Date: May 15, 2024

To, **BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 Scrip Code: 544044**	To, **National Stock Exchange of India Limited, Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 NSE Symbol: INDIASHLTR**

Sub: Transcript of the Earnings Conference Call for the Financial Year ended March 31, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the transcript of the earnings conference call for the financial year ended March 31, 2024, held on Thursday, May 09, 2024 is available on the website of the Company.

The transcripts can be accessed from the link given below.

https://www.indiashelter.in/investor-relations

Further, we confirm that no unpublished price sensitive information was shared/discussed in the meeting.

You are requested to take the same on record.

Thanking you.
Yours faithfully,

For India Shelter Finance Corporation Limited

MUKTI CHAPLOT Digitally signed by MUKTI CHAPLOT Date: 2024.05.15 17:10:15 +05'30'

Mukti Chaplot
Company Secretary and Chief Compliance Officer
Mem. No. 38326

"India Shelter Finance Corporation Limited

Q4FY24 Earnings Conference Call"

May 09, 2024

MANAGEMENT: **MR. RUPINDER SINGH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. ASHISH GUPTA – CHIEF FINANCIAL OFFICER
MR. RAHUL – HEAD INVESTOR RELATIONS

MODERATOR: **MR. RENISH BHUVA – ICICI SECURITIES**

This is a transcription of the earnings call conducted on 9th May 2024. The audio recording can be accessed using the following link, https://www.indiashelter.in/investor-relations

Moderator: Ladies and gentlemen, good day and welcome to Q4FY24 Earnings Conference Call of India Shelter Finance Corporation Limited, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on a touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities Limited. Thank you and over to you, sir.

Renish Bhuva: Yes, thanks Muskan. Hi, good morning everyone and welcome to India Shelter Q4FY24 Earnings Call. On behalf of ICICI Securities, I would like to thank India Shelter Management for giving us the opportunity to host this call.

I will now hand over the call to Rahul for the introduction and then we'll proceed. Yes, over to you, Rahul.

Rahul Rajagopalan: Thank you, Renish. Good morning, everyone. I take this opportunity to thank ICICI Securities for hosting the call today. I hope everybody had an opportunity to go through our investor presentation and press release uploaded on the stock exchanges yesterday. We have also uploaded the excel fact sheet on our website. With me today, I have Mr. Rupinder Singh, MD and CEO, Mr. Ashish Gupta, CFO, and myself, Rahul, Head IR. I now request Mr. Rupinder Singh, our MD and CEO, to brief you all about the company's performance. Thank you and over to you, sir. Thank you.

Rupinder Singh: Very good morning, everyone. On behalf of the India Shelter Finance Corporation, I extend a warm welcome to all of you. Thank you for joining us on the call today. For the company, the financial year 24 has gone well. We have been able to maintain our investments in branch, people, and technology to help us grow sustainably. We have been able to navigate well during the rising interest rate cycle and maintain our margins, yields, and profitability as per the plan.

Moving on to the results for the quarter, we are pleased to report a good quarter. AUM stood at Rs. 6,084 crores, which grew 40% year-on-year and 8% quarter-on-quarter, driven by disbursement growth of 10% quarter-on-quarter to Rs. 747 crores. Full-year disbursement stood at Rs. 2,645 crores, registering a growth of 35% year-on-year. We continue to deepen our presence in the location we are present in. We added 40 new branches during the full year and 8 new branches in the quarter, totaling our presence to 223 locations in 15 states at the end of the financial year. We continue to source internally with in-house sourcing at 98%.

Moving on to the liability side, liquidity pipeline is very strong with positive ALM. The company has access to diversified and cost-effective long-term borrowings. Our rating upgrades have been consistent over the years. During the quarter, India Rating & Research assigned us our rating to AA- (Stable).

In terms of asset quality, 30+ DPD improved sequentially to 2.4% from 3.5% and continues to be stable on year-on-year basis. Gross Stage 3 and Net Stage 3 improved to 1% and 0.7% respectively as of 31st March 2024 as against 1.1% and 0.8% as of 31st March 2023.

Our expectations for the year continue to be the same what we indicated last time.

- Branch addition of around 40-42 for this year
- Maintaining the spread at around 6%
- Credit cost of 40 bps
- Loan growth of around 35%.

Now I would like to hand over call to Ashish Gupta, our CFO to take you through the financial metrics. Over to you Ashish.

Ashish Gupta: Thanks, Rupinderji. Good morning friends. Let me take you through the key financial numbers. Total income for the quarter is up by 38% year-on-year basis and 12% up on quarter-on-quarter basis. Total income for FY24 is at Rs. 861 crores up by 42% year-on-year basis. Portfolio yield is at 14.9%, year-on-year it is up by 20 bps, quarter-on-quarter it is up by 10 bps. This is primarily driven by improvement in our disbursement yield for FY24, which is at around 14.9%.

We have diversified source of borrowing with more than 30 counterparties. Our cost of fund quarter-on-quarter is stable at 8.8%, year-on-year it is up by 10 bps due to increase in market interest rates. Our marginal cost for FY24 is at 8.6%. Share of NHB funding is at 15%. We have undrawn sanction of Rs. 210 crores from National Housing Bank to be utilized in Q1 of current financial year.

Our margins for the quarter is at 6.1%, which is in line with our guidance of 6% for the medium term. Net income for the quarter is up by 40% year-on-year basis and 18% up on quarter-on-quarter basis.

