

Ref.No. AAVAS/SEC/2022-23/863

Date: February 09, 2023

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

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call for the quarter and nine months ended December 31, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in reference to letter number **AAVAS/SEC/2022-23/819** dated January 20, 2023, please find enclosed the transcript of the Earnings Conference Call on the financial and operational performance of the Company for the quarter and nine months ended December 31, 2022 held on Friday, February 03, 2023.

The above information is also available on the website of the Company at <https://www.aavas.in/investor-relations/investor-intimation>

We request you to take the same on your record.

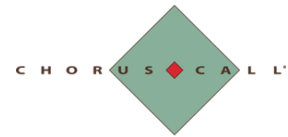
Thanking You,

FOR AAVAS FINANCIERS LIMITED

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



“Aavas Financiers Limited
Q3 FY '23 Earnings Conference Call”
February 03, 2023



MANAGEMENT: **MR. SUSHIL KUMAR AGARWAL – MANAGING DIRECTOR – AAVAS FINANCIERS LIMITED**
MR. SACHINDER BHINDER – 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. GHANSHYAM GUPTA – INVESTOR RELATIONS – AAVAS FINANCIERS LIMITED

Moderator: Ladies and gentlemen, good day. Welcome to Aavas Financiers Limited Q3 FY '22-'23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and the 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sushil Kumar Agarwal, Managing Director of the company. Thank you, and over to you, sir.

Sushil Agarwal: Yes. Good afternoon, everybody. Thank you for participating on the Earnings Call to discuss the performance of our company for quarter 3 and 9 months FY '23. I'm very excited to make a few important announcements today. In 2011, we started our journey as AU Housing as a subsidiary of erstwhile AU Financiers, which was the first phase of our journey, Aavas 1.0. Aavas has subsequently evolved into a standalone business under the ownership of Kedaara Capital &

Partners Group and subsequently went public in 2018, which was Aavas 2.0. Now we are preparing for the Aavas 3.0 journey.

The company is evolving into a go long-term institution and has embarked on the journey to becoming one of India's largest affordable housing finance player, led by people and technology. We are today blessed with a very deep and talented management bench. We are excited to be able to build upon and nurture this talent. In order to create additional leadership bandwidth and allow for better focus on both long-term strategy and day-to-day execution, the role of Managing Director and CEO will be splitted into two distinct roles. The updated leadership structure is designed to allow for the accelerated achievement of Aavas long-term vision. I will continue to be Managing Director of the company, and continue to focus on its overall business strategy for the future.

I take this opportunity to introduce you our CEO, Mr. Sachinder Bhinder, who will focus on driving core execution. Sachinder has been with Aavas for over 3 years as Chief Executive Officer of our Aavas MSME business. He previously served as the EVP and Business Head of Home Finance at Kotak Mahindra Bank, where he built INR 400 billion AUM business.

As part of Aavas 3.0, the Board has also elevated Mr. Ghanshyam Rawat to President and CFO; Ashutosh Atre to President and CRO; and Surendra Sihag to Chief Collection Officer, in recognition of their long-standing commitment and contributions to Aavas.

I would now hand over the line to Sachinder to introduce himself.

Sachinder Bhinder:

Thank you, Sushil. Good afternoon, ladies and gentlemen. Firstly, I would like to start with thanking the Board and Sushil for trusting me with this opportunity. I'm very happy to be part of this exciting journey. I'm confident that with the support of my colleagues, the Board and other stakeholders, I'll be able to work towards achieving the company's vision, mission and customer goals. Sushil has laid down a very strong foundation for Aavas.

Under Aavas 3.0, my focus will be to build on that foundation and to focus on people and technology. On people, I want to retain and build on the entrepreneurial culture in an institutionalized framework, leverage the significant upfront investments already made in human capital to drive growth and productivity, focus on engagement, training and upskilling of the organization. On the technology side, we'd like to contribute to focus on completing the technology transformation projects initiated in 2022, the idea would be to achieve non-linear growth, build technology capability equivalent to that of a bank, create a remarkable customer experience.

