

Estimate change	
TP change	
Rating change	

Bloomberg	AAVAS IN
Equity Shares (m)	78
M.Cap.(INRb)/(USDb)	127.1 / 1.5
52-Week Range (INR)	1818 / 1307
1, 6, 12 Rel. Per (%)	16/-14/-21
12M Avg Val (INR M)	596

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	9.1	10.9	13.3
PPP	6.5	8.0	9.9
PAT	4.9	6.0	7.5
EPS (INR)	62.0	76.0	95.3
EPS Gr. (%)	14	23	25
BV/Sh. (INR)	477	553	648
Ratios (%)			
NIM	5.8	5.6	5.6
C/I ratio	45.6	44.2	42.4
Credit cost	0.19	0.20	0.17
RoA	3.3	3.3	3.4
RoE	13.9	14.8	15.9
Valuation			
P/E (x)	25.9	21.2	16.9
P/BV (x)	3.4	2.9	2.5

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	26.5	39.1	39.1
DII	24.0	15.3	12.5
FII	34.8	32.3	38.8
Others	14.7	13.3	9.5

FII Includes depository receipts

CMP: INR1,605 **TP: INR1,750 (+9%)** **Neutral**

High other income and low credit costs drive PAT beat

Green shoots in disbursement volumes; spread decline bottoming out

- AAVAS Financiers (AAVAS)'s 4QFY24 PAT grew 13% YoY to ~INR1.43b (10% beat) and NII rose 7% YoY to ~INR2.4b (in line). FY24 PAT was up ~14% YoY at ~INR4.9b.
- Other income grew 38% YoY in 4Q, aided by higher assignment income of INR550m (INR450m in 4QFY23) and fee income of ~INR285m (~INR155m in 4QFY23).
- Reported yield for FY24 rose ~5bp to ~13.15% mainly due to ~25bp increase in Retail PLR, effective from 1st Mar'24. However, reported spreads continued to decline as the cost of borrowings continued to increase.
- Opex rose ~19% YoY to INR1.43b (in line). The opex-to-avg. AUM ratio declined to ~3.4% (vs. 3.5% in 4QFY23 and 3.4% in 3QFY24). The management targets to bring down the opex-to-assets ratio to ~3% in the medium term. We estimate the opex-to-avg. assets ratio to decline to ~3.3% by FY26.
- We estimate a ~23% CAGR in AUM and a ~24% CAGR in PAT over FY24-26, with RoA/RoE of 3.4%/16% in FY26. With strong disbursements (shared earlier in the business update) and profitability in 4QFY24, the stock is now trading at 2.5x FY26E P/BV. While AAVAS is on an improving trajectory, we will remain vigilant in tracking the consistency of disbursements/AUM growth and potential of (any residual) IT transformation impacting the new business volume trajectory. **Reiterate Neutral with a TP of INR1,750 (based on 2.7x FY26E BVPS).**

Disbursements gained momentum; AUM rose ~22% YoY

- AUM grew 22% YoY/8% QoQ to ~INR173b. Disbursements grew 20% YoY to ~INR18.9b. The annualized run-off in the loan-book stood at ~16.5% (~15.5% in 4QFY23 and ~16% in 3QFY24).
- Securitization during the quarter amounted to INR4b (INR3.2b in 4QFY23) and securitization margins were flat QoQ.
- Due to the tech transformation, average TAT in 4QFY24 declined to 8 days compared to 11 days in FY23. Further, the management sounded confident of sustaining strong disbursements in 1HFY25, with the green shoots of higher sanctions and the tech transformation.

Highlights from the management commentary

- Focus on three key areas:** Delivering well-diversified geographic growth, adopting tech-led opex-light approach, and delivering RoA of >3%
- Yields on LAP and MSME loans are ~200-300bp higher than those on home loans. **Home loan yields stood at ~12.5% and non-home loan yields at ~15%.**

Valuation and View

- AAVAS reported RoA/RoE of ~3.3%/~14% in FY24. The company's constant endeavor to improve its technological edge and relentless focus on asset quality have made it a standout player among peers. Notably, its 1+DPD remains within the guided levels, driven by its prudent underwriting process and efficient collection efforts.

