HFFCIL/BSE/NSE/EQ/143/2022-23 **Date: 01-02-2023**

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 and nine months ended December 31, 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 and nine months ended December 31, 2022 conducted on January 25, 2023 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

Q3 and 9M FY23 Earnings Conference Call

January 25, 2023

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MANAGEMENT: **MR. MANOJ VISWANATHAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – HOME FIRST FINANCE COMPANY INDIA LIMITED**

MS. NUTAN GABA PATWARI – CHIEF FINANCIAL OFFICER – HOME FIRST FINANCE COMPANY INDIA LIMITED

MR. MANISH KAYAL – INVESTOR RELATIONS HEAD – HOME FIRST FINANCE COMPANY INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Home First Finance Company India Limited Q3 and 9 Month FY '23 Earnings Conference Call. As a reminder, all participant's lines will be in the listen only mode there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Manish Kayal: Thankyou Vivian. 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 Q3 FY23 financial results concall. 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 will start this call with an opening remark by Manoj and Nutan, and will then have a Q&A session. With this introduction, I handover the call to 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. Distribution expansion is a key focus area. We now do business at 261 touchpoints across Tier 1,2 and 3 markets. Physical branches stand at 102. Q3FY23 saw the momentum continuing on disbursements. We disbursed INR 780 Crs in Q3 which is our highest till date, with a growth of 11.1% on q-o-q basis and 37.0% on y-o-y basis. AUM grew to INR 6,751 Crs, a growth of 35.2% y-o-y and 7.6% q-o-q. Portfolio health has improved further. 1+ DPD reduced to 4.4% from 4.7% and 30+ DPD reduced to 3.0% from 3.3%. GNPA reduced to 1.8% from 1.9%.

We will now focus on some of the key drivers and metrics of the business.

Technology: During Q3FY23, digital adoption has further improved. Usage of the customer app for various activities has increased. 91% of our customers are registered on our app as on Dec'22 compared to 87% in Sep'22. 89% of customer queries are now coming via the app. Digitally signed agreements have reached a significant 47% of all customer loan agreements executed in this quarter.

Distribution: We continue to focus on expansion in the States of Gujarat, Maharashtra, AP, Telangana, Karnataka and Tamil Nadu.

Margins: Spreads are at 5.7% after 2 repricing actions of 25 bps in Q2 and 50 bps in Q3. Our Spread guidance for the medium term remains at 5.25% along with cost of borrowing increases.

Borrowing: We continue to focus on diversifying our funding sources. We have raised INR 280 crores from International Finance Corp (IFC) through up to 7-year debt.

Asset Quality: All buckets continue to improve. In Q3, 1+ DPD reduced to 4.4% from 4.7% and 30+ DPD reduced to 3.0% from 3.3%. Our Gross Stage 3 (GNPA) as per RBI circular dated 12 Nov 2021, reduced to 1.8% from 1.9%. This includes INR 390 mn (i.e. 0.70%) 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 1.1% in Dec'22.

Outlook

Growth: We will continue to focus on growth through a combination of 3 strategies:

1. Deeper expansion into Tier2 and Tier3 towns in existing States. We plan to reach 400 touch points in 2 years.
2. Increase in market share in existing markets.
3. Expansion of customer target segment through co-lending.
4. We expect to reach the milestone of INR 10,000 Cr AUM in the next 15-18 months.

Technology: We will continue to maintain our lead on systems and technology to build moats in origination, underwriting and collections. Our technology lead will drive our industry leading productivity metrics and profitability.

Funding: We have access to diversified funding sources and we continue to build on this further.

Lastly, a good team is most critical to achieve our ambitions and we will continue to invest in finding and training the right people so that we can build a team that can take the Company to the next trajectory.

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 for Q3 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 are lower by 10bps and we have increased our yield by 50bps effective 1st Dec and book cost of borrowing increased by 30bps on QoQ basis.
- Our Core business health is very strong. Net Interest Income has gone up by 50.4% on YOY basis and 8.6% on QOQ basis.

- We did direct assignment of INR 59 Crs during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets.
- We also did a co-lending transaction of INR 30 Crs during the quarter.
- Opex to Assets stands at 2.8% 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 35.3% in Q3FY23, decrease of 210bps on qoq basis.
- Q3FY23 PPOP stands at INR 81.7 Crs, growth of 10.2% on qoq and 25.5% on yoy basis.
- Credit cost at 0.4% 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 53.6%. Prior to NPA reclassification as per RBI circular, PCR stands at 87.4% vs 91.0% in Q2FY23.
- Our PAT of INR 59 Crs; grew by 8.2% on qoq basis and 27.9% on Yoy basis.

