“Aptus Value Housing Finance India Limited Q2 FY '25 Earnings Conference Call”

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Management: **Mr. M. Anandan – Executive Chairman**
Mr. P. Balaji – Managing Director
Mr. C T Manoharan – ED & CBO
Mr. John Vijayan - CFO

Moderator: **MS. Mona Khetan – Dolat Capital**

Moderator: Ladies and gentlemen, good day, and welcome to Aptus Value Housing Finance India Limited Q2 FY '25 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participant line will be in listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mrs. Mona Khetan from Dolat Capital. Thank you, and over to you, ma'am. Please go ahead.

Mona Khetan: Good Evening everyone and welcome to Q2 FY '25 Earnings Conference Call of Aptus Value Housing Finance to discuss its Q2 and H1 FY '25 performance. We have with us the senior management from Aptus to share their industry and business insights.

I would now like to hand over the call to Mr. Anandan, Executive Chairman, Aptus, for his opening comments. Over to you, sir.

M. Anandan: Thank you, Mona. Ladies and gentlemen, good afternoon to all of you. I'm Anandan, Executive Chairman of the company. I welcome you all to the conference call to discuss the company's performance for the quarter/half year ended September 2024.

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 already available on the website of the stock exchange as well as our company. I hope everyone had a chance to look at it.

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

At Aptus, we believe in strong growth without losing focus on the quality of loan book and good financial metrics. Very happy to record that Aptus had a very good first half year FY '25, supported by business growth, stable asset quality and continuous focus on higher productivity. Sharp business focus, good distribution network, deep penetration in 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 stands over at Rs. 4,014 crores, resulting in robust capital adequacy. This coupled with good support from institutions like NHB, banks, mutual funds and DFI on the borrowing side, and with strong on-ground demand for both home loan and smart business loans gives us confidence to pursue strong growth, scalability in the coming years with sustained profitability.

I would now hand over the line to Mr. P. Balaji, MD, to discuss the 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 disbursement and loan book, both in housing loans and small business loans, considering the large headroom available in the low and middle-income segments in Tier 3 and 4 cities.

- Expanding operations contiguously in the states of Odisha and Maharashtra and increasing penetration in existing geographies by opening new branches.
- Strengthening the analytics and digital adoption, about 20% of our business in Q2 FY '25 has come from customer referral app, construction ecosystem app and through social media channels. 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, the new Mobile First lead management software, which was launched in April '24, settled well and is bringing in good improvement in terms of streamlining our processes, service delivery, lesser bounce, improved collection productivity, better regulatory compliance and improving overall efficiencies. We are continuously monitoring the functioning of this new system to bring in more improvements.

Major performance highlights for this quarter, half year was as follows.

- AUM grew by 27% year-on-year to Rs. 9,679 crores.
- Disbursements during the quarter increased by 26% year-on-year to Rs. 935 crores. Sequential quarter-on-quarter growth was at 39%.
- We have 291 branches as on date. During the quarter, we opened 24 branches, and for the half year, we have opened a total of 29 branches. Plan for the year will be to add a total of 40 branches.
- Total live customers were at 145,000 customers, a growth of 27% year-on-year.
- NPA was at 1.25%.

In terms of asset quality,

- Collection efficiencies were at 99.28% and our 30+ DPD marginally improved to 6.24% as on 30th September as compared to 6.31% as on 30th June 2024.
- Net NPA was at 0.94%.
- Provision coverage has been maintained consistently at 1.03% as on 30 Sep 2024. We are carrying a total provision of around Rs. 100 crores including a management overlay of Rs. 45 crores, and this, when computed as a percentage of NPA, works out to a coverage of 82%.
- NIM was at 13.02%. opex to assets were at 2.65%.
- Profit after tax was at Rs. 354 crores, representing a growth of 22% year-on-year.
- ROA was at 7.77%, and ROE was at 18.3%, which is one of the best in the industry.

In terms of funding,

- During the quarter, we diversified our borrowings further by issuing NCDs worth Rs. 400 crores to mutual funds.
- Of the total borrowing, 59% are from banks, 19% from NHB, 11% from NCDs issued to mutual funds and IFC and the balance in the form of securitization.

