SAPNE AAPKE, SAATH HAMAARA

Ref. No. AAVAS/SEC/2024-25/476

Date: July 30, 2024

To,	To,
The National Stock Exchange of India Limited **Exchange Plaza, C-1, Block G,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**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 ended June 30, 2024

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with respect to our letter dated July 15, 2024 bearing **Ref. No. AAVAS/SEC/2024-25/429** please find enclosed the transcript of the Earnings Conference Call on the Financial and Operational performance of the Company for the Quarter ended June 30, 2024 held on Thursday, July 25, 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: July 25, 2024 and Earning Conference Call commenced at 6:30 P.M.

Thanking You,

FOR AAVAS FINANCIERS LIMITED

SHARAD PATHAK

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Date: 2024.07.30 17:16:32 +05'30'

SHARAD PATHAK
COMPANY SECRETARY AND CHIEF COMPLIANCE OFFICER
(FCS-9587)

"Aavas Financiers Limited
Q1 FY'25 Earnings Conference Call"
July 25, 2024

Management: **Mr. Sachinder Bhinder** – Managing Director & Chief Executive Officer
Mr. Ghanshyam Rawat – President and Chief Financial Officer
Mr. Ashutosh Atre – President and Chief Risk Officer
Mr. Selvin Uthaman – Chief Business Officer
Mr. Surendra Sihag – Chief Collection Officer
Mr. Ripudaman Bandral – Chief Credit Officer
Ms. Jijy Oommen – Chief Technology Officer
Mr. Anshul Bhargava – Chief People Officer
Mr. Rajaram Balasubramaniam – Chief Strategy Officer & Head of Analytics
Mr. Rakesh Shinde – Head Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to Aavas Financiers Limited Q1 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve 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 is being recorded.

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

Rakesh Shinde: 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 Q1 FY '25. The results and the presentation are available on the stock exchanges as well as 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 including Mr. Sachinder Bhinder, MD and CEO, Mr. Ghanshyam Rawat, President and CFO, Mr. Ashutosh Atre, President and CRO, Mr. Selvin Uthaman, Chief Business Officer; Mr. Surendra Sihag, Chief Collection Officer; Mr. Ripudaman, Chief Credit Officer; Ms. Jijy Oommen, Chief Technology Officer; Mr. Anshul Bhargava, Chief People Officer; Mr. Rajaram Balasubramaniam, Chief Strategy Officer and Head of Analytics.

We will start this call with an opening remark by our MD, Sachinder Bhinder, CFO Ghanshyam Rawat and CRO Ashutosh Atre, followed by a Q&A session. With this introduction, I hand over the call to Sachinder. Over to you, Sachinder.

Sachinder Bhinder: Thank you, Rakesh and good evening, everyone. I welcome you all to our Q1 FY '25 Earnings Call and thank you for joining the call late in the evening. Let me now take you through the key highlights of our performance in Q1 FY '25.

We are delighted to report a robust growth of 22% Y-o-Y in AUM reaching INR178 billion. Along with this strong growth, we have ensured best-in-class asset quality with 1+ DPD at 3.65%, an improvement of 3 bps Y-o-Y, and a GNPA of 1.01%. Our net profit for Q1 FY '25 stands at INR1.26 billion, registering a growth of 15% Y-o-Y. In terms of business updates, in Q1 FY '25, we disbursed INR12.11 billion, delivering a growth of 13% Y-o-Y.

At the end of Q1 FY '25, our AUM stood at INR178.41 billion, up by 22%, which aligns with the target to grow our AUM by 20% to 25%. The robust 25% Y-o-Y growth in the sanction serves as a clear indicator of our robust trajectory. This ensures confidence to deliver sustainable growth in the disbursal for the entire FY '25.

We have opened four new branches during Q1 FY '25 in our existing states to deepen our reach. We have seen a strong uptake in the logins led by diversified omnichannel lead generation funnel including digital, e-Mitra, RRO, and Mitra, resulting in better disbursement and building a healthy business pipeline.

In terms of technology update, I'm happy to share that we have completed the milestone of adoption and stabilization of salesforce with 1.9 lakh+ loan applications processed through salesforce. Additionally, we have stabilized Oracle Fusion, our ERP application. A new lead management system built in Salesforce has successfully gone live with selected branches in pilot form.

Our loan management system and Oracle FLEXCUBE is at an advanced stage of testing and will go live in the coming quarter. Technology is playing a key role in transformation and turnaround time improvement. Our login to sanction turnaround time has improved to 8 days in Q1 FY '25.

In terms of financial performance for the quarter, our net profit grew by 15% Y-o-Y, led by growth both in interest income and non-interest income. Our consistent efforts to optimize costs have resulted in a remarkable improvement in Opex to Asset ratios by 52 bps, which is now at 3.27% in Q1 FY '25 from the previous year's quarter at 3.79%.

