“Aptus Value Housing Finance India Limited
Q4 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. Sanjay Mittal - CFO
Mr. John Vijayan – CRO

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

Moderator: Ladies and gentlemen, good day, and welcome to the Aptus Value Housing Finance India Limited Q4 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 touchtone phone. Please note that this conference is being recorded.

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

Mona Khetan: Thank you, Sejal. Good morning, everyone, and welcome to the earnings call of Aptus Value Housing Finance India Limited to discuss its Q4 and FY '25 performance. We have with us the senior management from Aptus to share industry and business updates.

I would now like to hand over to Mr. Anandan for his opening comments, post which you can open the floor for Q&A. Thank you, and over to you, sir.

M. Anandan: Thank you, Mona. Ladies and gentlemen, good morning to all of you. I am Anandan, Executive Chairman of the company. I welcome you all to this conference call to discuss the company's performance for the quarter and year ended March '25. I have with me Mr. P. Balaji, MD; Mr. C. T. Manoharan, CBO; and Mr. Sanjay Mittal, CFO; and Mr. John Vijayan our CRO. At Aptus, we believe in strong growth without losing focus on the quality of the loan book and good financial metrics.

We are very happy to record that Aptus had a very good FY '25 supported by business growth, stable asset quality, continuous focus on higher productivity and a robust business model, good distribution network and deep penetration unserved markets, customer centricity along with appropriate tech initiatives and diversified product and income stream have enabled the company to achieve good business results.

Our networth, as you are aware, stands over INR4,300 crores, and with capital adequacy -- 70% capital adequacy. This coupled with good support from banks, NHB, mutual funds and BFI on the borrowing side and with strong ongoing demand for both home loans and small business loans gives us confidence to pursue strong growth, scalability in the years to come with sustained profitability.

Further, to support our vision of reaching loan book of INR25,000 crores AUM by FY 2028, we've been continuously strengthening the organization by way of investing in new branches, relevant technology and strengthening the company with quality manpower across all functions, more particularly in the middle management.

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 morning, friends. As we have been explaining in the earlier calls, we will continue to focus on our key strategies, which are as follows: growing disbursement and loan book, both in housing loans and small business loans considering the large headroom available in the low and middle income segment 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 analytics and digital adoption, about 21% of our business in Q4 FY '25 has come from customer referral app, construction ecosystem app and social media channels. Our focus has been to increase the leads through these channels in addition to the leads from the physical branch network. Continue to focus on productivity, collection efficiency, opex and cost of funds.

The new mobile-first lead management software, which was launched in April 2024, has settled very well and is bringing in good improvements in terms of streamline of our processes service delivery, lesser bounce rates, 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.

Now coming to the major performance highlights. Our AUM grew by 25% year-on-year to INR10,865 crores, disbursements for the quarter. increased by 10% year-on-year to INR1,064 crores. Disbursement growth for the year was at 15%. We have 300 branches as on 31st March 2025, of which 10 branches are in the states of Maharashtra and Odisha, and the balance 290 branches are in the states of Tamil Nadu, Andhra Pradesh, Telangana and Karnataka. Total branches added for the year were 38. Total live customers crossed 1.6 lakhs. It is a 21% growth year-on-year. NPA was at 1.19%.

Now coming to the asset quality. Collection efficiencies were at around 101.16%, and our 30-plus DPD improved to 5.91% as on 31st March 2025 as compared to 6.21% as on 31st December 2024. Net NPA was at 0.89%. Provision coverage has been consistently maintained at around 1.03%. We are carrying a total provision of around INR111 crores, including a management overlay of INR55 crores. And this when computed as a percentage of NPA works out to a coverage of 86%.

Credit cost for the quarter was at 0.3%, which was almost similar to the previous quarters. NIM was at 12.96%. Opex to assets were 2.63% despite investments in new branches, technology and HR. PAT was at INR751 crores for the year, which is a growth of 23% year-on-year. ROA was at 7.73% and ROE was at 18.76%, which is one of the best in the industry. For the quarter, the ROE crossed 19% and was at 19.66%.

Now coming to the funding. During the quarter, we diversified our borrowings further by issuing NCDs aggregating to INR325 crores to mutual funds. Of the total borrowings, 52% are from banks, 15% from NHB, 19% from NCDs issued to IFCs and mutual funds and the balance is in the form of securitization. As on 31st March, we had sufficient on balance sheet liquidity of INR1,155 crores, including undrawn sanction of INR678 crores from banks.

I would like to highlight one of our strategic shifts in the funding approach this quarter. We executed our first direct assignment transaction for a small amount of around INR75 crores of non-housing portfolio in our housing finance company. As you are aware, we have historically maintained a conservative stance and stayed away from DA.

