

April 25, 2025

## Q4FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,072		1,900	
NII (Rs.)	11,769	13,982	11,744	13,761
% Chng.	0.2	1.6		
PPoP (Rs.)	8,739	10,730	9,071	10,862
% Chng.	(3.7)	(1.2)		
EPS (Rs.)	82.5	101.4	85.4	102.3
% Chng.	(3.4)	(1.0)		

### Key Financials - Standalone

Y/e Mar	FY24	FY25	FY26E	FY27E
Net Int.Inc. (Rs m)	9,063	10,102	11,769	13,982
Growth (%)	13.7	11.5	16.5	18.8
Op. Profit (Rs m)	6,489	7,597	8,739	10,730
PAT (Rs m)	4,907	5,741	6,528	8,024
EPS (Rs.)	62.0	72.5	82.5	101.4
Gr. (%)	14.0	17.0	13.7	22.9
DPS (Rs.)	3.7	4.4	4.9	6.1
Yield (%)	0.2	0.2	0.2	0.3
Margin (%)	6.3	5.9	5.9	5.9
RoAE (%)	13.9	14.1	14.0	15.0
RoAA (%)	3.3	3.3	3.2	3.3
PE (x)	32.9	28.1	24.7	20.1
P/BV (x)	4.3	3.7	3.2	2.8
P/ABV (x)	4.4	3.8	3.3	2.9

### Key Data AVAS.BO | AAVAS IN

52-W High / Low	Rs.2,238 / Rs.1,457
Sensex / Nifty	79,213 / 24,039
Market Cap	Rs.161bn / \$ 1,888m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.723.22m

### Shareholding Pattern (%)

Promoter's	26.47
Foreign	29.67
Domestic Institution	10.75
Public & Others	33.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.1	21.8	27.0
Relative	2.6	22.0	19.1

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## Growth/margin dynamics a key monitorable

### Quick Pointers:

- Mixed quarter as NIM beat was offset by higher opex.
- AuM/disbursals guided to grow by 20% in FY26.

**AAVAS saw a mixed quarter; while NIM inched up by 8bps QoQ and was 15bps ahead of PLe at 6.36% due to lower cost of funds, PPoP was a 3.2% miss owing to opex drag since 24 branches and 939 employees were added in Q4FY25. AuM is guided to grow by 20% in FY26 (vs +18% in FY25). We are factoring an 18% CAGR in AuM over FY25-27E owing to likely increase in competition due to falling interest rates and a higher base. Company expects NIM to improve in FY26 (FY25 5.94%) led by lower competition from banks/HFCs and (2) focus on customers in Rs<1.5mn bucket as they are less interest rate sensitive. Opex to assets has been controlled well; it has reduced by 25bps YoY to 2.77% in FY25. AAVAS aims to reduce opex to assets by 10-20bps every year. Stock has run-up and is valued at 2.9x; we maintain multiple at 2.9x but as we roll forward to Mar'27 ABV, our TP increases to Rs2,072 from Rs1,900. Retain 'ACCUMULATE'.**

**Mixed quarter as better income more than offset by higher opex:** NII was tad higher at Rs2.71bn (PLe Rs2.67bn); NIM rose by 8bps QoQ and was a beat at 6.36% (PLe 6.21%) owing to lower cost of funds. AuM growth was in-line at 6.1% QoQ and 17.9% YoY; disbursals at Rs20.2bn and repayments at Rs8.4bn were also in-line. Disbursals were Rs61.2bn for FY25. HL:Non-HL was stable at 68:32; Self-employed:salaried was also stable at 60:40. Other income was higher at Rs1.0bn (vs PLe Rs911mn) due to fee and off-book income. Opex at Rs1.7bn was a drag as it was 14.5% above PLe led by higher employee cost and other opex. Thus, PPOP came in at Rs2bn which was 3.2% below PLe. On asset quality, gross stage-3 improved by 6bps QoQ to 1.08% (PLe 1.09%). Provisions were Rs76.4mn (PLe Rs70mn). PAT was 1.8% below PLe at Rs1.5bn.

