

August 6, 2023

Q1FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	1,560		1,560	
NII (Rs.)	9,691	11,734	9,720	11,839
% Chng.	(0.3)	(0.9)		
PPoP (Rs.)	6,624	7,975	6,596	7,951
% Chng.	0.4	0.3		
EPS (Rs.)	62.1	74.7	61.8	74.4
% Chng.	0.4	0.4		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	6,513	7,971	9,691	11,734
Growth (%)	25.7	22.4	21.6	21.1
Op. Profit (Rs m)	4,775	5,614	6,624	7,975
PAT (Rs m)	3,568	4,301	4,906	5,905
EPS (Rs.)	45.2	54.4	62.1	74.7
Gr. (%)	22.6	20.4	14.1	20.4
DPS (Rs.)	7.5	2.7	3.7	4.5
Yield (%)	0.5	0.2	0.2	0.3
Margin (%)	6.8	6.8	6.8	6.8
RoAE (%)	13.7	14.2	14.0	14.7
RoAA (%)	3.6	3.5	3.3	3.3
PE (x)	34.5	28.7	25.1	20.9
P/BV (x)	4.4	3.8	3.3	2.9
P/ABV (x)	4.5	3.9	3.4	3.0

Key Data

AAVAS.BO | AAVAS IN

52-W High / Low	Rs.2,340 / Rs.1,335
Sensex / Nifty	65,721 / 19,517
Market Cap	Rs.123bn/ \$ 1,489m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.637.31m

Shareholding Pattern (%)

Promoter's	39.13
Foreign	35.01
Domestic Institution	14.35
Public & Others	11.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(22.0)	(31.0)
Relative	1.5	(27.8)	(38.8)

Gaurav Jani

gauravjani@plindia.com | 91-22-66322235

Raj Mange

rajmange@plindia.com | 91-22-66322258

Anant Dumbhare

anantdumbhare@plindia.com | 91-22-66322257

AAVAS Financiers (AAVAS IN)

Rating: HOLD | CMP: Rs1,560 | TP: Rs1,560

Weak quarter; credit flow should normalise

Quick Pointers:

- Earnings miss due to lower disbursals and higher staff cost.
- Near to medium term opex/AuM guided to be stable at 3.7%.

AAVAS saw a weak quarter as PAT missed PLe by 14% due to (1) softer AuM growth at 23.2% YoY (PLe 25.6%) resulting in lower NII and (2) higher staff cost. AuM growth was affected as disbursals declined by 32.5% QoQ (usually Q1 fall is 15-20%) since a tech platform 'Salesforce' was implemented pan India in Apr'23. However, operations stabilized in May and June witnessed 17% MoM growth. AuM growth guidance of 20-25% has been maintained. Spike in employee cost was driven by retirement benefit expenses and normalization of ESOP cost. On employee stability, management suggested that there is no attrition at senior/mid-level while junior level attrition is in-line with industry. While we are watchful of senior level stability, better RoE profile (now 14-15%) could be the next trigger for re-rating which would hinge on stronger AuM growth or operating leverage. We maintain multiple at 3.0x on FY25E ABV and keep TP unchanged at Rs1,560.

