

AAVAS Financiers (AAVAS)

BUY

Rate cut to support improvement in Spreads

Summary

We met with the management of Aavas Financiers and discussed about the business momentum and rate cut impact on margins. Technology up-gradation is almost completed as company went live on loan management channel i.e Oracle Flex cube system; thus focus will be on disbursement growth along with deeper penetration in geographical areas. This should sustain the guidance of above 20% AUM growth and disbursement growth for FY25. Cost of funds could peak in Q2FY25 and could see margin accretion of 10-15 bps in case of a 25-bps repo rate cut by the RBI as EBLR linked (20% repo and 10% T-bill) liabilities will re-price immediately. Asset quality has remained pristine with 1+ dpd at 3.12% the lowest since inception as of FY24. We revise estimates upwards slightly and maintain 'BUY' with a new TP of Rs.2,190 (earlier Rs.2,110) valuing it at 3.4x P/ABV FY26E (earlier 3.3x) as strong AUM growth with best asset quality seems sustainable.

Key Highlights and Investment Rationale

- Focus on growth backed by geographical penetration:** Management focuses on deeper penetration in Rajasthan (already present from last 10 years) and growth in other states as well to reduce concentration risk in single state. Company has laid down a vision of reaching Rs.1 lakh crore AUM mark by FY33. We revise AUM growth to 23% CAGR (FY24-26) vs 22% earlier.
- Cost of funds to peak, rate cut to support improvement in NIMs:** Spreads declined to low of 5.0% near to guidance of 5%. Management expects the cost of funds to peak in Q2FY25 and stabilize by Q4FY25. Further, repo rate cut by RBI to bring down the cost of funds as external benchmark linked liability (30%) will re-price immediately while yields re-pricing will have lag impact.
- Outlook:** We expect significant investments in technology up-gradation to bear fruit starting from H2FY25. The TAT is expected to come down to 6 days from the current level of 9 days; should support strong disbursement growth.

TP	Rs2,190
CMP	Rs1,869
Potential upside/downside	17%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	12.4	(3.4)	12.1
Rel to Sensex	9.0	(10.9)	(10.9)

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	73.8	91.7
Consensus	74.8	93.6
% difference	(1.3)	(2.1)

Key Stock Data

Bloomberg / Reuters	AAVAS IN/AVAS.BO
Sector	Housing Finance
Shares o/s (mn)	79
Market cap. (Rs mn)	147,904
3-m daily avg Trd value (Rs mn)	95.3
52-week high / low	Rs1,978 / 1,307
Sensex / Nifty	83,185 / 25,416

Shareholding Pattern (%)

Promoters	26.5
FII	35.9
DII	22.8
Public	14.8

Financial snapshot

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	6,514	7,976	9,067	10,775	13,370
Change (yoy, %)	26%	22%	14%	19%	24%
Net Profit	3,552	4,283	4,907	5,844	7,258
Change (yoy, %)	23%	21%	15%	19%	24%
EPS (Rs)	45.0	54.2	62.0	73.8	91.7
Change (yoy, %)	22%	20%	14%	19%	24%
BV (Rs)	355.5	413.6	476.8	550.6	642.4
PER (x)	41.4	34.4	30.1	25.2	20.3
P/BV (x)	5.2	4.5	3.9	3.4	2.9
ROE (%)	13.6	14.1	13.9	14.4	15.4
ROA (%)	3.6	3.5	3.3	3.2	3.2
GNPA (%)	1.0	0.9	0.9	0.9	0.9
NNPA (%)	0.8	0.7	0.7	0.7	0.7
CAR (%)	51.41	46.94	43.99	35.22	33.39