Liquidity and Borrowings:

- The Company continues to have diversified & cost-effective long-term financing sources.
- During the quarter, we have raised INR 280 Crores from IFC via NCDs to finance affordable and green housing.
- We have a healthy borrowing mix with
  - 56% of our borrowings from Banks (Public sector 24%, Private sector 32%)
  - 17% from NHB Refinance
  - 19% from Direct Assignment
  - And 6% from NCD
- We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is competitive at 7.4%, increase of 30bps from 7.1% on qoq basis. Our marginal COB for Q3 FY23 was at 8.5%. During 9MFY23, we have not availed any new NHB borrowing.

Capital

- Our total CRAR is at 49.6% and Tier 1 CRAR is at 49.1%
- Our Dec'22 Networth stands at INR 1748 Crs vis-à-vis INR 1574 Crs as on Mar'22
- Our quarter ROA stood at 3.8%.
- Our annualized ROE stands at 13.7% on Q3 numbers
- Our Book Value per share (BVPS) stand at INR 199 as on Dec'22.

ESG

We are delighted to share with you that HomeFirst has been rated "Low Risk" on ESG Risk parameters by Morningstar's Sustainalytics. Our score of 16.2, we believe, is the best amongst BFSI peers. This validation by a large agency highlights HomeFirst's focus on sustainability & superior corporate governance.

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

Moderator: The first question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Congratulations on a good set of numbers. So firstly, on the PLR hike of 50 bps last quarter, is it fully built into the yields or yet to play out?

Nutan Gaba Patwari: Mona, because we've taken the repricing effective as on 1st December, the P&L benefit has come only for 1 month. The benefit of 3 months will come only in quarter 4, to that extent there is some upside on this line in Q4 as well.

Mona Khetan: Sure. And if I look at the incremental yields on Slide 27, they seem to have moderated from 13.4% last quarter to 13.2%. Am I reading the numbers right or there are some typo somewhere?

Nutan Gaba Patwari: The numbers are correct. This moderation is to enable sustained growth as we have been now focused on more competitive pricing in the market. And we will continue to maintain the spread that we've been guiding of around 5.25%.

Mona Khetan: Okay. So incremental yield it has actually moderated versus last quarter because of pricing. Okay. Got it. And how about the BT Out, if you could give some color?

Nutan Gaba Patwari: BT Out has been published, it's annualized 4.8% for Q3. It's mentioned in Slide #24.

Mona Khetan: Okay. And just finally on the direct assignment book, the book and the related income has moderated over the quarters. So, anything to read into it?

Nutan Gaba Patwari: I think we've been able to generate lot of liquidity through other sources. Particularly for this quarter, we did the IFC transaction. We also had visibility into the CLSS subsidy that we received in December and also in January. From that perspective, we did not feel the need to do assignment. It will continue to remain a good liquidity tool. We've guided about INR 100 crores a quarter plus/minus INR 20 - INR 30 crores a quarter, so that remains the ballpark where we want to be.

Mona Khetan: Okay. So, if I look at the last 4 or 5 quarters also, the DA share has come down in the overall AUM mix. So, no change as such in strategy, right? It's purely the liquidity part you're highlighting.

Nutan Gaba Patwari: Absolutely.

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

Shreepal Doshi: Congrats on yet another strong quarter. My question was pertaining to the operational metrics. So, if you look at the disbursements upon employee and AUM upon employee, that has seen a very like strong increase over the last say 7-8 quarters despite adding branches and employees. So, what is the comfortable disbursement upon employee sort of a metric that we are looking at? So, if you look at currently, disbursement upon employee is almost INR 80 lakhs and AUM upon employee is almost INR 7 crores. So, what is the number that we are looking at or we are comfortable with?

Manoj Viswanathan: INR 80 lakhs per quarter I guess you mean.

Shreepal Doshi: For the quarter, yes.

Manoj Viswanathan: Yeah. Our attempt is to keep improving on that number. We are not working with any particular number in mind, but whatever we have, we keep working on improving it and some of it is discovery because we are implementing a lot of digital processes. For example, if you see compared to 1 year ago, 50% of our customers have migrated into e-signature process so that they can complete agreements electronically. Many such small initiatives are helping us to improve the productivity of the team. So, this is a number that we are trying to keep improving over time. We don't have any specific target number in mind.

Shreepal Doshi: Sir, why I'm coming on to that question is also because if you look at our employee role, it's much more comprehensive. Like they're not only responsible for sourcing, they are also responsible for collection part. So therefore, if you look at the AUM upon employee, that number is also almost INR 7 crores now. So, from that perspective, is there a check because in an event of say a weak economic situation or bad collections, their efforts would shift towards bringing in those collections. So, from that mindset, do we have any thought process?

Manoj Viswanathan: No. We have been through such phases during COVID when the emphasis was on collections and that is an advantage of our model because these employees are well trained on collections. We don't really need to deploy new resources or look for resources outside. We are able to quickly redeploy them on collections if there is a crisis somewhere or if there is a crisis like situation. That has been the advantage of our model. And in the absence of any COVID related shocks, it's largely business as usual wrt collections and the time is well balanced between origination and collections.

