"Aavas Financiers Limited
Q2 FY'24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Aavas Financiers Limited Q2 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this call is being recorded.

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

Sachinder Bhinder: Thank you. Good afternoon, ladies and gentlemen. Thank you for participating in the earnings call to discuss the performance of the company for Q2 and H1 FY 2024. With me I have Ghanshyam Rawat - President and CFO, Ashutosh Atre - President and CRO, Siddharth Srivastava - Chief Business Officer, Surendra Sihag - Chief Collection Officer, Ripudaman Bandral - Chief Credit Officer, Jijy Oommen - Chief Technology Officer, Anshul Bhargava - Chief People Officer, Rajaram Balasubramaniam Subramanian - Chief Strategy Officer and Head of Analytics, Ghanshyam Gupta - Investor Relations; and SGA - our IR advisor.

The results and the presentation are available on the stock exchanges as well as on our company website, and I hope everyone has had a chance to look at it. We are committed to support and strengthen the long-term Aavas Vision 3.0. I take this opportunity to thank all our stakeholders for their continued trust and support.

For Q2 FY 2024, we disbursed INR 12,585 million, registering an 18% growth Q-o-Q and 10% Y-o-Y growth. We continue to grow in a calibrated manner, registering AUM growth of 22% as of September 2023. Further, Opex ratio has witnessed gradual moderation from 3.79% in the last quarter to 3.65% in H1 FY 2024. While maintaining our operating metrics, we delivered a PAT of INR 2,313 million, translating into a growth of 18% Y-o-Y for H1 FY 2024.

While we continue to borrow judiciously, we raised around INR 30,761 million at 8.19% during H1 FY 2024. As of 30th September 2023, we maintained a sufficient liquidity of INR 50,037 million in form of cash and cash equivalents & unavailed cash credit limit of INR 20,987 million and unavailed document sanctions of INR 29,050 million, including INR 10,000 million from the National Housing Bank.

We are undergoing an accelerated digital transformation with the adoption of best-in-class technologies like Salesforce, i.e. LOS, Oracle FLEXCUBE which is LMS, and Oracle Fusion, i.e. ERP. We have successfully rolled out and stabilized Phase-1 of Salesforce. Oracle Fusion ERP-GL went live in September 2023 under hypercare. The new loan management system on the FLEXCUBE is currently under testing and migrations.

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

Ghanshyam Rawat: Thank you, Sachinder ji. Good afternoon, everyone, and a warm welcome to our earning call. As on 30th September 2023, an average borrowing cost of 7.86% against an average portfolio yield of 13.15% resulted in a spread of 5.29%. We have been able to maintain our spread above 5% despite competitive pricing pressures. As on 30th September 2023, total number of live accounts stood at 1,98,947, translating into 19% year-on-year growth. Total number of branch count was 350 with four new branches being added in first half of FY '24. Employee count was at 5,731.

Assets under Management grew at 22.1% year-on-year to INR 1,53,195 million as on 30th September 2023.

- Product-wise breakup: Home loan - 69.7%; Other mortgage loan - 30.3%.
- Occupation-wise breakup: Salaried - 40.1%, Self-employed - 59.9%.

IGAAP to IndAS reconciliation has been explained in detail for Profit after tax and Networth on slide number 32 and 34 of the presentation.

On the borrowing side, there is excess of diversified and cost-effective long-term financing, very strong relationship with development financial institutions. Total outstanding borrowing as on 30th September 2023 stood at INR 1,40,843 million. Overall borrowing mix as of 30th September 2023 is 49.6% of term loan, 20.8% from assignment and securitization, 18.3% from National Housing Bank, and 11.4% from debt capital market.

Lender support continued to remain extremely strong. Liquidity of INR 50,037 million as of 30th September 2023. Cash and cash equivalent of INR 19,887 million, unavailed CC limit of INR 1,100 million, documented and unavailed sanctions from National Housing Bank INR 10,000 million, and other banks INR 19,050 million.

Profitability: Profit after tax increased by 17.9% year-on-year to INR 2,313 million for the H1 FY 2024. ROA was 3.25% and return on equity was 13.64% for H1 FY 2024. As on 30th September 2023, we are very well capitalized with a net worth of INR 35,136 million and capital adequacy ratio at 48.16%. Our book value per share stood at INR 444.1.

Now I would like to hand over the line to Ashutosh ji, President and CRO, to discuss the assets quality.

Ashutosh Atre: Thank you, Ghanshyam ji. The key portfolio risk parameters:-

Asset quality and provisioning: One day pass due stood at 3.58% in H1 FY2024 as against 4.45% at the H1 of last year. Gross Stage 3 stood at 1.04%, and Net Stage 3 stood at 0.76% as of 30th September 2023. Gross Stage 3 of 1.04% includes 0.13% of up to 90 DPD assets, which have been categorized as GNPA following RBI notification dated 12th November, 2021.

