



# **“Aavas Financiers Limited Q1FY26 Earnings Conference Call”**

## **August 12, 2025**



**Management:**

**Mr. Sachinder Bhinder** – Managing Director and Chief Executive Officer  
**Mr. Ghanshyam Rawat** – Chief Financial Officer  
**Mr. Ashutosh Atre** – Chief Risk Officer  
**Mr. Rakesh Shinde** – Head of Investor Relations

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Aavas Financiers Limited Q1FY26 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 date of this call.

These statements are not guarantees of future performance, 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 star then zero on a touch-screen phone. Please note that this conference is being recorded.

I would now hand the conference over to Mr. Rakesh Shinde, Head, Investor Relations of Aavas Financiers Limited. Thank you, and over to you, sir.

**Rakesh Shinde:**

Thank you, Muskan. Good evening, everyone. I extend a very warm welcome to all participants and thank you for joining us on today's earnings call to discuss the financial and operational performance of our company for Q1FY26, along with the business outlook going forward.

The result and the investor presentation have been uploaded to the stock exchanges and are also available on our company website. I hope you've had a chance to review them.

Joining me today is the entire management team of Aavas. We will begin this call with opening remarks from our MD & CEO Sachinder Bhinder, CFO Ghanshyam Rawat and

CRO Ashutosh Atre. This will be followed by a Q&A session. With that, let me now hand over the call to Sachinder. Over to you, Sachinder.

**Sachinder Bhinder:**

Thank you, Rakesh, and good evening. Thank you all for joining us this evening. I truly appreciate your presence and continued support.

Q1FY26 was a landmark quarter for Aavas, marking a pivotal moment in our journey. We successfully concluded the change in the promoter process and are proud to welcome CVC Capital Partners as a new promoter. The trust and conviction shown by CVC in Aavas is a strong testament to the strength of our franchise and the vast opportunity in the affordable housing finance sector in India. Their global perspective, institutional depth and strategic insight will position Aavas to accelerate into its next phase of growth and innovation.

I would like to take this opportunity to express my sincere gratitude to the visionary leadership of our former promoters, Kedaara Capital and Partners Group. Under their stewardship, what began as an ambitious proof of concept has grown into a scalable institution, one that has transformed lives and made affordable homeownership a reality for thousands of families.

The quarter also marks a significant milestone in our commitment to governance, transparency and putting the customer at the center of everything we do. We've taken a historic step by transitioning to a realization-based model for disbursement recognition, a forward-looking and conservative approach that reflects our intent to stay one step ahead, aligning not just with regulatory expectations, but with their true spirit. The change offers a more accurate view of underlying business performance, strengthens transparency and reinforces our longstanding focus on quality over quantity.

On the demand front, we are encouraged by strong traction. Logins volume grew by 17% Y-o-Y, indicating a robust underlying housing demand. In markets where we hold a higher share, we are witnessing a healthy appreciation in real estate prices, further underscoring structural demand strength.

On the credit front, we continue to maintain a cautiously optimistic stance on underwriting. While we have not observed any material deterioration in our own asset quality, we remain vigilant given cautionary signals reported by some peers in specific customer segments, geographies and risk profiles. In this context, drop in our sanction ratio is a deliberate outcome of our calibrated risk strategy and not a reflection of demand.

Our strategic focus remains on optimizing yield and credit quality. We achieved a 35 bps Y-o-Y improvement in the yield this quarter, driven by targeted initiatives to enhance portfolio mix and pricing. Recent trends are encouraging. Disbursement growth in July reached approximately 16% Y-o-Y, demonstrating positive momentum and reinforcing our confidence in gaining further traction in the coming quarters.

We continue to maintain best-in-class credit metrics and are actively evaluating our credit framework to ensure it remains robust and responsive to evolving market dynamics. This disciplined approach helps us balance growth, yield and asset quality, positioning us well for the quarters ahead.

Considering the perceived stress in certain sectors of salaried class, we remain focused on the self-employed segment, where we continue to see a better risk reward profile. Additionally, our strategy to focus more on loans exceeding Rs. 5 lakhs, which typically exhibits stronger asset quality trends and portfolio behavior.

Government initiatives such as interest subsidy scheme under PMAY 2.0, combined with a supportive interest rate environment, continue to bolster homebuyer sentiment and improve affordability. I'm pleased to report that 450 Aavas customers have benefited from these schemes, receiving subsidies totaling more than Rs.15 mn.

We also want to acknowledge the NHB for its continued leadership in promoting transparency, governance, inclusion, diversity and capability building in the sector. We are proud to share Aavas has won the Product Innovation Award at NHB's inaugural Housing Finance Excellence Awards 2025.

Returning to our operations. While the transition to realization-based accounting has meaningfully impacted our sanction to disbursement ratio, we are now seeing signs of normalization. In fact, July disbursement grew 16% Y-o-Y, reflecting a gradual return to our business-as-usual levels.

Our AUM grew 16% Y-o-Y despite a softer disbursement quarter impacted by a change in disbursement recognition in Q1. Based on the current trends, we now expect the full year's growth in the range of 18 to 20 %. While we remain confident of a rebound starting Q2, we will have better visibility on overall growth as we progress further into the year and continue to pursue our objectives with prudence and discipline.

