

AAVAS Financiers Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	310	239	29.71%	270	14.81%	814	668	21.86%
PBT	111	80	38.75%	85	30.59%	258	236	9.32%
PAT	86	68	26.47%	66	30.30%	202	189	6.88%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	310	239	29.71%	270	14.81%	814	668	21.86%
PBT	110	80	37.50%	85	29.41%	258	236	9.32%
PAT	85	68	25.00%	66	28.79%	201	189	6.35%

Detailed Results:

1. The company had a good quarter with a 29% YoY rise in revenues and 25% YoY rise in PAT.
2. AUM growth for the company was 22.6% YoY to Rs 8822.6 Cr as of 31st Dec 2020.
3. Disbursements in 9M have fallen 20.5% YoY mainly due to the tough Q1.
4. Gross Stage 3 loans were at 1% vs 0.57% a year ago. Net Stage 3 loans were at 0.72%.
5. NIM in 9M has gone down 124 bps YoY to 7.42%.
6. Product breakup was 73.4% Home Loans & 26.6% Other Mortgages Loans.
7. Around 60.7% 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 5.74% in Dec '20.
10. Opex to AUM in 9M was down to 2.82% from 3.42% a year ago.

11. ROA for 9M was at 3.22%.
12. The company has no CP exposure and has recently raised borrowings of Rs 935.6 Cr for 144 months at 7.04%.
13. The company maintains a positive ALM mismatch across all time periods and has an average tenure of outstanding borrowing at 131 months.
14. It has total liquidity of Rs 2670 Cr as of 31st Dec 2020.
15. It maintained a CAR of 52.98% with Tier 1 capital at 51.12%.
16. Interest Income has risen 27.6% YoY in Q3 while interest expenses have risen 23.6% YoY.

Investor Conference Call Highlights

1. Aavas's long-term credit rating continues to be AA- with a stable outlook from ICRA and CARE.
2. As on 31 December 2020, the average borrowing cost 7.68% against the average portfolio yield of 13.42%, resulting in a spread of 5.74%.
3. Additional ECL provisioning of Rs 4.29 Cr was created to consider the impact of COVID-19 during Q3. Total provision for COVID stands at Rs 19 Cr.
4. Book value stands at Rs 294.6 per share.
5. Collection efficiency in Dec was at 98.8%.
6. As of December, only 2,000 accounts were there who have not paid the December installment down from 5,800 such accounts in Sep.
7. The company has done securitization of almost 23% of total AUM. The management has stated that it aims to bring it down and keep this figure in the range of 15-20% depending on the yield available.
8. The increase in salaried % should not be seen as a decrease in self-employed disbursements and this % will keep on changing depending on market conditions.
9. The management is confident of maintaining AUM growth guidance of 20-25% and has stated that Aavas will remain cautious in lending till Q4 and will start on a normal growth path from FY22 onwards.
10. Normally, the company keeps only 3-4 months of disbursement as cash in hand but due to COVID-19, the management decided to be more conservative and maintain cash at 6 months disbursement level.
11. Despite operating in similar geographies as Gruh, Aavas is not getting any yield pressure as both have different customer sets to cater to. Gruh finances apartment properties and has a 70% salaried customer set while Aavas finances mostly independent houses and have a 70% self-employed customer set. The management has stated that the market is large enough for both to co-exist.
12. The management has identified 3 main priorities for Aavas which are maintaining asset quality, maintaining the spread, and maintaining growth pace.
13. The management has clarified that the 1% NPA figure is without the Supreme Court freezing decision and with this decision, the NPA is at 0.3%.
14. The management has clarified that the disbursement in salaried have been normal while disbursements in self-employed will increase naturally as the economy opens up.

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. Aavas has done well in Q3 with 30% YoY revenue growth and 25% profit growth. It has also maintained AUM growth of >20% despite the pandemic and is back to collections above 98%. 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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