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

Sub: Transcript of the earnings conference call for the quarter ended December 31, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the earnings call with analysts and investors for the quarter ended December 31, 2024 conducted on Wednesday, January 29, 2025. The Company had referred to publicly available documents for discussions during the call.

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

This is for your information and records.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

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Date: 2025.02.04 22:54:13 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

“Home First Finance Company India Limited

Q3 FY25 Earnings Conference Call”

January 29, 2025

MANAGEMENT: **MR. MANOJ VISWANATHAN – MD & CEO**
MS. NUTAN GABA PATWARI – CFO
MR. DEEPAK KHETAN – HEAD, INVESTOR RELATIONS

This document is a transcription of the conference call conducted on 29th January, 2025. Click here to listen to the original audio.

Moderator: Ladies and gentlemen, good day, and welcome to Home First Finance Company India Limited Q3 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Khetan, Head Investor Relations of Home First Finance Company India Limited. Thank you, and over to you, sir.

Deepak Khetan: Thank you, Yashashri. Good evening, everyone, and a warm welcome to Home First Q3 FY25 Earnings Call. We appreciate your time and participation today. I am Deepak Khetan, and I have joined Home First Finance as Head - Investor Relations with effect from January '25.

I'm excited to build a high-quality investor relations franchise for Home First Finance. I hope you have had the opportunity to review our investor presentation and press release, which are available on our website and the stock exchanges. Additionally, we have uploaded an excel fact sheet with historical data on our website for your reference.

On today's call, Home First Finance is represented by our MD and CEO, Mr. Manoj Viswanathan; and our CFO, Ms. Nutan Gaba Patwari. We will begin the call with an opening remarks from Manoj followed by Nutan, which will be followed by Q&A session. With that, I now invite Mr. Manoj Vishwanathan to share his insight on our overall performance. Over to you, Manoj.

Manoj Viswanathan: Thank you, Deepak. All the best to you to continue with building a highly respected Investor Relations practice.

Let me start with Q3 performance highlights:

- We are pleased with the company's strong performance during the quarter as we continue to maintain strong AUM growth of 30% plus and profitability with an ROE of 16.6%.
- We continue to expand our distribution footprint deeper into our existing markets as well as new geographies. 69 branches have been added over the last 11 quarters, which is near doubling the branch count in 3 years from 80 as of Mar'22 to 149 as of Dec'24. Of these 69 branches, 45 were in new markets and 24 in existing markets.
- In Q3FY25, we have added 7 new branches, (2 in Gujarat, 1 each in Rajasthan, Telangana, Tamil Nadu, Karnataka and Andhra Pradesh) and 8 touch points. With proposed and digital branches, we now operate across 359 touch points in 141 districts, spread over 13 States and Union Territory. We look forward to adding around 10 branches in the ongoing quarter.
- Quarterly disbursals were at INR1,193 crores, about INR 20 – INR 25 crores lower than expected. About INR 10 – INR 15 crores of impact is because of the Karnataka e-khatas issue and another about INR 10 – INR 12 crores because of tighter credit

filters adopted by us during this quarter. Things are stable now, and we are confident about a solid Q4.

- As part of our distribution investment, we have also added to our people strength. Total employee strength has grown from 1,249 as of Mar'24 to 1,704 as of Dec'24. Our approach to training right after hiring from campuses continues to get more and more robust, and we are now able to comfortably hire and train higher numbers of front-end employees.
- Focus on asset quality remains strong with early-stage delinquencies remaining largely range bound:
  - 1+DPD stands at 4.8%,
  - 30+ at 3.1%
  - Gross Stage 3 NPA is at 1.7%.
  - Our credit cost stands at 30 basis points.

There is a minor seasonal uptick in early delinquencies and a part of this can also be attributed to the overall macro environment. As you can see, our GNPA is stable YoY as well as QoQ, and we are confident about the asset quality, and there is nothing to be worried about.

- The profit after tax for the quarter stood at INR 97 crores, an increase of 24% on a YoY basis, delivering an ROE of 16.6%, an increase of 10 basis points compared to the last quarter. Our well-diversified borrowing profile has enabled us to manage borrowing costs effectively, maintaining spreads at 5.2%, in line with our guidance.

- Technology remains central to our strategy. Account aggregator adoption has improved to 61% for new approvals, a significant improvement over the previous quarter. We continue to exploit opportunities in data analytics and keep optimizing and tracking our operational processes and productivity. 96% of our customers are registered on our app as on Dec'24 and 88% of service requests are being raised on the app.

I would also like to inform that:

- The company has now crossed INR 12,000 crore in AUM. And though the capital of the company is well above the regulatory requirements, the company is planning the next phase of growth well in advance. And with respect to the same, the Board has approved raising equity capital of up to INR 1,250 crore. Since listing, our growth has been non-dilutive so far and we continue to use the capital judiciously. This decision of the Board reflects strong confidence in our ability to drive growth and gain market share in the affordable housing finance segment.
- Our S&P Global ESG score has also improved significantly from 34 in FY23 to 45 in FY24, reflecting our dedication towards environmental, social and governance excellence.

I am also pleased to inform you that the Board of Directors has approved the elevation of Ajay Khetan, our Chief Business Officer, to the post of Deputy Chief Executive Officer. In this new role, Ajay will assume responsibility over strategic alliances and marketing functions in addition to his current role.

Now I hand over the call to Nutan to take you through the financials and other highlights.

Nutan, over to you.

Nutan Gaba Patwari: Thank you, Manoj. Good evening, everyone.

Let us start with the key financial metrics.

- Starting with spreads: Our spreads, excluding co-lending is at 5.2%. As we had expected, the cost of borrowing, excluding co-lending has gone up marginally to 8.4%. Despite continuous increases in deposit rates by banks and consequent MCLRs, the cost of borrowing still remains below 8.5%, which is a reflection of the strength of the funding profile of the company.
- Net interest margin for Q3 was at 4.9%. NIM have compressed by 24 basis points on a QoQ basis. About 11 basis points of this is contributed by increase in ex co-lending cost of borrowing and the rest on account of higher liquidity levels, gearing, and realized yields.
- In line with Q2, fees and commission income continue to witness good growth. This is driven by a full quarter effect of the insurance commission. We expect the insurance commission to be in the range of INR 15 crore to INR 18 crore per quarter going ahead.
- Operating cost to assets was at 2.6% for the quarter, in line with our expectations and marginally lower than the previous 2 quarters. We expect this ratio to remain range bound within 2.7% to 2.8% as we focus on growth and expansion.

