

AAVAS Financiers

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	AAVAS IN
Equity Shares (m)	78
M.Cap.(INRb)/(USD\$)	122.4 / 1.5
52-Week Range (INR)	2078 / 1335
1, 6, 12 Rel. Per (%)	-6/4/-30
12M Avg Val (INR M)	408

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	9.3	11.3	13.8
PPP	6.6	8.2	10.3
PAT	5.0	6.2	7.8
EPS (INR)	63.3	78.4	99.3
EPS Gr. (%)	16	24	27
BV/Sh. (INR)	477	555	655
Ratios (%)			
NIM	5.9	5.8	5.8
C/I ratio	45.2	43.6	41.4
Credit cost	0.16	0.17	0.15
RoA	3.4	3.4	3.6
RoE	14.2	15.2	16.4
Valuation			
P/E (x)	24.4	19.7	15.6
P/BV (x)	3.2	2.8	2.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	39.1	39.1	39.2
DII	14.2	14.4	11.0
FII	35.5	35.0	37.6
Others	11.2	11.5	12.2

FII Includes depository receipts

CMP: INR1,547 TP: INR1,700 (+10%) Neutral

Disbursements yet to gain momentum even as NIM contracts

- AUM grew 22% YoY/5% QoQ to ~INR153b. Disbursements grew 10% YoY and 18% QoQ to ~INR12.6b, but were still below consensus expectations.
- 2QFY24 PAT grew 14% YoY to INR1.2b (5% beat). NII grew 18% YoY to ~INR2.2b. Other income grew 8% YoY, aided by higher assignment income of INR466m (PY: INR494m) and fee income of ~INR200m (PY: ~INR140m).
- Cost-to-income ratio moderated to ~45% (PQ: 48%), which led to the earnings beat, despite ~40bp QoQ compression in (calc.) NIM. Opex rose 14% YoY and declined 2% QoQ to INR1.3b. This was primarily because of lower employee expenses, potentially driven by lower ESOP expenses.
- We model a ~23% AUM CAGR and ~22% PAT CAGR over FY23-26E, with RoA/RoE of 3.6%/16.4% in FY26E.
- Valuations have declined over the last nine months and the stock now trades at 2.6x Sep'25E P/BV. Before turning constructive, we intend to closely monitor the execution of disbursements/AUM growth. Additionally, we will observe how the IT transformation improves productivity and operating efficiencies for AAVAS. We reiterate our **Neutral** stance on the stock with a TP of INR1,700 (based on 2.8x Sep'25E BVPS).

Disbursements will take another few quarters to fully recover

- AUM grew 22% YoY/5% QoQ to ~INR153b. Disbursements grew 10% YOY and 18% QoQ to ~INR12.6b, but were still below consensus expectations. Management shared that a) management transition, b) technology transformation, and c) high relationship officer attrition have all contributed to lower disbursement momentum.
- Annualized run-off in the loan-book stood at 16% (PY: 17%).
- Securitization during the quarter amounted to INR3.3b (PY: INR3b) but securitization margins were lower during the quarter (vs. earlier levels).

Highlights from the management commentary

- Disbursement were muted because there was a lagged impact of sanctions not getting converted into disbursements. Conversion of sanctions into disbursements dropped to 80% from ~90%.
- The decline in yields was driven by a) lower interest rate offered to retain existing customers and b) lower interest rate offered on new loan originations because of the competitive landscape.

Valuation and View

- AAVAS reported RoA/RoE of 3.3%/14% in 2QFY24. Its constant endeavor to improve its technological edge and relentless focus on asset quality have positioned it as a standout player among peers. Notably, its 1+DPD remains within guided levels, driven by its prudent underwriting process and efficient collection efforts.

- Given the investments being made in sourcing, distribution, and technology, we expect AAVAS to embark on a strong disbursement growth trajectory from FY25 onwards. The stock trades at 2.6x Sep'25E P/BV and any rerating in valuation multiples will depend on consistent delivery of robust asset quality and stronger AUM growth. We reiterate our **Neutral** stance on the stock with a revised TP of INR1,700 (based on 2.8x Sep'25E BVPS).

