Ref.No. AAVAS/SEC/2023-24/471

Date: August 10, 2023

To,	To,
The National Stock Exchange of India Limited **Exchange Plaza, C-1, Block G,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call for the Quarter ended June 30, 2023.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in reference to our letter dated July 17, 2023 bearing reference number **Ref. No. AAVAS/SEC/2023-24/408**, please find enclosed the transcript of the Earnings Conference Call on the Financial and Operational performance of the Company for the Quarter ended June 30, 2023 held on Friday, August 04, 2023.

The above information is also available on the website of the Company and can be accessed at https://www.aavas.in/investor-relations/investor-intimation.

We request you to take the same on your record.

Thanking You,

FOR AAVAS FINANCIERS LIMITED

SHARAD PATHAK Digitally signed by SHARAD PATHAK Date: 2023.08.10 15:01:26 +05'30'

SHARAD PATHAK
COMPANY SECRETARY AND COMPLIANCE OFFICER
(FCS-9587)

"Aavas Financiers Limited

Q1 FY '24 Earnings Conference Call"

August 04, 2023

MANAGEMENT: **MR. SACHINDER BHINDER** – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – AAVAS FINANCIERS LIMITED
MR. GHANSHYAM RAWAT – PRESIDENT AND CHIEF FINANCIAL OFFICER – AAVAS FINANCIERS LIMITED
MR. ASHUTOSH ATRE – PRESIDENT AND CHIEF RISK OFFICER – AAVAS FINANCIERS LIMITED
MR. SIDDHARTH SRIVASTAVA – CHIEF BUSINESS OFFICER – AAVAS FINANCIERS LIMITED
MR. SURENDRA SIHAG – CHIEF COLLECTION OFFICER – AAVAS FINANCIERS LIMITED
MR. RIPUDAMAN BANDRAL – CHIEF CREDIT OFFICER – AAVAS FINANCIERS LIMITED
MS. JIJY OOMMEN – CHIEF TECHNOLOGY OFFICER – AAVAS FINANCIERS LIMITED
MR. ANSHUL BHARGAVA – CHIEF PEOPLE OFFICER – AAVAS FINANCIERS LIMITED
MR. RAJARAM BALASUBRAMANIAM – CHIEF STRATEGY OFFICER AND HEAD OF ANALYTICS – AAVAS FINANCIERS LIMITED
MR. GHANSHYAM GUPTA – INVESTOR RELATIONS– AAVAS FINANCIERS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Aavas Financiers Limited Q1 FY '24 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 of 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sachinder Bhinder, Managing Director and CEO of Aavas Financiers Limited. Thank you, and over to you, sir.

Sachinder Bhinder: Thanks. Good afternoon, ladies and gentlemen. Thank you for participating in the earnings call to discuss the performance of our company for Q1 FY '24. The results and the presentation are available on the stock exchanges, as well as on our company website, and I hope everyone has had a chance to look at it.

With me, I have Ghanshyam Rawat, President and CFO; Ashutosh Atre, President and CRO; Siddharth Srivastava, Chief Business Officer; Surendra Sihag, Chief Collection Officer; Ripudaman Bandral, Chief Credit Officer; Jijy Oommen, Chief Technology Officer; Anshul Bhargava, Chief People Officer; Rajaram Balasubramaniam, Chief Strategy Officer and Head of Analytics; Ghanshyam Gupta, Investor Relations and SGA, our IR Advisors.

In Q1 FY '24, we registered AUM growth of 23.2% at INR 146,500 million and a PAT growth of 23% at INR 1,097.1 million. We disbursed INR 10,682 million in the quarter. A quick update on the technology transformation project. We went with a PAN-India SFDC (LOS) rollout in April '23. It took some time for the system to stabilize and people to adapt to the new technology, which led to an overall softer disbursements in Quarter 1 FY '24. However, the system was fully stable by May and exited hyper care in June.

