

January 31, 2025

Q3FY25 Result Update

█ Change in Estimates | █ Target | █ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,900		1,900	
NII (Rs.)	11,905	13,877	12,033	14,090
% Chng.	(1.1)	(1.5)		
PPoP (Rs.)	9,269	11,023	9,234	10,921
% Chng.	0.4	0.9		
EPS (Rs.)	87.3	103.9	87.0	102.9
% Chng.	0.3	0.9		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Int.Inc. (Rs m)	9,063	10,103	11,905	13,877
Growth (%)	13.7	11.5	17.8	16.6
Op. Profit (Rs m)	6,489	7,700	9,269	11,023
PAT (Rs m)	4,907	5,795	6,910	8,221
EPS (Rs.)	62.0	73.2	87.3	103.9
Gr. (%)	14.0	18.1	19.2	19.0
DPS (Rs.)	3.7	4.4	5.2	6.2
Yield (%)	0.2	0.3	0.3	0.4
Margin (%)	6.3	5.8	5.7	5.7
RoAE (%)	13.9	14.3	14.9	15.4
RoAA (%)	3.3	3.2	3.2	3.3
PE (x)	27.5	23.3	19.5	16.4
P/BV (x)	3.6	3.1	2.7	2.4
P/ABV (x)	3.7	3.2	2.8	2.4

Key Data AVAS.BO | AAVAS IN

52-W High / Low	Rs.1,979 / Rs.1,307
Sensex / Nifty	76,760 / 23,250
Market Cap	Rs.135bn / \$ 1,557m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.258.58m

Shareholding Pattern (%)

Promoter's	26.47
Foreign	33.97
Domestic Institution	25.69
Public & Others	13.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	(0.7)	14.1
Relative	4.7	5.3	5.7

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Disbursals improve; AuM/opex growth a key

Quick Pointers:

- Mixed quarter due as lower NIM was offset by better disbursals.
- Opex to assets further improves; cut in NIM neutralized by lower opex.

AAVAS saw a mixed quarter as better disbursal growth of 23% QoQ was offset by NIM miss of 10bps. While 70% of AuM is floating, 51% of borrowings would be repriced in 1-year which could cushion NIM. Completion of upgrade in LMS platform, led to bounce back in disbursals. AuM growth is guided at 20-25% which would be driven by (1) re-introduction of PMAY scheme that may boost urban demand and (2) gradual increase in ATS due to inflation, better income and higher cost of construction. Opex to assets has been controlled well; it has reduced by 34bps YoY to 2.88% in Q3FY25. AAVAS aims to reduce opex to assets by 20bps every year. We increase AuM growth for FY25 by 2% and trim NIM for FY26/27E which would be offset by decline in opex; net impact on earnings is not material. Stock is valued at 2.6x; we maintain multiple at 2.9x on Sep'26 ABV and keep TP unchanged at Rs1,900. Retain 'ACCUMULATE'.

- **Mixed quarter as better AuM growth offset by lower NIM:** NII was Rs2.53bn (PLe Rs2.57bn) as higher AuM growth was offset by lower NIM (calc.) at 5.86% (PLe 5.96%) owing to increase in funding cost. AuM grew by 19.6% YoY (PLe 18.6%); disbursals were higher at Rs15.9bn (PLe Rs14.1bn) while repayments were Rs7.5bn. HL:others mix stood at 69:31. Other income was a tad better at Rs859mn (PLe Rs833mn) due to slightly higher fees and off-book income. Opex at Rs1.4bn was 2.9% below PLe led by lower staff cost and other opex. Gross stage-3 increased QoQ by 6bps to 1.14% (PLe 1.05%); PCR was steady at 29%. Provisions were lower at Rs60.7mn (PLe Rs70mn). PAT was 1.8% above PLe at Rs1.5bn led by higher other income and lower opex/provisions.
- **Disbursal growth rebounds:** Upgradation of LMS platform was completed, leading to bounce back in disbursals. AuM is guided to grow by 20-25% basis (1) re-introduction of PMAY scheme that could boost urban demand (2) gradual increase in ATS due to inflation, higher income and more construction cost and (3) pick-up in rural demand. 80-85% of the book is sourced through direct channels. E-Khata issue is stabilizing in Karnataka that may support disbursals; plan is to open 20+ branches in Karnataka/UP. Focus is on loans with <Rs1mn due to higher yields. Currently this segment contributes 30-35% to AuM; aim is to improve its share to 40-45% of AuM.
- **Operating leverage to offset margin pressure:** Incremental disbursal yield has increased by 25bps w.e.f. Oct'24, reducing the gap between flow and stock yield. HL yield is 11.5%-12.0%, while NHL/MSME yields are 250/325bps higher. Loans are 70% floating while 51% of borrowings may be repriced in 3 months. Opex to asset ratio is guided to improve by 20bps every year; we trim opex by avg. 3.9% for FY26/27E. 6.7% of customers have an overlapping MFI exposure and 2.2% are into 90+DPD. Geographically, there is no other stress accretion as credit and underwriting norms were tightened prior to stress build-up. Credit cost has been guided to be <25bps.