Source: IDBI Capital Research

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Key takeaways from Meet

- The company has delivered a CAGR growth of over 25% so far since the listing.
- The management noted that FY24 was a challenging year due to the change in management as well as a revamp of technological infrastructure.
- The company is confident of achieving more than 20% growth in disbursement and AUM in FY25.
- The overhang of promoter stake sale is now behind, and the management will now focus on the growth of the business.
- The company hopes to replicate the success of business in Rajasthan in other states.
- The company aims to grow in other states which will lead reduce concentration risk. It aims to bring down the share of Rajasthan in overall business to ~20%.
- The company believes that Karnataka, Uttar Pradesh, Madhya Pradesh and Gujarat has a huge growth potential going ahead. The management noted that Madhya Pradesh typically gives a better yield, though asset quality remains a challenge.
- The company saw slower growth in Gujarat and Uttar Pradesh in the past due to poor underwriting experience in some parts of the region.
- The company is also focusing on improving penetration to different areas in Rajasthan other than Jaipur.
- The company typically expands into a new state in every 3 years. The company had last expanded into Karnataka region 3 years ago, and now plans to enter into Andhra Pradesh or Telangana.
- The company has partnered with various digital channels to improve the operations as well as generate new leads.
- The company has seen a diversification in terms of geographical expansion, sourcing of loans, and new products.
- The company also disburses MSME loans and claims to be the only housing financier providing such category.
- The company received loan sanction from SIDBI to cater to MSME segment.

- Cash salaried customers form around 2-3% of the loan book.
- The company hopes to maintain the share of home loan at ~65% of the overall AUM.
- Around 20% is linked to repo-linked loans, 10% is linked to T-bill and 30% is linked to fixed rate loan and rest on floating rate loans.
- The company could see margin accretion of 10-15 bps in case of a 25-bps repo rate cut by the RBI.
- The company did not see any asset quality issues in Rajasthan in June quarter.
- The management hopes to receive fresh funding from NHB in Q3FY25.
- The company said that yield on incremental loans is 25-30 bps higher than last year.
- The management expects the spreads to stabilize at current levels in FY25, and improve in FY26 aided by improvement in yield and cost of funds.
- Around 75% of the customers have CRIF score more than 700.
- A branch typically takes 12 months to breakeven.
- The company's BT out rate has remained below ~6%, and BT in rate is ~10% annually.
- The company charges 3% on fixed rate book for foreclosures, and 4% on floating rate book.
- The top-up loans form 6% of the total book.

Exhibit 1: Peer Comparison (Q1FY25)

(Rs mn)

Particulars	Aavas Financiers	Aptus Value Housing	Aadhar Housing	India Shelter Finance	Home First Finance
Loan book	1,78,415	90,720	2,17,263	65,090	1,04,781
YoY Growth (%)	21.8	27.4	21.1	36.8	34.8
Disbursements	12,109	6,750	14,967	7,150	11,625
YoY Growth (%)	13.4	4.5	4.1	22.9	29.9
Net interest income	2,446	2,850	4,361	1,494	1,310
PPOP	1,695	2,260	2,759	1,147	1,191
PAT	1,261	1,720	2,001	835	878
Yield on loans (%)	13.1	17.4	14.0	14.9	13.4
Cost of funds (%)	8.1	8.6	8.0	8.8	8.3
Spread (%)	5.0	8.7	6.0	6.1	5.1
Cost to income (%)	44.8	20.7	36.7	37.8	35.6
Credit cost (%)	0.2	0.2	0.3	0.4	0.2
NPA/Stage III (%)	1.0	1.3	1.3	1.1	1.7
RoA	3.0	7.7	4.1	5.6	3.6
RoE (%)	13.1	18.1	15.9	14.3	16.3
BV (Rs.)	493.2	75.5	132.1	223.3	246.0
CAR (%)	44.5	71.8	48.9	66.7	36.2

Source: Company; IDBI Capital Research

Exhibit 2: Peer Comparison - Valuations

(Rs mn)

