

26 April 2024

India | Equity Research | Q4FY24 results review

Aavas Financiers

NBFCs

Disbursement up 39% QoQ; revamped business architecture to ensure sustained growth momentum

Strong 22% YoY AUM growth in FY24 with an all-time low 1+ DPD portfolio at 3.1%, as on March'24, despite higher attrition owing to top-management change in May'23 and adverse impact on business volume due to tech upgradation, summarises superior execution of business strategies by new management. Further, management sounded confident about sustaining strong disbursement momentum in FY25 and expects 22%-25% AUM growth in near term. Management also highlighted that bringing down cost-to-assets below 3% remains key strategic priority in near-term. We maintain BUY with a revised TP of INR 1,900, valuing it at 3.2x (3x earlier) Sep'25E BVPS as we believe Aavas would maintain its industry-leading position in the AHFC space and deliver ~3-3.5% RoA and 15-18% RoE on a steady-state basis.

Q4FY24 financial performance

Aavas delivered strong 22% PAT growth at INR 1.4bn driven by robust 9% QoQ NII growth despite spread compression of 6bps QoQ to 5.06% (still higher-than-guided range of 5%) and lower credit cost to 13bps vs. 25bps QoQ. Strong disbursement (up 39% QoQ) growth resulted in the company surpassing 20% YoY AUM growth for full-year FY24. Sharper increase in cost of funds, by 12bps QoQ to 8.07% vs. only 6bps QoQ increase in asset yield, resulted in further moderation in spread to 5.06% in Q4FY24. Underlying asset quality trend remains strong, evident in the significant reduction in the 1+ DPD bucket to 3.12% in Mar'24 vs. 3.75% in Dec'23 vs 3.58% in Sep'23.

Tech transformation is near completion; revamped business architecture to ensure growth sustainability with better asset quality

Aavas initiated its tech transformation journey during Q1FY24 to improve TAT, service quality and to better risk management; with that, by Q4FY24, the company highlighted that it is closer to completion, highlighting: 1) the adoption and stabilisation of SFDC with 0.16mn+ loan applications processed and Oracle Fusion (ERP); 2) the roll out of customer service module in Salesforce across all branches; 3) the integration with a new digital lead generation partner, 4) the rolling out of GenAI based chatbot for Sales team; and 5) 24% adoption of Account Aggregator platform in the month of Mar'24. Now, only lead management system and LMS is yet to be implement, but management does not foresee any disruption in disbursement momentum.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	7,971	9,063	10,670	12,369
PAT (INR mn)	4,301	4,907	5,606	6,795
EPS (INR)	54.1	61.7	70.5	85.5
% Chg YoY	20.4	14.1	14.2	21.2
P/E (x)	29.7	26.0	22.8	18.8
P/BV (x)	3.9	3.4	2.9	2.5
Gross Stage - 3 (%)	0.9	0.9	0.9	0.9
RoAA (%)	3.5	3.3	3.2	3.3
RoAE (%)	14.2	13.9	13.8	14.5

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Market Data

Market Cap (INR)	127bn
Market Cap (USD)	1,525mn
Bloomberg Code	AAVAS IN
Reuters Code	AVAS BO
52-week Range (INR)	1,818 /1,307
Free Float (%)	61.0
ADTV-3M (mn) (USD)	10.5

Price Performance (%)

	3m	6m	12m
Absolute	6.4	3.7	5.9
Relative to Sensex	1.3 (12.4)	(17.8)	

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4)	(7)
EPS	(3)	(11)

Previous Reports

03-02-2024: [Q3FY24 results review](#)

02-12-2023: [Company Update](#)

Highest-ever quarterly disbursements post strong rebound at 39% QoQ

Sharp recovery in volumes as disbursements went up 39% QoQ, resulting in Aavas' highest ever quarterly disbursements of INR 189bn led by strong uptick in omni-channel acquisitions through a combination of digital (Aavas Mitra) and branch-led operations. With the help of tech revamp being done in FY24 through the implementation of Salesforce (LoS) along with the integration with a new digital lead generation partner, the company has processed 0.16mn-plus loan applications through Salesforce so far. Furthermore, Aavas has also been able to lower its TAT to 8 days in Q4FY24 vs. 11 days in FY23. Notably, post the business impact during Q1FY24, owing to tech transformation and management change, which led to 2% QoQ decline in disbursements, the company has seen sequential improvement in its disbursements in the past three quarters. This has resulted in a 22% YoY increase in its AUM. Going forward too, management sounds confident of sustaining its disbursement momentum, expecting to report 22%-25% of AUM growth in the medium term.

