SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2021-22/1072

Date: February 09, 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/2021-22/1015 dated January 22, 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 nine months ended December 31, 2021 held on Friday, February 04, 2022 at 03:30 P.M. (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
Q3 & 9M FY2022 Earnings Conference Call"

February 04, 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 Q3 & 9M 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. 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushil Agarwal, MD and CEO. Thank you and over to you, Sir!

Sushil Kumar Agarwal: Good afternoon everyone. Thank you for participating on the earning call to discuss the performance of our company for Q3 & 9M 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 result and 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. I am happy to inform you that during the quarter, the company's long-term credit rating outlook was revised from AA- / Stable to AA- / Positive by ICRA. I take this opportunity to thank all our stakeholders for their continued trust and support.

During the quarter, the country witnessed a third wave of COVID starting from December. While the infection rate was quite high, but thankfully the symptoms were milder as compared to prior waves. Curbs on mobility & economic activities were largely restricted to weekend & night curfews. Consequently, the impact on business & collections was relatively very low. For Q3 FY22 we disbursed Rs.951 Crores registering a 24% YoY growth. As of the end of January on YTD basis we have already crossed the full year disbursements of FY21. Having said that we continue to adopt a cautious approach on growth and give a higher thrust to maintaining pristine asset quality & sustaining operating metrices. During the earnings call of Q2 FY22 we had mentioned that with regards to 1+ DPD we hope to reach the Mar-21 level of 6.37% by Mar-22. With our continued efforts, we had improved 1+ DPD notably from 8.88% in Sep-21 to 6.45% in Dec-21, and this has further reduced to around 6.25% in Jan-22. Similarly, our exposure to 90+ DPD assets has come down from 0.96% in Sep-21 to 0.83% in Dec-21. But we have also categorized 0.89% of up to 90 DPD asses 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 1.72% in Dec-21, which further got reduced by 20 bps in Jan-22. I would now hand over the line to Ghanshyam ji - CFO to discuss various business parameters in detail.

Ghanshyam Rawat: Thank you Sushil ji. Good afternoon everyone and a warm welcome to our earning call. During the year, company borrowed an incremental amount of Rs.26790 Mn at 5.91%. As of Dec-21, our average cost of borrowing stood at 7.03% on an outstanding amount of Rs.92206 Mn. During the quarter, our long-term credit rating outlook was revised by ICRA from AA- / Stable to AA- / Positive while CARE continue 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 paper as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for profit after tax and net worth on slide #32 and #34 of our presentation.