Companies	CMP (Rs.)	P/BV (x)			P/E (x)		
		FY24	FY25	FY26	FY24	FY25	FY26
Aavas Financiers	1,864	3.9	3.4	2.9	30.1	25.2	20.3
Aptus Value Housing Finance	347	4.6	4.0	3.4	28.5	23.0	18.7
Aadhar Housing Finance	458	4.1	3.0	2.5	24.5	19.5	15.5
India Shelter Finance	719	3.3	2.9	2.5	29.1	23.6	18.7
Home First Finance	1,215	5.2	4.4	3.8	35.9	28.9	23.3

Source: Company; IDBI Capital Research; Note: CMP as on Sep 19

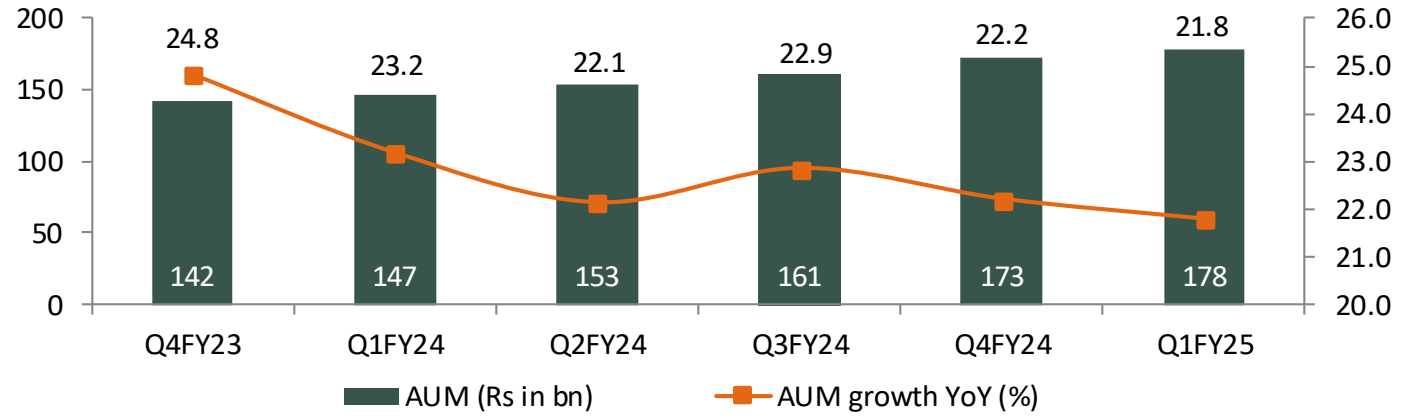
Exhibit 3: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY25	Q4FY24	Q1FY24	QoQ (%)	YoY (%)
Interest Income	4,797	4,586	4,130	4.6	16.2
Interest Expenses	2,352	2,216	1,866	6.1	26.0
Net Interest Income	2,446	2,371	2,263	3.2	8.1
NIM (%)	7.3	7.9	8.0	-60 bps	-69 bps
Non Interest Income	628	882	540	(28.8)	16.2
Operating Income	3,074	3,252	2,804	(5.5)	9.6
Staff Cost	916	959	949	(4.5)	(3.5)
Other Op Exp	463	476	390	(2.7)	18.8
Total Operating Expenses	1,379	1,434	1,339	(3.9)	3.0
<i>Cost to Income (%)</i>	<i>44.8</i>	<i>44.1</i>	<i>47.7</i>	<i>75 bps</i>	<i>-290 bps</i>
Operating Profit	1,695	1,818	1,465	(6.8)	15.7
Provisions	86	43	57	98.9	51.2
PBT	1,609	1,775	1,408	(9.3)	14.3
Tax	348	349	310	(0.1)	12.4
<i>-effective tax rate</i>	<i>21.7</i>	<i>19.7</i>	<i>22.0</i>	<i>200 bps</i>	<i>-37 bps</i>
PAT	1,261	1,426	1,098	(11.6)	14.8
EPS (Rs)	15.9	18.0	13.9	(11.5)	14.8
BV (Rs)	493.5	476.8	428.4	3.5	15.2
Borrowings	1,26,027	1,23,983	1,06,772	1.6	18.0
AUM	1,78,415	1,73,126	1,46,500	3.1	21.8
GNPA (%)	1.0	0.9	1.0	7 bps	1 bps
NNPA (%)	0.7	0.7	0.7	5 bps	-1 bps