- **PAT miss of 14% due to lower AuM growth and higher interest/staff cost:** NII was a miss at Rs2.26bn (PLe Rs2.37bn) led by lower NIM and AuM growth. NIM declined by 19bps QoQ to 6.91% (PLe 7.14%) driven by higher interest cost. AuM grew by 23.2% YoY to Rs146.5bn (PLe Rs149.4bn) due to lower disbursals at Rs10.7bn (PLe Rs13.4bn). Other Income was beat at Rs540mn (PLe of Rs462mn) due to fees and higher off-book income at Rs330mn (PLe Rs269mn). Opex was a miss at Rs1.3bn (PLe Rs1.1bn) as employee expenses were higher at Rs949mn (PLe Rs718mn). Hence PPoP was lower to PLe by 14.3% to Rs1.46bn. Asset quality was in-line; GNPA/NNPA rose by 8bps/5bps QoQ to 1%/0.73%; PCR was stable QoQ. Company created provisions of Rs57mn (PLe Rs65mn). PAT was lower at Rs1.1bn (PLe Rs1.3bn).
- **Credit flow impacted due to tech change:** Disbursal drop of 32.5% QoQ was higher than usual due to technology transformation wherein company initiated 'Salesforce' rollouts pan India in Apr'23. Management suggested operations stabilized in May and June witnessed a growth of 17% MoM. Near to medium term growth guidance was maintained at 20-25%. AUM mix would be 65-70% home loans and 25-30% non-home loans. Top 4 states AUM contribution is: RJ-30% while MH, MP and Guj at 15-16% each. Focus is to expand deeper in existing states and grow business in newer territories like Karnataka, UP and Orissa which saw good traction of 50-60%. BT-out for Q1 was stable at 1.4% of opening AuM and 0.5% each month is the normal run-rate.
- **Employee cost spiked QoQ; focus on TAT reduction:** Staff cost spiked by 25% QoQ as (1) there was impact of Rs125mn towards retirement benefits and (2) Q4'23 had seen some ESOP schemes mature leading to reversal of Rs100mn while Q1'24 saw regular ESOP cost of Rs50-60mn. There is no employee attrition at senior/level while it is normal at junior level. Focus is to enhance productivity, stabilize processes and enhance customer experience and with integration of new technology, TAT would reduce from 10-12 days to 6-7 days. Aim is to grow distribution network without increasing branches. Company expects cost/AuM to remain stable at 3.7% over medium term.

NII growth was tad lower led by lower NIM and AuM growth.

Other income grew by 28.4% YoY/ although lower by 15.7QoQ led by higher off-book income.

Opex growth was higher at 11.3%QoQ due to higher employee expenses.

Disbursements were lower at 2.3%YoY/32.5%QoQ at Rs10.7bn.

NIMs too declined QoQ at 19bps.

Asset Quality slightly declines with GNPA/NNPA at 1.0%/0.7%

Exhibit 1: PAT lower at 13.4%QoQ led by higher interest expense & staff cost

Financial Statement (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
Interest Income	4,128	3,148	31.1	3,861	6.9
Interest Expense	1,866	1,347	38.6	1,650	13.1
Net interest income (NII)	2,262	1,802	25.5	2,211	2.3
Other income	540	380	42.1	641	(15.7)
Total income	2,802	2,182	28.4	2,852	(1.8)
Operating expenses	1,339	1,026	30.4	1,203	11.3
Operating profit	1,464	1,156	26.6	1,649	(11.3)
Total provisions	57	9	519.5	64	(11.1)
Profit before tax	1,407	1,147	22.7	1,586	(11.3)
Tax	310	254	21.7	318	(2.6)
Profit after tax	1,097	892	23.0	1,268	(13.4)
AUM (Rs mn)	146,500	118,936	23.2	141,667	3.4
Disbursements (Rs mn)	10,682	10,936	(2.3)	15,817	(32.5)
Profitability ratios					
NIM	6.9	6.7	16	7.1	(19)
RoAA	3.2	3.2	(1)	3.5	(35)
RoAE	13.2	12.5	69	14.1	(91)
Asset Quality ratios					
Gross NPL (Rs m)	1,191	1,045	14.1	1,056	12.8
Net NPL (Rs m)	870	805	8.1	780	11.5
Gross NPL ratio	1.0	1.1	(8)	0.9	8
Net NPL ratio	0.7	0.8	(11)	0.7	5
Coverage ratio	27.0	22.9	405	26.1	91
Business & Other Ratios					
Yield on Loans (%)	13.3	12.7	59	13.1	14
Cost of Borrowings (%)	7.7	6.9	80	7.6	5
Spread (%)	5.6	5.8	(21)	5.5	9
Cost/Income Ratio	47.8	47.0	74	42.2	560

