HFFCIL/BSE/NSE/EQ/103/2022-23 **Date: 27-10-2022**

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 half year ended September 30, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and half year ended September 30, 2022 conducted on October 20, 2022, for your information and records.

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

This is for your information and record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

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

“Home First Finance Company India Limited
Q2 & H1FY23 Earnings Conference Call”

October 20, 2022

MANAGEMENT: **MR. MANOJ VISWANATHAN – MANAGING DIRECTOR & 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 – HEAD - INVESTOR RELATIONS - HOME FIRST FINANCE COMPANY INDIA LIMITED

Moderator: Ladies and gentlemen, Good day and welcome to the Home First Finance Company India Limited Q2 and H1 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" 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. Good morning, everyone. I hope that all of you and your families are safe and healthy. I am Manish Kayal and I look after Investor Relations for HomeFirst Finance. I extend a very warm welcome to all participants on our Q2 FY23 financial results concall. As usual, management is represented by our MD & CEO, Mr. Manoj Viswanathan, and CFO Ms. Nutan Gaba Patwari. I hope everybody had an opportunity to go through our investor deck and press release uploaded on exchanges and our website yesterday. We 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. Over to you Manoj!

Manoj Viswanathan: Thank you, Manish. Good afternoon, everyone. I am pleased to showcase the strong business momentum that we are seeing in our business. Talking about Q2 financial performance, the momentum is continuing on disbursals.

- We disbursed INR 702 Crs in Q2 which is our highest till date, with a growth of 6.2% on q-o-q basis and 36.3% on y-o-y basis.
- AUM at INR 6,275 Crs, grew by 7.6% on q-o-q and 35.9% on y-o-y basis.
- Portfolio health has improved further.
  a. 1+ DPD reduced to 4.7% from 5.0% and 30+ DPD reduced to 3.3% from 3.5%.
  b. GNPA reduced to 1.9% from 2.1%.
  c. Profit After Tax at INR 54 Crs saw a growth of 25.9% on y-o-y basis.
  d. ROE improved by 30 bps to 13.1% over Q1FY23.

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

Technology

- During this quarter, digital adoption has further improved. Usage of the customer app for various activities has increased. 87% of our customers are registered on our app as of Sept'22 compared to 84% in Jun'22 and Unique User Logins have also seen increase to 57% from 54% in Q1 FY23.
- A new enhanced lead management system has been deployed to drive efficient lead flows from various origination channels.
- We have a digital approach for all customer services, connector engagement and loan management with employees. We continue to be at the forefront of technology usage in the

industry and adoption of tech tools to enhance customer experience and improve our operating efficiency.

Distribution

- We now have 101 physical branches taking the total touchpoints to 249. We continue to focus our expansion in the States of Gujarat, Maharashtra, AP, Telengana, Karnataka and Tamil Nadu.
- We are market share focused. Currently, our origination market share ranges between 1-3% across various States. Our intention is to take it to 5% along with expansion. Our growth will come from a mix of increasing distribution and increasing market share.
- We will remain branch light and will continue to service markets through a combination of physical and digital presence. Physical branches will reach about 150 in 2 years.
- Over the medium term, growth will mainly come from 6 core states – Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh & Telangana and Karnataka.

Competition

- Housing finance in general and affordable housing in particular have gained reputation as secure and profitable business segments. Multiple banks and HFCs are present in different segments and niches of the industry. We have built our presence in urbanized markets with heavy competition and hence we are accustomed to intense competition. Also, affordable housing finance is a business that requires nuanced understanding of markets and properties and in addition the customers in this segment need constant handholding in order to build up a strong portfolio. Our deep understanding of this segment and expertise in collections, developed over the last 12 years, combined with our focus on transparency, technology and speed of service to our customers will enable us to expand our competitive edge.

Yields, cost of borrowing and spreads

- The increase in lending rates for higher ticket formal customers has an indirect impact on the affordable segment as well. This increase in headlines rates makes affordable housing customers less sensitive to the rates they have to pay and reduces the negotiations with customers at the time of origination.
- Spreads continue at 5.8% due to slow transmission of increasing interest rates. As rates rise spreads will move towards 5.25%.
- We have repriced the back book by 25bps effective Jul’22.
- On borrowing, we continue to focus on diversifying our funding sources with a competitive cost of borrowing.

Asset quality

- Bounce rates during the quarter have inched up a bit. As per our understanding, there are 2 reasons for the increase.
  a. Increasing preference of customers for UPI based payments which translates to customers bouncing the NACH payment and then paying through UPI immediately within 2-3 days of bouncing. If we take this into account, the numbers come back to the original figures that we have been reporting
  b. Slight increase in overall industry bounce rates in August & September. As per NPCI, Industry bounce rates have increased from 29.1% in July to 29.5% in August and 29.3% in September.
- However, there is improvement across all buckets.
  a. In Q2, 1+ DPD has improved further. 1+ DPD reduced to 4.7% from 5.0% and 30+ DPD reduced to 3.3% from 3.5%.
  b. Our Gross Stage 3 (GNPA) as per RBI circular dated 12 Nov 2021, reduced to 1.9 from 2.1%. This includes INR 442 mn 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 Sept'22 down from 1.2% in Jun'22, an improvement of 10 bps.

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 morning, all. I will take you through the performance in Q2FY23. Starting with financials we continue to stay focused on our key operating matrices with an intention to deliver mid teen ROE in a couple of years.

- Our Net Interest Margin is stable at 6.5% even in the increasing interest rate environment. Spreads have stayed flat as we increased our yield by 25bps effective 1st July and increase in book cost of borrowing has been on similar lines.
- Net Interest Income has gone up by 51.3% on YOY basis and 9.8% on QOQ basis.
- We did direct assignment of Rs 69 Crs during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets.
- Opex to Assets stands at 3.1% 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 37.4% in Q2FY23, increase of 160bps on qoq basis.
- Q2FY23 PPOP stands at Rs 74 Crs, growth of 6.0% on qoq and 24.3% on yoy basis.
- Credit cost at 0.3% is within our expected range.
- Our ECL provision stands at 1.0% of the total POS. We continue to be conservative with the provisions. Total PCR stands at 50.8%. Prior to NPA reclassification as per RBI circular, PCR stands at 91.0% vs 81.0% in Q1FY23.
- Our adjusted PAT of Rs 54 Crs; grew by 5.9% on qoq basis and 25.9% on yoy basis.