Our asset quality continues to be pristine with 1+DPD at 3.65% as of June 24, down by 3 bps over Q1 FY '24, our GNPA stood at 1.01% in Q1 FY '25 and credit cost remained at 20 bps.

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 started exploring co-lending.

Our incremental borrowing cost increased by 30 bps Y-o-Y and 17 bps Q-o-Q to 8.31%, indicating the cost of borrowing peaking out in line with the benchmark rates. The FY '25 Union budget marks a transformative leap in addressing India's housing needs by significantly expanding the Pradhan Mantri Awas Yojana to include 30 million additional houses. The Government of India's commitment to providing housing for all.

We are committed to a strong growth trajectory and our focus on innovation, technology and cost optimization will continue to drive our success, and I'm confident that with our dedicated team and strategic initiatives, we will achieve our goals 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 ji. Good evening, everyone and a warm welcome to our earning call. First to update on the borrowing.

In terms of borrowing, we continue to borrow judiciously, raising around INR 11.35 billion at 8.31% in Q1, 2025. Total outstanding borrowing as of 30th June 2024 stood at INR 158 billion. Overall borrowing mix as of 30th June 2024 is 47.8% from term loan from the bank, 24% from assignment and securitization, 19.6% from NHB refinancing and 8.6% from debt capital market.

During the quarter, overall cost of borrowing increased by 1 bps Q-o-Q to 8.08%. Our incremental cost of borrowing for Q1 FY '25 was 8.31%. Lender support continued to remain extremely strong. There is access to diversified and cost-effective long-term financing. We maintain a strong relationship with the development financial institutions. To meet long-term business growth, we have progressed on the co-lending tie-up with a PSU bank. As of 30th June 2024, we maintained sufficient liquidity in the form of cash and cash equivalents and unavailed cash credit limit of INR17.5 billion and documented unavailed sanction of INR12.6 billion.

In terms of spread: As of 30th June 2024, the average borrowing cost of 8.08% against the average portfolio yield of 13.08% resulted a spread of 5%. We have been able to maintain our spread around 5% in line with our guidance, despite competitive pricing pressures.

Our margin, NIM as a percentage of total asset during Q1 FY '25 stood at 7.31%. Our NIM in absolute terms has increased by 10% Y-o-Y Q1 FY '25.

In terms of cost, our Opex to Asset ratios improved 52 bps to 3.27% in Q1 FY '25 versus 3.79% in Q1 FY '24. We are committed to gradually bring down the Opex ratio to around 3%. Credit cost during the quarter stood at 20 bps in Q1 FY '25 versus 16 bps in Q1 FY '24 and Q4 FY '24.

In terms of other parameters, profit after tax during the quarter increased by 15% Y-o-Y to INR12.61 billion. ROA stood at 3.01% and ROE 13.14% in Q1 FY '25. IGAAP to IndAS reconciliation has been explained in detail for profit after tax and net worth on Slide number 30 and 32 of our presentation.

We are very well capitalized with a net worth of INR39.03 billion and CAR at 44.48%. Total number of live accounts stood at 2,23,600+ translating into 16% Y-o-Y growth, employee count was 5,904 as of 30th June 2024 versus 5,700, 30th June 2023.

Now, I would like to hand over the line to our CRO Ashutosh Atre to discuss assets quality.

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

Asset quality and provisioning: Our asset quality as mentioned by Sachinder ji, continues to show improvement. The 1 day past due metric improved by 3 bps to 3.65% in Q1 FY 2025 compared to 3.68% in Q1 FY 2024. As of 30th of June 2024, our Gross stage 3 stood at 1.01% and Net stage 3 at 0.72%.

In terms of geography, 1+DPD and GNPA in our core vintage states remained well below 4% and 1.1%, respectively, while for Other emerging states 1+DPD and GNPA remained well below 3.5% and 0.9%. respectively.

Similarly, in terms of ticket size of more than INR15 lakhs, 1+DPD and GNPA remained well below 3.3% and 0.8%, while in case of ticket sizes less than INR15 lakh, 1+DPD and GNPA remained below 4% and 1.25%, respectively. Our total ECL provisioning including that of for COVID-19 impact as well as Resolution Framework 2.0 stood at INR 907.5 million as of 30th June 2024. Aavas is strongly positioned to continue delivering industry-leading asset quality.

With this, I open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi, sir. Good evening and thank you for giving me the opportunity. So, my first question was on business momentum and particularly on disbursements. So, the run rate has come off materially from the 4Q levels and within housing, the degrowth is even higher. While I understand that 1Q tends to be soft, but what is it that led to this lower disbursements during the quarter?

Sachinder Bhinder: Thanks, Shreepal. As you really appreciated and you highlighted, we always have a muted quarter one. But here I would like to highlight on against robust sanction growth of 25% we had sanction to disbursement around 78% which led to the growth being muted or on the lower side. But as i pointed out on a 25% sanction growth, we expect the momentum to come back in the coming quarters.

