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

Dear Sir/Madam,

Sub: Earning Conference Call Transcript

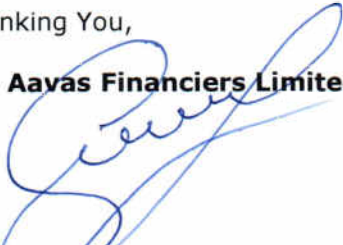
In reference to letter No. AAVAS/SEC/2021-22/753 dated October 23, 2021, please find attached the transcript in respect to the earning conference call on the financial and operational performance of the Company for the quarter & half year ended September 30, 2021 held on Friday, October 29, 2021 at 03:30 P.M. (IST).

The transcript and the audio recording of the conference call can 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



**Sharad Pathak
Company Secretary and Compliance Officer
(FCS-9587)**

AAVAS FINANCIERS LIMITED

(Formerly known as "Au HOUSING FINANCE LIMITED")

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“Aavas Financiers Limited
Q2 & H1 FY2022 Earnings Conference Call”

October 29, 2021



MANAGEMENT: MR. SUSHIL AGARWAL - MD & CEO
MR. GHANSHYAM RAWAT - CFO
MR. HIMANSHU AGRAWAL - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financiers Limited Q2 & H1 FY22 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode 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 the 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 Agarwal, MD and CEO - Aavas Financiers Limited. Thank you and over to you, Sir!

Sushil Agarwal: Good afternoon everybody. Thank you for participating on the earning call to discuss the performance of our company for Q2 & H1 FY22. With me I have, Mr. Ghanshyam Rawat, Chief Financial Officer, Himanshu Agarwal, Investor Relations, other senior members of the management team of Aavas, also we have SGA our IR Advisors.

The result and presentation are available on the Stock Exchanges as well as our company website and I hope everyone has had a chance to look at it. I am happy to inform you that during the quarter, the company's long-term credit rating outlook was revised from AA- / Stable to AA- / Positive by CARE. I take this opportunity to thank all of our stakeholders for their continued trust and support.

With the calibrated reopening of various states and the success of the nationwide vaccination drive, the economic activity has shown a robust and continuous improvement across the country. For Q2 FY22, we disbursed Rs.901 Crores registering a 35% YoY growth. This is almost 90% of disbursements in Q4 FY21, so in terms of incremental business we are very close to the level prior to second wave of COVID-19. All this while we have maintained our operating metrics and delivered profit after tax growth of 31% YoY as per Ind-AS accounting and 22% YoY as per IGAAP accounting for H1 FY22. Further with our philosophy of consistent growth, we registered AUM growth of 21% YoY as of Sep-21. As mentioned during the earning call of Q1 FY22, based on our regular interactions with the borrowers and repayment behavior exhibited by them during the first wave of COVID-19 in FY21, we expected to see a similar improving trend in collections from Q2 FY22 onwards. In line with our expectation, 1+ DPD has improved markedly from 12.67% in Jun-21 to 8.88% in Sep-21. From here on we should witness a gradual improvement and hope to reach same level as Mar-21 by Mar-22 if there is no third wave in the subsequent

quarter. I would now hand over the line to Mr. Ghanshyam Rawat, CFO to discuss various business parameters in detail.

Ghanshyam Rawat:

Thank you, Mr. Sushil. Good afternoon everyone and a warm welcome to our earning call. During the quarter, company borrowed an incremental amount of Rs.8899 Mn at 6.48%. As of Sep-21, our average cost of borrowing stood at 7.17% on the outstanding amount of revenue Rs.88428 Mn. During the quarter, our long-term rating outlook was revised by CARE from AA- / Stable to AA- / Positive while ICRA continue to maintain long-term rating of AA- with Stable outlook. Despite the higher short-term rating of A1+, we continue to maintain zero exposure to commercial paper as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for profit after tax and net worth on slide #31 and #33 of our presentation.

Further a few important parameters: as of September 30, 2021, total number of live accounts stood at 135453 i.e. 20% YoY growth; total number of branches 297 i.e. 38 new branches added in last 12 months, employee count of 4627 i.e. 31% increase YoY. Assets under management grew 21% YoY to Rs.101481 Mn as on September 30, 2021. Product wise breakup: home loans 72.1%, other mortgage loans 27.9%; Occupation wise breakup: salaried 39.8%, self-employed 60.2%. Disbursements increased by 35% YoY to Rs.9016 Mn for Q2 FY22 and by 55% YoY to Rs.13641 Mn for H1 FY22. As on September 30, 2021, average borrowing cost of 7.17% against average portfolio yield of 12.90% resulted in a spread of 5.73%. Borrowings: we have access to diversified & cost-effective long-term financing, strong relationship with various developed financial institutions, overall borrowing mix as of September 30, 2021 is 36.8% from term loan, 22.7% from assignment and securitization, 23% from national housing loan & 17.6% from debt capital markets. Asset quality: 1 day past due stood at 8.88%, Gross Stage 3 stood at 0.96% & Net Stage 3 stood at 0.72% as on September 30, 2021. During the quarter, resolution plan has been implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated May 5, 2021. Such accounts with an outstanding amount of Rs.1482.6 Mn have been classified as Stage 2 and risk-based provision created as per regulatory and Ind-AS accounting principles. Provisioning: total COVID-19 provisioning stood at Rs.148.2 Mn as on September 30, 2021; total ECL provisioning including COVID-19 provisioning and provisioning for Resolution Framework 2.0 stood at Rs.700.5 Mn as on September 30, 2021. Liquidity of Rs.23890 Mn as on September 30, 2021 with breakup as: cash & cash equivalent of Rs.12050 Mn, un-availed CC limit of Rs.1190 Mn, documented un-availed sanction from NHB of Rs.2550 Mn, documented un-availed sanction from other banks Rs.8100 Mn. Profitability: PAT increased by 31% YoY to Rs.1522 Mn for H1 FY22 as per Ind-AS accounting. As per IGAAP, PAT registered YoY growth of 22% to Rs.1548 Mn for H1 FY22. ROA was 3.25% & ROE 12.25% for H1 FY22. ROA was 3.9% & ROE 14.66%

