SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2022-23/227

Date: May 11, 2022

To,	To,
The National Stock Exchange of India Limited **The Listing Department** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**BSE Limited** **Dept. of Corporate Services** **Phiroze Jeejeebhoy Towers,** **Dalal Street, Fort,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Sub: Earning Conference Call Transcript

In reference to letter No. AAVAS/SEC/2022-23/164 dated April 25, 2022, please find attached the transcript in respect to the earning conference call on the financial and operational performance of the Company for the quarter and year ended March 31, 2022 held on Friday, May 06, 2022 at 03:30 PM (IST).

The transcript and the audio recording of the conference call can be accessed at the website of the Company at www.aavas.in.

We request you to take the same on your record.

Thanking You,

For Aavas Financiers Limited

AAVAS FINANCIERS LIMITED

Sharad Pathak
Company Secretary and Compliance Officer
(FCS-9587)

AAVAS FINANCIERS LIMITED
(Formerly known as "Au HOUSING FINANCE LIMITED")
An ISO 9001: 2015 Certified Company | CIN NO.: L65922RJ2011PLC034297
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"Aavas Financiers Limited
Q4 & FY22 Earnings Conference Call"

May 06, 2022

MANAGEMENT: **MR. SUSHIL KUMAR AGARWAL - MD & CEO**
MR. GHANSHYAM RAWAT - CFO
MR. HIMANSHU AGRAWAL - INVESTOR RELATIONS

Moderator: Ladies & gentlemen, good day and welcome to Aavas Financiers Limited's Q4 FY22 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. The statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participants' 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 the operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushil Agarwal – MD & CEO. Thank you and over to you, sir.

Sushil Kumar Agarwal: Thank you for participating in the earnings call to discuss the performance of our company for Q4 & FY22. With me, I have Mr. Ghanshyam Rawat – CFO, Himanshu Agrawal – Investor Relations, other senior members of the management team, and SGA, our IR Advisors.

The results and the presentations are available on the stock exchanges as well as our company website and I hope everyone has had a chance to look at it. For Q4 FY22, we disbursed Rs. 1,287.2 crores registering 27% YoY growth which is the highest quarterly disbursement in our history. Excluding the impact on business due to lockdown imposed during Q1 FY22 due to the second wave of Covid-19, our average monthly disbursements were close to Rs. 350 crores during the period from Jul-21 to Mar-22. Having said that, we continue to adopt a cautious approach on growth and give a higher thrust to maintaining pristine asset quality and sustainable operating metrices. During the year, the average portfolio yield reduced by 51 bps from 13.16% as of Mar-21 to 12.65% as of Mar-22. The average borrowing cost also reduced by 52 bps from 7.40% as of Mar-21 to 6.88% as of Mar-22. As a result, the spread as of Mar-22 was maintained at 5.75%, roughly same level as that of Mar-21. Further with our robust collection efforts, we have improved 1+ DPD from 6.45% in Dec-21 to 4.47% in Mar-22. Similarly, our exposure to 90+ DPD assets has come down from 0.83% in Dec-21 to 0.68% in Mar-22. But we have also categorized 0.31% of upto 90 DPD assets as GNPA following RBI's notification dated 12th November 2021 to harmonize IRACP norms across all lending institutions. As a result, the total Gross Stage 3 stood at 0.99% in Mar-22. We will continue our strategy of controlling the early delinquencies and strive to maintain 1+ DPD below 5%. I would now hand over the line to Ghanshyamji, CFO, to discuss various business parameters in detail.

Ghanshyam Rawat: Thank you Sushilji. Good afternoon everyone and a warm welcome to our Earnings Call.

During the year, the company borrowed an incremental amount of Rs. 43,884 Mn at 6.04%. As of Mar-22, our average cost of borrowing stood at 6.88% on an outstanding amount of Rs. 1,02,607 Mn. Our long-term credit rating continues to be AA- with Positive outlook from both ICRA & CARE. Despite the highest short-term rating of A1+, we continue to maintain zero exposure to commercial paper as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for PAT as well as net worth on slide # 32 & 34 of the presentation.

