

20th August 2021

Aavas Financiers– BUY

CMP : Rs.2375
Target Price : Rs.3180
Upside : 34%+
Stop Loss : Rs.2073 (Closing basis)

Investment Thesis

Aavas Financiers is primarily cater to the customer who are credit worthy but may or may not have the income proof documents and hence, are financially excluded by other large housing finance companies and banks. These are people who are either self-employed, running small businesses or engaged in agriculture or animal husbandry in rural areas or salaried class people who are employed in small jobs in the private or public sector. ~61.0% of its gross loan assets is from customers who belonged to the economically weaker section and low-income group, earning less than Rs.50,000/month while ~36.0% of gross loan assets is from customers who were new to credit. Aavas Financiers treat every customer as unique and not as a homogenous group of borrowers and offers housing finance solution that are appropriate and suitable to them.

Aavas Financiers mostly finances to the affordable housing spread across different geographies. Its business model is risk-averse and it has conservatively built its portfolio in under construction properties and land financing. Aavas Financiers has also categorically avoided customers directly linked to Agriculture or dairy activities in order to avoid a volatile revenue model. Aavas Financiers' branches are predominantly located in rural and semi-urban areas and currently it has 165 branches, of which 133 branches were located in towns with a population of less than one million people. The understanding of the local characteristics of markets has allowed Aavas Financiers to address the unique needs of its customers and enabled them to penetrate deeper into such markets.

The company's assets under management rose 25 per cent to Rs 7,935.30 crore as on June 30, 2020, as against Rs 6,362.30 crore by end June 2019, it said in a release. However, the disbursements during the first quarter of the financial year 2021 fell 68 percent to Rs 213 crore from Rs 671 crore a year-ago. Gross NPAs at 0.46 percent are maintained below 1 per cent and net NPAs are 0.32 percent as on June 30, 2020, it said. Business activity is gradually picking up, we disbursed Rs 213 crore during the quarter out of which Rs 154 crore was disbursed in June. We continue to borrow judiciously and raised Rs 716 crore during the quarter. As on 30th June 2020, we maintained sufficient liquidity of Rs 2,362 crore in the form of cash and cash equivalents and un-availed documented sanctions as per management. The company has made an additional provision of Rs 4.6 crore for the potential impact of COVID-19, he said. The overall provisioning for the potential impact of the pandemic stands at Rs 9.06 crore as on June 30, 2020. Backed by private equity players Kedaara Capital and Partners Group, Aavas Financiers (formerly Au Housing Finance Limited) commenced operations in 2011 from Jaipur, Rajasthan.

Stock Data

Market Cap (Rs. Cr)	20,348.17
Market Cap (\$ Mn)	2713
Shares O/S (in Mn)	78.1
Avg. Volume (3 month in mn)	260.2
52-Week Range (Rs.)	3068/ 1284

Shareholding Pattern

Promoters	53.46%
FII's	23.64%
Institutions	13.46%
Others (incl. body corporate)	9.44%

Performance (%)	1M	6M	1Yr
Absolute	-5.9%	59.5%	91.5%
BSE Bankex	-3.5%	31.7%	32.3%

Key Ratios

Div Yield	0.0%
TTM PE	35.8x
ROE	10.3%
TTM EPS (Rs.)	31.1/-

Key Business Highlights

- Aavas Financiers is engaged in the business of providing housing loan to customers belonging to low and middle income segment in semi-urban and rural areas. It provide finance for affordable housing to low and middle-income self-employed customers with limited access to formal banking credit.
- Aavas Financiers offers customers home loans for purchase or construction of residential properties along with extension and repair of existing housing units. In addition to home loans, it also offers other mortgage loans including loans against property, which accounted for 26.10% of gross loan assets in Q3FY20.
- Aavas Financiers is operating in 10 states namely Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Delhi, Uttar Pradesh, Chhattisgarh Haryana, Uttarakhand and Punjab.

