IndiaShelter Home Loans

Date: February 16, 2024

To, **BSE Limited,** **Phiroze Jeejeebhoy Towers, Dalal Street,** **Mumbai- 400001** **Scrip Code: 544044**	To, **National Stock Exchange of India Limited,** **Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E),** **Mumbai – 400 051** **NSE Symbol: INDIASHLTR**

Sub: Transcript of the Earnings Conference Call for the quarter ended December 31, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the transcript of the earnings conference call for the quarter ended December 31, 2023, held on Friday, February 09, 2024 is available on the website of the Company.

The transcripts can be accessed from the link given below.

https://www.indiashelter.in/investor-relations

Further, we confirm that no unpublished price sensitive information was shared/discussed in the meeting.

You are requested to take the same on record.

Thanking you.
Yours faithfully,

For India Shelter Finance Corporation Limited

MUKTI CHAPLOT Digitally signed by MUKTI CHAPLOT Date: 2024.02.16 15:41:01 +05'30'

Mukti Chaplot
Company Secretary and Chief Compliance Officer
Mem. No. 38326

"India Shelter Finance Corporation Limited

Q3FY24 Results Conference Call"

February 09, 2024

MANAGEMENT: **MR. RUPINDER SINGH -- MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. ASHISH GUPTA – CHIEF FINANCIAL OFFICER
MR. RAHUL RAJAGOPALAN – HEAD INVESTOR RELATIONS

This is a transcription of the earnings call conducted on 9th February 2024. The audio recording can be accessed using the following link, India Shelter Finance_Q3FY24_Earnings Call Audio.mp3

Moderator: Ladies and gentlemen, good day and welcome to India Shelter Finance Corporation Limited Q3FY24 earnings conference call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul, Head of Investor Relations. Thank you and over to you, sir.

Rahul Rajagopalan: Thank you, Aditya. Good morning, everyone. I take this opportunity to thank ICICI Securities for hosting the call today. I extend a warm welcome to all the participants on our Q3FY24 earnings conference call. I hope everybody had an opportunity to go through our investor deck and press release uploaded on the stock exchanges yesterday. We have also uploaded the excel fact sheet on our website.

With me today, I have Mr. Rupinder Singh, MD and CEO, Mr. Ashish Gupta, our CFO. Before we proceed, I would like to draw your attention to the forward-looking statement contained in this presentation. During the call, we may make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that may involve risk and uncertainty, our actual performance and results may differ materially from our forward-looking statements.

With this, I now request our MD and CEO to brief you all about the company's performance. Thank you and over to you, sir.

Rupinder Singh: Thank you. Good morning, everyone. On behalf of the company, I extend a warm welcome to all of you. Thank you for joining us on the first call post-listing. The company got listed on 20th December, 2023 on the NSE and BSE. Before I take you all through the performance for 9MFY24, I would like to thank you all for supporting us in the IPO and making it a grand success.

The total size of the IPO was Rs. 1,200 crores, of which primary was Rs. 800 crores. This infusion of equity will allow us to meet our future capital requirements. Since this is our first call post-listing, I would like to share a brief overview on Indian Shelter, its journey so far and growth strategies going forward. This will be followed by the operational and financial performance for the quarter and 9-month ended financial year '24, post which we will open the floor for questions and answers.

To start with, Indian Shelter commenced operations in Rajasthan in year 2010. The company is being run by professional management team, backed by Marquee Private Equity Investors. We are led by diverse board with extensive experience in banking and finance. Indian Shelter provides affordable home loans and loan against property in Tier 2 and 3 geographies in India.

We focus on providing home loans to customers from low and middle income segments, who are building or buying their first homes. This segment is highly underpenetrated, but rapidly growing with future growth expected to remain strong. We have extensive pan-India distribution network with 215 branches across 15 states with low AUM concentration risk.

On the business side, 50% of the book is home loans and 42% is loan against property with an average ticket size of Rs. 10 lakhs. Our focus is on the underserved customer base. 71% of our loans are to self-employed category of customer with 90% of the book in Tier 2 and Tier 3 cities. In 98% of our loans there are women borrowers. Our focus is to service customers in this segment, which range between a ticket size of Rs. 5 lakhs to Rs. 25 lakhs. We follow conservative practice and hence the LTV on the book, is around 51%.

Moving on to business model and operations, we have consciously adopted the in-house sourcing model. 98% of our sourcing is in-house, starting from lead generation, to credit, to legal, to technical, operations, and collections. We have well-staffed and structured teams for all key processes with separate hierarchy of key functions.

