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To, **BSE Limited**, Department of Corporate Services, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001. Scrip Code- **543259**	To, **The National Stock Exchange of India Limited,** The Listing Department, Bandra Kurla Complex, Mumbai- 400 051. Scrip Symbol- **HOMEFIRST**

Sub: Transcript of the earnings conference call for the quarter ended June 30, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended June 30, 2022 conducted on July 28, 2022, for your information and records.

The above information is also available on the website of the Company: www.homefirstindia.com

This is for your information and record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

Digitally signed by SHREYANS BACHHAWAT
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Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited - Q1 FY23 Earnings Conference Call.

July 28, 2022

<u>Management</u>:

Mr. Manoj Viswanathan	**: Managing Director & Chief Executive Officer**
Ms. Nutan Gaba Patwari	**: Chief Financial Officer**
Mr. Manish Kayal	**: Head - Investor Relations**

Moderator: Ladies and gentlemen, good day and welcome to Home First Finance Company India Limited Q1 FY2023 Earnings Conference Call. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Kayal. Thank you and over to you Sir!

Manish Kayal: Thank you, Mike. Good afternoon, everyone. I hope that all of you and your families are safe and healthy. I am Manish Kayal and I look after Investor Relations of HomeFirst Finance. I extend a very warm welcome to all participants on our Q1 FY23 financial results concall. Today on the call, I am joined by our MD & CEO, Mr. Manoj Viswanathan and CFO Ms. Nutan Gaba Patwari. I hope everybody had an opportunity to go through our investor deck and press release uploaded on exchanges and our website yesterday. We have also uploaded the excel version of our factsheet on our website and request you to please have a look. With this introduction, I handover the call to Manoj. Over to you Manoj.

Manoj Viswanathan: Thank you, Manish. Good afternoon, everyone. I am pleased to showcase the strong business momentum that we are seeing in our business. FY22 closed on a strong note and Q1 of FY23 is also displaying the same trend. I will take this opportunity to share highlights of the quarter with you.

During the quarter: This quarter again we disbursed our highest ever quarterly number of Rs 661 Crs, an increase of 3.1% on q-o-q basis and 117% y-o-y basis.

- Our AUM at Rs 5,832 Crs is up by 8.4% on qoq basis and 35.8% on yoy basis.
- On asset quality, there is further improvement in 1+ and 30+ DPD levels.
- 1+ DPD improved to 5.0% from 5.3%
- 30 DPD improved to 3.5% from 3.7%.
- Our Gross Stage 3 stands at 2.1%, down 20bps from 2.3% in Mar'22. This includes Rs 444 Mn (i.e. 0.90%) which is currently in buckets less than 90DPD but included in NPA due to asset classification norms as per RBI notification dated 12-Nov-2021. Adjusted for this, the number stands at 1.2% in Jun'22 down from 1.3% in Mar'22, an improvement of 10 bps.

During the quarter, the rating on our long-term credit facilities was upgraded to AA- Stable from both ICRA & Care Ratings. This is in addition to the AA- Stable rating assigned by IndiaRatings on our long-term credit facilities in Mar'22. This upgrade is a testimony to our strong risk processes, asset quality and strength of balance sheet and also highlights the economic and sectoral recovery from covid and the overall outlook for the affordable housing sector.

We are also pleased to report that during the quarter, we have done the first transaction under the co-lending tie-up with Union Bank of India. The AUM amount of this co-lending transaction is INR 9.65 Crs and the amount transferred to UBI is Rs 7.7 Crs.

This quarter, we have opened 13 physical branches taking the overall number to 93 from 80 in Mar'22 and total distribution points have gone up to 224 from 200 in the same period. This is in line with our plan to reach 400 distribution points in the next 2 years.

Digital adoption has further improved. Registrations on customer app are up at 84% compared to 80% in Q4 FY22 and 67% a year ago. Service requests made via the app in Q1 FY23 have gone up to 87% vs 75% a year ago. 48-hour turn-around-time for loan approval continues to be high at 90% in Q1FY23. Our e-onboarding initiatives have progressed further with

- e-stamp adoption in 57% of the loans in Q1,
- e-NACH in 60% of the loans in Q1 and
- e-sign in 40% of the loans in Q1.

With this, I would now like to handover the call to Nutan to take you through the Financials. Nutan over to you.

Nutan Gaba Patwari: Good Afternoon All. I will take you through our performance in Q1 FY23. Key highlights:

Financials

We continued to stay focused on our key operating metrics with an intention to deliver mid-teen ROEs in couple of years.

