"Aptus Value Housing Finance India Limited Q2 FY2023 Earnings Conference Call"

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Analyst : Ms. Mona Khetan – Dolat Capital

Management : Mr. M. Ananadan, Chairman and Managing Director – Aptus Value Housing Finance India Limited.

Mr. P. Balaji, Executive Director & Chief Financial Officer – Aptus Value Housing Finance India Limited.

Mr. C. T. Manoharan, Executive Vice President - Business Development - Aptus Value Housing Finance India Limited

Moderator: Good day ladies and gentlemen and welcome to the Q2 FY2023 earnings conference call of Aptus Value Housing Finance India Limited 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mona Khetan from Dolat Capital. Thank you and over to you Madam!

Mona Khetan: Thanks Michelle. Good evening everyone and welcome to the earnings call of Aptus Value Housing Finance India Limited to discuss its Q2 FY2023 performance. We have with us the senior management from Aptus to share industry and business updates. I would now like to hand over the call to Mr. Anandan for his opening remarks 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 ended and half year ended FY2023. I have with me Mr. P. Balaji, ED and CFO and Mr. C. T. Manoharan, Executive Vice President, Business Development. The results and the investor presentations are available on the stock exchanges as well as on our website. I hope everyone had a chance to look at it.

Aptus as you know had a healthy first half year which is reflected in our strong financial results. Disbursements growth has picked up momentum and collections are back to pre COVID levels. With focused collection efforts, the 30 plus DPD sharply improved to about 6.32% from around 12.98% in Dec 2021 and then 9.9% in March 2022. Now it is at 6.32%. In fact, we were able to achieve even sooner than what we have expected. Coupled with this there is a good improvement in our NPA which has improved to 1.47% as against 1.75% as on June 30, 2022. Total disbursements for the half year stood at Rs.1129 Crores as against Rs.668 Crores in the first half FY2022, up by about 69%. AUM as on September 30, 2022 is at Rs.5932 Crores, which represents a healthy growth of 33% Y-o-Y. NIM for the year is very healthy at about 14.32% representing an improvement of 129 basis points as compared to previous year. We have registered an ROA of about 8.71% which is one of the best in the industry and an ROE of 15.83%. I would like to reiterate the fact that we have enough balance sheet liquidity. Currently we are carrying about Rs.1000 Crores of cash and cash equivalent in deposits. In fact, this Rs.1000 Crores does not include sanction of Rs.500 Crores from National Housing Bank. Our net worth stands at about Rs.3175 Crores, which indicates robust capital adequacy in order to support future growth. Key highlights for the half year FY23 performance being;

- NII was about Rs.405 Crores up by 45%
- NIM at 14.32, up by 129 basis points
- Net profit about Rs.242 Crores, up by about 52%
- AUM is up by about 33% at Rs.5932 Crores.
- Disbursements increased by 69% to Rs.1129 Crores,
- GNPA is about 1.47%.
- Capital adequacy is about 80%
- ROA at 8.71%.
- ROE is at 15.83%.

I would now hand over the line to Mr. P. Balaji our CFO to discuss various business parameters. Thank you.

P. Balaji: Thank you Sir. Good afternoon all of you. As of September 30, 2022 the total live customers were over 95,000. It represents a growth of 31% year-on-year. The total number of branches were at 213. We have added five branches during the half year. Employee count was at 2359. Performance highlights were as follows,

- AUM grew by 33% year-on-year to Rs.5932 Crores
- Disbursements increased by 69% to Rs.1129 Crores
- NIM was at 14.32%, up by 1.29%.
- Opex to assets were at 2.77%.
- PAT was at Rs.242 Crores representing a growth of 52% Y-o-Y.
- ROA and ROE was at 8.71% and 15.83% respectively.

Now coming to the asset quality with focused collection efforts 30 plus DPD sharply improved to 6.32% in September 2022 versus 9.91% in March 2022 and 12.98% in December 2021. Coupled with this there is a good improvement in our GNPA to 1.47% from 1.75% as of June 2022. Net NPA is at 1.1%. We have increased the provision coverage ratio from 0.8% in March 2022 to 1.01% as of September 30, 2022. We are carrying a total provision of Rs.60 Crores and this when compared as a percentage of NPA works out to a coverage of 69%. Outstanding restructuring book were at a nominal 0.8% of the total loan book and the behavior of this book is on par with our normal book.

