“Aavas Financiers Limited

Q2 FY '25 Earnings Conference Call”

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Management:	**Mr. Sachinder Bhinder** – Managing Director and Chief Executive Officer **Mr. Ghanshyam Rawat** – Chief Financial Officer **Mr. Ashutosh Atre** – Chief Risk Officer **Mr. Surendra Sihag** – Chief Collection Officer **Mr. Ripudaman Bandral** – Chief Credit Officer **Ms. Jijy Oommen** – Chief Technology Officer **Mr. Anshul bhargava** – Chief People Officer **Mr. Rajaram Balasubramaniam** – Chief Strategy Officer and Head of Analytics **Mr. Rakesh Shinde** – Head of Investor Relations **Mr. Selvin Uthaman** – Chief Business Officer

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financials Limited Q2 FY '25 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 the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference call is being recorded.

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

Rakesh Shinde: Thank you. Good evening, everyone. I extend a very warm welcome to all participants. Thank you for participating in the earnings call to discuss the performance of our company for Q2 and H1 FY'25. The results and the presentation are available on the stock exchanges as well as on our company website and I hope everyone had a chance to look at it.

With me today, I have the entire management team of Aavas including Mr. Sachinder Bhinder – M.D. and CEO, Ghanshyam Rawat – CFO, Ashutosh Atre – CRO, Selvin Uthaman – Chief Business Officer, Surendra Sihag – Chief Collection Officer, Ripudaman Bandral – Chief Credit Officer, Jijy Oommen – Chief Technology Officer, Anshul Bhargava – Chief People Officer, Rajaram Balasubramaniam – Chief Strategy Officer and Head of Analytics.

We will start this call with an opening remark by our M.D. and CEO, Sachinder Bhinder, followed by CFO, Ghanshyam Rawat and CRO, Ashutosh Atre. After that, we will start with the Q&A session.

With this introduction, I hand over the call to Sachinder. Over to you, Sachinder.

Sachinder Bhinder: Thank you, Rakesh and good evening, everyone. I'm delighted to welcome you all to our Q2 FY'25 earnings call and thank you for joining the call on the late evening. Hope everyone had a wonderful Diwali. Let me now take you through the key highlights of our performance in Q2 FY'25.

We delivered a growth of 20% Y-o-Y in AuM, reaching Rs. 184 bn. Along with this stated growth, we ensured best-in-class asset quality with 1+DPD below 4% at 3.97% and GNPA of 1.08%. Our net profit for Q2 FY'25 stands at Rs. 1.48 bn, registering a growth of 22% Y-o-Y. In terms of business update, in Q2 FY'25, we disbursed Rs. 12.94 bn, whereas in H1 FY'25, we have disbursed Rs. 25.05 bn, resulting in a growth of around 8% Y-o-Y in H1 FY'25.

In Q2 FY'25, we achieved another milestone in our technology upgradation journey by going live with the loan management system, Oracle Flexcube.

The one-time LMS shutdown coupled with an extended monsoon in several parts of the country had affected the building and construction activity, both of which resulted in lower fresh disbursement and subsequent part disbursements. This is one of the fundamental reasons for the muted disbursement in Q2 FY'25.

However, we are confident of covering up on the disbursements in the 2nd half of the financial year, which is typically a strong period for us. We have already seen green shoots with September and October cumulative disbursement growth of 22% Y-o-Y.

Our focus is to underwrite quality business with risk-adjusted returns. Our incremental business yield has gone up by 25 bps across products.

We have opened five new branches during H1 FY'25, four branches in our existing states to deepen our reach, and one branch in the new state of Tamil Nadu.

We have seen robust logins led by a diversified omni-channel lead generation funnel, including digital, CSC (common service centers), e-Mitra, RRO, Mitra, resulting in a better disbursement growth and building a healthy business pipeline.

Let me give you update on the terms of technology updates.

We have implemented bank-level systems with robust regulatory compliance. Our loan management system, Oracle Flexcube, has gone live across branches and is stabilized.

Our new lead management system built in Salesforce has successfully gone live across branches. This will allow us to integrate seamlessly with other aggregator channels.

Our fully integrated systems leading to better visibility, inter-team collaborations, and seamless customer service will also play out in the coming months. Technology is playing a key role in the transformation and TAT improvement. Our login to sanctioned TAT has improved to eight days in Q2 FY'25.

In terms of financial performance for the quarter and half year,

Our net profit in H1 FY'25 grew by 18% Y-o-Y to Rs. 2.74 bn, led by a growth in net interest income coupled with sharp improvement in operating leverage. Our consistent efforts to optimize costs have resulted in a remarkable improvement in opex-to-asset ratios by 40 bps, from 3.65% in H1 FY'24 to 3.25% in H1 FY'25. We continue with our guidance of improving cost-to-asset ratio by 20-30 bps every year.

