

November 12, 2025

Q2FY26 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY27E	FY28E	FY27E	FY28E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,900		1,925	
NII (Rs.)	13,696	15,711	13,473	15,613
% Chng.	1.7	0.6		
PPoP (Rs.)	10,121	11,746	10,097	11,866
% Chng.	0.2	(1.0)		
EPS (Rs.)	94.3	109.5	95.3	112.0
% Chng.	(1.0)	(2.2)		

Key Financials - Standalone

Y/e Mar	FY25	FY26E	FY27E	FY28E
Net Int.Inc. (Rs m)	10,102	11,942	13,696	15,711
Growth (%)	11.5	18.2	14.7	14.7
Op. Profit (Rs m)	7,597	8,769	10,121	11,746
PAT (Rs m)	5,741	6,424	7,468	8,665
EPS (Rs.)	72.5	81.2	94.3	109.5
Gr. (%)	17.0	11.9	16.2	16.0
DPS (Rs.)	-	4.9	5.7	6.6
Yield (%)	-	0.3	0.3	0.4
Margin (%)	5.9	6.0	5.8	5.8
RoAE (%)	14.1	13.8	14.0	14.3
RoAA (%)	3.3	3.1	3.1	3.1
PE (x)	22.3	20.0	17.2	14.8
P/BV (x)	2.9	2.6	2.3	2.0
P/ABV (x)	3.0	2.7	2.3	2.0

Key Data AVAS.BO | AAVAS IN

52-W High / Low	Rs.2,238 / Rs.1,517
Sensex / Nifty	83,871 / 25,695
Market Cap	Rs.128bn / \$ 1,447m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.363.17m

Shareholding Pattern (%)

Promoter's	48.96
Foreign	25.88
Domestic Institution	14.14
Public & Others	11.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.8)	(5.7)	(2.2)
Relative	(2.4)	(10.7)	(7.3)

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Sustained disbursal run-rate a key

Quick Pointers:

- Good quarter as disbursals normalize cushioning NIM and other income.
- AuM/dibursals guided to grow at 20%; competition to be keenly watched.

AAVAS saw a good quarter led by better margins, higher fees & assignment income and lower opex. Disbursal growth normalized as guided and company expects run-rate in H2FY26 to improve to Rs6.5-7.0bn per month (Rs5.0bn in last 5 months); we had factored this run-rate which would translate to 17% AuM growth for FY26. While company has guided to medium term growth of 20% per annum, its larger size and competition for bigger HFCs to scale up affordable housing, could hinder credit flow or pricing. While AAVAS saw funding cost benefits due to EBLR linked borrowings, we are factoring lower NIM for FY27 (vs FY26) as downward asset repricing may continue in FY27. We tweak multiple to 2.6x from 2.8x and our TP slightly reduces to Rs1,900 from Rs1,925 while we roll forward to Sep'27 ABV. Retain 'ACCUMULATE'.

Beat on NII/PAT due to NIM/other income; slight blip in asset quality: NII was higher at Rs2.9bn (PLe Rs2.6bn) since NIM (calc.) was a beat at 6.6% (PLe 6.2%) as reported funding cost fell by 17bps QoQ to 7.85%. Reported spread improved by 13bps QoQ to 5.23%. AuM grew by 16.1% YoY (PLe 15%); disbursals were in-line at Rs15.6bn (PLe Rs15.5bn); while repayments were lower at Rs6.2bn (PLe Rs8.2bn). Other income was higher at Rs1038mn (PLe Rs963mn) due to higher assignment income. Opex at Rs1.7bn was 4.9% below PLe due to lower employee cost. Thus, PPoP came in at Rs2.2bn which was 22.3% above PLe led by higher NII/fees and lower opex. On asset quality, gross stage-3 at 1.24% saw a slight blip QoQ (PLe 1.16%); PCR was 31.45% (PLe 31.03%). Provisions were in-line at Rs79.6mn (PLe Rs81mn). PAT was 22.8% above PLe at Rs1.6bn.

