

February 5, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,200		2,250	
NII (Rs.)	9,909	12,037	9,848	11,986
% Chng.	0.6	0.4		
PPoP (Rs.)	6,429	7,690	6,610	7,879
% Chng.	(2.7)	(2.4)		
EPS (Rs.)	59.5	71.1	61.0	72.7
% Chng.	(2.5)	(2.1)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	6,513	8,008	9,909	12,037
Growth (%)	25.7	23.0	23.7	21.5
Op. Profit (Rs m)	4,775	5,486	6,429	7,690
PAT (Rs m)	3,568	4,182	4,699	5,616
EPS (Rs.)	45.2	53.0	59.5	71.1
Gr. (%)	22.6	17.2	12.3	19.5
DPS (Rs.)	7.5	2.6	3.6	4.3
Yield (%)	0.4	0.1	0.2	0.2
Margin (%)	6.8	6.8	6.9	6.9
RoAE (%)	13.7	13.8	13.5	14.2
RoAA (%)	3.6	3.4	3.2	3.1
PE (x)	44.2	37.7	33.6	28.1
P/BV (x)	5.6	4.8	4.3	3.7
P/ABV (x)	5.8	5.0	4.4	3.8

Key Data

AAVAS.BO | AAVAS IN

52-W High / Low	Rs.3,280 / Rs.1,698
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.158bn/ \$ 1,930m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.264.33m

Shareholding Pattern (%)

Promoter's	39.16
Foreign	37.63
Domestic Institution	11.02
Public & Others	12.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.2	(13.4)	(37.4)
Relative	12.0	(17.0)	(39.5)

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Stable quarter with positive surprise on NIM

Quick Pointers:

- NII beat PLe by 6.6%, mainly led by higher NIM (better yields).
- Earnings exactly in-line at Rs1.07bn; opex to remain stretched.

We cut FY23/24/25E earnings by ~2% due to higher opex, as company's focus would be on 1) digital transformation and 2) 23-25% AuM growth. AAVAS Financiers (Aavas) saw a steady quarter with earnings being exactly in-line at Rs1.07bn. NII beat PLe by 6.6%. While AuM growth at 4.3% QoQ was lower, NIM was better due to higher yields as growth in non-HL was strong at 7.2% QoQ. Opex was a tad higher and would remain elevated given digital focus (outlay of Rs1.2-1.5bn) and likely branch addition of 30-35 branches per annum. We see opex/assets to remain at ~3.3% over FY23-25E (3.2% in FY23). To focus on long-term strategy and day-to-day execution MD/CEO roles are split. Hence, new CEO Mr. Bhinder will focus on people and technology. We trim our multiple from 4.6x to 4.5x on Sep'24 ABV to arrive at a TP of Rs2,200 (earlier Rs2,250). Due to competition Aavas' multiple could be capped; maintain 'ACCUMULATE'.

- Earnings largely in-line with PAT at Rs1.1bn:** NII was slightly higher at Rs2.1bn (PLe of Rs1.95bn), mainly led by better NIM as AuM growth was lower. NIM was a beat 7.2% (PLe 6.7%) led by higher yields at 12.4% (PLe 11.9%), while funding cost was controlled at 7.34% (PLe 7.4%). AuM growth was lower at 23.3% YoY (PLe 24.7% YoY); disbursements were in-line at Rs12bn while repayments were higher. Other income was lower at Rs534mn, due to miss on off-book income. Opex was a tad higher at Rs1.2bn, due to higher staff cost. PPOP was largely in-line at Rs1.42bn (PLe Rs1.43). Gross/net stage-3 was stable QoQ at 1.13%/0.87%, while provisions were lower at Rs35mn (PLe Rs50mn). PAT was exactly in-line at Rs1.1bn.
- MD/CEO role split; opex to be high:** MD and CEO roles have been split to bring sharper focus on both long-term strategy and day-to-day executions. Thus, new CEO Mr. Sachinder Bhinder will focus on people and technology. Mr. Bhinder has been with Aavas for over 3 years as CEO of MSME business. Opex would remain elevated given 1) digital transformation would entail an outlay of Rs1.2-1.5bn - which would reduce loan origination TAT (now 10-12 days), improve customer experience and overall productivity and 2) continuation in pace of branch accretion with Q4 seeing likely addition of 20-25 branches (overall 30-35 branches could be added each year). We see a 24% CAGR in opex over FY23-25E; opex/assets to remain at ~3.3%.
- Business momentum steady with AuM growth at 4% QoQ:** AuM growth was steady at 4.3% QoQ led by non-HL (+7.2%), while home loans grew by 3.2%. Stronger non-HL growth could explain +43bps QoQ rise in margins. Mgnt. intends to grow AuM by 23-25% per annum, while we are baking in a CAGR of ~22% over FY23-25E. Existing mix between HL and non-HL at 70:30 would be maintained, though focus would remain on quality underwriting. As per the company, NIM should remain stable in Q4 as PLR has been hiked by 125bps during 9MFY23 and further raised by 35bps w.e.f. from Jan'23.

