



“Aptus Value Housing Finance India Limited  
Q4 FY '23 Earnings Conference Call”  
May 05, 2023



Dolat Capital



**MANAGEMENT:** **MR. M ANANDAN – EXECUTIVE CHAIRMAN**  
**MR. P. BALAJI – MANAGING DIRECTOR**  
**MR. CT MANOHARAN – CHIEF BUSINESS OFFICER**  
**MR. JOHN VIJAYAN – CHIEF FINANCIAL OFFICER**

**MODERATOR:** **MS. MONA KHETAN – DOLAT CAPITAL**



**Moderator:**

Ladies and gentlemen, good day, and welcome to the Aptus Value Housing Q4 FY '23 Earnings 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, please signal an operator by pressing star then zero on your touch-tone telephone. 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, ma'am.

**Mona Khetan:**

Thank you, Melissa. Good evening, everyone, and welcome to the earnings conference call of Aptus Value Housing Finance India Limited to discuss its Q4 FY '23 and yearly performance. We have with us the senior management from Aptus to share the industry and business update. 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. Good afternoon to all of you, ladies and gentlemen, I am Anandan, Executive Chairman of the company. I welcome you all to the conference call to discuss the financial performance for the quarter ended and year ended March '23. I have with me Mr. P. Balaji, Managing Director; Mr. C.T. Manoharan, Chief Business Officer; and Mr. John Vijayan, CFO. The results and the investor presentations are available on the stock exchanges as well as on our company website. I hope everyone had a chance to look at it.

Aptus, as you're aware, believes in growth with due importance in the quality of loan book with good financial metrics. Very happy to record that Aptus had a healthy and good overall growth in FY '23, as reflected in our strong financial results. Sharp business focus, deep penetration in served markets, customer centricity have enabled the company to achieve good growth. Enhanced digital adoption in customer sourcing, underwriting, collection and risk management also supported the business growth well.

Total disbursements for the year stood at INR2,394 crores, up by 46%. Our AUM for March '23, was at INR 6,738 crores, healthy growth of over 30% Y-o-Y. With focused collection efforts, our collection efficiency have stabilized at over 100%, resulting in reduction in our soft bucket outstanding as well as overdues, and NPAs in particular. Spreads for the year was good at 14.3%, representing an increase of 65 basis points over FY '22 despite, significant headwinds in interest rates.

We have registered a consistent ROA of 8.44% and our ROE has gone up to 16.34%, up by 189 basis points Y-o-Y. This, as you must have observed, is one of the best in the industry. We've also declared a total interim dividend of INR4 per share.( face value per share is INR2). Our net worth stands at about INR3,300 crores, which indicates robust capital adequacy.

I'm also happy to share that the Board has elevated Mr. P. Balaji as the Managing Director of the company. Further, Mr. Manoharan, who was in charge of the business development has been elevated to the position of Chief Business Officer. And Mr. John, who is currently our Chief Risk Officer, has been promoted as the Chief Financial Officer of the Company. Also, the

organization further strengthened senior and middle management in sales, credit, technical and finance functions to pursue in next level of our growth.

I would now hand over the line to Mr. P. Balaji, our Managing Director of the Company, thank you.

**P. Balaji:**

Thank you, sir. Good afternoon, friends. As on 31 March, '23, the total live customers were over 1,07,000, which represented a growth of 28% year-on-year. The total number of branches as on 31 March were at 231. We had added 23 branches in FY '23 and employee count was at 2,405. Major performance highlights were:

- AUM grew by 30% year-on-year to INR6,738 crores;
- Disbursements increased by 46% year-on-year to INR2,394 crores;
- Spread was at 14.31%, 0.65% increase year-on-year;
- Opex to assets were at 2.75%;
- PAT was at INR503 crores, growth of 36% year-on-year;
- ROA and ROE was at 8.44% and 16.34% respectively.