Our asset quality continues to be pristine. With 1+DPD of less than 4% at 3.97, as of September 2024, our GNPA stood at 1.08% in H1 FY'25 and our credit costs improved further to 11 bps in Q2 FY'25 from 20 bps in Q1 FY'25. We continue to guide 1+DPD of less than 5%, a GNPA of less than 1.25%, and a credit cost of below 25 bps.

We are committed to a strong growth trajectory and our focus on quality business growth and cost optimization will continue to drive our success. I am confident that with our dedicated team and strategic initiatives, we will achieve our goals and deliver our value to our stakeholders. Thank you for your continued support and trust in Aavas.

I now hand over the line to our CFO, Ghanshyam Rawat, to discuss the financials in detail. Over to you, Ghanshyamji.

Ghanshyam Rawat: Thank you, Sachinderji. Good evening, everyone, and a warm welcome to our earning call.

First, to update on borrowing side. In terms of liability, we are one of the best well-diversified liability franchises. We have always been innovative in exploring new avenues for sourcing.

I am happy to share that we have successfully raised NCDs amounting to Rs. 6.3 bn from IFC in the month of October. This is the largest debt fund raised by the company till date. This achievement will enable us to channel these funds towards affordable housing and green individual homes, reinforcing our unwavering commitment to sustainable and inclusive development.

We are a unique HFC where our tenure of liability is higher than the tenure of assets. We continue to borrow judiciously and raising around Rs. 25.7 bn at 8.42% in H1 FY'25. Total outstanding borrowing as of 30 September 2024 stood at Rs. 161 bn.

Overall borrowing mix as of 30th September 2024 is 50.8% from term loan, 25.1% from assignment and co-lending, 18.1% from NHB refinancing and 6% from Debt Capital Market. Lender support continues to remain extremely strong as Aavas evolves.

There is access to diversified and cost-effective long-term financing from various lenders. We maintain a strong relationship with development financing institutions. To meet long-term business growth, we have progressed on co-lending tie-up with the PSU Bank. As of 30th September 2024, we maintain sufficient liquidity in the form of cash and cash equivalent and unavailable CC limit of Rs. 15.1 bn and documented unavailed sanctions of Rs. 4.65 bn.

In terms of spread, as of 30th September 2024, an average borrowing cost of 8.15% against an average portfolio yield of 13.04% resulted in a spread of 4.89%. This is a sequential drop in the spread by 11 bps on account of increase in cost of fund by 7 bps Q-o-Q coupled with the yield compression of 4 bps Q-o-Q. However, we are passing on the cost of fund increase by raising our BPLR by 25 bps w.e.f. October. This will result in improvement in the yield and recouping spread in coming months.

We have 30% of our liability linked to external benchmark which will allow us faster repricing of liability in case of rate cut scenario. Our margin, NIM as a percentage of total assets during Q2 FY'25 stood at 7.78%. Our NIM in absolute terms has increased by 8% Y-o-Y in Q2 FY'25. In terms of cost, our opex-to-asset ratio has improved by 29 bps to 3.18% in Q2 FY'25 versus 3.47% in Q2 FY'24. However, adjusted to some one-off item cost reversal, there is a 10 bps Y-o-Y improvement in Q2 FY'25. We are committed to gradually bringing down opex ratio by below 3%.

Credit cost during the quarter stood at 11 basis points in Q2 FY'25 versus 18 basis points in Q2 FY'24 and 20 basis points in Q1 FY'25. In terms of other parameters, RoA has seen improvement of 18 bps Y-o-Y to 3.49% and RoE improvement by 77 bps Y-o-Y to 14.87% in Q2 FY'25.

We are well capitalized with a net worth of Rs. 40.48 bn and CRAR at 46.48%. Total number of live accounts stood at 2,29,000+ translating into 15% Y-o-Y growth. Employee count remained flat Y-o-Y at 5,761 as of 30 September 2024.

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

Ashutosh Atre: Thank you, Ghanshyamji. Good evening, everyone. I am pleased to share the key portfolio risk parameters with you.

Asset quality and provisioning. Aavas is strongly positioned to continue delivering industry-leading asset quality. Our asset quality remains within the guided range with 1+DPD below 5% at 3.97% in Q2 FY'25 and Gross State 3 and Net State 3 under 1.5% stood at 1.08% and 0.78% respectively.

