"Aavas Financiers Limited Q4 & FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited Q4 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 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rakesh Shinde – Head of Investor Relations at Aavas Financiers Limited. Thank you and over to you, sir.

Rakesh Shinde: Good evening, everyone. I extend a very warm welcome to all our participants. Thank you for participating in the Earnings Call to discuss the Performance of our Company for Q4 and FY'24.

The "Results" and the "Presentation" are available on the stock exchanges, as well as on our Company website. And I hope everyone had a chance to look at it.

With me today I have entire management team of Aavas, including Mr. Sachinder Bhinder - MD and CEO, Mr. Ghanshyam Rawat - President & CFO, Mr. Ashutosh Atre - President and CRO, Mr. Siddharth Srivastava - Chief Business Officer, Mr. Surendra Sihag - Chief Collection Officer, Mr. Ripudaman - Chief Credit Officer, Mrs. Jijy Oommen - Chief Technology Officer, Mr. Anshul Bhargava – Chief People Officer, Mr. Rajaram Balasubramaniam - Chief of Strategy and Analytics.

We will start the call with an "Opening Remark" by our MD – Mr. Sachinder Bhinder; CFO – Mr. Ghanshyam Rawat; and CRO – Mr. Ashutosh Atre, followed by a Q&A Session.

With this introduction, I hand over the call to Sachinder. Over to you, Sachinder.

Sachinder Bhinder: Good evening, everyone. Thank you for joining the call. I take this opportunity to thank all our stakeholders for the continued trust and support.

Let me now take you through the "Key Highlights of our Performance":

In FY'24, we delivered robust growth of 22% Y-o-Y in AUM at Rs. 173 billion. Along with the strong growth, we have ensured best-in-class asset quality with an all-time low 1+DPD at 3.12% and GNPA of 0.94%. We have reported a net profit of Rs. 4.91 billion in FY'24, registering a growth of 15% Y-o-Y.

In terms of "Business Update":

In Q4 FY'24, we have delivered robust disbursement growth of 39% Q-o-Q and 20% Y-o-Y. We disbursed Rs. 18.93 billion in Quarter 4 FY'24, taking a full year disbursement to Rs. 55.82 billion. This was our highest ever quarterly disbursement since inception. The green shoots from month-on-month improvement in the disbursements give us confidence to steer the path to deliver strong and sustainable growth in the AUM for FY'25.

As a pan-India institution, we are seeing a well diversified growth in disbursements across the states. We have opened 21 new branches during FY'24 in our existing states to deepen our reach. We have seen a strong uptick in logins led by diversified omni-channel lead generation funnel, including digital, eMitra, RRO and Mitra, resulting in better disbursement growth as well as in building a healthy business pipeline.

In terms of "Technology Update":

I am happy to share that we have completed the milestone of adoption and stabilization of sales force with 1.6 lakh plus loan applications processed through sales force. Further, we have stabilized Oracle Fusion, our ERP application. We have gone live with account aggregator integration and customer service integration in the sales force. Our new lead management system built in Salesforce and loan management system on Oracle Flexcube is at the advanced stage of testing and about to go-live. Technology is playing a key role in the transformation and the turnaround time improvement, our login to sanction turnaround time has improved to 9 days in FY'24. And for Q4FY24, we had an impressive about 8 days of TAT.

In terms of "Quarter Financial Performance":

in Quarter 4 FY'24, our net profit grew by 22% Q-o-Q, led by strong growth in net total income and AUM, coupled with reduction in credit costs on the back of traction in asset quality. Further, our consistent efforts to optimize costs have resulted in improvement of Opex to-asset ratio by 10 bps from 3.68% in FY'23 to 3.58% in FY'24.

In terms of "Asset Quality":

It continued to be pristine with 1+DPD less than 4% at 3.12% as of March 2024. This is our lowest ever 1+DPD since inception. Our GNPA improved by 15 bps quarter-on-quarter and stood at 0.94% in FY'24.

Credit cost, including write-off, continues to remain low and below 25 bps.

In terms of liability, we have one of the best well-diversified liability franchise. We have always been innovative in terms of exploring new avenues of sourcing. I am happy to share that during the quarter, we have received the funding from an MSME sector developing institution for our MSME business. This is the first industry tie-up for MSME business. We are a unique HFC where our tenure of liability is higher than the tenure of assets.

Our incremental borrowing cost remains slightly above 8%, indicating cost of borrowing peaking out in line with the benchmark rates.

