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Company Initiation

Aavas Financiers

Another *GRUH* in making

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Aavas Financers

Rating: BUY | CMP: Rs2,810 | TP: Rs3,500 | Mcap: Rs222bn

	Y/e March	2019	2020	2021	2022	2023	2024
Income Statement (Rs m)	Net Interest Income	4,148	5,069	6,045	7,696	9,539	11,473
	Growth (%)	*59.7*	*22.2*	*19.2*	*27.3*	*23.9*	*20.3*
	Non Interest Income	391	401	426	844	1,463	1,958
	Net Operating Income	4,539	5,470	6,471	8,540	11,002	13,431
	Other Operating Expenses	718	826	845	1,051	1,244	1,542
	Pre-Provisioning Profit	2,649	3,174	3,905	5,171	6,862	8,452
	Growth (%)	*93.5*	*19.8*	*23.0*	*32.4*	*32.7*	*23.2*
	PAT	1,742	2,491	2,895	3,681	5,071	6,311
	Growth (%)	*87.1*	*43.0*	*16.2*	*27.1*	*37.8*	*24.5*
Balnace Sheet (Rs m)	Netw orth	18,370	20,979	24,014	27,860	32,930	39,240
	Loan Funds	36,533	53,520	63,454	79,208	1,03,243	1,42,421
	Growth (%)	-	*46.5*	*18.6*	*24.8*	*30.3*	*37.9*
	AUM	59,416	77,961	94,543	1,16,401	1,43,775	1,78,952
	Growth (%)	*45.9*	*31.2*	*21.3*	*23.1*	*23.5*	*24.5*
	Total Assets	56,268	76,570	89,600	1,10,232	1,39,984	1,86,412
	Growth (%)	*47.4*	*36.1*	*17.0*	*23.0*	*27.0*	*33.2*
Asset Quality	Gross NPAs (Rs m)	223	284	739	1,272	1,521	1,809
	Net NPAs (Rs m)	174	210	538	941	1,141	1,357
	Gr. NPAs to Gross Adv.(%)	*0.5*	*0.5*	*1.0*	*1.4*	*1.4*	*1.3*
	Net NPAs to Net Adv. (%)	*0.4*	*0.3*	*0.7*	*1.0*	*1.0*	*1.0*
	NPA Coverage %	*21.8*	*26.0*	*27.2*	*26.0*	*25.0*	*25.0*
Profitability (%)	*NIM*	*8.3*	*7.4*	*7.0*	*7.3*	*7.3*	*7.1*
	RoAA	*3.0*	*3.1*	*2.9*	*3.1*	*3.3*	*3.2*
	RoAE	*11.9*	*12.7*	*12.9*	*14.2*	*16.7*	*17.5*
	CRAR	*67.8*	*55.9*	*54.5*	*49.2*	*44.2*	*42.1*
Key Ratios	EPS (Rs)	22.3	31.8	36.9	46.6	64.2	80.0
	Book Value (Rs)	235.2	267.9	305.9	353.1	417.3	497.3
	Adj. BV (70%)(Rs)	233.0	265.2	299.0	341.1	402.9	480.1
	P/E (x)	126.0	88.4	76.2	60.3	43.7	35.1
	P/BV (x)	11.9	10.5	9.2	8.0	6.7	5.7
	P/ABV (x)	12.1	10.6	9.4	8.2	7.0	5.9
	DPS (Rs)	-	-	-	-	-	-

Key Data	AVAS.BO | AAVAS IN
52-W High / Low	Rs.3,074 / Rs.1,590
Sensex / Nifty	57,685 / 17,167
Market Cap	Rs.222bn/ $ 2,960m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.210.78m

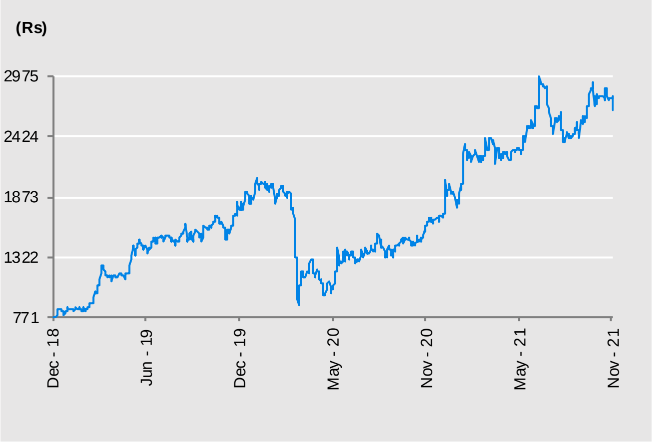
Shareholding Pattern (%)

Promoter's	39.83
Foreign	39.81
Domestic Institution	9.51
Public & Others	10.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	23.6	71.5
Relative	4.8	11.3	32.8

Price Chart



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Aavas Financiers: Another GRUH in making, Recommend BUY, TP: Rs3,500

We initiate coverage on Aavas Financiers Ltd with a BUY rating and price target of Rs 3,500 (8x PABV Sept-FY23E). AAVAS mirrors strong business model of yesteryear's Gruh Finance. We reckon Co. will continue to command premium valuations as (1) AAVAS is the only niche dominant play in the self-employed affordable housing finance space which has been overlooked not only by banks but also NBFCs, (2) It maintains pricing power backed by risk-adjusted yields and cost effective funding (3) It has a differentiated lean operating model backed by technology (4) It boasts of in-house risk management systems and impeccable asset quality (5) It maintains strong capital buffers with superior execution skills. We expect impressive growth across earnings parameters with 24% AUM CAGR, NIMs at avg. 7.2%, NPA of 1.3% and industry leading ROA/ROE at 3.2%/17.0%+ over FY22-24E.

Investment 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 (<Rs50,000 per month), low ticket size (<Rs9lakhs), self-employed (60.3% of overall AUM), first time home buyers (60% as of Q3FY20) (3) strategic, localized and data driven geographic expansion into (a) new markets: Rs19tn unorganized housing finance market and beyond top 50 cities with mortgage penetration at 1% (b) existing markets: 337mn population that remains unaddressed in the districts of States of presence.
- **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) templatization 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. AAVAS has also performed better w.r.t pandemic challenges with one of the lowest moratorium book (mere 2.5% of customer as at of June 30, 2021, no regulatory dispensation to borrowers (mere restructuring 1.5% of total book / zero ECLGS) and 99% collections efficiency. With COVID-related stress behind, we expect NPAs to settle at 1.3% and credit costs to continue to remain below 0.2% levels over FY22-24E.
- **Granular book focus promises industry best RoAs at ~3.2% commanding premium valuations:** AAVAS commands significant premium over peers owing to (a) granular loan book with dominance in self-employed home loan market that have ensured above industry growth rates even during challenging times (b) higher spreads buoyed by sustenance of pricing power (c) sufficient capital buffers, (d) best-in-class asset quality and (e) strong execution skills mirroring characteristic traits of yesteryear's Gruh Finance. We foresee improvement across key earnings drivers (24%+ AUM CAGR, healthy NIMs: avg. 7.2% and NPA 1.3%), driving a meaningful rise in ROA/ROE (3.2%/17.0%+) over FY22-24E.

About Aavas Financiers – dominant player in self-employed affordable home loans

About the Company	Commenced in 2012, Aavas Financiers Ltd operates in affordable housing segment and lends to low ticket, high yields customers (ATS of Rs. 0.83mn) spread across 12 states in rural and semi urban region, Co's AUM has grown by ~50% CAGR over FY15-FY21 and disbursements have clocked ~31% CAGR during the same period. Earnings have increased by ~57% CAGR over FY15-FY21.
Promoter	Promoted by Kedara group which holds 23.7% in the company, Partners group holds 16.1% in the company as on September 2021.
Presence	Company addresses 12 states and has active loan accounts of 1,40,000 as of Q2FY22. Co has total 297 branches mainly in Tier 2,3 and 4 cities and Rajasthan (32% of the total branches) remains the main market for the company with significant presence in Maharashtra (15%), Gujarat (13%) and MP (13%). Co is widening its operations in Haryana, Chhattisgarh, UP, Uttarakand and Himanchal Pradesh.
Management depth	Helmed at the top by MD & CEO Mr. Sushil Kumar Agarwal with more than 20 years wide experience in retail finance services, co has a professionally managed and experienced team.
Business	AAVAS is focused on catering self employed customers (60.3% of AUM Q2FY22) in tier 2,3 and 4 cities with majority of customers belonging to ESW and LIG segment. Co.'s portfolio comprises of Home loans, land purchase/ construction loans, home improvement loans, LAP and MSME loans.
Loan Book Mix	Overall AUM comprises of 72.1% of home loans and rest 27.9% are other mortgage loans as of Q2FY22. 99.9% of co's loans is in retail category.
Liability mix	Co has robust liability mix with nil exposures to CPs. Liability Mix Q2FY22: 36.8% from Term loans, 22.7% from Assignment, 23.0% from NHB refinancing and rest from NCDS
Capital Adequacy	Capital Adequacy stands at 52.14% of which Tier 1 is 51% as on Q2FY22
Credit Rating	AA- / Positive (Long Term) from CARE & AA- / Stable (Long Term) from ICRA and A1+ (Short Term) from CARE, IND-RA & ICRA.
Auditors	S. R Batliboi & Associates

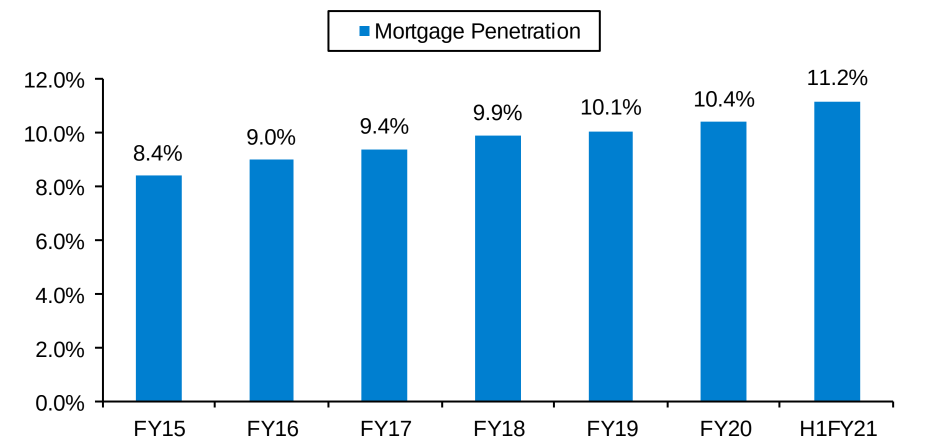
India’s housing finance market back in reckoning but to be led by affordable housing in the current cycle

(A) Beginning of upcycle – housing finance to grow at 29%CAGR over FY21-23
(B) Beginning of housing upcycle - HFCs to benefit the most
(C) Beginning of housing upcycle- affordable housing at core of GoI’s focus
(D) Affordable housing – to drive the HFC story ahead – an estimated ~Rs11tn size opportunity
(E) Affordable HFCs (AHFC) at 12-15% YoY loan growth in FY22 to exceed growth of HFCs

(A) Beginning of upcycle – housing finance to grow at 29% CAGR over FY21-23

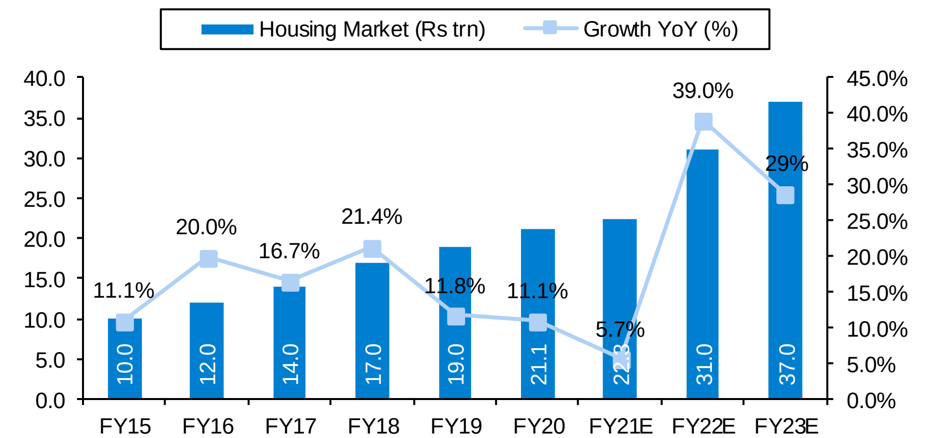
- Mortgage penetration in India at 11% stands lowest in comparison with West (USA:52%, UK:68%, Germany: 45%) leaving ample scope for housing financiers to up their game.
- The same coincides today with a fresh upcycle that can last for over 6-7 years after a longer-than-historical period of 8-year down cycle.
- We believe pandemic has proved to be a blessing-in-disguise for the housing sector as **genuine end-user buyer demand** to translate into a structural growth story for housing finance market.
- **Led by pent-up demand**, the housing loan segment registered a 9.6% YoY growth in overall loans in Q3FY21 defying the Covid-19 led disruptions.
- **We reckon that housing market to grow at 29% CAGR over FY21-FY23E creating a lending opportunity of Rs37tn led by first time home buyers with (RERA led buyer confidence), higher demand for mid-size housing, improving affordability index (3.2 best affordability index), policy support (stamp duty reductions), benign interest rates with narrowing gaps from residential rental yields and pacing up of vaccinations.**

India's mortgage penetration remains lowest at mere 11%



Source: Company, PL

India's housing finance market to grow at 19% YoY to Rs37tn by FY23

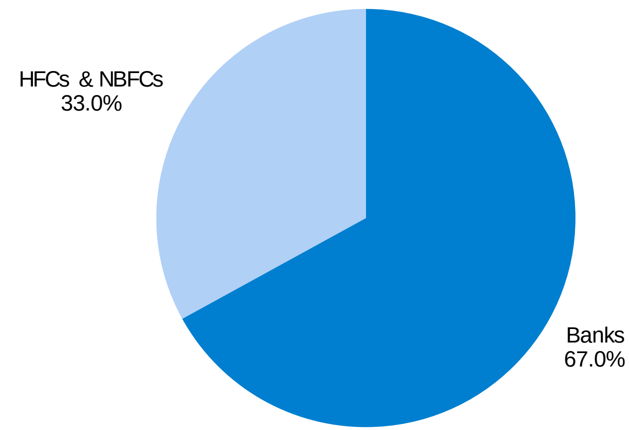


Source: Company, RBI, PL

(B) Beginning of housing upcycle - HFCs to benefit the most

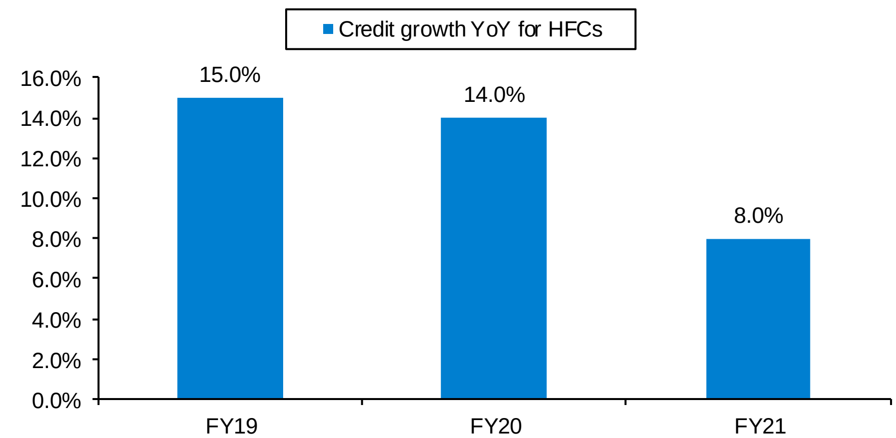
- As per the latest credit information bureau CRIF report, public sector banks have retained the largest market share in housing loans by value and volume, with a near 45% share over the last three years. As of Dec'20, the top five public sector banks constituted nearly 30% of the housing loan industry 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.
- Channel checks suggest that there has been rebound in housing loan originations with young borrowers and millennials (less than 36 years), with high aspirations and commensurate disposable incomes are increasingly being seen as an attractive audience for housing loans.

Banks dominate 67% of the housing finance market share



Source: Company, PL

Credit growth for HFCs stood at 6-8% for FY21

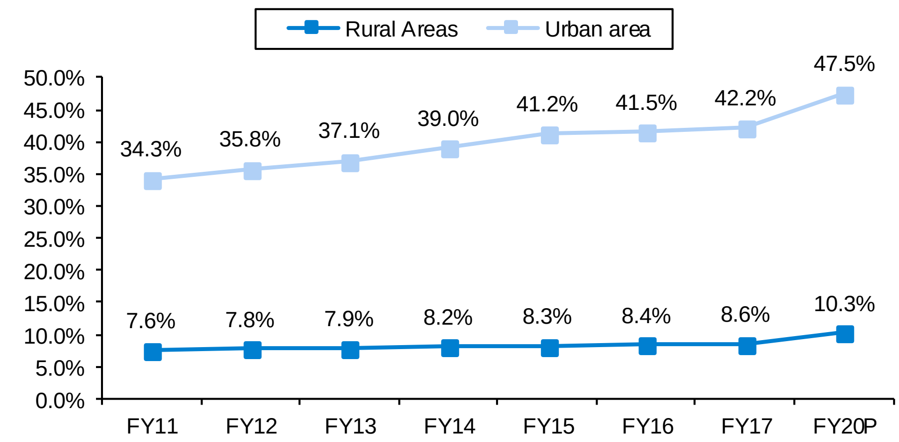


Source: Company, PL

(C) Beginning of housing upcycle- affordable housing at core of GoI's focus

- Historically housing finance penetration remains lowest (10%) in rural India and that's where the potential demand for affordable housing lie. In the post COVID era, the demand for affordable homes rose in Tier 2/3/4 cities as consumers increasingly worked from home.
- Over the past couple of years, the demand stood weak due to unaffordability, as developers focussed on the middle and premium income-category projects. However, Government initiatives have prompted developers to explore affordable housing as a new area. Going ahead, about half of the incremental supply being added in urban stock is expected to be via affordable housing. Additionally, the formalisation of the industry is likely to bring in more transparency, leading to an increase in consumer demand.
- To provide boost to the rural affordable housing, various Central Government policies and initiatives such as "Smart Cities" and the "Pradhan Mantri Awas Yojana" or the "Housing for all by 2022" scheme have been reinforced to promote affordable housing through partnerships with private sector entities.
- **Pre-pandemic GoI initiatives for affordable housing:** Extension of the timelines of RERA projects by 6 months, extension of deadline to March 31, 2022 for first-time homebuyers to avail of an additional Rs. 150,000 interest deduction on home loans in affordable housing space.
- **Pandemic period GoI initiatives for affordable housing:** Several factors worked in favour of affordable housing, including Rs 3.74-lakh crore liquidity infusion announced by the RBI on March 27, 2020, the CLSS extension announced in May, relief under EPF, etc.

Rural housing finance penetration at mere 10%



Source: RBI, PL

Central Assistance for Affordable Housing

Houses sanctioned	10.8 mn units
Houses grounded for construction	6.7 mn units
Houses completed	3.7 mn units
Total investment	Rs. 6,490 bn
Central assistance released	Rs. 767 bn

Source: RBI, Company, PL

(D) 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.
- **The sustained demand in the affordable housing finance space defying pandemic challenges formed the fulcrum of credit recovery for HFCs as most focused on low ticket, low income group customer segments. Therefore, the current upcycle in the housing space to be led by affordable housing finance market.**
- Affordable housing segment (ticket size up to Rs3.5mn) constituted 90% of the market by volume and nearly 60% by value as of Dec'20. Within the affordable segment, loans under ticket size of Rs1.5mn comprised 70% by volume and 38% by value.

Housing shortage to rise to ~100mn units by FY22

Income group	Total Housing Shortage (FY07)	Total Housing Shortage (FY12)	Total Housing Shortage (FY22)
EWS	21.8	10.6	45.0
LIG	2.9	7.4	50.0
MIG and above	0.0	0.8	5.0
Total housing units requirement	24.7	18.8	100.0

Source: RBI, Company, PL

~44mn housing units demand to emerge from rural markets

Factors	Urban (mn)	Rural (mn)	Total (mn)	Share
Households living in non-serviceable and temporary house	1.0	20.2	21.2	34%
Households living in obsolescent houses	2.3	7.5	9.8	16%
Households living in congested houses and requiring new houses	15.0	11.3	26.3	42%
Households that are homeless	0.5	4.2	4.7	8%
Additional shortages (from 2012 to 2017)	-	0.5	0.5	1%
Total Housing Shortage	18.8	43.7	62.5	100%

Source: RBI, Company, PL

(E) AHFCs at 12-15% YoY loan growth in FY22 to exceed growth of HFCs

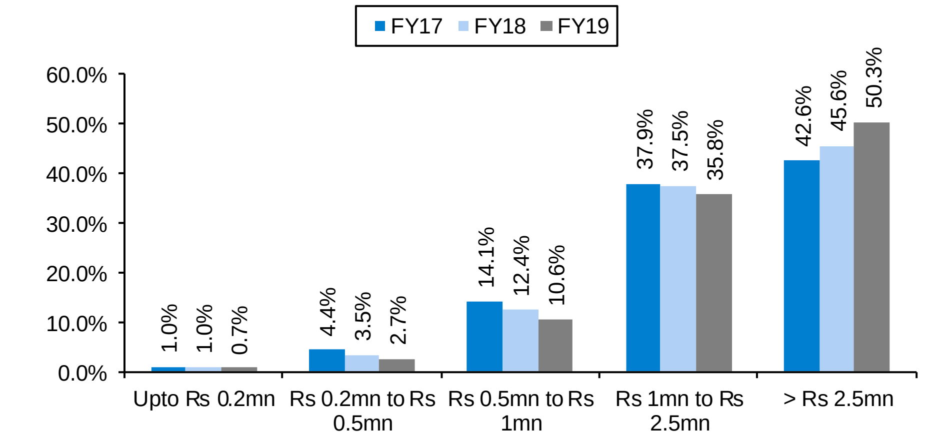
- While more housing loans are disbursed in metro geographies, demand for affordable segment comes in more from Tier II, III & beyond geographies where banks and large HFCs have been reluctant to lend. Characterized by difficulty in credit appraisal, lack of proper documentation, intense KYC checks, NPL volatility and aggressive follow-up requirements post disbursements, affordable housing finance business stands niche creating a new market to be tapped by specialized affordable housing finance companies (AHFCs).
- As per ICRA, the overall portfolio of the new AHFCs stood at Rs 551bn as at Q2FY21-end registering 9%YoY growth v/s overall negative growth for housing finance sector. **We reckon housing finance story in the current cycle to be driven by affordable housing finance players who cater to the large underserved market wherein housing shortage stands acute and Government support robust in the form of tax sops and subsidies.** Moreover, these lenders have strengthened their balance sheet through additional COVID-19-related provisions over FY21 which should spillover to 1HFY22. Against this backdrop, the AHFCs to witness loan growth at 12-15% over FY22 v/s 8-10% growth in overall housing finance loans (ICRA estimates).

CLSS scheme provides impetus to affordable housing; Rs5-6lkh of savings

GoI's CLSS Scheme - Contours	EWS	LIG	MIG I	MIG II
Household Income (Rs)	Upto Rs 3lakhs	> Rs 3lakhs and upto Rs 6lakhs	> Rs 6lakhs and upto Rs 12lakhs	> Rs 12lakhs and upto Rs 18lakhs
Interest Subsidy (% p.a.)	6.5%		4.0%	3.0%
Loan tenure (no. of years)		20		
Eligible Loan Amount (Rs)	600000		900000	1200000
Upfront Amount for Subsidy (Rs.)	267280		235068	230156
Savings in Monthly EMI (Rs.) approx. @ loan interest of 10%	2500		2500	2200
Total Savings (Rs.)	**600000**		**540000**	**528000**

Source: Ministry of Housing & Urban Affairs, PL

Banks' reluctance to lend to low income groups leaves ample scope for AHFCs to grow



Source: NHB, Company, PL

…huge market potential for affordable housing finance players

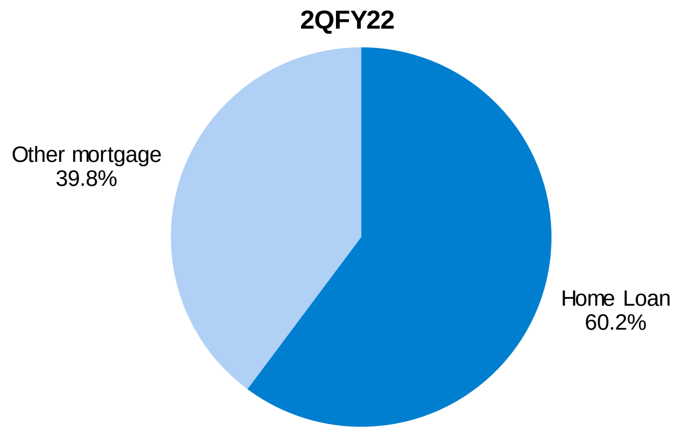
AUM (Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Gruh Finance	89	112	132	156	174	NA	NA
Aadhar Housing Finance	13	15	50	80	100	114	133
Aavas Financiers	**8**	**17**	**27**	**41**	**59**	**78**	**95**
Aspire Home Finance	4	21	41	48	44	37	35
Home First Finance Company	3	5	8	14	24	36	41
Aptus Value Housing Finance	4	5	8	14	22	32	41
Muthoot Homefinance	NA	0	4	15	19	20	17

Source: Company, PL

AAVAS Story in Charts

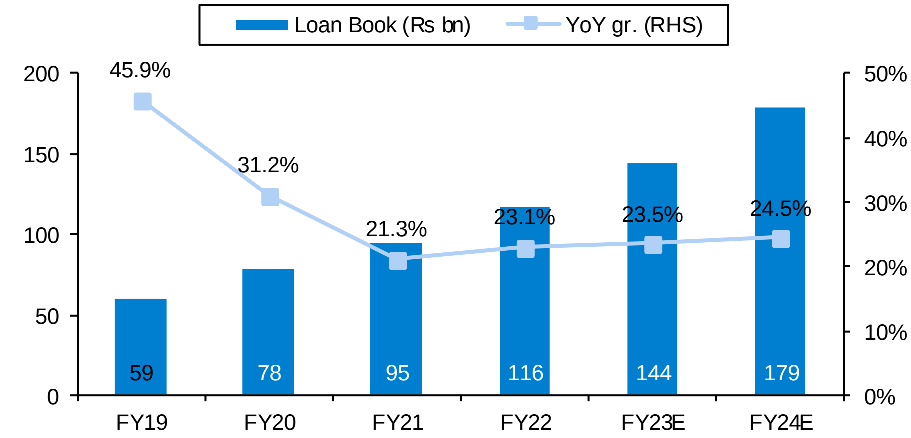
AAVAS Story in Charts

AAVAS loan mix stands tilted towards home loans in self-employed customer segment