In terms of geography, average 1+DPD and GNPA in our vintage state remained well below 4% and 1.1% respectively. Whereas other emerging states, 1+DPD and GNPA remained well below 3.3% and 1% respectively. Similarly, in terms of ticket size of more than Rs. 15 lakhs, 1+DPD and GNPA remained well below 4% and 0.8%. Whereas in case of ticket size less than Rs. 15 lakhs, 1+DPD and GNPA remains below 4.5% and 1.25% respectively.

Our total ECL provisioning, including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs. 946.1 mn as of 30th of September 2024.

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

Moderator: Our first question is from Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Hi, Sir. Congrats on a good set of numbers. So just two things from my side, one on the spreads. This is the first time spreads fell below 5% and it is due to the combination wherein asset yield continues to moderate and cost of fund continue to rise. And this is despite our range bound disbursement of around Rs. 1,200 crores to Rs.1,300 crores from the past, 4 - 5 quarter except Q4.

Sir what is happening on the asset yield side? On cost of borrowing, we all can understand you know the systemic rates are still elevated and banks are looking to pass on. But we just need to understand what is happening on their side, specifically because disbursement is also range bound.

Sachinder Bhinder: Thanks Renish, from the perspective of this, as you are rightly articulated on the cost of funds thing there is an increase. I think if you look at the last two years, our disbursement yields had been lower compared to the AuM yield.

So, to cover up that we are trying to push the disbursement yield, but it is taking effect with a lag. However, our endeavour compared from H1FY24 to H1FY25, we have increased the disbursement yield by 25 bps. But since I have an AuM lag of the last couple of years where the disbursement yield was lower than my AuM yield, it is taking time to really cover up.

However, as I said, our endeavours continue to increase the disbursement yield. In that our focus on the lower ticket size where we have risk adjusted returns and self-construction individual houses. So that's what we have guided our endeavour with that will continue to be in the range of around 4.8 to 5% as we speak.

Renish Bhuva: Okay, so 4.8% to 5%, let's say it would be FY'25 or near term?

Sachinder Bhinder: Yeah, FY25 and as we see the rates are picking up once the cost of funds started coming down, we see the trajectory moving up. So, there's a conscious effort as I've been re-iterating on every call that efforts to increase the disbursement yields on a Q-o-Q basis and we've seen the green shoots. It is taking time for us to really cover up, but our endeavour is to see the pickup over quarters.

Renish Bhuva: Got it. Would you like to share the disbursement yield number, given the blended yield at 13% and despite the 30% LAP book, we just wanted to get a sense you know whether internally how you guys think about it? 30% LAP book, blended yield at 13%.

Sachinder Bhinder: So, Renish, from that perspective, currently it is lower by around 30 bps as we speak and as you would really look at it, the previous year it was 55 bps lower than the AUM yield.

Renish Bhuva: No, I didn't understand this. Can you please repeat.

Sachinder Bhinder: The current AuM yield stands at 13.04%, the current disbursement yield of the H1FY25 is 30 lower than the AuM yield the previous year it was 50 bps lower.

Renish Bhuva: Got it. Secondly, on the growth side, Q1FY25, we were guiding at 21 - 23 % kind of a growth rate. Given the muted first half and if I calculate the disbursement rate to achieve the desired growth, the number works out to be ~Rs. 4,000 crores in second half, so naturally, which means, we'll miss the guidance. So, keeping in mind that scenario, what you guys think will be the exit AuM growth for FY25 and maybe in FY26?

Sachinder Bhinder: So, see, Renish, as I have guided that September and October put together, we had a 22% Y-o-Y growth. H2 conventionally remains strong for us. So, we continue our guidance for the current year of AUM of 20% plus.

Renish Bhuva: Ok. That's it from my side sir. Thank you and best of luck.

Sachinder Bhinder: Thanks, Renish.

Moderator: Our next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, Sir for the opportunity and congratulations on a good quarter. So, I have couple of questions. One is on the product category. So, if I look Y-o-Y basis LAP has declined steeply and so has MSME grown sharply. So, is this by demand, design or increased regulatory oversight on LAP plus Top-up Loans?

My second question is our foray in Tamil Nadu. So, if you look at Tamil Nadu geography, so there is intense competition out there. You have Aptus and Chola and many players, especially on the LAP front. So how distinctly Aavas will be positioning itself for the competitive intensities there?

And just one data keeping question, what is the rate differential between LAP, MSME versus home loans and your BT-Out? Thank you.

Sachinder Bhinder: Thanks Shweta, So, I think, you have three questions. The first question is about MSME. I think we are a unique HFC, we have been conventionally underwriting self-employed non-professionals (SENP), we were able to write MSME. And these are micro-MSME, which are backed by self-occupied residential properties.

