

26 July 2024

India | Equity Research | Q1FY25 results review

## Aavas Financiers

NBFCs

**Spread moderated to 5% but within guided range; lower sanction to disbursement ratio impacts growth; company, however, maintains FY25 AUM growth guidance at 20-25%**

Aavas Financier's (Aavas) Q1FY25 performance was partially impacted by seasonality and revised regulatory norms (dated Apr 29, '24), as reflected in sharp a 36% QoQ fall in disbursements to INR 12.1bn. Lower sanction-to-disbursement ratio at 77% vs normalised level of 85-87% impacted AUM growth which remained muted at 3% QoQ / 22% YoY during Q1. However, management remained confident of sustaining 20-25% AUM growth in FY25 driven by normalisation of disbursement in coming quarters. Notably, it continued to gain from operating leverage (in line with guidance) as reflected in opex / assets falling to 3.3% by Q1 vs 3.6% in FY24. We maintain **BUY** with a revised TP of INR 2,050 (earlier 1,900), as we now assign higher multiple at 3.5x (earlier 3.2x) on Sep'25E BVPS as we believe Aavas would maintain its industry-leading position in AHFC space and deliver ~3-3.5% RoA and 15-18% RoE on a steady-state basis.

### Q1FY25 financial performance

PAT fell 12% QoQ to INR 1.26bn owing to – a) sharp NIM compression of 60bps QoQ to 7.3% vs 7.9% QoQ, b) 44% fall in disbursements to INR 10,6bn partially due to seasonality, and c) increase in credit cost to 24bps vs 13bps QoQ. Lower direct assignment income at INR 30.5bn vs INR 55bn QoQ, interest reversal (amount undisclosed) due to RBI circular dated Apr 29, '24 and 5bps QoQ decline in asset yield resulted in sharp NIM contraction. However, management highlighted that some part of NIM compression is seasonal (DA income), one-off (interest reversal) and hence it expects NIM to remain stable going ahead. AUM growth remained at 22% YoY / 3% QoQ. Underlying asset quality trend remains stable; however, due to seasonality on sequential basis, 1+ DPD bucket increased to 3.65% vs 3.12% QoQ but on YoY basis it remained lower.

### Spread to sustain at current level of 5%; AUM growth to remain at 20-25% during FY25

During Q1FY25, sanction-to-disbursement ratio fell to 77% vs normalised level of 85-87% and the same resulted in sharp 44% QoQ fall in disbursement. Management highlighted that the same is transitory and would retrace to normalised level in coming quarters. Hence, it expects AUM growth to remain strong at 20-25% in FY25. Incremental CoF increased to 8.3% during Q1FY25, however, the same was due to lower NHB borrowing. Incremental disbursement yields are higher by 15-20bps QoQ. Overall, it expects spread to remain stable at current level of 5% as it believes CoF has peak out at current level.

### 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)	32.9	28.8	25.2	20.8
P/BV (x)	4.3	3.7	3.3	2.8
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)	141bn
Market Cap (USD)	1,681mn
Bloomberg Code	AAVAS IN
Reuters Code	AVAS BO
52-week Range (INR)	1,979 / 1,307
Free Float (%)	74.0
ADTV-3M (mn) (USD)	6.5

Price Performance (%)	3m	6m	12m
Absolute	10.8	17.9	9.8
Relative to Sensex	3.1	4.7	(10.8)

#### Previous Reports

26-04-2024: [Q4FY24 results review](#)