As we tread the path in the coming quarters, we would like to focus on three key areas:

1. Delivering well-diversified geographic growth with quality and sustainable AUM growth of 22% to 25%.
2. Improving OPEX-to-asset ratio to below 3% in the near-to-medium term by improving productivity, efficiency and by adopting tech-led OPEX-light approach.
3. Delivering a sustainable ROA of 3%.

We are committed to support and strengthen the long term Aavas Vision 3.0. I take this opportunity to thank all our stakeholders for their continued trust and support.

I will now hand over to our CFO – Ghanshyam Rawat, to discuss the financials in detail.

Ghanshyam Rawat: Thank you, Sachinder. Good evening, everyone and a warm welcome to our earnings call.

To update on "Borrowing" first:

In terms of borrowing, we continued to borrow judiciously. We have raised around Rs. 61.45 billion at 8.14% during FY'24. For Q4 FY'24, we raised around Rs. 18.52 billion at 8.14%. Total outstanding borrowings as on 31st March 2024, stood at Rs. 155.55 billion. Overall borrowing mix as of 31st March is 47.5% from term loan from banks, 23.9% from assignment and securitization, 19.6% from National Housing Bank as refinancing, and 9% from debt capital market.

During the quarter, the overall cost of borrowing increased by 12 basis points quarter-over-quarter to 8.07%. Our incremental cost of borrowing for Q4 is 8.14%. Lenders' support continued to remain extremely strong as Aavas evolution continues. There is access to diversified and cost-effective long-term financing, and strong relationships with the development finance institutions. To meet long term business growth, we have done our first-ever co-lending tie-up with a large PSU bank. And also, we had a first ever in the industry funding by MSME sector promoting all-India financial institution.

As of 31st March 2024, we maintained a sufficient liquidity of Rs. 30.3 billion in the form of cash and cash equivalent, and unavailed CC limit and documented unavailed sanction from various banks, including Rs. 2.3 billion from National Housing bank.

In terms of the "Spread":

As on 31st March 2024, and an average borrowing cost of 8.07% against an average portfolio yield of 13.13% resulted in a spread of 5.06%. We have been able to maintain our spread around 5% in line with our guidance, despite competitive pricing pressure.

We have increased our prime lending rate by 25 basis points with effect from March 1st, 2024. Our margin, NIM as a percentage of total assets during FY'24 stood at 7.91%. Our NIM in absolute terms has increased by 17% year-on-year in FY'24 over FY'23.

In terms of "Cost":

Our OPEX to cost ratio improved by 10 basis points to 3.58% in FY'24 versus 3.68% in FY'23. We are committed to bringing down our OPEX ratio in a gradual manner towards 3%. Credit cost during the quarter stood at 11 basis points in Quarter 4 FY'24, versus 21 basis points in Q3 FY'24, 16 basis points in FY'24.

In terms of other "Parameters":

Profitability during the quarter increased by 15% year-on-year to Rs. 1.43 billion and 15% year-on-year FY'24 to Rs. 4.91 billion. ROA stood at 3.28% and ROE was 13.94% for FY'24.

IGAAP to IndAS reconciliation has been explained in detail for profit after tax and network on Slide #30 and #32 of the presentation. We are well capitalized with the net worth of Rs. 37,733 million and capital adequacy ratio is 43.99%. The total number of live account stood at 218,100, translating into a 17% year-on-year growth. The employee count was 6,075 as on March 31, 2024, versus 6,034 as of March 31, 2023.

Now, I would hand over the line to our CRO – Ashutosh Atre, to discuss asset quality.

Ashutosh Atre: Thank you, Ghanshyam ji.

The key portfolio in this parameter is "Asset Quality and Provisioning":

One day pass due has hit all time low at 3.12% in FY2024 as against 3.30% in FY2023. Gross Stage-3 stood at 0.94% and net Stage-3 stood at 0.67% as of March 31st, 2024.

During Financial Year 2022, a resolution plan was implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated 5th of May 2021. Basis the perceived risk and as a matter of prudence, some such accounts with an outstanding amount of Rs. 712.3 million as on 31st of March 2024, have been classified as Stage-2, and provided for as per regulatory guidelines.

Out of Rs. 712.3 million, Rs. 567.2 million, that is 80%, is already into 0 to 30 DPD bucket. The total ECL provisioning, including that for COVID-19 impact, as well as resolution framework 2.0, stood at Rs. 848.2 million as of 31st of March 2024. Aavas is strongly placed to continue delivering industry-leading asset quality.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Renish from ICICI Sec. Please go ahead.

