



“Aavas Financiers Limited Q4FY25 Earnings Conference Call” April 24, 2025



Management:

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

Moderator:

Ladies and gentlemen, good day, and welcome to the Aavas Financiers Limited Q4FY25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves 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 touchtone phone. Please note that 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:

Good evening, everyone. I extend a very warm welcome to all participants and thank you for joining us today on earnings call to discuss the financial and operational performance of our company for Q4 and the full year FY25. The results and the investor presentation have been uploaded on the stock exchanges and are also available on our company website. I hope you have had a chance to review them.

Joining me today is the entire management team of Aavas. We will begin this call with the 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, and good evening, everyone, and a very happy new financial year to all of you. Thank you all for joining us this evening. I truly appreciate your presence and continued support.

We are proud to share that during this quarter, we achieved a significant milestone, crossing the INR 200 bn mark in AuM. This is more than just a number. It reflects our unwavering support, guidance and valuable feedback. It also reinforces our commitment to making affordable housing finance and MSME credit more accessible to thousands of families and businesses across Bharat.

Q4FY25 was marked by strong operational performance. We witnessed healthy traction in customer logins and a robust pickup in the disbursement, which grew 27 percentage Q-o-Q. During the quarter, we achieved our highest ever volumes crossing 55,000 in logins and INR 20 bn in disbursements for the first time.

We have completed upgradation of all major tech platforms, which are now stabilizing. This was one of the fastest tech implementations in the industry. We believe we have set the foundation for sustainable, scalable and profitable growth. As we step into the new financial year, our focus is clear to fully leverage the state-of-the-art platforms by strengthening governance, accelerating scale, optimizing cost and enhancing operational efficiencies across the organization.

Ladies and gentlemen, with that preamble, I shall now take you through the quarterly performance and our assessment of the outlook.

We have delivered AuM growth of 18% Y-o-Y, reaching an AuM of INR 204 bn. In Q4FY25, we disbursed loans worth around INR 20 bn, whereas in FY25, we had disbursed INR 61.2 bn, a growth of around 10%. Our net profit for FY25 grew by 17% Y-o-Y to INR 5.74 bn.

Our net worth continues to compound quarter after quarter at a rate of around 16% Y-o-Y. Our calculated spread has improved by 15 bps sequentially to 5.87% in Q4FY25. Our reported NIMs expanded by 37 bps during the quarter to 8.11%. Our focus continues to underwrite quality business with risk-adjusted return. As a result, our incremental business yield has gone up by 22 bps in FY25.

At the beginning of the financial year, we have guided that we'll bring down opex to asset ratio by 25 bps this year. I'm happy to report we have delivered a reduction in opex to asset ratio by 26 bps Y-o-Y to 3.32% in FY25 as a result of our cost optimization strategy.

Our asset quality continues to be pristine with 1+DPD of less than 4% at 3.39% as of March-25. Our GNPA was 1.08% down 6 bps Q-o-Q. Credit costs improved further to 15 bps in FY25 versus 16 bps in FY24. We continue to guide credit costs of below 25 bps on a sustainable basis. RoA remained stable at 3.27% and the RoE jumped by 18 bps Y-o-Y to 14.12% in FY25.

We continue to strengthen our distribution network by opening 30 new branches during the FY25. Going ahead, we aim to accelerate our branch expansion strategy in the first half of FY26. The required capacity is already in place to support this planned scale up. In addition to expanding our branch network, we continue to prioritize value-

accretive partnerships that enhance our digital channels, CSC, eMitra and Ecosystem channel partners, enabling us to tap into new customer segments, particularly new to credit and new to mortgage customers.

The new PMAY 2.0 scheme ensures impact in the last mile in a more efficient way and benefit our customers immensely. The scheme aligns well with our mission to provide affordable housing finance, and we expect it to drive higher demand in the products, furthering supporting our growth and expansion across Bharat.

We are committed to deliver quality and profitable business growth driven by tech-led operating efficiency and cost optimization. I'm confident that with our strong risk management practices, diversified distribution reach and execution capabilities of our time-tested team, we'll achieve our milestones and deliver value to our stakeholders.

With that, ladies and gentlemen, I would now hand over to our CFO, Ghanshyam Rawat, to discuss the financial in details.

Ghanshyam Rawat:

Thank you, Sachinder Ji. Good evening, everyone, and a warm welcome to our earnings call. First, to provide update on borrowing side. In terms of liability, we have one of the best well-diversified liability franchises. We have been innovative in exploring new avenues of sourcing. This year also, we raised NCD amounting to INR 6.3 bn from our institutional investors. We will channelize these funds towards retail loans for individuals and the promotion of green home constructions, underscoring our unwavering commitment to sustainable and inclusive development.

