



**“Aptus Value Housing Finance India Limited
Q3 FY 2023 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Aptus Value Housing Finance India Limited Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mona Khetan. Thank you, and over to you.

Mona Khetan Thank you, Eileen. Good evening, , and welcome to the earnings conference call of Aptus Value Housing Finance India Limited to discuss its Q3 FY 2023 performance. We have with us the senior management from Aptus to share the industry and business updates. I would now like to hand over to Mr. Anandan for his opening comments, post which we can open the floor for Q&A. Thank you, and over to you, sir.

M. Anandan: Thank you, Mona. Ladies and Gentlemen, good afternoon to all of you. I am Anandan, CMD of the company. I welcome you all to this conference call to discuss the financial performance for the quarter and nine months ended December 2022. I have with me Mr. P. Balaji, ED and CFO, Finance; and Mr. CT Manoharan, our Executive Vice President, Business Development. The results and the investor presentations are already available on the stock exchange as well as on our website. I hope everyone had a chance to look at it.

Aptus, as you know, had a healthy 9 months, which is reflected in the strong results, business outcomes. Disbursements growth has picked up momentum, and the collections are back to pre-COVID level. Total disbursements for the 9 months stood at INR 1,734 crores as compared to INR 1,120 crores in the previous year, up by 55%.

Assets under management as on December 2022, was INR 6,307 crores, up by about 31%. With focused collection efforts, our collection efficiency have stabilized at around 100%, resulting in a reduction in the soft bucked overdue. 30-plus DPD improved to about 6.27% from earlier 6.5% and prior to that 9.9%. So coupled with the improvement, the GNPA has also marginally improved to 1.44% from 1.47% as on September 2022.

During this quarter, we have increased our interest rate to borrowers by about 50 basis points for our home loan customers with effect from 1 November 2022 to take into consideration the increase in the interest rate that happened in the immediate past. Full effect of this increase on the income will get reflected in Q4 2023.

Spreads for the year at 14.45%, represent an improvement of 102 basis points as compared to 9 months of the previous year. We have registered a consistent ROA of about 8.5% and our ROE has improved to about 16.02%, up by about 190 basis points. This ROEs as you would have noticed is one of the best in the industry. As of December 2022, our liquidity position is comfortable at about INR 1,060 crores, including undrawn sanction of about INR 400 crores



from NHB. Further, we had also declared, as you are aware, a dividend of INR 2 per share in the month of November '22.

Our net worth now stands at over INR 3,200 crores, which indicates robust capital adequacy in order to support future growth.

Key highlights of 9 months 2023 performance being:

- NII was at about INR 622 crores, up by 39% year-on-year;
- spread at 14.45%, up by 102 basis points YoY;
- Net profit at INR 365 crores, 41% higher Y-o-Y and;
- AUM about INR 6,307 crores, a growth of 31% year-on-year.
- Disbursements over 9M, as mentioned earlier, has grown by about 55%
- Our NPA stands at about 1.44% as on December 2022.
- Capital adequacy is very comfortable at about 79% and ROA at 8.5% and ROE is attractive at about 16.02%.

I would now hand over the line to Mr. P Balaji, ED and CFO, to present various other business parameters. Thank you.

P Balaji:

Good afternoon, friends. As of 31 December 2022, total live customers have crossed 1 lakh, it is a growth of 29% year-on-year. Total number of branches were at 215. We have added 9 branches in the first 9 months, 4 more branches, including 1 more in Odisha has got opened in the month of January 2023. Employee count was at 2,349.

Major performance highlights:

- AUM grew by 31% YoY to INR 6,307 crores.
- Disbursement increased by 55% year-on-year to INR 1,734 crores.
- Spread was at 14.45%, increased by 1.02% year-on-year.
- opex to assets were at 2.75%.
- PAT was at INR 368 crores at 41% growth year-on-year.
- ROA and ROE was at 8.53% and 16.02%, respectively.