Opex for FY24 has grown by 30% against 40% growth in our AUM and 42% growth in our income resulting in operating leverage. Opex to AUM in Q4 is at 4.4%, year-on-year down by 30 bps. Cost-to-income for the quarter is at 38%, year-on-year down by 200 bps.

Credit cost for the quarter is 40 bps in line with our guidance. Sequential uptick in the credit cost is on account of our policy to write off old age NPA accounts annually in the March month. DPD 30 is at 2.4%, year-on-year it is stable. Our Stage 3 assets are at 1%, year-on-year down by 15 basis points. Our provision coverage ratio for Stage 3 assets is stable at 25%.

PAT for the quarter is at Rs. 78 crores, year-on-year up by 47%, quarter-on-quarter up by 25%. PAT for the FY '24 is at Rs. 248 crores, year-on-year it is up by 59%. ROA for the quarter is 5.4%, year-on-year it is up by 30 basis points, quarter-on-quarter it is up by 70 basis points. Our ROE for the quarter is 13.8% at a leverage of 2.5x. ROE for the year is 14%, up by 60 bps year-on-year basis.

With this I conclude and now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: Hi sir. Congratulations for good set of numbers. Firstly, if we have to look at it overall in terms of the NIM trajectory, given that larger part of the growth has come with respect to interest on loans, just broadly I want to gauge in terms of what has led to, I would say on a calculated basis it comes to more than 40 bps kind of increase out there. So what would have ideally led to this kind of rise and how much of this is sustainable? Maybe in the other line items obviously there would be an element of IPO funds, but interest on loans just broadly want to get the delta on a quarter-on-quarter basis?

Rupinder Singh: Thank you Kunalji. If you see, yes, there is an impact of IPO equity. And again along with that if you see that our spread, what we are maintaining in the tune of the guidance as given earlier of around 6%, this time it was 6.1%. Yes, focus was there on the ground and we sustain ourselves. If you see going forward, we feel that we are in position to maintain it to the level of 6% and we want to continue in coming time also.

Kunal Shah: Yes, but in terms of any rate action, anything was there which would have led to this?

Rupinder Singh: Most of the book is on fixed rate of interest. So, for the new customer which we are acquiring, yes, we have ensured that we have this uptick for getting the rate as per the spread of 6%. But for the rest of the customer, we have not changed in this quarter anything.

Kunal Shah: Okay, nothing is changed. And secondly, overall with respect to the ECL provisions on AUM, that is maybe marginally down. No doubt there is an improvement on 30 plus as well to 2.4%. But what would be the levels wherein we would be comfortable? Would we want to make some provisioning on this Stage 1 and take that or keep it at somewhere around 1% or would that be the indication or we would be comfortable at this level looking at the collection efficiency and the trends in GS3 and GS2?

Ashish Gupta: So given the strong recovery trend in this affordable housing finance space, we believe that stage 1 asset provision will remain around 40-50 business point as a percentage of Stage 1 and Stage 3 asset provisioning will remain around 24% to 27%. You will see marginal improvement in our LGD. Last year it was around 26% this year it is around 25%. This is primarily on account of improvement in the recovery trend that we have seen in this particular year. That's why it has improved. Our PCR has come down from 26% to 25% this year. It will remain broadly in the similar range.

Kunal Shah: Okay, so we will keep it around 24-25. No plans to take it to 26-27 and overall ECL to somewhere around 1-odd percent?

Ashish Gupta: Yes, it will remain in the range of 24% to 27%. And if you look at ECL as a percentage of AUM, it is also a function of your Stage 3 asset proportion. Since our Stage 3 asset proportion has come down. That's why you are seeing a marginal dip in ECL as a percentage of AUM.

Kunal Shah: Sure. And write-off would be hardly Rs. 5-odd crores, during the quarter like 0.1%?

Ashish Gupta: Yes.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Yes, hi, good morning. Thanks for taking my question and congratulations on a great quarter. Just a couple of things. One is on the yield front, just continuing from the previous question. Now I do understand that at this point of time, I mean, you have been able to hold your spreads and yields per se. But let's say if we were to look at some of your competitors who have reported numbers, obviously, slightly larger in terms of size, are somehow witnessing some bit of pressure on yield. So maybe more from a medium-term perspective, how should we look at this whole dynamics between your AUM mix, your yield, and also if you could just give some perspective from a competitive intensity perspective, that would be really helpful? Thanks.

Rupinder Singh: Yes, thank you, Umangji. Frankly, we are able to hold this yield. What we are looking at is focusing majorly on direct sourcing, which is 98% for us, which is in-house sourcing. So this gives an impact that instead of depending upon third party, you give a better service turnaround time to customer, and then automatically this can be maintained in that sense. Till now, if you see, our fixed rate book is around 83%-84%. For the new customer, we always maintain that spread has to be 6%, that's what we had mentioned on the last call and even now. In future also, we want to maintain from short to medium range. This is the point which we always keep in mind.

So first, always being self-sourcing, which is in-house, that is going to work and keep improving, and secondly, maintaining the 6% of yield. In case there is trends coming down in terms of cost of funds in coming days, we would still like to pass it on to customers and maintain the same level of 6%. So, our objective is to stick to these metrics.

Umang Shah: Okay, understood. Sir, the second question was more from your overall profitability perspective. Now clearly at this point of time, there are some tailwinds given that the leverage on the balance sheet is lower. We just recently concluded an equity raise. So our reported ROAs are looking surely healthy. Now as we scale the balance sheet over the next two to three years, where should be the more steady state sort of ROAs? And also from an opex line perspective, I mean clearly our exit quarter opex ratios have been lower compared to our full year averages. So how should we look at, again, the whole mix between margin opex and eventual ROAs?

