

AAVAS Financiers

Estimate change	↑
TP change	↕
Rating change	↔

Bloomberg	AAVAS IN
Equity Shares (m)	78
M.Cap.(INRb)/(USDb)	145.7 / 2.1
52-Week Range (INR)	2113 / 846
1, 6, 12 Rel. Per (%)	6/16/-23
12M Avg Val (INR M)	208

Financials & Valuations (INR b)

INR b	2020	2021E	2022E
NII	4.3	5.3	6.1
PPP	3.2	4.0	4.7
PAT	2.5	2.8	3.4
EPS (INR)	31.8	35.4	43.4
EPS Gr. (%)	41.2	11.3	22.7
BV/Sh. (INR)	268	303	347

Ratios (%)

NIM	7.9	7.9	7.6
C/I ratio	42.0	38.8	38.9
Credit cost	0.28	0.66	0.38
RoA	3.8	3.3	3.4
RoE	12.7	12.4	13.4
Payout (%)	0.0	0.0	0.0

Valuation

P/E (x)	58.4	52.5	42.8
P/BV (x)	6.9	6.1	5.4
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	50.2	50.2	58.2
DII	9.4	12.4	14.3
FII	31.0	28.0	18.8
Others	9.4	9.5	8.8

FII Includes depository receipts

CMP: INR1,859 TP: INR2,000 (+8%) Neutral

Strong operating performance; provisions adequate

- Aavas Financiers (AAVAS) reported a strong 3QFY21, with 26% YoY growth in PAT to INR856m. In 9MFY21, despite the tough environment, the company delivered 7% YoY growth in PAT to INR2b.
- The past quarter was characterized by stable disbursements on a YoY basis, margin improvement, and a moderately higher GS3 ratio.

Disbursements stable YoY; securitization resumes

- Disbursements increased 2% YoY to INR7.6b, resulting in 5% QoQ / 23% YoY growth in AUM to INR88b. The AUM mix was largely stable.
- AAVAS sold down INR2.4b worth of loans in 3QFY21 (v/s INR2.5b in the preceding three quarters combined) and recorded upfront income of INR405m.

1dpd ratio rises; GS3 impact minimal

- The 1dpd+ ratio rose 200bp QoQ to 8%. This was due to some customers who had paid in Sep'20 not making their payments in Dec'20. However, many non-paying customers as of Sep '20 started repayments but were unable to clear the backlog – hence, they remained in the 1dpd+ bucket.
- The GS3 ratio increased ~50bp QoQ to 1% (excluding the impact of the SC dispensation on term loan EMI payments). The company took additional INR43m COVID-19 provisions (total COVID provision buffer – INR190m). PCR on standard assets was at 41bp (improved 5bp QoQ), while that on Stage 3 loans declined ~400bp to 28.5%.

Highlights from management commentary

- The high assignment income in 3QFY21 was attributable to the sell-down of higher yielding loans (6.5% spread on those loans v/s 5% usually).
- It would reduce liquidity to targeted levels of 3–4 months' worth of disbursements post COVID.

Spreads expand 50bp QoQ; BS liquidity improves to 28%

- The calculated yield on loans improved 20bp to 15.1%, while the cost of funds declined 30bp QoQ to 7.5%.
- AAVAS continues to maintain elevated liquidity on the BS (28% of borrowings).

Valuation and view

We believe AAVAS has built a sustainable business model to scale up profitably across geographies over the long term. Its technology adoption and relentless focus on asset quality have made it a standout v/s peers. This is evident in the healthy asset quality performance in 3QFY21 (the first complete quarter post the lifting of the moratorium on term loan EMI payments). Disbursements have resumed to YoY levels – we forecast a 20% AUM CAGR over FY20–23E. Decline in NIM (due to yield pressure) would be offset by improvement in the expense ratio. We upgrade our FY22/FY23E EPS estimates by 5–6%. However, as valuations are rich, we maintain a Neutral rating with TP of INR2,000 (5x FY23 BVPS).

