ADD

AAVAS Financiers

A steady quarter; growth outlook maintained

BFSI - NBFCs ▸ Result Update ▸ **July 22, 2026**

CMP (Rs): 1,522 | TP (Rs): 1,600

Aavas Financiers logged a satisfactory quarter, with strong disbursements and stable asset quality, while overall AUM growth remained steady. 1QFY27 AUM stood at Rs239.3bn, growing 15.4% yoy, supported by a 41% yoy jump in disbursements, though elevated repayments (~19.4%) weighed on growth. Overall asset quality remained pristine despite typical seasonal trends, with 1+ DPD at 3.76% (vs 4.15% yoy and 3.2% qoq) and gross NPAs at 1.11%; the management expects credit costs to remain well-contained and improve in coming quarters. Moving forward, the company is strategically shifting its focus back toward the highly competitive Home Loan segment to regain market share. While this targeted shift is expected to compress spreads to slightly below 5% for the full year, the management anticipates offsetting this pressure through stringent cost controls and a sharp focus on doubling employee productivity at the branch level. Overall, 1Q was a steady quarter, with the management guiding for 17–18% AUM growth in FY27, driven by sustained disbursement momentum and improved resource productivity. We maintain ADD with an unchanged Jun-27E TP of Rs1,600, implying a PBV of 1.9x.

PLR reset drives margin moderation

Aavas reported 1QFY27 disbursements of Rs16.1bn, up 41% yoy, while PAT grew 23% yoy to Rs1.71bn. AUM stood at Rs239.3bn, registering 15.4% yoy growth. Reported NIM expanded 22bps yoy to 7.70% (8.45% in 4Q), while cost of funds (COFs) stood at 7.64%. Spreads moderated to 5.06% following a ~10bps PLR cut in Jun-26. Cost-to-income declined 254bps yoy to 43.7%, and credit costs stood at 24bps. Asset quality improved across buckets, with GNPA at 1.11% (down 11bps yoy), net NPA at 0.71% (down 13bps yoy), and 1+ DPD at 3.76% (down 39bps yoy).

Growth outlook remains intact

The management remains confident of driving AUM growth toward its 17–18% target for FY27, as the strategic pivot to regain market share in the core Home Loan segment continues to gain traction. The management indicated that while this highly competitive asset mix may compress spreads to slightly below 5%, overall COF is expected to be broadly stable despite external market volatilities. To offset any margin pressure, the company is progressing well on its operational initiatives, shifting toward lower-cost direct business sourcing and aiming to double employee productivity to at least Rs2mn per FOS. These efforts are expected to sustain cost-to-income improvements, while credit costs are likely to remain well-contained, supported by disciplined underwriting; overall, the company targets a stable ROA and ROE outlook for the full year.

Estimates largely unchanged; maintain ADD

Considering the 1QFY27 performance and management commentary, we retain our estimates and maintain ADD with an unchanged Jun-27E TP of Rs1,600, implying FY28E PBV of 1.9x.

Target Price – 12M	Jun-27
Change in TP (%)	**NA**
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	5.1

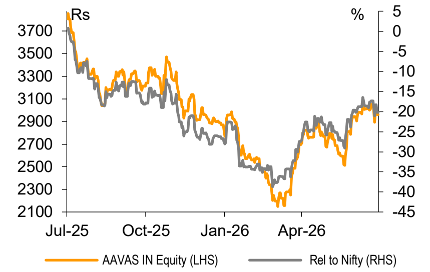
Stock Data	**AAVAS IN**
52-week High (Rs)	1,950
52-week Low (Rs)	1,050
Shares outstanding (mn)	79.3
Market-cap (Rs bn)	121
Market-cap (USD mn)	1,254
Net-debt, FY27E (Rs mn)	NA
ADTV-3M (mn shares)	0.2
ADTV-3M (Rs mn)	271.4
ADTV-3M (USD mn)	2.8
Free float (%)	0.0
Nifty-50	24,187.7
INR/USD	96.2

Shareholding,Jun-26	
Promoters (%)	48.9
FPIs/MFs (%)	16.3/22.1

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	3.4	8.7	(21.1)
Rel. to Nifty	2.6	10.5	(18.1)

