

AAVAS Financiers (AAVAS)

BUY

Play on affordable housing finance

Summary

Aavas is the larger player in affordable housing listed space with 351 branches as of Q3FY24 spread across 13 states (majorly north & west). Its focus area - 60% customers are self-employed while remaining 40% are salaried in non-formal segments. The operationally intensive business model and low ATS has kept competition from banks and large NBFCs at bay. Further, the focus on tier 3/4/5 towns with low mortgage penetration has helped Aavas deliver a sustainable ROA of ~3.5%. The company started to add low ticket size MSME/small business loans which should boost profitability and sustain growth. We value Aavas Financiers at 3x P/ABV FY26E to arrive at a target price of Rs.1820 and initiate coverage with a BUY rating and a potential upside of 39%. Risks: Competitive intensity on NIMs; PE shareholder risk on stock performance.

Key Highlights and Investment Rationale

- Cost of borrowing at peak, Spreads currently under pressure, expected to improve going forward:** Aavas reported decline in spread by 26bps YoY to 5.5% during FY23 due to increase in cost of borrowings by 73bps YoY to 7.61% as interest rates inched up. Management guided spreads to remain above 5% in longer term despite competitive pricing pressures as focus can be shifted to low ticket size with higher yields. We estimate 10bps decline in spread during Q4FY24 thus expect spreads to bottom out in FY24 as it reaches near 5%.
- Investments in new technology to improve efficiency and reduce TAT time:** Aavas made significant investments in manpower and branches over the last few years to build a complete in-house model right from sourcing to collections. The company is currently in the midst of a tech up gradation process (to be completed by Q4FY24) for which it expects to make an outlay of ~Rs.1.5bn which will be spread over a period of 5 years. The TAT is expected to come down to 6 days from the current level of 13 days.

TP	Rs1,820			Key Stock Data				
CMP	Rs1,316			Bloomberg / Reuters AAVAS IN/AVAS.BO				
Potential upside/downside				+38%				
Price Performance (%)								
				-1m	-3m			
Absolute	(9.5)	(14.1)	(18.1)		-12m			
Rel to Sensex	(9.3)	(16.1)	(42.9)					
V/s Consensus				Shareholding Pattern (%)				
EPS (Rs)	FY25E	FY26E		Promoters				
IDBI Capital	70.2	85.5		39.1				
Consensus	74.5	92.2		FII				
% difference	(5.8)	(7.2)		32.3				
				DII				
				13.9				
				Public				
				14.7				
Financial snapshot								
Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E			
NII	6,514	7,976	8,966	10,804	13,134			
Change (yoY, %)	26%	22%	12%	21%	22%			
Net Profit	3,552	4,296	4,653	5,548	6,756			
Change (yoY, %)	23%	21%	8%	19%	22%			
EPS (Rs)	45.0	54.3	58.9	70.2	85.5			
Change (yoY, %)	22%	21%	8%	19%	22%			
BV (Rs)	355.5	413.6	472.4	542.6	628.1			
PER (x)	29.3	24.2	22.4	18.8	15.4			
P/BV (x)	3.7	3.2	2.8	2.4	2.1			
ROE (%)	13.6	14.1	13.3	13.8	14.6			
ROA (%)	3.6	3.5	3.1	3.1	3.2			
GNPA (%)	1.0	0.9	1.1	1.1	1.1			
NNPA (%)	0.8	0.7	0.8	0.8	0.8			
CAR (%)	51.41	46.94	38.16	36.48	35.02			

Source: IDBI Capital Research

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■ Large market opportunity to support 20-25% AUM growth:

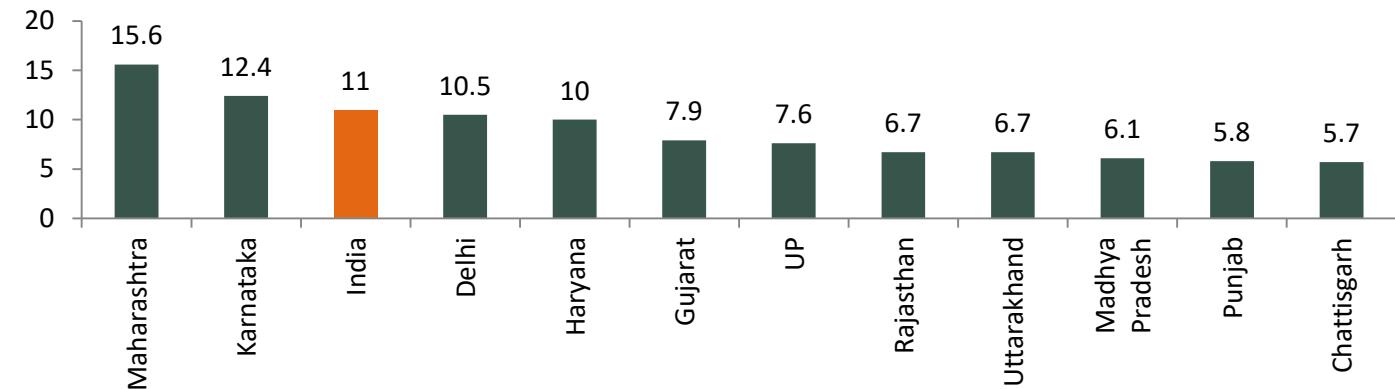
Aavas is the larger player in affordable housing listed space with 351 branches as of Q3FY24 spread across North and West of India. Its focus area - 60% customers are self-employed while remaining 40% are salaried in non-formal segments. Aavas is focused on self-construction Housing loans in tier 3 to tier 5 towns and hard to underwrite informal segment where the competition is less intense. Housing/Non-housing AUM mix is at 70%/30% and share of Non-housing loans is likely to contribute 30-35%. Further, the focus on tier 3/4/5 towns (contribution at ~50%) with low mortgage penetration combined with branch additions and maturity of >3 years old branches should support AUM growth of 20-25% in the medium term.

We expect Aavas AUM growth at 21% CAGR (FY23-26) as compared to 24% CAGR over FY19-23. AUM growth will be backed by large market opportunity in affordable housing in India. Historically, strong AUM growth at 24% (FY19-23) was supported by 17% CAGR growth in disbursements and improvement in repayment ratio (12.8% FY21 vs 19.7% FY19; 19.5% FY23). Disbursements growth was largely led by pace of addition of new customers as average ticket size increased at muted pace (3% CAGR over FY20-23). During 9M FY24 disbursements growth remains subdued (7% YoY) due to technological up gradations for most of the systems (Originations, Loan management system, collections etc.). Disbursements expected to pick up in FY25 (expect 22% YoY growth on low base) as against single digit growth (~6% YoY) in FY24 as productivity gains should support to improve business volumes.

Aavas business model is to expand into newer geographies albeit at slower pace; the approach remain cautious in initial years as the asset quality trends to be linked with local dynamics and customer psychographics. 4 states (Rajasthan, Maharashtra, Gujarat and Madhya Pradesh) comprise 69% of total geographic distribution. Company has added 7 states from 2017 onwards but the share of these states in last 6 years still remain ~29% due to cautious approach.

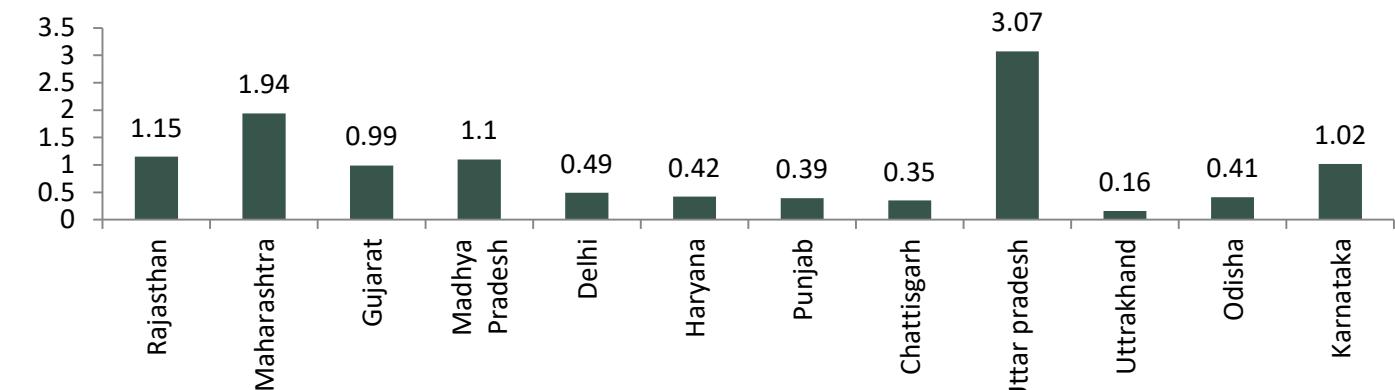
We further note that the key geographies where Aavas is present in have mortgage penetration which is lower than the national average, hence provide large runway for growth. Aavas has a presence across 13 states with 351 branches.

Exhibit 1: Mortgage to GDP ratio in states where Aavas is present

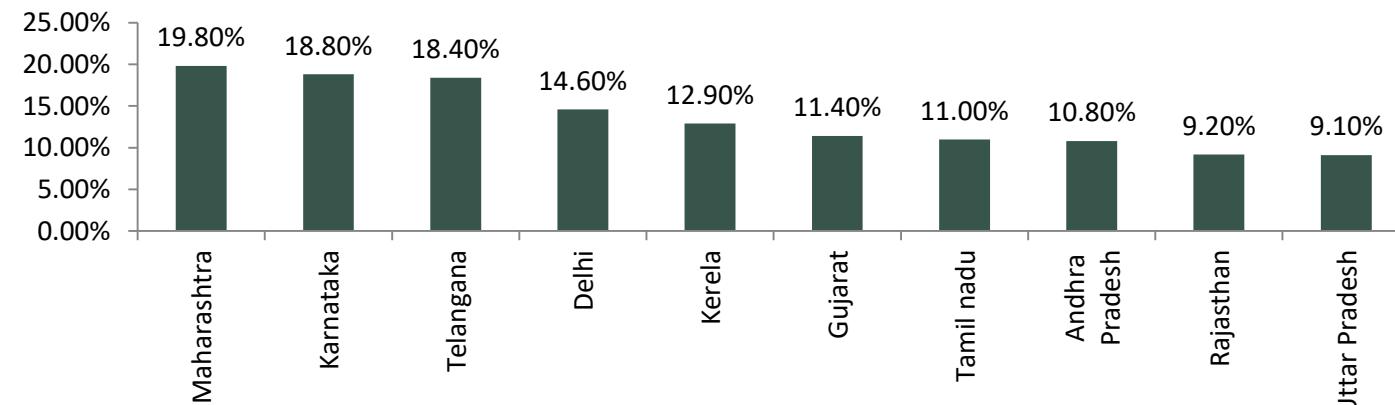


Source: Company; IDBI Capital Research

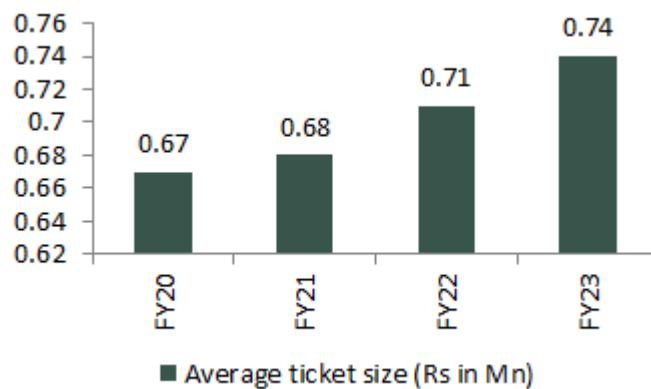
Exhibit 2: State wise urban housing shortage where Aavas is present