**Margin stability is prime focus:** Disbursals for FY25 grew by 9.7% YoY which are guided to grow by 20%+ in FY26 driven by (1) technology investments, (2) PMAY 2.0 scheme and (3) increase in sanction/login ratio from 38% to 40%. Yields are expected to stabilize due to (1) fall in CoFs, (2) lower competition from banks and bigger HFCs and (3) focus on customers in Rs<1mn bucket as they are less interest rate sensitive. Incremental business yields have gone up by 22bps in FY25 due to greater focus on loans with ATS of <Rs1.5mn and <Rs1mn. Further rise in yields may take 3-4 quarters led by change in product mix and type. ~56% of borrowings to be repriced within 3 months.

**Operating leverage to further improve profitability:** Opex was a drag as 24 branches were added during Q4FY25 which led to addition of 939 employees; also 25 branches became operational in Q4FY25. Business is expected to expand in Tamil Nadu in FY26. Opex to asset ratio is guided to improve by 10-20bps every year. Company has now moved to an international system to assist in 1) early roll back/forward of monthly slippages and 2) behavior changes in economic changing scenario. Credit cost has been guided to be <25bps while 1+DPD may be maintained below 5%.

**Exhibit 1: PAT was cushioned due to better margins and higher fee/off-book income**

Financial Statement (Rs mn)	Q4FY25	Q4FY24	YoY gr. (%)	Q3FY25	QoQ gr. (%)	Q4FY25E	% Var.
Interest Income	5,353	4,586	16.7	5,121	4.5	5,454	(1.9)
Interest Expense	2,647	2,216	19.5	2,587	2.3	2,788	(5.0)
<b>Net interest income (NII)</b>	<b>2,705</b>	<b>2,371</b>	<b>14.1</b>	<b>2,533</b>	<b>6.8</b>	<b>2,666</b>	<b>1.5</b>
Other income	1,022	882	15.9	859	19.1	911	12.2
<b>Total income</b>	<b>3,728</b>	<b>3,252</b>	<b>14.6</b>	<b>3,392</b>	<b>9.9</b>	<b>3,577</b>	<b>4.2</b>
Operating expenses	1,719	1,434	19.8	1,447	18.8	1,501	14.5
<b>Operating profit</b>	<b>2,009</b>	<b>1,818</b>	<b>10.5</b>	<b>1,945</b>	<b>3.3</b>	<b>2,076</b>	<b>(3.2)</b>
Total provisions	76	43	77.0	61	25.8	70	9.1
<b>Profit before tax</b>	<b>1,932</b>	<b>1,775</b>	<b>8.9</b>	<b>1,884</b>	<b>2.6</b>	<b>2,006</b>	<b>(3.7)</b>
Tax	395	349	13.4	420	(5.8)	441	(10.4)
<b>Profit after tax</b>	<b>1,537</b>	<b>1,426</b>	<b>7.8</b>	<b>1,464</b>	<b>5.0</b>	<b>1,564</b>	<b>(1.8)</b>
AUM (Rs mn)	204,202	173,126	17.9	192,380	6.1	204,200	0.0
Disbursements (Rs mn)	20,238	18,931	6.9	15,946	26.9	20,200	0.2
<b>Profitability ratios</b>							
			<i>Change in bps</i>		<i>Change in bps</i>		
<b>NIM</b>	<b>6.4</b>	<b>6.5</b>	<b>(18)</b>	<b>6.3</b>	<b>8</b>	<b>6.2</b>	<b>16</b>
RoAA	2.9	3.2	(29)	2.9	(2)	2.9	(6)
RoAE	15.1	16.2	(108)	15.0	15	15.4	(28)
<b>Asset Quality ratios</b>							
Gross NPL (Rs m)	1,753	1,316	33.2	1,746	0.4	1,772	(1.1)
Net NPL (Rs m)	1,185	938	26.3	1,241	(4.5)	1,154	2.6
Gross NPL ratio	<b>1.1</b>	<b>0.9</b>	<b>14</b>	<b>1.1</b>	<b>(6)</b>	<b>1.1</b>	<b>(1)</b>
Net NPL ratio	<b>0.7</b>	<b>0.7</b>	<b>6</b>	<b>0.8</b>	<b>(8)</b>	<b>0.7</b>	<b>2</b>
Coverage ratio	32.4	28.7	368	28.9	346	34.9	(245)
<b>Business &amp; Other Ratios</b>							
			<i>Change in bps</i>		<i>Change in bps</i>		
Yield on Loans (%)	13.1	13.1	-	13.2	(5)		
Cost of Borrowings (%)	8.2	8.1	17	8.2	-		
Spread (%)	4.9	5.1	(17)	4.9	(5)		
Cost/Income Ratio	46.1	44.1	201	42.7	344		