As regards borrowings, we have well diversified borrowings. 64% of our total borrowings are from banks, 23% from NHB, 10% from DFIs like IFC and large financial institutions and the balance is 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 Rs.1000 Crores without including the undrawn sanctions of Rs.500 Crores from NHB. As on September 30, 2022 our net worth was at Rs.3175 Crores. Thank you all. Now with these remarks, I open the floor for the question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Shubranshu Mishra from PhillipCapital. Please go ahead.

Shubranshu Mishra: Sir I wanted to understand the definition of these quasi home loans and the average ticket size for these quasi home loans. Sir and my understanding is that we cannot provide a loan for insurance detachment? We have shown something as 4% as insurance loans so if you can clarify on that and wanted to understand what proportion of our bank borrowings are on EBLR? These are my few questions, thanks.

M. Anandan: Yes, first in terms of the quasi home loans actually they are loans to construct the homes but that does not qualify to be categorized as Home Loans as per the definition of NHB. The customers approach us for a loan after the house is constructed few months back. For all practical purposes these are new houses. Construction costs are also largely incurred by customers out of working capital or out of local loans resulting in our loans being given after completion of the construction. That is on the quasi loans. As far as insurance loan is concerned, these are loans which are provided to customers for paying one time premium for covering the lives of the customers during the loan tenure. This is the premium which needs to be paid for the entire tenor of the loan. This normally works out to about 4% of the loan amount. These are very much permitted under NHB regulations and these loans needs to be classified as Non Housing Loans.

Shubranshu Mishra: What is the borrowing percentage linked to the MCLR?

M. Anandan: Actually if you really look at it out of our total balance sheet size of about Rs.7000 Crores, closer to about Rs.3000 Crores is our net worth and the balance Rs.3500 Crores is the borrowings from banks and financial institutions. Of the Rs.3500 Crores, 60% or about Rs.2000 Crores is on fixed rate of interest and the balance is variable rate. These are the loans which are linked to the EBLR and in most cases this is linked to one year MCLR. As far as the company is concerned while there is substantial increase in the interest rates, the impact on it is somewhat less, given the fact that our leverage is low and substantial part of the borrowings is based on the fixed rate of interest. Hence the borrowing cost for Aptus considering the above fact coupled with the drawal of sanction from NHB in Q3 is likely to be around the same rates as is reported for Q2 FY 23.

Shubranshu Mishra: Right Sir and what is the average ticket size on quasi home loans Sir?

M. Anandan: It is about same as that of housing loans. Actually our home loans as you are aware will be an average of about Rs.8 lakhs to Rs.9 lakh and the quasi home loans also are around that.

Shubranshu Mishra: Sure Sir. Thank you for your time. I will get back in the queue.

Moderator: Thank you. We have the next question from the line of Ankit Bansal from AB Investment. Please go ahead.

Ankit Bansal: My question is Sir if the finance cost and the employee cost have increased in this quarter can you please explain what are the reasons Sir? Is the interest rate increasing that is the reason or can you please explain?

M. Anandan: Actually the interest cost in terms of percentage is the same and has not increased. Owing to the fact that all the disbursements for the half year FY 23 has been funded out of additional borrowings the interest cost has increased in absolute terms. Our entire disbursements in HY1 of Rs.1100 Crores came out of borrowing. On the opex first of all, the opex last half year was for five months because April 2021 was fully closed on account of COVID, whereas current half year was fully functional for 6 months and owing to that there is some increase. Also there was some increase mainly due to variable component paid to field staff owing to higher disbursements growth of 69%.

Ankit Bansal: Okay Sir the next question is on the performance in new markets like Odisha and Maharashtra, have they started and how it has been?

M. Anandan: As part of our growth we have always been working on few things. One is to increase the productivity of existing staff, enhance the productivity of our existing branches and then add the new branches in the existing states, then look at new branches in the new States. The first one in terms of the increase in productivity of existing branches, it is going on well and we are adding the new branches in the existing states particularly in Andhra and Telangana. We did add around 15 branches in the last 12 months or so and the third element that you asked in terms of adding new branches in new States, we believe in the philosophy of contiguous growth. To that extent we are looking at Odisha, Maharashtra, and Chhattisgarh and as a first step we have opened one branch in Brahmapur, Odisha and there are plans to open more branches as appropriate.

