"Aadhar Housing Finance Limited

Q1 FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Aadhar Housing Finance Q1 FY27 Earnings Conference Call hosted by DAM Capital. As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 over the conference to Mr. Sanket Chheda from DAM Capital. Thank you, and over to you, sir.

Sanket Chheda: Yes. Very good evening to all of you. We have with us management team of Aadhar to discuss the Q1 results. From the management side, we have Mr. Rishi Anand, MD; Mr. Rajesh Viswanathan, who is the CFO; and Mr. Sanjay Moolchandani, who is the Head of FPA and Investor Relations. We also have Deo Shankar Tripathi, who is Executive Vice Chairman.

Without further ado, I'll hand the call over to Rishi sir for his opening remarks. We'll follow that up with question and answers. Over to you, sir.

Rishi Anand: Thank you so much, Sanket, and a very good evening to all of you. Thank you for joining us today to discuss Aadhar Housing Finance performance for first quarter FY27. We start the new financial year on a steady note continuing, the momentum we had built through FY26. As you would recall, we had closed the last year, crossing a very important milestone of INR30,000 crores in AUM. And in quarter 1 FY27 has been all about getting that execution rigor forward with disciplined growth, calibrated risk and continued investment in productivity across our branch network.

Our AUM as of 30th June 2026, stood at INR31,364 crores, a growth of 18% Y-o-Y. For Q1 FY27, our disbursement of INR2,036 crores is reported on check clearance basis. Disbursement on check handover stands at INR2,359 crores, which is on a like-to-like basis growth of 19% Y-o-Y. Effective quarter 1, we have taken a step of transitioning our loan accounting to cheque clearance basis model of disbursement recognition, which is a forward-looking approach and a significant milestone in our commitment to governance, transparency and putting customer at the forefront.

Just reiterating, if we were to compare disbursement on cheque handover basis, then the disbursement in quarter 1 FY27 is INR2,359 crores, which is a growth of 19% on a Y-o-Y basis. This transition needed not only systemic changes, but also an element of the entire operating model. We have taken this step. As we move ahead, we are firm and stick with our medium-term guidance of 20% AUM growth, 20% profit growth, 17% to 18% disbursement growth for the full year.

Next 3 quarters, we have targeted disbursement growth of upward of 20%. Our portfolio continues to remain fully secured and retail in nature with a balanced mix of home loans, which is at 73% and non-home loan at 27%. We continue to maintain well diversified book with an average ticket size of INR11 lakhs, 60% loan-to-value ratio, which remains within our comfort levels. The salaried segment continues to be 55% of our AUM. Balance transfer out during the quarter in question stood at 5%, which is one of the lowest BT out rates in the last 8 to 10 quarters and improved by 20 bps as compared to Q1 FY26.

This was supported by a focused retention effort and data-driven customer engagement. On the operating environment, demand for low-income housing finance continues to remain healthy and structurally supported. It continues to be largely end user base and first-time homebuyer driven, particularly in the emerging markets, where we have deliberately built a strong franchise, which gives us comfort that this growth is not speculative in nature. Our approach, as always, has been to protect spreads rather than chase yields, which we are doing by tilting the mix towards emerging branches by staying disciplined on loan against property and by continuing to drive productivity per branch and per employee, so that operating leverage does the work that pricing cannot.

Even after a 15 bps reduction in our RPLR effective February 2026, our spreads have held at 5.8% as on June 26. On asset quality, our portfolio continues to perform well. Collection efficiency remains strong at 99%. Gross NPA stood at 1.31%, an improvement of 3 bps on Y-o-Y basis. Stage 2 comes in at 3.3%, continuing to show an improvement of 40 bps on a Y-o-Y basis. As we have said before, the first line of defence for us is always the bounce rate and this has remained stable throughout the quarter.

We remain watchful of two external factors that the broader industry has also flagged. The ongoing geopolitical uncertainty around the West Asia situation and its resulting impact on segments like fuel-dependent trade and travel and the monsoon outlook given it's bearing on the rural and semi-urban cash flows.

