

## AAVAS Financiers Q1FY21

### Financial Results & Highlights

#### Brief Company Introduction

Aavas Financiers Limited provides housing loans to customers belonging to low and middle income segments in semi-urban and rural areas in India. The company offers home loans for flats, houses, and bungalows, as well as resale properties; land purchase and construction loans, including finance for self-construction of residential house; and home improvement loans, which include loans for tiling or flooring, plaster, painting, etc. It also provides home equity loans; and micro, small, and medium enterprise loans for business expansion, purchase of equipment, working capital, etc., as well as balance transfer products. The company was formerly known as AU Housing Finance Limited and changed its name to Aavas Financiers Limited in February 2017.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	270	231	16.88%	234	15.38%	504	429	17.48%
PBT	85	91	-6.59%	63	34.92%	148	155	-4.52%
PAT	66	76	-13.16%	50	32.00%	116	121	-4.13%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	270	231	16.88%	234	15.38%	504	429	17.48%
PBT	84	91	-7.69%	63	33.33%	147	155	-5.16%
PAT	66	76	-13.16%	50	32.00%	116	121	-4.13%

#### Detailed Results:

1. The company had a mixed quarter with a 17% YoY rise in revenues and 13% YoY fall in PAT.
2. AUM growth for the company was 23.9% YoY to Rs 8366.9 Cr as of 30<sup>th</sup> Sep 2020.
3. Disbursements in H1 have fallen 33.1% YoY mainly due to the tough Q1.
4. Gross Stage 3 loans were at 0.47% vs 0.62% a year ago. Net Stage 3 loans were at 0.32%.
5. NIM in H1 has gone down 187 bps YoY to 6.82%.
6. Product breakup was 73.5% Home Loans & 26.5% Other Mortgages Loans.
7. Around 64.9% of existing customers are self-employed while the rest are salaried.
8. 8% of customers are retail-driven.
9. The company has kept the yield spread at a stable 5.62% in Sep '20.
10. Opex to AUM in H1 was down to 2.8% from 3.28% a year ago.

11. ROA for H1 was at 2.89%.
12. The company has no CP exposure and has recently raised borrowings of Rs 519.9 Cr for 167 months at 7%.
13. The company maintains a positive ALM mismatch across all time periods and has an average tenure of outstanding borrowing at 130 months.
14. It has total liquidity of Rs 2587 Cr as of 30<sup>th</sup> Sep 2020.
15. It maintained a CAR of 53.08% with Tier 1 capital at 50.84%.
16. Interest Income has risen 29.2% YoY in Q2 while interest expenses have risen 35.8% YoY.

### **Investor Conference Call Highlights**

1. ICRA has updated the long-term credit rating for AAVAS from A+/Positive outlook to AA-/Stable during this quarter.
2. The total number of live accounts stands at 1,12,500.
3. Around 0.5% of the total portfolio has not paid a single installment since March.
4. Total moratorium as of August was at 10% while this number came down to 3.2% in Sep.
5. The company will continue its pace of branch expansion and will finish its 5-year block in March. From March onwards it will embark on a new 5-year block to expand into 4-5 states.
6. The management hopes to reach pre-covid sourcing & disbursement levels in the coming quarters.
7. 1+DPD is around 5-6% in this business currently.
8. The company has an NPA of Rs 31 Cr currently against which around 22% is normal NPA. The company has also done additional COVID provisioning of Rs 15 Cr. Overall provisioning is sufficient to cover up to NPA of 2%.
9. The company is always aiming to achieve improvement in Opex to AUM of 35-40 bps each year and the management is confident that this will be achieved this year as well. This should continue for 2-3 years.
10. Currently, there haven't been any requests for the restructuring of loans from any customer.
11. In Q2, top-up loans were less than 1% of total disbursement in the quarter.
12. The company has around 800 people in underwriting and collections combined. The breakup is around 50-50.
13. 94% of customers have paid in full while 3% have not paid even part installment in Oct.
14. The company aims to maintain ROA above 2.5% and has been successful in doing so for H1.
15. The company aims to reach Opex to AUM of 1.75-2% in the next 2-4 years.
16. In business terms, the company is sourcing around 9,000, 10,000 files per month. The company has a policy of continuously invest into capacity ensuring that it always has spare capacity for an uptick in demand.
17. Today 100% of leads come from mobile app & 99% of repayments are from digital means.
18. The company has also implemented a 100% CRM. It has also ensured that 85% of customer requirements can be gathered through a mobile app without any need to go to a branch.
19. The company is also cybersecurity compliant with a bank-level kind of security framework.
20. The company is also constantly investing to stay at the forefront of technology for the long term in this field.
21. The average cost of borrowing is at 7.9%.

**Analyst's View:**

Aavas Financiers is a fast-growing housing finance company in India. What sets it apart from the large housing finance players like HDFC, LIC Housing Finance & Repco is the space they cater to. The average ticket size of loans is less than 9 lacs against more than 14 lacs for others. Aavas caters to smaller towns where the population is less than 10 lacs. Throughout the financial crisis which started after the IL&FS default, Aavas has managed to sail through without any major hit on the books. Given the positive cues from the real estate sector in recent times, Aavas could be a big beneficiary going forward. However, stretched valuations may have factored in most of the positives. Nevertheless, it is a good business to track in the housing finance space.

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