"Aadhar Housing Finance Limited
Q1 FY '25 Earnings Conference Call"
August 08, 2024

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MODERATOR: **MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Aadhar Housing Finance Limited Q1 FY25 Earning Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

Please note that this conference has been recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI. Thank you and over to you, sir.

Renish Bhuva: Thank you, Sumit. Hi, good afternoon, everyone, and welcome to Aadhar Housing Finance Q1 FY25 Earnings Call. On behalf of ICICI Securities, I would like to thank Aadhar's management team for giving us the opportunity to host this call. Today, we have with us the entire top management team of Aadhar, represented by Mr. Deo Shankar Tripathi., Executive Vice-Chairman, Mr. Rishi Anand, MD and CEO, Mr. Rajesh Viswanathan, CFO, and Mr. Sanjay Moolchandani, Head of Financial Planning.

I will now hand over the call to Mr. Rishi for his opening remarks, and then we'll open the floor for Q&A. Over to you, sir.

Rishi Anand: Thank you so much, Renish, and a very good evening, ladies and gentlemen. On behalf of Aadhar Housing Finance, I extend a very warm welcome to all of you. We are overwhelmed to see the response we got post our listing, and we are strongly committed to achieve great milestones in the years to come. Our company was founded on a simple yet powerful belief that the dream of owning a home should be a reality and within the reach of every Indian.

This belief has driven us to work tirelessly, bridging the gap between aspiration and reality for countless families across the great nation. As we navigate the evolving landscape of affordable housing in India, we remain deeply committed to our mission. The demand for affordable housing has never been more pressing, and we take great pride in playing a pivotal role in meeting this need.

Additionally, the proposed budgetary announcements to construct 3 crores additional houses in the rural and urban areas under PMAY Awas Yojana, along with interest subsidy in the affordable loans through CLSS program, will further provide impetus to the overall business growth. This initiative will greatly benefit the EWS / LIG segments of the society, helping millions realize the dream of home ownership.

Moving on to this quarter's performance, our AUM stood at INR21,726 crores, marking a significant growth of 21% YoY. We continue to deliver 100% retail secured book with no exposures to corporates or developers. Our average ticket size remains at INR10 lakhs on AUM, with an average LTV of 59% on AUM. Salaried customer segment continues to dominate our book at 57%. With this, we continue to be the largest low-income housing finance company in the country.

The mix of home loans versus non-home loans stood at 75% and 25% respectively. The quality of the book remains pristine, with a drop in GNPA numbers of 15 bps and one plus drop of 83 bps YoY basis, with collection efficiency very healthy at 99% plus. We also continue to maintain a healthy spread of 6% against a guidance of 5.7% for the quarter. Disbursements in the quarter stood at INR1,497 crores.

Our distribution network has been our core strength, which differentiates us. In the quarter ending June, we have now reached a total of 536 branches, spread across 544 districts in 21 states. This quarter, we have added 13 new branches and ventured into a new state, Himachal Pradesh. With the increase in touch-points, we are now serving more than 274,000 live customer accounts across the country.

To enhance our market penetration even further and to go deeper into the low-income segment, we are planning to increase our reach with deeper impact strategy in Rajasthan, Uttar Pradesh, Andhra Pradesh, Telangana, Maharashtra in the Phase 1. This will help us reach out to tier 4 cities and beyond to small talukas and small district headquarters. As a part of our ongoing enhancement of technology capabilities, we have implemented multiple Fin-Tech capacities covering bank account aggregator, income tax statement aggregator, and enhanced RPA technologies.

As a part of strengthening our cyber security posture, we have implemented web application firewall for customer facing applications and deployed safe email messaging to customers by implementing brand indicators for messaging identification. On the data analytics front, in Q1 FY25, we have implemented a reject scorecard, which is an automated machine learning-based credit risk underwriting scorecard for better credit efficiencies.

Apart from this, the data analytics team also on a regular basis assists in predictive analysis of bounce and roll forwards and go-to-market assistance to the branch team, to the business team. I would want to give an update on the board. As already informed to the exchange that Dr. Punita Kumar Sinha has been inducted as an independent director on our board with effect from 7th August 2024, subject to approval of the AGM. She comes in with a rich experience of 30 years in the investment banking and financial markets.

We believe that Dr. Sinha will be a significant addition to our existing distinguished board of directors. This quarter has been a strong start to the financial year. I would like to give confidence that Aadhar remains committed to its core focus area, that is EWS/LIG segment. We will keep expanding our network within the states and investing in technology and data science. Our drive for innovative ideas will persist, helping us enhance efficiency, achieve growth and maintain sustained profits with improved asset quality.

We firmly believe and live by the emotion that “Ghar Banega Toh Desh Banega” and we will continue our journey with this guiding sentiment. I would now like to hand over to our CFO Rajesh Viswanathan to take you through the detailed financial performance of this quarter.