In terms of our distribution strategy, we are beginning to see positive results from our diversified approach. We have successfully empaneled digital partners such as CSC, eMitra and India Post Payment Bank, all of which are contributing to a robust and diverse lead generation pipeline. I'm pleased to share that within less than a year of onboarding CSC, we are already receiving more than 1,000+ monthly logins, a strong indicator of potential in this partnership.

Additionally, we are continuing to strengthen our distribution network with plans to open 10 new branches in September. As highlighted earlier, our strategy this year is to front-load branch expansion in the first half (H1) rather than concentrating opening in the second half as in the previous years. I'm also pleased to share that we are entering a new state, Tamil Nadu and all 10 of these upcoming branches will be located there.

As we look ahead, our long-term strategic priorities remain clear: to fully leverage our strong digital and operation platforms, further strengthen governance, drive scale efficiently, optimize cost and enhance productivity across the organization.

With that preamble, I would like to take through our quarterly performance.

We have delivered an AUM growth of 16% Y-o-Y, reaching an AUM of Rs. 207 bn. During Q1FY26, we disbursed loans worth Rs. 11.5 bn, maintaining our focus on quality origination.

Our net profit for Q1FY26 grew by 10% Y-o-Y to Rs. 1.4 bn, led by robust 16% Y-o-Y growth in NII on account of healthy improvement in spreads. Our net worth continues

to compound steadily, growing at 16% Y-o-Y with the strength of our capital position driven by consistent compounding internal accruals.

Our spread improved sequentially by 22 bps to 5.11%, while our calculated spread rose by 16 bps to 6.03% in Q1FY26. Reported NIMs expanded by 16 bps during the quarter to 7.48%.

Continued focus on low-ticket, high-quality underwriting has led to a 35 bps increase in the incremental business yields. The opex to asset ratio declined sequentially by 25 bps to 3.46%. On a Y-o-Y basis, the increase is primarily due to a higher ESOP cost. Adjusted for this, the ratio would have been 3.34%.

Our asset quality continues to be pristine with 1+ DPD of less than 5% at 4.15% as of June 2025, while GNPA's was 1.22%. The sequential uptick in the delinquency is seasonal and has already moderated with 1+ DPD falling below 4% in July. Credit costs remained with the guidance of 24 bps. We continue to maintain our guidance of keeping credit costs below 25 bps on a sustainable basis.

ROA stood at 2.94%, while ROE at 12.56%, reflecting the impact of strategic investment and ESOP related investment in talent.

We remain committed to delivering quality, profitable and sustainable growth powered by technology, efficiency and cost optimization with a robust risk management framework, deep and diversified distribution network and the strong execution capabilities of our experienced team, we are confident of achieving our strategic milestones and delivering the long-term value to all stakeholders.

With that, ladies and gentlemen, I conclude my prepared remarks, and I would now hand over to our CFO, Ghanshyam Rawat, to discuss the financials in detail.

**Ghanshyam Rawat:**

Thank you, Sachinder ji. Good evening, everyone, and a warm welcome to our earnings call. To provide update, first, we're covering our borrowing. I'm pleased to share that we have received a fresh sanction from the National Housing Bank, after a gap of 1 year, and we successfully completed a drawdown of Rs. 2 bn in this quarter. This will further provide cushion to cost of borrowings and strengthen our funding position.

Our ability to reduce the cost of funds reflects the strength of our one of the most well diversified and resilient liability franchises in the industry. Staying true to our strategy of innovation in sourcing, we anticipated a potential easing in interest rates and proactively shifted a meaningful portion of our borrowings to EBLR-linked instruments. This forward-looking approach is now delivering results with our liabilities repricing faster than those of many peers.

As a result, we have already seen a 22-bps reduction in our overall cost of borrowing from EBLR-linked borrowings with incremental borrowing now being raised at even more competitive rates. We expect continued downward pressure on our overall cost of funds as we scale up borrowing through these channels.

We continue to borrow judiciously, raising around Rs. 17.03 bn at 7.82% for Q1FY26. In this quarter, we raised NCDs amounting to Rs. 4 bn from marquee institutions. Our average tenure of borrowing continued to be longer than that of our assets, ensuring a very positive ALM across all-time buckets.

As of 30 June 2025, total outstanding borrowing stood at Rs. 182.86 bn. The borrowing mix as of 30 June 2025 comprised of 49% from term loan, 25% from assignment, 14% for NHB refinancing, 11% from debt capital market.

T- We have 38% borrowing linked to external benchmarks such as the repo, Bill and MIBOR, 20% linked to sub-3-month MCLRs, enabling faster repricing of nearly 58% of our total borrowing in line with the interest rate movements.

Lender support remains strong as Aavas continue to evolve. We maintain access to diversified and cost-effective long-term funding. Our relationship with development financial institutions remains robust, supporting our strategic funding goals.

As of 30 June 2025, we maintained ample liquidity, including cash and cash equivalent of an unavailed cash credit limit of Rs. 18.77 bn and documented unavailed sanction limit of Rs. 25.98 bn.

During the quarter, our cost of borrowing declined by 22 bps Q-o-Q to 8.02%, driven by proactive liability management and repricing benefits.