Valuation

- Aavas Financiers has implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in its operations. As part of credit policy, Aavas Financiers primarily finances retail customers and does not provide finance to builders, which helps in maintaining asset quality. Home loans and other mortgage loans had an average loan-to-value of 51.71% and 45.81%, respectively, at the time of the sanctioning loan, resulting in Gross Loan Assets with an average loan-to-value of 50.38% at the time of the sanctioning of the loan.
- Aavas Financiers securitizes and assigns loans through securitization or direct assignment to banks and financial institutions, which enables it to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management. Since the commencement of operations in March 2012, it has served more than 97,000 customers.
- Aavas Financiers has consistently monitoring its cost-to-income ratio, leveraging economies of scale, increasing manpower productivity with growing disbursements through the enhanced use of IT systems. The system helps Aavas Financiers for utilization of a mobile application through which almost all leads are recorded. It also help in providing an integrated platform for credit processing, credit management, general ledger, debt management and reporting.
- With a focus on LIG/MIG segment predominantly self-employed (~65% of book) and living in semi-urban/ rural allocations, Aavas has tapped into a market where mortgage penetration is a mere ~1%. With presence in 10 states via 263 branches with overall tehsil penetration of ~60% (vs. target of 90%), we believe Aavas can deliver 25% AUM CAGR over FY21-23E as it brings its successful credit delivery model to newer markets and goes deeper into existing markets. We see its market share in affordable housing improving to 2.8% by FY23E vs 2.0% as of FY20. Profitability is likely to remain best-in-class with PAT CAGR of 28% over FY21-23E with ROEs of 16%. Maintain BUY with TP of INR 3180 valuing the company at 49x FY23E EPS.

Risk & Concern

- Aavas Financiers is highly concentration in western India, any political or social issue in the region may disrupt business operations and require a change in business strategies.
- Aavas Financiers' ~61% gross loan assets comes from self-employed customers, which are considered to be higher credit risk customers.
- Aavas Financiers faces significant competition from banks, small finance banks and NBFCs who have entered these markets as well as private unorganized lenders who operate in rural markets

Graphs & Charts

Figure 1: Interest Income Trend

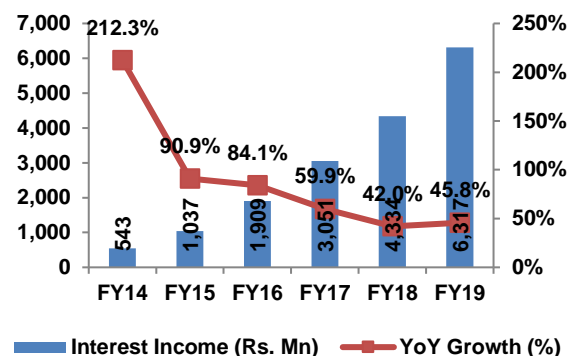


Figure 2: NII Trend

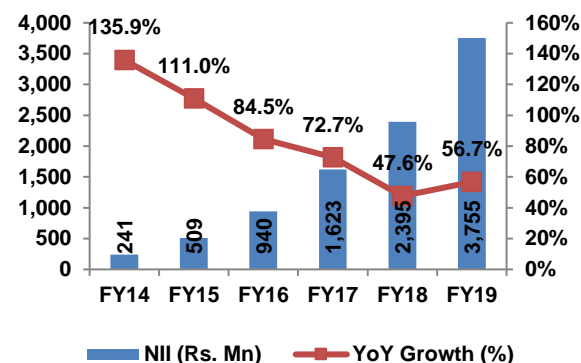


Figure 3: PAT Trend

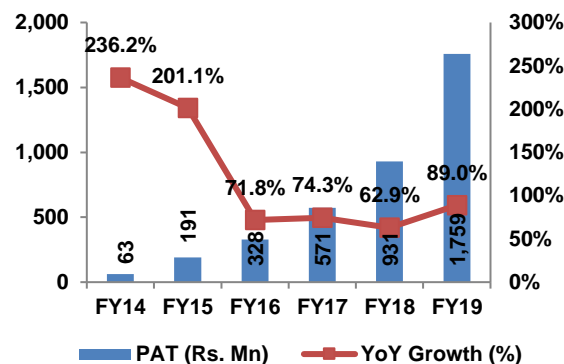
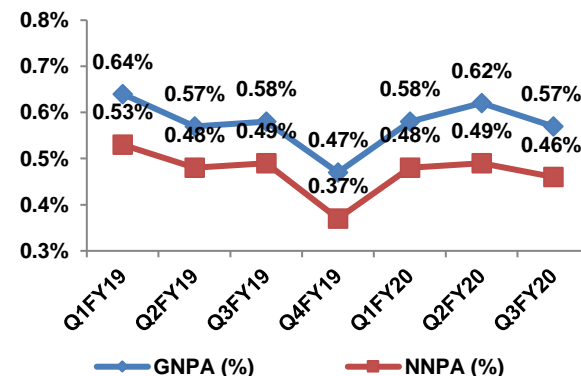


Figure 4: Quarterly Asset Quality Trend



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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186