

AAVAS Financiers

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR1,380 TP: INR1,500 (+9%) Neutral

Growth recovery still a WIP; re-rating now hinges on execution

Weak disbursements but 1+ dpd improved 20bp QoQ and BT-OUT declined YoY

Bloomberg	AAVAS IN
Equity Shares (m)	79
M.Cap.(INRb)/(USD\$)	109.2 / 1.2
52-Week Range (INR)	2238 / 1351
1, 6, 12 Rel. Per (%)	-2/-23/-28
12M Avg Val (INR M)	463

Financials & Valuations (INR b)

INR b	FY26E	FY27E	FY28E
NII	11.8	13.6	16.0
PPP	8.8	10.2	12.2
PAT	6.6	7.7	9.2
EPS (INR)	83	97	116
EPS Gr. (%)	14	17	19
BV/Sh. (INR)	634	731	847

Ratios (%)

NIM	5.4	5.3	5.4
C/I ratio	44.4	44.0	43.0
Credit cost	0.21	0.19	0.19
RoA	3.3	3.3	3.4
RoE	14.0	14.3	14.7

Valuation

P/E (x)	16.6	14.1	11.9
P/BV (x)	2.2	1.9	1.6

Shareholding Pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	49.0	49.0	26.5
DII	14.3	14.1	25.7
FII	24.7	25.9	34.0
Others	12.0	11.0	13.9

FII includes depository receipts

- AAVAS Financiers' (AAVAS) 3QFY26 PAT grew 16% YoY to ~INR1.7b (in line). NII in 3QFY26 grew 18% YoY to ~INR3b (in line). Other income grew 17% YoY, aided by higher assignment income of ~INR670m (PY: INR530m).
- Opex rose ~19% YoY to INR1.7b (in line). This included one-time provisions of INR250m made on account of the new labor codes. Opex/assets (calc.) stood at ~3.5% (PY: 3.3% and PQ: 3.6%).
- PPop grew 17% YoY to INR2.3b (in line). Credit costs stood at INR78m (vs MOFSLe of ~INR97m) and translated into an annualized credit cost of ~14bp (PY: ~13bp and PQ: ~15bp).
- AAVAS changed its business processes and disbursement recognition methodology during 1HFY26, which temporarily impacted AUM growth. However, the company shared that the business momentum has rebounded post-Diwali and is expected to continue into 4QFY26. The company targets a disbursement growth of ~25% in FY27, driven by: a) distribution expansion through new branches and deeper market penetration, b) higher volumes from digital channels like e-Mitra and CSC, and c) inflation-led ticket size growth.
- AAVAS plans to cut its PLR by ~15bp from Mar'26, which is expected to reduce overall portfolio yields by ~9–10bp. It does not view competition from large HFCs (in the affordable housing segment) as a significant risk. This is because it focuses on the underserved self-employed segment with an ATS of ~INR1.25m, compared to many of its large HFC peers targeting salaried customers with relatively higher ticket size loans.
- The affordable housing sector was already experiencing heightened competition from PSU banks, and now with large HFCs also entering this segment, the competitive intensity might remain elevated for slightly longer. Given AAVAS' relative underperformance on disbursements for the last few quarters, we believe that investors will now demand better execution on business volumes from the company management for any re-rating in valuation multiples.
- We cut our FY27/FY28 EPS estimates by ~2% each to factor in slightly lower AUM growth. We estimate AUM/PAT CAGR of ~17%/18% over FY26-28E, with an RoA/ RoE of 3.4%/15% by FY28E. AAVAS trades at 1.9x FY27E P/BV, and for any re-rating in its current valuation multiples, we believe that the company will need to deliver on its guided AUM growth. **Reiterate Neutral with a TP of INR1,500 (based on 1.8x Dec'27E BVPS).**

AUM grows ~15% YoY; eyes expansion in UP and southern states

- AUM grew 15% YoY and ~4% QoQ to ~INR222b. Securitization during the quarter amounted to ~INR4.4b (PY: ~INR4b) and securitization margins contracted ~120bp QoQ to 15.2%.

- Annualized run-off in the loan book stood at ~16.4% (PQ: ~18.2% and PY: 16.4%). Disbursements rose ~8% YoY/10% QoQ to ~INR17.2b. Share of HL in 9MFY26 disbursements was stable QoQ at ~58%.
- AAVAS' home state Rajasthan continues to exhibit healthy AUM growth. Uttar Pradesh will be a key focus for the company as it will look to penetrate deeper in this State. Gujarat remains an important growth market. The company sees opportunities in Southern India with distribution expansion planned in TN and a potential foray into AP/Telangana in the coming years.
- We expect the company to achieve an AUM CAGR of ~17% over FY26-28.