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Quarterly performance

INR m

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	1,816	1,881	2,020	2,148	2,286	2,430	2,577	2,669	7,864	9,963
Interest Expenses	804	833	949	974	1,118	1,144	1,169	1,219	3,561	4,650
Net Income	1,012	1,047	1,070	1,174	1,168	1,287	1,408	1,450	4,304	5,313
YoY Growth (%)	37	38	16	23	15	23	32	23	27	23
Other income	159	432	374	202	49	274	523	373	1,167	1,219
Total Income	1,171	1,479	1,444	1,376	1,218	1,560	1,932	1,822	5,470	6,532
YoY Growth (%)	32	45	9	4	4	6	34	32	20	19
Operating Expenses	495	524	627	650	526	634	665	708	2,296	2,533
YoY Growth (%)	13	19	29	23	6	21	6	9	21	10
Operating Profits	676	955	817	726	692	927	1,267	1,114	3,174	3,999
YoY Growth (%)	50	65	-2	-9	2	-3	55	53	19.1	26.0
Provisions	32	45	13	63	60	81	162	144	153	446
Profit before Tax	643	910	804	664	632	846	1,105	970	3,020	3,553
Tax Provisions	190	150	125	64	131	184	249	217	529	782
Profit after tax	453	760	679	599	501	662	856	753	2,491	2,772
YoY Growth (%)	51	115	21	10	11	-13	26	26		
Key Parameters (%)										
Yield on loans	13.9	13.8	13.7	13.6	13.6	13.5	13.4		13.5	13.7
Cost of funds	8.8	8.8	8.7	8.4	8.1	7.9	7.7		7.9	7.8
Spread	5.1	5.0	5.1	5.2	5.5	5.6	5.7		5.6	5.9
NIM - YTD	8.1	8.7	8.7	8.2	6.2	6.8	7.4		7.9	7.9
Credit cost	0.2	0.3	0.1	0.3	0.3	0.4	0.8		0.3	0.7
Cost to Income Ratio (%)	42.3	35.5	43.4	47.2	43.2	40.6	34.4		42.0	38.8
Tax Rate (%)	29.6	16.4	15.5	9.7	20.8	21.8	22.5		17.5	22.0
Balance Sheet Parameters										
AUM (INR B)	63.6	67.5	72.0	78.0	79.4	83.7	88.2		78.0	93.6
Change YoY (%)	46.0	41.9	36.2	31.2	24.7	23.9	22.6		31.2	20.1
AUM mix (%)										
Home loans	75.0	74.6	73.9	73.5	73.4	73.5	73.4		73.5	73.5
Mortgage loans	25.0	25.4	26.1	26.5	26.6	26.5	26.6		26.5	26.5
Loans (INR B)	51.1	53.1	56.2	61.8	63.6	66.9	69.7		61.8	73.5
% of AUM	80.4	78.7	78.2	79.3	80.1	79.9	79.0		30.8	18.9
Disbursements (INR B)	6.7	6.4	7.5	8.6	2.1	6.7	7.6		29.3	25.7
Change YoY (%)	22.7	18.9	6.0	-1.2	-68.3	3.5	1.5		9.7	-12.3
Borrowings (INR B)	37.6	42.2	45.6	53.5	56.8	60.3	64.8		53.5	65.4
Change YoY (%)		38.2	44.6	46.5		42.9	42.2		46.5	22.2
Borrowings/Loans (%)	73.6	79.4	81.0	86.6	89.3	90.1	93.0		86.6	89.0
Debt/Equity (x)	2.0	2.1	2.2	2.6	2.6	2.7	2.8		2.6	2.8
Asset Quality (%)										
GS 3 (INR M)	299.4	328.2	323.4	284.1	294.8	312.7	704.6			
G3 %	0.6	0.6	0.6	0.5	0.5	0.5	1.0			
NS 3 (INR M)	244.2	260.8	256.9	210.2	205.4	211.5	503.8			
NS3 %	0.5	0.5	0.5	0.3	0.3	0.3	0.7			
PCR (%)	18.4	20.5	20.6	26.0	30.3	32.4	28.5			
ECL (%)	0.3	0.3	0.3	0.3	0.4	0.5	0.7			
Return Ratios - YTD (%)										
ROA (Rep)	3.2	4.0	4.1	3.8	2.6	2.9	3.2			
ROE (Rep)	9.7	12.8	13.0	12.7	9.4	10.8	12.2			

