SAPNE AAPKE, SAATH HAMAARA

**Ref. No. AAVAS/SEC/2021-22/130**

**Date: May 05, 2021**

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

Dear Sir/Madam,

**Sub: Earning Conference Call Transcript**

In reference to letter No. AAVAS/SEC/2021-22/111 dated April 26, 2021, please find attached the transcript in respect to the earning conference call on the financial and operational performance of the Company for the quarter and year ended March 31, 2021 held on Friday, April 30, 2021 at 11:30 AM (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 & Compliance Officer**
**(FCS-9587)**

# "Aavas Financiers Limited
# Q4 & FY2021 Earnings Conference Call"

## April 30, 2021

**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 Q4 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 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 phone. 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 Agarwal:** Thank you. Good morning and thank you for participating on the earning call to discuss the performance of our company for Q4 and FY21. With me I have Mr. Ghanshyam Rawat, CFO; and Himanshu Agrawal, Investor Relationship Officer and SGA team our IR Advisor.

The results and the presentations are available on the stock exchanges as well as our company website and I hope everyone has had a chance to look at it. I am happy to inform you that despite a very tough year, we continued to grow consistently and registered AUM growth of 21% YoY as of Mar-21. We had a strong quarter in terms of business and disbursed Rs.10,127 Mn in Q4 FY21 registering 17% YoY growth and 32% QoQ growth. In line with our expectation, 1+ DPD also showed continuous improvement during the quarter and stood at 6.37% as of Mar-21 against 8.21% as on Dec-20. Profit after tax for FY21 increased by 17% on YoY basis as per Ind-AS accounting and registered 34% YoY growth as per IGAP accounting. Continuing with our belief of being transparent to our customers and passing on benefits of lower cost of borrowing when feasible, as informed earlier we had already reduced the Aavas Financiers Limited prime lending rate by 10 bps with effect from 1st January 2021. We have decided to further reduce the Aavas Financiers Limited prime lending rate by 15 bps with effect from 1st April 2021.

Unfortunately, just as the broader economy was showing good signs of revival, COVID re-emerged and spread at a very fast phase since the start of Apr-21 across the country. This has resulted in localized lockdowns of varying degrees being imposed by various states governments to contain the spread of the infection. We continue to comply by the guidelines being issued from time-to-time by the central and state governments.

The widespread disruption to social & economic activities caused by the first wave of COVID in FY21 has been a learning experience for us in Aavas. We had already been working on cybersecurity for the last 1.5-2 years; along with that for the last 1 year we have been adopting various initiatives on technology framework to improve the day-to-day working efficiency for our staff. This has ensured a smooth work-from-home transition for our employees during the current lockdown as well while ensuring data security and uninterrupted customer service. The resilience of our customer also got tested during the first wave and continuous improvement in their repayment behavior during the last six months has reinforced our belief that while there can be delays, the ultimate losses will be negligible. As we mentioned in previous call, that we were able to interact with our entire customer base multiple times before, during and after the moratorium period to understand how they were responding to the crisis. All the knowledge that we gained from these interactions has been included in our analytics framework. We think this will further help strengthen our underwriting practices and predict the customer behavior in the period ahead. Having successfully navigated the first COVID wave in FY21, we are confident that our response would be even better this time around and we would be able to tide over the second COVID wave as well based on the learnings of last year.

I would now hand-over the line to Ghanshyamji to discuss various business parameters in detail.

**Ghanshyam Rawat**: Thank you Sushilji. Good morning everyone and warm welcome to our earning call. During the quarter, the Company borrowed an incremental amount of Rs.7,290 Mn at 6.31% for 119 months. As of Mar-21 our average cost of borrowing stood at 7.40% on an outstanding amount of Rs.82,740 Mn with an average maturity of 130 months. Our long-term credit rating continues to be AA- with Stable outlook from both ICRA and CARE. Despite the highest short-term rating of A1+, we continue to maintain zero exposure to commercial papers as a prudent borrowing practice.

During the year, Company received a total tax refund of Rs.227.3 Mn including interest of Rs.16.1 Mn for past few years. The provision for taxation for Q4 as well as FY21 has been computed after considering the impact of tax assessment and the refund.

IGAAP to Ind-AS reconciliation has been explained in detail for profit and the networth on slide #31 and #33 of our presentation.

Few important key parameters: as on 31st March 2021, total number of live accounts stood at 1,25,591 i.e. 20% YoY growth, total number of branches were 280 i.e. we added 30 new branches in last 12 months, employee count of 4,336 vs. 3,564 in Mar-20 i.e. 22% growth in the year. Assets under management grew 21% YoY to Rs.94,543 Mn as on 31st March 2021; product-wise breakup: home loans 73.5%, other mortgage loans 26.5%; occupation-wise breakup: salaried 39.6%, self-employed 60.4%. Disbursement decreased by 9% YoY to Rs.26,569 Mn for FY21 but significant momentum was gained in Q4 FY21 with disbursement increasing by 17% YoY & 32% QoQ to Rs.10,127 Mn. As on 31st March