Given the investments being made in sourcing, distribution, and technology, we expect AAVAS to embark on a strong disbursement growth trajectory from FY25 onward. The stock trades at 2.5x FY26E P/BV and any re-rating in valuation multiples will depend on stronger AUM growth and pristine asset quality.

Maintain **Neutral** with a revised TP of INR1,750 (based on 2.7x FY26E BVPS).

Quarterly performance

Y/E March	FY23								FY24E				INR m
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY23	FY24	4QFY24E	v/s Est.	
Interest Income	3,148	3,287	3,585	3,861	4,128	4,259	4,373	4,586	13,882	17,347	4,646	-1	
Interest Expenses	1,347	1,410	1,504	1,650	1,866	2,036	2,166	2,216	5,910	8,284	2,281	-3	
Net Income	1,802	1,877	2,082	2,211	2,262	2,223	2,208	2,371	7,971	9,063	2,365	0	
YoY Growth (%)	20	15	32	23	26	18	6	7	22	14	7		
Other income	380	664	534	641	540	716	719	882	2,220	2,856	787	12	
Total Income	2,182	2,541	2,616	2,852	2,802	2,938	2,926	3,252	10,191	11,919	3,152	3	
YoY Growth (%)	37	21	20	18	28	16	12	14	23	17	11		
Operating Expenses	1,026	1,147	1,201	1,203	1,339	1,308	1,349	1,434	4,577	5,430	1,439	0	
YoY Growth (%)	53	33	32	14	30	14	12	19	31	19	20		
Operating Profits	1,156	1,394	1,415	1,649	1,464	1,631	1,577	1,818	5,614	6,489	1,713	6	
YoY Growth (%)	26	13	12	22	27	17	11	10	17.3	15.6	4		
Provisions	9	16	35	64	57	65	80	43	124	245	67	-35	
Profit before Tax	1,147	1,378	1,380	1,586	1,407	1,565	1,497	1,775	5,490	6,244	1,646	8	
Tax Provisions	254	310	307	318	310	348	331	349	1,189	1,338	344	1	
Profit after tax	892	1,068	1,073	1,268	1,097	1,217	1,166	1,426	4,301	4,907	1,302	10	
YoY Growth (%)	49	16	20	10	23	14	9	13	20.1	14.1	3		
Key Parameters (%)													
Yield on loans	12.7	12.9	13.0	13.1	13.3	13.2	13.1	13.1	13.7	13.6			
Cost of funds	6.9	7.0	7.3	7.6	7.7	7.9	8.0	8.1	6.6	7.5			
Spread	5.8	5.9	5.8	5.5	5.6	5.3	5.1	5.1	7.1	6.1			
NIM - YTD	7.7	8.2	8.2	8.3	8.0	8.0	7.9	7.9	6.2	5.8			
Credit cost	0.0	0.1	0.1	0.2	0.2	0.2	0.20	0.1	0.1	0.2			
Cost to Income Ratio (%)	47.0	45.1	45.9	42.2	47.8	44.5	46.1	44.1	44.9	45.6			
Tax Rate (%)	22.2	22.5	22.2	20.1	22.0	22.2	22.1	19.7	21.7	21.4			
Balance Sheet Parameters													
AUM (INR B)	118.9	125.4	130.9	141.7	146.5	153.2	160.8	173.1	141.7	173.1			
Change YoY (%)	23.7	23.6	23.3	24.8	23.2	22.1	22.9	22.2	24.8	22.2			
AUM mix (%)													
Home loans	71.1	70.9	70.1	69.9	69.8	69.7	69.3	69.3	69.9	69.3			
Mortgage loans	28.9	29.1	29.9	30.1	30.2	30.3	30.7	30.7	30.1	30.7			
Loans (INR B)	95.9	100.8	105.5	114.8	119.1	124.0	129.9	140.0	114.8	140.0			
% of AUM	80.6	80.4	80.6	81.0	81.3	81.0	80.8	80.9	26.8	22.0			
Disbursements (INR B)	10.9	11.5	12.0	15.8	10.7	12.6	13.6	18.9	50.2	55.8			
Change YoY (%)	136.5	27.2	26.5	22.9	-2.3	9.7	13.3	19.7	39.5	11.1			
Borrowings (INR B)	82.9	85.7	91.6	98.9	106.8	111.4	114.7	124.0	98.4	123.4			
Change YoY (%)	27.8	24.1	26.7	24.0		30.0	25.2	25.4	23.4	25.4			
Borrowings/Loans (%)	86.4	85.0	86.8	86.2	89.6	89.9	88.3	88.5	85.7	88.1			
Debt/Equity (x)	2.9	2.8	2.9	3.0	3.2	3.2	3.2	3.3	3.0	3.3			
Asset Quality (%)													
GS 3 (INR M)	1,045	1,113	1,204	1,067	1,193	1,295	1,425	1,319	1,067	1,193			
G3 %	1.08	1.10	1.13	0.92	1.00	1.04	1.09	0.94	0.92	1.00			
NS 3 (INR M)	805	848	917	780	872	939	1,033	939	780	872			
NS3 %	0.84	0.84	0.87	0.68	0.73	0.76	0.79	0.67	0.68	0.73			
PCR (%)	22.9	23.8	23.9	26.9	26.9	27.5	27.5	28.8	26.9	26.9			
ECL (%)	0.67	0.64	0.64	0.62	0.64	0.64	0.65	0.60	0.62	0.64			
Return Ratios - YTD (%)													
ROA (Rep)	3.2	3.4	3.4	3.5	3.2	3.3	3.2	3.3	3.5	3.3			
ROE (Rep)	12.5	13.4	13.6	14.1	13.2	13.6	13.5	13.9	14.2	13.9			

