Twitter Thread by Smart Sync Services

Smart Sync Services
@SmartSyncServ

Financials are strange businesses. On a sale, money goes out from the pocket rather than coming in.

Growth comes first. NPA comes later.

Aavas Financiers says: “What Kills Others Makes Me Strong”

Buckle yourself up as we’ll take you through the 19-20 AR

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Challenges for Aavas:

~People, Process & Branch intensive
~Caters to Tier2 to Tier 6 towns
~Underwriting difficult
-Lack of docs
-No CIBIL records
-Mostly catering to EWS and LIG category

Now let’s run past the AR to find the cues to their success

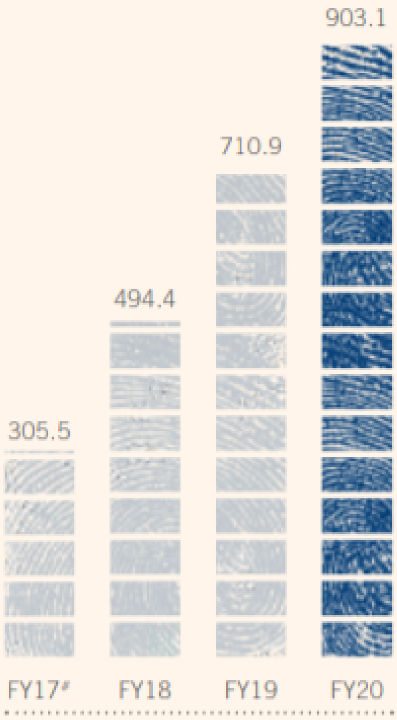
AAVAS OUTPERFORMED IN A CHALLENGING 2019-20 FOR ONE REASON.

THE COMPANY PUT THE CUSTOMER FIRST.

A Fast-growing Small Housing Finance Company in a Large Growing Housing Finance Market in India

A Fast-growing Small Fish in a Large Growing Pond

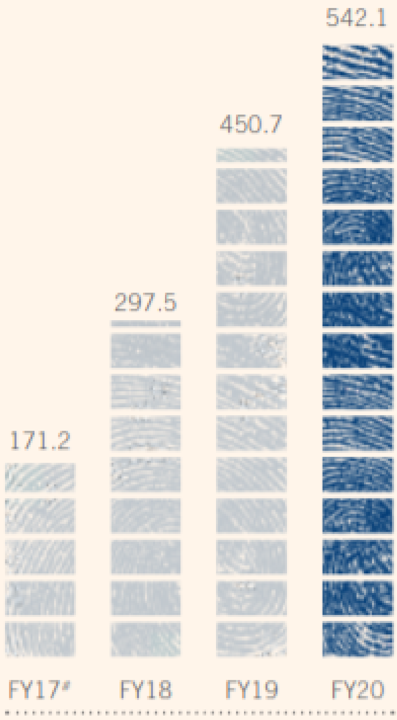
Total revenue
(₹ crore)



What it means
This indicates the ability of the Company to leverage its distribution networks, engage more customers and report higher revenues.

Result
Aggregate disbursements increased by 9.6% to ₹2930.4 crore in FY2019-20 due to the widening customer base and expansion of geographical reach.

Net total income (NTI)
(₹ crore)

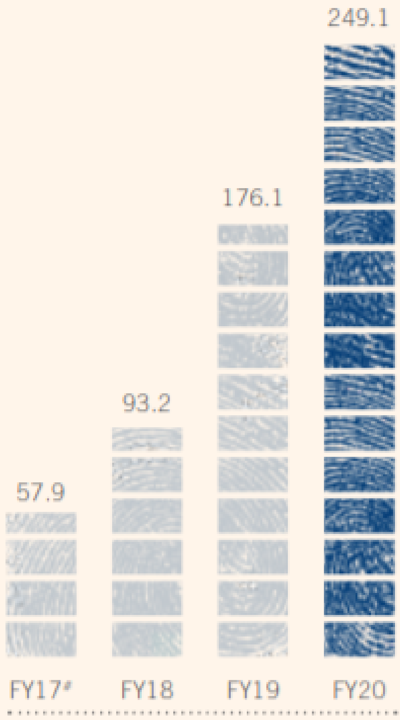


What it means
At Aavas, we protect our NTI* through superior underwriting and collection capabilities. We negotiate with our lending partners for a lower cost of funds and provide the customer with a risk-adjusted rate.

Result
Despite adverse market conditions, the Company's net total income grew by 20.3% over FY 2018-19.