Key parameters: as of March 31, 2022, total number of live accounts stood at 150837 i.e. 20% YoY growth; total number of branches was 314 i.e. 34 new branches added in last 12 months, employee count of 5222 i.e. 20% YoY growth. Assets under management grew 20% YoY to Rs.113502 Mn as on March 31, 2022. Product wise breakup: home loans 72.1%, other mortgage loans 27.9%; Occupation wise breakup: salaried 40.0%, self-employed 60.0%. Disbursements increased by 27% YoY to Rs.12872 Mn for Q4 FY22 and by 36% YoY to Rs.36022 Mn for FY22. As on March 31, 2022, average borrowing cost of 6.88% against average portfolio yield of 12.65% resulted in a spread of 5.77%. Borrowings: access to diversified & cost-effective long-term financing, strong relationship with various developed financial institutions, overall borrowing mix as of March 31, 2022 is 37.9% from term loan, 22.9% from assignment and securitization, 21.5% from national housing bank & 17.7% from debt capital markets. Asset quality & provisioning: 1 day past due stood at 4.47%, Gross Stage 3 stood at 0.99% & Net Stage 3 stood at 0.77% as on March 31, 2022. Gross Stage 3 of 0.99% includes 0.31% up to 90 DPD assets which have been categorized as GNPA following RBI's notification dated November 12, 2021. During the financial year, resolution plan was implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated May 5, 2021. Some such accounts with an outstanding amount of Rs.1361.0 Mn as on March 31, 2022 have been classified as Stage 2 and provided for as per regulatory guidelines. Total ECL provisioning including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs.643.2 Mn as on March 31, 2022. Liquidity of Rs.32050 Mn as on March 31, 2022 with breakup as: cash & cash equivalent of Rs.15690 Mn, un-availed cash credit limit of Rs.1150 Mn, documented un-availed sanction from NHB of Rs.4060 Mn, documented un-availed sanction from other banks of Rs.11150 Mn. Profitability: During FY21, there was a tax benefit on share-based payment of Rs.126.8 Mn adjusted in Profit & Loss Account. Whereas for FY22, such tax benefit of Rs.214.1 Mn was directly transferred to Retained Earnings (Equity). Consequently, on a like-for-like basis, PAT for FY22 increased by 29% YoY to Rs.3575 Mn. ROA was 3.6% & ROE 13.7% for FY22. As on March 31, 2022, we are very well capitalized with Net worth of Rs.28086 Mn & our book value per share stood at Rs.355.8. With this, I open the floor for Q&A.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Firstly, congratulations to you & your team for demonstrating such a strong improvement in asset quality. I had 3 questions. Let me first try to solicit your views on AUM growth. While everyone keeps saying that the mortgage penetration in India is low and that there is an unlimited opportunity in the affordable housing finance segment, in your view, how big is the opportunity today in the low-ticket housing finance space? I ask this because we hear very divergent views from players and some of them even acknowledge that it is easier to build an AUM of let us say 10,000 crores but beyond that the climb becomes very very steep. I would like to hear what your views are.

Sushil Kumar Agarwal: Abhijit, some statistics as per our knowledge and the data we collected, India has 140 crore population. Around 60 top cities have 35 crore population & around 8 crore families, and around 1.6 crore housing loans exist in that market. So, around 20% penetration in that market. Rest of the India 105 crore population, around 28 crore families & around 65-70 lakh home loans exist. So, around 3% or less penetration. So, I think the market in which we operate even after 75 years of independence, the penetration is somewhere around 2% to 7-8% in different towns. So, we think another 20-25 years, we can sustainably grow in that market. Market is huge but that market is, you can say, difficult in terms of for you need to have patience, you need to learn, you need to grow slowly, and you can create N number of times market opportunity in that market.

Abhijit Tibrewal: Sir, the second question that I had was on the higher pre-payments that we have seen during this financial year. Can you give us some color on the competitive intensity; in which segment or geography and to which lenders are these customers taking balance transfers to and what is the alternative loan yields which are being offered by the competition that you deem it wise not to retain such customers? Lastly, can these BT outs further intensify as the interest rates now rise?

