Ref. No. AAVAS/SEC/2026-27/3403

Date: November 02, 2026

To, **The National Stock Exchange of India Limited** **Exchange Plaza, C-1, Block G,** **Bandra Kurla Complex,** **Mumbai – 400051** **Scrip Symbol: AAVAS**	**To,** **BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai – 400001** **Scrip Code: 541988**

Dear Sir/Madam,

Subject: Transcript of the Earnings Call for the quarter and half year ended September 30, 2026

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with respect to our intimation dated October 13, 2026 bearing ref. no. AAVAS/SEC/2026-27/3317, please find enclosed the transcript of the Earnings Call on the Financial and Operational performance of the Company for the quarter and half year ended September 30, 2026 held on Monday, October 26, 2026.

The above information is also available on the website of the Company and can be accessed at https://www.aavas.in/investor-relations/investor-intimation.

We request you to take the same on your record.

Date and time of occurrence of event/information: October 26, 2026 and Earnings Call commenced at 06:30 P.M. (IST).

Thanking You,

For AAVAS FINANCIERS LIMITED

SAURABH SHARMA
Digitally signed by SAURABH SHARMA
Date: 2026.11.02 11:28:39 +05'30'

SAURABH SHARMA
COMPANY SECRETARY & COMPLIANCE OFFICER
(ACS-60350)

“Aavas Financiers Limited
Q2FY27 Earnings Conference Call”
Oct 26, 2026

Management: **Mr. Manu Singh** – Managing Director and Chief Executive Officer
Mr. Ghanshyam Gupta – Interim, Chief Financial Officer
Mr. Rakesh Shinde – Head of Investor Relations

This document is a transcription of the conference call conducted on 26-Oct-2026. Click here to listen to the original audio

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Moderator: Ladies and gentlemen, good evening, and welcome to the Aavas Financiers Ltd Q2FY27 and H1FY27 Earnings Conference Call. 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant connections will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, you may message the operator.

I now hand the conference over to Mr. Rakesh Shinde, Head Investor Relations of Aavas Financiers Limited. Thank you, and over to you, sir.

Rakesh Shinde: Good evening, everyone, and a very warm welcome to all participants joining us today to discuss the financial and operating performance of Aavas Financiers Limited for Q2FY27 and H1FY27, along with our outlook for the business.

The results and the investor presentation have been uploaded to the stock exchanges and are also available on our company website. I hope you’ve had a chance to review them. We have also uploaded an Excel fact sheet containing historical data on our website for your easy reference.

Joining me today is the entire management team of Aavas. We will begin this call with opening remarks from our MD & CEO Manu Singh. This will be followed by a Q&A session. With that, let me now hand over the call to Manu. Over to you, Manu.

Manu Singh: Thank you, Rakesh. And a very good evening to everyone joining us today. It is a delight to connect with you during this festive season. On behalf of the entire Aavas family, I extend our warmest wishes to you and your loved ones for a joyful, prosperous and fulfilling festive period.

Firstly, it gives me immense pleasure and pride to share that Aavas is on track to cross the significant milestone of ₹250 billion in AUM during October 2026, having served nearly 4.5 lakh customers. This achievement reflects the trust reposed in us by our customers and stands as a testament to the collective hard work, dedication and commitment of the entire Aavas team over the years.

Aavas is embarked on its next phase of growth. The structural demand for affordable housing, the depth of the underserved customer segment and our expanding distribution, gives us confidence in the long-term potential of the franchise. With an established presence across our core markets and considerable headroom to improve productivity and deepen penetration, we see a credible path toward achieving Rs. 500 bn in AUM.

As we pursue this ambition, the quality of growth will be as pertinent as its pace. Our objective is to build a business that delivers sustainable profitable growth through a customer first approach, higher productivity, improved operating leverage, prudent credit underwriting and disciplined liability management. We will continue to scale responsibly, without compromising the asset quality, margins or governance standards that underpin the strength of the Aavas franchise.

Technology will serve as a critical force multiplier across this journey. It will allow us to combine the reach and relationships of our physical distribution network with faster digital processes, stronger data-led decision-making and robust system-driven controls. This should help us improve conversion, reduce turnaround time, enhance productivity and deliver a more seamless customer experience.

Having completed six months at the helm of Aavas, my priorities are clear: to deliver sustainable profitable growth through consistent improvements in productivity, efficiency and governance.

During Q2FY27, Productivity per RO improved to 1.2 files / month, compared with 1.1 files / month in Q1FY27. The momentum strengthened further in September, when productivity reached 1.3 files / month. The improvement reinforces our confidence in the focused execution strategy, stronger field-level accountability and continued emphasis on customer acquisition and continue to lift productivity per resource higher. We aim to improve productivity to approximately 1.5 files / month by the end of FY27 and progressively scale it to 2 files / month.

