



IPO DETAILS

Issue Date 21st Jan-25th Jan 2021

Price Band Rs 517-518 per Share

Bid Lot 28 & in multiple there

Face Value Rs 2/Share

Listing BSE, NSE

Issue Size Rs 1154 Cr

Fresh Issue Rs 265 Cr

Offer For sale Rs 888.72 Cr

Pre Issue Eq Shares 82,270,961 Eq Shares

BRLM Axis Capital Ltd,
Credit Suisse Securities
(India) Pvt Ltd
ICICI Securities Ltd,
Kotak Mahindra Capital
Company Ltd

Registrar KFin Technologies
Private Limited

Company mainly provides loans to first home buyers in low & middle-income groups. Loans for the purchase or construction of homes constitute 92% of company's gross loan assets as of Sept 2020.

What we like:

Robust Growth: Gross Loan assets of company have grown at CAGR of 63.% from FY18 to FY20, Company's gross loan assets increased from rs 13559.32 million in FY18 to Rs 37300.12 million in Sept 30, 2020.

Strong network: Company had a network of 70 branches covering 60 districts in 11 states & a union territory in India with a significant presence in states of Gujarat, Maharashtra, Karnataka & Tamil Nadu. Also these 11 states & union territory accounted for approx. 79% of affordable housing finance market in India during FY19.

Healthy financing Source : Company has the highest share of NHB refinance (26%) among company's peers in its borrowings mix as of Mar'2020. Company have improved its credit ratings from CARE A- as of Mar'17 to 'CARE A+' as of Sept'20 & also currently have an A+(stable) rating from ICRA Ltd.

Industry leading productivity metrics & sound asset quality: Company has shown highest disbursements per branch of Rs 25.3 million while disbursements per employee stood at Rs 2.4 million & company has been successfully able to maintain GNPA below 1% and 30 DPS in 1%-2% range.

Strong growth prospects of industry : While housing market has grown at CAGR of 16% from FY15-20, AUM of Affordable housing finance companies has grown at CAGR of 53% from FY15-19 thus depicting strong demand. Also company is technology driven & its tech led operating model delivering industry leading productivity ratios as company's system is designed to facilitate average loan sanction TAT of 48 hours v/s industry average of 8-10 working days.

Experienced Management Team with Qualified Operational Personnel and Marquee Investors Company's CEO and founder, Manoj Viswanathan, has over 24 years of experience in the consumer lending industry. Its Promoters are True North Fund V LLP and Aether (Mauritius) Limited. Bessemer has invested in company since January 2011 and Orange Clove Investments B.V. (an affiliate of Warburg Pincus, a global private equity investor) has acquired a stake in company in October 2020

Valuation

Company is bringing the issue at p/b multiple of approx 4.3x at higher end of price band of Rs 517-518/share on FY20 book value basis.

Although valuations are looking expensive but we like growth aspect of company as company being one among its close peers to post highest CAGR in AUM from FY15-20. Also on asset quality front company has been able to manage its GNPA & NNPA ratio below 1% in FY20. What attracts us more is its tech led operating model which delivers industry leading productivity ratios along with experienced management team, marquee investors & strong board members. Therefore we give "Subscribe" rating to issue for both short & long term.



Growth Ratios:

FY20	AUM (Rs Bn)	AUM Growth (CAGR FY15-20)	AUM Growth (CAGR FY18-20)	Loans outstanding (Rs Bn) FY20	Advance growth (YoY)	Disbursement (Rs Bn) FY20	Disbursement growth CAGR (FY15-20)
Gruh Finance	181 [^]	15% [^]	8% [^]	181	4%	NA	NA
Aadhar Housing Finance	114	59%*	20%	89	11%	32	33%*
AAvas Financiers	78	56%	38%	62	31%	29	40%
Aspire Home Finance	37	59%	-13%	37	-16%	2	-12%
Home First Finance Company	36	61%	63%	30	41%	16	50%
Aptus Value Housing Finance	32	54%	50%	27	32%	13	51%

Note : (^) Loan Assets include only on book AUM

(*) Four Year CAGR is calculated based on number of erstwhile Aadhar Housing Finance (before merger with DHFL) for FY16.