In fact, in June '23, month-on-month disbursement saw a growth of about 17% further emphasizing the strong macro tailwinds driving the demand in our customer segment. In Q1 FY '24, the new LOS system handled 33,000 files seamlessly. We continue to be excited to see how this will help us unlock productivity while delivering customer delight through quicker decisioning and disbursement. We are ready for the next step of our technology transformation with LMS and ERP systems, which will go live by Q4 of this financial year. We continue to invest for the medium and long term in both people and technology.

The operating expenses for this period were slightly elevated as we had incremental headcount increase and ESOP costs in the period in addition to the tech costs.

I would now hand over the line to Ghanshyam Rawat, President and CFO, to discuss the financials in detail. Over to you.

Ghanshyam Rawat: Thank you, Sachinder. Good afternoon everyone, and a warm welcome to our Earnings call. While we continue to borrow judiciously, we raised around INR 13,846 million at 8.01% during the Q1 FY '24. As of 30 June 2023 an average cost of borrowing on total borrowing is 7.66% against an average portfolio yield of 13.26%, resulted in a spread of 5.60%. As of 30 June 2023 total number of live accounts stood at 192,446 translating into 21% year-on-year growth. Total number of branches was 348 with 2 new branches being added in last 3 months. Employee count was at 5,700. Assets under management grew by 23.2% year-on-year to INR 146,500 million as on 30th June 2023.

Product-wise breakup: Home loan 69.8%. Other mortgage loan 30.2%. Occupation-wise breakup: Salaried 40.2%, Self-employed 59.8%. IGAAP to IndAS reconciliation has been explained in detail for profit after tax and the networth on Slide #31 and #33 of the presentation.

On the borrowing side, there is access to diversified and cost-effective long-term financing, very strong relationship with the development financial institutions. Total outstanding borrowing as on 30th June 2023 stood at INR 133,816 million. Overall borrowing mix of 30th June 2023 is 46.6% from the term loans, 20.9% from assignment and securitization, 21.3% NHB refinancing, and 11.2% from debt capital market.

Lender support continues to remain extremely strong as Aavas evolution continues. Liquidity of INR 31,827 million as on 30 June 2023. Cash and cash equivalent of INR 20,227 million, Un-availed CC limit of INR 1,100 million, Documented un-availed sanctions from National Housing Bank and other banks is INR 10,500 million.

On Profitability side: PAT increased by 23% year-on-year to INR 1,097.1 million for Q1 FY '24. ROA was 3.16% and ROE was 13.8% for Q1 FY '24. As on 30 June 2023, we are well capitalized with a net worth of INR 33,887 million and capital adequacy ratio at 47.32%. Our book value per share stood at INR 428.5. Now I would like to hand over the line to Ashutosh, the President and CRO, to discuss the asset's quality numbers.

Ashutosh Atre: Thank you, Ghanshyam ji. The key portfolio risk parameters: Asset quality and provisioning. One day past dues stood at 3.68% in Q1 FY '24 as against 4.67% at Q1 FY '23. Gross Stage 3 stood at 1.00%, and Net Stage 3 stood at 0.73% as on 30th June 2023. Gross Stage 3 of 1.00% includes 0.13% of up to 90 DPD assets, which have been categorized as GNPA following RBI's notification dated 12th November 2021. During FY '22, a resolution plan was implemented for certain borrower accounts as per RBI resolution framework 2.0 dated 5th May 2021.

Basis, the perceived risk and as a matter of prudence, some such accounts with an outstanding amount of INR 843.8 million, as on 30th June 2023, have been classified as Stage 2 and provided for as per the regulatory guidelines. Out of INR 843.8 million, INR 639.9 million is within 0 to 30 DPD bucket. Total ECL provisioning, including that for COVID-19 impact as well as resolution framework 2.0, stood at INR 765.6 million as of 30th June 2023. Aavas is well placed to continue its industry-leading asset quality.

