



“Aavas Financiers Limited Q2FY26 Earnings Conference Call” November 11, 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 Ltd H1 and Q2FY26 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 a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note, this conference is being recorded.

I 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. 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 H1 and Q2FY26, along with the business outlook going forward.

The results 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 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. A good evening to all. I thank you for joining us on this earning call. I hope you had a joyous Diwali and have a prosperous Samvat 2082.

I am pleased to share that CARE Ratings has revised its long-term rating outlook on Aavas from 'Stable' to 'Positive'. This represents an important step toward a potential rating upgrade to AA+, which will further enhance our ability to diversify liability profile in a cost-efficient manner. The outlook revision reflects Aavas' strong fundamentals—quality growth, robust asset quality, sustained profitability, a solid capital position, and stability of our management team.

As highlighted during our last quarter's commentary, we are pleased to share that we have made our entry into Tamil Nadu with opening of eight new branches, and we plan to add another eight in H2, taking our network to 405 branches across 14 states. We will continue to expand in a contiguous, cluster-based manner, adding 20–25 branches in H2 to deepen penetration in existing markets. As our Tamil Nadu base strengthens, Andhra Pradesh and Telangana become natural next expansion opportunities under the same disciplined approach.

On to business front, after the transition to the new disbursement recognition framework in Q1, operations have now normalized, resulting in a strong 36% QoQ and 21% year-on-year growth in disbursements during Q2. Our sanction-to-disbursement ratio, which was impacted in Q1, has recovered and now stands at ~80%, demonstrating improved conversion efficiency. Entering the second half of the year—traditionally a strong period for us—we expect this momentum to sustain and further strengthen.

On the credit front, we continue to maintain a cautiously optimistic stance in our underwriting approach. While our asset quality continues to show steady improvement, we remain vigilant and are closely monitoring developments across specific customer segments, geographies, and risk profiles – especially in light of cautionary signals observed among some industry peers. Our calibrated risk strategy remains firmly anchored in prudence and discipline, guided by sound underwriting principles rather than any perceived weakness in demand.

Our AUM grew by 16% year-on-year to Rs. 213.6 billion. Given the current momentum and positive market environment, we now anticipate full-year AUM growth of around 18%. The broader macroeconomic backdrop remains supportive – the government's continued thrust on retail consumption, along with structural reforms such as GST rate reduction and income tax rationalization, expected to further strengthen housing demand in the coming quarters. Additionally, a conducive interest rate scenario continues to support affordability and demand momentum in our core segments.

Furthermore, government initiatives like the Interest Subsidy Scheme (ISS) under PMAY 2.0, coupled with a stable interest rate environment, continue to support homebuyer sentiment and affordability. We are pleased to report that over 2,300 Aavas customers have already benefited from these schemes, receiving subsidies amounting to more than Rs. 75 million.

As we look ahead, our long-term strategic priorities remain clear—to fully leverage our strong digital platforms, distribution network, further strengthen governance,

drive scale efficiently, optimize costs, and enhance productivity across the organization.

With that preamble, I will now take you through our quarterly performance.

After crossing the Rs. 200 bn milestone earlier this year our AUM has now reached Rs 214 bn.

During Q2 FY25, we disbursed loans worth Rs 15.6 bn, registering a 36% sequential and 21% year-on-year growth, while maintaining our strong focus on quality origination and prudent underwriting.

Our Net profit for Q2 FY26 grew by 11% YoY to Rs 1.64 bn led by robust 18% YoY growth in NII on account of healthy improvement in spread. Our Net Worth continues to compound steadily, growing at 16% YoY, with the strength of our capital position driven by consistent compounding internal accruals.

Our NIMs expanded by 56 bps sequentially to 8.04% during the quarter. This improvement was supported by significant improvement in spread coupled with our continued focus on risk-adjusted pricing, which resulted in a 10-bps increase in incremental business yields over H1 FY25.

Our Opex-to-Assets ratio saw a marginal increase of 5 bps sequentially to 3.51%, while the Cost-to-Income ratio declined by 260 bps quarter-on-quarter to 43.7%, reflecting improved efficiency gains.