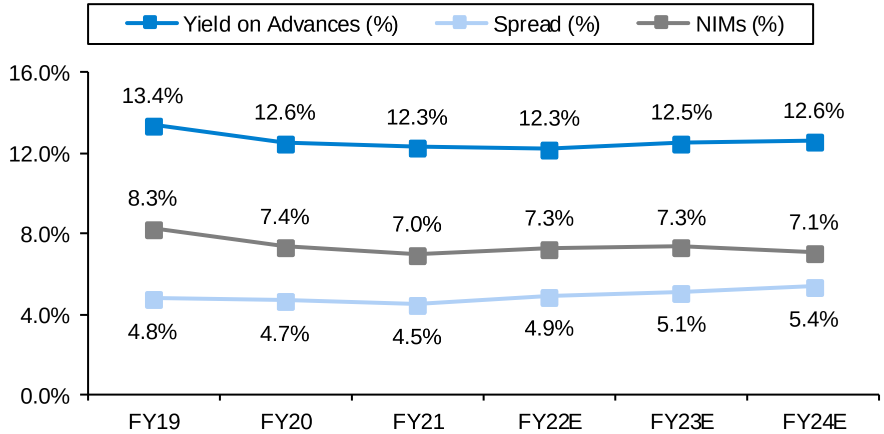
Source: Company, PL

Expect calibrated 24% loan CAGR over FY22-24E



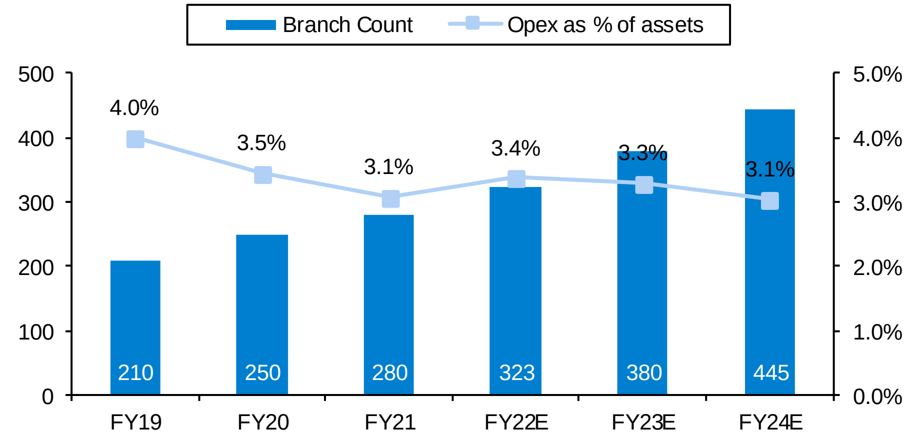
Source: Company, PL

Combination of higher yields, improving credit ratings and NHB refinancing help AAVAS generate 5.1% spreads & 7.2% NIMs



Source: Company, PL

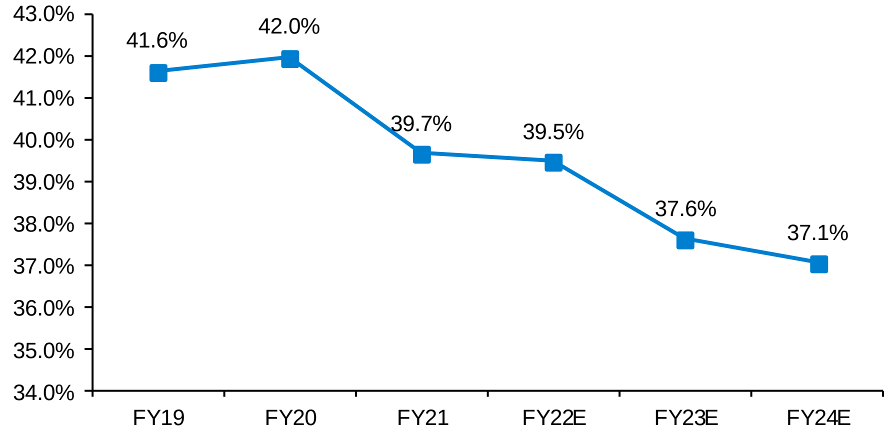
Steady network expansion and improving opex metrics aid profits



Source: Company, PL

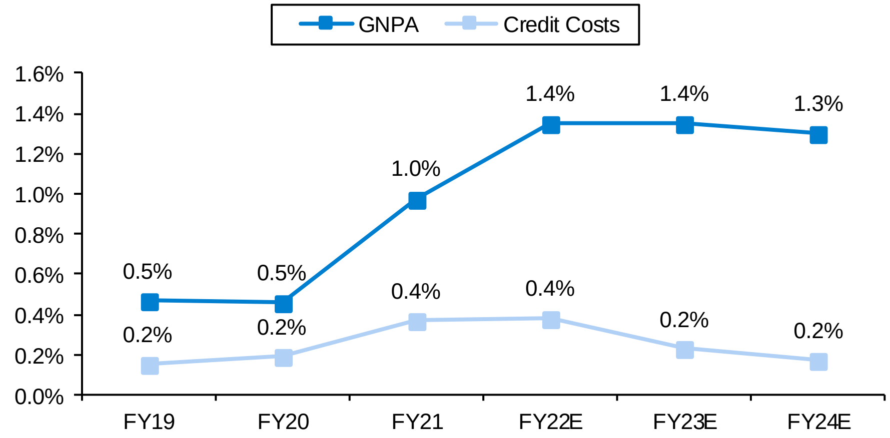
Contd…

Operating cost to increase at 21.6% CAGR over FY22-24E



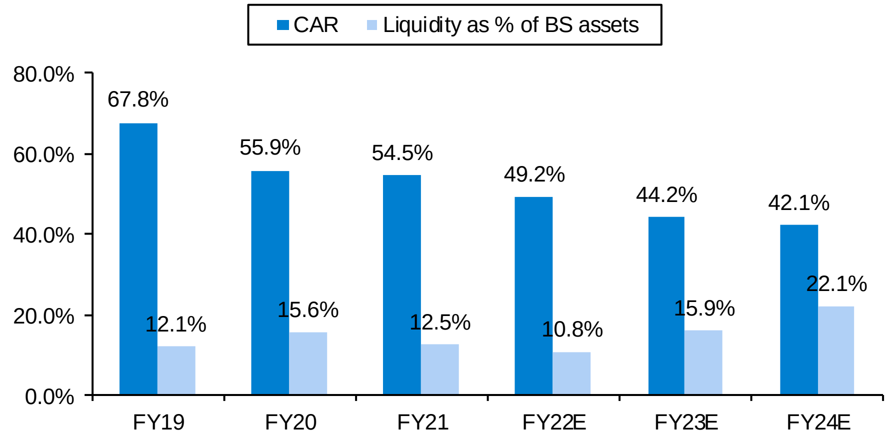
Source: Company, PL

Impeccable asset quality with GNPA at 1.3% GNPA, credit costs at 0.2% by FY24E



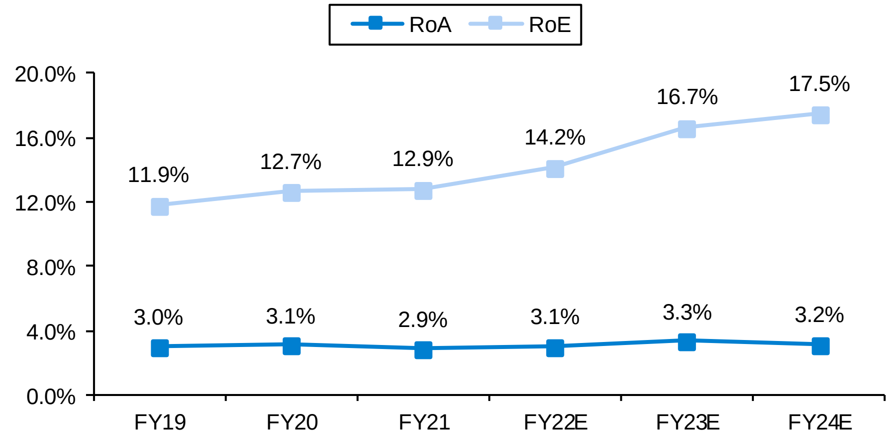
Source: Company, PL

Robust CAR and sizeable on-B/S liquidity



Source: Company, PL

AAVAS to clock improving return ratios; RoA of 3.2%, RoE of 17.5%



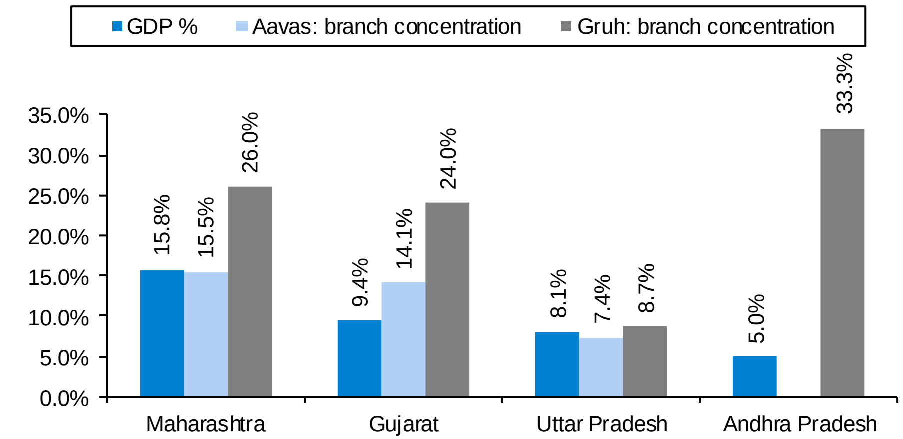
Source: Company, PL

AAVAS' business model mirrors that of Gruh

AAVAS business model mirrors that of Gruh

- With his decision to stay focused on low-income home buyers, a profitable segment with a consistent trajectory of growth, Sudhin Choksey had carved a niche for Gruh Finance. On the same lines, AAVAS has established its niche in the customer segment that has been refrained by banks (even Bandhan Bank aims to expand into larger ticket size despite having Gruh in its fold) and even large NBFCs, clocking equally healthy growth (40% loan CAGR) and profitability (84% PAT CAGR) over FY14-FY20.
- **Although customer segment and area of operations differ, we still find similarities in AAVAS vs Gruh business model in terms of target segment (low ticket, low income groups), customer centric approach, higher proportion of cheaper NHB funding, disciplined risk-based approach, competitive pricing and superior execution skills.**
- **With a direct sourcing and collection system enabling the Co. to optimally price its product offerings and maintain superior asset quality, AAVAS business stands unparalleled and command rich valuations just like Gruh of yesteryears.**

AAVAS operates in high GDP markets just as Gruh did



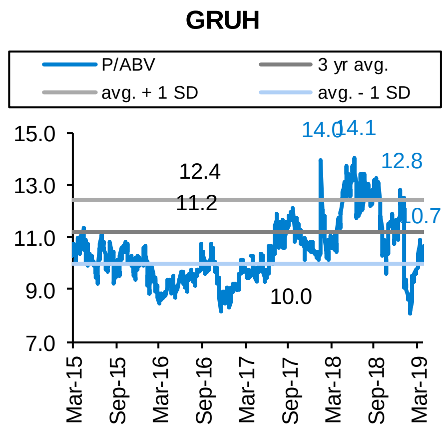
Source: Company, PL

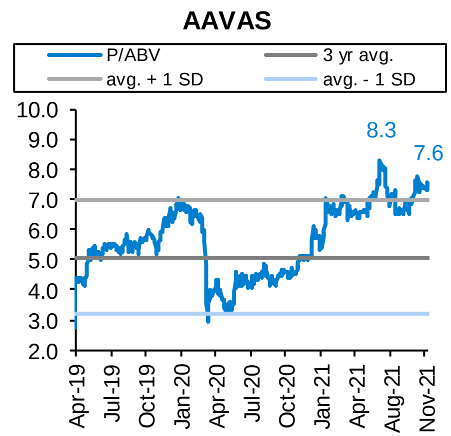
Aavas vs Gruh on the key operating parameters

Parameters	AAVAS (FY21)	Gruh (FY19)
Loan ATS (Rs mn)	0.8	0.7
Self Employed segment as % of AUM	60%	40-50%
Presence	Rural and Semi Urban	~40% of its loans at rural locations where the population is less than 50,000.
Yields	12.3%	11.4%
NHB funding	22.6%	22.0%
Credit Cost (%)	0.4%	0.3%
ROA (%)	2.9%	2.7%

Source: Company, PL

AAVAS valuations stand as expensive as Gruh's did in the past





Source: Company, PL

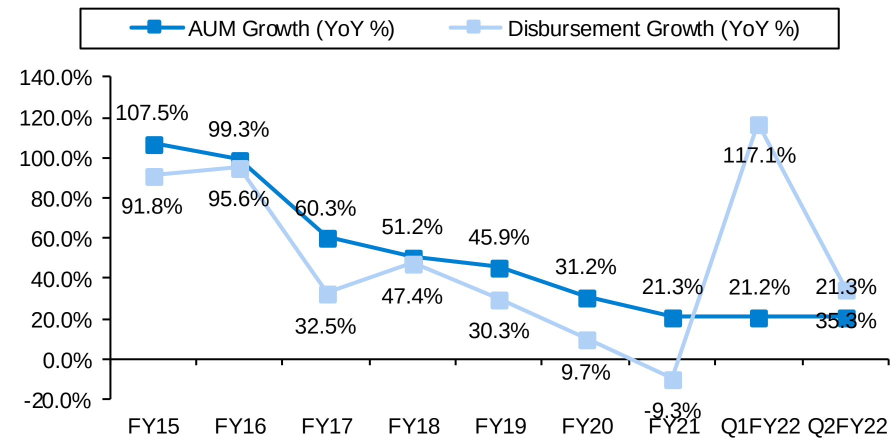
AAVAS' business model banks on four key pillars

(A) Massive untapped opportunity and low penetration
(B) Niche positioning
(C) Unique penetration
(D) Contiguous branch expansion

Huge market potential & niche positioning ensure industry leading growth

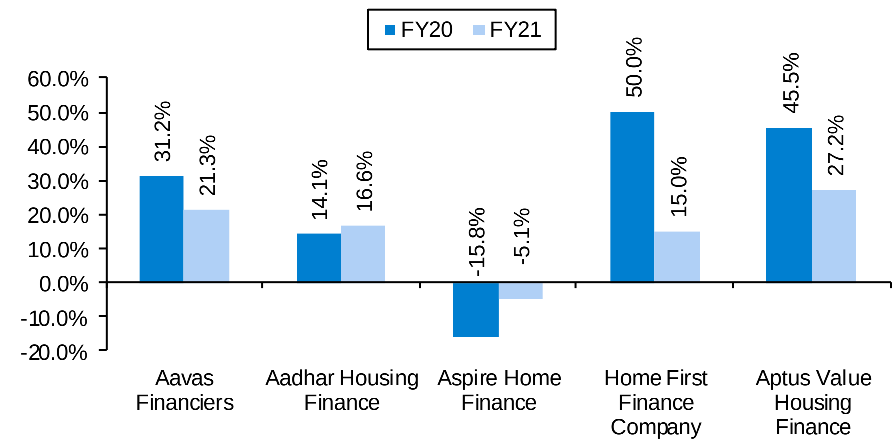
- A large segment of India's rural and semi-urban population is currently overlooked by formal financial institutions. Over the years, AAVAS' focus on such unique customers in such markets has enabled it to clock above industry growth rates. Resultantly, the Co.'s loan book grew over 3.5x over FY17-FY21.
- **A granular loan book with ATS restricted to Rs 9 lakhs unlike top HFC players with focus on Rs15-25lakhs ATS on the affordable side and dominance in self-employed home loan (60% of AUMs) market have ensured above industry growth rates even during challenging times. AAVAS recorded 21%+YoY AUM growth during tough year of FY21 vs 10.5% YoY growth by HDFC, 10.2% by LICHF, 6.8% by CANFIN and 14.4% growth by HFFC.**
- While unlike last year, there were no nationwide lockdowns announced by the Central Government, but State–led localized lockdowns of various degrees impacted business during Q1FY22. With reopening of the economy and vaccination drives picking up, AAVAS is back on track sourcing 12,000 files and witnessing 15,000 new applications per month.
- While FY21 stood as an aberration and AAVAS saw disbursements declining at 9%YoY, Q2FY22 already registered 35% YoY growth in-line with phased re-opening of the states in May'21 which saw business activities pick up closer to Q1FY22 end. Q2FY22 saw normalization with 21%YoY/6%QoQ AUM growth backed by 35%YoY/95%QoQ disbursals growth, the same achieving 95% of pre-COVID levels.
- **We expect cash flow situation to improve for borrowers, as economic activities pick momentum. Moreover, Co. had ramped up branch network and frontline team during Q4FY21 to boost the disbursements traction ahead.**

AAVAS book has grown >3.5x since FY17 backed by disbursements traction



Source: Company, PL

AAVAS loan traction stands better vs peer set



Source: Company, PL

(A) 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.**

With affordable housing finance market poised to clock 32% CAGR, we expect AAVAS' market share to climb by 80bps to 1.2% over FY20-23E.

Affordable housing finance market potential

Affordable housing finance market (Rs tn) (9MFY21)	9.72
Aavas market share (%)	0.91%
Affordable housing finance market (Rs tn) (FY23)	Rs11.9
Aavas market share	1.2%

Source: Company, PL

Massive opportunity emanating from unserved/hinterland markets

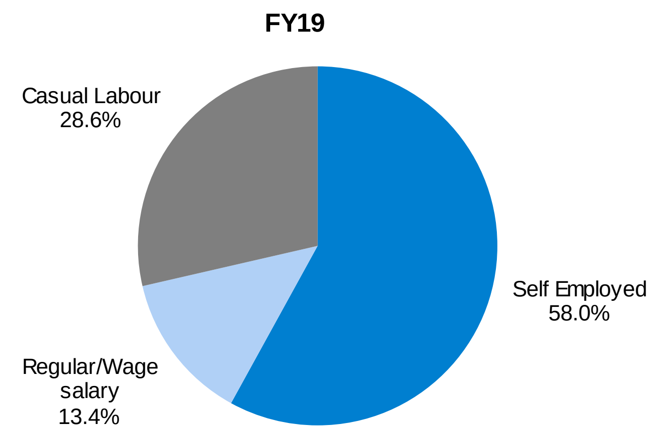
Market potential in terms of housing shortage for CLSS customer segment	
Urban housing shortage	10 mn units (FY20)
Urban housing shortage	25 mn units (FY30)
Housing shortage demand largely from EWS / LIG	
Aavas - Trained & exclusive Team for PMAY customers	
Aavas -Total CLSS subsidy granted to beneficiaries: Rs1.5bn	
Aavas - No. of beneficiaries who were granted subsidy: 7576	
As at FY19, 8 lakh beneficiaries were granted Rs185bn	
Market potential in terms of customer segment - creation of market	
Mortgage penetration in formal lending market in India	9%
Mortgage penetration in informal lending market in India	91%
Aavas finances pucca homes for this unroganized informal sector in semi-urban/rural India	
Market potential in terms of geography	
No. of homes mortgaged beyond 50 cities	2mn
Population beyond 50 cities	1bn
Mortgage penetration beyond 50 cities	1%
Aavas aims to reach out to this gap and take this to 2% penetration	
Market potential in terms of geography - existing market	
No. of districts in 4 States where Aavas is present	295
Total Population of the districts of the 4 States where Aavas is present	619mn
No. of districts Aavas currently present in those 4 States	134
Total addressable market (population) in the 4 states	**337mn**

Source: Company, PL

(A1) Massive opportunity from underserved markets

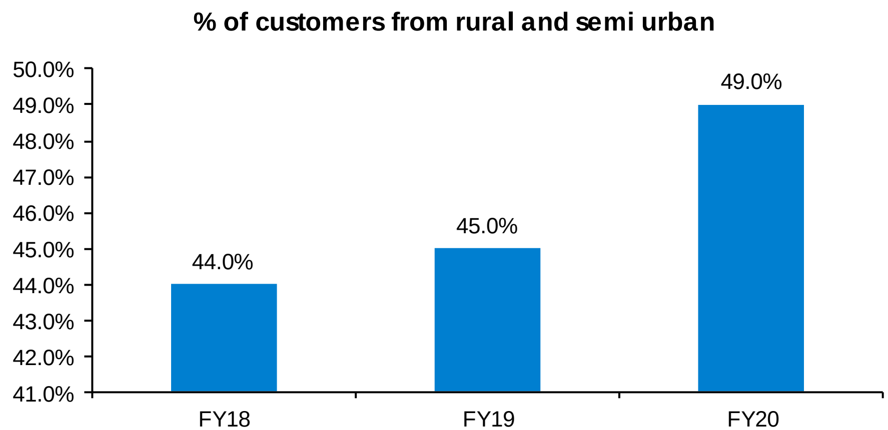
- AAVAS operates in rural areas and small towns targeting geographies with low credit penetration in Tier 2, 3 and 4 pockets.
- Co.'s understanding of local characteristics has allowed it to address customers' unique needs and penetrate deeper into such markets.
- Catering to self-employed customers requires a special skillset in absence of requisite income proofs as it is a cash flow based lending. AAVAS has developed unique expertise backed by robust underwriting systems and risk pricing strategy and experience to cater to the most vulnerable customer segment.
- With 50% of nation's self-employed labour based off rural markets and AAVAS with ~50% customer base located in rural & semi-urban areas followed by Co.'s 60% AUM tilting towards self-employed category makes it's a dominant player.

>50% of self-employed labour is concentrated in rural markets



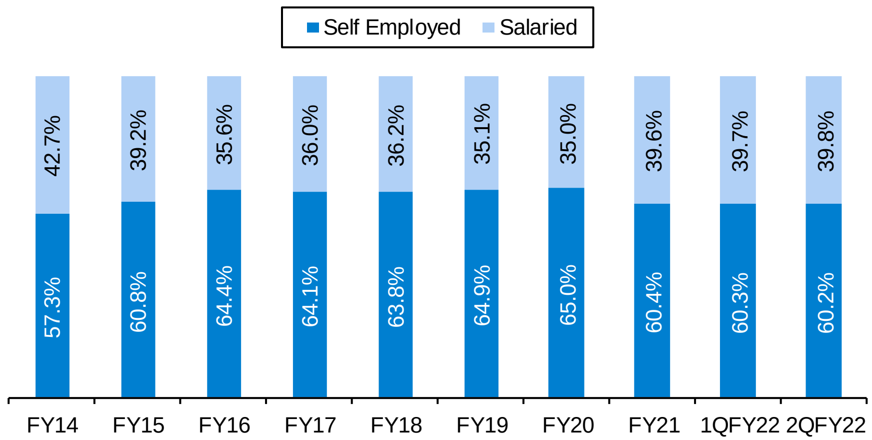
Source: MOSPI, Company, PL

...augurs well for AAVAS with 50% customer based off rural+semi urban



Source: Company, PL

AUM mix stands tilted towards underserved self employed segment



Source: Company, PL

(B) Niche positioning in affordable housing finance market

According to ICRA, **housing shortage in rural areas** among economically weaker section stood at 39.3 million units constituting 89.93% of total rural housing shortage. Whereas 99.84% of **urban housing shortage** was found among economically weaker sections and low income groups. AAVAS has significant opportunity to scale up its operations as:

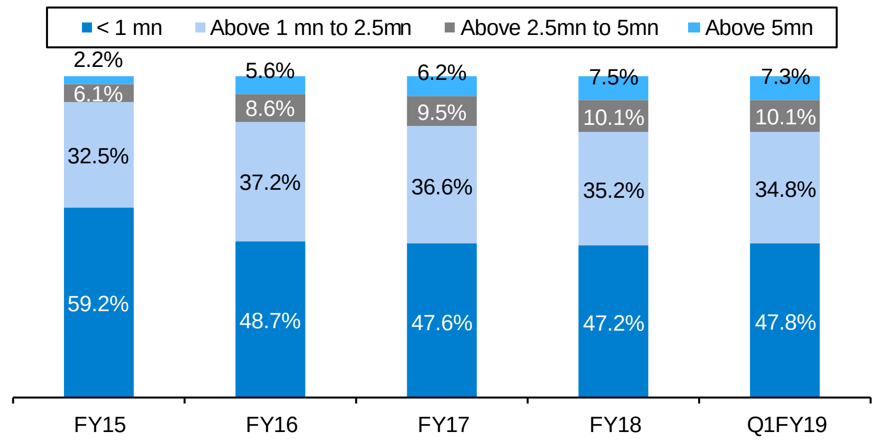
- Co. addresses several first-time borrowers (~30-40%) living in kuccha houses aspiring to live in pucca homes.
- Almost 60% of AAVAS' Loan Assets emerge from customers who belonged to economically weaker section and low income group, earning less than Rs50,000 per month as per FY21 data.
- AAVAS matches the point of presence with pin codes provided under the CLSS scheme. Since inception of the CLSS scheme, AAVAS has received CLSS subsidy of Rs1.5bn with respect to 7576 beneficiaries.
- AAVAS has also developed an experienced, trained and exclusive team for catering to EWS, LIG/MIG borrowers availing subsidies under PMAY scheme.