Sushil Kumar Agarwal: Abhijit, normally prepayment rate how it works is around 6-7% comes as principal repayment with the installments. Around 5-6% comes as a part payment prepayment from the customers from their own fund and around 6-7% comes from BT out of portfolio. So traditionally if you will see the first 2 components there is not much of the thing. It's a normal phenomenon for large HFCs also and for small HFCs also. On BT out, yes, pre-Covid level, we were able to contain it; our algorithm needs to improve, we are working on that. So, another 2-3% saving we can do with improved algorithm in the next 12-18 months' time, but not much of BT-out impact its 2-3% higher from the normal levels which anyway in the very low interest rate regime you can assume, but we plan our distribution business numbers' growth keeping that in mind and the guidance which we have given that we can grow 20-22%, we are still matching. So, I don't think so, but yes, the competitive landscape will always remain there. I always say that when a kid is below the table height nobody recognizes it. When the kid grows above the table height, everybody starts recognizing and the competitive intensity will be there. But with the kind of distribution, technology, and niche created in the last 12 years of journey, we will continue to sustain our growth level which is 20-25% growth.

Abhijit Tibrewal: The last question that I had was on the asset quality. You can excuse me perhaps I am asking you for the secret sauce on an earnings call, but I wanted to understand what aided the sharp improvement in your Stage 3A which is your less than 90 DPD book. Out of the total reduction that we have seen in Stage 3 on a QoQ basis, 85% of the reductions have come from Stage 3A, what really made me curious here is that you could not have initiated SARFAESI on this loan pool and these customers who had 3 installments overdue sometime in November and December when they slipped into NPA and suddenly they have so much money that they are able to pay 3 EMIs and get upgraded to Standard. So were these resolutions more in the nature of settlements and closures rather than upgrades to Stage 1?

Sushil Kumar Agarwal: Abhijit, as a process, any account which gets marked NPA in the system, the SARFAESI process gets initiated, and after 12th November circular, immediately the next day whichever accounts were under new regime counted as 90+ or Stage 3, we initiated SARFAESI and you know in SARFAESI there are 8 stages; but within 60 days, you will have first symbolic possession and those things. And the customer who were already living in that house, property is there, customer is there, then either customer takes the initiative and forecloses or he prepays the loan. Anyway, these customers were almost those customers which were because of some event in life they missed 1 or 2 installments and they kept on paying 1 installment every month. After SARFAESI proceedings, either they have closed or prepaid the entire outstanding. So, there is no secret sauce. It's process driven, and since the underwriting & the process is good, and in each case, customer or property is existing and so recovery anyway needs to happen.

Moderator: The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Congrats on another good quarter Sushilji and Ghanshyamji. I have 3 questions. The first one is if we were to look at your other opex line, this year almost every quarter, that has been growing very strongly, almost 40%+. While I understand that the branch expansion has also resumed, it looks like there are a few other expenses that are also growing fast. So, on the other opex side, could you please help us understand what are these expense items that are growing & how much of this is related to investments for which we will see benefit probably 1-2 years down the line?

Sushil Kumar Agarwal: Last year, opex had almost 3 components. One is, 2021 because of Covid, there were salary reductions, less bonuses or no bonuses / incentives. In the current year, as you see, there was a large attrition across the industry, and to sustain that, the salary increased, incentive, bonus, as it was normal as usual. So, when you compare from 2021 when because of Covid, no increment, no bonus, salary reduction, this percentage looks high. Second, as you know, we are continuously investing in distribution. So, every year, 30-35 branches that is also there. But this year, we are also embarking on another transformation journey on the digital side where we are scaling up our digital & technology infra to cater to a $15-$20 billion kind of size of assets, and in that journey, yes, last year also, the other opex and depreciation is included and this year also will be a little bit high. We hopefully complete all this transformation journey in the next 12-15 months which will help us becoming scalable infra to the size which I have told you. At the same time, it will help us in transforming the customer journey and the employee journey and experience and also significant impact on reducing the TAT, operating cost, operating leverage. These 2 or 3 components are there because of which this year's numbers look like this, but we continue doing investment. The hike is because I have told you in 2021, there was no investment in technology and no investment in manpower more and reductions in salary, incentives, and bonus. So, when you compare from a low base to the normal base, it looks that high.

Karthik Chellappa: My second question, Sushilji, is if I were to just look at your AUM growth of 20% and if I were to dissect it further, the AUM per branch has actually been growing at high single digit at least for the last 3 or 4 quarters. Now, given that some of your new branches in new geographies probably will grow faster on a lower base. This would mean that in some of your existing geographies, let us say if it is Rajasthan or Maharashtra or so, the AUM per branch growth is probably even like mid-single digit CAGR. Why do you think this is the case?