The best part about that is that this helps us to do a value addition to the working capital requirements of the SENP. So, it is going to finally an economic benefit use for that. And we do it with Udyam Aadhar, which is helpful for us. And this portfolio really helps us for the securitization piece, because it qualifies as a priority sector lending for the banks. And this has been over the last four to five years focus area for the franchise. That's one.

Secondly, your question on Tamil Nadu. If you look at the state, we've opened at Hosur. So, in line with our contiguous geographic expansion strategy, we look at immediate ones near the geographies which we are operating. Karnataka, we've been operating for last four years. Hosur happens to be one of the influx for us to understand Karnataka, Tamil Nadu, and Telangana AP side. So, I think from that perspective, it's just a starting point for understanding and going into those regions.

On the kind of competition there, I think we are uniquely poised in the segments which we serve, in unserved, underserved, and partially banked. The classic case is Karnataka, where we do continue to see a good amount of growth, and that gives us a good amount of confidence to really stare across in the southern states because of the kind of availability of the unique SENP base and self-construction individual houses. So that is where our focus is.

This is in line with our contiguous geographic expansion strategy, and this helps us to navigate in the southern region. And if you look at it at 372 branches across 14 states and 14^{th} state in Tamil Nadu, we've not been present in south. So that will help us in the coming months to grow.

So that is the second part of the question. On the yield side, the differential between HL and non-HL portion is around 200 to 250 bps. That's the differential between the housing loan and non-housing loan portfolio. Hope that answers your question.

Shweta Daptardar: What is the BT number?

Sachinder Bhinder: The fourth question of the BT out. BT out, we are at a range of 5.2%, and I think the BT retention model with us really works across analytics and the integrated model which Aavas has developed over a period of time on predicting the BT out really helps us to hold the customers as a part of retention. And since it is what I would really say is a direct source business, it also really helps us to hold the customers back into our foray. So, there's a transitioning or movement of customers is restricted. So, we currently are at 5.2% annualized.

Shweta Daptardar: That's helpful, sir. Thank you so much.

Sachinder Bhinder: Thanks Shweta.

Moderator: Thank you. Our next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yeah, good evening, everyone. And thank you for taking my question. Sachinder sir again, kind of labouring on the spreads, compression that we've seen partly explained in the prior question. But we're trying to understand our earlier long-term guidance used to be spreads of 5%. For this year, we guided for 4.8% to 5%. Now, I mean, with a declining interest rate cycle ahead, although transitory, but the spread could be in further pressure going ahead.

Plus, if we recall, sometime in March, we had taken a retail PLR increase of 25 bps. So, if you look at our yields that has not really kind of translated into AUM or portfolio yields. From that level, our yields are down. So now, if we are going to take another 25 bps increase in retail PLR, what is the confidence that we have with regards to this translating into improvement in portfolio yields is something I wanted to understand.

Sachinder Bhinder: I think, Abhijit, I'll answer the first question and then I'll have Ghanshyamji, really talk about the cost of funds perspective. I think as I told earlier, if you look at our disbursement yields versus the AUM yields, there was the last couple of years' a drag. Even with the increased RPLR, we've not been able to cover up that. There's a conscious effort to really put that across by increasing the disbursement yield. So, as you would rightly appreciate, it takes its own time.

Secondly, on the RPLR increase, around 35% of our book continues to be on the fixed rate. So that translation is only impacted by a little bit. And again, as I said, the last two years have been more on the lower disbursement yield. That has impacted.

The second part is very important. If you look at the trajectory of Aavas over the last couple of years, the cost of funds in the last two years, and I'll have Ghanshyamji really talk about the cost of fund trajectory and why is that impacted our spread from a level of 4.59% or 4.69% to a 5.86%, that is their Aavas range. I think the cost of fund is one of the factors which has led to the spread compression.

But as I said that even at 4.89%, we continue to guide on 5% plus minus 20 bps for the current year. On the cost of funds, I'll have Ghanshyamji to talk about the one. And in case the rate cut happens, we have 30% of the liabilities which are on a repo base. We see a cost of fund a decrease and resulting in the increase in the spread. Over to you, Ghanshyam.

Ghanshyam Rawat: Yeah, Abhijit, like now, cost of borrowing is stabilizing at this level. Like recently we raised IFC money, which came at a six-month OIS plus 148 bps, which is at sub 8% in our cost of borrowing. So, it's a cost of borrowing is getting stabilized.

And on the yield side, as Sachinderji mentioned, in the last two quarters, we have seen a continuous basis, 25 bps improvement versus the last year. Another 25 bps, we are making efforts in the coming quarters. So that will lead to almost new business yield versus my AUM yield. So, whatever drag we have seen in the last couple of quarters, that will get minimized in the coming quarters. So, with both those two items, we will reach, closer to 5% spread.

