"Aptus Value Housing Finance India Limited Q4 FY 2024 Earnings Conference Call"

May 06, 2024

Management: **Mr. M. Anandan –Executive Chairman**

Mr. P. Balaji – Managing Director

Mr. C.T. Manoharan – Chief Business Officer

Mr. John Vijayan – CFO

Moderator: **Ms. Mona Khetan –Dolat Capital Market Private Limited**

Moderator: Ladies and gentlemen, good day and welcome to Aptus Value Housing Finance India Limited Q4 FY '24 Earnings Conference Call hosted by Dolat Capital to discuss its results for the fourth quarter and for the year ended March 31, 2024.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask question 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 Ms. Mona Khetan from Dolat Capital. Thank you and over to you, ma'am.

Mona Khetan: Thank you, Manav. Good evening, everyone, and welcome to the earnings call of Aptus Value Housing Finance India Limited to discuss its Q4 and FY '24 Performance. We have with us the Senior Management from Aptus to share "Industry and Business Updates".

I would now like to hand over the call to Mr. Anandan – Executive Chairman, Aptus, for his opening comments. After which we can open the floor for Q&A. Thank you and over to you, Sir.

M. Anandan: Thank you, Mona. Ladies and gentlemen, good afternoon. I am Anandan, Executive Chairman of the Company. I welcome you all to the Conference Call to discuss the performance of the Company for the 4th Quarter and year ending March 2024.

I have with me Mr. P Balaji – Managing Director, Mr. C.T. Manoharan – CBO, Chief Business Officer; and Mr. John Vijayan – CFO.

The Financial Results and the Investor Presentations are already available on the websites of the Stock Exchange as well as on our Company. I hope you had a chance to look at it.

As all of you know, affordable housing finance as an industry has a good runway for growth considering the low mortgage penetration, more particularly in Tier-3 and Tier-4 cities where we operate. This, coupled with various initiatives of the Government to support the sector makes us believe that we can grow comfortably at around 30% in the years to come.

At Aptus, we believe in strong growth without losing focus on the quality of loan book and good financial metrics. Very happy to record that Aptus had a very good 4th Quarter and Full Year FY '24. Sharp business focus, good distribution network, deep penetration in served markets, customer centricity along with appropriate tech support have enabled the Company to achieve good results. The Company's performance for this period demonstrates a sustained trajectory of stability, growth and diversified income stream.

Our net worth stands at over Rs. 3,700 crores, indicating a robust capital adequacy. This, coupled with good support from National Housing Bank, other banks, DFIs on borrowing side and with strong on-ground demand for both home loans and small business loans gives us confidence to pursue strong growth, scalability in the coming years with sustained profitability.

I would now hand over the line to Mr. P Balaji – MD, to discuss Business Focus, Operating and Financial Parameters.

P. Balaji: Good afternoon, friends.

As we have been explaining in the earlier calls, we will continue to focus on key strategies namely:

- Growing disbursements and loan book, both in housing loan and small business loans, considering the large headroom available in the low- and middle-income segment in Tier-3 and Tier-4 cities.
- Increasing penetration in existing geographies by opening new branches and expanding operations continuously in the states of Odisha and Maharashtra.
- Strengthen analytics and digital adoption. About 18% of our business in Q4 FY '24 has come from customer referral app, construction ecosystem app, and social media channels. Our focus shall be to increase the leads through these channels in addition to the physical branch network.
- Continue to focus on productivity, collection efficiencies, OPEX and cost of funds.

Major performance highlights for the year are as follows:

- AUM grew by 29% year-on-year to Rs. 8,722 crores
- Disbursements increased by 31% year-on-year to Rs. 3,127 crores
- NIM was at 13.45%
- OPEX to assets were at 2.7%
- NPA was at 1.07%, down from 1.15% in March 2023
- PAT was at Rs. 612 crores, which is a growth of 22% year-on-year
- ROA and ROE were at 8% and 17.25%, respectively
- Total live customers were 1,33,000 customers, this has grown by 25% as compared to last year. During FY'24, 31 branches were opened, including our first branch in Maharashtra.