Pristine asset quality with lowest ever 1+ dpd

Aavas' consistent efforts towards quality sourcing and consistent collections resulted in its lowest ever 1+ dpd 3.12% in Q4FY24 vs. 3.75% in Q3FY24. The improvement in portfolio quality is a result of its focussed approach in generating quality leads by leveraging technology and data analytics in evaluating customers through scorecard-based credit engines. This was further complemented by its usage of predictive analysis and robust risk architecture, which kept collections in check. Notably, the effect of the improvement in the overall portfolio quality was also visible in gross NPAs reducing to 0.95% vs. 1.09% in Q3FY24. Consequently, the stage 1 portfolio of the company increased to 97.6% vs. 97.23% in Dec'23. On a steady-state basis, the company plans to keep its 1+ dpd at <5% and 90+ dpd at ~1%.

Spreads sustained at ~5% as per the guidance

While spread compressed by another 6bps QoQ to 5.06%, the same continued to remain well within the guided levels of ~5%. The decrease in spreads was primarily led by increase in borrowing cost which went up 12 bps QoQ against the rise in yields of 6bps. Nevertheless, management has highlighted that the cost of borrowings has almost peaked out with incremental cost of borrowing for Q4FY24/FY24 being at 8.14% vs. the average cost of borrowing of 8.07% in Q4FY24. Furthermore, the company also increased its PLR rates by 25bps effective Mar'24, which is expected to keep yields in check.

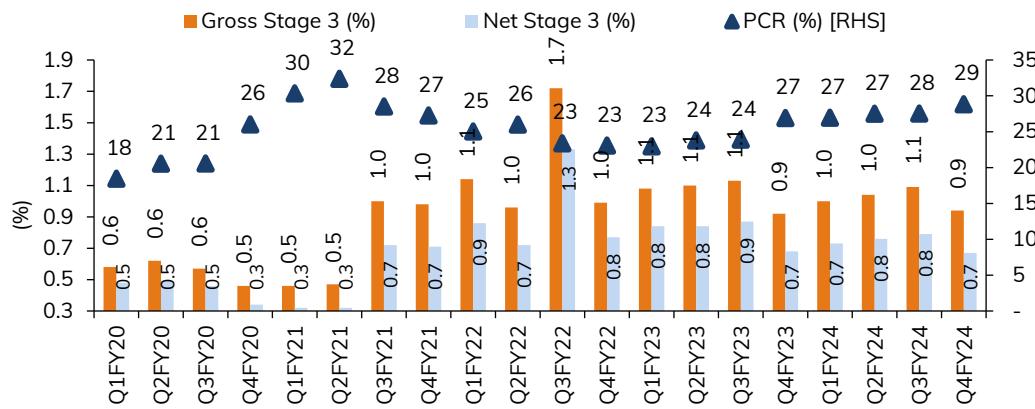
Unwithdrawn borrowing lines from NHB, ~5% incremental disbursement towards small-ticket-size loans (higher yields) and its ability to raise funding from banks at competitive rates would be key to spread expansion driver going ahead. Management expects to maintain its spread at ~5% in the medium term.

Key risks: 1) Elevated opex weighing on RoA improvement; and 2) competitive pressure on yields.