Now as regard to the asset quality, with focused collection efforts, 30+ DPD improved to 5.9% in March '23. This was 9.91% as of March '22. Coupled with this, there is an improvement in our GNPA to, 1.15% from 1.44% as of December '22. Net NPA was at 0.86%. Provision coverage maintained at 1.06% as on 31 March, up from 0.80% in March '22. We are carrying a total provision of INR71 crores and this when computed as a percentage of NPA works out to a coverage of 90%.

As regards borrowings, we have well-diversified borrowing with good support from NHB. Out of the total borrowings, 60% is from banks, 26% 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-, both from ICRA and CARE. We have sufficient on balance sheet liquidity of INR1,186 crores, including undrawn sanction of INR625 crores from NHB and banks. As on 31 March, '23, our net worth was at over INR3,300 crores.

Thank you. And now with these remarks, I open the floor for the question-and-answer session.

**Moderator:**

We have the first question from the line of Hirenkumar Desai, an investor.

**Hirenkumar Desai:**

I have a couple of questions. The first one is, I mean there is this discussion all the time about a K-shaped recovery in the economy and lower income population, which is our customer base, is having a little bit of difficulty because of inflation and scars of COVID. Are we seeing anything in our book in terms of DPDs or anything else?

**M. Anandan:**

Yes. We did have the impact of COVID visible in FY '21 and early part of FY '22. After that, during the last 12 months, there is very good improvement in collections, and we've been consistently collecting a little more than even 100% of the monthly demand -- resulting in our outstanding, both in terms of soft bucket and NPA coming down significantly.

And not only there is substantial improvement in collection and reduction in the overdues, but our business also come back very well, resulting in significant growth in our business post COVID. In fact, as you must have observed, in FY '23, we had a growth of 46% in disbursements.

**Hirenkumar Desai:**

Yes. Okay. That answers the first question. The second question is, see, our cost of funds will be rising with a little bit of a lag compared to repo hike, etcetera, assuming that our borrowing from bank mostly will be on MCLR benchmark. Do you have an assessment as to at what number and around which month our blended cost of borrowing might peak out?

**M. Anandan:**

We are very strong on our liability side, basically because our leverage is low. On a balance sheet size of about INR 7,000 crores, closer to about INR 3,300 crores is our net worth. Of the balance INR 3,700 crores also if you see, little over INR 2,200 crores are really long-term fixed interest rates, particularly from institutions like NHB. We have a borrowing of about INR 1,000 crores loan from NHB. Of the balance we do not have any short term borrowings and these are mostly linked to 1 year MCLR of banks.

Additionally, in the month of December '21, we also had an upgrade in credit rating, that also helped us to tie up the funding at a slightly lower cost.

So all these has really resulted in good control of our cost of funds, so much to say that while the interest rates have gone up by 250 basis points, we have gone for an interest rate hike to our customers of only 50 basis points, that too effective from November '22. Despite significant headwinds on the interest situation, and despite our ability to pass on the interest rates hikes due to our good pricing power, we have really gone for a very modest price increase and yet we are able to protect our margins and ROA.

**Hirenkumar Desai:**

Okay. Just a follow-up. So, do we have some more sanctions available to draw from NHB, or we have used up?

**P. Balaji:**

Yes. we had a sanction of INR 500 crores sometime in December 2022, of that we have drawn INR 300 crores as of March 2023. And if you look at our investor presentation, we have around INR 625 crores of undrawn funds. Of that, INR200 crores is still to be drawn from NHB.

**Hirenkumar Desai:**

Okay. Just one last question. So, what is the thought process behind giving the dividend? See, we are generating good ROE of 16-plus-percent. And I am assuming that with the improvement in leverage, the ROE will improve further. So, when we are giving such good returns, what is the idea behind giving dividend?

