

Aavas Financiers | BUY

Strong performance across the board

Aavas reported a strong rebound during the quarter, with PAT rising +11%/+18% YoY/QoQ (+6% vs. JMFe), translating into an RoA/RoE of 3.4%/14.3%. The beat was primarily driven by higher-than-expected NII (+19%/+10% YoY/QoQ, +5% JMFe), aided by a +49bps QoQ improvement in calc. NIMs and lower-than-estimated credit costs of 15bps (-7bps QoQ, vs. 21bps JMFe). AUM growth remained steady at +16%/+3% YoY/QoQ, supported by strong disbursements (+21%/+36% YoY/QoQ), which normalized post the accounting methodology change in 1Q. Asset quality remained stable with GS3/NS3 ratios at 1.24%/0.84% (+2bps/+1bps QoQ), while 1+ DPD improved to 3.99% (vs. 4.15% in 1Q). Mgmt. guided for ~18% AUM growth (vs. 18–20% guided earlier) and credit costs <25bps for FY26. The company targets monthly disbursement run-rate of ~INR 6.5–7bn (vs. ~INR 5bn currently), supported by continued expansion in TN and upcoming foray into AP/Telangana. We expect Aavas to maintain its strong performance going forward, backed by (a) revival in growth momentum, (b) margin benefits from CoF tailwind, (c) better operating leverage, and (d) benign credit costs. We largely maintain our FY26–27E EPS estimates and maintain BUY with an unchanged TP of INR 2,000, valuing the stock at 2.7x FY27E BVPS, in return for avg. RoA/RoE of 3.3%/14% over FY26–27E.

- **Steady growth:** AUM growth remained steady at +16%/+3% YoY/QoQ, supported by robust disbursements (+21%/+36% YoY/QoQ), which normalized post the 1Q dip caused by the shift in accounting methodology. Mgmt. targets a monthly disbursement run-rate of ~INR 6.5–7bn (vs. ~INR 5bn currently), driven by continued expansion in TN, where 8 new branches were added in 2Q and 8 more branches to be added in 2H. Further network expansion is planned in AP/Telangana in the near term. MSME segment grew +29%/+3% YoY/QoQ, while the LAP/HL portfolio registered growth of +16%/+13% YoY respectively. Mgmt. guided for FY26 AUM growth of ~18% (vs. 18–20% guided earlier) and expects growth to accelerate to ~20%+ over the next five years. We build in an AUM CAGR of ~17% over FY25–27E.
- **Beat in operating performance and profitability:** PPOp was a beat at INR 2.2bn (+12%/+15% YoY/QoQ, +5% JMFe), primarily due to strong NII (+19%/+10% YoY/QoQ, +5% JMFe). This was driven by a 49bps QoQ increase in NIMs (calc.), which in turn was led by a 45bps QoQ increase in calc. yields. Opex was higher than expected (+4% JMFe), however, lower-than-anticipated credit costs at 15bps (-7bps QoQ) resulted in further PAT beat (+11%/+18% YoY/QoQ, +6% JMFe). Mgmt. indicated the CoF benefits to accrue with 36% borrowings linked to external benchmarks and 25% to sub 3-month MCLR. PLR was also unchanged during the quarter, signalling further margin support going forward. We build in EPS CAGR of 17% over FY25–27E.
- **Asset quality fairly steady:** Headline asset quality remained broadly stable, with GS3/NS3 at 1.24%/0.84% (+2bps/+1bps QoQ). Notably, 1+ DPD improved to 3.99% (vs. 4.15% QoQ), indicating early signs of stabilization. Mgmt. flagged minor stress in parts of eastern MP and Surat, though the impact remains limited, with <1.8% of AUM exposed to tariff-related issues. PCR on stage-3 improved +30bps QoQ to 31.9%, while total ECL cover remained steady at 0.72% (vs. 0.70% in 1Q). We build in avg. credit cost of ~17bps over FY26E/27E.
- **Valuation and view:** We expect Aavas to maintain its strong performance going forward, backed by (a) revival in growth momentum, (b) margin benefits from CoF tailwind, (c) better operating leverage, and (d) benign credit costs. We largely maintain our FY26–27E EPS estimates and maintain BUY with an unchanged TP of INR 2,000, valuing the stock at 2.7x FY27E BVPS, in return for avg. RoA/RoE of 3.3%/14% over FY26–27E.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,000
Upside/(Downside)	23.5%
Previous Price Target	2,000
Change	0.0%

