SAPNE AAPKE, SAATH HAMAARA

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To, **The National Stock Exchange of India Limited** **The Listing Department** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**To,** **BSE Limited** **Dept. of Corporate Services** **Phiroze Jeejeebhoy Towers,** **Dalal Street, Fort,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Sub: Earning Conference Call Transcript

Please find attached the Transcript in respect to the Earning Conference Call held on Saturday, May 04, 2019 at 11:30 am (IST) for the Quarter & Year Ended 31st March 2019.

The transcript of the conference call can also be accessed at the website of the company at www.aavas.in

We request you to take the same on your record.

Thanking You,

For Aavas Financiers Limited

AAVAS FINANCIERS LIMITED

Sharad Pathak
Company Secretary & Compliance Officer
(FCS-9587)

Enclosed: As Above

AAVAS FINANCIERS LIMITED
An ISO 9001:2015 Certified Company
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“Aavas Financiers Limited
Q4 & FY2019 Earnings Conference Call”

May 04, 2019

MANAGEMENT: **MR. SUSHIL KUMAR AGARWAL – CHIEF EXECUTIVE OFFICER – AAVAS FINANCIERS LIMITED**
MR. GHANSHYAM RAWAT – CHIEF FINANCIAL OFFICER – AAVAS FINANCIERS LIMITED
MR. S. RAM NARESH – CHIEF BUSINESS OFFICER – AAVAS FINANCIERS LIMITED
MR. ASHUTOSH ATRE – CHIEF RISK OFFICER – AAVAS FINANCIERS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Aavas Financiers Limited Q4 and FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Sushil Kumar Agarwal, Chief Executive Officer of Aavas Financiers Limited. Thank you and over to you Sir!

Sushil Kumar Agarwal: Good morning everybody and thank you for participating in the earning call to discuss the performance of our company for Q4 and full year FY2019. With me, I have my team, Mr. Ghanshyam Rawat who is CFO, Mr. S. Ram Naresh, Chief Business Officer, Mr. Ashutosh Atre, Chief Risk Officer and other senior members of the team. With us also we have Strategic Growth Advisors, who is our investor relationship advisors. The result and the presentations are available on the Stock Exchanges as well as on our company website. I hope everybody has had a chance to look at it.

This year our company has set new milestones right from successful listing of the company, long term rating upgrade by CARE to AA- Stable outlook from A+ Positive outlook and delivering a consistent performance even in this challenging environment. The company has further strengthened its market reach with the opening of 45 new branches this fiscal year. With recent government policy initiatives to make housing affordable, we see significant opportunities driven by demand from low and middle income and self-employed customers and a significant financing gap in this segment. With our robust system and well-defined processes, we are confident to make a deeper footprint into the housing finance space and grow our customer base. We aim to scale up our business operations by consistent growth through our distribution and additional number of customers while maintaining our asset quality, GNPA sub 1% and 1 DPD less than 5% and with consistent return on assets of 2.5% and above.

For FY2019 our disbursement grew by 30% from Rs.2051.2 Crores in FY2018 to Rs.2672.4 Crores in FY2019. Profitability grew by 89% from Rs.93.2 Crores for FY2018 to Rs.176.1 Crores for FY2019 as per Ind-AS accounting. The profit as per I-GAAP accounting was Rs.92.9 Crores last year. For this fiscal year, it is Rs.147.3 Crores, which is a 59% growth.

On the credit rating side, the company's long-term rating has been upgraded by CARE from A+ Positive outlook to AA- Stable outlook. We continue to be rated A+ for our long-term rating from CRISIL and ICRA and A1+ for short-term credit from ICRA and CARE. On the NPA side, the company has established a robust underwriting process and a strong collection mechanism leading to better asset quality with gross NPA number of 0.47% at the end of the year.

We have a strong capital base of Rs.1837 Crores as on March 31, 2019. Our capital adequacy for Tier 1 capital is around 65.4% and Tier II capital is 3.1%.

The housing finance sector is vulnerable to various types of risks and it is imperative that the institutions in this sector insulate themselves from these. We at Aavas have built a robust risk management framework to take care of business risk, credit risk, liquidity risk and reputation risk. The rapidly increasing customer base stands testimony to the fact that it is steadily gaining reputation, as the customers preferred housing finance partner.

Now I would like to hand over the line to Ghanshyam Ji who is the Chief Financial Officer of the organization to have commentary on various business parameters in detail.

Ghanshyam Rawat: Thank you Sushil Ji. Good morning everyone and we welcome you to Q4 and FY2019 earning call of our company.

I would like to start from the borrowing side. Further to as Sushil Ji has updated our credit rating has been upgraded during this quarter. CARE has upgraded our long-term rating from A+ positive outlook to AA- stable outlook. The rating upgradation, which comes in current cautious market environment validates our business model, more specifically retail business model majorly focusing on home loan segment, best in class assets quality, in-house sourcing model and strong underwriting process. We have built up a very strong positive ALM and long-term borrowing franchise in the last eight years.

The company has access to diversified and cost-effective long-term financing. We have today relationship with 37 lenders. 89% of the borrowings are from long-term loans from the banks, assignments and NHB refinancing. We have only 11% borrowing from the debt capital markets. We have no borrowings by the way of commercial papers. We have built a very strong relationship with multilateral institutions. During Q3 FY19 we raised rupee denominated masala bond from CDC UK and in the past we had raised funding from IFC.

