

Disbursements lower than anticipated; NIMs down

Disbursements for the quarter stood at Rs12.6bn, up 10% YoY which was lower than our expectation. AUM was up 22% YoY to Rs 153.2bn. Spreads (reported) declined 31bps QoQ to 5.29% due to fall in interest yields with rise in competitive intensity and rise in CoF. CoF are expected to rise further by 15-25bps while yields are likely to remain stable. Management guided to maintain Spreads above 5.0%. NII was up 13.5% YoY and 3.7% QoQ, slightly below our expectations. Opex declined 2.3% QoQ due to reduction in employee costs, resulting in C/I ratio of 44.5% as against 47.8% in 1QFY24. Thus, operating profit improved 17% YoY and 11% QoQ ahead of our estimates. Credit costs inched up marginally by 2 bps to 0.21%, yet remain best in class. Earnings stood at Rs1.2bn, up 14% YoY and 11% QoQ. AUM growth guidance remains intact at 20-25% however, it will take couple of quarters for disbursements to grow at a rapid pace as the management transition and tech transformation completes. We build in AUM/NII/PAT CAGR at 22%/21%/21% over FY23-26E and RoA/RoE of 3.6% and 16% by FY26E. We continue to value Aavas at 3.5x FYH1FY26E P/ABV to arrive at our Target Price of Rs 2060. Maintain Buy. Key risk – Slower disbursements than our expectations

Higher ticket size in Home Loans drives disbursement growth

Disbursement in Home Loans and Other Mortgage Loans was up 8%/13% YoY to Rs 8.4bn and Rs 4.2bn, respectively. Disbursements ATS in Home loans was up 19% YoY to Rs 1.31mn, indicating decline in volumes processed. Management attributed ATS growth to rise in property prices in its key markets. Mix between Home Loans and Other Mortgage Loans remained stable at 70% and 30%, respectively. Home Loans AUM was up 20% YoY and Other Mortgage Loans increased by 27% YoY. Repayment rate was stable as company renegotiated yields with good quality customers to retain them.

NIMs to remain under pressure

Increase in competitive intensity led 11bps QoQ decline in yields to 13.15%. CoB continues to remain under pressure, increasing 20 bps QoQ to 7.86%. Another 15-25bps increase in CoB is in the ambit as the incremental CoB stands at 8.2%. High competitive intensity and rising CoB should keep spreads under pressure.

Asset Quality remains pristin

Company witnessed improvement in delinquency ratios with 1+ dpd moving down 87bps YoY and 10 bps QoQ to 3.58%. Gross Stage 2 and Gross Stage 3 stood at 1.68% and 1.04% in 2QFY24 as against 1.86% and 1.0% in 1QFY24. Stage 3 PCR stood at 27.5% (an improvement of 60bps QoQ) while total ECL provisions remained flat QoQ at 64bps of gross loans. Credit costs for the quarter was at 21bps, up only 2 bps QoQ. Write-offs in 1H were negligible at Rs20mn, reflecting its superior underwriting strength.

Opex control surprised positively

Opex decline of 2.3% QoQ was a positive surprise. Employee cost was down 13.6% QoQ as 1Q was impacted by one-offs, variable pay and appraisals. However, other expenses increased 25%. Aavas, in our view has lower productivity as compared to its peers and tech transformation, should support operating leverage to play out over medium term.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
NII	2,689	2,370	13.5	2,592	3.7	11,099	13,773	16,716
PPoP	1,631	1,394	17.0	1,464	11.4	6,567	8,192	10,246
Provisions	65	16	304.1	57	14.8	234	297	426
PAT	1,217	1,068	13.9	1,097	10.9	4,936	6,158	7,660
AUM growth (%)	22.1	23.6	(6.3)	23.2	(4.5)	21.5	21.8	22.5
NIM (%)	7.2	7.8	(7.5)	7.2	(0.2)	7.1	7.2	7.2
C / I (%)	44.5	45.1	(1.4)	47.8	(6.8)	45.3	44.0	42.3
GNPA (%)	1.0	1.1	(6.1)	1.0	3.5	0.9	0.9	0.9
RoA (%)	3.3	3.7	(9.5)	3.2	4.8	3.4	3.5	3.6
RoE (%)	14.1	14.4	(2.0)	13.2	7.0	14.0	15.1	16.0
P/BV (x)	0.0	0.0	0.0	0.0	0.0	3.2	2.8	2.4