Now coming to the Asset Quality:

- Collection efficiencies improved during the quarter to 100.15% resulting in (+30) DPD improving to 5.41% from 6.04% in December '23. This will be focused on and improved further in the ensuing quarters.
- Net NPA was at 0.8%.
- Provision coverage ratio was maintained consistently at 1.06% as on 31st March. We are carrying a total provision of Rs. 92 crores, and this when completed as a percentage of NPA works out to a coverage of almost 99%.

Funding:

- We have well diversified borrowings -63% are from banks, 24% from NHB, 13% from NCDs issued to IFC, MFs and securitization.

- We had sufficient on-balance sheet liquidity of Rs. 1,002 crores, including undrawn sanctions of Rs. 620 crores from banks. As you know, we have not done any direct assignment of loans and front-ending of income on account of this.

Now, with these remarks, I open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Rajeev Mehta from Yes Securities. Please go ahead.

Rajeev Mehta: My first question is, can you share your thoughts on sustainability of this disbursement momentum? While also throwing light on whether the issues faced in the state of Tamil Nadu has got resolved.

P. Balaji: Firstly, let's address Tamil Nadu. I believe this is a common question among all of you. In Tamil Nadu, last quarter there has been a disbursement growth of almost 9% quarter-on-quarter, which means we have almost come back to normalcy in terms of disbursements. During the quarter, there were good recoveries. I mean, basically the NPA recoveries were much more, because of which the loan book growth was slightly subdued. But in the first quarter of FY '25, things will return to normal in Tamil Nadu, and we are expecting a good growth.

And as regards sustainability of growth, we have been guiding the market on 30% year-on-year. I think this is doable considering the expansion plans of new branches plus the branches which were opened last year, which will contribute for the full year. Over and above that, the productivity increase of the sales officers and the increase in average ticket price and the number of files logged in per sales officer per month will also contribute to the sustainability of the growth. So, we are confident of pursuing 30% growth year-on-year.

Rajeev Mehta: So, would it be safe to assume that Tamil Nadu portfolio in FY '25 can grow much better than last year? So, last year was 10% in FY '24, can we expect 20%, 25% growth in the current date in Tamil Nadu portfolio?

P. Balaji: Definitely, we can do that.

Rajeev Mehta: And just last on portfolio spread, the portfolio spreads have improved by 5 basis points quarter-on-quarter after having declined in the preceding five quarters. What is the outlook on the spreads basis your view on yield as well as cost of funds?

P. Balaji: Going forward, I think the spreads are expected to remain at these levels, considering the fact that the cost of funds might not go up and the additional funds will be raised at the rate at which we are borrowing now. And currently, we have no intentions of further increasing rates for our customers. So, considering the fact that the cost of borrowings are going to be the same, the spreads are likely to be the same, but if the interest rates come down, I think, Aptus will be in a better position wherein our spreads will increase due to our fixed-rate loan book being high.

Moderator: Thank you, sir. We have our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, firstly, maybe with respect to the branch addition, last time also we indicated we would be adding on too few branches, but I think the number is almost steady at 262. So, what would have led, I think, last time presentations say we would have already opened it in 4Q. And despite that when we look at OPEX, both in terms of the employee cost as well as the overhead cost, that has been higher. So, what has led to the higher OPEX?

P. Balaji: See, last time we mentioned expanding our branches in Maharashtra during Q4, but there was a slight delay in that plan. In April, we have already opened three to four branches. So, that was the only indication we gave. And every year the plan is to open 30 to 35 branches. And that will be pursued and continued year-on-year.

Now just to add to it, as of 31st of March, we had two branches in Odisha and one in Maharashtra. Currently, our plan is to open approximately 10 branches in the first quarter. Out of these 5 branches will be in Maharashtra. As you may have observed, during the previous financial year, we successfully opened 31 new branches. We have budgeted to add 35 to 40 branches in the current year, encompassing not only new markets such as Maharashtra and Odisha but also existing states like Karnataka and Telangana. Our objective is to fortify our branch network further.

