Aavas FINANCIERS LTD
SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2022-23/436

Date: August 01, 2022

To, **The National Stock Exchange of India Limited** **The Listing Department** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**To,** **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/2022-23/405 dated July 20, 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 ended June 30, 2022 held on Friday, July 29, 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
Q1 FY23 Earnings Conference Call”

July 29, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited Q1 FY23 Earnings Conference Call. Standard Disclaimer: This conference call may contain forward-looking statements about the company, which are based on the belief, 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 "*" and then "0" on your touchtone 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 Agarwal: Good afternoon. Thank you for participating on the earning call to discuss the performance of our company for Q1 FY23. 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 & the presentations are available on the stock exchanges as well as our company's website and I hope everyone has had a chance to look at it. I am happy to inform you that during the quarter, company's long-term credit rating was upgraded from AA- / Positive outlook to AA / Stable outlook by ICRA. I take this opportunity to thank all our stakeholders for their continued trust and support. During the quarter, RBI raised the repo rate by 40bps in an off-cycle meet on May 04, 2022, followed by another 50bps hike in the scheduled meet on June 08, 2022. Consequently, all the financial institutions have started hiking their lending rates with varying amount. We have also increased our prime lending rate by 25bps with effect from June 05, 2022 and further announced hike of 50bps with effect from August 05, 2022. For Q1 FY23, we disbursed Rs. 10936 Mn registering a 136% YoY growth and achieving 85% of the disbursements done in seasonably strong Q4 last year. We continued to grow in a calibrated manner and registered AUM growth of 24% YoY as of Jun-22 while maintaining our operating metrics and delivered PAT growth of 49% YoY for Q1 FY23. With our continued focus on collections, 1+ DPD stood at 4.67% & 90+ DPD stood at 0.82% in Jun-22. But we have also categorized 0.26% of up to 90 DPD assets as GNPA following RBI's notification dated November 12, 2021 to harmonize IRACP norms across all lending institutions. As a result, the total Gross Stage 3 stood at 1.08% in Jun-22. We will continue our strategy of controlling early delinquencies and strive to maintain 1+ DPD below 5% & 90+ DPD below 1%. I would now hand over the line to Ghanshyamji 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, company borrowed an incremental amount of Rs.8984 Mn at 5.65%. As of Jun-22, our average cost of borrowing stood at 6.86% on an outstanding amount of Rs.104.76 Bn. During the quarter, our long-term credit rating was upgraded by ICRA from

AA- / Positive outlook to AA / Stable outlook while CARE continues to maintain long-term credit rating of AA- with Positive outlook. Despite the highest short-term rating of A1+, we continue to maintain zero exposure to commercial papers as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for PAT and Net worth on slide number 31 & 33 of the presentation.

Key parameters: as on June 30, 2022, total number of live accounts stood at 158979 i.e. 23% YoY growth; total number of branches was 318 i.e. 34 new branches added in last 12 months; employee count of 5389 i.e. 22% YoY growth. Assets under management grew 24% YoY to Rs.118.94 Bn as on June 30, 2022; product-wise breakup: home loans 71.1%, other mortgage loans 28.9%; occupation-wise breakup: salaried 39.9%, self-employed 60.1%. Disbursements increased by 136% YoY to Rs.10936 Mn for Q1 FY23. As on June 30, 2022, average borrowing cost of 6.86% against average portfolio yield of 12.67% resulted in spread at 5.81%. Borrowings: access to diversified & cost-effective long-term financing, strong relationship with development financial institutions, overall borrowing mix as on June 30, 2022 is 38.8% from term loans, 22.5% from assignment/ securitization, 22.9% from national housing bank & 15.8% from debt capital market instruments. Assets quality and provisioning: 1 day past due stood at 4.67%, Gross Stage 3 stood at 1.08% & Net Stage 3 stood at 0.84% as on June 30, 2022; Gross Stage 3 of 1.08 includes 0.26% of up to 90 DPD assets, which have been categorized as GNPA following RBI's notification dated November 12, 2021. During FY22, 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.1111.5 Mn as on June 30, 2022 have been classified as a Stage 2 and provided for as per the regulatory guidelines. Total ECL provisioning including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs. 646.8 Mn as on June 30, 2022. Liquidity of Rs.22910 Mn as on June 30, 2022; cash & cash equivalent Rs.14600 Mn, unavailed CC limit of Rs.1100 Mn, documented un-availed sanction from other banks of Rs.7210 Mn. Profitability: PAT increased by 49% YoY to Rs.892 Mn for 3M FY23. ROA was 3.2% & ROE was 12.5% for Q1 FY23. As on June 30, 2022, we are well capitalized with a Net worth of Rs.29050 Mn. Our book value per share stood at Rs.367.9. Now with this, I open the floor for Q&A session. Thank you.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity, Sir and congrats on the quarter. I have three questions, first if we look at our NIM for the first quarter compared to the exit in FY22 it has actually come off quite a despite the spreads been stable, how do we reconcile that? My second then is one on slide #29, if I look at the reversal income on earlier assigned loans that is up almost 38% YoY in the first quarter of this year, could you clarify what that relates to and why is the growth so strong in that reversal income and my last question is again on slide #25 where you have given your liquidity position. I notice that the principal collection & surplus from operation estimate that you have in first quarter FY24, is actually lower than the second quarter of this year and meaningfully lower than the fourth quarter of FY23, I am just wondering why that is the case, these are my three questions, Thank you.