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E	2QFY24E	INR m v/s Est.
	1Q	2Q3	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	3,148	3,287	3,585	3,861	4,128	4,259	4,476	4,773	13,882	17,636	4,355	-2
Interest Expenses	1,347	1,410	1,504	1,650	1,866	2,036	2,162	2,281	5,910	8,345	2,016	1
Net Income	1,802	1,877	2,082	2,211	2,262	2,223	2,314	2,492	7,971	9,290	2,340	-5
YoY Growth (%)	20	15	32	23	26	18	11	13	22	17	25	
Other income	380	664	534	641	540	716	685	798	2,220	2,740	585	22
Total Income	2,182	2,541	2,616	2,852	2,802	2,938	2,999	3,290	10,191	12,030	2,924	0
YoY Growth (%)	37	21	20	18	28	16	15	15	23	18	15	
Operating Expenses	1,026	1,147	1,201	1,203	1,339	1,308	1,358	1,436	4,577	5,441	1,390	-6
YoY Growth (%)	53	33	32	14	30	14	13	19	31	19	21	
Operating Profits	1,156	1,394	1,415	1,649	1,464	1,631	1,641	1,854	5,614	6,589	1,534	6
YoY Growth (%)	26	13	12	22	27	17	16	12	17.6	17.4	10	
Provisions	9	16	35	64	57	65	30	50	124	202	50	30
Profit before Tax	1,147	1,378	1,380	1,586	1,407	1,565	1,611	1,804	5,490	6,387	1,484	6
Tax Provisions	254	310	307	318	310	348	348	374	1,189	1,380	320	9
Profit after tax	892	1,068	1,073	1,268	1,097	1,217	1,263	1,430	4,301	5,007	1,163	5
YoY Growth (%)	49	16	20	10	23	14	18	13	20.5	16.4	9	
Key Parameters (%)												
Yield on loans	12.7	12.9	13.0	13.1	13.3	13.2			13.7	14.0		
Cost of funds	6.9	7.0	7.3	7.6	7.7	7.9			6.6	7.6		
Spread	5.8	5.9	5.8	5.5	5.6	5.3			7.1	6.4		
NIM - YTD	7.7	8.2	8.2	8.3	8.0	8.0			6.2	5.9		
Credit cost	0.0	0.1	0.1	0.2	0.2	0.2			0.1	0.2		
Cost to Income Ratio (%)	47.0	45.1	45.9	42.2	47.8	44.5			44.9	45.2		
Tax Rate (%)	22.2	22.5	22.2	20.1	22.0	22.2			21.7	21.6		
Balance Sheet Parameters												
AUM (INR B)	118.9	125.4	130.9	141.7	146.5	153.2			141.7	174.1		
Change YoY (%)	23.7	23.6	23.3	24.8	23.2	22.1			24.8	22.9		
AUM mix (%)												
Home loans	71.1	70.9	70.1	69.9	69.8	69.7			69.9	68.6		
Mortgage loans	28.9	29.1	29.9	30.1	30.2	30.3			30.1	31.4		
Loans (INR B)	95.9	100.8	105.5	114.8	119.1	124.0			114.8	141.0		
% of AUM	80.6	80.4	80.6	81.0	81.3	81.0			26.8	22.9		
Disbursements (INR B)	10.9	11.5	12.0	15.8	10.7	12.6			50.2	57.9		
Change YoY (%)	136.5	27.2	26.5	22.9	-2.3	9.7			39.5	15.3		
Borrowings (INR B)	82.9	85.7	91.6	98.9	106.8	111.4			98.4	122.7		
Change YoY (%)	27.8	24.1	26.7	24.0		30.0			23.4	24.6		
Borrowings/Loans (%)	86.4	85.0	86.8	86.2	89.6	89.9			85.7	87.0		
Debt/Equity (x)	2.9	2.8	2.9	3.0	3.2	3.2			3.0	3.3		
Asset Quality (%)												
GS 3 (INR M)	1,045	1,113	1,204	1,067	1,193	1,295			1,067			
G3 %	1.08	1.10	1.13	0.92	1.00	1.04			0.92			
NS 3 (INR M)	805	848	917	780	872	939			780			
NS3 %	0.84	0.84	0.87	0.68	0.73	0.76			0.68			
PCR (%)	22.9	23.8	23.9	26.9	26.9	27.5			26.9			
ECL (%)	0.67	0.64	0.64	0.62	0.64	0.64			0.62			
Return Ratios - YTD (%)												
ROA (Rep)	3.2	3.4	3.4	3.5	3.2	3.3			3.5	3.4		
ROE (Rep)	12.5	13.4	13.6	14.1	13.2	13.6			14.2	14.2		