E: MOFSL Estimates

Asset quality improved QoQ

- Asset quality improved, with GS3/NS3 declining by ~15bp/10bp QoQ to 0.94%/0.67%. PCR on Stage 3 improved ~130bp QoQ to ~29%. ECL/ EAD declined ~5bp QoQ to 0.60%. 1+dpd declined ~60bp QoQ to 3.1%
- Credit costs stood at INR43m (vs. MOFSLe of ~INR67m) and translated into annualized credit cost of ~10bp (~20bp in 3QFY24, ~20bp in 4QFY23).

Spreads remain under pressure

- Reported yields increased ~5bp QoQ to ~13.15%, benefitting from 25bp of PLR hike. However, spreads declined ~5bp due to ~10bp increase in CoF.
- The management has guided for spreads of ~5%. Its focus on higher-yielding small-ticket loans and rising share of MSME loans in disbursements will aid yields. We model NIM of ~5.6% in FY25 and FY26.



Highlights from the management commentary

Business Update

- AUM grew ~22% YoY to ~INR173b and 1+dpd at 3.12%
- PAT stood at INR4.9b, up ~15% YoY
- Opened 21 new branches in its existing states
- Raised borrowings of INR61.45b at 8.15% in FY24
- Incremental CoB in 4QFY24 stood at ~8.14%
- Yields stood at 13.13%, CoB stood at 8.07% and spreads at 5.06%
- Increased its retail PLR by ~25bp, effective from 1st Mar'24
- 4QFY24 RoA of 3.28% and RoE of ~13.94%
- CRAR stood at ~44%.
- AAVAS had 218,100 live accounts, up ~17% YoY

Technology Update

- 160k applications processed through Salesforce
- Gone live with account aggregator and customer service integration
- In FY24, the TAT declined to 8 days.

Opex

- The opex-to-assets ratio declined to ~3.6% (FY23: 3.7%); committed to bringing it down to 3% over the medium term.
- Guided for 20-25bp of reduction in the opex-to-average assets ratio every year

Asset Quality

- 1+dpd stood at 3.12% in Mar'24 (~3.3% as of FY23)
- GS3 stood at 0.94% and NS3 stood at 0.67%
- Restructured accounts worth INR712.3m have been classified under Stage 2. ~80% of them were in the 0-30dpd bucket.