for Q2 FY22. As on September 30, 2021, we are very well capitalized with net worth of Rs.25700 Mn. Our book value per share stood at Rs.325.7. Now with this, I open the floor for Q&A session. Thank you.

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

Abhijit Tibrewal: Thank you for allowing me this opportunity and first of all congratulations on crossing this milestone of 10000 Crores in AUM. Sir, my question was more around two things, first is the 1+ DPD number, so in your opening remarks you suggested that by the end of the year we would want to go back to levels of about 6.4%, which was there I think at the end of last fiscal year, just wanted to understand is it more of a conservative guidance or can we reach that threshold of 5% in 1+ DPD that you keep guiding by the end of this year, that is my first question, Sir.

Sushil Agarwal: Good afternoon, Abhijit. As you see this quarter we were able to reduce our 1+ DPD number by 4% and customer behavior pattern is improving month-on-month, the way I see our book is that out of 140000 live customers, we have only 1000 customers who has not paid the September month installment, so that trend is very encouraging, so now that is coming around 0.6-0.7% of customers, so between 8.8% and 0.67% there is a gap of around 8%, so these customers are paying current month installments and if he has one installment due or somebody has two installments due because of COVID and other circumstances in the past, we need to see how quickly they can recover out of that and that will decide the path of 1+ DPD number, but as management we see that now this number will come down gradually and we anticipate that around 0.5% per month reduction we can see if no third wave is there then that number is there, but as a management we are committed to give our 100% efforts and it can bring better result also if the circumstances improve.

Abhijit Tibrewal: Sure, Sir, the second question was around the operating expenses that we have reported during the quarter, are these looking optically higher because you have been investing significantly in branch expansion and building up employee bench strength?

Sushil Agarwal: Abhijit, the way we always narrate our opex number is that we will continue to invest in technology, manpower, distribution on a consistent basis, so like every year we open 30 to 35 branches, so last year also we have opened 30 branches and this year again within first half, we have opened around 18 branches and so that will be there, the opex was because we have built up the capacity in last Q4 and Q3 and you know H1 first half was impacted by COVID and this time because COVID impact was 45 to 60 days time, so we have not

impacted the regular salary increments, bonuses, etc., so all those have been given, so it has three impacts; one is ESOP cost, so ESOP cost of around 3.5cr is more than Q4 in this quarter, second is 18 branches which we have opened that additional cost normally we used to open new branches in second half of the year, but this time because we have prepared so we opened this time and third is normal increment, last year increments were not there, but this year we have given full increments as per our company policy to all the employees, so all these three things put together is there and since Q1 number was less than the normal number by around 200-250 Crores, so it is the denominator effect also, but consistent basis we say that we can improve our opex percentage to total asset, by 25-30 bps on a YoY basis over the next two to three years.

Abhijit Tibrewal:

Sir, that is useful and last question is around the disbursements, I understand disbursements in Q1 were impacted by the second COVID wave, but as you have guided in the past that we typically do disbursements of about 35% to 40% of the full year disbursement in the first 6 months, which is H1 and the remaining is 60% to 65% in the second half of the year, so for this year as well I mean looking at the kind of demand and the competitive landscape, would it be fair to assume that we will continue to deliver on that runway and last if you can touch upon this two new states Odisha and Karnataka that we have entered in this financial year, have we done any pilots already there & after that have we opened our branches there?

Sushil Agarwal:

So, on disbursement side normally yes it is same first half is 40% and second half 60% kind of numbers, we are on same trajectory for this year and since first quarter was impacted with one month disbursement number, so might be the second half numbers can be better than that also. Second I want to touch up on our state opening and branch opening policy again, we are consistent in our approach, every five years we open four new states, so first five years of operation we started Rajasthan, Gujarat, Maharashtra and MP; from 6 to 10 years of operations which we have completed in 2021, we started UP, Uttarakhand, Chhattisgarh and Haryana, so now this is third span of our control, so for the next 5 years term, we will again open four new states; so in that journey we have started two new states this year Karnataka and Odisha and we see a lot of potential, we have seen data through analytics model and we are confident that these market have lots of opportunities in tier 2 to tier 5 and at the same time the customer behaviour is also inline with our philosophy, so we will add another two states maybe one year or two years hence, but we will continue our philosophy of developing 4 new states every 5 years in the journey.