Moving on to provisions and asset quality:

- Credit cost for Q3 is at 30 basis points. 9 months FY25 credit cost was 26 basis points. Our 9-month FY25 credit cost is lower than our 9-month FY24 credit cost of 38 basis points despite a 33% higher book. We continue to maintain our conservative medium-term cost -- credit cost guidance of 30 basis points to 40 basis points as we focus on growth.
- We continue to adopt a conservative approach to provisioning, maintaining a provision overlay above ECL requirements.

Moving to balance sheet and capital position:

- Our balance sheet remains robust, providing a solid foundation to support the company's growth plan. Our borrowing profile continues to be well diversified and cost effective, reflecting our prudent financial management. 59% of the borrowings come from public and private sector banks, 17% from NHB, 16% from assignment and co-lending and balance from NCDs and ECB.

- Our cost of borrowing is competitive at 8.4%, enabling us to maintain spreads. Our current rating is AA- from leading rating agencies.
- As per our current liquidity management strategy, we executed a direct assignment transaction worth INR 170 crores during the quarter. We continue to focus on co-lending as well and looking to scale with newer partners. We expect co-lending to contribute around 10% of disbursements in the medium term.

Moving to capital adequacy and liquidity:

- Our total capital adequacy, risk-adjusted assets ratio stands at 33.1% with Tier 1 at 32.7%. We have made some one-time adjustments to this approach, in line with discussions with the new auditors. This is majorly led by DA interest strip, which has impacted by 1.8% and ESOP reserve account, which is impacted by 80 basis points. Our organic capital consumption led by growth, net of capital accretion, is 75 basis points per quarter.
- As of Dec'24, our net worth stands at INR 2,408 crores with a book value per share of INR 269, reflecting our strong capital position.
- Debt to equity is at 3.8x. Manoj has already covered that our Board has approved the equity raise of INR1,250 crores. I would like to add that our leverage is now nearing 5x. Internally, we are comfortable around 6x. Thus, we would need to raise equity funds over the course of next 6 to 9 months as we continue to strive towards a Mar'27 AUM of INR 20,000 crores. I'm excited to work on this very strategic project for the company and support Home First's future growth trajectory.

Overall, our business remains on a strong ground, underpinned by a diverse borrowing portfolio, a robust capital foundation and prudent risk management. We are dedicated to leveraging technology, growing our distribution network and optimizing operational efficiency to achieve sustainable growth and value creation for our stakeholders. With that, we conclude our opening remarks and now happy to take your questions.

Moderator: Thank you very much. We will take a first question from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Can you elaborate on the tightening of credit filters you spoke about? And shouldn't it have a more lasting impact on your approval volumes then? And which markets were more impacted by this tightening of underwriting?

Manoj Viswanathan: Tightening of underwriting, we have put some product-specific filters, it would be very nuanced to go into the details in this call. But this is something that we implemented a few months ago. It has impacted our volumes to the extent of maybe around INR 10 to INR 15 crores for the quarter. As I mentioned earlier, some of the impact has also come because of the Karnataka issue, about INR 10 to INR 15 crores from there. This is a number that we should now be able to compensate from other markets in the coming months. I think the impact would now taper off.

Rajiv Mehta: Okay. And one data keeping question is what is the BT in as a percentage of disbursement? And what has been the trend here in recent quarters?

Manoj Viswanathan: BT in is insignificant in our scheme of things. It is generally less than 1% of our disbursals. And that has generally been the trend.

Rajiv Mehta: And how much of the flows that you have seen in this quarter, we have seen some meaningful addition in Stage 2 and even Stage 3 when you add back the write-offs. How much of these flows can reverse in Q4? And whether have you seen this better collections in January? Can you throw some light on that?

Manoj Viswanathan: Yes. In comparison to last year, if you see our 30-day past due, it is only 10 basis points higher. Generally, there is a movement in Q3 partly impacted by Diwali holidays and so on. Some of that impact is there this quarter also. Q4, there is again a good improvement. As of now, our expectation is it should completely reverse.

Rajiv Mehta: Got it. And the linkage of bank borrowings with various benchmarks. This is the last question.

Nutan Gaba Patwari: Yes. Bank borrowings, the benchmarks could differ between public sector banks, private sector banks. It's a combination of MCLR and external benchmarks; generally, repo.

Rajiv Mehta: Sure. Any percentages by any chance, if you can give?

Nutan Gaba Patwari: From the bank borrowing, about 20% of it will be on external benchmarks, which will include repo and T-Bill. The balance 80% will be on an MCLR, of which one third will be on 3-month MCLR, another one third on 6 months and finally on 12-month MCLR.

Moderator: We'll take our next question from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Just wanted to understand while you have already kind of commented on asset quality, part of it explained by macro environment. I mean, request if you can give some more nuances around it, this 30-basis points deterioration in 1+ DPD and 30+ DPD. You also said earlier to the last participant that some of it could have also been because of the festive season and the fact that you expect a good improvement in Q4. But I mean, have you had a chance to kind of look through, I mean, which are these customer segments, if at all, any geographies where you are seeing this deterioration?

Manoj Viswanathan: There is no geography-specific deterioration. In the sense of at an overall level, specific states, et cetera. Of course, across branches, there are always pluses and minus between quarters. 30 basis points movement comes from basically -- if there are 200 customers who do not pay at the end of the quarter, it impacts us by 30 basis points. It is a number that can be reversed. It also depends upon the last day, whether it is a holiday and so on and so forth. Some movement is also because of that. Maybe partially maybe out of the 30 basis points, maybe 5 -10 basis points can be attributed to a kind of weak environment, etc. also. But anecdotally or even from our teams on the ground, we are not getting any negative feedback in terms of difficulty in collections, customers going through stress and so on. That kind of feedback is something that we have not yet got.

And even this month, if we look at the collections, we are almost near the end of the month, it is all looking pretty good, as good as any other good month in the past. That is why I mentioned that we are not seeing any cause for worry. It is just a movement of probably 100, 200 customers at the end of the quarter.

Abhijit Tibrewal: Got it. And have you had a chance to look at bureau data, what proportion of our customers would have MFI loan or another retail unsecured loan?

Manoj Viswanathan: Yes, we have. We have done that analysis. Microfinance loans, as we have always mentioned, is a very small percentage. 1% of our customers have microfinance loans. Other loans, of course, now almost 80% of our customers have a bureau score. So, they would either have a consumer durable or a 2-wheeler or a personal loan.

About 20% of our customers would have a consumer durable loan, same for 2-wheelers, same for personal loans. About 15% to 20% of our customers would have one of these loans. And overall, about 80% of our customers have some loan or the other. That is how they get a bureau score.