Now profitability and capital position. Our net interest margin in absolute terms grew by 16% Y-o-Y in Q1FY26. Net interest margin as a percentage of total assets expanded by 17 bps Y-o-Y to 7.48% in Q1FY26. We remain well capitalized with a net worth of Rs. 45.1 bn and capital to risk-weighted assets ratio (CRAR) is 43.2%, significantly above the regulatory requirements.

Now I would hand over to line to our CRO, Mr. Ashutosh Atre, to discuss the assets quality.

**Ashutosh Atre:**

Thank you, Ghanshyam ji. Good evening, everyone. I am pleased to share the key portfolio risk parameters with you.

Aavas is strongly positioned to continue delivering industry-leading asset quality. Our asset quality remains within the guided range with 1+DPD well below 5% at 4.15% in Q1FY26 and Gross Stage 3 and Net Stage 3 under 1.25%, stood at 1.22% and 0.84%, respectively. We did observe some seasonal upticks in delinquencies during the quarter as is typical in the first quarter. However, 1+DPD levels have already shown normalization trends in July, reinforcing our confidence in the stability and resilience of the portfolio.

In terms of geography, average 1+DPD and GNPA in our home state continues to remain well below 4% and 1% of AUM, respectively. Whereas some emerging states of North continue to have 1+DPD and GNPA well below 3% and 1% of AUM, respectively.

Similarly, in terms of ticket size of more than Rs. 5 lakh, 1+DPD and GNPA remained well below 4% and 1% of AUM. Our total ECL provisioning, including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs. 1.14 bn as of 30th June 2025.

Our disciplined underwriting standards, coupled with the proactive risk management framework, have enabled us to stay ahead of emerging macroeconomic challenges. While several peers have reported asset quality pressure due to sectoral or regional headwinds, our portfolio has remained resilient.

We continue to follow a rigorous credit assessment process; stress tested across multiple economic scenarios and remain selectively calibrated in our exposure to high-risk segments. This approach has helped us preserve asset quality, which continues to rank among the best in the industry.

Barring few isolated pockets, we are not seeing any broad-based credit quality concerns. Our early warning systems remain stable. And with credit performance well under control, we expect growth to start picking up in the coming quarters.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from Citigroup.

**Kunal Shah:** So firstly, in respect to disbursements, so you indicated because of change in the recognition, the way now we are doing it with the credit to the customers. So, would this have the recurring effect over the next 2, 3 quarters and for the entire fiscal as well or do we expect that whatever business maybe we were not able to book it in 1Q, that would happen in 2Q and 3Q, and we could see a relatively higher run rate of disbursements over the next 2 quarters? And just to clarify, this 18% to 20%, which you highlighted for FY26, that was with respect to disbursement growth or AUM growth?

**Sachinder Bhinder:** Yes. Thanks, Kunal. To answer on the 18% to 20%, that is the AUM growth, which I referred to. Secondly, you are spot on, on saying that whatever we've had because of this realization, as one of the metrics, we will cover that up in Q2 and Q3. This is a ruling impact which happens because we had, including the cheque cut, if you would look at, we would have had been in a double-digit kind of a scenario on the disbursement. But as we trend into the new quarters, which are Q2 and Q3, we will see that it's settling down.

**Kunal Shah:** So, when you say like July disbursements are growing at 16-odd percent. So, what is the run rate now in terms of the absolute number?

**Sachinder Bhinder:** So, on a run rate, we are anywhere close to Rs. 600 crores, if I were to really put that in perspective, Rs. 550 crores to Rs. 600 crores is the current run rate, which is there.

**Kunal Shah:** So, July we have got to Rs. 550 crores, Rs. 600 crores?

**Sachinder Bhinder:** Yes, that's the range. So, as we speak, we have 16% Y-o-Y. And these are, Kunal, fully cheque realized, which we're referring to.

**Kunal Shah:** Yes. So, compared to maybe less than Rs. 400 crores, which is there on average for 1Q, we are back to Rs. 550 crores, Rs. 600-odd crores?

**Sachinder Bhinder:** Yes, spot on.

**Kunal Shah:** Yes. And secondly, maybe we saw one of the peers getting the credit rating upgrade. So, I wanted to check with respect to credit rating.

**Ghanshyam Rawat:** As we are above Rs. 200 bn of AUM. Assets quality is pristine at 1+ and 90+. Our lifetime write-off is one of the best in the industry, which is just 11 bps. On the liability side, we are one of the best franchises. So, by seeing all these things, we are quite optimistic, and we are engaging with the rating agencies. Our existing rating agencies

are CARE and ICRA. We are engaging with both. And we are hopeful they will take up our case positively.

But ultimately, we want to say, all rating agencies are very independent rating agencies. It is their own decisions while assessing every company. But as management, we feel confident our case is due for rating positive lookup in the coming quarter.

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

**Shreepal Doshi:** My question was on asset quality front. So, while there are some green shots as you highlighted visible in the month of July. But if you look at the 1Q performance versus the other 1Q performances, the DPD deterioration has been much higher. So, what would you attribute this relatively higher deterioration in the DPD movement or even, let's say, GS3 numbers? And I think you also highlighted there are some pockets where relatively the DPD deterioration has been much higher. So, which are these pockets?

**Sachinder Bhinder:** Thanks, Shreepal. There is a 14-bps Q-o-Q increase in the GNPA, and this is largely seasonal in nature. So historically, Q1 tends to show some movement in delinquencies due to timing factors. And typically, we see recovering starting in Q2 with normalization by Q3 and Q4 well within our guided range.