Company has been operating at healthy and consistent margins. We are maintaining our spreads at 5% and above over the years. Opex cost is little bit higher due to increased investment in technology, management team built up, branch expansion in last few years, but has come down in the recent quarters.

Better & higher utilization of the manpower, increased business from the newer branches, continuous usage of technology and data analytics will support our growth in the coming years while improving the operating efficiencies and driving the returns.

Coming to financial performance, as you know, this is the first year where we have incorporated Ind-AS accounting. We have successfully migrated from I-GAAP to Ind-AS accounting systems, complete reconciliation of I-GAAP to Ind-AS has been explained on the slide number 37, 38, 39, which covers our PAT, ECL provisions and Networth.

Other key important business parameters: As on March 2019, our cumulative housing units financed till now is 93000 plus. Total number of live accounts stand at 77000 plus. Cumulative disbursement is Rs.78706 million. We today have presence in 122 districts across 10 states, total number of branches as on March 31, 2019 is 210. 45 new branches were opened during last 12 months.

Assets under management are Rs.59416 million as on March 31, 2019, a growth rate of 46% year-on-year. Segment wise breakup, home loan 75.5%, other mortgage loan 24.5%. Customer wise breakup, salaried is 35.1% and the self-employed 64.9%. Disbursement increased by 30% year-on-year to Rs.26724 million for FY2019. Home loan 72.3% and other mortgage loan 27.7%. Total income we have Rs.7110 million for FY2019, a growth of 44% year-on-year.

Net interest income increased by 52% year-on-year to Rs.4286 million. NIM including fee and other income for FY2019 full year stands at 9.32%. PAT is Rs.1761 million for FY2019 full year, year-on-year growth of 89%.

Our average cost of borrowing as on March 2019 was 8.74% while average yield was 13.75%. We were able to maintain our spread above 5% as on March 2019 in this difficult environment also.

Coming to asset quality, our one day past due stood at 3.4% as on March 31, 2019 we endeavor to maintain it as Sushil Ji said below 5%. Our gross NPA stood at 0.47% as on March 31, 2019, we endeavor to maintain it at below 1%. Segment wise NPA, home loan was 0.53% as on March 2019 as against 0.58% on March 2018. Other mortgage loan was 0.27% for March 2019 as against 0.11% for March 2018.

Few return ratios, we maintained our ROA above 3% level to 3.64% as on March 31, 2019 (impact of Ind-AS and excess capital also), we endeavor to maintain 2.5% and above. Our ROE is at 11.64%, it has been lower due to continuous equity infusion over the last two years, we expect to improve return going ahead with a consistent growth in our disbursement and AUM, and operating leverage playing out. Our book value per share stands at Rs.235.2 as on March 2019. With this I open the floor for the Q&A sessions.

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 Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity. Congrats Sir on a good quarter. I have two questions. First question is if we look at our ticket size especially for the home loan on a disbursement basis the ticket size has been steadily rising in the last two quarters to about let us say from 9.3lakhs to about 9.6lakhs and now to about 9.9lakhs and in the same way the share of disbursements of the mortgage loans has also been rising, so compared to let us say 22%, which is our AUM mix for mortgage loan, on a disbursement basis it is around 27% to 28%, so could you take us through your thought process behind these two phenomenon playing out?

Sushil Kumar Agarwal: Thanks for participating in the call. So Karthik if you see ticket size wise, we are always around Rs 9 lakhs and as an organization we want to keep it at sub 10-lakhs only, ticket size is outcome of composition of different products and different schemes in the portfolio; salaried versus non-salaried, purchase versus construction cases versus mortgage, so it keeps changing by 10000 or 20000, but we are on the same track as the company's thought process. Last year also if you will see our average ticket size for salaried customers was Rs.9 lakhs and self-employed customers at Rs.9.4 lakhs and this year again salaried customers ticket size is Rs. 9.3 lakhs, and self-employed is Rs. 8.9 lakhs so depending on certain quarters where we have more construction customers in the profile, but mostly it will remain sub Rs.10 lakh. And second question as an organization we endeavor to keep housing and non-housing portfolio so if you see as on AUM basis, we have 75.5% as a home loan and 24.5% as a non-home loan portion, so we will maintain that in roughly similar proportion.

Karthik Chellappa: Sir just to clarify our home loan average ticket size on a disbursement basis by March 2019 was close to Rs.10 lakhs, it was almost Rs.9.9 lakh so basically we are saying that this will probably be some kind of cap at least it will not go beyond this. Is that a fair way of concluding?

Sushil Kumar Agarwal: It is Rs.9.9 lakh and March 2018 was Rs.9.3 lakhs so it will be sub Rs.10 lakh only.

Karthik Chellappa: Sir my second question is if I were to look at our spreads, we have highlighted in the past that we want to maintain it somewhere between 5% and 5.5%, but if I look at the trajectory that has actually been coming down and now we are very close to 5%, so given your outlook on the funding cost, as well as the mix of your loans, can we say that spread is somewhere close to bottoming out because it is almost at the lower end of where we wanted it to be?

