SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2023-24/220

Date: May 10, 2023

To, **The National Stock Exchange of India Limited** **Exchange Plaza, C-1, Block G,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**To,** **BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call for the Quarter and Financial Year ended March 31, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in reference to our letter number **Ref. No. AAVAS/SEC/2023-24/147** dated April 19, 2023, please find enclosed the transcript of the Earnings Conference Call on the Financial and Operational performance of the Company for the Quarter and Financial Year ended March 31, 2023 held on Thursday, May 04, 2023.

The above information is also available on the website of the Company and can be accessed at https://www.aavas.in/investor-relations/investor-intimation

We request you to take the same on your record.

Thanking You,

FOR AAVAS FINANCIERS LIMITED

SHARAD PATHAK
Digitally signed by SHARAD PATHAK
Date: 2023.05.10 21:25:44 +05'30'

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

"Aavas Financiers Limited
Q4 FY'23 Earnings Conference Call"
May 04, 2023

MANAGEMENT:	**MR. SACHINDER BHINDER – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – AAVAS FINANCIERS LIMITED** **MR. GHANSHYAM RAWAT – PRESIDENT AND CHIEF FINANCIAL OFFICER – AAVAS FINANCIERS LIMITED** **MR. ASHUTOSH ATRE – PRESIDENT AND CHIEF RISK OFFICER – AAVAS FINANCIERS LIMITED** **MR. SIDDHARTH SRIVASTAVA – CHIEF BUSINESS OFFICER – AAVAS FINANCIERS LIMITED** **MR. SURENDRA SIHAG – CHIEF COLLECTION OFFICER – AAVAS FINANCIERS LIMITED** **MR. RIPUDAMAN BANDRAL – CHIEF CREDIT OFFICER – AAVAS FINANCIERS LIMITED** **MS. JIJY OOMMEN – CHIEF TECHNOLOGY OFFICER – AAVAS FINANCIERS LIMITED** **MR. ANSHUL BHARGAVA – CHIEF PEOPLE OFFICER – AAVAS FINANCIERS LIMITED** **MR. RAJARAM BALASUBRAMANIAM – CHIEF ANALYTICS AND STRATEGY OFFICER – AAVAS FINANCIERS LIMITED** **MR. GHANSHYAM GUPTA – INVESTOR RELATIONS – AAVAS FINANCIERS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Aavas Financiers Limited Q4 FY '23 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note, this conference 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: Good afternoon, ladies and gentlemen. Thank you for participating in the earnings call to discuss the performance of our company for Q4 and FY '23. The results and the presentation are available on the stock exchanges as well as our company website and I hope everyone has had a chance to look at it. As you're all aware, former MD Sushil has decided to step down from the company for personal reasons. Sushil has helped create the foundation for the next phase of growth with significant investments in people and technology.

On behalf of the Board, we want to put on record that we deeply appreciate his contribution to Aavas and wish him the very best for his future endeavours. I want to reiterate that the Board and promoter shareholders are committed to build a long-term institution and we are confident of executing on a strategy with their support. We'd also like to place on record that our promoter shareholders continue to be committed to supporting the long-term Aavas 3.0 vision. They have not sold a single share in nearly two years and they have reaffirmed that they do not plan to sell any at all in the coming year either.

The key driver for the company's continued success is a deep and talented management bench at Aavas, many of whom have been with the institution since its early days and remain committed for the long-term journey ahead.

We have with us today 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, Chief Analytics and Strategy Officer, and Ghanshyam Gupta, our Investor Relations.

Q4 FY '23 is the first quarter completed under the new Aavas 3.0 framework and I am happy to report that it has been our strongest quarter ever. For the quarter, we disbursed INR 15,818 million registering a 23% Y-o-Y growth. This is the highest quarterly disbursement in the history of Aavas.

For the year, we have disbursed INR 50,245 million registering 39% Y-o-Y growth. We continue to borrow judiciously and have raised INR 47,631 million at 7.25% during the year. As on 31 March 2023, we maintained a sufficient liquidity of INR 32,747 million in the form of cash and cash equivalents and unavailed documented sanctions. We have also gone live on our industry-leading implementation of the Salesforce platform and are now working on the next step of our technology evolution. The entire organization, at all levels, is extremely energized and look forward to our next phase of growth.

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

Ghanshyam Rawat: Thank you, Sachinder. Good afternoon, everyone, and a warm welcome to our earnings call. As on 31 March 2023, average borrowing cost of 7.61% against an average portfolio yield of 13.12% resulted in a spread at 5.51%. As on 31 March 2023, total number of live accounts stood at 187,149 that shows 24% year-on-year growth. Total number of branches was 346. 32 new branches were added in last 12 months. Employee count of 6,034, 16% year-on-year growth in anticipation of additional branches in Q4 FY '23.

Assets under management grew 24.8% year-on-year to INR 1,41,667 million as on 31 March 2023. AUM has an impact of subsidy receipt of INR 2,800 million during FY '23 versus previous year INR 1,080 million. Therefore, AUM growth is 26.1% excluding the impact of subsidy.

Product-wise breakup (Home loan 69.9%, Other mortgage loan 30.1%). Occupation-wise breakup (Salaried 39.9%, Self-employed 60.1%). During FY '23, RBI hiked the repo rate by 250 basis points. Consequently, we have also increased our prime lending rate by 160 basis points during FY '23. And a further increase of 40 basis points with effect from 5th April 2023.

During the quarter, the company borrowed an incremental amount of INR 15,816 million at 8.07%. As of March '2023 our average borrowing cost stood at 7.61% on an outstanding amount of INR 1,25,209 million. IGAAP to Ind-AS reconciliation has been explained in detail for Profit after tax and Net worth on slide number 34 and 36 of the presentation.

On the Borrowings side, there is access to diversified and cost-effective long-term financing. A very strong relationship with development finance institutions. During the year, borrowed INR 47,631 million at an average rate of 7.25%. Overall borrowing mix as on 31 March 2023, is 45.0% from term loans, 22.0% from assignment/securitization, 20.8% from National Housing Bank and 12.2% from debt capital markets.