Liquidity and borrowings

- The Company continue to have diversified & cost-effective long-term financing sources.
- During the quarter, we included Karnataka Bank & Yes Bank as our new banking partners and we continue to work towards further diversification.
- We have a healthy borrowing mix with
  a. 52% of our borrowings from Banks (Public sector 20%, Private sector 32%)
  b. 21% from NHB Refinance and
  c. 21% from Direct Assignment.
- We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is competitive at 7.1%, increase of 20bps from 6.9% on qoq basis. Our marginal COB for Q2 FY23 was at 8.0%. During 1HFY23, we have not availed any new NHB borrowing.

Capital

- Our total CRAR is at 50.7% and Tier 1 CRAR is at 50.2%.
- Our Sept'22 Networth stands at 1686 Crs vis-à-vis Rs 1574 Crs as on Mar'22.
- Our quarter ROA stood at 3.8%.
- Our annualized ROE stands at 13.1% on Q2 numbers
- Our Book Value per share (BVPS) stand at INR 192.1 as on Sept'22.

With this I open the floor for questions and answers. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. We have the first question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Hi! Manoj, Hi! Nutan good morning, congratulations on a healthy quarter and thanks for hosting this earnings call in the first half today. I had a few questions, most of them were around the impact of the rising interest rates on the bounce rates, delinquencies and your spreads & margins. While Manoj give out reasons while we saw an increase in the bounce rates during the quarter I just wanted to understand can there be some other reasons to this as well, what I am trying to understand here is given that you have just increased your PLR by 25 basis points until now, was the bounce rates in the nature of those customers where you have to increase the EMI of the customer, because there were no further rooms to increase the tenure for the customer and the related question here given that you would need to take further PLR increases in the coming quarters, what impact could that have on the delinquencies and the demand for housing loans?

Manoj Viswanathan: The interest rate that has passed on till now has been passed on in the form of a tenure increase and not in EMI increase, we cannot really correlate the bounce rate to that. Practically no customer has had an EMI increase, we have analyzed the bounce rates across various metrics like bureau scores, the product category and so on and so forth, we are not really seeing any pattern there and it is kind of seems to be an across-the-board phenomenon and which is why we then went back and looked at customers who cleared their payments in July which was the lowest bounce month and we have subsequently bounced in say September or October. When we spoke to those customers what came out was that most of these customers have cleared their payments already through UPI, immediately after they bounce the payment and when we inquired about it they just felt that they missed the payment and it is quite convenient now to pay through UPI, they did not give it too much thought and when you actually add up the figures of customers who have cleared the payments in the first say two-three days after the bounce, the figure actually comes back to the original bounce rate. It looks like more of a customer behavior which is changing and if you also look at the 1+ DPD and the collection efficiency again, we are not seeing any impact of the bounce rate on that, it does not seem to be a phenomenon or a behavior which is because of difficulty in payment, it seems to be some other underlying change in behavior from the customer's perspective.

Abhijit Tibrewal: Do you think that given that we now required to take further PLR increases in the coming months that could have any impact on the demand for housing loans?

Manoj Viswanathan: The customer actually comes to a point where he or she decides to purchase or build a house after many other decisions are taken. most customers, 40% to 50% of our customers are actually building houses on plots, they need to arrange for a plot first, they would have probably bought a plot earlier or they would arrange to buy the plot and even if it is a purchase of a flat or apartment there is a down payment that they have to arrange and so on and so forth. There is a lot of decision making that goes into the final decision or the final execution of the transaction and the interest rate is only one out of many things that the customer has to tackle before they purchase the house. We feel that interest rate is not something that will deter the customer. Customers tend to recalibrate their requirements or tenure according to the interest rates, because a decision to purchase or build the house is something that has actually been triggered much before. When they come to a point when they are ready to buy the house then the interest rate does not really change the decision for them.

Moderator: We have the next question from the line of Kunal Khudania from DSP Investment Managers. Please go ahead.

Kunal Khudania: Hi! Just to take this question on the bounce rate forward, in terms of cushions, in terms of an EMI to income ratio and so on, are those comfortable as the way you see it, because at some point of time you will move from tenure to higher EMI right?

Manoj Viswanathan: Tenure to EMI there is sufficient headroom because as a company we have not really offered very high tenures to customers, most of our customers have taken a maximum of 20 years, we do not generally offer 25- or 30-year tenures to customers. We have some headroom to go before an EMI increase needs to be triggered off, plus we also had a very high penetration of the subsidy, the Pradhan Mantri Awas Yojana credit link subsidy, almost 30,000 customers out of 70,000 have actually availed that and all those customers anyway have a headroom on the EMI also because the EMI would have reduced by INR 2,000 to INR 3,000 for each customer. As a portfolio we have a lot of cushions where we can increase the tenure also and beyond that we can also increase the EMI without hurting the customer, which is why at this point we are feeling fairly comfortable.

Kunal Khudania: Basically, what you are saying the customer health is pretty good, it is this banking behavior that cause some wobbles and that you have sufficient cushions that would be your summary right?

Manoj Viswanathan: Yes, that is right and we are also tracking as I mentioned the number of customers who are clearing their payments within three days of bouncing and that number is actually going up. Which is why we said that if we add that to the number of customers who have cleared their payment through NACH, the numbers kind of more or less comes back to the original clearance rate.

Kunal Khudania: Thank you, that was very useful. Thanks a lot, good luck.

Moderator: Thank you. We have the next question from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: On the growth front when I see last eight quarters our mix has shifted from home loans to now LAP this is a mix you said in Q2, I remember the incremental growth seems to be coming from LAP and also that leads to self-employed category being higher which is logical, but even the ticket size has been going up as the 15 to 25 lakh ticket size is increasing just want to understand that what is the reason for home loan growing slower than LAP and over the last two years any thoughts on this?

Manoj Viswanathan: No, the LAP is actually growing on a much smaller base, when we started out we were practically at very low levels of LAP penetration, it is more of a base effect nothing else other than that.