Sushil Kumar Agarwal: Karthik, you see last six months were very challenging in terms of liquidity, but still you will see our borrowing costs, which was 8.63% as on March 31, 2018, at the year-end also we were able to maintain it at 8.74% and our lending rates are around 13.75%, which was earlier 13.99%, So we will endeavor to maintain it at this level and depending on the liquidity available and market interest, it will have 20 to 30 bps difference and in the past if you recollect we have always maintained that whatever be the spread compression, we will compensate it by operating expense reduction and efficiencies. So if you will see on that side, our Opex at 4.86% in FY18 has now come down to 3.81% in FY19, so we have brought almost 100 basis points operational efficiency. I think I am able to answer your question.

Karthik Chellappa: Got it. Sir, couple of housekeeping issues on the disclosure per se in the stock exchange disclosure for the P&L. I noticed that same quarter last year, our employee cost was about Rs.49 Crores in Q4 FY18 and that was only around Rs.34 Crores in Q4 FY19, any reason why it dropped so much?

Ghanshyam Rawat: Prior to the IPO, our ESOP got exercised in March 2018 so as per the Ind-AS accounting, substantial amount of ESOP cost got accounted for in the last quarter of FY18, which is only a marginal amount in the last quarter of FY19.

Karthik Chellappa: Thank you Sir. Thank you very much and wish you all the best. I will come back in the queue in case of more questions. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities Limited. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Congratulations on a good quarter. I just had one question in this particular quarter I see that we have done a lot of disbursements under the PMAY scheme so if I am reading it right until last quarter we had about 2800 units and which has gone up to 5190 units at the end of this financial year, so is there any particular liking that we have taken to PMAY or what is happening there?

Sushil Kumar Agarwal: Abhijit, one is because that segment has opportunity which is given and second is the way government authorities work, so the subsidy is a quarterly process and for whichever accounts we get subsidy we take it in this PMAY specific scheme. So last quarter they have released substantial subsidy and that is why this number has increased that much.

Abhijit Tibrewal: Sir what I wanted to understand is you have done about Rs.205 Crores of disbursements if I am not wrong in Q4 under PMAY?

Sushil Kumar Agarwal: How it works for us, I think some interpretation issue, by this number we wanted to show for how many accounts we have got subsidy from the government under PMAY scheme, so substantial part of subsidy has come in the last quarter that is why this number is high. So disbursement happens every month, but till the time you have not got the subsidy you cannot say that the benefit has gone to the end customer, so till the time benefit is not passed onto customers, we do not classify it under the PMAY scheme.

Abhijit Tibrewal: Right Sir. I got it now fair enough and Sir one just last question. What is the amount of write-offs that we did in Q4 and FY2019?

Ghanshyam Rawat: You asked the last quarter or you asked for full year?

Abhijit Tibrewal: Q4 and for FY2019?

Ghanshyam Rawat: I am parking this for now. I will come back on this.

Abhijit Tibrewal: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain: Thank you for the opportunity Sir. Sir first question is on PCR on stage III, what is the reason of increase in PCR from 16% to 22% from FY2018 to FY2019?

Ghanshyam Rawat: Last year our LGD like earlier if you recall, when we are making a provision under NHB norms where we have standard asset provision of 25 basis points and for NPA ranging from 15% to 100% depending on the bucket basically. Then this year we adopted Ind-AS, based on all the computations and methodology applied, we were able to substantially lower our provisions, but as a management we always feel a cushion was needed to be created against the NPA assets. We again revisited during this year, more specifically during this quarter as to how we can build up that cushion in NPA provisioning. So, as far as the methodology is concerned, provision required was less, but we have gone through each and every NPA account and reevaluated each and every property. As a management, we have adopted a conservative approach to provide extra provisioning against the NPA. There is no other reason for the increase, apart from the cautious approach, we do not see any other leakages in the NPA asset.

Nidhesh Jain: Sir can you share the quantum of this cautious provision?

Ghanshyam Rawat: Yes, we built up an extra provision of around Rs.2.5 Crores in this quarter itself on account of changing our LGD from 16% to 18%.

Nidhesh Jain: Secondly what is the thought process about the spread because this 5% spread is very high and as we scale up over three to five years, I think it is reasonable to expect that this 5% will come down to 4% and probably over a long period of time will come down to 3% so what levers we have to compensate for that eventual decline, which is likely to happen over the next five, six and seven years and how much cushion do you think you have in operating expenses?

Sushil Kumar Agarwal: We will not be able to give answer for the next five to six years, but for near-term as we explained to everybody that we endeavor to maintain our spreads around 5% and we say that in the near-team if there is a situation like we are in today if borrowing cost increases yes we will have some 25 to 50 basis point spread contraction, but whenever we experience any reduction in the spread, we will try compensating it by opex reduction and as organization we endeavor to deliver 2.5% ROA on a steady state basis, so we stick to our business philosophy on that.

Nidhesh Jain: Sure sir, because the yield decline that we have seen over the last two years I think it is very, very heartening to see that, we have seen yield decline despite that profitability has actually remained stable?