- Sufficient on-balance sheet liquidity of Rs.1,239 crores as on date, including an undrawn sanction of Rs. 550 crores from banks.

As you know, we have not done any direct assignment of loans, leading to front-ending of income on account of this.

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

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

Renish: Congrats on a good set of numbers. Sir, just two questions from my side. One, on the LAP book. Is it possible to share, let's say, what percentage of our LAP book customers might have MFI loans?

P. Balaji: Actually, there is no overlap. We just did a scrub report for the live customers we have with us. Actually, there is no overlap of MFI customers with the kind of our customers.

Renish: Okay. And secondly, given there is a lot of talk around the growth for NBFC. Do you foresee any risk to our near-term growth targets because of the regulatory pressure?

P. Balaji: I think this will be a question, which will be in the minds of quite a few analysts and the persons who are in the call. I would like to explain this RBI stance, which we have understood in a certain way. I'll just clearly explain this. I think then we can take it forward. From what we understood, RBI seems to be more uncomfortable on the following things. One is unsecured loans, micro-finance loans, unsecured loans, personal loans and consumer loans, including the loans given by fintech companies, and secured loans with very small ticket size around, say, Rs. 2 lakhs to Rs. 3 lakhs.

They seem to be uncomfortable if these companies want to grow at 40% or so. And they also seem to be uncomfortable with interest rates charged by them at over 24%. And they are also not comfortable with netting up of loans leading to evergreening of loans, which is being practiced by some of the players in the industry.

They are also insisting on the fact about the importance of being transparent with the customers in terms of pricing and fee that is being collected from the customers. We have already studied the impact of this. In terms of impact on ourselves, we are in to fully secured loans, both in housing and non-housing, and the security is mostly self-occupied residential properties.

We have given a guidance of 30% AUM growth at a lower base. We are also charging interest rates, which are reasonable across products. Our ATS is around Rs. 8 lakhs to Rs. 9 lakhs with an LTV of around 35% to 40%, which means the security value is around Rs. 30 lakhs or more, and we do not follow any netting of loans in Aptus.

In terms of transparency with the customers, we have been transparent in terms of communicating the interest rates and other changes, both in the sanction letter, MITC and also in the website. Further, we also communicate this in the vernacular language. Hence, we are not impacted by this RBI stance, which is being taken across companies.

Renish: Got it. This is very helpful, sir. And just last question. On the provisioning front, so if I remember correctly last quarter, our provisioning was lower because we have stopped creating management overlay. But then this quarter, there has been a significant jump in the provisioning. So, is this due to the higher write-offs in this quarter?

P. Balaji: No. It is not that. See if you look at the provisioning business, it grew very marginally from 1.13% to 1.15%. And regarding the write-off, what has happened is, if you look at the provision movement as per the provision coverage, there is a movement of almost Rs. 4.78 crores and the debit in the P&L is almost Rs. 9.51 crores. This is basically because of our conservative accounting policy of more than 24 months overdue account, which have been technically written off.

But you also need to look at the other income where there is an increase of almost 46%, where the bad debt recovery also has been factored in. If you look at that for this quarter, we have got a recovery of almost Rs. 2.77 crores.

So that's how you need to look at it. And the provision coverage as I told you earlier, we are having almost Rs. 100 crores of provision, out of which Rs. 45 crores is the management overlay. The actual provision required as per the ECL model is Rs. 65 crores.

M. Anandan: To add to what Mr. Balaji said, debit to the P&L account with respect to ECL provision is slightly higher than the first quarter, mainly because there is an increase in the loan book of about Rs. 650 crores between the first and second quarters. So that also carries a lot of provision.

Moderator: The next question is from the line of Abhishek Agarwal, an individual investor.

Abhishek Agarwal: Yes. Congratulations on great set of numbers. So, what I've noticed that in the few quarters that have gone by. On the borrowing side, the floating percentage of our borrowings is going up. So, could you share your strategy on what number ultimately, we are looking at on the floating versus fixed side?