Exhibit 1: Earnings in-line with PAT growth at 20.4% YoY/0.4% QoQ

NII growth was good at 32% YoY/11% QoQ due to better yields.

Other income declined by 11% YoY/20% QoQ as off-book income was lower.

Opex has been relatively elevated due to higher employee expenses,

Provisions were lower than expected at Rs35mn.

Disbursements have been decent at Rs.12bn while repayment run-rate was higher at 22%.

NIMs expanded 91bps YoY due to better yields.

Asset Quality stable with GNPA/NNPA at 1.1%/0.8%

Financial Statement (Rs mn)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	3,585	2,830	26.7	3,287	9.1
Interest Expense	1,504	1,251	20.2	1,410	6.6
Net interest income (NII)	2,082	1,579	31.8	1,877	10.9
Other income	534	599	(10.8)	664	(19.5)
Total income	2,616	2,178	20.1	2,541	3.0
Operating expenses	1,201	910	32.0	1,147	4.8
Operating profit	1,415	1,268	11.6	1,394	1.5
Total provisions	35	113	(68.9)	16	117.7
Profit before tax	1,380	1,155	19.4	1,378	0.1
Tax	307	264	16.2	310	(0.9)
Profit after tax	1,073	891	20.4	1,068	0.4
AUM (Rs mn)	130,887	106,126	23.3	125,437	4.3
Disbursements (Rs mn)	12,025	9,509	26.5	11,467	4.9
Profitability ratios					
NIM	7.7	8.1	(44)	6.8	91
RoAA	3.2	2.6	53	3.2	-
RoAE	13.6	12.7	89	12.5	110
Asset Quality ratios					
Gross NPL (Rs m)	1,204	1,473	(18.3)	1,113	8.2
Net NPL (Rs m)	917	1,129	(18.8)	848	8.0
Gross NPL ratio	1.1	1.7	(58)	1.1	4
Net NPL ratio	0.9	1.3	(46)	0.8	3
Coverage ratio	23.9	24.8	(92)	23.8	10
Business & Other Ratios					
Yield on Loans (%)	13.0	12.8	25	12.9	19
Cost of Borrowings (%)	7.3	7.0	26	7.0	30
Spread (%)	5.8	5.8	(1)	5.9	(11)
Cost/Income Ratio	45.9	41.8	414	45.1	79