As for the 1+DPD, it has risen approximately 76 bps Q-o-Q. Again, this is primarily seasonal. Encouragingly, we've already seen a reversal in July, which has closed below the 4% mark, indicating the trend is stabilizing.

From a geographic lens, we had highlighted a few markets where delinquency showed some spike. In response, we have proactively tightened credit norms in those areas. I would like to emphasize that there's nothing alarming. We understand these markets well and are familiar with their cyclical patterns.

Furthermore, we've already seen early resolutions happening in the current quarter and are confident of a rollback in delinquencies in Q2. Lastly, since we report GNPA on the loan book and given that the book size doesn't grow meaningfully this quarter, there is always a 2 to 3 bps impact from a denominator effect, which has slightly exaggerated the GNPA ratio.

**Shreepal Doshi:** Got it. Sir, which pockets are the, if you could highlight that will be very helpful.

**Sachinder Bhinder:** Yes. On the specific pocket, as earlier spoken by our CRO, we are seeing some part of that in Maharashtra, MP and a little bit on Karnataka.

**Shreepal Doshi:** Got it. And sir, my next question was to Ghanshyam, sir. What percentage of our bank borrowing is linked to repo and T-Bill? I recall you said it's higher percentages, but what percentage is it?

**Ghanshyam Rawat:** We have around 38% linked to repo and let's say, T-Bill and other EBLR-linked benchmarks, which is truly driven by how the rate of interest is moving interest rate scenario.

**Shreepal Doshi:** So, 62% is linked with the MCLR?

- Ghanshyam Rawat:** Not 100%. Out of that balance is roughly 24%- 25% linked to up to 3-month MCLR basically, 1-month MCLR. So, those are faster moving buckets when banks start to pass on the transition repo link on the MCLR front.
- Rakesh Shinde:** Shreepal, 38% is linked to EBLR, 22% is fixed and 40% is linked to MCLR.
- Shreepal Doshi:** Okay. Got it. And one last question. On the NHB borrowing front, what was the rate that you were able to garner these funds?
- Ghanshyam Rawat:** Generally, when NHB give the loan, it gives under various schemes like Pradhan Mantri Awas Yojana, women ownership empowerment fund which they have. But on average, it comes roughly 7% depending upon what rate they are giving that quarter.
- Shreepal Doshi:** Okay. Because in previous quarters, you had highlighted that there was not a material difference between, let's say, market-linked borrowing versus the NHB because the NHB itself does not have much of the funds from the funded schemes. So, I think now you are saying that there is some benefit under from these schemes?
- Ghanshyam Rawat:** Yes. NHB borrowing is always an important piece of funding as it is a long-term borrowing. Yes. But after reduction in repo rate, 3-year, 7-year AA, AA+ rated paper has also brought down to 7.5% in the market.
- Moderator:** The next question is from the line of Chintan Shah from ICICI Securities.
- Chintan Shah:** Yes. So firstly, sir, on the disbursement front, so given that we have moved to a realization-based model, had we not moved to this model, then what would have been the disbursements for the quarter?
- Sachinder Bhinder:** Yes, Chintan. As highlighted in my opening remarks, Chintan, the primary reason for the impact of the quarter has been the operational shift and how we recognize the disbursement. Starting Q1, we had moved to cheque realization-based recognition process. This means as we now record disbursements only once the funds are credited to the customer's account rather than at the time of cheque issuance. This change has led to the significant drop in our sanction-to-disbursement conversion ratio, which declined by ~10% to <75%.
- Typically, once a cheque is handed over to the customer, it takes about 15 to 30 days to get credited depending upon the specific cases and specific geographies and the type of transaction. As a result, Chintan, any cheque which is issued close to 15th or 20th of the month may get realized within the same month, effectively pushing the month end for recognition purposes earlier than actual calendar month end. Having said this, it is also important that certain product categories such as MSME and LAP under our NHL segment were not impacted. They operate on 100% RTGS disbursement. In home loan products like self-construction, plot plus construction also saw a limited impact. However, categories like builder purchase and resale purchase were more severely affected due to the cheque-based disbursement structure. From a business activity perspective, if we would have had the same one, we would have been in double-digit growth.
- Chintan Shah:** Sorry, double-digit growth on the disbursement versus 5% Y-o-Y decline, right?
- Sachinder Bhinder:** Yes. Right.



**Chintan Shah:** Sure. That's on a Y-o-Y basis. Okay. Sure. Got it. And sir, on this builder finance, how much contribution in our disbursement would be from the builder finance?

**Sachinder Bhinder:** So, this is not about builder finance. It is a purchase where the person is buying based on the allotment by the builder or a resale purchase. And as you would appreciate, this takes its own time. And by the time the cheque realization happens, it has a definite period of anything where it ranges from 15 to 45 days depending upon the geography, the location and the type of transactions.

**Chintan Shah:** Yes. So, I mean to say that builder finance means wherever we are financing to the customer who has purchased from the builder, like typically, this disbursement would be like 15%, 20% of the total disbursements.

**Sachinder Bhinder:** No, it's about 5 to 10 %, not more than that because we are there in self-construction individual house and primarily in Tier 3 to Tier 5 markets. So, this is not one of the builder supply-led kinds of market that we focus on.

