

India

ADD (no change)

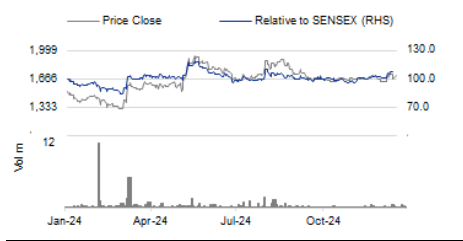
Consensus ratings*: Buy 18 Hold 3 Sell 2

Current price:	Rs1,704
Target price: ▲	Rs2,100
Previous target:	Rs2,000
Up/downside:	23.2%
InCred Research / Consensus:	8.2%
Reuters:	
Bloomberg:	AAVAS IN
Market cap:	US\$1,557m Rs134,849m
Average daily turnover:	US\$4.7m Rs410.3m
Current shares o/s:	79.0m
Free float:	75.8%

*Source: Bloomberg

Key changes in this note

- Aavas Financiers is witnessing a sizable reduction in turnaround time for loan sanctions to ~7 days from ~14 days last year.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.7	2.1	14.0
Relative (%)	4.5	5.6	6.6

Major shareholders	% held
Lake Districts	15.6
SBI MF	8.6
Partners Group	7.6

Research Analyst(s)



Jignesh SHIAL
T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Meghna LUTHRA
T (91) 22 4161 1553
E meghna.luthra@incredresearch.com

Rishabh JOGANI
T (91) 22 4161 1569
E rishabh.jogani@incredresearch.com

Aavas Financiers Ltd

Gearing up for profitable growth

- Aavas Financiers posted a better-than-expected 3Q PAT of Rs1.46bn (InCred estimate Rs1.38bn) led by lower provisions & improving operating efficiency.
- Disbursements grew by ~23.3% qoq to Rs15.9bn amid the reduction in turnaround time led by tech-enabled platform and improved geographic reach.
- Aavas Financiers is a safe bet in current volatile times, as its recent trend in growth & asset quality is encouraging. Retain ADD with a new TP of Rs2,100.

Disbursements spike due to better tech-adaptation & rising reach

Aavas Financiers (Aavas) reported disbursements worth Rs15.9bn (+23.3% qoq) in 3QFY25 as it witnessed a sizable reduction in the turnaround time for sanctions to ~7 days from ~14 days last year. Also, online disbursals improved to ~70% of total disbursals against ~53% last year. The demand environment and new customer acquisition also remain healthy as Aavas is improving its presence in new geographies as well as deepening it in existing strongholds. We are building in ~15.2% CAGR in disbursements over FY24-27F, which will translate into ~20.4% CAGR in assets under management or AUM.

Spreads improve sequentially; asset quality trend steady

Aavas witnessed ~6bp spread expansion (after a consistent eight quarters of compression) as yields started expanding faster compared to the cost of funds. Margin remained flat sequentially at ~775bp amid superior AUM yields compared to disbursement yields. Though margin may remain volatile in the near term, the recent hike of ~25bp in the prime lending rate (PLR) will support yields for ~68% of the variable loan book. On the asset quality front, there was no negative surprise, with stage-3 assets remaining flat sequentially at 1.14% whereas one-day past dues declined by ~12bp sequentially. This ensures a stable asset quality trend and limited volatility in credit costs in the coming quarters.

Operating leverage to boost profitability further

After the change in management, Aavas witnessed a steep rise in operating expenses, which initially pertained to employee costs amid higher attrition followed by elevated tech-driven expenses to improve overall efficiency. We believe such tech investments will improve overall efficiency at the branch as well as the employee level. We expect the cost-to-average assets for the company to improve to ~3% by FY26F against ~3.6% in FY24.