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

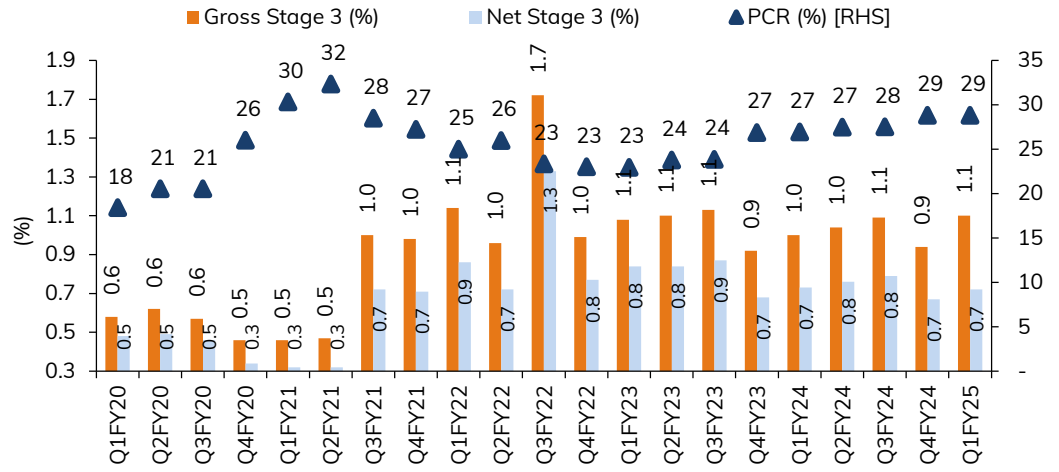
**Key risks:** 1) Elevated opex weighing on RoA improvement; and 2) competitive pressure on yields.

