

Feb 05, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

Aavas Financiers Limited

Spread compression and elevated Opex weigh on RoE

Slightly weak core performance in the quarter

Aavas delivered a 2%/7% miss on core NII/PPOP (ex. of DA income) as Portfolio Spread compression was significant reflecting loan pricing, funding cost and BT pressures, and non-employee opex continues to increase on implementation of new LMS and ERP. Disbursements improved as was expected (up 8% qoq), but the volume was marginally short of our expectation. However, AUM growth was steady at 5% qoq/23% yoy as portfolio run-off rate came-off for second consecutive quarter.

Portfolio Spread contracted further by 20 bps qoq from 5.3% to 5.1%, after having compressed by 30 bps in the preceding quarter. The decline was caused by increase in CoF and reduction in Portfolio Yield (fell by 20 bps over past 2Qs). The pressure on Portfolio Yield is from competitive rates for new loans and repricing of BT requests. Incr. CoF moderated in the quarter with to around 8% with co. availing the NHB sanctions.

Non-employee Opex grew 8% qoq/29% yoy with Phase-2 investments being done on implementation of new LMS (Flexcube) and ERP (Oracle Fusion). Notably, Branch addition has been low so far in the year. Slight increase was seen in 1+ dpd (from 3.58% to 3.75%) and Stage-3 assets (from 1.04% to 1.1%) causing marginal uptick in provisions. Write-offs continue to be marginal at ~Rs30mn and ECL coverage was largely maintained across buckets.

Confident of delivering 22-25% pa growth and sustaining spreads above 5%

1 lakh+ login applications have been successfully processed under the new Salesforce LOS, and Rs.45bn+ worth of cases have been sanctioned. Login to Sanction TAT has come down. Oracle Fusion ERP system has been made live in Sept'23 and in under stabilization. New LMS (Flexcube) is under testing and migration. So, the major tech transformation would get complete in next 3-4 months. As per the Management, disbursement throughput is improving MoM and in January the disbursement value was higher 20-25% yoy.

Besides enlarging the execution capacity by multi-fold, Aavas is taking initiatives for augmenting non-branch sourcing through eMitra and digital channels. Management is also reenergizing its core product (low-ticket high-yielding HL) and aspires to improve its origination share by 5 ppt. All the efforts on tech/system changes, sourcing expansion and product focus sharpening is likely to generate stronger growth outcomes from FY25. Management intends to double AUM over next three years.

With incremental borrowing rate peaking and focus on increasing the business contribution of small-ticket HL, the Portfolio Spread is expected to be sustained above 5% over the medium term. Management also believes that higher-scale execution post tech transformation would increase branch/resource productivity and gradually improve the opex metrics.

Earnings have been cut; see a more gradual RoE improvement

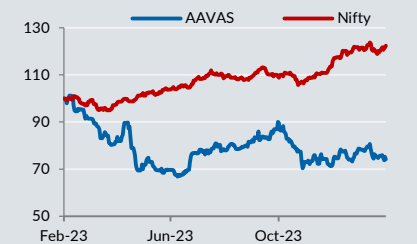
Our FY24/25/26 earnings estimates get cut by 4-8% on lowering expectation of sustainable portfolio spread. We believe that delivery of 22-23% pa AUM CAGR should not be a challenge considering benefits from expansion of lead funnel and augmentation of business execution capacity after tech transformation. Key monitorables for immediate quarters would be recovery in disbursement growth and stabilization of portfolio spread around the current level. Though valuation at 2.4x P/ABV and 16x PE on FY26 is not expensive, a more gradual RoE improvement trajectory is likely to preclude any significant re-rating. Maintain Neutral rating on Aavas with 12m PT of Rs1615.