Our asset quality remains pristine, with 1+ DPD below 5%, improving by 16 bps sequentially to 3.99% as of September 2025, while GNPA levels remained stable at 1.24%. Credit costs improved sharply by 8 bps sequentially to 16 bps. driven by lower 1+ DPD flow and improvement in Stage 2 buckets. We continue to maintain our guidance of keeping credit costs below 25 bps on a sustainable basis.

Our ROA improved significantly by 46 bps sequentially to 3.40% and ROE improving by 175 bps QoQ to 14.31%.

We remain committed to delivering quality, profitable, and sustainable growth powered by tech-led efficiency and cost optimization. With our 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 long-term value to all stakeholders.

With that, Ladies and Gentlemen, 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 on borrowings first, our ability to improve the cost of funds continues to underscore the strength and resilience of Aavas' well-diversified liability franchise. In line with our strategy of innovation in liability sourcing, we proactively anticipated a potential softening in interest rates and strategically shifted a sizeable portion of our borrowings to EBLR-linked instruments and shorter-tenure MCLR structures. This forward-looking approach has continued to yield tangible benefits in Q2, as our liabilities are repricing faster than those of many peers.

This positions us well to maintain a competitive cost of funds while supporting sustainable quality growth. As a result, we have seen an additional 17 bps improvement sequentially in our cost of funds led by EBLR-linked borrowings and other borrowings.

Our spread improved sharply by 34 bps year-on-year to 5.23% in Q2, while the calculated spread increased by 59 bps year-on-year to 6.27% in Q2 FY26. We continued to borrow judiciously, raising around Rs. 13.96 bn at competitive rate at 7.83% for Q2FY26.

Our average tenure of borrowings continues to be longer than that of our assets, ensuring a positive ALM across all time buckets.

As of 30th Sept 2025, total outstanding borrowings stood at Rs. 186.87 billion. The borrowing mix as of 30th Sept 2025 comprised of: 50% from term loans, 25% from assignment, 14% from NHB refinancing and 11% from the debt capital markets.

We have optimum mix of various benchmark of interest rates such as 36% of borrowings linked to external benchmarks such as Repo, T-Bill, and MIBOR, and 25% linked to sub-3-month MCLR, enabling faster repricing of nearly 61% of our borrowings in line with interest rate movements.

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

As of 30th Sept 2025, we maintained ample liquidity, including cash and cash equivalents and unavailed CC limits of Rs. 18.94 billion and documented unavailed sanctions of Rs. 21.51 billion.

Profitability and Capital Position, our Net Total Income (NIM) in absolute terms grew by 18% YoY in Q2 FY26. Net Interest Margin (NIM) as a percentage of total assets expanded by 26 bps YoY to 8.04% in Q2 FY26.

We remain well-capitalized, with a net worth of Rs 46.8 billion and a Capital Risk-Weighted Assets Ratio (CRAR) of 46.4%, significantly above regulatory requirements.

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

Ashutosh Atre:

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

Asset Quality & Provisioning, Aavas is strongly positioned to continue delivering industry-leading asset quality. Our asset quality remains within the guided range with 1 day past due well below 5% at 3.99% in Q2FY26 and Gross Stage 3 & Net Stage 3 under 1.25% stood at 1.24% and 0.84%, respectively.

From a geographic perspective, asset quality in our home state continues to remain healthy. The average 1+ DPD and GNPA stood well below 4% and 1.25% of AUM. Similarly, in our emerging markets, we are observing healthy credit performance, with 1+ DPD and GNPA levels remaining comfortably within 3.5% and 1% of AUM, respectively.

Our total ECL provisioning, including that for COVID-19 impact as well as Resolution Framework 2.0, stood at Rs. 1.21 bn as of 30th Sept 2025.

Our disciplined underwriting standards, coupled with a proactive risk management framework, have enabled us to stay ahead of emerging macroeconomic challenges. While several peers have reported asset quality pressures 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 higher-risk segments. This approach has helped us preserve asset quality, which continues to rank among the best in the industry. With this, I open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish from ICICI. Please go ahead.

Renish Bhuv: Hi Sir, congratulations on a good set of numbers. My first question is on basically yields? So, while our spread expanded for the last 2 quarters, but this is largely driven by cost of fund benefit and yield continues to fall. So, what explains the drop in yields on sequential basis and where do you see yields settling in near term? Because at some point in time, we also have to review our PLR. And given that, there is sharp reduction in cost of fund, we might have to lower our PLR maybe in the next couple of quarters. So, where do you see the yields settling and ultimately spread?