Our exposure to NRI-linked customer segment continues to be minimal, and our underwriting teams are tracking lead indicators closely at the branch level, as we always do, rather than making any broad-based tightening. On distribution, as on June '26, our network stands at 628 branches across 22 states and covering 550 plus districts, in line with our calibrated, need-based expansion approach. We continue to see most of our new branches, particularly in the smaller deep impact one, reach productivity level within our expected 9 to 15 months window, and that discipline remains central to how we think our cost to income is controlled.

Our geographic diversification remains strong with no single state contributing disproportionately to our AUM. Our approach of combining branch expansion with productivity improvement of existing branches continue to support our sustainable growth.

Let me briefly touch upon our AI initiatives. We are institutionalizing AI as Aadhar's operating backbone a 6-layer AI architecture embedded across origination, underwriting, surveillance, collection and retention with every engine tiered to track outcome like NPA, turnaround time, cost to income, retention and yield. Further, we are building 5 proprietary reusable platforms spanning across document intelligence, voice intelligence, decisioning intelligence and enterprise access layer and management intelligence that we believe compound into a genuine competitive advantage over a period of time.

Overall, Q1 FY27 has been a quarter of steady disciplined execution. We remain confident of delivering our medium-term guidance of 20% AUM, sustained profitability and industry-leading asset quality while staying alert to the environment around us. Aadhar remains committed to its mission of enabling homeownership for low-income families while delivering consistent and sustainable returns for our stakeholders.

With this, I would now hand over to Rajesh, our CFO, to take you through the financial performance in detail. Rajesh, over to you.

Rajesh Viswanathan: Thanks, Rishi. Good evening, everyone. I would like to take you all through the financial performance of Q1 FY27. In Q1 FY27, our AUM has grown by 18% on a Y-o-Y basis. Our overall borrowings as on 30th June '26, stood at INR20,000 crores compared to INR16,876 crores a year before this.

The growth of borrowings is 19%. The borrowings mix as at 30 June '26, is 49% from banks, NHB share is 24%, NCD share is 17%, ECB share is 7% and others is 3%. Our incremental borrowings for quarter 1 FY27 was INR2,238 crores, which came in at 7.3%. In Q1, fresh NHB borrowings were INR746 crores at 6.9%, which included AHF borrowing of INR149 crores at 4.3%.

The exit cost of funds as at 30th June 2026, stood at 7.7% versus 8% a year before. In terms of fixed and floating nature of our book, 78% of our borrowings and 73% of our assets are on a floating basis. Undrawn sanctions on 30th June 26 is INR991 crores. Liquidity as we ended quarter 1 FY27 stood at INR2,371 crores. Portfolio yield exit is 13.5% in quarter 1 FY27. Hence, the exit spread stood at 5.8% as at 30th June 2026.

Our cost-to-income ratio for quarter 1 FY27 stood at 36.3%. Included in total expenses is INR14 crores related to fresh ESOPs, which was granted in Jan '26. So, there's a P&L charge of about INR14 crores in quarter 1 FY27, which was not there in quarter 1 FY26. GNPA as at 30th June 2026 is 1.31% as compared to 1.34% in Q1 FY26. As at 30th June '26, our Stage 3 provision coverage ratio stands at 34%.

Capital adequacy ratio for Q1 FY27 stood at 42.9% for Tier 1 and 0.5% for Tier 2. Our Q1 FY27 PAT stood at INR282 crores compared to INR237 crores in Q1 FY26, resulting in a growth of 19%. Q1 '27 ROA and ROE is 4% and 14.7%, respectively. The number of employees as at 30 June was 5,671 employees.

With this, we open up for questions.

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

Renish: Sir, my first question is on asset yield, right? So, I just wanted to understand how we are managing asset yield so well. And then despite 15 bps PLR cut and intense competition, we have been able to sustain in some sequential basis.

So, what are the things we are doing it differently, sort of which is helping us sustaining the yields during such a tough environment. I mean is it currently some changes in pricing policy or maybe AUM mix change, different customers segment or the different ticket size.

So just wanted to understand from you, sir, how we are able to manage yields even in such tough environment.