Sushil Kumar Agarwal: Karthik, I think we need to see cut of the numbers, but the philosophy with which we work I have told all the investors, when we open a branch, we take a 15-year view. So, like some branch is in say 4 lakh populatopn town; divided by 5, so around 80,000 families. In the next 15 years, we need 5% of the customers. So, around 4,000 customers divided by 180. So, almost 30-40 cases per month. So, we go that way & then AUM growth journey will be in tandem. We don't say that this year we will do 3, next year we will do 4, next year we will do 5, next year we will do 6. Some efficiencies will always be lagged, but all of our branches – almost 90% of our branches are ROE positive in the first 12 months. We opened in the second half. So, if we remove that part and because of Covid also, last year also we opened the branches, the growth is a little bit low. We expect them to do normal business functioning from this year-end. In fact, last month, the normal business numbers were there. But it will not be like 20% YoY growth from all the branches. It will always be like some branch will be at 100% efficiency level, some 80%, some 65% level, and normally 3-year lag is there to achieve the 100% efficiency.

Karthik Chellappa: My last question, Sushilji, is, currently, what is the difference in the yield between our fixed versus floating rate products and are we seeing any shift from customers towards more fixed rate loans given that interest rates are starting to trend up?

Sushil Kumar Agarwal: Karthik, normally we give all the options to the customers while they apply. Between fixed and floating, there is a difference of 275 bps as the yield in our portfolio and we normally try to match our lending with the borrowing kind of pattern. The money which we raise on fixed rate, we try to fund on that fixed rate lending and money which we have borrowed on a floating rate basis, we try same, and I think balance sheet is perfectly matched on fixed and floating rate interest-wise, but it is the customers' choice, and we are not seeing any significant difference if you will see quarter-on-quarter basis. It's hardly 1% difference.

Moderator: The next question is from the line of Mayank from InCred. Please go ahead.

Mayank: Sir, my question is on the increasing prices of construction material & other inflation. What kind of challenges are you seeing on housing demand or on the under-construction properties of our customers? What kind of changes in cash flow are we seeing on the households due to inflation?

Sushil Kumar Agarwal: Mayank, on the construction cost side, I will give you one data point. Even 10-15 years back, the construction cost for a normal home used to be around Rs. 1,000-1,100 per square foot, but during that time, construction material cost was 35-40% and labor cost used to come 60%. Now, over a period of time, that material cost has increased from 35-40% to 60% but there is a significant reduction in labor cost because of machinery and new method development. So, if you see, basic structural rate on which the government used to give the tender for constructing the home was around Rs. 1,000- 1,100 and even in March, the government has issued the tender on Rs. 980-995 cost. So, basically it is not much of that difference, but yes, a little 5-10% further beyond that but over a period of time, customer affordability has also increased even if you take inflation rate and growth in the income. During the last 2 years because of Covid, some of the cash flow of the MSME was hampered, but I think in the last 9 months, the recovery is better and faster and I am seeing at least in our portfolio when we discuss with all the customers and even we processed more than 40,000 customers in the last quarter, now cash flow levels are almost matching the pre-Covid level at the ground level, the kind of profile which we fund.

Mayank: What is the employee base for us as on 31st March 2022?

Sushil Kumar Agarwal: 5222.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Congratulations for a good set of numbers. Firstly, the question is with respect to the opex again. When we look at it, you highlighted that maybe on a long-term average, we would want to be somewhere around 200-250 odd bps and we are skill at 3.9% odd. So, how should we see the overall trajectory, maybe the investments still are going to continue & even for 20-25% kind of run rate on the AUM, should we really see the higher opex trajectory or maybe as the base effect goes away; it should normalize & there should be some operating leverage that will play in now?

Sushil Kumar Agarwal: Kunal, during pre-Covid if you see, in pre-Covid last 3 years, we were able to reduce our opex by 30 bps YoY basis. Due to Covid, in the last 2 years, that operating leverage was not visible. One is because 4.5 months in the last 2 years went into Covid and there is a fixed cost option which is already there, but with the normal business like if you see the last 9 months numbers after Covid, significant recovery has impacted and if you see, the net worth has grown 17% YoY basis; that is there. But at Aavas, we continue to grow even in Covid wave 1 & Covid wave 2. Both years, we opened 30-35 branches, and as I told you, now we are embarking on another digital transformation journey for the size which I told you; that will be there. But yes, with that also, this year we hope so there will be no Covid impact. If that will be there, yes, 30-35 bps cost efficiency we can expect.

