Aavas FINANCIERS LTD
SAPNE AAPKE, SAATH HAMAARA

Ref. No. AAVAS/SEC/2020-21/255

Date: August 19, 2020

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

Dear Sir/Madam,

Sub: Earning Conference Call Transcript

In reference to letter No. AAVAS/SEC/2020-21/210 dated August 04, 2020, please find attached the transcript in respect to the earning conference call on the financial and operational performance of the Company for the quarter ended June 30, 2020 held on Thursday, August 13, 2020 at 03:30 PM (IST).

The transcript of the conference call can also be accessed at the website of the Company at www.aavas.in

We request you to take the same on your record.

Thanking You,

For Aavas Financiers Limited

AAVAS FINANCIERS LIMITED

Sharad Pathak
Company Secretary & Compliance Officer
(FCS-9587)

Enclosed: As Above

"Aavas Financiers Limited Q1 FY2021 Earnings Conference Call"

August 13, 2020

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

MR. GHANSHYAM RAWAT - CFO

MR. S. RAM NARESH - CHIEF BUSINESS OFFICER

MR. ASHUTOSH ATRE - CHIEF RISK OFFICER

MR. HIMANSHU AGRAWAL - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited Q1 FY2021 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushil Kumar Agarwal, MD and CEO of Aavas Financiers Limited. Thank you and over to you Sir!

Sushil Kumar Agarwal: Good afternoon everybody. Thank you for participating on the earning call to discuss the performance of our company for Q1 FY2021. With me I have my team, Mr. Ghanshyam Rawat - CFO, Mr. S. Ram Naresh - Chief Business Officer, Mr. Ashutosh Atre - Chief Risk Officer, Himanshu Agrawal from Investor Relation Team, other senior colleagues of the management team and Strategic Growth Advisors, our Investor Relationship Advisors.

The results and presentation 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 company is consistent in delivery of its operating metrices with AUM growth of 25% YoY; PAT growth of 11% YoY as per Ind-AS accounting and 33% YoY growth as per IGAAP accounting; and gross NPA of 0.46% as of June 2020.

COVID-19 pandemic continues to spread across the globe, resulting in disruption to social and economic activities worldwide. India is not an exception, and while a phased reopening was announced by the central government, some local/state authorities have continued to impose localized lockdowns on a temporary basis to contain the spread of outbreak. As a result, it is difficult to predict by when full normalcy in life and business operation will be restored.

In accordance with RBI guidelines of May 23, 2020 on COVID-19 regulatory package, the company has also extended the moratorium offered to our eligible borrowers for a period of further 3 months till August 31, 2020. But like earlier, we continue to actively engage with all our active customers on a regular basis.

Now coming to some details on moratorium. Exposure under moratorium has reduced from 24.0% as of April to 17.8% as of June. Self-employed customer loans moratorium reduced from 27.7% as of April to 20.2% as of June. Salaried customer loans moratorium reduced from 17.2% as of April to 13.3% as of June. Home loans moratorium reduced from 23.1% as of April to 17.0% as of June. Other mortgage loans moratorium reduced from 26.9% as of April to 20.3% as of June. Exposure under moratorium for 4 months from March to June is 3.7%. Exposure under moratorium for 3 months from April to June is 7.7%.

To mitigate the impact of economic slowdown on our profitability metrics, we continue to defer the discretionary expenses and variable nature of expenses till business returns to normalcy and rationalize the fixed salary for the next few months.

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

Ghanshyam Rawat: Thank you, Sushil Ji. Good afternoon, everyone, and a warm welcome to our earning call. During the quarter, company has borrowed an incremental amount of Rs.7,160 Mn at 6.02% for 43 months. As of June 2020, our average cost of borrowing stood at 8.10% on an outstanding amount of Rs.71,969 Mn with an average maturity of 127 months. Our long-term credit rating continued to be AA- from CARE and A+ from ICRA. Despite the highest short-term rating of A1+, we continue to maintain zero exposure to commercial paper as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for profit after tax and as well as Net worth on the slide #33 and #35 of our presentation.

Now I will cover a few important key parameters. As on June 30, 2020, total number of live accounts stood at 107,300+ i.e. 27% YoY growth. Total number of branches was 251, i.e. 40 new branches added in last 12 months. Employee count is 3,536 versus 2,385 in Jun-19.

Assets under management grew 25% YoY to Rs.79,353 Mn as on June 30, 2020. Product-wise breakup: home loans 73.4%, other mortgage loans 26.6%. Occupation-wise breakup: salaried 35.0%, self-employed 65.0%. Disbursement decreased 68% YoY to Rs.2,130 Mn for Q1 FY21.