And the other question that I would like to understand on is that the asset book, the 80% of it is fixed. So, going forward, when we presumably would see a rate cut, are we confident of not losing customers who might want to refinance these loans with banks who would pay on floating interest? So those are my 2 questions.

P. Balaji: First, if you look at the borrowings, if you look at our leverage, it is around 1.5x now. And if you look at our capital adequacy ratio, it is around 70%, which means the future growth, which we are projecting for next 5, 6 years is going to come out of borrowings. So, with the result, the leverage, which is at around 1.5 is likely to go up between 4 to 5x, and we are comfortable with that. And that will be the growth path and that will be the way in which the growth in business will be funded. So, it will be totally out of borrowing. That is the first thing.

Next thing is on the yield which you're talking about 80% is fixed, yes. I don't think we have been following this practice, right, for the last 15 years. We have not lost any customers because of the rates we are charging. And if you look at our interest rate, we are charging around 15% to 15.5% on the housing loan. On the quasi home loan, we are charging around 17% to 18%. And the non-housing loan, we are charging around 21%, which is comparable with the interest charged by the peers. And, in the case of small business loans, it is still less than the market range. So, we don't see any pressure on us to reduce the interest rate or we'll be losing customers because of this.

M. Anandan: Just to add to what Mr. Balaji said, on the funding side of about Rs. 6,000 crores, only about 55% is from banks. Outside the banking system, about 45% is largely coming from the NHB, securitization and the NCDs that are raised with the fixed tenor and the cost. So, there is no variability in that.

Within the bank borrowing also, we've always gone for the long-term tenure of 4 to 5 years minimum. But in some cases, there is a variability coming on the interest reset, either through changes in the REPO rate or the MCLR. In fact, in the last 3 to 6 months, we have decided to take new loans linked to the external benchmark like REPO rather than the internal benchmark like MCLR etc.

So, to that extent, the variable component is somewhat manageable and required purely to support the growth in funding. On the asset side, you are right, 80% is a fixed rate, where in case of interest situation, reduction in interest rates as and when it happens, you may tend to get benefit, because of the fixed nature of the loans.

At the same time, going by our past experience, the pre-closure rate, in our case, is much, much lower. It is not more than 2% to 3%. The overall pre-closure rate is around 7%. Of that, about 4% to 5% is either money coming from the customer through their own source. It is not really coming out of a loan transfer. So, our experience in pre-closure is very limited, and to that extent, we anticipate that annual fees change in terms of when the interest rate if at all comes down a bit. And while we tend to benefit that the risk of pre-closure is much lesser, of course, variable is about 20% that you have with such things.

Moderator: The next question is from the line of Shivam from Abu Dhabi Investment.

Shivam: Sir, can you start giving the private versus PSU bank breakup in our borrowing?

P. Balaji: See, if you look at our total borrowing, bank borrowings are 59%. Of that around 25% will be from PSU banks or maybe 30% will be from PSU bank and the balance will be from private sector banks. And as I said, NHB is almost 19%, and NCDs around 11%. The balance is in the form of securitization.

Shivam: Sir, can we start giving this number directly in our investor presentation? It will be helpful from the next quarter.

P. Balaji: Sure.

Shivam: And the second question is, sir, bifurcation of the variable rate borrowing between the REPO rate and the MCLR?

P. Balaji: See, of the total borrowings, the borrowing linked to the external benchmarks rate is around 20%, the borrowing linked to MCLR is around 32% and fixed is around 48%.

Shivam: And sir, right now, as the regulators are very hard on high interest rates, so what is the interest we are charging on the small business loans?

P. Balaji: We are charging 21%, which is reasonable according to us.

M. Anandan: Actually, a large part of our portfolio being a home loan company is really the home loan, where we carry an interest rate of around 15% to 15.5%. The second large component is the quasi home loans where we charge about 17.5% and the SME loans, where the interest rate is around 21%. The RBI regulatory concern is more in terms of the unsecured loans, small loans flowing out of microfinance, fin-tech companies, and the term that they use is usurious interest rates. So, we don't really come under that category.

Shivam: So, we are not thinking of reducing the interest rate from 21% to something like 20%, right?