Kunal Shah: 30-35 bps of cost efficiency this fiscal itself?

Sushil Kumar Agarwal: Yes.

Kunal Shah: This digital, any estimate in terms of the cost? Because on the overall base, that might not add significantly. So, any cost in mind, maybe in terms of this entire digital journey?

Sushil Kumar Agarwal: It will be somewhere spread in 3-4 years' time, but yes, if it is a normal technology, opex, or depreciation, all put together may be Rs. 20 crores a year. This will at least double for the next 3-4 years.

Kunal Shah: Secondly, in terms of the overall rising interest rate environment, on the borrowing side when we look at it, maybe which you highlighted how much is the fixed and how much is the floating on asset as well as on the liability, but as and when our borrowing cost goes up, what would be our endeavor? Would we tend to pass it on? How would that be? And across the board, given that home loans for many of the players are EBR linked, the repricing on asset side is also going to be early. So, what would be our stance and maybe we would tend to pass it on the benefit to the customers or still retain the spreads?

Sushil Kumar Agarwal: Kunal, we discuss these matters in ALCO committee and at the Board level and there is a proper governed framework where we assess our prime lending rates. It's a combination of cost of borrowing, opex, risk-based pricing, etc., and accordingly, ALCO and Board advises for this rate. As you know, we have perfectly matched balance sheet both on fixed and floating sides. So, in a quarter if you see the impact that our floating rate of interest has increased, we will pass it on to the customer base as per ALCO and Board guidance. Even on the fixed side, though we have a fixed rate of borrowing for a longer period, but our fixed rate of lending is 3-year reset allows. There also, that kind of risk is not there on the balance sheet, but we will assess the situation based on the real impact on our borrowing cost. Since we have huge liquidity at this point of time as mentioned in the sheet – around Rs. 3,200 crores out of which Rs. 1,800 crores are fixed deposits, so immediately, I think there will be no pressure but we will assess the situation every month, and with ALCO's and Board's guidance, we will take the decision.

Kunal Shah: With respect to the vintage of branches, in fact when we look at it say in FY18 or FY19, the number of branches that would have got added, now maybe we would have not seen that kind of a productivity scale-up during Covid, but generally, in 3-4 years of the vintage, we see the significant scale-up. So, still maybe if I have to look at it in terms of the vintage, in fact over the next 2 years, the productivity improvement can itself bring about a significant growth looking at the additions which have been there 2 years prior to or maybe a couple of years prior to Covid. So, then maybe what is still leading to this 20-25% growth? Or maybe overall we should see the productivity not getting back to those levels immediately at the branch levels?

Sushil Kumar Agarwal: Kunal, there are 2 points. If we see, disbursement is growing 36% YoY, even last year 33%. So, the branches' disbursement pattern is on the right thing. Second, we have 5 categories of branches – A, B, C, D, E – and every branch is categorized on different potential. So, when we open the branches, it is not always A category branches with the potential of Rs. 5 crores or more per month business. There are more C and D category branches with Rs. 1.5 crore or Rs. 75 lakh per month kind of businesses because those branches we get a good yield, low ticket-size cases, and mostly new-to customers which is our prime forte. So, as per new branch productivity, I think they are performing as per the defined structure for them because disbursement growth is intact. Yes, AUM growth is outcome of different things, BT out; and once you scale up on that thing, say now around Rs. 11,500 crores and prior to this Rs. 9,500 crores, all these are factors which determine the AUM growth. But anyway, we always project that we will grow 20-22% and we are performing on that level. Last year, 2% additional prepayment and 2% AUM growth because of 1.5 months of Covid. Otherwise, we were able to perform 20-25% kind of growth. If situation remains normal this year, I think we will be able to deliver that kind of growth.

Kunal Shah: One last datapoint question. How much is the asset held for sale as of March and if you can just give the flow for this quarter in terms of the additions and the resolutions from that?

Sushil Kumar Agarwal: Net 23 crores.

Kunal Shah: Net is 23 crores compared to that of 20 crores in December?