Shreepal Doshi: Okay. Got it. Sir, the second question was with respect to the yields for the co-lending loans that we're doing. So, what is yield there?

Manoj Viswanathan: The co-lending loans would be at typically 10%-10.5%.

Shreepal Doshi: Okay. And just wanted to understand the yield differential for home loans and LAP that we have. So, if you could provide the range for home loans and the range for LAP?

Manoj Viswanathan: 150 basis points to 200 basis points between home loans and LAP is the differential in yields.

Shreepal Doshi: Okay. Got it. One last question was with respect to the NHB. So, during this quarter we have not utilized any NHB lines, but how much do we have as sanction lines?

Nutan Gaba Patwari: INR 600 crores, Shreepal. We have also mentioned that specifically in Slide number 33.

Shreepal Doshi: Sorry, ma'am, I missed that part.

Nutan Gaba Patwari: INR 600 crores is the approval that we have from NHB.

Shreepal Doshi: Okay. It is not yet utilized for this year.

Nutan Gaba Patwari: Correct.

Shreepal Doshi: Okay. And just last question was with respect to the PMAY subsidy. So, when was the last credit that happened and are we expecting any credits that we will receive for our customers?

Nutan Gaba Patwari: We got INR 80 crores of subsidy in December. We also got a slightly larger chunk in January, after which most part of it is done. We will have another INR 20 crores to INR 30 crores to go and that's pretty much about it.

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

Mayank: Congrats on the good set of numbers. My question is basically on the PMAY subsidy. So, are you seeing any kind of lower sanctions, delay, tightening or anything there? And can the lower subsidy going forward from government can impact demand in our customer profile?

Manoj Viswanathan: Subsidy program was closed as of March'22 month itself and we have not offered subsidy to any customers who were onboarded after March'22. The subsidy that we are receiving now is for customers who were onboarded prior to that and who were eligible for the subsidy. All the backlog has been cleared out and there is very little left to receive now. Both the scheme as well as the subsidy process has been concluded now and we are getting now almost 9 months post the closure of the subsidy and we see that demand has not been impacted.

Mayank: So basically, we are not witnessing any impact on demand due to closure of subsidy program?

Manoj Viswanathan: No. I mean there is no demand impact because of the subsidy program being closed.

Mayank: And my second question is basically on our bounce rate. So, we have seen the bounce rate normalizing and last quarter you were talking about the customer shifting from cash to online payment because of which our bounce rate are impacted. So, any color on that?

Manoj Viswanathan: The trend seems to continue. It has moderated slightly compared to last quarter, but we are still seeing a very large number of customers paying immediately after bouncing the payment so that remains a mystery. Now we have a daily track of this, we are getting almost 5% of the payment within 3 days of bouncing. And conversations with customers are not really yielding any insights on that as to why they're bouncing and paying immediately.

Moderator: The next question is from the line of Shubranshu Mishra from PhillipCapital.

Shubranshu Mishra: Couple of questions. The first one is if we can give the split of employees function-wise; how many are in HO, how many in sales, how many in collections, how many in credit? The second is on the credit underwriting. Do we utilize our sourcing employees to do the underwriting as well or do we have a separate credit underwriting team and also if we deploy any sort of external valuation experts to do the valuation? That's the second. And the third would be on the collections itself. What percentage of our collections are cash now versus say a year ago and what percentage are on NACH and on NACH, what is the bounce rate that we get?

Manoj Viswanathan: Sure. So, head office we have about 15% of our employees, about 150 employees, versus close to 850 employees in the branches. And as far as underwriting is concerned, we have a central team. Our underwriting model itself is a centralized model where we have a central team of about 15 to 20 employees who are underwriting every loan. The data capture and some amount of data collection and customer interaction happens at the branch level. But at the branch level, there is no authority to approve any transaction. And as far as the legal and technical checks are concerned, it's all done by service providers at each location. We have a panel of lawyers and valuers who do the valuation and those reports are checked by the centralized underwriting team before giving the final go ahead.

And the last question was on the cash part of the collections. Cash part of collections if you see five quarters back, it used to be about 8%. Now it is about 6% as per the chart that we are publishing (slide #15). It has generally trended down from about 10% to about 6% currently. But even the 6% that we collect in cash is not being collected by our employees individually. These customers deposit the cash at Fino Payment Bank outlets, and the payment comes to us in an electronic format. So actual physical cash collection is only about 1% currently. The NACH coverage is there for 100% of the customers, but some of them bounce the payments and that's where the cash collection comes into play.

Shubhranshu Mishra: So balance 94% are on NACH?

Manoj Viswanathan: No, it is not like that. Actually, the bounce rate is about 14% as we have published. So, the 86% of the customers would have cleared their NACH payment and the 14% have bounced their NACH payment and we have to have some alternative method of collection for the 14% of the customers. So that alternative in most of the cases, it is also electronic so like through a UPI payment or through the app, et cetera. But out of that 14, about 6 of those 14 customers are also paying in cash. The balance 8 are paying electronically.