Shreepal Doshi: So, sir, if we have to look at it from a different angle on a yearly basis, what sort of disbursements we are targeting and how do you see it shaping up over the quarters?

Sachinder Bhinder: See, as I said, one parameter is the sanction growth which is there and I said that we are at around 78% this quarter. And in the coming quarters, we'll have the sanction to disbursement ratio really covering up to the normal levels of 85%- 87%, that's the normal range which will remain.

So, we are confident of bouncing back on the quarter number. So, what instils confidence is one is the login growth and second is the sanction growth. These are the two parameters which really help us give that confidence. So, unlike a normal one, we have a sanction growth which is already available with us and that will translate in the coming quarters.

Shreepal Doshi: So, are you saying that there was no, I mean material momentum decline in terms of the number of logins during the quarter?

Sachinder Bhinder: No, as you reflect, as I highlighted, there is a growth in login and there is a growth in sanctions, and both we've given the numbers out, so there's no problem in momentum growth if I were to really put across. There's a decrease in the sanction to disbursement ratio which has resulted into the disbursement take on the little muted side.

Shreepal Doshi: Okay. Sir, the second part was about the end use of the other mortgage category that we have classified this quarter. So, what would be the end use there?

Sachinder Bhinder: These are typically the loan against property and the top up loans. The loan against property is for the personal consumption. These are all backed by self-occupied residential properties. The micro MSME where it is typically the unserved, underserved, which we really focus on as a specialized HFC, which is unique to Aavas, really helps in building the capital creation for the working capital customers on the micro MSME side. And we've seen the degrowth on the LAP and the top up side, and really, it's gone into the capital consumption on the MSME side. And that's around 22%.

Shreepal Doshi: Okay. So, the last question was on pricing. So, we had done a rate hike couple of quarters back. So why has there not been any improvement on the yield side during the quarter? So that was the question, sir.

Sachinder Bhinder: Yes. So, I think if you see the disbursement yield, there is an improvement on the disbursement yield on Q-o-Q and compared to the previous quarter. But on the overall yield side, I think we've seen not that kind of compression, which was normally there in the earlier times, and maintaining a consistent spread of about 5%.

Shreepal Doshi: Okay, got it, sir. I'll come in the queue if I've more questions. Thank you.

Sachinder Bhinder: Thanks, Shreepal.

Moderator: Thank you so much. The next question is from the line of Mr. Renish, ICICI. Please go ahead.

Renish: Yeah, hi sir.

Sachinder Bhinder: Good evening, Renish.

Renish: Yeah, good evening, sir. Congrats on a good set of numbers during extremely challenging environment. Sir, just two questions from my side, one on the spread in the NIM side again. So, when we look at the incremental cost of borrowing at around 8.3% versus blended cost of 8.07%, you know, which essentially means that going ahead, the blended cost will converge towards the incremental cost.

And when we look at the yield, it's down trending since last many quarters. So how confident we are about sort of maintaining this 5% spread for the full year? I mean though, you know, we know that we have increased our PLR by 40 bps, I think in April, but that doesn't reflect in this quarter, maybe it should reflect from second quarter. What is your internal assessment, sir?

Sachinder Bhinder: There are two parts to the question. The second part I'll have Ghanshyam ji to respond. On the first part, we've been giving our guidance. Our endeavour is to maintain 5% and as you will really appreciate that there has been a spike in the incremental cost of borrowing and the same transmission has not been possible at the ground because of which you do not see this incremental increase in the cost of borrowing being able to be passed on to the existing set of disbursement customers. On the yield side and the placement, I'll let Ghanshyam ji to really respond on the second part.

Ghanshyam Rawat: Thank you, Sachinder. You see this quarter when we borrow fund, NHB contribution always remain low than what we borrowed for full year basis. So, this year new limit will come once we complete this quarter. Then the contribution of NHB borrowing will increase overall borrowing, so we are confident that now cost of borrowing is almost peaking out now at this level. And we borrowed good amount of money as a T-Bill linked, Repo-linked money. So, whenever the rate cut comes, it will have a positive impact on Aavas's overall cost of borrowing.

And yield if you see, last quarter to this quarter we have almost a 17-18 bps higher yield on the new business we got in this quarter. So, we are quite hopeful that we are going more granular, smaller ticket going forward in our business strategy. So, I hope that that will also help to maintain our overall yield level. On new disbursement, we will have further increase in yield. So, our endeavour is to maintain the 5% spread going forward.

Renish: Got it. And my last question Sachinder sir again on the disbursement side. So, sir when we say our sanction to disbursement remains at 77% versus 85%, 87% normally, so which means the disbursement is lower by maybe 7% to 10% this quarter because of seasonality, is that the fair assumption?

Sachinder Bhinder: One is the seasonality and second is the recognition of the disbursement. As you are aware, I think both parts have led to the current, but the positive side in the green shoots is that you have the momentum which is there the -- which was reflected in the numbers.