Exhibit 1: PAT was cushioned due to better cost management and higher fee/off-book income

Financial Statement	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	Q3FY25E	% Var.
Interest Income	5,121	4,373	17.1	4,906	4.4	5,159	(0.7)
Interest Expense	2,587	2,166	19.5	2,489	4.0	2,586	0.0
Net interest income (NII)	2,533	2,208	14.8	2,418	4.8	2,572	(1.5)
Other income	859	719	19.5	898	(4.4)	833	3.1
Total income	3,392	2,926	15.9	3,316	2.3	3,405	(0.4)
Operating expenses	1,447	1,349	7.3	1,368	5.8	1,491	(2.9)
Operating profit	1,945	1,577	23.3	1,948	(0.2)	1,913	1.6
Total provisions	61	80	(23.8)	48	25.8	70	(13.2)
Profit before tax	1,884	1,497	25.8	1,900	(0.9)	1,843	2.2
Tax	420	331	26.8	421	(0.3)	406	3.5
Profit after tax	1,464	1,166	25.5	1,479	(1.0)	1,438	1.8
AUM (Rs mn)	192,380	160,795	19.6	183,956	4.6	190,699	0.9
Disbursements (Rs mn)	15,946	13,624	17.0	12,937	23.3	14,101	13.1
Profitability ratios	Change in bps			Change in bps			
NIM	5.9	6.2	(31)	5.9	(1)	6.0	(10)
RoAA	2.9	2.8	13	3.1	(17)	2.9	3
RoAE	15.0	13.8	122	15.7	(68)	14.7	26
Asset Quality ratios							
Gross NPL (Rs m)	1,746	1,416	23.3	1,589	9.9	1,602	9.0
Net NPL (Rs m)	1,241	1,026	20.9	1,148	8.1	1,136	9.2
Gross NPL ratio	1.1	1.1	5	1.1	6	1.1	9
Net NPL ratio	0.8	0.8	2	0.8	3	0.7	6
Coverage ratio	28.9	27.5	142	27.8	117	29.0	(10)
Business & Other Ratios	Change in bps			Change in bps			
Yield on Loans (%)	13.2	13.1	11	13.0	14		
Cost of Borrowings (%)	8.2	8.0	29	8.2	9		
Spread (%)	4.9	5.1	(18)	4.9	5		
Cost/Income Ratio	42.7	46.1	(344)	41.2	143		

Source: Company, PL

Q3FY25 Concall Highlights

Assets/Liabilities

- AuM is guided to grow at 20-25% YoY. Jan'25 showcased promising growth of 15-20% YoY. 80% of book has ATS <Rs2.5mn, while <Rs1.5mn contributes 45%. Loans having ATS of <Rs1.0mn (high-yielding) contribute 30-35% which is targeted to reach 40-45%.
- AuM growth to be driven by 1) rural demand for self-construction home, 2) PMAY boost leading to better urban demand and (3) increasing ATS due to inflation, better income and higher cost of construction.
- AuM book composition: floating:fixed mix is 70:30
- DSA has improved due to E-mitra, CSC tie-up, acquisition through Whatsapp, chatbots and website. DSA forms 80-85% of total sourcing.
- Rs6.3bn NCD was raised from IFC at competitive pricing while incremental borrowing was at 8.41%.
- BT-out rate for the quarter was 5.4%. This rate is maintained with the help of predictive models.
- E-Khata issue is stabilizing in Karnataka which would support disbursements.
- Aavas completed one of the quickest upgradation of tech platforms to leverage cost, efficiency and scale, which has now stabilised.
- More allocation towards affordable housing is expected in the Union budget.