Ghanshyam Rawat: Thanks, Karthik. I think generally if you see in the trend of the last few quarters, few years also, first quarter generally NIM remained little low then it start to mop-up in quarter two and quarter three as disbursement improve as AUM also start to improve in that category apart from that there is nothing much difference on account of anything on the NIM because spread is very much stable and secondly obviously capital utilization is also increasing gradually, which will also have some effect on NIM, but overall I think it is on the right trajectory. Reversal basically as I explained in earlier few calls also as we are doing the assignment every year around Rs.700 crores to Rs.800 crores to Rs.900 crores depending upon the business, depending upon the demand in the market, if we do one assignment overall assignment book get increased, so reversal also will increase every year, every quarter as we progress, as AUM increase off-book quantum also increase basically because when do assignment income get booked then it gets reverse in the coming years basically, so that the steady stake reversal will happen in that as the volume will increase it will also increase basically.

Sushil Agarwal: Karthik, in this principal collection & surplus from operation, profit is also included, so Q1 profit is normally less than Q4 profit will be high that is the reason.

Karthik Chellappa: Thank you. Sir, as far as this reversal is concerned, this reversal of assignment income, this has nothing to do with let us say some of your loans either became BT-out after being assigned and hence you have to reverse it then it is nothing to do that, this is a normal process of reversal is it?

Ghanshyam Rawat: Yes, normal process once the income gets recognized when we do assignment, average life of contract, the income gets reversed because we adopt the behavioral life, so we give the loan, let us say contractual life is 14-15 years income get recognized for 6-7 years, it get reversed between 6-7 years also.

Karthik Chellappa: Can you just share the BT-out for the quarter? That is all from my side.

Ghanshyam Rawat: BT-out is again I think steady state basis, I think we are observing in the last few quarters also; 0.5% of opening AUM per month basis.

Sushil Agarwal: Karthik for the quarter it is 1.58%.

Karthik Chellappa: So, 1.5% of opening AUM, right?

Sushil Agarwal: Yes.

Karthik Chellappa: Which is basically 6% annualized?

Sushil Agarwal: Yes.

Karthik Chellappa: That is all from side, Sir. Wish you on the team all the very best for the remaining quarters.

Moderator: Thank you. We have the next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my question and congratulations on a good quarter. Sir, I just wanted to understand, how should we think about our operating expenses, they continue to remain elevated so if you could just give some more granular colour on what is leading to this higher operating expenses, understandably you have suggested in the past that you have on-boarded employees, you have given out increments, I am sure for FY23, I mean you have effective increments from April or May onwards, but are there also components of investments in technology, infrastructure that you are doing which are more in terms of capital investment and one off in nature, which can kind of not repeat in the coming quarter so that is the first question and I wanted to understand? The other thing is I mean understandably you are making a lot of investments and which is why perhaps operating expenses are elevated, but when can it kind of start leading to a higher momentum in disbursements and lastly I mean on the asset quality side, there has been a sequential deterioration especially in the greater than 90 DPD bucket, while I mean if I kind of look at the other HFCs or if I look at the broader narrative today in the HFC space, everyone is talking about an improvement in asset quality and just despite the fact that we have grown our AUM by about 5% on a QoQ basis, so is there a way to kind of explain this divergence that we have seen in this quarter? Thank you so much.