NIM stable at ~8%

- Reported NIM in 3QFY26 was broadly stable QoQ at ~8%. 3QFY26 core NIM (calc.) was also stable QoQ at ~7.05%. Reported spreads rose ~10bp QoQ to 5.35% (vs ~5.25% in 2QFY26).
- RoA/RoE in 3QFY26 stood at 3.4%/14.3%, respectively.
- We expect AAVAS to broadly maintain its spreads and margins over FY27-28, and model NIM of ~5.4% during the same period.

Minor improvement in asset quality; credit costs stable

- Asset quality exhibited a minor improvement, with GS3/NS3 declining ~5bp each QoQ at 1.2%/0.8%. 1+dpd improved ~20bp QoQ to 3.8% (PQ: 4%).
- The company has historically maintained strong asset quality, and we expect this trend to continue. We model credit costs of ~20bp for AAVAS in FY27/FY28E.

Highlights from the management commentary

- The company has introduced Project Rise, which will help strengthen employee engagement and structured recognition. Branch excellence programs support last-mile frontline salespeople through digital tools like pin code identification and market mapping.
- Incremental branch expansion over the past 24 months and new branches planned next year are expected to provide ~INR3-3.5b of additional disbursements. Digital channels such as CSC and e-Mitra are expected to generate an additional ~INR5b-7b, and inflation-led growth is expected to contribute ~6% (~INR4b) to disbursement growth in FY27.

Valuation and view

- While 3QFY26 delivered stable profitability, margin resilience, and healthy asset quality, the change in business processes in 1H and subsequent moderation in disbursements have resulted in below-expected AUM growth outcomes, underscoring the need for stronger traction across distribution expansion and digital channels.
- AAVAS is a structurally sound franchise with earnings resilience and asset quality as core positives. However, near-term valuation upside remains capped until execution on growth initiatives demonstrates tangible results.
- We estimate AUM/PAT CAGR of ~17%/18% each over FY26-28, with an RoA/RoE of ~3.4%/15% by FY28. AAVAS trades at 1.9x FY27E P/BV and for a meaningful re-rating, we believe that management must translate its growth aspirations into consistent AUM and disbursement momentum, particularly in the context of heightened competition in the affordable housing segment. We reiterate our Neutral rating on AAVAS as the company navigates a period of subdued business momentum, with execution on growth initiatives now paramount for valuation re-rating.

Quarterly performance

Y/E March	FY25				FY26E				FY25	FY26E	3Q FY26E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	4,797	4,906	5,121	5,353	5,489	5,636	5,738	6,001	20,177	22,865	5,834	-2
Interest Expenses	2,352	2,489	2,587	2,647	2,713	2,755	2,745	2,858	10,075	11,071	2,811	-2
Net Income	2,446	2,418	2,533	2,705	2,776	2,881	2,993	3,144	10,102	11,794	3,023	-1
YoY Growth (%)	8	9	15	14	14	19	18	16	11	17	19	
Other income	628	898	859	1,022	790	1,038	1,008	1,133	3,407	3,969	1,044	-3
Total Income	3,074	3,316	3,392	3,728	3,566	3,919	4,001	4,277	13,509	15,763	4,067	-2
YoY Growth (%)	10	13	16	15	16	18	18	15	13	17	20	
Operating Expenses	1,379	1,368	1,447	1,719	1,662	1,727	1,730	1,881	5,912	7,000	1,790	-3
YoY Growth (%)	3	5	7	20	21	26	19	9	9	18	24	
Operating Profits	1,695	1,948	1,945	2,009	1,904	2,192	2,272	2,395	7,597	8,763	2,277	0
YoY Growth (%)	16	19	23	10	12	12	17	19	17.1	15.3	17.1	
Provisions	86	48	61	76	113	80	78	87	271	358	97	-19
Profit before Tax	1,609	1,900	1,884	1,932	1,791	2,112	2,193	2,308	7,326	8,405	2,180	1
Tax Provisions	348	421	420	395	399	473	493	468	1,585	1,832	488	1
Profit after tax	1,261	1,479	1,464	1,537	1,392	1,639	1,700	1,840	5,741	6,572	1,691	1
YoY Growth (%)	15	22	26	8	10	11	16	20	17.0	14.5	15.5	

