

BFSI | Q2FY24 Result Update

Yields under pressure

- Aavas reported weak NII growth at 19% YoY (-2% QoQ) led by sequential decline in yields. Lower opex however limited impact on PAT (Cost/assets declined to 3.5% vs 3.9% in Q1). AUM growth was in-line at 5% QoQ and 22% YoY.
- Yield decline was driven by both retention of existing customers and new customers coming in at lower rate. Asset quality metrics were marginally higher (stage 3% up 4 bps QoQ), partly led by seasoning of non-HL book.
- We downgrade earnings by ~4% for FY24/25E led by lower spreads vs earlier. Rolling over to Sep-25E, maintain Accumulate with TP of Rs1750, valuing HFC at 2.9x PBV against RoA/RoE of 3.6%/16%. Assigned multiple is lower vs peers given its relatively modest growth and profitability metrics.

Yields moderate led by competitive intensity

With benefits of PLR hike largely done with, yields declined QoQ, resulting in sequential decline in NII even as rise in CoF was in-line. Yield decline was led by retention of good customers (as they came up for re-pricing) and also due to new business coming in at lower rate. ATS for incremental disbursements has also increased, which could be hurting yields. This does reflect the HFC's limited pricing power in its area of operations amidst rising competitive intensity. We factor in spreads of ~5.6%/5.5% over FY24/25E vs 6% in FY23, slightly lower vs earlier.

Asset quality metrics largely steady

GS3% increased by 4 bps QoQ, with 10 bps QoQ decline in 1+dpd (after a 40 bps rise in Q1). Rise in non-HL NPA (+9 bps QoQ) is mainly owing to portfolio seasoning. Restructured book declined to 0.6% (-10 bps QoQ). ECL provisions were stable QoQ at 64 bps, with credit costs at 21 bps for the quarter. We factor in credit costs of 25-30 bps over FY24-26E.

Operating leverage to aid RoA from FY25E

We expect pressure on spreads to continue for the sector over the medium term. However, RoAs for Aavas will benefit from lower opex/assets from FY25E. We factor in lower valuation multiples for Aavas vs peers driven by its lower profitability metrics (sustainable RoA at 3.6% vs 4%/7% for HFFC/Aptus) and modest growth (at 25% YoY vs 35%/30% for HFFC/Aptus). Asset quality metrics have been only marginally superior relative to peers.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net interest income	2,223	1,877	18.5	2,262	(1.7)
Other income	716	664	7.8	540	32.4
Total Net Income	2,938	2,541	15.7	2,802	4.9
Operating expenses	1,308	1,147	14.1	1,339	(2.3)
Pre-provision profit	1,631	1,394	17.0	1,464	11.4
Provisions	65	16	304.1	57	14.8
Tax expense	348	310	12.4	310	12.4
Reported Net Profit	1,217	1,068	13.9	1,097	10.9
			bps		bps
Advances Growth YoY%	23.0	22.8	18	24.2	-119
NIM (%)	6.2	6.6	-40	6.7	-48
RoA (%)	3.4	3.7	-26	3.2	24
RoE (%)	14.5	14.4	7	13.2	129
Gross Stage 3 (%)	1.0	1.1	-6	1.0	4

CMP	Rs 1,550
Target / Upside	Rs 1,700 / 10%
NIFTY	18,857

Scrip Details

Equity / FV	Rs 791mn / Rs 10
Market Cap	Rs 123bn
	USD 1.5bn
52-week High/Low	Rs 2,078/ 1,346
Avg. Volume (no)	212,664
Bloom Code	AAVAS IN

Price Performance	1M	3M	12M
Absolute (%)	(9)	(2)	(22)
Rel to NIFTY (%)	(5)	2	(28)

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	39.8	39.7	39.7
MF/Banks/FIs	11.9	13.7	13.5
FIs	38.8	35.0	35.5
Public / Others	9.5	11.5	11.2

Valuation (x)