1-Year share price trend (Rs)



AAVAS Financiers: Financial Snapshot (Standalone)

Y/E 2026 (Rs mn)	**FY25**	**FY26**	**FY27E**	**FY28E**	**FY29E**
Net profits	5,741	6,549	7,556	8,947	10,799
AUM growth (%)	17.9	14.8	17.4	20.0	20.0
NII growth (%)	12.3	16.6	14.8	16.6	19.4
NIMs (%)	6.6	6.8	6.8	6.8	6.8
PPOP growth (%)	17.1	15.1	16.9	17.7	21.1
Adj. EPS (Rs)	72.5	82.7	95.4	112.8	136.2
Adj. EPS growth (%)	17.0	14.0	15.3	18.3	20.7
Adj. BV (INR)	551.1	638.1	732.9	845.2	981.4
Adj. BVPS growth (%)	15.5	15.8	14.9	15.3	16.1
RoA (%)	3.3	3.3	3.3	3.3	3.4
RoE (%)	14.1	13.9	13.9	14.3	14.9
P/E (x)	21.0	18.4	16.0	13.5	11.2
P/ABV (x)	2.8	2.4	2.1	1.8	1.6

Source: Company, Emkay Research

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Exhibit 1: Quarterly earnings snapshot

(Rs mn)	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	yoy	qoq
Interest income	5,541	5,778	5,921	6,082	6,203	6,404	6,335	7.0%	-1.1%
Interest expenses	2,612	2,673	2,736	2,785	2,768	2,763	2,952	7.9%	6.8%
Net interest income	**2,929**	**3,104**	**3,185**	**3,297**	**3,436**	**3,641**	**3,383**	**6.2%**	**-7.1%**
Other income	438	597	358	592	543	745	756	111.1%	1.5%
Total income	3,367	3,702	3,543	3,890	3,978	4,385	4,139	16.8%	-5.6%
Operating expenses	1,422	1,693	1,639	1,698	1,707	2,011	1,810	10.4%	-10.0%
Operating profit	**1,945**	**2,009**	**1,904**	**2,192**	**2,272**	**2,374**	**2,329**	**22.3%**	**-1.9%**
Provisions	61	76	113	80	78	67	128	13.7%	92.3%
Credit cost (on avg AUM)	0.13%	0.15%	0.22%	0.15%	0.14%	0.12%	0.22%	0bps	10bps
PBT	**1,884**	**1,932**	**1,791**	**2,112**	**2,193**	**2,308**	**2,201**	**22.9%**	**-4.6%**
Tax	420	395	399	473	493	491	488	22.4%	-0.5%
Reported PAT	**1,464**	**1,537**	**1,392**	**1,639**	**1,700**	**1,817**	**1,713**	**23.0%**	**-5.7%**
AUM	**192,380**	**204,202**	**207,397**	**213,566**	**222,035**	**234,517**	**239,306**	**15.4%**	**2.0%**
Disbursements	**15,942**	**20,238**	**11,454**	**15,599**	**17,219**	**23,481**	**16,139**	**40.9%**	**-31.3%**
GS3	1.14%	1.08%	1.22%	1.24%	1.19%	1.05%	1.11%	-10bps	7bps
NS3	0.80%	0.73%	0.84%	0.85%	0.79%	0.67%	0.71%	-13bps	3bps
PCR	29.80%	32.43%	31.52%	31.86%	33.89%	35.95%	36.80%	527bps	85bps
ROA	3.37%	3.38%	2.94%	3.40%	3.43%	3.50%	3.19%	25bps	-32bps
ROE	14.21%	14.40%	12.56%	14.31%	14.29%	14.67%	13.34%	78bps	-133bps

