AAVAS Financiers (AAVAS) BUY

Deepening Reach to Power 20%+ Growth

Summary

Aavas Financiers delivered a stable performance, with strategy clearly aligned toward sustaining 20%+ AUM growth while improving operating efficiency and maintaining best-in-class asset quality. Growth is being driven by deeper geographic penetration across key states, supported by a strong distribution network of ~435 branches. The company continues to focus on the affordable housing segment (EWS/LIG), ensuring granular portfolio expansion and strong customer diversification. Margins remain healthy with management confident of maintaining spreads above 5%, aided by risk-based pricing and a well-diversified liability profile (73% EBLR enabling faster repricing). Asset quality remains robust with credit cost guidance below 25 bps, reflecting strong underwriting standards and disciplined portfolio monitoring. Operational efficiency is expected to improve with Opex/AUM targeted to decline below 3% over the next 2–3 years, supporting RoE expansion toward high teens. We maintain BUY with TP ₹1,676, valuing at ~2x FY28E P/B, supported by strong growth visibility and superior asset quality.

Key Highlights and Investment Rationale

- **Strong growth with stable margins:** Geographic deepening and branch expansion support 20%+ AUM growth, while risk-based pricing and diversified funding sustain 5%+ spreads.
- **High asset quality with improving efficiency:** Low credit costs (<25 bps) reflect disciplined underwriting, while declining Opex/AUM supports operating leverage.
- **Outlook:** It remains positive, driven by strong growth visibility, stable spreads and asset quality, with efficiency gains supporting profitability, though competition and funding costs remain key monitorables.

TP	**Rs1,676**
CMP	**Rs1,445**
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	27.2	5.1	(20.2)
Rel to Sensex	22.1	12.6	(15.5)

V/s Consensus

EPS (Rs)	FY27E	FY28E
IDBI Capital	99.4	119.8
Consensus	95.0	110.0
% difference	*4.6*	*8.9*

Key Stock Data

Bloomberg / Reuters	AAVAS IN/AVAS.BO
Sector	Housing Finance
Shares o/s (mn)	79
Market cap. (Rs mn)	1,14,702
3-m daily avg Trd value (Rs mn)	--
52-week high / low	Rs2,152 / 1,050
Sensex / Nifty	77,018 / 24,033

Shareholding Pattern (%)

Promoters	48.9
FII	16.7
DII	21.2
Public	13.2

Financial snapshot (Rs mn)

Year	FY2024	FY2025	FY2026	FY2027E	FY2028E
NII	9,067	10,102	11,849	14,082	16,957
Change (yoy, %)	*14%*	*11%*	*17%*	*19%*	*20%*
Net Profit	4,908	5,741	6,549	7,878	9,498
Change (yoy, %)	*15%*	*17%*	*14%*	*20%*	*21%*
EPS (Rs)	62.0	72.5	82.6	99.4	119.8
Change (yoy, %)	*14%*	*17%*	*14%*	*20%*	*21%*
ABV (Rs)	466.9	539.3	624.4	721.5	838.4
PER (x)	22.2	19.0	16.7	13.9	11.5
P/ABV (x)	2.9	2.6	2.2	1.9	1.6
ROE (%)	13.9	14.1	13.9	14.5	15.0
ROA (%)	3.3	3.3	3.3	3.4	3.5
GNPA (%)	0.9	1.1	1.0	1.1	1.1
NNPA (%)	0.7	0.7	0.7	0.7	0.7
CAR (%)	43.99	44.50	44.59	38.07	37.06

Source: IDBI Capital Research

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Conference Call Highlights

Operational Aspects

- On the geopolitical overlay, management was monitoring the Middle East situation closely but reported no adverse trend in either bounce rates or collections through April 2026. April bouncing was actually better than March 2026 and better than April 2025.
- The CRO noted that 5-6 customer profiles potentially exposed to affected sectors had been specifically identified for monitoring, though Aavas does not directly finance segments such as travel, hotels, restaurants, energy companies, or chemical units. The granular nature of the retail book was framed as inherent protection against any concentrated geopolitical shock.
- Major technology investments are largely complete with Salesforce for sales lifecycle management, Oracle FLEXCUBE, and Oracle Fusion ERP capitalised. Future tech spend will be limited to small ongoing investments in AI/GenAI for underwriting, acquisitions, and collections, and a non-material investment in collection software. Going forward, the bulk of OpEx growth will be directed toward branch and network expansion rather than technology.
- On OpEx-to-AUM moving up YoY in FY26 against a multi-year declining trend, management attributed this to three factors: branch expansion driving higher manpower costs, new ESOP and PSOP schemes introduced post CVC's entry, and the AUM denominator falling slightly short of plan. The long-term target is approximately 2.75% OpEx-to-AUM at double the current balance sheet size, with sub-3% achievable on a 2-3 year horizon.