Key parameters: as of December 31, 2021, total number of live accounts stood at 141311 i.e. 19% YoY growth; total number of branches was 298 i.e. 35 new branches added in last 12 months, employee count of 4758 i.e. 34% YoY growth. Assets under management grew 20% YoY to Rs.106126 Mn as on December 31, 2021. Product wise breakup: home loans 71.6%, other mortgage loans 28.4%; Occupation wise breakup: salaried 39.7%, self-employed 60.3%. Disbursements increased by 24% YoY to Rs.9509 Mn for Q3 FY22 and by 41% YoY to Rs.23150 Mn for 9M FY22. As on December 31, 2021, average borrowing cost of 7.03% against average portfolio yield of 12.79% resulted in a spread of 5.76%. Borrowings: access to diversified & cost-effective long-term financing, strong relationship with various developed financial institutions, overall borrowing mix as of December 31, 2021 is 38.4% from term loan, 23.6% from assignment and securitization, 22.8% from national housing bank & 15.2% from debt capital markets. Asset quality: 1 day past due stood at 6.45%, Gross Stage 3 stood at 1.72% & Net Stage 3 stood at 1.33% as on December 31, 2021. Gross Stage 3 of 1.72% includes 0.89% 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 has been implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated May 5, 2021. Such accounts with an outstanding amount of Rs.1501.9 Mn as on December 31, 2021 have been classified as Stage 2 and provided for as per regulatory & Ind-AS guidelines. Provisioning: total provision for COVID-19 impact including that for Resolution Framework 2.0 stood at Rs.305.8 Mn as on December 31, 2021; total ECL provisioning including that for COVID-19 impact stood at Rs.793.4 Mn as on December 31, 2021. Liquidity of Rs.25430 Mn as on December 31, 2021 with breakup as: cash & cash equivalent of Rs.13220 Mn, un-availed cash credit limit of Rs.1140 Mn, documented un-availed sanction from NHB of Rs.7500 Mn, documented un-availed sanction from other banks of Rs.3570 Mn. Profitability: PAT increased by 19% YoY to Rs.2413 Mn for 9M FY22 as per Ind-AS accounting. As per IGAAP, PAT registered YoY growth of 17% to Rs.2334 Mn for 9M FY22. ROA was 3.37% & ROE 12.70% for 9M FY22. ROA was 3.58% & ROE 13.62% for Q3 FY22. As on December 31, 2021, we are very well capitalized with net worth of Rs.26655 Mn. Our book value per share stood at Rs.337.7. Now with this, I open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question & answer session. We have first question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Hello Sushilji, hello Ghanshyamji hope both of you are doing well. So Sushilji seeing your results and I think congratulations to you and your team for exhibiting such a sharp improvement in the 1+DPD number, which in my view suggests that the collections have been strong and that maybe over the next two or three quarters we should hopefully be able to reach that 1+DPD of 5%. Also I think that the organic improvement in asset quality which you kind of saw during this quarter was impacted obviously by the RBI NPA circular and to that extent you have also conservatively made provisions on those loans as well, and which is why Sushilji today I do not want to ask any questions to you on how you did during Q3 or how do you look at Q4. I have two questions today and they are more structural in nature. My first question is on disbursements and Opex and they are in a way interconnected. So when I look at your disbursements I get a little curious as to what is leading to these levels of disbursements and I say this because having known you & interacted with you for a few years now. I believe that you have had this distribution & operational capacity to do these levels of disbursement even two years back. So if you could just explain the underlying reason for this, is it because the demand on the ground is not as good or is it because the demand is there, but maybe you are not comfortable with the quality of customers or is it because of your consistent approach that you have talked about in the past & that we should read it as the disbursement lull before the storm & I mean it in a positive way, and the other interconnected question that I had was on the Opex. When the disbursements or the business volumes do not quite keep pace with the Opex should we read it as that maybe you are significantly adding capacity either in your standalone entity or in your subsidiary, which is Aavas Finserv in terms of growing out your strategy for newer states or branch expansions & that this augmented capacity can potentially lead to significant improvement in your business volumes in the years to come.

Sushil Kumar Agarwal: Abhijit, if you see for nine months we have disbursement growth of 40% and I think that is in line with what we always say that we want to be consistent. We are increasing our capacity and that is also in line with what we are putting Opex around it, first of all Opex last year to this year has two significant meaning. Last year because of COVID impact and everything, the appraisals & salary hikes were limited, which in this year has significantly increased, and we always say that our 35% of Opex are directly linked to disbursements. So when disbursements has hike 40% I think Opex are in line with that, but Opex to ATA, yes, because of one or two months COVID impact I think that will be in line, but despite that I think ROA and other metrices are maintained. Secondly, I think disbursement growth is in line with what we see as a consistent player. Right now I think like last two months we are almost 375+ Crores per month. So if we will take next 12 months from this run rate also this is a disbursement growth we can anticipate which is in line with our theory of 20% to

25% growth YoY in the business. So, I think growth side yes COVID phase 1, COVID phase 2, COVID phase 3, we have seen we were more particular about asset quality which I am seeing now that it is in control the way we look at it and further this quarter will help us further improve it. So now we can accelerate our growth on disbursement AUM side a little bit, but we do not want to go overboard we will be consistent player over a period of time, and Opex it is normal like we open 30 to 40 branches every year. This year also we are in the same trajectory, if you see last 12 months 35 branches and right now we are around 300 branches and another 14-15 branches will be opened this quarter. So we will be in line of our consistent play around it. Yes, as the situations will normalize we will again be showing 25 to 30 bps Opex decrease YoY in near-term.