NA: Not Applicable

Financial Ratios

FY20	RoA	RoE	NIM	Yield on Advances	Cost of Borrowings	Operating Expenses	Leverage (times)	CAR %
Gruh Finance	NA	NA	NA	NA	NA	NA	NA	NA
Aspire Home Finance	0.9%	4.6%	5.2%	14.0%	10.1%	2.3%	3.9	47.6%
Aadhar Housing Finance	1.7%	11.8%	3.9%	13.5%	8.6%	2.2%	5.6%	51.4%
Aavas Financiers	3.8%	12.47%	6.4%	13.5%	8.4%*	3.4%	2.3	56.0%
Aptus Value Housing Finance	6.3%	15.4%	8.2%	15.7%	10.0%	2.6%	1.4	82.5%
Home First	2.7%	10.9%	5.4%	13.2%	8.7%	3.4%	3.0	48.9%

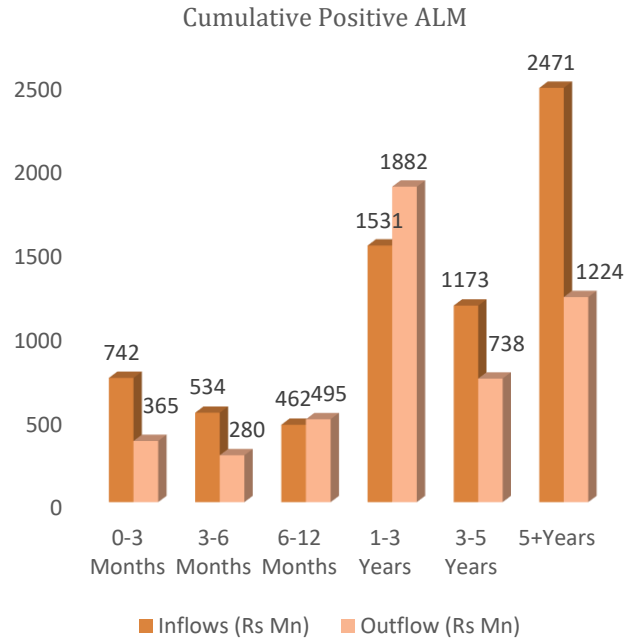
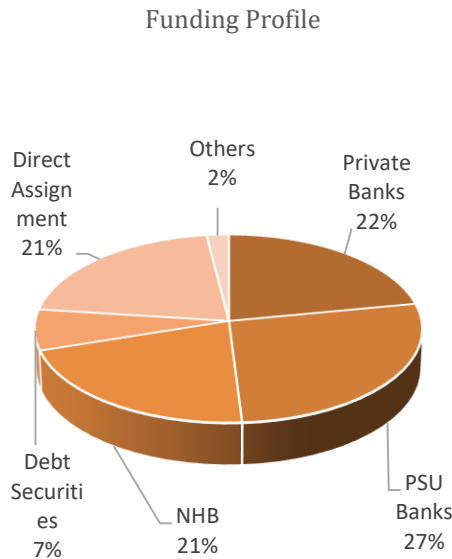
The table below sets forth customer profile and average ticket size for Fiscal 2020

FY20	Customer Profile		Avg Tkt size (Rs Mn)
	Salaried	Non-Salaried	
Gruh Finance	59%	41%	NA
Aspire Home Finance	55%	45%	0.88
Aadhar Housing Finance	65%	35%	0.84
Aavas Financiers	35%	65%	0.84
Aptus Value Housing Finance	22%	78%	0.70
Home First	73%	27%	1.01



INVESTMENT RATIONALE

Diversified funding profile & positive cumulative ALM surplus



Healthy increase in market share

As GNPA ratio is lowest in Rajasthan (1.3% in 2019) followed by Gujarat & Telangana (1.5% in 2019), have company has demonstrated its ability to successfully identify new regions to set up branches and grow its market share in such regions.

The following table reflects the improvement in company’s market share, in terms of origination of home loans in the bucket size of ₹ 500,000 to ₹ 2,500,000, for the periods indicated:

Brach Locations	Co’s Market Share Q1FY18	Co’s Market Share Q4FY20
Jaipur	0.1%	2.3%
Ahmedabad	1.7%	2.7%
Surat	1.47%	2.5%
Indore	0.2%	2.3%
Nagpur	0.9%	2.2%
Raipur	0.3%	0.8%
Hyderabad	0.2%	1.1%
Bengaluru	0.2%	1.9%
Chennai	1.0%	2.0%



Diversified lead sourcing channels

Company has a diverse range of lead sourcing channels such as connectors, architects, contractors, affordable housing developers, in addition to conducting loan camps and micro marketing activities, and utilizing employee and customer referrals and branch walk-in customers. Connectors are third-parties who provide company with customer leads on a commission basis paid only when a loan is disbursed and they do not assist in the loan application process. Connectors are generally individuals such as insurance agents, tax practitioners and local shopkeepers.

