SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2024-25/944

Date: February 04, 2025

To, The National Stock Exchange of India Limited Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Mumbai – 400051 Scrip Symbol: AAVAS	To, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 Scrip Code: 541988

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call for the Quarter and Nine Months Ended December 31, 2024.

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in reference to our letter dated January 20, 2025 bearing reference number **Ref. No. AAVAS/SEC/2024-25/885**, please find enclosed the transcript of the Earnings Conference Call held on Thursday, January 30, 2025 on the Financial and Operational performance of the Company for the Quarter and Nine Months ended December 31, 2024.

The above information is also available on the website of the Company and can be accessed at https://www.aavas.in/investor-relations/investor-intimation.

We request you to take the same on your record.

Date and time of occurrence of event/information: January 30, 2025 and Earning Conference Call commenced at 06:00 P.M.

Thanking You,

FOR AAVAS FINANCIERS LIMITED

SAURABH SHARMA Digitally signed by SAURABH SHARMA Date: 2025.02.04 15:22:50 +05'30'

SAURABH SHARMA
COMPANY SECRETARY AND COMPLIANCE OFFICER
(ACS-60350)

"Aavas Financiers Limited

Q3 FY '25 Earnings Conference Call"

January 30, 2025

Management: **Mr. Sachinder Bhinder** – Managing Director and Chief Executive Officer
Mr. Ghanshyam Rawat – Chief Financial Officer
Mr. Ashutosh Atre – Chief Risk Officer
Mr. Rakesh Shinde – Head of Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to the Aavas Financial Limited Q3 FY25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not guarantees of future performance and involves risks and uncertainties that are difficult to predict.

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 your touch-tone phone. Please note that this conference call is being recorded.

I now hand the conference over to Mr. Rakesh Shinde, Head, Investor Relations of Aavas Financiers Limited. Thank you, and over to you, sir.

Rakesh Shinde: Thank you, Steve. Good evening, everyone. I extend a very warm welcome to all participants. Thank you for participating in the earnings call to discuss the performance of our company for Q3' and 9M' FY25 and the business outlook going forward.

The results and the presentation are available on the stock exchanges. We have also uploaded the fact sheet along with our results on our company website, and I hope everyone had a chance to look at it.

With me today, I have entire management team of Aavas. We will start this call with an opening remark by our MD, Sachinder Bhinder; CFO, Ghanshyam Rawat and CRO, Ashutosh Atre, followed by Q&A session.

With this introduction, I hand over the call to Sachinder. Over to you, Sachinder.

Sachinder Bhinder: Thank you, Rakesh, and very good evening, and Happy 2025 to everyone. I am delighted to welcome you all to our Q3FY25 Earnings Call and thank you for joining the call late evening.

Q3FY25 has been a good quarter where we saw a strong traction in logins and decent pick-up in disbursements which grew by 23% sequentially and 17% Y-o-Y. In terms of AuM growth, we have maintained our growth run rate of 20% Y-o-Y. We have completed upgradation of all major tech platforms which are now stabilizing, this was one of the fastest tech implementations in the industry. We believe we have set the foundation for sustainable, scalable and profitable growth.

We now focusing on leveraging this state of art tech platforms by strengthening governance, driving scale, optimising cost and boosting operating efficiencies across functions. Ladies and gentlemen, with that preamble, I shall now take you through the quarterly performance and our assessment of the outlook.

We have delivered AuM growth of 20% Y-o-Y, reaching AuM of Rs 192 bn. In Q3FY25, we disbursed loans worth around Rs 16 bn a growth of 17% Y-o-Y with cumulative disbursement of Rs 41 bn for 9MFY25. Our Net profit for 9MFY25 grew by 21% Y-o-Y to Rs 4.20 bn. Our Net Worth continues to compound quarter after quarter at the rate of around 16% Y-o-Y.

Our calculated spread has improved by 4 bps sequentially to 5.72% in Q3FY25. Our NIMs expanded more than 10 bps Y-o-Y during the quarter to 7.75%. Our focus continues to underwrite quality business with risk adjusted return as a result our incremental business yield has gone up by 25 bps+ across products.

At the beginning of the financial year we have guided that we will bring down opex to assets ratio by ~20 bps every year to reach below 3%. I am happy to report a remarkable improvement in the Opex to Assets ratio by 42 bps Y-o-Y to 3.21% in 9MFY25 as a result of our cost optimisation strategy.

Our asset quality continues to be pristine, with 1+ DPD of less than 4% at 3.85% as of December 2024. Our GNPAs was at 1.14% which is quite seasonal in nature, our endeavour to maintain the pristine asset quality. Credit costs improved further to 15 bps in 9MFY25 vs 19bps in 9MFY24. We continue to guide credit cost of below 25 bps on sustainable basis. RoA improved by 4 bps to 3.26% and RoE improved by 61 bps YoY to 14.06% in 9MFY25.

We have opened 6 new branches during 9MFY25 and opening another 20+ branches in this quarter predominantly in the states of Karnataka and UP. We will be accelerating our branch expansion strategy by opening more branches in the calendar year. The new PMAY 2.0 scheme ensures impact till last mile in more efficient way and benefit our customers immensely. We expect more budgetary allocation and supply of Affordable housing in upcoming Union budget enabling faster and deeper penetration of Housing for all.

