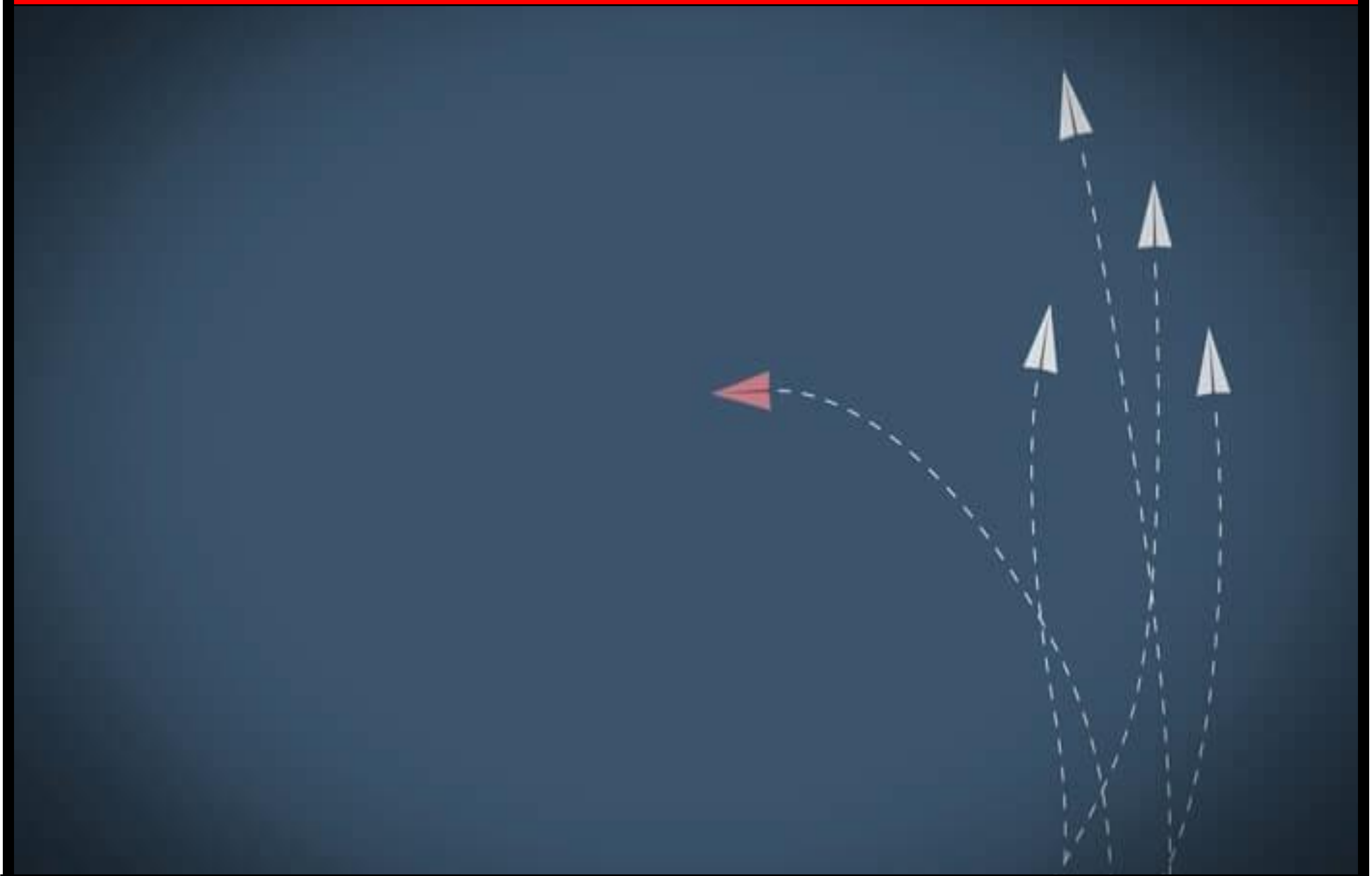
DISRUPTION SERIES (VOL 8)

November 2020



AMBIT
ASSET MANAGEMENT

Ambit Good & Clean Portfolio

Ambit Coffee Can Portfolio

Ambit Emerging Giants Portfolio

EQUITY INVESTMENTS & PMS ARE SUBJECT TO MARKET RISKS,
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY BEFORE INVESTNG

Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the eighth write up of this series we have chosen **Affordable Housing Finance Industry** with a special focus on **AAVAS Financiers and Can Fin Homes**.

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing conventional wisdom or technology. This note takes a closer look at AAVAS Financiers and Can Fin Homes within Affordable Housing Finance industry with a focus on their heritage, niche offerings, how they compare with peers and what could disrupt these well run companies.

Building AUMs & Houses too…

AAVAS Financiers: A young, technologically innovative company operating in a niche segment

Incorporated in 2011 in Jaipur - Rajasthan, AAVAS Financiers (erstwhile AU Housing Finance Ltd) began operations in March-2012 with an aim to provide affordable housing loans (~Rs10-20 Lac) to customers belonging to low and mid-income segment in semi-urban and rural areas. It was initially incorporated as a subsidiary of AU Financiers but later sold-off to Kedaara Capital and Partners Group for Rs950Cr in 2016 as its parent AU got Small Finance Bank license after which it also changed its name to AU Small Finance Bank (AU SFB). While a merger with AU SFB was considered, management decided against it as: **(i)** AAVAS' ability to provide a wide range of housing products would get curtailed under a banking ecosystem; and **(ii)** as a bank, it would have been difficult to manage ALM and focus on higher maturity assets as emphasis is on maintaining CASA in a certain range.

AAVAS has grown its AUM at a CAGR of 64% in last six years while maintaining NIMs at ~8.3%. Underwriting discipline is visible in GNPA which has been below 0.5% for most of the years and RoE was maintained in the range of 11-15% in the last 4 years

Today AAVAS' main focus is on non-salaried category which forms 65% of their portfolio ***(Ref to Exhibit: 7)***. These are people who are either self-employed or running small businesses like grocery shops, tiffin centers, beauty parlours, auto-rickshaw operators, etc. They are credit worthy customers who may or may not have the income proof documents like Income Tax return, salary slip and hence are financially excluded by other large Housing Finance Companies (HFC) and banks. AAVAS has married its Brick and Mortar model with a technology platform to be able to cater to this target group. 100% leads come through mobile apps without any DSA intervention, like it is for peers. They source 8-10k files/month of which the acceptance rate is ~30%. 99.9% repayments are through digital mode. 100% of the data is Geo tagged enabling tech-led collection and allocation.