M. Anandan: Our rates are comparable with other few companies operating in that particular segment and our rates are quite comparable. We don't see this as usurious interest rates.

Shivam: It's been 13 quarters since we are giving the quarter-on-quarter growth. So, congratulation on a good set of numbers, and hope to see the good numbers in the future quarter also. And by the way, sir, 30% growth rate for the next 5 years is comfortable, right?

P. Balaji: Yes, at least for the next 3 years, 30% growth will be there.

Moderator: The next question is from the line of Yash from Citigroup.

Yash: Couple of questions. First is on the ECL provisioning, where ECL provision to total AUM in this quarter has slightly gone down to 1.03% whereas we have been guiding of comfortable range of 1.05% to 1.1%. So how do we see it moving? And I mean would this inch up in the 2H of this year?

P. Balaji: The provisioning depends on the quality of book and quality of collection. So, if the collections are happening very much on time and if the collection efficiencies are good, I don't think we should increase the provision. So, we'll be maintaining around 1% to 1.03% as the provision coverage ratio. So, it will be ranging between 1% to 1.03% and this will be continued, because as I said earlier, if you look at the total provision which we are carrying, almost Rs. 45 crores is the management overlay. So, I don't think I'll be increasing the overlay from now on.

Yash: And sir, any incremental colour on the 30 plus DPD book, which is still at the elevated level in October and first week of November?

P. Balaji: No, the collection efficiencies are improving. The collections will definitely start improving during the third and the fourth quarter and the 30 plus DPD will also come down. This will be the focus from our point of view as well. So, it'll eventually come down.

Yash: And sir, last question on the borrowings. Even in this quarter, we saw a good growth in borrowing. So, were they more front-ended for the 1H? Or we'll see the similar traction in 2H as well?

P. Balaji: See, normally we maintain 3 months or 2 months disbursements on balance sheet liquidity, and another 1 or 2 months disbursements requirement as the undrawn sanction. Also, we received this proposal from ICICI Mutual Fund for Rs. 300 crores, which was at a very good rate. So, we thought we should take that opportunity and draw that fund. So that is why our on-balance sheet liquidity has gone up slightly.

M. Anandan: Actually, our total liquidity is about Rs. 1,200 crores. Of that, about Rs. 689 crores are the unencumbered cash and cash equivalents. Apart from this we have the unavailed sanctions of Rs. 550 crores.

These funds are not drawn yet. But, in fact, this funds along with the collections should almost cover our business requirements till the months of February/March.

Yash: And sir, lastly, on the attrition rate, how are we moving? Have the trends improved, and any new initiatives have taken on that front?

P. Balaji: See, if you look at the attrition rate, I would like to divide this between across level. Of course, at the top management level, the attrition is nil. At the middle management level, considering the area manager, AVPs and cluster managers, it is between 5% to 10%. And of course, at the branch manager level, it is between 15% to 20%. And at the sales officer level, it is between 25% to 30%, which is less than the industry, but still, it is a challenge to be in it.

Moderator: The next question is from the line of Nischint from Kotak Institutional Equities.

Nischint: The LAP growth, see, if I look at your overall AUM growth, which is at around 27%, growth in LAP is around 12%, so which is significantly lower than the company level average. Is there any specific reason why growth is lower over here? Is there any asset quality stress, any execution stress etc.

P. Balaji: No, no, it is nothing related to the asset quality. If you look at now the collection efficiency or if you look at the 30 plus DPD, it is all in line across products. It may be 0.2% here and there, but it is in line. So, there is no worry on the asset quality because our credit norms, whether it is a housing loan or a LAP, it is the same. See the LTV norms are same, the instalment to income ratio is same, the way in which we do the credit appraisal is the same. So, there is no difference there.

So, it's basically because we have to do more housing loans because of which we need to take care of the compliance fund factor, it is because of that, this has happened. However, if you look at the total composition of the book, in terms of the consolidated basis, it is around 61% on the housing loan and 15% on the quasi-home loan and 20% on the small business loans. So that will be continued. So that is the way in which we need to look at the mix rather than quarter-on-quarter disbursements moving slightly here and there.

