ANNEXURE F

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. Industry Overview

The Indian Mortgage to GDP ratio stood at 10.3%. Mortgage to GDP ratio in India continues to be one of the lowest compared to advanced and emerging economies impaling vast opportunity for growth.

The mortgage industry which was at ₹10 trillion in March 2015 has grown to ₹20.20 trillion by Sep 2019 translating into a growth of around 15-16% per annum. However, the overall housing loan portfolio growth of Housing Finance Companies (HFCs) and Non-Banking Financial Companies (NBFCs) reduced significantly to 4% - YoY for the period ended September 2019 owing to lower disbursements due to funding constraints for the sector. This has also resulted in the pace of growth of banks higher than HFCs, partly supported by portfolio buyouts.

Given the tough operating environment and the impact of COVID-19,it is expected that housing credit growth be much lower at 9-12% in FY 2020 (lower than the last three years' CAGR of 17%). The affordable housing segment, however is expected to grow around 20-25%, almost double the industry growth. Having said that, given the low mortgage penetration levels in the country, the long term growth for the sector remain good and housing finance sector is expected to recover as the operating environment improves.

There have been quite a few government schemes and regulatory changes that have been launched/brought in, in order to promote housing and revive housing finance industry. The schemes include introduction of special window worth ₹10000 crores for the last-mile funding of non-NPA and non-NCLT housing projects, Partial Credit Guarantee (PCG) scheme to enhance liquidity in the HFC/NBFC sector, introduction of RERA ,redevelopment of slums, creation of affordable housing through public-private partnerships, subsidy for economically weaker sections of the society,PMAY credit-linked subsidy schemes, grant of infrastructure status to affordable housing projects and creation of Affordable Housing Fund with National Housing Bank (NHB).

The Pradhan Mantri Awas Yojana (PMAY) which was launched in June 2015 under the Housing for all, 2022 initiative by Government has started to pick up pace with an increase in number of houses sanctioned as well as the number of beneficiaries of the subsidy. The success of this scheme will continue to benefit from the Governments focus on the Housing for All initiative.

Though there is a subdued growth of HFCs due to the tough operating environment, impact of COVID-19 which is existing currently, considering the government focus on Housing for All and other initiatives taken by both NHB and RBI, it is clearly evident that India is moving towards reducing its share of homeless people particularly in the affordable housing segment.

2. Key trends in Affordable housing finance sector

Emergence of Affordable Housing Finance Companies (AHF):

- Affordable Housing market is poised to grow multi folds in times to come. Demand for low cost housing remains high in the market, likely to provide the required impetus to drive growth in the segment.
- Most of the newer HFCs are focused on catering to the unserved and underserved customers in the affordable housing and commenced operations mostly in Maharashtra, Gujarat, TN and Rajasthan belt.
- Shift in focus away from formal salaried segment, large number of newer HFCs have found a niche in the self-employed segment. They have created proprietary appraisal models to assess the customers who do not have income proofs and 35 to 40% of whom are new to credit.
- Smaller size HFCs continue to face challenges on the funding side as bank funding remain tight. Though the leverage ratios have increased over the last 2 years, they remain significantly lower than the larger HFCs.
- While HFCs have reported best asset quality over the years, affordable HFCs have started showing signs of weakness. Few large AHF have reported large NPAs.
- Overall profitability of HFCs in FY20 remains largely at similar levels of FY 19 due to upfront income booked on account of direct assignment transactions.
- Best performing HFCs in this segment have been those with differentiated business models.
- Capitalization and strong risk management is a key differentiator for quality lenders.

3. Key Regulatory changes for HFCs

3.1 GOI Scheme for incomplete housing projects should be a positive for HFCs

The Government of India (GOI) has announced a special window worth ₹10,000 crores for the last mile funding of non NPA and non-National Company Law Tribunal housing projects. This is expected to provide some relief to HFCs and home buyers stuck in incomplete projects totaling nearly 3.5 lakh units across the country.