**Chintan Shah:** Sorry, I just missed that number. You said 5% to 10%, right?

**Sachinder Bhinder:** Yes.

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

**Abhijit Tibrewal:** Sir, 2 things. Sir, first thing is just trying to understand from what you have reported in terms of yields, it looks like we have not done any PLR changes during the quarter. So just trying to understand in July and August, have we made any PLR changes?

**Sachinder Bhinder:** No, we've not made any PLR changes in the quarter.

**Abhijit Tibrewal:** Got it. And what's the thought process like now? I mean we will also be reviewing sometime in the third quarter is what most of your peers have shared. Is that the same thought process we also have that PLRs will be reviewed sometime in the third quarter?

**Ghanshyam Rawat:** As you see, our cost of borrowing, we have seen a 22-bps improvement Q-o-Q. And we want to see another one more quarter how the entire cost of borrowing pans out. Then accordingly, I think we will take, as you rightly said, somewhere second quarter end or in third quarter, we will see how the overall transition of reduction in interest rate by RBI is panning out in overall cost of borrowing, overall lending profile. Accordingly, we will decide at that point of time.

**Abhijit Tibrewal:** Got it, Ghanshyam ji. And then the only other question, Sachinder sir, that I had was on asset quality. It has already been discussed by a few participants earlier. But what I'm trying to understand, I mean, we have always come across as an affordable housing franchise, which has the best infrastructure or collection franchise.

And despite that, I mean, a 76-bps Q-o-Q deterioration in 1+DPD, if my memory serves me right, only during the second COVID wave, did we see such kind of deterioration. So, beyond the seasonality, right, and you also shared that things are looking better, the 1+ DPD number has declined below 4% in July. But we've seen this kind of deterioration, which was more pronounced than just seasonality in this quarter. So, can you share with us in this broader forum, what is led to this in your view? And what is now kind of leading to recovery? Because a lot of times, we hear this is because of macro economy, a weak macro, right? But macros have not really

improved in the last maybe 1 or 2 months. So, what is it that led to this? And in your view, what is kind of leading to the recovery now?

**Sachinder Bhinder:** See, on the part of 1+, when you're referring to the COVID, it had ranged beyond 7%-8%. So, we never crossed 5% on our side as far as the 1+ is concerned. And as we speak, I already highlighted, in the month of July, which I have gone on record to say that we've pulled back and 1+DPD levels have really shown normalization in July. So, there is confidence in stability and resilience. That's point number one.

Point number two, in our some of the geographies which I have highlighted are average, which are our home state, which is the bulk of our AUM plus the northern states where 1+ is below 4%, GNPA is below 1% of this. Some of the states which I earlier highlighted in the call, which is Maharashtra, some parts of Madhya Pradesh and a little bit of Karnataka have really shown the spike. And some part was seasonal and some part there, we've pulled back on the credit side and really tightening our norms to the segment which we serve. And specifically, if I were to talk about it, it is in less than Rs. 5 lakhs segment, which we've seen the elevated levels.

**Abhijit Tibrewal:** Got it. And sir, just a follow-up there. In the state of Gujarat, particularly Surat or somewhere, we're not seeing anything unusual?

**Sachinder Bhinder:** No, we've not seen anything -- any unusual or material deterioration as far as that is concerned, whether it is Surat or whether it is any of the locations in Gujarat. And these also, we are cognizant of the fact, and we are confident of really pulling it back as we trend in this quarter. And some of the green shoots, as already highlighted, are the 1+ claw-back, which has happened.

And Q1 typically seasonally actually had moved up. So, 2 or 3 factors which led to that, but July is really the data, and our numbers really talk about what we've really put in and our efforts really fructifying into crystallizing the efforts and pulling it back. And as a credit first and the risk first institution, we always believed quality over quantity. So, if you look at the perspective of these states, where sanction ratios will be well below the other home state and the states where we have functioned. We've tightened our credit bucket. We've tightened our qualifiers when it comes to the segments, the geographies and the products.

**Abhijit Tibrewal:** Got it, sir. And sir, lastly, if I can ask, you shared that this is a onetime impact, and we understand something similar in 1Q of last year, where RBI had come out with a circular right, wherein we said that only after the cheque is handed over, should we recognize disbursement. I'm glad this is one step forward now where we say only when the money gets credited to the customers' account is where we will show it as disbursement.

But just trying to understand on a rolling basis, right, I mean, while 2Q, 3Q will be better, but whatever we lost out in 1Q, how will they be made up? Because whatever you may be hand over in terms of cheques in the month of February or March, they will eventually get in cash or credited only in April next year?

**Sachinder Bhinder:** So, I think as you start building upon that kitty of cheque, which is cut depending upon the transaction, there is a rollover period which starts moving across. It's not that the disbursement is lost. When we say that there's already a cheque, there's a

transaction which has to be completed depending upon the type of transaction, as re-sales, as builder purchase as a part of those transactions, it takes its own time.

So, unlike normal times, we would have been wary of the fact that there were no cheque cuts, if there were no disbursements really on the level of cheque cuts not happening, would have been a concerning point. So, you build across a pipeline, and you build that pipeline and the pipeline has a rollover impact coming across depending upon when it gets credited and when it gets realized in customers' account. So yes, the Q1 had an impact. But Q2, Q3 onwards, it will have a rolling impact, which would be there.