Rishi Anand: Thank you, Renish. And maybe on a lighter note, 1 correction that it was not a challenging quarter. I think the quarter was good, while we took a conscious call of looking at disbursement on clearance, I think it was a well-informed call. And I would say it was slightly delayed because of the systemic changes that we were wanting to do. So not a challenging quarter. Yes, the Middle East issue, etcetera, has been playing around.

As an organization, we are not overexposed. rather, I would not say, substantially exposed to NRI loans because of the segment that we deal with. Second is you know the pockets which where there are certain challenges where NRI exposure is large, our exposure in those states are very low.

If we follow that thumb rule of no state contributing on AUM, incremental disbursement and distribution greater than 15%, that we've been following for the last 5 to 7 years. and today on hindsight, if I look at the strategy that we had adopted about 5 years back, it is playing out very well. Then our second strategy on urban and emerging is helping us maintain the yields. And if you recall, a couple of quarters back, from the same call we had called out urban and emerging strategy and how this would eventually start balancing out our, not only the yields, but also the ticket size.

And while in the market, we see the ticket size has substantially jumped for a lot of players, our ticket size still remains range bound, It has moved from INR10.4 lakhs to only INR11 lakhs because the emerging has started to play out. Similarly, even on yields, that was your question even on yields, while urban sees a little bit of more competition, the emerging locations help us manage the yields. So, far I think that strategy of our distribution being large enough, we being in Tier 3, Tier 4 locations substantially, and the urban emerging is playing out for us.

Renish: Okay. Or is this something to do with, let us say, the high-yielding state contribution increasing versus, let us say, the mature market contribution remaining static.

Rishi Anand: No, I would not say that because our contribution from all the major states have been stable state. In fact, if you look at this particular quarter, and I'll give you an example, our contribution from Delhi has increased slightly, which is a state which gives us lower yield. In spite of that, we've been able to maintain the yield. So, there is no substantial change in the contribution from any particular states, Renish.

Renish: Okay. Great, sir. Sir, my second question is more on the strategy front for medium term. So obviously, we keep on hearing from various industry participants about increasing competition in this space and it's kind of corresponding impact on the yields.

Sir, what is your assessment? I mean, if one is to assume that given the strong historical performance of the space, it will keep on attracting many new entrants, which might be leading to aggressive loan pricing. So from Aadhar perspective, how are we positioned to sustain this 20% growth in medium term? And more importantly, within our spread guidance range of 5.5%.

Rishi Anand: So Renish, even as we speak today, June quarter, we've ended the book spread about 5.8%. We have always guided the market that at any given point in time, we will be a company which will be as a company with a spread of 5.5% upward. And that is where, again, I will come back to my urban emerging strategy.

Today, out of the 628 branches, approximately 450 branches plus happen to be in the emerging locations. Emerging gives me substantially high yields compared to urban locations. And you talk about new entrants coming then we will have to start looking at which segment they're coming. They are primarily, as s we read the industry, they're coming in the affordable segment, we are 1 notch below in the low-income segment.

Will there be an overlap between what others do and what we do? Yes, there will be definitely a 5%, 6%, 7% overlap. But if our emerging strategy plays out well, which we are seeing early green shoots, it is playing out very well. we are really confident that we will always be a company upward of 5.5%. And that we've maintained over a period of time.

Renish: Okay. Got it, sir. And just last thing on the disbursement side. Sir, what is the July disbursement number? I mean, I just wanted to get a sense, despite this recognition policy change. How are you placed to compensate or maybe the offset impact which we have to take in Q1?

Rishi Anand: So, Renish, as I told you, as I told on opening statement that we have given it were a like-to-like disbursement, which we hand over to cheque hand over, our growth is 19%. But since we moved to cheque realization, obviously, the growth numbers are slightly lower.

By strategy, the numbers that I have not done cheque realization moves to quarter 2. So quarter 2 numbers should be there and no reason why I should have a disbelief around it, should be close to 25% or upward of 23%, 24%. And as I look at July, we are already at the last day of , July, and we should be hitting a number very close to INR900 crores.

Renish: Okay. So I think Q2 itself, you will compensate the loss which we saw in Q1.

Rishi Anand: I will not say the entire -- I will not term it as usual loss. But the entire business that is getting carry forward, it generally happens over a couple of quarters. But yes, it will substantially -- quarter 2 will substantially cover up for the short fall of quarter 1.

