

Oct 28, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Aavas Financiers Limited

A soft quarter

Lower-than-expected disbursements and NII/PPOP; asset quality was strong

Aavas delivered 3%/6% miss on NII/PPOP (adjusted for assignment income) in Q2 FY24 on account of lower-than-estimated disbursements (8.5% miss) and a larger-than-expected decline in portfolio spread (compressed 30 bps with unanticipated 10 bps decline in yield). While employee cost was lower (Q1 had significant ESOP cost), the other opex was higher due to system/tech changes (new LOS, LMS & ERP) being implemented. Asset quality trends remained strong with incremental improvement seen in 1+ dpd and 30+ dpd which moved lower to 3.6% and 2.5% respectively. Write-offs were only Rs20mn in the first half of the year and credit cost has been trending below 20 bps. With some softening in RoA in the past two quarters, the pace of RoE improvement has slowed.

Confident of 20-25% AUM growth, even as incremental tech changes are implemented

While Aavas' disbursements improved sequentially (Q1 impacted by LOS implementation), the extent of business recovery was below expectations. Co. has started the implementation of new LMS and ERP which would be completed by the year-end. This second phase of tech/system changes would be significantly less disruptive from originations standpoint. Hence, management expects disbursements momentum to keep improving. These tech changes are being done with the objective of raising efficiency & productivity, driving scalability, and enhancing the customer experience. The concomitant benefits would significantly manifest from the next fiscal.

BT Out has been stable and is being controlled through reduction of rates. Management remains confident about delivering 20-25% AUM growth. In our view, Aavas needs to disburse Rs30bn+ in H2 to deliver portfolio growth in the guided range. Increase in HL origination ATS (property price inflation + new market growth) and significant branch addition (25 in H2 v/s 4 in H1) would aid disbursement growth.

Spread management would be key

The 20-bps increase in CoF was on expected lines; being driven by some repricing of bank loans and reduction in share of NHB borrowings. However, the slight reduction in portfolio yield came as a negative surprise and was caused by rate reduction for existing customers (BT requests) and competitive pricing of new loans across markets. CoF is expected to marginally move up in H2 FY24 with some mitigation from availment of NHB borrowings (Rs10bn sanction in hand). Portfolio yield could remain under pressure in the absence of rate increases for new loans. Management believes that spread would be maintained above 5%.

Maintain Neutral rating; growth and spread management would be key

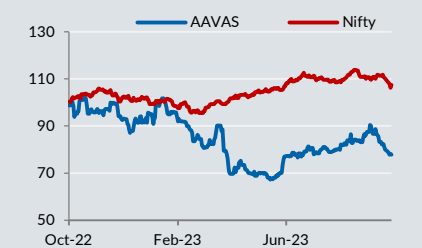
While there are no significant changes in earnings estimates, the recovery in disbursement growth and sustaining spreads around the current level would be closely watched in the next couple of quarters. We estimate CAGR of 23% in AUM and 20% in earnings with RoE reaching 15%+ in FY25. Valuation at 2.8x P/ABV and 19x PE is palatable after the recent price correction, but any significant re-rating would only get triggered by an acceleration in loan growth and easing of the pressure on spreads. We expect relative underperformance to continue and assign Neutral rating with a 12m PT of Rs1650.

Reco	: NEUTRAL
CMP	: Rs 1,547
Target Price	: Rs 1,650
Potential Return	: 6.6%

Stock data (as on Oct 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	2078 / 1336
Market cap (Rs/USD mn)	123284 / 1481
Outstanding Shares (mn)	79
6m Avg t/o (Rs mn):	412
Div. yield (%):	-
Bloomberg code:	AAVAS IN
NSE code:	AAVAS

Stock performance



	1M	3M	1Y
Absolute return	-9.8%	-3.6%	-21.2%

Shareholding pattern

Promoter	39.1%
FII+DII	49.7%
Others	11.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,650	1,625

