Aavas Financiers

Operator: Good evening and welcome to the Aavas Financiers Limited Q2 FY27 and H1 FY27 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 of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant connections will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference, you may message the operator. I now hand the conference over to Mr. Rakesh Shinde, Head of Investor Relations at Aavas Financiers Limited. Thank you, and over to you, sir.

Rakesh Shinde – Head Investor Relations: Thank you, Swapnil. Good evening, everyone, and a very warm welcome to all participants joining us today to discuss the financial and operating performance of Aavas Financiers Limited for Q2 FY27 and H1 FY27, along with our outlook on the business. The results and the investor presentation have been uploaded to the stock exchanges and are also available on our company website. I hope you have had a chance to review them. We have also uploaded an Excel fact sheet containing historical data on our website for your easy reference.

Joining me today is the entire management team of Aavas. We will begin this call with the opening remarks from our MD and CEO, Manu Sehgal. This will be followed by a question-and-answer session. With that, let me now hand over the call to Manu. Over to you, Manu.

Manu Sehgal – MD & CEO: Thank you, Rakesh. A very good evening to everyone joining us today. It is a delight to connect with you all during this festive season. On behalf of the entire Aavas family, I extend our warmest wishes to you and your loved ones for a joyous, prosperous, and fulfilling festive period.

Firstly, it gives me immense pleasure and pride to share that Aavas is on track to cross the significant milestone of 250 billion in AUM during October 2026, having served nearly 4.5 lakh customers. This achievement reflects the trust reposed in us by our customers and stands as a testament to the collective hard work, dedication, and commitment of the entire Aavas team over the years.

Aavas has embarked on its next phase of growth. The structural demand for affordable housing, the depth of the underserved customer segment, and our expanding distribution give us confidence in the long-term potential of our franchise. With an established presence across our core markets and considerable headroom to improve productivity and deepen penetration, we see a credible path towards achieving our goal of 500 billion in AUM. As we pursue this ambition, the quality of growth will be as pertinent as its pace.

Our objective is to build a business that delivers sustainable, profitable growth through a customer-first approach, higher productivity, improved operating leverage, prudent credit underwriting, and disciplined liability management. We continue to scale responsibly without compromising the asset quality, margins, or governance standards that underpin the strength of the Aavas franchise.

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Technology, my friends, will serve as a critical force multiplier across this journey. It will allow us to combine the reach and relationships of our physical distribution network with faster digital processing, stronger data-led decision-making, and robust system-driven controls. This should help us improve conversion, reduce turnaround times, enhance productivity, and deliver a more seamless customer experience.

Having completed 6 months at the helm of Aavas, we are unified in our goal of delivering results. My priorities are very clear: to deliver sustainable, profitable growth through consistent improvements in what we call internally PEG: P-E-G, productivity increase, efficiency increase, and governance.

Let me take you through each one of them.

During Q2 of this fiscal year, productivity per RO improved to 1.25 files per month compared with 1.1 during Q1. This momentum strengthened in September, when productivity reached 1.35 files a month. The improvement reinforces our confidence in the focused execution strategy, stronger field-level accountability, and continued emphasis on customer acquisition to continue lifting productivity per resource. We aim to improve this productivity to about 1.5 files per month by the end of this fiscal year and progressively scale it to 2 files.

The improvement in productivity during H1 was accompanied by a sharp improvement of 29% in revenue per RO. This demonstrates that our execution rigour is translating into improved resource economics and supporting our objective of delivering sustainable, profitable growth. Consequently, our opex ratio improved by 18 bps year-on-year to 3.33 in H1. With further gains in productivity, efficiency, and scale, we expect to generate stronger operating leverage and progressively improve the opex ratio to below 3%.

Governance: We have undertaken a comprehensive review and revamp of our operating processes to establish greater accountability and strengthen checks and balances across the organization. We have introduced system-driven controls, reinforced maker-checker mechanisms across key processes, and implemented rigorous training programs to embed a strong and consistent governance culture throughout Aavas. These initiatives provide us with a stronger operating platform to continuously scale the business responsibly.

At Aavas, people drive performance. During the quarter, we continued our endeavour to build a team of people who enable and enhance performance. We continue to strengthen our team with the objective of enhancing organizational capabilities for rigorous execution. Several experienced professionals have already joined us across various levels, and we expect to further strengthen the team in the coming months. This has given us the platform to drive strategy as well as execution as we build the business towards H2, the bigger quarters of the year.

These overarching principles are bringing the organization together around a common definition of success. With disciplined execution, continuous measurement and monitoring of key levers, plugging leakages, and a strong pipeline of experts leading at N-1, Aavas is unified in its objective of delivering consistent results.

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Coming to our financial and operating performance, H1 FY27 has laid a strong foundation for Aavas and highlights the results of our growth initiatives. The healthy performance during H1 reflects that the business is becoming faster, fitter, and more productive, with sharper execution across the rank and file.

