"Aye Finance Limited
Q1 FY27 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to Aye Finance Limited Q1 FY27 Earnings Conference Call hosted by IIFL Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Shah from IIFL. Thank you, and over to you, Mr. Shah.

Viral Shah: Thank you, Renju. Good morning, everyone. This is Viral Shah from IIFL Capital. Welcome to the 1Q FY27 earnings conference call of Aye Finance Limited. On behalf of IIFL Capital, I would like to thank the management of Aye Finance for giving us this opportunity to host the call. From the management today, we have Mr. Sanjay Sharma, Managing Director and Co-Founder, and other senior members of the management team. We will have opening comments from the management team, post which we will open the floor for Q&A.

With that, I would like to transfer the call to Sanjay for his opening remarks. Over to you.

Sanjay Sharma: Thank you, Viral, and good morning, everyone, and thank you for joining us today. On behalf of Aye Finance Limited, I would like to extend a warm welcome to all the participants on this Q1 FY27 earnings call. Joining me today here are Mr. Niraj Kaushik, the Deputy Chief Officer; Mr. Gaurav Seth, the Chief Financial Officer; Mr. Sovan Satyaprakash, the Chief Strategy and Investor Relations Officer, along with our investor relation advisor team from SGA.

Aye Finance was founded on a commitment to provide formal credit to micro-enterprises across India. We have remained dedicated to this mission and with 571 branches across 18 states and 3 union territories and over 6.7 lakhs active borrowers, we occupy a dominant position in this typical market segment.

Lending to Indian micro-enterprises remains a significantly under-penetrated area, offering a substantial long-term structural opportunity. Our differentiated approach, which combines proprietary underwriting models, physical branches, and with processes that leverage AI and machine learning, it positions us uniquely to capture this market responsibly.

I hope all of you have had the opportunity to review our financial results, investor presentation, and press release, which are available on the stock exchange as well as on our website. We have also recently uploaded a short documentation on our vision and FAQs to help the market understand our unique business model and the unique market segment that we address the demand for.

Let me then start this by giving a brief perspective of the operating market environment before we discuss our quarterly performance. The micro-MSME segment to which our services are addressed is showing a steady recovery that is built on the momentum of the last year when the rural demand and consumption was significantly good. This was also supported by the various government initiatives and increasing formalization of this segment. So, we have continued to see a constructive demand environment for working capital from our core market.

We began the year FY27 on a good note on the back of robust trends in business metrics in the quarter 4 of last financial year. Yet, I had shown caution as the effects of West Asia war and a weaker monsoon were the imponderables. Now, quarter 1, which has typically always been a slower quarter, has shown, and as you will see, very good robust results and we have met our plans on almost all the relevant metrics.

I think quarter 1 does not show any signs of any sort of impact of the market imponderables that I talked of. And even as we look forward, the fear of impact of West Asia war has got moderated and even the status of monsoon is not as alarming. In fact, if you go to the IMD site, it states that the expectation they have, and I'm quoting from that site, is about 92% of the long-term average of rainfall plus-minus 5%. So, irrespective of what we may feel, the monsoons are below normal but not substantially below that number.

Also, quoting the same site, most of the effect of lower rainfall or deficit rainfall will be seen in only central India and southern peninsula. And they, in fact, quote that there is also likely to be above-normal precipitation in the northwest India and in the northeast India. North, as you know, is all rain-fed, so I think the impact, in my view, would be not as acute. And this is the reason I feel more optimistic about the quarter 2 as we enter it and hopefully, by the end of quarter 2, we will be able to narrow down our guidance to more refined numbers that we see. But we continue to maintain our guidance as we had given during the year.

Now against this backdrop, I'm pleased to now start off on the first quarter of FY27 outcomes. Historically, as I said, this quarter tends to be seasonally softer with economic activity and credit demand moderating after the financial year-end. Despite this seasonal pattern, we have delivered the strongest-ever first-quarter disbursement performance, demonstrating both the resilience of our customer base and the strength of demand across the entire target segment.

During this quarter, we disbursed INR1,219 crores, which represents a growth of 22% year-on-year. The momentum translated into assets under management of INR7,324 crores, reflecting a growth of 28% year-on-year and 4% sequentially from INR7,044 crores that we ended March 2026 at. Importantly, this growth has been achieved while maintaining our disciplined approach to underwriting and portfolio selection.

Customer acquisition has remained another area of strength even in the quarter that has gone by. During this quarter, we added more than 44,000 new borrowers, which is a growth of 38% over the same period last year. As a result, our active borrower base crossed 6.7 lakhs customers. This reflects the continued demand for formal credit among the micro-enterprises and the effectiveness of our distribution network across tier 2 and tier 3 markets. At the same time, we also improved our productivity across the organization, the AUM per employee increased by 12% year-on-year. The investments in technology, analytics, and process efficiency have enabled us to grow with improving efficiencies.

As of June 2026, we operated, as I mentioned, through 571 branches across 18 states. This year, our strategy remains focused on deepening our presence in existing markets rather than entering new geographies, and hence we expect to add only around 40 to 50 branches during the year while continuing to drive higher productivity from our existing network.

Let me now focus on the asset quality. I am particularly encouraged by the continued improvement we have seen across key portfolio quality metrics, and this marks the sixth consecutive quarter of improvement and reflects the benefits of action we have taken over the last several quarters. Gross NPA improved by 28 basis points to 4.49% compared to 4.77% in the previous quarter and 4.6% a year ago. This represents our strongest asset quality performance in a single quarter if we look at the last year.

PAR X stood at a very reasonable 7.01%, while PAR 30 remains stable at 6.07%, demonstrating the resilience of our portfolio even as we continue to address the residual stress that came from earlier vintages. Collection performance remained healthy and consistent. Our non-OD collection efficiency stood at 99.2% during the quarter, while Bucket 1 collections were at 54.5%. Importantly, our large states like Bihar, Uttar Pradesh, Rajasthan, et cetera, which account for significant share of the portfolio, continued to deliver good collection efficiencies. And let me also put a marker there. These are the states which are not expected to be affected by the issues of monsoon this year.

These trends are also reflected in our credit cost. The credit cost declined to 4.01% during the quarter, improving by 29 basis points sequentially and continuing the downward trajectory that we have witnessed over the last few quarters. Our guidance on credit cost was, and at the beginning of the year we had given a guidance of 3.5% to 4%, and this appears well within our grasp now.

The improvement has been driven by a combination of factors, including tighter underwriting standards, stronger collection efforts, a growth of mortgage loans within the portfolio, and improving repayment behavior among our customers as business cash flows continue to strengthen. Taken together, these developments reinforce our belief that the improvements in portfolio quality that we are seeing are structural and sustainable.

