"Aptus Value Housing Finance India Limited Q1 Earnings Conference Call"

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Management: Mr. M. Anandan –Executive Chairman

Mr. P. Balaji – Managing Director

Mr. C.T. Manoharan – ED & Chief Business Officer

Mr. John Vijayan – CFO

Moderator : Ms. Mona Khetan –Dolat Capital Market Private Limited

Moderator: Ladies and gentlemen, good day, and welcome to the Aptus Value Housing Finance Limited Conference Call hosted by Dolat Capital.

As a reminder, all participants' line 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 "*"and then "0" on your touch-tone 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, Ms. Khetan.

Mona Khetan: Thank you, Riya. Good evening, everyone, and welcome to Q1 FY '25 Earnings Call of Aptus Value Housing Finance. We have with us the Senior Management for Aptus to share industry and business updates.

I would now like to hand over the call to Mr. Anandan – Founder and Executive Chairman of Aptus for his Opening Remarks, post which, we can open the floor for questions.

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 this Conference Call to discuss the Company Performance for the quarter ended June '24. I have with me Mr. P. Balaji, MD; Mr. C. T. Manoharan – ED and CBO; and Mr. John Vijayan, CFO.The financial results and the investor presentations are available on the website of Stock Exchanges as well as our company. I hope everyone had a chance to look at it.

With low mortgage penetration and significant housing shortage across the regions, growth particularly in Tier-2, Tier-3, Tier-4 cities, where we operate and with the government initiatives supporting the sector, we believe that we are having a significant headroom for growth to serve the underserved, unserved customers in the areas we operate.

At Aptus, we believe in strong growth without losing focus on the quality of loan book and good financial metrics. We are happy to record that Aptus had a solid first quarter of FY '25, supported by business growth, stable asset quality and continuous focus on productivity. Sharp business focus, good distribution network, deep penetration in the served markets, customer centricity along with appropriate tech support and diversified income stream have enabled the company to achieve good business results.

Our net worth, as you know, stands over about Rs. 3,800 crores, indicating robust capital adequacy. This, coupled with good support from NHB, banks, the FDIs on the borrowing side and with strong on-ground demand for both home loans and small business loans give us confidence to pursue strong growth, scalability in the coming years with sustained profitability.

I now hand over the line to Mr. P. Balaji, MD, 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 call, we will continue to 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 expanding operations contiguously in the States of Odisha and Maharashtra.
- Strengthen analytics and digital adoption, about 18% of our business in Q1 FY 25 has come from customer referral app, construction eco system app and social media channel. 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.
- During the quarter, we moved to Mobile First lead management software system, which impacted our disbursements in the month of April 2024. In the months of May and June 2024, disbursements were back to normalcy clocking 35% growth over the corresponding comparable two month period. This technology initiative will bring major advancement in our operations, streamlining our processes, service delivery, lesser bounce, improved collection productivity, better regulatory compliance and improving overall efficiency.

Major performance highlights are as follows:

- AUM grew by 27% YoY to Rs.9072 crores.
- Disbursements increased by 4% YoY to Rs.675 crores.
- As on date, we have opened 16 branches in Karnataka, Telangana and Maharashtra. 7 more branches will be opened in Q2. Of this 4 will be in Maharashtra and Odisha. Plan for the year will be to add 40 new branches.
- Total live customers were at 137,000 customers (27% growth YoY)
- NPA was at 1.30% - maintained at the same levels as June 2023
- Asset quality
    - Collection efficiencies dropped to 99.18% resulting in 30 + DPD inching up to 6.31%. This was mainly due to seasonality and also due to elections. This will be focused and collections will be improved further in the ensuing quarters.
    - NNPA - 0.98%

  - PCR maintained consistently at 1.05% as on 30 June We are carrying a total provision of Rs.95 crores (including a management over lay of Rs.45 crores) and this when computed as a % of NPA works out to a coverage of 80%
- NIM was at 12.80%
- Opex to assets were at 2.67%
- PAT at Rs.172 crores (21% growth y-o-y)
- ROA and ROE was at 7.73%. During the quarter our ROE crossed 18% and was at 18.13%, which is one of the best in the industry.
- Funding**:** We have well-diversified borrowing. Of the total borrowings, 64% is from banks, 22% from NHB, 14% from NCDs issued to IFC and also to Bajaj and also securitization. Sufficient on-balance sheet liquidity of Rs. 907 crores, including undrawn sanction of Rs. 520 crores from banks. As you know, we have not done any direct assignment of loan and front-ending of income on account of this.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish Bhuv from ICICI Securities. Please go ahead.