Source: Company, Emkay Research

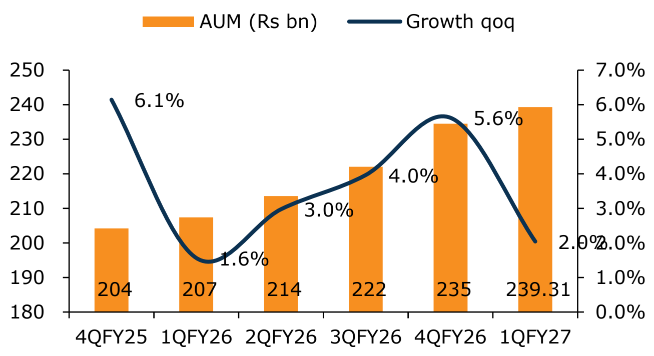
Exhibit 2: Valuation matrix

			P/BV (x)			P/E (x)			ROA (%)			ROE (%)			Book value (Rs/sh)			EPS (Rs)		
	Price	Upside	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
At CMP	1,522	5%	2.08	1.8	1.6	16.0	13.5	11.2	3.3	3.3	3.4	13.9	14.3	14.9	732.9	845.2	981.4	95.4	112.8	136.2
AT TP	1,600		2.2	1.9	1.6	16.8	14.2	11.7												

Source: Company, Emkay Research

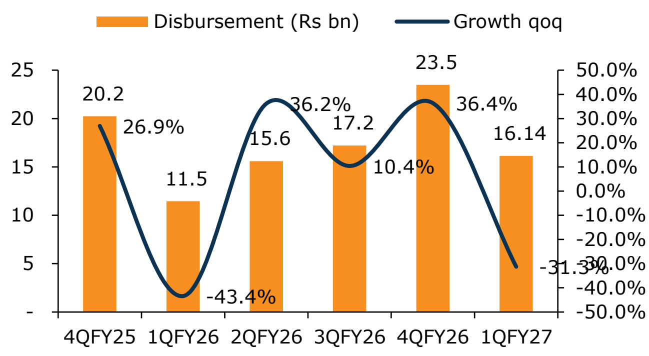
Results in charts

Exhibit 3: AUM continues to grow at ~15.4% yoy



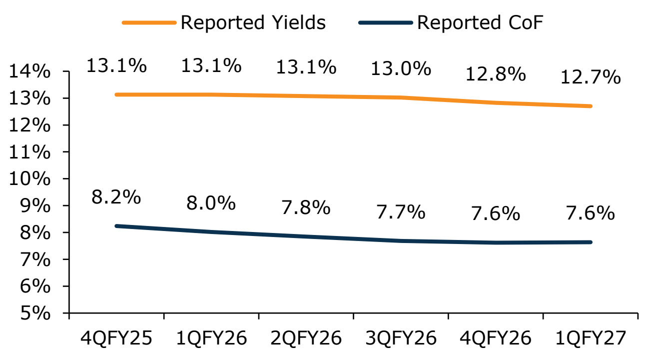
Source: Company, Emkay Research

Exhibit 4: Disbursements have started to improve (40% yoy)