We are committed to deliver quality and profitable business growth driven by tech-led operating efficiency and cost optimization. I am confident that with our strong risk management practices, diversified distribution reach and execution capabilities of our time-tested team, we will achieve our milestones and deliver value to our stakeholders.

I would now hand over to our CFO, Ghanshyam Rawat, to discuss the financials in detail.

Ghanshyam Rawat: Thank you, Sachinder. Good evening, everyone, and a warm welcome to our earnings call.

To provide update on borrowings first: In terms of liability, we have one of the best well-diversified liability franchises. We have always been innovative in exploring new avenues of sourcing, and I am happy to share that we have successfully raised NCDs amounting to Rs 6.3 bn from the IFC in Q3. This is largest NCD raised by company till date. This achievement will enable us to channel these funds towards promoting Individual green homes construction, reinforcing our unwavering commitment to sustainable and inclusive development.

We are a unique HFC where our tenure of liabilities is higher than the tenure of assets. We continued to borrow judiciously, raising around Rs. 46.2 bn at 8.41% for 9MFY25. Total outstanding borrowings as of 31st December 2024 stood at Rs. 172 bn. Overall borrowing mix as of 31st December 2024 is 50.3% from term loans, 24.8% from assignment/securitization, 15.9% from NHB refinancing, and 9.0% from debt capital markets.

Lender support continues to remain extremely strong as Aavas evolves. There is access to diversified and cost-effective long-term financing. We maintain strong relationships with development financial institutions. To meet long-term business growth, we have progressed on a co-lending tie-up with a PSU Bank. As of 31st Dec 2024, we maintained sufficient liquidity in the form of cash and cash equivalents & unavailed CC limit of Rs. 18.95 bn and documented unavailed sanctions of Rs. 22.8 bn.

In terms of financial performance: Our Net profit for Q3FY25 grew by 26% Y-o-Y to Rs 1.46 bn led by robust growth in Net Income coupled with sharp improvement in operating leverage. Our spread improved by 5 bps to 4.94% driven by a 14-bps expansion in the AUM yield to 13.18% on account of 25 bps increased in BPLR in Q3FY25; whereas our cost of borrowings increased by 9 bps Q-o-Q to 8.24%.

We have 32% of our Bank borrowing are linked to EBLR such as T-Bill / Repo / MIBOR and 19% are linked <3-month MCLR which will allow faster reprising of 51% bank borrowing in case of rate cut scenario.

Our NIM in absolute terms has increased by 16% Y-o-Y in Q3 FY25. Our margins, NIM as a percentage of total assets during Q3FY25 stood at 7.75%, and at 7.54% during 9MFY25. RoA for the quarter increased by 31 bps YoY to 3.37% in Q3FY25 whereas RoE improved by 115 bps YoY to 14.21% in Q3FY25.

In terms of other parameters: We are well-capitalized with a Net worth of Rs. 41.97 bn and CRAR at 45.56%. The total number of live accounts stood at 2,36,000+ translating into 15% Y-o-Y growth. Employee count grew by 6% Y-o-Y at 6,284 as of

31st Dec 2024 as against disbursement growth of 11% Y-o-Y and AuM growth of 20% Y-o-Y which indicates our productivity enhancement by various efforts taken by company.

I would now hand over the line to our CRO, Ashutosh Atre, to discuss the asset quality.

Ashutosh Atre: Thank you, Ghanshyam Ji. Good evening, everyone. I am pleased to share the key portfolio risk parameters with you.

Asset Quality & Provisioning: Aavas is strongly positioned to continue delivering industry-leading asset quality. Our asset quality remains within the guided range with 1 day past due below 4% at 3.85% in Q3 FY25 and Gross Stage 3 & Net Stage 3 under 1.25% stood at 1.14% and 0.81% respectively.

In terms of geography, average 1+DPD and GNPA in our vintage states remained well below 4% and 1% of AuM respectively. Whereas other emerging states 1+ DPD and GNPA remained well below 3% and 1% of AuM respectively. Similarly, in terms of ticket size of more than 15 lacs 1+ DPD and GNPA remained well below 4.0% and 0.8%; whereas in case of ticket size less than Rs 15 lacs 1+ DPD and GNPA remained below 4.5% and 1.25% respectively.

Our total ECL provisioning, including that for COVID-19 impact as well as Resolution Framework 2.0, stood at Rs. 1.01 bn as of 31st Dec 2024. As per our quarterly exercise of bureau scrub analysis we have only 6.7% customers overlap with MFI exposure and out of this 6.7% only 2.2% are into 90+ DPD.

With this, I open the floor for Q&A

Moderator: Thank you. The first question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Hi, Sir. Congratulations on the good set of numbers. Sir, I have 2 questions. One on the asset quality, though 1+DPD have fallen but at the same time and there is a marginal increase, in the GS3. So just, wanted to understand, this basically implies there is higher default flows in the delinquent buckets.

