

Aavas Financiers | BUY

Seasonally weak quarter

In 1Q26, Aavas reported a miss of 13% on PAT at INR 1.4bn (+10% YoY, -9% QoQ) leading to RoA/RoE of 2.9%/12.6%. The miss was led by decline in NIMs (calc.) of -45bps QoQ and higher than anticipated credit costs of 22bps. AUM growth remained steady at +16%/+2% YoY/QoQ, however, disbursements declined by -5% YoY, -43% QoQ, driven mainly due to shift in accounting methodology to realize disbursements. Management highlighted that the disbursements will normalize from Q2 onwards. Headline asset quality saw seasonal weakening, with GS3/NS3 rising to 1.22%/0.83% (+14bps QoQ, +10bps QoQ). The deterioration was mainly due to seasonality and local stress in states such as Maharashtra, MP, and KA, particularly in the sub-INR 0.5mn ticket size loans which also led 1+DPD to rise up to 4.15% (+76bps QoQ). However, Jul'25 1+DPD has already gone down below 4% which suggests normalization in coming quarter. We believe that the current quarter was only affected seasonally in terms of growth and asset quality while we expect 2H to be stronger led by a) pick-up in growth momentum, b) margins stabilization with CoFs re-pricing and c) improvement in asset quality. We maintain BUY with a revised TP of INR 1,990 (valuing it at 2.9x FY27E BVPS vs 3.3x FY27E BVPS earlier) in return for avg RoA/RoE of 2.6%/12% over FY26E/FY27E.

- **Steady growth:** AUM growth remained steady at +16% YoY, +2% QoQ. However, disbursements declined by -5% YoY, -43% QoQ, driven mainly due to shift in accounting methodology to realize disbursements. Disbursement growth is expected to normalize from Q2 onwards as the cheques which are yet to be passed will be included in upcoming disbursals. This normalization is already evident in Jul'25 disbursements, which management indicated at INR 5.5–6bn (+15% YoY). AUM growth was primarily led by MSME segment (+66% YoY, +7% QoQ), while the HL portfolio remained flat QoQ. LAP grew +2% QoQ, -11% YoY. Management reiterated its FY26 AUM growth guidance of ~20–22%, with a further acceleration to 22–25% expected in FY27. We build in an AUM CAGR of ~18% over FY25-27E.
- **Miss in operating performance and profitability:** Operating profit was a miss at INR1.9bn (+12% YoY, -5% QoQ, -10% JMFe), primarily due to a sequential decline in NII (-3% QoQ, +18% YoY). The decline was driven by a -45bps QoQ compression in NIMs (calc.), which in turn was led by a -52bps QoQ decline in yields (calc.). CoFs declined -22bps QoQ to 8.02%. Opex was largely in line with expectations, however, higher-than-anticipated credit costs at 22bps (+6bps QoQ) resulted in PAT miss (+10% YoY, -9% QoQ, -13% JMFe). Management indicated that there were no changes to PLR during 1Q or in July/August but may consider revising rates in 2Q/3Q depending on the trajectory of CoFs. As of 1Q, 69% of liabilities are floating rate leading to faster repricing.
- **Asset quality impacted by seasonality:** Headline asset quality saw seasonal weakening, with GS3/NS3 rising to 1.22%/0.83% (+14bps QoQ, +10bps QoQ). 1+ DPD increased to 4.15% (vs 3.39% QoQ), reflecting broader stress. Segment-wise, GS3 for HL rose to 1.15% (vs 1.02% QoQ), while non-HL GS3 stood at 1.47% (vs 1.32% QoQ). The



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,990
Upside/(Downside)	15.2%
Previous Price Target	2,300
Change	-13.5%

Key Data – AAVAS IN

Current Market Price	INR1,728
Market cap (bn)	INR136.7/US\$1.6
Free Float	48%
Shares in issue (mn)	79.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR330.6/US\$3.8
52-week range	2,238/1,614
Sensex/Nifty	80,236/24,487
INR/US\$	87.7