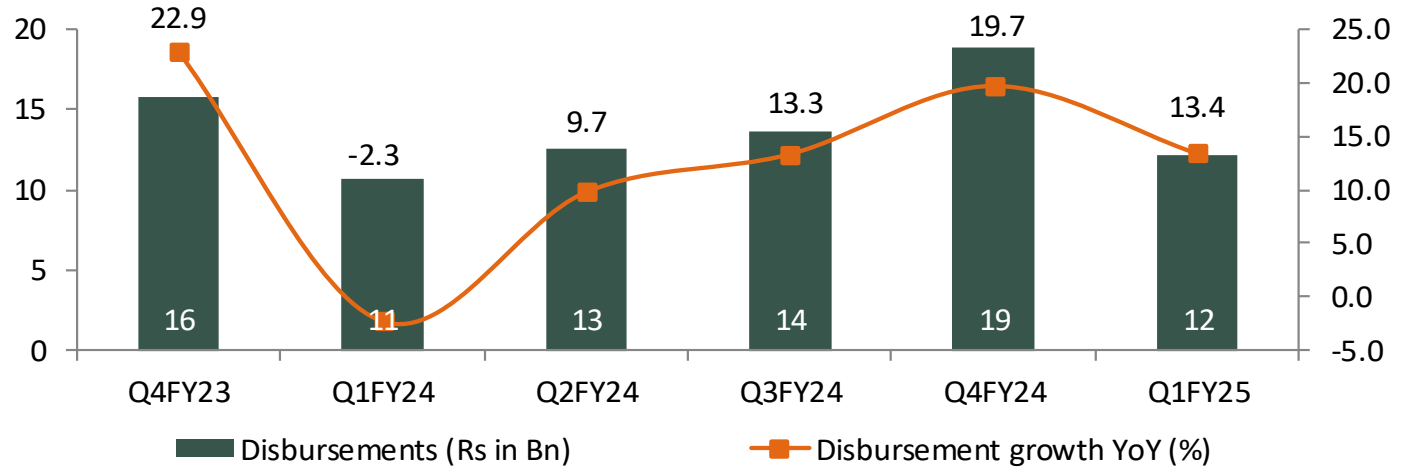
Source: Company; IDBI Capital Research

Exhibit 4: AUM growth (YoY) remained stable in June quarter



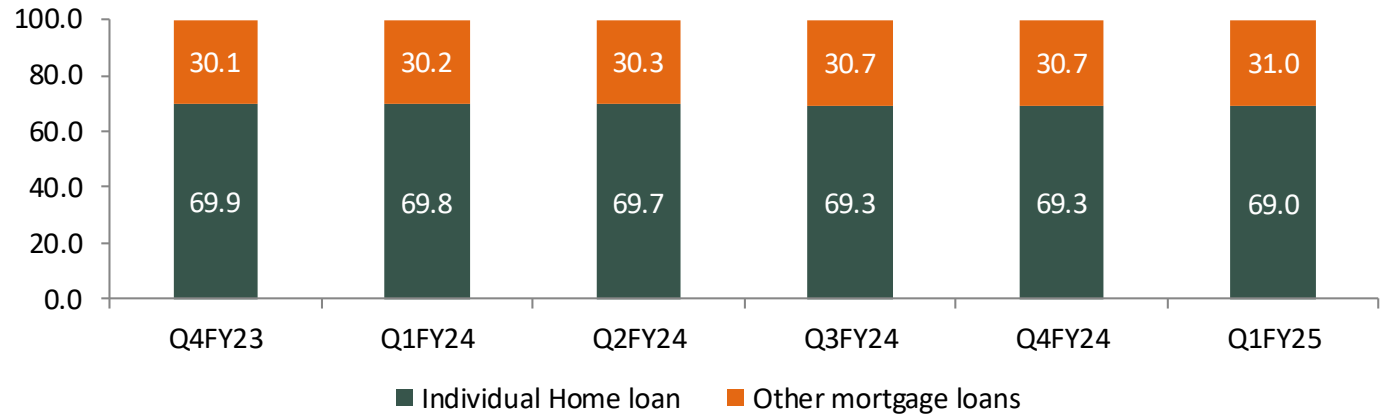
Source: Company; IDBI Capital Research

Exhibit 5: Disbursements growth (YoY) declined sequentially



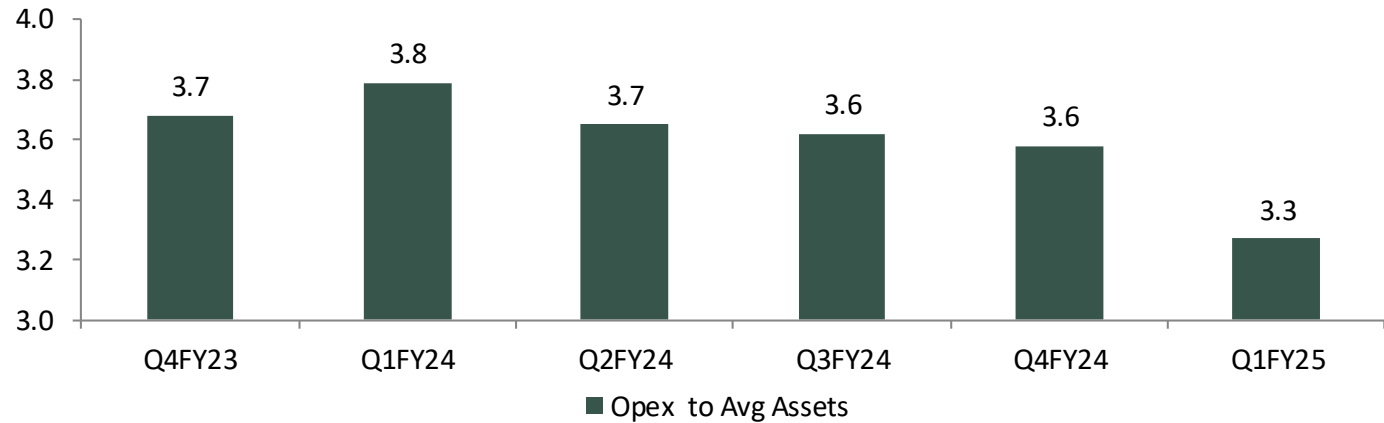
Source: Company; IDBI Capital Research

Exhibit 6: AUM mix remained stable QoQ



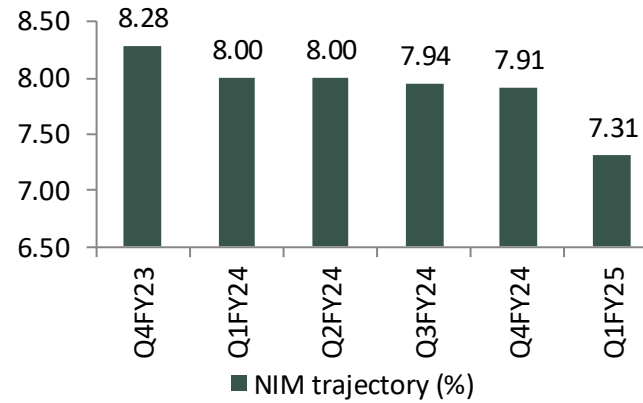
Source: Company; IDBI Capital Research

