

## Aavas Financiers Ltd

Aavas Financiers (Aavas) started operations in March 2012 as a retail affordable housing finance company. The company lends to the low-ticket, high yield segment and targets low-income rural and semi urban self-employed customers. Aavas operates from a network of 165 branches spread across eight states (Rajasthan, Gujarat, Maharashtra, MP, Haryana, Delhi, UP and Chhattisgarh) of which 46% loan book is from the state of Rajasthan. Aavas has a loan book (AUM) of ₹4,359cr as on June 2018 with average ticket size of ~₹8.8 lakh.

**Positives:** (1) Aavas Financiers' loan book grew by 78% CAGR over FY14-18 to ₹4,070cr; (2) Adequate ALM match along with zero exposure towards capital market borrowings to support spreads in coming quarters; (3) Sufficient capital (FY18 CAR at 61.6%) to fuel growth engine; (4) Stable asset quality (FY18 GNPA at 0.34% & NPA at 0.26%).

**Investment concerns:** (1) Highly concentrated in state of Rajasthan: As Aavas had started its journey from the state of Rajasthan, 46% of the loan portfolio is from here. It has been observed in the past that the financials of Repco Home & Can Fin Home were impacted due to slowdown in the home state; (2) Presently Aavas is working at a leverage of 4x as compared to sector at 8x owing to excess capital. Currently, sizable profit has been generated owing to excess capital and in order to improve RoE, Aavas has to grow very aggressively.

**Outlook & Valuation:** On the valuation front, at the upper end of the IPO price band, Aavas demands price-book (PB) multiple of 4.3x on FY18 book value (considering Fresh Issue) and 69x FY18 EPS. Established listed peers are trading in the range of 2.5- 3.5x of FY18 PB and in terms of PE these players are trading at valuation of 14-35x of FY18 EPS. **Thus, considering the higher valuation, intense competition, and regional concentration of its loan portfolio we recommend NEUTRAL rating to Aavas Financiers.**

### Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
NII	20	43	76	127	204
YoY Growth (%)		111	76	69	60
PAT	6	19	33	57	93
YoY Growth (%)		201	72	74	63
EPS	1	3	4	8	13
Book Value	8	14	28	77	149
P/E	955	317	185	106	65
P/BV	109.2	59.7	29.7	10.7	5.5
ROE (%)	11	24	21	15	11
ROA (%)	1.5	3.0	2.6	2.7	3.0

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## NEUTRAL

Issue Open: Sept 25, 2018  
 Issue Close: Sept 27, 2018

### Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹70.75cr
Offer for Sale: *1.6cr Shares
Fresh issue: ₹400cr
Post Eq. Paid up Capital: ₹71.24cr
Issue size (amount): *₹1,729cr - **1,734 cr
Price Band: ₹818-821
Lot Size: 18 shares and in multiples thereafter.
Post-issue implied mkt. cap: *₹6,430cr - **₹6,452cr
Promoters holding Pre-Issue: 81.3%
Promoters holding Post-Issue: 73.1%
*Calculated on lower price band
** Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

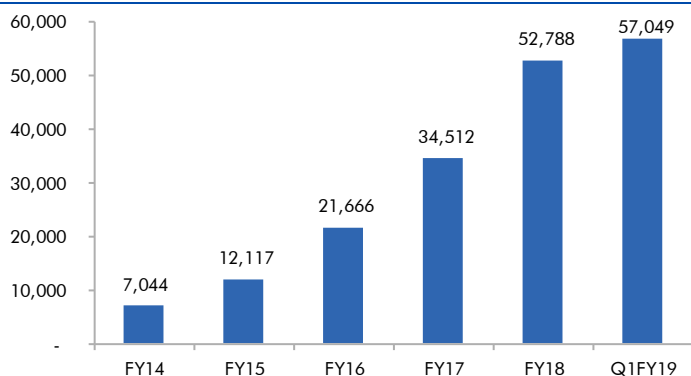
Promoters	73%
Others	27%

Jaikishan J Parmar  
 +022 39357600, Extn: 6810  
 Jaikishan.parmar@angelbroking.com