Abhijit Tibrewal: Sure, thank you Sushilji. The last question that I had was, if you could help us understand that while your reported spreads over the last three quarters seem to suggest that they have been stable we see a significant volatility in the computed spreads. So while I understand that you are using daily average and we have a limitation of using only quarterly average, if you can give us some comfort around the pricing environment whether there is any significant pricing pressure from competition or because your customers who have a very good repayment track record are very amazing poaching targets for your competition and lastly if you can share what recent discussions have you been having with your credit rating agencies & when would they be comfortable in giving you your next credit rating upgrade.

Sushil Kumar Agarwal: No, if you will see we were consistent in our approach of maintaining spread and we say 5% is ideal spread for our business and I think that we are maintaining for more than 40 quarters now, we said that during COVID our spread has increased to 5.75% plus level out of which 25 bps we have already shifted to our customers in the first two quarters of this year and hopefully if COVID situation will improve, we will continue our trajectory of 5% spread and whatever extra spread we will shift it to our customer base because that will help us being transparent organization and it helps scaling up of business also. I do not know how you calculate, but the spreads are always maintained, NIM has increased because say earlier of the total balance sheet size the cash available in balance sheet was high. Now as per available balance sheet size, the cash proportion has reduced so income generating assets has got increased because of which NIM has increased in the business.

Abhijit Tibrewal: So, essentially, I mean, just to sum it up there is really no significant pricing pressure from the competition or in other words you are not having to kind of give maybe lower interest rates to your customers just because they are being pushed by the competition.

Sushil Kumar Agarwal: It is a journey for us 2011 we use to borrow 12% and Ghanshyamji has told that this year we have borrowed at 5.91% in the year so if you want to continue our spread journey I think it gives us the strength in the balance sheet that we can source both the side of the customers we will not leave our customer base where we have created the niche. But at the same time we can enter into a zone where we can have more category A customers, more salaried customers and we can take some part of the customer profile which we were not able to do because of pricing earlier. So I think right now we are able to maintain our prices but at the same time cost is getting reduced. So above 5% spread we will shift it to our customer base as per our practice in the past.

Abhijit Tibrewal: And Sir if you could comment on my last question what discussions are you having on your credit rating agencies and when would they be comfortable in giving your next upgrade.

Sushil Kumar Agarwal: We cannot comment on regulatory framework working. Our job is to do consistent performance and regulators & stakeholders have their right to assess us and at the right time when they feel comfortable they can increase our rating.

Abhijit Tibrewal: Sure, Sir. Thank you so much Sushilji and wish you and your team the very best.

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

Aditya Jain: Thank you. Sushilji would you talk about the impact that we have conservatively taken a much higher GS3A in this quarter. So the impact of that we have seen one in provisions here also material impacts of that in the interest income and if you could quantify how much is that reversal which is happening in this quarter.

Sushil Kumar Agarwal: I think 16 Crores is the additional provisioning we have done on this and around 5 Crores interest reversal, so around Rs.20-21 Cores impact on this quarter balance sheet.

Aditya Jain: And Sir during 4Q so till January & in February, March what would you expect in terms of recovery from higher GS3A portfolio are you already seeing some traction & decline in it.

Sushil Kumar Agarwal: This has come as a boon for us because there was a sticky portfolio of around 2% which used to be in 61 to 90 just to pay one installment. With this guideline coming in mid November and our working in first 45 days this has reduced from around 2% to 0.89% and I have told in January again overall portfolio has further improved by 20 bps. So from 1.72 to around 1.5 range is already achieved and even on 1+ 6.45 to 6.25. So I think we will try our level best efforts to give better performance on collections in this quarter it is also like we have done in Q3, our Q4 guideline we have achieved in Q3 itself on collections. So I cannot predict future number but I think we will continue doing the better job on that side.

Aditya Jain: And just last thing the LCR we have reported a number is it being carried at the 60% requirement or are we carrying higher and if it is higher than do we have any plan of reducing it.

Ghanshyam Rawat: No, we have substantially higher LCR and because we have around Rs.1300 Crores fixed deposit & other investment in GSEC, I think we are far above than what is the regulatory requirement.

Aditya Jain: Okay Sir, thank you.

