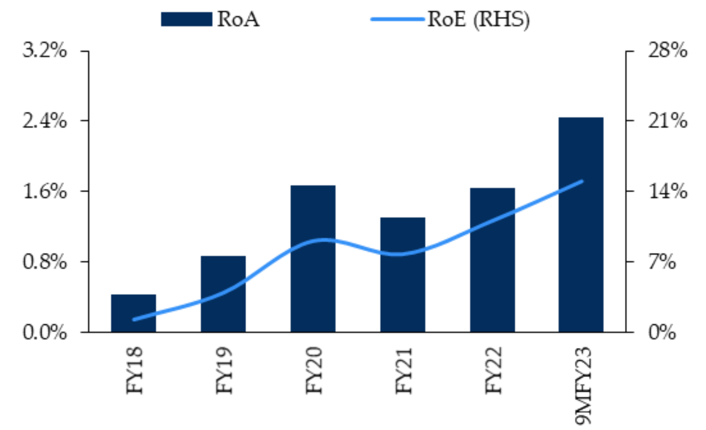
Source: Company, HSIE Research

Exhibit 232: Liabilities mix



Source: Company, HSIE Research

Exhibit 233: Improving earnings profile with scale



Source: Company, HSIE Research

ICICI Home Finance Company

Hardware re-wired; gradual gearing ahead

NOT RATED

ICICI Home Finance (ICICIHFC), a wholly-owned subsidiary of ICICI Bank and a deposit-taking HFC, is finally in the growth phase. The investments are increasingly evident with a ramp-up in distribution network (170 branches in Mar-22 vs. 6 branches in Mar-18; 2.3K employees in Mar-22 vs. 332 in Mar-18). ICICIHFC also leverages the parentage of ICICI Bank on the liabilities side (driving lower cost of funds) and on the assets side with lead generations, portfolio buyouts, etc. Having witnessed significant asset quality challenges in its retail and wholesale portfolio, leading to high credit costs (average of 1.2% during FY18-FY22), muted profitability (average RoA of 0.5% during FY18-FY22) and low AUM growth (~10% CAGR during FY19-FY22), the company is shifting towards building a granular portfolio, focused on affordable housing (~36% of disbursals in FY22), and led by in-house sourcing.

- **Peak portfolio stress largely behind**: ICICIHFC has witnessed significant asset quality challenges since FY18 with GS-III at 4.6% in Dec-22 (peak of 6.6% in Mar-21), driven by both retail and wholesale portfolio (home loans/LAP/developer book GNPA at 3.8%/7.8%/67% in Mar-21). While the bulk of the impairment recognition seems behind, gradual resolution and recoveries are likely to keep GNPA ratios elevated in the near term.
- **Shift towards the affordable segment complements parent entity**: ICICIHFC has incrementally shifted gears towards building a high-yielding affordable HL portfolio (~26% of AUM, 45% of incremental mortgage disbursals during FY22). While the company is making investments to that extent, ICICIHFC is also leveraging the parent bank distribution network to source these loans.
- **Gradual turnaround in play, need for sustainability**: ICICIHFC's pivot towards retailisation has been catalysed by industry tailwinds (growth opportunity, muted credit costs environment) and limited avenues in developer funding. However, sustainability of the loan growth (~18% during 9MFY23) and improving earnings profile (RoA of 1.6% in 9MFY23) are to be seen amidst intense competitive intensity in the segment.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	3.0	3.2	3.8	4.1	5.7	5.8
PPOP	2.1	1.7	2.2	3.0	3.9	3.9
PAT	1.1	0.4	0.0	0.2	1.6	2.1
EPS (INR)	1.0	0.4	0.0	0.2	1.5	1.8
Balance Sheet						
Net worth	17.1	16.8	16.7	17.9	21.1	27.0
Borrowings	81.8	118.4	128.7	126.7	126.1	142.9
Net advances	97.0	133.3	140.9	137.6	145.0	164.7
Total assets	101.1	139.3	153.7	155.1	159.4	178.6
AUM	97.0	133.3	164.4	169.7	178.7	NA
Disbursements	NA	NA	64.4	35.6	51.3	NA
Profitability						
NIM (%)	3.1%	2.7%	2.6%	2.7%	3.7%	NA
Credit costs (%)	0.6%	0.9%	1.4%	1.9%	1.2%	1.1%
ROAE (%)	6.4%	2.6%	0.0%	1.3%	8.4%	11.7%
ROAA (%)	1.1%	0.4%	0.0%	0.1%	1.0%	1.6%
CRAR (%)	24.3%	18.0%	14.8%	20.9%	21.9%	NA

Source: Company, HSIE Research

Key shareholders	Dec-22
ICICI Bank	100%

Source : Company

Key management	
Anirudh Kamani	MD & CEO

Evolution	
Incorporated in	1999

Credit Rating	
CRISIL	AAA/Stable
ICRA	AAA/Stable

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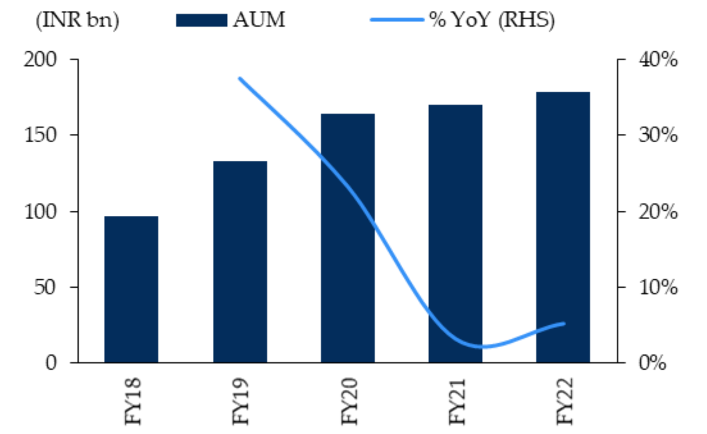
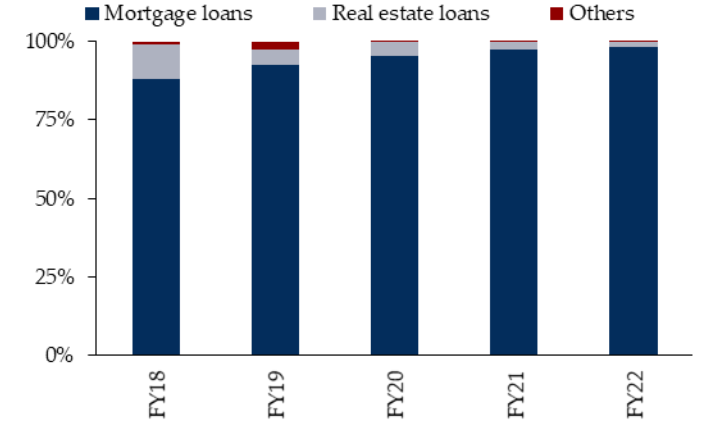
Exhibit 234: Muted AUM growth