E: MOFSL Estimates



Highlights from management commentary

Business updates

- The co. has tightened credit filters for self-employed customers in the past nine months.
- It reduced yield by 10bp on 1st Jan'21. 50–75bp yield compression may be seen over the next 2–3 years.

Asset quality

- GNPL performance is largely in line with management expectations.
- **5800 customers had not paid their EMIs in September, while 2000 customers did not pay in Dec.**
- Generally, 10–15% of 1dpd+ loans eventually slip into the NPL category.
- Maharashtra is lagging behind in terms of asset quality (1dpd+ is 12%).
- Collection efficiency, excluding GNPL accounts, is 100%.
- 100–150 restructuring requests were received.
- Stage 2 loans (30–90dpd) stand at 3.8%.

Funding

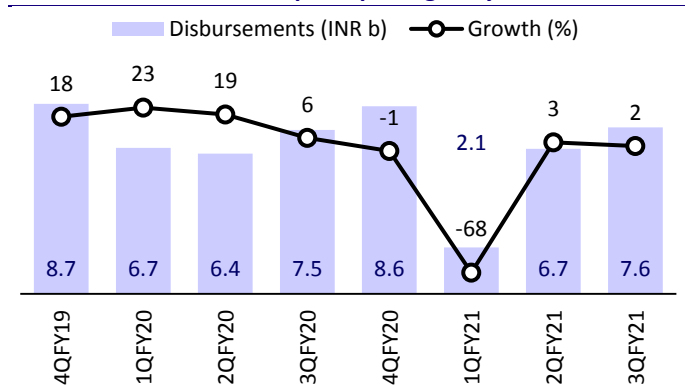
- Incremental borrowing of INR9.4b at 7.04% for tenure of 144 months was seen in the quarter.
- **The high assignment income in 3QFY21 was attributable to the sell-down of higher yielding loans (yield – 14.1%, sell-downs – 7.56%, spread – 6.54% v/s 5% QoQ). Net income from the unwinding of assignment loans amounted to INR110m in 9MFY21 v/s INR260m YoY.**
- It would reduce liquidity to targeted levels of 3–4 months' worth of disbursements post COVID.

Others

- INR500–600m disbursements per month were reported in Gujarat.