Abhijit Tibrewal:

Thank you, Sir. This is very useful and again congratulations and wish you all the very best.

Modcrator:

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

Aditya Jain: Sir, may be a small point but GS1 plus GS2 coverage is up a little bit quarter over quarter it is a very small amount, but given the recovery from GS3, probably GS2 should also have moved down, so we have voluntarily increased coverage or is the mix of GS1 + GS2 actually increased toward GS2 a little bit?

Sushil Agarwal: So, you are asking that stage 2 provision has increased?

Aditya Jain: This stage one plus two provisioning has increased, yes?

Ghanshyam Rawat: You know as I mentioned in the commentary our pool which has been given restructuring Rs.148 Crores against that we created Rs.20 Crores of provision, entire thing is lying at stage 2 with that additional provision the ratio got increased.

Aditya Jain: Then, when you talk about 30 to 35 branches being added every year, so for the next two, three years that might give us may be close to 15% branch growth and then if we are aiming for 30-35% kind of disbursement growth, the disbursement per branch would have to touch between 1.1-1.5 Crores per month. Just your thoughts on that in terms of capacity utilization where are branches now and how you see that changing?

Sushil Agarwal: Aditya, we always say that we will be consistent in our AUM growth, which will be 20% to 25% growth over a period of time since we listed, we always say 20% to 25% AUM growth and for that kind of AUM growth whatever disbursement number is required it is the combination two things, one is new disbursement and second is containing the prepayment rate of existing book. If you see last two years we have reduced our pre-payment rate significantly in our portfolio which has helped us, despite doing calibrated disbursement growth we are able to achieve our AUM growth, so in the future also we will be doing the same, but the growth how it will come, so growth has three elements, one is distribution which is the next 3 years anyway another 100 branches will be opened, second is whatever branches we open in last three years it has lagged efficiency, so first year when we open the branch it operates at around 50%, second year 60-70% and third year onwards it reached more than 85-90%; so that lagged efficiency will come, third because of technology and other processes and investment in that side, we get other efficiency on the book and fourth one, which is a positive one for us significantly is that our borrowing cost is coming down, which also gives us opportunity to have much better customer segment; like more salaried customers and more formal income segment customer, which earlier we were not able to do because of our cost of borrowing, so I think all these four elements puts us in a framework where we can consistently deliver 20-25% AUM growth in the near to short-term future.

Aditya Jain: Just to clarify, the increase in efficiency you are talking 50% to 85%, so the base the 100% that you assume in that is how much as of now?

Sushil Agarwal: So, we have five categories of branches, branches which have potential up to 1 Crore, branches having potential up to 2 Crores, branches having potential up to 5 Crores, branches which have more than 5 Crores potential, so it is a mix of all these, but technically speaking with 300 branches we should be around Rs.1.5 Crores per branch at 85-90% capacity utilization.

Aditya Jain: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Good afternoon. Firstly, in terms of restructuring, I think that has come lower than what we have been indicating, so obviously it is reflected in terms of the collection efficiency the way we have 1+ DPD movement and requirement being lower, but was there any movement from earlier restructuring as well, so when we look at it only 37 Crores odd for this quarter incremental, is it all the incremental or there has been some slippages or maybe repayments, which have happened from earlier restructuring and this quarter would be higher than 37 Crores odd?

Sushil Agarwal: So, you are right, Kunal. From the previous restructuring which we have done around Rs.5 Crores to Rs.7 Crores of customer had prepaid their loan, so incremental number is 5 Crores to 7 Crores more than what you can get directly from H1 minus Q1 number.

Kunal Shah: But it is only 5 Crores?

Sushil Agarwal: Yes.

Kunal Shah: Secondly in terms of MSME, so when we look at it now we are getting towards the disbursements of almost 100 Crores a quarter so it is coming up; last time it was 34-35 Crores odd, so how should we see this business segment scaling up and again this quarter we had seen the uptick on other mortgage loan side ex of MSME as well, so are we deriving more comfort and we should see growth coming back significantly in that segment too?

Sushil Agarwal: Kunal, if you will see traditionally in our company H1 is a little bit less on housing loan and more on MSME and LAP loan since we are more on the self-construction housing side and after monsoon and all those things then this picks up for the housing construction per se, so in H2 normally housing loan disbursement in proportion of total disbursement become high and overall it remains 70%-75% home loan or 25%-30% non-home loan, so I think we will be in the same trajectory. In the non-housing loan segment, we have now three segment primarily, one is LAP which used to be earlier 70% and top-up loans somewhere around

20%-25% and MSME was less, but our MSME is also 100% backed by housing mortgage with customers living in, so difference for us in LAP and MSME is that first is end use is always confirmed for the business purpose, second the tenure is less 7 years around for MSME customers and third is we check all the government compliance like Udyam, Aadhar, GST returns, etc., so that segment we are focusing rather than LAP in our non-housing loan segment, but going forward again we are committed that housing should be 70% to 75% and non-housing loan should be 25% to 30% and in that maybe 40% will be MSME, 40% will be LAP and 20% will be top up loans, but since last almost 15 months, we are very slow on enhancing our exposure on the existing customer base because of the COVID situation, so we will review every quarter and once we will be comfortable that normal business scenario is there and customers requirement is genuine for the productive use not for the distressed purpose of the top up loan, we can again go back to 4% to 5% of our loan on the existing customer with the top up loan.