With regard to the asset quality, with focused collection efforts, 30-plus DPD improved to 6.27% in December 2022, vs 6.5% in September 2022 and 9.91% in March 2022. Coupled with this, there is also a marginal improvement in our NPA from 1.47% in September to 1.44%. Net NPA is at 1.08%. Provision coverage ratio has been increased to 1.06% as on 31 December 2022 from 0.8% in March 2022. As of December, we are carrying a total provision of INR 67 crores and this -- when compared to as a percentage of NPA gives a provision coverage of 73%. Outstanding restructured books were at a nominal 0.8% and the behavior of this book is on par with our normal book.



With regard to borrowings, we have well-diversified borrowing. Of the total borrowings, 62% are from banks, 23% from NHB, 11% from DFIs like IFC and large financial institutions and the balance in the form of securitization. We enjoy a rating of AA minus both from ICRA and CARE. We have sufficient on-balance sheet liquidity of INR 1,064 crores, including undrawn section of INR 400 crores from NHB. As on 31 December 2022, our net worth was over INR 3,200 crores.

Now, with these remarks, I open the floor to the question-and-answer session. Thank you.

Moderator:

Our first question is from Amit Bhatt of MIT Engineers.

Amit Bhatt:

Sir, disbursement increased by 55 percentage and there is a 41% rise in profit after tax is really very good growth. The question is, in the coming year, what will be the reasonable expectation of this disbursement growth? And what is the strategy to achieve that growth of more than 35 percentage to 40 percentage in disbursement?

M. Anandan:

As you are aware, we've been having a consistent growth in the last 4 to 5 years. And we expect the growth to continue in the future also. We are working with a growth rate of around 25% to 30% in our loan book going forward. Given the large size of the market, which is somewhat underserved, unserved, underpenetrated, we do see there is an opportunity for us to maintain this growth rate for long periods to come.

As far as the strategy and the action plan to achieve this growth is that on the geography side, we have got a very good leadership position in all the Southern states. So we will look for more branches in our existing states. And we will also look at one of the -- adjacent states going forward. And within the existing branches, we will look for higher level of productivity. We will increase the productivity of the existing staff. We will add more staff at the field level to get the additional business.

So in other words, as a strategy we will continue to grow both in the home loan as well as in our SME business. And we will continue to be a very strong player in Southern India as we keep expanding into the other parts.

And we believe in a very strong productivity. So we will look for our productivity from the existing staff. We will add more staff. We will add more branches, particularly of the 4 southern states, our branch network has been very good in Tamil Nadu, and Andhra, and it is somewhat less in Telangana and Karnataka. So going forward, we need to add branches in some of these places.

And our average ticket size, which is around about Rs. 8 lakhs. Now there is a scope to really look at up to Rs. 9 lakhs, Rs. 10 lakhs. It won't substantially go up. We are quite happy to operate within this category of Rs.6 lakhs to Rs.15 lakhs broadly. But there is a scope in terms of our average ticket size also to move up.

Even if it moves up to Rs.9 lakhs from Rs.8 lakhs, it is about 10% improvement in disbursements. So in other words, going forward, we are really looking at all these key elements, keeping our strength in terms of productivity, cost of operations, including lower funding costs. Same time, we would really go for growth which we are able to obtain in the recent past. And that will also help us to further increase our ROE going forward.

Moderator:

The next question is from Ashok Kumar, an individual investor.

Ashok Kumar:

Sir, first of all, congratulations on good set of numbers. I just need one clarification regarding the current quarter numbers. On Y-o-Y basis, the numbers looks pretty strong. But on a sequential basis, we don't see the strong momentum in terms of sequential comparison with the previous quarters. Can you please throw some light, is there any slowdown in the business momentum in terms of the growth? And a little bit color on the guidance for the next year as well.

M. Anandan;

Thank you. Actually, as far as the market is concerned, demand from the customer is concerned, there is absolutely no issue. The demand continues to be very strong for the home loan segments that we service. So it is not a question of lack of demand or lower demand or increased competition, at least at this point in time, is not the issue.