Rajesh Viswanathan: Thanks Rishi, good afternoon to all and once again welcome to the earnings call of Q1 FY25. I will start with borrowings. Our overall borrowings as at 30th June 2024 is INR14,000 crores.

This is quite comparable or a similar figure which existed at the year-end which was about INR13,950 crores. We have diversified source of borrowings with more than 39 borrowing relationships. Our borrowing mix at the end of 30th June is 52% of our borrowings comes from banks, NHB share is 26% and NCDs make up the balance 22%.

In Q1, we have borrowed only INR500 crores at an incremental rate of around 8.3%-8.4%. This is because we had the primary proceeds from the IP of about INR1000 crores gross which came in which resulted in lower borrowings in the quarter. During the quarter of this INR500 crores borrowings, we have drawn down INR200 crores from NHB. Undrawn line from NHB is around INR200 crores which we plan to draw down in the current quarter and we will also be applying for a fresh line from National Housing Bank.

With a view of diversifying our borrowing sources in Q1 FY25, we have entered into a borrowing agreement with Asian Development Bank for an overall amount of $60 million of which $30 million was availed in the current quarter. The rates for these are similar to what other DFIs give to HFCs like us. As we have disclosed in the last meeting, the ALCO had proposed a 25 bps rate increase to our customers with effect from 16th June 24th which has been duly applied to our customers.

Now coming to our fixed and floating share of borrowings and assets, our fixed borrowings are 22% and on the asset side fixed loans are around 20%. Liquidity, our quarter end balance sheet liquidity is around INR2400 crores. Obviously, this was accentuated because of the IPO proceeds not being fully utilized. However, we intend to carry liquidity in the balance sheet in the range of about 8%-10% of our assets.

In terms of undrawn sanctions, we have around INR900 crores, INR400 crores undrawn sanction of bank term loans. We have NHB INR200 crores as I said undrawn and INR250 crores we have undrawn from DFI ADB. On top of this, we also have a WDCL of around INR340 crores which we can draw at any point of time.

Typically, in terms of financial highlights, our spreads in the current quarter end have come at 6% as compared to 5.9% at the FY24 end. In terms of overall NIMs in FY24, 8.9% in the quarter as compared to 30 bps increase on a YoY basis. Our cost to income ratio is where we have seen improvement. It has come in at 36.7% which is an 80 bps improvement from the full year figure of FY24.

If you remember, I had specifically said in the last call that in Q4, the opex is higher by about INR12 crores-INR13 crores because we had some one-time costs which typically get booked in Q4 of the year. As you would see, our opex in the current quarter adjusted for that. You can see the difference in opex or the lower opex on account of that.

All the above has resulted in our PAT growing strongly by 37% to INR200 crores in Q1 FY25 from about INR146 crores in Q1 FY24 resulting in the ROE of 4.1%. Our ROE, post receipt of IPO proceeds stands at 15.9%. As Rishi has said, our gross NPA is 1.31% at the end of 30th June 24 which is an improvement of 15 bps over 1.46% on AUM which was reported in Q1 FY24.

The movement in NPA from the FY24 number as most of you would understand is basically on account of the seasonality impact and if you look at the historical trend even within Aadhar, the quarter one is where we generally see a 20 bps-25 bps movement in the NPA. But we generally believe that as we end -- towards the end of the year, we would be in the same tramline of around 1.1% to 1.2% of 90 plus GNPA. With this, we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajiv Pathak from GeeCee Investments. Please go ahead.

Rajiv Pathak: Good evening everyone and congratulations on a good set of performance. Sir, just couple of questions. One is, I believe this quarter we had this RBI circular on accounting for the disbursements. So, if you can quantify the impact that it would have had on the disbursements of this quarter, would it be in the quantum of INR400 crores-INR500 crores or so? That was my first question.

Second is on the yields. So, as you alluded to that we have increased the lending rates. So, on an incremental basis, what could be our yield on loans and the cost of funds on the incremental basis? And third is if you can guide us on the credit cost for the full year and the year going ahead. Thank you.

Rishi Anand: Thank you Rajiv. I think I will take the first part of the question which is the RBI circular. The numbers that you see and that have been reported which is typically INR1,497 crores which is a 4% YoY growth is after the adjustment of the RBI circular. While you have indicated a number of INR400 crores-INR500 crores, I would want to say that this 4% would have been upward of 25% growth if it were not for the circular in position.

Having said that, we would want to confirm to everybody on the call and the group at large that we have, in letter and spirit, implemented the RBI circular in totality.

Rajiv Pathak: The incremental yields and the incremental cost of funds?