The improvement in productivity during H1FY27 was accompanied by a sharp improvement of 29% in revenue per RO. This demonstrates that our execution rigour. Which is translating into improved resource economics and supporting our objective of delivering sustainable profitable growth. Consequently, our Opex Ratio improved by 18 bps YoY to 3.33% in H1FY27. With further gains in productivity, efficiency and scale, we expect to generate stronger operating leverage and progressively improve the Opex Ratio to below 3%.

We have undertaken a comprehensive review and revamp of our operating processes to establish greater accountability and strengthen checks and balances across the organisation. We have introduced system-driven controls, reinforced maker-checker mechanisms across key processes and implemented rigorous training programmes to embed a strong and consistent governance culture throughout Aavas. These initiatives provide us with a stronger operating platform to scale the business responsibly.

At Aavas, People drive Performance. During the quarter we continued our endeavour to build a team of people that enables and enhances performance. During the quarter, we continued to strengthen our team with the objective of enhancing organisational capabilities and execution. Several experienced professionals have already joined us across various levels, and we expect to further strengthen the team in the coming months. This has given us the platform to drive strategy and execution as we build towards the business end of the year.

These overarching principles are bringing the organisation together around a common definition of success. With disciplined execution, continuous measuring and monitoring of key levers, plugging leakages, and a strong pipeline of experts leading at N-1 level, Aavas is unified in its objective of delivering consistent results.

Coming to our financial and operating performance, H1FY27 has laid a strong foundation for Aavas and highlights the results of our growth initiative. The healthy performance during H1 reflects the business is becoming faster, fitter, and more productive, with a sharper execution across the organization.

For H1FY27, we disbursed loans worth ₹35.1 billion, delivering a robust growth of 30% YoY, driven by volumes growth. This performance was broad-based and driven by a strong pickup in volumes, meaningful improvement in resource productivity. The pickup in volumes is derived from gains in productivity and underlying strength of demand from affordable housing markets in which we operate.

Our AUM grew by 16.1% YoY to ₹248.0 billion as of Sep-26. This directly reflects the positive impact of our efforts around customer acquisition, productivity, and execution. During Q2, our repayment rate normalized to ~17% and will remain in similar range. While we still have a long journey ahead, these improvements give us confidence that Aavas is well positioned to accelerate growth and deliver more than 20% growth over the long term.

We delivered 16.4% YoY growth in Net profit for H1FY27, driven by a healthy 17% YoY growth in Net Interest Income and 18% YoY growth in Operating Profit, supported by robust business growth. In addition, improved operating efficiencies, reflected in a 195-bps YoY improvement during H1FY27 in our cost-to-income ratio, further strengthened profitability.

This quarter was a testament to Aavas' diverse and strong liability management. Despite the volatile interest rate environment, we have kept Cost of Borrowing (CoB) stable at 7.64%. Following the 25-bps repo rate increase announced by the RBI earlier this month, we expect our cost of borrowing to increase. However, we are confident of maintaining spreads above 5%. Additionally, we believe the increase in lending rates is expected to support yields on incremental disbursements and progressively benefit the overall AUM yield. Consequently, we expect our spreads and NIM to improve over the coming quarters.

During the quarter, we expanded our branch network to 443 across 15 states. In H1FY27, we added 21,500+ new customers to the Aavas Franchise. We will continue to invest in branch expansion to further deepen and diversify our presence. At the same time, our focus remains on ensuring faster branch-level breakeven and closely monitoring the performance of newly opened branches to drive better productivity and profitability.

With that preamble, I will now take you through our financial performance. In H1FY27, Our Net profit grew by 16.4% YoY to Rs 3.5 bn led by robust 17% YoY growth in NII on account of healthy improvement in NIMs. Our Net Worth continues to compound steadily, growing at 15.4% YoY, with the strength of our capital position driven by consistent compounding internal accruals. Our NIMs remained broadly stable at 7.76%, moderated marginally by 5 bps YoY on account of PLR cut, however supported by 21 bps YoY improvement in cost of borrowings. Our cost-to-income ratio improved by 195-bps YoY to 42.9% in H1FY27, driven by cost efficiency.

We continue to deliver industry-leading asset quality, with all key indicators trending positively and remaining well within our guided range. Our 1+ DPD improved by 18 bps YoY to 3.81% in Q2 FY27, remaining comfortably below 5%. Gross Stage 3 improved by 13 bps YoY to 1.11%, while Net Stage 3 improved by 16 bps YoY to 0.70%, underscoring the resilience of our portfolio and the effectiveness of our credit-first approach. Credit costs for H1FY27 stood at 24 bps, remaining within our guided range.

Our RoA expanded of 9 bps QoQ to 3.28% and RoE improved of 28 bps QoQ to 13.63% in Q2FY27. We remain focused on delivering quality, profitable growth with strong risk discipline and tech-led efficiency, while consistently creating long-term value for all stakeholders.

