

Financial Services

Sector Update

March 19, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (Rs)
AAVAS Financiers	BUY	1,125	1,700
Bajaj Finance	BUY	880	1,125
Can Fin Homes	Accumulate	849	1,015
Cholamandalam Investment and Finance Company	BUY	1,524	1,850
Home First Finance Company India	BUY	983	1,375
LIC Housing Finance	Accumulate	503	525
Mahindra & Mahindra Financial Services	Accumulate	321	395
Shriram Finance	BUY	1,021	1,175
Sundaram Finance	Hold	5,000	5,500

Demand resilient through deeper market penetration
Quick Pointers

- **Steady demand driven by self-employed borrowers and first-time buyers**
- **Connector/ CSC based sourcing remains dominant**
- **Faster TAT helps HFCs to compete with banks**

We visited branches of Home First Finance (HOMEFIRS) and Aavas Financiers (AAVAS) (in Thane, Maharashtra, and Vapi, Gujarat) to assess demand trends, underwriting practices and sourcing dynamics in the affordable housing finance segment. Our interactions indicate that demand for small-ticket housing loans remains resilient, driven by first-time homebuyers and self-construction activity in Tier 3/4 markets. While banks are key competitors owing to lower interest rates and higher loan eligibility, HFCs continue to maintain relevance in the affordable housing segment through faster TAT, greater flexibility in assessing informal income profiles, and stronger local sourcing ecosystems such as connectors, referral networks and alternative lead channels. These structural advantages enable HFCs to penetrate underserved customer segments and sustain demand. We reiterate BUY on HOMEFIRS (TP of Rs 1,375 at 2.6x FY28E P/ABV) and AAVAS (TP of Rs 1,700 at 2.1x Dec-27E P/ABV)

- **Demand and customer profile:** Affordable housing demand across the markets visited remains largely end-user driven with most borrowers being first-time homeowners rather than investors. Loan demand is steady in self-construction and small apartment projects in peripheral areas, where land prices remain relatively affordable and borrowers prefer constructing incremental housing units. Our interactions indicate that traction in Tier 3/4 markets is driven by manageable EMIs and limited access to formal credit.
- **Competition and differentiation:** Banks are key competitors owing to lower interest rates and higher loan eligibility. However, speed of processing, customer familiarity and flexibility in credit assessment continue to be key differentiating factors for housing finance companies (HFC) enabling them to penetrate underserved customer segments. This advantage is particularly relevant in informal income segments, where limited documentation and urgency of funds often outweigh differences in borrowing costs.
- **Sourcing ecosystem:** Sourcing continues to rely heavily on local connector ecosystems and referral networks, which play a critical role in identifying customers with informal income profiles. At the same time, companies are gradually scaling up alternative channels such as connectors, digital-assisted platforms and common service centers (CSCs) to contribute to incremental disbursements.

Aavas Financiers – Self-construction focus driving growth

Segment focus and ticket size: The branch operates with an average ticket size of INR3-4mn, with lending largely focused on projects in micro markets such as Greater Thane, Kalwa etc. It has tie-ups primarily with Category A and B developers such as Lodha, Dosti and Runwal, while avoiding smaller developers to manage construction and legal risks. Property eligibility criteria remain stringent, with the branch not financing gram panchayat or pagdi properties, although loans are extended for under-construction residential units. Product mix at the branch level broadly comprises ~60% home loans and ~40% non-housing loans with a yield of 11-12% on home loans and ~14% on LAP, resulting in a blended yield of 14-15% at the branch-level.

Geographic expansion: Rajasthan remains the company's largest market, while Uttar Pradesh is emerging as a key growth engine with the company scaling its presence from 6 branches in 2019 to 27 branches currently. In Rajasthan, company faces relatively intense competition from AU Small Finance Bank, which has a wide coverage in the region.

Underwriting and credit filters: Aavas continues to adopt a cash-flow-based underwriting approach, supported by strong personal discussions and verification through its risk control unit. The company follows a state-specific underwriting framework, recognizing credit behavior across geographies. In addition, it avoids certain property categories such as gram panchayat properties due to legal complexities and weaker collateral enforceability, highlighting its focus on property marketability and recovery prospects.

Sourcing diversification (CSCs, e-Mitra): The company has also been expanding its lead sourcing ecosystem to e-Mitra platforms and CSCs to expand its reach in smaller towns. The CSC initiative has recently begun to gain traction, with ~INR860mn of disbursements reported in Dec'25 alone and is expected to contribute to ~10% of total disbursements over the medium term. The company provides login fees-related waivers to boost sales and conducts booster competitions/ leaderboard activities to motivate sales officers for additional incentives.