Spreads were maintained above 5% at 5.53% as on June 30, 2020. Our borrowing cost is 8.10% against the average portfolio yield of 13.62%. Further, more detail on the borrowing side; we have access to diversified and cost-effective long-term financing. We have very strong relationship with the development financial institutions. 36.4% are term loans, 23.7% from assignment and securitization, 20.5% from National Housing Bank, 19.2% from debt capital market and 0.2% from cash credit.

Some details on provisioning: Additional ECL provision of Rs.46.2 Mn created to consider the impact of COVID-19 during this quarter. Total ECL provisions, including the COVID-19 provision, stood at Rs.268.7 Mn as on June 30, 2020.

Assets quality, one day past due stood at 1.50%, gross NPA stood at 0.46% and net NPA stood at 0.32% as on June 30, 2020. We are constantly in touch with our customers and doing daily monitoring of collections and assets quality. Product-wise GNPA, home loans 0.52% and other mortgage loans 0.28%.

Liquidity as on June 30, 2020 of Rs.23,620 Mn. Breakup of that: cash & cash equivalent of Rs.15,050 Mn; un-availed cash credit limit Rs.1,270 Mn; documented un-availed sanction from National Housing Bank Rs.4,000 Mn; documented un-availed sanction from other lenders Rs.3,300 Mn.

Profitability. PAT registered 11% YoY growth to Rs.501 Mn for Q1 FY21 as per the Ind-AS accounting. As per the IGAAP, PAT registered YoY growth of 33% to Rs.601 Mn for Q1 FY21. ROA was 2.55% and ROE 9.43% for Q1 FY21. We endeavor to maintain ROA of 2.5% and above. As on June 30, 2020, we are well capitalized with a Net worth of Rs.21,506 Mn. Our book value per share stood at Rs.274.6

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Just a couple of questions. Sir, one, could you tell us the gap between the 17.8% moratorium and the 7.7%; so is it that 17.8% is based on the latest month and 7.7% are people who have not paid even once over the past 3 months?

Sushil Kumar Agarwal: Yes, Aditya so 17.8% is, you can assume 1+ on June 30, 2020, means 82.2% customer has paid the installment and 17.8% has not paid to whom we have given the moratorium. 7.7% is customer who has not paid April, May, June installment.

Aditya Jain: Okay so the gap of around 10% has paid at least once in the past 3 months?

Sushil Kumar Agarwal: One and more.

Aditya Jain: Yes, at least one. And for the new borrowing cost this quarter, the 6% average in incremental cost of funds so obviously, there would be some one-off items in this so, one, could you clarify what are the components of this which have come at such a low cost and what are your thoughts on whether they could sustain?

Ghanshyam Rawat: Yes. In this quarter, one important item, as you know, Government of India has given Rs.10,000 Crores to National Housing Bank. We, as Aavas, got fortunate. We got the first sanction from National Housing Bank, and we got immediate disbursement from them also. Rs.366 Crores got disbursed at 4.95%. Rest money, we got at a commercial rate from banks. One paper, NCD got subscribed in the market, where we get a very good price because of good liquidity in the market. I think these two major components are there.

Aditya Jain: Got it. Thanks Sir.

Moderator: Thank you. We will move on to the next question that is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: Sir, we wanted to understand this Rs.64 Crores that we have disbursed in Q1, what proportion of that will be top-up loans to existing customers?

Sushil Kumar Agarwal: Abhijit, Q1, we have disbursed Rs.213 Crores.

Abhijit Tibrewal: Sir I am talking about the other mortgage loans where we disbursed about Rs.64 Crores.

Sushil Kumar Agarwal: Yes. Rs.31.5 Crores.

Abhijit Tibrewal: So out of Rs.64 Crores, Rs.31.5 Crores was in the form of top-up loans?

Sushil Kumar Agarwal: Yes. So, if you will see quarter-on-quarter number, so Q4, it was Rs.65 Crores; Q3, it was Rs.55 Crores; this number last year Q1 was Rs.96 Crores. Against Rs.96 Crores, this is Rs.31 Crores so one-third, if you will see, quarter-on-quarter.

Abhijit Tibrewal: Right, Sir. Sir, you just mentioned that you got some lines from the NHB. Did I hear it right that it was Rs.366 Crores at 4.95% from NHB?

Ghanshyam Rawat: Yes, you are right.