Shubhranshu Mishra: Understood. And if I could just squeeze in 1 more question. The loan documents and various other documents, where are they stored? Are they stored in branches or is there a centralized location or do we have a vendor for this?

Manoj Viswanathan: They are stored in a centralized location. We have an arrangement with the vaulting company. They vault the loan agreements, the property papers and other important documents. So, the branches actually send the documents directly to the vault and it is vaulted over there. So, these vaults are located in the NCR region.

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

Raghav Garg: Just a couple of questions from my side. If you could highlight what kind of competitive scenario that you are looking at in south of India where your exposure has been increasing since last several quarters. Also, I think you're focusing more on the row houses in that region. So specifically in that segment, can you comment what are the kind of ticket sizes that you're financing and what kind of customers are these which go for such houses? And my last question is, are these loans which you give for row houses, are these generated through developer partnerships or there is some other model that you are following here?

Manoj Viswanathan: In South India, the origination is largely individual customers who construct their own homes. The concept of row houses is not that prevalent in the southern states. It's mostly customers building houses on their own plots. That's generally what we originate. As far as row houses are concerned, the model exists in places like Maharashtra and Gujarat, especially in smaller towns and there the arrangement is with the developer who's building the row houses and the developer sends us the references of customers who require these loans. So that's generally the origination model with row houses.

Raghav Garg: My questions are answered. Thanks.

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

Nidhesh Jain: Firstly, on the connector account. Can you share the number of active connectors for the quarter?

Manoj Viswanathan: 2,100.

Nidhesh Jain: Secondly on the incremental yields, the quarter-on-quarter drop in incremental yields. We have also witnessed increase in share of LAP in this quarter. So, it is more strategic or it is competitive intensity that we are witnessing because of which the incremental yield has dropped?

Manoj Viswanathan: We want to maintain competitive pressure in the market and ensure that we are gaining share so which is why we kept the rates competitive. We thought right now when the rates are expected to taper off is a good time to be more competitive in the market and gain share because the risk of actually the spreads getting compressed is lesser at this point of time because we are expecting the rates to taper off. So, we thought rather than increasing the rates, let us stay competitive and gain share. I think that's the thought process behind the rates that we are maintaining in the market today.

Nidhesh Jain: Sure. And lastly on the LAP book, we have seen very strong growth in that portfolio, almost doubling over a 1-year period. So, what is the strategy there and how is the asset quality trends in that LAP book?

Manoj Viswanathan: LAP is something that we have been saying that we are comfortable with the 15% kind of number in the AUM and I think the percentage is catching up gradually. As far as the delinquency trends are concerned, I think they are trending well which is why we're comfortable in onboarding them. They are trending well as of now.

Nidhesh Jain: Sure, sir. If you share 1+ DPD of LAP versus housing loan, what could be differential in that?

Manoj Viswanathan: Broadly they would be in the same ballpark.

Moderator: The next question is from the line of Jigar Jani from Nuvama Wealth.

Jigar Jani: Congratulations on a great set of results. So, what are we seeing is basically that your new to credit customers have been consistently falling down at a rapid rate and also, we are seeing a substantial increase in the average ticket sizes above INR 15 lakhs proportion as a percentage of the total AUM going up. So broadly where do you see this settling and do you think that we will eventually migrate to a more higher ticket size and competing more in the prime segment maybe 2 or 3 years down the line? And what kind of competitive pressures do you think that will place on your spreads maybe 2 or 3 years down the line? Some thoughts on that would be great.

Manoj Viswanathan: Yes. So, starting with the new to credit customers. So, this is a function of actually credit activity in the market and we have been saying that every quarter this number of new customers – customers who are new to credit keeps decreasing. But having said that, even customers who have recent credit history do not find it very easy to get a housing loan and they generally form the target segment for us. And these are customers who may have informal incomes, who are working in small companies where their income documentation is not very strong, et cetera.

While they may have a bureau score, the rest of the criteria that is required by larger lenders is not fulfilled and hence they form our target segment plus the bureau score is also again on the back of very recent loans or very small loans like consumer loans like consumer durable, two-wheeler loans, et cetera. And generally, lenders do not give much credibility to that bureau score, you can say as a primary criterion for providing a housing loan to the customer.

So that really does not impact our target population in terms of size of the addressable market. As far as ticket size is concerned, it's more of a secular increase because we're operating in markets which are fairly affluent and well developed and industrialized markets. So, Gujarat, Maharashtra and the southern markets; the per capita incomes are much higher than national average and we're seeing a trend of people in the affordable segment also constructing better quality homes, larger homes, et cetera, with their incomes rising up and it's more of a secular increase.

The target segment is actually the same, but people are preferring to spend a little more on their homes and as a result of which ticket sizes are moving up. Land values are moving up as a result of which the ticket size is also moving up, et cetera. So, it's more of a secular increase. I mean it is not really any conscious effort from our side to address a different population or a different target segment.

