SAPNE AAPKE, SAATH HAMAARA

Ref.No. AAVAS/SEC/2022-23/652

Date: October 31, 2022

To,	To,
The National Stock Exchange of India Limited **The Listing Department** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**BSE Limited** **Dept. of Corporate Services** **Phiroze Jeejeebhoy Towers,** **Dalal Street, Fort,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call for the quarter and half year ended September 30, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in reference to letter number **AAVAS/SEC/2022-23/604** dated October 10, 2022, please find enclosed the transcript of the Earnings Conference Call on the financial and operational performance of the Company for the quarter and half year ended September 30, 2022 held on Friday, October 21, 2022.

The above information is also available on the website of the Company at https://www.aavas.in/investor-relations/investor-intimation

We request you to take the same on your record.

Thanking You,

For Aavas Financiers Limited

SHARAD PATHAK Digitally signed by SHARAD PATHAK Date: 2022.10.31 12:26:07 +05'30'

Sharad Pathak
Company Secretary and Compliance Officer
(FCS-9587)

"Aavas Financiers Limited Q2 FY2023 Earnings Conference Call"

October 21, 2022

MANAGEMENT: **MR. SUSHIL KUMAR AGARWAL - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - AAVAS FINANCIERS LIMITED**
MR. GHANSHYAM RAWAT – CHIEF FINANCIAL OFFICER - AAVAS FINANCIERS LIMITED
MR. GHANSHYAM GUPTA – INVESTOR RELATIONSHIP OFFICER – AAVAS FINANCIERS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Aavas Financials Limited Q2 FY2023 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushil Kumar Agarwal, MD & CEO. Thank you and over to you, Sir!

Sushil Kumar Agarwal: Good afternoon everybody. Thank you for participating on the earning call to discuss the performance of our company for Q2 and H1 FY2023. With me I have Mr. Ghanshyam Rawat, CFO, Mr. Ghanshyam Gupta, Investor Relationship Officer and other senior member of the management team and SGA, our investor relationship advisor. The results in the presentations are available on the stock exchanges as well as our company website and I hope everyone has had a chance to look at it. I am happy to inform you that during the quarter, the company's long term credit rating was updated from AA minus positive outlook to AA stable outlook by CARE in line with the ICRA. I take this opportunity to thank all our stakeholders for their continued trust and support. After witnessing 90-basis point increase in repo rate in first quarter, RBI has further increased the repo rate by 100-basis points during the second quarter.

Consequently, we have also increased our prime lending rate by 75-basis point during H1 FY2023 and further increase of 50-basis point with effect from October 5, 2022. For Q2 FY2023 we disbursed Rs.1146.7 Crores registering a 27% year-on-year growth and achieving 89% of the disbursement done in seasonally strong Q4 last year. We continue to grow in a calibrated manner and registered AUM growth of 24% as of September 2022. While maintaining our operating metrics we have delivered PAT growth of 29% year-on-year for H1 FY2023. With our continued focus on collections, one plus DPD stood at 4.45% with an improvement of 22-basis point from first quarter. 90 day past due stood at 0.93% in September 2022, but we have also categorized 0.17% of up to 90 day past-due asset as gross NPA or Gross Stage 3 following RBI notification dated November 12, 2021 to harmonize IRACP norms across all lending institutions. As a result, total Gross Stage 3 is 1.10% in September 2022. We will continue our strategy of controlling early delinquencies and strive to maintain 1+ DPD below 5% and 90 day past-due below 1%. I would now hand over the line to Mr. Ghanshyam, CFO to discuss various business parameters in detail.

Ghanshyam Rawat: Thank you Sushil Ji. Good afternoon everyone and a warm welcome to our earning call. During the quarter, company borrowed an incremental amount of Rs.9467 million at 7.55% as of September 2022, our average cost of borrowing stood at 6.99% on an outstanding amount of Rs.109711 million. During the quarter, our long term rating was upgraded by CARE from AA-/positive outlook to AA stable. While ICRA continued to maintain long term credit rating AA stable despite the highest short term rating A1 plus, we continued to maintain zero exposure to commercial papers as a prudent borrowing practice. IGAAP to Ind-AS reconciliation has been explained in detail for profit after tax and net worth on slide #31 and #33 of our presentation.