During FY 2022, our resolution plan was implemented for certain borrower accounts as per RBI Resolution Framework 2.0 dated 5th May 2021. Basis the perceived risk and as a matter of prudence, some such accounts with an outstanding amount of INR 779.6 million as on 30th September 2023 have been classified as Stage 2 and provided for as per regulatory guidelines. Out of INR 779.6 million, INR 575.3 million is into 0-30 DPD bucket.

Total ECL provisioning, including that for COVID-19 impact as well as Resolution Framework 2.0 stood at INR 797.3 million as of 30th September 2023. Total write-offs stood at INR 20 million in H1 FY 2024. Aavas continues to maintain a pristine asset portfolio quality.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mayank Agarwal from InCred Capital. Please go ahead.

Mayank Agarwal: Congrats for the good set of numbers. My first question is on employee cost. So we have witnessed low employee cost this quarter. Any specific reason for that? And what share of the reduction can be attributed to the employee count? Can you please also let us know what is the employee count this quarter? This is my first question.

My second question is whether the reduction in the employee count is temporary or it's something structural, which is led by the technology implementation? Yes. Those were the two questions for me.

Ghanshyam Rawat: Yes. Thanks, Mayank. On employee cost, employee count is the same, as it was in the first quarter or in the same quarter. And if there is a certain reduction in the employee cost, that is mainly on account of the fact that in the last quarter, some one-time cost was there on account of incentive, bonus and one of the senior SMP got resigned in that quarter. Apart from that, I think it's a steady state on employee cost now.

Mayank Agarwal: So okay, the trend would continue. Okay. And my second question is on your yield. So you have reported a 10 bps of decline this quarter. Is it due to the low rates on the new loans or a reduction in the loan rate of the existing customers?

Sachinder Bhinder: Mayank, this is Sachinder. This is partly because of the rate reduction on holding on to our existing customer and part is on the new placement, both put together has resulted in the drop in the yield.

Mayank Agarwal: So is it because of the increase in competition intensity, which we are witnessing because on the one end, cost of borrowing is increasing and we are witnessing the yield decline? And what could be the trend going forward on the margin? So basically, what will be your margin outlook? And until what we would be comfortable of keeping the excess liquidity? And what is the margin outlook for FY '24?

Sachinder Bhinder: So as we have been saying that we were able to maintain the spreads at 5% and above. So it is currently around 5.29%, our endeavor is there. But what we are trying to do is that the good customers are there. We don't want to let them go. So partly because of rate reduction on that side and some part and some bit on the pricing pressure on the new acquisition, so to say, it's a mix of both.

So from a guided perspective, I think we will try to maintain in the range of 5% as far as concerned despite and in spite of the cost of borrowings going up, actually. That would be our endeavor, and that's our aim, actually.

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

Abhijit Tibrewal: Sir, first question on disbursements. In the first quarter earnings call, you had shared that large part of the teething issues were behind and things have stabilized in June and June disbursements had grown 17% year-over-year. Sir, but if I look at the second quarter disbursements, they are up just about 10% year-over-year.

So what would you attribute this to? Is it that mortgages, especially lower ticket size is going through some kind of a slowdown? Or would you say that this could be the lagged impact of the withdrawal of the CLSS subsidy? Or is it just the competitive landscape, which is attributing to this sluggish disbursement growth? If none of these, was it again from teething issues from the digital transformation, which led to lower disbursement growth?

Sachinder Bhinder: Thanks, Abhijit. I think we will have to see that quarter-on-quarter we had an 18% growth, whilst we are cognizant of the fact that there was a lagged impact compared to the previous year. But I think from a perspective of this, we will be guided in that range. And on the AUM base, we'll continue to be in the 20% to 25% range.

Secondly, there is a certain amount of lagged impact of sanctions not getting converted to disbursement. So if we were to really look at the earlier Sanction to Disbursement ratios, they have sequentially actually dropped from 90% to 80% actually, so to say. So there is some amount of the pickup, which was there on that side, which were not get converted actually.

And further, on the technology transformation, we are out of the ports, but if you want guidance with the transition which is happening in the institution, a couple of quarters to really settle that out on a perfect basis because we got into the second phase of technology transformation, which is LMS and ERP. And we are taking this year as full year for taking the entire completion of transformation, actually, so to say.

Abhijit Tibrewal: Got it, sir. So by the end of this year, you're suggesting this digital or technology transformation will be completed, including the LMS and the ERP?

Sachinder Bhinder: Yes, that's our target, actually, Abhijit.

Abhijit Tibrewal: Got it. And sir, the lagged impact that you were explaining of sanctions not getting converted to disbursements. I heard you right where you said earlier, we had 90% conversion of sanction to disbursement; right now it's dropped to about 80%?

Sachinder Bhinder: Yes, right.

Abhijit Tibrewal: Got it. Sir, second thing, again, kind of going back to the margins, if I look at your reported numbers from 3M FY '24 to 6M FY '24, you have reported margins of 8%, which are flat. So sir, if you kind of go to your P&L, look at the net interest income line, excluding the assignment income gain, sequentially we are seeing a decline from INR 226 crores in the first quarter to INR 222 crores in the second quarter. What would explain that, given that, I mean, our book has grown -- I mean, on a calculated basis, there is a good 40 basis points decline in margins in the quarter?