Reco	: NEUTRAL
CMP	: Rs 1,484
Target Price	: Rs 1,615
Potential Return	: +8.8%

Stock data (as on Feb 02, 2024)

Nifty	21,854
52 Week h/l (Rs)	2046 / 1336
Market cap (Rs/USD mn)	117442 / 1415
Outstanding Shares (mn)	79
6m Avg t/o (Rs mn):	425
Div. yield (%):	-
Bloomberg code:	AAVAS IN
NSE code:	AAVAS

Stock performance



	1M	3M	1Y
Absolute return	-5.5%	1.8%	-25.7%

Shareholding pattern

Promoter	39.1%
FII+DII	47.6%
Others	13.3%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,615	1,650

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	60.0	73.9	92.3
EPS (Old)	62.7	79.8	100.7
% Change	-4.3%	-7.4%	-8.4%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	11,804	14,223	17,246
PPOP	6,399	7,877	9,830
Net profit	4,746	5,843	7,296
Growth (%)	10.3	23.1	24.9
EPS (Rs)	60.0	73.9	92.3
ABVPS (Rs)	463.2	534.7	624.0
P/E (x)	24.7	20.1	16.1
P/ABV (x)	3.2	2.8	2.4
ROAE (%)	13.5	14.5	15.5
ROAA (%)	3.2	3.3	3.3

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Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	5,080	4,967	2.3	4,113	23.5
Interest expended	(2,166)	(2,036)	6.4	(1,504)	44.0
Net Interest Income	2,914	2,931	(0.6)	2,609	11.7
Other Income	12	8	52.2	7	68.7
Total Income	2,926	2,938	(0.4)	2,616	11.9
Operating expenses	(1,349)	(1,308)	3.2	(1,201)	12.3
PPOP	1,577	1,631	(3.3)	1,415	11.5
Provisions	(80)	(65)	22.2	(35)	126.9
PBT	1,497	1,565	(4.3)	1,380	8.5
Tax	(331)	(348)	(5.0)	(307)	7.8
PAT	1,166	1,217	(4.2)	1,073	8.7

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	1,60,795	1,53,195	5.0	1,30,887	22.9
Disbursements	10,682	12,585	(15.1)	12,025	(11.2)
Ann. Run-off Rate (%)	8.0	16.1	(8.0)	21.0	(12.9)
Customer-wise AUM					
Salaried	64,640	61,431	5.2	51,962	24.4
Self-employed	96,155	91,764	4.8	78,925	21.8
Product-wise AUM					
HL	1,13,191	1,08,537	4.3	93,512	21.0
Other Mortgage Loans	49,364	46,418	6.3	39,135	26.1

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	7.9	8.0	(0.1)	8.2	(0.3)
Yield	13.1	13.2	(0.1)	13.0	0.0
Cost of Borrowings	8.0	7.9	0.1	7.3	0.7
Spread	5.1	5.3	(0.2)	5.8	(0.6)
Cost to Income	46.1	44.5	1.6	45.9	0.2
Gross NPA	1.1	1.0	0.1	1.1	(0.0)
Net NPA	0.8	0.8	0.0	0.9	(0.1)
Credit cost*	0.2	0.2	0.0	0.1	0.1
Cum. RoA	3.2	3.3	(0.0)	3.4	(0.2)
Cum. RoE	13.5	13.6	(0.2)	13.6	(0.1)

Source: Company, YES Sec, *Calculated

Exhibit 4: Asset Quality

(%)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
1+ DPD	4.1	3.3	3.7	3.6	3.8
90+ DPD / Stage 3	1.1	0.9	1.0	1.0	1.1
HL GNPA (%)	1.1	0.9	1.0	1.0	1.0
Other Mortgage Loans GNPA (%)	1.3	1.0	1.1	1.2	1.3

Source: Company, YES Sec

Exhibit 5: ECL Summary

(Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Gross Stage 3 NPA	1,204	1,067	1,193	1,295	1,425
ECL Provisions Stage 3	288	287	322	356	392
Net Stage 3	917	780	872	939	1,033
Coverage ratio - Stage 3 (%)	23.9	26.9	26.9	27.5	27.5
Gross Stage 1 & 2	104,999	114,412	118,716	123,529	1,29,353
ECL Provision Stage 1 & 2	388	429	444	441	453
Net Stage 1 & 2	104,612	113,983	118,272	123,087	1,28,900
ECL Provision % Stage 1 & 2	0.4	0.4	0.4	0.4	0.4
Total ECL Provisions - (%)	0.6	0.6	0.6	0.6	0.6

