# "Aavas Financiers Limited
# Q3 FY2024 Earnings Conference Call"
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**Moderator**: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited's Q3 FY2024 Earnings Conference Call. This conference may contain certain forward looking statements about the company which are based on beliefs, opinion and expectation of a company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakesh Shinde, Head of Investor Relations at Aavas Financials. Thank you and over to you Sir!

**Rakesh Shinde**: Thank you. Good morning everyone.

I extend a very warm welcome to all participants. Thank you for participating in the earnings call to discuss the performance of our company for Q3 and nine months FY2024.

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

With me today I have entire management team of Aavas including Mr. Sachinder Bhinder - MD and CEO, Mr. Ghanshyam Rawat - President & CFO, Mr. Ashutosh Atre - President and CRO, Mr. Siddharth Srivastava - Chief Business Officer, Mr, Surendra Sihag - Chief Collection Officer, Mr. Ripudaman Bandral - Chief Credit Officer, Ms. Jijy Oommen - Chief Technology Officer, Mr. Anshul Bhargava - Chief People Officer, and Mr. Rajaram Balasubramaniam - Chief of Strategy and Analytics.

We will start this call with an opening remark by our MD, Mr. Sachinder Bhinder; CFO Mr. Ghanshyam Rawat; and CRO Mr. Ashutosh Atre followed by Q&A session. With this introduction I hand over the call to Sachinder. Over to you Sachinder!

**Sachinder Bhinder:** Thank you Rakesh. Good morning everyone. Thank you for joining the call early morning.

I want to take this opportunity to wish all of you and your family a very Happy New Year and a 2024 filled with health, happiness and success.

We are delighted in yesterday's Interim Union Budget announcement. The continued government trust to boost housing for all and the plan to build additional 20 million houses in the next five years with promoting to buy or build own houses under Pradhan Mantri Awas Yojana Gramin augurs well with Aavas' vision and mission.

Let me now take you through the key highlights of our performance.

As a part of our Aavas 3.0 strategy we embarked on the journey to become India's most trusted affordable housing finance player led by people, process and technology. Our investment in technology will help the business deliver sustainable growth and superior customer experience.

**In terms of technology update**

- Our digital transformation journey is progressing well and equally well adopted among our employees. The implementation of best-in-class technologies like Salesforce which is a part of LOS, Oracle Flexcube (LMS) and Oracle Fusion will help us in building scalable and sustainable platforms.
- After rolling out Phase-I of Salesforce we have successfully processed 1lakh+ applications and sanctioned cases worth Rs.45 billion through our Salesforce platform. We have now rolled out Phase-II by implementing account aggregator integration and further other upcoming modules like lead capturing, customer service integration, App score will be going live in the coming months.
- Oracle Fusion ERP system was made live from September 2023 and stabilization of this new system is progressing well. The new loan management system on the Flexcube is currently under testing and migration.
- We have successfully piloted ChatGPT powered GenAI Chatbot with multilingual support in the customer app. With the help of scalable infrastructure on hyperscaler clouds, Omni channel experience for our customers. Modern application ecosystem built using Salesforce and Oracle products and Machine Learning models for analytics; technology is playing a key role not only in organizational transformation but also in bringing down TAT meaningfully. Our login to sanction TAT has reduced from 13 days at the peak to 9 days as we speak. We are expecting to complete our major business systems transformation in next three to four months.

**In terms of business update**

- In Q3 FY2024 we saw pickup in our disbursements. We disbursed Rs.13.62 billion registering an 8% Q-o-Q and 13% Y-o-Y growth. We are witnessing a month-on-month improvement in disbursements. In January the month of disbursements also has shown growth which gives us confidence to deliver on our guidance.
- We continue to grow our AUM in line with our guidance of 20% to 25% Y-o-Y growth. We have registered AUM growth of 23% in Q3 FY2024 versus 22% in Q2 FY2024 and have crossed Rs.160 billion mark. As a Pan India organization we are seeing well diversified growth in disbursements across the states especially from states like Karnataka, UP, and Maharashtra has shown a robust growth. We have opened five new branches during this financial year in our existing states to deepen our reach. In terms of the new states after deepening our understanding in the Southern states like Karnataka that gives confidence to expand in the adjacent states in the Southern India which has a huge potential. We expect a disbursement growth to catch up, it would be faster in FY2025 enabling us to deliver on a stated guidance of 20% to 25% AUM growth across the cycles consistently. We expect doubling of our AUM in the next three years.

**In terms of our quarter's financial performance**

- Our AUM grew 23% Y-o-Y at Rs.160 billion during the quarter.
- During the nine months we reported a net profit of Rs.3,480 million registering a growth of 15% Y-o-Y led by 18% Y-o-Y growth in the net total income. We continue to maintain spreads above 5%. Further important to note Opex to asset ratio has moderated by 30 bps from a high of 3.79% in Q1 to 3.49% in Q3 FY2024. While maintaining our operating metrics we have delivered operating profit growth of 11% Y-o-Y for Q3 FY2024 and 18% YoY for 9MFY2024. We believe with increase in productivity led by a tech transformation coupled with rising contribution from opex light channels would further help us in improving our opex ratio.
- In terms of asset quality, it remained pristine with 1+DPD at less than 4% at 3.75 during the Q3 FY2024. Our GNPAs are broadly steady at 1.09% with 5 bps Q-o-Q rise in line with a seasonality nature. Credit cost continues to remain below 25 bps.
- In terms of liability, we have one of the best well diversified liability franchise. We are one of the unique HFCs where tenure of liabilities is higher than the tenure of assets. Our incremental borrowing cost remains slightly above 8% indicating a cost of borrowing peaking out in line with benchmark rates.
- I would now hand over to our CFO, Ghanshyam Rawat to discuss the financials in detail.