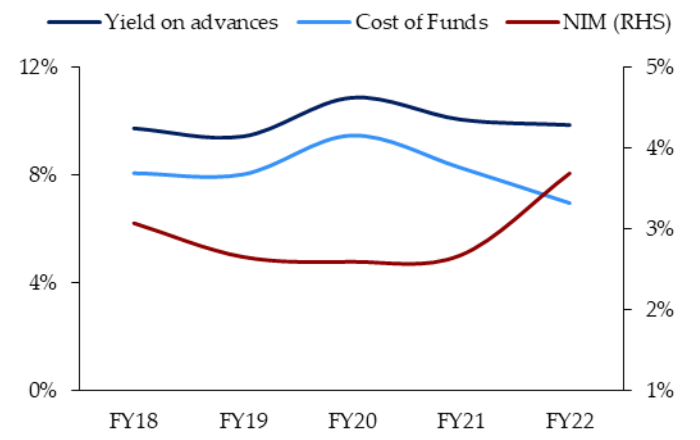
Source: Company, HSIE Research

Exhibit 235: Gradually increasing share of mortgage loans



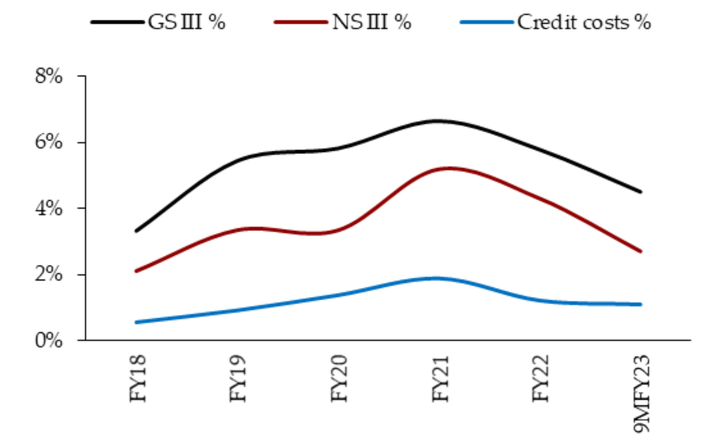
Source: Company, HSIE Research

Exhibit 236: Sharp NIM reflation in FY22



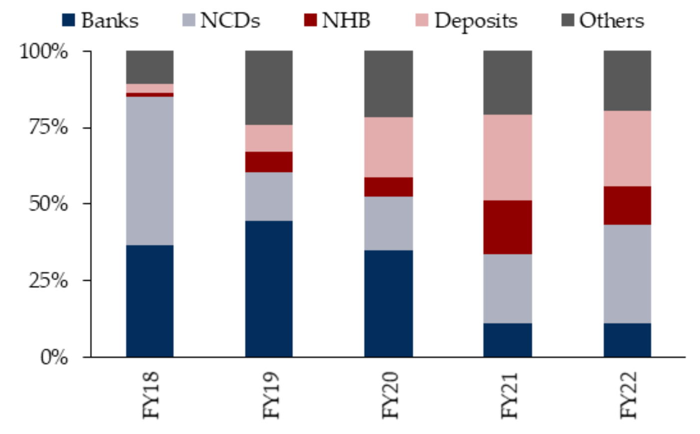
Source: Company, HSIE Research

Exhibit 237: Asset quality – yet to stabilise fully



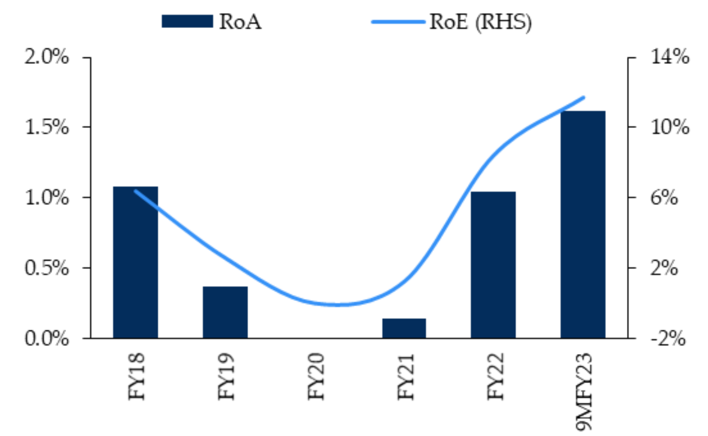
Source: Company, HSIE Research

Exhibit 238: Diversified borrowings profile



Source: Company, HSIE Research

Exhibit 239: Earnings profile muted in the recent past



Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

IIFL Home Finance

Templating an asset light model

The pivot of IIFL Home Finance (IIFLHL), a subsidiary and HFC arm of IIFL Finance, towards home loans from ~55% of AUM in Mar-17 to 77% in Dec-22 has augured well in terms of driving portfolio stability. Having navigated the 2019 NBFC/HFC crisis, IIFLHL has shifted to a balance sheet-light approach with a high share of off-book assets (DA, securitisation and co-lending contributing to ~39% of AUM as of Dec-22), which drives higher fee income while also preserving liquidity. The company is increasingly leveraging digitisation capabilities and a lean operating model to scale up its mortgage portfolio, with a healthy mix of formal and informal segments of customers, driving RoA of >3%. The wholesale book has tapered off from ~12% of AUM in FY17 to ~2% in Dec-22, with a corresponding impact on the overall portfolio delinquencies and credit costs.

- **Clear balance sheet-light model**: IIFLHL's business model is increasingly centred on driving fee income through the "originate-and-sell" model, along with gradual building up of its own balance sheet. Through co-lending and DA, IIFLHL provides largely PSL-compliant home loans to banks driving a win-win proposition.
- **Increasing granularisation of the retail portfolio:** IIFLHL is increasingly focusing on the affordable segment for home loans and LAP with declining ATS (INR 1.3mn/INR 0.6mn for home loans/LAP in Q3FY23) to drive higher yields. The customer profile is shifting towards salaried borrowers (~65% in 9MFY23 vs. 48% in FY18). The LAP portfolio has also transitioned from higher ticket sizes (INR 8mn) towards micro-LAP (ATS of INR 0.6mn; yield of ~17-18%).
- **Lean operating model leveraging on digitisation:** With proprietary digital platforms, IIFLHL has streamlined the loan origination processes with a centralised underwriting team and in-house sales force for sourcing. The digital capabilities in underwriting enable low TAT and higher operating efficiencies, which ensure higher productivity metrics.
- **Wholesale book impact and 2019 crisis:** While IIFLHL also witnessed the impact of the 2019 NBFC/HFC crisis with drying up of liquidity and asset quality challenges, the company escaped relatively unscathed compared to its peers due to relatively lower exposure and DA transactions for liquidity.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	4.4	5.3	5.5	7.3	8.1	6.3
PPOP	3.7	4.7	4.5	7.8	9.1	8.2
PAT	2.3	3.1	2.5	4.0	5.8	5.8
EPS (INR)	116.0	146.1	117.5	191.3	275.7	244.5
Balance Sheet						
Net worth	12.1	16.0	18.0	21.5	26.8	54.4
Borrowings	105.0	119.7	119.4	130.1	142.2	150.8
Net advances	124.0	134.2	129.5	145.6	152.9	NA
Total assets	129.2	146.2	145.0	159.8	180.1	214.2
AUM	143.2	181.6	184.9	206.9	236.2	266.0
Profitability						
NIM (%)	4.1%	3.8%	3.8%	4.8%	4.8%	NA
Credit costs (%)	0.3%	0.1%	0.9%	1.9%	1.0%	1.1%
ROAE (%)	21.2%	21.9%	14.5%	20.3%	24.0%	19.3%
ROAA (%)	2.1%	2.2%	1.7%	2.6%	3.4%	4.0%
CRAR (%)	17.2%	21.0%	23.7%	24.0%	30.5%	49.3%

