

Rating: HOLD | CMP: Rs1,404 | TP: Rs1,560

May 26, 2023

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current FY24E	Previous FY25E	Current FY24E	Previous FY25E
Rating	HOLD	HOLD		
Target Price	1,560	1,560		
NII (Rs.)	9,739	11,822	9,739	11,822
% Chng.	-	-		
PPoP (Rs.)	6,597	7,894	6,597	7,894
% Chng.	-	-		
EPS (Rs.)	61.8	73.9	61.8	73.9
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	6,513	7,971	9,739	11,822
Growth (%)	25.7	22.4	22.2	21.4
Op. Profit (Rs m)	4,775	5,614	6,597	7,894
PAT (Rs m)	3,568	4,301	4,886	5,843
EPS (Rs.)	45.2	54.4	61.8	73.9
Gr. (%)	22.6	20.4	13.6	19.6
DPS (Rs.)	7.5	2.7	3.7	4.4
Yield (%)	0.5	0.2	0.3	0.3
Margin (%)	6.8	6.8	6.8	6.8
RoAE (%)	13.7	14.2	14.0	14.6
RoAA (%)	3.6	3.5	3.3	3.3
PE (x)	31.1	25.8	22.7	19.0
P/BV (x)	3.9	3.4	3.0	2.6
P/ABV (x)	4.0	3.5	3.0	2.7

Key Data	AVAS.BO AAVAS IN
52-W High / Low	Rs.2,411 / Rs.1,376
Sensex / Nifty	61,873 / 18,321
Market Cap	Rs.111bn / \$ 1,341m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.344.79m

Shareholding Pattern (%)

Promoter's	39.14
Foreign	38.83
Domestic Institution	12.51
Public & Others	9.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.4)	(26.3)	(35.0)
Relative	(10.0)	(25.8)	(43.6)

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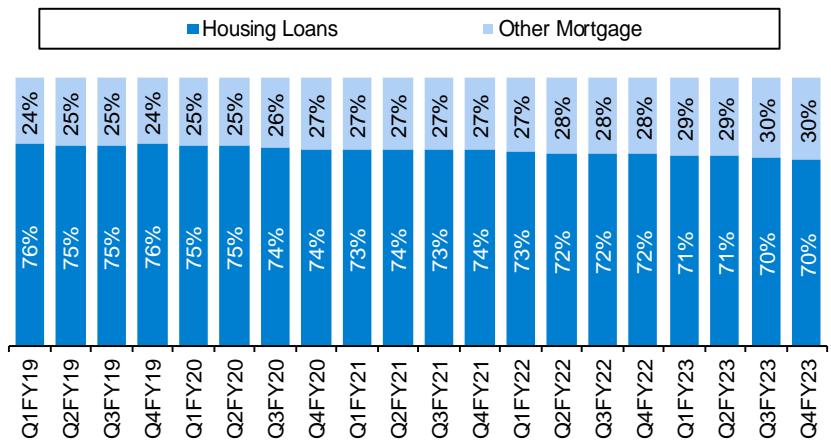
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Focus on sustainable and scalable growth

Aavas at its analyst meet showcased its 'Vision 3.0' which would mainly focus on scalability & standardization while governance, asset quality, profitability and growth, in that order, would remain priorities. Key takeaway was that company wants grow consistently with a runway of 10-15 years given large potential in affordable housing coupled with its capabilities in underwriting and technology/analytics. While management did allay stakeholder concerns of senior management stability, it is imperative that all CXOs be with the company for long term. Promoters clarified again that they do not intend to sell any stake in the near term. However, being private equity players we believe they would exit at some point which would be an overhang. We remain watchful as execution and mid-level retention are a key. We maintain our multiple at 3.0x FY25E ABV and TP at Rs1,560. Retain HOLD.