Key Parameters (%)

Yield on loans	13.08	13.04	13.2	13.13	13.13	13.08	13.0		13.5	13.4		
Cost of funds	8.08	8.15	8.2	8.24	8.02	7.85	7.7		7.7	7.5		
Spread	5.00	4.89	4.94	4.89	5.11	5.23	5.34		5.8	5.9		
NIM		7.78	7.75	8.11	7.48	8.04	8.01		5.4	5.4		
Credit cost	0.2	0.1	0.13	0.2	0.2	0.2	0.14		0.2	0.2		
Cost to Income Ratio (%)	44.8	41.2	42.7	46.1	46.6	44.1	43.2		43.8	44.4		
Tax Rate (%)	21.7	22.2	22.3	20.5	22.3	22.4	22.5		21.6	21.8		

Balance Sheet Parameters

AUM (INR B)	178.4	184.0	192.4	204.2	207.4	213.6	222.0	234.5	204.2	234.5		
Change YoY (%)	21.8	20.1	19.6	17.9	16.2	16.1	15.4	14.9	18	15		
AUM mix (%)												
Home loans	69.0	69.0	69.0	68.0	67.0	67.0	66.0	0.0	68.0	65.7		
Mortgage loans	14.0	13.0	13.0	13.0	13.0	13.0	13.0	0.0	32.0	34.3		
Loans (INR B)	144.4	147.1	153.2	162.3	162.3	166.6	173.0	184.1	162.3	184.1		
% of AUM	81.0	80.0	79.6	79.5	78.2	78.0	77.9	78.5	15.9	13.4		
Disbursements (INR B)	12.1	12.9	15.9	20.2	11.5	15.6	17.2	22.1	61.2	66.4		
Change YoY (%)	13.4	2.8	17.0	6.9	-5.4	20.6	8.0	9.2	10	8		
Borrowings (INR B)	126.0	124.8	133.8	139.2	143.9	144.1	150.0	157.2	139.2	157.2		
Change YoY (%)		12.0	16.6	12.3	14.2	15.5	12.1	13.0	13	13		
Borrowings/Loans (%)	87.2	84.8	87.4	85.8	88.7	86.5	86.7	85.4	85.8	85.4		
Debt/Equity (x)	3.2	3.1	3.2	3.2	3.2	3.1	3.1	3.1	3.2	3.1		

Asset Quality (%)

GS 3 (INR M)	1,466.1	1,601.0	1,757.0	1,763.0	1,987.0	2,081.0	2,066.0					
G3 %	1.01	1.08	1.1	1.08	1.22	1.24	1.2					
NS 3 (INR M)	1,043.4	1,142.0	1,233.0	1,191.0	1,360.0	1,418.0	1,366.0					
NS3 %	0.72	0.78	0.80	0.73	0.84	0.85	0.79					
PCR (%)	28.8	28.7	29.8	32.4	31.6	31.9	33.9					
ECL (%)	0.6	0.6	0.7	0.7	0.7	0.7	0.7					

Return Ratios - YTD (%)

ROA (Rep)	3.0	3.3	3.3	3.3	2.9	3.4	3.4					
ROE (Rep)	13.1	14.0	14.1	14.1	12.6	14.3	14.3					

E: MOFSL Estimates



Highlights from the management commentary

Guidance

- AAVAS guided for ~25% disbursement growth and 17-18% loan growth in FY27.
- Management guided for credit costs of ~20bp to sustain.
- The company plans to add ~20-25 branches in 4QFY26 and another ~50 branches in FY27.

AUM growth and disbursements

- The company undertook significant transformation in its business and accounting processes during 1H, tightening credit in a subdued environment, which temporarily moderated AUM growth. However, the business momentum has picked up since Diwali and is expected to sustain in 4QFY26.
- Incremental branch expansion over the past 24 months and new branches planned next year are expected to provide ~INR3-3.5b of additional disbursements. Digital channels such as CSC and e-Mitra are expected to generate an additional ~INR5b, and inflation-led growth is expected to contribute ~6% (~INR4b) to disbursement growth in FY27.
- Focus on Tier 2 and Tier 3 towns with smaller branches is expected to optimize cost and improve growth.
- Management stated that growth in Karnataka has been recovering after eKhata-related slowdown seen in 2HFY25 and FY26. Rajasthan continues to expand at ~20% CAGR, with AUM reaching ~INR74b across 111 branches. Uttar Pradesh will be a key focus for AAVAS and will look to penetrate deeper in this state. Gujarat remains an important growth market. It sees opportunities in Southern India, with distribution expansion planned in Tamil Nadu and foray into AP/Telangana planned in the coming years.
- The company's competitive advantage lies in understanding local customers, cashflow assessment based underwriting, and serving lower-ticket segments. AAVAS has ~65-70% self-employed customers, while larger HFCs typically cater to mostly salaried customers.
- AAVAS prioritizes risk-adjusted returns over market share.
- Disbursement to sanction ratio improved from ~30-32% in 1Q to 38-40% in 3QFY26.