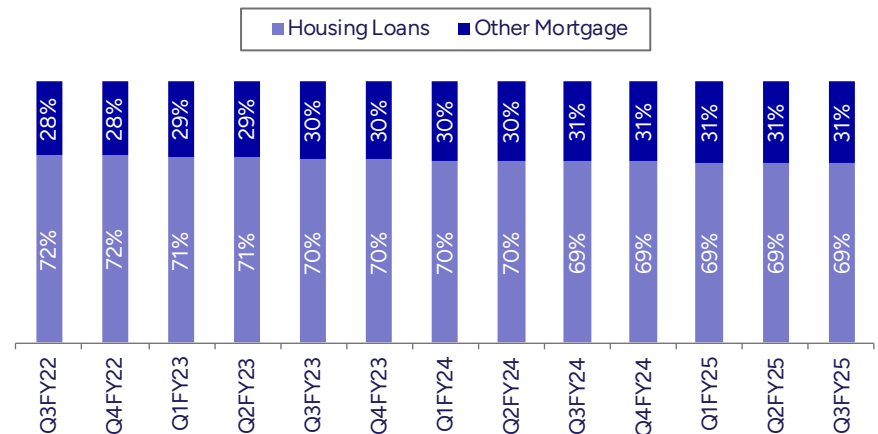
Fees/NIMs/Branches

- Incremental **disbursal yield** is up by 25bps with effect from Oct'24. Yield for <Rs1.5mn is 200bps higher than normal. Incremental disbursal yield and AuM yield gap (30-35bps) has narrowed due to focus on <Rs1.0mn ticket size.
- Yield on HL vs NHL has a differential of 250bps, while MSME has a further differential of 75bps. HL yields at 11.5-12.0%.
- 51% of total borrowing (32% EBLR/19% 3-mth MCLR) are expected to reprice within 3 months which would be beneficial during rate cuts. Remaining borrowings may get repriced in 1 year.
- Borrowing cost increased due to rise in MCLR rates on bank borrowings.
- Employee headcount was 6,284 as at Q3FY25. Rise in headcount is mainly due to increase in relationship officers. Opex to assets ratio is guided to reach <3% with an improvement of 20bps every year.
- 6 branches were opened during 9M25 while 20+ branches are planned to be opened in Karnataka and UP. 3 year+ older branches work at-par efficiency while 1-yr branches old are in progress to achieve higher efficiency.

Asset Quality

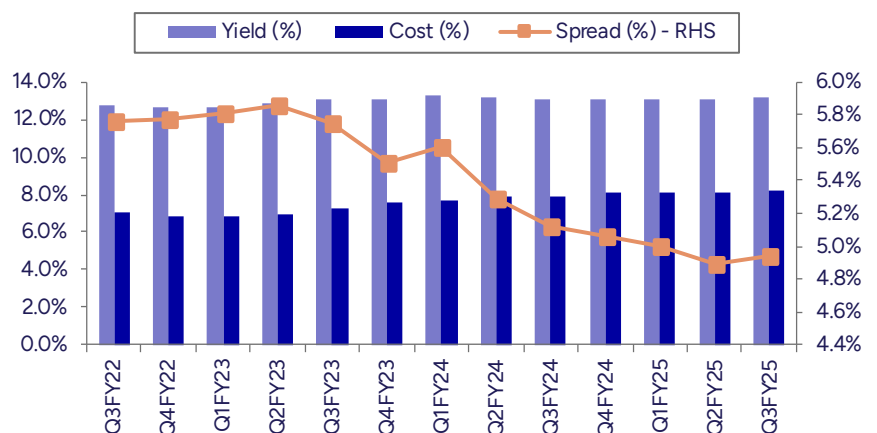
- Stress basis states is as follows: vintage states: 1+DPD/GNPA is <4%/<1% while in emerging states it is: 1+DPD/GNPA is <3%/<1%. Stress basis ticket size is: ATS >1.5mn in terms of 1+DPD/GNPA is <4.0%/<0.8% while for ATS <1.5mn, 1+DPD/GNPA is <4.5%/<1.25%.
- Total ECL provisioning, including COVID-19 impact and resolution framework 2.0 stood at Rs1.01bn. ECL coverage for Stage-3 is guided at 27-29%
- 6.7% of customers have an overlapping MFI exposure; 2.2% are into 90+DPD. There is no other stress as underwriting norms were tightened.
- 1+DPD is guided at <5%; GNPA guided at <1.5%; credit cost guided at <25bps.
- Change in provisioning norms: 1) every NPA bucket movement is considered on real time basis (earlier it was quarter to quarter) and 2) adopted macro-economic factor where it was tested in various economic environments.
- Increase in overall ECL of ~Rs40mn YoY was on account of 1) closure of non-performing subsidiary (write-off Rs10mn) and 2) asset acquired for sale under SARFAESI which was provided over the last 9 months.