Sushil Agarwal: On the opex side, we have already given the statement in the last quarter also that we are a going concern organization, we need to keep on investing on future distribution, technology and other capex and during current 12 to 18 months' time, we are taking a large technology investment, infrastructure cost in the past, anyway we have also invested in distribution, so we clearly told that this year our opex will be in the same range, but going forward then 20-25-30bps incremental reduction in opex we can assume for next three to five years. On the disbursement side, yes, we have invested in capacity and that is where you can see we are almost Rs.350-400 crores per month business, so whatever capacity we have invested that is giving the results and we always says we will grow our AUM 20-25% so we are in the right trajectory as per our plans. Third is NPA, normally we always say that one day past due will be less than 5%, we will attempt that and NPA around 1%, so we are in the trajectory which we have defined; 10bps here and there it will always be there, normally Q1s are always 10-15bps elevated than Q4 and on this side I think we are much more confident on asset quality at this point of time, this quarter from restructured book around Rs.16 crores shifted to Stage 3, but that was anticipated so no issues on that side.

Abhijit Tibrewal: Thank you, Sir and if can just squeeze in one last question here, even kind of excluding the reversal that we see on the earlier assigned pool, if I just quickly look at the interest income on loans and try to calculate your core lending yields, interest income that you make on loans even there we are seeing some kind of a sequential deterioration, so is there way to explain that given that last quarter it was about 310 crores at this time 320 crores increasing on an absolute basis, but if I calculate the yield it is declining from 14% to about 13.6% and I am assuming given that borrowing costs have started going up, you would have taken some maybe an interest rate increase maybe in the month of May or June in the last quarter and despite that there has been a moderation in lending yields, can help explain this?

Sushil Agarwal: Abhijit, which slide you are referring because Q1 and Q4 interest absolute income is on an increasing trend.

Abhijit Tibrewal: For the interest income of loans?

Sushil Agarwal: Yes.

Abhijit Tibrewal: Alright, no problem, I think maybe I will take this offline, thank you so much for patiently answering my questions, thanks.

Moderator: Thank you. We have the next question from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Sir, firstly on this disbursement run rate in first quarter itself we are almost 350-370 crores odd, so how should we see it in fact we are investing a lot as well & incrementally we have seen branch expansion in Rajasthan, Maharashtra and Gujarat our core markets, so how should we overall look at the growth and are we confident that instead of 20-25 now, we would be more near to 25 & above rather than being in 20 over the past several quarters?

Sushil Agarwal: Kunal, the way we always describe that on the sales side we always keep around 40-50% buffer capacity and other department side 15-20% and if competition does not come we overperform our number and in the difficult scenarios also we continue our consistent numbers, which we have demonstrated even in COVID-1, COVID-2, even during that difficult time we were able to give 21% CAGR growth and now the COVID is past behind, I hope so we will be able to deliver better numbers on that side.

Kunal Shah: Okay, but overall in terms of the guidance if we have to look at it could it be more towards 25% odd now, we have already been more than 23%?

Sushil Agarwal: Yes, 20-25%, we always say we have capacity to deliver more and this quarter also some of the subsidy component is there, otherwise, the growth is 24-25%, so that will be there, we will like you have already said Rs.370-380 crores per month run-rate even if we take Rs.400 crores per month run-rate, disbursement number should be around that range and that will translates into 23-24% or maybe 25% growth for this year.

Kunal Shah: Secondly I am not sure if you have touched upon this but overall in terms of the rate hike earlier I think we have been slow in terms of passing it on, but now what would be the stance in terms of maybe increasing the rates going forward and looking at our profile where we look at it in terms of fixed rate that is also like almost 5000-5500 crores is likely fixed on the asset side, so how should we look at it in terms of the margin, so in fact the floating would only get repriced and fixed would take time to get repriced?

