

July 26, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

Aavas Financiers Limited

Performance soft on Disbursements and Spread

Disbursements impacted by RBI circular; persistent pressure on portfolio yield

Aavas's PPOP/PAT were in-line with our expectations, wherein the core NII miss and lower assignment income were offset by better fees and lower employee cost (lower disbursements and lesser ESOP-related provisions). Even though sanctions grew by 25% yoy in the quarter, the disbursement growth was modest at 13% yoy due to alignment of operations with RBI's April-end circular on interest charging from actual disbursement.

Portfolio spread fell by 6 bps qoq to 5%, despite nearly stable CoB, with 5 bps contraction in the portfolio yield. Persistent pressure of managing new loan pricing and foreclosure requests (both reflective of competition) has been weighing on portfolio yield/spread for the past many quarters. The portfolio yield is down ~20 bps in the past 12m after absorbing a 25 bps PLR hike. Notwithstanding an increase in the cost of incremental borrowings (8.31% v/s 8.14% in Q4 FY24 - due to absence of NHB funds), the stock CoB was stable implying no significant adverse repricing in existing borrowings.

1+ dpd increased to 3.7% from an all-time low of 3.1% as of March'24, which is in-line with the movement seen during the first quarter of a fiscal. Accordingly, there was an increase in Stage-2 and Stage-3 assets and consequently, credit cost was a little elevated at 20 bps. Write-offs continue to be marginal at ~Rs30mn and ECL coverage was largely maintained across buckets.

Management looking at 22% growth and restricting further spread fall

Aavas is reasonably confident about delivering 22% AUM growth for the year. Management does not expect any significant business loss or a rebasing of structural disbursement run-rate due to the RBI's April-end circular. Sanctions' growth is expected to say strong, and the disbursement-to-sanction ratio is expected to normalize soon. Logins/Sanctions growth would continue to be driven by 1) efficiencies emanating from LOS and ERP implementation, 2) branch addition (co. plans to grow branch network by 10% every year) and 3) enhanced sourcing from non-branch channels like digital, eMitra, connectors, etc. and 4) reenergization of the core product of low-ticket high-yielding Home Loans.

The flow of BT requests has stabilized over the past couple of quarters and the actual BT Out has been hovering around the 6% mark (annualized basis) with the company focused on controlling foreclosures. The peaking out of CoB and subtle improvements in new loan pricing are expected to help Aavas in delivering portfolio spread around the 5% mark over next couple of quarters. In the longer term, the spreads can recover to some extent aided by a) ~33% AUM being on fixed rate, b) retention of some benefit after turning of funding cost cycle or intended lag in passing to the customers and c) availability of larger funds from NHB. Management expects to prune Opex/Asset ratio to near 3% in the medium term, aided by productivity/efficiency benefits and emphasis on non-branch sourcing.

Cut earnings estimates; continue to rate ADD

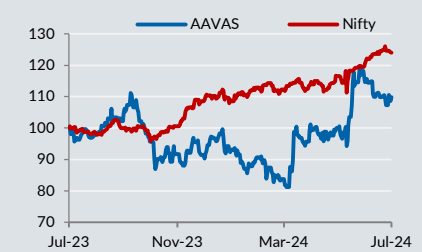
We have lowered FY25/26 earnings by 4-6% on revision of growth and spread estimates. We estimate 22.5%/21% AUM/Earnings CAGR over FY24-26 with RoE improving to 15% on the back of sustained growth, spread recovery in FY26 and improvement in operating cost metrics. Key near-term monitorables would be catch-up in disbursements growth (with sanction growth) and stabilization of portfolio spread. On the revised estimates, Aavas' valuation at 20x FY26 P/E is at marginal premium to Home First and Aptus, but its growth and RoE have been lower. Hence, continue with ADD rating on the stock with relative preference for Aptus followed by Home First.

| | |
|------------------|------------|
| Reco | : ADD |
| CMP | : Rs 1,778 |
| Target Price | : Rs 1,900 |
| Potential Return | : +6.9% |