Bhavik Dave: Did you have a proportional shifting right like being 92% home loans have become 89% home loans so that is a reasonable one and 5% LAP becoming 10% LAP so I just want to understand why is the home loan growth is not in line with LAP because we have been growing our distribution which is going very well just want to understand like what is your comfortable mix in your sense on home loan versus LAP, industry is like some of the players are at 20%-25% LAP so we were like on the lower end are we inching towards the industry levels or what is the thought process on that?

Manoj Viswanathan: A couple of years back we were at very low levels of LAP on the AUM while we were at about 6%-7% our origination was also in the range of about 6%-7% LAP contribution as a percentage of origination, which at that point also we had mentioned that this is likely to go up in the medium-term to maybe 10% to 15% and which is where we are currently, we are at about 15%

on new origination and that catch up is now happening on the portfolio as well. We are seeing now kind of a slight increase every quarter on the AUM as well. We were at about 7%-8% a couple of quarters back and that has gone up to about 9%, that is likely to over a period of time catches up to the 15% which is the new origination contribution of LAP. We have always maintained that we want to keep the portfolio the ratio at that level; 85%:15% is a kind of comfortable ratio that we are looking at.

Bhavik Dave: What is the yield for LAP just to understand what is the difference between customer segments when it comes to large housing loan?

Manoj Viswanathan: Segment is largely the same it is a similar type of customers but because it is a LAP product customers pay between 100 and 200 basis points higher than what they would pay for a similar housing loan.

Bhavik Dave: The ticket size is larger right?

Manoj Viswanathan: Ticket sizes would be in the same range; INR 10 to 15 lakh.

Bhavik Dave: Also, on the sourcing bit, I see that the connector proportion is increasing so just to understand how does this work and like what are the kind of payouts to your connector, have we seen any adverse behavior in terms of bounces or the AUM generated or originated by connector, how does this connector segment help us in the efficiency or quality of the book anything in that?

Manoj Viswanathan: Yes, connectors are paid about 20 to 50 basis points depending upon the consistency and volumes they bring in and so on. It is only on success; we really do not pay them anything for leads. Connectors over a period of time, we have seen that loans originated through connectors have a similar or slightly better quality than loans originated from the market because there are some filters with the connectors themselves, they have been in the business, many of them have been in the real estate-related businesses for a long period of time, they know the market, they know the customers, there is a certain filter which is applied at their end as well. The quality generally tends to be good and on par if not better than the rest of the portfolio.

Bhavik Dave: Last question is in the demand outlook we see that with interest rates going up what is the kind of demand visibility for you in final growth in the disbursement this quarter, is the momentum being visible because maybe these customers might get impacted they will then impacted by Covid, the asset quality remains stable for the entire industry, but when we look at the yield is now inching up do you think that there will be any decision for these customer segments or you think that is not get visible at this point in time on the ground?

Manoj Viswanathan: No, the increasing interest rates is not really impacting demand we are seeing very, very strong demand on the ground and we actually say we are seeing lesser resistance from customers also from interest rate perspective. I think interest rates will only get impacted because of competition. There are lots of players in the business at various price points and with various priorities that can be the only thing that impacts the interest rates. Customers do not generally in this segment and especially people who are constructing their homes, etc., do not look at interest rates as a big driver of their decision. They are happy to pay premium rates as long as they get the loan and most customers are not even thinking of keeping this loan for 20 years, they look at it as something that they need to immediately construct the house and then they looked at paying it off in a few years. Interest rate is not a big concern for customers, but there are other market forces which tend to push the interest rates, otherwise the rising interest rate phenomenon is not something that we think will affect the market.

Bhavik Dave: Perfect this will be helpful. Thank you so much.

Moderator: Thank you. We have the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity. Hi! Manoj and Nutan, congrats on the quarter. I have three questions, the first one is on opex if I were to look at the absolute opex in other opex the INR 150 million plus is the highest single quarter absolute opex that we have had and is significantly higher than what we saw in previous quarters, we also see salary costs going up quite a bit, now I know that we have accelerated our branch count apart from that what are the other big ticket opex items that got reflected this quarter and what is the medium-term target for branch addition at least for the next two years?

Nutan Gaba Patwari: You are right the opex has gone up to INR 44 Crores, if you see the other cost line it has gone up by INR 4 Crores; largely this is an impact of expansion that we have been doing, so that particular line what gets booked is travel, you have had more travel through the quarter, more administrative spends on the branches that we have added, you are familiar that we have front loaded the branches, you do see some kind of cost that has come up front as well, higher legal and professional fees coming from higher amount of sanctions and originations that we are doing. On the salary line, also we have added more people, that is the reason why you see more cost sitting there. Coming to the branch additions, we have 101 right now, we look to get to about 150 in about eight quarters time and that will be largely gradual, for this year probably another eight or nine branches for this balance year so let us take the number of 110. Coming to the overall cost we have been guiding a 3.0% to 3.2% opex to assets that is broadly where we will be for the rest of the year as well.

Karthik Chellappa: Just to recollect so Nutan I think at the time of the IPO our original thought process was about 120 to 130 branches when we reach an AUM of somewhere around INR 10,000 or INR 12,000 Crores has that been upped to 150 branches by any chance simply because of competitive reasons or you actually think there is more potential I am just curious as to what was the reason for the slight change in stance it is not material but then still, I am just curious?

Manoj Viswanathan: That was about 18 months back and we were talking about 120 number probably in a two to three year timeframe, now that timeframe has actually moved to four years because 18 months have already passed it is just a corresponding number that is all, if we look at it say same time next year we will probably be at the 120 number that you are talking about which is 24 to 30 months from the IPO, since we are looking at a longer time horizon maybe we are adding another two years to it that is why we are talking about 150 number.

Karthik Chellappa: The second question is on the bounce rates for which you did allude to UPI related payments, now given that UPI adoption will continue to rise or so, do you think there might be some tweaks required in our own payment mechanisms simply because we presenting the cheque that is getting bounced and then communicating to the borrower and then three days that also involves some level of productivity, administrative expenses, etc., but if our customers are moving towards UPI do you think you need to tweak on our payment mix at least to save some time at least on productivity as well, do you think that is necessary at this point?