Moderator: Thank you. We have the next question from the line of Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: Sir, three questions. First to start with in terms of your Gross Stage 3 and the rise that we have seen in that. How are you seeing the Stage 3 provisions moving in, so if I were to just look at last year or so that number has dropped from 29% to 23%-24% now, given the fact that now the pool might be even more secure how do you think what level of provision cover will you be comfortable with.

Ghanshyam Rawat: Stage 3, if you see Stage 3A & 3B these are two components we have published in our results and the 3A also we made almost a similar provision what we have made for 3B. So combinedly we see Stage three is adequately provided for in the balance sheet, we do not see any extra provisions any sort of terminal loss will be higher than what we have already provided as a provision.

Prakhar Agarwal: The question is from a strategic perspective do you think that 23%, 24% is somewhere you will be comfortable with or you will again take this to 29%, 30% over a period of time.

Ghanshyam Rawat: I think 23%, 24% is a good number.

Sushil Kumar Agarwal: Again I will say here this is a six monthly process which as per Ind-AS guideline auditors and management team do the review of the data and accordingly they come to a formula which is sufficient for the balance sheet; I think last review happened in September and there this number was static. Again in March they will review, but as per management view I think we are on the better side of this number.

Prakhar Agarwal: Got it. Just again on this the second part and this is more of a data keeping. If you could just highlight if it was 83 bps of Gross Stage 3 that you said apart from RBI regulations what would have been home loan and other mortgage loans Stage 3 just for a comparison say if I were to look at compared it to the last quarter.

Sushil Kumar Agarwal: Stage 3B housing loan 0.84%, other mortgage loan 0.79%.

Prakhar Agarwal: Just one last question have we utilized any COVID provision this quarter, we were carrying some chunk around 340, 350 odd million in the last quarter given what we have seen between restructured and COVID provisions, so while there has been a rise in restructuring provision that you made, but we seem to have utilize COVID related provision is that a fair estimate.

Sushil Kumar Agarwal: So accounts which got normalized or foreclosed on that we have released the provision, rest provision is still in the balance sheet.

Prakhar Agarwal: And when we tend to utilize this extra buffer any thought process around this.

Sushil Kumar Agarwal: No, so I think we will review situation every quarter and as things will get normalized and as per auditors & management decision, but normally we do it either if the account is 18 months in normal situation Stage 1 or if the account is foreclosed then we release provision.

Prakhar Agarwal: Just one last data question if I may, what was the assignment income this quarter and subsequently last quarter that number assignment income.

Ghanshyam Rawat: Assignment income for this quarter is Rs.45 Crores vs. last quarter Rs.33 Crores but side-by-side we give detailed information of reversal of earlier assignment transactions also so in this quarter Rs.21 Crores got reversal of earlier transactions vs. last quarter Rs.18 Crores.

Prakhar Agarwal: So 18 versus 21 and 33 versus 45. Okay thanks a lot.

Ghanshyam Rawat: Net-net 15 vs. 25; refer our sheet and presentation we have published in detail.

Prakhar Agarwal: I will do that thank you so much, Sir.

Moderator: Thank you. We have the next 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. Three questions from my side, what will it take or what signals are you waiting for to accelerate disbursements on the home loan segment; for the last two quarters that segment has been seeing a sub 20% disbursement growth whereas the non-mortgage segment has been very strong so what are the signals that you are looking for to accelerate your disbursement growth in mortgages.

Sushil Kumar Agarwal: We always say overall we attempt for 75:25 and I think this quarter hopefully we should be around 72:28 kind of numbers and home loan segment yes we will start pushing more but as you know we have more business on self-construction side where disbursement happens in five stages. So when we are doing this business also this will have impact in next 5 to 6 months. So the business on that side is good, but since it is tranche based disbursement so earlier businesses tranche has already got reduced. So now whatever new business we are booking the disbursement is happening on tranches so some effect on that part & some effect on yes new business so we will be around 72:28 or 70:30 in this quarter itself.