The issue is that in the second Quarter, we had a 15% growth in disbursement over the Q1. So Q2 was 15% higher, which has been annualized to almost 60%. So in other words, our Q2 was a very strong base and foundation. And on top of that, , we are able to grow in the 4 states, Andhra, Telangana and Karnataka in Q3.

But in the state of Tamil Nadu, because of certain staff changes, at the cluster manager levels and some of branch levels, there was slight dislocation in Tamil Nadu, which has been corrected. And so it's an internal staff-related issue that we have acted upon. And to that extent, there was slightly lower growth in Tamil Nadu alone, not in the other states.

And going forward, in fact, as you must have also observed, those disbursements are really static compared to Q2. But as far as the loan book is concerned, you must have observed about 5% or 6%, which annualized, it comes to about around 25% growth rate. So in other words, our loan book, income and PAT has grown.. But then on the disbursement, because of a particular issue that we have resolved and that was also in a particular market only. But otherwise, we don't really see any hindrance for our growth going forward.

P. Balaji:

Even for Q4, I think we are looking at a better growth.

M. Anandan;

Exactly, our projections for Q4 will be better and we'll get back our growth and maybe more than our growth that we have achieved so far,

Ashok Kumar:

Yes. That helps. Just a follow-up on that. So since we are saying that the internal staff issue which are there at some branches in Tamil Nadu, so do we see this is going to be or going to cover up in the Q4, given the fact that the second half of the -- every financial year, we show

pretty strong performance? That is one. And other portion of my question was on guidance on the next year growth? I mean, is the growth momentum going to suspend for the next couple of years in the long term prospect?

M. Anandan: No, we are planning and we are confident of pursuing a growth rate of around 25%, 30% in the loan book going forward in the next 3 to 5 years because we believe the market in affordable housing finance is large and along with the share put together, the penetration is low.

So to that extent, there's a long runway to go. Now, obviously, there will be some internal issues in terms of branches, in terms of staff and productivity. But that we are very confident of facing and resolving as we have done in the past. And even in the current year, that's why we have grown -- in the 9 months, we have grown by 50% disbursements higher than the previous year, and our loan book has grown by about 31% higher than the previous year.

Ashok Kumar : That helps. Just a follow-up which I have asked before. So in the Q4, do we expect the growth, what will happen in the future because of the internal issue, is it going to cover up? Or do you see it'll happen...

M. Anandan: Our Q4 will be good. And we have already started getting the normal growth starting with January. So we don't really see any issue.

P. Balaji The internal problem that happened in the Q3 has got sorted out fully. So that's what I just -- we just wanted to highlight that. So the growth should come back..

Moderator: The next question is from Ankit Bhansoli of AB Investment.

Ankit Bhansoli: Sir, my question is, like you said, you give mostly to home loans. Sir, on what basis you calculate GNPA's and net NPA's?

P. Balaji: GNPA is calculated as per the RBI norms which has been suggested for the HFCs, and which is the daily DPD basis that has been implemented right from last December onwards for us. We didn't wait till the grace time that has been given by the RBI. And in fact, from December 2021 onwards, we have implemented this daily DPD and daily stamping system. So it is based on the RBI norms, the GNPA is getting calculated.

Ankit Bhansoli: Sir, according to your balance sheet, these net NPA's and GNPA's are very fluctuating. Like in this quarter, it has come down from previous quarter 1.47% to 1.44%, only 0.03% marginally. And like I have seen in like in 31 March 2022, it was 1.19%. From there, it has been increased -- like it's very fluctuating. It's not a consistent graph. So what is the reason, sir? Are the home loans -- is there any problem in that?

P. Balaji: It's actually not fluctuating. As of 31 March, it was around 1.19%. The full effect of this daily DPD campaign came into effect in December, but the RBI circular impact was there. And because of that, in June, it became 1.75%. And after that, it has been only reduction. So from



1.75% in June, in September, it has come down to 1.47%. And in December, it has become 1.44%. And we are confident of bringing it down further.

