SAPNE AAPKE, SAATH HAMAARA

Ref. No. AAVAS/SEC/2020-21/455

Date: November 05, 2020

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/2020-21/413 dated October 20, 2020, 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 half year ended September 30, 2020 held on Friday, October 30, 2020 at 03:30 PM (IST).

The transcript of the conference call can also 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 & Compliance Officer
(FCS-9587)

Enclosed: As Above

AAVAS FINANCIERS LIMITED
(Formerly known as "Au HOUSING FINANCE LIMITED")
An ISO 9001:2015 Certified Company
CIN NO.: L65922RJ2011PLC034297
Regd. & Corp. Office: 201-202, 2nd Floor, Southend Square, Mansarover Industrial Area, Jaipur - 302020 | **Tel: +91 141 661 8888**
E-Mail: info@aavas.in, **Website:** www.aavas.in

"Aavas Financiers Limited
Q2 and H1 FY2021 Earnings Conference Call"

October 30, 2020

MANAGEMENT: **MR. SUSHIL KUMAR AGARWAL - MD & CEO**

MR. GHANSHYAM RAWAT - CFO

MR. S. RAM NARESH - CHIEF BUSINESS OFFICER

MR. ASHUTOSH ATRE - CHIEF RISK OFFICER

MR. HIMANSHU AGRAWAL - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited Q2 & H1 FY21 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 the 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 of Aavas Financiers Limited. Thank you and over to you Sir!

Sushil Kumar Agarwal: Good afternoon everybody and thank you for participating on the earning call to discuss the performance of our company for Q2 & H1 FY21. With me I have Mr. Ghanshyam Rawat - CFO, Mr. S. Ram Naresh - Chief Business Officer, Mr. Ashutosh Atre - Chief Risk Officer, Himanshu Agrawal from Investor Relation Team, other senior colleagues of the management team and Strategic Growth Advisors, our Investor Relationship Advisors.

The result and presentations are available on the Stock Exchanges as well as our company website. I hope everyone has had a chance to look at it. I am very happy to inform you that during the quarter the company's long-term credit rating was updated from A+/Positive to AA-/Stable by ICRA. I take this opportunity to thank all our stakeholders for their continued trust and support.

At Aavas, we continue to grow consistently and have registered AUM growth of 24% YoY while maintaining best-in-class asset quality with Gross Stage 3 of 0.47% as of Sep-20. With gradual reopening of the economy & people adapting to new normal, our business has also seen improvement. While the total disbursement for H1 FY21 at Rs.8,796 Mn was lower by 33% on YoY basis, the disbursements for Q2 FY21 at Rs.6,666 Mn registered a growth of 3% YoY. Profit after tax for H1 FY21 was lower by 4% on YoY basis as per Ind-AS accounting but registered a 24% YoY growth as per IGAAP accounting.

Given the current situation, we have proactively adopted a cautious stance in our incremental lending. Usually, the proportion of Home Loans in the disbursements during the first half of the year is around 70% with the balance 30% being in Other Mortgage Loans. This year the proportion of Home Loans in H1 FY21 disbursements is higher at around 75% with a corresponding reduction to around 25% for the Other Mortgage Loans.

As you are aware that due to various efforts of RBI & the Government, there is a marked improvement in the system wide liquidity. We have also benefited from this to some extent which reflects in the reduction in our average cost of borrowing over the last six months. Continuing with our belief of being transparent to our customers & passing on the benefits of lower cost of borrowing when feasible, we have decided in the Board to reduce Aavas Financier Limited's prime lending rate by 10 basis points with effect from 1st January 2021.

I would now hand over the line to Ghanshyam Ji to discuss various business parameters in detail.

Ghanshyam Rawat: Thank you, Sushil Ji. Good afternoon everyone and a warm welcome to our earning call. As mentioned earlier by Sushil Ji on the call, ICRA has updated our long-term credit rating from A+/Positive to AA-/Stable during this quarter. The rating upgradation which has come in current turbulent times is a testament to our well capitalized balance sheet, long-term diversified borrowing mix, strong liquidity profile, better than industry average asset quality and demonstration of one of the lowest levels of moratorium which reflects the adoption of better underwriting processes, collection infrastructure and analytics framework. Our long-term credit rating continues to be AA-/Stable from CARE.

