

**Rating:**



**Issue Summary:**

<b>Price Band (Rs)</b>	Rs. 818-821
<b>Face Value (Rs)</b>	Rs. 10
<b>Market Lot</b>	18 shares
<b>Opens</b>	Sept 25, 2018
<b>Closes</b>	Sept 27, 2018
<b>Issue Size (Rs)</b>	OFS of 162,49,359 shares and Fresh issue of Rs. 400 cr. aggregating Rs. 1734 cr.
<b>No. of shares pre-issue</b>	70,750,891
<b>No. of shares post issue (approx)</b>	75,622,998
<b>Listing</b>	NSE & BSE

**Issue Break Up:**

<b>QIB Portion</b>	50%
<b>NIB Portion</b>	15%
<b>Retail Portion</b>	35%

**Book Running Lead Managers:**

➤ ICICI Securities Ltd
➤ Citigroup Global Markets India
➤ Edelweiss Financial Services
➤ Spark Capital Advisor India
➤ HDFC Bank Ltd

**Registrar**

➤ Link Intime India Private Ltd.
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**Background & Operations:**

Aavas Financier is a Rajasthan based niche player in small ticket housing finance (Rs. ~8.8 lakhs). It focuses on underserved and unreach markets, especially the low and middle income self-employed in Tier II and VI cities and majority of their customers have limited access to formal banking credit.

Aavas provides home loans for the purchase or construction of residential properties, and for the extension and repair of existing housing units. The majority of its home loans disbursed were for single-unit properties i.e. ~85% and rest for apartment properties, almost all of which are to be occupied by the borrowers themselves. Aavas also offers mortgage loans including loans against property, which accounts ~24% of Gross Loan Assets. The average LTV ratio is ~52% at the time of the sanctioning of the loan. Aavas has a loan book of Rs. 4359 Cr. as on Q1FY19.

**Focus on Low Ticket Housing and Mortgage Loan**

Aavas is engaged in the affordable housing finance and mortgage loan segment with average ticket size of Rs. 8.5lakh and Rs. 8lakh respectively. Its spread across eight states. The company has achieved a sharp growth in its advances by ~78% CAGR during the period of FY14-18. It also has an in-house sourcing model. Its disbursements grew by ~64.5% CAGR in the same period.

**Superior Assets Quality**

Aavas has superior assets quality. Its GNPA during the last 5 years stood below 1%. GNPA as on Q1FY19 stood at 0.50%. A direct sourcing, efficient collection system and employees enable them to maintain asset quality. The company tracks delinquencies on ~1 day default and appropriate actions are initiated at the very advance stages of default. The management has a team of 300 employees to undertake overall underwriting process. They have also formed a team of 300 employees for collections and recoveries who have an adequate experience in the field.

**Outlook and Valuation:** At the upper price band of Rs. 821, the stock is available at ~5.2x P/BV (post issue) & ~54x P/E with ROE of ~11.16% as of FY18 (pre issue). Aavas Financiers nearest peers like HDFC, Can Fin Homes and Repco Home finance are trading at 4.83x, 2.9x and 2.3x to its book-value. Compared to its peers, Aavas Financiers business is relatively fairly valued and the key positive areas of Aavas are sharp growth in its loan-book, superior assets quality, low risk on margin profile and strong capital adequacy ratio.

**Key Managerial Personnel:****Sushil Kumar  
Agarwal  
(CEO and WTD)**

Sushil Kumar Agarwal is the whole-time Director and CEO of Aavas. He has been associated with the Company since its incorporation in 2011. Sushil Kumar Agarwal is a qualified chartered accountant and had secured the tenth rank in his final examination. Further, he is a qualified company secretary. He was previously associated with AuSFB as its Business Head – SME & Mortgages. Sushil Kumar Agarwal has previously also worked with ICICI Bank Limited as its chief manager and with 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  
(CFO)**

Ghanshyam Rawat is the Chief Financial Officer (finance and treasury) of the Company. He had joined Aavas on February 14, 2013 and appointed as the CFO with effect from June 1, 2014. He presently heads finance and treasury; accounts; internal audit; compliance; budget and analytics departments. Ghanshyam Rawat holds a bachelor's degree in commerce from the Rajasthan University and he is a fellow member of the ICAI. He has been previously associated with First Blue Home Finance Limited, Accenture India Private Limited and Deutsche Postbank Home Finance Limited. Further, Ghanshyam Rawat has also worked with Pan Asia Industries Limited and Indo Rama Synthetics (I) Limited.