**Ghanshyam Rawat:** Thank you Sachinder. Good morning everyone and warm welcome to our earning call.

**In terms of borrowing**

- We continue to borrow judiciously and we raised around Rs.42,934 million at 8.14% during 9M FY2024. For Q3 we raised around Rs.12,173 million at 8.00%.
- Total outstanding borrowing as of December 31, 2023 stood at Rs.145,011 million. Overall borrowing mix of December 31, 2023 is 47% from loans, 24.2% from assignment and securitization, 18.8% from NHB refinancing and 10.1% from debt capital market. During the quarter overall cost of borrowing increased by 9bps QoQ to 7.95%. Our incremental cost of borrowing for Q3 FY2024 was 8% versus 8.3% in Q2 FY2024.
- Lender support continues to remain extremely strong in our journey. There is access to diversified and cost effective long-term financing. A strong relationship with various development financial institutions.
- As of December 31 2023 we maintain a sufficient liquidity of Rs.40,750 million in form of cash & cash equivalents and unavailed CC limit of Rs.18,510 million, documented unavailed sanctions of Rs.22,240 million (including Rs.7,000 million from National Housing Bank).

**In terms of spread**

- As of December 31, 2023 the average borrowing cost 7.95% against an average portfolio yield of 13.07% resulted a spread of 5.12%. We have been able to maintain our spread above 5% in line with our guidance despite competitive pricing pressures. Our margins, NIM as a % to total assets during the nine months stood at 7.94%. Our NIM in the absolute term has increased by 18% YoY for 9MFY2024.

**In terms of operating cost**

- Our Opex to Assets ratio improved by 30 basis points to 3.49% in Q3 FY2024 to a peak of 3.79% in Q1 FY2024. Similarly our Cost-to-income ratio for the quarter was 45% from 47% in Q1 FY2024. Our total cost has increased by 18% YoY in nine months FY2024 against 31% in FY2023 full year. We are committed to bring down opex ratio in gradual manner towards 3%. Credit cost during the quarter stood at 25 basis points and 22 basis points for 9MFY2024.

**In terms of other parameters**

- Profitability during the quarter increased by 8% YoY to Rs.1.16 billion and 14.6% YoY for 9M FY2024 to Rs.3.48 billion. ROA stood at 3.22% and ROE was 13.45% for 9MFY2024.
- IGAAP to Ind-AS reconciliation has been explained in detail for Profit after tax and Net Worth on slide number 30 & 32 of the presentation. We are well capitalized with a Net Worth of Rs.36,314 million and capital adequacy ratio at 45%. Our CAR has impacted by 277 basis points on account of new regulation pertaining to higher risk weightage (125%) on non-housing loan portfolio that is LAP book which is ~15% of total AUM. Total number of live accounts stood at 206,618 translating into 18% YoY growth. Employee count is back to March level around 6000. Now I would like to hand over the line to CRO, Ashutosh Atre to discuss the assets quality.

**Ashutosh Atre:** Thank you Ghanshyam. The key portfolio risk parameters:

**Asset quality and provisioning**

- One day pass due stood at 3.75% in 9MFY2024 as against 4.05% at the 9M of last year. Gross stage 3 stood at 1.09% and Net Stage 3 stood at 0.79% as of December 31, 2023.
- During FY2022 a resolution plan was implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated May 5, 2021. Basis the perceived risk and as a matter of prudence, some such accounts with an outstanding amount of Rs.713 million as of December 31, 2023 has been classified as Stage 2 and provided for as per regulatory guidelines. Out of Rs.713 million Rs.544.3 million is into less than 30 DPD bucket.
- Total ECL provisioning including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs.845.6 million as on December 31, 2023.
- Aavas is strongly placed to continue delivering industry leading asset quality.

With this I open the floor for question and answer. Thank you.

**Moderator**: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

**Abhijit Tibrewal:** Thank you and good morning everyone. Sir my first question is on disbursements I do not want to labor too much on disbursements since I had asked this question to you last quarter as well where you had shared that we need a couple of quarters to get disbursement run rate back on track but very clearly I am sure you will also acknowledge the disbursement engine is maybe not working as one would have liked right now so just wanted to understand is this something unique for us or is it because of the sectoral demand itself being weak, is it some kind of a zero sum game wherein some player becomes aggressive in a particular quarter and then the other peers kind of suffer and maybe a related question during your opening remarks you had shared that your LOS has already been implemented but you yourself acknowledged that the LMS is under testing now so by when will it be implemented and when it gets implemented will we again have an impact on the disbursements?