2021, average borrowing cost of 7.40% against average portfolio yield of 13.16% resulted in spread of 5.76%. Borrowings: we have access to diversified & cost-effective long-term financing from various sources; strong relationship with development financial institutions and all large private & public sector banks in India; overall borrowing mix as on 31st March 2021 is 34.1% as term loan from banks, 24.2% from assignment/securitization, 22.6% from national housing bank and 19% from debt capital markets. Provisioning: total COVID-19 provisioning stood at Rs.190.3 Mn as on 31st March 2021; total ECL provisioning including COVID-19 provisioning stood at Rs.495.8 Mn as on 31st March 2021. Asset quality: 1 day past due stood at 6.37%, gross stage 3 stood at 0.98%, net stage 3 stood at 0.71% as on 31st March 2021; product-wise gross state 3: home loans 1.00%, other mortgage loans 0.90%. We have liquidity of Rs.28,360 Mn as on 31st March 2021 comprising of cash & cash equivalents Rs.11,140 Mn, un-availed cash credit limit Rs.1,320 Mn, documented un-availed sanction from national housing bank Rs.6,550 Mn, documented un-availed sanction from other banks Rs.9,350 Mn. Profitability: PAT increased by 17% YoY to Rs. 2903 Mn for FY21 as per Ind-AS accounting; as per IGAAP, PAT registered YoY growth of 34% Rs.3,078 Mn for FY21; ROA was 3.5% & ROE was 12.9% for FY21; ROA was 3.9% & ROE was 15.0% for Q4 FY21. As on 31st March 2021, we are very well capitalized with a networth of Rs.24,014 Mn and our book value per share stood at Rs.305.9. With this I open the floor for Q&A session. Thank you.

**Moderator**: Thank you very much. We will now begin the question & answer session. The first question is from the line of Abhijit Tibrewal from Reliance Securities. Please go ahead.

**Abhijit Tibrewal**: First I wanted to congratulate you I think I mean our disbursements in the fourth quarter has actually hit a historical high and I think this is the first time we have crossed a 1000 Crores in disbursement so congratulations to you and the team for that. My question was more around the fact that while the disbursements were very, very good at the same time the run off in the book was also very high if we look at the quarterly run off or the loan repayment as a percentage of opening AUM and despite our secret recipe of retaining customers who come for balance transfer so I mean is there more pressure from HFCs larger HFCs and state banks because of which you saw this kind of a loan book run off during the quarter and because of that I think I mean the AUM growth that came was also slightly lower than expectations.

**Sushil Agarwal**: Abhijit overall book run down is as per budget and slightly lower than the budget but yes because of price reduction from the mainstream banker we have budgeted that way and prepayment was almost in line what we have discussed yes because of COVID the analytics model which we have developed over a period of past years we have not utilized that way and going forward if the situation will remain good we will again come back to our model but I think more or less prepayment are in line what we have budgeted and there is no extraordinary BT-out which we have seen.

**Abhijit Tibrewal**: Sir the other question that I had is I mean given that we kind of all know that I mean even though we have reported disbursements of about 1000 Crores in the quarter you would not have really compromised on any of your underwriting so I mean while Q4 had always traditionally being one of the strongest quarters seasonally would it be fair to conclude that I mean during the last pandemic year we have built up capabilities so that going forward our quarterly disbursement run rate can now let us say improve to about 800 to 900 Crores quarterly run rate.

**Sushil Agarwal**: Yes Abhijit so we at Aavas continuously work on our distribution model and increase the capacity of our business for next two to three years insight if you see last year also despite COVID we have opened 30 new branches and also increased our frontline sales team also if you see a number of employees we have increased by 1000 employees so now we have capacity of delivering almost Rs.400 Crores per month but we want to be consistent and we will be conservative on our underwriting practices and if the opportunity will be there yes we have sufficient capacity which can serve for next one or two years in line so we have built up the capacity on that line.

**Abhijit Tibrewal**: And sir one last question is on your taxation were there any one-offs during the quarter because of which the blended tax rate is looking lower and also from provisions we have not taken any additional provisions during the quarter so will it be fair to kind of conclude at this point in time that whatever COVID provisions we are holding right now will hold as good even if there are any contingencies from the second COVID wave.

**Sushil Agarwal:** Yes, so taxation point of view Ghanshyamji will explain and then I will explain the provisioning part.

**Ghanshyam Rawat**: Yes, Abhijit on taxation we got I think we have mentioned in our presentation also as well as the result declared we got a tax refund of around Rs.20 Crores and few amount is on account of interest on that amount; it pertains to financial year 2017-18 & 2018-19 so that accordingly the current year tax got recomputed in quarter four for the full year as well as the tax refund also got accounted in this quarter that is why you see in the quarter four taxation piece is lesser than what we have seen earlier three quarters.

**Abhijit Tibrewal**: So Ghanshyamji I mean if I understood you right I mean the disclosure that we had given around income tax refunds within the quarter they get accounted for they get adjusted in the tax line item.

**Ghanshyam Rawat**: Yes. So accordingly this year taxation also got recomputed based on assessment order.

**Abhijit Tibrewal**: Thanks for the clarification.

**Sushil Agarwal:** And Abhijit on provisioning side as a lender we do assess our asset quality and relevant provisioning quarter-on-quarter basis and we also further take input from our analytics model if any stress is looking like on the balance sheet from next six to nine months perspective as you see our one day past due has improved from 8% plus to now 6.37% and our NPA numbers are almost inline further has not aggravated, we had Rs.19 Crores of COVID provision which we have not utilized and has kept as a additional provisioning in the balance sheet which we have not used and since last two quarters any account which is stage 3 we are provisioning additional amount as a normal NPA on that. So looking all those measures we are confident that as of March 31st 2021 for this quarter we need not any additional provisioning at this point of time and looking at the current situation also for next one two quarter we do not see any stress on the balance sheet but as a prudent practice the management will continue to assess the situation and if required we will do provision because the balance sheet and profitability is very strong so there is no issues on that side.

