HFFCIL/BSE/NSE/EQ/19/2021-22 Date: 12-05-2021

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

<u>Sub: Earnings Conference Call Transcript</u>

Dear Sir/Madam,

With reference to our letter No. **HFFCIL/BSE/NSE/EQ/08/2021-22** dated April 28, 2021, please find attached the transcript in respect to the earnings conference call on the Audited Financial Results for the quarter and year ended March 31, 2021 held on Tuesday, May 4 2021 at 4:00 P.M. IST. The transcript of the conference call can also be accessed at the website of the Company at www.homefirstindia.com

We request you to take the same on your record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

Digitally signed by SHREYANS BACHHAWAT
DN: c=IN, o=Personal, cn=SHREYANS BACHHAWAT, serialNumber=fde20153e75f5e87dabaa79d6eee7a1cd4ad6b8aad8b8e8951489217c6080659, postalCode=700007, 2.5.4.20=a6487490d609a0891b1c767a8c2bb805c2f5c8b739a41fa4271fc9c6dd22e745, st=West Bengal
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Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q4 FY21 Earnings Conference Call

May 04, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 Earnings Conference Call of Home First Finance Company India Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. 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. Manoj Viswanathan, Managing Director and CEO of Home First Finance Company India Limited. Thank you and over to you Sir!

Manoj Viswanathan: Thank you so much. Good afternoon everyone and welcome to our Q4 & FY21 Financial Results discussion call. On behalf of the company, I extend a warm welcome to all of you. I hope that all of you and your families are safe and healthy. Today on the call I am joined by Ms. Nutan Gaba Patwari, our CFO and another senior members of the team. I hope everybody had an opportunity to go through the investor deck and press release. We will quickly summarize our Q4 & FY21 results.

FY21 was the Covid year, but at HomeFirst it was an eventful and busier than normal year. At the peak of Covid-1, we had Warburg Pincus coming in as an investor to acquire 30% stake in the company, which acted as a strong endorsement of our process and portfolio quality at HomeFirst. We spent Q2 and Q3 repairing some of the disruptions that were caused by Covid. We also prepared for the post Covid business recovery, by commencing business at new locations. In Q4 we moved into full recovery mode and also completed a successful IPO of the company.

The second wave has come and has caught the entire country by surprise. The last three to four weeks have been tough for each one of us and much worse for many amongst us who came down with Covid. 119 of our employees have tested positive so far and 109 out of that have recovered while rest 10 are recovering now. Rapid vaccination is the best solution and we are also facilitating this process for our employees and their families. As of now 10% of our employees have taken the first dose of the vaccination. We are also offering our help in the communities that we serve. We have deployed oxygen concentrator banks in a few cities that are worst hit. We are providing food kits to be distributed to the needy in areas around our branch. We are guiding our employees to operate with utmost caution and adherence to Covid precautions. Many of our customers are also going through the Covid journey and we have advised our team to be compassionate in their interaction with customers. We expect

Wave 2 to be steeper but shorter. We stand resilient and prepared for the inevitable recovery.

Coming to the Q4 FY21 results, our profit after tax crossed the Rs 100 Crores mark, which is the highest in the history of the company and the first time getting into a three digit mark with a growth of 25.9% on a year-on-year basis. We saw record disbursements of Rs. 452 Crores in Q4 FY21, growth of 30.4% year-on-year and a sequential growth of 29.5%. Our AUM stands at Rs. 4141 Crores, up 14.4% on a year-on-year basis. The Southern India markets now contribute to more than 30% of our disbursements and about 27.6% of our AUM. Our cost-to-income has gone below the 40% mark this year with Q4 at 38% and the full year at 39%. Our collection efficiency has improved further to 98.5% in March 2021. Our gross stage 3 is at 1.8% and net stage 3 is at 1.2% with zero restructuring. Our 30 DPD is at 4.1% and is stable on a quarter-on-quarter basis and our 1 DPD has improved significantly from 7.5% in Q3 FY21 to 6.2% in Q4 FY21. Considering that SARFAESI restrictions have been lifted recently, the accounts that are in stage 3 will now start getting resolved.

Looking at the future, affordable housing demand has shown a strong rebound post Covid-1 across all markets where we are present. We have identified more than 20 locations where we want to set up branches. As per our existing modus operandi, we have commenced business in these locations and we will set up a branch when the AUM grows to Rs.5 Crores plus. We have also commenced business in 20 locations on a digital mode. These 40 new distribution points have contributed 15% of our originations in March. We have also identified about 50 more such locations for physical or digital presence and we will commence business in these locations by Q3 to Q4 of FY22; these branches will contribute to the growth in FY23.

India has been leapfrogging in the digital space. India has more than half a billion smart phone users now, the second highest in the world. E-commerce and digital payments have got a boost during Covid. Digital payments have grown to an annual payment run rate of $450 billion and now forms 30% of all retail transactions. We continue to pursue a digital approach in all aspects of our business. Our customer app continues to enjoy very high usage and more than 60% of our customers are registered on the app. Our connector app has also seen an increase in usage with 92.2% of our connectors now registered on the app. We have further streamlined our loan approval process as a result of which our average turnaround time to approve a loan has improved to 88% of all loans approved within 48 hours in FY21 compared to 75% of loans in FY2020. We have implemented e-signature process for loan agreements to make it easy for customers to execute these from their homes or office. We continue to invest to strengthen our technology backbone as well as mobility solutions and analytics. With this I would now like to hand over the call to Nutan to take you through the financials. Nutan over to you!