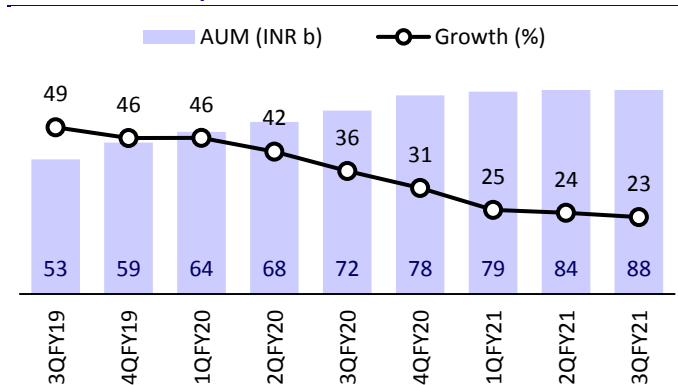
Key exhibits

Exhibit 1: Disbursements pick up marginally

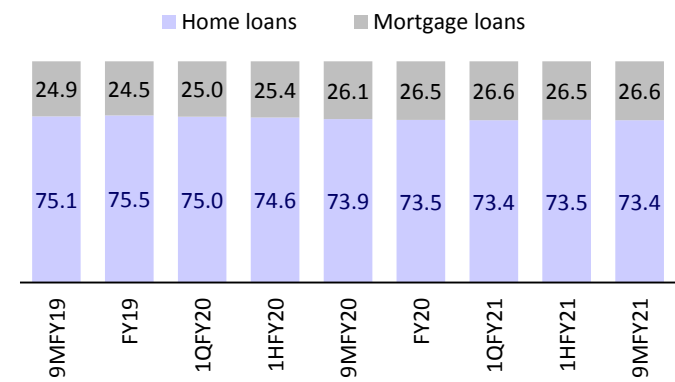


Source: MOFSL, Company

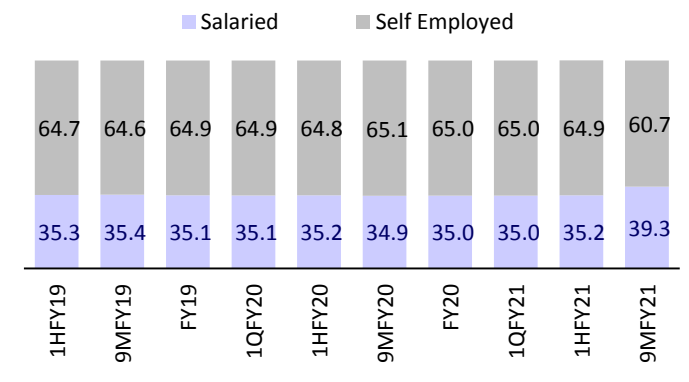
Exhibit 2: AUM up 23% YoY



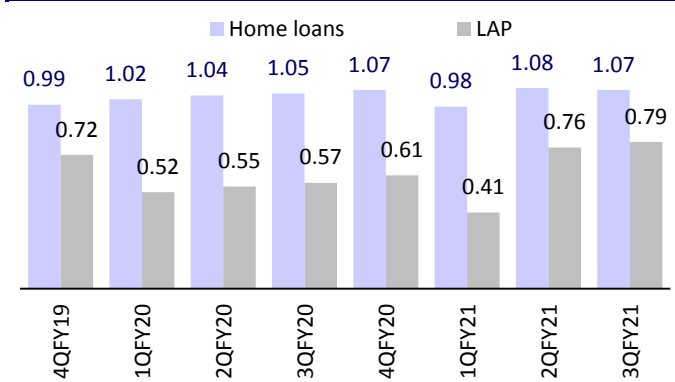
Source: MOFSL, Company

Exhibit 3: AUM mix stable (%)

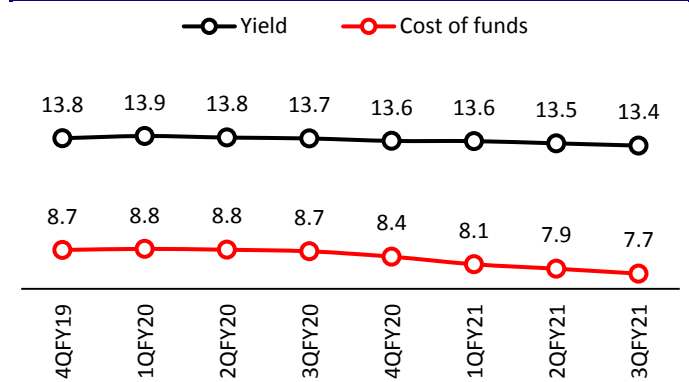
Source: MOFSL, Company

Exhibit 4: Reclassification of salaried customers inches up share by ~410bo QoQ (%)