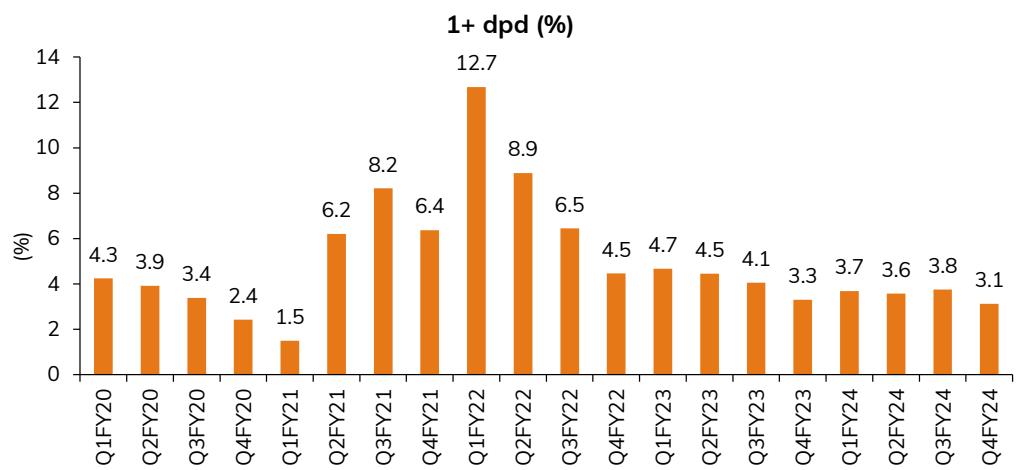
Exhibit 1: Q4FY24 result review

Income statement (INR mn)	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
Interest income	4,340	4,874	5,175	19.3	6.2
Interest expenses	1,650	2,166	2,216	34.3	2.3
Net interest income	2,690	2,708	2,960	10.0	9.3
Non-interest Income	162	218	293	80.3	34.1
Total Income (net of interest expenses)	2,852	2,926	3,252	14.0	11.1
Employee expenses	755	831	959	26.9	15.3
Depreciation and amortization	87	87	91	4.8	5.1
Fees and Commission expenses	18	20	12	(32.8)	(38.8)
Other operating expenses	342	411	372	8.8	(9.5)
Total Operating Expense	1,203	1,349	1,434	19.3	6.3
Pre-provisioning profit (PPoP)	1,649	1,577	1,818	10.2	15.3
Provisions and write offs	64	80	43	(32.4)	(45.8)
PBT	1,586	1,497	1,775	11.9	18.5
Tax expenses	318	331	349	9.6	5.4
PAT	1,268	1,166	1,426	12.5	22.3
EPS (INR)	16.0	14.7	18.0	12.3	22.3
Balance Sheet (INR mn)	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
Share capital	791	791	791	0.1	0.1
Reserves & surplus	31,906	35,523	36,942	15.8	4.0
Shareholders' funds	32,697	36,314	37,733	15.4	3.9
Borrowings	98,873	1,14,721	1,23,365	24.8	7.5
Deferred tax liabilities (net)	502	561	602	20.1	7.4
Other Liabilities and provisions	2,034	2,902	3,494	71.8	20.4
Total Liabilities and SHE	1,34,105	1,54,498	1,65,195	23.2	6.9
Fixed assets	561	688	715	27.4	3.9
Loans	1,14,763	1,29,932	1,40,044	22.0	7.8
Cash & bank balances	13,816	17,686	17,978	30.1	1.7
Investments	1,231	1,875	1,822	48.0	(2.8)
Other Assets	3,734	4,316	4,636	24.2	7.4
Total Assets	1,34,105	1,54,498	1,65,195	23.2	6.9
Key ratios	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
AUM (INR mn)	1,41,667	1,60,795	1,73,126	22.2	7.7
-Home Loans (INR mn)	99,025	1,11,431	1,19,976	21.2	7.7
-Other mortgage loans (INR mn)	42,642	49,364	53,150	24.6	7.7
Disbursements (INR mn)	15,817	13,624	18,931	19.7	39.0
-Home Loans (INR mn)	10,865	8,978	12,589	15.9	40.2
-Other mortgage loans (INR mn)	4,952	4,646	6,342	28.1	36.5
AUM/branch (INR mn)	409	458	472	15.2	3.0
Yield on average AUM (%) [Reported-YTD]	13.1	13.1	13.1	1 bps	6 bps
Borrowing costs (%) [Reported-YTD]	7.6	8.0	8.1	46 bps	12 bps
Spreads (%)	5.5	5.1	5.1	-45 bps	-6 bps
NIM (%) [Reported-YTD]	8.3	7.9	7.9	-37 bps	-4 bps
Op cost as % of avg assets	3.7	3.5	3.6	-12 bps	4 bps
Cost to income (%)	42.2	46.1	44.1	193 bps	-201 bps
1+ dpd (%)	3.30	3.75	3.12	-18 bps	-63 bps
Gross Stage 3 (%)	0.92	1.09	0.94	1 bps	-15 bps
Net Stage 3 (%)	0.68	0.79	0.67	-1 bps	-12 bps
Provision coverage ratio (%)	26.9	27.5	28.8	190 bps	128 bps
Credit cost as a % of avg AUM [annualized]	0.19	0.20	0.10	-9 bps	-10 bps

