

AAVAS Financiers

Estimate change	
TP change	
Rating change	

Bloomberg	AAVAS IN
Equity Shares (m)	79
M.Cap.(INRb)/(USDb)	140.7 / 1.7
52-Week Range (INR)	1979 / 1307
1, 6, 12 Rel. Per (%)	-7/4/-14
12M Avg Val (INR M)	565

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	9.1	10.7	13.1
PPP	6.5	7.8	9.8
PAT	4.9	5.9	7.4
EPS (INR)	62.0	74.4	94.1
EPS Gr. (%)	14	20	26
BV/Sh. (INR)	477	551	645
Ratios (%)			
NIM	5.8	5.5	5.5
C/I ratio	45.6	44.4	42.4
Credit cost	0.19	0.20	0.17
RoA	3.3	3.2	3.4
RoE	13.9	14.5	15.7
Valuation			
P/E (x)	28.8	24.0	18.9
P/BV (x)	3.7	3.2	2.8

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	26.5	26.5	39.1
DII	24.4	24.0	14.4
FII	35.9	34.8	35.0
Others	13.3	14.7	11.5

FII Includes depository receipts

CMP: INR1,778 TP: INR1,800 (+1%) Neutral

Pressure on NIM continues; operating efficiency now showing up

The RBI circular hurts business momentum as well as margins

- AAVAS Financiers (AAVAS)'s 1QFY25 PAT grew 15% YoY to ~INR1.26b (6% miss) and NII grew 8% YoY to ~INR2.45b (in line).
- Other income grew 16% YoY and included an assignment income of ~INR305m (PY: INR330m) and fee income of ~INR261m (PY: ~INR174m).
- Reported 1QFY25 NIM contracted ~70bp YoY to ~7.3% (FY24 NIM of ~7.9% in FY24). 1QFY25 NIM (calc.) contracted ~15bp QoQ to ~6.9%. Reported spreads declined ~5bp QoQ to 5.0%. NIM compression was because of 1) reduced assignments, 2) increase in borrowing costs, and 3) pressure on yields, along with interest income reversal from the RBI circular.
- Opex rose ~3% YoY to INR1.4b (in line). The opex-to-avg. AUM declined to ~3.1% (PY: 3.7% and PQ: 3.4%). Employee expenses dipped QoQ because of reversal of the long-term incentive and ESOP expenses. We estimate the opex-to-avg. assets ratio to decline to ~3.3% by FY26 (v/s ~3.6% in FY24).
- We estimate ~23% CAGR each in AUM and PAT over FY24-26, with an RoA/RoE of 3.4%/16% in FY26. The RBI circular on Fair Practices (charging of Interest), which was published in end-Apr'24, hurt business operations during the quarter, resulting in a sanction-to-disbursement ratio of 77-78%.
- AAVAS trades at 2.8x FY26E P/BV. We believe that the valuations now largely reflect the positives of the company to accelerate disbursements/loan growth and exhibit operating efficiencies, now that the technology transformation is finally reaching its climax. **Reiterate Neutral with a TP of INR1,800 (based on 2.8x FY26E BVPS).**

AUM rises ~22% YoY; disbursements slightly muted

- AUM grew 22% YoY/ 3% QoQ to ~INR178b. Disbursements rose ~13% YoY to ~INR12.1b. Share of HL in disbursement stood at ~67%. The Annualized run-off in the loan-book stood at ~15.8% (PY: ~16.5% and PQ: ~16.4%).
- The sanction-to-disbursement ratio declined to ~77-78%, which resulted in muted disbursements.
- Securitization during the quarter amounted to ~INR2.3b (PY: ~INR2b), while securitization margin contracted ~60bp QoQ to 13.3%.

Highlights from the management commentary

- AAVAS is confident of delivering an AUM growth of 20-25% aided by controlled foreclosures (BT-OUTs) and better disbursement momentum.
- Management shared that the PMAY CLSS scheme, in the past, had a positive impact on both AUM growth and asset quality because of the improvement in affordability of housing and home loans.