Manoj Viswanathan: Yes, we are contemplating, of course the change has been only about 1% on the bounce rate, 1%-1.5%, we have still not triggered off any actions but we are contemplating, there are now new payment methods available where you can actually give the customer an option to make the payment at his choice rather than going through the regular NACH debit, but still we will have to observe this phenomenon for a few more months or few more quarters to see if there is really a serious requirement on that on those lines. We will kind of watch the space and see if more and more customers are changing their behavior and then accordingly, we will press the trigger, but we are already exploring those options, payment options side-by-side.

Karthik Chellappa: My last question is basically on our borrowing mix so this quarter if I look at the private sector banks at 32%, it is actually at the highest that it has ever been and there has been a very sharp increase even quarter-on-quarter so was there any chunky one-time borrowings that we were able to drawdown from these banks and when we look at the rates that we get from private sector banks vis-à-vis let us say even public sector banks is there any significant differential at this point?

Nutan Gaba Patwari: The higher increase in private sector banks as I mentioned that we have added two banks Karnataka Bank and Yes Bank, both of them fall in the private sector category. We have also had new lines from our existing lenders and large chunkier lines that is adding to that. The other thing also is that the private bank comes in slightly early in the year and then the PSU banks sanctions come let us say towards Q3, NHB comes a little bit towards mid of Q3, there is a little bit of phasing of that, you will see this number getting more towards the 20s probably in Q3.

Coming to the second part which is around rates very comparable, for example if you look at HDFC Bank we will be at one-year MCLR, very comparable rates when it comes to PSU banks and private sector banks.

Karthik Chellappa: Just one last clarification point to the question on the LAP. In the past when the LAP used to be about 5% to 6% one of our stances was that we are slightly more cautious from an underwriting point of view given where the market is, given right now that on a incremental sourcing basis it is up to 15% can we say that our risk appetite and risk comfort level has improved at the margin?

Manoj Viswanathan: We are still cautious on LAP and we have always maintained that there will be some uptick in LAP as we increase our distribution and presence in the market and we had mentioned that we would probably reach a 15% kind of number on flow, which is where we are at this point of time but we continue to remain cautious on that product.

Karthik Chellappa: Okay that is it from my side thank you very much Manoj and Nutan, wish you all the best for the remaining quarters and wish you a happy Diwali.

Moderator: Thank you. We have the next question from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Hi! Manoj, Hi! Nutan. Few questions firstly with respect to when we look at it in terms of the stock of maybe the loans which are say for the apartment purpose as well as for the self-construction what would be the proportion and how is the flow if we have to look at it in last 12 months, how would have been the concentration over there?

Manoj Viswanathan: Flow of loans broadly falls in three to four categories: the self-construction is about 40% of our current flow of business then there is an additional about 15% to 20% which is resale transactions, which also largely are individual homes fewer apartments there, 15% is LAP, if you add this it comes to about 70% and then there is a 30% which is overall developer led but it is a combination of high-rise apartments and row houses probably about 15% - 15% each broadly that is a breakup of incoming loans at this point.

Kunal Shah: In terms of the outstanding if we have to look at it in terms of this developer led then how much would that be?

Manoj Viswanathan: Historically, the developer led was high on the book the developer led would be probably about 50% currently.

Nutan Gaba Patwari: I was just adding that the historical number is all in EMI book there is no under construction / pre-EMI there.

Kunal Shah: Secondly in terms of the assignment so in terms of when we look at it as a proportion of disbursements that is coming up so what would be the stance out there would we catch up towards the second half as you highlighted in the opening commentary that demand is still there but when we look at it compared to that of last year it is still low and maybe the related income which is there in P&L how should we look at it getting into H2 and the next year?

Nutan Gaba Patwari: The first purpose for assignment is liquidity, now that you see that the liquidity is already close to INR 1,200 Crores at the end of September quarter and we have been able to do that at a very competitive cost of borrowing at 8% on a marginal basis, essentially that is the reason why assignment is low. We also understand the impact on the P&L, so we will look to do probably closer to what we have guided earlier which is around INR 100 Crores a quarter. Our guidance has been INR 100 Crores a quarter plus minus INR 20 Crores, so we will try and get closer to INR 100 Crores perhaps on this number.

Kunal Shah: In terms of collection efficiency as well as the bounce rates reading into that maybe collection efficiency largely being stable over last six months and bounce rates also going up a bit even though it is technical due to UPI but what is the kind of improvement we can see from here on with respect to our 30+ DPD buckets, do we see it because I think otherwise collection efficiency is more or less stable as such and the 30+ should it broadly settle over here or we see it getting down to maybe 2-2.5% level in terms of 30+?

Manoj Viswanathan: The improvement will come from this yellow bar which you are seeing in our charts (Slide #29 of Investor Presentation) which are customers who got impacted by COVID and who are now stuck in buckets between 0 to 89 days that is where the improvement can come because we are working with those customers to kind of get them regularized and get them back to zero because they are also reflecting in NPA at this point of time, which is not good for them and for us. Those customers, we are fairly confident they will get regularized and that number will also impact the 30 DPD as it moves out of NPA it will also move out of the 30 DPD.

Kunal Shah: How long do we think it will take to normalize?

Manoj Viswanathan: It could take long because customers are generally paying probably one third of an installment every month one third to half an installment every month so this could take good two-three quarters.

Kunal Shah: On the CTO side, are we in the process of hiring or we have already hired the CTO out there and what could have been the rationale maybe for him leaving because I think he just joined last year so how should we read into this?

Manoj Viswanathan: We have some discussions going on with prospective people and yes market is very hot for technology people, Our CTO wanted to start something on his own which is why he left.

Kunal Shah: Okay good thank you and all the best.

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

Nidhesh Jain: Thanks for the opportunity. Sir, two, three questions first is on the co-lending arrangement how is the traction in this quarter how much disbursement we have done under co-lending?

Manoj Viswanathan: Co-lending as you can see, we have disbursals slightly higher than the previous quarter, I think we did a transaction of about INR 20 Crores this quarter of which about INR 16 Crores is reflecting in the charts, that is the portion that comes back to us, momentum is picking up, monthly originations have started going up, and you should see further increase in co-lending going forward.

Nidhesh Jain: Secondly on the spreads can you guide how the incremental spreads are playing we have been able to maintain the spreads quite well despite increase in cost of funds in this quarter how were the incremental spreads playing out and how should we think about spreads going forward?