As I see it, we are at the ground floor of our building, and with a strong foundation and an expert team we are confident on the way to building our powerhouse akin to Burj Khalifa. With that, Ladies and Gentlemen, I would now hand over to, Ghanshyam Gupta, to discuss the financials in detail.

Ghanshyam Gupta: Thank you, Manu. Good evening, everyone, and a warm welcome to our earnings call. To provide update on borrowings. The quarter closed on a constructive note, with Aavas maintaining a stable cost of borrowing despite a volatile interest rate environment and uncertain geo-political backdrop. This underscores the strength of our diversified liability franchise and strong lender relationships. We continue to enjoy broad-based lender support, providing us with access to diversified, long-term, and cost-effective funding to support future growth.

We continued to borrow judiciously, raising around Rs. 16.79 bn at competitive rate at 7.66% for Q2FY27. As of 30th Sep 2026, total outstanding borrowings stood at Rs. 216 billion. A well-diversified liability franchise linked with various benchmarks and competitively priced, we were able to deliver a 21-bps YoY improvement in our cost of funds for Q2FY27. Our average tenure of borrowings continues to be longer than that of our assets, ensuring a positive ALM across all-time buckets.

We have optimum mix of various benchmarks of interest rates such as around 30% of borrowings linked to Repo and balance borrowings are linked to other benchmarks like MCLR and Fixed Rated Instruments.

As of 30th Sep 2026, we maintained ample liquidity, including cash and cash equivalents and un-availed CC limits of Rs. 19.6 billion and documented un-availed sanctions of Rs. 3 billion.

Profitability and Capital Position. Our Net Interest Income (NII) for the quarter grew by 15% YoY in Q2FY27. Our Net Total Income (NIM) in absolute terms grew by 11% YoY in Q2FY27 and Net Interest Margin (NIM) as a percentage of total assets expanded by 11 bps QoQ to 7.81% in Q2FY27. Our disciplined cost management approach, coupled with a continued focus on profitable growth, has started yielding encouraging results, reflected in a 153-bps QoQ improvement in our cost-to-income ratio to 42.9% in Q2FY27. Our Pre Provisioning operating profit grew by 14% YoY to Rs 2.49 bn in Q2FY27. Our PAT growth was 10.7% YoY for Q2FY27.

Our ROA improved by 4 bps YoY to 3.23% and ROE improving by 5 bps YoY to 13.48% in H1FY27. We remain well capitalized, with a net worth of Rs 54.0 billion and a Capital-to-Risk-Weighted Assets Ratio (CRAR) of 43.77%, significantly above regulatory requirements.

With this, I open the floor for Q&A.

Moderator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may click on the raise hand icon from the Participants tab on your screen. We request participants to restrict to two questions each and then return to the queue for more questions. To rejoin the queue, you may click on the raise hand icon again. We will wait for a few minutes until the question queue assembles. We will take our first question. We have Abhijit Tibrewal of Motilal Oswal.

Abhijit Tibrewal: Good evening, sir. Thank you for taking my question. Just two-three things. I think during your opening remarks, you spoke about improvement in RO level productivity. I think the line was a little bad, if you could just repeat that. That was my first question.

The other thing I wanted to understand from you is, given that this year we have had a few states who have seen deficient rainfall. If my memory serves me right, even Rajasthan has seen weak rainfall this year. All I am trying to understand is, while we can already see the reported numbers, from your experience in the past, how has mortgages as a segment behaved during periods of weak monsoon or during droughts?

The only thing I am trying to understand here is, at least the way I look at it, like in COVID, I strongly feel that mortgages will remain that one segment where people will still prioritize repaying their EMIs vis-a-vis their other loans and obligations.

Manu Singh: Thank you, Abhijit. Yes, I completely concur with the view on a broad-based level that mortgages largely remains untouched, even from the present perspective of your mentioning about the drought, and shortfall in rainfall. From what we see on our exposures, and we have a very keen eye and ear to the ground on these, all my lead indicators are actually getting better, as the months are progressing. We do not see, currently or in the near future, any stress on this. Parallelly, as a conscious effort over time, our exposures to what we call as pure Agri-based income segments has been very, very limited.

Coming to your first question on RO productivity, what I mentioned was while in Q1, we had 1.1 files per month as productivity, and for Q2, that has moved to 1.2 files. We ended September at 1.3 files, and our go-to aim, this year, is 1.5 files.

Abhijit Tibrewal: Is it the way we define this productivity is number of cases disbursed per employee?

Manu Singh: Yes. When you say employee, this is the front end level RO, relationship officer, who is the actual producer of the file.

Abhijit Tibrewal: Sure, sir. The other thing I wanted to understand is have we made any PLR changes after the repo rate hike?