Valuation and View

- AAVAS reported RoA/RoE of ~3.0%/~13% in 1QFY25. 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 that investments are made in sourcing, distribution, and technology, we expect AAVAS to accelerate its disbursement growth trajectory over the next few quarters. The stock trades at 2.8x FY26E P/BV and any re-rating in valuation multiples will depend on stronger AUM growth and delivery of operating efficiencies to further improve the RoA profile. **Reiterate Neutral with a TP of INR1,800 (based on 2.8x FY26E BVPS).**

Quarterly performance										INR m		
Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	4,128	4,259	4,373	4,586	4,797	5,018	5,334	5,730	17,347	20,880	4,884	-2
Interest Expenses	1,866	2,036	2,166	2,216	2,352	2,439	2,585	2,839	8,284	10,214	2,360	0
Net Income	2,262	2,223	2,208	2,371	2,446	2,579	2,749	2,892	9,063	10,666	2,525	-3
YoY Growth (%)	26	18	6	7	8	16	25	22	14	18	12	
Other income	540	716	719	882	628	829	923	1,005	2,856	3,386	664	-5
Total Income	2,802	2,938	2,926	3,252	3,074	3,409	3,673	3,896	11,919	14,051	3,189	-4
YoY Growth (%)	28	16	12	14	10	16	26	20	17	18	14	
Operating Expenses	1,339	1,308	1,349	1,434	1,379	1,490	1,603	1,769	5,430	6,241	1,401	-2
YoY Growth (%)	30	14	12	19	3	14	19	23	19	15	5	
Operating Profits	1,464	1,631	1,577	1,818	1,695	1,918	2,070	2,127	6,489	7,811	1,788	-5
YoY Growth (%)	27	17	11	10	16	18	31	17	15.6	20.4	22.2	
Provisions	57	65	80	43	86	94	99	35	245	314	62	37
Profit before Tax	1,407	1,565	1,497	1,775	1,609	1,824	1,971	2,093	6,244	7,497	1,726	-7
Tax Provisions	310	348	331	349	348	401	434	422	1,338	1,606	380	-8
Profit after tax	1,097	1,217	1,166	1,426	1,261	1,423	1,537	1,670	4,907	5,891	1,346	-6
YoY Growth (%)	23	14	9	13	15	17	32	17	14.1		22.7	
Key Parameters (%)												
Yield on loans	13.3	13.2	13.1	13.1	13.1				13.6	13.4		
Cost of funds	7.7	7.9	8.0	8.1	8.1				7.5	7.5		
Spread	5.6	5.3	5.1	5.1	5.0				6.1	6.0		
NIM - YTD	8.0	8.0	7.9	7.9	7.3				5.8	5.5		
Credit cost	0.2	0.2	0.20	0.1	0.2				0.2	0.2		
Cost to Income Ratio	47.8	44.5	46.1	44.1	44.8				45.6	44.4		
Tax Rate (%)	22.0	22.2	22.1	19.7	21.7				21.4	21.4		
Balance Sheet												
AUM (INR B)	146.5	153.2	160.8	173.1	178.4				173.1	213.1		
Change YoY (%)	23.2	22.1	22.9	22.2	21.8				22.2	23		
AUM mix (%)												
Home loans	69.8	69.7	69.3	69.3	69.0				69.3	68.1		
Mortgage loans	30.2	30.3	30.7	30.7	14.0				30.7	31.9		
Loans (INR B)	119.1	124.0	129.9	140.0	144.4				140.0	170.4		
% of AUM	81.3	81.0	80.8	80.9	81.0				22.0	21.7		
Disbursements (INR B)	10.7	12.6	13.6	18.9	12.1				55.8	69.2		
Change YoY (%)	-2.3	9.7	13.3	19.7	13.4				11.1	24		
Borrowings (INR B)	106.8	111.4	114.7	124.0	126.0				123.4	150.8		
Change YoY (%)		30.0	25.2	25.4					25.4	22		
Borrowings/Loans (%)	89.6	89.9	88.3	88.5	87.2				88.1	88.5		
Debt/Equity (x)	3.2	3.2	3.2	3.3	3.2				3.3	3.5		
Asset Quality (%)												
GS 3 (INR M)	1,193.4	1,295	1,425	1,319	1,466.1				1,193	1,295		
G3 %	1.0	1.04	1.09	0.94	1.0				1.00	1.04		
NS 3 (INR M)	871.8	939	1,033	939	1,043.4				872	939		
NS3 %	0.73	0.76	0.79	0.67	0.72				0.73	0.76		
PCR (%)	26.9	27.5	27.5	28.8	28.8				26.9	27.5		
ECL (%)	0.6	0.64	0.65	0.60	0.6				0.64	0.64		
Return Ratios - YTD												
ROA (Rep)	3.2	3.3	3.2	3.3	3.0				3.3	3.2		
ROE (Rep)	13.2	13.6	13.5	13.9	13.1				13.9	14.5		