However, given the evolving funding environment and the long-tenured nature of our book, we saw merit in exploring DA, which will complement our strategy for both diversification of borrowing and ALM management. This also helps us to strengthen our PBC criteria. Going forward, we will be looking at doing DA transactions on a selective basis.

With this, I'll close my remarks and I open the floor for the question and answer. Thank you.

Moderator: The first question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congratulations on good performance. My question is on disbursement growth. So while first half of the year was impacted, but when you look at second half, which was pretty normal, even in second half, the disbursement growth was 15% by and large. So I mean, can you share disbursement growth figures, say, at the state level?

Because when you look at the state-wise growth momentum, then Tamil Nadu seems to be coming back, but AP seems to be losing some steam. So firstly, if you can comment on how can we improve the disbursement growth on an overall basis from 15%? And are there any geographies which need to be focused and to improve the disbursement growth, particularly AP?

P. Balaji: Thanks, Rajiv, for the question. I'm sure this question might be there with all the people. I'll just explain it for the benefit of others as well. If you look at our disbursement growth, as you rightly said, it is 15% year-on-year. But if you look at our INR3,604 crores of disbursement, this is actually an 11-month disbursement as against a 12-month disbursement of last year, which was at around INR3,127 crores.

So if you factor in that 1-month disbursement, the disbursement growth would have been around 18% to 19%. And if you look at the year-on-year disbursement for the last quarter, it has grown by 10%. Basically, this is because of the base effect. If you look at our disbursements last quarter, Q2 FY '24 was around INR750 crores, and Q3 was also INR750 crores, which spiked up to INR968 crores in Q4 FY '24.

But in FY '25, the disbursements have actually evened out. If you look at our Q2 FY '25 disbursement, it was INR935 crores, and Q3 was INR930 crores. And Q4, it has become INR1,064 crores. So it is actually because of the base effect, the growth is at 10%, and it is not because of any market sentiment or market availability.

And also, as you rightly said, Tamil Nadu is also almost coming back to normalcy with assets under management growing at 14% and Tamil Nadu growth quarter-on-quarter was 14% and year-on-year was around 11% on the disbursements. So actually, we are not seeing anything on the ground. It is basically the base effect, which has had an impact on the growth.

Rajiv Mehta: Okay. Sir, basically, I was actually looking at the second half only because the second half was pretty normal, and that kind of adjusts the way for making it more comparable. So even in the second half, the disbursement growth is 15%. So the point is, if we were to grow at 25%, 30% in the next year, if that is the aspiration, then given the current runoff rate, we need to grow our disbursement next year by 26%, 27% on the current year base of FY '25.

So can we scale up to that kind of disbursement growth in FY '26 and what can be the sources of growth improvement? If you can talk about branch addition plans, if you can talk about how the productivity at the sales officer level can be improved, whether do we need to do more sourcing from ordinary channels and how could that be driven? Just wanted to get more clarity on how the growth in disbursement will come about at a much higher level for us.

P. Balaji: If you look at -- even at the 15% disbursement growth, the loan book growth has been at around 25%. So for the year FY '26, our guidance will be around 24% to 25% of disbursement growth and around 28% to 30% of loan book growth. But how this will be achieved? I'll give you the following things, which we will be focusing. One is -- the new business from - new branches and new states. Basically, in Odisha, Maharashtra, we already have 10 branches. We'll be opening 10 more branches in this year. So the business from those branches will continue the growth.

Next one is business from new branches in the existing states. So in this, we are planning to open a total of around 40 branches. So the business from that will contribute to the growth. Then next thing is impact of full year business on the new branches, which have been opened last year. We have opened 38 branches. So the full year contribution of those branches will also contribute to the growth.

Over and above that, the productivity improvement in the sense that actually increase in the ATS. Currently, it is around INR8 lakhs to INR8.5 lakhs, we want to increase it to around INR9 lakhs to INR9.5 lakhs without impacting the LTV and the installment-to income ratio. So that should contribute to the growth and also improving the per loan officer productivity, which is currently around 3 to 3.2. That we are planning to make it up to 4 per loan officer per month. And also having optimum number of people at the branches, that will also contribute to the growth.

Over and above that, we have this digital marketing initiative, which is working fine, which is 21%. At least we want to make it up to 25% immediately. And then in the years to come, we'll be making it up 30%. So this is -- actually, all this has been broken down across branches and also sales officer-wise, which gives us this confidence of giving this guidance of around 24% to 25% disbursement growth. And also loan book growth of 30%.

Rajiv Mehta: Okay. And just on funding side, if you can share the incremental cost of borrowings now from -- for the HFC and for the NBFC from the banks. And also please give us some colour on how the existing bank loans will reprice down. What is the benchmarking of it and how it can reprice down in the coming quarters? And lastly, on NHB funding, is there any sanction in hand or any pipeline for that?

