SAPNE AAPKE, SAATH HAMAARA

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Date: February 15, 2019

To,	To,
The National Stock Exchange of India Limited **The Listing Department** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**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 Earning Conference Call Transcript in respect to the Earning Conference Call held on Thursday, January 31, 2019 at 4:00 pm (IST).

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
Q3 & 9M FY2019 Earnings Conference Call”

January 31, 2019

MANAGEMENT:	**MR. SUSHIL KUMAR AGARWAL - WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER - AAVAS FINANCIERS LIMITED** **MR. GHANSHYAM RAWAT - CHIEF FINANCIAL OFFICER - AAVAS FINANCIERS LIMITED** **MR. S. RAM NARESH – BUSINESS HEAD - AAVAS FINANCIERS LIMITED** **MR. ASHUTOSH ATRE - CHIEF RISK OFFICER - AAVAS FINANCIERS LIMITED** **MR. HIMANSHU AGRAWAL – INVESTOR RELATIONS - AAVAS FINANCIERS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q3 and 9M FY2019 Earnings Conference Call of Aavas Financiers Limited. 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 performance 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, CEO of Aavas Financiers Limited. Thank you and over to you Sir!

Sushil Kumar Agarwal: Good afternoon everybody. Thank you for participating in the earning call to discuss the performance of our company for nine-months and quarter ended 31st December 2018. With me, I have my colleagues, Mr. Ghanshyam Rawat - CFO, Mr. S. Ram Naresh - Chief Business Officer, Mr. Ashutosh Are - Chief Risk Officer, other senior members of the management team, Himanshu Agrawal - Investor Relations along with Strategic Growth Advisor, who is our investor relations advisor. The results and the presentation are available on the stock exchanges as well as our company website and I hope everybody had a chance to look at it.

We are pleased to inform you that company has reported a consistent performance for the quarter and the nine-months ended 31st December 2018. Even in the challenging environment we witnessed a consistent growth in our disbursement of 38% for Q3 FY2019 to Rs.710.60 Crores and 37% for the nine months FY2019, which is around Rs.1800 Crores respectively. Profitability in the nine months for this fiscal has gone up by 66% Rs.121.80 Crores compared to Rs.73.2 Crores in nine months of the previous year.

In line with our plan to expand our presence, we have added 45 new branches in the current fiscal year that will support our growth trajectory for the near future. We now have total 210 branches spread across 122 districts in 10 states as on December 31, 2018. As you all know we largely focus on single unit houses providing credit to low- and middle- income self-employed customers and our distribution is built on semi-urban and rural distribution framework.

As discussed in the earlier call, we will continue to focus extending loans with average ticket size sub Rs.10 lakhs for self-occupancy of single unit dwelling. With recent government policy initiatives to make housing affordable, we see significant opportunities driven by demand from low- and middle-class income segment, self-employed customers and a significant financing gap in the segment. With our robust system and well-defined processes, we are confident to make it deeper footprint in the housing finance space and grow our customer base.

We aim to scale up our business operations by consistent growth through distribution and adding customers while maintaining asset quality. GNPA less than 1% trajectory, 1+DPD less than 5% trajectory and with consistent ROA of 2.5% and above; at this point of time since we have raised capital last quarter, so ROAs are better than this.

Last few months, it has been very challenging for the entire industry especially on the liquidity front. Even in today's tight liquidity and challenging environment we successfully raised Rs.678 Crores in Q3 FY2019 to sustain our growth. With this we have expanded our horizon on the liability profile side. We have raised rupee-denominated masala bond of Rs.200 Crores with CDC group, which is UK's Development Finance Institution. This bond has tenure of seven years. This is Aavas's maiden Masala bond issue and can be listed on London Stock Exchange or any other International Stock Exchange in future. This will help the company to benchmark its long-term debt instrument in the international markets and will help us to mobilize additional funds through this route in the future.

We have NHB refinance assistance totaling to Rs.500 Crores. This quarter we received Rs.400 Crores additional approval and we were having Rs.100 Crores undrawn limit pertaining to previous year, which has also been allowed to utilize this year. Funding tenure is up to 15 years, which will provide a strong boost to our retail home loan lending activities in semi-urban and rural area. Such refinance will be disbursed in accordance with the norms of refinance schemes of NHB. We have also executed Rs.120 Crores assignment pool of other mortgage loans at 9.46% for which our average yield of the pool is 16.85%, which is coming to 7% plus spread.

Such long-term investment commitment in the current scenario demonstrates the trust and strong belief of the Investors in our business model. The Company continues to maintain positive ALM across tenors & has strongly liquidity of almost Rs.1,740 Crores as on December 31, 2018.