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

Moderator: The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, just 2 questions, more from a clarification perspective, though, you highlighted that during the quarter, Aavas went for a PAN-India sales force rollout, which led to softer disbursements in the first quarter. And you also highlighted that the system got stabilized somewhere around May. So sir, I just wanted to understand while this would have impacted disbursements, your sanctions should have been in line with your expectations.

So if you could just share the sanction pipeline, what was the growth in the sanctions. And given that, if sanctions were good and we could not just disburse, can we expect some of that in terms of pent-up demand or pent-up sanctions, which were there to lead to a higher disbursement run rate in the quarters to come? And also, while things normalized from June onwards, can you share the disbursement run rate in June and July?

Sachinder Bhinder: Yes. So Abhijit, as I highlighted, we had a muted April because of the PAN-India rollout of our SFDC and we got the stabilization happening in the month of May. As we exited May and we had June, so June saw about around 17% to 18% growth over that.

And as you rightly elucidated, there are sanctions which will really come across and help us in the quarter to actually come across. So you've rightly articulated, and that's what we saw happening as the system has moved out of its stabilization phase and the hypercare, and now it's fully stabilized.

And I think it was a big transformation project for us. And we took a call of getting across on a PAN-India basis, both from a perspective of people adaptation and technology stabilization. So these were the 2 things which were the major ones which were there. But as a team, we were able to bounce back in the month of May, stabilize, and from June, we have been on track.

Abhijit Tibrewal: So the last question that I had here is, if you could share the breakup of your NHB borrowings, what was the regular refinance, and what was for affordable housing finance? And sir, in your presentation, every quarter, we share incremental borrowings. This quarter it was about INR 1,350 crores, which came at about 8%. Can you also share what was the incremental cost of borrowings ex-NHB so that we can try to understand how is the margin trajectory going to look like? Because, sir, from what we understand, large part of repo-rate increases or PLR increases are already reflecting in the book of housing financials. So from here, how should yields pan out? How should cost of borrowings move? And obviously, the impact of the trajectory that we had will have on the margins.

Ghanshyam Rawat: Yes. Abhijit, your question has 2 parts. I think, let me cover the first part. NHB during this quarter, out of total borrowing, we borrowed almost 20% from NHB in this quarter. And other than NHB also, we have a few good products from the banks, institutions, from other private lenders, where we're able to borrow less than MCLRs from them. So our overall cost of borrowing for this quarter is 8%. NHB component of our overall borrowing you may see, we have it roughly 20% to 22% in overall of our borrowing mix.

So this year also, we got fresh sanctions, which is almost out of my total borrowing program. We have got a new sanction also, which is around 20% of total borrowing program. So whatever mix we have, NHB borrowing and other borrowing, it will remain similar in this year. And we hopefully remain in the same range in coming year also because we do a lot of lending, which is very important for NHB and Government of India and financial inclusion. Rural semi-urban area, low ticket, new-to-credit, those are our prime segments. So that it helps us overall in the cost of borrowing side.

And overall, I think in this quarter, we have increased PLR by 40 basis points . On Cost of borrowing side, I think we see a lot of stabilization through RBI. And I think repo rate in last 2 cycle, RBI has given a pause. So I think it has more or less remained same. Some impact definitely will be there on the old borrowings, but we are in the range where we can able to maintain our healthy margins in the coming quarters.

Abhijit Tibrewal: Just one clarification. NHB Borrowings are still coming at the lending rates of about 5.5%.

Ghanshyam Rawat: I think Abhijit, these are too granular questions. I think I mentioned that 20% NHB borrowings' share will be maintained in the coming quarters which will help us to maintain our cost of borrowing.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: So firstly, on the disbursement run rate, if you can mention what is the Y-o-Y growth for the month of June, July. That will give us confidence that now we have normalized, and this is the disbursement run rate that we would expect for the full year. On a Y-o-Y basis, what was the disbursement growth in the month of June and July, if you can share that?