Lender support continues to remain extremely strong as Aavas evolution continues. Liquidity of INR 32,747 million as of 31 March 2023 (Cash and cash equivalent of INR 13,687 million, Unavailed cash credit limit of INR 1,100 million, Documented unavailed sanctions from other banks of INR 17,960 million). With respect to Profitability, profit after tax increased by 19.8% year-on-year to INR4,282.8 million in FY '23. ROA was 3.51% and ROE was 14.09% for FY '23. As of March 31, 2023, we are very well-capitalized with Net worth of INR 32,697 million and capital adequacy ratio at 46.94%. Our book value per share stood at INR 413.6.

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: 1 plus days past due stood at 3.30% as against 4.05% at the end of last quarter. Gross Stage 3 stood at 0.92% and net Stage 3 stood at 0.68% as on 31 March 2023. Gross Stage 3 of 0.92% includes 0.11% of up to 90 DPD assets, which have been categorized as GNPA following RBI's notification dated 12th November 2021.

During FY '22, the resolution plan was implemented for certain borrowers' accounts as per RBI's Resolution Framework 2.0 dated 5th May 2021. Some such accounts with an outstanding amount of INR 885.2 million as on 31 March 2023, have been classified as Stage 2 and provided for as per regulatory guidelines. Out of INR 885.2 million, INR 675.7 million is into 0 to 30 DPD bucket.

Total ECL provisioning including that for COVID-19 impact as well as Resolution Framework 2.0 stood at INR 716.1 million as on 31 March 2023. As shown by the strong work done this quarter, Aavas is well-placed to continue its industry-leading asset quality.

In the No-deal Roadshow presentation, we have also shared the performance of Aavas across the COVID period from FY '20 to FY '23. This was a time when the asset quality was really tested. Our average credit cost in the period is 0.23% and INR 174 million of cumulative write-offs. This is driven by our DNA of end-to-end in-house operations from sourcing to underwriting, to collection as well as risk containment, legal and technical evaluation.

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

Moderator: The first question is from the line of Hirenkumar Thakorlal Desai, an individual investor.

H T Desai: Yes. I have two questions. Can you hear me?

Sachinder Bhinder: Yes.

H T Desai: My question is regarding cost of deposit. Do you have an estimate or some ballpark number where it might peak and around what time?

Sachinder Bhinder: Sorry, you are asking about cost of borrowing?

H T Desai: Yes, yes, yes.

Sachinder Bhinder: Ghanshyam, you go ahead, please.

Ghanshyam Rawat: Our cost of borrowing is on the basis of full-year total borrowing and it is computed on the basis of year-end various products we borrowed and on sum product basis it is 7.61% and as we've seen, RBI has increased the rate in past 8 to 9 months and thereby banks have increased their cost of borrowing. MCLRs also increased in the last 2 to 3 quarters, thereby we have also seen some impact on our cost of borrowing, but still on full year we have borrowed at 7.25% and for this quarter we have borrowed at 8.07%. That gives us confidence, that we're able to feed our increased growth at a very competitive price.

H T Desai: Do you have any assessment as to the overall blended cost of borrowing, around what number it might peak? Because see some of your borrowings may be still up for either renewal or further increase?

Ghanshyam Rawat: As you know, borrowing is a mix of term loans from banks and institutions, then we have long-term borrowings from development financial institutions like Asian Development Bank, International Finance Corporation, CDC (London-based government agency), so those funding we had borrowed. A certain lot of borrowing is on fixed-rate contract. NHB, we have borrowed around INR 3,000 crores. Out of that INR 2,000 crores is a fixed rate borrowing for the 7 years, which is a very competitive price, less than 5%. Obviously, money borrowed from banks which is linked to MCLR it comes for reset on frequency of their annual reset, so last 6 months whatever loan came for reset, the reset for same has already happened, but some borrowing will also come for reset in another 6-month time frame that will happen as and when it comes.

H T Desai: Okay. So we still expect the overall borrowing cost to rise a little bit, right?

Ghanshyam Rawat: Yes, there will be no doubt. RBI has paused rate hike. That was a very positive impact for the market, for us also. April commentary came a little bit pause or they see how the data comes at the regulator end. We have seen softening on the G-sec rate. We have seen softening on the bond rate, so we hope that now further banks will also consider that aspect and not much increase MCLR rate, but older contracts definitely will come for repricing in the first 6 months, so we can see some impact in cost of borrowing in next 2 quarters.

H T Desai: Okay. The second question is regarding growth. So some of your peers who are actually smaller in size, they have been growing and they are kind of guiding AUM growth in the vicinity of 30%. I think you are guiding somewhere around 22% to 25% kind of a number. Is it because of a higher base or there is some other reason?

Ghanshyam Rawat: As you rightly mentioned in your question, if you compare, let's say, the smaller companies which are in the size of INR 4,000 crores, INR 5,000 crores if you compare Aavas at the same journey in 2016 or 2017 in the time frame and then later on in the 2018 when we had a similar size, we were also growing 40% to 50% at that point of time. Now base has increased so with that higher base, obviously, will have that growth impact you'd see, but if you refer the New business during this year, New business we've done more than INR 5,000 crores versus last year INR 3,600 crores, which is around 39%- 40% growth in the new business and on AUM basis we have grown 25% during FY '23 and we have invested also in the various branches and product, process, policy, technology that give us comfort and opportunity is there in the market, so that will add to our future growth trajectory going forward.

Moderator: We have the next question from the line of Renish from ICICI Securities.

Renish Bhuva: Sir, 2 questions. One is slightly strategic one. So of course, earlier you have been guiding at 20%- 25% kind of a growth number, but now since we are investing in tech, we are investing on branches and plus we are introducing new products, so on a blended basis, how should one look at the AUM growth trajectory? That's point number one.

Secondly, let's say, even if we are comfortable growing at a faster clip, does that mean that we have to introduce new products? And if yes, then maybe in near term what should be the ideal loan mix in terms of home loan versus non-home loan portfolio?

