HFFCIL/BSE/NSE/EQ/63/2023-24 **Date: 03-08-2023**

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, 2023

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, 2023 conducted on July 28, 2023 for your information and records. The Company referred to publicly available documents for discussions during the call.

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 FY24 Earnings Conference Call

July 28, 2023

.

MANAGEMENT: MR. MANOJ VISWANATHAN, MD & CEO
MS. NUTAN GABA PATWARI, CFO
MR. MANISH KAYAL, HEAD - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Home First Finance Company India Limited Q1FY24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Kayal, Head, Investor Relations. Thank you, and over to you, sir.

Manish Kayal: Thank you, Dorwin.

Good afternoon, everyone. I hope that all of you and your families are safe and healthy. I extend a very warm welcome to all participants on our Q1 FY24 conference call.

As usual, HomeFirst management is represented by 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 stock exchanges and on our website yesterday. We have also uploaded the excel factsheet on our website.

We will start this call with an opening remark by Manoj and Nutan, and will then have a Q&A session. With this introduction, I hand over the call to Manoj. Over to you, Manoj.

Manoj Viswanathan: Thank you, Manish. Good afternoon, everyone.

I am pleased to share with you the highlights of our Q1FY24 performance.

- We delivered a PAT of Rs. 69 Cr for Q1 recording a growth of 8% on a qoq basis and 34.9% on a yoy basis. This has helped us touch 15% ROE mark which is an increase of 60 bps on qoq and 220 bps on yoy basis. ROA holds steady at 3.9%.
- Disbursement in Q1 at Rs 895 Cr was 3% higher on q-o-q and was 35.4% higher on y-o-y basis leading to an AUM of Rs 7,776 Crs, with a yoy growth of 33.3%. We stay focused on housing loans which form 87% of our AUM.
- Strong liability management has enabled spreads of 5.7% in a steep interest rate environment.
- Asset quality is at pre-covid levels and reflects marginal seasonality impact in Q1FY24.
    - 1+ DPD increased from 4.0% in Q4 to 4.3% in Q1 but showed a yoy decrease of 70 bps
    - 30+ DPD increased from 2.7% in Q4 to 2.9% in Q1 but showed a yoy decrease of 60 bps
    - Gross Stage 3 (GNPA) is stable qoq at 1.6%, showing a yoy decline of 50 bps. Prior to such classification, it stands at 1.0%, up 10 bps from Q4.

- Our credit cost is at 40bps for the quarter.

We will now move on to some more details on the business and our outlook for the current year:

Technology

Technology has been at the centre of our business since inception. Systemic tech led controls have been implemented across all our operations, providing a strong backbone for our risk management and internal audit processes.

Technology continues to be a key driver with several projects lined up for release during the year including a new-improved website. App registration continues to be high at 93% with usage of 55%. We have 2 key highlights for Q1:

- Successful adoption of account aggregator model to access the bank statements of customers. This has the dual benefits of maintaining customer privacy as well as providing richer and more reliable information to underwrite the loan.
- Usage of e-signatures for loan agreements has moved up to 59%. This has the dual benefit of error proof customer authentication as well as customer convenience.

Distribution

- We added 2 branches and 17 touch points in Q1. We now have 113 physical branches and 282 touch points.
- We are targeting an AUM growth of 30%+ for FY24 to enable us to cross the Rs. 10,000 Cr AUM mark in the next 12-15 months.

People

Pleased to report that

- We have added 112 employees in Q1 to reach a total strength of 1105 employees.
- We have expanded our ESOP coverage to encompass 358 employees, which is 33% of total employee base.

Demand continues to be strong in the affordable housing sector. With our expanded distribution and employee base we are well placed to gain market share and deliver strong numbers in the rest of this financial year.

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: Thank you. Good afternoon, all.

I will like to start by mentioning that we have touched 15% ROE in Q1FY24; a number that we have been looking forward to.

Moving to financial performance;

- Our Q1 Net Interest Margin is robust at 6.1% on the back of calibrated PLR increases over the last few quarters, timely drawdown of NHB funds, better utilisation of balance sheet and operational leverage.
- Net Interest Income has gone up by 30.3% in Q1FY24 on YOY basis.
- Spread at 5.7% remains well above our guided range of 5.25%.
- Opex to Assets is at 3.1% for the quarter. 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 36.3% in Q1FY24, increase of 190bps on q-o-q basis.
- Credit cost in Q1FY23 at 40 bps; is within our guided range of 30bps - 50bps.

Our Balance sheet is stronger than before.

- Starting with borrowings, the Company continues to have diversified & cost-effective long-term financing sources. We raised funding of Rs. 1200 Crs+ in Q1 itself. This remained diversified based across banks as well as NHB. Our Borrowings mix is:
  - 54% of our borrowings from Banks (Private sector 32% and public sector 22%)
  - NHB refinance share increased from 15% in Q4 to 22% in Q1 due to drawdown of Rs 600 Crs during the quarter
  - 17% from Direct Assignment
  - 4% is from IFC NCD
  - We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is competitive at 8.0%, increase of 10bps from 7.9% on qoq basis; despite the continuous impact of MCLR increases on our borrowing book.
- Coming to capital;
  - Our total CRAR is at 46.0% and Tier 1 CRAR is at 45.5%.
  - Our Debt to Equity is now 3 times.
  - Our Jun'23 Networth stands at Rs. 1,868 Crs post dividend payout in Jun'23.
  - Our Book Value per share (BVPS) stand at Rs. 212.
- Moving to provisions, we have remained conservative and continue to carry provision overlay over and above the ECL requirements. Total Provision coverage ratio stands at 57.1%. Prior to NPA reclassification as per RBI circular, PCR stands at 90.8% vs 81.0% in Jun'22.

