HFFCIL/BSE/NSE/EQ/19/2022-23

Date: 11-05-2022

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

Sub: Transcript of the earnings conference call for the quarter and year ended March 31, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and year ended March 31, 2022 conducted on May 4, 2022, for your information and records.

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

This is for your information and record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

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

"Home First Finance Company India Limited Q4 FY22 Earnings Conference Call"

May 04, 2022

MANAGEMENT: **MR. MANOJ VISWANATHAN – MD & CEO – HOME FIRST FINANCE COMPANY INDIA LIMITED**
MS. NUTAN GABA PATWARI – CFO - HOME FIRST FINANCE COMPANY INDIA LIMITED
MR. MANISH KAYAL – HEAD - INVESTOR RELATIONS - HOME FIRST FINANCE COMPANY INDIA LIMITED
MR. ASHISH CHOVATIA – ORIENT CAPITAL
MR. IRFAN RAEEN - ORIENT CAPITAL
MS. PAYAL DAVE - ORIENT CAPITAL

Moderator: Ladies and gentlemen, Good day and welcome to Home First Finance Company India Limited Q4 and FY22 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. Manish Kayal – Investor Relations Head. Thank you and over to you, Mr. Kayal!

Manish Kayal: Good afternoon, everyone. I hope that all of you and your families are safe and healthy. On behalf of HomeFirst Finance, I extend a very warm welcome to all participants on Home First's Q4 FY22 & Full year FY22 Financial Results Discussion Call. I am Manish Kayal and I look after Investor Relations. Today on the call, I am joined by MD & CEO, Mr. Manoj Viswanathan and CFO Ms. Nutan Gaba Patwari. I hope everybody had an opportunity to go through our investor deck and press release. We have also uploaded the excel version of our factsheet on our website and request you to have a look. With this introduction, I handover the call to Manoj. Over to you Manoj.

Manoj Viswanathan: Thank you, Manish. Good afternoon, everyone. I am pleased to address all of you after completing one full year as a listed company. FY22 was a successful year for HomeFirst and I will take this opportunity to share the highlights with you.

Firstly, we crossed 2 important milestones.

1) We crossed Rs 5000 Crs of AUM, and

2) We crossed Rs 2000+ Crs of annual disbursement for the first time.

Moving on to other highlights:

- We had our highest ever quarterly disbursals of Rs 641 cr, an increase of 12.5% on q-o-q basis and 42% y-o-y basis.
- There is further improvement in 1+ and 30+ DPD levels.
- 1+ DPD improved to 5.3% from 6.5%. 30 DPD improved to 3.7% from 4.7%.
- Our Gross Stage 3 stands at 2.3%, down 30bps from 2.6% in Dec'21.
- This is based on RBI circular of Nov'21. Adjusted for this, the number stands at 1.3% in Mar'22 from 1.7% in Dec'21, an improvement of 40bps. Mar'22 Stage 3 includes NPA of Rs 44 Cr which is less than 90DPD but included due to asset classification norms as per RBI notification dated 12-Nov-2021. However, the said change does not have a material impact on the financial results.

We have been rated AA- by "India Ratings" with a stable outlook. This is a testimony to our strong risk processes asset quality and strength of balance sheet and also highlights the comfort drawn from the economic and sectoral recovery from covid and strong growth momentum of the sector.

Physical branches went up to 80 from 76 and total distribution points have gone up to 200 from 187 on q-o-q.

On the digital initiatives, our customer app continues to enjoy high usage with 80% of our customers registered on the app compared to 76% in Q3 FY22. Payments and service requests made via the app in Q4 FY22 have gone up by 82% and 42% respectively on a yoy basis. 48-hour turn-around-time for loan approval improved further to 92% of customers from 90% in Q3FY22. Our e-onboarding initiatives have been received well with e-stamp adoption in 65% of the loans in Q4 and 41% in FY22, e-NACH in 51% of the loans in Q4 and 38% in FY22 and e-sign in 20% of the loans in Q4 and 16% in FY22.

With this, I would now like to handover the call to Nutan to take you through the Financials. Nutan over to you.

Nutan Gaba Patwari: Thank you. Good afternoon, all.

Good Afternoon All. I will take you through our performance in Q4 FY22.

Key highlights:

Financials: We continued to stay focussed on our key operating metrics with an intention to deliver mid-teen ROEs in couple of years.

- Our NIM has expanded from 5.8% in Q3FY22 to a very strong 6.4% in Q4FY22; coming mainly from sustained spreads and further optimization of cash on the balance sheet. Net Interest Income has gone up by 51.6% on YOY basis and 15.6% on QOQ basis.
- We did lower direct assignment as a liquidity strategy and we continue to have a robust demand from our portfolio of assets.
- Opex to Assets stands at 3.0% for the quarter, increase of 20bps on qoq basis. This is in line with our expectations. As guided earlier, we expect this ratio to remain in the range of 3.0%-3.2% going ahead; as we focus on expansion. Accordingly, Cost to income was 35.7% in Q4FY22 compared to Q3FY22 level of 33.0%.
- Q4FY22 PPOP stands at Rs 66 Crs.
- Credit cost was lower at 0.2%. Our ECL provision stands at 1.1% of the total POS. We continue to be conservative with the provisions. PCR stands at 47.1%. Prior to NPA reclassification as per RBI circular, PCR stands at 83.6% vs 69.1% in Q3FY22.
- Our adjusted PAT of Rs 48 Crs; grew by 4.9% on qoq basis.