Seasonal deterioration in asset quality

- Asset quality deteriorated with GS3/NS3 rising ~5bp each QoQ to 1%/0.72%. 1+dpd increased ~50bp QoQ to 3.7%
- Credit costs stood at INR86m and translated into annualized credit cost of ~20bp (PQ: ~10bp, PY: ~20bp)
- 1+dpd and GNPA in its core markets remained well below 4% and in its other states it remained below 3.5%. Total ECL provisioning stood at INR908m (ECL/EAD: 0.62%) as of Jun'24. Aavas is strongly positioned to continue delivering industry-leading asset quality. We model credit costs of ~20bp in FY25-26.

Spreads remain under pressure

- 1QFY25 NIM (calc.) declined ~15bp QoQ to ~6.9%. Reported spreads declined ~5bp QoQ to 5.0%.
- Management guided that it will endeavour to maintain spreads at ~5% despite competitive pricing pressures and challenges in transmitting higher borrowing costs. We model NIM to decline to ~5.5% in FY25 (v/s ~5.8% in FY24).



Highlights from the management commentary

Business update

- PAT in 1QFY25 grew 15% YoY to INR1.26b
- Aligned with the target of growing its AUM by 20-25%
- There are consistent efforts to optimize costs with opex-to-average assets declining to ~3.3% in 1QFY25 (PY: ~3.8%)
- 1+dpd: 3.65% (down 3bp YoY). Credit costs at ~20bp
- Opex to assets improved ~50bp YoY in 1QFY25. Committed to bring down opex to assets to 3% in the medium-to-long term.
- 1QFY25 RoA stood at ~3% and RoE stood at ~13.14%
- CRAR stood at 44.5%

Disbursements

- 1QFY25 disbursements grew ~13% YoY to ~INR12.1b
- Sanction growth of ~25% in 1QFY25. The sanction-to-disbursement ratio declined to ~77-78%, which resulted in muted disbursements.
- Disbursal yields improved ~17-18bp YoY; less than INR1.5m ticket size loans will be higher in the incremental disbursements – it has been trying to increase the disbursement yields (which increased 17bp YoY in 1QFY25)
- It is confident of delivering an AUM growth of 20-25% aided by controlled foreclosures (BT-OUTs) and better disbursements

Impact of the Union Budget-related announcements on Housing

- CLSS, in the past, had a positive impact on both AUM growth and asset quality because of the improvement in affordability of housing and home loans

Spreads and NIM

- Spreads stood at ~5%. Guided that it will be able to maintain its spreads around 5% despite competitive pricing pressures

- Endeavor is to maintain spreads at ~5% - Transmission of increasing CoB has not been possible on the ground
- 17-18bp higher yields in the newer businesses which will help it maintain spreads of >5%
- NIM compression was driven by lower assignments, higher CoB and lower spreads driven by pressure on yields. There was interest income reversal because of the RBI circular which also contributed to NIM compression

Technology Update

- Adoption and stabilization of Salesforce has been completed. ~INR190K applications processed through Salesforce.
- Oracle Fusion has also now stabilized.
- Oracle Flexcube (LMS) is in advanced stages of implementation and will go live in the next quarter.
- TAT has declined to 8 days in 1QFY25