44mn housing units shortage in income category wherein AAVAS operates

Particulars (units mn)	Urban	Rural
EWS (annual income of up to Rs. 3 lakh)	10.5	39.3
LIG (annual income between Rs. 3 lakh to Rs. 6 lakh)	7.4	
MIG (annual income between Rs. 6 lakh to Rs. 18 lakh)		4.4
HIG (annual income of more than Rs. 18 lakh)	0.8	
Total	**18.8**	**43.7**

Source: Company, PL

AAVAS focuses on low ticket loans <Rs1mn



Source: Company, PL

GoI's PMAY schemes stand supportive of low middle income segment

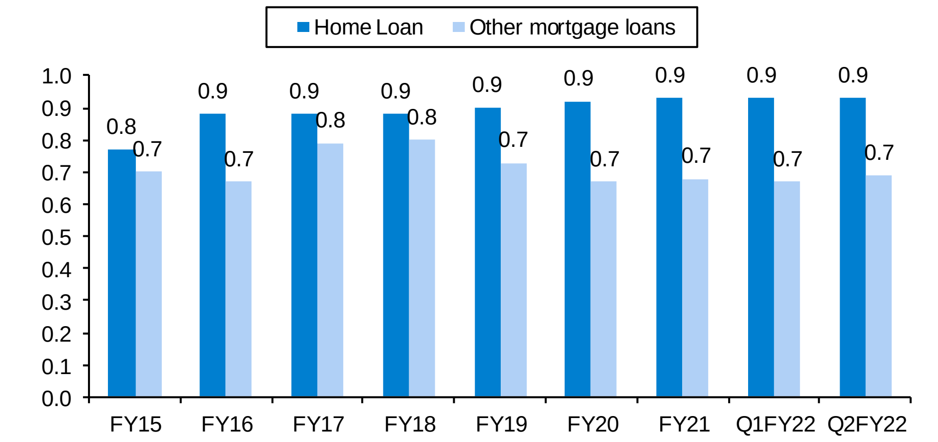
Parameters	EWS	LIG	MIG- I	MIG- II
Annual household income	Upto Rs 0.3mn	Between Rs 0.3mn and Rs.0.6mn	Between Rs 0.6mn and Rs.1.2mn	Between Rs 1.2mn and Rs.1.8mn
Eligible housing loan amount for interest subsidy	0.6mn	0.6mn	0.9mn	1.2mn
Interest subsidy (% p.a.)	6.5%	6.5%	4.0%	3.0%
Maximum loan tenure	20 Years	20 Years	20 Years	20 Years
Dwelling unit carpet area	Up to 60 sq. MT	Up to 60 sq. MT	Up to 160 sq. MT	Up to 200 sq. MT

Source: Company, PL

(B1) Focus on low ticket and new-to-credit customer segment

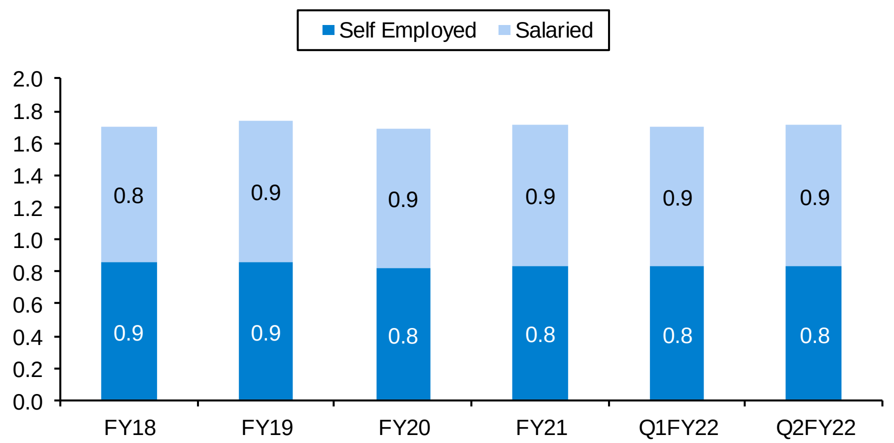
- Ability to appraise and collect from low income (<Rs50,000 per month), low ticket size (<Rs9lakhs), self-employed, first time home buyers segment has enabled AAVAS Financiers to establish its niche in the most coveted affordable housing finance market, leading to significant growth opportunities and customer stickiness.
- As of Q1FY19, 61% of gross loan assets emerged from customers who belonged to economically weaker section and low income group, earning less than Rs 50,000 per month and 36% of gross loan assets were from customers who were new to credit.
- **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.**

Ticket sizes maintained at Rs0.9mn & 0.7mn for HL, other loans past 3 years



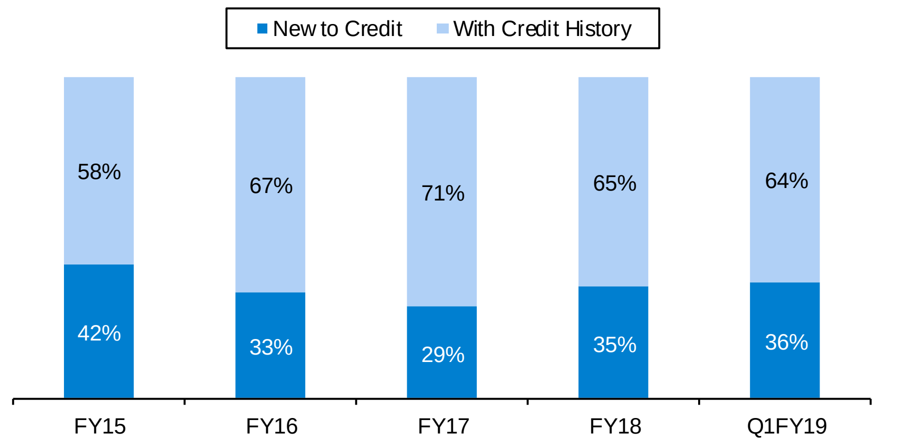
Source: Company, PL

Across customer segments, ticket size range bound at Rs 0.8-0.9mn



Source: Company, PL

Over 36% of AUMs focus on first time home buyers



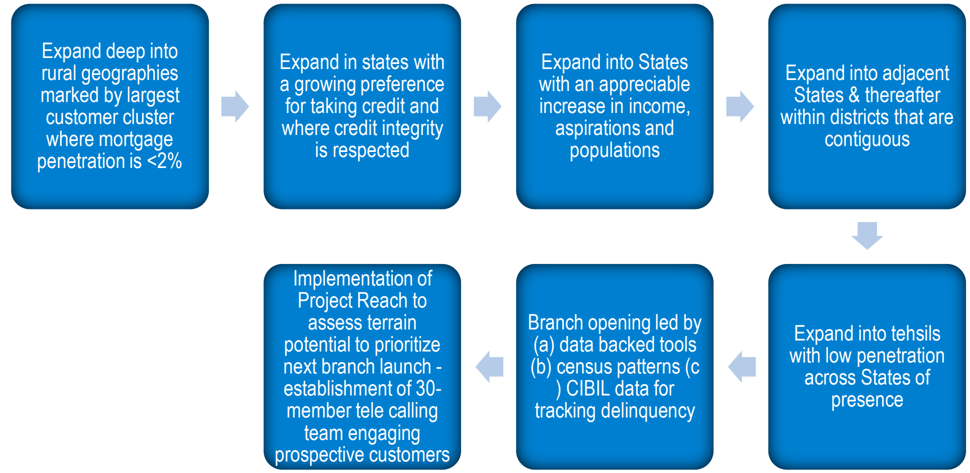
Source: Company, PL

(C) Strategic penetration in high potential markets

Solid Penetration in newer markets with high potential and constant deep diving into existing markets followed by upward shift in LTVs forms core of AAVAS strategy

- AAVAS' calibrated investments in 1) distribution networks closer to borrower proximity, 2) knowledge of local markets, 3) contiguous branch expansion and 4) rigorous underwriting practices have not only aided the business traction but also led to customer accretion.
- **With strategic on-ground contiguous expansion in local markets, AAVAS has stipulated a five year cycle of network expansion wherein every five yeas Co. will develop four States to achieve a tehsil level penetration of ~85% per State before graduating to next terrain potentially engaging 30-member telecalling team to acquire prospective customers.**
- AAVAS loan book traction over past two years was also supported by increased LTVs (from 50% to 54%) due to shift from Tier-6 cities to Tier 4-5 cities and financing better class of properties.

AAVAS' geographic penetration strategy stands unique



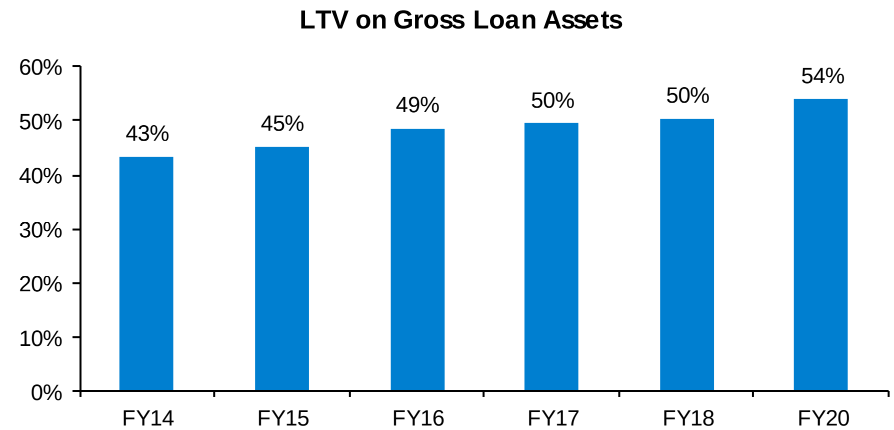
Source: Company, PL

AAVAS' calibrated geographic expansion hinges upon demographic study

Key Demographic Parameters	Rajasthan	Maharashtra	Gujarat	Madhya Pradesh
GDP	4.8%	15.8%	9.4%	4.2%
Population (Mn) FY20	81	123	64	85
Urban housing requirement (mn units) FY22E	21	50	29	22
Rural housing requirement (mn units)FY22E	45	55	21	51
Home mortgage loan as % of GDP (FY18)	6.7%	15.6%	7.9%	6.1%
Total Tehsils	244	358	251	400
Tehslls coverage for AAVAS (Q1FY19)	**192**	**196**	**159**	**164**
Tehslls coverage for AAVAS (%) (Q1FY19)	**79%**	**55%**	**63%**	**41%**

Source: Company, PL

Increasing LTVs as AAVAS shifts to financing better class properties



Source: Company, PL

(D) Contiguous, conservative, localized and data driven branch expansion

AAVAS stands largely insulated from competitive intensities primarily on account of its unique branch expansion strategy

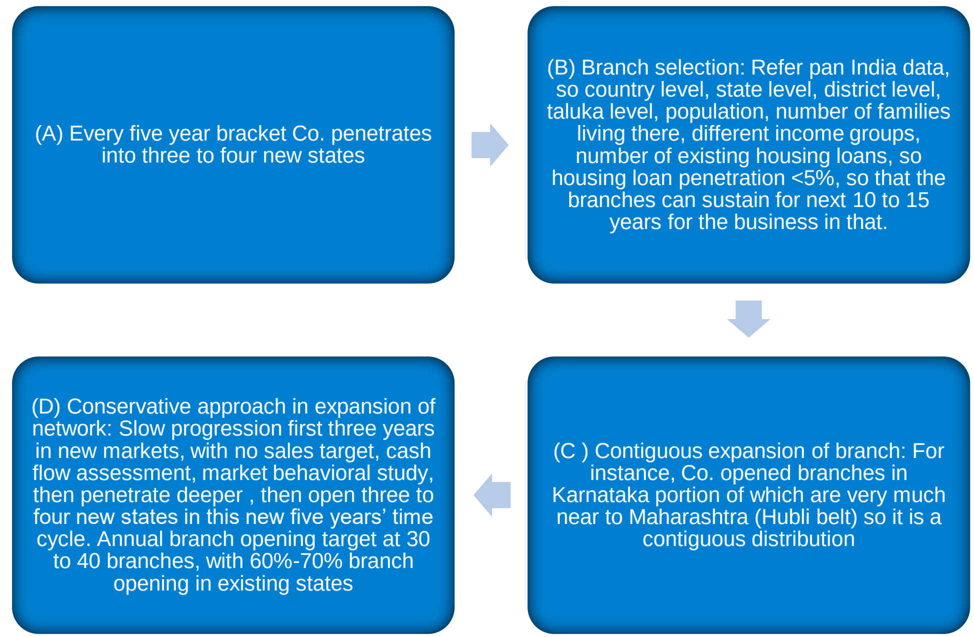
- Following a data driven approach (studying census patterns; viz, population, no. of families, incomes, housing credit penetration & customer behavioral patterns) to identify market potential, AAVAS identifies branches within the select states.
- Predominantly located in rural/semi-urban markets, 80% of AAVAS branches are located in towns with a population of less than one million people.
- A contiguous branch expansion in commensurate with 85% tehsil penetration target
- A conservative strategy with slow progression of first 3 years in new markets with no sales target. AAVAS maintains an annual branch opening target of 30-40 branches with 60%-70% branch opening in existing states and 30% branches in new states

Quick glimpse of branch opening across key states cyclewise

Year	State	Branch count
FIRST CYCLE		
2012	Rajasthan	96
2013	Gujarat, Maharashtra, MP, Delhi	130
2014		
2015		
2016		
SECOND CYCLE		
2017	Haryana, Uttar Pradesh, Chhattisgarh, Himachal Pradesh and Uttarakhand	57
2018		
2019		
2020		
2021		
THIRD CYCLE		
2022	Karnataka and Odisha	14
2023	2 new States	
2024		
2025		
2026		

Source: Company, PL

AAVAS has adopted contiguous branch expansion strategy



Source: Company, PL

(D1) Capitalizing on existing branch potential

AAVAS' well defined branch expansion and business augmentation strategy stands rightly reflected in its calibrated approach, i.e. (a) branch classification into four categories; viz, A, B, C, D depending on the town's population, number of families living there and potential of that branch over a period of next 15 years. (b) branch expansion depicted in Exhibit as to how AAVAS expects to garner Rs2crs business per branch with 5% penetration in a town over a period of 15 years.

A typical AAVAS branch takes over 5 to 6 months for break-even with achieving Rs50 to Rs 60lakhs business per month.

AAVAS branch network stands well entrenched in districts of presence

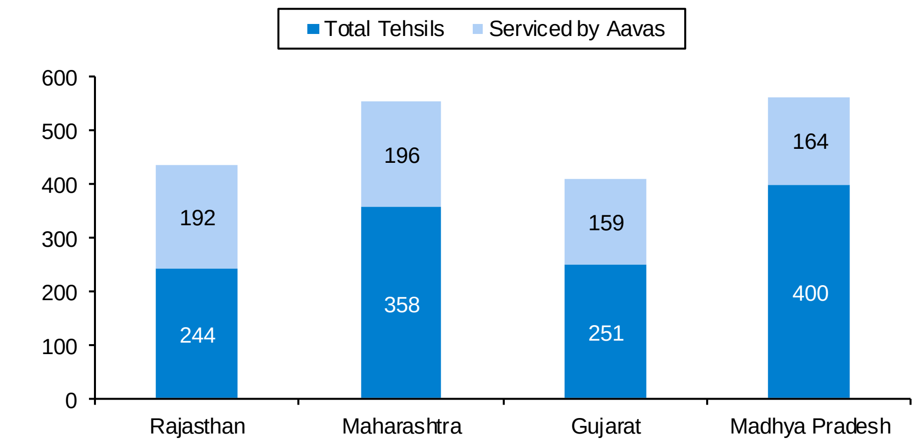
	Branches (nos)	Districts
FY15	42	22
FY16	44	31
FY17	94	64
FY18	165	92
FY19	210	122
FY20	250	134
FY21	280	NA
Q1FY22	284	NA
Q2FY22	297	NA

AAVAS branch business augmentation potential

Population of town (Units)	4,00,000
No. of families (Units)	1,00,000
Penetration of 5% into customer base	5,000
5000 home loans in 15 years i.e. 180 months	180
Files per month	15-20
Ticket size (Rs)	10,00,000
Business per month (Rs)	2,00,00,000

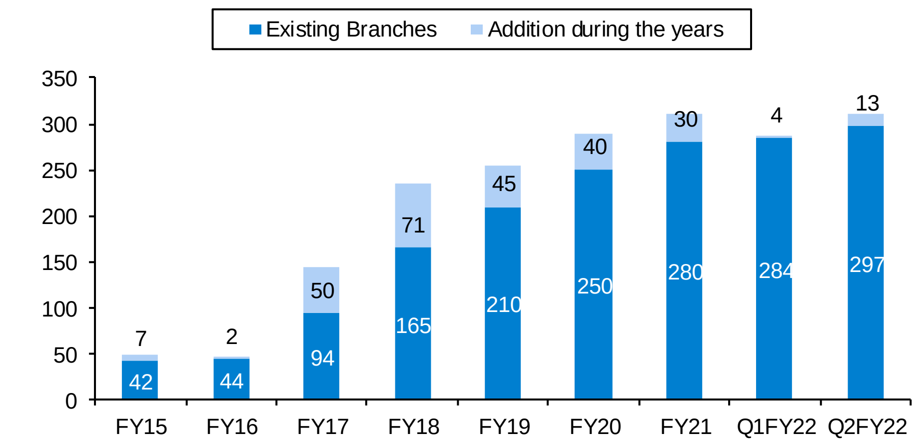
Source: Company, PL

AAVAS stand >65% entrenched in tehsils in top 3 states



Source: Company, PL

Avg. 40 branches addition annually with 60-70% opening in existing States

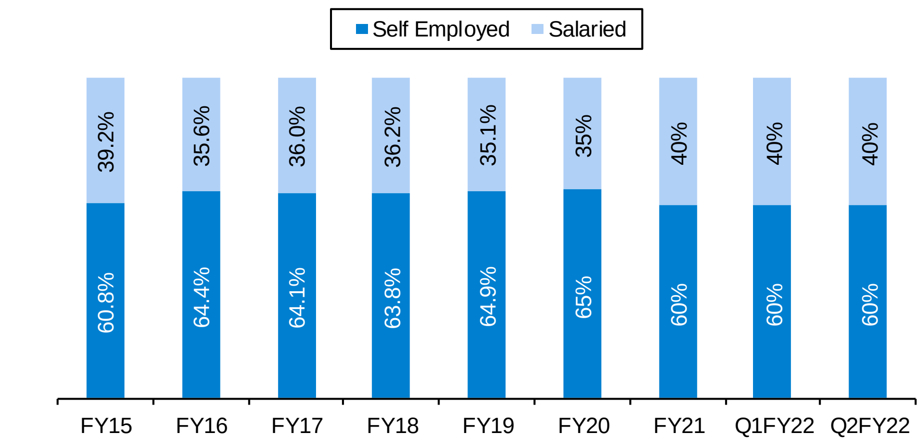


Source: Company, PL

AAVAS loan mix remains steady; focus on other mortgage loans improves

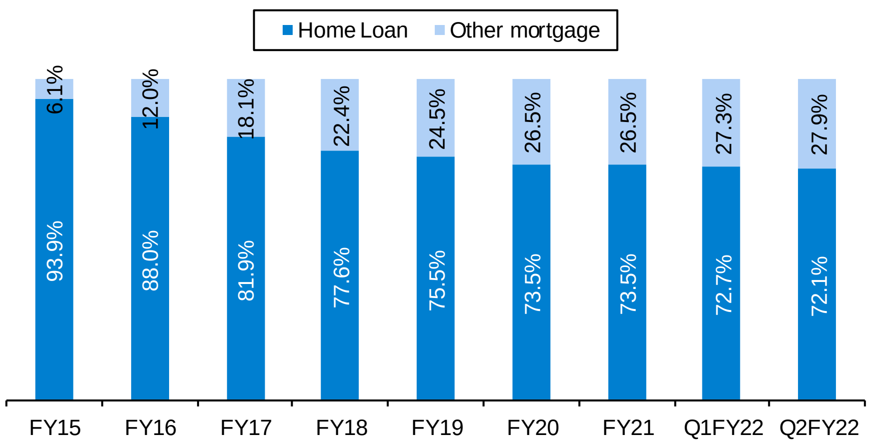
- While Co. has been focusing on home loans (self-construction purpose), that constitute 70% of overall loans on steady-state basis and will maintain so, share of other mortgage loans surged during pandemic periods in light of lockdown led limitations to grow home loan traction. AAVAS' other mortgage loans comprise of LAP (70% share), MSME loans (25%) and top-up (20%) with both LAP and MSME being asset backed businesses. The MSME loan share has climbed up to 40% in recent periods as MSME loans are also mortgage-backed, shorter tenure than LAP (<7 years) and enhanced credit filters.
- Co.'s 60% self-employed focus with no individual account exceeding 5-6% of overall loans, AAVAS follows cash flows based lending backed by customer data, the repository (4 lakhs files) which has been created over past 11 years. Co. has deployed 400 odd underwriters of which 300 being chartered accountants for due diligence of the self-employed customer profiles.
- **Going forward, AAVAS expects to deliver consistent 20-25% AUM growth with 70-75% home loans share, 40% MSME, 40% LAP and 4-5% top-up loans.**

AAVAS expected to maintain self-employed:salaried at 60:40 share



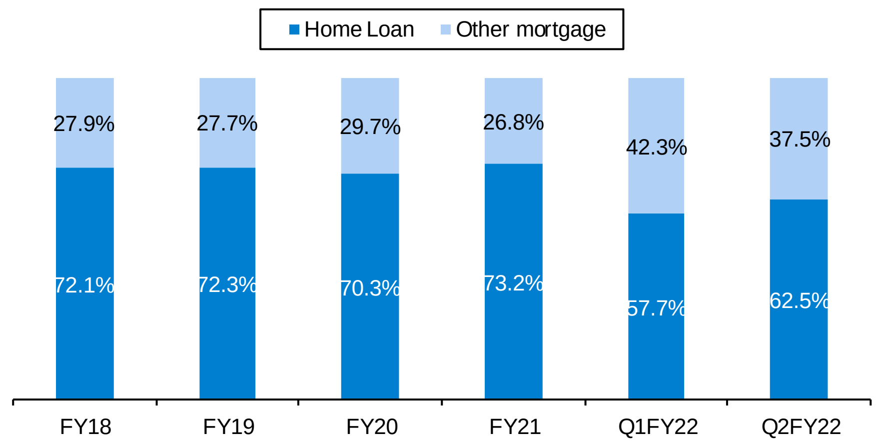
Source: Company, PL

Although AAVAS loan mix remained steady; other mortgage focus rises



Source: Company, PL

AAVAS maintains 70:30 share; although pandemic saw higher other loans



Source: Company, PL

AAVAS risk-adjusted pricing manifests into higher yields & pricing power

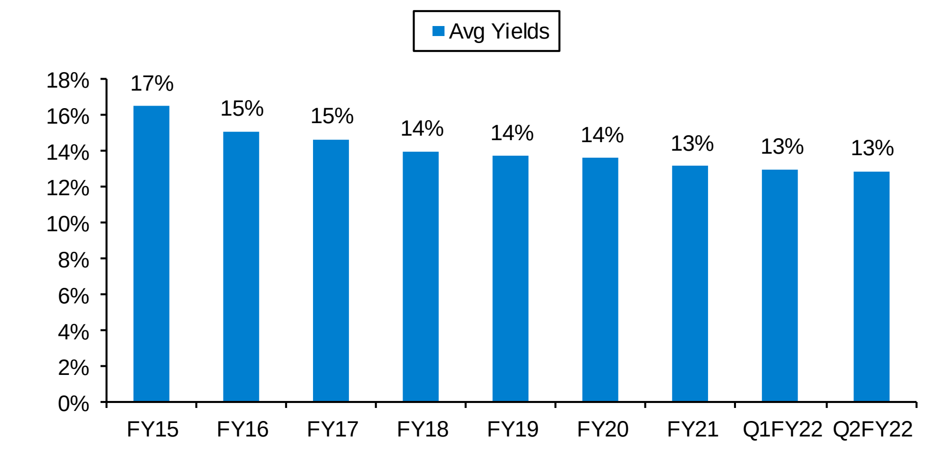
AAVAS maintaining pricing power in the most coveted affordable housing finance market can be attributed to:

(A) Focus on low ticket size in a rapidly expanding niche segment
(B) Differentiated product and service tailor-made to suit customer requirements at locations where formal funding is limited
(C) Increasing higher yielding other mortgage loan share
(D) Higher share of floating rate loans auguring well in rising interest rate scenario ahead

AAVAS risk-adjusted pricing manifests into higher yields & pricing power

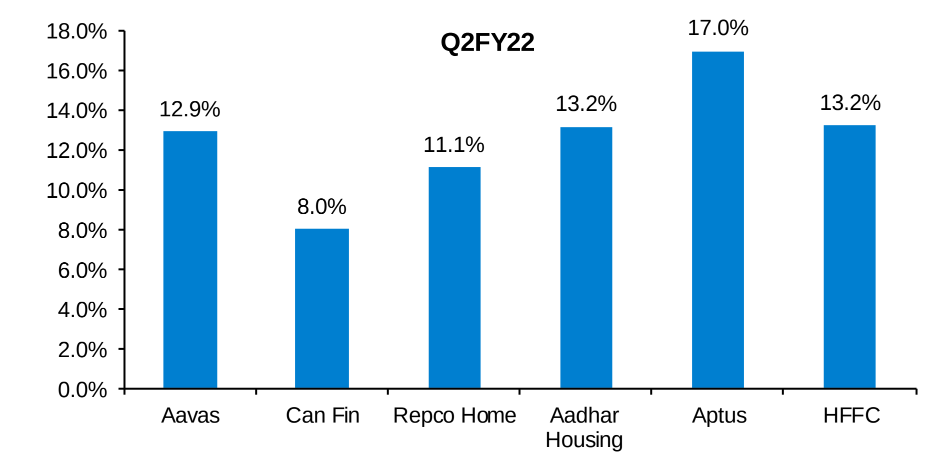
- **AAVAS' 1) deep understanding of the perceivably riskier customer segment, 2) differentiated product offerings, 3) increasing higher yielding non-home loan share and 4) higher share of floating rate loans, AAVAS has maintained risk adjusted yields of ~13% over past six years.**
- **While the yields have declined every year (from a high of 17% in FY15 to 13% in FY21), it has come in line with cost of borrowing (weighted avg debt cost of 12.3% in FY14 to 7.4% in FY21) coupled with opex efficiency as at the end of FY21.**
- Therefore, as wholesale rates continued to fall and incremental funding costs declined, AAVAS proactively opted for rate reduction on two occasions; viz 10bps in Jan'21 and 15bps in Apr'21.
- A combination of risk-based pricing model backed by technology-led underwriting practices reflects clearly in the widening rate differential between home loans and other mortgage loans which stood at 100bps in FY19 and up at 185bps levels as at the end of Q1FY22.
- Taking cognizance of focus on perceivably riskier customer segment and need for competitive pricing, AAVAS yields stand comparable to peerset.