Source: Company, PL

## Q4FY25 Concall Highlights

### Assets/Liabilities

- Disbursals are guided to grow at more than 20% (led by digital channels, e-mitra ecosystem and PMAY 2.0) to achieve an AuM growth of 20%. New to credit and new to mortgage customers are primarily targeted.
- Disbursals in FY25 were lower due to cautious approach while lending to MSME. Sanction/login was 38% (vs 42% historically). Credit flow is expected to increase with improving asset quality.
- The company has been stepping up credit flow to loans with ATS <Rs1.5mn and <Rs1mn which has led to increase in yields.
- HL:NHL mix is targeted over the medium term at 65:35 vs 69:31 currently
- Borrowings: NCD worth Rs6.3bn was raised from multiple institutional investors to lend towards retail loans and green home customers. In FY25, Rs61.8bn was raised at 8.42%.
- Borrowing mix: 36% EBLR, 21% 3-month MCLR, 20% 6-12 month MCLR.
- Average tenure of borrowing is higher than assets leading to a positive ALM.
- BT-outs are controlled below 6% due to their proactive model that gives 30-60days prior intimation.
- Digitalisation: In Q4FY25, AAVAS witnessed the highest logins (55,000) with disbursals at Rs20bn. All upgradations of tech platforms is completed.

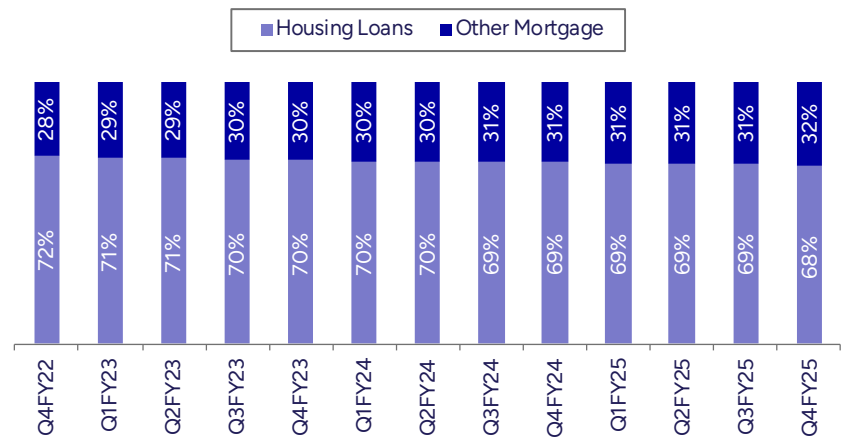
### Profit & Loss

- Incremental business yields have gone up by 22bps due to change in mix (17bps due to increase in HL yield). Further rise in yields may take 3-4 quarters led by change in product mix and product type.
- PLR is linked to funding cost. Thus, fall in cost would lead to decline in yields but with a lag.
- Impact of fall in cost due to rate cuts is expected in May. Further, rate cut impact would be reduced due to 1) fall in cost of funds, 2) lower competition from banks and bigger HFCs and 3) less interest rate sensitive customers in lower bucket loans. H1FY26 may not see a margin compression.
- 30 branches were added in Q4FY25. 25 branches became operational towards the end of FY25. Tamil Nadu is expected to be opened in FY26. One branch is already opened in Hosur to understand the periphery.
- Number of employees as on 31<sup>st</sup> March 2025 was 7,223. Staff base increased by 939 QoQ due to addition of 23 branches during Q4FY25.