Disbursals normalize; NIM benefit due to lower CoF: Monthly disbursal run-rate in H2FY26 is guided to be Rs6.5-7.0bn (Rs5.0bn in last 5 months). Company expects 20% AuM growth over next 5 years with branch expansion to contribute 8%; growth of 7-8% would emanate from enhanced employee productivity and growth of 4-5% should be inflation led. Fall in repo benefitted the funding cost, incremental loan rate is 25bps lower than stock which led to fall in blended loan yields; incremental borrowing has seen a benefit of 60bps compared to last year. Repricing benefit on MCLR book has not flown thru completely. Company has shifted large part of its borrowing to EBLR and short tenure MCLR structures in anticipation of potential softening of interest rates. Company expects to reassess its PLR once the book is fully repriced.

Asset quality was a slight drag: For H1FY26 gross bounce rate stood at 18% and net bounce rate at 13.5%. Karnataka saw MFI related disruption after passing of ordinance and company proactively tightened the underwriting, slowing down disbursal and strengthening field verification. Eastern MP is seeing some stress; AAVAS has tightened underwriting and implemented sharper credit & income assessment standards. As per management, less than 1.8% of AuM was impacted by tariff related issues with pockets of stress seen in Karnataka, Gujarat and MP.

Exhibit 1: PAT was higher sequentially at Rs1.6bn due to higher NII/Other income

Financial Statement (Rs mn)	Q2FY26	Q2FY25	YoY gr. (%)	Q2FY26E	% Var.	Q1FY26	QoQ gr. (%)	FY26E	FY25	YoY gr. (%)
Interest Income	5,636	4,906	14.9	5,349	5.4	5,489	2.7	23,474	20,177	16.3
Interest Expense	2,755	2,489	10.7	2,703	1.9	2,713	1.5	11,532	10,075	14.5
Net interest income (NII)	2,881	2,418	19.2	2,646	8.9	2,776	3.8	11,942	10,102	18.2
Other income	1,038	898	15.6	963	7.8	790	31.4	3,782	3,407	11.0
Total income	3,919	3,316	18.2	3,609	8.6	3,566	9.9	15,724	13,509	16.4
Operating expenses	1,727	1,368	26.3	1,817	(4.9)	1,662	3.9	6,955	5,912	17.6
Operating profit	2,192	1,948	12.5	1,793	22.3	1,904	15.1	8,769	7,597	15.4
Total provisions	80	48	64.9	81	(1.7)	113	(29.3)	533	271	96.6
Profit before tax	2,112	1,900	11.2	1,712	23.4	1,791	17.9	8,236	7,326	12.4
Tax	473	421	12.3	377	25.6	399	18.5	1,812	1,585	14.3
Profit after tax	1,639	1,479	10.8	1,335	22.8	1,392	17.7	6,424	5,741	11.9
AUM (Rs mn)	2,13,566	1,83,956	16.1	2,11,534	1.0	2,07,397	3.0	1,91,457	1,62,297	18.0
Disbursements (Rs mn)	15,599	12,937	20.6	15,500	0.6	11,454	36.2	69,588	61,230	13.7
Profitability ratios			Change in bps			Change in bps				
NIM	6.6	6.3	30	6.2	37	6.3	26	6.0	5.9	9
RoAA	2.9	3.1	(14)	4.2	(128)	2.5	41	2.6	2.7	(13)
RoAE	15.0	15.6	(62)	12.3	274	13.2	179	13.8	14.1	(34)
Asset Quality ratios										
Gross NPL (Rs m)	2,066	1,589	30.0	1,895	9.0	1,980	4.4	2,102	1,624	29.5
Net NPL (Rs m)	1,416	1,148	23.4	1,307	8.4	1,363	3.9	1,415	1,151	23.0
Gross NPL ratio	1.2	1.1	16	1.2	8	1.2	2	1.1	1.0	10
Net NPL ratio	0.9	0.8	7	0.8	5	0.8	1	0.7	0.7	3
Coverage ratio	31.5	27.8	367	31.0	42	31.1	30	33	29.1	356
Business & Other Ratios			Change in bps			Change in bps				
Yield on Loans (%)	13.1	13.0	4	-		13.1	(5)	12.4	12.4	(9)
Cost of Borrowings (%)	7.9	8.2	(30)	-	1,308	8.0	(17)	7.3	7.6	(30)
Spread (%)	5.2	4.9	34	-	785	5.1	12	4.8	4.7	10
Cost/Income Ratio	44.1	41.2	283	-	523	46.6	(254)	44.2	43.8	47