Abhijit Tibrewal: Okay what is the pipeline looking like just trying to understand incrementally where can our cost of borrowings move in terms of if there's anything more other than the Rs.400 Crores undrawn lines from NHB, is there anything more in the pipeline and how could our incremental cost of borrowings move from there?

Ghanshyam Rawat: Yes. Abhijit, we appreciate your question. As we mentioned, we have enough liquidity right now; Rs.1500 Crores plus is lying as a cash in hand in the form of the fixed deposit, which is already taken care in my weighted average cost of borrowing of 8.10%. Apart from that, then we have undrawn NHB line also and then undrawn banks funding also. I am quite confident fresh borrowing will happen around or even lesser than what we have today average cost of borrowing.

Abhijit Tibrewal: Okay. Which would mean, Ghanshyam Ji that our cost of borrowings could come down further from the 8.1% that you have reported?

Ghanshyam Rawat: As Abhijit, we generally do not give forward-looking statement, but as I have mentioned, Rs.1,500 Crores will take care of another, let us say, 3 quarters my funding because I do not have any repayment obligations. Major repayment obligations already discharged to all the banks and institutions. So, mix of bank borrowing, mix of NHB, mix of lending from banks. We are hopeful the current average cost of borrowing will be maintained.

Abhijit Tibrewal: Sure, Sir and my last question is to Sushil Ji. Sir, I mean, now that you have already reported something like 82% collection efficiency as on June, and I am sure, I mean, given that lockdowns are now opening, economy is recovering a bit, I am sure these numbers would have gone up further in July and August. But now if you were to look at these collections and kind of try to give a qualitative color on how could credit costs move in the remainder of this current fiscal year?

Sushil Kumar Agarwal: Abhijit, on that side, we have done the detailed exercise, and we do a detailed exercise when we do provisioning also so I think whatever provision we have done as of June 30, 2020, it is looking appropriate for the balance sheet number which we are saying because this we have arrived by categorizing the portfolio into high, medium and low risk category and then the profiling of customer, and we have fixed income to obligation ratio. Further, we have reduced the value of mortgage property in a stress scenario and third is observing the behavior and assessing the cash flow stress of customer during the moratorium period. And one exercise which we did in July; that any customer who had asked for moratorium, we physically meet all those customers, so in July, we have met 20,200 customers. We have done the detailed profiling, what was the customer scenario when we have appraised them at the time of giving the loan and what is the current position of them, impact of cash flow for them on medium term, short term and long term? Then further, we have profile-wise analysis, and we have seen that the difficult profile, which is hospitality and other segment, that constitutes only 2.99% of this segment. So, we are hopeful that we will be in a much better situation going forward also. Collections will further definitely improve in the coming months, so I think, right now, whatever we have done the ECL provisioning is sufficient for the kind of asset quality which we are forecasting for this year.

Abhijit Tibrewal: Sure, Sir thank you for the color and wish you the very best and I will come back in the question queue.

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

Piran Engineer: Sir, congrats on the quarter. I just have a couple of questions. Firstly, our other mortgage loan average ticket size has dropped sharply from Rs.6 lakhs to Rs.4 lakhs. Is this because of the top-up loans?

Sushil Kumar Agarwal: Yes, Piran.

Piran Engineer: Okay and Sir, this quarter, how much interest was capitalized, wherein the customers under moratorium, we did not collect the interest that we have capitalized within the loan book?

Ghanshyam Rawat: As Sushil ji mentioned, in April to June, we have seen a decline in our moratorium, 24.0% to 17.8%. Accordingly, capitalized interest also got reduced; so in overall full basis, we have capitalized Rs.44 Crores in this quarter.

Piran Engineer: Okay, during the quarter and Sir, just last question, I want to understand this correctly. Our moratorium rate is 17.8%, and Sushil ji said that, that means 82.2% of the customers are 0 DPD so that means these 82% have paid all 3 installments, right, so April, May and June?

Sushil Kumar Agarwal: They have paid 1 and more. Mostly customer has paid all the 3, some customer has paid 2 and some customer has paid June installment. So that is the correct understanding. April, this number was 24%; and now, it is 17%. Gap is 7%. So, the customer which has paid less than 2 is 7%.

Piran Engineer: Okay understood. Thank you, Sir and all the best.

Moderator: Thank you. We will move on to the next question that is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Sushil ji and Ghanshyam Ji and team, I have 3 questions. Firstly, on the self-employed customer loans, who are about 20% still under moratorium, and the other mortgage loans, who are still 20% under moratorium. Sir, what is the profile of the businesses that these customers are in, just to gauge the kind of difficulties they are facing? Have you done any sort of analysis from that and any color you can give us on the same?

