3 CAPITALS
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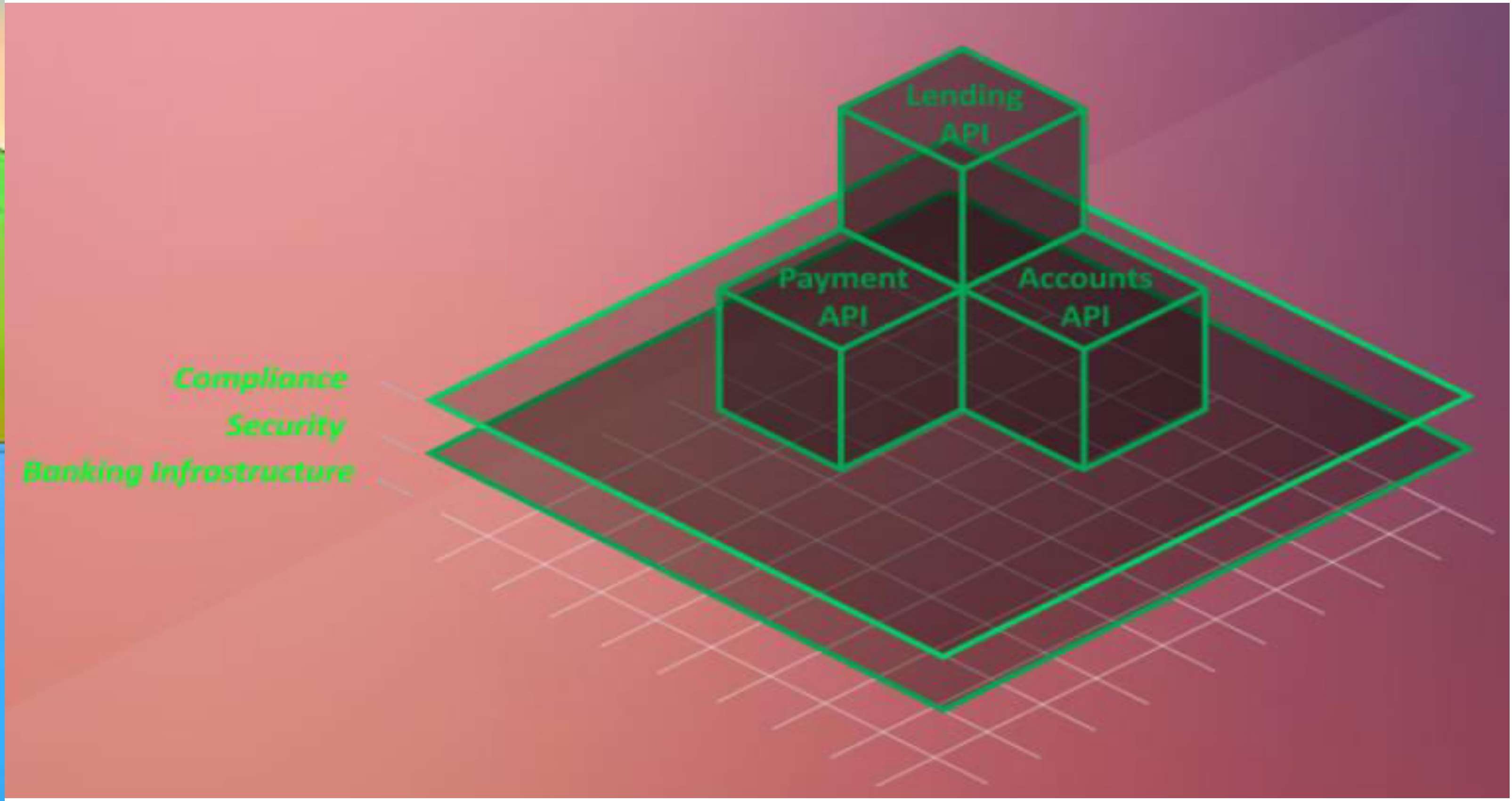
SME Idea



Apollo Finvest (India) Ltd

Tech Company with NBFC license building unfair advantage

Date: 14th Jan, 2022 (CMP = 880)

Inside the Report

Advantage Apollo Finvest ~ Building futuristic products

Apollo Finvest is a B-2-B fintech company with an NBFC license. For a company operating in the **B-2-B segment Customer Lifetime Value (LTV)** i.e. an estimate of the average revenue that a customer will generate throughout their lifespan as a customer, is paramount here. **Apollo finvest is building an unfair advantage by building futuristic products which will have high customer LTV, low cost of customer acquisition, and even higher switching cost.**

Further, if the company is in a rising industry then the case is golden. Here, Apollo finvest is in the Fintech domain which according to a report by business wire is expected to expand at a compound annual growth rate **(CAGR) of ~24.56% between 2021 and 2026 to reach ~INR 8.35 Trillion by 2026.**

The companies business model is out of the box and impeccable. When we talk of the financial services industry one of the prime problems is that of asymmetric information i.e. the borrower has more information than the lender to counter this and reduce the due diligence cost they are shifting the burden of due diligence on the party having the most amount of information about the borrower i.e. their partner company.

Further, They have designed and are improving an **API (application programming interface), Employing which they are trying to simplify the lending space for other fintechs and any platform on which transactions are conducted** as from this offering the users (business) can by the means of simple pseudo-code integrate a plethora of features to help automate the processing of loans up to some extent.

They also have a loan management system (LMS) which they call sonic. The company intends to go through this by giving it to a partner or any business wanting it as a SaaS. What SaaS does is it makes fixed costs to the variable for the user of a product, say I want to build a software for my company for that I have to hire a team which has some fixed costs associated with it, Moreover, it is also not my company's core competency. Hence, by using SaaS a business pays in proportion to their use of the platform.