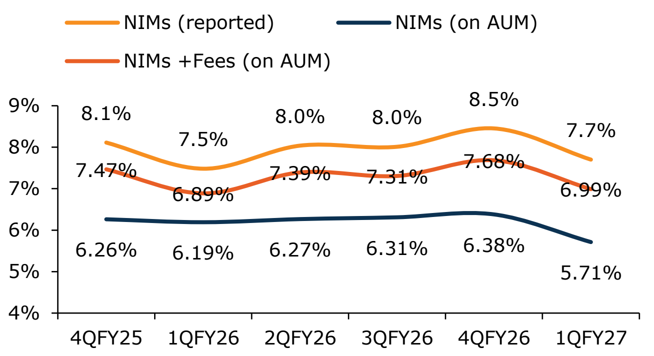
Source: Company, Emkay Research

Exhibit 5: A 10bps PLR cut in June impacted overall yields



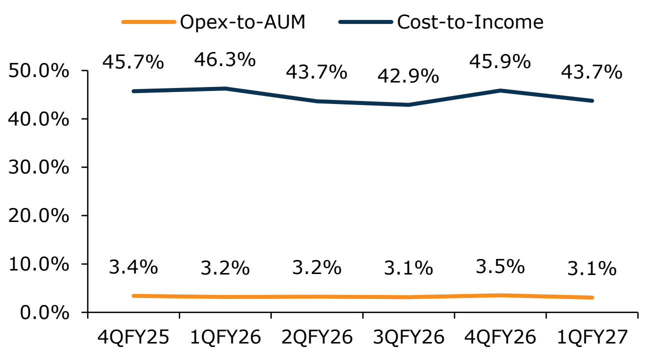
Source: Company, Emkay Research

Exhibit 6: Margins impacted by PLR cut



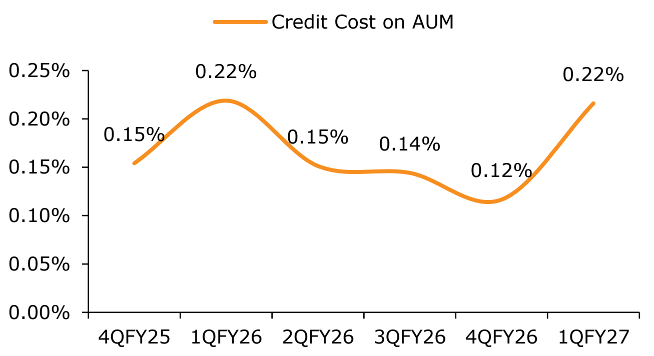
Source: Company, Emkay Research

Exhibit 7: Opex remained range-bound



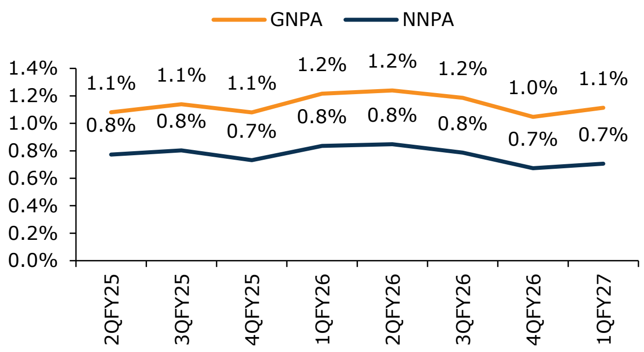
Source: Company, Emkay Research

Exhibit 8: Credit cost increased sequentially on account of seasonality



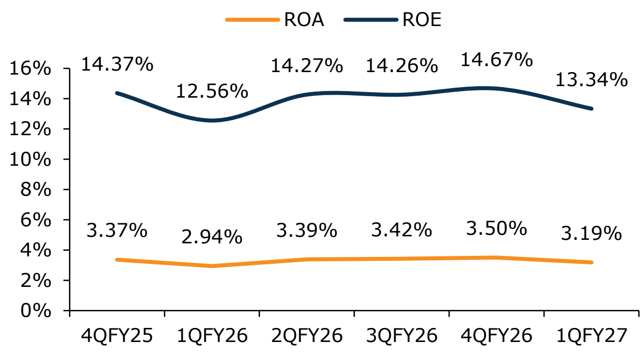
Source: Company, Emkay Research

Exhibit 9: Asset quality remains robust



Source: Company, Emkay Research

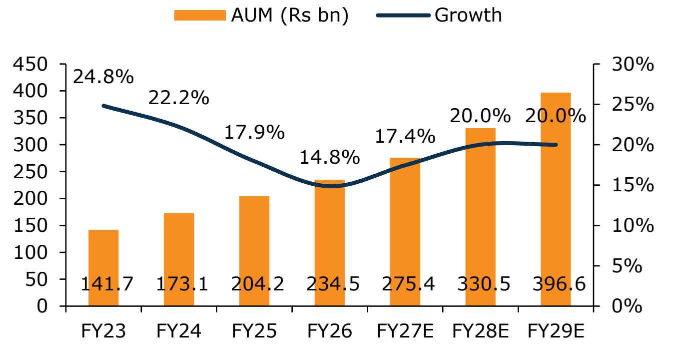
Exhibit 10: ROA/ROE impacted by margin moderation and increased credit cost