M. Anandan:

Actually, just to add to what Mr. Balaji said, our -- 30-days plus overdues, was 6.27% as on December 2022, which was 6.5% in September 2022. And it was 9.9% in June 2022, 12.98% in March 2022. So in other words, it has been -- after the COVID impact, our collections in the last 6 months, it's almost a little over 100%, resulting in, there's a continuous and constant improvement in our outstanding positions. As far as all the dues are concerned, there is significant reduction happening in place. It's not fluctuation. Actually, it's a one-way reduction that's been happening.

Now when it comes to the NPA that you had mentioned, because the new RBI guidelines came in effective December, the new RBI guidelines resulted in NPA going up to, almost all financial players, anything between 0.5% to 1%, almost every one. Now that blip has happened. And after that, again, it started really coming down. For us also, it has really started coming down.

And our NPA today at 1.44%, first, it has not really gone up over September or June. And second thing is that, we are also trying to work on that and further reduce it going forward. And irrespective of that, we've also provided adequately to take care of the NPA.

Ankit Bhansoli:

Sir, with the kind of all the growth story of India, so what next leg of growth are you seeing in the company from which sector? Is it home loan main growth driver for the company?

M. Anandan:

Yes. Home loan will continue to be our main focus area. But in addition to that, we are also into financing for the small businesses, SME business financing. We currently have a loan book of around INR 700 crores in the SME business and we have a good growth opportunity there also. And the customer profile, customer location is similar- this loan is also fully secured one, based on residential property as a security. So in other words, our 2 engines of growth will be, one is a home loan and second is the SME business loans. Both will grow. But at this point in time, we don't have any plans to diversify into any other retail products secured or unsecured.

Moderator:

Our next question is from Bhuvnesh Garg of Investec Capital.

Bhuvnesh Garg:

Three questions from my side. Firstly, what was our BT out rate for the quarter and staff attrition rate for 9 months?

P. Balaji:

Let me first talk about preclosures and then I'll talk about the BT out. For the 9 months, the preclosure rates were around 7.9%. Of that, almost 5% to 5.5% is on account of own source that got preclosed. That means the customer had money, he didn't borrow from any other bank or any lending institutions to repay our loan. So that is almost 5% to 5.5%. So the balance 2% is the BT out. So which has gone to other financing companies.

Bhuvnesh Garg:

Okay. So that is on 9 months YTD basis.



P. Balaji: Yes, very minimal..

Bhuvnesh Garg: Okay. And staff attrition?

M. Anandan: As far as the staff attrition is concerned, our staff of about 2,400, what we call the Band 1 at the senior management level, the attrition is not more than 2-3%, near about nil, And in Band 2, where we've got all the managers, middle managers, senior managers, –our attrition rate, is low at around 4% to 5% only. Now it is really the Band 3, what we call our field officers, which is really comprising of the sales officers, collection officers, legal, technical team at the branch level, our attrition is slightly higher.

Though it compares well with the competition, still, the attrition is around 18% to 20%. That is what we are working to reduce further. Of course, it compares reasonably well with our competitors, and we are working towards reducing that.

Bhuvnesh Garg: Right. And sir, currently, what percentage of our book is at fixed rate? And what is the structure of that fixed rate? Is it fixed rate for the whole life of a loan or for some period of the time?

M. Anandan: Actually, our fixed loans are almost about 78% and our variable rates are the balance 22%. And these fixed rates are -- it is fixed for the entire tenor of the agreement, right from the day the agreement commences. We have not really gone for, first 2 years it will be fixed, after that variable, that kind of issues.

So it is really fixed because, given the nature of our customers, which are largely rural base, typically district headquarters or taluk headquarters, and given our loan size which is around Rs. 8 lakhs to Rs. 9 lakhs (in fact, our outstanding loans per customer today is only about Rs. 6 lakhs), and given our EMI, which is about Rs.12,000 (average about Rs.12,250 to Rs. 12,500) - these customers, they find it complex to understand the variation in the interest rate situation. And on the other side, we are willing to pay for the risk associated with the interest rate. For that, we are willing to pay but the basic management of ALM and liquidity is something which we are taking care of. And we are pricing our products also in line with that.