Sonic simplifies the process from loan requested to loan processed. Further, it has a plethora of features that make the processing of loans efficient than ever. Moreover, if a business has some form of the moat with a great model it has the potential to be the next blue-chip. **Here Apollo moat is the switching effect their products switching costs will compel users to stick with them.**

All in all a company in its nascent stage should be valued by taking into consideration its future potential earnings. Here we found Apollo finvest to be supreme.

Snapshot - Aims to become the AWS of lending space

- Total Weightage % in Micro-Cap Portfolio = **6% (CMP = 880-890)**
- Two Phase Buying Strategy = **Buy 3% between INR 880-930 and rest 3% between 650-700.**
- Price Target = **INR 1500+ in next 12 months & INR 3000+ in next 3 years. If everything goes well, it can be 50-100x in the next 10-12 years.**

Market Cap	₹ 302 Cr.	Current Price	₹ 810	High / Low	₹ 981 / 250
Stock P/E	36.5	Book Value	₹ 88.1	Dividend Yield	0.00 %
ROCE	10.0 %	ROE	15.1 %	Face Value	₹ 10.0
Market Cap to Sales	5.18	Dividend Payout	0.00 %	Debt	₹ 85.0 Cr.
Debt to equity	2.59	Return on assets	6.52 %	Promoter holding	70.7 %

Business : Apollo Finvest is a tech company with an NBFC license. Which **aims to become the AWS of lending space,** and has the potential to be one by the means of its **superior lending-related APIs and LMS (SONIC).**

Management : The company is led by **Mikhil Innani alongside Diksha Nangia.** Mikhil was one of the earliest employees of coupon Dunia, he also co-founded Pharm Easy and successfully lead the growth team at Hotstar. Diksha brings with a decade of experience in managing credit risk products and building financial models at scale. Before being COO and a Director at Apollo Finvest, Diksha managed credit at HDFC Ltd.

Valuation : The company is having products that can help them obtain high LTV. Further, it is in a rising segment and we believe that the company has a high potential to scale with minimal cost expansions. Hence, we envisage the company to be highly valued.

Risks : Availability of superior technology, High cost of credit, High NPA in system.

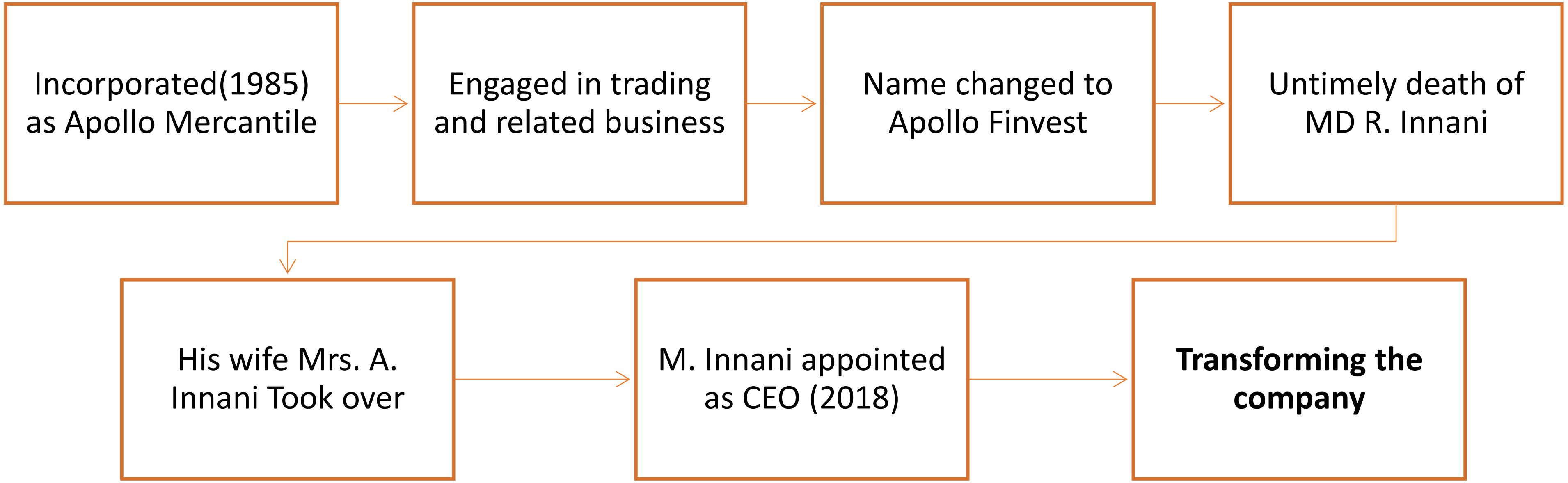
This company is like a start-up getting the best of both worlds => High growth & latest technology + Traction & Compliance of a public company.

Under transformation = High growth & Latest technology

Incorporated on 29th July 1985 as a public limited company Apollo Finvest (India) Ltd formerly known as Apollo Mercantile Limited and obtained a Certificate of Commencement of Business on 10th December 1985. The Company was engaged in trading and agency business in 'Telecom' and Telecom related products and then diversified its business to Financial Services. Subsequently, the name of the Company was changed to the present one by Ramesh R. Innan.

Company then was engaged in a comprehensive range of activities like Marketing of Telecom Products and pipes to companies like Birla 3M Ltd. Arvind Mills Zenith Ltd. etc. Providing Leasing and Hire Purchase Finance on flexible terms Merchant Banking activities like mobilization of funds extending underwriting support etc. bills discounting and money market operations Investment in debt and equity instruments and portfolio management and dealing in OTC Exchange of India.

Then ***due to the untimely death of Mr. R. Innani his wife Anju Innani took charge to run the company. Now, she is bed sick and her son Mr. Mikhil Innani is running the show along with his wife Diksha Nangia and is transforming the company into a tech company having an NBFC license.***



Business Overview = API + Sonic + Lending

Revenue Sources
- API
- Sonic
- Lending

Treat the lending services on their platform as building blocks, which their partners can mix and match to create lending services specifically tailored to their business model.