On the borrowing side, our rating continues to be A+ for long-term credit from CRISIL, CARE and ICRA, A1+ for short-term credit rating from ICRA and CARE. The company has access to diversified and cost-effective long-term financing with 35 lenders. 87% borrowing are from term loan, assignment, NHB financing and cash credit facility. Only 13% of our borrowings are from the debt capital market with no borrowing by way of commercial papers.

On the margins profile Company has been operating at healthy consistent spread of 5% plus over the years. The opex cost is higher due to increased investment in technology, management team built up and branch expansion. It has come down from 4.02% in H1 FY2019 to 3.92% in nine-month FY2019; however, most of these costs are fixed in nature; with better and higher utilization of manpower and business increasing from new branches, operating efficiency will start playing out. We would also leverage our technology and data analytics to support growth and improve operating efficiencies. This will lead to profitable growth while driving the return.

Now I am coming to financial performance, IGAAP to Ind-AS reconciliation has been explained in detail for PAT, ECL provisions, Networth on slide #37, #38, #39. Our key business parameters as on December 31, 2018: cumulative housing unit financed stands at 83,000 plus as on December 31, 2018. Total number of live accounts stands at 69,000 plus. Cumulative disbursement is Rs.6,997 Crores. We have presence in 122 districts across 10 states.

Total number of branches as on December 31, 2018 is 210. We have opened 71 new branches in last 12 months and 45 new branches this fiscal year of nine months. Asset under management is Rs.5,283.4 Crores, as on December 31, 2018 a growth of 49% year-on-year.

Segment wise breakup: home loan constitutes 75%, other mortgage loan constitutes 25%. Customer wise breakup: salaried customer constitutes 35% of total portfolio and self-employed categories around 65%. Our disbursement has increased by 37% year-on-year to Rs.1,799 Crores for the nine-months FY2019. Home loan and other mortgage loan constitutes 70% & 30% of disbursements respectively. Total income for first nine-months of FY2019 is around Rs.505.8 Crores a growth of 46% year-on-year. Net interest income increased by 56% year-on-year to Rs. 304 crores. NIM for first nine-month ending December 31, 2018 stands at 9.39%. PAT was Rs.121.8 Crores for nine-months FY2019, a year-on-year growth of 66%. Our average cost of borrowing for nine-months is 8.82% while average yield was 13.94%. So, we were able to maintain our spread above 5% at 5.12% as on December 31, 2018.

Coming to asset quality, our 1+DPD stood at 3.9% as on December 31, 2018 compared to 6.7% same period last year. We endeavor to maintain it below 5% in the near-term. Our gross NPAs stood at 0.58% as on December 31, 2018 improved by 24 basis points over same period last year. We endeavor to maintain this below 1%. Segment wise GNPA home loan was 0.66% for December 2018 as against 0.99% same period last year. Other mortgage loan was 0.33% for December 2018 as against 0.31% same period last year.

Coming onto return ratios, we maintained our ROAs about 3% level to 3.58% as on December 31, 2018. Considering impact of Ind-AS and recently raised capital we endeavor to maintain on a steady state basis ROAs 2.5% & above in the near future. Our ROE is at 10.9% it has been lowered due to continue equity infusion over the period. We expect to improve the returns going ahead with the consistent growth in our disbursement, AUM and operating leverage playing out. Our book value per share stands at Rs.228.1 as on December 31, 2018. That's all from my side. With this, we now open the floor for question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the questions and answer session. We have first question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Good afternoon Sir. Thank you very much for the opportunity. Congrats on the good quarter. My first question is on our home loan portfolio, so if I where to look at our December AUM, which is say close to about Rs.3,970 Crores and if I were to use like our average ticket size it gets me to a number of home loan cases of somewhere closed about 45,000. This number was around 40,700 in the March end quarter, which means over nine-months we have grown at about 10% to 11% in loan accounts in the home loan segment, which seems a bit low. Is there element of caution that you are exercising in this segment and if yes why would that be a case?

Sushil Kumar Agarwal: December 2017 our average ticket size on the home loan portfolio was Rs.8.8 lakhs and as on December 2018 again it is Rs.8.8 lakhs so the ticket size has not increased in the home loan portfolio. And on the number of customers will get back to you with the exact calculation.

Karthik Chellappa: Let me probably explain it clearly. If I look at our December 2018 AUM of Rs.39,703 million and if I just divide it by Rs. 0.88 million of ticket price, we will get the total number of cases of about 45,117, the same number disclosed in your prospectus for the year ended March 2018 was about 40,700, which effectively means we have seen a 10% increase in the number of cases under home loans over the nine months period whereas other mortgage loans has actually grown at a much faster pace in terms of number of cases. I am just wondering why is the growth rate of our core home loan segment in number of cases so low?