Disbursements

- Confident of a strong 1H with the green shoots of higher sanctions and the tech transformation

Opex-light model

- Digital, RRO and E-mitra, Mitra contributed ~13% to total disbursements. The rest is part of the hybrid and connector channel.

Liabilities and CoB

- Tied up with multi-lateral institutions and AIFI, which provide concessional rates for affordable and MSME loans.
- PTCs are happening at better rates in the market.
- Weighted average CoB stood at 8.14% and incremental CoB stood at 8.07% in 4QFY24. This year it borrowed through repo-linked and EBLR-linked borrowings, which will help the CoB when the interest rates are cut.

Others

- Unique HFC where the tenor of liabilities is higher than the tenor of assets
- Focus on three key areas: Delivering well-diversified geographic growth, adopting tech-led opex-light approach, and RoA of >3%
- Focus on <INR1m customers and guided for spreads of ~5%
- For FY24, the BT-OUT was ~6% of the opening AUM (0.5% per month)
- Green shoots of Karnataka gave it confidence in its underwriting and its ability to accelerate growth in the geography.
- 1+dpd is at the current levels of ~3.1% - Predictive analytics helped it sharpen its granularity and collections
- Yields on LAP and MSME loans are ~200-300bp higher than those on home loans. Home loan yields at ~12.5% and non-home loan yields at ~15%
- Karnataka and UP are coming up very well in terms of disbursements.

Key exhibits

Exhibit 1: Disbursements rose ~20% YoY

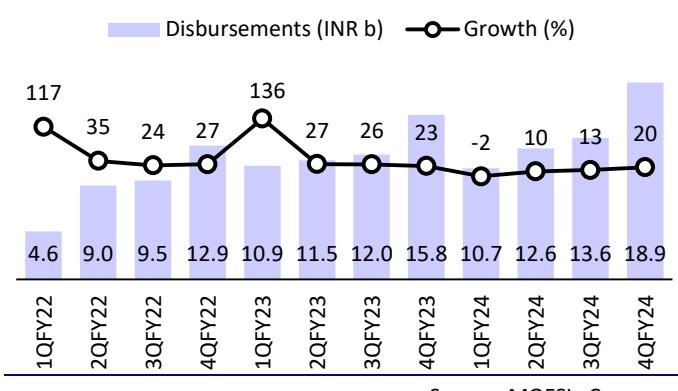


Exhibit 2: AUM grew 22% YoY

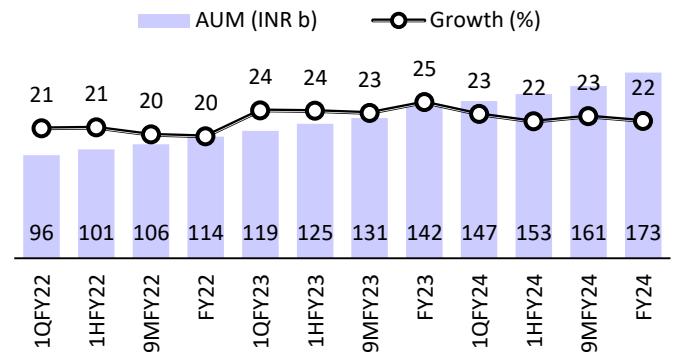


Exhibit 3: Share of home loans stable QoQ (%)

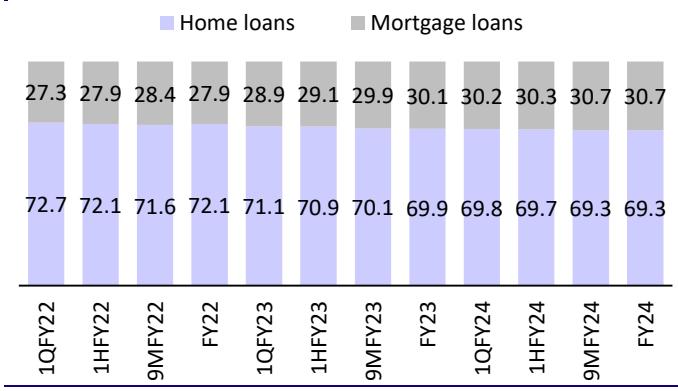


Exhibit 4: Stable customer mix (%)