Ghanshyam Rawat: Yes. Abhijit, I think we will see in detail those numbers but largely, it is only on account of -- you will see Q1 to Q2, we have seen a decline in the portfolio yield, which is 11 -12 basis points, which is, I think, has mainly impacted on that line item. Apart from that, I think we don't see any sort of effect in there.

Abhijit Tibrewal: Got it. Sir, and one last question. There seems to be a lot of volatility in our employee expenses line. I recall we had shared even last quarter that in 1Q FY '24, we had one-offs in employee expenses of almost INR 1 crore, INR 1.5 crores due to KMP retiral benefit. I think before that in Q4 FY23, we had a reversal of INR 5 crores on ESOP expenses. Subsequently, we had taken an ESOP charge of INR 7 crores in 1Q FY '24. During this quarter, I mean, from an ESOP perspective, were there any reversals, if you can quantify that? And going forward, I mean, how should we look at the employee expense segment?

Ghanshyam Rawat: See, employee cost is seen in two ways: first thing, employee count is where, as I mentioned, we are at a steady state -- same count of employees there in the last two quarters. So yes, annual increments and all these things has taken place in the first quarter. So that impact comes. So for some of the things impact come in the first quarter and now in second quarter the full impact is there, basically.

Yes, ESOP expenses depend upon the two factors. If any new schemes comes, then extra cost comes in from that quarter to period until the schemes run basically. And if there is any sort of, let's say, attrition in the employees. So for that, the remaining costs also goes off in that quarter from the P&L side basically. So those are basically accounting principles, which everybody need to follow. Apart from that, I think we don't have any sort of extra explanations on the employee cost.

Abhijit Tibrewal: Got it, Ghanshyam ji. And sir, in the interest of time, I just wanted to squeeze in one last question for Sachinder sir. I mean, again, going back to the disbursements, I just wanted to understand, today, if I look at some of your listed peers, unlisted peers, right, there are listed peers, almost half your balance sheet size doing 78% to 85% of the quarterly disbursements that you are doing. I understand you've gone through some management change and we're going through a tech transformation. By when should we expect that we'll kind of start achieving disbursements that you internally aspire for?

Sachinder Bhinder: Thanks, Abhijit. And you rightly articulated, I think the two points. One, we've envisaged on the transition on the management side as well as on the tech side. I think you have to bear with us for a couple of quarters. There is a fact that building the right foundation, will see the performance based on the current set of things, both on the tech transformation, which we see and which we have embarked on the journey, along with the management transition. I think, give us a couple of quarters, and you'll see that back in action.

But I think you have to be cognizant of the fact that despite a big transformational change from a tech perspective, we've been able to weather that out compared to what the peers or others would have done in our space. So I would request a couple of quarters to bear with us for. We again would endeavor for a calibrated muted growth, but not that we'll come back in a couple of quarters back on track on what we are there on the range.

But again, we get guided on the quality of what you have to really embark on is that some of the parameters on the health side continue to be very robust on the quality parametric, on the metrics of controlling costs wherever it is possible. And from a perspective of delivering the pristine quality of the base which we are noted for. I think it's a mix of both. I think we will be in a strong position to come back on the base of what we are there at this period of time.

Moderator: Thank you. The next question is from Raghav Garg from AMBIT Capital. Please go ahead.

Raghav Garg: One very specific question. You had a spread of 5.29% this quarter. Do you expect that this could decline further in the second half? Or will this remain at this level?

Sachinder Bhinder: So I think we have guided, Raghav, with the spread of keeping it around 5%. I think it's a mix of the kind of cost of borrowing, which is the one, which is one input, which is beyond our control. Our endeavor is to be remaining in the range on level of around 5%. So that's been our endeavor.

Raghav Garg: Sir, I'm coming more from a place where I'm trying to understand what is the competitive intensity as far as pricing is concerned. When we look at some of the larger players, they haven't really concerned on pricing. It remains as low as, say, until about 9 months to 10 months ago. So should we expect that even in the second half, your pricing will remain impacted because of competition? And hence, that is something that will weigh on your spreads, and therefore, it will be lower than 5.29%?

Sachinder Bhinder: So as we say we will remain above 5%. That's what we have been guiding.

Raghav Garg: Sure. Sir, just on your securitization margin also. So in Q2 of FY '23, we had a gross upfront income on the assignment of about INR494 million, it has come down to INR466 million. Why would that be the case?

Ghanshyam Rawat: Basically, it depends upon the volume of assignment you do basically. And what sort of assets you assign and what is yield of assets' assignment? Two, three factors determine that overall how upfronting income comes basically. Apart from this, accounting…

Raghav Garg: Sorry, assignment volumes have increased Y-o-Y, right?