On specific transactions;

- We did direct assignment of Rs 79 Crs during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets.
- We executed Co-lending transaction of Rs 35 Crs in Q1. Co-lending business is growing and expect this to contribute around 10% of disbursements in the near future.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: First of all, congratulations on a very good quarter. So, Manoj, Nutan, before I ask the questions that I had, just wanted to understand the kind of delivery that we've had for many quarters together now. What is it that you think from these levels can go wrong? Or in other words, what is it that kind of makes you anxious, looking at the overall credit landscape, mortgages in particular?

Manoj Viswanathan: Abhijit, over the last 3 years, we have actually come through a fairly stressful period of Covid. And from a credit perspective, if something were to go wrong, I think that was the time when we saw things going wrong and several customers being impacted by Covid, etc.

Post that, the demand has picked up. The credit performance or the repayment behaviour has actually improved quite dramatically across the industry, not only for us. Today, we are actually seeing a far more disciplined and mature behaviour from customers. The answer to your question is that there is nothing as such which we feel anxious about at this point from a credit perspective.

Abhijit Tibrewal: Got it. Sir, the other question that I had is, this increase in bounce rate that we've seen in this quarter and subsequently in July, is it just more to do with seasonality or there is anything else? Because repayment behaviour across the industry has improved more dramatically. I mean none of the data really points to the fact that, delinquencies could increase even in the foreseeable future. So how to read this increase in loan sets?

Manoj Viswanathan: Yes, we would just put it down to seasonality because if you look at it historically, prior to Covid also, in the first half of the year, delinquencies generally tend to inch up a little bit before settling down again in second half of the year. We are seeing a similar pattern this year as well. During the last 3 years, we were actually used to seeing continuously declining numbers because it was all basically a recovery from Covid. We were expecting that we would do better than the previous quarter because customers were recovering from Covid and they were coming back and repaying.

But now that things have stabilized and kind of reached a pre-Covid level, I guess these kind of fluctuations quarter-to-quarter, depending on seasonality, is something we have to start looking at.

Abhijit Tibrewal: Got it. One more thing on, employees, Manoj, fourth quarter when we added about 9 branches, the kind of employee addition that we had versus this quarter when we have added 2 branches and about 112 employees that have been added. So, is it more like a timing issue kind of a thing, some branches are in progress of being opened and then they eventually open in the next quarter, and what is leading to this? Or are there certain functions today in addition to employees that we need at branches that we are kind of building on strengthening so as to say?

Manoj Viswanathan: You are right. The employee addition is more a function of timing because we predominantly hire from campuses. Generally, there is a large number of people joining in the first quarter because that's when the campuses finish their exams and they release the people for joining. That is the reason these many people have joined, although the branch addition is only 2. Branch addition is also sometimes bunched up. For example, we have a number of places where the lease has been signed and interior work is going on. We normally declare the branches open once everything is done and the branch is open for business, not when the lease is signed. So, some amount of bunching up happens. For example, we are expecting about 5 to 6 branches to be opened in Q2FY24 and those branches will also need people. Those people have already joined. It's more or less a timing issue.

Abhijit Tibrewal: Perfect. And my last question was for Nutan. Well, Nutan, if you look at, I mean, the yield, the cost of borrowing trajectory, obviously, you've reported the incremental cost of borrowings, ex-NHB and including NHB. But now given that where we are, I mean, what quantum of MCLR increases are yet to reflect in our cost of borrowings? And from here on, for the next few quarters, how should yields and cost of borrowing trend leading to what kind of spreads?

And maybe if I can squeeze one last question. From a process perspective, you would have noticed that recently there was one HFC which identified some frauds. These are more in the nature of internal fraud, not on the lending side. From a process perspective, what is it that we are doing to further strengthen those processes just to ensure that something that has happened with the peer does not really happen in your organization?

Nutan Gaba Patwari: Sure. Abhijit, To address your first question on cost of borrowing and yield. On cost of borrowings, most impact of MCLR has already come through. There is some lag effect still to come. Based on our projection, 8.20% - 8.30% is where we are seeing the peak to happen. This also assumes that there is no further policy rate change in India. With that assumption, I think, another 20 to 25 basis points at best is what we should look at. Now, when we are saying that, we are not looking at repricing our customers on a totality basis anymore. And if we still go through the whole journey on 8.30% with respect to cost of borrowing, we should be able to achieve the 5.25% spread that we've been guiding. That's what's playing through our mind.

At the later part of the year, if we see some softening of interest rates, etc, then the conversation can be different in terms of when do we start passing it on to the customer, but that's for another quarter conversation.

On the process side, let me just get started and, of course, Manoj will add. On the process side, at every step of the process, starting from the underwriting to when you look at our processes of sanction, the 9-step process that we have in a loan journey, the disbursal, the cheques, the penny drops, the endless reconciliations that we do across the operations and finance teams, kind of put us in good stead.

Now when we do most reconciliations, they have been done seamlessly across functions through use of multiple scripts written on Python or some other aspects. These systems and processes are well set in our situation. Centralised disbursement is something we have done right from the very start of the company, just as an example. The topical issue that you raised is around disbursements, and that is something we've been doing right from the very start.

Manoj, would you want to add to that?

Manoj Viswanathan: Yes, I just wanted to say that we have been focusing on systemic controls right from the start, which is why we have always kind of advocated a centralized underwriting as well as operations and disbursal process. The thought process at every stage is that the control should be established in the system itself so that it is not led to any manual process of checks and balance for any of the critical processes.

Even in the case of, for example, bank accounts, we do a penny drop on the customer's bank account. A person who owns the property is the one who gets the payment or the disbursal from us. We check the person who holds a title to the property. We ask them to give us a cancelled cheque to verify the bank statement and that is the bank into which the disbursal goes in. We have established those kinds of systemic checks in each process, which ensure that all the loopholes are covered. I just want to add that.