Risk adjusted asset pricing manifest into higher yields of 14%



Source: Company, PL

AAVAS yields stand competent in market

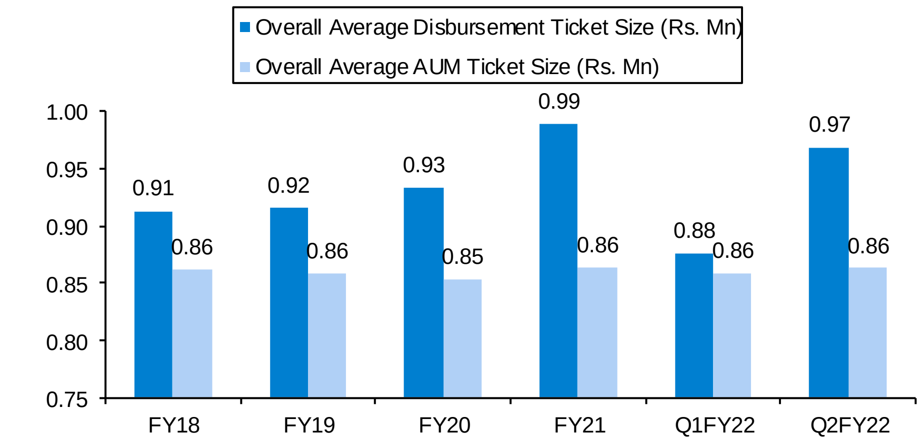


Source: Company, PL

(A) Focus on granular low ticket loan portfolio imparts pricing power

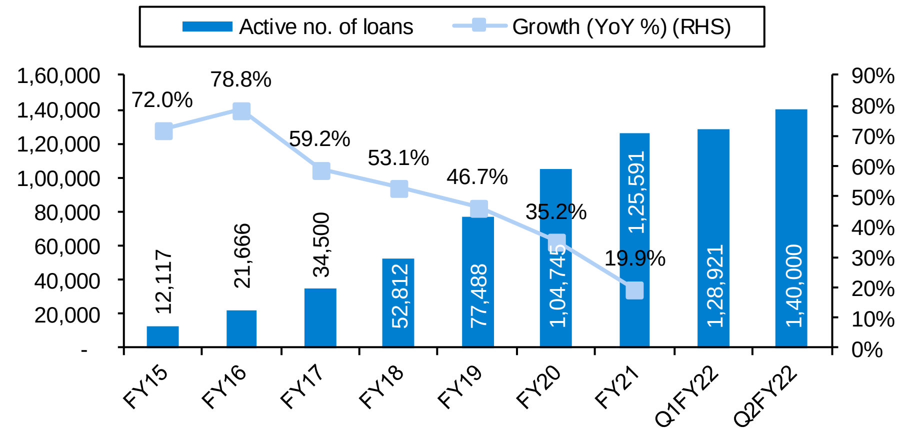
- Given strong presence at the bottom of the country's economic pyramid, AAVAS focuses on granular low-ticket (average ticket size restricted < Rs10 lakh) loan portfolio in small towns and cities with population of <50,000 having 30% customer base and are new-to-credit.
- Nearly 70% of the AAVAS' loans emerges from lower than Rs10lakh ticket size segment. **AAVAS can maintain competitive asset pricing at all times; it being the only organized lender in low ticket self-employed home loan segment with loan ticket sizes of <Rs9lakhs unlike top HFCs who have been focusing on affordable ticket sizes but with ATS hovering at Rs15-25lakhs.**
- AAVAS has observed the loan book grow at 26% CAGR over FY19-FY21 driven by greater focus on local markets followed by customer centric approach.
- The Co.'s average ticket size stood under Rs9 lakhs in terms of sanctions as well as loan assets across periods.
- With widespread demand in the said niche market which has been largely dominated by unorganized players, AAVAS has been successfully spreading wings reaching out to wider customer base.
- **Co.'s active customer base has grown at 42% CAGR over FY16-21 and it boasts customer count of 1,40,000 as at the end of Q2FY22. The customer additions on monthly basis (~12,000) are already back to pre-pandemic levels.**

Focus on granular loans with lower ticket size imparts pricing power



Source: Company, PL

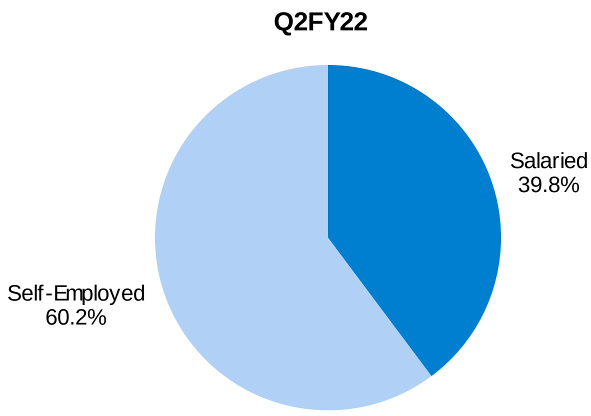
AAVAS' customer base grew at 42% CAGR over FY16-FY21



Source: Company, PL

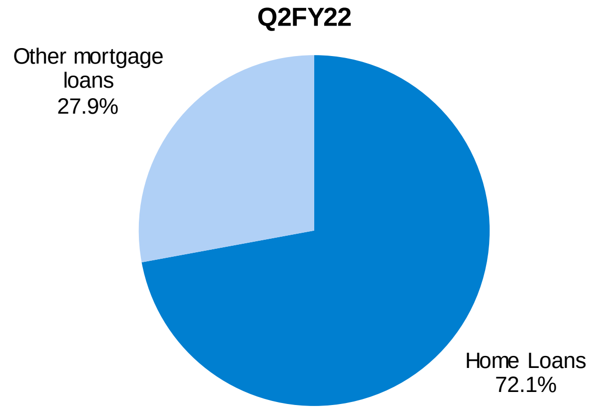
(A1) Focus on Self employed + Home Loans + NTC + Low income group = niche positioning

60% self-employed target customer segment



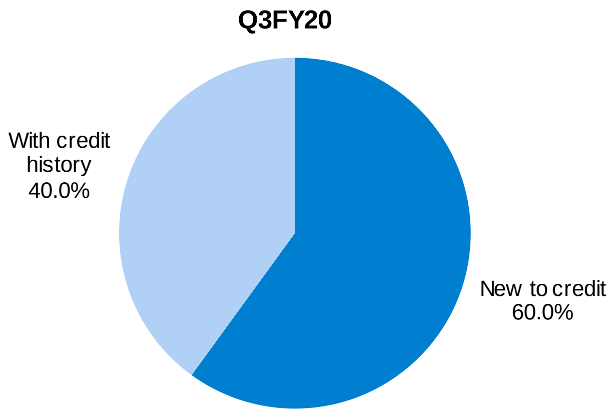
Source: Company, PL

..with focus on home loans (73% of book)



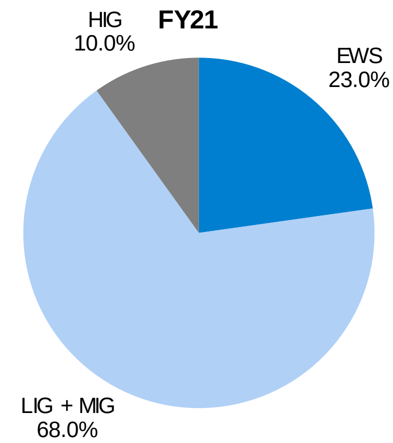
Source: Company, PL

..led by 60% New to credit segment



Source: Company, PL

Falling into low income category (68% of AAVAS loan mix)



Source: Company, PL

(B) Differentiated products and services tailor-made to suit customer requirements

- With continued focus on low and middle income self employed customers (chaiwallah, sabziwallah, chauffeur, local tradesmen, daily wage, labourers, domestic assistants, cooks, car washers, garage mechanics and shopfloor workers, among others) having average income levels of <Rs50,000 per month comprising of borrowers without any credit history, AAVAS has developed differentiated products at risk-adjusted rates. Infusing FMCG approach into service, AAVAS adopted close-to-customer proximity model characterized by 1) in-person connect, 2) in-house customer sourcing supported by referrals mostly from existing or former customers 3) collection system knowledge of the local markets and 4) widespread branch network in-turn growing a sticky customer base.

AAVAS' product offerings stand diversified suiting customer requirements

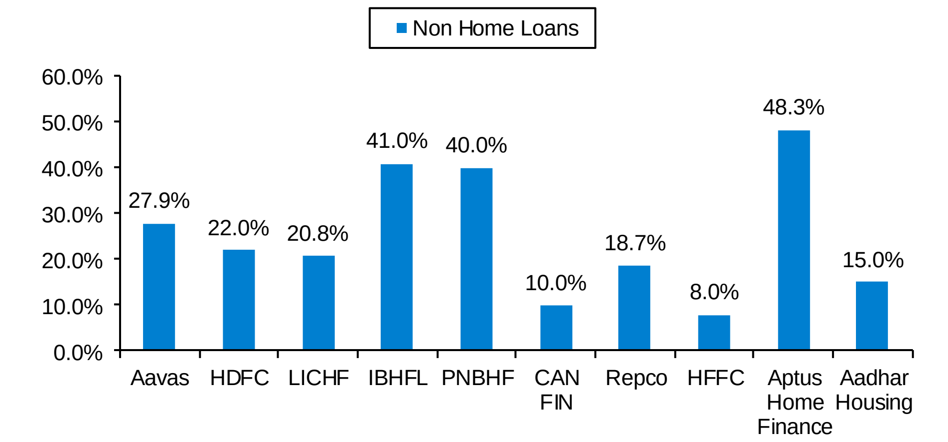
	Home purchase loan	Land purchase/construction loan	Home improvement loan	Home Loan Balance Transfer	LAP	MSME business loan	ECLGS
Purpose	For the purchase of flat, House or bungalow from builders, development authorities or resale properties	Self construction of residential house. Land may be free hold or plot allotted by development authority.	For improving home such as tiling, flooring, plaster or painting.	Home loan transfer availed from other institutions and benefit of additional top up loan	For business needs or any other purposes like marriage, medical expenses etc.	for business expansion, purchase of equipment, working capital, etc.	For MSME sector, to address working capital needs, operational liabilities and restart business impacted due the COVID-19 crisis. 20% of the total o/s credit of borrowers can be sanctioned for those who having a loan as on Feb 29, 2020.
LTV	~52%				45% ~46%		-
Tenure	30 years for salaried customers (from government/ PSU/ Private sector) 25 years for other salaried customers 20 years for self-employed customers.	30 years for salaried customers (from government/ PSU/ Private sector) 25 years for other salaried customers 20 years for self-employed customers.	30 years for salaried customers (from government/ PSU/ Private sector) 25 years for other salaried customers 20 years for self-employed customers.	30 years for salaried customers (from government/ PSU/ Private sector) with more than ₹ 35,000/Month 25 years for other salaried customers 20 years for self-employed customers.	Up to 15 years	Up to 15 years	48 months (principal 12 months)
Interest rate	8.5%	11.0%				14.0%	14.0%
TAT	~13 days		7 days	~13 days		7-10 days	-
% of applicants in last 30 days (latest)	20.0%	9.0%	-	-	11.5%	30.9%	-
% of overall loan book	73%	25%		2%			

Source: Company, PL

(C) Incremental other mortgage loan focus to cushion yields improvement

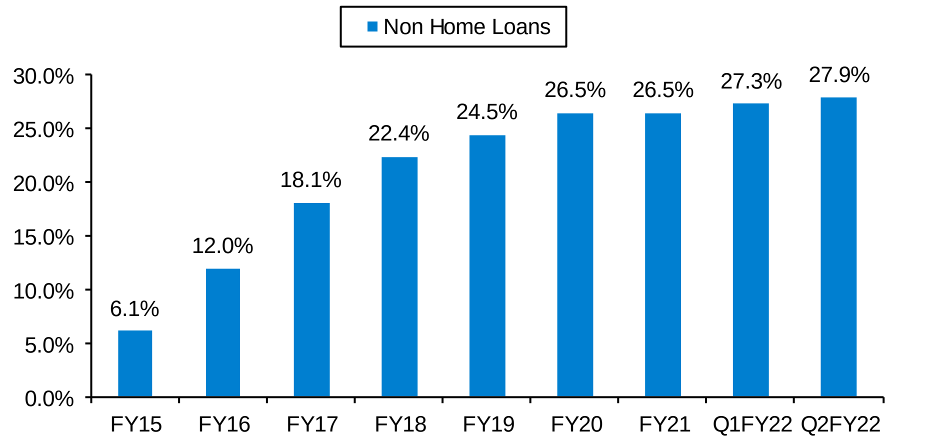
- HFCs have been maintaining lower share of other mortgage loans to curb balance sheet risks leaving ample scope for niche players like AAVAS to explore these opportunities.
- Graduating from home loan financing to life-cycle financial engagement with customers, AAVAS aims to increase other mortgage loan share which should push yields higher.
- With increasing cross-sell initiatives led by technological developments and robust distribution network in rural and semi-urban geographies, AAVAS aims to tweak other mortgage loans to 30% of overall mix from current 27-28%.

Top lending institutions non-home loans share as % of their asset mix



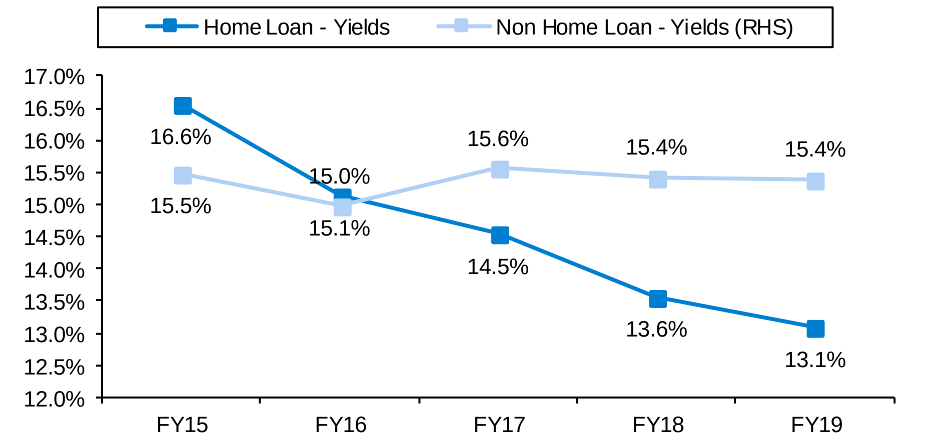
Source: Company, PL *Note: Aptus Housing and Aadhar Housing as of FY21*

Leaving ample scope for AAVAS to grow non-home lending proportion



Source: Company, PL

Non-home loan yields continue to remain on higher side

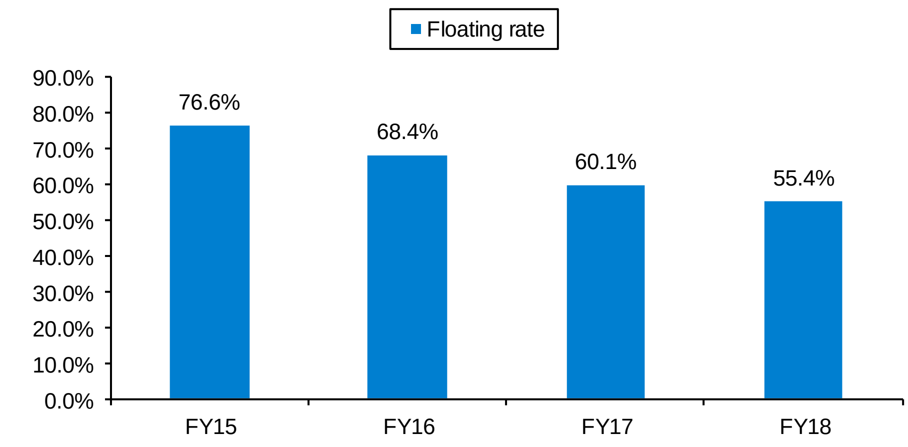


Source: Company, PL

(D) Higher share of floating loans & market share aid pricing power sustenance

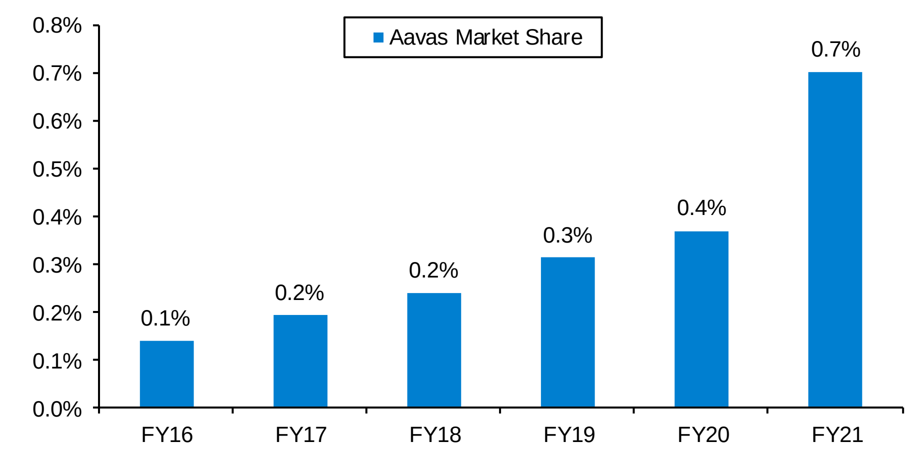
- AAVAS' higher share of floating rate book backed by risk based pricing and market share improvement in calibrated manner serves as a perfect recipe to command pricing power in the most coveted affordable market.
- Also higher share of floating rate book would augur well in the event of higher interest rates which is anticipated, sooner than later. As at the end of FY18 (last available data), the floating rate loan share stood at 55%. Said that, AAVAS fixed rate book also gets re-priced every three years which bodes well in a scenario where interest rates begins to fluctuate or rise.
- Given the strategic focus on affordable housing market, AAVAS has grown from a <Rs10bn in FY15 book to little less than Rs100bn in FY21 with market share rising from 0.1% to 0.7% during same period.
- **With 1) clear focus on affordable segment, 2) increasing presence in mid segment, 3) emphasis on capitalizing existing product potential and 4) steadily increasing branch network with technological support, AAVAS stands poised to grow its market share by 80bps to 1.2% over FY20-23E**

Higher floating loan share enables passing the cost to customer



Source: Company, PL

AAVAS has steadily gained market share



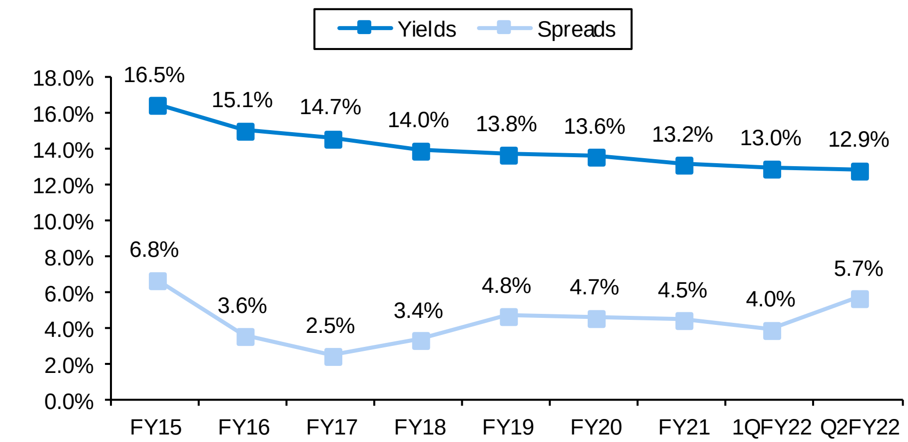
Source: Company, PL

AAVAS maintains industry-best yields due to dominant presence

Rural and semi-urban housing finance for self-employed remains a highly under-penetrated opportunity.

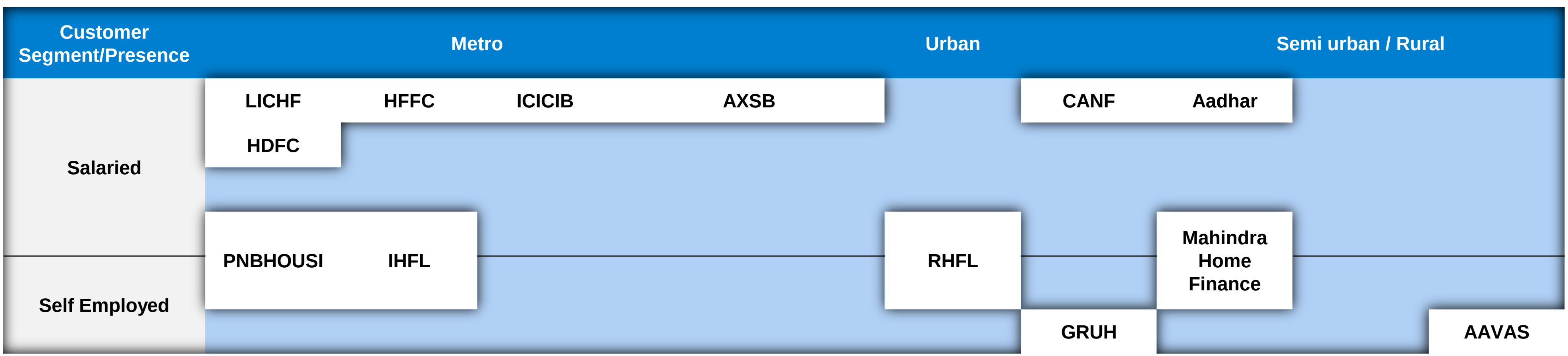
- AAVAS has been increasingly focusing on penetrating small towns and cities as these areas have robust demand for housing, but are largely underserved by banks and large HFCs in terms for providing financing.
- **AAVAS is the only player, next to yesteryear's Gruh, catering to self-employed customer segment in rural/semi-urban markets. Limited competition here has helped AAVAS to command pricing power alongside above industry growth rates.**
- **Pricing power and effective costs have enabled Aavas to record 4.5-5.0% spreads over past three years. As on today, the Co.'s new business is being sourced at 5% spreads.**

Dominant presence imparts pricing power manifesting into high yields



Source: Company, PL

AAVAS, next to yesteryear's Gruh cater to self-employed customer segment but stands as the only player in rural/semi-urban markets



Source: Company, PL

AAVAS maintains best-in-class liability profile

AAVAS best-in-class liability profile is backed by

(A) Improved credit rating
(B) Favorable funding mix backed by cost effective long term and NHB borrowings
(C) Strong payment schedule on market borrowings and matched ALM
(D) Comfortable liquidity position

(A) AAVAS maintains best-in-class liability profile supportive of funding costs

Best-in-class liability profile of AAVAS is backed by 1) Cost effective NHB refinancing 2) Improved credit rating 3) Strong Asset-liability and liquidity management 4) Comfortable liquidity position.

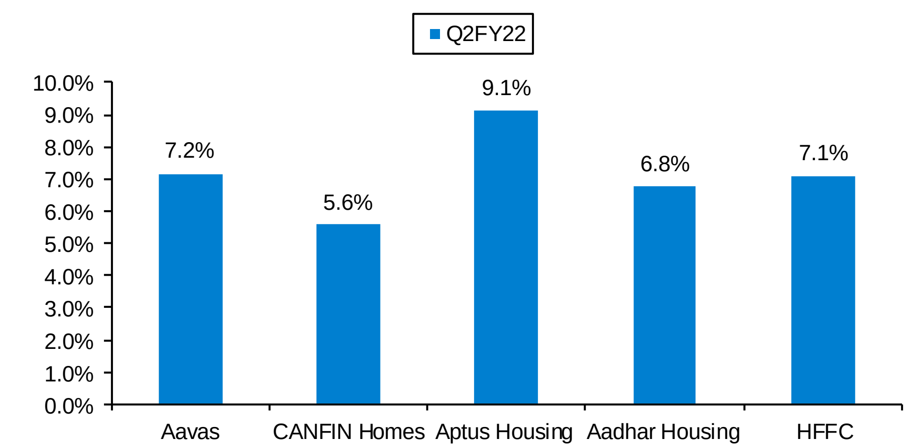
- Over the years, AAVAS has leveraged its balance sheet strength and credit rating to mobilize long term funds at competitive rates from banks and financial institutions. **The superior credit rating and NHB refinancing aided to lower the cost of funds.**
- Leadership position in affordable housing finance segment, strong presence in regional markets, adequate risk management & control systems, comfortable liquidity and long term funding profile have enabled AAVAS to maintain robust rating of AA-
- Long term credit rating continues to be AA- with positive outlook from CARE and stable outlook from ICRA. Despite highest short-term rating of A1+, the Co. continues to maintain zero exposure to commercial paper as a prudent borrowing practice.
- **AAVAS' CoF stands comparable to bigger players as 82.5% of Co.'s borrowings are derived from term loans, assignment, NHB financing & cash credit facility and only 18% from debt capital market (nil commercial paper). The Co. has witnessed meaningful decline in overall average cost of borrowing from 10.48% in FY2015-16 to 8.44% in FY2019-20. As of Sep'21, Co.'s average cost of borrowings stood at 7.17% on an outstanding amount of Rs 83bn with an average maturity of 127 months.**

Improving credit ratings, consistent track record, NHB aid lower CoF

Long Term Rating	FY15	FY16	FY17	FY18	FY19	FY20	FY21
CRISIL	A-	A	A	A+	A+	A+	-
ICRA	-	A	A	A+	A+	A+	AA-
CARE	-	-	A+	A+	AA-	AA-	AA-

Source: Company, PL

AAVAS' COF stands comparable to peerset

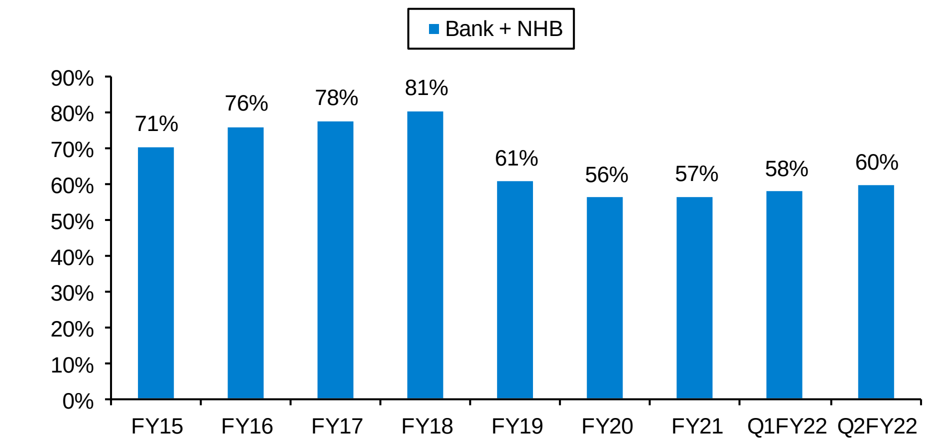


Source: Company, PL

(B) AAVAS diversified funding mix stands favorable

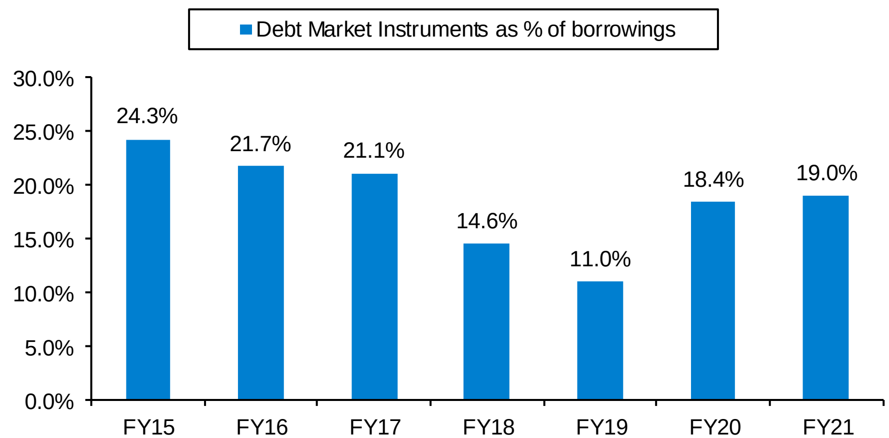
- **AAVAS posses a diversified funding mix given its 1) relationships with 30 lenders having zero dependence on commercial paper and 2) long-dated stable funding from various multilateral institutions including CDC Group, International Financial Corporation and Asian Development.**
- Being an HFC, holding long tenure borrowings is positive. AAVAS' 23% borrowing from NHB (that is mostly long tenure borrowings) and ~23% from assignments with 16 to 17 years' tenure, 37% bank term loan borrowing stands at ~10 years. Also ~18% borrowing from NCDs have average tenure of 5-7 years.
- As at the end of Sep'21, Co.'s incremental borrowings stood at Rs 9bn for a tenure of 101 months at 6.5% with average cost of borrowings at 7.17% on an outstanding amount of Rs 69bn with an average maturity of 125 months.
- As at the end of Q2FY22, the share of assignments to total borrowings stood at 23%. As per the latest data available, cost of assignment stood at 8.6% (Q1FY19).