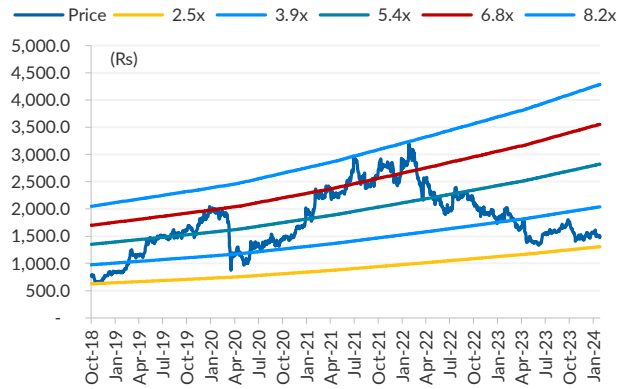
Source: Company, YES Sec

Exhibit 6: Funding Mix

(%)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Term Loans	42.2	45.0	46.6	49.6	47.0
Assignment	22.3	22.0	20.9	20.8	24.2
NHB Refinancing	22.0	20.8	21.3	18.3	18.8
NCDs	13.5	12.2	11.2	11.4	10.1

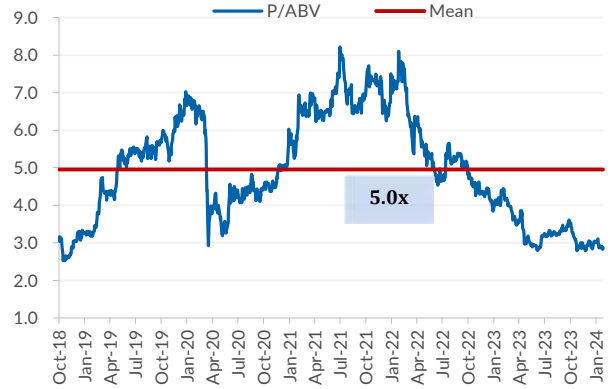
Source: Company, YES Sec

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)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	789	791	791	791	791
Reserves	27,297	31,906	36,652	42,495	49,790
Shareholder's funds	28,086	32,697	37,442	43,285	50,581
Provisions	40	66	73	80	88
Deferred Tax Liabilities	496	724	724	724	724
Total Non-Financial liabilities	536	790	797	804	812
Debt Securities	17,095	14,245	17,450	21,551	26,939
Borrowings (Other than Debt Sec.)	61,632	83,162	1,01,874	1,25,814	1,57,268
Other Financial Liabilities	2,817	3,125	3,828	4,727	5,909
Total Financial liabilities	81,581	1,00,618	1,23,238	1,52,179	1,90,202
Total Equities and Liabilities	1,10,204	1,34,105	1,61,477	1,96,268	2,41,595
Assets					
Cash and Cash Equivalents	423	1,767	2,898	4,168	7,814
Bank balances	14,879	12,050	12,050	12,050	12,050
Loans	90,534	1,14,763	1,40,204	1,72,798	2,13,404
Investments in Associates	675	1,231	1,477	1,772	2,127
Other Financial Assets	2,616	3,027	3,481	4,003	4,604
Total Financial assets	1,09,128	1,32,837	1,60,110	1,94,791	2,39,998
Property, Plant and Equipment	269	316	347	382	420
Other Intangible Assets	413	245	245	245	245
Other Non-Financial Assets	336	677	745	820	902
Total Non-Financial assets	1,076	1,269	1,368	1,477	1,597
Total Assets	1,10,204	1,34,105	1,61,477	1,96,268	2,41,595