As the portfolio matures further and operating conditions remain supportive, we remain confident of continued normalization in credit cost through the FY27. Another important development during the quarter was the upgrade of our credit ratings by the India Ratings and Research. Our long-term rating was upgraded from IND A to A+ with a stable outlook, while our commercial paper ratings are upgraded from IND A1 to A1+.

We believe that this upgrade clearly reflects the strength of our franchise, the robustness of our risk management framework, the use of technology and analytics-driven underwriting capability, and the consistency that we have shown in our execution. Importantly, the upgrade further strengthens our funding profile. It is expected to, on one hand, broaden our lender relationships and enhance funding flexibility, and on the other hand, it is also going to reduce our borrowing cost by approximately 20 to 25 basis points on the incremental borrowings over the course of the year.

Moving to our core financial performance, we believe that we delivered a strong set of numbers during the quarter. Gross total income grew 22% year-on-year to INR490 crores, while the net total income increased 38% year-on-year to INR322 crores. Despite the increasing share of mortgage loans in our portfolio, our NIM actually improved by 20 basis points sequentially to 15.9%, powered primarily by the falling interest cost and the falling overall borrowing rates.

Pre-provision operating profit stood at INR179 crores for the quarter, and supported by improving asset quality and moderating credit cost, profits after tax increased 144% year-on-year to INR75 crores for the quarter. This extends the strong profitability momentum that we established during the second half of FY26.

Our balance sheet continues to remain exceptionally strong. As of June 2026, our capital adequacy ratio stood at 41.3% (Errata: number to be read as 42.4%), providing substantial headroom to support future growth without the need of additional capital in the foreseeable future. Looking ahead, we remain optimistic about the opportunities in front of us.

Business momentum has remained encouraging and we expect activity levels to strengthen further as we move across the year. India's micro-enterprise segment continues to offer us a significant long-term opportunity, and we believe that Aye Finance is uniquely positioned to capture this opportunity through its differentiated business model, disciplined execution, strong risk culture, and a deep customer relationship.

Our priorities for the year remain clear. We will continue to pursue responsible growth while maintaining underwriting discipline. We are targeting an AUM growth, as we had said in the guidance, between 25% to 30% for this year. We will drive further normalization in credit cost towards our guided range of 3.5% to 4%, and we intend to gradually increase the share of mortgage loans in our portfolio this year.

Alongside this, we will continue investing in technology, in analytics, even in the AI area, we have already had machine learning models and AI-related models deployed over the last few years, and we'll continue to focus and strengthen those. And we will also strengthen our distribution network to enhance customer acquisition we are already very good at, but we can do better, and improve productivity and strengthen long-term profitability.

With that, I would like to conclude my opening remarks and open the floor for questions. Thank you very much.

Moderator: Thank you. The first question comes from the line of Sajal Raj from Zenflow Finance Private Limited. Please go ahead.

Sajal Raj: Good morning, sir. Am I audible?

Sanjay Sharma: Yes, you are. Please go ahead.

Sajal Raj: Yes. Sir, I have three questions. So first one, despite the improving asset quality and declining credit cost, the guided credit cost of 3.5% to 4% remains significantly higher than the peers.

Could you explain the key factors behind maintaining such a conservative guidance despite tighter underwriting standards?

Sovan Satyaprakash: Hi, Sajal. Thank you for that question. So, I think as Sanjay mentioned, we are uniquely positioned in the micro-enterprise lending space with the product which is the core product that we are talking of, which is hypothecation loan, typically with a tenor of about 24 months and INR1.5 lakhs average ticket size.

Now, when we compare this product to many of the peers who predominantly operate in the Micro LAP, the product is quite different from that standpoint. Having said that, the terminal losses that we observe across both the products, be it a Micro LAP product or a hypothecation product, remain very much in the same range of about 5.5% to about 6%. But when you look at from a yearly credit loss or cost standpoint, this usually translates between 3.5% or so.

Because of that, we believe that this business model typically should give a credit cost of roughly around 3.5%. In a good year, it can come down as low as 3%, but should be in the range of between 3.5% to 4%. So, that is the guidance that we went forward with at the beginning of the year. Quarter 1 has definitely been encouraging where we are already at the top of that band that we are talking of, and as we move into the subsequent quarters, we do feel that this number should improve further. And by end of H1, I think we can give a more tighter guidance and talk of maybe more narrow ranges.

Sajal Raj: Thank you, sir. My second question will be could you share the portfolio yield at the end of the Q1 FY27 for each of your 4 business verticals? This would help us better understand the yield mix and profitability across the portfolio.

Gaurav Seth: So, the portfolio yield at the end of the quarter was 22.4%. This is taking into account the mix of HL as well as the hypothecation loan as well as the LAP product. So, that's the portfolio yield that we have.

Sovan Satyaprakash: If we talk of the product-wise portfolio ROI levels, typically mortgage has a portfolio ROI of about 23.5%. Hypothecation loan that we do ranges between 27.5% to about 28 odd percentage. As the mix changes, the blended level value changes accordingly. There are different reversal levels of both the products because of delinquency levels of each of the product, but the portfolio ROI is about 23.5% to about 27.5% to 28% for the hypothecation loan.

Sajal Raj: Thank you so much, sir. And sir, in this quarter, the fee and other income has decreased. Could you give us some kind of color on it?

Gaurav Seth: Yes. So the fee and other income have decreased primarily on 2 accounts. One is since we had injected capital in February, so there was the IPO, we did not feel the need to borrow more from the DA and therefore we did not undertake any DA, the direct assignment deal during the quarter. Last quarter, DA had contributed to around INR20 crores.

The second is on account of the foreign exchange movements. Till last quarter, all the foreign exchange volatility was being taken into the P&L and therefore last quarter we had a INR12 crores profit coming in from there…

Gaurav Seth: Nominal.

This was a notional profit, because it's over a period of time it gets sort of settled off. From this quarter onwards, we've moved the foreign exchange movements into OCI and therefore we will not going forward to see any fresh movements on this line. So, both of these taken together account for nearly INR32 to INR33 crores of fee income.

The next one is Q4 has, as Sanjay had mentioned at the beginning, has a huger disbursement as compared to Q1, and the drop in disbursement therefore will lead to some drop in cross-sell as well as other fee-related incomes.

Sajal Raj: Thank you so much, sir, and all the best for the future.

Gaurav Seth: Thank you.

Moderator: Thank you. Next question comes from the line of Sameer Bhise with Dymon Asia. Please go ahead.

Sameer Bhise: Yes, hi. Thanks for the opportunity and congrats on a very good quarter, sir. Just wanted to understand how should we kind of think on incremental customer addition, because obviously you would have tightened some of your underwriting standards and still we are seeing very good customer addition growth. So, if you could just see how things shape up on this will be great?