Sachinder Bhinder: Thanks, Nidhesh. As I highlighted that we went through a big transformation project and 8 branches in the month of March to PAN India 348 (350 plus) kind of branches. And as I said, May was a stabilization period, June was a time when we had a 17% of growth, and in July also, we continued with the same kind of growth. We see that in the month of August and September, we will have a gradual movement, which would be on the upside. So we are very confident as a team that after the system stabilization and after the availability of this state-of-the-art technology, we'll be able to deliver with respect to what we've been guided to the market as always, actually.

Nidhesh: So we should expect 20% to 25% AUM growth for the company?

Sachinder Bhinder: Yes, yes, 100% for sure Nidhesh, that's been our guidance throughout. So we continue to be confident on that. And we are confident that we'll be there in that range of 20% to 25% this year AUM growth.

Nidhesh: And secondly, there has been a lot of noise about employee attrition after the management change. If you can share some statistics, how the employee attrition run rate is going through specifically in Q1 and how the trends are on employee attrition. Last year, data, we already had in annual report, but if you can share how the trends are in Q1 that would be useful?

Sachinder Bhinder: Yes. Thanks. From a perspective of the senior management or if you ask about CXO, CXO or minus 1/ 2 level, I think there is none. Most of the attrition, which you see is the front line, which is a normal industry norms, and it is in line with what the industry goes through. And our attempt has always been to build careers for people and to invest in people as a part.

And we say as a part of our journey, it is around people and technology. And in that, what we've done is for the middle and for the senior management to go across and tied-up with IIM Ahmedabad, to have the leadership programs, which are on the real life kind of scenarios of the companies which we face and really upgrade them and reskill them.

And our entire focus has been there on the people side. So that's what it is. So it's been a normal -- nothing which is bothering or anything which is off the one, which I would want to really highlight. It's the frontline sales, which is always a normal course.

Nidhesh: And lastly, what is the BT out number for the quarter i.e. absolute balance out of the loan book in this quarter that we have seen.

Ghanshyam Rawat: It's in the range, which we have seen in the last few years also, 1.4% of opening AUM (for the quarter). Our guidance is there for roughly around 0.5% every month.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: Sir, the question was on Opex. So given that maybe with respect to the Salesforce implementation plus technology upgradation, how do we see overall Opex to assets at this time, we had a higher employee cost, but what would be the broad outlook out there? And any components within the Employee cost, which were exceptional and which could see the moderation in the coming quarters?

Sachinder Bhinder: Thanks, Kunal, I'll have GSR answer in detail on the breakup of Opex, and it's our endeavor to really work across what is operationally right and get operational efficiency.

Ghanshyam Rawat: Thanks, Kunal. It's 2 questions. One is manpower cost, other is overall Opex trajectory versus AUM. If you see manpower cost, Q4 FY23 versus Q1 FY24, sequential quarter, we have roughly 8% to 9% annual increment cost in this quarter. There is a onetime cost in this quarter, roughly INR 1.25 crores of one of the KMP retirement benefit, etc., which is a onetime cost in this quarter.

And one important item, when you compare with the last year quarter 4 to current year quarter 1, certain ESOP schemes got matured where unvested some quantum was there, that quantum got reversed in the last quarter, which was given as a reversal of INR 10 crores versus in this quarter, we have a normal cost of INR 5 crores to INR 6 crores, as the ESOP cost, basically.

If you eliminate and compare this thing, you will find quarter 4 to quarter 1, we are roughly at the 8% to 10% incremental in manpower cost apple-to-apple. I hope that clarify your question. And overall opex cost trajectory, yes, you know that we are doing tech transformations and all these things are there.

But generally, in Quarter 1, our opex-to-AUM ratio remains a little bit elevated because first quarter growth in AUM is lower than what we see in overall growth in full year basis. So as we move ahead, we are confident at the year-end, whatever we have given a commentary on the annual/ year-end, we will be in the range of what you have seen, say 3.68% was last year, closing. We will be a few basis points (say5 to 10 basis points) here and there.