*The person at the helm is **Mr. Sushil Kumar Agarwal.** He is the Founder and CEO and has been instrumental in its journey so far. Before founding AAVAS, he worked at ICICI Bank – which is known for its technological innovations - for 9 years. He incorporated the best of technology and processes from his stint and experience there making them the bed rock of AAVAS' foundation.*

Can Fin Homes: Supported by PSU parentage, driven by strong focus

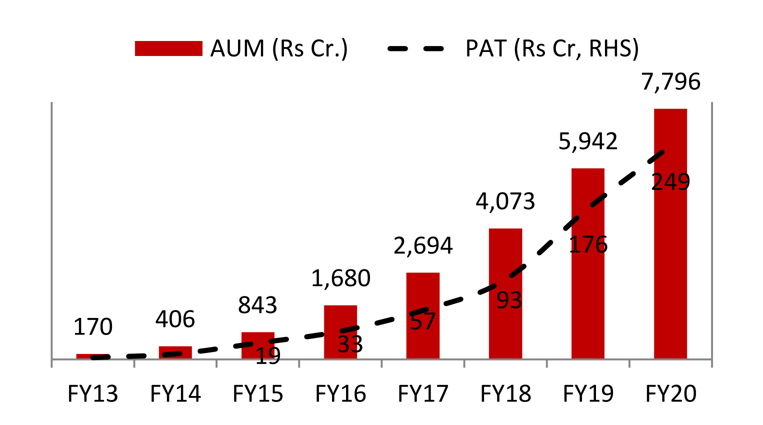
Unlike AAVAS, which is a fairly young company, Can Fin Homes (Can Fin) has been in existence for 33 years. Promoted by Canara Bank and headquartered in Bangalore, Can Fin was set up in 1987, with HDFC and UTI being the other initial shareholders. It was the first HFC floated by a nationalized Bank in the country. While the focus for Can Fin also is providing affordable housing loans to low and mid-income individuals in semi-urban and rural areas, they target mainly Salaried customers which form >70% of their AUM.

Can Fin has grown its AUM at a CAGR of 23% in last six years with 90% focus on pure housing loans. Underwriting discipline is visible in GNPA which has been constantly been below 0.8% for the last eight years. ROEs have averaged 19% over the last 6 years.

Can Fin has benefited over the years from its PSU parentage in the form of a strong credit rating which has helped it to compete profitably in the low-risk low-spread salaried housing loans profitably. Growth in the last decade has been on the back of a disciplined approach with a focus on – **(a) The right profile** – salaried (mostly) and self-employed; **(b) Right Geography** – Focus on geographies where they can find good customers; **(c) Low Ticket Size** - which is usually lower risk due to its granularity. Even the high ticket size loans (>Rs 50Lac) are just 4% of the entire portfolio and focused on salaried segment.

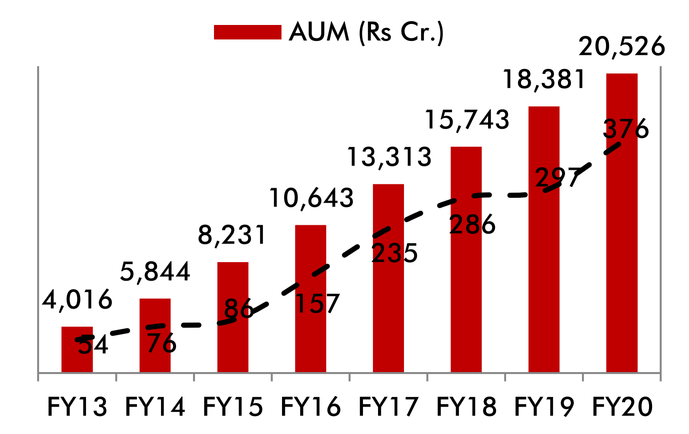
*The person at the helm is **Mr. Girish Kousgi** who is the MD & CEO. He has 24+ years of experience in banking with expertise in mortgage, retail lending and SME business. He has significant experience of retail banking in Bangalore, Hyderabad and Kerala. In past, he has worked in HDFC Ltd., ICICI Bank, IDFC Bank and Tata Capital. He is known as a Housing Finance specialist in the Industry*

Exhibit 1: AAVAS's growth trend since FY13



Source: Ambit Asset Management, Company

Exhibit 2: Can Fin's growth trend since FY13



Source: Ambit Asset Management, Company

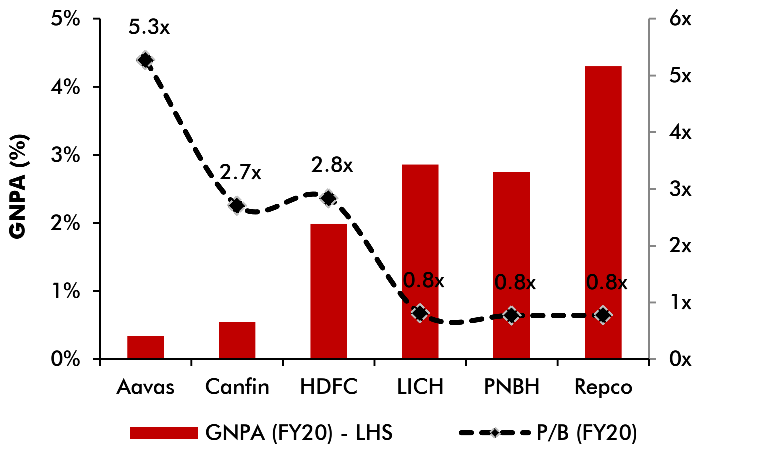
Industry overview – Story in charts

Exhibit 3: Market share landscape across HFCs

Company	FY16	FY17	FY18	FY19	FY20
HDFC	14.9%	13.9%	14.6%	14.9%	15.1%
LICH	9.2%	8.2%	7.8%	7.6%	7.5%
Gruh	0.7%	0.8%	0.8%	0.9%	0.9%
Can Fin	***0.7%***	***0.8%***	***0.8%***	***0.8%***	***0.9%***
PNBH	1.4%	1.6%	2.1%	2.5%	2.4%
L&T Housing	0.5%	0.5%	0.5%	0.5%	0.5%
Repco	0.5%	0.5%	0.5%	0.5%	0.5%
Sundaram H	0.6%	0.5%	0.5%	0.5%	0.5%
Tata Housing	1.1%	1.1%	1.2%	1.4%	1.4%
AAVAS	***0.1%***	***0.1%***	***0.2%***	***0.2%***	***0.4%***
Other NBFC	13.9%	13.7%	15.1%	13.5%	10.5%
Total BANKS	**56.4%**	**58.3%**	**56.0%**	**56.6%**	**59.5%**
Total NBFCs	**43.6%**	**41.7%**	**44.0%**	**43.4%**	**40.5%**

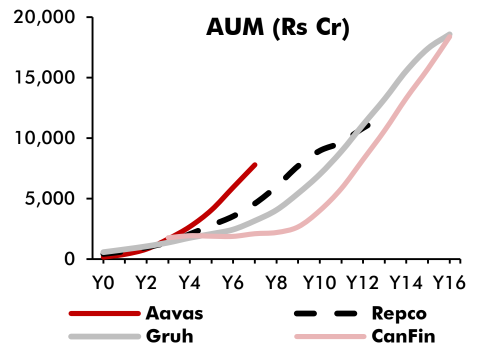
Source: Ambit Asset Management

Exhibit 4: Risk management is key, Lower NPA firms ar rewarded with higher valuations