Ghanshyam Rawat: Yes. asset classes also make a difference. What interest yield assets we sold at that point of time and what interest yield assets' we sold this time basically, so both make a difference in that account.

Raghav Garg: Sure. And on the reversal of the income, which was recognized earlier on the assigned pool, right? That has also increased to about INR 335 million. So that would probably be because some of the assumptions that you would have made earlier have not played out or have played out adversely. So can you highlight some of the nuances which would have impacted such a reversal?

Ghanshyam Rawat: Yes, that is not a major impact of reversal. And it's not as volume got increased, so the reversal also won't get increased every quarter, basically. What assignment I had done in the, let's say, Q1 or let's say, Q4 of the last year, so those will have a full impact of reversal in this quarter basically.

Raghav Garg: Understood, sir. Sir, my last question is on Non-HL book. So that's been growing at a fairly healthy clip, 30% for the last several quarters now, but we see that since the last two quarters, the NPAs are also increasing in that book. Anything to read into this as to why the NPAs are increasing on this book?

Ghanshyam Rawat: I think, now you see we give all the mortgage backed loan, average tenor is generally 7 years to 10 years. And so now this book is -- we are entering the fourth year. Almost this book is coming at a steady-state basis. So we see roughly gross NPA in other mortgage loans will remain somewhere between 1% to 1.25% around. And the home loan book will remain less than 1% around, basically. So this is now almost at maturity level of gross NPA in both class of book.

Raghav Garg: Understood. You're saying it's more of a normalization rather than...

Ghanshyam Rawat: Yes. With the maturity of the asset life

Raghav Garg: Right. And sir, just -- sorry, one last question. Your share of variable rate book has been going up. So do you think that, that would be a risk in terms of, say, probably your balance transfer?

Ghanshyam Rawat: No. I think we don't see in this fashion, variable or fixed. The variable, fixed books depend upon what liability we source from the market, what opportunity available on the side and what deployed on the asset side. What we see in the asset side, accordingly we raise the liability. That is -- we don't take a risk in a floating and fixed while managing our ALM.

Raghav Garg: Understood. And sir, what was the BT-out for this quarter? Can you highlight that number and compare to what was that in Q1?

Sachinder Bhinder: Raghav, it is flattish. So it is 0.5% per month. So coming to around on a yearly basis, 6%.

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

Shweta Daptardar: A couple of questions. Partially you did answer, but you mentioned the fact that now the systems are stabilizing and you're almost settling and this should happen by the year-end. So what is the disbursement run rate we should look forward to, especially in the light of H2 being slightly better than H1?

Sachinder Bhinder: I think, Shweta, we've always guided on the AUM growth that we'll be in the range of 20% to 25 percentage. So I think from a perspective of quarter-on-quarter growth, you see in the quarter 2 growing on the quarter 1 at around 18%. So we look at a moderated calibrated growth in the coming quarters, considering the two aspects, which I talked on the call earlier, one is the management transition. And secondly, a big transformational change in the tech side on three platforms all put together, actually.

Shweta Daptardar: Sure. That helps. And sir, secondly, a little bit on yields, sorry, I might sound repetitive. So we can imply that the repricing is completely behind, right? Because you are almost on the verge of customer retention and therefore we have opted for a reduction rate. So the ability to pass on or the scope to pass on is limited from here on and therefore spreads would remain range bound, is that assessment correct?

Sachinder Bhinder: Yes. See, at this period of time, whatever was the last pass-on that happened. Subsequent to that, there's nothing which has increased on the PLR side. So you're right on articulating that is there a possibility of pass-on? No, it is only whatever is the placement yield, which is there.

And some part of it, which I talked about earlier on the results in 11bps dip in the yield is the one that is on the retention side because we've been very cognizant of the fact that we retain the good quality customers. So there, it results in a drop in the yields and some part of the competitive pressure on getting the new business. So it's a mix of both.

Shweta Daptardar: Okay. And sir, one last question. So the MSME or the Non mortgage mix, or the other home loan mix. Now if I just look at the percentage mix, more or less, it has remained steady. And industry is falling out for concerns on small-ticket lending. So I understand you had given an explanation last quarter. So anything, any red flags, any read-through? What is your reading on the ground?

Sachinder Bhinder: Shweta, as always, we've been there that we are in the business of cash flow-based underwriting. and all our loans are backed by the self-occupied residential mortgages or the commercial properties, most of them self-occupied residential mortgages. And typically, we are not there in any way in the unsecured segment or a small-ticket size loan.

And we are very cognizant of the fact that we don't depend on anything which is volatile, either from an income generation perspective, which is either subsidy based, which is dependent on weather gods or which is dependent on incomes which are volatile in nature. So this has been our basis of cash flow-based underwriting on this. So we don't see at this period of time, any red flags on that segment.

Shweta Daptardar: So just one bit there because you mentioned that we are not subsidy-based dependent. So just the CLSS subsidy going behind most of the affordable housing finance players have seen flattish growth. And I understand that ours is a very small portfolio. So could you just describe how small has been our CLSS portfolio vis-a-vis competition? And of course, that has not impacted anywhere on the growth prospects for Aavas ,right?