Sachinder Bhinder: I think our secular growth has been overall in the range of 20% - 25%. And I think this is a mix of one has to look at from a granularity perspective, both from geographies and the product lines. I think for the geographies where we are already present, I think we are going a little deeper into those markets, much more than the normal average. And where we have invested, we actually follow our normal DNA of staying port invested, learning the markets and understanding, and then stepping up and accelerating. I think that the 2 parts which are there, that constitute our individual self-construction of home loans.

On the other product lines, I think the product lines which we have invested in, have started really firing. And I think they are all engines firing, helping us to really build in and scale up on a granularity basis across the product lines. So these are the 2 parameters which are there, which are contributing to the one.

And on the mix, I think what the regulator has guided on a home loan to non-home loan ratio, we will follow what is guided as per the regulatory mix. And as the mix of the home loan increases, we'll have the MSME or the LAP portion which is there to be sequentially increasing in those lines.

Renish Bhuva: Okay. So broadly you're saying even if, let's say, the new products grow at a faster clip, the blended growth will still remain at 20% - 25%?

Sachinder Bhinder: See, you have to look at growth from 2 perspectives. One is you have the existing geographies where growth would be much more deeper, which would be above the average growth. Whereas the new territories which you enter, like for example, Karnataka and Uttar Pradesh, which we really want to step up, I think there we have been very conscious to have a moderated growth as a result of which the average growth comes to a level of 20% to 25%.

So some of the regions, some of the geographies, which are deeply invested in are growing at a faster pace. The ones which are where we want to accelerate would be at a medium pace. And where we have invested, we will really look at how it spans out and then really step up on it. So I think case in point are the 2 geographies that I talked. And I'll have my CBO, Siddharth Srivastava talk about the 2 geographies, typically Uttar Pradesh and Karnataka. Sid, over to you.

Siddharth Srivastava: Yes. See, if you look in the terms of sizes, Karnataka is almost similar to what Rajasthan is. And every 2-3 years, we identify certain new geographies. Karnataka, Odisha, Uttar Pradesh are the few geographies that we identified to grow. And we will continue to grow deeper into our existing geographies. And this will bring us the required growth, which we are looking at around 20% to 25%.

Renish Bhuva: Got it. And so my second question is slightly on the qualitative side. So of course, there is a top management change. But do you foresee any attrition, let's say, at 1 or 2 levels below the CXOs?

Sachinder Bhinder: So I think, as management strength, which is there as part of the CXO levels and they're deeply committed on the site. So that's already there. And we have a good amount of bench strength, which is there. And over a period of last couple of years', what we've really done is we had multiple products, product lines along geography. I think what it really helps is, one is to monetize on the customer side, and second help us with manpower portability so if any of the attrition hits, actually we are really safeguarded, because we have at least the buffer and the bench strength, which is already available. We really play that and always mind the opportunity which is available in a period of time.

So I think we are very well-capacitated if I were to put across all those lines. So I think a), the geographies, b), the product verticals and a deep investment in the people side, I think is the one which is there. And on the people side, I would really like to reiterate that we have invested in re-skilling and up-skilling. And we have a curated program with IIM Ahmedabad and where we send across selected staff to really work on the live projects which will help us in our field. And then this is one part of our training and development and we're developing the leadership bench, which really helps in the future course of work.

And the second enabler has been technology. I think we are moving towards institutionalization and when we say so, that means we would be more on process policies and technology will be one of the major facilitators. Continuing with our touch and feel of credit assessment, what really technology helps is to increase productivity, and to be more predictable and help us in overall managing the stuff which you referred to.

And on the technology side, I think implementation, once again, we'll see the real jump in the productivity and the other metrics, operating leverage really kicking in. So I think overall, we are very poised to take that as a matter of what comes in, in the coming times.

Moderator: The next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: I have broadly 2, 3 questions. So one is on the home loan portfolio. When I look at the implied value of home loans disbursed during this quarter, there seems to be a sharp deceleration in growth. It seems to be about 12% Y-o-Y for this quarter. And then when I also look at the implied disbursements as well as the exercise data, it seems to suggest that there's been some kind of decline in terms of volume of loans disbursed in the home loan segment compared to last year. So could you just help us understand what kind of slowdown are we witnessing in our home loan portfolio before I proceed to my next two questions?

Ghanshyam Rawat: If you see in overall number, this quarter, we have disbursed much higher number and ever best quarter compared to last year, quarter 4. You are talking particularly one segment where you find, this year we found very good pace to do our assignments of MSME and LAP portfolio. If you see other peer groups, they struggled in that piece. We have a good amount of portfolio LAP and MSME got assigned. We got extra, let's say, buffer in the overall book, continue to lend our MSME, LAP portfolio. So that's way, in proportion, you found that the home loan and non-home loan mix is not different than what you see mixed in a quarter 4 of last year, basically.

This goes, let's say, recognition of Aavas credit policy underwriting norms where banks from HFC not only looking for home loan, but they are looking for non-home loan or MSME book from us basically. In last 1 year, we have done INR 1,000 crores assignment. INR900 crores MSME, LAP book got assigned to them, basically. That's the creditability of Aavas book, Aavas credit culture, which is getting recognized with the large public and private sector banks.

Raghav Garg: So sir, if I understand this correctly, you're saying you prioritized the MSME and LAP segments over the home loan segment. Is that how we should understand?

Ghanshyam Rawat: No, no. Let me again clarify the matter. If you see, we as a housing finance company has certain restrictions to do non-home loan business. So during this quarter & during the full year basis, we have churned out a lot of MSME and LAP book from on-book to off-book. So we got an extra cushion to absorb MSME and the LAP book during the quarter and on the full year basis. That's why you are seeing quarter 4 mix this year as a bit different from what mix you've seen in the quarter 4 of last year. But overall, as a business strategy, we will remain at 70% to 75% home loan, 25% to 30% non-home loan book on a long-term basis.