Exhibit 2: Loan Book mix largely steady at 69:31



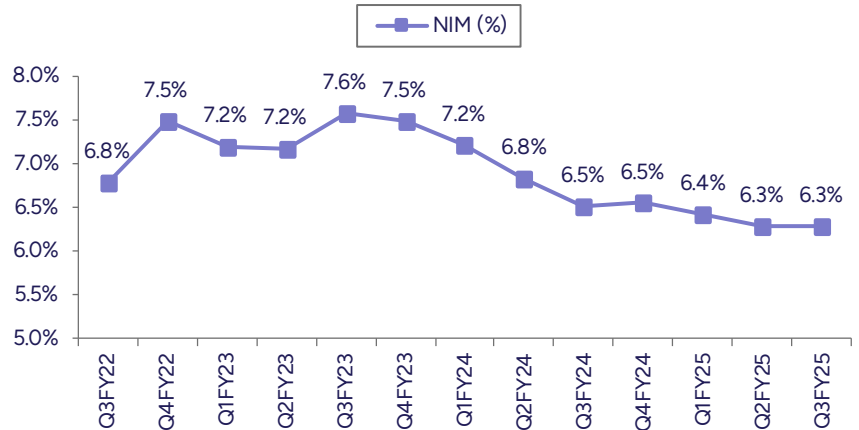
Source: Company, PL

Exhibit 3: Spreads improved by 5bps sequentially due to improved yields



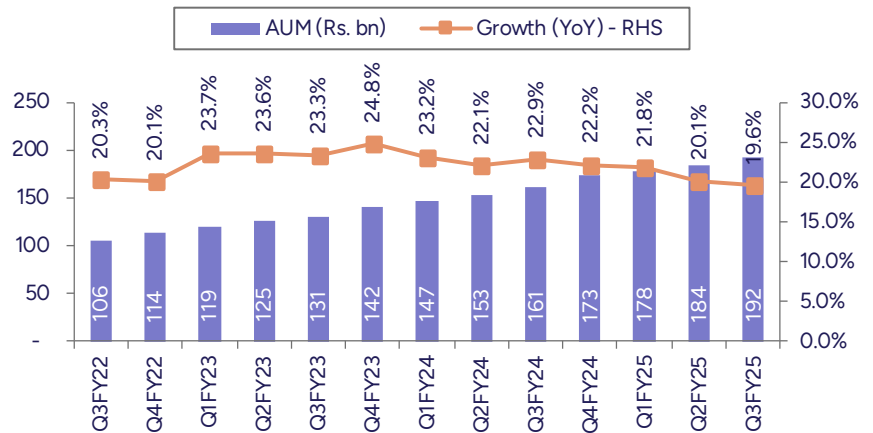
Source: Company, PL

Exhibit 4: NIM (calc) was stable sequentially at 5.9%



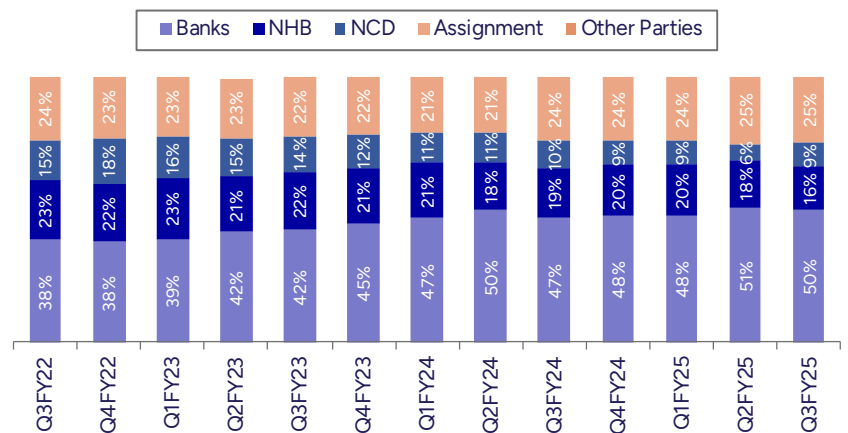
Source: Company, PL

Exhibit 5: AuM growth was at 19.6% YoY



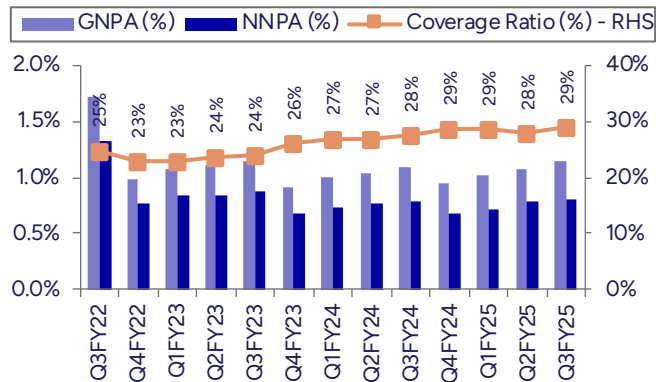