So how is the underlying health of the portfolio looking like and does this pose a risk to our near-term asset quality and credit cost guidance because of higher default flows in this quarter from the delinquent pool?

Sachinder Bhinder: Thanks Renish. I think if you look at the 1+DPD, we continue to be at less than 4%, which is at 3.85%. I think it was a mix of seasonality and festivities in the last quarter, but I think we are confident at this period of time to deliver and maintain the pristine asset quality. So, nothing as far as any alarming or disturbing point of concern.

Renish Bhuva: So, the sequential increase in GS3 is pure seasonal and it will come back in Q4?

Sachinder Bhinder: That's right and again to re-iterate that if you look at the 1+DPD it is a 3.85% and I think that is a good indicator for us.

Renish Bhuva: Second is on the AuM by ticket size. What % of our AuM is more than Rs. 15 lakh ticket size? I know in in terms of number of active loans it is 15% but in terms of AuM it would be higher, right? So, would you like to share that number? And also, the yield difference between more than 15 lakhs and less than 15 lakhs.

Sachinder Bhinder: Renish, it becomes quite secular, but as I was to put across, it would be in the range of ~60%, when it comes to less than Rs. 15 lakhs and that is where we continue to build our yields, and the yields are around 200 bps higher. So that is the bifurcation between the less than Rs. 15 lakhs and more than Rs.15 lakhs.

Renish Bhuva: Sir, can you please repeat that share in terms of AUM? I'm so sorry.

Ghanshyam Rawat: Renish ~80% of book is less than Rs. 25 lakhs where we focus on less than 15 lakhs, and we have ~60%, book at less than ₹15 lakhs, this is on amount basis. And the volume we have already given in our presentation where 85% book is a less than Rs. 15 lakhs.

Sachinder Bhinder: You can refer to the Slide #17 on the investor presentation.

Renish Bhuva: But Sir, that number is in terms of active loans, right? So, in terms of AUM, it will be higher. So, I just wanted to know that.

Ghanshyam Rawat: I have updated you on count, we have already given in our presentation where 85% loans are less than Rs. 15 lakhs. And in a value terms, ~60% is less than Rs. 15 lakhs and ~80% is less than Rs. 25 lakhs.

Renish Bhuva: Got it, Sir, and 200 bps is the yield difference.

Ghanshyam Rawat: Yes, you're right.

Renish Bhuva: That's it from my side. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, Sir for the opportunity. It's a couple of questions. So are we changing our guidance on growth front or is it that 20% is now a new normal and also give to related question. If we aim for 20% even for this current fiscal. So that would mean almost adding up Rs. 700 crores of book in one quarter.

I mean of course seasonally second half has been very strong. You have demonstrated that your earlier as well, but still Rs. 700 odd crores of run rate is slightly on the higher side viz-a-viz. our historical run rate. Can you shed some light on this?

Question #2. So, I remember you have always been very articulate and impeccable in terms of BT restricting them to below 6%. Now in the current scheme of things, wherein, many of the NBFC's, AHFC's, etc. The competition is gaining strength and intensifying. So how do you see this? The BT-out cases going forward. Whether the current set of measures will sort of continue to help us curb below 6%.

One last question, so you mentioned last quarter and this quarter in the opening remarks as well. You are opening branches in Karnataka and UP. Now I understand larger part of portfolio is below Rs. 15 lakhs and below Rs. 25 lakhs but one of our peers which has a portfolio about Rs. 20 lakhs have been facing, tough time as far as

Karnataka is concerned, you know, especially because of E-Khata and other such challenges.

I mean ours is a continuous model. I remember you explained how we are expanding to Karnataka from Tamil Nadu in the last quarter contiguously. But still are you facing any challenges? considering the fact that you are sort of now moving into Karnataka belt. Thank you.

Sachinder Bhinder: Yeah. So, you have 3 questions. I'll address it one by one. First is about the growth of the AuM. We continue to guide on a 20 – 25% of an AuM growth on a long-term basis. I think the traction which we got in the Q3 and the numbers in Jan really give us confidence on delivering the guided AuM growth of ~20. And as we speak, we are expecting January to be at around 15 - 20% on the growth trajectory.

So that's one second on the BT-out. As you reflect and we've been talking about our predictive models, where AI has really played out, very well. We are happy to note that BT-out % is at ~5.4%. So, I think this is one of the best in class when it compares to the industry peers. Couple of factors really go into this one is aided by our predictive models which are able to predict what is the probability and chance of the BT out. And I think that is what is perfected.

Third is on the branch expansion model. I think what you reflected is E-khata as we see and as we speak, I think we are minimal at this period of time what Karnataka is. But going forward as we talk to the people across, I think that easing out of E-Khatas are moving across. It has started now really getting stabilised. And as we go forward, we will see that really becoming stable over a period of time. So, I think we are confident with the environment and by the time our branches open up, it would be fully stable.

The other part, which is very essential to really notice there are lot of affordable supply which is there where Aavas is one of the strong bearers in that state and these are the properties which are directly allotment by the government authorities and as we speak, Aavas has a quite a good amount of presence in there. Karnataka has a good amount of stock as we speak across the various districts and places. And we will be able to maintain that along the time this stabilises, as an initial output really to deliver good volumes.