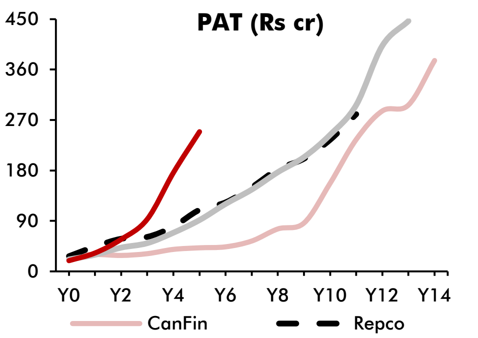
Source: Ambit Asset Management

Exhibit 5: AUM movement over the years from a similar base



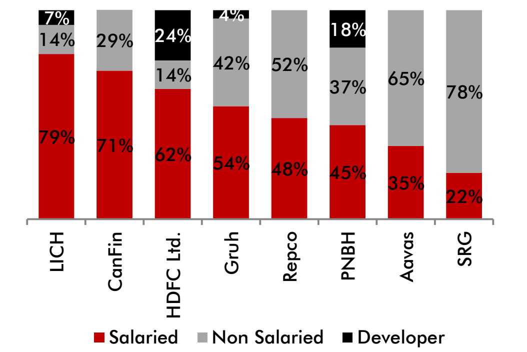
Source: Ambit Asset Management, Company

Exhibit 6: PAT movement over the years from a similar base



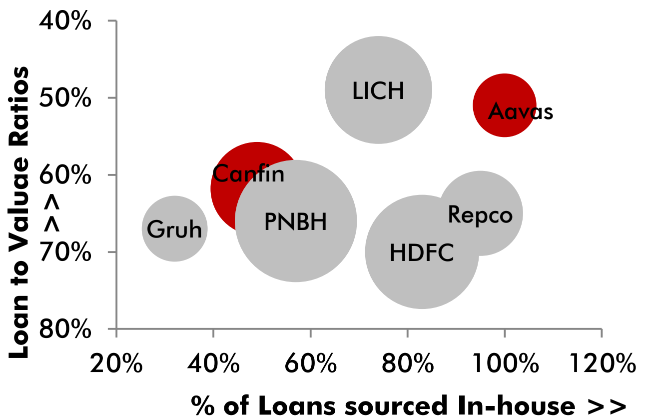
Source: Ambit Asset Management, Company

Exhibit 7: Exposure to borrower profile



Source: Ambit Asset Management

Exhibit 8: AAVAS has the lowest LTV across HFCs



Source: Ambit Asset Management, Note: Size of the Bubble represent Avg. Ticket Size

Exhibit 9: Source of Funds and avg Interest cost for HFCs

	Banks	**NHB**	**NCD/ ECB**	**Deposit**	**Assignment**	***Interest cost***
Can Fin	57%	19%	22%	2%	0%	***7.5%***
HDFC Ltd	18%	0%	39%	27%	16%	***7.9%***
AAVAS	43%	14%	19%	0%	25%	***7.9%***
PNBH	24%	7%	30%	20%	19%	***8.3%***
Gruh	48%	15%	27%	9%	0%	***8.5%***
LICH	22%	1%	70%	7%	0%	***8.7%***
Repco	86%	8%	6%	0%	0%	***8.9%***

Source: Ambit Asset Management

What could shake this foundation…

1A. A sector prone to crisis: Survival of the fittest

The whole Banking and Financial Services (BFS) industry is highly correlated to the macro environment and that makes it more vulnerable to any economic or external crisis ***(Ref to Exhibit: 10)***. While HFCs operate in a relatively safer sub-segment, they too are vulnerable to external events which impact overall economy/system-wide liquidity. Not surprisingly, housing finance is linked to the real-estate sector which itself has undergone challenges of its own in the past few years.

These disruptions though frequent have ensured survival of the fittest. Disciplined companies with strong balance sheet and asset quality resulting from superior operational and underwriting practices will be the best positioned to survive while others falter, making them the biggest beneficiary of sector consolidation.

AAVAS has built in-house analytics tools through which they forecast which customer will have a foreclosure or a balance transfer request. So whenever that customer approaches them, the team can immediately address their problems and provide a solution within 24 hours. This has helped reduce 50% of their portfolio going out.

Exhibit 10: Various crises in the past and its impact on BFS

GFC 2009	- Started with mortgage crisis in the US - Further in 2013, due to end of QE, lending business were impacted from Taper Tantrum
AP Crisis 2011 (MFI)	- ~1cr of MFI borrowers in AP defaulted in their loans - MFI Regulations were made more stringent
Gold Loans Crisis (2012)	- Gold lenders were growing at 70+% - RBI changes the regulations & restrictions for gold loans (LTV <65%) + Gold prices stagnanted
Demon (2016)	- Shock for informal economy - NPAs for MFI went up 5x-10x
IL&FS Crisis (2018)	- Liquidity Crisis

Source: Ambit Asset Management

1B. Covid 19 impact on Housing finance

The COVID impact on HFCs was much less compared to other sectors ***(Ref to Exhibit: 11)*** While growth took a hit in the initial few months, focus shifted on collection efficiency and risk management.

- Can Fin, for example, track every single account from the beginning with regards to collection to ensure high collection efficiency.
- For AAVAS geo-tagging 100% of the data and CRM and customer app are some of the initiatives that helped ensure 96% collection efficiency by September end. These benefits will ensure that NPAs remain below industry average and strong-balance sheet for growth. AAVAS has in fact already started growing on a YoY basis (+3% Disbursement growth for Q2FY21).

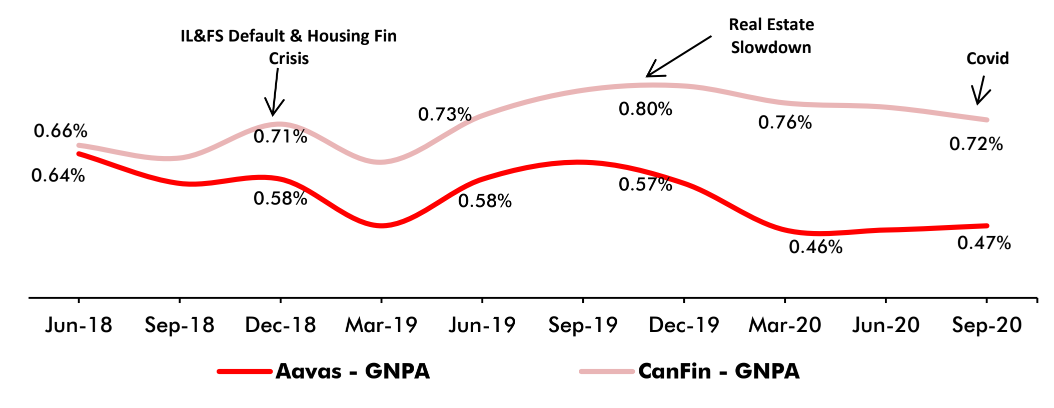
Exhibit 11: COVID impact on HFCs is expected to be relatively lower than other NBFCs

