

2 February 2021

Aavas Financiers– BUY

CMP : Rs.1,960.0
Target Price : Rs.2,352.0
Upside : 20%+
Stop Loss : Rs.1,715.0 (Closing basis)

Investment Thesis

Recently, the stock price of Aavas Financiers Ltd.(Aavas Financiers) corrected by ~8% from 52-week high of Rs.2,117.95 as the company's disbursements in 9MFY21 has fallen by 20.5% YoY mainly due to the tough first quarter due to country-wide lockdown from mid-March-2020.

Aavas Financiers is primarily cater to the customer who are credit worthy but may not have the income proof documents and are financially excluded by other large housing finance companies and banks. These people are either self-employed, running small businesses or engaged in agriculture or animal husbandry in rural areas or salaried class people, employed in small jobs. ~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.

Financials

- During the past 5 years, Interest Income of Aavas Financiers grew at CAGR of 51.4% while PAT grew at CAGR of 67.2% in the same period.

Standal. (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
NII	2,395	3,755	4,660	5,359	6,163
% growth	47.6	56.7	24.1	15.0	15.0
PAT	931	1,759	2,491	2,865	3,295
ABV (INR)	165.7	232.9	264.1	292.2	322.2
P/ABV (x)	11.8	8.4	7.4	6.7	6.1
EPS (INR)	13.5	22.5	31.8	36.6	42.1
P/E (x)	145.6	87.0	61.6	53.6	46.6
RoE (%)	8.0%	9.6%	11.9%	12.4%	13.0%

- Aavas Financiers has reported 29.5% YoY growth in Interest Income in Q3FY21 to Rs.3,100mn due to 22.6% YoY growth in AUM to Rs.88,226mn in the quarter.

Stock Data

Market Cap (Rs. Mn)	1,54,270
Market Cap (\$ Mn)	2,113.3
Shares O/S (in Mn)	78.3
Avg. Volume (3 month)	156,000
52-Week Range (Rs.)	2,117.95 / 849.05

Shareholding Pattern

Promoters	50.15%
FII's	31.03%
Institutions	9.38%
Others (incl. body corporate)	9.44%

Performance (%)	1M	6M	1Yr
Absolute	10.7%	39.3%	-4.2%
BSE Bankex	4.9%	52.6%	9.92%

Key Ratios

Div Yield	0.0%
TTM PE	58.9x
ROE	12.3%
TTM EPS (Rs.)	33.3/-

- Aavas Financiers' NII also grew by 33.7% YoY to Rs.1,931mn in Q3FY21 as compared to Rs.1,444mn in Q3FY20.
- Aavas Financiers has kept the yield spread at a stable 5.74% in Q3FY21 while Opex to AUM was down to 2.82% from 3.42% in Q3FY20.
- PAT of Aavas Financiers has grown by 25.8% YoY to Rs.855mn in Q3FY21 on better loan book growth and better cost-to-income.

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.
- 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 primarily engaged in the business of providing housing loans, engaged in affordable housing across geographies, implemented a robust and comprehensive credit assessment and consistently monitoring through the enhanced use of IT systems, we value Aavas Financiers at 7.3x FY22E ABV of Rs.322.20 to arrive at target price of Rs.2,352.00, an upside of ~20%.

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

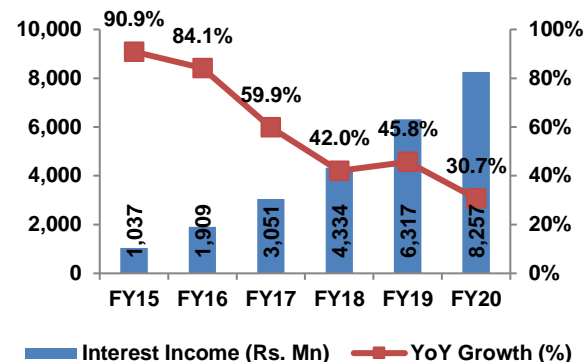


Figure 2: NII Trend

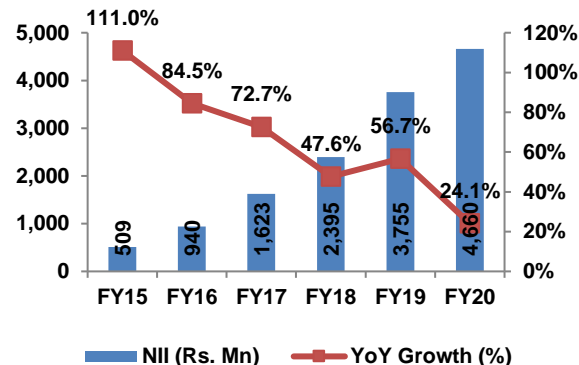


Figure 3: PAT Trend

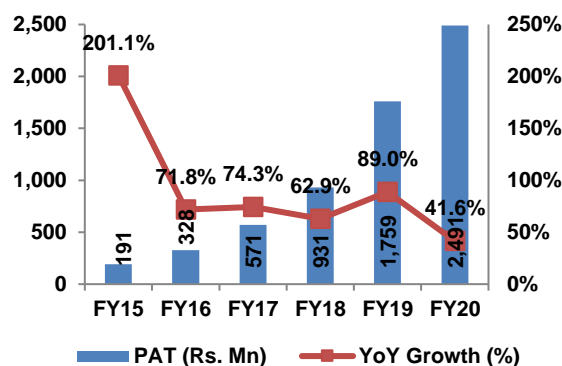
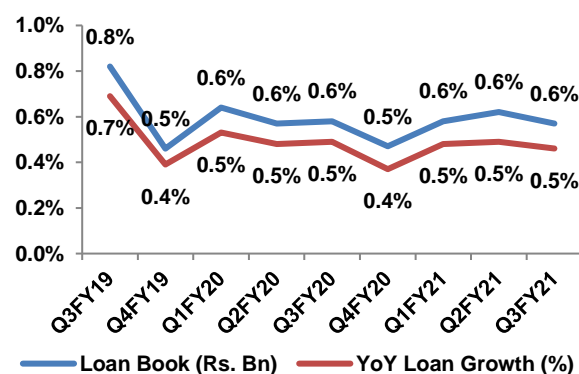


Figure 4: Quarterly Asset Quality Trend



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