**M. Anandan:**

The Board has considered these aspects very carefully and deeply. And we thought, it will be in the overall interest of all concerned, particularly, shareholders to declare dividend. And it is a Company objective to further enhance our ROE. In fact, as you rightly said, our ROE has gone up in the current year by almost about 189 basis points. And in fact, this is possibly one of the best in the listed affordable housing finance companies. And our objective is to take this further forward. So, to that extent, the shareholders will get benefited more.

- Hirenkumar Desai:** Okay. So, in the same line, one last question, sir. So, what is the maximum leverage that we are comfortable with? Right now, it's very, very low. So, like.
- M. Anandan:** You're right. Considering the good growth, we would like to maintain in the coming years, we will be comfortable with a leverage of around 5-6 times.
- Hirenkumar Desai:** You mean up to 5 to 6x, we're comfortable.
- M. Anandan:** Correct.
- Hirenkumar Desai:** See, next year itself, it won't reach the 5, 6x, right? It will take a while to reach there.
- P. Balaji:** Considering the profits which we are generating, it will take a while to reach that 5 to 6x level. So that's why we may not come to the market for capital.
- Moderator:** We have the next question from the line of Uday Pai from Investec.
- Uday Pai:** So just 2 questions from my side. First one would be that we saw a couple of management shuffles during the results. So, are there any more changes to be expected in the near term, say, 6 months? Or it is well settled now? And the second question is, are you thinking of any yield increases in Q1 or Q2, a small increase of 20 bps or so?
- M. Anandan:** Okay, got it. Now as far as the first question is concerned, it is unlikely that there will be any more senior management changes or upgrade. Actually, present one also is more of promotions from within to assume higher responsibilities. And we don't expect to see anything happening in the short term. As far as second question also, we don't really see any need for increasing our lending rates. We are quite confident through higher disbursements and better cost control, we may not have to go for any more increase in our lending rates.
- Moderator:** We have the next question from the line of Amit Bhatt from MIT Engineers.
- Amit Bhatt:** Sir, under the able leadership of Mr. Anandan, Company achieved many milestones. But sir, after the IPO, the stock is consistently underperforming and even after 2 years, it is 30% below the IPO price. So, sir, because now Mr. Anandan is also aging, so what is succession plan for this Company? And we heard that some big NBFC is going to merge your Company. So, can you throw some light?
- And another thing is, why we are not growth hungry? You got your IPO at 50 high P/E. It means we're expecting more than 40% CAGR growth from your Company, and you are not delivering, you are giving dividend. We don't want dividend, we want growth, we want the price movement because most of the people asking questions, most of the big guys, they shy away from your Company. Can you throw some light why it is happening?
- M. Anandan:** It is true that our prices -- market prices are lower than our IPO prices. And as you might recall, we came with an IPO sometime in August '21. And after that, we came out with 7 quarterly results, if I recall rightly, including the March '23. In all these 7 quarterly results, the performance of the Company has been consistently good and very good.

We keep maintaining a good growth rate in our disbursements, loan book, profit, return on assets, ROE etc. So as far as the Company is concerned, we continued to perform consistently well in the last 7 quarters and the Company is well placed to perform and grow much better as well.

But when it comes to the market price, you know pretty well that there are a lot of other headwinds caused by the international situation or caused by the market situation. And to an extent, the risk associated with any equity investments will be there. But we are very conscious, and we are very committed to keep performing well and also keep communicating well to all the stakeholders as to the performance of the Company is concerned.

**Amit Bhatt:** Sir, what is the succession plan, because you are now aging, sir, and only one news that Cholamandalam is coming, stock increased by 20%. So, market is giving you clear signal that market wants growth, market wants something new out of box from the management. You can't blame only the market conditions. There are many NBFCs performing very well during this time, in the price movement I'm talking about.

So, sir, there must -- you please clear the succession plan, include some good management people from outside also or if you can't, then please merge with some bigger NBFC to fire. Because when you bought the IPO at promising 40% CAGR growth, now you're talking about that in future, the growth is going to be 25% to 30%. That, market doesn't like, sir.