We continue to borrow judiciously and raised around INR 61.8 bn at 8.42% for FY25. Our average tenure of borrowing continues to be higher than assets with a positive ALM across the buckets. Total outstanding borrowing as of 31st March 2025 stood at INR 179 bn.

Overall borrowing mix as of 31st March 2025 is 51% from term loans, 25% from assignment, 14% from National Housing Bank refinancing and 10% from Debt Capital Market. Lender support continued to remain extremely strong as Aavas grow. There is access to diversified and cost-effective long-term financing. We maintain a strong relationship with the development financial institutions. To meet long-term business growth, we have progressed on a co-lending tie-up with the PSU bank.

As of 31st March 2025, we maintained sufficient liquidity in the form of cash and cash equivalents and unavailed CC limit of INR 16.52 bn and documented unavailed sanction of INR 13.47 bn.

In terms of financial performance, our Net Profit for Q4FY25 grew by 8% Y-o-Y to INR 1.54 bn, led by robust growth in operating income on account of healthy improvement in operating leverage.

During the quarter, our spread moderated by 5 bps sequentially to 4.89% on account of softening AuM yield by 5 bps to 13.13%, while our cost of borrowing remained unchanged at 8.24%. We have 36% of our borrowings are linked to EBLR such as repo rate, T-Bill, MIBOR and 21% linked to 3-month MCLR, which will allow us faster repricing of 56% borrowing in line with the interest rate trend.

Our NIM in absolute terms has increased by 14% Y-o-Y in Q4FY25 and 13% Y-o-Y in FY25. Our margin NIM as a percentage of total assets during Q4FY25 stood at 8.11% and at 7.64% during FY25. RoA for the quarter stood at 3.37% in Q4FY25 where RoE at 14.4% in Q4FY25.

We are well capitalized with a net worth of INR 43.61 bn and CRAR at 44.5%. The total number of live accounts stood at 246,000+, translating into 13% Y-o-Y growth. Now I would like to hand over the line to our CRO, Mr. Ashutosh Atre, to discuss asset quality.

Ashutosh Atre:

Thank you, Ghanshyam. 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 day past due below 5% at 3.39% in Q4FY25. And Gross Stage 3 and Net Stage 3 under 1.25% stood at 1.08% and 0.73%, respectively.

In terms of geography, average 1+DPD and GNPA in our vintage states remained within 4% and 1.25% of AuM, respectively, whereas other emerging states, 1+DPD and GNPA remained well below 3% and 1% of AuM, respectively. Similarly, in terms of ticket size of more than INR 15 lakhs, 1+DPD and GNPA remained well below 4% and 1%, whereas in case of ticket size less than INR 15 lakhs, 1+DPD and GNPA remains below 4.5% and 1.5%, respectively.

Our total ECL provisioning, including that of COVID-19 impact as well as resolution framework 2.0, stood at INR1.01 billion as of 31st of March 2025.

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

Moderator:

Thank you. The first question is from the line of Renish Bhuvra from ICICI Securities. Please go ahead.

Renish Bhuvra:

Hi, Sir. Congrats on a good set of numbers. Sir, I have 2 questions from my side. One on the asset yields. When we look at the asset yields, it has been static around very narrow range between 13.1% to 13.15% for last 10 quarters despite we've been increasing PLR rates, etc. And now since we are entering easing rate cycle and having a 70% floating rate book, how do you see asset yields settling in near term?

And also, as you have been highlighting since past many quarters about change in sourcing strategy with more focus on small ticket loan moving to risk-based pricing, etc. When do you see this sort of reflecting in yields and ultimately, we reaching 5% spread?

Sachinder Bhinder:

Thanks, Renish. I think, as earlier guided by us, our constant delivery has to increase the disbursement yields, and that also is structurally by really looking at the risk-adjusted returns. As we have shared that over the last one year, we've increased by around 22 bps, and I think it's more about the segment rather than the play-out on the interest rates, which is there.

We've had a mix of adjustments according to the product mix, the loan category type, and the use of state-of-the-art BRE engines for getting the risk-adjusted pricing returns in the right format. So, Renish, as you would appreciate that the disbursement yields over the last couple of years have been lower than the AuM yield.

And a catch-up becomes very difficult in such a loan growth AuM, which we have built over the last couple of years. But our endeavour continues to build across on an incremental disbursement yield. And as we speak, we will take another 3-4 quarters to really build that in a right framework where we try to be around AuM disbursement yield on an incremental disbursement yield as we continue to increase and step up our efforts.

Renish Bhuva: Okay. So, I mean this is also important from a spread perspective because the 70% floating rate book will continue to impact our yields going ahead. So, strategically, how will you address that?