Key parameters. As on September 30, 2022 total number of live account stood at Rs.166639 that is 23% year-on-year growth, total number of branches was 321, 24 new branches added in last 12 months. Employee count 5702, 23% year-on-year growth. Asset under management grew 24% year-on-year to Rs.125437 million as on September 30, 2022. Product-wise breakup: home loan 70.9%, other mortgage loans 29.1%; occupation-wise breakup: salaried 39.8%, self-employed 60.2%. Disbursements increased by 27.2% year-on-year to Rs.11467 million for Q2 FY2023 and 64.2% year-on-year to Rs.22404 million for H1 FY2023. As on September 30, 2022, average borrowing cost of 6.99% against an average portfolio yield of 12.85% resulted in spread at 5.86%.

Borrowings: access to diversified and cost-effective long-term financing, strong relationship with development financial institutions. During the half year, we borrowed Rs.18451 million at an average rate of 6.62%. Overall borrowing mix as on September 30, 2022 is 41.8% from term loans, 23% from assignment and securitization, 20.5% from National Housing Bank, 14.7% from debt capital markets.

Now Assets Quality and Provisioning: 1 day past due stood at 4.45%, Gross Stage 3 stood at 1.10%, Net Stage 3 stood at 0.84% as on September 30, 2022; Gross Stage 3 of 1.10% includes 0.17% up to 90 day DPD assets, which have been categorized as GNPA following RBI notification dated November 12, 2021. During FY2022, resolution plan was implemented for certain borrower accounts as per RBI's Resolution Framework 2.0 dated May 5, 2021. Some such accounts with an outstanding amount of Rs. 1012.5 million as on September 30, 2022 have been classified as Stage 2 and provided for as per the regulatory guidelines. The ECL provisioning including that for COVID-19 impact as well as Resolution Framework 2.0 stood at Rs. 649.1 million as on September 30, 2022.

Liquidity of Rs.28370 million as on September 30, 2022, cash and cash equivalent of Rs.13270 million, un-availed CC limit of Rs.1100 million, document un-availed sanction limited from other banks Rs.14000 million.

Profitability: PAT increased by 29% year-on-year to Rs.1962.6 million for H1 FY2023. ROA was 3.42%, ROE was 13.44% for H1 FY2023. As on September 30, 2022, we are well capitalized with a net worth of Rs.30314 million, book value per share stood at Rs.383.6. With this, now I open the floor for Q&A session. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Abhijit Tibrewal. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Good afternoon Sushil ji and Ghanshyam ji. I hope both of you are doing well. First thing that I wanted to understand is the absolute increase in your Stage 3b which is greater than 90 DPD and is now up 50% in the last two quarters, just wanted to understand are these loans which have slipped from your restructured pool or are these customers who have defaulted because their EMIs have increased when you increased your PLR and related question here is, from your past experience you think that there is a need for the industry to be worried about higher delinquencies in the affordable housing segment when the EMI of the customer is increased.

Sushil Kumar Agarwal: You are asking from Q4 last year to Q2 this year?

Abhijit Tibrewal: Yes.

Sushil Kumar Agarwal: I think we are normally in 1% here and there and now from April 1, 2022 we have stock mark in cases AFS which was earlier whenever any asset repossessed in the sarfaesi, we used to mark AFS and it will go away, but now AFL will remain in the book, so this amount is an addition, otherwise it is around 0.9. Secondly, the old AFS book we hope it will also get over so we thought we should be more conservative on that aspect and this is why this number is looking like this.

Abhijit Tibrewal: Understood Sir, now we do not classify any assets that we repossessed as AFS they are still classified as stage 3.

Sushil Kumar Agarwal: Yes. That amount is Rs.12 Crores.

