SAPNE AAPKE, SAATH HAMAARA

Ref. No. AAVAS/SEC/2020-21/628

Date: January 28, 2021

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

Dear Sir/Madam,

Sub: Earning Conference Call Transcript

In reference to letter No. AAVAS/SEC/2020-21/597 dated January 12, 2021, please find attached the transcript in respect to the earning conference call on the financial and operational performance of the Company for the quarter and nine months ended December 31, 2020 held on Friday, January 22, 2021 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
Q3 and 9M FY2021 Earnings Conference Call"

January 22, 2021

MANAGEMENT:	**MR. SUSHIL 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 Q3 & 9M FY21 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushil Agarwal, MD and CEO of Aavas Financier Limited. Thank you and over to you Mr. Agarwal!

Sushil Agarwal: Good afternoon everybody. Thank you for participating on the earning call to discuss the performance of our company for Q3 and 9M FY21. With me, I have Mr. Ghanshyam Rawat – CFO, Mr. Ram Naresh – Chief Business Officer, Mr. Ashutosh Atre – Chief Risk Officer, Himanshu Agrawal – Investor Relations, other senior colleagues of the management team and SGA our investor relationship advisor.

The results and the presentations are available on the stock exchanges as well as our company's website and I hope everyone has had a chance to look at it.

At Aavas, we continue to grow consistently in a calibrated manner and registered AUM growth of 23% YoY as of Dec-20. With continued improvement in economic activity and people adapting to new normal, our business has also been improving. While the total disbursements for 9M FY21 at Rs.16,441 Mn were lower by 21% on YoY basis, the disbursements for Q3 FY21 at Rs.7,645 Mn registered 2% YoY growth and 15% QoQ growth. PAT for 9M FY21 increased by 7% on YoY basis as per Ind-AS accounting and registered 24% YoY growth as per IGAAP accounting. On the asset quality front, 1+ DPD and Gross Stage 3 is around 8.2% and 1% respectively as of Dec-20. These are largely in line with our earlier expectation. Gross Stage 3 includes roughly 0.59% of assets which have not been declared NPA for regulatory requirement and other purpose on account of an interim Supreme Court order. But we have provided for the entire Stage 3 assets as per Ind-AS norms and also created additional provision of Rs. 190.3 Mn over the last 4 quarters on account of COVID. Having said that, we have witnessed an encouraging trend in collection efficiency which improved from 95% in September to pre-COVID level of 98.8% in December. Further, we draw comfort from the fact that 100% of our portfolio is secured against mortgage, most of which is self-occupied residential property. Also, the portfolio is very granular in terms of customer profiles with average ticket size of sub Rs. 1 Mn and average loan to value ratio is less than 50% on the outstanding amount.

Now I will hand over the line to Ghanshyamji – CFO to discuss various business parameters in details.

Ghanshyam Rawat: Thank you Sushilji. Good afternoon everyone and a warm welcome to our earnings call. During this quarter, company has borrowed an incremental amount of Rs. 9,356 Mn at 7.04% for 144 months. As of Dec-20, our average cost of borrowing stood at 7.68% on an outstanding amount of Rs. 81,861 Mn with an average maturity of 131 months. Our long-term credit rating continues to be AA- with a Stable outlook from ICRA and CARE. Despite the highest short term of 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 PAT and Net worth on slide number 31 & 33 of our presentation.