Renish: Got it. And would you like to share the absolute disbursement expectation for this year?

Sachinder Bhinder: So, see we've always guided on our AUM growth of 20% to 25%. I think we are confident of the fact that we will be able to deliver in that range and I think that will come across by two parts. One is disbursements coming across Q-o-Q and the foreclosures being controlled at the rate at what we have been able to manage. I think both really contribute. So, we are confident on this side of delivering the growth which we always guided of 20% to 25% and the BT out being restricted to a level at which we are comfortable at.

Renish: Got it. And sir just last book keeping question. What is the interest reversal because of the RBI circular?

Sachinder Bhinder: I think Renish, we can discuss offline on this. Whatever is there on the RBI stipulation, we followed completely what is needed as per the guideline, what has been mandated. So, we follow the rules and circular in total.

Renish: Okay, so it is fair to assume that by end of June we are fully compliant and going ahead there should not be any reversal impact?

Sachinder Bhinder: So, we are compliant on that, Renish. What we are saying is on the coming quarters we will have the bounce back of our disbursement coming into play.

Renish: Got it. Okay, that's it sir. Thank you and best of luck sir.

Moderator: Thank you very much. The next question is from the line of Shweta from Elara. Please go ahead, ma'am.

Shweta: Thank you, sir, for the opportunity. Sir sorry I'm harping on the same question all over again. So, we had seen 25 bps PLR increase in Q4, but if I look at the yield movement, I mean, there might be one-offs in Q1, but when do you see this reflecting ahead on each front?

Ghanshyam Rawat: If you see last quarter we published at 13.13% and we increased a 25-bps in the March itself. So, in a contractual rate a high bps drop is on account of fresh business because fresh business is still lesser than the AUM yield. If you ask me at the computed level yes obviously. due to RBI circular there is a certain interest cost reversal and from this March to June end NPA also increased so the 90 days period interest got reversed. If you factor both, there then there is the only marginal drop which is equivalent to my AUM will drop.

Shweta: Okay fair point sir. Sir secondly how are we placed today on the BT out cases, has that number seen sort of spike because if I go by the calculations on your prepayments and repayments. So, could you just throw some light on BT out for this quarter?

Ghanshyam Rawat: Yes. If you see in this quarter overall BT in the industry is 5.6% at annualized basis which is within our control and which is within our last year's track record. We generally assume in our budget 6% is a BT out to industry. During the quarter customer close/ partly close accounts. They pay the EMIs also. So overall my repayment in the AUM is a 16%. which is within the budget, as per our assumption and past year track record also.

Shweta: Okay. So, there is no unusual spike here on the BT out?

Ghanshyam Rawat: No unusual spike. Last year if you see overall with 16% - 17.6% was a repayment from opening AUM to closing AUM.

Shweta: Right.

Ghanshyam Rawat: We still are at 16% in this quarter.

Shweta: Okay, sir. Thank you and best of luck.

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

Raghav Garg: Yes. Hi, thanks for the opportunity, sir. Just my first question what is the total number of employees that you had as of June end and a related question is why have the employee expenses declined on a Y-o-Y basis? Those are my first two questions?

Sachinder Bhinder: Yes, see on the employee count as of the 30th June there were 5,904 employees and compared to the previous year it has increased about 204. There is a onetime set off which is the long-term incentive plan and the ESOP cost which has got reversed because of which there is an employee cost reduction.

Raghav Garg: Understood. Sir, my second question is from the annual report for FY '24. So, what I see is that there is a certain purchase of software worth about INR29 crores which has been capitalized. And when I look at the intangibles under development line item also there is about INR22 crores, INR23 crores worth of expenses waiting to be capitalized, I think next year again related to software.

So can you tell us what is the nature of this expense and it doesn't seem to be a onetime capital expenditure because it happened last year, it happened in '24 and probably you're going to capitalize it again in next year. So, if you can explain what is the nature of this expense and if this is going to be a recurring expense, then why not expense it rather than capitalizing it?

Ghanshyam Rawat: Raghav I think in last few years in the quarterly call and annual call we explained that Aavas took complete tech transformations in the company. First, we took a Salesforce as LOS as a tech transformation. Then we took ERP Oracle Fusion as a tech transformation as well as during this time we took a lot of digital initiatives also to have a very let's say different level of customer experience onboarding to exit of a customer.

And now in this quarter we are under progress to go live for the Oracle FLEXCUBE is a LMS system. All three, four systems and apart from that there are few -- very few systems are there like we took a treasury software also along with that we had upgraded our people software -- Human software. So, all put together is a total capex in the company roughly in two years something we already capitalized, something will be capitalized put together everything will be INR45 crore around capitalization INR45 crore to INR50 crore capitalization.

So, it is not that any revenue expense is getting capitalized. Capitalization is purely of capital expenditure. The company will get benefit in the next 10 years and the entire cost will benefit to us.