Kunal Shah: But the delta would must be 10 odd basis points, largely.

Ghanshyam Rawat: Roughly largely looks like so.

Kunal Shah: So it will get upwards of 3.5%.

Ghanshyam Rawat: No, no, we closed last year at 3.68%. This quarter, we closed at 3.79%. So as I mentioned, we will be 5-10 basis points here and there. So roughly, you can take this around 3.68%.

Kunal Shah: And one thing in terms of current quarter's employee cost only INR 1.25 crores related to retirement that is a one-off otherwise, balance would be more kind of a normal cost of increments on that, yes.

Ghanshyam Rawat: Yes. Normal incremental cost, , if you see the percentage increase to the one year ESOP reversal last year and this year’s normal ESOP cost so then if you eliminate that piece, you will find that there is a normal increase in the manpower cost of around 8% to 10% quarter-on-quarter.

Kunal Shah: How much for the ESOP?

Sachinder Bhinder: The ESOP cost, Kunal, is about INR 12 crores, which as highlighted by Ghanshyam ji when we say INR 12 crores increases because we had minus INR 5 crores in Quarter 4, which had a reversal and INR 7 crores in the current quarter. So that total tantamounts to INR 12 crores.

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

Shweta Daptardar: I just have one question. Of late, our product mix has been tilting more towards other mortgage loans. So is this by design or demand? And how does the mix look like going forward?

Ghanshyam Rawat: I think, yes, definitely, we want to maintain roughly 35-odd percent in Non-home loan. And we've managed everything well in last couple of years.

We have designed more MSME products, which are giving us an extra value creation in the overall shareholder value because we have been able to tie up long-term low-cost funds for MSME lending.

So that is helping us to deliver an overall spread and NIM. We want to remain in the similar bucket, somewhere 65% plus home loan, around 30% to 35% non-home loan. But under non-home loan, we want to have 50% plus as MSME and the remaining maybe depending upon life cycle need of our existing or new customer, basically.

Ghanshyam Rawat: But if you see in this quarter, Q1 FY24, compared with the Q1 of last year, the home loan component has seen an increase in this quarter,which is almost 6% better if you compare with the last year Quarter 1.

Shweta Daptardar: And just a follow-up question there on,– because you mentioned about SME and other products. So could you provide more color because the players and others have been calling on certain concerns on the small ticket lending. So could you provide color on your portfolio in the SME and small retail that is extended?

Ghanshyam Rawat: Mam, I think, very important question. All these MSME loans are fully backed by residential mortgage security, 95% plus my customers are living at that house, they mortgage that house to us. My normal LTV comes under the asset around 45% to 50%, it is giving us a yield around somewhere 15% plus given the business &,cost of borrowing for this fundis around 8.5%. So it's a good product and now we are -almost in the fifth year of business operation for this product. So we have run almost 1 cycle of credit quality also, and we didn't saw NPA more than 1% in that book also.

Sachinder Bhinder: And Shweta, just to add on to what Rawat ji said, another thing is that we've always followed the cash flow based underwriting practice, and that is how actually it helps us to maintain that NPA.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha.

Pallavi Deshpande: Just on the long-term borrowing for the MSME, which you mentioned earlier I'm just saying what's the rate we are getting it, and what's the source of funding since you said it's coming in other subsidized rate maybe?

Ghanshyam Rawat: Pallavi could you please repeat your question?

Pallavi Deshpande: You mentioned about MSME, the funding that you're getting this at an attractive rate and for a long tenure. So if you could just share with us what's the tenure and what's the rate you're getting at that? Just this is to understand from an industry perspective, nothing to do with Aavas, but just wanted to -- because we're seeing a lot of boom in the MSME space. So I just want to understand who is funding it actually since you said it's at attractive rates?