Rupinder Singh: Umangji, you understand this business is a long term and business of longevity. And what is important in this business is a largely persistence. If you see on the Opex side, this is something which has to keep coming down as the time progress because most of the cost, whether the tech cost, other things have been already absorbed. We are already available in 15 states, and what we need to do is penetration in these all states instead of spending somewhere else. So this is one thing which we have a focus on. As mentioned in the last call also, we would like to reduce this Opex to AUM by another 15-20 bps as the year gets progressed.

If you talk about ROA per se, this is an advantage as of now, but on a focused and sustainable pace, we always projected and pitched to be around 4%. So, 4% of ROA from current level to mid-level whenever the coming times, which we are going to maintain.

Umang Shah: Understood, sure. And just last question is on our cost of funds. I believe last quarter is when we got our rating upgrade. Has there been any meaningful benefit which has started coming through on a marginal cost of fund basis, or broadly that is kind of already built-in and we should not expect a material improvement in our cost of funds going forward?

Ashish Gupta: We have just got our rating upgrade in the last week of March 2024. So, we are in discussion with our lenders for our fresh funding as well as reduction in spreads for our existing borrowings. But discussions are since it's just a month since we have got this thing, so discussion will materialize over the period of time. And we expect 15-20 basis point improvement in our cost of fund by end of this financial year.

Umang Shah: Okay, all right, perfect. Thank you so much. Those were my questions and wish you all the best.

Moderator: Thank you very much. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Yes, so Ashish just mentioned that we are looking at 15 to 20 basis points improvement in cost of funds. Now is this driven by rating upgrades or are you also assuming that interest rates come down in the economy towards the second half of the year?

Ashish Gupta: So, this is assuming the stable state of interest rate environment. So, in case repo rate comes down then obviously the benefit will be larger.

Nischint Chawathe: Got it. Just a little bit on growth. You guided for around 30%, 35% growth. So, if you could spell out a little bit more descriptively in terms of how much growth we are looking at from existing branches like SSG types growth and how much is because of new branch addition and maybe a little bit of an annual plan for branch spread out that you will do in this year sort of a little more qualitative color for us to understand?

Rupinder Singh: Yes, we are present in 15 states, and we have a plan to open around 40 branches, 42 branches in this financial year and these branches will be staggered across the quarters. It is not at a one particular point. Every quarter there will be additions of 8 to 9 branches. So the new branches definitely when we open them they have a certain gestation time to reach a certain number vis-a-vis for the existing branch there is always a productivity drive. So this productivity drive is on basis of the current set of people what the numbers they have to produce. If the branch is working and performing well then maybe we have to add a couple of more relationship officers in that way. So one is branch opening which I mentioned 42 branches in a year.

Secondly is the productivity drive which will keep harping on and in case wherever we find the market is quite bullish we can add resource in those particular branches also. So this way we want to build up. So on these parameters which we confidently are able to produce the numbers in the last many years and we want to sustain the same metrics the same way.

Nischint Chawathe: So let me put this differently. What is the typical AUM or disbursement target for a branch manager?

Rupinder Singh: So if you see we don't give a target on an AUM basis for the branch because it's a continuous business. And if you reach a certain level then you realize that this AUM has been achieved maybe before time also in many cases. So what we give a target is on the basis of what is the branch sustainability in the number of files what they can process.

So any branch if that reaches to 16 to 17 disbursement in a month there we feel that this branch has reached the pinnacle. On an average if we see the number of branches what we have today average unit what they are disbursing is in tune of 11 to 12 units in a month. So any new branch will start -- it start with a humble number of 6 units, 7 units. Eventually it starts moving and reach to the level which is mid-range level of around 11, 12, 13 units and eventually when it reaches to the pinnacle it goes to the level of 17 units, 18 units. Once it reaches to 17 units, 18 units then it's the time to focus on that branch and maybe fragment it into two pieces so that the numbers can be accordingly set with the next level of division.

Ultimately all these process, all these file output has not to depend upon sales team, but also the processing team basically. So without having undue pressure on the team and getting the right output we believe 17 units, 18 units in the maximum which we try to produce from one branch.

So any market geography which gives the right output in that direction then we try to further penetrate it by adding one more branch in that vicinity. So this way these are the three important levels. The first level the starting level, the second level is mid-level with 12 units, 13 units and the next level which is the wish list -- all the branches take up immediately, but, substantially the time it goes is the 17 units, 18 units per branch basically that we try to achieve.

Nischint Chawathe: And how long is the journey from 5 units, 6 units to 17 units, 18 units which is like 4 years?

Rupinder Singh: So, again, it depends upon geography, market response, our resources, but what we have seen averagely the branch becomes sustainable to the level of 11 units,12 units in the year of around one and a half years approximately and another one and a half years of journey to this level of 16 units, 17 units particularly.

Nischint Chawathe: Got it. If I look at the repayment rate there was an expectation at the beginning of the year that because of withdrawal of CLSS the repayment rate would go down And I guess that's visible in some of the peers. So, for us it's almost been stable. So, is it something that the BT out rate has gone up this year or is it something that repayments have been higher this year?

Ashish Gupta: In fact, our repayment rate has improved by about 3% as compared to the previous year. Earlier it was, higher in the range of around, if you look at this as a percentage of opening AUM, this was at around 22% in FY23. And at this point, it is around 19%. So, there is 3% improvement. And 2% is driven by the withdrawal of the CLSS. And 1% is on account of our reduction in the BT rate in this particular year. So, BT rate last year was at around 6.5%. This year, it is around 5.5%.