Price Performance

%	1M	6M	12M
Absolute	-14.0	1.5	0.7
Relative*	-11.6	-3.6	-1.0

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	4,907	5,741	5,057	6,527	8,370
Net Profit (YoY) (%)	14.2%	17.0%	-11.9%	29.1%	28.2%
Assets (YoY) (%)	23.2%	12.7%	16.9%	17.0%	17.4%
ROA (%)	3.3%	3.3%	2.5%	2.8%	3.0%
ROE (%)	13.9%	14.1%	11.0%	12.6%	14.1%
EPS	62.0	72.5	63.9	82.5	105.7
EPS (YoY) (%)	14.1%	17.0%	-11.9%	29.1%	28.2%
P/E (x)	27.9	23.8	27.0	21.0	16.3
BV	477	551	615	697	803
BV (YoY) (%)	15.3%	15.5%	11.6%	13.4%	15.2%
P/BV (x)	3.62	3.14	2.81	2.48	2.15

Source: Company data, JM Financial. Note: Valuations as of 12/Aug/2025

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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deterioration was mainly due to seasonality and local stress in states such as Maharashtra, MP, and KA, particularly in the sub-INR 0.5mn ticket size loans. Management highlighted that 1+ DPD has moderated in Jul'25 and is now ranging below 4%, suggesting early signs of stabilization. PCR on stage-3 declined -89bps QoQ to 31.6%, while total ECL cover stood at 0.7% (vs 0.66% in 4Q). We build in avg. credit cost of ~25bps over FY26E/27E in line with management guidance.

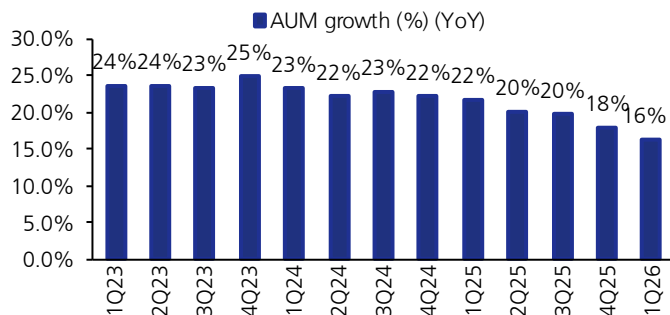
- **Valuation and view:** We believe that the current quarter was only affected seasonally in terms of growth and asset quality while we expect 2H to be stronger led by a) pick-up in growth momentum, b) margins stabilization with CoFs re-pricing and c) improvement in asset quality. We maintain BUY with a revised TP of INR 1,990 (valuing it at 2.9x FY27E BVPS vs 3.3x FY27E BVPS earlier) in return for avg RoA/RoE of 2.6%/12% over FY26E/FY27E.

Aavas Financiers – Quarterly trends

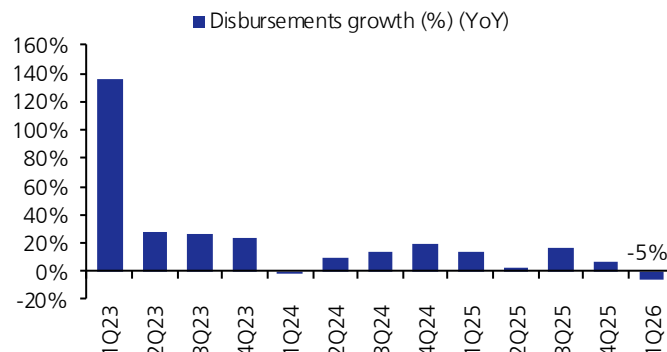
Exhibit 1. 1QFY26 - Key performance snapshot

