"Aavas Financiers Limited
Q1FY27 Earnings Conference Call"
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*Subject to RBI approval

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Moderator: Ladies and gentlemen, good evening and welcome to the Aavas Financiers Limited Q1FY27 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 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. There will be an opportunity for you to ask questions after the presentation concludes. Please note that the conference is being recorded.

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

Rakesh Shinde: Thank you, Swapnil. Good evening, everyone, and a very warm welcome to all participants joining us today to discuss the financial and operating performance of Aavas Financiers Limited for Q1FY27. The results and the investor presentation have been uploaded on the stock exchanges and are also available on our website. I hope you have had a chance to review them. We have also uploaded an excel fact sheet containing historical data on our website for your easy reference. Joining me today is the entire management team of Aavas. We will begin this call with an opening remark from our CEO, Manu Singh and interim CFO, Ghanshyam Gupta. This will be followed by a Q&A session. With that, let me now hand over the call to Manu. Over to you, Manu.

Manu Singh: Thank you, Rakesh. And a very good evening to everyone joining us today. We appreciate you being here. Q1FY27 has been a strong quarter for Aavas and marks an important milestone in our growth journey. The strong performance during the quarter reflects a business that is becoming faster, fitter, more productive, with greater accountability and sharper execution across our organization.

We have started the year on a very strong note. During the quarter, we disbursed loans worth Rs.16.1 billion, delivering a robust growth of 41% Y-o-Y albeit on a lower base. This performance was broad-based and driven by a strong pickup in volumes, meaningful improvement in resource productivity, and healthy 38% Y-o-Y growth in the home loan segment. The quarter reflects the early benefits of our focused execution strategy, stronger field level accountability and continued emphasis on customer acquisition. The momentum witnessed during the quarter strengthens our confidence in our strategic initiatives which are underway and provide a solid foundation for the rest of the year.

Our AUM grew by 15.4% Y-o-Y to Rs. 239.3 billion as of June end. Encouragingly, our monthly AUM addition improved by nearly 50% Y-o-Y during the quarter, enabling us to achieve in three months what previously took close to five months. This reflects the positive impact of our efforts around customer acquisition, productivity and execution sharpness. It is a long journey ahead.

These improvements give us confidence that Aavas is well positioned to accelerate growth and deliver sustainable 20% growth over the medium term. We deliver 23% Y-o-Y growth in net profits, driven by a healthy 18% Y-o-Y growth in NII, supported by robust business growth. In addition, improved operating efficiencies reflected a 254 bps Y-o-Y improvement in our cost-to-income ratio, which further strengthened profitability during the quarter.

As we move ahead, our focus remains on unlocking the full potential of our franchise and translating it into superior operating performance. Our priorities are accelerating customer acquisition, improving productivity, driving higher revenue per resource, enhancing our branch profitability, and getting our product and sourcing mix right with increased operating leverage. We are also leveraging data and technology to strengthen decision making, improving conversion across the login to disbursement funnel, strengthening governance, processes, and delivering superior customer experiences across our lifecycle.

Importantly, our first credit approach continues to underpin our best-in-class asset quality. Our 1+DPD improved by 39 bps Y-o-Y, reflecting the strength of our underwriting as well as collections. As a result, our gross NPAs improved by 11 bps Y-o-Y, further reinforcing the resilience of our portfolio.

During the quarter, we expanded our branch network to 440 across 15 states. We will continue to invest in branch expansion to further deepen and diversify our presence. At the same time, our focus firmly remains on ensuring faster branch-level break-evens and closely monitoring performance of newly opened branches to drive better productivity and profitability both.

With clear accountability across functions and a strong alignment throughout the organization, we are embedding greater execution, discipline and rigor at every layer of the business, underpinned by an unwavering commitment to compliance and governance. Our collective ambition is anchored in a simple philosophy, people, performance, perseverance.

With that preamble, I would now take you through our quarterly performance. Our net profit for Q1FY27 grew by 23% Y-o-Y to Rs. 1.71 billion led by a robust 18% Y-o-Y growth in NII on account of healthy improvement in our NIMS. 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 NIMs expanded by 22 bps Y-o-Y to 7.70% during the quarter, supported by improvement in cost of borrowing coupled with our continued focus on risk adjustment pricing. Our cost-to-income ratio improved by 254 bps Y-o-Y to 43.7% in Q1FY27, driven by better cost efficiencies. As a result, our operating cost-to-assets ratio improved by 9 bps Y-o-Y to 3.37%.