Liquidity and Borrowings:

- As Manoj mentioned, IndiaRatings assigned AA- with Stable Outlook to our long term rating in this quarter.
- The Company continues to have diversified & cost-effective long-term financing sources.
- We have a healthy borrowing mix with
  - 45% of our borrowings from Banks (Public sector 22%, Private sector 23%)
  - 27% from NHB Refinance and
  - 23% from Direct Assignment
- We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is flat at 7.2%. However, our marginal COB for Q4 FY22 was at 5.8% due to drawdown from NHB. Ex-NHB, our cost of borrowing is 7.5%.

Moving to capital;

- Our total CRAR is at 58.6% and Tier 1 CRAR is at 58.0%
- Our Mar'22 Networth stands at 1574 Crs vis-à-vis Rs 1381 Crs as on Mar'21
- Our quarter ROA stood at 4.0%, flat on q-o-q.
- Our annualized ROE stands at 12.5% on Q4 numbers.
- Our Book Value per share (BVPS) stands at Rs. 179.6 as on Mar'22.

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

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 for the opportunity. Good afternoon team and congrats on a very good quarter. I have three questions, but before that just a housekeeping clarification. There has been some reclassification of some P&L items for previous quarters within interest income and other operating income although the total has not changed. Any quick thoughts on what drove this reclassification.

Nutan Gaba Patwari: Yes, there are different ways to classify some of the income items, some of the auditors prefer it in a certain way and as you know we have had a change of auditors in this year and that has primarily led to this classification. We also understand this is how the market is also doing it. So, it is largely alignment and nothing else.

Karthik Chellappa: Okay got it. My first question is basically on the BT Out that we saw in the fourth quarter of 6.5% although it could be a quarter-end phenomenon. Could you give some color on to whom was this specifically the BT Out and typically what were the kinds of rate differential that you could not match and hence you basically thought it fit that the account can leave the company.

Manoj Viswanathan: BT Outs generally happen to the larger banks, nationalized banks and some of the large housing finance companies. So those are the typical companies that do the BT Out from us. Rates are fairly lower than ours, so typically the market rates for a prime customer which is 7.5% to 8.5% in that range. So, the differential is generally high and so it is difficult to retain these customers. But this is nothing different that we have seen in the last 10 years. It is the same companies to whom customers are going and the same rate differential that has been there for the last several years.

Karthik Chellappa: So ideally what we should think about is that the BT Out for the year is going to be in a 5% to 6% range with a skew towards fourth quarter that is how we should think about this going forward, right?

Manoj Viswanathan: Yes, I guess 4% to 5% range with some skews in the last quarter. So that is generally what we have seen historically also. Within last quarter also, the skew is especially higher in March month. It reduces in April like it has happened this time as well. So that is generally the trend we have seen.

Karthik Chellappa: My second question is, if I look at the securitization volumes on a year-on-year basis it is probably down 9% to 10%, but the gain or the income that we have booked is probably down even more which means the yields are down. What would explain that?.

Nutan Gaba Patwari: The yields are flat on a year-on-year basis and we have done securitization in quarter four as well, also last year DA was Rs. 300 Crores then this year we have done DA of Rs. 465 Crores, so why would you say that the securitization volumes are down?

Karthik Chellappa: So last year same quarter, the value was Rs 115.6 Crs whereas this quarter is Rs 105.0 Crs so the volume is down like 10% right?

Nutan Gaba Patwari: Yes, so that is very marginal. Reason is that this really comes down to liquidity strategy of the company and at what pricing we want to do the transactions. It is business as usual, nothing more to read in that.

Karthik Chellappa: The last one that I have is now we ended the quarter with a marginal cost of borrowing of 7.5% excluding the NHB. Given the out of cycle rate hike that we saw today which is quite sizable at about 40 basis points. As far as your borrowing from banks are concerned whether public sector banks or private sector banks with what lag or how soon will this rate hike will start reflecting in your cost of borrowing as well.

Nutan Gaba Patwari: So, there are three steps to this. The first step is the repo linked borrowing, which is small for us. The second step is MCLR link, so the MCLR for the banks have to go up, and the third step is that the reset where dates are different across all borrowing lines. So even for a particular bank there will be multiple reset lines based on the drawdown days. So, the whole cycle is a 12-

month cycle, however some of the repo linked loans which is a very small percentage for a book could be immediate.

Karthik Chellappa: Okay got it. I have a few follow-up but I will probably come back in the queue. Wish you and the team all the very best.

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

Shreepal Doshi: Hello Sir. Thank you for giving me your opportunity and congratulations on a great set of numbers. My question was with respect to today's development on rates so how do you see that impacting our spreads and NIMs over the next one year. We have been guiding for 4.75% to 5% of spread in a steady state environment. So do we see any challenge there.

Manoj Viswanathan: As Nutan mentioned there will be several steps by which the rate hike gets completely passed on. So, we expect it to be gradual over the next three to six months, and as the rate hike gets passed on to us, we will also pass it on to customers. We do not see a much of a challenge in retaining the spreads, and because the demand on the ground is very strong and customers generally recalibrate their requirements when there is some marginal rate change. So, we do not really see a muting of demand or subduing of demand because of the rate hikes.

Shreepal Doshi: And secondly like just in connection to this question. So, we have seen the loan book mix also changing where the self-employed share increase and we have also seen the non-HL share increase. This is yielding the spreads and NIMs that we have seen. So, do we see this change picking up pace over the next four to five quarters because that will also help us in broadly maintaining spreads and NIMs?

Manoj Viswanathan: There are two three levers.