Sachinder Bhinder: Thanks, Renish. I think as highlighted earlier, our incremental business yield is still lower than our existing portfolio yield, which naturally pulls down the blended portfolio yield. And this has been the key driver of the 5-bps compression during the quarter. Additionally, in the current environment of heightened asset quality concerns and tighter credit conditions, we believe it is prudent to underwrite better quality, lower risk customers even if there is a part compression in the disbursement yields and tight lower pricing. The intent is to protect portfolio quality and maintain long-term risk-adjusted returns. This said, positive momentum on placement yields with 10 bps Y-o-Y improvement in H1 FY26 and gap between incremental yield and portfolio yield has narrowed meaningfully.

Again, just to elaborate that we have taken some structural actions to support yield sustainability, sharper focus on the low-ticket size and new-to-credit customers where yields are structurally higher, deeper penetration of the underserved geographies and higher yielding product segments along with deviation metrics and system-based guardrails to ensure pricing discipline is there on the ground. I think all this will really help us to do, I think the positive part on, Renish, is that we have had momentum continue on the yield side as we speak.

The second question was on the PLR. So, we are closely monitoring the rate environment. So, far, we have not seen a meaningful reduction in MCLR from the banks and therefore the full transmission of lower rate has not yet taken place on the liability side. That said, our incremental disbursements are already being priced competitively which means our incremental spreads are still lower than the reported portfolio spread. In fact, our effective yields are already lower than most peers. We are also addressing customer level retention specifically and I think we will continue to evaluate the cost of funds, Renish. And based on how the MCLR transmission plays out in the coming quarter, the ALCO will review and take a considered view on revising the PLR.

Renish Bhuv: So, basically, let us say, till September-25, whatever benefit we got on the borrowing side, let us say, there is no further benefit on the cost of borrowing, we will keep PLR where it is currently. Is that the fair presumption?

Sachinder Bhinder: So, I think, at ALCO, we will review and take a considered call based on the scenario in the coming months.

Renish Bhuva: Got it, sir. Sir, my second question is on the cost side, right? So, we have been highlighting that we have taken many initiatives to improve productivity and bring down cost ratios. But somehow our cost-to-income is still around 41%-42% even if adjusted for ESOP versus peers are below 35%. So, there is a gap. So, when do you see this cost-to-income ratio converging towards industry average?

Sachinder Bhinder: Renish, the movement in OPEX to asset ratio this quarter is largely operational and timing-related rather than structure. So, this reflects the implementations which were made as a part of our branch and distribution expansion plan. However, since disbursements are relatively softer, the cost-to-asset ratio appears temporarily elevated.

So, if you look at it, there is a 14% Y-o-Y increase in the number of employees. This includes 1,150 employees we added. We still have the monetization of that to happen. So, I think that is one part. But this is a part of investment which we look at. As we speak, we have added branches in Tamil Nadu. Still, they must come to a level where it starts being productive as we speak, in the coming quarters.

Now, if you exclude the ESOP expense, the Y-o-Y increase in the OPEX ratio would have been 16 bps since Quarter 2 of last year had ESOP reversals which created a base effect. This all being a denominator effect with softer asset growth in the quarter, the benefit of operating leverage has still not flowed in. But on the positive side, as I reflected, the cost-to-income ratio has improved by 262 bps sequentially, indicating that the cost structure is already beginning to stabilize.

Renish Bhuva: So, this trend will continue going forward? That is what you are trying to highlight?

Sachinder Bhinder: We have actually guided that we are committed to bringing the OPEX to asset ratio below 3% over the medium term. And as disbursement scales, AUM growth normalizes, and technology and branch projective benefits continue to accrue. We expect operating leverage to further steadily improve.

Renish Bhuva: That's it, sir. Thank you and best of luck.

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

Kunal Shah: Yes, hi. Thanks for taking the question. So, firstly, on assignment income, overall, when we look at it compared to the assignments which were done, in fact, the run rate has been quite high. So, is there anything, maybe, is it more of a demand-supply thing, or is there anything in that?