Sanjay Sharma: Sure. Thanks for that, Sameer. I think we have seen the credit policy getting tighter. Earlier we used to allow roughly 55% of the cases logged in used to be approved and disbursed. That 55% has shrunk down to 45% and we have continued to keep that policy tight. Despite that tightening of policy, we have continued to see very good customer acquisition. As I mentioned, 44,000 customers were acquired during the last quarter.

So, I think it is despite that. Why does that happen? Primarily, because the market itself is very large and gives us tremendous opportunity. Second is our product is extremely tightly integrated to what the market segment desires. They want a typical working capital loan of INR1 to INR2 lakhs. So, it addresses a real market need and that is the second reason why we have seen enough demand.

And as I mentioned that it's a highly under-penetrated segment, so we see lot of demand. It is spread across the entire country, so it's not coming from one particular part of the country. We are there in 18 states and 3 union territories. So, I think that is one unique strength that we carry that we can generate 44,000 loans in a single quarter despite tightening of credit.

Sameer Bhise: Fair. This is useful, sir. Secondly, if one were to look at the guidance, obviously we are running better than the guidance on the top line and margins. I presume this includes some share of mix change with respect to mortgages, like towards mortgages, and also leverage building up. Is that the right way to look at it?

Sanjay Sharma: Yes, I think see, while we are today already at 22% of our portfolio in mortgages, we expect it to only grow marginally through the year. So, our strategy has always been that hypothecation loan serves the customer better and it also produces the required ROA for the business. So, one is that while the mix will slightly move a little more towards mortgages, that movement is marginal.

This will lead to a lowering of the overall blended portfolio yield, but as we saw in first quarter, that reduction is more than made up by the reduction in the finance cost even as the percentage of borrowing cost. So, this actually compensates for that and in fact that's the reason in quarter 1 we've seen an increase in our NIM. This trend is expected to continue through the year and we therefore are guiding that NIM will remain flat, it will not come down.

Sameer Bhise: Okay. So, this is helpful. Finally on credit cost, I think very proactive step to slowly kind of make additional provisions. How should one see on long-term loss rates in this business? And if mortgage share inches up, will there be a reduction in long-term credit cost? May not be say a 12-month kind of a window but over a 2 to 3-year period?

Sovan Satyaprakash: Sameer, rightly asked on that particular question. With the mortgage share increasing and we have talked about it in the past calls also that we intend to increase the mortgage share eventually to about 30 odd, 35 odd percentage. As the mortgage share increases to the range of about 30%, definitely at a blended level credit cost should come down. So, with the current levels that we are and obviously the opening numbers that we entered this financial year, we guided for a 3.5% to 4%.

But with mortgage increasing eventually, and not in this financial year but eventually increasing to about 30%, we can safely assume about a 50 bps lower levels on the credit cost. So, the range that we should be targeting once mortgage hits about 30% would be in the range of about 3% to maybe a 3.25% or 3.5% at max.

Sameer Bhise: Great. Thank you and all the best.

Sovan Satyaprakash: Thank you.

Moderator: Thank you. Next question comes from the line of Shalin Kapadia with IIFL Capital. Please go ahead.

Shalin Kapadia: Hi, good morning, everyone, and thanks for the opportunity. So, first question I have is on margins. So, for 1Q I think it's at 15.9% while the guidance is 14.25% to 14.75%. Understand that this is also from the IPO proceeds, but with this 1Q number, do we expect some upside even from your upper end of guidance in terms of NIMs? Also, if you can break that up in terms of how you expect yields and cost of funds movement in FY27 for better clarity, that would be helpful?

Gaurav Seth: Yes. So in terms of the cost of borrowing, when I compare for the quarter-on-quarter, the cost of borrowing has been dropping. So, the weighted cost of borrowing last quarter was 10.87% that has already dropped to 10.78%. Our incremental borrowing has been coming at nearly 60 bps lower and therefore my cost of the incremental borrowing that I'm doing today is at around 10.20%. This we expect with the credit upgrading, we expect to drop this further by around 10 to 15 bps. That's the first one on the cost of borrowing.

In terms of the interest, the interest will continue – the interest in terms of the product mix, it continues to be -- we reported the number at 22.4%. Now, this will continue to be in the same range. There will be a slight drop as the mortgage business increases, as the LAP business increases. However, from a NIM perspective, the guidance that we had given, we expect to stay on target.

Shalin Kapadia: Thank you. So, second one is on asset quality. So, like we have some management overlay I think we have made in this quarter. Can you just quantify how much is the normalized credit cost and how much was from management overlay this quarter? And also, what is the total quantum of overlay that sits on the balance sheet?

Gaurav Seth: Yes. So the overall overlay that sits on the balance sheet is INR11 crores. And this is lying in stage 2 and stage 3. The second question was in terms of the\

Gaurav Seth: Credit cost. The credit cost is at 4.01%. So if you could just help. Yes.

Sovan Satyaprakash: So, on the credit cost front, we reported a 4.01% credit cost. Having said that, there was a management overlay created of roughly around INR6 crores in this credit cost for this quarter. So, that should be removed from actual credit cost calculation standpoint.

Gaurav Seth: See, in terms of approach, we will continue to absorb some of the profits into these overlays, because this is a good year and we believe that in good years we should create that overlay. So, I think that approach continues and I think last quarter was robust quarter on profits and we have taken out INR6 crores out of that to put into the overlay.

Shalin Kapadia: Got it. And lastly, more sort of a medium-term question. So, you have mentioned in your vision statement, you aim to reach AUM of INR24,000 crores, which translates roughly to 27%-28%...

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Shalin Kapadia: Okay. So, yes, so one medium-term question, you have mentioned in your vision statement that within 5 years you aim to reach AUM of INR24,000 crores, which translates to roughly 27%, 28% CAGR within 5 years. So, what gives you the confidence that this can be achieved through the cycle and how do you vision your AUM mix to look like?

I think you have also mentioned in your vision statement that you plan to enter affordable and gold loan segments, so any color around that would be helpful. So, just if you can explain your vision here, please? Thank you.

Sanjay Sharma: See, on the growth to get through a 27%, 28% or even a 30% CAGR, it's not difficult, because the gap in the supply in this segment of micro-scale unorganized businesses is huge. We have not even penetrated, I would say, 2% or 3% of that market. So, I think when you have a complete white space, there is going to be extended periods of growth. So, that's the first thing.

Second is -- clearly we have the capability to drive that in terms of our breadth of branch network across the country and the automation that helps us scale up. So, I don't see any operating challenge around that so to speak. The second is that to deliver 27%, 28% and from a strategy perspective, we don't have to rely excessively on the mortgage product or the Micro LAP product.