**M. Anandan:** No. I take the point. Just on the succession plan, we have worked on that and in the last board meeting, we had really taken some decisions, and that decision what has been reflected in the investor presentation and in fact, what I have mentioned in my opening remarks, I did mention that there is -- Mr. Balaji has been now made the Managing Director of the Company, and we have really elevated Mr. Manoharan as the Chief Business Officer. And we also made Mr. John Vijayan as CFO who's been very experienced in this area. So, in other words, the succession plan is really being put in place, and it is presented in our investor communication -- investor presentation, we have given clearly the entire management team and steps are being taken from the point of succession plan, not only at the departmental head levels -- senior levels, but even at the middle management levels in credit, lending, collection etc., We have taken a lot of steps that we hope are very positive and will result in a good, continued growth in business as we have done in FY '23.

**Moderator:** We have the next question from the line of Ankit Shah from White Equity.

**Ankit Shah:** Sir, my first question is on the competition. So, companies like Aavas, etc, are offering loans to similar set of borrowers at much lower interest rates. So, I wanted to understand why the borrowers are preferring us versus them? And why would they not shift to competition?

**M. Anandan:** Yes, you are right, there is competition. And not only from the existing players, but from some newer players also emerging. And not only the players in the home loan finance segment, but some of the small finance banks also have started entering into this home loan business, affordable home loans business in particular.

So, to that extent, there is competition. But what we are really seeing is that, given our strength in terms of distribution and very deep presence, for example, of about 231 branches, we have 86

branches in Tamil Nadu, 86 branches in Andhra, 35 branches in Telangana and 21 branches in Karnataka. In fact, in Tamil Nadu, if you see out of the 86 branches, literally at every 70 to 80 kilometres we will have a branch. So, in other words, our carpet coverage is one of the best and which is an opportunity to be closer to the customer, in terms of originating the new business and also quickly provide best services possible to our existing customers, who in turn refers new customers to us. So, given this approach, we are able to really do well and the fact that even in FY '23, we had really grown our disbursements by 48%, indicate that despite the competition, we have a strength to grow, given our very deep commitment and closeness to the customers.

**Ankit Shah:** Right. Sir, one follow-up on this. Over the next 3 to 5 years, assuming that interest rates don't move much from here, do you see our yields trending lower? Or you see the yields remaining around these levels?

**M. Anandan:** Our lending rate will broadly be around this level. In fact, in the last 10, 12 years if you look at it, we had not really gone for any lending rate increase, barring the small increase that we did in November 2022 and that too only by 50 basis points against an interest rate increase of 250 basis points. We had gone for a very small increase. Barring that, we are able to maintain the same lending rates, almost over 10 years now.

But what we really have is one of the best financial metrics, which we are able to obtain through, lower operating costs, lower credit costs and higher productivity of our branches and our staff. So, in other words, we are very proven organization and both the volume growth and cost control helps us to maintain this kind of pricing.

**Ankit Shah:** Got it. Sir, next question is on the statutory auditor. Sir, would it be possible for you to give us some sense of why we shifted out from a Big Four firm to some other auditor last year?

**M. Anandan:** Actually, right from the beginning till about FY 21 we had Deloitte and EY as our Statutory auditors. But consequent to the restriction in number of audits by audit firms and, given our current size, we had to look for an alternate auditor to the Big Four.

And the current auditor also is well-known and established. In fact, they are auditing about, if I recall, 3, 4, home loan companies, including a home loan Company part of a very large group and a public sector bank. So, in other words, they are well experienced in the home loan businesses, and they are an established audit firm with particular exposure to the home loan finance.

**Ankit Shah:** All right. Sir, last one from my side. So, the difference between the AUM and the advances, is it only for the securitization or is there something else also?

**P. Balaji:** No, under IndAS, what happens is the gross loan book gets deducted by the provisions which we carry and the processing fees which gets deferred for recognition of income. So those are some of the things which has got adjusted with the reported AUM.