Liabilities

- Incremental COB rose ~18bp QoQ and ~30bp YoY. Incremental CoB stood at 8.13% and portfolio CoB increased by ~1bp QoQ to 8.08%
- NHB Contribution in 1Q always remains low; Contribution of NHB will increase in the overall liability mix.
- Incremental bank borrowings are linked to T-Bills, Repo and MCLR. Incremental bank borrowings stood at ~8.4% (PQ: ~8.3%)

Opex

- Employees stood at 5904 (v/s 5700 in Jun'23) - Employee expenses declined because of long-term incentive and ESOP expenses which were reversed.
- Total expenses of ~INR450-500m towards technology have been capitalized

Asset Quality

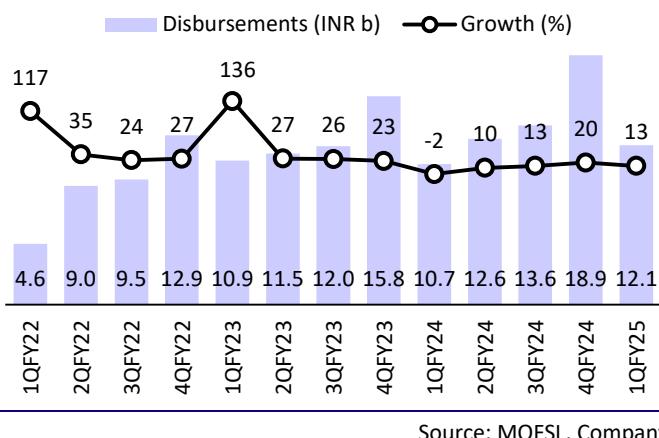
- 1dpd improved by 3bp YoY to 3.65%
- Gross Stage 3 stood at 1.01% and NS3 at 0.72%
- 1+dpd and GNPA in its core markets remained well below 4% and in its other states it remain below 3.5%
- Total ECL provisioning stood at INR908m (ECL/EAD: 0.62%) as of Jun'24
- AAVAS is strongly positioned to continue delivering industry-leading asset quality

Others

- Overall BT-OUT stood at 5.6% (on an annualized basis) which is within the assumptions of ~6%
- Has entered into co-lending tie-ups with PSU Banks
- Total Live accounts stood at 223.6K
- Home Loan ATS has grown by 6-8% YoY and for MSME/LAP ATS has grown by 10% YoY
- Share of AUM with ticket size above INR2.5m is between 5-6% (basis number of loan accounts)
- Rajasthan contributes ~30-35% of AUM and ~33% of the branches