Sushil Agarwal: Kunal, if you see over liability profile slide #23, so our floating & fixed rare borrowing vs. floating & fixed rate lending both are almost in sync, so we have 40% fixed rate borrowing and 40% fixed rate lending and we have 60% floating rate lending and the fund is in tune with that and we have done 25bps increase in last quarter and from 05th August we have also announced 50bps increase in our PLR rate and this is a ALCO decision every quarter we have discussions and ALCO committee meetings, we see the next two to three quarters situation of borrowing rate and how it will impact and accordingly we take the decision, but at this point of time if you will see this quarter also we were able to maintain our spread and I hope in the next two quarters with this hike we will be able to maintain our spread, so on that fixed and floating rate side I think we are perfectly match on ALM.

Kunal Shah: Sure, so 50bps from August and that will be having an effect on the floating?

Sushil Agarwal: Yes, 50bps.

Kunal Shah: And this floating, how does it get reset?

Sushil Agarwal: Reset means like August 05, 2022, we will reset.

Kunal Shah: This is a one month, two months kind of a period?

Sushil Agarwal: No, like in this ALCO we have decided and from August 05 which is our installment cycle we will implement it.

Kunal Shah: Okay, so right now, August 5, 2022, on the entire back book we still get reclassified?

Sushil Agarwal: Yes.

Kunal Shah: And overall maybe our stance in terms of earlier we have been highlighting that at this time the rise in interest rates will slightly go slow in terms of hiking the rates and try to pass on some benefits to customers, but I think overall borrowing costs would have also gone up to a similar extent, so broadly then we should be comfortable maintaining spreads & margins?

Sushil Agarwal: Spreads are stable; in next 2-3 quarters we are seeing that it will remain stable in that range.

Kunal Shah: Sure, thank you.

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

Shreepal Doshi: Sir, wanted to understand, how are the approval rates or the login rate, login to approval rate in the newer states that we have entered vs. the same in the vintage states that we are present in, so from the cases that from the applications that we receive, what percentage would actually get logged in and what percentage would actually be approved, so just wanted to understand this trend for our vintage states and for our newer states?

Sushil Agarwal: Normally at company level number of cases wise we source 13000-15000 cases and 5000 gets approved and disbursed, on amount wise we are sourcing almost around Rs.1600 crores per month and disbursing Rs.375 crores per month, normally in new states when we go first 30 months we go slow because it takes time to understand the local nuances, cash flow patterns, seasonability, things which impact our mortgage and other things, so in new states first 30 months we go slow so might be a little bit less sanction percentage in those states in the early time because focus is that first 30 months there should not be any 30+, if you will see last four and five states where we have entered in the last four to five years we were able to see this getting successful and once we become comfortable understanding the local businesses, income patterns, seasonability, how the judiciary works, how the other market works and then we go for a normal business kind of stride in the new markets, so may be 5-6% less than the mature market in the sanction rate or the disbursement rate.

Shreepal Doshi: Got it, so basically fair to say that 35% would be the approval rate in the mature states?

Sushil Agarwal: Yes.

Shreepal Doshi: Second question was with respect to asset quality, so I think somebody else also touched upon this question, so if look at the 3B stage bucket, which is actually more than 90 DPD bucket, so there, there is increase so what explains that increase?

Sushil Agarwal: If you see we have a restructured book of around Rs.100 crores which is in Stage 2 out of that around Rs.16 crores has slipped to Stage 3 so that is where, but I think we always say that this 1% of NPA; absolute term is 82bps with new guidelines because we implemented last November itself it is around 1.1%, and in first quarter if you are marking them NPA so in next three quarters you are able to resolve it within a year's time, so that helps us maintaining the asset quality over a period of time, so from restructured book shifting to Stage 3 that is the reason for this quarter's increase, but we are compatible with around 1% kind of NPA overall on the book side and one day past due less than 5%.