Rajesh Viswanathan: Hi Rajesh here. In terms of incremental yields, we are approximately about 12 bps-13 bps better than what we Ended at Q4. So, basically we would be in the range of about 13.5-13.6. Incremental cost this quarter actually does not make much sense because we drew only about 500 crores. It came in at 8.4%. But typically, we would be probably in the range of 8.2%-8.25%. We would be looking at an incremental cost of that.

The other thing which I just wanted to do a top-up to what Rishi said in terms of RBI circular because this is more of a regulatory thing. All of us, the entire industry has rightfully accepted and gone by the circular. And what is more important is that we are still retaining our view that we will be still growing disbursements in the range of about 18%-20% which will result in an AUM growth in the range of about 20%-23%.

Rajiv Pathak: That was very helpful. And on the credit cost?

Rajesh Viswanathan: So, credit cost if you look at it, typically if you look at in our particular company last year, if I remember correctly, our credit cost was about INR31 crores and we ended the year at a credit cost of around INR45 crores-INR50 crores. So, majority of the credit cost actually comes in Q1 and Q2, Q3, Q4, you will see an improvement. We are looking at a year-end credit cost in the range of about 27 bps-28 bps which I think will be comfortable with that.

Rajiv Pathak: Okay, okay. So, even anything which may come from LAP book or anything will get covered under this?

Rajesh Viswanathan: Yes, yes. Because typically, see LAP book obviously in terms of -- and this is a good point that you raised Rajiv and I think I will have to clarify that very upfront. We get a 250 bps-300 bps of kicker in terms of yield. It actually goes sometimes up to 350 bps of yield kicker when it comes to LAP and if you look at credit cost, in the worst of times, the NPA gap between HL and NHL was only about 60 bps-65 bps.

So, in that sense, the risk-adjusted spread is quite strong. So, if you look at credit cost as a number in terms of bps, yes, it will be 27 bps-28 bps but in terms of the PNL protection because the risk-adjusted spread is quite protected because we get about 300 bps-350 bps higher.

Rishi Anand: Yes, and this 28 bps that we are referring to is inclusive of non-housing and inclusive of LAP, Yes.

Rajiv Pathak: Okay, okay. Thank you so much and wish you all the best.

Rishi Anand: Thank you, Rajiv.

Moderator: Thank you. The next question is on the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: Yes, hi. So, firstly, when we look at it in terms of the coverage, so on Stage 3, it's come off, we see most of the other HFCs being much lower than the coverage which we have. So, would we look at getting towards those levels or will it be like 35%-40%-odd coverage that we would want to continue on Stage 3?

Rajesh Viswanathan: I think, Kunal, I think on Stage 3, if you look at it, we have progressively increased from 30 to 35 and last time we ended at 40. This year, because the incremental NPA movement will probably come in at a rate of around 22%-24% when they actually come into Stage 3. That is why the percentage would have come down from 40% to 34%-35% in the Q1.

But, yes, we would like to be in the same range as you correctly said. We would like to be in the range of around 32%-36%. If it goes up to 40%, we'll be happy. We are anyhow carrying, as most of you would know, we are carrying a management overlay of INR45 crores which we had created at the time of COVID. It is still being carried.

And one more disclosure is in terms of RBI and NHB ask us to do a comparison of the provisions that you carry in the books under your ECL methodology versus what is supposed to be carried as per the IRACP Norms of RBI. And if you look at it, we are in excess of the requirements of RBI by almost about INR70 crores-INR75 crores. So in that sense, from a provisioning perspective, we are comfortable.

And rest assured, we will not be wanting to look at releasing this management overlay in any hurry. If the opportunity does arise, we would be actually looking at means of topping that up.

Kunal Shah: Sure. And secondly on LAP, what was indicated in today's MPC meet, be it with respect to risk weights or the end-use monitoring, which I think RBI has asked now all the players to strictly adhere to. So now maybe how is it happening at our end in terms of this entire end-use monitoring and are we able to see in terms of how much gets towards the business, how much is for the consumption? So if you can just share that and any impact that it can have in terms of the pace of growth.

Rishi Anand: Kunal, I think the reference point was more with respect to the top-up loans. So top-up loans for now in our consumer segment, the ticket size is too low. We actually do micro loan against property or top-up loans, which is top-up loans in the average ticket size of about 6 lakhs and loan against property is about 8 lakhs.

Now loan against property, obviously the end-use is monitored. We take something called the Udyam certificate where we ensure that it is going towards, for the self-employed segment it is going towards end-use of his business. As far as top-up loan is considered, on account of top-up loans, the end-use is currently not monitored, but given the RBI direction or the indicative direction, I think we will devise a process to do that.

Having said that, historically we don't do too many top-up loans because of the segment that we deal with. For our segment, creating one house is itself a lifetime kind of an activity. So for him coming and taking a top-up is very difficult. We have a total exposure of about INR540 crores to INR550 crores under the top-up program in about INR22,000 crores a book. So that is the extent of top-up loans that exist in our book today.