Extent of negative impact by parameters influencing NBFC AUM

Segment	Share in NBFC AUM	Underlying Asset Sales	Competition from banks	Tighter underwriting	Funding access challenges
Home loans	35-40%	High	High	Low	Medium
Vehicle finance	15-20%	High	High	Medium	Medium
Real Estate and structured credit	15-20%	High	Low	High	High
MSME Finance	10-15%	-	Medium	High	Medium
Unsecured loans	~5%	High	Medium	High	Medium
Gold Loans	~5%	-	Medium	Low	Low

Source: Ambit Asset Management, CRISIL

Exhibit 12: How AAVAS and Can Fin GNPAs have fared in the last 10 quarters



Source: Ambit Asset Management, Company

2. Impact of changes in regulation and government policies

Considering its importance to the overall economy, BFS is a highly regulated sector in India. We look at some of the past regulatory changes specifically for HFCs and possible introduction of new regulations which we believe could be key disruptors ***(Ref to Exhibit: 13)***

Exhibit 13: A detailed look at some of the regulatory changes in the past and some potential changes in the future

Regulatory change	Brief Description
Regulator change from National Housing Bank (NHB) to RBI in Aug-2019	▪ This helped in bringing uniformity in regulations in-line with those applicable to other NBFCs ▪ Most of the regulations applicable to NBFC were applied to HFCs too with minor changes in some cases. ▪ Changes in Income Recognition, Asset Classification and Provisioning (IRACP) norms, CRAR and Risk-Weighted-Assets were some of the major changes for HFCs from the previous regulations. Currently minimum 12% of CAR is to be maintained, but this requirement will increase to 15% by FY22
Pradhan Mantri Awas Yojna (PMAY) – Housing For All by 2022	▪ Financial incentives to first-time home buyers with annual income of <Rs18Lac. ***(Ref to Exhibit: 15)*** ▪ Under the Credit Linked Subsidy Scheme (CLSS) of this policy, interest subsidy of up to Rs2.7Lac is provided on home loan interest rates, thus reducing the effective EMI of the borrower. ▪ The last date for availing benefits under this policy was Mar-2020 which the government extended by one year for MIG-1/2 categories and two years for LIG/EWS categories. ~75% customers for Can Fin and 90-100% of AAVAS are eligible for CLSS scheme. Since both of these are in low-ticket size, affordable housing loans, the discontinuity of these may impact growth rates.
Other potential regulations which could impact HFC's margins and profitability	▪ Any increase in Standard Asset Provisioning ***(Ref to Appendix)*** in order to follow conservatism will have a direct hit on profitability. ▪ Regulations that seek to link lending rates to a benchmark (Repo) or any extension of the MCLR ***(Ref to Appendix)*** based mechanism to NBFCs or HFCs will impact the margins of these companies
Introduction of Co-Lending model by RBI	▪ The lending scenario may change once co-lending starts to take place in an active manner. Under the co-lending model, RBI had permitted Banks and HFCs to lend jointly in order to improve the flow of credit to the un-served and underserved sector of the economy, given the lower Cost of Funds from banks and greater reach of HFCs.

Source: Ambit Asset Management

Exhibit 14: RoE Tree – Impact of each component on RoE

RoE Tree	CanFin	Aavas	Repco	LICH	Gruh	PNBH	HDFC L
Yield on Advances%	10.4%	11.5%	11.6%	9.6%	11.4%	10.7%	10.2%
Cost of funds%	7.5%	7.9%	8.9%	8.7%	8.5%	8.3%	7.9%
Spread	2.9%	3.5%	2.7%	0.9%	2.8%	2.5%	2.3%
NIM%	**3%**	**6%**	**4%**	**2%**	**4%**	**3%**	**3%**
Opex /AUM	0.6%	3.3%	0.9%	0.3%	0.7%	0.6%	0.3%
Cost/ Income %	16%	42%	20%	13%	16%	17%	9%
PPOP/AUM	**3%**	**5%**	**4%**	**2%**	**4%**	**2%**	**2.6%**
Credit Cost	0.3%	0.2%	0.5%	0.5%	0.3%	1.5%	1.2%
ROA%	1.9%	3.6%	2.5%	1.2%	2.7%	0.8%	2.0%
Leverage	10	3	7	12	10	10	9
ROE%	**19%**	**13%**	**18%**	**14%**	**26%**	**8%**	**21%**

Source: Ambit Asset Management

Exhibit 15: Key features of the CLSS Scheme under PMAY

	EWS	(LIG)	MIG-1	MIG-2
Household Income (p.a.)	Up to Rs 3L	>Rs 3L up to Rs6L	>Rs 6L up to Rs12L	> Rs 12L up to Rs18L
Property size (Carpet area sq-mt)	30	60	160	200
Maximum eligible Loan amount	Rs 6L		Rs 9L	Rs 12L
Interest Subsidy (% p.a.)	6.5%		4%	3%
Subsidy under CLSS	Rs 267,280		Rs235,068	Rs230,156

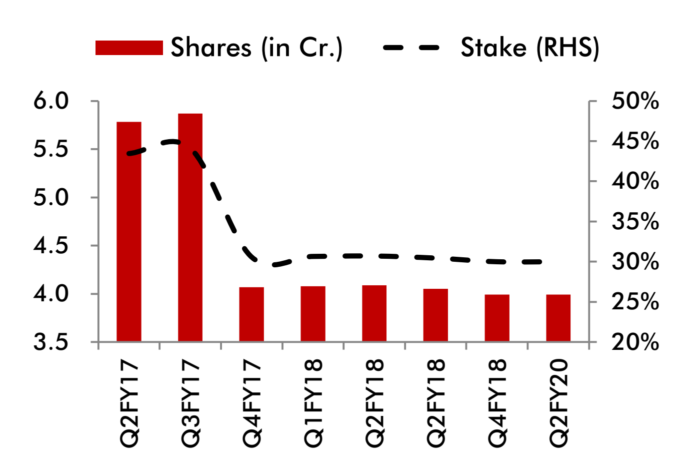
Source: Ambit Asset Management, MoHUA, NHB, Note: EWS= Economically Weaker Section, LIG= Low Income Group, MIG= Middle Income Group

3. When the promoter decides to exit

- Since Can Fin is promoted by the well-established Canara Bank (PSU Bank) it enjoys a strong credit rating and is able to raise funds at lower rates. It has one of the lowest Cost of Funds ***(Ref to Exhibit : 14)*** compared to its peers which helps it to price its loans at competitive rates
- An offspring of a PSU bank, Can Fin is preferred by government employees. It offers low interest rates in-line with PSU banks and excellent customer service akin to a private NBFC.
- However, Canara Bank is looking to sell its stake in Can Fin since some time now. Should this happen, Can Fin's cost of funds could go up given the beneficial lower rates came due to the backing of a well-established bank as a parent.

