Aptus Value Housing Finance India Limited
Q1 FY2023 Earnings Conference Call
August 8, 2022

Moderator: Good afternoon ladies and gentlemen. I am Seema moderator for this conference. Welcome to the conference call of Aptus Value Housing Finance India Limited, arranged by Concept Investor Relations to discuss its results for the first quarter ended June 30, 2022.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict. At this moment, all participants are in the listen-only mode. Later, we will conduct a question & answer session. At that time, if you have a question, please press "*" and "1" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the floor to Mr. M. Anandan – Chairman & Managing Director. Thank you and over to you, sir.

M. Anandan: Thank you Seema. Ladies and gentlemen, good afternoon to all of you. I am Anandan, Chairman and Managing Director of the company. I welcome you all to the conference call to discuss the financial performance for the first quarter of the financial year FY23. I have with me, Mr. G. Subramaniam – ED- Chief of Business & Risk and Mr. P. Balaji – ED & CFO.

The results and the investor presentations are available on the stock exchanges as well as our company's website. I hope everyone had a chance to look at it. Aptus had a healthy first quarter, which is reflected in our strong financial results, disbursements growth picked up momentum and collections were back to pre-COVID levels. With the focused collection efforts our 30 Plus DPD improved sharply to 6.48% in June 2022. It was 9.91% in March 2022 and earlier it was 12.98% in December 2021. However, there were some forward flow into stage three which led to inching up of GNPA marginally.. The total disbursements were up by 113% at Rs.525 crores in the first quarter compared to Rs.247 crores in the first quarter last year. AUM as on June 2022 was at Rs.5519 crores. This represents a healthy growth of 30% year-on-year. NIM for the year was at 14.28%, representing an improvement of 181 basis points compared to Q1 of FY22. We have registered an ROA of 8.88%, which is one of the best in the industry and an ROE of 15.89%.

I would like to reiterate the fact, as I did in our earlier calls, that we have enough on balance sheet liquidity. Currently we are carrying about Rs.1300 crores of liquidity including the undrawn sanctions from banks to extent of Rs. 575 crores. Our net worth stood strong at over Rs.3000 crores which indicates robust capital adequacy in order to support future growth.

Key highlights of Q1 FY23 performance being:

- NII was Rs.195 crores up by 49% YoY
- NIM was at 14.28% up by 101 basis points YoY.
- Our net profit was at Rs.119 crores - 62% higher year on year.
- AUM was at Rs.5519 crores, has grown by about 30% Year on Year.
- Disbursement for Q1 FY23 was at 525 crores, a growth of 113% year on year
- Our GNPA is slightly higher at about 1.75%. Of course, this is based on revised RBI guidelines.
- Capital adequacy - very comfortable at over 80%.
- Our ROA as I have mentioned is about 8.8% and ROE is at 15.89%.

I will now hand over the line to Mr. P. Balaji – ED & CFO to discuss various business parameters. Thank you.

P. Balaji: Thank you sir, good evening to all of you.

As on 30th June 2022, the total live customers crossed 89,000 which represents a growth of 31% year-on-year. The total number of branches as of 30th June was at 211. We have added 3 branches in Q1 FY23. Employee count was at 2,410. Major performance highlights being

- AUM grew by 30% year-on-year to Rs.5519 crores.
- Disbursement increased 113% year on year to Rs. 525 crores.
- NIM was 14.28%, increased by 1.81%.
- Opex to assets were at 2.44%. There was a reduction of 34 bps as compared to the corresponding quarter.
- PAT was Rs.119 crores with 62% growth year-on-year.
- ROA and ROE was at 8.8% and 15.89% respectively.

Now, coming to the asset quality, focused collection efforts helped us to improve our 30 Plus DPD sharply. As on 30 June 2022 it improved to 6.48% as against 9.91% in March 2022 and 12.98% in December 2021. There was some forward flow into stage 3 assets, which we are cognizant of and we will be bringing it down in the ensuing quarters and because of that we have also increased the Provision coverage to 0.92% from 0.80% in March 2022. This has resulted in a debit to the P&L account to the extent of 9.5 crores. GNPA as per the revised guidelines of RBI were at 1.75%. Net NPA was at 1.3%. . As of June 2022, we are carrying a total provision of 51 crores and this when computed as a percentage of the NPA works out to a coverage of 53%. Outstanding restructuring book is at a nominal 1% and the behavior of this book is on par with our normal book.