During the quarter, company borrowed an incremental amount of Rs.5,199 Mn at 7% for 167 months. As of Sep-20, our average cost of borrowing stood at 7.90% on an outstanding amount of Rs.75,361 Mn with an average maturity of 130 months. Despite the highest short-term rating of A1+, we continued to maintain zero exposure to commercial paper as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for PAT and Net worth on slide #31 and #33 of our presentation.

Further key parameters as on 30th September 2020, total number of live accounts stood at 112,500 i.e. 25% YoY growth. Total number of branches was 259 i.e. 43 new branches added in the last 12 months. Employee count of 3519 vs. 2553 as on 30th September 2019.

Assets under management grew 24% YoY to Rs.83,669 Mn as on 30th September 2020. Product-wise breakup: Home Loans 73.5% and Other Mortgage Loans 26.5%. Occupation-wise breakup: Salaried 35.1% and Self-employed 64.9%. Disbursement decreased by 33% YoY to Rs.8,796 Mn for H1 FY21 but with the return of gradual normalcy, disbursements increased by 3% YoY to Rs.6,666 Mn in Q2 FY21. Spreads were maintained above 5% at 5.62% as on 30th September 2020. Average borrowing cost of 7.90% against an average portfolio yield of 13.52%. Borrowings: we have access to diversified & cost-effective long-term financing and strong relationship with development financial institutions. Overall borrowing mix as on 30th September 2020 is 36.3% from term loans, 23.7% from assignment and securitization, 21.7% from NHB & 18.3% from debt capital markets.

Provisioning: additional ECL provisioning of Rs.56.8 Mn created to consider the impact of COVID-19 during Q2 FY21. This has been arrived at by our consistently followed practice in last three quarters including this quarter by (a) categorizing the portfolio into High/Medium/Low risk basis the profiling of customers & their Fixed Obligation to Income ratio, (b) reducing the value of mortgage property in a stressed scenario and (c) observing the behavior & accessing the cash-flow stress of customers during the moratorium period. Total COVID-19 provisioning stood at Rs.147.4 Mn as on 30th September 2020. Total ECL provision including the COVID-19 provisioning as stated above stood at Rs.340.6 Mn as on 30th September 2020.

Asset Quality: 1 day pass due stood at 6.20%, Gross Stage 3 stood at 0.47% & Net Stage 3 stood at 0.32% as on 30th September 2020. Gross Stage 3 is inclusive of loan accounts which are not classified as NPA as per the interim order dated 3rd September 2020 of Hon'ble Supreme Court. Such accounts have an outstanding amount of Rs.24.4 Mn and have been provided for as a prudent practice during this quarter.

Liquidity of Rs.25,870 Mn as on 30th September 2020 includes cash & cash equivalents of Rs.15,750 Mn, un-availed cash credit limit of Rs.1,420 Mn, documented un-availed sanction limit from National Housing Bank of Rs.2,060 Mn and documented un-availed sanction limit from other banks & institutions of Rs.6,640 Mn.

Profitability: PAT decreased by 4% YoY to Rs.1,166 Mn for H1 FY21 as per Ind-AS accounting. As per IGAAP accounting, PAT registered YoY growth of 24% to Rs.1,270 Mn for H1 FY21. ROA was 2.9% & ROE 10.8% for H1 FY21. ROA was 3.2% & ROE 12.2% for Q2 FY21. We endeavor to maintain ROA at 2.5% & above.

As on 30th September 2020, we are well capitalized with a Net worth of Rs.22,215 Mn. Capital Adequacy Ratio stood at 53.1%. Our Book Value per share stood at Rs.283.40.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Karthik Chellapa from Buena Vista Fund Management. Please go ahead.

Karthik Chellapa: Thank you very much for the opportunity. Sir, I have a few questions. First is if we look at your 1+ DPD, it spiked to about 6.2% for September. Can you give us some colour on which of the geographies or the segments that are contributing to this spike and also what percentage of your borrowers have not paid a single EMI since March. That is my first question.

Sushil Kumar Agarwal: Our September end number of 1+ is 6.2% and this is better than our expectation. Geography wise there is almost similar trend. There is no change across geographies, maybe 0.5% here and there. Maharashtra is little bit 2% higher because more pandemic impact there, but we are seeing that that is also coming back to normalcy. But there is no huge difference like we always tell 1+ is 6.2% so it is not 2% and 20% difference. It is in between 3% to 7-8% and out of this 6.2% also in this month almost 50% of the customer has paid one installment already. So, I think we are in a better position as of date. Of the portfolio which was not 1+ as of 29th February but became 1+ as of 30th September, around Rs 44 Crores is the amount where customers have not paid a single installment during the moratorium period. This is against our total portfolio of around Rs.8400 Crores.

