

Issue Details	
Listing	NSE & BSE
Open Date	25/9/2018
Close Date	27/9/2018
Price Band	818-828

AAVAS FINANCIERS LIMITED was originally incorporated as a private limited company in Jaipur, Rajasthan, under the name of “Au Housing Finance Private Limited” on February 23, 2011. It started its operations in March 2012. In March 2017, the name of the company was changed from “Au HOUSING FINANCE LIMITED” to “AAVAS FINANCIERS LIMITED” (AAVAS) vide a fresh Certificate of Incorporation (COI) dated 29th March 2017.

Issue Structure (In %)	
Fresh issue	4.9
Offer for Sales	16.2

AAVAS is primarily engaged in the business of providing housing loans to customers belonging to the low and middle-income segments in semi-urban and rural areas. These are credit worthy customers who may or may not have the income proof documents, like IT returns, salary slips and hence, are financially excluded by other large housing finance companies and banks. These are people who are either self-employed, running small businesses like commercially driving auto rickshaws or other vehicles, running grocery shops, tiffin centers, beauty parlors and other businesses or these customers are engaged in agriculture or animal husbandry in rural areas or salaried class people who are employed in small jobs in the private or public sector. **AAVAS** uses a unique appraisal methodology to assess these customers individually. Believing that every customer is unique, in terms of financial needs, **AAVAS** does not to treat them as a homogenous group of borrowers but appreciates the individual needs of every customer and offers housing finance solutions that are appropriate and suitable to them.

Shareholding (%)	Pattern	
	Pre	Post
Promoters	81.3	57.7
Public	18.7	42.3
Total	100.0	100.0

AAVAS also offers its customers other mortgage loans, including loans against property, which accounted for 22.44% of Gross Loan Assets as of March 31, 2018. As of March 31, 2018, 60.40% of the Gross Loan Assets were from customers who belonged to economically weaker sections and low-income group, earning less than Rs. 50,000 per month and 34.76% of Gross Loan Assets were from customers who were new to credit. As of March 31, 2018, 63.81% of Gross Loan Assets were from self-employed customers. The average sanctioned amount of home loans and other mortgage loans was Rs.0.08 crores and Rs. 0.08 crores, respectively. The Company’s Gross Loan Assets, as of March 31, 2018, had an average loan-to-value of 50.38% at the time of sanctioning the loan. Since the Company commencement operations it has served more than 57,000 customers.

Net cash used in operating activities was Rs. 924.13 crores for Fiscal 2018. While net profit before tax was Rs. 141.75 crores for Fiscal 2018, operating profit before working capital changes stood at Rs. 148.78 crores, primarily due to depreciation and amortization of Rs. 5.62 crores and provision for employee benefits of Rs.1.09 crore.

Key Investment Highlights:

Strong distribution network with deep penetration serving underserved customers in rural and semi-urban markets:

The company is focused on serving low- and middle-income self-employed customers in the rural and semi-urban markets and is currently present in eight states in India. AAVAS's branches are predominantly located in rural and semi-urban areas and as of March 31, 2018, the Company had 165 branches, of which 133 branches were located in towns with a population of less than one million people. The understanding of the local characteristics of markets has allowed the company to address the unique needs of its customers and enabled them to penetrate deeper into such markets.

Focus on low ticket affordable housing

AAVAS Financiers is engaged in Affordable housing spread across different geographies. The Management of the company is risk averse and has conservatively built its portfolio in under construction properties and land financing. The Company has also categorically avoided customers directly linked to Agriculture or dairy activities in order to avoid a volatile revenue model.

Robust and Comprehensive Credit Assessment, Risk Management and Collections Framework

AAVAS Financiers has implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in the Company's operations. As part of its credit policy, it primarily finances retail customers and does not provide finance to builders, which it believes helps in maintaining asset quality. Home loans and other mortgage loans had an average loan-to-value of 51.71% and 45.81%, respectively, at the time of the sanctioning of the loan, resulting in Gross Loan Assets having an average loan-to-value of 50.38% at the time of the sanctioning of the loan. Since the commencement of operations in March 2012, it has served more than 57,000 customers.