Ghanshyam Rawat: Karthik, I think we will come back to you on this specific number. Otherwise if we analyze, our Average ticket size for the home loan segment was Rs.8.77 lakhs & Rs. 8.68 lakhs as on December 2017 & September 2018 respectively. As on December 2018 it was Rs.8.83 lakhs so it is almost same, and there is only marginal increase in the average ticket size of home loan. Similarly, if you see other mortgage loan last year December it was Rs.8.69 lakhs and currently it is Rs.7.74 lakhs.

Sushil Kumar Agarwal: Karthik, one more data point on this though we will come back to you again on your query. For nine-months ended December 2017 number of customers acquired was 15,697 and disbursement was Rs.1,309 crores whereas for the nine-months ended December 2018 disbursement is Rs.1,800 Crores, and customer acquired was 21,923. so the customer acquisition increased by 39.6% whereas disbursement has increased by 37.5%, so the entire growth has come from the customer acquisition.

Karthik Chellappa: Not a problem Sir. We can take it in detail offline as well.

Sushil Kumar Agarwal: Are you clear? So Rs.1,309 Crores disbursement last year nine-months, with number of customers acquired was 15,697 and this year disbursement is Rs.1,800 Crores with 21,923 number of customers acquired, thus growth of 37.5% and 39.6% in disbursement & new customers respectively.

Karthik Chellappa: My second question is although you do not have direct exposure to developers, is there any way that you track the financial health of some of them; let us say Tier 2 or tier 3 developers in your top 8 states because although you are not exposed, your borrowers are exposed directly and they will be looking for completion also so how exactly do you track the developer health?

Sushil Kumar Agarwal: Normally Karthik we do not finance any under construction property and we only fund properties which are 85%-90% complete or ready to move in properties. So we do not take any risk of builder not completing the project. For Tier 2, Tier 3 cities where we do fund apartment or a single unit property, we check last seven to eight years history of the builder or developer, how many projects he has completed, what is his reputation, how many new cases or projects he has successfully delivered, whether he has taken any loan from some financial institutions on the current property for construction and we take feedback from the existing financiers whether repayments and any stress is there from the builder side on the repayments. These are the normal checks we do before funding any single unit or apartment in a multistory property, but as a Company's policy we do not fund any property which is under construction and the property possession will be after 2 or 3 years.

Karthik Chellappa: Got it perfect. Sir and my last question housekeeping issue in the last quarter you had actually given a breakup of the fee and commission income as well as the net gain on de-recognition of financial instruments, which is basically for securitization gain, can I have that number for this quarter as well and the third quarter of last year?

Ghanshyam Rawat: If you go to reconciliation slide number 37 PAT reconciliation from IGAAP to Ind-AS its there.

Karthik Chellappa: A gain, which is stated there of Rs.198.1 million for third quarter can I take that as the net gain on the year de-recognition that you booked for the quarter?

Ghanshyam Rawat: Current year for nine months, we have recognized income of Rs.275 million versus last year Rs.239 million and if you compare Q3 this year we have recognized Rs.198 million versus last year Q3 of 78 million. So if you compare during this period incremental gain for nine-months FY19 to nine-months FY18, we have earned Rs.4 Crores as an extra income.

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

Moderator: Thank you. We have next question from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Thank you. I have two to three questions. First can you just talk briefly about the competitive environment where a lot of companies, which are indirect competition to us, most of them are not finding easy to get fund in this situation, so that is first? Secondly if you can just highlight in terms of balance transfer both outside from our book to another Company and our ability to take balance transfer cases, how the trend has been different from, I mean, a trend which was there for one or two years in the past we have changed in the last three months, if you can answer these two in brief? Thank you.

Sushil Kumar Agarwal: At Aavas we believe in consistent growth; so in current market situation, where some of the peers were not able to do disbursement and they have slowed down; but since we are consistent in our approach towards disbursing and growth number, we focused on the numbers which we wanted to do. Yes there were some opportunities in the market, but we have not taken that opportunity as their DNA was not matching with Aavas's DNA. On the second point, on the BT part, BT out, this December it was around 0.4% of opening AUM and October, November it was 0.5% of the opening AUM so nothing much has changed.

Parag Jariwala: Basically what you are saying is that there has been no change in BT out?

Sushil Kumar Agarwal: It is down by 10 basis points and normally what happens, Q2 whoever has cut the cheque with the customer it will come to us in Q3; so I think Q3 we have not seen that much difference, except December number was down by 10 basis point from October or November; might be this quarter we will see the difference.

Parag Jariwala: Just very briefly in terms of BT-in I mean are we receiving more requests or how you are approaching that situation, which in terms of trend in approach to meeting?

Sushil Kumar Agarwal: As a company we focus more on the new customers than taking over existing customer from the competitors, so this portfolio is around 5% of the total book as on this December. For October & November also it was in the range of around 5.8% to 6% so we have not approached this segment to take advantage of the opportunity which was there in the market.