Rajesh Viswanathan: And in terms of risk weight, Kunal, what we did was, if you remember, RBI increased the risk weight for unsecured assets about six months ago. And what we had done is wherever we had, on our AUM basis, wherever we had proof of this being taken for the purpose of, which was non-personal, we left it over there, which was personal, we increased the risk weight to 100. So in that sense, the risk weight is already taken. And that was one of the reasons our CRAR actually fell from about 41% to 37%, 38% in one quarter.

Kunal Shah: Yes, okay. So risk weight is almost taken care of. The only thing is the end use of monitoring that we will do it for the top-up loans?

Rajesh Viswanathan: Yes, I don't think that is more of a way of doing it. The component is too small.

Rishi Anand: So yes, whatever directions come, we will comply with it, Kunal.

Kunal Shah: Sure. And one last question, if I can chip in. Maybe you alluded to in the opening comments with respect to the CLSS and PMAY. So what is the extent of benefit, any maybe, I would say, in terms of the push to the growth, which can come in during the disbursements now? We have those schemes. We have the allocation of CLSS as well. So how much can it help in terms of the overall AUM growth?

Rishi Anand: Kunal, one is that, let me give you a little figure of what we did in the previous avatar of CLSS. We disbursed close to about INR800 crores of subsidy, which impacted about 80,000 plus consumers. So that was the contribution that Aadhar did in the entire CLSS program in PMAY CLSS 1.0. The new contours are still not out. We don't know what are going to be the contours for the CLSS program. The overall budget allocated is INR4,000 crores. The way it looks, it is going to be for the last four or five months of the year.

So in totality, I think the allocation is more than sufficient. Will it give a huge upside on the business? In the previous avatar, CLSS was always a refinance program. My business would come in. Once the disbursement is done, it is taken to the regulator. The regulator will look at the eligibility from a CLSS perspective and then give a refinance.

So upfront, I don't commit to the customer that you will get a CLSS. But yes, maybe anywhere between 8% to 10% of the customers who are sitting on the fence will move on the positive side of taking fresh home loans. It was more of word of mouth rather than a big jump on your AUM. So that‘s how the overall AUM growth that we are talking about, 23%-24%, will definitely have a portion of the CLSS impact.

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

Nidhesh: Thanks for the opportunity. What are the plans for distribution expansion and branch addition this year?

Rishi Anand: Nidhesh, in terms of distribution, as I indicated today, we stand at about 535 branches. Now we have added another state in this quarter, which is Himachal Pradesh. Now we are in 21 states. As we go ahead, next couple of years, we will keep introducing 75 new branches. 25 of those will come in the existing locations. And 50 will come in the deeper impact strategy that I spoke about, which is small talukas and small sub-districts of existing states.

In Phase 1, we have shortlisted five states to do our deeper impact strategy, which is typically Rajasthan, Andhra Pradesh, Telangana, UP, and Maharashtra.

Nidhesh: How is the productivity of the field officer for us? On average, how many files are being disbursed and how are the trends from that?

Rishi Anand: At our company level, we monitor our people on the volume generated because our average ticket size is quite low. And obviously we do on the number of units also, but primarily the way we drive is on units. And we have different layers of sales teams. Right at the front end, which is called the direct selling team member, the average productivity is about INR15 lakh to INR16 lakh.

The supervisor who manages these people has a productivity of about INR60 lakh to INR70 lakh. Then you have an area head whose productivity will be anywhere between INR2.5 crores to INR3 crores. So that's how the hierarchy works. If I were to translate into number of units, typically it will be 1.5 units disbursed and about 3 to 4 units logged in.

Nidhesh: Sure. How are the trends on that and is there any initiative to improve the productivity over a period of time?

Rishi Anand: See, that is Nidhesh an ongoing activity which happens 365 days a year. We have our training team which keeps hand-holding and training our front-end employees. And the factor of attrition also plays a very important role because the way the data is evident, people who come in new 0 to 3 months kind of vintage will have a lower productivity, say 8 or 9 lakhs.

People who cross the 6-month bracket move to an 18-20 lakh kind of productivity. So our endeavour is always to train people on the product and hand-hold them to cross the 6-month bracket. So it is a continuous activity and we will continue to do our best on that front.

Nidhesh: What is the incremental ticket size on housing loan for the quarter?

Rishi Anand: Housing loan incremental ticket size is 13 lakhs and non-housing stands at 8.2 lakhs.

Nidhesh: Just a data-keeping question on BT out rate and sourcing mix. What is the sourcing mix for the quarter? Channel mix and BT out rate for the quarter.

Rajesh Viswanathan: So BT out is, Nidhesh, this quarter we had a BT out of around 5.9% which is an improvement compared to the full year as well as the fourth quarter. Fourth quarter is typically the very high quarter. But some steps we have also taken on the BT out . We have involved our data analytics team to give us some pre-emption on the BT outs which is tracked back to our call center and our specific retention team which we have created.