Sushil and I are joined on this call by Ghanshyam Rawat, President and CFO; Ashutosh Atre, President and CRO; Sidas Srivastava, the Chief Business Officer; Surendra Sihag, Chief Collection Officer; Ripudaman Bandral, Chief Credit Officer; Jijy Oommen, Chief Technology Officer; Anshul Bhargava, Chief People Officer; Rajaram, Chief Strategy Officer and Head of Analytics; and Ghanshyam Gupta, Investor Relations. 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.

I will now hand over the line to Ghanshyam, President and CFO, to discuss the business and financials. Over to you.

Ghanshyam Rawat:

Thank you, Sachinderji. Thank you, Sushilji. Good afternoon, everyone, and a warm welcome to our earning call.

The disbursement increased by 26.4% year-on-year to INR 12,024 million for quarter 3 FY '23 and 48.7% year-on-year to INR 34,428 million for 9 months FY '23. As on 31st December '22, average borrowing cost, 7.29%, against an average portfolio yield 13.04% resulted in spread at 5.75%. As on 31 December 2022, total number of live accounts stood at 1,75,001, that is 24% year-on-year growth. Total number of branches was 321, 23 new branches added in last 12 months. Employee count, 6,082, 28% year-on-year growth in anticipation of additional 20 to 25 new branches in Q4 FY '23.

Assets under management grew 23.3% year-on-year to INR 1,30,887 million as on 31st December 2022. AUM has the impact of subsidy received of INR 2,900 million since December 2021, previous year, INR 440 million. Therefore, AUM grown by 26%, excluding the impact of subsidy.

Product-wise breakup: home loan, 70.1%; other mortgage loan, 29.9%. Occupation-wise breakup: salaried, 39.7%; self-employed, 60.3%. After witnessing 190 basis point increase in repo rate in the first half of the year, RBI has further increased repo rate of 35 basis points during third quarter. Consequently we have also increased our prime lending rate by 125 basis points during first 9 months of FY '23 and further increased 35 basis points with effect from January 5, 2023.

During the quarter, company borrowed an incremental amount of INR 13,364 million at 7.15%. As on December '22, our average borrowing cost stood at 7.29% on outstanding amount of INR 1,16,648 million. IGAAP to Ind AS reconciliation has been explained in detail for profit after tax and net worth on Slide #35 and 37 of our presentation.

Borrowing. Access to diversified and cost-effective long-term financing, strong relationship with development financial institutions. During the year, borrowed INR 31,815 million at an average rate of 6.84%. Overall borrowing mix as on December 31, 2022, is 42.2% from Long-term loans from banks: 22.3% from assignment and securitization, 22% from National Housing Bank and 13.5% from debt capital market. Liquidity of INR 27,882 million as of December 2022. Cash and cash equivalent balance of INR 14,682 million. Unavailed cash credit limit of INR 1,100 million, documented unavailed sanction from other banks of INR 12,100 million.

Profitability. Profit after tax increased by 25.8% year-on-year to INR 3,035.4 million for 9 months of FY '23. ROA, 3.43%, and ROE 13.59% for 9 months FY '23. As on December 31, 2022, we are well capitalized with a net worth of INR 31,489 million and capital adequacy ratio at 49.5%. Our book value per share stood at INR 398.4.

Now I would like to hand over line to Ashutoshji, President and CRO, to discuss the asset quality. Thank you.

Ashutosh Atre:

Thank you, Ghanshyamji. The key portfolio risk parameter, asset quality and provisioning. One day past due stood at 4.05% as against 4.45% at the end of last quarter. Gross Stage 3 stood at 1.13% and net Stage 3 stood at 0.87% as on 31st of December 2022. Gross Stage 3 of 1.13% includes 0.19% of up to 90 DPD assets, which have been categorized as GNPA following RBI notification dated 12th of November 2021. Additionally, the company has stopped recognizing assets held for sale under SARFAESI and marked them as NPA after March '22, amounting to INR 280 million, which has an impact of 0.26% on above-stated gross Stage 3 assets.