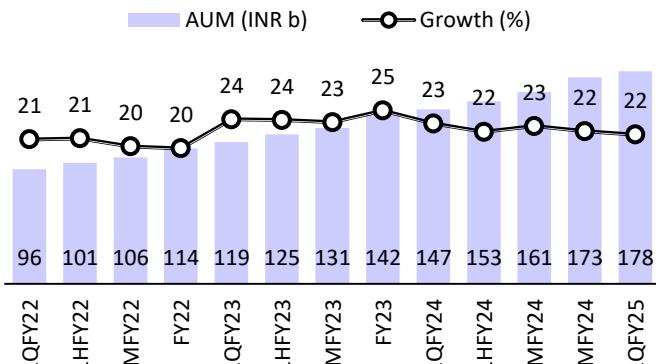
Key exhibits

Exhibit 1: Disbursements rose ~13% YoY



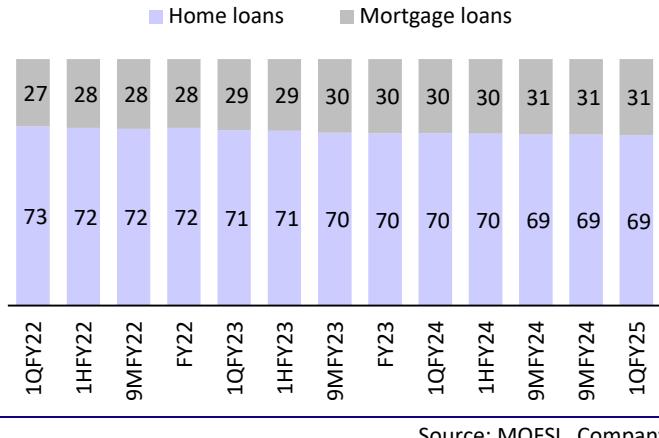
Source: MOFSL, Company

Exhibit 2: AUM grew 22% YoY



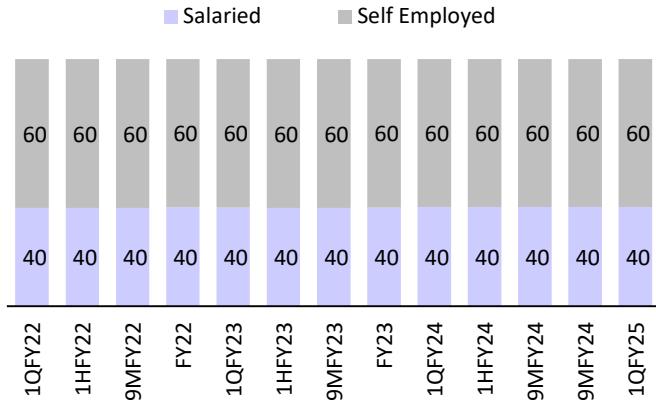
Source: MOFSL, Company

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



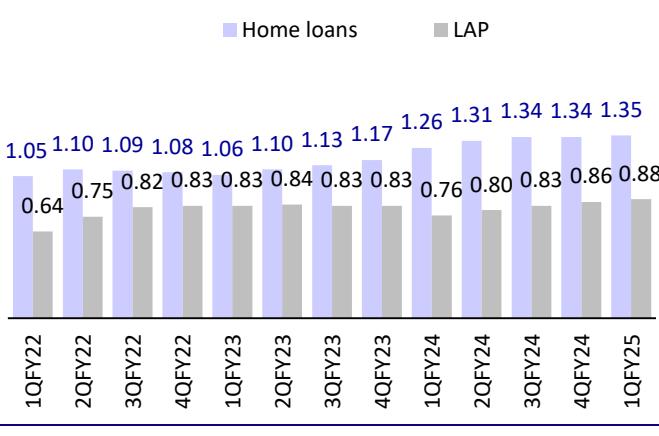
Source: MOFSL, Company

Exhibit 4: Stable customer mix (%)



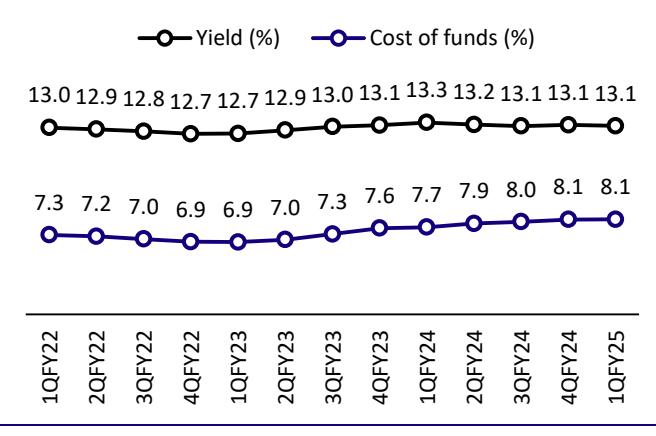
Source: MOFSL, Company

Exhibit 5: ATS in LAP increased QoQ (INR m)