Ankit Bansal: Okay Sir any idea of giving dividend Sir? Your shareholders are waiting for this?

M. Anandan: Board will take a call on this as appropriate.

Ankit Bansal: We are loyal shareholders Sir? We have been with Aptus from the IPO Sir please consider this requirement?

M. Anandan: Noted. Thank you.

Moderator: Thank you. We have the next question from the line of Rishikesh Bagri from LeapFrog Investments. Please go ahead.

Rishikesh Bagri: Sir just wanted some clarification on definition so for example there is sanction TAT of 72 hours which is mentioned there so what does it include and is it like end to end from login to sanction or are there parts which we do not consider in this TAT definition?

P. Balaji: It is basically the login to sanction from the time the files are logged at the branches to the time the sanction happens at the head office. That is within 72 hours, however time taken to disburse is much longer because the legal documents with the segment of customers whom we serve are normally not complete and hence it takes time for these customers to submit the complete documents for the purpose of legal scrutiny and verification. Normally this takes around 7 to 8 days.

Rishikesh Bagri: Okay Sir thank you so much and Sir just on your asset run down what are your current BT out rates like?

M. Anandan: Actually if you look at the preclosed loans, it is around 8% on the opening loan book. Of this 8%, 2.5% to 3% are the actual balance transfers to other financial institution including banks and HFCs and the balance preclosures are out of own funds earned by our customers. This is where our kind of customers are different from the normal salaried customers in the sense that this kind of customers earn cash surplus during the course of running their businesses and often they settle the housing loan which they have taken.

Rishikesh Bagri: Excellent. Sir just to confirm these are annual numbers right 8% annually and in terms of run rate?

M. Anandan: Yes, this is the percentage. Normally we compute the percentage on the opening stock of loans as on April 1, 2022 and we take the actual preclosure during the year to work out the percentage of preclosure.

Rishikesh Bagri: Understood excellent. Just one last question from me Sir on your asset side so liability side you have given a fixed and variable mix on the asset side I see, what percentage of your books are under fixed rate which you cannot reprice and what is flexible? I see some numbers in the presentation is that the right way to look at it?

M. Anandan: Yes, in the loan book 78% of our loans are on a fixed rate contract basis and only 22% is on variable contract basis. Having said that, on the liability side also we have got significant part on the fixed in the form of either equity or the fixed rate loans and the variable part of the borrowings are really around 26%. We are leveraging our credit rating upgrades done in the month of December last year and also, going forward, we are planning to use the undrawn Rs.500 Crores from NHB which is normally provided at a lower interest rate on a fixed interest rate basis.

Rishikesh Bagri: Okay Sir just to confirm so the 78% fixed, you do not have any ability to reprice and is this ratio staying constant for your fresh onboarding? Your current disbursements are also in similar proportion?

M. Anandan: Actually, in case of exceptional situation we have the right to revise the interest rates even in the case of fixed interest rate loans. But that clause we never invoked in the last 12 years.

Rishikesh Bagri: Excellent. Congratulations for a very good quarter Sir and all the best. Thank you. That is all from me.

Moderator: Thank you. We have the question from the line of Pranav Gupta from ASK Investment Managers. Please go ahead.

Pranav Gupta: Firstly, just a clarification did you say 70% of loans on the asset side are fixed?

M. Anandan: Yes. It is 78%.

Pranav Gupta: Okay so two questions from me. One is on the employee costs so if you look at our sequence or a Y-o-Y basis on both the counts there has been a significant jump could you explain if there is any one-off here or whether this is what we are looking at given that we are expanding into new geographies, that is the first question?

M. Anandan: First of all I want to bring to your kind notice that Aptus operating cost is one of the lowest in the industry including the employee cost. But coming to the specifics, in terms of an increase in the first half year of this year versus last year as I mentioned a little while ago the last year first half, six months were not really six months. It was only five months because April 2021 was fully closed and the employee cost, other related expenses was lower so that is one aspect. Other significant aspect is that in the current year we had 69% increase in our volume of disbursements. We have disbursed about Rs.1120 Crores as against about Rs.660 Crores in the previous six months. A part of the employment cost is a variable component, which will move in line with the increase in volume. Increased volume is also one element of our increase in the employee cost otherwise actually there is no one time or no unusual cost that has been incurred.