Exhibit 7: Opex to Avg Assets declined in QoQ



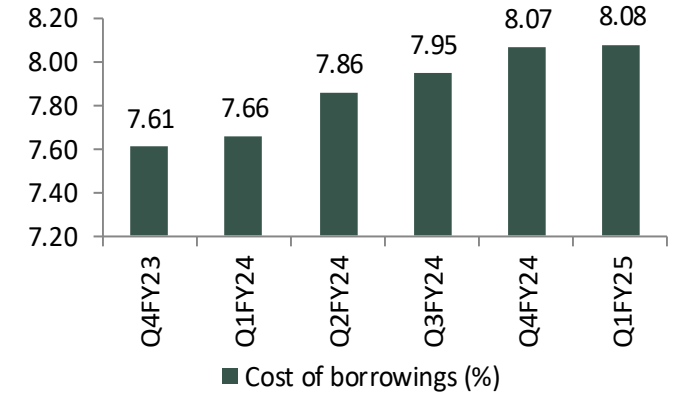
Source: Company; IDBI Capital Research

Exhibit 8: NIMs declined sharply QoQ



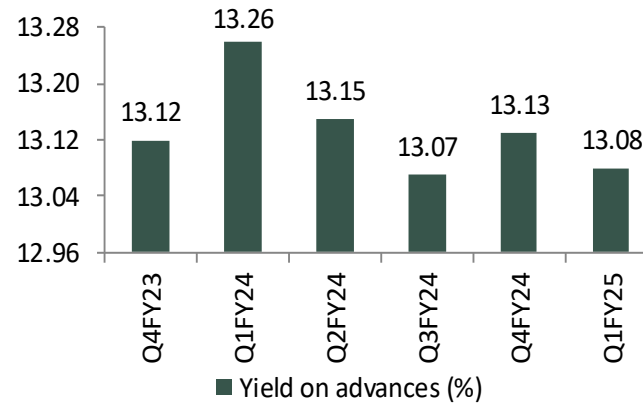
Source: Company; IDBI Capital Research

Exhibit 9: Cost of funds inched up marginally QoQ



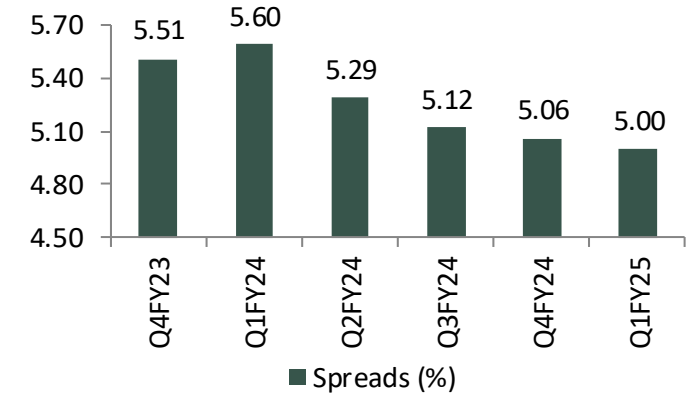
Source: Company; IDBI Capital Research

Exhibit 10: Yields declined QoQ



Source: Company; IDBI Capital Research

Exhibit 11: Spreads remain under pressure



Source: Company; IDBI Capital Research

Exhibit 12: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	6.5	6.5	6.1	5.9	5.9
Fees	0.5	0.5	0.6	0.6	0.6
Other Income	1.3	1.3	1.3	1.3	1.3
Net Revenue	8.3	8.3	8.0	7.8	7.8
Op.Exp	3.5	3.8	3.6	3.5	3.5
Op.Profit	4.8	4.6	4.3	4.3	4.3
Provisions	0.2	0.1	0.2	0.2	0.2
PBT	4.5	4.5	4.2	4.1	4.1
Tax	1.0	1.0	0.9	0.9	0.9
PAT	3.6	3.5	3.3	3.2	3.2
Leverage (x)	3.8	4.0	4.2	4.5	4.8
ROE	13.6	14.1	13.9	14.4	15.4