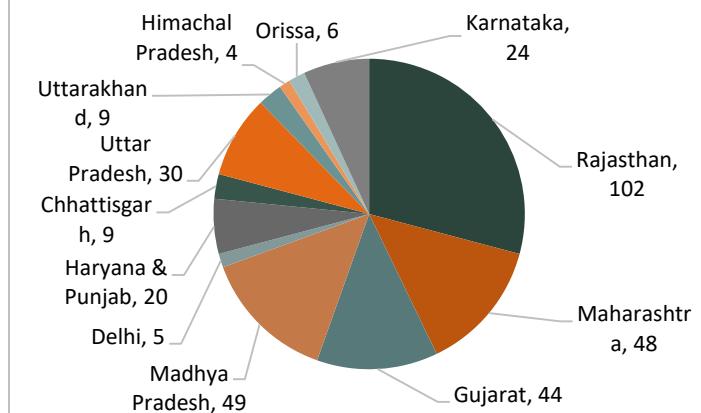
Source: RHP; IDBI Capital Research

Exhibit 3: State wise Housing loan penetration at the end of FY23


Source: RHP; IDBI Capital Research

Exhibit 4: Average ticket size grew at 3% CAGR


Source: Company; IDBI Capital Research

Exhibit 5: Geographic presence still dominated by 4 states


Source: Company; IDBI Capital Research

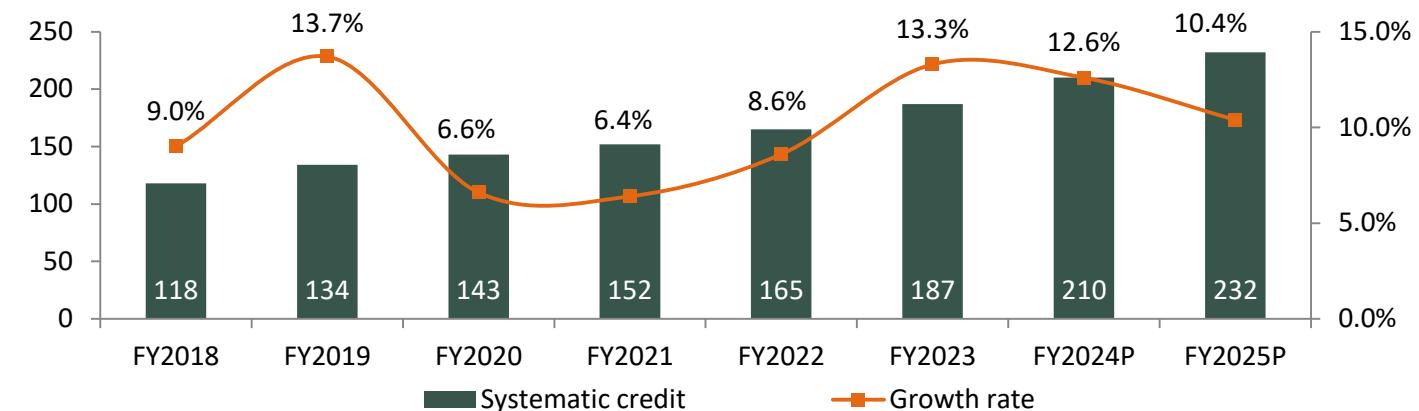
■ **Industry Dynamic at play:**

In 2021, the affordable housing segment with ticket size up to Rs35 lakh comprised 90% of the market in terms of volume and about 60% based on value. Growth in FY23 was driven by healthy demand and growing economic activity without compromising growth and asset quality estimates. According to the Housing Price Index (HPI) published by the National Housing Bank, the overall increase in composite HPI assessment and HPI market price in the quarter ending September 2022 compared to the quarter ending September 2021 indicates a revival in the housing finance sector.

The home loan market is expected to double in the next five years with 70 per cent of home loans potentially be less than the ticket size of 50 lakh, catalyzed by urbanization and affordable mortgage rates. Structural factors driving end-user housing demand remained intact in FY 22-23 despite rising real estate prices and interest rates (accounting for 13-15% growth in the home loan segment). The proportion of homebuyers aged under 35 increased as a proportion of the whole and families buying second homes increased as buyers moved into larger homes.

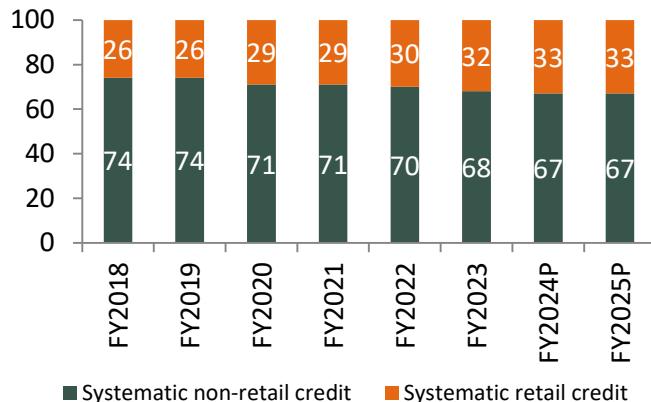
Housing finance companies registered a double-digit growth rate of 11% YoY in FY23, surpassing 7% growth by bank. India's home loan market is expected to double in the next five years with mortgage to GDP ratio rising.

Exhibit 6: Systematic credit growth improved during FY23



Source: India shelter finance corporation RHP; IDBI Capital Research

Exhibit 7: Share of retail segment is on the rise



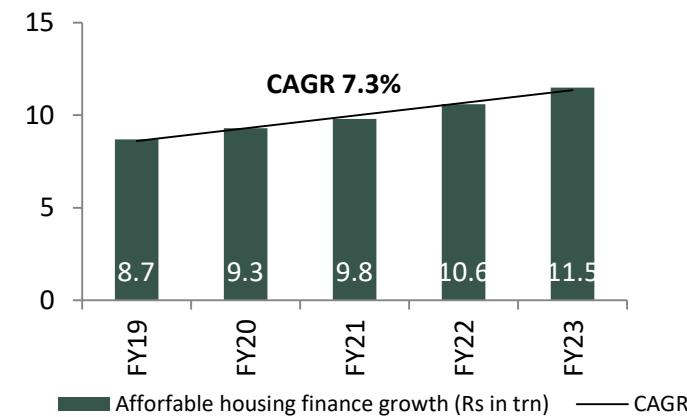
Source: India shelter finance corporation RHP; IDBI Capital Research

Exhibit 8: Average ticket size mix inched up



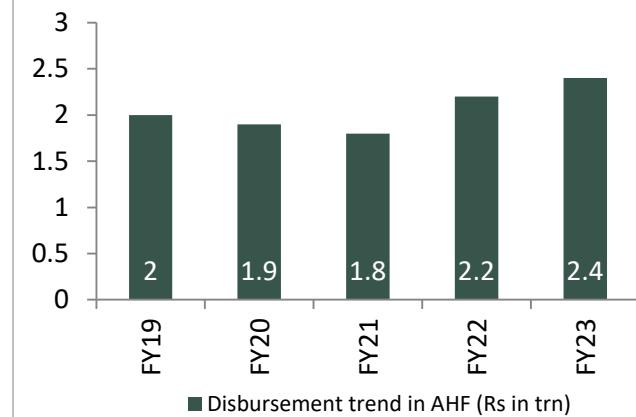
Source: India shelter finance corporation RHP; IDBI Capital Research

Exhibit 9: Affordable housing finance growth trajectory



Source: India shelter finance corporation RHP; IDBI Capital Research

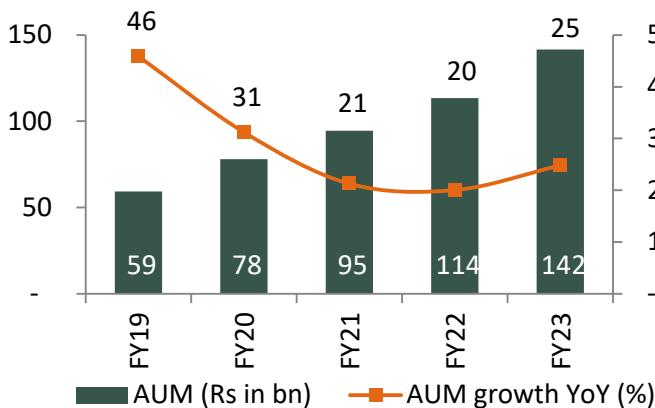
Exhibit 10: Disbursement growth trend remain subdued



Source: India shelter finance corporation RHP; IDBI Capital Research

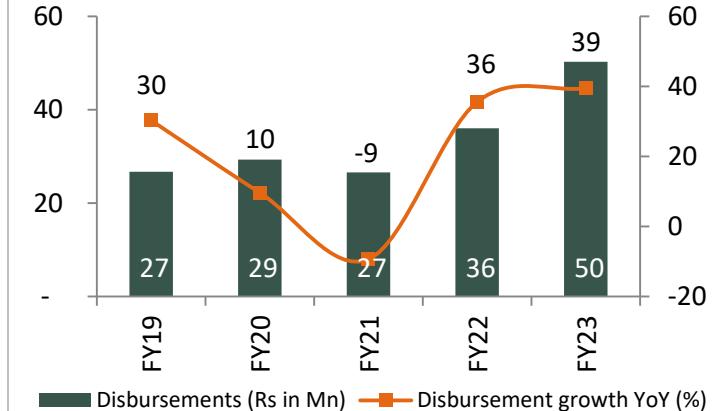
Aavas remains large affordable housing finance company among its listed peers with AUM of over Rs.160bn.

Exhibit 11: AUM growth remains strong



Source: Company; IDBI Capital Research

Exhibit 12: Strong disbursement growth



Source: Company; IDBI Capital Research

Exhibit 13: Peer Comparison: Aavas remains large AHFC with AUM of over Rs.160bn

Particulars	AUM (Rs in Bn)				AUM CAGR (FY21-23)	AUM YoY growth (%)		
	FY21	FY22	FY23	Q3FY24		FY22	FY23	Q3FY24
AUM (in Bn)								
Aavas Financiers Limited	94.5	113.5	141.7	160.8	22.4	20.1	24.8	22.9
India Shelter Finance Corporation	22.0	30.7	43.6	44.7	40.8	39.8	41.8	41.9
Aptus Value Housing Finance India	40.7	51.8	67.4	80.7	28.7	27.3	30.1	28.0
Home First Finance Company India	41.4	53.8	72.0	90.1	31.8	29.9	33.8	33.5

Source: Company; RHP; IDBI Capital Research

Exhibit 14: Peer Comparison: Disbursement growth subdued for Aavas during Q3FY24

Particulars	Disbursements (Rs in Bn)				Disbursements CAGR (FY21-23)	Deposits YoY growth		
	FY21	FY22	FY23	Q3FY24		FY22	FY23	Q3FY24
Disbursements (in Bn)								
Aavas Financiers Limited	26.6	36.0	50.2	13.6	37.5	35.6	39.5	13.3
India Shelter Finance Corporation	8.9	13.0	19.6	6.8	48.2	44.7	51.7	36.1
Aptus Value Housing Finance India	13.0	16.4	23.9	7.7	35.8	1.4	26.4	45.9
Home First Finance Company India	11.0	20.3	30.1	10.1	65.7	-32.2	85.1	48.3