Nutan Gaba Patwari: Thank you Manoj. Good afternoon everyone. I will take you through the performance for Q4 and FY21. AUM for March 2021 stood at Rs. 4141 Crores out of this On-book is 81% and Off-book is 19%. On a product wise breakup housing loans stayed at 92%, loan against property was 6%, developer finance is 1% and loan for purchase of commercial property is 1%. On a customer occupation wise breakup, salaried is 74% whereas self-employed is at 25%. 31% of AUM is from customers who are new to credit. Our securitization amount For FY21stands at Rs. 300 Crores. Going forward, we will continue to explore these transactions, which will help optimize the capital usage, bring down leverage and improve cost of funds as well as balance the existing liquidity position.

On the liability side, we are rated A+ with a stable outlook for long term credit from ICRA and CARE and A1+ for short term credit from ICRA and India Ratings. The company has access to diversified and cost effective long term financing with 17 marquee lenders. Total borrowings including debt securities for FY21 are at Rs. 3054 Crores as against Rs. 2494 Crores as of March 2020. Our borrowing mix is 44% from banks out of which 25% is from public sector banks and 19% from private sector banks, 29% is from NHB refinance and 19% from direct assignments. We have zero commercial paper borrowings. Our cost of borrowing has been trending downwards, our Q4 FY21 cost of borrowings at 7.4% reduced further from 8% in Q3. Our marginal cost for FY21 was 6.6%. Our net worth as of March 2021 is Rs. 1381 Crores vis-à-vis Rs. 933 Crores as of March 2020. On margin side we have been operating at a healthy and consistent spread of over 4.5% over the past few quarters, our spread went up from 5% in Q3 to 5.4% in Q4. This has led to a spread expansion of 90 basis points on a year-on-year basis. On the operating expenses we have seen a downward trend due to improving operating efficiencies, our opex to AUM stands at 2.7% for FY21. Our exit Q4 opex to AUM was at 2.9% which saw high disbursals and full cost. Our profit was Rs.100 Crores for FY21, which saw a growth of 26% on a year-on-year basis. FY21 ROA stood at 2.9%, our exit Q4 ROA is at 2.9% despite high liquidity and high credit cost. Our FY21 ROE is at 8.7%, exit Q4 ROE is at 10.1%. We have raised capital of Rs. 345 Crores during the year, and held high liquidity. We carry Rs.1050 Crores on balance sheet as of March 2021 versus Rs. 367 Crores in the balance sheet of March 2020 and we have also taken aggressive provisions. The full year pre-money ROE stands at 9.9%. Our book value per share stands at Rs.158 as of FY21 and diluted EPS for the year is 12.2. Our Tier-1 capital adequacy is 55.2%. To summarize as a company we continue to invest in our strong digital operating model to deliver superior service to customers with industry leading turnaround time. With a strong balance sheet position, we have the opportunity to increase our market share as well as scale up our presence in existing and newer geographies. The company has comfortable liquidity to facilitate the planned growth.

With our lean organizational and process architecture we will continue to work on reducing cost and improving profitability. We have taken prudent measures on provisioning and early risk recognition. Our ECL provision 1.4% reflects our stand..

With this, I open the floor for discussion.

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

Karthik Chellappa: Thank you very much for the opportunity Manoj and Nutan. I hope everyone at Home First is safe and healthy and also thank you for the detailed disclosure in the PPT, it has some really good data points. I have three questions, the first one is could you share some trends that you are seeing in April with reference to say collection efficiency ratios, one day DPD and the growth with specific reference to your two big markets Gujarat and Maharashtra?

Manoj Viswanathan: Your question basically is around the collections and growth in April right vis-à-vis how it has been prior to that?

Karthik Chellappa: The second wave kind of started in April so I just wanted to get a sense of how you are seeing things on the ground?

Manoj Viswanathan: For April, in fact the bounce rate was lower than that in March, so we had a bounce rate of about 16.25% so that showed a continuing improving trend. Collection was fairly okay throughout the month except for the last week when we saw a few customers asking for more time and to get into a little bit of detail, some of the customers said that they would just like to have a couple of weeks more to think as things settle down, it is not that they cannot pay us, so we have taken a more compassionate stand with customers and we are basically working through these crisis with them, so that is what we have seen, so these are not customers that we saw last time who are panicking or going back to their villages, etc, these are more stable customers who are just asking for a bit more time so that I would say is the situation as of now. Once the bounce rates comes for May and we see how the collection pans out I think we will be able to give a better answer to this question. As far as the disbursals, etc., are concerned, again the numbers were fairly good, we were able to disburse close to 70% to 80% of what we normally do in a month, and we are seeing that kind of movement over the last two weeks, so overall to summarize that, it looks like this time it is going to be different. I think most of the customers have realized that they can continue to operate through the pandemic by taking some precautions so I think both the collection as well as the disbursal and demand on the ground will reflect that.

