Aptus Value Housing Finance India Limited
Q2 & H1 FY22 Earnings Conference Call
November 1, 2021

Management:

- M. Anandan – Chairman & Managing Director
- Mr. P. Balaji – ED & CFO
- Mr. G. Subramaniam – ED – Chief of Business and Risk

Moderator: Good afternoon ladies and gentlemen. I am Bilal, moderator for this conference. Welcome to the conference call of Aptus Value Housing Finance India Limited arranged by Concept Investor Relations to discuss its results for the 2nd quarter and half year ended September 30th 2021.

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 guarantee of future performance and involve risks and uncertainties that are difficult to predict.

At this moment, all participants are in the listen-only mode. Later, we will conduct a question & answer session. At that time, if you have a question, please press "*" and "1" on your touch-tone phone keypad. Please note that this conference is being recorded.

I would now like to hand the floor to Mr. M. Anandan – Chairman & Managing Director. Thank you and over to you, sir.

M. Anandan: Ladies and gentlemen, good afternoon to all of you. I am Anandan, CMD of the company. I welcome you all to the conference call to discuss the financial performance for Q2 FY22. I have with me, Mr. P. Balaji – ED & CFO and Mr. G. Subramaniam – ED & Head of Business. The results and the investor presentations are available on the stock exchanges as well as our company's website. I hope everyone had a chance to look at it.

With the unlocking of the economy and ease of restrictions, I am confident of the fact that the economy will grow faster henceforth. While business activity was impacted in Q1 due to the second wave of Corona, things returned back to normalcy towards the end of Q1 and in a more pronounced manner in Q2. This is reflected in our overall performance – be it in disbursements or collections which as you are aware are very crucial for any HFC. In Q2, we were almost at pre-Covid level both in terms of disbursement and collection efficiency. For Q2, we have disbursed about Rs. 421 crores representing a growth of 70% over Q1, mainly because in Q1 the larger impact of Covid was there. Our NIM (net interest margin) for the quarter has improved by 6 basis points to 9.09%. Our gross NPA compared with the 1st quarter reduced by 26 basis points to 0.81%. Profit after tax for the quarter was about Rs. 85 crores representing an increase of 16% Q-on-Q. We continued to grow consistently and close September 2021 with an AUM of Rs. 4,482 crores representing a growth rate of 27% year-on-year.

Key highlights of the half-year performance being disbursements for the half year was about Rs. 668 crores, a growth of 37%. Our AUM as mentioned earlier, had a growth of 27%. Our PAT for the half year was about Rs. 159 crores, a growth of 30%. Our GNPA (gross non-performing asset) at 0.81%. There is a marginal rise of 14 basis points as of March 2021, though it has come down when compared with the 1st quarter. Our ROA was at 7.43% which is one of the best in the industry and our ROE was at 14.09%.

We had maintained sufficient on balance sheet liquidity in the form of cash and cash equivalents at about Rs. 736 crores. Our net worth is very strong at over Rs. 2,700 crores implying we have a very strong capital adequacy to take care of the future growth.

I now hand over the line to Mr. P. Balaji – CFO, to discuss various business parameters.

P. Balaji: Good afternoon all. As on 30th September 2021, we had a total live customer base of over 72,000 which represents a growth of 31% on a year-on-year basis. Total number of branches were 198. We had added 8 branches in the 1st half of FY22. Employee count was at 1,998. Disbursements increased by 37% year-on-year to Rs. 668 crores in the 1st half. AUM grew by 27% year-on-year to Rs. 4,482 crores. As on 30th September 2021, our average yield on the portfolio was at 16.95% and average cost of funds were at 7.86% resulting in a NIM of 9.09%. Our OpEx to assets were at 2.74% resulting in a healthy ROA of 7.43% and ROE of 14.09%. We have a well-diversified borrowing profile and almost 51% of our borrowings were from NHB and DFIs like IFC and large financial institutions. Balance 49% of our borrowings were from banks. We had sufficient on balance sheet liquidity of Rs. 736 crores as on September 2021, and hence, we are going slow on additional borrowings, and high-cost loans are either being prepaid or renegotiated. As of now, we enjoy a rating of A+ from both ICRA and CARE and we are taking up with the rating agencies for a possible rating upgrade.