E: MOFSL Estimates



Asset quality remained broadly stable

- Asset quality remained broadly stable with GS3/NS3 increasing by ~4bp/ ~3bp to 1.04%/0.76%. PCR on Stage 3 was stable QoQ at 27%.
- 30+ dpd declined ~15bp QoQ to 2.7% (PQ: 2.85%). ECL/ EAD was largely stable sequentially at 0.64%. 1+dpd saw marginal improvement and declined ~10bp QoQ to 3.6%.
- Credit costs stood at INR65m, translating into annualized credit costs of ~15bp (PY: ~5bp and PQ: ~15bp).

Spreads contract from moderation in yields and rise in borrowing costs

- The ~10bp QoQ decline in yield (calc.) to ~14% and ~20bp increase in CoF (calc.) to 7.5% led to ~30bp contraction in spreads to 6.6%.
- 2QFY24 calculated NIM declined ~40bp QoQ to 7.3% (PQ:7.7%).

Highlights from the management commentary

Business Updates

- Disbursements stood at INR12.6b and grew 18% YoY.
- The company is currently undergoing an accelerated digital transformation, and the technological upgrades (including LMS and ERP) are expected to be completed by the end of the financial year.
- CoB rose ~20bp QoQ to 7.9% and yields declined ~10bp QoQ to 13.15% as on Sep'23. Spreads moderated to ~5.3% (PQ: 5.6%).
- Total branches stood at 350 with 4 new branches added in 1HFY24.

Yields, CoB and Spreads

- The decline in yields is driven by a) lower interest rate offered to retain existing customers and b) lower interest rate offered on new loan originations because of the competitive landscape.
- The company's focus is on retaining good customers and there might be some pricing pressure on new loan originations. The company aims to maintain spreads >5%

Disbursements and AUM growth

- There was a lagged impact of sanctions not getting converted into disbursements. The conversion rate of sanctions into disbursements had declined from ~90% to 80%.
- Due to competitive pricing, the company opted not to pursue certain opportunities where the pricing was not favorable. However, after the completion of management transition and tech transformation, the company plans to accelerate disbursements.
- Maintained guidance of 20-25% AUM growth.

Asset Quality

- Mortgage backed loans have an average tenor of 7 to 10 years. NPAs have gone up in other mortgage loans because of the seasoning of the loan book. NPAs in Other Mortgage loans will remain between 1.0% and 1.25% and Home Loans NPA will remain below <1%.
- 1+dpd declined to 3.5% (PY: 4.45%).

- GS3 stood at 1.04% (includes 0.12% of up to 90dpd assets) and NS3 stood at 0.76% as of Sep'23.
- Total write-offs in 1HFY24 stood at INR20m.

Liabilities

- Aavas received ~INR10b in sanctions from NHB and these funds are available for the next 2-3 quarters. Aavas did not utilize any drawdown from NHB in 2QFY24.
- The company raised liabilities through PTC, which constitute 100% ALM-matched borrowings, and these funds are available at 30-40bp cheaper rate than bank borrowings. Aavas plans to continue raising liabilities through PTC in the coming quarters. The incremental cost of borrowings is expected to be 8.0-8.1% over the next two quarters.

Employee Attrition

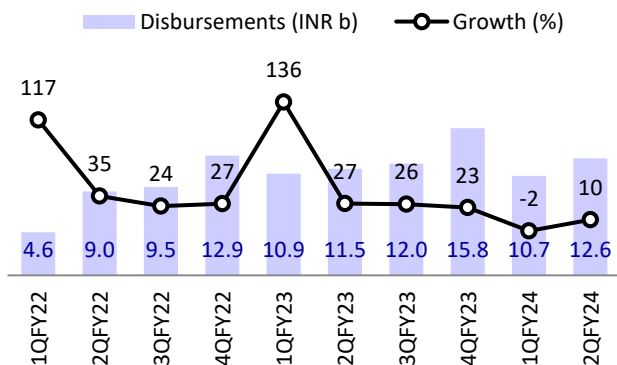
- Attrition is high at the relationship officer (RO) level. Newer employees take time to settle down and become productive. The company is aware of this challenge and is implementing developmental and career progression initiatives for the front-line employees to address the issue.
- The total number of employees in Sales stood at 3,200.
- Productivity metrics like Loan per employee or Loans per branch is lower relative to peers.