Manu Singh: No, not currently. We are examining it, and as and when we feel the need of a PLR change, we will make it happen. Our ALCO meets every month, and it has a formula-driven approach towards calculation of PLR. The answer to your question, not currently.

Abhijit Tibrewal: Got it. And sir, lastly, at least what we have been hearing is that on the incremental lending that happens, rate will be dictated by how the competitive landscape shapes up. We are, of late, last 6-9 months, been hearing even larger HFCs trying to enter into near prime and affordable segments. For them, while it is more what banks do and they decide to follow, for us, some of it could also be dictated by what the large HFCs who at least have a presence in this segment do. Is there anything happening, at least on the newer originations? Are they still tracking significantly lower than the back book?

Manu Singh: First point, Abhijit, the way I look at the customer segment that we operate in, is primarily very different in ATS from what the larger NBFCs or HFCs look at. Hence, that clear segmental difference, fundamentally for me, as we progress ahead, does not put competitive pressure from these entities to my target audience.

Second part of your question, whether incremental disbursements are a tad bit lower to the book, it is a business cycle. We are confident of maintaining spreads above 5% on our placement disbursements, and that is what we are keenly focused on at every transaction, which is today on a technology platform called SFDC with BREs as well as risk-adjusted returns showing ranges which are very acutely monitored by rank and file on which case, based on deviations, needs what kind of rate reduction or rate bump up. We are fairly confident of maintaining 5%.

Abhijit Tibrewal: Got it, sir. That is all from my side. Thank you so much, and I wish you and your team the very best.

Moderator: Thank you, Abhijit. We will take our next question. We have Chintan Shah from Citi group.

Chintan Shah: Firstly, on this transition to 500 billion AUM, under the new leadership team. What would be the primary blocks to accelerate the growth from the current 16% levels to 20% level? Specifically, how much of this is expected to come from the existing branch vintage, versus expansion to newer geographies? What is the expected trajectory of RO productivity? I think that is already mentioned at two files. Will it stick to that, or will it be higher? That is the first question.

Manu Singh: Thanks, Chintan. Yes, productivity increase per RO and per resource deployed, along with expansion, especially deepening into markets that we are currently present in, is our medium-term focus. As I mentioned on the branch network, we continue to invest in our branch network, to go deeper. Deeper, where there is also flexibility in pricing as we go towards the hinterland. Both X-axis and Y-axis, which is where we source, as well as per resource deployed and how do we move this up. If a broad math has to be put around, this is roughly at about 20%+ CAGR growth on volumes, 8% driven by branches, 10% by productivity, and about 5%-7% by ATS.

Chintan Shah: Okay, understand. Got it. Secondly, if I look at our AUM mix and disbursement mix, for H1, now we have around 21% of the disbursements towards the LAP portfolio, while the share in the AUM mix for LAP is around 14%. Just trying to understand, what is our targeted steady state asset-wise mix for HL and LAP? Is that given the higher ticket size and yield differential in LAP and also to an extent in MSME versus home loans, how are we looking at the risk-adjusted returns, across these segments?

Manu Singh: Steady state on an AUM level, we will continue to look at tending towards, 65-35, HL versus NHL. What you see currently is also an outcome of conscious efforts, which the teams are moving in. Let me give you a quick heads-up on that. We are very aggressively protecting our book. With data and technology, looking at pre-approved offers, we have dramatically accelerated offering top-up loans to our existing good customers based on the relationship value at near zero cost of acquisition. When we book that, especially in Q2 when we accelerated, that goes and sits as LAP. That is one conscious effort which helps us both on retention as well as NIM improvement, as well as reduced cost of acquisition.

Second, there have been some clearing of the air on what can be classified as HL, what can be classified as NHL based on stage of constructions in business as we onboard that today. When we look alike between last quarter or last year same quarter, while top of the funnel sourcing remains almost identical, booking of anything which would be above 60% would fall under the LAP purview. Those are two large shifts which are conscious, which show here. Again, repeating, on a steady state basis on AUM, 65-35 is where we are comfortable with.

Chintan Shah: Sure. And Sir, one last question, if I may, on the Opex front. Now, given the kind of improvements we have seen in the underwriting TATs, digital collections, and agentic AI and automation, etc. What is the sustainable Opex trajectory over the next 2-3 years? How much further operating leverage can we see from these platforms along with the improvement in the RO productivity?

Manu Singh: Our medium-term aim is to get Opex to assets below 3%. The tools that you mentioned are not individual, but collective tools, which are running concurrently throughout the rank and file.

Moderator: We will move to our next participant. We have Shreepal Doshi of Equirus. Shreepal, please go ahead.

Shreepal Doshi: Thank you for giving me the opportunity. My question was, again, on the drought situation in some of our key geographies. We have almost 19% exposure in Maharashtra, and given our model wherein we are more of a semi-urban and rural financier. While numbers are holding up well, are you seeing any incremental pressure in October or delays from customers? What would our exposure be to the districts where the impact is relatively higher? Sir, if you could give some more color, on how do you see things shaping up from here on, with respect to, if it could derail our growth momentum also? Thank you for that.