Karthik Chellappa: And Sir second question is on the Opex. So what was the like-to-like average increments that you have provided to your field staff or the context in which I asked this question the 37% to 39% Opex growth that we have seen for the last two quarters seem to be slightly on the higher side relative to trends and if you are going to be adding only like 30 to 40 branches which is like a 10% to 12% increase in branch count what is the kind of Opex growth that we should build in at least for the next one to two years.

Sushil Kumar Agarwal: As we always say that 35% to 40% of our Opex are disbursement linked and if we compare from last year to this year our disbursement has grown nine-month basis 40%. So the variable cost has increased in that proportion, but if you will see manpower cost has increased from 57 Crores to 60 Crores that is not being much growth, but like in COVID times the discretionary expenses on advertisement, travelling & IT and those side of the expenses and now I want to have that 25% kind of growth the head count has also increased which we have not increased last year and anyway 35 branches YoY opening will have some cost impact, but so to your point 57 to 60 on manpower but variable expenses as we always say that will increase in proportion of business increase and advertisement and other expenses I have told you which was on hold last year is now on to normal path. But again the way I explained on the first question because we have reinvested for the further business capacity which I have said that last 2 months number are anyway 375+ Cores disbursement numbers so this numbers will anyway within next 2-3 quarters you will see 25-30 bps reduction anyway, and we continue for that trajectory again for 2-3 years from here on.

Karthik Chellappa: Sir, my last question is the 0.89% of NPA that we actually seen because of the RBI circular; under the old Ind-AS format how much of this 0.89% would be in stage two and how much would be in stage one.

Sushil Kumar Agarwal: So mostly it is Stage 2. So out of total Rs.76 Crores, Rs.4 Crores in 1 to 30 DPD, around 12 Crores in 31 to 60 DPD and 60 Crores in 61 to 90 DPD.

Karthik Chellappa: So mostly in the 61 to 90. Okay. I have a few follow up, but I will come back in the queue. Thank you very much and wish you all the best Sushilji and Ghanshyamji.

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

Shreepal Doshi: Hello Sir, thank you for giving me the opportunity. Firstly a data keeping question, what will be number for asset held for sale in the balance sheet, I think that number as on 2021 was close to 22 Crores on the gross level. So what would that number be for nine months.

Sushil Kumar Agarwal: 20.4 Crores.

Shreepal Doshi: We have seen some resolution happening there and therefore the number has come off.

Sushil Kumar Agarwal: You can see the NPA number going down this will have both the side of the impact.

Shreepal Doshi: Right. Sir, but this is not part of your Stage one, two, three, right.

Sushil Kumar Agarwal: Yes. But today in this bracket I think Rs.2, Rs.3 Crores is getting added every month and more than that is getting resolved. So mostly if you will see this is around the same number for two years.

Shreepal Doshi: Got it right, and Sir, the second question was with respect to the branch expansion. So in the last say from FY19 onwards we have added close to 90 branches of which close to 50%, 55% is in newer states like UP, Karnataka, Haryana, Punjab. So is it also having an influence on our loan book mix changing with respect to non-HL share increasing and also salaried customer share increasing.

Sushil Kumar Agarwal: Two things, one is salaried yes and non-HL no, because new state we do less non-HL business but salaried yes in the new states we do more salaried business initially and for understanding the SENP business it takes two to three years time.

Shreepal Doshi: Got it. So broadly that is having some influence in the mix sort of changing.

Sushil Kumar Agarwal: I have told last time also we started journey with 12% and now borrowing at 5.9% so that pricing also there will be some mix change because we will be able to attract more salaried customers in our bouquet.

Shreepal Doshi: Got it. So one last question was with respect to our sourcing strategy. So while we have been one of those HFC who is having 100% sourcing through our own employees, but are we exploring other revenues for lead generation because we had an application which was something like Aavas Mitra App and we were building in that digital sourcing infrastructure also. So are we looking at exploring or having a diversified sourcing platform for us.

Sushil Kumar Agarwal: We will continue our journey on pilot on our alternate channels. Right now this has become 6% to 7% of total business we intend to take it to 15% in next two to three years.

Shreepal Doshi: And that will be driven by some incentives.