Advances

- The medium-term aspiration was articulated as 20%+ AUM growth consistently to outperform the industry.
- Direct sourcing rebuild was emphasised as a strategic priority but framed alongside continued use of indirect channels, with the analogy that just as investing in new states does not mean disinvesting from Rajasthan. CSC channels and digital avenues including the website and an app with referral programmes are being developed.

- On ticket size, management was clear that ATS movement should come only from inflation rather than be used as a growth lever, with productivity improvements applied on number of customers rather than larger ticket sizes.
- On home loan volumes being flat or down YoY despite expanded employees and branches, management acknowledged this as an area of immediate attention. April 2026 was already characterised as effective, with productivity per person and revenue per person to be tracked hawkishly going forward. The transition from demand drafts to electronic transfers was cited as a settled operational change that should now no longer drag throughput.

Margins

- Cost of funds improved 62 bps in FY26, with the improvement attributed to a deliberate strategic shift to EBLR-linked instruments and market-linked benchmarks ahead of the rate cycle. The borrowing mix now has 40% linked to external benchmarks (Repo, T-bill, MIBOR) and 33% linked to 3-month MCLR, enabling roughly 73% of the borrowing book to reprice faster. FY26 incremental borrowing was raised at 7.61%.
- Management secured the largest NCD placement in Aavas' history of INR975 crore from multinational financial institutions and a maiden AAA-rated PTC issuance of approximately INR500 million. The cost of funds is expected to be largely stabilising at current levels, with management confident of maintaining 5%+ spreads through the cycle. FY26 spreads improved 31 bps YoY to 5.20%.
- NIM expanded sharply by 44 bps QoQ to 8.45% in Q4 and 29 bps over FY26. On the sequential 15 bps spread compression, the impact was largely from the PLR cut effective 1 March 2026, with limited contribution from competitive intensity.
- Management acknowledged that June quarter typically sees intensified competition but does not see this materially altering the full-year yield trajectory. On whether bigger HFCs are entering Aavas' ticket sizes and ZIP codes, the response was that deep market presence makes this manageable.
- Yield optimisation is being deepened at the branch level through risk-adjusted pricing on individual cases, with management firmly maintaining that yield increases do not equate to risk increases.

Asset Quality

- Asset quality remains pristine and tracking close to historical lows. Vintage states show 1+ DPD and GNPA well below 4% and 1.25% respectively, while emerging markets are tracking comfortably within 4% and 1%. Total ECL provisioning including COVID-19 and Resolution Framework 2.0 stood at INR1.3 billion.
- The credit cost guidance of below 25 bps on a sustainable basis was firmly reiterated, with management vehemently asserting that the yield optimisation journey is being executed without venturing into riskier customer or product segments. The micro-market knowledge built over time was characterised as an exceptional muscle that allows individual case-level pricing improvements without compromising underwriting standards.
- BT-out for FY26 was 5.5% versus an internal threshold of below 6%, and the higher overall repayment rate of nearly 20% (vs 17.5% in Q4 last year) was attributed to customers prepaying part of their loans with surplus money or making additional EMI payments rather than balance transfer activity. BT-out was characterised as well in control.