Since the commencement of business, we have been actively incorporating state-of-the-art tech processes. As a matter of fact, we have been using Salesforce, since 2013 and we were one of the early adopters in the mortgage space. Our technology-led operations helped us in delivering turnaround time of six days from login to disbursements.

We have five unique in-house developed applications for customer acquisition, credit underwriting, collateral evaluation, collections, and customer service. 92% of our collections are through digital medium. We have an e-nach mandate for 99% of the base and 98% of the customers use e-signing. This uniquely positions us as a technology-driven company with scalable operating model.

Moving on to the liability side, liquidity pipeline is very strong with positive ALM. The company has access to diversified and cost-effective long-term borrowings. Our rating upgrades have been consistent over the years. Our current rating stands at A+ positive from CARE rating and A+ stable from ICRA.

On the results of the quarter, we are pleased to report a good quarter. AUM stood at Rs. 5,609 crores, which grew 42% year on year and 8% quarter on quarter, driven by disbursement growth of 36% year on year and 6% quarter on quarter to Rs. 679 crores. We continue to deepen our presence in locations we are present in, during this quarter, we added 12 new branches. As branch vintage increases, productivity starts improving and that gives us scope of playing out the operating leverage.

To sum up, we will work towards:

1. Deepening branch penetration in adjacent markets and improve branch productivity.
2. Diversify and optimize our borrowing costs.
3. Continue to leverage technology for scalability and productivity, and
4. Overall enhance brand visibility and focus on creating positive work culture.

Now I would like to hand over call to Ashish, who is our CFO, to take you to the financial metrics. Ashish, over to you.

Ashish Gupta: Thanks Rupinderji. Good morning friends. I will start with the key financial highlights. Total income for the quarter is up by 40% year on year basis and 4% up on quarter on quarter basis. Total income for 9 months is up by 44% year on year basis. Our portfolio yield is at 14.8% year on year stable, quarter on quarter up by 10% basis point. Our disbursement yield for 9 months is at 14.9%. We have diversified source of borrowing with more than 30 counterparties. Our cost of fund is at 8.8%, year on year up by 30% basis point due to increase in the market interest rate. Quarter on quarter our cost of fund is stable. Our marginal cost for 9 months and Q3 is at 8.5%. NHB funding share is at 16%, year on year it is up by 3%. We still have undrawn lines of Rs. 210 crores from National Housing Bank. Margins are at 6% in line with our guidance for the medium term.

Net income for the quarter is up by 47% year on year basis and 4% up on quarter on quarter basis. Opex for 9 months has grown by 29% against 42% growth in AUM and 47% growth in income resulting in operating leverage. Opex to AUM in Q3 is at 4.4%, year on year down by 40 basis point. Cost to income for the quarter is at 41%, year on year down by 500 basis point. Quarter on quarter it is stable.

Credit cost for the quarter is at 30 basis point. There is no material change year on year basis and quarter on quarter basis. This is in line with our guidance at around 40 basis point. DPD 30 is at 3.5%, year on year it is stable. Stage 3 assets are at 1.2%, year on year down by 110 basis point. PCR for stage 3 assets is at 26%, there is no material change year on year and quarter on quarter basis.

PAT for the quarter is Rs. 62 crores, this is year on year up by 55% and quarter on quarter up by 4%. PAT for 9 months is at Rs. 169.7 crores, year on year up by 66%. ROA for the quarter is at 4.7%, year on year up by 50 basis point. Quarter on quarter it is down by 40 basis point due to increase in asset base on account of unutilized proceeds in the IPO.

With this we can open the floor for Q&A.

Moderator: Our next question is from the line of Harshavardhan Agrawal from Bandhan AMC. Please go ahead.

Harshavardhan Agrawal: Hi sir, good morning. Thanks for the opportunity. So just wanted to understand some movement in gross stage 3 assets and gross stage 2 assets, sequentially they seem to have spiked up a bit although the numbers are very low given the base, but there is some seasonal movement which seems between September '23 and December '23 quarter. So if you could please explain as to what has happened there?

Rupinder Singh: So stage 3 for December '23 is 1.2% and stage 3 in September '23 was 1% and obviously this was reduced from March '23 number of 1.13%. So this is a little cyclical. You might have seen that during the year generally there is a 10-15 movement. But it is within our control and guidance given. So as you see the March number, there is a hardly a gap of 5 bps, 7 bps.