Key Data – AAVAS IN

Current Market Price	INR1,619
Market cap (bn)	INR128.2/US\$1.4
Free Float	47%
Shares in issue (mn)	79.2
Diluted share (mn)	79.1
3-mon avg daily val (mn)	INR363.2/US\$4.1
52-week range	2,238/1,517
Sensex/Nifty	83,871/25,695
INR/US\$	88.6

Price Performance

%	1M	6M	12M
Absolute	-0.8	-5.7	-2.2
Relative*	-2.4	-10.7	-7.3

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	4,907	5,741	6,632	7,907	9,487
Net Profit (YoY) (%)	14.2%	17.0%	15.5%	19.2%	20.0%
Assets (YoY) (%)	23.2%	12.7%	15.8%	15.9%	16.1%
ROA (%)	3.3%	3.3%	3.3%	3.4%	3.5%
ROE (%)	13.9%	14.1%	14.1%	14.6%	15.1%
EPS	62.0	72.5	83.8	99.9	119.9
EPS (YoY) (%)	14.1%	17.0%	15.5%	19.2%	20.0%
P/E (x)	26.1	22.3	19.3	16.2	13.5
BV	477	551	635	735	854
BV (YoY) (%)	15.3%	15.5%	15.2%	15.7%	16.3%
P/BV (x)	3.40	2.94	2.55	2.20	1.89

Source: Company data, JM Financial. Note: Valuations as of 11/Nov/2025

JM Financial Institutional Securities Limited

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Aavas Financiers – Performance Highlights

Exhibit 1. Aavas Financiers - 2QFY26 Results Snapshot

Earnings Table (INR mn.)	Q2FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)	Q2FY26E	%var
Net Interest Income	3,003	3,251	3,582	19%	10%	3,422	5%
Total Non-Interest income	313	315	337	8%	7%	329	3%
Total Income	3,316	3,566	3,919	18%	10%	3,751	4%
Employee Cost	836	1,107	1,129	35%	2%		
Other expenses	531	555	598	12%	8%		
Total Operating Expenses	1,368	1,662	1,727	26%	4%	1,663	4%
Operating Profit (PPP)	1,948	1,904	2,192	12%	15%	2,089	5%
Total Provisions	48	113	80	65%	-29%	109	-27%
PBT	1,900	1,791	2,112	11%	18%	1,979	7%
Tax	421	399	473	12%	19%	435	9%
Reported Profit	1,479	1,392	1,639	11%	18%	1,544	6%
Key parameters (INR bn.)							
AUM	184.0	207.4	213.6	16%	3%	214.8	-1%
Disbursements	12.9	11.5	15.6	21%	36%	16.0	-3%
Ratios Analysis (%) - calc							
Yield on AUM	12.1%	11.6%	12.0%	-8bps	45bps	11.8%	29bps
Cost of Funds	7.9%	7.7%	7.7%	-28bps	-2bps	7.6%	5bps
NIM (NII/AUM)	6.6%	6.3%	6.8%	18bps	49bps	6.5%	32bps
Cost to Income (%)	41.2%	46.6%	44.1%	283bps	-254bps	44.3%	-25bps
Credit Cost on AUM	0.11%	0.22%	0.15%	4bps	-7bps	0.2%	-6bps
ROA	3.5%	2.9%	3.4%	-11bps	45bps	3.1%	24bps
ROE	14.9%	12.6%	14.3%	-61bps	171bps	13.5%	81bps
Credit Quality							
Gross S3 (INR Mn.)	1,601	1,987	2,081	30.0%	4.7%		
Net S3 (INR Mn.)	1,142	1,360	1,418	24.2%	4.3%		
Gross S3 (%)	1.08%	1.22%	1.24%	16bps	2bps		
Net S3 (%)	0.77%	0.83%	0.84%	7bps	1bps		
Coverage	28.7%	31.6%	31.9%	319bps	30bps		
1+DPD (%)	4.0%	4.2%	4.0%	2bps	-16bps		

Source: Company, JM Financial

Aavas Financiers – Concall KTAs

AUM Mix/Growth

- Monthly disbursement run rate currently stands at INR 5bn, and 2H is a seasonally strong quarter. Monthly disbursement run rate target is at ~INR 6.5-7bn.
- In the overall AUM mix sub INR 2.5mn constitutes ~76.7% of the mix, and sub INR 0.5mn stands at ~11% of the overall AUM.
- After the new disbursement methodology was implemented in 1Q, disbursements have now normalized, and sanctions to disbursements now stand at ~80%.