Karthik Chellappa: Got it, great. Thanks Manoj. If I were to look at our overall coverage ratio there has been some rundown of provisions especially in stage one and our coverage has dropped a bit compared to December, now going into the second wave where probably there is like one-two quarter impact, what is the kind of a steady state provision coverage that you would be comfortable with?

Manoj Viswanathan: As far as provision coverage is concerned the way we are looking at it is that most of the customers who are deeply impacted by the pandemic have been discovered in the last wave itself and we have adequately provisioned for them and most of these customers are already reflected in our Gross NPA numbers. I think this time around we are dealing with customers who require more of a temporary relief and we are expecting them to catch up on their payments probably in a couple of months, so in any case we will take a call once we see one or two months and see the collection as well as bounce rate over the next couple of months and the provision in stage one reflects that, so by Q4 we had seen most of the customers are going into the stage 2 or stage 3, so stage 1 after almost six months of the moratorium period ending we felt was reflecting a normal situation which is why we reverted back to the normal provisioning in stage 1. Nutan you want to add something?

Nutan Gaba Patwari: The only point is that when we look at stage 1 customers now they are fairly normal customers, regularly paying their EMIs and stage 3 had slight expansion and we felt it was more prudent to take more provision in that particular line, so going forward the plan is that we actually roll back the stage 3 customers and as there was SARFAESI stay so we could not take a lot of resolutions through SARFAESI mode, which have now started in the last week of March so over the next three months the plan is that we resolve these cases through SARFAESI to bring down the stage 3 meaningfully and also look at reallocating the provisions. On a percentage basis I think we are comfortable around the 1.3%-1.4% number on the ECL for now.

Karthik Chellappa: My last question if I were to look at our mix over a period of time it has been moving towards the have credit history and towards the salaried class, is that something which will also continue in the medium term at least for the next one to two years?

Manoj Viswanathan: On the credit history it is more of a market phenomenon as more and more customers are getting access to credit they tend to start their borrowing relationship with a small consumer durable loan or two wheeler loan and within six to eight months they also get a bureau score so by the time they come for housing loan they already have bureau score, so it is a more how the market is maturing, how the credit market is maturing in the country. When we started the business 10 years ago the situation was completely reversed and we had only 30% of our customers who had a credit history, now it is 70%,so I think it is only a question of time maybe in the next one or two years that number will become zero and subsequently everybody would have some kind of credit history when they come for housing loan, so that is on the credit history side. As far as the salaried and self-employed customers is concerned that has been more of a conscious choice, so we find salaried customers to be more resilient, we also saw that panning out during this pandemic, so we tried to keep a kind of prudent mix of salaried versus self employed and that number has been hovering around 75% salaried and 25% self employed and likely to continue in that broad range going forward as well.

Karthik Chellappa: This is very clear. I have a few followup, but I will come back in the queue. I wish you and the team all the very best. Thank you.

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

Kunal Shah: Thanks for taking my question. I hope all well at HomeFirst. Firstly in terms of the asset quality when we look at 30 plus DPD that still seems to be relatively more sticky compared to that of one plus DPD, so given that we had since stage 3 inching up are we comfortable saying that larger part of this 30 plus has already flowed into and recognized and that should not put any pressure in terms of the stage 3 going forward?

Manoj Viswanathan: Exactly Kunal, as far as the 30 plus is concerned it is about 4.1% consisting of 1.8%, which is the stage 3 and the balance is in stage 2. In stage 2 accounts what we are basically seeing is the customers who are taking a little more time to catch up, so they are able to make one payment or two payments in two months, but they are still not able to roll back to current. I think now that we have a second wave it might take a little more time for those customers to come back to current. The ones which you are seeing in stage 3, which is 1.8% is again consists of largely customers, at least 50% of it consists of customers where we have to take SARFAESI resolution action because this is largely consisting of customers who have actually migrated back to their villages, etc., leaving their property to be sold. We have tried contacting them over the last year many of them are in touch with us as well, but they feel that it is not worthwhile to come back all the way to sell the property, so the only way we can actually resolve those cases is by imposing SARFAESI and taking possession, so that is what that constitutes that 1.8%, which is already in stage 3, so that is the granular composition of these three buckets and stage 1, the one plus cases you have seen that it has already come down sharply from last quarter and other than this small blip that we are now seeing we should be able to kind of keep reducing the one plus numbers over the next two quarters.

Kunal Shah: In terms of the flow through from stage 1, the peers suggest like 10%, 15% generally flows through and with similar one plus they have 1% kind of stage 3, so how should we look at our experience in terms of flow through from one plus DPD?

Manoj Viswanathan: Historically, how our numbers have panned out is that from the 30 DPD about 50% flows in to NPA, right now about 30 DPD is about 4.1% and this is why we have been over the last two quarters mentioning that the gross NPA is slightly to be in that 1.5% to 2% range, so 50% of the 30 plus generally goes into NPA for us and it has bloated up a little bit last quarter also because of the SARFAESI embargo, but now that is likely to get resolved in from now. As far as the one plus is concerned, historically our one plus used to be in the region of around 3.5% and half of that used to be in 30 plus and half of that used to be in gross NPA, so broadly that used to be the breakup.