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

Kunal Shah: So firstly, with respect to this cheque realization, the impact was only on disbursements or even on the interest income, there was a circular which was issued. So, was there any impact in terms of the interest income recognition as well in any of the line items in this particular quarter? Any which ways like yields are quite flat, so it doesn't appear to be there, but I just wanted to clarify that, yes.

Rajesh Viswanathan: Not major, Kunal. I think we will also start recognizing interest only when the cheque gets cleared. So, to that extent, there will be a 2- 3 day impact, it will not be material.

Kunal Shah: Okay. So hardly 2, 3 days kind of an impact in the interest income.

Rajesh Viswanathan: Correct. Correct.

Kunal Shah: Okay. And secondly, in terms of the employee cost, so not looking at year-on-year, but sequentially, if I look at it, so ESOP cost was there last time as well and it continues this quarter. What could have been the reason for the sequential increase? Because last time also, the overall employee cost was higher because of the incentives -- volume-linked incentives which would have been paid. So, we have not seen any improvement on the employee cost front.

So besides that, what has led to the higher employee cost. And secondly, on the overhead, it appears maybe it's managed very well. It's hardly up like 5-odd percent year-on-year and also down like more than 25% quarter-on-quarter. So was it like more like a structural one? Or again, it has a one-off and maybe the employee cost getting offset by the overhead cost.

Rajesh Viswanathan: So basically, on operating cost, typically in the fourth quarter, you'll have some contests and competition expenses, etcetera, would get built in over there. So that is more a quarter 4 sort of an event that will not apply typically in quarter 1.

Having said that, if we manage to do anything like 10%, 11% growth in the full year on nonemployee cost, I think we would have done a very good job. In terms of increase between sequential quarter on employee cost, that is mainly because of the annual increment, which is typically in the range of approximately 10% to 12%, which would have come in the quarter 1 of the current year. Otherwise, then there is no chunky item, which is basically sitting in the Q1 FY27 cost.

And Q1 FY27 versus Q1 FY26, a reason for the 27% increase in a Y-o-Y basis is predominantly because INR14 crores to INR15 crores of quarterly ESOP cost is there, which is not there in the last year. If you adjust for that, I think the growth would be approximately 14%, 15% even on employee cost, which more or less is about 11% increment which you would have given out.

Kunal Shah: Sure. And in terms of this rise in GS2, GS3 would we still say it's more of a seasonal and we will be able to pull it back through the fiscal because any which has indicated the bounce rates have been stable. So was like collection efficiency strong enough and we will be able to pull it back and even like 40 basis points of credit cost will eventually come down and the full year credit cost would settle much lower.

Rajesh Viswanathan: Yes. I think if you look at it historically, Kunal, for all of you who track us, if you look at it, say, this is more of a seasonal quarter. And for the last 2, 3 years, this has been a phenomenon that the first quarter credit cost remains between 40 to 45 bps.

And as we end the year, the credit cost comes in and settle down at about 23 bps to 24 bps. I think we are fairly confident before we look at last year, 1.34% was headline NPA, and we ended the year at 1.08% to 1.1%. I think we are quite confident of holding the 1.1% level as we end the year. And I think that would be in the credit cost will be again settle down anywhere between 23 bps to 25 bps.

Kunal Shah: The reason I asked was a couple of players, they have shown very limited increase. They have been able to manage it quite well despite seasonality. So that's the reason for the question.

Rajesh Viswanathan: No, I think yes, I mean in our case, we normally see quarter 1 because of seasonality going up anywhere between 30 bps to 35 bps. In our case, now it has gone up by 25 bps. So -- and 22 bps other. And we are quite confident of pulling it back to 1.1% level as we end the fiscal and with the credit cost charge to about 23 bps to 25 bps on the P&L.

Rishi Anand: Yes, I was just adding, Kunal, what gives us more confidence is that on a Y-o-Y basis, a 3 bps reduction in NPA and 40 bps on Stage 2, that gives us more comfort on how we are going to be ending the year.

Moderator: The next question is from the line of Shreya from Nomura.