Shreepal Doshi: Got it. Sir, the last question was with respect to the borrowing, so on the liability side, the bank borrowing that we have that would be linked to the MCLR, if you could give some colour on like what percentage would be linked to one month, three months sort of MCLR?

Ghanshyam Rawat: You see total bank borrowing is around 40% of which 90% plus is linked with 1yr MCLR.

Shreepal Doshi: One year MCLR?

Ghanshyam Rawat: Yes.

Shreepal Doshi: Got it. Thank you so much and good luck for the next quarters.

Moderator: Thank you. We have the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just one question from my side and this is on your incremental borrowing costs, I believe last quarter it was around 6.04% and this quarter it has gone down to 5.65%, so I wanted to check first of all if this is accurate and what would be the reason for the same?

Ghanshyam Rawat: Yes, both numbers are accurate obviously on both the quarters we have borrowed good money from national housing bank also, there are certain deals we negotiated earlier period also, which got disburse in this quarter that is why we see a very good price around Rs.1000 crores borrowed new at very good rate during this year also, but there is no harm to assume that interest rate is on rising trend, bank have increased their MCLR also, capital market rate is also increasing, so going forward our cost of borrowing will also have a impact of rising interest rate scenario.

Nischint Chawathe: Just to put the same question differently see, now go to a bank or we now get quote from a bank for loans versus what you got around three months back, how much is the difference in the rate of interest?

Ghanshyam Rawat: The difference is the same; whatever 1yr MCLR got increased, earlier we also borrowed 1yr MCLR, right now again we are borrowing at 1yr MCLR both the time it's the same rate.

Nischint Chawathe: So, no difference on the terms right in the terms of fees ?

Ghanshyam Rawat: No.

Nischint Chawathe: Sure and incrementally what is the plan in this year, you will be probably doing more of NCDs or borrowing more linked to repo; what is the borrowing plan for this year?

Ghanshyam Rawat: As you know market is very dynamic in last one quarter and we are observing that market is again dynamic because interest rates are hiked by Fed, recently again hike by RBI & I think again RBI meeting is there, so it is difficult to comment on where we will focus, it will depend upon how market reacts, but obviously we have a huge strength with the banks, we generally borrow very long tenor; for all large banks already we got a few sanctions, where small tranche we are taking from them & locking our rates for coming few quarters, so will depend on bank side; we do not see any major change whatever mix we are seeing today.

Nischint Chawathe: Just one more question is when interest rates go up have you seen in the past typical borrower behavior where he will come in and probably prepay a loan?

Sushil Agarwal: Right now there are no signs; in the past also that was not the sign, we anyway closely monitor this situation if anything changes on that side we will come back to you, but at this point of time, there is no sign on that side.

Nischint Chawathe: Sir, thank you very much and all the best.

Moderator: Thank you. We have the next question from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. Sir, on the fixed rate loans are they end to end fixed rates so for full tenor they are fixed on the asset side?

Sushil Agarwal: So, Nidhesh, they are three year fixed though our borrowings are full tenor fixed loans, but on the lending side we have clause where we can reset every three years.

Nidhesh Jain: Sure and secondly on the MSME book, which we are building, we have seen good traction, so can you share some more details into the ticket size, what is the collateral behind these loans, what are the yields on these loans?

Sushil Agarwal: It's the same business owners requires the loan for the business purpose, average ticket size is somewhere around Rs.8-10 lakhs, tenure is normally up to 7 years and yields are up to 15% and secured by SORP/self-occupied registered property.

Nidhesh Jain: Okay, so it is most like a LAP sort of loan?

Sushil Agarwal: But in the LAP it can be for personal use also, tenure is 10-15 years, here it's only business use and tenure is almost up to 7 years.

Nidhesh Jain: Understood. Thirdly, do we source any loan from DSA or completely in-sourcing from our own employee base?

Sushil Agarwal: So, of the total business 98.9% business is through direct team and 1.1% business is through LP, connector, DSA etc.

Nidhesh Jain: And lastly can you share the incremental yields on home loan and non-home loan book?

Sushil Agarwal: So, 12.5% overall for this quarter; home loan is around 11.6% & non-home loan is 14.1%.