Sachinder Bhinder: So strategically, I think it is about the disbursement yields to be really sticking out. I think that will actually help across the spreads in the falling interest rate scenario, it's about whether we'll be able to source the customer at that interest rate. The answer is yes. As a team, as management, we are fully confident about the fact of our disbursement yields, so to say.

So, I think that even in the falling rate scenario, as you speak, Renish, the lowering of the cost of borrowings, we will continue to build our disbursement yield, as I spoke across on 3 parameters. One is the product type. Second is the product segment, when we say product segment is less than Rs. 10 lakhs, currently at around 32%, 33%, inch up of around 3% will really get the metrics right for us. That's right and again to re-iterate that if you look at the 1+DPD it is a 3.85% and I think that is a good indicator for us.

Ghanshyam Rawat: Renish, what Sachinderji said, our entire loan book, which is 70% of the floating rate is linked to our PLR basically. And our PLR is dependent on our cost of borrowing. If we see cost of borrowing also, 70% liability is on floating rate. Of this, 56% is linked to Repo rate, T-bill, and less than 3-month MCLR.

And the remaining 20% is linked to 6-month to 1-year MCLR. So, as we have a positive impact on cost of borrowing, which we will pass it on the floating rate asset side. So, we don't think in a falling interest rate scenario, there will be any negative impact on the spread. In the past also, we have seen, it always helps us to protect some spread.

Renish Bhuva: OK. So maybe just a follow-up on that Ghanshyam Sir. As you rightly said, maybe on a blended basis, 25% to 30% borrowing is linked to EBLR and maybe 3-month MCLR. So, when we look at the 50 basis points of reported cut and when we look at the cost of borrowing, it remains static on a sequential basis. So, I'm just wondering why the rate cut is not reflecting on the cost of borrowing, let's say, even of 5 basis points?

Ghanshyam Rawat: Yeah, let's say in the Q4, we see only a 25-bps repo cut. My repo borrowing immediately got impacted in a positive manner in the next month when the reset came, we have seen a positive impact. MCLR is yet to be reduced by the bank in this quarter. They will start to reflect the interest rate cut scenario in this quarter. So, we are very confident that going forward, it will have a very positive trajectory on the cost of borrowing side.

Renish Bhuva: Okay, got it. And the last question on staff cost, we have seen a sharp increase of more than 20% sequentially. So, anything specific to read into this?

Sachinder Bhinder: See, Renish. If you look at it, we have increased 30 branches during the year with the last 25 branches got operational in Q4. So, that is the one which has increased the

branch strength, the consequent employee deployment in those branches. And moving forward, we are trying to get the front-loading of the branches in H1. So, it's more to do with the resource and capacity planning for the branches which we open.

Ghanshyam Rawat: No Renish, whatever you see Opex including manpower cost increase in the Q4, is an investment in the company for take care of future growth in the company. In the manpower, the expansion of the branches these 2 are major. But third, importantly, in this quarter business has grown around 30% of Q3 to Q4, which has a variable cost which is linked to the business growth, sales team incentive and other variable expenses.

Renish Bhuv: OK. Thank you and best of luck, Sir.

Moderator: Thank you. We have our next question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Hi. Thank you for the opportunity and congratulations on a good set of numbers. My first question is, if you see at your Stage 3 provision coverage, incrementally it has been rising and this time, it was above 32%. So, how to look at it? Where should this number stabilize, or some maths, if you can help us to understand this number?

My second question is, usually in your 4th quarter, you have a negative net slippage, either because your gross slippages are lower, or you have better recoveries which come through. This time, I know it's not a big positive number, but it's still an improvement QoQ, and it's not a negative number. So, am I missing something over here? Or have some recoveries not come through, or has something happened on that front? These are my 2 questions. Thank you.

Ghanshyam Rawat: Thanks for that question. First, I'm taking your slippage part. For Stage 1, we have shown a good amount of improvement, which is coming less than 4%. Our guidance is 5%, which gives us a confidence that in another 1 or 2 quarters, we will come back to less than 1% of our gross NPA. We are confident and I think nothing too much read out of that in the overall gross NPA level. That's one part.

Second piece, Stage 3 increase in the provision. As I mentioned in the last quarter's con-call, we have moved to a new system – Bolton. It is an international-level computation of probability of default and ECL methodology. In which, we made two important changes in the system. The new system takes care of every month's slippages, rollbacks, and roll-forwards. Earlier this was done on a point-of-time basis.

Secondly, economic changes in behaviour, changes in the economic scenario are also got factored in the system. So, after putting these two factors in the system, the provision increased little bit last quarter also, and the balance has increased in this quarter. Going forward, we see it to remain in the same range of 30 to 33% for stage 3 as a posing requirement.

