

# Aavas Financiers | BUY

## PAT beat driven by efficiencies; growth yet to pick up

Aavas reported a healthy quarter with PAT at INR 1.5bn (+21.5% YoY, +17.3% QoQ, +15% JMFe), led by a) moderation in opex growth (-1% QoQ, +4.6% YoY) and b) lower credit costs (0.1% vs 0.2% QoQ). While partial moderation in costs was driven by a one-off ESOP reversal, the primary driver was realization of green shoots from previous tech spends. As a result, C/I ratio saw a meaningful improvement to 41.2% (vs 44.8% QoQ). Growth remained relatively subdued (+20.1% YoY, +3.1% QoQ) led by muted disbursements (+2.8% YoY, +6.8% QoQ). Slower pace of disbursements was largely due to the extended monsoon and a temporary shutdown of the LMS platform as the company transitioned to a new system. Despite these short-term challenges, mgmt. is optimistic about a recovery in growth, with expectations for a stronger H2. Mgmt. guides for 20%+ AUM growth for FY25. Spreads narrowed to 4.89% (vs 5% QoQ) due to a slight dip in yields (-4bps QoQ) and a subsequent inch up in CoBs (+7bps QoQ). However, mgmt. is addressing this by passing on the higher CoBs to customers, and has thereby raised lending yields by 25bps starting Oct'24. Meanwhile, headline asset quality metrics remained largely steady with GS3/NS3 at 1.08%/0.77% (+7bps QoQ, +5bps QoQ). 1+ DPD edged up to 3.97% (vs 3.65% QoQ) due to the effect of extended monsoon and festive season. However, early signs of improvement are already visible, with 1+ DPD for Oct '24 at 3.84%. While Aavas continues to deliver strong return ratios, we believe further re-rating will hinge on a) a pick-up in growth momentum in H2, b) ability to sustain spreads at current levels despite rising CoBs, and c) continued realization of operational efficiencies from earlier, front-loaded tech investments. We expect RoA/ROE to reach 3.7%/17% by FY26E. Maintain BUY with a TP of INR 1985 (valuing it at 3x FY26E BVPS).

- **Growth remains tepid; H2 expected to be better:** AUM for the quarter stood at INR 184bn (+20.1% YoY, +3.1% QoQ) as disbursements remained muted at INR 12.9bn (+2.8% YoY, +6.8% QoQ). The slower pace of disbursements was primarily due to the impact of extended monsoons and a temporary shutdown of the LMS platform as Aavas transitioned to a new system. Mgmt. has indicated that these temporary disruptions are largely behind them, and guides for a 20%+ AUM growth for FY25, underpinned by a favourable outlook and resumption of stronger disbursements. Additionally, Aavas's strategic co-lending partnership with PSU Banks should provide further impetus to growth. We build in an AUM CAGR of 22% over FY24-26E.
- **Moderation in opex drives PPoP beat:** Operating profit was robust at INR 1.9bn (+19.5% YoY, +14.9% QoQ, +12% JMFe) driven by a) healthy NII (+11.7% YoY, +9.2% QoQ) and b) controlled opex (+4.6% YoY, -1% QoQ). As a result of which cost to assets inched down to 3.2% (-6bps QoQ). While part of the moderation in costs was driven by a one-off ESOP reversal, the primary driver was the realization of operational efficiencies stemming from earlier technology investments. Spreads narrowed to 4.89% (vs 5% QoQ) driven by a slight decline in yields (-4bps QoQ) and a subsequent inch up in CoBs (+7bps QoQ). However, mgmt. is addressing this by passing on the higher CoBs to customers, and has thereby raised lending yields by 25bps starting Oct'24. While there may be a



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,985
Upside/(Downside)	16.4%
Previous Price Target	2,000
Change	-0.7%

### Key Data – AAVAS IN

Current Market Price	INR1,706
Market cap (bn)	INR135.0/US\$1.6
Free Float	70%
Shares in issue (mn)	79.1
Diluted share (mn)	
3-mon avg daily val (mn)	INR501.2/US\$5.9
52-week range	1,979/1,307
Sensex/Nifty	79,542/24,199
INR/US\$	84.4