Ghanshyam Rawat: You will appreciate to take a lender name is difficult, but I can give the sector-wise lending. These are secured borrowing. And at Aavas we have demonstrated in the last 10 years, the credit consciousness and the quality of our portfolio. If you see in last 10 years, the total write-off is INR 25 crores against our total lending of INR 23,000 crores in last 10 years. So market recognized that thing.

And accordingly, we get the best price when we borrow from the market. PSU banks, private banks, all are the lenders in that market. And on multi-lateral also they are showing interest to lend MSME. So roughly, we get around 8 to 10 years long-term borrowing from these lenders, roughly pricing comes between 8% to 8.5%.

Moderator: The next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: Just one question from my side. If you could help us with the absolute amount standing in each of these 4 states, which are Rajasthan, Maharashtra, Madhya Pradesh, and Gujarat that will be very helpful.

Ghanshyam Rawat: Raghav at the overall basis you know Rajasthan, when we commenced the business initially Rajasthan used to be around 80% stake, but we consciously diversified our business from Rajasthan to MP, Gujarat, Maharashtra, Chhattisgarh, Uttrakhand, Haryana, Delhi NCR, Karnataka and UP. So now Rajasthan's contribution is in the range of 30% to 35%. And Maharashtra, MP and Gujarat equally around 15% to 16%.

Moderator: The next question is from the line of Mayank Agarwal from InCred Capital.

Mayank Agarwal: Thanks for the opportunity and congrats on the successful tech implementation. So my first question is on the benefit of tech implementation. How it would reduce our TAT. So our TAT was earlier about ~10 to 11, so we would benefit on that. And second, in terms of efficiency, how much increased efficiency could be visible because of this tech implementation?

Sachinder Bhinder: So we'll have Jijy Oommen, our Chief Technology Officer, to answer on this.

Jijy Oommen: Hi Mayank, Good afternoon! To your question, so we have actually just gone live in the last quarter with the new technology platform. And our main objective of bringing in the new technology platform is threefold: one, of course, to bring in better efficiency and productivity in the entire process. Second, how do we make our systems and processes more stable and scalable? And then the third is bringing in the right customer experience.

So of course, we are in the first quarter post stabilization and we have enabled the mechanisms to track every single process and timestamp it so that we are able to track how the processes are or how the file is moving across different processes. We brought the entire organization to a common platform that will also help everybody seamlessly, right from the onboarding of customers going all the way up to the disbursal. So we have now that ecosystem in place.

Of course, scalability is something that is already done. And at the same time, on the efficiency and coordination perspective, now the tech ecosystem is in place. And of course, by quarter-by-quarter, we will track. We'll keep improving the different processes. Of course, it will take us some time to reach the final destination, but it's definitely going to be a journey, and that journey has already begun.

On the other side, on the customer experience side, we have really started observing that the way in which we are able to get the customer application underwritten and disbursed has become much more seamless. We have enforced something called FTR. So when a file is brought into the system to start the process, we ensure that all the required checkpoints are put in place so that we do not need to go back and forth to the customer to collect documents and ask more questions.

So the on-ground feedback from our team has been very, very positive. Our team is quite confident that they will be able to bring in better efficiency and customer experience going forward. Of course, as I said the journey has just begun. We will keep tracking the progress on a month-to-month, quarter-by-quarter basis to make sure that over a period of time, we will reach a substantial amount of agility, speed, performance, and customer experience. I hope this answers your question.

Siddharth Srivastava: Yes. I'd like to add one point here on the stabilization and adaptation. Best part is, in the opening remarks, Sachinder said we processed 33,000 files in a new platform, and we have started seeing some green shoots in the TAT and which we have seen and we have started experiencing because of which we were able to recover very fast.

So 2 things are very important. The scalability of platform is there because the platform is raised away from hypercare stage within 30 to 45 days. This is one big thing. And second thing is that the team is able to adapt to that system. I think these 2 things are very important for us to -- in terms of Q1, we see 2 things we take care of very much. And we have started seeing some green shoots, and I'm sure this journey has just started as Jijy said and we are looking forward to a big benefit coming out of this digital transformation.