But those loans, the repayment installment per month is generally in the region of maybe INR 3,000 to INR 5,000 a month, which we would have already considered at the time the customer came to us for a loan as part of the FOIR. So, it should not generally impact the customers' repayment track. And these are loans that get paid off also in between 6 to 18 months. After which the customer's budget comes back to normalcy.

So, we are not seeing any impact of the other loans and customers' repayment. In any case, in the hierarchy of repayment for the customer, the home loan is always at the highest point. The default will start for some other loan, but the home loan will always be a priority for the customer.

Abhijit Tibrewal: Got it. And my second question was for Nutan. While you explained that out of the 24 basis points NIM compression, almost 13 basis points came from higher liquidity. Just trying to understand, I mean, is this the new normal for the liquidity or at some point in time, we will look to kind of run down this liquidity and come down at lower levels?

Nutan Gaba Patwari: Abhijit, let me just kind of help you read the breakup again. So out of 24 basis points, 11 basis points was the increased cost of borrowing,7 basis points are liquidity and leverage put together because the balance sheet is getting more and more levered through debt. The liquidity between quarter 2 and quarter 3 has not moved much. The remaining 7 basis points, which is 24 basis points minus 11 basis points minus 7 basis points is coming from a lower realized yield. And so essentially, what happens is when you calculate the NIM, depending on when that loan has got booked in the balance sheet, the realized yields also move.

Abhijit Tibrewal: And going forward, I mean liquidity, I mean, expected to remain at current levels or at some point in time, we will look through.

Nutan Gaba Patwari: March quarter tends to be the quarter, as you are aware, where we do take drawdowns as we close the year. Towards the end of March, we should be slightly higher. But through the quarter, we should be able to maintain our previous run rate.

Abhijit Tibrewal: Got it. And one last question for Manoj again. Just trying to understand, I mean, this question around competitive intensity from banks have always been there. I just wanted to kind of pick your brains on the fact that recently, almost all the large HFCs in the country have been talking about entering this affordable and near prime segments.

And I mean, at this point in time, it looks like, I mean, they are very, very serious about it, right? I mean have we started seeing some impact of this in the affordable segment? Basically, what I am trying to understand, is there a case that, I mean, over a course of time, yields can see some structural compression from where we are today?

Manoj Viswanathan: Actually, difficult to say at this point of time. But, if I were to just look at some of the 2 or 3 of the large entities that are talking about affordable housing, there is a wide spectrum when we talk about affordable housing. When we say is affordable housing, we talk about less than INR 25 lakhs, average ticket size of INR 10 lakh to INR 12 lakh or INR 12 lakh to INR 13 lakh, etc. But if you see some of their commentary, it is closer to INR 20 lakhs that is the affordable category for them.

And correspondingly, obviously, the yield at which they are operating in that segment will be lesser. So, we are talking about different buckets here. We will have to wait and see how much is the impact on our bucket, which is, let us say, the INR 5 lakh to INR 25 lakh range. As of now, I would say the buckets are different. The buckets in which these entities are operating would be probably different. And hence in the 0 lakh to INR25 lakh bucket, hopefully, there should not be that much impact.

Moderator: We will take our next question from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Sir, just 2 questions from my side, one on the LAP. So, we have seen last few quarters, LAP growth has been much faster than HL. So where do you see LAP share settling in at near term? And given the current operating environment wherein you also mentioned that now we have tightened base filters. So how comfortable we are growing this LAP book at a faster pace? So yes, that is my first question.

Manoj Viswanathan: LAP is looking growing at a faster pace also because of its very small base. We have always been very conservative on LAP and it has always been kind of 10% to 15% of our book. On a small base, the growth looks faster and the numbers look much bigger. Our view on LAP is that currently, we are at about 15% of AUM, and we are comfortable to take it up to 20% of AUM.

As we expand LAP from 15% to 20% of AUM, obviously, the growth in LAP will look higher than the growth in home loans. But that is really our appetite currently that we are comfortable taking it up to 20% of AUM in the near term. So maybe in the next 2 to 3 years, we are looking at a 20% LAP contribution and an 80% Home loan in our AUM Mix.

Renish Bhuva: Okay. And secondly, on the disbursement side. So of course, you did mention about INR 20 crores to INR 25 crores of business loss due to a couple of reasons. But even if we look at, let us say, first 3 quarters of absolute run rate, which is between INR 1,150 crores to INR 1,200 crores. So what is happening here? I mean also when we calculate, it appears that the home loan disbursement is actually degrowing. I don't know. I mean, that's my estimate. So correct me if I'm wrong. But yes, so I just wanted to understand what is happening on the disbursement front and more importantly, on the actual disbursement front.

Manoj Viswanathan: See, overall disbursement growth is around 20%.

Renish Bhuva: That is YoY; I am looking at sequential numbers.

Manoj Viswanathan: Yes. So sequential numbers, as we mentioned, last 2 quarters have been slightly lower, last quarter or the Q3 specifically, we were expecting a number which was about maybe INR 25 crore to INR 30 crore higher, but that did not happen because of the stated reasons. If the number was INR 25 crore to INR 30 crore higher, it would have been a sequential growth of about 4% - 5%, which finally stood at about 1.5%, which we think should get corrected in the quarter or so.

Renish Bhuva: Okay. And any comment on the HL disbursement front.

Manoj Viswanathan: Yes. Like I said, our design is based on AUM growth. AUM growth of 30% plus is what we are targeting. To achieve an AUM growth of 30% plus, I think the disbursal growth is working out to around close to 20%. The HL growth will be maybe 16% - 17% and the LAP growth is maybe 23%-24% thereabouts, giving an average of about 19% to 20% disbursal growth. That will, in turn, give us an AUM growth of 30%. This is our design and this is the way the plan has been made for this year.

Renish Bhuva: Got it. And maybe if I can just squeeze in a last question on the asset yield side. Again, so circling back to the LAP product, as we are already seeing our LAP product growing from a 10% to 15% now and maybe another 2 years, it will reach 20%. Naturally, the self-employed segment contribution is also inching up. But somehow this is not getting reflected in the asset yield. So any comment on that?

Manoj Viswanathan: Asset yield, we are trying to maintain it at about 13.5%. And I think what we will see is that in the next maybe a few quarters as the borrowing cost, hopefully, goes down, the asset yield will not go down to that extent.

Moderator: We will take our next question from the line of Kunal Shah from Citigroup.

Kunal Shah: So when we look at it again on the yield side of it, so we increased the rates in August, but again, that's not reflecting in terms of the yields overall, maybe sequentially, when you look at it, that is not reflected. And even balance transfer has gone up to upwards of 7-odd percent. So any correlation with the increase in the rates, which have been there that it has led to a slightly higher balance transfer as well?