Future Outlook

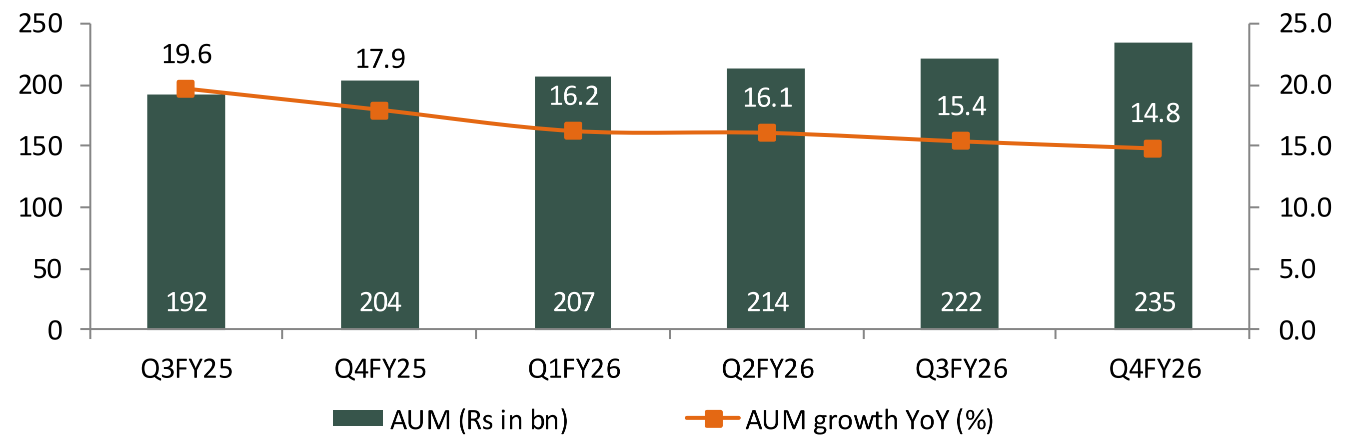
- The aspirational AUM growth rate is 20%+ consistently to outperform the industry, achieved through sharper execution rather than strategic pivots. Spreads are guided to stay at 5%+ with cost of funds largely stabilising. Credit cost is guided at below 25 bps sustainably. ROE has been articulated as targeting high teens over the medium term, against the current Q4 exit of 14.67%. ROA improved 13 bps to 3.5% in Q4.
- OpEx-to-AUM is expected to normalise as growth catches up, with the long-term target of approximately 2.75% at double the current balance sheet size and sub-3% achievable on a 2-3 year platform. The CRAR of 44.6% provides ample capital runway. Liquidity is comfortably placed at INR19 billion of cash and unavailed credit limits plus INR9.75 billion of documented unavailed sanctions, with positive ALM across all buckets.
- Branch expansion will continue with concentration in Tamil Nadu, UP, Gujarat, Maharashtra, and southern markets where the balance between potential and risk quality is favourable. Management did not provide specific FY27 numerical targets beyond the 20%+ AUM growth aspiration, preferring to anchor commentary on directional commitments while tracking productivity metrics quarter to quarter.

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q4FY26	Q3FY26	Q4FY25	QoQ (%)	YoY (%)
Interest Income	5,934	5,353	5,738	*3.4*	*10.9*
Interest Expenses	2,735	2,647	2,745	*(0.4)*	*3.3*
Net Interest Income	**3,199**	**2,705**	**2,993**	***6.9***	***18.3***
Spreads (%)	***5.20***	***4.89***	***5.34***	***-14 bps***	***31 bps***
Non Interest Income	1,214	1,022	1,008	*20.5*	*18.8*
Operating Income	**4,414**	**3,728**	**4,001**	***10.3***	***18.4***
Staff Cost	1,325	1,120	1,142	*16.0*	*18.4*
Other Op Exp	686	599	588	*16.8*	*14.5*
Total Operating Expenses	2,011	1,719	1,730	*16.3*	*17.0*
Cost to Income (%)	*45.6*	*46.1*	*43.2*	*234 bps*	*-55 bps*
Operating Profit	**2,402**	**2,009**	**2,272**	***5.8***	***19.6***
Provisions	67	76	78	*(15.2)*	*(12.9)*
PBT	**2,336**	**1,932**	**2,193**	***6.5***	***20.9***
Tax	491	395	493	*(0.4)*	*24.1*
-effective tax rate	*21.0*	*20.5*	*22.5*	*-145 bps*	*55 bps*
PAT	**1,845**	**1,537**	**1,700**	***8.5***	***20.1***
EPS (Rs)	23.3	19.4	21.5	*8.4*	*19.9*
BV (Rs)	637.1	550.9	613.6	*3.8*	*15.6*
Borrowings	1,56,856	1,39,185	1,50,033	*4.5*	*12.7*
AUM	2,34,517	2,04,202	2,22,035	*5.6*	*14.8*
GNPA (%)	*1.05*	*1.08*	*1.19*	*-14 bps*	*-3 bps*
NNPA (%)	*0.68*	*0.73*	*0.79*	*-11 bps*	*-5 bps*