Outlook & valuation

Aavas remains a safe bet on the asset quality front in the current volatile environment. However, growth and spreads need to improve. We like Aavas as it is returning to a profitable growth trajectory, with improving return ratios. The 3QFY25 performance has been a mixed bag; however, we expect an improvement in the coming quarters. We maintain our ADD rating on the stock with a higher target price of Rs2,100 (Rs2,000 earlier), corresponding to ~3.3x FY26F BV. Downside risks: Attrition at top management level and growth slowdown.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	7,971	9,063	10,132	11,952	14,396
Total Non-Interest Income (Rsm)	2,220	2,856	3,193	3,811	4,382
Operating Revenue (Rsm)	10,191	11,919	13,325	15,763	18,778
Total Provision Charges (Rsm)	(124)	(245)	(267)	(363)	(435)
Net Profit (Rsm)	4,301	4,907	5,747	6,905	8,345
Core EPS (Rs)	54.40	62.07	72.70	87.34	105.56
Core EPS Growth	21%	14%	17%	20%	21%
FD Core P/E (x)	31.32	27.45	23.44	19.51	16.14
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)	413.6	477.3	550.0	637.3	742.9
P/BV (x)	4.12	3.57	3.10	2.67	2.29
ROE	14.2%	13.9%	14.2%	14.7%	15.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	2,262	2,223	2,208	2,371	2,446	2,418	2,533	14.8%	4.8%
<i>NIM (% of AUM)</i>	8.0%	8.0%	7.9%	7.9%	7.3%	7.6%	7.7%		
Other Income	174	201	206	285	261	242	262	26.9%	8.0%
Operating Expenses	1,339	1,308	1,349	1,434	1,379	1,368	1,447	7.3%	5.8%
Operating Profit	1,464	1,631	1,577	1,818	1,695	1,948	1,945	23.3%	-0.2%
Provisions	57	65	80	43	86	48	61	-23.7%	25.8%
Exceptional Items									
PBT	1,407	1,565	1,497	1,775	1,609	1,900	1,884	25.8%	-0.9%
Tax	310	348	331	349	348	421	420	26.9%	-0.3%
PAT	1,097	1,217	1,167	1,426	1,261	1,479	1,464	25.5%	-1.0%
AUM (Rs bn)	146.5	153.2	160.8	173.1	178.4	184.0	192.4	19.6%	4.6%
Disbursements (Rs bn)	10.7	12.6	13.7	18.8	12.1	12.9	15.9	16.3%	23.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

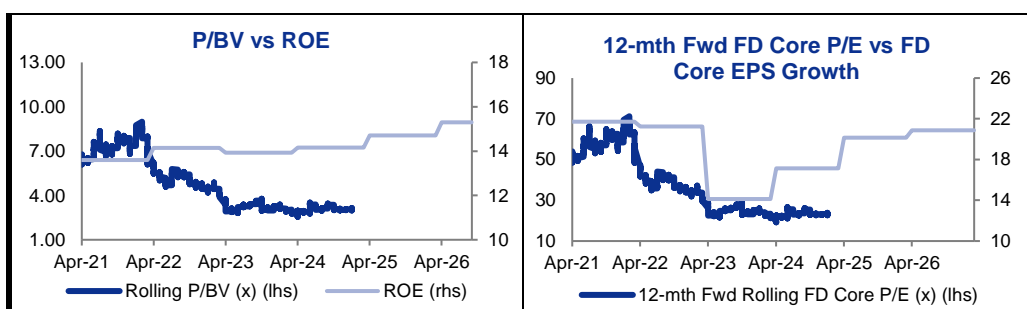
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	10,132	10,132	0.0%	11,952	11,952	0.0%	14,396	14,396	0.0%
PPOP	7,868	7,636	-3.0%	9,389	9,389	0.0%	11,344	11,344	0.0%
PAT	5,899	5,747	-2.6%	7,040	6,905	-1.9%	8,509	8,345	-1.9%
EPS (Rs)	75	73	-2.6%	90	87	-3.0%	108	106	-1.9%
BV (Rs)	552	550	-0.3%	641	637	-0.6%	754	743	-1.5%
AUM(Rs bn)	207	207	0.0%	247	247	0.0%	296	296	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights from 3QFY25 earnings call