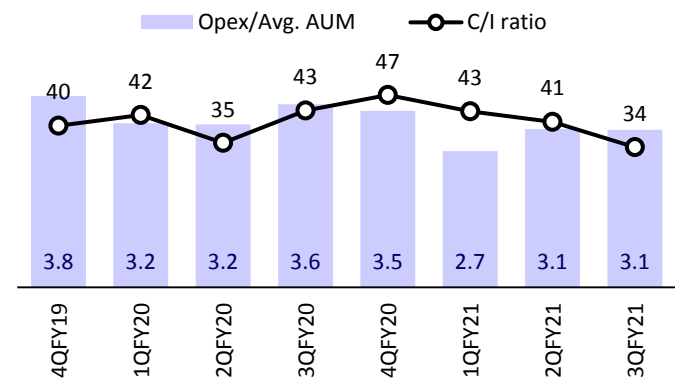
Source: MOFSL, Company

Exhibit 5: ATS for LAP up 39% YoY (INR m)

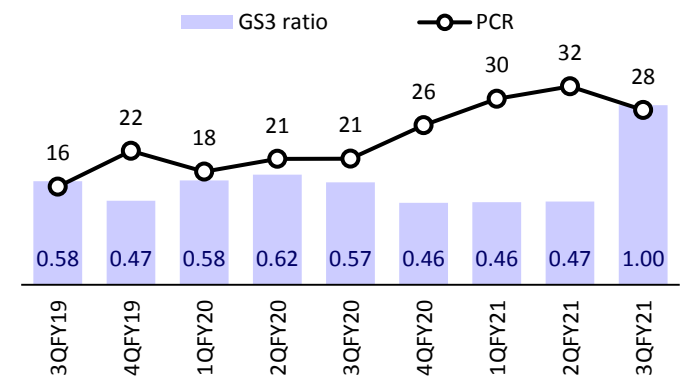
Source: MOFSL, Company

Exhibit 6: Spreads up 12bp sequentially

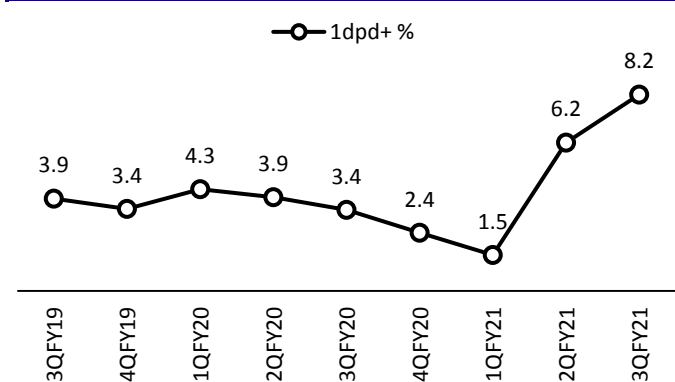
Source: MOFSL, Company

Exhibit 7: C/I ratio improves 620bp sequentially (%)

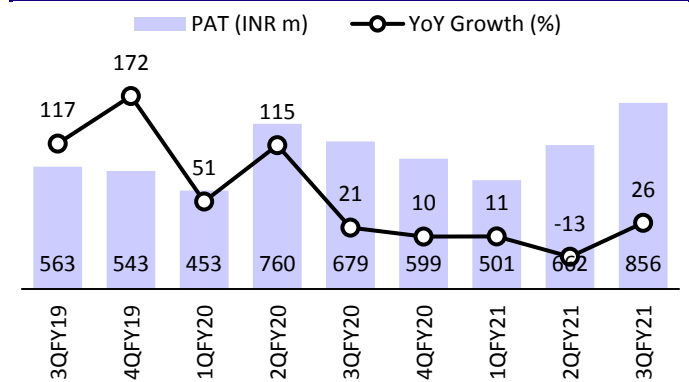
Source: MOFSL, Company

Exhibit 8: PCR down ~400bp QoQ to 28%

Source: MOFSL, Company

Exhibit 9: 1dpd+ inches up to 8.2%

Source: MOFSL, Company

Exhibit 10: Trend in PAT growth (%)