## Asset Quality

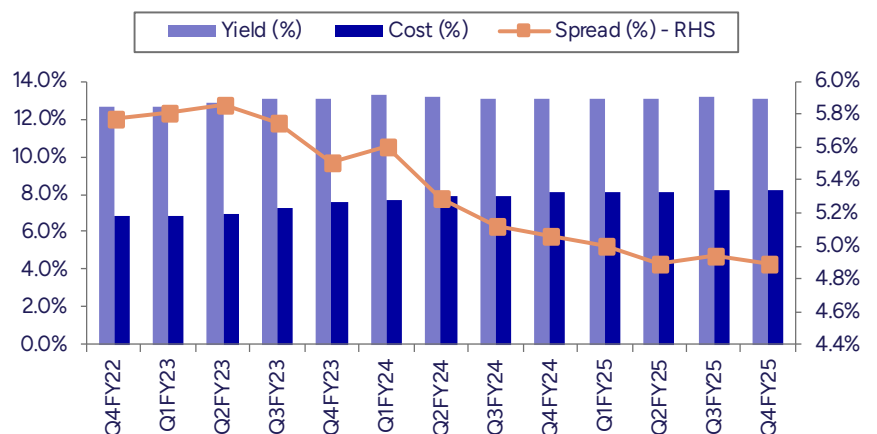
- Company has now moved to an international level system to assist with 1) monthly slippages roll back and roll forward early and 2) behavior changes in economic changing scenario.
- Stress basis states is as follows: vintage states: 1+DPD/GNPA is <4%/<1.25% while in emerging states it is: 1+DPD/GNPA is <3%/<1%. Stress basis ticket size is: ATS >1.5mn in terms of 1+DPD/GNPA is <4.0%/<1.0% while for ATS <1.5mn, 1+DPD/GNPA is <4.5%/<1.5%.
- Credit cost is guided to be maintained below 25bps. 1+DPD is guided to be maintained below 5%. 30-34% PCR is expected to be maintained on Stage-3 while on overall basis it is guided at <0.7%.