Bank and NHB constitute nearly 60% of the borrowings



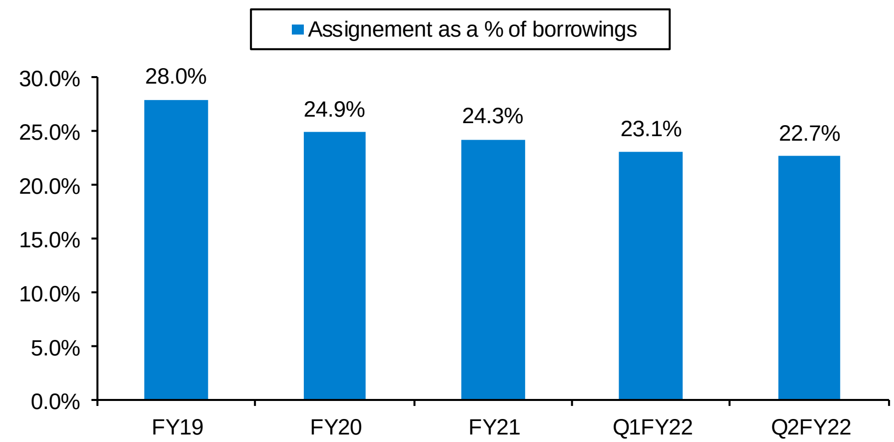
Source: Company, PL

AAVAS has been increasing share of low cost debt market instruments



Source: Company, PL

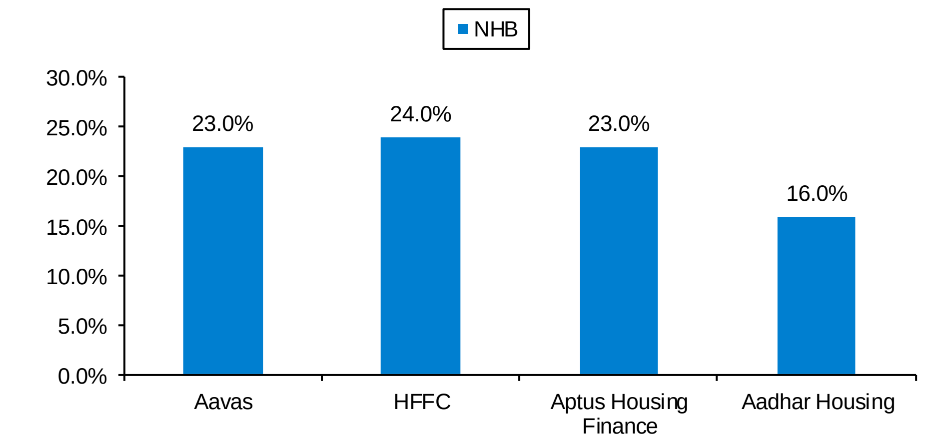
Meaningful cost effective funding through assignment route



Source: Company, PL

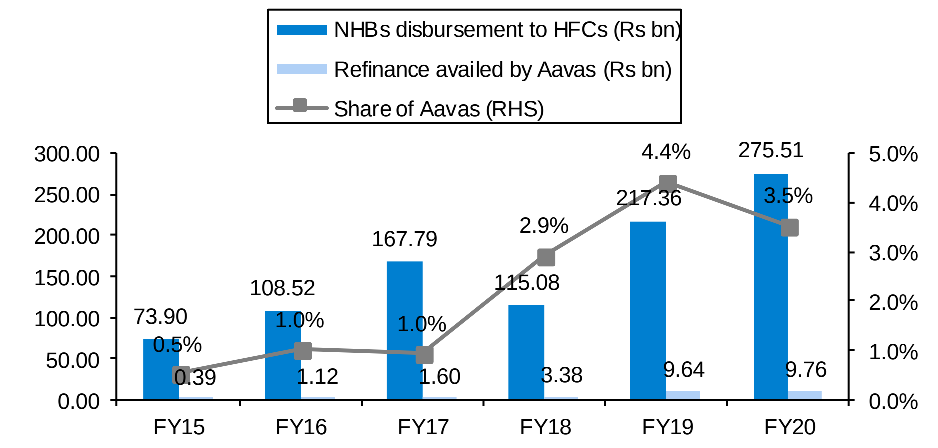
- **Given that more than 60% of loan assets continue to happen in areas where population is below income levels of Rs 50,000 per month, AAVAS has been a disproportionate beneficiary of low cost NHB refinancing. As a result, a sizeable portion of its portfolio qualifies as rural housing finance and is eligible for low-cost funding from NHB. AAVAS has availed almost 3.5% of the total NHB disbursement to HFCs in FY20 and NHB accounts for 24.4% of the total borrowings of AAVAS which is illustrative of uniqueness of model.**
- During FY21, AAVAS received fresh sanction of Rs 8.5bn refinance assistance under NHB refinance scheme and Rs 3.7bn under Special Refinance Scheme. The Company has availed funds of Rs 11.6 bn under various Refinance Scheme for Affordable Housing Fund, Regular Refinance Scheme and Special Refinance Facility. Total outstanding refinance at the end of FY21 stood at Rs 18.72bn (vs Rs 9.51 bn in FY20).

NHB forms larger part of AHFC's funding profile



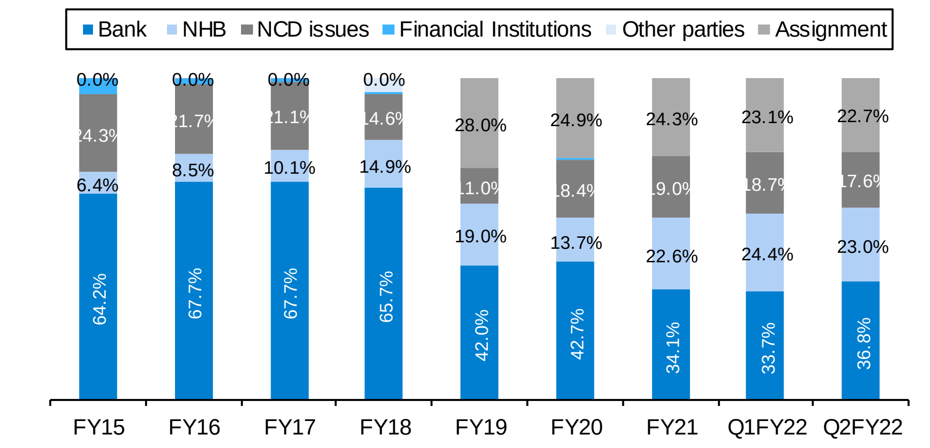
Source: Company, PL

AAVAS stands as a large beneficiary of NHB refinancing



Source: Company, PL

Steady-state increase in NHB refinance over the years



Source: Company, PL

(C) Healthy repayment capacity backed by liquidity sufficiency

- Normally AAVAS maintains 3 to 4 months of future disbursement as cash in hand traditionally since last 5 to 6 years. However, during pandemic periods, Co. chose to increase it to 5 to 6 months and would revert to 3-4 months as scenario normalizes. As at the end of Q2FY22, AAVAS maintained Rs12bn cash or 12% of pure on-balance sheet liquidity and overall Rs24bn liquidity including unavailed CC and NHB refinancing.

Comfortable liquidity position that covers 1 year repayment obligations

Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Cash & Cash Equivalents	10500	11470	14840	15050	15750	19670	11140	11080	12050
Un-availed CC Limits	9020	12000	1180	1270	1420	1220	1320	1320	1190
Documented & Un-availed Sanctions from NHB	-	-	6000	4000	2060	-	6550	4550	2550
Documented & Un-availed Sanctions from other Banks	-	-	3300	3300	6640	5850	9350	6600	8100
Total Liquidity Position	19520	23470	25320	23620	25870	26740	28360	23550	23890

Source: Company, PL

Payment schedule of debt capital market exposure remains intact

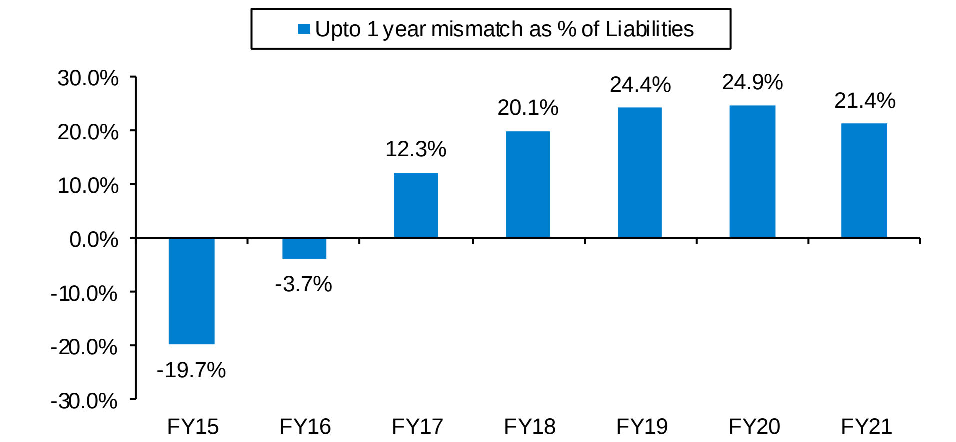
NCD Investor	Exposure (Rs mn)	Payment schedule (Rs mn)						
	30-Sep-21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
IFC	4750	-	1,300	-	3,450	-	-	-
ADB	4444	341.8	683.7	683.7	683.7	683.7	683.7	683.7
Domestic Bank	3100	1600	200	950	200	150	-	-
CDC	2000	-	500	500	500	500	-	-
Mutual Fund	1250	-	-	250	-	1,000	-	-
Total	**15544**	**1942**	**2684**	**2384**	**4834**	**2334**	**684**	**684**

Source: Company, PL

(D) Strong Asset-liability and liquidity management

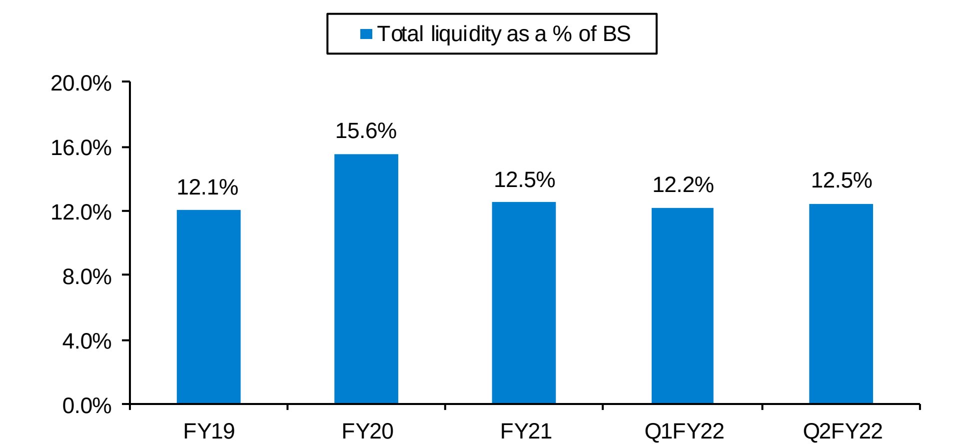
- **AAVAS manages its borrowing structure through prudent Asset-Liability Management (ALM) and takes various measures like, 1) diversification of funding sources, 2) tenure optimization, 3) structured interest rates and 4) prudent borrowing timing to maintain its borrowing cost at optimum level.**
- The company had a positive cumulative surplus in just one-year time frame since inception. Moreover, its ALM position across all categories stands favorable with major liabilities maturing over 5 years.
- AAVAS has maintained a positive ALM mismatch in the small bucket, even during challenging periods of FY19 and the pandemic times.
- It has maintained on-balance sheet liquidity (in the nature of liquid cash) at 12%+ across periods. The pandemic periods saw on-BS liquidity climbing as high as 19% (Q1FY21).
- As at Sep'21-end, AAVAS possessed strong liquidity of Rs24bn and surplus funds to the tune of Rs26bn, adequate enough to address repayment obligations and new business over next one year.

AAVAS ALM stands favorable in the shorter tenure bucket



Source: Company, PL

AAVAS maintains avg. 12%+ liquidity on BS



Source: Company, PL

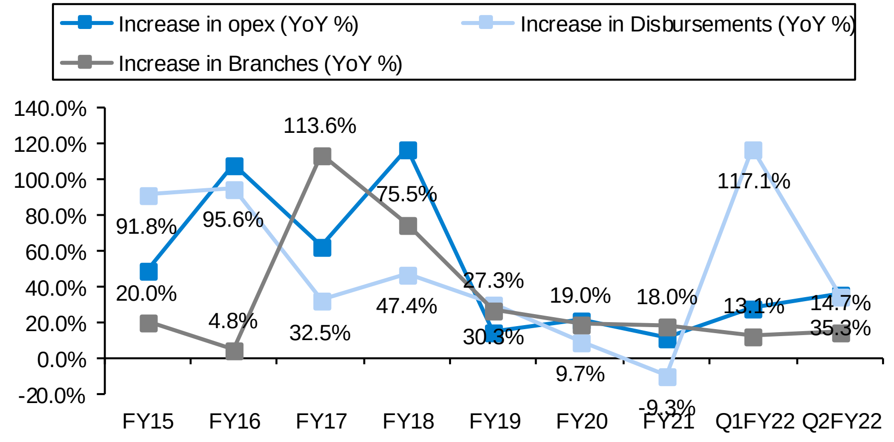
AAVAS has sufficient levers in place to improve cost efficiencies

(A) Administration of in-house operating model : In-house execution & tech facilitate low loan turnaround time
(B) Robust technological investments now aiding cost efficiencies
(C) Superior customer service backed by technology and data
(D) Employee productivity and branch efficiency stand at the core of operations

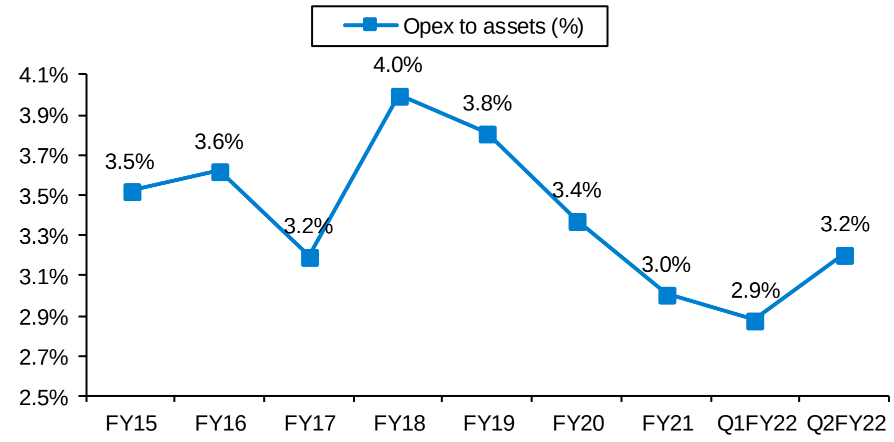
AAVAS has sufficient levers in place to improve cost efficiencies

AAVAS has maintained a low operating cost structure despite operating in the rural areas. The Co. has kept its operational costs minimal by using in-house team to source the business and efficient employee utilization. With significant investments in technology and infrastructure behind, FY18-21 witnessed operating leverage benefits flowing in despite sizeable rise in disbursements during the same period.

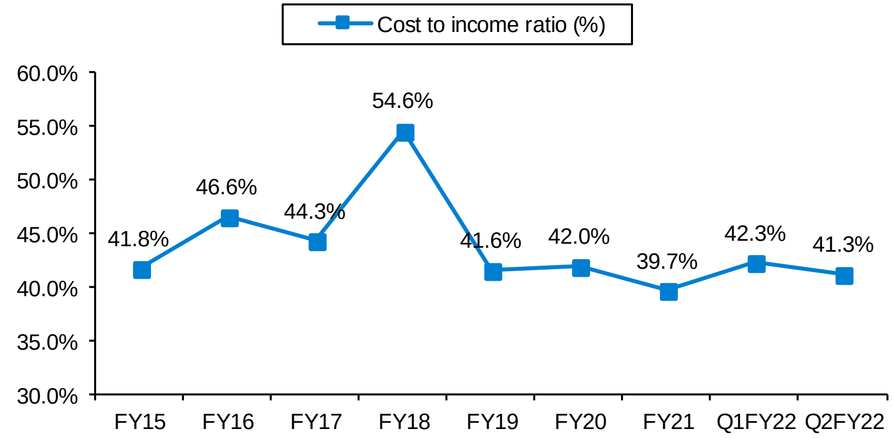
FY18-21 saw opex improvement despite business growth



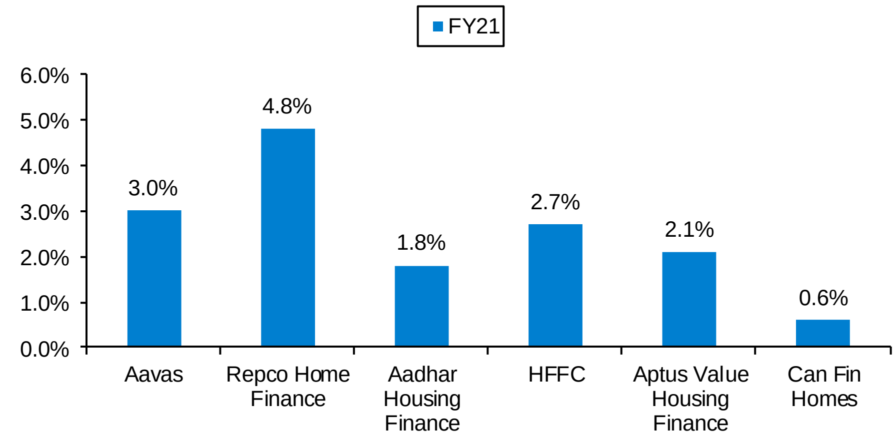
Opex to assets stand below 3% levels



AAVAS cost-income has consistently declined over past 3 years; Q1FY22 stood an aberration



AAVAS opex to assets stands comparable to peer set; although there lies scope for improvement



Source: Company, PL

(A) AAVAS in-house operating model brings cost efficiencies

AAVAS in-house operating model brings cost efficiencies underpinned by:

- **Direct customer sourcing with employee/branch being centre of credit appraisal:** Unlike the DSA model, AAVAS focuses on directly sourcing business leads by leveraging upon technology and data analytics and also generating leads through alternate channels.
- **Referrals from existing borrowers:** Majority of Co.'s customers are borrowers who have been referred to by existing or former customers.
- **Branches being a single point of contact:** The personnel at branches (recruited locally) are responsible for sourcing loans, carrying out preliminary checks on credit worthiness of a prospective customer etc.
- **Mobile and technology:** The Co. has developed a mobile application that records all leads & business information management system to monitor the status of loan documentation and turn around time.

Besides aiding cost efficiencies, AAVAS' in-house analytical predictive model has helped retain customers by restricting balance transfer out cases to bare minimum. Maintaining BT cases below 5% of opening AUMs per month, AAVAS' life cycle intervention exercise for customers bolstered by data analytics enable customer retention.

Aavas' in-house operating model

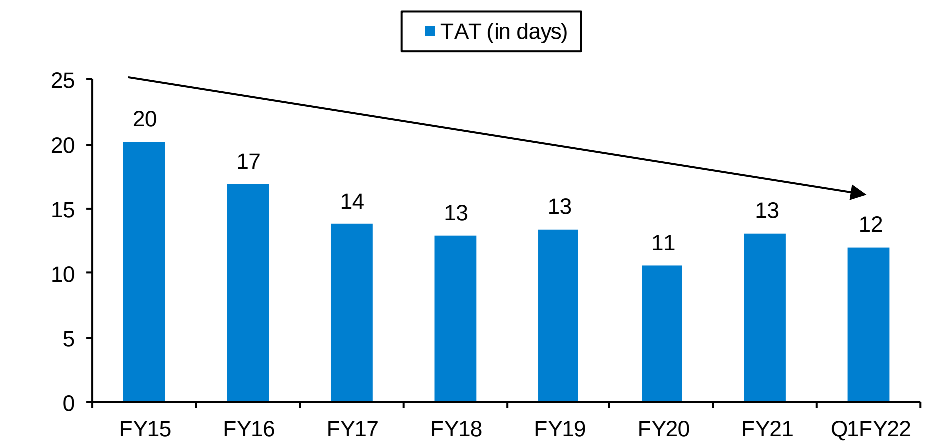
Lead generation and customer on-boarding	Directly sourcing business leads by leveraging upon technology & data- analytics through alternate channels. Typically, a branch's customer on-boarding process (after the physical mandate signing) halved from 15 days to 7 and then to 2 days. Aavas Mitra: A customer-sourcing technology platform, which makes it possible to source new business at a low cost (from housing eco-system).
Data warehousing solution:	This enables every external data framework to convert into usable format, widening the company's access to dynamic external realities.
Application Scorecard:	A data analytics algorithm that screens all applications and screens the first round of prospective customers which liberates thousands of person-hours.
Digitized disbursement model:	Digitized disbursement model empowers each branch to become a virtual hub, reducing disbursement TAT by facilitating payments online.
Geo-tagging:	A platform to derive accurate co-ordinates (longitude and latitude) of funded properties. It helped in smart customer allocation.
Bounce Prediction Model:	Data analytics function predicts which customers were most likely to default and when, prompting proactive remedial action.
Life Cycle Intervention:	Data analytics function provides an automated, attractive and timely counter-offer to customers intending to shift to competition, multi-folding customer retention within a short time.
Man-hour optimization:	Automatic generation of daily reports, which reach executives by 8 a.m., helping prepone strategic implementation and liberating nearly 2000 person-hours.

Source: Company, PL

(A1) In-house execution & tech facilitate low loan turnaround time

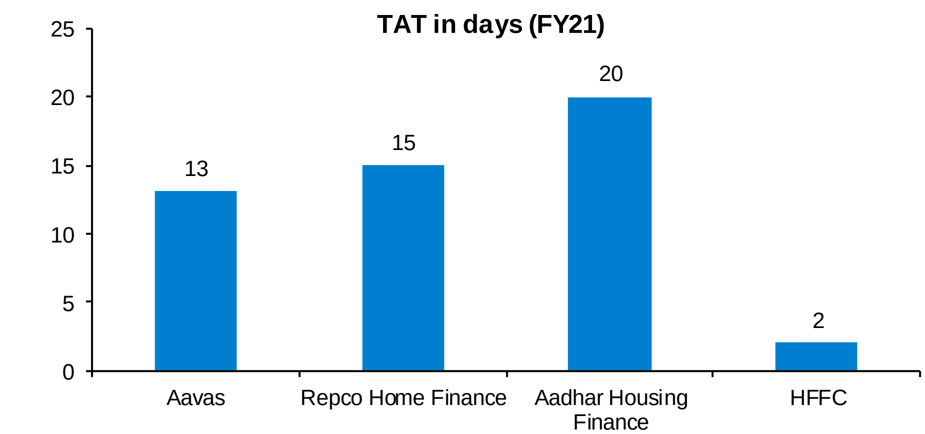
- The leaner cost structures have generated operational efficiencies in he nature of quicker turnaround time (TAT) through the interplay of increased process urgency and automation, reducing transaction costs (As loan turnaround time is a key metric for employee incentives; 50% of the cases are processed within 10 days).
- In-house execution has helped lessen the turnaround time in processing new loan applications and also strengthened control on loan takeover by other institutions.
- **Co. maintains TAT of 13 days with ~58.4% of loans being disbursed within 10-days and aims to bring this down to 2 days in future. Moreover, 90% of the customers secure the loan sanctions in 7-days time frame.**

Consistent reduction in TAT from 20 days in FY15 to 12 in Q1FY22



Source: Company, PL

AAVAS TAT stands comparable to peer set



Source: Company, PL

(B) Robust technological investments now aiding cost efficiencies

Significant investments in information technological systems:

AAVAS has made significant investments in information technological systems and implemented automated, digitized and other technology-enabled platforms and proprietary tools.

The Co. invested Rs 150.5mn in information technology systems and as of Jun'18, its IT and data science teams comprised 36 and 6 personnel, respectively. Technology as percentage of overall expense stood at avg. 3%+ declining to avg. 0.4% between FY19-FY21.

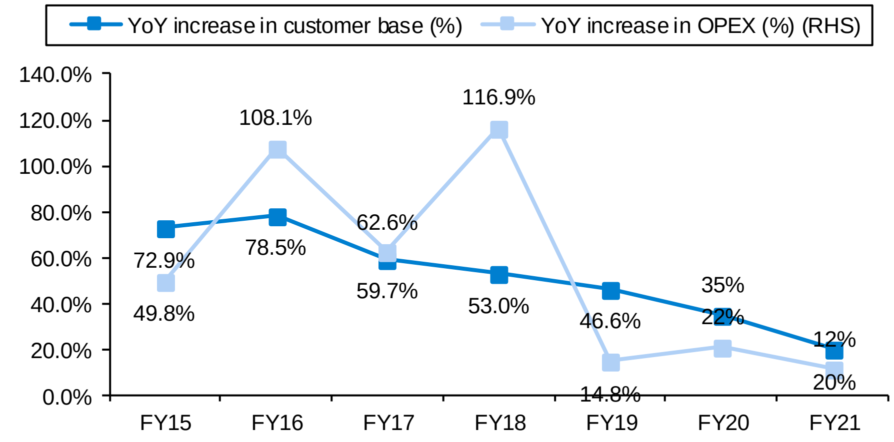
AAVAS witnessed significant increase in opex for the period between FY16-FY18 led by technological initiatives. This has also been in commensurate with customer accretion over the same periods. However, the period FY19 onwards although saw continued customer surge, the opex traction has slowed. AAVAS' technological prowess has been ensuring incremental customer addition coming at lower costs ensuring operating leverage benefits.

… supported by technology and data analytics

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Techonology Spends	12.9	20.8	62.7	4.5	10.8	24.0
Total Opex	466.6	758.8	1646.0	1890.2	2296.6	2566.4
Techonology Spends as a % of total opex	2.8%	2.7%	3.8%	0.2%	0.5%	0.9%
Expenses on technology as a % of total average assets	0.1%	0.1%	0.2%	0.0%	0.0%	0.0%

Source: Company, PL

Steady Customer accretion coming through at lower costs



Source: Company, PL

(C) Superior customer service backed by technology and data

Superior customer service and retention power:

Over the years, AAVAS has strengthened its product/service offerings enhancing customer service and retention power.

Co. has developed certain products and customer retention strategies which are used in collaboration with analytics platform to improve business traction. Co. performs predictive analytics to identify cases of balance transfer and proactively seek to retain such clients.

Right from onboarding assistance to unlettered customers to providing e-disbursement and e-repayment facility at all branches of the Co during pandemic periods, AAVAS has maintained superior customer service.

… supported by Technology and Data Analytics

AAVAS branches function as a single point of contact for customers
Company has fixed service matrixes across its branches enabling superior customer service irrespective of terrain remoteness
AAVAS dedicated service desks across its branches have capacity to serve more than 8,000 customers per month
AAVAS personnel at branches carry dual responsibility of sourcing loans and carrying out preliminary checks on the credit worthiness of a prospective customer
Simple communication protocol supported by Co.'s call centre with communication in regional languages and onboarding assistance for unlettered customers

Source: Company, PL

Product offerings in-line with customer retention strategies in collaboration with analytics platform

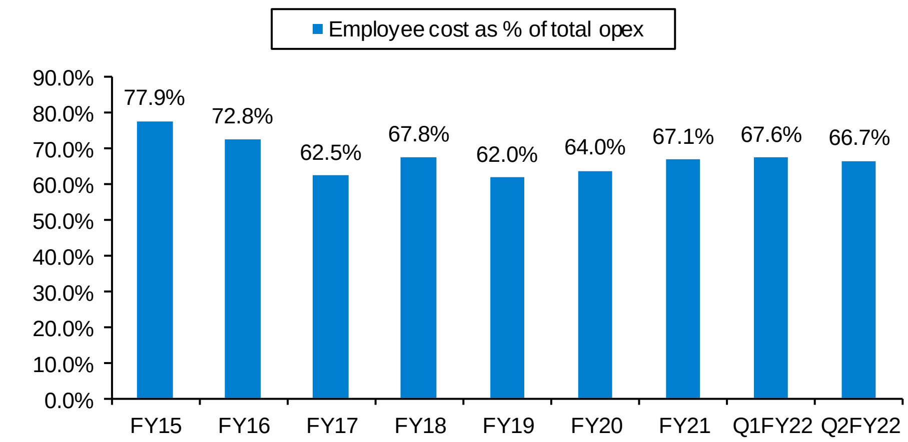
Product Category	Features
Aavas Plus	1) Incremental loan facility to existing customers with low TAT 2) Applicable to customers who are regularly servicing their loans and have low LTVs.
Aavas Refresh	1) Applicable to customers who are regularly servicing their loans and whose repayments are reaching completion.
Aavas Winback	1) Applicable to customers whose loans are foreclosed or closed on maturity 2) or who has not availed a previous sanctioned loan.