Kunal Shah: The SARFAESI I think now with Supreme Court order going away maybe we would be doing the accelerated kind of action out there in terms of repossessing the property and selling it out?

Manoj Viswanathan: Absolutely, if you see last quarter we ended with about 600 to 700 accounts in NPA, which is Rs.62 Crores, which we are seeing in stage 3, so out of which about 10% has already got resolved in the sense we have already lined up buyers for those properties or we have collected installments, so out of the 1.8% about 10% is already at a resolution stage. We cannot sell the properties right now because we have to give the 90 day timeline for these properties to be sold from the time the embargo was lifted, so that timeline will be reached in the third week of June when we will be able to actually sell and resolve these cases, so we are actually lining up the buyers now like I said 10% we have kind of lined up the buyers, so every month we are looking at about 10% addition to that list, so over May and June we should be able to resolve about 30% of what was sitting in NPA at the end of March.

Kunal Shah: Lastly in terms of borrowing, so given that assignment or securitization is also one of the sources of our borrowing and this time we had seen the cost coming down, NHB refinancing has also gone up so there is a support which is coming in, so what would be the stance in terms of assignment and securitization of balance sheet over next 18 to 24 months?

Nutan Gaba Patwari: Kunal, we will want to take this up closer to 25%- 30% number essentially given the fact that this is an easy way of getting the banks to access and understand the quality of the book and also build more long term relationships, it also helps the ALM structure and releases the capital so that is how we are looking at it.

Kunal Shah: Any sensitivity on existing pool if there is a change in PLR then how much can it impact because in many cases we are seeing some kind of volatility because of this is coming on the existing pool which has been securitized?

Nutan Gaba Patwari: We have not changed the PLR right now and that is not the plan for the next one or two quarters, we are taking the repricing activity more specifically not at a more generic level right now.

Kunal Shah: Sorry, banks MCLR and may be any NPV recalculation, which might come through, so is there any sensitivity around that?

Nutan Gaba Patwari: Let me come back to you with these specific numbers on that Kunal.

Kunal Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Mahesh Chandra Bathina, an Individual Investor. Please go ahead.

M C Bathina: First of all congratulations on getting excellent results and I have a couple of questions. So first one is regarding diversified lead generation channels, I can see Strategic Alliances has only 0.9%, is there anyway to improve these in near future and may I know the measures that we are going to take now that improve it?

Manoj Viswanathan: Strategic Alliances basically consists of our partnership with other corporates typically. We have Airtel payment bank as one of our partners and the way we see it as these are entities that are large and they have a large customer base, but they are not in a position to offer housing loans to their customers and hence this is the way to partner with them and provide that service to their customers. So that is the kind of relationship that we are pursuing. The challenge with this is that there are large number of leads that come through; however, the conversion ratio is currently low and there is a learning curve involved in that in terms of how the conversion can go up, so we are jointly learning, we are working with the partners to understand how that conversion can go up. As we make progress in that and as we find better ways to convert the customers, there will be a step function and the numbers will start jumping up, so we are getting a large number of leads, however the conversion is low and which is why you are seeing that the contribution to business is only about 1% at the moment, but this is something that holds a lot of promise in the coming months and years and especially once we are able to fine tune the delivery, which is we are trying to work towards purely digital delivery for these customers, once that works out you will see a sharp jump in numbers.

M C Bathina: So this will also include something related to AUM for company just 1%?

Manoj Viswanathan: Are you asking whether this is 1% contribution to the AUM?

M C Bathina: Yes.

Manoj Viswanathan: This 1% is basically the contribution of the channel to the business of this year, the disbursals of this year. The AUM contribution could be a little lesser because it is one of the newer channels, so it will be slightly lesser than the number that you are seeing.

M C Bathina: Okay and can we expect the average ticket size to grow by next financial year and may I know some approximate number, which can we probably see by next financial year?

Manoj Viswanathan: We are operating in a segment where the average ticket size tends to be between Rs 5 to 25 lakh and over the years there will be a secular increase in ticket size because of inflation related issues, but otherwise we are not really looking at moving into or addressing a higher ticket segment as such. In that sense we will not see a sharp jump in ticket size, there could be secular increase because of inflation; however, it also tends to get compensated because you tend to get deeper and deeper into some markets, so as we move into smaller markets the ticket sizes fall a little bit so the inflation related increase is compensated by some distribution related decrease, so which is why more or less it kind of remains in that 8 to 10 lakh range. To answer your question there will not be a sharp increase in ticket size, it is going to remain in that range for the next few years.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: My first question is cheque bounce rates of April they may not be a good representation because you may have presented them before the lockdown began, is that a fair comment to make?

Manoj Viswanathan: Yes it was still early days you can say.

Susmit Patodia: So May could be very different and that should not be like no significant divergence?

Manoj Viswanathan: May will be good metric to keep track of and May and June where we will see how that turns out.

Susmit Patodia: Okay and second question is our connectors since you rely on them a lot , are they still active on the field or are you seeing loggings come down as well sometime?