Solves Following

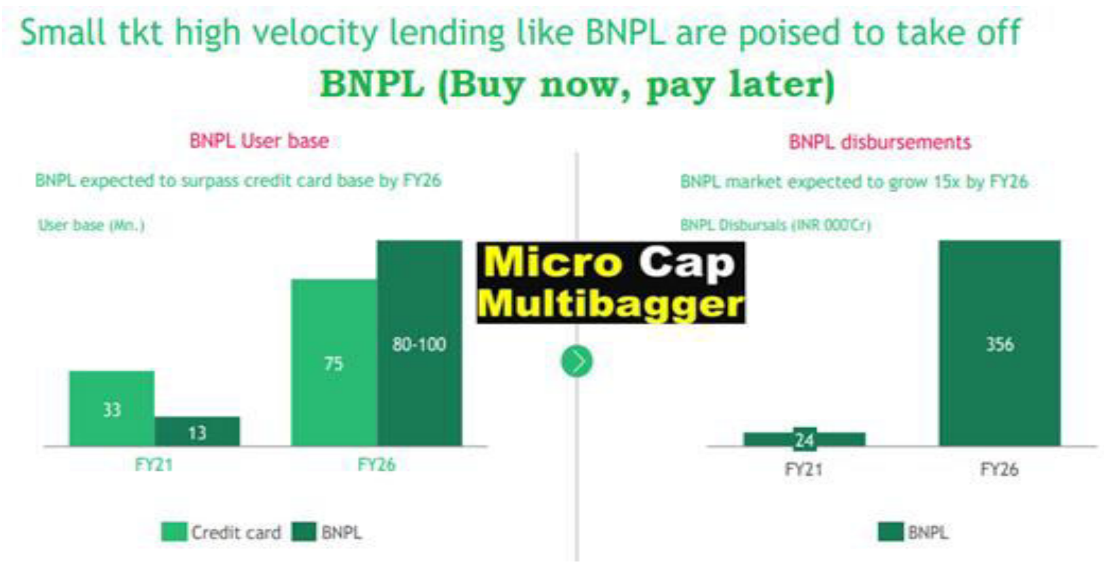
Earlier for a platform to partner with a player and to start offering credit to its customers it used to take 3+ months. **Apollo finvest makes this possible in 48 Hrs.**

If a platform wants to integrate and automate some of the processes it was expensive and cumbersome. **With the APIs developed by Apollo finvest their customer can by means to simple pseudo-code achieve the above**

One of the prime problems associated with lending is that of Asymmetric information. **Apollo finvest by shifting to the burden of due diligence on their partner to some extent solves this problem.**

The current credit approval rate for small-ticket loans is less than 10% which is making the company selling the product apprehensive as despite their data showing the customer to be creditworthy loan gets disapproved. **This is not the case with Apollo Finvest is the decision of approval is on the platform.**

NEW MEGA TREND "BNPL (Buy now, Pay later)"



Lending in India is poised for data driven transformation

- *Transactions will increasingly get digitized and available in bank statements.*
- *Aggregators will give access to machine readable bank stmnt. and other data to any lender of customer's choice*
- *OCEN will create transparent competition on price and customer experience on digital platforms*

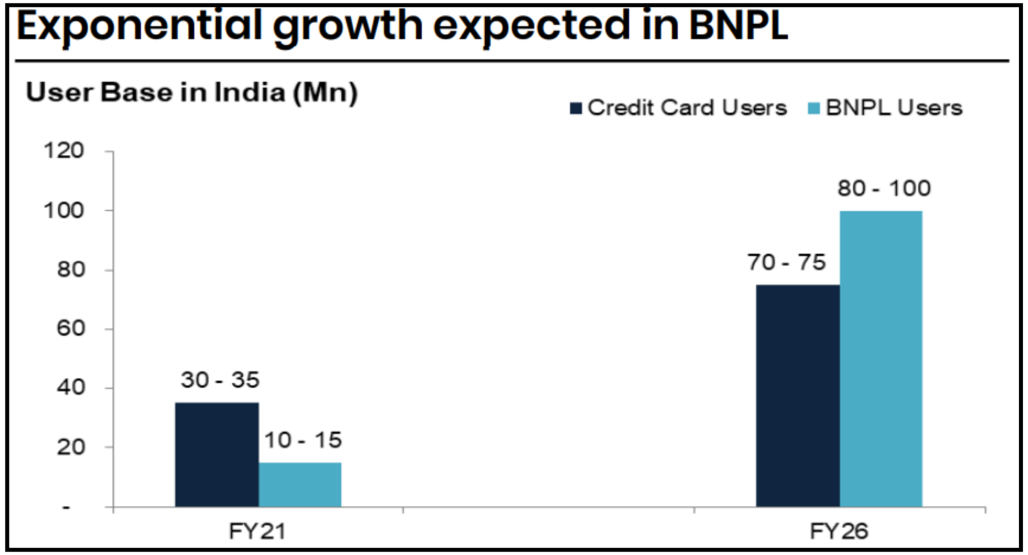
India's embrace of open stack implies that, similar to payments, a significant share of customer interactions for lending will shift to digital platforms with customer traffic

- *More frequent, context specific, low-ticket loans*
- *Embedded banking*

- **Welcome to the world of Buy Now, Pay Later (BNPL) schemes,** which are burgeoning by the day and have captured the imagination of the aspirational Indian middle class.
- These BNPL schemes—offered by several platforms such as Paytm, LazyPay, ZestMoney and even banks—have fueled consumption by making it extremely easy for consumers to make purchases.
- The **borrower gets the option of an instant, short-term loan with a deferred repayment tenure,** including the facility of equated monthly instalments after the end of an interest-free period.
- The BNPL offerings are **attractive since they are small-ticket loans, often for daily consumption purposes.** While they are like credit cards, these don't have the hassles of an application process, card-swiping infrastructure, and purchase and cash withdrawal limits.
- Put simply, **they could be a consumer's dream.** No wonder, then, that the BNPL market is set to surge to a hefty $45-50 billion, or Rs 3.37-3.75 lakh crore, by 2026, from just $3-3.5 billion (Rs 22,500-26,250 crore) now, and **become almost as big as the traditional credit markets like personal loans and credit cards.**