Product strategy: Discussions highlighted that the top-up product carries higher yields compared to base home loans, while also helping retain existing borrowers and reduce potential BT-out risk. Customers with strong repayment history can receive top-up disbursements within 2 hours, through accelerated or conditional approval based on automated credit assessment. Awareness about the top-up product stands at ~60% of the customer base, with the company focusing on increasing adoption going forward.

Digital initiatives: The company has been investing significantly in digitalization of loan origination and management systems, helping automate several manual processes, including document verification and approval workflows, to improve operational efficiency.

Home First Finance – Faster TAT aids competitiveness

Ticket size and customer segment: Branch focuses on small-ticket affordable housing loans with an average ticket size of INR1-2mn, catering largely to self-employed borrowers such as small traders, shop owners and factory workers. Lending is primarily extended against ready residential flats and self-construction properties, with an average LTV of ~70%, based on borrower documentation such as KYC, ITRs or salary slips.

Micro-market demand: Demand remains visible across peripheral micro markets such as Chala, Gunjan and Chiri, Gujarat, where small residential projects and incremental housing construction are gaining traction. While property prices in these areas have risen 5-10% over the past 1-2 years, affordability remains intact given the small loan sizes. Self-construction demand in peripheral areas continues to remain healthy, as borrowers often prefer building small houses on affordable land parcels, rather than purchasing larger ready units.

Sourcing via connectors: Lead generation is predominantly connector-driven, with branches maintaining a strong network of local intermediaries to source potential borrowers. While builder tie-ups remain limited, referrals from local developers such as Pramukh, Vaibhav and Shreeji Builders contribute to incremental deal flow. Incentive structures for RMs are aligned with both business sourcing and collection performance, with additional focus on onboarding new connectors.

Competition and TAT advantage: Public sector banks (SBI, BOB.) and large NBFCs (HDBFS) offer relatively lower interest rates, but company's ability to sanction loans within ~48 hours provides a key competitive advantage, particularly for borrowers seeking faster access to funds. Pricing flexibility is occasionally offered on a case-to-case basis through processing fee waivers or marginal rate adjustments, particularly for salaried borrowers or strong credit profiles.

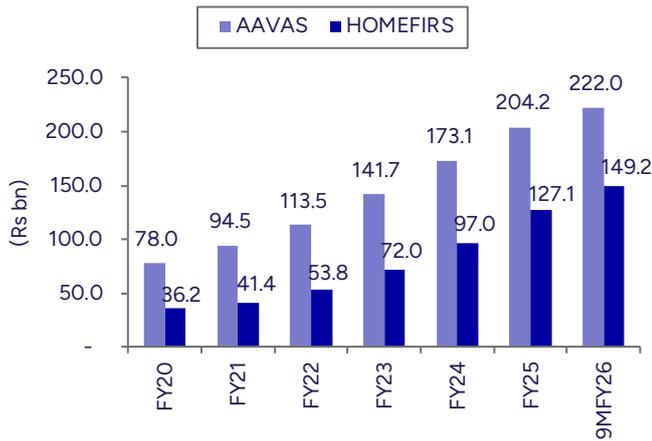
Asset quality and BT-out: Branch has a bounce rate of 6-7%, although 10-15% of such cases are typically resolved within 3-5 days, due to temporary liquidity constraints or technical issues. RMs conduct proactive field visits prior to EMI dates to remind borrowers about maintaining adequate balances, which helps to contain delinquency levels. BT-out stands at 4-5%, largely occurring when borrowers shift to banks after their loan eligibility improves or longer tenure loans are available.

