



Aptus Value Housing Finance India Limited  
Q2 FY '24 Earnings Conference Call  
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Dolat Capital



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

**Moderator:** Ladies and gentlemen, good day, and welcome to Aptus Value Housing Q2 FY '24 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 and then zero on your touchtone phone. Please note that this conference is being recorded.



Please note that this conference call may contain forward-looking statements about the company, which are based on beliefs, opinion and expectation of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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, Yusuf. Good evening, everyone, and welcome to the Earnings Call of Aptus Value Housing Finance India Limited to discuss its Q2 and H1 FY '24 performance. We have with us the senior management from Aptus to share industry and business update.

I now hand over to Mr. Anandan, Executive Chairman of Aptus for his opening remarks. Thank you, and over to you, sir.

**M. Anandan:**

Thank you, Mona. Ladies and gentlemen, good afternoon to all of you. I am Anandan, Executive Chairman of the company. I welcome you all to the conference call to discuss the company's performance for the second quarter and half year ended September 2023. I have with Mr. P Balaji, MD, Mr. C T Manoharan, CBO and Mr. John Vijayan, CFO. The financial results and the investor presentations are available on the websites of the stock exchange as well as our company's. I hope everyone had a chance to look at it.

Aptus, as you are aware believes in growth with due importance in the quality of the loan book with good financial metrics. We are happy to record that Aptus had a decent second quarter and also first half year of FY '24. Sharp business focus, deep penetration in served markets, customer centricity along with appropriate tech support has enabled the company to achieve good growth. The company's performance for this period demonstrates a sustained trajectory on stability, growth and diversified income stream.

Our net worth , stands strong at over INR3,500 crores, indicating robust capital adequacy. This coupled with good support from National Housing Bank, other Banks and DFIs on the borrowings side and with strong ongoing demand for both home loans and small business loans gives us confidence to pursue robust growth with sustained profitability in the years to come.

I would now hand over the line to Mr. Balaji to discuss business focus, operating and financial parameters. Thank you.

**P Balaji:**

Thank you, sir. Good afternoon, friends. As we have been explaining in the earlier calls, we will continue our focus on key strategies, namely:

- Growing disbursements and loan book both in Housing Loan and Small Business Loans considering the large head room available in the low and middle income segment in tier 3 & 4 cities.
- Increasing penetration in existing geographies by opening new branches and commencing operations contiguously in the States of Odisha and Maharashtra.
- Strengthen analytics and digital adoption, about 17% of our business in Q2 FY 24 has come from construction eco system app, customer referral app and social media leads.

Our focus shall be to increase the leads through these channels, in addition to the physical branch network.

- Continue to focus on productivity, collection efficiencies, opex and cost of funds.

Major performance highlights are as follows:

- AUM grew by 28% YoY to Rs.7604 crores.
- Disbursements increased by 23% YoY to Rs.1391 crores. Sequential Q on Q growth in disbursements was at 15%
- NIM was at 13.34%
- Opex to assets were at 2.71%
- PAT at Rs.290 crores (20% growth y-o-y)
- ROA and ROE was at 8.10% and 17% respectively.
- Total live customers were at 119000 customers (25% growth YoY)
- During the period 19 branches were opened and as we speak 3 more branches have been opened. Further we will be opening our first branch in Maharashtra this month.
- Asset quality
  - Collection efficiencies improved to 99.72% in this quarter
  - Our 30 + DPD has improved by 51 bps to 5.99% on YoY basis. On sequential Q on Q basis the improvement was 28 bps. This will be focused and improved upon in the ensuing quarters.
  - NNPA was at 0.89%
  - PCR maintained consistently at 1.06% as on 30 Sep. We are carrying a total provision of Rs.81 crores and this when computed as a % of NPA works out to a coverage of 89%

Funding:

- Well diversified borrowings - 62% are from banks, 26% from NHB, 7% from NCDs issued to IFC, MFs and NBFCs and the balance in the form of securitization.
- Sufficient on balance sheet liquidity of Rs.974 crores including undrawn sanctions of Rs.300 crores from NHB and Rs.290 crores from banks

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

**Moderator:**

Thank you very much. We will now begin with the question-and-answer session. First question is from the line of Manuj Oberoi from YES Securities. Please proceed.