Earnings Table (INR mn.)	Q1FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)	Q1FY26 E	%var
Net Interest Income	2,751	3,357	3,251	18%	-3%	3,397	-4%
Total Non-Interest income	323	371	315	-2%	-15%	371	-15%
Total Income	3,074	3,728	3,566	16%	-4%	3,769	-5%
Employee Cost	916	1,120	1,107	21%	-1%		
Other expenses	463	599	555	20%	-7%		
Total Operating Expenses	1,379	1,719	1,662	21%	-3%	1,654	0%
Operating Profit (PPP)	1,695	2,009	1,904	12%	-5%	2,115	-10%
Total Provisions	86	76	113	31%	47%	83	36%
PBT	1,609	1,932	1,791	11%	-7%	2,032	-12%
Tax	348	395	399	14%	1%	439	-9%
Reported Profit	1,261	1,537	1,392	10%	-9%	1,593	-13%
Key parameters (INR bn.)							
AUM	178.4	204.2	207.4	16%	2%	209.3	-1%
Disbursements	12.1	20.2	11.5	-5%	-43%	13.1	-12%
Ratios Analysis (%) - calc							
Yield on Advances	11.6%	12.1%	11.6%	-2bps	-52bps	11.8%	-21bps
Cost of Funds	7.5%	7.8%	7.7%	15bps	-9bps	7.7%	2bps
NIM (NII/AUM)	6.3%	6.8%	6.3%	6bps	-45bps	6.6%	-25bps
Cost to Income (%)	44.8%	46.1%	46.6%	176bps	49bps	43.9%	272bps
Credit Cost on AUM	0.20%	0.15%	0.22%	2bps	6bps	0.2%	6bps
ROA	3.0%	3.4%	2.9%	-7bps	-43bps	3.4%	-43bps
ROE	13.1%	14.4%	12.6%	-58bps	-181bps	14.3%	-179bps
Credit Quality							
Gross S3 (INR Mn.)	1,466	1,763	1,987	35.5%	12.7%		
Net S3 (INR Mn.)	1,043	1,191	1,360	30.3%	14.2%		
Gross S3 (%)	1.01%	1.08%	1.22%	21bps	14bps		
Net S3 (%)	0.72%	0.73%	0.83%	11bps	10bps		
Coverage	28.8%	32.4%	31.6%	272bps	-89bps		

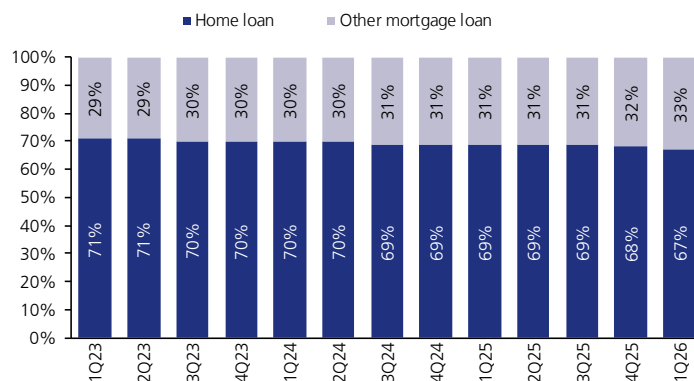
Source: Company, JM Financial

Exhibit 2. AUM growth targeted at 20-22% for FY26

Source: Company, JM Financial

Exhibit 3. Shifted to realization based disbursement accounting

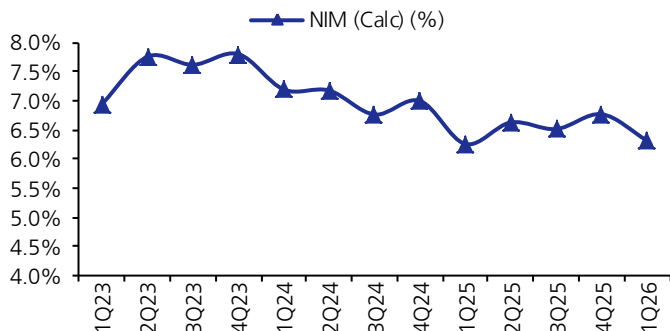
Source: Company, JM Financial

Exhibit 4. Mix currently at 67:33 (HL: non HL)