So this has also helped us in retaining some of our customers. So that has also helped in reducing the BT out. The second question that you had was the breakdown of disbursements in terms of this.

Rishi Anand: So the breakdown of the sourcing mix stands at broadly 45% comes from overall external channels. The corporate DSA contributes about 35% and the balance 55% is all in-house.

Nidhesh: Okay. Thank you, sir. That's it for my side.

Rishi Anand: Thank you, Nidhesh.

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

Rajiv Mehta: Hi, good evening. Just a couple of questions. If you can firstly break the Q1 disbursements into April, May, June and what is the run rate of July?

Rajesh Viswanathan: So to be very honest, that is a very micro number. We don't really give monthly numbers. The only thing I want to reassure you is it's business as usual from June onwards. We have seen July and June are trending well. So that is giving us enough confidence to claim that we will have 18%-20% disbursement growth leading to a 22%-23% AUM growth. So whatever little impact of the circular which Rishi said, we would have seen the last of it by say 15th of June or June end.

So June was a strong month and July again is a strong month without giving the numbers -- July has been a very strong month and June has been a fairly strong month.

Rishi Anand: And if I can add to it, from a pure board approved budget perspective, Rajiv, we are exceeding the numbers.

Rajiv Mehta: Got it. And in the initial commentary, you spoke about incremental yield being 12 bps-13 bps better than Q4. Now, is this a function of product mix or have you also taken product level, rate increases for the new originations? Are we pushing pricing incrementally on fresh loans in both the products?

Rishi Anand: So I would say no, not as we speak, we are not pushing incremental rates upward. I think it is to do slightly with the mix. So initially the mix was 73-27 towards NHL. And in the quarter we are speaking about,. It is to do with the mix and it is also to do with, I think broadly it is to do with the 150 branches that we launched in the previous year towards the deeper impact where the yields are slightly higher than what you get in metros.

Rajesh Viswanathan: So we had a 2%-3% movement away from NHL specifically in this quarter. Another point to note that all the disbursements that we have done till 15th of June have got re-priced by 25 bps. Whichever of this is floating has automatically got re-priced. So to that extent, the yield that we are carrying on this would have gone up by 25 bps.

Rajiv Mehta: And this PLR hike will even apply to non-housing loans, right?

Rajesh Viswanathan: Yes, very much. So as I explained, approximately 80% of our portfolio is floating. So it will apply on the 80% of the portfolio.

Rajiv Mehta: Got it. And just lastly, we can also elaborate on trends in employee attrition.

Rishi Anand: So employee attrition across the front end of the business side has been in the range of 28%-29%. Obviously front end will be slightly higher and the supervisors are lower. And these are much within the acceptable limit given that these are typically front end direct selling teams.

Rajiv Mehta: And just lastly, this last question, on this opex growth when I look at it on a YoY basis, it is also pretty moderate. I'm sure it is coming out from the efficiencies, but what is the incremental headroom of getting more efficiencies from the current cost structure and hence further improving the opex to asset ratio?

Rajesh Viswanathan: Yes, I think on a lighter way, we should not give everything out in the Q1 itself. But having said that, we are always set on a cost to assets. We would like to drop it by about 10 bps-12 bps. 10 bps is what we would like to drop on 12 bps will be fine. And we have said that on a cost to income, this will look at in the range of about 75-80, 75 bps to 100 bps in a full financial year. I think from investment perspective, I think it is as business as usual, as you would know our IT programs are fully invested, our analytics programs are fully invested.

Distribution is to a great extent fully invested. Whatever incremental investments that we are making in deeper impact offices are pretty asset light. So I don't think that we'll have a thing on opex. But having said that, at any point of time, if you feel that there are new avenues for growth and we have to invest for growth, considering that we have now growth capital also, I think we will not shy away from that. But overall, we would like to drop cost to income by about 75 bps to 100 bps in the current financial year.

Rishi Anand: And Rajiv, if I can come back on the attrition, now I have the final numbers. Overall attrition has been in the range of 35%. If I break it down, the regret attrition is where the company regrets the employee going is 18% only.

Rajiv Mehta: Okay. Thank you for answering all my questions and best of luck.

Rishi Anand: Thank you, Rajiv.

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

Kunal Garg: Yes, hi. Good evening, sir. Congratulations for the good set of numbers. So this one has two questions. So how much was the right top in the Q1 and in the financial '25? And the second question is, any reason for the fall in the Phase 3 provisioning in this quarter vis-à-vis last quarter?

Rajesh Viswanathan: Sorry, I didn't get the second part of the question. Fall in provisioning, you said provision cover?

Kunal Garg: Yes, provision cover, yes.