### Exhibit 1: Q1FY25 result review

	Q1FY24	Q4FY24	Q1FY25	% YoY	% QoQ
<b>Income statement (INR mn)</b>					
Interest income	4,494	5,175	5,163	14.9	(0.2)
Interest expenses	1,866	2,216	2,352	26.0	6.1
<b>Net interest income</b>	<b>2,627</b>	<b>2,960</b>	<b>2,811</b>	<b>7.0</b>	<b>(5.0)</b>
Non-interest Income	175	293	263	50.4	(10.2)
<b>Total Income (net of interest expenses)</b>	<b>2,802</b>	<b>3,252</b>	<b>3,074</b>	<b>9.7</b>	<b>(5.5)</b>
Employee expenses	949	959	916	(3.5)	(4.5)
Depreciation and amortization	73	91	85	16.9	(6.5)
Fees and Commission expenses	22	12	10	(52.7)	(16.8)
Other operating expenses	295	372	368	24.5	(1.3)
<b>Total Operating Expense</b>	<b>1,339</b>	<b>1,434</b>	<b>1,379</b>	<b>3.0</b>	<b>(3.9)</b>
<b>Pre-provisioning profit (PPoP)</b>	<b>1,464</b>	<b>1,818</b>	<b>1,695</b>	<b>15.8</b>	<b>(6.8)</b>
Provisions and write offs	57	43	86	51.2	98.9
<b>PBT</b>	<b>1,407</b>	<b>1,775</b>	<b>1,609</b>	<b>14.4</b>	<b>(9.3)</b>
Tax expenses	310	349	348	12.5	(0.1)
<b>PAT</b>	<b>1,097</b>	<b>1,426</b>	<b>1,261</b>	<b>14.9</b>	<b>(11.6)</b>
<b>EPS (INR)</b>	<b>13.9</b>	<b>18.0</b>	<b>15.9</b>	<b>14.8</b>	<b>(11.6)</b>
<b>Balance Sheet (INR mn)</b>					
Share capital	791	791	791	0.1	(0.1)
Reserves & surplus	33,096	36,942	38,242	15.5	3.5
<b>Shareholders' funds</b>	<b>33,887</b>	<b>37,733</b>	<b>39,033</b>	<b>15.2</b>	<b>3.4</b>
<b>Borrowings</b>	<b>1,06,772</b>	<b>1,23,365</b>	<b>1,26,027</b>	<b>18.0</b>	<b>2.2</b>
Deferred tax liabilities (net)	506	602	578	14.2	(4.1)
Other Liabilities and provisions	2,827	3,494	4,286	51.6	22.7
<b>Total Liabilities and SHE</b>	<b>1,43,992</b>	<b>1,65,195</b>	<b>1,69,924</b>	<b>18.0</b>	<b>2.9</b>
Fixed assets	631	715	754	19.5	5.5
<b>Loans</b>	<b>1,19,144</b>	<b>1,40,044</b>	<b>1,44,445</b>	<b>21.2</b>	<b>3.1</b>
Cash & bank balances	18,937	17,978	18,554	(2.0)	3.2
Investments	1,523	1,822	1,808	18.7	(0.7)
Other Assets	3,757	4,636	4,364	16.2	(5.9)
<b>Total Assets</b>	<b>1,43,992</b>	<b>1,65,195</b>	<b>1,69,925</b>	<b>18.0</b>	<b>2.9</b>
<b>Key ratios</b>					
<b>AUM (INR mn)</b>	<b>146,500</b>	<b>173,126</b>	<b>178,415</b>	<b>21.8</b>	<b>3.1</b>
-Home Loans (INR mn)	102,257	119,976	123,106	20.4	2.6
-Other mortgage loans (INR mn)	44,243	53,150	55,309	25.0	4.1
<b>Disbursements (INR mn)</b>	<b>10,682</b>	<b>18,931</b>	<b>12,109</b>	<b>13.4</b>	<b>-36.0</b>
-Home Loans (INR mn)	7,136	12,589	8,065	13.0	-35.9
-Other mortgage loans (INR mn)	3,546	6,342	4,044	14.0	-36.2
AUM/branch (INR mn)	421	472	481	14.2	1.9
Yield on average AUM (%) [Reported-YTD]	13.3	13.1	13.1	-18 bps	-6 bps
Borrowing costs (%) [Reported-YTD]	7.7	8.1	8.1	42 bps	0 bps
Spreads (%)	5.6	5.1	5.0	-60 bps	-7 bps
<b>NIM (%) [Reported-YTD]</b>	<b>8.0</b>	<b>7.9</b>	<b>7.3</b>	<b>-69 bps</b>	<b>-61 bps</b>
<b>Op cost as % of avg assets</b>	<b>3.9</b>	<b>3.6</b>	<b>3.3</b>	<b>-57 bps</b>	<b>-30 bps</b>
Cost to income (%)	47.8	44.1	44.8	-293 bps	74 bps
1+ dpd (%)	3.68	3.12	3.65	-4 bps	53 bps
<b>Gross Stage 3 (%)</b>	<b>1.00</b>	<b>0.94</b>	<b>1.10</b>	<b>10 bps</b>	<b>16 bps</b>
<b>Net Stage 3 (%)</b>	<b>0.73</b>	<b>0.67</b>	<b>0.72</b>	<b>-1 bps</b>	<b>4 bps</b>
<b>Provision coverage ratio (%)</b>	<b>26.9</b>	<b>28.8</b>	<b>28.8</b>	<b>188 bps</b>	<b>2 bps</b>
Credit cost as a % of avg AUM [annualized]	0.16	0.10	0.20	3 bps	9 bps