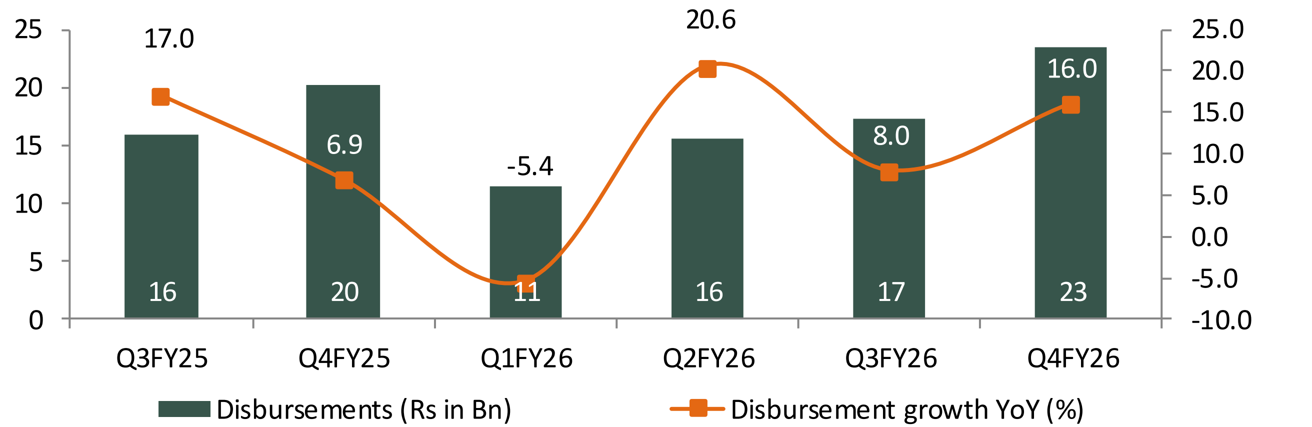
Source: Company; IDBI Capital Research

Exhibit 2: AUM growth has been declining sequentially



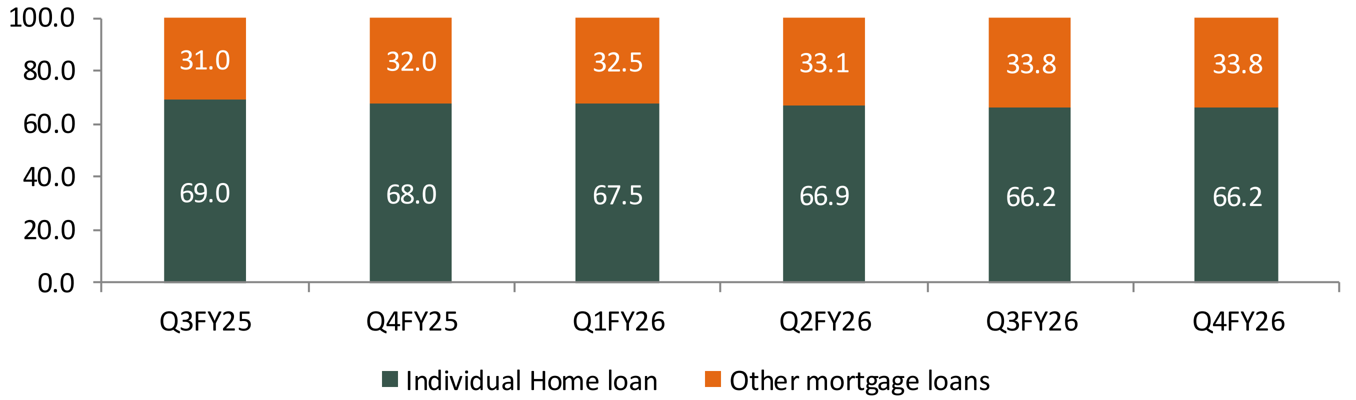
Source: Company; IDBI Capital Research

Exhibit 3: Disbursements growth came down this quarter, management guided 25% for FY27