P. Balaji: Yes. As regards the funding is concerned, the rates of interest of housing loan or HFC borrowings is around 8.5%. It continues around -- 8.5% to 8.7%. And on the non NBFC, we are still borrowing between 9% to 9.25%. But having said that, if you look at the total borrowings, 56% of our borrowings is variable, which is linked to a variable rate -- interest rate. Of that, 30% is linked to repo rate, which means for that, I will get the benefit of at least 0.5% in -- maybe in this quarter itself. Already, we have got 0.25% reduction in 2 or 3 borrowings, which we have taken and this is likely to come in.

And of course, the balance 26% on the MCLR, which is linked to MCLR, the interest rate reduction can start coming from June to July and so on- and of course, incremental borrowings will be negotiated hard for bringing in those kind of interest savings. So that is broadly on the interest rates and NHB borrowings, we have got a sanction of INR300 crores, we'll be taking a decision on when to take that money out.

Rajiv Mehta: Great sir. Thank you so much for answering my questions and best of luck.

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

Renish: Congratulations on a good set of numbers. Sir, just 2 things. One on this provision on the Stage 2. So when we look at Stage 2 assets, it actually fell by 20 basis points sequentially, wherein the PCR actually gone up to 8.5% versus 7.8% sequentially. So I just wanted to get a sense that what is driving this high provisioning in Stage 2? I mean is it due to we see some stress in some pockets? Or how one should look at this number, sir?

P. Balaji: Actually speaking, we are not seeing stress in any of the markets or any of the products. See, what has happened in the housing finance company, the bad debt recoveries were good, and we have recovered almost INR5.5 crores to INR6 crores during the quarter. And we wanted to maintain the provision coverage ratio at around 1.03%. And in the NBFC, the loan book from INR1,900 crores has gone to INR3,000 crores. So we wanted to strengthen the provision coverage there, and we are still maintaining at 1.03%. So that's the whole reason this number is there. And if you look at the credit cost, it has remained the same at 0.3%.

Renish: Correct. Correct, correct. And just a follow up on that. So do we foresee any derailment either on growth or collection due to this Tamil Nadu deal?

P. Balaji: This Tamil Nadu ordinance, yes, it is a fact that it has been announced by Tamil Nadu government. But what we feel -- I mean, it has been clearly stated in the ordinance that it is applicable only to unregistered MFI or money lenders who are charging usurious rate of interest. The kind of customers whom we serve basically with an average ticket size of around INR8 lakhs to INR9 lakhs, our initial feeling is that it might not get affected very much.

We feel that the impact can be there in MFI and also low ticket loan providers. So of course, this is initial days. We are having a very close watch on this. As of now, we are not seeing that kind of trends. Our collection efficiencies are better, but we are watching this closely.

Renish: Got it, sir. And sir, my last question, again on this geographical concentration and the growth trajectory. So when we look at last 5 years, sort of we have been able to reduce the dependency on TN market with its share falling to almost 30% in FY '25 from INR52 3, 4 years back. But at the same time, AP share is now more than 40% and AUM touching almost INR4,500 crores.

So just wanted to get a sense on this base, whether this 30% plus growth rate is sustainable in AP market? And let's say, if you feel that there is still under penetration in this ticket segment and we'll be able to grow at 30% plus in AP, so then in next 2 years, our dependence on AP will further increase, right? So what is the plan to derisk the growth from overdependence on any one state?

P. Balaji: See, actually, if you look at it, that's the reason why we have ventured into this Odisha and Maharashtra. So the business, which was around INR5 crores, the AUM, 2 years back, it has become INR55 crores as of now. It is a healthy growth according to me because first year was formative year for these two states. And after that, the growth has come. So we will be getting more growth from Odisha and Maharashtra this year.

So to that extent, the AP growth will come down. But having said that, the penetration -- I mean, still the market availability in AP is quite huge. So that is also going to contribute. And with Tamil Nadu coming back to normalcy, so the distribution of AUM is likely to improve across states. And of course, Karnataka also is likely to chip in more.

M Anandan: Yes. Just to add to what Mr. Balaji said, Anandan here, while we have 113 branches in Andhra Pradesh and having a good growth rate, as I mentioned. But we see a very good opportunity in Telangana as well, where we have currently only about 53 branches. And even the current year, the growth rate in Telangana is one of the best.

So in Telangana, we have grown by 31%, same as Andhra. While Andhra base is higher, as you mentioned, but Telangana growth is much lower, giving us an opportunity, not only in Telangana, but even Karnataka for that matter in addition to Maharashtra and Odisha that Mr. Balaji has mentioned.