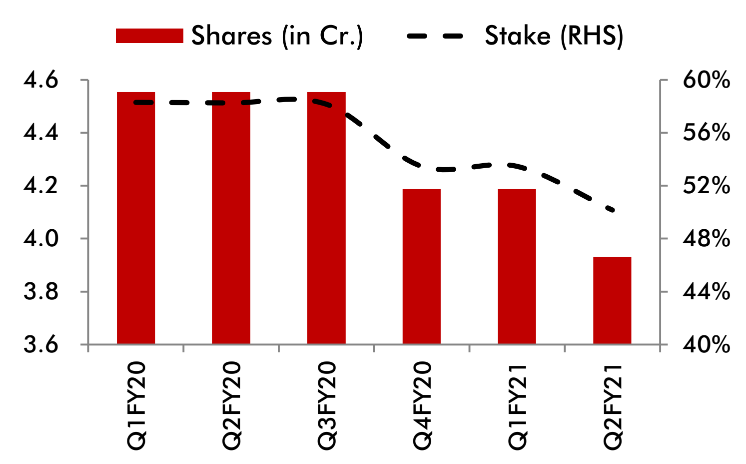
- On the other hand this could also prove to be a blessing-in-disguise. An event which was perceived to be an overhang to the stock will be over and entry of reputed long-term investors could lend stability and help re-rate the stock.
- In addition to Can Fin, AAVAS has a large promoter shareholding ***(Ref to Exhibit: 17)***. PE funds Kedaara and Partners Group combined hold 50% in AAVAS. While partial exit in the Secondary market would create supply side pressure on stock volumes, a complete exit to a large NBFC that is looking to ramp-up its housing portfolio would make these companies an acquisition target.

Exhibit 16: Can Fin Homes promoter shareholding



Source: Ambit Asset Management, BSE

Exhibit 17: AAVAS Financiers promoters shareholding



Source: Ambit Asset Management, BSE

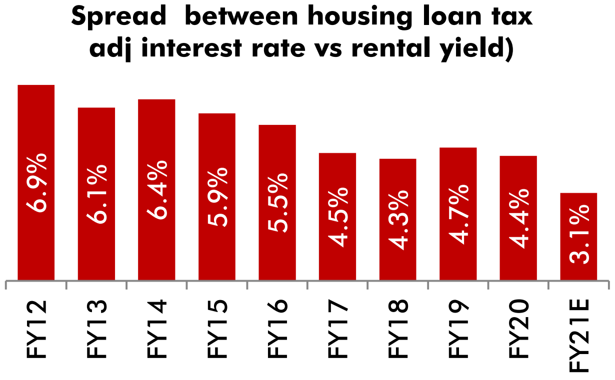
4. A) Housing demand in the age of mobility and on-the-go lifestyle –

- Both, individuals and corporations, are trying to maximize their ROC while reducing the risks associated with ownership of an asset and are moving towards asset-light pocket-friendly models. Many potential home buyers are opting for Rent, especially in India, where the home loan interest rate is still >6% while the rental yield (in Tier 1 & 2 cities) is ~3% ***(Ref to Exhibit: 18 & 19)***.
- With each passing year, as the baton of our society is passed from Gen-X (Born between 1965-80) to Millennials (Born bet 1981-1996) with very different preferences and aspiration, trends in home ownership can change.
- Easy transportation, mobility and WFA (Work-From-Anywhere) could mean that buying a home may not even be a dream like it has been for this current generation. Should this become a long term and definite trend, housing demand and subsequently home loan growth could be impacted.

B) High Interest rates have also been a deterrent

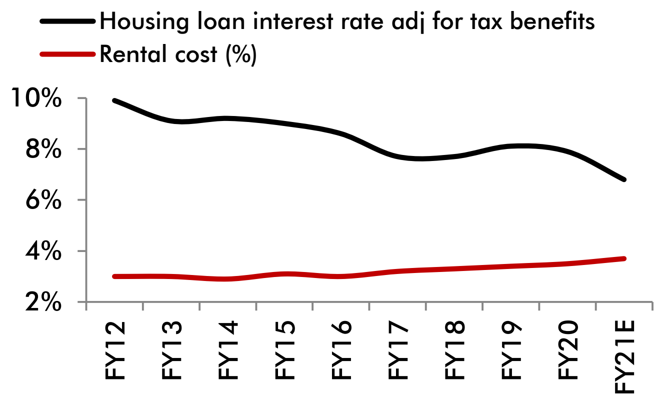
- Penetration of mortgage in India is just 10% which is below global average ***(Ref to Exhibit: 20)*** mainly due to high Interest Rates ***(Ref to Exhibit: 21)***. This makes renting a home a more viable option than buying, especially in metro cities with high property rates.
- On the flipside, the spread between Rental Yields and home loan Interest Rates has been dropping ***(Ref to Exhibit: 18 & 19)***. If this were to further narrow, buying houses could be more beneficial than renting – like it is in the western countries today.

Exhibit 18: While renting is still lucrative, the spread is declining…



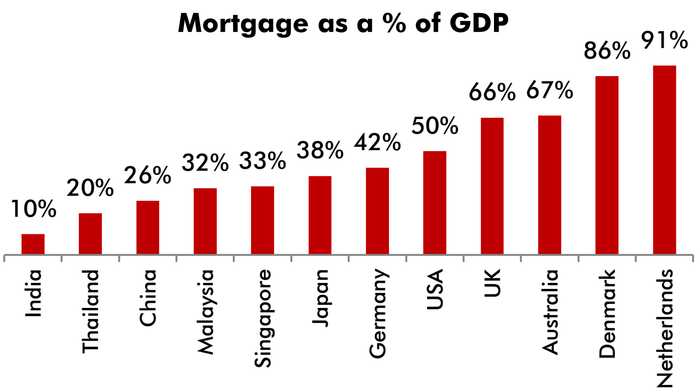
Source: Ambit Asset Management, SPARK Capital

Exhibit 19: … mainly due to falling home loan interest rates



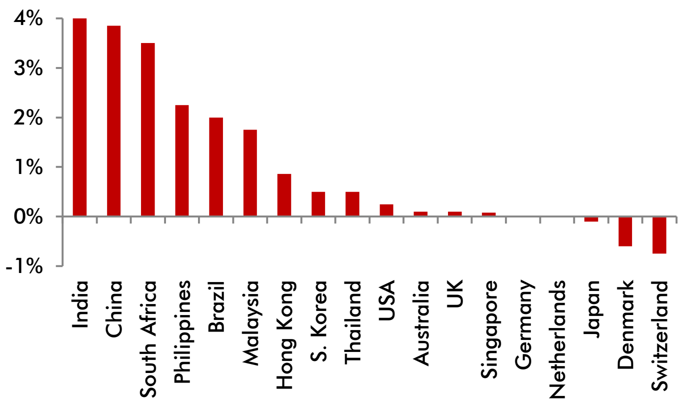
Source: Ambit Asset Management, SPARK Capital