Abhijit Tibrewal: Got it. Related to question that I asked that when the EMI of the customer is increased, is the reason to be worried that it can lead to higher delinquencies in the affordable housing segment?

Sushil Kumar Agarwal: It is a cycle, we give 20 years loan sometimes it gets higher but mostly tenure based, the tenure will go up and down, very few cases where we need to increase the EMI of the customers also that is I think less than 1% or 2%, so I do not think so there is a much impact of that in the portfolio and we have seen this cycle two to three times in the last 12 years.

Abhijit Tibrewal: Understood. Sir, my question was on the opex, just trying to understand that this elevated opex or cost to income ratio is it really a function of higher wages since that attrition in the industry especially at the field level is really high or is it more a function of your investment in branches and technology which you have not really officially opened yet and once it should be officially opened branches, which will be opened in the second half of this fiscal year, but expenditure you have already incurred in the first half itself?

Sushil Kumar Agarwal: I have already mentioned in the last call also that for this year opex will be a little high and going forward in coming years then the leverage will come into the balance sheet, this year we are spending a lot much amount on the digital transformation and last quarter, we started implementing LOS which is SFDC and now we have signed up for LMS which is core banking system, so we are moving core banking system FLEXCUBE which is by the large bank like HDFC and AU and for accounting software also which is now called ERP in the banking parlance, so we are shifting to Oracle Fusion which is used by the large banks like Kotak and 10 Lac kind of balance sheet. So once this will be implemented we have already given six to nine months or either it will take for implementation of this. Secondly, we continue to do investment and this year again we will open 35 branches. First half, the branches which are already opened are around 7, now in second half most of the branches will also be opened. Thirdly, we are also investing in manpower and leadership keeping in mind five or seven year horizon, also now that we are at the stage of like Rs.12500 Crores and in next three years if the balance sheet gets double, so we are also spending money for leadership development like this year we have tied up with IIM Ahmedabad we have our 35 officers got that training and certification and this will be a second line, third line creation in the organization, so I think continuous investment in people process and technology, but technology, the one big change which will complete in the next six to nine months from next year onwards, the opex trajectory will also help us in getting optimization.

Abhijit Tibrewal: Thank you Sushil Ji, very good to hear that we are spendi ng or investing in manpower and the carrier progression of the leadership team. The last question that I had is that have you availed any NHB borrowings in the first half of this fiscal year and looking at the sanction that you have on your expecting from NHB what is the impact on spreads and margins that you foresee in the second half of this fiscal year, Sushil ji, what I am trying to understand is today there are two schools of thoughts, one says it is okay if there is some spread and margin compression, but we want to focus overall growth while another school of thought is we want to maintain the current spreads and margins that we have, so how are we thinking about these two things.

Sushil Kumar Agarwal: In Q1, we have borrowed around Rs.400 Crores, Q2, we have not borrowed any money from NHB, but recently we have got sanctioned of around Rs.900 Crores from NHB for the next fiscal year. As a CEO may be we want to attain both, we can achieve growth also and we can maintain our spreads and even the growth in our narrated trajectory 22% to 25%, we are already at 24% and at the same time we are able to maintain our spread and profitability, as in the ALCO and board meeting, we continuously review what impact we will have, because there are three kind of asset liability risk, but in tenure wise, one is fixed and floating wise, one is earning at risk wise and we have forecasted that next three to six months how much price impact will get on borrowing . In accordance with that we have announced that October 5, we are raising our prime lending rate by 50-basis point, so next till December 31, whatever things we were able to envisage as a board and as a management team on the borrowing side, we have taken into account and accordingly the price, the assets for variable size.

Abhijit Tibrewal: This is very, very useful. That is all from my side. Thank you Sushil ji and wish you and your team a very happy Deepawali.