**Moderator:** The next question is from the line of Renish Bhuva, from ICICI Securities.

**Renish Bhuva:**

This is Renish from ICICI Securities. Sir, just 2 questions. So, one is on this -- our geographical concentration. So, sir, Karnataka exposure is actually coming down on a yearly basis. It went down to 8% in FY '23 from FY '20, though in our various commentary, you've been mentioning that Karnataka is our focused State. So just wanted to understand what is happening in Karnataka specifically.

**M. Anandan:**

Basically, at a macro level, we've been consistently presenting that our strategy has been deeper presence and market leadership in States wherever we operate, market leadership wherever we operate rather than very thinly spread out our branches across the country and call ourselves as a pan India Company.

Now flowing out of the basic strategy we have reached a very good carpet coverage in terms of business in Tamil Nadu and now in Andhra, as we did in Andhra and Tamil Nadu, where we have 86 branches in each State.

We are also planning to open few branches on pilot project basis in Maharashtra as well. These things will happen progressively and we are very clear, wherever we operate, we will operate with lot deeper, with lot more intensity, closeness to the customer, and would want to be a market leader in that particular State wherever we operate. This provides us opportunity to be the market leader in affordable housing finance companies in these States. But in the current year, our focus is now going to be in Telangana and Karnataka, and we see good opportunity to grow these markets also as we have grown in Tamil Nadu and in Andhra. Also, as part of our geographical diversification, we've looked at the States adjacent to our present operation and have commenced 2 branches in Odisha, and we are planning to add another 2 or 3 branches in the coming quarters itself.

**Renish Bhuva:**

Got it. Got it. And sir, my next question is on a sort of sustainable yield side. So presently, our customer mix side, we are having almost 30% of new-to-credit customer, wherein we would be able to charge a little higher, given no credit history. But as we move along with scale, maybe this share of new-to-credit will come down and where the yield would be again lower. So, sir, on a -- maybe from a medium-term perspective, what sort of sustainable yield you guys are looking at internally?

**M. Anandan:**

No. If you look at our investor presentation, very clearly there are 2 business components. One is about, let's say, INR 7,000 crores on loan book, about INR 1,000 crores is from SME customers, where we charge 21% and that is a market rate being charged by maybe 5 to 7 other players as well. So, we are not really charging anything more than what's being charged by the market for providing the funds for this category of the SME customers.

Now the other thing is that about balance INR 6,000 crores is home loan and home equity loan, where our average lending rate works out to around 14.5% to 15.5%. In fact, after the last 12 to 18 months price increase because of the interest increase, the gap between us and our competitors have come down. In fact, they already moved up to 13.5% to 14%, and we may be 0.5% or 1% more, which we believe can be sustained.



For the kind of service that we provide -- small-sized loans, average loan of less than INR 10 lakhs to be collected over a 15 year period, involves certain transaction costs. So, given that, these rates are well accepted by our customers, which is reflected in our low loan transfers to other large housing companies or banks.

So, in other words, our entire pre-closures are around 8%. Of the 8%, 5% comes from customer's own money. They have not taken any loan from anybody to pay off our outstanding loans. The actual loan transfer to other banks, other HFCs is only about 3%. So, the interest rates that we have been charging is well accepted, and related to the market situation, given the nature of these customers and the operating costs in this segment.

**Renish Bhuva:** Got it, sir. Okay. So fair to assume that the current yield is more or less sustainable, at least in near term?

**M. Anandan:** Yes, , Renish.

**Moderator:** We have the next question from the line of Rajiv from Yes Securities.

**Rajiv:** This is Rajiv. Congratulations on a very good set of numbers. I have a few questions. Sir, firstly, this sharp jump in small business loan book on a Q-on-Q basis. This book was pretty steady in the preceding quarters. And in this quarter, we have seen a certain big jump. What has driven this?