Nidhesh Jain: Sure, thank you. That is from my side.

Moderator: Thank you. We have the next question from the line of Sanket Chheda from B&K. Please go ahead.

Sanket Chheda: Sir, just wanted to ask that in terms of asset resolution apart from SARFAESI which are the other tools that we use or have we done any sales to ARC in recent quarters?

Sushil Agarwal: In collection there are 5 stages, one is X bucket, which is current month bouncing, there we use call center and mostly digital mode of payment collection from the customers, then it comes the bucket 1 to 30 and plus, so 1 to 30, we do use call center plus field collection team and mostly mode of payment is digital, from 30 to 90 bucket we use field collection team along with we use section 138 proceedings and after 90 DPD case it is a field team and SARFAESI proceedings so these are normal steps of our collection.

Sanket Chheda: So, have we done any sales to ARCs apart from this?

Sushil Agarwal: No, last in 2016 we did.

Sanket Chheda: Sure, and second question was on employee per branch and maybe AUM per branch and AUM per employee metric, now we have seen that since last 4-5 years our AUM per employee & AUM per branch has almost remain stagnant so AUM per employee is around 2-2.5 crores & AUM per branch has been between 30-35 crores, so that matrix has not changed much in last 3-4 years, so where do we see it moving going ahead, do we see the operating efficiency coming in or this matrix that are looked upon by you?

Sushil Agarwal: So, normally if you will see the basic nature of our business; 100% sourcing is through inhouse team, ticket size is Rs.8-10 lakhs, working in tier 2 to tier 5 basically, every year we are opening 30-40 new branches & then branches are also classified into A to E category depending on town potential; and I hope so in the next 2-3 years this trajectory will remain on that side because we are increasing our distribution network of branches also.

Sanket Chheda: Sir, initial 1-2 years is okay when we are at the new branches, but over the period of time say 5-7 years that becomes a part of the business as routine wherein the back book or the back branches should at least start displaying higher efficiency right?

Sushil Agarwal: Yes, you are rightly said, but like our 85% of the branches are C and D category, which are tier 3, tier 4, tier 5, and normally most of our branches becomes ROE positive in 12 months time and in those town we are doing consistent businesses, so if a town is doing 1 crore business within first 12 months it continues to do 1-1.5 crores, but it will not reach 2-3 crores and that is not the expectation from our side also, so we see the matrix like whether branches are ROE positive in the first 12 months or not, whether the branches opex are met by the fee income from those branches or not so those are the critical things we are seeing when the branch operating or unit economics are coming to picture.

Sanket Chheda: Sir, the 1% you said you source through DSA is it incrementally also a similar split between in-house and DSA?

Sushil Agarwal: No, that includes LP also, Aavas Mitra, DSA maybe some bit of it; we will mostly remain inhouse sourcing model for the next 3-5 years.

Sanket Chheda: Lastly we had a CBO change recently right and I mean, now Mr. Siddharth Srivastava has come in, so any reasons why Mr. Ram left and any light you can throw on the new CBO?

Sushil Agarwal: So, as you know we are an organization which has a very robust employee organization, we have layer 1, layer 2, layer 3, layer 4; and we have a very strong management team, but yes, Ram has helped us in last 7 years journey & we thank him for his contribution; organization remains the same and now Siddharth has joined, Siddharth has 22 years of experience out of his 20 years around in ICICI Bank, he has seen most of the other products, below Siddharth, we have almost 40 people leadership team in sales which is more or less same, so that will be there in all the organizations.

Sanket Chheda: Sure, those were all my questions, thanks a lot, Sir.

Moderator: Thank you. We have the next question from the line of Nitin Kothari from Antara Capital. Please go ahead.

Nitin Kothari: Thank you so much for taking my call. Sir, I had three questions, so currently we are doing ROE of 14%, so what are the factors that would lead to ROE expansion and what is the long to medium term ROE guidance, and the second one is, we are doing NIMs of around 8% so are the NIMs sustainable over longer term given that opening up of market would lead to higher competitiveness and can you give us a breakup of other mortgage loan like how much his LAP and how much is MSME?