Raghav Garg: Understood. So ideally maybe in a couple of years or maybe after next year this capitalization whatever this amount is should run down. It won't continue at this INR25 crores, INR30 crores kind of run rate beyond next year, is that a fair assumption?

Ghanshyam Rawat: This year is the final year in capitalization. The two years put together we will have a capitalization around INR45 crore to INR50 crore.

Raghav Garg: Understood. Sir, the reason I asked is that given my limited understanding I thought it was more of a subscription-based model. But given that this expense is going to run down after next year maybe I'll try to understand that offline from you as to what exactly is the nature of this expense.

Moderator: Sorry to interrupt Mr. Garg, may we request you to return to the question queue for follow-up questions.

Raghav Garg: Sure.

Moderator: Thank you so much. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Good evening, everyone. Thank you for taking my question. Sir first things first. I mean you spoke about disbursal yields earlier what were the disbursal yields in 1Q?

Sachinder Bhinder: So, Abhijit we've always guided on our spreads and on our AUM growth. The incremental disbursement yields which really, we don't comment because I think that trades off moves across on Q-o-Q. I think important is that we've been able to maintain a spread of 5%. On the basis of that, on a sequential basis of Q1 previous year I can really say that incremental yield is higher by 17 bps.

Abhijit Tibrewal: Got it. This is fair. Thank you. Sir, the other question that I had was on spreads already a lot of questions have come your way on spreads. But given our guidance of 5% and now that we are eventually here, just trying to understand given the competitive intensity which is not allowing you to transmit higher cost of borrowings to customers?

Are we also doing something on the mix side to ensure that even if cost of borrowing stabilizes and the competitive intensity remains this way which will mean continued pressure on yields? Are we doing something about mix as well to see to ensure that the spreads can at least be maintained at 5% kind of levels?

Sachinder Bhinder: Yeah, Abhijit you are right. I think the endeavour as you rightly said, and I would really articulate in the form that the focus on the ticket size which is going to be less than INR15 lakhs to contribute higher and even in the buckets which we are their incremental increase granularly on the yields or the disbursement yield is our endeavour. And because of that, we will really try to maintain our spreads.

And when we see the peaking out of the cost of borrowings, As a result of which when we say that we've been able to have our disbursement up. So, the focus really is to work across on higher yielding products, which is within the segment, which is the self-occupied residential properties, home loan segments really to build in those lines. So that's been our focus and we will continue to build on that.

Abhijit Tibrewal: Okay. And sir just one last clarification. Just trying to understand two things, two clarifications. One is I mean have we changed the way in which we report or compute NIM? Because for the last financial year FY '24 you have reported a NIM of 7.91. For this quarter you have reported a NIM of 7.31. So, is there a change in the way we compute and report NIMs?

Ghanshyam Rawat: No, there is no change in the reporting at NIM. NIM is the same way we compute what we have reported earlier and now reported. But in this quarter, NIM got impacted by two reasons. One is assignment income for this quarter is lesser than what we see for the full year basis because first quarter generally remains muted for assignment. But as we progress on a full year basis assignment income will catch up.

Secondly, obviously cost of borrowing increased that has also impacted. Further, as we mentioned our spread came down. So that is also impacted at a NIM level. But one time impact of assignment , will come back in the full year basis.

Abhijit Tibrewal: Got it. But our presentation is showing that 70 bps decline in the reported NIM?

Ghanshyam Rawat: Yes, few bps is because spread also came down. So, if you take that spread reductions which is there and then around 20 bps to 25 bps is on account of assignment. So that will come back in the remaining year. I think there was question on this spread and all these things. We always say this thing we will maintain this spread, but you will appreciate this thing. We always give one more commentary if we lose at a spread so we will make up the same thing through opex leverage. So, this quarter, last year few quarters now opex leverage, we have around 50 bps in this quarter.

Abhijit Tibrewal: Got it. Thank you so much, Ghanshyam ji.

Moderator: Thank you.

Sachinder Bhinder: Thanks, Abhijit.

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

Jigar Jani: Yes, hi, thanks for taking the question. So, on the opex front, we were guiding for 20 bps to 25 bps each year progression. But if I compare on a FY '24 basis, we were at 3.58%. This quarter, we are already at 3.27%. So, we are well below what we had guided for the full year. So how should we see the opex to asset number for the full year FY '25? That's the first question. And secondly, the growth guidance that we making in this is 22% to 25%, how much upside would be there because of the CLSS announcement in the budget? And if you could also simultaneously share in what format if you have had any discussions with NHB on this in what format is the CLSS -- CLSS scheme going to come in?

Sachinder Bhinder: So, we've always guided on the AUM growth of 20% to 25%, on the opex to asset ratio, we are at around 3.27% for the current quarter. Our endeavour will continue to maintain and some of them I think on the employee cost side, which was incidentally nature, which came across in this quarter, I think operationally we will try, and it is the long-term guidance in the coming year to come to a level of 3%. So, we'll continue to strive towards that and maintain that. And on the CLSS, I think Aavas as a normal strategy has never built the growth based on any of the subsidy schemes or other, we are into specific ones which are going to the self-construction individual homes. The housing for all PMAY work will have a positive impact for us but nothing on the CLSS specific we have been guiding on -- on those lines.