Kunal Shah: Sure and in terms of maybe the negative list of non-housing part, so is it like now underwriting standards they have been revised and they made maybe earlier the weight even stringent in fact they have been relaxed a bit and we should start seeing more approvals coming from that segment because of the change in stance purely?

Sushil Agarwal: Kunal, so in that segment we have improved our filter after COVID, like earlier there maybe three filters for doing the case now we are using six filters for these cases, so we have not reduced our due diligence and criteria, it is a natural demand, which is coming up and since we have a very large distribution base we are sourcing almost 12000 files per month and this number is increasing quarter-on-quarter, so it is a natural demand, we have not filtered our selection criteria for the business.

Kunal Shah: Sure and one last question in terms of this geographical additions to the branches, so again it is primarily coming in Karnataka and Odisha and there has hardly been any additions in the existing locations, so broadly I think you have been earlier articulating that it would be like 70:30 kind of ratio, so would we see the catch up in the existing locations as well in terms of the branch additions or maybe there the growth will largely be driven by the productivity improvement?

Sushil Agarwal: So, Kunal, you are right. As we say 30 branches every year we will open, next 5 years we will open 150 branches, out of 150 branches in the new states we will have 50 to 55 branches and rest 90 to 100 branches will be in the existing states, so existing state expansion of the branches will happen in 112, in 111 we have started new states branches likewise, so we are consistent in that approach.

- Kunal Shah:** Got that. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Vikram Subramanian from Spark Capital. Please go ahead.
- Vikram Subramanian:** Sir, thanks for taking a question. So, a part of my question has already been answered, you just mentioned about the split between home loans and other mortgages and in H2 the cycle will correct back and there will be more incremental home loan disbursement. I just want to ask a follow up to that, if you look at that in tandem with the salaried versus non-salaried split, there the salaried has increased significantly in the past one year, so should we read it as move toward a bit of higher yield lending through other mortgage loans, but at the same time keeping risk under control by doing more of salaried other mortgages, is that a strategy that we are following or they are not correlated, both of these numbers will just correct back to the previous levels of 35% on salaried and 25% on other mortgages, could you please give some explanation?
- Sushil Agarwal:** There is no correlation between this. Actually I have told that now cost of borrowing has significantly come down and with that the new states which we have opened in the new states we focus more on less riskier portfolio for first three or four years in the operation, so that is where our salaried proportion from 35% to 40% have increased and I think so going forward as our rating will improve and cost of borrowings will further come down may be this ratio can again further move to 42%, but right now we are seeing that this should be consistent 40 to 60 ratio and we are okay with that kind of risk and profile mix in our portfolio going forward also.
- Vikram Subramanian:** Got it, so the other mortgages might come down a bit faster, but salaried might remain at this 39% to 40% range for a slightly more medium term period, I can assume?
- Sushil Agarwal:** Correct.
- Vikram Subramanian:** Got it, Sir. This is all. Thank you.
- 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, Sir. Three questions for my side, firstly on a like-to-like basis how have the loans yields of the home loan and other mortgage loans varied year-on-year?
- Sushil Agarwal:** Karthik, good afternoon. So, percentage of home loan versus non-home loan?

Karthik Chellappa: I just want the loan yield how that has changed for home loans and other mortgage loan on a year-on-year basis?

Sushil Agarwal: So incremental home loan yield was around 12% and non-home loan was about 14.77% in the previous year and current year also home loan is 11.92% and non-home loan is 14.78%.

Karthik Chellappa: So, which means on a specific product basis year on year, there has not been much change in the yield of the individual product, right?

Sushil Agarwal: Yes, it is almost same.

Karthik Chellappa: Generally you said the mix is changing away from LAP to MSME loans within the other mortgage loans, what is the difference in the yield for a typical MSME loan vs LAP?

Sushil Agarwal: Karthik, it is around 100 bps difference, the major difference is tenure, so in LAP the tenure is around 10 to 12 years, in MSME loans, the tenure is 5 to 7 years and MSME loans because there we can check the end use specifically and we can also borrow shorter tenure money like 3 to 5 years for that kind of portfolio, so the yield is 100 bps less, but borrowing cost is further 100 to 150 bps less for that kind of portfolio, for that kind of tenure. So we are trying to maintain spread, which is 5%, as I have told you because of COVID though we have already passed on 25 bps to all our customers as per ALCO meeting recommendation in last year, still our spread is 5.73%, if there is no COVID wave 3 we would like to pass on this benefit to the existing customer base as we have done in last 10-year history, so we match borrowing versus lending, spread 5% on particular profile also, portfolio also at a very granular level, we don't work like we have disbursed at some yield then we will ask treasury to borrow money; whatever price they can borrow the money we create portfolio and product around it and work around it.

Karthik Chellappa: This is very clear Mr. Sushil. My second question is if I look at the securitization income booked this quarter of about 33 Crores on a securitized volume of about 170 Crores, the yield works out to be one of the highest of you have earned in any quarter, is it the nature of the portfolio that we have securitized, could you give us some colour?