Shweta Daptardar: Sure, Sir. Just I'm squeezing in one allied question. Any geographic challenges are we facing? I mean this is outside MFI and the noise around. But any geographic challenges in the markets which we are present?

Sachinder Bhinder: As our CRO mentioned, he described about the 1+ ranges. Nothing as glaring or anything which is alarming at this period of time, that's what we've seen in our 1+DPDs and neither in the GNPAs. And what we are doing is we are cautiously optimistic and watching out wherever we feel there is a slacking, we actually tighten our credit and underwriting norms.

Shweta Daptardar: Thank you so much for the elaborate answers.

Moderator: Thank you. The next question is from line of Yash Gujarathi from Citigroup. Please go ahead.

Yash Gujarathi: Thank you for the opportunity. Just one question on the provisioning front again. So, we've seen marginal increase in provisioning on GS3 however, on GS2, it has increased sharply. So, any change in policies there? Or how do we see it moving? And sir, just to add on that, even our ECL provisioning is around 65 bps for total AuM. So, would we see it increasing as well? That's the question on provisioning?

Sachinder Bhinder: I'll have Ghanshyamji to answer that on the ECL model comparison, how it stands up and what is the difference which I have made on that.

Ghanshyam Rawat: Thank you, Sachinderji. On ECL, I think there are two questions on the ECL provisioning change between Stage 2 and Stage 3 and overall, 9MFY25 to 9MFY24. During this quarter, we have moved our entire ECL provisioning model from our historical model to Bolt-on. It's a universally accepted Deloitte model, wherein when we went live under this, we have made three major changes in our provisioning norms.

First, in earlier model, there used to consider point-to-point NPA slippage, now in the new model, we consider every bucket flow of NPA, Stage 1 to Stage 2, Stage 2 to Stage 3. So, the movement of every bucket, the model considers. Earlier, we used to consider at the point of time, i.e. quarter-to-quarter or year-to-year and when we do revisit our model. Now these new models do every month, we reconsider the fresh data, how much in this month as case has moved, how much case has gone backward. So, in the real time, the modelling flow rate approach is adopted in this new model.

Third important, I think in the earlier model, it was very difficult to adopt macroeconomic factors. Now in new model, we adopted Vasicek model, which is a macroeconomic factor where it tested various economic factors. The ultimate model has found that 2 factors is very important for us, which we haver adopted in a Vasicek model basically.

Now after doing these changes, initial provisioning is what Ind AS described in their detailed guidance note. So, everything got now adopted, and it's one of the best models ECL model we adopted here.

There is one more question, 9-month-to-9-month ECL in the volume provision. 9MFY24, there were a few one-off items. One was that we have the one subsidiary where because subsidiary was difficult to operate, we applied to close that subsidiary. So, we had done onetime write-off of whatever the balance was there. It was around Rs. 1 crore.

Secondly, we have a certain asset acquired for sale under SARFAESI, which we have provided in the 9MFY24. So, both items put together has around Rs. 4 crores extra provisioning in 9MFY24, which not there during 9MFY25. I hope we clarified that.

Yash Gujarathi: Yes, sir, that's helpful. So, would we also see this 65 bps of provisioning on the overall portfolio also going up eventually?

Ghanshyam Rawat: No. I think when we went to model, it considers the entire portfolio. So based on the current assessment, it will remain at the same level.

Yash Gujarathi: Got it. sir. And sir, second is on the margins. So, we understand this BPLR hike taken in October for 25 bps. So, is that now completely accounted for? Or would we also see some impact in the fourth quarter?

Ghanshyam Rawat: It got accounted.

Yash Gujarathi: Entirely?

Ghanshyam Rawat: It got accounted. But if you see sequentially, we are making a better yield on our new disbursement Q-o-Q, Q1, Q2, Q3, every quarter, yield is improving on our disbursement Y-o-Y basis. So that's the positive note. There's now less difference between new business and the old business.

Yash Gujarathi: Right. Got it. So, sir, the disbursement yield which was around 30 bps lower than the AuM yield. So, has that difference narrowed now?

Sachinder Bhinder: Yes, it has narrowed down, Yash. As Rawatji pointed, across various product segments and various parts, we continue to focus there. In the previous question, when I referred to ~40%, I was referring to less than Rs. 10 lakhs focus area, so where I stand corrected. So, our focus continues to be there, on that where we get the risk adjusted return yields. And we've seen uptick Q-o-Q. And with the same endeavour, technology and those things are also helping us to really improve it in a right and scientific way.

Yash Gujarathi: Thank you so much for the clarification. That's it from my side.

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

Raghav Garg: Okay. I had my first question where I want to understand a bit more on sourcing part. So, has your DSA sourcing gone up? Or if you can give us a number, say, compared to last quarter or last year. The reason I ask is that after several quarters, the number of loan files disbursed per branch, that has registered a positive growth rate.

Otherwise, if I look at last few quarters, then it was mostly a declining trend. And at the same time, when I look at some of the cost economics metrics, such as opex per new file disbursed, that has also declined. So what is leading to such improvement. Is it because of higher sourcing from DSA channel?

