

AAVAS Financers

Analyst Recommendation: BUY

BSE Code: 541988

NSE: AAVAS

Bloomberg Code: AAVAS:NatI India

CMP: Rs 2,530
2 Year Target: Rs 3,500

Investor's Rationale

- **Huge affordable market potential with niche positioning to ensure healthy 24% loan CAGR::**

We expect AAVAS to clock a calibrated 24% loan CAGR over FY22-24E on the back of (1) massive opportunity to tap Rs9tn affordable housing finance market favored by regulator and ignored by banks which stands poised to grow at a CAGR of 10% to ~Rs12tn by FY23 (2) niche capabilities to appraise and collect from the low income

- **High yielding asset mix and conservative funding ensure sustenance of pricing power:** AAVAS sustenance of pricing power in the most coveted housing finance market can be attributed to (a) focus on risk adjusted asset pricing in a rapidly expanding niche segment backed by robust distribution, direct customer sourcing and collections manifesting into higher yields of 13% (blended), (b) favorable funding costs (avg. 7.3%) backed by improved credit rating, cost effective long term borrowings and diminishing impact of negative carry on account of higher on-balance sheet liquidity maintenance (12% of total assets). Against this backdrop, we expect Co. to clock spreads at 5%+ and net interest margins (NIMs) at an average 7.2% over FY22-24E.

- **Superior asset quality and scrupulous risk management ensure controlled delinquencies (NPAs at ~1%):**

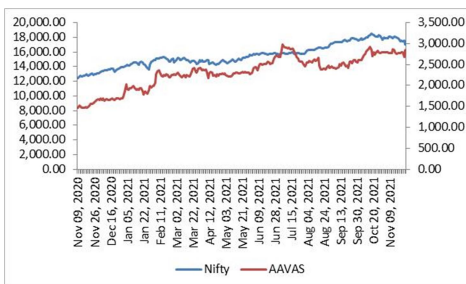
Despite catering to perceivably high risk segment, AAVAS has succeeded in restricting NPAs below 1.5% and credit costs upto 0.2% backed by conservative lending practices and in-house risk management such as a) LTVs of ~51%, b) templization of customer profiles and credit bureau checks, c) application of scorecards to evaluate risk profiles and in-house risk testing, d) real-time collections tracking.

- **Valuation**

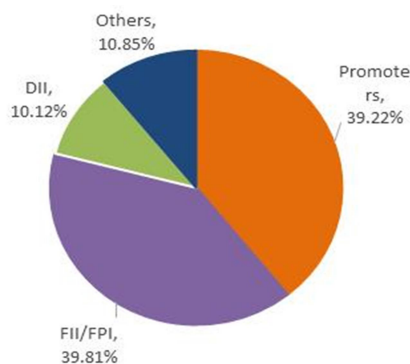
We initiate coverage on Aavas Financers Ltd with a BUY rating and price target of Rs 3,500 (8x PABV Sept-FY23E)

Face Value	10.00
Market Cap (Rs cr)	20,040
52 week high/low	3,074/1,590
Beta	0.74
Shares O/S (Cr)	7.89
Book Value per Share (Rs)	304
Sensex	58,649
Nifty	17,470

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Dec 2020.



	FY21	FY22E	FY23E	FY24E
OP Revenue (Rs.Cr)	604.5	769.6	953.8	1,147.3
PPP (Rs. cr)	390.5	517.1	686.2	845.2
Adj. profit (Rs.Cr)	289.6	368.1	507.1	631.1
Adj. EPS (Rs.)	36.9	46.6	64.2	80.0
P/E (x)	76.2	60.3	43.7	35.1
P/ABV	9.40	8.20	7.00	5.90
P/BV (x)	9.2	8.0	6.7	5.7
ROAA (%)	2.9%	3.1%	3.3%	3.2%
ROAE (%)	12.9%	14.2%	16.7%	17.5%