Harshavardhan Agrawal: Okay, fair point. So I just wanted to understand another thing is, what would be the impact on our yield at least for this quarter because of this movement of let's just say this gross stage 3 moving from Rs. 43 crores to Rs. 57 crores. Does this also have some impact on our interest income or it doesn't have?

Rupinder Singh: So I doubt there will be any impact on the yield particularly. Yield is very well maintained across the quarters. So we are maintaining yield of around 14.6%, 14.7%.

Harshavardhan Agrawal: Okay, fair enough. Thanks.

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

Raghav: Yes, hi. Thanks for the opportunity. I have a few questions. So one is, what is your average ticket size on disbursements for the third quarter?

Rupinder Singh: So consistently our average ticket size remains around Rs. 10 lakhs. So even for across the year and for the 9 months it is around Rs. 10 lakhs and same for the third quarter. So there is no change in average ticket size.

Raghav: Okay, thanks for that. What will be your branch expansion plan for 4Q? And if you can guide on an annual basis how many branches would you look to open for the next 2-3 years?

Rupinder Singh: So for next financial year we have a plan of opening around 42 new branches. So these branches get divided quarter by quarter depending upon requirement needs as we keep progressing in respective states. So since we are operating in 15 states, every state we identify which are the locations we can roughly see the business coming along.

For this financial year we are supposed to have another 6-7 branches. Today we are at 215. We will end up around 222 or 223 branches.

Raghav: Understood. And any geographical color where which all states would you be expanding in or where would you want to focus?

Rupinder Singh: So currently we are in 15 states. Out of 15 states, 12 states we have a vintage of more than 5 years and consistently building our force there. There are 3 states where we have opened around 3 years back, there again we are improving our penetration. We continue to grow in these 15 states in coming years. So we don't have any plans to expand into any new state as of now but continue to diversify in these 15 states systematically.

Raghav: And just on asset quality, so I think even Harsh was asking that when I look at your net slippages, that has increased quite a bit for this quarter. It comes to about 0.3% of the opening book. Your peers are somewhere around 0.1%. Why would that be the case?

Rupinder Singh: So I think it is largely due to the seasonality of the business. So when we compare to the March numbers which is always optimistic for everyone, we were able to curtail it further in month of September, which is a little unusual because of the traction which was happening around. But yes, this quarter there is a slippage of around 10 bps and I think we will be able to cover it.

So it is not something unusual. So when you are into a business and you are into market and there is a lot of seasonal factors which comes around, so 5 bps-10 bps goes here and there sometimes. We are very much aware of this fact and taking proactive actions around that. It is not a worry around us in that case.

Raghav: Sure. So how much could you bring it down by, say by quarter or what would be your steady state GNPA guidance?

Rupinder Singh: So our range remains between 1.1% to 1.3% that we keep projecting around internally even in budgetary matters and in models also. Yes, nothing is out of control and I think quarter 4 generally gives a better traction than quarter 3, which everyone knows about.

Raghav: And so just last question from my side, when I look at your number of employees per branch, that is about 15 for FY23 and you seem to be the second highest, so there is another company which is highest. How would you look at branch addition or how would you look at improving productivity from your existing set of resources? And a follow-up question is that would you expect that this 15 employees per branch remains at this level or would it come down going forward? That's all from my side. Thank you.

Rupinder Singh: Yes. So since we have expanded into almost 94% of the mortgage market, so while building the branch network, we must keep in mind multiple factors including the hierarchy needs to be developed across that piece. And as you enter the new geographies, you have to create a multiple layer around that piece. Now most of that work has already been over, so whatever is going to come up is the new branches, I mean any new branches, the new people which is going to add up. Any new branch which we start, we require not more than 7-8 resources around that piece. So this will get automatically sublimed as we keep progressing on that piece.

So whatever we create, there is an incremental improvement in the productivity branch by branch as well as manpower improvement in terms of ratios. So today we are around 14 or 15 employees, we will realize after one year it will be around 12 or 13 and eventually it will be a little over.

As I mentioned, the hierarchy is very well set. What we are adding is only the branch and the people at the ground. That needs to be added around as we keep progressing in the tier 2-3 market.

The cost to income ratio also has come down in one year by approximately 500 bps. So these are the common objectives that we keep working in the future also.

Moderator: Thank you. Our next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Hi, good morning. Congrats for good performance and thank you for taking my question. So firstly, it can split this disbursement, average ticket size, you said Rs. 10 lakhs, but can you split it product-wise, home loan and LAP?