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	62.7	79.8	100.7
EPS (Old)	63.3	78.7	-
% Change	-1.0%	1.4%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	12,230	14,995	18,236
PPOP	6,638	8,531	10,760
Net profit	4,957	6,306	7,963
Growth (%)	15.2	27.2	26.3
EPS (Rs)	62.7	79.8	100.7
ABVPS (Rs)	465.9	543.2	640.9
P/E (x)	24.7	19.4	15.4
P/ABV (x)	3.3	2.8	2.4
ROAE (%)	14.1	15.5	16.6
ROAA (%)	3.3	3.5	3.6

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Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	4,967	4,668	6.4	3,948	25.8
Interest expended	(2,036)	(1,866)	9.1	(1,410)	44.4
Net Interest Income	2,931	2,802	4.6	2,537	15.5
Other Income	8	0	1,719.3	3	135.4
Total Income	2,938	2,802	4.9	2,541	15.7
Operating expenses	(1,308)	(1,339)	(2.3)	(1,147)	14.1
PPOP	1,631	1,464	11.4	1,394	17.0
Provisions	(65)	(57)	14.8	(16)	304.1
PBT	1,565	1,407	11.3	1,378	13.6
Tax	(348)	(310)	12.4	(310)	12.4
PAT	1,217	1,097	10.9	1,068	13.9

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	153,195	146,500	4.6	125,437	22.1
Disbursements	12,585	10,682	17.8	11,467	9.7
Ann. Run-off Rate (%)	16.1	16.5	(0.4)	16.7	(0.6)
Customer-wise AUM					
Salaried	61,431	58,893	4.3	49,924	23.0
Self-employed	91,764	87,607	4.7	75,513	21.5
Product-wise AUM					
HL	108,537	104,017	4.3	88,935	22.0
Other Mortgage Loans	46,418	44,243	4.9	36,502	27.2

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	8.0	8.0	-	8.2	(0.2)
Yield	13.2	13.3	(0.1)	12.9	0.3
Cost of Borrowings	7.9	7.7	0.2	7.0	0.9
Spread	5.3	5.6	(0.3)	5.9	(0.6)
Cost to Income	44.5	47.8	(3.3)	45.1	(0.6)
Gross NPA	1.0	1.0	0.0	1.1	(0.1)
Net NPA	0.8	0.7	0.0	0.8	(0.1)
Credit cost*	0.2	0.2	0.0	0.1	0.1
Cum. RoA	3.3	3.2	0.1	3.4	(0.2)
Cum. RoE	13.6	13.2	0.5	13.4	0.2

Source: Company, YES Sec, *Calculated

Exhibit 4: Asset Quality

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
1+ DPD	4.5	4.1	3.3	3.7	3.6
90+ DPD / Stage 3	1.1	1.1	0.9	1.0	1.0
HL GNPA (%)	1.1	1.1	0.9	1.0	1.0
Other Mortgage Loans GNPA (%)	1.2	1.3	1.0	1.1	1.2

Source: Company, YES Sec

Exhibit 5: ECL Summary

(Rs mn)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Gross Stage 3 NPA	1,113	1,204	1,067	1,193	1,295
ECL Provisions Stage 3	265	288	287	322	356
Net Stage 3	848	917	780	872	939
Coverage ratio - Stage 3 (%)	23.8	23.9	26.9	26.9	27.5
Gross Stage 1 & 2	100,354	104,999	114,412	118,716	123,529
ECL Provision Stage 1 & 2	385	388	429	444	441
Net Stage 1 & 2	99,970	104,612	113,983	118,272	123,087
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