Jigar Jani: Okay, sir. Thank you.

Moderator: Thank you so much. The next question is from the line of Shubranshu Mishra, Phillip Capital. Please go ahead, sir.

Shubranshu Mishra: Hi, good evening. Thanks for the opportunity. Just to start harp on the CLSS part again, there's been some degree of budget announcement without any fine print, we know the fine print comes out, do we think that will change our AUM or disbursement growth guidance going forward? That's the first. Second is what really changes when we see this fine print of CLSS because when CLSS got knocked off in 2022 and since then the developers have pivoted towards other kind of inventory. So, for them to repay that back into affordable housing will take some time. So, in that case certifying a disbursement at scale with this scheme would also take time. That's a fair assessment.

Sachinder Bhinder: Sorry, actually you're not audible.

Shubranshu Mishra: No, my question was, with the fine print of CLSS coming out in the next few weeks will change our AUM and disbursement growth. That is the first question. Second one was in 2022, the CLSS got knocked off and the developers are repivoted towards other kinds of format, which is not affordable housing. So, there has been a supply side crunch. This supply side reattributing itself will take some time for the developers to realign to the fine print of CLSS. So, do we think that the fructification of disbursements at scale will also take time? Maybe 12 months to 18 months.

Sachinder Bhinder: I think from that perspective, we are not in the developer segment or in the segment of those builder led supply which is there. Aavas has a clear-cut focus in Tier 2 to Tier 5 towns and more on self-construction individual homes, which is our main stay. And whatever is an additional, we are not projecting any growth because of any of the schemes really coming across. The ones which are there on the urban led supply, which is a part of our affordable vertical in our business they are depending upon whatever the inventory comes up, they do have an upside for us as a housing finance company.

Shubranshu Mishra: So, if I have understood that correctly, we won't change our AUM or disbursement growth guidance basis. The scheme fine print which comes out in the next few weeks.

Ghanshyam Rawat: Fine print yet to come. But in last PMAY -- seeing on the CLSS strategy, we've seen that it has positive impact on the growth on as well as on the quality side. It has improved significant affordability of the home when people take a loan from us. So, we want to wait for the fine print, but it has a pretty positive impact.

Shubranshu Mishra: So, the question is that will we change our growth guidance when that fine print comes?

Sachinder Bhinder: So, I think let's wait for the fine print. And as what Ghanshyam ji said, it always has a positive impact, A, on the affordability and B, on the quality of files which is there. So, once we get the fine print, I think we will come back to you on what would be the implications for the growth side.

Shubranshu Mishra: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah, Citigroup. Please go ahead.

Kunal Shah: Yes, hi, sorry if I'm being repetitive because I missed the earlier part. So, on the non-home loan side anything to read into in terms of the GS3? I don't know if that was answered but there is an uptick both on a Y-o-Y and Q-o-Q. So, anything maybe are we seeing slightly higher stress one in 1+DPD or 30+DPD depending in that bucket? Yes.

Sachinder Bhinder: No, Kunal, there's nothing substantial to read across. I think you will really appreciate that as the MSME, which is the real working capital going across on the non-home loan segment really going for the capital consumption and really helping us in building the right kind of book. But incrementally, we don't see so much of a difference between the quality or the performance of the portfolio at this period of time. And other thing, you have to really note that this is all secured by self-occupied residential properties which are there.

Kunal Shah: Okay. And secondly, on cheque disbursal, I'm not sure if that was touched upon but how much was the impact and has it normalized? And should we see the disabled disbursements coming back to normal? And if you look at the July months of disbursement, how the trend has been. Yes.

Sachinder Bhinder: So, Kunal, the earlier part of the call, we said that we had a sanctioned growth of 25% on the sanction part. On the sanction to disbursement, we were at around 77%. So, we are optimistic of whatever we are there to bounce back in the coming quarters.

Kunal Shah: Okay. But that will come immediately. So, we, it has got normalized right from the start of this fiscal this quarter.

Sachinder Bhinder: It will get normalized.

Kunal Shah: Okay. Yes.

Moderator: Thank you very much, Mr. Shah. The next question is from the line of Anurag Mantry from Oxbow. Please go ahead.

Anurag Mantry: Yes, just two data keeping questions if you can quantify. You mentioned in the employee opex there was a onetime reversal, I think if I heard correctly because of ESOPs. If you can just quantify that number. And the other one on the data keeping again is in the yield. I think you mentioned that there is some interest cost reversal because of two reasons. If you can just quantify both these numbers will be very useful.

Ghanshyam Rawat: Your question for the sequential quarter or for the or you talking Y-o-Y?