Shreya: My question is on your liquidity that you mentioned of INR2,371 crores. So in terms of how many months' worth of liquidity you're holding, what would that be? What was it in June? Where did you keep it in March? Is there a pile of liquidity that you did? And any color on how you think the cost of fund would move through the remaining 3 quarters? That's my only question.

Rajesh Viswanathan: Very important point on liquidity is that if you take the liquidity and you compare it to our overall borrowings, our overall borrowings was INR20,000 crores. So if you look at INR2,371 crores over INR20,000 crores, the percentage will be higher than 10%. But throughout the quarter, we try to keep a liquidity of anywhere between 7% to 8%. This typically goes up towards the end of the quarter because there are drawdowns at the end of the quarter. So to that extent, you will see a higher liquidity, which happens at the end of the quarter. But throughout the quarter, we try to maintain 7% to 8% of borrowings as a liquidity buffer.

coming back to the cost of funds. First quarter has been where we have seen very limited movement in cost of funds. But if you look at the way the market public information is there, there's a general view that the interest rates may go up. We have not seen it happening until the month of July, for example, for us. But having said that, one good thing that we have in our company is that 75% of our assets can be repriced.

So typically, if we have any pain on our existing borrowings getting repriced by banks, on the floating rate book, we will also, as per our RPLR model and after taking necessary approvals of our ALCO and Board be able to pass on to our customers if they need be.

And we believe that at least we don't see that happening definitely in a quarter or maybe 2 quarters. And that is the way we are reading it currently, but things may change. But as we read it currently, we don't see any imminent impacts happening in the current quarter and probably even the next quarter.

Shreya: Right. And sir, what would be your view on, say, if these interest rate cost of fund rates remain very volatile, you would want to keep your customers protected and not pass on volatility, what would be your view on this?

Rajesh Viswanathan: Yes. See, typically, what would happen in a volatile scenario, what will happen is a bank will also not adjust the MCLR, so proactively. For example, they will all want to wait it out to see whether it is a permanent impact or a temporary effect. If they feel there's some sort of permanency to the impact, then they will obviously impact the MCLR of that. Incremental cost of funds do keep changing, especially in the capital markets, and that's where we are very specific. Wherever the interest rate, there is an opportunity we go raise funds in the capital markets. Otherwise, we step away from capital markets.

So having said that, as I said, volatility, we do not generally pass it on to customers. We also wait for it to be permanent and it should hit our balance sheet. Once the higher interest rates hits our numbers, then only we will pass it on to the customers because we have a very robust RPLR model and it has to pass the test of the RPLR model before we can start passing on to customers. Any 1-month or 2-month impacts, which we see in the model, we generally do not pass it on to the customer. We wait it out and then only pass it on to customers.

Shreya: Got it. Sir, 1 follow-up question. What you shared about the -- your strategy of expanding into the emerging markets, but say, in more the markets away from the Tier 2 markets, is there any demand side challenges that you're facing in those segments? I'm not talking about competition. But is there any demand challenges in Tier 1, 2 cities that you might be facing in terms of lower number of files coming to the branches, etcetera.

Rishi Anand: You're talking about Tier 1, Tier 2 cities? Or are you talking about the emerging locations?

Shreya: Non-emerging portfolio. Tier 1, 2.

Rishi Anand: Urban locations are growing at a larger speed. And that's what I said, we'll have to do the balancing with emerging also start to grow at a larger speed. So the urban demand is slightly more than what we had expected at least in the last 2 quarters that have passed by.

Shreya: Okay. So there's no demand side issues that you are...

Rishi Anand: No, not at all. Not that we are seeing any.

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

Nidhesh: Sir, my first question is on the disbursement evaluation I think in Q1 FY25, also we have made some changes with respect to the disbursement evaluation. There was a RBI circular at this point in time. So can you help us to understand what were the difference at that time and what is the difference this time, which impacted our disbursement.

Rishi Anand: Yes, Nidhesh. , you're referring to the RBI circular, which we had implemented in quarter 1 of financial year 24-25. I can take a minute here to explain. The process is sanctioned, disbursement, cheque handover and realization. These are the 4 major steps in the journey of how disbursements -- how the process happens.