Source: Company, PL

Exhibit 6: Borrowing mix mainly from Banks (50%) and Assignment (25%)



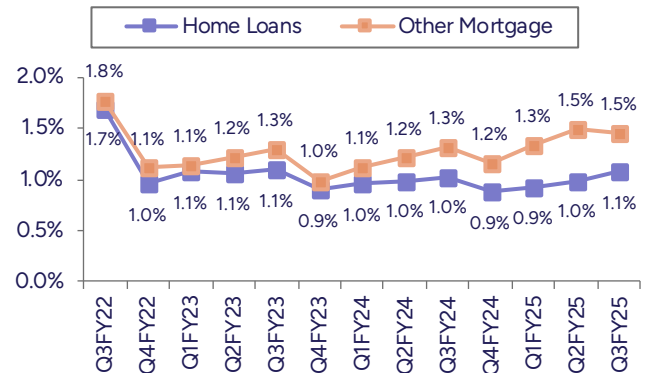
Source: Company, PL

Exhibit 7: GNPA's worsens by 7bps QoQ ;PCR at 28%



Source: Company, PL

Exhibit 8: GNPA improved in NHL but worsened in HL segment



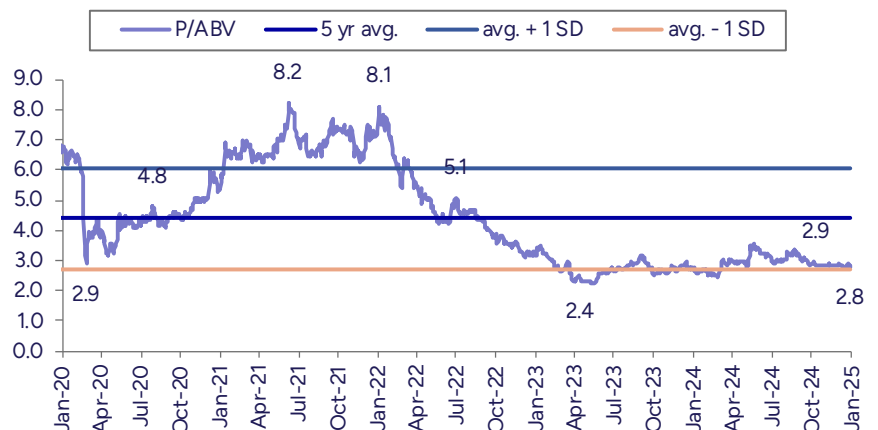
Source: Company, PL

Exhibit 9: ROEs to remain ~15% levels led by decline in opex and slight increase in provisions