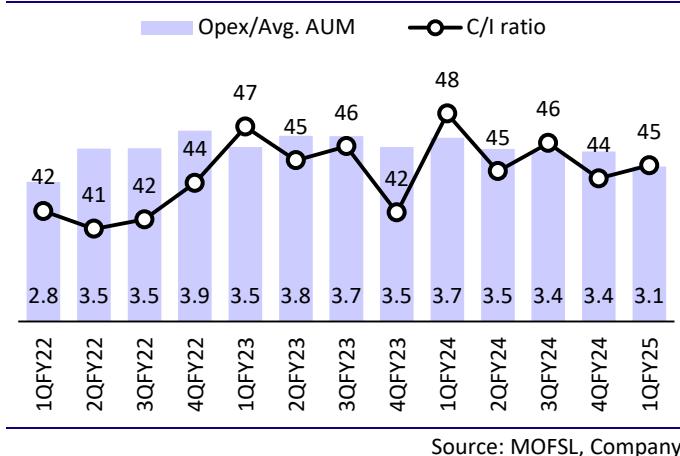
Source: MOFSL, Company

Exhibit 6: Reported spreads declined ~5bp QoQ



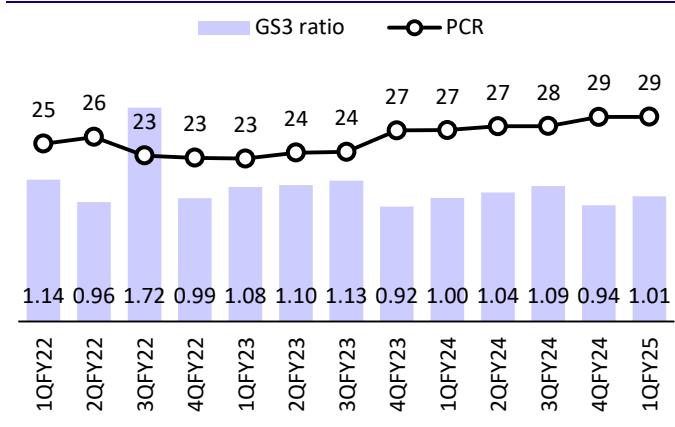
Source: MOFSL, Company

Exhibit 7: Opex/AUM declined to ~3.1% (%)



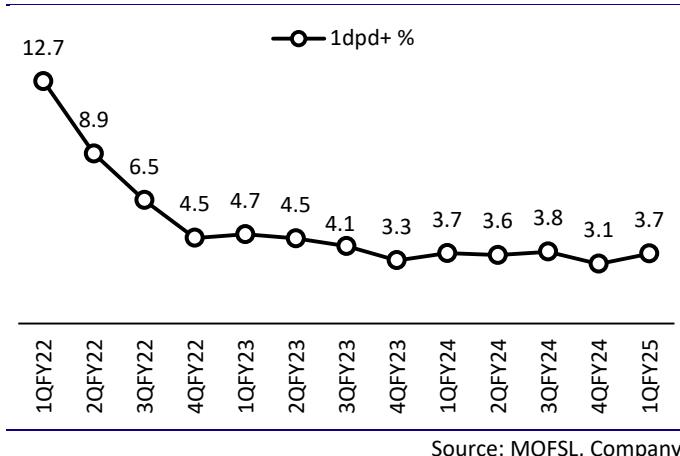
Source: MOFSL, Company

Exhibit 8: GS3 increased ~5bp QoQ (%)



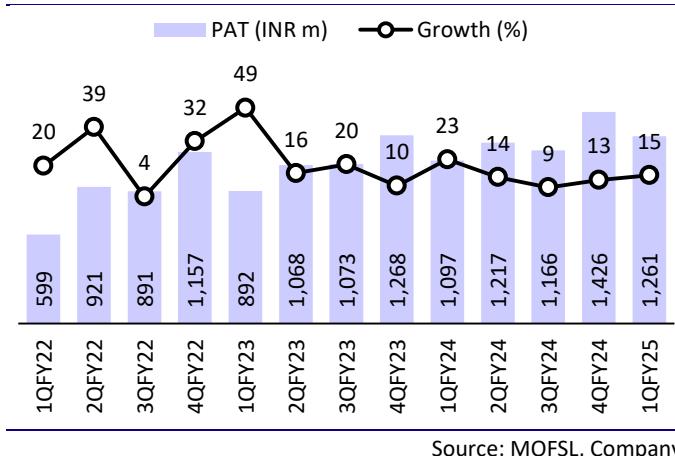
Source: MOFSL, Company, PCR in %

Exhibit 9: 1+dpd stood at 3.7% (%)