Manu Singh: To answer the second question first. No, I do not see Aavas having any hiccups on asset quality at all. On the drought situation, especially the point that you mentioned on Maharashtra, we are largely centric around Pune and some of the Marathwada districts like Latur, etc. Our concentration is very minimal. Parallelly, I mentioned earlier in the conversation that we have been very conscious of steering clear from only agri-based income being the basis of our credit assessment. We have always been very cautious of

this approach and hence from the perspective of looking ahead from this one deficit rainfall cycle, I do not see any impact on Aavas' book or Aavas' future growth.

Shreepal Doshi: Got it. The second question is pertaining to your last quarter's commentary wherein; the thought process was to also have maybe a quarter wherein we could see decline in spreads so that we could get back to the growth momentum. Are we still open to that as a thought process? Or, as you have been highlighting in the call today, that we are holding up and focusing more on managing spreads?

Manu Singh: You are alluding to the last conversation that we had in Q1. We have worked very hard to make sure that our spread remains above 5%, and as I mentioned earlier, that is something that we will continuously maintain ahead.

Secondly, both levers on cost of borrowing as well as ability to pass on the rate hikes to our target audience are both levers that we are actively pursuing as we place disbursements today, tomorrow, and the day after.

Moderator: We have Renish Bhuva of ICICI Securities. Renish, please unmute your microphone and go ahead.

Renish Bhuva: Sir, just two things. One on this spread trajectory. I understand that we want to maintain a 5% spread, going ahead. But when we look at the last three, four quarters trajectory, and also when we look at the AUM mix shift, over the last six, seven quarters, it is actually tilting towards a non-HL book, which I am assuming will be coming at a higher yield. Despite that, obviously spread is coming down naturally, because of the PLR cuts we have done in past.

Now, entering a rising rate cycle, how should one think about the rate cycle? I mean, the rising rate cycle should give us a tailwind, or maybe for next couple of quarters, your spread would actually first compress and then we will see expansion. How do you internally look at the rate cycle which is there currently?

Manu Singh: Renish, I do think that we are now in an interest rate cycle which will rise. While we saw 25 bps currently, if you look at all the other indicators on tightening at monetary policy level, we are in a rising interest rate cycle. What I want us to be very clear about is Aavas will always be customer centric, and we will do what is right. Having said that, my commentary on spread remains because a larger part of my unit also is here and listening. We will maintain above 5% spreads. Tools in our hand are working on cost of borrowing. Aavas is a great franchise on the liability side. We continue to leverage that proactively.

Parallelly, yes, a rising interest rate cycle allows right amount of pass on risk-adjusted returns to the customer. When I say risk-adjusted returns, it is on product level. Risk-adjusted return is on credit quality level. Risk-adjusted return is on property type level. All of these are available on a transaction basis, governed by technology, and a risk chart on which today the team runs on every transaction. So, a diversified retail book on placement at risk-adjusted pricing in a rising interest rate cycle, I do believe this 5% is sustainable.

Renish Bhuva: Okay. Just to follow up on that, let us say, is it fair to assume that the incremental spreads are better than the book spread?

Manu Singh: Almost same today. But as I mentioned, an increasing rate cycle always allows you the opportunity on a transaction level to start reversing this trend.

Renish Bhuva: Got it. But, Sir, because now let us say the large part of our borrowing is floating rate, right? So at least whatever part, which is linked to the repo rate, which will get repriced in Q3, and since we have not considered any PLR hike, at least in Q3, are we run a risk of spread going below 5% is what my worry is.

Manu Singh: Let me answer the second question first. No. Secondly, ALCO internally meets every month. We have a very keen eye towards the indicators, and as and when warranted, ALCO internally will look at PLR hike. But as I mentioned, the pivot will always be on what is right.

Renish Bhuva: Got it. This is very helpful, sir. Just last thing, sort of verification. Obviously, you did mention that first half disbursement pickup has been up to the mark, and maybe it is slightly better than what we might have earlier thought for. But now, given the microenvironment is, do you foresee any risk at all to our disbursement growth targets internally?

Manu Singh: No. We are clearly positioned and we are unified in the goal that we want to deliver. The trajectory at Q1-Q2, and as we look at October today, is in the right direction. Hence, our commitment of growing disbursements upwards of 20% stands. As you know, Q3 is a festive season, Q4 is the biggest season, so we will only get bigger and better.

Renish Bhuva: Got it. Sir, so we have guided for what, 16%-17% AUM growth in 2027, right?

Manu Singh: Yes.

Moderator: We will take our next question. We have Kishan Rungta of Emkay Global. Kishan, please unmute and go ahead.