Exponential growth expected in BNPL

The company intends to generate majority of it's revenue from their tech vertical and by issuing small ticket size loans (BNPL)



Source: Redseer, B&K Research

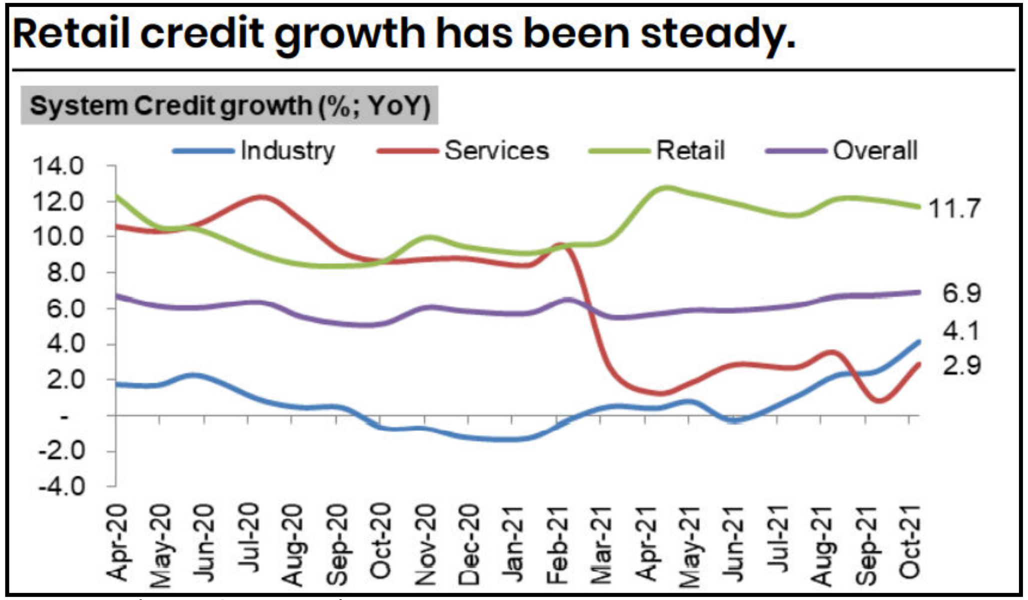
Globally, there is a surge in small-ticket high volume lending or BNPL (Buy Now Pay Later) type transactions. This is possible as the Cost of acquisition / Servicing/monitoring has come down dramatically.

Further, **development in this domain is at an exponential rate, we intend this trend to continue.** Moreover, according to research by business wire fintech industry is expected to expand at a compound annual growth rate (CAGR) of ~24.56% between 2021 and 2026 to reach ~INR 8.35 Trillions by 2026.

A report by B&K Securities puts Small ticket lending is likely to explode due to exponential digitization of small payment (UPI QR codes) and as Fin-techs test their lending mechanisms. Just like UPI and new age broking, we believe it should expand the overall market.

Fin-tech competition could have multiple facets. Fin-tech + Bank combo could be a game-changer.

We see some merits in NITI Aayog proposals for Digital bank for Fin-techs which would solve the financial inclusion while maintaining systemic risks and providing reasonable maneuverability for the Fin-techs.



Source: Redseer, B&K Research

Q&A with Management

How do you have such a strong conviction that BNPL will overtake credit cards?

So, it goes as this before 2018 when UPI was still in its initial stage the online transacts demographics was inclined towards cards. But as the digital inclusion push which was driven by Jio came into the country UPI emerged as the most preferred payment method for small-ticket transactions. **But why did UPI emerge as the preferred method** – Say you want to make a transaction using a debit card, you plug in your debit card details which will take 2-5 min, now you are waiting for the 6 digit OTP to complete the transaction, Walla you plugged it and your transaction is successful. It could take you somewhere between 4- 7 min to complete a transaction using a debit card. Now, you are doing it with UPI it will hardly take 20 seconds.

So the main factor here is the friction, UPI reduced the friction to complete a transaction and gained market share.

Analogously, we can expect the same to happen in the BNPL space as fintech's such as Apollo Finvest are designing products for the Merchant side and government with the means of India stack – Company which developed UPI – is developing Open credit enablement network (OCEN). Forging a complete ecosystem to reduce friction.

Considering the above we expect Credit Cards soon to be obsolete if we talk about small ticket size lending in the retail space.

What is the moat Apollo Finvest has over its competitors such as Zeta, and Finbox?

Their NBFC license is a game-changer for them. As by current regulation, a fintech has to partner with a traditional bank or an NBFC to start offering a loan. This is not the case with apollo finvest and can help push up their bottom line well.

How does Apollo Finvest's business model reduces asymmetric information?

In the example we are taking Zomato as a platform but this can be extended to almost any other platform on which transactions occur.

Now, you may think why would Zomato partner with them inter-alia there are already buy now pay later platforms.

Currently, the veto of approval is with the BNPL platform. But, with the switch, the decision of approval will be on Zomato. Okay, but won't this increase the chance of default as accessing the creditworthiness is not Zomato's core competency – the company justifies this as follows.

Power of the platform (e.g. Zomato) analytics.