Renish: Congrats on a good set of numbers. Sir, just two questions from my side, one on the disbursement side. So, of course, Q4 has been a pretty strong quarter for us, but how confident we are to sort of sustain this momentum in the first half of '25? Because Q4 is seasonally strong quarter so there has to be sequentially some weakness, so can you please throw some light on the first half disbursement numbers?

Sachinder Bhinder: Thanks, Renish. I think, Renish, you would have observed that as we stated earlier in our guidance and every quarter-on-quarter there has been an improvement which is there. So, I think in line of whatever we started across our journey, we are confident about our strong H1 with the kind of green shoots which we have seen in the number of logins, the kind of tech transformation which has happened. So, as a management team, we are guided by the fact that the sequential improvement which we have seen quarter-on-quarter, I believe and we have trust in our teams and the kind of logins under sanctions which we see in the coming times, we will stay at the top for a strong and robust H1.

Renish: Got it. And sir, incrementally if you could just help to share, let's just split between what percentage of disbursement is happening through in-house branch and what% is through via connected channel, et cetera?

Sachinder Bhinder: In that I will throw light on the OPEX-light models which we have been discussing. I think if you look at the mix of digital, the eMitra, the Mitra and those channels, we were conventionally at around 10%. As we speak and we close the year, we are around 13%. And these are typically the OPEX-light kind of models which are there. And the rest of that I'd say is a hybrid of the direct channel and some part of the connector channel which is there. So, that's the broad break up.

Renish: And sir, secondly on the spread, so of course we have seen in FY'24 there has been a steady decline in the spread. Is it right to assume that spreads have bottomed out at 5.06% and maybe from Q1 onwards considering the 25-basis point of PLR hike, we should see a gradual improvement in the spreads?

Sachinder Bhinder: Renish, really as we have spoken about that our focus on less than Rs.10 lakhs ticket size customers is there, so this will have an improvement. But as we have always guided that we will remain in the spread range bound of around 5% and we commit to that spread at around 5% on the overall AUM basis.

Renish: So, just last question from my side on this 1+DPD at 3.12%. So, is there any seasonality or do you see this 3% odd 1+DPD to sustain at this level?

Sachinder Bhinder: I think it is the conscious effort. See, there are two, three points which are important is, one is the type of sourcing, the quality sourcing, the quality underwriting, and the continuous and granular efforts of the risk and collection teams to really steer that across. And I think in that journey of this, the predictive analytics which has really helped us to sharpen our granularity and much, much deeper focused on our approach as far as this is concerned. So, which is very different to the way we have really -- we are approaching the entire set from a perspective of this.

So, I think that the technology as a part of aided is actually really helping out in our journey and a deep dive focus I think right from the origination to the underwriting, and to the efforts of the team at the ground really to collect with the help of technology has made a difference. So, it's a cumulative effort of the entire team which is, again, based on risk architecture. And as I've been saying earlier that we are in the risk-based business, and we continue to build our risk architecture, which is stronger, sustainable and reliable over a period of time.

Renish: So, basically let's say the restructured process led by the tech is sort of helping us to manage the risk better than earlier? Is that a fair conclusion, sir?

Sachinder Bhinder: This is the part which helps and facilitates actually in our journey which is more predictive analytics which we have been saying. Along with the strong risk architecture, the strong understanding of risk which starts in onboarding, the quality underwriting which happens, and then subsequently how do you really trail and push the entire thing in the system. Really that a cumulative effort of everything, but I would really put across the strong focus on risk and quality, I think it's one of the basic foray, so to speak.

Sachinder Bhinder: Yes. And Renish, we have always given the guidance that we will be in the range bound below 5%. So, we continue to be there in that territory.

Moderator: Thank you. Our next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Sir, a couple of questions. Could you throw light on the BT scenario and competitive intensity? Any particular geography throwing any specific signal? That's question number one. Question number two, sir if you look at sequential basis, the incremental cost of borrowing are down from 8.24% to 8.14%. I believe this should be attributed to NHB drawdowns. Correct me if I am wrong. But then the same question which the earlier participant asked, doesn't this mean that the spreads should sort of climb going forward? And what's your outlook on funding cost ahead? Thank you.