Jigar Jani: Okay. Understood. And sir, I think you were guiding for about 150 branches in the next couple of years. So, what is the branch expansion plan maybe in Q4 and for the rest of FY24 if you could guide on the branch expansion?

Manoj Viswanathan: Branch expansion, we have about five to seven branches which are kind of work in progress and which should get completed in this quarter. And kind of a similar number every quarter is what we are looking at. Some quarters there is a lull and there's some catch-up in the next quarter kind of a thing.

Jigar Jani: Okay. It's basically just one branch addition this quarter is just a one-off and you will again come back to the run rate.

Manoj Viswanathan: Yeah. It's just that there are few branches in the last stages, so we are just waiting for it to get completed.

Nutan Gaba Patwari: We also front-loaded the branch expansion in first half of this year where we added about 20-plus branches. So, most part of the job for this year has already been done.

Jigar Jani: So, most of the expansion that you will see is post Q4 and majority in FY24?

Nutan Gaba Patwari: Yes. So H1 next year, you will again see bulk of the additions for next year.

Jigar Jani: Sure. And the last question. On your bank borrowings, how much of this repo or MCLR or the general interest rate hikes have been factored in your borrowing cost, and how much more do you see the cost of borrowing inching up from here? Probably on the incremental cost of borrowing is 8.5%, how much more expansion do you foresee based on the current interest rate hikes that have been done till now or anything has been passed?

Nutan Gaba Patwari: On the marginal cost of borrowing, we are pretty much at the peak rate. Any further increase from here will largely depend on where the policy rates will be. On the back book or the book cost of borrowing, we are at 7.4% for the quarter. With NHB coming in in the next couple of quarters and then we should be able to manage this with 30 basis points to 40 basis points increase let's say in Q4 and maybe similar increase in Q1. So, we should be able to keep it way below the marginal cost of borrowing at least next 2 quarters.

Jigar Jani: And your yield increases which is 50 bps will start reflecting from Q4 basically in your back book?

Nutan Gaba Patwari: See, there is a portion which is already reflected because it was effective 1st December, but fully it will reflect in Q4.

Jigar Jani: And any plans for any incremental yield increases for rate hikes from your end maybe in Q4?

Nutan Gaba Patwari: We are in discussion, but that will be more a Board and an ALCO decision, which will have to take place over time. What we are focused on is maintaining the spread that we have guided, which is 5.25%.

Jigar Jani: Understood. Thanks so much for your answers and best of luck.

Moderator: The next question is from the line of Pooja Ahuja from Monarch Networth Capital.

Pooja Ahuja: Firstly, wanted to understand why it was mentioned in the opening comments that the credit cost we have been cautious in terms of maintaining additional provisions. Just wanted to understand on a sustainable basis what is our credit cost guidance for the next maybe two, three years?

Nutan Gaba Patwari: 30 basis points to 50 basis points is what we have been guiding.

Pooja Ahuja: So, we maintain that.

Nutan Gaba Patwari: Yes.

Pooja Ahuja: Sure. And given the disbursement growth that we have been witnessing, are we still maintaining our AUM guidance of 30% or do we see a higher growth there?

Manoj Viswanathan: No. We are maintaining a guidance of 30% because the aim of the team and objective of the team is to try and do better, but 30% is something that we are guiding towards.

Pooja Ahuja: And lastly on the bounce rates, do you think this 14% or 15% level is now the normal levels or do we see further improvement from here on? We have seen some improvement in January I think, but would it be in this 14% to 15% range?

Manoj Viswanathan: Looking at the behavior of the customers, it looks like it can improve substantially because we have been tracking the number of customers who pay immediately after bouncing and we are seeing that almost 5% pay immediately in the immediate three days after bouncing. So logically, it looks like these customers can be convinced to clear their payments and reduce the bounce rate, but we are still not getting any insights on how that has to be achieved and yes, we are working on that.

Moderator: The next question is from the line of Amit Jain from Axis Capital.

Amit Jain: Sir, I had a question on the mix of salaried versus self-employed. So, the proportion of self-employed has been steadily rising, it's close to 30% now. So, is there any change in strategy or is that a conscious decision? And what is the optimal mix that you would look at in terms of salaried versus self-employed?

Manoj Viswanathan: I think it's a function of the distribution. Historically, our distribution was more focused on larger towns where there is a larger population of salaried customers. And now with continuing expansion into smaller towns, Tier 2, Tier 3 and Tier 4 towns; the population of self-employed is larger. There is again a very, very gradual increase in the population of self-employed. Other than that, there is nothing that we are doing consciously to onboard self-employed customers specifically.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Again, congratulations on a very good quarter. My question is more around the demand environment and let me kind of take a few seconds to explain what I'm trying to understand. At least when you speak to the larger HFCs. They have talked about some sluggishness in demand which was there in the third quarter. Obviously, our disbursements were very healthy and they don't kind of suggest that. Moreover, what you also kind of suggested that incremental yields at these levels, you are kind of trying to gain market share which is also praiseworthy. Also, prime housing and affordable housing are very different things and should be looked upon differently, what I'm trying to understand is because the EMIs have gone up given the higher interest rates, has the loan eligibility of the customers come down and which may kind of impact the demand going forward? How are you kind of looking at the demand environment in addition to kind of gaining market share?