Source: Company, Emkay Research

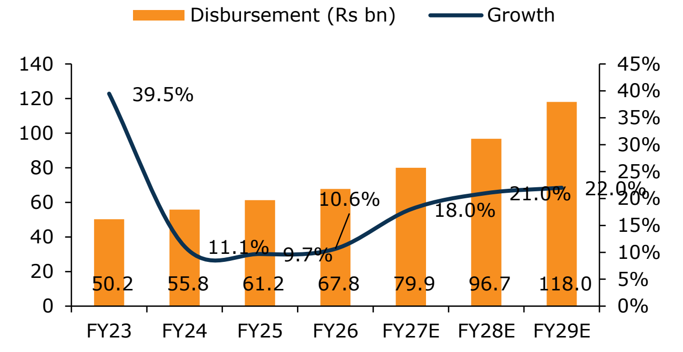
Story in charts

Exhibit 11: AUM CAGR expected at ~19% over FY26-29E



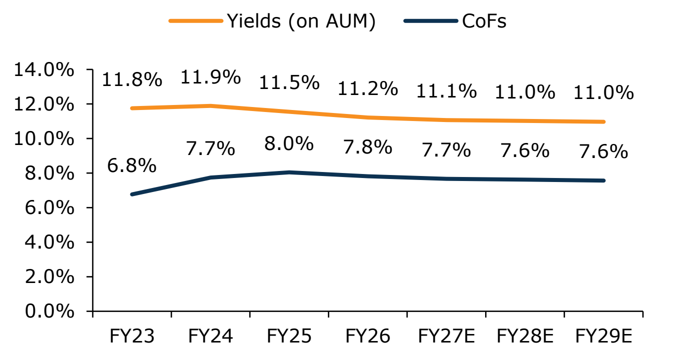
Source: Company, Emkay Research

Exhibit 12: Disbursements expected to improve as branches mature



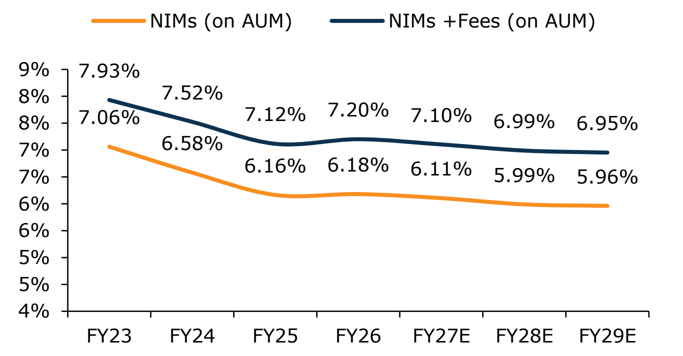
Source: Company, Emkay Research

Exhibit 13: Yields to hold up as asset mix changes



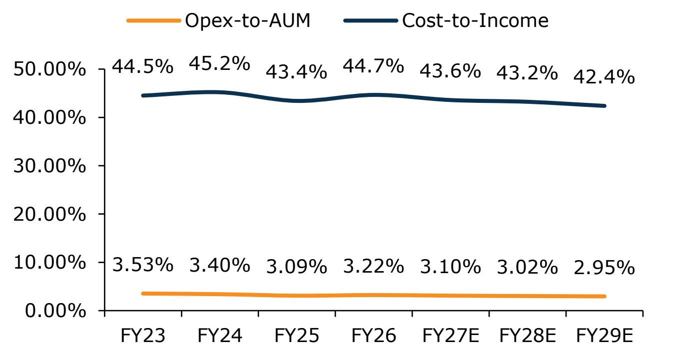
Source: Company, Emkay Research

Exhibit 14: Strong margin profile vs peers



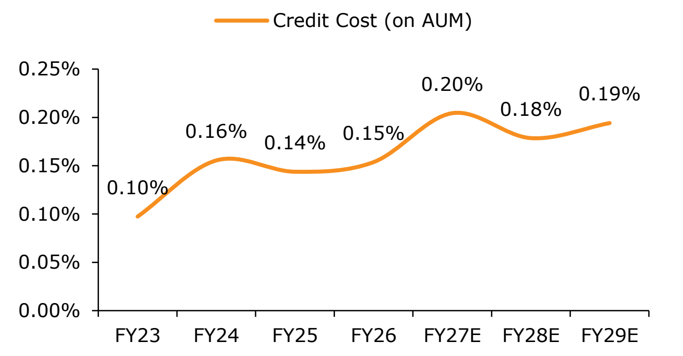
Source: Company, Emkay Research

Exhibit 15: Opex ratio improves on the back of improved productivity



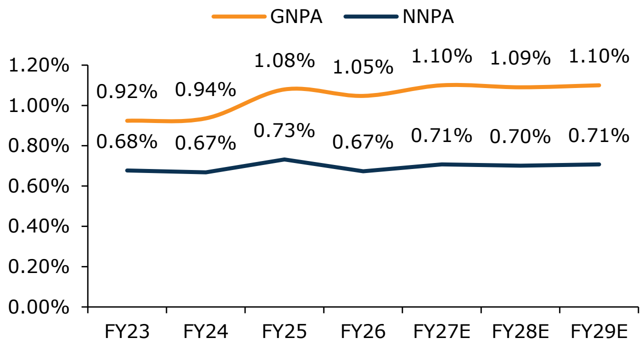
Source: Company, Emkay Research

Exhibit 16: Credit cost to remain benign



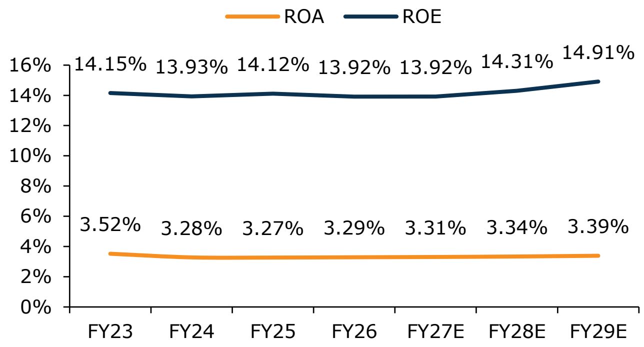
Source: Company, Emkay Research

Exhibit 17: Best-in-class asset quality



Source: Company, Emkay Research

Exhibit 18: ROA/ROE expansion led by improving productivity



Source: Company, Emkay Research

Management call highlights

- 1QFY27 disbursements reached Rs16.1bn, delivering robust 41% yoy growth. This was driven by a strong pickup in volumes and a healthy 38% yoy growth in the Home Loan segment. AUM grew 15.4% yoy to Rs239.3bn, while the management is targeting sustainable 20% AUM growth over the medium term. For FY27, the company is committed to 22-23% disbursement growth, resulting in 17-18% AUM growth.
- Net profit for 1QFY27 grew 23% yoy to Rs1.71bn, led by robust 18% yoy income growth. The cost-to-income ratio improved significantly by 254bps yoy to 43.7%, reflecting better cost efficiencies. Consequently, the opex-to-assets ratio improved 9bps yoy to 3.37%.