Exhibit 20: India has one of the lowest mortgage penetration among other major global countries…



Source: Ambit Asset Management, HDFC

Exhibit 21: … courtesy relatively higher interest rates compared to those countries

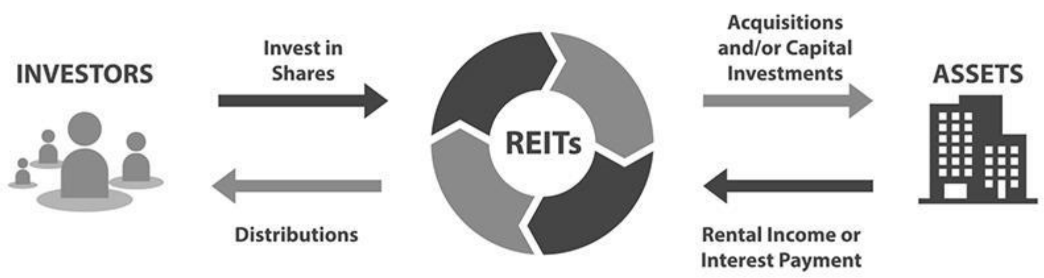


Source: Ambit Asset Management, Trading Economics

5. New avenues for Real Estate investment and easing regulations for the same

- One can think of REITs (Real Estate Investment Trust) as mutual funds for investment in the Real Estate sector. They pool-in money from various investors and invest in money yielding real estate ventures / properties, the returns from which are distributed back to investors (minimum 90%).
- SEBI lately has relaxed capital raising norms and reduced minimum subscription to Rs50,000 (from Rs 2Lac) which will help increase REIT's acceptability. Moreover, establishment of Real Estate Regulation Act (RERA) has gone a long way in formalizing and regulating the Real Estate sector to attract investments.
- While REITs are currently in their infancy in India, it is gaining popularity among investors – especially HNIs – by providing a more easy option of participating in the Real Estate sector. It may even become a preferable mode for investment in Real Estate in the future where people can choose to invest in multiple REITs instead of directly buying a property / home for investment and leasing it out.

Exhibit 22: REITs – How does the investment structure works



Source: Ambit Asset Management, Note: Investment in India is in Units not shares

6. Increasing competition from not just banks but new entrants (Other NBFCs)

Banks do get the benefit of lower interest rates and hence can price their products lower.

Our DSA Channel checks indicated that some small HFCs were finding it difficult to retain customers during COVID, who were switching to Banks.

They had in fact come out with a retention team which included senior team members to retain these customers.

- While banks continue to be the biggest competitors to HFCs, competing strongly on low interest rates backed by their low cost CASA and Term deposits. In the last few years, incremental competition has also been coming from other non HFC NBFCs who are growing their Housing portfolio to diversify book and reduce risk.
- Bajaj Finance, for example, in last 6 years has scaled up its Mortgage book to ~30% of the overall loan book ***(Ref to Exhibit: 23)*** while other NBFCs like Chola or M&M Financial have a housing exposure in mid-single digits.
- This may lead to increased competition in the industry. While the industry is huge and highly under-penetrated, nonetheless, any competitive pricing from peers may lead to NIM compression for HFC.
- Interestingly, despite such intense competition, there is only 10-15% overlap between Can Fin's customers with that of larger bank; while for AAVAS 85% of customer mix is towards independent property and less towards apartments, which is distinct to other HFCs.

Exhibit 23: Share of housing portfolio (HL+LAP) over the years for some banks & NBFCs

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ICICI Bank	20%	21%	23%	25%	28%	29%	30%	31%
Axis Bank	20%	23%	22%	22%	23%	23%	23%	24%
Kotak Mahindra Bank	19%	21%	22%	19%	19%	19%	20%	22%
Bajaj Finance						29%	29%	31%

Source: Ambit Asset Management, Company

7. Deviation from core competency and entry into other segments

There are broadly three types of loans provided by HFCs:

a) Home Loans –The least risky

b) Loan Against Property (LAP) – Loan against an existing property for other purposes. These are medium risk, depending on the type of property (Commercial or Residential)

c) Developer loans – These are extended to Real Estate Builders / Developers and entail the highest risk because of possibility of delay in project completion and subsequent sales.

Some examples of diversification gone wrong in the past include:

AAVAS' CRAR stands at 51%. This implies that the company will not need additional capital for the next 15 years for 25% growth with 25% securitization

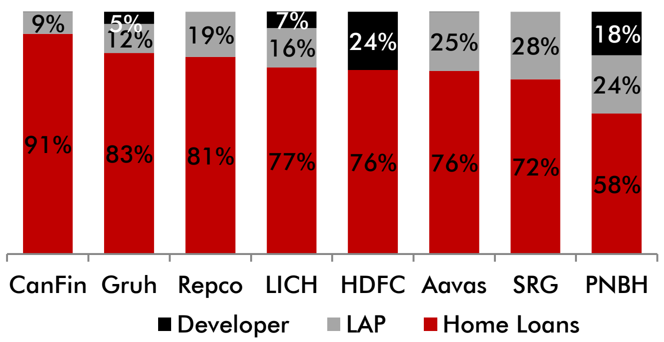
1) ***Edelweiss and Piramal Enterprises*** entered the developer finance space in order to enter the 'halo' of Housing finance. Lack of underwriting discipline, however, impacted their quality of growth and asset quality which resulted in higher NPAs leading to significant write-offs. This, in-turn, impacted good value generating business in those groups (Pharma division in Piramal and Wealth and ARC in Edelweiss.) as holding in those had to be diluted to create additional liquidity buffer.

2) ***Repco home finance*** registered 30% loan CAGR from FY12-16, with stable 4.5% NIM and sub 1.5% GNPAs leading to strong RoA of 2.5% which helped re-rate the stock from 1.5x 1-year forward P/ABV to 4.5x. However, LAP linked asset quality issues and high concentration in home state of Tamil Nadu resulted in a spike in GNPAs to 3% over FY16-19 period with the stock de-rating to a trough 1.2x 1-year forward P/ABV.

3) ***PNB Housing Finance's*** AUM grew from FY14-FY19 at 52% CAGR led by 79% CAGR in Construction Finance. Stress in that segment, however, resulted in GNPA climbing from 0.48% in Mar'19 to 2.75% in Mar'20.

While AAVAS and Can Fin's management remain extremely focused on the category and the segment they want to be in. Any change to this strategy and lending discipline because of change in direction, policy or Key Management will make them highly susceptible to asset quality and business risk. We, however, take solace from the current board and management team and the system they've put in place to avoid such instances.