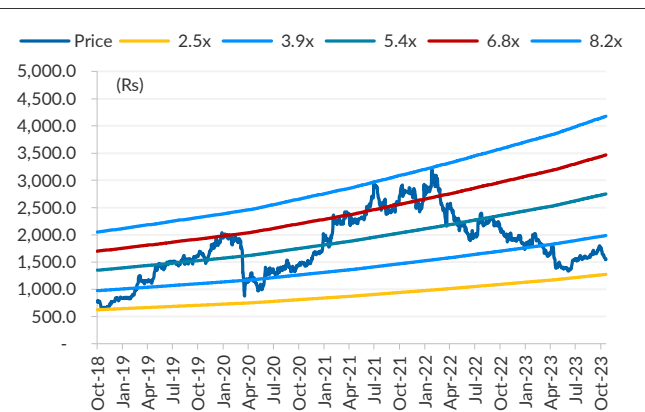
(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Term Loans	41.8	42.2	45.0	46.6	49.6
Assignment	23.0	22.3	22.0	20.9	20.8
NHB Refinancing	20.5	22.0	20.8	21.3	18.3
NCDs	14.7	13.5	12.2	11.2	11.4

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

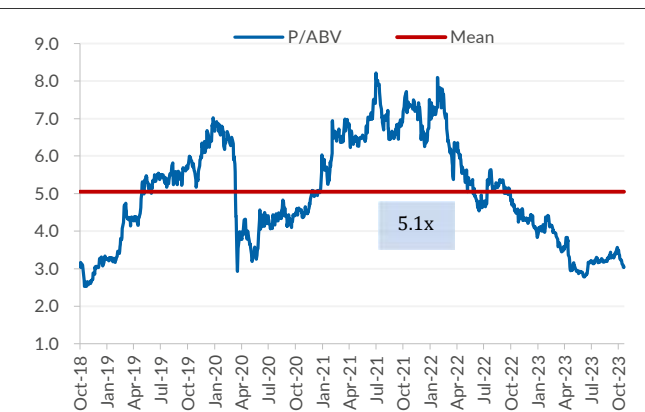
- Disbursement/Sanction ratio declined by 10 ppt qoq (from 90% to 80%), partially impacted by competition - Login/Sanction ratio is generally 3:1.
- BT Out was annualized 6% in Q2 FY24, which was flat on qoq basis - Co. remains confident about 20-25% AUM growth in the year.
- Phase-1 of technology transformation is complete with the implementation of LOS (Salesforce) - phase-2 which includes implementation of new LMS (Flexcube) and ERP (Oracle Fusion) would be completed by end of the year.
- HL origination ATS has been increasing on account of property price inflation and entry in new markets - no change in customer/market focus from co.'s perspective.
- Reduction in Portfolio Yield in Q2 FY24 reflects retention of good customers (BT Out requests) and competitive rates for new loans - price competition seen across markets and states.
- Incr. CoB was 8.19% in H1 FY24 v/s stock CoF of 7.9%.
- Have Rs10bn NHB sanction which will be availed in next 2-3 quarters - co. also targeting to raise funds from a DFI which will be at lower than bank rates.
- On blended basis, the incr. CoF is expected to be 8-8.1% in coming quarters.
- Spread will remain above 5% despite marginal increase in CoF.
- Reduction in employee cost as there was some one-off in Q1 FY24.
- 4 new branches added in H1 FY24 - co. would be adding 25 branches in H2.
- Employee count at 5731 was stagnant due to prevalence of high attrition in branches.
- Write-offs were Rs20mn in H1.

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	36,863	43,169	51,131
Shareholder's funds	28,086	32,697	37,653	43,960	51,922
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	17,522	21,902	27,268
Borrowings (Other than Debt Sec.)	61,632	83,162	102,290	127,862	159,189
Other Financial Liabilities	2,817	3,125	3,843	4,804	5,981
Total Financial liabilities	81,581	100,618	123,741	154,654	192,524
Total Equities and Liabilities	110,204	134,105	162,191	199,418	245,258
Assets					
Cash and Cash Equivalents	423	1,767	3,549	6,290	10,010
Bank balances	14,879	12,050	12,050	12,050	12,050
Loans	90,534	114,763	140,266	173,826	214,871
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	109,128	132,837	160,823	197,941	243,661
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	110,204	134,105	162,191	199,418	245,258