Source: Company, PL

Q3FY23 Concall Highlights

Assets/Liabilities

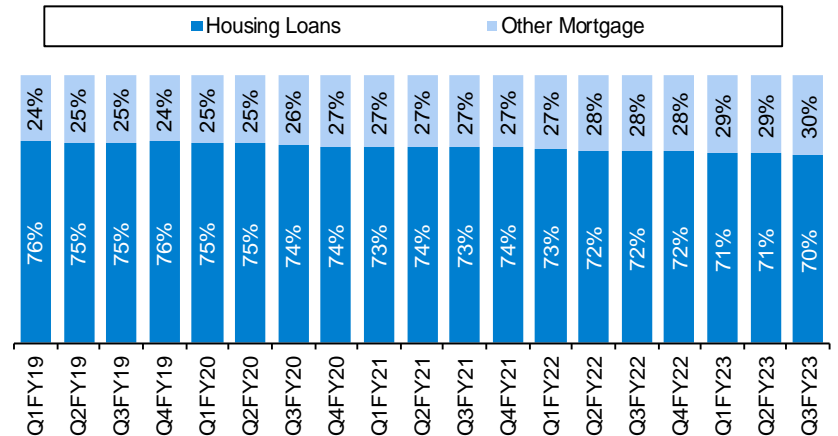
- **Aavas 3.0 is a long term strategy led by technology and people.** MD and CEO roles are split into two so that there is sharper focus on both long-term strategy and day-to-day execution. As a result, new CEO Mr. Sachinder Bhinder will focus on people and technology. Mr. Bhinder has been with Aavas for over 3 years as CEO of MSME business.
- **AUM mix would be maintained at 70:30 i.e Home Loan: Non-Home Loan.** Management expects affordable housing segment to show sustainable growth, this in addition to technology and geography awareness would continue to benefit the company. With respect to long term plan, digital transformation will enable to scale up-to 100 decks from current levels. 13 new products will also help to target new segments, new markets and new opportunities.
- **Disbursements in Q3 were at Rs.12.02bn (26.4% YoY growth),** however repayment rates were higher at 22% (annualized) leading to AUM growth of 23.3% YoY. BT out remains stable at 0.5% per month.
- **Incremental/average borrowings grew by 7.15%/7.29%** at Rs13.36bn/ Rs1164.8bn. As per decision of ALCO, Rate hikes are passed on to customers. Company has increased its prime lending rate by 125 bps during 9MFY23, along with additional increase of 35 bps from 5th January 2023.
- **30-40% home loans will be provided for green certified homes.** Management informed about collaboration with International finance corporation (IFC), after receiving 'Affordable Self Green Home'.

Fees/NIMs/Branches

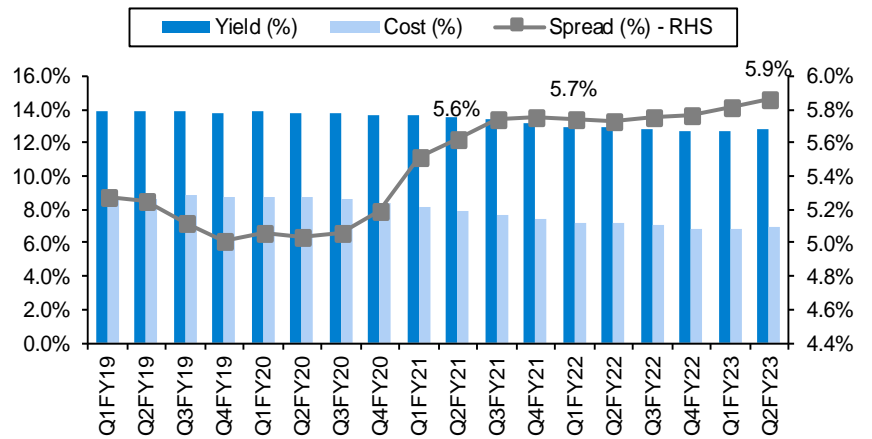
- **NIM came to 7.7% vs 6.76% in Q2FY23.** Average cost of borrowing was 7.29% and spread was maintained at 5.86%.
- **Yields on home loans was around 12%, while non-home loans were 14%.**
- **Overall capital outlay for revamping would be Rs1.2bn-1.5bn** which would reduce loan origination TAT (now 10-12 days), improve customer experience and overall productivity. Management expects reduction of 25-30bps in opex FY24 onwards.
- **Plans to open 20-25 branches in Q4 and 30-35 branches every year.** Currently total number of branches are 321 and 23 new branches are added in last 12 months. Break-even point of new branches is expected to be within 12 months of operations.

Asset Quality

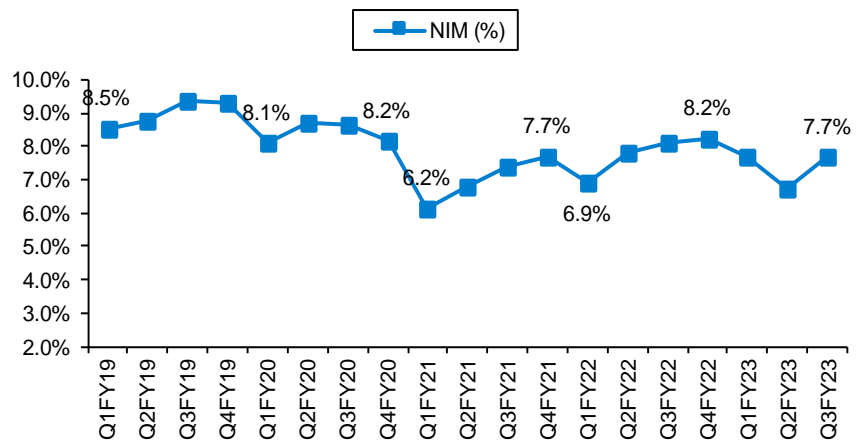
- **1+ DPD stood at 4.05%, GS3 stood at 1.13% and NS3 stood at 0.83%.** Under the resolution plan, some accounts with an outstanding amount of Rs.931mn have been classified as Stage 2.