Source: Company, PL

Q2FY26 Concall Highlights

Assets/Liabilities

- Disbursement to sanction ratio was 80% in Q2FY26. AuM based on ATS: ATS<2.5mn-77% and within that ATS<0.5mn-11% and ATS>2.5mn-23%.
- Monthly disbursements run-rate in H2FY26 expected to be around Rs6.5bn-Rs7.0bn (Rs5.0bn in last 5months).
- Company expects 20% AuM growth over next five years with branch expansion to contribute 8%, 7-8% growth to come from enhancing employee productivity and 5% from inflation led increase in ATS.
- BT-out rate was 10bps higher YoY at 5.3% for H1FY26 (Q1FY26 – 4.9%, Q2FY26 – 5.7%).
- Company has shifted large part of its borrowing to EBLR and short tenure MCLR structures in anticipation of potential softening of interest rates.
- Company borrowed Rs13.96bn at a rate of 7.83% in Q2FY26. Borrowing has 36% of book at EBLR and 25% at sub 3m MCLR.
- Benefit of repricing on MCLR book has not flown in completely and company expects to reassess its PLR once the book is fully repriced.
- Company targets 15-20% growth in assignment volume. Assignment book had a haircut of 7.5% for this year (8.5% last yr) which helped in better spread from assignment income.
- DSA contributes less than 10% to the overall sourcing mix.

Fees/NIMs

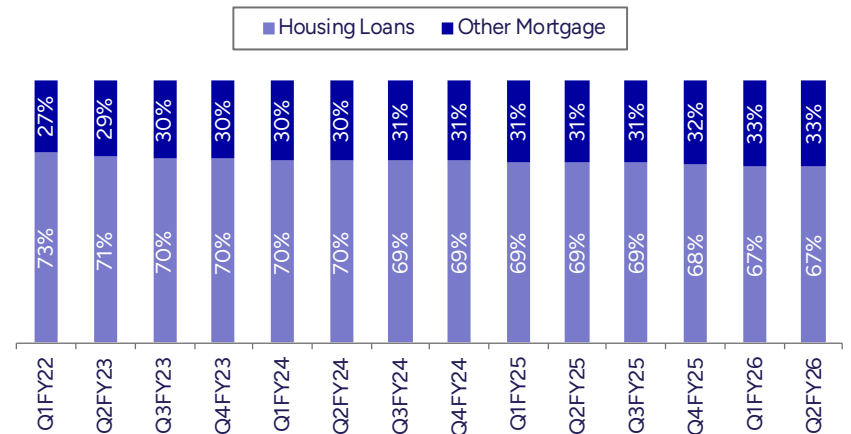
- Incremental loan rate is 25bps lower than AuM rate which has driven down blended yield on loans. However, incremental borrowing has seen a benefit of 60bps compared to last year.
- Opex-to-asset ratio guided to be below 3% in medium term. As disbursement scale, AUM growth normalizes operating leverage to kick in.
- Attrition for Q2FY26 was at 17% vs 18% in Q2FY25.
- Company plans to add 20-25 branches in H2FY26 mainly in AP/Telangana
- Management expects operating leverage to kick in as AuM growth normalizes, disbursement scale up and branch productivity improves.

Asset Quality

- As per management less than 1.8% of AuM was impacted by tariff related issues with pockets of stress seen in Karnataka, Gujarat and MP. However, impact of same is expected to be limited.
- For H1FY26 gross bounce rate stood at 18% and net bounce rate at 13.5%. Credit cost guidance of below 25bps sustained.