Collection efficiencies have improved to pre-Covid levels and stood at 99.7% in September 2021 vis-a-vis 95% in June 2021. The backlog that has got created due to the Covid 2 impact in Q1 FY22 is being collected in a phased manner. This has actually led to a marginal increase in 30+ DPD. However, we are confident of collecting the backlog in the ensuing quarters. Gross stage 3 assets declined to 0.81% in September as compared with 1.07% in June 2021. It marginally inched up by 0.14% as compared to September 2020. We have restructured 1.56% of our AUM. More than 85% of our customers who were restructured are paying on time and have cleared all the dues. Further, we have strengthened our provision coverage ratio from 0.41% in March 2021 to 0.72% in September 2021. The provision coverage ratio for stage 3 assets stood at 25.16% and for stage 1 and 2 assets stood at 0.51%.

Our PAT for the 1st half stood at Rs. 159 crores representing a growth of 30% year-on-year. Our Q2 PAT was at Rs. 85 crores representing a growth of 16% quarter-on-quarter. As on 30th September, our net worth was over Rs. 2,700 crores. Thanks for the hearing. Now, with these remarks, I open the floor for the question & answer session.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. We have the first question from the line of Asutosh K. Mishra from Ashika Stock Broking. Please go ahead.

Asutosh K. Mishra: A very good set of numbers you have come out with. What type of competitive scenario are we seeing in the market which we operate in, basically the southern market? Whether prepayment rate has increased or it has remained at the same level compared to our historical average?

G.Subramaniam: We operate in 2 segments of the market, namely the home loans and the business loans. The market is fairly good and competitive. In the southern part of the country where GDP is highest, most of the financiers are present in this market. The second question you asked about the pre-closure or transfer of the loans. That is the question which you asked, correct?

Asutosh K. Mishra: Yes, what is our strength on the pre-closure of the loans?

G.Subramaniam: Generally, as we explained in our slides also, the pre-closure ranges between about 7% to 7.5%, but even in that, 83% of the pre-closure comes from the own source of funds of the customers. Our customers are self-employed customers. Unlike salaried customers, they are able to take surpluses from their business and preclose their loans. Only 17% of our pre-closures are transferred to other financial companies. If you convert that pre-closure out rate will be about 1.2%.

Asutosh K. Mishra: How do you see the way the whole housing finance space is setting up? A lot of new players are coming or even existing players' competition is increasing, do you see this changing in future or you are confident of maintaining this prepayment or transfer to the other financiers will remain at the same level?

G.Subramaniam: For the last about 3 to 4 years, we are seeing the same kind of percentage and same kind of wants from the customers. So, we are not envisaging a big change in the percentage in the near future.

About the competition, basically we are present in most of the towns – tier 1, tier 2 – and most of the markets where we operate, namely Tamil Nadu, Andhra, Telangana, and Karnataka the carpet coverage is very high. We follow a strategy of going deep into a particular state and hence the number of branches in each of the states in which we operate are deeply penetrated.. And also, we are there in these markets for quite long and being able to satisfy the customers; they are able to refer new customers to us. So, the brand name is very high in this market. So, for a competitor to replicate all this, it will take a slightly longer time for them.

Asutosh K. Mishra: Second part of my question is basically on the cost of funds. You just mentioned that you are taking up with the rating agencies for a rating upgrade and you are renegotiating with the existing borrowers out there. If you can put light on how much decline in the cost of funds or where do we see our cost of funds six months down the line?

P. Balaji: The cost of funds which was at 8.4% as of 31st March has reduced to 7.86% as of now. It is basically because of the incremental cost of funds other than the NHB which was raised at around 7% to 7.2% and the NHB funds were raised at an average rate of around 5% to 5.5%. It is basically this which has brought the cost of funds down as of September. But going forward, as you know, the interest rate differences between an A+ rated company and AA rated company is anywhere between 1.1% to 1.2%. So, if you are going to get the upgrade, this cost of funds reduction is likely to happen on the incremental borrowings.