During FY '22, the resolution plan was implemented for certain borrower accounts as per RBI's resolution framework 2.0 dated 5th of May 2021. Some such accounts with an outstanding amount of INR 931.1 million as on 31st of December '22 have been classified as Stage 2 and provided for as per regulatory guidelines. Out of INR 931.1 million, INR 701.9 million is into 0 to 30 DPD bucket. Total ECL provisioning, including that for COVID-19 impact as well as resolution framework 2.0, stood at INR 675.3 million as on 31st of December 2022. With this, I open the floor for question-and-answer session.

Moderator:

Our first question comes from the line of Ankit Kanodia from Smart Sync Services.

Ankit Kanodia:

Congratulations for a good set of numbers. Sushil, just one question. We started a new product post the pandemic, which is related to the secured small business loan. If you can give some color as to how that product is shaping up and what is the competitive scenario? And where do we see this product shaping up in the next 2-3 years?

Sushil Agarwal:

Yes. So Ankit, our non-home loan portfolio is around 28%-30%. And two, three years back most of this portfolio was LAP, and 3 years back, they started converting this into MSME. So now 40% of that non-home loan portfolio is MSME portfolio. MSME portfolio is -- how it is different from LAP is tenure. MSME portfolio is seven years, LAP can be up to 15 years. MSME portfolio can be used by business guys only, LAP can be used for personal use also. And MSME loan is basically a priority sector loan, so we get funding accordingly. So that has picked up very well, and we want to continue the same trajectory, 70-30 home loan and nonhome loan, and most of which we want to do as the MSME loan.

Ankit Kanodia:

And sir, what would be the competitive scenario here? And how are we placed?

Sushil Agarwal:

So Ankit, as of now, the areas where we worked at Tier 2 to Tier 5. Though there is competition, but it is in small pockets, but we, because of our distribution and reach up to 2,500 towns, we are very well placed to cater this kind of segment. So little competition, but because of distribution, we are able to take many customers, which we want to build in our book.

Ankit Kanodia:

And is it fair to assume, sir, that in the next two, three years, this category of loan will probably grow faster than the home loan portfolio? Because we are underpenetrated here, and we already have that distribution advantage.

- Sushil Agarwal:** No. So we want to maintain 70-30 home loan and nonhome loan portfolio. So in the same ratio, it will grow as an overall company.
- Ankit Kanodia:** Any reason for the 70-30 ratio?
- Sushil Agarwal:** Normally, we want to be a proper housing finance company, and that's where we want to choose more focus on the housing loan business other than non-housing loan business.
- Moderator:** Our next question comes from the line of Uday Pai from Investec.
- Uday Pai:** Sir, where could be the BT out rate for the quarter? .
- Sushil Agarwal:** Sorry?
- Uday Pai:** BT out rate?
- Sushil Agarwal:** BT out rate is around 0.5%. Earlier, first quarter was around 0.7%, then second quarter, it came to 0.6% and now it is 0.5% per month.
- Moderator:** Our next question comes from the line of Abhijit Tibrewal from Motilal Oswal
- Abhijit Tibrewal:** Congratulations to the entire management team for starting a new chapter through Aavas 3.0. Sir, beyond numbers, there are a couple of things that we have reported and that we have also put out slides on that I wanted to understand. Firstly, on the split of the role and responsibilities between the MD and CEO, while we understand it is a very value intention and a welcome step, 2 things I kind of wanted to understand.
- Firstly, what was the contribution of Mr. Sachinder to Aavas over the last 3 years? And what are the different functions that he's been involved with over the last 3 years? What -- I mean now that, Sushilji, you will be moving into the MD role, exclusively MD role, what your growth vectors and strategic initiatives would now that you will be acting upon? And lastly, is there something the works even for your subsidiary, Aavas Finserv, where we gathered during some of our field trips that you've already started doing some pilots in personal loans?
- Sushil Agarwal:** No. So Abhijit we applied to RBI for our NBFC license, and that's where Sachinder joined us 3 years back to build MSME business. We started building MSME business in the parent company until the time we get the license. Eventually, last quarter, RBI returned our application for the NBFC license. So Sachinder shifted to Aavas financial team as a CEO. Sachinder has contributed building MSME business in the parent company, and he also used to take care of affordable housing and some of the direct government-led businesses in the company.
- Abhijit Tibrewal:** What are the growth factors and strategic initiatives that we would like to now embark upon given that, I mean, now there is a separation between the MD and the CEO role?
- Sushil Agarwal:** Yes. So Abhijit, the way we see always -- the way I described that we plan for 10 years, we build for 3 years ahead and then we execute for current year. So in the process of thinking for long term, we take a lot many initiatives like right now, we are doing the digital transformation of the