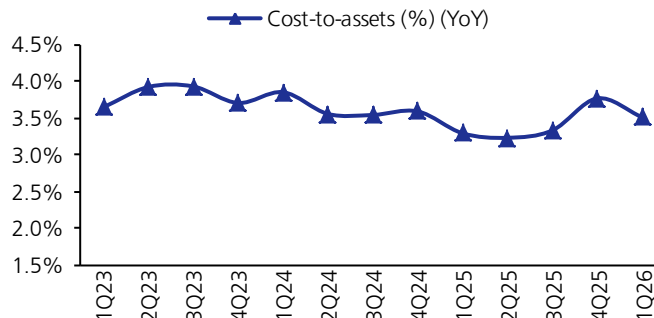
Source: Company, JM Financial

Exhibit 5. Sticky customer profile with 60% self-employed mix

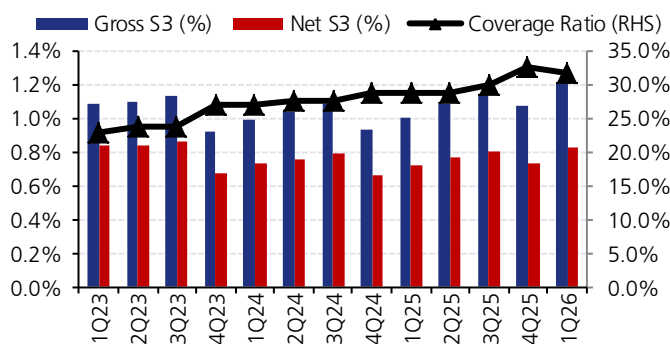
Source: Company, JM Financial

Exhibit 6. Margins (calc) declined sequentially by ~40bps

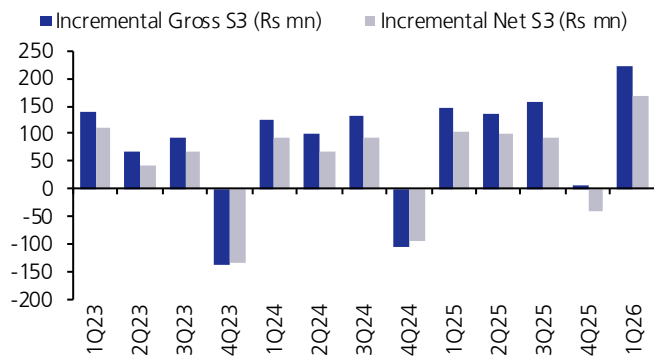
Source: Company, JM Financial

Exhibit 7. Opex moderated sequentially to 3.5%

Source: Company, JM Financial

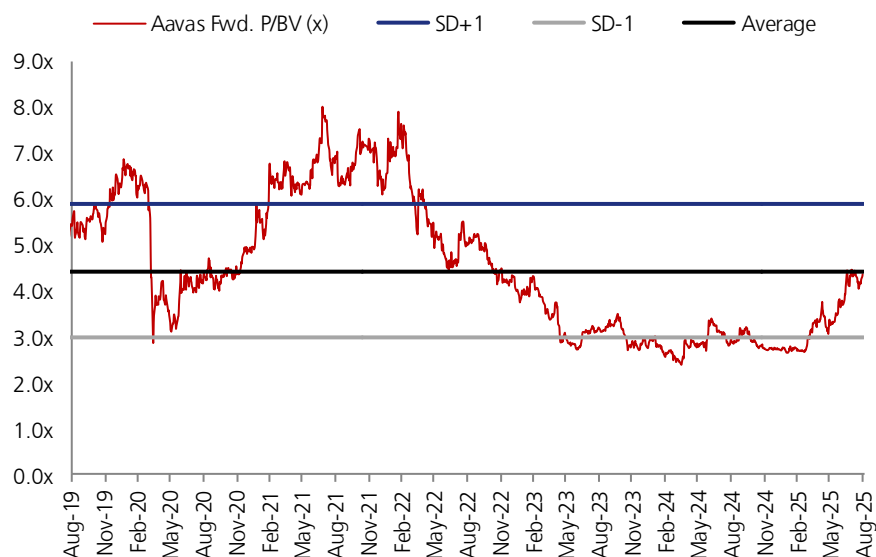
Exhibit 8. Marginal decline in asset quality led by seasonality