Sushil Kumar Agarwal: Yes. So Karthik, we have detailed sheet. I will tell you some of the profiles so around 21 plus 15.62, so 36.62% customers are cash-and-carry business and essential services; then traders are around 5%; fabrication and small manufacture units are around 7%; doctors, engineers and educational professionals are 2.41%; rental income, FMCG good traders are 2.4%; and this hospitality segment is around 2.99%.

Karthik Chellappa: So, the biggest segment is still the cash-and-carry segment, basically?

Sushil Kumar Agarwal: Yes so that is where I want to update one more thing; that in the last 45 days after quarter end, further 40% customers, we were able to brought it down from the typical one who has not paid April, May, June installment so that number is down by 40% in last 42 days. So, it is a significant recovery because these customers anyway were having the money, and their cash flows are generating. Just because they were having the apprehension that what will happen in future, they hold that and now the clarity is there that further anyway this will not be there, moratorium; so from a management perspective, I see it is a significant improvement number of 40% collection in the last 42 days over June 30 sticky customers.

Karthik Chellappa: So, which means this 17% moratorium, or 20% moratorium would have gone to about 10% to 12% as of now?

Sushil Kumar Agarwal: See, that is normal customer, anyway they were paying. I am saying that 7.7% is sticky customer; those were the difficult ones. Out of those, for 40% customers, we have got the money.

Karthik Chellappa: Okay. Excellent that is very clear. Sir, my second question is on the top-up loans and where the ticket sizes in other mortgage loans are also down drastically. How are you ensuring that this loan does not go to repay loan of some other financial institution or does not go to ever greening, while it goes genuinely to make sure that the business is up and running. How are you able to safeguard that?

Sushil Kumar Agarwal: So Karthik, we are doing this business for the last 10 years, and we have a clear-cut defined policy that top-ups are given to those customers who has clear track record of at least 18 to 24 months without a single bounce with us. Secondly, at the time of top-up also, we do the full assessment of the customer, take their latest CIBIL scores, reports and where they have loans from somebody else, in those loan also, whether they are defaulting or not. If they are defaulting in there also, then customer again is not eligible for it. And then this customer has not taken moratorium either on our loan or any other financial institution loan from where they have taken the money. And then in this case, most of the time, customer defines for what purpose he is taking and to the extent possible, we do the post-disbursement verification also, that money is going to be utilized for the purpose which they have stated.

Karthik Chellappa: Okay. Great. Excellent and my last question Sushil ji is, out of your AUM book in Rajasthan, what percentage of the AUM will have ticket size above Rs.10 lakhs?

Sushil Kumar Agarwal: Karthik, for specific Rajasthan, so we will come back to you by the end of the call.

Karthik Chellappa: Sure. It is not a problem, Sushil Ji. Basically, the number of cases where you have the ticket size greater than Rs.10 lakhs, overall, if possible, to Rajasthan that will be all from my side. Wish you all the very best.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: I do not know, I joined a bit late, whether you answered this or not. What percentage of your book do you expect to go into restructuring, if at all?

Sushil Kumar Agarwal: Mayur, I do not think so we are considering any case for the restructuring in our book at this point of time.

Mayur Patel: Okay. Even with this closer to 20% kind of moratorium book, you mean that simply you do not think that you will require restructuring.

Sushil Kumar Agarwal: I told that from June 30, 2020 also, right now, we have already 40% success in taking the money from the customer and because most of our customers are small ticket size having 200% security, average loan installment is around Rs.12,000; so we do not think there is a requirement of restructuring and we have not received till now from any of the customer.

Mayur Patel: Okay and are you guiding on overall credit cost for this year? What should be the range or anything?

Sushil Kumar Agarwal: No, so I have given this answer in the last question that, as a management practice, we have a detailed exercise on the basis of which we do the LGD, PD and ECL calculations; and profile-wise, FOIR-wise, risk-wise, low, medium and high risk; then loan-to-value ratio in the distress scenario and accordingly, whatever is coming out, we have provided in the balance sheet. So as of now, I think we are in the right direction and the money which we have provided, I think, is sufficient for the risk which we have on the balance sheet.

Mayur Patel: Thanks. I will come back for more questions.

Moderator: Thank you. The next question is from the line of Aakriti Kakkar from Goldman Sachs. Please go ahead.

Aakriti Kakkar: The morat percentage that you have specified, is this moratorium overall or does it include part payment as well?