Karthik Chellapa: So, basically about 0.5% of the portfolio has not paid a single installment?

Sushil Kumar Agarwal: Yes, and this is as of August and I will tell you in August total moratorium was around 10% of which only 3.2% remained unpaid as of September (i.e. around 70% paid in September).

Karthik Chellapa: Sir, my second question is on the opex growth that we have seen this quarter. This quarter we have also added eight branches and the opex growth has also been quite strong and in the past, you have indicated that we wanted to focus on existing space first but it so happens that this year we have entered a new state Himachal Pradesh. So, can you give us based on your thought process on how you are thinking of opex growth and branch additions and as well as new state penetration going forward?

Sushil Kumar Agarwal: If you see H1 to H1 comparison our opex has reduced from last year H1 3.28% to this year 2.8% and from 2.6% in Q1 to 2.8% in H1 this year. This is normally when we told that some opex is business related. So when disbursement has increased, so in that proportion that variable cost has increased. And in the first two quarters also we told you that we will open 30 to 35 branches, which is our normal practice in a year, so we are on that right track. Himachal is subset for us of Uttarakhand and Haryana. So, there are four branches, so it is not like a new state. So, that is as per plan. Anyway, this five-year block where we open up new states will close on 30th March. So, from next year onwards anyway we will take another block of four to five states for development in the next four five years.

Karthik Chellapa: I have more questions, but I will come back in the queue. Thank you very much. Wish you and the team all the very best.

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

Kunal Shah: Congratulations for good set of numbers. Again, in terms of if we have to look at when we would say that we are in terms of the normalcy so disbursements are definitely back to 3% to 4% year-on-year, but if you can just give the trend in terms of how it has been in July, August and September, and are we very much into the growth phase or how it is going to be over the next couple of quarters and even in terms of the behavior of the customers, no doubt we have 1+ DPD and you have highlighted in terms of how many are not paying, but given the self-employed category; are most of them back to the business and what would be the level of collection efficiency going forward for most of them in terms of that, so maybe not collection efficiency, but in terms of their business earnings where our customers would be, and are we completely out of this entire COVID crisis?

Sushil Kumar Agarwal: Kunal, pandemic is an evolving stage, every once or every quarter it changes its shape so on that side, I will not comment, but as far as business is concerned, I think we are almost touching the normal pre-COVID level numbers. As you have seen this year also this quarter also, though beyond quarter-on-quarter we have shown growth and we are hopeful to maintain that in Q3 and Q4 also. We continue to focus on conservative approach on the underwriting side and we are almost sourcing another 8000 to 10000 files and disbursing 3000 files a month which is pre-COVID level number for us. In terms of self-employed versus salaried as you have seen we published 1+ means even if customer has paid part installment, we count it in 1+. So, that way we were not hoping this to happen this early. We thought it will take two three quarters more to reach around 5% to 6% level of 1+ but because of the underwriting practices which we adopted in the past, and collection efforts so we are looking at normalcy at that end. Normally collection efficiency for us is 97%, 98% in normal quarter. We have already reached 95%, 96% and hoping to reach to earlier collection efficiency level within this quarter and also 1+ number maybe in the same trajectory as we were in the last year.

Kunal Shah: Sir in terms of reading this 1+ DPD so finally we are saying any which ways out of this also we have recovered 50% in the last month. So, next quarter itself we will see it getting back to the normalized level, which has been there all through?

Sushil Kumar Agarwal: Yes, around 5%, which we always say that 1+ should be around 5% in the business.

Kunal Shah: Yes, so it is somewhere around 4%, so when we look at the March, June, September what we have given out in the presentation it is somewhere around 4% to 4.2%. So, we should be more or less back to those levels?

Sushil Kumar Agarwal: Yes.

Kunal Shah: Thanks a lot.

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

Bhavesh Kanani: Thank you for taking my question. My question again pertains to the 1+ DPD number of 6.2%. You have shared the flavour on geographical concentration being spread well over the areas. Can you share some colour on the profession wise colour as well of the borrowers that within this 6.2% if there are any specific professions in which borrowers are engaged which are witnessing more stress? And also, some colour if possible on what is your assessment on the recoverability within the 6.2%? I do understand that even in normal business conditions we used to have 4% to 5% 1+ DPD, but ability to recover out of that 5% I would assume is tougher in the post-COVID era so I would like to hear your thoughts on the same?