Raghav Garg: I'm not sure if I understood this, but the only point that I was referring to was that there's been some kind of deceleration in terms of the value of disbursement. And if you look at the number of loans disbursed, then there's been a degrowth in just the home loan segment. So that is what I was trying to understand. But I can take this with you offline.

My next question is, in terms of margin. So while the share of the higher yielding non-home loan book has been decreasing and we've also taken about 160 basis points PLR hike during this year and as I see, we also have a 60% floating rate book now. The spreads have come down in this quarter. And in fact, if I look at the spreads up till the last quarter, they were stable. So can you explain what kind of pricing pressure or competition are we witnessing in our home loan segment, if at all? Since we haven't really seen spreads decline at all, despite the share of the high-yielding book going up and also the company has taken PLR hike?

Ghanshyam Rawat: I think in the spread side, there is a marginal reduction we have seen on the spread in this quarter. It's primarily on two accounts. We have seen cost of borrowing get increased. And similarly, it takes own time to pass on the increased rate to the assets, new generation assets, basically. So there is always demand, some gap on the translation on the new business than the cost of borrowing on funds we borrow from the market. But overall basis, we are confident to maintain our spread, which is given our long-term vision, 5% and above spread continue to maintain in that bucket.

And we have seen, as I earlier mentioned, RBI has given some relief commentary in the April policy. I think that will also help in both sides. But as a competition, we are not seeing, I think, market is such huge in rural semi-urban area. I think from a long-term perspective, in earlier calls, we have given this commentary a number of times that in the geography where we work, household unit versus home loan penetration is not more than 2% to 3% in those markets. So we have enough spaces there to grow our business.

Raghav Garg: Sure. And sir, why have staff costs come down quarter-on-quarter? Yes, that will be my last question.

Ghanshyam Rawat: No, I think you know in IndAS accounting system, we grant ESOP schemes, 2, 3, 4, 5 ESOP schemes are there. Certain older schemes are getting matured during this quarter. So whatever ESOP has not been exercised, got a reversal of expense in this quarter. So that's why you see slightly lesser manpower cost in this quarter than last quarter.

Moderator: The next question is from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: So I wanted to understand this transition at the core management level from you being appointed as CEO last quarter to Mr. Sushilji resigning within 3 months. So while we have seen some of the founding members of a company moving out due to personal or professional reasons, but it's usually done in a transition and planned manner with investors also being aware on the same. Just to understand was the Board and core management aware about this move well in advance.

Sachinder Bhinder: So I think from this perspective, we have embarked upon the Aavas 3.0 journey and Sushil has been there since as the founder and set up the franchise right from the day 1. And I think from a perspective of institutionalization where we embarked on a journey on people, processes, I think it was his personal decision to take a call. And I think we respect his decision and he left a franchise that is sound on rock solid foundation to really build upon and to embark upon an institutionalization journey. And as a part of Aavas 3.0, I think we delivered as a team the best of the quarters on all the matrices. And we really want to build across various nerve centres across India as a pan-India institution, which has sustainable growth with quality as the key metrics and really have a right footprint, which is really we all are proud of the franchise which we developed.

Shreepal Doshi: Sir, but I get that point. So you mean the Board was aware of this move during the last quarter itself? Is that a fair conclusion to make?

Ghanshyam Rawat: No, I think in the last quarter Board meeting and let's say before that Board quarter meeting also I think we had a plan to invest for Aavas 3.0 in which 2 strategies were planned, investment in the tech field where we thought the next 10 years journey, that investment in technology will help the next 10 years journey.

Second thing was planned to enlarge the management bandwidth to capture the next 10 years' available growth in the market in a home loan space. So management bandwidth got enlarged. Accordingly, Sushilji was earlier involved in an entire day-to-day activity strategy and so a number of times his bandwidth got chopped in that system to manage the entire volume of business. So then there was a strategy to separate day-to-day business and strategy tech transformation.

It was announced and moving ahead it was decided to implement that strategy. Obviously, going forward, by close to the next Board meeting, I think he found that he wants to move on in his career and choose a different path. So I think he discussed with the Board members and Board members as Sachinder ji mentioned, recognized his contribution in Aavas journey and that's all. We are looking forward for support from all the shareholders, and stakeholders to take Aavas to the next journey.

Shreepal Doshi: Got it, sir. Like, but still the exit was little surprising with the founding member exit in the Board meeting. So the second was with respect to the strategy. So in the newest stage that we have ventured into in the last couple of years, would we still be focusing on going at C level and this rural focus lending is what we will be doing or we will want to be little more semi-urban focus in the newer geographies?

Sachinder Bhinder: I think in the new states, the same strategy continues of focusing on Tier 3 to Tier 5 towns and the cities which are there. And again, on the self-individual construction loans to be really focused and where our core area of expertise and our DNA lies. And I think in that journey, what we've done is to have people with the underwriting experience, the distribution experience, the homegrown talent from Aavas to really go across and set up and scale up in those geographies. So I think it continues with the same pace, same growth, and in a much more contiguous manner, what we've been doing as a franchise and as an institution.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: My question is related to what Shreepal asked in the previous question Now just wanted to understand a little bit more from the strategic direction perspective. I mean, last quarter, clearly there was a strategic decision, which was being taken about splitting the MD and CEO roles and it was made us to believe that that was probably the right way to go ahead in terms of forging the next 10-year growth strategy.

Now clearly what has happened in the past quarter is there to see for all of us. But do we anticipate any further changes in the leadership team or is there a need to further expand the executive committee or the core executive committee or new additions in the team that you are looking at?

Sachinder Bhinder: I think from the perspective of there is a sufficient amount of bench strength which got created as a part of Aavas 3.0. And as I would say that the CFO, Ghanshyam Rawat has been with the franchise since its inception. Ashutosh Atre completes 9 years this month and he's been there right from underwriting to currently CRO. Surendra Sihag is there as a part of Man-comm as a part of collections. He's been there for a long period of time. With me about 40 months in the franchise being there. And the new CXOs who've been there actually really helped to build the right kind of management bandwidth and depth which is there. And below them, I think as a layer goes, I think we have a sufficient amount of bandwidth that is available with homegrown talent which will help to scale up sustainably and credibly with which our DNA rest on. And in a much more laminar fashion, I would put across.