Sushil Kumar Agarwal: Can you clarify your question because, say, like you were asking this 17% loan?

Aakriti Kakkar: 17%, yes. Does it include part payments with the EMIs as well?

Sushil Kumar Agarwal: No. It is full 100% EMI recovery.

Aakriti Kakkar: Okay all right and my second question is on the bounce rate, Sir. What is the bounce rate for July that you have been seeing?

Sushil Kumar Agarwal: I think it has improved by 8% to 10% over June. Exactly, numbers I need to check, but it has improved from the June.

Aakriti Kakkar: Okay. All right, Sir that is helpful and one last quick question, Sir. What is your view on the restructuring guidelines if you can share that with us? Also, this 7% loan book that you have specified that has not paid any installment, would that need to be restructured?

Sushil Kumar Agarwal: No. So I have told, Aakriti, that out of this 7.7% also, we have got almost 40% of the cases, customer has paid money in the last 42 days to us and as of now, we are not seeing that any account to be restructured, and we have not received any requests also from the customer. Given the average ticket size of Rs.9 lakh, 200% of security levels and average installment of Rs.12,000, we do not see that there is a requirement of restructuring in our book.

Aakriti Kakkar: All right Sir that is very helpful. Thank you so much Sir.

Moderator: Thank you. We will move on to the next question that is from the line of Saurabh Kabra from Nippon India Mutual Fund. Please go ahead.

Saurabh Kabra: Congratulations on the good set of numbers. I just have two questions. When we say 82% collection efficiency, what all do we include in the numerator and denominator?

Sushil Kumar Agarwal: Saurabh, this is not collection efficiency. This is actual portfolio. Collection efficiency is much better than this number so this is like if you have 100 accounts live, 83 accounts we have money recovered and 17 has not paid the installment.

Saurabh Kabra: So, this will not include the overdue amount received in the month of June? It will include the current month collection versus current month installment due.

Sushil Kumar Agarwal: No. So it is like anything which is due in the account have got collected; so collection efficiency, it will see, say, this 83% customer, out of them, somebody can pay 1, somebody can pay 2, somebody can pay 3 installment also so if you will go by that way, I think the collection efficiency will be much better than this number.

Saurabh Kabra: So, this is like 1 installment per customer collected in the month of June, if I understand correctly?

Sushil Kumar Agarwal: As of June, 83% customer have no due in their account.

Ghanshyam Rawat: I hope so, Sushil, you got clarified. Otherwise, I will add one line here. Like, there is a confusion in the market, but we run our books of account every month and we close the books of account every month. Like, we mentioned April month 24% of moratorium so April month got books closed with the 24% moratorium. If any customer comes in the month of May, out of moratorium customers, then he must pay installment for the month of May. Then, if he wants to pay month of April, then he must do part payment to me. We are not keeping our books of account open for moratorium. It gets closed every month. Now the June month, 17.8% books got under moratorium. Rest of the customer has paid their EMIs.

Sushil Kumar Agarwal: Full EMIs. Even somebody has paid part EMIs, that is part of moratorium automatically.

Saurabh Kabra: Okay and Sir, another point, how would this number look in the month of July?

Sushil Kumar Agarwal: So, Saurabh, I have given one number that the sticky account which has not made any money in April, May, June is 7.7%. Out of this also, 40% customer has paid in last 42 days.

Saurabh Kabra: Okay Sir sure thanks a lot.

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

Bhavesh Kanani: Sorry for asking on 7.7% again. But just to get clarification on the same so when we are saying 40% of this exposure has started paying, essentially, we are talking about them picking the past due also or they have paid the July installment only?

Sushil Kumar Agarwal: So, it is for July only.

Bhavesh Kanani: Okay and second one was really on the liquidity position. Most of the indicators like moratorium and your view on credit cost seem to be implying that situation is improving for us and for economy in general, so in that context, what is our take on liquidity are we going to maintain the same kind of liquidity over the quarters to come or there is a plan to not kind of raise more money and start using this for disbursement?

Ghanshyam Rawat: No. I will cover this in two ways. We already started our disbursement last week of April. May and June disbursement picked up every month. July month, again, disbursement has picked up when compared to June so disbursement, we have, I think, enough liquidity on the balance sheet. There is no liquidity constraint on account of disbursement. In that liquidity, Rs.1,500 Crores, already we maintain cash & cash equivalents. Last year, around by this time, around Rs.800 Crores plus. But by seeing certain some large NBFC, HFC issues were there and some liquidity constraint was there, so we raised some more money on the balance sheet keeping that thing in the mind. We discussed in the last Board meeting and ALCO Committee. I think both have advised us to maintain similar liquidity for at least 1 or 2 quarters. After that, we will again review with them and we are personally hopeful that in after a quarter or, let us say, maximum 2 quarters, I think we will start to reduce this liquidity at the balance sheet level. That is, I think, I hope the answer to your question.