Manoj Viswanathan: Increase in cost of borrowing we have passed on to customers, which is why the spreads were maintained. We are also contemplating one more round of increase, so next quarter also to some extent we should be able to maintain but we have always been guiding that there will be some compression there. We are looking at a 5.5-5.6% kind of a spread number; we are at 5.8% right now.

Nidhesh Jain: Lastly can you share the concentration in the connector, what is the number of active connectors as of now as of September end and what is the concentration of business coming from top 10% of connectors?

Manoj Viswanathan: Yes, it is very diversified channel, we have about close to about 2,000 connectors that were active in a quarter and if you look at about 6,000 originations coming from them, that is just about two to three loans per connector in a quarter, it is very, very diversified. Top 10% of connectors would be contributing about 30% of the loans.

Nidhesh Jain: This active connector number has not increased qoq last quarter I think also the number was around 2,000, right?

Manoj Viswanathan: Yes, it does not increase much as the last quarter was about 1,900 and it has gone up to about 2,000 now.

Nidhesh Jain: Sure, that is it from my side.

Moderator: Thank you. We have the next question on the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for allowing me a follow-up question. Nutan you have already partly answered this question just wanted to understand that given that we have until now resisted taking any significant PLR increases but having said that it has started reflecting in moderation in your incremental spreads while during the opening remarks you also suggested that during the first half of this fiscal year we have not taken any new borrowings from the NHB and assuming that they will be there in the second half it will obviously aid your incremental as well as portfolio cost of borrowing but typically going ahead given that I believe that we have maintained a very fine balance between growth and the trade-off between spreads and margins how would you kind of look at spreads and margins over the next one year?

Nutan Gaba Patwari: We are extremely focused on the topic of spreads and margins. We have to deal with the book spread and the incremental spread separately. On the book spread we are at 5.8%. Due to extent of NHBs refinance program, the book spread keeps on changing, we have done models at our end and we will need to do another repricing either in Q3 or Q4, we will do that about 50 basis points. Cost of borrowing will also increase slightly higher than that, a portion of that cost of borrowing increase will be absorbed by us and 50 basis points will be passed on. Let us say by end of March we will be closer to 5.5% kind of a spread though our guidance long-term guidance remains at 5.25%.

Moving to the marginal incremental spread we are at 5.40%. We have to be focused on the market from a competitive perspective from growth perspective and we feel that this is a reasonably healthy spread which is also ahead of our guided long-term guidance of 5.25%. We are very comfortable with this number, that is how we are looking at this overall chapter of spread.

Abhijit Tibrewal: Last data keeping question were there any PMAY subsidy that you received during the quarter and now what is the quantum of outstanding PMAY subsidy which is due to you but not yet disbursed?

Nutan Gaba Patwari: We received about INR 50 Crores in Q2, we still have receivable of close to INR 250 odd Crores.

Abhijit Tibrewal: Thank you so much and all the very best to you.

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

Chandra: Hi! Manoj, Hi! Nutan. Just a question from my side you seem to have spoken quite a few times I heard you using the word competition and also at the same time mentioning that passing on yields and the interest rate is not a factor it seems that the limits is now being determined because it is more competitive intensity rather than the ability of the customer to borrow would that be a fair assumption and in this given the background that you have already taken a 25 bps PLR hike?

Manoj Viswanathan: Less of competitive pressure on the back book, the competitive pressure is more for new originations, the way we would put it because of various players operating in the segment and various price points, this tends to be competitive pressure at the time of origination. On the back book, we would not say that the competition is a big driver from the perspective of balance transfers, etc., we would not say that, that is a big driver because when there is a increase in prices or the increase in pricing or increase in rates overall then the balance transfer pressure actually comes down a little bit because customers get attracted by headline rates which were there for example a couple of quarters back now there are no headline rates and generally everybody is at least in the ballpark of 9% for new customers so the competitive pressure on back book is not that high.

Chandra: This is because you did allude to this some people have their own P&L pressures or working towards certain, just trying to understand that theoretically for some reason if our cost of funds were to go up by another 100 basis points say over the next 12 to 18 months just for some reason it were to happen are we of the upper bounds on the yields or we sort of play this by increasing as the flow of LAP keeps increasing, that we manage the spreads that way and so the lower bound on spreads is possibly 5.5%?

Manoj Viswanathan: Yes, we have some headroom like you said in LAP and even in terms of a distribution because we are entering smaller markets, etc., some headroom is there but yes, we will have to balance that competitive pressure in the market and maintain our growth we'll have to see how it plays out plus we also have the co-lending and so on, we are trying to balance all the tools that we have at our disposal to maintain our growth.

Chandra: Sure, thank you so much.

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

Shreepal Doshi: Hello Sir, good morning and thank you for giving me the opportunity. Sir firstly the question was with respect to the bounce rates, so it has gone up but why is it not getting reflected in the 1+ DPD number so just want to understand the linkage there?

Manoj Viswanathan: Most of the customers if you see like for example let us take October, if you take the differential of customers who have bounced in October that for example cleared their payments in July through NACH that difference is about 2% of customers which is the difference in the bounce rate but those 2% of customers who all have made their payments through UPI within the first three days of bouncing the payment, if you take zero to three days from bounce, majority of these 2% of these customers have already made their payments which is why this number is not translating into higher delinquency buckets.

Shreepal Doshi: The second question was with respect to our branch expansion strategy, so wanted to understand what are the indicators or timeline for converting the touch point into a branch, because we have got decent number of touch points also so what are the indicators that we sort of review in order to convert the touch point into a branch?

Manoj Viswanathan: We look at business potential in the market and also the momentum. Generally, most of the touch points will remain touch points, some of them will have the potential to become branches. We look at a branch for us means that in a four-to-five-year timeframe, the portfolio should reach about INR 100 Crores, we estimate whether that potential exists in that touch point and then accordingly take a decision to put up a branch. We evaluate this about between 6 to 12 months into the journey of a touch point.

Shreepal Doshi: This touch point is 249 also means that these are 249 employees, right?

Manoj Viswanathan: No there will be more employees, let me just break it up, 249 also includes 101 branches, these 101 branches itself would have probably anywhere between 600 to 650 employees and then you have another 150 touch points which are more thinly manned which would translate to maybe another 150 employees; at least one employee per touch point is the way we would look at it.