3.2 GOI's PCG scheme to enhance liquidity in NBFC/HFC sector:

The guidelines issued by the Ministry of Finance for the Partial Credit Guarantee (PCG) Scheme offered by the GoI to the public sector banks (PSB) for purchasing high rated pooled assets from financially sound NBFCs or HFCs are meant to provide additional liquidity to the NBFC/HFC sectors. It recognizes the role of NBFCs and HFCs in taking forward the Government's agenda of financial inclusion as these entities have a farther reach than most banks and also cater to customers of varied credit profiles who otherwise may have been unable to get credit from banks.

3.3. LIFT Scheme by NHB

To infuse liquidity into HFCs and cater to the funding requirement of HFCs, a new scheme, viz. the Liquidity Infusion Facility (LIFT) was launched in Aug 2019. The objective of the scheme is to support HFCs in creating individual housing loan portfolios that fall under the priority sector as defined by RBI. This is over and above the refinance available under the two existing schemes of Liberalised Refinance Scheme (LRS) and Affordable Housing Fund (AHF).

3.4 NHB proposes amendments to Capital Adequacy Requirements (CAR) and borrowing limits

NHB vide a communication dated March 04, 2019 has proposed amendments in regulations relating to CAR and borrowing limits. As per the proposal, the CAR of HFCs which was at 12% in FY 2019 has been raised to 13% in FY 2020. This is proposed to be raised progressively to 15% by March 31, 2022. Further the cap on borrowings which is at 16 times Net Owned Funds (NOF) is proposed to be brought down to 12 times NOF by March 31, 2022.

4. APTUS: Business Overview

4.1 Primary focus –Self Employed/ Cash salaried, LMI families:

Aptus, right from the inception in 2010, has kept the focus in providing individual home loans to the underserved Low and Middle Income (LMI) families largely in Tier II and III Cities to buy or construct a home of their own. More than 80% of the sanctioned customers belong to the LMI /self-employed category and also customers belonging to salaried class in the informal segment who largely earns cash salaries. Typical customer of Aptus will be an individual who runs a business of his own like retailers, agents, professionals, traders, shop owners, contractors, service centers etc. or an individual who works in an informal set up and earns cash salary. These customers aspire to own a home but are under served by banks / HFCs due to challenges faced in income assessment, repayment capacity. Hence Aptus focus is in niche segment of underserved LMI families, by existing financial institutions. Almost all these customers are first time home buyers and mainly reside in the home purchased through funding from HFCs.

4.2 Focus: Semi Urban/ Rural

Keeping in line with Aptus' focus on Tier II and Tier III towns, today over 65% of Aptus loans disbursed fall under the Rural Areas as classified by NHB. In addition, focus will continue to be in extended suburbs of metro and mini towns, underserved Tier II and III locations, and potential semi urban and rural housing locations. With a branch network of over 175 locations spread across 4 states and 1 union territory the distribution reach of Aptus is one of the best and largest in southern part of India.

4.3 Average Ticket Size

Most of Aptus customers are either constructing a house on their own plot of land or buying an apartment of their own, mostly first home. The average value of the properties funded is around ₹15 – 30 Lacs.

4.4 Products

Housing Finance Company

Home Loans:

Aptus product portfolio is exhaustive including, Home loans for construction, purchase, Home improvement/ extension loans. Home loans account for about 60% of the HFC's portfolio.

Aptus does not have any loan exposure to Real Estate, Builders or to Corporates.

Business Loans:

Significant part of Aptus customers are self-employed and are in need of working capital / small business loans. This is a large, growing, profitable product and APTUS provides business loans based on cash flows and security of property, largely residential.

A wholly owned subsidiary of the Company has been formed to focus exclusively on the small business loan segment.

4.5 Business process, systems and I T

The Company has put in place a robust Credit Underwriting process, which ensures protection of the under lying risk in the untested market like self-employed, LMI customers where adequate documents may not be readily available for verification.

Also, Aptus has chosen to have the legal scrutiny and technical evaluation of the property done by in house specialists.

Core lending Suite include:

- Sourcing of loan proposals.
- Legal and Technical evaluation.
- Evaluation by Credit/ operations team
- CIBIL check
- Direct call to customer by credit / CRM team
- Performance tracking done through MIS, CRM, post audit etc.
- IT system enables the data entered at branches flow to HO seamlessly and on a real time basis which has resulted in improved efficiency in operations.