Manoj Viswanathan: No, we passed on only 35 basis points to a group of customers who have not actually gone through a rate increase previously. I would say there was no direct correlation between this minor uptick in balance transfers to the rate increase. Balance transfer fluctuates in that 6% to 8% range we have seen QoQ. It is largely external factors; how aggressive competitors are and so on and so forth and how effective our own internal retention methodology is going. At least in this case, balance transfer is not related to the 35 basis points increase that we carried out.

Kunal Shah: Okay. And this 35 basis points would be effective for what proportion of the AUM?

Manoj Viswanathan: We did the increase in August. So yes, for this quarter, there would be a full impact of the 35 basis points. But the 35-basis points increase was carried out only on a portion of the base. I think about 40% of the entire customer base.

Kunal Shah: Okay. And still yield is flat. And this would have been effective for full quarter of this -- full quarter of December. And secondly, in terms of the growth in MP and UP in particular, so these have been the newer geographies, we have seen that we have doubled the AUM over the past 7 to 8 quarters and now a sizable one at INR 800 crore – INR 900-odd crore. Do we expect to sustain a similar kind of growth rate looking at the branch presence as well as the district penetration? Or there is still a scope and this segment because a larger part of the growth is also being led by these two states.

So do we expect it to continue or there would be more investments required in these states to further at least maintain the momentum of 30% plus AUM growth?

Manoj Viswanathan: Yes. I think about a year ago, we mentioned that our new focus states would be MP, UP and Rajasthan because these are emerging states which have crossed a certain threshold of per capita income and are now showing signs of becoming large affordable housing markets. That thought and strategy remains. We continue to invest in these markets, and we want to obviously expand our market share in these new markets.

We have a much stronger presence in MP because we started there earlier and we have a much deeper presence. In UP, it will require more investment because currently, we are present only in 4 cities. So, we will require far more investment to penetrate UP, but UP is also a much more fragmented market, and we will do it in phases. But yes, we are definitely committed towards investing more in these markets and increasing our presence in these markets.

Kunal Shah: Okay. And just in terms of the rise in 1+ DPD, any trends across the geography, maybe in the core states of Gujarat, Maharashtra, Tamil Nadu, is it holding on relatively well? And rise which we have been seeing that is across the newer states. Is that the trend?

Manoj Viswanathan: No, there is no state-wise trend.

Kunal Shah: Okay. Okay. But no specific states as such, yes, high levels?

Manoj Viswanathan: No specific states as such. In the newer markets, Rajasthan, MP continue to do much better than the rest of India. And so, we do not have any concern as such.

Moderator: We will take our next question from the line of Nidhesh Jain from Investec.

Nidhesh Jain: First question is on employee's count. I observe that employee per branch has increased materially this quarter. So what is going there? And how do you see that number tracking going forward?

Manoj Viswanathan: The employee number moves depending upon the batches of employees who join. There would be a bunch of employees who would have joined in the quarter. The number goes up slightly, but kind of gets averaged out over the quarters. You should look at it on YoY because in some quarters, some months, there are more number of employees joining which eventually results in an increase in employee per branch in that specific month or the quarter.

Nidhesh Jain: Okay. Secondly, since we have now crossed INR10,000 crores of AUM. Is there any update on credit rating upgrade? What are the conversations with credit rating agencies that we are having?

Nutan Gaba Patwari: Nidhesh, as you would have seen, we are also thinking about enhancing the capital on the balance sheet. Once the capital is behind us, that would be an appropriate time to engage on this and take it to closure from the rating agency side. So, give or take, I would say, 6-9 months for both the activities to get closed is a plan that we are working with.

Nidhesh Jain: Okay. The next question is on co-lending. Co-lending, the momentum that we are showing has been slowing down. And I think last quarter, we have one of the lowest co-lending disbursements. So, any reason for that?

Nutan Gaba Patwari: We had done 2 tie-ups, and we were progressing reasonably well. There have been some changes in the policy-related aspects. We are also working with a new partner at the moment. And hopefully, in another 2 quarters, we should be able to pull back the losses as well as show growth on this.

Nidhesh Jain: Okay. And as you think about next year, if we are planning 30% growth on AUM next year, then disbursement growth should also be upwards of 25%. So because the 20% disbursement growth continuing next year, probably we'll not be able to deliver 30% AUM growth. So how are we planning for that?

Manoj Viswanathan: Yes. The aim is to deliver, say, 27% to 30% AUM growth. Accordingly, we have planned the disbursals as well. The aim is to get the average disbursal per month to around INR 400 crores. Next year, we are looking to average close to INR 500 crores.

Nidhesh Jain: Okay. And last question is the count of active connectors in the quarter.

Manoj Viswanathan: Count is about 3,646 active connectors.

Nidhesh Jain: These are active during the quarter.

Manoj Viswanathan: Active during the quarter, yes.

Moderator: We will take our next question from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: My first question was on this tightening of underwriting norms. So what parameters did we come across to sort of tighten the underwriting norms?

Manoj Viswanathan: . We have our own early warning signals and analysis of various portfolios, etc. Based on some inputs that we have got for certain products, we have tightened the norms, we have increased the number of filters in the process, to basically scrutinize it better and so that also results in a bit of slowdown in the disbursal for some period. And after that, it kind of comes back to normal.

Shreepal Doshi: Is it specific to any specific customer profile that we would have sort of seen in these trends?

Manoj Viswanathan: With certain products. We have products like self-construction, resale, apartments, etc. It is a combination of certain products, LTVs, type of properties, etc., quite nuanced. I do not want to go into the details at this point. But for certain categories, we have implemented certain extra filters and more exhaustive processes to clear the approval.

Shreepal Doshi: Got it. Okay. And sir, second question was the NHB borrowing related. So we would have drawn down our borrowings from our sanction pool from NHB. So what is the rate of interest that we're able to get from NHB?

Nutan Gaba Patwari: Shreepal, it is broadly in line with where the banks are. It is not significantly different.

Shreepal Doshi: Okay. So the benefit is no more there in terms of the differential between the 2?

Nutan Gaba Patwari: For what we are getting now. This should change ideally once the rates go down. But as of now, yes, you are right, the difference is not significant.

Shreepal Doshi: Got it. The last question is on the branch expansion strategy. So, what would it be in FY26? And which states would we be targeting incrementally?