Moderator: Our next question is a follow-up from Amit Bhatt of MIT Engineers.

Amit Bhatt: Sir, management regularly interacting with lots of institutional investors, what is the concern that with such a clear growth, there is no incremental demand from the institutional investors? And even the price is below the IPO price, but there is no demand. So price is the God. So what is that we don't know, and they know, so that's why they are not investing in our company?

P. Balaji: See, actually, when we speak to the analysts and the institutional investors, I mean both Mr. Anandan and myself meet them, but they are not expressing any concerns over investing in stock or the business model, basically. But I mean, beyond that, I don't think I can actually answer that.



- M. Anandan:** Just to add -- it's a tricky question, but nevertheless, I'll try to answer. Basically, we are really focusing on the performance of the company. And our company has been performing well and consistently. And so either in terms of growth, in terms of quality of our sales, in terms of profitability, in terms of any parameter, we continuously add value and continues to add value to all stakeholders, including shareholders. So that's one of the reasons why we have declared our dividend also. We definitely want to increase overall shareholder value. And that we believe we can achieve largely through focused performance and good performance on a continuous basis on a long-time basis, that we are doing it.
- But then as far as the share prices are concerned, you know better than us that there are several headwinds and both macro and micro and caused by different developments and for different sectors and things like that. So we believe, even in this situation, apart from performance, we have now taken the other obligation task of continuously interacting and sharing our performance with the analysts and investors more and more and then leave the market place basically to them, really.
- Moderator:** The next question is from Mona Khetan.
- Mona Khetan** Sir, a few clarifications from my side. So firstly, where would be the incremental cost of funds and incremental yields for us?
- P. Balaji:** Incremental yields, it will be at base rate. --If we are increasing the interest rates, it can go up by 0.5% or so. And if there is a need, we'll do that.
- P. Balaji:** So as regards the cost of funds is concerned, as we guided in the last quarter, some of the variable rate loans are getting repriced in Q3 and Q4. this will be partly adjusted when we draw NHB borrowings. But we didn't draw much of NHB borrowings in the third quarter because we have adequate liquidity. And because of that, if we draw the funds, it will only result in negative carry. So we will be drawing that balance INR 400 crores in this quarter, which will aid in balancing of the interest cost and then take it forward.
- M. Anandan:** Basically, our incremental interest cost now comes around 7.8% to 7.9% is coming incremental interest costs. But as far as our yield is concerned, our yield is around 15% on home loans and about 21% on the business loans and quasi home loans around 17.5%. Our weighted average yield is over 17.5%. So and that's where we are having good interest spread, good NIM and good ROE.
- Mona Khetan** Sure. So when you say 50 bps rise in yields that you've done, this is across the 3 products you have, HL, quasi HL as well as the SBL loans.
- P. Balaji:** No, we did it only for the housing loan customers.
- Mona Khetan:** And secondly, so you had guided for Stage 3 assets to decline to 1.3% by March. And so that target is still workable?