Rajesh Viswanathan: Yes, so as I explained in provision cover, typically what has happened is whatever flows into the new Stage 3 in a quarter would typically get provision in the range of about 24% to 26%. And that is the reason the provision cover would have come down from, I think, 41% to about 35%, 36%. It would be sort of range-bound in this range only about 34% to 37%. Probably in quarter ends or year ends, when we have a very good quarter in terms of NPA, this may go to the range of about 37%, 38%.

Kunal Garg: Okay, and how much was the write-off in the Q1?

Rajesh Viswanathan: Write-off in the year was in the range of about INR7 crores to INR9 crores.

Kunal Garg: INR7 crores to INR9 crores, okay. So are you following any model for this ECL equation? How many years of data you use for this ECL model?

Rajesh Viswanathan: How many years of data we use? We use five years of data. We use the past five years of data.

Kunal Garg: Past five years of data. Okay. Got it, sir. Thank you, sir. And best of luck.

Rajesh Viswanathan: Thank you, Kunal.

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

Shubhranshu Mishra: Hi, good afternoon. Two or three questions. The first one is around the top-up loan. What percentage of our AUM are the top-up loans? Second is again around the top-up loans. What would be the exact mechanism to establish the end-use of top-up loans? And third is around the growth that we guided for. So ballpark around 5% to 7% would be inflationary growth in the ticket sizes. And there would be some degree of loss of working days in the entire fiscal year due to the first quarter days' loss. So how do we look at the decomposed growth guidance that's been given? Thank you.

Rishi Anand: So, Shubhranshu, if I can take the first two questions, and Rajesh will come and chip in the third part. Top-up loans today stand at about close to 3% of our AUM, which is approximately about INR600 crores. What do we do in terms of end-use monitoring? Today we typically take an undertaking from the customer on where he's going to use the funds. But is there a real end-use monitoring mechanism? No, there is not because the ticket size is too small, in the range of about INR3 lakh to INR4 lakh-INR5 lakh.

And knowing our customer segment very well, creating a house itself is a one-in-a-lifetime kind of job for him. So taking a top-up on his existing house and using it for something else is slightly difficult in the segment that we operate. Having said that, when we talk about home loan and top-up together, we are regulated by LTV, Loan Against Value, from the regulator, which is typically, as an illustration, up to INR30 lakh.

Let's say it is 90% loan to value. Instead of using 90%, we use 85% loan-to-value. And when we do top-up, we do typically top-up on the original valuation rather than the new valuation. So we build our own risk mechanisms around top-ups. And as I told you, the number of top-ups, the value of top-ups is very small, which is close to about INR600 crores in the INR22,000 crores of book that we have today.

Shubhranshu Mishra: So it's fair to assess that it's not possible to assess the end-use of the top loan, right?

Rishi Anand: No, I will not say it is not possible to assess the end-use. For example, when we give fresh loan against property, which is equivalent to a top-up program, we monitor the end-use in terms of taking an Udyam certificate from self-employed people that the money is being utilized towards his factory or whatever job he does. So that is quite possible.

And for example, there are a certain percentage of consumers who are salaried in nature and take top-up loans. We would typically know that they would be taking for higher education of the child or a medical exigency at home. So from an undertaking perspective, it is monitored, rather controlled.

But from a pure end-use monitoring that I should go and give the payment in name of the third-party vendor, etcetera, that control is, if a regulator would advise us, we would want to build that as we go ahead.

Rajesh Viswanathan: In terms of the growth decomposition, I will try to answer to the best of my capability. I think if you look at home loans, our average ticket size for the whole year last year was ranging in the range of INR14 lakhs. And we would see probably something like an 8%-9% growth in terms of inflation-led impact on that. But the more important thing is that we do on disbursement basis anywhere between 25%-26% on non-home loans.

And the non-home loans, if you look at the average ticket size, it has been quite static at around 8.5 lakhs. And so 75% will grow by something like 8%-9%, and the balance, 25%, 26%, which is non-home loan, in that sense will be static. The balance growth, which we are guiding of 18%-20%, has to come from our growth-added offices and improved productivity of our front-end staff.

Shubhranshu Mishra: Understood. And if I can just squeeze in one last question, what is our strategy of opening a new branch, whether in an established geography, established state, or a new state we are entering? What are the various data points and checks that we do in order to open up a branch?

Rishi Anand: Primarily, as a branch, we do two things. One is we have been already available in most of the states for a good five years plus. Our teams there or the senior team members there would typically pull out locations saying that these are potential locations. The list of those potential locations in the beginning of the year, which is typically the budgeting time internally, would move on to the data analytics team.

The data analytics team would typically map it against potential across the financial services business in that location. They would map it against delinquencies. They would map it against credit behaviour. That is one. Second, it would go to the technical team to map the property types. What are the kind of property segments that are available? What are the kind of properties that we would be doing? Do we have potential in our segment?