Sushil Agarwal: I will go by the third question, so in incremental non-housing loan book, we are almost 40% MSME & 60% non-MSME like LAP and other loans. Coming back to NIMs normally we work on spreads & we try to maintain 5% spread; when we started our journey we said that though in last 12 years we are able to maintain 5% spread, but at the scale there might be chance that we might not be able to maintain 5% spread, but QoQ right now we are able to maintain because of treasury support, rating upgrade continuously & the segment which we focus, but we always says that even if there will be contradiction in the spread we will be able to sustain our ROA more than 2.5%; or if we are leveraged less we can be more on that side and we can bring those efficiencies in our opex cycle, if you see pre-COVID we were able to reduce the opex 20-30bps YoY basis, during COVID it remains stable and increased now, we are in investment phase in technology, etc., so for the first 12-18 months this will look at the same level, but again in the next 3-5 years we will be in a position to reduce our opex by 20-30bps on YoY basis, so that is the trajectory for spread and ROA. ROE, we see as ROA & leverage output, so if ROA remains around 2.5-3% and leverage increase over a period of time, I think ROE will improve in a sustainable manner in the next 3-5 years.

Nitin Kothari: Understood, Sir, are we looking to venture into some other fee-based income products to improve our ROE?

Sushil Agarwal: No, Nitin, right now we do not have any aspiration for that. We think the market in which we are there is a huge potential for growth in next 10-15 years 20-25% kind of growth and with that growth rate anyway every 3-3.5 years you are doubling your book, so at this point of time we are not seeing any fee-based product in the business.

Nitin Kothari: Understood, thank you so much and that was useful.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Thanks for taking my question. Sir, just a couple of clarifications in June we hiked our yields by 50bps and now another 50bps is that correct?

Sushil Agarwal: No, in June we hiked the PLR by 25bps and from August 5, 2022, another 50bps hike.

Piran Engineer: Understood, the NHB borrowing of 1000 crores this is over the last one year we borrowed and these are at floating rates or fixed rates?

Sushil Agarwal: So, NHB borrowing first is not 1000 crores this quarter over a period, but NHB borrowing comprises of different kind of instruments some of them are fixed, some of them are floating, some are at lower interest rates, some are G-Sec linked, so there is a combination of borrowing depending on your lending pattern, organization rating & other standards.

Piran Engineer: Just to confirm the yield of 12.67% and cost of funds of 6.86% that is as of July 1, 2022, right, that is how you all report?

Ghanshyam Rawat: Yes, it is a contractual date on July 1, 2022.

Piran Engineer: Got it. That is all from my end. Thank you.

Moderator: Thank you. We have the next question from the line of Bhavya Sanghvi from Fortress Group. Please go ahead.

Bhavya Sanghvi: Sir, I had two questions. I wanted your view on the competition, so we feel large organization with almost AAA or AA kind of rating profile is entering this business line, so can you give us your sense on the competition and second question was on the credit rating update, so congratulations on that, can you tell us what is the incremental benefit that you would get because of this rating? Thank you.

Sushil Agarwal: On the competition landscape, the areas and geographies where we work, I think housing loan penetration is average less than 5%, some market is 2-3%, some market is 9-10% and that market has huge potential so even if large players will come there everybody can sustainably grow for the next 10 years with 20-25% kind of growth, so we do not see a large threat on that side, but those markets require a specific knowledge for which we have created our niche over the period of last 12 years and with the use of technology and the kind of niche we have created we are hopeful that we will be able to maintain our strength in those markets and with the use of technology we are improving customer experience that will also further help us strengthening our position in those markets vis-à-vis competition.

Bhavya Sanghvi: Got it, Sir, but you know sometimes the cost differentials that the larger organizations would have would not that play a part in your sense?

Sushil Agarwal: Now between the larger player and our cost of borrowing I think there is not difference of more than 25-50bps, so we are more competitive in those geographies I think.

Bhavya Sanghvi: Right, Sir. Thank you for the insights.

Moderator: That was the last question. I now hand it over to management for closing comments.

Sushil 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. They would be happy to help you. Thank you for coming on call & giving us opportunity to showcase the company and clarifying the doubts or the questions which the audience had.

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