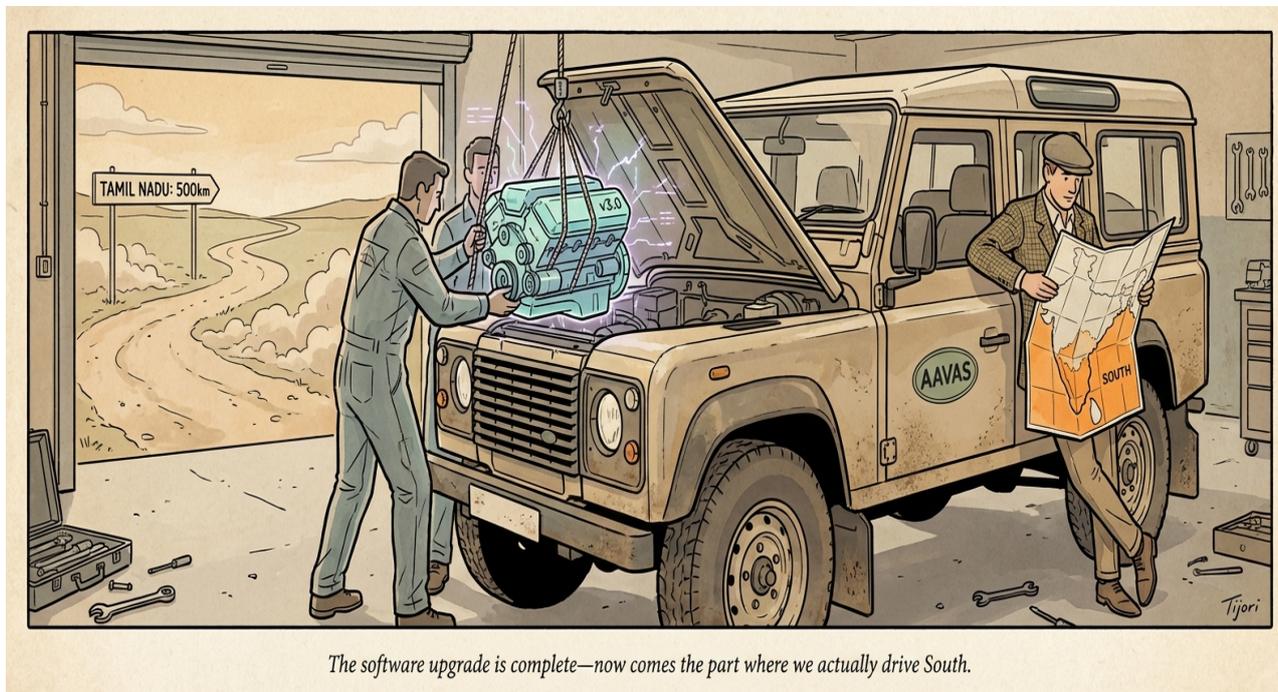


## 5-Year AUM & Profitability Estimates: Technology & Operating Leverage to Drive ~21% CAGR Toward Rs.550 Bn Target



- **Thesis:** Aavas is pivoting from a "proof of concept" phase (Aavas 1.0/2.0) to an institutionalized scaling phase ("Aavas 3.0"). The completion of major tech transformation (Salesforce/Oracle) + entry into South India (Tamil Nadu) provides the infrastructure to support management's stated target of Rs.550 Bn AUM by FY30.
- **Key Driver: Operating Leverage.** Management has committed to reducing Opex/Assets below 3.0% (currently ~3.5%) over the medium term. With tech reduction in TAT (13 days → 6 days), branch expansion can now yield higher productivity.
- **Critical Dependency: Asset Quality in New Geographies.** Expansion into South India (TN, AP, Telangana) must replicate the pristine asset quality of the core Rajasthan/Gujarat book (1+ DPD currently <4%).
- **Watch: Spreads vs. PLR.** Aavas benefits from falling cost of funds (down 17 bps QoQ), improving spreads to 5.23%. The key monitorable is the pressure to reduce Prime Lending Rates (PLR) to remain competitive against banks causing spread compression.

### Competitive Position & Scenario Probabilities

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Analysis based on regulatory filings up to 2 hours prior to request.