Asutosh K. Mishra: Any ballpark number if this 7.86 number if I ask at the end of this year by March where you see or it will remain at the same level?

P. Balaji: If you look at our funding profile as of date, we have a cash balance of almost Rs. 736 crores plus the incremental fund that is going to come from the surplus from businesses. I think this funding is enough for us to go up to March 2022. If at all I am going to borrow additional funds, it will obviously be less by at least 0.5% to 1%.

Asutosh K. Mishra: Out of our borrowings from the banks, how much has been linked to the MCLR and how much is external. benchmark?

P. Balaji: If you look at our total borrowings, interest rates borrowings from NHB (29%), borrowings from IFC and large FIs (17%) and borrowings in the form of securitization (5%) are fixed for the entire tenure. NHB, as you know, gives funding up to 10 to 15 years and the securitization gives the funding for the tenure. IFC funding is for a 7-year tenure. All these are fixed rate loans. The 49% which is representing the bank borrowings are linked to the MCLR and most of them are linked to 6-months or 1-year MCLR basis.

Moderator: The next question is from the line of Aalok Shah from MNCL Group. Please go ahead.

Aalok Shah: Congratulations on a great set of numbers, sir. I had two questions. One was more on the margin side. Clearly what we have been seeing here is that there is a lot of cost benefit which is pushing the margin higher, optically the best ever in the last four years or so. What according to you is a more sustainable margin for the kind of business model we are into? That is what I would like to understand from you. The second one is more on the securitisation that is just 5% of your borrowings. Is there something that we look at in terms of taking securitisation as a number closer to 10% or higher as a percentage of overall borrowings or so? The third question would be more on OpEx. We currently are fairly well spread and have a very good expansion plan in our markets of presence historically where we have been there – the 4 southern states, but you have also talked about foraying into new 3 states. So, what according to you could be the near-term OpEx-to-asset ratio? I am not asking about cost-to-income ratio, but more on OpEx-to-asset ratio that you would look at.

P. Balaji: If you look at the margins to explain how sustainable it is, we have two companies. First of all, one is the housing finance company and the other one is the NBFC which is the wholly owned subsidiary of the housing finance company. And in the HFC, we do all loans relating to housing loans. There are four products which gets booked under this. One is the housing finance which is the direct housing loans given for the purpose of either construction, purchase, repairs, or renovation. The other one is what we call as quasi home loans. We are in the business of funding self-employed customers. These kind of customers during the course of running their businesses have surplus cash flows and they use that fund for building their house and also complete the house, but after completing the house, maybe 3 to 6 months down the line, they find themselves cash short for running the business. So, what they do is, they come to us for a loan which we give also, but the thing is these cannot be classified as Housing loans as per the NHB directions. So, this gets classified as quasi home loan.

The other product which gets booked under this company is the insurance product which we give to the customers for covering their lives under the credit shield arrangement. The other one is a top-up loan. If you look at the housing loan, on the total AUM, it constitutes around 54%, and if you look at the quasi-home loans, it constitutes around 16%. The insurance and top-of loans constitute around 4% respectively.

The other loan which we give is a small business loan. This gets booked under the NBFC. These are loans which are given to the customers for enhancing their businesses. We don't give these loans for consumption purpose like marriage, education, etc. We give these loans for a period of seven years and we charge interest rate of 21%. The housing loan we charge anywhere between 14% to 14.5%. Non-housing loan – the quasi home loan – we charge anywhere between 17% to 17.5%. The blended yield of all these products comes to around 17%. With the lower OpEx and also the reduction in the cost of funds, our ROE is at 7.43% which is clearly 3% to 4% more than our peers.

Now, coming to the sustainability, the quasi-home loans and the small business loans – we are charging what the market is charging. Suppose if you are considering the small business loans, there are players in the southern part of India like Vistaar, Five Star, Veritas etc., who are charging anywhere between 24% to 25% or 27%. We are charging slightly lesser than that. So, we don't have any intention to reduce the interest rate there. Similarly, in the quasi home loans also, quite a few market players charge in the range of 16% to 17% to 17.5%. So, there also, the sustainability of charging the interest rate is there.