Sachinder Bhinder: I will answer these two questions. First one I will answer, and I will have CFO answer on the second part on the cost of borrowing stuff. See, on the BT part, I think what we have done as an institution is that proper predictive analytics still to work across on the customer base where there is a propensity to really do a BT out I think has played a very important role. And as we speak, we are at around 6% is the total one --

Sachinder Bhinder: So, it is 0.5% every month and 6% of the opening AUM, as we speak. And in that journey, I think as an institution, we have evolved to really figure that out, what is that we need to hold. And again, a very interesting part we have also earlier declared is that the ones which we let them out have 5 times higher 1+DPDs and similar count of the GNPA.

So, we are cognizant of the fact that whoever is our customer, we would like to continue with us and with the with the right form, but not get overloaded. So, I think at any period of time, whatever is the BT out is more from the fact that at Aavas we would not have had the customer with us because it's getting over leverage which is beyond the point of our underwriting metrics or control, which we will really foresee. So, I think that's the one.

On the cost of borrowing, I will have CFO really speak on the fact.

Ghanshyam Rawat: As you know, Aavas is very strictly focused when we borrow the money from various sources, we tied up with the multi-lateral institutions, we tied up with the NHB. And recently in this quarter we have further, as we mentioned in the opening remarks, we tied up with, to fund our MSME growth book we have tied up with our large all India financial institutions which also provides a concessional rate as NHB provides to housing finance Company.

So, I think all put together we had started, during this quarter -- PTC is also basically AA-plus or AAA rated, PTC. So, those are going at a final rate in the market basically. To put together, a lot of, I think, innovative funding tied up in last six months is helping us now containing our cost of borrowing in the interest rate rising scenario. But now more or less we feel that it's almost peaking out at the cost of borrowing basically now. So, that's I think brief from our side.

Shweta Daptardar: That helps, sir. Thank you and congratulations on a good quarter.

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

Abhijit Tibrewal: Congratulations to the Aavas team for a strong quarter. Just maybe one or two questions, just to explain about the tech transformation. Just wanted to confirm what are those elements of tech transformation which are pending or still in pipeline for this current fiscal year? Why I am asking this is, I mean, is there anything that you foresee in the coming quarters as and when we implement the remaining portion of the tech transformation, something which can really disrupt the disbursement trajectory that we saw in the fourth quarter?

Sachinder Bhinder: Thanks, Abhijit. See, as we speak, we have gone live on the Salesforce, which is our LOS system. The two components, which is the lead management system in the Salesforce, which is the one which is to go live, and the loan management system, which is Oracle Flexcube is in the making. Having gone through 1.6 lakhs of applications through Salesforce, I think we have had the system pretty stabilized. And I don't foresee anything of any nature which will have any impact of any of the implementations of the ongoing projects on the disbursements in the coming quarters.

Abhijit Tibrewal: And lastly, how should we think about assignment volumes? Basically, we will appreciate assignments along with it in the assignment income, which can lead to some volatility in the P&L. So, how are we thinking about assignments for the next fiscal year?

Ghanshyam Rawat: Abhijit, assignment income, assignment, all these we explained. Assignment is a tool to fund our long-term growth basically. Let's say, profitability is the outcome of that, it is to fund our long-term business plan. And assignment transactions we are doing since 2014, '2015 basically. So, we as Aavas, I think we always maintain this thing, to fund our long-term funding, to meet our ALM requirement we keep on doing assignment every year. Initially two or three years we have maintained a steady state, then we have grown. As our balance size is growing we are growing that assignment also.

Last year, you also see we have grown almost 15%, 20%, this year also we are planning to have a 15%, 20% growth in assignment book, basically. Because this is, again, we have good strong tie up with the public sector banks, private sector banks, foreign banks, all, because asset quality is super, retail assets, PSL book, that's the impression in that basically.

Secondly, I think if you refer to our investor deck, I think this time we published in non-home loan MSME book also basically, which consciously we make efforts a few years back we gradually will build the MSME book instead of loan against property book basically. Now that book has become around 17% of total AUM. And last year we did a disbursement, out of that I think 24% is in MSME side. So, that book also has a huge interest from the bank to take on assignment route basically. So, that's I think overall our strategy towards assignment.

Abhijit Tibrewal: Sir, just one last question before I hand it over to the next participant. In the previous question, which was asked on the cost of borrowings, my line was a little bad. Did you say that the cost of borrowings has now peaked out? Or do you expect that the cost of borrowings will increase for the next maybe one or two quarters, and then peak out?