Parag Jariwala: Thank you so much.

Moderator: Thank you Sir. We have the next question is from the line of Siddhesh Mhatre from SPA Securities Limited. Please go ahead.

Siddhesh Mhatre: The opex for the last two years, opex to AUM ratio has been around 4%, you say you have been investing a lot on technology when should we expect that ratio to moderate down?

Sushil Kumar Agarwal: Siddhesh, there were two to three things. First yes our opex is high because of two to three reasons; first we invested in branch network, technology & analytics, hiring the management team and second aspect it's on the business model as we have 100% in-house sourcing model, we do not have intermediaries so our opex cost will always be higher by 100 to 150 basis compared to industry, but it is compensated by three aspects, asset quality, which we are able to maintain, longevity of the customers with average tenure of around eight years, third thing we have a better fee income ratio on that side.

Siddhesh Mhatre: What are the ratios you are looking at in the medium term?

Sushil Kumar Agarwal: On the operating efficiency and opex ratio coming down, it also depends on your new disbursements to your AUM ratio so like this year it will be somewhere around Rs. 2,500 crores disbursement and opening AUM was Rs.4,000 Crores so the ratio comes around 0.7, 0.8 so in the near term as ratio will come down, the operating efficiency will also start coming into picture; medium to near term we see 25 to 50 basis points improvement in the next six to nine months.

Siddhesh Mhatre: Okay 85% of the houses have a single apartment right that you fund?

Sushil Kumar Agarwal: Single unit, not apartment.

Siddhesh Mhatre: Single unit, so how you take out the LTV for that, because it is single unit?

Sushil Kumar Agarwal: It is land value plus construction cost. So loan amount divided by the total property cost.

Siddhesh Mhatre: Okay construction cost plus the land value right?

Sushil Kumar Agarwal: Yes, because we have mortgage on the entire property and not on the construction only.

Siddhesh Mhatre: Okay so loan value divided by construction cost plus land value; say 50% that is how you calculate the LTV? That is how much you lend?

Sushil Kumar Agarwal: It depends on end use of the fund so in the construction case, this is the ratio. If it is purchase case then your loan amount divided by your purchase price or market value, whichever is less on which we calculate the LTV. On construction cases we do cap Rs.1000 per square feet as a construction cost and then we fund at five stages. Your plinth level, your lintel level, your roof casting, your flooring & plastering and finally windows & gates so each stage 20% will be funded and accordingly we calculate the LTV and we do not fund for the land purchase.

Siddhesh Mhatre: Okay great that is all. Thanks.

Moderator: Thank you Sir. We have next question from the line of Anuja Dighe from Maybank. Please go ahead.

Anuja Dighe: Thank you for the opportunity. I just need state wise break of AUM?

Sushil Kumar Agarwal: Rajasthan is 45.2%, Maharashtra 18.5%, Gujarat is 17%, MP is 10% and Delhi is 4.8% and rest of the states we started in last 18 months or two years so Haryana 1.6%, UP 2.4%, Chhattisgarh 0.3% and rest of the new states we have started six months back so around 0.2%.

Anuja Dighe: Thanks a lot.

Moderator: Thank you. We have a next question from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

Nilang Mehta: Thank you Sir for taking my question. I had question regarding your geographical expansion you mentioned this we were reaching 200 branches and this fiscal we have done 45 branches so for next two years what are the plans in terms of expanding and in what geography?

Sushil Kumar Agarwal: We will continue to remain in the geography as mentioned earlier for next two to three years. We have contiguous distribution approach for all branches and we go up to tehsil level; for some of the states we have 80% penetration and some of the states, we have 10% penetration, which depends on our vintage in that state. Normally every year we do expand 10% in terms of tehsil level penetration for all states so mostly we will remain in these 10 states, but branches will increase from 210 to say every year 30 to 40 new branches will be added so will be around 300+ in next three years time.

Nilang Mehta: Sir can you give some color on how many employees you have added and in what segment; in terms of how many credit officers, we have added and can we give us perspective on that?

Sushil Kumar Agarwal: I am parking this question as I do not have the numbers at this point in time. I will let you know in sometime.

Nilang Mehta: Sir one more question just to understand the growth how much of disbursements are happening under government schemes like Pradhan Mantri Awas Yojana or credit linked subsidy?

Sushil Kumar Agarwal: We have given the number on the slide number #18. Till today we have funded to 2834 units amounting Rs.278 Crores out of our cumulative disbursement of around Rs.7,000 Crores.

Nilang Mehta: I do not know where you got dropped off. My question was why is the proportion of the lending under scheme substantially lower; is it because of inadequate standard which you have or are there any bottlenecks you face in this scheme?