Anurag Mantry: No, so for this specific quarter, I'm just asking the absolute numbers. So, I think in opex you mentioned that there was a onetime reversal in the employee cost because I think some reversal if I heard correctly.

Ghanshyam Rawat: It's a true sense not a reversal but is because when certain ESOP is given the past got matured. So now new provision was lesser than the last year's requirement. So that was a difference in the ESOP. And apart from that, I think is normal. When you compare quarter four to quarter one obviously disbursement remain higher in the quarter three, quarter four. So, in those periods variable costs are generally higher than the quarter one variable cost at the employee level.

Anurag Mantry: Got it. Can you quantify that provision for ESOP number broadly just to get a sense of how much improvement has happened because of that in the FS?

Ghanshyam Rawat: So, cost in this quarter is INR4 crore.

Anurag Mantry: Got it. And the interest cost -- sorry, the yield interest reversal, can you quantify that as well?

Ghanshyam Rawat: I think that's difficult to comment because those system-based reversal happen in the system itself. So, we will come back an exact amount.

Anurag Mantry: Okay. No worries. Yes, thank you so much.

Moderator: Thank you so much. The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Yes. Hi, sir. Two clarifications from my side. On the cost of borrowing, if I have to look at the bank borrowing have the incremental rates changed versus last quarter? You mentioned about the incremental borrowings but how about banks?

Ghanshyam Rawat: Bank borrowings, I think from banks we borrow money from the two, three benchmarks. T-bill linked money, repo-linked money and as well as other benchmark of six-month MCLR output are put together. So, my bank money is borrowed in this quarter is at 8.40.

Mona Khetan: Okay. And what was the same last quarter?

Ghanshyam Rawat: I think a 10-bps difference is there.

Mona Khetan: Okay.

Ghanshyam Rawat: Last quarter, 10-bps is a lot cheaper.

Mona Khetan: Yes. Sure. Secondly, sir, if I can get a share of loans above INR25 lakh ticket size and INR15 lakh ticket size. At the end, what was that number a year ago?

Ghanshyam Rawat: I think ticket size details are too granular number to cater to say at a large forum. We have given an overall ticket size detail in our presentation. How has home equity has grown; home loan has grown. We have seen a natural increase in our ticket size at home, around 6% to 8% in the home loan side. And MSME, or let's put together, you see, we have seen a 10% plus increase in ticket size at a Y-o-Y basis.

Mona Khetan: Okay. Could you just get above 25 lakh ticket size share in AUM? Is that -- even the rough number you have, that would be useful? Thank you.

Ghanshyam Rawat: Yes. That we can get. Because we don't have much focus on the larger ticket.

Mona Khetan: Okay. But do you have a back of the envelope number, share of AUM above 25 lakh ticket size?

Ghanshyam Rawat: Yes. It's around, it's around 5% to 6% on my loan count basis.

Mona Khetan: On AUM Basis?

Ghanshyam Rawat: Yes, let's say, out of 2 lakh-plus customers, there the 5% customers are there, who has more than 25 lakhs.

Mona Khetan: Okay. Based on the number of customers not AUM.

Ghanshyam Rawat: Yes. Number of customers.

Mona Khetan: Okay. Thank you.

Moderator: Thank you so much. The next question is from the line of Adityapal, MSA Capital Partners. Please go ahead.

Adityapal: Thank you so much for the opportunity, sir. So, just wanted to quickly understand what would be our geographical concentration amongst our top three states and how does the management think about it?

Sachinder Bhinder: So, as you are aware, I think, we've already discussed Rajasthan, Gujarat, MP and Maharashtra are the core four states which is there. So, the AUM accordingly is lined up. And as we really appreciate the 367 to 371 branches, we have 108 branches in Rajasthan. So based on that, it really is the one which is giving the disbursement as well AUM but the other thing to really notice that you had the other states also really coming across.

So, from a level of 60%, 70% iniatial years , we are at around 30% to 35% on the AUM level. And since we have 108 branches, we have a contribution coming from the base states. So that's how we are stacked in the four states what we talk about.

Adityapal: So, these four states currently contribute to 35% of the year?

Sachinder Bhinder: No, I'm talking about Rajasthan, that alone contributes to around 35% of the AUM.

Adityapal: Okay, understood. And combined the…

Sachinder Bhinder: So, I think you should really appreciate that we have 33% of the branches of pan-India, which is there in Rajasthan, right? So, I have 108 branches of the total 371 branches in Rajasthan.

Adityapal: Sir, also my second question is that, how are we thinking on branch productivity? So, today we have around INR46 crores, INR47 crores of AUM per branch. Going forward, how are we thinking? And also, if you can give a bit color on branch economics, that is, after completing three years, what is the -- generally, what is the opex?

Sachinder Bhinder: I think on the granularity, we don't comment. I think you would really appreciate that the first ones which are there, which really help us to build, they help us to really scale up in the new markets. And in the line of our contiguous location expansion strategy, it helps us to build up the other states and other branches. And our constant endeavour is to really build that in a way which is much more granular, make them cost effective and make them ROA accretive.