Ghanshyam Rawat: Abhijit, every quarter we think now RBI and Fed will start to cut the rate, it is very close to peak out basically. As every quarter they move their one quarter milestone, there is difficulty to say where we are. But if you see, last whole year we borrowed 8.14% and our closing cost of borrowing 8.07%. So, incremental versus book is anywhere close to the same level basically. So, that's giving directionally that we are almost peaking out basically. And expect I think RBI and all the regulators, Fed, will start to cut the rate from somewhere maybe quarter two or early quarter three. I think that will give us a positive impact. And in overall cost of borrowing, in last one year we borrowed I think a sizeable chunk on repo-linked and other variable benchmarks. So, that will help us when rate cut will start.

Moderator: Thank you. Our next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Thanks for taking my questions, just two. One is, I've been going back to the point of spreads. This year we have clearly seen some compression in spreads and your NII growth is clearly lower than the loan growth that you've reported. Next year do we really see some kind of a reversion and NII growth being higher than loan growth? Or is it equal to loan growth? Or would you kind of say that maybe there is some more pressure to go? And are you seeing any incremental pressure of higher BT-outs, because you'd probably be the only player who would have raised the benchmark rates in the last quarter?

Sachinder Bhinder: I think from the perspective of the BT-out, as I spoke earlier, I think we continue to hold on to the right kind of customers there. So, some part of rate compression happens because of holding the customer there, but that is where we have already invested in the customer while the time we have actually onboarded. So, that will continue at that. And we have not seen, at this period of time, it still continues to be at around 0.5% per month, so at 6%. So, our continuous endeavor would be there to really build on the same as we go forward.

Secondly, as we discussed earlier also, Nischint, that focus on less than Rs 10 lakhs ticket size segment, we want to regain that part, we think there we really get our spreads. And our endeavor in the coming quarters in this year would be really to focus on that so we get back to our stuff. And as we guided that we will all remain in the spread in the range of around 5% in the coming quarters.

Nischint Chawathe: And just one last one in terms of expense growth, do we see the improvement to kind of 3% sort of playing out in this year, or two years out, what is the plan for that?

Sachinder Bhinder: I think, Nischint, as I spoke, I think that's our medium to long term I had said. And if you really look at it from 3.79% quarter one kind of thing to coming at around 3.56%, I think sequential 20 bps of reduction year-on-year, we really look at it coming to in couple of years, if I were to really put across it, at the level which you spoke about. But our constant endeavor as to focus on the optimization of the cost and getting that to a level which we discussed at around 3% and couple of years. But yes, 20 bps, 25 bps of reduction is what we actually guide, and we target ourselves internally to push to get that line.

Nischint Chawathe: And I think just finally on the credit cost side, this obviously has been a good year, so fair to expect that there can be some reversion or some increase in credit cost, although obviously you keep on sort of trying to keep it under control. So, this has been a good year, so maybe that could inch up a little bit is a fair expectation.

Sachinder Bhinder: Yes. As we said, that is one of the best years since the inception. We have always guided that we will remain in the range bound of 1+ at less than 5% and the GNPA at around 1%. So, that's been a constant endeavor. And I think, Nischint, what has really helped is the way we have treaded the path of using analytics. And our understanding on the credit risk buying and at the time the customer is there. So, that really helping us in our journey. And our endeavor would be to be there in that range bound stuff which is 1+ at around 5%.

And secondly, what we have really done well as a part of this some part of digital collection which we have a clear-cut predictability on the customer base where we do not have to go on the field or really to telecall. And I think that's one of the very innovative ones which we have done. And as we perfect that it will really help us further. And as we speak, I think the addition of manpower and the collection part has not increased in tandem or in line with our AUM growth or number of increase in our loan accounts. So, we try to effectively and efficiently use technology to really spot, predict and then effectively collect actually.

Nischint Chawathe: What proportion of the loan book currently is in Rajasthan?

Sachinder Bhinder: So, of the loan book currently as we speak is around 35%. But if you look at it, Nischint, it's down from 90% at the start. We would like to continue to build Rajasthan. However, we will have the other states also really kicking in and built across. So, Nischint, what confidence in South, in Karnataka which gives us is that which helps us to really build across as a pan-India institution. And as we speak, we have had a good amount on a smaller base. I think the green shoots of Karnataka have really given us a good amount of confidence and faith in the Aavas risk underwriting and the DNA which we have actually got in there. And which will help us our movement in the coming times in the southern part of India actually.