### Price Performance

%	1M	6M	12M
Absolute	-1.2	7.0	16.8
Relative*	0.6	-1.1	-4.6

\* To the BSE Sensex

### Financial Summary

(INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	3,568	4,301	4,907	6,349	8,062
Net Profit (YoY) (%)	23.2%	20.5%	14.2%	29.4%	27.0%
Assets (YoY) (%)	23.0%	21.7%	23.2%	20.4%	21.2%
ROA (%)	3.6%	3.5%	3.3%	3.5%	3.7%
ROE (%)	13.7%	14.2%	13.9%	15.5%	16.8%
EPS	45.2	54.4	62.0	80.2	101.9
EPS (YoY) (%)	22.6%	20.4%	14.1%	29.4%	27.0%
<b>P/E (x)</b>	<b>37.7</b>	<b>31.4</b>	<b>27.5</b>	<b>21.3</b>	<b>16.7</b>
BV	356	414	477	557	659
BV (YoY) (%)	16.3%	16.2%	15.3%	16.8%	18.3%
<b>P/BV (x)</b>	<b>4.79</b>	<b>4.12</b>	<b>3.58</b>	<b>3.06</b>	<b>2.59</b>

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2024

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slight lag in fully reflecting this adjustment, they remain confident in their ability to maintain spreads within 4.8%-5% range for FY25.

- **Stable asset quality metrics:** Headline asset quality metrics remained largely steady with GS3/NS3 at 1.08%/0.77% (+7bps QoQ, +5bps QoQ). On a segmental basis, GS3 for home loans stood at 0.99% (vs 0.93% QoQ) while for non-home loans stood at 1.49% (vs 1.33% QoQ). Uptick in 1+ DPD to 3.97% (vs 3.65% QoQ) was due to the effect of extended monsoon and festive season. However, early signs of improvement are already visible, with 1+ DPD for Oct '24 at 3.84%. Credit costs during the quarter moderated to 0.11% (vs 0.2% QoQ). We build in avg. credit cost of ~11bps over FY25E/26E.
- **Valuation and view:** While Aavas continues to deliver strong return ratios, we believe further re-rating will hinge on a) a pick-up in growth momentum in H2, b) ability to sustain spreads at current levels despite rising CoBs, and c) continued realization of operational efficiencies from earlier, front-loaded tech investments. We expect RoA/ROE to reach 3.7%/17% by FY26E. Maintain BUY with a TP of INR 1985 (valuing it at 3x FY26E BVPS).