Bhavesh Kanani: Yes. That is helpful and just to again get clarification on the provisions. Sushil ji mentioned that whatever is required on COVID front is largely done so for the remaining of the year, should we expect the old provisioning levels to return?

Ghanshyam Rawat: I will further clarify this thing. When Sushil ji clarified this thing, he mentioned everything in the detail how we have created this provision. I want to say in the beginning one thing, we did not go at a thumb rule or, let us say, adhoc provisioning during the COVID. We have calculated very detailed manner, classifying the portfolio in various profile-wise, then categorized them as high, medium and low and we are consistent what we have done in the March. Similarly, again, we have completed in the month of June. We had further refined the data based on our April, May, June moratorium behavior of the customers so based on this data bank or their reassessment of portfolio, till June, we have provided our COVID provisions in the books of accounts. We will again review in the next quarter because August is the moratorium end. September will be the first month where the real collection will happen and by the December, almost 4 months will be covered for any slippages. Everything will happen by this time. So, we are quite hopeful by seeing the granular book, till now whatever provision required we have built up. We did not see any major challenge, but we will keep on reviewing this portfolio this provision requirement every quarter.

Bhavesh Kanani: Let me put it this way, Sir. So, we did a review. We have certain assumptions in the last review as well as this review. Certain assumptions have changed which required additional provisions in Q1. From this point on, what are the areas or what are the risks that can reemerge, or new risk can come up, which can still require us to keep providing higher in coming quarters as well? Is there anything that is kind of keeping you more alert?

Ghanshyam Rawat: As of now, no. But future is uncertain, how the month go forward, let us say, this August and September.

Bhavesh Kanani: Okay and if you can just talk about what was the change in the 2 reviews that you mentioned?

Ghanshyam Rawat: Yes, I will update. When we have a risk classification in the month of March and then we have given them a high, low, medium risk categories, it was based on our presumption that hospitality sector will have the highest risk weight and this government salaried will have the lowest risk weight. We have tested the entire portfolio, because on the self-employed, we have around 17 major categorizations in that portfolio. Similarly, salaried, we have the 3 major categorization in that portfolio. Based on our past experiences, we have given them a low, medium and high. But based on the now current moratorium, how the customer behaved in the three months, we have done a recategorization of that portfolio. Accordingly, we have recomputed our provisioning requirement for this quarter by seeing the true experience of that. Second thing, like Sushil ji mentioned that, on LTV front, when we computed LGD, whatever 80% above book on the LTV at March 2020, we have given them a higher loss given default and accordingly, we have provided higher provision in the March 2020 accounts. But in June, we brought down 80% to 75% because a few interests were capitalized on those accounts so further we brought down 80% to 75%. We become a little bit conservative on providing that LGD on that portfolio also. So two major changes have happened based on the experience on the April, May, June portfolio behavior.

Bhavesh Kanani: Okay thanks a lot gentleman that answered my question.

Moderator: Thank you. We will move on to the next question that is from the line of Aravindan Jegannathan from JK Capital Management. Please go ahead.

Aravindan Jegannathan: I just wanted to clarify something on your salaried borrowers. You said 35% of your borrowers are salaried borrowers, and they are also having some moratorium, which is smaller than the self-employed, and they have 17% moratorium, which has come down to 13%. Can you explain why there is I feel like this moratorium is still a little bit high for salaried class so why would they go for moratorium if their salary levels are safe or do you think it is due to their risk of losing job or anything like that and what is the loan yield on these borrowers compared to the self-employed?

Sushil Kumar Agarwal: So Aravind, there are two things. So first, I will reply. So, we have around 100 to 150 basis point difference between the salaried and non-salaried portfolio on the pricing side. Again, coming back to the reason that salaried customer, why they are taking moratorium, so when we fund salaried customers, we take 50% FOIR, fixed obligation to income ratio, normally. In some cases, people have either salary cuts for some percentage, or even in government department, the salaries are getting delayed so these customers are, say, out of 3, they have paid 1 installment; out of 3, somebody has paid 2 installments so that is where these customers are also taking moratorium. Some of the customers are keeping cash because of the uncertainty for future. But the job loss for this kind of customer is very minimalistic because we have checked every customer who has asked for moratorium. So, we are hopeful that they will come back to normalcy in next 1 quarter itself.