Stock data (as on July 25, 2024)

| | |
|-------------------------|---------------|
| Nifty | 24,406 |
| 52 Week h/l (Rs) | 1979 / 1307 |
| Market cap (Rs/USD mn) | 139227 / 1663 |
| Outstanding Shares (mn) | 79 |
| 6m Avg t/o (Rs mn) | 564 |
| Div. yield (%) | - |
| Bloomberg code: | AAVAS IN |
| NSE code: | AAVAS |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|-------|------|
| Absolute return | -4.1% | 10.8% | 9.8% |

Shareholding pattern

| | |
|----------|-------|
| Promoter | 26.5% |
| FII+DII | 58.8% |
| Others | 14.7% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-------|-------|
| Rating | ADD | ADD |
| Target Price | 1,900 | 1,800 |

Δ in earnings estimates

| | FY24 | FY25e | FY26e |
|-----------|------|-------|-------|
| EPS (New) | 62.0 | 70.5 | 90.0 |
| EPS (Old) | 62.0 | 73.4 | 95.2 |
| % Change | - | -3.9% | -5.5% |

Financial Summary

| (Rs mn) | FY24 | FY25E | FY26E |
|------------|--------|--------|--------|
| Op. income | 11,919 | 13,760 | 16,847 |
| PPOP | 6,489 | 7,504 | 9,556 |
| Net profit | 4,907 | 5,580 | 7,121 |
| Growth (%) | 14.1 | 13.7 | 27.6 |
| EPS (Rs) | 62.0 | 70.5 | 90.0 |
| ABVPS (Rs) | 464.9 | 535.0 | 622.1 |
| P/E (x) | 28.7 | 25.2 | 19.8 |
| P/ABV (x) | 3.8 | 3.3 | 2.9 |
| ROAE (%) | 13.9 | 13.8 | 15.2 |
| ROAA (%) | 3.3 | 3.1 | 3.2 |

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MANUJ OBEROI, Associate

Exhibit 1: Result table

| (Rs mn) | Q1 FY25 | Q4 FY24 | % qoq | Q1 FY24 | % yoy |
|---------------------|---------|---------|--------|---------|-------|
| Operating Income | 5,424 | 5,460 | (0.7) | 4,668 | 16.2 |
| Interest expended | (2,352) | (2,216) | 6.1 | (1,866) | 26.0 |
| Net Interest Income | 3,072 | 3,245 | (5.3) | 2,802 | 9.6 |
| Other Income | 2 | 8 | (78.7) | 0 | 287.7 |
| Total Income | 3,074 | 3,252 | (5.5) | 2,802 | 9.7 |
| Operating expenses | (1,379) | (1,434) | (3.9) | (1,339) | 3.0 |
| PPOP | 1,695 | 1,818 | (6.8) | 1,464 | 15.8 |
| Provisions | (86) | (43) | 98.9 | (57) | 51.2 |
| PBT | 1,609 | 1,775 | (9.3) | 1,407 | 14.4 |
| Tax | (348) | (349) | (0.1) | (310) | 12.5 |
| PAT | 1,261 | 1,426 | (11.6) | 1,097 | 14.9 |

Source: Company, YES Sec

Exhibit 2: Business Data

| (Rs mn) | Q1 FY25 | Q4 FY24 | % qoq | Q1 FY24 | % yoy |
|--------------------------|----------|----------|--------|----------|--------|
| AUM | 1,78,415 | 1,73,126 | 3.1 | 1,46,500 | 21.8 |
| Disbursements | 12,109 | 18,931 | (36.0) | 10,682 | 13.4 |
| Ann. Run-off Rate (%) | 15.8 | 16.4 | (0.7) | 16.5 | (0.8) |
| Customer-wise AUM | | | | | |
| Salaried | 71,366 | 69,597 | 2.5 | 58,893 | 21.2 |
| Self-employed | 1,07,049 | 1,03,529 | 3.4 | 87,607 | 22.2 |
| Product-wise AUM | | | | | |
| HL | 1,23,106 | 1,21,736 | 1.1 | 1,02,550 | 20.0 |
| Other Mortgage Loans | 24,978 | 53,150 | (53.0) | 29,300 | (14.8) |
| MSME | 30,331 | - | - | 14,650 | 107.0 |