**Sachinder Bhinder:** So Abhijit I will answer the question in two parts. You have two basic questions. I think as we have guided earlier we continue on the AUM growth of 20% to 25%. I think on the disbursements what you are referring we have seen a sequential month-on-month growth and that gives confidence to us as management team in the coming quarters to come back to the growth on the lines what is expected. Secondly I think on the tech transformation you will really appreciate that it is overall of the entire tech transformation right from an LOS, LMS and ERP. The Phase I of LOS and the Phase II of LOS which is the loan origination system has gone live, the second system which is the loan management system is under implementation and it will take another three to four months for us to get it live. I think once all of the three systems are live together in the coming three to four months we'll see a real tech initiative transformation benefits really flowing in actually. It will help us in two counts end-to-end as this period of time when we speak our ability to have 30% lead generation from the digital channels and 10% disbursements coming from those channels will get augmented and we will move towards more defined business sourcing channels like the Mitra and eMitra. The recent tie-up which we have done is the eMitra tie-up in Rajasthan which has opex light kind of a model where the sourcing is really defined in the peripheries and deep down of Rajasthan and the couple of them which we are in actually talks, so this will help us in sourcing, in defining and transforming the technology what we have implemented to really see the benefits but in the initial phase as we talk I think on a system which has got implemented having seen 1 lakh plus of applications going through and Rs.4500 Crores of sanction go through gives us a confidence that the stabilization on the LOS is there and we see green shoots on those lines actually and we see that reflected in numbers on month-on-month improvement on the disbursement side.

**Abhijit Tibrewal:** Got it Sir. Sir If I might ask what was the disbursement run rate like in January?

**Sachinder Bhinder:** So as we speak, compared to the last January we are in excess of 20% to 25% of the previous year and that gives us confidence and it is improvement to December so to say. Abhijit you need to appreciate the two parts. It is a foundation of the tech which has been implemented as a whole and across and this has started showing green shoots. It is a foundation which has been set up and what I would really appreciate the management team, the tech transformation team and with our partners that this has been a very laminar rather than being anything which would create road bumps or anything which disrupts actually in such a major tech transformation. Secondly it is the behavioral adoption across 350 branches, 13 states, across the length and breadth and the direct sourcing model which we do, so I think that is a big amount of behavioral adoption which is there and the green shoots of that in improvement, as I talk about reducing the turnaround times from 13 days to 9 days are there in that. As a result of which you will see those kind of initiatives which will really have a monetization happening. One of the key factors which we said that you have to really appreciate with this kind from a 3.79% opex ratio to a 3.49% a sequential reduction with that is also one of the testimonies of the fact actually, so there are green shoots and a good sound tech foundation with processed people are showing signs actually.

**Abhijit Tibrewal:** Sir my second question was around your yields and margins I think during our opening remarks also we acknowledged the competitive pressure which is there on yields but very clearly from what it looks like right we are having to kind of retain customers by offering them lower interest rates, which is obviously having an impact on our yields and consequently on margins and spreads, but a related question here I think I also heard during the opening remarks that you are guiding that cost of borrowings have now peeked out and you will expect it to kind of remain stable so if you could just explain the competitive dynamics which is leading to this kind of yield compression and then how should we think about cost of borrowings going ahead?

**Sachinder Bhinder:** I will divide the question in two parts. The first question on the compression because of the competitive pressure I think three things happened actually one is the time when you try to retain the right kind of a customer which is BT-In which reduces the rate I think that puts pressure. The second is when the BT-out happens you have the high yields which goes but I think we are ready to let that go and fly because what we have seen in our observation is whatever we let go because some of the players in the market try to over leverage the customer has resulted into customer with 3x worse off than what it was at Aavas but that loses across a certain amount of yield there, a yield because you retain a good customer and some part of it is on the competitive pressure so that is the three sides if I were to talk about that. But as we say with the quality and with maintaining the one plus I think what is right for the institution has risk adjusted returns, we will continue to do that what is right for the institution. On the cost part I will have Ghanshyam talk about how is it peaked out and how it will span out in the coming quarters.

**Ghanshyam Rawat:** Thank you Sachinder. I think the cost of borrowing system was there. Let me address that question first then. Our cost of borrowing if we see Abhijit on QoQ with the last quarter we borrowed at 8.3%, this quarter we borrowed at 8% (incremental cost of borrowing) and secondly we see now cost of borrowing on our overall liability portfolio is 7.95% and we are at an incremental borrowing at 8% around basically so that give us a confidence that we are almost at a peak level of cycle at the cost of borrowing. A few basis points here and there that's all.

**Abhijit Tibrewal:** Got it Sir. Thank you so much.

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

**Shweta Daptardar:** Thank you Sir for the opportunity. Sir a couple of questions so our employee count stands at around 6000 right and we have also been progressing well on LOS systems and the tech transformation how do you see going forward the productivity improvement and do you see consolidation around the 6000 odd account and if you could just bifurcate how much of this is part of collections and how much is actually on the ground or on the business acquisition side that is question number one?

**Sachinder Bhinder:** Thanks, Shweta. I think on the collection side we can go on record saying that despite the increase in AUM in the last couple of years it did not have any manpower addition in the collection side. I think that is a great thing about the team, the quality, the underwriting and the credit goes to the entire team effort there and it is very important parameter to really talk about. Secondly as I talked about that in such a big transformation it becomes important on certain green shoots which we have seen and we have seen the green shoots in the turnaround times. Definitely that will have a productivity impact and as you see that the front line has an attrition, the time it takes to settle down I think takes its own time to really monetize on their productivity levels that is answer number two and thirdly we will work across on those opex light models which are digital and then we talk about tech transformation keeping in mind our customer type which is unserved, underserved and unbanked and how do we really make that happen so that is a progress which we will try to make so that there is a business origination which gets clearly tight and we are able to monetize the technology by the roots of digital channels. I think this is overall will help us out and we are seeing the green shoots on there. It is early at this period of time but yes there surely is the green shoots and some parameters as you talk about is the turnaround times and definitely it will flow in the productivity in the coming months.