Sushil Kumar Agarwal: Bhavesh, first is there is no major aberration in terms of salaried, self-employed. So normally salaried customers are around 30% and even in 1+ DPD side 6.2% around 25% to 30% salaried customers have not paid. Rest is self-employed. In self-employed category also we maintain around 40+ categories of customers depending on their business profile. There also there is no aberration. As we have told there are around 2% to 3% or 4% portfolio is there which is hospitality industry so there it is maybe 5 basis points more but more or less in all the other segments it is almost similar and anyway we categorize them as medium, high and low risk and we are consistent. Because of this there is no major change in our definition of any profile of medium, low and high risk. As we always tell that whatever is 1+ number, it translates to 10% to 20% of it into NPA, so anyway it is 6%, in the good, the better collection efficiency we will achieve around 0.6%, in the difficult times 0.9% can be our NPA. We have more than that provisioned already in the balance sheet but as a prudent management team, we will continue to review the situation in coming quarters and if required balance sheet has sufficient buffer on the profit side if more provisioning is required, but looking at the last three, four years trend, whatever is 1+ numbers mostly 10% to 20% of it become NPA. As I have already told you 50% of the customers out of this 6% has already paid in October, so we are hopeful that we will attain our past experience, 10% to 15% maximum side going to NPA out of this number.

Bhavesh Kanani: So, in that context should we expect the provisions to now normalize there because since last three quarters, we have actually been kind of accelerating the provision?

Sushil Kumar Agarwal: Bhavesh right now we have around 31 Crores of NPA and against that around 22% is normal NPA provisioning and apart from that we have done 15 Crores of additional COVID provisioning. So, you will see overall provisioning is sufficient for even up to 2% of NPA, but looking at the trajectory, it will be around 0.6%, 0.9% but as further quarters will come we will evaluate situation and if required we will do a prudent practice and we will be conservative on that side.

Bhavesh Kanani: Lastly, if I can squeeze in one more on opex side, along with sharp improvement in disbursements the opex have also gone up sequentially materially. Where should be the opex to AUM ratio settle down and some color on structural savings we have generated out of realignment or restructuring of operations this pandemic might have caused?

Sushil Kumar Agarwal: Bhavesh we always tell that YoY basis there will be 35 to 40 basis point opex to AUM reduction. So, in FY19 it was 3.8 and last year it was 3.4 and this year again we hope to reduce it by 40 basis points and for the next two, three years we are seeing the same trajectory on this part. Till now the customer has not requested us for the restructuring of the loan; though we have got the policy approved from the board, but we are not seeing any restructuring in our books, because mostly its small ticket loan average ticket size is Rs.9 lakh; total corporate loan, non-individual book is around 0.2% of the book totally. So, we do not see at this point of time any restructuring to be done in our book.

Bhavesh Kanani: That is heartening to hear. All the best. Thanks for responses.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Good afternoon Sushil Ji and Ghanshyam Ji. I have two, three questions. Firstly, can you give me a breakup of your employee count as per function wise because we have one of the largest teams on the streets about 3500 employees, last year also you added 1000, 1500 employees. Just like to understand how many are in credit, how many are in collections, how many sales, you know, as the business grows let's say beyond COVID 20%, 25% annually, how should we think about employees and employee cost also growing. So that is my first question.

Sushil Kumar Agarwal: Piran department wise, maybe I will not be able to tell you but as a philosophy we have 2:1, so 2 persons in business and rest support team is 1 person. So, that is the normal breakup on the employee side. We always invest for future growth and looking at competition also we keep the bench strength. So, for 25% business growth the number might not increase sequentially because for senior management side and supervisory level, we have sufficient bench strength and people and supervisory level staff and front level staff increases in proportion to business and certain times for investment also, so we are opening branches and they becomes fully effective in three years. So that is the trajectory on that side. But on opex side, as I have told you YoY basis, 35 to 40 basis points of reduction in opex to ATA.

Piran Engineer: Thank you. My next question is how much of top up did we do this quarter. I believe it was 31 Crores, 32 Crores last quarter.

Sushil Agarwal: This quarter the total top up is around 4-5% of the disbursements but top up under analytics led product is less than 1% of total disbursement in H1 FY21.