### Exhibit 2: Loan Book mix largely steady at 68:32



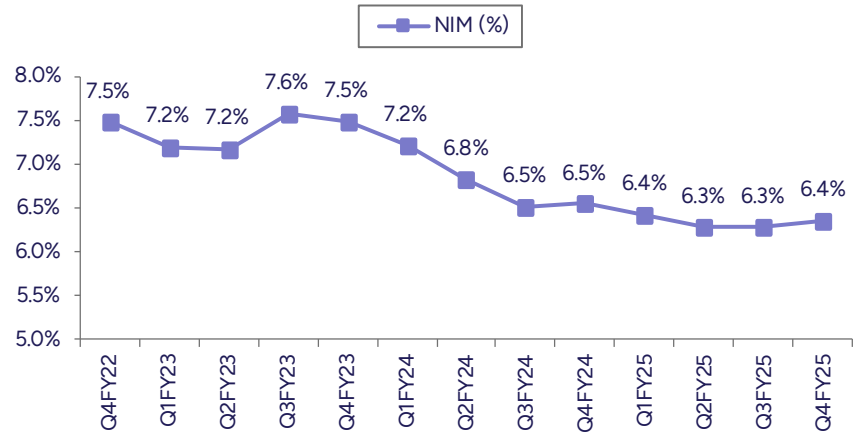
Source: Company, PL

### Exhibit 3: Spreads fell by 5bps sequentially due to fall in yields



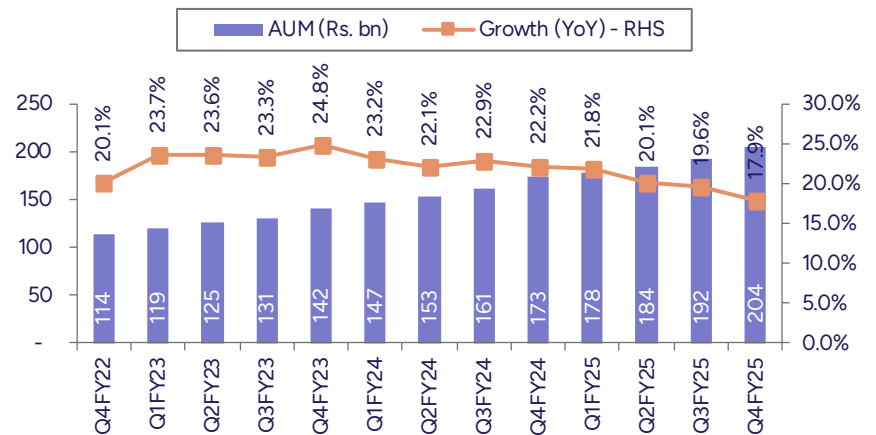
Source: Company, PL

**Exhibit 4: NIM (calc) improved sequentially by 8bps at 6.4%**



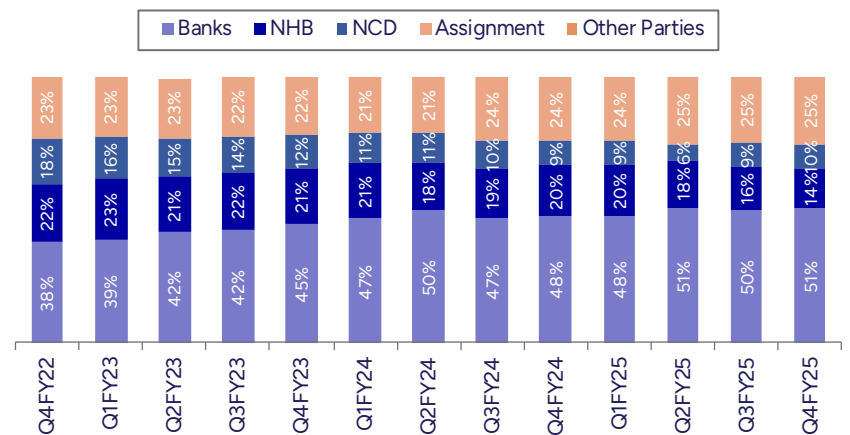
Source: Company, PL

**Exhibit 5: AuM growth was at 17.9% YoY**



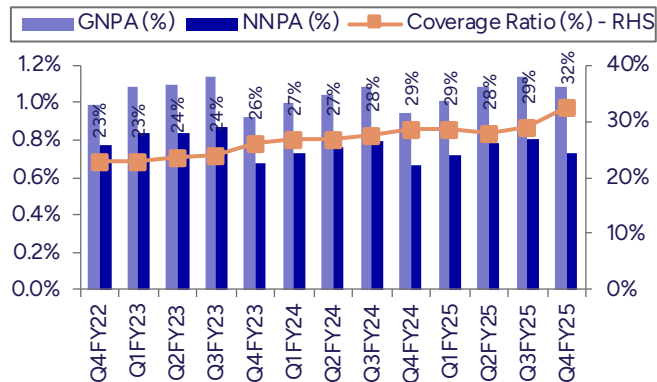
Source: Company, PL

**Exhibit 6: Borrowing mix mainly from Banks (51%) and Assignment (25%)**



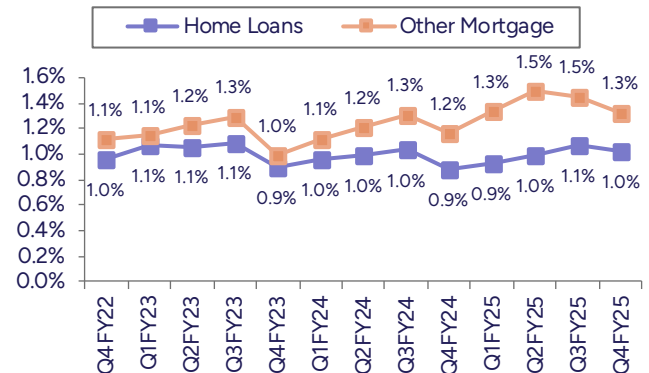
Source: Company, PL

**Exhibit 7: GNPA improves by 8bps QoQ; PCR at 32%**



Source: Company, PL

**Exhibit 8: GNPA improved in both HL and NHL segment**



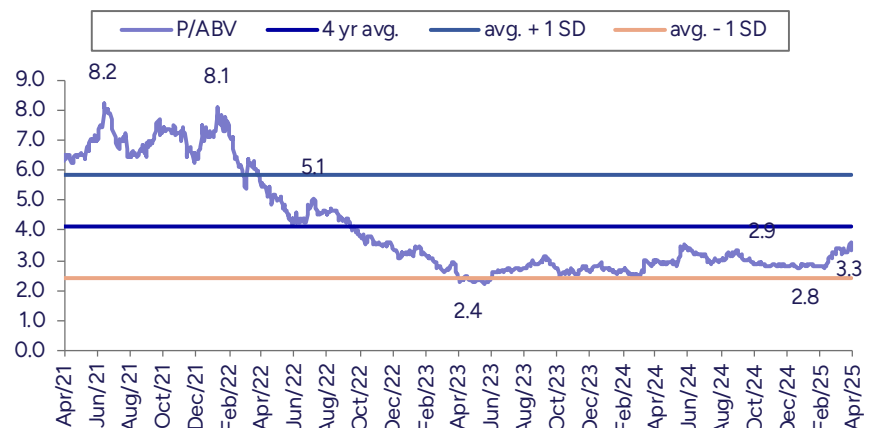
Source: Company, PL

**Exhibit 9: ROEs to remain ~15% levels led by decline in opex and slight increase in provisions**

RoE decomposition (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	9.8	9.7	9.3	9.4	9.7	9.5	9.3	9.3