Source: Company, HSIE Research

NOT RATED

Key shareholders	Dec-22
IIFL Finance	80%
ADIA	20%

Source: Company

Key management	
Monu Ratra	ED & CEO

Evolution	
Incorporated in	2006
Received license from NHB	2009
Last round of equity infusion	2022

Credit Rating	
CRISIL	AA/Stable
ICRA	AA/Stable

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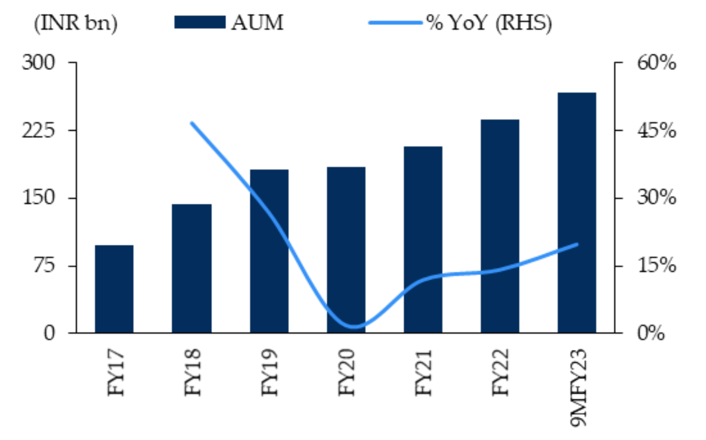
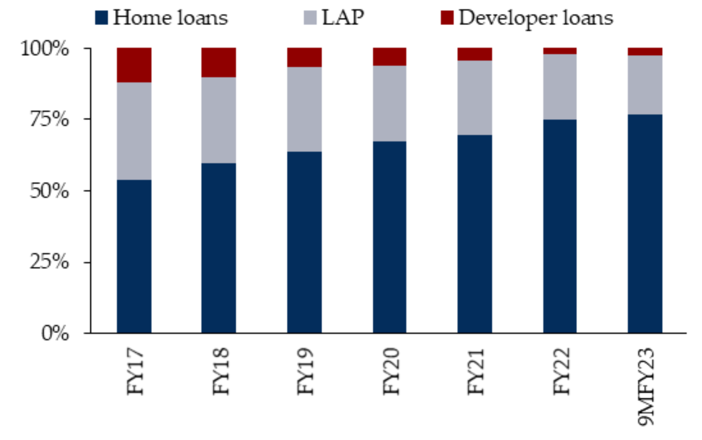
Exhibit 240: AUM - Steady growth momentum