Source: MOFSL, Company

Valuation and view

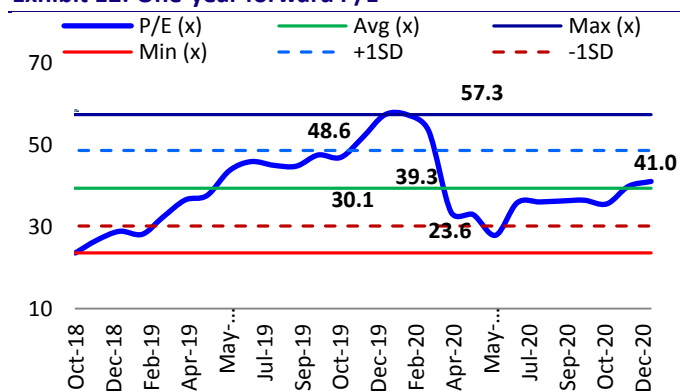
- Only a few companies have been able to scale up in Low-Ticket Affordable Housing Finance. This business is geography-specific – there is no large pan-India player in the segment. **While the company has grown fast over the past three years, it has done so by expanding into new locations. Its network grew to 250 branches in FY20 from 94 in FY17. It now has more branches than peers such as REPCO and CANF.** We believe AAVAS has the ingredients in place to deliver a ~20% AUM CAGR over the next decade.
- The company has done an excellent job of maintaining healthy asset quality despite fast loan growth and the rising share of LAP. Its GNPL ratio as well as credit costs are best-in-class vis-à-vis peers. While temporary disruption due to the lockdown is likely, we expect normalization in FY22.
- Over the next three years, we expect investments in people and branches to turn fruitful, resulting in a 60bp reduction in the expense ratio to 2.7%, driven by operating leverage. Over the long term, we believe the expense ratio would decline further.
- However, on account of low leverage, AAVAS generates RoE of 13–14% despite 3.5%+ RoA. It does not pay a dividend, thus reinvesting all profits in the business.
- Valuations at ~4.6x FY23E BVPS are rich and leave little room for error. We believe the risk-reward is unfavorable at these valuations. Hence, we initiate with a Neutral rating and Target Price of INR2,000 (5x FY23E BVPS).

Exhibit 11: We upgrade our estimates by 5–6% for FY22–23E, factoring in a better operating performance

INR b	Old Est.			New Est.			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
NII	5.1	5.9	7.1	5.3	6.1	7.4	4.8	3.0	3.8
Other Income	1.0	1.5	1.9	1.2	1.5	1.9	23.1	3.7	0.9
Total Income	6.1	7.4	9.0	6.5	7.6	9.3	7.8	3.1	3.2
Operating Expenses	2.6	3.0	3.4	2.5	3.0	3.4	-1.7	-1.1	-1.1
Operating Profits	3.5	4.4	5.6	4.0	4.7	5.9	14.9	6.0	5.8
Provisions	0.5	0.3	0.3	0.4	0.3	0.4	-4.5	2.7	21.1
PBT	3.0	4.1	5.3	3.6	4.4	5.6	17.9	6.2	4.9
Tax	0.7	0.9	1.2	0.8	1.0	1.2	17.9	6.2	4.9
PAT	2.4	3.2	4.1	2.8	3.4	4.3	17.9	6.2	4.9
AUM	92.7	110.6	134.0	93.6	112.2	136.4	1.0	1.5	1.8
Borrowings	66.0	75.1	89.9	65.4	75.3	90.9	-0.9	0.2	1.2
NIM (%)	7.5	7.3	7.4	7.9	7.6	7.7			
ROA (%)	2.8	3.3	3.6	3.3	3.4	3.8			
RoE (%)	10.6	12.8	14.5	12.4	13.4	14.8			