**Sharad Pathak  
(CS and  
Compliance  
Officer)**

Sharad Pathak is the Company Secretary and Compliance Officer. He had joined the Company with effect from May 28, 2012 and was appointed as a whole time company secretary with effect from September 3, 2012. He is looking for the secretarial functions in the Company. Sharad Pathak holds a bachelor's degree in commerce from the Rajasthan University and is a qualified company secretary. He has been previously associated with Star Agriwarehousing & Collateral Management Limited as its company secretary.

**Objectives of issue:**

The objects of the issue are to achieve the benefits of listing on stock exchanges and to carry out the OFS by the promoters. In addition, the company proposes to utilize the net proceeds from the fresh issue towards augmenting its capital base to meet future capital requirements.

**Competitive Strength:**

- ❖ Strong distribution network with deep penetration serving underserved and unreached markets in rural and semi –urban areas,
- ❖ Superior asset quality achieved through robust credit assessment and risk management framework,
- ❖ Effective use of technology and human expertise to build a scalable and efficient operating model,
- ❖ Well experienced management team.

**Key Risk Areas:**

- ❖ Aavas is primarily focused on low and middle income group customers in semi-urban and rural areas who have limited access to formal banking system. The risk of non-payment or default by borrowers may adversely affect the business and hence lead to rise in NPAs.
- ❖ Aavas's 93% of the loan portfolio is in Rajasthan, Maharashtra, Madhya Pradesh and Gujarat out of which 47% towards Rajasthan. Consequently, any significant social, political or natural calamities in this region, or changes in the policies of the state or local governments could disrupt its business operations.
- ❖ Rising interest rate may lead to a rise in overall borrowing cost.
- ❖ Our investment rationale for Aavas is based on its robust growth of loan book and superior asset quality with improving borrowing cost. Aavas has a strong capital adequacy ratio and operates at a leverage of 4x whereas sector average is 8x resulting in lower RoEs.

**Peer-Group Comparison with listed peers:**

Particulars	AUM (Rs. in Cr.)	GNPAs (%)	P/B (x)	P/E (x)	ROE (%)	ROA (%)	NIM (%)
<b>Aavas Financiers #</b>	<b>4,073</b>	<b>0.34</b>	<b>5.2</b>	<b>54.0</b>	<b>11.2</b>	<b>2.4</b>	<b>7.3</b>
Can Fin Homes	15,743	0.43	2.9	12.9	22.4	2.1	3.5
Repc Home Finance	9,857	2.87	2.3	14.1	18.5	2.3	4.6
Gruh Finance	15,568	0.45	17.9	34.1	29.0	2.5	4.4

Particulars	NIM (%)	CRAR (%)	Yield on Advances (%)	EPS (Rs.)	Cost-to- Income Ratio (%)
<b>Aavas Financiers #</b>	<b>7.3</b>	<b>61.6</b>	<b>14.4</b>	<b>15.2</b>	<b>46.4</b>
Can Fin Homes	3.5	19.1	--	22.7	15.2
Repc Home Finance	4.6	23.0	11.9	33.0	17.5
Gruh Finance	4.4	18.9	11.1	9.9	14.2

Comparison based on FY18 Figures.

P/E and P/B ratio calculated based on 21<sup>st</sup> Sep closing price.

# Aavas P/E and P/B valued at upper price band of Rs. 821.

**Financial Snapshot:**

Particulars (Rs. in Cr.)	Q1FY19	FY18	FY17	FY16
Interest Earned	125.53	393.44	270.28	172.46
Interest Expended	55.90	189.05	142.82	96.88
NII	69.62	204.38	127.46	75.58
Other Income	18.34	63.81	35.21	18.44
Total Income	87.97	268.19	162.67	94.02
Operating Expenses	41.09	124.53	67.34	40.48
Pre-Provision Profit	46.88	143.66	95.33	53.54
Provisions	2.40	1.91	7.77	3.58
PBT	44.47	141.75	87.56	49.95
Tax	15.48	48.82	30.42	17.17
PAT	29.00	92.93	57.14	32.78

Ratios (%)				
EPS	4.05	15.87	11.10	8.24
GNPAs	0.50	0.34	0.79	0.55
NNPAs	0.38	0.26	0.60	0.42
NIMs	2.03	7.25	6.61	6.10
ROAs	-	2.40	2.30	2.30
ROEs	-	11.20	15.00	21.10
BVPS	-	158.80	97.40	53.10

**Outlook and Valuation:** At the upper price band of Rs. 821, the issue has been offered at ~5.2x P/BV (post issue) & ~54x P/E with ROE of ~11.16% as of FY18 (pre issue). Aavas Financiers nearest peers like HDFC, Can Fin Homes and Repco Home finance are trading at 4.83x, 2.9x and 2.3x of its book-value.

Considering the sharp growth in its loan-book, superior assets quality and strong capital adequacy ratio we believe Aavas financiers is relatively fair valued and we have a **'3 star'** rating for the issue.

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