Sushil Agarwal: Karthik, it was mostly portfolio of LAP and MSME where we were having yield of around 14.5% to 15% and the borrowing cost was 7.4%, so around 7.5% kind of spread.

Karthik Chellappa: So, it is the relatively higher yielding portfolio which we have securitized this quarter, which explains the higher yield?

Sushil Agarwal: Correct.

Karthik Chellappa: The last question, typically when we enter new states our strategy has always been that for the first 12 to 18 months, we do not give any targets, we scan the market, etc., but this is probably the first time that we have entered a state with 11 branches initially itself, which is actually quite large because even some of the existing states like Chhattisgarh also the number of branches are still in single digit, so any colour on what is so special about Karnataka that you see that you chose to enter with let us say as high as 11 branches?

Sushil Agarwal: So, Karthik, first is there are two part of this 11 branches, 5 are continuous distribution approach because we are working in Maharashtra since last year 7 to 8 years and there is one portion of Karnataka, which is attached to Maharashtra's Kolhapur branch and we have shifted the same Kolhapur state head to this branch Belgaum, Hubli, Davanagere, so that side of the distribution is contiguous distribution for us, we were working in the 50 to 100 km range in that market, we understand that market very well, and new market which we opened is around 4 to 5 branches in that side and that is where we have opened 11 branches in Karnataka, but we see out of this around six branches are in contiguous distribution approach and 5 branches as a new state opening.

Karthik Chellappa: This is very, very clear. Thank you very much Mr. Sushil and Ghanshyam Ji and wish you and the team at Aavas a very Happy Deepavali. That is all from my side.

Sushil Agarwal: Very Happy Deepavali to you also Karthik.

Moderator: Thank you. The next question is from the line of Bhavya from Fortress Group. Please go ahead. I think the line from Bhavya is on hold, we will move to our next caller that is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Now that it does appear that we as a country reaching figure where hopefully more normalcy and all businesses are looking forward to aspirational and higher trajectory of growth, this would be a good time to revisit our original kind of lending model income so ROA ROE metrics, so if you believe that barring some route surprises again on the pandemic side and if you believe that home loan in particular are showing greater proclivity for growth in the lending side, can you structure what kind of model are we looking to in terms of spread, net interest margin, cost to income ratio and the credit cost and eventually culminating into ROA, in your case ROE is little peculiar because of the excess liquidity on the balance sheet, otherwise ROE also would have been more critical outcome out of that, but if you can link it to ROA metrics that would be helpful?

Sushil Agarwal: Good afternoon, Bharat. If you will see our current quarter ROE is already 15%, which we always used to say that we will reach after two, three years 15%-16% kind of consistent ROE trajectory, we have already reached this quarter despite COVID wave

two and etc., and the way I see the business at least even for next three years if we are able to deliver 20% to 25% growth trajectory, we will double the book from Rs.10000 Crores to Rs.20000 Crores and on that book even if we can maintain 5% spread which we used to maintain last 10 years, but last 1.5 years it is more than 5%, 5.75% despite we have transferred 25 bps already to our customer base, so I think that kind of a spread for another three years if we can maintain and credit cost, I am hopeful that we can contain our NPA around 1% and credit cost should not be more than 20 to 25 bps, which was our earlier trajectory in the past 10 years. Opex side, we have the scope of doing 25 to 30 bps down YoY basis and that will give us leeway even if spread comes down by 75 bps from today 5.75% to 5%; still we can deliver our ROA numbers and ROE should incrementally increase with the increase of leverage in the balance sheet, so we have already reached 15% kind of ROE, so maybe next two to three years we can reach maybe up to 18%, 17% and I hope in this kind of business that kind of ROE is reasonable for long-term sustainable growth in our business and on the growth side, if you see we are very consistent even in COVID times, we were able to deliver 22% AUM growth, we always keep bench strength on our distribution side 25% to 30% and we always say that if the tough time will come, if more competition will come, still we can deliver our number and if both the scenario is favorable we can over deliver our numbers, so based on that I think we are hopeful of giving that 20% to 25% growth trajectory over a bit of three years with consistent operating metrics.

Bharat Shah: So, 20% to 25% business growth about 5.5% to 6% kind of margin and any pressure on the margin hopefully neutralized by cost savings, credit cost of about 25 bps and net NPA below 1% that would be the kind of a summary; if we assume that the picture now is normal and in fact it should be looking better and more progressively interesting in terms of the growth, is that the metrics that you think you will be working with?

Sushil Agarwal: Yes, we hope so, if the situation will not get worse from here, I think in the next three years it should be stable growth trajectory for us.

Bharat Shah: And what kind of ROA it would incur?

Sushil Agarwal: ROA we always used to say that we will be consistently delivering 2.5%+ ROA, but our leverage is less, so right now we are giving 3%+, but hopefully ROA into leverage is the trajectory of ROE which is I am explaining that we will be 15%-18% kind of ROE range over a period of next three years.