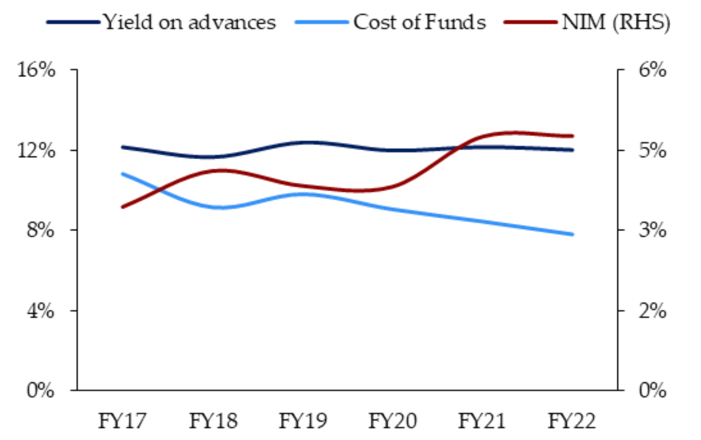
Source: Company, HSIE Research

Exhibit 241: AUM – increasing shift towards home loans



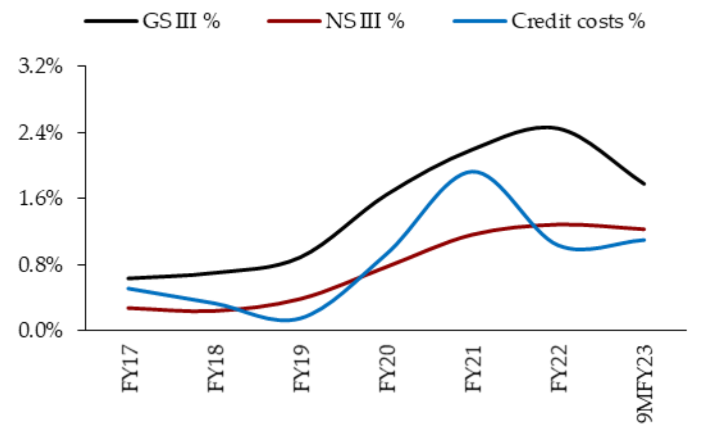
Source: Company, HSIE Research

Exhibit 242: NIMs inching up



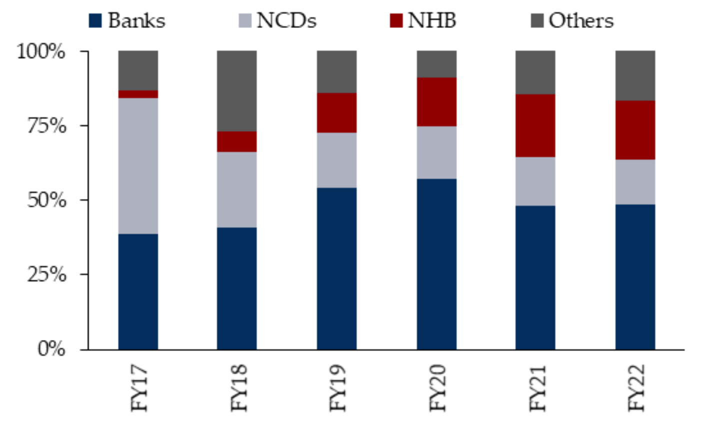
Source: Company, HSIE Research

Exhibit 243: Asset quality – credit costs still on the higher side



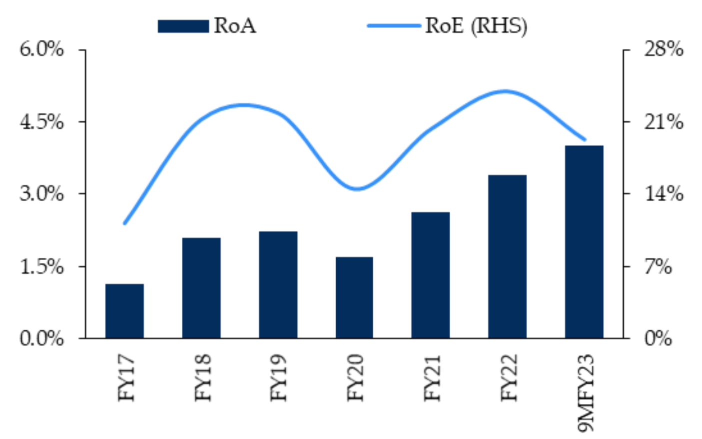
Source: Company, HSIE Research

Exhibit 244: Borrowings mix



Source: Company, HSIE Research

Exhibit 245: Profitability inching up gradually



Source: Company, HSIE Research

Motilal Oswal Home Finance

MOHFC | Still rebooting

NOT RATED

Motilal Oswal Home Finance (MOHFC), a Motilal Oswal group company and a subsidiary of Motilal Oswal Financial Services (MOFSL), is making gradual strides in its second and rejuvenated avatar. An affordable housing-focused HFC, the company witnessed elevated asset quality deterioration (cumulative write-offs at ~13%) during FY18-FY19 on the back of a blitz scale pace of growth during FY15-FY18 (138% CAGR). The key reasons attributed for the same were lack of investments in the collections and underwriting frameworks, high concentration around two key cities (~60% of AUM) and lack of portfolio seasoning. Having largely addressed the key concerns by building an in-house collections team and vertical organisation structure, along with equity infusion and clean-up of the portfolio (GS III at 2% as of Dec-22), MOHFC is looking to re-build the portfolio in a calibrated manner with gradual portfolio diversification.

- **Incorporating the lessons to build a durable franchise:** In its earlier avatar (2015-17), MOHFC witnessed blitz scale (138% AUM CAGR during FY15-FY18) which subsequently resulted in an asset quality blow-up (cumulative credit costs of 17% over FY18-FY22) and frequent capital calls (cumulative equity infusion of INR 3.5bn during FY18-FY19). The asset quality episode was attributable to a) lack of investments in the collections infrastructure, leading to late identification of portfolio stress; b) branch-led model with little standardisation in the income assessment of the informal customer profile leading to sub-par underwriting; and c) concentrated exposure in two cities (~60% of AUM) with high exposure to composite loans as well.
- **Gradual portfolio diversification at play:** Having systematically fixed the issues around collections and underwriting architecture, MOHFC is gradually diversifying beyond affordable housing loans towards construction finance and micro-LAP. The company is piggy riding on the Motilal Oswal Real Estate Funds to build its construction finance book with ticket size < INR 0.5bn and yields of ~14%, although scalability is yet to be established.
- **Core portfolio remains affordable home loans:** The affordable housing portfolio of MOHFC remains largely similar to the earlier one, with ~45-50% self-employed customers and an average ticket size of INR 0.9mn. However, there is more focus on construction-only loans with conservative approval rates (~30-40%).

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	2.2	2.2	2.2	2.4	2.7	2.2
PPOP	1.6	1.4	1.4	1.7	1.9	1.5
PAT	0.2	-1.4	0.4	0.4	0.9	1.0
EPS (INR)	0.0	-0.3	0.1	0.1	0.2	0.2
Balance Sheet						
Net worth	7.6	8.3	8.7	9.1	10.1	11.1
Borrowings	39.6	35.9	29.5	28.5	26.1	24.5
Net advances	47.3	42.1	36.3	34.7	34.3	35.8
Total assets	49.5	45.7	38.9	39.0	37.6	NA
AUM	48.4	43.9	36.7	35.4	35.6	36.9
Disbursements	14.3	2.9	1.9	2.7	6.4	6.4
Profitability						
NIM (%)	4.7%	4.8%	5.3%	6.3%	7.0%	NA
Credit costs (%)	3.1%	7.6%	1.9%	2.2%	2.1%	0.5%
ROAE (%)	2.8%	-17.2%	4.6%	4.5%	9.9%	13.1%
ROAA (%)	0.4%	-2.9%	0.9%	1.0%	2.5%	3.7%
CRAR (%)	37.8%	29.2%	47.6%	50.0%	51.6%	46.3%

Source: Company, HSIE Research

Key shareholders	**Mar-22**
Motital Oswal Financial Services	80.2%

Source : Company

Key management	
Motilal Oswal	Chairman & Non-Executive Director

Evolution	
Incorporated in	2013
Commenced lending operations	2014
Renamed to Motilal Oswal Home Finance	2019
Last round of equity infusion	2019

Credit Rating	
CRISIL	AA/Stable
ICRA	AA/Stable

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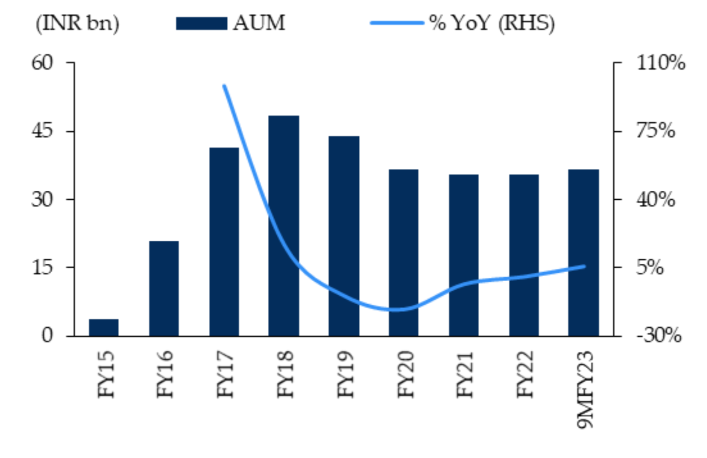
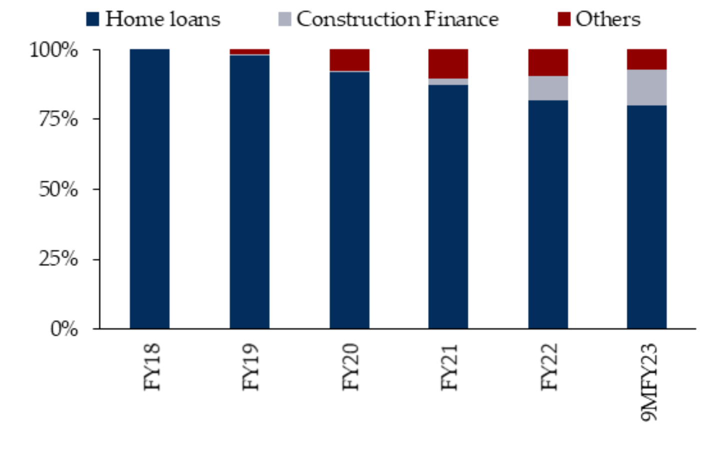
Exhibit 246: AUM gradually on growth trajectory