Margins

- Incremental business yields have been lower (~25bps) than existing AUM yield, which has pulled down the overall yields by 5bps QoQ. This was due to increased focus on portfolio quality. However, efforts have been made to increase the yields with focus on lower ticket size, higher yielding products etc.
- Liabilities have been cautiously adjusted in anticipation of interest rate cuts to more EBLR linked instruments and shorter tenure MCLR loans. (17bps QoQ decline in CoFs)
- In terms of PLR, no meaningful pass through seen in MCLR from banks yet. ALCO will review and take a call as more clarity emerges in the coming months.
- In the borrowings mix, ~36% is linked to repo rates and ~25% linked to sub 3 months MCLR.

Asset Quality

- Less than 1.8% of the AUM would be impacted by tariff related issues. Pockets of stress seen in some areas such as in Surat etc., but this are not of any significant impact. Some localized stress seen in eastern belt of MP, but however stronger credit underwriting standards have been implemented here.
- Credit costs improved sharply by 8bps sequentially to 16bps driven by lower 1+ DPD flows and improvement in stage 2 buckets.

Guidance

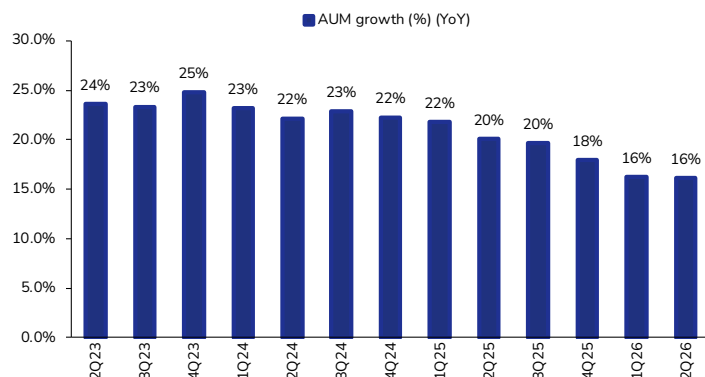
- AUM FY30E target – INR 550bn. AUM growth to be driven by ~20%+ yearly growth rate over the next five years, where ~8% would be driven by geographic expansion. ~7-8% driven by operational efficiencies, and ~5% driven by inflation related increase in ticket sizes.
- 18% AUM growth guidance for FY26.
- 3% opex/assets ratio guidance in the medium term.
- ~20-25 branches new branches would be added in 2HFY26.
- Credit cost guidance maintained to keep it below 25bps on a sustainable basis.

Other Highlights

- CARE upgraded long term outlook to Positive in Oct'25.
- Entry into TN ramped up with 8 branches added in 2Q. 8 new branches to be added in 2H in Tamil Nadu. AP and Telangana have been identified as the next front for expansion.
- C/I ratio remains elevated due to continued investments on employees, branches etc. As per mgmt. it will take time for the operating leverage to start kicking in.
- BT-outs for 1H stood at ~5.3% (10bps higher YoY). Predictive analytics measures have been taken to identify and arrest this.
- 2300 Aavas customers have benefitted from different govt. schemes benefitting ~ INR 75mn subsidy benefits.
- ECL provisioning, including that for COVID-19 impact as well as resolution framework stood at INR 1.21bn as of Sep'25.
- In the overall sourcing mix, DSA contribution is less than 10%.