So, therefore we have said that, as the customer demand is primarily for hypothecation loans, we will like to see 60%-70% hypothecation, 30% Micro LAP, and at best 10% can be some other product, and this is over the next 3 years I would say. Gold loan and similar products which appeal to our segment of customers is what we will look at. We are in the process of doing a market survey.

We are realizing that when we give out loans to 44,000 customers in a quarter, we also decline close to 55,000 customers. These customers in the end go and seek a gold loan, a substantial part, 20% plus do that. So, we have the ability to source and we are not fully leveraging that ability to source customers. So, I think strategically we are going to stay with the hypothecation loan and the mortgage product for this customer segment, and gold loan or any other secured product, it could be a solar loan also, would probably be only 10% in the next three years.

Shalin Kapadia: Got it, sir. Very helpful. That's it from my side.

Moderator: Thank you. Next question comes from the line of Ananga Rana with A91 Partners. Please go ahead.

Ananga Rana: Hi. So, on PAR X, I wanted to understand in order to hit our credit cost guidance, would we want to see a further decrease in PAR X or is the 7% level sufficient to hit our 3.5%-4% type credit cost for the full year?

Sanjay Sharma: Sure. I think see, it's an excellent question and I would also link it to the question that was asked initially about credit cost of 3.5% to 4%. See, in our model, each product category has a different credit cost model and therefore it's incorrect to compare one segment against the other. For example, you would not compare a housing loan against a Micro LAP. Similarly, you can't compare Micro LAP against this product. But at a credit cost of 3.5% to 4%, we will deliver a targeted ROA of 4.5% to 5% post-tax.

Similarly, on this question, if our PAR X remains at 7%, we will ultimately hit a credit cost of 3.5% to 4%. In fact, if it remains at 7%, we're likely that we'll hit a credit cost of 3.5%. So, we are all set to manage this X-Day PAR because that is the nature of the flow in the collection buckets. So, answer to your question is that yes, 7% is good enough. It will deliver to us the credit cost that we're talking of, 3.5% to 4%, and it will deliver the ROA which we are targeting, which is probably 4.5% to 5%.

Ananga Rana: Thanks, very clear.

Moderator: Thank you. Next question comes from the line of Umang Shah with Kotak Mutual Fund. Please go ahead.

Umang Shah: Yes, hi. Thanks for the opportunity and congratulations on a very good set of numbers, sir. I have a couple of questions. The first one is on the credit cost, right? And I just want to understand the broader thought process on creation and utilization of overlays and also not just your FY27 but your credit cost guidance in your vision document, which is a more medium-term sort of a credit cost guidance. Does that include creation of overlays, utilization of overlays?

I mean, how should we look at this whole math if you could just help that would be great? Also, in conjunction, if you could just give me one data point, what percentage of our book is covered under any of the government guarantee schemes?

Sovan Satyaprakash: Hi, Umang. So, with respect to the overlays, eventually we want to create about 0.5% of the book as overlay and primarily this is to ensure that we deliver a certain level of cross-cycle credit cost which should be in the range of about 3.5% to 4%. That is the view with which we are creating overlays and we believe that this will be a good year after coming out of the cycle that the entire industry saw.

With respect to utilization of overlays that get created within the year, overlays are created from two intentions. One is the point that I maintained earlier, which is ideally to deliver a certain cross-cycle credit cost. The second is to ensure that any rate changes during the course of the year can also be taken into account from the overlay, adversely impacting the overall profitability level.

With respect to the guidance range that we gave for this financial year of 3.5% to 4%, we do believe with the overlays, we should be in that range and that is how we are looking at the current financial year.

Gaurav Seth: In terms of the ECLGS, we have a ECLGS scheme ongoing, where the book is around 4.5%.

Umang Shah: Okay, understood. And just to clarify, the credit cost guidance that we are giving not just for 2027 but also for next 2 to 3 years, that takes into account creations and utilizations of overlays depending on the cycle, right? So, creation of overlays will not be outside this credit cost number.

Sovan Satyaprakash: Yes, Umang, that would be what our endeavor would be, to stay in the guidance range and creation of overlays in good years where the credit cost is in the lower side of the range and utilization in any kind of cycle that the industry goes through.

Umang Shah: Perfect. That sounds good. The other point was on efficiency. Now, obviously our opex ratios are slightly higher at this point of time. We are also expanding our reach materially. Now, I do see in the presentation that there are host of efficiency measures that you guys have already enlisted. One of them being not adding new branches and obviously utilizing or sweating more of the existing infrastructure.

But again, more from a 2 to 3-year perspective, given that we are a very young company growing at about 25%-30% CAGR, up until what time can we sustain growth without adding branches and at what point does it start hurting growth, assuming if we stretch this exercise a little too far?

Sovan Satyaprakash: Umang, our strategy is to increase the branch count by roughly around 10%. While optically the numbers could be higher because we have two sets of branches, one is a large branch category, the other is a mini branch, and from all sense a large branch is equivalent of two mini branches from a cost standpoint, from a long-term scale standpoint.

So, effectively what we are looking at is adding roughly around 10% odd branches or large branches every single financial year. To supplement that, we also every year see a large number of branches which enter into the INR20 crores plus category, and these would be the branches opened in the first 5-6 years of operation where we are actively looking at splitting those branches to tap into the micro-market further, go deeper into that micro-market.

As part of that strategy, last year we split roughly around 44 odd branches and the levels at which both these branches or after splitting the branches are, they are positive or profitable from day one itself. So, from a medium-term growth perspective when we are talking of a 25% to 30%, so I think a 10% addition of branches would be sufficient for that. For this year, that number change will be visible between quarter 2 to quarter 3 when the count would increase. This would be both splitting of branches as well as addition of new branches.

Because a large percentage of our branches are still in the lower vintage categories and with the average AUM, many of those 60%-70% of the branches which are with average AUM of roughly around INR7-8 crores, these branches can also attain the scale of 20 plus crores. So, from the existing branch infrastructure, there is a long runway that is available. Many of the branches which enter into the higher AUM category will undergo split and roughly addition of 10% of new branches every year. I think all these three put together should be delivering that growth level of 25% to 30% that we are talking of in the medium range.

Umang Shah: Understood. That helps. And just one last question is on, how should we look at our strategy in terms of direct assignment? Would it be a lot more opportunistic or given that we are generating a lot of PSL assets, I mean, probably it would be a more uniform practice seen across the quarters?

Gaurav Seth: So, the way we want to approach DA is,see DA normally we do for two reasons. One is to shore up the liquidity because DA gives us immediate liquidity. The second is to sort of put it into the P&L. So today as we look at the DA pool, we are at around 5%, 5% of our AUM is DA and therefore we are not very aggressively posturing on DA.

