

India

**ADD** (no change)

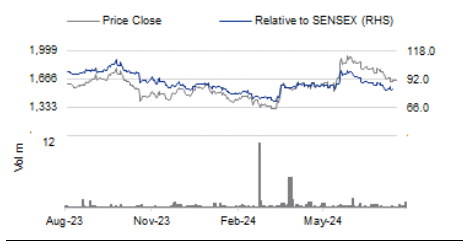
Consensus ratings\*: Buy 17 Hold 3 Sell 2

Current price:	Rs1,645
Target price:	Rs2,000
Previous target:	Rs2,000
Up/downside:	21.6%
InCred Research / Consensus:	5.0%
Reuters:	AVAS.NS
Bloomberg:	AAVAS IN
Market cap:	US\$1,793m
	Rs130,181m
Average daily turnover:	US\$9.9m
	Rs721.5m
Current shares o/s:	79.1m
Free float:	73.5%

\*Source: Bloomberg

**Key changes in this note**

- Promoter stake changing hands to be beneficial for the stock price. We look forward for more changes at the management level.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.1)	2.8	2.0
Relative (%)	(7.2)	(6.3)	(16.4)

Major shareholders	% held
Lake Districts	15.6
SBI MF	8.5
Partners Group	7.6

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# Aavas Financiers Ltd

## Promoter stake changes hands

- Existing promoters of the company, Kedaara Capital and Partners Group, to make a complete exit with the sale of remaining 26.47% stake to CVC Capital.
- The outgoing promoters led a management rejig, thus raising transitory costs. The outlook & commentary of the incoming promoter will be keenly watched.
- Rural housing is opportunistic. Aavas is well placed to take advantage of rising demand with a favourable risk-reward. Retain ADD with a TP of Rs2,000.

### Relief from promoter overhang

The existing promoters of Aavas Financiers, Kedaara Capital and Partners Group, are taking a complete exit by selling their entire stake of 26.47% to CVC Capital at Rs1,635 per share. This comes after a 12.6% stake sale by the promoters in Mar 2024, through open market transactions, to a handful of mutual funds. We believe the stock was underperforming due to the overhang of Kedaara Capital and this move will give some relief on that part. The transaction will also trigger an open offer for an additional 26% shares from public shareholders, which has been announced at Rs1,767 per share. The Luxembourg-based PE fund, CVC Capital Partners, has been investing in Asia since 1999. The firm raised US\$6.8bn this year for its sixth Asia fund, CVC Capital Partners Asia VI.

### Further management rejig to be watched keenly

The exiting promoter led to some juggling at the management level in the recent past. Post change in management, Aavas Financiers witnessed a steep rise in operating expenses, which pertained to employee costs amid higher attrition followed by elevated tech-driven expenses to improve the overall efficiency. We will keep a close eye on any more developments in this regard.

### Muted 1Q performance; better geographic presence is encouraging

1QFY25 was a muted quarter for the company, with slow loan growth attributed to the lower sanction-to-disbursement rate and high opex, although the demand environment and new customer acquisitions remained healthy. Thus, the momentum is likely to come back in the coming quarters because of improving its presence in new geographies like Karnataka and Uttar Pradesh as well as deepening its presence in the existing stronghold states like Rajasthan, Gujarat, and Maharashtra. This is further expected to aid margins along with stabilizing opex in the coming quarters. Asset quality is expected to be relatively stable, resulting in better return ratios.