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net interest income	5,183	6,514	7,976	9,067	10,775	13,370
<i>Change (yoy, %)</i>	20%	26%	22%	14%	19%	24%
Non-interest income	1,289	1,768	2,220	2,856	3,505	4,327
Net Revenue	6,473	8,281	10,196	11,923	14,280	17,697
Operating expenses	2,576	3,528	4,601	5,433	6,470	7,987
Employee expenses	1,731	2,343	3,016	3,559	4,152	5,126
Other expenses	845	1,186	1,585	1,874	2,318	2,861
Pre-Provision Profit	3,897	4,753	5,595	6,490	7,810	9,710
<i>Change (yoy, %)</i>	23%	22%	18%	16%	20%	24%
Provision	371	226	124	236	362	460
PBT	3,526	4,527	5,471	6,254	7,448	9,250
Taxes	636	975	1,188	1,347	1,604	1,992
<i>Effective tax rate (%)</i>	18%	22%	22%	22%	22%	22%
Net profit	2,889	3,552	4,283	4,907	5,844	7,258
<i>Change (yoy, %)</i>	16%	23%	21%	15%	19%	24%
EPS	36.8	45.0	54.2	62.0	73.8	91.7
<i>Return on Equity (%)</i>	12.8	13.6	14.1	13.9	14.4	15.4
<i>Return on Assets (%)</i>	3.5	3.6	3.5	3.3	3.2	3.2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	785	789	791	791	791	791
Reserves	23,223	27,275	31,906	36,942	42,786	50,044
Networth	24,008	28,064	32,697	37,733	43,577	50,836
Borrowings	62,457	78,727	97,408	1,23,365	1,51,872	1,87,906
Other liabilities	3,128	3,384	3,992	4,096	6,796	10,249
Total Liab. & Equity	89,593	1,10,175	1,34,096	1,65,195	2,02,245	2,48,991
Cash	11,252	15,457	13,928	17,978	22,133	27,384
Advances	75,233	90,534	1,14,763	1,40,044	1,72,404	2,13,311
Investments	-	525	1,107	1,822	1,822	1,822
Fixed Assets	251	269	316	297	326	359
Other Assets	2,857	3,389	3,982	5,054	5,560	6,116
Total assets	89,593	1,10,175	1,34,096	1,65,195	2,02,245	2,48,991

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	21.7	20.3	26.8	22.0	23.1	23.7
NII	20.4	25.7	22.5	13.7	18.8	24.1
Pre-Provision Profit	22.8	22.0	17.7	16.0	20.3	24.3
Net Profit	16.0	22.9	20.6	14.6	19.1	24.2
Spreads						
Yield on Advances	11.32	10.85	10.88	11.02	11.02	11.02
Cost of Borrowings	7.97	6.76	6.71	7.50	7.64	7.60
NIM	6.01	6.26	6.25	5.76	5.58	5.61
Operating Efficiency						
Cost-to-Income	39.8	42.6	45.1	45.6	45.3	45.1
Cost-to-AUM	3.1	3.5	3.8	3.6	3.5	3.5
Asset Quality						
GNPA	1.0	1.0	0.9	0.9	0.9	0.9
NNPA	0.7	0.8	0.7	0.7	0.7	0.7
Provision Coverage	27.2	23.1	26.9	28.8	28.8	28.8
Credit Cost	0.5	0.3	0.1	0.2	0.2	0.2
Capital Adequacy						
CAR	54.5	51.4	46.9	44.0	35.2	33.4
Tier I	53.3	50.7	46.5	43.8	35.0	33.2
Valuation						
EPS	36.8	45.0	54.2	62.0	73.8	91.7
BV	305.8	355.5	413.6	476.8	550.6	642.4
P/E	50.6	41.4	34.4	30.1	25.2	20.3
P/BV	6.1	5.2	4.5	3.9	3.4	2.9
ROE	12.8	13.6	14.1	13.9	14.4	15.4
ROA	3.5	3.6	3.5	3.3	3.2	3.2
RORWA	6.9	7.1	6.8	6.3	5.5	5.2

Source: Company; IDBI Capital Research



Notes

Dealing

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