Yields and margins

- AAVAS will cut its PLR by 15bp effective Mar'26. The company guided for a ~9-10bp decline in overall portfolio yields from this PLR reduction.

Business updates

- The macroeconomic environment is encouraging, supported by the Aatmanirbhar Union Budget, positive progress on India-US trade agreements, GST rationalization, and continued FDI liberalization.
- Government initiatives such as the Interest Subsidy Scheme under PMAY 2.0 and a stable interest rate environment support homebuyer sentiment and affordability.
- AAVAS successfully raised ~INR9.75b (~USD108m) from a marquee multilateral financial institution, the largest NCD placement in the company's history. The

proceeds from this borrowing is expected to support affordable housing loans, women home ownership, green-certified housing, and MSME lending in underserved regions.

- Asset quality exhibited a minor improvement, with ~GS3/NS3 declining ~5bp each QoQ at 1.2%/0.8% and 1+dpd improving ~20bp QoQ to ~3.8%. Credit costs stood at ~16bp.
- AAVAS benefited from a ~25bp cut in the repo rate and will pass on ~15bp to customers (effective 1st March 2026). On the asset side, ~70% of loans are floating and the remainder are fixed.
- Reported NIM in 3QFY26 remained stable at ~8%.
- AUM grew ~15% YoY and ~4% QoQ to ~INR222b.
- Disbursements rose ~8% YoY and 10% QoQ to ~INR17.2b.
- 3QFY26 PAT grew ~16% YoY to ~INR1.7b.
- RoA/RoE in 3QFY26 stood at 3.4%/14.3%, respectively.

Employee initiatives

- Employee attrition has remained constant for AAVAS.
- The company has introduced Project Rise, which will help strengthen employee engagement and structured recognition. Branch excellence programs support last-mile frontline salespeople through digital tools like pin code identification and market mapping.
- Visits by sales frontline staff has risen by ~30%, which has allowed it to source better quality customers.

Competitive landscape

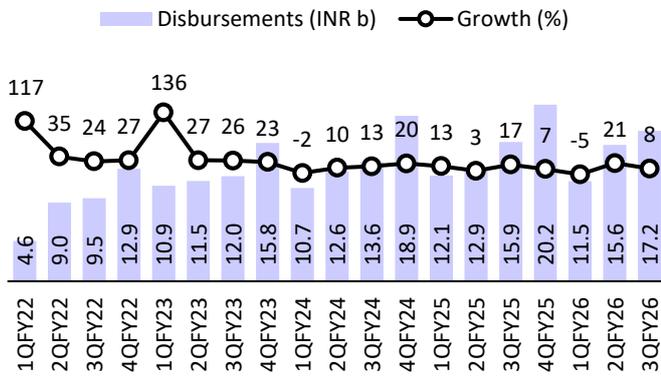
- AAVAS does not view competition as a significant risk, as the company focuses on the underserved segment with a ticket size of around INR1.25m, whereas other competitors in the geography target salaried customers with ticket sizes nearly double that of AAVAS.
- Management considers macroeconomic instability as the primary risk to its growth guidance with no others headwinds currently anticipated. AAVAS does not anticipate its disbursement growth to be impacted by competition.

Others

- The company focuses on risk-adjusted returns, accelerating growth only when credit environment is conducive.