Management: Nishant, this answers the question?

Nischint Chawathe: Yes, I think this answers my question. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Thanks for the opportunity. I don't know if this question has been asked before or not. But if I look at your NHB funding, that's about 15%. Do you plan to take this up? Because generally, when we look at other affordable housing finance companies, they tend to operate somewhere around 20%, 25%. So, to that extent, would you say that you have room to increase this share? And how would you look at ramping up your NHB funding over a period of time? That's my only question. Thank you.

Ashish Gupta: So, at this point of time, we were having around 15%, as you have rightly said. And on top of that, we have around Rs. 210 crores of undrawn sanction, which we will draw in Q1 of this current financial year, which will improve the NHB funding ratio. And just to emphasize here that NHB funding ratio is also a function of your credit rating, as well as your scale. So, as we have got a rating upgrade as well, so we expect in the coming time, we should be able to improve the NHB funding ratio further, to around 18%, 20%.

Raghav Garg: So, I think you had guided for a 15 to 20 basis point reduction next year in cost of funds. Does that assume that you would increase your NHB funding to 18%, 20%?

Ashish Gupta: So, it is a blend of both. The reduction that we get on our new funding as well as increase in the proportion of NHB funding.

Raghav Garg: Okay. So, that cumulative benefit would be around 18 to 20 basis points.

Ashish Gupta: Yes.

Raghav Garg: Right. And at what rate would you be drawing your NHB fund? That's one question. And another one is, what is the share of affordable fund within this total NHB pool that you have?

Ashish Gupta: So, out of the total NHB pool, we have affordable housing fund to the tune of 50% earlier. But now we are seeing some reduction from the government side or from the NHB side in this affordable housing pool. So, earlier this used to be around 50%, 60%. Now, this has come down to around 30%, 25% this particular year. So, earlier the spread between the regular borrowing cost and the NHB fund was around 200 basis points. Now, this spread has slightly reduced to around 150 basis points.

Raghav Garg: So, you are essentially saying that the allocation from the government has reduced towards the affordable housing fund. Is that what you are saying?

Rupinder Singh: It cannot be assumed that this has been reduced from the government side. It is something that they have to plan and impute. Sometimes it goes to the level of 50% and accordingly sometimes it also comes down. There are expectations of schemes after this election get over. So, what that comes, I think it is still under discussion. So, it can go, either way in that sense. So, assumption will be difficult to create out of this answer what Ashish has given.

Ashish Gupta: This is a part of annual budgetary exercise of the government. So, we will see how the budget for this year goes once this election will be over.

Raghav Garg: Understood. Thanks a lot. That is all from me. Thank you.

Moderator: Thank you. The next question is from the line of Sarthak Malhotra from Think Investments. Please go ahead.

Sarthak Malhotra: Hi. I just want to check. Is there like any plan around the mix of LAP and affordable housing? Because LAP seems to be a little bit on the higher side.

Ashish Gupta: So, our home loan LAP ratio is broadly stable at around, 58%, 42%. 58% is housing loan and 42% is LAP. And just to reiterate from the principal business criteria perspective, we keep to selling, our LAP portfolio to banks in the form of direct assignment transactions, which help us maintaining, our on-balance sheet HL-LAP ratio in a much better fashion. So, at a balance sheet level, our home loan ratio is more than 70% and LAP is close to 30%.

Sarthak Malhotra: Got it. And any, like, can you give me some update on, like, how the co-lending piece is progressing?

Ashish Gupta: So, co-lending is something which we have started last year in the month of March 2023. Over the year, last 12 months, it has seen some good shape. We have been able to disburse around Rs. 150 odd crores of funding in co-lending. And this number may improve in the coming time. But this is an evolving subject still. We are still working on like, a couple of things. And we'll see some uptake in the co-lending volume in the coming years.

Sarthak Malhotra: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Sanket from Dam Capital. Please go ahead.

Sanket: Yes. Hi, sir. Congrats on strong set of numbers. My question was on in-house sourcing. So, 98% of the sourcing is in-house for us. And maybe, say, to reach a certain size of AUM, we can continue this 35% AUM CAGR. But some of our peers not having the alternate sourcing channel, have faced difficulties in terms of growth after reaching a certain size. So, are there any thoughts that maybe not out-and-out underwriting from, say, corporate DSAs, but individual DSAs or connectors, which some of our peers use? Is there any thought process to tap that sometime in future or how you think on those lines to keep up the growth even after we reach a certain size or certain threshold?

Rupinder Singh: Yes. Thanks, Sanket. Actually, the point is the joy of this business is more into evolving in a fashion, which brings some innovation on that side. So, instead of doing what market is doing, India Shelter always believed to be a little focused on the tech side. And I think on the field, we always have to prioritize to get the best output by ensuring ease of doing business at the field side. So, when we put our resources, give them the right technology, right equipment to operate in the market, they become more confident and that ease of doing business helps them to score better in the market sense.

I think our focus is more on improving the productivity at that level instead of focusing on the third-party channels. Those channels are always available anyway. They were available in past and future also. And it's more on a trade-off basically what you want to focus on. We believe that this is something which we want to create a niche around for coming times also. Giving that choice is always available. So that's not something we have a focus as of now. So, if it has to come up, I think that is not in plan immediately as of now.