Source: Company, JM Financial

Exhibit 9. Incremental slippages were elevated during the quarter

Source: Company, JM Financial

Exhibit 10. One year fwd P/B valuation



Source: Company, JM Financial

Exhibit 11. Change in estimates

Old vs. New Estimates	FY26E, New	FY26E, New	Change	FY27E, New	FY27E, New	Change	FY28E, New	FY28E, New	Change
Income Statement (INR mn)									
Net Interest Income	13,960	12,664	4.4%	16,496	15,199	4.6%	19,579	17,858	-1.0%
Non-Interest Income	1,558	1,522	-2.3%	1,805	1,762	-2.4%	2,135	2,083	-2.4%
Total Income	15,518	14,186	3.6%	18,302	16,961	3.8%	21,694	19,921	-1.2%
Operating Expenses	6,706	7,175	6.0%	7,447	8,067	7.3%	8,547	8,735	2.2%
Pre-provisioning Profits	8,812	7,011	1.4%	10,855	8,895	0.8%	13,147	11,185	-3.7%
Reported Profits	6,580	5,057	-0.7%	8,058	6,527	0.3%	9,826	8,370	-3.3%
Balance Sheet (INR mn)									
Net Borrowings	1,65,630	1,64,238	-0.8%	1,97,100	1,93,801	-1.7%	2,34,549	2,28,685	-2.5%
Net Advances	1,91,982	1,91,114	9.6%	2,27,570	2,25,749	6.0%	2,70,810	2,68,002	3.6%
Total Assets	2,20,605	2,17,626	-0.7%	2,61,010	2,54,516	-1.3%	3,09,333	2,98,730	-2.1%
Key Ratios (%)									
NIM (%)	5.82%	5.27%	-0.34%	5.78%	5.38%	-0.08%	5.78%	5.40%	-0.20%
ROA (%)	3.23%	2.50%	-0.01%	3.35%	2.76%	0.04%	3.45%	3.03%	-0.05%
ROE (%)	14.0%	11.0%	-0.1%	14.9%	12.6%	0.0%	15.6%	14.1%	-0.4%
EPS (Rs.)	83.1	63.9	-0.7%	101.8	82.5	0.3%	124.1	105.7	-3.3%
BV (Rs.)	634.1	614.8	-0.1%	735.9	697.3	0.0%	860.0	803.0	-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	12,176	12,664	15,199	17,858
Non Interest Income	1,061	1,333	1,522	1,762	2,063
Total Income	11,846	13,509	14,186	16,961	19,921
Operating Expenses	5,357	5,912	7,175	8,067	8,735
Pre-provisioning Profits	6,489	7,597	7,011	8,895	11,185
Loan-Loss Provisions	132	271	558	566	504
Others Provisions	46	0	0	0	0
Total Provisions	245	271	558	566	504
PBT	6,244	7,326	6,453	8,329	10,681
Tax	1,338	1,585	1,396	1,802	2,311
PAT (Pre-Extra ordinaries)	4,907	5,741	5,057	6,527	8,370
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	4,907	5,741	5,057	6,527	8,370
Dividend	0	0	0	0	0
Retained Profits	4,907	5,741	5,057	6,527	8,370