	FY24E	FY25E	FY26E
P/E	24.3	19.1	14.7
P/ABV	3.3	2.9	2.4
ROAA	3.4	3.5	3.7
ROAE	14.3	15.6	17.3

Estimates (Rs bn)

	FY24E	FY25E	FY26E
NII	9.5	11.6	14.3
PPOP	6.8	8.7	11.3
PAT	5.0	6.4	8.4
Adj BV (Rs)	464.5	542.9	645.3

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Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	Q2FY24E	Dev. (%)
Net interest income	2,223	1,877	2,262	18.5	(1.7)	2,379	(6.6)
Non-interest income	716	664	540	7.8	32.4	648	10.4
Pre-Provisioning Operating Profit	1,662	1,394	1,464	19.2	13.5	1,635	(0.3)
PAT	1,248	1,068	1,097	16.8	13.8	1,233	(1.3)

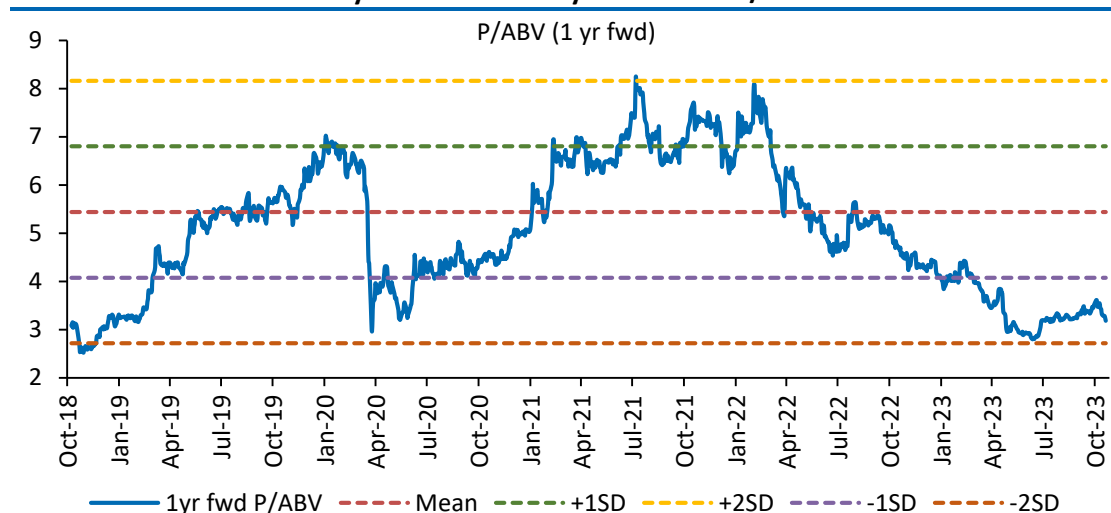
Source: Company, DART

Exhibit 2: Changes in estimates

Particulars (Rs mn)	Previous		Revised		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income	9,634	11,670	9,505	11,585	(1.3)	(0.7)
NIMs (%)	6.69	6.58	6.6	6.5	(9 bps)	(5 bps)
Operating Profit	7,018	8,958	6,770	8,663	(3.5)	(3.3)
Provision	317	409	317	455	0.0	11.2
Profit after tax	5,227	6,668	5,033	6,403	(3.7)	(4.0)
Loan Book	1,43,452	1,80,002	1,43,452	1,79,988	0.0	(0.0)
ABVPS	467	549	464	543	(0.5)	(1.1)

Source: Company, DART

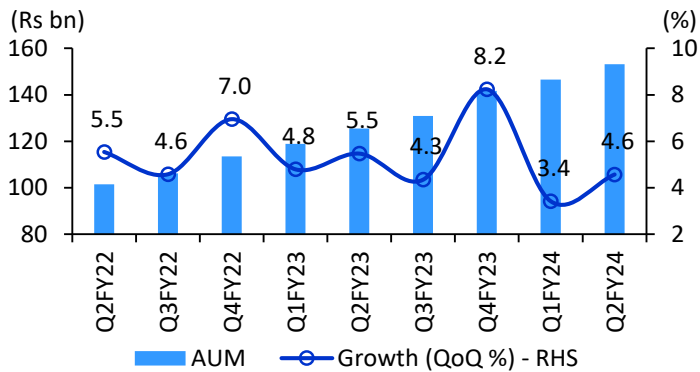
Exhibit 3: The stock currently trades at 2.8x 1-year forward P/ABV