Manoj Viswanathan: Demand in the segment that we are targeting is strong and it doesn't seem to have got impacted by increase in interest rates. While in the higher ticket segment, it could have impacted because ticket size is also large and the EMI changes due to increase in interest rates are also large. In our segment we have not seen any impact on demand as such. And the customers also take a while to actually take a decision to build a house and there are many other moving parts in building a house like buying a plot, et cetera. So, the interest rate is only one component out of their multiple decision points. So far, we are not seeing any impact on demand and it continues to remain strong. I don't know whether that answers your question.

Abhijit Tibrewal: It does. Because what I was trying to understand is, in affordable housing we are continuing to see good demand and you're not seeing any impact on demand because the interest rates have gone up. I'll take it as a healthy sign. Second question that I had was for Nutan, the other two questions for Nutan. One is how should we think about the provisioning cover on Stage 3 loans. Why I'm asking this is there are two schools of thought here. One set of companies who say that listen, this is our ECL model and based on that what our ECL model indicates and this is the kind of provisioning cover that we want to maintain. And then there is another set of companies who think differently who say that when the going is good and when the profits are good, then maybe we should kind of build up some cover in terms of provisions. So how are we thinking about the provisioning cover?

Nutan Gaba Patwari: Abhijit, as a company we have focused on early delinquency. You would have seen that the bounce rate is trending well, 1 DPD is down to March '20 levels. We are amongst very few companies where the 30 DPDs are 3% now. All is going good in terms of delinquencies. What we want to really do on the ECL side is to have an extremely strong balance sheet, so that our net NPA over time is negligible in terms of discussion from a financials perspective.

So that's the goal. Now like you said if you're in a space where we have some room, idea is to keep the provision levels healthy and run with that. We've been guiding 1% of ECL provision on the total principal outstanding. That's essentially the number we've been carrying for some time and as long as possible, we will want to do so. We are not deviating from that in the medium term.

Abhijit Tibrewal: Got it. And then lastly, Nutan, I want to understand there are few HFCs who've reported, at least the larger HFCs have reported and who kind of suggest that there is a onetime gain that they're seeing from the assigned pools of loans. So, is there anything that we are seeing, how we kind of do accounting typically in an assignment transaction, they book the upfront assignment income? But now that interest rates are going up, is there a positive or a negative variance which is there from the assigned pools of loans?

Nutan Gaba Patwari: That assigned pool is mark-to-market. What we're talking about needs to be done at every quarter-end and we do so. What ends up happening is that the modification amount that ends up coming is a relatively low number because there have been some assignments that have been done prior to the rate increase, which is let's say pre-mid-COVID and some assignment that has been done post mid-COVID. So, on a blended basis, the number doesn't remain meaningful and it goes to the other operating income line.

Abhijit Tibrewal: Got it. This is very, very useful. Thank you so much and wish both of you the very best and to the rest of the team.

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

Mayank: So, my question is on the spreads of 5.25%, when do we expect to reach that level, is it mid-term or long term?

Manoj Viswanathan: 5.25% is we are in this interest increasing interest rate scenario, we are guiding towards a 5.25% spread. So currently it stands at 5.7%. If interest rates increase further and they are likely to increase or there’s likely to be some catch-up of the increased interest rate now for the next 2 quarters so that’s why we are guiding towards 5.25%.

Mayank: So, by next 1 year, we can expect to reach 5.25%.

Manoj Viswanathan: Yeah. In the next 1 year or maybe next 2-3 quarters.

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

Ravi Naredi Sir, my question is when we are technology driven company, why cost to income ratio rise by 2.3%, 230 basis points?

Manoj Viswanathan: I think last year when we spoke, we had mentioned that our costs are likely to increase in the medium term because during COVID we did not make certain investments and we are making those investments now and for the next 12 to 18 months we had guided that the cost is likely to increase. And then after that, it will again start moderating. So that is the trend that we are following.

Ravi Naredi Okay. And sir, do you find more challenge from asset side or liability side in this scenario?

Manoj Viswanathan: On asset side, we went through a certain difficult phase during COVID, but we have come out of that well. And same on the liability side as well. As of now, we are fairly comfortable on both these aspects.

Ravi Naredi Okay. And sir, when we are growing since last 45% AUM, why you are thinking growth will be 20% in future, guidance 20%?

Manoj Viswanathan: 30%, sir. We said 30%.

Ravi Naredi 30% is okay. Thank you.

Moderator: The next question is from the line of Nischint from Kotak.