For H1 FY27, we disbursed loans worth 35.1 billion, delivering robust growth of 30% year-on-year, primarily driven by volume growth. This performance was broad-based and driven by a strong pick-up in volumes and meaningful improvement in resource productivity. The pick-up in volumes is derived from volume productivity as well as the underlying strength of demand in the affordable housing segments in which we operate. Our AUM grew 16.1% year-on-year to 248 billion as of September-end. This directly reflects the positive impact of our efforts around customer acquisition, productivity enhancement, and rigorous daily execution.

During Q2, our repayment rates normalized to about 17% and will remain in a similar range. While we still have a long journey ahead, these improvements give us confidence that Aavas is well-positioned to accelerate this growth and deliver more than 20% growth over the long term.

We delivered 16.4% year-on-year growth in net profit, driven by healthy 17% year-on-year growth in net interest income and 18% year-on-year growth in operating profit, supported by robust business growth. In addition, improved operating efficiencies were reflected in our 195 bps year-on-year improvement during H1 in our cost-to-income ratio, further strengthening profitability.

This quarter was a testament to Aavas's diverse and strong liability management. Despite the volatile interest rate environment, we have kept our cost of borrowing stable at 7.64%. Following the 25 bps repo increase announced by the Honorable RBI earlier this month, we expect some increase in our cost of borrowings. However, we are confident of maintaining our spreads above 5%.

Additionally, we believe the increase in lending rates is expected to support yield increments in the incremental disbursements and progressively benefit the overall AUM yield. Consequently, we expect our spreads and NIM to improve over the coming quarters.

During this quarter, we expanded our branch network to 443 branches across 15 states. In H1, we added more than 21,500 new customers to the Aavas franchise. We will continue to invest in branch expansion to further deepen and diversify our presence. At the same time, our focus remains on ensuring faster branch-level break-even and closely monitoring the performance of newly opened branches to drive productivity and profitability.

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

In H1, our net profit grew 16.4% year-on-year to 3.5 billion, led by robust 17% year-on-year growth in NII on account of healthy improvement in NIMs. Our net worth continues to compound steadily, growing at about 15.4% year-on-year, with the strength of our capital position driven by consistent compounding of internal accruals. Our NIMs remained broadly stable at 7.76%, moderating marginally by 5 bps year-on-year on account of a PLR cut, but supported by a 25 bps year-on-year improvement in cost of borrowings. Our cost-to-income ratio improved by 195 bps to 42.9%, driven by cost efficiency.

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We continue to deliver industry-leading asset quality, with all key indicators trending positively and remaining well within our guided ranges. Our 1+ DPD improved by 18 bps year-on-year to 3.81 in Q2, remaining comfortably below 5%. Gross Stage 3 improved by 13 bps year-on-year to 1.11%, while Net Stage 3 improved by 16 bps year-on-year to 0.70. This underscores the resilience of our portfolio and the effectiveness of our credit-first approach. Credit cost for H1 stood at 24 bps, well within our guided range.

Our ROA expanded by 9 bps quarter-on-quarter to 3.28%, and ROE improved by 28 bps quarter-on-quarter to 13.63% in Q2. We remain focused on delivering quality, profitable growth with strong risk discipline and tech-led efficiency, while consistently creating long-term value for our stakeholders.

As I see it today, we are at the ground floor of our building, and with a strong foundation and an expert team, we are confident about building our powerhouse, akin to the Burj Khalifa.

With that, ladies and gentlemen, I would now hand [cut off]

Management: ...over to Ghanshyam Gupta to discuss the financials in detail.

Ghanshyam Gupta: Thank you, Manu. Good evening, everyone, and a warm welcome to our earnings call.

To provide an update on the borrowings, the quarter closed on a constructive note, with Aavas maintaining a stable cost of borrowings despite a volatile interest rate environment and an uncertain geopolitical backdrop. This underscores the strength of our diversified liability franchise and strong lender relationships. We continue to enjoy broad-based lender support, providing us access to diversified, long-term, and cost-effective funding to support future growth.

We continue to borrow judiciously and raised around 16.79 billion at a competitive rate of 7.66% for Q2 FY27. As of September 30, 2026, total outstanding borrowings stood at 216 billion, representing a well-diversified liability franchise linked with various benchmarks and competitively priced. We were able to deliver a 21 basis point year-over-year improvement in our cost of funds for Q2 FY27.

The behavioural tenure of our borrowings continues to be longer than that of our assets, ensuring a positive ALM across all the time buckets. We have an optimum mix of various interest-rate benchmarks, with around 30% of borrowings linked to the repo rate, while the balance is linked to other benchmarks such as MCLR and fixed-rate instruments.

As of September 30, we maintained ample liquidity, including cash and cash equivalents and unavailed CC limits of 19.6 billion. Documented unavailed sanctions in hand are 3 billion.

Profitability and capital position as of September 30 are as follows: our net interest income for the quarter grew by 15% year-on-year in Q2 FY27. Our net total income in absolute terms grew by 11% year-on-year in Q2 FY27, and net interest margin as a percentage of total assets expanded by 11 bps quarter-on-quarter to 7.81% in Q2 FY27.