P. Balaji: But just to add, you had asked about the sequential growth right from Rs.22 Crores to Rs.33 Crores.

Pranav Gupta: Yes?

P. Balaji: What has happened is, in Q1 our appraisal cycle is from May to April so in April the cost that would have got booked will be low and May and June will be slightly higher because of the increment that has been given, but for the quarter-ended September it will be at a higher cost. That is one thing which has contributed to this, plus the other one is as Mr. Anandan told, it is basically the incentive payouts because of the increase in the volumes of business so these are the two things which has contributed to this increase.

Pranav Gupta: Thanks for the clarification. The second question is if I look at our NBFC which typically books the business loans that we do, that growth has lagged the core overall growth?

M. Anandan: It is very much true. That is a conscious decision by us particularly given the COVID impact and the behavior of the customers in terms of repayment in the post COVID scenario. We were wanting to be very careful in lending to that segment till things come back to normal. Hence we have tightened our credit process, sanctioning and disbursements process in this product. Further, when we looked at the customer behavior data in terms of repayment, NACH clearance repayment, NPA, etc., in very detail, we found the profile of the SME customers are slightly volatile than the profile of the home loan customers, largely caused by the impact on account of post COVID situation. So we were a bit conscious & careful in our lending in that segment but now we are finding that it is coming back to normal so we have started restoring it back to our earlier lending level.

Pranav Gupta: Actually the question that I was trying to get is that like you mentioned right now that we are seeing an improvement in the profile or an improvement in the situation of the SME customers. By when should we expect this growth to sort of either come closer to or match or even surpass that of housing finance loans?

M. Anandan: We are trying to restore this back to the normal levels, i.e pre covid levels from this quarter onwards.

Pranav Gupta: Right and one request if you can breakdown the disbursements between the housing finance and the business loan segment that will be very helpful?

M. Anandan: We will do from the next quarter onwards.

Pranav Gupta: Not a problem, sure Sir. Thank you so much. I will get back in the queue.

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

Nischint Chawathe: Thanks for taking my question. A couple of questions. One is on the stage two loans do you think that this is a normalized stage two loans or do you think that there is still some specific movement?

P. Balaji: We would want to improve with further to our pre COVID levels of at least 4.7%, actually that is the focus with which we are functioning and that is why we brought it down from 9.91% to 6.48% as of June 2022 and then to 6.32% as of September 2022. The efforts are on but it might take another one or two quarters to come back to that level.

Nischint Chawathe: Yes, the other question is really on attrition rates that you would have seen in your home market now. Have you seen any change over the last 12 months?

M. Anandan: On attrition, we look at the entire HR in three segments. In what we call senior/MC level, there is zero attrition and at the middle management which really comprises of AVPs/Area Managers or cluster managers, the attrition is only around 4% to 5%. But our attrition is slightly high in the third segment, what we call band three which is really at the field officer level. Of the 2500 to 2600 staff, close to about 2400 people are employed in the branches, 1400 in terms of sales officers and about 400 in collection, and the balance in legal, technical, credit, etc., at the branch level. There again, the attrition is lower in support function like credit, legal, technical and collections. But attrition at the sales/ collection officer level is high. It is around 20%. That is what we are trying to work out how to really improve on that.

Nischint Chawathe: Have you seen a change over the last 12 months I think that is what I was looking at?

M. Anandan: Change, actually it is sort of improving. It used to be around 25%. In fact, it is coming down a bit because basically, we have introduced a policy for new staff that if they serve a minimum of 6 months or 12 months we will pay them a one time bonus. That seems to be helping us in a way so in other words those staff who have completed a certain period of time and have also put in the required logins will be given a lumpsum incentive in addition to their salary. That is only one time but that seems to be working because we saw through our analysis that lot of this attrition used to happen or is happening in case of employees who have been in service for less than six months and it comes down as they stay in the company for a longer period.

Nischint Chawathe: Got it and just one last final question is, typically when economy slows down many of the self-employed borrowers who are kind of borrowing at a slightly higher sort of 15% plus rate of interest tend to prepay their loans because their businesses are probably not yielding them as much. Have you seen a similar trend when the economy actually slows down?