We continue to deliver industry-leading asset quality with all key indicators trending positively and remaining well within our guided range. Our one-plus DPD improved by 39 bps Y-o-Y to 3.76 % in Q1, remaining comfortably below 5%. Gross Stage 3 improved by 11 bps Y-o-Y to 1.11% while net stage 3 improved by 13 bps Y-o-Y to 0.71%. Underscoring the resilience of our portfolio over time and effectiveness of our credit first approach, which continues to be the pivot of our operating mechanism. Credit costs stood at 24 bps, well within our guided ranges.

Our ROA improved by 25 bps, Y-o-Y to 3.19 % and ROE improving by 78 bps to 13.34% in this quarter. We remain focused on delivering quality, profitable growth with strong risk discipline, tech-led efficiencies, consistently creating long-term value for all our stakeholders.

With that, ladies and gentlemen, I would now hand over to Mr. Ghanshyam Gupta to discuss the financials in detail with you.

Ghanshyam Gupta: Thank you, Manu. Good evening, everyone and a warm welcome to our earnings call. To provide an update on the borrowing side, the quarter closed on a constructive note, with Aavas maintaining a stable cost of borrowing despite a volatile interest rate environment and uncertain geopolitical backdrop. This underscored the strength of our diversified liability franchise and strong lender relationships. We continue to enjoy broad-based lender support, providing us with access to diversified, long-term, and cost-effective funding to support future growth.

We continue to borrow judiciously, raising around Rs.14.74 billion at a competitive rate of 7.74% for Q1. Total outstanding borrowings stood at Rs. 207 billion, a well-diversified liability franchise linked with various benchmarks and at competitive prices. We were able to deliver a 38-basis point year-over-year improvement in our cost of funds for current year Q1.

During the quarter, we implemented an additional 10-basis point reduction in our PLR, effective June 2026, taking the cumulative reduction of 25-basis point since March 2026 and passing on the benefit for the interest of the customer. As a result, our spread moderated and stood at 5.06% during the quarter.

Our average tenure of borrowing continued to be longer than our assets, ensuring a positive ALM across all the time buckets. We have optimum mix of various benchmarks of interest rates, such as 42% of borrowings linked to external benchmarks such as Repo, T-Bill and MIBOR and 34% linked to sub 3 months MCLR, enabling faster re-pricing to nearly 76% of our borrowings in line with interest rate movements. As of 30th June 2026, we maintained ample liquidity, including cash and cash equivalent and unavailed CC limits up to Rs.18.8 billion. Documented unavailed sanctions are Rs.4.85 billion.

In terms of profitability and capital position our NII for the quarter grew by 18% Y-o-Y, our NIM in absolute terms grown by 17% year over year, and the NIM as a percentage of total assets expanded by 22 bps year-over-year to 7.70%. Our disciplined cost management approach coupled with a continued focus on profitable growth has started yielding encouraging results reflected in a 254-basis points year-over-year improvement in our cost-to-income ratio to 43.7 % in Q1FY27. Our pre-provisioning operating profit grew by 22% year-over-year to Rs.2.33 billion.

Our PAT growth was 23% Y-o-Y leading to a ROE expansion of 25-basis point year-over-year to 3.19% and ROE improvement by 78 bps Y-o-Y to 13.34%. We remained well capitalized with a net worth of Rs.52.2 billion and a capital-to-risk weighted assets ratio CAR of 44.66%, significantly above the regulatory requirements. With these words, I just open the floor for Q&A.

Moderator: Thank you so much. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may click on the raise hand icon from the participants tab on your screen. We request participants to restrict each to two questions and then return to the queue for more questions. To rejoin the queue, you may click on the raise hand icon again. We will wait for a few minutes until the question queue assembles.

We will take a first question from Prashant Poddar of ADIA. Prashant, you can unmute your microphone and go ahead, please.

Prashant Poddar: Hi, everyone. Manu, quickly, if you can help us understand two things, one on competitive environment in the two or three categories of loans that you participate in any geographical and if you can share a heat map also in terms of competitive environment and therefore its impact on potential profitability outlook or margin outlook or spread outlook on the business for the full year.

Second question is how much of if at all any if you expect spread compression how much of that can be addressed by operating leverage? Yes, these are my two questions.

Manu Singh: Thanks Prashant. I think I will answer both the questions together. First on the question of competitive environment, I do think that we are witnessing healthy competition across geographies. Yes, there is pressure on spreads. As I look for the complete year, I do believe that spread compression from the existing point will take spread to go sub-5%. However, I am clear on the operating levers that we have put into action are showing results in Q1 and the ROE and ROA outlook remain stable.