As regards housing loans, we are a tad 0.5% to 0.75% more as compared to the peers, which we are planning to reduce over a period of time, but without affecting the NIMs, we will be doing this, because if we go for an upgrade, there is going to be cost of funds reduction. This is the basis on which the sustainability will happen. OpEx also will continue to be at around 2.74%.

Now, coming to the securitization, the 5% of the total borrowings which is represented as securitization is pure securitization through pass-through certificate. It is not direct assignment. As a tool for borrowing, we are not against securitization, but we will do securitization if the normal opportunity for raising funds is not available because we don't have a capital constraint or a capital adequacy constraint. This is the plan with which we will be following on the securitization. As regards direct assignment, we might not be in favor of doing that due to our internal policies.

Aalok Shah: Is it fair to say that at least on the securitization part, that number is here to stay at probably low teens unless there is a need for liquidity?

P. Balaji: Yes.

Aalok Shah: On the first part, on the NIM, I really appreciate the effort that you have taken in explaining each of the segments and the ROIs therein and where you also highlighted that at least on the housing loan which is 54% of your AUM, there is a need to kind of look at reducing it by 0.5 or 0.75. So, clearly, at least on the lending side, there is a reason to believe that these could kind of may remain here or move gradually lower, but it is more of a cost benefit that could come through. Is that the right understanding?

M. Anandan: Yes. Just to add a point here, basically, as Balaji has explained, product-wise yield, the sustainability is absolutely is there. On the pricing of HL is concerned, actually we did reduce by about 50 basis points a couple of months back and we want to stay with that and this reduction has in fact started coming already through the form of lower cost of funds or through better productivity at the branch level and the staff level. In other words, this optimization of lending rate of 50 basis points reduction for the HL will not really have any impact as far as our NIM is concerned or ROA is concerned.

Moderator: The next question is from the line of Arjun Bagga from Nirmal Bang. Please go ahead.

Arjun Bagga: I had a question regarding our restructuring book. I could see that we have around 1.56% of restructured assets. In that, sir, can you just provide a segment-wise breakup? How much is it for the NBFC and how much of it is for the HFC?

M.Anandan: It is around 70% in the HFC book and 30% in the NBFC book.

Arjun Bagga: Sir, in terms of the slippages from this book, what would be our expectation on the slippages from this book over the next 2 years?

M.Anandan: We have given the restructuring in the month of June. Out of that, 85% of customers have paid all the 3 months, i.e., July, August, and September. Out of balance 15%, hardly 3% to 4% gone unpaid into all the 3 months. So, we feel that even after the restructuring, the performance will be reasonably good, at least going by the recent 3 months of performance.

Arjun Bagga: I had another question. Sir, I could see that in terms of branch expansions, we are looking at expanding in Maharashtra, Odisha, and Chattisgarh. Sir, this question is related to the competitive intensity. How do we look at the competitive intensity in the south, in the north, and in the west regions?

G.Subramaniam: Our policy is to go deeper into the market in the states where we operate. That is the first policy. So, we will be opening more branches in the states like Andhra, Telangana, and Karnataka, but having said that, your question on the Odisha, Maharashtra, and Chhattisgarh, we will be opening branches there. In fact, just to give you updates, we are starting about 1 or 2 branches in Odisha. We will test that, then we will expand more into the Odisha market. Then, we will see about the Maharashtra and then Chhattisgarh. Whenever we open new branches, we see 2-3 things. One is, what is the overall market? Second, what is the operational culture of that and the repayment and delinquencies? And more importantly, how we fix our products, i.e., we are very strong in the self-construction product rather than purchase or other products like other competitors. So, if it fits our model of self construction, then we will open in the particular branches. So, as I told, we are going ahead in Odisha; but Maharashtra and Chhattisgarh, we will go in a phased manner.

Arjun Bagga: On this competitive intensity thing, I am sorry to harp on this. Can we assume that it is highest in the South and then in the West and then in the North? Would that be an appropriate assumption?

