

India

**ADD** (no change)

Consensus ratings\*: Buy 13 Hold 8 Sell 5

Current price:	Rs1,728
Target price:	Rs2,100
Previous target:	Rs2,100
Up/downside:	21.5%
InCred Research / Consensus:	-0.9%

Reuters:	
Bloomberg:	AAVAS IN
Market cap:	US\$1,559m Rs136,744m
Average daily turnover:	US\$6.1m Rs530.7m
Current shares o/s:	79.0m
Free float:	51.0%

\*Source: Bloomberg

**Key changes in this note**

- We cut our earnings estimates because of likely higher opex and credit costs.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.0)	(7.9)	0.7
Relative (%)	(11.6)	(6.8)	(0.9)

Major shareholders	% held
Aquilo House Pte. Ltd.	49.0
Nippon Life India Trustee Ltd-A/C	3.1
Üti-Flexi Cap Fund	2.9

**Research Analyst(s)**

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# Aavas Financiers Ltd

## A slow quarter of amendments

- Aavas Financiers posted a lower-than-expected 1Q PAT of Rs1.4bn because of lower-than-expected disbursements due to one-time change in recognition.
- The 1+ DPD bucket inched up to 4.15% because of seasonality and higher stressed assets from low-ticket loans.
- We appreciate the diversification on the AUM and sourcing fronts and maintain our ADD rating on the stock with an unchanged target price of Rs2,100.

### Disbursements down due to one-time reclassification; misses PAT

Aavas Financiers posted a lower-than-expected 1QFY26 PAT of Rs1.4bn (vs. Rs 1.6bn estimate) due to lower-than-expected disbursements and fee income. Assets under management or AUM grew by 16% yoy and 2% qoq while disbursements declined by 5% yoy and 43% qoq due to reclassification of disbursement recognition. From 1QFY26 onwards, the company has stopped recognizing disbursements where the cheques have been issued but the same have not been cleared. However, management highlighted that the disbursement run-rate has improved to Rs5.5-6bn in Jul 2025, up 16% yoy.

### 1+DPD bucket rose as asset quality stress noted in select states

Gross stage-3 assets moved up by 14bp qoq to 1.22% and net stage-3 assets increased by 11bp qoq to 0.84%. Portfolio 1+ days past due (DPD) also moved up by 76bp qoq to 4.15%, although the company's management indicated the rise to be momentary and expects the same to cool down to <5% in the near- to medium-term. Management indicated higher stressed assets from the <Rs5,00,000 category, largely from Maharashtra, Karnataka and Madhya Pradesh. We maintain that credit costs will remain <30bp in FY26F and remain watchful for fresh flows and reversals from stressed assets.

### Spreads higher, driven by steady yields and a fall in the cost of funds

NIM declined by 63bp qoq to 7.48% due to higher liquidity on the balance sheet. Spreads improved by 22bp qoq to 5.11% as the cost of funds declined by 22bp qoq while the yields remained stable. Of the total borrowings, ~38% are linked to external benchmarks, ~40% are linked to MCLR and the rest are fixed-rate ones.

### Outlook and valuation

As the change in the promoter is behind us, we do not anticipate any major management changes going ahead and thus have increased confidence of a stable management. Despite the slowdown so far in FY26, we expect the growth to pick up pace from FY27F as more branches mature. Consequently, we expect RoE to improve to 14-15% as the operating leverage kicks in from FY27F. We maintain our ADD rating on the stock with an unchanged target price of Rs2,100, corresponding to ~2.9x FY27F BV due to the favourable risk-reward ratio. Downside risks: Growth slowdown or a rise in asset quality stress.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	9,063	10,102	11,647	14,126	17,713
Total Non-Interest Income (Rsm)	2,856	3,407	3,638	4,163	4,432
Operating Revenue (Rsm)	11,919	13,509	15,285	18,289	22,145
Total Provision Charges (Rsm)	(245)	(271)	(442)	(716)	(975)
Net Profit (Rsm)	4,907	5,741	6,356	7,785	9,637
Core EPS (Rs)	62.07	72.53	80.30	98.35	121.76
Core EPS Growth	14%	17%	11%	22%	24%
FD Core P/E (x)	27.83	23.82	21.51	17.56	14.19
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)	477.3	550.9	632.5	730.8	851.6
P/BV (x)	3.62	3.14	2.73	2.36	2.03
ROE	13.9%	14.1%	13.6%	14.4%	15.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