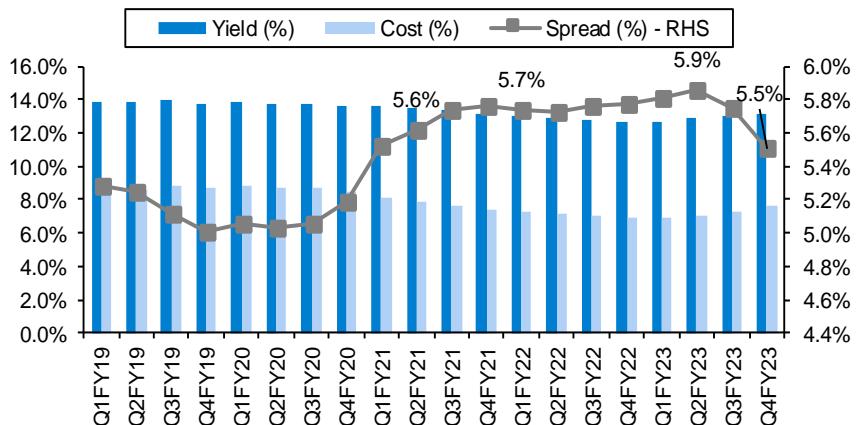
- **Funding mix to shift towards NCD and co-lending:** Aavas has a strong liability franchise since it has focused on addressing survival risk over interest rate risk and hence it prefers to raise longer term funds while there is no CP exposure. While 40% of assets are floating, 37% of liabilities are floating owing to which spreads have been maintained at 5%+ over FY17-23. Funding mix over the next 3-5 years would shift from banks, assignment and NHB towards NCD and co-lending (expected to reach 10%). Company has sufficient capital which can fund growth for 3-5 years. Over the last 10 years, Aavas ratings have been upgraded by 5 times from BBB+ to AA.
- **Runway visible to grow for next 10 years:** AHL has a substantial headroom to grow as mortgage to GDP ratio that is 11% for India is much lower at 3% excluding Tier-1 cities. Aavas has increased presence from 4 to 13 states over the last decade. Concentration risk is reducing with Rajasthan now contributing 38% to AUM (vs 90% in FY13). Target is to add ~10% branches per annum while usually each branch processes about 10-15 files a month. 90% of 346 branches have already turned profitable and average vintage is 12-15 months. Growing aspirational class (income Rs0.125-0.5mn) coupled with technology and underwriting expertise provides a runway to grow for next 10-15 years.
- **Strong underwriting led to best in-class asset quality:** Underwriting covers 4 key verticals viz. 1) understanding cash flows of customers without too much thrust on property value, 2) technical team of 177 that assesses property on ground to arrive at a realizable value, 3) legal team of 70 that checks title clearance, marketability/enforceability and 4) 100-member team which pays a surprise visit to customers. Also, the underwriting team has 600+ employees of which 150+ are CAs. Due to good quality underwriting, asset quality has been well under control with 1+ DPD at 3.3% and 90+ DPD in new geographies at 0.38%. Cumulative write-offs since inception are only Rs250mn.
- **Technology, data and analytics a cornerstone:** 95% of collections are digital while 10% of disbursals from leads are sourced digitally. Company is emulating large banks to sustainably grow and hence technology is a key to achieve scale. Aavas is in process of implementing GATI, a digital loan origination platform which could significantly reduce TAT. UNNATI is being applied to enable processing large volume of data so that network congestion is avoided, as business scales up. Through analytics that use predictive models, Aavas is focusing on 3 main areas viz. consistency, reliability and standardization.