- Our Net Interest Margin is stable at 6.4% even in the increasing interest rate environment.
- Spreads have increased by 20bps on qoq basis but it was offset by increasing growth and cash position.
- Net Interest Income has gone up by 49.8% on YOY basis and 9.2% on QOQ basis.
- We did direct assignment of Rs 80 Crs during the quarter as a liquidity strategy.
- We continue to have a robust demand for our portfolio of assets.
- Opex to Assets stands at 2.9% for the quarter. As guided earlier, we expect this ratio to remain in the range of 3.0%-3.2% going ahead; as we focus on expansion.
- Cost to income at 35.8% in Q1FY23 was flat on qoq basis.
- Q1FY23 PPOP stands at Rs 70 Crs, growth of 6.1% on qoq and 15.2% on yoy basis.
- Credit cost at 0.3% is within our expected range.
- Our ECL provision stands at 1.0% of the total POS.
- We continue to be conservative with the provisions. Total PCR stands at 45.8%. Prior to NPA reclassification as per RBI circular, PCR stands at 81.0% vs 83.6% in Q4FY22.

- Our PAT of Rs 51 Crs; grew by 6.4% on qoq basis and 46% on Yoy basis.

Liquidity and Borrowings:

- As Manoj mentioned, both ICRA and Care Ratings upgraded our long-term credit facilities to AA- with Stable Outlook to our long-term rating in this quarter.
- The Company continues to have diversified & cost-effective long-term financing sources.
- During the quarter we included Qatar National Bank and South Indian Bank as our new banking partners and we continue to work towards further diversification.
- We have a healthy borrowing mix with 47% of our borrowings from
    - Banks (Public sector 22%, Private sector 25%)
    - 25% from NHB Refinance and
    - 22% from Direct Assignment.
- We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is lower at 6.9% from 7.2% on qoq basis. This is due to drawdown of NHB funding during the quarter we availed in Mar'22.
- Our marginal COB for Q1 FY23 was at 7.7%. During the quarter we have not availed any new NHB borrowing.

Capital

- Our total CRAR is at 52.3% and Tier 1 CRAR is at 51.8%
- Our Jun'22 Net-worth stands at 1628 Crs vis-à-vis Rs 1574 Crs as on Mar'22
- Our quarter ROA stood at 3.9%.
- Our annualized ROE stands at 12.8% on Q1 numbers vs 11.8% in FY22.
- Our Book Value per share (BVPS) stand at Rs. 185.7 as on Jun'22.

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

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Hi thank you for the opportunity and congrats on great quarter team. I have three questions; the first one is what drove the sharp reduction in the Tier-1 ratio in the first quarter, it is down from almost 58% to like 51.8% this quarter on a quarter-on-quarter basis?

Nutan Gaba Patwari: The way capital adequacy is computed is that it has risk weights for different assets, so we have some investment from the treasury side in liquid funds and overnight funds which get categorized at 100% risk weight versus if you place money through FDs or T-Bills which get categorized at 0% risk weight. That is the reason why you are looking at a sharp reduction. If we made an assumption that it was like Q4 where we kept money in FDs or in bank balances then the number would be 56% and not 52%.

Karthik Chellappa: What exactly is the nature of these investments that you have done which necessitated 100% risk weight?

Nutan Gaba Patwari: These are liquid fund investments, the classic investments which are out for 17 to 18 days which is the tenure that we look at.

Karthik Chellappa: Got it, so from here similarly for the next quarters we should not expect a similar reduction in Tier-1 right, this one-time reduction was probably just a shift in allocation, right?

Nutan Gaba Patwari: Absolutely. From here on it will be largely linked to growth.

Karthik Chellappa: The second question is slightly a medium-term question, so basically Nutan and Manoj if I look at the industry as a whole specifically HFCs and NBFCs and if I look at their annual report, the attrition rates have actually been rising whether it is for yourself at about 36%-37% and Aavas is at north of 40%. So, we have seen a rise in attrition across and I also noticed that the median remuneration increase for non-managerial staff last year was something like about 8% or 9%. So with inflation rising and with such a high attrition, from a medium-term perspective how are you thinking of improving your staff retention?

Manoj Viswanathan: Karthik this is ongoing execution challenge in this industry and there are cases when it is little higher, in some cases it is slightly lower but generally the front-end attrition rate even in the best of times is in the region of 20% to 25%, so 35% rate which you are talking about is also inclusive of people who joined, left immediately, did not fit in, it is not their line of work or the kind of work they want to do, etc. So it consists of all profile of such people. Generally, it is a 10% range, 25% to 35% is generally the range which is there. Of course, post pandemic I think there is a phase when the attrition has increased a little bit but we are working towards various ways in which we can improve that number. One way is for example at the hiring level itself, improve the communication in terms of the job profile, etc., so we are taking various steps to see how we can address the attrition level but generally it is going to be range bound in that range.