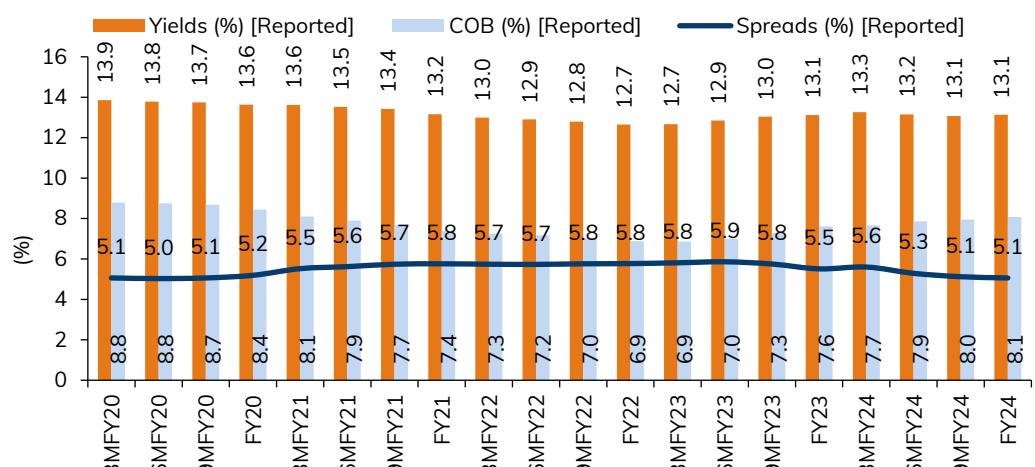
Source: Company data, I-Sec research

Exhibit 2: Gross stage-3 improved by 15 bps to 0.95%


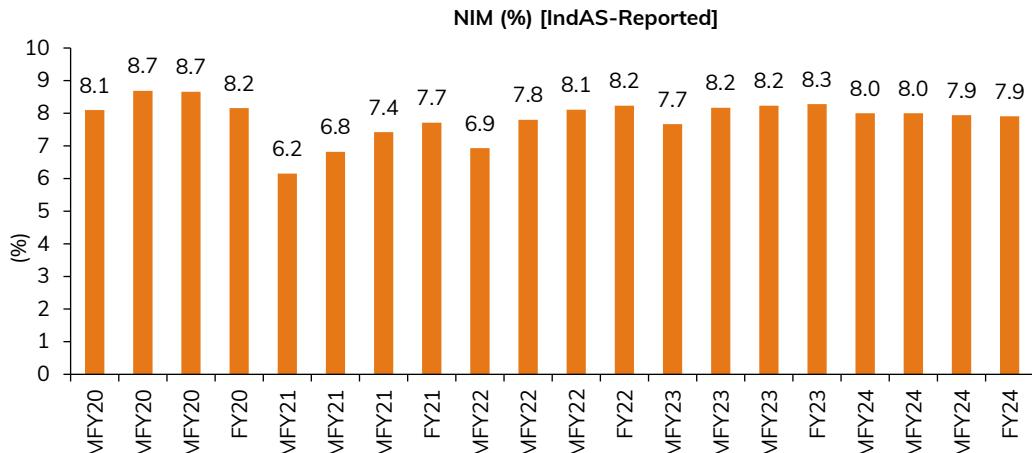
Source: Company data, I-Sec research

Exhibit 3: Lowest ever 1+ dpd


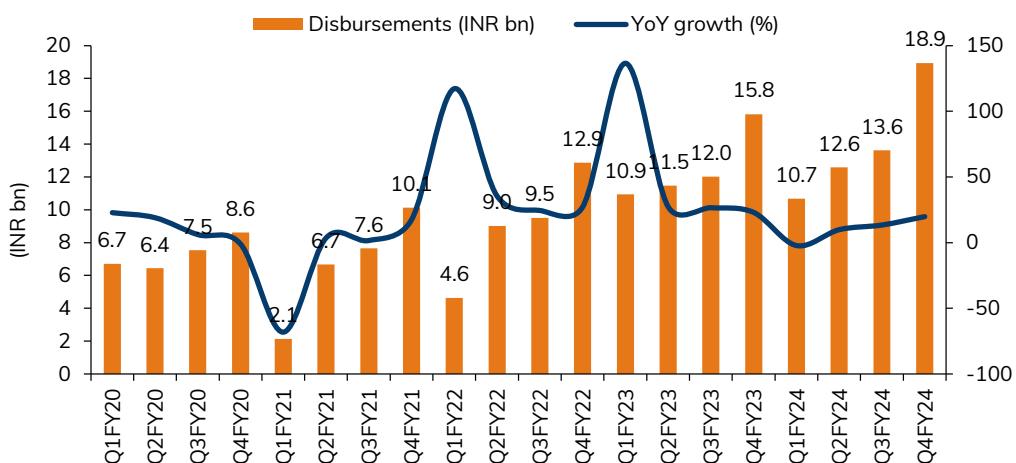
Source: Company data, I-Sec research