Interest expenses	4.4	4.5	3.9	4.0	4.6	4.7	4.5	4.6
<b>Net interest income</b>	<b>5.3</b>	<b>5.1</b>	<b>5.4</b>	<b>5.4</b>	<b>5.0</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>
Other Inc. from operations	1.4	1.3	1.5	1.5	1.6	1.6	1.5	1.5
<b>Total income</b>	<b>6.8</b>	<b>6.4</b>	<b>6.8</b>	<b>6.9</b>	<b>6.6</b>	<b>6.3</b>	<b>6.2</b>	<b>6.2</b>
Employee expenses	1.8	1.7	1.9	2.0	2.0	1.8	1.7	1.6
Other operating expenses	1.0	0.8	0.9	1.0	1.0	1.0	1.0	0.9
<b>Operating profit</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.6</b>	<b>3.6</b>	<b>3.5</b>	<b>3.6</b>
Tax	0.7	0.6	0.8	0.8	0.7	0.7	0.7	0.8
Loan loss provisions	0.2	0.4	0.2	0.1	0.1	0.1	0.1	0.1
<b>RoAA (incl AuM)</b>	<b>3.1</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>2.6</b>	<b>2.7</b>
<b>RoAE</b>	<b>12.7</b>	<b>12.9</b>	<b>13.7</b>	<b>14.2</b>	<b>13.9</b>	<b>14.1</b>	<b>14.0</b>	<b>15.0</b>