# Aavas Financiers

January 02, 2026

**Competitive Position: Wide and Deepening (Process Power & Switching Costs).** Aavas utilizes a 100% in-house execution model (sourcing, legal, technical) which creates a massive barrier for peers relying on DSAs (Direct Selling Agents). This "high touch" model allows them to underwrite undocumented income in Tier 2-5 towns better than banks. The recent rollout of Salesforce/Oracle has widened this moat by reducing turnaround time by ~54% (6 days vs 13 days peak), creating stickiness through superior service delivery.

Scenario	Probability	Key Drivers
<b>Base Case</b>	<b>50-55%</b>	Execution of "contiguous expansion" strategy into South India; AUM growth stabilizes at ~20-21% CAGR; Opex/Assets trends toward 3.0%.
<b>Bear Case</b>	<b>25-30%</b>	Elevated due to asset quality pockets in MP/Karnataka and BT-out risks; Specific Trigger: 1+ DPD crossing 5% or Spread compression <4.5%.
<b>Bull Case</b>	<b>15-20%</b>	Accelerated branch productivity in new states; Credit rating upgrade to AA+ lowers CoF further; AUM hits Rs.550 Bn target ahead of FY30.

**Probability Rationale:** The Base Case is weighted highest as management has already delivered the "heavy lifting" of technology implementation and CVC promoter transition remains smooth. The Bear Case probability is elevated (25-30%) because the aggressive 22% required CAGR to hit FY30 targets relies on unproven new geographies (South India), and current data shows stressed pockets in MP/Karnataka.

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Financial Estimates: FY25(A) to FY30(E)

\*Note: As Aavas is a lending institution, AUM (Assets Under Management) is the primary driver of Revenue (Net Total Income) and Profit.\*

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January 02, 2026

Metric	FY25 (A)	FY26 (E)	FY27 (E)	FY28 (E)	FY29 (E)	FY30 (E)	CAGR
<b>AUM (Rs. Bn)</b>							
- Base Case (50-55%)	<b>204.2</b>	<b>241.0</b>	<b>291.6</b>	<b>355.7</b>	<b>437.5</b>	<b>527.2</b>	<b>21%</b>
- Bear Case (25-30%)	-	236.8	272.3	310.4	353.9	402.0	14%
- Bull Case (15-20%)	-	245.0	306.3	382.8	478.5	550.0	22%
<b>Net Total Income</b>							
- Base Case (50-55%)	<b>13.4</b>	<b>15.9</b>	<b>19.2</b>	<b>23.5</b>	<b>28.9</b>	<b>34.8</b>	<b>21%</b>
- Bear Case (25-30%)	-	15.4	17.7	20.2	23.0	26.1	14%
- Bull Case (15-20%)	-	16.2	20.2	25.3	31.6	36.3	22%
*Net Income Margin (Calc)*	*6.6%*	*6.6%*	*6.6%*	*6.6%*	*6.6%*	*6.6%*	
<b>PAT (Rs. Bn)</b>	<b>5.7</b>	<b>6.7</b>	<b>8.5</b>	<b>10.7</b>	<b>13.6</b>	<b>16.9</b>	<b>24%</b>
*ROA % (Base)*	*3.3%*	*3.3%*	*3.4%*	*3.5%*	*3.6%*	*3.6%*	

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## Growth Decomposition: Source of Rs.323 Bn AUM Growth (FY25 to FY30 Base)

This section breaks down the total projected AUM increase into its component drivers, showing how much each factor contributes to growth. For example, if a driver shows '~45% / Rs.125 Cr', it means 45% of the total revenue growth comes from that specific driver.

### • Branch Expansion & Maturation (~40% / ~Rs.129 Bn)

\* **Assumed CAGR:** 10–12% branch count growth.

\* **Base (FY25):** 405 Branches.

\* **Target (FY30):** ~650 Branches.

\* **Rationale:** Entry into Tamil Nadu (8 branches already added), followed by Andhra Pradesh and Telangana. Contiguous cluster-based expansion strategy ensures management bandwidth is not stretched.

### • Productivity Enhancement (~35% / ~Rs.113 Bn)

\* **Assumed Impact:** AUM/Branch rising from ~Rs.500mn to ~Rs.750mn+.

\* **Base (FY25):** Technology implementation freshly completed.

\* **Target (FY30):** Full operating leverage of Salesforce/Oracle systems.