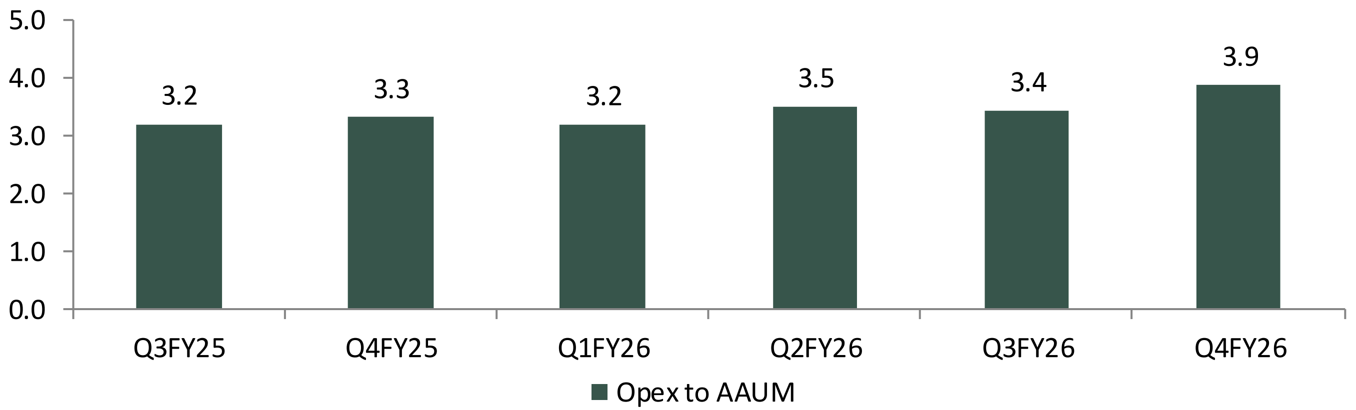
Source: Company; IDBI Capital Research

Exhibit 4: AUM Mix – HL dipped 270 bps on YoY basis



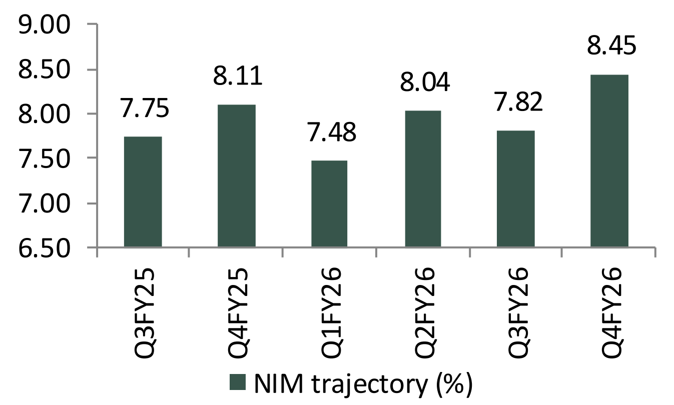
Source: Company; IDBI Capital Research

Exhibit 5: Opex to Avg Assets reduced QoQ



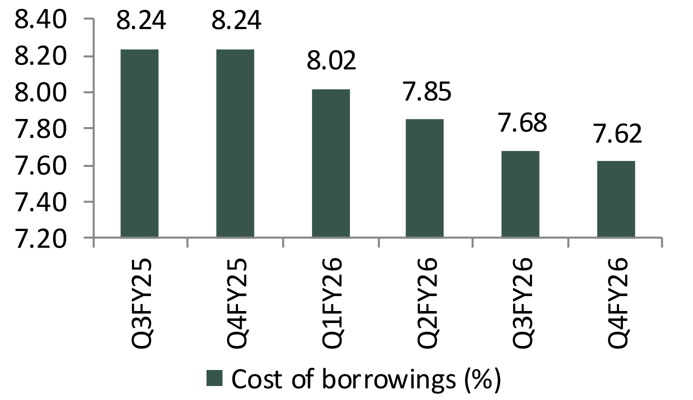
Source: Company; IDBI Capital Research

Exhibit 6: NIMs (Calc.) declined QoQ



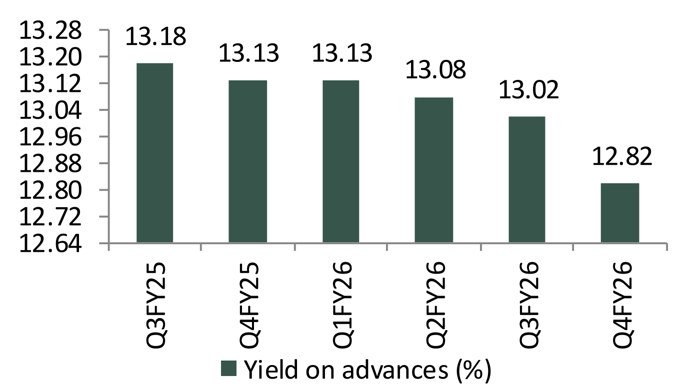
Source: Company; IDBI Capital Research

Exhibit 7: Cost of borrowings dipped sharply QoQ



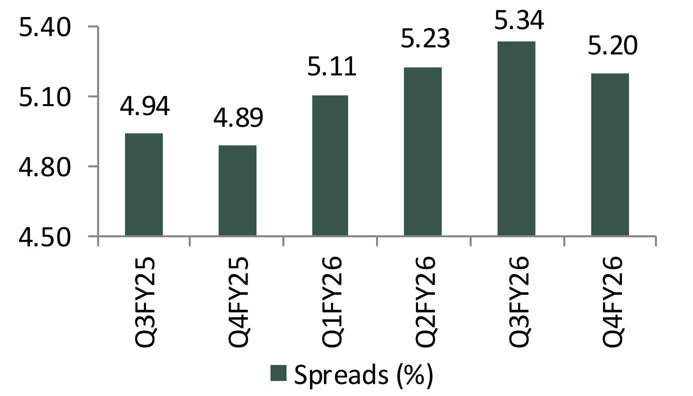
Source: Company; IDBI Capital Research

Exhibit 8: Yields declining sequentially



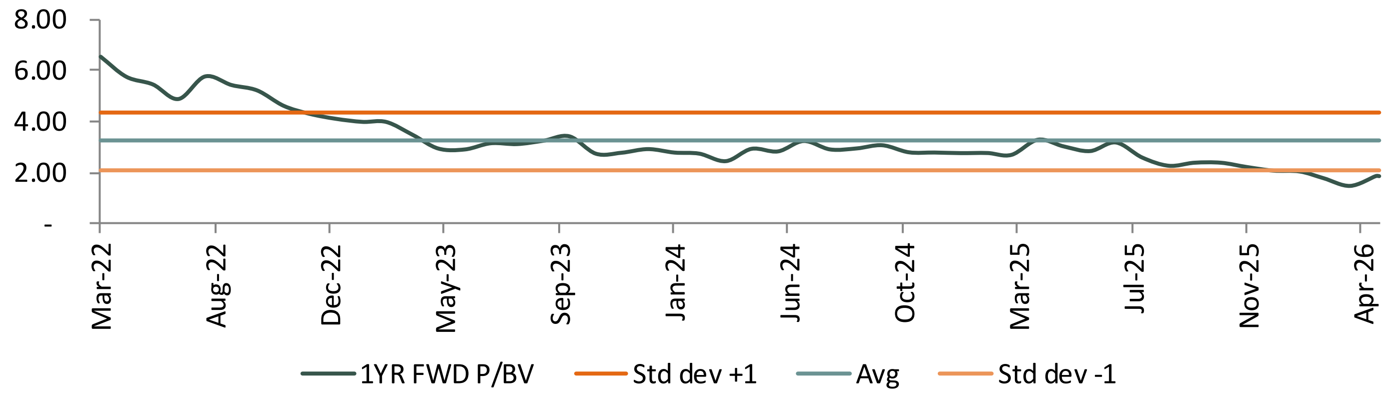
Source: Company; IDBI Capital Research

Exhibit 9: Spreads increased sequentially



Source: Company; IDBI Capital Research

Exhibit 10: One-year forward P/ABV (FY22-26)



Source: Company; IDBI Capital Research

Exhibit 11: ROE Decomposition

(%)	FY24	FY25	FY26	FY27E	FY28E
NII	**6.1**	**5.7**	**5.9**	**6.1**	**6.2**
Fees	0.6	0.6	0.6	0.6	0.6
Other Income	1.3	1.3	1.5	1.5	1.5
Net Revenue	**8.0**	**7.7**	**8.0**	**8.2**	**8.3**
Op.Exp	3.6	3.4	3.6	3.6	3.6
Op.Profit	**4.3**	**4.3**	**4.4**	**4.5**	**4.6**
Provisions	0.2	0.2	0.2	0.2	0.2
PBT	4.2	4.2	4.2	4.4	4.5
Tax	0.9	0.9	0.9	1.0	1.0
PAT	**3.3**	**3.3**	**3.3**	**3.4**	**3.5**
Leverage (x)	4.2	4.3	4.2	4.2	4.3
ROE	**13.9**	**14.1**	**13.9**	**14.5**	**15.0**