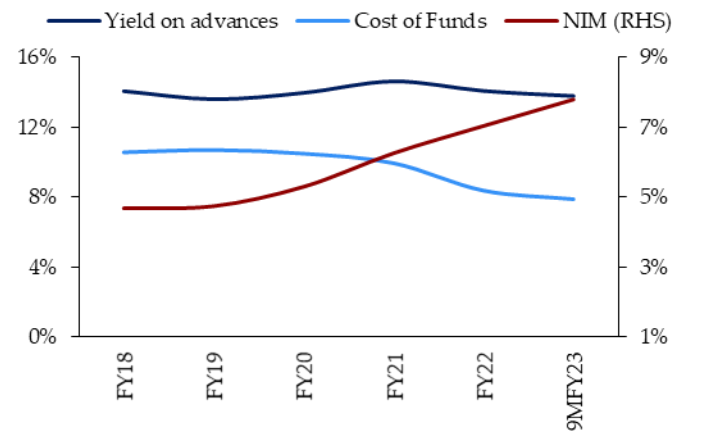
Source: Company, HSIE Research

Exhibit 247: AUM – increasing diversification of the portfolio



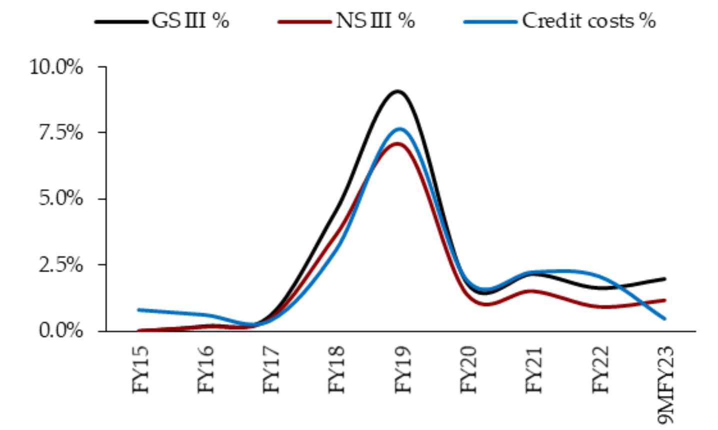
Source: Company, HSIE Research

Exhibit 248: NIM steadily inching up



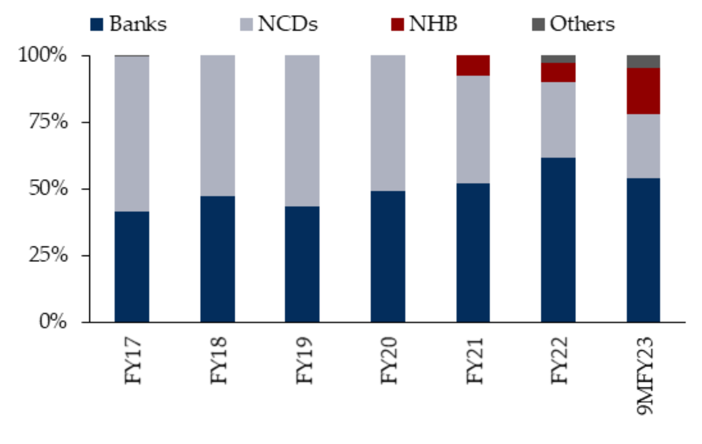
Source: Company, HSIE Research

Exhibit 249: Asset quality – credit costs gradually normalising



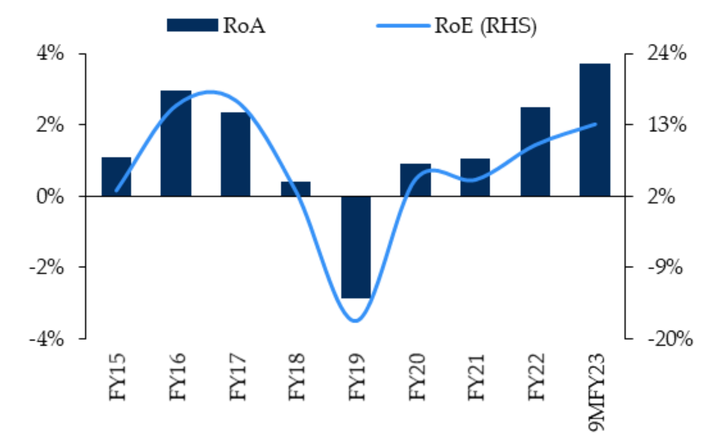
Source: Company, HSIE Research

Exhibit 250: Borrowings mix



Source: Company, HSIE Research

Exhibit 251: RoAs inching up gradually



Source: Company, HSIE Research

Shriram Housing Finance

Blitz scale pace of growth post course correction

NOT RATED

Shriram Housing Finance (SHFC) is a subsidiary of Shriram Finance and one of the fastest-growing affordable-focused HFCs (AUM CAGR of ~44% during FY19-9MFY23). The company undertook a transformation journey during FY19 to shift towards relatively higher-ticket size home loans compared to peers (~INR 1.5mn – 2.5mn) in order to drive superior growth and profitability. This has fructified into strong growth momentum along with improving earnings profile (~2.2% RoA in 9MFY23). The customer segment remains largely skewed towards self-employed, with a fairly diversified product mix (~36% of AUM towards non-home loans). However, the pace of growth is likely to gradually come under pressure with rising competitive intensity and increasing portfolio size.

- **Self-employed, LIG/MIG-focused HFC**: SHFC is predominantly focused on the self-employed segment (~79% of AUM as on Mar-22) for affordable loans. The portfolio is fairly diversified across home loans (~64%), LAP (~28%) and Construction Finance (~6%). SHFC's sweet spot is relatively higher ticket-size loan compared to affordable-focused peers, with an average ticket size of ~INR 1.7mn (Q2FY23) and ~75% of on-book home loans above INR 1.5mn ticket size. Apart from 100+ standalone branches, SHFC is increasingly looking at cross-sell opportunities to Shriram Finance's customers through their branch network as well.
- **Transformation journey for SHFC 2.0:** SHFC embarked upon its transformational journey in Nov-18 with a shift in target customer segment and approach. The incremental focus was on better-rated customers (~77% of customers with bureau score > 700) and mid-income segment, reflecting in lower yields, albeit with lower credit costs and strong growth momentum. The high pace of loan growth during FY13-FY17 (~98% CAGR) was followed by elevated delinquencies (GS-II/GS-III in Mar-18 at 12.1%/5.6%) and high credit costs (average of 1.4% during FY16-FY20).
- **Improving earnings profile; opex ratios remain a drag**: SHFC's earnings profile has shifted materially since FY20. The shift in customer mix has led to yields/NIMs compression by ~300-400bps, offset by the reduction in opex intensity and credit costs, leading to RoA of ~2 – 2.3%. Direct assignment drives higher fee income while also preserving liquidity/capital.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	1.6	1.5	1.1	1.2	1.8	2.0
PPOP	0.7	0.5	0.9	1.0	1.2	1.5
PAT	0.4	0.2	0.5	0.6	0.8	1.0
EPS (INR)	1.8	0.8	2.2	2.9	2.8	3.1
Balance Sheet						
Net worth	4.5	4.7	5.1	5.8	11.6	12.6
Borrowings	14.8	16.9	19.3	31.8	39.0	53.5
Net advances	17.5	18.2	19.9	33.8	45.2	59.8
Total assets	19.4	21.8	25.0	38.3	51.7	67.6
AUM	17.9	18.5	23.1	39.3	53.6	71.8
Disbursements	7.6	7.6	11.3	21.9	27.4	NA
Profitability						
NIM (%)	8.3%	7.6%	5.1%	3.8%	4.3%	NA
Credit costs (%)	0.7%	1.4%	1.3%	0.7%	0.3%	0.5%
ROAE (%)	8.8%	3.6%	9.5%	11.5%	9.3%	11.1%
ROAA (%)	2.0%	0.8%	2.0%	2.0%	1.8%	2.2%
CRAR (%)	33.0%	29.9%	27.8%	23.0%	30.9%	25.4%