Sachinder Bhinder: Raghav, it is multitude of factors which are there, but it is some of the digital channels which we have embarked on in typically the Mitra, eMitra, CSC tie-up, and our acquisition through the WhatsApp chatbot and from our own website. I think that as a percentage of the digital part has started contributing and firing.

We continue to be a predominantly direct sourcing franchise. And as we speak, I think on the employee count also when we see that the employee count, whatever addition have happened on the ROs, which is our relationship officers at the ground. So, we continue to be a dominant direct sourcing. A certain part of digital channels, which are started firing also have resulted in that mix shift. We continue to be at 80%, 85% of the direct sourcing part.

Raghav Garg: Understood. So, I think say you are about, I think, 12 files per branch per month. Is this a run rate that one can assume going forward at least the first 9 months of a fiscal? I know Q4 generally tends to be higher. But at least for the first 9 months, is 12 files disbursement per branch, is that something that we can work with?

Sachinder Bhinder: Raghav, I think if you look at, we have widespread across 373 branches. So, depending upon our understanding of the market, depending upon our location strategy, depending upon what are the risk metrics, and the kind of deployment of our resources and the market which we would like to really hold on to, I think those risk metrics really contribute to that.

The positive side in the last 9 months to report is that we've seen an increased RO productivity per file. I think those are the metrics that we monitor. Because this direct averaging out becomes a little very different model altogether. So, we divide it in a much micro detailed one on the market size, looking at the geography, state, our vintage in the state, the credit portfolio behaviour and then really deciding what is that we really want as an output.

Raghav Garg: Understood. No, fair enough. The only reason I was asking this is the data that made available to us. Of course, you would have a much more nuanced view of how it works. But anyway, my last question is on the ticket size. When I look at the ticket size this quarter on disbursement, for last 2 quarters, that has increased at about 4% to 6% in each of the last 2 quarters, on a Q-o-Q basis, not Y-o-Y. So that's a pretty steep increase in ticket size. Why is this the case that the ticket size is increasing at, say, at an average of 5% for each of the last 2 quarters?

Sachinder Bhinder: I think if you look at the real estate inflation, it is not even meeting the real estate inflation. And if you talk about the kind of growth which has happened in the land rates in the states which we work across, that is higher than this. So, if you adjust to buy that, I think it is below whatever is the retail real estate inflation, which is brought into the pricing, which is prevalent in the markets which we operate. That's one.

Secondly, some of the proportion where we are present, where cost of construction is higher than what the normal one. And it is really inched up considering the kind of rural ability to spend and rural ability to really build good, better and bigger houses. So, I think these 2 things have really contributed to one.

It is an output which is there, which is not a determinant on what we really drive for or be focus for us. So, our focus is clear cut on the input, which is there. And whatever comes across in the output and rightfully so on a risk-adjusted matter is what we really monitor for.

Raghav Garg: Sir, let me ask this in another way. So, your, I think, less than Rs. 15 lakhs by value, the AuM mix is about 45%. What was this last year against 45% currently?

Ghanshyam Rawat: The AuM of less than Rs. 15 lakhs ticket size currently stands at ~60%. If you see 9MFY24 to 9MFY25, is a 6% increase in the overall ticket size, which we feel is the inflation, property prices, rising income levels, all our factors. And as far as the combination of ticket size is concerned, we are 1% to 2% here or there, doesn't make a big change in our business model.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: So, the first thing is, again, coming back to provisioning and asset quality while Ghanshyamji did explain about the change in ECL model that we have done and which is there, maybe it could have led to a onetime change in the PCRs across these 3 stages. What I wanted to understand is if I look at the last 10 quarter data, our Stage 3 provision cover has very slowly and gradually been inching up. So, while I understand this is an outcome of the ECL model that we have, but inherently, what is it kind of telling us about the risk metrics?

Ghanshyam Rawat: Abhijit, it generally remains between 27% to 29% in our ECL model for Stage 3 provisioning. And as you know, if you see last so many quarters, the ageing of portfolio was 6 years, 7 years, 8 years, 10 years. Now today, we have a 12-year, 13-year business operation basically.

So, ageing in ECL modelling, ageing of the portfolio, ageing of, let's say, NPA assets is also increased certain level of your provisioning. Apart from that, I don't see any sort of, any variation or disturbing factor in the ECL model.

Abhijit Tibrewal: Got it, Ghanshyamji. The second question that I had was obviously around the demand environment while you did say that looking at trends in 3Q and Jan, it gives us that confidence that maybe we can be at the lower end of our guided range of the AUM growth? But I'm just trying to understand more and more NBFCs and HFCs as the report, they have been talking about a weak macro environment and given the fact that we also have a presence in the MSME segment?

I'm just trying to understand how you are looking at basically, the risk environment today. When I recall you and Ashutosh sir, have called out that at least looking 1+DPD in GS3, you're not seeing any significant increase in risk. But how are you looking at the broader macro environment today?

Sachinder Bhinder: Yes. So, Abhijit, there are 2 things. I think important to note is we are there in the part of MSME, which is micro MSME is the one which is backed by our understanding of risk and doing a cash flow-based underwriting and backed by self-occupied residential property. I think that's one very big differential when it comes to the very base of risk management practice.