So I think the franchise and the institution are poised for good growth with the kind of foundation both on financial capital, human capital, and technology as one of the key enablers to take the momentum forward. So just to give an outlay, we have very strong middle-level management of more than 100 people on the origination side, which consists of National Heads, Circle Heads, Zonal Heads, and State Heads. And then the risk and credit side, we have more than 234 people who have been there, and 71% of them have been with Aavas for more than 3 years plus. And in collections, we have 54 of them, who are more than 78% of the employees are there with 3 years plus of experience.

So I think that is a deep dive experience which is there. And I say that the continued management, the bandwidth which is available as far as the transitioning is concerned, I think is already available. And it's been demonstrated. And I think the Aavas 3.0 first quarter results bear the testimony to the foundation, which is set for the journey going forward, keeping the core DNA of risk architecture intact and building the franchise on risk-adjusted returns and much more stronger, sustainable, quality growth, which is driven by governance and quality and with the continued Board support over a period of these years.

Umang Shah: Sure. The other clarification which I wanted, during your opening comments, you did mention that the promoters are committed to the business. They haven't really sold any shares in the past and they don't intend to do so in the coming future. Is there any timeline to it that you can specify?

Sachinder Bhinder: I think you will see that since the last share sale was in 2021, they have not sold a single share in the last 2 years, and they have reaffirmed that they do not plan to sell anything at all in the coming year either. I think that's the comforting factor, if I were to put across. I hope that answers your question.

Umang Shah: Okay. Okay. And just last question is, the presentation deck has mentioned about Management , Employees and Board members owning about 3.9% equity in the company and I'm assuming that this would include some of the new equity or ESOPs allotted to some of the new joinees who have recently joined the company, maybe in the last 1 to 2 years. Is that a fair assumption?

Ghanshyam Rawat: 3.9% of Management, Employees and Board members. Obviously, this is as of March 31, 2023. ESOPs, which have been given in recent grants in the last 2 schemes, obviously are not included here. Recently, in the last 2 years, we have given almost 14.50 lakhs of ESOPs shares out of the total 3 schemes. Obviously, that is not included here. But this is on March 31, 2023, a number as on that date.

Umang Shah: Sorry, Ghanshyam ji, the number you mentioned was 14.50 lakh shares, right? 14.50 lakh options?

Ghanshyam Rawat: Yes, options. So this option is given to, let's say, all ManCom members, and below it, going up to 3 levels, we have gone down to those employees at that level basically. So that will give us a lot of confidence. Value creations will happen in coming years.

Moderator: We have the next question from the line of Nidhesh Jain from Investec Capital.

Nidhesh Jain: Sir, with the new tech rollout and the Aavas 3.0, do you see any changes to the underwriting model that we currently have? We have largely a decentralized underwriting model. Do you see any changes to that?

Ashutosh Atre: So underwriting model, the core of underwriting is actually touch and feel where we go and do the assessment of the client, typically self-employed non-professionals. But there are various checks and balances, validations of documentation and a lot of clerical stuff which is to be done by the underwriting team, which will be taken care by the new technology tools.

Sachinder Bhinder: And now will call Ripu -our CCO to add on to what Ashutosh mentioned.

Ripudaman Bandral: Good evening, Ripudaman this side. So with this new technology transition which we are going through, it will add efficiency and economies of scale. So there is a lot of work which we do in different platforms which would get joined into one. So we'll be able to take a decision which would be much faster and more accurate. And of course, we've been spreading 346 branches and our core is touch and feel, which we will continue to do. And we would take the help of technology to the most which we can. I hope this answers your query.

Nidhesh Jain: Sure. So there's no fundamental change in the underwriting model. Technology will be much more enabler in the way that we are doing the business.

Sachinder Bhinder: Yes, but just to add on to that on the model which we have developed, which are more descriptive, I have Rajaram Balasubramaniam, who has joined Aavas from Citi, New York, to underlay what is that it helps in the entire thing and what this technology and this model could really help. Raja, why don't you share? He comes directly from Citi, New York to Jaipur.

R Balasubramaniam: Hello, Sachinder. Thank you. Good evening, everybody. I think just to add to what Sachinder said, I think if you look really at what technology has done for us today, it has taken away how much time it takes for us to receive information from the front end, process that, use our intelligence and go back at the point where the customer is being met to give them enabling decisions. So to add to what Ashutosh and Ripu said, the fundamental model does not change. But what we can do now is have a better vision of how we can use that data to make a more calculated decision. So I think that's the objective of using models to get that consistency and reliability in every file that we process. So the fundamental building blocks remain the same, the fundamental strengths remain the same. We just use technology to leverage that and use data to give us an insight into it. That's in short.

So we're kind of building it in 3 ways, right? So we're building the skills, we're building the technology, we're building the culture to embed the analytics into the system. And in terms of analytics itself, all of the types of analytics that you already know, whether it's descriptive, whether it's prescriptive, predictive, we have a plan to build that into the entire customer experience to leverage technology. I hope that gives you a perspective on the technology and data integration and how we plan to do that.

Sachinder Bhinder: And just to add on, I'll have Jijy to talk about what is the layer of technology which really helps. And Jijy has a deep-down experience of having helped technology to build fintech over a period of time. Over to you, Jijy.

Jijy Oommen: Yes, thank you so much. Good evening, everyone. Good to have this conversation with you all. So when it comes to the technology transformation, we looked at 3 important pillars. One, of course, how technology can help us become more efficient faster. At the same time, how it can help us scale what we do in a much more efficient, faster and accurate way. And then third is, of course, how do we give a great customer experience, right? So when we look at, in the Aavas 3.0, how do we take our journeys to the next level and make it a great experience for our customers? And of course, one of the biggest objectives that we have laid down was how do we make the system efficient in such a way that the turnaround time, right, is enhanced significantly. And by doing so both operational efficiency and customer experience, both the pillars will be taken care of.