Exhibit 1: Key points observed during branch visits

Company	Aavas Financiers	Home First Finance
Place	Thane, Maharashtra	Vapi, Gujarat
Average ticket size	INR3-4mn	INR1-2mn
Customer profile	Mostly salaried	Small traders, shop owners, factory workers
Lead generation source	CSCs, referrals and marketing activities	Connectors, referrals and DSAs
Loan to value ratio (%)	Usually 60-70%; up to 90% for customers with ATS below INR3mn and good credit history	~70% depending on the type of product
Documents required	KYC documents (Pan/Aadhar), bank statements, salary slips, GST return/ ITR return, utility bills, purchase bills, property documents	KYC documents (Pan/Aadhar), salary slips, GST return/ ITR return, property documents
No. of people in the branch visited	~5 people	~4 people
BT-out rate	5.5-6%	4-5%
Turnaround time (TAT)	5-6 days	~48 hours
No. of files disbursed in a month	~10 files (disbursements ranging from INR30-120mn)	4-5 files
Separate sales and credit underwriting teams	Yes	Yes
Underwriting model	Salaried customers - Centralized credit team SENP - Decentralized credit team in large branches; 50-60% cases underwritten in branches	Centralized credit team
Technical valuation/ legal team	In-house; For cases above INR2.5mn, additional validation outsourced	Outsourced
Systems/ tech used	SalesForce, Oracle Flexcube, MuleSoft API, geo-tagging, bounce prediction	SalesForce, account aggregator data, HomeFirst Connect, RM Pro, bounce prediction
Incentive structure / Commissions	Incentives are linked to sales; ROs also get incentives on leads generated and collections	Incentives are linked to onboarding of new connectors and collections; connectors usually earn 20-40bps on referrals
Bounce rate	NA	6-7%
Separate team for collections	No; collection team is at cluster level based out of Kalyan	Yes