- P. Balaji:** Yes, We are at 1.44%. We just have to reduce by 0.14%. We are on the job to get that done.
- Mona Khetan:** Sure. And this quarter, the tax rates were a little higher at 25%. So how do we read that?
- P. Balaji:** There is a benefit which is available to us under 80JJAA. See, that is linked to the actuarial valuation. So that we do every half year. So that benefit under 80JJAA is taken every half year. So because of that, there is an increase in the tax rate. But on the overall basis, I think it is still at 22%-or-so.
- Mona Khetan:** And where would the 1-plus DPD stand as on December end?
- M. Anandan:** December was at 8%. Last time, it was at 8.75%, it has reduced to 8%.
- Moderator:** The next question is the follow-up from Ankit Bhansoli of AB Investments.
- Ankit Bhansoli:** Sir, overall company's main principle of delivering growth, delivering value to shareholders, what are your final comments on that?
- M. Anandan:** Right from the inception of the company, on a consistent basis, last 12 years, we strongly believe in value creation. And apart from our obligation, responsibility all the stakeholders, customers, at the same time, we believe in creating good value so that every stakeholder can get benefit out of it. And that's how we have grown the company as a very profitable company and given the risk that we undertake in this business, we have priced our products reasonably well.
- We have been leveraging pricing power that we have in this particular market segment. And our cost of funds are managed and our productivity is one of the best, which means our opex is one of the lowest. And so that's why we've been consistently delivering our NIM, our ROA or in fact, even ROE, we have now reached from 14.5% last year to about 16%. And this improvement in ROE, if you look at it, there will be very, very few companies, which should be delivering an ROE at 16%. We have not only delivered that, we're confident of improving it also going forward, So, in other words, we would want the investors in this company to see this company as a value-creating company.
- Ankit Bhansoli:** Sir, so we can wish, as a shareholder, to get the best from the company.
- P. Balaji:** That's what we are striving for. That's our objective.
- M. Anandan:** Yes. That's why we exist actually.
- Ankit Bhansoli:** But sir, we are a little concerned that share buy is diminishing.
- M. Anandan:** But from the company point of view, we are wanting to perform the best, and we want to maintain good growth rates, good margins and good profitability. And I'm sure the market also will recognize it in time.



- Moderator:** The next question is from Vikram Subramanian of Avendus Spark Institutional Equities.
- Vikram Subramanian:** Congrats on the good set of numbers. I just have 1 question that's related to dividends. So we have started giving dividends from this quarter.
- Vikram Subramanian:** Yes. So my question is regarding dividends. So we are a high-growth company, but at the same time, we are sitting on excess capital. So I understand the rationale behind dividends, but is there a lower mark or threshold of capital adequacy ratio at which we might stop dividends in the future? And what is the dividend policy? Or basically, what kind of payout can we expect sustainably in the near to medium term?
- M. Anandan:** See, the question is that if you really look at our margins and our PAT and earnings per share and things like that, we have got enough leeway to sustain the dividend -- that rate that we have declared currently. So in other words, on Rs. 500 crores of estimated profit this year, our dividend at best will be about a certain percentage and leaving enough money for the business growth. And so now in the future business -- one thing is very, very clear is that there may not be any need at all for this company to raise capital in future, given the fact that the base leverage is very low. our borrowing rate is low. So that is one.
- Second thing is our profitability in terms of ROA is one of the highest, it's almost twice of the next best company in affordable home finance segment itself. So this provides us a flexibility for the Board to decide a reasonable dividend payout ratio, which is sustainable into the future as well. So I won't be able to exactly give it to you because the dividend payout percentage is something to be decided by the Board, as you know. But it's clear that the dividend that we have declared will be sustained into the future as well.
- Moderator:** The next question is from Nidhesh Jain of Investec.
- Nidhesh Jain:** What is the sustainable debt-to-equity ratio that we can sustain in this business post which we will require capital?
- P. Balaji:** We are targeting a leverage of around 4x to 5x. That is the plan we have. And rating agencies also will be comfortable with that kind of a leverage.
- M. Anandan:** The other aspect is that we also believe in building up this business, making a reasonable profit and profitability, either in terms of ROA or ROE, based on the core business part of it, rather than on the leverage-related. So we don't want to be sort of leveraging it 10x to 11x that kind of thing.
- Then you know, 10x leverage giving ROE of 2% it's not really connected with the core business. It is connected with the financial leverage. We don't believe in that philosophy. Second is really, given the fact that we are a standalone company, not linked to any industrial group or large NBFC, we also don't want to take an aggressive position as far as the leverage is concerned. That's why we will be happy without compromising on our ROA and ROE through



productivity and cost and better pricing, recognizing the risk, we'll be somewhat conservative in our leverage and it will be around 4 to 5x.