Key parameters; as on December 31, 2020 total number of live accounts stood at 1,18,398 i.e. 22% YoY growth. Total number of branches were 263, we opened 18 new branches in last 12 months. Employee count of 3545 vs. 3109 in Dec-19 i.e. 14% YoY growth. Assets under management grew 23% YoY to Rs. 88,226 Mn as on December 31, 2020; Product-wise breakup, home loans 73.4% & other mortgage loans 26.6%. Occupation-wise breakup, salaried 39.3% & self-employed 60.7%. The increase in salaried proportion from usual 35% level is due to higher proportion of salaried disbursement during 9M FY21 and reclassification on few existing loan accounts basis occupation of primary earning member instead of main applicant. Disbursements decreased by 21% YoY to Rs. 16,441 Mn for 9M FY21, but with the return of gradual normalcy disbursements increased by 2% YoY and 15% QoQ to Rs. 7,645 Mn for Q3 FY21. As on December 31, 2020 average borrowing cost of 7.68% against average portfolio yield of 13.42% resulted in a spread of 5.74%. Borrowings, we have access to diversified & cost-effective long-term financing, a strong relationship with all lenders, development financial institutions, banks and institutions. Overall borrowing mix as on December 31, 2020 is 35% from term loans, 23.8% from assignment and securitization, 21.9% from NHB and 19.3% for debt capital market. Provisioning, additional ECL provisioning of Rs. 42.9 Mn created to consider the impact of COVID-19 during Q3 FY21. Total COVID-19 provisioning including earlier three quarters stood at Rs. 190.3 Mn as on December 31, 2020. Total ECL provisioning including the COVID-19 provisioning stood at Rs. 482.9 Mn as on December 31, 2020. Asset quality, 1 day past due stood at 8.21%, Gross Stage 3 stood at 1% and Net Stage 3 stood at 0.72% as on December 31, 2020. Gross Stage 3 is inclusive of loan accounts which are not classified NPA as per interim order dated September 3, 2020 of Honorable Supreme Court, such account have an outstanding amount of Rs. 413.8 Mn (~ 0.59% of assets) & have been provided for as a prudent practice during the quarter. Liquidity of Rs. 26,740 Mn as on December 31, 2020; cash & cash equivalent Rs. 19,670 Mn., un-availed CC limit of Rs. 1,220 Mn, documented un-availed sanction from other banks Rs. 5,850 Mn. Profitability; PAT increased 7% YoY to Rs. 2,022 Mn for 9M FY21 as per Ind-AS accounting. As per IGAAP accounting, PAT has registered YoY growth of 24% to Rs.1,999 Mn for 9M FY21. ROA was 3.2% and ROE was 12.2% for 9M FY21. ROA was 3.9% and ROE was 15.1% for Q3 FY21. As on December 31, 2020, we are well capitalized with a Net worth of Rs. 23,097 Mn. Capital adequacy ratio stood at 53%. Our book value per share stood at Rs. 294.6. With this, I open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question & answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Congratulation for good set of numbers. Firstly in terms of this 1+ DPD last time it was 6.2%, though we highlighted that we are settling at that level much earlier than anticipated but how should we read into the movement after going up to 8.2% and finally last time you have said that 15% to 20% of it generally slipped into NPA, so then should we assume like 1.3% to 1.5% Stage 3 as we move forward or collection efficiencies is giving us a lot of comfort that it will settle at the current level?

Sushil Agarwal: Good afternoon Kunal, so 1+ number of September shows because this was after 5 months of moratorium or 6 months of moratorium, so the accounts which has not paid the September installment which is roll forward number which was 6.2% and you know in a normal business customer pays instalment as on time, but certain customer miss one instalment, certain customer will miss second instalment and that is where we have 1+ number, so as we have mentioned collection efficiency in September was 95% which is 98.8% in December and if you remove already NPA become account its 100% collection efficiency. So, that is giving that now the account which are in whatever buckets are going to improve and secondly like we were having around 5,800 account which has not paid the EMI in September. Now as of December only 2,000 accounts were there who has not paid the December instalment, so significant improvement and out of this also most of the accounts are in first bucket or second bucket, so whatever account was supposed to be 90+ or we cannot say 90% at this point of time, so Stage 3, so that has already happened and which is 0.8% as per IGAAP and 1% as per Ind-AS and that has already been fully provided in the balance sheet and over and above that still Rs. 190 Mn Covid provision is in the balance sheet, so first of all we always tell that whatever is 1+, 10% to 15% become NPA, so that is already reflecting 8.1% and 0.8% on IGAAP so that is already matching. Going forward I think as we see the trend it will improve from this number because earlier also we have told that it will go up to 10% and it will come down to normal 5%-6% level in one or two quarters time so that is still holding true for us and second is this once this Supreme Court order will be there I think that will also help this roll down as quickly as possible.