Source: Company, PL

**Exhibit 10: One-year forward P/ABV of Aavas trades at 3.3x**



Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY24	FY25	FY26E	FY27E
Int. Inc. / Opt. Inc.	17,347	20,177	23,141	27,520
Interest Expenses	8,284	10,075	11,372	13,537
<b>Net interest income</b>	<b>9,063</b>	<b>10,102</b>	<b>11,769</b>	<b>13,982</b>
Growth(%)	13.7	11.5	16.5	18.8
Non-interest income	2,856	3,407	3,709	4,432
Growth(%)	28.7	19.3	8.8	19.5
Net operating income	11,919	13,509	15,478	18,415
<b>Expenditures</b>				
Employees	3,559	3,778	4,245	4,792
Other Expenses	1,544	1,770	2,094	2,432
Depreciation	327	365	401	461
Operating Expenses	5,430	5,912	6,739	7,684
<b>PPP</b>	<b>6,489</b>	<b>7,597</b>	<b>8,739</b>	<b>10,730</b>
Growth(%)	15.6	17.1	15.0	22.8
Provisions	245	271	369	444
<b>Profit Before Tax</b>	<b>6,244</b>	<b>7,326</b>	<b>8,369</b>	<b>10,287</b>
Tax	1,338	1,585	1,841	2,263
Effective Tax rate(%)	21.4	21.6	22.0	22.0
<b>PAT</b>	<b>4,907</b>	<b>5,741</b>	<b>6,528</b>	<b>8,024</b>
Growth(%)	14.1	17.0	13.7	22.9

**Balance Sheet (Rs. m)**

Y/e Mar	FY24	FY25	FY26E	FY27E
<b>Source of funds</b>				
Equity	791	792	792	792
Reserves and Surplus	36,942	42,817	48,953	56,495
Networth	37,733	43,608	49,745	57,287
Growth (%)	15.4	15.6	14.1	15.2
Loan funds	1,23,365	1,38,499	1,71,807	2,04,280
Growth (%)	25.4	12.3	24.0	18.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	4,012	3,986	4,258	4,924
Other Liabilities	84	91	85	101
<b>Total Liabilities</b>	<b>1,65,195</b>	<b>1,86,185</b>	<b>2,25,895</b>	<b>2,66,592</b>
<b>Application of funds</b>				
Net fixed assets	1,272	1,441	1,667	1,967
Advances	1,40,044	1,62,297	1,94,685	2,29,759
Growth (%)	22.0	15.9	20.0	18.0
Investments	1,822	2,300	2,772	3,271
Current Assets	18,096	15,604	21,699	25,608
<b>Net current assets</b>	<b>14,083</b>	<b>11,617</b>	<b>17,441</b>	<b>20,684</b>
Other Assets	3,961	4,543	5,073	5,987
<b>Total Assets</b>	<b>1,65,195</b>	<b>1,86,185</b>	<b>2,25,895</b>	<b>2,66,592</b>
Growth (%)	23.2	12.7	21.3	18.0
<b>Business Mix</b>				
AUM	1,73,127	2,04,203	2,41,005	2,84,424
Growth (%)	22.2	17.9	18.0	18.0
On Balance Sheet	1,73,127	2,04,203	2,41,005	2,84,424
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY24	FY25	FY26E	FY27E
NIM	6.3	5.9	5.9	5.9
ROAA	3.3	3.3	3.2	3.3
ROAE	13.9	14.1	14.0	15.0

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Int. Inc. / Operating Inc.	4,797	4,906	5,121	5,353
Income from securitization	-	-	-	-
Interest Expenses	2,352	2,489	2,587	2,647
<b>Net Interest Income</b>	<b>2,446</b>	<b>2,418</b>	<b>2,533</b>	<b>2,705</b>
Growth (%)	8.1	8.8	14.8	14.1
Non-Interest Income	628	898	859	1,022
<b>Net Operating Income</b>	<b>3,074</b>	<b>3,316</b>	<b>3,392</b>	<b>3,728</b>
Growth (%)	9.7	12.8	15.9	14.6
Operating expenditure	1,378	1,368	1,447	1,719
<b>PPP</b>	<b>1,695</b>	<b>1,948</b>	<b>1,945</b>	<b>2,009</b>
Growth (%)	-	-	-	-
Provision	86	48	61	76
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,609	1,900	1,884	1,932
Tax	348	421	420	395
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	21.7	22.2	22.3	20.5
<b>PAT</b>	<b>1,261</b>	<b>1,479</b>	<b>1,464</b>	<b>1,537</b>
Growth	15	22	26	8
AUM	1,78,415	1,83,956	1,92,380	2,04,202
YoY growth (%)	21.8	20.1	19.6	17.9
Borrowing	-	-	-	-
YoY growth (%)	-	-	-	-