Aravindan Jegannathan: Okay. The question I wanted to ask is, you said the differential between salaried and non-salaried is 135 basis points. I guess your salaried class yield also is in double digits when current market rates are quite low. Could you explain like why would that be the case if a salaried class can borrow home loans around 7% or 8%, what is your driving factor? Like, what is your edge in terms of feeding loans to salaried class at a slightly higher rate?

Sushil Kumar Agarwal: Yes. So, we work mostly in Tier 2 to Tier 5 cities and in Tier 2 to Tier 5 cities, certain times, customers do not have the access to formal income sector banks. Second, most of the time, if you will go our database, we have around 40% to 45% of customers, which is new to credit and these customer does not have the CIBIL scores so at the time of borrowing, ones whose CIBIL score is not there, I think we are the preferred choice for them for getting the funding in Tier 2 to Tier 5. I think that is why these customer choose us and secondly, we are mostly in single unit or not in apartment properties, where customer has the property and land and they try to construct the house and there also, it is a stage-wise construction so in Tier 2 to Tier 5, ticket size is low, around, say, Rs.10 lakhs, Rs.15 lakhs. There most of the formal income sector banks does not have the preference because for every Rs.2 lakhs, you will need to go to customer's place, do the visits so they tend to fund mostly more of the middle income and upper income side of customers. For these low-income customers, we have created our niche with the service request and the kind of in-house risk model.

Aravindan Jegannathan: Okay. Understood and how much of this salaried class is private sector versus like government servants?

Sushil Kumar Agarwal: So, I think around 35% to 40% are government salaried customers and rest of them are private salaried customers.

Aravindan Jegannathan: Understood thank you.

Moderator: Thank you. The next question is from the line of Sunesh Khanna from IIFL AMC. Please go ahead.

Sunesh Khanna: Most of my questions are answered. Just a couple of them. On the securitization side, it was, for obvious reason, we have not done during this quarter, but any sense you can give in terms of what is going to be the quantum this year, maybe similar to last year or lower or slightly higher?

Ghanshyam Rawat: As we always mentioned on the various con call, assignment is one of our funding instruments. We always look for competitive long-term funding instruments. Like in this quarter, we got more funding instruments, much cheaper rate from National Housing Bank because Government of India has infused fund to them for onward lending for NBFCs and HFCs; so it overall depends on what rate we get from banks and institutions. So in this quarter, definitely, we did not do any sort of assignment because other funding we got at around 6% overall weighted average cost of borrowing. So in future also, it will depend upon what rate we get on assignment and securitization with the banks and institutions. Obviously, in this quarter, other reason was, banks are not able to depute their official to do an assignment transaction. But that was the secondary reason. Main reason was the other instruments are very cheap available to us, which we have borrowed. Yes, going forward, as we found good rate from bank side to buy our retail book, we will do the transactions.

Sunesh Khanna: Right and Sir, on the branch opening and employee addition, I mean, things are like status quo. Are we going to open like 40 branches, which normally 70%, 75% we do it in the second half. So that plans, any change or everything is intact?

Sushil Kumar Agarwal: So, I think we have opened one branch last quarter and around 7 branches will open in this quarter and rest 20 to 30 branches, we are on track. If this situation does not get worse from here, we are on track.

Sunesh Khanna: Sorry to ask this question again, I know you have partly answered it. But just on the 7.7% people who have not paid, but 40% of them have paid in first 40 days of July so even, let us say, assuming 4-4.5% people by the end of this quarter are left who are not able to pay so I mean, are we going to let them flow through NPAs? Or how are we going to treat them? Or are we going to look at restructuring in some manner?

Sushil Kumar Agarwal: So, I will tell you see, this 40% is just indication. I am saying that of this quarter, 42 days has now happened, and 40% of this customer has paid so we are optimistic that most of these customers will pay.

Ghanshyam Rawat: Second, as per the RBI freezing guideline, they will open on September 1, 2020 as 1+ DPD so still we will have 90 days in our hand to connect with the customer and as Sushil ji mentioned, the visibility is strong, their business will revive, and they will start to pay back to us. Most of the customers will start to pay back to us.

Sunesh Khanna: Got it so we are hopeful that by December, this number will be negligible or minimal.

Ghanshyam Rawat: Yes.