Kunal Shah: So, with this Stage 3 we should be pretty much comfortable, it is very much reflecting this 8.2% of 1+DPD?

Sushil Agarwal: Yes.

Kunal Shah: Okay and just two more questions; on securitization, it was higher at Rs. 2.4 Bn along with much better yield and now it is almost 23% of the AUM and normally we used to keep it at 19-20, so what would be our plan out there or strategy should we be taking up further if there are like may be opportunities available to cross sell at a better yield, so that is first question and secondly just wanted to understand you mention something in terms of reclassification of this salaried which is leading to higher proportion from say the applicant to the earning member. So, anything to read into this or this is just like the internal classification?

Sushil Agarwal: I will tell you, as we have told during this nine months we have improved filter on what we will fund or what we will not fund, so in the self employed side, we have improved filter and only positive list was funded, so during this nine months salaried disbursements were higher, so the 3%-3.5% difference around 2%-2.5% difference is because this nine months higher disbursement on salaried class. Around 1%-1.25% customer as we have told that we have talked to 100% of the customer during the COVID period and we have for the ECL classification also rechecked everything and in some of the cases like very few cases where we have mentioned first applicant which is business and we have mentioned the business but instalment were coming from salaried guy who was the main earning member of the family, so in around 1% or 1.5% cases those has been classified once we have checked during the ECL provisioning, so this is the difference so there is nothing to read in between on this classification; on this assignment side Ghanshyamji will explain.

Ghanshyam Rawat: Kunal, in this nine-months we have done an assignment of Rs.3900 Mn; last year we have done Rs.5640 Mn in the nine-month period. I think in last earlier calls also we explained this thing that assignment securitization is one of our funding tool, we are consistently maintaining around 15% to 20%, it depends upon the market available and pricing available accordingly we figure out the deal with the bank institutions and we do that fashion. And secondly, I want to update additional data point on that from our side. If you see this quarter, we have shown profit on account of assignment transaction of roughly Rs.400 Mn in this quarter versus last quarter Rs.180 Mn, because in this quarter we sold pool which is having EIS spread of more than 6.5% and that is why higher income came but you compare nine month to nine month basis, I would update here also this is NPV of future income we book under Ind-AS accounting but as we move ahead in the next year, it get unwound automatically in the system, so if we take unwinding also in the account so in this nine month, we have net income of Rs.110 Mn versus last year nine months we have Rs.260 Mn, so still in this nine month apple to apple comparison we have a Rs. 150 Mn less income in this year.

Kunal Shah: Okay, thanks. That is helpful and in proportion it will again be like 15% to 20% odd?

Ghanshyam Rawat: Yes, roughly this.

Kunal Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Chirag Surekha from DSP Investment Managers.

Chirag Surekha: Actually, my question also was regarding that 8% number that we have seen on 1+ DPD, usually these numbers reflect either distress or change in banking behavior, what aspect of the customer behavior has caused this jump, that is the question that I had?

Sushil Agarwal: Say, from September to December four instalment accrued and most of the customer has paid three and even more than three; if somebody have not paid half of the instalment or one instalment he is not able to pay, so that has caused this but more or less I have told you we should see this in entirety that collection efficiency has increased from 95% to almost 100% and customer who have not paid instalment in September was 5800 and in December it was around 2,000, so significantly improved.

Chirag Surekha: Sir, you are basically saying this is just a gradual unwind of the Covid disruption which we see?

Sushil Agarwal: Yes.

Chirag Surekha: Okay Sir. Thanks a lot.

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

Karthik Chellappa: Thank you very much for the opportunity. Good afternoon. I have three questions. The first one is if I look at the 1+ DPD of 8% and the NPL ratio of 1%, which are the geographies which are above this ratio currently?