Karthik Chellappa: Would it be reasonable to expect that a double digit rise in pay raise is now going to be the order of the day at least for the next two to three years as everybody aggressively builds out their branch network, etc.?

Manoj Viswanathan: From a pay increase perspective we have always believed in kind of building our whole team and hiring less from the market to that extent. Generally, when you hire from other companies or if it is a lateral hiring then the offers are more aggressive or you need to make more aggressive offers to attract people, but we have always believed in building our own team so we hire from campuses. A very large proportion of our hiring is some from campuses and then we groom them and help them to kind of develop within the organization by giving them more responsibility. We also have fairly wide coverage of ESOPs as well so once a person spends a couple of years they get covered by ESOPs. Once they move into kind of supervisory roles, that also helps us to retain people so we have a very good coverage of ESOPs. If you look at our current ESOP coverage it is almost 300 people in the organization have ESOP in our 905 member organization so 25% to 30% of the population has ESOP, so our people management strategy in that sense is slightly different and that is how we are looking at addressing this wage inflation issue.

Karthik Chellappa: Got it. My last question Manoj if I look at the incremental loan yields this quarter, it has crossed 13.2% already and with more interest rate hikes on the way possibly this also is going to go up but given that you have a disbursement target of 25% to 30% growth, how much more rate hikes do you think the industry and your customers can take without impacting growth?

Manoj Viswanathan: If you see the spectrum of affordable housing and the range of rates in the market, it is a very wide broad range from 11% to 18%, so to that extent there is enough absorption capacity in the market. For example let us say the 13% category of customer is declining the loan because the rates have gone up slightly then there is 13.5% type of customer or 14% type of customer who is available in the market and who is interested in taking the same loan. There is absorption capacity and as of now it looks like the rate increases will be very gradual and we are not seeing impact in the last two or three months we are not seeing any impact of these little rate hikes in the market in terms of impacting demand. We are fairly positive on that front. It is not going to impact the margin in a big way.

Karthik Chellappa: Got it. That's it from my side. Thank you, Manoj, Nutan, and Manish. Wishing the team all the very best for the remaining quarters.

Moderator: Thank you. We have the next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity. Can you share the percentage of disbursement which is coming from self construction in the quarter and what is the number on AUM?

Manoj Viswanathan: So incremental numbers coming from self construction that is pure self construction that is where people with a plot who are building homes will be about 40% to 45% and this does not take into consideration individual contractors building home, selling to customers, resale transactions, those are separate. This is purely people who are building their houses on their own.

Nidhesh: What would be this number on AUM? I am trying to understand incrementally are we seeing increase in this share of self-construction?

Manoj Viswanathan: On the AUM it will be slightly lower. It is about 30% odd because this business started a little later than the apartment business.

Nidhesh: Secondly in terms of tech that has been a differentiator for us but in last one year we have seen one large HFC also adopting Salesforce, a couple of affordable housing finance players are trying to replicate our model so in that context how do we stay ahead in the game from next 2 to 3-year perspective, how are we thinking of improving on our existing processes and existing infrastructure?

Manoj Viswanathan: We have to apply mind on how we can continue to stay ahead. What we adopt today is not very difficult for people to copy it within a few quarters so we have to continuously think on what technologies will be applicable to us and what will be relevant to the customer and how we can adopt it and stay ahead. Having said that, it is not only about the technology it is also about the business processes that support technology and vice versa. For example: if we are adopting a certain technology and the process, the way the actual physical flow of documents, physical flow of the business also needs to kind of be designed in a way which can work in sync with the technology. That is a mindset and that is a design thinking process also that we adopt, so it is not just technology in isolation, it is also about how the team work together and how the whole process is designed.

Nidhesh: Thank you. That's it from my side.

Moderator: Thank you. We have the next question from the line of Abhijit from Sundaram Mutual Fund. Please go ahead.

Abhijith: Thanks for taking my questions. Congratulations on a very good set of numbers. I have two questions first one there is a consistent positive surprise of NIM even as per management's own estimate I think NIM was supposed to moderate, if you can talk about how you are seeing the trajectory of NIM and also combine it with cost of funds in the light of recent rating upgrades whether it will be a yield decline as in passing up the benefit to the customers or do you see cost of funds sort-of inching up for you, what scenarios will play out that is the first question. Second question is on DA income this particular quarter. You have done quite well on ROA and PPOP growth despite DA income coming off, how does it look for the rest of the year especially because the demand seems to be quite good for Direct Assignment, etc.?