Shreepal Doshi: One observation so if we look at more than INR 1.5 Mn ticket size AUM share has increased to 60% from 50% two years back and also the new to credit customers both in terms of loan accounts and AUM has also been coming off if you look at in the last two years so while this would have given us some momentum on the growth side do you think this also keeps us exposed to higher BT Out cases going ahead and if yes then what is the strategy that we have sort of in mind to control it?

Manoj Viswanathan: Ticket size is more of a secular increase and we are seeing that in more affluent market especially southern markets where per capita incomes are increasing, the ticket sizes are also increasing, a customer who probably five years ago used to build a house worth INR 10 or INR 12 lakhs is now building a house worth INR 15 or INR 20 lakhs. It is a natural increase, the customer segment is the same, the profile is the same that we used to book but ticket sizes are increasing keeping pace with income and so on in some of the markets. As far as the bureau score is concerned, that is the natural transition that is happening in the country. Every quarter it is reducing by 1%; the number of customers who do not have a bureau score and eventually that segment will have to vanish because anybody who has got a decent income will probably have a bureau score because they have some small loans or credit cards, etc. That does not necessarily enable the customer or qualify the customer to get a housing loan most of these customers who have a bureau score would have small loans like consumer durable loans, etc., which they have borrowed but when it comes to housing loans, they face the same challenges that they used to face earlier.

Shreepal Doshi: Just last two data keeping questions what is the pricing differential for a salaried versus self-employed customer maybe you can give us indication based on the lower band or on the upper band of the interest rate range and also the differential with respect to home loan and LAP?

Manoj Viswanathan: Salaried and self-employed generally our breakup is 70%:30%, 70% is salaried and 30% is self-employed and in terms of the pricing self-employed pricing is about 1% to 1.5% higher, but there again it is we are talking about the informal self-employed segment who do not have documentation, etc., if it is a formal self-employed segment and the pricing is nearly similar to a salaried segment.

Shreepal Doshi: For HL and LAP?

Manoj Viswanathan: HL and LAP again the difference is about 100 to 200 basis points.

Shreepal Doshi: If you could just give us some color on the average ticket size for both HL and LAP because we do give the overall ticket size and which is INR 1.09 Mn but if you could give us a segment wise as on 2Q and as on 4Q FY21?

Manoj Viswanathan: Ticket sizes would be similar. Ticket size of LAP and home loans would be fairly similar. LAP is in the range of about 10 lakhs that is the trend that you are seeing. In home loans like I said in some segments where there are people are doing constructing their own homes, etc., it has inched up a little bit, but broadly in the INR 10 to INR 15 lakh range.

Shreepal Doshi: yes, thank you so much for answering the questions and good luck for the next quarter.

Manoj Viswanathan: The one point I wanted to add to your earlier question on the ticket size is that gradually the co-lending piece as of now is reflecting as part of the overall book, that also contributes a little bit to the ticket size increase because that is adjacent segment it is a slightly higher ticket segment that we are attacking through co-lending product, that also contributes a little bit to the higher ticket size.

Shreepal Doshi: It is in co-lending we are looking at INR 20 to INR 35 lakh ticket size right if I am not wrong?

Manoj Viswanathan: That is right.

Moderator: Thank you. We have the next question from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: Hi! Manoj, thanks for the opportunity. My first question was on the AUM side considering the next two to three years by Q1 or Q2 of FY2025 this 100 to 150 branches would be over in the similar phase most of our branches which are less than INR 100 Crores AUM would try and be mature by that time period so what is the aspirational AUM say from the next three to four-year perspective where we plan to get considering a strong 50% growth in the branch count as well as maturing of the existing branches also?

Manoj Viswanathan: We are basically looking at a 30% kind of a growth on AUM year-on-year, it should get us to probably INR 12,000 to INR 15,000 Crores in 3-4 years.

Nilesh Jethani: My second question was on the RM side, so today most of the work that is sourcing, essay writing, collection, etc., is done by the single RM but as we mature say over the next three to four years, do we plan to segregate this work or we will continue to work with the same business model?

Manoj Viswanathan: Actually, a lot of a differentiation in the market comes because of our business process which a single point of contact, the speed of execution, the collection expertise and connect that the RM brings to the table, etc. We intend to continue these because these are our core competitive advantages in the market and we have passed through a very stressful period in COVID with the same model and where it was questioned a lot because that was the time when there was much more collection load maybe 2x / 3x of collection load than normal but even in those circumstances this model kind of stood the test so we are now fairly confident that in a regular BAU situation this model works very well.

Nilesh Jethani: Okay got it and one last question on the yield side so when I see our yields, I guess correct me if I am wrong, we took a 25-basis hike last quarter and 25 basis hike again in this quarter the press release mentions?

Manoj Viswanathan: We have taken only one 25 basis point hike as of now wef July 2022.

Nilesh Jethani: But when you see competition the hikes have been significantly higher so despite us claiming that our customer profile is not interest rate sensitive what is stopping us I understand we want to maintain the yields but in a scenario can we go ahead can we push the yields little higher maybe earn a little slightly higher spread or thought process always remain competitive in the market what is the thought process basically, wanted to understand?

Manoj Viswanathan: Thought process was just like fair transmission of the rate to customer because we have basically contracted a certain spread to the customer when we onboarded the customer, we are transmitting the rates as well as it gets transmitted to us, we do not want to do it ahead of time.

Nilesh Jethani: Last question from my side, so in the next two to three years' timeline what comfort percentage as an overall AUM we carry from LAP to be so today we are at X number what comfortable numbers we would be?

Manoj Viswanathan: 15% is something that we are comfortable with. 15% is the incoming flow and that is the number we are comfortable with.

Nilesh Jethani: Those were my questions and thank you so much for replying to them.

Moderator: Thank you. We have the next question from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. Couple of questions. The first one is on the borrowings, what proportion of the borrowing on MCLR versus EBLR and what is the average duration right now versus on a Y-o-Y basis and a Q-o-Q basis, the second question is on opex, if we have to split the opex into cost of acquisition, cost of collection, and BAU expenses what is the split as of now, third is dwelling on LAP itself so what proportion would be on residential properties and what would be proportion on commercial properties and how do we source LAP these are the three questions? Thank you.