Nischint: So basically, it is just because you wanted to comply with the 60-40 ratio and that is the simple reason why you lagged. And the other thing is in the state of Tamil Nadu, I know we've sort of ramped up in the last 2 quarters. But when do you think we go back to Tamil Nadu to company level average growth?

P. Balaji: First, let us understand this fact, in Tamil Nadu first of all, there is no market-related issues. Market potential is good. The ability of us to grow in the market is very well there. But as you know, we have been facing this attrition issue in last September and we have been slowly making changes and then bringing about the improvement in the way the Tamil Nadu is performing.

If you look at the half yearly growth, around 8% to 9% is the growth in disbursement. The AUM growth for half year, I mean September '24 as compared to September '23 is also 8%. We have made some structural changes in the team, and that is paying off well. And in the third quarter, you can see much more improvement in the Tamil Nadu performance.

Nischint: So, is it something to do with internal team? Or is it something related to the market?

P. Balaji: It's basically our internal issue, which is getting sorted out. It is not relating to any market-related thing.

Nischint: And just since there are a lot of questions related to the regulator that are coming up in this call, is there anything that the regulator has sort of in your discussions commented on growth or margins or asset quality? I mean, if you could clarify that could just help us.

P. Balaji: Let me clarify very clearly. NHB inspection has been completed for the year ended March '23. They have given their comments, and we have already submitted our responses. There is nothing alarming there. And they have suggested some process improvement which we have committed that we will do, and we will do that as well.

If you look at the RBI for the NBFC, RBI inspection took place 5 years back, and there were no major observations at that point in time. And of course, they have just completed the inspection now for the year ended March'24. They are yet to come back with their comments.

As of now, there are no inputs from the RBI on either the growth or the interest rates or the yield which we are charging. So, this is the status as of now.

M. Anandan: Just to add to what Balaji said. So basically, our total portfolio is about Rs. 9,900 crores, out of which Rs. 7,300 crores, which is of the parent company is really secured home loan or quasi home loan which is also secured loan. The interest rate that we charge is like any other housing company. The housing company's interest rates has never been seen as usurious by the regulator at any point in time.

If you read the concern raised by RBI, it is largely on the unsecured loan given to small customers by certain entities like microfinance companies or few fin-tech companies. We don't have any unsecured loan portfolio, and we don't give any small loans ranging from Rs. 2 lakhs to Rs. 3 lakhs.

Our interest rates are well communicated to the customers in English and in vernacular language. All the terms are fully disclosed. Also, we have made a comparison of our terms and conditions of the loan versus eight other companies and found that the service charges and the penal/pre-closure charges are quite comparable.

That's why we don't really see any concern of, and we don't do any netting off loans. And all other regulatory things are fully and totally compliant, and it is transparent to our customers and to the regulator and to us. So, we don't really see any concern on that for us.

Moderator: The next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Can you share the disbursement number for Tamil Nadu for the quarter Q1 and Q2?

M. Anandan: So as a company, our loan book has grown 27%, our disbursement has grown 16%. And we have given a guidance of 30% which we will do. And given the 16% disbursement growth, we'll move into 20% by third quarter, and to 25% in the fourth quarter, and our loan book will grow 30%. In Tamil Nadu, we had certain internal issues which we have corrected now and going forward you can expect better performance in Tamil Nadu.

P. Balaji: Basically, I mean there is a problem that needs some time to get sorted out. See, the thing is, we don't get fully experienced and good people immediately. So even if they come, they might not get adopted to the work environment. It is not a plug-and-play model. So, it is taking time. We have been saying it is taking some time, but we are hiring, we are on the right path in correcting the Tamil Nadu team and we are correcting it also. And there has been a growth of disbursements of 8% over the last half year. So, I think we should respect that and then take it forward because it is taking some time. And we all accept that, but we are on the right track.

So that is how we need to look at things. As I said, again, there is no market-related issues in Tamil Nadu. It is basically our own internal issues, which we are sorting it out.

Nidhesh Jain: Okay. And secondly, in terms of sourcing there is a significant -- I think the sharp increase in the share of construction ecosystem. And over a period of time, customer referral share has also gone up. So, what we have done there to show strong growth in these two channels?