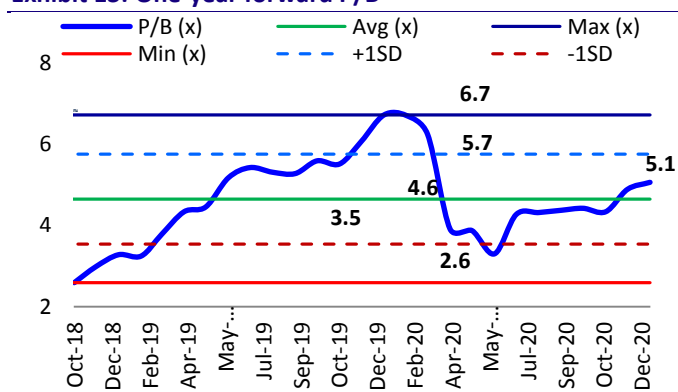
Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HFCs															
HDFC*	Buy	2,589	62.8	26.7	20.1	15.1	3.0	2.4	1.9	1.8	1.9	1.9	12.5	12.6	12.9
LICHF	Buy	414	2.9	6.9	6.4	6.1	1.0	0.9	0.8	1.3	1.3	1.3	15.8	15.1	14.1
PNBHF	Neutral	368	0.8	6.5	5.5	4.1	0.7	0.6	0.6	1.2	1.4	1.7	11.4	12.2	14.7
AAVAS	Neutral	1,859	2.1	61.9	45.5	35.2	6.2	5.5	4.7	2.8	3.3	3.6	10.6	12.8	14.5
CANFIN	Buy	491	0.9	14.8	13.8	12.3	2.5	2.2	1.9	2.0	2.0	2.1	18.7	17.0	16.3
REPCO	Buy	262	0.2	5.6	5.3	4.8	0.8	0.7	0.6	2.4	2.3	2.4	15.2	14.0	13.7
Vehicle Finance															
SHTF	Buy	1,151	3.8	11.4	9.3	8.0	1.3	1.2	1.0	2.2	2.5	2.7	12.9	13.4	13.8
MMFS	Buy	174	1.5	23.9	18.7	12.1	1.4	1.3	1.2	1.2	1.4	2.0	6.7	7.2	10.5
CIFC	Buy	422	4.8	20.8	17.3	13.9	3.6	3.0	2.5	2.4	2.7	3.1	18.6	18.8	19.6
Diversified															
BAF	Neutral	4,967	42.1	67.9	33.8	26.6	8.2	6.7	5.5	2.6	4.8	5.0	12.8	21.9	22.7
SCUF	Buy	1,019	1.0	7.9	6.1	4.8	0.8	0.7	0.7	2.8	3.6	4.3	11.2	12.9	14.5
LTFH	Buy	92	2.6	19.7	8.5	6.1	1.2	1.1	0.9	0.8	1.9	2.4	6.4	13.5	16.5
INDOSTAR	Neutral	316	0.5	94.4	25.9	17.3	1.0	1.0	0.9	0.4	1.4	2.3	1.3	3.8	5.4
MAS	Buy	877	0.7	30.6	25.5	21.4	4.3	3.8	3.4	3.5	4.1	4.2	14.9	15.9	16.7
Gold Finance															
MUTH	Buy	1,166	6.5	13.2	11.1	9.5	3.2	2.6	2.2	6.6	7.0	7.2	27.3	26.2	25.0
MGFL	Buy	162	1.9	8.3	6.8	5.8	1.9	1.5	1.3	5.3	5.9	6.1	25.5	25.3	24.1
Wholesale															
PIEL	Buy	1,487	4.5	13.5	11.6	10.1	1.1	1.0	1.0	0.0	0.0	0.0	8.4	9.4	10.0
ABCL	Buy	86	2.9	10.6	10.2	7.5	1.1	0.8	0.6	1.6	1.4	1.5	10.6	8.7	8.9