Source: Company, Centrum Broking

Result Update

India I NBFC

29 October, 2023

BUY

Price: Rs1,547.4

Target Price: Rs2,060.0

Forecast return: 33%

Institutional Research

Market Data

Bloomberg:	AAVAS IN
52 week H/L:	2,078/1,335
Market cap:	Rs122.4bn
Shares Outstanding:	79.1mn
Free float:	58.0%
Avg. daily vol. 3mth:	2,40,045

Source: Bloomberg

Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs2060; Changed by -0.5%
EPS:	FY24E; Changed by -1.0%
	FY25E; Changed by -1.1%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	39.1	39.1	39.1	39.2
FIIs	35.4	35.0	38.8	37.9
DIIs	12.8	14.4	12.5	10.9
Public/other	12.7	11.5	9.5	12.0

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
NII	2,736	2,689	-1.7
PPoP	1,577	1,631	3.4
PAT	1,196	1,217	1.8

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
NII	11,099	11,181	-0.7	13,773	13,882	-0.4
PPoP	6,567	6,592	-0.4	8,192	8,294	-1.2
PAT	4,936	4,978	-0.8	6,158	6,232	-1.2

Source: Centrum Broking

AAVAS Financier versus NIFTY Midcap 100

	1m	6m	1 year
AAVAS IN	(9.2)	10.5	(22.2)
NIFTY Midcap 100	(4.8)	23.2	24.2

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Disbursement growth	10.4%	25.0%
AUM growth	21.5%	21.8%
NIMs on AUM	7.1%	7.2%
C/I ratio	45.3%	44.0%
Credit costs	0.2%	0.2%

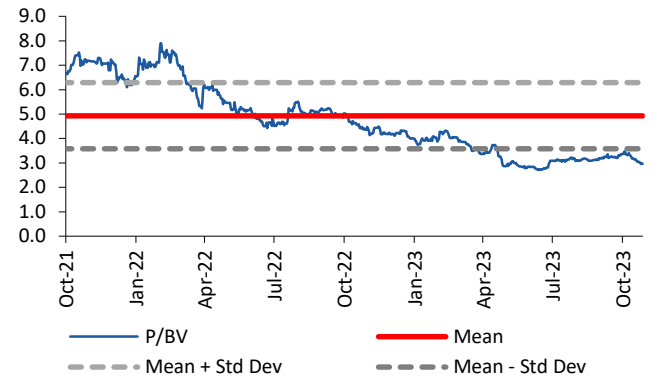
Source: Centrum Broking

Valuations

We build in AUM/NII/PAT CAGR at 22%/21%/21% over FY23-26E and RoA/RoE of 3.6% and 16% by FY26E. We continue to value Aavas at 3.5x FYH1FY26E P/ABV to arrive at our Target Price of Rs 2060. Maintain Buy.

Valuations	Rs/share
1HFY26 P/ABV	586.0
Target multiple	3.5
Target Price	2,060
CMP	1,547
Upside to CMP	33%

P/BV mean and standard deviation



Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US \$bn	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E
Aptus value	145	1.7	4.3	3.9	3.3	2.8	4.4	4.0	3.4	2.9	16.1	17.0	18.8	20.1
Aavas financiers	122	1.5	3.7	3.2	2.8	2.4	3.8	3.3	2.9	2.4	14.2	14.1	15.1	16.0
Home first	84	1.0	4.6	4.1	3.5	3.0	4.8	4.2	3.6	3.1	13.5	15.2	16.6	17.6