Shreya Shivani: Correct. You had changed the ECL methodology in Q3. So, going ahead on it should be at 33%-34%, did you say level?

Ghanshyam Rawat: Yes, you can take somewhere between 30 to 34%.

Shreya Shivani: Okay. That is useful. Thank you so much for answering.

Moderator: Thank you. The next question is from the Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, sir, for the opportunity. So, couple of questions.

Now we have crossed INR 20,000 crores of overall AuM and you also pleasantly mentioned in your opening remarks about scalability focus. So, definitely, it is presumed that scalability challenges sort of pain out above INR 200 bn AuM. But if I look at and see, the larger part of scalability is determined by the branch expansion network.

But if I look at the new branches that were opened during the whole of FY25, they were largely, or rather fully, concentrated in your existing states whereas you had mentioned earlier that there will be focus also on entering into new territories. And I think that would be the way forward for achieving further scalability. So, if can elaborate on that?

Second is, have we benefited more from securitization volumes as far as margins are concerned, because the run rate on quarterly basis is only climbing?

And third question is, how is the MSME scenario sort of panning out? Because I remember, last quarter, you sort of had mentioned some cautious commentary that you are monitoring trends and there has been strain on macros per se. And you mentioned you've stayed guarded. So, any scenario change, especially in the MSME segment? These are my three questions.

Sachinder Bhinder: Yes. Thanks, Shweta. I think it's a great one to have crossed INR 20,000 crores AuM. So we have built our focus on risk-adjusted returns. And on the expansion side, when you highlighted, new branches opened in the quarter 4, it was within the existing states. Even within the existing states, if you look at it, there were 10-plus branches in Karnataka.

And as we have always guided, within a range of 3 to 4 years, we open up a new state. So, in the current year, we will have one of the other states, Tamil Nadu, getting opened up with this. We started one branch last year in Hosur, just to understand the periphery. So that's about our expansion strategy as we move forward in the Southern States and continue to expand in the existing states.

Unlike last year, it was a rear-ended, which was in Q4, we will try to front-end this time in H1 on branch expansion side. We are confident to grow from scale and reach the INR 50,000 crore AuM mark in the next 5 years. We are confident with our geographical strength, liability franchise, branch expansion, and technology implementation, we will be able to achieve this mark.

On MSME and overall HL (Home Loan) side, if you look at it, we have been cautiously optimistic. And this stems from the fact that there are certain segments in the industry where we see the rising delinquency in MFI unsecured loans and increasing over-leverage of customers and Waterfall effects, which can come across because of certain global changes in the tariff form.

It's too early though, assess them, but we have been very cautiously optimistic on these segments, and we will watch out for segments emerging, the areas based on

risk-adjusted returns. Accordingly, what we feel across, which is right from an institutional per se, we will step up our accelerator.

The case in point, as we highlighted that in the last quarter, we were at an overall login of 55,000. But we had taken a cautious stance of looking at the underwriting perspective, tighten credit controls, and tightened the segments. Our login-to-sanction ratios are around 38%.

A cautiously optimistic stance which was taken, understanding the situation which is there in the local markets and local geographies. As and when it opens up, we will really like to span out and accelerate the commitment. We are optimistic on the way we have underwritten, and we will accelerate in the coming months.

On the 3rd question which you had Shweta, Ghanshyamji will answer.

Ghanshyam Rawat: Shweta, assignment is one of important funding tool. Whenever we have opportune time and pricing, we do assignment since it helps greatly in the ALM management. Because over the entire tenure, all loans are assigned to the banks. If you see at the full-year basis, last year we had a net upfront and unwinding of INR. 43 crores. This year, it was INR 46 crores, just 8%-9% increase in overall basis on a for the full year, whereas our total interest income has grown almost at 18% to 20%. All assignment income is the outcome. The main focus was to get the best deal for assignment from the banks and big lending partners and to manage our funding program in line with our ALCO management.

Shweta Daptardar: Okay, sure. Thank you and best luck.

Moderator: Thank you. We have our next question from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Sir. Hi. Good evening and Congrats on this quarter's results. I have 2 questions. One is your home loan disbursement for the quarter are about 3% lower compared to last year. Why is that the case because you've tightened your underwriting criteria? If that's the case, then can you indicate to what extent have your approval ratio come down. That's my first question.

Sachinder Bhinder: Yes, thanks. I was talking that despite the logins being at 55,000, our conventional login-to-sanction ratio, which was hovering around 42%. For the quarter, it stood at around 38%, this translated into a lower disbursement. And looking at the emerging scenario, we were cautiously optimistic about what to underwrite in the segments which we saw.