Manoj Viswanathan: On the NIMs and ROI, the transmission of rising interest rate has not really taken place fully. It has started so to some extent cost of borrowing is moving up but the full transmission of the repo rate increase, etc., has not happened yet and we are also passing it on only to the extent that it is impacting us, which is why we would not have probably seen any change in the NIMs. While we had mentioned the NIMs will moderate a bit it has not yet happened.

What we are seeing is that once the full transmission happens then we should be looking at 5.25% kind of spread and correspondingly minor moderation on the NIM. As far as the DA is concerned, I will request Nutan to address that.

Nutan Gaba Patwari: On the DA income the reason for doing a low DA is primarily because from a liquidity standpoint we did not look at a larger amount and that is why we have decided you are absolutely right that the demand from a DA perspective given that it is an attractive PSL asset is very, very good so not an issue on that side. Also on the cost of borrowing your question around how this looks going forward, so cost of borrowing has largely two components, one is the marginal cost of borrowing. Now subsequent to our rating upgrade we have been able to discuss, we have diversified our lender base even further and we continue on that journey. Secondly, post our rating upgrade we are able to discuss and engage with banks to reduce the credit spread further so which is why you see the marginal cost of borrowing also in Q1 is around 7.7% and hopefully remains in similar range in Q2 also so that is one part of the cycle. The second part of the cycle is the increase coming from the repo impact via the MCLR reset on our existing borrowing over the year, so that we expect to inch up gradually. Once all of that sets in we do see some kind of compression and that is what we have been kind of indicating whether that full compression gets translated in Q3 or Q4, it probably will be around that time.

Abhijith: Just to clarify income recognized on DA will come back to what you have reported in the last year from Q2?

Nutan Gaba Patwari: Our strategy to do DA is approximately INR 100 Crs per quarter plus minus so we will remain in that range.

Abhijith: Thank you.

Moderator: Thank you. We have the next question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Hi Sir good evening and thanks for taking up my question and congratulations on a very good set of numbers. Firstly, on the Opex front your cost to assets were around 2.7% in FY22 and given the expansion plans in this fiscal how do you expect this ratio to evolve for FY2023?

Nutan Gaba Patwari: We had 3% Opex to assets in Q4FY22 and we have been indicating a number of around 3% to 3.2% given that we do branch expansion, we add people, also we have given increments effective April. It is a combination of increase in variable spends and also leverage from the fixed spends. We are looking at 3 to 3.2% range for the rest of the year.

Mona Khetan: On the margin front or spread front again, so Manoj just mentioned that post full transmission we could see a spread of around 5.25%. Is it fair to assume that we will not be able to pass on the entire rate hike to our borrowers, the cost of fund hike to our borrowers given that we did not pass it on in the downcycle as well?

Manoj Viswanathan: It is a fair practice since we have not passed on the full benefit, we are also looking at absorbing some of it but we will have to see how it plays out and how much the real transmission or the total transmission is and we will take a call on that basis.

Mona Khetan: Just two data keeping questions. So, what was the write off during the quarter and cumulatively if you can share what is the restructured outstanding book?

Nutan Gaba Patwari: The write off for the year, there are two parts. There is small technical write off around INR 3 Crs and residual write off around INR 1 Crs so that is the write off number for the quarter and INR 26 Crs is the restructuring outstanding amount.

Mona Khetan: Okay against INR 28 Crs last quarter?

Nutan Gaba Patwari: That is right.

Mona Khetan: Cumulatively also if you can share the write off over the years how much have we written off?

Nutan Gaba Patwari: We will have to come back to you Mona.

Mona Khetan: Sure. Thanks. That is all from my side and all the best.

Moderator: Thank you. We have the next question from the line of Amit Ganatra from Invesco AMC. Please go ahead.

Amit Ganatra: Question from my end you mentioned the marginal cost of funds was around 7.7% what was the marginal yield?

Nutan Gaba Patwari: 13.2% for Q1.

Amit Ganatra: Against the book yield of?

Nutan Gaba Patwari: 12.7%

Amit Ganatra: Okay understood. I am done thanks.

Moderator: Thank you. We have the next question from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hello Sir and Hello Madam. Congratulations on a great set of numbers. Thank you for giving me the opportunity. My question was firstly like in the last two quarters we have added branches especially in the state of Tamil Nadu, so there we have taken the highest number of additions so any particular thought process. Is it because some of the companies operating there have relatively higher spreads and is that the thought process or if you could throw some light what is the idea behind this?

Manoj Viswanathan: The increase in distribution both physical as well as virtual distribution we are basically looking at it from certain set of states that we have identified where business is strong and demand is strong so if we look at the overall affordable housing demand in the country up on top Gujarat and Maharashtra then followed by Andhra Pradesh and Telangana put together comes third in terms of size and then Tamil Nadu so we are just going purely by size of market. These are very large markets for affordable housing and hence we are strengthening our distribution in these markets and nothing else other than that to it.