Sanket: Sure, sir. And lastly, on this stage 2 plus stage 3, which is currently 30 plus DPDs around 3.24 for us, you think it's a steady-state number or where should we put our hooks on in terms of seeing this number on a sustainable basis?

Ashish Gupta: So at this point of time, we have around 2.4% which is in line with our last year. But if you see the journey of last year, that will give you like enough indications that our DPD 30 remains in the range of 2.5% to 3.5% largely during the year.

Rupinder Singh: So, there are some seasonality factors as well. But when you see year on year, we know that this is very well in control. So, if there are any seasonality factor, our collection teams are very well-equipped. All 400 collection resources are available across these 220 branches, and we have a good control on that.

Sanket: Okay. Sure, sir. Yes, those were my questions.

Moderator: The next question is from the line of Bhavik Dave from Nippon India Mutual Fund, please go ahead.

Bhavik Dave: Hi. Good morning, sir. Congratulations on a good set of the numbers. Sir, just one question and you alluded to your BT rate coming down from 6.5% to 5.5% if I got the number right. I just wanted to understand this trend, right? And if you could just elaborate a little more on what is leading to this improvement? Is it we are offering lower rates to these customers and getting them on board or not letting them go? And what is the process that you are following to keep this pool, like indicating this pool that we understand that they want to go for a BT out and we are trying to curb them? So interest rates, top-ups, what are the two, three top reasons that we are able to help the customer with or services in some form that helps the customer to stay back versus bidding out? So what led to this improvement and how can we do this consistently over the next couple of years?

Rupinder Singh: So BT rate normally depends how the market rate trends are there basically. So last couple of quarters there has been always a trend which is on the upper side. So people don't like to go out just getting a top-up or something like that. They also look for an interest cut in one way or another. So if interest cycles are going up, then automatically BT rate also comes down. That is an important piece.

On the other side, if you are going deeper markets, which are tier 3, tier 4, then you'll obviously find that BT rates are lower than the larger markets basically. So as we are penetrating the current set of markets where we are operating it, so the BT rate will have this trend where it will not go substantially as it goes in the larger market on that side. Otherwise, these are a set of customers, normally they go for BT after a certain time where they feel that it's the time to take a top-up or maybe a very large duration cut, which is not a trend as of now basically.

Bhavik Dave: And if you could just highlight where these customers go, are these smaller NBFCs or HFCs, they try to be aggressive and take our customers? Or is it like more banks, SFBs, where are these customers going, if you have a trend of these 5% or customers that go out?

Rupinder Singh: So this includes public sector banks, which are spread across the country. People, once they have a good track record, they start filing ITRs regularly and they reach to a level where they realize that they can have a decent rate cut. They approach to the public sector banks also. And in few of the NBFC who are quite aggressive on the LTV side, they look forward that if they are getting a very large chunk of top-up on that side, they also go there basically. So when we see for us the top 5-6 institutions who do the BT out for us that includes PSBs and a few of the large NBFCs.

Bhavik Dave: Last question on this is, at what vintage does a PSU bank or an aggressive NBFC come to? Is it like 2-3 years of track record with us and then they come and come in or is it like 1 year and they jump into the customer?

Rupinder Singh: Normally 2-3 years of track record, they look forward around that side. So that happens in this category particularly. And again, I am saying that most of these balance transfer which happens are in the tier two or the bigger towns compared to in the smaller places basically. So, what we are seeing as trends also, the markets where we are deep inside, we don't have any of these trends coming around. But yes, today these National Bank and large NBFCs have a presence in tier 1, tier 2 in a very sustainable way. So, they always opt for these kinds of opportunities which is easy to get. But yes, before that these guys have to create a track record of 2-3 years and regularly filing the ITRs.

Bhavik Dave: Perfect. Thank you so much.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi sir, good morning and thank you for giving me the opportunity. So, my question was pertaining to the vintage of our branches. So, in one of the slides, you have shown how the AUM of our branches have been doing since FY'21. So, I just wanted to understand for more than 3 year branches, where do you see that number stabilizing? And how do you see this 1-3 year vintage branches seeing the improvement on the AUM per month? So I just wanted to understand that metric and what is the scalability there?

Rupinder Singh: So AUM is something which you don't feel that it has to stabilize at one point. It is a continuous journey which has to keep improving as the vintage and time progresses. For us the stabilization which comes is the number of units each branch is disbursing. So take an example of any branch. If sustainability it is disbursing 18 units in a month, which means approximately 200 units in a year. And if it is existing from last 7, 8, 9 years, then the AUM can go to any. So it has to be sustainable to say Rs. 25 crores or Rs. 30 crores. We have branches which are with us from almost 10-12 years. And they are fully sustainable and give an output of around 18-19 units month on month. And their AUM anyway costs Rs. 60 to RS. 70 crores also. So it depends upon what level you have to take it to the branch in terms of output and productivity. And for us that metric is this 17-18 unit monthly disbursement.

First of all this customer is picky. So they don't have a tendency to close loan in 1 year or 2 years of time. The expected life of customer in the system is around 6.5 years, 7 years. So for 6 years, 7 years there is a consistent growth in that side. And eventually as we have seen that the branches which opened in 2013 when the ticket size was hardly Rs. 3.5 lakhs has gone to Rs. 9.5 lakhs. That inflation factor also works on that piece. So instead of focusing on AUM it is something like how the branch is sustainable and how monthly output they can give it. That's a metric that we measure and that's a metric that we are realistic picture of on the ground how it has to work basically.