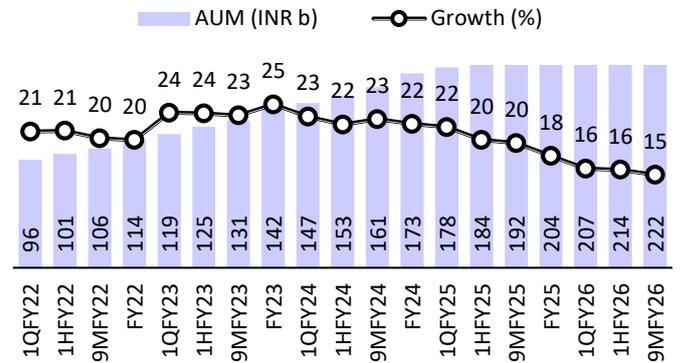
Key exhibits

Exhibit 1: Disbursements rose ~8% YoY



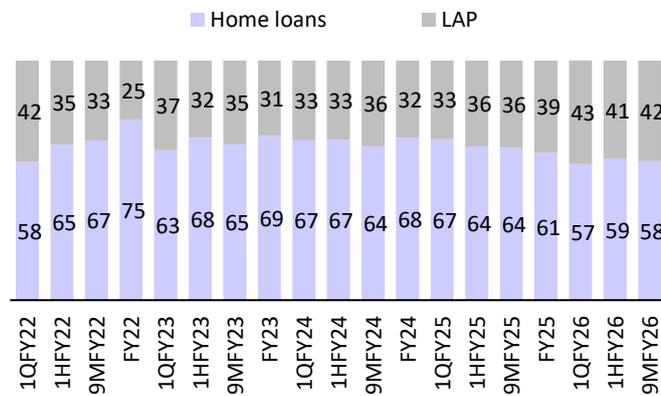
Source: MOFSL, Company

Exhibit 2: AUM grew 15% YoY



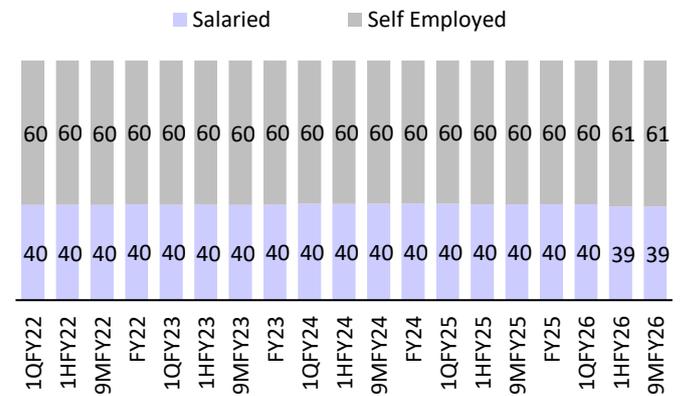
Source: MOFSL, Company

Exhibit 3: Share of LAP disbursements improved (%)



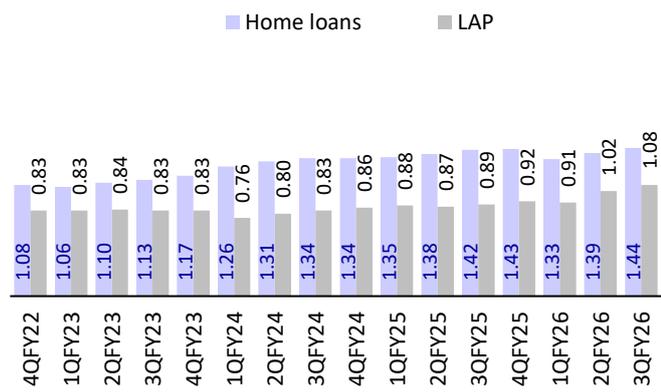
Source: MOFSL, Company

Exhibit 4: Share of salaried mix remained stable QoQ (%)



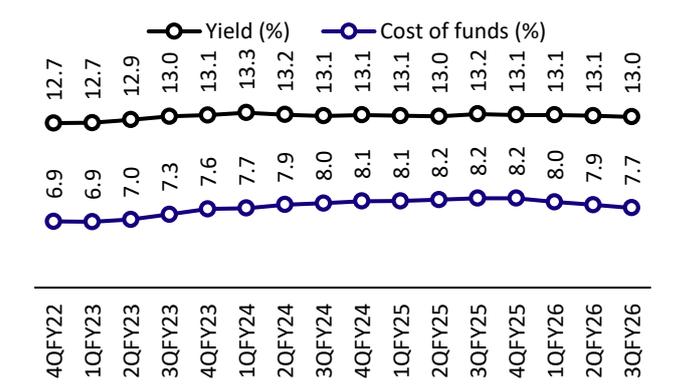
Source: MOFSL, Company

Exhibit 5: ATS (disb) in HL and LAP rose QoQ (INR m)