- Zomato's north star metric is the number of order's delivered every day. The higher this number, the better their business does
- Like most large internet platforms, the top 10-20% restaurants serve 70-80% of the orders coming in on Zomato. Zomato of course knows which are the top 10%-20% performing restaurants on its platform.
- Zomato needs revenue to justify its valuation. For this, Zomato has to grow. ***If Zomato has to grow, the restaurants on its platform must process more orders. If restaurants have to process more orders, they need more capacity. For more capacity, they need working capital and scale. This is where Zomato comes in, Capital is the easy part. Zomato's secret sauce would be to help restaurants scale using data.*** For example: A certain pizza place doing well in a certain part of Mumbai would do great even in a certain part of Delhi. This is the power of the Zomato platform analytics.
- To put the icing on the cake, **Zomato won't need to provide capital to restaurants.** You see, the growth requirements of most restaurants are largely similar. Think spaces, equipment, staff, etc. **Zomato will strike bulk deals with suppliers and pay them directly on behalf of the restaurants. In this way, Zomato will not only ensure restaurants scale but scale efficiently thanks to Zomato's economies of scale.**
- Zomato controls order's coming into these restaurants through its app. Using this data, Zomato knows the future order's a restaurant is likely to receive. If a restaurant is financially powered by Zomato, it could further boost their ranking on the app to attract more orders for the restaurant. This solves for "Ability to pay."
- Zomato collects the money from the customers and pay's the restaurant. Zomato has the ability to deduct a portion of every transaction to pay for the financing /infrastructure they have provided the restaurant. This solves for "Intent to pay."
- Further, imagine a restaurant is given this infrastructure and does not perform well, Zomato would simply replace the restaurant with another restaurant on its platform, and the infrastructure continues being utilized.
- Lastly, to further flex their muscles, Zomato could demand exclusive arrangements with restaurants in exchange for scaling their operations significantly. Restaurants would jump at this offer like a kid on a McDonald's Sundae. Restaurants have no loyalty to Zomato or Swiggy. They would happily be exclusive with a platform if it would provide them with attractive growth infrastructure and ultimately more money
- As all marketplaces evolve, exclusive supply will become more and more important to differentiate against competitors.

Investment Rationale

Fantastic Marketing Strategy

Lucid API

Growth Potential

High Switching Costs

OCEN

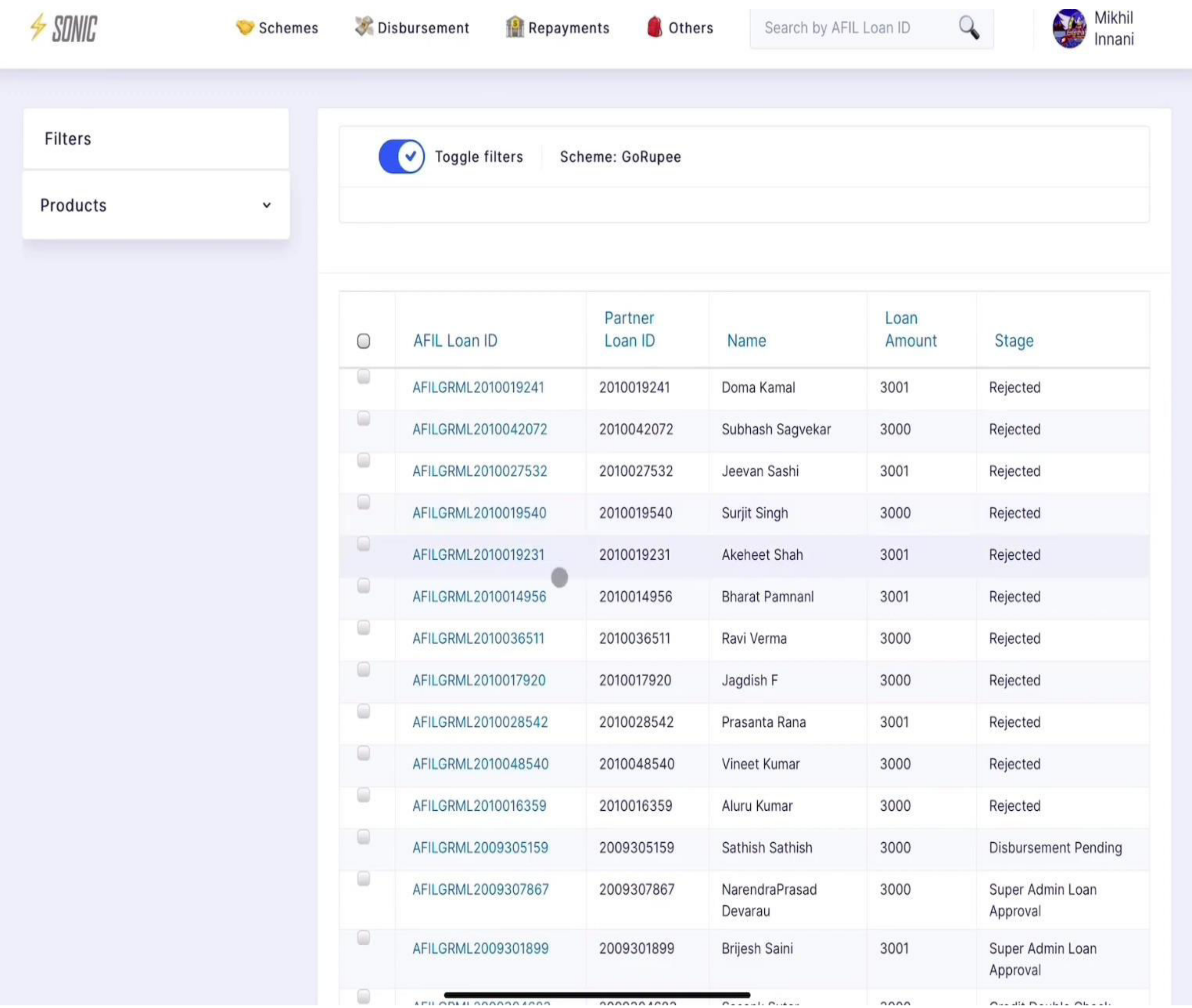
Scalable Products

Sectoral Tailwinds

Sonic – The Loan Management System (LMS)

This is an LMS (loan management system) SaaS platform – what SaaS does is it makes fixed costs to the variable for the user of a product, say I want to build a software for my company for that I have to hire a team which has some fixed costs associated with it, it is also not my companies core competency. So, by using SaaS a business pays in proportion to their use of the platform.