Aavas has always believed in governance and quality first. And I think this is a historic step to really go across and get this on ethic. It's a big change for the distribution, for the teams and for us as well. But we believe what is right from an institutional perspective, from a governance perspective, from a fair practice for customer transparency, it's a bold step by Aavas as an institution.

**Moderator:** The next question is from the line of Bhavesh Kanani from Svan Investments. Yes, Mr. Bhavesh, go with the question, please.

**Bhavesh Kanani:** Yes, Sir, just curious on this realization impacting the disbursements. While we are using cheque as an instrument to disburse the money, any reason why we are not pushing out disbursement to, let's say, NEFT, IMPS route so that the credit is faster? And even the period that you mentioned, 10, 15 days before which the cheque is credited, that sounds unusually longer than one would expect. So, this is one.

And second, more of a clarification. You mentioned that the 1+DPD sequential increase, we have seen is already normalizing in July. So, should we expect Q2, 1+DPD number to be flat Y-o-Y?

**Sachinder Bhinder:** See, I'll answer your 2 questions. The first question is on the type of transaction. If you look at -- I highlighted, when the transaction type is typically an MSME or a LAP or a top-up wherein the RTGS space or where the construction is there, self-construction, the first disbursement tranche is happening, those are the ones which will go through as far as RTGS is concerned.

The nature of transaction when it is a resale and as you will appreciate, resale has its own time between the buyer and the seller negotiating, the time when he gets a token for registration, all that, it's a long-drawn process, which really builds across when it comes to building the cheque getting issued, getting realized. It is subject to the transaction really going through. So that is the nature of the transaction of resale or in the case of fresh builder purchase. So, these are the typical 2 transactions where you have to really hold on to the time. And certain geographies like Gujarat, Maharashtra and other places like Karnataka was there, where e-Khatas and others had a long-standing queue when it came to completing the transaction. So those are very nature of geography and the nature of the places which you really operate in.

So primarily, the type of transaction and the nature of the normal Sub-Registrar Office really defines how much time it will take. But the positive side, if you look at it, even with that, neither do we charge any interest to the customer nor we realize that from a disbursement perspective. So, we are neutral on that actually.

**Bhavesh Kanani:** Got it, sir.

- Sachinder Bhinder:** Yes. Second question of yours on 1-day DPD, 1-day DPD July is lower than the last year Q2. And I already highlighted that it is below 4%. And with our efforts and understanding of risk and credit and part of it, we are confident of rolling it back and being in a guided range of less than 5%.
- Bhavesh Kanani:** I understand, and I appreciate the confidence you have of rolling it back. Just want to get it specific that when we say roll back, are we confident of getting back to Q2 last year?
- Sachinder Bhinder:** Yes, yes, that's what we said that we remain in the guided range of less than 5%. And one of the green shoots clearly, I already talked about are the July numbers which are on record. So that gives us confidence.
- Bhavesh Kanani:** Sure. Sir, just last one on the same point. While you explained the geographical perspective of where this 1+ DPD deterioration is coming from, any common thread from borrowers' profile perspective, which could have led to this sequential movement?
- Sachinder Bhinder:** I think one thing which is clear-cut spanning out is less than Rs. 5 lakhs, if I were to look at in these geographies. But that's not the case in the other geographies like Rajasthan, Haryana, Delhi and UP, which I mentioned. These are the geographies in Maharashtra, MP and Karnataka, so to say, which is less than Rs. 5 lakhs, which we've seen the spike in elevated levels when it comes to the ticket size.
- Bhavesh Kanani:** Any common thread on occupation type of the borrower, which may be more impacted than the others?
- Sachinder Bhinder:** Nothing specific, which we really have been able to figure that out. So, it is less than Rs. 5 lakh segment, which is hitting, and smaller cities in the smaller ticket size, which is there.
- Moderator:** The next question is from the line of Raghav Garg from Ambit Capital.
- Raghav Garg:** I have 2 questions. One, I noticed that your employees per branch, that number has been going up since last 2 quarters, which is leading to higher growth in employee expenses also. So, I wanted to understand what is your strategy in terms of branch staffing and why have we increased people at the branches in the last 2, 3 quarters? That's my first question.
- And then my other question, in this same backdrop, how do you continue to deliver on opex efficiency because now you're saying 18%, 20% AUM growth but with probably a higher employee base? Those are my 2 specific questions.
- Sachinder Bhinder:** Thanks, Raghav. See, on your question of the employee increase, if you look at the Q4, we added branches in the last Q4 that had an increase in our employee strength. And going forward, we will add new branches in Tamil Nadu, as I spoke on the call. So this front-loading of the thing is not where we've already had the branches, so we had to put the manpower in place.
- Raghav Garg:** Sorry to interject you, but I've been looking at this trend of employees per branch, which is a simple calculation of employees divided by branches, whereas some quarters ago, that number used to be, say, 15-16, now it has come up to 18. And hence, the question on employees increase in our branches.

**Sachinder Bhinder:** Raghav, I really appreciate your question. See, if you look at -- we never had the earlier tie-ups of digital fulfillment like CSC, eMitra and the India Post Payment Bank. The CSC is the one which is a new tie-up which is there, and which has started giving us green shoots. So that required for a fulfillment perspective, the staff to be there to handle that channel and to engage and to get the business out of that channel. So, I think that's one part as far as digital channels are concerned, addition of the manpower.