We have well diversified borrowings. Out of the total borrowing 52% were from banks, 28% were from NHB, 14% were from DFIs like IFC and large financial institutions, and the balance is in the form of securitization. During the quarter our rating was upgraded to AA minus by CARE and ICRA has already upgraded us to AA minus. This rating upgrade will help us in exploring more sources of funding and also help in reducing the cost of funds. We had sufficient on balance sheet liquidity of Rs.1300 crores, including the end-on sanction of 525 crores from banks. As on 30th June our networth was over 3000 crores. Now with these remarks I open the floor for the question & answer session.

Thank you

Moderator: Thank you very much. We will now begin with the question-and-answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles Thank you. First question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Good evening and congratulations on a good set of numbers. Firstly, on this 30 plus DPD which has improved over the last two quarters. What is the scope of further improvement here and what where would it probably settle at what could be the steady state level?

M. Anandan: As per our guidance to the market, there is a focused approach to reducing the 30 + DPD and in line with this, the same has been reducing sharply in the last two quarters. These efforts of us will continue in the ensuing quarters as well and this will be brought to a range of 4% to 5% by end of this fiscal.

Mona Khetan: Sure, got it and where would our one plus DPD stand at currently?

P. Balaji: Mona I will explain. Our 0+ is little less than 9% / 10%. 30 Plus is at 6.48% and greater than 90 is at 1.75%.

Mona Khetan: Sure got it.

M. Anandan: You see, 0+ in December 2021 was almost at around 20% and it has come down to less than 9%-10% currently.. While our 90 Plus is at 1.75% as per the RBI guidelines,60 to 90 is at 0.78%. In other words , both 60 to 90 and greater than 90 works out to only 2.53%. This indicates that there will not be more increase in GNPAs beyond this and there will only be good improvement in the ensuing quarters from this level. Also, we are moving closer to 94%-95% nil ODs in near future.

Mona Khetan: Sure, got it and moving on to the next question, when we look at your small business loan and quasi product is there a case of compression in yields here as you expand into newer geography and competition intensifies?

M. Anandan: We are not expecting any yield compression in the case of Small Business Loans or on the quasi loans. This is because we are charging interest rates on these products which is on par or less than the interest rates charged by the companies operating in this segment. Given this we do not expect any yield compression because of our entry into newer geographies or due to competition.

Balaji: Mona just to add the yield which we are charging is at 21% and that we are not intending to either increase or decrease because this interest rate itself is low as compared to our peers. So we are charging an interest rate which is related to the market and there will not be any change in these rates.

Mona Khetan: Sure and on the cost of funds. I mean, you had earlier guided for the reduction of 25 to 50 bps in this fiscal versus last fiscal, do you sort of maintain that guidance given that, policy rates have risen by 140 bps so far.

P.Balaji: It is a fact that RBI is aggressive on the interest rate hike. If you look at our June cost of funds, it got reduced to 7.68% from 7.74% in March 2022. This was possible because we were able to renegotiate high cost loans of some banks because of the rating upgrade and also we were able to get funds at around 7.4% to 7.5% during the quarter and whatever funds we raised in this quarter, at least 50% were in the form of fixed rate interest. Further there will be additional funding from NHB which possibly will be at an interest rate lower than from the banks, so to that extent there would be some more reduction in the cost of funds

Mona Khetan: So, you sort of maintain that 25 to 50 bps reduction guidance.

M. Anandan: Yes.

Mona Khetan: Sure and sir finally of this 1.75% of stage 3, how much would be the impact from RBI circular.

M. Anandan: 1.28 is before RBI circular and 1.78 is after RBI circular.

Mona Khetan: Sure, thank you so much. I will come back in the queue.

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

Nidhesh: Thanks for opportunity sir. Sir, my question is on how should we think about the profitability of the business in the context that there are three stakeholders, shareholder, customer and employee and 8% ROA look very, very high. So how should we think about balancing the overall economics between customer shareholder and an employee, it seems like at this point in time, shareholders are making much higher profitability, while our cost of operations are one of the lowest among housing finance companies, and we are also charging much higher yield to our customers. So should it be a good strategy to pass on some benefit to customers, pass on some benefit to employees and make the business model much more scalable, but next year, either at 4 to 5% ROA. How should we think about that current in our way.