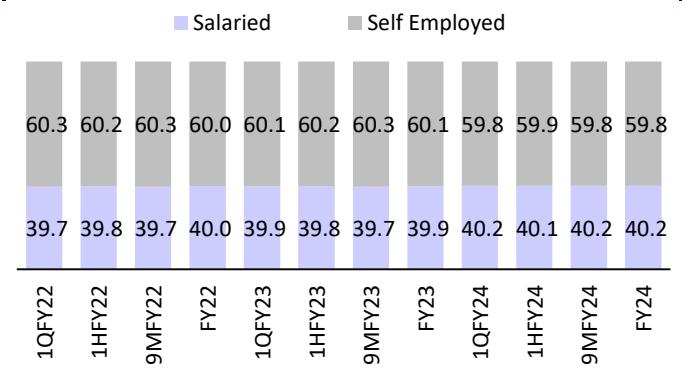


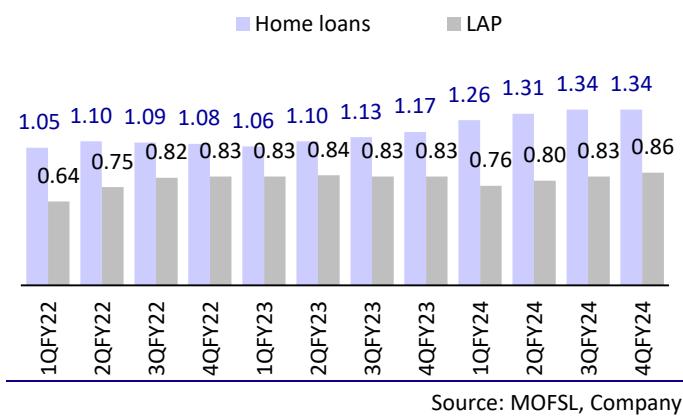
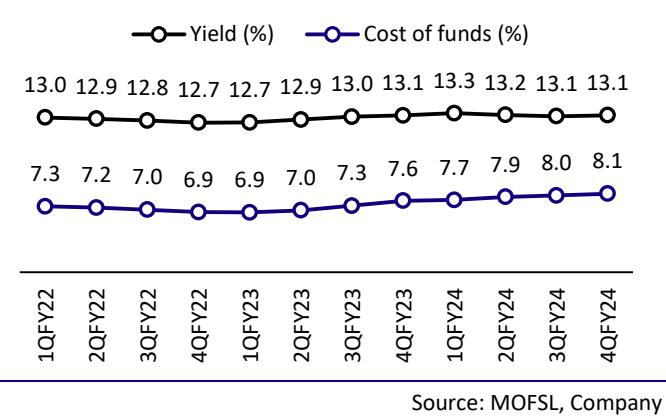
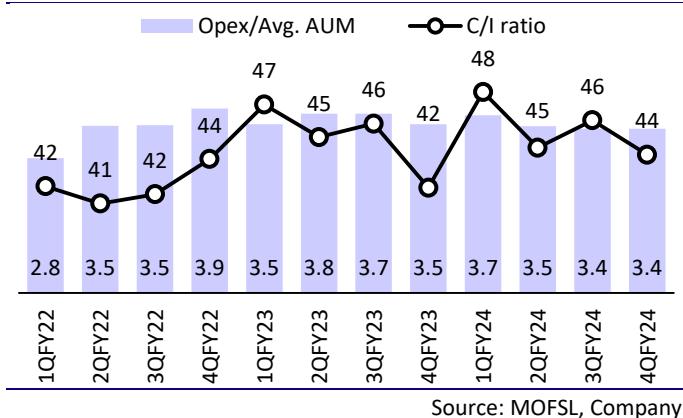
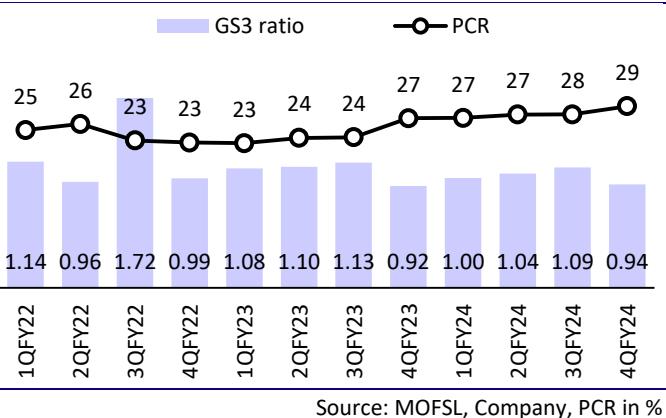
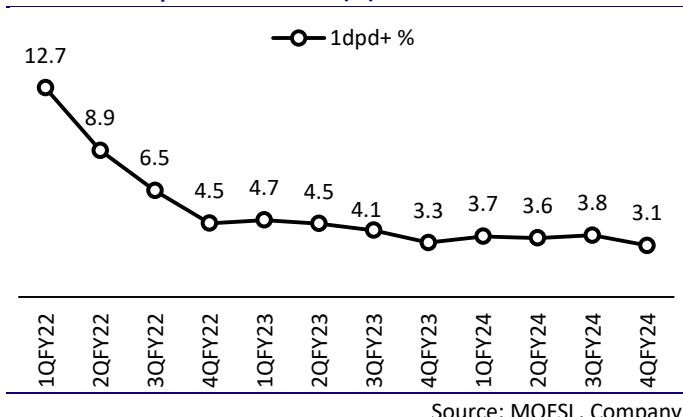
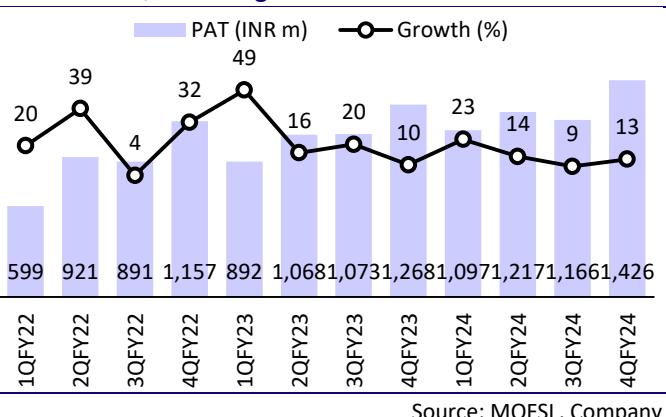
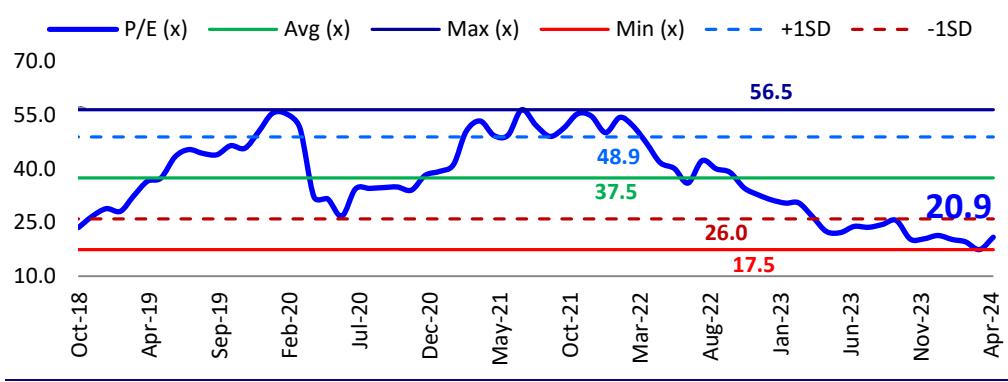