So with this objective, a year back, we have brought on board Deloitte to help us through the digital strategy roadmap exercise, looking at the next 10-year vision of the organization. So we have then, chosen to go with best-of-the-class technology tools like Salesforce, and Mule soft for doing the entire ecosystem to connect with the Aavas and then which is blended with the analytical models. So this will be the front layer of the systems. We are glad to share with you that we have completed that first phase of the rollout and as of April, we have rolled out Salesforce to the entire organization and April month has been closed well in the new system.

Of course, currently, we are undergoing another big transformation on our back office and middle office systems and we are implementing Oracle Flex Cube and Oracle Fusion on Oracle Cloud. So this is to make sure that our systems are much more scalable and robust. So I think, the great work that we all have done in different phases, these technology solutions are going to make it much more scalable and give a better experience to our customers.

Nidhesh Jain: Sure. Secondly, if you can share at what level our branch tends to mature, if you can share that 3 year-old or 4 year-old branches, what is the AUM of that branch or disbursement per month of that branch for the cohort of branches which are 3 years of vintage

Sachinder Bhinder: Sorry, if you can repeat, we just lost your voice.

Nidhesh Jain: Yes, so like, yes.

Sachinder Bhinder: Can you repeat the question?

Nidhesh Jain: Sure. So if you can share the AUM of branches which are of 3 years of vintage, the branches that you have opened 3 years back, what is the AUM per branch on an average of those branches or disbursement of those branches on an average?

Ghanshyam Rawat: Yes, we will, these data points we will share separately or publish it for everyone. But as the branch maturity, see, in the Tier 2, Tier 3, Tier 4 town, our branches are very low opex model branches, where we take branch rental is roughly INR 20,000 to INR 25,000 per month branch rental, then 4 or 5 employees remain there. Because we have a contiguous approach, we don't go open a branch and new one immediately. It's a contiguous approach. We keep on doing some business from that branch. So we open a branch at that place, so that day 1, the branch starts to give us a business. Within a 6-month time frame, our 90% branches have a break-even. Today, almost 1-year-old branches are giving us a ROE 12% upward, 3-year-old branches are giving us a roughly 20%-odd ROE, basically.

Nidhesh Jain: Sure. And lastly, if you can share the AUM breakup -- a geographical breakup of AUM, that would be useful. And any comment on how the AUM in Rajasthan has grown in FY '23?

Ghanshyam Rawat: I think during this year also Rajasthan, our most of the oldest state; from new business perspective we have seen around 25% to 30% growth in the Rajasthan during this full year basis. MP has also grown better. State Gujarat and Maharashtra has also grown around 25% plus.

Nidhesh Jain: These are on disbursement basis, right?

Ghanshyam Rawat: Yes. Disbursement basis.

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

Piran Engineer: Yes. Congrats on the quarter. Just one question. We've hiked PLR by 160 bps, but when I look at your yield on Slide 22, it has improved only 50 bps Y-o-Y from 12.6% to 13.1%. So is it that we are hiking PLR but reducing the spread above PLR for our existing customers?

Ghanshyam Rawat: Yes, we have increased 160 basis points in the full year basis. You see on assets and liabilities, both sides, we have a very good mix on interest rate scenario risk basis. My liability is around 50 basis points around the fixed rate borrowing, I had mentioned earlier in response to another question. Asset side also we have around 50% around the fixed rate asset. When we increase our rate, almost 50% increase happens on total AUM basis. And remaining 50% fixed rate contract has a re-pricing after every 3 years.

So we can't correlate 160 basis points 100% will have an impact on the overall AUM base because my liability is also not increasing in that fashion basically. You will see that positiveness is there in ALM, not only tenure basis, but ALM interest rate scenario basis, it has a perfect match.

And second thing, yes, we agree, translation of rate increase in a new business takes some time. Laggard impact comes after a quarter basically. So, that has also gone a little bit and our overall AUM yield is not showing a complete increasing trend, what we have increased our PLR.

Piran Engineer: Sir, let me ask another way, disbursement yield in March 2023 versus disbursement yield in March 2022, what would be the increase? Or if you can give the actual numbers, 13 point something, 12 point something?

Ghanshyam Rawat: I think we will come back on this exact number, how that numbers are there looking basically. But as I mentioned, translation of interest rate rising takes its own time on the new business.

Piran Engineer: Okay. And when we do a PLR hike, it gets transmitted on the spot or with 1 quarter lag, 2 quarter lag?

Ghanshyam Rawat: No, no. Interest rate when we increase our PLR, we disclose on our website when it is effective, like last increase happened on the 5th April 2023, whatever contracts are at a floating rate that got impacted on the same day.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: Apologies, I joined in a little late, there was an overlap with another earnings call. So just in case you've answered any of the questions which I'm about to ask, please let me know. I can always listen to the recording. So first things first, I mean, what I heard in the last 15- 20 odd minutes, you talked about technology and how it's kind of going to help us.

Moderator: Sorry to interrupt -- but the line for you is not very clear, sir.

Abhijit Tibrewal: Is it better now?

Moderator: This is much better, sir. Please go ahead. I request you to please repeat your question, right?

Abhijit Tibrewal: Yes. So I mean, in the last, I would say, 15- 20 minutes that I heard, I think we talked a lot of good things that we've done on the technology side and which will maybe help us accelerate growth over the next 2 years. I think, I also heard we talk about this technology investments that we have done, bring down the TAT. Just wanted to understand, is it a fair understanding that TAT, which is about let's say 10 days now would come down to anywhere around 3 to 4 days once you have implemented all the technology changes that you want or the technology improvements that you want?

Ghanshyam Rawat: Yes. If you see our average lead time is around 11 to 12 days before we went live on the Salesforce. We went live as a pilot project on the Salesforce in the month of March. We have launched it full-fledged from April. It is under hyper-mode for the 3 months where it will get stabilized. Then after that, we will start to see the real result of how the TAT will get reduced. But as our vision statement, when we started with Salesforce, we targeted that we will bring down TAT between average 6 to 7 days.