There are enough and more opportunities to lever on the cost-to-income side, more so on the income side. And hence, we are acutely focused on productivity per resource and revenue per resource being driven day in and day out at each of our 440 branches. Reasonably confident to make sure that the ROE and ROA that we have planned for the year remains where it is, even if slight compression does take place on the competitive environment.

More so, Prashant, I am heavily focused on regaining our market share in the HL segment, which is the primary aim of the HFC. Doubling down on that business will have a little bit of impact on NIM, but we are confident of making sure that we cover it up through both cost measures as well as improved operating levers on the income side.

Prashant Poddar: That is great. I joined back in queue. Thank you.

Moderator: We are now moving to our next participant. We have Renish Bhuva of ICICI Securities. Renish, please unmute and go ahead with your question.

Renish Bhuva: Congrats, Manu, on a good set of numbers. Just two things, first on this repayment rates, right? So, historically, our repayment rate has always been around 16-17% which has gone up to more than 19% in the last two quarters. So just wanted to check, is it due to some change in product mix in a sense we are doing more of a shorter-term loan-like LAP, which is basically resulting in higher repayment rate, or is there something else because the BT out rate has also come down this quarter. So, I am just wondering why the repayment rate on sequential basis is so sticky.

Manu Singh: Yes, Renish. We did see a small uptick in the early part of the fiscal opening, which is April and early May, in specific segments, especially interest rates upwards of 14%, small ticket. But as we close the quarter in the month of June, it has rallied back to its usual trend. I do not expect this to continue. Parallelly, we are focused on improving our AUMs as I mentioned in my opening comments. The speed at which we are filling our leaking bucket is increasing across our branches.

So, regarding your question of BT out, I do not see any specific trend which is alarming. It has tapered down in June, and I expect it to be normal. Yes, part pre-payments did see some uptick, but that was more in the early part of the month, not in June.

Renish Bhuva: Got it. And secondly, on disbursement run rate, right? So obviously, this quarter, we close at Rs. 1600 crs plus, which is basically highest, in first quarter. So how should one look at this trajectory over next nine months and if you can share the June month disbursement number will be helpful?

Manu Singh: So, in the next nine months, yes, we were very conscious of making sure that the early part of the year, which is Q1, gets us onto the right footing on run rate. For two reasons, we are now heavily oriented towards P&L. And the more that you upfront your business, the more earnings you have in the entire part of the year. That has been the guiding force across the businesses.

Secondly, June numbers are upwards of Rs. 600 crs. For the next nine months, we are committed to delivering our yearly commitment of 22% to 23% top line growth and that remains steadfast on disbursement and that moves to about 17%-18% on AUM. Renish, could you hear me?

Renish Bhuva: Yes, I missed one part. So, you said 22-23% top line growth and 17-18% AUM growth. Is that correct?

Manu Singh: The disbursement growth, yes, 22-23% and 17-18% on AUM, yes.

Renish Bhuva: 17 to 18% of AUM. Okay, that is it from my side. In fact, I have a couple of more, but maybe I will come back in queue. Thank you, Manu and best of luck.

Moderator: We are moving to our next participant. We have Shreepal Doshi of Equirus. Shreepal, please go ahead.

Shreepal Doshi: Congrats on a decent number and thank you for giving me the opportunity. My question was on the asset quality trends and so basically, there is some inch up, but I think that is because of seasonality. However, are we seeing any trends in any specific geography which is, let us say, a little more alarming or showing signs of stress?

And have you taken any additional measures on underwriting side given the macros as well as uncertainty on the rain as well? So, any caution or any measures taken on these two, because of these two events?

Manu Singh: To answer your first question, No. We continue to see healthy trends on both lead and lag indicators. Absolutely no geographical customer segment stress coming in. Having said that, we are very cautious about the fact of keeping our collections under complete control. Towards the same, in the early part of February, proactively the teams have made certain policy changes looking at the macro environment, certain segments, which would be affected by both the ongoing West Asia Conflict as well as the ensuing expectation of shortfall of rainfall.

We are also constantly looking at indicators across industries. For example, tractor growth, tractor sales have shown a rebound after a long period of time. All in all, all our eyes are on the rearview mirror as well as looking at what is happening around the industry today. We are very confident of keeping our guidance on our credit quality to where it is.

Shreepal Doshi: Got it. Sir, could you just double click on the changes that you were talking about at ground level teams as well as on the underwriting side?

Manu Singh: This is largely, mainly focused on segments that we would have, we see could be impacted which is tours and travels, restaurants, more so from the crisis in the Middle East and the fuel crisis.