- NIM expanded 22bps yoy to 7.70% during the quarter, supported by a lower cost of borrowing and a focus on risk-adjusted pricing. In line with a customer-centric approach, the company implemented an additional ~10bps reduction in its PLR in Jun-26, taking the cumulative reduction to ~25bps since Mar-26. As a result, the spread moderated to 5.06% during the quarter. The management anticipates spreads compressing to slightly below 5% for the full year, due to competitive pressures.
- To counterbalance the expected spread compression, the management is heavily focused on improving operating levers and increasing productivity. The company aims to double productivity per employee (resource deployed in the field) from an average of Rs0.8-1mn to at least Rs2mn. Despite competitive pressures, the management remains confident of maintaining stable ROE and ROA. For the quarter, ROA improved 25bps yoy to 3.19%, and ROE improved 78bps yoy to 13.34%
- Asset quality remained pristine, with 1+ DPD improving 39bps yoy to 3.76%, comfortably below 5%. GNPA improved 11bps yoy to 1.11%, while net NPA improved 13bps yoy to 0.71%. Credit cost for the quarter stood at ~24bps, well within the company's guided range.
- 1QFY27 borrowings reached Rs14.74bn at 7.74%, taking total outstanding borrowings to Rs207bn. The capital base remains highly robust, with a net worth of Rs52.2bn and a CRAR of 44.66%.
- The network expanded to 440 branches across 15 states. The management aims to strategically regain Home Loan market share (volumes grew 17% yoy) and plans to offset any resulting NIM pressure through lower-cost direct sourcing.
- On the RBI circular on asset classification, the management stated it is currently assessing the circular's potential financial and operational effects.