Manoj Viswanathan: Largely in a year, we try to target about 30 to 40 branches. A similar number will be there next year as well. And as I mentioned, our aim is to penetrate deeper into the 3 new emerging markets, which is UP, MP and Rajasthan. We would have a good proportion of branches coming up in those states. Of course, our core markets are also there where there are branches being added in existing locations. I would say broadly 50-50 in terms of new markets versus existing markets.

Shreepal Doshi: Got it. And sir, just one follow-up there. In the existing market, are we focusing in the same Tier 1, Tier 2 locations? Or we would -- since there is -- we are trying to penetrate more, we would also look at Tier 3 and Tier 4 geographies.

Manoj Viswanathan: So there, again, the strategy is kind of 50-50. 50% of the branch expansion happens or 40% happens in existing markets where we already have branches. Addition of new branches in a larger city. And about 50% of the branches get opened in new locations, new cities.

Moderator: We will take our next question from the line of Aravind R from Sundaram Alternates.

Aravind R: Congratulations on the good set of numbers. So, you mentioned about early warning signals that led to credit underwriting being tightened. I would like to understand what kind of early warning signals if you can give, please about like whether it is income levels growth is lower or higher leverage among the customers? Or is it like any particular cohort which is showing any like troubling signs?

Manoj Viswanathan: Yes. Generally, it is because of some early signals that we get on certain pools of portfolios. And, sometimes we get information from the market, say some other entity being impacted by something, etc. We pick up clues from those and then implement these changes.

Aravind R: So even though we do not see any issues in our portfolio, like we are seeing like customers similar to us, but being serviced by other lenders, there we are seeing some signs of...

Manoj Viswanathan: Both, yes. The occurrence in our portfolio is not significant enough to impact the portfolio. But there would be sporadic one-off instances that have happened somewhere, which give us clues or give us signals. Plus, like I said, we listen to things that have happened to others in the market as well.

Aravind R: And, do you see especially in the geographies we operate, like do you see any like either real income growth being impacted or higher leverage among the customers in the geographies we operate?

Manoj Viswanathan: No, we are not getting inputs from the ground teams related to this or they have not expressed any difficulty in collections because customers are over leveraged. So yes, as of now, nothing like that has percolated to us at this point.

Aravind R: Sure. And the fee income growth has been very good, even though the disbursement growth has been slightly lower. I would like to understand what is it being contributed by is it insurance brokerage, which is helping here or something else?

Nutan Gaba Patwari: We had started the entire insurance partnerships mid of last quarter. This quarter, we've got the full benefit of that. That is what you see in the fee and commission line. This number is now a more stable number going ahead QoQ.

Aravind R: Can you like tell me what is the number like from insurance group?

Nutan Gaba Patwari: Around INR 15 crores to INR 18 crores per quarter.

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

Raghav Garg: Congrats on your results. I just have one question. When I look at the longer-term trends on your gross Stage 3 ratio, right, since the FY '18, the ratio has always increased Y-o-Y, except maybe in FY '23 when it declined. And then I assume that this trend would feed into your PD and LGD calculations. But when I look at the trend on your Stage 3 coverage over last several quarters, right, say about 8, 10 quarters, the Stage 3 coverage has been coming down. Normally, I would think that because the trend has been adverse, the ratio, the coverage ratio should increase or at least not decline. So can you help me understand how to read this? That is the only question that I have.

Nutan Gaba Patwari: No problem. So, Raghav, when you look at the Stage 3 from FY18, like you mentioned, there are various things happening. We are discussing 7 years or 8 years. One, the Stage 3 calculation itself changed in Dec'21 when the RBI came up with the once NPA always NPA classification. So, the numbers prior to that are not like-for-like to that extent. That is one. In the new computation, you also have a large bucket sitting there, which is less than 90 DPD where you do not have to take a full provision, you have to take a part provision. That is another reason.

The second reason is the composition of the book. When you calculate PD and LGD, you calculate based on your past performance. So, the PD portion, COVID times show a different outcome. And finally, the LGDs vary depending on your product. So, if you have an apartment product with a 90% LTV, your LGD is higher versus we have a LAP with a 30% LTV. So, your LGDs are very different.

As we have been discussing all through the call today that the LAP has been increasing, the self-construction has been increasing, where the LGDs are very low because the LTVs are low to begin with. The mix or the weighted average LGD of the book has been coming down. And that is what is reflected in the provisions. This is the whole science behind these numbers. I hope this answers your question.

Moderator: We will take the next question from the line of Pavan Kumar from Ratna Traya Capital.

Pavan Kumar: I wanted to understand what is the kind of debt equity that we are looking forward, maybe 2 or 3 years hence since we are trying to raise money. And also this INR20,000 crores target by when we are trying to hit. And, are we comfortable lending in the current environment in terms of -- I am talking about in terms of almost doubling the book maybe next 2 to 3 years, how do we look at that overall? And any -- I mean, I just wanted to understand the rationale -- your rationale behind raising this new incremental?

Nutan Gaba Patwari: Yes, sure. INR 20,000 crores is a number that we are looking to hit by Mar'27. That is about 9 quarters from now. In terms of the debt equity, we are at 3.8X - 3.9X depending on if you look at average or closing. Let us say, rating agencies are comfortable with 5X. What we have done is to take an enabling resolution from the Board, which allows us to raise this capital in the next 12 months such that depending on the advice from the investment banks, depending on the conversation with investors, we have enough time to take this money in. As far as lending in this environment is concerned, maybe I can request Manoj to share his views on that.

Manoj Viswanathan: As we have been discussing, we are not seeing such a major adverse trend as far as lending is concerned, and we are not getting any such ground level feedback also from our teams. We are fairly optimistic in terms of our ability to grow and build market share in this affordable housing segment.

Pavan Kumar: Okay. One more thing, what do we think are the normalized BT out rates? Because in this quarter, I think there was a good amount of jump there.

Manoj Viswanathan: Yes, it moves between 6% to 8%. That is generally the range we have seen. The maximum that we have seen is 8%, I think, a couple a few quarters ago when there was a series of rate changes that were done or rate increases that were done. But broadly, it is in the 6% to 8% range. It should remain in that range only.

Pavan Kumar: I think we are planning to raise new money, would there be any chance of seeing the NIMs going higher? Or you would pass on whatever benefit we might get from the raising new money through decline in the NIMs?

Nutan Gaba Patwari: No, absolutely, the NIM will definitely go up and the ROA should also go up with the leverage coming down. I think the way to look at yield and cost of borrowing for this company is looking at spreads. The spreads will remain in the 5% to 5.25% range that we have been guiding all along. The outcome of NIM depends on how the balance sheet is structured from an equity perspective. That is just a calculation, and we will continue to keep guiding back to spreads as far as the business portfolio conversations are concerned.