Particulars (Rs m)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net interest income	2,446	2,418	2,533	2,705	2,776	13.5%	2.6%
NIM (% of AUM)	7.3%	7.8%	7.9%	8.0%	7.9%		
Other income	261	242	262	310	232	-11.0%	-25.0%
Operating expenses	1,379	1,368	1,447	1,719	1,662	20.6%	-3.3%
<b>Operating profit</b>	<b>1,695</b>	<b>1,948</b>	<b>1,945</b>	<b>2,009</b>	<b>1,904</b>	12.3%	-5.2%
Provisions	86	48	61	76	113	31.2%	47.4%
Exceptional items							
<b>PBT</b>	<b>1,609</b>	<b>1,900</b>	<b>1,884</b>	<b>1,932</b>	<b>1,791</b>	11.3%	-7.3%
Tax	348	421	420	395	399	14.5%	0.9%
<b>PAT</b>	<b>1,261</b>	<b>1,479</b>	<b>1,464</b>	<b>1,537</b>	<b>1,392</b>	10.4%	-9.4%
<b>AUM (Rs bn)</b>	<b>178.4</b>	<b>184.0</b>	<b>192.4</b>	<b>204.2</b>	<b>207.4</b>	16.2%	1.6%
<b>Disbursements (Rs bn)</b>	<b>12.1</b>	<b>12.9</b>	<b>15.9</b>	<b>20.2</b>	<b>11.5</b>	-5.4%	-43.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

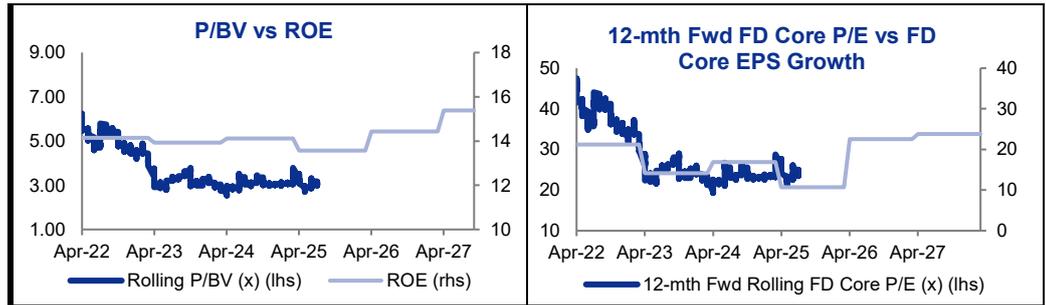
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	11,695	11,647	-0.4%	13,612	14,126	3.8%	16,968	17,713	4.4%
PPOP	9,223	8,619	-6.6%	11,246	10,732	-4.6%	14,032	13,351	-4.9%
PAT	6,908	6,356	-8.0%	8,392	7,785	-7.2%	10,417	9,637	-7.5%
EPS (Rs)	87	80	-8.0%	106	98	-7.2%	132	122	-7.5%
BV (Rs)	638	632	-0.9%	744	731	-1.8%	875	852	-2.7%
AUM (Rs bn)	234	236	0.9%	277	288	3.9%	344	359	4.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 1QFY26 earnings-call highlights ►