G.Subramaniam: It is not like that. Every market is competitive, but only thing is that you need to have a clear process. Main important thing is the underwriting process and the reach of the customer – marketing; so, you can always do that business. Competition, our feeling is, most of the markets will be almost the same.

M. Anandan: Just to add a point in that. Actually, at a philosophical level, we would really want to follow a geographical policy of looking for leadership in wherever we operate. So, being headquartered in Chennai, we started in Tamil Nadu and we have expanded progressively over the last 10 years in southern states which provide significant economic growth rate, GDP growth rate, and demand for loans, reasonable credit culture, low delinquency, low OpEx, and things like that. And as we go along, we would look for expansion geographically on a contiguous basis and not really in the order of south, west, or north business but in the order of contiguous states. That's why Odisha, Maharashtra, and Chattisgarh were chosen. We currently have about 198 branches and more branches will come in these contiguous adjacent states really. The philosophy again as I mentioned is that we don't believe that we should really look at an all India presence being operating in all 4 zones of the country. There are some companies even with 75 branches operating out of 14 states and all. It is their philosophy. Our philosophy is really operate deeper than wider but then with a clear aim of being a leader, and leadership position. And that's all will be the determining factor and we will continue to grow in southern states, and at the same time, we will continue to keep expanding on the adjacent states.

Moderator: The next question is from the line of Avinash Tanawade from Dalal &Broacha. Please go ahead.

Avinash Tanawade: I just have 2 questions. What is our state-wise growth in disbursals?

G.Subramaniam: As told by Mr. Anandan, 50% of our books come from Tamil Nadu, 29% comes from Andhra, 11% comes from Telangana, and 10% comes from Karnataka. These are the 4 breakups of our AUM. And in the list of branches, 79 branches come from Tamil Nadu, 69 come from Andhra Pradesh, Telangana is 29, and Karnataka is 21.

Avinash Tanawade: About NHB borrowing; around 29% of our borrowing comes from NHB. Most of the time when NHB lends money, they have some yield gap. Do we have any kind of yield gap on NHB borrowings?

P.Balaji: In terms of NHB borrowings, there are 3 or 4 schemes where NHB gives finance to the HFCs. One is the regular refinance scheme. There is a certain scheme which is being given at 3% to 3.5% with a cap of 3% or 4%. There are schemes but we have borrowed only under the regular refinance scheme and there is no interest rate cap on those kinds of schemes.

Avinash Tanawade: What is the average borrowing cost for us on NHB borrowings?

P.Balaji: NHB borrowings would be around 5.5% to 6%.

Avinash Tanawade: And bank borrowing cost?

P.Balaji: Bank borrowing cost would be around 7.2%.

Avinash Tanawade: What is our bounce rate in the months of August and September?

G.Subramaniam: Bounce rate pre-Covid, i.e., before the Covid, it used to be around 20%. Now, it is ranging between 25% to 26%. One more point I missed out in the bounces. Even within the bounces, about 35% we are able to collect digitally. Only the remaining part, we are collecting in cash from the customers.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Congrats on the results. I had a few questions. Firstly, what percentage of our customers are new to credit?

G.Subramaniam: 40% of the customers are new to credit. Typically, these kind of customers normally borrow gold loans and small things like 2-wheelers and things like that. And as you are aware, many of these customers in the south part of the country, chit funds are there, but chit funds' data doesn't come in the credit bureau report. Just to answer your question, it is about 40% new-to-credit customers.

Piran Engineer: Secondly, can you just talk a bit more about the collection strategy? Because your 30 DPD is around 10% and 90 DPD at 1% or so. So, a lot of the collections in the 30 to 90 bucket is quite strong. Can you just talk a bit more in detail about that?