Piran Engineer: Sir, just lastly on slide #24 where you mentioned principle repayments of 300-odd Crores every quarter, are you factoring in some prepayments which are business as usual sort of prepayments or are we more contractual?

Ghanshyam Rawat: Are you asking for assets side or liability side?

Piran Engineer: Assets side. Liability will be contractual.

Ghanshyam Rawat: On asset side during this COVID period as explained in the last call also we have assumed lowest prepayment rate otherwise in normal business scenario we take three year average and 75% of that we consider for factoring in the principle collections in every quarter, but during the COVID phase, we have assumed just 20% of normal prepayment rate.

Ghanshyam Rawat: It includes the normal business profit also.

Sushil Kumar Agarwal: Piran, our quarterly profit is about 65-70 Crores that you are seeing and beyond that there is a surplus of 230 Crores which is left. Every month 30 Crores as principle installments come in; so around 40-50 Crores per month which is part payment & foreclosures, so that is there.

Piran Engineer: Sorry Sir, I missed that last part.

Sushil Kumar Agarwal: The part payment which is of 40 Crores, 50 Crores, foreclosures, BT out whatever happens that is the number, we have a profit of Rs.20 Crores to Rs.25 Crores, and Rs.25 Crores, Rs.30 Crores principal comes through installment. So, around 40 Crores is foreclosures and part payment that we have considered.

Piran Engineer: That is all from my side. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: Good afternoon Sir. Sir, firstly just continuing from Piran's question, if you can give us the number of people in your underwriting and collections team Sir. That would be very helpful if you have that data.

Sushil Kumar Agarwal: We have about 3500 employees in which 2:1 ratio is there. So around 2100-2200 in business, and rest 1000-1200 are in support department, 80% of support department is collections and credit.

Antariksha Banerjee: So, 800 roughly split half, half, so 400 to 450 levels each of underwriters and collections is that a good number?

Sushil Kumar Agarwal: Yes.

Antariksha Banerjee: I was actually trying to place the number of files or logins and how many per person they are doing, so it comes out to about 30 to 40 a month at a rough level?

Sushil Kumar Agarwal: They have to visit each case also; that is a good number. Again, it is an average because some branches will have lesser side and some branches will be higher side, so we keep a capacity level of 50 cases per month. So, we have that capacity buffer also for the growth.

Antariksha Banerjee: Sir, on collections have you increased the number of people over the last two, three quarters substantially because in this environment it will be necessary?

Sushil Kumar Agarwal: We have added about 50 people there only because rest we have a team at the business level also, credit team also, so both those team also have helped in Q1, Q2.

Antariksha Banerjee: So, they used to do that job?

Sushil Kumar Agarwal: Yes.

Antariksha Banerjee: Sir, and on your rejection rates. You mentioned these 10000 files coming in and 3000 goes, is that 30% rate I remember used to be there during the IPO also, on an average. So, after COVID is not the rejection rate gone up because I thought files would have been coming more because of less players in the market or may be you could have tightened some of your norms like cash salaried you will not give; is there something like that that has happened?

Sushil Kumar Agarwal: I think we tried to be consistent. We have put a filter in the sourcing and in sourcing this file will not come; so those files which you are saying that should be rejected that was not included in sourcing.

Antariksha Banerjee: But in terms of filters while sanctions or the underwriting are there some additional learning from COVID or it is what it used to be? That is sufficient?

Sushil Kumar Agarwal: In my previous talk also, I have told that earlier there was a negative list. Now there is only a positive list. So, we select only from positive list and rest everything we will not do. And we improve the login filter itself. So, these files will not even login like cash salaried and whatever you are telling.

Antariksha Banerjee: Just one more question on this 1+ DPD just to clarify my understanding, so roughly 6.2% of people as of September end has not cleared their full installment. That is why they are 1+DPD? Is that right?

Sushil Kumar Agarwal: Even part installment …

Antariksha Banerjee: Meaning 94% had paid in full, is that right?

Sushil Kumar Agarwal: Yes.

Antariksha Banerjee: So out of the remaining 6% about half of them have cleared full installment in October, but some more people would have got added to that list? So, this 6.2% you are saying will go back to 5% that includes some more people coming into the pool but from old pool 50% have already cleared by whatever October 20, 2020?

Sushil Kumar Agarwal: October 25, 2020 yes.

Antariksha Banerjee: That helps. Thank you Sir. That is all from me. All the best.

Moderator: Thank you. The next question is from the line of Arvindan Jagannathan from JK Capital Management. Please go ahead.