One is that we have always competed in large markets with larger players and our expansion plans over the next two to three years are largely in smaller towns. So, as we go deeper and move into smaller towns we should be able to sustain the spreads that we have been holding till now.

Secondly as you mentioned that and as we have always guided that there will be a creeping increase in loan against property and sort of high yielding products like that over a period of time as our distribution increases, customers get more comfort, there is more word of mouth and so on. So that is likely to be, and it is a creeping increase as you can see at an AUM level we are still at 7% on loan against property. So, it will take time before it starts moving up, but, yes, that is another factor which is in our favor. We have head room for growing on those kinds of products in the coming quarters and thirdly on the self-employed side again it is a very, very marginal increase I would not read too much into it, but then again when we expand into smaller towns there is likelihood of the self-employed sector going up slightly more than what has been there historically. But as of now it is still in the 70:30 range which we have always maintained.

Shreepal Doshi: Got it and one last clarification. So, I suppose 90% of our loans are linked actually floating category loans are linked to variable rate is that the right number.

Manoj Viswanathan: Yes, all our loans are floating rate loans. So, if we get a rate increase we should be able to pass on the rate increase. There is a small portion that is our NHB refinance which is actually a fixed rate loan for the customer, but it is also a fixed rate for us from NHB side. So, on both sides it is fixed so again there is no interest rate risk over there. But otherwise 90% of the loans are floating rate so we will be able to pass on the increase.

Shreepal Doshi: And what is the limit that we have from the NHB in terms of funding?

Manoj Viswanathan: Here I think they have some internal formula based on the networth of the company etc. Our understanding is that we have sufficient headroom over there.

Shreepal Doshi: Got it. Thank you so much. Best wishes for the next quarter.

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

Kunal Shah: Congratulations for a good set of numbers. First question is on securitization spread. So now maybe was there a benefit in terms of the spreads at which we have booked the securitization income in past 18-odd months due to lower rates, and in this rising interest rate environment would we see pressure out there or maybe when banks increase the MCLR would there be any unwinding of the benefit in this entire securitization income.

Nutan Gaba Patwari: The question is in two parts. First on the new book and then on the existing book so let me take it one-by-one.

On the new book, the spreads will be in line with our on-book spreads that is what we have seen for our existing transactions and that is what we will see going forward, there is no pricing arbitrage or practically it can differ from quarter-to-quarter but largely around the same spread.

Coming to the second part of the question on existing loans, we have been doing assignment now for over five years. We have done the model to see what is the risk, and at what point does the curve starts to give us more hit in the P&L. We are not foreseeing that because that given our securitization was at a much higher price earlier, we still continue to carry that benefit.

So, we are not really forseeing a risk on the P&L from an existing securitization book also.

Kunal Shah: But maybe when rates were down in fact that benefit would not have entirely got unwound and now maybe again we will start seeing the impact that is not the case, and in fact we are still sitting with some of the benefit and that can continue?.

Nutan Gaba Patwari: Yes, because on a blended basis we are still higher on the overall cost of the securitization over the five years.

Kunal Shah: And till what rate would it be actually guarded so there may be another 50/70 odd business points how much can it take this further now.

Nutan Gaba Patwari: Yes, it is around 8%.

Kunal Shah: Okay 8% what it was guided to be and secondly in terms of this entire repricing. So the way I understand is maybe we will see the cost of borrowings getting repriced than we will pass it on and since 90% is the variable in fact there would not be too much of a lag which might happen out there. So that would be a fair understanding maybe whenever we see our borrowing cost going up, we will be revising our rates.

Manoj Viswanathan: So we will plan the passing on of the rate increase in a gradual manner so that there is not too much lag.

Kunal Shah: And given the way it is kind of BT Outs have been there even with this rate, so when maybe do you think that maybe in terms of the potential to increase compared to the increase in the borrowing cost could be lower because maybe then again, we have seen this kind of a BT rates of more than 6% then I think it would further aggregative if we further hiked. So how should one rate that.

Manoj Viswanathan: Not actually. There is not too much to be read into it because as our rates increase the market rates also will increase. So the lenders who are offering low rates they will also have to increase their rates and generally I mean there are both schools of thought but generally speaking when the rates are very low like what we saw in the last 18 months or so then customers get more excited because they see rates like 6.5%, 7.5%, etc., but as the rates turned up and they go towards 8.5% etc, the excitement is a little more subdued. So, I would say nothing much to be read into the BT Outs as far as the rate increase is concerned.

Kunal Shah: Okay thanks and all the best.

Moderator: Thank you. The next question is from the line of Abhijit Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith V: Thanks for taking my question. Congratulations on good set of numbers. My question is on the branch addition. When you are adding branches with what lag do they contribute to AUM growth, and second is if you just have to split between newly added branches and the vintage ones, what is the growth differential, is there a significant growth rate differential between the new ones and the old ones and hence can the growth rate further accelerate is my question.

Manoj Viswanathan: We basically follow a strategy where we start business in the location and there is a virtual setup which is created, and they start generating business and then once the virtual setup reaches an AUM of about Rs. 10 to Rs. 20 Crores we set up a branch. So that is our strategy. So, from the moment it opens in the system the AUM starts increasing, but when the physical branch gets added AUM there will be a certain AUM jump of Rs. 10 Crores to Rs. 20 Crores because at that point only we add a physical branch and as far as the difference between new and old branches are concerned yes that is more of a base effect so for smaller branches the AUM growth will appear high because of the lower base effect. So broadly the AUM growth in the initial years the one first couple of years will be in the region of 75% to 100% from the second year or from the third year to fifth year it will be in the region of about 30% to 50% and fifth year onwards it will be more like 25% to 30%.