Sushil Kumar Agarwal: Whenever we fund a customer, we do that keeping in mind that irrespective of whether he will get CLSS subsidiary or not, he should be credit worthy for us. Property norms and valuation norms and LTV norms are followed, which are our normal credit policies, and not keeping in mind some kind of subsidy will come. We are not funding apartment properties where the flats are getting funded with assurance of getting CLSS. We are funding mostly in semi-urban and rural areas, their certain times some of the conditions are not met; and the rural funds were launched some period earlier only. Secondly from the government side also, it is a very hectic process where you will apply for say this July and you will get in three to four months and in between you cannot close against the requirement so it is bad processing time. So every quarter we are trying that around 500 to 1000 customers we apply for this subsidy and once again then we apply for another tranche. And most of our customers are under construction because they construct their self unit so it takes time to again manage it, till the house will be completed then only we apply for the subsidy. and Nilang on your first question; on the sales side we have added 300 employees and on the credit side we have added 160 employees in the last nine months.

Nilang Mehta: Sales you said 300 and credit?

Sushil Kumar Agarwal: 160; because we have added 45 branches this fiscal & and during last 12 months we have opened 71 branches; so most of the new staff is for the new branch distribution.

Ghanshyam Rawat: This is incremental.

Nilang Mehta: Yes got that and during that quarter did we take any rate increase?

Sushil Kumar Agarwal: We have increased our PLR by 35 basis points during this quarter.

Nilang Mehta: Would it be towards the end or the middle of quarter?

Sushil Kumar Agarwal: It was from November 1, 2018.

Nilang Mehta: Thank you that is all from me if I have something I will get back.

Moderator: Thank you Sir. We have the next question from the line of Nidhesh Jain from Investec India. Please go ahead.

Nidhesh Jain: Thanks for the opportunity Sir. Sir firstly on the branches which are 3 years or 5 years old, how are the disbursement growth trend in those branches I just wanted to understand how that like-to-like growth and we would not have added these branches, what would have been disbursement growth for this quarter of this year?

Sushil Kumar Agarwal: We have data in the different format with respect to this so I will share that with you; our disbursement for 9MFY19 is Rs.1,800 Crores. Branches which were opened before March 2016, have contributed 42%, branches which were opened in 2016-2017 they have contributed 31%. Branches which we have opened in 2017-2018 has contributed 23% and branches which we have opened in 2018-2019, they have contributed 4% so hope this answers your questions or if something else is required let us know.

Nidhesh Jain: What was the contribution of the branches that were opened till March 2016, in nine-month FY2018 disbursement?

Sushil Kumar Agarwal: Nidhesh, at this point of time we do not have this data so we will get back to you on this specific question.

Nidhesh Jain: Secondly with respect to our ROA, I think we were targeting around 2.5% ROA, we are already at 3.2% and you have also guided that they could be 25 to 50 basis point improvement in opex ratios so what is the thought process of passing on that higher ROA benefit to customer or returning to for shareholders?

Sushil Kumar Agarwal: Nidhesh, when we say 2.5% ROA that is on steady state basis of leveraging book to 6 to 7 times, which we are comfortable for our kind of profile. Post the IPO, where we have received additional capital, this has given some leeway on the improved ROA side. Also some of the metrics has better performed, so in the longer-term horizon we will be continuously get 2.5% ROA, see in the last 28 quarters we never went below 2.5% ROA so as the leverage will improve over a period of time may be one year to two year or3 years scenario for this ratio will improve and ROA will be in the range of 2.5% plus it will certainly not be 3.5%, which is right now.

Nidhesh Jain: What are opex plan effect will get we will pass it on to the customer over period of time?

Sushil Kumar Agarwal: At this point of time, we do not see that but as you know our industry is fragile in the sense that you cannot predict for the next two to three quarters. So in the interest rate rising scenario yes there will be increase in cost. We are able to maintain our yields on the lending book, incremental yield also is good in the last two or three months. Yes when we will grow there might be certain reduction in the yields and we are not sure about the borrowing cost trajectory; if both these things will be favorable and our opex trajectory will also give us leeway so we will be able to continue higher ROA next three to six quarter. If suppose borrowing profile and everything will not be conducive to the business environment, there might be some shrink in the yields but yes still in this position also will be able to maintain ROA. I was not able to understand your question on, how I will be able to pass it to shareholder or the customer. We will keep our earning profile and want to maintain our spreads in the near future. As the leverage will increase this ROA will automatically reduce over a period of time, but we will ensure that we deliver 2.5% plus ROA even in that 7-10 leverage.

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

Moderator: Thank you. We have the next question from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Walecha: Thanks for taking my questions Sir. Could you please provide, what is our borrowing rate incrementally from all the borrowing sources like from bank NCDs?