A very big advantage to Apollo is the switching cost effect. Let's look at it in terms of Microsoft productivity software's say EXCEL. The users of excel have spent their precious time in learning and enhancing their skill on the software and now say a new entrant chip in the game with a software offering features almost similar to that of excel. Excel will continue to dominate the market despite a new entrant.



Why SONIC?

- ❑ Ease of Use
- ❑ Plug and Play. No coding required.
- ❑ Flexibility
- ❑ Workflow Automation
- ❑ Auditable & secure with robust user management
- ❑ In - Built Third Party Integrations
- ❑ Community Driven with pre built intelligent reports!

API and Lending

Company earns 26% income from Lending and 74% income from fess and commission.

The company offers 20+ APIs. A Few of them are :-

- **KYC API** – The company has integrations with leading players in the KYC automation space (Karza & HyperVerge). Their entire gamut of services are available with Apollo Finvest.
- **Credit API** – The credit API can be chosen depending on the underlying raw credit bureau data on which the credit score is built.
- **Loan Creation API** – This API is used to pass approved borrower personal data, loan data, KYC documents, and Loan Agreement through a single API to create loans on Sonic.
- **Disbursement API** – This API makes Disbursement updates proactive and efficient.
- **Collection API** – They have integrations with multiple payment gateways like RazorPay, Cashfree, PayU, etc. to enable different modes of collections.

Credit in the ecosystem will increase and every company will offer financial services to their ecosystem participants in the future. The company by their API offering is making it possible for every company to become a distributor of financial products, the accessibility of formal credit will gain significant momentum.

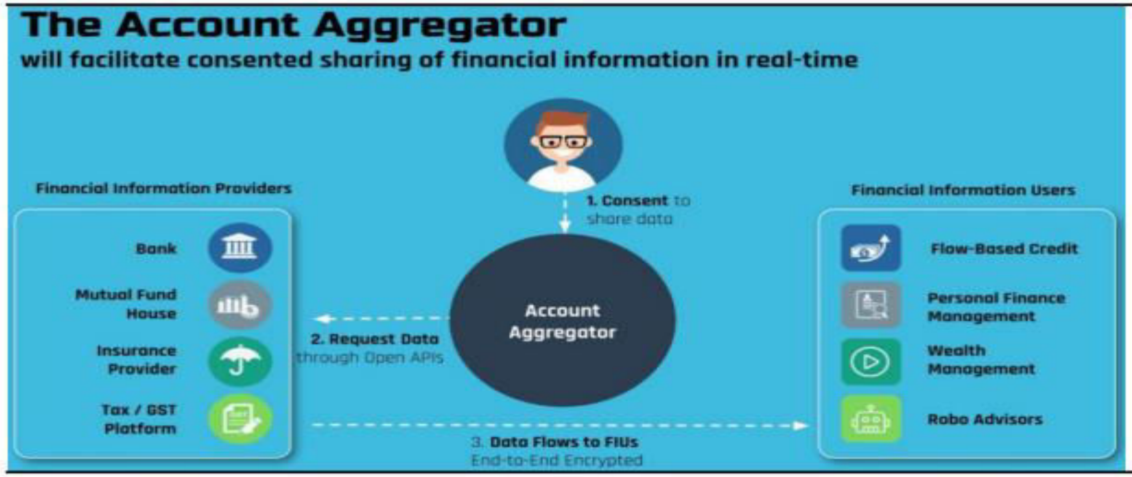
Currently, there are significant barriers to entry if a company wants to start lending services on its platform. But, if we go by the companies vision we expect this to drop as they believe just like AWS has made it possible to launch internet apps in a matter of hours. This (APIs stack improvement) will open the flood gates to innovation.

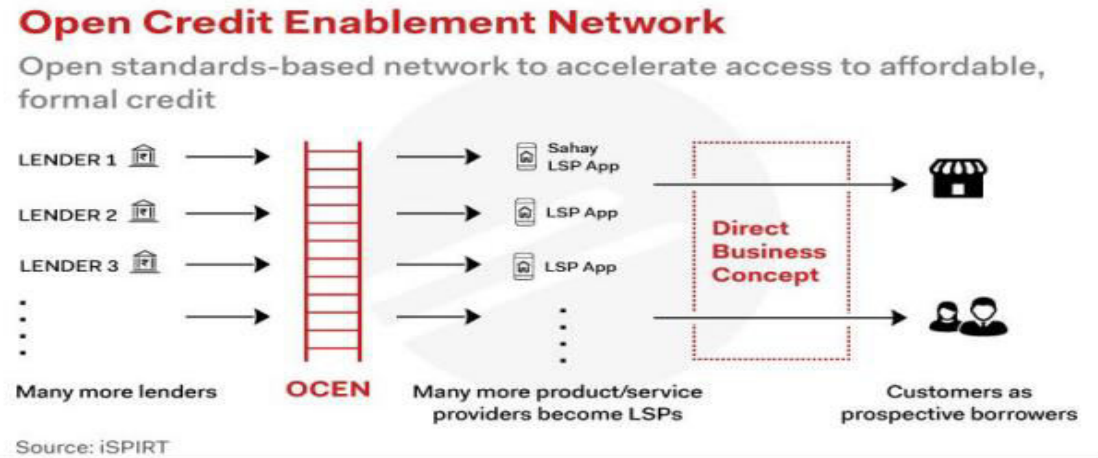
Now, what is an API? - An application programming interface is a connection between computers or between computer programs. It is a type of software interface, offering a service to other pieces of software.

So, by the means of their API offering, they are trying to simplify the lending space for fintechs as from this offering the users (business) can by the means of simple pseudo-code integrate a plethora of features to help automate the processing of loans up to some extent.