Exhibit 4: Spreads compressed by another 6bps to 5.06%; remained higher-than-guidance of 5%


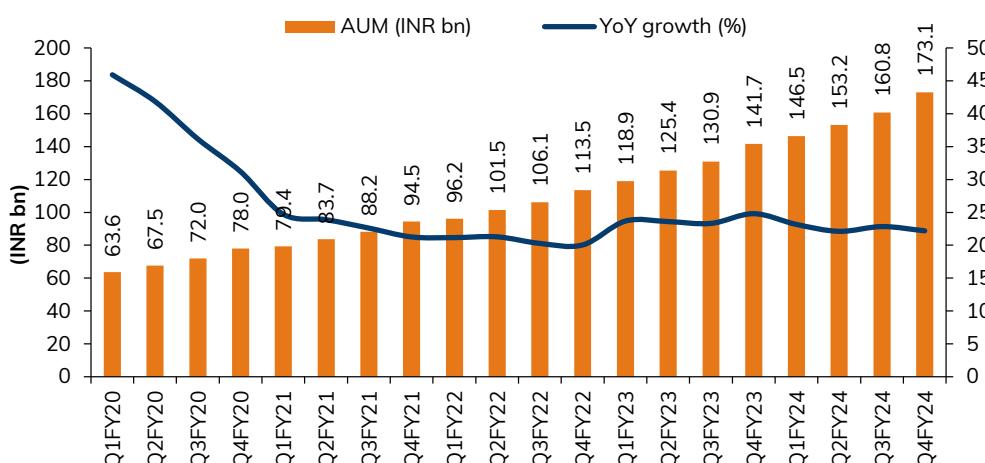
Source: Company data, I-Sec research

Exhibit 5: NIMs remained stable supported by robust credit growth


Source: Company data, I-Sec research

Exhibit 6: Sharp rebound in disbursements as they grew 39% QoQ...