Manoj Viswanathan: There is some impact because the connectors - some of them or their families are also impacted by Covid, so there is a slight impact, so like we said last month we were at about 80% of our normal business I think that trend will continue because as some markets come out of it, some markets are going into it, so I think there will be some compensatory effect last month we did not have too much impact of Covid in Southern markets, but now this month probably as you know Mumbai and other locations are coming out of Covid you probably see some of that going into the Southern market so there will be some compensatory effect for a couple of months, but because we have a fairly diverse presence, it tends to kind of balance out and so we are hopeful of being in that 70% to 80% range of business for the next couple of months.

Susmit Patodia: 70% to 80% just to understand is that 20% lower logins not necessarily higher rejections rate?

Manoj Viswanathan: That is right. The profile of customers has been kind of fine tuned over the last one year, so I think the impacted segments are not coming through.

Susmit Patodia: Third question is 1.8% still includes that old legacy NPA of Rs.26 Crores?

Manoj Viswanathan: You are talking about the ones in NCR region etc right?

Susmit Patodia: Yes.

Manoj Viswanathan: It includes all that.

Susmit Patodia: Any specific progress as its pending for long time?

Manoj Viswanathan: It is more of a market related issue, so we will have to work through it.

Susmit Patodia: Lastly have you taken any write-off this quarter?

Manoj Viswanathan: We have taken write-off and again we had anticipated this as we had started providing for Covid over the last one year, so certain assets are where we think that especially with an extended Covid we feel that the recovery is going to be very slow or it is going to take a long time we have written those off.

Susmit Patodia: Okay, so that would be about Rs.6 Crores to Rs.7 Crores?

Nutan Gaba Patwari: So the P&L impact on write-off for this quarter is Rs.5 Crores.

Susmit Patodia: Thank you very much and best of luck. Stay safe.

Moderator: Thank you. The next question is from the line of Hatim Broachwala from Union Mutual Fund. Please go ahead.

Hatim Broachwala: My first question is if you can comment on the repayment and prepayment because it seems that around Rs.250 Crores got repaid plus prepaid, is it a normal run rate or is it like higher than what we generally expect?

Manoj Viswanathan: Rs.250 Crores in what period Sir, that you are talking about?

Hatim Broachwala: Basically for the quarter, basically if I look at our AUM and disbursement I have derived from there that Rs.250 Crores could be repaid?

Manoj Viswanathan: Out of Rs.250 Crores, close to Rs.100 Crores was actually subsidy payment, the Pradhan Mantri Awas Yojana subsidy, so typically our repayment through various installments and prepayments, closure, etc., is in the region of about Rs.40 Crores to Rs.50 Crores a month, so in the normal course it should have been about Rs.150 Crores, but we have got an additional Rs.100 Crores as subsidy so which is why you are seeing that to be Rs.250 Crores.

Hatim Broachwala: So the subsidy would be every year feature?

Manoj Viswanathan: It will be an every year feature, every quarter typically, but some quarters it gets bunched up and then it comes in another quarter, otherwise yes it happens two or three times in a year.

Hatim Broachwala: Are there any BT out's happening for us?

Manoj Viswanathan: It is happening, but it is not very significant, our BT out has been coming down over the years, so currently on opening AUM they are at a range of around 3%-3.5%.

Hatim Broachwala: Nothing worry on that?

Manoj Viswanathan: It is not a significant portion of the prepayment actually.

Hatim Broachwala: My second question is on our liquidity we are getting in the balance sheet, the cash plus bank balance seems to have gone up substantially, so what is the reason for this?

Nutan Gaba Patwari: We raised funds through IPO so that is one of the major reasons for Q4, so we will deploy this over the next few quarters.

Hatim Broachwala: My last question is on spreads, so if you can talk about the spreads have really gone up in the past we have talked about lower spreads, one is what is the outlook ahead and if you can also combined this answer with what kind of proportion of loans take up, right now 92% is home loan, balance is only 8% is this likely to change and have any impact on spreads?

Manoj Viswanathan: We have been operating in that range 12.75% - 13% range for quite sometime on the yields and the spreads increased because the cost of borrowing reduced sharply in the last two quarters, but on a sustainable basis we are confident of retaining spreads of around 4.75% and yes there is some headroom and if you see we have always focused on salaried segment, we have focused on housing loans, so we have never really gone after the segments, which generally provide a higher yield like self employed segment or the loan against property, so there is definitely some headroom there. If we wanted to we can do or we could book more self employed customers or loan against property customers, which will increase the yield. However, we are looking to focus on housing loans itself, but loan against property gradually yes, it could go up to may be between 10% to 15%, right now it is about 7%, 8%, it would go up to about 10% to 15% gradually. So there is probably some headroom there for increase of yield, but otherwise we are confident of maintaining spreads of about 4.75%.

Hatim Broachwala: So this 4.75% without taking that increase which you are talking, the increasing LAP without taking basically?

Manoj Viswanathan: That will be anyway marginal, it will probably provide maybe 10 - 20 basis points increase over a period of time.

Hatim Broachwala: So what are the yield differential between home loan and LAP?

Manoj Viswanathan: Yield differential generally tends to be about 200 basis points.

Hatim Broachwala: Thank you and all the best for future.

Moderator: Thank you. The next question is from the line of Eric Chan from Buena Vista Fund Management. Please go ahead.