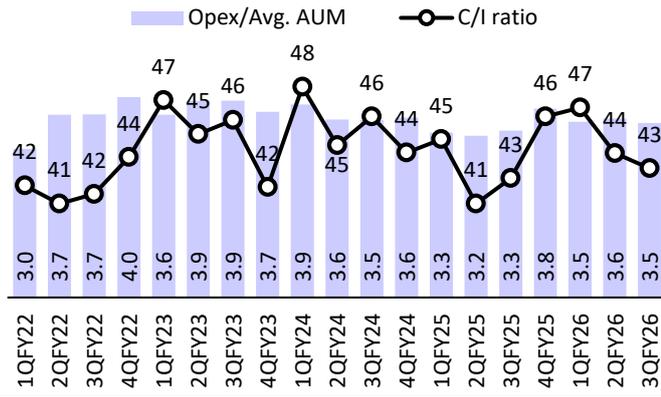
Source: MOFSL, Company

Exhibit 6: Reported spreads rose ~10bp QoQ



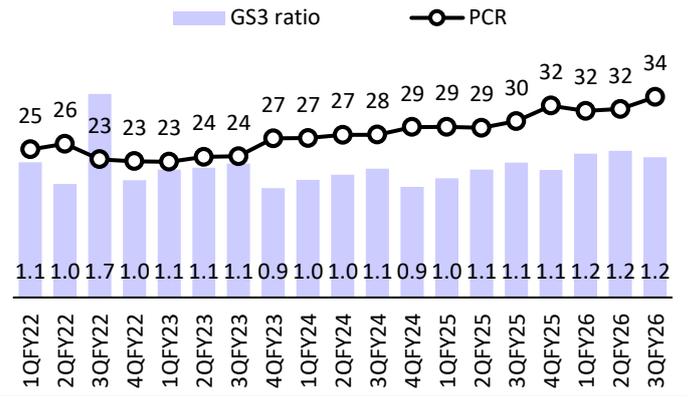
Source: MOFSL, Company

Exhibit 7: Opex/avg. AUM declined ~10bp QoQ to ~3.5% (%)



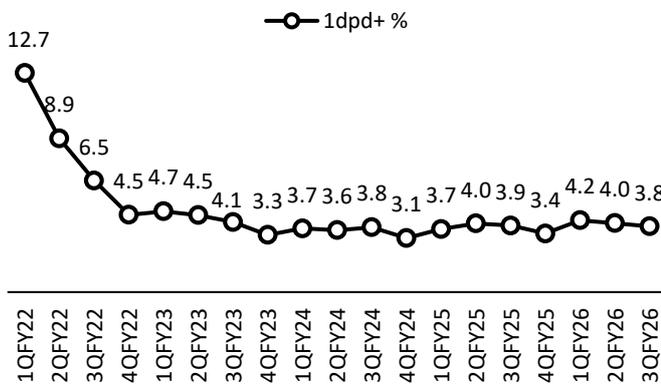
Source: MOFSL, Company

Exhibit 8: GS3 was stable QoQ (%)