Moderator: We have the next question from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Congrats for good set of numbers. My question was pertaining to the rate hike. So, have you taken any rate hike since April? We had already taken 125 basis point of rate hike. So, post that, is there any rate hike and is all of the rate hike already factored in the interest income now?

Nutan Gaba Patwari: The last rate hike that we took was 50 basis points effective 1st April. That fully got absorbed in the quarter. It is fully reflected in income.

Shreepal Doshi: Okay. And on the cost of funds, if there was no benefit of NHB borrowing, what would be our cost of fund against the 8% that we have reported?

Nutan Gaba Patwari: The overall marginal cost of borrowing for this quarter is 7.6%; excluding NHB, it is 8.8%. So, if we did not have NHB, the cost of borrowing would have been higher by almost 15 to 20 basis points.

Shreepal Doshi: All right. So basically, broadly in our range of 8.2% to 8.3% that we've been guiding for?

Nutan Gaba Patwari: Yes.

Shreepal Doshi: All right. And then what's the reason behind the increase in 1+ DPD and 30+ DPD?

Manoj Viswanathan: 1+ and 30+ I would put it as more seasonal because the last 10 quarters, we have kind of continuously driven down the delinquency, and a lot of it is recovery from Covid. Now that things have reached a kind of steady state, if you look at the 1+, 30+, they have reached kind of pre-Covid numbers. So, there could be minor movements between quarters. That is basically what it is.

Shreepal Doshi: Got it, sir. Sir, one last question was pertaining to the increase in EMIs for our customers post complete implementation of this rate hike that we have taken. So, what has been that for our customers, the increase in EMIs?

Manoj Viswanathan: About 60-65% of the customers have no increase in EMI. We have about 30% of the customers who have an increase of between Rs 1 to Rs 1,000. And we have about 5% of the customers who have more than Rs 1,000 increase.

Shreepal Doshi: Got it, sir. Sir, just last question on the growth front. We've been delivering more than 30% Y-o-Y growth for the last 5-6 quarters, while you've been guiding for close to 20% to 30% growth. So, would we look at revisiting this growth number given that our first quarter has also been such a strong quarter? So, any revision of growth for the year?

Manoj Viswanathan: No, we have been guiding to a 30% AUM growth. That is where we are at the moment. I mean, we are a little higher than 30%. We have always been guiding to a 30% AUM growth.

Moderator: The next question is from the line of Raghav Garg from Ambit Capital.

Raghav Garg: Congrats on a good set of numbers. I have a couple of questions. First one being on yields so, they've expanded by about 30 basis points quarter-on-quarter despite the rate hike being about 50 basis points, and that has been fully absorbed.

I also note that the share of high-yield non-HL has gone up. So, the point that I'm trying to make here is that the 50-basis point hike that we change in portfolio mix doesn't fully reflect in the quarter-on-quarter change in the reported yields. So, should we understand that there is some sort of pricing pressure because of competition that you are facing? That's my first question.

Nutan Gaba Patwari: Raghav, there is a portion of NHB, which we do not reprice because that is fixed to the customer and fixed to us. Due of that, this shows a slightly lower yield increase than the PLR increase.

Raghav Garg: Okay. Fair enough. My second question is that the BT out has also been going up. Any specific thoughts on that? That's been up since last 2 quarters. Or not really a concern as of now?

Manoj Viswanathan: It's not increased very substantially. So, it's not a major concern at this point. It could be a reaction to rate hike, etc. But largely, it's in the same range of 4% to 6% that we have been talking about since last 10 quarters. We will have to watch it for some time. But as of now, it's not something which is a matter of anxiety.

Raghav Garg: But would you have observed any kind of competitive tactics by some of the large financiers in this quarter?

Manoj Viswanathan: No, nothing which is very obvious kind of activity. Generally, in the last quarter of the year, there is a lot of interest in balance transfers. But last few quarters, it has not been a focus area for many companies because the rates have also gone up. So, balance transfers are also a little difficult to achieve. But this would be probably just a reaction from customers to the headline rate increases because they are hearing about rate increases all the time. So, some customers probably are taking the initiative to get it transferred to a lower cost lender. It could be just that.

Raghav Garg: Sure. Just my last question. I noticed that the treasury income has been going up. And if I look at that as a percentage of average investment and cash balance at an annualized 12% kind of a figure for this quarter, it was I think 10% in last quarter. What sort of instruments are these? Because that seems to be contributing a lot to the overall ROA/ROE. Could you explain a little bit more as to where are we investing this money and whether this yield is sustainable on the investment balance or not?

Nutan Gaba Patwari: Raghav, there are only 3 instruments which we can invest our extra funds. The first one is fixed deposits with banks, T-bill with RBI and liquid / overnight funds with mutual funds. Those are the only three categories of instruments we are allowed to invest. At present, the yields that we're earning on this is in the range of 6.5% to 6.6%.

Coming to the part of sustainability of this treasury income, this will really depend on the lower end of the interest rate curve. It's a reflection of that because T-bills, fixed deposits and liquid funds are directly mapped to the overall policy rate as well as the open market rate. So, if we are saying that policy rates are stagnant for some time, so should this be.

Raghav Garg: Sure. The calculated yields seem to be way higher, but I think I'll take that off-line in the interest of time.

Nutan Gaba Patwari: Calculated yields, the challenge is that sometimes towards the quarter end, the investments show a slightly lower number. You will have to add the cash and bank balances on the balance sheet and the investments together and then calculate the yields. It should come around 7% from there.

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

Kunal Shah: With respect to this bounce rates, again, going up in 1Q and currently being at almost like 15-odd percent level, should we expect then maybe in terms of the 1+ delinquency and 30+ delinquency, it should broadly be something which we have seen all past 2 quarters and might not get down towards the pre-COVID level, okay? So maybe pre-COVID of 1+ was almost like 3.2% and in fact, 30+ was somewhere around, say, 1.7 to 2-odd percent. So, does it seem that now it should be more kind of a range bound in the current levels?