Rupinder Singh: So Rajiv, there is not much difference between home loan and LAP. So both have a same ticket size of INR10 lakhs. In fact, we are working in the same geography, same vicinity, almost same set of customers. So customers who already have houses to mortgage, we are offering a mortgage loan and customers looking for a new house, we are giving a home loan or if someone has a plot then for building a house.

Rajiv Mehta: Sure, sure. Got it. And this LAP will be a typical LAP, it will not be a business loan, right?

Rupinder Singh: So it is a typical LAP, basically a mortgage is created around the property with clear title. LTV here is around 45%-48%. End users particularly is for their business use. 82% of the LAP customers are for the business use and the remaining 18% is for consumption.

Rajiv Mehta: Understood, sir. Thanks. And what will be the fresh loan rates for home loan and LAP? I mean for a fresh home loan right now and for a fresh LAP. Yes, maybe if you can quote the disbursement blended yield, what you did for home loan and LAP in Q3, what was the blended yield for the incremental origination?

Rupinder Singh: It is 14.8% basically for LAP and HL blended.

Rajiv Mehta: Okay. Okay. And sir, when I'm looking at your portfolio yield of 14.8%, this December as well as last December, it's pretty similar. So the question is, we would have taken some increase rate hikes in the last 12 months for the back book. We would have also raised rates for the incremental origination. And ideally, as of this December, that 14.8% should have been a higher number, but it is not the case.

Rupinder Singh: So if you have seen our cost of funds, there is no drastic change there also. So we are able to control it. Yes, there are some measures that we took. And this is the reason that we have not unnecessarily passed to the customer. This is a set of customers which is on the ground, considered to be self-employed. And we are maintaining a margin of 6% in any case. That is our guidance around that piece.

Since it is maintained very well, there is no point of passing to that extent. So even for new customers, we are maintaining the same yield.

Rajiv Mehta: Got it. Just last two things. On the bank borrowings, you can split the bank borrowings as per the benchmark. The linked benchmark, which is REPO, EBLR, other EBLR and MCLR. And NHB sanctions, if you can comment, if there is a sanction in hand or in the pipeline?

Ashish Gupta: So our bank borrowings are at a mix of the benchmark. A few of the borrowings are at a one-year MCLR. A few of the borrowings are at a three-month MCLR or linked to TBIL. So generally, it is a mix of that. We have an un-drawn sanction from National Housing Bank to the extent of Rs. 210 crores, which we expect to utilize in Q4 and Q1 of the next financial year.

Rajiv Mehta: Got it. Thank you and best of luck.

Moderator: Our next question is from the line of Shubranshu Mishra from PhillipCapital. Please go ahead.

Shubranshu Mishra: Hi, good morning, Rupinder. Glad to hear you on a call long after Chola. Congratulations on the new position as MD and on the listing of the stock. Two or three questions. The first one is if you can speak about the zero plus in LAP as well as HL. And what are the flow forward rates from bucket zero to bucket one and flow backward rates from bucket one to bucket zero? That's on the asset quality.

The second question is around the branch expansion. We did speak about the branch expansion. But then when we look at a branch, what are our top parameters? Is it the credit quality that exists in that particular area? That would be the top most parameter or the potential of that area and the competition in that area? How do we look at expanding the branch? Which one would be our top most parameter? Thanks.

Rupinder Singh: Thank you, Shubranshu, for commenting and asking a set of questions. DPD zero stands around 5% as we see the quarter 3, and this remains the same from the last one year, in-fact, it may be a few bps lower than the last year. DPD 30 stands around 3.5% and DPD 90 stands around 1.2%. These are the numbers as we close the quarter 3 for this financial year.

Secondly, if we see the business side, we have a plan to open 42 branches next year.

Normally, we try to segment the branch where the productivities are quite high, and we feel that there is a scope of improving business particularly. For example, any branch in any geography where the potential is growing, and we see that there is a scope of expanding on that side to the next level where we are trying to test around before opening the branch. Once you start getting this growth and disbursements starts coming, then we start opening the branches on that piece.

Since we already have 15 states, we have no plans to go to any new state as of now in the next 7 to 8 quarters at least. We have a thought to go deeper into these geographies. So the potential keeps coming in the respective geography. With 215 branches and 15 states, I think still there's a lot of work to be done in these 15 states where we can deep dive further for the exploration of new businesses on that side.