**M. Anandan:** Basically, because the COVID impact on SME we found was a lot harsher than the home loan customers. Given that, we have gone very consciously, a bit slow in lending to the SME customers till about almost 6 to 12 months back.

We are seeing now the customers are coming back to normal in terms of their demand for loans and in repayments given that we now activated this SME lending, we do see the SME lending as an important segment going forward for this Company. In fact, we are also planning from future growth point of view, like our affordable home loans, we will be focusing on the SME segment also going forward, specifically branch-by-branch and State-by-State. So, we see that as a good segment to be pursued in future.

**Rajiv:** Sir, the ticket size average will be what in the future? Currently it's contributing 21%, how higher can it reach as a proportion of AUM?

**M. Anandan:** Actually, ticket size for our SMEs average around INR 7 lakh and the tenor is about 7 years.

**Rajiv:** Got it. Yes, and sir, over the last 3, 4 quarters, how has the disbursement average ticket size moved in home loans? Anything similar or?

**M. Anandan:** Despite the inflation -- interest rate increase and inflation, our average size is around INR 8 lakh to INR 9 lakh only. It has not really moved up. Whatever increase in our disbursements, 40% to 46% growth is mainly with the number of loans rather than the average ticket size moving up. Basically, we find a couple of reasons. One is that as we open more branches and go deeper into

geographies from the district level to taluk level, we find the average loan size also is slightly lower in the deeper markets than in the suburbs

Second thing is that we are very, very conscious in our credit underwriting in terms of instalment to income ratio.(IIR) So while because of inflation, the cost of construction would have gone up a bit, but we also have to look at it from the point of IIR as well.

**Rajiv:** Sir, post the rating upgrade, what has been the extent of reduction you've seen on the credit spreads being charged by the bank over the MCLR, the credit spreads which they were charging?

**P. Balaji:** On the fresh borrowings, we were able to secure savings of around 0.25% to 0.5%. And tenor is normally 6 to 7 years we are getting from the banks.

**Moderator:** We have the next question from the line of Kunal Shah from Citigroup.

**Kunal Shah:** So now -- maybe earlier your reappointment was -- maybe you are there till 24 December, 2024. So, if you have to look over here maybe as an Executive Chairman, would you be continuing till that date because it doesn't mention in terms of maybe for what period? And will it be like the transitioning with Mr. Balaji over the next 1.5 years? How should we look at this?

**M. Anandan:** Yes. Actually, my current employment contract as approved by the Board and the shareholders for 5-year period commenced from Dec '19 to Dec '24. I will continue till that period and support the Company till December '24, till completion of my tenure. And to that extent, both I and Balaji will be working together.

**Kunal Shah:** Yes. That's very helpful. And secondly, in terms of maybe the branch expansion, which you have highlighted, so when we look at it, what could be the extent of presence which we are planning to have, say, in Odisha, Maharashtra as well as Telangana compared to where we are today? Because generally, we are seeing maybe in the mature markets around about, say, 85, 90 odd branches. And given that at least Maharashtra and Telangana would have equal potential, where would we want to reach in terms of deepening the presence here?

**P. Balaji:** Yes. See, last year, we have opened 23 branches. This year, we are planning to open at least 30 branches. Of that about 3 more branches will be in Odisha and 2 or 3 will be in Maharashtra. And the balance will come in Telangana and Karnataka because that's going to be our focus States where we'll be growing, because Tamil Nadu and Andhra Pradesh, we already have 86 branches each, and they are contributing. So basically, the other 24 branches will come in -- mostly in Telangana and Karnataka.

**Kunal Shah:** Okay. And in terms of the employee cost, so obviously, that was higher. If you can just highlight in terms of maybe any annual incentives one-off, which could have been there, the extent, which is there, and what would be the normalized run rate over there?