**Abhijit Tibrewal**: Thanks Sushilji and just one last question if I may just squeeze in based on whatever collections that you would have seen in the month of April would it be fair to conclude that the 1 plus DPD might deteriorate a little bit in the current quarter before we go back to our guided levels of less than 5% 1 plus DPD.

**Sushil Agarwal:** Yes, so Abhijit first that 5% we have said that it will take two to three quarters after December quarter earnings and we have improved by 2% this quarter but looking at the current lockdowns and different states has different kind of lockdown scenario so yes our one day past due can again be increase by some percentages the final number will come today evening, but now one comfort which we have is that all these customers behavior their resilience to market situation, their property, their property paper, customer the market and how six month lockdown has impacted their cash flows and how they have bounced back all this data account wise case wise we have put into analytics model and which has strengthen our firm belief that our customer has strong resilience and this Covid two situation I hope it will not worse than first and it will not last long maybe of the last period. So the customer behavior will be much better in next two to three quarters and bounce back but still we will keep on harnessing our analytics model and if we will see something will update the entire investors.

**Abhijit Tibrewal**: Thank you so much for patiently answering all my questions. I wish you and your team the very best. Thank you.

**Moderator**: Thank you. The next question is from the line of Tejas Parekh from Citi Bank. Please go ahead.

**Tejas Parekh**: Sir what has been your collection efficiency for this quarter, last quarter you had mentioned it was close to 99% and also the write-offs for this quarter.

**Sushil Agarwal:** So Tejas collection efficiency is almost more than 100% because 1+ has improved from 8% to 6.37% so almost 2% improvement on one plus so collection efficiency is almost more than 100% for this quarter; write-off number give us some time we will come back to you. In this quarter we did not have any significant write-off; full year basis if you say in FY21 we have Rs.2.84 Crores is total write-off. Against the last year Rs.3.88 Crores. I am talking of full FY21.

**Tejas Parekh**: Okay you said 2.84 Crores right.

**Sushil Agarwal:** Yes full year. Against last year full year 3.88.

**Tejas Parekh**: Okay thanks. Sir the other question is on your yields. So on quarter-on-quarter basis this time around we have seen yields declining by close to 25 bps can you throw some light on that.

**Sushil Agarwal:** AUM yield?

**Tejas Parekh**: Yes.

**Sushil Agarwal:** So Tejas this has two three points; one we have reduced our PLRs by 10 bps which we have already told; second in our lending the salaried proportion has increased so that has impact of 10-15 bps; but despite that you see our borrowing cost has significantly come down still our spread is we are maintaining at 5.76%.

**Tejas Parekh**: Thank you sir that is it from my side.

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

**Karthik Chellappa**: Two questions from my side firstly what is the difference in the yield between your salaried portion and your self employed portion and given increase in cases especially in the second wave what are the segments or geographies that you are at the margin more cautious on.

**Sushil Agarwal:** Karthik salaried yield is 12.24 and self-employed yield is 13.75.

**Karthik Chellappa**: And sir given the case loads in the second wave what are the segments or geographies that you are more cautious on.

**Sushil Agarwal:** No so Karthik as I told you last time also we have said that we have around 40-50 profiles in our portfolio and none of the profiles are more than a significant percentage in our portfolio. So we are taking the same approach which we have taken in the last time and we are still seeing that because most of the segments if the lockdown is only 15 days but nothing is specific any state or any geography wherever we are getting opportunity to open our branches and business operations we are working but right now main focus is on safety of the employees and the customer base which we have and we will continue to adopt the same underwriting practices which we have improved and put our learnings of last year in COVID so we continue to adopt the same for this year also.

**Karthik Chellappa**: Sir as far as disbursements are concerned I noticed that it is the home loan disbursements which are actually growing much faster and we have been kind of going slow on the other mortgage loans but if I look at the ticket sizes in disbursements for other mortgage loans they have risen sharply year-on-year. Now we are at about 710000, a year back fourth quarter of last year it was 610000 given that we are cautious on the other mortgage loans why is the ticket size rising so much.

**Sushil Agarwal:** Yes, Karthik so other loan comprises of three segments one is MSME loan, second is mortgage loan and third is top up loans so top up loan normally is from the range of 2 to 5 lakhs; last year because of the COVID scenario as a management we have taken a cautious call not to leverage our existing customers more so that segment has reduced so for mortgage and LAP customers overall ticket size is same because of we have not done more top up cases so this number is looking like this.

**Karthik Chellappa**: And my last question sir is in this presentation I notice that there has been another new addition to the management team which is the chief technological officer given that we have already been investing a lot in analytics etc., could you talk about what is the mandate of this role and how we what kind of changes we should expect either on your cost or your underwriting or your loan segments going forward.