P. Balaji: So basically, we have formed a team at the head office. See what happens is we have got this customer app where the existing customers can refer their leads. Similarly, we have got the construction ecosystem partners who are basically construction shop owners like paint shop owners or cement shop owners. So, when somebody comes and buy something from them, they ask them whether they need a housing loan and then they refer the same to us.

And once the leads come in, what we do at the head office is we go through the lead, we talk to the customer, we do a period check and make this cold lead into a warm lead and then take it forward. So that is what is being done on a focused manner. If you look at it, 18% of our disbursement last quarter came through these channels, now it has become 20%. And we find that this channel is good because the conversion ratios are also high. And the average ticket size is also high at around Rs. 9 lakhs to Rs. 9.5 lakhs. So, we would like to focus on this channel and develop this channel, and that's what we are doing.

Nidhesh Jain: And then lastly, how is the experience in the state of Odisha and Maharashtra, I know they're still the new states. But in terms of disbursement ramp-up, can you share some data out there?

P. Balaji: Sure. It is very encouraging. If our experience was not good, we wouldn't have opened more branches there. So, our experience in Odisha and Maharashtra has been good. And we have formed a team now. It is headed by cluster managers who are experience enough and who can take this to the next level.

Nidhesh Jain: Okay sir. That’s it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Jigar from B&K Securities. Please go ahead.

Jigar: Congratulations, sir, on a good set of numbers. Two questions. The yields that you mentioned on HL, quasi-HL and SBL of 15%, 17% and then 21% to 22%. These are disbursement needs, or these are bookings, and do they differ materially, just trying to understand whether we have reduced rates?

P. Balaji: Basically, these are disbursement rates. We charge 15% to 15.5% on the housing loan. It is 17% to 17.5% or 18% on the quasi-home loans and 21% on the small business loans.

Jigar: Right. And we have not reduced rates recently on SBL per se, right?

P. Balaji: We have not increased the rates.

M. Anandan: As far as the increase in the Repo rate of about 2.5%, our increase in interest rate is much, much less than that, something around 0.5% to 0.75% overall. So, we have consciously gone for a lower increase in the interest rates in that way.

P. Balaji: That too, we did it sometime in September '23 or October '23, after that we have not done anything.

Jigar: Okay. And sir, any clauses you have on this fixed rate book that this will remain fixed throughout the tenure of the loan, or does it get repriced, say 1 year, 2 years, is there a review clause in the agreement?

M. Anandan: It is a fixed rate contract, while the loan agreement says the company can raise the interest rates to recover part of the increase in interest rates in exceptional situations. So, in case of exceptional situation, the company does have the right to go for an appropriate increase to recover the cost.

Jigar: Sure sir. Thank you so much for answering my questions and best of luck.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Congrats on strong performance. So many of my questions are already answered, only a few left. Sir, firstly, on the employee cost, it was flat on a Q-on-Q basis despite a very sharp jump in disbursements. So, can you share the employee count change on Q-on-Q basis? And how are the incentives structured for employees?

P. Balaji: Basically, incentives are being paid based on the performance. And it will enhance productivity. So, we insist we are a productivity-driven organization. So, anybody who performs well will earn good amount of incentives and fixed salary will be 60% to 65% and 35% will be incentives.

M. Anandan: Actually, just to add on that as far as the numbers are concerned, we have closed September with about 3,000. And in March, it was around 2,700 to 2,800. So, we had increased by about 200. And in this time, we have also added about 32 branches. So, this increase also scale largely and mainly in the branches and at the skilled level functions like sales and collections.

As far as incentive is concerned, we do recognize the performance, both in terms of quantity and quality and quality in terms of the proposal generated, the track record of yearly default, track record of instalment payments and the quality of documents that have been completed.

Actually, it’s just not the disbursement number alone. It does take into consideration other qualitative aspects as well. Even in the collection also it is not that receipt alone, there is a weightage given for the EMIs. We recognize the quantum of EMI, and we recognize the number of receipts. And more importantly we also recognize the EMI for the current month of this year in a collection of old EMI if any.

