AAVAS Financiers (AAVAS) BUY

Disbursements declined; Spreads improve QoQ

Summary

Aavas reported decline in disbursements post change in recognition process; disbursements de-grew by 5% YoY. Thus, AUM growth slowed down to 16% YoY vs 18% YoY (Q4FY25). Management revised guidance downwards to 18-20% vs 20-25% AUM growth for FY26. Asset quality deteriorated with GNPA at 1.22% vs 1.08% QoQ; further reported rise in 1+ dpd to 4.15% vs 3.39% led by seasonality. Spreads improved by 22bps QoQ to 5.11% due to decline in cost of funds. NII grew by 14% YoY led by improvement in NIMs; PPoP grew by 12% YoY led by higher operating expenses (up 21% YoY). PAT grew by 10% YoY led by higher provisions (up 31% YoY). We have slightly revised downwards the estimates. We upgrade the stock to 'BUY' with a new TP of Rs.2,250 (Rs.2,340) valuing it at 3.2x P/ABV FY27E as stock has corrected by ~18% in last few months.

Key Highlights and Investment Rationale

- **Disbursement growth impacted by change in recognition:** Disbursement de-grew by 5% YoY led by home loan portfolio (down 19% YoY) & other mortgage segment (up 22% YoY). AUM grew by 16% YoY (up 2% QoQ). We expect 19% vs 22% CAGR (FY25-27) AUM growth.
- **Spreads improved further:** Spreads improved from low of 4.89% (Q3FY25) to 4.94% (Q4FY25) to 5.11% (Q1FY26) led by decline in cost of funds. Management guided that rate cut should support spreads in coming quarters.
- **GS3 inched up due to seasonality:** Aavas reported 1+ dpd at 4.15% vs 3.39% QoQ which could impact flows to stage 3, while GNPA inched up to 1.22% vs 1.08% QoQ due to seasonality; however, it remains best in the industry.
- **Outlook:** Technology upgradation has been completed which resulted improvement in disbursement growth. Further, with full benefit of tech platforms and branch expansion we expect AUM growth should remain strong.

TP	Rs2,250
CMP	**Rs1,725**
Potential upside/downside	30%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(14.4)	(7.8)	0.5
Rel to Sensex	(11.6)	(5.1)	(0.3)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	82.6	97.9
Consensus	86.8	105.2
% difference	*(4.9)*	*(7.0)*

Key Stock Data

Bloomberg / Reuters	AAVAS IN/AVAS.BO
Sector	Housing Finance
Shares o/s (mn)	79
Market cap. (Rs mn)	136,589
3-m daily avg Trd value (Rs mn)	--
52-week high / low	Rs2,238 / 1,614
Sensex / Nifty	80,236 / 24,487

Shareholding Pattern (%)

Promoters	49.0
FII	29.8
DII	10.3
Public	10.9

Financial snapshot (Rs mn)

Year	FY2023	FY2024	FY2025	FY2026E	FY2027E
NII	7,976	9,067	10,102	11,696	13,913
Change (yoy, %)	*22%*	*14%*	*11%*	*16%*	*19%*
Net Profit	4,283	4,907	5,741	6,540	7,748
Change (yoy, %)	*21%*	*15%*	*17%*	*14%*	*18%*
EPS (Rs)	54.2	62.0	72.5	82.6	97.9
Change (yoy, %)	*20%*	*14%*	*17%*	*14%*	*18%*
ABV (Rs)	405.9	466.9	539.3	619.9	715.0
PER (x)	31.5	27.5	23.8	20.9	17.6
P/ABV (x)	4.2	3.7	3.2	2.8	2.4
ROE (%)	14.1	13.9	14.1	14.0	14.3
ROA (%)	3.5	3.3	3.3	3.2	3.2
GNPA (%)	0.9	0.9	1.1	1.1	1.1
NNPA (%)	0.7	0.7	0.7	0.7	0.7
CAR (%)	46.94	43.99	44.50	36.67	35.52

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance

- Completed promoter change process with CVC Capital Partners as the new promoter.
- The company witnessed strong traction with login volumes growing by 17% yoy; within one year of partnership, monthly logins crossed 1,000, indicating strong potential from the partnership.
- Healthy increase observed in real estate pricing.
- 35 bps improvement in yields on AAUM driven by targeted initiatives to improve portfolio mix and pricing.
- Government initiatives, such as inter-subsidy schemes like PMAY 2.0, along with the prevailing interest rate environment, continued to support home buyer sentiment and improve affordability; over 450 customers availed this scheme, receiving subsidies of more than ₹50 million.
- The company won the award for Product Innovation at NHB's inaugural Housing Finance Awards 2025.
- Opex-to-asset ratio stood higher at 3.46% due to high ESOPs (adjusted ratio: 3.34%).
- Increase in employee count owing to branch expansion and addition of digital channels.