Sushil Kumar Agarwal: If you see our last eight year's history spread is above 5% but some quarters it will be 5.2%, 5.1%, again going to 5.4% so that phenomenon is dependent on the market circumstances. In last six months because of increase in borrowing cost, it has decreased but on the other side you see opex has reduced from 4.81% to 3.8% so 100 basis points saving we have already done on the opex side.

Nidhesh Jain: What actually I was trying to say is that since your yields are declining but your profitability is not getting impacted because of that, you are actually probably reducing risk on the balance sheet and making your business more scalable. So if your yields further decline to 13% and there is no impact on profitability, the scalability of business will further improve, that is what I was trying to understand.

Sushil Kumar Agarwal: Last five quarters, the yield on the portfolio is almost stable. March 2018, it was 13.99% and right now 13.75%. So we say on an yearly basis there might be 20-25 basis points impact on spread, which we are confident that we will compensate by operational efficiencies, but we are hopeful to maintain the yields at the current level, so our incremental yields are around 13.3% and we are confident to maintain it at this level, at least for this year

Nidhesh Jain: Sure and can you share incremental yield on both housing and mortgage loans?

Sushil Kumar Agarwal: Housing loan incremental yield is 12.6% and mortgage loan incremental yield is 15.3%.

Nidhesh Jain: One more question from my side. If I look at the asset quality, the gross NPA on the mortgage loans are much lower than housing loans though from the very small base it has become almost doubled, any color on the asset quality in the mortgage loan segment?

Sushil Kumar Agarwal: Mortgage loan we have started around January 2017 and the book has now almost two years vintage and we always maintain that our NPA numbers on both home loan and mortgage loan will be sub 1%. Right now I think it is around 0.27%, last year it was around 0.10%, so we will endeavor to maintain it and if you see one DPD numbers they are also in line, so I think we will be able to maintain it at those levels in the near future also. Our mortgage loans average ticket size is around Rs.7 lakhs and housing loan average ticket size is around Rs.9 lakhs so even in the segment we are very granular.

Nidhesh Jain: Just one more question from my side, so if I look at the fixed and floating component on the loan asset side, how it is shaping up, is it changing overtime or the component of fixed and floating is broadly similar?

Ghanshyam Rawat: The way we work at Aavas, we try to match it with liabilities, so whenever we raise fixed rate liabilities accordingly, we lend it in fixed and whenever we raise liability on the floating side, we try to lend it on floating. As on March 31, 2019 also we have perfect matching of this. So our fixed rate lending is around 44% and floating rate is 56% and if you see absolute numbers also, we have floating rate book of Rs. 33187 million against floating rate borrowing of Rs. 32450 million and against Rs. 26229 million fixed rate lending, we have Rs. 15886 million fixed borrowing and rest of the fixed amount is funded by capital of Rs.11080 million.

Nidhesh Jain: Any plans to enter into any new segment apart from housing and mortgage over the next couple of years or any plan for any inorganic growth opportunity given the volatility in the sector?

Sushil Kumar Agarwal: No, we want to be consistent and sustained player. We do not want to deviate or divert from our vision, mission. We want to be in underserved unreached market, sub-10 lakh ticket size, 99% retail book, 75% home loans and 25% mortgage loan, Also state-wise, in next one or two years we want to be in same states though branches will increase, so we do not want to deviate from whatever we are doing, we feel that it has ample scope of opportunity, we want to continue with the same DNA, as we have been doing in the last nine years.

Nidhesh Jain: Sure Sir. Thank you Sir. That is it from my side.

Ghanshyam Rawat: Answering the earlier pending question, the write off for this quarter is Rs.1.14 Crores. As I had stated earlier it is majorly because of the conservative approach we have adopted that we will revisit each and every case of NPA; also of this Rs. 1.14 crores the actual write off is only just about Rs.10 lakhs, rest we have taken a hit on account of let us say one-to-one case studies and then we found case provide extra provision, extra to take write off on the valuation. Secondly under Ind-AS when we acquire the assets and the disposal takes some time so we take the present value of that asset for the resolution period also, so that is also a significant component out of that. Around Rs.3.25 Crores is the full year write-off. Hope I clarified that question?

Nidhesh Jain: Thank you so much.

Moderator: Thank you. We move to the next question. The next question is from the line of Kunal Shah from Edelweiss Securities Limited. Please go ahead.

Kunal Shah: Congratulation Sir, good set of numbers. Firstly in terms of the decline in the margins which have been 20 odd basis points from Q3 to Q4, so though we have been able to maintain the spreads, there is no major change in the composition as such either within the home loan vs the LAP or salaried vs the self-employed, so what has been the reason for this and how should we look at it particularly with respect to the yields, how should we look at it going forward?