Source: Company, Centrum Broking

Concall Key takeaways

- Interest yields declined on a QoQ basis due to increase in competitive intensity. New loans were issues at lower rates while to retain good customers it renegotiated rates downwards
- Incremental CoB is at 8.2%. Expect CoB to rise to 8%-8.1% as it will deploy multiple tools – 1) NHB borrowings drawdown of upto Rs 10bn; 2) Fund raise through DFI and 3) PTC's which are price 50bps lower than bank borrowings. Will maintain borrowing mix from DFI at 10-15%
- Maintain spreads above 500bps
- Disbursements were lower in 2Q as there was a decline in login to sanctions ratio from 90% to 80% due to rise in competitive intensity. Disbursement to sanction ratio was impacted in this quarter as projects got stalled due to erratic monsoons
- Management transition and tech upgradation has also led to slower disbursement growth. Tech transformation will be complete by year end.
- Employee productivity looks low due to stringent underwriting mechanism. About 15000 files are brought in a quarter of which ~5000 files are logged in
- In another 12 to 18 months rating upgrade will happen and company can raise money from insurance and retirement benefit companies
- Company will add another 20-25 branches in 2H, maintaining its guidance about 30 branch additions in a year
- Branches break even in 3 to 6 months in smaller markets and 6-9 months in larger markets
- Competitive intensity is not specific to any geography or asset class
- Aavas operates in self-owned, self-constructed properties in unserved and under-served markets. AUM share of self-employed and salaried was in 60:40 ratio
- Employee count stood at 5731 (~5700 in 1QFY24) and sales team is of 3200 employees

Exhibit 1: Quarterly result review

Y/E March (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	4,259	3,287	4,128	29.6	3.2
Gain on DA of Financial instruments	466	494	330	-5.5	41.2
Interest + Gain on DA	4,725	3,781	4,458	25.0	6.0
Yield on AUM	12.6%	12.4%	12.4%	24bps	24bps
Interest Expense	2,036	1,410	1,866	44.4	9.1
CoF	7.5%	6.7%	7.3%	77bps	19bps
Net Interest Income	2,689	2,370	2,592	13.5	3.7
NIMs (calculated)	7.2%	7.8%	7.2%	-58bps	-2bps
Non-Interest Income	249	170	210	46.4	18.6
Total Income	2,938	2,541	2,802	15.7	4.9
Employee Cost	820	772	949	6.2	-13.6
Other Op Exp	488	374	390	30.3	25.2
Total Op Exp	1,308	1,147	1,339	14.1	-2.3
Cost to Income (%)	44.5%	45.1%	47.8%	-62bps	-326bps
Pre-provision op profit	1,631	1,394	1,464	17.0	11.4
Provisions	65	16	57	304.1	14.8
Credit costs	0.21%	0.07%	0.19%	15bps	2bps
PBT	1,565	1,378	1,407	13.6	11.3
Tax	348	310	310	12.4	12.4
-effective tax rate	22.24%	22.48%	22.01%	-24bps	23bps
PAT	1,217	1,068	1,097	13.9	10.9
Disbursements	12,585	11,467	10,682	9.7	17.8
AUM	1,53,195	1,25,437	1,46,500	22.1	4.6
Borrowings	1,11,444	85,712	1,06,772	30.0	4.4
GNPA	1.0%	1.1%	1.0%	-7bps	3bps

Source: NBFC, Centrum Broking

Exhibit 2: Actual performance vs our estimates

(Rs mn)	Q2FY24A	Q2FY24E	Devi (%)
AUM	1,53,195	1,52,200	0.7
Net Interest Income	2,689	2,736	-1.7
Pre-provisioning operating profit	1,631	1,577	3.4
PAT	1,217	1,196	1.8