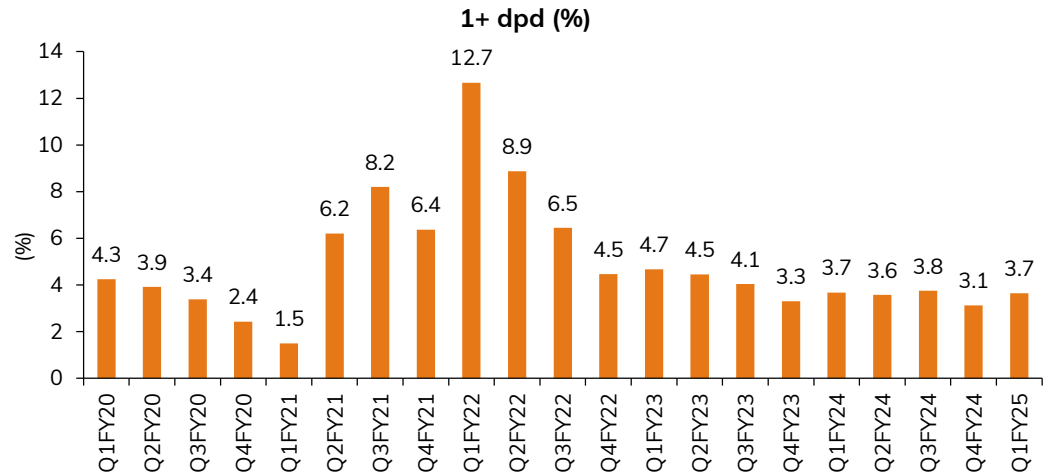
Source: Company data, I-Sec research

**Exhibit 2: Coverage ratio maintained around 29%**



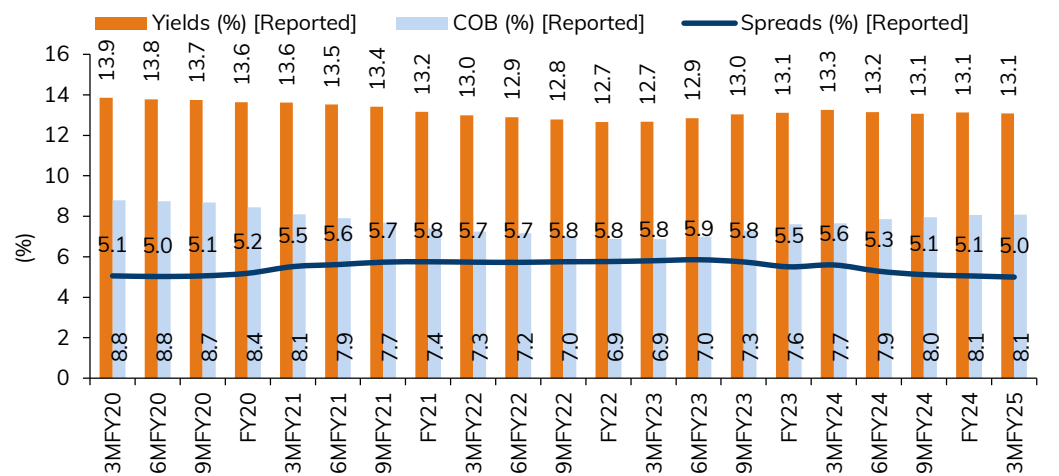
Source: Company data, I-Sec research

**Exhibit 3: Uptick in 1+ dpd to 3.7%**



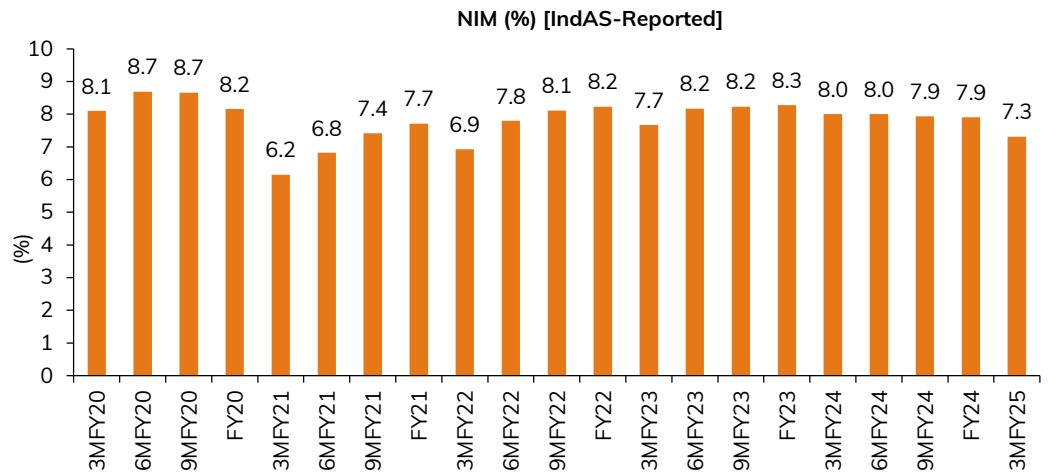