Sushil Agarwal: Karthik, all the geographies are below that except Maharashtra.

Karthik Chellappa: What would that ratio be for Maharashtra if you could share it?

Sushil Agarwal: Maharashtra is 12% then rest of the geographies are 8% or less.

Karthik Chellappa: Is it the same for the NPL as well?

Sushil Agarwal: I am just checking the number. Ya, only Maharashtra.

Karthik Chellappa: Okay, so Maharashtra is also above 1% as far as NPL is concerned. Okay, the second question is this shift in favor of salaried away from self-employed; which this quarter has probably seen the sharpest change in the mix, you said about 2.5% is because of the disbursements in the salaried segment, what are some of the early warning signals that you saw in the self-employed segment for you to turn a little bit more cautious?

Sushil Agarwal: No, Karthik there is no such kind of thing; as COVID came in and every quarter we recalibrate our funding depending on the segments which we fund so in self-employed as we have told you earlier there was only negative list we will not fund this and everything else we will fund; mostly 50 categories we track and when COVID came in we said that we will fund only this 20 positive category, rest we will see how they behave over a period of one or two quarter and then we will open up, so because of that I think salaried went a little bit higher, so out of the three categories which is most impacted was school and around the structures like stationary guys, school transporters, rented accommodation near the college and school uniforms, second was hospitality and tourisms which was also on the track, so these are the two industry which was mostly impacted, so school was the industry which has now opened up when government has announced that school is opening up. Hospitality industry got opened up last quarter and there we have seen that most of the things are normalizing now but still we are cautious so 8 to 10 profile in this kind of segments we have restricted and that is where the proportion, the disbursement number is same but the salaried and self-employed proportion got change for this quarter and let us see how the things plan up in next one and two quarter and then we will continue doing the same 35/65 or 40/60 depending on that but we still will prefer in our key business segment for funding.

Karthik Chellappa: Great excellent. My last question is what Ghanshyamji just said it to the previous response, so if we look at the securitization volume on a year-on-year basis was only up about 15% odd but the income that we booked was up more than 50%, Ghanshyamji said that is because of the higher mix of higher yielding loans in the securitization volume, what exactly would these loans be would these be the home improvement loans which actually carry higher yield and that has been securitized with the higher portion this quarter?

Ghanshyam Rawat: No, it is not on account of any home improvement; it is simply selection of home loan pool which has a vintage of more than one year as per the assignment norms by the RBI. So, pool's yield was 14.1% these pools got sold at 7.56% so spread was 6.54%; if you compare with the last quarter spread was just 5%. So, 1.6% extra spread has given a higher income on the assignment.

Karthik Chellappa: Okay, excellent. Thank you, sir. Thank you very much and wish you and the team all the very best. I will come back in the queue for more questions if any. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Sir, just to confirm the collection efficiency number includes the entire customer base including 1+ DPD and NPA's?

Sushil Agarwal: Yes, so including NPA 98.8% excluding NPA 100%.

Aditya Jain: Got it, okay and the 1+ DPD reduction that we are expecting over the coming quarter; largely you are saying that is going to be driven by more people within that category coming back with two regular payments. So, is that the right understanding?

Sushil Agarwal: Mostly it was because of one EMI dropped in last quarter and last four months; most of the guys I told you when we did case by case analysis mostly around school infrastructure system and some of the guys were in hospitality; both the segments have now started recovering and we are seeing that positive result also; hopefully I think it will be better. And third one is again Supreme Court order; so once that will be there, I think things will improve but I think as a team when we see if anything new not coming in; it will be much better because I have told you collection efficiency significantly improved. Any customer who has not paid that month instalment has reduced by 60% from 5800 to 2000 so that is a significant improvement.

Aditya Jain: Got it Sir. Sir home loan NPA ratio is higher than the other mortgage loans. Just out of curiosity what has driven this how would you see that phenomenon?