As far as OPEX is concerned, we as a Company have been very, very conscious more on productivity rather than increasing the cost. Indeed, this year, we witnessed commendable performance, particularly at the field level. Not only did our direct sales officers excel, but also other support functions like credit, legal, technical collection, actively contributed to enhancing productivity levels. So, the numbers haven't increased significantly; even at the Head Office, we are currently operating with approximately 192 to 193 staff, and there haven't been many additions there. Other than strengthening the people at the senior level and at the second level in almost all the functions including the IT, credit, collections etc., additionally, we're focusing on enhancing our IT infrastructure on the back-office side to effectively manage the increased workload by adding new staff.

Kunal Shah: And this employee cost rise, this would be more to do with the incentives during the quarter?

P. Balaji: Yes. Because of the higher volumes, the volume related incentives paid to the employees has increased.

Kunal Shah: So, volume related incentives to the employees is getting reflected.

P. Balaji: Yes.

Kunal Shah: And if you look at in terms of the overall business origination and the credit team, in fact, it's sequentially down. So, is it again to do with more in terms of moving from the field level to the head office level, is that leading to sequential decline in the staff? Or this is the attrition which is happening which is more than the recruitment during the quarter?

P. Balaji: The reduction has happened only in the business origination because of some people at the lower level, specifically at the sales officer level leaving the organisation. But at the credit function and all, it has remained constant.

Kunal Shah: There was a marginal decline, so that's largely to do with attrition and not getting replaced with the newer staff.

M. Anandan: Yes, maybe. Not only attrition, see, we're also very conscious at every stage periodically to optimize the number of staff of the branches whether it is sales or other support staff, particularly where numbers will be large, as you know, in the field and in the collection level. Regarding field staff, our aim is to motivate them to increase their earnings through incentives rather than expanding our workforce. So, constantly there is a rigorous follow-up system in terms of optimizing the staff numbers all the time on an ongoing basis.

Kunal Shah: And one last question was on NHB draw down during the quarter, so this Rs. 610 odd crores that includes NHB as well, last time we used to give it separately. So, this Rs. 300 crores is of NHB which was there last time.

P. Balaji: We had already drawn that in the last quarter. Rs.610 crores stated represents sanctions from various banks which are yet to be drawn.

Moderator: Thank you, sir. We have our next question from the line of Mr. Anand Doshi from Family Office. Please go ahead.

Anand Doshi: Congratulations on a very steady state of results. Sir, very quickly, sorry my question may sound partially repetitive, the line was not very clear at my end. In terms of spatial distribution in terms of branches, I think you added 31 for the year, and that is actually in line with your guidance of around 30 branches, so that's very heartening to hear. The only question I had little bit within that is that, you have said it would be about three to four branches in Odisha and two to three branches in Maharashtra. This was at the start of the year. So, roughly around six to seven branches. However, the addition has just been one branch. I think you mentioned that you are adding more branches in these two new states this year, but I couldn't hear it well. So, could you be kind enough to repeat that, please?

P. Balaji: Yes. As mentioned, we currently have three branches in Orissa and Maharashtra combined. This number will increase to 10, with four additional branches in Maharashtra and the remaining in Orissa, all within the first quarter itself.

Anand Doshi: Sir, if you can outline any particular reasons, any specific reasons, I mean to say, as to why this expansion has not happened in FY'24? Obviously business is dynamic, but I just want to get a sense from you if there is any specific reason why we have gone slow for Orissa and Maharashtra for FY'24 as well?

P. Balaji: It is not that we went slow in Orissa and Maharashtra, it's just a lag of one month. I mean, as of now we have already identified three, four locations in Maharashtra. And, year-end pressures from disbursements and recoveries in other regions were the main reasons behind this lag.

Anand Doshi: Thank you, sir. We have our next question from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: I just have one question. Sir, when I look at the on-balance sheet liquidity, specifically cash and investments as a percentage of borrowings, for your peers it seems to be around 15%, 16%, and for you it's been coming down quite sharply, it's now around 7%, 8%. What would be your comfort level in terms of where would you like to see this ratio? Because I believe that since it has come down, that has given some bit of support to your NIMs. Had it not been the case, the margin compression would have been higher, so ideally where would you like to see this ratio?