Source: Company; RHP; IDBI Capital Research

Exhibit 15: Peer Comparison: Average ticket size lower for Aavas

Particulars (Rs. in millions)	FY21	FY22	FY23
Aavas Financiers Limited	0.85	0.86	0.89
India Shelter Finance Corporation	1.09	1.06	1.05
Aptus Value Housing Finance India Limited	NA	NA	1.00
Home First Finance Company India Limited	1.00	1.05	1.10

Source: Company; RHP; IDBI Capital Research

Exhibit 16: Peer Comparison: Presence in number of states remain high & lower than India shelter

Particulars	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	11	13	13	13	13
India Shelter Finance Corporation	15	15	15	15	15
Aptus Value Housing Finance India Limited	4	5	5	4	5
Home First Finance Company India Limited	12	13	13	13	13

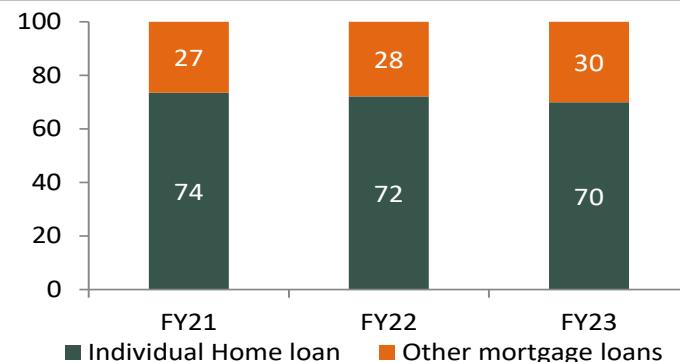
Source: Company, RHP, IDBI Capital Research

Exhibit 17: Peer Comparison: Number of branches remains high

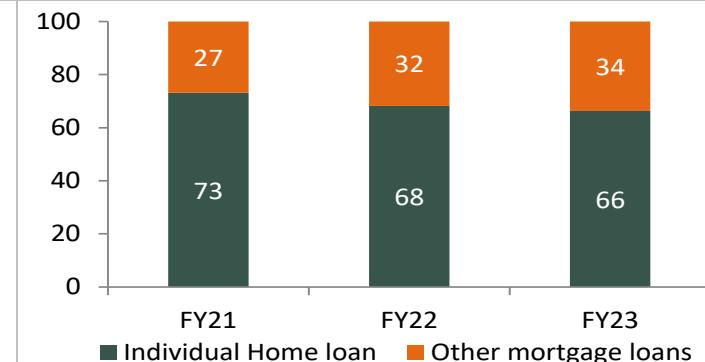
Particulars	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	280	314	346	321	351
India Shelter Finance Corporation	115	130	183	170	215
Aptus Value Housing Finance India Limited	190	208	231	215	262
Home First Finance Company India Limited	72	80	111	102	123

Source: Company, RHP, IDBI Capital Research

ATS at disbursements is low at Rs1.31mn for Home loan and at Rs.0.80mn for other mortgage loans. The operationally intensive business model and low ATS has kept competition from banks and large NBFCs at bay. Aavas plans to add 30-35 branches every year and enter one new state every 3-5 years. In addition to home loans, the Company provided other mortgage-backed loans, comprising loans against property and mortgage backed MSME loan which accounted for 30% of total loan asset as of March 31, 2023. As of FY23, 63% of our gross loan assets were from customers who belonged to the economically weaker section (EWS) and low-income group (LIG), earning less than Rs50,000 per month. Loans to the EWS and LIG segment increased by 18.4% YoY and 21.2% YoY respectively, in value terms. The average home loan to the EWS and LIG segment was Rs4.83 lakh and Rs9.09 lakh.

Exhibit 18: AUM mix shifting towards other mortgage loans led by disbursement mix


Source: Company; IDBI Capital Research

Exhibit 19: Disbursement mix moving towards other mortgage loans


Source: Company; IDBI Capital Research

Exhibit 20: Peer Comparison: AUM Mix by loan type largely towards home loan

Particulars	Home Loan (%)					Non Home loan (%)			
	FY21	FY22	FY23	Q3FY23	Q3FY24	FY21	FY22	FY23	Q3FY24
AUM (%)									
Aavas Financiers Limited	74	72	70	70	69	27	28	30	29
India Shelter Finance Corporation	57	54	57	56	58	43	46	44	44
Aptus Value Housing Finance India	NA	56	58	88	79	NA	44	42	12
Home First Finance Company India	92	91	88	88	86	6	7	11	12

Source: Company; RHP; IDBI Capital Research
Exhibit 21: Peer Comparison: AUM Mix by customer occupation – Self-employed remains key driver

Particulars	Self-employed (%)					Salaried (%)			
	FY21	FY22	FY23	Q3FY23	Q3FY24	FY21	FY22	FY23	Q3FY24
AUM (%)									
Aavas Financiers Limited	60	60	60	60	60	40	40	40	40
India Shelter Finance Corporation	64	68	70	69	71	36	32	30	31
Aptus Value Housing Finance India	72	72	71	71	72	28	28	29	29
Home First Finance Company India	25	27	30	30	32	74	72	70	70

Source: Company; RHP; IDBI Capital Research

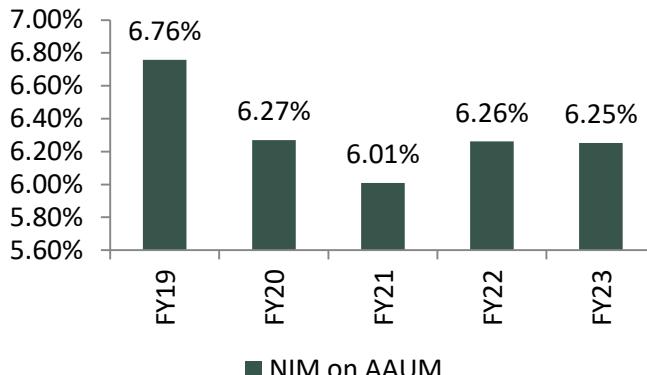
■ Cost of borrowing at peak, Spreads currently under pressure, expected to improve going forward:

Aavas reported decline in spread by 26bps YoY to 5.5% during FY23 due to i) increase in cost of borrowings by 73bps YoY to 7.61% as interest rates inched up and ii) lower increase in yields by 47bps YoY to 13.12% due to competitive pressure. Further, spread declined to 5.12% during 9MFY24 as cost of borrowings continue to rise led by tight liquidity conditions in the system. Yields declined further by 5bps to 13.07% (9MFY24) albeit at slower pace as compared to increase in cost of funds by 34bps to 7.95% (9MFY24). In order to ensure that the credit quality of the existing customers is healthy and to service BT ins, the company had to re-price some of its existing loans and offer new loans at lower interest rates. This has led to lower spreads and has ultimately affected its margins.

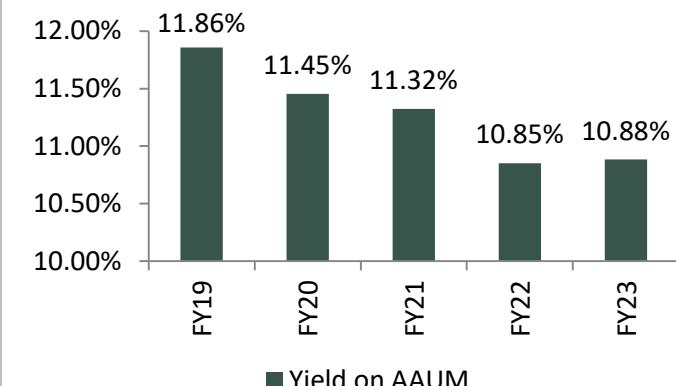
Management guided spreads to remain above 5% in longer term despite competitive pricing pressures as focus can be shifted to low ticket size with higher yields. Incremental cost of borrowings for 9MFY24 stood at 8.14% as compared to reported cost at 7.95% (Dec'23). Thus, we expect cost of funds to rise in Q4FY24 however management stated that they can drawdown from Rs7bn NHB sanctions which should offset rise in interest cost. We estimate 10bps decline in spread during Q4FY24 thus expect spreads to bottom out in FY24 as it reaches near 5%.

We expect company to deliver strong 18% CAGR in NII over FY23-26E as compared to AUM growth of 21% CAGR (FY23-26) due to margin pressure in FY24. We expect NIMs to stabilize in FY25 around FY24 levels and conservatively maintained in FY26E. Historically, company reported strong growth in NII at 24% CAGR (FY19-23) backed by 24% CAGR in AUM led by stable margins. NIMs on AAUM calculated (refer Exhibit 22) declined from 6.8% in FY19 to 6.0% in FY21 led by gradual decline in yields. Yields declined due to competition intensity rising during Covid period. However, NIMs improved to 6.3% in FY23 led by decline in cost of funds.

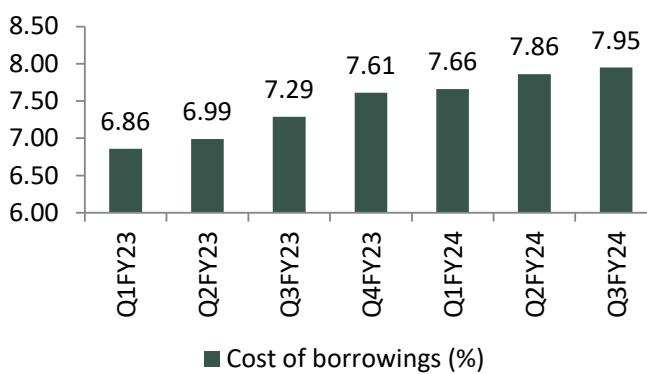
We believe that Aavas is set to benefit from the reducing interest rate cycle which is expected to commence in FY25. We expect its cost of borrowings to decline in the medium-term thus leading to an improvement in its margins and spreads

Exhibit 22: NIM on AAUM stabilized in last 2 years

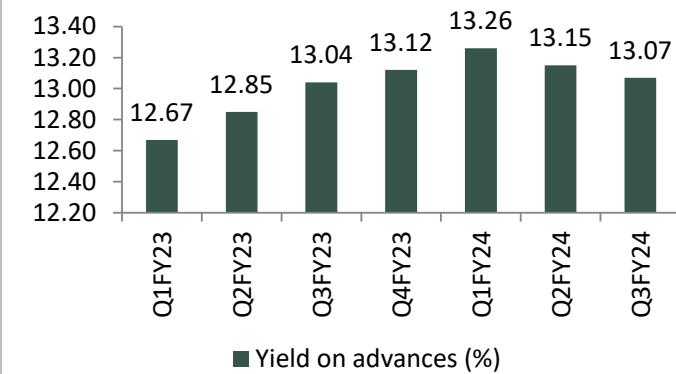
Source: Company; IDBI Capital Research

Exhibit 23: Yield on AAUM reduced over the period

Source: Company; IDBI Capital Research

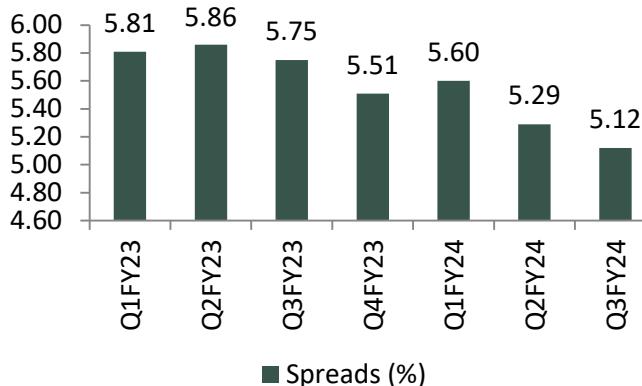
Exhibit 24: Cost of borrowings continues to rise