*It is the total revenue minus finance cost.

Profit after tax
(₹ crore)



What it means
Ensures that an adequate surplus is available for reinvestment and allows the Company's growth engine to sustain.

Result
The Company's net profit registered an increase of 41.4% over the previous year.

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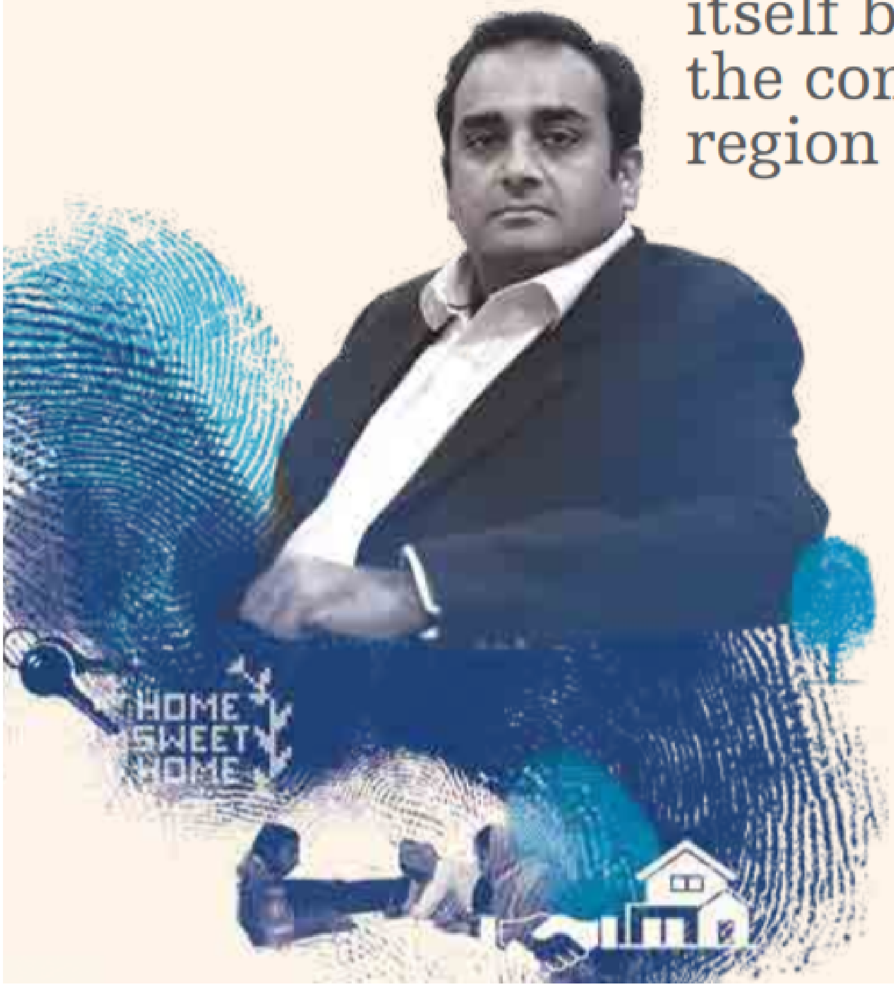
~The Chairman
~The CEO
~The CFO

See what they say

CHAIRPERSON'S OVERVIEW

The business of Aavas Financiers is not just good for itself but also for the community, region and country.



Nearly a decade ago, our business was the right one at the right time in the right country.

The country was passing through income expansion, aspirations were rising, there was a larger need for homes but the financing of these homes was largely reserved for those with formal and organised backgrounds. A number of families ran informal businesses but were credit-starved because they existed outside the range of organised housing finance players.

Interestingly, most of these customers were hardworking people with the highest integrity, countering the argument that they would be defaulters. They prided on their neighborhood respect and even a remote whisper

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~Strategic Objectives

~Credit Risk Appraisal Framework

~How Aavas is Being Different

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How Aavas’ customer accretion helps build a lower-cost company