Renish Bhuva: And congrats on a good set of numbers. Sir, just 2 things from my side. One on this disbursement growth, which we alluded to the tech upgradation. But is there any impact of the RBI circular dated 29th April?

P. Balaji: Actually, no. If you look at our disbursements, 95% to 98% of our disbursements is through RTGS. Actually, this RTGS planning we have started sometime in January 2024 itself. So, with the result, we didn't get impacted because of this RBI circular. And with the new system coming in, where more discipline has come up, because of that, the MODT gets registered before the disbursement happens. And because of that, we are disbursing through RTGS, except for the balance takeover and also where we are funding the housing purchase cases where we need to give cheques.

Renish Bhuva: And sir, my second question is on the provision side. So, this quarter, there has been a sharp fall in the total provisioning. But when we look at the lead indicators for us at quality like collection efficiency or 30-plus DPD or even for that matter net NPA as well, all these 3 parameters have increased sequentially. And despite that, our provisioning fell sequentially. So, what explains that, sir?

P. Balaji: No. Actually, if you look at the provision, as I told a little earlier, we are carrying a provision of Rs. 95 crores, which works out to 1.05% of our total assets under management. . Of this Rs. 95 crores, Rs. 50 crores is the provision that is required as per the ECL model. So, the balance Rs. 45 crores is the management overlay, which we are carrying and were creating till March 2024.. In the quarter of June, we stopped creating this management overlay. And this drop in collection efficiencies and increase in stage 2 assets is because of the seasonal nature of the business. In the second quarter, the collection efficiencies will improve. And in July, we are seeing signs of that. And also, the asset quality has remained stable. Because of that, we have stopped creating the management overlays, and this Rs. 45 crores will be continued. .

Renish Bhuva: So, sir, it is fair to assume that going forward, the total ECL provision at 1.05% will remain static and there will be no further requirement for creating the management overlay. Is that a fair assumption?

P. Balaji: Yes. It will be at these levels. And if the asset quality improves further, we might take some benefit. But as of now, we are not planning that way.

Renish Bhuva: So, sir, what could be the credit cost guidance for the full year in FY '25?

P. Balaji: It should be around 0.3% to 0.35%.

Renish Bhuva: 0.3 to 0.35. Okay. So, this quarter, at 16 basis point, is optically low.

M. Anandan: Just to add to what Mr. Balaji said, basically, we follow somewhat conservative policy as far as the provision for NPAs are concerned and also dealing with NPAs. In fact, apart from the provision, any outstanding beyond 24 months, we write-off 100%. When you say NPA, it is really between 91 days to maximum of 2 years only. Beyond 2 years, it completely is written off. And within that also, we have created 25% provision for the NPA. In addition to that, there is this total provision of Rs. 95 crores, which includes Rs. 45 crores of management outlay. In fact, our auditors have been consistently looking at it and giving advice on whether we want to reverse this, if not fully, partly. But we said we would rather not reverse this management outlay of Rs. 45 crores, but we will use this going forward to support the business growth. So, to that extent, the incremental provision for the quarter for the year is what really is required without disturbing. Our overall provision is still at 1.05%, that's not been disturbed.

Only thing is if you put additional provision, it goes up further and increase our management outlay further. So, that is the reason we have taken the call. Overall provision we will maintain around 1.05%, 1.06%. That actually covers up to 80% of our NPA. Our NPA, this Rs. 95 crores of the provisions available, accounts for 80% of our NPA. So, given that the debit to the P&L account in the first quarter is slightly less without really reducing any provision and without really reversing any management outlays.

Moderator: The next question is from the line of Kunal Garg from IIFL Securities. Please go ahead.

Kunal Garg: Sir, congratulations for a good set of numbers. So, my first question is, sir, may I know the gross write-off during this quarter?

P. Balaji: So, as you know, as Mr. Anandan told, the write-off is a technical write-off. That means any asset which is going beyond 24 months, that is getting debited in the P&L account. So, if you look at it, I think it is around Rs. 1.65 crores is the write-off that has happened in this quarter.

But as against that the old bad debt recovered is around Rs. 1 crore. That is getting accounted for in the other income.

Kunal Garg: And sir, my second question on your ECL model. Sir, for how many years of data you are using for the ECL model?

P. Balaji: It's basically right from the inception that is being used for the process of calculating the probability of default and the loss given default. Actually, live customers' payment patterns are getting analyzed.