Arvindan Jagannathan: Thank you so much for taking the call. I just wanted to understand your ROA tree because I feel you are saying that your opex to asset ratio is actually coming down on a consistent basis, and in that case, why would your ROA drop from 4% level to 2.5% like why do you feel that? Why are you so conservative in giving a ROA benchmark of 2.5% and above because maybe NIMs coming down as a mathematical impact of increasing leverages there, but beyond that do you feel there is intense competition or something that is going to bring down the ROA? Because at 7%, 7.5% NIMs and 3% of opex you get 4.5% pre-tax ROA and around 3%, 3.5% post-tax ROA on a comfortable basis. So, I want to know the reason why on your conservatism. Why that 2.5% level?

Sushil Kumar Agarwal: Arvind, when we say 2.5% so we also say that it will be on 6 to 7 times leverage book, 2.5% ROA, since right now we are less leveraged and because we raised the capital in IPO also so that is where right now with excess capital, we are able to give excess ROA which is for this quarter is 3.2%, for H1 cumulatively it is 2.9%. So, we want to maintain and which we have maintained in the last 36 quarters also 2.5% and above, in a fully leveraged balance sheet basis. So, normal assumption is that 2.5% ROA gross it up by tax then your 0.5% for the credit cost then your opex that should be our lending rate minus borrowing rate and if you see we are maintaining our spread consistently, our opex is also coming down and when balance sheet will be leveraged to that extent of 6 to 7 then it will be 2.5% ROA. Till that time, we will continue to give more ROA on that side.

Arvindan Jagannathan: My question is precisely that. So, you are saying the compressed share of ROA is purely due to the leverage going up and the cost of funding going up, overall cost of funds, not the rate of cost of fund. So that is the only thing. You are not foreseeing the spread coming down below 5% in a meaningful manner. You are not working such a factor?

Sushil Kumar Agarwal: We also tell that we anticipate that this 5% spread can go down maybe 4% but that we will compensate by reducing the similar number on opex. By God's grace and our working, the spread we were still able to maintain, but opex has reduced. In future maybe three to five years down, we might not be able to maintain this 5% spread maybe it can come down by 50 basis points, 75 basis points or 100 basis points, but similar amount of balance sheet leeway we have on the opex side so it will reduce our opex by 30 to 40 basis points every year, we will match that number. So, still we will be able to give 2.5% ROA.

Arvindan Jagannathan: You are already at 3% level of opex to assets. So, how long can you achieve the 35bps reduction on a consistent basis. I mean, you hit the floor at some point. You need expenses to run a business. So, what would be your lowest trough level of opex to assets ratio?

Sushil Kumar Agarwal: We believe in long-term running the business, so we will continue to do investment, but keeping that in mind 30 to 40 basis points is still possible for the next three to four years.

Arvindan Jagannathan: You think your opex to assets ratio can go as low as 1.5%?

Sushil Kumar Agarwal: Right now, it is around 3%, so 30 to 40 bps means 1.75% to 2% in the next 3 to 4 years.

Arvindan Jagannathan: So that low level can be achieved.

Sushil Kumar Agarwal: Yes.

Arvindan Jagannathan: That is clear. Thank you so much.

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

Bharat Shah: Good afternoon Sushil Ji and the entire team. The disbursement when I see for the second quarter probably the only lending entity I have seen so far where disbursements for the second quarter has exceeded the disbursements of the last year second quarter. So, is it an indication that we feel that basically things have normalized from our perspective and we are ready to do the business in its fullest earnestness?

Sushil Kumar Agarwal: Bharat Ji, if you see that our employee strength has increased from last year H1 to this year 1000 so we invested in our capacity building in H2 of last year. And first quarter because of COVID and closer it was not there, but we have built our capacity to have much more business than this, so even at reduced capacity level we were able to achieve this growth in Q2 of our disbursement. Yes, as per business terms, now again we are sourcing around 9000 to 10000 files per month. So, that is showing the normalcy in the areas where we are working and hopefully since we always keep bench strength also looking at the competition so we will be able to continue this growth momentum if nothing unforeseen happen in H2, so we will continue that journey and this is our normal level. We have more capacity than this, which we have built for looking at 2023 numbers because we invest in two to three years ahead in our distribution models. Hope I have answered your question?