company. So this will enable us to scale for maybe 100x from the current level. And then certain new product lines, new target segments, new market identification and new opportunity identification, on which we need to work in depth as a pilot before putting into a system, which we will now be able to scale up.

So I think all those things are from new initiatives, long-term thinking and vision perspective is important. Since by this year-end, we believe we will be around INR 15,000 crores, which was the first, you can say, benchmark for affordable housing that -- whether you can break that bridge or not, and then after that, even if we grow with 25% growth, so it's almost twice every 3 years or 3.5 years. So at that scale you will need different kind of infrastructure, a different kind of thinking, different kind of initiatives. For that, we have divided now our responsibilities that Sachinder will take care of day-to-day activities of business running. And I will help more from the long-term perspective of the company.

Abhijit Tibrewal:

Sir, one thing which is happening is, I think, I mean, until last quarter, we used to talk about the 20%-25% growth. Now we are at least talking about a 25% kind of a growth after we reach that INR 15,000 crores kind of a milestone. Sir, last question from my side, I mean, given this transition to Aavas 3.0 and the related IT transformation, which will enable this transition to 3.0.

I just wanted to explain -- I mean, I just wanted to understand if you can explain in some detail, what are the things that you have planned under this IT transformation? What is the total investment outlay on this IT transformation? And by when do you expect this to get completed? Because what we also heard that you plan to launch your sales force platform within the next few days and then actually phase out your current omni platform.

And sir, also related, I mean, what benefits are you maybe kind of expecting to accrue from this IT transformation in your origination and underwriting? Will it significantly bring down your TAT? And we have all along talked about this steady and calibrated AUM growth of 20%-25%, Can this IT transformation help you into a higher orbit of AUM growth?

Sushil Agarwal:

So Abhijit, overall as a digital transformation project for Aavas, this has 5-6 components. Overall, capital outlay is around INR 120 crores to INR 150 crores. Out of these, 3 key projects right now are in working stage. So one is sales force, which is transformation of all the loan organization processes. If you see last 3 years, we were stagnant 10 to 12 days of TAT in our loan processing. I think that with this new initiative we will be able to bring it down by 30%-40% in the first phase and maybe second phase it can be further better out. Secondly, this transformation will help us changing the customer experience because, going forward, once we will be big, our competition will be-- our customer will see and compare us with the banks, large fintechs and best-in-class companies. And with this software, I think we will be able to cater that size.

Other synergies are like our productivity enhancement, so till today we have 400 underwriters and processing 16,000 files, can 400 underwriters can process 24,000 files? Today, 1 file is around 150 pages and it costs around INR 1,000. With this system, 70% of files will be digital. So that INR 1,000 cost may come down to INR 300-400. That itself will save INR 10 crores-

INR 12 crores a year for us. So I think there are lots of things which we want to achieve either on productivity, process, customer experience, cost reduction and scalability. So I think all those purposes, this will serve.

Second phase is LMS. So now we are moving to banking system, which is Flex cube, which is like HDFC Bank, AU Bank, all these larger bank platforms are using this. This will help us in scaling our branch network, You must have seen that NBFCs at 300-400 branches start shaking, but banks have 5,000-10,000 branches. So I think once we will implement this, this is scheduled to be implemented first quarter of next year. This will help us in scaling up with better control. In a bank, if you will go INR 1 crores cheque can be transferred by a teller.