So, the Tier 3 to Tier 5, wherever we are operating, we have seen those demands really being coming up. And as we speak about on a risk management framework, we cautiously monitor as to what are the trends which really show up. If we find anything on the segment-wise strain because of the macro environment having a waterfall effect on those economies or on those segments of customers, we hold on to that.

So, at this period of time, what we speak, I think we are well guarded with a cautious approach of underwriting and continue to do that in a long-term period. And that will be our continuous basis of a robust risk management practice.

Secondly, when you talk about the home loan demand, I think you have to look at it from the perspective of 2 parts. We are into Tier 3 to Tier 5 where it is self-construction individual house. Again, a certain part of you would have really looked at PMAY 2.0 in 2 parts, which is the ISS, which is the interest subsidy scheme, where we've already received around 4,000 plus of applications to us, and the affordable piece where it is the ULB-led supply, which has really come in post all the elections being over.

So, the strong self-construction individual consumption continuing to grow. Second is the government's focus on housing for all and the PMAY 2.0 really helping in the segments which are really focused on economically weaker section where Aavas operates. And third is the urban-led supply from the affordable housing, again, a part of PMAY. I think these are the 3 strong factors for us to say that there is the real demand coming and flowing in.

Abhijit Tibrewal: Got it. So incrementally, if you look at the last maybe 3 – 6 months after the elections have been over, you would say the demand has improved barring the seasonality?

Sachinder Bhinder: Yes. Demand has to see an uptick and specifically in certain segments and verticals as I speak of the PMAY-led affordable supply, which is there. The other question, which was there on the Karnataka, we say that as we are present in there, there is a supply which is there from the urban-local bodies available.

And we are confident having done that business, we have 20,000 plus of customers in that, and we've done that business right from the time when we started off and when the supply really came in, we are confident of doing that because that's a hard work of having the liaising with the urban local bodies and building that business.

Since there's a specific vertical which focuses on that, we will be able to cater to the inventory supply, which is really coming up and source it in a much faster, granular and quicker manner.

Abhijit Tibrewal: Got it. This is useful. And I just wanted to squeeze in one last question, while this has partly been addressed earlier on yields where we did take, I think, a 25 bps PLR hike in October and that has reflected in our yields. Just trying to understand in the past, we have seen all these PLR increases that you or other HFCs have taken, they're not really reflected in a sustained yield expansion.

And again, I think maybe that is because the disbursement yields kind of remain below the book yields. What's the sense now you think these yields can be absorbed or given the competitive intensity over a course of time, they will drift down?

Sachinder Bhinder: I think you will have to look at the PLR increase was in line with our cost of borrowing really increasing to size up on that side. And that was the market scenario, which was there really to have had the increase, which is there. I think as I've been talking earlier that we continue to increase our disbursement yield on product metrics and again, with risk-adjusted returns.

So, our endeavour really continues to do that. And as we speak on 9MFY25 period, we are above 25 bps compared to what we were there. And every Q-o-Q, we see that impact really on the disbursement yield coming. And secondly, on the PLR impact, what you were really referring to, we have a book which is 30% fixed, so implication comes only on the rest of the book, which is a floating rate book.

So, I think it is important to really build in a right risk-adjusted manner to increase the disbursement yields to really inch up. And we've seen that trajectory well in control and inching up as we progress on Q-o-Q basis. And again, with the scale of business what we really aim for.

Moderator: The next question is from the line of Rajiv Mehta from YES Securities.

Rajiv Mehta: Congrats on good results. I have a couple of questions. Sir, this 30%-odd boost to productivity from a reduction in log in to sanction TAT. So, have you raised business targets for ROs and branches since they can execute much higher volumes now? And on the same lines, can one expect that disbursement growth be much higher in FY26 than the usual run rate of 17%, 18%?

Sachinder Bhinder: Rajiv, you referring to which data, if you can again articulate.

Rajiv Mehta: No, sanction TAT has come down, right, from 10-odd days to 7-odd days. Yes. So, the efficiency and productivity has gone up?

Sachinder Bhinder: Yes. That you see reflect in the metrics also from perspective of disbursement coming up. I think we've seen that improving from the 13 days to the 7 days really frees up efficiency from the underwriter perspective and really help in a much faster, predictable manner, what used to be earlier.

Rajiv Mehta: Okay. And see on asset quality, typically, in Q4, we generally pulled back 1+DPD substantially every year. Are we confident of doing that this year as well? Because see, the business and liquidity backdrop for some of the delinquent customers could be challenging this year versus the preceding year. So, are we looking for a very similar pullback that we generally deliver in Q4?

Sachinder Bhinder: I think if you look at Rajiv, from a perspective of Q2FY25 to Q3FY25, I think 1+DPD is already at around 3.85% which is well below our guided range of 5%. We are below 4% at 3.85%. I think that's a good indicator for us. We continue to endeavour to really control and maintain the pristine quality considering the way we underwrite and the way we really collect that.