Source: Company; IDBI Capital Research

Exhibit 25: Yield on advances dip due to competitiveness

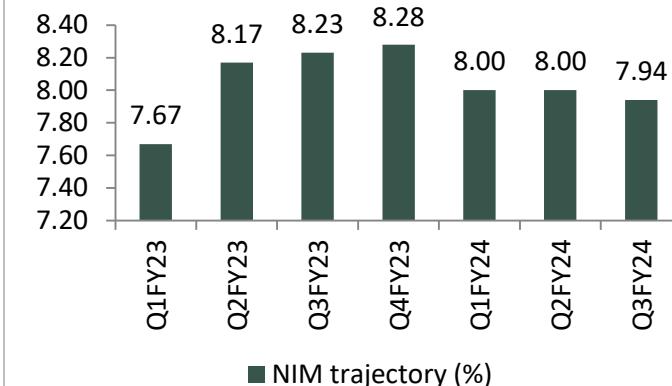
Source: Company; IDBI Capital Research

Exhibit 26: Spreads at all-time low



Source: Company; IDBI Capital Research

Exhibit 27: NIM trajectory expected to improve



Source: Company; IDBI Capital Research

Exhibit 28: Peer Comparison: Yield on advances remains lower among the peers for Aavas

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	13.1	12.7	13.1	13.0	13.1
India Shelter Finance Corporation	14.8	15.3	14.9	14.8	14.8
Aptus Value Housing Finance India Limited	17.2	17.2	17.7	16.9	17.2
Home First Finance Company India Limited	12.8	12.5	13.3	13.1	13.5

Source: Company; RHP; IDBI Capital Research

Exhibit 29: Peer Comparison: Spread on advances also remains lower among the peers for Aavas

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	5.3	6.2	6.0	5.8	5.1
India Shelter Finance Corporation	6.1	7.0	6.6	6.3	6.0
Aptus Value Housing Finance India Limited	8.1	9.3	9.2	9.0	8.7
Home First Finance Company India Limited	5.0	5.9	5.9	5.7	5.3

Source: Company; RHP; IDBI Capital Research

■ Investments in new technology to improve efficiency and reduce TAT time:

Aavas made significant investments in manpower and branches over the last few years to build a complete in-house model right from sourcing to collections. It is investing heavily in digital, technology and data to support growth remove inefficiencies and offer faster TAT.

The company is using Salesforce, cloud based digital platform, as Loan Origination System with Mulesoft for integration. Loan Management and Financial Systems are being upgraded with Oracle Flexcube Core Banking and Oracle Fusion ERP Applications.

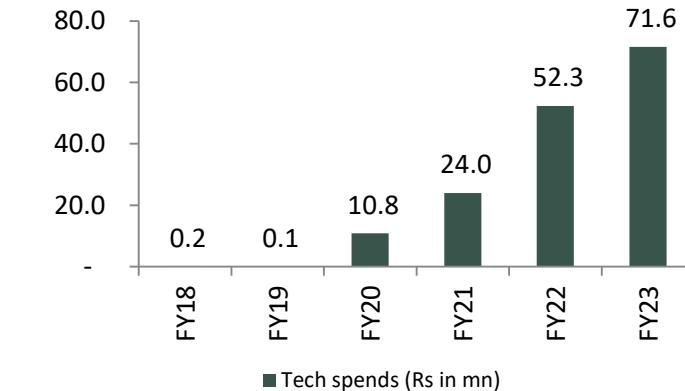
- Salesforce (Loan origination system): It is integrated with APIs of Perfios, Karza, Signzy and 8 other fintech partners. The implementation of Salesforce has helped to integrate all the systems into one interface. Moreover, the company can now see the status of each loan using Salesforce.
- Oracle Flexcube (Loan management system): Aavas has replaced its erstwhile Loan Management System (LMS) Omnipin with Flexcube as it more customizable and capable of handling AUM beyond Rs 150bn. This platform is used by large banks that will help Aavas scale its branch network.
- MuleSoft (API): This is a platform used by Aavas for API integration for third party data (such as eKYC).
- Collection app (Collection System): It uses geotagging information of customers to enable route planning for collections officers. This enables tracking and productive use of resources, as the travel time of collection officers is reduced.
- ERP systems – the best in-class Oracle Fusion, which will help to get better cuts on product, branch, employee and segment wise profitability.

The company is currently in the midst of a tech up gradation process for which it expects to make an outlay of ~Rs.1.5bn which will be spread over a period of 5 years (out of the total spend, Rs.500 Mn capex is to be incurred in FY24). The company aims to complete the technology transformation process by the end of Q4FY24. The management expects the total 'turn-around time' (TAT) to come down to 6 days from the current level of 13 days. The aforementioned tech spends will enable the company to support an AUM base of ~Rs.1L cr which is ~7x the current AUM base, thus laying the foundation for future growth.

Company intends to make an aggregate investment across five years, a first in India's affordable housing finance sector to demonstrate this technology commitment. The combination of systemic security, responsible digitalization and customer empowerment is expected to graduate Aavas ahead of the curve. More importantly, Aavas expects to evolve into a phygital company engaged in the business of affordable home financing. The Company will create customer-facing digital journeys which will translate into a superior customer experience. The Company's cost per lead declined 50% digitally.

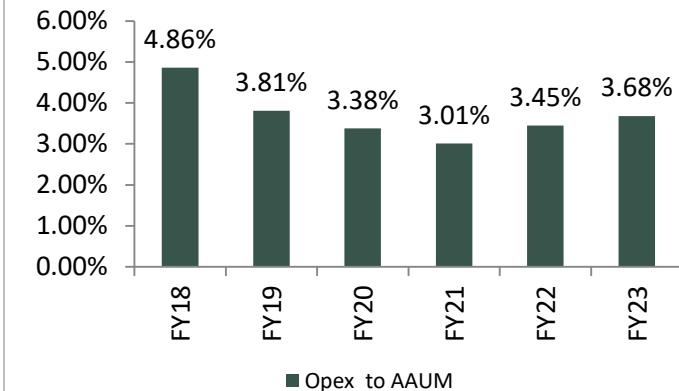
Improving productivity and operating leverage will lead to improvement in Opex to AUM ratio to 3.6% in FY2026E from 3.8% in FY23. Gradual kick-in of operating leverage and cost efficiencies derived decline in cost-to-average AUM to 3.5% in FY22 from 3.9% in FY19. We expect Aavas to report steady decline in cost ratios over the next few years owing to gradual increase in operating leverage.

Exhibit 30: Tech Spends continue to rise



Source: Company; IDBI Capital Research

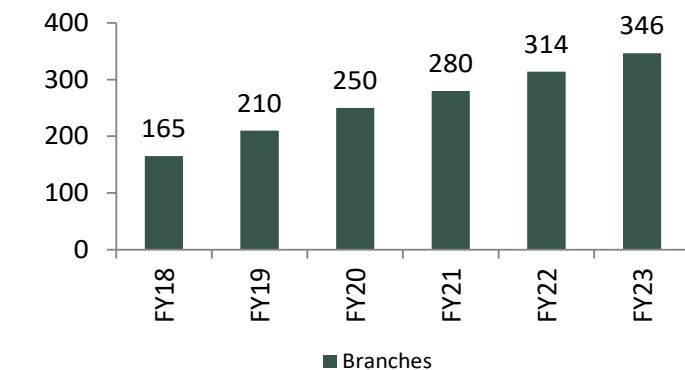
Exhibit 31: Opex to AAUM inched up due to tech upgradations



Source: Company; IDBI Capital Research

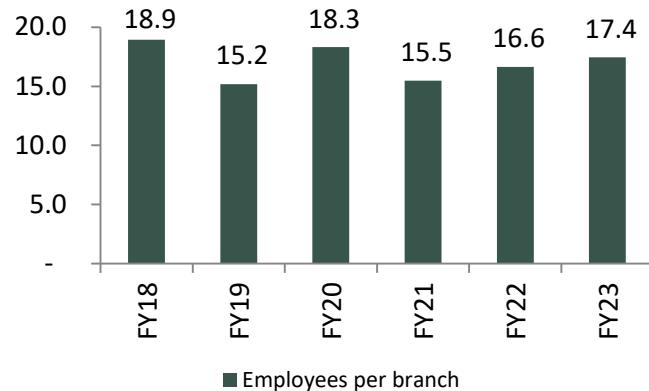
Exhibit 32: Geographic distribution growth at slower pace

State	FY20	FY21	FY22	FY23	Q3FY24	Commencement of operations
Rajasthan	88	95	99	102	102	2012
Maharashtra	42	44	45	48	48	2012
Gujarat	37	39	42	44	44	2012
Madhya Pradesh	36	40	45	49	49	2013
Delhi	6	6	6	4	5	2013
Haryana & Punjab	14	16	18	20	20	2017
Chhattisgarh	5	7	8	9	9	2017
Uttar Pradesh	14	20	23	27	30	2018
Uttarakhand	8	9	9	9	9	2018
Himachal Pradesh	0	4	4	4	4	2020
Orissa	0	0	4	6	6	2021
Karnataka	0	0	11	24	24	2021
Total	250	280	314	346	350	

Source: Company, IDBI Capital Research
Exhibit 33: Branch growth trend maintained at 30-35 branched per year

Source: Company; IDBI Capital Research
Exhibit 34: Manpower addition continues

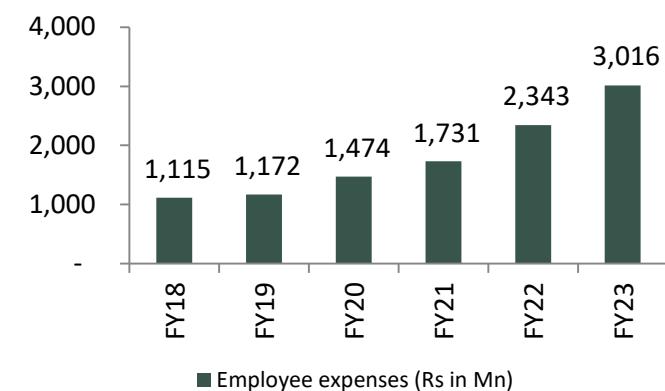
Source: Company; IDBI Capital Research

Exhibit 35: Employees per branch increased from low



Source: Company; IDBI Capital Research

Exhibit 36: Employee expenses continues to rise with expansion



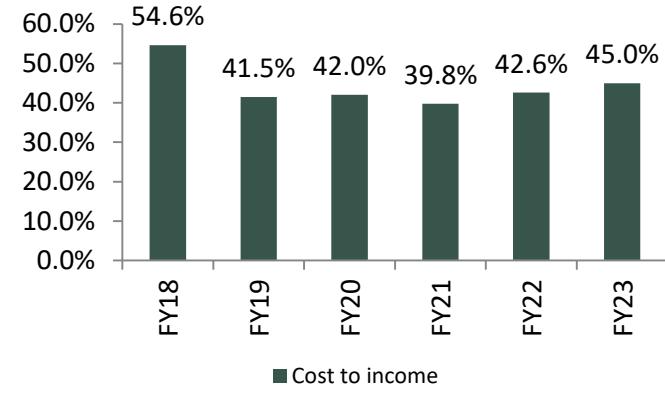
Source: Company; IDBI Capital Research

Exhibit 37: Cost per employee inched up



Source: Company; IDBI Capital Research

Exhibit 38: Cost to income ratio inched up



Source: Company; IDBI Capital Research

Exhibit 39: Peer Comparison: Number of employees remain high due to business model for Aavas

Particulars	FY21	FY22	FY23
Aavas Financiers Limited	5,679	5,222	6,034
India Shelter Finance Corporation	1,576	2,200	2,709
Aptus Value Housing Finance India Limited	1,910	2,271	2,405
Home First Finance Company India Limited	687	851	993