**Manuj Oberoi:**

Sir, I've got three questions. Firstly, your sense on whether this strong and improved disbursement growth momentum would continue in the coming quarters? What's your sense on that, sir?

**P. Balaji:**

Yes, Aptus' focus is to continue the strong growth momentum which we have achieved in Q2 FY 23. This will be continued in the next 2 quarters. Further we are also opening new branches which will support this strong growth envisaged.



- Manuj Oberoi:** Sir, any outlook on the spreads and the NIMs ?
- P. Balaji:** As regards spreads, we have increased the interest rate for the all live customers on the non-housing loan by 50 basis points, and this is effective from 1st of September 2023. Hence the yield on the loan book is likely to increase with the result that NIMs are likely to be stable for the next two quarters. And if there is a reduction in the cost of borrowing because of the NHB borrowings being drawn, we are likely to see improved NIMs from the current levels.
- Manuj Oberoi:** Understood Sir. Finally, can we see further reduction in the Stage 2 bucket in the second half of this year?
- P. Balaji:** Definitely, we are focusing on that. If you look, our collection efficiency has improved from 99.52% in Q1 to 99.72% in Q2. Our objective and focus is to improve this collection efficiency and also collect amounts from the customers over and above their current month billing. If this happens, then we can see good reduction in Stage 2 assets.
- Manuj Oberoi:** Got it, sir. That's all from my end, sir. And best wishes for the next quarter, sir.
- Moderator:** Thank you. Next question is from the line of Shubranshu Mishra from Phillip Capital. Please go ahead.
- Shubranshu Mishra:** I have two questions actually. So, the first one is about the insurance loans, which is around 2% of the AUM, just wanted to understand what these insurance loans are? Second is, what is zero-plus, this quarter and maybe a year back?
- P. Balaji:** First, let me answer on the insurance loan. These are the loans which are given to our customers for getting their lives covered under the credit shield insurance arrangement with an insurance company. The premium for this is paid by the customer one time at the time of disbursement and the premium paid is for the entire tenor of the loan. This premium works out to 2% to 3% of the sanction amount which is getting funded by us to our customers.
- Shubranshu Mishra:** What is the zero-plus on this quarter and a year ago, sir?
- P. Balaji:** If you look at the last quarter, one-plus was 8.5%. Now it is reduced to 8%. And it was almost 10% last year at the same time.
- Shubranshu Mishra:** Understood. Thank you, Sir.
- Moderator:** Thank you. Next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.
- Raghav Garg:** I have two questions. One is, what was your AUM growth in Tamil Nadu for this quarter?
- P. Balaji:** The AUM growth for the half year was 13%. It is there in the presentation as well.
- M. Anandan:** Just to add to what Balaji said, at the portfolio level, we had a growth rate of about 28% y-o-y. And looking at Tamil Nadu, we had a growth rate of growth of 13%, whereas in Andhra, Telangana and other places, we had a growth of over 35%.

In Tamil Nadu, in the first quarter, our attrition at the Branch Manager level was slightly higher but then it got corrected in the second quarter and our disbursement growth has already gone up to 15% vs first quarter, and we are very confident of maintaining this trend in the third and fourth quarters also. We are also confident of meeting the projected growth of around 35% for the current year .

**Raghav Garg:** But sir, if I look at last two quarters as well, Q1 '24 and Q4 '23, the growth was somewhere between 15%, 16%, still lower than what you're delivering at the overall AUM level. Why is that the case despite you just having about INR3,000 crores of AUM in that state?

**M. Anandan:** You must have observed that our disbursement itself was slightly lower in the first quarter. We have disbursed about INR 645 crores. This has gone up to INR 745 crores in the second quarter, and we are kind of improving it further in the third quarter. However, slight lower disbursement in the first quarter has happened in Tamil Nadu, due to attrition at the field level, which has been corrected already. And now the disbursement have come back to normal as reflected in the second quarter itself. And going forward, it will improve further.

**Raghav Garg:** I'll get to my second question, which is, so you mentioned that you've set up one branch in Maharashtra. I just wanted to understand how are you building up business in Maharashtra? I mean, have you hired a team from Maharashtra and if you're hiring a new person, a new business head for the expansion in West? Just a flavour on this would be very helpful as to how you're building business in Maharashtra? Yes, thank you.