Source: Company, PL

Q1FY24 Concall Highlights

Assets/Liabilities

- **AUM mix for Q1FY24 stood at 69.6:30.4 i.e Home Loan: Non-Home Loan**, aim would be to maintain AUM mix in the range of 65:35 in FY24. Occupation wise breakup for salaried: self-employed stood 40:60. AUM saw a growth of 23.2% YoY at Rs146.5bn. Management maintained AuM growth guidance of ~20-25% in FY24. Top 4 states AUM breakup: Rajasthan -30%, Maharashtra, MP and Gujarat ~15-16% each.
- **Disbursals in Q1 were lower at Rs.10.7bn (-2.3% YoY)** due to technology transformation wherein management initiated Pan-India SFDC rollouts in Apr'23. Management suggested operations stabilized in May and June month witnessed a growth of 17% MoM.
- **In Q1FY24, incremental borrowings stood at Rs13.8bn at 8.01%.** During FY23, borrowing from development finance institutions were Rs47.63bn at an average rate of 7.25%. Borrowing mix was as follows: Term Loans – 46.6%, Assignment – 20.9%, NHB – 21.3%, Debt capital market – 11.2%. Management also expects cost of borrowing to increase during the year. NHB borrowings contributed to 20% of incremental borrowings
- **Liquidity stood at Rs31.82bn as on June 30th 2023** with cash and cash equivalent of RS20.27bn, unveiled cash credit limit was Rs1.1bn and documented unveiled sanctions from other banks stood at Rs10.5bn.
- **BT-outs** stood at 1.4% of opening AUM in Q1FY24. Management has maintained guidance of 0.5% each month.

Fees/NIMs/Branches

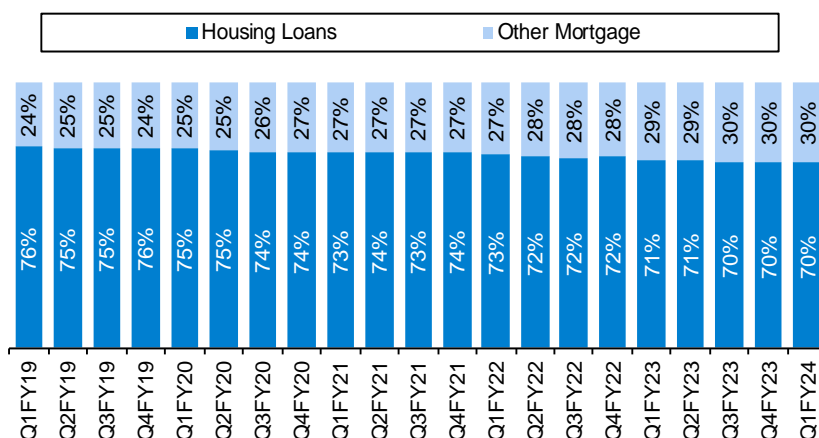
- **NIM stood at 6.91% in Q1FY23.** RoA/RoE stood at 3.16%/13.18%. Yields in new MSME loans are >15% with average cost of borrowings at 8.5% for this segment with LTV of ~45-50%
- **Average borrowing cost stood at 7.66%** vs average portfolio yield of 13.26%, resulting in spreads of 5.60%. Management is confident they would maintain spreads at +5%. Given the quality of portfolio, management enjoys lower CoF in the range of ~8-8.5%.
- **Opex for Q1FY24 was higher 30.4%YoY/11.3%QoQ at Rs1.3bn** led by higher employee cost due to increase in headcount and ESOP cost. There was a one-time cost to the tune of Rs125mn towards retirement benefits. In Q4FY23, there were few ESOP schemes which got matured and leading to reversal to the tune of Rs100mn along with which there was regular ESOP cost to the tune of ~Rs50-60mn. Management expects operating leverage to kick in from FY25 to the tune of 20-25bps. Cost/Asset to remain stable at 3.71%.
- **Technology transition**, new initiatives would help in faster decision making and better analysis of data. Focus is to improve productivity, stabilize processes and enhance customer experience. With integration of new technology, TAT is expected to reduce from 10-12 days currently to 6-7 days. Aim is to grow distribution network without increasing branch network. LMS and ERP system would go live by Q4FY24.

- **Branch Expansion-** in Q1FY24, company opened 3 new branches. Management witnessed higher traction to the tune of 50-60% in Karnataka and Orissa and 50-55% in UP, focus would continue in this geographies.