RoE decomposition (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	9.8	9.7	9.3	9.4	9.7	9.4	9.3	9.2
Interest expenses	4.4	4.5	3.9	4.0	4.6	4.7	4.7	4.7
Net interest income	5.3	5.1	5.4	5.4	5.0	4.7	4.6	4.6
Other Inc. from operations	1.4	1.3	1.5	1.5	1.6	1.5	1.5	1.5
Total income	6.8	6.4	6.8	6.9	6.6	6.2	6.1	6.1
Employee expenses	1.8	1.7	1.9	2.0	2.0	1.7	1.6	1.5
Other operating expenses	1.0	0.8	0.9	1.0	1.0	0.9	0.9	0.9
Operating profit	3.9	3.9	3.9	3.8	3.6	3.5	3.6	3.6
Tax	0.7	0.6	0.8	0.8	0.7	0.8	0.8	0.8
Loan loss provisions	0.2	0.4	0.2	0.1	0.1	0.1	0.2	0.2
RoAA (incl AuM)	3.1	2.9	2.9	2.9	2.7	2.7	2.7	2.7
RoAE	12.7	12.9	13.7	14.2	13.9	14.3	14.9	15.4

Source: Company, PL

Exhibit 10: One-year forward P/ABV of Aavas trades at 2.8x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Int. Inc. / Opt. Inc.	17,347	20,328	23,969	28,042
Interest Expenses	8,284	10,225	12,064	14,164
Net interest income	9,063	10,103	11,905	13,877
Growth(%)	13.7	11.5	17.8	16.6
Non-interest income	2,856	3,292	3,855	4,547
Growth(%)	28.7	15.3	17.1	18.0
Net operating income	11,919	13,396	15,760	18,425
Expenditures				
Employees	3,559	3,613	4,060	4,561
Other Expenses	1,544	1,707	2,000	2,344
Depreciation	327	376	432	497
Operating Expenses	5,430	5,696	6,491	7,401
PPP	6,489	7,700	9,269	11,023
Growth(%)	15.6	18.7	20.4	18.9
Provisions	245	266	398	470
Profit Before Tax	6,244	7,434	8,871	10,553
Tax	1,338	1,639	1,960	2,332
Effective Tax rate(%)	21.4	22.1	22.1	22.1
PAT	4,907	5,795	6,910	8,221
Growth(%)	14.1	18.1	19.2	19.0

Balance Sheet (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Source of funds				
Equity	791	791	791	791
Reserves and Surplus	36,942	42,389	48,884	56,612
Networth	37,733	43,180	49,676	57,403
Growth (%)	15.4	14.4	15.0	15.6
Loan funds	1,23,365	1,49,352	1,77,435	2,10,752
Growth (%)	25.4	21.1	18.8	18.8
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	4,012	3,988	4,563	5,246
Other Liabilities	84	76	90	107
Total Liabilities	1,65,195	1,96,596	2,31,765	2,73,508
Application of funds				
Net fixed assets	1,272	1,508	1,779	2,100
Advances	1,40,044	1,66,572	1,96,574	2,31,979
Growth (%)	22.0	18.9	18.0	18.0
Investments	1,822	2,371	2,798	3,302
Current Assets	18,096	21,584	25,472	30,060
Net current assets	14,083	17,596	20,909	24,814
Other Assets	3,961	4,562	5,140	6,067
Total Assets	1,65,195	1,96,596	2,31,765	2,73,508
Growth (%)	23.2	19.0	17.9	18.0
Business Mix				
AUM	1,73,127	2,06,197	2,43,344	2,87,172
Growth (%)	22.2	19.1	18.0	18.0
On Balance Sheet	1,73,127	2,06,197	2,43,344	2,87,172
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY24	FY25E	FY26E	FY27E
NIM	6.3	5.8	5.7	5.7
ROAA	3.3	3.2	3.2	3.3
ROAE	13.9	14.3	14.9	15.4

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Int. Inc. / Operating Inc.	4,586	4,797	4,906	5,121
Income from securitization	-	-	-	-
Interest Expenses	2,216	2,352	2,489	2,587
Net Interest Income	2,371	2,446	2,418	2,533
Growth (%)	7.2	8.1	8.8	14.8
Non-Interest Income	882	628	898	859
Net Operating Income	3,252	3,074	3,316	3,392
Growth (%)	14.0	9.7	12.8	15.9
Operating expenditure	1,434	1,378	1,368	1,447
PPP	1,818	1,695	1,948	1,945
Growth (%)	-	-	-	-
Provision	43	86	48	61
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,775	1,609	1,900	1,884
Tax	349	348	421	420
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.7	21.7	22.2	22.3
PAT	1,426	1,261	1,479	1,464
Growth	13	15	22	26
AUM	1,73,126	1,78,415	1,83,956	1,92,380
YoY growth (%)	22.2	21.8	20.1	19.6
Borrowing	-	-	-	-
YoY growth (%)	-	-	-	-