Loans and Borrowing

- AUM grew 16% yoy despite softer disbursement growth.
- Change in disbursement recognition policy has impacted sanction-to-disbursement ratio; now recognizing disbursements when funds are credited (earlier on cheque issuance), leading to ~10 bps reduction in the ratio. Depending on the transaction type, credit timelines range from 15–30 days. HL products like plot construction and self-construction saw limited impact, while builder purchases and resale purchases were more affected. Builder purchase constitutes only 5–10% of the total portfolio, with a majority in self-construction.
- Under the old policy, disbursement growth would have been in double digits instead of the reported 5% yoy decline.

- Impact of this policy change will roll through Q2 and Q3, post which normalisation is expected as July has 16% of disbursement growth. July run-rate for realised disbursements was ₹550-600 cr.
- Continued focus on self-employed customers (more than ₹5 lakh ticket size), which demonstrated better asset quality trends and portfolio behaviour.
- Received fresh sanction from NHB with full-year drawdown of ₹2 bn, providing cushion to borrowing costs.
- Cost of funds reduced by 22 bps due to strategic diversification, increased share of EBLR-linked borrowings, and faster liability re-pricing versus peers.
- New loan pricing has moved lower, in line with expectations of a further reduction in cost of borrowing.
- The company raised ₹4 bn of NCDs from marquee institutions.
- Maintained strong liquidity with unavailed cash credit of ₹18.77 bn and total unutilised sanctioned limits of ₹25.98 bn.
- Borrowing mix: 38% linked to EBLR, 22% fixed rate, and 40% linked to MCLR.
- NHB loan under PMAY and Women Empowerment Programme are at 7% interest rate.

Asset Quality

- Maintained a cautiously optimistic approach in underwriting; no material deterioration in asset quality despite stress observed by peers in certain geographies and segments.
- Sequential uptick in credit cost driven by seasonality; July 1+ DPD fell below 4%, indicating normalisation.
- Geographic asset quality trends:
    - Home state: 1+ DPD below 4%, GNPA ~1% of AUM
    - North & emerging states: 1+ DPD below 3%, GNPA ~1% of AUM
    - Ticket size > ₹5 lakh: 1+ DPD below 4%, GNPA ~1% of AUM
- ECL provisions stood at ₹1.14 bn.
- As loan book is not significantly higher; the GNPA ratio is higher due to the exaggerated effect in denominator effect.

- Geographic stress areas: Maharashtra, Madhya Pradesh, and parts of Karnataka; no material deterioration in Gujarat.