Shubranshu Mishra: I understood that point. You didn't speak about the flow forward rate and flow backward rate to and from bucket zero to bucket one. If I were to ask the branch expansion question in a different fashion, what percentage of the KRA of the branch managers would be collections? Or is it just disbursements and business growth right now? A larger portion of the KRA of the branch managers are just disbursements and business expansion?

Rupinder Singh: Every resource in the frontline, which is branch manager, branch credit manager, and branch collection manager, they have a KRA for the health of the portfolio. Having said so, every branch, we have a branch collection manager if there are more than 200 accounts in any of the branch. That is a resource which we have created so that the sourcing team continues to focus on building the portfolio.

Whereas for branch manager, if there any kind of eventuality in terms of DPDs or NPAs then that has also been taken care while forming these KRAs. But yes, to improve the productivity, the resources have been given in such a way that there is enough of tools available, enough of manpower available to collect.

Shubranshu Mishra: Flow forward and backward rates from bucket zero to bucket one and bucket one to bucket zero?

Ashish Gupta: So our collection efficiency on current bucket is close to 99.3%. So around 0.7% of the customer every month go into the DPD 1 bucket and parallelly we pull back about 50-60bps backward. So on a net basis, 10-15bps flow get into the DPD 1 bucket and it is more of a cyclical in nature. During the beginning of the year, the flow rate remains 10-15bps higher, but as we progress the year, the pullback rate goes higher and be able to pull back more clients than the flow rate.

Shubranshu Mishra: Understood. And if I understood it correctly, essentially 200 customer accounts are mapped to one collection guy?

Rupinder Singh: No. If any branch has 200 accounts already sourced, then we allocate a collection manager there basically for any kind of future planning in that sense. If you talk about per collection guy, then the average would be around 50-55 accounts.

Shubranshu Mishra: Understood. Thank you so much, Rupinder. This was very helpful. Best of luck.

Rupinder Singh: Thank you.

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

Kunal Shah: Yes. Hi, Rupinder. So thanks for taking the question. So firstly, again, slightly touching upon in terms of the productivity, so a larger part of the branches have again got added over the past 18 to 24 months. And would it be fair to assume that in terms of the sales staff, we would be at around about 1,700 to 1,800-odd people now? So out of 3,100-odd employee base, would that be the fair number to assume on the sales side?

Rupinder Singh: So if you include entire sales hierarchy, yes, there are more than 1,700 people now.

Kunal Shah: Okay.

Rupinder Singh: Sales hierarchy, there are multiple levels. One is loan officer at the frontline, then the branch manager, above them area, and respectively zonal heads who handle that basically.

Kunal Shah: Yes. So I just wanted to get a sense in terms of when do we try to reach the optimal productivity given that a larger part of the additions have also happened over the last 18 months and how the traction in the disbursement would actually build up because if we look at it in terms of the disbursements per sales officer, that is still somewhere around 1.2 per month. So that's the only thing maybe there is still some more activity left to be utilized and that will reflect. So how long would it take to actually reflect in terms of the overall disbursement?

Rupinder Singh: So if you see for the loan officer, we drive productivity around anywhere between 1.75 to 2. And every branch manager is expected to deliver at least 9 to 10 units monthly in terms of disbursement count because the disbursement count is more important. As you improve the processes and with time also, if you improve the number of counts, automatically the output in terms of absolute volume is going to come. So this is the current set.

What we feel there is always a scope of improvement. Giving a good tool on the customer side, sale application that we are giving and even for the remaining process now recently credit application has been given so that the better turnaround time can be given, the process can be improved. Those are the parameters that we are utilizing day-in and day-out. What I feel there is a scope of improving year-on-year. If you talk about loan officer per se, they have a scope of improving more than two. But yes, that takes time. I can't commit it that it has to happen in a quarter but that's what we are working day-in and day-out.

On the branch side particularly, if any branches reach to the level of 18 to 19 units of disbursement per month, I think that is the highest level that we feel that is peaked out. There is a point of fragmentation that we keep in mind. So any branch which reaches that number, I think that's the highest level that we consider because rest of the folks which are the processing folks including the operation manager, the credit manager, and all the technical manager reach the peak and now it becomes time to fragment that branch.

So if you feel that what is the maximum it can go, I think it is for any given time, the maximum as of now, the kind of parameters that we use, the kind of technology that we use, maximum 17 to 18 units can be disbursed at the pinnacle of any branch.