**Key Ratios**

Y/e Mar	FY24	FY25	FY26E	FY27E
CMP (Rs)	2,038	2,038	2,038	2,038
EPS (Rs)	62.0	72.5	82.5	101.4
Book value (Rs)	476.8	550.9	628.5	723.7
Adj. BV(Rs)	464.9	536.4	612.2	704.6
P/E(x)	32.9	28.1	24.7	20.1
P/BV(x)	4.3	3.7	3.2	2.8
P/ABV(x)	4.4	3.8	3.3	2.9
DPS (Rs)	3.7	4.4	4.9	6.1
Dividend Payout Ratio(%)	6.0	6.0	6.0	6.0
Dividend Yield(%)	0.2	0.2	0.2	0.3

**Asset Quality**

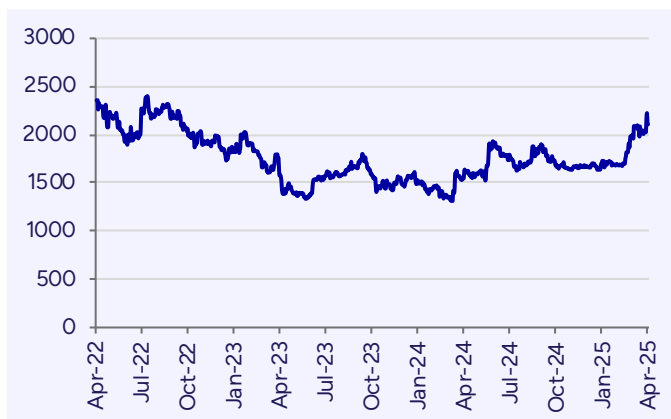
Y/e Mar	FY24	FY25	FY26E	FY27E
Gross NPAs(Rs m)	1,319	1,624	1,896	2,229
Net NPA(Rs m)	939	1,151	1,289	1,515
Gross NPAs to Gross Adv.(%)	0.9	1.0	1.0	1.0
Net NPAs to net Adv.(%)	0.7	0.7	0.7	0.7
NPA coverage(%)	28.8	29.1	32.0	32.0

**Du-Pont as a % of AUM**

Y/e Mar	FY24	FY25	FY26E	FY27E
NII	5.0	4.7	4.7	4.7
NII INCI. Securitization	5.0	4.7	4.7	4.7
Total income	6.6	6.3	6.2	6.2
Operating Expenses	3.0	2.8	2.7	2.6
PPOP	3.6	3.6	3.5	3.6
Total Provisions	0.1	0.1	0.1	0.1
RoAA	2.7	2.7	2.6	2.7
Avg. Assets/Avg. net worth	5.1	5.2	5.4	5.5
RoAE	13.9	14.1	14.0	15.0

Source: Company Data, PL Research

**Price Chart**



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-25	Accumulate	1,900	2,083
2	31-Jan-25	Accumulate	1,900	1,705
3	09-Jan-25	Accumulate	1,900	1,681
4	08-Nov-24	Accumulate	1,900	1,715
5	08-Oct-24	Accumulate	1,875	1,745
6	26-Jul-24	Accumulate	1,875	1,778
7	10-Jul-24	Hold	1,720	1,800
8	26-Apr-24	Hold	1,720	1,610

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	2,083
2	Axis Bank	BUY	1,500	1,207
3	Bank of Baroda	BUY	285	230
4	Can Fin Homes	BUY	860	660
5	City Union Bank	BUY	200	160
6	DCB Bank	BUY	155	113
7	Federal Bank	BUY	210	191
8	HDFC Asset Management Company	BUY	4,600	4,218
9	HDFC Bank	BUY	2,125	1,907
10	ICICI Bank	BUY	1,700	1,407
11	IndusInd Bank	Hold	860	676
12	Kotak Mahindra Bank	BUY	2,230	2,038
13	LIC Housing Finance	BUY	650	566
14	Nippon Life India Asset Management	BUY	725	545
15	State Bank of India	BUY	900	747
16	Union Bank of India	BUY	140	119
17	UTI Asset Management Company	BUY	1,320	1,035

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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