But in NBFC, if you want to transfer INR 1 crores I think it's requires MD's approval. So I think this will give us flexibility. And we are hoping if regulator will give us some more product line approval like car against property or overdraft against property or some of the banking products, we are ready for that from the very first day in our journey.

And third one is ERP systems. So we are moving to best-in-class Oracle Fusion. This will help us getting better cuts on profitability product wise, branch wise, people-wise, different segment wise. And it will also help us bringing IndAS accounting fully automated basis. So lots of help on that side.

And the fourth version is analytics, where we are creating an architecture which can sustain 100x growth on data from the current level with a seamless integration and speedy decision-making, maybe not days, hours, maybe in some seconds in some kind of profile. So these are little bit update, but maybe if you want more detail, you need to come to Jaipur or you need to write e-mail to Jijy for further update on that side.

Moderator: Our next question comes from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Just 2 or 3 questions. One is that, what would be the individual yield on the non-home loan portfolio? And what is the time taken to break even that loan? And what is the yield on home loan? And what is the time taken to break even this particular loan, sir? And what is the number of loans that we have disbursed in each of the category in third quarter?

Sushil Agarwal: So NHL is around 14% and home loan is around 12%. And we have breakeven from the very first year. It is not that we fund and profitability start after 2 or 3 years because we are not in a DSA business, we get upfront 2% to 2.5% fee on our loan book. So our loans are positive from the first year.

Shubhranshu Mishra: And the number of loans in each category that we have done in this quarter, disbursement level?

Sushil Agarwal: So our average ticket size is around 11 lac and INR 1,200 crores disbursement has happened out of which 70% which is about INR 8,400 crores. So around 9,000 cases in home loan category and around 3,000 cases in nonhome loan category.

Moderator: Our next question comes from the line of Shreepal Doshi from Equirus.

- Shreepal Doshi:** Sir, I wanted to understand what are the rate hikes or the pricing hike that we have taken in the last 6 months for HL and non-HL, both.
- Sushil Agarwal:** Shreepal, as we have mentioned, we have increased our PLR by 125 basis points and further PLR increase from January 5, around 35 basis points.
- Shreepal Doshi:** Both the products?
- Sushil Agarwal:** On both the products. Yes, on all the variable category products.
- Shreepal Doshi:** Sir, 125 already done and 25 is likely to happen in Feb?
- Sushil Agarwal:** January, 35 basis points.
- Shreepal Doshi:** 75, okay.
- Sushil Agarwal:** 35, 35.
- Shreepal Doshi:** 35, sorry. And sir, this gets implemented within a month's time. Is that a fair understanding?
- Sushil Agarwal:** Yes.
- Shreepal Doshi:** And sir, how do you see the margin moving from current levels for us?
- Sushil Agarwal:** So Shreepal, right now, it's 5.75 and with 35 basis point increase, again, this will be 20 basis points. And last quarter, business normally brings a little bit lower. But I think we are hopeful that margins will be stable at least for next quarter.
- Shreepal Doshi:** And sir, for FY '24, if you can give some guidance.
- Sushil Agarwal:** We need to see interest rate movements, which side it is going. But hopefully, it will be stable or it is reduced by 25 to 50 basis points. We will bring that kind of efficiency into our opex.
- Shreepal Doshi:** And sir, the branch expansion plan stays as it is, right? Every year, 30, 35 sort of branches?
- Sushil Agarwal:** So, in the current year until now, I think we opened 7 and another 23 will be opened in this quarter.
- Moderator:** Our next question comes from the line of Shweta Daptardar from Elara Capital.
- Shweta Daptardar:** Sir, 2 questions from my side. So having mentioned the fact that you will be taking a strategic step from technological transition, how do we perceive now opex to asset ratio, which has sort of remained elevated for a while now currently around 3.5% - 3.6%?
- Sushil Agarwal:** Shweta, in our past commentary also, we have always mentioned that because of technology transformation and capacity building up, these opex are elevated. And from next year, third quarter onwards, we will see 25 to 30 basis point decrease year-on-year for next 3 - 4 years in the trajectory.