Shreepal Doshi: In the book that we have with respect to floating and fixed rate what would be the split there and do we have anything like a book which is in floating bucket but would be fixed for two to three years sort of bucket so it gets reset after every two to three years?

Manoj Viswanathan: Effectively the entire book is floating for us and the reason you say there is a fixed portion because there are certain schemes NHB schemes where we are supposed to offer a fixed rate to the customer but those loans are also at the back supported by a fixed rate loan to us from NHB so effectively there is no interest rate risk on those loans, and effectively our entire book is floating at any point.

Shreepal Doshi: Got it. Sir one last question with respect to the cost of funds so the reported number is 6.9% but this will also include the Direct Assignment that we would have done while it is low but still it will include right?

Nutan Gaba Patwari: No, it will not include Direct Assignment. This is the cost of borrowing on balance sheet borrowing.

Shreepal Doshi: Okay got it. Thank you, Madam. Thank you so much. One last question if I can squeeze in on the branches side so what number of branches would be having in AUM of say more than INR 120-125 Crs so which will be matured as per our standards?

Manoj Viswanathan: Around 20 branches.

Shreepal Doshi: What number of branches will be below INR 50 Crs?

Manoj Viswanathan: Below INR 50 Crs is about 50 to 60 branches.

Shreepal Doshi: Okay. Thank you, Sir and good luck, for the next quarter. Thank you so much.

Moderator: Thank you. We have the next question is from the line of Pooja Ahuja from Monarch Networth. Please go ahead.

Pooja Ahuja: Hi Sir thanks for the opportunity and congrats for the quarter. So just wanted to ask firstly if I look at the absolute NPA number for the last three quarters it has been somewhere INR 100 Crs. If you could just give a breakup of how much of this would be in the 90+ DPD bucket and less than 90 DPD bucket?

Manoj Viswanathan: So that number is INR 44 Crs and INR 58 Crs. So, INR 44 Crs is below the NPA bucket and but these are cases which have crossed into NPA at some point so they have to be reported as NPA so that is INR 44 Crs and what is actually in NPA is about INR 58 Crs.

Pooja Ahuja: Both the numbers if I looked it compared to the previous quarter it is quite sticky so what would you attribute this to?

Manoj Viswanathan: It is basically inflows are equal to outflows. We have resolved about INR 20 Crs and INR 20 Crs have come back to NPA and this number will trend down basically as the earlier bucket will also trend down so which is trending down gradually so 1+ is reduced from 5.3% to 5.0% and 30+ is reduced from 3.7% to 3.5% as these buckets reduce the flow the NPA also will keep reducing. If you look at it from a pre-RBI classification number, we are at 1.2% in terms of the GNPA so which is very close to the pre-pandemic number, so at these levels the improvement will be gradual going forward.

Pooja Ahuja: We have seen disbursement growth consistently increasing every quarter so where is this demand, is there any particular geography that is doing well or is it across?

Manoj Viswanathan: Demand is coming from across and it is also functional where we are adding distribution as per our strategy, we are adding distribution on the six states that we are focusing on which is Gujarat and Maharashtra and the southern states so that is where the growth is also coming from. In the other states we are not adding as much on distribution.

Pooja Ahuja: Thank you.

Moderator: Thank you. We have the next question from the line of Jigar Jani from Edelweiss Broking Limited. Please go ahead.

Jigar Jani: Thank you so much for taking my question and congratulations on a great quarter. Couple of questions. Your incremental yields over the last two quarters have been inching up so last quarter it was 13% this quarter it is 13.2% so how long will it take to reflect in the overall yields because actually the yields have come down this quarter on the book and the related question to this is when you say that floating rate book our entire book is floating how much of that is linked to an external benchmark?

Manoj Viswanathan: The rate at which we are originating will should reflect over a period of six months to a year but the issue is that every year there are some portions that goes into NHB refinance scheme where the rates also get reset, so the way we draw down this NHB scheme is that we reset the ratio of existing customers wherever there are rate caps which are required by NHB and we draw down those accounts. As a result of which the overall portfolio yield gets subdued to that extent so from April to December you will see the slowly book yield is trying to catch up with the origination yield but then again, we have a large draw down of NHB and then the book yield reduces slightly that is how the mechanism works.

Jigar Jani: So, when you calculate your incremental yields that do not include yields on NHB is that what you are saying?

Manoj Viswanathan: But what we are reporting is the overall yield including the NHB loans which is why when you are seeing it, it is looking lower than the origination yields. The origination yield does not have any NHB component.