Our disciplined cost management approach, coupled with a continued focus on profitable growth, has started yielding encouraging results, reflected in a 153 bps quarter-on-quarter improvement in

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our cost-to-income ratio to 42.19% in Q2 FY27.

Our EPOP grew by 14% year-on-year to 2.49 billion in Q2 and by 18% year-on-year in H1. Our PAT growth was 10% year-on-year for Q2 FY27. Our ROA improved by 4 bps year-on-year to 3.23%, and ROE improved by 5 bps year-on-year to 13.48% in H1 FY27.

We remained well capitalized with a net worth of 54 billion and a capital-to-risk-weighted-assets ratio of 43.77%, significantly above the regulatory requirements.

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

Operator: Thank you so much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may click on the raise-hand icon in the participants tab on your screen.

We request participants to restrict themselves to two questions each and then return to the queue for more questions. To rejoin the queue, you may click on the raise-hand icon again.

We will wait for a few minutes until the question queue assembles.

We request participants who wish to ask a question to click on the raise-hand icon in the participants tab on your screen.

We will wait until the question queue assembles.

We will take our first question. We have Abhijit Tibrewal of Motilal Oswal. Abhijit, please go ahead.

Abhijit Tibrewal – Motilal Oswal: Good evening, sir. Thank you for taking my question. Sir, just two or three things. I think during your opening remarks, you spoke about improvement in RO-level productivity. I think the line was a little unclear. If you could just repeat that, that was my first question.

The other thing I wanted to understand from you is that, given that this year we have had a few states that have seen deficient rainfall, and if my memory serves me right, even Rajasthan has seen weak rainfall this year, all I am trying to understand is that while we can already see the reported numbers, from your experience in the past, how has mortgages as a segment behaved during periods of weak monsoons or during droughts?

The only thing I am trying to understand here is that, at least the way I look at it, as in COVID, I strongly feel that mortgages will remain that one segment where people will still prioritize repaying their EMIs over their other loans and obligations.

Management: Thank you, Abhijit. I will take the second question first. Yes, [laughs] I completely concur with the view, on a broad-based level, that mortgages largely remain untouched. Even from a present perspective, regarding the drought and shortfall in rainfall that you mentioned, from what we see in our exposures, and as we keep a very keen eye and ear to the ground on these matters, all my lead indicators are actually getting better as the months progress. We do not currently see, or expect to see in the near future, any stress on this.

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In parallel, as a conscious effort over time, our exposures to what we call pure agri-based income segments have been very, very limited.

Coming to your first question on RO productivity, what I mentioned was that while in Q1 we had 1.15 per month as productivity, for Q2 that moved to 1.2. We ended September at 1.3, and our goal this year is 1.5.

Abhijit Tibrewal – Motilal Oswal: The way we define this productivity is the number of cases disbursed per employee?

Management: Yes.

Abhijit Tibrewal – Motilal Oswal: Understood.

Management: When I say employee, this is the front-end-level RO, or relationship officer, who is the actual producer of the file.

Abhijit Tibrewal – Motilal Oswal: Sure, sir. The other thing I wanted to understand is whether we have made any PLR changes after the repo rate hike.

Management: No, not currently. We are examining it, and when we feel the need for a PLR change, we will make it happen. Our ALCO meets every month, and it has a formula-driven approach towards the calculation of PLR. So, the answer to your question is not currently.

Abhijit Tibrewal – Motilal Oswal: Understood. Lastly, at least what we have been hearing is that the rate on incremental lending will be dictated by how the competitive landscape shapes up. Over the last 6-9 months, we have been hearing that even larger HFCs are trying to enter the near-prime and affordable segments. For them, it is more about what banks do and what they decide to follow. For us, some of it could also be dictated by what the large HFCs that have a presence in this segment do. Is anything happening at least in their newer originations? Are they still tracking significantly lower than the back book?

Management: First, Abhijit, the way I look at the customer segment in which we operate is primarily very different in ATS from what the larger NBFCs or HFCs look at. Hence, that clear segmental difference fundamentally does not, in my view, put competitive pressure from these entities on my target audience as we progress ahead.

The second part of your question is whether incremental disbursements are slightly lower than the book. It is a business cycle. We are confident of maintaining spreads above 5% on our placed disbursements, and that is what we are keenly focused on in every transaction. This is currently on a technology platform called SFDC, with BREs as well as risk-adjusted return ranges that are very closely monitored by the rank and file. Based on deviations, the platform determines which case requires what kind of rate reduction or rate increase. We are fairly confident of maintaining 5%.

Abhijit Tibrewal – Motilal Oswal: Understood, sir. That is all from my side. Thank you so much, and I wish you and your team the very best.

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Operator: Thank you, Abhijit. We will take our next question. We have Chintan Shah of JM Financial. Chintan, please go ahead.

Chintan Shah – Citi: Hello?

Operator: Yes, Chintan.