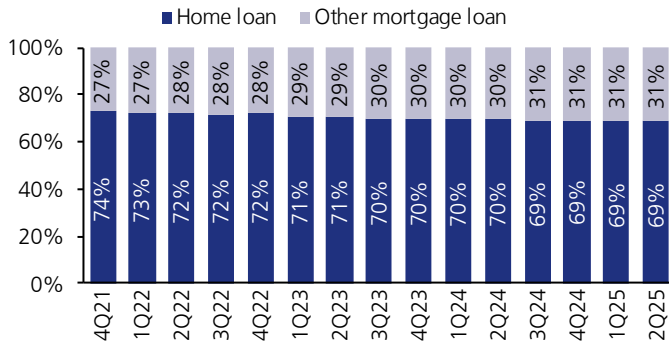
## Aavas – Quarterly trends

### Exhibit 1. 2Q25 – key highlights

Earnings Table (INR mn.)	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>2,689</b>	<b>2,751</b>	<b>3,003</b>	<b>11.7%</b>	<b>9.2%</b>
Total Non-Interest income	249	323	313	25.6%	-3.0%
<b>Total Income</b>	<b>2,938</b>	<b>3,074</b>	<b>3,316</b>	<b>12.8%</b>	<b>7.9%</b>
Employee Cost	820	916	836	1.9%	-8.7%
<b>Total Operating Expenses</b>	<b>1,308</b>	<b>1,379</b>	<b>1,368</b>	<b>4.6%</b>	<b>-0.8%</b>
<b>Operating Profit (PPP)</b>	<b>1,631</b>	<b>1,695</b>	<b>1,948</b>	<b>19.5%</b>	<b>14.9%</b>
Total Provisions	65	86	48	-25.9%	-43.8%
PBT	1,565	1,609	1,900	21.4%	18.1%
Tax	348	348	421	21.0%	20.9%
<b>Reported Profit</b>	<b>1,217</b>	<b>1,261</b>	<b>1,479</b>	<b>21.5%</b>	<b>17.3%</b>
<b>Balance Sheet Data (INR bn)</b>					
AUM	153.2	178.4	184.0	20.1%	3.1%
Disbursements	12.6	12.1	12.9	2.8%	6.8%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	44.5%	44.8%	41.2%	-3.27%	-3.61%
Effective Tax Rate (%)	22.2%	21.7%	22.2%	-0.1%	0.5%
<b>Credit Quality</b>					
Gross S3 (INR Mn.)	1,295	1,466	1,601	23.7%	9.2%
Net S3 (INR Mn.)	939	1,043	1,142	21.7%	9.4%
Gross S3 (%)	1.04%	1.01%	1.08%	0.04%	0.07%
Net S3 (%)	0.75%	0.72%	0.77%	0.02%	0.05%
Coverage	27.5%	28.8%	28.7%	1.2%	-0.2%
<b>Capital Adequacy (%)</b>					
Tier I (%)	48.0%	44.2%	46.2%	-1.71%	2.00%
CAR (%)	48.2%	44.5%	46.5%	-1.68%	2.00%
<b>Return ratios (%)</b>					
ROA (%)	3.3%	3.0%	3.5%	0.18%	0.48%
ROE (%)	14.1%	13.1%	14.9%	0.77%	1.74%