- Shweta Daptardar:** Secondly, when do you see ratings upgrade happening for us? Are we in talks with any of the rating agencies? Any time lines? And what is the overall broader sense there?
- Sushil Agarwal:** Shweta, we have done this journey from BBB- to AA stable and last two years already 3 ratings are updated. It's a journey. We will continue doing all good work, and it's up to rating agencies when they will consider us for the next rating upgrade.
- Shweta Daptardar:** Sure, sir. And if I may squeeze in one last question. So I remember you mentioning last quarter that 65% of your disbursements happen largely in the first half, right -- sorry, they happen in the second half. So if I go by the current disbursement number, around INR 1,200-odd crores, and if I extrapolate with this logic, then we are exceeding almost 25% loan CAGR for this particular year and maybe even in future, so what is your growth guidance now?
- Sushil Agarwal:** So Shweta we always said that we will grow 20% to 25%, and we always keep 25% capacity enhancement in our system and also if some adverse things, market competition and all those things will not be there, we might do better than these numbers.
- Moderator:** Our next question comes from the line of Vikas Kasturi from Focus Capital. .
- Vikas Kasturi:** Thank you very much for being the CEO over the past 7 years. And congratulations to Sachinder too. Sir, I had a few questions. So first one is, do we plan to stay in the same sub 10 lac ticket size trajectory or in the future, if you want to grow faster, would we be looking at slightly higher ticket size?
- Sushil Agarwal:** So Vikas, as we, Aavas, we fund from INR 3 lakhs to INR 1 crore ticket size, and our average ticket size comes in home loan around INR 11 lakhs and non-home loan around INR 9 lakhs. And we foresee that this average ticket size can increase by inflation rate. So we are planning that way.
- Moderator:** Our next question comes from the line of Mayank Agarwal from InCred Capital.
- Mayank Agarwal:** Congratulations on the good set of numbers and best of luck to the team with the new roles. So my question is basically on the branch expansion. So what are the states which we will be focusing on for the newer branches in this year and next year going ahead?
- Sushil Agarwal:** So Mayank, right now, we are working in 13 states. And whenever we open new branches, it opens in the combination of old state versus new states. So this year, like in Karnataka, we are opening around 8 to 10 branches and Odisha too and rest our branches are in the existing states where we are working.
- Mayank Agarwal:** And secondly, is my question on our strategy and growth outlook with the additional management bandwidth now we have. So what kind of change in growth outlook or the products or product mix, geographical mix can we look in the next 3 to 5 years as of now?