M. Anandan: Actually you are right. Looking at the overall economy, yes the inflation is hitting and money left in the hands of the customers for meeting the loan obligations after meeting their regular expenses is less. But what we are really seeing is that in the affordable housing finance segments where the loan size is small and the EMI size is small, the net increase in the EMI itself is very limited. And that too, in 80% of the cases our customers are staying in these properties themselves, in tier three and tier four cities. And also most of the customers are in the essential service businesses. So though the inflation is very high and our interest rate is also high, but they are able to quickly respond. Instead of selling a unit of whatever they are doing for Rs.5, if they sell it for Rs.6 that is covered for them. So in other words because of the small size of the loan and small size of the EMI and the fact they are occupying the property, we are not seeing that as a negative in repayment or in demand of fresh loans.

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

Moderator: Thank you. We have the next question from the line of Amit Bhatt from MIT Engineers. Please go ahead.

Amit Bhatt: Sir Congratulations for a great performance in disbursement front in the first half. Sir my first question is, can you please throw some light on disbursement in the festive season which is almost zero COVID festive season after a year or two years gap and the second one is your competitors like Five Star they are more aggressive in opening new branches and hiring staff. So how your company is going to maintain the AUM growth, the same AUM growth in the coming quarters?

M. Anandan: First of all, would like to bring to your notice that Five Star is not our competitor because they are largely in small SME loans and the loan size being in the range of Rs.1 to Rs.5 lakh and the average ticket size is Rs.3 lakhs. We are a housing finance company giving loans largely for home loans so we are not same. We are different. The second aspect is you know pretty well that the demand for home and the home loan is very significant and very large in the lower and middle income population, particularly in tier three and tier four cities, particularly from customers who are self employed irrespective of the fact whether there is a festive season or not. At the core level, the demand for lot of home or need for home loans are more in this customer segment. The pie is large and the penetration is very low. And because of that, the growth rate of not only Aptus, but the growth rate of all affordable housing companies is much higher than the growth rate of the formal housing finance companies. And that will continue for many, many years to come because as I have mentioned the pie is very large and the penetration is low so the competition will be there but one has to give more time on that.

Moderator: Thank you. We have the next question from the line of Franklin Moraes from Equentis Wealth Advisory. Please go ahead.

Franklin Moraes: Thanks for taking my question so what will be our incremental cost of borrowing?

P. Balaji: This quarter we have raised almost Rs.800 Crores from banks at the rate of around 7.5% to 7.7% so that is the incremental cost and plus there will be some processing fees that was paid around 0.25% to 0.5% on these fresh borrowings.

Franklin Moraes: So Sir if I have to just understand like post your rating upgrade what is the kind of cost benefit that you are seeing?

P. Balaji: Actually earlier we used to get funds at around 8% to 8.25% now currently it is around 7.5% to 7.7% and there have been some banks which are giving at the MCLR rate itself, without any spread. So that is the kind of confidence that is getting reposed by these banks on the company because of the rating upgrade.

Franklin Moraes: Would it be fair to assume like, assuming there is no further RBI rate hike that it would take about one year for this entire rate to pass on?

P. Balaji: Yes, what is happening is currently we are having this Rs.1000 Crores of funds plus this the bank borrowings which are linked to this MCLR, which is one year MCLR. Some increase in bank borrowing rate can come in Q3 and also in Q4 but that will be offset by the lower cost of borrowings on the drawal of funds from NHB so if you compare that, I think the cost of funds will more or less remain the same at 7.7% for the entire year.

Franklin Moraes: Is there any scope for increasing your yields from the current levels just in case rates go up further and our cost of funds increase?

M. Anandan: We can. If the cost of funds increase nothing will restrict us from increasing the interest rates for the variable rate loans. Even in the case of fixed rate loans there is a clause in the loan agreement which allows us to increase the interest rates under exceptional circumstance. However we will also look at how best we can support our customers in these difficult times. And given our financial metrics we will look at any increase in our EMIs only as a last resort. But we really want to first improve the operations through productivity, cost control and better way of doing business and reduce our NPA and credit cost and thereby continues to deliver good ROA and ROE to the shareholders and look for minimum increase to the customers.