Source: Company, PL

(D) Employee productivity and branch efficiency stand at the core of operations

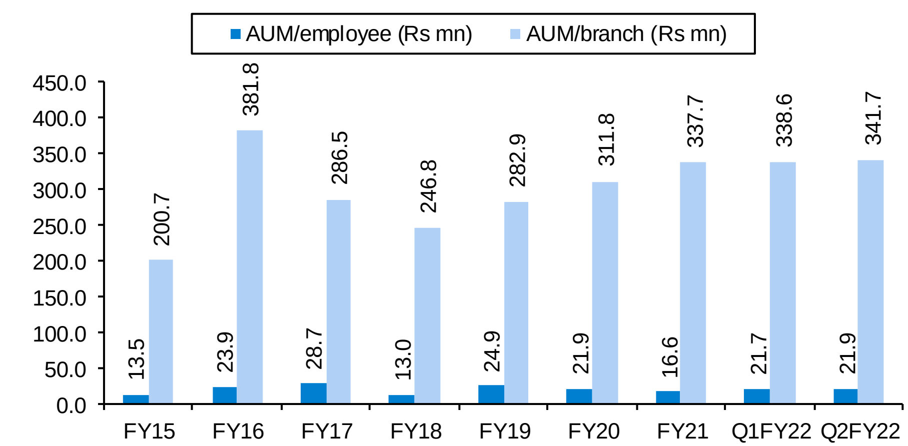
- **Business lead generation, documentation, appraisal and collections are carried out by AAVAS' experienced in-house employee team aiding lower costs and an increased productivity.**
- Leveraging technology this in-house execution is undertaken with help of 3 apps: **(a) Sales app:** allows relationship officers of the Co. to process loan applications through smartphones, helping capture leads and accelerate loan processing. **(b) technical app:** Evaluation cases to engineers are routed through the technical app by generating reports within minutes. **(c) Aavas Mitra app:** creating a link between construction ecosystem and the Co.'s platform for generating leads. **(d) Aavas Nirman app:** helped the Co.'s feet-on-street teams in managing activities seamlessly and enhancing productivity.
- Following a differentiated approach, AAVAS' newly recruited employees do not generate business from Day One, but it engages in acquainting recruits with the business instead through cross-functional training. Moreover, the Co. has linked year-end bonuses and promotions in-line with target achievements.
- Besides, branches and corporate office are linked through a central data base platform that enhances data management, strengthens service delivery and serves customers in an efficient manner.
- **In nutshell, the Co. aims to generate incremental business from existing markets, improving branch efficiency, service and competitiveness. Resultantly, the AUM per employee (Rs22mn since two quarters) and AUM per branch (Rs340mn since 3 quarters in a row) have been improving on a steady-state basis from**

Employee costs contribute to 2/3rds of operating costs



Source: Company, PL

Improving employee and branch productivity



Source: Company, PL

AAVAS fares reasonably well on productivity front

- Amongst the peerset, AAVAS has fared better in productivity metrics on a higher employee base as against that of peerset
- Despite higher employee count, AAVAS has maintained its profitability per employee over FY19-FY20 with FY21 being an aberration led by pandemic challenges.

Aavas fares better v/s peerset w.r.t employee productivity

	Period	No. of employees	YoY growth	Employee cost (Rs mn)	PAT (Rs mn)	PAT/Employee (x)
AAVAS	FY19	2384	-24%	1172.4	1742.2	0.7
	FY20	3564	49%	1470.7	2491.0	0.7
	FY21	5679	59%	1721.4	2894.8	0.5
	Q2FY22	4627	31%	576.7	920.6	0.2
Aadhar Housing	FY19	2217	27.3%	1527.9	1622.4	0.7
	FY20	2097	-5.4%	1522.5	1893.9	0.9
	FY21	2310	10.2%	1648.2	3399.7	1.5
	Q2FY22	-	-	-	-	-
HFFC	FY19	675	76.7%	408.6	422.4	0.6
	FY20	696	3.1%	610.8	795.5	1.1
	FY21	687	-1.3%	661.3	1001.4	1.5
	Q2FY22	800	-	191.5	448.7	0.6
Aptus	FY19	1300	-	481	1114	0.9
	FY20	1702	30.9%	648	2110	1.2
	FY21	1910	12.2%	713	2669	1.4
	Q2FY22	-	-	-	-	-

Source: Company, PL

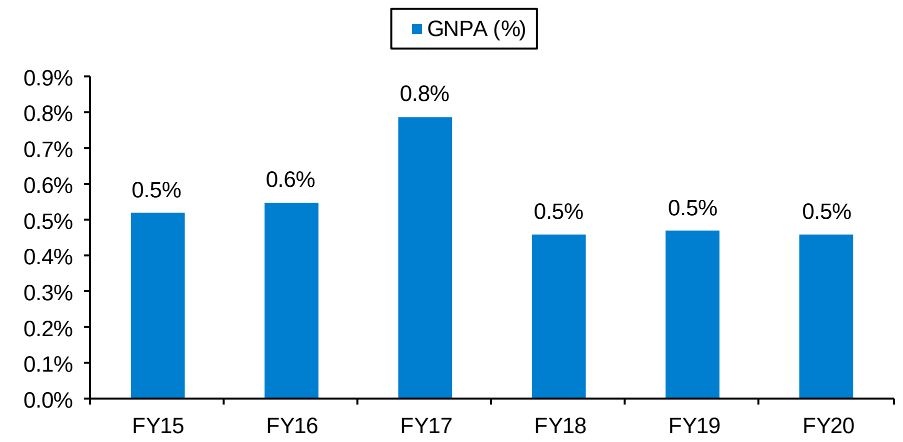
AAVAS maintains Impeccable asset quality

(A) Conservative lending practices backed by lower LTVs
(B) In-house risk policy framework, technology and data analytics
(C) Resilient balance sheet; provision buffers in place
(D) ECL coverage stands on higher side

Impeccable asset quality – GNPAs below 1% over the last five years

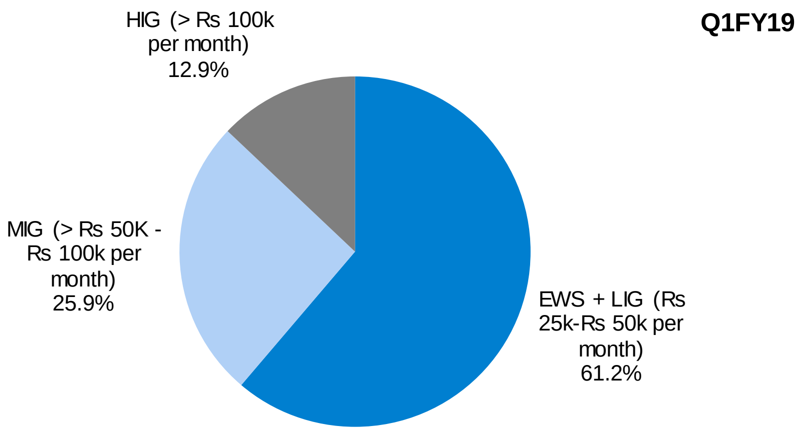
- AAVAS operates in a niche segment, catering to lower-income group in rural and semi-urban areas, perceived as a riskier segment.
- Nearly 80% of the Co.'s gross loan assets have been toward loans of <Rs2.5mn; approximately 40% whereas in terms of family income, 60% of the loan assets is to individuals with family income less than Rs50,000/month.
- Despite operating in this segment, AAVAS' asset quality has been stable with GNPA at 1% (FY21) and Steady high order PCR at 27.3% (FY21).

..yet GNPAs restricted below 1% over the last five years



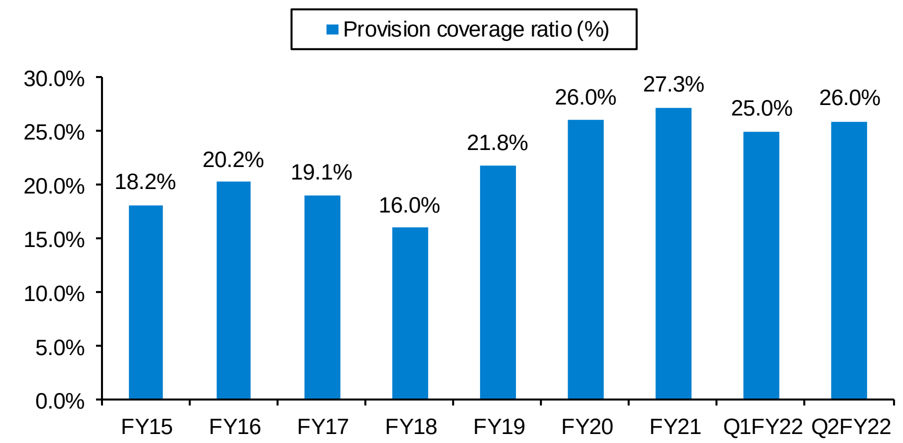
Source: Company, PL

60% of the loan assets to individuals with income of <Rs25,000/month



Source: Company, PL

AAVAS has maintained avg 25% PCR over past 3 years



Source: Company, PL

(A) Conservative lending practices backed by lower LTVs

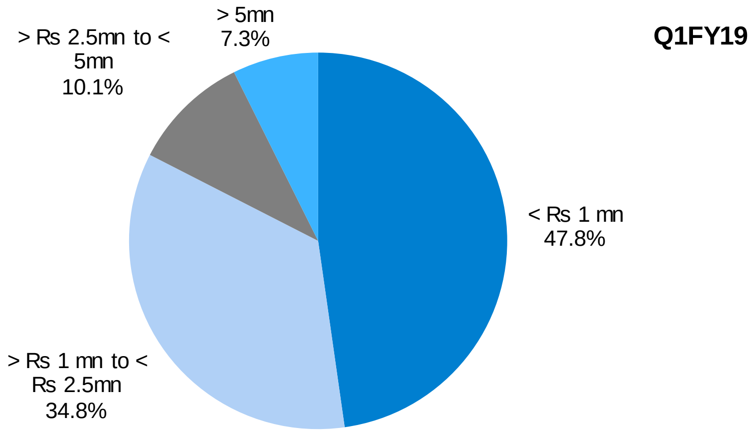
- AAVAS maintains conservative lending practices characterized by lower LTVs, single unit property financing and negligible exposure to high ticket LAP, top-up loans and BT cases and zero builder funding.
- **Despite 60% of loans towards individuals with Rs6lakhs annual family income, AAVAS has been able to maintain superior asset quality predominantly due to (a) comprehensive processes that involve assessment of self-employed customer with surrogate/allied incomes and evaluation of their assets in detail fashion (b) early warning indicators to identify riskier/bounce oriented customer base (follow-up happens 1 month prior to completion of billing cycle of such customers).**

Conservative LTVs for other mortgage loans at mere ~45%

LTVs	FY15	FY16	FY17	FY18	FY19	Q3FY20
Avg LTV at sanction	45.2%	48.6%	49.5%	50.4%	51.0%	51.7%
Home Loan	*46.1%*	*49.4%*	*50.3%*	*51.7%*	*52.9%*	*54.0%*
Other mortgage loans	*33.0%*	*43.0%*	*46.0%*	*45.8%*	*45.4%*	*45.0%*

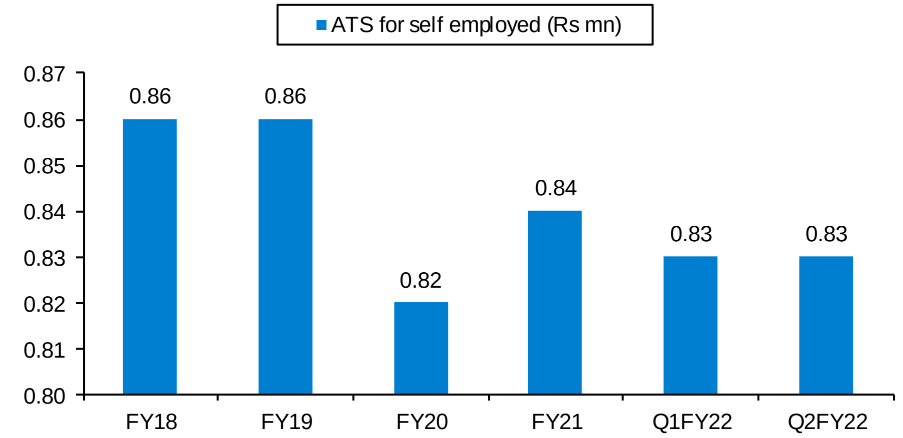
Source: Company, PL

47% of loans below 1mn ticket size



Source: Company, PL

Steady loan ticket sizes for self employed segment across periods



Source: Company, PL

(B) In-house risk policy framework, technology and data analytics

- A direct sourcing and collection system enables the Co. to optimally price offerings and maintain asset quality. With in-house underwriting, legal and risk management team, AAVAS has leveraged upon technology and data analytics plus developed customized credit score model, proprietary pricing grid and real time tracking of collections. Credit team has been set up as a separate vertical and does not report to business team. Sales is also responsible for monitoring and maintaining asset quality. **AAVAS Financiers has succeeded in restricting NPAs below 1% and credit costs below 0.2% backed by conservative lending practices and in-house risk management such as a) LTVs of ~50%, b) templatization of customer profiles and credit bureau checks, c) application scorecards to evaluate risk profiles & in-house risk testing, d) real-time collections tracking and e) a robust collections team**

Aavas' in-house risk policy framework leveraging upon technology and data analytics

Underwriting

- Credit team comprising of credit managers (mostly chartered accountants) and disbursement officers conducts an (a) independent verification of customers (customer's age, educational qualification, number of dependents and the stability and continuity of income, review a co-applicant's income, assets and liabilities) , (b) evaluates their business and financing needs, (c) conducts an analysis on existing cash flow of customer's business (d) analyzes their ability to repay loans.
- Relationship officer enters the case details in OmniFin system and hands over file to a credit officer. OmniFin, an enterprise-wide loan management system, is a scalable platform that assists with automation of loan origination system, credit underwriting rule engine, deviation triggers to minimize human errors, branch accounting system and maintaining customer history. Co. has also invested in analytical platforms such as SAS to develop comprehensive information management system by leveraging upon analytics platform to maintain different templates of customer profiles and increase business while managing risks.
- Next, credit bureau checks to identify any fraudulent activity at an early stage through fraud control unit. Next is Generation of credit report where the credit score of the applicant is reviewed along with a track record of loan repayments.
- Periodic review of repayment track record of other loans taken by customers to assess the possibility of future defaults and take preventive measures. Evaluation of rejected proposals to test the robustness of underwriting systems and processes.

Legal & Technical assessments

- Post receipt of property documents, the disbursement officer initiates a legal and technical assessment through in-house team of lawyers and by engaging external vendors who help with verification of documents and title to properties. Legal reports prepared by external lawyers are reviewed by in-house legal team.
- Technical assessments are conducted through in-house team of engineers and by engaging external vendors who help with technical evaluation of properties and periodical review of construction projects.
- Conduct a macro-analysis of the property, neighborhood, title and land laws; followed by the micro-analysis by a focused team which is usually done when the customer least expects it.
- Utilization of an application for geo tagging of properties, which has helped us reduce turn around time for approving loans, as well as achieve a higher accuracy in determining LTV.
- The Co.'s Risk Officer makes dozens of visits to customer sites for a familiar understanding.

Risk Management Architecture

- Credit bureau checks, CERSAI checks, geography specific risk assessments scrutiny of documents, customers visits, employment certifications and identification of fraud at early stages.
- Risk Management Committee: Supervise, guide, review & identify current and emerging risks, develop risk assessment and measurement systems and establish policies, practices and other control mechanisms to manage risks, develop risk tolerance limits for approval by Board & senior management, and monitor positions against approved risk tolerance limits.
- Creates a proprietary under-writing team for income assessment and risk-based pricing of customers
- Generates two valuation reports beyond a specific ticket size to minimize error impact
- Risk-test files by its resident risk containment unit.

Collections

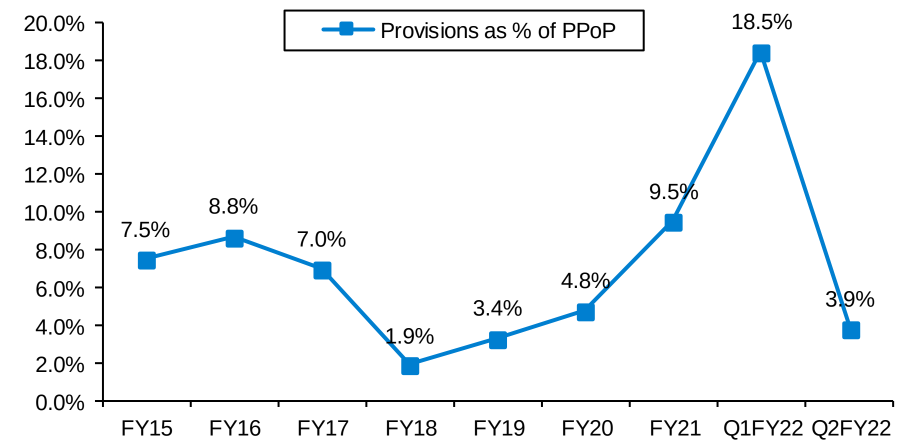
- Four-tier collections infrastructure comprising tele-calling, field collection, legal recovery and settlement to help with loan collections.
- Customers have option to make their payments through cheque, automated clearing house payment gateways and other digital modes of payment.
- Field executives are responsible for collecting installments, with each field executive typically having responsibility for specified number of borrowers, depending on the volume of loan disbursements in that area.
- Conduct real time tracking of collections personnel and providing them with hand held devices to enable issue e-receipts to customers.
- Developed a statistical algorithm for bounce prediction and assessment of warning signals.

Source: Company, PL

(C) Resilient balance sheet; provision buffers in place

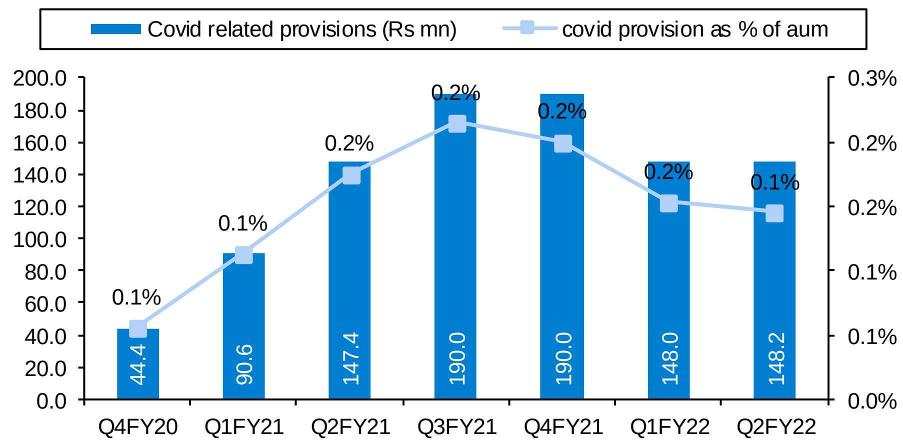
- **Backed by provision buffers, AAVAS' balance sheet strength remains intact despite battling COVID-19 challenges. Stringent lockdowns had led to restricted movements on field although virtual assessments and digital modes of customer communication took over.**
- Said that, the Co. selectively chose to restructure customer profiles with restructuring book at mere 0.3% of AUM and hold almost total provisioning of Rs660mn for potential COVID-19 impact. About 14% is provided for restructuring book of Rs1.15bn.
- We believe provisioning is adequate and don't expect any major negative surprise from hereon. While ECL coverage also climbed up from 21.8% (FY19) to 26% (Q2FY22), so credit costs inched higher.

Provisions as % of PPoP declined in Q2FY22; should retrieve pre-pandemic levels by Q3FY22



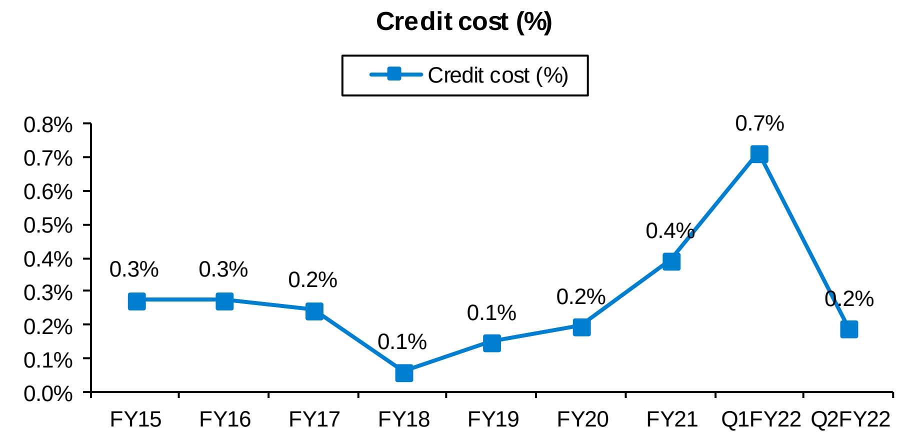
Source: Company, PL

COVID provisions as percentage of AUMs remained steady since past 4 quarters



Source: Company, PL

Credit costs begin to normalize; FY20-21 stood an aberration due to COVID challenges



Source: Company, PL

(D) ECL coverage stands on higher side

- **AAVAS boasts of superior credit risk management led by (a) utilization of mobile app through which almost all leads are recorded, helps in monitoring and tracking leads from an early stage bucket. (b) risk containment unit that conducts regular credit bureau checks, scrutinizes documents, visits certain customers which helps to identify fraud at early stages.**
- The total ECL provisions including COVID-19 provisioning and provisioning for Resolution Framework 2.0 stood at Rs.662mn. AAVAS has adopted a more prudent policy towards the ECL guidelines and provided ~14% provisioning.
- As per the updated position of underlying accounts, additional provision for COVID-19 stands at Rs 148 mn as of Q2FY22.
- During Q2FY22, resolution plan has been implemented for certain borrower accounts as per RBI's Resolution Framework 2.0, w.r.t that it has been classified Rs 1482 mn as stage 2 assets.

AAVAS' ECL coverage stands at 25%+ over two years now

Rs mn	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22
ECL Classification						
Stage 1 & 2	33261.0	47149.9	61734.5	74989.5	77361.8	81980.4
Stage 3	154.9	222.7	284.1	739.1	894.2	795.1
Total	**33415.9**	**47372.6**	**62018.6**	**75728.6**	**78256.0**	**8277.5**
ECL Classification (%)						
Stage 1 & 2	99.54%	99.53%	99.54%	99.02%	98.86%	99.04%
Stage 3	0.46%	0.47%	0.46%	0.98%	1.14%	0.96%
ECL Provisions						
Stage 1 & 2	57.0	79.1	136.8	294.4	438.4	494.0
Stage 3	24.8	48.6	73.9	201.4	223.8	206.6
Total	**81.8**	**127.7**	**210.7**	**495.8**	**662.2**	**700.6**
ECL Coverage Ratio (%)						
Stage 1 & 2	0.2%	0.2%	0.2%	0.4%	0.6%	0.6%
Stage 3	16.0%	21.8%	26.0%	27.3%	25.0%	26.0%

Source: Company, PL

Asset quality snapshot – COVID-related details

	Under Moratorium (%)		Covid Provisions (Rs mn)							Total covid provisions as the end of Q2FY22 (Rs mn)	AUM (Rs mn) Q2FY22	Total covid provisions as a % of AUM Q2FY22	GNPA (%) – Q2FY22	Coverage (%) - Q2FY22	Credit cost (%) – Q2FY22	Restructured book as a % of AUM – Q2FY22
	Phase 1	Phase 2	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22							
AAVAS	17.8%	2.5%	44	91	147	190	190	148	148	148	101481	0.15%	0.96%	26.0%	0.2%	1.5%

Source: Company, PL

AAVAS' approach towards COVID challenges

Pandemic challenges to avert in near term

- AAVAS witnessed meaningful decline in moratorium portfolio during COVID-19 first wave from 17% down to 2.5% during second wave. Also 75-80% of Rs1.15bn restructured book stands more than 2 years vintage and that the Co. holds almost Rs310mn provision buffers to tackle the COVID-19 led second wave challenges. Furthermore, with Co.'s collection infrastructure being rejigged two years ago, no new changes were required during the pandemic. AAVAS boasts of in-house collections team with almost 4,500 collections personnel. This bodes well for tackling pandemic challenges.

AAVAS dealt with COVID challenges remarkably well; expects normalization in a quarter

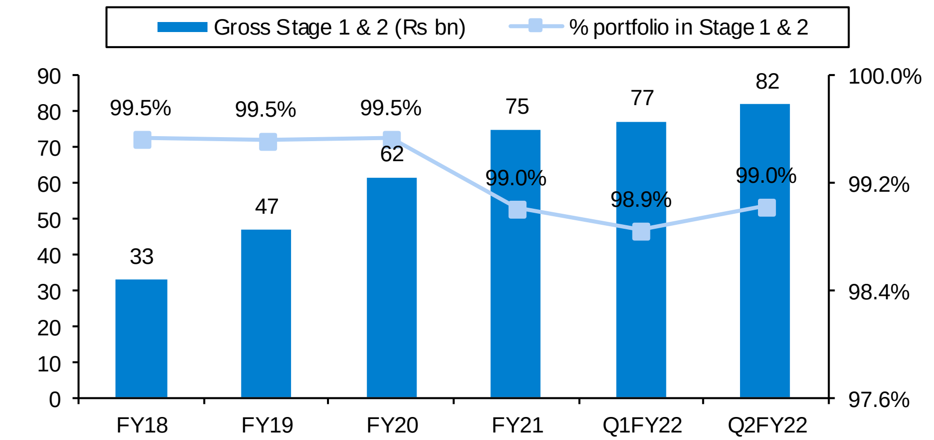
Parameters	Pandemic led challenge	AAVAS measures for
Operations	■ Branches were closed during nationwide lockdown. Staff could not go out to acquire new customers ■ Staff supporting critical business operations was working from home.	■ Business continuity plan (BCP) was implemented through 150 BCP centers. ■ Virtual meetings were conducted. ■ Enabled digital payment & repayment facility at all branches. ■ AAVAS focus on digitalisation helped them to improve TAT and better risk management.
Business Activity	■ Disbursements were significantly down (-75% QoQ / -68% YoY) in Q1FY21 amidst pandemic. ■ During lockdown it was not possible for staff to physically deliver cheques to customers.	■ Categorized customers based on loan amount, which helped to standardise the process ■ AAVAS started alternative payment methods like RTGS.
Provisions	■ Need of excess provisions on account of COVID-19. ■ COVID-19 related provisions were ~0.06% of total AUM in Q1FY21	■ As a prudent measure, management maintained additional provision buffer to factor the impact of COVID-19. ■ COVID-19 related provisions were ~0.15% of total AUM in Q1FY22
Asset Quality	■ Due to pandemic related challenges, NPAs inched up marginally ■ Moratorium had temporarily frozen the asset classification into NPA. ■ Exposure under moratorium was ~24% in Apr'20.	■ AAVAS set up default algorithm model to predict default risks. ■ The credit team engaged with every borrower who falls under 90 DPD category ■ AAVAS conducted online training sessions for staff to educate about new moratorium rules who in-turn engaged with customers to provide a clearer view in terms of eligibility. ■ Exposure under moratorium stood at ~2-3% in Jun'21
Excess Liquidity	■ The economic disruptions expected to increase liquidity stress on NBFCs	■ AAVAS has a positive ALM and maintained adequate B/S liquidity (26% as on Jun'21 as compared with 25% as on Jun'20). ■ Before pandemic company used to maintain 3-4 months of excess liquidity, but now there is 5-6 months of excess liquidity.
Collections	■ Customers could not pay their EMIs as their cash flows were adversely impacted due to lockdown. ■ Resulted in ~95% collection efficiency in Mar'20 and ~76% in Apr'20 (excluding moratorium)	■ AAVAS created a four tier collection architecture focusing on management of early delinquencies. ■ Set up call centres in different languages which helped in timely collections. ■ Daily monitoring of collections. The collection efficiency stood at 98-99% as at Jun'21.