Shreepal Doshi: Got it and sir typically how much radius does one branch cover and at what -- so do we have a strategy that if a branch is of certain size or of certain customer base we split it given that the business in that particular geography is pretty strong or the opportunity in that geography is pretty strong?

Rupinder Singh: So the point is normally when we open any new branch we see that from the existing branch to start with it should be around 50 kilometers, 60 kilometers away basically from the existing branch. So that both of the branch can cater a certain fragmented geography near to them. But as the time progress if there is a lot of potential in that market then we don't mind even opening one branch in between these two branches maybe 30 kilometers, 40 km away from there. So in few states where the penetration is quite deep and there are cases where two branches are just in a range of 35 kilometers, 40 kilometers also. But normally whenever we try to open a new branch we try to maintain a distance of 60 kilometers 70 kilometers from the existing one.

Shreepal Doshi: Got it, got it. Thank you sir, thank you so much for answering all my questions and good luck for the next quarter sir.

Moderator: Thank you. The next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Hi sir, thank you for taking my question. Just wanted to check if self-employed to salaried minute has been moving over the last 4 years more towards self-employed. Do you think this is the ratio where it will settle overall in terms of the mix or do you see it moving more towards the self-employed side? I have two more questions I will ask them after this.

Rupinder Singh: We are into affordable housing, and we cater the segment which is a part of LIG largely, Lower Income Group and the markets what we operate, Tier 2, Tier 3 and Tier 4. So we have with time built the expertise around underwriting them internally for the self-employed and that is the reason that's the focus area for us. The kind of yield what we maintain, the kind of profile what we take up on the book. I think that expertise need to be built and we have to hone those skills which our underwriting is able to do in last 12 years, 13 years. So as the time progressing the ratio of self-employed is improving. As we see today it's around 72%, 73% of the self-employed on the book.

Slowly steadily it is going to go up only because that's a major focus area also for us. So even in these markets, the salaried people you will find majorly the cash salaried basis or salaried people who don't have a very secure job in that sense, but as you see the self-employed people they have good sustainability, they have evolved themselves to a certain level that now they can put their equity to get their new home and there they need the support from India Shelter, they will get sustained along with them basically.

So with this thought and psychology and this philosophy our focus is going to continue to remain more on the self-employed side. So 4 years back self-employed ratio was around 65%. In 4 years it has come to the level of 72%. If you see next 3 years, 4 years you look it's going up to the level of 75% to 78%.

Jigar Jani: Understood sir. And sir just to understand in your presentation you have mentioned 30 plus DPD as 2.4%, but if you add this stage 2 plus stage 3 numbers that comes out to be 3.2%. So can you explain what is the discrepancy or I am not able to understand something here?

Ashish Gupta: So, there is no discrepancy as such like Jigar. So, there are two functions. One is that there is a restructured portfolio that we have done during the COVID restructuring time. So whatever accounts that we have restructured at that point of time that pool was around Rs. 30 Crores. In fact, over the last 2 years this has come down to around Rs. 20 Crores. So out of this Rs. 20 Crores, Rs. 2 crores is NPA which is there in stage 3 and Rs. 18 crores is there in stage 2. We have classified them at stage 2 asset irrespective of their DPD. So even though these accounts are paying their regular EMIs and all that but considering high risk in this particular class of customers we have classified them as stage 2 for the ECL perspective.

Jigar Jani: So restructured is in stage 2 which is why it is higher.

Rupinder Singh: And they have a decent track of more than 18 months where they are paying regularly.

Jigar Jani: Right sir. And on the co-lending side given that we have now started it last year and we are building it up. What impact do you see? Do you see any impact on yields because I am assuming this would be at lower yields than what we would normally do because with banks we will be doing higher ticket sizes per se or is it at similar yields as compared to your normal book?

Ashish Gupta: So even if we do slightly lower yield to the end customer even in that case, in our share of like co-lending we will get higher proportion of yield because our agreement with the co-lending partner will remain in the range of 9% and even if the ultimate customer is getting slightly lower than what we are currently offering we will make higher yield on 20%. So that will not impact our yield downward side.

Jigar Jani: Okay. Understood. And sir lastly could you share the one plus number if you share?

Ashish Gupta: Our one plus remained in the range of 4% to 5%. In March 2024 it was at around 4.2%.

Jigar Jani: 4.2%?

Ashish Gupta: Yes.

Jigar Jani: Okay. Thank you. That's all my questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Philip Capital. Please go ahead.

Shubhranshu Mishra: So this split of LAP and home loans can be given in terms of salaried and self-employed and the tier of cities. That's the first question.

The second is that though we speak about own sourcing, if we look at our cost to income or Opex to assets is too high. Cost to income is at around 45%, Opex to assets at around 4.5%. So, what's going inside that Opex that makes it so high if we are sourcing on our own?

The third question is what are the various risk management tools that we are taking at the onboarding for LAP? Because if we are doing lower city LAP, the liquidity of that property remains low. And given the fact that the ticket size is low, we can't invoke invest SARSESI. So is there a mix of income levels, industries, if we can speak about that in LAP? These are my three questions.

Rupinder Singh: So, Shubhranshu, we are a housing finance company. And housing finance company have a SARSESI right from Rs. 1 lakh onward. So yes, other financial services which includes NBFC and all, that starts from Rs. 20 lakhs. But particularly housing finance company have this advantage of having SARSESI tool at Rs. 1 lakh.