Ghanshyam Rawat: Thanks Kunal for the question. If you see in last quarter, my average blended yield went down from 13.94% to 13.75%, majorly there are two components. My new disbursement in this quarter is approx. Rs. 870 Crores at 13.30%, which is the same rate as in Q3. There is no declining trend in the new business which we have done in Q3 and Q4, so we were able to maintain our new disbursal rate as far as my new business is concerned. If you compare this year Q4 yield to Q4 yield last year we have been able to make 20-basis points extra. Last year my Q4 disbursement yield was 13.10%, so in this quarter either we are able to maintain our new disbursal yield Q-o-Q basis or we have been able to improve on that parameter Y-o-Y basis, so that is on the new disbursal basis. However, since my new disbursal yield is lower than my portfolio yield, so obviously that has impacted my overall portfolio yield, so it has given me total impact of 10-basis point. Apart from that, NHB gives us some refinancing under their affordable housing scheme. During this quarter also, we have got some funding from NHB under this scheme, for which we identified certain pool, which fits in their criterion. We get this funding at very low rate (sub 5%) with the condition that margin has to be capped at 3.5%. So, for those qualified assets we have brought down the overall lending rate and that has impacted my overall portfolio yield, but that also has given me saving on the cost of borrowings. So by borrowing that money at sub 5% from NHB, instead of 9% from the market, we saved around 4% and passed on certain benefits to my customers basically. So it is a win-win situation for our customers also and for the company also.

Kunal Shah: What is the average borrowing rate from NHB on the outstanding, NHB borrowing if you look at it? What is the average rate?

Ghanshyam Rawat: It is 7.5% on borrowing of Rs.900 Crores.

Kunal Shah: Maybe this time obviously there were some drawdowns from NHB, so overall proportion is more skewed towards the NHB borrowings, but how should we look at may be two, three years down the line how should we overall look at the mix of our borrowing profile between the banks, debt market, NHB and others?

Ghanshyam Rawat: We have spent a good amount of time discussing on the liability front day before in our ALCO committee and also our board meeting and we see that in last two quarters though there is a liquidity stress in the market, but as we mentioned we have been building our relationship with various lenders. Our few discussions are at advanced stages with the large multilateral institutions. NHB has obviously been a long association, they have funded almost 20% of our overall borrowings, so we hope that we will continue to get that support. Bank funding may come down a little bit, but now as we said earlier our rating has got upgraded to AA category, so now we are entitled to get funding from insurance sector, provident fund sector in the coming years, so the borrowings share from that sector will increase from 10% to somewhere 20% and multilateral will be somewhere around 10%, so our reliance on bank funding which is currently at 42% will come down to somewhere around 30-35%. There is obviously some stress in the market, but when you visit the banks and institutions and few insurance sectors, they always appreciate our asset class, we have 100% retail assets, low NPA, best of class one-day past due in the system, so they appreciate our business model, our assets class, our collection efforts, the net worth of the company, they appreciate that we are now a listed entity, so we think we will continue to have a good support from all our existing lenders.

Kunal Shah: In terms of the ratings, what is the stance from the other rating agencies, so do we organize correspondence with them and do we see the rating upgrade coming from them as well or given the current scenario is it time?

Ghanshyam Rawat: Last quarter there was rating surveillance due by CARE. ICRA rating surveillance is due towards the end of this quarter so they will take up the company for surveillance. Obviously they are rating as independent agency, so difficult from my side to comment on that, but we are hopeful they will consider company's good performance, strong assets quality and a retail focused business, a listed entity with very high net-worth along with a strong and positive ALM position and adequate liquidity that we have maintained.

Kunal Shah: Sushil Ji in terms of the current environment, the situation which we had seen over the last six odd months, any changes which we are looking in terms of near to medium term in terms of our approach towards the business in any which ways or the way we have been highlighting the business will continue as usual and we have been able to take and navigate these challenges pretty well, so there will be no change as such in any of the approach?

Sushil Kumar Agarwal: Kunal, as I mentioned on the last question also, we want to be consistent, we do not want to deviate from what we are doing, we have sufficient liquidity as we have mentioned in the investor presentation also, so we have almost next six months liquidity in hand today, so we do not want to have any changes in our business proportion, composition or customer segments, we want to continue with our existing business model and in difficult times it is better to concentrate on what you are good at and not to look at anything here and there.

Kunal Shah: Any calibration on the growth side, what we are looking at or may be it could also continue the way we had seen at over the last two, three years?

Sushil Kumar Agarwal: We are consistent in our approach and this year also we want to have the consistency with good numbers.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citibank. Please go ahead.

Aditya Jain: The assignment done during the period has been increasing sequentially for the past couple of quarters and that also flows into the income due to de-recognition and could you just discuss the thought process here and what can be the outlook on these two line items?

Sushil Kumar Agarwal: So Aditya, Ghanshyam ji will reply, but I will tell you as an organization we are consistent on this side also. We want to maintain it around 20% of our total borrowings. Last six months, you know has been an abnormal situation and 9MFY19 to 9MFY18 we were almost on the same numbers, so as a company we want to continue with around 20% of total borrowings from securitization.

Ghanshyam Rawat: I think Sushil Ji has elaborated our strategy. I am just giving you one important number, so last year we got around Rs.39 Crores extra profit on account of securitization. During this year we have an extra profit of Rs.41 Crores out of assignment transaction, so on a comparative basis, there is only Rs.2 Crores extra gain on account of assignment during this year. So, as Sushil Ji said we want to treat this as a funding instrument. We are consistently doing assignments for last five years, first one we had done in 2014 after that every year we have been doing few assignment transactions with the banks and institutions, so we take this as one of the funding instruments lined up.

Aditya Jain: Sir is it possible to look at the income, which comes into income statement? Is it possible to break it up into what is related to fresh assignment in the quarter and the already outstanding book which might have an unwind?