Exhibit 24: Loan mix of leading HF Companies



Source: Ambit Asset Management

Exhibit 25:Delinquency across lenders in HL & LAP(Jun19)

Lender Type	Home Loans	LAP
Private Banks	0.7%	1.6%
HFCs	1.8%	2.6%
PSU Banks	1.8%	6.5%
NBFC	3.2%	5.2%
Industry	**1.7%**	**3.5%**

Source: Ambit Asset Management, RBI, CIBIL

8. **The New Age Disruptors:** As FinTechs and online portals increase the penetration of their offerings, they are becoming an increasingly bigger threat to incumbents.

   a. **Platforms** like BankBazaar and PayTM are trying to address loan penetration in our country and bridge the gap between Borrowers and Financers by providing a form of market place to compare and source cheapest rates for their home loans ***(Ref to Exhibit: 26 & 27)***. This may put pressure on yields of emerging players like AAVAS or Can Fin as they may have to price their products more aggressively.

   b. **FinTechs and Peer-to-Peer lending** –Tech-Driven quasi BFSI companies called FinTechs or P2P (Peer-to-Peer) lenders are disrupting traditional financial services by simplifying loan process application and assessing creditworthiness more effectively through Big Data and Analytics. This segment is at a very nascent stage and has a long way to go and is currently providing only small ticket-size loans. Any easing of regulation for FinTechs by the regulator (RBI) would open the sector up for tough competition, further impacting profitability (if not growth) of incumbents, albeit for a short period.

__Tala__, a US-based FinTech is leveraging Big Data to financially serve traditionally under-banked areas of the world. It uses cell phone data – like social connection, texts, calls and bill payments - to determine creditworthiness of customers.

Exhibit 26: Apps like PayTM are providing incentives to users to switch their home loan to a lower interest rate

Source: Ambit Asset Management, PayTM

Exhibit 27: Comparison of housing loan product of various banks / NBFCs

Union Bank Home Loan	6.80% p.a. onwards (Floating Rate)	Up to 0.50% (max. ₹15,000) + GST (Processing Fee)	₹25L Min Loan Amount; 1-30 Years Tenure Range
HDFC Ltd. Home Loan	6.95%* - 7.50% (Floating Rate)	Up to 0.5% (max.₹ 11,800) (Processing Fee)	₹5L -₹ 10Crs Loan Amount; 1-30 Years Tenure Range
Axis Bank Home Loan	8.40% - 11.75% (Fixed /Floating Rates); 9.25% (Floating Rates)	0.50% (min.₹ 10,000) (Processing Fee)	₹5L -₹ 10Crs Loan Amount; 1-30 Years Tenure Range
ICICI Bank Home Loan	8.65% - 10.35% (Floating Rate)	0% - 0.50% + Applicable Taxes; One time fee (Processing Fee)	₹5L -₹ 10Crs Loan Amount; 3-30 Years Tenure Range

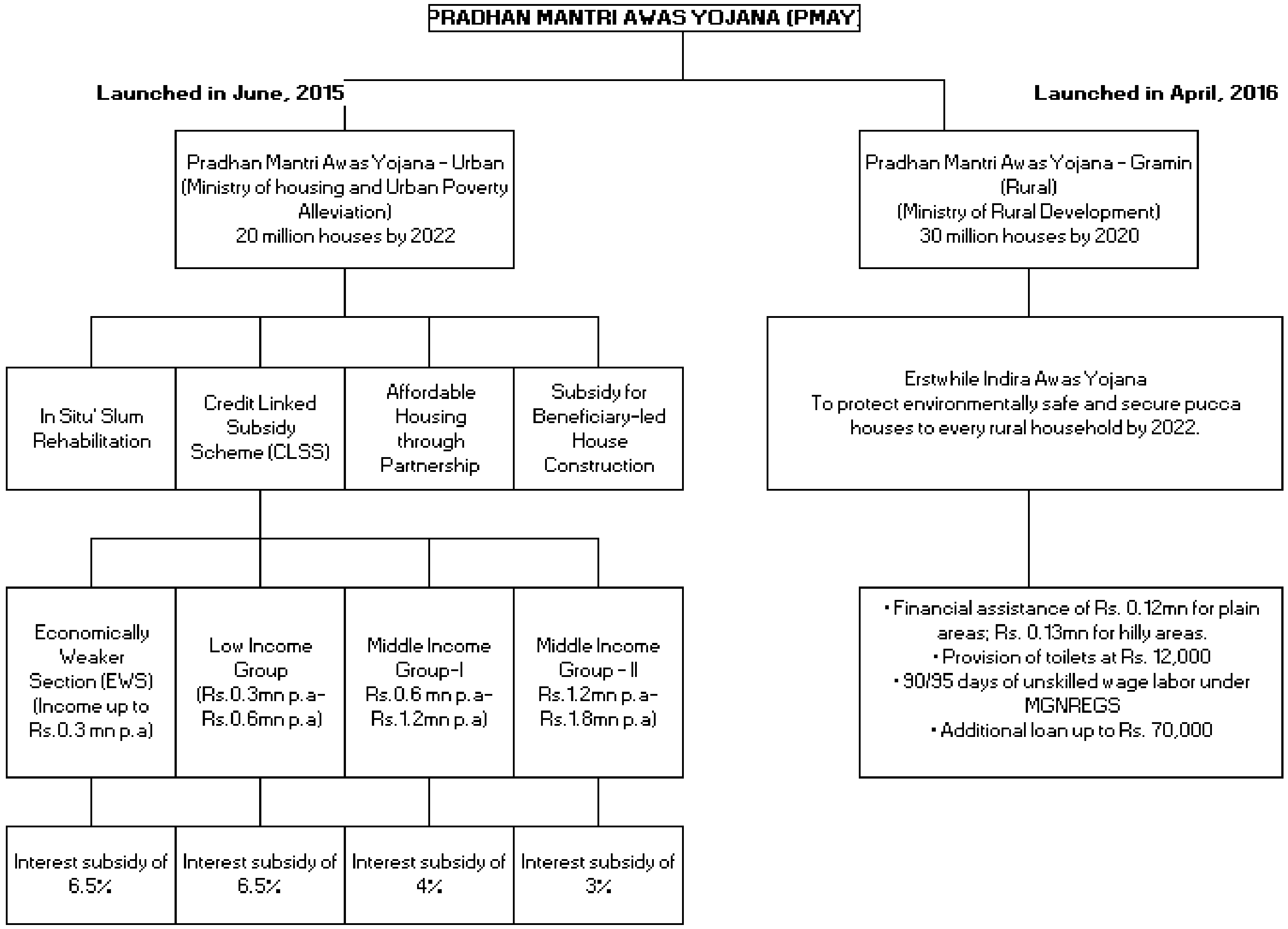
Source: Ambit Asset Management, BankBazaar

At Ambit we believe in wealth creation by long term equity investment and through the power of compounding. We constantly try and stay ahead of the curve on what may possibly impede the growth of our portfolio companies. While Can Fin & AAVAS have a strong niche in affordable housing finance, we do a long term scenario analysis on what could be the possible disruptions to the company and the industry. In our view: (1) Vulnerability to external economic shocks (2) Changing consumer preference (3) Aggressive competition from existing and new entrants , and (4) Deviation from core competency will be the things to watch out for in the case of AAVAS and Can Fin over the next decade.