M. Anandan: Nidhesh basically we do not believe in the philosophy of compromising on our ROA, and we are very confident of maintaining our existing ROA. Obviously, with the leverage going up this 8% will come down maybe by another 1% or 2% and we are confident of maintaining an ROA of at least 7%. Further, one issue that we keep coming across are the queries from investors/analysts that our ROA is high. Again, these comments are being made in comparison with some of our competitors and we have also seen the data of about 5 to 6 leading competitors operating in the same line of business. First of all, our product segments are different and second is that in terms of loan book, we have the SME business which the competitors do not have. In other words, our ROA is high because of higher sales realization owing to the mix of the products including lending to SMEs yielding higher interest. Our sales realization is almost about 3.5% to 4% higher primarily because of the product mix comprising of the SME. As Balaji had mentioned, a while ago for example, in case of SMEs the interest rate charged is 21% that is what is being charged by almost every NBFC, not only the NBFC even if you take the effective interest of some of the leading gold loan companies, they are charging 21% plus. So, in other words, we are confident of delivering 25%-30% growth in AUM for the next five years, without any substantial reduction in our ROA. ROA again is not only high because of the higher sales realization, but other business drivers like productivity, relevant technology initiatives, opex etc are also getting closely monitored. Even in the credit costs, the provision of around Rs.51 crores maintained is only an enabling provision to strengthen Provision Coverage and the actual write off is only around 0.1% to 0.2%. Further we make a line by line comparison of the number of employees, employment cost, branches, branch office cost, transaction cost etc to make Aptus a cost-efficient,productivity oriented and lean organization.

Nidhesh: And second sir can you share the BT out rate in the housing finance book for the quarter?

G.Subramaniam: Our pre closure is about 8.62% out of that 77% comes out of own source, so the 23% of 8.62% which works roughly to about 2% is our BT out.

Nidhesh: 2% is annualized BT rate annualized only for housing loan book price.

M. Anandan: Yes, basically because our loans are largely in tier2, tier 3 cities, with an average loan of about seven or eight lakhs, and the average EMI is about Rs.12000. Some of our competitors, particularly the banks and larger HFCs are not too keen to fund these small size loans. They don't want to be spending time, costs and underwrite these customers which is transaction intensive. Instead of doing this, they would rather buy the book either by way of Securitization or Direct Assignment. It is owing to these reasons that our BT out rates are low.

Moderator: The line of the participant just got disconnected. The next question is from the line of Rajeev Uberoi from Yes Securities. Please go ahead, sir.

Rajeev Uberoi: Yeah sir this is Rajeev here. Sir if you can, this significant movement between you know, buckets, so we had a very sharp reduction in 30 to 90 bucket and then you had significant flow back as well as your significant flow forward into 90 plus and when I were to look at our portfolio, which is highly concentrated in certain geographies of south, so why did we have this kind of differentiated movement, because it is a pretty significant movement both ways in one quarter, and because we had certain customers under stress, whereas we had certain customers improving their cash flows, despite we operating in a concentrated geography.

M. Anandan: Actually, prior to COVID our nil ODs were always over 95% and 0+ DPDs were at around 5%. During the first covid phase RBI came out with two announcements benefiting the customers, one was moratorium for period upto 6 months and the other was restructuring. During first phase of Covid we did not give restructuring at all and even the moratorium was given for a maximum of 2 to 3 months unlike other companies wherein a moratorium of 6 months was given. As a result the DPD freeze was removed earlier for us unlike other companies wherein the DPD freeze was removed after 6 months. This has led to bulging of soft buckets mainly 30+ DPDs though our collection efficiencies during this period were at near 100%. This meant that the customers were able to pay current month's EMI promptly but found it difficult to pay older EMIs which had fallen due. Then came the Covid 2 wherein again the collection efficiencies like other companies dropped for us as well resulting in soft buckets becoming relatively high as compared to other companies. As was guided, a focused approach was undertaken and 30+ DPDs which was 12.98% in Dec 2021 has been brought down to the current level of 6.48%. Of course there is a small forward flow into the NPA which will be brought down in the ensuing quarters. Customer behavior was different for different end use segments and we have not seen any major repayment practices due to concentrated geographical operations.

Rajeev Uberoi: Okay and was there any concentration of geography regions here.