Manoj Viswanathan: Not really. I think, like we said, there is a little bit of a seasonal uptick, but our attempt is to continue to keep working on these numbers and keep improving these numbers. Other than the bounce rate itself and as you mentioned, there could be some flow from the bounced cases, We also track the actual flow from the current bucket to the next bucket. And that number has been fairly stable or rather shown some improvement over the last couple of quarters, so which is what gives us the confidence that the numbers can only improve. It can only be stable or improve further.

Kunal Shah: Sure. Okay. And secondly, in terms of the sequential momentum as well in terms of the disbursement, that's been quite good. So, in fact, when we look at it, does it give much more confidence with respect to maybe the overall AUM traction? And would we maybe -- stick to like maybe 20-30 odd percent branch addition during the fiscal given that it was hardly like 2 odd branches and maybe 1Q could be seasonally slow even in terms of the branch addition?

Manoj Viswanathan: Yes. We are looking at about 130 by the end of the year

Kunal Shah: So around 20 branches in this fiscal?

Manoj Viswanathan: That's right.

Kunal Shah: Okay. And in terms of the growth, does it give you more confidence in terms of building the traction even from this level?

Manoj Viswanathan: Yes. Growth is a function of the disbursal numbers. Disbursal numbers, we are already at a run rate of Rs. 900 crores per quarter or Rs. 3,600 crores for the year. Rs. 3,600 crores for the year should give us the desired AUM growth.

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

Nidhesh Jain: So firstly, on the BT out rate that we have seen slight increase. Is there any peculiarity that we have seen the customers for which EMI has increased, those customers have moved out? And have we also tried to look at the reasons of BT out? Is it interest rate or higher funding that these customers are seeking?

Manoj Viswanathan: No. Generally what we are seeing as BT out is triggered by customers who are interested in getting a lower interest rate. And I guess the continuous hammering of news over the last 1 year that rates are going up and we have also done 3 rate increases, that would be playing on people's minds. And some people would move out of their inertia and start looking actively for another lender. I think, that is really what is playing out over here.

The number of customers who have significant EMI increase is very, very small for us to draw any conclusions. Like I said, hardly 5% of our customers have even a Rs. 1,000 increase in EMI. That is not a significant base for us to draw any conclusions. But yes, broadly, the intent is to reduce the interest rate.

Nidhesh Jain: Okay. Sure. Secondly, if you look at the attrition rates on annual basis, that still remains quite high at around 40%. That I know is an industry phenomenon, but what we are doing to reduce the attrition rate of employees because I think that hampers the growth opportunity over a medium to longer term?

Manoj Viswanathan: Attrition rates have actually moderated for us. If you see last year, our overall average was about 39-40%. But the last quarter, Q4FY23, was a little lower. And Q1FY24 has been actually substantially lower at about 26%. In fact, Q1 is actually even better than pre-COVID levels, when the attrition used to be around 30-ish. It is too early to draw any conclusions. But yes, Q1 attrition has been much lower.

Nidhesh Jain: Okay. And on the ROE, we have reported 15% ROE in this quarter. And now going into the year, I think there will be a pressure on margins, say, 20, 30 basis points. So how should we think ROE for the full year?

Nutan Gaba Patwari: Nidhesh, we have to look at the balance sheet management overall from a NIM perspective first. Then we also have some –non interest income lines, which we could look at. We have visibility of 15% ROE for the rest of the year.

Nidhesh Jain: Sure. And next on the co-lending. So, in co-lending, when we do co-lending, the income comes into interest income or this element which also comes into fee and other income on the co-lending?

Nutan Gaba Patwari: No, there is no upfronting in co-lending. There are 2 portions of the income: the processing fee goes in the interest income line and for the spread portion it comes over the tenure of the loan in the interest income line itself.

Nidhesh Jain: Okay. So, there is nothing which comes in fee and other income on the co-lending?

Nutan Gaba Patwari: No

Nidhesh Jain: Sure. And just last question on the active connector base for the quarter, what was the count of active connectors we had in Q1?

Nutan Gaba Patwari: 2,500.

Moderator: We have the next question from the line of Nischint Chawathe from Kotak.

Nischint Chawathe: Congrats for the quarter. If I look at the AUM mix on average ticket size, and we are able to see a consistent rise in the higher ticket. Four quarter out, how would you see a shift further appearing towards the higher tickets? Or are we kind of stabilizing at these levels? And if so, what is the implication on the business in terms of margin, in terms of employee incentivization and asset quality?

Manoj Viswanathan: On the ticket size, there is a certain distribution in the AUM. And you see our current disbursals, the disbursal is also very similar to what is there in the AUM. I think you were probably referring to the ticket size of above 2.5 million, which is showing a slight increase. That is basically because of co-lending. If you take off 1% or 2% because this is a contribution of co-lending, the numbers are fairly static across quarters.

Nischint Chawathe: So, if you see the AUM mix on average ticket size, both above 1.5 million to 2.5 million, above 2.5 million, I think, on a year-on-year basis has seen a kind of a fair amount of increase. So, I'm just trying to say that whether it kind of stabilizes at least 28% and 11%?

Manoj Viswanathan: Yes, I think this is because of probably not very high-ticket sizes, but within the 0 to 25 or 5 to 25 band, slight redistribution is there. I think the 10 to 15 lakh ticket size segments is moving up slightly if you look at our current disbursals. That is probably increasing the overall ticket size. But that is more of an inflation linked movement and the movement in the ticket size. Nothing that we have done structurally to change our focus.

Nischint Chawathe: So, the question essentially is that if I look at how would these ratios looking like 4 quarters down. Is it that kind of keep on seeing the higher ticket increasing because the co-lending goes up or is it something that now we probably made a shift?