Exhibit 1: Loan Book mix steady at 70:30



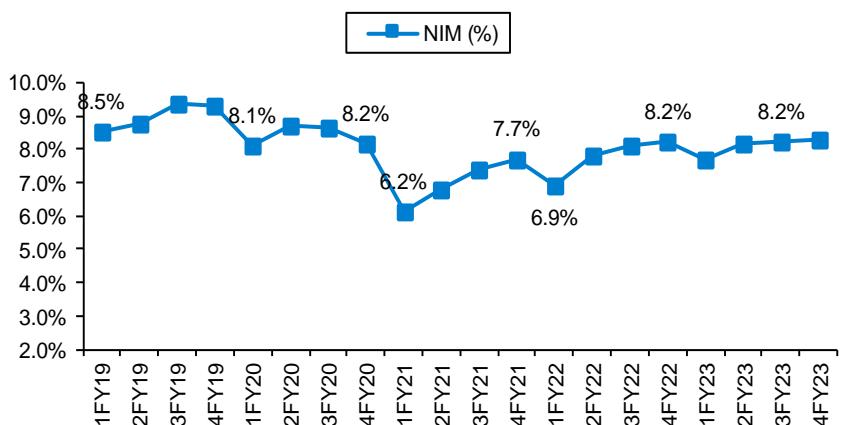
Source: Company, PL

Exhibit 2: Spreads sees decline of 24bps QoQ to 5.5% as cost goes up faster



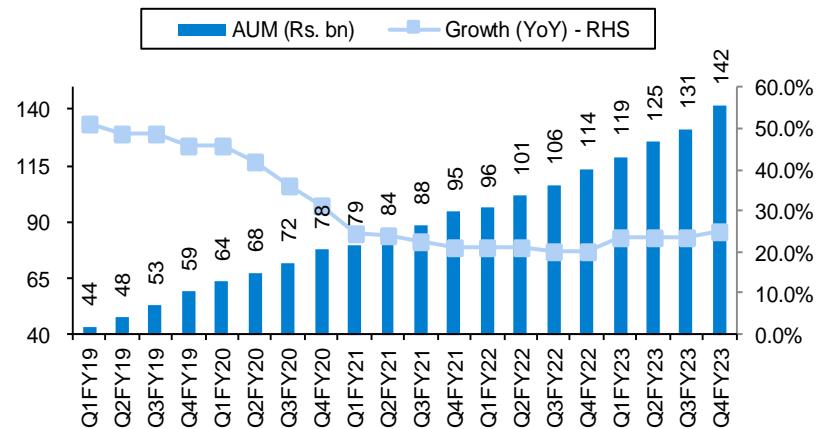
Source: Company, PL

Exhibit 3: NIM expands marginally by 5bps QoQ to 8.3%



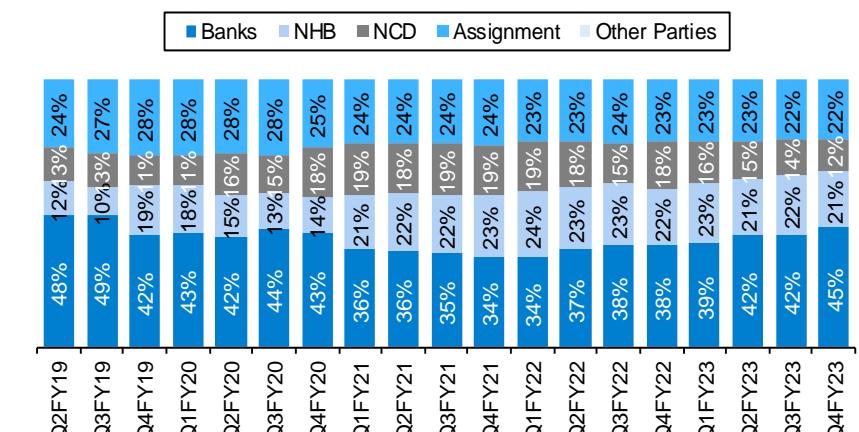
Source: Company, PL

Exhibit 4: AUM grew 24.8% YoY/8.2% QoQ led by better disbursements



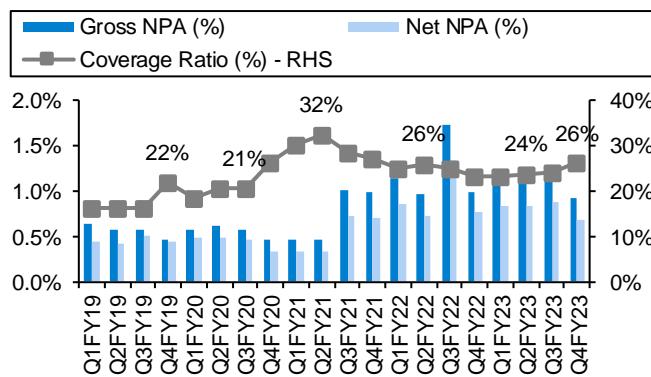
Source: Company, PL

Exhibit 5: Borrowing mix mainly from Banks(45%) and NHB refinance(21%)



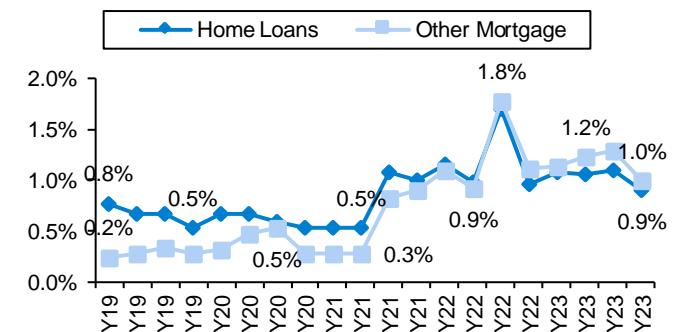
Source: Company, PL

Exhibit 6: Asset quality improved with PCR at 26%



Source: Company, PL

Exhibit 7: Both segments witnessed marginal improvement