Source: Company data, I-Sec research

Exhibit 7: ...resulting in strong AUM growth of 8% QoQ


Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	39.1	39.1	26.5
Institutional investors	49.7	47.6	58.8
MFs and others	10.7	12.1	21.1
FIs/Banks	0.0	0.0	0.0
Insurance	2.1	1.7	1.3
FII	36.9	33.8	36.4
Others	11.2	13.3	14.7

Source: Bloomberg

Exhibit 9: Price chart


Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	13,882	17,347	19,880	23,239
Net gain on fair value changes	96	166	148	149
Interest Expenses	(5,910)	(8,284)	(9,210)	(10,869)
Net Interest Income (NII)	7,971	9,063	10,670	12,369
Other Income	2,220	2,856	3,057	3,864
Total Income (net of interest expenses)	10,191	11,919	13,727	16,234
Employee benefit expenses	(3,006)	(3,559)	(4,231)	(4,892)
Depreciation and amortization	(287)	(327)	(359)	(395)
Fee and commission expenses	(76)	(76)	(91)	(109)
Other operating expenses	(1,208)	(1,469)	(1,595)	(1,766)
Total Operating Expense	(4,577)	(5,430)	(6,276)	(7,162)
Pre Provisioning Profits (PPoP)	5,614	6,489	7,451	9,071
Provisions and write offs	(124)	(245)	(264)	(360)
Profit before tax (PBT)	5,490	6,244	7,187	8,711
Total tax expenses	(1,189)	(1,338)	(1,581)	(1,916)
Profit after tax (PAT)	4,301	4,907	5,606	6,795

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	791	791	795	795
Reserves & surplus	31,906	36,942	42,547	49,342
Shareholders' funds	32,697	37,733	43,342	50,137
Borrowings	98,407	1,23,365	1,38,430	1,70,529
Provisions & Other Liabilities	2,500	3,494	4,094	4,996
Deferred tax liabilities (net)	502	602	609	615
Current Liabilities and short-term provisions	-	-	-	-
Total Liabilities and Stakeholder's Equity	1,34,105	1,65,195	1,86,475	2,26,276
Fixed assets	561	715	858	1,029
Loans	1,14,763	1,40,044	1,64,010	2,00,212
Investments	1,231	1,822	1,822	1,822
Deferred tax assets (net)	-	-	-	-
Current Assets including cash and bank	13,816	17,978	14,918	18,102
Other Assets	3,734	4,636	4,868	5,111
Total Assets	1,34,105	1,65,195	1,86,475	2,26,276