Ghanshyam Rawat: Hi, Kunal. If you see from assignment volume perspective what we do every quarter and every H1, there is not much of a change as our AUM is growing. We generally keep between 15% - 20% growth in the assignment in the volume. But more particularly, now this year, our assignment, we used to do last year roughly 8.5% or plus. Now, we are doing 7.5% plus, basically. So, almost 100 basis points saving, which is giving us a better, let's say, spread and better income generation on that assignment if we do same transaction during this year. So, that is a positive impact coming on the income side.

Kunal Shah: And this was not there in first quarter or was it there in first quarter as well? Because even compared to the first quarter, it seems to be high?

Ghanshyam Rawat: First quarter, the rate started to fall, so we got some benefit. But Quarter 2, we got a very good amount of benefit in the spreads.

Kunal Shah: And this will continue. So, now, incrementally, we will be doing it at this spread only?

Ghanshyam Rawat: Yes. Incrementally, until we see reversal in interest rate scenario, this trend will continue.

Kunal Shah: Sure. Got it. And secondly, on the disbursement side, so this entire impact of maybe the change in the recognition, which was there, has it played out in Q2 itself, the entire rollover effect or there will be something which will flow through in Q3 too?

Sachinder Bhinder: Kunal, we have regained healthy momentum, delivering 36% Q-o-Q and 21% Y-o-Y growth and disbursement. See, over the last 5 months, our monthly disbursement run rate has remained above Rs. 500 crores and with H2 being seasonally strong for us, we are working towards taking this run rate to Rs. 700 crores plus kind of a range. On the demand side, monthly login volumes have remained robust at 15,000 plus, reflecting about 23% Y-o-Y growth. So, in that sense, we work towards achieving our AUM growth aspiration.

We want to be clear that the portfolio quality remains good, but I think whatever it was on the Q1, it has played out in Q2 and we don't see any of that really coming in the coming quarters. So, as I stated, we have stabilized and we are there on a normal pace, which is required at a normal steady state.

Kunal Shah: Got it. And lastly, on repayment rate and BT out, so BT out is now 5.7% and if you look across the product segment, it seems like it has gone up a bit on the home loan, while maybe I think the mortgages, and all have almost remained steady. In fact, mortgage is also up a slight bit. So, maybe any pressures in any particular states or with any particular customer profile, if you can highlight that?

Sachinder Bhinder: Kunal, our BT out rate for H1 stands at about 5.3%, which is around 10 bps higher than the same period last year. See, specifically in Q2, BT out was at around 5.7% compared to 4.9% in Q1, if you compare that, indicating a normal seasonal variation. We have deployed predictive analytics to ensure that we engage with potential BT out customers. That is what we really continue to do. So, we will continue our retention measures. At this period of time, we do not see anything which is on the alarming side.

What actually we have seen other than the BT was the repayment rate, which increased by around 200 bps actually. These are part prepayments. This was driven by higher repayments, and this was incrementally higher outflow which happened this quarter. In note, Kunal, if I were to look at it, there is increase in the part prepayment is also reflective of improved credit behavior and liquidity at the borrower end, which continues to be a positive indicator on asset quality.

Kunal Shah: Got it. Thanks, and all the best.

Sachinder Bhinder: Thanks, Kunal.

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

Abhijit Tibrewal:

Yes. Good evening, sir. Thank you for taking my question. Sir, first thing on asset quality, while our 1+DPD has improved by about 15 bps Q-o-Q, which is appreciable. In your opening remarks and Ashutosh's opening remarks, I remember hearing you speaking about what has helped us achieve this asset quality.

But at the same time, you also acknowledged in your opening remarks that you remain cautious because of what you are seeing in some of the industry peers. Some of the industry peers have called out localized pain in various pockets. Some calling it some spillover from MFI, Micro LAP into affordable housing. Some saying it is more to do with US tariffs, which has impacted a few industries, right? Whether it be diamond, gems jewelry, textiles, leather.

Is there anything that we are seeing at our end, right? Which you are monitoring now, right? While your asset quality is holding up, right? But something that you are monitoring at your end?

Sachinder Bhinder:

Thanks, Abhijit. I think overall, as you were talking about the tariff impact, I think if you look at the entire portfolio level, less than 1.8% of AUM would be having exposure to those tariff related items because we are in assessment of those segments of customers.