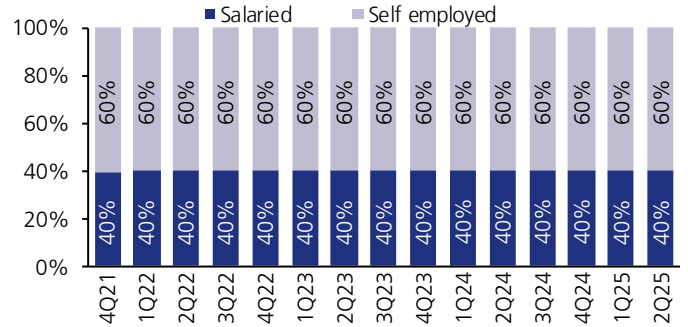
Source: Company, JM Financial

Exhibit 2. Trend AUM product mix



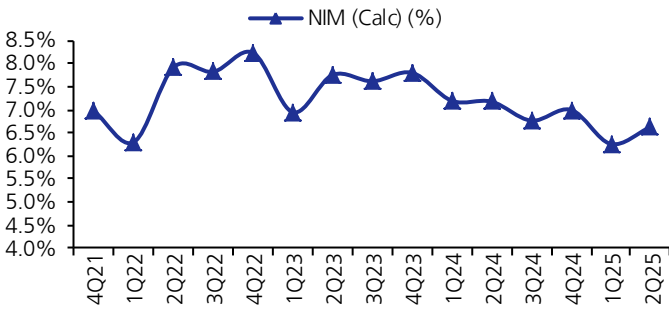
Source: Company, JM Financial

Exhibit 3. Trend in AUM customer mix



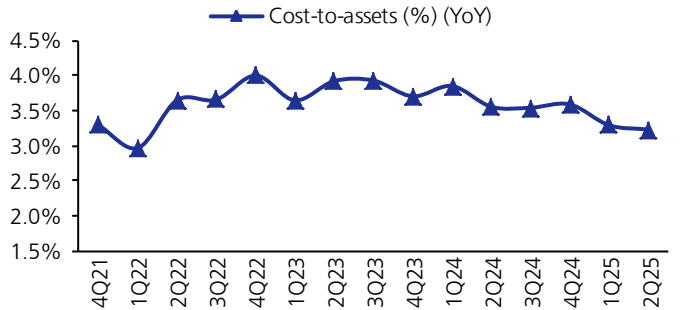
Source: Company, JM Financial

Exhibit 4. Trend in margins



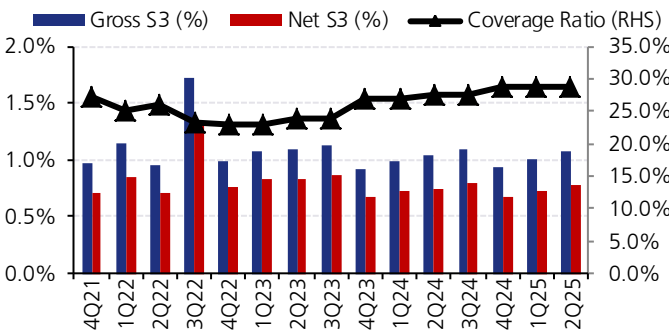
Source: Company, JM Financial

Exhibit 5. Trend in cost-to-asset ratio



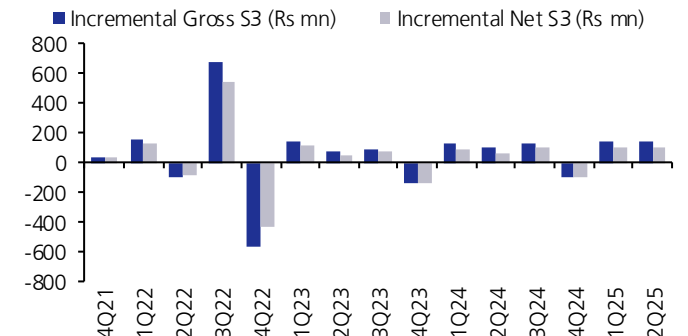
Source: Company, JM Financial

Exhibit 6. Trend in asset quality



Source: Company, JM Financial

Exhibit 7. Trend in incremental asset quality



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	7,710	9,438	10,785	13,492	16,801
Non Interest Income	528	701	1,061	1,117	1,344
<b>Total Income</b>	<b>8,237</b>	<b>10,140</b>	<b>11,846</b>	<b>14,609</b>	<b>18,145</b>
Operating Expenses	3,463	4,526	5,357	6,318	7,613
<b>Pre-provisioning Profits</b>	<b>4,775</b>	<b>5,614</b>	<b>6,489</b>	<b>8,291</b>	<b>10,533</b>
Loan-Loss Provisions	176	75	132	211	273
Others Provisions	31	43	46	0	0
<b>Total Provisions</b>	<b>226</b>	<b>124</b>	<b>245</b>	<b>211</b>	<b>273</b>
<b>PBT</b>	<b>4,549</b>	<b>5,490</b>	<b>6,244</b>	<b>8,079</b>	<b>10,259</b>
Tax	981	1,189	1,338	1,731	2,198
<b>PAT (Pre-Extra ordinaries)</b>	<b>3,568</b>	<b>4,301</b>	<b>4,907</b>	<b>6,349</b>	<b>8,062</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>3,568</b>	<b>4,301</b>	<b>4,907</b>	<b>6,349</b>	<b>8,062</b>
Dividend	0	0	0	0	0
<b>Retained Profits</b>	<b>3,568</b>	<b>4,301</b>	<b>4,907</b>	<b>6,349</b>	<b>8,062</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Equity Capital	789	791	791	791	791
Reserves & Surplus	27,297	31,906	36,942	43,291	51,353
Stock option outstanding	0	0	0	0	0
Borrowed Funds	79,725	98,407	1,23,365	1,50,505	1,83,616
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	2,393	3,002	4,096	4,316	5,229
<b>Total Liabilities</b>	<b>1,10,204</b>	<b>1,34,105</b>	<b>1,65,195</b>	<b>1,98,903</b>	<b>2,40,990</b>
Net Advances	90,534	1,14,763	1,40,044	1,66,809	2,06,079
Investments	675	1,231	1,822	2,169	2,679
Cash & Bank Balances	15,302	13,816	17,978	21,685	26,790
Loans and Advances	0	0	0	0	0
Other Current Assets	3,010	3,734	4,636	7,380	4,399