Others

- Assignment spreads were relatively lower because of lower spreads on assignment transactions.
- Non-HL average ticket size has not changed as much. Property prices have risen in state capitals and the increase in ATS of Home Loans is driven by inflation and higher property prices.
- Login to Sanction ratio of 30%;
- 0.3-0.4% of the opening AUM comes up for repricing and it charges a repricing premium from the customer which offsets the loss of interest income in the first year
- Branches breakeven in 3-6 months in smaller markets and 6-9 months in bigger markets.
- Will be adding 20-25 new branches in 2HFY24.
- Employee count stood at 5,731 as of Sep'23.
- BT-OUT stood at 0.5%
- Aavas expects a credit rating upgrade after 12-18 months.

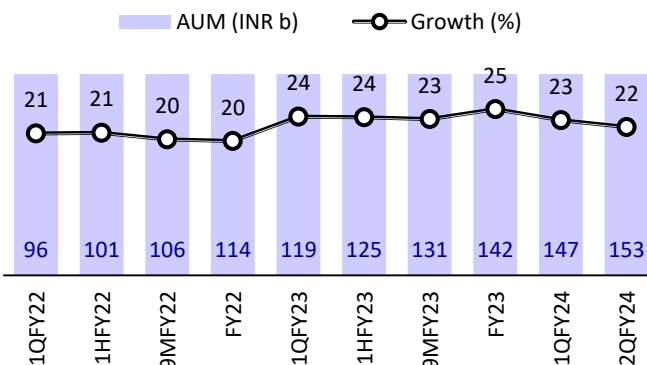
Key exhibits

Exhibit 1: Disbursements increased ~10% YoY



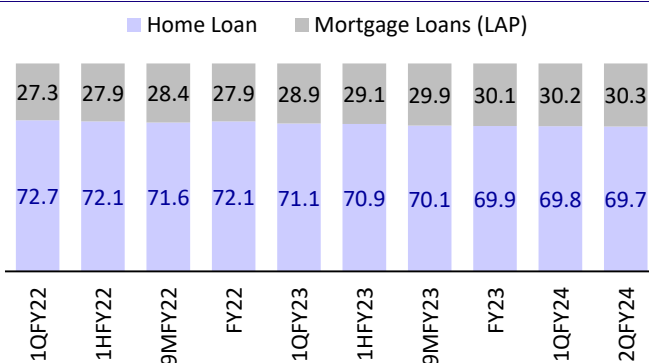
Source: MOFSL, Company

Exhibit 2: AUM grew 22% YoY



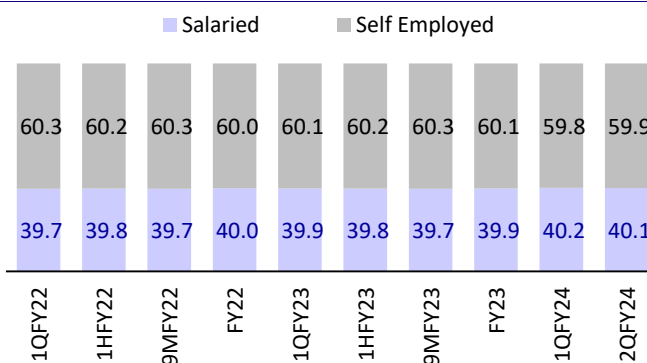
Source: MOFSL, Company

Exhibit 3: Share of Home loans stable QoQ (%)