P. Balaji: As a Company we would like to be prudent in how much cash balance we keep. Because what happens you all know, if you have higher cash balances, there is always a negative carry. So, normally we would like to have at least 1 to 1.5 months disbursements as cash and cash equivalents in the balance sheet. And the balance will be in the form of undrawn sanctions, which is a committed sanction. We have executed the documents and kept it ready. We don't believe in keeping Rs. 2,000 or Rs. 3,000 crores as balance sheet liquidity, and then having a negative drag on that, and also maintaining a housing loan asset for that. So, this is our general policy that 1 to 1.5 months disbursements will be carried as cash and cash equivalents in the balance sheet, and the balance will be in the form of executed sanctions.

M. Anandan: Actually, in addition to that, while we are wanting to be very prudent to carry required liquidity to take care of the disbursements, we also want to keep in mind the overall interest rate environment now and borrowing at a higher cost may not be a prudent thing. Particularly if there could be an interest reduction, if not in the next three months but at least in the next six months or nine months, we should not end up borrowing unnecessarily at a very high cost now.

Raghav Garg: So, is it fair to assume that this number is going to remain at this current level when I look at it as percentage of the assets or as percentage of the total borrowings?

M. Anandan: Actually, we don't believe in this philosophy. In fact, some of the companies, even in our same industry segment carry huge liquidity on their balance sheet, which we don't want to pursue. Not only in terms of negative carrying cost and the interest environment, but also as per the revised NHB/RBI guidelines, you must carry 60% home loan in that as well. Because 60% criteria is applicable on the Total Assets, including the cash that you carry, we also kept that in mind.

Raghav Garg: That's all from my side. And another question, outside of South India, in Odisha and Maharashtra, what would be the total number of employees that you have across I think three branches?

P. Balaji: 20 to 25 people.

Moderator: Thank you, sir. We have our next question from the line of Renish from ICICI. Please go ahead.

Renish: Congrats on a good set of numbers. Sir, just one question from my side on geographical diversification. What could be the next two to three states wherein we will be growing our book in an accelerated manner? So, that is something what had happened in Q2, Q3 in Tamil Nadu that should not impact our AUM growth going ahead.

M. Anandan: Actually, I saw in one of the newspapers today about the lending and credit exposure of Banks to different sectors. In that the highest lending was done to southern states, followed by the least percentage for the Northeastern and Eastern states. But you will be surprised, out of the total lending by the banking system, over 50% of lending was done in the southern states. And northern states I think should be around 18% to 20% and the eastern states with least percentage.

So, in other words, we do believe that, particularly in parts where we operate, viz. Tier-3, Tier-4 cities, there is a good demand that's available in the southern part of India with good credit culture, income levels, serviceability and things like that. So, we still think we have a long way to go. Geographically, we would have covered Tamil Nadu and Andhra, but we still see gap to be covered in Telangana and Karnataka. So, that's where we are going to be adding. Of the proposed 40 branches, significant part of the branches will get added in Telangana and Karnataka. And we are also planning to add more branches in the two newly identified states, namely Maharashtra and Odisha.

Moreover, out of the total 262 branches, they are at different stages in terms of their loan books. So, in other words, for the branches that are added in the last one year, the average loan book is only Rs. 5 crores. So, there is a scope to move it up. Again, branches which are there for one to three years, there is a room for Rs. 17 crores to move up further. So, this will be our priority.

Renish: So, basically incremental growth will be largely driven from, let's say, Karnataka and Telangana, at least in near term?

M. Anandan: Effectively, we will keep expanding on a contiguous basis, as we have been emphasizing from the beginning.

P. Balaji: To add, the growth in Tamil Nadu and Andhra Pradesh will also be there. I mean, it's not that it is not going to be there.

Renish: No, but on relative basis, I think these two states will grow at a faster rate.

P. Balaji: Yes.

Moderator: Thank you, sir. We have our next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Firstly, on the small business loans, now that the share of housing loans have increased 60%, how do we see plan to improve the growth in the small business loan sector?