Asset Quality

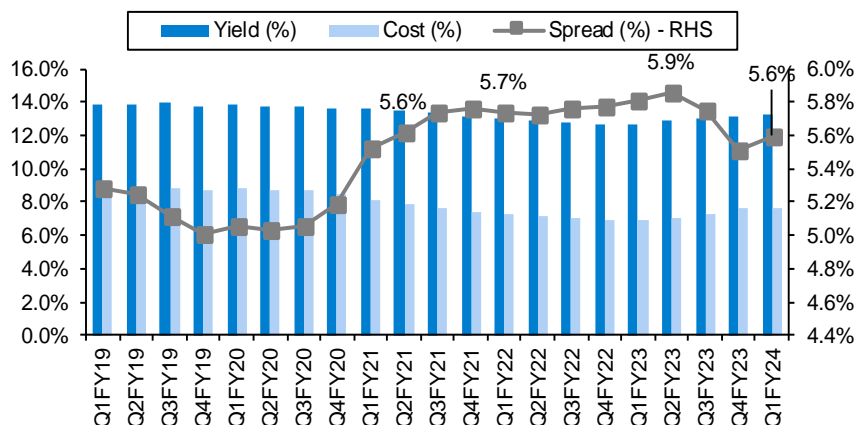
- **1+ DPD stood at 3.7%, GS3 stood at 1% and NS3 stood at 0.73%.** Following RBI guideline, out of GS3, 0.13% included upto 90DPD assets which have been categorized as GNPA. Under RBI resolution framework, certain accounts with outstanding of Rs843.8mn have been classified as stage-2 and provided for. Out of this, Rs639.9mn was into 0-30 DPD bucket.
- **ECL provisioning** including Covid-19 impact and resolution framework stood at Rs765.6mn as on June 30, 2023.

Exhibit 2: Loan Book mix steady at 70:30

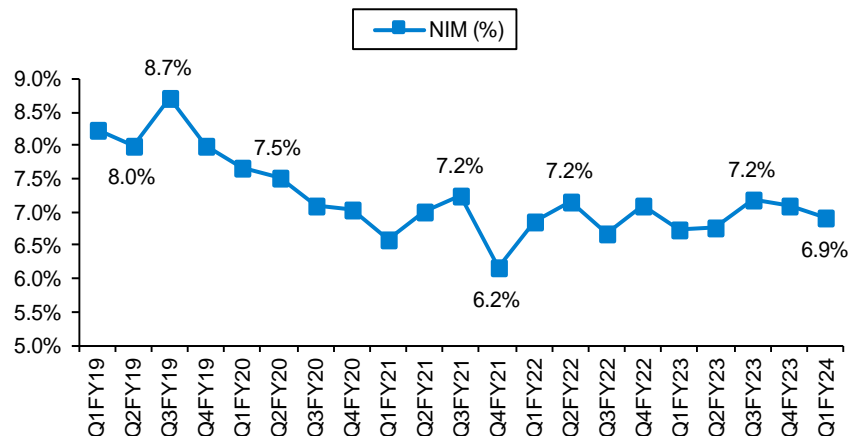


Source: Company, PL

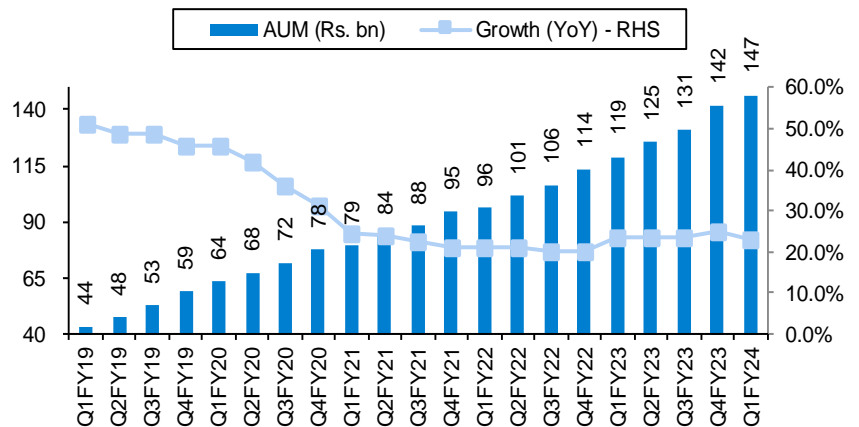
Exhibit 3: Spreads improve to 5.6% led by better yields