Pavan Kumar: Okay. And have we looked at by when we can hit this current ROE back since we are raising the money?

Nutan Gaba Patwari: Once we raise the capital, just as a scenario discussion, let us say, 6 months' time, we are coming close to 17% ROE as we speak. We should go down to 15.5% and then aim to pick up back to 17%- 17.5% in about 8 to 10 quarters. An average 3-year ROE for an investor should be in the 16% to 16.5% range. That is the model that we are looking to work with.

What we have done to arrive at this model is also important to discuss. We have looked at Bajaj Finance and Chola as an institution -- two institutions for the last 20 years to 25 years and how they have managed their growth and how they have come to the market and raised capital every 3 to 4 years, broadly speaking. And that is the model we hope to work with.

Moderator: We'll take our next question from the line of Krishnan ASV from HDFC Securities.

Krishnan ASV: A couple of things. One, there was something you mentioned about having seen a spike, about a 30-bps spike as far as your 30 DPDs are concerned. I just wanted to understand what are you hearing from the ground in terms of what are the reasons why people are defaulting? Is it cash flow? Is it seasonality in cash flows?

Is it because there is leverage building up elsewhere? Because you seem to indicate that's not what you're hearing. But I just wanted to understand when you have these conversations on ground, what are your -- especially because you also said in terms of the hierarchy of repayment, this will be really up top. So just throw some light on what insights you are gearing to on ground.

Manoj Viswanathan: Generally, the reasons our customers default is mismatches in cash flows. Somebody has not got a salary for a month, and they will get it in the next month or they are between jobs. So that month, the cash flow is a bit impacted. Or there are some emergency expenses that have come up, school fees time or there is a medical expense, etc. Generally, these are the reasons customers delay. What we normally see in the one DPD or let us say, between 0 to 60 days kind of a default is largely because of these cash mismatch or cash flow mismatch reasons.

Beyond 60 days, of course, there could be more serious reasons like a permanent impact to the income, a permanent impact to life, etc. These are generally the reasons our customer's default. But like I said, of late since this whole macro issue has started happening, our teams have still not come back and said that customers are over-leveraged or overburdened with existing EMIs, hence they are not able to pay, etc. That kind of anecdotal information or anecdotal news is not something that has come to us.

Krishnan ASV: Understood. The other question I had was around LAP, given that, that is incrementally a segment where you are likely to build more presence and you take the share up from 15% to 20% that will grow faster than the rest of your home loan book. How is the competitive dynamics, especially in the geographies where you are targeting to grow your LAP portfolio?

Manoj Viswanathan: LAP, because of our limited presence in LAP and lower share of LAP, actually, first of all, our performance on LAP is very good. The repayment track record on LAP has been very good. Also, for us to incrementally change that ratio from 15% to 20% is not a big deal because we are operating on a low base. And I think because many of the players in the market have already maxed out their capacity, we are still in a position to kind of pick and choose our customers.

Moderator: We will take our next question from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: My other questions are answered. Just one question, Manoj. In earlier calls, we always have guided for growth AUM growth of 30% plus. Did I hear you correctly when you said 27% to 30%? Are we lowering the guidance on the AUM growth plan?

Manoj Viswanathan: The plan that we mentioned, which is the INR 20,000 crores plan as of FY27, that actually works out to between 27% to 30% growth for this period between FY24 to FY27.

Shailesh Kanani: It was not more particular FY '26 per se. It was in general for next 2 years.

Manoj Viswanathan: Yes, next 2 to 3 years average from that perspective, is how I mentioned.

Shailesh Kanani: Okay. Sir, just one more thing on disbursement end, earlier we had guided that we are ramping up the capacity with the addition of branches and employees. We were expecting somewhere in the range of INR 2,500 crores to INR 3,000 crores of disbursements in the second half. That guidance still holds or that is going to be revised downwards considering the macro environment?

Manoj Viswanathan: Our target for the year was about INR 4,800 crores. We are broadly on track.

Moderator: Next question is from the line of Chinmay Nema from Prescient (check spelling) Capital.

Chinmay Nema: Just wanted some colour on the asset quality of the co-lending book and the direct assignment side, if you could share the Stage 3 numbers for the same?

Nutan Gaba Patwari: Co-lending book is fairly new. I do not think there is any meaningful Stage 3 sitting there. Assignment, we have been doing for a long period of time, it will be way below our own balance sheet numbers, probably 2/3rd of where our current own balance sheet numbers are, broadly speaking.

Chinmay Nema: Got it. So, the Stage 3 number is lower than that of what we have on our book. Is that understanding, correct?

Nutan Gaba Patwari: That is right.

Chinmay Nema: Got it. And on the SMA side, behaviourally, do you see something different on these books compared to what we have on our books?

Nutan Gaba Patwari: Look, the co-lending book works within a product that we have decided together with the bank, which arguably could be slightly better in terms of profile.

Manoj Viswanathan: By design, the co-lending book should perform better. I mean it is still early days for us to reach a conclusion. And, as of now, the delinquencies are very low there. But by design, because these are formal customers and with a higher income bracket and higher ticket size, ideally, they should perform better than the core affordable housing or traditional affordable housing portfolios. But it is still early days to reach that conclusion.

And same for the assignment book because assignment happens after a certain minimum holding period during which the repayment track is observed and then the assignment is done. So, it is generally marginally better than the affordable housing portfolio.

Chinmay Nema: Got it, sir. And secondly, just wanted to understand what is the right vintage to look at in terms of assessing the gross NPA. So typically, after how many months do they peak out on average or in general?

Manoj Viswanathan: They peak out after 36 to 42 months.

Moderator: Next question is from the line of Hardik Doshi from White Whale Partners.

Hardik Doshi: So, I just wanted to ask a bit of a longer-term question. You have given the target of INR 20,000 crore. Once you get to that kind of a scale in the affordable housing growth can get challenging, just looking at other companies within the affordable housing space that have got that scale. How are you thinking beyond FY27, let's say, FY27 to FY30, would you look to diversify into other products? Or what is the plan?

Manoj Viswanathan: We are working on a long-term strategic plan. We do a 3-year kind of a plan and discuss with the Board. Like you very rightly said, yes, we have to relook at what the product mix will be and certain other strategies, etc. It is still in discussion stage, but broadly, we are looking at an INR 35,000 crores kind of a number by 2030.

Hardik Doshi: INR 35,000 by 2030. And that will include I guess, introduction of new products?

Manoj Viswanathan: Yes. Broadly, without getting into too much detail, there will be higher share of co-lending compared to what we are talking about now. Slightly higher share of LAP and slightly higher share of co-lending is the way I would put it right now.