Future Guidance

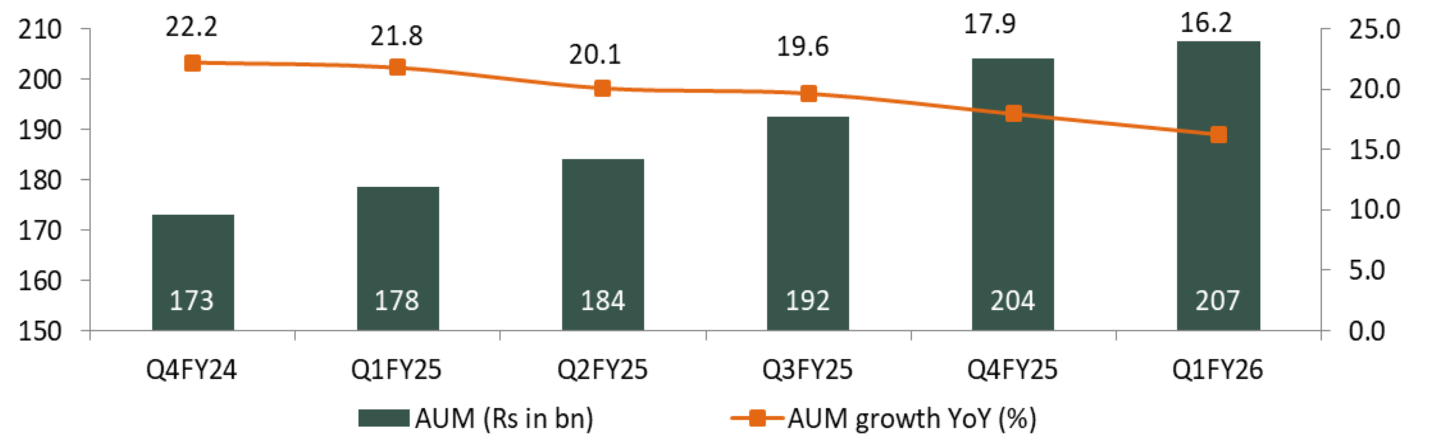
- Targeting AUM growth of 18–20% on a steady-state basis.
- Plans to open 10 new branches in Tamil Nadu in H1FY26 as part of distribution expansion strategy.
- Credit costs expected to remain below 25 bps on a sustainable basis.
- 1+DPD guidance will be maintained at 5%.
- Gross Stage 3 ratio expected at less than 1.25%.
- Anticipating rating upgrades from CARE and ICRA in the coming quarter.

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q1FY26	Q4FY25	Q1FY25	QoQ (%)	YoY (%)
Interest Income	5,489	5,353	4,797	2.6	14.4
Interest Expenses	2,713	2,647	2,352	2.5	15.4
Net Interest Income	**2,776**	**2,705**	**2,446**	**2.6**	**13.5**
Spreads (%)	***5.11***	***4.89***	***5.00***	***22 bps***	***11 bps***
Non Interest Income	790	1022	628	(22.7)	25.8
Operating Income	**3,566**	**3,728**	**3,074**	**(4.3)**	**16.0**
Staff Cost	1,107	1,120	916	(1.1)	20.9
Other Op Exp	555	599	463	(7.4)	19.8
Total Operating Expenses	1,662	1,719	1,379	(3.3)	20.6
Cost to Income (%)	*46.6*	*46.1*	*44.8*	*49 bps*	*176 bps*
Operating Profit	**1,904**	**2,009**	**1,695**	**(5.2)**	**12.3**
Provisions	113	76	86	47.4	31.2
PBT	**1,791**	**1,932**	**1,609**	**(7.3)**	**11.3**
Tax	399	395	348	0.9	14.5
-effective tax rate	*22.3*	*20.5*	*21.7*	*181 bps*	*62 bps*
PAT	**1,392**	**1,537**	**1,261**	**(9.4)**	**10.4**
EPS (Rs)	17.6	19.4	15.9	(9.4)	10.3
BV (Rs)	569.7	550.9	493.5	3.4	15.5
Borrowings	1,43,899	1,39,185	1,26,027	3.4	14.2
AUM	2,07,397	2,04,202	1,78,415	1.6	16.2
GNPA (%)	1.22	1.08	1.01	14 bps	21 bps
NNPA (%)	0.84	0.73	0.72	11 bps	12 bps