Sushil Kumar Agarwal: For Q3?

Nikhil Walecha: Yes incrementally?

Ghanshyam Rawat: As we have mentioned in the presentation, during this quarter we raised around Rs.700 Crores at the cost of 9.16%. In this we raised term loan of Rs.250 Crores, which is for tenure of 10-year at a cost of 9.02%. We raised masala bond of Rs.200 Crores, which we got at 9.11% and apart from that we did few assignment transactions, where one transaction we sold LAP portfolio to the banks and also few home loan portfolio, together amounting to Rs.228 Crores, at an average price level of 9.37%, so all put together we raised fresh money of Rs.678 Crores at 9.16%.

Nikhil Walecha: My second question is I want to understand the difference in the profitability in our core states, which is Rajasthan, and in the non-core states? So do you have any breakup of what kind of ROA do we have in Rajasthan and non-Rajasthan states? Why I am asking is because generally HFCs find it difficult to maintain similar profitability outside their core area because of higher opex, higher delinquencies so is it similar or is it very different?

Sushil Kumar Agarwal: We do not maintain state wise ROA since we are a young company and evaluation is happening over a period of time. But if you see our asset quality profile we are able to maintain asset quality across the states in the same fashion and not in two different tangents. So DNA wise we are not different from state-to-state, we are having the same DNA, we are present in an unserved unreached market, majority self-employed cases, average ticket size of sub 10 lakhs, and we are able to maintain equal spread also and when I say equal it can range from 50 to 75 bps, but it is not 300 to 400 bps spread difference between the new states and the old states. Branch profitability wise also most of the branches which are more than 12 months old are ROE contributing branches. Our breakeven model is very simple and it normally comes within six month of the branch opening.

Nikhil Walecha: Just one more question before, I believe we have 18 to 20% exposure in ticket size of more than Rs.25 lakhs within this do we have any home loans which is more than 1 Crores?

Sushil Kumar Agarwal: Today more than Rs.1 Crores ticket size, we have Rs.135 Crores of the total portfolio of Rs.5,283 Crores, which is 2.6%, share in the total book…

Nikhil Walecha: Is it in housing or non-housing?

Sushil Kumar Agarwal: At this point of time, we do not have breakup it is mostly in housing loans and it is 2.6% of the total book.

Nikhil Walecha: Thanks. I will come back in the queue.

Moderator: Thank you. We have next question from the line of Chirag Gandhi from Citigroup. Please go ahead.

Chirag Gandhi: Thank you for the opportunity. Just wanted to know what is our fee income during the quarter and same number last year.

Sushil Kumar Agarwal: FY2018 nine months it was Rs.9. 5 Crores. FY2019 nine months it is Rs.18.1 Crores.

Chirag Gandhi: My next question in terms of technology to spend. Can you quantify how much we have spent towards technology in FY2018 and can you also speak about the trend how much we have spent in the last couple of years and what is our target for this for the next couple of years?

Sushil Kumar Agarwal: This number is not handy at this point of time. We will get back to you with the exact number.

Chirag Gandhi: Sir my next question is towards any tie-ups that we have entered cross sale any products like insurance products and home?

Sushil Kumar Agarwal: See we do not tie up for the cross sale. We see insurance product as the crisis protection for our customers, on the customer life side, we have tie up with Bajaj Allianz, HDFC Life and Kotak and on the property insurance side, we have a tie up with Shriram General Insurance and Iffco Tokio.

Chirag Gandhi: That is from my side. Thank you very much Sir.

Moderator: Thank you. We have next question from the line of Saurabh Kabra from Reliance Mutual Fund. Please go ahead.

Saurabh Kabra: Congratulations Sir, on your good set of numbers. I just have one question. Sir if I compare your asset qualities with other affordable housing finance companies within the same book size, asset quality of other company is quite bad, their entry level is around 4% or 5% so what is that we are doing different from other companies?