Kunal Garg: And my, sir, last question is, your 30-plus has increased significantly in this quarter, so any particular product or any particular state where you see stress in this particular?

P. Balaji: No, it's not that way. I mean we are not seeing any stress in any of the states, in particular. It is dispersed across all states.

Kunal Garg: So, any reason for the increase in this 30-plus?

P. Balaji: As I told earlier, it is basically because normally in any NBFC, the first quarter is slightly subdued, whether it is disbursement or whether it is collections because of the hard work done for the last quarter of the financial year.And of course, elections also played a part because in some states' elections were in June and in some states, elections were in April. So, that also played a part in getting the money collected. Otherwise, we are back to normalcy in July.

M. Anandan: Actually, if you really see our last year record also, if you can see the investor presentation, last year first quarter, the NPA was at about 1.29%. And then progressively, it came down to 1.07% by March '24. Because then after this 1.29% in the Q1, it came down in Q2, came down in Q3 and then came down in Q4 to 1.07%. So, again, 1.29% of Q1 of last year, there it so happened we are at 1.3% in Q1, 2025 despite whatever is the problems caused by the election and things like that.

Moderator: The next question is from the line of Balkrushna Vaghasia from Axanoun Investment Management. Please go ahead.

Balkrushna Vaghasia: Sir, my first question is related to the industry as a whole. So, if I look at the microfinance industry, which serves to the bottom of the pyramid, and then comes, I think the small and business loans and housing loans in the Tier-3, 4, 5 city and rural. So, when I look at the microfinance, it is kind of highly cyclical if I take the data of last 15 years. So, now comparing that to our industry, what is your perspective on the cyclicity of like affordable housing as well as the small business loans that you are granting in the areas you are operating? Like how much cyclical is the business that we are in?

P. Balaji: See actually, I don't think it is right to compare the microfinance industry with the loans that we are giving because first of all, microfinance is an unsecured loan whereas in the loans which we give, it is fully secured and fully secured by self-occupied residential properties. That's the first thing. And also, if you look at the average ticket size of any microfinance, it is between Rs. 50,000 to maybe Rs. 2 lakhs at the most, whereas in our case, the average ticket size is almost Rs. 9 lakhs, which means the quality of the customers are very well above the microfinance kind of customers. And also, we fund for the construction of the property alone. See in our case, a typical customer of Aptus is that he will typically have a land of his own and he will want money for construction of the house. And we fund only part of the construction cost, resulting in the LTVs between 35% to 40%. And most of the cases, that customer lives in that house.

So, with the result, I don't think the cyclical nature of the industry is not applicable for the affordable housing industry because it is his asset, and he is living in that house and the moral responsibility to pay back the due is much more than in the case of a microfinance industry.

M. Anandan: Also, as you are aware, the interest charged by the microfinance company is far higher. It's anything about 24% plus kind of thing and upwards of 22% and goes up to 25%, 26%. Whereas in the affordable housing company, the interest charge is not that high. Because of that, their EMI, where interest is lower, the EMI also serviceability becomes easier. And it's really for them as Mr. Balaji said, it's for really their own living purpose. In fact, in our case, 80% of what we have funded customers are living in that houses. And they are also saving in the rental because they are living in their own property.

Balkrushna Vaghasia: Right. So, second question is related to employee turnover. Like if I look at the industry data, specifically the players who are listed and who are not like the government bank sponsored or something like that, I mean, if I exclude the government-sponsored, like HFCs, so employee turnover is very high in the industry. Of course, your data is kind of like one of the best, but overall, the employee turnover is very high at an industry level. So, what are the couple of things that you can attribute to this particular scenario?

P. Balaji: See, I would like to answer this in 2 parts. One is the people at different levels. One is the band one, which is the top management, where there is no attrition. And also the band 2, which comprises of the middle management, associate vice president and vice president and the state and area managers and cluster managers, the attrition is around 4%, 5% there. The third one is the branch managers. Again, there, the attrition is around 10%. And at the field level, the attrition is high. I mean it is not low for us as well. It is between 30% to 35%.

So, that is the challenge which we need to handle, and we are incentivizing all the branch managers and also the field staff to the extent possible, but we also draw productivity out of them. But beyond that, if they are not performing, then either we need to take a call to ask them to go out or they themselves go out of the organization. So, that 30% to 35% is a challenge which we are tackling. But at the top level, there is not much attrition.