Source: Company data, I-Sec research

**Exhibit 4: Spreads compressed by 10bps to 5.1%; remained higher than guidance of 5%**



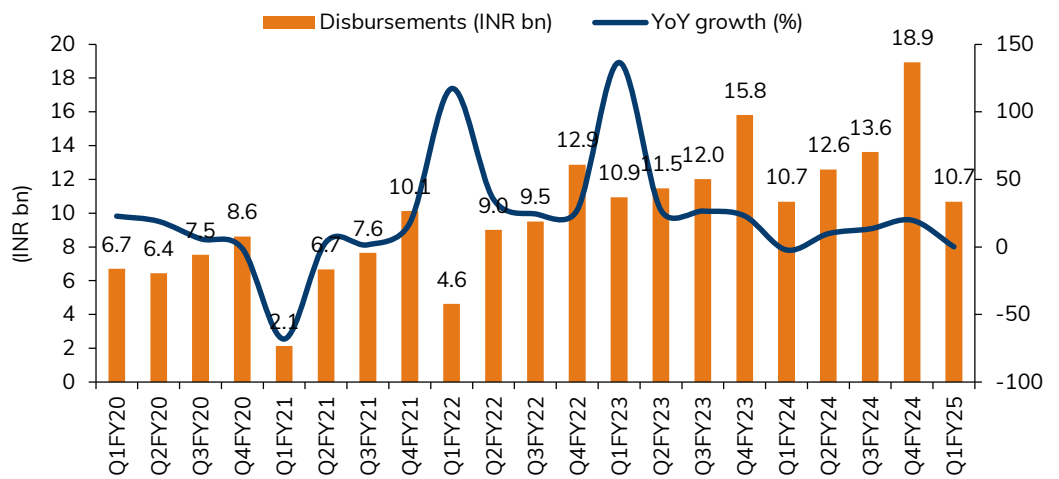
Source: Company data, I-Sec research

**Exhibit 5: NIM fell QoQ owing to impact of lower assignment income, rise in cost of borrowings and pressure on yields**