P. Balaji: See, broadly this ratio will be maintained with 60% housing loan on a consolidated book. And the balance, 20% or 21% will be in the small business loan, and 16% to 17% will be in the quasi-home loans. And the top up, insurance will be almost the same. So, broadly this ratio will be maintained because we also need to take care of compliance. So, this will be the ratios with which the loan book will be progressed.

Nidhesh: Secondly, in the Tamil Nadu state, if you can share the absolute disbursement for Q4 and what does the Y-o-Y growth in disbursement in Q4? Q-on-Q you mentioned that was around 10%, but what was the Y-o-Y growth trend in Tamil Nadu?

P. Balaji: As I told you earlier, during Q4, disbursement growth is almost 9% in Tamil Nadu. The loan book growth was subdued because of the NPA recoveries that has happened, which is good for the state. The things have already come back to normalcy in terms of disbursements in Tamil Nadu. In this quarter, you can see good traction on the loan book growth as well.

Nidhesh: If you can also share the absolute number of disbursements for Q4.

P. Balaji: We will discuss this offline.

Nidhesh: And sir, what was the BT out rate for FY '24?

P. Balaji: See, BT out rate is around 2.5%.

Nidhesh: And what will be the dividend payout policy going forward?

M. Anandan: As a policy and as a Company, the dividend declared is not a onetime occurrence. There will be a dividend payout ratio. The Board has taken this into consideration, and we've deliberated and established a comprehensive policy. This company will persist in paying dividends continuously, maintaining a reasonable and sustainable payout ratio. As a result, we are currently declaring a dividend of Rs. 2.50, compared to the previous declaration of Rs. 2, totaling Rs. 4.50 per share with a face value of Rs. 2. So, in other words, our dividend policy will take into consideration our part payout ratio and it will be our endeavor to continuously maintain, improve, if not the payout ratio, the quantum of the dividend going forward.

Nidhesh: And lastly in terms of disbursement mix, we have seen very strong growth in the customer referral channel. So, what exactly have we done to drive that growth?

P. Balaji: Nidhesh, I'll take it offline.

Moderator: Thank you, sir. We have our next question from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: Congrats on the set of numbers, sir. Just wanted to check in this quarter as far as the provisioning and other income source, there has been some restatements for prior periods, that's Q3 and for nine months FY '24, what has been the change in terms of accounting?

P. Balaji: Earlier we have netted off the bad debts recovery with the provision . Now we have grossed it up and the provision has been stated as the provision and then the bad debt recovery has been added to the other income.

Sanket Chheda: So, the credit cost has gone high, provisions have gone high, and the other income has also gone high.

M. Anandan: Our total write-off and provision all put together is only 0.39%. And in fact, there is a good reduction even from 0.57% in the previous year. So, in other words, our provision for write-off has not really gone up but has come down. This is despite the fact that we really carry a reasonable amount of management overlay. And as Balaji said, the overall provision we are now carrying at is about 1.06% of the total assets, which when compared is much better than the other Companies.

Sanket Chheda: The provision Y-o-Y would have come down; I am saying the amount which was reported earlier versus that the numbers have gone up in terms of provisions.

P. Balaji: Yes, but there is an equal amount of recovery that's got added to the other income,

Moderator: Thank you, sir. We have our next question from the line of Arul Selvan from Independent Advisors. Please go ahead.

Arul Selvan: First of all, congratulations on a good set of numbers this quarter. I just had a couple of questions. The first one is more on a qualitative level. How has been your credit underwriting experience so far in the non-southern states, Orissa and Maharashtra? And I understand that it's probably very new and it's too early to tell. But still I was just wondering if you could shed some light on how the experience has been so far.

P. Balaji: The experience has been good. See, we have got around 60, 70 profiles of the customers whom we normally fund. And the same kind of profiles are being funded in the new states as well, whether it is Maharashtra or Orissa. And the NPAs are not there at all. And I think 96% is nil overdues. So, things are good, and we have had positive credit experiences in both of these states.

Arul Selvan: The second question that I had is that with respect to these insurance loans, I was reading a media report which talked about the regulator looking into these bundling of insurance products along with loans. So, I just wanted to ask you, when a customer comes and gets a loan from Aptus, is it mandatory for the customer to get the insurance loans or is it optional?