M. Anandan: Actually, in fact, as Mr. Balaji said, the attrition is not only for us, most of the financial players, as you know, it's only at the field staff level, either the field level sales officers or field-level collection staff, where their average age is between 25 to 30, in that age group. And now what we're trying to do is that do a lot of homework at the time of recruitment and induct them through proper, appropriate handholding and training.

And we have also introduced a retention bonus for them. If this guy stays with us up to 8 months, now maybe we might say in terms of 6 to 8 months, they get a bonus because we found that based on our past experience, the attrition happens largely in the first 6 months, really. So, then we said we've started taking utmost care, and in fact, some of the actions we try to initiate to really reduce attrition. And we do see some positive impact when compared with the maybe some of the other industry players, including some of the large private sector banks, as you know, where the attrition is around 45% and upwards, where our attrition, even at the field level, is slightly lower than that because of these actions.

Balkrushna Vaghasia: Third question is related to NHB finance. So, what is the fund that NHB has targeted for refinance for the current financial year? And on what basis NHB allocates the fund? And how much we are targeting to borrow from NHB in this year?

P. Balaji: See, if you look at NHB refinance, in fact, for Aptus, right from the first year of operations, NHB support has been there. That's the first thing. Next thing is, every year, we have been applying to NHB, and NHB has been supportive enough for us to give the refinance facility. Last time they gave Rs. 300 crores. The year before they gave Rs. 500 crores. This year also, we will be applying but the decision-making at the NHB normally comes after our AGM, after the annual return is filed, and then, we need to give all the relevant information to them. They process it, and the refinance sanction come sometime between September and October, after which we'll be drawing the funds.

This year, we are planning to approach NHB for a refinance facility of around Rs. 750 crores. We need to see how much they give. But of course, they have their own internal parameters of how they rate a company. They have a rating associated with all the housing finance companies. And based on that, they arrive at the amount and give the money. And that's the process which NHB follows. And every year, we have been applying for that.

M. Anandan: Our experience has been very good and very positive because they've been supporting us a lot. That's why today, 22% of funding come from NHB only. And not only these, even after giving the funds when they come for the audit, the NHB audit has got 2components. One is the regulatory audit. Second is really refinance audit. In case of our refinance audit, if they are happy, if everything is good, they tend to give more.

Balkrushna Vaghasia: Sure.

Moderator: Thank you so much. The next question will be from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. Sir, anything to link, say, the collection team rationalization to collection efficiency or that's a separate part? And would we look at more rationalizing the collection team from here?

P. Balaji: No, Kunal, that's part of our everyday operations. See, we look at productivity of each of the collection officers. And suppose if in a branch, if the bounces are, say, 120 bounces and if there are 3 collection officers, and I don't think we need 3 collection officers because an average collection officer can do 60 receipts per month. So, if that happens then we normally rationalize it by either transferring him into some other branch or making him do more. So, that is one thing which we follow diligently and then monitor the MIS and then take actions on these kinds of things.

And that's how the collection officer's numbers have also come down as compared to the earlier quarter. So, it's part of the rationalization impact. And also, what is happening is with the new system that is going in, the early signs are that the bounce rates are coming down. So, anticipating that also, we are slightly rationalizing the collection's manpower.

Kunal Shah: And secondly, with respect to this ECL provisions, which we are maintaining at 1.05%, 1.06%, would there be any read-through in terms of how the trends in 30-plus DPD would be and then we would want to create some buffer out there? Because see, when we look at it in terms of the aspiration that we had on 30-plus, that number, maybe this quarter again, went up quite high to 6.3. No doubt, over the quarters, we see it improving getting into Q4. But somehow when we look at it maybe in terms of the aspiration level and the ECL, that seems to be moving in the opposite direction. So, should we link that, that if there is an increase in the rise, then we will see higher coverage?

P. Balaji: . It is basically this quarter it has increased as I explained, because of the seasonality of the thing. Otherwise, it improved, and it has been consistently maintained between maybe 4% to 5% at the stage 2. So, we are not seeing that kind of patterns on the field because people are able to collect the money. If we see some strain at the field level, we will be surely increasing the provision coverage at that level.

Kunal Shah: Okay. And now we are back on collection efficiency to 100% plus in July?

M. Balaji: I can't reveal those numbers, but definitely it is really good compared to first quarter.

Kunal Shah: And last on states, any specific trends with respect to states or it was more broad-based the election impact or maybe we saw the deterioration in collection efficiency slightly higher in few of the states?