Source Company data, I-Sec research

Exhibit 12: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E		FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)					Asset quality and provisioning				
AUM	1,41,667	1,73,126	2,10,269	2,56,682	GNPA (%)	0.9	0.9	0.9	0.9
Disbursements	50,245	55,822	68,837	84,917	NNPA (%)	0.7	0.7	0.6	0.6
Repayments	22,080	24,363	31,694	38,505	GNPA (INR mn)	1,067	1,319	1,476	1,802
Growth (%):					NNPA (INR mn)	780	939	1,033	1,261
Total AUM (%)	24.8	22.2	21.5	22.1	Coverage ratio (%)	26.1	28.7	30.0	30.0
Disbursements (%)	39.5	11.1	23.3	23.4	Credit Costs as a % of avg				
Repayments (%)	29.4	10.3	30.1	21.5	AUM (bps)	10	16	14	15
Loan book (on balance sheet) (%)	26.8	22.0	17.1	22.1	Credit Costs as a % of avg on book loans (bps)	10	16	14	15
Total Assets (%)	21.7	23.2	12.9	21.3	Return ratios				
Net Interest Income (NII) (%)	22.4	13.7	17.7	15.9	RoAA (%)	3.5	3.3	3.2	3.3
Non-interest income (%)	23.8	26.7	8.1	27.7	RoAE (%)	14.2	13.9	13.8	14.5
Total Income (net of interest expenses) (%)	23.1	17.0	15.2	18.3	ROAAUM (%)	3.4	3.1	2.9	2.9
Operating Expenses (%)	30.5	18.6	15.6	14.1	Valuation Ratios				
Employee Cost (%)	29.4	18.4	18.9	15.6	No of shares	79	79	79	79
Non-Employee Cost (%)	35.9	21.6	8.6	10.7	No of shares (fully diluted)	79	79	79	79
Pre provisioning operating profits (PPoP) (%)	17.6	15.6	14.8	21.8	ESOP Outstanding	0	0	-	-
Provisions (%)	(45.0)	97.0	7.9	36.4	EPS (INR)	54.1	61.7	70.5	85.5
PBT (%)	20.7	13.7	15.1	21.2	EPS fully diluted (INR)	54.1	61.7	70.5	85.5
PAT (%)	20.5	14.1	14.2	21.2	Price to Earnings (x)	29.7	26.0	22.8	18.8
EPS (%)	20.4	14.1	14.2	21.2	Price to Earnings (fully diluted) (x)	29.7	26.0	22.8	18.8
Yields, interest costs and spreads (%)					Book Value (fully diluted)	411	475	545	631
NIM on loan assets (%)	7.8	7.1	7.0	6.8	Adjusted book value	402	463	532	615
NIM on IEA (%)	6.2	5.8	5.6	5.3	Price to Book	3.9	3.4	2.9	2.5
NIM on AUM (%)	6.2	5.8	5.6	5.3	Price to Adjusted Book	4.0	3.5	3.0	2.6
Yield on loan assets (%)	13.5	13.6	13.1	12.8					
Yield on IEA (%)	10.9	11.0	10.4	10.0					
Yield on AUM (%)	10.9	11.0	10.4	10.0					
Cost of borrowings (%)	6.6	7.5	7.0	7.0					
Interest Spreads (%)	6.9	6.1	6.0	5.7					
Operating efficiencies									
Non interest income as % of total income	0.5	0.4	0.5	0.5					
Cost to income ratio	44.9	45.6	45.7	44.1					
Op.costs/avg assets (%)	3.7	3.6	3.6	3.5					
Op.costs/avg AUM (%)	3.6	3.4	3.3	3.1					
No of employees (estimate) (mn)	6,034	7,049	6,475	7,123					
No of branches (x)	346	367	350	385					
Salaries as % of non-interest costs (%)	65.7	65.5	67.4	68.3					
NII /employee (INR mn)	1.3	1.3	1.6	1.7					
AUM/employee(INR mn)	23.5	24.6	32.5	36.0					
AUM/ branch (INR mn)	409.4	471.7	600.8	666.7					
Capital Structure									
Average gearing ratio (x)	3.0	3.3	3.2	3.4					
Leverage (x)	4.1	4.4	4.3	4.5					
CAR (%)	44.5	42.0	42.1	39.9					
Tier 1 CAR (%)	44.1	41.7	40.7	38.5					
Tier 2 CAR (%)	0.4	0.2	1.4	1.4					
RWA (estimate) - INR mn	74,095	90,417	1,06,606	1,30,138					
Loan assets	86	85	88	88					
RWA as a % of loan assets	64.6	64.6	65.0	65.0					

Source Company data, I-Sec research

Exhibit 13: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	1,22,155	1,49,650	1,75,835	2,06,376
Average Loans (INR mn)	1,02,648	1,27,403	1,52,027	1,82,111
Average Equity (INR mn)	30,392	35,215	40,538	46,739
Interest earned (%)	11.4	11.6	11.3	11.3
Net gain on fair value changes (%)	7.9	11.1	8.4	7.2
Interest expended (%)	4.8	5.5	5.2	5.3
Gross Interest Spread (%)	6.5	6.1	6.1	6.0
Credit cost (%)	0.1	0.2	0.2	0.2
Net Interest Spread (%)	6.4	5.9	5.9	5.8
Operating cost (%)	3.7	3.6	3.5	3.4
Lending spread (%)	2.7	2.3	2.4	2.4
Non interest income (%)	1.7	1.8	1.7	1.8
Operating Spread (%)	4.5	4.1	4.1	4.2
Tax rate (%)	21.7	21.4	22.0	22.0
ROAA (%)	3.5	3.3	3.2	3.3
Effective leverage (AA/ AE)	4.0	4.2	4.3	4.4
RoAE (%)	14.2	13.9	13.8	14.5

Source Company data, I-Sec research

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