Jigar Jani: How much of your floating rate is linked to repo or any other external benchmarks?

Manoj Viswanathan: So, it is basically linked to our borrowing cost. Out of the total borrowing, around 5% is linked to repo and the remaining is largely linked to MCLR.

Jigar Jani: Okay understood and last quarter you had said that out of GNP increase of INR 44 Crs which is not 90+ DPD but this has to be classified as per RBI into this category, you cannot initiate SARFAESI on that. Is that still holding true because one of your peers had actually mentioned in the call that they have been to able to initiate SARFAESI so will that normalize only when the customer pays back?

Manoj Viswanathan: First of all this number is large the difference between the pre-RBI and post-RBI number is kind of wide at this point only because we are attributing largely to COVID related impact so these are customers who had some impact due to COVID and could not pay for couple of months, went into NPA and then now they are trying to catch up and the catch up is taking time because these are customers who cannot pay more than an installment every month so we have to collect partial amounts and make good and come back to normal so it takes a few months. Given the situation of the customer and their keenness to retain the property and continue the loan and become regular, we ourselves think that SARFAESI action would not yield good results and it is not fair. We have really not attempted it in that sense. Our attempt is to only collect partial installments and bring these customers to normalcy.

Jigar Jani: Great to hear that. Thank you so much. That was all from my side. Thank you and best of luck.

Moderator: Thank you. We have the next question from the line of Dipanjan Ghosh. Please go ahead.

Dipanjan Ghosh: Just two questions from my side. One is if you can give some colour on customer waterfall in terms of origination or logins to disbursals and how that has changed let us say compared to the last quarter during pandemic and pre-pandemic and second is a data keeping question if you can mention BT-Out number for the quarter?

Manoj Viswanathan: Let me just take you through or walk you through the origination funnel. This is origination funnel for channels that are directly handled by the branch i.e., the builders, connectors etc. The origination funnel for digital channels is little different I will take you through that separately. So generally if 100 yield comes through from a connector or builders about 30% gets rejected or declined upfront, ~~60% to~~ 70% goes through, 30% gets declined upfront primarily bureau related reasons or because the customer cannot afford in its budget, the loan does not fit into the budget so out of 70 loans which come into the system say about 50 would be finally approved by our centralized credit team so broadly the ratio is 50% approval for field-based channels.

For digital channel it is very different so if 100 leads come in generally the conversion itself is less than 1% so probably one customer would finally get converted into a loan, 99 customers would fall into various buckets, about 30% to 40% of them will be declined because they are not eligible or there is bureau related issue, another 30% to 40% would be casual enquiries where people are not really interested in taking loan they were enquiring so on and so forth. Finally, it boils down to 10 interested customers out of 100 out of which we generally convert one. So that is a different funnel altogether as far as digital channels are concerned.

Dipanjan Ghosh: So, Manoj could you just followup on this 50% sort of odd number on a blended basis changed during pre-pandemic, during pandemic and after pandemic?

Manoj Viswanathan: Not really. Actually, pre-pandemic and now is fairly similar and if you look at it during pandemic it was not significantly different because people who were coming through the door were only customers let us say not greatly impacted by the pandemic so to that extent the decline ratio, etc., was similar. Somebody who was badly impacted by the pandemic was not even applying for loan at that point of time. We have not seen much difference frankly speaking.

Dipanjan Ghosh: Sure, if you can just share the data for BT Out?

Manoj Viswanathan: BT Out was about 5.6% (annualized) this quarter.

Dipanjan Ghosh: Thanks, and all the best.

Moderator: Thank you. We have the next question from the line of Shrish Vaze from Moneylife Advisory Services. Please go ahead.

Shrish Vaze: Thank you Sir for giving me the opportunity. My first question is regarding CRAR and ROA. In the opening remarks it was mentioned that we are targeting mid-teens ROE so in this journey how do you see CRAR and ROA shaping up going forward? Thank you.

Manoj Viswanathan: CRAR we currently did about 50% levels. It will be some time or quite a long time before it even comes close to the regulatory cutoff, so we are comfortable as far as capital is concerned. As far as ROE is concerned, we are making gradual improvements and we are also trying to balance it out with you can say our requirement for investment at this stage for future growth so basically, we are looking at hitting our 14%-15% ROE in about two-year timeframe so that is what we are looking at.

Shrish Vaze: Got it Sir. Secondly majority of our loans have been originated in the last four years, wanted to understand how is the NPA picture across our loans with older vintages, are the numbers higher or lower than our aggregate NPA ratios currently?