Manoj Viswanathan: I think we can expect two trends one is that the 2 to 2.5 and 2.5 plus, we can expect some increase because of co-lending. If we will take away the co-lending, it should be largely the same as what we have been doing in the past.

Second, within the 5 to 25 lakh range, I think customers who were earlier purchasing houses below 10 lakhs are probably going beyond the 10-lakh range. It is purely an inflation linked movement. So, the 10 to 15 lakh segment has moved up slightly. You will see that peculiar increase playing out in the overall average ticket size also. Earlier average ticket size used to be in the Rs. 9 lakh to Rs.10 lakh range, but now you are seeing it more like Rs. 10 lakh to Rs. 12 lakh range.

These are the 2 trends that are likely to play out. So, more loans in the Rs. 10 to Rs. 15 lakh range which will probably come through. And this is also because of a strong presence in the southern part of the country, where affluence is higher and ticket sizes are slightly higher. And that is creating a small, secular movement on the overall average ticket size. But structurally, I just want to assure you that we have not done anything to incentivize or migrate people to source higher ticket sizes.

Nischint Chawathe: And how do you incentivize employees? I mean, is it on a number of cases or ticket sizes and then there will be an actual information to kind of -- to do these larger tickets?

Manoj Viswanathan: Right. We do both. There is a value target for employees, and it is also moderated by the number of loans that we need to activate. Indirectly, it boils down to maintaining the check on the ticket size.

Nischint Chawathe: Perfect. And just one small question is, any other NHB lines of funding that are there in the pipeline?

Nutan Gaba Patwari: We are in advanced stages of discussion. There should be something in this quarter, but only when it comes, we can be sure.

Nischint Chawathe: And these lines of funding on an incremental basis are still sort of costing a little lower than the rest?

Nutan Gaba Patwari: Yes.

Moderator: The next question is from the line of Mayank Agarwal from InCred Capital.

Mayank Agarwal: So, my first question is on basically above 80% LTV loans. So, we have seen an increase of 19% Q-o-Q growth in this segment. Any specific reason for that? And what kind of customers are these? And can we see the growth in higher-LTV loans going forward?

Manoj Viswanathan: No, there would be some uptick because of a minor movement because of co-lending because co-lending largely comes from apartment-led loans where the LTV tend to be higher, and that's industry practice also. Co-lending loans generally come in 75% to 85% LTV kind. There would be a slight movement because of that. Other than that, we don't see any reason why that particular band will go up.

Mayank Agarwal: Yes. Because actually, I'm seeing Rs. 200 crores of increase in this quarter for this segment?

Manoj Viswanathan: Yes. But if you look at it from a percentage basis, the ratio is the same or slightly lower actually in terms of ratio.

Mayank Agarwal: Okay. So basically, it's due to co-lending only? Okay, okay. Got it, got it.

Manoj Viswanathan: Yes. It is due to co-lending only, and there is no change in trend. Whatever trends we have been posing earlier, the same trend that is continuing. In fact, if you look at it as the ratio of the overall portfolio, it is slightly lower than earlier.

Mayank Agarwal: Okay. And my second question is basically, we have indicated a spread of 5.25% earlier. But now, currently, we are in a spread of 5.7%. So, as you mean, in this quarter also, we have increased liquidity of Rs. 250 crores because of the NHB funding. So why do you think it can go down to 5.25% spread?

Manoj Viswanathan: Are you saying that the rate is already 5.7, right? Would it go down to 5.25, is that the question?

Mayank Agarwal: Yes, yes, yes.

Manoj Viswanathan: Yes. If the rates moderate or taper out some years, then it is fine. But we will still have to pass on if there's any reduction in rates going forward. And we'll have to pass that on to customers because when the rates went up, we have passed it on to the customer. So, we'll have to pass that decrease also to the customers. That is one reason why the rates would trend down. And still, we are not very sure whether the rates will go up or not. There could still be a possibility that the rates could go up from here by maybe 10, 20 basis points.

Mayank Agarwal: Sure, sure, sure. Okay, got it. Okay, sir, my last question is, now we are at an ROE of 15%, while we are still sitting at a capital adequacy of 45%. So, what levels of leverage would be comfortable at? So, in 1 or 2 years, let's say, if you reach by 18% ROE, would that be sustainable or that could see a further increase?

Nutan Gaba Patwari: You mean increase in capital adequacy or increase in ROE?

Mayank Agarwal: ROE. Till what it can expand?

Nutan Gaba Patwari: Our goal for this year, the 15%, now for the rest of the year, we would like to sustain this. Next year, we would like to cross 16%.

Mayank Agarwal: Because we are going at a 30% kind of AUM growth. We are making a 3.9% kind of ROA that basically indicated 2% kind of increase in ROE this year also.

Nutan Gaba Patwari: Given the interest rate environment and the cost of borrowing increase, it will be a bit early to commit to that.

Moderator: The next question is from the line of Arvind R from Sundaram Alternates.

Arvind R: Yes. Congratulations on the great set of numbers. So, I understand like we have increased 125, 150 bps yields to the customers if you consider from the fourth quarter of 2022. Am I right?

Nutan Gaba Patwari: Yes, 125 basis points.

Arvind R: Yes. So my question is this, I could see you like average yields also gone up to that -- in a similar extent, 120 bps, but at the same time, like our mix shift towards more and more towards self-employed I thought like you could have gone even more higher. So that is one of my -- first question.

And I just wanted to understand like rate sensitivity kind of a thing. Like, let's say, like 100 bps or 50 bps cut, what could be like impact on yields or the cost of fund?