**Shweta Daptardar:** Fair point Sir. Sir second question is correct me if I am wrong if I recall correctly last quarter you had mentioned that we have increased PLR by 40 basis points so did not we get any benefit on this side because you had also highlighted on risk adjusted yields earlier so did not we get any such benefits from here on the yields front?

**Ghanshyam Rawat:** 40 basis points we have increased our yield on our customers in the month of April in Q1. After that I think we did not increase any PLR in last two quarters but I think in the earlier question also and then similarly on this yield front again if you see our QoQ disbursement journey progress, in Q1 on YoY basis we were minus 2%, then Q2 YoY we are 10% plus, now in the Q3 we are at 13% plus in our disbursement growth basically which shows us yes we have strongly bounced back on our business funnel. Our all verticals are growing very well in the organization as we continued to invest on those verticals in last couple of months or couple of years. If you see more on the data point like in December month we have generated new business lead which is a fee based lead which is around 13500+ lead basically originated which is amounting to Rs.2100 Crores basically but in January month we have further increased that lead origination of 14600 which is amounting to Rs.2200 Crores, so all these are giving us a confidence. We are very much back to our business growth not only the last quarter but in the coming quarters also basically and our sanction to disbursement ratio in the few quarter we mentioned we lost somewhere there we also come back now to 83-84% on that ratio that is again let us say our positive development at that side. Now in third phase where we are emphasizing as a management team we are again reinforcing and reenergizing our core product which is our Rs.7.5 lakh core product where we are working in detail with all business team along with the management team is emphasizing that product because that product gives you the better yield than the other product basically. We are targeting to increase that product in our disbursement mix around by 5% in the next few quarters. That will help us to improve our new business yield but QoQ basis we are already in December quarter 8bps better yield on the new business so I want to communicate yes things are coming very much in the better shape on the yield front and the growth front and Core side as I already mentioned cost of borrowing is almost at a stabilization level so I think all three factors are coming up in the good shape now.

**Shweta Daptardar:** That is very, very helpful Sir. Thank you so much.

**Moderator**: Thank you. The next question is from line of Vivek Ramakrishnan from DSP Mutual. Please go ahead.

**Vivek Ramakrishnan:** Sir Congratulations on a very steady performance. My two questions are as follows your GNPA coverage ratio is about close to 67% does it actually reflect the loan loss that you will get on your GNPAs that is question no. 1. Question no. 2 you are moving towards more origination model which is based on tech and whereas your earlier model was more in terms of self origination so how do you expect this to play out and what is the level of saturation in your current geographies that mean that you will have to move to new geographies? Thank you.

**Ghanshyam Rawat:** I think on credit cost and provision we are very much confident and we are in steady state since last so many quarters somewhere around 64-67 basis points on overall AUM basis and NPA level we are somewhere 25% of risk provisioning is enough to take care of any loss on the NPA asset because we are steady state at 1% Gross NPA and 4% is one day past due. We do not see any under coverage and over coverage on NPA provisioning.

**Sachinder Bhinder:** On the sourcing side I think it is one of the facilitators. I think what has happened in the last couple of years is that Bharat has moved more digitally literate than what it was. So as we speak within our framework we have about 85% to 90% new customers who are on customer app. We have Part disbursements which go online in this category of customers, so I want to reiterate that we continue to operate in the segment which we are which is Tier-3 to Tier-5, unserved, unbanked and there is no segmental shift. It is the way you approach the customer and the way customer comes across to us I think that is what we would like to take an advantage of and that is because of IndiaStack and upcoming ONDC stuff actually, so it is more from the sourcing, there is no segmental shift or change in the customer focus. It is just the way you approach, service and underwrite the customer.

**Vivek Ramakrishnan:** Sir in existing geographies there still enough depth for you to originate is pretty much what you are saying?

**Sachinder Bhinder:** Yes so that is another interesting piece. Existing geography does not have a saturation level that makes us to move to the new geographies. I think that is in with the fundamental philosophy of continuous expansion of geographies and the existing geographies still continue to have that potential. I think one thing which is very unique to Aavas which one has to note that we are moving as a Pan India organization and some organization which has moved to Southern belt in Karnataka having seen the good amount of traction, good amount of underwriting, and good amount of our experience gives us a boost saying that we can do and set up and expand in those regions also and take the advantage of the potential which lies there but that is not because the existing markets are saturated so that expansion is not because of that actually. That continues to hold potential for us.

**Vivek Ramakrishnan:** Excellent Sir. Wish you all the best.

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

**Nischint Chawathe:** Just two questions. One is on the spread side if I look at your spreads closer to around 5% now and what is the broad thought process where can you go up to and what is the range that you would want to maintain through the years?

**Sachinder Bhinder:** Thanks Nischint. Nischint as we guided that we are at around 5.1% to 5.13% so our consistent endeavor would be to keep the spreads in excess of 5% so I think we will try and as earlier what Ghanshyam talked about that some of the incremental focus on the lower ticket size where you get the yields I think that is more direct distribution lead which is an RO lead or direct Salesforce led kind of a model which is there so we are reinforcing that and focusing on that and our endeavor is to really push that segment where we have our confidence, our expertise and scale that up actually to maintain that but our continued guidance continues to be that we are endeavored to maintain 5% plus.