Franklin Moraes: On the 22% floating book on your loans what are the components over there?

P. Balaji: Out of the total loan book of Rs.5932 Crores 22% is linked to the variable rates where we have scope to increase the rates. Does that answer the question or you want something I was not clear on that.

Franklin Moraes: I am trying to understand is the product different in a fixed versus a floating rate? Are you offering some different product or is it the same product?

P. Balaji: It is basically the housing loans, which has been offered at the variable rate. The quasi home loans and the small business loans are at fixed rates of interest.

Franklin Moraes: Okay Sir my last question is what is the tenure on average for your lending product?

P. Balaji: We lend up to 15 years for the housing loan and 10 years for the quasi home loans and 7 years for the small business loans.

Franklin Moraes: End to end how long does the borrower take to repay on an average?

P. Balaji: Average for the housing loan it is around 10 years and for the quasi home loans it should be around 8 years and for the small business loans it is around 5 years.

Franklin Moraes: Okay that is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rajeev from Yes Securities. Please go ahead.

Rajeev: Sir my question is on asset quality so when I look at the gross NPLs we have seen a significant reduction in this quarter so firstly this reduction I presume it is full year basis normalization or recoveries, because we report gross correct?

P. Balaji: No what is the question. I did not get you.

Rajeev: Sir the question is the reduction in NPLs that have seen in the quarter it is basically either full normalization through collections or it is a recovery in NPA in which we have kind of re possessed the asset and got it?

P. Balaji: It is NPA recovered as well as consistent improvement in collections.

Rajeev: Okay because when I was looking at while we are showing very good recovery in the NPA bucket there is also increase in stage two coming from stage 1 or may be from the 0 DPD portfolio.

M. Anandan: Firstly as regards NPA, we are following the revised RBI guidelines. This means if an NPA has to become a standard asset all the dues have to be fully recovered or it has to be settled by the customers. This is what has happened.

As regards increase in stage 2 is concerned, these customers would have been in Stage 1 as of June 2022 and instead of honouring all the three EMIs during the quarter, they would have paused to pay one EMI out of three during the quarter. Having said that the increase is only marginal to the extent of 0.25% and that too it has been well covered by way of increase in the PCR from around 3% to 6% on stage 2 assets.

Rajeev: And Sir Telangana and AP has been driving significant growth for us over the last many quarters now can you kind of point out which markets and locations in AP and Telangana are driving the growth and what will be our market share in the customer segment?

M. Anandan: Actually we do not want to get into it very specifically but by and large we would put it this way, A) the growth that we are getting is largely through the increase in the productivity of the existing branches B) growth coming through the increase in productivity of the branch sales officer. And if you really look at it geographically, the growth is coming more in certain states like Andhra Pradesh, Telangana and Tamil Nadu and may be less in some states like Karnataka and the growth is largely coming from HL because we have taken a conscious call to go slow on the SME business which we are restoring now.

Rajeev: Just last follow up can we get the name of top five cities or markets?

M. Anandan: Rajeev we will take it offline.

Rajeev: Sure thank you.

Moderator: Thank you. We have the question from the line of Mahrukh Adajania from Nuvama Wealth Management. Please go ahead.

Mahrukh Adajania: Good afternoon. Sir my first question is whether you would like to maintain your stage three PL cover at 25%? Will that remain at that level now?

M. Anandan: Yes the provision coverage ratio on the NPA would like to maintained at around 25%. We have also taken a decision that any NPA beyond 24 months, we will write off fully. Of course recovery efforts will continue to be there but then as a policy decision, anything over 24 months will be 100% written off. This means our NPAs will have DPD only upto 24 months and for this we would like to maintain a PCR of 25% in overall terms and also we have decided to carry a provision of 1% of the total loan book.

Mahrukh Adajania: Got it Sir very clear. Sir my other question I have two other questions one is on spreads you are expecting spreads to now remain stable given the offset of higher bank borrowing cost with NHB so the margins will remain stable right?

P. Balaji: The margins will remain stable as I told you earlier in one of the responses. If you look at our cost of funds it is at 7.7% and the yields we comfortably maintain at around 17%. And this cost of funds is likely to remain the same for the next six months or may be nine months as well so we are confident of maintaining the spreads at these levels.