So, we are seeing pockets of stress, but not material at the portfolio level in certain geographies and we have taken corrective actions. And this is where typical states like Karnataka, Madhya Pradesh had seen and Gujarat had some part of tariff industry related disruptions in Surat. But we have limited exposure on that as far as this is concerned. And Karnataka, the MFI related disruption because of the ordinance, we acted early by tightening the credit filters, slowing down disbursement in affected micro markets and strengthened field verification.

The situation is stabilizing and we continue to operate with rightful cautious mode in these specific pockets. As far as Madhya Pradesh is concerned, there is a stress which is localized in the Eastern belt of MP. We have selectively tightened our underwriting and adopting a stance which is with sharper credit and income assessment standards.

As highlighted, the 1+DPD continues to remain contained at around 4% which is encouraging and reflects a low opening flow of new cases. And we have also seen an improvement in Stage-II indicating better stability in early delinquency buckets, Abhijit.

Abhijit Tibrewal:

Got it. Thank you for that. Sir, the second question I have is, this quarter, this first half, right, the AUM growth is tracking around 16% Y-o-Y. What we have started seeing in the last 2 quarters is in your presentation, you started sharing your aspiration of where you want to scale up your AUM by FY30, which is about Rs. 55,000 crores. And which then kind of translates into almost a 23% of an AUM CAGR from now to FY30. So, I am just trying to understand now that CVC is clearly working along with you. In addition to expansion in Southern India and the digital transformation now complete, what are the other changes that you are making, right, which kind of makes you put out that aspirational target of getting to Rs. 55,000 crores by FY '30?

Sachinder Bhinder:

See, on a 20% plus annual growth over the next 5 years is driven by a combination of following factors. If I were to really point it out, one is geographic expansion, second is employee productivity enhancement and investment in technology and sourcing channels. So, I will give you a broad breakup, 8% will be driven by branch expansion

in our existing footprint and the new states, 7%-8% comes from our productivity enhancement and 5% is expected from an inflation-led increase in the ticket size.

So, as we speak, Abhijit, Tamil Nadu, Andhra Pradesh and Telangana, these are the three open states which are available for us to really venture in and make our footprint visible. So, that is an open landscape available. Plus, from a digital sourcing perspective, we have diversified our mix by having digital channels like CSC, Mitra, and others, and that volume also we start seeing a steady increase on month-on-month and quarter-on-quarter basis. So, we are optimistic with these implementations and with some of the projects which we have worked across to really get that in motion. We are confident as a management team that we will be able to deliver on the guided level of 20% plus annual growth over the next 5 years.

Abhijit Tibrewal:

Got it, sir. And then, one other question I had is, while you said, right, the BT outs are still calibrated 5.3% for 1H, somewhere around 5.7% for the second quarter. So, there are other peers who kind of now started calling out that, say, the BT outs or the portfolio attrition is elevated, primarily because in addition to banks being aggressive, now there are a lot of balance transfers which are happening to other peer affordable HFCs as well. So, is that not something which is kind of worrying us?

Sachinder Bhinder:

So, I think we were very proactive, Abhijit, if you look at Aavas, we have deployed predictive analytics to really identify and engage with the potential BT out customers proactively. And the other part, Abhijit, is that in-house sourcing model, unlike the others where it is either a channel-led or led by the partners, I think our in-house sourcing model also enables us that we have deeper customer relationships and stronger retention. So, I think these are the two parts which really flow out for help us in this scenario. And for strong credit customers, we offer selective rate rationalizations or top-up wherever we feel.

Again, if you really look at it, the customer behavior, wherever there is a BT out performance, we let the customer exit are the one historically, the portfolio we let go performs 3x worse when that was in our books. Validating that the disciplined approach to the portfolio quality over volume is what we really embark upon.

So, I think when there is a possibility of holding the customer rightfully so on his cash flow-based underwriting stuff, we continue to hold. Wherever we let go, the performance really deteriorates and historically, that is what we have seen. But we are mindful of the fact that whatever our efforts will continue to hold this in the coming times.