Ghanshyam Rawat We are parking this question Aditya.

Aditya Jain: A different question if I may ask, can you share the amount of LAP within the other mortgage segment?

Sushil Kumar Agarwal Rs.920 Crores in total book of Rs 5942 Crore and other non-housing loan is Rs.533 Crore which is top up and processing fee & insurance.

Aditya Jain: Correct and then the disbursement number although still quite healthy in AUM growth as well, the disbursement appears low in this quarter just in year on year terms so what is happening there, is there something in the base, and how do you look at the 18% disbursement growth?

Ghanshyam Rawat No specific reason for the same. Our guidance was 30% disbursement growth for FY19 which we were able to achieve even with a Y-o-Y growth of 18% in Q4 disbursements while maintaining the strong asset quality.

Aditya Jain: Those are my questions.

Moderator: Thank you. The next question is from the line of Shubhanshu Mishra from BOB Capital Markets Limited. Please go ahead.

Shubhanshu Mishra: Good morning Sir. Thank you for the opportunity. My couple of questions, the first question is with regards to your high Tier 1 ratio, maybe you have explained before on the call, can you please elaborate on that once again Sir?

Sushil Kumar Agarwal: As a company we do not see capitalization in terms of percentage, we see it as total loan assets divided by capital. So till the time we were A rated our guidance was that we will not leverage our book more than 5-5.5 times and once we will have a AA rating, then we can go up-to seven to eight times, so keeping that in mind we always capitalize according to business requirements. So this year end we were supposed to be around Rs.6000 Crores book and with 5 times leverage we were supposed to have Rs.1200 Crores capital, so Rs.1100 Crores capital was opening and considering the Rs.150 Crores profit we assume that. Now when we went for the IPO, looking at the current year's requirement and growth numbers which we were looking we additionally raised Rs.350 Crores capital. Calculation wise Tier I is 65.4%, but we want to be conservative and prudent on capitalization side, so we adopted that methodology.

Shubhanshu Mishra: Great sir, so if I understand that currently you basically have your leverage according to the ratings that we have, given that we have rating upgrade how do we look at the leverage going forward in FY2020 and FY2021?

Sushil Kumar Agarwal So this year again our leverage will be around four times and it will take another five, six years to reach us at around 6 or 7, because we are generating sufficient profits in the business also.

Shubhanshu Mishra: How do we look at the borrowing mix because rest of the housing finance players have generally commented on NHB being an expensive source of borrowings; however, you have not commented on the similar lines so just wanted to understand how you look at NHB borrowing going forward, are they more expensive than the other forms of borrowings and are the banks going forward and lending to us at preferential rates or have they increased the rates?

Sushil Kumar Agarwal: I will let our CFO answer this question, but first I would like to tell you that borrowing rate is an outcome of your product profile, your customer profile, your ticket size, your underwriting methodology, your 1+DPD, your 90+DPD, your growth rates, your corporate governance, it is not just dependent only on the ratings or one or two factors only. You see majority of our book is sub-10 lakhs which is priority sector for the bank when they do onward lending, we cater to unreached market, informal income segment, which is the priority of the government as well as NHB, so for that kind of profiles, NHB has special schemes for which they give money at lower rates and same is for the different banks, nationalized banks, private sector banks and foreign banks. Then 95% customer that we have funded have taken home loans for their first house which is the focus area of all the multilaterals like IFC, CDC so they want to see how we are upgrading the life of individual customers which we are funding. So overall what I want to say is that the area in which we are operating, products which we are offering, sector which we are serving, ticket size which we are having and our asset class and quality, makes us eligible to get funding at reasonable price even in this difficult time and hopefully it will continue the same way going forward also.

Ghanshyam Rawat I think Sushil Ji has covered most of the points. So I think we are very much on the track as far as the liability profile is concerned. The points Sushil Ji mentioned, they are all helping us to build the robust liability franchise. In last 8 years, we have built strong relationships with the banks and then now we are growing our relationships with the multi-lateral institutions, we are growing relationship with the insurance sector, may be another one, one-and-a-half year we will enter the pension fund segment also, so I think we will cover our borrowing profile.

Shubhanshu Mishra: Just a few data keeping questions Sir. Sir what is the borrowing cost from NHB at the moment and what is the portfolio borrowing cost for banks and how do we look at the borrowing cost going forward in FY2020?

Sushil Kumar Agarwal: As mentioned earlier, our average borrowing cost for NHB funding is 7.5% on Rs.900 Crores funding. For future it depends how and at what pricing the NHB will get funding, so we cannot comment on that side. Overall in the industry, we believe first two quarters will be difficult ones, but as a company we already have a liquidity of around Rs.1500 Crores in hand and after elections depending on the market circumstances and the behavior the pricing will be decided. But we are anticipating there will be 25 to 50 basis points hike in borrowing cost and we need to see how it will impact our overall portfolio in coming weeks.

Shubhanshu Mishra: Thank you so much for your time and best of luck.

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

Umang Shah: Congratulations for a good quarter. I have two questions, one is on the cost of funds side as you just mentioned on the previous question that you expect a 25 to 50 basis points kind of increase in the cost of funds, so technically you are not expecting any benefit coming out of the 50-basis points rate cut by the Reserve Bank of India or your rating upgrade, why would that be?

