

CMP : Rs 778

Rating : Not Rated

STOCK INFO

INDEX	
BSE	541988
NSE	AAVAS
Bloomberg	AAVAS IN
Reuters	AVA.BO
Sector	NBFCs
Face Value (Rs)	10
Equity Capital (Rsmn)	73
Mkt Cap (Rsmn)	60,623
52w H/L (Rs)	799 / 612
Avg Monthly Vol (BSE+NSE)	42,530

SHAREHOLDING PATTERN

	%
(as on Sept, 2018)	
Promoters	58.0
Public & Others	42.0

Source: ACE Equity, Arihant Research

Aavas Financiers v/s SENSEX



Source: ACE Equity, Arihant Research

We recently met with the CEO and Founder of Aavas Financiers Mr. Sushil Kumar Agarwal to understand its business model and key strategies going forward.

Aavas Financiers is a Jaipur based housing finance company operating in niche business segment. Its portfolio consists of housing finance and LAP. Its Housing finance business forms 75% of its book. Majority of its lending is towards the self employed and for single-unit properties.

Key takeaways are:

- Aavas Finance has a unique business model. It is engaged in serving self-employed customers having limited access to formal credit. Majority of its home loan is for single unit properties and it also has very strong operational efficiency in collection framework resulting to lower NPA of less than a percent.
- Company's 75% portfolio comprises of Home loan for the maximum tenure of 20 years and 16% is in LAP with an average ticket size of 8.5 lakhs and 9% is other mortgage loan. Its portfolio doesn't consist of any developer loans. Company borrows funds from NHB, banks and NCDs. It has negligible exposure from commercial paper funding. Its borrowing cost as on Q2FY19 stood at 8.6% which is expected to rise by 50 bps further whereas company were able to pass on these hike to the customers.
- Company aims disbursement of 2700 cr. In FY19. Current run rate is Rs. 225 cr. per month. Company has already disbursed Rs. 225 cr., 270 cr., and 250 cr. respectively in the last three months.
- It's AUM as on Q2FY19 stood at Rs. 4759 cr. whereas average Yield on loans at 13.9%. Spread on loans stood at 5.3% which is constant from the past few quarters.
- Company is advanced in terms of technology front. Company has made deep investments in technology and data analytics. This initiative increases the efficiency, collection and reduces the TAT for loans.
- Company operates its business through 186 branches in 8 states. 35 branches are in those states where population is more than 10 lakhs and rest in those states where population is less than 10 lakhs. As of now company is not looking to expand its portfolio in any other segment.
- Company has recently launched Aavas Mitra Partner app. As Aavas provide loans for construction, repair of house etc. to self-employed personnel, so it has tie-up with different merchants to refer the people who need credit.
- Average LTV on loan is ~50%.

Outlook: Aavas is well placed in terms of retail home loans with a small ticket size. In the light of the recent liquidity crisis plaguing the NBFC sector with a rising rate scenario and mismatch in ALM, Aavas finds itself in a sweet spot as it has a positive ALM profile; there is no funding from CPs and Nil developer loans. It has superior assets quality and efficient operational framework.

Focus Areas: Maintaining RoA above 3%, RoE at 12-15% and improving its leverage with maintaining assets quality these are the some key focus areas.

Recent RBI's move for the banks to link their lending rate to the external benchmarks wef. April 1, 2019 is to bring in more transparencies. This move may hurt HFCs like Aavas to some extent because most of its loans are on floating rate basis. It increases the volatility in interest rates and some pressures will be seen on Margins.

Due to the recent equity infusion and high Tier I CAR ratio at (54.1%) as on Q2FY19 and low leverage its ROEs came down to 11.2% in FY18 from 21.1% in FY16. Management stated that now Company has sufficient capital for the growth for at least next three quarters.

Financial Snapshot:

Particulars (Rs. in Cr.)	H1FY19	FY18	FY17	FY16
Interest Earned	294.3	393.4	270.3	172.5
Interest Expended	120.3	189.1	142.8	96.9
NII	173.9	204.4	127.5	75.6
Other Income	16.8	63.8	35.2	18.4
Total Income	190.7	268.2	162.7	94.0
Operating Expenses	87.8	124.5	67.3	40.5
Pre-Provision Profit	102.9	143.7	95.3	53.5
Provisions	3.4	1.9	7.8	3.6
PBT	99.5	141.8	87.6	50.0
Tax	34.2	48.8	30.4	17.2
PAT	65.4	92.9	57.1	32.8
Ratios (%)				
EPS (Annualised)	18.00	15.87	11.10	8.24
GNPAs	0.57	0.34	0.79	0.55
NNPAs	0.48	0.26	0.60	0.42
NIMs	5.30	7.25	6.61	6.10
ROAs	3.06	2.40	2.30	2.30
ROEs	10.20	11.20	15.00	21.10
Cost of Borrowings	8.60	8.70	9.60	10.50
Yields	13.90	14.00	14.70	15.10
BVPS (post infusion)	222.00	158.80	97.40	53.10
P/BV	3.51	4.90	7.99	14.66
P/E	43.25	49.06	70.14	94.48

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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