M. Balaji: It is basically, if you look at it, I think, 2 of the states had the elections in June. So, that was the problem. And the other, of course, the seasonality, that's all.

Moderator: The next question will be from the line of Harshit Toshniwal from PremjiInvest. Please go ahead.

Harshit Toshniwal: Sir, I think the question is more with respect to the shift in the regional mix, which we have seen. So, I think this quarter, Tamil Nadu portfolio has recovered pretty well, but there has been a slowdown in the Andhra Pradesh book and a pretty sharp slowdown. If you can help us explain where the individual dynamics within both these states are? If election was a reason to slow down slightly in Andhra Pradesh?

M. Anandan: I don't know where you got this number from. Andhra, there is no slowdown at all.

Mr Balaji: See, if you look at the year-on-year growth, Andhra Pradesh has grown by 43%. Tamil Nadu has grown by 10%. I'm talking about the AUM, And in Telangana, it has grown by 43%, and Karnataka, it has grown by 24%, resulting in the overall AUM growth of 27%. So, this is the number that is there. I don't know on what basis are you telling the Andhra Pradesh growth has come down.

Harshit Toshniwal: Sir, let me clarify. I thought that sequentially, it was lower, but maybe would have punched the number wrong.

P. Balaji: Don't worry, Harshit. I think if it is relating to specific numbers, we can have a separate call and get this clarified.

Moderator: The next question will be from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Congrats on good numbers. Now, my question is on disbursements. So, what we saw in May and June was a very good comeback. But as a run rate, are we running on that momentum in July to start off with this quarter? And whether can you look forward to, say, maybe Rs. 1,000 crore disbursement coming in second quarter?

P. Balaji: Definitely, Rajiv. We are very confident of achieving Rs. 1,000 crores disbursement in this quarter. The signs are very positive in the month of July as well. In fact, there has been a 27% to 28% growth over July '23. And things are looking better, and that's how it is, I think I have answered this question specifically also.

M. Anandan: Our overall guidance, what has been given, we are confident of pursuing that overall guidance that we have given. We have given the guidance of about 30% growth in our disbursements. Despite this little thing that's just happening because of system in April, we are very, very confident we'll catch up with it, our overall guidance of 30% and which will be visible in the second quarter itself. As we have seen in July, it's very good growth, and we are seeing that happening in September and going forward for the year as well.

Rajiv Mehta: And just one question is on cost of funds and spreads. I mean, if you can elaborate on the trends in incremental cost of funds and how do you see it going in the coming months, and hence, how should we look at spreads?

Mr. Balaji: See, if you look at the cost of funds, it has been stable for the housing finance company. We are able to raise additional funds, incremental funds between 8.5% to 8.6%. And of course, that is also getting linked to the repo rate. So, that is one thing which we are observing on the field. But if you look at the NBFC borrowings, banks are increasing the rates.

But in the NBFC, because of their risk weights to be allocated as per RBI RBI and also the credit to deposit ratio being higher, we are seeing banks raising the interest rate. With the result, earlier, we were raising funds around 8.9% to 9% in the NBFC, this has gone up to, say, 9.15% to 9.2% now. So, with the additional something that is required in the NBFC, there will be an increase in the cost of funds. To that extent, there can be a NIM compression. Maybe I'm expecting 0.1% to 0.15% NIM compression because of that on the total book.

Moderator: The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Firstly, could you provide some sense around the asset quality on a vintage basis, as in what does the asset quality look like on our 1-year-old book, 2-year-old book? And what's the right vintage to assess the loans in your categories?

P. Balaji: I didn't understand the question.

Chinmay Nema: So, what does the asset quality look like on the loans that were disbursed 1 year back and on the loans that were disbursed 2 years back? Just trying to understand how the asset quality progresses as the loan seasons.

P. Balaji: See, if you look at the June number, it is working out to say, the lagged delinquency for 1 year is around 1.5%. And maybe if you look at the 2-year lag, it will be around 1.8%. This is the June number. If you compare it with the March, it will be lower because it should be around 1.3% for 1-year lag and around 1.5% for 2-year lag, if you are looking at the financial numbers as on the year-end. So, that's the trend we are looking at. And we are absolutely fine with that numbers, yes, because of the collection efficiencies that are around 100%.

M. Anandan: See, we also have a system of tracking what we call the tracking the early default. For example, with the last 15 months, all the transactions done in the last 15 months, how did they really perform. And if there is any visibility in terms of customers' self-account and is there any budget bounce higher or either repayment is coming. So, in our indication of our early default percentage will tell us in terms of all the new accounts are coming on board. They are being monitored continuously on an ongoing basis for the first 15 months account by account.