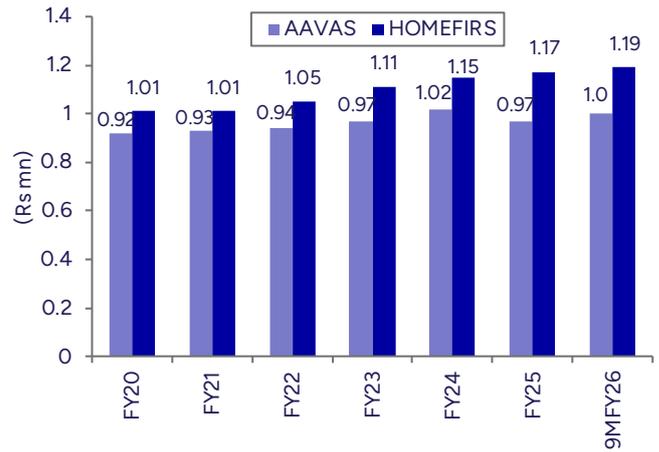
Source: Company, PL

Exhibit 2: HOMEFIRS/ AAVAS grown AUM at 29%/ 21% over FY20-25



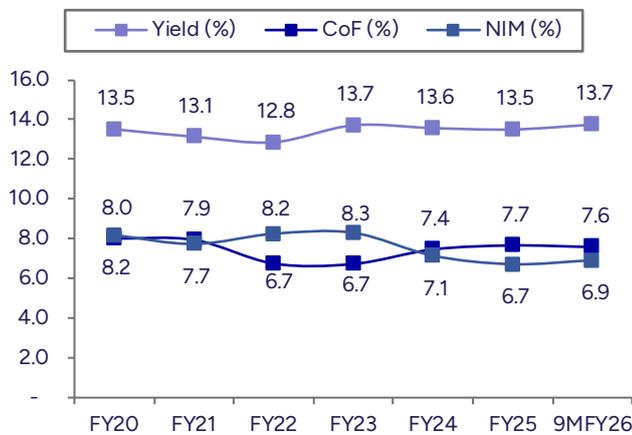
Source: Company, PL

Exhibit 3: Average ticket size for both players shows an upward trend



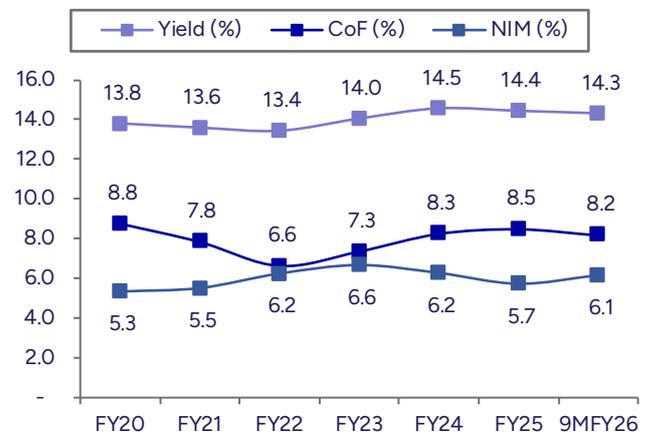
Source: Company, PL

Exhibit 4: Yield / CoF improved leading to uptick in NIM for AAVAS



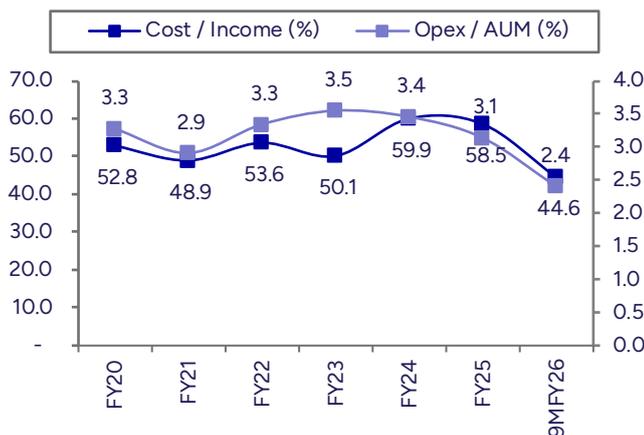
Source: Company, PL

Exhibit 5: NIM for HOMEFIRS improved due to reduction in CoF



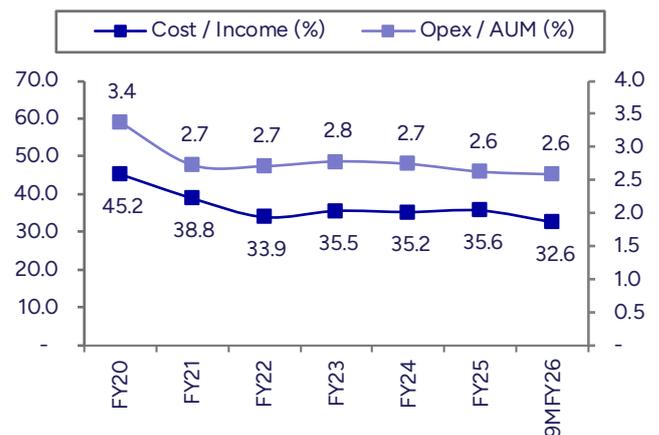
Source: Company, PL

Exhibit 6: Opex for AAVAS is declining with better productivity



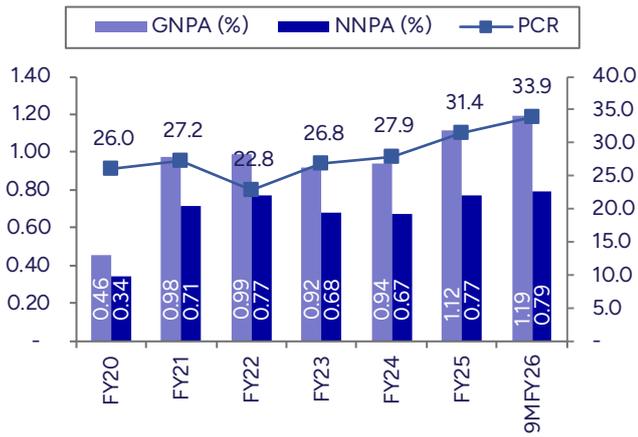
Source: Company, PL

Exhibit 7: Distribution-light model keeps opex in control for HOMEFIRS



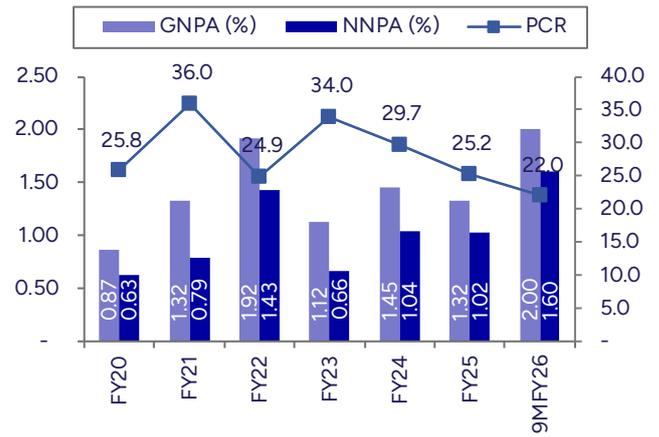
Source: Company, PL

Exhibit 8: Drag due to geographic and MFI/ tariff issues for AAVAS



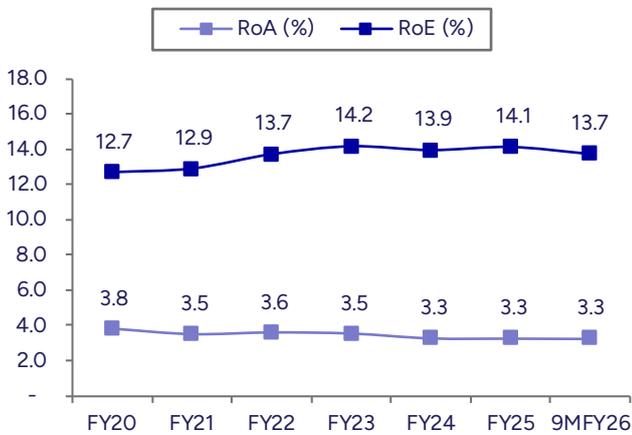
Source: Company, PL

Exhibit 9: MFI/ tariff stress affecting asset quality for HOMEFIRS



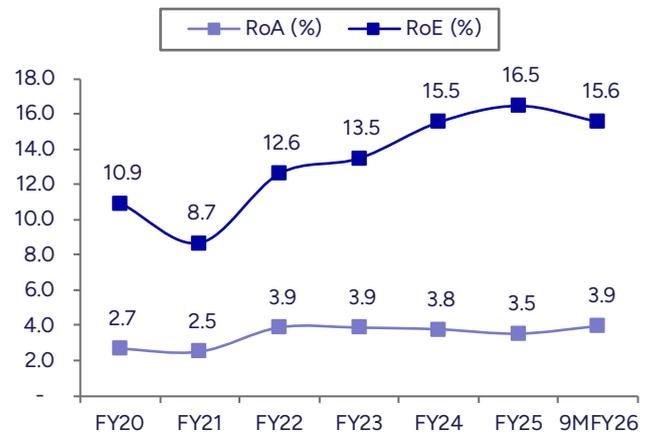
Source: Company, PL

Exhibit 10: Calc. RoA for AAVAS was largely stable



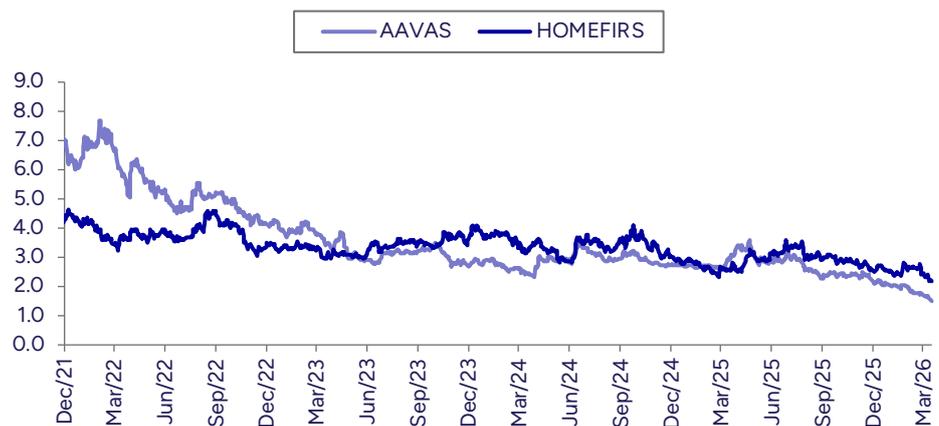
Source: Company, PL

Exhibit 11: HOMEFIRS saw an uptick in RoA (calc.) in 9MFY26