And obviously we are expecting now, maybe it's difficult to predict anything, but whenever rate downward starts, so it will have a positive impact on a spread side, which we are seen in an earlier phase also.

Abhijit Tibrewal: Got it, Ghanshyamji. Just one follow-up question to that. Sachinder sir, I'm just thinking aloud, please correct me if I'm wrong, while our BT outs at 5.2% annualised is indeed very good. I mean, in the last one year or so, given that our disbursement engine has not fired as what we would have liked, given that we are retaining customers and which is reflecting in lower BT outs, is that also one of the reasons why, I mean, our yields have been under pressure?

I'm just kind of trying to understand, when we look at you at your size and scale and compare it with a whole host of smaller HFCs today, we have not seen that yield pressure for them. Is it about your size and scale, which is a little bit of a problem or how should we interpret that?

Sachinder Bhinder: So, I'll address the question in two parts. First part on segment and second part on Ghanshyamji to the model which is there. I think from a perspective of the total at 5.2%, there is a yield compression which comes to at around 15 bps on an annualised basis to retain the customers. As we speak on H1, we had cases about Rs. 400 crores worth coming for retention. So, I think there is a yield compression to hold that.

On the second part of it, how Aavas has really navigated that at that stage and how do we maintain that? I'll have Rawatji really talk about the tech piece on which we've actually helped us to retain the customer, predicting the part where our AI really model plays an important role.

Ghanshyam Rawat: Abhijit, it is always very important to retain your performing customers. And we made long back our predictive model that has helped us in our journey, despite in affordable housing piece, where a lot of customers come first time to us, and BT out is always maintained less than 6% in last so many years.

And I want to add only one more thing about what Sachinder said. If we retain the customers, obviously, we retain only performing customers. And even if we reduce some rate on those customers, but in the year one itself, we recover the fee amount, which is equivalent to take care of my one-year loss. So, it's a win-win situation for us, because we also brought down your cost of borrowing. When we lend it to those customers, cost of borrowing used to be in double digits. Now, we have cost of borrowing has come down to 8%.

So, it is always retained to that customer, good strategy for us. And we are not losing much out of those retaining those customers. And one more datapoint, I think, whosoever customer goes out, we also do assessment on those customers, how they are performing in the market. You will be surprised to see those performance, those customers are much poor than what we have customer inside our company. So that shows us our model is performing very well for us.

Abhijit Tibrewal: Got it Ghanshyamji. Thank you so much for answering my questions. I wish you and your team the very best. Thank you.

Ghanshyam Rawat: Thanks Abhijit.

Moderator: Our next question is from the line of Kushan Parikh from Morgan Stanley. Please go ahead.

Kushan Parikh: Thank you for taking my question. I have two questions. One is around the operating cost. Basically, we have seen a considerable improvement in this quarter and obviously, guides for 20 to 30 bps improvement in opex-to-asset. Just wanted to know, if you could elaborate, how have we driven this improvement on a Q-o-Q basis, especially on the employee expense side, which has had a sequential drop. And how should we think about opex going forward in context of the 2Q improvement that we have seen? Should I also put forward my second question?

Sachinder Bhinder: Yeah.

Kushan Parikh: Sure. So, the second question is around the credit cost. So, we guide for less than 25 bps credit cost over the longer period. Last two, three quarters, we've had a couple of quarters with lower credit cost around 11 odd bps. Just wanted to understand, obviously, this would be the outcome of the ECL model. Are we seeing better asset quality outcomes than what we had modelled in the ECL and hence the provisioning requirement is reducing? Or is there an overlay component that was present earlier, and which is not there now? Wanted to understand the reasons for the, the dip in credit cost as well.

Sachinder Bhinder: So, on the opex...

Kushan Parikh: How sustainable that is going forward?

Sachinder Bhinder: So, I'll answer the first question. Second question, I'll have Rawatji really take up. On the operating leverage, really pumping in on opex-to-asset ratio, you've seen a sequential reduction on H1 by 40 bps. That's around 3.25 % compared to the previous year for 3.65 %. If you look at last three years, the employee strength has been constant. So, I think that is where it really kicks in.

Secondly, having invested in the technology, we are seeing now the green shoot has earlier guided in our conference calls and quarterly calls. We said that we'll start seeing the green shoots really coming across from the tech implementation.

So, the operating leverage has started really kicking in. And as we go in the quarters ahead, we expect it to be our guided range of coming to below 3%. Now, again on this, we really look at it very granularly on the cost reduction. If you adjust by the ESOP cost, there was a reversal.