M. Anandan: More than concentration, the repayment culture of certain pin codes, certain areas, certain states etc are slightly different. Based on these analyses, we would say that our best portfolio maybe in Andhra, Telangana, Tamil Nadu and Karnataka in that order and that is how we have organized in terms of our recovery efforts as well

Participant: Sir few clarifications currently out of 1.75% NPL you spoke about less than 90 DPD NPLs which are around 1.28% would that be right?

G.Subramaniam: No. NPL calculated as per the old methodology is 1.28. So, 1.75% minus 1.28% the difference is around 0.47%.

Participant: And currently 1 plus number is around 9% right?

P.Balaji: Yes.

Participant: Which in a normal course over a period of time we should be at around 5 odd percent which you said 95% regularly paying customer?

M. Anandan: By March 2023 we will strive to be at these levels

Participant: And you also spoke NHB sanction coming in this quarter, what will be the quantum of that NHB sanction?

M. Anandan: Let me put it this way we have been getting excellent support from NHB and already of the total borrowings we have got 28% from NHB and the last loan that we got from NHB is about 300 crores and it was at an interest rate of 5.8% for a tenure of 10 years. We do expect reasonably good size loan, but the size of the loan one has to wait and see.

Moderator: Thank you. We take the next question from the line of Amit Bhatt from MIT Engineers. Please go ahead.

Amit Bhatt: Sir how historically company performing and raising interest rate cycle and are you confident to give 30% top line growth with the same net interest margin in this interest rate scenario?

M. Anandan: In the last 11 years, we have hardly revised our interest rate though this might not be an indication for certainty into future, across the interest rate cycles and we have by and large maintain the same interest rates charged to the customers.. I think only once we made a marginal correction. Even in current year so far we have not revised any interest rate and we have tried to really absorb whatever interest rate because out of our 6,000 crore balance sheet size, about 3000 crore are from net worth and the balance 3,000 crores approximately are the borrowings. Again 60% of the borrowings is fixed interest for another 5 years and it is not linked to any MCLR. So, in other words the full impact of this interest increase may possibly will come in subsequent years rather than in the current year or the next year because of the high content of long term fixed loan where there is no variability in interest rates. There is a slide in our investor presentation to show what is our fixed interest rate borrowings 62% fixed and about 38% is only variable. So, given this scenario and the other good thing is terms of of credit rating upgrade in December 2021 gave us an opportunity to renegotiate with some of the bankers.. Further generally affordable housing finance companies have a certain amount of pricing power unlike matured large HFCs where the pricing power is zero. Based on this even if we are to revise the interest rates by another 25 or 50 basis points, our average EMI will not go up substantially because the loan size is small.

Amit Bhatt: Sir to maintain this 30% top line growth is it necessary to increase branch aggressively?

M. Anandan: In order to pursue a growth of 25% to 30% for the next 5 years, we are of the view that growing branches aggressively is not a pre requisite. More productivity out of existing branches possibly will yield better results.

P.Balaji: Further to that we have got around 211 branches of which 149 branches is more than three years old and they are having average book of 32 crores. The number of branches which is 1-2 years old and the average loan book is 14 crores which means that all these branches have got scope to grow up to 32 crores and the balance are less than one year old branch which is having an average book of Rs.3 crores. So, this again has the scope to grow up to 14 crores first and then to 32 crores. With the market size being large we are hopeful that we will be able to capitalize on this situation and make these branches do well rather than opening new branches.

M. Anandan: Basically we do not believe in the philosophy of opening 200/300 branches in the next two, three years. We will add new branches very prudently and will add a maximum of about 25 branches per year. Again all these will be within the existing states and then open branches on a contiguous basis. As explained above, growth will come from existing branches by way of improvement in productivity. The growth in contiguous states will be to prepare the organization for further growth over 3 to 5 years. In fact even in the current year growth will largely come out of 18 branches which are added in the last one year where the loan book is only 3 crores. It can easily go up to 30 crores/40 crores.

Amit Bhatt: Sir and lockin period for some of the pre IPO investors is now ending that is the report from the CNBC so this lock in period because 6,000, 7,000 they are claiming Rs. 6,000, Rs. 7,000 crores of stocks are going to come to the market. So, already price is below the IPO price, so how you are thinking that this people are going to behave, these institutions are behaved in that scenario?