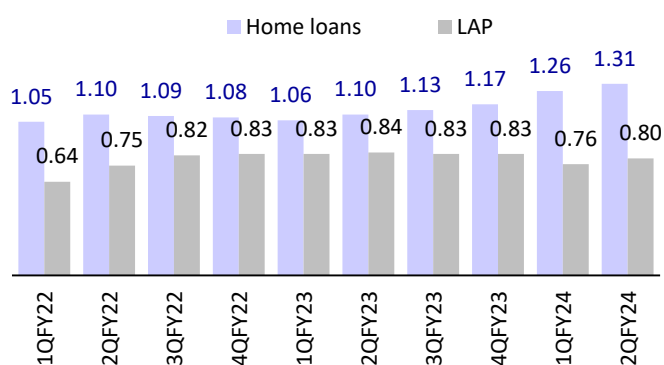
Source: MOFSL, Company

Exhibit 4: Stable customer mix (%)



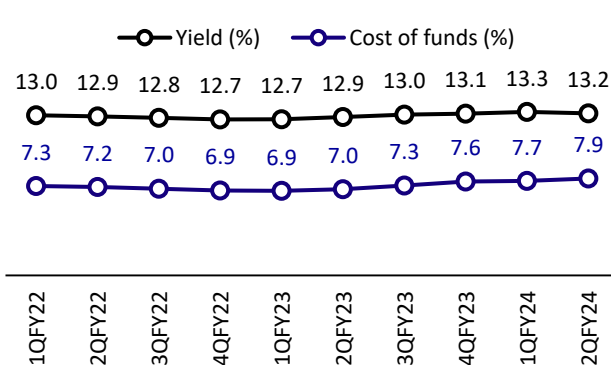
Source: MOFSL, Company

Exhibit 5: ATS in Home Loans increased QoQ (INR m)



Source: MOFSL, Company

Exhibit 6: Reported spreads declined ~30bp QoQ



Source: MOFSL, Company

Exhibit 7: Opex/AUM declined to 3.5%

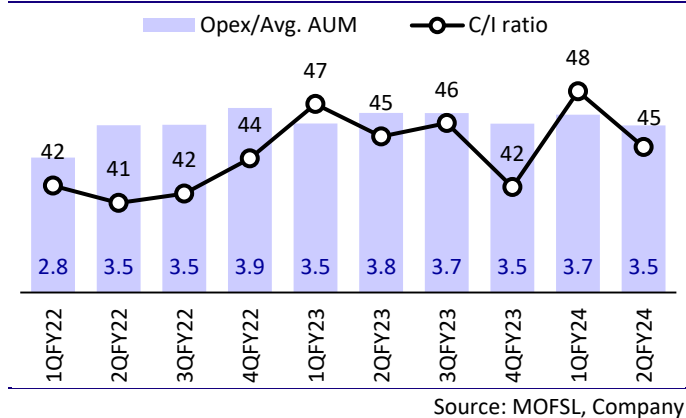


Exhibit 8: PCR stable sequentially at 27%

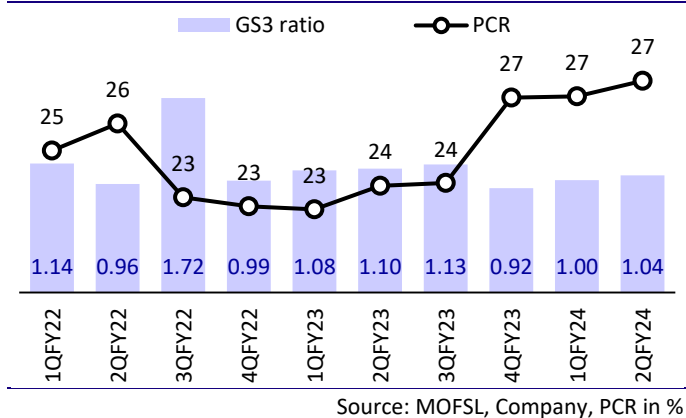


Exhibit 9: 1+dpd stood at 3.6% (%)