Fixed Assets	683	561	715	861	1,043
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0
<b>Total Assets</b>	<b>1,10,204</b>	<b>1,34,105</b>	<b>1,65,195</b>	<b>1,98,903</b>	<b>2,40,990</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Borrowed funds	25.6%	23.4%	25.4%	22.0%	22.0%
Advances	20.3%	26.8%	22.0%	19.1%	23.5%
Total Assets	23.0%	21.7%	23.2%	20.4%	21.2%
NII	28.5%	22.4%	14.3%	25.1%	24.5%
Non-interest Income	23.9%	33.0%	51.3%	5.3%	20.3%
Operating Expenses	37.3%	30.7%	18.4%	18.0%	20.5%
Operating Profits	22.3%	17.6%	15.6%	27.8%	27.0%
Core Operating profit	21.9%	16.5%	11.2%	33.8%	27.7%
Provisions	-39.1%	-45.0%	90.7%	-13.6%	29.2%
Reported PAT	23.2%	20.5%	14.2%	29.4%	27.0%
<b>Yields / Margins (%)</b>					
Interest Spread	6.25%	6.34%	5.68%	6.07%	6.33%
NIM	6.70%	6.70%	6.21%	6.43%	6.56%
<b>Profitability (%)</b>					
ROA	3.57%	3.52%	3.28%	3.49%	3.67%
ROE	13.7%	14.2%	13.9%	15.5%	16.8%
Cost to Income	42.0%	44.6%	45.2%	43.2%	42.0%
<b>Asset quality (%)</b>					
Gross NPA	1.00%	0.93%	0.94%	0.98%	0.96%
LLP	0.27%	0.12%	0.19%	0.14%	0.15%
<b>Capital Adequacy (%)</b>					
Tier I	51.25%	46.66%	43.76%	43.46%	42.43%
CAR	51.93%	46.96%	43.99%	43.65%	42.59%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	7.72%	7.73%	7.21%	7.41%	7.64%
Other Income / Assets	0.53%	0.57%	0.71%	0.61%	0.61%
Total Income / Assets	8.25%	8.30%	7.92%	8.02%	8.25%
Cost / Assets	3.47%	3.70%	3.58%	3.47%	3.46%
PPP / Assets	4.78%	4.60%	4.34%	4.55%	4.79%
Provisions / Assets	0.23%	0.10%	0.16%	0.12%	0.12%
PBT / Assets	4.55%	4.49%	4.17%	4.44%	4.66%
Tax rate	21.6%	21.7%	21.4%	21.4%	21.4%
ROA	3.57%	3.52%	3.28%	3.49%	3.67%
Leverage	3.9	4.1	4.4	4.5	4.6
ROE	13.7%	14.2%	13.9%	15.5%	16.8%

Source: Company, JM Financial

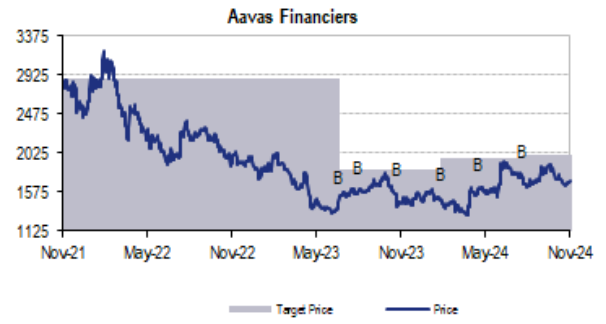
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	78.9	79.1	79.1	79.1	79.1
EPS (INR)	45.2	54.4	62.0	80.2	101.9
EPS (YoY) (%)	22.6%	20.4%	14.1%	29.4%	27.0%
P/E (x)	37.7	31.4	27.5	21.3	16.7
BV (INR)	356	414	477	557	659
BV (YoY) (%)	16.3%	16.2%	15.3%	16.8%	18.3%
P/BV (x)	4.79	4.12	3.58	3.06	2.59
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

**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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