Source: Company; RHP; IDBI Capital Research
Exhibit 40: Peer Comparison: OPEX to AAUM higher than its listed peers except India Shelter

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	3.1	3.6	3.8	3.8	3.6
India Shelter Finance Corporation	4.0	4.7	4.8	4.5	4.7
Aptus Value Housing Finance India Limited	2.5	2.3	2.6	2.8	2.7
Home First Finance Company India Limited	2.7	2.7	3.0	2.8	2.9

Source: RHP; IDBI Capital Research

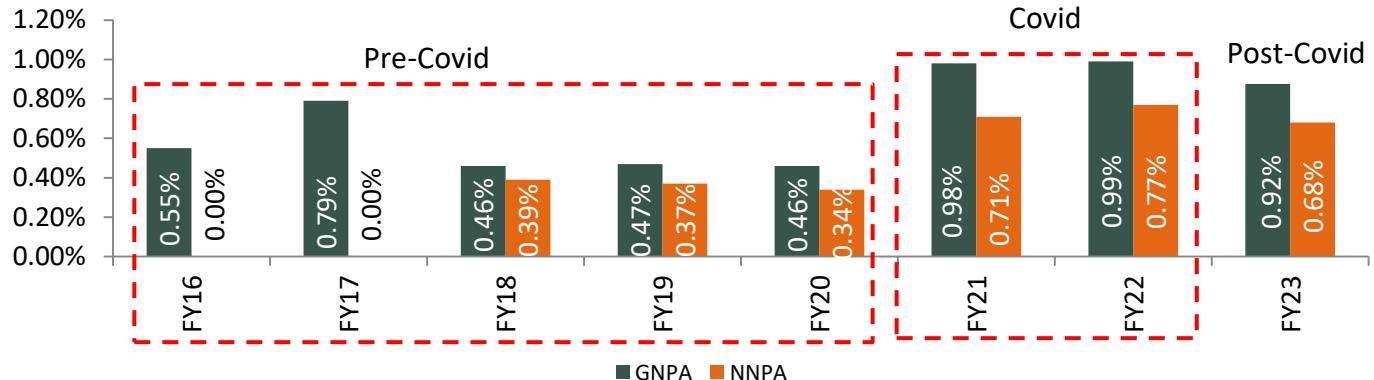
■ **Strength in credit underwriting and superior asset quality:**

Aavas has reported better asset quality over the years despite offering lending to self-employed and underserved customers. Company has maintained a lower delinquency percentage, compared to the industrial average, particularly in the affordable segment. Conservative loan to value parameters (~7.5% AUM belongs to LTV more than 80% as of FY23) and strong customer assessment standards also supported to mitigate credit risk. Company reported 0.92% GS3 ratio in FY23 out of which 0.11% is < 90dpd. Aavas' asset quality metrics are superior as compared to peers despite a higher mix of self-employed customers.

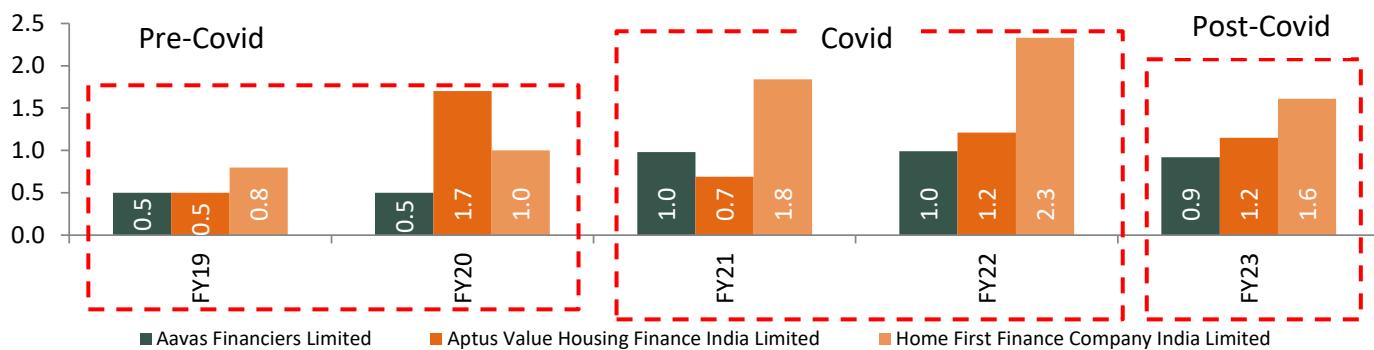
Aavas sources all its customers directly mostly through referrals. Majority of customers avail loans for standalone units for self-occupation. Initial screening is done through bureau records wherever available and the underwriting team assesses the customer profile based on templates developed over time. For self-employed applicants, the credit manager gathers further information on cash flows by visiting and talking to the residential and other neighboring shop owners apart from the records provided by the applicant (such as bank statements). The in-house legal team further verifies the authenticity of the documents submitted by the applicant.

The credit underwriting process is one of the core strengths of the company and has led to superior asset quality performance. Company reported improvement in early bucket delinquency. 1+ dpd declined to 3.3% in FY23 from 6.4% in FY21 (Post-Covid) and 3.4% in FY19 (Pre-Covid) (refer exhibit 48). Gross stage 2 assets have declined to 1.8% in FY23 from 2.9% in FY21 (refer exhibit 47). Company has invested in technology for bounce prediction model which provides data for cases that can potentially default in 3 months. This supported in pre-emptive action and reduces the asset quality impact.

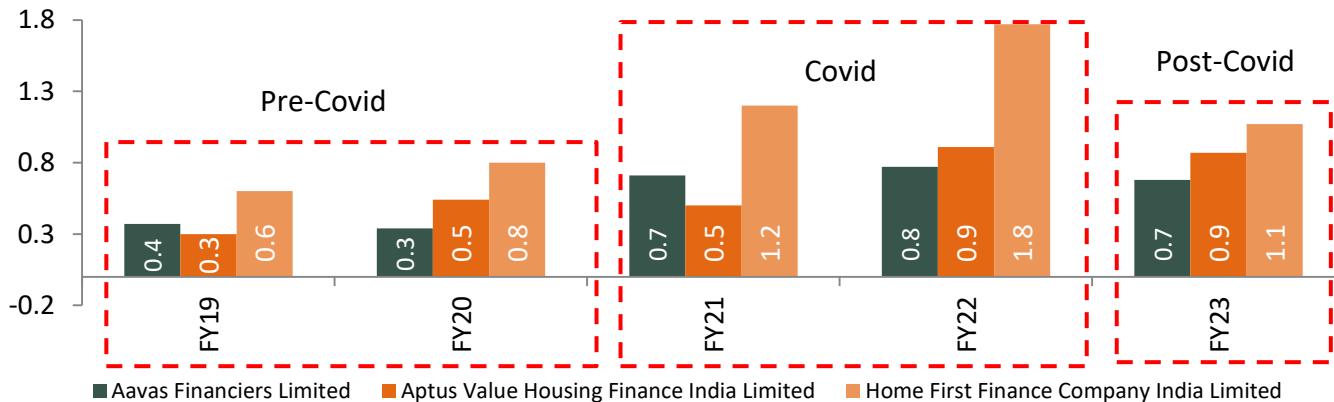
Aavas' appraisal process has led to robust asset quality performance, with only Rs250 mn of write-offs against Rs220bn of lifetime disbursements of about 11 bps. The rejected customer performance is poor, with 5X higher more than 30 dpd, conveying the strong underwriting model of Aavas. Company has demonstrated robust asset quality performance during Covid times. While its listed peers saw rise in delinquencies, GNPAAs were contained at <1% for the company.

Exhibit 41: Asset quality remained pristine during Covid


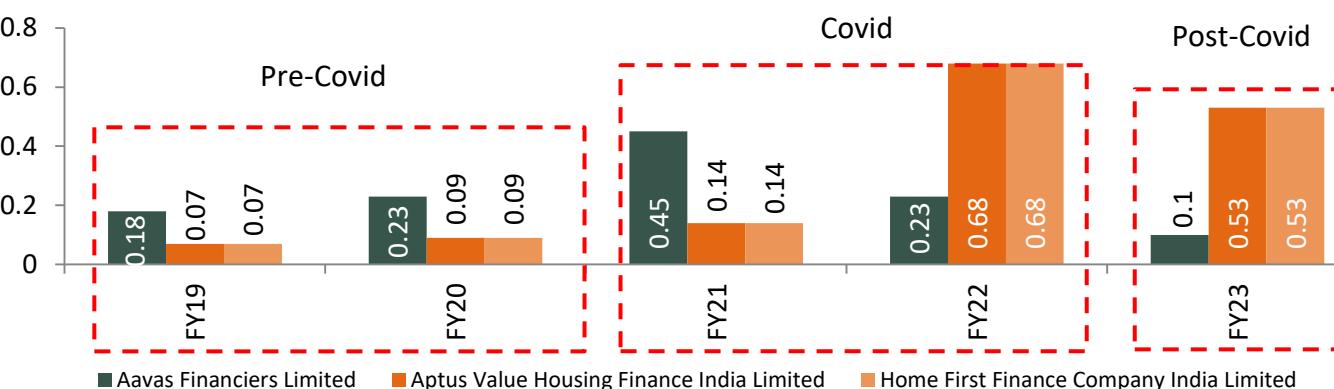
Source: Company; IDBI Capital Research

Exhibit 42: Gross stage 3 assets- lower impact in Covid as compared to its listed peers


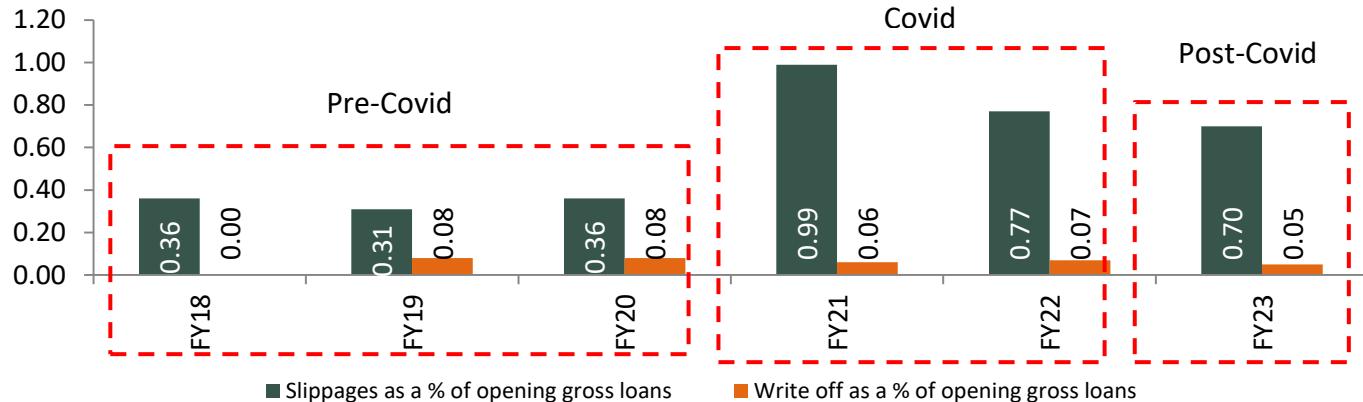
Source: Company; IDBI Capital Research

Exhibit 43: Net stage 3 assets- Peer comparison


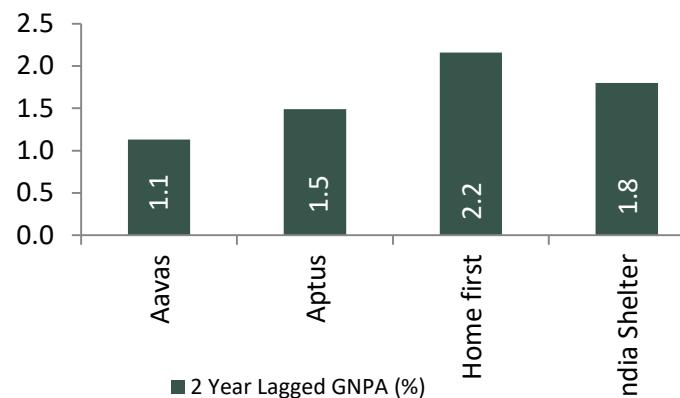
Source: Company; IDBI Capital Research

Exhibit 44: Credit cost vis-a-vis peers inched up during Covid due to conservative provisioning