Sachinder Bhinder: So we've never sold our product with subsidy commitment or used subsidy as our marketing tool because it is Govt’s prerogative. Moreover, the CLSS subsidy was stopped in Feb 2022 itself. So this can’t be a factor to growth for any organization. Under PMAY there are other schemes still live and Aavas has done decent utilization of the same to help unserved and underserved segments.

Moderator: Thank you. The next question is from the line of Renish from ICICI. Please go ahead.

Renish: Sir, just two things. One is on the average ticket size on the disbursement level, which is at 1.3 million. So what is happening on that side? I mean, given our key focus area has always been less than 1 million ticket size. But when I look at the disbursement ticket size, it is as high as 1.3 million. So practically, it is 25%, 30% higher than what we have been doing. So maybe in Q2, if you can highlight the number of, like say, files logged in or maybe volume growth versus the ticket size growth, sir?

Ghanshyam Rawat: It is not so. I'll give the two points here basically: one, if you see my non-home loan average ticket size last year H1 to this H1 has not changed . But in the home loan side, if you will observe that, started from Mumbai, then I think Delhi, Jaipur, i.e. State capitals and the big towns, we are seeing the property prices also increasing.

And the thing we are seeing is, our ticket size in last 7-8 years didn't rose at all, basically. So it is basically led by inflation, led by property prices. And we have seen some increase, almost, let's say, 10% increase in our home loan ticket size basically.

As a business model perspective, we are not seeing any change or we are not following any change in our strategy, continue to focus on the same market, same customer base, and similar property profiles.

Renish: Got it. And sir, secondly, again, circling back to the sanction-to-disbursement ratio, which fell to 80% versus 90% earlier. So what are the reasons for this fall? I mean have we tightened our credit filters or how is it?

Sachinder Bhinder: See, it's a two bit: One is the kind of demand, which was there. And secondly, on the competitive pricing pressures, which we had to let it go and let it pass by, saying that kind of yield where competition was coming in. So probably it is two-fold. As I said that we are there in the self-construction individual home loan category. And I think certain part of India is on the places we operate are were impacted by incessant rains, actually. So that also has stemmed the construction activity. So that was another one of the areas why it actually failed. So I think in the coming quarters, we will see that picking it up -- picking up in the coming quarters.

Renish: Got it, sir. And just last thing from my side, broadly on at the strategy level over the medium term. So when we look at, sir, at least on the listed side, players are growing at 30%-plus. Our growth rate is -- or maybe we want to provide that 20%, 25%, around that number. So within these sub-segments, we'll be losing market share for sure. I mean when we look at or when we compel the growth. So how we internally look at it? I mean, are we okay to, let's say, lose some market share and grow our balance sheet the way we want? Or maybe once the system, etc, stabilize, again want to sort of come back to market and gain market share?

Sachinder Bhinder: So as always, it has been, as we have always put out that our guidance has been in the range of 20% to 25% AUM growth. So we would not let any opportunity pass by when it comes to --

once the management transition and the tech transition is fully in place. And as we said that some of the states where we are already there, would like to build and grow, wherein the AUM growth would be in excess of what we talk about on an average one.

Second is, the second level where it would be a moderated one, and that will help us to invest into the new states where we entered. So Renish, to put it in perspective, we would really capitalize the opportunity available at the stages where we find there are risk-adjusted returns and the quality and metrics fits our steady state, actually.

Renish: Okay. Got it. So we will not look at market share trend at all, I mean, internally?

Sachinder Bhinder: So see, we are in that segment, probably, as we said that for us really to grow at our kind of metrics and our kind of things, which is 20% to 25% on the deals which we are. So you'll really appreciate that we are currently 15,000-plus AUM. And on that base with a guided 20% to 25% growth with the kind of quality metrics, which we are talking about, GNPA of around 1%, 1-plus of less than 5%. I think these are the metrics which have to bear on a long-term basis.

Moderator: Thank you. The next question is from the line of Sonal Gandhi from Centrum Broking. Please go ahead.

Sonal Gandhi So I have two questions. One is, if I look at your non-home loan portfolio, the disbursements for the year are up by about INR 415 crores and AUM is roughly up about INR 408 crores on a quarter-on-quarter basis, suggesting that the repayment rate is very, very low. So can you please explain what has exactly happened over here?

Sachinder Bhinder: Sonal, can you articulate again. Your voice was wobbling and we were not able to get your question in right frame.

Sonal Gandhi: Okay. If I look at your non-home loan portfolio, okay, the disbursements in this segment is up by about INR415 crores on a quarter-on-quarter basis. Whereas the AUM is somewhere up by about INR 408 crores on a quarter-on-quarter basis. So suggesting that the repayment rates are very, very low over here. So can you just explain what exactly has happened over here?

Ghanshyam Rawat: We are parking this question. I think we will come back to you. If we rightly understood, you are telling that our disbursement of Non-home loan is not reflecting in the AUM growth. Do you mean that?