And I think a couple of things they have got across where technology has helped us to really predict the path of bouncing, the predictive path of customer behaviour and the part. So, I think it gets front-ended when it comes to our collection efficiency to really have the right kind of predictive models helped by our AI, which is proprietary led internal development.

So having perfected that, that becomes a good one. And you'll be happy to know that we even use voice bot, and others really go across collect. And we are very, very clear as to what is the range and what is the method of even the collection, what it would happen. So, I think technology on that side really plays a part.

So, it's a mix of the right kind of technology, right kind of risk management practices and the efficiencies which we really bring into counter and deliver the pristine quality as a franchise.

Rajiv Mehta: Okay. And one last thing is on the comment that you made that the incremental business yield has been improving every quarter and across products. So how is this being achieved? I mean are we slightly pushing on rates or some other kind of pricing efficiencies we are tapping here?

Sachinder Bhinder: I think, Rajiv, as I said that, again, it is risk-adjusted returns. I think wherein we've implemented loan origination system by SFDC. And I think therein, there is a clear visibility on the risk metrics, which really gives us a pricing input, which is because of that, it is really helping us to price it right according to the risk metrics.

I think that really played out in helping us to be much more predictable in the output, which we can deliver. Again, segmental focus on less than Rs. 10 lakhs, which is where you get good yield; a focus on inching up, where you find that you get the right risk-adjusted returns by pricing it right.

I think these are the 2 things which are very important, and we've seen that moving across Q-o-Q. And our endeavour will continue to grow that, again, cautiously with risk-adjusted returns.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: My question was on RM level target. So, when in newer geography, what sort of RM level, KRAs we said in terms of business sourcing versus matured branches. And the level of disbursement that we have done this quarter, do you aspire to maintain it going ahead, like the revival in disbursement.

Ghanshyam Rawat: No. As you know, Aavas when entering the new geography, we take our own time to understand that market, people behaviour, geographical behaviour, the local population behavioural, legal and technical title. So immediately in the few initial few quarters, we don't give as such any large target to them. The major focus was that there should not be any delinquencies in the initial quarter, there should not be slippage in the initial few quarters in any bucket.

So, we, as a company, don't have philosophy initially in a new geography to give targets in those markets. But wherever we have the strength, where we have maturity, there definitely we strengthen our branches through process, policies, through understanding, through flowback learning, and then accordingly, we ask them the returns also by giving targets.

RO has a different maturity. RO who has done 1 year, 2-year plus in the system, they definitely have a better target. The RO who comes new in the organization, they have a lower target in the system.

Shreepal Doshi: So, sir, especially for states like Karnataka versus Rajasthan and Gujarat and Maharashtra, I mean and within Karnataka, we've been there for almost a couple of years now. So, what would be the differential in terms of branch level efficiencies in terms of business?

Ghanshyam Rawat: Karnataka has now come up in the fourth year of business operation. So, branches, which has completed 3-year plus, they are at par with our mature states like Rajasthan, MP, Gujarat. And the branches, which we opened the last 1-year branches, those branches are showing the progress as we desired.

Shreepal Doshi: Got it. And sir, on disbursement front, sir, like will this run rate continue or?

Ghanshyam Rawat: As a Karnataka as whole is doing a disbursement growth better than our overall company growth. Much better growth. As well as performance also, quality front also, Karnataka is doing fantastically well for us.

Shreepal Doshi: Got it. And then just the second part of the question was on disbursement side. So will we be able to continue with this disbursement momentum because in the last few quarters, there have been some like ups and downs. So, will we be able to continue now incrementally?

Sachinder Bhinder: Yes. So, on that part, if you look at it, when we refer to ups and downs, it has always been an upward trajectory. And every Q-o-Q, we've seen that traction really moving across. And as earlier guided that, we see a good uptake and green shoots in January at this period of time, and we are confident of pushing that every quarter and build at scale with quality.

Moderator: Next question is from the line of Shubranshu Mishra from Phillip Capital.

Shubranshu Mishra: So, what is the yield on book for home loans, LAP and MSME? And what are the onboarding yields for these products?

Ghanshyam Rawat: Home loan versus, let's say, non-home loan, which is MSME LAP, there is always difference of 250 bps between home loan to non-home loan. Yes, MSME businesses give us another 75 bps better pricing than the LAP portfolio. We do out of non-home loan, we do around 75% business as an MSME business, which is our focus area on the MSME.

Shubranshu Mishra: So, what is the home loan yield?

Ghanshyam Rawat: It would remain in the range of between 11.5% to 12%.

Shubranshu Mishra: This is an AuM. And what is on disbursement for the same?

Ghanshyam Rawat: As we mentioned that the difference between the new business versus our old business AuM, difference is 30 to 35 bps as of now.

Moderator: The next question is from the line of Chandra from Fidelity.

Chandra: Could you just share maybe the percentage of disbursements that you had this quarter below 10% yield and maybe what it was for the previous quarter. And directionally, I think you were trying to reduce it. So, if I had to look at it maybe a year out, would you think it's a reasonable chance that the amount you're disbursing below a 10% yield in single digit essentially would drop? That's one.