Kishan Rungta: Thank you for the opportunity, and congratulations on a good set of results. Sir, my two questions are basically, one is on the disbursement breakup, what you have given. If we see, there has been some moderation in MSME disbursement, whereas in other mortgage loans, we have seen increased disbursement. So how should we look into it?

Secondly, sir, if you can just throw some more light on the increase in 1+ DPD in this quarter. So those are two questions from my side. Thank you.

Manu Singh: On the first one, as I mentioned, our ethos on the book level is a 65-35 split between HL and non-HL. Parallelly, what you see in Q2, as I mentioned, has two strong levers which are done with strategic direction. First, to ensure that existing customers are offered data-backed, technology-driven top-up loans for them to continue with Aavas and prevent my leaking bucket. That gets booked as LAP, and hence you see that increase. It is a conscious effort, which is right for the customer, right for the firm. Second is clarification on what stage of construction can you categorize lending at HL versus NHL. So that is the second piece.

Third, on your question on 1+ DPD, Y-o-Y, we are 18 bps down. 4-bps, which you see is largely impact of seasonality. I do not look at that 4-bps, it is like my heartbeat. It sometimes goes up, sometimes goes down. As I mentioned earlier, we are seeing all lead indicators getting better month-on-month, and we are confident of our guidance of credit cost within 25 bps.

Kishan Rungta: Sir, got it. Just a bit more clarification on the MSME side, because if we see, the disbursement earlier used to grow at 32% Y-o-Y, whereas in this quarter it is just 18%. If you can just clarify that. Are we taking any cautious steps in that segment specifically?

Manu Singh: I would not call it cautious. It is just about making sure that what we are placing every month is attuned to our risk as well as pricing, to make sure that spreads stay above 5% and HL, non-HL mix stays at 65%-35% on the book level. I would not read too much into a quarterly change between largely HL and non-HL mix.

Moderator: Moving to our next participant, we have Rajiv Mehta of YES Securities. Rajiv, please go ahead. Sorry, Rajiv. We are unable to hear you.

Rajiv Mehta: Just one thing on this whole productivity, scale-up from 1.1 files per month per RO to maybe moving up to 2 files. This can happen when you obviously, significantly source a much higher volume of leads. Second is maybe if at all, if you think about relaxing some underwriting filter changes. I believe that the second thing will not happen, but what about the sourcing of so many leads and so many files for us to improve or take our productivity so much higher?

Manu Singh: Thank you so much for that reinforcement. I was going to categorically say that point two is not going to happen. On point one, we are making efforts structurally; to increase top of funnel, this goes to three aspects. One, are we placed on manpower right? Based on data and growth over the last 4 quarters, in the target audience, which is our customer segment, we have remapped requirements of people at growth spots. That is number one.

The second is we are investing in alternate channels, including digital channels, and building a vertical around that to supplement and augment top of the funnel. The third, our internal mechanism of ensuring that the direct team, which is a strength at Aavas, scouts for the market daily at the right hotspots, which is again driven by technology and data. Something like an FMCG beat plan is being followed very rigorously.

All these three aspects, running over a period of time, are allowing us to see significant movement in top of funnel. As I mentioned, this is just the beginning. We are at the ground floor of what we want to create as a superstructure. These efforts in unified goals of what success means are where we are focused daily. Parallelly, we are also looking at not only RO, but supervisor productivity, because the supervisor is not only an aggregator of ROs, but also a significant population which can go out into the market to open up new lead channels.

This, coupled with every Saturday, I, myself meet 50 non-productive ROs to understand what their ground level problem statements are giving us very clear and crisp insights which are individually market-driven for solutions. No solution is a national solution at Aavas. All solutions are state or district-oriented solutions because, as you know, in India, every 50 kilometers, not only language, cuisine, but customer behavior also changes.

Rajiv Mehta: Okay. In terms of your deciding on incremental originations pricing, PLR is something that ALCO decides every month or reviews every month, but as far as the new disbursements are concerned, has there been any tweak in pricing on the offer side, as a part of a mitigation for the potential increase in cost of funds?

Manu Singh: Yes. As I mentioned earlier in the call, including in my opening remarks, increasing lending rates always support yield increment on fresh disbursements. Today, we are running business rule engines which give out ranges for a transaction based on three or four facets. It is not a singular combination. It is based on geography. It is based on how the branch performs. It is based on whether product is HL, non-HL, MSME.

It also takes into consideration cost of acquisition based on sourcing point, because A-point can be a little more costlier for me in terms of acquisition versus a B-point. It is a potent tool in the hands of our direct teams, which can offer possibly a discount and get a customer which has higher actuarial tenure with me. What I am trying to summarize is that it is a very scientifically evolved rule engine which runs granularly at every transaction. Parallelly, this is viewed twice a month to make sure that we are in tune with our cost of borrowing.

