

Apr 25, 2025

**RESULT REPORT Q4 FY25** | Sector: Financials

# Aavas Financiers Limited

## A mixed quarter

### A mixed quarter with usual business jump but less-than-usual asset quality pull-back

The sequential disbursement jump for Aavas was on traditional lines and hence the annual growth in originations was 7%/10% for Q4/FY25. Growth in new business continues to be led by MSME loans (share rising in AUM) while the growth in HL disbursements was moderate at 2% yoy/7% yoy in Q4/FY25 (incremental ATS has grown by 6-7% yoy). The login-to-sanction ratio in HL has come-off due to underwriting caution exercised in certain markets/locations where unsecured/MFI delinquencies rose significantly. As generally seen, there was a marginal increase in portfolio run-off in Q4 FY25, though BT out was mentioned to be within the normal trend of below 6%. AUM growth decelerated to 18% yoy during the year from 22% in FY24.

Portfolio spread got pruned by 5 bps on sequential basis, solely driven by decline in portfolio yield as CoF was stable. The 5 bps dip in contracted portfolio yield, notwithstanding the underlying favorable composition shift, was due to lower origination yield and repricing of BT requests. Due to tight liquidity conditions, the incremental borrowing cost was elevated in the quarter (8.47% v/s 8.24% being the cost of stock). While in percentage terms there is 46 bps and 6 bps improvement in 1+ dpd and GNPL respectively, the absolute sequential pull-back in Stage-2 and Stage-3 assets was missing (usually seen in a fourth quarter). Nonetheless, the credit cost was moderate at 15 bps and there were marginal improvements in ECL coverage of Stage-2 and Stage-3 assets.

### Commentary of 18-20% growth and moderate credit cost; portfolio spread expected to recover in H2 FY26

Management aspires to deliver 15-20% disbursement growth with addition of significant branches in Q4 FY25 and through FY26 and the expected normalization of login-to-sanction ratio. Incremental business yield improved by 22-23 bps in FY25 aided by product mix shift and a more refined risk-based pricing through BRE. Aavas expects further improvement in the origination yield over coming quarters (until the need arises to pass-on any CoF decline). BT pressure may increase in the future as rate down cycle goes deep. CoF in near term could remain sticky with a gradual decline in incremental CoF and some lag in pass-on of the benefits from repo rate cuts. In the medium-to-longer term, Management expects portfolio spread to move back to 5%+. Credit cost has been guided to be within 25 bps in FY26 versus the trend of 15 bps in past two fiscals.

### Well-priced for 18-20% growth and 15% RoE; move rating to Neutral

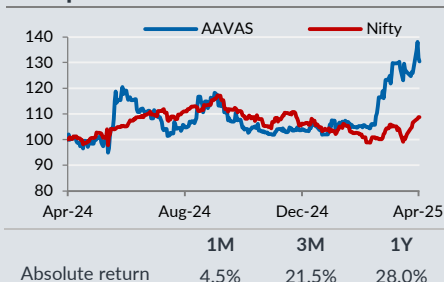
We estimate Aavas to deliver 18-19% CAGR in loan book and avg. RoE of ~15% over FY25-27. In our view, the portfolio spread for FY26 could be similar to FY25 and would likely recover in FY27. Besides the movements in spreads and disbursements, a key monitorable would be asset quality due to some challenges in collections/recoveries in certain locations. Stock trades at 20.5x P/E on FY27 estimates, which is the highest valuation in our affordable housing coverage. We believe that current valuation doesn't offer much room for rerating, considering the current growth and RoE expectations. Move rating on Aavas from Add to Neutral.

Reco	: <b>NEUTRAL</b>
CMP	: Rs 2,096
Target Price	: Rs 2,050
Potential Return	: -2.2%

#### Stock data (as on Apr 24, 2025)

Nifty	24,247
52 Week h/l (Rs)	2234 / 1461
Market cap (Rs/USD mn)	167758 / 1967
Outstanding Shares (mn)	79
6m Avg t/o (Rs mn):	450
Div. yield (%):	-
Bloomberg code:	AAVAS IN
NSE code:	AAVAS

#### Stock performance



#### Shareholding pattern

Promoter	26.5%
FII+DII	40.4%
Others	33.1%

#### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	2,050	1,900

#### Δ in earnings estimates

	FY25	FY26e	FY27e
EPS (New)	72.5	85.2	102.4
EPS (Old)	73.2	87.4	105.1
% Change	-0.9%	-2.5%	-2.6%