Beginning of housing upcycle - HFCs to benefit the most

- As per the latest credit information bureau CRIF report, public sector banks have retained the largest market share in housing loans by value and volume, with a near 45% share over the last three years. As of Dec'20, the top five public sector banks constituted nearly 30% of the housing loan industry book by value.
- As of Dec'20, top five private banks constituted 15% of the industry book by value. Housing finance companies (HFCs) command an overall market share of ~37% by value & the top five HFCs (including NBFCs) constitutes ~27% of total housing loans as of Dec'20.
- We believe HFCs stand as biggest beneficiaries of the housing cyclical uptick by virtue of competitive product offerings, equally competitive product pricing, lower turnaround time, superior customer service and last mile connectivity where the demand is soaring.
- While FY20-FY21 stood under stress on account of pandemic-led challenges, yet HFCs reported decent 8% annual growth rate vs 5% overall systemic credit growth.

Affordable housing – to drive the HFC story ahead – a ~Rs11tn size opportunity

- The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan.
- The Planning Commission estimates ~100mn units housing shortage by Mar' 22 and the housing requirement stands pronounced in the EWS+LIG category. Of 100mn odd units, ~95mn falls in EWS+LIG category.
- Besides, the underpenetrated rural market to witness as high as 44mn housing shortages spurring affordable housing demand.
- As per the Planning Commission, ~9% of the rural households sourced institutional finance to build their houses in 2012. Even if 30m houses (32% of the required houses in EWS+LIG) need funding with an average ticket size of Rs0.5m (at 70% LTV), this could be a ~Rs10.6tn opportunity by FY22.
- Notably, the affordable housing segment survived the onslaught on pandemic over past 18 months merely because it caters to the price bracket that has maximum demand.

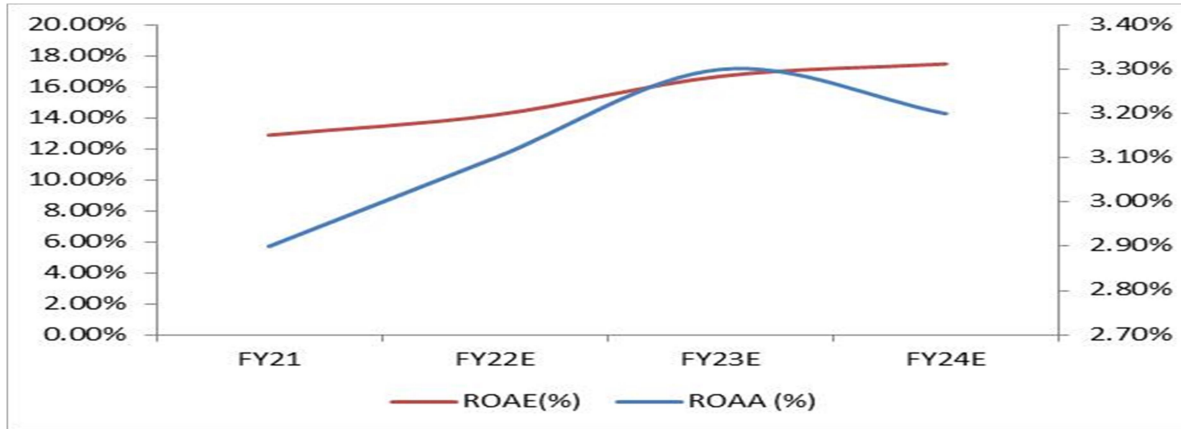
Massive opportunity emanating from hinterlands

- The recent trend of demand for spacious homes and better livability has given boost to housing market in Tier 2 and Tier 3 cities.
- Carving its own niche, AAVAS continues to expand in hinterlands strengthening presence at the bottom of country's economic pyramid where market potential is immense.
- AAVAS has huge scope to expand into (a) new markets: Rs19tn unorganized housing finance market beyond top 50 cities, where mortgage penetration is mere 1%, (b) existing markets: AAVAS is yet to tap 337mn population that remains unaddressed in districts of States of presence.
- Moreover, houses financed by AAVAS may likely increase over two fold from current 1.25lakh units, with housing shortage demand expected to climb 25mn units in FY30 from current 10mn levels for CLSS customer segment.