Source: Company, PL

Exhibit 12: One-year forward P/ABV of AAVAS and HOMEFIRS trades at 1.5x and 2.2x respectively



Source: Company, PL

Exhibit 13: Valuation summary

Company	CMP (Rs)	MCap (Rs bn)	TP (Rs)	Rating	% Chng.	P/ABV (x)				RoE (%)				RoA (%)			
						FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
Aavas Financiers	1,125	89	1,700	Buy	51%	2.1	1.8	1.6	1.4	14.1	13.9	13.7	14.4	3.3	3.3	3.2	3.4
Home First Finance	983	103	1,375	Buy	39%	3.7	2.5	2.2	1.9	16.5	15.8	13.5	13.7	3.5	4.0	3.7	3.5

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	AAVAS Financiers	BUY	1700	1380
2	Bajaj Finance	BUY	1125	964
3	Can Fin Homes	Accumulate	1015	938
4	Cholamandalam Investment and Finance Company	BUY	1850	1594
5	HDFC Life Insurance Company	BUY	900	723
6	Home First Finance Company India	BUY	1375	1174
7	ICICI Prudential Life Insurance Company	Accumulate	725	684
8	LIC Housing Finance	Accumulate	525	496
9	Mahindra & Mahindra Financial Services	Accumulate	395	371
10	Max Financial Services	BUY	2050	1734
11	SBI Life Insurance Company	Hold	2125	2053
12	Shriram Finance	BUY	1175	1004
13	Sundaram Finance	Hold	5500	5359

PL's Recommendation Nomenclature (Absolute Performance)

BUY	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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