Renish: Got it. Got it. And maybe just last question on the spread from my side. So let's say, we have already seen 50 basis points of repo rate cut in let's say, over the next 6 to 9 months, if there is another 50 basis point repo rate cut. Where do you see the spreads settling from exit Q4 quarter numbers?

P. Balaji: If you look at this -- as I told in the earlier remark also, if you look at the total borrowings, 30% is linked to repo rate. So if you factor in a 50 basis points cut on that 30% borrowing, it will be 0.15% reduction that can come in. And of course, we don't know how much more rate cuts are going to come.

But if it comes, that benefit also will come in. But also, this 26%, which is linked to MCLR, the interest rate reduction can start coming in from maybe July or so. That's what I'm getting to hear from banks. So, if that comes in, that will be another added bonus. The thing is that this is where Aptus is likely standing out because we have got this 80% fixed rate loan book. So spreads are likely to improve because of this interest rate reduction.

Renish: Got it. Got it. So, we don't foresee any pressure on the asset yields at least near term.

P. Balaji: Yes. Yes. Absolutely.

Renish: Okay. This is great, sir. Thank you and best of luck.

P. Balaji: Thank you, Renish.

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

Kushan Parikh: Thank you for taking my question. I just had questions around the credit costs. So, I mean, there seems to be some reconciliation between the prior quarters, essentially when we look at the 9 months reported number versus the full year number in the other income line, which gets knocked off in the credit cost. If you could just help us explain that?

And also secondly, if you could help us explain the reconciliation between the stand-alone credit cost and the asset finance NBFC credit cost, which came in higher this quarter, whereas the consol credit cost seemed largely in line with what you had in the previous quarter. So if you could just help us explain that as well. Those are my two questions. Thank you.

P. Balaji: I'll explain this, Kushan., RBI has directed all the NBFCs to go for a change in auditors every 3 years. So, there are some auditors who are telling that the bad debts recovered has to be shown separately in other income. But there are some auditors who say that it has to be netted off against the ECL provision. So it's basically we go by that auditor's opinion.

And this quarter onwards, we have netted it off against the ECL provision and the credit cost, whatever is the bad debts recovery. So that's the answer to the first question. Then the next thing is on the reconciliation. If you look at it -- what is the question on the reconciliation? I was not able to understand.

Kushan Parikh: Sure. I'll just repeat my question. So essentially, we had about INR80 million credit cost in the NBFC subsidiary and a small INR20 million credit cost in the stand-alone book, whereas the consol credit cost has come at around INR79-odd million. So if you could just help us with the reconciliation math on that?

P. Balaji: Yes, I'll explain. See, what is happening, if you look at it in the housing finance company, the bad debt recovery was high during the quarter, okay? So -- which was almost INR5.5 crores to INR6 crores, which got netted off in the stand-alone financials. Whereas in the NBFC, what has happened is we all know from INR1,900 crores, the book has grown to INR3,000 crores.

So there is a strengthening required on the provision front in that company. So we have provided more there to take care of the 1.03% provision coverage ratio. If I don't do that, then what will happen is I need to write back the provision, which will only result in additional capex. So we wanted to maintain this 1.03%. That is why this is happening.

Kushan Parikh: Understood. That's actually quite helpful. Those are my questions. Thank you.

Operator: Thank you. The next question is from the line of Yash from Citigroup. Please go ahead.

Yash: Hi sir, thanks for taking my question. So one is on the operating expenses which sees sharp jump quarter-on-quarter by 11% or so. So is it one-off or it is largely volume linked?

P. Balaji: Actually, it is volume linked, if you look at opex. First, what has happened -- if you look at it, we have invested in branches. We have invested in technology new lead management system. So all this is contributing to this increase. But still, ours is one of the best. If you look at the opex to assets, which is around 2.63%.

And if you look at the cost-to-income ratio on the gross income, it is maintained at around 14%, both for the quarter and also for the full financial year. And if you look at the net income, it is around 20%. I mean after deducting the interest cost, it is being maintained at 20%. So this 2.63% to 2.7% cost to assets will continue, that will be the guidance from us.

Yash: 2.63% to sorry?

P. Balaji: 2.63% to 2.7%, yes.

Yash: 2.7%. Okay. And sir, second is on the balance transfer out if you can share the trend on it given our housing loan yields are north of the peers at 15.5%. So are we seeing any increase there?

P. Balaji: If you look at the balance transfers, we have been consistently it is around 2% to 2.5%, while our pre-close are around 7%, the balance 4.5%, the pre-closes are coming from the own source of the customers. If you look at our kind of customers who are self-employed, unlike salaried customers, they get some business inflows, bulk inflows from their business. The first thing they do is to close the housing loan.

So if you look at our total pre-closes, it is around 7% of that 4.49% is out of own source, the balance transfers are around 2.5%. And this 2.5% has been maintained by us for the last 15 years. So we don't see that kind of an impact because of the balance transfers.