Exhibit 2: Loan Book mix steady at 70:30


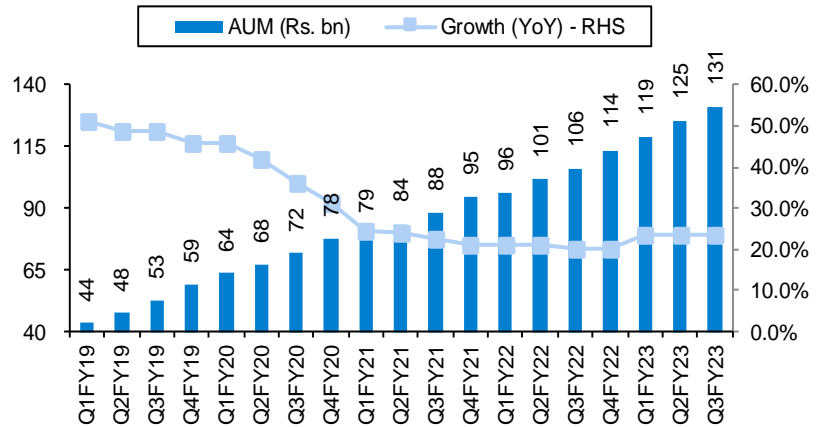
Source: Company, PL Research

Exhibit 3: Spreads sees slight uptick at 5.9% led by higher yields


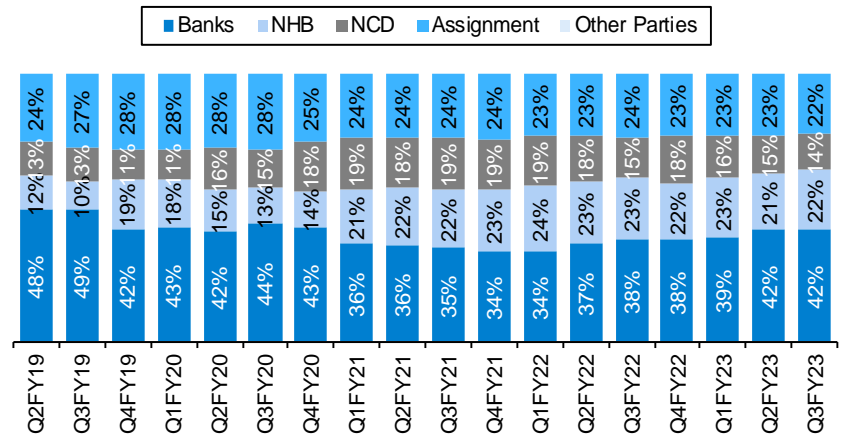
Source: Company, PL Research

Exhibit 4: NIM expands by 91bps QoQ to 7.7%


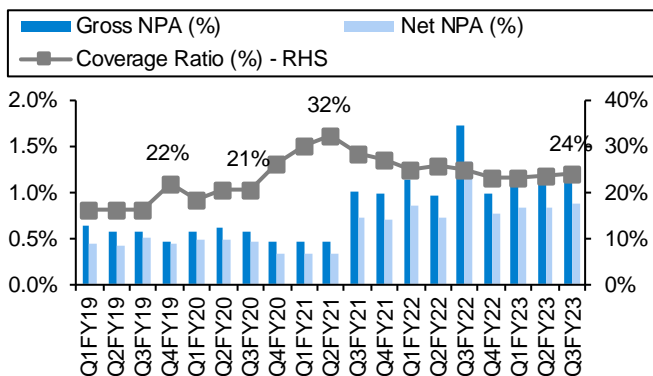
Source: Company, PL

Exhibit 5: AUM growth stable at 23.3% YoY/4.3% QoQ


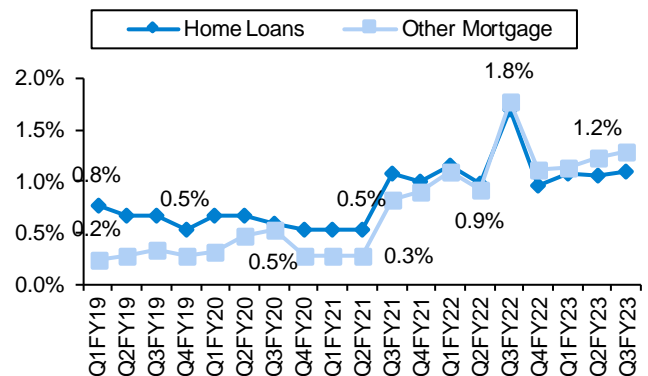
Source: Company, PL

Exhibit 6: Borrowing mix mainly from Banks and NHB refinance


Source: Company, PL Research

Exhibit 7: Asset quality metrics stable with PCR at 24%


Source: Company, PL

Exhibit 8: Both segments marginal uptick to 1.3%/1.1%


Source: Company, PL

**Exhibit 9: ROEs to improve to 14% levels led by improvement in core income and stable provisions**

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	10.2	10.3	9.8	9.7	9.4	9.5	10.1	10.4
Interest expenses	5.0	4.4	4.4	4.6	4.0	4.0	4.6	4.9
Net interest income	5.2	5.9	5.4	5.2	5.4	5.4	5.5	5.5
Other Inc. from operations	2.6	2.0	1.5	1.3	1.5	1.5	1.3	1.3
Total income	7.8	7.9	6.8	6.4	6.9	6.9	6.8	6.9
Employee expenses	2.9	2.0	1.8	1.7	1.9	2.1	2.3	2.3
Other operating expenses	1.4	1.2	1.0	0.8	0.9	1.0	1.0	0.9
Operating profit	3.5	4.6	3.9	3.9	4.0	3.7	3.6	3.5
Tax	1.1	1.4	0.7	0.6	0.8	0.8	0.8	0.8
Loan loss provisions	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2
RoAA	2.4	3.0	3.1	2.9	3.0	2.8	2.6	2.6
RoAE	11.2	11.9	12.7	12.9	13.7	13.8	13.5	14.2

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	11,288	13,959	18,084	22,628
Interest Expenses	4,775	5,951	8,175	10,592
Net interest income	6,513	8,008	9,909	12,037
Growth(%)	25.7	23.0	23.7	21.5
Non-interest income	1,768	2,161	2,385	2,878
Growth(%)	37.1	22.2	10.4	20.7
Net operating income	8,281	10,169	12,294	14,915
Expenditures				
Employees	2,322	3,151	4,055	5,085
Other Expenses	946	1,263	1,501	1,783
Depreciation	238	270	310	357
Operating Expenses	3,506	4,683	5,866	7,224
PPP	4,775	5,486	6,429	7,690
Growth(%)	22.3	14.9	17.2	19.6
Provisions	226	103	326	397