Sushil Agarwal: No, but that is the same as last three quarters trend for us. Normally if you see always because mortgage loans anyway average tickets are 8 lakhs you have housing property in which customer is living. So, this is the normal trend if you see last one year-two years for us. So, there is nothing change and nothing to read in between.

Aditya Jain: Got it Sir. Just the last thing on the disbursement growth, so last quarter we had about 2%-3% basically we are same in this quarter year-over-year terms and last quarter I assume earlier months could have been very little disbursement compared to September. So, exact growth rate might have been higher. So, one would have thought that the year-over-year pick up could be more. So, on quarter-on-quarter I am not looking at because there will be seasonality involved and Q2 has less disbursement. So, how would you see that pick up in disbursement growth, kind of looks low?

Sushil Agarwal: No, I think this is as per our plan because as we have told 20%-25% AUM growth for year-on-year, so we are already at 24% growth. So, we are doing in line, but sourcing has significantly improved. But we have improved filter so I think we are on track as we have decided for this year till Q4 we will be little bit over cautious and then we will be on a normal growth path.

Aditya Jain: Got it Sir. Thank you.

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

Piran Engineer: Hi! Sir, congratulations on the quarter. I have two-three questions. Sir, my first question is you have almost Rs. 20,000 Mn liquidity on the balance sheet. Now, over the next year you have borrowing repayment of Rs. 10,000 Mn; one year operating expense also Rs.2,500 Mn. So, even if we do not do single collection you have enough liquidity to manage debt repayments and opex for more than a year. So, why are we keeping so much of liquidity; is it that the bankers ask for it or you raised NCD's from the development financial institutions abroad are they asking you. What is the rational for keeping such high levels of liquidity?

Sushil Agarwal: Piran, first thing there is no such ask from anybody; it is management and board decision which we take according to situation. Normally we keep three to four months of future disbursement as cash in hand traditionally since last five-six years; due to COVID we thought we will increase it to five to six months and as the things will normalize, we will again come back to three to four months of disbursement as cash in hand and it is a conservative policy which we keep on doing and as management we are comfortable with this.

Piran Engineer: So, three-four months means about Rs.8,000 Mn - Rs.9,000 Mn - Rs.10,000 Mn may be; that much of liquidity you will tone down to?

Sushil Agarwal: Yes, disbursement rate will be around Rs.3,000 Mn to Rs.4,000 Mn; accordingly will be there.

Piran Engineer: Okay, sir my next question; it is bit more strategic but I just wanted to understand now with Gruh becoming a bank now the differential between interest rate that Gruh or Bandhan bank offers versus what you offer is now more than 300 bps and even if I look at the branch network in some key states like in Gujarat there is an overlap of 90%-95% even the branches when I see there are just one-two km apart. So, what is our competitive advantage now versus such players who can offer a much lower interest rate, and do you think yield pressure as the result of this not in the near term but may be over the next two-three years?

Sushil Agarwal: Yes, Piran as we always tell that when we started our journey also we were having the same apprehensions like when we entered in Gujarat 2013 that Gruh is the most powerful and whether we will be able to do business or not; after seven or eight years both are co-existing they are also doing around Rs.1,000 Mn of business and we are also doing Rs.500-600 Mn of business per month; branches are there but customer segment is different we are 70% self-employed, they are may be 70% salaried, they are having more apartment properties, we are having more independent houses, they have 100% sourcing from DSA/DMA, we have 100% sourcing in house. But market is such large both can co-exist; yes, we always acknowledge there will be competition, there can be pressure on our balance sheet also which we are seeing last three years. So, we always say that may be our yield can compress by 50 to 75 bps in next two to three years. But we have sufficient depth available in the balance sheet where we can reduce our opex and we can sustain 2.5% ROA for medium to long term in our book.