Yash: Yes. Got it. So no major impact despite higher yields than peers. And sir, lastly, if you can just share the log-in to sanction ratio and this for the quarter as well?

P. Balaji: Log into sanction ratio is around 78% to 80%.

Yash: Got it. And that has remained stable through the year, right?

P. Balaji: Yes, it has remained stable across the year.

Yash: Got it. Thank you, sir. That’s it from my side.

Moderator: Thank you. The next question is from the line of Manika Bansal from Master Capital Services Limited. Please go ahead.

Manika Bansal: Hi, sir. Thank you for taking my question. So my question is on the branches side. So you have opened 10 branches in Maharashtra and Odisha. So what is the plan and opportunity do you see over there?

P. Balaji: If you look at our strategy, we have always been growing on a contiguous basis. And that's why we chose Odisha and Maharashtra because it is closer to the state of Telangana and Karnataka and Andhra as well. And the initial experience has been very good. The people there are good, the credit quality is good. And of course, we are a credit driven organization, so we choose our customers properly.

And these two states are offering good scope for increase in the disbursement and also the consequent loan book. So with that in mind, we'll be opening 10 more branches in this current year and increasing the loan book debt.

Manika Bansal: Okay. And one last question, what is the 1 plus DPD?

P. Balaji: 1 plus DPD is around 7.5%.

Manika Bansal: Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Kartikeya Kumar from Ashika Stock Broking. Please go ahead.

Kartikeya Kumar: So congratulations on healthy numbers. So most of my questions are answered. I just wanted to understand this presentation that you have made, like if we come to Page number 8 of your PPT investor presentation. So here, you have taken your total income for calculating NIM. So is there any reason for including fees and commission income in the line item. I just wanted to understand your perspective on this?

P. Balaji: No. NIM is -- see, whatever is as per the Clause 41 of the listing agreement, that is being computed. In the clause 41, interest, interest on FD, all those kinds of income is getting added. So that is how the NIMs are computed. If it is specific to ratio computation, I can take you offline and then see I can give you a full explanation.

Kartikeya Kumar: Okay. Thank you.

Moderator: The next question is from the line of Nidhesh from Investec India. Please go ahead.

Nidhesh: Hi, sir. Thanks for the opportunity and congratulations for a good set of numbers and it's heartening to see that Tamil Nadu growth has come back, which I think is quite good for the – so, sir, what is the guidance for next year in terms of disbursement, overall disbursement growth and AUM growth for FY '26?

P. Balaji: The AUM growth, we are guiding around 28% to 30%. Disbursement growth will be the resultant we are around 23%, 24% or maybe 25%. I explained the strategies on how the growth is going to come. I hope you are looking at that.

Nidhesh: And secondly this segment income, I think this is the first time we have done a Assignment income. So why there is a change in strategy and how should we model it? What percentage of AUM will be on assignment basis on an annual basis going forward?

P. Balaji: See actually, the thought process of direct assignment came in first, we wanted to test this transaction because we have not done this for years and we wanted to do that. And tell how the portfolio of Aptus is being felt by the person who are buying the portfolio. That is the first thing. And also considering the evolving funding environment where RBI has also been insisting on diversifying the borrowing and so that is one thing, which has triggered this thing.

Third thing is, of course, it is an ALM management tool. That is also the third one. The fourth thing, the major more important thing is to improve on the principal business criteria. If you look at our principal business criteria as of 31st March, it has improved to 64.3%. So going forward also, we'll be doing selectively. I mean, it is not that we'll be going really aggressively on this assignment because -- so maybe INR100 crores to INR150 crores every quarter we might be considering doing this.

Anandan: Actually, just to add to what Mr. Balaji said, I mean, this thought process in terms of -- when all of us are aware that the financial metrics of Aptus is one of the best in terms of ROA, ROE. And our ROE in the fourth quarter crossing 19%. Despite this attractive financial metrics. When it comes to investors on comparison with the other housing companies, other NBFCs, who are being pursuing the direct assignment, for almost 3 to 4 years.

Somehow for this interfirm comparison now we sort of ignore the direct assignment income done by Peers . In the sense, our numbers are always compared with all the other companies who have been doing a upfronting of the assignment income. Thereby their NIM and ROE whatever reported in corporate, includes income arising out of the assignment whereas our income or returns does not.

So, when the investors and analysts, look at the interfirm comparison, we are really at a disadvantage and that's also the path, which we have been taken into consideration in addition to the various other elements like diversification of resources, principal business criteria and things like that. So, this is something which we have discussed in detail and taken a decision.

Nidhesh: Got it. So sir, in this segment, are we doing housing loan or non-housing loan?