Source: NBFC, Centrum Broking

Exhibit 3: Quarterly overview- detailed

Y/E March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Interest Income	3,148	3,287	3,585	3,861	4,128	4,259
Gain on DA of Financial instruments	217	494	360	448	330	466
Interest + Gain on DA	3,365	3,781	3,945	4,309	4,458	4,725
Yield on AUM	11.6%	12.4%	12.3%	12.6%	12.4%	12.6%
Interest Expense	1,347	1,410	1,504	1,650	1,866	2,036
CoF	6.6%	6.7%	6.8%	6.9%	7.3%	7.5%
Net Interest Income	2,019	2,370	2,442	2,659	2,592	2,689
NIMs (calculated)	6.9%	7.8%	7.6%	7.8%	7.2%	7.2%
Non Interest Income	163	170	174	193	210	249
Total Income	2,182	2,541	2,616	2,852	2,802	2,938
Employee Cost	676	772	803	755	949	820
Other Op Exp	351	374	399	447	390	488
Total Op Exp	1,026	1,147	1,201	1,203	1,339	1,308
Cost to Income (%)	47.0%	45.1%	45.9%	42.2%	47.8%	44.5%
Pre-provision op profit	1,156	1,394	1,415	1,649	1,464	1,631
Provisions	9	16	35	64	57	65
Credit costs	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%
PBT	1,147	1,378	1,380	1,586	1,407	1,565
Tax	254	310	307	318	310	348
-effective tax rate	22.2%	22.5%	22.2%	20.1%	22.0%	22.2%
PAT	892	1,068	1,073	1,267	1,097	1,217
Disbursements	10,936	11,467	12,025	15,817	10,682	12,585
AUM	1,18,936	1,25,437	1,30,887	1,41,667	1,46,500	1,53,195
Borrowings	82,909	85,712	91,613	98,407	1,06,772	1,11,444
Stage 3 assets	1,045	1,113	1,204	1,067	1,193	1,295
Stage 3 (%)	1.08%	1.10%	1.13%	0.92%	1.00%	1.03%
Stage 3 Provisions (%)	22.9%	23.8%	23.9%	26.9%	26.9%	27.5%

Source: NBFC, Centrum Broking

Exhibit 4: Change in our estimates

	Revised Estimates			Earlier Estimates			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest income (Rs mn)	11,099	13,773	16,716	11,181	13,822	16,927	-0.7%	-0.4%	-1.2%
Operating Profit (Rs mn)	6,567	8,192	10,246	6,592	8,294	10,530	-0.4%	-1.2%	-2.7%
Profit after tax (Rs mn)	4,936	6,158	7,660	4,978	6,232	7,914	-0.8%	-1.2%	-3.2%
AUM	1,72,128	2,09,643	2,56,873	1,73,038	2,12,534	2,59,248	-0.5%	-1.4%	-0.9%
BVPS	478	555	652	478	557	657	0.0%	-0.2%	-0.6%
Adj BVPS	465	542	636	466	544	642	-0.2%	-0.4%	-0.8%

Source: NBFC, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12,528	15,400	19,288	23,467	28,340
Interest expense	4,775	5,910	8,189	9,694	11,624
NII	7,753	9,490	11,099	13,773	16,716
Other income	528	701	912	843	1,043
Total income	8,281	10,191	12,011	14,616	17,758
Operating expenses	3,506	4,577	5,443	6,425	7,512
Employee	2,322	3,006	3,565	4,185	4,883
Others	1,184	1,571	1,878	2,240	2,630
PPOP	4,775	5,614	6,567	8,192	10,246
Provisions	226	124	234	297	426
PBT	4,549	5,490	6,333	7,895	9,820
Tax	981	1,189	1,397	1,737	2,160
PAT	3,568	4,301	4,936	6,158	7,660

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	20.1	24.8	21.5	21.8	22.5
Borrowings	25.6	23.4	20.4	21.8	21.8
NII	28.3	22.4	17.0	24.1	21.4
Other income	23.9	33.0	30.0	(7.5)	23.6
Opex	36.6	30.5	18.9	18.0	16.9
PPoP	22.3	17.6	17.0	24.7	25.1
Provisions	(39.1)	(45.0)	88.7	26.7	43.3
PAT	23.2	20.5	14.8	24.8	24.4
Profitability (%)					
Yield on advances	12.0	12.1	12.3	12.3	12.1
Cost of funds	6.7	6.6	7.6	7.4	7.3
NIM (on AuM)	7.5	7.4	7.1	7.2	7.2
Other Income/ Total Income	6.4	6.9	7.6	5.8	5.9
Other Income / Total Assets	0.5	0.5	0.6	0.4	0.4
Cost/Income	42.3	44.9	45.3	44.0	42.3
Employee	28.0	29.5	29.7	28.6	27.5
Others	14.3	15.4	15.6	15.3	14.8
Opex/ Avg AuM	3.4	3.6	3.5	3.4	3.2
Provisions	0.2	0.1	0.1	0.2	0.2
Tax Rate	21.6	21.7	22.1	22.0	22.0
RoA	3.6	3.5	3.4	3.5	3.6
RoE	13.7	14.2	14.0	15.1	16.0