**P. Balaji:** Yes. Our branch expansion strategy is always been that we select a particular state and go deep into that state. Also, we grow on a contiguous basis in the States which are adjacent to the states where we already operate. For example, we have opened our first branch in Odisha in Berhampur, which is almost very close to a place called Srikakulam in Vizag.

Similarly, in Maharashtra also we will be opening a branch in Nanded, which will be around 70/80 kilometres from Nizamabad where we are already having operations. So, the initial control will be from Nizamabad to make the new branch learn our culture and processes. Now coming to the branch that is getting opened in Maharashtra, we have hired local talent from this place which has been our practice all through. We have set up an entire team in Nanded including the cluster manager who will be responsible for the business and also for opening more branches in this State.

**Moderator:** Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Managers. Please proceed.

**Pranav Gupta:** Good afternoon and congratulations on a good set of numbers. I have a two questions. So first one is like last quarter, we saw that Aptus declare dividend. I just wanted to check with you if there is any dividend policy that the Board has formulated -- if so, then what is it? can you explain the dividend that you might payout?

**M. Anandan:** So, actually as we have explained in the last earnings call, we do have a policy on dividend and as you know, we have declared the dividend for FY '23. For FY '24 also, the Board will take the decision on dividend at the appropriate time. It will be possibly be in the third quarter meeting

and/ or in the fourth quarter meeting. We do have a dividend policy which considers our after-tax profit and other parameters before arriving at the appropriate % of dividend.

**Pranav Gupta:**

Okay. Just as a follow-up to that question. Like you had mentioned last time on the call that this dividend payouts are largely to lead the business to an optimal leverage level that you think is okay. So, is there any thought on when and if we might end up stop paying dividends? And any optimal leverage level that we're targeting eventually?

**M. Anandan:**

I don't think we made a decision at the board level to stop making the dividends or to stop paying the dividends at all. While attaining optimal leverage in one consideration for us to declare dividend, this is not the only consideration for declaring dividend. We would like to be seen as a dividend paying company which not only depicts the quality of operations but also the ability of the company to earn profits. To sum up, we will not be stopping the dividend payouts once the desired leverage is attained and the dividends will be paid consistently in line with our policy in terms of the dividend payout ratio, which is sustainable for us in the future as well.

**Pranav Gupta:**

Sure, That answers my first question. So, the second question is on the growth part. You mentioned that you started opening branches on a contiguous manner in Odisha and will also be opening our first branch in Maharashtra this quarter. Could you talk about the process that we go through in terms of assessing the opportunities when we decide to open a branch in a new state. Could you talk about the process and what sort of opportunity you see in these two new states that is Odisha and Maharashtra?

**P. Balaji:**

In terms of opening new branches, we do a clear market study on what is the kind of market, financial needs, income stream and repayment culture of the people etc. We also consider the business done by other HFCs/NBFCs in these places and also their experience in handling delinquent accounts. While these are on the specifics we also look at the industrial/commercial activity happening in these places and also look at various profiles of the self employed customers in these places based on which the decision to start a branch is arrived at.

**Pranav Gupta:**

Sure. Sir, just one last question. You mentioned that you've taken a 50-basis point pricing hike in this quarter, that of September of this year. Could you talk about what is the frequency with which we -- I mean, if this rate hike is taken in September, does it become applicable immediately? Or is there a repricing mechanism that close over the next couple of quarters?

**P. Balaji:**

We have increased the interest rates of our loans from 1 September 2023

**Pranav Gupta:**

Right. So, any repricing, whether upwards or downwards in the future is typically done -- assuming going to expect immediately?

**P. Balaji:**

See normally our philosophy is to offset the increase in interest cost by way of operational efficiencies. If interest cost is going beyond that and resulting in NIM compression, we get into increasing the interest rate. So, with that in mind, we have done this 0.5% increase, and we will be observing the interest cost increase also very closely and based on that, the decision will be taken on whether to increase the interest rate to our customers or decrease the interest rates.