Going forward, it will be more around as we get into relationships with banks and NBFCs and because the relationships have to be wider beyond just term loans and NCDs, we will explore opportunities of doing DAs through the year depending on whatever opportunities come up. We don't want to actively participate in doing a lot of DA. As a strategy, we want to limit the DA to between 5% to 7% and that's the long-term strategy. We don't want to do more DAs.

Umang Shah: Okay, understood. And sorry, just one last point. In terms of credit rating, post the IPO we've already got one rating upgrade, is it?

Gaurav Seth: That's right. India Ratings…

Umang Shah: Yes, sorry, go ahead please.

Gaurav Seth: So, I was saying India Ratings gave us the upgrade last month.

Umang Shah: So, logically then, I'm assuming that the benefit of the same is not yet reflecting into our marginal cost of borrowing or that's already sitting there and how should we look at the marginal cost of borrowing going forward?

Gaurav Seth: Yes. So the incremental cost of borrowing last quarter was 10.2%. The ratings came in towards the fag end of the borrowing cycle and therefore these have not been yet factored into. We expect with this rating upgrade to get additional benefits of between 10 to 15 bps going forward.

Umang Shah: Okay. All right. Perfect. Thank you so much. That helps and wish you all the best. Thank you.

Gaurav Seth: Thank you.

Moderator: Thank you. Next question comes from the line of Varun Gajaria with Omkara Capital. Please go ahead.

Varun Gajaria: Hi, sir. Thanks for taking my question. So, I just wanted to understand and this is something -- this is a trend that we've seen across other NBFCs also, that the disbursement rate has been down about 25% plus, well in our case 38% quarter-on-quarter. So, what is this industry-wide phenomenon? Is it a seasonal thing, if you can just shed some light on that? And why has it been so way?

Sovan Satyaprakash: Hi, Varun. So, there's definitely certain level of seasonality in the disbursement trends that we observe over the last, I think, the entire years of operations that we have been present. So, typically we see roughly around 40% disbursements coming in the first half and in quarter 1 typically about 20% to 22% at max disbursements do come in. 40% split of disbursement in H1, about 60% split in H2.

March or quarter 4 and more particularly March is a high productive month and high productive quarter, so the disbursements definitely pick up. So, sequential comparison of disbursement of quarter 1 to quarter 4 would not be the right way to look at it. The fall that we saw in this quarter is very much in line with past year trends.

But I think the encouraging fact is that, after a slow quarter 1 in the last financial year, the disbursement for this quarter and growth of roughly 22% is highly encouraging for us and helps us more confidently move towards our guidance range of growth that we talked about. And the other good factor that played out in quarter 1 is the productivity levels of the hypothecation loan.

Hypothecation loan is the driving engine for the business model and hypothecation loan productivity has significantly improved. The productivity levels that we saw in quarter 1 are very much in line with productivity levels of quarter 2 and quarter 3 of last financial year. So, those are encouraging signs and definitely will help in other parameters like opex also as we move along the current financial year.

Varun Gajaria: Okay. And considering that we'll be adding more branches, how is the team ramping up? Because lately, we've also heard some commentary that a lot of NBFCs are also finding it slightly challenging to find people who might work on ground?

Sanjay Sharma: See, I think on staffing, we have never faced a challenge around getting the required staff because one is that we don't rely only on the NBFC industry experienced people for hiring. We can hire fresh staff also, we have trainees that we hire, we can even hire from the MFI market, because we have a very strong training program to train them into how a business customer's income needs to be assessed, what data points are needed, what sort of diligence is needed on the ground.

So, we don't foresee any challenge around that. In fact, our plans for growth of the team are very modest. We only want to grow our team by about 10% further and there we don't see a challenge around getting that team. This 10% growth in team will deliver the AUM growth of around 25% to 30% for us.

Varun Gajaria: Okay. Thank you for taking my question.

Moderator: Thank you. Next question comes from the line of Pavan Kumar with Edelweiss Public Alternatives. Please go ahead.

Pavan Kumar: Sir, thank you for the opportunity. Just one question from my end. Many of your borrowers would also be having gold loans and the digital fintech loans because they would be using the QR codes, right, in their day-to-day business. And I'm sure you track that number how much of the current percentage of the borrowers have these loans.

Can you please highlight what percentage of your borrowers have, number one, gold loans, number two, digital fintech loans and how it has moved over the quarters? Yes, that's it from my end. Thank you.

Sovan Satyaprakash: Yes. So out of the total borrower base, I think somewhere in the range of about 10% to 12% of the people have gold loans that we have observed and from that perspective, we do feel that as a product line which is a huge opportunity for us in the long run. Now, from a digital fintech loans, now it is very difficult to really categorize when we do bureau scrub, it is difficult to really categorize loans into the digital fintech loans. We do see small ticket size loans.

Now, these could be personal loans from fintech players, could be also consumer durable loans and others. So, it is a bit difficult to really comment on the percentage of borrowers who would be using fintech apps. Having said that, because you touched upon the fact of QR codes and it can be a channel through which many fintech players offer loans.

However, we do feel that, one, the penetration of QR codes in the markets that we are talking of, which is tier 2, tier 3 markets and when you talk from a city center to almost 20-25 kilometers outside the city center, that penetration is not to the tune that we read in headline numbers for many of these digital initiatives. Also the fact, the usage of QR code for trading or payments from their overall volume of business is still minimal.

If I have not been wrong, I think a good guess would be between about 15% to 20% at max would be what is the volume that goes through QR code for many of the players who would be using QR codes. And we do feel that is not enough of data point to really offer a business loan. So, we don't see digital fintech players as strong competition for us for the product offering that we have in this space.

Pavan Kumar: Thank you, sir. No other question from my end.

Moderator: Thank you. Next question comes from the line of Nischint Chawathe with Kotak. Please go ahead.

Nischint Chawathe: Yes, hi. So, just a clarification, you mentioned that 10% of your customers have gold loans. So, over here you consider customers of LAP and property or do you also consider hypothecation loans?

Sovan Satyaprakash: So, it is the total portfolio base that I'm talking of when I refer to the 10% number.

Sanjay Sharma: Nischint, if you are asking that what percentage of our customers have mortgage loans from other players that would be almost negligible. It will be less than 1%. But they do have gold loans and we do factor in the gold loan into our FOIR calculations etcetera.

Nischint Chawathe: And in the last one year, would you have probably seen any difference in the collection behavior or customer performance for those with gold loans or without gold loans? So I mean, any such study that you probably have done to kind of read whether gold loan has helped collections at all?

Sanjay Sharma: Nischint, we don't have that data upfront whether the gold loan customers have performed better, but my guess would be that there might not be that much of a correlation. Because think of it that way that a customer who after taking a business loan also takes a gold loan is probably leveraging himself.