Bharat Shah: Yes. Secondly Sushil Ji on technology I wanted to understand what are the efforts. Because increasingly finance and lending is at cross section of finance along with technology. Customer acquisition, customer analysis, scaling, disbursal, recovery, Artificial Intelligence and risk control, fraud prevention either internally or externally all of these increasingly technology is a very, very critical piece. So, what are all the initiatives on that front?

Sushil Kumar Agarwal: Bharat Ji, as we have told in our last calls also, at Aavas we have married our brick and mortar model to technology platform. Today our 100% leads come through mobile app, our repayments are 99.9% through digital mode and NACH. Our 100% of MIS is coming through SAS server without any manual intervention, our 100% data is geo-tagged and we do allocations in collections through technology. We have 80 people technology team and 15 people data analytics team in-house. We do predictive analytics also. Our total portfolio is on Heat Map, so earlier like MIS was two-way, country, state, district, tehsil, pin code, now you put a finger on India map and ask within 5 km of this finger how many customers you have funded and their demographic and their collection pattern for last seven years it is on click available. Then we have implemented 100% CRM and today customer app is there and on customer app customer can take 85% of their needs through that app, no need to come to the branches. So, that is there. Still we are improving every facet of our working because we know technology will be a survival risk for us going in future and technology will enable us for the cost reduction also. So, we continue to put investment in that side. Today we are on cyber security compliant at bank level kind of framework rather than HFC and NBFC. Secondly, we continue to do more and more on predictive analytics. As we earlier told we used to predict which customer will bounce and we reach 85% accuracy on that level. During COVID it came down to again 30% to 40%, again we are putting our learning in trying to take it back to 75%, 80%. We predict which customer will come for foreclosure because that is the primary problem for any finance company; portfolio going out. So, there our retention rate has increased and that has given us leeway from around reducing 50% of our portfolio going out with that technology. Further we have introduced robotic process automation and machine learning things in some of our processes and integration. Now our collection allocation is also based on geo tracking and we are using satellite-based software to allocate appropriately and that has helped us despite in COVID times your collection number in terms of number has increased by 50% to 80%. We have increased our collection team only by 10%, 15% and we were able to manage that kind of numbers. Further in every process, like HR we have now introduced Machine Learning enabled software and performance system. So, we will continue that journey and I think that is the differentiator and that is where we are confident that we are able to reduce our opex also 40 to 50 basis points YoY despite growing book at the predicted level. So, we will continue doing that investment in that side.

Bharat Shah: You mean to say that marriage of physical and digital is not only contemplation, but it is consummated now?

Sushil Kumar Agarwal: With increase of time, it continues to increase and ease of doing business and how to see that from the future perspective, so from three year hence what problem we will face, we are investing in today; five year hence what can be the problem we are investing in today, what are the business opportunities there. I myself have done some course from Harvard on Fintech and our technology operations team people are also doing that. So, we are continuously evolving and learning ourselves also and seeing what are the opportunities and best practices across the world which we can include for implementing at Aavas.

Bharat Shah: Thank you. Delighted to know. Congratulations for a very competent performance in tough times. All the very best, Sushil Ji and the entire team.

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

Vikas Kasturi: I had a few questions about your business. Sir, the first question is about the balance transfer out. So, since your credit underwriting is so good, probably the best in the industry, do your competitors try to poach your good customers? My second question is you have taken great things to explain your business model in the previous conference calls etc., and you have constantly mentioned that you do not outsource any leads. So, is there any particular reasons why you do not source leads using DSAs? Another question is again just to be opportunistic of the low interest rates currently, you could for example use some CPs to lower the cost of borrowing, but you have taken a decision not to have any CPs in your borrowing. So, could you just throw some light on these? Thank you very much.