- Sushil Agarwal:** So we'll continue our strategy as usual. We will open 30-35 branches every year. Every 5 years, we open in 4 new states, this is third round. So we have opened Karnataka and Odisha, and we will add 2 more states in the next 3 to 5 years in our journey on the distribution side.
- Mayank Agarwal:** Sir, my last question is on the new branches we have opened in new states, what is the breakeven period for them? We know that it takes us around 30 months for the disbursement to pick up in the newer branches, but by when can these branches reach the breakeven level?
- Sushil Agarwal:** So we have 90% of our branches breakeven in first 12 months. I will again elaborate our unit economics. So whenever we want to open a branch, say, if it a population of 1 lakh divided by 4, which is 25,000 families, and we want to penetrate there for 4-5%. So it's around 10 to 12 cases per month or INR 1 crore potential. So we will get 2.5% fee. And we ensure that these branch expenses should not be more than INR 2 lakhs to INR 3 lakhs per month. So once the branch reaches 75% to 80% of its potential business, we are ROE breakeven. But as per data, more than 12 months branches entire country, we have 94% branches which are ROE positive.
- Mayank Agarwal:** And sir, last request is, basically requesting for a Jaipur visit for all the analysts so we can see the tech, what kind of technological changes you have made, the coalition extra on the Aavas 3, basically we can get a look and feel for that.
- Sushil Agarwal:** So we are arranging that after Q4 results, Jaipur, Mumbai that we will see.
- Moderator:** Our next question comes from the line of Shreepal Doshi from Equirius. .
- Shreepal Doshi:** Sir, Just wanted to understand Aavas, what is the thought process for Aavas Finserv? can we deploy the strategy that we have made for MSME secured product? And do we have a plan to shift that business to Aavas Finserv? Because at the Aavas Financiers level, we'll have to maintain the HFC norms, right? So is there a back of the mind thought process?
- Sushil Agarwal:** So Shreepal, we have applied for the NBFC license, but it was returned by the RBI. So now we are focusing only on our Aavas Financiers business.
- Moderator:** Our next question comes from the line of Srinath V from Bellwether Capital.
- Srinath V:** Sir, could you spend some time and help us understand the new geographies, the last 3 geographies, what has been the experience for us from basically disbursement to how DPDs are playing out and so on? Second is largely we have been in, say, geographies with similar language base. And as we go into South India or deep into East India, we are moving linguistically to slightly more different languages. And what kind of management bandwidth are we building? So if you could broadly address scalability of your business across non-Hindi geographies?
- Sushil Agarwal:** Yes. So in last 2 years, we have added Odisha and Karnataka. This is part of our network contiguous distribution approach. Karnataka is adjacent to Maharashtra. And so we have started Karnataka from the area which is adjacent to Maharashtra and from Belgaum, then Hubli, Dharwad, then Bellary, Gadag. And we have the state head, which was there with us 5 years in Maharashtra but belongs to this market. So he has shifted there.

And in Karnataka, we started with Bangalore. We have 4 branches in Mysore, Tumakuru. And in between areas, we have 6, 7 branches. So today, we have around 11 branches and we are able to do around INR 15 crores kind of business per month. So breakeven is much faster in that market. But why we started Karnataka, another analogy is, Rajasthan state has 33 districts, 247 tehsils, 6.5 crores population. And Karnataka also has 30 district 222 tehsils, 6.5 crores population, but their entire land records are digitized.

So we thought we will replicate Rajasthan model there. Rajasthan, we have 94 branches. So we intend to open 80, 90 branches in Karnataka also in the next 8 to 9 years. Every year, we will increase 10 to 12 branches there. Odisha, again, it's a contiguous distribution model. We are in Chhattisgarh and we have branches in Raipur and reached till Mahasamund which is Chhattisgarh border.

From Mahasamund to Odisha, capital Bhubaneswar a major state highway. So we want to connect that through Sambalpur and other locations. In the first phase, we have opened Bhubaneswar, Cuttack, Jahajpur, Gopalpur. And in the next stage, we are opening up Sambalpur and other things.

And on this date, again, we are able to break even in the first year itself. Until now there is no delinquency as we have told our philosophy, first 30 months we go slow, but we ensure that no account is 30 plus. So until now, we are on the execution side with right strategy. No delinquency on these 2 new states.

Srinath V:

And how about to Uttar Pradesh, sir, given that the state has had chequered record even in micro finance, you've seen a couple of blowups in the past and in kind of non-salaried segment. So what has been the credit experience, especially in Uttar Pradesh in the last 1 year, from, say, DPD 0 perspective? Is it in line with the 4% that we are doing at the portfolio level? Or will it be slightly higher? Any broad perspective?

Sushil Agarwal:

Yes. So Uttar Pradesh, we have started, I think, now 4.5 years. So we have 5 years journey there. Their 1-plus numbers are in line with our philosophy, less than 5%, and gross NPA is 0.54%. So we are doing well. We have now more than 20 branches there. And doing calibrated business in that market. We see a great opportunity there also in the long term, in 10 years horizon. UP can be INR 100 crores per month business market for us, but we will go slowly in calibrated manner in that market.

Srinath V:

Last question from my side is, this is more when I went on a vacation to Northeast, I witnessed that there is a significant amount of single dwelling homes and a lot of construction activity of private homes in those and with visibly younger demography. Is that a market that generally also you kind of see a much more peaceful environment out there. Is that a market that would interest you, do you think that market has the necessary population depth for an operator like you to operate?