Chintan Shah – Citi: Hello. Hi. This is Chintan from Citi. Firstly, on this transition to 500 billion AUM, under the new leadership team, what would be the primary drivers to accelerate growth from the current 16% levels to the 20% level? Specifically, how much of this is expected to come from the existing branch vintage versus expansion into newer geographies? What is the expected trajectory of RO productivity? I think that is already mentioned at 2 files, so will it remain at that level or will it be higher? That is the first question.

Management: Hi, Chintan. Yes, productivity increase per RO and per resource deployed, along with expansion, especially deepening into markets where we are currently present, is our medium-term focus. As I mentioned regarding the branch network, we continue to invest in our branch network to go deeper, particularly where there is also flexibility in pricing as we move towards the hinterland.

So, on both the X-axis and the Y-axis, which means where we source as well as how we increase productivity per resource deployed, how do we move this up? If a broad mathematical framework has to be applied, this is roughly about 20% CAGR growth in volumes, with 8% driven by branches, 10% by productivity, and about 5% to 7% by ATS.

Chintan Shah – Citi: Understood. Secondly, if I look at our AUM mix and disbursement mix for H1, we are now at around 21% of disbursements towards the LAP portfolio, while the share of LAP in the AUM mix is around 14%. I was trying to understand our targeted steady-state asset-wise mix for HL and LAP. Given the higher ticket size and yield differential in LAP, and also to an extent in MSME versus home loans, how are we looking at the risk-adjusted returns across these segments?

Management: At the steady state on an AUM level, we will continue to look towards 65:35, HL versus NHL. What you see currently is also an outcome of conscious efforts that the teams are undertaking. Let me give you a quick overview of that. We are very aggressively protecting our book.

With data and technology, and by looking at pre-approved offers, we have dramatically accelerated the offering of top-up loans to our existing good customers based on relationship value, at near-zero cost of acquisition. When we book that, especially in Q2 when we accelerated this activity, it is recorded as LAP. That is one conscious effort that helps us with retention, NIM improvement, and reduced cost of acquisition.

Second, there has been some clarification regarding what can be classified as HL and what can be classified as NHL, based on the stage of construction in the business when we onboard it today. When we compare like with like between the last quarter or the same quarter last year, while top-of-the-funnel sourcing remains almost identical, the booking of anything above 60% falls under the LAP purview. These are two large, conscious shifts that are reflected here. Again, to repeat, on a steady-state basis at the AUM level, 65 [trails off]

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Management: 65:35 is where we are comfortable.

Chintan Shah – Citi: Sure. One last question, if I may, on the opex front. Given the improvements we have seen in underwriting TATs, digital collections, agentic AI, and automation, what is the sustainable opex trajectory over the next 2-3 years? How much further operating leverage can we see from these platforms, along with the improvement in RO productivity? That would be the last question from my side.

Management: Our medium-term aim is to bring opex to assets below 3%. The tools that you mentioned are not individual tools but collective tools that are running concurrently throughout the rank and file.

Chintan Shah – Citi: That is very clear. Thank you, and all the best.

Management: Thank you.

Operator: Thank you so much, Chintan. That was Chintan Shah of Citi. We will move to our next participant. We have Shripal Doshi of Equirus. Shripal, please go ahead.

Shripal Doshi – Equirus: Hi, thank you for giving me the opportunity. My question was again on the drought situation in some of our key geographies. We have almost 19% exposure in Maharashtra, and given our model, wherein we are more of a semi-urban and rural financier, are you seeing any incremental pressure in October or any delays from customers, even though the numbers are holding up well? What would be our exposure to the districts where the impact is relatively higher? If you could give some more detail on how you see things shaping up from here with respect to whether this could derail our growth momentum. Thank you.

Management: [pause] To answer the second question first, no. I do not see Aavas having any asset-quality hiccups at all. Regarding the drought situation, particularly the point you mentioned about Maharashtra, we are largely concentrated around Pune, and our concentration in some of the Marathwada districts such as Latur is very, very, very minimal.

In parallel, I mentioned earlier in the conversation that we have been very conscious of steering clear of relying only on agri-based income as the basis of our credit assessment. We have always been very cautious in this approach. Hence, looking ahead from this one deficit-rainfall cycle, I do not see any impact on Aavas's book or Aavas's future growth.

Shripal Doshi – Equirus: Understood. The second question pertains to your commentary last quarter, wherein the thought process was that we could have a quarter in which spreads declined so that we could get back to the growth momentum. Are we still open to that thought process, or, as you have highlighted on the call today, are we holding up and focusing more on managing spreads?

Management: [pause] You alluded to the last conversation that we had in Q1.

Shripal Doshi – Equirus: Right, sir.

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Management: We have worked very, very hard to make sure that our spreads remain above 5%, and, as I mentioned earlier, that is something that we will continuously maintain going ahead. Secondly, both levers—the cost of borrowing as well as the ability to pass on rate hikes to our target audience—are levers that we are actively pursuing as we place disbursements today, tomorrow, and the day after.