Abhijith V: But the vintage branches are also growing at the pace which the company has reported or at a slower pace.

Manoj Viswanathan: 20% to 30% they would be growing.

Abhijith V: In FY23 how will the branch addition be, first half, second half?

Manoj Viswanathan: It is a kind of very well paced expansion plan. So, every quarter we are looking at adding about four to five physical branches, but the virtual branches and digital locations will keep coming up in larger numbers.

Abhijith V: And most of the Opex and employee cost increases on the back of this expansion geography expansion right.

Manoj Viswanathan: That is right.

Abhijith V: Was there any one-off or variable pay or anything related on the back of good performance anything?.

Manoj Viswanathan: No nothing like that it is all basically people addition and expenses related to compensation for example last quarter we had some expense related to ESOPs so it is all related to compensation and people only.

Abhijith V: Okay sure. Thank you. That was my question. Thank you.

Moderator: Thank you. The next question is from the line of Preet Jain from Daily Stock. Please go ahead.

Preet Jain: Thank you so much for giving me opportunity. I had only one question, that the interest rates are going to go up. So, do you think that will it decrease the demand for housing finance in the coming quarter?

Manoj Viswanathan: Not really, we are dealing with customers who are genuine end users and the planning for purchasing or building a house happens over a long period of time. So, something like rate increase generally does not mute the demand or subdue the demand. We have not seen that even in the past and the demand on the ground continues, so we are not seeing any impact on that.

Preet Jain: So, what will you be guidance for this next financial year in terms of new loans to be created in this financial year?

Manoj Viswanathan: Yes, we have a disbursement run rate of about Rs. 200 Crores a month now. So, we are basically looking at an AUM growth of about 30%.

Moderator: Thank you. The next question is from the line of Pranav Mehta from ValueQuest Investment Advisors. Please go ahead.

Pranav Mehta: Thank you Sir and congratulations for a great set of numbers. Just one question on your asset quality if we look at our 1+ DPD number or a 30+ DPD numbers, they have shown significant a improvement on a quarter-on-quarter basis, but we have not seen the similar level of improvement in our gross ratio which is just 30 bps. So, what is leading to this kind of sticky or 90 plus or Gross Stage 3 assets and are there are some of these bad loans like concentrated in few geographies or something like that, can you explain this?

Manoj Viswanathan: If you look at the 90-day past due number that has also come down by about 30 basis points, I mean, I think you are looking at the post RBI classification number which is 2.6% coming down to 2.3% but if you look at the trends as per the previous classification the NPA has come down from 1.7% to 1.3% percent. So, 40 basis points decreased and this is more of a lagged effect. So as the 1+ and 30+ reduces the NPA also will keep reducing, which is what if you remember last two quarters also we were saying that there has been a decrease in one day past due and 30 day past due and NPA should start reducing and you saw a substantial reduction in Q4 of 40 basis points. This trend will continue as far as the post RBI classification number is concerned actually a lot of these NPA customers are paying additional installments and coming below 90+ in technical sense, but they also have to remain classified as 90+ till they come to zero as per RBI method. So that will remain for some time because this is all an after effect of COVID that we are seeing, and it is going to take time for these customers to actually make those additional payments and come out of completely out of delinquency. But otherwise yes, if you see on a regular basis, we are actually at pre-COVID levels in terms of collections efficiency. So, practically all customers are paying one installment and the collection efficiency numbers are on that pre-COVID level.

Pranav Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gupta from ASK Investment Managers. Please go ahead.

Pranav Gupta: Hi! Good afternoon. Can you talk about the co-lending partnership that we had with Union Bank and how that is progressing whether we are seeing the expected volumes that we had planned? That is my first question.

Manoj Viswanathan: Yes, we are making decent progress, but we are still grappling with certain teething issues so I think this quarter we should be able to make substantial progress. I guess next quarter call we should be able to share some more positive news on that. We have made some progress, we have on-boarded certain transactions, but yet to kind of pick-up pace.

Pranav Gupta: Just to follow-up on this, when you say teething issues, is it more probably the tech and integration side or is it the kind of customers that Union Banks wants us to source. Where are we facing these issues in this partnership?

Manoj Viswanathan: You can say that of both because we are an affordable housing finance company and very well embedded in that scheme of things. It requires a little bit of change of culture and process on the ground level to re-train our people to originate more formal customers. So that is the struggle at one end and the other end yes, there are some issues related to tech and integrating the process with the bank, etc. However, we are addressing those issues.

Pranav Gupta: My second question is on the expansion. So, typically we have always been in larger markets with a better population and now we are expanding to relatively smaller towns and cities. How different will be the branch structure like the branch, the staffing, how different would it be and how different would be the cost structures be for these branches that we opened in relatively smaller towns and cities from here on.

Manoj Viswanathan: See we are not putting up physical branches in very small towns, it is more of access and the presence at those small towns. Loans will still get booked at the nearest large physical branch. We are seeing that there is not too much difference in terms of the kind of people or costs etc., between tier-I or a tier-II town and a larger town. There may be some differences, some slight local flavor etc. But nothing significantly different from what we have been doing.

Pranav Gupta: Okay, sure. Thank you so much. That will be all from my side.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: I have few questions.

One is where are we in terms of the upper limits of yields which we can charge the customers. The context being that if the rates start moving higher, how easy would it be for us to pass on while trying to maintain quality or does this get mitigated by a mix and distribution.