- The share of loans having a ticket size less than Rs1m in absolute amount terms is 40%, yielding more than 200bp over the average loan yield. The share of loans having a ticket size less than Rs2.5m is 80%.
- The 1+DPD below 4% is not an area of concern. The rise in gross stage- 3 assets is due to the seasonal effect, which will normalize in 4QFY25F.
- The AUM growth guidance continues to be in the range of 20-25%. The demand trend in 3Q and Jan 2025 is giving management the confidence to maintain its guidance.
- The investment made in the predictive model has significantly contributed to lowering the balance transfer out case to 5.4%.
- The sharp rise in the provision for stage-2 assets is due to the change in the expected credit loss model. Earlier, only point-of-time data was considered whereas under the new model, there is real-time monitoring of flows across the asset stages.
- During the quarter, there was a rise in disbursements per branch, which were aided by the technological setup of Aavas. The share of direct sourcing in disbursements stood at 80%.
- The rise in average ticket size of loans is a result of the rise in real estate prices, and also the areas in which the company operates have higher construction costs.
- Through the new product, micro MSME LAP, the company does cash flow-based underwriting and it is backed by property. The Tier-3 to Tier-5 towns, where the company operates, witness good demand.
- The focus area for new geographies in the initial few months is to have less delinquencies and slippage. Once there is comfort on the asset quality front, the focus starts on AUM growth.
- The non-home loan portfolio yields 250bp more than the home loan portfolio. MSME LAP yields 75bp more than that of the normal LAP portfolio.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	7,971	9,063	10,132	11,952	14,396
Total Non-Interest Income	2,220	2,856	3,193	3,811	4,382
Operating Revenue	10,191	11,919	13,325	15,763	18,778
Total Non-Interest Expenses	(4,577)	(5,430)	(5,689)	(6,374)	(7,434)
Pre-provision Operating Profit	5,614	6,489	7,636	9,389	11,344
Total Provision Charges	(124)	(245)	(267)	(363)	(435)
Operating Profit After Provisions	5,490	6,245	7,368	9,026	10,909
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	5,490	6,245	7,368	9,026	10,909
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	5,490	6,245	7,368	9,026	10,909
Exceptional Items					
Pre-tax Profit	5,490	6,245	7,368	9,026	10,909
Taxation	(1,189)	(1,337)	(1,621)	(2,121)	(2,564)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	4,301	4,907	5,747	6,905	8,345
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	4,301	4,907	5,747	6,905	8,345
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%	95.9%	95.7%	95.8%	95.9%
Avg Liquid Assets/Avg IEAs	114.3%	112.6%	113.4%	113.6%	113.3%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	114,763	140,044	165,325	197,931	237,164
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	114,763	140,044	165,325	197,931	237,164
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	114,763	140,044	165,325	197,931	237,164
Intangible Assets					
Other Non-Interest Earning Assets	3,027	3,644	4,009	4,410	4,851
Total Non-Interest Earning Assets	4,158	5,210	5,887	6,664	7,556
Cash And Marketable Securities	13,954	18,119	22,855	26,601	31,280
Long-term Investments	1,231	1,822	2,550	3,188	3,825
Total Assets	134,105	165,194	196,617	234,383	279,825
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	98,873	123,365	145,933	172,909	205,169
Total Interest-Bearing Liabilities	98,873	123,365	145,933	172,909	205,169
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	2,536	4,097	5,101	6,355	7,922
Total Liabilities	101,408	127,462	151,033	179,263	213,092
Shareholders Equity	32,697	37,732	43,480	50,384	58,730
Minority Interests					
Total Equity	32,697	37,732	43,480	50,384	58,730

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	22.9%	13.7%	11.8%	18.0%	20.4%
Operating Profit Growth	18.2%	15.6%	17.7%	23.0%	20.8%
Pretax Profit Growth	21%	14%	18%	22%	21%
Net Interest To Total Income	78.2%	76.0%	76.0%	75.8%	76.7%
Cost Of Funds	6.60%	7.45%	7.50%	7.20%	7.00%
Return On Interest Earning Assets	13.5%	13.6%	13.2%	12.9%	12.7%
Net Interest Spread	6.92%	6.16%	5.75%	5.70%	5.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	2%	4%	3%	4%	4%
Interest Return On Average Assets	6.53%	6.06%	5.60%	5.55%	5.60%
Effective Tax Rate	21.7%	21.4%	22.0%	23.5%	23.5%
Net Dividend Payout Ratio					
Return On Average Assets	3.52%	3.28%	3.18%	3.20%	3.25%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.