Shripal Doshi – Equirus: Understood, sir. Thank you for answering my questions, and good luck for the next quarter.

Management: Thank you.

Operator: Thank you so much. We will take our next question. We have Renish Bhuva of ICICI. Renish, please unmute your microphone and go ahead.

Renish Bhuva – ICICI: Hello?

Operator: Yes, we can hear you.

Renish Bhuva – ICICI: Hi. I have two points. One is on the spread trajectory. I understand that we want to maintain a 5% spread going ahead. However, when we look at the trajectory over the last 3–4 quarters and also the shift in the AUM mix over the last 6–7 quarters, it is actually tilting towards a non-HL book, which I assume would be coming at a higher yield. Despite that, the spread is naturally coming down because of the PLR cuts we have made in the past.

Now, entering a rising-rate cycle, how should one think about the rate cycle? Should the rising-rate cycle provide us with a tailwind, or, for the next couple of quarters, would the spread first compress and then expand? How do you internally look at the rate cycle that is currently in place?

Management: [pause] Renish, I do think that we are now in an interest-rate cycle that will rise. While we saw 25 bps currently, if you look at all the other indicators of tightening at the monetary policy level, we are in a rising interest-rate cycle.

What I want us to be very clear about is that Aavas will always be customer-centric, and we will do what is right. Having said that, my commentary on spreads remains because a larger part of my unit is also here and listening: we will maintain spreads above 5%.

The tools in our hands are working on the cost of borrowing. Aavas is a great franchise on the liability side, and we continue to leverage that proactively. In parallel, a rising interest-rate cycle allows the right amount of pass-through on risk-adjusted returns to the customer.

When I say risk-adjusted returns, it is at the product level. Risk-adjusted returns are at the credit-quality level. Risk-adjusted returns are at the property-type level. All of these are available on a transaction basis, governed by technology and a risk chart on which the team operates for every transaction.

Therefore, with a diversified retail book on placement and risk-adjusted pricing in a rising interest-rate cycle, I do believe that 5% is sustainable.

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Renish Bhuva – ICICI: Just a follow-up on that. Is it fair to assume that incremental spreads are better than the book spread?

Management: [pause] They are almost the same today, but as I mentioned, an increasing-rate cycle always gives you an opportunity at the transaction level to start reversing this trend.

Renish Bhuva – ICICI: No, but since a large part of our borrowing is at floating rates, at least the portion linked to the repo rate will be repriced in Q3. Since we have not considered any PLR hike, at least in Q3, do we run a risk of the spread going below 5%? That is my concern.

Management: Let me answer the second question first: no. Secondly, ALCO meets internally every month. We keep a very close eye on the indicators and, when warranted, ALCO will internally consider a PLR increase or transmission. However, as I mentioned, the guiding principle will always be what is right.

Renish Bhuva – ICICI: Understood. This is very helpful, sir. Just one last clarification. You did mention that first-half disbursement growth has been up to the mark and perhaps slightly better than what we might have earlier expected. Given the current microenvironment, do you foresee any risk at all to our internal disbursement growth targets?

Management: No.

Renish Bhuva – ICICI: Okay.

Management: We are very clearly positioned. As I mentioned, first, we are unified in the goal that we want to deliver. The trajectory from Q1 to Q2, and as we look at October today, is in the right direction. Hence, our commitment to growing disbursements by upwards of 20% stands.

Renish Bhuva – ICICI: Understood.

Management: As you know, Q3 is a festive season and Q4 is the biggest season, so we will only get bigger and better.

Renish Bhuva – ICICI: Understood. Sir, we have guided for around 16% to 17% AUM growth in '24, right?

Management: Yes.

Renish Bhuva – ICICI: That is all from my side, sir. Thank you, and best of luck.

Management: Thank you.

Operator: Thank you so much, Renish. We will take our next question. We have Kishan Rungta of Emkay Global. Kishan, please unmute and go ahead.

Kishan Rungta – Emkay Global: Thank you for the opportunity, and congratulations on a good set of results. I have two questions. The first is on the disbursement breakup that you have provided. If we look at it, there has been some moderation in MSME disbursements, whereas in other mortgage loans we have seen increased disbursements. How should we look at this?

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Secondly, could you throw some more light on the increase in 1 DPD this quarter? Those are the two questions from my side. Thank you.

Management: On the first question, as I mentioned, our ethos at the book level is a 65:35 split between HL and non-HL. In parallel, what you see in Q2, as I mentioned, has two strong levers implemented with strategic direction.

First, we want to ensure that existing customers are offered data-backed, technology-enabled top-up loans so that they continue with Aavas and we prevent leakage from our book. These loans are booked as LAP, and hence you see that increase. It is a conscious effort that is right for the customer and right for the firm.

Second, there are clarifications regarding the stage of construction at which lending can be categorized as HL versus NHL.