Rajiv Mehta: Okay. Can you give us some data about then on a like-to-like basis, say, for home loan, since this rule engine is constantly evolving pricing and reviewing pricing at high frequency, what has been the movement in incremental home loan yields, maybe on a month-on-month basis or maybe on quarter-on-quarter basis for the recent time, so that we come to know what has been the kind of refinement which has come in?

Manu Singh: Roughly about 8 to 10 bps. Home loans are quite a competitive segment. With the credit quality that we underwrite, we are conscious of the fact that lever number two, which is opening up of credit rates, should not be pressurized.

Moderator: We will take our next question from our participant, Nischint Chawathe of Kotak. Nischint, please go ahead with your question now.

Nischint Chawathe: The first one is on fee income, and I believe insurance distribution is somewhere closer to around 15-20 basis of your AUMs. Now, given the fact that this is something which is coming now under the scanner, in case this avenue sort of shuts down or reduces, do you think you have the leeway to pass it on to the asset side in terms of home loan rates? And is there any net loss that you could probably encounter on this?

And the second question is on operating expenses. You have held on incredibly well. Till when do you think you can hold on, and when do you start seeing the operating expenses rise?

Manu Singh: Thanks, Nischint. Let me take the first question first on insurance. First of all, I fundamentally believe that insurance is the right product along with mortgages, more so in affordable housing space, because mortality is 4x to 5x of prime lending, and we see that in our portfolio as well. So as far as making sure that the right product is sold to the customer at the point of origination, we will continue pressing this pedal, not by force, but by education. We are very cognizant of the fact that insurance is sold by solicitation. Second, at Aavas, currently we are at a curve which is lesser in attachment percentage from my competition. And hence, there is enough and more leeway for attachment percentages to go up because it is right for the customer.

Secondly, to give you an estimate, roughly about 50% of what one stands to lose mathematically because of the regulation coming in from 1st of April next year, we are very confident of pulling that through by making sure that our attachment percentages come in line with what competition is, because we fundamentally believe the product is a right match for this customer segment. Second, yes, it does allow some space to look at the right fee mix and yield transmission. However, I want to categorically tell myself, as well as my larger team on the call, that this is not a fill in the blank exercise. This is an exercise to do what is right. Attachment is right. We will press the pedal there to ensure that roughly 4% of our PBT today is coming from insurance income. Second, move the right levers on risk-adjusted fees as well as yield on a transaction level to make sure that we cover this up.

On your second question of Opex, I think the cost-to-income ratio is a very important lever. When we look and benchmark ourselves, we start at a higher pedestal of upwards of 40%. We have room, and our immediate objective is to try and start pushing this downwards to less than 40% in the medium term. All levers that we can pull through on both P&L as well as the business side of cost, we are acutely monitoring. I do think there is space. I am not shying away from making sure that we continuously keep investing in branch expansion, geography expansion, people being put at the right place.

But parallelly, data technology usage, as we have seen in top-up loans growing 5x, Y-o-Y productivity increase on an RO level, supervisory level. These have long runways to continuously play against. Branch profitability and revenue per resource deployed are two task forces which are running parallelly across the length and breadth of Aavas. So yes, to answer your question, there is no sweet pill on this, but we believe we are aggressively pursuing wanting to get CTI below 40%.

Moderator: Moving to our next participant, we have Meghna Luthra of InCred Equities. Meghna, please go ahead.

Meghna Luthra: Thank you for the opportunity. I had a few questions. One was, I guess the headcount is down by around 150 people. Do you plan to cut down more of your employee costs or number of employees actually, going forward?

Manu Singh: Meghna, we are not cutting down on people. We are making sure that every resource deployed is rightfully produced for the organization. As I mentioned earlier, we are right sizing at opportunity, which is available on growth, which is based on data. We are also expanding our footprint. So, this is us getting fitter and better. There is no agenda for cutting people. In fact, we are investing.

Meghna Luthra: Okay, so the reduction in headcount would be attributable to repurposing those people, right?

Manu Singh: Repurposing and making sure that the productivity levers are tightly measured, monitored, managed, and if there is deadwood in the system, it is churned out after giving the right opportunity.

Meghna Luthra: Okay, got it. And sir, I just was curious on what would be the proportion of top-ups in disbursements? They will be a part of the home loan disbursements, right?

Manu Singh: No, they would be tagged as LAP.

Meghna Luthra: Okay.

Manu Singh: Roughly about 5% today.

Meghna Luthra: 5% of the total disbursements is top-ups?

Manu Singh: Yes.

Meghna Luthra: Got it. Lastly, some of the lenders have flagged off some stress in lower ticket loans. Do you see a similar sort of stress in lower tickets, despite being secured, loans?

Manu Singh: No, we do not, and we are not very aggressive on the lower ticket size customer segment.