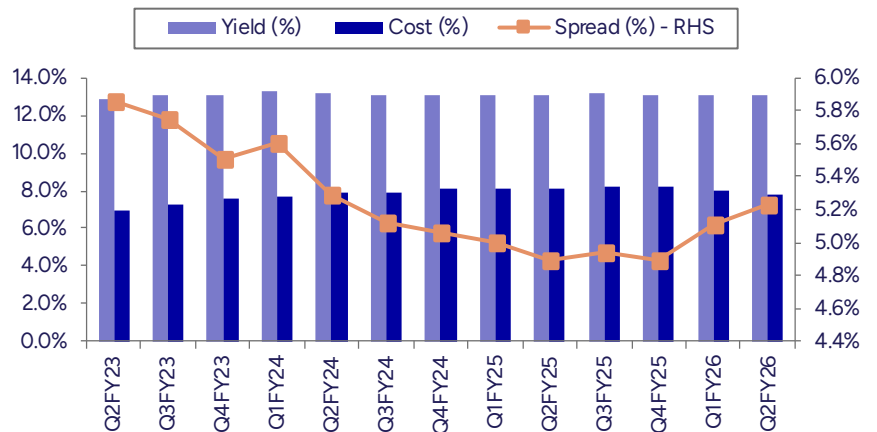
- Karnataka saw MFI related disruption after passing of the ordinance and company acted proactively in tightening the underwriting, slowing down disbursement and strengthened field verification to address the same.
- As per management the eastern belt of MP is showing some stress, company has selectively tightened underwriting and has placed sharper credits and income assessment standards to tackle it.