G.Subramaniam: Right from the day #1 when we started the company, we have not outsourced any of the collections operations; be it a soft collection or be it bucket collections or be it legal recovery. Everything is internal. All our collection staff are internal staff on the rolls of the company and all our legal managers are also on the rolls of the company and it is not outsourced. So, what we do is, we collect max from all the customers. 100% of the customers' max is collected. All our operations are centralized. So, we deposit everything from the head office, and once the bounce details come, these details are passed onto the field and they do the field collection. As I told you, they do two things – one is digital collection and also the cash collections. These people in the field, they have got a mobile device. They can pass on the receipts immediately. It comes to the customer's account online basis. There is no manual intervention, and also that once you do that, these mobiles also will help you to find out who is the nearest customer and it also gives receipt and sms to the customer and a lot of digital controls we have established on the field collection. Because of these operations and also our trained staff, our attrition in this particular segment is also very less. So, we are able to do good soft collections and of course some of the customers despite our collection efforts goes into the NPA mode warranting us to initiate recovery proceedings. So, we initiate SARFAESI proceedings, arbitration and also proceedings as per the NI Act for cheque bounce to make the customer come to the table and make the payment. This is how the whole collection process is set and we have got a very strong daily MIS which tells you about how many customers bounced, how many customer visit has been done, what is the collections done on the daily basis, what is the productivity of each staff in the field etc.. And also, we have got maker and checker so that the money what is collected in the field directly comes to our office. This is what is helping us for quite some time. During the period of Corona where the restrictions in travel were there, we have used all our staff from all other departments to do the collections on the field. This is probably one of the factors which is helping us in the soft collections.

Piran Engineer: Do you have different teams for soft bucket and hard bucket collection?

G.Subramaniam: What we do is, because we have got branch-level staff, we have got persons depending on the bounces and depending on the buckets of the customers. Suppose there is only hardly few accounts, then we will have 1 person. Then, based on the requirements, we will have 2nd person, and based on the requirements, we will have the 3rd person; but we have not separated the buckets between our collection staff. Only when it goes to NPA, then it goes to our internal legal managers who would follow this on the legal actions.

Piran Engineer: Sir, you mentioned you all also invoke SARFAESI and arbitration proceedings. Typically, how many properties would you all be repossessing in a normal year? May not be the last Covid year but in a normal year?

G.Subramaniam: Generally, right from the beginning, our policy is to settle with the customer rather than repossessing and selling. It is not that we are not able to repossess, but then, once you repossess, the value falls and things like that kicks in. So, we try our best to settle the loans with the customer rather than taking possession and selling it. And all these years, we have not had any principal write-off because of two things – our credit underwriting is good and also our LTV on the product is close to about 40%. So, there is always the intention of the customer to settle the loan with us rather than losing the property.

Talking about this as on day, we have got about 14 stock only about Rs. 84 lakhs which is in our repossession asset out of the Rs. 4,500 crores loan book. That explains us that our repossession is very less but we are able to settle the loans with the customer.

Moderator: The next question is from the line of Shailesh Kanani, an individual investor. Please go ahead.

Shailesh Kanani: Congratulations on a good set of numbers. Sir, I have just one question. Is there any part of business that would worry you or any change in dynamics which would worry you on business terms or which investors should be concerned about with respect to our business model?

M. Anandan: Basically, we don't do any concentrated business. For example, we don't fund to any builder, corporate, or wholesale; it's all zero. Our entire loan book is granule retail and the maximum loan given to any customer should be about 25 lakhs; even that is not more than 2-3%. In other words, our average loan size is about Rs. 8-9 lakh and our average EMI is only about Rs. 12,500. For example, we have currently about 72,000 customers multiplied by 8-9, that's what will add up to our outstanding loan book of about 4,460 crores. These customers come from 80% self-employed and 20% salaried. The 80% self-employed come in different professions and locations – something around 55-60 different types of businesses, largely service businesses and it is provision stores, pharma, servicing, fruits & vegetable selling, small hotels. That way, it is really very dispersed across customers, across geographies, and small home loans and small business loans. So, there is no concentration of any kind from our loan book point of view to give us any particular sector-related shock or changes.

Shailesh Kanani: That would be from the customer point of view. Anything on the macro front that would kind of worry you, anything?