Kunal Shah: Sure. And I just wanted to get in terms of even like a few of the employees who would have joined recently, particularly in the frontline sales staff, they would also be under training and they will get out of it and start adding on to the productivity. So what you highlighted maybe in terms of 1.75 to 2, not all of them would be at that level of productivity and that should also build up over the period, maybe over the next three, four quarters?

Rupinder Singh: Absolutely. So as the vintage of employees keeps increasing, for six months, it more goes into training time. So ultimately sometimes if they are able to disburse one file, sometimes they may not be able to. So that's more on the hand-holding side. But as they become trained well, trained enough, and they come into the main phase, then automatically the target remains around 2.

Kunal Shah: Sure. And secondly, with respect to the branch expansion, particularly Tamil Nadu, again, so there have been almost like six odd branches which have got added. We are at almost 18 now. So what would be the plan in that market because that's again quite penetrated market with respect to the housing finance and how we are positioning out there.

Rupinder Singh: So we have considered entire South as a one zone. So last year it was Tamil Nadu. We are going to open a few branches in Tamil Nadu, obviously. But the focus will be more on AP, Telangana this year because that's the latest territory that we opened three years back. So Tamil Nadu is in existence with us from almost six years, same like Karnataka. AP, Telangana is around three and a half years. So number of branches in those states are a little lower. There we have a scope of building up. But it's not like Tamil Nadu is enough for us. I think still there's a lot of scope. AP is very small when we compare to any competitor.

Kunal Shah: Okay. So overall maybe we have to look at it in terms of Karnataka, Tamil Nadu plus AP plus Telangana?

Rupinder Singh: Yes, yes. That's how you should look at and we're going to increase presence in coming times.

Kunal Shah: Okay. Okay. Yes, thanks and all the best.

Rupinder Singh: Thank you, Kunal.

Moderator: Thank you. Our next question is from the line of Umang Shah from Kotak Mutual Funds. Please go ahead.

Umang Shah: Yes. Hi, good morning and thanks for taking my question. And Rupinder and team, congratulations on a good quarter. Two questions. One is related to what Kunal was asking, right? So see, ideally I do see we still have bulk of our branches which are into the lower vintage category now. I do understand that we are growing at a fairly rapid pace. But how should we see the equilibrium coming in terms of branch productivity, opex to asset ratios and assuming a more steady state sort of a number in terms of our opex ratios? Because I mean, at this base as well, I mean, we are talking about adding quite a few branches. So just wanted to understand that.

Rupinder Singh: Yes. So as the vintage of branches grows, Umang ji, the productivity automatically goes up. You have seen in our case also. So today we have 95 branches which have a vintage of more than three years. There's 75 branches between one to three years and 45 branches which are around one year in terms of vintage.

So automatically there's 45 branches where there's a scope of getting to the next level, which is the bucket of one-three years where the productivity automatically increased by 50%-60%. And once these branches which are in the bucket of one-three years, as they cross the three-year mark, automatically productivity further get enhanced. So there's a lot of scope typically in these 120-125 branches which are still building up, still coming up in these geographies which are on the verge of improving productivity. But since there's a scope in market and it takes time to build the branch and to come to the optimal level of the productivity. So instead of waiting for that, it's always better we continue to keep progressing in terms of building and increasing our strength around each respective geography where we exist.

Having said so, the oepx is the point which you have raised up. So we have a clear understanding that as we grow, the opex has to come down. So today we are operating at 4.5% of opex approximately. So year-on-year you can see around 20-25 is coming down.

Umang Shah: And directionally that trend will continue is what you're saying?

Rupinder Singh: Yes. So basically if you see today on the base of 220 branches, you add 40 branches, that percentage comes lower compared to what we opened last year where the base was a little lower and we're still opening 40-45 branches.

Umang Shah: Understood. And the second question that I have is now, given that the IPO is through, we also have been getting regular rating upgrades. Now how should we look at the growth split into, AUM growth split into on-balance sheet and off-balance sheet? Clearly the balance sheet leverage remains fairly lower. So is there a view that going forward we start retaining a lot more onto our balance sheet, given that the overall balance sheet construct has improved materially? Because that will also be fairly crucial in terms of expanding the ROEs for the company?

Ashish Gupta: If you look at the off-balance sheet products like direct assignment transactions and co-lending transactions, they are not just a part of capital protection, they are also a good source of long-term funding. And we will continue to maintain a ratio of about, for DA perspective, we will maintain around 15%-18% kind of number of book. That is something which we believe is a sustainable number and we will continue to maintain it over the medium term.