#### Financial Summary

(Rs mn)	FY25	FY26E	FY27E
Op. income	13,509	15,987	18,952
PPOP	7,597	9,096	10,919
Net profit	5,741	6,745	8,101
Growth (%)	17.0	17.5	20.1
EPS (Rs)	72.5	85.2	102.4
ABVPS (Rs)	535.9	623.0	722.8
P/E (x)	28.9	24.6	20.5
P/ABV (x)	3.9	3.4	2.9
ROAE (%)	14.1	14.4	14.9
ROAA (%)	3.3	3.3	3.4

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Lead Analyst

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## Exhibit 1: Result table

(Rs mn)	Q4 FY25	Q3 FY25	% qoq	Q4 FY24	% yoy
Operating Income	6,362	5,967	6.6	5,460	16.5
Interest expended	(2,647)	(2,587)	2.3	(2,216)	19.5
<b>Net Interest Income</b>	<b>3,715</b>	<b>3,380</b>	<b>9.9</b>	<b>3,245</b>	<b>14.5</b>
Other Income	13	12	8.5	8	63.0
Total Income	3,728	3,392	9.9	3,252	14.6
Operating expenses	(1,719)	(1,447)	18.8	(1,434)	19.8
<b>PPOP</b>	<b>2,009</b>	<b>1,945</b>	<b>3.3</b>	<b>1,818</b>	<b>10.5</b>
Provisions	(76)	(61)	25.8	(43)	77.0
PBT	1,932	1,884	2.6	1,775	8.9
Tax	(395)	(420)	(5.8)	(349)	13.4
<b>PAT</b>	<b>1,537</b>	<b>1,464</b>	<b>5.0</b>	<b>1,426</b>	<b>7.8</b>

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q4 FY25	Q3 FY25	% qoq	Q4 FY24	% yoy
<b>AUM</b>	<b>204,202</b>	<b>192,380</b>	<b>6.1</b>	<b>173,126</b>	<b>17.9</b>
Disbursements	20,238	15,946	26.9	18,931	6.9
Ann. Run-off Rate (%)	17.5	16.4	1.1	16.4	1.1
<b>Customer-wise AUM</b>					
Salaried	81,681	76,952	6.1	69,597	17.4
Self-employed	122,521	115,428	6.1	103,529	18.3
<b>Product-wise AUM</b>					
HL	138,857	132,742	4.6	119,457	16.2
Other Mortgage Loans	26,546	25,009	6.1	24,238	9.5
MSME	38,798	34,628	12.0	29,431	31.8

Source: Company, YES Secs

## Exhibit 3: Key Ratios

(%)	Q4 FY25	Q3 FY25	chg qoq	Q4 FY24	chg yoy
NIM	7.6	7.5	0.1	7.9	(0.3)
Yield	13.1	13.2	(0.0)	13.1	-
Cost of Borrowings	8.2	8.2	-	8.1	0.2
Spread	4.9	4.9	(0.1)	5.1	(0.2)
Cost to Income	46.1	42.7	3.4	44.1	2.0
Gross NPA	1.1	1.1	(0.1)	0.9	0.1
Net NPA	0.7	0.8	(0.1)	0.7	0.1
Credit cost*	0.2	0.1	0.0	0.1	0.1
Cum. RoA	3.3	3.3	0.0	3.3	(0.0)
Cum. RoE	14.1	14.1	0.1	13.9	0.2

Source: Company, YES Sec, \*Calculated

## Exhibit 4: Asset Quality

(%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
1+ DPD	3.1	3.7	4.0	3.9	3.4
90+ DPD / Stage 3	0.9	1.0	1.1	1.1	1.1
HL GNPA (%)	0.9	0.9	1.0	1.1	1.0
Other Mortgage Loans GNPA (%)	1.2	1.3	1.5	1.5	1.3

Source: Company, YES Sec

## Exhibit 5: ECL Summary

(Rs mn)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Gross Stage 3 NPA	1,319	1,466	1,601	1,757	1,763
ECL Provisions Stage 3	380	423	459	524	572
Net Stage 3	939	1,043	1,142	1,233	1,191
Coverage ratio - Stage 3 (%)	28.8	28.8	28.7	29.8	32.4
Gross Stage 1 & 2	1,39,573	1,43,887	1,46,491	1,52,419	161,607
ECL Provision Stage 1 & 2	468	485	487	481	501
Net Stage 1 & 2	1,39,105	1,43,402	1,46,004	1,51,938	161,106
ECL Provision % Stage 1 & 2	0.3	0.3	0.3	0.3	0.3
Total ECL Provisions - (%)	0.6	0.6	0.6	0.7	0.7