P. Balaji: It is not mandatory. We give the option to the customer to take an insurance cover as a credit shield cover, because if something happens to them, the loan gets covered. But what we have done is that we have negotiated a good premium for these customers with an insurance Company. So, if they opt for that insurance, they get that benefit, and it's a one-time premium paid for the entire tenure of the loan. So, those are the benefits which we explain to the customers, and if the customers are interested, they take it.

Moderator: Thank you. We have our next question from the line of Bhavya Sanghvi from Fortress Group. Please go ahead.

Bhavya Sanghvi: Just a bookkeeping question. Could you give us the one plus DPD for the quarter?

P. Balaji: It is around 7.5%.

Moderator: Thank you, sir. We have our next question from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: You have added around 100-odd employees in the last one year in the collections field. So, I was wondering whether we should read anything in this front?

P. Balaji: No. actually, we wanted to strengthen the collections department, hence, we have introduced middle management into the collections department as well. And then we added around hundred employees to take care of the collection. We have been driving these digital collections, which needs to be taken care of by more employees. And if you look at our cash collections, it is just 2% of the total collections. So, those are the requirements and that's why we have recruited.

M. Anandan: Actually, our loans and disbursements have gone over around 30%. But as Balaji said, some of these numbers is not only for this year, actually these numbers are really for FY'25 also.

Nischint Chawathe: Just one final data keeping question. If you could share the yield on loans across segments for home loan, LAP, business loans, if you can.

P. Balaji: See, if you look at the housing loans, the yields are around 15.5%. The quasi-home loans is around 17.5% and the small business loan is around 21%.

Moderator: Thank you, sir. We have our next question from the line of Sonal Gandhi from Centrum Broking Limited. Please go ahead.

Sonal Gandhi: So, I just had one question, this is, when you are entering new states, what kind of teams do you build up? Is it like, your existing employees are transferred to the new state? Or how do you go on building up the team over there?

P. Balaji: When we get into the new state, what we do is, as we said, we are growing on a contiguous basis. That means the first branch that will be opened in a new state will be near to the operating branch in the already existing states. For example, in Odisha, we have opened our first branch in a place called Brahmapur, which is 50-60 kilometers from a place called Srikakulam in Vizag. So, what will happen is the recruitment for these branches will be from the local place, which is Brahmapur. And the culture of the Company will be driven from the already existing branch in Srikakulam. And if we are successful in training those people, then more branches will be opened in the new state based on that. The recruitment will be from the local place, with good experience in the industry.

Sonal Gandhi: And how many employees does the new branch have and across what functions, I mean, how many employees would you have?

P. Balaji: There are around three branches in Odisha and Maharashtra, all put together there are around 25 people.

Sonal Gandhi: Sir, I am talking about a single branch, a new branch which you are opening. So, sales and operations, how many employees would you have over there and how would you add it over a period of time?

P. Balaji: We have around eight people.

Moderator: Thank you. We have our next question from the line of Mr. Abhishek, a shareholder. Please go ahead.

Abhishek: So, congratulations on a good set of numbers. So, my question is regarding the housing and small business loan. How do we see scaling these up, versus the competition what we are facing? As I understand that one of our closest competitors is also getting into the housing stage and we know that he has already been in the small business space. So, how do we see competing with them in the south as well as north?

P. Balaji: See, first of all if you look at the competition, I would like to break it into two. One is on the housing loan; the other one is on the small business loan. The housing loan basically, I mean, wherever we are operating there are quite a few companies who are also operating. But the yields which we are charging is almost on the same lines as other peers. So, even if the competition comes, we will be able to manage it. But in the case of small business loans, we have a competitive edge where we are charging less than our competitors. So, even if the competition comes, we will be able to handle them well.

Abhishek: And the second question is regarding the debenture issue, which we have sought for approval from the shareholders to the tune of Rs. 2,250 crores. So, at what rate these would be and how do we plan to use them?

M. Anandan: Actually, these debentures will be raised from the institutional investors including banks, insurance companies and others. And as far as the rate is concerned, I don't think we will be able to indicate any specific rate now given the moving market situation.