	As for Six months ended Sept'20		As & for the year ended Mar'20	
	Number of Sanctions	Percentage	Number of Sanctions	Percentage
	(Count in numbers, except %)			
Branch	285	9.2%	1804	9.3%
Builder EcoSystem	388	12.5%	3601	18.5%
Connector	1945	62.9%	10745	55.1%
Construction community	176	5.7%	840	4.3%
Digital	57	1.8%	449	2.3%
Marketing	132	4.3%	1491	7.7%
Micro Connector	82	2.7%	405	2.1%
Strategic Alliances	28	0.9%	146	0.7%
Total	3093	100.0%	1941	100.0%

Experienced Management Team with Qualified Operational Personnel and Marquee Investors

Company have a professional and experienced management team, led by CEO and founder, Manoj Viswanathan, who has over 24 years of experience in the consumer lending industry. Company's Promoters are True North Fund V LLP and Aether (Mauritius) Limited. Further, Bessemer has invested in company since January 2011 and Orange Clove Investments B.V. (an affiliate of Warburg Pincus, a global private equity investor) has acquired a stake in company in October 2020. Company have and expect to continue to benefit from strong capital sponsorship and professional expertise of company's marquee shareholders.

About Company

Company commenced operations in August 2010 and as of September 30, 2020, it had a network of 70 branches covering over 60 districts in 11 states and a union territory in India. Company serve salaried and self-employed customers. Salaried customers account for 73.1% of Gross Loan Assets and selfemployed customers account for 25.0% of Gross Loan Assets, as of September 30, 2020. Company serviced 44,796 active loan accounts, as of September 30, 2020. Company also offer other types of loans comprising loans against property, developer finance loans and loans for purchase of commercial property, which comprised 5.1%, 1.9% and 0.9% of Gross Loan Assets, as of September 30, 2020, respectively.

Company have set up a robust collections management system wherein approximately 93% of collections for the financial year 2020 were non-cash based, which eases stress on monitoring financial transactions and reduces company's cash management risk. All borrowers register for an automated debit facility and company track the status of installments collected on a real time basis through a collection module in company's system.



Risk Factors:

The housing finance industry in India is highly competitive and company compete with banks, other HFCs, small finance banks and NBFCs in each of the geographies in which company operate. Company’s competitors can have more resources, a wider branch and distribution network, access to cheaper funding, superior technology and can have a better understanding of and relationships with customers in these markets. This may make it easier for competitors to expand and to achieve economies of scale to a greater extent. In addition, company’s competitors may be able to rely on the reach of the retail presence of their affiliated group companies or banks. Competition in this market segment has also increased as a result of interest rate deregulation and other liberalization measures affecting the housing finance industry in India and company expect competition to intensify in the future.

Objects of Issue:

Net Proceeds of the Fresh Issue are proposed to be utilised for increasing company’s Tier I capital base to maintain the minimum capital adequacy ratio in accordance with Regulation 30 of the NHB Directions and to meet future capital requirements.

Financial Statement

(Rs Cr)

	FY18	FY19	FY20	H1FY21
Total Income	134.24	270.92	419.66	243.19
Total Expenses	107.09	198.41	295.87	156.43
Pre Provision Profit	27.14	72.51	123.79	86.77
Provisions	2.87	7.31	16.50	16.41
PBT	24.27	65.20	107.28	70.36
Tax	8.27	19.99	28.03	17.41
PAT	16.00	45.20	79.25	52.95
Eq Cap	10.32	12.67	15.66	15.68
Net Worth	325.22	523.14	933.64	989.44
Eq Shares	5.16	6.33	7.83	7.84
EPS	3.02	7.65	10.53	6.59
Book Value	63.01	82.59	119.24	126.05
NIM %	5.3	5.4	5.1	2.4
Cost to income Ratio	61.0	50.3	45.8	34.9
CRAR	43.0	38.5	49	51.7
GNPA%	0.6	0.7	0.9	0.7
NNPA%	0.5	0.5	0.7	0.5
ROA %	1.4	2.4	2.7	1.5
ROE%	5.1	10.7	10.9	5.5

Source:RHP

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