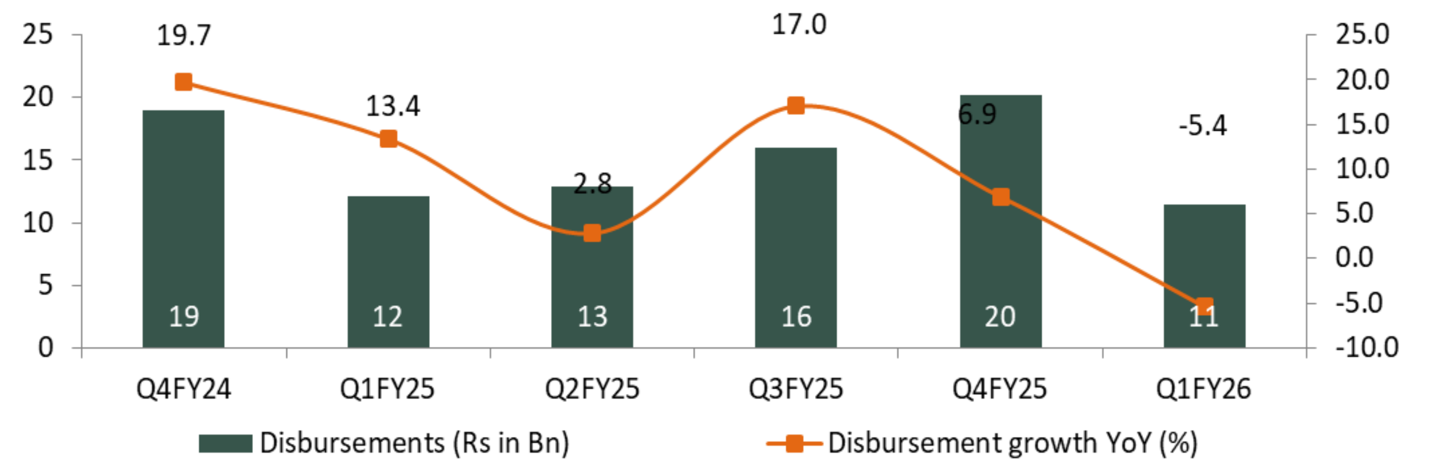
Source: Company; IDBI Capital Research

Exhibit 2: AUM growth decreased during the quarter



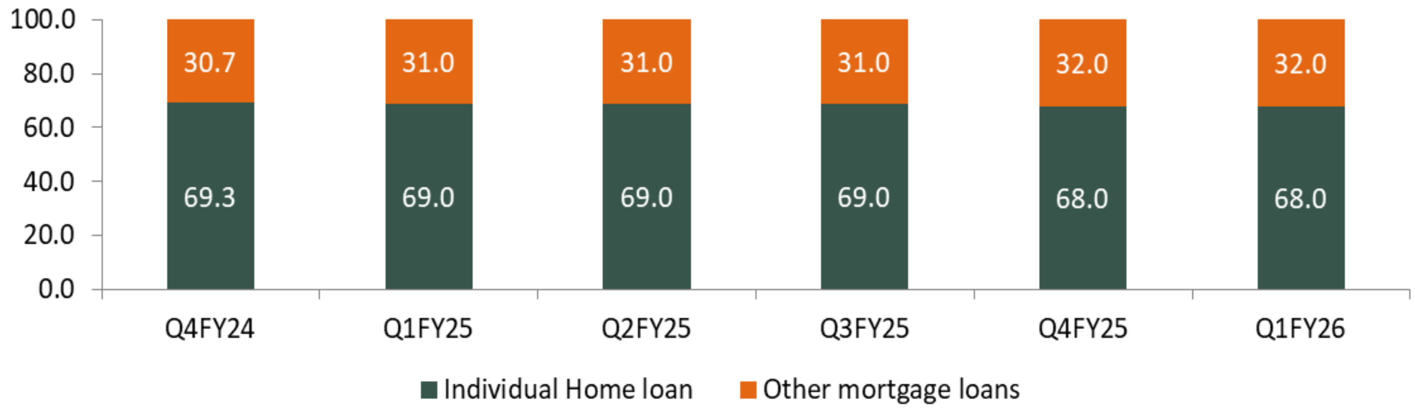
Source: Company; IDBI Capital Research

Exhibit 3: Disbursements dipped due to change in recognition policy



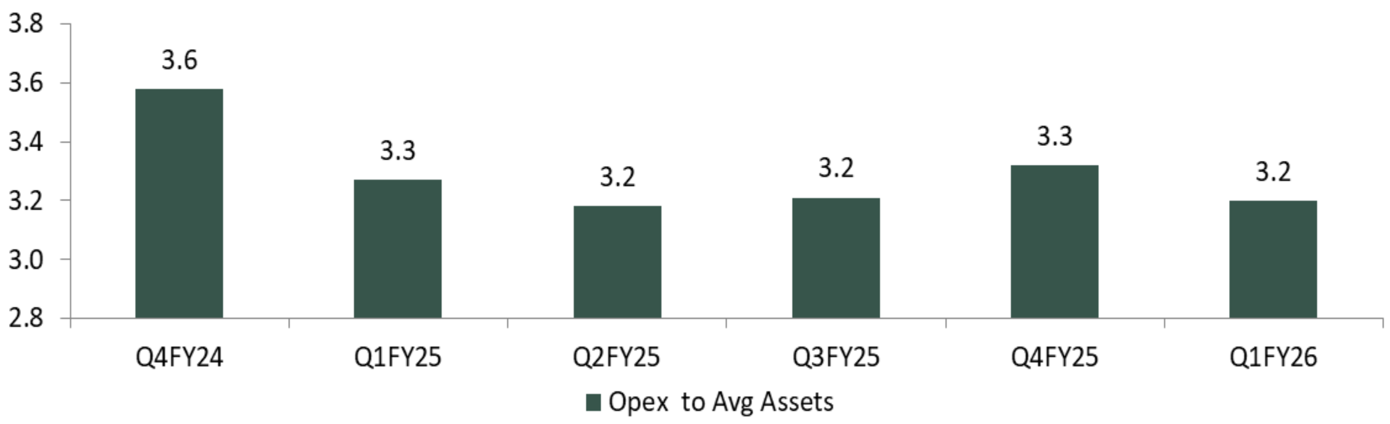
Source: Company; IDBI Capital Research

Exhibit 4: AUM mix remained stable QoQ



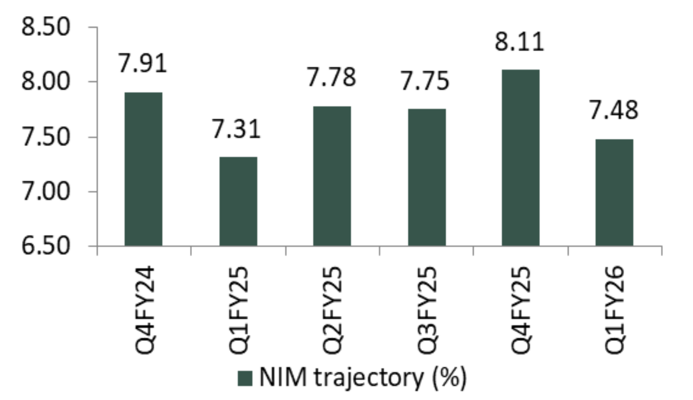
Source: Company; IDBI Capital Research

Exhibit 5: Opex to Avg Assets slightly decreased QoQ