## Company Background

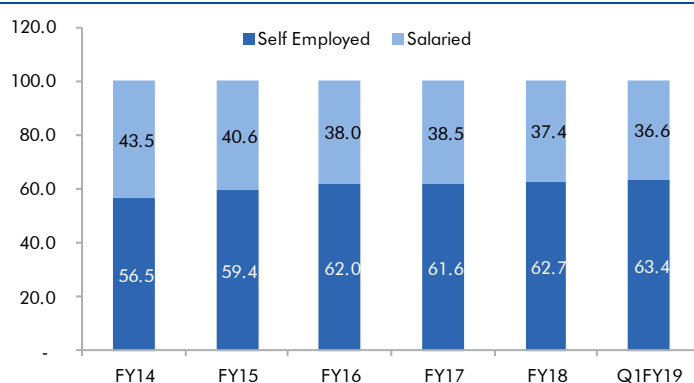
Aavas Financiers (Aavas) started operations in March 2012 as a retail affordable housing finance company. The company lends to the low-ticket, high yield segment and targets low-income rural and semi urban self-employed customers. Aavas operates from a network of 165 branches spread across eight states (Rajasthan, Gujarat, Maharashtra, MP, Haryana, Delhi, UP and Chhattisgarh) of which 46% loan book is from the state of Rajasthan. Aavas has a loan book (AUM) of ₹4,359cr as on June 2018 with average ticket size of ~₹8.8 lakh. Aavas has been able to maintain pristine asset quality (FY18 GNPA at 0.34% & NPA at 0.26%).

**Exhibit 1: Trend in No. of loan accounts**



Source: Company

**Exhibit 2: Customer bifurcation**



Source: Company

## Key Management Personnel

**Sushil Kumar Agarwal** is the WTD and CEO of the company. He is associated with the company since its incorporation. He is qualified CA and CS. He was previously associated with AuSFB as its Business Head - SME & Mortgages. Prior to working with Aavas, he was associated with ICICI Bank Limited as its chief manager, Kotak Mahindra Primus Limited as an assistant manager. He has more than 17 years of experience in the field of retail financial services.

**Ghanshyam Rawat** is the CFO of the company. He heads finance & treasury, accounts, internal audit, compliance, budget and analytics departments. Mr. Rawat holds a B.Com from the Rajasthan University and is a qualified CA. He has been previously associated with First Blue Home Finance Limited, Accenture India Private Limited and Deutsche Postbank Home Finance Limited.

**Sunku Ram Naresh** is an MBA (Marketing) and B.Sc. from Sri Krishnadevaraya University, A.P. He is a business development professional having a rich experience of 19 years in Mortgages and FMCG distribution. His last assignment was with Bajaj Finance Ltd. and he has also worked with companies like Future Money, GE Money Financial Services Ltd., ICICI Bank Ltd. and Nestle India Ltd.

## Issue details

This IPO is a mix of OFS and Fresh Issue of shares. The issue would constitute fresh issue worth of ₹400cr and OFS worth of ₹1,334cr. OFS largely would offer exit to early investors namely Lake District, ESCL, Master Fund and few others.

### Exhibit 3: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	5,99,05,823.0	81.3	5,74,73,645.0	73.1
Investor/Public	1,38,17,181.0	18.7	2,11,21,466.2	26.9
	7,37,23,004.0	100.0	7,85,95,111.2	100.0

Source: RHP Note: Calculated on upper price band

## Objects of the offer

- The company would utilise the proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.
- To achieve the benefits of listing the equity shares on the Exchanges and to carry out offer for sale of equity shares.

**Outlook & Valuation:** On the valuation front, at the upper end of the IPO price band, Aavas demands price-book (PB) multiple of 4.3x on FY18 book value (considering Fresh Issue) and 69x FY18 EPS. Established listed peers are trading in the range of 2.5- 3.5x of FY18 PB and in terms of PE these players are trading at valuation of 14-35x of FY18 PAT. **Thus, considering the higher valuation, intense competition, and regional concentration of its loan portfolio we recommend NEUTRAL rating to Aavas Financiers.**

#### Exhibit 4: Relative Comparison

HFC (₹ Cr)	ROE	RoA	P/BV	PE	PAT	C/I	GNPA	NPA	Adv-18
Dewan Hsg. Fin.	14.0	1.2	2.13	16.0	1,172	23	1.0%	0.6%	87,610
LIC Housing Fin.	16.7	1.3	1.84	11.7	1,990	16	0.8%	0.4%	1,66,320
GIC Housing Fin	20.2	1.8	1.62	8.7	184	20	2.5%	0.2%	10,752
Repc Home Fin	16.7	2.2	2.39	15.4	206	17	2.9%	1.3%	9,857
GRUH Finance	29.1	2.5	17.38	66.2	363	14	0.5%	0.0%	15,568
Can Fin Homes	24.9	2.1	3.03	13.5	302	15	0.4%	0.2%	15,743
PNB Housing	14.0	1.6	3.17	24.1	831	20	0.3%	0.2%	57,014
Indiabulls Hous.	28.8	3.3	3.76	13.6	3,567	13	0.8%	0.3%	1,22,578
H D F C	24.1	3.4	5.12	25.8	12,164	8	1.0%	0.7%	3,99,511
Aavas	11.2	3.0	4.31	69.4	93	46	0.3%	0.3%	3,177