DuPont (% avg assets)					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12.5	12.6	13.1	13.3	13.3
Interest expense	4.8	4.8	5.6	5.5	5.5
NII	7.8	7.8	7.5	7.8	7.8
Other income	0.5	0.6	0.6	0.5	0.5
Total income	8.3	8.3	8.2	8.3	8.3
Operating expenses	3.5	3.7	3.7	3.6	3.5
Employee	2.3	2.5	2.4	2.4	2.3
Others	1.2	1.3	1.3	1.3	1.2
PPOP	4.8	4.6	4.5	4.6	4.8
Provisions	0.2	0.1	0.2	0.2	0.2
PBT	4.6	4.5	4.3	4.5	4.6
Tax	1.0	1.0	0.9	1.0	1.0
PAT	3.6	3.5	3.4	3.5	3.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	1,06,512	1,29,810	1,59,073	1,91,895	2,30,239
Cash	15,302	13,816	18,065	20,315	20,213
Loans	90,534	1,14,763	1,39,419	1,69,860	2,08,164
Investment	675	1,231	1,589	1,720	1,862
Non-financial assets	3,692	4,295	1,297	1,205	2,854
Deferred tax assets	0	0	0	0	0
Fixed Assets	269	316	328	342	355
Other Non-fin. assets	3,423	3,980	968	863	2,498
Total Assets	1,10,204	1,34,105	1,60,370	1,93,100	2,33,093
Financial liabilities	79,725	98,407	1,18,506	1,44,381	1,75,899
Borrowings	79,725	98,407	1,18,506	1,44,381	1,75,899
Non-financial liabilities	2,392	3,002	4,106	4,804	5,620
Other Non-fin liabilities	2,392	3,002	4,106	4,804	5,620
Total equity	28,086	32,697	37,757	43,915	51,575
Share capital	789	791	791	791	791
Other equity	27,297	31,906	36,966	43,124	50,783
Total Liabilities	1,10,204	1,34,105	1,60,370	1,93,100	2,33,093
Balance Sheet ratios (%)					
Debt / Equity	2.8	3.0	3.1	3.3	3.4
Assets / Equity	3.8	4.0	4.2	4.3	4.5
Cash / Borrowings	19.2	14.0	15.2	14.1	11.5
Details on loans					
AUM	1,13,502	1,41,667	1,72,128	2,09,643	2,56,873
Disbursements	36,022	50,245	55,456	69,322	86,251
Capital Adequacy (%)					
CRAR	51.9	47.0	44.4	42.2	40.5
Tier-1	51.2	46.7	44.1	41.9	40.2
Tier-2	0.7	0.3	0.3	0.3	0.3
Asset quality (%)					
GNPA (Rs mn)	904	1,067	1,333	1,521	1,779
Growth (%)	22.3	18.1	24.9	14.1	17.0
NNPA (Rs mn)	695	780	960	1,095	1,281
Growth (%)	29.3	12.2	23.0	14.1	17.0
GNPA	1.0	0.9	0.9	0.9	0.9
NNPA	0.8	0.7	0.7	0.6	0.6
PCR	23.1	26.9	28.0	28.0	28.0
NNPA / Equity	2.5	2.4	2.5	2.5	2.5
Per share (Rs)					
EPS	45.2	54.4	62.4	77.9	96.9
BVPS	355.8	413.6	477.6	555.5	652.4
ABVPS	347.0	403.7	465.5	541.6	636.2
DPS	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	34.2	28.4	24.8	19.9	16.0
P/BV	4.3	3.7	3.2	2.8	2.4
P/ABV	4.5	3.8	3.3	2.9	2.4
Dividend yield	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

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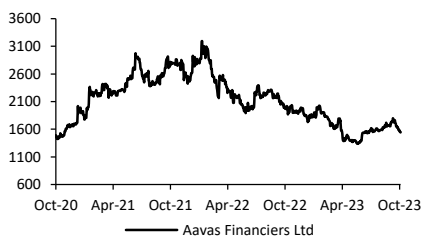
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Aavas Financiers Ltd



Source: Bloomberg

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