M. Anandan: To add to the above, caveat is that above is possible if the current scenario on interest rates and the factors which is driving them continues. If something crazy happens in the market then we need to face the environment then.

Mahrukh Adajania: Got it Sir and my last question is that how have you seen the demand behaving in October and November?

M. Anandan: We see the demand as being intact and we see good on ground. Now given our customer profiles, lower income, self employed, tier two and tier three cities, small home loans and largely for self construction, largely occupied and that the penetration in the market is very low. While the overall mortgage penetration is around 10% to 12%, but within the affordable housing the penetration is even lower. So in other words at the macro level we expect the demand to be robust for many years to come.

Mahrukh Adajania: Got it Sir and Sir just one small clarification on this quasi home loans why is the duration lower? Is the product structured differently from normal home loans?

M. Anandan: See the issue is, refinance guidelines are different for home loans and non home loans. So the non home loans as being treated than home loans and from the ALM point of view we thought it is prudent for the quasi home loans to have lower duration than home loans.

Mahrukh Adajania: Okay Sir thank you.

Moderator: Thank you. We have the next question from the line of Ankit Bansal from AB Investment. Please go ahead.

Ankit Bansal: Sir my question is with this kind of pace you are growing, where do you see yourselves in the future? How are you placing your disbursements? How are you placing your growth? What customers are you targeting in the next five years or 10 years? What level of growth are you expecting in the next five or 10 years?

M. Anandan: Basically our customer profile will continue to be so because we are quite happy with this kind of customer profile, which needs of course lot of ability to underwrite and ability to collect. But having said that a large share of customers are underserved and unserved so fundamentally we may not look at different types of customers in terms of larger size, formal, wholesale, and corporate. So our strategic focus will continue to be in the existing class of customers and given these customers who are located largely in tier three and tier four cities, we want to be near to the customers in terms of collections and the risk management and to meet further demand. We will continue to have the branch additions as relevant and appropriate. We will not really go overboard on the branch additions but we will continue to keep adding enough branches to be able to support the growth. In other words as far as the core objective of the company is concerned we would want to look at a growth rate of at least twice the market growth rate. Just to explain if our formal home loan market is growing at 10% we would want to grow at 20%. If the affordable housing is growing at around 15%, we would want to grow at around 25%-30% and that is our business plan we do not believe and we do not want to go for 50% growth or 100% growth, and all. We would want to go for a consistent growth over long period of time with good quality assets without compromising on the financial metrics which also reflects the risks that we are underwriting.

Ankit Bansal: Okay Sir my last question, you are using AI technology in your business. So what upgradation are you doing to keep up to the present technology with your past technology? What upgradation did you make and changes did you make so that your technology will remain updated with the present time?

M. Anandan: I think it is a very large question but generally we are investing lot of time, effort, money, and people on the technology front both in terms of acquisitions, underwriting, verification of legal documents, collections, customer service, risk management. And not only in terms of doing more business and enabling scaling up, but at the same time control the risk and provide enhanced service to our customers. We do get some good repeat business also, so the areas in terms of enabling scaling up, productivity, cost control, risk management, customer service help us investing in technology in every aspect. I think may be Balaji can sit with you sometime offline and take you through full details.

P. Balaji: But one thing is that ours is not a dated technology. Everything is relevant and everything is new so as of now there is no need of major upgradation.

Ankit Bansal: Okay Sir thank you Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question that the management could answer today. I would now like to hand the conference over to Ms. Mona Khetan for closing comments. Over to you Mona.

Mona Khetan: I just have two quick clarifications before we close the call so the outstanding restructured book would be around Rs.42 Crores as of September, is that a fair understanding?

P. Balaji: Yes, 0.8% of the total AUM.

Mona Khetan: Sure and where would our 1+ DPD be as of September end?

P. Balaji: As of September it was at around 8.75%.

Mona Khetan: Okay so similar as June quarter.

P. Balaji: Yes.

Mona Khetan: Okay thank you Sir. Thank you everyone for joining us today. We thank the management for providing us this opportunity to host the call. Thank you very much and Sir over to you for any closing comments you may have.

M. Anandan: Thank you Mona for organizing this conference call. I would like to pay my sincere gratitude to all the analysts and investor friends who have taken time out of their 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.

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