Source: Company, Valuation done on 20/9/18 Closing Price

#### Risk

- Aavas' operations are concentrated in four states of western India, particularly Rajasthan and any adverse developments in this region could have a negative impact on the company's business, results of operations, financial condition and cash flows.

### Income Statement

Y/E March (₹ cr)	FY15	FY16	FY17	FY18
<b>Net Interest Income</b>	<b>43</b>	<b>76</b>	<b>127</b>	<b>204</b>
- YoY Growth (%)	111	76	69	60
<b>Other Income</b>	<b>8</b>	<b>18</b>	<b>35</b>	<b>64</b>
- YoY Growth (%)	111	127	91	81
<b>Operating Income</b>	<b>51</b>	<b>94</b>	<b>163</b>	<b>268</b>
- YoY Growth (%)	111	84	73	65
<b>Operating Expenses</b>	<b>20</b>	<b>40</b>	<b>67</b>	<b>125</b>
- YoY Growth (%)	43	105	66	85
<b>Pre - Provision Profit</b>	<b>31</b>	<b>54</b>	<b>95</b>	<b>144</b>
- YoY Growth (%)	202	71	78	51
<b>Prov. &amp; Cont.</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>2</b>
- YoY Growth (%)	136	53	117	-75
<b>Profit Before Tax</b>	<b>29</b>	<b>50</b>	<b>88</b>	<b>142</b>
- YoY Growth (%)	208	73	75	62
<b>Prov. for Taxation</b>	<b>10</b>	<b>17</b>	<b>30</b>	<b>49</b>
- as a % of PBT	224	74	77	60
<b>PAT</b>	<b>19</b>	<b>33</b>	<b>57</b>	<b>93</b>
- YoY Growth (%)	201	72	74	63

### Balance Sheet

Y/E March (₹ cr)	FY15	FY16	FY17	FY18
Equity	33	38	58	69
Reserve & Surplus	69	165	508	1,029
<b>Net worth</b>	<b>101</b>	<b>204</b>	<b>566</b>	<b>1,098</b>
Borrowings	704	1,447	1,793	2,596
- Growth (%)	99	105	24	45
Other Liab. & Prov.	47	60	91	123
<b>Total Liabilities</b>	<b>852</b>	<b>1,711</b>	<b>2,451</b>	<b>3,817</b>
Cash Balances	11	235	276	565
Investments	-	-	1	14
<b>Advances</b>	<b>829</b>	<b>1,456</b>	<b>2,135</b>	<b>3,177</b>
- Growth (%)	104	76	47	49
Fixed Assets	5	6	10	18
Other Assets	7	14	29	43
<b>Total Assets</b>	<b>852</b>	<b>1,711</b>	<b>2,451</b>	<b>3,817</b>
B/S Growth %	104	101	43	56

**Exhibit 5: Key Ratio**

Y/E March	FY15	FY16	FY17	FY18
<b>Profitability ratios (%)</b>				
NIMs	6.9	6.6	7.1	7.7
Cost to Income Ratio	38.6	43.1	41.4	46.4
RoA	3.0	2.6	2.7	3.0
RoE	24.3	21.5	14.8	11.2
<b>Asset Quality</b>				
Gross NPAs (%)	0.52	0.55	0.79	0.34
Net NPAs (%)	0.43	0.42	0.60	0.26
Credit Cost (%)	0.28	0.25	0.36	0.06
Provision coverage	17	24	24	24
<b>Per Share Data (₹)</b>				
EPS	2.6	4.4	7.8	12.6
BV	14	28	77	149
ABVPS	12	25	70	139
<b>Valuation Ratios</b>				
PER (x)	317.2	184.6	105.9	65.1
P/BVPS (x)	59.7	29.7	10.7	5.5
P/ABVPS (x)	65.9	32.6	11.7	5.9

Source: RHP, Note: ratios are Calculated on upper price band & Pre issue.

Research Team Tel: 022 - 39357800

E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

Website: [www.angelbroking.com](http://www.angelbroking.com)

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