**P. Balaji:** See, if you look at the Q-on-Q employee cost increase, it's basically there are 2 reasons why it got slightly increased. One is we had added more branches. So, because of that, more employees came in and because of that, that cost added up. Plus, because of the increase in the volume, we had to provide for a higher incentive, and that is what is getting reflected in the salary cost.

- M. Anandan:** One other element is that we've been making certain investments in strengthening our senior and middle management in the Company as I mentioned in the beginning, in functions like sales, credit and collections. Consciously, we are preparing for the next level of growth. And to that extent, we have gone for -- both by numbers and more importantly, by the quality and seniority, we've strengthened our middle management significantly in the last 6 months or so.
- Moderator:** We have the next question from the line of Siddharth Jain, an investor.
- Siddharth Jain:** Just wanted to check on the NPA thing. The 30+ that we see in the presentation has gone down from, say, 6.27% in December '22 to 5.9% in March '23. However, the reduction in NPA in correspondence to that has also been significant. So, if you can guide the differential between the two.
- P. Balaji:** The NPA, which was at 1.19% last year has reduced to 1.15% currently and stage 2 which was at 8.72% last year has come down to 4.75% as of now.
- Siddharth Jain:** So basically, the point is that the 30+ DPD is 5.9%. However, the NPA is 1.15%. So, the differential between the two is slightly higher as compared to the competition. So, I just wanted to understand, is it because of the muting in the middle buckets or what is the reason for that?
- P. Balaji:** If you look at it, in the last financial year because of the COVID, like all other companies, we also got affected. And we had given a lesser moratorium as compared to other companies at that point of time, which RBI had announced. Because of that, the DPD freeze which was available for the other companies was not available to us and with the result that the Stage 2 asset got increased.
- That's what is reflected and as on 31 March, '22, it was at around 8.72%. So, the efforts are on now to reduce that from 8.72% to our pre-COVID levels of around 4% to 5%. So that's what is directionally happening. And from 8.72%, it has come down to 4.75% on the Stage 2, it will further come down.
- Siddharth Jain:** Understood. Any guidance on the future numbers?
- P. Balaji:** It's slightly difficult to predict because the efforts are on and for these kinds of customers, what happens is paying one EMI is easy, but if you are asking them to pay 2 or 3 EMIs at one point of time, it becomes difficult. So, our endeavour is to bring this down to 4%. So hopefully, we'll be able to do it.
- M. Anandan:** Overall, our NPA -- we are working towards an NPA of around 1%. That is 90 plus and we're also working towards Stage 1 of at least about 96%. So, the balance 4% to 5% will be there in 30, 60 to 90 and above 90 also. And we are progressing very well in that direction.
- Moderator:** We have the next question from the line of Ankit Bansal from AB India.
- Ankit Bansal:** Sir, congratulations on good set of number and over the whole year. So, my question is like RBI is pausing the interest rate. Sir, we'll be able to see the borrowing cost decreasing? And what is

your future rate of interest are you taking? How is it planned for year '24, '25? Can you please explain on this?

**M. Anandan:** Yes, with the interest rate now softening by 10, 15 basis points and the increased interest environment seems possibly -- I won't say -- use the word behind, but at least the pause is very much there. But definitely, the softening will happen, maybe over a period of time, related to the inflation, as you're aware.

But then as far as our pricing policy is concerned, while this reduction in interest rates will benefit us, at best, we'll pass on that to our variable contracts. On the fixed contract, we will get the benefit with the reduction in interest rates. But in the variable, we will possibly pass on whatever the reduction is.

**Ankit Bansal:** Okay. Sir, what will be the future growth -- areas of growth that will drive the Company into higher levels? Are there any plans of converting from housing Company to a bank? I mean for a plan of 20 years -- 15 to 20 years, is there any plan or just sticking to a housing Company?

**M. Anandan:** I don't know if people will be able to really talk of 15, 20 years. But then definitely, in the immediate term, there is no plan for the Company to get into any unrelated financial services activities, including a bank. Our focus will continue to be on home loans and our focus will also be in SME, to the same profile of our customers, who are largely informal Tier 3, Tier 4, self-employed against their residential property.