Now coming to the next question, our loan against property ticket size remains around Rs. 9 to Rs. 10 lakhs. Here we look for properties which are purely a self-occupied residential property. So on our book, there are more than 99% SORPs, what we call self-occupied residential property. And there again the LTP which stands is in tune of 45% to 46%, which is lower than 50% even. Most of these customers for us, they are self-employed. In fact, for loan against property, the customer which are with us is more than 95% self-employed. And there when you see the ticket size of Rs. 9 to 10 lakhs, LTP of 45% and the property of SORP, for most of them the end use if for the same requirements they have. And here they can have requirements not only for business, sometimes they require the money, since they are a sustainable business also, for consumption loan also, sometimes in marriage or sometimes for sending kids around. But that portion is also very, very low. So, most of them if you find, this is into the business expansion on that side, which is self-occupied with 45% LTV. And these are the important risk parameters. And we do have an assessment where every customer is being met at his premises of operation, where he is running a business, as well as his property. Any customer before getting disbursed, there are at least four touch points at his premises.

And then on basis of the evaluation, where we try to capture at least 70 to 80 points, which gives them information about the customer before the evaluation. Then on basis of the BRE rules, what that gives the output, the customer sanction is given.

So, this is a blend of touch with customers, as well as using technology, some uses of data science and scorecards and giving the credit norms which help us out into that piece. And that's the reason if you have seen the trend of the delinquency of India Shelter for the last 8 to 10 years, they are sustainable, though we are in the same business from last 12 years.

Ashish Gupta: And your question of Opex AUM is higher. So, there are two functions, one is obviously scale. So, as we go in terms of our scale, you see that our Opex is coming down. Secondly, since we are in the business of direct origination, our cost is in the form of salaries that we give to our loan officers, our branch people and all that. So whatever salaries we give, those salaries come into our P&L. While in case of prime housing, whatever origination they do through DSAs and all that, all those costs get amortized over the tenure of the loan. So, this is a challenge in affordable housing wherein upfront income that you get, that gets amortized, and your expenses come into your P&L. So, over the years, as we scale, our Opex will come down.

Shubhranshu Mishra: Understood. And if I can just squeeze in one last question to our guidance of 35% growth, that's on AUM. So, a ballpark 6%-7% should be inflationary growth in terms of ticket size. There should be some amount of growth with some degree of our branches maturing and breaking even. So that should occupy almost like 10%-12% of the growth. So, the actual organic growth is somewhere closer to 20%. Is that a fair understanding?

Rupinder Singh: Well, if you see what the ticket size has not grown from last three years, in fact that remains in tune of Rs. 10 lakhs. So that inflation is not overnight which happens 6%-7% year on year. We are catering the set of customers who are purely affordable, and they require a loan to make sure that they have a home or create a mortgage and all that side. So, we don't look at growth keeping in mind these aspects of just increasing our ticket size. We believe in ensuring that we have more number of customers on book. And that is the reason whenever the question is being asked on the AUM side and our answer and representation is more on that how the productivity can be improved in branch and how we ensure that the branches go to the level of 17-18 units per month basically. So, what we indicate is something which has to be given surety that this is a number that we are intact on. And if we meet this number, go beyond that or around that, I think it is a matter of execution which as we progress, we will keep giving the output on that side.

Shubhranshu Mishra: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Omkar Kamtekar from Bonanza. Please go ahead.

Omkar Kamtekar: So, the first question was with respect to how the branch addition will happen. So, as we told in the presentation, we have 15 states that we have designated. So, are we going to go deeper in these specific states where the vintage is higher or say 3 years or more? Or are we going to expand into more states? And which specific region are we looking at? Are we looking to expand northwards towards maybe UP further and increase our percentage of AUM there? Or we go southward where maybe the income profile of the applicants is much better?

Rupinder Singh: So Omkarji, we have to open these 40-43 branches across the country. And only in these 15 states, where we feel the demand is picking up quite well, instantly we can gratify that thing basically. So, these branches will be expanded across, starting from South, Rajasthan, MP and some part of North also. So, if you see between 15 states, if you see average of each state will not be more than 3 or 4, that is the number of branches you can open. But in a few states, we'll be opening maybe up to the 4 and in a few states, we will stick to the 2 or 3 level basically. So, if you talk about particularly the ratio between them, then this year I think the number of branches which will be opening in South will be a little more compared to the rest of states, if you go state by state particularly. But otherwise, we are opening across the country these 40-43 branches.

Omkar Kamtekar: Understood, understood. And with respect to the AUM breakup, 50% of the AUM is coming from Tier-3 cities. So, it looks like we are making a conscious effort to go deeper into the more rural and inner parts of the country. So, is this fair to assume that as we go deeper, this will go further higher? And as a consequence, maybe the yield might also jump up because again, because the riskier profile of the applicants there, the yield might also go up?

Rupinder Singh: The point is, for us, Tier-3 is not a rule. These are the towns, places, and most of them are district headquarters also where the population is more than 2 lakhs basically. So, for me, Kishangarh is a Tier-3, Alwar is a Tier-3. So, these are not rural markets. The economy is booming up and numbers are intact, property rates are quite decent, and you get a customer where they are looking for getting a house in range of Rs 18 to 20 lakhs and looking for the loan of Rs. 10-12 lakhs. So this is not a rural segment particularly, and they are quite conscious about what is the loan and what are the things on that side. So, our thought is to maintain a spread of 6% and maintain the quality on that side instead of pushing for high yields and taking the risk which we feel that we don't want to build on that side basically. So, the penetration is going because this is the market which are getting developed more than the rest of the country. So, if you see the growth trajectory which is coming in Tier-1 market, I think you will find the growth in Tier-2, Tier-3, or beyond is much better and much progressive.