Mayank Agarwal: My second question is on the new branches, which we have established in the newer geography in the past 2/ 2.5 years after COVID. I guess these branches would have done their learning curve as of now and would have started contributing to the disbursement. How is your experience in the incremental disbursement, incremental AUM from these new geographies and the new branches established?

Siddharth Srivastava: In last two years, if you look at, we have gone big time in Karnataka. We have invested a good amount of things, we have spent some investment in Orissa, and we have opened some branches in U.P. also. So we are seeing decent growth happening in Orissa and in Karnataka. What we look at Karnataka is very similar to Gujarat in terms of population, in terms of how many districts are there.

And if you look at Karnataka, we didn't go very strongly only in Bangalore. So out of 23 branches total we have in Karnataka, only 4 branches are in Bangalore. And the remaining 19 branches we have opened in the rest of Karnataka. And this is where our strength lies.

And we have seen about in the range of 50% to 60% growth in Karnataka and newer markets, , & ranges of around 30% to 35% in U.P., Uttrakhand also. -, but still we consider them as a very nascent market. And we have a huge amount of headroom and runway to grow in this market, and we will keep investing and exploring newer opportunities.

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

Abhijit Tibrewal: So just thinking aloud on this forum. Now that you have done this or rather rolled out this tech transformation to all your branches, PAN India. Just wanted to understand, now there are 2 levers to an improvement in throughput, better distribution, and higher productivity from more branches. And then the second thing is, this new tech platform. this technology transformation that you have undergone. So I don't need concrete numbers here, but intuitively, if you think about it, how can disbursement momentum improve? (a) through better distribution productivity and (b) through this tech transformation that we have done? Just help us think through that?

Ghanshyam Rawat: Yes, Abhijit, I think your question is around the same thing, which we are internally discussing at a senior management level and the Zonal Head level. So after doing the Salesforce implementation and then followed by Oracle FLEXCUBE as well as ERP systems. Yes, we are looking at how we can enhance our distribution network without expanding our branch network.

It's too early to say, but in coming quarters, coming years, we are expanding other ways to originate our leads and our business basically. Because in this process, we have also made new SOC implementation also, which can pass thousands of APIs on real time on various sourcing channels including digital sourcing. I think you know sometime back we mentioned that we almost reached at 10% business which is non-conventional business. But in old systems, we got stuck to increase beyond 10% basically.

Now we think after this implementation, our tech team, our underwriting team, risk team, business team feel confident that now we can increase this 10% contribution, which is a non-conventional method of sourcing the business. We can increase that channel also in coming years.

Yes, efficiency side also, it will help us like Sachinder Ji mentioned, all risk underwriting system, valuation risk, technical risk, legal team, everybody has the same platform on real-time basis. They can talk to customers on real-time basis, they can talk to relationship managers about the case, or if any further input is required.

So efficiency-wise, we look forward. It will substantially increase our efficiency, which used to take, let's say, 13 days, 14 days in our overall lead time, we are targeting to bring down almost 6 to 7 days basically. That will surely help us. Secondly, I think gradually, we are making Data science, Analytics systems more robust in the company, which help us in efficiency improvement that will help us in more risk-based pricing & that will help us more, let's say, in lead funnel prioritizing basically.

So that we start to invest time and energy when my app score is at a certain level. So that thing also will go live in another let's say quarter or so. So all these things will help us to bring the efficiency, Risk-based pricing and opex will also come in Q2.

Abhijit Tibrewal: And just one last question from my side. Again, going back to the topic of Opex, for how many more quarters do we expect this technology transformation program that you've embarked upon to get completed?

And a related question is because of that, for how many more quarters do you expect the Opex to remain elevated? Some time back, Ghanshyamji had given a guidance of Opex of about 3.7% (Opex to assets). But after this implementation is complete, this tech transformation is complete, based on whatever your assessment is, what can this opex come down to within the next maybe 2 years?