Second is; after declining for a while, the spreads have finally inched a little bit. Do you think it's reasonable that at some point in time, you'll cross 5% and you settle back to maybe 5.20%, 5.30% at some point in time? Is that a realistic possibility?

And just lastly, what would you think you're capacitating the business for in terms of next year, just in terms of disbursements? I mean, obviously, first half was a little weak because we had some issues. But I mean, are we capacitating for maybe a growth of disbursements of maybe 17%, 18% on the base of this year? How should we think about it?

Sachinder Bhinder: Yes. So, you have 3 questions. First is on the yield, but we look at it from a ticket size perspective. I think that is the input which we really look at it. On a ticket size of less than Rs. 10 lakhs, our endeavour continues to be in the range to cover up at around ~35%. As we speak, we are in the range of 30% to 35% when it comes to a ticket size less than Rs. 10 lakhs. And this has a real right kind of risk-adjusted yielding up good spreads as well as the yields. That's number one. Number two.

Chandra: So that means, 30% to 35% towards 35%, you're saying. You're saying, gradually you want to increase the share below Rs. 10 lakhs.

Sachinder Bhinder: Yes. Our aim presently is to get to the 45%. Currently, we are hovering between 30% to 35% of the loans which are less than Rs. 10 lakhs in ticket size. So, it's not a yield, it's on ticket size, okay? That's one.

Secondly, on the part of we are capacitated, and we are looking at again on a guidance level of continued AuM of between 20% to 25%. So, we'll continue our guidance on AuM of 20% to 25%. And as we speak, I think our concentrated efforts to really get in the yield improvement on Q-o-Q basis, we will continue that in the next financial year also, again, with the risk-adjusted returns metrics and robust risk management practices.

Chandra: Sure. And on spreads, do you think that getting to 5.20% at some point is a realistic possibility?

Sachinder Bhinder: See, Chandra, this is, I think, an outcome of the cost of borrowing. And if you would have seen that is one part. I think we work on the input, what is we get. Whatever the difference between would be really the one. We've always guided that we will really look at the kind of spread, which was at around 5%, which we've guided across.

It all depends upon how the economic environment on the macro side really stands out. If the rate comes in, I think we will have the benefit. And as what Ghanshyamji really talked about, we had EBLR, Repo Link, TB Link kind of borrowings, which will have an immediate impact on our cost of borrowing. I think that is a differential, which will come across really spanning out on the increase in the spreads.

Moderator: The next question is from the line of Bunty Chawla from IDBI Capital.

Bunty Chawla: Congrats on a good set of numbers. So, during this quarter, we have seen there is an inch up in the cost of borrowings. Although you have shared that we have raised the Rs. 600 crores from IFC at a competitive rate, which I believe it should be lower than the borrowings at the book level for you. So, what is the reason behind increasing the cost of borrowings?

What we have observed that, there has been a minimal or no MCLR hike from the banks as such during this quarter. So then also there has been an increase in the cost of borrowing during this quarter. And how should shape up this cost during next quarter and FY26?

Ghanshyam Rawat: Yes. During this quarter, overall cost of borrowing is increased by 9 bps. Yes, you are right, Rs. 600 crores we borrowed from IFC, which is much lesser than what a cost of borrowing. But as you know, we borrow a lot of money from banks, which is a 1-year MCLR, 6-month MCLR.

So, what money we borrowed a year back at, let's say, SBI MCLR used to be 8.3%, 8.4%. Today, let's say, MCLR is reach at 9%. So that impact passes on when the liability resets in that quarter. So, I think by the next year, most of the liability are getting re-priced, what we borrowed earlier in different point of time.

So more or less, we are seeing a stabilization in cost of borrowing side, few basis points here and there. And because we hope if some cut comes, so that will be a positive note for us.

Bunty Chawla: That's very helpful, sir. And previously, you said because of the rate cut, we will be getting benefit. Any rough sense, if there is a 50-bps rate cut, what kind of positive impact we have on the spreads or the margins? Any rough cut?

Ghanshyam Rawat: As I mentioned, our 50% borrowing are marked-linked borrowing where, which is Repo linked, TB linked, and less than 3-month MCLR. So, we hope that that should be a positive impact within 3-month time frame. But it's difficult to predict how it will get translated once the rate cut starts.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, this was the last question for today's conference call. I now hand the conference over to the management for the closing comments.

Sachinder Bhinder: Ladies & Gentlemen, as we conclude today's earnings call, I want to express my heartfelt gratitude to each one of you for your participation and engagement. The dedication of our team, the trust of our shareholders, and the loyalty of our customers have been instrumental in our growth.

We aspire to reach a milestone of Rs. 500 bn in assets under management in the next 4 to 5 years and broaden our horizons as a Pan-India player and continue our cost optimization strategy.

I express my deepest gratitude to all our regulators and stakeholders, whose constant faith and support have been the wind beneath our wings. We remain optimistic about the future and are confident that our strategic initiatives will continue to drive sustainable growth and shareholder value. If you have any further questions or require additional information, please feel free to reach out to Rakesh Shinde – Head of Investor Relations.

Thank you and have a wonderful year ahead. God bless.

Moderator: On behalf of Aavas Financiers Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.