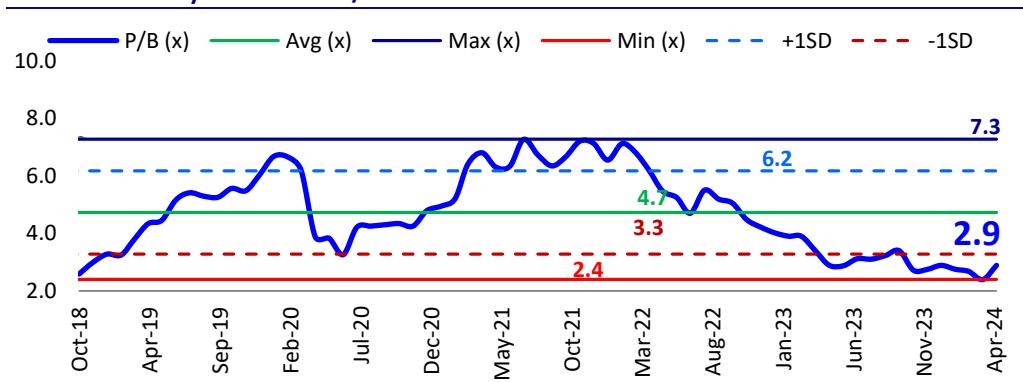
Exhibit 5: ATS in LAP increased QoQ (INR m)**Exhibit 6: Reported spreads declined ~5bp QoQ****Exhibit 7: Opex/AUM stable at ~3.4% (%)****Exhibit 8: GS3 declined ~15bp QoQ (%)****Exhibit 9: 1+dpd stood at 3.1% (%)****Exhibit 10: 4QFY24 PAT grew 13% YoY**