P. Balaji: We did the INR75 crores assignment of non-housing loans in the housing finance company.

Nidhesh: Okay, then lastly, what will be the cost of funds from this source of funding assignment? Is it better than our overall cost of funds?

P. Balaji: It is around 9% for an yield which is giving us around 18.5%.

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

Moderator: The next question is from the line of Rakesh Kumar from Valentis Advisors. Please go ahead.

Rakesh Kumar: So just firstly one question on the ALM side. I was looking at the average tenure of borrowing is around 7.5 years and average loan book tenure is around 9 to 11 years. So it's interest rate cycle would not just the ALM positioning would help on the margin expansion?

P. Balaji: So if you look at the ALM, what we need to look at is what you rightly said is to be on the asset side, it is around 10 to 11 years and the borrowing side, it is around 7 years. So there is a small gap. But if you look at the leverage again, our leverage is very low. So to that extent, we are comfortable on the ALM.

And even as of today and going forward also, all the buckets it is surplus. That's because our spreads are around 9% and the NIM is around 11%, 12%. So we don't see a problem there. And we want to limit the leverage to maybe 4x to 5x. So that's how the whole ALM issue also will be managed.

Rakesh Kumar: And secondly, sir, with reference to borrowing equity breakup and floating rate loan around 19%. So in this interest rate cycle, 38% kind of funding part of floating rate loans. So how much would be the drag in terms of the margin because of the rate cycle?

P. Balaji: Actually, we start with benefit, right? So what is happening if you're on the asset side, if fixed rate borrowings is 80%, I am not under pressure to pass on the interest rate benefit, which is going to come in on the borrowings on that 38% borrowing to that customer. So as compared to other companies, we are at the slightly advantageous portion in terms of spread improvement and NIM expansion.

Rakesh Kumar: No. What I'm trying to say that 19%, approximately 18.6% of the loans are floating rate, right? So anyway, that rate is going to come down, and that is being funded by the equity, which is 38% of your total borrowing and borrowing mix or which you're using in the business. So basically, on the asset yield side, your yield is coming down which is being funded at a fixed rate kind of equity, though it has a cost of equity, but just from the accounting perspective it will compress the margin right?

P. Balaji: But on 19%, even if I have to reduce it by 0.25%, what will be the compression that will come in. And that is not getting for us by the non-reduction in the fixed rate funded loan book. Yes.

Rakesh Kumar: Sorry, I missed there are some overlap. Could you come again, sir?

P. Balaji: On the 19% of the loan book, even if I have to reduce by 0.25% because of the interest rate benefit that I'm taking, what is going to be the impact because 80% I'm not going to reduce at all. So that will be offset. That's what we are trying to explain.

Rakesh Kumar: Correct. Correct. But the margin I understand it will be marginal, but just thinking that how much would be that?

P. Balaji: It is very marginal, we can discuss it offline for the specifics.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: So in your PPT, you have given this time the average ticket size in housing book, it's about INR9.2 lakhs. So this is the incremental average ticket size, right? At the portfolio level, it should be a tad lower. Is that a fair understanding?

P. Balaji: It is on the -- it is not at the portfolio level, it is on the sanctions. Current year, yes.

Mona Khetan: Sure. And when it comes your bank borrowings, what is -- what share is fixed rate bank borrowings? If I'm correct, you do borrow at fixed rate from banks. And what is the typical tenure in those borrowings?

P. Balaji: 44% is a fixed rate. And typical tenure is, if this bank borrowing which is around 5 years if it is from NHB obviously it is 10 to 15, 10 years or 15 years.

Mona Khetan: So, of the total borrowings, 44% is fixed rate but on the bank borrowings, how much is fixed rate versus...

P. Balaji: I don't have that number. I'll communicate to you, yes.

Mona Khetan: Okay. And within that, what is the typical tenure when it comes to bank fixed rate borrowings? Is it also 5 years typically or lower?

P. Balaji: We don't borrow lesser 5 years. That is very clear. But at this specific number, I'll get back to you.

Mona Khetan: Got it. And on the -- when I look at your self-employed versus salaries mix if I look at the last couple of quarters, the share of self-employed has increased. So how do we read this? Is it driven by some regional factors or any change in lending approach. A few quarters back, it was almost self-employed share was almost 71, 72 increased to 78. So how do we read this?

P. Balaji: No. We -- it's not a major increase, Mona the thing is 72 to say 71 to 73 or 74 but is like, see, our kind of customers are self-employed customers. That philosophy doesn't change for Aptus. The target customers are basically their cash salaried customers plus 1 member in the family will be running a business or something like that. So that is what is getting classified as salaried customers. So the underlying for any of our customers is mostly self-employed people and mostly providing essential services.