And also, not by account by account, by branch by branch, the branch manager who has originated it, the sales officer who has originated it and the root cause of any early delinquency, is it because of the end-use related or our own employee related, our own location related. So, that way we do a root cause analysis for all the early defaults and then in-built into our private appraisal and accrual system. So, that really gives us comfort in terms of keeping track of the lagged delinquency.

Chinmay Nema: And secondly, could you talk about the post-disbursement tracking mechanisms in the sense that do we do periodic bureau scrubs once we have disbursed the loans or keep a check on the other loans a person might be taking after taking on a housing loan? Or is that not part of the process?

P. Balaji: See, as regards the post-disbursements, first, the end use is checked properly. See, whether it is for the purpose of construction of the house, so, obviously, the money gets disbursed based on the stage of completion of the construction. So, the end use is clearly monitored. Even in the case of small business loans, the purpose of our loans is for enhancement of business of the customers. So, if the customer borrows for enhancing the businesses of their own, so after disbursement maybe 3 months down the line, that there is a post-disbursement audit conducted at the field to ensure the end use of the funds.

As regards to the CIBIL records or the credit bureau records are concerned, 3 or 4 years after the disbursements are done, maybe we also do a credit bureau check on whether he has got any other loan. And we also do an analysis of whether he's paying us correctly and whether for the other loans he is not paying or is he paying correctly. So, that kind of analysis are also being done. And if something happens, if some data is coming out, which is not okay, then we monitor those customers more closely.

Chinmay Nema: And my last question is on underwriting. So, we have a centralized underwriting system. But just trying to understand that because we have a higher share of self-employed customers in our mix, how do you deal with the subjectivity of cash flows associated with such customers? Could you talk about what happens at the branch level or to what extent underwriting happens with the feet-on-street team, some sense around this?

P. Balaji: See, if you look at the typical structure of a branch, there is a branch manager, 4 or 5 sales officers. Let's say, the duty of the sales officer is to procure the lead from the field and then pass it on to the credit officers of the branch. So, these credit officer goes and meets the customers and then understands his business, goes through his cash flows and then he does a business verification. He does a residence verification and then gives the credit appraisal memorandum. That is being done.

One more thing what he does is we have something called asset creation. Suppose if a customer comes and tells us he is earning Rs. 50,000 a month, at least 50% of that has to be in a tangible asset creation. He should show us the proof. By tangible asset creation, mainly it can be an investment in a piece of land or a fixed deposit or a chit fund or something which is tangible. It's where he is able to prove.

So, once this is done, the proposal gets into the head office, where a team of 40, 50 people analyze the credit appraisal memorandum. If there is a need, they talk to the customer, understands the business of the customer again and then take the call on whether to give the money or not. And for this purpose, we have got around 60 to 70 profiles of customers where we have developed over the period of last 15 years. And then, for each profile of the customers, we have a cash flow analysis and also what kind of profit those kind of profiles will be making. And then currently, what we are doing is we are also using the services of the account aggregator wherein the bank statements of the customers are analyzed for their cash flows. So, that is also being done for evaluating the customer.

Moderator: The next question is from the line of Deepak Mandhana from Avighna Investments. Please go ahead.

Deepak Mandhana: I have 2 questions. One what would be your average loan tenure? And what would be your average loan to value in each of the segments, housing loan, quasi housing loan and your small business and personal loans?

P. Balaji: See, average tenure of loans for the housing loan is around 9.59 years. We do up to 15 years, but the average tenure is around 9.59. For the non-housing loans, it is between 8.5 to 9. And for small business loans, it is 7 years. And LTV, for the housing loan is around 37%. For the non-housing loan, it is around 42%. For the small business loans, it is around 40%.

Deepak Mandhana: And the second question is a follow-up on this. Now, considering your most of the loan book is on the fixed rate, so going forward, obviously, because of the direction from Fed as well, they would start reducing rates. So, probably the Indian banks, the RBI would also start reducing rates. So, how do you see that business? Because people, if you have a fixed rate, so there would be a difficulty in getting the old customers in terms of the tenure that you have given to stay with you because they would want to do a BT with some other financiers.