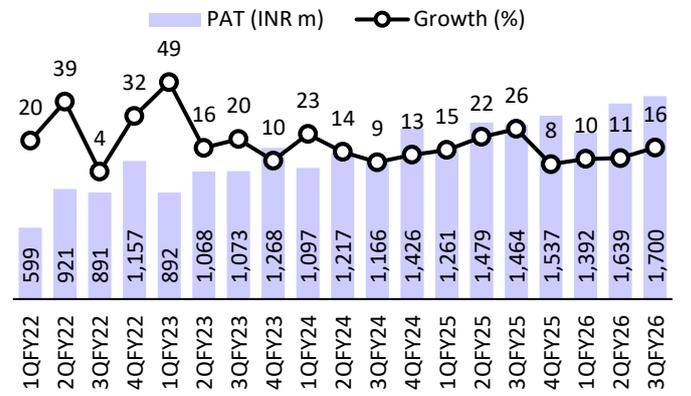
Source: MOFSL, Company, PCR in %

Exhibit 9: 1+dpd declined ~20bp QoQ to ~3.8%



Source: MOFSL, Company

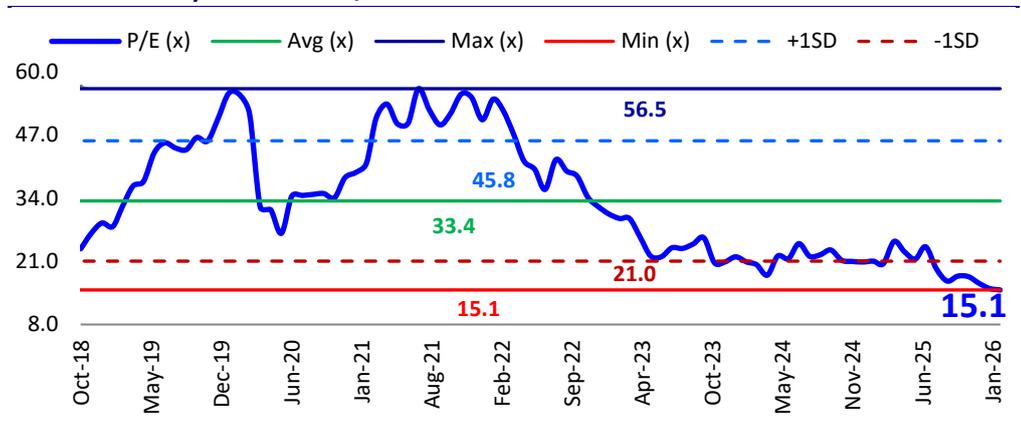
Exhibit 10: 3QFY26 PAT grew 16% YoY



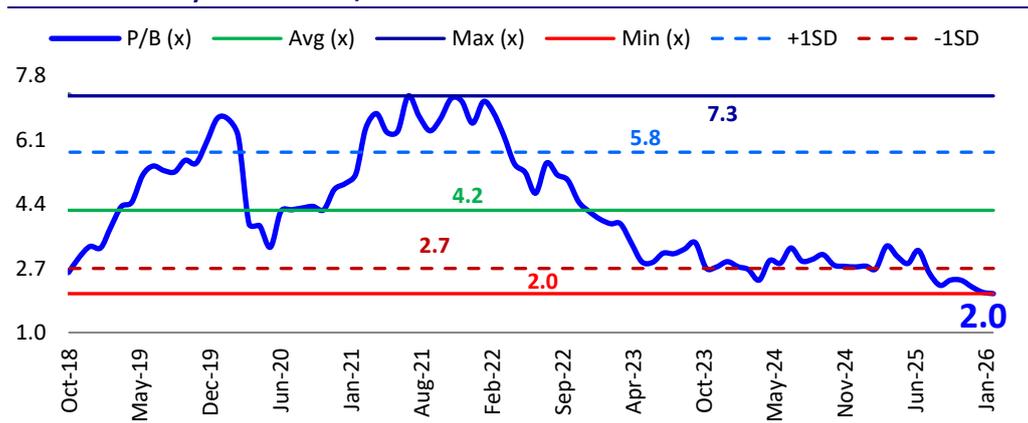
Source: MOFSL, Company

Exhibit 11: We cut our FY27/28E EPS by ~2% each to factor in slightly lower AUM growth

INR b	Old Est.			New Est.			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	11.9	13.9	16.4	11.8	13.6	16.0	-0.8	-2.2	-2.4
Other Income	4.0	4.7	5.3	4.0	4.7	5.3	-1.4	-0.5	-0.1
Total Income	15.9	18.6	21.7	15.8	18.3	21.3	-0.9	-1.8	-1.9
Operating Expenses	7.1	8.2	9.3	7.0	8.0	9.2	-1.5	-1.5	-1.5
Operating Profits	8.8	10.4	12.4	8.8	10.2	12.2	-0.4	-1.9	-2.1
Provisions	0.4	0.4	0.5	0.4	0.4	0.4	-4.6	-8.8	-1.2
PBT	8.4	10.0	12.0	8.4	9.8	11.7	-0.2	-1.7	-2.2
Tax	1.8	2.2	2.6	1.8	2.1	2.5	-0.2	-1.7	-2.2
PAT	6.6	7.8	9.4	6.6	7.7	9.2	-0.2	-1.7	-2.2
AUM	237	277	326	235	274	323	-0.9	-1.2	-1.2
Borrowings	159	190	226	157	187	223	-1.1	-1.5	-1.3
NIM (%)	5.4	5.4	5.4	5.4	5.3	5.4			
ROA (%)	3.3	3.4	3.4	3.3	3.3	3.4			
RoE (%)	14.0	14.5	15.0	14.0	14.3	14.7			