Bharat Shah: In an business like yours essentially long term lending for mortgage area low interest environment in case of excess equity capital on the book is actually hurtful because it

does not give you enough opportunity to put leverage in the balance sheet and enjoy the spreads of the lending rates, because in low interest rates kind of environment excess equity capital on the book is the source of some kind of limitation, as we grow at much higher than return on equity we will not be able to use excess liquidity or excess equity capital on the book, therefore our growth rate has to be significantly higher than return on equity in order for us to use excess equity capital and therefore use a more judicious kind of balance sheet where there is a little bit more leverage rather than too much excess equity capital that in turn drives ROA as well as in turn drives ROE? Won't you think that will be essential?

Sushil Agarwal:

Yes, I agree with your point, but since last five years every year something or the other is coming as far as demonetization, then liquidity crisis then 2 large IIFC fiasco then COVID 1 then COVID 2, so if things will normalize maybe over the next one year, two years, three years, we can think over that side but till that time as a management we see that survival is more important for us and a little bit less leverage gives us a comfort of sustaining long-term business, but I agree with your point if the next 18 to 24 months things does not have any of this kind of survival events in the industry, we are in agreement with your advice.

Bharat Shah:

That itself I am bringing the question again given the fact that we have excess equity capital and we have been very judicious in underwriting our business by proper credit selection, so that you do not end up reflecting in higher credit cost, which is the right thing to do to maintain the hygiene and discipline, but unless we grow it not more like 20% but probably materially higher than that so that we are well over the return on equity in terms of the growth rates to sustain so that that becomes a source of improving both our ROA and ROE so that financial structure becomes more balanced rather than lopsided in favor of equity capital?

Sushil Agarwal:

So, as I mentioned if situation improves in 18 to 24 months, we will see to it, but as one thing you need to appreciate that because of this capital and low leverage during COVID times we were able to get two rating upgrades and we have been given more trust by the lenders that in during pandemic time everybody was ready to fund us and at the much cheaper rate on the balance sheet so that borrowing cost impact which is significantly down has also improved the shareholder return, but I agree with your point and whenever we are coming next to Mumbai, we will come and seek your advice and we will see how we can improve in that things in future also.

Bharat Shah:

One last part of the point I will make given our prudent and wise lending practices, contributing largely match duration discipline that we maintain all these are usually credit

worth aspects of the way related to smaller lending bodies, but it is prudently intelligent to manage the situation, the way I try to sort out the dilemma of our excess equity capital on your books resulting in lower return of equity, optically it results in a lower return on equity. I try to look at your total balance sheet and divide it into as if normatively your normal debt equity ratio for the mortgage lender should at least be 6 to 8 times the equity capital if not more then I try to theoretically split your total capital accordingly and try to rework real ROA and ROE but at some stage the imagining ROE in my head and still ROE yet to kind of come together and that does not only growth rate with us?

Sushil Agarwal:

I will also do the calculation like you, so by this year we should be around 12000 Crores AUM and around Rs.1000 Crores FDR on the balance sheet for the future lending, so 13000 Crores book divided by 6, 2200 Crores capital, right now we are having 2570 Crores capital out of which Rs.170 Crores is securitization excess money so 2400 Crores, only 200 Crores capital is excess and I think that is sufficient that we should always keep in buffer for next year growth even on 12000 Crores in next year growth 20% to 24% or 25% so next year profit again it will be reaching in the same ratio which you are talking.

Moderator:

Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra:

Thank you for the opportunity. So, two question, first is on the customer segment and if you can dwell on this, what category of customers do we have in salaried, how do we split it into PSU, private, government employees, what are their average salary levels and what are their average income and age when they are on boarded and similarly if you can dwell upon the self employed segment, what kind of industry are they from, are they more of traders, more dependent on manufacturing, what are the average income levels, what are their average family incomes and do we look at cash flows or do we look at GST returns or we look at a mix of GST and cash flows while underwriting that is the first? Second question is given the fact that when you have been doing some amount of outside city document, so these documents sometimes also happen to be slightly haphazard so how do we go about understanding those documents because the law stipulates that we should go back in history for 13 years so how do we understand the entire history of legality of the document, how many lawyers do we have with us on-role, off-role, how do we understand that and how do we store these documents as well, is this is centralized storage or a decentralized storage. These are my two questions? Thank you.

Sushil Agarwal:

You asked entire annual report in two minutes time, but I will try to explain. Firstly we have salaried 39% customers in which our average ticket size is around Rs.9-10 lakhs, average installment level is around Rs.11600, we have income to installment ratio of

around 33%, so average salary level around 30000 to 35000, so in this we have both public sector and private sector, but we do not differentiate between that wise, we say whosoever is getting salary into the bank account and that it is getting credited for more than 12 to 24 months, we treat them salaried customer and apart from that then we do CIBIL and bureau score check so that is profile of salaried customer. In the self-employed segment which is 60% we have around 40 profiles that we track, so none of the portfolio is more than 5% to 6% in the book and last 32 quarters, quarter on quarter profile wise, geography wise we input the data into our analytics algorithm; while assessing these customers, we do cash flow based accounting. In our underwriting team out of 400 underwriters, I think more than 300 are chartered accountants & now we have processed more than 4 lakhs files over the last 11 years, so we have our own data, learning and everything put into analytics so that helps us assessing the self-employed customer in our portfolio. Coming back to your second question, from the inception since we started working in tier 2 to tier 5, we have a deep understanding & knowledge of areas where we work on the property title, right now in company we have more than 100 lawyers and 300 law firms work for us, in most of the cases we have two legal reports, so one in-house lawyer and one from outside lawyer. To tell you about how we check the best criteria is how many cases got rejected in SARFAESI proceeding while you have done that, so in last 11 years not a single case with order passed against us by any DRTO and collector, for the title correctness of the document, so I think that emphasis that now we assessed 4 lakhs customers and we have disbursed around 190000 customers and live account have 140000 in the book, we have significantly got understanding, knowledge around the detail title where we fund, we do not fund any property where we cannot use the SARFAESI proceedings, hope I answered your questions.