Moderator: Thank you very much. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity. Good afternoon Sushil ji and Ghanshyam ji. I have three questions. The first one is, what would be your labor attrition rate in the second quarter and across the industry it seems that the attrition rate especially at the field staff level has remained high, you talked about few measures as far as let us say tieing up with IIM Ahmedabad etc., but at a field staff level what initiatives are you planning to improve this attrition that is my first question.

Sushil Kumar Agarwal: Thankfully, Anshul joined us around six months back and as a organization we have kept one of the key operating metrics which needs to be tracked is employee attrition, so we took the target that can we reduce it by 50% and I am happy to announce that Q2 we have been able to significantly reduce our attrition rate in comparison to Q1 this year and half year last year, so the measures which we have taken at the ground level in terms of training, in terms of incentive level changes, now we are focusing and we are creating a result of contribute performers and everybody should contribute and we are going for performance increment, so earlier we used to see everybody on one scale, now we are seeing if somebody 50 can be moved into 75 level, if somebody 75 can be moved into 100 level, if somebody is doing 100 can be moved into 125 levels and I think that has helped as organization though we are not at the range where we wanted to be, but we are happy with the success we have got in the last four to five months after all our efforts on this particular piece.

Karthik Chellappa: Just one clarification Sushil ji, you said the second quarter, labor attrition rate is down significantly, could you give us some number or a range by how much is down?

Sushil Kumar Agarwal: Around 20% down.

Karthik Chellappa: The second question Sushil ji, as far as your payment medium mix is concerned, have you noticed any notable change let us say away from mediums like NACH to either wallets or using UPI in the last couple of quarters?

Sushil Kumar Agarwal: When we give the loan, we ensure that digital payment through NACH only and any customer which bounces then we give the customer option either to pay through UPI, wallet, chat, cash, online, website, different options, but our 100% incremental lending is supported by NACH, the repayment option.

Karthik Chellappa: Even when it bounces you have not noticed any change in payment through UPI, is it like when your bounce rates go up or so people opt for UPI immediately, you have not noticed any such pattern yet?

Sushil Kumar Agarwal: Anyway 1+ number is very less, so wallet to UPI, yes, there is a change but overall number is so less that is not significant to talk about.

Karthik Chellappa: My last question Sushil ji, basically on the economics of the sector itself, what we notice even for Aavas as well as other industry participants, in the last few quarters, the opex growth has been higher than the AUM growth. In your case of course there are very specific initiatives whether in IT platforms or training etc, but this is a trend that we generally observe. Now given where spreads are and given the interest rate outlook, would it be fair to say that going forward, the PPOP growth will to some extent lag the AUM growth and if not what are the other levers that you have to actually ensure that growth is more or less in sync?

Sushil Kumar Agarwal: I am in sync with what you are saying, but I want to throw some number here. Q1 to Q2 net income has increased 16%, opex has increased 12% and profit has increased around 20%, so the jaws chart increase in income, but vis-à-vis increase in opex, we are already in that trajectory that thing is coming up, once we have seen cumulative number H1, it is looking like this, so at Aavas we are cognizant of this and though we are investing in people process and technology and with the huge amount, but still Q2 is showing that we are already in that what you can say jaws chart favorable for the Aavas.

Karthik Chellappa: That is all from my side. Thank you very much Sushil ji and Ghanshyam ji and wish you and your team a very, very Happy Diwali and all the best for the remaining quarters.

Moderator: Thank you very much. Our next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Good afternoon Sushil ji and Ghanshyam ji. Firstly with respect to the repricing as we clearly see in terms of almost Rs.7500 Crores odd, Rs.7200 Crores is a floating rate loan and Rs.5300 on a fixed side, so when we increase this and lending rates by say 75-basis points and another 50-odd basis points, when do we see this repricing getting reflected in this Rs.7200 Crores book, a monthly reset or may be quarterly one?

Ghanshyam Rawat: As we announced we published a date of effective also, like this 50-basis will be effective from October 5, so it will have impact from October 5 itself on a floating loan book. As far as fixed rate book, we have contractual agreement for each and every borrower, every three year, suffix with contract also get repriced like in the month of October around 1300 fixed rate account which sanctioned three year back got repriced, so every year certain fixed rate book gets repriced.