Sushil Kumar Agarwal: So in Aavas Mitra profile we have very less incentive, more on the learning mode and relationship and with the generation of both sides and digital mode we do not do any incentive it is a digital and marketing initiative they will be getting lots of leads from Website, Facebook, Social Media, and other digital mode where we can access our customer base plus existing customer base referral. Now we have almost 40000+ customers downloaded our loan app from where they can directly refer the customer to us.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: First of all on a more longer-term basis, just wanted to revisit our ROA tree starting with kind of a spread and NIM including our fee income etc., expenses, credit cost, pre-tax, and ROA. If you can just drop the schematic ROA tree.

Sushil Kumar Agarwal: Sir, we always have kept that on 6 times leverage basis, we will be able to give 2.5% kind of ROA on sustained basis, 2.5% ROA gross it up by tax, then you can assume around 50 bps for credit cost then operating cost will be on a long-term sustainable basis it will be around 2%, 2.5% and then the spread plus so you can say NIM around it. So right now this is like 8.6% of NIM & then around 3.34% of Opex our credit cost is somewhere around 46 bps. So we see that as we will scale up, our spread will go down as we envisage when we came for the IPO last three, four years we said that this 5% spread can go down up to 4% but because of market conditions & our sourcing, we were able to maintain that spread, Opex wise last two years we were consistently going down because of this COVID and investment in new business lines so we want to scale up our business capacity to Rs.2000 Crores per month for next 4, 5 years kind of scenario & one or two months COVID impact in 12 years balance sheet it is showing our Opex by 30 bps up but I am sure that we will continue our journey of 25, 30 bps going down YoY basis so on a steady state basis you will see around 2.5%, 2.6% consistent ROA with 6-7 time leverage in our balance sheet.

Bharat Shah: Which means we are talking of sustainable NIM of about 7.5%.

Sushil Kumar Agarwal: NIM wise calculation I need to do but maybe it is right.

Bharat Shah: Because our ROA is about 2.5, 2.6 will mean pre-tax margin will be 3.5, add to this the credit cost and Opex of 2.5. So that makes it around 6.5% to 7%.

Sushil Kumar Agarwal: Yes Sir, consistently we can deliver that number.

Bharat Shah: NIM of 6.5% to 7%.

Sushil Kumar Agarwal: Yes Sir and then spread coming down to 4%, 4.25% which is right now 5.76%.

Bharat Shah: Sorry come again on that.

Sushil Kumar Agarwal: No which means that the spread coming down from 5.76% to around 2% less.

Bharat Shah: Yes, which is a sharp assumption, but this is something on a more longer term basis

Sushil Kumar Agarwal: I have kept from initial time that we can sustainably give 2.5% ROA on 6-7 times leverage book consistently for next five to six years.

Bharat Shah: Yes, so which means our actual deliverable numbers will be better than this.

Sushil Kumar Agarwal: Sir I mean like for the two quarter the ROE is somewhere around 13.62 so even 14% of the ROE have been inching up, but as business number and market scenario increases it will COVID provisioning goes off, it is likely to be 15-16% ROE in near-term our balance sheet is already in that position.

Bharat Shah: Sir, it should be more, that is because of extra liquidity that you have but in a normalized balance sheet at some stage.

Sushil Kumar Agarwal: It will reduce, if you see NIM is increasing for us despite the spread is maintained because liquidity vs. total balance sheet size it is coming down. Our balance sheet is coming around 11000 Crores and still cash is around Rs.1300 Crores. So income generating asset is getting increased which is the way we explained the thing.

Bharat Shah: No, that is okay. That I normalize in my calculation for that excess liquidity is this normatively it is part of the leverage in order to work out the normative ROE. So that is fine. Leverage when you say six to seven times that means Rs.1 of net worth in Rs.6 to Rs.7 of the leverage right that means Rs.7 to Rs.8 of total capital.

Sushil Kumar Agarwal: So I say loan book divided by the capital.

Bharat Shah: So that means leverage of six to seven is actually five to six time leverage.

Sushil Kumar Agarwal: Yes Sir. If it is 7 times, it will become 1:6.

Bharat Shah: So Rs. 1 of net worth & Rs. 5-6 of borrowing, so Rs. 6-7 of total funds.