On your part of HL group, there has been growth of more than 5% on a full-year basis. We continue to trend in a way which is cautiously optimistic, considering that, as you are fully aware of the local scenarios in the geographies and the rising delinquencies in the MFI. We remain cautiously optimistic and will continue to trend in that range and continue with our endeavour to be around 20% of AuM.

Raghav Garg: Thank you. Sir. Bringing back to my second question, I think it has been partly answered previously. In the last 6-7 years, Barring the COVID year, you'll usually see net recoveries in the 4th quarter, but this time, there was a slippage, a minor one. Also, when you look at the stock of GNPA in the 4th quarter, it's usually lower by about 5-10% Q-o-Q. This time it's actually marginally up. Can you please talk if there are

any collection issues or repayment issues which you are facing or maybe at the industry level, and for what reasons?

Ghanshyam Rawat: We, as I explained earlier, our bouncing trend is in control which is similar to what we see earlier, and our 1+DPD has already come down to less than 4%, which gives us a confidence that our rollback of NPA will happen in the next one to two quarters. We didn't see any specific challenge in any particular state. It's almost a similar behaviour all across the states. And we are very confident it will come back to less than 1% in the next one to two quarters.

Raghav Garg: Understood. Sir, my last question on funding costs. So incrementally, I think you're raising at 8.5% versus a book cost of about 8.2%. I'm also considering that 70% of the assets are floating rate now. Do you think that incremental cost being higher than book cost and yields coming down because of the rate cuts, your spread could decline further from here on from 4.89%?

Ghanshyam Rawat: Yes. Because last year was an interest-rising scenario, in which fresh borrowing cost was definitely higher than my own book, let's say, older liability book, which we have seen till Q4.

But we are seeing and observing this trend will change in the coming quarters, where the new borrowing will be at par or lower than my total liability book. And old liability book also gets reset in a faster mode as we see the repo cut, MCLR rate cut, T-bill rate cut that will give a further positive towards my old liability book. I hope that clarifies your question.

Raghav Garg: Sorry, does your assets will also get re-priced lower towards what extend.

Ghanshyam Rawat: Yeah. As I mentioned earlier, my assets are linked to our PLR. Our PLR is computed based on the cost of borrowing. So there is always a lag impact, what we see there is the change in the PLR and a change in the cost of borrowing.

Raghav Garg: Yes. So, did I hear it right that your PLR linked to your funding cost?

Ghanshyam Rawat: Yes, you're very much right.

Raghav Garg: So eventually, if the cost of funds has to come down, then the PLR will also come down. And then to what extend?

Ghanshyam Rawat: It's not that 100% linkage. There is always a time lag impact in that scenario.

Sachinder Bhinder: See, Raghav, there are 2 points. One is the time lag impact which Ghanshyamji was referring. And secondly is the disbursement yield which you underwrite the business. I think in the earlier conversation also I guided that we will continue to hold on to our disbursement yield despite in the lowering rate scenario, and that is on account of structural adjustments on the product type and the product segment per se, as we speak about less than 15 lacs or 10 lacs, where you have the yields which are not so interest sensitive, but it is about how you underwrite and how you manage the risk out or whether risk-adjusted returns.

Raghav Garg: Okay. And just one last question, the total employee count as of now for both on-roll and off-roll, if you can mention that.

Sachinder Bhinder: Yeah. So that is 7,233. It is an increase because we had a rear-ended branch expansion in Q4, which resulted in this addition, and the rise in the field force at the frontline, which is our RO. Because we are dependent on full-hog sourcing from a direct source.

And that has an immediate impact on increase in our logins. For the first time, we saw the quantum of logs reaching 55,000. As we have already entered the new financial year, the ecosystem tie-ups, which we have done would require the field force to complete and execute leads which get generated from our ECO channel partners like CSC, E-MITRAS, and India Postbank.

Raghav Garg: Sir, this 7200 is total of on-roll and off-role or just on-roll?

Sachinder Bhinder: Yes, this is the one which is the total employee strength which is there of 7,233.

Moderator: Thank you. We have our next question from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Hi. I just wanted to get a little bit of a sense of the growth trajectory. This time, we have kind of come off a little bit, versus the 20% growth guidance that we have been talking about. So how should we see the trend in disbursements and loan growth going forward?

Sachinder Bhinder: So, Nischint we continue to guide around 20% of the growth. I understand there is a certain amount of slippage, which is there from a growth perspective on the AuM. It is about 120–125 crore short to reach that kind of level. But we had in Q4, despite that, we had stock. We were very cautious on the kind of underwriting we have done.