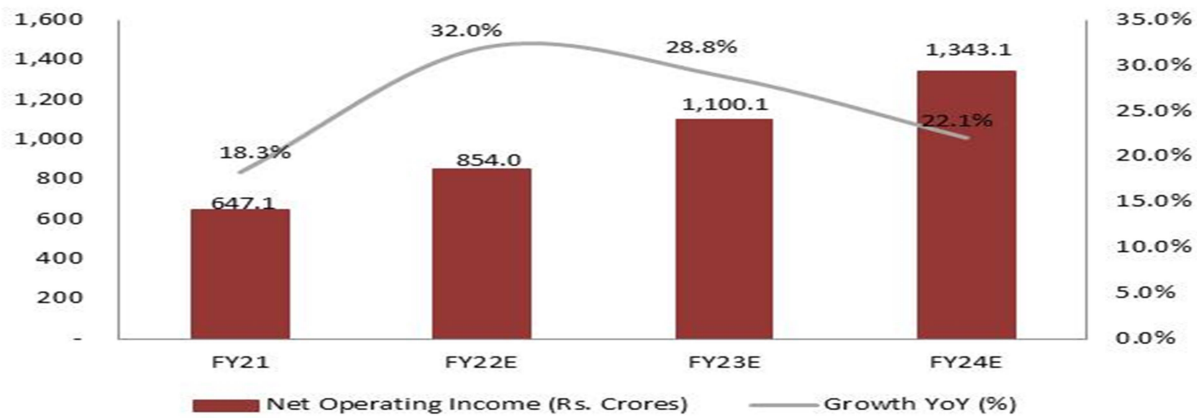
Focus on low ticket and new-to-credit customer segment

AAVAS has maintained ticket sizes at Rs0.9mn & Rs0.7mn for Housing Loans (HL) and other loans respectively over past 3 years. Even for both self-employed and salaried customers, ticket sizes have hovered at Rs0.8mn. Besides, 36% of AUMs, focuses on first time home buyers.

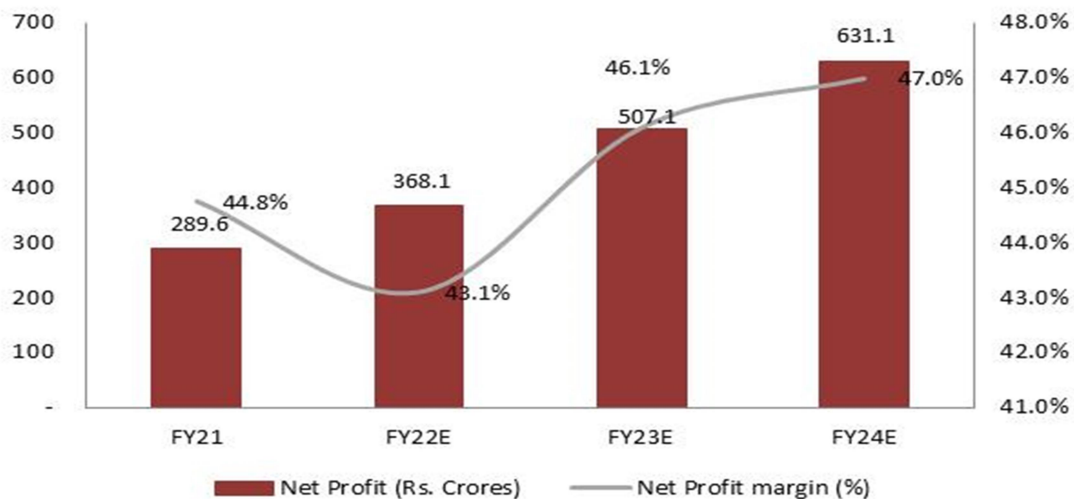
Return ratios to show strong growth in future



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

We initiate coverage on Aavas Financiers Ltd with a BUY rating and price target of Rs 3,500 (8x PABV Sept-FY23E)

AAVAS FINANCIERS - Company Overview

Aavas was incorporated in February, 2011 with the name of "Au Housing Finance Private Limited". It formally started its operations in March 2012. The name of the company was changed to "Aavas Financiers Limited" in March, 2017. Presently the company is headed by Sushil Kumar Agarwal as the MD and CEO.