Umang Shah: And from a liability perspective, is this source of funding more competitive in terms of rates vis-a-vis let's say a normal term loan or NCD that we would be doing?

Ashish Gupta: Pretty much similar, not much difference between the term loan and the direct assignment transaction. However, on the direct assignment transaction, you are pairing your credit risk.

Umang Shah: Understood. All right, perfect. Sorry, you said 15%-18% would be just for DA or DA plus co-lending both put together?

Ashish Gupta: 15%-18% will be for the DA transactions. Co-lending is something which is at the evolving stage at this point of time. So we have built a book of around 1%-1.5% at this point of time. We are still at the evolution stage in terms of co-lending. So, probably as we grow in terms of our experience on this particular product, we will be able to give some guidance on that. But at this point of time, co-lending will not be a very material as a percentage of our total balance sheet.

Rupinder Singh: We are into testing phase as of now. Umang ji.

Umang Shah: Okay, and just one last clarification. So conceptually, the profitability on co-lending book and our own book will be largely similar or co-lending would be slightly lower in terms of eventual profitability?

Ashish Gupta: So co-lending has a marginally higher profitability. But so as we have said, it is still an evolving product. So we have to see that how much this can be scalable. So once we determine that, probably we will be able to better answer in the future.

Umang Shah: Okay, all right, perfect. This is helpful. Thank you so much and wish you all the best.

Ashish Gupta: Thank you.

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

Mona Khetan: Yes, hi, sir. Good morning. So my first question is on the incremental yields that you have across HL and LAP Book. I understand you shared the blended yields, but I just want to understand the yields across each of these products that you're lending at incrementally.

Rupinder Singh: For home loan, our yields are around 14%, and for loan against property, the yields that we generate are around 15.5%. These are the type of yields that we're doing. And then blended, as I mentioned, is around 14.8%.

Mona Khetan: Sorry, HL was 14% that you mentioned?

Rupinder Singh: HL is 14%, and loan against property is 15.5%, and blended is 14.8%.

Mona Ketan: Got it. And just on the floating versus fixed share, both on the asset and liability side, if you could share, or rather the fixed book across both assets and liability side, that is borrowings and loan book?

Ashish Gupta: So recently we have started our variable rate lending. So our variable rate lending is primarily restricted to the business loan that we gave in the LAP segment. So out of the LAP, whatever we disbursed, 80% goes towards the variable rate product. That is roughly around 30%-32% of our total disbursement. If we look at our borrowing side, our borrowing is having 20% of the liabilities in the form of fixed rate funding. Then on top of that, we have a contribution coming from capital. So on a total basis, around 50% of our funds are at a fixed rate. While our lending, if you look at around 70% of our loans are at a fixed rate. So we are gradually increasing our variable rate book. So that's how the situation is.

Mona Ketan: Got it. So 70% is fixed rate loans from a disbursement perspective. On the loan book, where would it stand today?

Ashish Gupta: We are at this point of time close to 14%. So we started a year back from zero and we have reached to 14%. So down the line, 12 months, we should be able to reach around 25% kind of balance sheet percentage in terms of floating rate book.

Mona Ketan: So floating rate at the AUM level is today 14%.

Ashish Gupta: Yes.

Mona Ketan: Got that. And during this cycle, if I look at the last one and a half years, what sort of rate increase have we passed on to our customers, if anything?

Ashish Gupta: So we have recently in the month of November passed on around 25 basis points to variable rate customers. Earlier, the variable rate book was not material itself. So there was not much impact. But now as the book is building up, so any change in the rate of interest will impact our portfolio yield as well.

Mona Ketan: Okay, and nothing on the fixed rate book that you have sort of incremental basis that you have passed on?

Ashish Gupta: We always endeavour to maintain 6% spread on our book. So, as you can see, our portfolio yield in last quarter was around 14.7%. And with the incremental disbursement at 14.8%, we have been able to bring up our portfolio yield to around 14.8%. So we keep monitoring our disbursement yield to ensure that our spreads remain around 6%.

Mona Ketan: Okay, got that. And just finally, two quick thoughts. Firstly, what sort of growth guidance that you are giving right now? And on Opex/assets, you mentioned about 20 to 25 bits reduction every year. But where could it settle at eventually? Any thoughts around that? Thank you.