**Ghanshyam Rawat:** Thank you Sachinder. Nischint what Sachinder said we all in this market last so many years and if you see Aavas journey before let us say interest falling started we were at 5.19% at the spread basically. Then in that journey we peaked around 5.75% in the falling market scenario. When rising started obviously first we pass on to the AUM, so we maintain at the same level but obviously cost of borrowing catch up will happen in a due course of time with a lag impact basically. Now we have gone back to where we started at 5.15% around basically so this is a normalization of spread. This is not a spread has been falling basically because in your journey rising and falling in market you will have that impact in your spread basically but ultimately we reach at a normalization which we say 5% and above is a normalization level of spread in our journey. No doubt as Sachinder said and as I earlier said we are reemphasizing and we are reinforcing our core product which will give us a better yield in the coming quarters.

**Nischint Chawathe:** Sure. It is a little strange you said that your incremental cost of borrowing was 8% this quarter and 8.3% in the previous quarter incremental cost is going up for all the other players so how come it is coming down for you?

**Ghanshyam Rawat:** I think there are certain internal borrowing side we made a certain new product which I think is difficult as to say on such a large call but we brought certain long-term product which banks found is very suitable for them which we got at 8% for 10 year or 15 year so those products helped us to bring down our cost of borrowing as well as NHB funding is there with us basically. Still Rs.700 Crores is yet to draw from NHB out of Rs.1000 Crores. We are judiciously borrowing from NHB also. I think these two to three discussions with the ALCO committee members which led us to bringing certain products of pooling money because we found one year MCLR is not effective now because most of the banks have increased the rate, so we tilted towards that other one. Entire management team of Aavas contributed on a certain product work in advance that is helping in the journey of Aavas. We started MSME product four years back and now today there is 100% matching liabilities available for MSME product from various institutions (very cost effectively) and now when RBI increased risk rate I think out of 30% NHL book 50% book not got impacted because that is MSME book basically.So those things are going in our favor and we are confident that in the coming quarter, if things remain same, incremental cost will be in the same range ~8%.

**Nischint Chawathe:** Sure no but just curious how much of the component how much would the incremental cost ex NHB?

**Ghanshyam Rawat:** This quarter we borrowed from NHB Rs.300 Crores only.

**Nischint Chawathe:** I am saying that ex of NHB you said incremental cost is down from 8.3%?

**Ghanshyam Rawat:** If we do ex NHB it become 8.20% (excluding assignment).

**Nischint Chawathe:** Last quarter I believe there was no NHB?

**Ghanshyam Rawat:** Yes.

**Nischint Chawathe:** I think that sort of clarified. Just a just simple question is that the rate of interest is kind of going up for all the players chances are there that it would go up for you as well and in that sense would you kind of anticipate and do some rate hike for your customers because you are kind of now to your target spread of 5%?

**Ghanshyam Rawat:** Nischint, we are cognizant about that if the cost of borrowing got increased, banks will also increase the lending rate so accordingly we will discuss with our ALCO committee and Board and in the past also we have passed our cost and all customer got absorbed because of that increase we did not see any spike in our balance transfer also which is also in the range of what we budgeted and what we communicated earlier.

**Nischint Chawathe:** Got it helpful. Thank you very much and all the best.

**Moderator**: Thank you. The next question is from line of Kunal Shah from Citi Group. Please go ahead.

**Kunal Shah:** So firstly with respect to this entire Omni channel experience and eMitra so if you can just highlight no doubt you mentioned like it is more in terms of changing the approach and the way in which we approach the customers but eventually maybe earlier we used to be more like focused on direct sourcing and where could we see the proportion of maybe eMitra in terms of the sourcing going up over the medium term?

**Sachinder Bhinder:** Kunal on this I think it is not that it is a strategic shift on the customer segment it is only the sourcing channel, so these are the outlets which are there eMitra specifically in Rajasthan and which has spread across the length and breadth and wherein it is only the customer where we get a lead referral and the completion and everything gets done by our direct channel actually so to say so that is one and what it really helps is to become opex light because at least you have some sourcing which is there and it is usually really appreciable. The last call when you were talking about the RO attrition I think there is some point of it which you have a certainty of the origination which gets really defined so we are moving towards those channels which are opex light but getting serviced by our own in-house channel so there is no strategic shift in the sourcing pattern and again at that period of time when we were looking at it I think we did not have the technology which we really played. Once this is there on the LMS side and on the lead management system it will have a pure fulfillment journey which will help us in that, so our endeavor continues to be focused on the customer segment and service it through a direct sell but look at opex light channel where the origination happens actually like the way we talked about Mitra which is an ecosystem of the building material supplies and stuff which is there, like to actually push that channel to build across so at least we have a sourcing which gets refined.

**Kunal Shah:** Yes but just in terms of if we have to look at it even in Rajasthan today if see the Mitra what could be the proportion so would this be as high as maybe one fourth, one third of the overall sourcing per RM so maybe if he maybe sourcing or maybe finding the leads for four to five files could one or two be from eMitra and would that be the kind of proportion which will eventually happen and would the payout be also like 30 to 40 odd bps which is there for the other players?

**Ghanshyam Rawat:** Kunal as Sachinder said just we started this model and initially with first leg we tied up only just 10% of total eMitra and we are experiencing and progressing in that but we strongly believe that this model is a very cost effective model without increasing our branch infra we can get additional business at low cost basically, so our endeavor is that to increase all this component whether it is eMitra, Aavas Mitra, social digital sourcing and all this put together want to increase instead of our direct sourcing this is our let us say non-conventional methodology of sourcing of a business which we definitely want to improve in overall business.