As a result of which, against a normal 42% login-to-sanction ratio, we were at around 38%. So, as we stepped into the new financial year, we are confident that with the increase in the kind of logins and improvements in certain areas, where the geographies and the overall credit behaviour will show off, we'll be able to accelerate our path in this financial year and in the coming quarters actually.

Nischint Chawathe: So, I was just curious, how do we sort of reconcile this? I mean, I know we need to sort of protect our spreads because of which we are going a little more granular, going a little bit down the risk curves. But at the same time, probably what you seem to be indicating is that this may not be the best time to do it. And your login-to-sanction ratio has come down.

Arguably, if you kind of continue to go down the curve or go down lower tickets, this ratio will kind of remain low or maybe come off as well. So, how do we really reconcile the conflict between growth and margins?

Sachinder Bhinder: I think from a margin perspective, we are very clear that, what we have built across last year, we want to further scale up on the margins. And herein, when we talk about, we are confident that we will get across more than 20% disbursement growth in the current year.

This gives us confidence to return to our guided 20% AuM CAGR, as we've always guided on. Again, this aligns with the product segments which we are focusing on. So, I think learning experience we gained in the last year will actually reflect across in

getting the quality and getting the right customer type, which we have learned in the last one year.

We are confident that, based on our underwriting practices, our distribution strategy, and our incoming input, which is there, which will be more refined, giving us confidence in growth of over 20% plus on the disbursements finally enabling on the AuM growth on guided path of 20%.

Nischint Chawathe: And finally, while quite a few of your peers have focused on fee income, insurance distribution, etc. Do we see any of those levers that you'll be working on?

Sachinder Bhinder: So, from a customer perspective in the fair practice code and what ius doing what is right for the customer, we will continue to do and play out on that which is rightfully securing the customer from the perspective of credit insurance. In case of any eventuality, the financial burden of paying the EMIs does not fall on the customer.

So certain parts of the fee income really give a little spike when you are there in the less-than-10-lakh, less-than-15-lakh income range, for sure. So, we will try and push what is right for us from the fee income perspective and insurance coverage, which covers the credit insurance for the customer, more from a protection perspective rather than being a pure revenue source.

Nischint Chawathe: So fair to say that fee income and other income kind of broadly goes grows in line with loan growth.

Sachinder Bhinder: Yes. And secondly, the ones which we've invested in the new states and in the last couple of branches and the last Q4, which was like rear-ended, and 24 of them came across the Q4, which will start firing in this year. So there also, we expect that growth really coming from the additional 30 in the FY25, but the Q4 was 24. So that also will help us to really build the disbursement and the growth momentum.

Nischint Chawathe: Got it. Thank you very much and all the best.

Moderator: Thank you. We have our next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Yeah. Good evening and thank you for taking my question. So, I mean just kind of circling back to the provision cover that we have increased in this quarter for a long time, I mean, this number used to be in that range of, I would say, 27% to 30%, thereabouts, right? And we did share that we have changed the methodology.

But my question here is today, when we look at the large housing finance companies who are predominantly operating in the prime segment, they are all maintaining provision covers of, I would say, 40% to 55%, some of them even 60%. But if I look at all the affordable housing finance companies, most of them have until, let's say, last quarter, even you had a provision cover of about 30%.

So today, I mean, I see provision cover of about 25% to 30%. And now with this change in methodology, it's increased to about 32%. Do you think there is a case that over a course of time, you as well as all your affordable housing finance peers will have to increase their provision covers towards that 40%, 45% to 50%.

Ghanshyam Rawat: No, Abhijit, you know we all adopted ECL methodology. And ECL methodology is based on your past few years' behaviour basically. In our model, we took a 7-year

behaviour methodology, in real time how the asset has flown even in various bucket of time at different point of time.

When assets become NPA, how much days it takes to roll back as a standard asset, how much time take to close that asset. What loss we make and when we recover those assets. And we also considered that net present value got factored in this value in the loss report.

So, it's based on individually on each company. In last 7-8 years, our behavioural book didn't show more than this result, we already built on. And we don't see any major change going to be. Based on behaviour, we are confident that it will remain between 32% to 34%, for my NPA provisioning. And on overall basis, it will remain somewhere like overall today, we are at 0.66%, it will remain less than 0.7%.

Abhijit Tibrewal:

Got it. Thank you. The second question that I had that the runoff in the book looks slightly elevated while you did acknowledge that there is an endeavour to maintain the disbursement yields by strategizing on the product type and the product segment.

Just trying to understand, I mean, we have seen already 2 rate cuts, maybe a third one in the offering in the near term, has anything changed in terms of aggression of your HFC peers or PSU banks, which would warrant that maybe going forward, that could be either higher BT pressure or pressure on yields to retain customers?