Sushil Kumar Agarwal: Yes, Sir.

Bharat Shah: Okay so it is not leverage six to seven it is five to six okay, so I was just saying that so far Opex in operating leverage has not played out is probably we believe it well. At what stage revenue expansion will start overtaking expenditure expansion what kind of a timeframe do you think it will start happening.

Sushil Kumar Agarwal: If we will exclude this year because we have given increment and all those which were pending and like last year because of variable nature of expenses we have reduced to the tune of disbursements; if you will see other than that we were able to reduce our Opex YoY basis 30 to 40 bps & so increase in revenue vs. increase in expense I think next 12 to 18 months we will be in that line so that operating leverage will start showing in that same timeframe in the balance sheet.

Bharat Shah: In 12 to 18 months' time.

Sushil Kumar Agarwal: Yes.

Bharat Shah: From that phase onwards we will start seeing probably that 25%, 30% Opex drop.

Sushil Kumar Agarwal: 30 to 40 bps yes but on ATA side, on absolute number side yes that will be there so if business will increase say 25% Opex will not be growing in that line.

Bharat Shah: Sure, and while your 1+DPD numbers have improved I was still bit surprised given our conservative kind of a treatment with the RBI revised norms our NPA recognitions went up sharply I was a bit surprised by that.

Sushil Kumar Agarwal: So normally if you will see if we say that our 1+ is 6.5% so NPA numbers was around 1% and the middle layer which is 30 to 90 which was around 2%, 2.5% and 1 to 30 was around 2%, 2.5%. So that 2%, 2.25% 61 to 90 bucket because we have started initiating SARFAESI at that stage that has significantly come down, but that number was always like that only. So 60+ number in the balance sheet was always around 2-3% and when it used to be 4% 1+ that number used to be 1.75% because some portion of customer always give one installment every month but two installments which they have missed in the past it takes six to nine months but because of COVID situation that remain outstanding and they continue paying one instalment every month.

Bharat Shah: But credit cost sustainable 0.5% is realistic right.

Sushil Kumar Agarwal: Yes, this is realistic but I will tell you this cost has three component attached to it one we are carrying around Rs.10-11 Crores of COVID-19 impact, around Rs.20 Crores of restructuring impact and then this new RBI Guideline Rs.16 Crores kind of impact so effectively 10 + 20 + 15 = 45; so out of Rs.80 Crores of ECL provisioning Rs.45 Crore provisioning is on account of certain heads. So our balance sheet is well provisioned for next 18 to 24 months in advance.

Bharat Shah: One last question pure buffer provision as on 31st December on account of assets is how much meaning all the ECL provisions are taken care of, any other mandated write-offs have all carried out in addition to that pure buffer provision management overlay is how much.

Sushil Kumar Agarwal: Like I will say core provisioning is that and then on this RBI guidelines provisioning also we have done equivalent to 90 days; we have not taken a view that this is less provision so we have provided full provision on this balance sheet also. So normal term Stage 2 provisioning was around 10% there we have provided 22% on that also.

Bharat Shah: So any buffer provision or additional contingency provision which has nothing to do with the asset or anything; purely as a prudence management overlay we are taking.

Sushil Kumar Agarwal: That is around Rs.10 Cores.

Bharat Shah: Thank you Sushilji.

Moderator: Thank you. We have the next question from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Hi! Sushilji, Ghanshyamji, thank you for the opportunity. So actually Sir, I wanted to sort of probe a little bit more on the Opex part so actually I was looking at the first nine month data for FY22 and comparing it with the first nine month of FY20 and whichever metric be it cost to income, cost to asset, even if you look at employee cost to disbursement across metric there is hardly any improvement per se so just I wanted to understand a little bit more around how you think about Opex and why are we not able to see the benefit come through so if you could be a little bit more specific in terms of the investments.

Sushil Kumar Agarwal: You are talking about FY20 or FY21.

Dhaval Gada: 2020 pre-COVID; current year nine months and versus that the first nine months of FY20. So from that perspective not much improvement is visible so any thoughts on that.