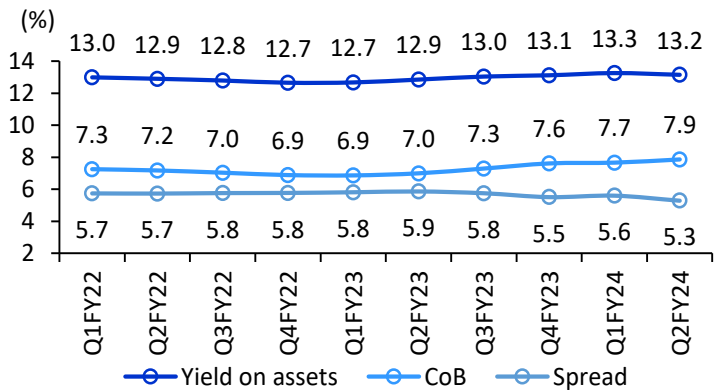
Source: Company, DART

Earnings Call KTAs

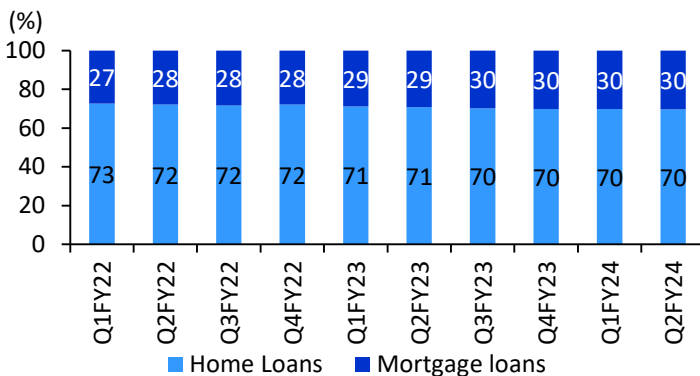
- **Guidance:** AUM growth guided to be in the range of 20-25% for full year. Should be able to maintain spreads at over 5%. Avg CoB should peak at 8-8.1% over next few quarters vs 7.86% currently.
- **Margin:** Yield decline led by rate decline for existing customers as the HFC tried to retain good customers and also new customers coming at lower rate. Endeavour would be to maintain spreads at 5%. Roughly 0.4% opening AUM per month gets re-priced, the HFC charges a cost if they re-price, which partly takes care of re-pricing for first year. Some assets we let go where competition was taking over at higher LTV.
- **Loan growth:** Disbursement remained soft at 10 YoY, but AUM to grow at 20-25% YoY. Sanction to disbursement dropped to 80% vs 90% earlier due to competitive intensity, limiting disbursement growth. In a few quarters, should see disbursements picking up meaningfully. Assignment income has come down due pricing, even as volumes have increased. BT-out at 0.5% per month. HL ATS has increased mainly owing to inflation and higher property price in newer geographies. The focus is not on market share gains but to grow within the risk guardrails.
- **Borrowings:** Incremental borrowing at 8.19% and outstanding at 7.86%. The HFC has Rs10bn NHB sanction which will come over next 2-3 quarters, nothing came this quarter. We also borrow from FIIs like ADB, IFC etc. These should limit rise in CoF. So avg CoF should rise to 8-8.1% over next few quarters. DFIs should contribute 15% of borrowings.
- **Opex:** Employee count remains the same vs Q1, cost reduction led by one-time cost in Q1 from bonus etc, exit costs for a senior exit. Higher attrition has impacted overall productivity, but this should improve. Frontline sales today at 3200. Sharp rise in other opex is led by AUM growth, branch infra, and IT investments. An RM brings around 5-6 files a month.
- **Asset quality:** Non HL book NPA increase is mainly led seasoning of the book, should remain in the 1-1.25% range hereon. Out of RSA book of Rs779mn, over Rs574 mn is in the 0-30 bucket.
- **Branches:** Breakeven takes 3-6 months in smaller markets and 6-9 months in larger markets. Will add 20-25 branches in H2FY24. By end of FY24, the entire digital transition should be complete including LMS and ERP.