Mona Khetan: Got it. And just 1 thing on the assignment portfolio that you did. So incrementally also, we plan to do only non-housing portfolio to benefit from the loan mix requirement? And how large could this share -- could this be as a share of the AUM?

P. Balaji: No. Actually, I told you, we are not going to be very aggressive on this front maybe a INR100 crores to INR150 crores a quarter we'll be able to do this.

Moderator: The next question is from the line of Aman from Phillip Capital PCG.

Aman: Hello, Mr. Balaji, and congrats to the management team on a strong quarter and good results. Sir, my question is specific to Odisha. So I think one of your peers also -- I mean, the bigger peers also tried going into the Street, but didn't really have much business there. So is that something that is sort of slowing down our expansion plans in any way because I see so, if I remember exactly, you have mentioned about 10, 15 branches every year and potentially 10, 15 branches in Odisha and Maharashtra over the next couple of years, right? So I mean, is that something that is weighing in on you?

P. Balaji: No, what I mentioned was 10 branches in both Odisha and Maharashtra. So that means 5 branches more in Odisha this year. And if you're asking specifically about Odisha, we are actually having very positive response and the loan book, which we have built is very strong. And the repayment patterns are very good. And we will continue -- see the thing is how we select the customers is the differentiator. So if some other company has ventured into the state and they were not successful. That doesn't mean that we will not be successful. So the thing is like we are a credit-driven company. We will be funding the same profiles like what we fund in the other states. So this will continue and we will continue to choose our customers correctly. So that is how the Odisha portfolio will grow. And we are very confident about that state.

Aman: No. I get your point, sir. But -- so of course, I do not wanted to comment on the competitor, but I would like to know what is working for you really because you have the option of choosing the borrower, right? But the borrower of course, has many other options your bigger lenders and some regional players. So what is working for you that is driving the borrower sort of to come to Aptus for a loan?

M. Anandan: You know just to add a point here while we can look at the Odisha as a state, and Maharashtra state that's 1 thing. As Mr. Balaji explained, our strategy is to contiguously expand. And meaning that we are already present in Andhra, Telangana and Maharashtra. And we are starting our entry into Odisha and Maharashtra in the adjacent districts only. The adjacent district if we see for example, Odisha, which is connected with Srikakulam in Andhra, and Vizianagaram in Andhra.

Now the adjacent districts, the culture of the people is almost same as the Andhra adjacent say, districts Srikakulam and Vizianagram. Similarly, in terms of Maharashtra also, we are present in Telangana and Karnataka, and we are really starting with the adjacent district and progressively, we'll build it up over time in the state. That's 1 element. So in other words, they are not really, totally new because at least 5 branches that we started last year, they are really serving the adjacent districts of the Andhra Pradesh, Second, is really, our credit underwriting is lot more, we believe is lot more relevant and deeper. And with the philosophy that whatever business that we do is going to be credit driven rather than disbursement or sales driven.

Aman: Okay. Got it. I think that broadly answers my question. And sir, my last 2 questions will be on our disbursements and India. So, a couple of quarters back, I remember Mr. Balaji mentioning a bit about some issues in Karnataka with response with respect to the e-khata, right? And one of the peers, again, mentioned that to an extent these ratios have been solved. So, have we seen any disbursement pick up in the state of Karnataka?

P. Balaji: Definitely, there is a good disbursement pick up. If you look at last year also, I think there has been a good growth.

Aman: Okay. And sir, 1 last question would be in the Maharashtra disbursement. So are we seeing any sort of competition in terms of the rates because I think Maharashtra is a fairly competitive state with a lot of lenders, right? So are we seeing any pressure on our incremental disbursement teams?

P. Balaji: No. But as Mr. Anandan also explained, again, we are in this contiguous expansion mode. Just to give you a broad guideline on the Karnataka, around 26% growth has come. So the e-khata issue has got resolved and the growth is coming back in Karnataka. That is one.

Now coming to Maharashtra, again, this contiguous growth of -- is being followed and most of the branches are close to Telangana State, where the credit culture of this people spills over to these branches. So we are not seeing that kind of pressures on the yields. And we will still continue -- we will be continuing this kind of growth in this state as well.

Aman: Okay. So just to conclude your explanation, so you are sticking to the border states, where the culture is pretty similar to the current states. And of course, the base is fairly small for us that we do not see much of yield pressure.

P. Balaji: Yes. Absolutely.

Moderator: The next question is from the line of Shweta from Elara Capital.

Shweta: Congratulations on a good quarter. Sir, a couple of questions. Can you provide some color on gross Stage 2 because sequentially, the absolute has remained slightly sticky? So should we attribute this to a particular geography or say, concentration of quasi home loans or business loans, which are contributing to this? Even the ECL has sort of gone up there, so yes, that's my first question.