**Sushil Agarwal:** So Karthik we continue to evaluate our management team and leadership team from the next eight to ten years perspective and wherever we see that we need to strengthen our leadership team we do that as you know we always emphasis technology as a key driver for our next decade journey from three perspective making us more agile for competition reducing our Opex to make us more competitive and third is saving us from the survival risk because technology we see they will be the key driver for our next ten year growth and survival so that is where and our CTO left last year so we ran the process and we have hired a new CTO. Technically speaking around technology side we have now the vision that all our technology and processes should be readily available for us which can help us seeing through our next ten years journey and scalability of the operations to the extent that technology will be key driver of all the businesses excellence efficiency and it should not be a hindrance for our next ten years growth perspective.

**Karthik Chellappa**: This is very clear sir thank you very much and wish the team all the very best.

**Moderator**: Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

**Udit Kariwala**: Sir I had two questions first is for the direct assignment transactions which you do what is the discounting rate which is used because the income is upfronted so is it the average rate of the pool or is it the cost of funds for the company or is it any other rates which is used as a discounting date from the accounting point of view when you report your direct assignment income that is first question and the second question is can you give some color around the ECLGS scheme and what number in terms of count and what is the absolute exposure on that front.

**Ghanshyam Rawat:** Yes, first question on the direct assignment we do direct assignments since last couple of years and when we do direct assignment it is a true sale so obviously upfront profit get booked in the quarter or in the year. We discount the future cash flow at a pool yield like in this quarter we have done Rs.160 Crores assignment, pool yield was 15.5% this pool got assigned at 7.5% so our effective interest spread was at 7.5% and above. And that then we take not a contractual period of a cash flow, we take behavioral cash flow of that so generally we take six years is a behavioral life of the pool when we sell the pool so it gets further compressed six years then get NPV based on the pool yield.

**Udit Kariwala**: So over here in the example sir which you give what would be the discounting rate would it be 15% or that is 7% number which we are talking about.

**Ghanshyam Rawat:** 15%.

**Udit Kariwala**: 15.6% which you mentioned.

**Ghanshyam Rawat:** Yes, 15.5% yes.

**Udit Kariwala**: Thank you and on the ECLGS.

**Sushil Agarwal:** In ECLGS scheme we have got ourself registered after instruction from the regulator in the February end types and have maybe 10-15 cases out of 125000 live cases; where we have given ECLGS total amount is Rs.54 lakh very insignificant number.

**Udit Kariwala**: Thank you sir.

**Moderator**: Thank you. The next question is from the line of Utsav Gogirwar from Investec. Please go ahead.

**Utsav Gogirwar**: Sir can you just help me with the employee number for the quarter.

**Sushil Agarwal:** We have given 4336.

**Utsav Gogirwar**: Correct so that's roughly around 800 employees which are added this quarter so I have two bits on that firstly what is the in which operations we have added these employee is it collections underwriting can you give some more color on that first question and second question sir you know for this addition of employees how do you expect the operating leverage to play out in the next couple of years can you provide some thoughts on that.

**Sushil Agarwal:** Yes, so we have added frontline staffs in sales and collections and underwriting thing; we have added around 30 branches last year out of which around 15 branches were in last quarter so anyway normal branches and we have added some more employees in collection side because we think that there we can do a significant improvement still in our collection strength; same way on the underwriting side field staff we have increased around by 50 to 80 people so all put together and this capacity enhancement we have done from this year perspective so this year apart from new branches which we will open we will not require any further manpower addition; hope I have answered.

**Utsav Gogirwar**: Sure sir and how do it effect the Opex to AUM.

**Sushil Agarwal:** We have continuous guidance that every year we can improve our Opex to AUM by 30 to 35 bps; last year also despite that difficult situation we have improved it by 37 bps; prior to that we have improved it by around 60 bps; so going forward also next two to three years we can improve our Opex to AUM by 25 to 30 bps depending on the environment.

**Utsav Gogirwar**: And sir just last question what is the one plus DPD for Maharashtra.

**Sushil Agarwal:** 10.3%.

**Utsav Gogirwar**: Sure perfect thank you sir.

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

**Piran Engineer**: Congrats on the quarter and hope you all are doing safe. I have a few questions; first thing was the clarification on some one else's question on why yields fell sharply now by my calculation yields are down about 100 odd bps from third quarter to fourth quarter. So was there some interest reversal impact as you have to refund interest on interest or something like that whether one off because we have reduced lending rates by only 10 bps and our share of salaried customers is stable QoQ so why exactly have our yields dropped so much.

**Ghanshyam Rawat:** If you see let me first clarify how we disclose our yield and cost of borrowing on a month or quarter after quarter; what yield you see in our presentation it is a month quarter end sum product of my all the loan contracts outstanding. So I mean it on the first day of April at 13.16% I am earning interest on that assets. If you see in last quarter we have seen around 20 bps reduction in my yield, Sushilji has already explained 10 bps got reduced because of we had reduced the PLR in the beginning that was seen. Similarly cost of borrowing we declared in the similar session; what is my contractual rate on my all the borrowing liability on the quarter end, means on the first day of the quarter what rate I will pay to the banks & institutions that rate, so this year we maintaining continuously our disclosure in the same fashion every way; you might be more talking your own computed yield which you are computing, it maybe impact as we have mentioned in our earlier call that what we do assignment earlier got a reversal in the coming quarter so certain impact is there on that account; this time we reduce our 10 bps beginning of the quarter though which has a full quarter impact on the overall interest income; apart from that on a prudent basis we have done accounting by not accounting interest income on the stage 3 assets from this quarter. So this means whatever income we have booked on account of stage 3 assets on NPA assets which got reversed in this quarter. So on a prudent and let us say conservative accounting policy which we adopted in this quarter which has a impact on topline of interest income.