Sushil Kumar Agarwal: I do not know which company you are talking about so I cannot make the differences. Generally I will tell you, say there are certain things, which are contributing for this low asset quality. First is the choice, we made on the distribution side where we have adopted 100% in-house business model. Secondly we have approached those areas where top five companies were not there. So we went to those markets, where housing penetration is less than 5%, which has enabled us to be the first choice and not taking the rejected case of the other financiers so we were having the benefit to choose the customer. Then on the credit risk side, we understand that housing is not just the underwriting risk only, so we created a very robust credit structure where we have underwriting team, we have security creation team, we have property valuations team and we have operational risk team. So today we have 500+ underwriters out of which 150 are chartered accountants, in the valuation risk side we have around 75 civil engineers in-house and we use outside valuers also, and we have around 50 lawyers in-house and we use external law firms also and we have 50 member operational risk team in our company. And we have combined all this with the analytics and technology usage which made us more robust, very close to customer, giving real time update for the bureau scores. The sub-10 lakh segment in which normal people will say why you need two KYC cheques, two bureau records, two legal reports, two technical reports, SARFAESI, two company employees will go and visit the customer and property. So we do underwriting of these customers also the same way if other companies are doing for a 1 Crores plus case, though we were aware that this will lead to opex increase by 100 basis point. So as a conservative approach as we are working in Tier 3, 4 and, semi-urban and rural area and because of our earlier parentage of AU we were knowing that in these areas even if we have best underwriting model, if it is not supported by a robust collection system, you will not succeed. So we created from the very first day, a very robust collection system. Today we have around 350 plus team of 12 collection officers plus 20 lawyers, which has enabled us to maintain the asset quality. Also a very good use of technology. Tech has enabled us to focus on the areas where we are weak, where we have to improve over a period of time. In the last two years all these has resulted in our net bouncing rate reduction by 5%, 1+DPD reduction by 3% and maintaining over a period of last 28 quarters, asset quality of less than 1% NPA. Another thing is the segment which we are present in; we do not lend loan to corporates, we do not do builder funding, we do not do funding for investment, we do not take under construction risk, till the time property is not 85% or 95% complete or ready to move in, we do not fund, so on the property side also we avoided risk in our book, so it is a comprehensive suite which enables us to maintain asset quality.

Ghanshyam Rawat: What Sushil said I want to summarize in one word that the Company's DNA is credit led and not sales led; that helps us to keep best in class asset quality.

Saurabh Kabra: Very appreciable and just one thing what would be our rejection rate, if 100 cases are locked in how many would be passed, just broad number?

Sushil Kumar Agarwal: Today we are sourcing 10,000 cases a month and we are disbursing somewhere around 2800 to 3300 cases.

Sushil Kumar Agarwal: Okay sure Sir.

Moderator: Thank you. We have next question from the line of Nilang Mehta from HSBC Global Asset Management. Please go ahead.

Nilang Mehta: Thanks just a follow-up Sir. We give this 1+ DPD number in our presentation while I believe this should be on our overall portfolio, would it be possible to share this data on a static portfolio on different timeframes and how it has been performing?

Sushil Kumar Agarwal: Yes. We will share with you. We do static pool analysis which you are asking for one DPD plus, but I can give you just quick numbers, last 24 months underwriting our 1+DPD is less than 2%, and I will come back to you on a static pool basis, for the last seven years. What we have given in the presentation is over a period of five years journey how has 1+DPD moved for us.

Nilang Mehta: While our net NPAs are pretty low, we have kept our coverage ratios on the smaller number I understand it does not matter much but what is the net NPAs or the coverage ratio would you historically like to maintain on this?

Sushil Kumar Agarwal: Nilang, what happens as we have shifted to Ind-AS accounting system. We have to follow the detailed analysis of the portfolio with the separate independent agencies, who do on stages basis like stage 1, stage II, stage III; last six years and how the case will move to stage I to stage II and how much time it will take to roll it back. They go in detail and after that they find out a ratio against which we are providing the provision in the system.

Nilang Mehta: But our book is relatively young and it is not seasoned at all so in that context do you have the flexibility to?

Sushil Kumar Agarwal: Earlier we used to provide 50% more than the regulatory requirement till the time we were on I-GAAP. Now since we have shifted to this it is not in our hand, but as a management if we want yes we have the base that we can improve our provision coverage, but today we have total provision of Rs.11.2 Crores against the total NPA of Rs.25.1 crores.

Moderator: Thank you Sir. We have next question from the line of Nishant Rungta from Premji Invest. Please go ahead.

Nishant Rungta: Thank you for your opportunity. Just wanted to draw your attention on the liquidity slide on slide #28, just wanted to check with you is there a drag on margins possible in the fourth quarter because you had phenomenal amount of sanctions coming through in the quarter, just wanted to understand you have Rs.718 Crores of cash available and given the run rate that we have disclosed right now at about Rs.710 Crores in this quarter and let us say give or take 100 Crores to 150 Crores more in the next quarter, how do you see liquidity panning out as of March 31 on your balance sheet? Would you need some more sanctions you had equity money as well, just trying to buy a few numbers here? What are the undrawn balances from your sanctions basically at the moment?