Omkar Kamtekar: Understood. And finally with respect to the buckets -- which specific buckets. So, we have our peers some who are specifically concentrated on the sub Rs. 10 lakh some are specifically targeting the Rs. 15 lakhs to Rs. 20 lakh bucket of applicants in the affordable housing segment. What is our target range of applicants that we are trying to see because I can see the share of the Rs. 5 lakhs to Rs. 10 lakhs is increasing very steadily and even up to Rs. 15 lakhs is also increasing. So, is there where we see the largest amount of growth both on AUM side and on volume side?

Rupinder Singh: So, our maximum focus remains between Rs. 5 lakhs to Rs. 25 lakhs and out of that you are absolutely right that Rs. 5 lakhs and Rs. 15 lakhs had more concentration as our average ticket size stands around Rs. 10 lakhs. So, this is a segment which we cater, which comes and fit into our bill in the right fashion. And we want to continue on that side. With time if inflation goes up and this category inches up towards Rs. 10 lakhs to Rs. 11 lakhs or Rs. 12 lakhs that is a progressive journey around that side, but what is the current state of affair Rs. 10 lakhs is the average ticket size that we keep running around.

Omkar Kamtekar: Understood, understood. And just on the co-lending side a small clarification. How much of the total AUM do you see envisaged say over 3 years, 4 years, 5 years the co-lending business to contribute to the total AUM? Do we have something in our minds with respect to that?

Rupinder Singh: We have just started building this book. It's too early to comment on what part of AUM will be co-lending. We are with certain banks where we have tied up, we are just trying to understand how the synergies are getting built. So, this is too early to give an output in terms of that this is the kind of percentage you want to maintain, but if this business is picking up and giving the right output for us then definitely, we will not shy away from it.

Omkar Kamtekar: Understood. And finally, just on the NHB spread, what is the spread that we get because some of our competitors from what I have seen what they get funding from NHB is approximately 5% to 5.5% for their funds and they get approximately a 5% to 5.5% spread that is GSEC plus 30 bps. So, what is the spread that we occupy on the NHB funding?

Ashish Gupta: So NHB has two schemes. One is the regular refinance scheme, and another is affordable housing finance scheme. So, on regular refinance scheme, you can see that fund is coming at around 8% wherein you lend, and you make margin of around 550 to 600 basis point.

Then there is affordable housing finance scheme wherein funding comes at around 5.5%, but there is a cap on lending wherein you generally end up lending at around 10.5% to 11%. So at the end of the day you make similar spread on both the schemes. So technically, it doesn't matter that whether you are drawing in affordable housing fund, regular housing finance plus your P&L remains broadly similar.

Omkar Kamtekar: Understood. So, 500 to 600 basis points would be the range overall. So, is it not material difference between the two?

Ashish Gupta: Yes.

Omkar Kamtekar: Okay, Understood. Thank you.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investment. Please go ahead.

Vignesh Iyer: Congratulations on good set of numbers and thank you for the opportunity. My first question is related to what is the total co-lending that has percentage of AUM as of now and what is the percentage of the AUM, we have an internal estimate maybe 3 years down the line that we are looking on for the co-lending part?

Ashish Gupta: So, as we have said so at this point of time co-lending is at evolving stage. So, at this point of time AUM is closer to around 2% in this co-lending. And as we progress, we have a better experience with our partners, their policies and all that. We can give a guidance at a later date on this.

Vignesh Iyer: Okay. But can you tell me which are the banking tie-ups or other tie-ups that we have for co-lending as of now?

Ashish Gupta: So, we have two tie-ups wherein one is private bank, and another is PSU bank that we are doing at this point of time. And that is primarily for loan against property. Home loan is something which we are doing on our own book entirely.

Vignesh Iyer: Okay. Sorry, I missed the part. Sorry. It is for which property?

Ashish Gupta: So loan against property is something which we are doing in co-lending like as a product and home loan is something which we do entirely on our own balance sheet.

Vignesh Iyer: Okay. Got it. And on the ROA part of it what is the steady state ROA that we could achieve like say 3 years down the line 2 years, 3 years down the line?

Ashish Gupta: So, at this point of time, we will see ROA is upwards of 5%, but at this point of time we have recently raised our equity. So, benefit of equity is coming. So, as we reach a leverage of 3.5 times broadly, we expect that ROA will stabilize to around 4%. And that is a steady state we believe.

Vignesh Iyer: Okay. So, debt-to-equity as of now – so after raising the fund the debt-to-equity is at a very good level and we got quite a headroom. What is the amount of debt-to-equity that I mean we are comfortable reaching up to say 4.5x, 5x of the book?

Ashish Gupta: So, at this point of time, we are at around 2.5x of our debt-to-equity. And given the discussion with the Bankers, rating agency we believe 5x is also quite achievable. But that's a long journey. Even for reaching 3.5x it will take around 18 months, 24 months from here. So it's a journey that will keep evolving.

Vignesh Iyer: Right. That's all from my side and all the best.

Moderator: Thank you. As that was the last question for the day, I now hand the conference over to Mr. Rupinder Singh for closing comments.

Rupinder Singh: Yes, thank you everyone for taking your valuable time, for attending our earning call. We will keep you posted for any further updates. Also, audio recording and transcript of this call will be uploaded on our website shortly.

Looking forward to hosting you all in next quarter. Thank you so much.

And if you have any further questions or require additional information, please feel free to reach us out. Thank you so much. Thanks once again.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your line. Thank you.