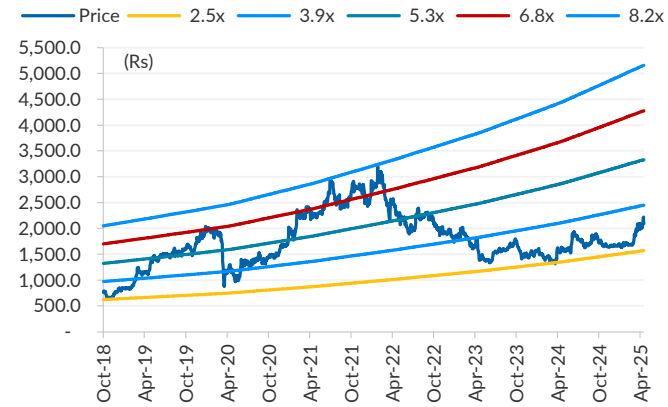
Source: Company, YES Sec

## Exhibit 6: Funding Mix

(%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Term Loans	47.5	47.8	50.8	50.3	50.9
Assignment	23.9	24.0	25.1	24.8	25.2
NHB Refinancing	19.6	19.6	18.1	15.9	14.4
NCDs	9.0	8.6	6.0	9.0	9.5

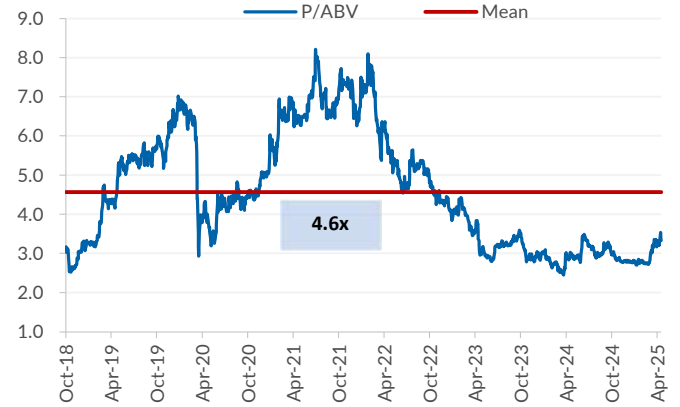
Source: Company, YES Sec

**Exhibit 7: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 8: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Equity Capital	791	791	792	792	792
Reserves	31,906	36,942	42,817	49,562	57,663
<b>Shareholder's funds</b>	<b>32,697</b>	<b>37,733</b>	<b>43,608</b>	<b>50,353</b>	<b>58,455</b>
Provisions	66	84	91	100	111
Deferred Tax Liabilities	724	1,071	1,203	1,203	1,203
<b>Total Non-Financial liabilities</b>	<b>790</b>	<b>1,155</b>	<b>1,294</b>	<b>1,303</b>	<b>1,313</b>
Debt Securities	14,245	14,126	17,275	20,730	24,772
Borrowings (Other than Debt Sec.)	83,162	109,375	121,224	145,469	173,835
Other Financial Liabilities	3,125	2,496	2,735	3,282	3,922
<b>Total Financial liabilities</b>	<b>100,618</b>	<b>126,307</b>	<b>141,282</b>	<b>169,529</b>	<b>202,578</b>
<b>Total Equities and Liabilities</b>	<b>134,105</b>	<b>165,195</b>	<b>186,185</b>	<b>221,186</b>	<b>262,346</b>
<b>Assets</b>					
Cash and Cash Equivalents	1,767	206	113	3,132	6,045
Bank balances	12,050	17,773	15,483	15,483	15,483
Loans	114,763	140,044	162,297	193,076	229,920
Investments in Associates	1,231	1,822	2,300	2,760	3,312
Other Financial Assets	3,027	3,644	4,200	4,830	5,554
<b>Total Financial assets</b>	<b>132,837</b>	<b>163,610</b>	<b>184,518</b>	<b>219,405</b>	<b>260,439</b>
Property, Plant and Equipment	316	297	304	334	368
Other Intangible Assets	245	418	520	520	520
Other Non-Financial Assets	677	752	836	919	1,011
<b>Total Non-Financial assets</b>	<b>1,269</b>	<b>1,585</b>	<b>1,667</b>	<b>1,781</b>	<b>1,906</b>
<b>Total Assets</b>	<b>134,105</b>	<b>165,195</b>	<b>186,185</b>	<b>221,186</b>	<b>262,346</b>