These are three aspects from where the data comes, which is the business team, the technical team. When I say technical team, it is the property valuation team, which is our in-house team, and the data analytics team. All the three are clubbed together. That's how we typically choose a new location. Now, when it comes to existing locations where we are already available to illustrate maybe an example of Jaipur. We are in Jaipur.

We typically have a strategy, a broad strategy, nothing hard and fast. Any location where a branch reaches close to about INR5 crores of incremental business, that's the time we look at opportunity of opening another branch. For example, in Jaipur today, we have six branches, and we are wanting to open the seventh one.

In Delhi, we have eight branches. In Hyderabad, we have seven branches, and so on and so forth. In existing locations, while we look at data analytics, but it is more from a perspective of, we know the potential, we know the market, can we expand within the state in various, for example, east, west, north, south. That's how we do it.

Rajesh Viswanathan: And just to talk about what Rishi has said about the new branches, three points he told how we decided about the new branches. Largely, the deepening strategy. The strategy has more of a deepening in those states where huge potential is there, and my branches are a little far away from those locations.

That's why after analyzing from data science, business team, and the potential, we will open the branches in those centers.

Shubhranshu Mishra: Understood. This was very helpful. Thank you.

Rajesh Viswanathan: Thank you.

Moderator: Thank you. The next question is from the line of Nischint from Kotak Institutional Equities. Please go ahead.

Nischint: Hi. Thanks for taking my question. I hope I'm audible. Can you share the state-wide breakup of your AUM? I think you discontinued that slide from this quarter. I'm not sure if I understood?

Rishi Anand: No worries. I'll give it to you, Nischint. Okay. Broadly, if I can pick up states and give you the AUM breakdown, Maharashtra contributes 14% of my AUM. Uttar Pradesh contributes 13.5%. Rajasthan, 13.1%. Gujarat, 11%. Madhya Pradesh, 9.7%. And so on and so forth. For example, Tamil Nadu, 8.5%. AP and Telangana put together about 11%. And that's how it moves.

Nischint: Got it. Basically, not much has changed is what we're getting?

Rajesh Viswanathan: Nischint, as we have explained right through the last two, three years, our aim and strategy is to ensure our distribution strategy in terms of number of branches as well as our AUM and disbursement should not be more than 15% in any state. And I think we are managing to hold that very well.

Nischint: But the broad view is that these two states will be on top or probably Rajasthan, Gujarat, UP and Maharashtra would…

Rajesh Viswanathan: UP and Maharashtra will be on top because as per demand scenario of the country, Maharashtra in terms of value, UP in terms of number is always highest and will continue to be the highest. And you have rightly said that our strategy remains the same. Five states used to contribute 62% last year. This year they are contributing 61%. That shows that certain states which were contributing less, they are now contributing more because of our deepening strategy.

Nischint: Got it. And south would, I guess, the expansion in south would be sort of a little more gradual?

Rajesh Viswanathan: Yes. AP Telangana numbers, I just told you, we are close to about 11% already. Tamil Nadu, we are expanding. In fact, we created two zones in Tamil Nadu now. Tamil Nadu numbers, I will try and give. Already 9% there. So we are very, very focused on the south location. If you see that in one or 2%, AUM will increase in AP Telangana and Tamil Nadu going forward.

Rishi Anand: Maybe I did a point to add there. One is that we are very sure of, in terms of APTL, we are very confident and sure. In fact, one of the five states that I spoke about in our deeper impact strategy happens to be AP Telangana.

Nischint: Got it. Just a little bit of outlook on spreads. And I'm not sure whether you gave an outlook over there. But we are looking at, from the yield side, rate hike, increase in share of non-mortgages, as in non-home loans. So how do we really see the yields and cost of funding maybe panning out in the fourth quarter of the year?

Rajesh Viswanathan: I'll stick to spreads, Nischint, if you don't mind. I think 6% now. I think as we end the year, we should be broadly in the range of about 5.8% to 5.9% exit spreads. And as Rishi has been saying over the, and we have been saying over the last two years, the company has always demonstrated in the past that we are capable of working in a spread range of about 5.6% to 5.75%.

And over a two-year phenomenon or two-and-a-half-year phenomenon, we may hit that. But currently, one year, as we exit the year, we should be looking in the range of about 5.85% to 5.90% and probably end up something in the middle of that.

Rishi Anand: And we're very confident of delivering upward of 5.7% even in the two-year bracket. That's it.

Nischint: So then essentially, what you're trying to say is that the cost of borrowing could kind of maybe between the first and the fourth quarter go up around 30%, 40%?

Rajesh Viswanathan: To a certain extent, we would see the, as Rishi said, incremental cost of funds, if you look at it, we would see anywhere an increase of about 20 bps to 25 bps which would come in. We would obviously try to, because we are yet unsure of the way NHB is going to lend to us. A big combination of the entire cost of fund proportion.