**Piran Engineer**: So 13.16% is the starting rate for the year and then we cut it by 15 bps so assuming no further changes to interest rate we will earn 13%.

**Ghanshyam Rawat:** Yes it will have a reduction on the floating rate basis; fixed rate will not reduce but overall it will have an impact of 10 bps in the beginning.

**Piran Engineer**: Sir my next question is on your borrowing, now you mentioned that we borrowed I think 700 odd Crores at 6.3%, who are the people who are giving us such attractive rates and even our assignment of loans when someone buy 160 Crores of loan at 15.5% I am guessing these are LAP loan why are we buying it so cheap at 7% would not banks want to negotiate with you and take your best performing loans which are at 10%, 11% rather than these risky loans because in the end the banks will bear the risk in a direct assignment so I am trying to understand why someone would buy these expenses loans and even though 10%, 11% loans will qualify for PSL so.

**Ghanshyam Rawat:** I think first let me clarify this thing, does not mean interest rate is 1-2% higher than the pear group it does not mean that portfolio quality is weak I think this is the myth in the market which I think Aavas has proved in last ten year of performance so I think we differ on that interpretation of AUM book we are purely retail mortgage backed book we built either in the home loan as we as in the LAP/MSME book, the MSME/LAP book is also secured by retail residential mortgage property with the LTV of around 50%. So that is also a very good property, we charge extra rate because we believe in the risk adjusted pricing matrix, we don't believe in one homogeneous product, we believe in the sector and geography specific rates we design in our system, accordingly we built slightly better margins on the asset side. Secondly on the very competitive rate we borrow at I think that is the strength of Aavas and treasury team, we go speak and present company's case very well in the market, we have tied up with lot of DFIs like IFC, CDC, ADB from that we get a lot of funding from them, we become first in the queue with the NHB for any sort of special program that the government approved and NHB start to disburse so we also take a lot of funding from them, then banks we take a very good funding we generally pay MCLR plus 25-30 bps of spread on the MCLR so we able to negotiate & mix basket, we are able to raise good funds from the banks & institutions. And against the averaging it depends on your past track record and the history which you create, we are not doing assignment from last one and two years now we have a history of last eight years with more than 50 pools of assignment transactions done, so we have a credit history with that financial institution which continuously work with us and depending on the performance of our pool, because say every pricing is done basis on risk criteria past track record and I think accordingly financial institution take the right judgement of pricing any specific portfolio. So I think you will give us that credit that based on last eight years past track record we have created that good credit history with the financial institution on the basis of which they behave and give very competitive pricing for our loans.

**Piran Engineer**: Yes, sir there is no doubt about that but in this quarter is 6.3% rate we got it from DFIs like IFC and all or from domestic institutions.

**Ghanshyam Rawat:** There is a huge list of borrowing which we had done, I think it is not appropriate to disclose name and the lender institution, there are a huge list of borrowing, we have today relationship with almost 32 lenders with us.

**Piran Engineer**: Sir after a long time we have opened branches in Rajasthan I think 7 or 8 branches so what is the purpose have we expanded into new locations which were earlier untapped or have we just split one large branch into two because the demand was so strong.

**Sushil Agarwal:** We have a very consistent practice of branch opening, it has two parts one is contiguous growth areas in market where we work then we have cover 50 kilometers then we create portfolio of next two three years when we get the confidence we are further move ahead in direction so Rajasthan branches are part of the strategy of our contiguous growth and second is we do on the analytics based and wherever the low penetration of housing so whenever we open the branch every year we do take a summary of these two approaches and accordingly we open the branches; but this practice is consistent so every five years we open 3-4 new states we go to new geography also and existing geography contiguous distribution approach basis we open the branches. So now we have ten years and we have almost 9-10 states penetration so next five years we will open another four new states where we will have branches and as per our metric 30 to 40 branches every year so out of which around 40-50% branches will be in new states and 60% branches will be in existing states on a contiguous distribution basis.

**Piran Engineer**: That was helpful sir just one last question, I am just curious to know why are we not rated by CRISIL.

**Ghanshyam Rawat:** It is I think not anything of answer why we are not rated, I think we already have the two rating agencies with us CARE & ICRA and both I think work a lot towards affordable housing piece and so I think there is a quite good amount of experience; we have the India Rating also they also do rating for us short-term paper since last year.

**Piran Engineer**: That is helpful thank you sir and all the best.

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

**Bhavesh Kanani**: My question again pertains to the interest income I do realize that we have tried to answer that partly, but when I look at loan outstanding we see a increase of 7% sequentially whereas interest income has gone down by about 10, 11 Crores and if we were to keep the yields calculated or computed yields stable the income would have ideally been around 262 Crores interest income so versus broad expectations the income is down by about 15, 16 Crores can you help us understand one you have mentioned the reason but if you can also quantify let us say in this income reversal impact in terms of numbers rate cut and the other components if you may. Second question was on our assignment derecognize assets when we look at the income derived from assignment activities in context of loans assigned the implied margin that we get has been pretty volatile if I look at last eight quarters so I would request your help in understanding that and in the last quarter you had mentioned something to the effect that even for the past assignment deals when MCLR comes down or the discount rate is lowered you derive benefit or income out of that does that mean going forward when the rate cycle reverses we will see a negative impact on the past assignment yield these are my questions sir.