- Shubhranshu Mishra:** So the documents, there is centralized or decentralized?
- Sushil Agarwal:** So, the whole document is centralized at Jaipur, we have Iron Mountain facility, which is the world best storage programmer in the world, we store our documents with them.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.
- Piran Engineer:** Good afternoon and congrats on the good set of numbers. Sir, just a couple of questions, one is on your hiring strength, you all said you hired 30% is your employee growth right on a year-on-year basis, so I just wanted to understand that when does operating leverage then kick in because our employee count has been growing faster than the AUM faster than the branch count growth and ideally out of the 1000 odd employees hired last year you know could you give us a bit of what the functions are?

Sushil Agarwal: Normally we always say we keep on investing in distribution because we want to run this company for the next 25-30 years, so there will always be investment in distribution according to branches, according to business, according to circumstances, last 6 months there is a tough competition around the market and as our policy we say that we create bench strength always for our businesses, so in the difficult time also we will deliver, if the difficult time is not there then we will over deliver, so that is the reason the staff strength has grown more than the AUM growth number or disbursement growth number, but the distribution has also increased on the other side. Second is most of it, so if you see our current manpower strength, so it is 2:1, 2 persons in the business side and 1 person in the support side so that is the breakup we keep always when we hire our manpower.

Piran Engineer: No, Sir I got that, but if I have to think about it bottoms up if we open 30 to 35 branches each branch might have 5 to 6 employees, so that maybe 200 employees a year and in some centralized functions, may be another 50 or 100, so if I could ask you in another way may be over the next 3 to 5 years what sort of an employee count growth do we see?

Sushil Agarwal: So, we are saying that we will grow our AUM by 20% to 25% though in practicality, we say that our employee growth should be less than the AUM growth because we are using technology also and that will also play a role, the current growth is because we have created a buffer because of heightened competition in the market and everybody wants our employees in their framework for all the smaller to larger HFC, so this we have as prudent practice from management side, we have taken that step, but yes, going forward employees growth should be around 15% to 20% vis-à-vis AUM growth of 20% to 25%.

Piran Engineer: That answers my question, and Sir, my second question is more of clarification, you said that the spreads today are 5.7% to 5.8% and you are targeting about 5% or so, is that something that happens in the near term or more in the medium term, and if that does happen in the near term, you know how should we think about your ROA and ROE, do we expect ROE, which is 15% now to sort of again drop because the 70 to 80 bps spread compression is quite severe?

Sushil Agarwal: Piran, if you have heard correctly, I have told that whatever spreads we will bring it down we will save that much of cost in the opex.

Piran Engineer: So, about 20 to 25 bps every year?

Sushil Agarwal: Yes.

Piran Engineer: Got it. That is from my end. Thank you and all the best.

- Moderator:** Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.
- Shreepal Doshi:** Sir, good evening and thank you for giving me this opportunity. Sir, my question was on the restructuring front, what is the nature of restructuring like how much morat or essentially would be given to our customers?
- Sushil Agarwal:** So, it is in the form of moratorium because in COVID wave 1, customer has taken the moratorium and that is the language they have correctly understood, so it is in the same line, the moratorium is from 3 to 9 months kind of vintage according to customers request and past experience and how many months moratorium he had taken in COVID phase 1.
- Shreepal Doshi:** Sir, second question was with respect to that you eluded that on the non-HL front we are focusing more in MSME, so how do the underwriting, is it done by the same credit underwriting officer at the branch or do we have a separate structure or infrastructure pool because which will require a different set of understanding?
- Sushil Agarwal:** We have the strength of underwriting informal income business class since inception, as you know we have 65% self-employed that too informal income and that is where our 75% plus team are chartered accountant at the ground level as the credit officers, so for us in housing loan when we give, we check end use, either it will be for construction in five stages, if it's for purchase then lawyer will check the transaction, and same is here in MSME we are assessing the same customers on the basis of cash flow, GST, Aadhar card, business is same, but there is a difference between LAP and MSME, MSME we are able to check the end use of the fund which we have given for a business loan, in the LAP it can be used for personal purposes also, for daughter's marriage also for some other incidences also, so there tenure was high and less probability of checking the end use. In MSME we have more end use checking capability and tenure is less.
- Shreepal Doshi:** Got it, so one last question was with respect to branches, what percentage of our branches will be mature and how do we define that; will we consider branch having AUM of 200 Crores for example in a matured branch and what percentage of our branch today will be mature & what could be the opex upon AUM and CI ratio for those set of branches?
- Sushil Agarwal:** Shreepal, I personally consider a branch mature when it is positive ROE, so every quarter we do the ROE calculation of all the branches with fully loaded cost of entire balance sheet and mostly in tier 2 to tier 5 within 12 months all our branches become positive ROE branches and for metro branches, yes, it takes two to three years to reach that kind of level, so out of 300 branches, more than 85% branches are ROE positive and as you know in the last 12 months we have opened another 40 branches, so I am hopeful 90% of

it will become ROE positive in the next 12 months and remaining 30 to 40 branches which are not positive ROE in more than 12 months, we are working as a team, as I told some of the branches will be metro branches anyway they target ROE is two years.