We continue to stand at 3.37%, even with that. So, one is you remove the ESOP cost reversal because which is one time kind of thing, but the rest of them has really kicked in because of the operating leverage really coming across from the way we manage our stuff and wherein tech has really played an important role. And we will continue to do that in the coming months.

As we guided that, I think a couple of quarters, we will be sure about that this is sustainable, this is consistent, and we continue our endeavour as a team to really build on our digital initiatives, our initiatives on digital collections, our initiative on digital sourcing. And after the system's going live, we'll have reduced cost of acquisition, reduced cost of collections, which really would really kick in the coming times. On the second part of the credit cost being low, I'll have Rawatji really talk about in detail.

Kushan Parikh: Before we move to that, just one question. If you could quantify the ESOP cost reversal that we had this quarter?

Sachinder Bhinder: Yeah. So, as I said, the normal case scenario, we were at 3.25%. If the ESOP cost, if I don't include that, we would have been at 3.37%.

Kushan Parikh: Understood. Okay. Thank you.

Ghanshyam Rawat: As you know, Aavas is always a credit conscious company since beginning. So, we have invested in underwriting, technical, legal, RCU., And on top of that, we have one of the best collection team in the company. So, top of that, we always believe that our credit cost will not be more than 20 bps. If you see from COVID, from demon time, from RERA, across the time, we are not more than 20 bps. Yes, after the COVID, everything, I think portfolio quality got improved Q-o-Q.

We're consistently maintaining 1+DPD less than 5%, and NPA is around 1%. All this goes into model. And as per the ECL model, our cost is where we are today. It is continuously will be maintained less than 20 bps. Right now, we are just between 11 to 12 basis points.

Sachinder Bhinder: And just to add on to what Rawatji said, I think the fundamental principle and the DNA of the company is the sound risk management principle, which gives risk adjusted returns. The sound underwriting principles laid across on the framework of putting across self-constructed individual house to be funded, where it is occupied, where the LTVs are there. So, the end usage is also there.

So, I think a couple of factors which have been there, which become the bedrock of really building a strong fundamental franchise, which works on sound risk management principles, a sound understanding of risk adjusted returns. Now, coupled with the digital initiatives and the tech initiatives, which really helped tread the path as we've crossed the 2.5 lakh plus of customer base.

And secondly, having a repository and understanding of having underwritten over the last 12-14 years, as we speak, about 4 lakhs plus of customers, I think we've found across based on very well diversified understanding at a macro and a micro level of what to underwrite and what to let go. So, I think as we traverse the journey, the guardrails are very clear. The guardrails are good enough that we don't slip, but not strict enough that we don't traverse the journey.

So, I think from a perspective, we would continue to traverse the path which is risk adjusted returns, risk managed control, and sound underwriting practices, this is coupled with the digital and the new age AI based thing, which will help on our kind of stuff which we've been traversing.

Moderator: The next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Hi, good evening. Thanks for the opportunity. Sir, you mentioned about 22% disbursement growth for September and October. Is that right? And is that the number that you expect to sort of achieve over the second half? Or will it be higher?

Sachinder Bhinder: Thanks Raghav. As I spoke that September and October cumulative, we are at 22% of disbursement growth as we speak. We've guided that for the current year on an AuM basis, we would be 20% plus.

Conventionally, H2 has been stronger Aavas. And as we laid out, I think two principal factors for an elongated monsoons in the regions which we work in the Western and the Northern parts of India, because we are a self-construction, final company which fund is self-constructed homes. That's one.

Secondly, a part of regulatory change of the way you treat the disbursements, I think both cumulative put together. And the third is an LMS shutdown because in the month of August when we went live, I think resulted in that. But we are confident with what we've seen in September and October to continue. And we continue to guide with the 20% plus for the current year, the AUM growth. And we are confident of traversing the journey for the current year.

Raghav Garg: And sir, how many employees did you have in this quarter? I heard you said that your employee count has been flat.

Sachinder Bhinder: So, 5,761 is the exact employee count. And Raghav, this has been there across for the last three years, if I were to really put across. So, there's no, hardly a growth about 30 to 40 absolute employees over a period of last one year. I think this is aided by you see operating leverage really coming across. So, I give you an example of saying with the kind of increase in the AUM, increase in the number of accounts, we hardly had any addition in the collection where the digital initiatives or digital collections, no touch collections, which are there, which really helped us to really be doing a touch-free kind of stuff, which is there.

I think the second leverage, which we'd really like to kick in after the SFDC, the loan origination system, the lead management system really going live. We'll start seeing that really fructifying into the final operational efficiencies really kicking in.