Kunal Shah: It would be fair to say that just Rs.7200 Crores odd x of disbursement which have been done in this quarter or may be the last quarter besides that the entire book would get reprice by 125-basis point from October 5, cumulatively?

Ghanshyam Rawat: October 5, we have announced 50-basis points?

Kunal Shah: And earlier 75?

Ghanshyam Rawat: 75 which we have announced earlier as 25-basis points and then 50-basis points those gets effective those days.

Kunal Shah: Got that and when we are seeing this may be this behavior of this 7200, because we are relatively on a higher side with respect to passing on the rates compared to that of other affordable housing finance companies, so any change in terms of the BT-out or something may be when we did this 75-basis, because many players have not yet increased it?

Sushil Kumar Agarwal: On that side also the positive news, our BT-out have come down, so earlier it was around 0.6% per month which has reduced to now 0.5%, but 0.6% count as a 7% to 8% on a yearly basis, now the current run rate is going 0.5% or below so that is significant for next 12 months if everything will be in control, it is less than 6%, so there are also we are on a positive side.

Kunal Shah: And lastly again touching upon may be in terms of the growth, so when we look at it in terms of the traction, it still seems to lag with the industry peers and there is huge amount of investment which is happening, so when do we actually see the productivity improvement as well and may be given the kind of branch network, employee network that we have, in fact we should get back to in terms of disbursement per branch, we could see a significant improvement?

Sushil Kumar Agarwal: As a company, we are okay with growth of 20% to 25%, we are already on 24% plus trajectory, so I do not think so there is a challenge on that side, I do not see from industry peers also when we were at the size of industry peers our growth was more than 40%, at current AUM size, we are okay with 20% to 25% growth consistently year-on-year with maintaining asset quality and maintaining operating metric.

Kunal Shah: And one last question was with respect to securitization, so we have adequate liquidity may be in terms of securitization momentum compared to that of the previous years, it seems to be on a higher side, so would we see this may be in the second half should we assume that the run rate could be relatively lower if I have to look at on a full year basis, is it like, for similar run rate might continue?

Sushil Kumar Agarwal: Ghanshyam will reply, but as a company, as an organization, overall ratio has not changed, overall 20% of book is assigned as a organization and we are into that trajectory as a company as of H1 FY2023 also, so I do not think so there is a challenge or the change in the strategy from the company on that side.

Kunal Shah: In the last 2023-2025 also.

Ghanshyam Rawat: Sushil has just covered very well, last year we have done a full year basis Rs.780 Crores, this year whatever we see growth in the AUM, similar growth you can see in the assignment also, no strategy changed. It is only one quarter, two quarter here and there, that becomes because of what opportunity and what price we get from banks and institutions.

Kunal Shah: Thanks and all the best and wish you a very Happy Diwali.

Moderator: Thank you very much. Our next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Good afternoon and thank you for giving me the opportunity. Sir, my question was firstly on the yield side, so we have already taken three rate hikes that is 25-basis point was in June, 50 was in August and recently like we will be taking 60-basis point, but just wanted to understand what are the rates that it would be prevailing for HL and LAP so if you could give some range there and what would be the differential between the two?

Sushil Kumar Agarwal: Our HL pricing is around 11.7% to 12% and non-HL rates are from 14% to 14.25% average.

Ghanshyam Rawat: New business rate.

Shreepal Doshi: These are the related ones right?

Ghanshyam Rawat: New business.

Shreepal Doshi: With respect to the asset held for sale, the line item that we had in the balance sheet, so I guess in the annual report that gross number was Rs.30 Crores, now like you highlighted to another participant that you have already incorporated to the stage 3 number, so that number has come down significantly or is it like?

Sushil Kumar Agarwal: As on March 31, it was 29.21 and after provisioning it was 24, now this is 19 after provisioning and we have lot many cases, EMD received so we will see significant reduction this quarter also in this number, hopefully by year end this will be mostly 25% of the opening pool, rest everything will be disposed off.