But then you also look at someone who has taken a loan and has gold has better network and gold loan has a bullet repayment, so it can lead to an imbalance in repayments from a customer's perspective. But we don't have the data for that. Maybe later on we can probably share some data on that.

Nischint Chawathe: Yes, that would be helpful. And just one, do you have a strategy around co-lending? I mean, I know you discussed in detail about DA

Sanjay Sharma: Yes. See I think our approach on co-lending and DA are based on the premise, that one, we don't have any challenge around raising funds in the market for our lending. So, we have a very diversified set of borrowers from whom we borrow, which includes lot of mainline banks, private banks, small finance banks, NBFCs, and DFIs.

So, we don't have a need to get into those constructs just for liquidity. The second is that we don't need them either for improving our profitability metrics. I think given that, we find that because our ticket size is very small, so therefore doing all the hard work of originating it and then finding that I can only keep 20% of the INR1 lakhs loan does not work in my favor because it doesn't defray my cost.

So, it's only because of that dynamic that co-lending does not appeal to us. Because if we were lending at probably a INR10 lakhs ticket size, then even keeping a INR1 lakhs on our books or INR2 lakhs on our books does give you the income stream that can defray the processing fee. Our processing fees are very small. Despite the fact that the loan is as small as INR1-1.5 lakhs, our processing fee is still 2.5%. You can think about that, it's only INR2,500.

Many of the mortgage players would take more than that only for the legal technical fees. So, I think the dynamic does not work for us. Also having said that, we don't see any problem with that because we know the quality of our portfolio is good. We don't have to worry about volatility of credit cost. In fact, the reason that you'll find that CGMFU we have only done 4.5% of our book on CGMFU because we don't see a huge benefit coming because our credit costs are low and well-managed.

Nischint Chawathe: Got it. That's helpful. Thank you very much and all the best.

Moderator: Thank you. Next question comes from the line of Gokul with BTH Capital. Please go ahead.

Gokul: Yes. So just want to understand currently our leverage levels are at, I think, 3.15. So, is there a target you have in mind where you want to settle at?

Gaurav Seth: Yes. So the leverage right now is at 3.15. In our longer-term strategy, we expect that once it approaches the 4 to 4.5 levels, that's when we'll need to look at fresh capital, but till then we don't need. And basic internal calculations that we've done, that would mean that we have enough capital for the next 2 to two and a half years of growth.

Gokul: Got it. And what is the LTV for these type of loans that we have currently?

Sovan Satyaprakash: LTV for the Micro LAP loans typically we see a LTV of about 35% to 40%. For the hypothecation loan, we should see somewhere around 60 odd percentage on the inventory levels that we observe.

Gokul: Okay. And one more thing, so I see the foreclosure rate has been mentioned at some 5%. So, what is our experience in terms of realization that we get from these foreclosures and how liquid are these assets?

Sanjay Sharma: So, this is the pre-closures. You are talking of settlements. I think maybe we'll answer on the settlement…

Gaurav Seth: Settlement or you are saying like BT out sort of cases.

Sovan Satyaprakash: Yes, this 5% that you are referring to that is mentioned in the PPT is the pre-closure rates that we see on our portfolio. Now, on the pre-closure rates, again the two products, I think hypothecation loan has very low pre-closure rates, typically we see annualized pre-closure rates of roughly around 3 to 3.5 odd percentage.

Mortgage, because of the nature of the business and BT outs and BT ins that happen over the industry, that is relatively on the higher side. At a blended level, we see somewhere around 5% to 5.5% that is mentioned in the PPT.

Gaurav Seth: And however, due to that, we are getting foreclosure charges from the BT out cases, so that is in line with the industry actually.

Gokul: Got it. Thank you.

Moderator: Thank you. Next question comes from the line of Sonal with Prescient Capital. Please go ahead.

Sonal Minhas: Hi, this is Sonal Minhas. I hope I'm audible.

Sanjay Sharma: Hi, Sonal. Yes, you are audible.

Sonal Minhas: Hi. Sure. I have two questions. First is with regard to bifurcation of NPA for the hypothecation and the LAP business. If you could share that on a regular basis, I think that will help us understand how the two portfolios are behaving and maturing. And also, do you report slippage numbers? Because I think the credit cost is reported but slippage is not, so just wanted to understand that here?

Sovan Satyaprakash: So, we haven't reported slippage number. I do not have that number readily available and we can share that eventually. With respect to the delinquency level of the products, the Micro LAP and the hypothecation loan, and if I touch upon the PAR X levels to begin with, we see a blended PAR X of 7.01% that we reported for this quarter.

For the hypothecation loan, that number would be in the range of about 7.5%. For mortgage loan, that would be in the range of about 5 odd percentage. On the PAR 30 levels, again hypothecation loan would be in the range of about 6.6% and mortgage loan in the range of about 5 odd percentage.

For the PAR 90 levels, I think mortgage loan is in the range of about 3%, while the hypothecation loan would be in the range of about 5 odd percentage that we have seen. Mortgage for us is a new investment that we have done over the last three years, while we have built capacity with respect to disbursements and distribution network and we are seeing very good collection levels in the non-OD category.

We are yet to build a strong capacity with respect to further recoveries and in the deeper buckets. So, I think over the last 1 quarter, 2 quarters, our endeavor has been to increase the collection infrastructure in mortgage so that our ability to collect in the delinquent buckets improves. And as that infrastructure plays out during the course of the year, I think while the PAR X numbers relatively would stay stable, many of the deeper buckets should see improvement during the course of the year.

Sonal Minhas: Okay. So, PAR 90, can we expect like by the end of the year because you ramping up people, you stabilizing your processes, PAR 90 and onwards basically we can see a reasonable dip from

5% the number you mentioned if I hope I'm not wrong, but from 5% to let's say around 3% or 4%?

Sovan Satyaprakash: 3% is the mortgage PAR 90 levels. 5.35% is the hypothecation PAR 90 numbers. I think mortgage should see an improvement as we move later in the year as settlements pick up as well as our capability with respect to collection from delinquent buckets improve. So, that should see improvement.

And another encouraging fact is that many of those delinquency is concentrated in couple of states rather than a widespread delinquency that we see across all states where we do mortgage. So, it is more to tackle in those two odd states that we are seeing this delinquency. So, I think it looks very controllable and over this year, I think we should see improvement in that number.

Sonal Minhas: Got it. Thank you.

Sovan Satyaprakash: Thank you.

Moderator: Thank you. Next question comes from the line of Avnish Tiwari with Vaikarya. Please go ahead.

Avnish Tiwari: Hi. Can you explain the difference between your hypothecation loans and let's say the merchant loans done by Paytm kind of players? So, are these two different kind of borrowers? Is there any overlap?