Raghav Garg: Sir, what's the off role count as of September?

Sachinder Bhinder: The total count is 5,761, Raghav.

Raghav Garg: Sir, that's on-role, right? I'm asking off-role because that's something that...

Ghanshyam Rawat: It's around 1,800 employees.

Raghav Garg: Okay, 1,800 off-role. And another question, see when I look at your intangibles, right, they're at about Rs. 47 crores, Rs. 48 crores. That has increased by about Rs. 5.5 crores in last six months. I just wanted to understand, you know, this number is up 13% YTD. What is the nature of this expense?

Sachinder Bhinder: Raghav, can you come back again? I think we lost your connection. We heard 47. What was that? Can you reframe the question?

Raghav Garg: The total intangibles on your balance sheet, they are up about 13% YTD. They stand at about Rs. 47 crores, Rs. 48 crores. None of the other affordable HFCs have such a number. I just wanted to understand what kind of expense is this, which is being capitalized? Where exactly are you spending or where exactly have you spent this money to the extent of Rs. 48 crores?

Ghanshyam Rawat: Raghav, in last few quarters, including this quarter, we mentioned that we are doing tech transformations, for LOS, LMS, EGL, and the data warehouse technology transformations, along with the lead management solution. Some of them have gone live, which got capitalized. Some of them have just gone live, but the hyper care period is on. So that majorly is towards IT spend, which we have invested for IT capitalization. Technology expansion.

Raghav Garg: Sir, what I understand from, all the tech investments that the affordable HFCs do, what I understand is that it is mostly subscription-based, right? I mean, you pay a subscription fee to your technology partner, which is Salesforce or someone other, and therefore, shouldn't it be expensed through the P&L?

Ghanshyam Rawat: No, when projects get implemented, till the project goes live, implementation partner expenses, they sit with you, plan and develop your model for you, and then implement. It takes almost 12 months' time, to make the program develop, then allow them. Yes, once it has gone live, then it becomes a subscription model, like Salesforce is now a subscription model, because it has gone live, and we have capitalized the Rs. 12 crores, which we invested in the Salesforce loan origination system. Similarly, LMS now is going live, so their fees are to be capitalized, then it will go on a subscription model, from January onward.

Raghav Garg: Understood.

Ghanshyam Rawat: Yeah. As you mentioned earlier, total capex, we are doing around, put together what we already capitalized and which is in the pipeline, will be around Rs. 60 crores, total amount we'll capitalize in the IT projects, which will be amortized in the next seven years.

Raghav Garg: Understood. Sir, I have one more question, can I ask?

Ghanshyam Rawat: Yeah, please.

Raghav Garg: Sir, your repayment rates have increased in this quarter, but I heard you saying that the BT rate is still at 5.2%, which is same as Q1, so why is it that the repayment rates have increased in this quarter?

Ghanshyam Rawat: No, I think it is a steady state, we don't see any spike, any change in overall rate. BT-out is in the range of 1.2%-1.25% every quarter, so in first half we have seen already 5%, and put together, full year basis, it will be around 17% to 18%, and which will have three components, one component will be 5% to 6% BT out, and around 6% customer pay out of his own pocket as a monthly EMI, and 6% generally customer pay out of whenever they have surplus money, they can pay back to me, part payment also. Until now, we are around 16%, which is almost 2% better than what we forecast in our annual assumptions.

Raghav Garg: Understood, sir, that's very helpful.

Ghanshyam Rawat: My annual assumption in budget is we take 18% in overall basis.

Sachinder Bhinder: So, we are at around 16% as we speak.

Raghav Garg: Thank you.

Moderator: Our next question is from the line of Yash Gujarathi from Citigroup. Please go ahead.

Yash Gujarathi: Hi, sir. Thanks for the opportunity. So just wanted to get your thoughts on incremental asset quality in the month of October. How's the collection move? And sir, while the 1+DPD continues to be below the guided range, it has seen some increase of 30 bps. So, any thoughts there?

Sachinder Bhinder: So, I think if you look at, as we spoke, I think you had an extended rainfall, you had an extended one, you had Diwali, which came after the festival season, I think there was some part of it was there. But as we speak, on the month of October we were at around 3.84%, from around 3.97%. So, there is a sequential decline on month-on-month. So, we have recouped what was being left out. So, we continue our guidance of less than 5%. But as we speak, from a 3.97%, we are already at the end October of at 3.84%.

Yash Gujarathi: Got it. And just to follow up on that, was there any discrimental increase in the less than 1.5 mn segment or it was broadly stable increase across both?