Secondly is on the branch side. So, these 2 cumulative added actually has increased the manpower, and we have not added manpower compared to -- if you look at last 2 years, we never added manpower, rather, we continued the one. This is a time when the channel addition happened and the branch addition happened.

And last 2 years, we've been into a transformation and transition phase. We completed with that. Now with growth and expansion of the states and the geographies in place, that's going to be our focus areas.

**Raghav Garg:** Sir, understood. But coming back to the original question, while good to see that you're adding employees and you're adding channels, but it is also resulting in a higher growth in the employee cost versus the AUM growth, which is negating the opex efficiency manifest that we understand, right? So, I wanted to understand from that perspective also that you're guiding for AUM growth, but also with a higher employee base and probably higher employee cost.

**Sachinder Bhinder:** Yes. So, Raghav, we will really appreciate when you put across the branches, we should, as a franchise in the last 2 years, we were flat on the employee side. Once we've added the channels, we have added the branches, we've added the employees as a result of which, their conversions or their really productivity doesn't set in, in the first couple of months, right? So, I think we'll have to give the time really for the channel as well as the branches really to complete and increase the productivity rates. While I look at it as an investment in our employee base, which we will be able to monetize in the coming quarters. We are confident on that.

And we continue our view of cost optimization, which we've continued monitored across saying that we'll try to be operationally efficient. So, this is the current investment, which is there to support the business growth.

**Moderator:** The next question is from the line of Harshit Toshniwal from Premji Invest.

**Harshit Toshniwal:** Sir, I just had one question to understand it better that there would be a point of time from which we would have changed the disbursement recognition, say, somewhere in the start of the 1Q, if I assume. Then am I right in the assumption that our 2Q number will be higher than a regular because there will be some flow-through from the end of the 1Q flows and 2Q will remain the way it is?

And in that context, should we assume that if you say, for example, look at the H1 disbursement post 2Q versus the H1 disbursement last year, then it will be a like-to-like comparison itself. And am I reading it right that it's just a Q1 disbursement shifting to Q2, that is the only impact of the change and H1 versus H1 will be same comparison?

**Sachinder Bhinder:** Yes, you're spot on, and you articulated it very well. The one, which is the rollover of Q1 will have an impact and rolling positive impact on Q2 and the real comparison

would be H1 versus H1. So, spot on, on your value of evaluation and articulation of the quantum of the rollover.

**Harshit Toshniwal:** Understood. So, sir, just on the July number, which you said Rs. 600 crores, then...

**Sachinder Bhinder:** Rs. 550 crores to Rs. 600 crores.

**Harshit Toshniwal:** Right. So that is having that advantage of some flow-through from June.

**Sachinder Bhinder:** Yes, right.

**Harshit Toshniwal:** Okay. Got it. And the second -- yes, sorry.

**Sachinder Bhinder:** See, as you rightly pointed out, there is some part of cheque cut. As I talked about, it takes somewhere between 15 to 30 days and some transactions 30 to 45 days. So, some which got in the month of May got in June, some part of latter end of May got in the first week of July. And June really transformed and rolled back to the month of August. So, there is a lowering impact, which really comes in.

**Harshit Toshniwal:** Got it. Sir, even though I'm just trying to clarify myself itself on Y-o-Y basis, will it be like-to-like comparison or not is what I'm thinking? Because will it be or not is the one question. And second, sir, also to add to it that if you look at the industry, other players itself, I'm not asking names or etcetera, but are we the only one who are following this right now or has the industry already shifted to a large extent? I'm not sure if some other player would have commented on this point itself, but just wanted to get your understanding?

**Ghanshyam Rawat:** We can't comment on the industry. I think everybody has their own way. But as Aavas, we always believe in the best level of governance and fair practice when we deal with our customers. So, we discuss at a Board level and Board has also guided us it's better to transit from cheque to real money when we put in the pocket of a customer on that day, we did the disbursement as well as we charge the interest from that day.

It has impact on the business. As Sachinder ji, I think mentioned, and I think 1 or 2, 3, 4 questions have come on this topic, and I think we tried from our side to answer that questions. But it has impacted our business in this quarter. And then after it created an opening buffer, then rolling buffer will help us to maintain our business in Q-o-Q.

**Harshit Toshniwal:** Got it. Sir, one final thing, if I may ask just one last question, that our employee per branch of 18, so to Raghav's question, there is slight increase, but I'm saying that if I compare it to any other peer, that number is around 11, 12 at best, I think even for the peers also that 11, 12 number is I'm seeing is at the highest one. I'm just trying to understand that is there a rationalization program or what could be the reasons that our employee per branch is so high to that extent?

**Sachinder Bhinder:** So, if you look at our direct distribution model, the majority is direct distribution. In the direct distribution model, the employee on roles would be higher than what typically intermediate-led or channel-led kind of distribution would happen. So that's the primary difference when you compare to the cohort which you are really comparing with. So, this has a positive impact. If you look at from the perspective of 2 things I would clearly highlight is the quality which we demonstrate over a period of the last 13 years. Second is on the BT out because it's direct source, the control of the

customer with us is much more pronounced with us. So, as a result of which our BT out percentage is the lowest at 4.9%.