Source: Company, YES Sec

Exhibit 3: Key Ratios

| (%) | Q1 FY25 | Q4 FY24 | chg qoq | Q1 FY24 | chg yoy |
|--------------------|---------|---------|---------|---------|---------|
| NIM | 7.3 | 7.9 | (0.6) | 8.0 | (0.7) |
| Yield | 13.1 | 13.1 | (0.1) | 13.3 | (0.2) |
| Cost of Borrowings | 8.1 | 8.1 | 0.0 | 7.7 | 0.4 |
| Spread | 5.0 | 5.1 | (0.1) | 5.6 | (0.6) |
| Cost to Income | 44.8 | 44.1 | 0.7 | 47.8 | (2.9) |
| Gross NPA | 1.0 | 0.9 | 0.1 | 1.0 | 0.0 |
| Net NPA | 0.7 | 0.7 | 0.0 | 0.7 | (0.0) |
| Credit cost* | 0.2 | 0.1 | 0.1 | 0.2 | 0.0 |
| Cum. RoA | 3.0 | 3.3 | (0.3) | 3.2 | (0.2) |
| Cum. RoE | 13.1 | 13.9 | (0.8) | 13.2 | (0.0) |

Source: Company, YES Sec, *Calculated

Exhibit 4: Asset Quality

| (%) | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|-------------------------------|---------|---------|---------|---------|---------|
| 1+ DPD | 3.7 | 3.6 | 3.8 | 3.1 | 3.7 |
| 90+ DPD / Stage 3 | 1.0 | 1.0 | 1.1 | 0.9 | 1.0 |
| HL GNPA (%) | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 |
| Other Mortgage Loans GNPA (%) | 1.1 | 1.2 | 1.3 | 1.2 | 1.3 |

Source: Company, YES Sec

Exhibit 5: ECL Summary

| (Rs mn) | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|------------------------------|---------|---------|----------|----------|----------|
| Gross Stage 3 NPA | 1,193 | 1,295 | 1,425 | 1,319 | 1,466 |
| ECL Provisions Stage 3 | 322 | 356 | 392 | 380 | 423 |
| Net Stage 3 | 872 | 939 | 1,033 | 939 | 1,043 |
| Coverage ratio - Stage 3 (%) | 26.9 | 27.5 | 27.5 | 29 | 29 |
| Gross Stage 1 & 2 | 118,716 | 123,529 | 1,29,353 | 1,39,573 | 1,43,887 |
| ECL Provision Stage 1 & 2 | 444 | 441 | 453 | 468 | 485 |
| Net Stage 1 & 2 | 118,272 | 123,087 | 1,28,900 | 1,39,105 | 1,43,402 |
| ECL Provision % Stage 1 & 2 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Total ECL Provisions - (%) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |

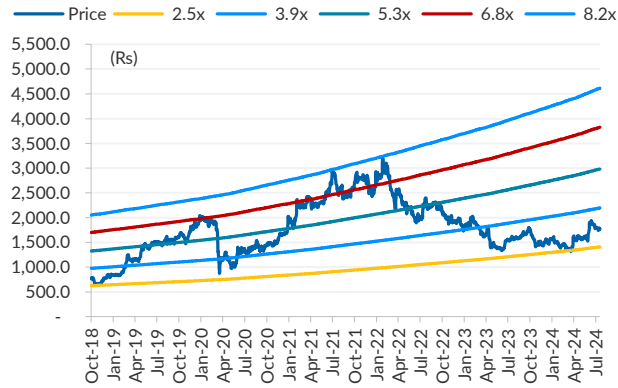
Source: Company, YES Sec

Exhibit 6: Funding Mix

| (%) | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|-----------------|---------|---------|---------|---------|---------|
| Term Loans | 46.6 | 49.6 | 47.0 | 47.5 | 47.8 |
| Assignment | 20.9 | 20.8 | 24.2 | 23.9 | 24.0 |
| NHB Refinancing | 21.3 | 18.3 | 18.8 | 19.6 | 19.6 |
| NCDs | 11.2 | 11.4 | 10.1 | 9.0 | 8.6 |