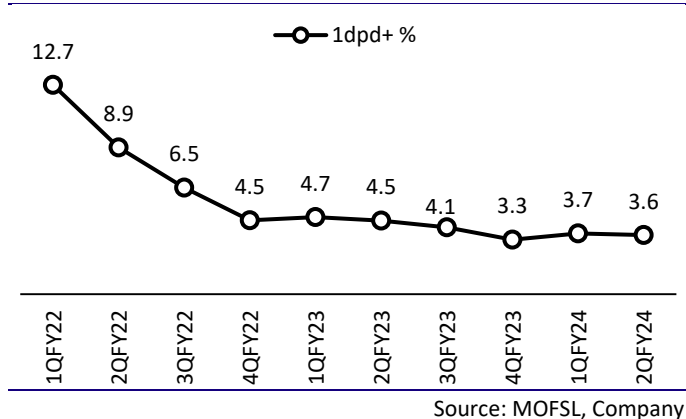


Exhibit 10: 2QFY24 PAT grew 14% YoY

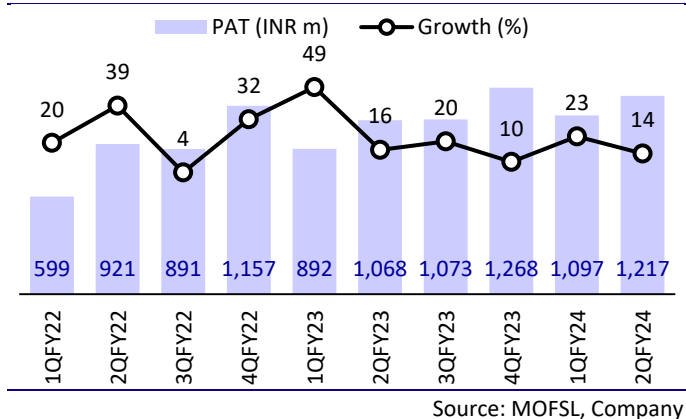
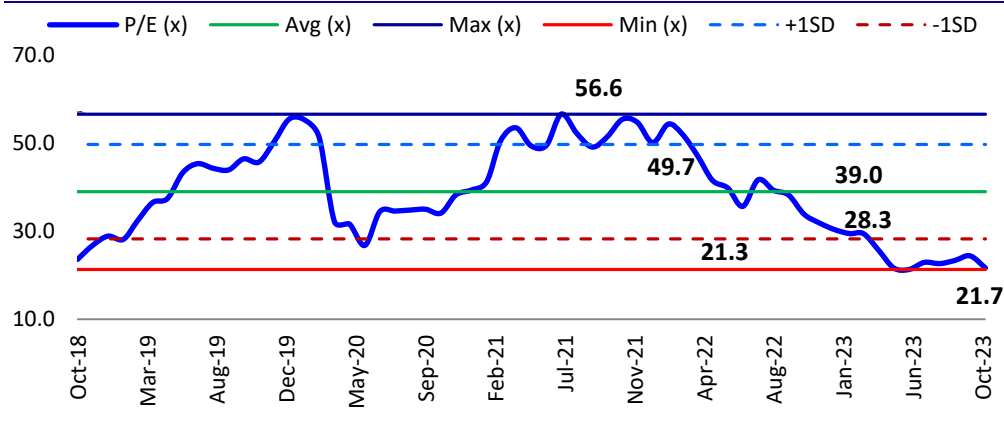


Exhibit 11: Our EPS estimates for FY24/FY25 are largely unchanged

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	9.5	11.7	9.3	11.3	-2.5	-3.8
Other Income	2.6	3.0	2.7	3.2	6.1	7.1
Total Income	12.1	14.7	12.0	14.5	-0.7	-1.6
Operating Expenses	5.6	6.4	5.4	6.3	-2.4	-1.5
Operating Profits	6.5	8.3	6.6	8.2	0.8	-1.6
Provisions	0.2	0.3	0.2	0.3	0.9	-2.4
PBT	6.3	8.0	6.4	7.9	0.8	-1.5
Tax	1.4	1.7	1.4	1.7	0.8	-1.5
PAT	5.0	6.3	5.0	6.2	0.8	-1.5
AUM	176	216	174	214	-0.9	-0.8
Borrowings	122	152	123	150	0.3	-1.4
NIM (%)	6.0	6.0	5.9	5.8		
ROA (%)	3.3	3.5	3.4	3.4		
RoE (%)	14.1	15.4	14.2	15.2		