M. Anandan: I do not know the basis of this Rs.6,000, 7,000 crores I do not have the calculation ready with me now, but we as a company are really focusing on how to improve the performance, quality of the performance, quality of our loan books and communicate the same with all the stakeholders and that is what our primary job is going to be. This is what is reflected in the strong first quarter performance of ours and we will leave the market to determine the price as you know that we do not have any control over market behavior.

Moderator: Thank you. We take the next question from the line of Ankit Bansal Individual Investor. Please go ahead.

Ankit Bansal: Sir my question is with increasing your domain like you are expanding in Odisha, Maharashtra, sir how our customer able to know your model better like other NBFCs are there, how they are attracted to your company, what are your model so that more and more customers are attracted so that is my question?

M. Anandan: See basically being headquartered in Chennai we commenced our operation first in Tamil Naidu only and then progressively we have added Andhra Pradesh, Telangana, Karnataka and when we have added them these were new markets for us but then we have demonstrated very high level of execution capabilities in these new markets which are different culturally. Hence we have a demonstrated proven experience of over 10 years in terms of when we enter a new market particularly for the affordable housing finance we do lot of homework. We do extensive homework in terms of our own staff, experience, processes and the market potential including studying the pin code wise customer behavior, payment culture etc and we commence the business step by step. For example we have just started one branch in Odisha 4 months back, we have not added about 10 branches there at the same time we would really want to see study, then only we will add more branches. Further we have a tool called early default analysis whenever we do business in a new markets, new segments, new geographies, new branches etc. We track portfolio behavior for 15 to 18 months from the date of funding and we track them in terms of how many proposals we have done in that new area and what is the repayment success and what was the gap in underwriting etc. So, this is something which we have done in the past when we opened branches in new States and this will be continued in future as well.

G.Subramaniam: Just to add we also study the market for suitability to our business model which is mostly self construction and we will not grow in areas where there is no scope for self constructed houses. Further the customers normally are attracted to any company because of the transparent process, the speed at which they do the transaction and the feel good factor about the company. I think we are faring better in all these aspects from the view point of customers.

Ankit Bansal: My next is sir what are your future plans for expanding like multifold exponentially, what are future plans for two years, five years of growing your business exponentially?

M. Anandan: Very simple we do not have any plans to grow exponentially. Our philosophy is to pursue a growth of 25% to 30% in the next 5 years with absolute focus on quality of book and profitability. We are highly focused and will do only chosen products and nothing else. We will not look into any unrelated businesses, corporate, builders etc., We will only be in affordable housing market wherein the customers are more granular and retail. None of our loans are more than Rs.25 lakhs to any customer. Our loans are fully retail home loans for self occupation largely in tier2- tier3 cities to lower and middle income customers, largely self employed.

Ankit Bansal: What are your target through net NPA and GNPA for FY23?

G.Subramaniam: We are targeting a GNPA of around 1.30% by March 2023. Net NPA should be around 0.90%.

M. Anandan: As of now GNPA is 1.75, this is for the year and we are working towards 1.3% by end of this fiscal

Moderator: Thank you very much. The next question is from the line of Alpesh from IIFL Securities. Please go ahead.

Alpesh: So first question is on the OPEX to average view that number is coming down continuously every quarter that will keep that stabilizing and secondly any color on the seasonality of the disbursement, do we have a stronger second half versus that of first half depending upon the geographies that we operate in?

P.Balaji : OPEX on the average loan book for the first quarter was at 2.40% which is already low and hence we do not have much room to reduce further. With the kind of expansions and technology investments that are being planned, I think it will stabilize at around 2.60% or 2.70%

Alpesh: Technical increase on the seasonality of the businessman do we have a second half because we have a very limited data on the quarterly basis considering do you think, so I wanted to understand the seasonality of the businesses whether the second half is stronger than the first half depending upon?

G.Subramaniam: Normally first quarter is slightly subdued, second quarter will be relatively better. Third quarter is really good and then the business will peak in the fourth quarter. This is how the disbursements have happened in the last 10 years and we foresee same thing to continue this year also.

M. Anandan: One welcome change is that first quarter disbursements in FY 23 are slightly higher than disbursements of last quarter of FY 22.

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

M. Anandan: Thank you Seema and thank you for organizing this conference call. I would like to pay my sincere gratitude to all analyst and investor friends who have taken time out of their busy schedule to listen to us today. Please feel free to contact us in case you have any further queries we would be happy to get back to you. Thank you.