Manoj Viswanathan: We plot vintage charts to understand how recent portfolios are performing vis-à-vis the older ones so that is a regular exercise in our risk management process. Unfortunately, those charts are impacted because of these two waves of COVID and hence the numbers are not consistent and you cannot read much into it or derive any insights from it so having said that at least as far as the early delinquencies are concerned, they are fairly in line with pre-pandemic levels so we are comfortable from that perspective.

Shrish Vaze: Got it Sir. Lastly just a suggestion if in our investor presentation going forward once the situation normalizes you can introduce this information by dividing our loan book across different vintages and showing the NPA picture because the portfolio is not highly seasoned because of our high growth that would be more informative in understanding the NPA picture going forward. Thank you. I will get back into the queue.

Moderator: Thank you. We have the next question from the line of Siji Philip from Mirae Asset. Please go ahead.

Siji Philip: Thanks for the opportunity and congrats on a good set of numbers. So, two questions from my end firstly on the incremental yields of 13.2% we had this quarter how much would be coming from the LAP book because the proportion has increased this quarter?

Manoj Viswanathan: Out of 13.2%, about 30 to 40 basis points would be coming from LAP book.

Siji Philip: You said about NIM moderations but since we are anyways planning for higher proportion of our lap going forward do you expect that moderation would be limited?

Manoj Viswanathan: We are not looking at very sharp scale up and increase in LAP. It is a very gradual increase that we are contemplating and we do not want to rapidly scale up LAP to compensate for any moderation that might happen in the medium term.

Siji Philip: My second question is as we expand into different states, would the risk assessment profile be different. It could include more of independent houses rather than just apartments that we are currently doing much of so would there be a change in the risk assessment profile?

Manoj Viswanathan: Not at this juncture. I think that journey is something that we have crossed in the last four to five years. So when we started the self construction business almost seven years ago yes there was some difference in the way we were assessing apartments versus self construction cases but we are 7 years into that journey so we are fairly well versed with that process and when we look at markets the self construction business is largely there in the southern market and if you look at western markets like Gujarat and Maharashtra, it consists more of apartment so to that extent these markets have a characteristic and we have fair amount of experience now in each of these markets. Going forward not too many new things that we are coming across.

Siji Philip: So, coming to that since our legal and technical aspects are basically outsourced so do we have separate legal and technical teams for each of these geographies?

Manoj Viswanathan: These are local lawyers as well as architects or engineers whom we have contracted in those places, so we have a service provider agreement with them and they provide services to us. Each market would have set of lawyers and valuers who have an arrangement with us. Apart from that we also have a central team which vets their reports so the legal and technical report also is vetted by an internal legal or technical person or underwriters who will look at the report and formulate their own opinion, so it is a two-step process.

Siji Philip: Yes, that is it from my end. Thank you.

Moderator: Thank you. We have the next question from the line of Abhijit from Sundaram Mutual Fund. Please go ahead.

Abhijith: The coverage on stage 3 it is continuously coming down it used to be 25% to 30% now it is 22.5% in Q1FY23 so is it something to do with your LGD assumptions? Can you please elaborate and what is the comfortable coverage ratio as per you?

Nutan Gaba Patwari: So, it is a combination of the LGD also like I was mentioning in the call earlier we have taken a technical write off of around INR 3 Crs against which we had some provision so when we reverse that optically it looks low. Right now we are at a comfortable provision coverage ratio on a stage 3 basis and as we continue to improve our credit numbers we will look at if we need to rationalize it further but right now, we are very comfortable with the overall situation.

Manoj Viswanathan: It is a function of the composition of the portfolio and the respective losses that those cohorts are giving us so it is a derived number.

Abhijith: Got it. Sure. Thank you that was the only question.

Moderator: Thank you. We have the next question from the line of Sharaj from Laburnum Capital. Please go ahead.

Sharaj: Thanks for the opportunity. Sir my question was around BT. Our rates are 4 to 5% if I am correct so what percent of our customers actually approach us for BT, in the past you had said you counsel your customers?

Manoj Viswanathan: There is nothing like a balance transfer request that they have to make to us. We will not be able to give you a figure because most customers they have access to their statement of account on their app and the balances on the app so it depends on who is interested, they would apply for a loan somewhere else and they come back to us saying that they want to transfer and they are ready with the payment. At a very early stage we would not know whether the person is looking to do a balance transfer or not. However, what we can do and what we do is that we have analytics around the profile of customer and their behavior which where we are able to predict to some extent whether they will do a balance transfer. We cannot predict that number based on any request or anything that they are making because there is no such process so it is more analytical in nature as to how we can find out whether they are going to do a balance transfer or not. It is more of algorithm which can predict whether they will do a balance transfer or not.