Shreepal Doshi: Okay, you said that this number has been added to stage 3?

Sushil Kumar Agarwal: From April 1, whatever AFS get done, we are not marking that as AFS, so only opening pool will come down and new AFS as a stage 3.

Shreepal Doshi: Okay, got it. Just wanted to understand the logic behind this, why do we have it as a separate heading in the balance sheet, because I just wanted to understand there is a logic behind this?

Ghanshyam Rawat: There is nothing, anything big aspect, it is a normal accounting policy which we adopted six year back now as Sushil ji mentioned in early remarks, it has become more prudent, more conservative accounting policy, so we are keeping any AFS new assets as NPA, and the old one as Sushil ji mentioned we are accelerating our disposal off those assets from today to six to nine months or 12 months timeframe, it will be get disposed off.

Shreepal Doshi: Got it. One last question, what is the employee based number that we have for the Q2 end and just another question in relation to that, is that we have something called manpower contracts which is part of the other opex if I am right, so why do we have contractual employees when our entire thought processes is to sort of source internally and also collect manually?

Sushil Kumar Agarwal: There are two kind of people with our contract. One is admin office boys and telecalling staff, second, in the sale side also, the fresh persons who come we first make them work under contractual role and keep them for one year. If they perform well we shift them on company roll and if they do not perform then we let them go.

Shreepal Doshi: The employee based number if you can share?

Sushil Kumar Agarwal: 5702.

Shreepal Doshi: Thank you so much and Happy Diwali to the entire team and good luck for the next quarter.

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

Shweta Daptardar: Thank you Sir for the opportunity. Couple of questions, if I look disbursement front, the first half itself you have for that 11.5 million in that number and I remember you mentioned in last time second half seemed to be seasonally stronger, so do you see the overall growth metric and also you have mentioned the growth target to be in the range of 20 to 25, are you view it in terms of leverage a little bit that is my first question?

Sushil Kumar Agarwal: Overall last year, we disbursed Rs.3600 Crores and this year in the first half itself we have already disbursed around Rs.2300 Crores, mostly in a normal year 40% to 45% in first half and another 55% to 60% in second half, so if you will go by the trajectory, the numbers you can calculate which should be significantly higher than the last years number, so this kind of growth is appropriate for over 20% to 25% kind of AUM growth as well.

Shweta Daptardar: Your provision, if you could throw some color on that, have they normalized in the first place and the run rate or provisions on quarterly basis, because number is looking lower since last quarter now, so how do you see this going forward?

Sushil Kumar Agarwal: Shweta, you are asking for 1+ number?

Shweta Daptardar: Yes, I am talking about provision.

Ghanshyam Rawat: Risk provisioning, you are talking about?

Shweta Daptardar: P&L provision.

Ghanshyam Rawat: We did not got the complete question, I will try to elaborate, Q1 to Q2 risk provisions, yes, last two years we have seen a COVID period, certain extra provision was built up and those assets now has come in a normal life like for COVID I, September 20 was the last date, when the normal cycle was started, those pool are now shown maturity in the last two years, so after that now those provisions are going as a normal cycle basically. So we as such gross NPA around 1% and one day past-due already is less than 5%, so we are adequately created our provisions and we do not see any much change in our provisioning trend.

Shweta Daptardar: Fair point Sir. One last question, in one of the previous participant reply you mentioned that out of this 5300 Crores fixed side, Rs.1300 Crores is something which is on the verge of reset this year?

Sushil Kumar Agarwal: We are not getting your questions, audible either you will rejoin call then again come in the queue. We are not getting your questions properly.

Shweta Daptardar: My question was on Rs.5300 Crores fixed side book, is out of that Rs.1300 Crores which is getting reset this year, you mentioned that every three years your fixed book gets reset.