Exhibit 2: Loan Book mix largely steady at 67:33



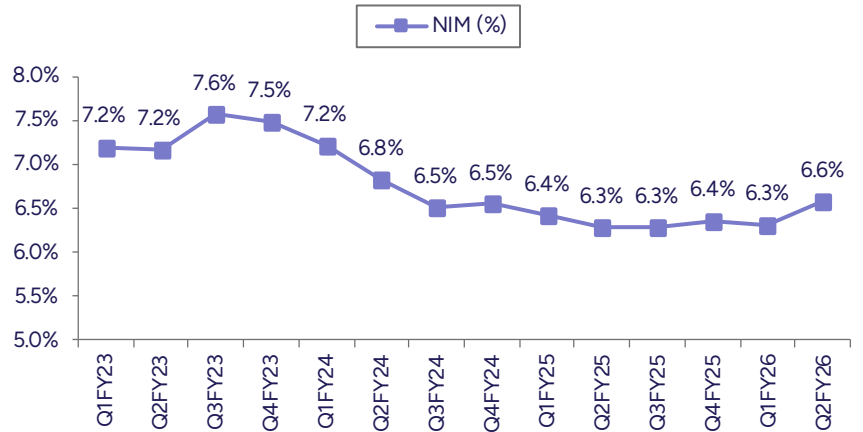
Source: Company, PL

Exhibit 3: Spreads was largely stable QoQ



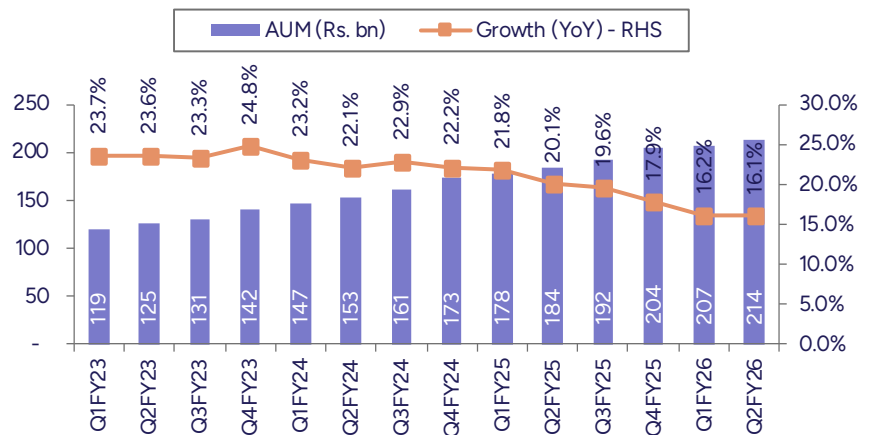
Source: Company, PL

Exhibit 4: NIM (calc) increased sequentially by 26bps at 6.6%



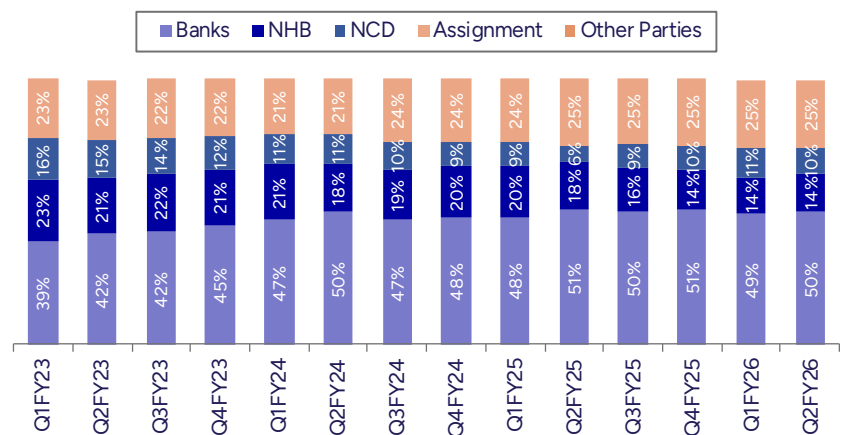
Source: Company, PL

Exhibit 5: AuM growth was at 16.1% YoY



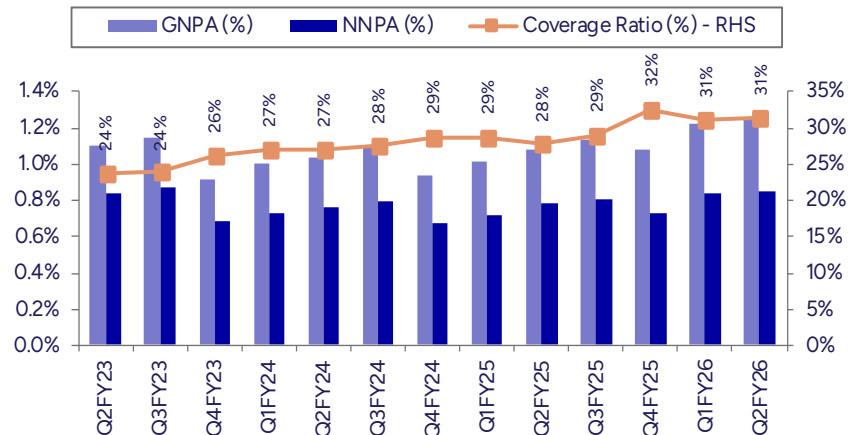
Source: Company, PL

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



Source: Company, PL

Exhibit 7: GNPA% was steady QoQ ;PCR at 31%



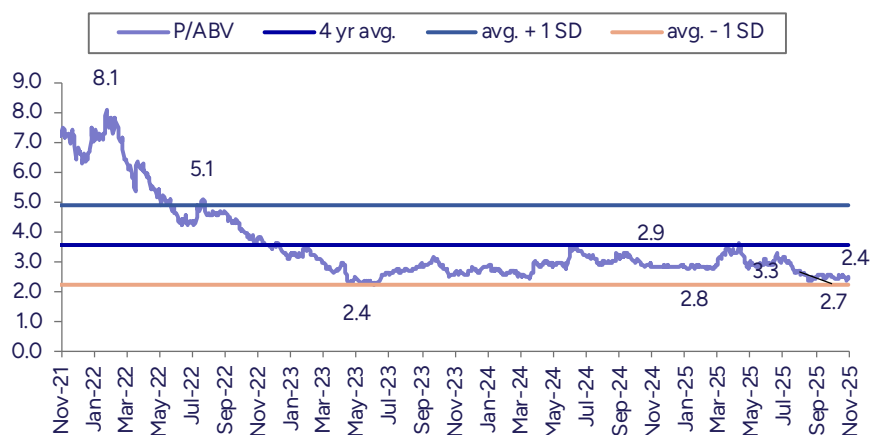
Source: Company, PL

Exhibit 8: ROEs to remain ~14-14.3% levels

RoE decomposition (%)	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest income	9.7	9.3	9.4	9.7	9.5	9.4	9.1	9.1
Interest expenses	4.5	3.9	4.0	4.6	4.7	4.6	4.5	4.5
Net interest income	5.1	5.4	5.4	5.0	4.7	4.8	4.6	4.6
Other Inc. from operations	1.3	1.5	1.5	1.6	1.6	1.5	1.5	1.5
Total income	6.4	6.8	6.9	6.6	6.3	6.3	6.1	6.0
Employee expenses	1.7	1.9	2.0	2.0	1.8	1.8	1.7	1.7
Other operating expenses	0.8	0.9	1.0	1.0	1.0	0.9	0.9	0.9
Operating profit	3.9	3.9	3.8	3.6	3.6	3.5	3.4	3.4
Tax	0.6	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Loan loss provisions	0.4	0.2	0.1	0.1	0.1	0.2	0.2	0.2
RoAA (incl AuM)	2.9	2.9	2.9	2.7	2.7	2.6	2.5	2.5
RoAE	12.9	13.7	14.2	13.9	14.1	13.8	14.0	14.3