Manoj Viswanathan: On the yield, there is a very, very marginal increase in self-employed, I think probably 1 or 2 percentage points. That will not really move the needle too much. Because the self-employed rate is about 50 to 75 basis points higher than a salaried customer. With a 1% or 2% movement in self-employed, it will not change the overall yield too much.

And as far as sensitivity is concerned, we are anyway consciously trying to keep the yields in the 13% to 14% range because that's really the core affordable segment. Beyond 14%, the segment that we are accessing will be slightly different in terms of profile. Our attempt is to maintain the yields between 13% to 14%.

Arvind R: I also ask this because like even LAP loans have gone up in terms of share of AUM. So that would also likely give us more yields,

Manoj Viswanathan: Yes, LAP loans, once we reach that 15% of our disbursal, we have kind of maintained it. What you are seeing on the AUM is just the catch-up on that. But as far as disbursal is concerned, we are maintaining it below 15% of our disbursals.

Arvind R: No, sir, I mean that even like LAP as a proportion has grown. These 2 things, like high-yielding books like in terms of self-employed and the LAP also grown, but this product shift hasn't contribute that much into the yields. That's what I was trying to understand.

Manoj Viswanathan: But the shift is very marginal is what we're seeing. Self-employed again has moved up by 1-2%, LAP has moved up by 1-2%. That shift is not significant enough in order to contribute a lot to the yields.

Arvind R: Okay. But, sir, can we expect the shift to continue in the product mix?

Nutan Gaba Patwari: Arvind, let me try to explain you differently. If you look at the overall LAP mix, that has increased year-on-year by almost 2%. These self-employed has increased by almost 3% on a year-on-year basis. Therefore, ideally what you're saying, why is these yields not coming through. There is almost 10% of the book, which is fixed in nature from NHB, which is also fixed for the customers, which we don't reprice.

While the LAP mix and self-employed mix should increase the yields ahead of 125 as per the discussion we are having, there is something that is pulling down the yield as well, which is the NHB fixed book. And hence, what we see is a blended increase in the book from 12.7% to 13.7%. I hope that addresses your specific question.

Arvind R: Just one more question. So opex growth has been faster than revenue growth for the past 5 or 6 quarters. Like when can we expect to be in line with the revenue growth or like even lesser than that?

Nutan Gaba Patwari: What we are aiming to do on opex growth is to be in line with AUM growth first because when you look at income, income has variations of item of other income as well. AUM is the right way to look at absolute opex growth.

Now in opex growth, if you look at it, our operating cost at per loan level or any other metrics, opex to assets, cost-to-income, we are actually quite frugal in our approach and very, very productively running the processes. We will have to move to a stage where we are at a moderate growth level for operating costs to come down.

Given the fact that we are at a high growth rate today, opening a lot of branches every year, almost 20 plus branches every year, adding people, for us to see a substantial reduction in operating costs is some time away. And hence, we continue to guide 3% to 3.2% operating cost to AUM for the next 2 years.

Arvind R: Okay. Okay. Just one last question. So, this BT out which is happening, like who are they going to? Like are they going to like some other NBFC or something else?

Manoj Viswanathan: No, they generally go to banks. If you see the top four companies or banks, they go to typically HDFC Limited, ICICI Bank, Bank of Baroda, State Bank of India, etc. It is largely the big commercial banks that they migrate to because that is where they get low rates which are satisfactory. So, customers don't generally shift for 1% or 2% change. They generally –shift where they are able to get a substantial improvement in their rates. These are generally the entities where they move.

Arvind R: In terms of AUM growth prospects which states do you see like offer a much scope for growth, other than Maharashtra and Gujarat?

Manoj Viswanathan: States are all growing across the board. The potential is different in different states. There are all different sizes in terms of the affordable housing book. But we are seeing growth come through practically in every market where we are present. That is at least what we are seeing.

Moderator: The next question is from the line of Renish from ICICI.

Renish: Congrats on a great set of numbers. One, slightly on the strategic side. So of course, the LAP proportion is increasing maybe a percentage point by every quarter. But if we, let's say, track back a couple of years, the share has actually now gone up to 12% versus 5%-6% 2 years ago, I mean, let's say, pre-Covid type.

So, the existing model, which is more or less based on the connector and the centralized underwriting, and once we see this proportion going up by even, let's say, a percentage point every quarter, maybe within a year or so, this will be above 15%. So, what kind of business strategies we have to grow the LAP product? I mean, it certainly will be similar to what we've been doing in the similar segment? Or there will be some differentiated strategy we are having for LAP product?

Manoj Viswanathan: LAP, we are currently originating 15% or disbursing 15% as the LAP product. And we had taken a call that we will keep it at 15%. So, what you will see on the AUM is the catch-up up to 15%. So, once it reaches 15%, then it's likely to stay there because the disbursal rate is only 15%.

As said, there is no differentiated strategy because it's only a 15% of the share at the moment. Our existing channels, existing branches originate that little bit of LAP that comes through. We have not set up separate channels or separate vertical for LAP. It's a part of the regular business.

Renish: Okay. Got it. That is helpful. Secondly, again, on the ROA side, okay? So, when we look at the cost to asset, as Nutan was highlighting that we'll continue to invest and hence, cost might remain slightly elevated at more than 3% versus 2.8% during FY22. And considering there will be some pressure on NIM. So how confident we are that we'll be able to sustain this nearly 4% ROA in coming quarters?

Nutan Gaba Patwari: Renish, there could be some softening of the ROA, but the leverage will also pick up gradually as you have seen that the leverage has continued to increase with the increase in the book. So that will continue to support the overall ROE. At an ROE level through lines, we feel confident at 15% plus for the rest of the year.

Renish: Got it. So, ROA, there could be some deviation is what you are saying, maybe because of margin or something, but ROE we are confident to sustain at 15%?

Nutan Gaba Patwari: Yes.