Sharaj: What kind of steps do we take to prevent our customers from losing?

Manoj Viswanathan: We do active counseling. We offer top up loans to them. We explain to them that the balance transfer is not in their interest because they would have to pay a lot of upfront fees to do the balance transfer. Also, whenever there are NHB schemes where we have to draw down amount to NHB under certain schemes we reset the rates for these customers and then draw down so that they get the benefit of a lower rate so these are the ways in which we address the balance transfer issue.

Sharaj: In case the balance transfer is done, the customer has to pay the BT fee upfront, is it payable to HomeFirst or the finance company taking over the loan?

Manoj Viswanathan: I am referring to the fees they have to pay the company that is taking over the loan. There will be processing fees, there will be mortgage charges and so on, they will have to go through the entire process right from scratch so they will end up incurring lot of charges, we do not charge anything for balance transfer, we are not allowed as per RBI guidelines.

Sharaj: Thank you and second question was around what is the average tenure of our loan?

Manoj Viswanathan: The contractual tenure is between 15 and 20 years. Mostly customers prefer 20 years and some customers take 15 years so generally it is 15 to 20 years. Effectively you consider the prepayment and so on it comes to around between 6 and 7 years.

Sharaj: Given that we have seen substantial growth in the last four years or so would we see a heightened rundown in the book going forward as the repayments are coming up?

Manoj Viswanathan: That would be a preferred option for us because the rate of rundown will be slower if the customer is only just making his installment payment and reducing the loan. Generally, the rundown is faster only because of prepayments. If the customer runs down the loan on a normal natural basis, then they should ideally be more than 7 years.

Sharaj: Given that we have seen a large growth in the last 3 or 4 years the loan matures so if the higher repayments coming up and the book running down faster?

Manoj Viswanathan: No, we are not anticipating anything like that. We have been growing at this pace for a while and I guess that question will come if the pace of growth slows down. Our pace of origination, pace of AUM growth slows down then yes, the rundown on the loans will then kind of overtake the growth but at the pace at which we are growing currently we do not anticipate any such issue.

Sharaj: I was just trying to understand the penetration that is there in the core market so what I am trying to understand is in the core market place additionally targeted these industrial towns around those areas right so how much of a scope is there to further penetrate around these towns or are we now going to serve more of the little deeper rural self-employed customer going ahead as we penetrate further?

Manoj Viswanathan: If you take any of these markets which I was talking about which is either Gujarat, Maharashtra, Andhra, Telangana, Tamil Nadu, the market share that we have currently in the affordable housing space somewhere between 1% to 3% so there are still 97% customers out there who are taking a loan from someone else and we also do not know about the customers who are probably not even taking a loan and trying to just manage with their own funds or borrowing from friends and relatives and so on which is a very common phenomenon in this state so which is why the scope for growth is really very huge. First of all, we are not present in all the places, secondly, we have a low market share at this point and there is always a hidden market out there where customers are not even aware they can get a loan. Putting all these factors together I would say we are still very, very long way away from kind of getting worried about this question. There is lot of runway for growth available and I am talking only about towns. I think you mentioned that should we need to go very deep to get business, etc., so we are currently present im 225 towns, so 225 towns exactly giving us exactly INR 200 Crs of disbursal every month so if we expand that to 400 towns it is fairly linear growth, so lot of runway available and we will not have to go rural. Also, rural markets are also small, and the tickets are small so whatever growth is coming is from the larger towns.

Sharaj: Okay. Thank you so much.

Moderator: Thank you. We have the next question from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Sir just wanted to understand how would the NIM trend for the year for FY23 and the ROA which is currently 3.9% for the quarter and how do you see that trending for the year?

Nutan Gaba Patwari: From a NIM perspective we are looking at close to 6% and similar levels of ROA around 3.7% to 3.9% range depending on how the interest rate volatility takes up from here so depending upon that we will land in that particular range.

Shreepal Doshi: Got it and any change in guidance on the loan growth because our first quarter has been significantly better so anything that you would want to change on the loan growth side?

Nutan Gaba Patwari: Not right now. We can relook at it after Q2.

Shreepal Doshi: Thank you so much.

Moderator: Thank you. That was the last question. I hand it over back to the management for closing comments.

Manoj Viswanathan: Thank you everyone for joining us on the call. I hope we have been able to answer all your queries. In case you require any further details, you may get in contact with Manish Kayal, who heads the Investor Relation function or get in touch with Orient Capital, our external Investor Relations advisors.

Moderator: Thank you. On behalf of Home First Finance that concludes this conference. Thank you for joining us. You may now disconnect your lines.

We confirm that no unpublished price sensitive information was shared or discussed in this result discussion call.