Access to Diversified and Cost-Effective Long-Term Financing:

The treasury department of AAVAS is responsible for capital requirements and asset liability management, minimizing the cost of borrowings, liquidity management and control, diversifying fund-raising sources, managing interest rate risks and investing surplus funds in accordance with the criteria set forth in the investment policy. The firm securitizes and assigns loans through securitization or direct assignment to banks and financial institutions, which enables it to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management.

Effective Use of Technology and Analytics to build a Scalable and Efficient Operating Model

AAVAS has IT and data science teams comprising 28 and 6 personnel, respectively. The Company has consistently monitored its cost-to-income ratio, leveraging economies of scale, increasing manpower productivity with growing disbursements through the enhanced use of information technology systems.

Technology systems help in several functions as follows:

- Utilization of a mobile application through which almost all leads are recorded. This

app assists in the monitoring and tracking of leads from an early stage and generating a credit appraisal memorandum, resulting in lower costs and an increase in productivity.

- Utilization of an enterprise-wide loan management system, OmniFin, to provide an integrated platform for credit processing, credit management, general ledger, debt management and reporting. OmniFin also assists with the automation of the loan origination system, credit underwriting process, underwriting rule engine, deviation triggers to minimize human errors, branch accounting system and maintaining customer histories.

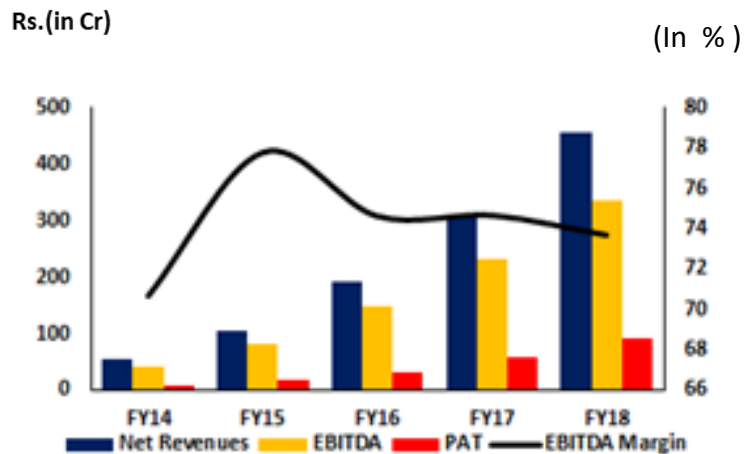
Experienced Management Team

The management team is led by qualified and experienced key managerial personnel, who are supported by a capable and motivated pool of managers and other employees. AAVAS is confident that the management team, with its extensive knowledge and understanding of the housing finance business, has the expertise and vision to organically scale up its business.

Performance metrics

AAVAS's Net Revenues for FY2018 stood at Rs. 456 crore with Net profit after tax at Rs. 92.9 crore. While the Operating Profit grew to Rs.335.5 crore, the EBITDA margin remained

Revenue, EBITDA and PAT.



Source: Ventura Research, Company

stable at 73%.

Issue Structure & Valuation

The proposed AAVAS Financiers Limited issue is for an aggregate of 48,72,078 shares by way of fresh issue and 16,249,359 shares by way of an Offer for Sale by existing shareholders. This is being offered to the public in a price range of Rs 818 per equity share (lower price band) to Rs 821 per share (upper price band).

Category	No. of shares Offered	% of Shares Offered
QIB	9504647	45%
Non institutional Bidders	4224287	20%
Retail	7392503	35%
Total	21121437	100%

The valuation on a trailing basis works out to 4.4x P/Bv FY18.