### Outlook and valuation

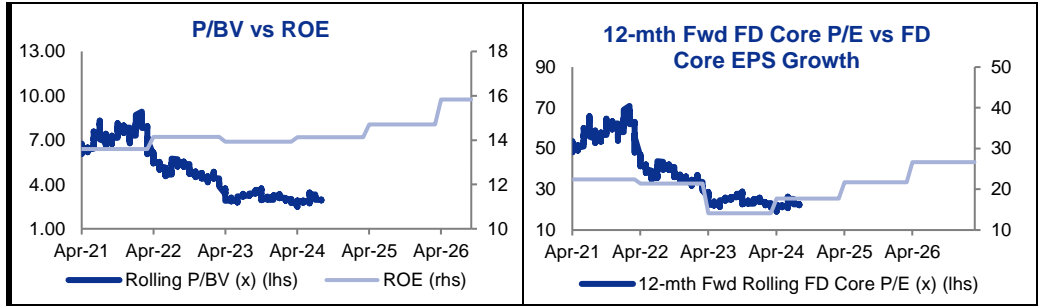
We had upgraded Aavas Financiers' rating last quarter to ADD as the company was returning to a profitable growth trajectory with improving return ratios. The change in promoters lifts the overhang on the stock. We believe the rural housing segment remains strongly opportunistic fuelled by government initiatives. The company is well placed to participate in this phase of growth. Retain ADD rating on it with a target price of Rs2,000, corresponding to ~3x FY26F BV. Downside risks: Attrition at the top management level & growth slowdown.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	7,971	9,063	10,946	13,530	16,679
Total Non-Interest Income (Rsm)	2,220	2,856	3,284	3,771	4,637
Operating Revenue (Rsm)	10,191	11,919	14,230	17,301	21,316
Total Provision Charges (Rsm)	(124)	(245)	(466)	(572)	(709)
Net Profit (Rsm)	4,301	4,907	5,774	7,028	8,900
Core EPS (Rs)	54.78	62.51	73.55	89.52	113.37
Core EPS Growth	21%	14%	18%	22%	27%
FD Core P/E (x)	30.03	26.32	22.36	18.37	14.51
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)	416.5	480.6	560.6	656.5	776.2
P/BV (x)	3.95	3.42	2.93	2.51	2.12
ROE	14.2%	13.9%	14.1%	14.7%	15.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	7,971	9,063	10,946	13,530	16,679
<b>Total Non-Interest Income</b>	<b>2,220</b>	<b>2,856</b>	<b>3,284</b>	<b>3,771</b>	<b>4,637</b>
Operating Revenue	10,191	11,919	14,230	17,301	21,316
<b>Total Non-Interest Expenses</b>	<b>(4,577)</b>	<b>(5,430)</b>	<b>(6,313)</b>	<b>(7,661)</b>	<b>(9,123)</b>
Pre-provision Operating Profit	5,614	6,489	7,916	9,640	12,193
<b>Total Provision Charges</b>	<b>(124)</b>	<b>(245)</b>	<b>(466)</b>	<b>(572)</b>	<b>(709)</b>
Operating Profit After Provisions	5,490	6,245	7,451	9,068	11,484
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	5,490	6,245	7,451	9,068	11,484
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	5,490	6,245	7,451	9,068	11,484
<b>Exceptional Items</b>					
Pre-tax Profit	5,490	6,245	7,451	9,068	11,484
Taxation	(1,189)	(1,337)	(1,676)	(2,040)	(2,584)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	4,301	4,907	5,774	7,028	8,900
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	4,301	4,907	5,774	7,028	8,900
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	96.0%	95.8%	95.8%	96.0%	96.2%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>114.4%</b>	<b>112.5%</b>	<b>114.4%</b>	<b>115.7%</b>	<b>116.6%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>114,763</b>	<b>140,044</b>	<b>170,399</b>	<b>210,831</b>	<b>261,836</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	114,763	140,044	170,399	210,831	261,836
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	114,763	140,044	170,399	210,831	261,836
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,734</b>	<b>4,191</b>	<b>4,610</b>	<b>5,071</b>	<b>5,578</b>
<b>Total Non-Interest Earning Assets</b>	<b>4,295</b>	<b>5,351</b>	<b>6,002</b>	<b>6,742</b>	<b>7,583</b>
Cash And Marketable Securities	13,816	17,978	26,575	33,464	44,882
<b>Long-term Investments</b>	<b>1,231</b>	<b>1,822</b>	<b>2,550</b>	<b>3,315</b>	<b>4,144</b>
Total Assets	134,105	165,195	205,526	254,352	318,445
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	98,873	123,365	155,381	194,637	246,888
Total Interest-Bearing Liabilities	98,873	123,365	155,381	194,637	246,888
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,536	4,097	6,138	8,180	10,623
Total Liabilities	101,408	127,462	161,519	202,817	257,510
Shareholders Equity	32,697	37,732	44,007	51,535	60,935
<b>Minority Interests</b>					
Total Equity	32,697	37,732	44,007	51,535	60,935

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	22.9%	13.7%	20.8%	23.6%	23.3%
Operating Profit Growth	18.2%	15.6%	22.0%	21.8%	26.5%
Pretax Profit Growth	21%	14%	19%	22%	27%
Net Interest To Total Income	78.2%	76.0%	76.9%	78.2%	78.2%
Cost Of Funds	6.60%	7.45%	7.20%	6.80%	6.50%
Return On Interest Earning Assets	13.5%	13.6%	13.5%	13.3%	13.1%
Net Interest Spread	6.92%	6.16%	6.32%	6.54%	6.63%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	2%	4%	6%	6%	6%
Interest Return On Average Assets	6.52%	6.06%	5.91%	5.88%	5.82%
Effective Tax Rate	21.7%	21.4%	22.5%	22.5%	22.5%
Net Dividend Payout Ratio					
Return On Average Assets	3.52%	3.28%	3.12%	3.06%	3.11%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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