Meghna Luthra: Got it. Just one more question is on the demand or competition front, are you seeing any changes between, say, a salaried customer and a self-employed customer, in any geography specific?

Manu Singh: Not really. We have not seen any pressure on demand. Yes, cyclically, based on Q2, Q3, and Q4, we do see that a lot of customers, especially on the self-employed side, began taking loans in anticipation of the coming season. While salaried customers typically intend to take this in season or in Q4 because they manage their cash flow accordingly. On top of funnel demand, I do not see any exuberance going down.

Moderator: We have Gaurav Purohit of Systematix group. Gaurav, please go ahead with your question.

Gaurav Purohit: Good evening, sir. So, two questions from my side. Sir, while you are taking all the measures to improve productivity, from the front-end employee, what are the tweaks that you have made in the incentive policy for them? This question is coming because, see, in the last few years, the attrition in the frontline team has been quite high, right? While obviously, some of them would be underperforming, but how do you plan to incentivize better performers?

Secondly, is there any ESOP plan has been put in place by the CVC team? These are the two questions.

Manu Singh: First question, yes, we have revamped our incentive policies, and the incentive policies' primary ethos are twofold. One, to encourage people who have been generally fence sitters to try and push towards higher buckets. See, a larger part, when the RO productivity is 1, 1.1, 1.2, progressively moving to 1.5 files, we are talking about a large majority of the ROs doing one file. But then there are ROs who move to two files and three files. So, the incentive structure is getting better and pushing people to get to higher slabs, and the delta between them is quite lucrative. Second, it is also attuned to making people do this business directly in their catchment area of 40-50 kilometers, circumference of the branch, because direct business helps us in many facets. It stays with us longer. It largely is seen as lesser in trouble for us.

Third, we do have a relook window established for cases to be relooked by credit to make sure that ROs have a second chance of getting more documentation, one more personal discussion done to move the lever on credit assessment without, in any manner, diluting credit standards. So, between all of these three levers you see today, that productivity is showing the rightful trend upwards. So, if I can use the word carrot and stick, we are today balanced on the side of carrots being right, for the right behavior to be shown and enough and more time along with help being given to the front end to make them productive.

Gaurav Purohit: Sir, just sorry to interrupt you, but at what level does the employee actually start with an incentive? For instance, if they are achieving, say, 75% of their monthly target, are they becoming eligible for incentive or they have to cross 100?

Manu Singh: On first disbursement. So in order to encourage them to make sure that they have their line of sight clearly on doing one file at least a month, the incentive structure starts from the first disbursement. Obviously, it has gradations and slabs as we move upwards.

On your second question, yes, there is a long-term incentive plan already rolled out in mid quarter of Q2, and there is an ESOP running currently as we speak to about 200 employees across Aavas. We are well-poised on reward and recognition mechanisms,

depending on which level the person is with us, both immediate term, medium term, as well as long term.

Gaurav Purohit: Sir, one more question, if I can squeeze it in. Is the incentive driven by number of files or by the disbursement value? Because a sales executive could get a higher ticket file. So, while the number of files would be one, the disbursement could be of higher value.

Manu Singh: The structure starts from number of files. Value is, for us, controlled from a perspective of credit assessment. So, when you mention someone can start pushing in files worth Rs.50 lakhs, we have gates to curtail that on an incentive platform to a limited value. But it is a healthy mix of both. Weightages are given to both.

Gaurav Purohit: Okay. Fair enough, Sir. And these weekend workshops that you are doing with the frontline team, are you seeing any improvement with the sample that you were talking to? Are they showing any improvement in the month-on-month output?

Manu Singh: Yes. Both the number of active ROs as well as active supervisors is on an increasing trend month-on-month.

Moderator: Thank you, Gaurav. Due to paucity of time, we will take this as the last question for today. I will now hand it over back to the management team for closing remarks. Over to you, Sir.

Manu Singh: Thank you. Ladies and gentlemen, as we conclude today's earnings call, I would like to sincerely thank all of you for your time, continued engagement and support. The progress we have made reflects the dedication of our team, the trust of our customers, and the confidence of our shareholders and lending partners.

I want to express our heartfelt gratitude to NHB, our board, and all our stakeholders for their continued support and guidance, which has helped us shape a stronger, better, and more transparent Aavas. As we move ahead on our growth path, we will ensure Aavas emerges as the gold standard in governance and customer-first approach. Should you have any further questions or require additional information, please feel free to reach out to Rakesh Shinde, our Head of Investor Relations. Thank you once again for your continued trust and partnership.

We remain committed to executing with discipline and delivering consistent long-term value, and we look forward to sharing our progress with you in the quarters ahead. We wish you a joyous Diwali and a prosperous Samvat 2083 in advance. Thank you and have a pleasant evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Aavas Financiers Limited, that concludes today's conference call. Thank you all for joining us, and you can now click on the leave icon to exit the meeting. Thank you all for your participation.