Nischint Chawathe: Your borrowing cost is around 7.4% and you mentioned that your incremental cost of borrowing is somewhere close to 8.5%. If I hear that rightly, 8.5% or 8.75%. So, when do you really think that your weighted average cost of funding will kind of come to the marginal rate? Is it like 2 quarters away, 4 quarters away, if you could give some color on that?

Nutan Gaba Patwari: Nischint, the marginal cost of borrowing of 8.5% does not include the benefit of NHB borrowing. As we continue to drawdown the NHB funds in Q4 and subsequently in Q1, we will get that benefit and that will also start reflecting in the book cost of borrowing. At the same time, the lagged increase of MCLR will also flow in. So, in an ideal situation that NHB did not exist, this convergence would have happened, let's say, in 2 to 3 quarters from now. Because of the presence of NHB borrowing and this mix being at 20% plus, the overall cost of borrowing will remain below 8.5%. That's what we are looking at right now in our model.

Nischint: Ex-NHB, how much would be the difference? I mean if one has to look at 7.4% ex of NHB?

Nutan Gaba Patwari: Yeah. Almost I would say 50 basis points will be the benefit on the total book if you peel off the NHB borrowings.

Nischint: So, you're comparing 7.9% versus 8.7%, something like that?

Nutan Gaba Patwari: That's right.

Nischint: And as of now, there is no plan to raise lending rates on the asset side? So, I mean if you don't do anything, you should kind of come to 5.25% over maybe 2 quarters or so?

Nutan Gaba Patwari: If we don't do anything, yes.

Nischint: That's a call you obviously will be developing over time.

Nutan Gaba Patwari: Yes, sure.

Nischint: And on the ticket size, if you could kind of give some guidance. I think the ticket size seems to be inching up a little bit or you're doing more disbursements towards slightly larger tickets. So, is there a trend over there or are we trying to read too much?

Manoj Viswanathan: No, this is more of a secular trend and very gradual trend because we are operating in some of the more affluent markets, we are seeing customers are also spending more on building homes. So just related to that and we are not reading too much into it.

Nischint: Because I think you also mentioned that you're going into the slightly interior or Tier 3, Tier 4 towns. Is it something kind of sort of getting to be more of an inflation all throughout or is it something that there is a mix change when you go into the smaller towns? Because maybe logically everything has been same if you go to the smallest, the ticket size would go down, but it is going up so higher. How one should read that?

Manoj Viswanathan: Yes. But in southern markets, we are not seeing that trend. Southern markets, the ticket sizes seem to be stable or larger actually as we go into smaller towns. People seem to build larger houses in even Tier 2, Tier 3 towns. We are not seeing that reduction in ticket size as we go deeper. That trend is somewhat more common in the northern markets where the houses become smaller and the budgets are smaller in smaller towns. But in southern markets, we are not seeing that trend as a result of which, the ticket sizes are holding up or increasing slightly.

Nischint: Is there something like average for an apartment size in terms of square feet or something that you track, which gives some sense in terms of a pricing? I mean if you have any color that you can share on that.

Manoj Viswanathan: We will have to get back on that. I think you're talking about the square foot.

Nischint: Something like that, whether it is a sign of an inflation out there or is it just a sign of affluence of people buying a house?

Manoj Viswanathan: Yes. We have that. We don't have it off hand right now. But it's a bit of both, I think maybe it's increase in square footage as well as people using better material or more expensive material in their homes. So, it's a bit of both, which is contributing to the ticket size.

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

Bhuvnesh Garg I have a question on the bounce rate. So just want to understand that what kind of penalties are charged to a customer by the bank and the company in the scenario of payment bounce and what's the reaction of the customers during your conversation on this? Do they understand these charges and what's their reaction to having to pay these charges?

Manoj Viswanathan: Mainly the charges are related to bouncing. So we take a bounce charge from the customer, which is INR 500 plus GST, so a total of INR 590 is what we charge from the customer if they bounce the payment. And the collection is generally on a best-effort basis so it's not collected from customers who pay immediately. If they have delayed a little bit, then we collect a bounce charge. Currently the penetration of the customers who will be making the bounce charge would be probably 20%, so it's not very hard and fast.

Other than that, there are no other penalties as such. The penalties accumulate, I mean we don't bill the penalties to the customer. If the customer is in 30 days past due or higher bucket, then we keep accumulating the penalties. When the customer comes to settle the property or when they finally come to close the loan, that's when we charge the penalties. That's been our process for several years now. The ideology behind it is that if the customer is ready to make an installment payment, then we would ideally like to collect that installment payment rather than charge penalties from the customer.

Bhuvnesh Garg Okay. So, this INR 500 is the penalty by the company, right, that you might get and then there would be some penalty charged by the bank as well, right?

Manoj Viswanathan: Yes. The bank from which the customer has issued mandate, they will also charge something which ranges between INR 50 to INR 300.

Bhuvnesh Garg Okay. And you are saying 20% of your customers who bounce, eventually they end up paying this bounce charge.