Third, regarding your question on 1 DPD, we are 18 bps down year-on-year. The 4 bps that you see is largely the impact of seasonality. I do not focus on that 4 bps. It is like my heartbeat, which sometimes goes up and sometimes goes down. As I mentioned earlier, we are seeing all lead indicators getting better month-on-month, and we are confident in our guidance of credit cost within 25 bps.

Kishan Rungta – Emkay Global: Sir, just a little more clarification on the MSME side. Previously, disbursements used to grow at 32% year-on-year, whereas in this quarter they grew by only 18%. Could you clarify that? Are we taking any specifically cautious steps in that segment?

Management: I would not call it cautious. It is just about making sure that what we place every month is attuned to our risk as well as our pricing, to ensure that spreads stay above 5% and the HL/NHL mix stays at 65:35% at the book level. I would not read too much into a quarterly change between the largely HL and NHL mix.

Kishan Rungta – Emkay Global: Understood, sir. Thanks a lot for answering that.

Management: Thank you.

Operator: Thank you, Kishan. Moving to our next participant, we have Rajiv Mehta of YES Securities. Rajiv, please go ahead.

Operator: Sorry, Rajiv, we are unable to hear you.

Rajiv Mehta – YES Securities: Am I audible enough?

Operator: Yes, Rajiv. Please go ahead.

Rajiv Mehta – YES Securities: Sorry about that. Just one thing on this entire productivity scale-up from 1.15 files per month per RO to perhaps 2 files. This can happen when you significantly source a much higher volume of leads. The second possibility is that, if at all, you relax some underwriting filters or make changes to them. I believe the second thing will not happen, but what about sourcing enough leads and files for us to improve or take our productivity so much higher?

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Management: Thank you for that reinforcement. I was going to categorically say that point two is not going to happen. On point one, we are making structural efforts to increase the top of the funnel. This [cut off]

Management: goes to three aspects. First, are we placed correctly in terms of manpower, based on data and growth over the last 4 quarters in the target audience, which is our customer segment? We have remapped people requirements at growth spots; that is number one.

Second, we are investing in alternate channels, including digital channels, and building a vertical around that to supplement and augment the top of the funnel.

Third, our internal mechanism ensures that the direct team, which is a strength at Aavas, scouts the market daily at the right hotspots. This is again driven by technology and data. Something like an FMCG beat plan is being followed very rigorously.

All 3 of these aspects, operating over a period of time, are allowing us to see significant movement in the top of the funnel. As I mentioned, this is just the beginning. We are at the ground floor of what we want to create as a superstructure. These efforts, with unified goals around what success means, are where we are focused daily.

In parallel, we are also looking at not only RO productivity but supervisor productivity, because the supervisor is not only an aggregator of ROs but also a significant population that can go into the market to open up new lead channels.

This, coupled with my meeting every Saturday with 50 non-productive ROs to understand their ground-level problem statements, is giving us very clear and precise insights that are individual-market driven for solutions. No solution is a national solution at Aavas. All solutions are state- or district-oriented solutions because, as you know, in India, every 50 kilometres not only the language and cuisine but also customer behaviour changes.

Rajiv Mehta – YES Securities: In terms of deciding on pricing for incremental originations, PLR is something that ALCO decides or reviews every month. But as far as new disbursements are concerned, has there been any pricing adjustment on the offered side as a mitigation for a potential increase in the cost of funds?

Management: Yes. As I mentioned earlier in the call, including in my opening remarks, increasing lending rates always support yield increments on fresh disbursements.

Today, we are running business rule engines that provide ranges for a transaction based on 3 or 4 facets. It is not a singular combination. It is based on geography, how the branch performs, and whether the product is HL, NHL, or MSME. It also takes into consideration the cost of acquisition based on the sourcing point, because one point can be more costly for me in terms of cost of acquisition than another point.

It is a potent tool in the hands of our direct teams, which can possibly offer a discount and acquire a customer who has a higher actuarial tenor with me. What I am trying to summarize is that it is a scientifically evolved rule engine that operates granularly at every transaction. In parallel, this is reviewed twice a month to ensure that we are in tune with our cost of borrowing.

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Rajiv Mehta – YES Securities: Can you give us some data on a like-for-like basis for home loans? Since this rule engine is constantly evolving and pricing is reviewed at high frequency, what has been the movement in incremental home-loan yields, perhaps on a month-on-month or quarter-on-quarter basis in recent times, so that we understand the refinement that has taken place?

Management: Roughly about 8 to 10 bps. Home loans are quite a competitive segment. With the credit quality that we underwrite, we are conscious that lever number two, which is opening up the credit gates, should not be pressured.

Rajiv Mehta – YES Securities: Understood, sir. Thank you so much, and best of luck.

Management: Thank you.

Operator: Thank you, Rajiv. We will take our next question from Nishchint Chawathe of Kotak. Nishchint, please go ahead with your question.

Nishchint Chawathe – Kotak: Thank you for taking my questions. The first one is on fee income. I believe insurance distribution is somewhere closer to 15-20 bps of your AUM. Given that this is now coming under the scanner, if this revenue shuts down or reduces, do you think you have the leeway to pass it on to the asset side in terms of home-loan rates? Could you encounter any net loss on this?