Eric Chan: Two quick questions. Can you give some indication, given the second wave of Covid what has been the DPD one plus and the 30 plus profile look like in April compared to March?

Manoj Viswanathan: We probably see an uptick of about 100 - 150 basis points on both these metrics in the next couple of months, I think April still early , because for the most part we escaped the second wave as far as April is concerned because our presentation happened before the situation became critical, so we had in fact a better bounce rate in April and our collections were reasonably good in April, so we are at 95% plus collection efficiency in April, but probably we will see 100 - 150 basis points increase on 30 plus and the 1 plus numbers over the next two months.

Eric Chan: Second question is on asset view, we have heard from competitors like Aavas has been proactively cut their prime lending rates in 4Q and will do another one say this June given dramatic fall in cost of borrowing, can you talk a bit about why we have not seen that in HomeFirst in terms of cutting loan pricing?

Manoj Viswanathan: As far as the PLR is concerned, this reduction in rates has happened a little sharply over the last two quarters and we just want to make sure that if it is obviously continuing over a longer period of time we will also end up reducing our rates, but if it is going to be more short lived and if the rates are going to move up then it does not make sense because it is a logistical challenge to reprice so many customers twice in a short span of time so which is why we are holding onto our rates. If the rates continue to decline and we see this for a longer period of time then we will do the repricing. However, wherever we have got lower cost of borrowing from let us say for example through our National Housing Banking scheme we have passed on that benefit to the customer, so over the last two quarters we have passed on that benefit to almost 6000 customers of the lower borrowing cost that we are getting from National Housing Bank.

Nutan Gaba Patwari: Just to add to that point Eric, if you see the yield curve right prior to the second Covid cycle the yield curve for the longer tenure borrowing had started to inch up and that is when we took the call not too change the PLR, but of course with the Covid to second cycle now this borrowing rate probably will stay for another quarter or two, so we will have to take a call as time passes.

Eric Chan: Thank you.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Thank you and congrats on the great quarter and great set of disclosures also. Sir my first question is relates to slide #21, so now if I see collection efficiency has always been below 96% - 97% does that mean that your NPL by volume in terms of number of customers is more than 3%, but by value it happens to be 1.8% because if you have not got 98% - 99% collections from customers your GNPA should have been much higher, so what am I missing here?

Manoj Viswanathan: If you see the collection efficiency in the last quarter Q4 quarter January was 97.8%, February was 97.7% and March was 98.5% that is the number of installments that have come through and what you are referring to is the number of customers who have made at least one payment during the month, which is 96.3 and 96.9 so that is 97%. Practically the customers that you are seeing in NPA 1.8% would be part of this 3% who have not made a single payment during that month that is one. Second is there will always be some juggling of these customers, in a particular month the customer is not paying, but he pays in the next month, so that accounts for the little difference that you are seeing between the unique collection account and the gross NPA. So I think what you are trying to reconcile is 3% versus 1.8%, so that 1% is something that can be reconciled through that process, so where customers do not pay in a particular month but they pay in another month.

Piran Engineer: Okay, that makes sense. It is nothing to do with GNPA being higher in a lower ticket segment or anything like that, that was my first impression seeing this?

Manoj Viswanathan: It is nothing to do with that. Customer who misses the payment in a particular month might pay in the next month, so that is the difference that you are seeing here.

Piran Engineer: Okay that explains it. My next question I noticed in a geographical mix the share of Maharashtra is down from 28% to 19% in the past few years, so anything to read into this why has this happened because I have not noticed this for any of your peers per se and I am sorry this is a basic question, this is the first time I am looking at the company?

Manoj Viswanathan: In Maharashtra, large part of the business used to come from Mumbai and in Mumbai gradually the prices of properties have kept going up even in the suburb, so it is no longer an affordable housing market for us. I think that is simple way to put it as to why this number has come down from 28% to 19%, for that we have actually moved into the southern markets and diversified into markets where there is a larger affordable housing business available. Mumbai per se is no longer an affordable housing market.

Piran Engineer: Okay, got it and my last question again very basic question that when you talk about your sourcing mix who exactly are these connectors and micro connectors and what sort of referral fees do you pay them, is it comparable with what HDFC pays to DSA?

Manoj Viswanathan: No, these connectors would be typically people either from the construction industry or from the financial services industry who come across customers who want to take a housing loan, so to give an example it could be somebody who makes the drawings for the house, so customers typically go to them first to make a small plan and then get started or it could be a contractor who is building houses, so typically a contractor takes about three to four assignments in a year so s it could be somebody like that, so these are connectors and so the loan referral is not the primary source of income, it is more of a secondary source of income and this is why the fee that we pay them is in the region of around 30 - 40 basis points and it will not be in the same league as DSA because DSA get compensated at a far higher percentage because this is their core business and they basically have people on the ground, people on the street, who are looking out for customers who wanted to take a loan plus they also facilitate the entire process, so they pickup documents from the customer, they advisethe customers how to complete the documentation, some part of the documentation in some cases are completed by DSA so this is a very different arrangement, so here the arrangement is just referring the customers, so we have provided an app so anybody can become a connector, so he first registers himself and then he submits the name and number of the customer who is interested in taking a loan and after that our relationship manager takes on the lead and they complete all the processes. So this is more like a referral agent model where somebody who knows the customer, who is interested taking a loan can provide us the lead, it is more of a lead generation source and which is why fee we pay is much smaller.