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

Shreepal Doshi: Congrats on a good set of numbers. My first question was pertaining to lending rates. So, have you taken any rate hike during the last quarter?

Ghanshyam Rawat: Yes, we have increased our PLR by 25 basis points effective from 1st March.

Shreepal Doshi: Secondly on the same lines, are we seeing in states like UP, Uttarakhand, relatively better lending rates that we are able to get versus states like probably in the western side or in the southern side?

Ghanshyam Rawat: I think price is not linked to state, price is linked to more the risk-based underwriting when we do. It depends upon customer profile, depends upon property profile, depends upon in which state, in which year we are in that state basically. Like we enter the new state, initially we remain cautious. We have a very good quality of customers, keep focus one to two years in those markets. Once we learn that market more, then we deepen our product, deepen our market strategy on the high yield products basically. So, it is not a state-based pricing metrics, it's more of a product, more of a customer, more of an assets quality product basically.

Sachinder Bhinder: And Shreepal, just to add on to what Ghanshyam said, it's important that you price the risk right, and it's always been the risk adjusted returns which we really look at it, and not segregate according to the state or the territory or the geography. I think one is the risk type, second is the product. And really having understood the risk, how do you really price the risk and, again, risk adjusted returns.

Shreepal Doshi: Sir, I was coming from the angle that competitiveness in those states are relatively low, if you look at, so that. But it's okay, I get your point. Sir the third question was pertaining to the sharp increase in employee cost during the quarter. So, what is the reason behind the same? What is the employee count today? And just one more question there, the tax rate this quarter has been pretty low, like 19%. So, if you can just throw some color on that as well.

Sachinder Bhinder: So, if you look at the employee cost, the employee cost has been, if you look at the April opening and the March closing, it says only the net addition of about 35 or 40 odd people. I think it's some part of the Bonus and incentive cost, which actually has resulted in the employee costs being high. So, it's not the standalone manpower addition which has cumulatively added onto the employee cost.

Shreepal Doshi: On the tax rate side?

Ghanshyam Rawat: Tax rate, our standard tax rate, if you compared to the earlier year also, it's a similar tax rate. We have around 21% to 22% effective tax rate comes at.

Shreepal Doshi: So, this quarter is almost 19%, so therefore I just happened to ask.

Ghanshyam Rawat: Yes. I think during the year certain things remain in the pipeline; certain assessments are going in the pipeline. When the decision comes then we have to take the impact in a full-year basis. But on a full year basis our tax was 21% to 22%.

Shreepal Doshi: One last question was on NHB borrowings. Have you seen any increase in the NHB sanctioning interest rate for the incremental sanctioning that they are doing?

Ghanshyam Rawat: I think as you know, the interest rate in the last 18 months or let's say about 24 months I think interest rate has risen. Accordingly, NHB has also increased the interest in a few products, not all products basically. So, they are also part and parcel of lending activity.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Congratulations on very strong numbers. The first question is, what is the branch addition plan for FY'25 which will be targeted market?

Sachinder Bhinder: The branch expansion plan is around 10%, that's what we had. But as we go deeper in the South, we will look at Karnataka and other regions in those regions specifically so to say, actually. And some bit of we are already there to really look at opportunities within the existing market where we find good enough space, but specifically Karnataka, if I were to put across in this year. Rajiv, the second edition would be in UP, Karnataka followed by UP.

Rajiv Mehta: And one related question is, I mean, do you feel that the need for branch addition is slightly lower in the coming years, because after this tech transformation, the capacity of the existing branches and locations would have gone up, your TAT has improved, you'll have more efficiencies coming through from the existing branches. And secondly also, you are also developing a lot of non-brand per say around the existing location. Is that the thought process when you make your branch addition plan?

Sachinder Bhinder: Yes. See, definitely what you said, Rajiv, if you look at even at the higher base we are talking about only 10% addition. So, we are not looking at anything which is much beyond that. We try to be there as OPEX-light. But mild opportunity let's say if it is there, develop that and continue with our overall contiguous location expansion strategy. Where we find the market is good enough, we will go and invest and set up. But before that we'd like to have our RRO model which gets perfected and then set up a branch. But yes, going forward tech will continue to play a very significant role in helping us tread the journey which is OPEX-light, and which are really digitally we are able to source and service.

Rajiv Mehta: And just after raising PNR by 25 basis points from 1st of March, has there been any increase in BT request or maybe actual BT out from 1st of March? And what kind of rate differential are these customers seeking when they come for a BT request?