Sachinder Bhinder: It was broadly stable. There's nothing, anything which is incrementally or differential, which would really give any difference as far as our understanding and our numbers really show. I think we track, I think, as you will really appreciate, we track it on a sequential absolute basis, and across the product segment. So, we've not seen anything. I think we've been cautiously optimistic in the approach of our underwriting perspective really to build on the quality which we deliver. And as earlier said, we continue to guide at a 5% is less, 1+DPD.

Yash Gujarathi: Got is sir. Thank you.

Moderator: Our next question is from Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity. So, my question was on liability side. Any fresh sanctions from the NHB fund incrementally?

Ghanshyam Rawat: Yeah, we already applied to National Housing Bank for this year limit, because generally NHB accept the limit once we publish our result and upload to Stock Exchange and MCA website. So, it's in process.

Shreepal Doshi: Okay. So, for this year, we are yet to receive any of this?

Ghanshyam Rawat: Yes, current year refinance limit is yet to be sanctioned by them.

Shreepal Doshi: Okay. Got it. And just on the asset quality front, I mean, if you look at the mortgage segment, there's the NPA increase has been sharp, like in the last, say, four, five quarters. So, anything that you could sort of explain why is it so?

Ghanshyam Rawat: You see, a non-home loan majorly goes towards the self-employed. And secondly, we overall see risk-adjusted return how to make out of that book. This book was already given at almost 250 to 300 bps at a higher rate of interest. But ultimate loss we are now seeing in last couple of years. Recovery pattern is the same. Whether it is a home loan or a non-home loan. In both the cases, security is a residential, self-occupied housing property. So, yes, NPA is more, but ultimately, loss is similar. Similar in those classes, in both the assets.

Second thing, this asset is also now reached at a maturity, because non-home loan business, we started four, four and a half, five years back. Now, this asset is reached at a maturity level now. Home loan is a last 10-yearbook we have on the maturity term. So, but we are confident, we don't see any sort of risk around the NPA numbers on both the products, whether it is home loan or non-home loan.

Shreepal Doshi: Got it. So, this last question is squeezing here. In terms of product mix, will the loan book mix remain at where it is, or will there be some change in the mix?

Ghanshyam Rawat: It is almost at the optimum level. It will remain in the same range, maybe 3-5% here and there, but it will be in the same range.

Shreepal Doshi: Given the RBI norms for NBFC-HFC, I think the 75%, we are already there, right, in terms of housing loans.

Ghanshyam Rawat: So, I think we are fully compliant as per NHB and regulatory norms on the home loan and non-home loan components, and we don't see any change to be done at our end.

Shreepal Doshi: Got it, sir. Thank you and good luck for the next quarter, sir.

Ghanshyam Rawat: Thanks, Shreepal.

Moderator: Our next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Hi Sir, good evening. I have this question on the opex front. You mentioned about the ESOP cost reversal, which has helped lower the cost-to-assets over the last two quarters. So, is this one-off fully accounted for, or we will see some more benefits from ESOP cost reversal coming in the subsequent quarters instead?

Ghanshyam Rawat: No, ESOP cost reversal happens only in Q2. Overall savings we see on H1-to-H1 level is 40 basis points. Even if we exclude this ESOP also, then we will have a 30 bps better opex improvement on H1-to-H1.

It is not accounting of what has been left out or what must be provided. It remains accounting of points of time, basically. Every quarter reassessment of a long-term incentive plan happens, and on that basis, whatever is available has been, benefit has been taken in the books of accounts, because ultimately it is a non-cash item.

Mona Khetan: Got it. So, for this fiscal, is it fair to say that the improvement in opex-to-assets will be higher than, what we are sort of guiding for of 20 to 25 bps given this 30-bps improvement, even ex-of the ESOP impact?

Ghanshyam Rawat: We, I think in the beginning of the year, we guided 25 to 30 bps annual savings after the tech transformations for a couple of years, till we reach at a 3% opex level. Full year guidance, almost we have achieved in the H1, and as a management, efforts are there to maintain this 30 bps by the year end.

Mona Khetan: Got it Sir. Thank you so much. That's from my side. All the best.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to Mr. Sachinder Bhinder, MD and CEO of Aavas Financiers Limited, for closing comments.

Sachinder Bhinder: Thanks. As we conclude today's earning 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 customers has been instrumental in our growth.

We aspire to reach a milestone of Rs. 1 trillion in assets under management by 2033 and broaden our horizon as a Pan India player. 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 create shareholder value.

If you have any further questions or require additional information, please feel free to reach out to Mr. Rakesh Shinde, our Head of Investor Relations. Thank you and have a wonderful year ahead. God bless.

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