Piran Engineer: The risk associated with DSA which is typically the excessive churning of the book, do you also see that in the case of connectors especially may not be in the architects and contractors but like the Chartered Accountant kind of connectors?

Manoj Viswanathan: In our segment we do not see that in fact we have seen the balance transfer numbers coming down over the years and I think the primary reason is that the connectors do not want to lose the source of income, , these are not very large players, they are probably earning Rs.10,000, Rs.15,000, Rs.20,000 a month through this referral model even if they are like you are saying people in the financial services field so they do not want to lose that. For example, let us say we see a repeated trend of some of balance transfer from a particular connector then we are probably going to shut that down and he would not want to take that risk, so which is why we do not see that phenomenon in this business plus also what happens in this is that, in the prime business where DSAs are operating it is easier to get a balance transfer done because the evaluation process is fairly simple, it is based on documentation, it is based on income tax return or salary slips and so on, which are easily available and this can be easily evaluated. In our business it is more of a touch and feel there is a lot of ground level assessment that needs to be done and that is what we do. So if connector needs to get loan balance transfer he has to go through the whole process again with somebody else again and there is no guarantee that the loan will go through, so all of these I think challenges are there in getting the balance transfer done in our business, which is why we have not seen it to be a big issue.

Piran Engineer: Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: My question is if I look at the pre-EMI book that is around 10% and that was the number in December quarter as well, could you help me with this number last year in third quarter and fourth quarter, what would be that number?

Manoj Viswanathan: It is around the same number which we had in last year's presentation as well it was around 8% to 10% range.

Nutan Gaba Patwari: So March 2020 I am looking at the data it is 12%.

Udit Kariwala: Is it fair to assume that since your disbursements have inched up, but your mix versus last quarter and this quarter in terms of pre-EMI has not changed, which effectively means that you are still comfortable lending in this market to under construction properties would it be a fair assessment?

Manoj Viswanathan: The under construction portion was anyway very small out of this, where the under construction risk was there that portion was very small even in this 10%, so I will break this 10% down for you. So out of this 10% basically 60% would be self construction apartment, which is the combination of about 45% is self construction and another 15% to 20% which is actually row houses, so about 60% to 65% is individual houses, which is basically ground or ground plus first floor, where there is no under construction risk. The apartment part of this 10% is only about 2% to 3% that is continuing and where we have already imposed certain restrictions like we do not on board apartments where the construction is at an, early stage we do it only after 50% of the construction has completed, so it is a very selective process of on-boarding the apartment segment which continues and this is a very, very small 2% - 3% of this under construction portion.

Udit Kariwala: Thank you and my second question was in the developer book though it is very small, but if you could throw some sense around the average yield of that book and incrementally was thought process and what are the kind of developers we are talking?

Manoj Viswanathan: Developer book currently it is run down to less than 1% of our AUM, so it consists of now about 15 to 20 transactions so these are basically mid size. When we started the business idea was to on-board mid size developers because during our regular business calls we come across many developers who are looking for construction finance and at that point we were not really offering construction finance, so we thought it is a good way to pick and choose good developers in that segment and offer loans to them and post implementation of RERA and GST and so on, most developers wanted some form of formal financing to complete their project, so there were many service providers, vendors, etc., for the project who needed to be provided proper funding and this was one way for them to bridge that gap, so that is how we have started the business. It is done well for us, we do not have even through this crisis we have had only one developer who took moratorium from us and practically all payments have been coming regularly it is just that right now we feel that the environment is not conducive for this so we have slowed down or stopped the developer funding. This will be mid size developers who are building apartments in the price range of between Rs.50 lakhs to Rs.2 Crores and typically requiring funding for the last mile to complete the construction, etc., and not really from the affordable segment.

Udit Kariwala: What is the average yield of this book?

Manoj Viswanathan: Yield is about 14% to 14.5%.

Udit Kariwala: You are saying that incrementally you are not averse to lending and your performance in this book has been quite decent?

Manoj Viswanathan: Right now we are put it on hold., we slowed it down once we had the IL&FS crisis because the overall liquidity for builder started drying up after that so we thought we are a very small player in this builder segment so we said we should also slow it down and after that we have not really sanctioned any incremental loans and this book has come down from about 3% two years ago to about 1% now of the AUM and after that anyway there is now Covid to deal with, so I think we will probably not look at this business for maybe next at least 12 to 24 months post that we can probably review & consider going back.

Udit Kariwala: Thank you so much.

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

Karthik Chellappa: Thank you very much. Just two data points firstly on the one DPD of about 6.2%, which would be the states that are above this number and what would that number be?

Manoj Viswanathan: All the southern states are largely below this number and Gujarat is at this number, they are at the national average and Maharashtra is slightly higher than this number, so broadly that is the bifurcation.

Karthik Chellappa: Anything in double digit is Maharashtra like in double digit or so?

Nutan Gaba Patwari: No.

Karthik Chellappa: Okay, great. The last question is on the securitization volume of about Rs. 115 Crores that you have done for the quarter what was the yield on that portfolio?