**Ghanshyam Rawat:** I will take one by one questions first is the interest income second one is the assignment third one is I think we need more clarity from your side. But let me first answer the two questions. I think we already addressed this first question let me further clarify if you want with few more data point of the first question as I mentioned as Sushilji has also mentioned in this quarter first day itself we have reduced our PLR by 10 bps; if we see last quarter to this quarter overall yield has reduced by 20 bps and last quarter it got reduced by 10 bps; so this slightly more reduction of the yield keeping in the view of market trend and as well as the cost of borrowing is showing a better reduction in that portfolio so that similar results came in the yield side also; this has impact of around Rs.3 Crores overall basis as I mentioned one more thing now we do assignments, then assignment get increased then these assignment get restated in every quarter so this quarter if we compare with the last quarter there is around Rs.4 Crores impact at a topline because if we see consistently whatever we do new assignment we show as a separate line item in our result published that this is on account of new assignment transaction; the old assignment transaction that get restated every quarter it got shown in the topline basically because interest income also comes there as well as whatever we book upfronting profit that get updated in the first line itself basically that is the simple accounting practice which we have I think disclosed and maintained continuously. Third important thing we have mentioned income reversal I mentioned that because of the conservative and let us say prudent accounting system as we stop to recognize interest income on the NPA asset on the stage 3 assets which we keep on doing before Ind-AS accounting systems so we have gone back to our old accepted prudent accounting system basically so on that account it got reduced in this quarter around Rs.10 Crores so if we put together all three four items roughly our impact is in the range of Rs.16, Rs.17 Crores. Second question you have mentioned the assignment piece different volatile it depend upon that say what pool has been sold in which month basically like if we sold a pool of LAP category of our pool where yield is around 15% upward pool get sold around 7.5% and 7.75% so it was a higher interest spread is there it gives the higher profit in that quarter, in some quarter if a pure home loan pool get sold to the bank then it's yield is less so that pool sometime interest spread is roughly between 3% to 4% here my spread is between 6.5% to 7.5% that show actual profit would be different actual profit may also differ on account of volume also what volume we have sold in that quarter so we maintain every quarter we show how much quantity we have sold in that category. So roughly we are maintaining around Rs.600 Crores pool sold every year in last three years similar maybe 50 Crores will be here and there but generally trend is like that you can see Rs.538 Crores in FY18, then FY19 680 Crores, FY20 664 Crores and this year we sold Rs.550 Crores.

**Bhavesh Kanani**: Just one further clarification we have been prudent on almost all front whether it is underwriting, provisioning and what not; why is not also recognize the derecognition asset related income also on amortized basis because as an outsider that it is extremely difficult to get a hang on quarterly numbers given the variance they show; in Q3 we saw 40 Crores in Q1 it was 0 so it becomes little difficult.

**Ghanshyam Rawat:** I agree with you I strongly believe in this thing the income of when do assignment transaction we should not book income; RBI brought a guideline in 2012 we everybody fall in the same guideline; when then HFC and NBFC moved to Ind-AS accounting, Ind-AS accounting says that you have to book this income as upfront basis because this is a true sale transaction; pool has gone out, risk has gone out so you have to book upfront profit; there is always a challenge, so somebody adopt discounting at G-Sec rate somebody adopt discounting at cost of borrowing somebody adopted conservatively the pool yield basically where we are discounting with the pool yield basically and I personally represented this matter to I think RBI in sometime long back in one of the forum; recently I think again somebody has raised this issue to RBI you give the direction not to book upfronting profit.

**Sushil Agarwal**: But Bhavesh you will appreciate that as an organization we publish both and we give the bridge also of both the numbers where it is not upfronting and where it is upfronting quarter-on-quarter or year-on-year we are giving both the numbers IGAAP number where we do not recognize so networth also and income also and PAT also we do everything.

**Bhavesh Kanani**: That is correct sir, that is helpful sir, thanks a lot.

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

**Bharat Shah**: Sushilji I had exactly the same questions to ask what Bhavesh just now ask, but just to add point to that assignment income, if there is an impact of the past assignments on the current period I think it can be shown as a line item separately in each quarter and secondly as is correctly discussed taking assignment income as an upfrontful income is a bit of an incorrect thing to do so irrespective of anything why can't we show what is the profit belonging to the current quarter and what are the future profits booked is the disclosure so that these two line items stated on a quarter-by-quarter will give a true indication of the real profit.

**Sushil Agarwal:** Yes, we agree with your point first of all we agree that accounting should be done on conservative basis that is where at Aavas we publish both IGAAP and Ind-AS numbers. In IGAAP anyway you know it is not upfronting and we give the bridge of both the accounts every quarter slide #31 whatever you are asking we exactly do the same we give line by line difference; IGAAP what is the profit this quarter, because of assignment how much profit positive or negative impact, maybe if you can see and if you have further solution we are ready to incorporate that.

**Bharat Shah**: Thank you Sushilji I am going through the presentation...

**Sushil Agarwal:** Slide #31 PAT reconciliation there we give exactly what you have asked for, so every quarter since listing we are giving this number.

**Bharat Shah**: Thank you, this time I missed going to the presentation.

**Sushil Agarwal:** Sir as a management we are always ready to improve our disclosures so if you have any suggestion we are ready to take it.