**Moderator:** Thank you. The next question is from the line of Sonal Gandhi from Centrum broking. Please proceed.

**Sonal Gandhi:** Yes, thanks for the opportunity, sir., so I just wanted to understand on cost of funding. Do we expect it to go up from here or we expect it to remain at a similar level and what is the NHB sanction limit that we have at the moment?

**P. Balaji:** Let me explain you this. If you look at our corporate build up, there are two companies. One is the housing finance company, the other one is the NBFC. In the NBFC we do the small business loans, where we charge 21% interest and in the housing finance company we charge anywhere between 14% to 15% on the housing loans. So, the interest cost depends on that and in the housing finance company we have the benefit of NHB refinance. The incremental cost of borrowings in the HFC is 8.25% to 8.3% and this is 0.25% to 0.50% more in the NBFC.

So, it is the function of these two that is playing a part in the increase in cost of funds for us. If you look at our June quarter, our cost of funds was around 8.3% and after that it has become 8.41%. This is basically because we have increased our borrowings in our NBFC where it is slightly expensive as compared to the housing finance company's borrowings.

Now going forward we have got this NHB sanction which is around INR300 crores where the interest rate will be at least 0.5% lesser than the market rate. So, to that extent there can be a savings in the cost of funds but again the market being at where it is currently, the cost of funds are going up and so we actually are not able to comment on how much more cost of funds will go up.

**Sonal Gandhi:** Okay Sir, in Tamil Nadu, I mean, there is another NBFC which is growing very, very fast, very aggressive. So, is there, I mean, some attrition, probably because of this NBFC wherein we are losing the talent and that is impacting our disbursement? I mean, or they become more aggressive, that's where, we are kind of losing customers. Not losing, but our growth rate has kind of come down. If you could just give some color on that

**P. Balaji:** Let me explain. See, I don't know which NBFC you are talking about. If I am able to get what you are talking, I think they are not our competitors at all. Let's be very clear on that because they are in a different segment.

And we are not losing people to them. Five years back, there were not many companies operating in any of the areas where we were operating. Now, there is competition. There are new companies which have commenced operations in the area where we are operating and the obvious choice for them is to take people from us. Hence people from Aptus also wants to join the other companies. But the fact is after going to the other company some of the people come back to us as well.

Hence we all need to accept the fact that attrition at the junior levels will be there and how we manage this and still grow is the one which we need to work on and we are working on that.



- M. Anandan:** Actually, if you look at our staffing in terms of the senior most, middle, and at the field-facing jobs, at the branch level, our attrition rates are much lower at the senior level, and at the middle management level.
- Even at the branch level, our attrition rate is one of the lowest in the industry. But then, being a significant and well-known player in the southern markets, any company wanting to enter, obviously, they normally look at the existing successful companies.
- To that extent, we had little more than the budgeted attrition in the state of Tamil Nadu for a short period. And as I mentioned, that has been corrected and it has been also reflected in our business in the second quarter. Going forward, we are also very confident of meeting whatever budgeted growth rate that we have indicated in the disbursements as well as in the loan book for the third and fourth quarter.
- Sonal Gandhi:** Our AUM growth target remains at 30% plus. Is that understanding right?
- P. Balaji:** Yes.
- Moderator:** Thank you. Next question is from the line of Jigar Jani from B&K Securities. Please go ahead.
- Jigar Jani:** Yes. Hi sir, thank you for taking my question. So, on the interest rate hike, I believe we had also taken a 50-bps rate hike on the non-HL portfolio and SBL portfolio from 1, August. That is implemented, right??
- P. Balaji:** It is actually effective from 01<sup>st</sup> September 2023. There is only one increase in the interest rate hike, which is 0.5% on the non-housing loans for all live customers. But it is effective only from 01<sup>st</sup> September and not from 01<sup>st</sup> August.
- Jigar Jani:** Okay. And this, we are not doing any hike on the housing portfolio. This is only the one which you are mentioning is for the same one that we mentioned in the last conference, or the last con call?
- P. Balaji:** On the housing loans, we had effected a 0.50% increase in the interest rates in Nov 2022 and for the non housing loans we had effected a 0.50% in Sep 2023.
- Jigar Jani:** Okay, understood. So, whatever was given in 01<sup>st</sup> August is being taken at 01<sup>st</sup> September basically. So, and when you say that your disbursement run rates or trend would remain the same, so would it be fair to say that we are targeting 15% kind of sequential growth in disbursements going ahead as well?
- P. Balaji:** Yes.
- Jigar Jani:** Okay, understood. So, your borrowing cost for housing finance company is 8.25% to 8.5%
- P. Balaji:** Yes. 8.25% to 8.3%.
- Jigar Jani:** Okay. And Is NBFC 25 bps higher than the HFC.
- P. Balaji:** Yes, 25 bps to 50 bps higher.