Abhijit Tibrewal:

Got it. Thank you. And Sachinder sir, I wanted to sneak in one last question. I don't feel too good asking you this, right? But somewhere during the quarter, it has had an impact on the stock price, as you will appreciate, right? There have been speculations and media articles, right? So, just trying to understand, is everything okay when it comes to our promoter, everything going in the right direction?

Sachinder Bhinder:

So, Abhijit, let us not mull over on the pure media or market speculations. All I can say is I am here and fully committed to Aavas and its performance. And so are the Aavas Board and the Promoter Group.

Abhijit Tibrewal:

Got it, sir. This is useful. Thank you so much.

Moderator:

Thank you. The next question is from the line of Vishal Gutka from ASK Investment. Please go ahead.

Vishal Gutka: Yes. Hi, team. Congrats on a good set of numbers. Sir, I have two questions. First is I wanted to understand your thoughts on dividend payouts, given you are well capitalized and the change in ownership has happened? And the second question was with regards to, you told that Eastern Belt of MP is facing problems. So, can you please highlight why it is facing such problems, sir? Thank you.

Ghanshyam Rawat: Yes. Obviously, your question is valid to ask from the shareholder side and what is about the dividend. But affordable housing, all stack, whether we are all peer group is growing at a good pace. And as Sachinderji mentioned, we are embarking on a 20%-25% growth rate in the next 5 years. So, keeping that thing in mind, we will need excess capital which we have as of now to meet our growth plans. But once we reach a level where ROE versus growth is a good crossover to on steady state basis, we will start to pay back the dividend to shareholders. And as regards MP, I think Ashutosh is right to answer your question.

Ashutosh Atre: Vishal, see we have a process of understanding the portfolio based on various cuts, geographically, ticket size wise, and various other cuts. So, in that comparative study within Madhya Pradesh, we found that in the Eastern belt, we had few cases going bad. So, that is the reason Sachinderji mentioned that within MP, one belt was showing stress in few cases. And we have taken corrective actions, we have brought senior people in credit and taken the learnings from this. So, it is a comparative statement when we were talking about state-wise and then further zonal and further cuts on the state. So, that is it.

Ghanshyam Rawat: But overall, I think as a company, we are very comfortable on asset quality, either bouncing rate or 1 plus or 90 plus. Bouncing rate is steady state basis. I think we didn't see much change. 1+ increased in last quarter, but I think we gained back our momentum and are reaching less than 4% now. And in next 2 quarters, it will start to show results in the 90+ also.

Sachinder Bhinder: And just to add on, there has been no meaningful increase in our bounce rate. They continue to remain stable at around gross of 18% net at 13.5%, which is broadly in line with the level seen in Quarter 2 and H1 of last year.

Vishal Gutka: Got it. Sir, I just had one more question. We keep hearing, reading the sell-side report, which generally highlights that employee attrition challenge, given that we have very tight credit filter, which is very good in long term, but in near term, what do you call, if it increases the employee attrition, so how would you like to address the challenge for employee attrition overall?

Sachinder Bhinder: See, attrition for FY25 has come down by 7 percentage points from FY24 level. And during Quarter 2 FY26, it is further reduced by 100 bps to 17% in Q2 versus 18% last year. What we have done is, we are benefiting from our regional HR strategy, where we have ensured that HR person's presence in every region to address ground employees' concerns, motivate them, engage them, and train them. So, all this really helps us to maintain the levels at which we really are desirable.

Vishal Gutka: Got it. Wishing you all the best for future quarters. Thank you.

Sachinder Bhinder: Thank you.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity. Sir, my question was pertaining to lending rate. So, what is our incremental lending rate in HL and MSME?

Ghanshyam Rawat: At overall mixed level, as Sachinderji mentioned, we are almost 25 bps lower than our overall portfolio yield at this moment, which is very much in line with our strategy because cost of borrowing is continuously falling. Our incremental cost of borrowing is almost 60 bps plus better than last year. So, it is affordable to us in our growth as well as maintaining the spread strategy.

Shreepal Doshi: Got it. So, with the cost of fund benefit flowing in, what is our PLR strategy in the second half?