Source: Company, PL

Exhibit 9: One-year forward P/ABV of Aavas trades at 2.4x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Int. Inc. / Opt. Inc.	20,177	23,474	26,966	31,164
Interest Expenses	10,075	11,532	13,270	15,453
Net interest income	10,102	11,942	13,696	15,711
Growth(%)	11.5	18.2	14.7	14.7
Non-interest income	3,407	3,782	4,348	5,064
Growth(%)	19.3	11.0	15.0	16.5
Net operating income	13,509	15,724	18,044	20,775
Expenditures				
Employees	3,778	4,571	5,159	5,824
Other Expenses	1,770	1,983	2,303	2,675
Depreciation	365	401	461	530
Operating Expenses	5,912	6,955	7,923	9,029
PPP	7,597	8,769	10,121	11,746
Growth(%)	17.1	15.4	15.4	16.1
Provisions	271	533	547	637
Profit Before Tax	7,326	8,236	9,574	11,109
Tax	1,585	1,812	2,106	2,444
Effective Tax rate(%)	21.6	22.0	22.0	22.0
PAT	5,741	6,424	7,468	8,665
Growth(%)	17.0	11.9	16.2	16.0

Balance Sheet (Rs. m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Source of funds				
Equity	792	792	792	792
Reserves and Surplus	42,817	48,855	55,875	64,020
Networth	43,608	49,647	56,667	64,812
Growth (%)	15.6	13.8	14.1	14.4
Loan funds	1,38,499	1,68,713	1,98,857	2,31,776
Growth (%)	12.1	21.8	17.9	16.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	3,986	4,195	4,813	5,488
Other Liabilities	91	83	98	115
Total Liabilities	1,86,185	2,22,637	2,60,434	3,02,190
Application of funds				
Net fixed assets	1,441	1,667	1,951	2,263
Advances	1,62,297	1,91,457	2,23,960	2,59,866
Growth (%)	15.9	18.0	17.0	16.0
Investments	2,311	2,728	3,192	3,704
Current Assets	15,604	21,709	25,395	29,468
Net current assets	11,617	17,515	20,583	23,980
Other Assets	4,532	5,075	5,937	6,889
Total Assets	1,86,185	2,22,637	2,60,434	3,02,190
Growth (%)	12.7	19.6	17.0	16.0
Business Mix				
AUM	2,04,203	2,41,118	2,82,060	3,27,291
Growth (%)	17.9	18.1	17.0	16.0
On Balance Sheet	2,04,203	2,41,118	2,82,060	3,27,291
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY25	FY26E	FY27E	FY28E
NIM	5.9	6.0	5.8	5.8
ROAA	3.3	3.1	3.1	3.1
ROAE	14.1	13.8	14.0	14.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Int. Inc. / Operating Inc.	5,121	5,353	5,489	5,636
Income from securitization	-	-	-	-
Interest Expenses	2,587	2,647	2,713	2,755
Net Interest Income	2,533	2,705	2,776	2,881
Growth (%)	14.8	14.1	13.5	19.2
Non-Interest Income	859	1,022	790	1,038
Net Operating Income	3,392	3,728	3,566	3,919
Growth (%)	15.9	14.6	16.0	18.2
Operating expenditure	1,447	1,719	1,662	1,727
PPP	1,945	2,009	1,904	2,192
Growth (%)	-	-	-	-
Provision	61	76	113	80
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,884	1,932	1,791	2,112
Tax	420	395	399	473
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	22.3	20.5	22.3	22.4
PAT	1,464	1,537	1,392	1,639
Growth	26	8	10	11
AUM	1,92,380	2,04,202	2,07,397	2,13,566
YoY growth (%)	19.6	17.9	16.2	16.1
Borrowing	-	-	-	-
YoY growth (%)	-	-	-	-

