

India

HOLD (no change)

Consensus ratings*: Buy 8 Hold 7 Sell 4

Current price:	Rs1,560
Target price:	Rs1,650
Previous target:	Rs1,650
Up/downside:	5.8%
InCred Research / Consensus:	3.0%
Reuters:	
Bloomberg:	AAVAS IN
Market cap:	US\$1,699m Rs123,354m
Average daily turnover:	US\$6.9m Rs497.5m
Current shares o/s:	79.0m
Free float:	55.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.8	11.5	(31.0)
Relative (%)	1.1	3.5	(38.7)

Major shareholders	% held
Lake Districts	23.0
Partners Group	15.0
Small cap World Fund	8.0

Analyst(s)

Mayank AGARWAL

T (91) 22 4161 0000

E mayank.agarwal@incredcapital.com

Jignesh SHIAL

T (91) 22 4161 1547

E jignesh.shial@incredcapital.com

Aavas Financiers Ltd

Remain cautious over execution capabilities

- Aavas Financiers posted 1Q PAT of Rs1.09bn (-13.5% qoq), lower than our estimate, mainly due to slowing loan growth and rising employee expenses.
- Disbursement growth was weak (-2.3% yoy/-32.5% qoq) amid implementation of a new sales platform. Management expects normalization from 2QFY24F.
- We stay cautious after the change in management and wait for seamless execution by this management. Retain HOLD rating with a TP of Rs1,650.

Technology implementation-led disbursement slowdown

Aavas Financiers reported 1QFY24 assets under management or AUM of Rs146.5bn, up 23.2% yoy/3.4% qoq, while reported loan disbursement stood at Rs10.6bn, down 2.3% yoy/-32.5% qoq. Management attributed the slowdown in disbursement to the implementation of Salesforce platform during Apr and May 2023. After successful implementation of the same, disbursements are back to the normal level from Jul 2023. However, rising competition from smaller regional players and a higher employee attrition rate will keep the pressure in the near term on its profitable growth.

Margin and opex may drag profitability - we remain watchful

Aavas Financiers reported a rise in employee expenses by 40.5% yoy/25.5% qoq, which is mainly due to the 8-9% annual salary increment and ESOP cost of Rs70m during the quarter – after a Rs100m reversal in 4QFY23. Interest income grew by 31% yoy/6.9% qoq due to a 40bp increase in the interest rates in Apr 2023, despite which NIM got compressed from 8.28% (FY23) to 8% in 1QFY24, mainly due to increased cost of borrowing on the balance sheet. We believe the rising competition from smaller regional players is leading to a higher employee attrition rate for Aavas Financiers, which will keep the higher employee costs intact. Also, aggressive branch expansion plans and technology-related spending will keep the operating expenses elevated.

Aavas 3.0 – a tech-driven growth approach

Under Aavas 3.0, the company will come out with a strategy for its new products and markets. Aavas Financiers has spent on technology to improve its process, sales force deployment is complete, and it expects to reduce its turnaround time (TAT) from 10-12 days to 6-7 days in the near- to mid-term.

Outlook and valuation

We appreciate Aavas Financiers' stringent sourcing, underwriting and collection mechanism in rural and semi-urban regions. However, after the change in management, we will wait for seamless execution from this management to regain confidence in the future profitable growth of the company. We have cut our earnings estimates by 4-7% for FY24F-26F due to rising opex. We have valued the stock at 3x FY25F P/BV and retained HOLD rating on it with a target price of Rs1,650. Downside risks: Asset quality stress & growth slowdown. Upside risks: Higher growth along with stable asset quality.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	6,487	7,971	9,867	12,438	14,806
Total Non-Interest Income (Rsm)	1,768	2,220	2,873	2,979	3,650
Operating Revenue (Rsm)	8,255	10,191	12,740	15,416	18,455
Total Provision Charges (Rsm)	(226)	(124)	(765)	(937)	(1,144)
Net Profit (Rsm)	3,542	4,301	4,903	5,936	7,325
Core EPS (Rs)	45.12	54.78	62.45	75.61	93.30
Core EPS Growth	22%	21%	14%	21%	23%
FD Core P/E (x)	34.57	28.47	24.98	20.63	16.72
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	357.8	416.5	485.3	559.7	650.1
P/BV (x)	4.36	3.74	3.21	2.79	2.40
ROE	13.6%	14.2%	13.9%	14.5%	15.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,802	1,877	2,082	2,213	2,262	25.5%	2.2%
<i>NIM (% of AUM)</i>	7.7%	8.2%	8.2%	8.3%	8.0%		
Other Income	143	140	149	155	174	22.0%	12.4%
Operating Expenses	1,026	1,147	1,201	1,204	1,339	30.4%	11.2%
Operating Profit	1,156	1,394	1,415	1,650	1,464	26.6%	-11.3%
Provisions	9	16	35	64	57	519.5%	-11.1%
Exceptional Items							
PBT	1,147	1,378	1,380	1,587	1,407	22.7%	-11.3%
Tax	254	310	307	318	310	21.7%	-2.7%
<i>Tax rate (%)</i>							
PAT	892	1,068	1,073	1,268	1,097	23.0%	-13.5%
AUM (Rs bn)	118.9	125.4	130.9	141.7	146.5	29.1%	3.4%
GNPAs (%)	1.08%	1.10%	1.13%	0.92%	1.00%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