Manoj Viswanathan: Correct. Because majority of the collection also happens electronically on the app, etcetera and we have not made it very hard and fast on the app. If customers are paying on the app and since we are reducing our collection effort to that extent, then we don't insist on the bounce charge.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: One more thing I wanted to understand. Manoj, during your opening remarks, you talked about 261 touch points across Tier 1, Tier 2, Tier 3 markets. Wanted to understand, let's say, about 2 years back at the time of our IPO if I were to kind of look at our branch presence, they were predominantly urban centers, metros, peripheries of metros and urban centers. So how are we now thinking about it? These distribution touch points in addition to branches that we're adding, are these touch points coming up in Tier 2 or in Tier 3 markets? And if you have this data out of our AUM today, what proportion of the AUM is coming from Tier 2 and Tier 3 markets and how has that number changed vis-a-vis let's say 1 or 2 years back?

Manoj Viswanathan: So broadly about 30% is coming from the Tier 3 markets and Tier 1 and Tier 2, we generally used to be present even say a couple of years ago. But Tier 3 would be a new addition or a good number of Tier 3 markets would be an addition over the last 2 years. So about 30% of our business is coming from Tier 3 markets now.

Abhijit Tibrewal: 30% from Tier 3 markets.

Manoj Viswanathan: Yes, 30% is coming from Tier 3, markets. I mean that number would have been much lower 2 years ago.

Abhijit Tibrewal: Okay. And 30% is proportion of your disbursement mix. Got it. And the idea going forward is that these touch points that you are adding will largely be there in Tier 2 and Tier 3 markets.

Manoj Viswanathan: Largely yes in Tier 2 and Tier 3 markets. There may be a few pockets where some Tier 1 or Tier 2 markets are also not yet covered in some states, but largely in Tier 2, Tier 3 markets. Yes.

Nutan Gaba Patwari: Also, Abhijit, by virtue of the presence we've had in Tier 1 markets, we've kind of covered those markets from all angles in terms of the housing demand where it's getting generated from. So, in those Tier 1 markets, it's about market share growth. So, in some markets we'll probably be, let's say 2.5% or 3% market share. The idea is to take it up in those markets in combination with deepening presence in Tier 2, Tier 3 markets. That mix will not change a lot because in the disbursal proportion, both will continue to grow. One will grow because of market share; the other will grow because of penetration.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Congratulations on good set of numbers. I did miss some part of the call so apologies if it sounds repetitive. I just want to know so your disbursement is at INR 780 crores in this quarter with 11% Q-o-Q. So, I just wanted to understand going ahead for quarter 4 or even for FY24, are we heading towards a 4-figure number? If you could just help us understand.

Manoj Viswanathan: Yes. I mean the target is to keep growing and keep moving up. So, I don't know whether we hit four figures in the next quarter or the quarter after that, but yes, that's the next milestone.

Vignesh Iyer: Okay. And so, any ballpark numbers, I mean any like you gave something for AUM guidance. So, anything on similar lines?

Manoj Viswanathan: The aim is to keep growing at about 7%-8% on disbursement every quarter. That's the growth that we're looking at.

Moderator: The next question is from the line of Chandra from Fidelity.

Chandra: Manoj, on a flow basis I think for the LAP segment share you've indicated in the past is 15%. So, my assumption is that over a period of time LAP gets to 15%, we do that at possibly about 200 bps higher yield. So, if I had to sort of just look from the margins over a period of time 8 bps to 10 bps, you should have a tailwind to margins over a period of time from that. Secondly, as you're saying you're doing a little more business in Tier 3 towns where price sensitivity is not as much, so my sense is that your ability to hold yields should be a little better.

Just given these two factors as tailwinds to sustainability, just a little curious on the spread number which you talked about. A, is that little more temporary because right now I mean cost of funds is rising a little quick and maybe 2 years out instead of 5.25%, once the rate cycle sort of turns and in the past given you've held yields, this number could be something different?

Manoj Viswanathan: Yes. See, we are guiding to this number because there has been sharp increase in rates. Also, as far as the rates in the market are concerned, we don't want to do too many changes so which is why you're seeing our origination yield also moderating. We have kept it that way in the expectation that the rates will taper off and then start declining over a period of time. So, we don't want to keep increasing the rates in the market.

And then after a couple of quarters, then we have to reduce it, reduce it on the back book, et cetera. So which is why we've kept this way so which is why there is a medium-term guidance of 5.25%. But you're right, we have some tailwinds and we have certain things on our side. The LAP penetration is one and the penetration of the smaller markets is another one and similarly, we are doing co-lending, etc. So yes, we should be able to cross those numbers that we have mentioned.

Chandrasekhar Sridhar: Sure. So essentially, I mean there is a near-term cost headwind and you want to effectively just keep your yields where they are. But if the cycle turns, I mean this 5.25% is not sort of be all and end all of everything.

Manoj Viswanathan: Absolutely.

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

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