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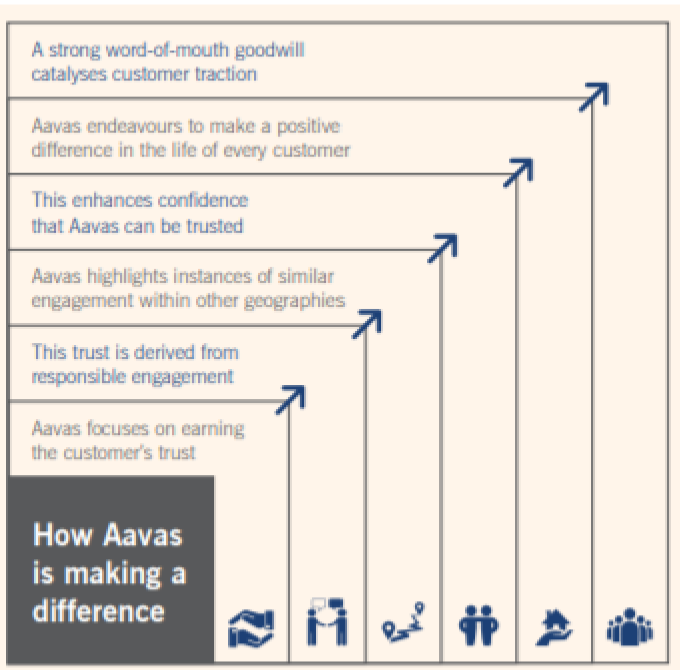
How Aavas is Making a Difference

Part 1



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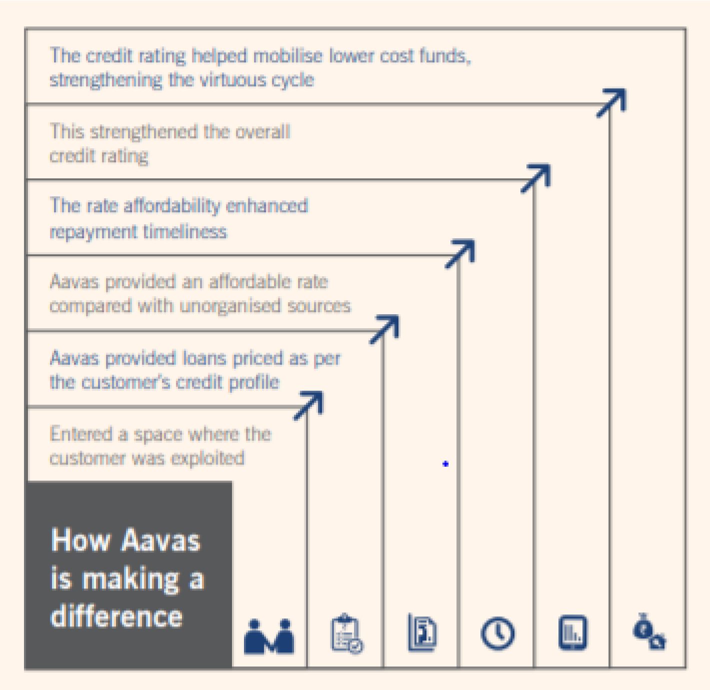
How Aavas is Making a Difference

Part 2



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How Aavas has built its business over the years

Values: Through a long-term approach in a long-term business, the Company is building itself as a human-centric enterprise where high people retention translates into distinctive knowledge capital, sectoral outperformance, sustained growth and enhanced value for stakeholders.

Strategic DNA: Aavas is a retail-focused mortgage company that primarily addresses the mortgage needs of individual home builders. The Company has resisted the temptation to invest in properties, finance real estate builders, engage in corporate loans or finance large properties under construction.

Deeper reach: The Company has most of its offices in the Tier 2, 3 and 4 locations of the country where residents are largely outside the ambit of the formal banking system. This has empowered Aavas to help people realise their dreams to own homes. In last two years, the Company widened its footprint to 10 States in 2019-20.

Service: The Company made it binding on its customer-interfacing executives to process mortgage applications within a stipulated period, failing which a pre-specified fine was deducted from their monthly remuneration.

Wide choices: The Company created personalised solutions for customers, which helped it provide the best possible solution.

Asset-liability mismatch: The Company's average liability of 134 months more than matches its average asset tenure – a positive ALM (rare in the sector).

Standards: The Company infused FMCG standards in the mortgage finance sector.

The result: freshness, discipline, best

How Aavas initiate measures to strengthen our credit profiles

Overview

At Aavas, our focus on improving portfolio quality, processes, portfolio health and customer delight translates into growth,the weakness in the broad housing finance sector notwithstanding.

Credit profile-strengthening initiatives

Created institutional intelligence: Aavas leveraged technology to create a distinctive understanding of customer profile. Approximately 65-70% of the portfolio comprised self-employed people owning small or medium businesses.