P. Balaji: No, basically, Stage 2, we are not seeing any stickiness across products or across states. If you look 31st December, it was around INR504 crores, it has gone up to INR507 crores. Of course, on percentage terms, it has reduced from 4.93% to 4.72%. So we are not seeing any kind of pressures on the Stage 2, and we have seen it is slightly better in this quarter as compared to the last quarter.

Shweta: Okay. So it's broad based. So basically, no concentration?

P. Balaji: Yes.

Shweta: Okay. Sir, my second question is, sir, who are the taker of our BT out cases?

P. Balaji: There are some NBFCs who take our loans, maybe banks, Small Finance Banks and some of the NBFCs. I don't want to name them, but it is that way. But the amount is very small.

Shweta: Sure. Noted, sir. And sir, lastly, what is our employee attrition run rate? And how are we in terms of incentivization vis-a-vis industry standards?

P. Balaji: If you look at attrition at the top management level, there has been nil attrition. And at the middle management level comprising of cluster managers and everybody area managers, it is around 4% to 5%. And at the branch manager level, it is around 10%. Of course, on the field level, as compared with the other companies, our attritions are also slightly high, around 40%, 45%.

So, 1 thing is we are giving -- we have introduced a scheme on retention incentive and of course hand holding them for first 3 months to perform better. And if the person stays in the company for first 6 months, and we're able to contribute to the company with 2 log-ins or 1 log-in per month. We try to incentivize them by way of a fixed amount.

And that is our disbursement and log-in incentive policy per month, if they are able to do more business their income levels are also going down. So those are some of the things which we are taking care to control the attrition and hopefully, that will improve in future as well.

Shweta: Okay. So just a follow-up question. So what is helping us driving down our opex on the cost front? So I'm not talking about cost income ratio or opex to assets in general, we've been doing well on opex driving down. So which are the key components which are aiding that?

P. Balaji: No, it's actually everything. If you look at it, if you look at our salary and incentive structure. It is more driven by productivity rather than the increase in the cost. So we demand productivity in whatever we do. And similarly, if you look at other expenses, even if it is IT, we don't go for any big names. We just have persons who develop it for us and at the maybe at very reasonable cost, but it has the same features that anybody else is having. So that is one thing.

Then the next thing is that we are frugal, and we don't want to spend very much on our branch infrastructure, because we strongly believe that the people at the branches have to be on the field, be it sales or credit or collections, who has to do more business or more collections.

So we have a basic infrastructure, which provides a basic furniture, Internet and telephone connectivity and maybe computers. So these are all the things. So it is not one thing which is driving this cost down, it is basically all these things.

Moderator: The next follow-up question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Just to check on a couple of things. So I think circling back to the cost. So we are confident about achieving the disbursement growth and the AUM growth numbers that we've spoken with the same cost structure in terms of, say, employee salary incentives, even the locations where we are there that commission is given out?

P. Balaji: Yes. Definitely, Rajiv, look at it, I explained the strategies on how we are going to get the growth. Basically, we are -- I mean, all these -- the strategies, which I've told has the productivity element impact in that. So there is no compromise on the productivity. So definitely, we will be able to achieve this at these cost levels.

Rajiv Mehta: And sir, one thing, I mean the rejection rates for the logging in FY '25 versus FY '24 were stable or higher? Because I think in one of the previous answers, you said that log-in to sanction ratio has been stable, implying that rejections have also been stable?

P. Balaji: Yes, yes, absolutely. It has been stable all through the year.

Moderator: The next follow-up question is from the line of Kushan Parikh from Morgan Stanley.

Kushan Parikh: I just had one question if you could help us research your credit cost guidance. I say that we have it at 40, 45 basis points. But just wanted to understand that a little bit more and contextualize it in light of the accounting stage that we have with the auditing on netting off the item recoveries from on credit cost and also a point of view of provision cover that we would like to maintain on the book? So if you could just help us?

P. Balaji: Kushan, we are not able to hear you properly that there was some echo. But what I understand is you want some guidance on the credit cost, correct?

Kushan Parikh: Yes, in context of the fact that we have this accounting change with the new auditors with netting off of bad debt recoveries now within the credit cost?

P. Balaji: That is just an accounting treatment. So the accounting treatment will not have any this thing on a credit cost. See, what our guidance on the credit cost is around 40 to 45 basis points. So that is the guidance while we want to better that but because by way of more bad debt recovery or something like that, but the guidance will be around 40 to 45 basis points.

Kushan Parikh: Understood. And that would be the gross of bad debt recoveries, right?

P. Balaji: Yes, yes, absolutely.

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

M. Anandan: Yes. Thank you, Mona, and others for organizing this conference call. I would like to pay my sincere gratitude to all the analysts and investor friends of taking time out to participate in the call today. Please feel free to connect with us in case, if you have any further some questions. Thank you.

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