\* **Rationale:** "Aavas 3.0" strategy focuses on scaling without linear opex growth. Digitization has reduced Login-to-Sanction TAT to 6 days, allowing same workforce to process significantly higher volumes.

### • Ticket Size Inflation (~25% / ~Rs.81 Bn)

\* **Assumed CAGR:** ~5–6% annual increase in ticket size.

\* **Base (FY25):** Average Ticket Size (ATS) Rs.0.98 Mn.

\* **Target (FY30):** ATS ~Rs.1.25–1.30 Mn.

\* **Rationale:** Natural inflation in construction costs and property prices in Tier 2–5 markets pushes loan requirements higher. Management explicitly guides 5% growth from inflation.

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## Key Business Assumptions

### 1. AUM Growth Assumptions

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- **FY26 Revision:** Management revised FY26 AUM growth guidance upward from 16% to ~18% in Q2 FY26 call due to strong disbursement momentum (up 21% YoY in Q2).
- **Long Term:** The Base Case assumes a **21% CAGR**, slightly below management's aggressive 23% implied CAGR (to hit Rs.550bn), accounting for periodic cyclical headwinds.
- **South India Ramp-up:** Assumes Tamil Nadu, AP, and Telangana follow the same vintage profitability curve as the core Rajasthan/Gujarat branches.

## 2. Margin & Spread Trajectory

- **Spread Defence:** Spreads improved to **5.23%** in Q2 FY26 (up 34 bps YoY). Assumptions factor in a slight compression to ~5.0% long-term as Aavas passes on rate benefits to retain customers (BT-out defense).
- **Cost of Funds:** Rating upgrade to 'Positive' outlook by CARE suggests an imminent upgrade to **AA+**, which will structural lower cost of borrowing (currently 7.82% incremental) and support margins.

## 3. Operating Leverage (Opex/Assets)

- **Current:** Opex to Assets is elevated at **3.51%** (Q2 FY26) due to front-loaded tech/manpower investments.
- **Projected:** Modeled to decline toward **3.0% by FY28/29** as the 14% YoY employee addition stabilizes and tech investments (digital led business now Rs.1.5bn) yield efficiency. This serves as the primary driver for PAT growing faster than AUM (24% vs 21%).

## 4. Execution Credibility Note

- **Adjustment:** No credibility discount applied to AUM targets; management has historically met conservative guidance. However, the Rs.550 Bn "aspirational" target is treated as the **Bull Case**, with the Base Case set slightly lower (Rs.527 Bn) to account for execution risks in new linguistic geographies.

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### Scenario Triggers

- **Bear Case (FY30 AUM Rs.402 Bn, 25–30% probability):**

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January 02, 2026

\* **Trigger 1: South India Expansion Failure:** Delinquencies in Tamil Nadu/AP exceed 2% within 24 months due to lack of local underwriting nuance (specifically regarding land titles/collateral).

\* **Trigger 2: Spread Compression:** Prime Lending Rate (PLR) forced down by >50 bps due to competition from Banks/Peer HFCs, compressing spreads below 4.5% before Opex efficiencies kick in.

- **Bull Case (FY30 AUM Rs.550 Bn, 15–20% probability):**

\* **Trigger 1: Rating Upgrade to AA+:** Occurs by FY27, reducing Cost of Funds by ~25–30 bps, funding aggressive growth without margin dilution.

\* **Trigger 2: Tech-Led Productivity:** Digital sourcing channels (CSC/Mitra) contribute >20% of sourcing (currently nascent), and TAT reduction drives Disbursement/Employee up by 30%.

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## Analyst Watchlist

1. **Opex to Assets Ratio (Q4 FY26):** Management guided for medium-term reduction below 3%. If this metric stays sticky above 3.4% despite AUM growth, the operating leverage thesis breaks.

2. **1+ DPD Metric (Q3 FY26):** Currently at 3.99%. If this breaches 4.5%, it indicates stress in the new "realisation-based" disbursement recognition system or trouble in MP/Karnataka belts.

3. **Tamil Nadu Branch Performance:** Monitor the vintage performance of the 16 branches (8 opened + 8 planned) in TN. High early delinquencies here would derail the Rs.550bn aspiration.

4. **Credit Rating Action:** A formal move from 'AA/Positive' to 'AA+' by CARE/ICRA is a direct trigger for the Bull Case valuation re-rating.

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