Moderator: We will move on to the next question from the line of Jatin Sangwan from Burman Capital.

Jatin Sangwan: My question is around co-lending. If I look at co-lending transactions, they once reached 7% to 8% of disbursements. Now they are back to 2.5% to 3% of disbursements, and they are continuously falling down sequentially. So, are there any issues that we are facing with the current partner? And when do we expect the co-lending transactions to pick up?

Manoj Viswanathan: Yes. Co-lending we have to work with the banks and with the partner lending banks, there are always some push and pull in terms of their product policies and changes -- it's not just our changes. They also change their product policies from time to time. That impacts the volume from time to time. But these are hiccups that will be there, and we will handle them out and we will again pick up the volumes.

Jatin Sangwan: Okay. And just one bookkeeping question. Our effective tax rate in this quarter was around 25%. So, what actually would be our effective tax rate going forward for the next year?

Nutan Gaba Patwari: Just to cover the reason behind the higher tax rate, as we discussed that there is an insurance commission, which is higher. So, as the non-housing linked income goes higher, the exemption that we get on maintaining the provisions for NHB also reduces. When you do all these calculations going forward, we expect this to be around 24.5%.

Moderator: Next question is from the line of Jignesh Shial from InCred Research.

Jignesh Shial: Sorry, I logged in a little late. So, in case if I am asking the same question again. But my first question is more on margins. If I see it, our spreads have basically have seen a decline of roughly around 10 bps sequentially, but there is a higher dip in margins. So, anything that I'm missing out here? What could be the reason for it? That is one.

And second, obviously, though we are aspiring to grow pretty decently, 27% - 30% you're talking about next 2 to 3 years and raising money and all. But technically, our disbursement has remained more or less flat if I see last 3 quarters. So, anything that we are getting concerned about or any specific reasons for it? That is the second.

And third, obviously, you highlighted that basically, the primary reason you are still not seeing over-leveraging for the NPAs, but bounces have seen a sequential kind of a rise. Still, you are seeing it is only because of shortage of liquidity or shortage of cash flow that is causing it, and you are still not seeing anything different than this. So, I still want to get a little bit more color on it that what could be the reason behind it? These are my three questions.

Manoj Viswanathan: Yes. Take the first question on margin. The NIM compression of 24 basis points, I think you are referring to. It has multiple components. Part of it is leverage increase. 4.8% going up to 4.9%, partly because of cost of borrowing. Broadly, you can divide it into 3 parts. About 7 to 8 basis points each. There is a cost of borrowing impact, there is an actual yield compression of about 7 basis points - 8 basis points and the cost of borrowing movement of about 8 basis points to 10 basis points. That is the reason for the 24-basis points movement.

On the disbursal, like I said, the first half is something that we were very pleased with because first quarter, we actually had a much higher jump in disbursals compared to previous years. The first quarter is generally muted, but this time, the first quarter was good. We had about 5% QoQ jump in disbursals compared to the last quarter of last year. And as a result of which Q2 was a bit muted because already Q1, there was a jump.

Q3, of course, as we already admitted that we have done some changes, and there was an impact of about INR 30 crores - INR 40 crores, which would get rectified in the coming quarter. So, nothing which is long term. It would be, I would say, just a temporary blip, and we should be on track as far as disbursals are concerned.

As far as delinquencies are concerned, again, we are really not seeing any structural issue on the ground. Collections, if we actually track day-to-day daily collections throughout the month and how the collection is moving every month, we are not seeing any difference in the way customers are paying.

And we are still getting the same kind of traction across months. I mean collection in January is as good as any other previous month. The slight movement in delinquency happens because maybe a few extra customers do not pay at the end of the quarter or end of the month. But otherwise, structurally, we are really not seeing any stress at all.

Jignesh Shial: Okay. Understood. Look, I mean, on disbursement, firstly, what you are highlighting that obviously, 1Q, you have seen the jump and then second and third quarter have been more or less flat. Even if I see for your 9 months, I am just purely adding up last 3 quarters and then comparing it with FY '24, our growth had been muted. Generally, we tend to grow in the range of somewhere around 30% plus.

But if you see it, it is somewhere in 22% - 23%, if I see it up correctly. So, do you think so by the year-end, we will be going back to 30% kind of a disbursement growth number? Or do you think this will be the similar range where we will be growing for this particular financial year. And then again, we can see a rise probably next year? That is one.

On asset quality, if you can just give me a color on the defaults, what we are seeing. Is it coming up more from the new geographies, which is -- which we have built in or it is still from our old markets where we had a significant stronger presence like Western states and not? A little bit more color on it, if you can give.

Manoj Viswanathan: Yes. As I said, we are not seeing any state-specific problem or state-specific issue. For us, generally, because we are fairly diversified across states. If you see states, our distribution of AUM is between 5% to 15% across 13 states & UT. And only one state, Gujarat actually contributes to about 30%. So, we do not have any concentration. It is fairly diversified presence. We do not really have a state-specific issue at this point. It is largely there are sporadic or isolated branches in certain states which give trouble. So, there is really no state-specific issue that is there at this point of time.

Jignesh Shial: Coming from the new book more compared to the older book or any vintage, if you can give color on that. Old book and new book also.

Manoj Viswanathan: Yes, vintages are actually holding. The trends are the same, which is why you are seeing our GNPA trends are also fairly static. See, our growth has been around 30% consistently for the last 16 quarters. And the GNPA has also been in that 1.6% to 1.8% range for the last 16 quarters.

Vintage-wise, there is really no change that we are seeing. And as far as the disbursal is concerned, the design is for a 30% AUM growth. So, the disbursal growth will be slightly lower, maybe between 20% to 25%.

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

Ravi Naredi: You and your team doing fantastic. Insurance commission income is also fantastic and you have started new one. Sir, what is the cost of connectors to Home First as a whole? Can you tell that figure?

Manoj Viswanathan: The cost of paying the connectors?

Ravi Naredi: Yes, yes, yes.

Manoj Viswanathan: We pay about 0.4% to 0.5% of the disbursed amount to the connectors.

Ravi Naredi: 0.4% to 0.5%. And can you give in 9 months, how much we charge the bad debts from profit and loss account? And how many homes we auctioned in 9 months?

Manoj Viswanathan: Sorry, sir, what was the first question? Write off.

Ravi Naredi: How much is the write-off from profit and loss account? And how many homes we auctioned?

Manoj Viswanathan: Yes. Write-off was about INR8 crores in the first 9 months. About 711 accounts have been written-off incl for shorter recoveries.