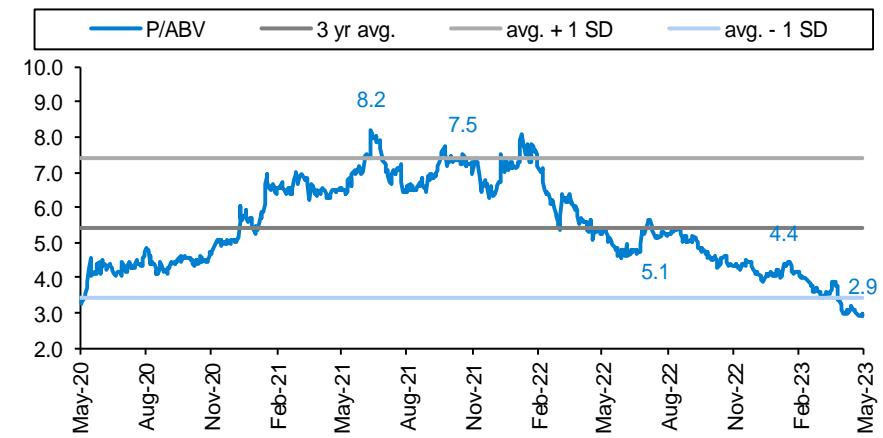


Source: Company, PL

Exhibit 8: ROEs to remain ~14% levels led by improvement in core income and stable provisions

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	10.2	10.3	9.8	9.7	9.4	9.5	10.0	10.3
Interest expenses	5.0	4.4	4.4	4.6	4.0	4.0	4.5	4.8
Net interest income	5.2	5.9	5.4	5.2	5.4	5.4	5.5	5.5
Other Inc. from operations	2.6	2.0	1.5	1.3	1.5	1.5	1.5	1.4
Total income	7.8	7.9	6.8	6.4	6.9	7.0	6.9	6.9
Employee expenses	2.9	2.0	1.8	1.7	1.9	2.1	2.2	2.2
Other operating expenses	1.4	1.2	1.0	0.8	0.9	1.0	1.0	1.0
Operating profit	3.5	4.6	3.9	3.9	4.0	3.8	3.7	3.7
Tax	1.1	1.4	0.7	0.6	0.8	0.8	0.8	0.8
Loan loss provisions	0.1	0.2	0.2	0.4	0.2	0.1	0.1	0.1
RoAA	2.4	3.0	3.1	2.9	3.0	2.9	2.8	2.7
RoAE	11.2	11.9	12.7	12.9	13.7	14.2	14.0	14.6