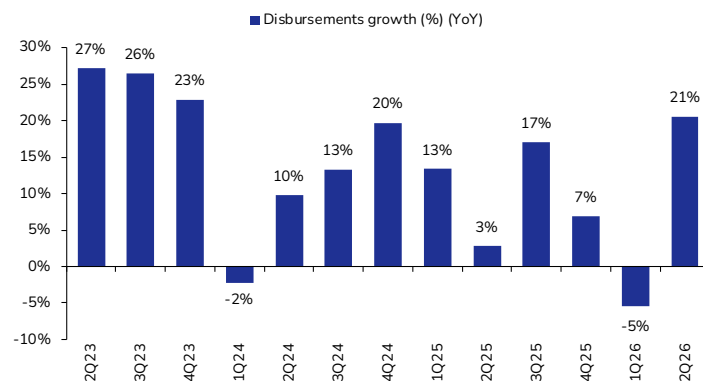
Aavas Financiers – Key Quarterly Trends

Exhibit 2. AUM growth steady at 16%



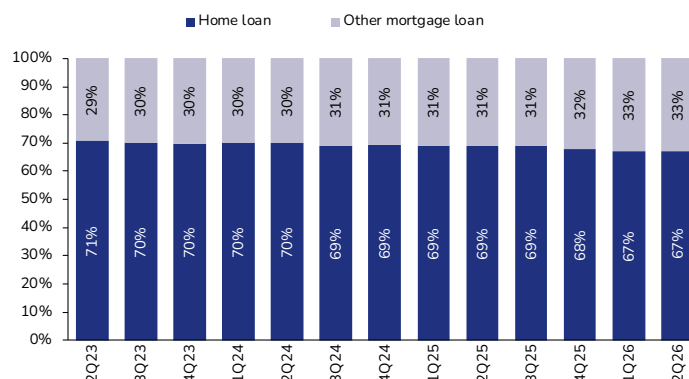
Source: Company, JM Financial

Exhibit 3. Disbursement growth normalizes to ~21% YoY after decline last quarter due to revision in accounting methodology