So, we will continue to be largely in the secured loans, largely in the affordable home loans and may enhance a bit on our SME, and we will enhance our presence with a deeper penetration in our existing branches and open new branches in the adjacent States as we grow further. So, our growth will be largely around home loan and SME. And our growth will be largely around deeper penetration geographically.

**Ankit Bansal:** Thank you, sir for the future, congratulations, and I hope your investor will grow also with the Company.

**P. Balaji:** Yes. Thank you.

**Moderator:** We have the next question from the line of Mona Khetan.

**Mona Khetan:** So firstly, on the cost of fund side, assuming that there are no further rate hikes, what sort of rise in cost of funds could we expect this fiscal? And also, do we have any high-cost debt maturing in this fiscal?

**P. Balaji:** Yes. There is around INR 100 crores to INR 150 crores of high-cost debt getting matured. So that will get replaced with a lesser cost of funds borrowings. That will happen in the second quarter -- beginning of the second quarter, starting July. Then as of the total borrowing, we have almost 60% of the borrowings as a fixed rate borrowing. So, there will not be any change on that.

And whatever is the one which is related to the variable rate, which is linked to the 1-year MCLR, whatever is the increase that has to happen has already happened. So, if there's a reduction in the MCLR that benefit will come in the third quarter and fourth quarter of this financial year.

**Mona Khetan:**

Okay. And incrementally, at what rates are we borrowing from bank?

**P. Balaji:**

Currently at 8% to 8.2%. And currently -- I mean, we have not drawn some of the funds because we are anticipating a lesser interest rate. So, we are still negotiating with the banks. The last drawn rate was at 8% without considering NHB, obviously.

**Mona Khetan:**

Right, right. And as far as your customers are concerned, it's fair to say that they've not gone through any EMI increase so far.

**P. Balaji:**

Yes.

**Mona Khetan:**

And somewhere in the opening remarks, you mentioned about strengthening the middle management as well. So, if you could highlight if there are any specific changes that have happened around that?

**M. Anandan:**

Yes, our sales and marketing organization, we have the branches, cluster managers and area managers. And then area managers reporting directly to Mr. Manoharan, who is the Chief Business Officer.

What we have started is to strengthen this and, gone for a State head level position in each State. In other words, for the four States now, we have decided to go for a State head. For example, now we have a person to head the Tamil Nadu State, another person to head the -- Andhra of course, we have divided into, one is the Coastal Andhra, second is the Rayalaseema. Coastal Andhra, we already have a person in place. And Telangana, we have a person in place. And even the Rayalaseema and Karnataka, we have identified the person. And so, in other words, we brought in under Mr. Manoharan, who is our Chief Business Officer, 4 State heads, in fact 5 State heads to drive the business and to be closer to every branch.

Also, through larger training and exposure, we have strengthened our branch managers and the area managers. And given geographical issues, wherever required, we have added a few more - - we have totally around 54 cluster managers, which we have added another 5, 6 to have a better pursuance of business not only disbursements but collections as well. So, if you really look up the entire sales and marketing, we've strengthened it in a way that now we can function well and be able to pursue good growth.

Similar steps we have taken on the credit as well. For example, in HO, we have about 30+ credit officers approving all the credit files. We have now gone for State-wise and product-wise credit heads who will approve these files. Similar changes have been done in the collection area as well.

**Mona Khetan:**

Got it. That was useful. And since we are running out of time, we'll just close the call as well. Thank you everyone for joining us today. And thank you to the management for this opportunity to host the call. Sir, over to you for any closing comments you may have.



**M. Anandan:**

Thank you, Mona. I'd like to pay my sincere gratitude to all the analysts and 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 questions. We would be happy to get back to you. Thank you.

**Moderator:**

Thank you, members of the management. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.