Abhishek: Is it going to be something which is like, beyond what we are paying right now? Is it something you can disclose?

M. Anandan: Given our performance, given our brand name, given our credit rating and financials, we are able to get some of the best rates. And we hope to continue to leverage that. Definitely, we will not pay one paisa more than what we deserve to pay.

Abhishek: And just last question, sir, if can, is on the fixed rate loan book. We understand that as something which works as an advantage for us is that most of our asset book is towards fixed rate. And in the environment which we are today, and interest rates will drop, what is the risk we hold of people or trying to refinance it or going to another competitor? Because we will have to pay fixed rate on our book.

P. Balaji: Correct. See, till now our BT out rate is only 2.59%. And we have seen both the cycles, interest rate reducing cycle and interest rate increase cycle. We have not seen this 2.59% changing drastically over the last 15 years. So, we also feel that this will not change, and this will continue.

Abhishek: But any measures we are taking towards that? Because if someone has to consider it, for example, is taking a loan of Rs. 10 lakhs and if interest rates dropped by 0.5% or 1%, so being on Aptus' book, he will be paying 0.5%, 1% extra?

P. Balaji: We will look at it on a case-to-case basis and then see what needs to be done at that point in time.

Moderator: Thank you. We have our next question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Sir, just a few clarifications. So, firstly, if you could share the breakup of AUM based on ticket size, that is sub Rs. 5 lakhs, between Rs. 5 lakhs to Rs. 25 lakhs, and above Rs. 25 lakhs?

P. Balaji: If you look at the AUM, we don't have any loan more than Rs. 25 lakhs, and 20% to 25% will be 2% to 3% of our book. And most of the loans, almost 70% to 80% will be between Rs. 5 lakhs and Rs. 15 lakhs. And the balance will be between Rs. 15 lakhs and Rs. 20 lakhs.

Mona Khetan: Secondly, if you could share the incremental cost of funds during the quarter, both for the NBFC and the HFC?

P. Balaji: See, for the housing finance, we have been raising funds between 8.5% to 8.6% and in the NBFC between 9% and 9.25%.

Mona Khetan: And are you seeing the cost of funds peaking or could it continue to rise for a couple of quarters?

P. Balaji: Looks like it is peaking, because the recent sanctions which we have received in April are also on the same line.

Mona Khetan: So, while NIMs may continue to moderate because leverage will continue to rise, is it fair to say that the risk of spread pressures are very low in your case? .

P. Balaji: Yes, It is low.

Moderator: Thank you. We have our next question from the line of Arul Selvan from Independent Advisors. Please go ahead.

Arul Selvan: Sir, just a follow-up from my earlier question. I was talking about the life insurance aspect of our lending. I wanted to know if we could give a rough proportion of what proportion of our customers have life insurance versus the ones which don't.

M. Anandan: We can't get into the specific details. But what we do is totally compliant either from IRDAI point of view or from our regulatory point of view.

Arul Selvan: Right. Because I was just trying to understand if at all there is some sort of an impact if some sort of a regulatory ban in the future.

P. Balaji: We have been going through the process for the last five to six years. And also, take it from us, we are always on the right side of the law, and we don't want to be on the left side.

Arul Selvan: One more question I wanted to ask, sir, is that I think you have given a guidance of about 30% of growth every year. Is there any sort of a breakup in terms of how much of this will come from the housing loan versus the small business loans?

P. Balaji: We have the breakup. Since the small business loans base is low, the growth can be 40% there because the base is low, that's not the thing. But the housing loans can be growing at 25% to 30% there, again, so resulting in an overall growth of around 30%.

Arul Selvan: I mean, do you have a specific target, sir, for this loan book for FY '25?

P. Balaji: See, obviously we will be having it internally because that's how we will be driving the branches, right.

Moderator: Thank you, sir. We have our next question from the line of Raj Patel, an individual investor. Please go ahead.

Raj Patel: I just wanted to understand why the dividend payout ratio is so high for our Company. We have seen phenomenal growth of about 40% CAGR for the last five years. Do we see that we do not have enough growth opportunities, that's why we are giving almost Rs. 200 crores of dividend this year?