Customer-centricity: The Company categorised customers based on their loan amounts and respective teams, resulting in standardised processes, proposal understanding, documentation required and superior customer service.

Creating empowerment: The Company empowered employees to make decisions with certain check points; the sanctioning authority was made equivalent to the rejecting authority, enhancing accountability, for risk understanding and customer service.

Diversified portfolio: A low ticket size and 250 branches ensure that the portfolio is diversified.

Credit appraisal strengths

Speed: Inter-department synergies resulted in better understanding and faster workflow

Capability: The Company built an expert in-house team for a deeper understanding of cash flows, technical and legal analysis of property valuations.

Visits: The Company's operational risks team conducts surprise customer visits, minimising the risk of window dressing.

Health: The Company created an MIS highlighting portfolio health on a daily basis, addressing challenges with speed

Screen: The Company's high screening standard resulted in a lower NPA compared to the sectoral average.

Challenges and counter-challenges, 2019-20

Training: The Company conducted credit control training programs and on job training across the engagement lifecycle.

Empowerment: The Company implemented floating and mobile credit risk managers to address emerging needs.

Checks: The Company leveraged technology in analysing characteristics of credit appraisal executives with the objective of connecting the right person to the right job profile.

Delinquencies: The credit team visits every case as soon as it falls in the 90 days-past due category and engages with those customers to understand challenges and provide solutions.

Way ahead

The Company will continue to prioritise portfolio quality in light of its growing customer scale and new branches.

The big numbers

2.43

%, Our 1+DPD as on March 31, 2020

3.43

%, Our 1+DPD as on March 31, 2019

~Sectoral Review

~Government Initiatives

Mortgage finance sector review

The Indian housing finance market grew to approximately ₹20.7 lakh crore as on 31st December 2019, growing approximately 13% over the previous year. The number of registered housing finance companies with National Housing Bank stood at 101 as of March 2020.

On the assets side, the total advances of housing finance companies grew to approximately ₹11.1 lakh crore as on 31st December 2019, growing ~7% over the previous year. The period saw their home loans portfolio grow ~6%, while their other loans portfolio grew higher at ~11%. The stress faced by the NBFC sector led to a sharp deceleration of growth in the credit extended by HFCs, as some HFCs had to temporarily withhold disbursements to maintain liquidity.

On the liability side, the borrowing mix of housing finance companies changed as they moved back towards bank borrowings, whereas earlier their borrowings via capital markets were high; due to improving bank's NPAs, credit from banks re-emerged as a preferred source of funding. The bank borrowings of housing finance companies comprised a 26% share in the total borrowings of HFCs in December 2019 compared with 19% in March 2018. Borrowings via commercial paper declined from 10% in March 2018 to 5% in December 2019.

The growth in advances by housing finance companies was partly fueled by increasing non-housing loans (for instance loan against property) because of higher margins on account of high associated risks. The growth in non-housing loans had a dampening effect on the asset quality of housing finance companies. The GNPA of housing finance companies rose from 1.1% in March 2018 to 2.2% in December 2019. The gearing at which housing finance companies operated decreased from 7.2 in March 2018 to 5.6 in December 2019.

On the profitability side, housing finance companies were affected by a rise in provisions and moderation in interest income. The moderation in interest income came on account of the slow growth in advances of housing finance companies.

(Source: ICRA Report of April 2020)

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~SCOT Analysis

~Risk Mitigation Strategies

Aavas' SCOT analysis

Strengths

- Capacity of assessing informal segments with better assets quality
- Technology-driven in-house sourcing and execution model
- Positive ALM; no reliance on Commercial Paper
- Low leveraged Balance Sheet with high net worth
- Deep distribution network

Opportunities

- Low mortgage penetration
- Increasing number of self-owned homes
- Enhancing rural and semi-urban disposable income
- Government's focus on affordable housing

Challenges

- Sectoral slowdown
- Liquidity crunch
- Real-estate sector slowdown
- Geographical concentration

Threats

- Increasing competition
- Exposure to vulnerable borrower segment
- Reduced credit availability
- Risk aversions on sector by lenders

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Aavas is at that end of the market where big guys like HDFC, LIC HF, PNB HF, Repco etc will not bother to enter.

~Avg Ticket Size < 10 lacs
~Mostly in towns < 10 L pop

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Are you excited?

Wish to indulge more on Aavas?

Watch this video to know more about the CEO Mr. Sushil Agarwal and the business Model https://t.co/WNK1SWhOEJ

If you enjoyed this ride on the AR of Aavas, L&R for wider reach■