Sachinder Bhinder: Yes. I think as we highlighted, our BT rate continues to be at the opening AUM about 0.5%, in the year it's around 6%. I think we really focus on who the customer is who we want to really hold on, and we will really try our stuff, which is by getting some sort of rate reduction. And where we feel it is getting overleveraged, we have let that out actually. So, I think we don't see, at this period of time, any of that really hurting us or anything which is having any of the alarming thing at this period of time.

Rajiv Mehta: And just lastly, how would we see, because in the last call you had spoken about re-energizing the core product, which is low ticket, high yielding home loan, and increasing the origination share of this product by 5 percentage points over a period of time. But even in Q4, the origination ticket prices were in fact higher than the previous quarter. So, when do we see this strategy playing out in terms of what we aspire?

Sachinder Bhinder: So, I think we focus on the less than 10 lakhs on that side. Secondly, we will really appreciate that the cost of construction in the areas we operate has also increased over the last couple of years. So, I think that is one which is hurting.

Moderator: Thank you. The next question is from the line of Subhal Khanna from Mirabilis Investment Trust. Please go ahead.

Subhal Khanna: Just one question on the disbursement, which was done over the year, how has been the experience in some of the newer states? Was it largely driven by the legacy states of Rajasthan, Maharashtra, Gujarat? Or there was an uptick even in the newer states of Uttar Pradesh and Karnataka?

Sachinder Bhinder: So, I think as we speak, as I spoke, I think Karnataka gives us a lot of confidence as one of the institutions who has claiming to be a pan-India one. We have got a good amount of growth which is there, but it is there on the lower base, if I were to put across. But we will continue investing in the states as we speak in Karnataka, UP. And as we see a long runway available there and the opportunity which Aavas is able to mine in those markets, and we will monetize in the coming quarters in the coming years ahead actually. So, it's a well-diversified geographic growth which is there, and gives us a new level of confidence. Again, for the matter of reiteration I speak, our presence in the South and Karnataka being one of the major harbingers of our strategy in the South.

Moderator: Thank you. The next question is from the line of Jigar Jani from BNK Securities. Please go ahead.

Jigar Jani: Congratulations on a good set of numbers. Just a couple of questions. Firstly, on the tech transformation, the lead management system and the loan management system, are these ones stacked to get completed by the first quarter or do we see any delay on these to go live?

Sachinder Bhinder: I think from a tech transformation perspective, from the lead management we should be live by the first quarter and be active and kicking by having successfully piloted by the time being running fully well in the quarter two, so to say.

Ghanshyam Rawat: Yes, side by side LMS will be also ready. It will also go live on the first week of July.

Jigar Jani: Sir, just taking a cue from the previous participant that we have increased PLR rates, and we are also planning on increasing the proportion of sub Rs 10 lakhs ticket sales loan, at the same time our cost of borrowing is also kind of peaking out. So, do you see like spreads kind of broadening now or is there something that we are missing? Because ideally then spreads should bottom out at these levels and should tread higher next year overall? So, anything that you are seeing which can be a risk to that factor?

Sachinder Bhinder: So, as we have always guided about the spreads, and we will continue to do that whatever is required. And as I said that whatever is in the risk adjusted pattern and what we understand, what we are able to underwrite in the kind of quality metrics which we see and which the firm has been doing that over a period of time, we will continue to build on that risk quality.

Jigar Jani: And this PLR rate hike gets reset every quarter? I mean, so all the customers which are on floating rate get repriced in the next quarter cycle, how does it work?

Ghanshyam Rawat: No. Whoever customer is linked to PLR, whenever we hike the rate and we publish our effective date of rate hiking also, on that day rate hike takes place for all the customers, there is no quarterly. Until unless we increase the rate next time it will not be reset for those customers.

Jigar Jani: So, the next quarter on the floating rate book, which is about 60% odd, you should see this full 25 bps hike starting from next quarter, is that understanding correct?

Ghanshyam Rawat: No. Rate hike already took place. But for P&L perspective, you will have a full year quarter income in the next quarter. So, P&L perspective, in the first quarter will have a full quarter impact.

Moderator: Thank you. The next question is from the line of Aditya from MSA Capital Partners. Please go ahead.

Aditya Vikram: Congratulations on the good set of numbers. Sir just wanted to quickly understand what is the yield for across the three products, that is home loan, LAP, and MSME loans?