Sonal Gandhi: What I'm trying to ask here is that basically the repayment rates are very, very low over here?

Sachinder Bhinder: What are you referring to, Sonal, if you can be a little more specific?

Ghanshyam Rawat: We didn't saw anything of this sort at our internal MIS and internal discussions. We are not seeing any trend like this. The similar repayment comes from home loan and non-home loan..

Sonal Gandhi: Let me just share this data with Ghanshyam and we can take this offline.

Ghanshyam Rawat: Yes, please. Send back some more detail to Ghanshyam Gupta, he will revert.

(This question was taken up offline. It was noted that there was a computational error at the Analyst's end. Same was clarified and addressed.)

Sonal Gandhi: Sure. Another question that I had was on your turnaround time. So I mean whenever I've spoken to you in the past, you have been trying to get our TAT down from 11 days to 6 days. So in which functions do we expect that the digitization would help us to reduce the turnaround time, whether it's underwriting or which feature basically will help us to get down this turnaround time?

Sachinder Bhinder: So underwriting piece would be the one, right. See, it is a multitude of all of them. Right from the starting, we have a control on what is getting built in, what is getting sourced and the very fact that tracking is there. So that's the first point. And secondly, earlier times also, which we highlighted is, because of this automation, because of the tech, we are able to really predict and able to convert in a reduced timeframe. And that really impacts our underwriting time.

See, again, it is facilitating and helping. It is not doing away with what we are hardwired for how to underwrite a SENP segment, actually, so to say. So this is a helping factor which reduces the turnaround time as a facilitating factor from a tech perspective.

Sonal Gandhi: Okay. And another question that I had was if I just calculate the volumes. So you've given the average ticket size for the quarter and disbursements in home loans. So that is suggesting that if I look at home loan disbursements, the ATS is up almost 19% of our Y-o-Y basis. And if I look at the disbursement all put in together, that is up 8%, suggesting that there is some volume decline that has happened over here. So again, is that purely because of the competition that the volumes are going down or how should I look at that number?

Sachinder Bhinder: So I think the increase in the ticket size what Ghanshyam ji earlier highlighted is because of the growth in regions like, new states like Karnataka, Maharashtra, and some of the central regions which is reflected in the increase in the ATS value. I think that's the only factor which we see as a growth. And other than that, we don't see anything which is by any planned way or by any strategic way which has made this happen actually.

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

Kunal Shah: Yes. So just in terms of the productivity. So if we really look at it in terms of productivity per sales officer, it seems to be like less than maybe two files a month. So no doubt, overall debt has come off, plus there has been like the increase in ticket size, but not finally reflecting in terms of disbursements per branch. So maybe what could be the ideal level of disbursements may per sales force which we can look at it?

Because today, maybe, so if you can help in terms of what are the number of sales teams currently? And looking at almost like, say, INR400 crores, INR420-odd crores of disbursements, per file disbursements in the month seems to be quite low compared to where we were historically and how we are addressing that, yes?

Sachinder Bhinder: Kunal ,this gets bifurcated in two parts. And as you would really appreciate it and you have the full pulse of the market, I think the attrition at the RO level stability becomes concerning. As a result of this, there is a wobbly productivity count, which actually happens.

So I think steady state -- because it becomes very difficult to get into a predictable range -- on the one. Once the stability of the front line, which is the RO is there, where we see an increase from 2 to 3 and 3.5. So some of the ones where you have aging which is there, is in excess of that, but the ones where you have new forces come in, take time to really settle down and be productive.

Since we are into a direct distribution model and in the segment in which we operate, which is very different from the ones where typically an intermediary-driven kind of business operates. So I think as a mix of both. One is the aging of the thing would be a little higher on the average side, whereas the new ones take time, plus the attrition on the front line. I think it's a mix of three which impacts the overall productivity.

But I'll tell you another point from an Aavas perspective, we are very conscious of the fact and we are trying to take measures, which will really help the frontline from a perspective of, one is really making them around the developmental side. So they are there on a longer tenure with us. And on the developmental side, when it comes to the career provision with Aavas.

So we have had special focus by our HR really to focus on these segments specifically, so to say. And that's been initiated in the previous quarter. So I think you'll see that some part of it compared to what we were there, first, which will really translate into both the health and performance.

Kunal Shah: Sure. But what would be the frontline sales team maybe in terms of the number today?

Sachinder Bhinder: So this is anything ranging 3,200.

Kunal Shah: Yes. So that's where I was coming at. So maybe if we look at 3,200 frontline staff and round about INR 420-odd crores of monthly disbursement run rate. Okay. So that's coming to like INR 13 lakhs, which is one loan, okay, per officer. So maybe whichever cut we do, obviously, I agree in terms of the new recruitments could be there. They might not be so productive. But still like that number, 1 or maybe 1.5 seems to be quite low compared to where the entire industry is because everyone tends to target like 3 per month in terms of the disbursements, yes, at least, per sales officer.