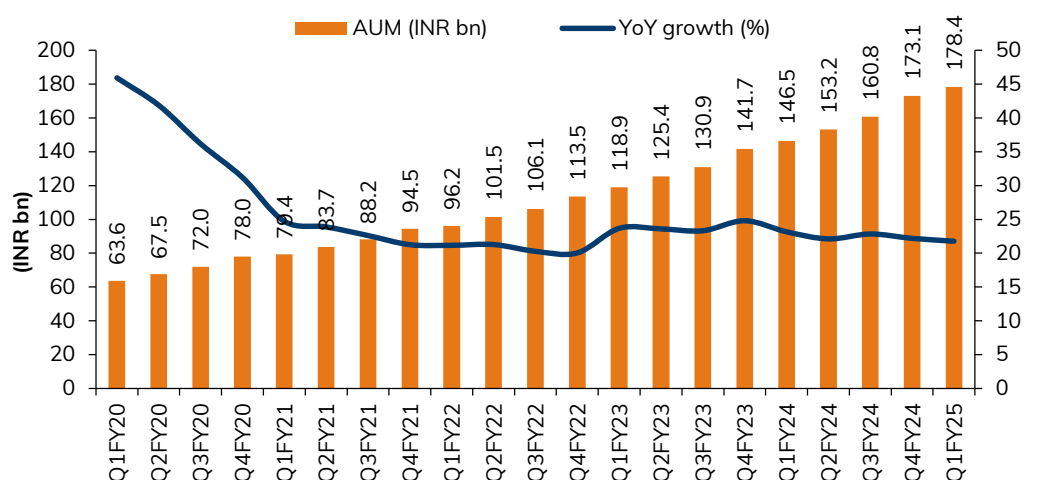
Source: Company data, I-Sec research

**Exhibit 6: Disbursements growth was lower at 11% YoY and down 36% QoQ...**



Source: Company data, I-Sec research

**Exhibit 7: ...however, AUM growth at 22% YoY is in-line with its long-term guidance of 20-25%**



Source: Company data, I-Sec research

### Exhibit 8: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	39.1	26.5	26.5
Institutional investors	47.6	58.8	60.2
MFs and others	12.1	21.1	21.2
FIs/Banks	0.0	0.0	0.0
Insurance	1.7	1.3	1.6
FIIIs	33.8	36.4	37.4
Others	13.3	14.7	13.3

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)
<b>Net Interest Income (NII)</b>	<b>7,971</b>	<b>9,063</b>	<b>10,670</b>	<b>12,369</b>
Other Income	2,220	2,856	3,057	3,864
<b>Total Income (net of interest expenses)</b>	<b>10,191</b>	<b>11,919</b>	<b>13,727</b>	<b>16,234</b>
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)
<b>Total Operating Expense</b>	<b>(4,577)</b>	<b>(5,430)</b>	<b>(6,276)</b>	<b>(7,162)</b>
<b>Pre Provisioning Profits (PPoP)</b>	<b>5,614</b>	<b>6,489</b>	<b>7,451</b>	<b>9,071</b>
Provisions and write offs	(124)	(245)	(264)	(360)
<b>Profit before tax (PBT)</b>	<b>5,490</b>	<b>6,244</b>	<b>7,187</b>	<b>8,711</b>
Total tax expenses	(1,189)	(1,338)	(1,581)	(1,916)
<b>Profit after tax (PAT)</b>	<b>4,301</b>	<b>4,907</b>	<b>5,606</b>	<b>6,795</b>

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
<b>Shareholders' funds</b>	<b>32,697</b>	<b>37,733</b>	<b>43,342</b>	<b>50,137</b>
Borrowings	98,407	123,365	138,430	170,529
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	-	-	-	-
<b>Total Liabilities and Stakeholder's Equity</b>	<b>134,105</b>	<b>165,195</b>	<b>186,475</b>	<b>226,276</b>
Fixed assets	561	715	858	1,029
<b>Loans</b>	<b>114,763</b>	<b>140,044</b>	<b>164,010</b>	<b>200,212</b>
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
<b>Total Assets</b>	<b>134,105</b>	<b>165,195</b>	<b>186,475</b>	<b>226,276</b>