Exhibit 4: AUM growth driven by both HL/non-HL


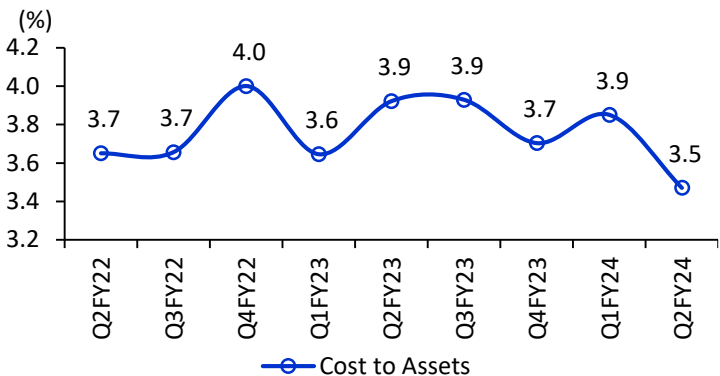
Source: Company, DART

Exhibit 5: Spreads moderation led by lower yields


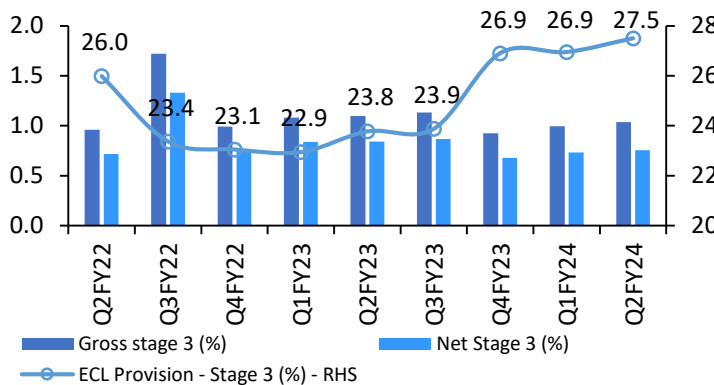
Source: Company, DART

Exhibit 6: Portfolio mix gradually shifting towards non-HL


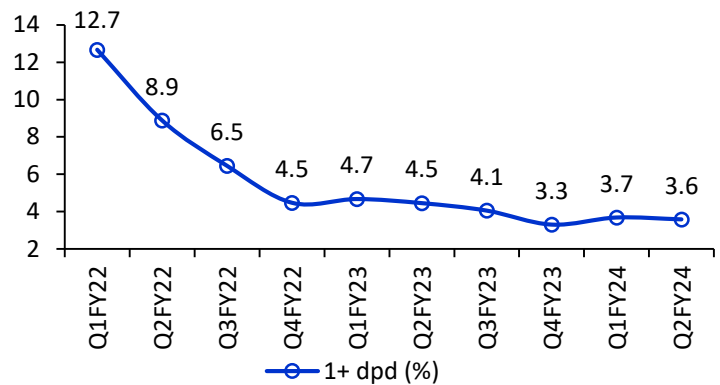
Source: Company, DART

Exhibit 7: Cost to assets decline sequentially


Source: Company, DART

Exhibit 8: Asset quality trends were largely steady


Source: Company, DART

Exhibit 9: Soft bucket delinquencies dip after rise in Q1


Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	4,259	3,287	4,128	29.6	3.2
Interest Expense	2,036	1,410	1,866	44.4	9.1
Net Interest Income	2,223	1,877	2,262	18.5	(1.7)
NIM (%)	6.2	6.6	6.72	(40 bps)	(48 bps)
Non-Interest Income	716	664	540	7.8	32.4
Total Income	2,938	2,541	2,802	15.7	4.9
Employee expenses	820	772	949	6.2	(13.6)
Other Op Exp	488	374	390	30.3	25.2
Total Operating Expenses	1,277	1,147	1,339	11.4	(4.6)
Cost to Income (%)	43.5	45.1	47.8	(167 bps)	(432 bps)
Pre-Provisioning Operating Profit	1,662	1,394	1,464	19.2	13.5
Provisions	65	16	57	304.1	14.8
PBT	1,596	1,378	1,407	15.8	13.5
Tax expense	348	310	310	12.4	12.4
-effective tax rate	21.8	22.5	22.0	(67 bps)	(20 bps)
PAT	1,248	1,068	1,097	16.8	13.8
EPS (Rs)	16	14	14	16.7	13.7
BV (Rs)	444	384	429	15.8	3.6
AUM	1,53,190	1,25,437	1,46,500	22.1	4.6
RoA	3.4	3.7	3.2	(26 bps)	24 bps
RoE	14.5	14.4	13.2	7 bps	129 bps

Balance Sheet Analysis	Q2FY24	Q2FY23	Q1FY24	YoY % / bps	QoQ % / bps
Share capital	791.2	790.3	790.6	0.1	0.1
Reserves & surplus	34,344.4	29,523.8	33,096.0	16.3	3.8
Shareholders' funds	35,135.6	30,314.1	33,886.6	15.9	3.7
Borrowings	1,11,444.1	85,712.3	1,06,772.0	30.0	4.4
Other liabilities and provisions	3,796.4	2,853.4	3,333.0	33.0	13.9
Liabilities and Equity	1,50,376	1,18,880	1,43,992	26.5	4.4