Second was I noticed that the share of 1.5 million to 2.5 million loans has gradually been picking up slightly and the higher ticket size loans has gone up by 3% points over the last one year, what is driving that?.

Third is just as you go deeper just in terms of distribution, does the whole centralized underwriting model continue to work or do you sort of have to move a little more decentralized?

Couple of questions for Nutan on any conversations that you have had post after the ratings upgrade on what happens on the cost of funds and just maybe if you could remind me lastly on at what point in time do we need to start having 25% of our incremental borrowings from the market. Thank you.

Manoj Viswanathan: Yes, the first question was on yield and what would be highest point which we can reach etc., as the prices go up. I think there are two things here. What will happen 1) We operate in a range between 11% to 13.5% and the blended rate comes to probably 12.7% to 13%. What will also happen when as the rates go up is that the floor will keep going up so where we are now able to offer that 11% or 11.5% to certain customers that number will go up and the band will become narrow. So that will bridge the rate increase and spread compression to some extent. Secondly like you said, the mix we have a lot of head room to change the mix and get some yield out of that. I think both these things will help in compensating the rate increase.

On the ticket size it is more of a secular increase, it is not any conscious decision to originate higher and I think some loans that we originated under the co-lending program are also there in this so probably showing up over there. I think through next quarter we will probably show it separately.

On the centralized underwriting model, no, we do not have any second thoughts on that absolutely, it is going great as you can see from our turnarounds which are improving every quarter and we are actually deriving the benefits of centralized underwriting now. We are strong believers and we are also getting the benefits out of it so we do not plan to localize it at all and in fact with a lot of this information coming in a digital format our ability to underwrite better through a centralized mode is becoming stronger. So, we intend to continue with that model. On the rating update, I will hand over to Nutan.

Nutan Gaba Patwari: On cost of borrowing post ratings, firstly we have a split rating right now so we have a AA- stable outlook rating from India Ratings and we have a A+ positive rating from ICRA. First step is to align these ratings, we have started the work and so we will need some time there. Once the alignment happens that is when the benefit from the banks will start to pass on. Having said that you would have seen the yield of T-Bill & G-Sec has been increasing and we have been able to hold on to the cost of borrowing. The overall comfort and ability to price well continues and it is only going to help us as the rating alignment comes through.

Your second question on 25% incremental borrowing through NCDs, yes, we have filed the initial declaration with the stock exchanges, so it is applicable to us as well. There is a block of two years which is allowed, but we are not very worried about it given the fact that we have already started the process of NCD's to mutual funds last quarter itself. We are not too concerned on this aspect.

Chandrasekhar Sridhar: Does that mean that from this year itself you would start borrowing from 25%.

Nutan Gaba Patwari: Yes, on the incremental portion.

Chandrasekhar Sridhar: Sure, okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Congrats on a strong performance and thank you for taking my question. Firstly, on growth in two key markets for us Maharashtra and Karnataka, so combined it is about 24% to 25% of the book, but I see them growing significantly below the overall portfolio growth. In certain quarters there has been no growth as well. When do we see things reversing in these two large markets for us?

Manoj Viswanathan: See as far as the Karnataka is concerned we are largely present only in the larger towns, which at the moment is basically Bangalore. We are in the process of expansion. In Maharashtra you will start seeing progress because now we are expanding into smaller towns of Maharashtra. You should start seeing the numbers move up and we are making progress in Maharashtra also, but I think the progress in South and certain other markets is much sharper so it is kind of taking away from the progress we are making in Maharashtra.

Rajiv Mehta: And one question is on the strategy of going deeper. So how would it influence our property profile, your risk associated with property underwriting and also our ticket size.

Manoj Viswanathan: From a risk perspective see we are not going into very, very small habitations. We are present in 200 towns and our ambition is to reach 400 towns in the next two to three years. In the overall scheme of things in the country this will be fairly large towns and it is just that from our perspective we have potential to expand another 200 towns. We are not really going to very small villages with small population etc. Any location that we go to will be a fairly large town it is at least a 2 to 3 lakhs population with a demand for at least 300 to 400 loans a month, that is the kind of town we are talking about. So given that and given the way the kind of country is changing and with the trends in smaller towns actually progressing very fast in terms of digital adoption etc. We do not see but much of a difference in the way we operate in the next 200 towns compared to 200 towns where we are already present. This year we have added almost 100 towns and we are not seeing any major change in the way we are operating.

Rajiv Mehta: And what were write-offs in the quarter.

Nutan Gaba Patwari: Around Rs. 2 Crores those were some short collection, some short recovery.

Manoj Viswanathan: Basically partial, these are partial write-offs from properties that have been sold to settle certain accounts.

Rajiv Mehta: And you had spoken about certain accounts last quarter wherein you would want to kind of resolve them and that would lead to or that would entail certain write-offs. So is that pool still there, I mean, I am sure there is certain pool which can also then entail such kind of provisions in the coming quarters.

Manoj Viswanathan: This is ongoing number. This quarter we have resolved more than 200 loans or rather sold more than 200 properties. What you are seeing is the number from that. In certain cases, we would have incurred loss and recovered an amount which is lower than our principal so that is the loss that we are seeing which is this Rs. 2 Crores.

Rajiv Mehta: Okay thank you so much.