Abhijit Tibrewal: Got it. So the second question that I had was on, I think we briefly also mentioned that we very recently in April deployed Salesforce. So I'm sure there would have been some teething issues in terms of training your credit officers to the new systems. Just wanted to understand by when can we expect these teething issues and the new deployments that we are doing in our back office and middle office of Oracle FlexCube and Oracle Fusion, by when can we expect these teething issues to be settled? And more importantly, I mean, looking at the last quarter where you did about INR 1,600 crores of disbursements, which broadly translates into INR 500 crores, INR 600 crores of monthly disbursement run rate, exit run rate, what is the target that we have in mind once these teething issues are behind? And once you have implemented these softwares that you're intending to, I mean, should we now start expecting that the disbursement run rate will start moving towards that I would say INR 800 crores to INR 1,000 crores?

Ashutosh Atre: So I'll just answer about the teething issues. So any new thing will definitely have some kind of a resistance in the training curve. Okay? And every day there is a resolution of the teething issues. But just to confirm that Salesforce will never be the hindrance for doing the business for us. If it is a teething issue, if it is a training issue, we might have to work harder to clear the cases. So yes, it is going to get resolved. So we have completed 1 month. So we are wiser now in terms of how to handle Salesforce. Maybe by the end of this quarter, it will be completely up and running, but definitely nothing to do with the business. It is not going to be hindering the business.

Abhijit Tibrewal: Do you want to comment on the monthly disbursement run rate that you have in mind?

Ashutosh Atre: So we have a plan for the year and accordingly, we will be delivering the numbers in terms of monthly run rate. So quarter-on-quarter, we are going to achieve the target as we have planned and budgeted.

Abhijit Tibrewal: Just the last question. So now with Mr. Sachinder kind of heading this franchise. I mean, is there going to be a change in the DNA of the organization? What I mean essentially is we were always reckoned as an affordable housing company doing lower ticket size loans. Over a course of time, do you think that there is a change, there will be a change in thought process, you would want to also start doing slightly higher ticket sizes as well?

Sachinder Bhinder: Easy to answer the question, I think the core DNA continues to be the same. And our DNA, it is more of deepening the management team, retaining their original DNA. Evaluating hard to underwrite credit in SENP and SEP customers backed by mortgage. I think it's more to institutionalize to scale up with sustainable quality and which with the franchise is known for over a period of 11 long years.

And have used it to really scale up on that, so our focus is Tier 3 to Tier 5 markets, self individual construction home loans, serving the unserved, underserved and unbanked, continues in the same momentum, in the same breadth, and the same form with the risk architecture of pooling risk adjusted returns. And with growth, first comes the governance, then comes quality, and third comes growth. So I think that those overlying factors of DNA as a part of the core DNA does not change at all.

We'll build on the sustained DNA, which has got the franchise to the current level with the fundamentals with the store right in place and build on that with sustainable scale and quality over a period of coming years. So Abhijit, I think I hope that answers your question.

Ghanshyam Rawat: What Sachinder said, I think let's on the behalf of the entire management team who are here at this moment, and I am let's say, oldest member in the entire group and on the behalf of promoter shareholder, we assure you all the company's DNA, company's credit underwriting principles, governance factor, those will be top most priority in Aavas 3.0. We will keep governance at the topmost, credit quality, culture has remained as the same what we have seen in last 10 years and will be similar in the next Aavas 3.0 journey.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Yes. So we have seen about 160 bps PLR hike in the last fiscal. So what I wanted to understand was what percentage of AUM has seen rising EMI after you've exhausted the tenor increase?

Ghanshyam Rawat: At different point of time, we increased 160 basis points in FY '23. Roughly, 90% odd book we are seeing has increased its tenure because generally our tenure was not so large in our customer segment. So there is enough scope where we have increased the tenure. Around 10% sort of customers has got their EMI increased and they are serving their increased EMI going forward.

Mona Khetan: And if I may try to understand to what extent the EMI has increased in terms of percent, whatever was the average EMI and to what extent has it increased for these 10% of customers?

Ghanshyam Rawat: It depends. I think it depends on at what rate and at which tenure customer is there basically. If a customer's average rate is a 12%-odd or 13%-odd, his EMI would have got increased by around INR 500 to INR 1,000 per month.

Mona Khetan: Okay. And what would be the average EMI in your case about INR 10,000 or more?

Ghanshyam Rawat: It's INR 12,000.

Mona Khetan: Okay. Okay. Got it. Secondly, in both of your HL LAP as well as the SME portfolio, incrementally, what are the rates that we are onboarding new customers at?

Siddhartha Srivastava: If you look at Non-HL, it ranges between 13% to 15%. And for home loan, it will be around 10.5% to 12% approximately.

Mona Khetan: And if I may try to understand what was this year back when you were onboarding customer? Especially the HL, if you could just mention it? So today it's 10.5% to 12%. What was it say a year back?

Ghanshyam Rawat: I think I mentioned earlier that there is a transition in interest rate rising period on a time-to-time basis. Roughly, we have seen on a different product segment increasing trend in this 50 to 100 basis points, depending upon the product, depending upon the customer geography. Yes, I mentioned earlier also rising interest rate takes its own time to pass on to the new customer acquired basically. But now that we'll see in the coming 2 quarters move, a better transition will happen.

Mona Khetan: Okay. So just to understand it better, this 160 bps hike, we have not seen a similar hike when it comes to onboarding new customers. Is that a fair understanding?

Ghanshyam Rawat: Yes. That's natural. That's not specific to Aavas and it's the natural thing happening in the entire lending business. What we increase in the MCLR and PLR rate, new business takes its own time in every way to pass on.

Moderator: The next question is from the line of Sanket from DAM Capital.

Sanket Chheda: So my question was on this corporate share...

Moderator: Sorry to interrupt, sir, but the volume for you is very low. I request you to please speak closer to the mic.

Sanket Chheda: Is it better?

Moderator: Yes, this is much better, sir.