M. Anandan: No, not really. On the opposite, we have indicated a guidance of around 30% growth in business. The second thing is that, we will not really come for any capital raise at all given our margins and profitability. Also, given the capital adequacy norms of this business, the risk weightage and capital is the norms of business, they are unlikely to come for any capital raise.

Now coming to your point in terms of the dividend payout ratio, we have considered that in our Board meeting. Actually, if you look at it very closely, last year our payout ratio was closer to about 30% and this year it will be around 35%. Actually, it has reduced. And as the business grows and the profitability grows, we will keep the payout ratio in mind. But at the same time, while the ratio will be prudent, it will not be at the cost of the business growth. And particularly when we see very strong business growth coming forward, we are geared up for this. In fact, we are very strong with our capital adequacy ratio of 66%. So, in other words, with that kind of strong capital ratio, there is nothing like not supporting the growth of the business.

Moderator: Thank you, sir. We have our next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Sir, just one data keeping question is on, what is the incremental ticket size in housing and small business loan for us for the Q4?

P. Balaji: Incremental ticket size during the quarter has increased by 5% on the housing loan and 7% on the non-housing loan.

Nidhesh: Sir, I couldn't hear the number, can you please repeat?

P. Balaji: It has increased from Rs. 8.6 lakhs last quarter to Rs. 9.2 lakhs this quarter for the housing loan, and from Rs. 8 lakhs to Rs. 8.6 lakhs for the non-housing loan.

Nidhesh: And sir lastly, do you see any impact because of the fair practices code for lenders of charging of interest on our Company? There was a notification issued from the RBI on charging of interest by banks and NBFCs, fair practice code on charging of interest on 29th April.

P. Balaji: Actually, what is happening, Nidhesh, from 1st April onwards all the disbursements for us is happening through RTGS, which is an account-to-account transfer to our customers. We will create the security interest before the disbursement happens. The proof of security interest gets reflected and then the money gets transferred to the customer's account. So, we will not have problems based on this RBI circular.

Moderator: Thank you, sir. We have a last question for today from the line of Harshit Toshniwal from Premji. Please go ahead.

Harshit Toshniwal: Sir, just one thing that carrying forward from that dividend point itself, wanted to get a sense that for us to grow at 30%, and given that the overall balance sheet leverage will keep inching up. At what level are you comfortable with? Is 70% borrowing advances more a range where we would need to think for equity raise?

And also, if you can help us correlate with that payout number that we paid roughly around Rs. 4.5 dividend this year. So, we are not following a typical payout percentage policy. So, is it that we should just look at that Rs. 3, Rs. 4 dividend as an amount which becomes constant over a period of time? Because we will need that money in the next three to four years, beyond which if we don't want to increase the leverage of the balance sheet.

M. Anandan: As you know, our current leverage is low, and our intent is to really take it up to 4x to 5x. So, that gives the long leeway. Considering the fact that even after the dividend we are retaining large internal cash generation. So, in other words, our surplus out of net of dividend, plus the increased leverage from current low level to a level of about 5 leverage, we anticipate to really maintain a reasonable amount of dividend payout. But obviously I will not be able to mention any number. But then it's our intent really to maintain a reasonable payout going forward. And for that clearly as per our projected numbers, we will continue to pay a reasonable amount. But sure, we will carry a reasonable dividend payout ratio. At the same time, keep supporting the growth very well through additional gearing and through operating success.

Harshit Toshniwal: So, basically, sir, what you are trying to indicate is that roughly 80% borrowing to advances is where, till that point we are comfortable in giving or maintaining the dividend payout, and objective is more to get that leverage of 5x on the book?

M. Anandan: Yes, correct.

Moderator: Thank you, sir. That was the last question for today, ladies and gentlemen. I now hand the conference over to management for closing comments.

M. Anandan: Thank you, Mona, for organizing this conference call. I would like to pay my sincere gratitude to all the analysts and investor friends who have taken time to listen to us today. Please feel free to contact us in case you have any further queries. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.