Source: Company, YES Sec

### Exhibit 10: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25	FY26E	FY27E
Income from Operations	16,083	20,175	23,545	27,330	31,411
Interest expense	(5,910)	(8,284)	(10,075)	(11,385)	(12,506)
<b>Net interest income</b>	<b>10,173</b>	<b>11,891</b>	<b>13,470</b>	<b>15,944</b>	<b>18,905</b>
Non-interest income	18	28	39	43	47
Total op income	10,191	11,919	13,509	15,987	18,952
Total op expenses	(4,577)	(5,430)	(5,912)	(6,892)	(8,033)
<b>PPoP</b>	<b>5,614</b>	<b>6,489</b>	<b>7,597</b>	<b>9,096</b>	<b>10,919</b>
Provisions	(124)	(245)	(271)	(503)	(599)
Profit before tax	5,490	6,244	7,326	8,593	10,320
Taxes	(1,189)	(1,338)	(1,585)	(1,847)	(2,219)
<b>Net profit</b>	<b>4,301</b>	<b>4,907</b>	<b>5,741</b>	<b>6,745</b>	<b>8,101</b>

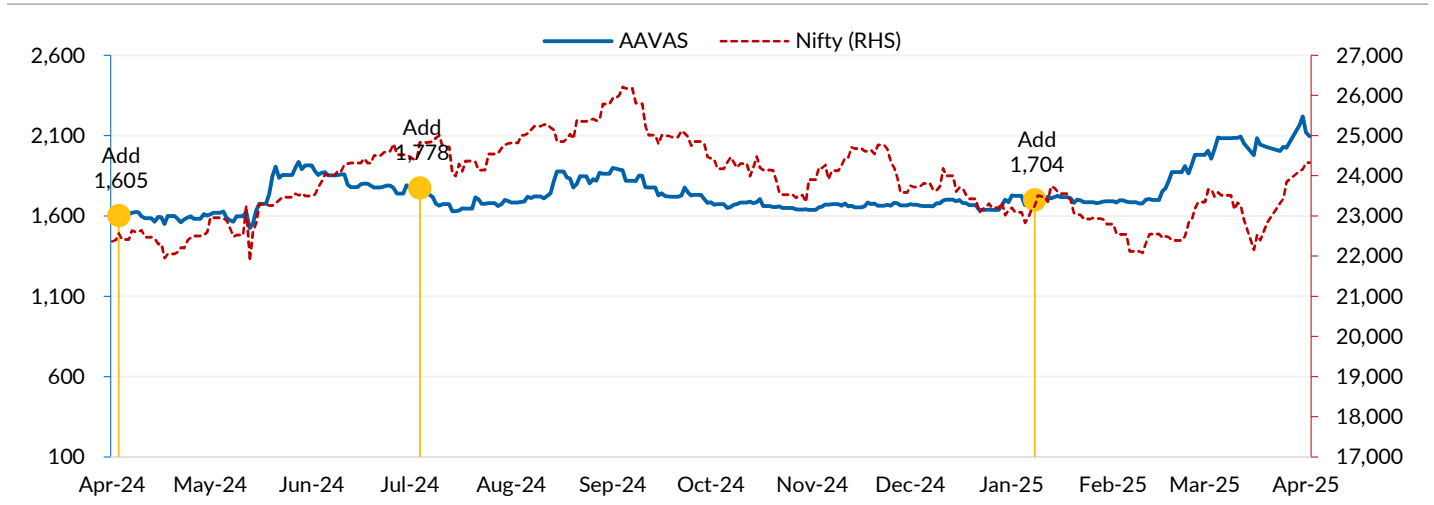
Source: Company, YES Sec

## Exhibit 11: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	23.0	16.9	13.3	18.4	18.6
Total op income	23.1	17.0	13.3	18.3	18.5
Op profit (pre-provision)	17.6	15.6	17.1	19.7	20.0
Net profit	20.5	14.1	17.0	17.5	20.1
Loans	26.8	22.0	15.9	19.0	19.1
Borrowings + Debt	23.7	26.8	12.1	20.0	19.5
Total assets	21.7	23.2	12.7	18.8	18.6
<b>Profitability Ratios (%)</b>					
NIM	8.0	7.6	7.1	7.1	7.1
Non-interest income/Total income	0.2	0.2	0.3	0.3	0.2
Return on Avg. Equity	14.1	13.9	14.1	14.4	14.9
Return on Avg. Assets	3.5	3.3	3.3	3.3	3.4
<b>Per share ratios (Rs)</b>					
EPS	54.4	62.0	72.5	85.2	102.4
ABVPS	403.7	464.9	535.9	623.0	722.8
<b>Other key ratios (%)</b>					
Loans/Borrowings	117.8	113.4	117.2	116.2	115.8
Cost/Income	44.9	45.6	43.8	43.1	42.4
CAR	46.9	44.0	44.5	43.2	42.1
Gross Stage 3 (%)	0.9	0.9	1.1	0.8	0.8
Credit Cost	0.1	0.2	0.1	0.2	0.2
Tax rate	21.7	21.4	21.6	21.5	21.5

Source: Company, YES Sec

## Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

## DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

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**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

Analyst signature

Analyst signature

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