Sushil Kumar Agarwal: That will not be there because as I have told you first is the impact of business because we are dividing it by business. So current year also first month and now 15 days so one and a half months business got impacted because of COVID and if we will add that kind of business all the ratios will be better. Second is because last year of COVID we have not increased the manpower which now we have increased by a thousand plus people keeping in mind future growth and the kind of consistency we want to maintain and third point is I will say that in business proportion we have 35% to 40% of the cost which is in line with our business kind of growth this year I think that growth is already there of 40% so that cost has also increased but yes on ATA basis because last year business got impacted by three months and this year business got impacted by one and a half months because of that Rs.400, Rs.500 Crores AUM is less so this number is looking like this.

Dhaval Gada: And Sushilji in terms of the cost structure is there any material change in the last two years in terms of the branch led cost or any fixed cost structure any major change that one needs to be aware.

Sushil Kumar Agarwal: No change in that side mostly as I mentioned around 35% of our costs are variable cost which is inching up in tune of disbursement growth and around 65% of our costs are the fixed nature cost.

Dhaval Gada: And just one other point which I wanted to understand is on sourcing I mean I understand that bulk of our sourcing almost 65%, 70% comes from referrals. So basically this cost linked to disbursement how exactly one can think about I mean because if I understand right we do not incentivize our employees on disbursement it is on number of customers if I remember right so just I mean if you could explain how one should think about this 35%, 40% like what is the linkage exactly.

Sushil Kumar Agarwal: So our sales cost around 40% cost is attributable to variable size in terms of disbursement so though we get customer reference but sales team get incentive on disbursement as well number of files both sides.

Dhaval Gada: And in terms of sourcing apart from referral could you share like you shared data around alternate channel so if you remember like we had made the investments around telecalling, digital sourcing, so how big are those businesses like how much they account for sourcing now & in terms of DSA also we were piloting so how big is DSA part, if you could just tell.

Sushil Kumar Agarwal: DSA part will be around 1% or less and these other channels I have told you 6% to 7%.

Dhaval Gada: All put together.

Sushil Kumar Agarwal: Yes.

Dhaval Gada: And the last data point is on rejection rate is there any material change compared to earlier trend or broadly similar.

Sushil Kumar Agarwal: No broadly similar we are sourcing somewhere around Rs.1500 Cores and disbursing now around Rs.375 to Rs.400 Crores a month.

Dhaval Gada: Perfect Sir, thank you and all the best.

Sushil Kumar Agarwal: Thank you. We have the next question from the line of Pooja Ahuja from Monarch Networth Capital Limited. Please go ahead.

Pooja Ahuja: Hi! Sir, thank you for the opportunity. Sir, firstly wanted to understand we have increased investment in our subsidiary this quarter. So what are our plans in terms of business here.

Sushil Kumar Agarwal: So when earlier we had applied there was a limit of Rs.2 Crores net owned fund in the NBFC; later on when we reapplied for that license now the minimum capital requirement is Rs.10 Cores so to meet that requirement we have transferred the fund.

Pooja Ahuja: Okay all right, and I want to understand how much was write off if at all any in this quarter.

Sushil Kumar Agarwal: We will come back to you for the quarter number but for nine months it is Rs 1.9 Crores.

Pooja Ahuja: Sure Sir, and lastly wanted to understand, we had earlier in the last quarter mentioned that we will be adding about 30-35 branches and so far in this financial year we have added about 18 branches so the branch addition is likely to come in the next quarter.

Sushil Kumar Agarwal: So, you will see 12 month to 12 month we have added 35 branches and every year we open around 15 to 20 branches in last quarter so we are on track we will be around 314 to 315 branches this year itself so around 34 to 35 branches adding this year also.

Pooja Ahuja: Got it, that is it from my end. Thank you, Sir.

Sushil Kumar Agarwal: Pooja, around negligible no write off this quarter.

Pooja Ahuja: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would like to hand the floor back to Mr. Sushil Agarwal for closing comments. Please go ahead, Sir.

Sushil Kumar Agarwal: Thank you all for attending the call. We valued your suggestions and remarks, we will continue our endeavor to give consistent business metrics and better asset quality on our book. 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 all. Thank you for participating and thank you very much.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Aavas Financials Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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