Source: Company, HSIE Research

Key shareholders	Dec-22
Shriram Finance	85%
Valiant Mauritius Partners FDI	15%

Source : Company

Key management	
Ravi Subramanian	MD & CEO

Evolution	
Incorporated in	2011
Last round of equity infusion	2021
Merger of SCUF with SHTF	2022

Credit Rating	
CRISIL	AA+/Stable
IND RA	AA+/Stable

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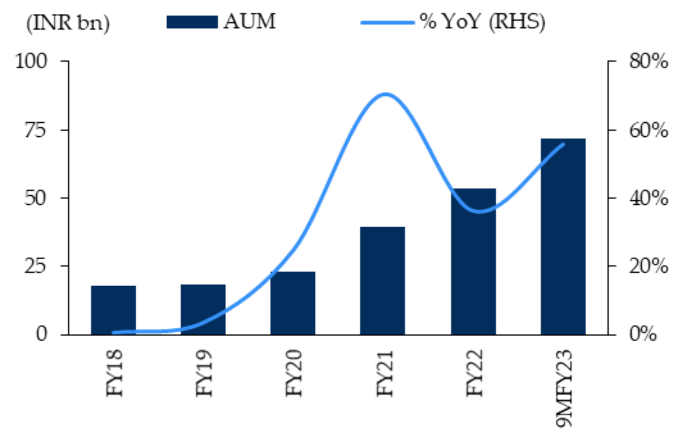
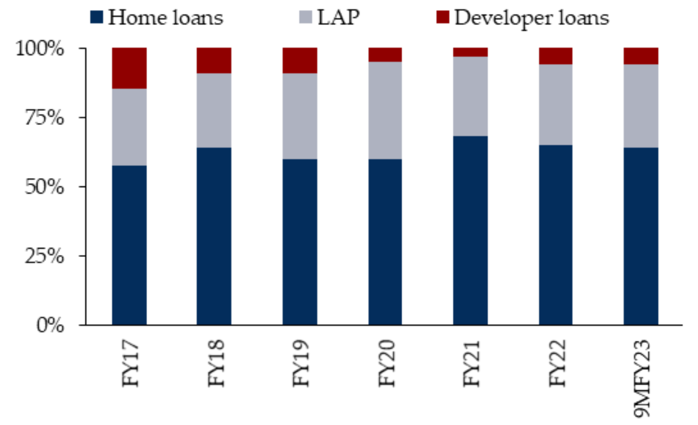
Exhibit 252: Strong AUM growth in the last 4 years



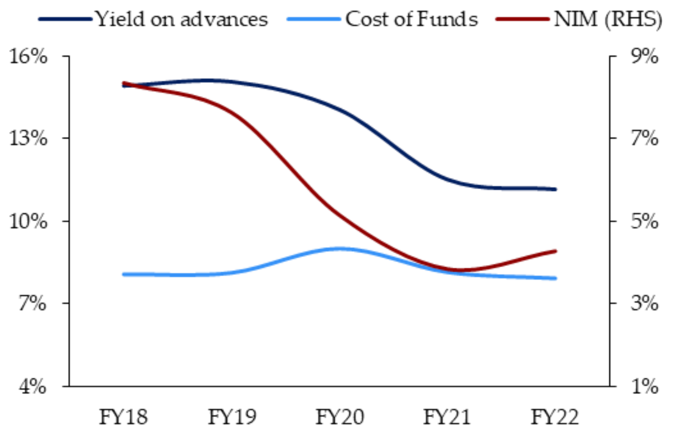
Source: Company, HSIE Research

Exhibit 253: AUM mix – high share of non-housing loans



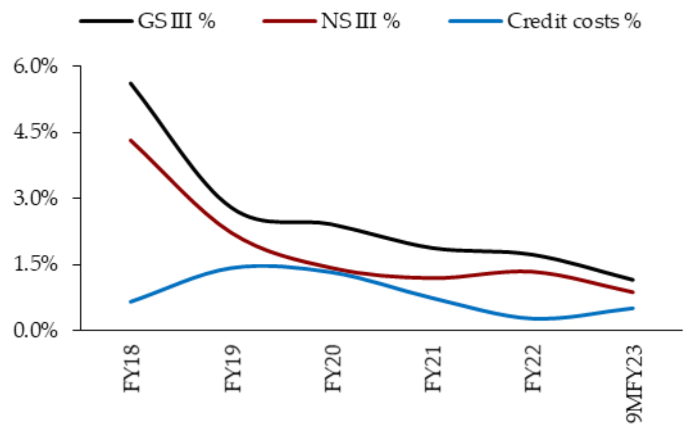
Source: Company, HSIE Research

Exhibit 254: NIMs have come off with portfolio re-balancing



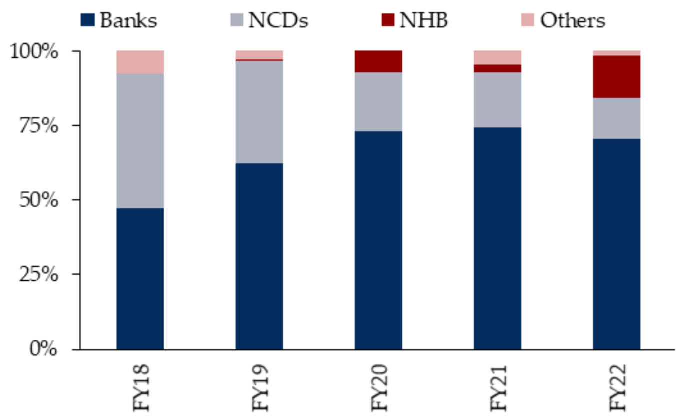
Source: Company, HSIE Research

Exhibit 255: Significant improvement in asset quality



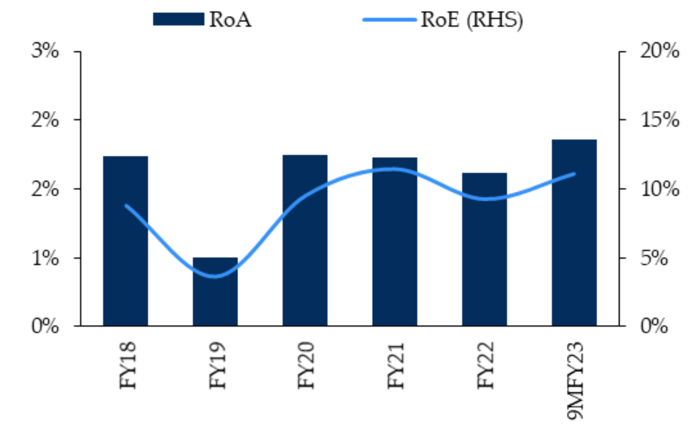
Source: Company, HSIE Research

Exhibit 256: High share of bank borrowings (Borrowings mix)



Source: Company, HSIE Research

Exhibit 257: RoEs remain muted



Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Vastu Housing Finance Corporation

Affordable franchise in high-growth stage

Vastu Housing Finance (VASTU) is an affordable-focused HFC, founded by Sandeep Menon (MD & CEO) and Sujay Patil (CRO) and backed by Multiples PE. VASTU is predominantly into affordable segment (home loans and micro-LAP) focused on the LIG/MIG segment with an average ticket size of INR 1.2mn. The company is leveraging Tech-enabled processes for underwriting and its operations, which along with superior risk-adjusted pricing power in the target segment, drives superior RoA (~5%). VASTU is currently in high-growth phase (~43% CAGR during FY19-9MFY23), similar to other affordable-focused HFCs of similar scale in the past. VASTU also has a wholly-owned subsidiary NBFC – Vastu Finserv with AUM of INR 0.4bn (Mar-22), which offers CV loans and secured/unsecured loans to MSMEs. The company is aiming for an AUM of INR 230bn by FY27 (~47% CAGR). However, Tech and distribution investments notwithstanding, the ability to scale beyond INR 100bn while ensuring asset quality stability, is yet to be completely tested.