Source: Company, PL

Early bucket delinquencies disrupted due to pandemic; rebound imminent

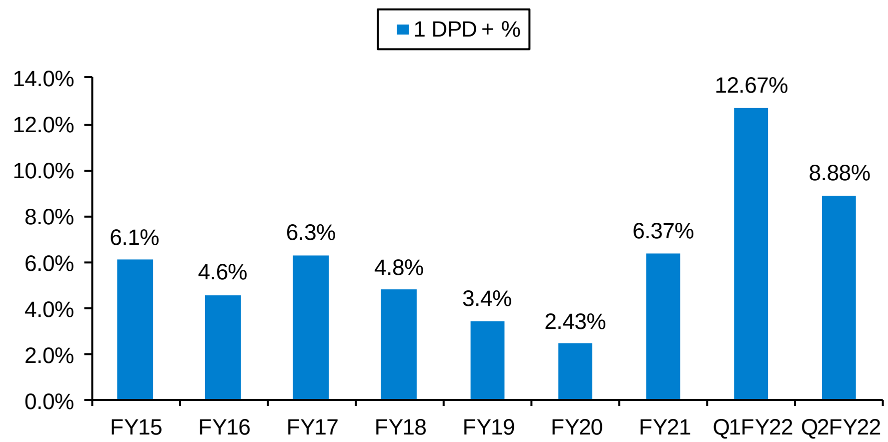
- Asset quality has seen minor deterioration during Q1FY22 but it still remains amongst-the-best in industry. While COVID-19 second wave impact stood prominent for rural and semi-urban markets, AAVAS stood as no exception with both home loans and other mortgage portfolio witnessing stress.
- The 1+ dpd stood at 8.9% levels (Q2FY22) vs 12.7% in Q1FY22 and Stage 3 assets stood at 0.96% (Q2FY22). Subsequently, credit costs for the quarter gone by declined to 0.2% vs 0.7% in Q1FY22.
- **Said that, with collection efficiency improving, management expects 1+dpd to wind down as majority customers in this category are already repaying. Collection efficiency is back to 98-99% levels. We don't expect any major asset quality deterioration from hereon.**

Stage 1 + 2 stock has remained largely intact



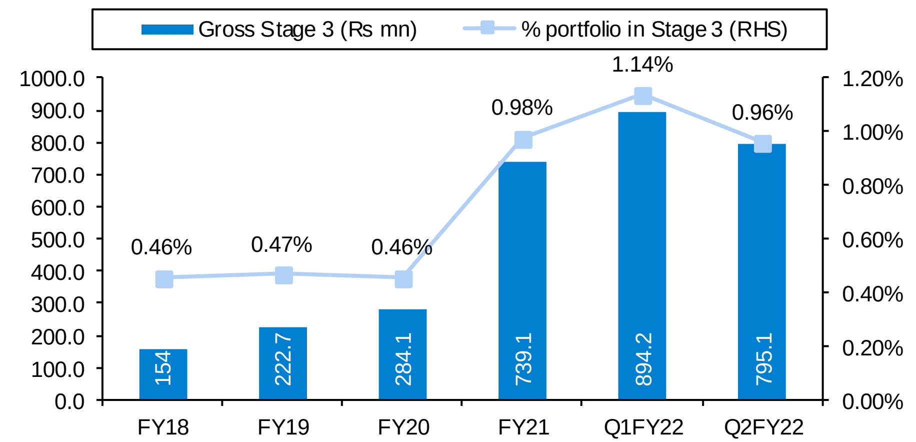
Source: Company, PL

Pandemic challenges pushed 1+ dpd higher; historical trends stood better



Source: Company, PL

Stage 3 stood below 1% over the years, pandemic periods saw disruptions



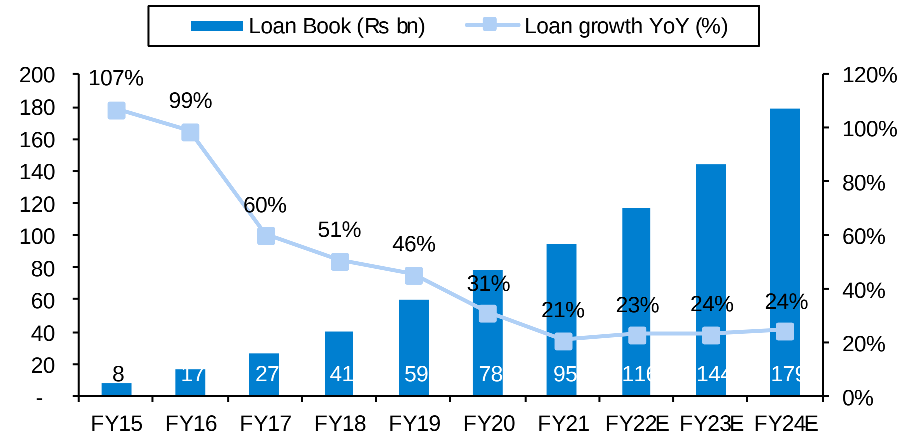
Source: Company, PL

Financial Analysis

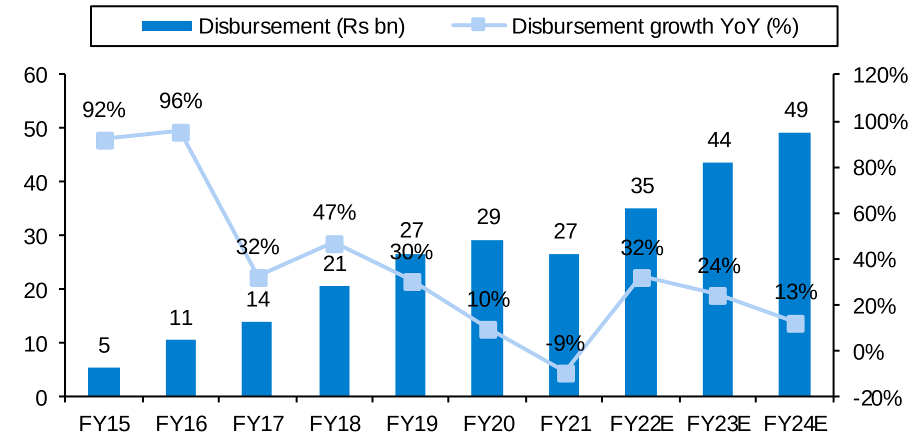
Healthy loan CAGR to translate into strong NII over next two years

- Co.'s processes are scalable and increasingly oriented towards automation, which means that prospective revenue growth from this point may not be accompanied by a proportionate increase in costs. We foresee improvement in loan book (24% AUM CAGR; 18%+ Disbursements CAGR over FY22-24E) which will translate into a strong NII growth Over FY22-FY24E. The technological initiatives are expect to lower the opex over FY22-FY24E.

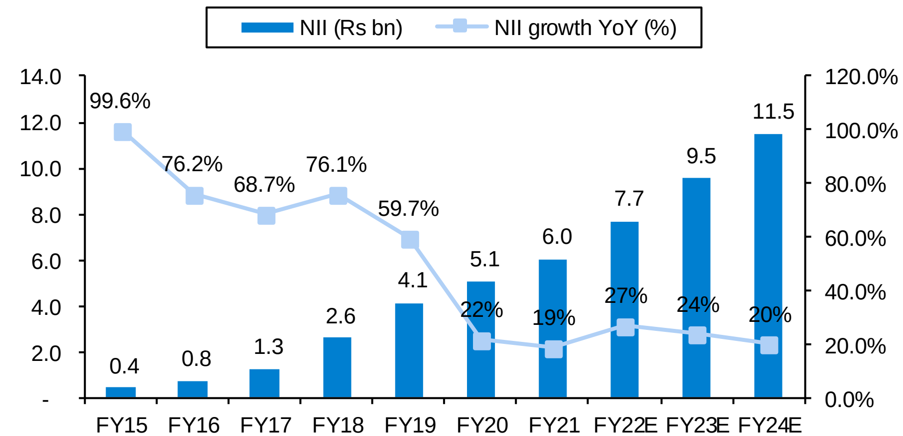
AAVAS to clock 24% loan CAGR over FY22-24E



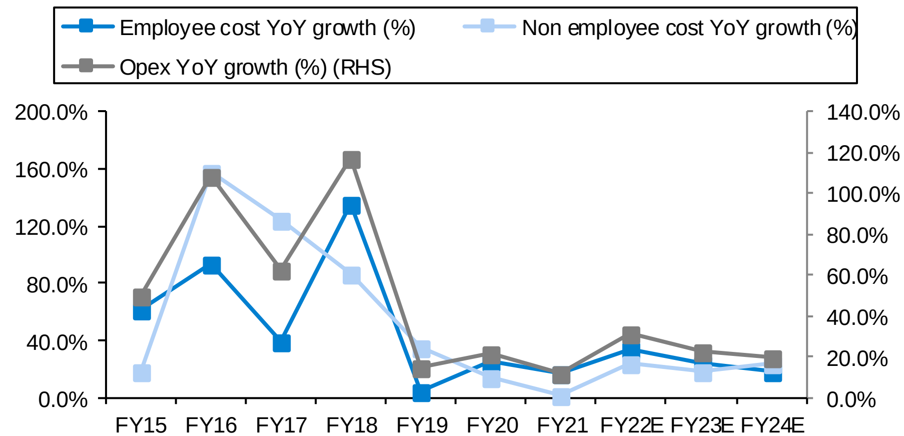
AAVAS to clock 18.4% disbursements CAGR over FY22-24E



NII to report 22% CAGR over FY22-24E



Operating cost to increase at 21.6% CAGR over FY22-24E



Source: Company, PL

Healthy NIMs at 7%+ stand imminent

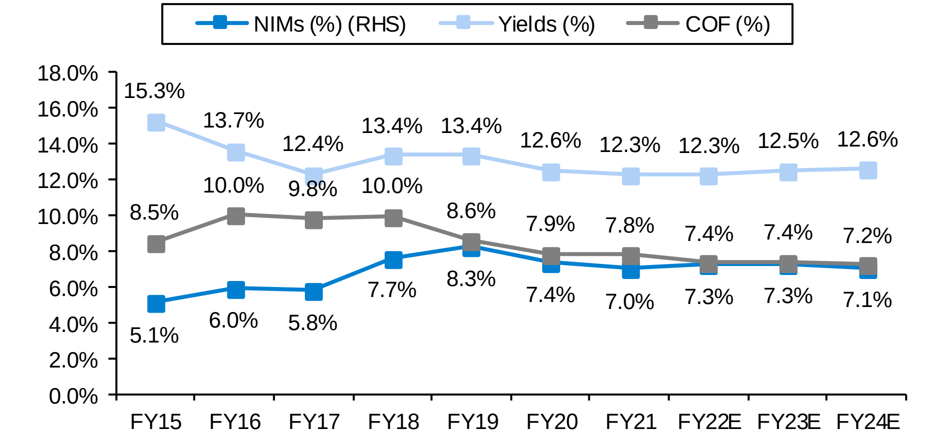
AAVAS sustenance of pricing power in the most coveted housing finance market can be attributed to:

- 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%,
- favorable funding costs 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 industry best net interest margins (NIMs) at 7%+ over FY23-24E.

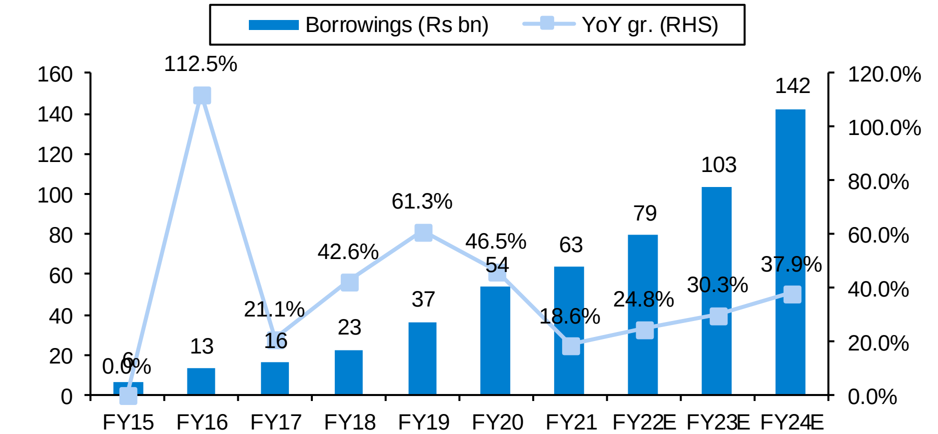
Margin accretion should be further cushioned by diminishing impact of negative carry on account of higher on-balance sheet liquidity maintenance (12% of total assets) as pandemic challenges subside.

AAVAS to clock healthy 7.2%+ NIMs over FY23-24 led by steady yields offsetting marginally higher CoF



Source: Company, PL

Borrowings to report 34% CAGR increase over FY22-24E

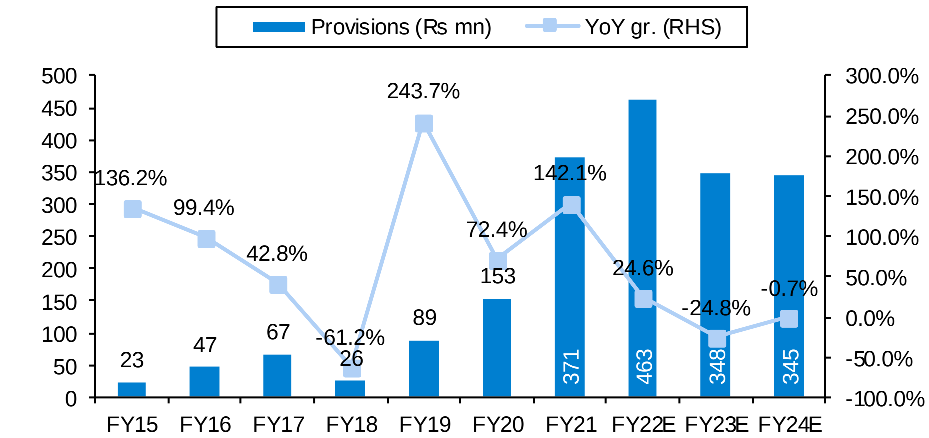


Source: Company, PL

Expect GNPAs to be restricted below 1.5%; credit costs to 0.2%

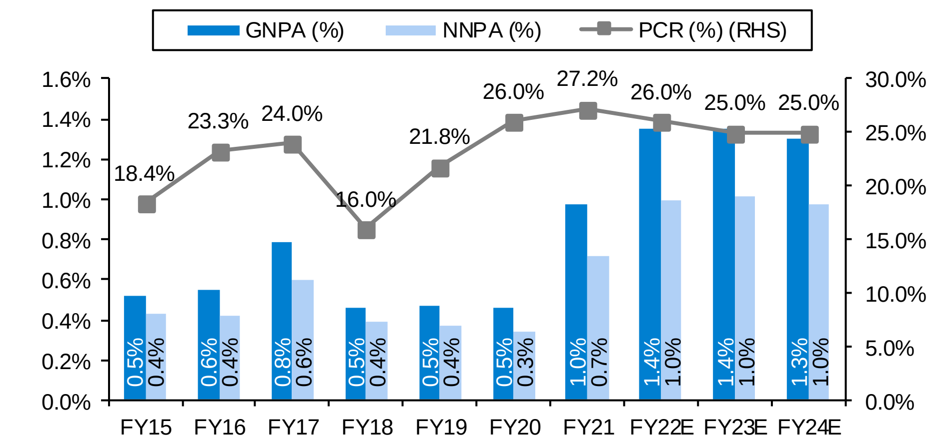
- As at the end of Q2FY22, AAVAS' asset quality exhibited an improvement. Gross/Net Stage 3 was down 18bp/14bp QoQ to 0.96%/0.72%. Stage 3 PCR surged100bp QoQ to 26%.
- Importantly, 1+dpd improved by ~380bp QoQ to 8.9% (v/s 12.7% in 1QFY22) and Management expects another 100-200bps improvement from current levels with 1+dpd expected to be curbed at 6% odd levels over next few quarters.
- Credit cost at ~20bp was the lowest in the last seven quarters since the COVID outbreak. While the ECL providing has remained stable, COVID-led provisions stood at Rs148mn (~0.15% of AUM).
- As at the end of Q1FY22, AAVAS had mere 2.5% of customers under moratorium (one of the lowest). The total restructuring under OTR 2.0 stood at Rs1.48bn (~1.5% of AUM) as at the end of Q2FY22.
- **Although AAVAS caters to relatively high risk segment, it has maintained its NPA levels <1% and credit cost <0.2%. Its robust underwriting practices and in-house risk management has helped in controlling the asset quality. Barring temporary hiccups over FY21-FY22 led by pandemic challenges and factoring the ageing of the portfolio, yet the NPAs we are forecasting stand restricted to below 1.5% and are expected to decline to 1.3% by FY24-end while credit costs to continue remain below 0.2% levels over FY23-24E.**

Provisions to decline over FY22-23E on a high base



Source: Company, PL

Expect NPA to restrict <1.5% and PCR to remain at 25% over FY22-FY24E

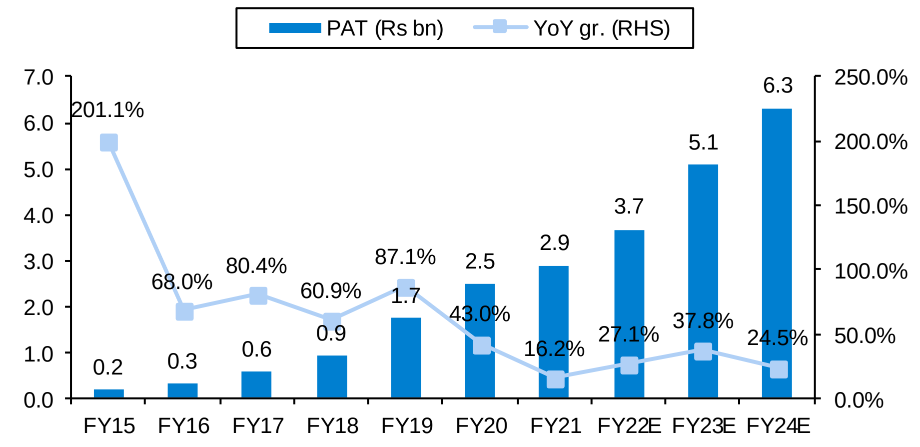


Source: Company, PL

Expect robust ~31% earnings CAGR over FY22-24 with RoEs climbing to ~17%+ by FY24

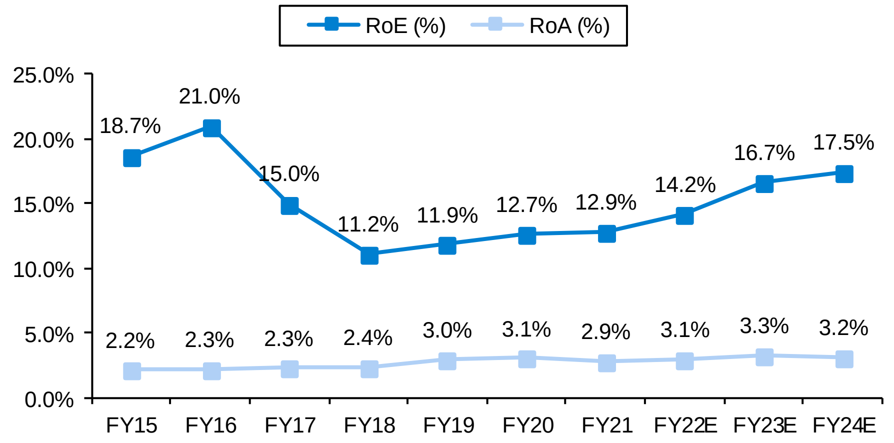
- Aided by lean operating costs (C/I reduction of 238bps to 37% over FY22-FY24), stable margins (7.2%+) and credit costs (<0.2% over FY22-FY24E), AAVAS is likely to post robust 31% CAGR in net profit over FY22-24E. Operating leverage is expected to be the key earnings driver over next 2 years.
- This should translate into RoAs of 3.2% and RoEs of 17.5% by FY24E.

Earnings to clock robust ~31% CAGR over FY22-24E



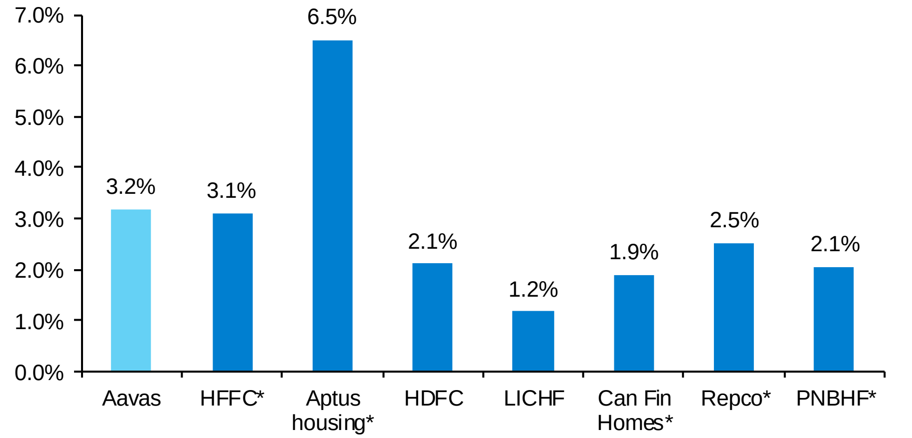
Source: Company, PL

Expect RoAs to settle at 3%+ and RoEs at 17.5% by FY24E



Source: Company, PL

Aavas stands best placed in terms of RoAs vs peerset



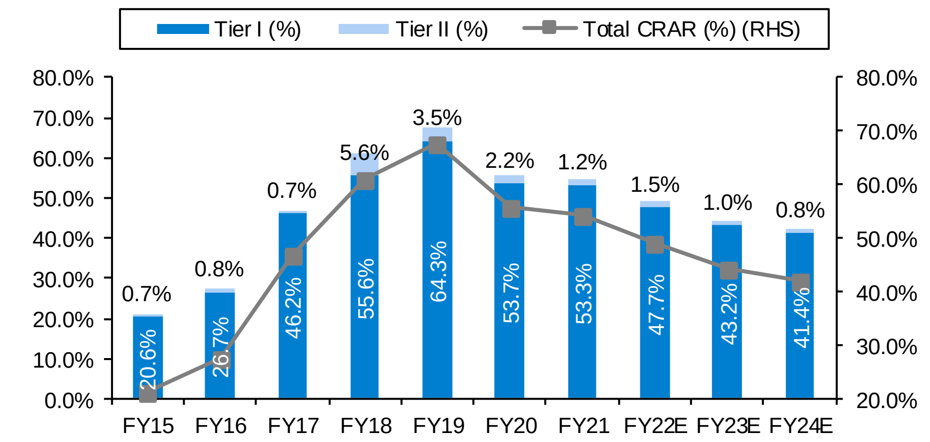
Source: Company, PL

Robust Capitalisation levels

Robust Capitalisation levels

- AAVAS has robust capitalisation level with total CAR at 52.1% as on September 30, 2021, out of which 51% is in the form of Tier-1 capital. We believe such high capitalization levels will support growth over the medium term for Aavas. We expect Tier 1 ratio to be ~42% for FY24E.
- AAVAS has capital efficient model, where around 23% of funds raised are through assignments.
- The CAR position stood strong led by regular equity capital infusions and small ticket size loans. ~50% of its gross loan assets are upto Rs 1 mn ticket size (which has lower risk weights), which results in lower capital consumption.
- AAVAS has sufficient capital to grow and capture the market share.

Healthy capital adequacy ratio



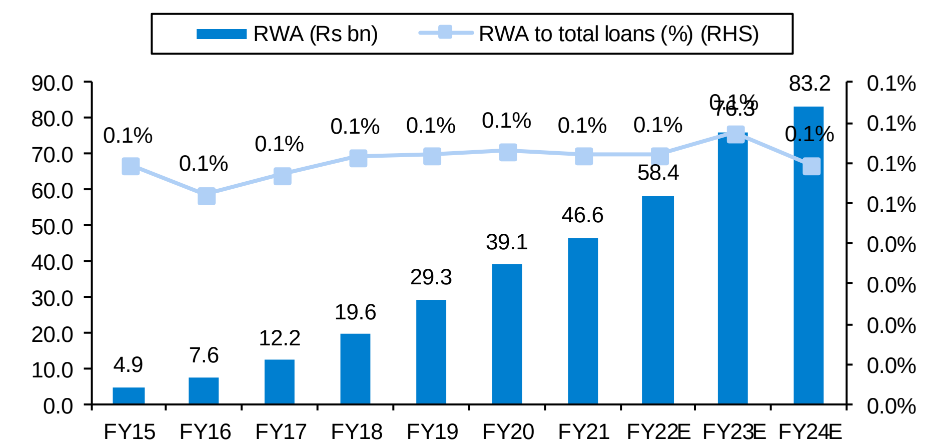
Source: Company, PL

AVAS maintains high order CAR backed by Tier I equity

CRAR as on Q2FY22	Tier I (%)	Tier II (%)	Total CRAR (%)
AAVAS	51.0%	1.1%	52.1%
Aptus Value Housing	70-75%	-	-
HFFC	55.2%	1.2%	56.4%
HDFC	21.3%	0.7%	22.0%
LICHF	13.9%	1.4%	15.3%

Source: Company, PL

Lower capital consumption aids in lower RWAs



Source: Company, PL

Valuations Analysis

Industry leading growth, controlled AQ, robust RoAs place Aavas favorably

- Providing housing loans for single unity property to low income self-employed borrowers, AAVAS has created in-house operating model with unique distribution strategy and risk-adjusted asset pricing backed by disciplined lending practices. Focusing on bottom-of-the-pyramid aiming to upgrade underserved new-to-credit customers from kuccha to pucca homes in small towns/cities with population of <50,000 focusing on low-ticket (< Rs10 lakh), AAVAS active loan customer base stood at 1,40,000 as at Sep'21-end recording 48% CAGR increase over FY15-FY21.
- AAVAS witnessed 70% earnings CAGR during the build-up phase of FY15-FY18 despite 94% CAGR increase in operating expenses led by technological investments during the same period. A scalable business model increasingly oriented towards automation is indicative of prospective revenue growth from this point which may not be accompanied by a proportionate increase in costs.
- A stupendous asset growth (56% CAGR) supported by conservative liability profile (65% bank term loans; avg 15% NHB refinance), the Co. yielded RoAs of avg. 2.3% over FY15-18. While the development phase (FY15-FY18) saw RoAs at 2.3% odds, FY19-FY21 witnessed healthy 26% loan CAGR, cost efficiencies both on the funding side as well as on the operating front and subsequently RoAs climbed to 3.0%.
- Despite catering to perceivably high risk segment, AAVAS has succeeded in restricting NPAs below 1% and credit costs below 0.2% backed by conservative lending practices and in-house risk management.
- Going forward, as AAVAS forays into third 5-year cycle of network expansion, would develop 2 new States and penetrating deeper into 2 existing States over FY22-FY26, we expect robust 24% loan CAGR, industry-best NIMs at avg. 7.2% translating into 28% PPoP CAGR over FY22-24E.

AAVAS stands geared to clock healthy 3.2% RoAs

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
NII/Total Assets	4.9%	5.4%	5.1%	6.7%	7.2%	6.3%	6.0%	6.4%	6.3%	5.8%
TI/Total Assets	6.2%	7.1%	6.9%	7.8%	7.9%	6.8%	6.4%	7.1%	7.2%	6.8%
Opex/Total Assets	2.6%	3.3%	3.1%	4.3%	3.3%	2.9%	2.5%	2.8%	2.7%	2.5%
PPOP/Total Assets	3.6%	3.8%	3.9%	3.5%	4.6%	3.9%	3.9%	4.3%	4.5%	4.3%
Provisions/Total Assets	0.3%	0.3%	0.3%	0.1%	0.2%	0.2%	0.4%	0.4%	0.2%	0.2%
PAT/Total Assets	2.2%	2.3%	2.3%	2.4%	3.0%	3.1%	2.9%	3.1%	3.3%	3.2%

Source: Company, PL

AAVAS valuations to stand superior just like yesteryear's Gruh Finance

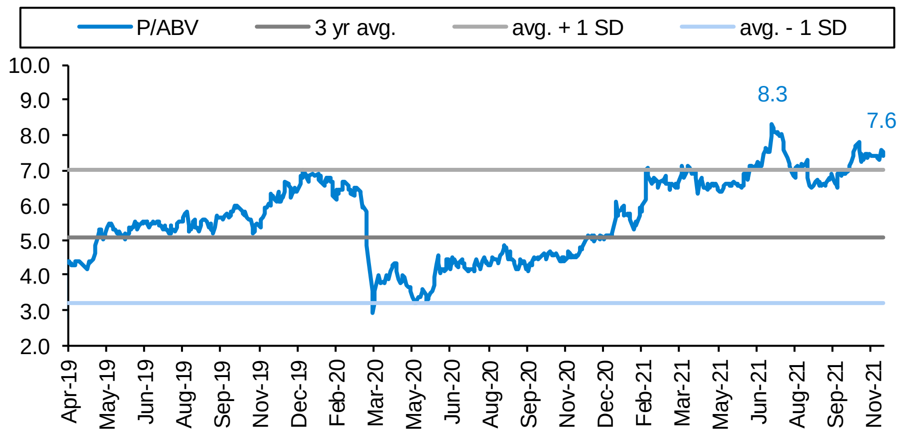
While closer to listing (FY19), AAVAS traded at 4x PABV forward multiple, but as yesteryears' investments started yielding results in terms of operating leverage and improving return profile, the company witnessed re-rating in valuation multiple that swelled almost 200bps thereafter.