Nutan Gaba Patwari: Yield was 13% and the sell down rate was 7.6%.

Karthik Chellappa: You are discounting it using the behavioral maturity right, which is like six to seven years?

Nutan Gaba Patwari: Right.

Karthik Chellappa: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Rushabh Doshi from Proinvest Wealth Managers. Please go ahead.

Rushabh Doshi: Good evening everyone. I was very surprised with the 0.4% provisioning on standard assets like given that the outlook it is quite tough to say what will happen going ahead compared to last quarter. In the last quarter we had around 60 bps standard provisioning, so I just thought like wouldn't it be a more prudent approach to have provisioning for standard assets?

Nutan Gaba Patwari: We have taken 60 bps provision last time on stage 1 because we had the foresight that some of these customers will slip into stage 3, which is what we had indicated the 1.5% to 2% range and as that slip has happened we have essentially moved that provision from stage 1 to stage 3 if you look at our total ECL it stays at 1.4% only.

Rushabh Doshi: That is all from my side.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Kotak. Please go ahead.

Dipanjan Ghosh: Just two questions from my side. First is on the opex side, one understanding is you will see some amount of operating leverage, but on the other side you are expanding sort of phygital model if I have to used the word so how do you really in the wake of second wave probably you will fall just a bit more in your collection efforts over the next may be five, six months in case of repossession and sort of things, so how do you really see the opex playing out and the correlated point over here, if I were to see your employee expenses, overall the employee base has probably been flat, but employee expenses increased a bit so what is exactly happening over there?

Nutan Gaba Patwari: I will take the second question first. In the employee expenses as you see that have gone up, there are some sort of one-off expenses that has come in this quarter. Apart from that we had also passed on some increments earlier in the year which have got fully normalized in this quarter, so that is where you see the employee cost going up on a quarter-on-quarter basis. Coming to the question on opex and how we see this going forward as I mentioned earlier though the full year opex is 2.7%, Q4 opex is 2.9% and 2.9% also reflects the fact that we had Rs. 452 Crores of disbursal and we had collection efficiency going on full flow and we have also looked at the whole set of new branches, so it is in a way covering all kind of costs as we continue to expand yes the operating cost will go up so like we have also mentioned earlier that the operating cost in FY22 probably will be in the range of 3% - 3.5% and then from FY23 it will come down back to these levels.

Dipanjan Ghosh: Another question on your expansion strategy, so if I am correct you mentioned that around 15% of incremental disbursement in March in this new digital or some sort of small scale branches out there, so how do you really expect a mix between all the vintage branches and the new branches to really shape up and what has been the thought process behind, so is it like the markets where you already present has been saturated or you have seen some amount of pressure on yields, what has been the reason for really speeding up the expansion process?

Manoj Viswanathan: So this expansion was always there in our strategic plan, so we have identified across the country about 100 odd pockets where we need to be present, these are large affordable housing pockets and if you see the map that we have given there are about 11 states where we are already present and we intend to continue our deepen our presence in these state so that was always part of our strategic plan and so we are just executing that, I think it was slightly delayed last year because of Covid in the first two quarters and we started the implementation from Q3 onwards so that is as per our plan only and if you look at our strategy in terms of how much from existing branches versus what is going to come from new branches. So existing branches our strategy is to increase our AUMs, so currently our existing branches carrying an AUM of about Rs.55 Crores each, so our AUM is to push that number up to Rs.100 Crores first and then to Rs.150 Crores so to that extent we are taking up some of these digital initiatives where our customer can do a lot of activities on the mobile app, so they do not have to come to our branches, so we are trying to facilitate our branches and focus on value added activities like sales, business development, and collections. More of the operational activities we are looking at providing the customer a digital option for it, so that is our strategy as far as the existing branches are concerned. As far as new locations are concerned as I mentioned there are still a large set of markets in our existing states, which need to be tapped and we are going about expanding our operations there. We have just taken the step of dividing these two types of market, so smaller markets we are doing digitally and some of the larger towns and larger markets we intend to put up physical branches, which is why the bifurcation you are seeing of about 20 physical branch locations potentially and another 20 which are the digital locations so that would be broad bifurcation.

Dipanjan Ghosh: I think after the IL&FS crisis, you have probably tightened your underwriting norms in certain builders like you will not do till the project is certain percent complete you will not do a bulk of loans in a particular developer site and across some profiles also some cases may be, have you kind of relaxed it or it is still the same?

Manoj Viswanathan: No, those are still the same, which is why immediately after the IL&FS crisis you would have seen for the next couple of quarters our business volumes they did not grow as much as before, so we were doing that, you can say slight recalibration or refocus of our business, so that continues that is part of our risk management and so we cap exposure on the project, we also enter the project only after it is complete up to a certain extent and so on, so those risk management procedures that we adopted at the time are continuing.

Dipanjan Ghosh: Thank you and all the best.

Moderator: Thank you. As there are no further questions I would now like to hand over to Mr. Manoj Viswanathan for closing comments.

Manoj Viswanathan: Thank you everyone for joining us in the call. I hope you have been able to answer all your queries and in case if you require any further details you can write to us directly or to Orient Capital who are our investor relation partners. Thank you so much for participating.

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.