Sanjay Sharma: See, I think there is certainly an overlap, but it's not a very large overlap. And I think the reason that Sovan had mentioned earlier that when we look at our customers and see how much of their transactions pass through the UPI payments, and which we can see through the account aggregator data, we find that anyway between 10% to 20% is the transaction that passes through the UPI payment.

So, it's not a large enough segment to estimate the total income of the customer. Yet, I think there'll be some customers who have taken loans from players like Paytm that you mentioned, but these are typically often smaller loans, INR30,000-50,000. And because the segment is very large, the overlap that we see is not substantial.

As I mentioned that we have only penetrated 2% of the market and we can still grow at 25% to 30% CAGR, we are not seeing that as a direct competitive threat at any stage for now. Also, we also have the ability to digitally source business and we have a team that almost generates close to 7% to 8% of our fresh sourcing comes from that segment. So, we have the fintech capability to do exactly the same. However, we don't see as much of traction on that to make it a substantial channel. It contributes 7% to 8% of our fresh sourcing.

Avnish Tiwari: Are you also putting your QR code or like your payment infrastructure?

Sanjay Sharma: No, we are not in that line of sourcing. We believe that our way of sourcing through use of technology and branch-led sourcing actually is a lower cost sourcing despite the fact that it may look like that the UPI-based sourcing is being digital would be cheaper. But I think our originating costs are lower.

Avnish Tiwari: Sorry, and you said only small portion is going through UPI. So, are they doing most of the transaction in cash, that's why they're not captured in UPI?

Sanjay Sharma: Yes, absolutely right. I think in the tier 2, tier 3 towns, there's still a large part of business that gets transacted in cash. And our models are built on the fact that there'll be a lot of cash-based transaction, therefore underwriting is based on a cluster-based alternate data, not looking at the balance or the bank statement or UPI-based transaction.

Avnish Tiwari: Okay. Second question I had was \ how much money in other income is coming from third-party insurance products commissions and how do you see the scenarios of if there is any cap on commissions from IRDA?

Sovan Satyaprakash: So, there are three cross-sell products that we run for the customer base and all of them are at different attachment levels. Now, with respect to the transactions, I think roughly about 2% is the deductions that we see across products for any customers picking the products that we cross-sell and roughly around…

Gaurav Seth: INR9 crores.

Sovan Satyaprakash: Yes, INR9 crores is what we saw as income for this quarter from the cross-sell piece.

Sanjay Sharma: See, this is not a very substantial part of our income stream, INR9 crores in a total revenue of…

INR490 crores. You can see that that ratio is not high. Second is that we have a corporate agency. So, it is not done through a commission being paid et cetera. We are a corporate agent. We have taken a formal corporate agency license from IRDA and we have people in our team who have passed that examination. So, it is a very formal compliant structure that we follow.

Avnish Tiwari: And what is the attachment rate? Let's say, out of 100 loans you are disbursing in a quarter, how many of them you are attaching with the credit life or other?

Sovan Satyaprakash: I think multiple products would have different attachment rates. I think the lowest product would be the attachment rate of roughly around 20% or so, while the highest product could be in the range of about 90%.

As RBI compliance, I think we do offer the customers to choose products and also walk away from the products that we are offering and choose from any alternative provider in the market. Depending on the availability of that, these attachment rates play out. So, yes, so a 20% to about 90% range would be what we would be operating for the multiple products.

Moderator: Thank you. Mr. Tiwari, please rejoin the queue for more questions. Next question comes from the line of Shrishti Jagati with Ambit. Please go ahead.

Shrishti Jagati: Hi, sir. Good morning. Thank you for taking my question. Further to the previous question that was asked, I'm sorry, my voice is echoing.

Shrishti Jagati: Yes. So, furthering to the previous participant's question in terms of PAR movement, while I understand that the PAR stability for X bucket has not substantially improved from Q3 FY25 and Q4 FY25 versus the improvement that we are seeing especially amongst the MFI segment. Could you please explain us to what is a sustainable PAR X or PAR 30 for the business that we are in? And if at all there are any other things that we are trying to bring this down?

Sovan Satyaprakash: Sure. Shrishti, thank you for that question. And so when you think of from a PAR X level and PAR X has from I think the last quarter's reported number of somewhere around 6.9%, right now this quarter we reported a 7.01% and we have also provided you data with respect to collection efficiencies that we saw in quarter 4 and quarter 1.

Non-OD collection efficiency, which is the predominant bucket which would determine the PAR X levels and can swing those levels, you'd see there's not much of a difference. April, we saw a dip, which is very seasonal in nature, after a very good March usually April is a slower month, but still the collection efficiency number for May and June are in the range of about 99.3%, which are good levels of collection efficiency compared to the 99.4% average that we saw for a quarter 4.

So, effectively the collection efficiency rates are more or less in line with quarter 4 and very much in line with quarter 3 numbers also that we had reported. Having said that, there would be a denominator effect playing out on the PAR levels as we move into multiple quarters, quarter 3, quarter 4 disbursement momentum picks up and quarter 4, you'd see large growth in the AUM, which in quarter 1 would see only a 4% sequential growth that we reported for this quarter.

So, that also plays a part in the reported numbers for PAR. What we have seen in the past years is that quarter 1 sees a marginal increase in PAR compared to quarter 4 because of this denominator effect playing out, but as the portfolio grows in quarter 2 onwards, the PAR numbers again start normalizing down, assuming that the collection efficiency stays stable and we right now feel the 99.3% is a good level of collection efficiency that we are delivering.

So, I think the 7.01% in quarter 3, quarter 4 would definitely see some moderation from the current levels and we would be optimistic that this should be better than what the quarter 4 numbers were eventually during the course of the year.

Shrishti Jagati: And sir, what would be the sustainable levels for PAR X?

Sovan Satyaprakash: I think a good level to target is 6% to 6.5 odd percentage.

Sanjay Sharma: Shrishti, also for the previous question, there's a simple arithmetic that if you look at PAR 90 levels and since you compare it against the MFI industry, MFI industry after PAR 90, their collection efficiency beyond PAR 90 is anyway between 5% to 8%, 9%. Our collection efficiency after PAR 90 is close to 29% to 30%. So, there's a big collection that we do.

Now, if your collection from PAR 90 is hardly 5% to 8%, the only way for dramatic reduction in PAR 90 is through write-off. It can't be collection. So, I think you will come to your own conclusion, but those are the real parameters to look at that if your PAR 90 collection efficiency itself is 5% and 8%, reduction will only happen through write-offs. We have not gone for aggressive write-offs because we know that whatever is sitting in our PAR 90, it may be 4% or 5%, we will collect one-third of that at least.