Source: Company, YES Sec

Exhibit 10: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	13,044	16,083	20,188	24,079	29,509
Interest expense	(4,775)	(5,910)	(8,421)	(9,893)	(12,299)
Net interest income	8,269	10,173	11,767	14,186	17,210
Non-interest income	12	18	37	37	37
Total op income	8,281	10,191	11,804	14,223	17,246
Total op expenses	(3,506)	(4,577)	(5,405)	(6,346)	(7,416)
PPoP	4,775	5,614	6,399	7,877	9,830
Provisions	(226)	(124)	(315)	(386)	(477)
Profit before tax	4,549	5,490	6,084	7,491	9,354
Taxes	(981)	(1,189)	(1,339)	(1,648)	(2,058)
Net profit	3,568	4,301	4,746	5,843	7,296

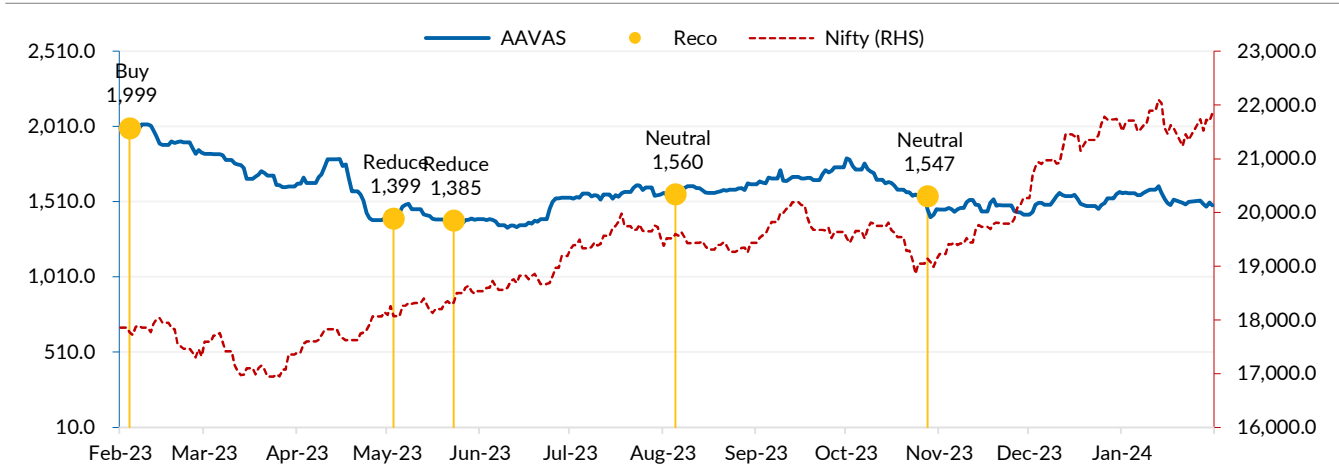
Source: Company, YES Sec

Exhibit 11: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	28.2	23.0	15.7	20.6	21.3
Total op income	28.0	23.1	15.8	20.5	21.3
Op profit (pre-provision)	22.3	17.6	14.0	23.1	24.8
Net profit	23.2	20.5	10.3	23.1	24.9
Loans	20.3	26.8	22.2	23.2	23.5
Borrowings + Debt	26.0	23.7	22.5	23.5	25.0
Total assets	23.0	21.7	20.4	21.5	23.1
Profitability Ratios (%)					
NIM	7.9	8.0	7.5	7.3	7.2
Non-interest income/Total income	0.1	0.2	0.3	0.3	0.2
Return on Avg. Equity	13.7	14.1	13.5	14.5	15.5
Return on Avg. Assets	3.6	3.5	3.2	3.3	3.3
Per share ratios (Rs)					
EPS	45.2	54.4	60.0	73.9	92.3
ABVPS	347.0	403.7	463.2	534.7	624.0
Other key ratios (%)					
Loans/Borrowings	115.0	117.8	117.5	117.3	115.9
Cost/Income	42.3	44.9	45.8	44.6	43.0
CAR	51.4	46.9	44.0	41.3	39.1
Gross Stage 3 (%)	1.0	0.9	0.8	0.8	0.8
Credit Cost	0.2	0.1	0.2	0.2	0.2
Tax rate	21.6	21.7	22.0	22.0	22.0

Source: Company, YES Sec

Recommendation Tracker



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