Sushil Kumar Agarwal: Yes.

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

Shweta Daptardar: Congratulations on a great set of numbers. Sir, I apologize in advance I will be harping on the same question of growth. I am looking at your DuPont metrics. We are at ROE of 13.7% and that has been actually constantly going up and if I juxtapose to that your capital adequacy and leverage, we are at a capital adequacy of around 51 odd percent and we are growing at 20%. Sir, I understand you mentioned the levers of growth in the previous remark you made, but keeping these 3-4 metrics in mind, do you think Aavas has still huge potential to grow further and even beyond like as to what you have been guiding as on today?

Sushil Kumar Agarwal: Shweta, on ROE side, the number is 13.7%, but if you see including the tax benefit, opening capital vs. closing capital, there is a growth of 17%. In fact, Q4 ROE is around 17% but we said in our continued guidance that ROEs will improve by 100-150 bps on a YoY basis and I think they are on the right trajectory and we are delivering that number.

Shweta Daptardar: Sir, on the growth front, in light of higher capital adequacy and leverage if that is taken up higher, don't you think growth can exceed even your current guidance?

Sushil Kumar Agarwal: Shweta, we as management are comfortable delivering 20-22% growth YoY basis sustainability. Even if you see despite Covid year in 2021 also, we were able to deliver 22% YoY growth where some of the peers were not able to deliver that. Yes, capital when you see adequacy-wise, it looks higher, but we work in an ecosystem where lenders are there, rating agencies are there, and RBI norms are there and everybody sees capital in a different tangent. So, when you see from an RBI perspective, they see capital adequacy, but when you see from the rating agency's perspective, it is AUM divided by capital. So, already 11,500 divided by around 2500, around 5.5-6 times leverage. When we go to a lender, they see it from debt to equity perspective. When we were A rated, we were almost around 5 times guidance and AA rated around 5, 5.5, 6 times guidance on leveraging terms. We are following that and increasing the leverage and growth is a continuous journey. We started from BBB- to AA- now. As we improve ratings in our journey, you can see better capital efficiency in terms of all the 3 parameters.

Shweta Daptardar: Sir, my second question and last question perhaps. Sir, you mentioned about BT out cases. Although they are on the lower side of 6-7% but just because I am trying to understand the market and the areas of operations, who are you losing out to these BT out cases? Where are they going to? Who are they going to? Secondly, just an extension to that, sir, you have more than 30% odd new-to-credit customers, right? Because you are present in that niche and unique customer profile, there might be higher possibility today in the age of digital era you might be having higher refinancing that might happen going forward because you would create history, the track record, and given your high demonstration of asset quality, there would be many who would want to sort of take over your portfolio. Sir, just your thoughts on both of these points.

Sushil Kumar Agarwal: Shweta, as Aavas, we recognize that risk in our business model, that risk will always exist that when we acquire a new-to-credit customer and when they demonstrate a better customer credit performance, they are prone to BT out, but as an organization over a period of last 11 years, we have developed our algorithm-understandings-analytics model where we can work around this parameter and still be able to retain customers or use this base pricing as per model approved by ALCO and Board. I think in the past and even Covid and even current year, those algorithms are working fine. We will try to improve it further better so that we can get 2-3% kind of benefit on a yearly basis. That gives us the confidence even in the difficult time. Even in the more intensified competition, we will be able to sustain and retain our customers and sustain our AUM growth level going forward.

Moderator: The next question is from the line of Nikhil Kothari from Antra Capital. Please go ahead.

Nikhil Kothari: Sir, in the presentation, you have given that we have invested Rs. 15 crores in Aavas Finserv. What is the business we are looking at in this subsidiary?

Sushil Kumar Agarwal: Nikhil, we have applied for NBFC license in Aavas Finserv. As per regulatory requirement, a minimum capital is put into that. In that subsidiary, we intend to do secured MSME products and other customer lifestyle products.

Moderator: The next question is from the line of Siddharth, an individual investor. Please go ahead.

Siddharth: Congratulations on a great set of numbers. I just wanted to understand on the yield mix for HL and LAP products separately for both Q4 and FY22 because looking at the slide #20 and we have seen the yields drop by about 50 bps YoY. So, just wanted to understand on HL and LAP, what are the acquisition yields that we have had for both Q4 and FY22.