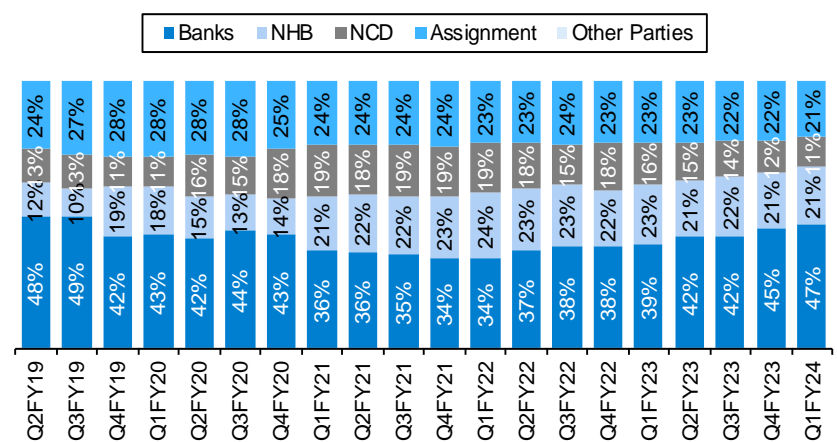
Source: Company, PL

Exhibit 4: NIM decline sequentially by 19bps to 6.9%


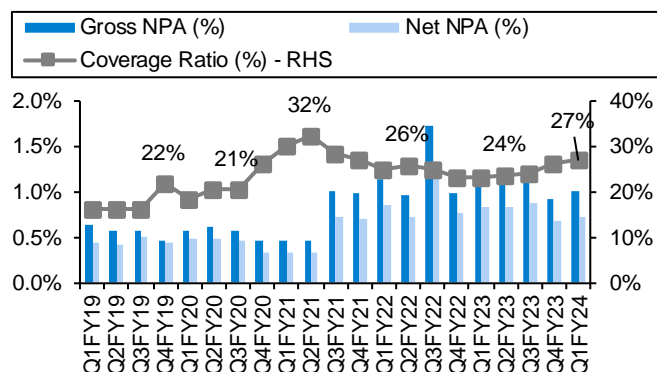
Source: Company, PL

Exhibit 5: AuM growth was muted at 3.4% QoQ led by lower disbursements


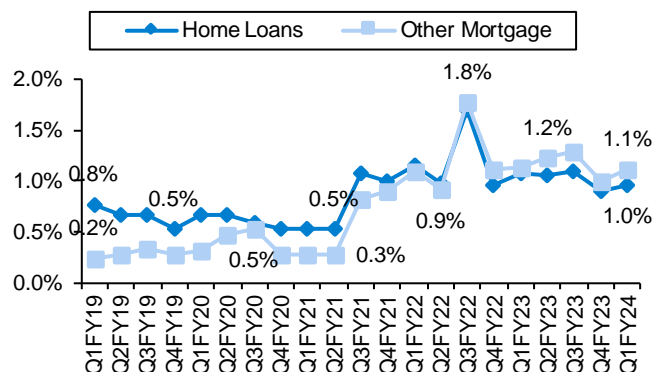
Source: Company, PL

Exhibit 6: Borrowing mix mainly from Banks (47%) and NHB refinance(21%)


Source: Company, PL

Exhibit 7: GNPA's rose by 8bps QoQ to 1.0% ;PCR at 27%


Source: Company, PL

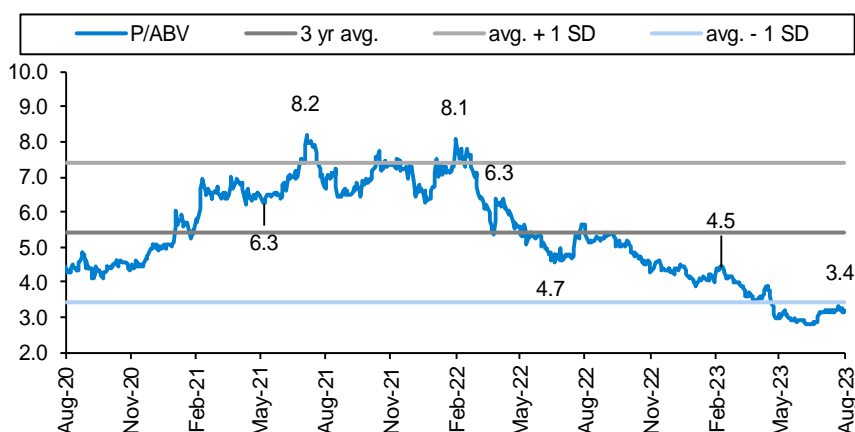
Exhibit 8: Both segments witnessed marginal improvement