Key Ratios

Y/e Mar	FY25	FY26E	FY27E	FY28E
CMP (Rs)	1,619	1,619	1,619	1,619
EPS (Rs)	72.5	81.2	94.3	109.5
Book value (Rs)	550.9	627.2	715.9	818.8
Adj. BV(Rs)	536.4	609.3	694.5	793.5
P/E(x)	22.3	20.0	17.2	14.8
P/BV(x)	2.9	2.6	2.3	2.0
P/ABV(x)	3.0	2.7	2.3	2.0
DPS (Rs)	-	4.9	5.7	6.6
Dividend Payout Ratio(%)	-	6.0	6.0	6.0
Dividend Yield(%)	-	0.3	0.3	0.4

Asset Quality

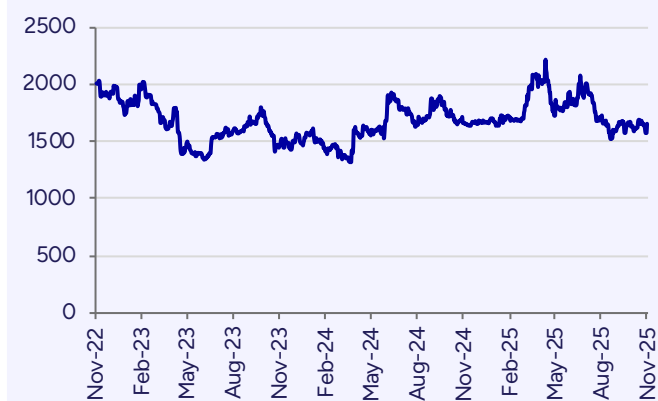
Y/e Mar	FY25	FY26E	FY27E	FY28E
Gross NPAs(Rs m)	1,624	2,102	2,511	2,972
Net NPA(Rs m)	1,151	1,415	1,692	2,004
Gross NPAs to Gross Adv.(%)	1.0	1.1	1.1	1.1
Net NPAs to net Adv.(%)	0.7	0.7	0.8	0.8
NPA coverage(%)	29.1	32.7	32.6	32.6

Du-Pont as a % of AUM

Y/e Mar	FY25	FY26E	FY27E	FY28E
NII	4.7	4.8	4.6	4.6
NII INCI. Securitization	4.7	4.8	4.6	4.6
Total income	6.3	6.3	6.1	6.0
Operating Expenses	2.8	2.8	2.7	2.6
PPOP	3.6	3.5	3.4	3.4
Total Provisions	0.1	0.2	0.2	0.2
RoAA	2.7	2.6	2.5	2.5
Avg. Assets/Avg. net worth	5.2	5.4	5.6	5.7
RoAE	14.1	13.8	14.0	14.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-25	Accumulate	1,925	1,672
2	13-Aug-25	Accumulate	1,925	1,728
3	09-Jul-25	Accumulate	2,072	1,974
4	25-Apr-25	Accumulate	2,072	2,038
5	08-Apr-25	Accumulate	1,900	2,083
6	31-Jan-25	Accumulate	1,900	1,705
7	09-Jan-25	Accumulate	1,900	1,681

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,925	1,672
2	Axis Bank	BUY	1,425	1,170
3	Bank of Baroda	BUY	300	278
4	Can Fin Homes	BUY	950	838
5	Canara Robeco Asset Management Company	BUY	350	317
6	City Union Bank	BUY	265	236
7	DCB Bank	BUY	155	132
8	Federal Bank	BUY	250	227
9	HDFC Asset Management Company	BUY	6,175	5,764
10	HDFC Bank	BUY	1,150	1,003
11	ICICI Bank	BUY	1,800	1,437
12	IndusInd Bank	Hold	840	751
13	Kotak Mahindra Bank	BUY	2,480	2,187
14	LIC Housing Finance	Hold	690	570
15	Nippon Life India Asset Management	BUY	930	875
16	State Bank of India	BUY	1,100	958
17	Union Bank of India	BUY	160	142
18	UTI Asset Management Company	Accumulate	1,400	1,339

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. Kush Mehta- CA, 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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