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY23	FY24	FY25	FY26	FY27E	FY28E
Net interest income	**7,976**	**9,067**	**10,102**	**11,849**	**14,082**	**16,957**
Change (yoy, %)	*22%*	*14%*	*11%*	*17%*	*19%*	*20%*
Non-interest income	2,220	2,856	3,407	4,051	4,715	5,610
Net Revenue	10,196	11,923	13,509	15,900	18,798	22,567
Operating expenses	4,601	5,430	5,912	7,158	8,333	9,915
Employee expenses	3,016	3,559	3,778	4,704	5,476	6,515
Other expenses	1,585	1,871	2,135	2,455	2,858	3,400
Pre-Provision Profit	**5,595**	**6,493**	**7,597**	**8,742**	**10,465**	**12,652**
Change (yoy, %)	*18%*	*16%*	*17%*	*15%*	*20%*	*21%*
Provision	124	238	272	337	355	464
PBT	5,471	6,255	7,325	8,404	10,110	12,189
Taxes	1,188	1,347	1,585	1,856	2,232	2,691
Effective tax rate (%)	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
Net profit	**4,283**	**4,908**	**5,741**	**6,549**	**7,878**	**9,498**
Change (yoy, %)	*21%*	*15%*	*17%*	*14%*	*20%*	*21%*
EPS	54.2	62.0	72.5	82.6	99.4	119.8
Return on Equity (%)	*14.1*	*13.9*	*14.1*	*13.9*	*14.5*	*15.0*
Return on Assets (%)	*3.5*	*3.3*	*3.3*	*3.3*	*3.4*	*3.5*

Balance Sheet

(Rs mn)

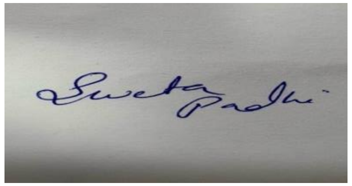
Year-end: March	FY23	FY24	FY25	FY26	FY27E	FY28E
Capital	791	791	792	793	793	793
Reserves	31,906	36,942	42,817	49,716	57,593	67,091
Networth	**32,697**	**37,733**	**43,608**	**50,508**	**58,386**	**67,884**
Borrowings	97,408	1,23,501	1,38,499	1,55,922	1,83,644	2,20,360
Other liabilities	3,992	3,960	4,078	5,694	6,763	8,952
Total Liab. & Equity	**1,34,096**	**1,65,195**	**1,86,185**	**2,12,125**	**2,48,793**	**2,97,196**
Cash	13,816	17,978	15,596	18,433	21,710	26,051
Advances	1,14,763	1,40,044	1,63,370	1,83,727	2,16,392	2,59,656
Investments	1,107	1,822	2,300	2,708	2,708	2,708
Fixed Assets	316	297	304	379	416	458
Other Assets	4,094	5,054	4,614	6,878	7,566	8,323
Total assets	**1,34,096**	**1,65,195**	**1,86,185**	**2,12,125**	**2,48,793**	**2,97,196**

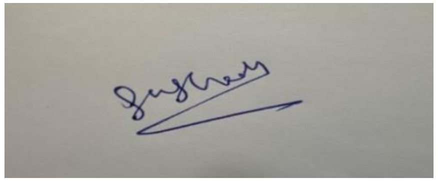
Financial Ratios

(%)