AAVAS Financiers: Standalone Financials and Valuations

Profit & Loss

Y/E 2026 (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Interest Income	21,787	24,610	28,224	33,386	39,882
Interest Expense	10,158	11,051	12,656	15,241	18,207
Net interest income	**11,629**	**13,559**	**15,568**	**18,145**	**21,675**
NII growth (%)	12.3	16.6	14.8	16.6	19.4
Non interest income	1,797	2,238	2,547	3,034	3,605
Total income	**13,426**	**15,797**	**18,115**	**21,179**	**25,280**
Operating expenses	5,829	7,055	7,897	9,156	10,715
PPOP	**7,597**	**8,742**	**10,218**	**12,023**	**14,565**
PPOP growth (%)	17.1	15.1	16.9	17.7	21.1
Provisions & contingencies	271	337	521	541	706
PBT	**7,326**	**8,404**	**9,697**	**11,482**	**13,859**
Extraordinary items	-	-	-	-	-
Tax expense	1,585	1,856	2,141	2,535	3,060
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	**5,741**	**6,549**	**7,556**	**8,947**	**10,799**
PAT growth (%)	17.0	14.1	15.4	18.4	20.7
Adjusted PAT	**5,741**	**6,549**	**7,556**	**8,947**	**10,799**
Diluted EPS (Rs)	**72.5**	**82.7**	**95.4**	**112.8**	**136.2**
Diluted EPS growth (%)	17.0	14.0	15.3	18.3	20.7
DPS (Rs)	**0**	**0**	**0**	**0**	**0**
Dividend payout (%)	**0**	**0**	**0**	**0**	**0**
Effective tax rate (%)	21.6	22.1	22.1	22.1	22.1
Net interest margins (%)	6.6	6.8	6.8	6.8	6.8
Cost-income ratio (%)	43.4	44.7	43.6	43.2	42.4
PAT/PPOP (%)	75.6	74.9	73.9	74.4	74.1
Shares outstanding (mn)	79.2	79.3	79.3	79.3	79.3

Source: Company, Emkay Research

Balance Sheet

Y/E 2026 (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	792	793	793	793	793
Reserves & surplus	43,608	50,508	58,064	67,011	77,810
Net worth	**43,608**	**50,508**	**58,064**	**67,011**	**77,810**
Borrowings	**139,185**	**156,856**	**181,634**	**218,509**	**262,669**
Other liabilities & prov.	**3,392**	**4,761**	**5,142**	**5,553**	**5,997**
Total liabilities & equity	**186,185**	**212,125**	**244,840**	**291,073**	**346,477**
Net loans	162,297	183,727	217,300	259,885	312,397
Investments	2,300	2,708	4,897	5,239	6,237
Cash, other balances	15,596	18,433	9,794	11,643	13,859
Interest earning assets	**180,194**	**204,868**	**231,990**	**276,767**	**332,493**
Fixed assets	824	921	1,014	1,115	1,226
Other assets	5,167	6,335	11,836	13,190	12,757
Total assets	**186,185**	**212,125**	**244,840**	**291,073**	**346,477**
BVPS (Rs)	551.1	638.1	732.9	845.2	981.4
Adj. BVPS (INR)	551.1	638.1	732.9	845.2	981.4
Gross loans	163,370	185,023	218,836	261,687	314,574
Total AUM	**204,202**	**234,517**	**275,439**	**330,527**	**396,632**
On balance sheet	163,370	185,023	218,836	261,687	314,574
Off balance sheet	40,831	49,494	56,603	68,840	82,058
Disbursements	61,230	67,751	79,946	96,735	118,016
Disbursements growth (%)	9.7	10.6	18.0	21.0	22.0
Loan growth (%)	15.9	13.2	18.3	19.6	20.2
AUM growth (%)	17.9	14.8	17.4	20.0	20.0
Borrowings growth (%)	12.8	12.7	15.8	20.3	20.2
Book value growth (%)	15.5	15.8	14.9	15.3	16.1