Shreepal Doshi: So, just a follow up question, so what is the ideal opex upon AUM that we are looking at, what percentage of our branches will be already achieving that sort of metric?

Sushil Agarwal: So, I will just give you one example for understanding, say a town has 2 lakh population, divide by 5, 40000 households and when we open a branch we say in the next 15 years it will cover 5% penetration, so 2000 home loans we need to give in 15 years, so divide by 180 months we need to do 10 to 15 cases per month, so that is the potential for us for that branch, so if the branch do Rs.1.5 Crores business we will earn 2% to 2.5% fee, so we make a criteria that this branch cannot have cost more than Rs.3 lakhs, so now when we take the opex it should be 25000-30000 rent, other opex will be 15000, then we will keep around 1.5 lakh as manpower cost all those should deliver in next one year around 1-1.5 Crores kind of volume, which will fetch us may be 2-3 lakhs fee, which should take care of the entire branch opex and that is our definition of viability of the branch and because it is a 15 year we see if your branch is ROE positive in the first year, then next 15 years lending minus borrowing everything should come to company as spread.

Moderator: Thank you. The next question is from the line of Vikas Kasturi from Focus Capital. Please go ahead.

Vikas Kasturi: Congratulations on a fantastic milestone and wish you a very Happy Deepawali. Sir, I had a question, so you have a branch in Jayanagar, in Bengaluru, which is an up-market locality, so what is the rationale for setting up that branch & second question is, you have a subsidiary called Aavas Finserv so what is the plan with respect to that. Thank you.

Sushil Agarwal: So, anywhere new state we open we need to open a regional office, which will be in mainstream capital of that state, so Jaynagar branch will work like a regional office for entire Kamataka operation for us that is where we have opened a Jaynagar branch there, and the second question was, so we have Finserv, we have applied the license to RBI and whenever they will approve we will do MSME business in the subsidiary, which will again be backed by mortgages, so that is the idea, still the application is with RBI, so whenever it will come we will operate.

Vikas Kasturi: Thank you very much.

Moderator: Thank you. The next question is from the line of Siddharth an Individual Investor. Please go ahead.

Siddharth: Congratulations on good set of numbers and thank you for taking my question. Most of the questions were answered, I just have one small question, on the upfront income of fresh assigned loans, what we are seeing is about 33 Crores that is recognized in H1 FY22 on a securitized volume of 175 Crores; however, we also see about 36 Crores of reversal in the P&L, so if you could throw some light on that and is the company following a contractual cash flow or behavioral cash flow for recognizing the income?

Sushil Agarwal: So, we work on behavioral cash flow, so we have already Rs.2000 Crores of book, which is the assignment for which income is upfront booking, so whatever we have booked upfront every quarter there will be reversal, so that reversal will come every quarter so like first quarter we do not have new assignment so Rs.18 Crores was the reversal on the existing assignment, so this quarter again 18 Crores of reversal, but Rs.33 Crores is the upfront income, so that is the way you are seeing H1 Rs.36 Crores of reversal.

Siddharth: Understood and just a followup on that so in H1 FY21 last half year, we had about 150 Crores of securitization against which income of 18 Crores was booked and there is a vast difference between 18 Crores on 150 Crores against 33 Crores on 175 Crores securitization so if you could help me explain that, that would be great? Thank you.

Ghanshyam Rawat: You are talking securitization volume versus income booked in this half year?

Siddharth: Yes, so 33 Crores on 175 Crores is what we have booked; however, if you see last year it was about 18 Crores on 150 Crores?

Ghanshyam Rawat: We will try to explain this question again. I think this question was raised earlier also. In this quarter we have assigned MSME and LAP book, which was having higher yield and got securitized at 7.4%, spread was around 8% plus, last year when we done assignment of 150 Crores in the last year H1, which was purely home loan book where spread was 5%, so you see a similar quantum was securitized in H1 but income was much higher.

Siddharth: Understood, that helps. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Sushil Agarwal for closing comments. Thank you and over to you, Sir!

Sushil Agarwal: Thank you all for the attending the call. To summarize, at Aavas we aim to be one of the key enablers in broadening and deepening of credit facilities to unserved and underserved customers in the semi-urban and rural areas. Further, we will continue to make investments in digital initiatives and distribution as that will further improve the



Aavas Financiers Limited
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operational efficiency and enable us to serve our customers even better. 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 IR Advisors and they would be happy to help you. From the entire family of Aavas here is wishing you a very Happy Deepawali and a Prosperous New Year. Thank you very much.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Aavas Financiers Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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