Nutan Gaba Patwari: Out of the 100%, the way we breakup borrowings is 20% broadly NHB, 20% assignment the balance out of the 60% (50% is on MCLR and 10% is on external, whether it is repo or T-bill)

Shubhranshu Mishra: What is the average duration right now versus Y-o-Y versus Q-o-Q?

Nutan Gaba Patwari: As this duration as an average tenure of borrowing?

Shubhranshu Mishra: Right.

Nutan Gaba Patwari: Seven years, our asset as well as our liability tenure is around seven years and hence that is the reason the ALM looks robust.

Moving to opex, the question is cost of acquisition, cost of collection and BAU the broad split that we do internally is cost of acquisition and because our RMs only to the collection we bucket it in one place and then the BAU, broadly it will be 70:30 in terms of the costs.

Shubhranshu Mishra: So, 70 would be BAU and 30 is cost of acquisition and cost of collections, right?

Nutan Gaba Patwari: No, the other way round, cost of acquisition we also include entire disbursal, entire collection basically your entire branch operations.

Moving on to LAP I think your question is around breakup between residential and commercial, it is significantly residential.

Manoj Viswanathan: Yes, LAP is largely all residential, there may be one off commercial but largely it is a residential 90% plus.

Shubhranshu Mishra: How do we source it?

Manoj Viswanathan: Through the same format, there are branches or the connectors are be the source.

Shubhranshu Mishra: We also do external sourcing?

Manoj Viswanathan: External sourcing as in, sorry?

Shubhranshu Mishra: Through connectors not through own employees but through connectors?

Manoj Viswanathan: No, the mix of both, the 70:30 mixes that you see in the overall product sourcing mix which is the same in LAP as well so 70% through connectors and 30% through other channels.

Shubhranshu Mishra: What would be the concentration of top 20 or top 30 accounts in LAP?

Manoj Viswanathan: No concentration at all the ticket size would be in the region of 10 to 15 Lakh generally speaking.

Shubhranshu Mishra: Thank you so much. Happy Diwali.

Moderator: Thank you. We have the next question from the line of Franklin Moraes from Equentis Wealth Advisory. Please go ahead.

Franklin Moraes: Thanks for the opportunity. When you say 73% of connectors, would this be in terms of volume or value of the loans?

Manoj Viswanathan: Both, will be similar because it is all very granular, we do not release very high-ticket loans, we generally go only as high as INR 40 lakhs and the connector sourcing is very similar to normal sourcing that we get from other channels so whether you see value or volume it will be similar.

Franklin Moraes: In terms of the process could you explain a little bit how do we exactly source these connectors, what are the kind of key attributes that we look into while sourcing these connectors and also over the last three- four years what has been the growth of the connectors?

Manoj Viswanathan: Attributes that we look for is basically there it has to be somebody who is embedded in the local ecosystem, they know customers and they come to know who in that ecosystem is interested in purchasing or building a house, that is the main criteria and we look for people who have some other business which they are running which is also kind of a credit check because if somebody is running an existing business like maybe a real estate brokership or an insurance agency or any other kind of local ticketing agency, etc., it gives them some credibility in that local market as well and plus it also reflects in the credit quality, that is really what you look for and there has to be some ability to source on a consistent basis, we do not generally appoint people who source one loan and who come across one customer in a very long time kind of a thing, they should be in a business which has a regular flow of customers of their own, that at any point of time some of those customers would be looking for a home and then this connector can refer them to us. These are the criteria we employ and then some hard criteria like bureau scores, etc., the connector himself or herself should have a good bureau score, which is again a kind of credit check that we employ.

Franklin Moraes: How do we access these kinds of connectors do they come to the branch or do we have some mechanism for kind of accessing these connectors?

Manoj Viswanathan: Once we convince them that this is a good business that they can get into most of the further interaction happens on an app; there is an app they can download from the play store and enroll themselves and plus they can also keep referring customers on that app and get the status updates and payment updates like payout updates, etc., on the app itself. Once the initial tie-up happens and primarily the engagement is through the app, but our relationship managers also keep interacting with them to kind of give them some updates on the product and more as the relationship management exercise, that interaction happens from our branches quite frequently maybe every week, etc., that is the interaction model.

Franklin Moraes: Lastly, on the AUM growth we have guided for about broadly 30% of growth for the next three years but just in the near-term in case interest rates continue to rise even from current levels would we be able to kind of deliver the similar kind of growth or would there be some bit of slowdown in the near-term?

Manoj Viswanathan: As of now, we are seeing a strong demand on the ground and we do not anticipate any impact at the moment.

Franklin Moraes: Okay fair enough, thanks a lot.

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

Jigar Jani: Hi! Manoj, Hi! Nutan, thank you for taking my questions, couple of bits so on the co-leading side you said that you have initiated INR 20 Crores in this quarter out of it INR 16 Crores is on your book so is it broadly that you keep 80% of whatever initiation you do and 20% is funded by the bank or this is just a one-off in the quarter?

Manoj Viswanathan: It is other way round because this is what you are seeing is the inflow of funds INR 16.6 Crores in the investor presentation, the total loan value would be about INR 20 Crores out of which INR 3.6 Crores remains on our books and INR 16.6 Crores is taken on the book of whatever the bank has taken on their books they have refunded the money to us.

Jigar Jani: So, it is funding that you are showing basically then.

Manoj Viswanathan: Yes, we are showing it sort of funding.

Jigar Jani: The other question was most of this co-lending is in the same mix that you have right now which is 70% housing or it is pure housing what is the kind of it is pure housing?

Manoj Viswanathan: It is pure housing at this point of time.

Jigar Jani: Thirdly, there were news articles about Warburg Pincus looking to exit their stake in the company, do you have any updates on that?

Manoj Viswanathan: Yes, that is all purely rumors and we have confirmation from Warburg Pincus that there was no such thing being contemplated and they are here for the long haul.

Jigar Jani: Thanks a lot for the clarification and best of luck and happy Diwali.

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

Nidhesh Jain: Thanks for the follow-up. Just one data point after 3rd years of opening a branch what annual disbursement level that branch reaches?

Manoj Viswanathan: The output depends on the location and so on but broadly I can give you a range, generally it would be in the range of say INR 2 to INR 5 Crores per month kind of a disbursal level in a three-year timeframe.

Nidhesh Jain: Sure, thank you Sir.