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

Abhijit Tibrewal: Thanks for taking my question. The first one is on the co-lending partnerships that you talked about. So more of an academic question, given that, I mean, co-lending partnerships will entail both fee income as well as some spreads. Typically the way we compute our NIMs is as a percentage of the total assets and given that large part of it will be of balance sheet under the co-lending arrangement can that mean that disbursements under the co-lending model can actually be accretive to the margins given that you will continue to book the spreads that you are making in interest income item (maybe) while the assets will continue to remain off-balance sheet.

Nutan Gaba Patwari: Yes, it will definitely be accretive to the overall margin profile whether we will be able to book it in interest income or other income line that need needs to be seen. My understanding is that it should be in other income line because those assets are not on the balance sheet and interest income reflects the income from the assets that are on the balance sheet.

Abhijit Tibrewal: The next question that I had is, if I look at the absolute number of stage 3 which also includes your RBI NPA that number has not moved much from maybe Rs. 102 Crores come down to about Rs. 101.5 Crores on an absolute basis. One of the other things that we were kind of hearing all through the quarter is, I mean, some of the HFC's have been leveraging a few of the ARC's so basically selling some of the old legacy NPA's to ARC's and which has helped them exhibit a good improvement in their asset quality and Manoj sometime that was also referring to in the last question that resolved more than 200 properties during 4Q. My expectation was that, I mean, given that it is a little easier to kind of enforce SARFAESI in mortgages probably the improvements would have been better, I am talking more about the absolute levels of the gross stage 3 numbers.

Manoj Viswanathan: Let me just break this down, so then you will be able to appreciate the progress that we have made. So the December number is about Rs. 102 Crores and that the breakup of that was actually Rs. 68 Crores in actual NPAs so when I say actual NPAs it is actually the customer is in 90-days past due and Rs. 34 Crores was below 90-days and because of the RBI classification, these customers have to be classified as NPA. So that was the breakup of the Rs. 102 Crores of December which is Rs.68 Crores and Rs. 34 Crores and which is basically 1.7% and 0.9% so total was 2.6%.

Now when you come to the breakup for this quarter that number is Rs. 101 Crores the total and the breakup is Rs. 57 Crores and Rs. 44 Crores So that Rs. 68 Crores which was actually in NPA last quarter has actually come down to Rs. 57 Crores so there is a Rs. 11 Crores improvement in absolute number as far as the real NPA is concerned and that number equivalent of that is 1.3% which was 1.7% last quarter.

Although on the top you are seeing it is almost similar Rs. 102 Crores and Rs. 101 Crores, if you break it down the real NPA has gone down by Rs. 11 Crores this quarter and these are all actual improvements because these are customers who are getting rolled back to lower buckets and gradually, we will be able to pull them out completely from the NPA. That is the actual improvement of about 0.3% that is 30 basis points and if you see the 30 to 90 has also reduced by Rs. 22 Crores you can see that in the 30-day past due, the overall improvement is about Rs. 33 Crores but out of which the 30 to 90 number has improved by Rs. 22 Crores and that is a 0.7% or 70 basis points improvement.

Those are actually the real improvements and the delinquency, and as you rightly said yes property is there and now market is good so we are able to resolve and sell off the properties and clear of the loans.

Nutan Gaba Patwari: Couple of more points. You refer to the point of ARC, so we have not been using any ARC filter mechanism, the entire resolution is being done entirely by the company at the loan-by-loan basis engaging with each customer. The second point that you mentioned on usage of SARFAESI so our understanding is that SARFAESI cannot be used for rollback cases. So if the customer who is within this whole reclassification of NPA, SARFAESI cannot be used against them and it is an NPA only for financial reporting purposes. If you go back to the 15th February circular of RBI it clearly says that for CIBIL purposes these customers will not be marked as NPA and hence for this entire bunch of Rs. 44 Crores or the rollback cases we cannot use SARFAESI.

Abhijit Tibrewal: Nutan thank you to both of you for this explanation, but from what I understood is like you rightly said, I mean, SARFAESI cannot be used for rollback cases because even that this NPA circular itself has been postponed to September I guess they are technically not NPAs anymore you cannot technically target them as NPAs for the rollback cases.

Nutan Gaba Patwari: Even from 1st October there is a line in the circular which says that for CIBIL reporting the old rules continue. So even then you cannot impose SARFAESI on the rollback cases is the current understanding, we will see how the market evolves.

Abhijit Tibrewal: And this Rs. 10 Crores increase that we have seen in your RBI NPA pool in other words those people who had rolled back or still less than 90 DPD on the date of the reporting, which still suggest that, I mean, customer discipline would need to improve, there are still customers on the margin who are slipping into NPA in, I mean, I am talking about this circular still people who are slipping into NPA and would kind of need better credit discipline or?

Manoj Viswanathan: Yes, but more than slipping in, now actually customers are slipping out so now customers are coming forward to make more than one payment per month so that they can come back to zero. We will see probably more movement into this, out of the real NPA and going into the lower buckets this phenomenon we will probably see for the next three to six months and then gradually these customers will come out of NPA fully.

Abhijit Tibrewal: And my last question was again on the borrowing cost. So you did kind of earlier during the call said that a small proportion of our borrowing are repo rated linked and I am assuming the remaining will be all MCLR linked so I guess all of us will now kind of try to understand what could be the proportion of repo rate hikes in this fiscal year, but what is your sense if there has been a 40 bps kind of a repo rate hike what could be the quantum of the borrowing cost increase that you could see against the 40 bps kind of a repo rate hike.