We reckon, AAVAS business model mirrors characteristic traits of yesteryear's Gruh Finance & therefore will continue to command strong valuations multiple just like former as

- **AAVAS is the only niche dominant play in self-employed affordable housing finance space which has been overlooked not only by banks but also NBFCs creating massive growth opportunity**
- It maintains pricing power backed by risk-adjusted yields and cost effective funding
- It has a differentiated lean operating model backed by technology
- It boasts of in-house risk management systems and
- It maintains strong capital buffers (51% CAR, 12%+ on-BS liquidity) with superior execution skills.

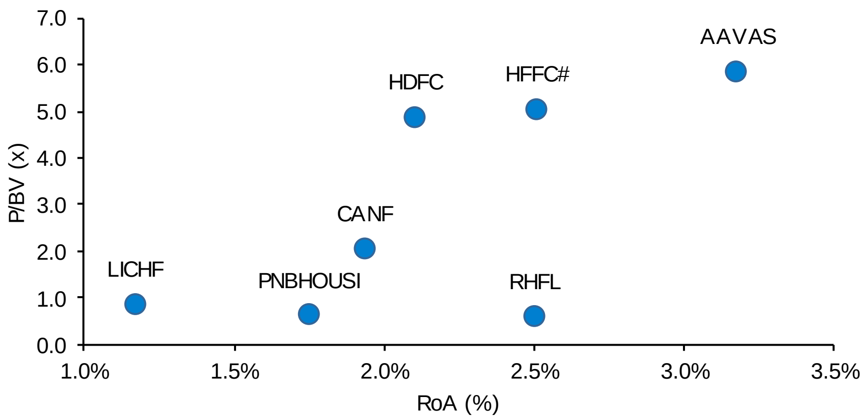
Therefore, premium valuations are here to stay and we value AAVAS at 8x Sep'23E PABV arriving at price target of Rs3,500. Initiate with BUY recommendation on the stock.

Quality franchise like AAVAS will continue to demand premium valuations



Source: Company, PL

Valuation of AAVAS vs peers



Source: Company, PL All Nos FY24E # FY21

AAVAS valuations to stand superior just like yesteryear's Gruh Finance

With pandemic challenges behind, Aavas poised for new cycle of calibrated growth, stable NIMs and improving efficiencies translating into 330bps RoE expansion over FY22-FY24

	NII (Rs. mn)	PAT (Rs. mn)	ROE (%)	ROA (%)	ABV (Rs.)	P/ABV (x)	P/E (x)
FY15	429	191	18.7%	2.2%	29.7	94.5	486.3
FY16	756	321	21.0%	2.3%	51.3	54.8	337.4
FY17	1,275	579	15.0%	2.3%	95.2	29.5	282.7
FY18	2,597	931	11.2%	2.4%	156.9	17.9	209.1
FY19	4,148	1,742	11.9%	3.0%	233.0	12.1	126.0
FY20	5,069	2,491	12.7%	3.1%	265.2	10.6	88.4
FY21E	6,045	2,895	12.9%	2.9%	299.0	9.4	76.2
FY22E	7,696	3,681	14.2%	3.1%	341.1	8.2	60.3
FY23E	9,539	5,071	16.7%	3.3%	402.9	7.0	43.7
FY24E	11,473	6,311	17.5%	3.2%	480.1	5.9	35.1

Source: Company, PL

Valuation Summary – albeit expensive, AAVAS stands geared for robust return profile

Bloomberg Code	Rating	Market Cap (bn)	CMP (Rs)	TP (Rs)	PL Return (%)	P/E (x)				P/ABV (x)				ROE %					ROA (%)				
						FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
BAF IN	BUY	2248	7050	9092	29.0%	96.0x	59.1x	40.7x	31.0x	11.8x	10.0x	8.2x	6.5x	20.2%	12.8%	17.9%	21.6%	22.8%	3.6%	2.6%	3.9%	4.8%	5.2%
CIFC IN	BUY	453	559	721	29.0%	30.3x	24.6x	19.8x	16.0x	5.7x	5.0x	4.0x	3.2x	14.7%	17.1%	17.9%	18.7%	19.4%	1.7%	2.2%	2.3%	2.5%	2.6%
LTFH IN	REDUCE	155	78	80	3.4%	20.2x	13.8x	9.9x	8.0x	1.1x	1.0x	0.9x	0.8x	13.8%	6.4%	7.4%	9.2%	10.3%	1.6%	0.9%	1.2%	1.6%	1.7%
HDFC IN	BUY	5096	2704	3322	22.9%	34.7x	35.7x	31.6x	27.1x	8.5x	6.1x	5.4x	4.9x	39.5%	36.8%	23.9%	20.9%	21.6%	2.3%	2.5%	2.2%	2.1%	2.1%
LICHF IN	REDUCE	141	376	387	3.1%	6.9x	9.3x	6.4x	5.4x	1.2x	1.3x	1.0x	0.8x	13.9%	14.1%	9.6%	12.9%	13.7%	1.1%	1.2%	0.8%	1.1%	1.2%
MMFS IN	REDUCE	97	157	167	6.1%	43.4x	21.1x	10.1x	8.4x	1.6x	1.6x	1.5x	1.3x	8.1%	2.6%	6.2%	12.5%	13.8%	1.3%	0.4%	1.1%	2.2%	2.3%
SHTF IN	ACCUMULATE	365	1444	1532	6.1%	13.9x	13.0x	10.5x	9.3x	2.2x	1.6x	1.4x	1.2x	14.8%	12.6%	12.2%	13.3%	13.1%	2.3%	2.0%	2.3%	2.8%	2.9%
MGFL IN	HOLD	141	167	199	19.4%	8.2x	7.8x	6.7x	5.8x	2.0x	1.8x	1.5x	1.2x	28.5%	26.4%	23.2%	22.9%	21.8%	5.9%	5.7%	5.4%	5.3%	5.1%
SBICARD IN	ACCUMULATE	903	960	1199	24.9%	91.7x	53.1x	39.1x	31.1x	15.0x	12.2x	9.5x	7.6x	27.9%	16.9%	24.1%	26.3%	26.3%	5.5%	3.8%	5.7%	6.5%	6.7%
AAVAS IN	BUY	221	2810	3500	24.5%	76.2x	60.3x	43.7x	35.1x	9.4x	8.2x	7.0x	5.9x	12.7%	12.9%	14.2%	16.7%	17.5%	3.1%	2.9%	3.1%	3.3%	3.2%
MUTH IN	BUY	587	1464	1939	32.4%	16.1x	13.0x	11.0x	9.4x	3.9x	3.2x	2.6x	2.1x	28.3%	23.9%	23.7%	22.6%	21.4%	6.8%	6.4%	6.5%	6.4%	6.3%

Source: Company, PL

Competitive landscape: AAVAS stands better positioned in the affordable housing finance space

- Key players like yesteryear's Gruh Finance and today's Repco Home Finance have been focusing on self-employed home loan segment characterized by low ticket sizes and irregular cash flows. AAVAS today mirror similar product and customer profile with presence in a niche self-employed home loan segment that insulates the Co. from the commodity home financing segment, where borrower's equity proportion in home purchase is higher or where the property under construction will be used within a year. **Despite operating in the perceivable high risk segment, AAVAS boasts of healthy loan CAGR (~41% over FY16-Y21), industry best asset quality with NPAs below 1% (with aberration in Q1Y22) and superior return profile (RoE/RoA at 12.9%/2.9% as at FY21-end).**

AAVAS stands better positioned in the affordable housing finance space

FY21	AAVAS	Repco Home Finance	Aadhar Housing Finance	HFFC	Aptus Value Housing Finance	Muthoot Homefin	Can Fin Homes	GRUH*
AUM (Rs bn)	95	121	133	41	41	170	207	181
Affordable Housing loans O/S in India (Rs bn)	9100	9100	9100	9100	9100	9100	9100	9100
Market Share	1.0%	1.3%	1.5%	0.5%	0.4%	1.9%	2.3%	2.0%
AUM Mix - Product wise								
Home Loan	73.5%	81%	85%	92%	52%	-	90%	86%
LAP	-	19%	15%	6%	22%	-		9%
Developer Loan	-			1%		-		4%
Other Loans/ Non Housing Loans	27.3%		0%	1%	26%	-	10%	
AUM Mix - Customer wise								
Salaried	40%	49%	64%	74%	28%	-	73%	55%
Self Employed	60%	52%	36%	26%	72%	-	27%	44%
New to Credit (%)- AUM	0	-	-	31%	-	-	-	
ATS (Rs mn)	0.93/0.67	1.5	0.85	1.01	0.7	0.9	.2/1	0.7
No. of customers (units)	125591	101153	182022	>50000	60000	22421	480000	270000
Sourcing mix	100% in house sourcing	Direct - ~50% , Loan camps - 35%, DSAs - 18%	DSTs- 1306, REs - 140, DSAs - 4060, Aadhar Mitra - 9001	Diversified channels for generating leads such as connectors, builder ecosystem, digital, etc.	100% in house sourcing	-	-	75% of souricng through third party channels by appointment of GRUH Referral Associates (FY19)
Presence	Focus on tier 2 and tier 3	Focus on tier 2 and tier 3	Focus on tier 2,3 and 4	Metro and Tier 1	Focus on tier 2 and tier 3	Focus on EWS, LIG (tier 2 & 3)	Focus on tier 2 and tier 3	GRUH extended approx. 40% of its loans at rural locations where the population is less than 50,000. (FY19)

Affordable Housing Finance – competitive landscape

FY21	AAVAS	Repco Home Finance	Aadhar Housing Finance	HFFC	Aptus Value Housing Finance	Muthoot Homefin	Can Fin Homes	GRUH*
Branch Concentration (Top 3 states)								
Rajasthan	34%	-	-				South contributes ~69% of business	
Maharashtra	16%	10%	12%	19%				26%
MP	14%	-	12%					17%
Gujarat	-	-	-	38%				24%
Tamil Nadu	-	55%	-	11%	42%			
UP	-	-	13%					
Karnataka	-	14%	-		11%			
AP / Telangana	-	-	-		34%			
Funding Mix								**FY19**
Terms Loans	34%	79%	62%	45%	75%		51%	25%
Assignment	24%	-	-				0%	
NHB Refinancing	23%	21%	16%	29%			21%	25%
NCDs	19%	-	21%	6%	17%		26%	29%
Deposits	-	-	1%				2%	
Other	-	-	0%	20%	8%		0%	21%
TAT (Days)	13.1	-	-	2	-			-
Collection mechanism	95%-96% digital collections	-	Collections done through ECS / NACH and PDCs	98% collection through digital medium	-		-	-
Disbursement (Rs mn)	26569	18409	35450	10966	12980	557	43460	49360 (FY19)
Employee Count	5679	980	2310	687	1910	260	887	677 (FY19)
Disbursement per employee (Rs mn)	4.7	18.8	15.3	6.6	6.8	2.1	49.0	72.9 (FY19)
GNPA	1.0%	3.7%	1.1%	1.8%	0.7%	5.9%	0.9%	0.7% (FY19)
PCR	27%	40%	32%	36%	27%		39%	14% (FY19)
CLSS Subsidy provided (Rs mn)	1521.7	-	1750.5	1739.2	NA	68	53530	3910 (FY19)
No of beneficiaries to CLSS schemes (units)	7576	-	10175	6862	NA	509	-	16090 (FY19)
Customer category for majority of claim	EWS, LIG, MIG	EWS, LIG	EWS, LIG, MIG	EWS, LIG	-	-	EWS, LIG, MIG	EWS, LIG, MIG
Home loan interest rates Current	8.0%	8.3%	11.8%	8.0%	14.0%	12.5%	8.25% +	8.8%

Contd…

FY21	AAVAS	Repco Home Finance	Aadhar Housing Finance	HFFC	Aptus Value Housing Finance	Muthoot Homefin	Can Fin Homes	GRUH*
Strategy ahead	1) Aavas will continue to focus on affordable segment and will increase its presence in mid-segment to drive faster growth. 2) With clear focus on mid-segment, the Company will be able to gain market share in high-end Developers / Corporates	1) Repco will continue to maitain optimal blend of non-salaried and salaried loans 2) Continue to maintain non housing book or at below 20%, focusing on small ticket size 3) Focus on cross selling insurance products and earning fee based income 4) Focus on improving asset quality	1) Continue to focus on low income housing segment (EWS and LIG) 2) Expand the distribtion network in key states 3) Invest and roll out digital and technology enabled solutions 4) Optimise borrowing costs and operating expenses	1) Focus on providing housing finance to middle class. 2) Continue to focus on quality of book and diversified financing base 3) Strategic alliance with Airtel Payments Bank 4) Increase AUM/Branch	1) Continue to focus on low and middle income self-employed customers in rural and semi-urban markets. 2) Increase penetration in our existing markets and expand our branch network in large housing markets. 3) Continue to be an asset quality focused financiers 4) Reduce cost of borrowings by diversifying sources of borrowing.	Focus segment remains affordable housing finance	Faster growth with profitability supported by lower cost of funds with stable asset quality	Will look Beyond affordable housing segment which will increase there ATS from Rs.9-9.5 lakhs

*Source: Company, PL   *GRUH – FY19*

Key Risks To Earnings

Key Risks

- **Geographic concentration:** 47% of loan book remains concentrated in top 2 states i.e Rajasthan (~32%) and Maharashtra (~15%). Any significant change in government policies, economic or political disruption or natural calamities in these states may impact the business activities.
- **Change in regulatory policies:** Any major change in regulatory policies e.g. increase in regulation by NHB, fall in government incentives for housing loans, increase in risk weights and cap on the interest spread under refinancing schemes may impact growth and profitability of the company negatively.
- **Large focus on vulnerable customer segment:** AAVAS is largely focused on self-employed segment (> 60% of AUM as on Q2FY22), which is comparatively more vulnerable to economic disruptions due to no fixed regular income. Any event like COVID-19 which has impacted many small businesses may impact its operating efficiencies and asset quality.

Vital feeds from channel checks

Vital feeds from channel checks on affordable housing finance:

- As work-from-home and e-schooling have become new lifestyle, the need for owning a home has dawned upon people. This has induced developers to design more accommodative homes to align with the demand.
- Age group between 28-45 have been contributing meaningfully to the affordable housing demand in recent periods. Post lockdown, the affordable housing space has been witnessing major enquiries and bookings from this age group.
- Currently, demand is largely emerging from affordable housing segment (EWS, LIG, MIG), whereas demand for premium housing is almost 50% lower than pre-COVID levels. In affordable housing, demand is primarily from tier-2 and tier-3 cities due to lower ticket size.
- Affordable housing segment comprised almost 70% of the total new supply during July-Sept period in major cities.
- Small developers are observed to have lower liabilities vis-à-vis large ones but not many are keen on kick-starting newer projects due to persistent liquidity tightness. Small developers of Tier 2/3 cities are expected to play a key role in broadening housing & housing finance market. Initial signs of fears of third wave receding, continued low interest rate regime (recent cuts by SBI, LICHF, HDFC) is expected to maintain housing demand intact.
- Collection efficiency is better on MoM basis as borrowers cash flows are improving with reopening of the economy.

Annexures

Management Details

Name	Age	Designation	Qualification	Previous assignment	Experience	Date of Joining	Remuneration (Rs mn)
Sushil Kumar Agarwal	43	MD & CEO	Chartered Accountant and Company Secretary	Associated with Kotak Mahindra Prime, ICICI Bank & Au Small Finance Bank (Business Head - SME & Mortgages)	20 years	23-Feb-11	19.9
Ghanshyam Rawat	52	Chief Financial Officer	Chartered Accountant	Associated with Indorama Synthetics, Accenture, First Blue Home Finance, Deutsche Postbank Home Finance	25 years	01-Jun-14	14.7
Surendra Sihag	47	Senior VP, Collections	Bachelor of arts and LLB degree, Business Administration	Associated with Bajaj Finance, Cholamandalam	19 years	02-Jan-17	7.4
Ashutosh Atre	50	Chief Credit Officer	Diploma in finance and engineering	Associated with Equitas, ICICI Bank, Cholamandalam	31 years	14-May-14	7.3
S Ram Naresh	47	Chief Business Officer	Bachelor of science and Master of Business Administration	Associated with Nestle, GE Money, ICICI Bank, Bajaj Finance	25 years	02-Jun-15	10.6
Rajeev Sinha	45	Senior VP, Operations	B.Sc. and Certified in Management of Customer Relationship	Associated with Indiabulls, CoinTribe	21 Years	04-May-16	6.0
Anurag Srivastava	40	Senior VP, Data Science	Master of Arts (economics)	Associated with Deloitte, WNS, American Express	16 years	02-Sep-16	6.4
Mukesh Agarwal	44	VP- Accounts	Chartered Accountant	Associated with D1 WilliamsonMagor Bio Fuel	22 years	17-Oct-12	5.4
Shailendra Gupta	45	VP- Sales	B. Com, MBA	Associated with IHFL	21 years	17-Jan-17	4.9
Vineet Mahajan	45	Treasury Head - Finance & Treasury	Chartered Accountant	Associated with Edelwiess Group	22 years	18-Mar-20	9.3

Refinancing schemes of NHB

	Regular Refinance Scheme	Affordable Housing Fund	Refinance Assistance to Primary Lending Institutions for extending concessional housing loans to households affected by natural calamity in the State of Kerala	Special Urban Housing Refinance Scheme for Low Income Households
Purpose	To provide refinance assistance for 1) Construction / purchase of dwelling units 2) Repairs / renovation / upgradation of dwelling units	The AHF shall be utilized for refinancing the individual housing loans sanctioned and disbursed on or after 01-04-2017 falling under rural and urban category	To provide relief to monsoon rains and floods affected households in the State of Kerala	Refinance assistance to low income household either directly or through intermediaries like MFIs or SHGs
Eligible loans				
Loan Size	No Limit	Urban - Borrowers with annual household income not exceeding Rs 6 lakh. Rural - Borrowers with annual household income not exceeding Rs 3 lakhs, Weaker Sections as per RBI, Women borrower.	Refinance assistance of Rs. 200 crore	To be determined by the HFC in accordance with its credit policy
Location of property	Any		Kerala State	
Ultimate borrowers	Any		Urban - Borrowers with annual households income not exceeding upto Rs.6 lakh Rural - Borrowers with annual households income not exceeding upto Rs.3 lakh	■ Not exceeding Rs 3 lakhs in case of loans for purchase/ construction of dwelling unit ■ Not exceeding Rs 2 lakhs in case of loans for repairs / renovation / extension / up-gradation of existing dwelling units
Tenure of refinance	1 to 15 years	Maximum 7 years	Maximum 7 years	5 years to 15 years
Interest Type / Payment of Interest	Fixed or Floating	Compounded monthly and payable quarterly	Compounded monthly and payable quarterly	■ Principal amount repayable in equal quarterly instalments ■ Moratorium of 1 clear calendar quarter from the date of disbursement for commencement of principal repayment
Concessions in interest rate	Available for refinance in respect of the following loans: ■ Loans upto 10 lakhs ■ Loans in rural areas ■ Loans to women ■ Loans to persons of 3rd gender ■ Loans to disabled or differently abled persons ■ Loans to persons belonging to Scheduled Castes / Scheduled Tribes ■ Loans for green housing	-	-	-
On lending cap	No cap on interest rate under this Scheme of the HFC	The on-lending interest rate cap is MCLR + 100 bps for SCBs & NHB Refinance Rate + 350 bps for others.	The on-lending interest rate cap is MCLR + 100 bps for SCBs & 8.43% for others	-

Income Statement & Balance Sheet

Y/e Mar	FY19	FY20	FY21	FY22E	FY23E	FY24E
Int. Inc. / Opt. Inc.	6,701	8,630	10,627	12,939	16,321	20,370
Interest Expenses	2,554	3,561	4,582	5,243	6,783	8,897
Net interest income	**4,148**	**5,069**	**6,045**	**7,696**	**9,539**	**11,473**
Growth(%)	*59.7*	*22.2*	*19.2*	*27.3*	*23.9*	*20.3*
Non-interest income	391	401	426	844	1,463	1,958
Growth(%)	*(6.1)*	*2.4*	*6.3*	*98.2*	*73.3*	*33.9*
Net operating income	4,539	5,470	6,471	8,540	11,002	13,431
Expenditures						
Employees	1,172	1,471	1,721	2,318	2,895	3,437
Other Expenses	718	826	845	1,051	1,244	1,542
Depreciation	-	-	-	-	-	-
Operating Expenses	1,890	2,296	2,566	3,369	4,140	4,979
PPP	**2,649**	**3,174**	**3,905**	**5,171**	**6,862**	**8,452**
Growth(%)	*93.5*	*19.8*	*23.0*	*32.4*	*32.7*	*23.2*
Provisions	89	153	371	463	348	345
Profit Before Tax	**2,560**	**3,020**	**3,533**	**4,708**	**6,514**	**8,107**
Tax	818	529	638	1,027	1,443	1,796
Effective Tax rate(%)	*31.9*	*17.5*	*18.1*	*21.8*	*22.2*	*22.2*
PAT	**1,742**	**2,491**	**2,895**	**3,681**	**5,071**	**6,311**
Growth(%)	*87.1*	*43.0*	*16.2*	*27.1*	*37.8*	*24.5*

Y/e Mar	FY19	FY20	FY21	FY22E	FY23E	FY24E
Source of funds						
Equity	781	783	785	789	789	789
Reserves and Surplus	17,589	20,196	23,229	27,071	32,141	38,451
Networth	18,370	20,979	24,014	27,860	32,930	39,240
Growth (%)	*67.2*	*14.2*	*14.5*	*16.0*	*18.2*	*19.2*
Loan funds	36,533	53,520	63,454	79,208	1,03,243	1,42,421
Growth (%)	-	*46.5*	*18.6*	*24.8*	*30.3*	*37.9*
Deferred Tax Liability	-	-	-	-	-	-
Other Current Liabilities	1,322	1,998	2,095	3,164	3,811	4,751
Other Liabilities	44	73	37	-	-	-
Total Liabilities	**56,268**	**76,570**	**89,600**	**1,10,232**	**1,39,984**	**1,86,412**
Application of funds						
Net fixed assets	229	319	289	334	400	493
Advances	47,245	61,808	75,233	94,202	1,12,691	1,39,135
Growth (%)	*48.9*	*30.8*	*21.7*	*25.2*	*19.6*	*23.5*
Investments	45	45	45	52	62	76
Current Assets	8,749	14,399	14,033	15,645	26,832	46,707
Net current assets	**7,427**	**12,401**	**11,938**	**12,480**	**23,021**	**41,956**
Other Assets	-	-	-	-	-	-
Total Assets	**56,268**	**76,570**	**89,600**	**1,10,232**	**1,39,984**	**1,86,412**
Growth (%)	*47.4*	*36.1*	*17.0*	*23.0*	*27.0*	*33.2*
Business Mix						
AUM	59,416	77,961	94,543	1,16,401	1,43,775	1,78,952
Growth (%)	*45.9*	*31.2*	*21.3*	*23.1*	*23.5*	*24.5*

Key Ratios & Quarterly

Y/e Mar	FY19	FY20	FY21	FY22E	FY23E	FY24E
Key Ratios						
CMP (Rs)	2,810	2,810	2,810	2,810	2,810	2,810
EPS (Rs)	22.3	31.8	36.9	46.6	64.2	80.0
Book value (Rs)	235.2	267.9	305.9	353.1	417.3	497.3
Adj. BV(Rs)	233.0	265.2	299.0	341.1	402.9	480.1
P/E(x)	126.0	88.4	76.2	60.3	43.7	35.1
P/BV(x)	11.9	10.5	9.2	8.0	6.7	5.7
P/ABV(x)	12.1	10.6	9.4	8.2	7.0	5.9
DPS (Rs)	-	-	-	-	-	-
Dividend Payout Ratio(%)	-	-	-	-	-	-
Dividend Yield(%)	-	-	-	-	-	-
Asset Quality						
Gross NPAs(Rs m)	223	284	739	1,272	1,521	1,809
Net NPA(Rs m)	174	210	538	941	1,141	1,357
Gross NPAs to Gross Adv.(%)	0.5	0.5	1.0	1.4	1.4	1.3
Net NPAs to net Adv.(%)	0.4	0.3	0.7	1.0	1.0	1.0
NPA coverage(%)	21.8	26.0	27.2	26.0	25.0	25.0
Du-Pont as a % of AUM						
NII	7.0	6.5	6.4	6.6	6.6	6.4
NII INCI. Securitization	7.0	6.5	6.4	6.6	6.6	6.4
Total income	7.6	7.0	6.8	7.3	7.7	7.5
Operating Expenses	3.2	**2.9**	2.7	2.9	**2.9**	2.8
PPOP	4.5	4.1	4.1	4.4	4.8	4.7
Total Provisions	0.1	0.2	0.4	0.4	0.2	0.2
RoAA	3.0	3.1	2.9	3.1	3.3	3.2
Avg. Assets/Avg. net worth	-	-	-	-	-	-
RoAE	11.9	12.7	12.9	14.2	16.7	17.5
Profitability & Capital (%)						
NIM	8.3	7.4	7.0	7.3	7.3	7.1
ROAA	3.0	3.1	2.9	3.1	3.3	3.2
ROAE	11.9	12.7	12.9	14.2	16.7	17.5

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Int. Inc. / Operating Inc.	2,983	2,744	2,630	3,118
Income from securitization	-	-	-	-
Interest Expenses	1,169	1,162	1,128	1,160
Net Interest Income	**1,814**	**1,582**	**1,502**	**1,958**
Growth (%)	*36.0*	*25.3*	*28.6*	*33.1*
Non-Interest Income	118	169	90	137
Net Operating Income	**1,932**	**1,751**	**1,592**	**2,095**
Growth (%)	*33.8*	*27.3*	*30.7*	*34.2*
Operating expenditure	665	732	673	864
PPP	**1,267**	**1,019**	**919**	**1,231**
Growth (%)	-	-	-	-
Provision	162	70	170	47
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,105	950	749	1,183
Tax	249	74	150	262
Prov. for deferred tax liability	2,608	1,847	2,085	2,548
Effective Tax Rate	22.5	7.8	20.1	22.1
PAT	**856**	**876**	**599**	**921**
Growth	*26*	*46*	*20*	*39*
AUM	**88,226**	**94,543**	**96,156**	**1,01,481**
YoY growth (%)	*22.6*	*21.3*	*21.2*	*21.3*
Borrowing	64,810	63,454	64,859	69,055
YoY growth (%)	*42.2*	*18.6*	*14.3*	*14.6*

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