- **Early stages – high pace of growth:** VASTU has scaled up from INR 2bn AUM in FY17 to INR 50bn in Dec-22, with a granular retail mortgage portfolio. The investments in distribution with over 126 branches/1.5K employees (with another 70 branches in pipeline for FY23), along with Tech-enabled processes for underwriting and operations are likely to drive higher throughput.
- **Focus remains solely on the affordable segment**: VASTU's target customer segment is the LIG/MIG segment (annual income of INR 0.3mn – 1.8mn) with ~76% of customers with bureau score above 700. Nearly 100% of the exposure is towards self-occupied residential properties, with low LTV of ~40% and average ticket size of INR 1.2mn. The average yield on advances is ~14.5%. In order to drive better cost efficiency as well as to mitigate risks, VASTU has made significant investments in Tech for underwriting and operations; however the book is unseasoned.
- **Low leverage, affordable focus drives superior RoAs**: Superior pricing power, and heavy equity-funded balance sheet (D/E of 0.9x) has driven superior RoA (~4-5%). The strong pace of balance sheet growth has led to high opex intensity, which is likely to remain elevated in near-term given investments in Tech and branches. The equity infusion (US$ 125mn infused during FY22 taking Tier I to ~98% as on Mar-22) has depressed the leverage further, leading to muted RoE of ~12% during FY22.

Financial summary

(INR bn)	FY18	FY19	FY20	FY21	FY22	9MFY23
P&L metrics						
NII	0.5	0.9	1.5	1.8	2.8	2.9
PPOP	0.3	0.5	1.2	1.4	2.6	2.4
PAT	0.2	0.4	0.9	1.0	1.8	1.8
EPS (INR)	7.0	9.5	17.6	18.2	30.9	28.9
Balance Sheet						
Net worth	3.7	7.6	8.8	9.9	21.3	23.0
Borrowings	4.8	9.9	12.9	16.3	15.5	20.5
Net advances	7.4	13.4	16.9	23.0	31.0	NA
Total assets	9.6	18.6	22.7	28.6	40.6	NA
AUM	7.4	13.1	17.7	24.1	33.7	50.3
Disbursements	6.3	7.6	7.4	9.5	15.5	NA
Profitability						
NIM (%)	7.5%	6.4%	7.1%	7.2%	8.3%	NA
Credit costs (%)	0.8%	0.3%	0.3%	0.6%	0.9%	NA
ROAE (%)	8.0%	6.4%	11.0%	10.2%	11.7%	NA
ROAA (%)	3.2%	2.6%	4.4%	3.7%	5.3%	5.4%
CRAR (%)	80.9%	83.3%	65.1%	57.0%	99.8%	NA

Source: Company, HSIE Research

NOT RATED

Key shareholders	Mar-22
Multiples	70%
Norvest Venture Partners	10%
Creation Investments	10%

Source : Company

Key management	
Sandeep Menon	MD & CEO
Sujay Patil	CRO

Evolution	
Incorporated in	2005
Began lending operations	2015
Last round of equity infusion	2021

Credit Rating	
CRISIL	A+/Stable
ICRA	AA-/Stable

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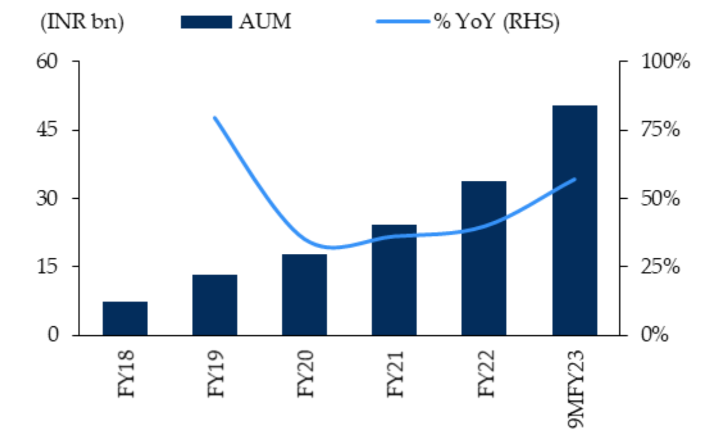
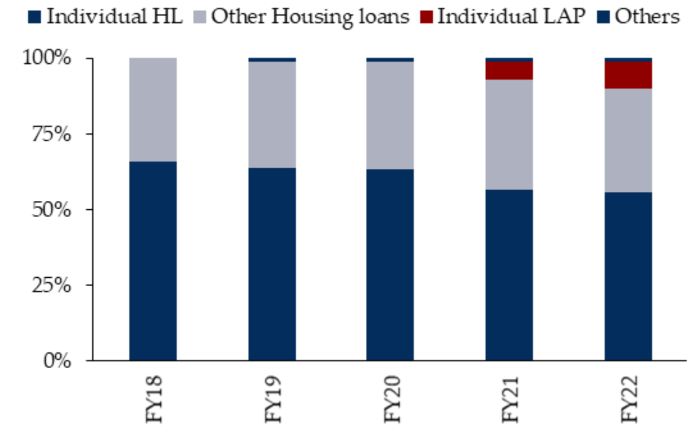
Exhibit 258: Strong AUM growth