Sushil Kumar Agarwal: See Umang, first of all everything is relative so despite this rate cut in last six months, even some AAA and AA+ rated guys were borrowing at very high rates still we were able to maintain our borrowing cost which in the last quarter was 8.82% and this quarter 8.74%, so definitely that benefit is coming in. But because of AA rating and rate cut today I am saying that relatively when others are getting impacted by say 100 to 150 basis points, we are getting impacted by 25 to 50 basis points. Also, as a prudent management we have already kept a liability cushion for next two quarters and then further we will see how the market pans out. This month also we have borrowed the money at very reasonable price of sub 9%, so the funding is available for all kind of portfolio and product, but being on the cautious and conservative side, we will work on the opex and other side to maintain the same kind of profitability. So I think it will take another quarter to get more clarity on how the market will behave, let the election results be out and people will have more clarity. Keeping all that in mind we have sufficient liquidity for next six months and we are continuously borrowing at reasonable pricing even in this month also but I wanted to give you a more conservative estimate at this point of time.

Umang Shah: That is helpful. Sir out of our total NHB borrowings of Rs.900 odd Crores how much of it would be attracting this margin cap of 3.5%?

Ghanshyam Rawat: Around Rs.250 Crores.

Umang Shah: Okay and just one last data point what explains the difference between our gross NPAs under I-GAAP and Ind-AS?

Sushil Kumar Agarwal: There are two things, one is in Ind-AS you have to consider interest accumulation also, so interest income reversal on NPA which we do not count under I-GAAP gets counted under Ind-AS. Then PTC securitization pool you need to consider it on book under Ind-AS.

Umang Shah: Okay. That is helpful. Thank you so much and wish you all the best.

Moderator: Thank you very much. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe: Just a couple of questions; you mentioned that your cost of borrowing was around 8.82%, now this is the marginal cost of borrowing or the weighted average cost of borrowing?

Ghanshyam Rawat: This is weighted average cost of borrowing.

Nischint Chawathe: And the marginal for the quarter would be?

Ghanshyam Rawat: We have mentioned in the presentation that during the last quarter, we raised Rs.899 Crores at a rate of 8.21%. That is why you see from December to March the cost of borrowing has fallen from 8.82% to 8.74%.

Nischint Chawathe: On the asset side are you raising rates or they are stable now?

Sushil Kumar Agarwal: If you see in the last six quarters we were able to maintain the rate. And hopefully this year also we will be able to maintain the rate.

Ghanshyam Rawat: Yes. in this quarter we did not increase any base rate on PLR

Nischint Chawathe: Okay. Just one clarification now the ALM that you put out this is based on the actual repayment, I mean contractual repayment of the customer or is it based on the behavioral track record?

Sushil Kumar Agarwal: This is contractual plus we have considered behavioral study and lets say last year we have say "x" amount of part payment and the prepayment, for preparation of ALM we consider 80% of that trend.

Nischint Chawathe: 80% of the previous year trend.

Ghanshyam Rawat: Yes, previous three year trend.

Nischint Chawathe: Previous three year trend. Okay. The other thing was is there any specific reason why your coverage under stage 1 and stage 2 was declined?

Sushil Kumar Agarwal: Nowadays it is not in our hands, the calculation is done by auditors as per the norms.

Nischint Chawathe: The point I think is that, is there a change in the assumptions or is it just movement from stage 1 and stage 2?

Sushil Kumar Agarwal: No, It is just a movement.

Ghanshyam Rawat: It is based on the current year performance of the NPA, what asset let us say moves from standard to 1+, 30+ and 60+ DPD, it is your 1+ got improved, so my probability of default has significantly improved during this year.

Nischint Chawathe: So do we revisit it every quarter, or would revisit it like at the beginning of financial year?

Ghanshyam Rawat: During last year, we did it once at beginning of the year, this year we have requested the auditors to do two times in a year.

Nischint Chawathe: Okay. So you have done it in the second and the fourth quarter?

Ghanshyam Rawat: No. We will do now.

Sushil Kumar Agarwal: This time we have done end of fourth quarter, last quarter of last year, so Q4 of 2018, Q4 of 2019 now, pushing it to second quarter and fourth quarter end in future.

Nischint Chawathe: Yes, so can you share your zero DPD?

Sushil Kumar Agarwal: Zero DPD, 100 minus 3.4, i.e. 96.6%.

Nischint Chawathe: Sure and any color if you could give on the state wise breakup of the loan book?

Sushil Kumar Agarwal: Can we come back to you?

Nischint Chawathe: Sure definitely. Great. Those were my questions. Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet from Goldman Sachs. Please go ahead.

Abhijeet: Good morning Sir. Thanks for taking my question. The first question is on the trends between the GNPL and one day DPD, so GNPL has been relatively stable but the one day DPD has been falling off, so want to understand to what extent this is a function of change in product mix or customer mix versus our own collection efforts, and to fix the latter to what extent we have kind of completed the process how much more we can reduce this further that is my first question?