Nutan Gaba Patwari: So against a 40 basis point in the next two quarters I would think about 50% will pass on once the MCLR etc., increases and the whole flow is done. But that will be gradual. This is not the only increase that we will see this year, there will be more increases. So what we are really gearing towards is an overall increase of 50 to 70 basis points and then how do we build growth and business around it. So that is really the focus area for this year also.

Abhijit Tibrewal: Great and I think, I mean, we still kind of looking for this 30% kind of an AUM growth, I ask this because, I mean, when I asked about this co-lending partnerships that we have and I am assuming you are already working on some other co-lending partnerships. So even in the face of co-lending arrangements kind of leading to higher disbursements in the future and according to your AUM growth you are still thinking that will lead to about a 30% kind of a growth in AUM.

Manoj Viswanathan: See, if you look at our disbursal run rate it is already Rs. 200 Crores plus. So if you just extrapolate that and just add up maybe a slight growth towards the second half we should be able to get to the 30% growth levels.

Abhijit Tibrewal: Thank you so much and wish you and your team the very best.

Moderator: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Good evening. Thank you Manoj and Nutan. Just one question can you give some highlight on the connector which is acting as a sourcing agent for Home First Finance, what is the run rate currently and how we are diversifying our sourcing channel further for Home First just to grow in line of 30% AUM growth and the branch expansion which you told at the opening remark.

Manoj Viswanathan: Yes, so connectors currently the number of active connectors per quarter is in the region of about 1500 connectors. So the increase run rate to that number will be about 100 to 200 per quarter, and we parallelly also work on the productivity of the connector. So currently they are able to generate probably say two loans a month, we try to push that number also up to maybe 3 etc. So on both these things there is a lot of work going on, we have made the connector app more easy to use, we have built custom notifications in the app etc. So it is an ongoing work to engage and keep the connectors more engaged.

As far as alternative channels are concerned, we have direct marketing which is done by the branch which had taken a bit of a back seat during COVID because we could not do any activities, that is now coming back so last quarter we saw that number going up, customers coming through direct marketing by the branch.

We anticipate progress on the digital and alliance channels this year which have been at the 3% kind of mark for the last few quarters, we anticipate again a movement over there because now again it was slightly hampered because of COVID, so on and so forth, but now since everything being back to normal we anticipate upward moment on those channels as well.

So overall we would say, we are comfortable with the 70:30 kind of a ratio at the moment 70% coming through connectors and 30% through the other channels and we are working on increasing the productivity of all the channels.

Rahul Maheshwary: That is quite helpful, but also can you say a market specific that where there is this competitive intensity for an example in markets like Vadodara where Home First Finance get the lead in terms of ranking whether it is the third or fourth when the overall DSA's are giving the leads to the respective players in the ticket size where the respective company wants to grow. So can you give some flavor that how different regions are behaving and whether your ranking in terms of preference for respective DSA has been improving quarter or year-by-year.

Manoj Viswanathan: See again our approach is a little different; our approach is to ensure that in our segment we are the preferred option. So where customers have informal incomes or they are facing some other issue or some other challenge in getting a loan from a larger lender. So we should be the first, we should be the preferred option for the connector to pass the lead to us. So that has really been our approach and we have been fairly successful. I would not be able to tell you specifically the location that you pointed out i.e Vadodara is a very competitive rate sensitive market with a lot of formal segment customers. So difficult to make a location specific comment, but generally our approach is that in the affordable segment we should be the preferred option for the connector and they have enough reasons to prefer us because we are very easy to deal with, everything can be done through the Connector App, they can keep track of their status, so lots of benefits for the connector as well as the customer.

Rahul Maheshwary: Just a second question there are few customers in your overall pool where they are a salaried person also and at the same time they acts as an self-employed customers, a mix of pool because in rural areas we find those areas or in certain neighborhoods?

Manoj Viswanathan: So these are characteristics of our affordable housing customers and if they go with this kind of profile to a larger lender they would probably get declined because they would not understand that somebody could be working, so there are many customers for example who work in factories and on weekends they do work on a self-employed basis and that is a real income but banks and larger lenders do not recognize that and that is really where we come in and we understand these customers better and we are a preferred option for these customers.

Rahul Maheshwary: And where you categorize those customers.

Manoj Viswanathan: Whichever is the predominant income, so, if the customer is a formal salaried customer we would categorize them as salaried customer. So our categorization is based on the behavior and predominant income. So, if a customer is formal salaried which is where he is getting a salary credit in the bank then the behavior is typically like a salaried customer. So we categorize them as salaried customer.

Rahul Maheshwary: And just last any specific credit cost guidance you would like to highlight though your every ratio is now back to near to pre-Covid level, one DPD and etc, but any specific thing which you want to comment.

Manoj Viswanathan: Yes, so since credit cost guidance that we have given for the pre-COVID level which is around 30 to 50 basis points so that is what we are comfortable for the coming year.

Rahul Maheshwary: Thank you so much Manoj and Nutan.

Moderator: Thank you. Next question is from the line of Pooja Ahuja from Monarch Networth Capital Limited. Please go ahead.

Pooja Ahuja: Thank you for the opportunity and congratulations on a great set of numbers this quarter. So firstly I wanted to understand how much is the quantum of restructured book as of March?

Nutan Gaba Patwari: Rs. 28 Crores.

Manoj Viswanathan: Rs. 28 Crores and 65 basis points of the overall book.

Pooja Ahuja: Have we seen any slippages from this book during this quarter.

Manoj Viswanathan: Yes, the slippages have been there. So overall the slippages are the real NPA slippage is around 20% and there is another 10% which is in the reclassification side.

Pooja Ahuja: And are we holding any excess liquidity in our book as of March or have we completely run down.