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

Mayank: Hi! Thanks for the opportunity. My basic question is for branches we have opened in the last two quarters how is the connector addition going on there and how is the disbursement going on if we compare and when are we expecting the disbursement level to reach over to level of our mature branches and my second question is on the bounce what kind of charges this customer have to incur if an ECS bounces both on the banking front and anything you also charge there and going forward are we expecting the bounce rate to normalize or it might increase given more customer might opt for the UPI that is two question for my side?

Manoj Viswanathan: First question if I understood right you were asking about movement of connectors right how the number of connectors is migrated. Generally, the addition is around 100 to 200 numbers of active connectors per quarter, we are currently at about 2,000 range of active connectors per quarter. As far as the bounces are concerned, the banks do charge fairly hefty bounce charges to customers. Probably it could range between INR 100 to INR 500 as the bounce charge for the customer at the bank's end and in our case, we charge the customer bounce charges only if the customer delays beyond a certain point, for example these kinds of customers who are now bouncing and paying within one or two days or two-three days actually they all pay through the app or through UPI through a link in reality for the first three-four days we really do not charge any bounce charges to the customer.

Mayank: Are we going this trend to continue more customers might get opting for UPI or it would normalize from here?

Manoj Viswanathan: We will have to watch this space actually because we are talking to customers to understand what is driving this behavior, etc. We will have to really watch the space very closely to understand what is driving this behavior.

Mayank: Thanks, that is all from my side.

Moderator: Thank you. We have the next question from the line of Abhishek Aggarwal from Naredi Investment. Please go ahead.

Abhishek Aggarwal: Thanks for taking my question. First is where you are looking net interest margin in FY23 and FY24 as a whole, second question how much amount as you write-off as a NPA during the quarter and in six months and also how much amount did you receive from selling assets that went into NPA and last question at what rate will you issue bond of INR 500 Crores and for what minimum time?

Nutan Gaba Patwari: I will take those questions one-by-one. The net interest margin that we are looking is around 6% for next year. Your second question was on write-off. In Q2 we do not have any technical write-off, we have some shorter recoveries of about INR 1 Crore. The amount that we have written back is around 40 lakhs this is the NPAs that we had written off earlier, those are the recoveries that have come. On the bond fund raise approval, there is a legal requirement to refresh the Board approval every six months so we have refreshed that, we are hopeful that we should be able to do this within this year. I hope I have addressed all the questions if there is anything please let it know.

Abhishek Aggarwal: No, thank you so much and wish you a Happy Diwali.

Moderator: Thank you. We have the next question from the line of Aakash Bhavsar from Equirus Securities. Please go ahead.

Aakash Bhavsar: Hi! My questions have been answered. Thank you.

Moderator: Thank you. We have the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you for the opportunity. I just have one more follow-up question what was the attrition at the field level this quarter?

Manoj Viswanathan: Attrition amongst RMs was about 40%.

Karthik Chellappa: This used to be something like about 35% I think from the annual report right for the full year last year so it looks like it is sticky and possibly at the margin has even risen?

Manoj Viswanathan: Yes, it is slightly higher than previous quarters.

Karthik Chellappa: I know in the past you have talked about some measures that you have taken in the form of giving ESOPs earlier and so on and so forth any other initiatives that you have in mind to improve this because I think this is also putting some pressure on your wage costs?

Manoj Viswanathan: No, I am not sure about wage cost because this would be largely attritions which happened within first year so there would not be really any difference in the wages it would probably put pressure on just the hiring cost because you have to hire more people and so on, but at this RM level it is difficult for us to provide ESOPs. We have provided ESOPs from the branch manager or unit head level and at an RM level the steps that we have taken last time which I had mentioned was to have an internship program and which is now picking up momentum, we actually taken people who has interns and see whether they have the ability to deliver and they themselves have interest continuing and then we take them on as full-time employees that will take some time to have impact on the attrition levels as more and more interns join us and it should have an impact on the attrition levels. However, as 40% is the overall attrition but then it is about 10%-15% would be the desired attrition which falls in multiple buckets people who do not perform, people who have to be terminated because of some reason, etc. Effectively the attrition is 5% to 10% higher than what we wanted to be that is something which is we think we will adjust in the medium-term.

Karthik Chellappa: Got it, thank you very much that is it from my side.

Moderator: Thank you. We have the next question from the line of Siddharth Jain an individual investor. Please go ahead.

Siddharth Jain: Thanks for the opportunity. Just one question we have invested heavily in the distribution capacity and we see the impact of that on the P&L with opex going up by about INR 12 Crores via YoY how does this translate into the disbursals and the demand with we have moved up to about INR 515 Crores in same time last year to about INR 700 Crores is this a bit low as compared to the competition and where do we see this going in H2?

Manoj Viswanathan: This is on track with what we have planned and as we increase the distribution and the number of people, we also have certain benchmarks on productivity, etc., which are all being met, we are kind of happy with the progress and this is the pace at which we think we will keep growing.

Siddharth Jain: Any guidance for H2?

Manoj Viswanathan: In terms of the disbursals, you are talking about?

Siddharth Jain: Yes.

Manoj Viswanathan: Yes, we are at about INR 700 Crores this quarter and we are at a run rate of about INR 225 to INR 250 Crores per month and we should be growing by about 5% or so on disbursals quarter-on-quarter.

Siddharth Jain: Just one more question on the P&L, we see the net gain on DA of about INR 9.3 Crores this quarter can you just split this into gross and any reversals that we have taken during the quarter?

Manoj Viswanathan: No, we have not had to take any reversals this year as of now, the reversals will start only when blended cost of borrowing cross 8%.

Siddharth Jain: Understood, okay. Thank you.

Moderator: Thank you. That was the last question I would now like to hand the conference over to Mr. Manoj Viswanathan for the closing comments.

Manoj Viswanathan: Thank you everyone for joining on the call and wish you all a very Happy Diwali. I hope we have been able to answer all your questions. In case you require any further details, you can get in touch with Manish who heads the investor relations function or get in touch with Orient Capital who is our external investor relations advisors. Thank you so much.

Moderator: Thank you. On behalf of Home First Finance Company Limited that concludes this conference. In case of any further queries please connect with Orient Capital. Thank you for joining us. You may now disconnect your lines.