Source: Company, PL

Exhibit 9: One-year forward P/ABV of Aavas trades at 2.9x

Source: Company, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY22	FY23	FY24E	FY25E	Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Int. Inc. / Opt. Inc.	11,288	13,882	17,809	22,239	Int. Inc. / Operating Inc.	3,148	3,287	3,585	3,861
Interest Expenses	4,775	5,910	8,070	10,418	Income from securitization	-	-	-	-
Net interest income	6,513	7,971	9,739	11,822	Interest Expenses	1,347	1,410	1,504	1,650
<i>Growth(%)</i>	25.7	22.4	22.2	21.4	Net Interest Income	1,802	1,877	2,082	2,211
Non-interest income	1,768	2,220	2,582	3,030	<i>Growth (%)</i>	19.9	15.3	31.8	22.6
<i>Growth(%)</i>	37.1	25.6	16.3	17.3	Non-Interest Income	380	664	534	641
Net operating income	8,281	10,191	12,321	14,852	Net Operating Income	2,182	2,541	2,616	2,852
Expenditures					<i>Growth (%)</i>	37.1	21.3	20.1	18.1
Employees	2,322	3,006	3,869	4,766	Operating expenditure	1,026	1,147	1,201	1,203
Other Expenses	946	1,284	1,525	1,812	PPP	1,156	1,394	1,415	1,649
Depreciation	238	287	330	380	<i>Growth (%)</i>	-	-	-	-
Operating Expenses	3,506	4,577	5,724	6,958	Provision	9	16	35	64
PPP	4,775	5,614	6,597	7,894	Exchange Gain / (Loss)	-	-	-	-
<i>Growth(%)</i>	22.3	17.6	17.5	19.7	Profit before tax	1,147	1,378	1,380	1,586
Provisions	226	124	251	306	Tax	254	310	307	318
Profit Before Tax	4,549	5,490	6,346	7,588	Prov. for deferred tax liability	-	-	-	-
Tax	981	1,189	1,460	1,745	Effective Tax Rate	22.2	22.5	22.2	20.1
<i>Effective Tax rate(%)</i>	21.6	21.7	23.0	23.0	PAT	892	1,068	1,073	1,268
PAT	3,568	4,301	4,886	5,843	<i>Growth</i>	49	16	20	10
<i>Growth(%)</i>	23.2	20.5	13.6	19.6	AUM	1,18,936	1,25,437	1,30,887	1,41,667
Balance Sheet (Rs. m)					YoY growth (%)	23.7	23.6	23.3	24.8
Y/e Mar	FY22	FY23	FY24E	FY25E	Borrowing	82,909	85,712	91,613	98,407
Source of funds					YoY growth (%)	27.8	24.1	26.7	23.4
Equity	789	791	791	791	Key Ratios				
Reserves and Surplus	27,297	31,906	36,546	42,039	Y/e Mar	FY22	FY23	FY24E	FY25E
Networth	28,086	32,697	37,337	42,829	CMP (Rs)	1,404	1,404	1,404	1,404
<i>Growth (%)</i>	17.0	16.4	14.2	14.7	EPS (Rs)	45.2	54.4	61.8	73.9
Loan funds	79,725	98,407	1,20,495	1,49,016	Book value (Rs)	355.8	413.6	472.3	541.8
<i>Growth (%)</i>	25.6	23.4	22.4	23.7	Adj. BV(Rs)	347.0	403.7	460.7	527.3
Deferred Tax Liability	-	-	-	-	P/E(x)	31.1	25.8	22.7	19.0
Other Current Liabilities	2,352	2,936	3,115	3,519	P/BV(x)	3.9	3.4	3.0	2.6
Other Liabilities	40	66	73	85	P/ABV(x)	4.0	3.5	3.0	2.7