Ravi Naredi: Okay. Sir, a last one, ECB borrowing, we are hedging foreign currency and it is, okay, how much borrowing cost we assume to company?

Nutan Gaba Patwari: The ECB that we have is hedged fully for currency and for interest rate fluctuations at the moment. The current landed cost of borrowing to the company is slightly lower than where the banks are.

Moderator: We take the next question from the line of Divyansh Gupta from Latent Advisors LLP.

Divyansh Gupta: A question that someone also had asked. So the trend for Stage 3 ECL coming down. It was mentioned that the LGD is coming down because the LTVs are coming down, right?

Nutan Gaba Patwari: Because the mix is improving towards lower LTV loans.

Divyansh Gupta: But if I see the investor presentation and LTV on book, I see the LTVs are going up. If I see Q1 of FY22 LTV on live book was 47.4%, in Mar'23 it was 45.7% and we are currently at 47.1%. So, let us say, for last 1.5 years or 8 quarters, the LTV has been going up. So, I could not get that relation of how we are seeing that LGD is going low because LTV is going low?

Nutan Gaba Patwari: No. When you actually look at the LGD, you have to look at the LGD on the losses that you've actually incurred, not what is on your book. So, when you have a higher proportion, naturally speaking your losses will be higher from your higher LTV book. And that is what is already coming through the LGD calculation.

Divyansh Gupta: So, I didn't get. So, you are saying that the loans that were given earlier were of a lower LTV and they are going into NPAs and therefore, their LGD is going down?

Nutan Gaba Patwari: No. Let us look at that time period and then you should be able to appreciate the point better. Let me say 5 years ago, if I had only 3 products, and I was doing apartments, self-construction and LAP and the mix was 50-30-20, right? And that mix has changed today to, say, 30, 40 and 30, right? There is a change in mix. But what will come through my LGD calculations is that I incur higher losses in the past than today because the LGD book has a different mix compared to the book that I am seeing in the portfolio.

Divyansh Gupta: So, it's no more -- it's not only LTV, but it's also, let's say, the change of collateral mix is what you are saying?

Nutan Gaba Patwari: And many other factors. Yes.

Divyansh Gupta: Got it. And that you give an example, but if you can just, let us say, give me with the concrete view that, let's say, what has changed because the LTV is not the reason.

So then what is the actual change that we have seen that we are giving more apartments, we are doing more self-construction.

Nutan Gaba Patwari: We are doing more self-construction. We are doing more LAP.

Divyansh Gupta: LAP typically has a higher NPA is what I understand, they have a lower LTV.

Manoj Viswanathan: Higher NPA but lower LGD. LTV is low. The LTV is low. So, we recover the entire amount.

Divyansh Gupta: Got it. Understood. And the second was on Stage 1 ECL. So Stage 1 ECL is basically saying that in the next 12 months, what we see as loans which will go into NPAs? Now if, let's say, we say that economies and more stress and whatever the narratives are being mentioned. Then ideally our Stage 1 ECL rates should go up. But if I see, let's say, from first quarter of Mar '25, well, let's say, or even, Mar'24, third quarter -- FY24, third quarter, it was 0.27%. It has come down to 0.24%.

Nutan Gaba Patwari: It has come down. The reason for it to come down is we used to have a lot of overlay on Stage 1. What we have done through COVID is to take a significant amount of overlay. And we would take it in particular cohorts of customer, irrespective of the stages they were sitting in. So, you would see a higher provision in Stage 1 as well. But as better times have prevailed in the last quarter of last financial year, first quarter of this financial year and now.

There, our Stage 1 performance has improved in terms of the flow rates. Our auditors are of the view that they should reflect entirely from what is coming from the model. And overlays on Stage 1 is something that they are not comfortable with. So, we have moved away from the overlay on Stage 1, which we were carrying in the past to either Stage 2 or Stage 3 or rather reduce the overlay and trying to build the ECL through the model directly.

Divyansh Gupta: Got it. And what would be the reason for volatility in Stage 2 ECL, 7.85% in first quarter, 10.1%, 9.6%, just others are directionally going down in Stage 2 is swinging?

Nutan Gaba Patwari: Between Q1 to Q2, there has been a change in the discounting assumptions that we took in Q1 to Q2. And Q2 to Q3 is a reflection just of the higher base of Stage 2 loans. This should go back to where it was in Q2 over time.

Divyansh Gupta: And just a couple of more questions. So the QIP amount that we are raising, INR1,250 crores, whenever we raise, it is for what period of time from our visibility. Is it let's say, 3 years, as you mentioned for Chola or Bajaj, or is it like more longer?

Nutan Gaba Patwari: 3 to 4 years.

Divyansh Gupta: 3 to 4 years. Got it. Understood. And what would be the current FOIR for our fresh disbursements.

Nutan Gaba Patwari: 40%.

Divyansh Gupta: 40%. And this, I am assuming is coming down

Nutan Gaba Patwari: No. This is held pretty much constant.

Moderator: The next question is from the line of Pavan Kumar from RatnaTraya Capital.

Pavan Kumar: I just wanted to understand in co-lending specifically, what is the kind of portion of the book we plan to retain? And are the yields on the co-lending book higher than what we actually do in our own book? How does that work? And do we also plan to introduce -- I understand we have currently 2 or 3 partners. Any targets on the number of partners we intend going forward, anything of that nature?

Manoj Viswanathan: Co-lending book, basically 20% of the loan we retain and 80% of the loan is passed on to the co-lending partner. The margin on the entire loan generally tends to be around between 1% to 1.5%. For example, the rate on a co-lending loan will be around 10%, which will give us about 1% to 1.25% margin because our cost of borrowing is, let us say, 8.5% or 8.75% on the co-lending piece.

So, 1.25% is what we earn. But we earn the 1.25% on the entire loan, whereas only 20% of the loan sits with us. So effectively, we get a multiplier effect on the 1% or 1.25% that we are earning. That is how the co-lending piece works.

As far as partners are concerned, we already have two partners, and we are working with the third one. We do not have a target in terms of number of partners. We want to make sure that whichever partners we are working with, we have a substantial share and share of business going with them.

Pavan Kumar: Most of these partners which we would target would be the PSVs or I mean, is there any specific preference in that particular nature?

Manoj Viswanathan: Yes, we have two PSUs and one private bank.

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

Manoj Viswanathan: Thank you, everyone, for participating and engaging in the call. We hope we have been able to answer all the questions to your satisfaction. In case you want to reach out for further questions, you can reach out to Deepak Khetan or write to us on investor.relations@homefirstindia.com. 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 and you may now disconnect your lines.