Year-end: March	FY23	FY24	FY25	FY26	FY27E	FY28E
Growth						
Advances	26.8	22.0	16.7	12.5	17.8	20.0
NII	22.5	13.7	11.4	17.3	18.8	20.4
Pre-Provision Profit	17.7	16.1	17.0	15.1	19.7	20.9
Net Profit	20.6	14.6	17.0	14.1	20.3	20.6
Spreads						
Yield on Advances	10.9%	11.0%	10.7%	10.4%	10.4%	10.4%
Cost of Borrowings	6.7%	7.5%	7.7%	7.4%	7.3%	7.2%
NIM	6.3%	5.8%	5.4%	5.4%	5.5%	5.6%
Operating Efficiency						
Cost-to-Income	45.1	45.5	43.8	45.0	44.3	43.9
Cost-to-AUM	3.8	3.6	3.4	3.6	3.6	3.6
Asset Quality						
GNPA	0.9	0.9	1.1	1.0	1.1	1.1
NNPA	0.7	0.7	0.7	0.7	0.7	0.7
Provision Coverage	26.9	28.8	32.4	35.9	35.9	35.9
Credit Cost	0.1	0.2	0.2	0.2	0.2	0.2
Capital Adequacy						
CAR	46.9	44.0	44.5	44.6	38.1	37.1
Tier I	46.5	43.8	44.4	44.6	38.0	37.0
Valuation						
EPS	54.2	62.0	72.5	82.6	99.4	119.8
ABV	405.9	466.9	539.3	624.4	721.5	838.4
P/E	25.4	22.2	19.0	16.7	13.9	11.5
P/ABV	3.4	2.9	2.6	2.2	1.9	1.6
ROE	14.1	13.9	14.1	13.9	14.5	15.0
ROA	3.5	3.3	3.3	3.3	3.4	3.5
RORWA	6.8	6.3	6.2	6.2	5.9	5.6

Source: Company; IDBI Capital Research





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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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1. These terms and conditions, and consent thereon are for the research services provided by the Research Analyst (RA) and RA cannot execute/carry out any trade (purchase/sell transaction) on behalf of, the client. Thus, the clients are advised not to permit RA to execute any trade on their behalf.
2. The fee charged by RA to the client will be subject to the maximum of amount prescribed by SEBI/ Research Analyst Administration and Supervisory Body (RAASB) from time to time (applicable only for Individual and HUF Clients).

   Note:

   2.1. The current fee limit is Rs 1,51,000/- per annum per family of client for all research services of the RA.

   2.2. The fee limit does not include statutory charges.

   2.3. The fee limits do not apply to a non-individual client / accredited investor.
3. RA may charge fees in advance if agreed by the client. Such advance shall not exceed the period stipulated by SEBI; presently it is one quarter. In case of pre-mature termination of the RA services by either the client or the RA, the client shall be entitled to seek refund of proportionate fees only for unexpired period.
4. Fees to RA may be paid by the client through any of the specified modes like cheque, online bank transfer, UPI, etc. Cash payment is not allowed. Optionally the client can make payments through Centralized Fee Collection Mechanism (CeFCoM) managed by BSE Limited (i.e. currently recognized RAASB).
5. The RA is required to abide by the applicable regulations/ circulars/ directions specified by SEBI and RAASB from time to time in relation to disclosure and mitigation of any actual or potential conflict of interest. The RA will endeavor to promptly inform the client of any conflict of interest that may affect the services being rendered to the client.
6. Any assured/guaranteed/fixed returns schemes or any other schemes of similar nature are prohibited by law. No scheme of this nature shall be offered to the client by the RA.
7. The RA cannot guarantee returns, profits, accuracy, or risk-free investments from the use of the RA's research services. All opinions, projections, estimates of the RA are based on the analysis of available data under certain assumptions as of the date of preparation/publication of research report.
8. Any investment made based on recommendations in research reports are subject to market risks, and recommendations do not provide any assurance of returns. There is no recourse to claim any losses incurred on the investments made based on the recommendations in the research report. Any reliance placed on the research report provided by the RA shall be as per the client's own judgement and assessment of the conclusions contained in the research report.
9. The SEBI registration, Enlistment with RAASB, and NISM certification do not guarantee the performance of the RA or assure any returns to the client.
10. For any grievances,

    Step 1: the client should first contact the RA using the details on its website or following contact details:

    (RA to provide details as per 'Grievance Redressal / Escalation Matrix')

    Step 2: If the resolution is unsatisfactory, the client can also lodge grievances through SEBI's SCORES platform at www.scores.sebi.gov.in

    Step 3: The client may also consider the Online Dispute Resolution (ODR) through the Smart ODR portal at https://smartodr.in
11. Clients are required to keep contact details, including email id and mobile number/s updated with the RA at all times.
12. The RA shall never ask for the client's login credentials and OTPs for the client's Trading Account Demat Account and Bank Account. Never share such information with anyone including RA.