Moderator: We have the next question from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: Given that the CLSS subsidy is getting over by this year-end, do we take this into account at all at the time of sanction? And sort of given this is a long-duration product, do we take that account in the transaction?

Manoj Viswanathan: No, CLSS subsidy is over now. We stopped offering this product last March '22 because that is when the scheme got closed. So, we stopped offering the product. Throughout last year, there was a residual payout of the earlier cases, which were sourced. So, the subsidy came through from the government. And the final subsidy came before March this year. We do not even expect any more subsidy to come through. I mean nothing is due as such. That scheme is closed.

Chandrasekhar Sridhar: Right. Okay. Great. And Manoj, I don't know where I heard it, right, but you said that you wanted to maintain this level of disbursements, which is sort of Rs. 300 crores a month for this year?

Manoj Viswanathan: No, the question was how do you expect the AUM growth to play out? So, I said even at the current trend of disbursals of about Rs. 900 crores per quarter, we should be able to meet our annual AUM growth plan, which is 30% is what I mentioned. But there will be obviously an increase in disbursals in the subsequent quarters.

Moderator: The next question is from the line of Lalitabh from Anvil Wealth Management.

Lalitabh: Congratulations on a very good set of quarter. Most of the questions have been answered. One small question. This bounce rate has slightly moved up in the June month as well as on the Q1. So, I would like your sense, does it have to do anything with the current environmental issues that we are seeing, floods and all? Or is it something operational? If you can help us understand.

Manoj Viswanathan: Actually, the bounce rate movement is very slight. So difficult to establish any trend out of it. Anecdotally, they are not really hearing anything other than the normal reasons for bounces. So very difficult to establish any trend out of it. It's very, very slight movement. And we have seen these kinds of movements in the past also. In some quarters, it goes up by 1% or so. I would say, we can't read much into it.

Moderator: Next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congrats on a very good set of numbers. So just one question on growth in terms of, say, Gujarat state. I see solid growth continuing in Gujarat, and that is the largest market for us. It is going in line with our overall AUM growth even on a larger base. And we haven't seen much branch addition also in the state. What drives this very strong growth from the same branches in Gujarat?

Manoj Viswanathan: Yes. Gujarat is actually a very organized market. You can actually tap a large part of Gujarat with presence in a fewer number of places. It's more concentrated. The 4 large cities in Gujarat actually contribute almost 70% of the business in the state. So, if you're present in around those cities, you can actually tap 70% of the addressable market. That is one reason why the number of branch addition is not required.

However, we are trying to see if there are any pockets which are left to penetrate. We are penetrating it through addition of touchpoints. You may not see too many branch additions. Idea is once we have established like a branch which is in the nearby area, you don't need to add more branches. You can just add touch points and build distribution. That's what's happening in Gujarat.

Moderator: The next question is from the line of Omkar Kamtekar from Bonanza Portfolio Limited.

Omkar Kamtekar: So we are aiming for the AUM to cross about Rs. 10,000 crores by the end of this year? Just a clarification, is this correct?

Manoj Viswanathan: No, we said 12 to 15 months.

Omkar Kamtekar: Okay. 12 to 15 months. Okay, 12 to 15 months for the Rs.10,000 crores barrier. And also on the branch addition, so how many branches were we going to add in the current year?

Manoj Viswanathan: We're targeting 130 branches by the end of this financial year. Currently, we are at 113.

Omkar Kamtekar: And lastly, the co-lending part of the business. So, this is something that I wanted to understand. What type of a difference will it make on the ROA side? So, because generally in the co-lending business, you can slightly improve your ROA. So, do you see if the share from the co-lending business increasing for the next 2, 3, 4 or even 7 to 8 quarters, the ROA to improve further?

Nutan Gaba Patwari: There is a potential for co-lending to improve ROA at a certain scale. We are slightly away from that scale, and it has to be done at the right yield structure also and in the right interest rate environment. If all things work, then co-lending can add up to 30 basis points on the ROA. But if one of these things is not at the right stage, then of course, the addition ends up being much lower.

Let's say, we are not projecting any ROA benefit from within the next 6 months. We are using the next 6 months to scale the product and then look forward for the ROA benefit.

Omkar Kamtekar: Okay. Okay. So, we are currently looking to get the critical mass, and then we jump forward on it?

Nutan Gaba Patwari: Yes.

Omkar Kamtekar: That would be correct way to understand. Okay. And one last clarification with respect to the portfolio mix. So currently, the portfolio mix, 87% of the portfolio is from home loans, 1% is Shop Loan and 12% is from LAP, and 69% is from salaried employees and 31% is from self-employed. So, do we see the mix to be same? Or what will be the maximum limit that you would want to see on the self-employed? Is there any upper barrier that you have set for yourself? And similar in the shop loans and LAP, is there an upper limit that we might not go beyond this threshold?

Manoj Viswanathan: Historically, as far as LAP is concerned, we already set the threshold at 15%, and we are not going beyond that. So, we have capped it at 15%. Shop loan is really very. I mean we would like to scale it up more. Currently, it is just 1% of the business. So, we have not even set any cap. We would be comfortable for it to go up because it's a good product. We're not facing any problem with whatever we have originated.

Again, on the self-employed side, we have never had any upper cap as such. It is just the way the market is distributed or the business is distributed for us because the way we do business, it attracts most salaried customers. We tend to get more salaried customers. We don't have any upper cap as far as self-employed is concerned. You may see as we go deeper into the smaller market, you may see a slight uptick in the self-employed numbers.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: All the best to all of you. You are doing nicely. As our company gives loan by common man, do you confirm they are technically friendly to any app or they take the loan from app only?

Manoj Viswanathan: Mostly, customers don't take the loan on the app. We provide the services on the app. The way it happens is customers first take the loan. When they come for completing the documentation, we educate them on how to use the app. We download the app for them on their mobile. After that, any small queries they have, service queries, statements, etc, they can get on the app itself. They are comfortable with. It saves them a trip to the branch, saves them a phone call. They can get things at their fingertips. If they want to make payments, they can pay from the app. So that is really the advantage.