Ghanshyam Rawat: You are right. Whatever contract I think we disburse three year back, let us say I will give you example. In the month of October 22, the loan which is sanctioned at fixed rate in October 2020 that book will come to reset in October 2022 so on and so forth, it will continue.

Shweta Daptardar: This year that amount is Rs.1300 Crores odd?

Ghanshyam Rawat: Simply you cannot take one-third, 25% is better to assume, those year disbursement definitely will be lower than what is there, 25% you can take fair side.

Shweta Daptardar: Thank you so much.

Moderator: Thank you. Our next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Good evening. Thank you for the question. Just two questions. Sushil ji, can you give some color on the opex side, the kind of growth that is taking place means when can we expect with the same through start building in terms of the same gross per employee expense and other opex, where are the parts where such kind of high growth or the investment is taking place and second question on the MSME license when can we expect, can you throw some color on that part also?

Sushil Kumar Agarwal: NBFC license is pending with RBI, we cannot comment when it is going to come, so on that part we cannot do any commentary. On the first part, on the opex side, we have already mentioned that this quarter itself again, the revenue increase versus opex increase is less so we are already in the positive jaws chart, but we have already told that this year because of high investment in technology and some of the leadership development, opex might be high, but since we are having, we are maintaining high spread, we thought we can invest and once all these things we will be maintained in six to nine months, we will see again the downward trend of opex to AUM and all those ratios, but this quarter itself we got positive jaws on that balance sheet number.

Rahul Maheshwary: Just to break this, in case of percentage of mix where it is going in opex compared to volume growth technology spends and the branch expansion, can you break it down in terms of where the quality of investments or opex is going for Aavas?

Sushil Kumar Agarwal: Branch expansion is a normal phenomenon, every year we have opened 35 branches, normally we start building up from Q2 and the admin team starts giving delivery of completed branches from Q3 and Q4, but that is a normal phenomenon. This is the very large investment after seven, eight years in the company, the range is approx Rs.100 Crores, we need to say wide kind of amount we will be able to capitalize because now most of the things are on cloud and annual subscription basis, mostly will be there and same time we are also building the capability, now we are at almost Rs.400 Crores to Rs.500 Crores per month run rate and giving that number for next three years visibility is already there in the system. We have successfully done the transition of business with new Business head joined in June and entire process was so smooth. All these three aspects are there, but mostly it will be technology and leadership development side.

Rahul Maheshwary: What is the attrition rate at the junior level people who are at the branches which has just come after the transmission of being into contract labour, can you give specific range what are the attrition?

Sushil Kumar Agarwal: I do not have at this point of time, but we will get back to you on this number, but yesterday in the board we have seen one presentation, we our attrition had significantly dropped this quarter around 20% on that side.

Rahul Maheshwary: Just second question which was asked on the MSME license, everything from our side has been represented to the RBI only, where the gap is there means in terms of….

Sushil Kumar Agarwal: All those things we will have because everything is with the regulator we cannot disclose at this point of time, anything come from their side, we will anyway publish for everybody.

Rahul Maheshwary: Thank you so much and Happy Diwali to the entire team.

Moderator: Thank you. Our next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Good afternoon Sir. Congrats on quarter. Just a couple of questions. Firstly, our loan yield between Q4 and Q2 was up only 20-bps, 12.65%, 12.85%, but we increased our rates at 75-bps and 60%, 70% of our loan book is floating, so what explains this?

Ghanshyam Rawat: Like we started 12.65, we now as a 12.85%, roughly 55% floating to where immediately get pass on, if we take 75-basis point on around 55% floating, it is roughly increased to be let us say 35-38 basis points, but 17-basis point obviously got lost in a certain asset we put on retention, assets come for balance transfer, we found that these assets is a worthwhile to retain these assets to be offer them competitive price also sometime give us some reduction in overall AUM yield, so on that account we lost around 10 or 12-basis point or new asset generation is usually picking up and chasing AUM yield basically, so that also have some hit on a overall basis, so 20-basis point increase in AUM on account of increase and roughly 17-basis point we lost.