Piran Engineer: Fair enough. Sir, as my last question is a bit more strategic, but I just wanted to get your thoughts, so one of your competitors which is getting listed very soon. They cater to the same sort of customers segment in affordable housing, but their business model is very different in terms of centralized underwriting and as a result of that they have a TAT of two days versus we have a TAT of 8-10 days. So, is that something in the distant future, I wanted to understand from you what are the pros and cons of such a model and could we look to transform to such a model because that business will require only 15-20-30 credit managers, we have more than 600 credit managers. So, it will be a more lean operating business. So, I just wanted your thoughts on what the pros and cons will be. That is my last question. Thank you.

Sushil Agarwal: Piran if you can name the competitor?

Piran Engineer: Home First.

Sushil Agarwal: Okay, so totally different business model they have 86% salaried business, they have more concentration in metro and we say we do not want to work in metro because there are already top level guys, AAA guys exist and there will be lots of pricing pressure, lots of competition, lots of BT and over a period of last ten year we have created our niche in tier-3 to tier-5 where we can price the risk and now we have appraised almost 300,000 customers in that segment so we are comfortable with that kind of appraisal system and everybody's business model have different kind of levers so I will not comment on others but in our business model we have sufficient spread. We have very good asset quality which we can maintain, and we were able to generate

2.5%+ ROA over a period of last ten years. So, I think we will continue with our kind of business segment. Yes, last five years we have also infused lots of technology which is helping us out in operations and bringing down opex. If you will see also over a period of last three years, every year we are able to reduce our opex by 30 to 40 bps and I think that journey will continue for us.

Piran Engineer: Okay, fair enough Sir. Thank you so much and all the best.

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

Shreepal Doshi: Hello Sir! Good afternoon. Sir, my question is with respect to the restructuring related request that we would have received, what is that if you can throw some color on that aspect?

Sushil Agarwal: First, like our 1+ & NPA numbers this is without any ECLGS disbursement without any restructuring; so it is clean and simple numbers. In the process we have received around 100 to 150 restructuring requests, we have rejected at our end and communicated to the customers. Some of the customers which was not happy with our decision they have moved out and did the BT from ourselves and rest of the customers either we have convinced them because it was not that their business is fully impacted and they need restructuring and since 97% of our book is less than Rs. 2.5 Mn and those were very smaller customers and with opening of schools and tourism industry most of the requests from that side so customer got convinced and we have not restructured any account in our book.

Shreepal Doshi: Okay, and incrementally also we do not see that happening?

Sushil Agarwal: Yes, now we cannot do because it was a process you need to do till 31st December and then implementation can be in last three months. So, that is where I am saying that 1+ number, 90+ numbers these are plain simple numbers without any restructuring, without any ECLGS, without any supreme court number is shown in NPA but we have still provisioned and published all the numbers taking without any reference and beyond that further Rs.190 Mn as COVID provision is there in the balance sheet and any way we are making sufficient profits Rs.2,000 Mn for us. So, every quarter we are making sufficient profit, so balance sheet is in a very strong position.

Shreepal Doshi: Thank you Sir, and the second question was with respect to the re-classification of the customer profile. I understand that you say that there is not much to read, so is there a thought process to decrease the self-employed segment at the management level in the near term say from currently 70% to 65% or 60%?

Sushil Agarwal: No, that is not the scenario, it is evolution like when we started our journey, we were BBB- now we are AA- our borrowing cost is around 7.7% for 11 years and incremental borrowing the treasury team has done excellent job with 7% for 12 years. So, with pricing coming in that also creates an opportunity for us to have a better customer segment while maintaining the spread but as a company we have three priorities; first asset quality, second maintaining the spread and third is growth. So, maintaining all these three DNA of our company we will choose the segment for funding; on account of classification it is only 1% or 1.5% impact. So, that is not much and that is a very detailed exercise with everybody involved auditors etc. because ECL classification and we have most detailed kind of framework which we have created, so that is how it is.

Shreepal Doshi: Sure Sir. Thank you, so much and good luck, for the next quarter.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: Hello Sir! Sir, first question is on this DPD movement if you can just clarify it if I have understood it clearly; the 6.2 number that you had in September that included everything that was more than one day overdue including NPA, right?