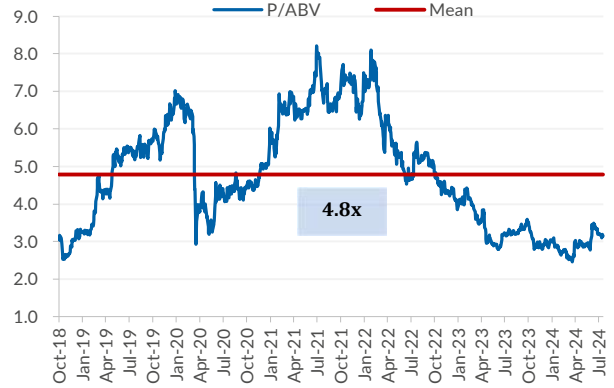
Source: Company, YES Sec

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 | FY24 | FY25E | FY26E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity Capital | 789 | 791 | 791 | 791 | 791 |
| Reserves | 27,297 | 31,906 | 36,942 | 42,522 | 49,643 |
| Shareholder's funds | 28,086 | 32,697 | 37,733 | 43,313 | 50,434 |
| Provisions | 40 | 66 | 84 | 92 | 102 |
| Deferred Tax Liabilities | 496 | 724 | 1,071 | 1,071 | 1,071 |
| Total Non-Financial liabilities | 536 | 790 | 1,155 | 1,163 | 1,172 |
| Debt Securities | 17,095 | 14,245 | 14,035 | 17,193 | 21,319 |
| Borrowings (Other than Debt Sec.) | 61,632 | 83,162 | 1,09,330 | 1,33,929 | 1,66,072 |
| Other Financial Liabilities | 2,817 | 3,125 | 2,632 | 3,225 | 3,999 |
| Total Financial liabilities | 81,581 | 1,00,618 | 1,26,307 | 1,54,656 | 1,91,699 |
| Total Equities and Liabilities | 1,10,204 | 1,34,105 | 1,65,195 | 1,99,133 | 2,43,306 |
| Assets | | | | | |
| Cash and Cash Equivalents | 423 | 1,767 | 206 | 1,897 | 5,753 |
| Bank balances | 14,879 | 12,050 | 17,773 | 17,773 | 17,773 |
| Loans | 90,534 | 1,14,763 | 1,40,044 | 1,71,275 | 2,10,411 |
| Investments in Associates | 675 | 1,231 | 1,822 | 2,186 | 2,623 |
| Other Financial Assets | 2,616 | 3,027 | 3,644 | 4,191 | 4,820 |
| Total Financial assets | 1,09,128 | 1,32,837 | 1,63,610 | 1,97,443 | 2,41,501 |
| Property, Plant and Equipment | 269 | 316 | 297 | 326 | 359 |
| Other Intangible Assets | 413 | 245 | 418 | 418 | 418 |
| Other Non-Financial Assets | 336 | 677 | 752 | 827 | 910 |
| Total Non-Financial assets | 1,076 | 1,269 | 1,585 | 1,690 | 1,805 |
| Total Assets | 1,10,204 | 1,34,105 | 1,65,195 | 1,99,133 | 2,43,306 |

Source: Company, YES Sec

Exhibit 10: Income statement

| Y/e 31 Mar (Rs m) | FY22 | FY23 | FY24 | FY25E | FY26E |
|----------------------------|--------------|---------------|---------------|---------------|---------------|
| Income from Operations | 13,044 | 16,083 | 20,175 | 24,095 | 28,891 |
| Interest expense | (4,775) | (5,910) | (8,284) | (10,363) | (12,075) |
| Net interest income | 8,269 | 10,173 | 11,891 | 13,732 | 16,816 |
| Non-interest income | 12 | 18 | 28 | 28 | 31 |
| Total op income | 8,281 | 10,191 | 11,919 | 13,760 | 16,847 |
| Total op expenses | (3,506) | (4,577) | (5,430) | (6,256) | (7,291) |
| PPoP | 4,775 | 5,614 | 6,489 | 7,504 | 9,556 |
| Provisions | (226) | (124) | (245) | (395) | (485) |
| Profit before tax | 4,549 | 5,490 | 6,244 | 7,109 | 9,071 |
| Taxes | (981) | (1,189) | (1,338) | (1,528) | (1,950) |
| Net profit | 3,568 | 4,301 | 4,907 | 5,580 | 7,121 |