And if you remember, the funding that we took from NHB, about 50% of the funding is to come from the AHF scheme, which obviously comes to you at a lower rate of COF. The spreads expand but the COF reduces. But we are yet unsure of how much the AHF will be granted in the current year.

And as Rishi had talked about, there are various discussions happening of whether any blended rates could be offered at the NHB level. So we'll have to wait it out for that. But having said that, we have in our internal calculations looked at a 25 bps to 25 bps, increase. And that was also one of the reasons that we took a 25 bps increase in the RPLR in the month of June.

Nischint: And NHB funding, if I can extend it, NHB funding, that's something to do with NHB, right? Not with our ability to sort of generate the...

Rajesh Viswanathan: No, no. It's completely what is to be done with at NHB's level. And we are more than happy to take whatever comes our way in terms of. -- because it is linked back to EWS and LIG. And as you would know, a significant portion of our disbursements and AUM is anyhow EWS, LIG. 70% we are EWS, LIG.

Nischint: Sure. Just two final questions. On the banking side, how much, what proportion of this 52% is linked to MCLR versus EBLR? And just one final one. If I have to look at coverage on stage one loans, do you really differentiate between home loans and other mortgages?

Rajesh Viswanathan: We do differentiate between home loans and other mortgages. I will just give you the percentage, but I will just pull out the number which you asked first of MCLR and non-MCLR. 30% of our resets happen on a one-year MCLR. 37% happens on a six-month MCLR. And three months and others are approximately 35%.

Nischint: Okay. Got it. And just on the ECL coverage.

Rajesh Viswanathan: In terms of Stage 1, HL would be in the range of, just a second, I'm just pulling it out. Stage 1, 40 bps would be NHL and 27 bps would be HL.

Nischint: But your coverage on stage one is 76, right?

Rajesh Viswanathan: No, no. I'm talking about the provision that we carry, 0.27% and 0.4%.

Nischint: No, no. I'm just saying that as a percentage, at a company level, on Stage 1, your coverage is 76 bps. So if I really try to split it between the two verticals, I mean, ideally, I would expect, let's say, home loans to be slightly lower and other mortgages to be slightly higher?

Rajesh Viswanathan: I wouldn't have this data point exactly. Probably we can circle back to you if you don't mind, Nischint, on that one.

Nischint: Yes, sure. No, just one small thing. The simple reason is that your growth in other mortgages has gone up, but then your coverage on ECL loans over the last four quarters on Stage 1 has actually kind of come down from 94 bps to 76 bps. And this is stage one, so it's probably nothing to do with the asset quality trends.

Rajesh Viswanathan: Absolutely. I'll just check it out. I'll just come back to you on that one, if you don't mind.

Nischint: Perfect. Thank you very much and all the best.

Rajesh Viswanathan: Thank you, Nischint.

Moderator: Thank you. The next question is from the line of Monshree Soni from MK Ventures. Please go ahead.

Monshree Soni: Yes, thank you for taking my question. I wanted to know from a long-term perspective what is our AUM growth guidance for the next three years? And secondly, could you also please break down your portfolio yields by home loans and non-home loans?

Rishi Anand: Yes. So from a pure guidance perspective, this year we are anyway speaking about 22%, 23% growth on AUM. The way we look at it, you know, three years hence, which is year three from now, we should be in the range of about 20%, 21% AUM growth. And then you wanted a breakdown on the yield between, incremental yield, AUM yield between HL and non-HL. HL stands at 13.06% and HL stands at 16.9%. Okay.

Monshree Soni: And so our AUM growth would be 21% to 22%. What would be the co-lending mix? Is it going to be 20% or?

Rajesh Viswanathan: That's right. I think on a direct assignment piece, we would be around 20%. Co-lending is still in its nascent stage. We only do it with one bank. And what is a fresh assignment that you will do in a year, which will typically be in the range of about 8% to 9% of our opening book.

Rishi Anand: So at least in the current scenario, DA plays a very important role in our liability mix and strategy. Co-lending, we are still, the industry is still observing how it will pan out and we will move with the industry trend.

Monshree Soni: Okay, got it. That's it. Thank you.

Rishi Anand: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we take this as the last question. I would now like to hand the conference over to the management for the closing remarks.

Rajesh Viswanathan: I think, thanks a lot for all of you all to join in on this call, on this evening. I know it's a busy, busy season for all of you all in terms of results. I take the opportunity on behalf of the entire management, Mr. Deo Shankar Tripathi, Rishi, myself and Sanjay and the entire team to thank all the participants and for the lively questions that you asked. And I hope we have managed to answer all the questions and hope to meet you all soon with our quarter two results. Thank you very much. Thank you so much, everyone.

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