- Sushil Agarwal:** So we are a long-term focused company, and we have completed over 13 years of journey. And we are in 13 states, in the next 15 to 20 years as we want to cover entire India. So we will go slowly, but we will complete the entire India.
- Moderator:** Our next question comes from the line of Ashay Jain from Jain Capital. .
- Ashay Jain:** I have a couple of questions. Firstly, can you please share some outlook on the domestic as well as the export market?
- Sushil Agarwal:** Ashay, we are catering to domestic market only in the housing finance segment. And so we don't have perspective about the overseas market and the property finance market. But Indian property finance market, if you will see different kind of reports from CRISIL, ICRA and different industry bodies, today, industry is around INR 27 lakh crores in India, and it's supposed to grow 8% to 10% year-on-year. And in Indian mortgage, GDP ratio is around 9% to 10%, which we foresee that in the next 5 years, it can reach up to 11% to 12%.
- Moderator:** Ladies and gentlemen, the line of Ashay Jain has been disconnected. We will move on to the next question, which is from the line of Srinath V. from Bellwether Capital.
- Srinath V:** Yes. Sir, going back to the MSME business, could you help us understand the customer profile in this, especially seen the -- given the scaling up, what are the broad customer profiles? And how would that be different from the LAP business? While in the LAP business, yes, the term - - the length of the term is different, so I would like to understand which are the occupancies you're -- is it largely B2B customers, B2C, B2C consumer? Or what kind of broad customer profiles, what kind of incomes are these people having and so on and so forth? If you could help us explain that, that would be great.
- Sushil Agarwal:** Yes. So as you know, we as Aavas has more customer focus on business customers, salaried customer is 39%, and 62% is self-employed. In the self-employed category we cater to around 40 profiles from kirana merchants to medical shops to hardware to halwai to cargo, so everything which you will see on the state, but mostly it's D2C business, direct to customer businesses. These customers have income levels from INR 20,000 per month to INR 1 lakh per month kind of income segment.
- Srinath V:** This would be, I'm not referring to the housing loan business, sir, more for the MSME side of the business.
- Sushil Agarwal:** Yes, the MSME customer has the same profile.
- Srinath V:** And so here, again, so it's a loan against property and when you assess the cash flow for the business, are you funding working capital for the business? Or are you helping them with some sort of capex? And...
- Sushil Agarwal:** Normally, working capital term loan. We fund for different kind of business requirements from stock to machinery to erection of yard, etc. So it can be any business requirement from working

capital stocks to capex. We fund against property, normally 99% securities are self-occupied residential property in this segment.

Srinath V: And so this geographically, what kind of growth can you have in this model because it may be a slightly more complex model than the home finance model. Is this also replicatable across geographies? Where are we? Which geographies are we currently present in? And how do you see that moving?

Sushil Agarwal: So now the credit is a specialized vertical. That is working in around 30 branches and every year, we will expand this vertical to 30 more branches. So every year, we will expand this business to 30-34 more new branches as a specialized product.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Sushil Agarwal, Managing Director, for closing comments.

Sushil Agarwal: Good evening, everybody, and I'm happy to inform you that in collaboration with International Finance Corporation, Aavas has successfully achieved EDGE Certificate for first lot of affordable green self-build homes during this quarter. This is the first-ever pilot project by IFC and EDGE in collaboration with Aavas for self-build houses, which has been certified as green homes, not just in India, but at a global level. This will further increase as we move along in this journey. And we hope that in next 5 years, 15% to 20% of houses which we are funding will be green-certified.

Thank you all for attending the call. We would also like to let you know that we are planning to host longer Investor Day next quarter to give all of you a chance to spend more time with the broader team. I wish you a very happy new year and hope everybody to keep safety and healthy as a priority. For any further information, we request you to get in touch with Ghanshyam Gupta, our Investor Relations team member and SGA, our IR adviser. They would be happy to help you. Thank you.

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