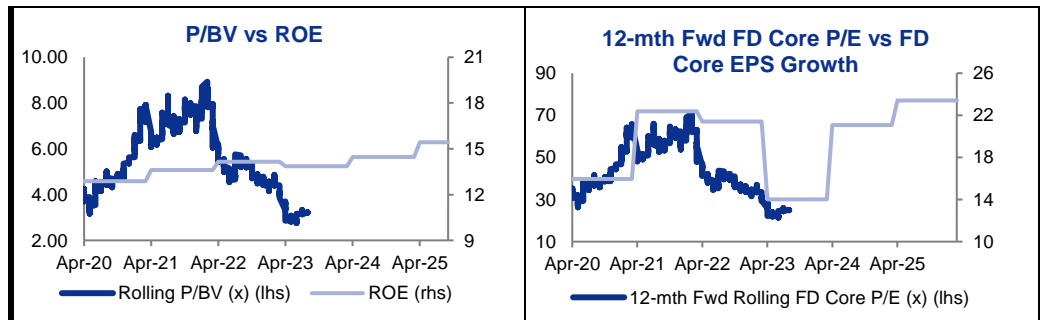
Y/E Mar (Rs m)	FY24F			FY25F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	9,867	9,867	0.0%	12,438	12,438	0.0%	14,806	14,806	0.0%
PPOP	7,222	6,762	-6.4%	8,767	8,405	-4.1%	10,824	10,399	-3.9%
PAT	4,804	4,462	-7.1%	5,826	5,556	-4.6%	7,202	6,886	-4.4%
EPS (Rs)	61	57	-7.1%	74	71	-4.6%	92	88	-4.4%
BV (Rs)	484	480	-0.9%	557	550	-1.3%	646	635	-1.7%
AUM (Rs bn)	176	176	0.0%	217	217	0.0%	264	264	0.0%
GNPAs (%)	1%	1%	0.0%	1%	1%	0.0%	1%	1%	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Softer disbursements were due to the implementation of Salesforce platform during Apr and May 2023. Disbursements are back to the normal level from Jul 2023.
- The employee strength is now 5,700 (6,000 in 4QFY23).
- Karnataka behaves like Gujarat. Rajasthan accounts for 32-35% of its total AUM while Maharashtra, Gujarat and Madhya Pradesh constitute 15-16% of total AUM.
- The company reversed Rs100m ESOP cost in 4QFY23 due to the expiry of certain ESOPs. ESOP cost in 1QFY24 stood at Rs70m.
- There is no attrition at CXO, CXO-1 and CXO-2 levels.
- The company can witness a 3.6%-3.7% opex-to-assets ratio this year.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	6,487	7,971	9,867	12,438	14,806
Total Non-Interest Income	1,768	2,220	2,873	2,979	3,650
Operating Revenue	8,255	10,191	12,740	15,416	18,455
Total Non-Interest Expenses	(3,506)	(4,577)	(5,385)	(6,502)	(7,466)
Pre-provision Operating Profit	4,749	5,614	7,355	8,915	10,989
Total Provision Charges	(226)	(124)	(765)	(937)	(1,144)
Operating Profit After Provisions	4,523	5,490	6,590	7,978	9,845
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	4,523	5,490	6,590	7,978	9,845
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	4,523	5,490	6,590	7,978	9,845
Exceptional Items					
Pre-tax Profit	4,523	5,490	6,590	7,978	9,845
Taxation	(981)	(1,189)	(1,687)	(2,042)	(2,520)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	3,542	4,301	4,903	5,936	7,325
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	3,542	4,301	4,903	5,936	7,325
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	96.2%	96.0%	96.1%	96.4%	96.6%
Avg Liquid Assets/Avg IEAs	116.2%	114.4%	111.6%	110.4%	109.4%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	90,534	114,763	140,248	172,030	209,310
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	90,534	114,763	140,248	172,030	209,310
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	90,534	114,763	140,248	172,030	209,310
Intangible Assets					
Other Non-Interest Earning Assets	3,365	3,734	3,921	4,313	4,744
Total Non-Interest Earning Assets	3,692	4,295	4,594	5,121	5,714
Cash And Marketable Securities	15,669	13,816	15,656	16,670	19,346
Long-term Investments	675	1,231	1,477	1,772	2,127
Total Assets	110,570	134,105	161,976	195,593	236,497
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	80,120	98,873	120,625	147,162	179,538
Total Interest-Bearing Liabilities	80,120	98,873	120,625	147,162	179,538
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,360	2,536	3,252	4,489	5,926
Total Liabilities	82,480	101,408	123,876	151,652	185,464
Shareholders Equity	28,086	32,697	38,099	43,941	51,034
Minority Interests					
Total Equity	28,086	32,697	38,099	43,941	51,034

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	25.2%	22.9%	23.8%	26.1%	19.0%
Operating Profit Growth	21.6%	18.2%	31.0%	21.2%	23.3%
Pretax Profit Growth	28%	21%	20%	21%	23%
Net Interest To Total Income	78.6%	78.2%	77.4%	80.7%	80.2%
Cost Of Funds	6.64%	6.60%	7.50%	7.00%	7.00%
Return On Interest Earning Assets	13.6%	13.5%	14.2%	14.0%	13.8%
Net Interest Spread	6.95%	6.92%	6.69%	6.97%	6.76%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	5%	2%	10%	11%	10%
Interest Return On Average Assets	6.48%	6.52%	6.66%	6.96%	6.85%
Effective Tax Rate	21.7%	21.7%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio					
Return On Average Assets	3.54%	3.52%	3.31%	3.32%	3.39%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.