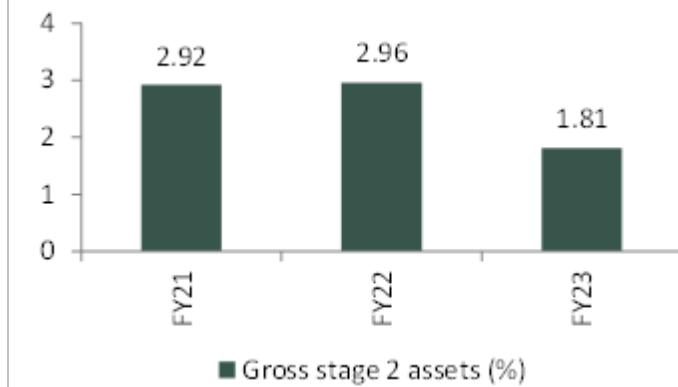
Source: Company; IDBI Capital Research

Exhibit 45: Slippages stayed below 1% range while write-off <10bps


Source: Company; IDBI Capital Research

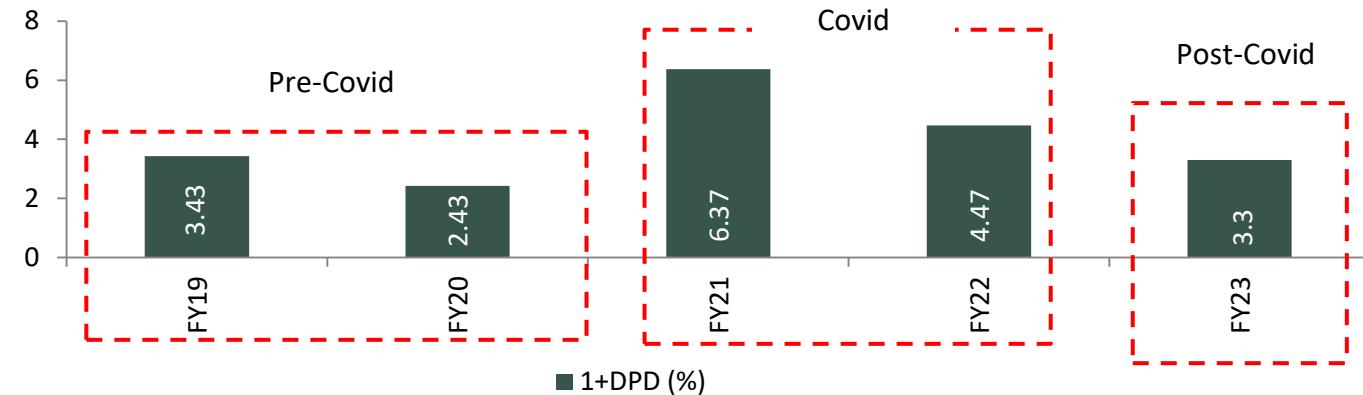
Exhibit 46: 2 Year lagged GNPA (%) remain low as compared to its peers


Source: Company; IDBI Capital Research

Exhibit 47: Gross stage 2 assets


Source: Company; IDBI Capital Research

Exhibit 48: 1+DPD (%) improved post covid



Source: Company; IDBI Capital Research

■ **Strong franchise with superior growth potential:**

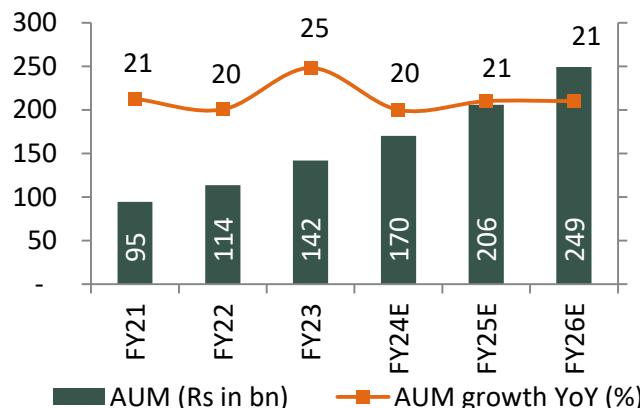
Historically, Aavas has enjoyed yields on AUM ranging from 12-15% due to its focus on low income group customers in Tier 3/4/5 markets which are heavily underpenetrated. Further, it has historically enjoyed superior ROA of ~3.5-3.7%. The company is also planning to add low ticket size MSME/small business loans which should boost profitability and sustain growth.

The company remains adequately capitalized with ~45% Tier 1 capital and has a diversified borrowing profile. The management is of the opinion that the company has adequate capital base to support growth over a period of the next 5-6 years hence, it need not raise further capital until then.

Aavas has been able to maintain lower cost of funds as compared to its peers due to its diversified borrowing portfolio. ~70% of its borrowings are on a floating rate basis, hence it should benefit in a falling interest rate scenario.

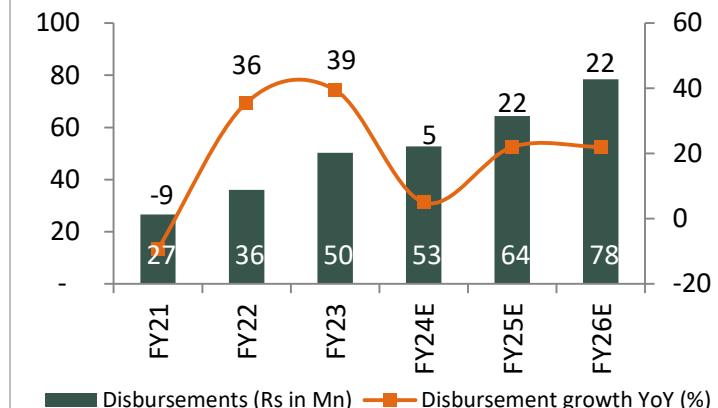
Going forward, we expect Aavas to deliver an AUM growth of 21% CAGR (FY23-26) taking FY23 as the base. We also expect the company to deliver a disbursement growth of 16% CAGR respectively taking FY23 as the base. The NIMs are expected to contract by 50 bps in FY24 and remain stable in FY25. The cost to income ratio is expected to remain in the current range of ~45-46% even though the employee costs are expected to increase owing to benefits of the technology transformation process which are expected start to kicking-in from the beginning of FY25.