The company issued its IPO in October 2018. Shortly after issuing IPO CDC group, United Kingdom has invested Rs. 200 Crore in Aavas.

In September 2019, the company received Rs 345 crore investment from International Finance Corporation, a member of the World Bank Group. In March 2020, Aavas signed an agreement with Asian Development Bank for receiving loan amount of \$60 million specially targeting towards the 'women in lower income group'. In December 2020, to promote the concept of Green Housing, International Finance Corporation signed an agreement with the company. As of March 2021, Aavas has 277 branches operating in 11 states of India.

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Balance sheet (Consolidated)

(Rs crore)	FY21	FY22E	FY23E	FY24E
Liabilities				
Paid up capital	79	79	79	79
Reserves and Surplus	2323	2707	3214	3845
Net worth	2401	2786	3293	3924
Total Loans	6,345	7,921	10,324	14,242
Deffered Tax Liability	-	-	-	-
Other Liabilities	213.20	316.40	381.10	475.10
Total Liabilities	8,960	11,023	13,998	18,641
Assets				
Net Tangible Assets	29	33	40	49
Advances	7,523	9,420	11,269	13,914
Investments	5	5	6	8
Current Asstes	1,403.30	1,564.50	2,683.20	4,670.70
Current Liabilities	210	317	381	475
Net Current Assets	1194	1248	2302	4196
Other	214	322	387	483
Total Assets	8960	11024	13998	18641

Profit & Loss Account (Consolidated)

(Rs crore)	FY21	FY22E	FY23E	FY24E
Int Income	1,063	1,294	1,632	2,037
Interest Expense	458.2	524.3	678.3	889.7
Net Interest Income	605	770	954	1,147
Non Interest Income	43	84	146	196
Net Operating Income	647	854	1,100	1,343
Expenditures				
Employees	172	232	290	344
Other Expense	85	105	124	154
Operating Expenses	257	337	414	498
PPP	391	517	686	845
Provisions	37	46	35	35
Profit before tax	353	471	651	811
Tax	64	103	144	180
Adjusted PAT	290	368	507	631



Equity Research

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY21	FY22E	FY23E	FY24E
Asset Quality				
Gross NPA (Rs in Crores)	74	127	152	181
Net NPA (Rs in Crores)	54	94	114	136
Gross NPA to Gross Adv(%)	1.0	1.4	1.4	1.3
Net NPAs to net Adv (%)	0.7	1.0	1.0	1.0
NPA Coverage (%)	27.2	26.0	25.0	25.0
Du-Pont as a % of AUM				
NII	6.4	6.6	6.6	6.4
Total Income	6.8	7.3	7.7	7.5
Operating Expenses	2.7	2.9	2.9	2.8
PPOP	4.1	4.4	4.8	4.7
Total Provisions	0.4	0.4	0.2	0.2
ROAA	2.9	3.3	3.3	3.2
ROAE	12.9	14.2	16.7	17.5

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY21	FY22E	FY23E	FY24E
Per share data (Rs.)				
DPS	-	-	-	-
EPS	36.90	46.60	64.20	80.00
Book Value	305.90	353.10	417.30	497.30
Profitability & Capital (%)				
NIM	7.0%	7.3%	7.3%	7.1%
ROAA	2.9%	3.1%	3.3%	3.2%
ROAE	12.9%	14.2%	16.7%	17.5%
Valuation(x)				
P/E	76.20	60.30	43.70	35.10
P/BV	9.20	8.00	6.70	5.70
P/ABV	9.40	8.20	7.00	5.90
Per share data (Rs.)				
EPS	36.90	46.60	64.20	80.00



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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