**Sachinder Bhinder:** So Kunal as we speak it just got launched so we are seeing the initial green shoots so we will definitely would look at that and we will keep you updated as we progress in quarter-on-quarter.

**Kunal Shah:** No Sir only thing was maybe Aadhaar Mitra and eMitra all put together the way Aavas always has positioned to be more like say direct sourcing so I was just trying to see if there is any kind of a shift wherein a component of business would come through maybe at least in terms of the sourcing, it could come through from say Aadhaar Mitra and eMitra, all of them. Related question in terms of branches so you alluded but still hardly like 1 odd branch is getting added compared to what we highlighted 20 branches for the second half so would we really grow slow in terms of the branch expansion or is that something which is there in the pipeline and we should see the ramp up in Q4?

**Sachinder Bhinder:** Kunal as we speak I talked about that we had 5 branches which came up this year so this quarter we will have another 15 or 20 so we are very conscious of the fact that how we move to cross with the opex light and more touch points rather than putting a physical infrastructure so we have this RRO model which is a regional rural officer model where we feel that once it fructifies only then we start believing in opening the branches so our endeavor is to go much deeper to get the deep penetration but try to be opex light but we continue that expansion on that front so as I said that 5 are there in this quarter we will have addition in some in the existing states and some in the new states which will be there and that will be in line with our continuous location expansion strategy what we have already been clear of.

**Kunal Shah:** Sure. Thanks.

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

**Renish:** Congratulations on a good set of numbers Sir so just two questions from my side. One again on this shift in the ticket size wherein incrementally sort of we are targeting towards Rs.7.5 Lakh ticket size which is far lower than our blended ticket size so of course it will help us in improving yield and so the spread but do you foresee this will actually lead to a low disbursement?

**Sachinder Bhinder:** No I think that is one of the facilitator which is there so we are saying that it pulls out on the absolute volume so I think that gets compensated by the other parts which is Rs.10 Lakh and above stuff. It is more on reinforcement of consistently getting right kind of share. As we talk about the risk adjusted returns in that segment where we have knowledge & last 11 years of understanding in that segment we would like to scale up on that segment. As we were speaking earlier I think this gets sourced directly by the RRO model and direct model and some of the intermediates the eMitra and stuff which will lead to the referrals and facilitate the growth but directionally it will not result into the disbursements going down. It will add up in the spreads and add up as an incremental volume what Ghanshyam also pointed out is that our endeavor is to increase by 5% on this segment per se.

**Ghanshyam Rawat:** Our composition of low ticket or high yield product need to be maintained or increased in the disbursement. It is not a substitution, it is more about increase. We need to increase it by 5%.

**Renish:** Got it Sir and just the last question on this again sorry to circling back to the tech transformation but when let us say we have already implemented LOS which is our front-end application wherein LMS is more of a backend application so if you can just throw some light let us say after implementing the LOS and let us say our Sales staff by now will be used to it in terms of how to use it so can you please throw some light on let us say improvement in the number of logins, etc., let us say pre Salesforce and post Salesforce which essentially I am just trying to get a sense whether one year down the line we will see a significant improvement in disbursement?

**Sachinder Bhinder:** So I think this gets in two parts. One is the incremental logins and one is the behavior adoption which we have seen and that really shows across in our sanction numbers and in our disbursement numbers and secondly the other part is that as we speak we talked about the turnaround times of sanctioning from 13 days to 9 days so that frees up the bandwidth for the RO to really work on the new cases so definitely that is there and with the adoption and with the phase two coming across I think it will further help us in that journey.

**Renish:** So we have already seen logins improving month-by-month?

**Sachinder Bhinder:** Yes so as Ghanshyam talked about earlier we were at 13500+ in December, as we speak in January we were 14000 plus of logins, so there is definitely month-on-month improvement in the number of logins actually and the very other substantiate parameter we talked about is the login to sanction days actually the turnaround time so that has moved from 13 days to 9 days so one is the sourcing part, the second is the sanctioning part also and thirdly on Sanction to disbursement also there is an improvement from 79%- 80% to 84% so that is another the positive side so green shoots are there and Renish I would appreciate this is a big transformation across so behavioral adoption is being there and 1 lakh plus of files getting process itself is a big landmark if I were to put across, seamlessly without any bumps or without any disruption. I think that is one of the very key parameters which one has to look through and then seeing the green shoots of increase in login so I think one is adoption, second is stabilization, and the third is monetization.

**Renish:** Got it. Just a follow up on that so let us say within six months from now everything should be stabilized so would you like to give any guidance on FY2025 AUM growth side historically we have always been maintained 20% to 25% kind of a growth range but that point in time the tech infra was different versus what we have now so any comment on that?

**Sachinder Bhinder:** So Renish we continue to guide between 20% and 25% if any other opportunity comes across when it is there we will definitely but our guidance continues to be in that range with the quality and with the operating metrics which are there and as we speak we said that we guided that we will double our AUM in the coming three years actually so we guided 20% to 25% of AUM growth. Secondly the other green shoot Renish is to really appreciate about the management team, you seeing the green shoots even in the opex side so if you have a peak of 3.79% to come at 3.49% is there so I think we are working on multiple vectors which really have an impact on our operating metrics right from tech which is helping out on the origination, on sanctioning, and on reducing the wastage. 60% is the straight through sanctions with the system which you were referring to when we got the system improvement in turnaround times. I think these are the very important parameters and operating matrices which we are trying to figure out so which helps institution to be sustainable and scalable in a right fashion and to be a Pan India robust affordable housing finance company.