Exhibit 49: Projected AUM growth at 21% CAGR



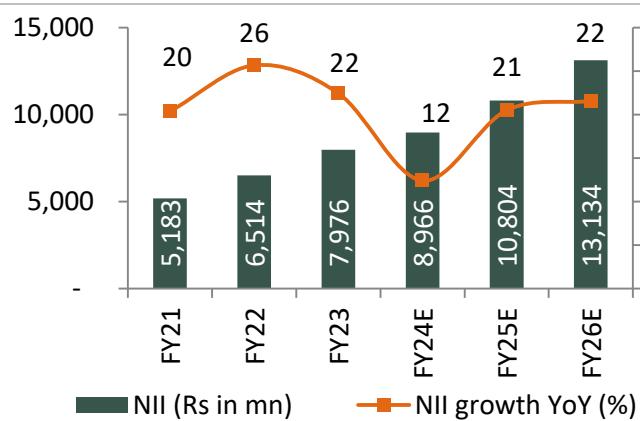
Source: Company; IDBI Capital Research

Exhibit 50: Disbursement growth at 17% CAGR



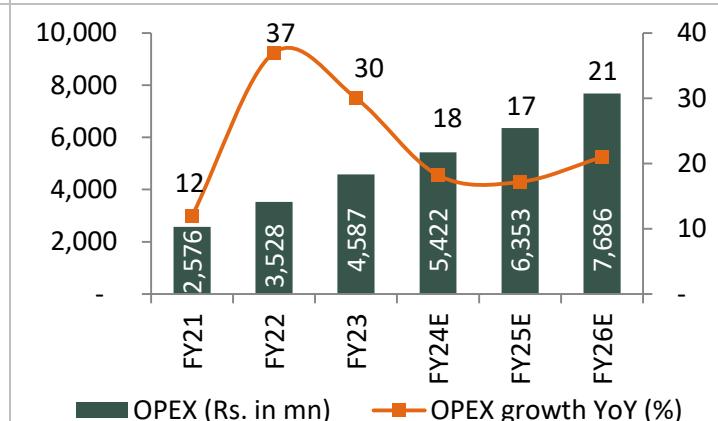
Source: Company; IDBI Capital Research

Exhibit 51: NII growth in line with AUM growth



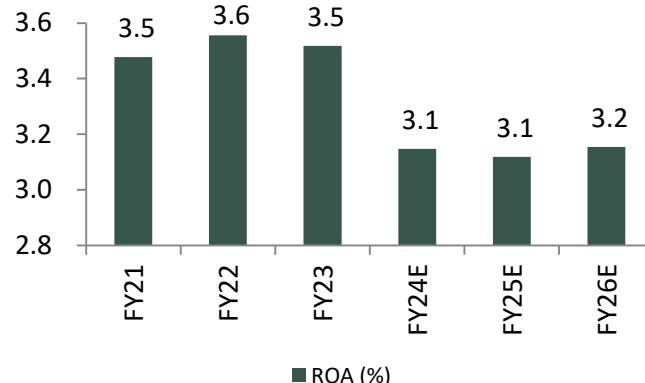
Source: Company; IDBI Capital Research

Exhibit 52: OPEX growth to remain strong



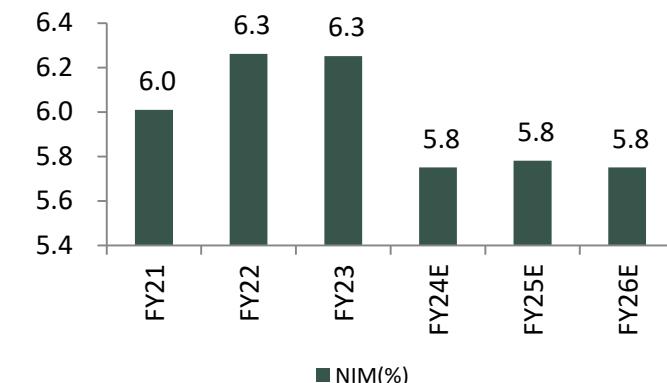
Source: Company; IDBI Capital Research

Exhibit 53: ROA (%) to remain above 3%



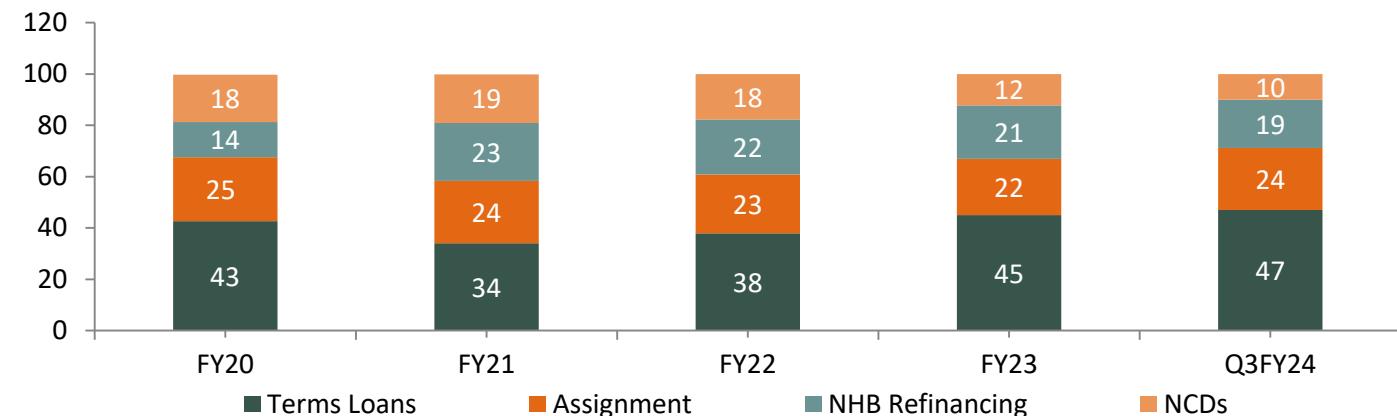
Source: Company; IDBI Capital Research

Exhibit 54: NIM expected to stabilize

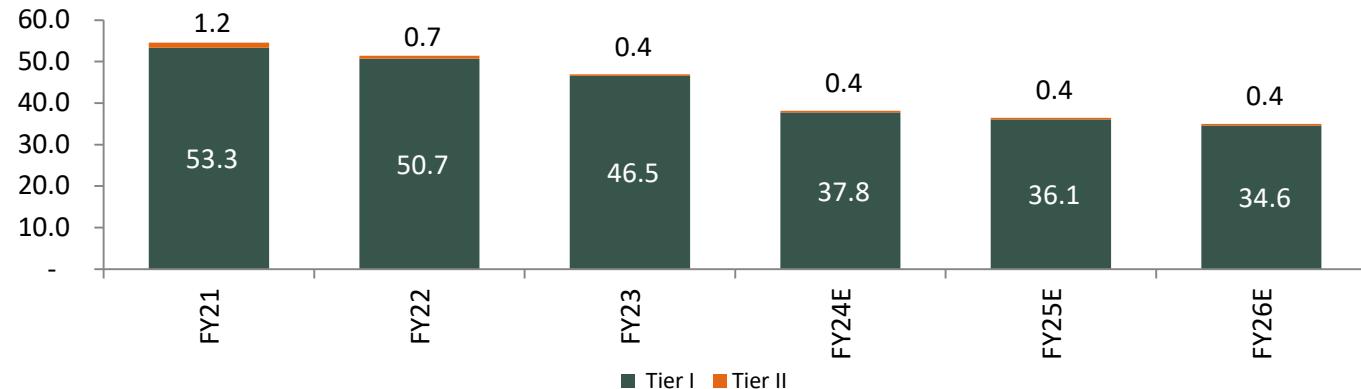


Source: Company; IDBI Capital Research

Exhibit 55: Borrowing profile skewed towards term loans



Source: Company, IDBI Capital Research

Exhibit 56: Capital adequacy ratio remain higher than regulatory requirements

Source: Company, IDBI Capital Research
Exhibit 57: Peer Comparison: Return on Assets remain lower due to NIM compression

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	3.5	3.6	3.5	3.4	3.2
India Shelter Finance Corporation	4.1	4.5	4.1	4.2	4.7
Aptus Value Housing Finance India Limited	6.5	7.3	7.8	8.5	8.1
Home First Finance Company India Limited	2.5	3.9	3.9	3.8	3.7

Source: Company; RHP; IDBI Capital Research
Exhibit 58: Peer Comparison: Return on Equity range bound around 13.5%

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	12.8	13.6	14.1	13.6	13.5
India Shelter Finance Corporation	9.8	12.8	13.4	13.8	13.9
Aptus Value Housing Finance India Limited	14.5	15.1	16.1	16.0	17.1
Home First Finance Company India Limited	8.7	12.6	13.5	13.7	15.8

Source: Company; RHP; IDBI Capital Research

Exhibit 59: Peer Comparison: Average cost of borrowings lower than its peers

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	7.8	6.6	6.6	7.3	8.0
India Shelter Finance Corporation	8.7	8.3	8.3	8.5	8.8
Aptus Value Housing Finance India Limited	9.1	8.0	8.5	7.9	8.6
Home First Finance Company India Limited	7.8	6.6	7.3	7.4	8.2

Source: Company; RHP; IDBI Capital Research

Exhibit 60: Peer Comparison: Capital adequacy ratio self-sufficient for industry

Particulars (%)	FY21	FY22	FY23	Q3FY23	Q3FY24
Aavas Financiers Limited	54.4	51.9	46.9	49.5	45.0
India Shelter Finance Corporation	71.5	55.9	52.7	46.6	72.3
Aptus Value Housing Finance India Limited	73.6	85.6	77.4	79.3	70.5
Home First Finance Company India Limited	56.2	58.6	49.4	49.6	40.9

Source: Company; RHP; IDBI Capital Research

Exhibit 61: Du-Pont Analysis

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	7.0	6.5	6.2	6.5	6.5	6.1	6.1	6.1
Fees	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Other Income	1.9	1.3	1.1	1.3	1.3	1.4	1.4	1.4
Net Revenue	9.4	8.2	7.8	8.3	8.3	7.9	7.9	8.0
Operating Expenses	3.9	3.5	3.1	3.5	3.8	3.7	3.6	3.6
Operating Profit	5.5	4.8	4.7	4.8	4.6	4.2	4.4	4.4
Provisions	0.2	0.2	0.4	0.2	0.1	0.2	0.2	0.2
PBT	5.3	4.5	4.2	4.5	4.5	4.1	4.2	4.2
Taxes	1.7	0.8	0.8	1.0	1.0	0.9	1.0	1.1
ROA	3.6	3.7	3.5	3.6	3.5	3.1	3.1	3.2
Leverage	3.2	3.4	3.7	3.8	4.0	4.2	4.4	4.6
ROE	11.6	12.7	12.8	13.6	14.1	13.3	13.8	14.6

Source: Company; IDBI Capital Research

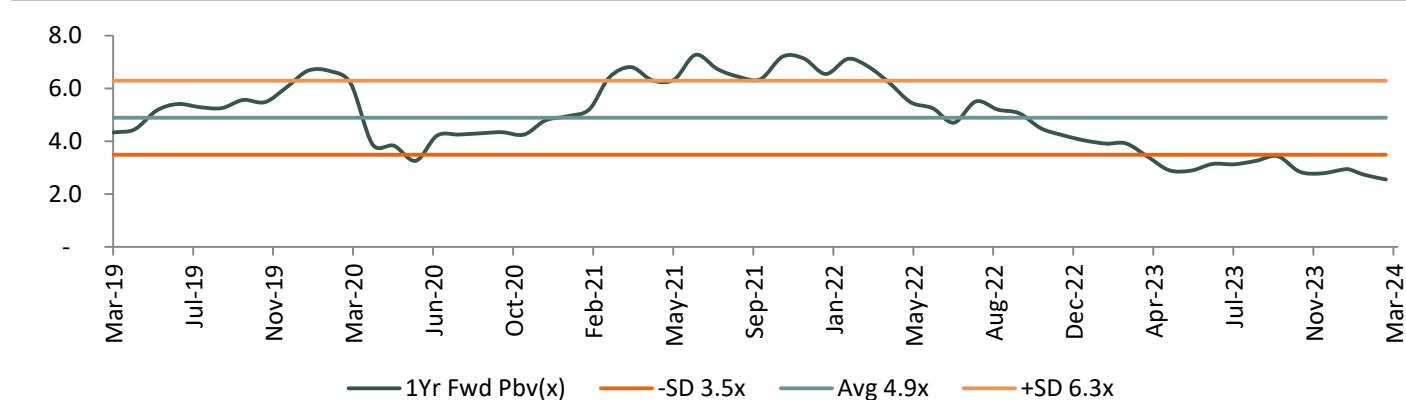
■ Valuation and outlook

Aavas has demonstrated superior performance over a decade and created a niche for itself in a difficult to assess informal customer segment. India has an underpenetrated market and penetration levels in states where Aavas is focused in are significantly low providing a long runway for growth. The company has a strong business model which has been validated by limiting its GNPs which were below 1% levels even during covid while the cumulative write-off since inception being at only Rs.250mn.

Aavas has been able grow its AUM at a rate of ~24% CAGR (FY19-23) while disbursements have grown by ~19% CAGR during the same time period. The profit growth has remained strong at 25% CAGR (FY19-23) due to lower credit cost. We expect significant investments in technology upgradation which is expected to bear fruit starting from H1FY25. The company has managed to maintain ROA consistently at above ~3.5% levels with an ROE in the range of 12-14% (between FY19-23).

We value Aavas Financers at 3x P/ABV FY26 to arrive at a target price of Rs.1820 and initiate coverage with a BUY rating with a potential upside of 39%.

Exhibit 62: One year forward P/ABV



Source: Company; IDBI Capital Research

Exhibit 63: Peer Comparison: Valuation

Particulars	CMP (Rs)	P/BV (X)			P/E (X)		
		FY24	FY25	FY26	FY24	FY25	FY26
Aavas Financiers Limited	1,314	2.8	2.4	2.1	22.3	18.7	15.4
India Shelter Finance Corporation*	624	2.9	2.5	2.2	25.3	20.5	16.2
Aptus Value Housing Finance India Limited*	311	4.1	3.6	3.1	25.5	20.6	16.7
Home First Finance Company India Limited*	885	3.8	3.2	2.7	26.2	21.1	17.0

Source: *Bloomberg estimates; IDBI Capital Research

■ About the company

Aavas was incorporated as an affordable HFC at Jaipur, Rajasthan in February 2011. In 2016, AUSFB sold 90% stake to Kedaara Capital & Partners group to comply with regulatory requirements while pursuing the SFB license. Aavas is primarily engaged in the business of providing housing loan to customers belonging to low and middle income segment in semi-urban and rural areas. These are credit worthy customers who may or may not have the income proof documents like IT return, salary slip and hence are financially excluded by other large housing finance companies and banks. Further, the company focuses on self-employed customers (60% of AUM in FY23) most of whom lack formal income proofs. The ATS of disbursements is Rs1.1mn.

Hiring is done locally, as people have understanding of local nuances. Also, origination, sales and collections are in-house functions which are manpower heavy. However, this has led to better underwriting and collections which has been validated by the superior asset quality of the company with a cumulative write-off amounting to ~Rs.220bn since inception (which is 0.11% of <90dpd profile). Extensive on-ground workforce, branch network and ability to gather local database, enables appropriate risk-pricing of customers.

Aavas is focused on self-construction Housing loans in tier 3 to tier 5 towns and hard to underwrite informal segment where the competition is less intense. Housing/Non-housing AUM mix is at 70%/30%.