Exhibit 12: One-year forward P/E


Source: MOFSL, Company

Exhibit 13: One-year forward P/B


Source: MOFSL, Company

Financials and valuations

Income statement

	INR m							
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	9,764	11,288	13,882	17,347	20,177	22,865	26,262	30,942
Interest Expended	4,582	4,775	5,910	8,284	10,075	11,071	12,664	14,967
Net Interest Income	5,182	6,513	7,971	9,063	10,102	11,794	13,598	15,975
Change (%)	20.4	25.7	22.4	13.7	11.5	16.7	15.3	17.5
Gain on Securitisation	864	1,240	1,518	1,795	2,074	2,593	2,982	3,370
Other Operating Income	426	539	701	1,061	1,333	1,376	1,672	1,962
Total Income	6,471	8,293	10,191	11,919	13,509	15,763	18,252	21,306
Change (%)	18.3	28.2	22.9	17.0	13.3	16.7	15.8	16.7
Operating Expenses	2,566	3,506	4,577	5,430	5,912	7,000	8,040	9,156
Operating Income	3,905	4,787	5,614	6,489	7,597	8,763	10,213	12,151
Change (%)	23.0	22.6	17.3	15.6	17.1	15.3	16.5	19.0
Provisions	371	226	124	245	271	358	384	447
PBT	3,533	4,561	5,490	6,244	7,326	8,405	9,828	11,704
Tax	638	981	1,189	1,338	1,585	1,832	2,123	2,528
Tax Rate (%)	18.1	21.5	21.7	21.4	21.6	21.8	21.6	21.6
PAT	2,895	3,580	4,301	4,907	5,741	6,572	7,706	9,176
Change (%)	16.2	23.7	20.1	14.1	17.0	14.5	17.2	19.1

Balance sheet

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Capital	785	789	791	791	792	792	792	792
Reserves & Surplus	23,229	27,297	31,906	36,942	42,817	49,389	57,095	66,270
Net Worth	24,014	28,086	32,697	37,733	43,608	50,181	57,886	67,062
Borrowings	63,454	79,725	98,407	1,23,365	1,39,185	1,57,237	1,87,352	2,22,704
Change (%)	18.6	25.6	23.4	25.4	12.8	13.0	19.2	18.9
Other liabilities	2,132	2,392	3,002	4,096	3,392	4,070	4,884	5,861
Total Liabilities	89,600	1,10,204	1,34,105	1,65,195	1,86,185	2,11,488	2,50,123	2,95,627
Loans	75,233	90,534	1,14,763	1,40,044	1,62,297	1,84,119	2,17,852	2,58,058
Change (%)	21.7	20.3	26.8	22.0	15.9	13.4	18.3	18.5
Investments	45	675	1,231	1,822	2,300	2,990	3,887	4,859
Change (%)	0.0	1,400.4	82.3	48.0	26.3	30.0	30.0	25.0
Other assets	14,323	18,994	18,112	23,329	21,587	24,379	28,384	32,710
Total Assets	89,600	1,10,204	1,34,105	1,65,195	1,86,185	2,11,488	2,50,123	2,95,627

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)								
Avg Yield on Loan portfolio	14.1	13.8	13.7	13.6	13.5	13.4	13.2	13.1
Avg. Cost of borrowings	7.8	6.7	6.6	7.5	7.7	7.5	7.4	7.3
Interest Spread	6.3	7.1	7.1	6.1	5.8	5.9	5.8	5.8
Net Interest Margin (AUM)	6.0	6.3	6.2	5.8	5.4	5.4	5.3	5.4
Profitability Ratios (%)								
RoE	12.9	13.7	14.2	13.9	14.1	14.0	14.3	14.7
RoA	3.5	3.6	3.5	3.3	3.3	3.3	3.3	3.4
Loans/Equity (x)	3.1	3.2	3.5	3.7	3.7	3.7	3.8	3.8
Cost/Income	39.7	42.3	44.9	45.6	43.8	44.4	44.0	43.0
Asset Quality (%)								
Gross NPAs	739	904	1,067	1,319	1,763	2,117	2,620	2,987
Gross NPAs to Adv.	1.0	1.0	0.9	0.9	1.1	1.1	1.2	1.2
Net NPAs	538	695	780	939	1,191	1,397	1,782	2,016
Net NPAs to Adv.	0.7	0.8	0.7	0.7	0.7	0.8	0.8	0.8
VALUATION								
Book Value (INR)	306	356	414	477	551	634	731	847
Price-BV (x)	4.5	3.9	3.3	2.9	2.5	2.2	1.9	1.6
EPS (INR)	36.9	45.4	54.4	62.0	72.5	83.0	97.3	115.9
EPS Growth YoY	16	23	20	14	17	14.5	17.2	19.1
Price-Earnings (x)	37.3	30.4	25.3	22.2	19.0	16.6	14.1	11.9
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0							

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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