Rupinder Singh: Yes, On Opex/Assets that's the drive what we are making, 20-25 bps is what we want to take it off. So it's a growing business, and as you know, the point is not about settling to certain levels, but yes, lower the better for us, that is a thought. So every business has their own nuances. This is a business which we source directly, which is people-centric business. And we need to drive the teams down the line. So this is the continuous process that we want to guide for next two, three years for sure. So this is more imperative in that sense, instead of, say, we're going to come, and this is the benchmark. So it's a continuous endeavour which we'll keep working towards as the time that progresses, as, you know, technology continues to improve.

In terms of growth, I think affordable housing is something which has a lot of scope. The industry is evolving. The reach is building up. Earlier it was tier two, tier three markets. Now people start entering tier four markets. I feel the scope is enormous. How much we can scratch the surface, that is important. It's a business of execution. So we would like to continue this journey in the same fashion that we have been building. So we're not giving exact some guidance number, but you can see even at a decent base, a decent number, you can see 30%, 35% growth coming around.

Mona Ketan: Got it. Thank you. Thank you and all the best.

Rupinder Singh: Thank you.

Moderator: Thank you. Our next question is from the line of Sonal from Centrum Broking. Please go ahead.

Sonal: Yes, thanks for the opportunity, sir. I have two questions. One was on the maturity level. So at what level do you expect that the branch reaches the maturity? And, I mean, if I look at your employee per branch or if I just divide employees by number of branches, there are about 15. So how would they be deployed across functions, if you could talk about it?

Rupinder Singh: So any branch, when it reaches to the level of disbursement of around 17 to 19 units of monthly disbursement, we see that branch is getting mature. It is not a time bound. It is because of the opportunity, the market, how that responds. Few places that can happen very early, but yes, it depends upon, timing, location and multiple things in that case. But the capacity of any branch where they are able to execute properly, giving due justice to customer in terms of turnaround time, ensuring that there is not much deviation in processes and the quality is also well maintained and the productivity also reaches at the right time. So when 17-18 units of disbursements is reached that's the time when branch will try to fragment it into two. So that can be considered to be maturity. The next question, sorry, what do asked, Sonal?

Sonal: So I was asking about your per branch has about 15 employees and the total employees by average branches. How much will be deployed across functions?

Rupinder Singh: So we, in any given branch, we have a branch manager. There are four to five loan officers under him which directly reports to him. Then there is a parallel function which is a credit manager.

In every branch we have one credit resource who does the job of underwriting and evaluating the customer. Then every branch we do have one operation executive, who serves the customer and he's a, a fellow who is responsible for entire process of the file from the branch side particularly. So this fellow generally helps in ensuring good customer service and ensuring the process is well maintained. So these are the bare minimum team members which you will find in any of the branch. Additionally, if the branch has more than 200 accounts already disbursed, then we add up one collection resource in that branch. That's again an independent resource.

So for us, all the functions, whether it's the sales, credit, collection, all are independent to each other and they generally get converged at the head office at my level. The same distribution head reports to me, same is the underwriting and same is the collection fellow. So this is the way hierarchy keeps working.

Sonal: Sure. Thank you.

Moderator: Thank you. Our next question is from the line of Shashank Agrawal, an individual investor. Please go ahead.

Shashank Agrawal: Yes. Sir, I would like to ask, like how you see the customer mix, like you will entirely focus on the unorganized informal business customers or going forward, or will be also looking for low-income salaried customers?

Rupinder Singh: If you see the kind of customers which we are sourcing, the average ticket size of Rs. 10 lakh, which is in the vicinity of Tier-2 or Tier-3, they are serving that vicinity particularly. They may be, most of them are self-employed, ensuring their rozi roti through that. So they have an income range anywhere starting from Rs. 25,000 to Rs. 60,000. That is their monthly income. And having a family, need an inspiration to build a house or someone want to expand a business around in the same vicinity. That's the kind of customer that we do. Since it's an affordable segment, we have, we feel that is a model where we have been building expertise from last 13 years. We want to continue with this field as we keep, building our experience on this customer. So we feel that we are not going to change any kind of customer persona. And there's a lot of going forward advantages in terms of expansion plans and multiple things around that side. So I think we have a very clear understanding we want to continue in the same segment going forward also.

Shashank Agrawal: Thank you, sir. It helps.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Rupinder for closing comments.

Rupinder Singh: Thank you, everyone, for taking your valuable time for attending our first earnings call. We will keep you posted for any of the further updates. Also an audio recording and the transcript of this call will be uploaded on our website in the due course.

Looking forward to hosting all in the next quarter. Further, if you have any questions or require additional information, please feel free to reach out to us. Thank you and have a very wonderful year ahead. Thank you so much.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.