Financials and valuations

Standalone Income statement

	INR m							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	1,725	2,707	3,926	5,935	7,864	9,963	11,302	13,565
Interest Expended	969	1,428	1,931	2,554	3,561	4,650	5,206	6,150
Net Interest Income	757	1,279	1,995	3,382	4,304	5,313	6,096	7,414
Change (%)	76.3	69.0	56.0	69.5	27.3	23.5	14.7	21.6
Gain on Securitisation	0	5	602	783	766	842	1,095	1,369
Other Operating Income	244	343	417	391	401	377	449	538
Total Income	1,001	1,627	3,014	4,556	5,470	6,532	7,640	9,322
Change (%)	86.5	62.5	85.3	51.2	20.1	19.4	17.0	22.0
Operating Expenses	466	673	1,645	1,890	2,296	2,533	2,972	3,384
Operating Income	535	953	1,369	2,666	3,174	3,999	4,668	5,938
Change (%)	71.0	78.1	43.6	94.7	19.1	26.0	16.7	27.2
Provisions	47	67	26	89	153	446	310	369
PBT	489	887	1,343	2,577	3,020	3,553	4,358	5,570
Tax	168	308	412	818	529	782	959	1,225
Tax Rate (%)	34.4	34.7	30.7	31.7	17.5	22.0	22.0	22.0
PAT	321	579	931	1,759	2,491	2,772	3,400	4,344
Change (%)	68.0	80.4	60.9	89.0	41.6	11.3	22.7	27.8
Proposed Dividend	0	0	0	0	0	0	0	0

Balance sheet

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	384	582	692	781	783	783	783	783
Reserves & Surplus	1,647	5,082	11,207	17,589	20,196	22,968	26,367	30,712
Net Worth	2,031	5,663	11,899	18,370	20,979	23,751	27,150	31,495
Borrowings	14,572	17,935	27,376	36,533	53,520	65,400	75,296	90,931
Change (%)	104.2	23.1	52.6	33.4	46.5	22.2	15.1	20.8
Other liabilities	505	908	1,126	1,366	2,081	2,497	2,996	3,595
Total Liabilities	17,108	24,507	40,401	56,268	76,580	91,648	1,05,442	1,26,021
Loans	14,702	21,638	33,334	47,245	61,808	73,483	87,553	1,05,734
Change (%)	75.9	47.2	54.1	41.7	30.8	18.9	19.1	20.8
Investments	0	8	45	45	45	45	45	45
Change (%)	NM	NM	NM	0.0	0.0	0.0	0.0	0.0
Other assets	2,405	2,861	7,022	8,978	14,727	18,120	17,844	20,242
Total Assets	17,108	24,507	40,401	56,268	76,580	91,648	1,05,442	1,26,021

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Avg Yield on Housing Loans	15.0	14.8	14.2	13.9	13.5	13.7	13.0	13.0
Avg. Cost-Int. Bear. Liab.	8.9	8.8	8.5	8.0	7.9	7.8	7.4	7.4
Interest Spread	6.0	6.1	5.7	5.9	5.6	5.9	5.6	5.6
Net Interest Margin	6.6	7.0	7.3	8.4	7.9	7.9	7.6	7.7
Profitability Ratios (%)								
RoE	21.1	15.0	10.6	11.6	12.7	12.4	13.4	14.8
RoA	2.5	2.8	2.9	3.6	3.8	3.3	3.4	3.8
Loans/Equity (x)	7.2	3.8	2.8	2.6	2.9	3.1	3.2	3.4
Cost/Income	46.5	41.4	54.6	41.5	42.0	38.8	38.9	36.3
Asset Quality (%)								
Gross NPAs	80	169	107	158	210	1,316	1,671	2,038
Gross NPAs to Adv.	0.6	0.8	0.3	0.3	0.3	1.8	1.9	1.9
Net NPAs	62	129	83	112	171	948	1,204	1,467
Net NPAs to Adv.	0.4	0.6	0.2	0.2	0.3	1.3	1.4	1.4
VALUATION								
Book Value (INR)	52.9	97.4	172.0	235.2	267.9	303.2	346.6	402.1
Price-BV (x)					6.9	6.1	5.3	4.6
EPS (INR)	8.4	9.9	13.5	22.5	31.8	35.4	43.4	55.5
EPS Growth YoY	44.1	19.1	35.3	67.3	41.2	11.3	22.7	27.8
Price-Earnings (x)					58.2	52.3	42.6	33.4
Dividend per share (INR)	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

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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