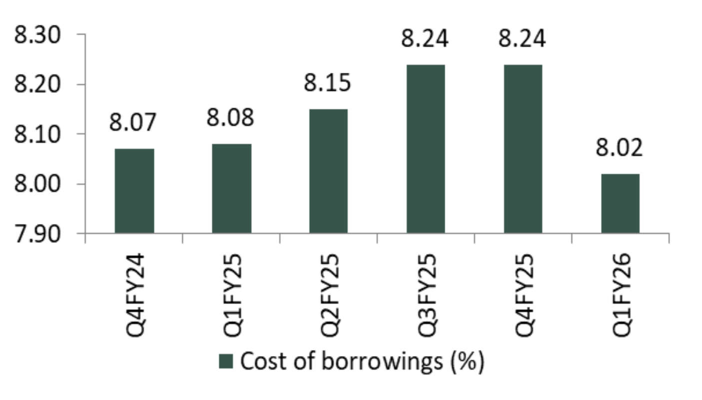
Source: Company; IDBI Capital Research

Exhibit 6: NIMs (Calc.) declined QoQ



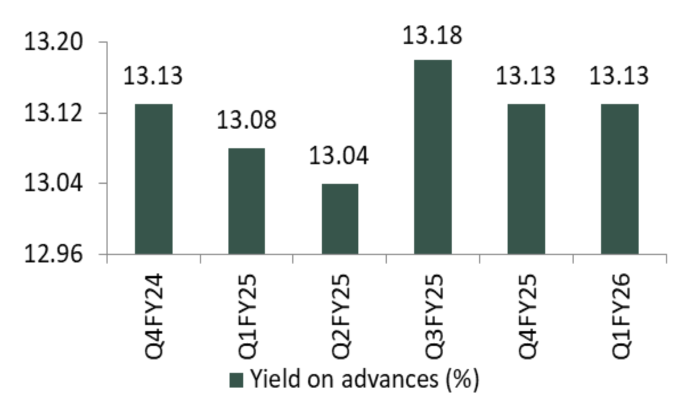
Source: Company; IDBI Capital Research

Exhibit 7: Cost of funds dipped QoQ



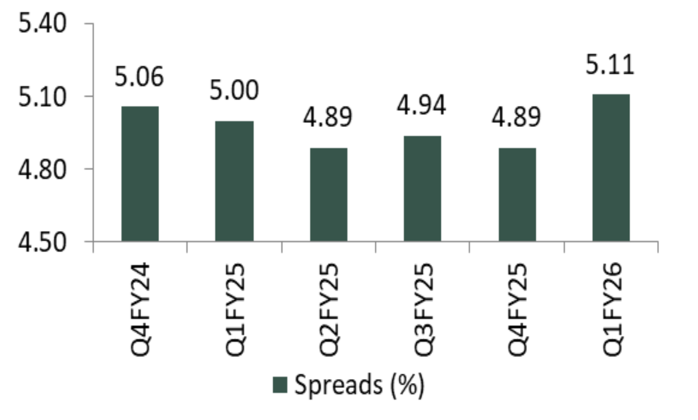
Source: Company; IDBI Capital Research

Exhibit 8: Yields remained flat QoQ



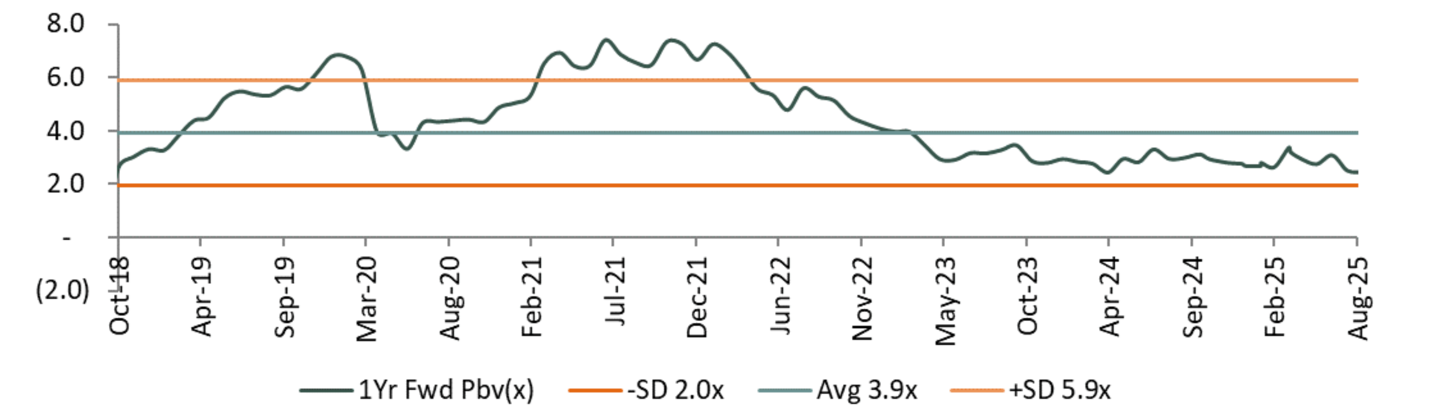
Source: Company; IDBI Capital Research

Exhibit 9: Spreads increased QoQ



Source: Company; IDBI Capital Research

Exhibit 10: One-year forward P/ABV (FY19-25)



Source: Company; IDBI Capital Research

Exhibit 11: ROE Decomposition

(%)	FY23	FY24	FY25	FY26E	FY27E
NII	**6.5**	**6.1**	**5.7**	**5.7**	**5.7**
Fees	0.5	0.6	0.6	0.6	0.6
Other Income	1.3	1.3	1.3	1.4	1.4
Net Revenue	**8.3**	**8.0**	**7.7**	**7.7**	**7.6**
Op.Exp	3.8	3.6	3.4	3.4	3.4
Op.Profit	**4.6**	**4.3**	**4.3**	**4.3**	**4.2**
Provisions	0.1	0.2	0.2	0.2	0.2
PBT	4.5	4.2	4.2	4.1	4.0
Tax	1.0	0.9	0.9	0.9	0.9
PAT	**3.5**	**3.3**	**3.3**	**3.2**	**3.2**
Leverage (x)	4.0	4.2	4.	4.4	4.5
ROE	**14.1**	**13.9**	**14.1**	**14.0**	**14.3**