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	20,214	24,235	29,765
Interest expense	(4,775)	(5,910)	(8,002)	(9,258)	(11,547)
Net interest income	8,269	10,173	12,212	14,977	18,218
Non-interest income	12	18	18	18	18
Total op income	8,281	10,191	12,230	14,995	18,236
Total op expenses	(3,506)	(4,577)	(5,592)	(6,464)	(7,476)
PPoP	4,775	5,614	6,638	8,531	10,760
Provisions	(226)	(124)	(283)	(446)	(552)
Profit before tax	4,549	5,490	6,355	8,085	10,208
Taxes	(981)	(1,189)	(1,398)	(1,779)	(2,246)
Net profit	3,568	4,301	4,957	6,306	7,963

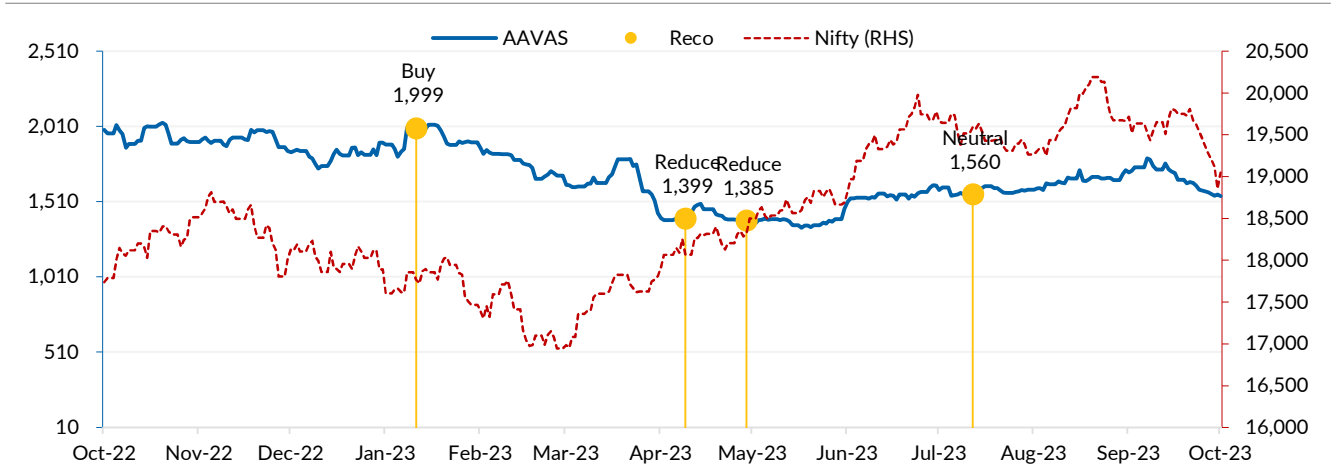
Source: Company, YES Sec

Exhibit 11: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	28.2	23.0	20.0	22.6	21.6
Total op income	28.0	23.1	20.0	22.6	21.6
Op profit (pre-provision)	22.3	17.6	18.2	28.5	26.1
Net profit	23.2	20.5	15.2	27.2	26.3
Loans	20.3	26.8	22.2	23.9	23.6
Borrowings + Debt	26.0	23.7	23.0	25.0	24.5
Total assets	23.0	21.7	20.9	23.0	23.0
Profitability Ratios (%)					
NIM	7.9	8.0	7.8	7.7	7.6
Non-interest income/Total income	0.1	0.2	0.2	0.1	0.1
Return on Avg. Equity	13.7	14.1	14.1	15.5	16.6
Return on Avg. Assets	3.6	3.5	3.3	3.5	3.6
Per share ratios (Rs)					
EPS	45.2	54.4	62.7	79.8	100.7
ABVPS	347.0	403.7	465.9	543.2	640.9
Other key ratios (%)					
Loans/Borrowings	115.0	117.8	117.1	116.1	115.2
Cost/Income	42.3	44.9	45.7	43.1	41.0
CAR	51.4	46.9	44.3	41.7	39.9
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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