Sushil Kumar Agarwal: This is outcome of underwriting processes, type of sourcing, type of analytics, type of risk mitigators that we have put in place, type of tightening on underwriting you do, composition of your book - salaried versus self-employed and so. Like we source around 9000 cases, we disburse around 3000 cases, so 33% is the success rate. Over a period of last eight years now whatever we are learning, we are putting into the analytics and are trying to standardize processes across the branches. So if you notice the behavior between different states and different portfolios, it is also largely in similar line. We maintain at company level that we will be able to maintain 1 DPD at sub-5% in the near future and on the NPA side sub-1% on the book. The static pool is continuously showing better results over a period of time on a cohort basis also.

Abhijeet: The second question is on employees and productivity, so can you share the total employee number and the breakup between business origination versus collection versus credit?

Sushil Kumar Agarwal: So we have total employee strength of 2384, breakup we will get back to you afterwards, we do not have it right now. But normally we work two is to one model, two guys will be in the business side and one guy will be in support side at the organization level.

Abhijeet: And the total employee now?

Ghanshyam Rawat: 2384.

Abhijeet: And there is no outsourcing in any of the function, right?

Sushil Kumar Agarwal: In technical and legal department, we have our in-house team of engineers and lawyers, we also take help of external chartered engineers and law firms for valuation. Same way in the operational risk side also, we have our in-house team of 60 people and we also take vendors help, similarly in audit we have our in-house team of audit plus we use external auditors also for internal control and concurrent audits.

Abhijeet: All right. Thank you. Those were my questions.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity again Sir. Can you just share, what is the number of branches we are targeting to open this year?

Sushil Kumar Agarwal: This year we will be opening around 40 branches.

Karthik Chellappa: Okay and of the mortgage loans, which you said you have only commenced in January 17, what would be the percentage of mortgage loans you have given to existing customers versus new customers?

Sushil Kumar Agarwal: Karthik we need to take out this data but we do not give LAP to existing customers. So last year out of total disbursed 2670 crores, we have given LAP of Rs.524 Crores.

Karthik Chellappa: Okay. Got it Sir, so LAP is all going to the new customers basically?

Sushil Kumar Agarwal: Total other mortgage loan has some component of fee and processing income and some portion of top up. So that total component was around Rs.200 Crores.

Karthik Chellappa: Got it and Sir can I get outstanding number of cases as of March 2019 between home loans and other mortgage loans?

Sushil Kumar Agarwal: We will get back to you Karthik on this.

Karthik Chellappa: Okay. Got it. That will be all Sir. Thank you very much. Wish you all the best again.

Moderator: Thank you very much. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Thanks for the opportunity Sir. Sir, most of my questions are answered. Just one thing on the bank borrowing side, what has changed in the bank, so I assume we are raising money at MCLR so is there any increasing spread over the last six months by banks or how is the scenario on the bank funding side because it is the meaningful chunk for us?

Ghanshyam Rawat: If you see like overall market trend, yes the bank's interest rate is rising, recent ICRA report also mentions, that overall at an industry level there has been a 60-70 basis points increase in cost of borrowing for NBFC and HFCs, but as I and Sushil Ji mentioned earlier, our asset class, our asset quality, and our strong ALM position is helping us to maintain our cost of borrowing even for fresh borrowings from the banks and institutions, but there is no doubt that banks are asking more premium over the MCLR rate, ranging from 5 basis points to 20 basis point depending on the borrowers profile. But as we mentioned we have a strong ALM, in fact in ALM itself in the next 12 months, we will have a saving of Rs.500 Crores. Roughly, my payout to banks put together is Rs.400 Crores, from asset side I will have a collection of Rs.900 Crores, so that is helping us to borrow from the banks, we can pick and choose from the banks and institutions, wherever we get a low cost of funding.

Utsav Gogirwar: Okay and before six months we were raising money at MCLR or at that time also we were paying a higher spread?

Sushil Kumar Agarwal: We have relationship with 37 lenders and it depends on the policy from bank to bank, and the kind of lending they are giving, the segment for which they are lending, so we cannot generalize it. So it all depends on the segment, facility, bank, tenure and all those parameters.

Utsav Gogirwar: That is it from my side.

Moderator: Thank you very much. Ladies and gentlemen, due to time constrain, that will be last question for today. I will now hand the conference over to Mr. Sushil Kumar Agarwal for his closing comments.

Sushil Kumar Agarwal: Thank you all. Thank you for your participation and having a close look at our performance. So today the company is sustaining its performance despite tough competition and a challenging environment. It is imperative that we maintain our fitness in order to navigate the difficult times. By building a stronger team and absorbing new technologies in the processes awe are adding robustness to our profile. Although our fundamentals are healthy, yet we cannot ignore the uncertainty prevailing in the external environment. Therefore while taking a cautious approach, the company's management team is closely tracking and proactively managing changes in the environment. The company shall continue its business development strategies as it augers well with the contemporary market scenario with a huge potential waiting to be untapped. We will continue to focus on low and middle-income self-employed customer segment, that remains underserved and be in the smaller ticket size of sub one million for self-occupancy of single unit dwelling. Thank you so much for your time. For any further information, we request you to get in touch with Himanshu, in our investor relations team or SGA, our investor relationship advisors and they would be happy to help you. Once again, thank you all for your precious time. We have kept it on Saturday because on Monday we have elections in Jaipur. Sorry for the inconvenience caused to all of you by keeping it on Saturday. Thank you.

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