Sachinder Bhinder:

So, I think, Abhijit, there are 2 parts to it. One part is that in the segments which we serve, we do not have PSU and others really competing in. As we speak, we are around 20% of new to credit and 92% is new to mortgage customers. So, I think from a segment perspective, from a competition perspective and the market perspective, the PSUs and the bigger range housing finance companies do not really compete in this segment. That's one.

Second is the segments which we serve have an average EMI range of INR 12,500 and an average ticket size of INR 11.45 lakhs to INR 11.75 lakhs and that a marginal increase in the EMI doesn't have such a big bearing cost when it comes to the rate increase or being so much of interest sensitive in the segments which we serve.

Thirdly, from a perspective of having already been there on the rate cycle and the yields which are already low, I think the chances of probability of the BT actually reduces, that's one. Secondly, I think we work very intensely on our models to really predict the customer behaviour from a perspective of the customers' chances of doing a balance transfer.

So, the customer behaviour earlier, the model was reactive, then we got it to a steady-state model. Now it is proactive really giving us a 30- to 60-day period before the customer really thinks about looking at BT. As a result of which, if you look at our BT outs have been steady and not gone beyond 6%.

Abhijit Tibrewal:

So, in that case, what is resulting in the higher runoff in the book?

Ghanshyam Rawat:

I think there may be some gap. Otherwise, overall basis, if we see runoff, last year was 17.2% of our opening AUM and this year also, it is 17.4% of opening AUM. I don't think there any change. Obviously, assets getting older, so in EMI, the principal component get increases. Beyond that, we didn't see any change in our prepayment behaviour in overall book.

- Abhijit Tibrewal:** Got it. And then the last question that I had, while we have already discussed a lot on spreads. I'm just trying to understand going forward, I mean, are we going to work with the base case spreads of 5%? Or is there at least an internal target to increase it further in the coming quarters and years?
- Ghanshyam Rawat:** Our first target and our efforts are there to go back to 5% plus spread that we are working around that. As Sachinderji mentioned, our disbursement yield has already got improved 22 bps. We are making continuous efforts there to increase our disbursement yield. And Abhijit, you are doing analyst of this space last so many years and you will appreciate that in Aavas also, if you refer earlier falling market interest rate scenario in 2019, we were at a 5% spread. In interest rate falling market, we're able to have an increase spread of 50 bps. I'm not committing the same level will be in the coming year falling market but generally, it gives a positive impact on the spreads that we want to mention.
- Abhijit Tibrewal:** Got it. Yes, that is that is very appreciated. Thank you so much. That's also.
- Moderator:** Thank you. We have our next question from the line of Yash Gujarathi from Citigroup. Please go ahead.
- Yash Gujarathi:** Hi, Sir. Thanks for the opportunity. On the login to sanction ratio, which you mentioned, which has come down from the 42% to 38% level. So, any specific geographies contributing to it? And what trends or indicators would suggest it normalizing up to, say, maybe to 40% in a couple of quarters or something like that?
- Sachinder Bhinder:** So, on this, yes, there are a couple of states which are in the western part of India, specifically where we see this. And some part where we were cautious on the MFI kind of exposure and where we see the overleveraging happening. So, I think these are the broad segments and the states where we felt that it is the time to really to look at it what is right to be underwritten with the risk-adjusted returns. So, as we move into the coming months, when we see the behaviour to be right, we will accelerate, and we will step up.
- Yash Gujarathi:** Okay. Got it, sir. And sir, on the margins front again, just to check, so only about 36% of the book is linked to repo, which would have a faster repricing. But fair to assume the other rest of the almost 50% book, there would be some time lag and yields and margins could be under pressure in H1FY26 because of the time lag and eventually catch up.
- Ghanshyam Rawat:** Yes. Your assessment looks okay. But we have 56% borrowing is linked to repo linked, T-bill link, 3-month MCLR link, where we see faster impact and then remaining borrowings will eventually, when banks will start to translate repo cut in the MCLR cut, have a positive impact on us.
- Yash Gujarathi:** Got it. And sir, lastly, on the Opex bit, fair to assume that it will again be elevated in the H1FY26 as well. And just wanted to check if you have called out any specific number of branches for the full year or for H1FY26?
- Ghanshyam Rawat:** I think it's more or less a stabilization level of Opex to AuM. And on a full year basis, as you mentioned, there will be growth impact on Opex side, there will be the technology transformation will also have a positive impact. So, on a full year basis, definitely, we will have a saving of 10 to 20 bps.

Yash Gujarathi: Okay. So, 10 to 20 bps savings on the Opex to assets for the FY26?

Ghanshyam Rawat: On full year basis, yes.

Moderator: Thank you. We have our next question from the line of Kushan Parikh from Morgan Stanley. Please go ahead.