Cash & Bank balances	20,016.5	13,391.3	18,937.0	49.5	5.7
Investments	1,527.1	668.2	1,523.0	128.6	0.3
Loans	1,24,026.2	1,00,817.9	1,19,144.0	23.0	4.1
Fixed and other assets	4,806.0	4,002.4	4,388.0	20.1	9.5
Assets	1,50,376	1,18,880	1,43,992	26.5	4.4
AUM	1,53,190	1,25,437	1,46,500	22.1	4.6
Cash as a proportion of total assets	13.3	11.3	13.2	205 bps	16 bps
Loans to borrowings (%)	111.3	117.6	111.6	(633 bps)	(30 bps)
Leverage	4.3	3.9	4.2	36 bps	3 bps

Asset Quality (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ % / bps	YTD % / bps
Gross stage 3	1,045	1,113	1,204	1,067	1,193	1,295	8.5	16.3
Gross stage 3 (%)	1.08	1.10	1.13	0.92	1.00	1.04	4bps	(6bps)
Net Stage 3	805	848	917	780	872	939	7.7	10.7
Net Stage 3 (%)	0.84	0.84	0.87	0.68	0.73	0.76	3bps	(8bps)
ECL Provision - Stage 3	240	265	288	287	322	356	10.7	34.5
ECL Provision - Stage 3 (%)	22.9	23.8	23.9	26.9	26.9	27.5	55bps	372bps
Overall ECL PCR (%)	0.67	0.64	0.64	0.62	0.64	0.64	0bps	0bps

Loan Book Analysis (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ % /bps	YTD % / bps
Housing Loan	84,563	88,935	91,752	99,025	102,257	106,773	4.4	20.1
Mortgage Loans	34,373	36,502	39,135	42,642	44,243	46,417	4.9	27.2
Total Advances	118,936	125,437	130,887	141,667	146,500	153,190	4.6	22.1

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23E	FY24E	FY25E	FY26E
Interest Income	13,882	17,423	21,655	27,304
Interest expense	5,910	7,918	10,070	12,964
Net interest income	7,971	9,505	11,585	14,340
Other income	2,220	2,711	3,396	4,257
Total income	10,191	12,216	14,982	18,597
Total expenses	4,577	5,446	6,318	7,331
- Employee cost	3,006	3,607	4,148	4,770
- Other	1,571	1,839	2,170	2,561
Pre provisioning profit	5,614	6,770	8,663	11,266
Provisions	124	317	455	548
Profit before taxes	5,490	6,453	8,209	10,718
Tax provision	1,189	1,420	1,806	2,358
Profit after tax	4,301	5,033	6,403	8,360
Adjusted profit	4,301	5,033	6,403	8,360