- Disbursement run-rate for the month of Jul 2025 stands at Rs5.5-6bn.
- 1+DPD for the quarter stands at 4.15% as the deterioration is mainly in Maharashtra, Madhya Pradesh and Karnataka, mostly in the less than Rs500,000 ticket size. However, North India has less than 3% of 1+DPD. It has shown a normalizing trend in Jul 2025.
- Rajasthan also reported 1+ DPD at <4% and gross stage-3 assets at <1%.
- The company is currently focusing on more than Rs0.5m ticket sizes.
- The balance transfer-out rate currently stands at 4.9%.
- The increase in employee strength is on account of channel addition and branch addition, which management considers as the investment which will reap the benefits in future.
- **Guidance**
  - 1+DPD guidance is at less than the 5% range.
  - AUM growth guidance for FY26F is 18-20% yoy & for FY27F it is 20-25% yoy.
  - The company has given guidance of adding 10 new branches in Tamil Nadu in 2QFY26F.
  - Credit costs guidance at less than 25bp.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	9,063	10,102	11,647	14,126	17,713
<b>Total Non-Interest Income</b>	<b>2,856</b>	<b>3,407</b>	<b>3,638</b>	<b>4,163</b>	<b>4,432</b>
Operating Revenue	11,919	13,509	15,285	18,289	22,145
<b>Total Non-Interest Expenses</b>	<b>(5,430)</b>	<b>(5,912)</b>	<b>(6,666)</b>	<b>(7,557)</b>	<b>(8,794)</b>
Pre-provision Operating Profit	6,489	7,597	8,619	10,732	13,351
<b>Total Provision Charges</b>	<b>(245)</b>	<b>(271)</b>	<b>(442)</b>	<b>(716)</b>	<b>(975)</b>
Operating Profit After Provisions	6,245	7,326	8,177	10,016	12,376
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	6,245	7,326	8,177	10,016	12,376
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	6,245	7,326	8,177	10,016	12,376
<b>Exceptional Items</b>					
Pre-tax Profit	6,245	7,326	8,177	10,016	12,376
Taxation	(1,337)	(1,585)	(1,821)	(2,231)	(2,739)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	4,907	5,741	6,356	7,785	9,637
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	4,907	5,741	6,356	7,785	9,637
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.8%	95.6%	94.9%	94.6%	95.1%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>112.5%</b>	<b>111.1%</b>	<b>110.2%</b>	<b>109.6%</b>	<b>107.7%</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-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
<b>Total Gross Loans</b>	<b>140,044</b>	<b>162,297</b>	<b>185,004</b>	<b>225,002</b>	<b>281,247</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	140,044	162,297	185,004	225,002	281,247
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	140,044	162,297	185,004	225,002	281,247
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>4,636</b>	<b>5,167</b>	<b>5,556</b>	<b>5,975</b>	<b>6,425</b>
<b>Total Non-Interest Earning Assets</b>	<b>5,351</b>	<b>5,991</b>	<b>6,503</b>	<b>7,090</b>	<b>7,764</b>
Cash And Marketable Securities	17,978	15,596	19,812	19,596	19,169
<b>Long-term Investments</b>	<b>1,822</b>	<b>2,300</b>	<b>5,653</b>	<b>6,362</b>	<b>6,620</b>
Total Assets	165,195	186,185	216,972	258,050	314,801
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	123,365	138,499	164,057	196,601	242,934
Total Interest-Bearing Liabilities	123,365	138,499	164,057	196,601	242,934
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	4,097	2,140	2,854	3,603	4,462
Total Liabilities	127,462	140,639	166,910	200,203	247,396
Shareholders Equity	37,732	43,608	50,062	57,847	67,405
<b>Minority Interests</b>					
Total Equity	37,732	43,608	50,062	57,847	67,405

<b>Key Ratios</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Total Income Growth	13.7%	11.5%	15.3%	21.3%	25.4%
Operating Profit Growth	15.6%	17.1%	13.4%	24.5%	24.4%
Pretax Profit Growth	14%	17%	12%	22%	24%
Net Interest To Total Income	76.0%	74.8%	76.2%	77.2%	80.0%
Cost Of Funds	7.45%	7.69%	7.38%	7.26%	7.23%
Return On Interest Earning Assets	13.6%	13.3%	13.1%	13.3%	13.3%
Net Interest Spread	6.16%	5.65%	5.76%	6.02%	6.05%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	4%	4%	5%	7%	7%
Interest Return On Average Assets	6.06%	5.75%	5.78%	5.95%	6.18%
Effective Tax Rate	21.4%	21.6%	22.3%	22.3%	22.1%
Net Dividend Payout Ratio					
Return On Average Assets	3.28%	3.27%	3.15%	3.28%	3.36%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.*

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- 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.

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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.