OCEN to provide a significant boost

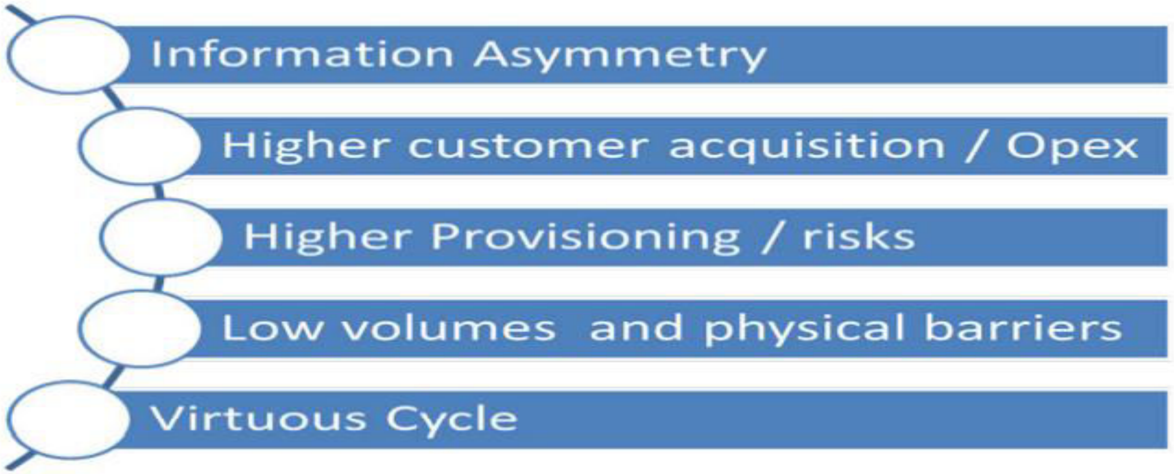
AA / OCEN to drive a paradigm shift in Retail / SME lending and Open banking

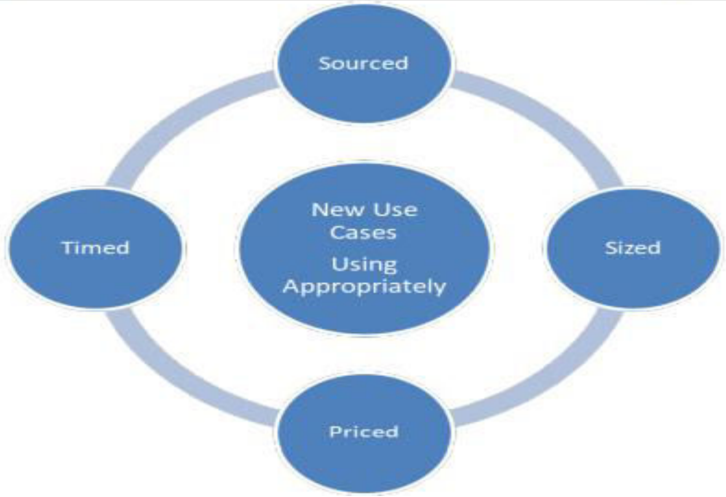




Source: iSPIRT, B&K Research

AA / OCEN could address the fundamental issues for under-penetration of SME financing





Source: Redseer, B&K Research

Financial Analysis

Figures in Rs. Crores

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	TTM
Sales +	0.79	1.91	0.60	1.15	1.67	3.30	1.75	1.10	1.78	3.56	28.25	15.17	58.38
Expenses +	1.41	1.26	0.90	0.81	0.75	0.99	0.91	1.26	0.71	1.60	18.22	10.04	47.32
Operating Profit	**-0.62**	**0.65**	**-0.30**	**0.34**	**0.92**	**2.31**	**0.84**	**-0.16**	**1.07**	**1.96**	**10.03**	**5.13**	**11.06**
OPM %	-78.48%	34.03%	-50.00%	29.57%	55.09%	70.00%	48.00%	-14.55%	60.11%	55.06%	35.50%	33.82%	18.94%
Other Income	3.54	0.92	0.04	0.04	0.06	0.08	0.26	0.14	0.13	0.15	0.57	0.77	0.53
Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23	1.29	0.08	0.03
Depreciation	0.05	0.04	0.04	0.02	0.02	0.07	0.07	0.07	0.09	0.14	0.15	0.22	0.21
Profit before tax	**2.87**	**1.53**	**-0.30**	**0.36**	**0.96**	**2.32**	**1.03**	**-0.09**	**1.11**	**1.74**	**9.16**	**5.60**	**11.35**
Tax %	0.00%	-2.61%	50.00%	13.89%	17.71%	24.57%	16.50%	233.33%	2.70%	13.22%	27.40%	26.79%	
Net Profit	**2.87**	**1.57**	**-0.16**	**0.30**	**0.79**	**1.76**	**0.86**	**0.11**	**1.09**	**1.51**	**6.64**	**4.10**	**8.25**
EPS in Rs	7.67	4.20	-0.43	0.80	2.11	4.70	2.30	0.29	2.92	4.05	17.80	10.99	22.11
Dividend Payout %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	

Compounded Sales Growth	
10 Years:	23%
5 Years:	54%
3 Years:	104%
TTM:	208%

Compounded Profit Growth	
10 Years:	14%
5 Years:	41%
3 Years:	57%
TTM:	169%

Stock Price CAGR	
10 Years:	52%
5 Years:	120%
3 Years:	165%
1 Year:	170%

Return on Equity	
10 Years:	10%
5 Years:	14%
3 Years:	18%
Last Year:	15%

We are analyzing after 2018 as this is when Mikhil joined and started building the product

- ❑ **The company is delivering decent return rations despite being in an infant stage and undergoing expansion.**
- ❑ The Showed a drop in NPM after FY20 which was primarily due to customer expansion.
- ❑ Promoters have their skin in the game which is evident from 72% Promoter holding.
- ❑ The company has a PE ratio of 36 which we consider to be low considering the growth potential of the company.