Appendix

1. **Capital to Risk Weighted Asset Ratio (CRAR) -** It is used to measure Capital Adequacy. It is a measurement of available capital expressed as a percentage of risk-weighted credit exposures. **Formula: *CRAR = (Tier-1 Capital + Tier-2 Capital) / Risk Weighted Assets***
2. **Tier-1 Capital:** Refers to core capital. It consists of Paid-up Capital, Statutory Reserves, Revenue and other reserves, Capital Reserves (excluding Revaluation Reserves) and unallocated surplus/ profit but excluding accumulated losses, investments in subsidiaries and other intangible assets. Perpetual Debt instruments are eligible for inclusion in Tier 1 Capital
3. **Tier-2 Capital:** It refers to supplementary or secondary capital. It comprises of Property Revaluation Reserves, Undisclosed Reserves, Hybrid Capital, Subordinated Term Debt, general provisions & loan-loss reserves.
4. **Risk-Weighted Assets (RWA):** Bank's Assets or off-balance sheet exposures, weighted according to risk. For example, an asset backed by collateral would carry lesser risks as compared to personal loans, which have no collateral
5. **CASA:** Current Account and Savings Account Deposits of a bank. These are also called Demand Deposits as these can be withdrawn on demand. As a result, they carry Lower Interest rates than Fixed Deposits (also called Time Deposits)
6. **Gross Non-Performing Advance (GNPA):** A loan whose interest and/or installment of principal have remained 'overdue' (not paid) beyond 90 days of its due date is considered as NPA. Higher ratio reflects rising bad quality of loans.
   GNPA = Opening GNPA + Slippages – Recoveries – Upgrade
   GNPA % = GNPA / Gross Advances*100
7. **Net Non-Performing Advance (NNPA):** Net NPAs are calculated by reducing cumulative balance of provisions outstanding at a period end from gross NPAs.
   NNPA = GNPA – Provisions made for NPA loans
   NNPA % = (GNPA – Cumulative Provisions) / (Total Advances – Provision made for NPA loans)*100
8. **Provision Coverage Ratio (PCR):** Indicates the extent to which the bank/NBFC has provided against the troubled part of its loan portfolio. Higher the PCR better the buffer created by bank to absorb losses.
   PCR = Cumulative Provisions for NPA Assets / Total GNPA*100
9. **Credit Cost:** Provisioning during the year for Bad and Doubtful debts as a percentage of total advances.
10. **Marginal Cost-of-fund based Lending Rate (MCLR):** It is the minimum rate a bank can lend at. Under this rate, banks use the marginal cost reflected in the interest rate given by them for obtaining funds while setting their lending rate. Interest rate on deposits given by banks & the repo rate are the decisive factors in the calculation of MCLR.
11. **Standard Asset Provisioning:** If the borrower pays her dues regularly and on time; bank will call such a loan as a "Standard Asset". As per the norms, banks have to make a general provision for all such loans at a pre-decided rate by the RBI.

Exhibit 28: Various options under the PMAY Scheme



Source: Ambit Asset Management

For any queries, please contact:

Ashu Tomar - Phone: +91 22 6623 3244, Email - aiapms@ambit.co

Ambit Investment Advisors Private Limited -

Ambit House, 449, Senapati Bapat Marg,

Lower Parel, Mumbai - 400 013

Risk Disclosure & Disclaimer

Ambit Investment Advisors Private Limited ("Ambit"), is a registered Portfolio Manager with Securities and Exchange Board of India vide registration number INP000005059.

This presentation / newsletter / report is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or to enter into any Portfolio Management agreements. This presentation / newsletter / report is prepared by Ambit strictly for the specified audience and is not intended for distribution to public and is not to be disseminated or circulated to any other party outside of the intended purpose. This presentation / newsletter / report may contain confidential or proprietary information and no part of this presentation / newsletter / report may be reproduced in any form without its prior written consent to Ambit. All opinions, figures, charts/graphs, estimates and data included in this presentation / newsletter / report is subject to change without notice. This document is not for public distribution and if you receive a copy of this presentation / newsletter / report and you are not the intended recipient, you should destroy this immediately. Any dissemination, copying or circulation of this communication in any form is strictly prohibited. This material should not be circulated in countries where restrictions exist on soliciting business from potential clients residing in such countries. Recipients of this material should inform themselves about and observe any such restrictions. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify Ambit for any liability it may incur in this respect.

Neither Ambit nor any of their respective affiliates or representatives make any express or implied representation or warranty as to the adequacy or accuracy of the statistical data or factual statement concerning India or its economy or make any representation as to the accuracy, completeness, reasonableness or sufficiency of any of the information contained in the presentation / newsletter / report herein, or in the case of projections, as to their attainability or the accuracy or completeness of the assumptions from which they are derived, and it is expected each prospective investor will pursue its own independent due diligence. In preparing this presentation / newsletter / report, Ambit has relied upon and assumed, without independent verification, the accuracy and completeness of information available from public sources. Accordingly, neither Ambit nor any of its affiliates, shareholders, directors, employees, agents or advisors shall be liable for any loss or damage (direct or indirect) suffered as a result of reliance upon any statements contained in, or any omission from this presentation / newsletter / report and any such liability is expressly disclaimed. Further, the information contained in this presentation / newsletter / report has not been verified by SEBI.

You are expected to take into consideration all the risk factors including financial conditions, risk-return profile, tax consequences, etc. You understand that the past performance or name of the portfolio or any similar product do not in any manner indicate surety of performance of such product or portfolio in future. You further understand that all such products are subject to various market risks, settlement risks, economical risks, political risks, business risks, and financial risks etc. and there is no assurance or guarantee that the objectives of any of the strategies of such product or portfolio will be achieved. You are expected to thoroughly go through the terms of the arrangements / agreements and understand in detail the risk-return profile of any security or product of Ambit or any other service provider before making any investment. You should also take professional / legal /tax advice before making any decision of investing or disinvesting. The investment relating to any products of Ambit may not be suited to all categories of investors. Ambit or Ambit associates may have financial or other business interests that may adversely affect the objectivity of the views contained in this presentation / newsletter / report.

Ambit does not guarantee the future performance or any level of performance relating to any products of Ambit or any other third party service provider. Investment in any product including mutual fund or in the product of third party service provider does not provide any assurance or guarantee that the objectives of the product are specifically achieved. Ambit shall not be liable for any losses that you may suffer on account of any investment or disinvestment decision based on the communication or information or recommendation received from Ambit on any product. Further Ambit shall not be liable for any loss which may have arisen by wrong or misleading instructions given by you whether orally or in writing. The name of the product does not in any manner indicate their prospects or return.

The product 'Ambit Good & Clean Portfolio' has been migrated from Ambit Capital Private Limited to Ambit Investments Advisors Private Limited. Hence some of the information in this presentation may belong to the period when this product was managed by Ambit Capital Private Limited.

You may contact your Relationship Manager for any queries.