Earlier, we used to recognize disbursements as disbursements. The moment it would get disbursed in the system, we would start recognizing the interest. From there, with respect to the RBI circular, we moved to something called cheque handover, cheque being handed over to the consumer. That actually happened in quarter 1 of FY25.

And now from the cheque handover to realization, we realized that there is a gap of anywhere between 5 to 7 days. And we have eliminated this gap of 5 to 7 days and moved to real-time realization. So when the cheque get realizes to either the seller account or the customer account, as the case may be, from there on, we start recognizing the interest. So that is the change that has happened this quarter.

Nidhesh: Got it. And the second question is, how do you think opex to AUM trending, let's say, over the next 2 to 3 years for us?

Rajesh Viswanathan: I think from expenses cost to income, we believe that we still have the ability to drop cost to income by approximately 30 bps to 40 bps on a yearly basis. On a cost to AUM basis, I think that will work out to about 6 bps to 7 bps every year.

And if some of the AI projects that we are taking up, which Rishi explained, if that starts pushing in and improves productivity and overall cost benefits, probably we would see some more cost benefits in terms of cost to assets.

But as of now, we are holding in a cost to AUM range of about 6 bps to 7 bps on a yearly basis and cost-to-income of around 30 to 40 bps. Because if you look at it over the last 2 years, we would have dropped about 150 bps on cost to income.

And when I said cost to income over here, I'm including the ESOP cost, which is -- which would be approximately INR15 crores a quarter when I'm doing a cost-to-income calculation. If you exclude that, I think our cost-to-income ratio would be in the range of about 33% to 34%.

Nidhesh: Sure. And last question, sir, just 2 data keeping questions. One is if you can share us 1 plus DPD as of end of June '26. And what is the BT out rate for quarter 1?

Rajesh Viswanathan: 1 plus DPD is 7%. And in terms of BT out, it is 5%, which is an improvement of approximately 20 bps over the same period last year.

Moderator: Next question is from the line of Sonal Gandhi from Asian Markets Securities.

Sonal Gandhi: Sir, my first question was on the NHB drawdown. So, what you've done about INR740 crores, INR750 crores of drawdown and probably at a lower rate. So, if we exclude that, what would the cost of fund for the quarter?

Rajesh Viswanathan: I think the overall blended cost is INR750 crores at approximately 6.9%. Included in that is AHF of INR140 crores at 4.3%. So, I think the remaining INR500 crores or INR600 crores would have come in at...

Sonal Gandhi: Excluding NHB borrowings.

Rajesh Viswanathan: Excluding NHB borrowings? I think excluding NHB borrowings, I think it will be in the range of about 7.4% to 7.5%.

Sonal Gandhi: Okay. So, I think last quarter, this was 7.3% or 7. -- I'm not sure you just help me with the last quarter number.

Rajesh Viswanathan: Last quarter number, I wouldn't have it exactly now. I'll try to pull it during the call and give it.

Sonal Gandhi: My second question was incremental yields, I think that -- those have gone up. So, I know you've taken a PLR rate cut. But I mean, anything that is helping you emerging I understand that anything apart from that? And how do we see incremental yields moving from here?

Rishi Anand: So incremental yields, as you would have seen, have remained flat. And I don't see any reason why the incremental yield should drop at any stage. And again, I will come back to the same point that if we are able to calibrate our urban emerging strategy in the medium term properly, which I don't see reason why it should not, then I don't see any movement -- negative movement on the incremental yield, which means my spreads, which we have always maintained upward of 5.5% will be maintained and secured.

For example -- Sonal, sorry, illustratively, urban today gives you yields of anywhere between 11.5% to 12%, whereas emerging gives me an yield of anywhere between 14% to 14.8%. So, if this calibration of -- even if in the medium term, I reach 50-50, 50% of business coming from urban and 50% from emerging, I'm able to control incremental yields.

Sonal Gandhi: Got it, sir. The second one is on disbursements. So if I look at disbursements in other mortgages, I think that is almost 22% versus home loans still grown. So is there anything that is impacting this growth apart from the recognition of disbursement?