Adityapal: And sir, any color on how do we think on AUM per branch productivity going forward?

Sachinder Bhinder: So, I think you look at the market potential, you look at the credit behaviour, look at Aavas' behaviour. I think all those metrics are the one which really decide what it is there. It is not a secluded division of a numerator, denominator. It is more to do with our understanding of the geography in detail, local dynamics, our understanding of the market and the credit behaviour. that decides the viability. And accordingly, branch is sized according to the market opportunity and accordingly resourced.

Adityapal: Sir, just understanding. So, when we say 20% to 25% AUM growth, how can we understand -- how much will come from productivity gains and how much will come from organic?

Ghanshyam Rawat: You see, our AUM growth guidance is 20% to 25%, branch count will increase by 10% in let's say, we are targeting three years. As well as the manpower will increase by less than 10%. So, this will give productivity leverage every year for the three years. It's the metrics we are looking.

Adityapal: Thank you so much.

Moderator: Thank you so much. The next question is from the line of Nihar Shah from New Mark Capital. Please go ahead.

Nihar Shah: Hi. Good evening to everyone. Just a few questions from my side. My first question is can you tell us what the BT-out this quarter was? And what is the trend in being over there? How are you seeing trends in BT-out?

Sachinder Bhinder: Good evening, Nihar. On the lines, what Ghanshyam ji really referred, while answering the earlier questions, we continue to be at around 5% to 5.5%. And I think that is backed up by on an annual basis. And this is backed up by our good predictive models based on our last couple of years where we have been in a position to really predict what would be the customer behaviour and actually stop the rightful customers which are there.

And wherever we feel that the customer is getting over leveraged or the cash flows are not justified, we let it flow to the for a balance transfer and we really look at the ones which the customer has been over leveraged. The performance of that with outside of us is five times worse off than it would have been other.

So, I think a very packed of cash flow-based lending, right kind of underwriting and retaining the right kind of customers has helped Aavas over a period. And with technology and our predictive models really helping across to predict the behaviour and hold the customer despite the competitive pressures and the market, we've been able to maintain that in a range bound manner.

Nihar Shah: But is the number of people coming for BT-outs also increasing? So, you all are obviously retaining, are you all retaining more customers or is the retention rate also sort of largely similar? Just trying to understand that from more, from a competitive and intensity perspective?

Ghanshyam Rawat: No, as you know, we are more focused in Tier 3, Tier 4, Tier 5 and we are not seeing any change in last, let's say, couple of quarters, including this quarter. No increase on the BT-out request.

Nihar Shah: The second question that I had was this loan sanction to disbursal ratio, is there any drivers of that being so low this quarter that was just out of the ordinary or is there some normal seasonality or something? We can just dive a little bit deeper into, why you think that corrected so sharply?

Ghanshyam Rawat: You are aware in this quarter when a regulatory circular was there and where some disbursement practices got improved in this quarter. So that has impacted us spill over certain sanctions could not disburse, so those will be converting in the coming months. Apart from that I think there's not much to read on that ratio.

Nihar Shah: Okay. So, it's largely because of the RBI circular that?

Ghanshyam Rawat: Yes, we got 25% growth in sanctions. But disbursement didn't happen because certain formalities customers were yet to complete as per the revised guidelines with what disbursement should be treated.

Nihar Shah: And is this the same thing that impacted the NIMs, you mentioned that there was some RBI circular on the NIM impact. If there's a way you can quantify that potentially?

Ghanshyam Rawat: I think NIM has naturally seen certain compression, drop in the yield has also impacted, major component is that our assignment income is less in this quarter and cost of borrowing is a natural increase we have seen, so all this led to NIM compression. Spread level was maintained majorly helped by Opex savings in this year. So, ROA impact is very minimum, is a 15-bps which will get positive in the coming quarters once we will have a better assignment income, in the coming quarters.

Nihar Shah: Great. Ghanshyam ji. Great -- all the best on the quarters forward.

Ghanshyam Rawat: Thank you.

Moderator: Thank you so much, Mr. Shah. Ladies and gentlemen, due to time constraint that was the last question. I now hand over the conference to Mr. Sachinder Bhinder, MD and CEO of Aavas Financiers Limited for closing comments. Please go ahead, sir.

Sachinder Bhinder: Thanks. As we conclude today's earning 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 has been instrumental in our growth. In our Aavas 3.0 journey, we are dedicated to building a robust framework that supports our ambitious growth and ensures corporate governance, asset quality, sustainability and resilience.

I express my deepest gratitude to all our regulators and stakeholders whose constant faith and support have been helpful in the journey. Together, we shall forge a new era in affordable housing and MSME finance, empowering countless lives and reshaping India's socio-economic landscape. Thank you and have a wonderful financial year ahead.

Moderator: Thank you very much. On behalf of Aavas Financiers Limited, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.