**Harshit Toshniwal.:** Sir, I was just looking at the calculated repayment rate, sir. If I just do a basic calculation, then that 16%, 17% of annualized run rate, repayment rate is something which is very similar across all players. And so, I'm just trying to differentiate. I'm not sure within that repayment, obviously, it will be some BT out, some regular payments. But I'm just trying to understand that then even if we look at the other peers, there the intermediate channel would be a part, but direct would be a larger part of the sourcing is what our understanding was that. So, I'm just trying to understand that from your perspective, is this 18 is just a matter of the business model or there is more to do with it and more related to efficiency, which we have room to improve in that case?

**Sachinder Bhinder:** So, I think there are 2 points. One point is on the BT out. If you compare it with the cohort, which is there, I think you would really have the numbers, and I can really tell you with confidence that we would be the lowest at 4.9% of the BT out.

Secondly, I think from the perspective of referring about 18% of that, that's a function of how much the part prepayment on those really happening fast. But the comparison is the normal rundown, which is on the tenure. Second is a part prepayment and third is the BT out. I think that component, which we are very watchful, and we are mindful is the lowest, which is at 4.9%.

And as you really build the digital channels, others which are direct sourced, but sourced through one requires manpower and requires a field force really to complete that. And a certain part of it really starts investing earlier than finally giving you that productivity.

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

**Sanket Chedda:** Yes, sir, just to allude on the previous question that this Q1 disbursements were weaker than last Q1. And if you put together the first half for last year and this year, you mentioned that it would be similar. Is that right?

**Sachinder Bhinder:** What similar, Sanket, come again?

**Sanket Chedda:** So, first quarter disbursement is slightly lower than last year's first quarter. But as Harshit highlighted that maybe Q2, if you include Q2, then first half of this year will be similar to first half of last year in terms of disbursement to which ordered?

**Sachinder Bhinder:** No, we talked about that comparable ones will come across where you have the rollover of the first quarter coming to quarter 2. We've not told that H1 will be equivalent to H1 of last year. So, if that is the impression which you are holding. H1 to H1 will be higher.

And one we've gone out and talked about July-to-July comparison, which was there. So, I went on, Rs. 550 crores to Rs. 600 crores is the disbursement, which is there, which is 16% compared to the previous July, actually, if you were to really look at it.

**Sanket Chedda:** Okay. And this July, the disbursements have grown 16% over last July?

**Sachinder Bhinder:** Yes. And we are confident, because of this rollover and others in July, August, September, we are confident of growth, which is in range of double-digit growth.

**Sanket Chedda:** Okay. And sir, full year loan growth guidance you alluded to would be 18%, 20%. The similar run rate we should assume on the disbursement.

**Sachinder Bhinder:** Yes. See, we have guided the AUM growth, and we are confident with our kind of efforts in quarter 2 really giving us a good upside. We will continue to be in the range of 18% to 20% of the AUM side.

**Sanket Chedda:** Okay. And this is for this year or maybe going ahead also, this is a new normalized level of growth guidance that you would carry?

**Sachinder Bhinder:** So, I think once we stabilize, if you look at the Q1, so Q1 really cover up doesn't happen as you really would appreciate. As we get into the next financial year, we come back to our guidance of between 20-25% once this everything settles down.

So, I think if you look at last couple of years, the tech transformation, the transition and this bold step of doing what is right from a fair practice code and customer transparency, all that settling down. That impact would get finally over in the current financial year. And the next financial year, we would look at 20-25 % of AUM growth.

**Sanket Chedda:** Sure, sir. And lastly, last year went into tech upgradation and we did expect some operating efficiency to kick in maybe going ahead. Do you see that coming anytime soon in this year? If yes, how much of opex benefit that we should assume maybe this year or next year?

**Sachinder Bhinder:** I think we continuously focus and guide across getting the tech transformation and something which we've done over a period. If you look at the 3 clear-cut demonstrable ones was the TAT, which has come down from 13 days to 6 days. If this tech transformation not been there, doing this online disbursement, realization disbursement would never have been possible for us.

I think that is a move forward, which is helping us to do what we are doing at this period of time because of the underlying tech, which is available to us, giving us good governance, compliance and customer transparency for our transitioning.

With everything done and dusted with us from a tech transformation perspective, from a perspective of transition, we are there to really get that growth coming back and going ahead. And again, doing whatever is required from a cost optimization perspective as we start seeing that green shoots really coming across, we will continue to guide that we will work across towards the cost optimization, which is led by technology, keeping risk and quality intact.

**Moderator:** Ladies and gentlemen, as that was the last question for the day, I will now hand the conference over to the management for the closing comments. Over to you, sir.

**Sachinder Bhinder:** Ladies and gentlemen, as we conclude today's earnings call, I want to express my heartfelt gratitude to each one of you for your participation and engagement. The dedication of our team, the trust of our shareholders and the loyalty of our customers have been instrumental in our growth.

I express my deepest gratitude to all our regulators and stakeholders whose constant faith and support have been the wind beneath our wings. We remain optimistic about the future and are confident that our strategic initiatives will continue to drive sustainable growth and shareholder value. If you have any further questions or require



additional information, please feel free to reach out to Rakesh, our Head of Investor Relations.

Thank you and have a wonderful time ahead. God bless.

**Moderator:**

Thank you. On behalf of Aavas Financiers Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.