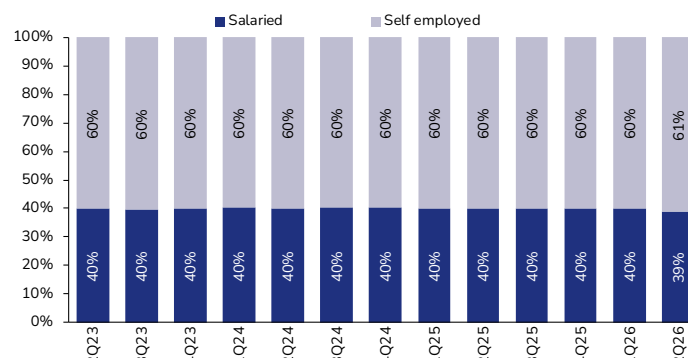
Source: Company, JM Financial

Exhibit 4. Mix of HL: non HL steady on a sequential basis



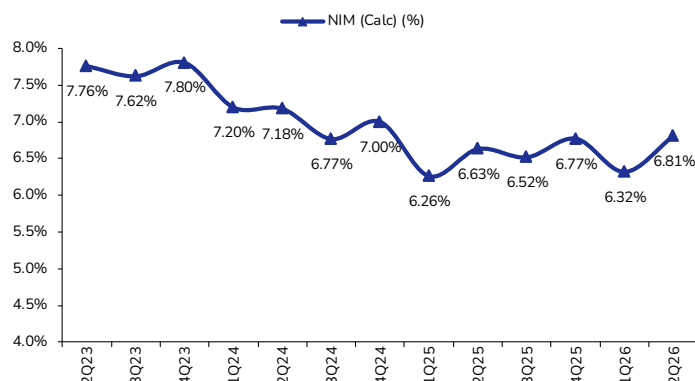
Source: Company, JM Financial

Exhibit 5. Sticky customer profile with 61% self-employed mix



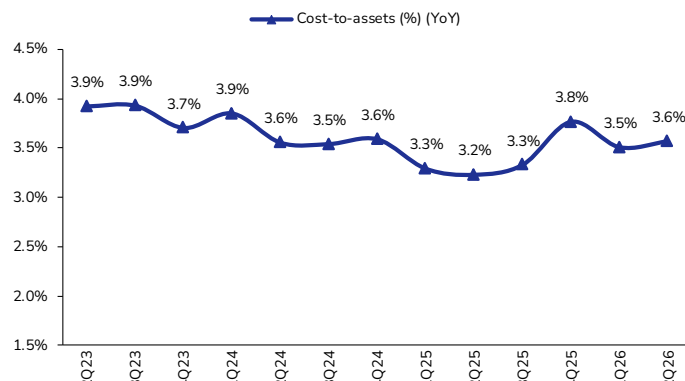
Source: Company, JM Financial

Exhibit 6. Margins (calc) increased sequentially by ~50bps



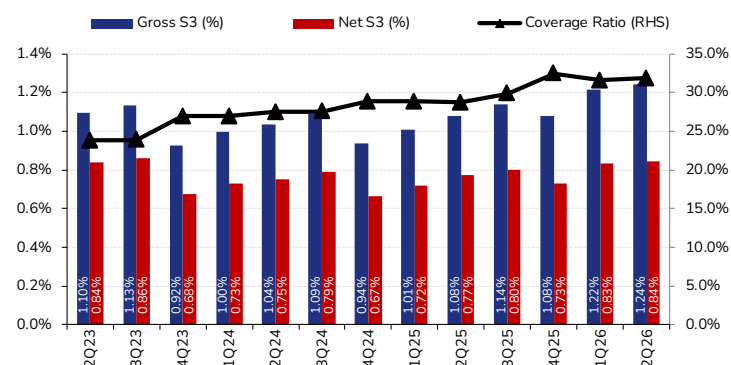
Source: Company, JM Financial

Exhibit 7. Opex to assets elevated at ~3.6%



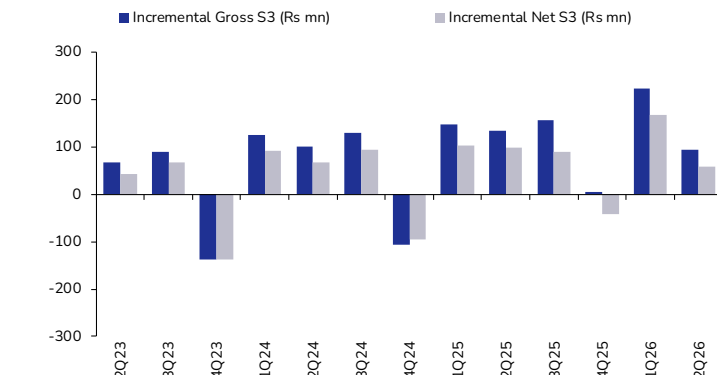
Source: Company, JM Financial

Exhibit 8. Asset quality indicators largely stable sequentially



Source: Company, JM Financial

Exhibit 9. Incremental slippages moderated during the quarter



Source: Company, JM Financial

Exhibit 10. One year fwd P/B valuation

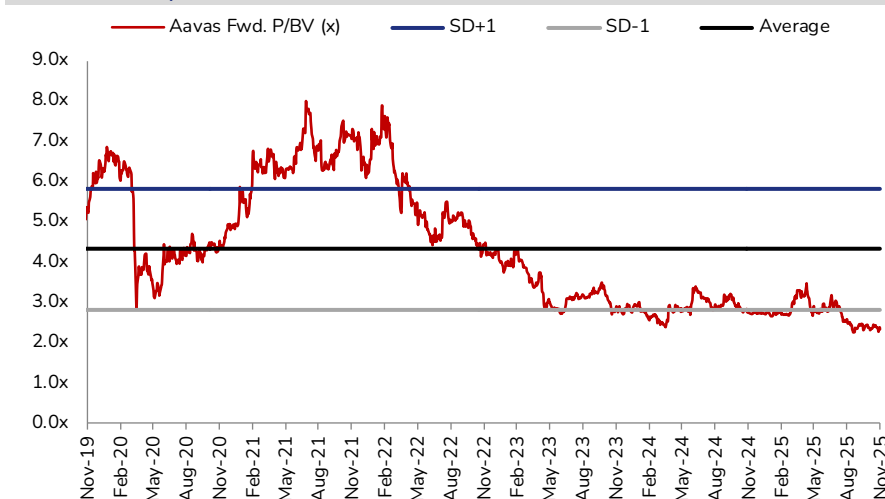
Source: Company, JM Financial, Bloomberg Note: Priced as of 11th Nov, 2025