- Jigar Jani:** Okay, understood. Thank you so much for answering my questions.
- Moderator:** Thank you. Next question is from the line of Ms. Mona Khetan from Dolat Capital. Please go ahead.
- Mona Khetan:** Yes, hi, sir. So, I had a few questions. So firstly, if you look at the spread over the last, two years or so, 2.5 years rather, they've settled at higher levels versus in the past. So maybe almost 100 bps higher, partly also due to the rating upgrade that you had during this time. So, do we expect this kind of spread between 8.5%-9% to sort of continue, or could they normalize over time at lower level?
- P. Balaji:** No, as we have been explaining on the call, the yields which we are generating are sustainable because of the products mix. So, with the result, the spread which we are having at around 8.8% as of now is likely to be maintained between 8.5% - 9%.
- Mona Khetan:** Sorry, so you said that 8.5% to 9% should be sustainable. Okay. Secondly, how are our incremental cost of borrowing, both on the NBFC and the HFC books?
- P. Balaji:** Yes, just now we explained. The incremental cost of borrowings in the HFC is 8.25% to 8.3% and this is 0.25% to 0.50% more in the NBFC.
- Mona Khetan:** So, this is the incremental borrowing cost from bank?
- P. Balaji:** Yes.
- Mona Khetan:** Okay. And your opex was higher by about 20% sequentially. So, is it largely to do with the branch expansion or there's more?
- P. Balaji:** Yes, it is basically to do with the branch expansion. We have 19 branches opened and almost 300-350 people have joined additionally. Also, we are strengthening the middle management as well, both in Sales, Credit, IT, compliance, finance, everywhere. So that has also added to the cost.
- Mona Khetan:** And we intend to add about how many branches per year?
- P. Balaji:** Around 30 to 35 branches every year.
- Mona Khetan:** Okay. And if you could also talk about the BT out during the quarter?
- P. Balaji:** If you look at the pre-closure, it is around 8%. Of that, almost 5.5% is from own source of the customers. So, the BT out is working out around 2.5%, which has been consistent for the last three to four quarters..
- Mona Khetan:** Okay, just to touch upon the rate hike, so across both your HL book and the non-HL book, during this cycle, you've raised rates by 50 bps?
- P. Balaji:** Yes.
- Mona Khetan:** Okay. That's all from my side. Thank you.



- P. Balaji:** Thanks, Mona.
- Moderator:** Thank you. Next question is from the line of Arul Selvan from Independent Advisors Private Limited. Please go ahead.
- Arul Selvan:** Good evening, sir. Thank you for giving me this opportunity. I have a few questions. The first one is regarding your disbursement for this quarter. I just wanted to know, what would be the breakup of this disbursement between the HFC and the NBFC?
- P. Balaji:** Around INR450 to INR500 crores is in the housing finance company and the balance is in the NBFC.
- Arul Selvan:** Okay. Now, the next question I have is in terms of your guidance, I understand that the overall AUM guidance growth for the full year FY '24 is about 30%. Now, is there, again, if I break that up between the HFC and the NBFC, is there, what will be the numbers specifically for both of these segments?
- P. Balaji:** Out of INR 3,400 crores which we are targeting for this year, almost INR 2,100 crores will be in the HFC, and the balance will be in the NBFC.
- Arul Selvan:** Okay, I understand. That's it from my end and all the best for the future. Thank you.
- Moderator:** As there are no further questions, I would now like to hand the conference over to the management for the closing comments.
- M. Anandan:** Yes, thank you, Yusuf and Mona, for organizing this conference call. I would like to pay my sincere gratitude to all analysts and investor friends for taking time out of their 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.
- Moderator:** Thank you. On behalf of Dolat Capital Markets Private Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.