Total Liabilities	1,10,204	1,34,105	1,61,021	1,95,449	DPS (Rs)	7.5	2.7	3.7	4.4
Application of funds					<i>Dividend Payout Ratio(%)</i>	16.6	5.0	6.0	6.0
Net fixed assets	683	987	1,053	1,156	<i>Dividend Yield(%)</i>	0.5	0.2	0.3	0.3
Advances	90,534	1,14,763	1,39,048	1,69,652	Asset Quality				
<i>Growth (%)</i>	20.3	26.8	21.2	22.0	Y/e Mar	FY22	FY23	FY24E	FY25E
Investments	675	1,231	1,437	1,638	Gross NPAs(Rs m)	904	1,056	1,247	1,553
Current Assets	15,359	13,846	15,713	18,636	Net NPA(Rs m)	695	780	917	1,141
Net current assets	13,007	10,910	12,597	15,117	Gross NPAs to Gross Adv.(%)	1.0	0.9	0.9	0.9
Other Assets	2,953	3,278	3,769	4,367	Net NPAs to net Adv.(%)	0.8	0.7	0.7	0.7
Total Assets	1,10,204	1,34,105	1,61,021	1,95,449	NPA coverage(%)	23.1	26.2	26.4	26.5
<i>Growth (%)</i>	23.0	21.7	20.1	21.4	Du-Pont as a % of AUM				
Business Mix					Y/e Mar	FY22	FY23	FY24E	FY25E
AUM	1,13,502	1,41,667	1,74,231	2,12,583	NII	5.4	5.4	5.5	5.5
<i>Growth (%)</i>	20.1	24.8	23.0	22.0	NII INCI. Securitization	5.4	5.4	5.5	5.5
On Balance Sheet	1,13,502	1,41,667	1,74,231	2,12,583	Total income	6.9	7.0	6.9	6.9
<i>% of AUM</i>	100.00	100.00	100.00	100.00	Operating Expenses	2.9	3.1	3.2	3.2
Off Balance Sheet	-	-	-	-	PPOP	4.0	3.8	3.7	3.7
<i>% of AUM</i>	-	-	-	-	Total Provisions	0.2	0.1	0.1	0.1
Profitability & Capital (%)					RoAA	3.0	2.9	2.8	2.7
Y/e Mar	FY22	FY23	FY24E	FY25E	Avg. Assets/Avg. net worth	4.6	4.8	5.1	5.4
NIM	6.8	6.8	6.8	6.8	RoAE	13.7	14.2	14.0	14.6
ROAA	3.6	3.5	3.3	3.3	Source: Company Data, PL Research				
ROAE	13.7	14.2	14.0	14.6					

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-May-23	Hold	1,560	1,403
2	11-Apr-23	Accumulate	2,200	1,675
3	05-Feb-23	Accumulate	2,200	1,999
4	05-Jan-23	Accumulate	2,250	1,750
5	22-Oct-22	Accumulate	2,250	1,990
6	05-Oct-22	Hold	2,300	2,197
7	31-Jul-22	Hold	2,300	2,383
8	08-Jul-22	BUY	2,300	2,006

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,403
2	Axis Bank	BUY	1,140	881
3	Bank of Baroda	BUY	235	187
4	Can Fin Homes	BUY	770	617
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	106
7	Federal Bank	BUY	170	128
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,100	1,766
10	HDFC Bank	BUY	1,925	1,610
11	ICICI Bank	BUY	1,130	886
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,102
14	Kotak Mahindra Bank	BUY	2,220	1,938
15	LIC Housing Finance	Hold	410	370
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	574
18	UTI Asset Management Company	BUY	770	658

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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