Sushil Agarwal: Yes.

Antariksha Banerjee: Yes, if I compare between September and December most of that 6% excluding NPA would have been in the 1 to 30 bucket right, because they would have missed one instalment?

Sushil Agarwal: So, one plus when we say it includes 1 to 30 DPD, 30 to 60 DPD, 60 to 90 DPD and 90 plus accounts.

Antariksha Banerjee: So, can you give that 30 to 90 buckets for September and December I think that will clarify?

Sushil Agarwal: So, 30 to 90 right now out of this 8.2% is 3.8%.

Antariksha Banerjee: Okay, and September was how much?

Sushil Agarwal: September it will be negligible because last six months instalment is not there so only September instalment was, so like say your March to August was moratorium so no instalments accrued. So, September month first instalment accrued, so any account cannot be moved to 31 to 60.

Antariksha Banerjee: Okay, so that amount will be very small negligible, that's what I just wanted to confirm.

Sushil Agarwal: Yes, because no instalment accrued that point of time.

Antariksha Banerjee: Okay, and zero to 30 as per my understanding was about 5800 in terms of number of accounts in September and 0 to 30 is 2000 accounts in December broadly that is right?

Sushil Agarwal: No.

Antariksha Banerjee: No, sorry I mean 1 to 30?

Sushil Agarwal: Sorry?

Antariksha Banerjee: The people who have not paid in September and people who have not paid in December that you said 5800 versus 2000 accounts, right?

Sushil Agarwal: Yes, correct.

Antariksha Banerjee: So, that is one bucket due that is all I wanted to confirm?

Sushil Agarwal: No, that can in any bucket. It can be 1 to 30 also, 31 to 60 also, 61 to 90 also.

Antariksha Banerjee: Got it. Okay, the second question is on the yield sir. So, you have been seeing a sharp decline in cost of funds for quite a few quarters now. When do you intend to pass it on the customers or is that on the table at all, spread is above your average for quite a few quarters?

Sushil Agarwal: Antariksha as per last quarter board meeting decision, we have already passed it on 10 bps from 1st of January and we will wait for another board meeting decision so, if things will be normalized by 31st March again some part of it we will release in may be April to June quarter.

Antariksha Banerjee: Okay, got it. Thank you. That is all.

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

Abhijit Tibrewal: Hi! Sushil Ji, Hi Ghanshyam Ji thank you for taking my question. I just wanted to go back to the question which Antariksha was asking, while you suggested that about 5800 people have not paid their EMI's in September and about 2000 accounts have not paid their EMI in the month of December. What would this number be if you were to look at people who have not paid a single EMI till September and how many people have not paid a single EMI till December?

Sushil Agarwal: That has already become NPA. So, 0.47% was NPA earlier, now 1% NPA and on IGAAP number it was 0.3% and 0.8% so, 0.5% of the total pool which has not paid a single instalment has become NPA.

Abhijit Tibrewal: Fair point which is to suggest that your proforma Stage 3 numbers includes everyone who has not paid a single EMI till December?

Sushil Agarwal: Yes, for us there is no difference in proforma and non-proforma. We are straight we are saying that 1% people is NPA without restructuring, without ECLGS, without supreme court freezing decisions. If supreme court freezing decision it is around 0.4% and we have also provided 100% as per our ECL norms for the entire 1%.

Abhijit Tibrewal: Correct one, thanks for that. Now, going back to that question around where you are 1+ DPD and collection efficiency, so with 1+ DPD of about 8.2% and as you suggested collection efficiency of about 98.8% in December and if you exclude the GNPA that number would go up to 100%. So, Sushil Ji, if we were to assume here that these people who have paid their EMI's in the month of December, if these customers continue to pay their EMI's in the month of January February and March would it be fair to assume that your 1+ DPD numbers should come down drastically from 8% levels, unless otherwise there are a lot of customers who are still paying part instalments?