Exhibit 11. Change in estimates

Old vs. New Estimates	FY26E, Old	FY26E, New	Change	FY27E, Old	FY27E, New	Change	FY28E, Old	FY28E, New	Change
Recommendation	BUY	BUY							
Target price (INR)	2,000	2,000							
Income Statement (INR bn)									
Net Interest Income	14.1	14.6	3.4%	16.8	17.1	1.9%	20.0	20.2	0.9%
Non-Interest Income	1.4	1.4	0.4%	1.6	1.6	0.4%	1.8	1.8	0.4%
Total Income	15.5	16.0	3.2%	18.5	18.8	1.8%	21.8	22.0	0.8%
Operating Expenses	7.0	7.1	1.2%	8.0	8.1	1.2%	9.2	9.2	0.6%
Pre-provisioning Profits	8.5	8.9	4.8%	10.4	10.7	2.2%	12.7	12.8	1.0%
PAT	6.4	6.6	3.8%	7.8	7.9	1.2%	9.5	9.5	0.0%
Balance Sheet (INR bn)									
Net Borrowings	160.7	160.7	0.0%	186.4	186.4	0.0%	216.2	216.2	0.0%
Net Advances	188.9	188.9	0.0%	221.1	221.4	0.2%	260.7	261.4	0.2%
Total Assets	215.3	215.6	0.1%	249.6	249.9	0.1%	289.8	290.1	0.1%
Key Ratios (%)									
NIM (%)	5.90%	6.15%	0.25%	6.00%	6.14%	0.13%	6.12%	6.17%	0.05%
ROA (%)	3.18%	3.30%	0.12%	3.36%	3.40%	0.04%	3.52%	3.51%	0.00%
ROE (%)	13.6%	14.1%	0.5%	14.5%	14.6%	0.1%	15.2%	15.1%	-0.1%
EPS (INR)	80.7	83.8	3.8%	98.7	99.9	1.2%	119.9	119.9	0.0%
BV (INR)	631.6	634.7	0.5%	730.3	734.6	0.6%	850.2	854.5	0.5%
Adj. BV (INR)	610.1	613.2	0.5%	707.2	711.4	0.6%	824.3	828.6	0.5%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	10,785	12,096	14,600	17,150	20,185
Non Interest Income	1,061	1,333	1,400	1,630	1,833
Total Income	11,846	13,429	16,001	18,779	22,018
Operating Expenses	5,357	5,832	7,078	8,126	9,227
Pre-provisioning Profits	6,489	7,597	8,923	10,653	12,792
Loan-Loss Provisions	132	224	376	464	566
Others Provisions	46	45	0	0	0
Total Provisions	245	271	376	464	566
PBT	6,244	7,326	8,547	10,189	12,226
Tax	1,338	1,585	1,914	2,282	2,739
PAT (Pre-Extra ordinaries)	4,907	5,741	6,632	7,907	9,487
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	4,907	5,741	6,632	7,907	9,487
Dividend	0	0	0	0	0
Retained Profits	4,907	5,741	6,632	7,907	9,487

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	25.5%	12.1%	16.0%	16.0%	16.0%
Advances	22.0%	15.9%	16.4%	17.2%	18.0%
Total Assets	23.2%	12.7%	15.8%	15.9%	16.1%
NII	14.3%	12.2%	20.7%	17.5%	17.7%
Non-interest Income	51.3%	25.6%	5.0%	16.4%	12.5%
Operating Expenses	18.4%	8.9%	21.4%	14.8%	13.5%
Operating Profits	15.6%	17.1%	17.4%	19.4%	20.1%
Core Operating profit	11.2%	15.6%	24.0%	19.7%	21.2%
Provisions	90.7%	10.8%	38.6%	23.5%	21.9%
Reported PAT	14.2%	17.0%	15.5%	19.2%	20.0%
Yields / Margins (%)					
Interest Spread	4.97%	4.68%	4.95%	4.92%	4.87%
NIM	6.21%	5.89%	6.15%	6.14%	6.17%
Profitability (%)					
ROA	3.28%	3.27%	3.30%	3.40%	3.51%
ROE	13.9%	14.1%	14.1%	14.6%	15.1%
Cost to Income	45.2%	43.4%	44.2%	43.3%	41.9%
Asset quality (%)					
Gross NPA	0.94%	1.08%	1.28%	1.18%	1.12%
LLP	0.16%	0.14%	0.17%	0.18%	0.19%
Capital Adequacy (%)					
Tier I	43.76%	44.38%	44.16%	44.08%	44.17%
CAR	43.99%	44.50%	44.26%	44.17%	44.25%