The second question is on operating expenses. You have held on incredibly well. How long do you think you can hold on, and when do you expect operating expenses to start rising?

Management: Thanks, Nishchint. Let me take the first question first, on insurance.

First of all, I fundamentally believe that insurance is the right product alongside mortgages, more so in the affordable housing space, because mortality is 4x or 5x that of prime lending, and we see that in our portfolio as well. As far as making sure that the right product is sold to the customer at the point of origination, we will continue pressing this pedal, not by force but through education. We are very cognizant of the fact that insurance is sold through solicitation.

Second, at Aavas, we are currently at a level of attachment percentage that is lower than that of our competitors. Hence, there is enough and more leeway for attachment percentages to increase because it is right for the customer.

To give you an estimate, roughly 50% of what one mathematically stands to lose because of the regulation coming into effect on April 1 next year, we are very confident of recovering by ensuring that our attachment percentages come in line with those of our competitors, because we fundamentally believe that the product is the right match for this customer segment.

Second, yes, it does allow some space to look at the right fee mix and yield transmission. However, I want to categorically tell myself as well as my larger team on the call that this is not a fill-in-the-blank exercise. This is an exercise to do what is right. Attachment is right, and we will press the pedal there to ensure that roughly 4% of our PBT today comes from insurance income. Second, we will move the right levers on risk-adjusted fees as well as yield at the transaction level

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to make sure that we cover this up.

On your second question regarding opex, I think the cost-to-income ratio is a very important lever. When we look at and benchmark ourselves, we start at a higher pedestal of upwards of 40%. We have room, and our immediate objective is to start pushing this downwards to less than 40% in the medium term.

All the levers that we can pull through on both the P&L as well as the other side of costs are being closely monitored. I do think there is room. I am not shying away from ensuring that we continuously invest in branch expansion, geographic expansion, and putting people in the right places.

In parallel, the use of data and technology, as we have seen in top-ups growing 50x year-on-year, and productivity increases at the RO and supervisory levels have long runways to continue contributing. Branch profitability and revenue per resource deployed are two task forces operating in parallel across the length and breadth of Aavas.

So, to answer your question, there is no magic solution here, but we believe we are aggressively pursuing the objective of bringing CTI below 40%.

Nishchint Chawathe – Kotak: Understood. Thank you very much, and all the best.

Management: Thank you.

Operator: Thank you, Nishchint. Moving to our next participant, we have Meghna Luthra of InCred Equities. Meghna, please go ahead.

Meghna Luthra – InCred Equities: Thank you for the opportunity. I had a few questions. One was that I believe the headcount is down by around 150 people. Do you plan to reduce your employee costs or the number of employees going forward?

Management: Meghna, we are not reducing our people. We are making sure that every resource deployed is producing appropriately for the organization. As I mentioned earlier, we are right-sizing based on the growth opportunity available, which is based on data. We are also expanding our footprint. So, this is about becoming fitter and better. There is no agenda of reducing the number of people. In fact, we are investing.

Meghna Luthra – InCred Equities: The reduction in headcount would therefore be attributable to repurposing those people, correct?

Management: Repurposing and making sure that the productivity levers are tightly measured, monitored, and managed. If there is deadwood in the system, it is removed after providing the appropriate opportunity.

Meghna Luthra – InCred Equities: Understood. I was also curious about the proportion of top-ups in disbursements. They would be part of home-loan disbursements, correct?

Management: No, they would be tagged as LAP. Roughly about 5% today.

Meghna Luthra – InCred Equities: 5% of total disbursements are top-ups?

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Management: Yes.

Meghna Luthra – InCred Equities: Understood. Lastly, some lenders have flagged stress in lower-ticket loans. Do you see similar stress in lower-ticket loans, despite their being secured?

Management: No, we do not, and we are not very aggressive in the lower-ticket customer segment.

Meghna Luthra – InCred Equities: Understood. One more question on demand or competition: are you seeing any changes between salaried and self-employed customers in any specific geography?

Management: Not really. We have not seen any pressure on demand. Cyclically, based on Q2, Q3, and Q4, we do see that many customers, especially on the self-employed side, begin taking loans in anticipation of the season, while salaried customers typically intend to take loans during the season or in Q4 because they manage their cash flows accordingly. In terms of top-of-the-funnel demand, I do not see any decline in enthusiasm.

Meghna Luthra – InCred Equities: Understood. Thank you.

Operator: Thank you, Meghna. We will take a follow-up question. We will check with Rajiv Mehta again. Rajiv, do you have any follow-up question now? Sorry, Rajiv, we are unable to hear you. Rajiv, would you like to ask another question?

Rajiv Mehta – YES Securities: No, sorry. I have no follow-up questions, if you can hear me.

Operator: All right. Thank you, Rajiv. Shripal, do you have any follow-up question? We can still see your hand raised.