Exhibit 11: We increase our FY25/FY26 EPS estimates by ~1% each to factor in higher other income and lower credit costs

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	9.1	11.1	13.4	9.1	10.9	13.3	0.1	-1.7	-1.3
Other Income	2.8	3.2	3.8	2.9	3.4	4.0	3.4	4.8	4.8
Total Income	11.8	14.3	17.2	11.9	14.3	17.2	0.9	-0.2	0.0
Operating Expenses	5.4	6.3	7.3	5.4	6.3	7.3	-0.1	-0.1	0.7
Operating Profits	6.4	8.0	10.0	6.5	8.0	9.9	1.6	-0.3	-0.4
Provisions	0.3	0.4	0.4	0.2	0.3	0.3	-8.8	-14.7	-17.1
PBT	6.1	7.6	9.6	6.2	7.7	9.6	2.1	0.4	0.3
Tax	1.3	1.7	2.1	1.3	1.6	2.1	0.3	-1.3	-1.5
PAT	4.8	6.0	7.5	4.9	6.0	7.5	2.6	0.9	0.8
AUM	173	212	259	173	214	261	0.1	0.7	1.0
Borrowings	121	148	181	123	149	183	1.8	0.7	1.0
NIM (%)	5.8	5.8	5.7	5.8	5.6	5.6			
ROA (%)	3.2	3.3	3.5	3.3	3.3	3.4			
RoE (%)	13.6	14.7	15.9	13.9	14.8	15.9			

Source: MOFSL, Company

Exhibit 12: One-year forward P/E**Exhibit 13: One-year forward P/B**

Financials and valuations

Income statement									INR m
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	3,926	5,935	7,864	9,764	11,288	13,882	17,347	21,526	26,223
Interest Expended	1,931	2,554	3,561	4,582	4,775	5,910	8,284	10,640	12,958
Net Interest Income	1,995	3,382	4,304	5,182	6,513	7,971	9,063	10,886	13,265
Change (%)	56.0	69.5	27.3	20.4	25.7	22.4	13.7	20.1	21.8
Gain on Securitisation	602	783	766	864	1,240	1,518	1,795	2,083	2,395
Other Operating Income	417	391	401	426	539	701	1,061	1,314	1,574
Total Income	3,014	4,556	5,470	6,471	8,293	10,191	11,919	14,283	17,234
Change (%)	85.3	51.2	20.1	18.3	28.2	22.9	17.0	19.8	20.7
Operating Expenses	1,645	1,890	2,296	2,566	3,506	4,577	5,430	6,317	7,308
Operating Income	1,369	2,666	3,174	3,905	4,787	5,614	6,489	7,967	9,926
Change (%)	43.6	94.7	19.1	23.0	22.6	17.3	15.6	22.8	24.6
Provisions	26	89	153	371	226	124	245	315	330
PBT	1,343	2,577	3,020	3,533	4,561	5,490	6,244	7,651	9,595
Tax	412	818	529	638	981	1,189	1,338	1,639	2,055
Tax Rate (%)	30.7	31.7	17.5	18.1	21.5	21.7	21.4	21.4	21.4
PAT	931	1,759	2,491	2,895	3,580	4,301	4,907	6,012	7,540
Change (%)	60.9	89.0	41.6	16.2	23.7	20.1	14.1	22.5	25.4