Source: MOFSL, Company

Exhibit 10: 1QFY25 PAT grew 15% YoY



Source: MOFSL, Company

Exhibit 11: We keep our FY25/FY26 EPS estimates broadly unchanged

INR b	Old Est.		New Est.		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
NII	10.7	13.0	10.7	13.1	-0.4	0.2
Other Income	3.4	4.0	3.4	4.0	-0.3	-0.4
Total Income	14.1	17.0	14.1	17.0	-0.4	0.1
Operating Expenses	6.3	7.3	6.2	7.2	-1.1	-1.1
Operating Profits	7.8	9.7	7.8	9.8	0.2	0.9
Provisions	0.3	0.3	0.3	0.3	-0.5	-0.6
PBT	7.5	9.4	7.5	9.5	0.2	0.9
Tax	1.6	2.0	1.6	2.0	0.2	0.9
PAT	5.9	7.4	5.9	7.4	0.2	0.9
AUM	214	261	213	260	-0.2	-0.4
Borrowings	151	188	151	187	-0.2	-0.4
NIM (%)	5.5	5.5	5.5	5.5		
ROA (%)	3.2	3.3	3.2	3.4		
RoE (%)	14.5	15.6	14.5	15.7		

Source: MOFSL, Company

Exhibit 12: One-year forward P/E

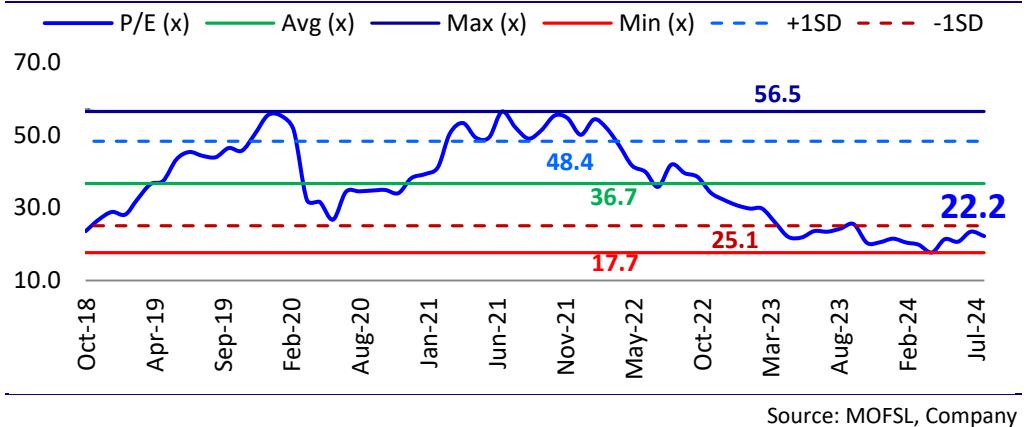
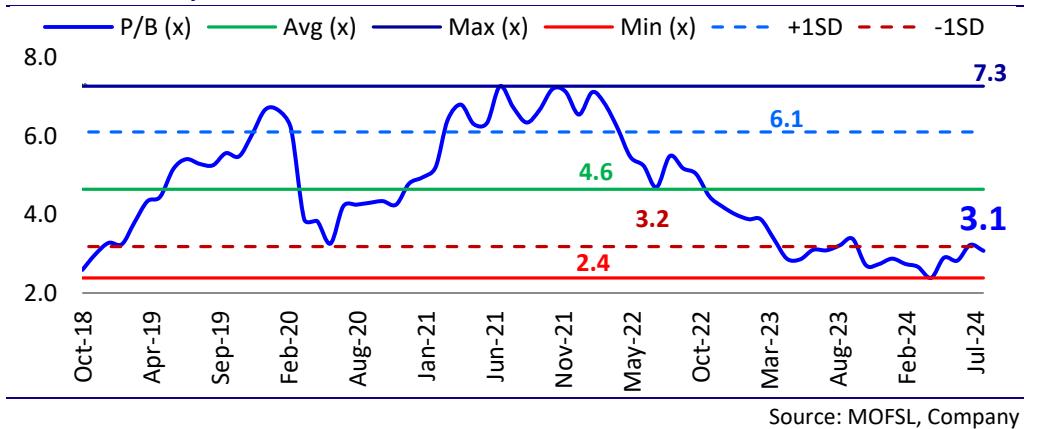