Source: Company, PL

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

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	10.2	10.3	9.8	9.7	9.3	9.4	9.9	9.9
Interest expenses	5.0	4.4	4.4	4.5	3.9	4.0	4.5	4.4
Net interest income	5.2	5.8	5.3	5.1	5.4	5.4	5.4	5.5
Other Inc. from operations	2.6	2.0	1.4	1.3	1.5	1.5	1.5	1.4
Total income	7.8	7.9	6.8	6.4	6.8	6.9	6.9	6.9
Employee expenses	2.9	2.0	1.8	1.7	1.9	2.0	2.1	2.1
Other operating expenses	1.4	1.2	1.0	0.8	0.9	1.0	1.0	1.0
Operating profit	3.5	4.6	3.9	3.9	3.9	3.8	3.7	3.7
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	0.1	0.1
RoAA	2.4	3.0	3.1	2.9	2.9	2.9	2.8	2.7
RoAE	11.2	11.9	12.7	12.9	13.7	14.2	14.0	14.7

Source: Company, PL

Exhibit 10: One-year forward P/ABV of Aavas trades at 3.4x


Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Inc. / Opt. Inc.	11,288	13,882	17,653	21,180
Interest Expenses	4,775	5,910	7,961	9,445
Net interest income	6,513	7,971	9,691	11,734
Growth(%)	25.7	22.4	21.6	21.1
Non-interest income	1,768	2,220	2,590	3,033
Growth(%)	37.1	25.6	16.7	17.1
Net operating income	8,281	10,191	12,281	14,767
Expenditures				
Employees	2,322	3,006	3,802	4,601
Other Expenses	946	1,284	1,525	1,812
Depreciation	238	287	330	380
Operating Expenses	3,506	4,577	5,658	6,793
PPP	4,775	5,614	6,624	7,975
Growth(%)	22.3	17.6	18.0	20.4
Provisions	226	124	252	306
Profit Before Tax	4,549	5,490	6,371	7,668
Tax	981	1,189	1,465	1,764
Effective Tax rate(%)	21.6	21.7	23.0	23.0
PAT	3,568	4,301	4,906	5,905
Growth(%)	23.2	20.5	14.1	20.4

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Source of funds				
Equity	789	791	791	791
Reserves and Surplus	27,297	31,906	36,517	42,067
Networth	28,086	32,697	37,308	42,858
Growth (%)	17.0	16.4	14.1	14.9
Loan funds	79,725	98,407	1,21,398	1,48,412
Growth (%)	25.6	23.4	23.4	22.3
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,352	2,936	3,153	3,525
Other Liabilities	40	66	75	85
Total Liabilities	1,10,204	1,34,105	1,61,933	1,94,880
Application of funds				
Net fixed assets	683	987	1,045	1,138
Advances	90,534	1,14,763	1,39,952	1,69,293
Growth (%)	20.3	26.8	21.9	21.0
Investments	675	1,231	1,597	1,808
Current Assets	15,359	13,846	15,597	18,340
Net current assets	13,007	10,910	12,443	14,815
Other Assets	2,953	3,278	3,743	4,301
Total Assets	1,10,204	1,34,105	1,61,933	1,94,880
Growth (%)	23.0	21.7	20.8	20.3
Business Mix				
AUM	1,13,502	1,41,667	1,72,944	2,09,209
Growth (%)	20.1	24.8	22.1	21.0
On Balance Sheet	1,13,502	1,41,667	1,72,944	2,09,209
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	6.8	6.8	6.8	6.8
ROAA	3.6	3.5	3.3	3.3
ROAE	13.7	14.2	14.0	14.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Int. Inc. / Operating Inc.	3,287	3,585	3,861	4,128
Income from securitization	-	-	-	-
Interest Expenses	1,410	1,504	1,650	1,866
Net Interest Income	1,877	2,082	2,211	2,262
Growth (%)	15.3	31.8	22.6	25.5
Non-Interest Income	664	534	641	540
Net Operating Income	2,541	2,616	2,852	2,802
Growth (%)	21.3	20.1	18.1	28.4
Operating expenditure	1,147	1,201	1,203	1,339
PPP	1,394	1,415	1,649	1,464
Growth (%)	-	-	-	-
Provision	16	35	64	57
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,378	1,380	1,586	1,407
Tax	310	307	318	310
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	22.5	22.2	20.1	22.0
PAT	1,068	1,073	1,268	1,097
Growth	16	20	10	23
AUM	1,25,437	1,30,887	1,41,667	1,46,500
YoY growth (%)	23.6	23.3	24.8	23.2
Borrowing	85,712	91,613	98,407	1,06,772
YoY growth (%)	24.1	26.7	23.4	28.8

Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	1,560	1,560	1,560	1,560
EPS (Rs)	45.2	54.4	62.1	74.7
Book value (Rs)	355.8	413.6	471.9	542.1
Adj. BV(Rs)	347.0	403.7	460.3	527.7
P/E(x)	34.5	28.7	25.1	20.9
P/BV(x)	4.4	3.8	3.3	2.9
P/ABV(x)	4.5	3.9	3.4	3.0
DPS (Rs)	7.5	2.7	3.7	4.5
Dividend Payout Ratio(%)	16.6	5.0	6.0	6.0
Dividend Yield(%)	0.5	0.2	0.2	0.3

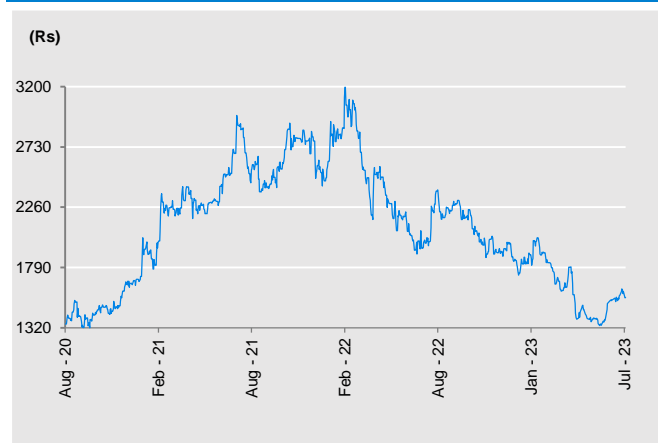
Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs(Rs m)	904	1,067	1,256	1,561
Net NPA(Rs m)	695	780	916	1,139
Gross NPAs to Gross Adv.(%)	1.0	0.9	0.9	0.9
Net NPAs to net Adv.(%)	0.8	0.7	0.7	0.7
NPA coverage(%)	23.1	26.9	27.1	27.0

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	5.4	5.4	5.4	5.5
NII INCI. Securitization	5.4	5.4	5.4	5.5
Total income	6.8	6.9	6.9	6.9
Operating Expenses	2.9	3.1	3.2	3.2
PPOP	3.9	3.8	3.7	3.7
Total Provisions	0.2	0.1	0.1	0.1
RoAA	2.9	2.9	2.8	2.7
Avg. Assets/Avg. net worth	4.6	4.8	5.1	5.4
RoAE	13.7	14.2	14.0	14.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	1,560	1,538
2	26-May-23	Hold	1,560	1,404
3	05-May-23	Hold	1,560	1,403
4	11-Apr-23	Accumulate	2,200	1,675
5	05-Feb-23	Accumulate	2,200	1,999
6	05-Jan-23	Accumulate	2,250	1,750
7	22-Oct-22	Accumulate	2,250	1,990
8	05-Oct-22	Hold	2,300	2,197

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,538
2	Axis Bank	BUY	1,170	977
3	Bank of Baroda	BUY	235	205
4	Can Fin Homes	BUY	950	831
5	City Union Bank	Accumulate	160	131
6	DCB Bank	BUY	150	129
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,800	2,502
10	HDFC Bank	BUY	2,025	1,679
11	ICICI Bank	BUY	1,180	997
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,390
14	Kotak Mahindra Bank	BUY	2,250	1,970
15	LIC Housing Finance	Hold	430	427
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	573
18	UTI Asset Management Company	BUY	900	814

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, CFA Level 2, Mr. Raj Mange- CA, Mr. Anant Dumbhare- PGDM - Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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