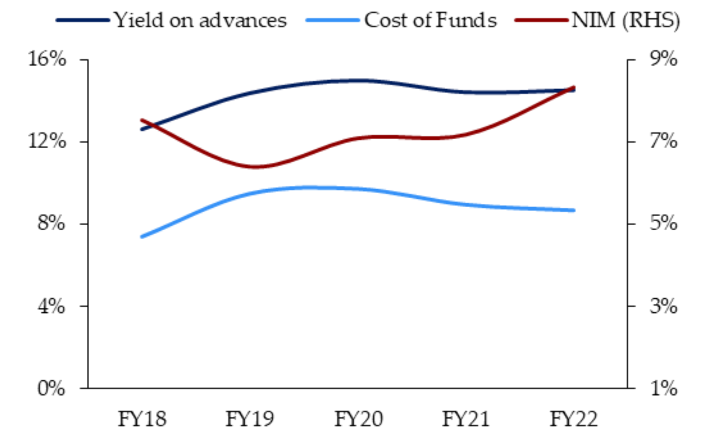
Source: Company, HSIE Research

Exhibit 259: AUM mix



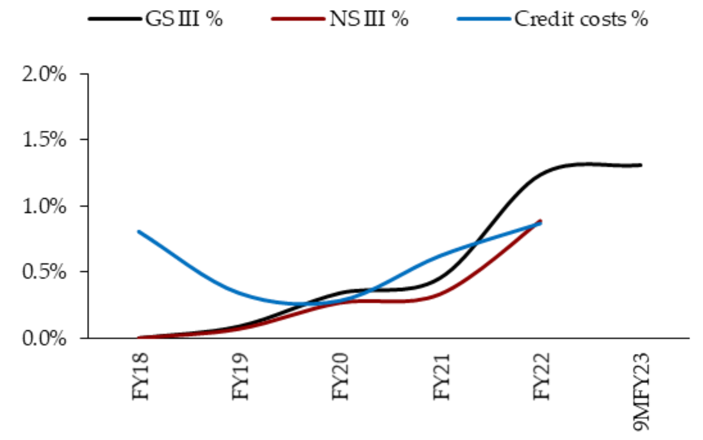
Source: Company, HSIE Research

Exhibit 260: Strong NIM



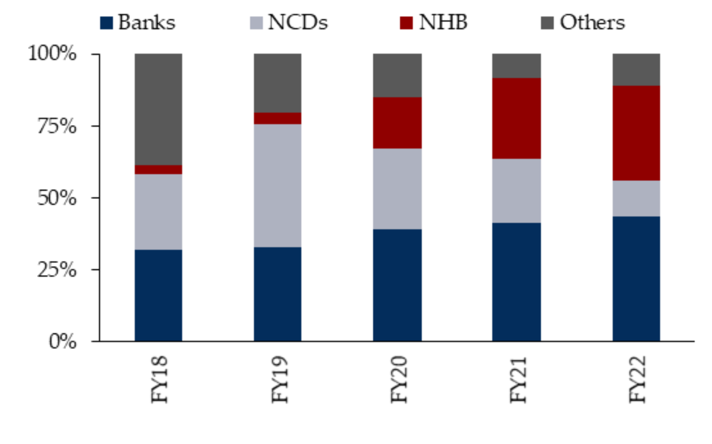
Source: Company, HSIE Research

Exhibit 261: Asset quality – portfolio yet to season



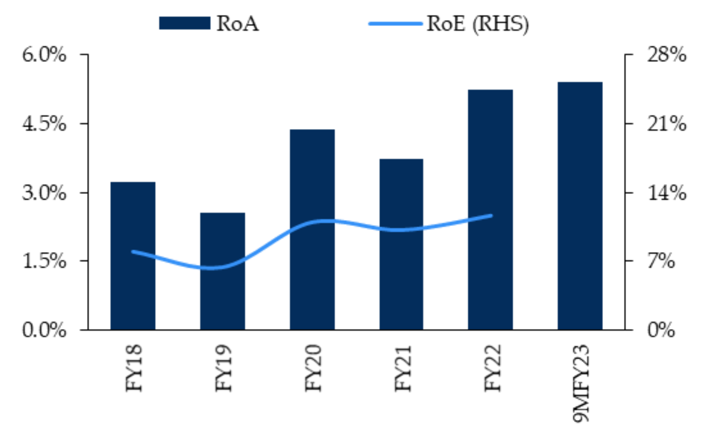
Source: Company, HSIE Research

Exhibit 262: Diversified borrowings mix



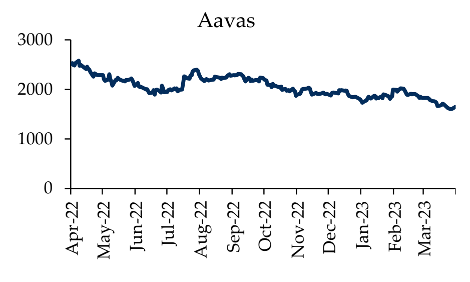
Source: Company, HSIE Research

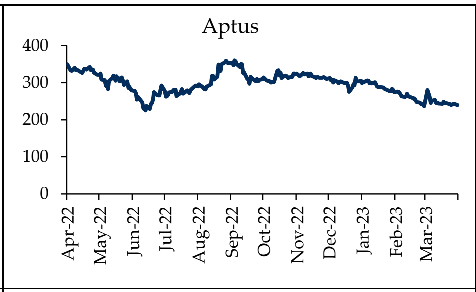
Exhibit 263: Strong RoA, low RoEs due to low leverage

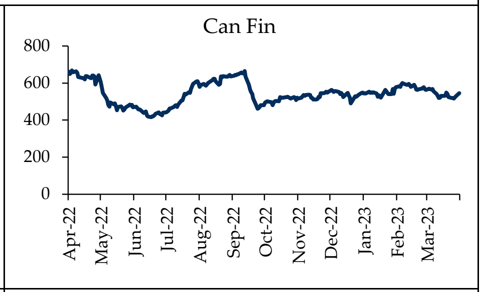


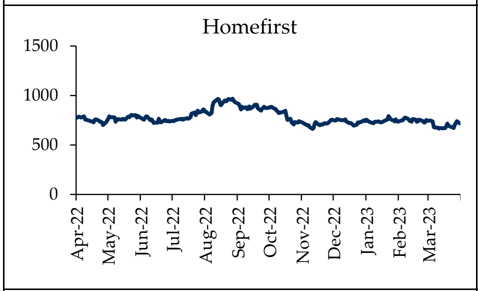
Source: Company, HSIE Research

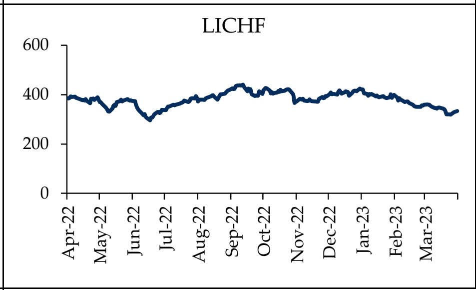
1 Yr Price History

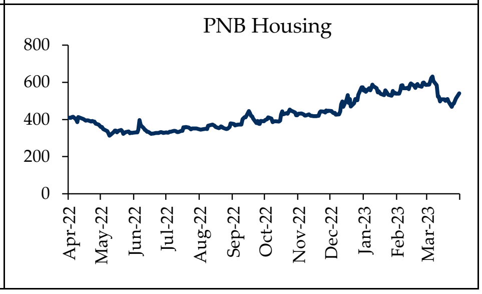


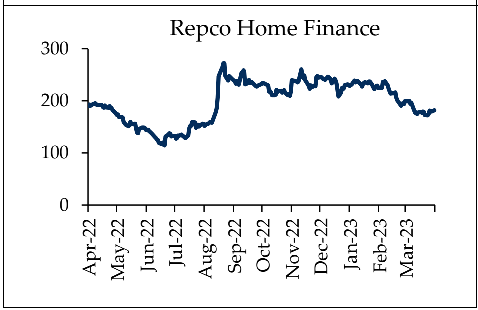












Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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Disclosure:

We, **Deepak Shinde, PGDM, Krishnan ASV, PGDM, Neelam Bhatia, PGDM and Sahej Mittal, ACA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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