Nidhesh Jain: And this 4 to 5x is asset-to-equity or debt-to-equity leverage?

M. Anandan: I should tell you, there may not be much difference between our equity plus debt and the assets because we don't carry any other assets. In fact, if we look at our balance sheet, if you look at other than the core loan book and from treasury to take care of the disbursements of the next 1 quarter, we will only have about Rs. 4 crores to Rs. 5 crores in the fixed asset. So we don't really carry any non financial assets or group-related lending and things like that.

Nidhesh Jain: Sure, sir. can you elaborate about the event which has happened in Tamil Nadu where you had to do staff changes? So was there any fraud or something? What has led to that?

M. Anandan: There was some attrition in a couple of locations at the level of cluster managers and each cluster manager, there is about 5, 6 branches coming under them. So that was really sort of -- pulled the run rate slightly behind. That's about it. Now we have identified the cluster managers actually from within, and they are in place now, and we have started moving, and we started seeing the results from January onwards,. So that -- it's a very temporary situation connected with staff.

And the other aspect is that we have also done very consciously, we have strengthened the second line in our sales and marketing position. We have Mr. Manoharan is sitting with me here, he's heading the sales and marketing function as the business development head. And under him we have the area manager, the cluster manager and the branch manager then the sales staff.

We have also now brought in a state head for the four states. Our plan is to bring in four state heads. And 2 states, heads are already in place. Tamil Nadu, now we have got a state head. And Karnataka -- and Andhra we've got a state head. because Tamil Nadu and Andhra accounts almost 80% of our business today and about 20% in Telangana and Karnataka, for that one state head we will go for. In fact, candidate has been identified, and he will be in place in the next few weeks.

So in other words, we have strengthened the organization and not really so much for this year. This year, in any case, we are growing at a good rate, like 50% disbursements. But then strengthening in the organization has been done mainly keeping in mind the future growth.

Nidhesh Jain: And then lastly, what percentage of our business will be coming from Tier 1 cities?

M. Anandan: Maximum about 8% to 10%.

Moderator: The next question is from Chintan Shah of ICICI Securities.



Chintan Shah:

Sir, I have a question on the opex to assets. So what would be our strategy going ahead on this opex to assets? Where are we looking at this number? It has been like around 2.75% for 9 months FY '23 versus 2.53% for FY '22. So where are the incremental expenses going? Any thoughts on that? So is it on technology or brand expansion or for future growth, we are building some capabilities? Any thoughts on that would be helpful.

M. Anandan:

You're right. Actually, our opex as a percentage of the asset is only 2.75% like put by you. And as you must have observed, there is no increase in that percentage compared to Q2 and Q3. But compared to Q1, you're absolutely correct. There was an increase. And going forward, we fundamentally believe that we must be one of the most cost-efficient organization, productivity-oriented organization.

Our opex will be one of the best in the industry, possibly the lowest in the industry. That philosophy we will abide by. So all the time, the assets, cost of operations will be on our radar to ensure that we continue to have the opex first advantage. But whatever little increase has happened also, it's a very conscious decision, spent -- or being spent to strengthen the organization and particularly, to bring in quality people at the second level, in the Tier 2 senior management level, we have done that in sales and marketing, credit, collection, finance, compliance and audit as well.

So this is a conscious decision to strengthen the organization to manage the next level going forward. There we had consciously gone for certain spending to hire talent that is required for this business. And apart from that, you are right, we normally add about 20 to 25 branches a year. And the benefit of it will come in future. You are absolutely right in terms of the technology where we are very consciously investing.

Technology which enables us to do better onboarding, better sourcing, underwriting, collections, legal, technical, every aspects of our business, we would want to invest on the day-to-day IT-related expenses. So these are the areas. Otherwise, we don't have anything. Of course, the other aspect is a very conscious decision to strengthen the provisioning norm. Also, we have taken it because it's a prudent measure in terms of accounting purpose,

P. Balaji:

And also, Chintan, for FY 22, it was only 10 months because COVID was really 2 months. So the cost was also less.