Rishi Anand: No, Sonal. Non-home loans, a slight reduction in the quarter -- in the last 2 quarters, I would say, was a part of the design, given the situation around West Asia crisis and by philosophy, non-housing loans being slightly more riskier. I would say it was a conscious decision that we had taken.

There is no specific reason why it should not get back in the coming quarters once the West Asia issue is resolved.

Sonal Gandhi: Got it. So do we expect that the growth will accelerate in non-home loans probably 2H?

Rishi Anand: I will not say that it could accelerate, but we will get back to normalcy, incrementally doing a 70-30 kind of incremental disbursement on home versus non-homes.

Currently, it stands at about 76-24. And historically, we've been doing 70-30. This differential is on account of certain restriction in certain markets that we have internally adopted.

Sonal Gandhi: So, this should start normalizing from 2Q or this would be a little later -- the in FY27?

Rishi Anand: See, ideally, if you ask my view, I should ideally wait for the current quarter to see how the crisis is going to stabilize. But from a quarter 3 perspective, it should be back to normalcy.

Sonal Gandhi: Okay. Sir, the other question was when I look at AUM per branch. Sir, Madhya Pradesh, there seems to be a 3% Y-o-Y decline. And Telangana is also growing at 5%, 6%. I think the other states are doing pretty well, including Maharashtra.

So, any challenges that you're seeing in these 2 states, Madhya Pradesh and Telangana? And is it something which is specific or is it something to do with the industry?

Rishi Anand: One is, unfortunately, readily, I don't have the data, but I don't see any issue because if there was a larger issue, it would have got highlighted. But I don't see any issue on decline on AUM per branch.

It might there will be certain branches where we put restrictions, certain states where we put restrictions in terms of which were more export oriented. There you might see a slight decline, and this would be on account of those branches contributing at the overall level.

Sonal Gandhi: Got it, sir. And sir, for medium-term, maintain the -- I mean, I believe 2Q is going to be pretty good. So, for FY27, should we expect similar sort of AUM growth, 20% and PAT 20%?

Rishi Anand: Yes. As I indicated in my opening statement, for the current financial year, a 20% growth on AUM, a 20% growth on PAT and a 17%, 18% on disbursement is what we will stand by. In the coming quarters, from an incremental disbursement perspective, the next 3 quarters will be a disbursement upward of or close to about 20%.

Moderator: The next question is from the line of Akhil from Hornbill Capital.

Akhil: If I look at your branches in the last 2 quarters, in the last quarter, we opened only 5 branches. And in this quarter, we've opened only 2 branches. So firstly, why is that? And secondly, are we still on track for our 40, 50 per year branch opening guidance?

Rishi Anand: Akhil, yes, we are completely on track. There were 2 reasons. See, quarter 4, generally, we avoid opening any new branches because it disturbs the applecart completely. Generally, we do it between quarter 2 and quarter 3 because then we give them time to stabilize.

Having said that, we kind of, I would say, not waited out, but we could have opened 5 to 7 branches in quarter 1. We restricted to 2. And as we look at the current quarter and the upcoming quarter, which is quarter 3, we stand by our numbers of 45 to 50 branches.

Akhil: Okay. So, we will make it for the loss that happened in the first quarter?

Rishi Anand: There was no loss. We could have opened 5 branches. There are -- when you open branches, there are a lot of nitty-gritty, agreement signing, identification. So towards the end of the month, the month that we are sitting on right -- towards the end of June, we got a couple of proposals, which got moved to July. So that's about it.

Akhil: Got it. And if I take your number of INR2,360 crores of disbursement this quarter, your repayment rate seems to be jumping to around 21%. So i did we see higher prepayments this quarter? What happened?

Rajesh Viswanathan: No, when you take the INR2,360 crores of disbursement, you should add the INR350 crores to AUM also. And once you do that, our overall repayment rate, if you look at it, it will be about 16.5%.

Akhil: Got it. Got it. And just lastly, the accounting change that we have done this quarter, is this an industry practice? Or are we the first one to do it in the industry?

Rishi Anand: No, One is there is no change in the accounting. It is about from when do we start recognizing the interest. So we have moved from cheque handover and disbursement, the old terminologies to realization. I think everybody -- most of the companies, as we know today, have already moved or are in the process of moving to check realization. I think in the true spirit of RBI circular, this was warranted.