Key Ratios

Y/e Mar	FY24	FY25E	FY26E	FY27E
CMP (Rs)	1,705	1,705	1,705	1,705
EPS (Rs)	62.0	73.2	87.3	103.9
Book value (Rs)	476.8	545.6	627.7	725.3
Adj. BV(Rs)	464.9	531.0	610.5	705.2
P/E(x)	27.5	23.3	19.5	16.4
P/BV(x)	3.6	3.1	2.7	2.4
P/ABV(x)	3.7	3.2	2.8	2.4
DPS (Rs)	3.7	4.4	5.2	6.2
Dividend Payout Ratio(%)	6.0	6.0	6.0	6.0
Dividend Yield(%)	0.2	0.3	0.3	0.4

Asset Quality

Y/e Mar	FY24	FY25E	FY26E	FY27E
Gross NPAs(Rs m)	1,319	1,633	1,915	2,250
Net NPA(Rs m)	939	1,157	1,358	1,597
Gross NPAs to Gross Adv.(%)	0.9	1.0	1.0	1.0
Net NPAs to net Adv.(%)	0.7	0.7	0.7	0.7
NPA coverage(%)	28.8	29.2	29.1	29.0

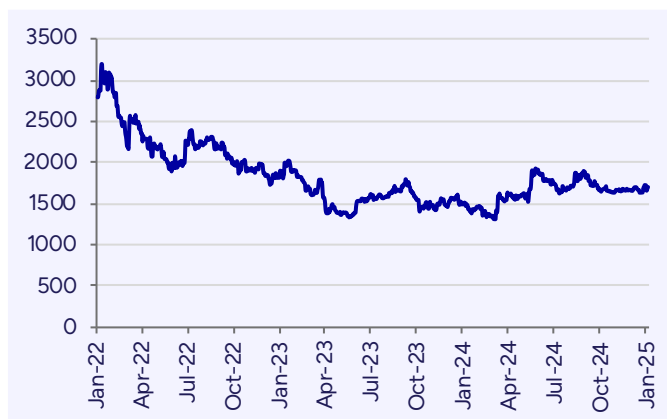
Du-Pont as a % of AUM

Y/e Mar	FY24	FY25E	FY26E	FY27E
NII	5.0	4.7	4.6	4.6
NII INCI. Securitization	5.0	4.7	4.6	4.6
Total income	6.6	6.2	6.1	6.1
Operating Expenses	3.0	2.6	2.5	2.4
PPOP	3.6	3.5	3.6	3.6
Total Provisions	0.1	0.1	0.2	0.2
RoAA	2.7	2.7	2.7	2.7
Avg. Assets/Avg. net worth	5.1	5.4	5.5	5.7
RoAE	13.9	14.3	14.9	15.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-25	Accumulate	1,900	1,681
2	08-Nov-24	Accumulate	1,900	1,715
3	08-Oct-24	Accumulate	1,875	1,745
4	26-Jul-24	Accumulate	1,875	1,778
5	10-Jul-24	Hold	1,720	1,800
6	26-Apr-24	Hold	1,720	1,610
7	09-Apr-24	Hold	1,660	1,626
8	03-Feb-24	Hold	1,660	1,484

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	1,681
2	Axis Bank	BUY	1,350	1,038
3	Bank of Baroda	BUY	285	222
4	Can Fin Homes	BUY	860	708
5	City Union Bank	BUY	190	171
6	DCB Bank	BUY	155	117
7	Federal Bank	BUY	210	184
8	HDFC Asset Management Company	BUY	4,700	3,865
9	HDFC Bank	BUY	1,950	1,666
10	ICICI Bank	BUY	1,550	1,209
11	IndusInd Bank	BUY	1,500	984
12	Kotak Mahindra Bank	BUY	2,230	1,759
13	LIC Housing Finance	Hold	675	583
14	Nippon Life India Asset Management	BUY	725	653
15	State Bank of India	BUY	1,025	779
16	UTI Asset Management Company	BUY	1,320	1,296

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, Passed CFA Level II, Mr. Aditya Modani- CA, Passed CFA Level II, Ms. Harshada Gite- CA 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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