Chintan Shah:

Okay. Sir, just one more thing. On the asset provision, as you mentioned, so we have very well placed -- taken the total provision coverage on total assets to 1.06 percentage from 0.41 percentage in March 2021. And despite that, we have been reporting quite healthy ROA. So that is quite commendable. So you're now -- I think we had a target of close to 1 percentage, so now we are almost at 1.06 percentage. So now we would be stabilizing this at current levels? Or would we be strengthening it further from here on?

P. Balaji:

Currently, it is at around 1.06%. At the best, we can strengthen it up to, say, 1.1%. Broadly, it will be at that level. It will not be more than that.



- Chintan Shah:** Okay. So now it is basically largely done, with the incremental provisioning, increasing the coverage.
- P. Balaji:** Correct.
- Chintan Shah:** Sure, sir. I am coming back to the opex part.—. So opex would largely remain in this range only, 2.7%, 2.8%. So the quality staff which we had to hire, that is almost also now we are done with it, right?
- P. Balaji:** Yes.
- Moderator:** The last question is from Praveen D'souza who's an Individual Investor.
- Praveen D'souza:** Most of my questions have been answered. But just one question from my side. The provisions upon average loan book, this number used to be very low in earlier years, FY 19, FY 20, FY 21. And then obviously, for understandable reasons, it moved up. How do you see this number in a normalized environment? And how do you see that? Do you see it going back to the levels which it used to be FY 19, FY 20?
- M. Anandan:** No. Basically, as you're aware, the provision itself was caused by effect of the COVID that's happened in 2019 and 2020 or FY 20 and FY 21. And then the problems also started and we are now almost fully got out of it. And going forward, actually there are a couple of things. One is that there is an accounting policy change itself from the earlier accounting system to the present accounting system, where we need to provide based on the expected credit loss.
- Not only the providing for the expected credit loss, we have taken a decision to provide more than that, more than the RBI requirement as we thought it'd be prudent to really have around little over 1% ECL provisions to take care of the quality of our sales going forward. Also, we have also taken a policy decision that -- first of all, our NPA -- in fact, not only NPA, we are looking very closely to control 60 days to 90 days also. For all practical purposes internally, we are looking at 60 days to 90 days as an NPA.
- In fact, today, our 60 days to 90 days is only about 0.6%, 0.7%, 0.8%, that kind of thing. So in other words, not only 90-plus days, but even 60-plus days we are monitoring it very closely, and we want to collect it, and we want to maintain that at that level. And also, the other policy we've also taken -- put in place is that, from the NPA -- any loan which is not recovered beyond 24 months, we provide 100%, either write off or provide 100%.
- And anything between 1 year to 2 year we'll provide 50%. So in other words, we have really gone for an aggressive accounting policy, so that always our accounting is really on a conservative basis. Of course, actual recovery action will follow when they recover the money in because they're all secured loans, they are not unsecured loans. Based on security, when we recover the money, we'll account it.



- Praveen D'souza:** Just directionally, do you see this number remaining at this level going forward with all these changes? Or do you see this trending down as we advance..
- M. Anandan:** Broadly, we will be having a provision of around about some percent, yes, as Balaji said, 1.1% not beyond that. Because basically, going forward, we are not seeing our NPA going up, we are seeing our NPA coming down.
- P. Balaji:** We might not reverse the provisions .
- Moderator:** Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference back to Mona Khetan for any closing remarks.
- Mona Khetan:** Thank you, everyone, for joining us today. We thank the management for this opportunity to host the call. Thank you, sir. And Mr. Anandan, over to you, if you have any closing remarks. Thank you.
- M. Anandan:** Thank you., Mona and Eileen for joining us today and to everyone for joining us today. And I would like to pay sincere gratitude to all the analysts, investors, friends who have taken the time out of a very busy schedule to listen to us today. Please feel free to connect with us. In case you have any further queries, we would be happy to get back to you. Thank you very much.
- P. Balaji:** Thank you all.
- Moderator:** On behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.