SWOT ANALYSIS:

<p><u>STRENGTH</u></p> <ul style="list-style-type: none"> • Deep Penetration in underserved rural and semi-urban markets. • Robust Credit assessment, Risk Management and collection framework. • Access to cost- effective long-term financing. • Higher cost and management efficiencies owing to the adoption of technology and analytics. 	<p><u>WEAKNESS</u></p> <ul style="list-style-type: none"> • Moderate share of contracts with high LTV in the current pool. • Limited track record of operations With moderate seasoning of loan book. • Overcapitalization leading to lower ROE's. • Having its roots in Rajasthan, 46% of loan portfolio is in its home state while profit contribution would be much higher.
<p><u>OPPORTUNITY</u></p> <ul style="list-style-type: none"> • Robust and Comprehensive Credit Assessment, Risk Management and Collections Framework. • Focus on low ticket Investment housing; Present across various geographies. • Robust growth in customer count provides further granularity on loan book. 	<p><u>THREAT</u></p> <ul style="list-style-type: none"> • Business requires substantial capital and any disruption in the sources of capital could have an adverse effect on the business. • Risk of non-payment or default by borrowers. • Changes in interest rates for lending and treasury operations could cause the net interest income to decline and adversely affect their business and results of operations.

Profit and Loss (Rs. in crore)

Particulars	FY14	FY15	FY16	FY17	FY18
Revenue from Operations	54.3	103.6	190.8	305.1	456.3
Other Income	0.0	0.1	0.0	0.4	0.9
Total Revenue	54.3	103.7	190.8	305.5	457.2
Expenses					
Employee benefit expenses	10.8	15.2	29.4	43.0	73.3
Finance cost	30.1	52.7	96.8	142.8	189.0
Depreciation & Amortization	0.4	0.1	0.1	0.3	0.6
Other expenses	2.5	3.4	9.7	21.5	45.5
Provisions and writeoff	1.0	2.3	3.5	7.7	1.9
Total Expenses	44.8	73.7	139.5	215.3	310.3
Profit before tax	9.3	2.9	50.0	87.6	141.8
Tax	3.1	9.8	17.1	30.4	48.8
Profit after tax	6.3	19.1	32.7	57.1	92.9

Source: Ventura Research, Company

Balance sheet (Rs. in crore)

Particulars	FY14	FY15	FY16	FY17	FY18
EQUITY AND LIABILITIES					
Shareholder's Funds					
Share Capital	29.9	32.9	38.3	58.2	69.2
Reserves & Surplus	25.4	68.5	165.4	508.2	1029.0
Money received against share warrants	0.0	0.0	0.0	0.0	0.2
Total	55.3	101.4	203.7	566.3	1098.4
Non-current Liabilities					
Long term borrowings	257.2	523.8	1196.3	1509.6	2232.4
Deferred Liabilities	0.3	1.0	2.3	6.2	11.7
Other long term Liabilities	0.0	4.1	10.4	0.1	0.3
Long term provisions	2.0	4.4	8.4	13.7	14.8
Total	259.5	533.4	1217.4	1529.6	2259.2
Current Liabilities					
Short term borrowings	43.7	88.3	112.7	79.0	32.5
Other current liabilities	58.7	128.8	176.4	274.9	426.0
Short term Provisions	0.5	0.2	0.3	0.7	1.2
Total	102.9	217.3	289.4	354.6	459.7
ASSETS					
Non-current Assets					
Property Plant and equipment	5.3	5.4	5.6	8.7	15.5
Intangible assets	0.1	0.1	0.0	1.5	3.0
Capital work in Progress	0.0	0.0	0.0	0.0	0.0
Intangible assets under development	0.0	0.0	0.0	0.1	0.0
Non-current Investment	0.0	0.0	0.0	0.8	13.8
Loans and Advances					
Receivables	384.7	789.7	1401.7	2059.4	3067.9
Others	0.1	0.2	0.4	0.9	1.5
Total Non -current assets	390.2	795.3	1407.7	2071.3	3101.6
Current assets					
Current investment	0.0	0.0	0.0	0.0	0.3
Cash & cash Balance	2.3	11.1	234.9	275.7	564.9
Loans & Advances					
Receivables	21.4	38.5	52.7	73.3	104.4
Others	0.1	0.2	1.5	1.0	3.0
Other current assets	3.7	7.2	13.9	29.2	43.0
Total	27.6	57.0	303.0	379.2	715.6
Total Assets	417.8	852.3	1710.7	2450.5	3817.2

Source: Ventura Research, Company

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