**Bharat Shah**: No, I think this is about all exactly those two questions I think whenever there is unusual movement like third quarter to fourth quarter we did disbursements growing sharply asset book growing nicely; and the drop in interest income was not easily understandable why it has happened so when there is an obvious something which is not easily comprehensible if a self-explanatory note is there that can just make things easier that is why people get to it.

**Sushil Agarwal:** So in our press release also we have given one statement there but on this call anyways we have explained line by line numbers difference; going forward if there is anything of this we will further improve in our investor presentation.

**Bharat Shah**: No, thank you so much Sushilji you always have been very transparent and these are the minor additional comments. Thank you.

**Moderator**: Thank you. The next question is from the line of Dipanjan Ghosh from Kotak. Please go ahead.

**Dipanjan Ghosh**: Just one question so first is I wanted to understand what will be the incremental contribution of the new states in the incremental disbursements or to the incremental book because the top four states still continue to remain high and my understanding is that probably at the tehsil level penetration that the number you show clearly in the top few states it remain a little low from here on so just trying to get a sense of how the newer states are contributing.

**Sushil Agarwal:** Yes, so Dipanjan what happens whenever we open a new branch in new state anyway we take conservative approach for the first 30 to 36 months because we need to understand cash flows, geographies, income patterns, delinquency patterns so in the new state and new branches we go very slow, but yes any branch which opened before two years or three years adds to our distribution strength right now we have 280 branches out of which around 100 branches are in new states and 180 branches are in old states so this last four years whatever 100 branches we have opened this will add to our disbursement numbers for next three to four years; same way in this next three four years we will open another 100 branches this will be figure for growth of us in next maybe 2023, 2024 onwards so same way we continue to build our distribution strength for future three to five years terms perspective.

**Dipanjan Ghosh**: Just one more question sir you mentioned that currently our capacity of delivering around 400 Crores of disbursement per month broadly so assuming you have to grow at 20% AUM run rate for the next few years and let us say repayment rates remain where they are, you probably be looking at around 5500 Crores of disbursements per year broad broad so the capacity you have is probably 10%-20% lower than what you will probably have to deliver by FY2023, 2024 so is it safe to assume that you have probably be adding around 10% to 20% more sales people over the next few years.

**Sushil Agarwal:** So Dipanjan I think I have not understood your calculations but for the thing which we say 20% to 25% growth is what we are looking for next three to five years term; for that on the business side we keep a bench strength of around 30% to 40% more, if competition will come, if adverse situation will come still we will be able to perform; if competition or adverse situation will be less we might over perform and at the same time higher capacity helps us picking and choosing keeping our underwriting intact and that helps us in maintaining our asset quality of portfolio.

**Dipanjan Ghosh**: I will get back and just a data keeping question can you please give your NPL numbers and one plus on self-employed and salary.

**Sushil Agarwal:** HL 1% non-housing 0.9% salaried 0.44% SENP 1.3%.

**Dipanjan Ghosh**: Sorry if you can just repeat.

**Sushil Agarwal:** Home loan 1%, non-home loan 0.9%, salaried 0.44%, self-employed 1.3%.

**Dipanjan Ghosh**: And can you also give the salaried self-employed number for the one plus DPD.

**Sushil Agarwal:** Right now we do not have that number but I think there will not be much of the difference on that side.

**Dipanjan Ghosh**: No problem thanks and all the best.

**Moderator**: Thank you. The next question is from the line of Manan Tijoriwala from ICICI Prudential. Please go ahead.

**Manan Tijoriwala**: I just have one question related to the Pradan Mantri Aavas Yojana Scheme specifically the CLSS scheme which has expired on March 31st 2021 and I understand the LIG scheme has a date for March 31, 2022 so wanted to understand how it affects your growth rate in the past and how it will affect in the future as well.

**Sushil Agarwal:** Manan I do not think so much of the impact on the side because as we told as per our management practice we do not fund any lending which is dependent on government subsidies or government incentive; we do assess each case on individual merit basis and accordingly we build but if the customer can get the benefit in the government guideline we help him getting that credit but our business sourcing and disbursement and our marketing is not dependent on government subsidies and incentives.

**Manan Tijoriwala**: Sure thank you.

**Moderator**: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

**Rahul Maheshwary**: Hope all well at your end sir. Sir just one question on, just two questions one looking at the peers how they in the sourcing pattern use the connector to tap the new geography or new state what is your process of entering into the new state; as you are already there in nine states so any process where you can say that what time period you give for any state or what is the benchmark which we are using because it varies from state to state so any parameter which you would be using and second question sir I know it is very difficult in such time to even for me to ask the outlook but if the situation remain steady state or status quo as of April no doubt you have tightened your lending in terms of higher rejection rate but keeping this as a steady state can we say that incrementally you can gain the market share because the situation will be becoming bad for the other players and incrementally it can be good where you have the capital appetite sir.

**Sushil Agarwal:** Yes, so Rahul when we enter into the new market first we have the analytics which gives us input about the geography population number of household income levels as of today what is the portfolio how it is behaving one plus 90 plus then we have local teams which we hire and as a prudent practice first we hire risk team then we hire business team; third principal which we adopt in new market we tell that first three years there is no business targets, we will do whatever is as per our DNA there is no pressure on the business team because it takes us two to three years to understand cash flow pattern income seasonality asset behavior judiciary behavior and once we get confidence then we expand in those market and improve our business numbers in those markets so we are practicing this from last nine and ten years and you can see the results last five years four states we have opened and the asset quality is much better and in line with our expectations so we will continue to practice the same behavior in the new states where we go.