Shreepal Doshi: Got it. And then have you seen any, let us say, trends on rejection rates increasing in any category? Maybe it could be salaried or self-employed or any geography?

Manu Singh: I would not call any visible trend out to suggest change in our customer segment or our approach. Our business is about looking at risk which is assessed at a branch level. That is continuously fortified on a monthly basis with training, outlook, lead indicators of bounce, such that nothing creeps into the system to come up as a shock.

Moderator: We are taking our next question from Raghav Garg of Ambit Capital. Raghav, please go ahead.

Raghav Garg: Thanks for the opportunity and good evening. I have a couple of questions. One, so when you guide for 20% sustainable AUM growth, what kind of disbursements per branch are you budgeting for that? I am sure you have done the math. I think right now you are at Rs.15.5 crs of disbursements per year. So, when you guide for 20% AUM growth, what is that disbursement per branch that you are building into that? That is my first question.

Manu Singh: Raghav, I think I would like to be factually correct on your understanding and my understanding. The current year's guidance is 17-18% AUM growth, 20% is the medium-term guidance.

Raghav Garg: Sure Sir. So, when you guide for the medium term, what is that disbursement per branch that you are budgeting for?

Manu Singh: Today, when we look at branches, it is a cumulative factor of small branches, large branches. I look at when I drive teams together. We look at productivity per resource deployed on the field. So, there could be large branches, small branches, there from an average of about Rs. 8-10 lakhs productivity per resource, we are looking at doubling this to at least Rs. 20 to 22 lakhs per resource deployed on the field.

Raghav Garg: By resource, you mean employee, right?

Manu Singh: Yes.

Raghav Garg: Okay. So, essentially, you are saying, per employee, you are going to double the disbursements, right?

Manu Singh: Yes.

Raghav Garg: That is essentially what you are saying. And say over a period of three years, is that understanding, correct?

Manu Singh: I would shorten it to two years

Raghav Garg: Yes. Understood. Second question is, I also hear from you about increasing your market share in home loans. Now, when I look at home loan disbursal growth on a two-year CAGR basis that has been about 5% and then when I look at that number, in terms of home loan files, that is just 1%. So, what exactly do you plan to do to regain your home loan market share, from, say, a two-year CAGR of about 1% in volumes 5% in overall disbursements value to say a higher number? What are the steps that you are taking on the ground to do that?

Manu Singh: Two things. First, the necessity of looking at this number arises from the fact that over the last year, year-and-a-half, we would have graduated towards NHL. I want to be absolutely comfortable on both on-boarding business metrics between HL and NHL, to tend towards what the portfolio is, which is roughly 65-35. So that is the strategic reason why the focus on home loans.

Next, when we are focused on going behind a particular segment, both tactically as well as orienting resources at every branch towards targeted customer acquisition. These have been rolled out at a branch level, resource level on who is expected to furnish what and from where, to be able to measure, monitor and hence manage this change of doubling down for the next 9 to 12 months on getting more focused on HL customer acquisition.

Raghav Garg: Should it also weigh on your yields because HL has lower yields versus a LAP? So maybe, what you are expecting over the next one year, the yield compression could be more, maybe from the second or third year onwards because HL mix will increase.

Manu Singh: As I mentioned earlier, yes, this is a conscious choice. It is a more competitive business. However, sourcing mechanisms of moving back to our main strength of doing direct business, making sure that branches are equipped with resources to go out and do that business which comes at a much lower cost of acquisition, better quality, and levers to work on the income side at every transaction, in my opinion, is reasonable enough to counterbalance the small compression that we may see on being more healthier. If you look at our quarter one to quarter one numbers, this trend is already visible with 17% volume growth in HL in this quarter versus last year.

Raghav Garg: But last year was impacted, right? In terms of business, that is why I was referring to two year CAGR because last comparison of Y-o-Y may not be appropriate.

Manu Singh: I am only substantiating that point by saying that strategically we are aligned. When we know that we want to get healthier and fitter, the compensation of that small spread compression, we are cognizant in our everyday operating mechanics of getting better income from every transaction that we make and there are enough and more opportunities.

Moderator: Thank you, Raghav. We are taking the next question from Rajiv Mehta of Yes Securities. Rajiv, please go ahead.

Rajiv Mehta: So sorry if I have missed something because I have joined the call a little late, but I just wanted to understand the context behind the recent PLR cut in June when the cost of funds actually firming up. And just wanted to check, on a reported basis, I think you have already taken that in the reported yield and spread because we report on contractual basis, right? While the whole P&L impact of it will flow in Q2. Is this understanding, correct?