Profit Before Tax	4,549	5,383	6,102	7,293
Tax	981	1,200	1,404	1,677
Effective Tax rate(%)	21.6	22.3	23.0	23.0
PAT	3,568	4,182	4,699	5,616
Growth(%)	23.2	17.2	12.3	19.5

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	789	789	789	789
Reserves and Surplus	27,297	31,841	36,258	41,536
Networth	28,086	32,630	37,047	42,326
Growth (%)	17.0	16.2	13.5	14.2
Loan funds	79,725	99,385	1,23,387	1,50,415
Growth (%)	25.6	24.7	24.2	21.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,352	2,602	3,008	3,430
Other Liabilities	40	51	63	77
Total Liabilities	1,10,204	1,34,668	1,63,505	1,96,247
Application of funds				
Net fixed assets	683	792	968	1,176
Advances	90,534	1,11,281	1,35,988	1,65,145
Growth (%)	20.3	22.9	22.2	21.4
Investments	675	910	1,079	1,278
Current Assets	15,359	18,214	21,405	23,923
Net current assets	13,007	15,612	18,397	20,493
Other Assets	2,953	3,471	4,065	4,725
Total Assets	1,10,204	1,34,668	1,63,505	1,96,247
Growth (%)	23.0	22.2	21.4	20.0
Business Mix				
AUM	1,13,502	1,39,599	1,70,597	2,07,180
Growth (%)	20.1	23.0	22.2	21.4
On Balance Sheet	1,13,502	1,39,599	1,70,597	2,07,180
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	6.8	6.8	6.9	6.9
ROAA	3.6	3.4	3.2	3.1
ROAE	13.7	13.8	13.5	14.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	2,830	3,041	3,148	3,287
Income from securitization	-	-	-	-
Interest Expenses	1,251	1,237	1,347	1,410
Net Interest Income	1,579	1,804	1,802	1,877
Growth (%)	12.1	37.9	19.9	15.3
Non-Interest Income	599	612	380	664
Net Operating Income	2,178	2,416	2,182	2,541
Growth (%)	12.8	37.9	37.1	21.3
Operating expenditure	910	1,059	1,026	1,147
PPP	1,268	1,357	1,156	1,394
Growth (%)	-	-	-	-
Provision	113	(104)	9	16
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,155	1,461	1,147	1,378
Tax	264	304	254	310
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	22.9	20.8	22.2	22.5
PAT	891	1,157	892	1,068
Growth	4	32	49	16
AUM	1,06,126	1,13,502	1,18,936	1,25,437
YoY growth (%)	20.3	20.1	23.7	23.6
Borrowing	72,291	79,725	82,909	85,712
YoY growth (%)	11.5	25.6	27.8	24.1