And we took a little more time because of systemic changes that we need to be done. But as I understand, and to answer your question, most of the companies have already moved to cheque realization.

Moderator: The next question is from the line of Karan Gupta from CAVI Capital

Karan Gupta: Just one quick question on the capital structure. I know this has come before, but just wanted to get management's current thoughts on this level of capital adequacy that we are maintaining. And are there any thoughts of returning some capital back to shareholders since it's dragging down our ROE significantly?

Rajesh Viswanathan: I think there's no current plan of handing it back to shareholders as of now. We believe we will require capital for growth, and that was the intention of raising INR1,000 crores of primary in IPO so that at least for the next 3, 4 years, we are secured for our growth plans.

So as of now, there is no reason to -- or there's no thoughts of returning it back to shareholders, 40% to 43% capital adequacy, if you see most of the peer sets, I think most of the peer group of companies who are doing affordable finance is sitting on similar levels because one element which we have to understand over here is the overall risk weight of the balance sheet.

The overall risk weight of the balance sheet comes at about 45%, and that is one which helps us. So in case, in future, not that anything is on the anvil, in case in future, there is any changes in the risk weights, this can impact our capital adequacy.

Further, what we also do from a pure risk management practice, we also set aside capital for operation risk. So, we set -- we have internally calculated about 6% to 7% of capital that we set aside for operating risk as per best practice ICAAP methodology. So that is -- so these buffers are anyhow welcome. But yes, as of now, no plans of returning back capital.

Karan Gupta: Okay. So, in that case, where do you expect the ROEs to be maybe 2 years down the line? Like what is the spread that you expect to be increasing the ROE sequentially?

Rajesh Viswanathan: Yes. So, if you look at spreads, basically, as Rishi has suggested, we believe that over a 2-, 3-year period, we would be ending in the range of about 5.5%. There's no appetite to go below that. And in terms of ROAs, if you look at our annual ROAs, it typically comes in at anywhere between 4.3% and 4.4%. And we believe that, that is a good steady state ROA to look at 4.3% is a good stable set ROE to look at.

And going by that, I think ROEs, if you look at the full year ROE of a couple of years down the line, we would be hitting around 17% ROE, which I think is the plan that we are working on.

Moderator: The next question is from the line of Parth from DAM Capital.

Parth: Sir, just one thing I wanted to understand is how come our BT rates have been so controlled at 5% and has been improving past quite some time. I mean what are the initiatives or the policies which you have implemented. Some color on that would be helpful.

Rishi Anand: So, thank you, Parth. Yes, you're right. if I look at quarter 1 FY27 to FY26 comparison, we would have improved our BT out rate by about 20 Bps. We've closed the quarter at about 5%. I would say there is nothing for I can't single out one thing that would have impacted our retention efforts.

I think it's a combination of a lot of things, right, from our customer service teams at various critical branches to our central retention team of about 20 member teams. So, every consumer who is desirous of moving out to a different company has to go through the retention team. The retention team is completely equipped with a lot of data analytics inputs in terms of segregating the customers into red amber green, where are the customers who can drop off, why is the consumer going, Is it only because of rates, etc.

So, there are multiple factors that play around. These teams have been completely supported by giving them delegation on what are the yields they can drop for a consumer who is -- and that also depends on the MOB spent with us, the bounce rates, etc etc. So, I would say the multiple things that have gone.

And it has taken us a while, not that suddenly we've reached 5%. These efforts started or the initiative started about 2 years back, and it's taken a lot of efforts for us to reach the 5% mark. So yes, all the benefit was to the teams who are doing it.

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

Rajesh Viswanathan: Thanks for all of you all for joining in at this late evening on a Friday. Thanks to Sanket and the DAM Capital team for hosting the call. As we end the quarter, we are reassuring on our near-term guidance of AUM growth of 20%, next 3 quarter disbursement growth in excess of 20% and profit growth of 20%. And I'm sure that as the year pan out and as we have more discussions, we will be able to deliver that. Thanks a lot and look forward to the quarter 2 call. Thank you very much, and have a good night.

Rishi Anand: Thank you. Good evening, everyone.

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