Q2FY22 : Fee & Commission income driving the growth.

	Q2 FY21	Q1 FY22	Q2 FY22	Y-o-Y Growth%	Q-o-Q Growth%
Sales	**2.23**	**7.82**	**17.07**	**665%**	**118%**
Expenses	1.94	6.14	13.83	613%	125%
Operating Profit	**0.29**	**1.68**	**3.24**	**1017%**	**93%**
Other Income	0.22	0.03	0.17	-23%	467%
Depreciation	0.05	0.05	0.05	0%	0%
Interest	0.01	0.05	-0.05	-600%	-200%
Profit before tax	0.45	1.61	3.41	658%	112%
Tax	0.06	0.45	0.82	1267%	82%
Net profit	**0.38**	**1.16**	**2.59**	**582%**	**123%**
EPS in Rs	**1.02**	**3.11**	**6.94**	**580%**	**123%**
Margins%					
EBITDA	13%	21%	19%	N.A	N.A
EBIT	8%	0%	1%	N.A	N.A
NPM	17%	15%	15%	N.A	N.A

Q2FY22 Result Analysis.

- 118% Q-o-Q growth in sales.
- The **Fees and commission is 2.8 times that of interest income** which shows the company's software is being adopted by the new age fintech.
- 730% Growth in amount Disbursed for Q2 Y-o-Y.
- 405% Growth in No. of loans Disbursed for Q2 YoY.
- EPS increased by 123% Q-o-Q. The company **DE Ratio** went from 0.83 to 2.34 for the period of Q4FY21 – Q2FY22.

Q3FY22 results were announced on 14th Feb'22.

- Dec'21 Revenue = 27.38 Cr Vs Sep'21 Revenue of 17.24 Cr & Dec'20 Revenue of 3.71 Cr **- Great Performance on Sales.**
- Dec'21 PAT = 2.67 Cr Vs Sep'21 PAT of 2.59 Cr & Dec'20 PAT of 0.86 Cr **- Not So Good on Net Profit.**
- **Due to high "Fee & Commission Expenses", Net Profit was muted.** Not to forget that company is under aggressive expansion phase and such expenses are one time recurring kind.

Management Analysis & Shareholding Patterns

The company was set up by Mikhil's father Mr. R Innani but due to his untimely death, his wife started running the show. In 2018 Mikhil Innani joined the company with his wife Diksha Nangia intending to revolutionize the fintech lending space.

Mikhil Innani is an engineering graduate from Dwarkadas J. Sanghvi College of Engineering and he holds a master's degree from Carnegie Mellon University in Information Systems Management. Further, He was the 6th employee and head of product at CouponDunia. He also co-founded PharmEasy. Before joining Apollo Finvest he headed growth and consumer products at Hotstar.

Diksha Nangia has a decade of experience in managing credit risk products and building financial models at scale. Before being COO and a Director at Apollo Finvest, Diksha managed credit at HDFC Ltd. (India's largest mortgage lender). Diksha holds an MBA in Finance from NMIMS and a Bachelor's degree from Mumbai University. She also holds a CFA Charter.

Promoter Shareholding : Current shareholding of promoters in the company is 70.73% (Dec, 2021).

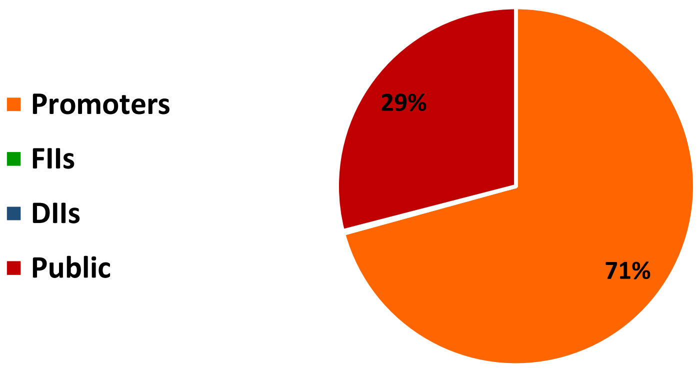
Management compensation: Management compensation has been in line with the ceiling limits of 10% of net profits.

Capital allocation record: The management is building a product for future which is industry has started to adopt and with the help to strong tailwind we expect them to be one of the fastest sailors.

Shareholder communication: Adequate

Pledged Shares: The current pledge share percentage stands at 0%.

Shareholding % as on Dec 2021



Sources of Risks

Appearance of Unprecedented tech

Dispute b/w Apollo Finvest & it's Partners or Partner's customer)

Excessive Regulation

Asymmetric Information

Future Outlook

Currently, Apollo Finvest is an internet-first pure play transactional NBFC. Which is building the products for the future of transaction space other than conventional leading.

The company looks to **partner** with other FinTechs and **help them offer credit service (to partner's customers) within 48 Hours**. **They aim to make sure their partners don't reinvent the wheel. Currently, they power 35+ Fintechs in India.**

We expect In the coming times most credit-worthy customers will be financed by platforms as they have the most amount of data to judge the creditworthiness of the credit seeker. Whereas, the ones which might not be creditworthy will look for other traditional borrowing options – Pushing the cost of lending for the banks. **This will increase the total addressable market (TAM)** of Apollo Finvest.

Going forward the company is open to exploring angle investments in FinTech space – They will have an unfair advantage in this due to the access of the mass chunk of data they will generate through their API and LMS product.

Further, Lending ticket size has started declining and it is just the start this is primarily due to a reduction in transaction costs and with the entry of new-age players such as Apollo Finvest transaction costs (Loan Processing) is tending towards 0.

Going forward data will be the king and Apollo is positioning themselves in a prime spot to reap the benefits.

Start-up getting the best of both worlds => High growth + Traction of a public company

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, **the analyst have no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
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