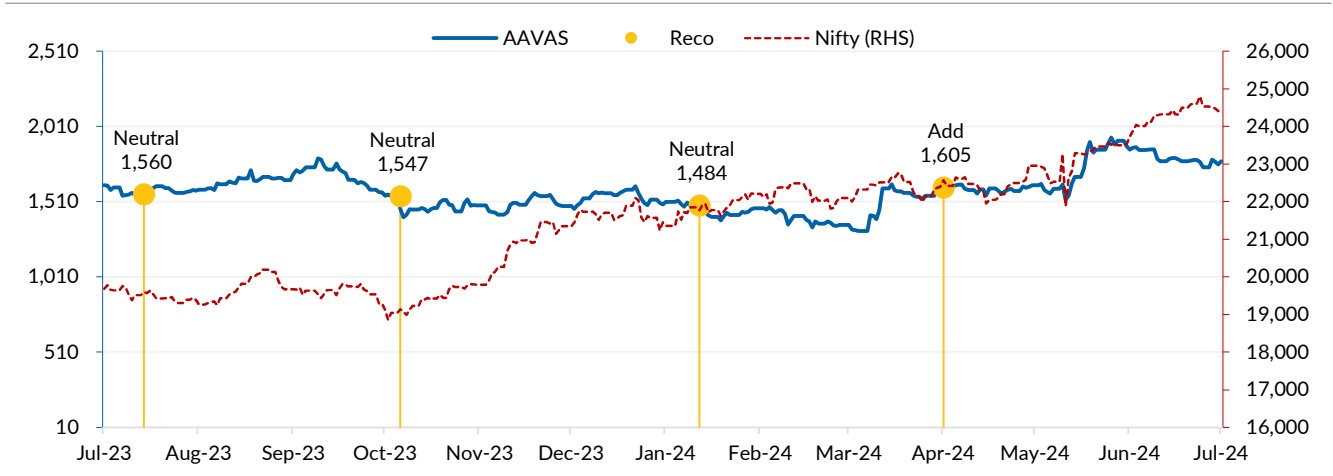
Source: Company, YES Sec

Exhibit 11: Growth and Ratio matrix

| Y/e 31 Mar | FY22 | FY23 | FY24 | FY25E | FY26E |
|----------------------------------|-------|-------|-------|-------|-------|
| Growth matrix (%) | | | | | |
| Net interest income | 28.2 | 23.0 | 16.9 | 15.5 | 22.5 |
| Total op income | 28.0 | 23.1 | 17.0 | 15.4 | 22.4 |
| Op profit (pre-provision) | 22.3 | 17.6 | 15.6 | 15.6 | 27.3 |
| Net profit | 23.2 | 20.5 | 14.1 | 13.7 | 27.6 |
| Loans | 20.3 | 26.8 | 22.0 | 22.3 | 22.8 |
| Borrowings + Debt | 26.0 | 23.7 | 26.6 | 22.5 | 24.0 |
| Total assets | 23.0 | 21.7 | 23.2 | 20.5 | 22.2 |
| Profitability Ratios (%) | | | | | |
| NIM | 7.9 | 8.0 | 7.6 | 7.1 | 7.1 |
| Non-interest income/Total income | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Return on Avg. Equity | 13.7 | 14.1 | 13.9 | 13.8 | 15.2 |
| Return on Avg. Assets | 3.6 | 3.5 | 3.3 | 3.1 | 3.2 |
| Per share ratios (Rs) | | | | | |
| EPS | 45.2 | 54.4 | 62.0 | 70.5 | 90.0 |
| ABVPS | 347.0 | 403.7 | 464.9 | 535.0 | 622.1 |
| Other key ratios (%) | | | | | |
| Loans/Borrowings | 115.0 | 117.8 | 113.5 | 113.3 | 112.3 |
| Cost/Income | 42.3 | 44.9 | 45.6 | 45.5 | 43.3 |
| CAR | 51.4 | 46.9 | 44.0 | 41.3 | 39.2 |
| Gross Stage 3 (%) | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| Credit Cost | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Tax rate | 21.6 | 21.7 | 21.4 | 21.5 | 21.5 |

Source: Company, YES Sec

Recommendation Tracker



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DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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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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NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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