**Renish:** Got it. Now this is very, very helpful. Thank you for detail answers. Best of luck Sir.

**Moderator**: Thank you. The next question is from line of Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:** Congrats on steady performance and thank you for taking my questions. Most have been answered. Sir if you can just share the quantum of BT request that were repriced in this quarter and the incremental disbursement yield on blended basis?

**Ghanshyam Rawat:** Our BT out is roughly as we mentioned earlier also it is 6% of opening AUM and we remain in the same range, even last year also we had the 6%.

**Rajiv Mehta:** No Sir I am asking the pool of BT request which were repriced?

**Ghanshyam Rawat:** Roughly 4% to 5% BT request generally comes for additional funding basically which they are not aware we can give them additional loan so when they come for foreclosure our centralized team immediately connects them, then we found say that three year back we given a loan, they are performing well, their LTV is less than 30% to 40% and now they need a loan for their kids education and their marriage we offer them some small tranche which is within our risk parameter so that customer do not go out and remain with us basically and few customers which are looking for a very competitive rate we allow them. Certain customers who we feelwe don't want to retain them because their performance was very bad with us and industry want to take them so we allow them to go.

**Rajiv Mehta:** Got it. Sir my remaining question is incremental disbursement yield on blended basis and what is the incremental cost of funds from banks?

**Sachinder Bhinder:** I think incremental cost of funds Ghanshyam highlighted earlier and we continue to have the spreads maintained at 5% plus that has been our guidance and we say that in order to really improve that we will focus on certain segments and certain product contribution which is there, so we guided on 5% plus of spreads and on the bank borrowings Ghanshyam talked about the Q3 at incremental rate of about 8% and overall in nine month period we are at 7.95%.

**Rajiv Mehta:** Thank you so much and best of luck.

**Moderator**: Thank you. The next question is from line of Shubranshu Mishra from PhillipCapital. Please go ahead.

**Shubranshu Mishra:** Good morning Sir. Thank you for the opportunity. My first one is on the LOS and LMS, so are we running it on an opex model or a capex model, is it cash based, how are we running LOS and LMS and any specific reason that we did not opt for Nucleus lead software because that has pretty much been used by rest of the industry so we have gone to some other vendor so just want to understand the reason for that and when we speak about 25% provision cover on the stage 3 this is largely to do with the LAP or HL what is causing this 25% stage 3 provision and the third question is we are speaking about a growth rate of almost 23% to 24% because we are speaking of doubling of the loan book in three years so how do we decompose this 24%, what would be driven by ticket size increase, what would be driven by productivity increase and if there is something else you can add on to the growth decomposition?

**Sachinder Bhinder:** On the growth decomposition we have always said it on 20% to 25%, we continue to focus as the DNA of Aavas is on unserved, unreserved and unbanked segment of customers, Tier-3 to Tier-5 towns, secular increase in the number of customers and see even if you look at one thing you really appreciate that Aavas' volume growth has not even had retail, residential, real estate inflation also factored in so it is pure number growth which is there. We will continue to go granular, we continue to serve where Bharat lies and in that as we guided earlier that the states which we are there we go deeper, the states which we have invested in we accelerate and the new states wherever new geographies we try and understand what it is there and as a result of it the cumulative sum comes to an average of it. Some of the places it would be higher and some of the places it would be moderate so this is what we follow but when it comes to the quality and collections I think we follow an absolute model. We say that one plus DPD will be less than 5% and not having as we speak the min-max does not go beyond 1.5 to maximum of 6 to 6.5 so I think that is very important parameter and really to appreciate that you grow Pan India, you grow granular and you grow modular with quality and with the kind of result and consistently. I think that is on the growth decomposition side as we speak. On the tech side or on the cost part, I will just get a brief on that. I think it is a big tech transformation journey when it comes to the HFC. I think two important parameters which are there one is that as you scale up, I think it is important to have the right kind of technology platform which helps you to scale/ build, and to get a confidence from a risk architecture perspective. Secondly to really serve in a way which is digitally focused and in a way which is tech oriented and use the new age AIML model which help you to service as a facilitator and in that journey we want to be as like a trustworthy on the tech platform like a bank but agile as when we speak in the markets which we operate, so as a result of which the entire stack which is the loan origination system which is Salesforce, the loan management system which is Flexcube and ERP which is Oracle Fusion, the state-of-art, and the best-of-the-class have been put in place for a tech transformation journey. On the capex and the opex part I have Ghanshyam really talk about what is that, how we have envisaged and how does it impact.

**Ghanshyam Rawat:** Thanks Sachinder. All these tech investments Salesforce, Flexcube as well as Oracle Fusion three major projects transformation we done. All are paper used base and all are opex model basically. Very low capex is there. As we use we will pay to the vendor basically. For the next five years we have fixed the pricing also. So for next five years there will be no inflation/ rising cost impact to us, as for next five years we have blocked our prices. As we increase more, it is pure variable model we built in for all three products. Another one we mentioned about this provisioning piece. I think we have a 27% overall let us say NPA or Stage 3 provisioning which we are very comfortable. For home loan and non-home loan we do not see there is a much variation in our customer profile as well as our ticket size as well as our LTV basically and in real life in the collection we are not seeing any major change. Our NPA also it is 1% to 1.25% between home loan and non-home loan so obviously there will be few percentage change but not a significant change in risk provisioning.