M. Anandan: We are not able to see. Again, if you really go back in the last 10 years, as you know, we did come across several headwinds. One is, for example, the IL&FS or demonetization or GST or Covid 1 or Covid 2. Even Covid 1, we had banked a good growth rate in our AUM and in our profit. We have been able to maintain over 30% growth rates, even in FY21 which got impacted by the Covid 1. The question is that when we start funding small loans to people to construct a house where they live in themselves where the land is owned by them, we only fund a part of the construction cost; that's why our loan-to-value is low and invariably they live in that house and to some extent they have to save on the rental and things like that and there are other community pressures to really pay for the homes and things like that. So, resulting in that, we are not able to see anything because we had extreme surprises in the past 10 years, and these surprises, the impact on us is minimal, and as an organization, we are able to handle it well.

Moderator: The next question is from the line of Aalok Shah from MNCL Group. Please go ahead.

Aalok Shah: My question is more around trying to understand how you see the OpEx-to-asset ratio playing out. You talked about moving into Odisha and Maharashtra. What's your typical break-even point either in times of time or AUM? If you could throw in better clarity on such lines?

M. Anandan: As has been mentioned earlier, our OpEx is one of the lowest – the best in the industry, basically because of our cost structure; we are very frugal in incurring the cost – be it revenue cost or capital cost, and our overall expenses, branch-wise expenses, and our productivity is the highest and our credit cost is the lowest. In other words, if you really look at the total OpEx it's one of the best at 2.7% of AUM. Given that the scope for further reduction may not be much, but having said that, we don't expect it to go up either on account of the new branches. As we have mentioned that we have already got about 198 branches, and we may add maybe around 20 branches also in a year. In fact, so far in the current year, we have added 10 branches without really impacting our OpEx basically because while additional costs coming on account of these new branches, we will also have the productivity of those branches which have started 6 months back, 1 year back, 2 years back, where when you look at our profile of the branches of 198, there are 118 branches they have finished over 3 years where the average loan book is over Rs. 30 crores whereas there are about 58 branches with 1 to 3 year where the loan book is around Rs. 11 crores or so and 22 branches where the loan less than 1 year where the loan book is around Rs. 1.5 to 2 crores. So, we will start getting the benefit out of these branches. And that will really pay for our new branches. To that extent, we are not seeing any significant change in our OpEx. Second thing is, we really have reasonably low-cost branch operations until such time we cross a certain threshold level. Our break-even normally will be between 4 to 6 months.

Aalok Shah: Just a quick question. When you talk about a client base of 72,000 odd customers, would there be any customer where there is an overlap of the loan products? You would have given a housing loan and then you give a quasi-loan or may be a loan from an NBFC?

G.Subramaniam: This has been explained. We have got 3 products. One is the home loan, the quasi home loan, and the small business loan. Between these 3 customers, there is no crisscrossing. Each loan is individual customer and the individual property. But some of the customers of home loan or a small business loan, we would have given a top-up after a good seasoning and after seeing the repayment. That is close to about 4.5% of our AUM. So, to that extent of 4.5%, there is crisscrossing, but other than that, every loan is individual account given to a single customer with a single property. And almost close to about 99% of the customers, we don't have second loan to the same customer other than this 4.5% top-up loan.

Aalok Shah: Sir, final question. Whom do we write to at the MD's or CFO's office for a detailed interaction? I am sorry to ask you this question again.

P.Balaji: You can contact me or you can contact Concept as well. They will guide you to me and we can have an interaction.

Moderator: The next question is from the line of Franklin Moraes from Equentis Wealth Advisory. Please go ahead.

Franklin Moraes: I have seen that a large part of our growth has come by funding via equity sources. Is this a conscious decision to fund via equity?

M. Anandan: No, it is not a conscious decision to do business out of 100% equity because then the company and the shareholders will lose the benefit of leverage and consequential tax-related upside in post tax returns. In fact, I am sure you know pretty well much more than us in the sense that the equity cost is the highest when compared to any other form of debt given various issues. In other words, clearly our intent is not to fund the business out of equity alone. But having said that, being a stand-alone company, not being part of a large industrial house or large NBFC, we wanted to have a strong threshold capital that will enable us to get a good credit rating and good long-term funding which is required for this business from banks and the other financial institutions, and towards that only, we have strengthened our equity to a threshold level as seen by us. Going forward, given the strong networth that we have now and the margins that we are making, this should help us in terms of being able to leverage the company better going forward.