So, the incentive structure, it is largely for our sales and collection, to recognize these aspects of productivity and quality.

Rajiv Mehta: Sir, on this opex to asset ratio, I mean, we are at 2.65% and we are talking about being the lowest cost-to-asset and cost-to-income ratios in the sector. So, what is the juice left? And what will be the key drivers here? What can drive it further down and to up to what level do you see it going?

P. Balaji: At Aptus, each and every expense is just monitored very closely. We negotiate better and also the productivity. That's what the secret is. And I don't think we can improve further on this.

M. Anandan: We follow the approval culture, which does not mean that we pay the lowest salaries. Our salaries are possibly one of the best in the industry. Then we have our investment in IT and in our branches. Even this year we are planning to balance it. We will be adding about 15% of our branches. So, despite these investments, we have also invested in the new software that has been mentioned earlier.

So, we do make the investments in terms of easy distribution in the IT. At the same time, we are very conscious that significant part of our growth has to come from the productivity of our existing branches, from the existing staff and the new staff after the turnaround time. So, in other words, as an organization, we do believe in approval culture way of operation.

Rajiv Mehta: Just checking and clarifying these 291 branches that we report. Is there bifurcation, are there separate branches for the NBFC and the HFC and how does the sourcing happen across branches for all products? Can you just throw some light in that?

P. Balaji: There are no separate branches for NBFC. Since NBFC is the wholly-owned subsidiary, the cost that's shared between the company is based on the assets under management. And as far as the sourcing is concerned, people are free to log in either the housing loan or a non-housing loan. Of course, there will be some push from the head office side on how much small business loans are being done at each branch and of course on the housing loans.

Rajiv Mehta: Okay I understood sir. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Kushan from Morgan Stanley. Please go ahead.

Kushan: I had two questions. One was around the loan growth. So, we have guided for 30% loan growth. In the near term, if I look at that FY '25, that broadly looks at an ask rate of about Rs. 2,400 crores disbursement in the second half of FY '25. Is that something that we are targeting?

My second question was around the loan spreads. So, over the last two, three quarters, we've broadly maintained a loan spread of about 8.7%. Is that something that we would like to maintain going forward as well? And in that context, I mean, how do you think cost of funds will play out from here on? And also, the higher liquidity on the balance sheet that you alluded to, over what timeframe would that come back to a more normalized level? Those are the questions?

P. Balaji : Currently, we have disbursed around Rs. 1,600 crores in this last 6 months and another Rs.2,000 crores to Rs. 2,100 crores is a possibility. So, which means it will be Rs. 3,700 crores. But we'll definitely try to touch Rs. 4,000 crores this year. So that is the guidance which we want to give.

P. Balaji: Yes see, spread is a resultant of yields less the cost of borrowing. Our spreads are likely to be maintained at around 17.3% to 17.5% and cost of funds currently it is at 8.5% or 8.7%. Of course, if the rate cuts happen then this interest costs will come down, at least on the variable rate borrowing. So, to that extent, there can be a NIM expansion, but I'm not referring on that as of now because the rate cut has to happen. So, with the result, the spread is likely to be maintained at 8.7%.

Kushan: So, liquidity has increased Q-on-Q this quarter. Just wanted to understand in what timeframe will that normalize to earlier levels?

P. Balaji: It is basically 3 months disbursement which we would like to maintain as the liquidity, whether on balance sheet or off balance sheet, it will be determined based on the market, based on the availability of funds and also the market dynamics.

So, for example, last quarter we had to draw that money because the rate was good, and the terms were good for the funds which we got from mutual funds. So, we had to draw the money and keep it on the balance sheet. But normal plan is to have 3 months gross disbursement as the liquidity available.

Kushan: Understood sir. That's all from my side.

Moderator: Thank you. As that was the last question, I would now like to hand the conference over to management for closing comment. Please go ahead, sir.

M. Anandan: Thank you for organizing this conference call. I would like to pay my sincere gratitude to all analyst investor friends who have taken time to listen to us today. Please feel free to contact Mr. Balaji or any of us in case if you have any further queries. Thank you.

P. Balaji: Thank you all.

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