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net interest income	**6,514**	**7,976**	**9,067**	**10,102**	**11,696**	**13,913**
Change (yoy, %)	*26%*	*22%*	*14%*	*11%*	*16%*	*19%*
Non-interest income	1,768	2,220	2,856	3,407	3,975	4,734
Net Revenue	8,281	10,196	11,923	13,509	15,671	18,647
Operating expenses	3,528	4,601	5,433	5,912	6,969	8,301
Employee expenses	2,343	3,016	3,559	3,778	4,451	5,301
Other expenses	1,186	1,585	1,874	2,135	2,518	2,999
Pre-Provision Profit	**4,753**	**5,595**	**6,490**	**7,597**	**8,702**	**10,347**
Change (yoy, %)	*22%*	*18%*	*16%*	*17%*	*15%*	*19%*
Provision	226	124	236	271	357	459
PBT	4,527	5,471	6,254	7,326	8,345	9,887
Taxes	975	1,188	1,347	1,585	1,805	2,139
Effective tax rate (%)	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
Net profit	**3,552**	**4,283**	**4,907**	**5,741**	**6,540**	**7,748**
Change (yoy, %)	*23%*	*21%*	*15%*	*17%*	*14%*	*18%*
EPS	45.0	54.2	62.0	72.5	82.6	97.9
Return on Equity (%)	*13.6*	*14.1*	*13.9*	*14.1*	*14.0*	*14.3*
Return on Assets (%)	*3.6*	*3.5*	*3.3*	*3.3*	*3.2*	*3.2*

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Capital	789	791	791	791	792	792
Reserves	27,275	31,906	36,942	42,817	49,357	57,105
Networth	**28,064**	**32,697**	**37,733**	**43,608**	**50,148**	**57,896**
Borrowings	78,727	97,408	1,23,365	1,39,815	1,64,649	1,97,702
Other liabilities	3,384	3,992	4,096	3,392	8,052	10,037
Total Liab. & Equity	**1,10,175**	**1,34,096**	**1,65,195**	**1,86,815**	**2,22,850**	**2,65,636**
Cash	15,457	13,928	17,978	15,596	18,398	22,091
Advances	90,534	1,14,763	1,40,044	1,62,297	1,91,453	2,29,887
Investments	525	1,107	1,822	2,300	6,409	6,409
Fixed Assets	269	316	297	824	907	997
Other Assets	3,389	3,982	5,054	5,167	5,684	6,252
Total assets	**1,10,175**	**1,34,096**	**1,65,195**	**1,86,815**	**2,22,850**	**2,65,636**

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Growth						
Advances	20.3	26.8	22.0	15.9	18.0	20.1
NII	25.7	22.5	13.7	11.4	15.8	19.0
Pre-Provision Profit	22.0	17.7	16.0	17.1	14.5	18.9
Net Profit	22.9	20.6	14.6	17.0	13.9	18.5
Spreads						
Yield on Advances	10.85	10.88	11.02	10.70	10.5	10.5
Cost of Borrowings	6.76	6.71	7.50	7.70	7.7	7.7
NIM	6.26	6.25	5.76	5.40	5.3	5.2
Operating Efficiency						
Cost-to-Income	42.6	45.1	45.6	43.8	44.5	44.5
Cost-to-AUM	3.5	3.8	3.6	3.4	3.4	3.4
Asset Quality						
GNPA	1.0	0.9	0.9	1.1	1.1	1.1
NNPA	0.8	0.7	0.7	0.7	0.7	0.7
Provision Coverage	23.1	26.9	28.8	32.4	32.4	32.4
Credit Cost	0.3	0.1	0.2	0.2	0.2	0.2
Capital Adequacy						
CAR	51.4	46.9	44.0	44.5	36.7	35.5
Tier I	50.7	46.5	43.8	44.4	36.5	35.4
Valuation						
EPS	45.0	54.2	62.0	72.5	82.6	97.9
ABV	349.5	405.9	466.9	539.3	619.9	715.0
P/E	37.9	31.5	27.5	23.8	20.9	17.6
P/ABV	4.8	4.1	3.6	3.2	2.8	2.4
ROE	13.6	14.1	13.9	14.1	14.0	2.4
ROA	3.6	3.5	3.3	3.3	3.2	14.3
RORWA	7.1	6.8	6.3	5.7	5.2	3.2

Source: Company; IDBI Capital Research

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