Kushan Parikh: Thank you for taking my question. This is more on again, the margins. Just wanted to understand what is the current differential between the disbursement yields and the book yields? And also, I understand that we'll probably bridge this gap in the next 3 to 4 quarters, but is there a strategy to increase the disbursement yield over the book yield? And what would our threshold be? Will we just look for 5% plus kind of spreads or can we go even higher than that?

Sachinder Bhinder: So, there are 2 parts to it. We continued our approach to increase our disbursement yield. And as we spoke, we increased by 22 bps in the current year. Again, this is a mix of both risk-adjusted returns on the product segment the customer type and I talk about less than INR10 lakhs, less than INR 15 lakhs, that's where we are trying to step up where you get risk-adjusted return at a higher rate.

So, this inch up on the disbursement yields really to help us to get to a level where we will be nearing our AuM. That's been guided and our endeavour is there. And we've seen that marginal increase by about 25 bps actually happening this year. Now this is aided by, again, we talked about that certain of our BRE-related stuff where we are able to get the pricing risk right based on the customer type and the risk which we are underwriting.

So, the mix of these 3 things actually have helped us, and we will continue to build on those segments and those areas where we are able to inch up right with the right kind of risk-adjusted returns.

Kushan Parikh: Understood. So that should mean that the spreads will continue to increase even beyond 5% or probably the mix will be stabilized at around the 5% threshold?

Sachinder Bhinder: So, we've guided for the 5%. Our endeavor is based to really inch up our disbursement yield in the right proportion with risk-adjusted returns. Any fallout or any momentum which we get because of cost of borrowing would be an added advantage, which will be there as what earlier Ghanshyam talked about in the falling rate interest scenario, we had some spikes which happened because of the lower cost of borrowings.

Kushan Parikh: Understood. Okay. Thank you. That's all that. That was one question.

Moderator: Thank you. We'll take our last question from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Hi, Good Evening. Just a couple of things. Sir, you spoke about incremental business yield being higher to 22 basis points in FY25 versus previous year. But this will also have a product mix benefit in play. So, if I would ask you about incremental business yield in pure home loan, how much has that improved in FY25 versus FY24?

Sachinder Bhinder: I think sequentially on the different product mix, the product type, we had an inch up. So, this average out to really increasing in the overall yield. So, it was around 17 bps if I were to talk about on a normal HL portion, which had an increase in that. So, one is

the mix and second is about the incremental increase in the segments of HL, which really helped us to get the yields up.

Rajiv Mehta: Correct. And are you seeing right now competition moving down where incremental lending yield has yet either in home loan or LAP? Or do you believe that they will only move down once they see their own cost of funds going down?

Sachinder Bhinder: I think in the segments which we operate, these are primarily new to credit segments and new to mortgage segments. In these segments, we don't see unlike a prime segment where you have the rate and the rate-sensitive customer and being the playout which happens in that market.

I think, in the segments which we serve, still the space is good enough and the segment is good enough. You don't see that kind of competition which you see in the normal prime markets where it becomes interest sensitive or a rate-sensitive customer depending upon the areas where they operate in Tier-1 markets.

Rajiv Mehta: So, your BRE-led efficient pricing of segments should not mean that you lose some incremental market share if there is an opportunity, right?

Sachinder Bhinder: No, it will actually further add up. See, it will help us to do the right risk-adjusted return at the right kind of inching up the disbursement yield and building up the momentum on the disbursement with increased disbursement yields.

Rajiv Mehta: Okay. And just one last thing. Are we targeting any specific disbursement growth for home loan, just for home loan? I mean you said that you want to grow disbursement by 20% for next year ballpark. But if I were to ask you within 20% ballpark number, what is the target for home loan?

Ghanshyam Rawat: In the entire loan book and the assets and mix, basically, we have our endeavoured to maintain at home loan between MSME and LAP loan mix is a 65%:35% ratio at the loan book level.

Rajiv Mehta: Okay, get it. Thank you.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today and I now hand the conference over to Mr. Sachinder for closing comments over to you.

Sachinder Bhinder: Ladies and gentlemen, 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 loyalty of our customers has been instrumental in our growth.

We aspire to reach a milestone of INR 500 bn in assets under management and in the in the coming 5 years and broaden our horizons as a pan India. I express my deepest gratitude to all our regulators, stakeholders whose constant faith and support have been the wind beneath our wings. We remain optimistic about the future and are confident that our strategic initiatives will continue to drive sustainable growth and shareholder value. If you have any further questions or require additional information, please feel free to reach out to Rakesh, our Head of Investor Relations. Thanks for this.

Moderator: Thank you, Sir. On behalf of Aavas finances Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.