Balance Sheet (Rs Mn)

Particulars	FY23E	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	791	791	791	791
Reserves & Surplus	31,906	36,939	43,342	51,702
Net worth	32,697	37,730	44,132	52,492
Borrowings	98,407	121,533	154,346	196,020
Other liabilities & provisions	3,002	3,977	4,418	5,523
Total Liabilities	134,105	163,239	202,897	254,035
Application of Funds				
Cash and equivalents	13,816	14,202	16,172	20,271
Investments	1,231	646	809	1,216
Advances	114,763	143,452	179,988	225,435
Fixed assets	987	1,135	1,363	1,635
Other assets	3,308	3,804	4,565	5,478
Total Assets	134,105	163,239	202,897	254,035

E – Estimates

Important Ratios

Particulars	FY23E	FY24E	FY25E	FY26E
(A) Margins (%)				
Yield on advances	12.6	12.8	12.8	12.9
Yield on interest earning assets	11.7	12.1	12.2	12.3
Cost of funds	6.6	7.2	7.3	7.4
Spread	6.0	5.6	5.5	5.5
NIM	6.7	6.6	6.5	6.5
(B) Asset quality and capital ratios (%)				
Gross stage 3	0.9	1.0	1.0	1.0
Net stage 3	0.7	0.7	0.7	0.7
CAR	0.0	0.0	0.0	0.0
Tier 1	0.0	0.0	0.0	0.0
RoA	3.5	3.4	3.5	3.7
RoE	14.2	14.3	15.6	17.3
(D) Measures of Investments				
EPS - adjusted	54.4	63.7	81.0	105.7
BV	413.6	477.2	558.2	664.0
DPS	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	22.4	19.2	21.9	23.8
PPoP	17.6	20.6	28.0	30.0
Adj PAT	20.5	17.0	27.2	30.6
Advances	26.8	25.0	25.5	25.2
Total borrowings	23.4	23.5	27.0	27.0
Total assets	21.7	21.7	24.3	25.2
(F) Valuation Ratios				
Market Cap (Rs. mn)	122,538	122,538	122,538	122,538
CMP (Rs.)	1,550	1,550	1,550	1,550
P/E (x)	28.5	24.3	19.1	14.7
P/BV (x)	3.7	3.2	2.8	2.3
Div Yield (%)	0.0	0.0	0.0	0.0

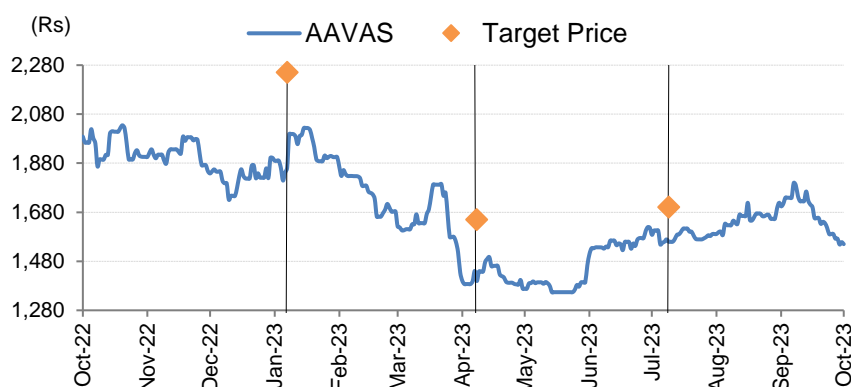
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-23	Accumulate	2,250	1,861
May-23	Accumulate	1,650	1,399
Aug-23	Accumulate	1,700	1,560

*Price as on recommendation date

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Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

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