P. Balaji: No. Actually, I will see this as a benefit because what will happen is if you look at the interest rates which we charge, it is on par with any other company. That is the first thing. Next thing is if interest rate comes down, I think we will be the beneficiary. Now your question is whether these customers will go to somebody else. Our past trend is not indicating that. For the last 15 years, our preclosure rates are at 7% or 8%. Out of 8%, 5% is from the own source. So, we are not seeing that kind of a trend. So, if it comes, we need to see, but as of now, we are not seeing those kind of trends.

Deepak Mandhana: And any growth of business in Karnataka that has been seen because I don't see much of a growth in the state of Karnataka?

P. Balaji: Karnataka growth has been at 24% in AUM.

M. Anandan: No, actually, you will see lot more growth coming from Karnataka in this year and this quarter itself. In fact, in Karnataka, we are also adding more branches. And more branches are really getting added in Karnataka and in Telangana in our existing states and apart from the branches that we are adding in Maharashtra and Odisha, the new states. In the existing states, we are focusing on Telangana and Karnataka, and we are quite happy with Karnataka with the growth started coming already.

Moderator: The next question will be from the line of Raghav Garg from AMBIT Capital. Please go ahead.

Raghav Garg: Sir, just 2 questions. One, why is there a decline in the Tamil Nadu loan book? On a quarter-on-quarter basis, it seems to have declined by almost 2% on an outstanding basis. Why is that?

P. Balaji: See, Tamil Nadu loan book has grown by 10%, okay, quarter-on-quarter. That is the first thing.

Raghav Garg: 10% Y-o-Y, right?

P. Balaji: Yes, in terms of Y-o-Y. And if you look at it, we have been indicating in the last year, there were some problems relating to staff attrition. Because of that, the loan book and the disbursements were not that great in Tamil Nadu in the last year. Now, if you look at it, we have taken steps to correct it. And in the last quarter of last year, the disbursement growth was 9%.

And in this quarter, the disbursement growth as compared to the corresponding period of last quarter barring April was 15%, which means we are able to see good improvements in Tamil Nadu. We are targeting at least 20% disbursement growth this year in Tamil Nadu. And we have to correct 1 or 2 clusters, but that will be done in this quarter. And once that is done, we can safely assume a 20% growth in Tamil Nadu as regard disbursement is concerned.

Raghav Garg: Sir, would it be fair to say that whatever attrition issue, the staff poaching issue that you had highlighted last year, considering those, there may have been cases where employees took some of the business from you to wherever they went? Is that the right way to think about this?

P. Balaji: No, I didn't understand your question. Yes.

Raghav Garg: So, what I meant is that you had highlighted staff attrition issues in your company last year.

P. Balaji: Yes. Just in Tamil Nadu mostly. Correct.

Raghav Garg: Is it fair to assume that the employees would have taken away the business, would have done a balance transfer after they went to that new company?

P. Balaji: See, what happens when a group of people leave from one company to another, the first thing they target is to get the loans that they have sourced in the older company because that's the easier way to show performance in the new company, right? So, that normally happens. But over the next maybe 1 or 2 months, it will happen. After that, it will dwindle down. So, we don't see that kind of an issue as a big issue. It might be there for 1 or 2 months.

Raghav Garg: So, no, sir, my only reason to ask that was that there has been a consistent decline in the Tamil Nadu growth rates, which prompted me to ask as to why the book has declined on a quarter-on-quarter basis. And even if you look at on a Y-o-Y, basically, growth rates have been coming down. So, that was the only reason why I asked.

P. Balaji: Basically, the disbursements didn’t happen last year, so that's why, but this time it will become okay.

Raghav Garg: And sir, how are collections trending in July so far? I understand that new disbursements are up 27%, 28%, as you highlighted, but how are collections doing? Or How are collections in July?

P. Balaji: July. I can't reveal the number, but it has been very good. It has improved a lot as compared to the first quarter of FY '25. And we are seeing good improvement, and we are pushing people to collect more. So, no problems there.

Moderator: The next question is from the line of Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: The first one is if we can specify the number of loans and home loans and LAPs that we have done this quarter versus, say, on a Q-o-Q basis and on a Y-o-Y basis. The second is, are we deploying any account aggregators and any other technology providers to do ID verification or bank statement analysis guys, like Perfios? So, what all parts of technology is being deployed? That's the second.

P. Balaji: Yes. First, I will take the second question. I didn't understand the first question. But second, see, we are using the services of account aggregators. And account aggregators, we are using for the purpose of bank statement generations and also the bank statement analysis. We have tied up with CAMSfinserv, and they are giving both. One is the account aggregator, and then, the bank statement analyzer also. Data is being ploughed back into the credit evaluation mechanism itself. So, the adoption of account aggregator has been increasing month-on-month. And also, in terms of the loan agreement execution, we have tied up with a firm called Legality, where all the loans that we disburse, the loan agreement execution is done on a tech platform. The first question, what was that? I didn't understand the first question.