Franklin Moraes: What is our current capital ratio, tier-1?

M. Anandan: Out of our balance sheet size of about 4,600 crores, we have an equity of 2,700 and also the risk weightage for affordable housing loans of less than 30 lakhs is very less. So, if you really look at the capital adequacy that way, it will be over 70% to 75%. It won't be a constraint for us. We are well capitalized to take care of growth in the near term.

Franklin Moraes: I was just trying to understand that only that we would not be then kind of looking to raise for the capital at least for the next 3 years or so.

M. Anandan: No comments. We are well capitalized now, which will take care of the projected growth in the near term.

Moderator: The next question is from the line of Miti Gupta from IIFL. Please go ahead.

Miti Gupta: When we are saying that the total insurance loans contribute to 4% of the total AUM, how much does it contribute in the disbursement section?

G.Subramaniam: It will be almost about 4.5%

M. Anandan: This is the insurance premium paid for the credit shield insurance and it is actually based on disbursements. Credit shield insurance is taken one time for the tenure of the loan. In case of small business loans, it will be around 3.5%. In case of home loans, it will be a slightly higher than that. The weighted average is about 4%

Miti Gupta: Are we giving any top-up loans currently to the customers?

G.Subramaniam: Generally, we give top-up loans for our existing customers whose repayment is very good and after a particular tinkering period. Their repayment has to be really good, not just with us plus also with the other financiers, to be eligible for the top up, and as explained before in the previous question, our top up on the total AUM is close to about 4%.

Miti Gupta: And how much would it be in the disbursements?

G,Subramaniam: It will range about 4% to 4.5%.

Miti Gupta: The next question is on the productivity levels. You said that your typical branch breaks even in 5 to 6 months. What is the productivity for a salesperson?

G.Subramaniam: This particular individual-wise sales productivity I am not having now. I can share with you later on.

Moderator: The next question is from the line of Arjun Bagga from Nirmal Bang. Please go ahead.

Arjun Bagga: Sir, this question is related to the industry more. What is the risk in the self-construction segment? Everyone seems to think that it is safe and like collateral is land, LTV ratio is good, but where is it that lenders generally go wrong when underwriting a self-constructed house?

M.Anandan: Self construction basically means we have to deal with retail customers. Three main things; of course, the first is credit underwriting. Second thing is valuation of the property. Our valuation is done by internal valuers, we don't have any external valuers, and they are trained in the company for a long time. Third thing is legal papers. You should have the capacity to find out whether they are the real owners of the particular piece of land where they are constructing. These are the 3 constraints or the risks in funding the customers. Of course, the main important thing is the reach of the branches, the trust the brand commands in the market, how a customer is referring the other customer and how he comes to us, and what kind of feet on street you have, and the productivity. All these contribute. You need to have optimum branches, sales staff, and that much productivity, trained staff to do this self-construction model. It is not like a builder model where you can go to a single place, take 20 or 30 flats on a single place with a single legal and single technique. Each is an individual property. So, it involves a lot of fieldwork, training the staff, retaining them, keeping the attrition at the minimum, and motivating them. All these are the factors which help us to do more in the self-construction model. But the market is big in this particular segment.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

M. Anandan: Thank you all for attending the call. I hope we have answered most of your questions and queries. If you still have further queries, you can reach out to us or our IR agency, Concept. We would be happy to address them all.

Just to summarize, Aptus as a company will continue to focus on serving the low- and middle-income segment of the population, largely self-employed and largely living in tier-2 and tier-3 cities and are confident of building result-oriented organization to have efficiency in every aspect which will help us to deliver value to all stakeholders. Thank you Bilal and thank you Gaurav for organizing the conference call.

Moderator: Thank you all for being a part of this conference call. If you need any further information or clarification, please email on gaurav.g@conceptpr.com. Ladies and gentlemen, this concludes your conference for today. Thank you for using Chorus Call Conferencing.