Further in order to protect the organization from disasters, a Disaster Recovery and Business Continuity Plan has been implemented.

These sound systems and processes have resulted in Aptus maintaining an excellent portfolio quality. For the 50000 plus customers already acquired, EMI has crossed ₹600 crores and repayments are collected mostly on time, with one of the lowest NPA % in the industry.

4.6 Funding

With the liquidity squeeze in the market and reluctance of the banks to fund to HFCs, most of the HFCs raised significant funding through sell-down of their loan assets either under the securitization or direct assignment route. Some of the larger HFCs have also resorted to ECB issuances.

However, given the positive attributes of Aptus in terms of consistent business growth, quality loan book, profitability in terms of return ratios and good corporate governance practices, Aptus was able to raise funds from various banks and NHB to the extent of around ₹1000 crores. All these were long term loans with a tenor of 5 to 7 years. Further in order to instill confidence amongst bankers and rating agencies and also to meet the growth plan of future years, fresh equity capital to the extent of ₹800 crores was raised during the year. This also resulted in improvement in rating by both ICRA and CARE by one notch from A to A+.

Aptus understands that it is in the business of funding long term home loans up to 15 years. With this in the back ground, Aptus' borrowing policy has always been prudent in terms of:

- Diversified Funding Mix,
- Nil exposure to short term borrowings and
- Prudent ALM Policy.

Aptus has built up a strong cash liquidity of ₹590 crores as on March 2020 to meet the uncertainty caused by COVID-19 pandemic.

4.7 Human Resources

At Aptus, lot of importance is placed on the human capital, be it in recruitment, induction, compensation, training and growth of employees and are groomed to take on higher responsibilities. Further on the job training and in company exposure is imparted to these staff to have better understanding of the company, its culture and business. These initiatives coupled with adequate compensation, including unique incentive schemes matched with the market and good employee welfare schemes like health and life insurance covers have helped us retain the manpower. Aptus has one of the lowest staff attrition levels in the Industry.

As the number of employees are on the rise, need was felt to have a robust software to handle the entire HR processes and operations. In this context, a HRMS software, by name "formula HR" was identified and the same has been implemented.

5. APTUS Key Performance Highlights

- Unique sourcing and risk management model.
- Robust underwriting process leading to high quality portfolio, GNPA of much less than 1.0%
- Ability to manage expansion across States
- Sustained growth in AUM - CAGR 42%.
- Income growth of over 55% in FY 20.
- PAT ₹211 Cr in FY20, 88% growth in FY 20.
- ROA 7.01%, best in theIndustry.
- ROE 15.10% , despite new Capital.
- Positive ALM and strong Net worth of ₹1709 crores.
- Sufficient Liquidity of ₹590 crores to withstand the uncertainty caused by COVID-19

6. KEY RISKS

6.1 Environment risks:

- Dependence on economic factors.
- Delay in Project approvals and construction.

6.2 Collateral and credit risks:

- Insufficient data for Credit appraisal
- Lack of proper property title
- Liquidity Risk

6.3 Operating risks :

- Employee attrition.
- Geographical concentration of Company operations.
- Funding disadvantage of small and medium HFCs vis-a vis large, HFCs.
- Evolving Socio Economic risk

Mitigants

The Company is constantly evaluating Macroeconomic related business risks, Customer risk, Underwriting risk, Employee risk and Financial risk and taking corrective actions on an ongoing basis given our nature of business.

7. Covid-19 and Aptus

The lock down due to the outbreak of COVID-19 has impacted our business operations as well as cash flows of our customers. In terms of operations HFCs generally have significantly higher level of interactions / touch point with the customers for new business origination and for collections and this has been impacted by the lockdown. Though there has been a graded opening of branches from May 4th 2020, it would take considerable time for business to return to normal. Also, given the likely impact on the loan servicing abilities of customers, who are largely self-employed, cash salaried and small business owners, we will be more cautious while underwriting new loans. We have initiated all possible measures to minimize the impact on our business continuity and the health of our staff and partners.