Sachinder Bhinder: Kunal, that is one which is more of the intermediary; we have direct distribution model & on the kind of quality and the rate which we have. So I'll tell you, from a perspective of higher than 15,000 files which gets log in every month. My login to disbursement ratio currently comes out at 5,000. So if you look at the login to disbursement, it is a 33% . So if a guy has to disburse one file, he has to log in three to four files, actually. So that's the quality which is there. So if you're looking at it from a sourcing perspective, which is there. So for the same RO. probably from a log-in perspective it is higher. But when it comes through real quality and the type which we do, I think it makes a difference where the drop comes actually, right?

So that's reflecting in the number of logins to disbursement, right? So as I talked about 15,000 to 5,000. You are talking about an average. So what happens is the frontline has a good amount of attrition, which is there. So the people who are there onboard, in the initial months, take a normal gestation time to really become active actually. So it is normally in the range of one month to 2.5 months, three months. So as a result of which it comes down.

Kunal Shah: Sure. Okay. And secondly, in terms of balance transfer, so no doubt, yields were lower, but that was largely because maybe some retention being done. If you can just highlight in terms of -- so the balance transfer, which we were seeing would have been after bargaining with the relatively lower price for them. So what would have been at the gross level? And finally, what you mentioned in terms of 0.5%, okay, that would be at the net level. But is it like those numbers have gone up? And to what extent, maybe what proportion of the portfolio would we have lowered the prices for retention, yes?

Ghanshyam Rawat: Kunal, roughly 0.4% per month on an average basis as such we get repriced. It depends upon the various interest rate cycle where we are. But you see in the recent time, it's roughly 0.3%-0.4% of opening AUM per month basis book comes for the reprice basically.

Kunal Shah: Okay. 0.3%, 0.4% on opening AUM That's helpful, yes.

Ghanshyam Rawat: When we do reprice, we generally charge repricing premium also from the customers, which generally take care of my first yearloss on that repricing of the portfolio, basically.

Kunal Shah: Okay. Then in terms of the gross, would it be fair to assume that 0.5% net, and we can just see like, okay, we have been able to retain and reprice lower for 0.4-odd percent. So the request, which we would have got is still like 0.9% to 1-odd percent?

Ghanshyam Rawat: Yes. That is steady state in the industry, basically. We are far better than industry in that count. Some of the assets which we got allowed, it is not only an account of, let's say, pricing. Some of the assets we got allowed also because of the loan demand is much higher than the property value and competition wants to take a call on those assets. So we allow these sort of assets also.

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

Shreepal Doshi: So my question was pertaining to your point where you said that there is some price competition that we are facing. Any color on any specific geographies where we are particularly facing this price-related competition?

Ghanshyam Rawat: It is not related to any area, any competition basically. Wherever in the market where we have seen ourself as seasoned out for three-year, four-year, five-year completed assets or those assets acquired have completed two-years to three-years with us basically. So sometimes it happens. Nothing specific to any geography, any asset class, any market.

Shreepal Doshi: Got it. And on the branches front, I wanted to understand when do we consider a branch as mature branch from the size perspective? And what percentage of our branches are mature for us?

Ghanshyam Rawat: I think because home loan penetration of rural semi-urban market is very low. So it is difficult to say what is the maturity level because we believe in those markets, we have a huge runway. From today also over the next 10 years, we can grow those markets, those geography at 20% CAGR growth in those markets basically.

So because once we start in a market, then again, we continuously approach to 30 kilometers, then we approach to up to 50 kilometers in that market. Yeah, from Profitability or Breakeven perspective, generally, it takes three months to six months in a smaller market. In the bigger market, it takes six months to nine months for breakeven perspective, that we can say.

Shreepal Doshi: Three months to six months and six months to nine months?

Ghanshyam Rawat: Yes. For breakeven perspective.

Shreepal Doshi: Got it. And sir, the last question was pertaining to the other opex. So the other opex is up 25% sequentially. While you have given a lot of clarification on the employee opex. What led to this significant increase in other opex on a Q-on-Q basis?

Ghanshyam Rawat: I think it's a normal, nothing as such any specific reason for that thing basically. I think AUM book is also growing at 20%, 25% CAGR,. Other Opex, include certain branch infra, certain IT and analytics expenses, we are doing a lot of investments towards that side basically for future growth perspective. So some of it is also coming on that account.

Shreepal Doshi: Okay. And you have added four branches in the first half. So in second half, we should be adding another 15 branches as per the guidance...

Ghanshyam Rawat: Yes. we will add around 20 to 25 branches in the H2.

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

Nischint Chawathe: Just one on the liability side. What would be your book cost of funding as on September 30th ?

Ghanshyam Rawat: Now what we have declared in investor deck, which is 7.86%, is exactly the same. If you will take outstanding liability, multiply with the rate of interest on that day, it is Sumproduct on that day.

Nischint Chawathe: Okay. And so incrementally, you're borrowing at 8.2%. So should we sort of assume that your cost of funding kind of inches up by maybe another 35 basis points from here?