Sushil Kumar Agarwal: For housing 11.7% and for non-housing 14.2%.

Siddharth: This is for Q4 or for the full year '22?

Sushil Kumar Agarwal: Full year.

Siddharth: Just one more question on back of question from Nikhil. We are setting up the affluent segment. So, is there a shift in strategy from affordable to mid or this is going to be a small portion of the entire portfolio?

Sushil Kumar Agarwal: Nikhil, this vertical is there from last 4 years. This vertical contributes around Rs. 30-35 crores out of Rs. 400-450 crores we do, and this proportion is same almost last 4 years.

Siddharth: So, we are going to stick with the affordable segment and there is no clear shift in strategy to the mid or affluent segment?

Sushil Kumar Agarwal: And this department is also from the last 4 years and not this year.

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

Abhijit Tibrewal: Thanks for allowing me a follow-up question. The first one is more of a data question. Can you share the geographical split of our disbursements? What was the disbursement mix basis our geographical presence in FY22?

Sushil Kumar Agarwal: Almost similar to AUM level, 2-3% here and there statewise.

Abhijit Tibrewal: The mix will be the same as what we have in the year?

Sushil Kumar Agarwal: Yes.

Abhijit Tibrewal: Sir, have you seen the AUM mix declining in Rajasthan over the last, let us say 1 or 2 years?

Sushil Kumar Agarwal: In disbursements per month, yes, but AUM it will take time. I think it's 1-2% YoY difference.

Abhijit Tibrewal: The next question and my last question again is more of a, I would say, a rephrasing of some of the questions that the participants have asked already. Sir, typically when I look at slide #20 where you present the spreads that you mix, very clearly, I would say FY21 and FY22, we and including the other HFCs have enjoyed high spreads given that cost of borrowings came down and we were not maybe required to pass on the reduction in cost of borrowings to that extent to our customers. But now going forward as your, I would say, cost ratios moderate as you had guided by about, let us say 30-35 bps, you have already addressed a large part of the asset quality pain which was there because of those first & second Covid waves, is there now a case to maintain the high level of spreads or does it make more business sense to start moderating our spreads and the focus will be more on maintaining, let us say the ROA?

Sushil Kumar Agarwal: Abhijit, as I always articulate, in our journey when we started in 2011-12, we were able to maintain 5% spread. In pre-Covid level also, we were able to maintain 5% plus or minus spread. During Covid, this spread increased, but we have passed on 25 bps to our customer base in April already. And we told that due to some uncertainties which everybody looks in Covid, we retained that spread in our balance sheet. As the situation will normalize and even in current situation of rate hike according to ALCO and Board's decision, we will do the working on PLR and all those things. But in the long run, we want to maintain around 5% spread, and accordingly cost structures and everything will be playing the role in the next journey.

Moderator: The next question is from the line of Vikas Kasturi from Focus Capital. Please go ahead.

Vikas Kasturi: Congratulations on a fantastic financial year. Sir, my question is more to do with the business. Could you please let us know what are the new digital initiatives that you are taking? And what is the expected benefit out of those?

Sushil Kumar Agarwal: As a company at Aavas, we continuously invest in our digital and technology and this is a continuous effort from the management & Board side. In that journey again when we look ahead 10-12 year journey, we thought the size will be a different scale. So, we are investing to prepare ourself for that large scale and size, and similarly RBI regulations are converting more and more NBFC norms towards the banking kind of regulations. So, we are making ourselves ready for those kind of adherence and corporate governance. At the same time, looking at the current customer profile and the Internet journey, we see there will be digital transformation which is required. So, in the last 10 years' journey, we came from 23 days TAT to 10 days TAT. Now in the next digital journey, we are trying to reduce it by a significant margin, say 50-75% further improvement from here & this will help us bringing more efficiencies in the operation. We will make Aavas ready for new-scaled operation going forward. At the same time, we will enable us for kind of more controlled and governed environment which the regulator wants and readiness of data for the future growth.

Moderator: Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Sushil Agarwal for closing comments.

Sushil Kumar Agarwal: Thank you all for attending the call. For any further information, we request you to get in touch with Himanshu in our Investor Relations team or SGA our IR advisors, and they would be happy to help you. Thank you for patient listening and your continued support and interest in Aavas.

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