Balance sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	692	781	783	785	789	791	791	791	791
Reserves & Surplus	11,207	17,589	20,196	23,229	27,297	31,906	36,942	42,954	50,494
Net Worth	11,899	18,370	20,979	24,014	28,086	32,697	37,733	43,746	51,286
Borrowings	27,376	36,533	53,520	63,454	79,725	98,407	1,23,365	1,49,458	1,82,798
Change (%)	52.6	33.4	46.5	18.6	25.6	23.4	25.4	21.2	22.3
Other liabilities	1,126	1,366	2,081	2,132	2,392	3,002	4,096	4,711	5,653
Total Liabilities	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,65,195	1,97,915	2,39,737
Loans	33,334	47,245	61,808	75,233	90,534	1,14,763	1,40,044	1,70,810	2,08,912
Change (%)	54.1	41.7	30.8	21.7	20.3	26.8	22.0	22.0	22.3
Investments	45	45	45	45	675	1,231	1,822	2,696	3,990
Change (%)	NM	0.0	0.0	0.0	1,400.4	82.3	48.0	48.0	48.0
Other assets	7,022	8,978	14,727	14,323	18,994	18,112	23,329	24,409	26,835
Total Assets	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,65,195	1,97,915	2,39,737

E: MOFSL Estimates

Financials and valuations

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	(%)
Spreads Analysis (%)										
Avg Yield on Loan portfolio	14.2	13.9	13.5	14.1	13.8	13.7	13.6	13.8	13.8	
Avg. Cost of borrowings	8.5	8.0	7.9	7.8	6.7	6.6	7.5	7.8	7.8	
Interest Spread	5.7	5.9	5.6	6.3	7.1	7.1	6.1	6.0	6.0	
Net Interest Margin (AUM)	5.9	6.8	6.3	6.0	6.3	6.2	5.8	5.6	5.6	
Profitability Ratios (%)										
RoE	10.6	11.6	12.7	12.9	13.7	14.2	13.9	14.8	15.9	
RoA	2.9	3.6	3.8	3.5	3.6	3.5	3.3	3.3	3.4	
Loans/Equity (x)	2.8	2.6	2.9	3.1	3.2	3.5	3.7	3.9	4.1	
Cost/Income	54.6	41.5	42.0	39.7	42.3	44.9	45.6	44.2	42.4	
Asset Quality (%)										
Gross NPAs	107	158	210	739	904	1,067	1,319	1,585	2,086	
Gross NPAs to Adv.	0.3	0.3	0.3	1.0	1.0	0.9	0.9	0.9	1.0	
Net NPAs	83	112	171	538	695	780	939	1,141	1,502	
Net NPAs to Adv.	0.2	0.2	0.3	0.7	0.8	0.7	0.7	0.7	0.7	
VALUATION										
Book Value (INR)	172	235	268	306	356	414	477	553	648.0	
Price-BV (x)	9.3	6.8	6.0	5.3	4.5	3.9	3.4	2.9	2.5	
EPS (INR)	13.5	22.5	31.8	36.9	45.4	54.4	62.0	76.0	95.3	
EPS Growth YoY	35	67	41	16	23	20	14	22.5	25.4	
Price-Earnings (x)	119.4	71.4	50.5	43.6	35.4	29.5	25.9	21.2	16.9	
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

E: MOFSL Estimates

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Explanation of Investment Rating	
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SELL	< - 10%
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