Moderator: The next question is from the line of Varun from Kotak Securities. Please go ahead.

Varun: I have 2 questions. The first one is with regard to Tamil Nadu disbursement guidance. As far as I remember, last quarter, we had guided for 30% growth in this year. And before in the call, you had guided for 20%. So, is there a cut in guidance?

P. Balaji: No. 30% guidance we have given for the company, Varun. The 20% guidance was given for Tamil Nadu. We are still maintaining that 20%. If you look at the disbursement growth year-on-year for this quarter, it has been 15%. We are confident of touching this 20% in this year.

M. Anandan: No, actually, the growth that we are getting, outside Tamil Nadu, particularly in Andhra, Telangana, it's much, much higher than even 30%. So, 20% that we are talking about is only for Tamil Nadu. But outside Tamil Nadu, other than Tamil Nadu, our growth rates are higher than that. That's why, we are indicating a growth rate of 30% at the company level.

So, basically, this growth is coming, a, out of expansion in terms of new branches in the existing states, namely in Telangana and in Karnataka. Also, the growth is coming out of enhanced productivity from the sales officers. Now, we have moved into 3.5 files per staff per day. That's moving up to 4. So, the growth also is coming on account of a small increase in the ATS, average ticket size. We are looking at anything between 8% to 10% increase because our average loan size of about Rs. 9 lakhs is moving towards about Rs. 10 lakhs.

So, in other words, the overall growth of 30% disbursement growth that we are guiding clearly take into consideration factors in terms of new branches in existing space, new branches in the new states, an increase in productivity per sales officer productivity and increase in ATS. So, because of that, we are getting the overall 30%. While in Tamil Nadu, yes, we are moving from the last year. We are improving, basically, to about 20%. And going forward, we will improve further there also.

Varun: The second question I had was with regard to the rate hikes that we had implemented in the previous quarters. So, we have not really seen a benefit on the yields. When are we going to expect some flow-through to the yields?

P. Balaji: No, it is there. If you look at it, I think from 17.15% or so, it has become 17.36%.

M. Anandan: Possibly, he is referring to the other income because of the April disbursement.

P. Balaji: Okay. If you look at the ROA tree, it has not increased much because there are some volume-related income which gets booked. And in April, because the volumes got impacted, from 17.6% last quarter, it has become 17.67%. It is because of the disbursements which didn't happen in April. If that had happened, it would have become 17.9% actually. We have just worked it out, but it would have worked out to 17.9%.

Varun: So, then that 10 to 15 bps NIM compression that we're guiding for includes whatever benefit we might get from the rate hikes.

P. Balaji: Yes.

Moderator: The last question for today will be from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah: So, just to drive on the Tamil Nadu. So, sir, I think the growth rate has been slow relative to the overall growth for us. So, if it is due to attrition, then probably it would be a normal case, and it won't be extended. But it looks like this slowdown has been now extended. So, is there anything structural reason to it given that it is also our oldest state and the biggest state for us?

P. Balaji: Chintan, I think we have explained a lot on Tamil Nadu. See, what has happened is we had problems in the second quarter and the third quarter of last financial year, which we corrected. It was basically the attrition. This has been corrected. Now, with more people and also new people joining, the disbursement growth was 9% in the last quarter of the last financial year.

Now, this growth has become 15%. While we have around 18 clusters in Tamil Nadu, there are 2 or 3 clusters which are still to be corrected. If this is corrected, we are very confident of pursuing this growth at 20% this year. And that's what we are guiding for Tamil Nadu, and this will happen. Now, the attrition problems have got sorted out. But the new people to get acclimatized with the way we operate, that is taking some time. And obviously, we need to give them that time, right? So, that's what is happening.

Chintan Shah: So, you told that there are 2, 3 clusters, which are pending. So, there are some measures to be taken with regard to attrition or is there anything else?

P. Balaji: No, that has been sorted out. Only thing is we need to have more productivity from the people. That's it. Other than that, nothing else.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

M. Anandan: Thank you, Mona, for organizing this conference call. I would like to say my gratitude to all analysts and investor friends who have taken time out to listen to us today. Please feel free to connect with us in case you have any further queries or questions. Thank you very much.

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