Sushil Kumar Agarwal: Yes, and one more data point, Sunesh, on this. Out of this pool also, 60% to 65% consumer are more than 650+ CIBIL scores so I think they know that they are good customer, and for future also, they want to maintain this so there is no logic that why they will not pay it.

Sunesh Khanna: Got it and Sir, these 7.7% customer, most of them what would be the proportion of salaried and self-employed within this?

Ghanshyam Rawat: 25% are salaried, 75% is self-employed.

Sunesh Khanna: Got it thanks a lot Sir that is it from my side.

Moderator: Thank you. We will move on to the next question that is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, my first question is with regards to our collection efficiency. Sir, last quarter, you had indicated that our collection efficiency in March was 95% and in April was 76% so if you can give the number for May and June, how would that look like?

Sushil Kumar Agarwal: June, customer which has not paid a single installment is around 17%, customer who has paid two installment is somewhere around 8,000 to 10,000 customers; if you will go by that number, so 83% plus around 10%, so around, I think, 89% to 92% is collection efficiency.

Shreepal Doshi: Okay. That is for June?

Sushil Kumar Agarwal: Yes.

Shreepal Doshi: Okay. Sir, the second question is like, what kind of changes have you sort of brought in your underwriting process because we cater to self-employed category wherein there is less documentation and less numbers that we can evaluate and also with the lockdown, how are we sort of bringing in changes in order to underwrite these customer profiles or what kind of challenges are we facing and what strategy have we got to overcome them?

Sushil Kumar Agarwal: We have clarified on this in the past call also. So, after this, we have reviewed our entire risk system, and we have seen credit policy. So earlier, there was negative view that these customers, we will not fund, and rest of the profiles were okay. Now we have made it positive side so we will fund only these 10 profiles which are less effected and rest profiles we will not see or we will see with more improved filters. And then further, we have introduced video personal discussion with the customers, time stamping, there is analytics model of checking their cash flow for last 36 months so we did a lot of job on analytics side to give us more insight. We have used technology more, and then further refined our credit parameters to make it more stringent and accordingly, we are seeing and one more thing also, whatever disbursement we are making from this till March 31, we have put the continuous monitoring mechanism every month and for these customers through analytics through risk team which is dedicated for this so that if anything wrong goes on the assumptions, we immediately correct into our underwriting model.

Shreepal Doshi: Okay. Sir, why was our tax rate in Q4 and in Q1, like why is the tax rate low for us?

Ghanshyam Rawat: Tax rate for which quarter?

Shreepal Doshi: For Q1 FY21; and Q4 FY20 if I see that was close to 10%, and for Q1 close to 20%, 21%.

Ghanshyam Rawat: Yes. I will cover both the quarter. In this quarter, you know the gross tax is around 25%. But as per the income tax and Ind-AS accounting, we can transfer certain funds to a reserve account; to that extent we get a benefit so generally, our tax expense will come for the full year somewhere 20% to 21%. But in Q4 of last year, if you recall our con call after the rate reductions last year, when we mentioned we have a substantial deferred tax liability that got benefited, roughly Rs.17.5 Crores full benefit on that deferred tax liability that we took over three quarters so Rs.6 Crores got benefited in Q4 also on that account. And then one benefit was there, 80JJ which generally comes in the last quarter because we have to complete employee continuation is required till the year completion so that benefit also come in the last Q4 so both benefit has given roughly Rs.7 Crores, Rs.8 Crores tax benefit in that quarter if you add that Rs.8 Crores in that quarter, we will get 20% taxation.

Shreepal Doshi: Okay so for FY21, we should look at 20%, 21% effective tax rate, right?

Ghanshyam Rawat: Yes.

Shreepal Doshi: Thank you so much Sir.

Moderator: Ladies and gentlemen due to time constraint, that was our last question. I now hand the conference over to Mr. Sushil Kumar Agarwal for his closing comments.

Sushil Kumar Agarwal: Yes. Thank you all for attending the call. To summarize, at Aavas, we aim to be one of the key enablers in broadening and deepening of credit facilities to unserved and underserved customers in the semi-urban and rural areas. We feel we are on the right track with our approach of consistent and sustainable growth aided by our in-house execution model. True test of any business model always happens in tough times, and we are confident that like in the past, we will be able to successfully navigate the current crisis also. Thank you so much for your time. For any further information, we request you to get in touch with Himanshu

Agrawal, in our investor relationship team, or SGA, our investor relationship advisors, and they would be happy to help you. Thank you very much for your patient listening and continued support to us. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Aavas Financiers Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.