Ghanshyam Rawat: I am taking your question one by one. First on the balance transfer, definitely we as Aavas are creating a new market segment, rural and semi-urban areas, not competing with the banks and institutions, large HFCs and NBFCs. In the life of customers, we are creating a true value in the system in the customers life basically because if you visit my 100 customer, you will find 95+ customers are living in those houses. But as we grow, yes there maybe challenges on the balance transfer also as other player is also facing the similar problem. This is a normal course of business; on an average 12% to 18% of opening AUM balance transfer happen with everyone in the industry, but we have built up certain analytics tools inside the company with the help of IT through which we forecast which customer in the next two quarters will have a foreclosure or some sort of a balance transfer request because their behavior is improving. So, we keep engage our central team with such sorts of customers and find appropriate solution for them. So that whenever they approach us our team can immediately address their problems, provide a solution to them. Earlier when we see let us say, one and a half years back if similar problem is coming to us, so the customer approaches to one branch, the branch says we are forwarding your request to head office, and then the head office request comes then again they provide what is the issue, so almost five to 10 days gets lost in that period and by the time the customer has a confirmed plan with the other institution to borrow from them basically, but now within 24 hours we start to engage with that customers immediately to address those problems. That is why you see our balance transfer has been successfully reduced substantially in the last couple of quarters. On the competition issue also some of our efforts have also gone that side, but there is no harm to assume there will be some balance transfer in a normal case business scenario. Regarding DSA, non-DSA I think 10 years back when we formed this company; and continuously every year we will have business plan, annual discussions, we believe very strongly that in-house model where our own sales team generate the business leads at a ground level, we adopt various mechanism at the ground level starting with various in-house localised models we have developed through which we generate leads. Later on in the last two years, technology is also helping us to generate those leads through we have certain unique apps which we have made for our housing ecosystem, who has helped like all the cement suppliers, iron suppliers, water supplier, all these we have made them through our connector, lead provider for them. For them it is not a DSA, for them it is really creating a value for their own customers also that they also create a value for those traders also in that business. So, we strongly believe as a non-DSA model we have performed well till now. We believe to continue with non-DSA model for at least for near future. No CPs. I think in the last ten years we never borrowed any commercial paper. When we are having lower long-term rating, our short-term rating was highest A1+, even then we did not borrow commercial paper, now we have AA- rating for that long-term sources, average cost of borrowing is already fallen at 7.9% with average maturity of 130 months overall liability maturity. We do not feel like we need to adventure unnecessarily in the commercial paper, which we have seen other players have suffered a lot on that account.

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

Karthik Chellapa: Thank you very for the opportunity again Sir. I just have one clarification. In the returns which you have filed with the Stock Exchange under disclosures as required by the RBI circular, there is one line item which says respective amounts where the asset classification benefit is extended as of September 30 and that amount is about 85.6 Crores. So, is this the amount of NPL that would have slipped in September had the Supreme Court direction not been there?

Ghanshyam Rawat: Yes.

Karthik Chellapa: So, which means if the Supreme Court's direction was not there, the actual NPL would be close to 1.5%. Is that how I should interpret it?

Ghanshyam Rawat: This 85 Crores is because of all DPD freezing from February 29. The 85 Crores is of customers who took three or more moratorium during the 6 months moratorium period so if this freezing was not provided by RBI, so this 85 Crores figure would have moved to 90+.

Karthik Chellapa: Just one more data point, would you have the stage 2 loans percentage for June and September?

Ghanshyam Rawat: Stage 1 is 99%, Stage 2 is 0.6% and Stage 3 is 0.47%.

Karthik Chellapa: Can I have the figure again, Stage 2 is 0.6% for September?

Ghanshyam Rawat: Yes.

Karthik Chellapa: What will it be for June?

Ghanshyam Rawat: June, just give me a couple of minutes. 0.7%.

Karthik Chellapa: So, the reason I ask this is basically the amount of NPL which would have slipped without the Supreme Court direction is 1% of the loan book which is about 85 Crores but this is even larger than the Stage 2 loan. So that means these people were probably overdue from the beginning itself, is it?

Ghanshyam Rawat: From the beginning?

Karthik Chellapa: From the beginning of March itself?

Ghanshyam Rawat: Yes obviously. This table, RBI asked this and the circular itself says that whosoever is between 1 and 90 on February 29 need to be reported in this table.

Karthik Chellapa: Thank you very much for clarifying. That is all from my side.

Moderator: Thank you. I would now like to hand the conference over to the management for any closing comments.

Sushil Kumar Agarwal: Thank you all for attending the call. To summarize, at Aavas, we aim to be one of the key enablers in broadening and deepening of credit facilities to unserved and underserved customers in the semi-urban and rural areas. We feel that our deep understanding of this segment and our in-house execution model will enable us to fulfill the aspirations of our customers and expectation of all stakeholders. Further, we will continue to make investment in technology, analytics & digital initiatives as that will further improve the operational efficiency & enable us to serve our customers in an even better way. Thank you so much for your time. For any further information, we request you to get in touch with Himanshu Agrawal in our Investor Relations team or SGA, our Investor Relations Advisors and they would be happy to help you. From entire family of Aavas, here is wishing you a very Happy Diwali in advance and a Prosperous New Year. Thank you very much.

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