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	1,999	1,999	1,999	1,999
EPS (Rs)	45.2	53.0	59.5	71.1
Book value (Rs)	355.8	413.4	469.3	536.2
Adj. BV(Rs)	347.0	401.7	456.4	520.8
P/E(x)	44.2	37.7	33.6	28.1
P/BV(x)	5.6	4.8	4.3	3.7
P/ABV(x)	5.8	5.0	4.4	3.8
DPS (Rs)	7.5	2.6	3.6	4.3
Dividend Payout Ratio(%)	16.6	5.0	6.0	6.0
Dividend Yield(%)	0.4	0.1	0.2	0.2

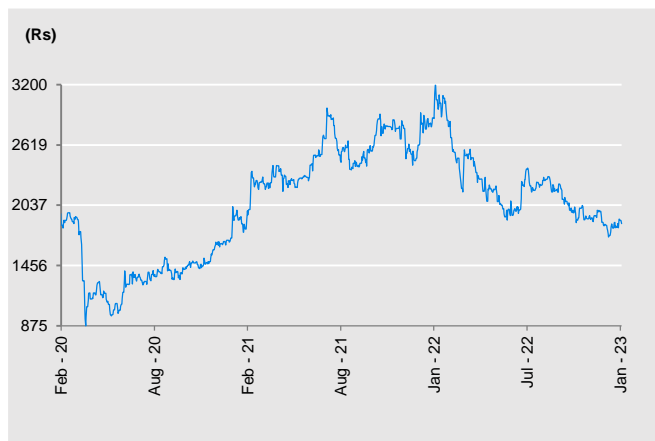
Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	904	1,211	1,342	1,609
Net NPA(Rs m)	695	919	1,018	1,217
Gross NPAs to Gross Adv.(%)	1.0	1.1	1.0	1.0
Net NPAs to net Adv.(%)	0.8	0.8	0.7	0.7
NPA coverage(%)	23.1	24.1	24.2	24.4

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	5.4	5.4	5.5	5.5
NII INCl. Securitization	5.4	5.4	5.5	5.5
Total income	6.9	6.9	6.8	6.9
Operating Expenses	2.9	3.2	3.3	3.3
PPOP	4.0	3.7	3.6	3.5
Total Provisions	0.2	0.1	0.2	0.2
RoAA	3.0	2.8	2.6	2.6
Avg. Assets/Avg. net worth	4.6	4.9	5.2	5.5
RoAE	13.7	13.8	13.5	14.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	Accumulate	2,250	1,750
2	22-Oct-22	Accumulate	2,250	1,990
3	05-Oct-22	Hold	2,300	2,197
4	31-Jul-22	Hold	2,300	2,383
5	08-Jul-22	BUY	2,300	2,006
6	08-May-22	Accumulate	2,300	2,172
7	09-Apr-22	BUY	3,500	2,485

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,750
2	Axis Bank	BUY	1,100	933
3	Bank of Baroda	BUY	220	181
4	Can Fin Homes	BUY	700	521
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	140
8	HDFC	BUY	3,000	2,613
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	870
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,500	1,223
13	Kotak Mahindra Bank	BUY	2,100	1,763
14	LIC Housing Finance	Accumulate	410	420
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	605

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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