Piran Engineer: 0.5% per month is our BT-out this is what actually happens, what would be like the BT-out applications and how much are you able to let us say resolve by offering lower rate?

Sushil Kumar Agarwal: Every time in BT retention, always there might not be scenario where we need to reduce the rate, sometime customer comes for top up, sometimes customer come for some other problems also, so normally around 1% to 1.25% kind of applications come in every month and we have a very strong team and DNA at the branch level, branch head level and everybody KRA is linked to the customer that good customer should always be with us, so out of 1.25% around 0.25% to 0.3% customers where we want them to go, because they will then continuous delinquency or CIBIL score already reduced between 300 to 600, another 0.5% may be 60%, 40%, 60% may need to offer the rate, 40% we need to offer either grievance redressal or maybe if they want some top up, we provide that.

Piran Engineer: Got it and Sir just one very basic questions, if I take a fixed rate loan or a floating rate loan at one point in time, is the rate the same?

Ghanshyam Rawat: No, rate is differ, on a fixed rate product roughly 200 to 300-basis point higher rate.

Piran Engineer: Irrespective of the cycle?

Ghanshyam Rawat: Irrespective of the cycle.

Piran Engineer: Can you tell me 11.7% home loan rate starting that is for floating and if I take fixed it will be around 13.5%, 14%?

Sushil Kumar Agarwal: On variable side, it is around 10%, on fixed side it is around 12%.

Ghanshyam Rawat: 12% plus for home loan, non-home loan it goes above 14% to 17%, 18%.

Piran Engineer: Floating rate home loan starts at around 10%?

Sushil Kumar Agarwal: Floating rate starts at around 9%.

Piran Engineer: Okay.

Ghanshyam Rawat: 10%, 12%.

Piran Engineer: Sorry.

Ghanshyam Rawat: It has started 9%, but it goes let us say 10.5%, 11% average was at around 10%, 10.25% for retail, home loan, floating book.

Piran Engineer: Okay you said 11.7% to 12% that is for fixed rate, is it?

Ghanshyam Rawat: As Sushil ji mentioned in home loan book, as on Q2 it is 11.9% which is total for fixed & floating both.

Piran Engineer: Outstanding, got it. That is all from my end.

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

Mona Khetan: Good evening. I just had one question. If you could share the breakup of your loan book by ticket side, of what share of loans are 10 lakh share of loan between 10 to 25 lakh ticket size and above 25 lakh ticket size?

Sushil Kumar Agarwal: I think around 72% customers are less than 10 lakh, in terms of number of customers, about 23% are between 10 to 25 lakh ticket size and for more than 25 lakhs it is around 4% to 5% customers.

Mona Khetan: Okay and just a follow up on the previous question on fixed versus floating, is it fair to say that for a certain customer profile, if one has to choose between fixed and floating, the differential on average would be 200 to 300-bps?

Sushil Kumar Agarwal: Yes.

Mona Khetan: At any point of the cycle.

Sushil Kumar Agarwal: Yes.

Mona Khetan: Thank you. That is all from my side and all the best.

Ghanshyam Rawat: Which is as of now, the trade practice which we have adopted. But if interest scenario goes haywire this policy, if required we can change the metric at ALCO level and board can approve change in policy also.

Mona Khetan: Thank you.

Sushil Kumar Agarwal: If the market dynamic change in a rising interest rate scenario, so obviously we have to bound to change our policy around that.

Moderator: Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Sushil Kumar Agarwal: Thank you all for attending the call. I wish you very Happy Diwali and festivity and hope everybody keep safety and health as a priority. For any further information, we request you to get in touch with Ghanshyam Gupta, our Investor Relationship Officer or SGA, our investor relationship advisor, they would be happy to help you. Thank you all.

Ghanshyam Rawat: Thank you everyone and wish you Happy Diwali.

Moderator: Thank you very much members of the management team. Ladies and gentlemen on behalf of Aavas Financiers Limited we conclude this conference call. Thank you all for joining us and you may now disconnect your lines.