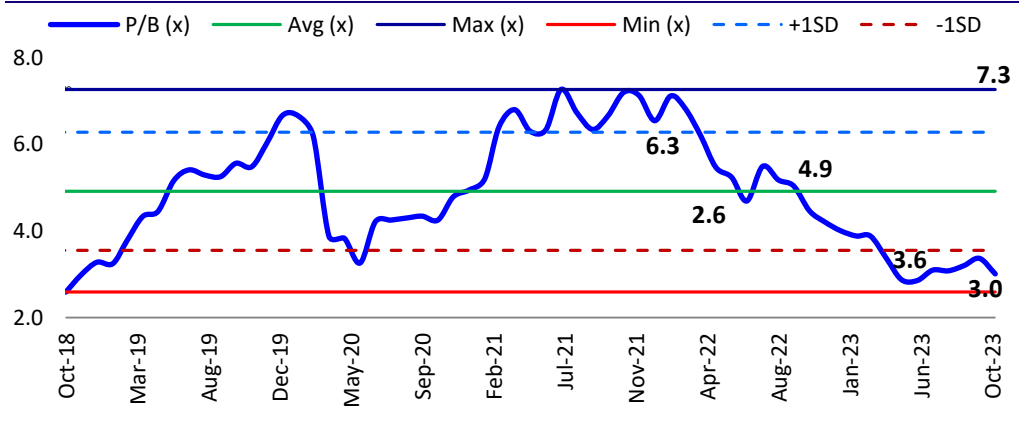
Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income statement								INR m	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	3,926	5,935	7,864	9,764	11,288	13,882	17,636	21,645	26,477
Interest Expended	1,931	2,554	3,561	4,582	4,775	5,910	8,345	10,365	12,686
Net Interest Income	1,995	3,382	4,304	5,182	6,513	7,971	9,290	11,280	13,791
Change (%)	56.0	69.5	27.3	20.4	25.7	22.4	16.5	21.4	22.3
Gain on Securitisation	602	783	766	864	1,240	1,518	1,731	1,990	2,289
Other Operating Income	417	391	401	426	528	701	1,009	1,226	1,472
Total Income	3,014	4,556	5,470	6,471	8,281	10,191	12,030	14,497	17,552
Change (%)	85.3	51.2	20.1	18.3	28.0	23.1	18.0	20.5	21.1
Operating Expenses	1,645	1,890	2,296	2,566	3,506	4,577	5,441	6,321	7,266
Operating Income	1,369	2,666	3,174	3,905	4,775	5,614	6,589	8,176	10,286
Change (%)	43.6	94.7	19.1	23.0	22.3	17.6	17.4	24.1	25.8
Provisions	26	89	153	371	226	124	202	267	277
PBT	1,343	2,577	3,020	3,533	4,549	5,490	6,387	7,909	10,010
Tax	412	818	529	638	981	1,189	1,380	1,708	2,162
Tax Rate (%)	30.7	31.7	17.5	18.1	21.6	21.7	21.6	21.6	21.6
PAT	931	1,759	2,491	2,895	3,568	4,301	5,007	6,201	7,848
Change (%)	60.9	89.0	41.6	16.2	23.2	20.5	16.4	23.8	26.6
Proposed Dividend	0	0	0	0	0	0	0	0	0
Balance sheet									
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	692	781	783	785	789	791	791	791	791
Reserves & Surplus	11,207	17,589	20,196	23,229	27,297	31,906	36,913	43,114	50,962
Net Worth	11,899	18,370	20,979	24,014	28,086	32,697	37,704	43,905	51,752
Borrowings	27,376	36,533	53,520	63,454	79,725	98,407	1,22,664	1,50,094	1,83,747
Change (%)	52.6	33.4	46.5	18.6	25.6	23.4	24.6	22.4	22.4
Other liabilities	1,126	1,366	2,081	2,132	2,392	3,002	3,302	3,797	4,557
Total Liabilities	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,63,670	1,97,796	2,40,056
Loans	33,334	47,245	61,808	75,233	90,534	1,14,763	1,40,993	1,71,536	2,09,996
Change (%)	54.1	41.7	30.8	21.7	20.3	26.8	22.9	21.7	22.4
Investments	45	45	45	45	675	1,231	1,268	1,306	1,345
Change (%)	NM	0.0	0.0	0.0	1,400.4	82.3	3.0	3.0	3.0
Other assets	7,022	8,978	14,727	14,323	18,994	18,112	21,409	24,954	28,714
Total Assets	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,63,670	1,97,796	2,40,056