Further, the company is investing in tools and technology despite branch and employee led model in order to improve productivity, customer satisfaction and reduce TAT and to sustain future growth

Exhibit 64: Board members

Board members	Designation
Mr. Sandeep Tandon	<p>Chairperson of Board, Independent Director & Chairperson of Stakeholders Relationship Committee.</p> <p>25+ years of experience</p> <p>Qualifications: Bachelor's in Electrical Engineering from University of Southern California</p> <p>Prior Engagements: Tandon Advance Device, Accelyst Solutions</p>
Mr. Sachinder Bhinder	<p>Managing Director & CEO.</p> <p>25+ years of experience</p> <p>Qualifications: Bachelor's degree in Engineering from Gujarat University, MBA from Nirma University</p> <p>Prior Engagements: Kotak Mahindra Bank, HDFC Ltd, ICICI Lombard</p>
Mr. Manas Tandon	<p>Promoter Nominee Director & Chairperson of Risk Management Committee</p> <p>20+ years of experience</p> <p>Qualifications: Bachelor's degree in technology (Electrical Engineering) from IIT Kanpur, MBA from Wharton School, University of Pennsylvania</p> <p>Prior Engagements: Matrix India Asset Advisors, TPG Capital India, Cisco</p>
Ms. Soumya Rajan	<p>Independent Director & Chairperson of Nomination & Remuneration Committee.</p> <p>25+ years of experience</p> <p>Qualifications: Bachelor's in Mathematics & Economics from St. Stephens College, Master's in Mathematics from Oxford University</p> <p>Prior Engagements: Waterfield Advisors, Standard Chartered Bank, ANZ Grindlays Bank</p>
Ms. Kalpana Iyer	<p>Independent Director & Chairperson of Audit Committee.</p> <p>Qualifications: Chartered Accountant</p> <p>Prior Engagements: Citibank N.A., IncValue Advisors</p>
Mr. K. R. Kamath	<p>Non-executive Nominee Director.</p> <p>35+ years of experience</p> <p>Qualifications: Bachelor's degree in commerce from University of Mysore, Certified Associate of the Indian Institute of Bankers</p> <p>Prior Engagements: Corporation Bank, Punjab National Bank, Allahabad Bank, Bank of India</p>
Mr. Vivek Vig	<p>Non-executive Nominee Director.</p> <p>30+ years of experience</p> <p>Qualifications: PG Diploma in management from IIM Bangalore</p> <p>Prior Engagements: Destimoney Enterprises, Centurion Bank of Punjab, PNB Housing Finance, Citibank N.A., India</p>

Source: Company; IDBI Capital Research

Exhibit 65: Key Management team

Management	Designation
Mr. Sachinder Bhinder	Managing Director & Chief Executive Officer He has an experience of 25+ years. He was previously associated with Kotak Mahindra Bank (EVP and Business Head of Home Finance), HDFC and Standard Chartered bank.
Mr. Ghanshyam Rawat	President & Chief Financial Officer. He has 30+ years of experience in financial services. Previously associated with Accenture, First Blue Home Finance, Deutsche Postbank Home Finance
Mr. Ashutosh Atre	President & Chief Risk Officer. 30+ years of experience in credit management. Previously associated with Equitas, ICICI Bank, Cholamandalam.
Mr. Siddharth Srivastava	Chief Business Officer. Experience in secured & unsecured lending and business development. Previously associated with ICICI Bank, Tata Infimedia, ITC.
Mr. Ripudaman Bandral	Chief Credit Officer. Previously associated with Indiabulls, ICICI Bank, HDFC Ltd. Experience in financial services & allied sectors.
Mr. Surendra Sihag	Chief Collections Officer. Previously associated with Bajaj Finance, Cholamandalam. Experience in financial services & allied sectors.
Mr. Anshul Bhargava	Chief People Officer. Previously associated with Power System Operation Corporation Limited, PNB Housing Finance Ltd. and Indian Army.
Ms. Jiji Oommen	Chief Technology Officer. Previously associated with Kinara Capital, Wonderla Holidays, Manappuram Finance, Bajaj Capital
Mr. Rajaram Balasubramaniam	Chief Strategy Officer & Head of Analytics. Previously associated with Citibank, Standard Chartered Bank.
Mr. Rajeev Sinha	Executive VP, Operations. Experience in financial services & allied sectors. Previously associated with Indiabulls, CoinTribe.
Mr. Ramachandran Venkatesh	Head of Internal Audit. Previously associated with Standard Chartered Bank, American Express, HDFC Bank, Fullerton India, and Aditya Birla Finance Ltd.
Mr. Sharad Pathak	Company Secretary & Chief Compliance Officer. Associated with Aavas Financiers since May 2012.

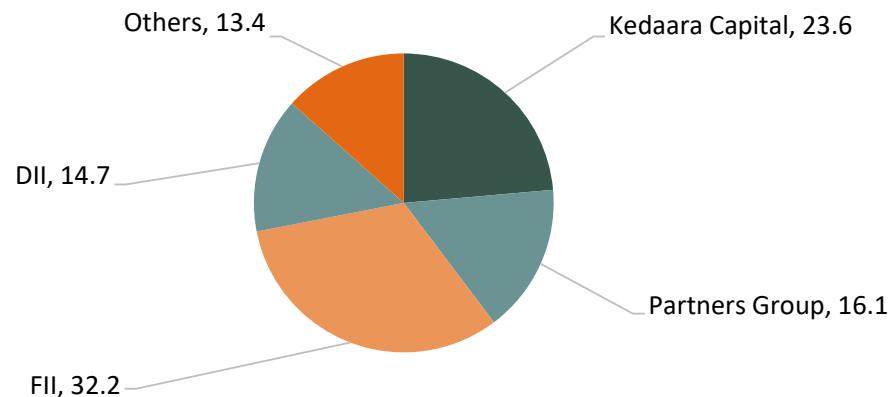
Source: Company; IDBI Capital Research

Exhibit 66: Key shareholders

	(%)
Major Institutional Shareholders	
Kedaara Capital	23.60
Partners Group	16.12
Stewart Investors	6.17
Wasatch Global Investors	5.18
UTI Asset Management	4.16
Kotak Mahindra Asset Management	3.30
IIFL AMC & IIFL Offshore (Managed)	3.25
ADIA	2.53
Vanguard Index Funds	2.26
GPF Global	1.95
Sundaram MF	1.51
Capital Group	1.92
BOFA	1.76
Blackrock (ETFs & Index Funds)	1.26
Invesco MF	1.19
HDFC MF	1.07
Total	76.16

Source: Company; IDBI Capital Research

Exhibit 67: Share Holding Pattern (%)



Source: Company; IDBI Capital Research

■ **Key Risks:**

- 1) **MD and key founder parting ways with the company-** Mr. Sushil Agarwal ex-MD and one of the key business drivers for the company, resigned from his position in May 2023. Board appointed Mr. Sachinder Bhinder as MD & CEO, for a period of 5 years. The company does not have any written non-compete agreement in place with Mr. Agarwal. This is a significant risk considering he was one of the key person responsible for steering the company on its growth trajectory and has significant know-how about the company and its business.
- 2) **High PE shareholding-** The promoting PE entities hold a 39.72% stake in the company as of December 2023. The promoters may decide to sell or reduce their stake in the company which will adversely affect the promoter's skin in the game and might lead to instabilities pertaining to business policies. The same factor might also hang as an overhead in terms of stock prices.
- 3) **NIMs could remain under pressure due to elongated high borrowing costs-** The elongated high interest rate cycle could mean that the borrowing costs will continue to remain on the higher side for the company. This could lead to compression of spreads and ultimately to NIMs remaining under pressure in the near-term considering the company's ability to pass on the increased rates to its customers owing to high competitive intensity from other affordable housing companies as well as banks.
- 4) **Private Equity stake sell could have pressure on stock performance in short term –** Listed Affordable Housing finance companies have PE as large shareholder investors which could sell stake post desired holding duration or investment return generation could put pressure on stock performance. However, we believe in longer time frame stock performance should reflect financial performance.

Particulars	PE investor shareholding as on Dec-23
Aavas	39.7
India Shelter	73.0
Aptus	37.1
Home First	46.7

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	5,183	6,514	7,976	8,966	10,804	13,134
<i>Change (yoY, %)</i>	20%	26%	22%	12%	21%	22%
Non-interest income	1,289	1,768	2,220	2,732	3,293	3,983
Net Revenue	6,473	8,281	10,196	11,698	14,097	17,117
Operating expenses	2,576	3,528	4,587	5,422	6,353	7,686
Employee expenses	1,731	2,343	3,016	3,477	4,098	4,957
Other expenses	845	1,186	1,571	1,945	2,256	2,729
Pre-Provision Profit	3,897	4,753	5,608	6,276	7,744	9,431
<i>Change (yoY, %)</i>	23%	22%	18%	12%	23%	22%
Provision	371	226	124	276	331	406
PBT	3,526	4,527	5,484	6,001	7,412	9,026
Taxes	636	975	1,188	1,348	1,864	2,270
<i>Effective tax rate (%)</i>	18%	22%	22%	22%	25%	25%
Net profit	2,889	3,552	4,296	4,653	5,548	6,756
<i>Change (yoY, %)</i>	16%	23%	21%	8%	19%	22%
EPS	36.8	45.0	54.3	58.9	70.2	85.5
<i>Return on Equity (%)</i>	12.8	13.6	14.1	13.3	13.8	14.6
<i>Return on Assets (%)</i>	3.5	3.6	3.5	3.1	3.1	3.2

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Capital	785	789	791	791	791	791	791
Reserves	23,223	27,275	31,906	36,559	42,107	48,863	
Networth	24,008	28,064	32,697	37,349	42,897	49,653	
Borrowings	62,457	78,727	97,408	1,19,326	1,44,098	1,74,571	
Other liabilities	3,128	3,384	3,992	4,910	7,205	10,032	
Total Liab. & Equity	89,593	1,10,175	1,34,096	1,61,586	1,94,201	2,34,257	
Cash	11,252	15,457	13,928	16,742	20,218	24,494	
Advances	75,233	90,534	1,14,763	1,37,949	1,66,587	2,01,816	
Investments	-	525	1,107	1,882	1,882	1,882	
Fixed Assets	251	269	316	632	695	764	
Other Assets	2,857	3,389	3,982	4,380	4,818	5,300	
Total assets	89,593	1,10,175	1,34,096	1,61,586	1,94,201	2,34,257	

Financial Ratios (%)						
Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Advances	21.7	20.3	26.8	20.2	20.8	21.1
NII	20.4	25.7	22.5	12.4	20.5	21.6
Pre-Provision Profit	22.8	22.0	18.0	11.9	23.4	21.8
Net Profit	16.0	22.9	21.0	8.3	19.2	21.8
Spreads						
Yield on Advances	11.32%	10.85%	10.88%	11.10%	11.10%	11.10%
Cost of Borrowings	7.97%	6.76%	6.71%	7.71%	7.64%	7.60%
NIM	6.01%	6.26%	6.25%	5.75%	5.75%	5.78%
Operating Efficiency						
Cost-to-Income	39.8	42.6	45.0	46.3	45.1	44.9
Cost-to-AUM	3.1	3.5	3.8	3.7	3.6	3.6
Asset Quality						
GNPA	1.0	1.0	0.9	1.1	1.1	1.1
NNPA	0.7	0.8	0.7	0.8	0.8	0.8
Provision Coverage	27.2	23.1	26.9	27.5	27.5	27.5
Credit Cost	0.5	0.3	0.1	0.2	0.2	0.2
Capital Adequacy						
CAR	54.5	51.4	46.9	38.2	36.5	35.0
Tier I	53.3	50.7	46.5	37.8	36.1	34.6
Valuation						
EPS	36.8	45.0	54.3	58.9	70.2	85.5
BV	305.8	355.5	413.6	472.4	542.6	628.1
P/E	35.7	29.2	24.2	22.3	18.7	15.4
P/BV	4.3	3.7	3.2	2.8	2.4	2.1
ROE	12.8	13.6	14.1	13.3	13.8	14.6
ROA	3.5	3.6	3.5	3.1	3.1	3.2
RORWA	6.9	7.1	6.8	5.5	5.1	5.2

Source: Company; IDBI Capital Research



Notes

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