Ravi Naredi: In financial year FY25, what is our growth plan in our mind?

Manoj Viswanathan: AUM growth of 30% is what we have in our plan at this point.

Moderator: The next question is from the line of Raghav Garg from Ambit Capital.

Raghav Garg: Just one question, so you mentioned initially that the ESOP stock pool has been expanded substantially. And I understand that covers about 32% of the employee base. What I wanted to understand more in this is that, have you changed any criteria so as to accommodate more employees, maybe to arrest the attrition, especially in light of the attrition rates that we witnessed in the last couple of years. That's the only question that I have.

Manoj Viswanathan: No, we haven't changed any criteria. Our criteria have always been to cover people who are branch managers and above. We have not changed that criteria. I think overall, number of people have gone up. And it could just be a timing issue. Because last year, probably those people were not branch managers. This year, they've become branch managers. So that number has expanded a bit. Otherwise, we have not changed any criteria.

Raghav Garg: So, the minimum vintage for an employee to be eligible is?

Manoj Viswanathan: It depends on the level. If somebody is joining at a senior level, then we would not look at the vintage. It could be either almost immediate or from the next financial year. But if they are joining as freshers, then we would look for them to become like a supervisor, either a branch manager or getting to a supervisory role in head office.

Raghav Garg: And what kind of time line would that take for their pressure to become a supervisor?

Manoj Viswanathan: That will generally take about 2 to 3 years.

Moderator: We have the next question from the line of Arvind R from Sundaram Alternates.

Arvind R: I just had one question. What is this Rs. 4.5 crores and Rs. 4.8 crores in fourth quarter 2023 and first quarter 2024? What is that income? And like is that something which will be sustainable and growing?

Nutan Gaba Patwari: This pertains to marketing we are doing on our website. If you go to our website, you will see some of the insurance partners. So, for that, we get some fee because we've tied up on a long-term contract and it is sustainable.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: The question was on opex front. So currently, we are at 3.1% opex to asset. With the branch addition in pipeline, do we expect this to move upwards to 3.2%?

Nutan Gaba Patwari: Shreepal, the range remains 3% to 3.2%. Now from quarter-to-quarter, this could vary slightly because sometimes the exact number of branches through the quarter may not come through because location, people, everything needs to be in place. So, 3% to 3.2% is a more appropriate range to look forward. Specific numbers on a particular quarter will be much more difficult at this stage.

Shreepal Doshi: Okay. Got it, ma'am. And then, during the quarter, we have seen the liquidity on balance sheet. The investment in cash as part of the percentage of the balance sheet has gone up on a sequential basis. What explains this?

Nutan Gaba Patwari: First and foremost, it explains our ability to raise funding right at the beginning of the year. So, we've raised close to Rs. 1200-plus crores funding in the first quarter itself. The same set of banks giving us additional lines with higher value. So first, it reflects that.

Second, because we are growing much more in absolute size. Last year, same period, we were doing approximately Rs. 220 crores – Rs. 230 crores of disbursal. And now we are doing Rs. 300 crores plus. So, the need from the balance sheet per se has expanded. So, we need to keep that much liquidity on the balance sheet.

Shreepal Doshi: Okay. So, going ahead also, there won't be any benefit occurring from trimming of excess liquidity? This is the level we will be maintaining on balance sheet. Is it fair to assume?

Nutan Gaba Patwari: Yes, Shreepal. But what also happens is through the quarter, we sometimes see much lower liquidity levels because the nature of funding is that it kind of bunches up towards the quarter end with disbursals from the bank. What you see at the quarter end may not be there through the quarter. It could be slightly lower.

Shreepal Doshi: Got it. Got it. And last question was on NIM guidance. So, what is that we are guiding with respect to FY24 NIM from here on?

Nutan Gaba Patwari: Closer to 6%.

Moderator: The next question is from the line of Sameer Bhise from JM Financial Limited.

Sameer Bhise: Congrats on a good set of numbers. Pardon me if I may be nitpicking a bit. But if I see the credit cost run rate is up to 40 basis points last 2 quarters, and the ECL outstanding on the portfolio stayed down by 10 bps on a Y-o-Y basis or even sequentially. So, could you just explain with respect to what do you expect on credit cost and probably the number on write-offs, etc?

Nutan Gaba Patwari: Right. So, the number on ECL that you talked about, 90 basis points, first and foremost, the decline actually is just 2 basis points because we present our data in one decimal numbers. So, it looks like a 10-basis point reduction from 1.0 to 0.9 but if you look at a double decimal number, the drop is just 2 basis points.

Now this is coming from broadly two reasons: first, of course, the growth in the book itself, which needs to be provided for, which is essentially parked in Stage 1. Then as we've been discussing through the call, there is a slight increase in the 30+ DPD and 1+ DPD, which needs for a higher provision.

So then when you look at that, the overall provision kind of looks slightly lower. But if you look at on a stage-to-stage basis and on a total provision coverage ratio basis, it's actually quite healthy and way above the ECL requirements. This is the ECL part of your question.

Coming to credit cost of 40 basis points which is about Rs.7.5 crores in absolute number, out of which around Rs. 4 crores is the increase in ECL. And a large part of it is shorter recoveries that we write off as we repossess and close the loans through the quarter. I hope that explains the details on credit cost and ECL.

Sameer Bhise: Yes, this is helpful.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Manoj Viswanathan for closing comments. Over to you, sir.

Manoj Viswanathan: Thank you. Thank you very much, for joining the call. I hope we've been able to answer all your queries. In case you require any further details, you may get in touch with Manish Kayal, who looks after Investor Relations. Thank you very much.

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

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