**Shubranshu Mishra:** Understood Sir and if I could just squeeze in one odd question more Sir what is our premium that the banks charges above the EBLR and MCLR?

**Ghanshyam Rawat:** You will appreciate these things are very internal and we not able to comment. We are in relation with 31 banks, every bank has a different way to lend us but we are very competitive when we borrow from the market. We are the only HFC in India who borrow 11 years plus average maturity liability profile with the average rate of 7.95% and incremental borrowing at 8%.

**Shubranshu Mishra:** Understood Ghanshyamji. Thank you. Thank you for your time Sir.

**Moderator**: Thank you. The next question is from line of Jigar Jani from B&K Securities. Please go ahead.

**Jigar Jani:** Thank you for taking the question. Can you please share what would be the disbursement figure for the month of December and January?

**Sachinder Bhinder:** Jigar, we do not share the individual numbers. As we speak we say that there is a month-on-month improvement and every month we see a granular and a modular growth on the disbursement. I think we always have guided on the AUM growth. We continue to do that. I think if you look at the AUM growth it has been on the Q3 at 22.8% which shows us a good impact and we will continue maintaining that.

**Jigar Jani:** But the previous full year guidance on disbursement has been..

**Sachinder Bhinder:** We have always given guidance on AUM so we continue that we are confident as management team to deliver 20% to 25% of AUM growth.

**Jigar Jani:** Sure Sir and I think in one of our interactions earlier you had guided you are looking at certain other products like APF, Affordable housing and MHADA kind of projects and also certain new business lines so what is the progress of that and how much of our incremental disbursements say next year would be largely driven from these kind of projects, the reason I ask is probably these will be higher ATS projects and lower yielding projects so how do we manage it with our new focus on the small ticket size, also we want to increase and we want to focus on these projects as well so just wanted to understand the balance of how it works?

**Sachinder Bhinder:** Yes that is a very good question. I think we are a unique HFC to have service the customer at different price points and as we speak that on the affordable housing that we have is the Pradhan Mantri Awas Yojana Gramin related projects which we do which is MHADA/ CIDCO but I think important to highlight there is in that we identify segments and typically these are LIG and MIG and EWS segments which we cater to. Again in that our customer focus has been unserved, underserved and unbanked customers. The quality of the property being good and the assessment which we understand from the risk adjusted returns is better, so I think from a perspective of a distribution having had the retail the part which is the affordable which caters to specific on this and we are very enthused by the fact that the government's focus in the interim budget continues to be there on this segment and we have a good last three to four years kind of vintage in that segment will help us to monetize in the coming times when the opportunity opens up. Along with that the focus on what Ghanshyam and others talked about is on the STS(small ticket size) and MSME loans and the ones which are builder approved kind of loans. Again customers where the segment is the one which is unserved, unbanked and unreached actually so these are the ones which really help us. All of this help us to really be there consistently across the various customer segments and leverage the opportunities which arise in the market actually and we are ready with that along with our tech transformation.

**Jigar Jani:** I was just trying to understand more from a yield perspective that on a blended basis then the yields will not move up higher right because partly this segment will be lower yielding as compared to what you have on?

**Sachinder Bhinder:** As earlier you spoke that we said that we have an increased focus on the ticket size is less than Rs.10 Lakh increased by as a contribution on 5% to try to get across that so not let the yield go because the segmental focus goes towards that actually. We said that we guided on the spread saying that we will continue to maintain 5% plus spread. We will manage and balance the yield portion disbursement yield portion on the customer segment and others but a continued guidance on 5% spreads is there.

**Jigar Jani:** Just last question on once the full tech transformation is completed I think our earlier guidance of stack will drop to six days we will maintain that guidance?

**Sachinder Bhinder:** Actually yes so if you look at it from 13 days we have come down to 9 days so this is a journey as you would really appreciate and the other part that we have 60% of customers which are straight through sanctions so we have seen the green shoots. In that if you see that kind of traction we are monitoring that to improve on a month-on-month basis and this is two parts one is once the technology stabilize and secondly as the behavioral adoption picks up you have the learning advantage which comes across as a firm and as the tech evolves.

**Jigar Jani:** Sure Sir. Thank you so much for answering my question and best of luck.

**Moderator**: Thank you. Ladies and gentlemen that was the last question of the day. I now hand the conference over to Mr. Sachinder Bhinder, MD & CEO of company for closing comments.

**Sachinder Bhinder:** As we conclude today's earnings call, I would like to extend my gratitude to our shareholders, employees, customers, partners and regulators for their continued support, encouragement and trust. I am confident that with Aavas 3.0 we will continue to deliver sustainable growth, profitability and value creation for all our stakeholders. Looking ahead I want to emphasize that we will continue to maintain with a sharp focus on governance, asset quality, profitability and growth, leveraging technology and creating superior customer experience. We remain optimistic about the future and confident that our strategic initiatives will continue to drive sustainable growth and shareholder value and continue to give us confidence of the green shoots which we see because of the tech transformation with a guided AUM growth of 20% to 25%. If you have any further questions or require additional information please free to reach out to Rakesh, our Head of Investor Relations. Thank you and have a very wonderful year ahead. God bless.

**Moderator**: Thank you. On behalf of Aavas Financiers Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.