Sushil Agarwal: No, anyway we do not count part instalment to tame the DPD bucket first thing. Second thing what we are saying that out of 120,000 live customers only 2,000 has not paid the instalment; rest must have paid more than two instalments that is where it is 100% collection efficiency. Going by that trend if 118,000 continue to pay all the three instalments, because if they have paid in December, but collection does not happen that way there will be some roll forward and there will be some roll backward. So, we can assume that roll forward will be less and roll backward will be high. So, we should be in a much better situation in March as for 1+ DPD; NPA or Stage 3 numbers can significantly change only when the Supreme Court decision will be there.

Abhijit Tibrewal: Fair point. So, which is to suggest that in your anticipation let us say if collection efficiency were to hold at these levels between 98.5% or 99 % then can we go back to our guided levels of less than 5% 1+ DPD?

Sushil Agarwal: We will attempt that; we cannot comment on that.

Abhijit Tibrewal: Okay, and Sir just one last question while a lot has been discussed about salaried and self-employed mix this 4.2% spike in your salaried mix during the quarter. So, while you were suggesting that over the last nine months you have been doing lot of these salaried disbursement. This kind of a mix we have seen in this quarter itself till the last quarter you mix was holding steady at the same 35-65 kind of salaried self-employed in your mix. What was there to suggest that and again you have been very kind you have given that break up that about 2%-2.5% differential is because of higher disbursements. So, this differential because of higher disbursement will become only in Q3 itself because till last quarter your mix was holding steady?

Sushil Agarwal: Abhijit, every quarter we give AUM number 65-35 is AUM number, disbursement number we have not given, disbursement number anyway I think is more than that 45-55.

Abhijit Tibrewal: Okay, so that your mix has changed only in this quarter is it you are trying to suggest while we are doing higher disbursements in salaried?

Sushil Agarwal: Anyway, first three months there were no disbursements so, last six months that is there and as the economy will open, we will again be more on the self-employed side but during this month since we were very cautious about certain sectors in self-employed category. So, this last six-month disbursement has this scenario.

Abhijit Tibrewal: Okay, and Sir just on last question if I may just squeeze in, so this re-classification that we have done studying the accounts which is the primary earning member of the family rather than the main applicant. Is that the standard industry practice that it is there today or?

Sushil Agarwal: Yes, it was with us also, its only 1% cases which has changed as I told you. So, what happens in a case where you have funded Rs 1 Mn and there is an applicant which has Rs.15,000 or Rs.20,000 income and there is a salaried person who is co-applicant who has Rs.25,000 income or may be Rs.30,000 income and you have taken repayment from co-applicant from his salary account. So, normal practice was from which account we have taken the repayment we will classify that account into that category. For this 1% of the cases instead of that, the primary applicant which was like a business guy got tagged as a business category. So, only this 1%-1.5% cases during when we were doing the ECL framework during the COVID and we were talking to 100% of the customers we find this inconsistency of 1%-1.5% cases where we have tagged them as a self employed rather than salaried person and instalment was coming from the salary account; because of the auditor's observation and from our own re-checking it we have done that classification.

Abhijit Tibrewal: Okay. Thank you very much Sushil Ji. Thank you for patiently answering all my questions. Wish you and the team the very best.

Moderator: Thank you. Due to time constraint that was the last question. I now hand the conference over to Mr. Sushil Agarwal for closing comments.

Sushil Agarwal: Thank you all for attending the call and hope we have answered all your questions. To summarize, at Aavas we continue to focus on improving customer service & being transparent with our customers. As mentioned in the last Earnings Call, we have reduced Aavas Financiers Limited's prime lending rate by 10 basis points with effect from 1st January 2021. Thank you so much for your time. For any further information we request you to get in touch with Himanshu in our Investor Relations Team or SGA our IR advisor and they would be happy to help you. Thank you all for your participation in the call, showing interest and enthusiasm about asking questions, we will continue doing our best efforts to answer all your questions in future also.

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