Shripal Doshi – Equirus: No, no. Thank you. Thank you so much.

Operator: Thank you, Shripal. We will take one question now. We have Gaurav Purohit of Systematix. Gaurav, please go ahead with your question.

Gaurav Purohit – Systematix: Good evening, sir. I have two questions. While you are taking all the measures to improve productivity among front-end employees, what changes have you made to the incentive policy for them? This question is arising because attrition in the frontline team has been quite high over the last few years.

Gaurav Purohit – Systematix: While some of them would obviously be underperforming, how do you plan to incentivize better performers? Secondly, is there any ESOP policy or ESOP plan that has been put in place by the {? CVC ?} team? These are the two questions.

Management: On the first question, yes, we have revamped our incentive policies. The primary ethos of the incentive policies is twofold.

First, it is to encourage people who have generally been fence-sitters to try to move their performance buckets upward. When RO productivity is 1, 1.1, or 1.2 and is progressively moving to 1.5, we are talking about a large majority of ROs achieving 1.5, but there are also ROs who move to 2.5 and 3.5. Therefore, the incentive structure is becoming more attractive and is pushing people to reach higher slabs, with the difference between the slabs being quite lucrative.

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Second, it is also aligned with encouraging people to conduct this business directly within their catchment area of a 40-50 kilometre circumference around the branch, because direct business helps us in many ways. It stays with us longer and is generally seen as involving less trouble for us.

Third, we do have a relook window established for cases to be reviewed by the credit team. This ensures that ROs have a second chance to obtain more documentation and conduct one more personal discussion, thereby moving the credit-assessment lever without diluting credit standards in any manner.

Between all of these 3 levers, productivity is today showing the right upward trend.

Regarding incentives, if I can use the words "carrot and stick," we are currently balanced on the side of carrots being appropriate for the right behaviour, with sufficient time and support being given to the front-end team to make them productive.

Gaurav Purohit – Systematix: At what level does an employee actually start earning incentives? For instance, if they achieve 75% of their monthly target, do they become eligible for incentives, or do they have to cross 100%?

Management: On the first disbursement.

Gaurav Purohit – Systematix: Okay.

Management: In order to encourage them and ensure that they have a clear line of sight towards doing at least one file a month, the incentive structure starts from the first disbursement. Obviously, it has gradations and slabs as we move upwards.

Gaurav Purohit – Systematix: Understood.

Management: Secondly, regarding your second question, yes, there is a long-term incentive plan already rolled out in the middle of Q2, and there is an ESOP currently running for about 200 employees across Aavas.

So, we are well positioned in terms of reward and recognition mechanisms, depending on the level at which the person is with us, covering the immediate term, medium term, and long term.

Gaurav Purohit – Systematix: Sir, one more question, if I may squeeze it in?

Management: Yes, please.

Gaurav Purohit – Systematix: Is the incentive driven by the number of files or by the disbursement value? A sales executive could get a higher-ticket file, so while the number of files would be one, the disbursement could be of a higher value.

Management: [pause] The structure starts with the number of files. Value is controlled by us from a credit-assessment perspective. When you mention that someone could start pushing files worth 50 lakhs, we have gates to curtail that on the incentive platform to a limited value. However, it is a healthy mix of both. Weightages are given to both.

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Gaurav Purohit – Systematix: Understood, sir. Regarding the weekend workshops that you are conducting with the front-line team, are you seeing any improvement among the sample you were discussing? Are they showing any month-on-month improvement in output?

Management: Yes. Both the number of active ROs and the number of active supervisors are on an increasing trend month-on-month.

Gaurav Purohit – Systematix: Understood, sir. These were my questions. Thank you for answering them patiently.

Management: Thank you.

Operator: Thank you, Gaurav. Due to paucity of time, we will take this as the last question for today. I will now hand the call back to the management team for closing remarks. Over to you, sir.

Management: Thank you. Ladies and gentlemen, as we conclude today's earnings call, I would like to sincerely thank all of you for your time, continued engagement, and support. The progress we have made reflects the dedication of our team, the trust of our customers, and the confidence of our shareholders and lending partners.

I want to express our heartfelt gratitude to NHB, our board, and all our stakeholders for their continued support and guidance, which has helped us shape a stronger, better, and more transparent Aavas.

As we move ahead on our growth path, we will ensure that Aavas emerges as the gold standard in governance and in its customer-first approach.

Should you have any further questions or require additional information, please feel free to reach out to Rakesh Shinde, our Head of Investor Relations.

Thank you once again for your continued trust and partnership. We remain committed to executing with discipline and delivering consistent long-term value, and we look forward to sharing our progress with you in the quarters ahead.

We wish you a joyous Diwali and a prosperous year {? 2081 ?} in advance. Thank you, and have a pleasant evening.

Operator: Thank you. Ladies and gentlemen, on behalf of Aavas Financiers Limited, that concludes today's conference call. Thank you all for joining us. You can now click on the leave icon to exit the meeting. Thank you all for your participation.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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