Source: Company, Emkay Research

Asset quality and other metrics

Y/E 2026 (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Asset quality					
GNPL - Stage 3	1,763	1,938	2,407	2,852	3,460
NNPL - Stage 3	1,191	1,241	1,542	1,827	2,216
GNPL ratio - Stage 3 (%)	1.1	1.0	1.1	1.1	1.1
NNPL ratio - Stage 3 (%)	0.7	0.7	0.7	0.7	0.7
ECL coverage - Stage 3 (%)	32.4	35.9	35.9	35.9	35.9
ECL coverage - 1 & 2 (%)	0.3	0.3	0.3	0.3	0.3
Gross slippage - Stage 3	-	-	-	-	-
Gross slippage ratio (%)	-	-	-	-	-
Write-off ratio (%)	-	-	-	-	-
Total credit costs (%)	0.7	0.7	0.7	0.7	0.7
NNPA to networth (%)	2.7	2.5	2.7	2.7	2.8
Capital adequacy					
Total CAR (%)	44.5	44.6	44.4	43.1	42.0
Tier-1 (%)	-	-	-	-	-
Miscellaneous					
Total income growth (%)	13.4	17.7	14.7	16.9	19.4
Opex growth (%)	8.9	21.0	11.9	15.9	17.0
PPOP margin (%)	4.0	4.0	4.0	4.0	4.0
Credit costs-to-PPOP (%)	3.6	3.9	5.1	4.5	4.8
Loan-to-Assets (%)	87.2	86.6	88.8	89.3	90.2
Yield on loans (%)	11.5	11.2	11.1	11.0	11.0
Cost of funds (%)	8.0	7.8	7.7	7.6	7.6
Spread (%)	3.5	3.4	3.4	3.4	3.4

Source: Company, Emkay Research

Valuations and key Ratios

Y/E 2026	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	21.0	18.4	16.0	13.5	11.2
P/B (x)	2.8	2.4	2.1	1.8	1.6
P/ABV (x)	2.8	2.4	2.1	1.8	1.6
P/PPOP (x)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0	0	0	0	0
Dupont-RoE split (%)					
NII/avg AUM	6.2	6.2	6.1	6.0	6.0
Other income	1.0	1.0	1.0	1.0	1.0
Securitization income	-	-	-	-	-
Opex	3.1	3.2	3.1	3.0	2.9
Employee expense	-	-	-	-	-
PPOP	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
Provisions	0.1	0.2	0.2	0.2	0.2
Tax expense	0.8	0.8	0.8	0.8	0.8
RoAUM (%)	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Leverage ratio (x)	4.6	4.7	4.7	4.8	5.0
RoE (%)	**14.1**	**13.9**	**13.9**	**14.3**	**14.9**

Quarterly data

Rs mn, Y/E Mar	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27
NII	3,185	3,297	3,436	3,641	3,383
NIM (%)	6.7	6.8	6.9	7.0	6.3
PPOP	1,904	2,192	2,272	2,374	2,329
PAT	1,392	1,639	1,700	1,817	1,713
EPS (Rs)	17.59	20.71	21.48	22.94	21.60

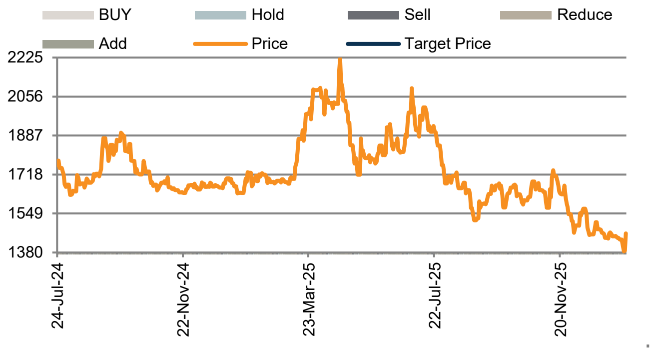
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
17-Jul-26	1,481	1,600	Add	Avinash Singh
17-Jul-26	1,481	1,600	Add	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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Seshadri Kumar Sen

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