Ghanshyam Rawat: Abhijit, I think we mentioned earlier also, again, we are reiterating with the confidence that on the opex cycle we are almost at peak level, 3.7% to 3.80% is the figure. We mentioned that this year is our investment year, in which we are investing in a tech platform, technology transformation, etc.. From next year onwards, we are definitely looking for 20 to 25 basis point savings on opex side continuously for 2, 3 years. So that will bring us back to our original where we started, with less than 3% Opex to AUM level.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Just to understand, if I'm not wrong, in the last concall of Q4, you had guided for ROE of somewhere between 15% to 20%. So just to get an understanding, what would be the ideal time line, I mean, within 2 years, we can stabilize around that levels?

Ghanshyam Rawat: If you refer our Investor Day conference at Mumbai and if you compare Opening to Closing net worth and because if you would know in last 5 years we never raised any capital, last capital ofcourse we raised in the IPO, so if you compare Opening to Closing net worth and whatever ESOP money we get every year when employee exercises his shares, if we exclude that portion, then you'll see in last 2 years, we are continuously at 16% plus at Return on opening net worth. Because of all this IndAS accounting etc , profitability while you see that is roughly coming somewhere around 14-odd percent. But if you see an increase on Opening networth basis it is 16% plus. We are already in that trajectory.

Vignesh Iyer: I thought that adjusted you're talking about that the ROE you made in this quarter is around 13%. I thought you're talking about that ROE coming to 15% to 20%, sir.

Ghanshyam Rawat: Well, this ROE will as normal we are giving our directions, long-term direction, this business is at a growth rate of 25%. And at the 7 to 8 leverage, we will maintain our ROA 2.5% to 3%. So this business is a long-term sustainable business at 15% to 20% ROE.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: Historically, we were having a decentralized underwriting system there at the branch level, the credit decisioning is happening. So with the new software implementation, is there any change in the workflow on the underwriting side?

Ashutosh Atre: So Nidhesh, Ashutosh this side. See, there is no change in terms of underwriting or assessing the cash flows. So new system is going to support the underwriter on all the peripheral checks and all the peripheral clerical work so that we need not to rewrite things and we can be rest assured that through APIs, all the documents are cross-checked and say, with sort of certain APIs, or with certain software, you can actually get all the bank statements already calculated with use of account aggregator.

So these kinds of clerical things when they do it. And also, they can do the prioritization of the cases. In one of the questions, it was asked how the efficiency can be increased? It is because all the documents when the client puts up in the system, the underwriter will know which client is almost ready with the property and the document so that he can prioritize those clients because, as you know, buying a house is not an impulsive decision.

Some people just log in the proposal while they are still searching for the property, right? So these kinds of peripheral things actually, the system will help the underwriters. But as far as our touch and feel of typically self-employed, non-professionals visiting their businesses, understanding their cash flows, will continue to be in the same manner.

Nidhesh: Sure. And the credit decisioning will be happening at the branch level, right?

Ashutosh Atre: It is happening at the branch level only. There's no centralization of the credit.

Moderator: We'll take that as the last question. I would now like to hand the conference over to Mr. Sachinder Bhinder, MD and CEO of the company for closing comments.

Sachinder Bhinder: Thanks, ladies and gentlemen. As we conclude today's earnings call, I would like to express my heartfelt gratitude to each one of you for your participation and engagement, the dedication and commitment of our team, the trust and support of our stakeholders and the loyalty of our valued customers has always been instrumental in our growth story.

Looking ahead, I want to emphasize that we will continue to maintain laser sharp focus on governance, asset quality, profitability, leveraging technology, and creating a superior customer experience. We remain optimistic about the future and are confident that our strategic initiatives will continue to drive sustainable growth and shareholder value. Once again, thank you for your ongoing support and belief in our vision.

If you have any further questions or require additional information, please feel free to reach out to our Investor Relations team. Thank you, and have a wonderful weekend ahead. Thanks.

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