Sanket Chheda: Yes. So my question was on Corporate, which used to be like 0.1% of the book this quarter the exact increase was 0.3%, so about more than INR30 crores something has been increased. What was the nature of this?

Sachinder Bhinder: I'm sorry. Actually, we're not able to hear. It's not audible. Can you repeat the question again?

Sanket Chheda: Yes, I was saying that in the split that we give, retail and corporate, corporate as of last quarter was 0.1% and this quarter, it has moved up to 0.3%. So more than about INR 30 crores of increase, it is there. So just wanted to understand the nature of this loan.

Ghanshyam Rawat: It is normal. It's not in one quarter impact. It's on a full year basis. Last year, we were at the 0.1%. This year ending we're the 0.3%. So in an overall basis, it is just INR 22 crores-odd increase in this segment. Keeping in mind the overall volume and overall AUM, it is not that big amount basically.

And what happens in smaller town, smaller cities, lot of people like directors of a small company, they come for a home loan. So that company also comes as a co-applicant and main applicant in our case. So, as per regulatory requirement, the loan gets tagged as a corporate. But as far as the business model is concerned, we are not or have plan to go in the business of a builder lending or large corporate loan lending.

Sanket Chheda: You can maybe check I am seeing it increase, in Q3, it was 0.1% and in Q4 it has moved to 0.3%. But anyways, I'll select that if that is wrong in the last presentation. The other question was maybe on LAP and the pure home loans. This year also on incremental disbursements, 35% of the disbursements were to LAP So going ahead, maybe how do we see this mix moving? Can it become 35/65? Or we are comfortable giving it a 30/70 LAP and pure home loans?

Ghanshyam Rawat: As you know, from compliance perspective also we need to remain between 30% to 70% or 35% to 65% in that range. It's very difficult to comment on 1%, 2% here and there, basically, it depends upon business opportunity. It depends upon what we are able to assign, from the balance sheet size basically. But on overall basis, we want to remain between 30% to 35% non-home loan or 70% around book home loan book.

Sanket Chheda: Okay. So 30% to 35%. Okay. And last question was on provisioning. So we are probably the only HFC that has say increased 90 plus DPD this year, point-to-point. But we have been too tight on say providing as a result of it, say, on standard, I said, we just have about 23 bps of provisioning and very low provisioning on Stage 2 as well. So how do we see the credit cost going ahead? And why is there some reduction in the prudence on having the provisions in the book?

Ghanshyam Rawat: No, I think point-to-point basis, our Gross NPA is lesser than last year, basically difference on account of, as we mentioned in earlier sometime back, updated to all the investors or the shareholders that till last year, we acquired some assets under Sarfaesi that got classified as assets acquired for sale and not as a loan asset basically. This year from April 1st onwards, we are not classifying that loan as asset acquired for sale, but we are treating it as a NPA assets there itself basically. So that's why you see some marginal change in that account. If we exclude that amount, then our Gross NPA will fall to 0.7% basically. That's apple-to-apple comparison of 2 periods.

Secondly, on provisioning, I think we are very well-covered on the provisioning. We are fully IndAS compliant, we do historical assessment for our NPA provisioning, considering when the asset goes in NPA, how much amount we had recovered from that asset, how much time it takes for recovery, accordingly, the provision gets built in the balance sheet. We are fully covered as far as the assets provisioning is concerned.

And let's say one of the data points which I want to share here, in last 12 years, we disbursed almost INR 22,000 crores disbursement. Our total write-off is just INR 25 crores, which is just 11 basis points on the write-off. So that give us a confidence our provisioning is well covered our NPA assets.

Sanket Chheda: Okay. And then lastly, on the management question that you said augmenting the management bandwidth. Maybe to capture, let's say, next 10 years growth. So at our side, even if we say, growth 20% - 25% will still be below INR 1 lakh crores. The many companies which do have 1 MD and CEO till they reach that size. Maybe one could have a Deputy CEO. But as far as the key position is concerned, we have many examples. So maybe that reasoning made a little sense. So any greater understanding on that would be helpful.

Ghanshyam Rawat: I think we noted your suggestion. But as a long-term growth, I think management team has good bandwidth as Sachinder mentioned, namely CTO, Chief Strategy Officer, CFO, Chief Collection Officer, Chief Business Officer and even 1 level below or 2 level below people, we have 7 to 8 of them in the business side as well. On credit side also we have a number of NCMs basically who can underwrite.

So we have good management bandwidth created for next 10 year growth which we see in the market. As we mentioned, we don't give much forward looking numbers. But we see good opportunity there in the market as low housing loan penetration. We may see another growth of housing loan upgrade happening because of GDP growth and income growth. We see housing upgrade and aspirational housing need will also emerge in Tier 2, Tier 3 towns. That will also help us to deliver better growth in the coming years.

Sachinder Bhinder: And just to add on to what Ghanshyamji said, I think from a middle layer management which is there, so I think we have robust strong middle layer management, whereas in business origination, we have 43% plus of people on the team side, which is more than 3 years vintage.

On credit & risk side, we have 71% of employees, which are 3 year-plus vintage. And on collections, we have 78% employees which are 3 year-plus vintage. So I think that talks about the depth of management and the strength of management fitted on the right and strong pillars so to say.

Sanket Chheda: I understand layers below the top guy, but my question was more on the top position. But anyways, yes. So those were my questions. And I wish you all the luck.

Sachinder Bhinder: Thanks.

Ghanshyam Rawat: Thanks.

Moderator: Thank you. Ladies and gentlemen, that will be our last question for today. I now hand the conference over to Mr. Sachinder Bhinder, MD and CEO of the company for the closing comments. Over to you, sir.

Sachinder Bhinder: Thank you all for attending the call. As mentioned last quarter, we will be hosting an Investor/ Analyst Day on May 24, 2023, in Bombay to give you all a chance to spend time with the broader leadership team. A formal invite will soon follow. We look forward to hosting you all. For any further information, we request you to get in touch with Ghanshyam Gupta in our Investor Relations team or SGA, our IR advisors and they would be happy to help you. Wish you all the best and God bless you.

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