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	791	792	792	792	792
Reserves & Surplus	36,942	42,817	49,449	57,356	66,843
Borrowed Funds	1,23,501	1,38,499	1,60,658	1,86,364	2,16,182
Current Liabilities & Provisions	3,960	4,078	4,678	5,424	6,295
Total Liabilities	1,65,195	1,86,185	2,15,577	2,49,935	2,90,112
Net Advances	1,40,044	1,62,297	1,88,932	2,21,439	2,61,356
Investments	1,822	2,300	2,834	3,322	3,920
Cash & Bank Balances	17,978	15,596	17,949	19,929	22,215
Other Current Assets	4,636	5,167	4,909	4,139	1,337
Fixed Assets	715	824	954	1,106	1,284
Total Assets	1,65,195	1,86,185	2,15,577	2,49,935	2,90,112

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.21%	6.88%	7.27%	7.37%	7.48%
Other Income / Assets	0.71%	0.76%	0.70%	0.70%	0.68%
Total Income / Assets	7.92%	7.64%	7.97%	8.07%	8.15%
Cost / Assets	3.58%	3.32%	3.52%	3.49%	3.42%
PPP / Assets	4.34%	4.32%	4.44%	4.58%	4.74%
Provisions / Assets	0.16%	0.15%	0.19%	0.20%	0.21%
PBT / Assets	4.17%	4.17%	4.25%	4.38%	4.53%
Tax rate	21.4%	21.6%	22.4%	22.4%	22.4%
ROA	3.28%	3.27%	3.30%	3.40%	3.51%
Leverage	4.4	4.3	4.3	4.3	4.3
ROE	13.9%	14.1%	14.1%	14.6%	15.1%

Source: Company, JM Financial

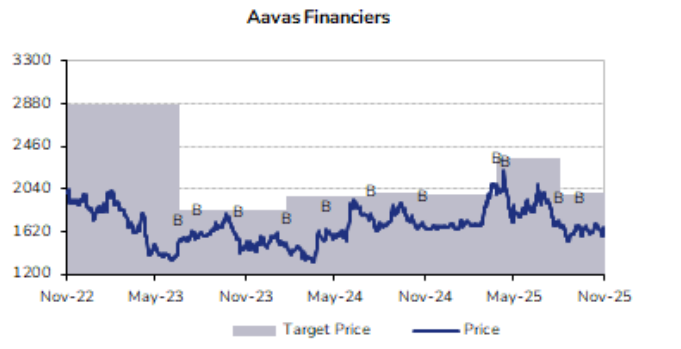
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	79.1	79.2	79.2	79.2	79.2
EPS (INR)	62.0	72.5	83.8	99.9	119.9
EPS (YoY) (%)	14.1%	17.0%	15.5%	19.2%	20.0%
P/E (x)	26.1	22.3	19.3	16.2	13.5
BV (INR)	477	551	635	735	854
BV (YoY) (%)	15.3%	15.5%	15.2%	15.7%	16.3%
P/BV (x)	3.40	2.94	2.55	2.20	1.89
DPS (INR)	0.0	0.0	0.0	0.0	0.0
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Apr-21	Buy	2,750	
3-May-21	Buy	2,810	2.2
2-Aug-21	Buy	2,875	2.3
26-Jun-23	Buy	1,840	-36.0
6-Aug-23	Buy	1,840	0.0
29-Oct-23	Buy	1,840	0.0
2-Feb-24	Buy	1,960	6.5
25-Apr-24	Buy	1,960	0.0
26-Jul-24	Buy	2,000	2.0
7-Nov-24	Buy	1,985	-0.7
8-Apr-25	Buy	2,350	18.4
25-Apr-25	Buy	2,350	0.0
13-Aug-25	Buy	1,990	-15.3
22-Sep-25	Buy	2,000	0.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return \geq 15% over the next twelve months.
ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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