Manu Singh: I will take the first question and possibly I would want to understand the second question a little more. On the PLR, we have adopted PLR derivation mechanics with detailed operating guidelines, which includes external as well as internal factors and that formula being true to the reflection of what both external as well as internal dynamics suggest, goes through a route of ALCO discussion and is transparent in its conversion, whether it moves up or it moves down.

And hence, as you ask the question, I feel very delighted that we stand testament to the fact that even if the external world feels or believes that cost of borrowing is going up, and my own mechanism within ALCO mentions that it has to go down, we are transparent and clear about maintaining it in both letter as well as spirit. That is on the PLR. May I request a little more detail on your second question, please?

Rajiv Mehta: Yes, I was saying, what we reported the yield and spread, as of June in the presentation, that is already post the PLR cut, right? Because you report on a contractual basis.

Manu Singh: Yes, correct.

Rajiv Mehta: Got it. So, disbursement yield versus the portfolio yield after the latest PLR cut. What is the difference, what is the gap left?, because we have also been working on upping the disbursement yield to its risk-adjusted pricing, so that has been going up quarter-on-quarter and now because of the two back to back PLR cut, the portfolio yield would have come down, so what is the gap left?

Manu Singh: It is almost equal to, when I know that a left pocket is being hit, the attempt is always to make sure that the right pocket compensates for it. So, they are largely reading in tandem.

Rajiv Mehta: Okay, so they have come very close to each other.

Manu Singh: Yes.

Rajiv Mehta: Okay. And spread outlook for the year? I mean, given that you have done whatever you had to do on the yield side, and the markets will decide the funding cost. Are we still looking for a slightly softer spread in the remaining part of the year?

Manu Singh: Yes, I do think it will fall a tad below 5%. I mentioned in the early part of the conversation that we are already on our way to make sure that our operating engines churn out both cost reduction and income support to maintain our ROA and ROE guidelines.

Rajiv Mehta: Got that, sir. Thank you so much for answering my questions and best of luck.

Manu Singh: Thank You.

Moderator: Thank you, Rajiv. We are moving to our next participant. We are taking a follow-up question right now from Renish Bhuva of ICICI. Renish, you can go ahead with your follow-up question.

Renish Bhuva: Yes, just one thing, one clarification on this recent RBI circular on the asset classification, specifically on these repossessed assets for NPL. Have you guys assessed anything internally on this?

Manu Singh: Renish, currently this is under evaluation, and we will ensure that if any change must be made, we will make it happen

Moderator: Thank you, Renish. We are moving to our next participant. We have Shivam Saria of Antique Stock Broking Limited. Shivam, please go ahead.

Shivam Saria: I wanted a data point. So, I wanted to understand what is our yield on builder loans is, which is mainly a non-retail book and wanted to understand what are the kind of borrowers you have? That is, it.

Rakesh Shinde: Shivam, we do not do any builder loan kind of product. And we do have an NHL, LAP or MSME and the difference between HL to NHL, there is anything between 150 to 200-basis point difference is there, but we do not have any builder loan as such.

Shivam Saria: Okay. All right. Thank you.

Moderator All right. Thank you, Shivam. Any more questions from any participants, please click on the raise hand icon. All right. Ladies and gentlemen, we will take that as the last question. And I now hand it over back to the management for closing remarks. Over to you, management.

Manu Singh: Ladies and gentlemen, as we conclude today's earnings call, I would like to sincerely thank all of you for your time, continued engagement and support. We really value it. The progress we have made reflects the dedication of our team, the trust of our customers, and the confidence of our shareholders and lending partners.

Q1FY27 has been an encouraging start to the year. We are beginning to see a faster, fitter and more execution focused organization. Looking ahead, we remain optimistic about the opportunities before us. With a clear focus on customer acquisition, productivity increase, disciplined growth, prudent risk management and superior asset quality, we believe Aavas is well positioned to accelerate growth and create sustainable long-term value.

Thank you once again for your continued trust and partnership. We would also like to thank and place on record the support and guidance we receive from our regulator, NHB. We remain committed to executing with discipline, delivering consistent long-term value, and look forward to sharing our progress with you in the quarters ahead.

Should you have any further questions or require additional information, please feel free to reach out to Rakesh Shinde, our Head of Investor Relations. Thank you and have a pleasant evening.

Moderator: Thank you so much. On behalf of Aavas Financiers Limited, this concludes today's conference call. Thank you all for joining us and you can now click on the leave icon to exit the meeting. Thank you all for your participation.