Shrishti Jagati: Fair, sir. Understood. Thank you. The other question I had was on the margin front. While our incremental cost of borrowing has declined substantially, at least by 10-15 basis points, our guidance for margins still remain around 14.25% to 14.75% despite this decline. Sir, could you please walk us through what is causing this decline in margins for FY27?

Sanjay Sharma: See, I think there is an upside that is possible on that number. Because I think we have seen in quarter 1 that the NIM did not fall, in fact it improved. So, in NIM the various parameters that impacted is one is the movement of mix towards the mortgage piece of the portfolio. Because mortgage is at a lower rate, it tends to bring the NIM down.

The second parameter that works is that the amount of reversals that you make, because when things go into NPA, you have to reverse out the interest of the previous months as well. That reversal, because the slippages into NPA is reducing, we have an upside on that. We haven't mentioned the slippages number, but that is one of the things that the reducing slippages causing a upside on the NIM.

The third parameter that works is the borrowing cost. And our borrowing rates, because they have been dropping and plus the new rating that has come in will see that play out. So, clearly I think even I would have had the same question that if everything seems to be working in one direction, why is the guidance different? But I think there's an upside there.

Shrishti Jagati: Sir, lastly just on opex. Our opex numbers for opex cost has been about 8.9% for Q1 and the guidance is about an 8.25%-8.75%. While you also mentioned that much of the branch expansion will happen in between Q2 and Q3. Is there will there a denominator effect play out here to keep our opex at around 8.25-8.75 range for FY27?

Sovan Satyaprakash: Yes. Shrishti, I think the new branch investment is not a large investment with respect to opex. Considering the fact that we are already 11,000 manpower company and we're adding about 40 odd branches is not going to be a significant number of people to be added. I think our people -- I think at best between 13% to 15% at best is what the manpower increase is going to happen and that is also going to happen somewhere around quarter 2, quarter 3 and some part maybe in quarter 4 as the scale improves.

So, from a cost standpoint, that is not going to be a significant change because of this new manpower addition. Definitely as you move into the quarter, the denominator effect plays out and when we gave a guidance band for the entire year, we did realize that quarter 1, quarter 2 we might be out of those bands and quarter 3, quarter 4 we will be very much in the band giving a result which for the entire year should be in that band.

So, I think right now, 8.9% versus the highest 8.75%, I think we are very much there. I think quarter 3 is when we might start looking at falling into that band and quarter 4 as the growth happens, I think the blended level for the year should fall in that range.

Sanjay Sharma: Shrishti, you will see that on many of the parameters. We have moved very close to that band much quicker than expected. So, when you look at credit cost, it is already sitting at 4.01%. When you look at opex, it has already moved in that direction. I think that we are going to wait for one more quarter.

I mentioned that in quarter 2, the fuzziness that was there in quarter 1, the war was there, then everyone was saying that huge amount of inflation will happen, then everyone thought that there's going to be a drought across the country. Those are becoming clearer. So, in quarter 2, even I expect that we will probably refine the guidance ranges to more reflect some of the questions that you are asking.

Gaurav Seth: Shrishti, also just to add when we look at the opex, last year we ended Q4 at 9.5%, today we are already at a 8.9% and therefore we are actually walking the path of getting to the 8.25%-8.75% range.

Shrishti Jagati: Thank you.

Moderator: Thank you. Ms. Jagati, please rejoin the queue for more questions. Next question comes from the line of Tushar Sarda with Athena Investments. Please go ahead.

Tushar Sarda: Yes, thank you for the opportunity. And I have 3, 4 questions. My first question is, you know, your opex is 9% as compared to 4%-5% say for microfinance kind of thing. So, what is the reason for such a high opex?

Sanjay Sharma: See, I think it's primarily the models are very different and one of the biggest components there is the fact that there is a credit underwriting that is done in our process, which is absent in the MFI process. That itself adds to the cost. Second is that because it's a business loan, it also needs monitoring and I think that also does taken some cost. So these are the two big reasons.

Originating in the MFI world is done through a group process, therefore it makes it easy to acquire customers, especially since there is no income underwriting. These are two very different models. In our case, the right model or right benchmark to use is that today we are talking of 9% opex, this should gradually tend towards 7% to 7.5% in the next 3 years.

The way I would also compare it in a very different perspective is that when the Micro LAP players, which also do credit underwriting, if I compare against them, their ticket size, my ticket size on an average is INR1.5 lakhs, their ticket size on an average is about INR4.5 lakhs, it's about 3 times the ticket. They have a cost operating expense of about 4% to 5%.

With the one-third the product scale, I am able to manage it in that 9% range. That is the comparison which is a fair comparison I would say. And why are we able to do it in 9% instead of 15% if I just take proportionate operating expense is primarily through use of data, high productivity of the loan officer, and many other parameters which bring in efficiency into the process.

Tushar Sarda: Okay. My second question is, you know, your ROE is now 10%-12% kind of thing and you are growing at 30%. So, how soon would you need to raise capital again?

Gaurav Seth: Our expectation is that if we take a leverage of 4 to 4.5 times before we raise money, it means that we can grow our book to almost INR14,000 crores. We are today sitting at INR7,384 crores. So, this gives us a window of slightly more than 2 years, 2.5 years before we'll need money.

So, I think that's reasonably off. The reason you are seeing low ROEs is because we have recently raised money through IPO and therefore our leverage is very small. And this leverage will gradually grow.

Tushar Sarda: Yes, that I understand. That I get. Yes. My last question is, you know, your NPA for mortgage versus hypothecation, what is the difference between you are reporting 4% NPA, so what is the difference between the 2, how much is in mortgage, how much is in hypothecation?

Sovan Satyaprakash: As I earlier mentioned, I think the PAR 90 gap between mortgage and hypothecation is today roughly around 2.5 odd percentage, the PAR 90 gap. We do believe this can improve further as we build capacity on the mortgage front, but right now it would be in the range of -- PAR 90 gap would be about 2.5%.

Tushar Sarda: Okay. Thank you very much.

Sanjay Sharma: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question and answer session. I now hand the conference over to Mr. Viral Shah for closing remarks.

Viral Shah: Yes, hi. Thanks. Thank you, Sanjay and Aye Finance team. Sanjay, do you want to make any closing remarks?

Sanjay Sharma: Thank you, Viral. Yes, I want to thank everyone who joined us today and for the interest in Aye Finance. It's a very different asset class and these are opportunities for us to share our story and help build the assurance and credibility of the portfolio that we have created. So we appreciate the time and participation that everyone brought in.

If there are further questions, we are still quite open and you can reach out to the Strategic Growth Advisors our Investor Relations Advisor or connect directly with the team. We'll be happy to clarify any doubts. And I look forward to speaking to you next quarter. Thank you and have a good day.

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