Ghanshyam Rawat: Not exactly. There's two, three strategies playing around that, let's say, on the borrowing side in another six months around. As I mentioned earlier, we got a INR 1,000 crores National Housing Bank sanction. That money is available for the next two quarters to three quarters. In this quarter, we didn't borrowed any money from the National Housing Bank.

So that will help us in the next two quarters to three to contain our borrowings-- it's a mixed bag of, let's say, bank borrowing, then NHB, then other markets. We are targeting one of the development fund institutions in the second half that will also come at a slightly cheaper rate. Then we put one more strategy in this, I think, most specifically the quarter 2, which will be replicated in the quarter 3, quarter 4 also.

We have borrowed certain money underpass-through certificate, which is 100%, let's say, ALM match borrowing basically, and which is coming almost 40 basis points to 50 basis points cheaper than normal bank borrowing.

So all three, four strategies, we have put up for. We have discussed in detail in ALCO and put up in practice in this quarter, and we will replicate the same for the next two quarters to three quarters. And so we think on an average, let's say, next two quarters, fresh borrowing should be -- incremental borrowing should be around somewhere 8% to 8.1%.

Nischint Chawathe: So we'll probably convert somewhere, I mean whatever a little bit higher from the current levels.

Ghanshyam Rawat: Yes, obviously, obviously. It will be higher than the current level.

Nischint Chawathe: Sure. And have you experimented with co-lending?

Ghanshyam Rawat: Yes, we have a signed agreement with one or two banks. We are in the process, but we didn't see much value creation in overall value system.

Nischint Chawathe: Sure. Perfect. Got it. And just one question to Sachinder was, if your sanction-to-disbursement ratio kind of normalizes to what we have seen in the previous quarters, what kind of a disbursement growth would that imply?

Sachinder Bhinder: See, Nischint, from that perspective, I think we should improve from the current levels. But as I said earlier also, I think two factors: one is the tech transformation. And second is the management transition, which is there. I think keeping this in mind, I think our conscious effort in the couple of quarters would be to really calibrate and grow quarter-on-quarter. And -- but we are committed to the AUM growth of 20% to 25% in this quarter actually, so to say.

Moderator: Thank you. The next question is from the line of Sanket from DAM. Please go ahead. There seems to be no response from the line of Sanket. We'll move to the next question. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes. I just wanted to understand, I think you mentioned about the better quality customers. So have you seen an uptick in our LTV numbers anywhere else & if you can capture that?

Sachinder Bhinder: Sorry, what you said? MT?

Pallavi Deshpande: LTV, Loan-To-Value. Have you seen an uptick, any uptick in that? Because you mentioned about wanting to keep the better quality customers

Sachinder Bhinder: I think we have guided on the conventional parameters on which we have drawn upon. So there's nothing which is inching up the LTVs, actually, so to say.

Ghanshyam Rawat: Yes. What Sachinder said, apart from that, historically or I think Aavas is selective in underwriting, undertaking a very calculated risk-adjusted price. Under that, we want to say, around 14,000 to 15,000 IMD based we source the file to be able to give output of 4,500 to 5,000 files basically. So that's our selection ratio remains. So due to that, it looks per RO-based disbursement is low, but a number of files he brings in the system is roughly four to five every month.

Sachinder Bhinder: Just to add on, the H1 FY'24 LTV ratio was around 54.8%, it's the same as like what H1 last year around 54.2%. So there's hardly any movement on that front, actually.

Pallavi Deshpande: Second was on this -- you said about the targeting the development financial institutions. So what kind of requirements that you need to meet for getting the sanction from that side? And what's the kind of cost of borrowing you would expect?

Ghanshyam Rawat: As you know, we have already very existing long and strong relationship with the Asian Development Bank, International Finance Corporation, CDC. I think 5-6 round of funding we already taken in the last five years, six years. So it will be definitely cheaper than what we borrow locally from domestic banks at a one-year MCLR. But it also had a lot of value in the systems also basically.

Pallavi Deshpande: Right, sir. And what kind of, generally as a percentage of your total borrowing, what is the kind you targeting?

Ghanshyam Rawat: Roughly, we are 15% on development financial institutions. And as we grow, we will maintain 10% to 15% from development financial institutions.

Pallavi Deshpande: You don't see that growing beyond because as we've grown in size, you don't see that increasing?

Ghanshyam Rawat: I think, then we will explore some other market also basically. Now we are AA entity. We think another 12 months to 18 months, our rating upgrade may happen. So that then we can raise more money from domestic large insurance companies, provident fund, retirement funds basically. So another opportunity will be there to raise more fund. Recently, we raised Pass-Through Certificates, PTCs, again, coming as a preferred route, which is more competitively priced.

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

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

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

If you have any further questions or require additional information, please feel free to reach out to our Investor Relations team. Thank you, and have a wonderful week ahead and wish you a very happy and prosperous Diwali and festivities ahead. Thanks. God bless.

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