Ghanshyam Rawat: You are asking all three products?

Aditya Vikram: Yes, ROI.

Ghanshyam Rawat: All three businesses are given to different class of customers and different property profile and different market. But generally, for better understanding, you can assume roughly 2.50% to 3.00% difference is there between home loan to MSME and LAP business.

Aditya Vikram: But if you were just to quantify, a home loan would be closer to 13%, and MSME would be then 16%, is that fair to assume?

Ghanshyam Rawat: Our home loan generally you take is roughly 12.5% around, and then non-home loan is around 15%.

Aditya Vikram: If I want to understand which would be the top three states, Rajasthan being the largest, and what would be our concentration in those geography? And more importantly, how are you looking at geographical split?

Ghanshyam Rawat: Maharashtra, Gujarat, MP, all three are equally spread. And as Sachinder ji mentioned, Karnataka and UP are coming up very well on the new disbursement. And Delhi is a steady-state state for us for the last couple of years, on growth and as well as quality.

Aditya Vikram: Sir, but just I wanted to understand the top three states, Rajasthan contributing 35% of the AUM, the other two states being Maharashtra and Gujarat, assume. So, combined top three sir, what could be the concentration?

Ghanshyam Rawat: Top four is around 82%. That will appreciate with the kind of space, the population and the GDP type.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Banti Chawla: Sorry to harp on the yield per se, so can you share, as we have seen you have taken the PLR hike in the 25-bps effective 1st of March. So, how much yield impact or positive impact will be in Q1 FY'25? Because we believe there was only one month for the rate hike, and Q1 will get full impact. So, how much yield positive impact will be in Q1, being 66% of our floating asset book?

Ghanshyam Rawat: Roughly 60% book is our floating rate book. That book will have 100% impact of 25 basis point increase. In the last quarter, we have seen that P&L perspective one month impact. In the next quarter it will have all three-month positive impact on our book, basically.

Bunty Chawla: So, roughly we can say around 10 bps to 12 bps of positive impact could be there in Q1 FY'25 for the yield per say?

Ghanshyam Rawat: I think we published; our yield is a sum product of loan contract. And as well as on borrowing side we publish our liability contract versus effective rate on that day, basically. So, in computation it has been taken care. But P&L perspective it will give two extra month positive impact.

Bunty Chawla: Sir secondly on the other expenses part in Q4, we have seen a decline on a Q-on-Q basis. And if I see FY'24 versus FY'23 and '22, there has been an increase of around 18%, 19% versus '23 and '24 there was 30%, 40%. So, can we say the technology part which we are doing, which is part of other expenses already been incurred, how you will see the other expenses' part growth in next two years?

Ghanshyam Rawat: Other expenses, as I've seen in last few quarters and including this quarter, we mentioned that as the technology transformation is completing, we are starting to see the return on the OPEX side on various fronts basically start even from, let's say from scanning, from courier, from manpower efficiency, from all front we are seeing a saving on that OPEX piece, as well as growth momentum is also coming back to the OPEX-light mode. So, we don't want to say in particular one how was the OPEX, but overall, our guidance is that our total OPEX to AUM, we will have another 20 basis point plus saving in this year on full year basis.

Bunty Chawla: So, can you say major will be from the other expenses part? Because already we are increasing the branches and employee count, so this will be the major lever for this 20 bps increase?

Ghanshyam Rawat: No. Because manpower count, as we mentioned earlier, we will not increase the same manpower count as we increase our growth on business and AUM, so that will also have a denominator effect on the employee cost also basically.

Moderator: Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Sachinder Bhinder, MD and CEO of Aavas Financiers Limited for his closing comments.

Sachinder Bhinder: Thanks, ladies and gentlemen. As we conclude today's earning call, I would like to express my heartfelt gratitude to each one of you for our participation and engagement. The dedication and commitment of our team, the trust and support of our shareholders, and the loyalty of our valued customers have always been instrumental in our growth story. Looking ahead, I want to emphasize that we will continue to maintain razor sharp focus on governance, asset quality, profitability and growth, leveraging technology and creating superior customer experience.

We remain optimistic about the future and are confident that our strategic initiatives will continue to deliver sustainable growth and shareholder value. Once again, thank you for ongoing support and belief in our vision. If you have any other further questions or require additional information, please feel free to reach out to Rakesh, our Head of Investor Relations team. Thank you and have a wonderful financial year ahead. God bless.

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