Exhibit 13: One-year forward P/B



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	20,880	25,665
Interest Expended	1,931	2,554	3,561	4,582	4,775	5,910	8,284	10,214	12,594
Net Interest Income	1,995	3,382	4,304	5,182	6,513	7,971	9,063	10,666	13,072
Change (%)	56.0	69.5	27.3	20.4	25.7	22.4	13.7	17.7	22.6
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	1,303	1,560
Total Income	3,014	4,556	5,470	6,471	8,293	10,191	11,919	14,051	17,026
Change (%)	85.3	51.2	20.1	18.3	28.2	22.9	17.0	17.9	21.2
Operating Expenses	1,645	1,890	2,296	2,566	3,506	4,577	5,430	6,241	7,219
Operating Income	1,369	2,666	3,174	3,905	4,787	5,614	6,489	7,811	9,808
Change (%)	43.6	94.7	19.1	23.0	22.6	17.3	15.6	20.4	25.6
Provisions	26	89	153	371	226	124	245	314	328
PBT	1,343	2,577	3,020	3,533	4,561	5,490	6,244	7,497	9,479
Tax	412	818	529	638	981	1,189	1,338	1,606	2,030
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	5,891	7,449
Change (%)	60.9	89.0	41.6	16.2	23.7	20.1	14.1	20.1	26.4
Proposed Dividend	0	0	0	0	0	0	0	0	0

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	42,833	50,282
Net Worth	11,899	18,370	20,979	24,014	28,086	32,697	37,733	43,624	51,073
Borrowings	27,376	36,533	53,520	63,454	79,725	98,407	1,23,365	1,50,842	1,87,249
Change (%)	52.6	33.4	46.5	18.6	25.6	23.4	25.4	22.3	24.1
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	1,99,177	2,43,975
Loans	33,334	47,245	61,808	75,233	90,534	1,14,763	1,40,044	1,70,442	2,08,055
Change (%)	54.1	41.7	30.8	21.7	20.3	26.8	22.0	21.7	22.1
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	26,038	31,931
Total Assets	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,65,195	1,99,177	2,43,975

E: MOFSL Estimates

Financials and valuations

Ratios									
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	13.4	13.5
Avg. Cost of borrowings	8.5	8.0	7.9	7.8	6.7	6.6	7.5	7.5	7.5
Interest Spread	5.7	5.9	5.6	6.3	7.1	7.1	6.1	6.0	6.1
Net Interest Margin (AUM)	5.9	6.8	6.3	6.0	6.3	6.2	5.8	5.5	5.5
Profitability Ratios (%)									
RoE	10.6	11.6	12.7	12.9	13.7	14.2	13.9	14.5	15.7
RoA	2.9	3.6	3.8	3.5	3.6	3.5	3.3	3.2	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	44.4	42.4
Asset Quality (%)									
Gross NPAs	107	158	210	739	904	1,067	1,319	1,585	2,084
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	1,500
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	551	645
Price-BV (x)	10.4	7.6	6.7	5.8	5.0	4.3	3.7	3.2	2.8
EPS (INR)	13.5	22.5	31.8	36.9	45.4	54.4	62.0	74.4	94.1
EPS Growth YoY	35	67	41	16	23	20	14	20.1	26.4
Price-Earnings (x)	132.5	79.2	56.1	48.4	39.3	32.8	28.8	24.0	18.9
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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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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