**Rahul Maheshwary**: Sir just to follow-up on this sir in the current states where you are there leading apart the four states which have recently entered in last four years how much more capacity addition you can think is available for you means for a particular district just to give an example a particular district your on-field force might be equivalent to what HDFC or LIC Housing would be gaining the file or the sanction sir is there any further increment capacity addition you think is available or you are reach to where you thought of...

**Sushil Agarwal:** No, so Rahul we do not think that way. First of all housing locations where we are it does not mean that if they have reached to some scale that is the steady state or plateaued; we take a 15 year approach when we open the branch and we go by statistics and analytics data. So I will give you example like if a city has 4 lakhs population; mostly 85% of branches are there where housing loan penetration in the district tehsil is less than 5% and one day past due 90 day past due is very reasonable. So 4 lakh population divided by 4 you have 50000 households or family; so we take that in next ten years or 15 years we will try to touch base or incorporate 5% households; so from that perspective even for next 15 years that city's penetration level will not go beyond maybe 10% or 20%; so from that perspective we take a longer view for any branch we open and if I will give rough estimate even from the existing branches of first five years where we opened around which are 180 we can disburse around Rs.50000, Rs.60000 Crores in next ten years term from those branches.

**Rahul Maheshwary**: That is quite helpful and sir on the outlook on rejections what is the rejection rate that has increased looking at what it was in Jan and today in April if we keep such rejection rate definitely the quality of customer which is adding that the very high supreme quality after passing credit so but if it remain status quo still confident to maintain such run rate which is happening in April month keeping the condition of status quo of macro environment.

**Sushil Agarwal:** At Aavas we believe in consistent growth and we factor in competition market dynamics environment changes as a derail factors for that so we keep a little bit higher capacity level than what we need to deliver and in good times that capacity gives us more leverage to pick and choose but we do not want to have a higher growth we want to have a consistent growth in those market in the difficult time that helps us maintaining the consistent growth and taking the impact of competition and market environment so we will continue to follow that same practice and if the March 31st steady state factors we will see this year we are in a much better position to deliver 20% to 25% AUM growth on consistent basis.

**Rahul Maheshwary**: Thank you and best wishes sir. Aavas is known for consistency and we hope it stays.

**Moderator**: Thank you. The next question is from the line of Amit Sharma an individual investor. Please go ahead.

**Amit Sharma**: Let me congratulate you on the good results. I had one question regarding your underwriting and collection strategy. I mean one of the analysts pointed out that your write-offs was nil in the last quarter and overall also it was pretty low so what is the success ingredients towards this underwriting and collection I am sure you would be going into tier three four cities and there you would be funding on assessed income and gram panchayat properties and all that so how come that there has been no write-offs and your NPA is also historically have been very low just wanted to understand that.

**Sushil Agarwal:** Amit it is not the outcome of one or two things it is the outcome of overall approach and the choices which we have made in our business since over a period of last ten years starting from choosing the market where housing loan penetration is less than 5%, than 100% in house sourcing approach, then building the four pillars of underwriting, technical valuation, security creation, fraud risk, then creating a robust collection process around all the things, then not doing the risky assets so we do not do land loan we do not do loan more than Rs.1 Crores we do not builders financing, we do not do any under construction apartment so all those risky assets in the past we have not done if you see our individual loan customer is 99.8% our retail portfolio, we do not have any builder exposure average ticket size remains almost sub Rs.10 lakh and when we started our journey 70% customers were new to credit still 40% customers are new to credit and over a period of time with the use of technology and analytics has helped us understanding our segment better and we are incorporating learning like I have told you last one year was a good learning for us; we have assessed almost 25000 customers who have taken the moratorium we have checked the properties we have checked the assessment how we have done we have met the customers again analyze the cash flow patterns which customers have bounce back in one month which customer has the tendency to bounce back in three months which customer is taking six months time so all those things has further helping us standardizing our underwriting processes across branches. Earlier also the main risk for us was we were good at 50 can we be so good again at 100, when we were good at 100 can we replicate this model at 200, now we are at 300 now the same challenge is can we replicate this on 1000, but technology analytics now is helping us on that side so all these ingredients put together I think helps us. Second we have 85% properties which are individual houses and 95% of people to whom we have funded home loan is living in that house so all these things put together helps us creating this mix which gives us confidence of consistent performance on the growth side as well as asset quality side.

**Amit Sharma**: Thank you very much and all the best for the future.

**Moderator**: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to Mr. Sushil Agarwal for closing comments.

**Sushil Agarwal:** Thank you all for attending the call and patient listening of answers from our side. To summarize, while the times are very tough but at Aavas we draw comfort from the fact that 100% of our portfolio is secured against mortgages most of which is self-occupied residential property. Additionally, the portfolio is very granular in terms of customer profiles. We will continue our approach of consistent and sustainable growth by providing credit facility to unserved & underserved customers in semi urban and rural areas. We at Aavas hope and pray that everyone and their families are safe and keeping good health. I would like to thank all our stakeholders for their continued trust and support. Thank you so much for your time. For any further information we request you to get in touch with Himanshu in our investor relationship team or SGA our IR advisor. They will be happy to assist you.

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