Sushil Kumar Agarwal: As of December 2018, as given in the presentation we have around Rs.1740 Crores of liquidity out of which we have cash and cash equivalent of Rs.700 Crores. We have the sanction limits on the banks and NHB put together Rs.1,000 Crores. So these limits are already available with us. In last few calls we mentioned we always have a conservative approach on the ALM management, we run a positive ALM in the company. In the next four quarters my assets will give back around Rs.800 Crores and my liability obligation toward the banks, institutions, NHB and capital market is just Rs.300 Crores that will give another Rs.500 Crores positive balance for the further disbursement. So we have enough liquidity in hand, which is a major challenge today in the market. In overall rising interest rate scenario in our case also fresh Borrowing is coming at a higher rate than what we have borrowed in earlier quarters but we do not see any major change compared to what we have seen in Q3. We will have a similar level in the Q4 also, few basis points here and there that is difficult to predict at this moment.

Nishant Rungta: Your cash and cash equivalent number is Rs.718 Crores on the liquidity slide whereas if I go to the balance sheet our other assets are Rs.702 Crores just wanting to again reconcile these two figures how do we give out these two figures is there a reconciliation difference here or something that we should not worry about?

Sushil Kumar Agarwal: Maybe regrouped here and there, but we have Rs.700 Crores deposit lying with few banks.

Nishant Rungta: Lastly your investments number on as of September was Rs.55 Crores it is down to Rs.4.5 Crores as of December I just wanting to check what is that number because for the first quarter again the reported number was 4.5 Crores is there anything on this odd?

Sushil Kumar Agarwal: Nishant give us some time. Where are you referring all these things? We will you come back, just give us two minute or we can have next question.

Nishant Rungta: I am done. Thank you so much Sir.

Moderator: Thank you Sir. We have next question from the line of Abhijeet S from Goldman Sachs. Please go ahead.

Abhijeet S: Good afternoon Sir. The first question is can you give us a breakup of total employees in terms of credit and sales, origination and credit basically?

Sushil Kumar Agarwal: Origination 1,384 and underwriting 560.

Abhijeet S: Sir did you mention that you originate close to 10,000 files a month, but Sir based on the back of the envelope numbers that we do based on the disbursement data that you give on the average ticket size, the number actually comes to about 5,000 to 6,000 files a month so just could double check?

Sushil Kumar Agarwal: Which number?

Abhijeet S: The disbursement number you have given?

Ghanshyam Rawat: Disbursement numbers are 2,700 to 3,000 per month.

Abhijeet S: How much.

Ghanshyam Rawat: 2,700 to 3,000 in this range.

Ghanshyam Rawat: It depends on the disbursement basically.

Sushil Kumar Agarwal: Yes these are cases. Your doubt is on the disbursement number of 2,700 or 3000 or on new acquisition of customer.

Abhijeet S: No my question is you have given the disbursement number of close to Rs. 1800 Crores in nine months and based on the average ticket size that comes to about around 20,000 cases?

Sushil Kumar Agarwal: 1,800 Crores disbursement is over a period of time. I might have disbursed just Rs.100 Crores to Rs.150 Crores say in the month of April, so my acquisition in that month might be just 1,000 or 1,500 customers. So in the recent months we are acquiring 2,700 to 3,000 customers, in nine months FY 2019 and we have dispatched to 21,923 customers.

Abhijeet S: Based on rejection rate.

Sushil Kumar Agarwal: And around 8,000 plus customers in Q3FY 2019

Abhijeet S: okay 20,000+ cases in nine months and based on your rejection ratio is comes to about 60,000 it is right? So that basically gives a run rate of close to about 6,000 cases a month.

Sushil Kumar Agarwal: Yes if we will divide 60,000 by nine months it is coming around 7,000, but business does not happen in binary; I am talking about the recent trend in the current months; so last quarter we are almost around 26,000 files sourced and 8,000 new customer disbursed; so it again comes around 9,000 per month average.

Abhijeet S: Okay and second question was what would be the average FOIRs on the book at originate side?

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

Abhijeet S: Thank You.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over the management for closing comments. Over to you Gentlemen!

Sushil Kumar Agarwal: Thank you all. To summarize, at Aavas we will continue to focus on low and middle income, self employed customer segment that remained underserved and will be in the small ticket size segment, average ticket size, sub 10-lakhs, for self-occupancy of the single unit houses. We will continue to use technology and data analytics to improve our customer experience and improve productivity and collection efficiency. Amidst tight liquidity in the current market, we expect borrowing cost will increase by some basis points, but we will continue our endeavour to have surplus of assets over liabilities across buckets and will maintain the best in class ALM profile for the future. We will also focus on good asset quality while maintaining the profitability. For any further information we request you to get in touch with Himanshu in our Investor Relations team or SGA, our Investor Relations Advisors and they would be happy to help you. Thank you all for your continued support. We will continue performing on the consistent basis conservatively from our side in Aavas.

Moderator: Thank you Sir. Ladies and gentlemen, on behalf of Aavas Financiers Limited that concludes this conference call. Thank you for joining us with us. You may now disconnect your lines now.