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)									
Avg Yield on Loan portfolio	14.2	13.9	13.5	14.1	13.8	13.7	14.0	14.0	14.0
Avg. Cost of borrowings	8.5	8.0	7.9	7.8	6.7	6.6	7.6	7.6	7.6
Interest Spread	5.7	5.9	5.6	6.3	7.1	7.1	6.4	6.4	6.4
Net Interest Margin (AUM)	5.9	6.8	6.3	6.0	6.3	6.2	5.9	5.8	5.8
Profitability Ratios (%)									
RoE	10.6	11.6	12.7	12.9	13.7	14.2	14.2	15.2	16.4
RoA	2.9	3.6	3.8	3.5	3.6	3.5	3.4	3.4	3.6
Loans/Equity (x)	2.8	2.6	2.9	3.1	3.2	3.5	3.7	3.9	4.1
Cost/Income	54.6	41.5	42.0	39.7	42.3	44.9	45.2	43.6	41.4
Asset Quality (%)									
Gross NPAs	107	158	210	739	904	1,067	1,284	1,568	2,077
Gross NPAs to Adv.	0.3	0.3	0.3	1.0	1.0	0.9	0.9	0.9	1.0
Net NPAs	83	112	171	538	695	780	938	1,129	1,495
Net NPAs to Adv.	0.2	0.2	0.3	0.7	0.8	0.7	0.7	0.7	0.7
VALUATION									
Book Value (INR)	172	235	268	306	356	414	477	555	654.6
Price-BV (x)	9.0	6.6	5.8	5.1	4.3	3.7	3.2	2.8	2.4
EPS (INR)	13.5	22.5	31.8	36.9	45.2	54.4	63.3	78.4	99.3
EPS Growth YoY	35	67	41	16	23	20	16	23.8	26.6
Price-Earnings (x)	114.8	68.6	48.6	41.9	34.2	28.4	24.4	19.7	15.6
Dividend per share (INR)	0.0	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	0.0	0.0	0.0	0.0	0.0

E: MOFSL Estimates

DuPont Analysis									
%	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	12.1	12.3	11.8	11.8	11.3	11.4	11.8	12.0	12.1
Interest Expended	5.9	5.3	5.4	5.5	4.8	4.8	5.6	5.7	5.8
Net Interest Income	6.1	7.0	6.5	6.2	6.5	6.5	6.2	6.2	6.3
Non Interest Income	3.1	2.4	1.8	1.6	1.8	1.8	1.8	1.8	1.7
Other Income	3.1	2.4	1.8	1.6	1.8	1.8	1.8	1.8	1.7
Total Income	9.3	9.4	8.2	7.8	8.3	8.3	8.1	8.0	8.0
Operating Expenses	5.1	3.9	3.5	3.1	3.5	3.7	3.7	3.5	3.3
Cost to Income Ratio (%)	54.6	41.5	42.0	39.7	42.3	44.9	45.2	43.6	41.4
Employee Expenses	3.4	2.4	2.2	2.1	2.3	2.5	2.5	2.4	2.3
Other Expenses	1.6	1.5	1.2	1.0	1.2	1.3	1.2	1.1	1.0
Operating Profit	4.2	5.5	4.8	4.7	4.8	4.6	4.4	4.5	4.7
Provisions	0.1	0.2	0.2	0.4	0.2	0.1	0.1	0.1	0.1
PBT	4.1	5.3	4.5	4.3	4.6	4.5	4.3	4.4	4.6
Tax	1.3	1.7	0.8	0.8	1.0	1.0	0.9	0.9	1.0
Tax Rate (%)	30.7	31.7	17.5	18.1	21.6	21.7	21.6	21.6	21.6
PAT	2.9	3.6	3.8	3.5	3.6	3.5	3.4	3.4	3.6
Leverage	3.7	3.2	3.4	3.7	3.8	4.0	4.2	4.4	4.6
RoE	10.6	11.6	12.7	12.9	13.7	14.2	14.2	15.2	16.4

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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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