Ghanshyam Rawat: We are, I think, Sachinderji who addressed this question. Again, I will elaborate. Banks are our largest lending partner, the short term MCLR got readjusted, but still 6 months and above MCLR is yet to pass the benefit. We are closely watching the interest rate scenario. If we see steady state basis, our cost of borrowing is falling. So, definitely, we will think about reducing our PLR and we will consider this thing in the next ALCO. However, we are already passing a few benefits to the new acquisition of customers so that we will remain on the competitive curve.

Shreepal Doshi: Got it. So, sorry for asking this question again because I joined the call a little late. Thank you for answering.

Ghanshyam Rawat: Thank you.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Hi, thanks for taking my question. This is just a follow up. You mentioned that your incremental cost of funds is 60 bps lower and incremental spread is around 25 bps lower. Does it mean that incremental lending rate is around 100 bps lower than the book rate?

Ghanshyam Rawat: No. My incremental lending rate is 25 bps lower than my total AUM rate. That is within our strategy because my incremental cost of borrowing is almost 60 bps better than last year.

Nischint Chawathe: So, your incremental spreads are technically better than the book spread?

Ghanshyam Rawat: That is converting in the better spread.

Nischin Chawathe: No. So, what it means is that your incremental spreads are actually better than the book spreads?

Ghanshyam Rawat: Yes, incremental to incremental, it is right.

Nischint Chawathe: No, I am trying to say that the incremental spread is today higher than the book spread.

Ghanshyam Rawat: If I compare incremental to incremental, it is right.

Sachinder Bhinder: So, I think, Nischint, we highlighted the improvement in the kind of yields which we are doing, and we highlighted that the sequential improvement quarter-on-quarter and year-on-year.

Nischint Chawathe: Yes, got it. Thank you very much.

Sachinder Bhinder: Thanks, Nischint.

Moderator: Thank you. Next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Hi, good evening, sir. And thanks for taking up my question. So, I have two questions. Firstly, in our sourcing mix, is there any contribution of DSA? If any?

Sachinder Bhinder: So, I think as a part of the alternate strategy, we have CSC, eMitra, others which really come across and build across. From a pure perspective of DSA, I think it is not meaningful at this period of time from our stage. We continue to do it more from a direct source channel to an allied channels which are CSC, eMitra, Mitra and which are around our ecosystem, so to say.

Mona Khetan: So, it will be fair to say that it is sub 5% or?

Sachinder Bhinder: Yes, it is less than 10%.

Mona Khetan: Less than 10%. And secondly, if you could share the AUM mix based on ticket size, less than 5 lakhs, 5-15 and above 25 lakhs?

Sachinder Bhinder: That is there. If you look at the presentation, it is available on the presentation.

Mona Khetan: Yes, that is on the number of loans. I was looking for the AUM mix. That's based on the number of loans.

Sachinder Bhinder: Rakesh, Investor Relations will come back to you on specific data if you are really referring to on the value side.

Mona Khetan: Sure. Thank you.

Sachinder Bhinder: So, just to give you a broad scape, less than 25 lakhs, we have around 76.7%, that is around 77% is below 25 lakhs.

Mona Khetan: So, about 23% of the AUM is above 25 lakhs.

Rakesh Shinde: Right, that is right.

Mona Khetan: And anything on less than 5 lakhs as well?

Rakesh Shinde: Less than 5 lakhs, it is around 11% of outstanding AuM.

Mona Khetan: 11% of AUM.

Rakesh Shinde: Yes, right.

Mona Khetan: And do you also have between 5-15 or sub 15 will also work?

Ghanshyam Rawat: Those are very finer details. I think these are business intelligence. I think we do not share all this much in detail.

Mona Khetan: Sure. Thank you and all the best.

Ghanshyam Rawat: Thank you.

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 & Gentlemen, as we conclude today's earnings call, I would like to extend my sincere gratitude to each of you for your time, engagement, and continued support. The progress we've made is a testament to the unwavering dedication of our team, the trust placed in us by our shareholders, and the enduring loyalty of our customers.

Looking ahead, we remain optimistic about the opportunities that lie before us. We are confident that our strategic initiatives, underpinned by prudent risk management and a customer-centric approach, will continue to deliver sustainable growth and long-term value for all our stakeholders. 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 once again, and we wish you all the absolute best in the days ahead. God Bless.

Ghanshyam Rawat: Thank you, everyone.

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