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	25.4%	12.8%	18.0%	18.0%	18.0%
Advances	22.0%	15.9%	17.8%	18.1%	18.7%
Total Assets	23.2%	12.7%	16.9%	17.0%	17.4%
NII	14.3%	12.9%	4.0%	20.0%	17.5%
Non-interest Income	51.3%	25.6%	14.2%	15.8%	17.1%
Operating Expenses	18.4%	10.4%	21.3%	12.4%	8.3%
Operating Profits	15.6%	17.1%	-7.7%	26.9%	25.8%
Core Operating profit	11.2%	21.9%	-7.9%	27.7%	26.4%
Provisions	90.7%	10.8%	105.9%	1.4%	-10.9%
Reported PAT	14.2%	17.0%	-11.9%	29.1%	28.2%
Yields / Margins (%)					
Interest Spread	4.97%	4.87%	4.12%	4.30%	4.31%
NIM	6.21%	5.94%	5.27%	5.38%	5.40%
Profitability (%)					
ROA	3.28%	3.27%	2.50%	2.76%	3.03%
ROE	13.9%	14.1%	11.0%	12.6%	14.1%
Cost to Income	45.2%	43.8%	50.6%	47.6%	43.9%
Asset quality (%)					
Gross NPA	0.94%	1.08%	1.12%	1.26%	1.35%
LLP	0.19%	0.18%	0.32%	0.27%	0.20%
Capital Adequacy (%)					
Tier I	43.76%	44.38%	42.52%	41.39%	40.76%
CAR	43.99%	44.50%	42.63%	41.48%	40.83%

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	47,874	54,400	62,771
Stock option outstanding	0	0	0	0	0
Borrowed Funds	1,23,365	1,39,185	1,64,238	1,93,801	2,28,685
Current Liabilities & Provisions	4,096	3,391	4,722	5,523	6,482
Total Liabilities	1,65,195	1,86,185	2,17,626	2,54,516	2,98,730
Net Advances	1,40,044	1,62,297	1,91,114	2,25,749	2,68,002
Investments	1,822	2,300	5,733	5,644	5,360
Cash & Bank Balances	17,978	15,596	19,111	20,317	21,440
Other Current Assets	4,636	5,167	703	1,679	2,606
Fixed Assets	715	824	963	1,126	1,322
Total Assets	1,65,195	1,86,185	2,17,626	2,54,516	2,98,730

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.21%	6.93%	6.27%	6.44%	6.46%
Other Income / Assets	0.71%	0.76%	0.75%	0.75%	0.75%
Total Income / Assets	7.92%	7.69%	7.03%	7.18%	7.20%
Cost / Assets	3.58%	3.37%	3.55%	3.42%	3.16%
PPP / Assets	4.34%	4.32%	3.47%	3.77%	4.04%
Provisions / Assets	0.16%	0.15%	0.28%	0.24%	0.18%
PBT / Assets	4.17%	4.17%	3.20%	3.53%	3.86%
Tax rate	21.4%	21.6%	21.6%	21.6%	21.6%
ROA	3.28%	3.27%	2.50%	2.76%	3.03%
Leverage	4.4	4.3	4.5	4.6	4.7
ROE	13.9%	14.1%	11.0%	12.6%	14.1%

Source: Company, JM Financial

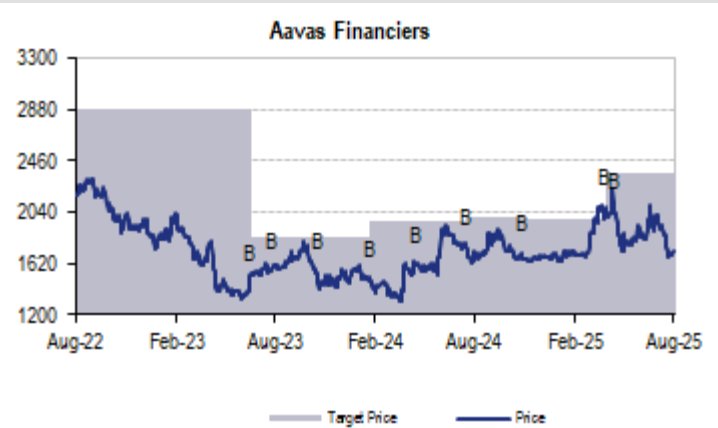
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	79.1	79.2	79.2	79.2	79.2
EPS (INR)	62.0	72.5	63.9	82.5	105.7
EPS (YoY) (%)	14.1%	17.0%	-11.9%	29.1%	28.2%
P/E (x)	27.9	23.8	27.0	21.0	16.3
BV (INR)	477	551	615	697	803
BV (YoY) (%)	15.3%	15.5%	11.6%	13.4%	15.2%
P/BV (x)	3.62	3.14	2.81	2.48	2.15
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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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