Source Company data, I-Sec research

**Exhibit 12: Key Ratios**

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>AUM and Disbursements (INR mn)</b>				
AUM	141,667	173,126	210,269	256,682
Disbursements	50,245	55,822	68,837	84,917
Repayments	22,080	24,363	31,694	38,505
Growth (%):				
Total AUM (%)	24.8	22.2	21.5	22.1
Disbursements (%)	39.5	11.1	23.3	23.4
<b>Repayments (%)</b>	<b>29.4</b>	<b>10.3</b>	<b>30.1</b>	<b>21.5</b>
Loan book (on balance sheet) (%)	26.8	22.0	17.1	22.1
Total Assets (%)	21.7	23.2	12.9	21.3
Net Interest Income (NII) (%)	22.4	13.7	17.7	15.9
Non-interest income (%)	23.8	26.7	8.1	27.7
Total Income (net of interest expenses) (%)	23.1	17.0	15.2	18.3
Operating Expenses (%)	30.5	18.6	15.6	14.1
Employee Cost (%)	29.4	18.4	18.9	15.6
Non-Employee Cost (%)	35.9	21.6	8.6	10.7
Pre provisioning operating profits (PPoP) (%)	17.6	15.6	14.8	21.8
Provisions (%)	(45.0)	97.0	7.9	36.4
PBT (%)	20.7	13.7	15.1	21.2
PAT (%)	20.5	14.1	14.2	21.2
EPS (%)	20.4	14.1	14.2	21.2
<b>Yields, interest costs and spreads (%)</b>				
NIM on loan assets (%)	7.8	7.1	7.0	6.8
NIM on IEA (%)	6.2	5.8	5.6	5.3
NIM on AUM (%)	6.2	5.8	5.6	5.3
<b>Yield on loan assets (%)</b>	<b>13.5</b>	<b>13.6</b>	<b>13.1</b>	<b>12.8</b>
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
<b>Operating efficiencies</b>				
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
<b>Op.costs/avg AUM (%)</b>	<b>3.6</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>
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
<b>Capital Structure</b>				
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
<b>Tier 1 CAR (%)</b>	<b>44.1</b>	<b>41.7</b>	<b>40.7</b>	<b>38.5</b>
Tier 2 CAR (%)	0.4	0.2	1.4	1.4
RWA (estimate) - INR mn	74,095	90,417	106,606	130,138
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

	FY23A	FY24A	FY25E	FY26E
<b>Asset quality and provisioning</b>				
GNPA (%)	0.9	0.9	0.9	0.9
NNPA (%)	0.7	0.7	0.6	0.6
GNPA (INR mn)	1,067	1,319	1,476	1,802
NNPA (INR mn)	780	939	1,033	1,261
Coverage ratio (%)	26.1	28.7	30.0	30.0
Credit Costs as a % of avg AUM (bps)	10	16	14	15
Credit Costs as a % of avg on book loans (bps)	10	16	14	15
<b>Return ratios</b>				
RoAA (%)	3.5	3.3	3.2	3.3
RoAE (%)	14.2	13.9	13.8	14.5
ROAAUM (%)	3.4	3.1	2.9	2.9
<b>Valuation Ratios</b>				
<b>No of shares</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>
No of shares (fully diluted)	79	79	79	79
ESOP Outstanding	0	0	-	-
EPS (INR)	54.1	61.7	70.5	85.5
EPS fully diluted (INR)	54.1	61.7	70.5	85.5
Price to Earnings (x)	32.9	28.8	25.2	20.8
Price to Earnings (fully diluted) (x)	32.9	28.8	25.2	20.8
Book Value (fully diluted)	411	475	545	631
Adjusted book value	402	463	532	615
Price to Book	4.3	3.7	3.3	2.8
Price to Adjusted Book	4.4	3.8	3.3	2.9

Source Company data, I-Sec research

**Exhibit 13: Key Metrics**

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>DuPont Analysis</b>				
Average Assets (INR mn)	122,155	149,650	175,835	206,376
Average Loans (INR mn)	102,648	127,403	152,027	182,111
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
<b>Gross Interest Spread (%)</b>	<b>6.5</b>	<b>6.1</b>	<b>6.1</b>	<b>6.0</b>
Credit cost (%)	0.1	0.2	0.2	0.2
<b>Net Interest Spread (%)</b>	<b>6.4</b>	<b>5.9</b>	<b>5.9</b>	<b>5.8</b>
Operating cost (%)	3.7	3.6	3.5	3.4
<b>Lending spread (%)</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>
Non interest income (%)	1.7	1.8	1.7	1.8
<b>Operating Spread (%)</b>	<b>4.5</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>
Tax rate (%)	21.7	21.4	22.0	22.0
<b>ROAA (%)</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>
Effective leverage (AA/ AE)	4.0	4.2	4.3	4.4
<b>RoAE (%)</b>	<b>14.2</b>	<b>13.9</b>	<b>13.8</b>	<b>14.5</b>

Source Company data, I-Sec research

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