Nutan Gaba Patwari: We are holding around Rs. 650 Crores of cash and investments, we will not run down totally. This is our optimal level that we will want to operate at. So we will want to hold about two months of liquidity at any given point of time on the balance sheet.

Pooja Ahuja: But as per the regulatory requirement how much would be the excess what would be the LCR.

Nutan Gaba Patwari: LCR is at 125% and the requirement is 30% so we are very comfortable on liquidity from all aspects.

Pooja Ahuja: Okay sure, that is it from my side.

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

Karthik Chellappa: Thank you for the opportunity again. I just have two questions, the first one is of the disbursements that we did this year which is roughly let us say about Rs. 2000 odd Crores would you be able to share what is the one DPD ratio of that book.

Nutan Gaba Patwari: One DPD for the newly originated book is at 0.7%, this is one DPD for loans originated in FY22.

Karthik Chellappa: The second question is, if I look at the difference between the cheque bounce rate and the one DPD which is roughly around 9% that would essentially signify the customers whose cheques have bounced but they have regularized it to not have any due by the end of the reporting period correct.

Manoj Viswanathan: That is right.

Karthik Chellappa: That difference of 9% if I were to compare it with pre-COVID levels which is let us say the fourth quarter of FY2020 or so there it was about 6% which means despite most of the asset quality parameters inching towards pre-COVID levels the difference is still sizable relative to pre-COVID what do you think explains this.

Manoj Viswanathan: I think some amount of behavioral changes or disturbance which has been caused by COVID so it actually takes time to bring customers to a very disciplined behavior of clearing the payment on the same date they are supposed to clear, but that got completely disturbed because of six months of moratorium and then after that second wave and so on. So I guess we are basically talking about 3%-4% of customers whose behavior has kind of changed, it has become a bit casual because they feel that okay maybe there is no penalty we can just pay it later because that is one reason and another reason which is also there is because now there are so many digital modes of payment UPI etc., where they can link other banks so I guess customers are a little more easy in terms of their payment because earlier they knew that if the EMI bounces somebody is going to come and collect cash from them or somebody is going to come and knock on their doors. Now they are a little bit more easy because they know that okay they just missed a payment okay just it is going to take them maybe five seconds to link another bank and make the payment through another bank. So I think that also is a contributor to about 2%, 3% because we are seeing a lot of customers actually about 3% to 5% of customers who pay immediately after the bounce date which makes no sense at all because if they had an intention of delaying they should probably pay after a few days, but fourth is the presentation date they bounce on fourth and then they will pay on fifth or sixth or seventh or eighth through UPI or some other electronic method. So I think there is some change in behavior that has taken place through COVID which is contributing to this.

Karthik Chellappa: Which means the 14%, 15% cheque bounce rate which we see right now relative to a pre-COVID of 10% to 11% at least behaviorally we should expect this gap to sustain at least for the next few quarters until they become little more disciplined is that how we should infer it.

Manoj Viswanathan: Yes, and it will require some effort from our side as well. we have started understanding why customers are paying two, three days after bouncing the payment and is it because they have their funds coming into some other account so should we change the account for the ACH and so on. All of this kind of repair work is going on which will help in getting the number back to the pre-COVID level.

Karthik Chellappa: Got it, this is very clear. That is all from my side. Thank you very much.

Moderator: Thank you. Next question is from the line of Shreepal Doshi from Equirus Capital. Please go ahead.

Shreepal Doshi: Hello Sir, just to follow-up on our strategy when we are looking entering more into the regional side and rural geography. So then what will be the operational changes that we will be making because we have been hiring the MBA graduates, so then I mean you have to attract such talent so in the rural geographies, I mean, what would be the strategy for that for going ahead into this segment.

Manoj Viswanathan: In terms of hiring etc. It is not very different, so as I mentioned the way last year, I mean, the previous year we added about 100 such small locations and we are still hiring similar people that we were hiring in the past and training them and getting them to operate in these markets and now because of all of this digital penetration and all of these towns developing there is not that much reluctance, the reluctance that we are seeing of people wanting to work in these places. There are a lot of people coming from these smaller towns who want to work there in their home towns or in these small places. So we do not see any difficulty there and in terms of operations again because of the digital connectivity, it is not that we have to start or do something different in these places we are able to provide service from the nearest large branch, we can video conference the customer from a nearest branch. So even in terms of operation I know this question has come up couple of times even in this call that are we doing anything different for penetration into smaller towns it is not, nothing significant, I would say is the answer to that question because of the digital connectivity it is fairly similar to how we have been operating in the past.

Shreepal Doshi: So it was more like from the talent pool side perspective because that has been the challenge for the players operating in the rural geography especially wherein handholding is required for the customer from that point of view.

Manoj Viswanathan: Yes, but again like I said we are not operating in such very small rural markets where it is difficult for us to get profile of the people that go there and those markets are different, we are operating in fairly large towns, I mean, tier two, tier three towns where the profile of employees is similar to the larger metros.

Shreepal Doshi: Got it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Jigar Jani from Edelweiss Broking Limited. Please go ahead.

Jigar Jani: Thanks for taking the question and congratulations on a great set of numbers. Just couple of questions would it be possible to give a split of either the quarter or for the full year, how much of the disbursements would be coming from the top five states and how much from the newer states that you have entered into?

Manoj Viswanathan: We can give you that, so top five states for us are basically Gujarat, Maharashtra, Tamil Nadu, Andhra or Andhra plus Telangana you can take, if you take it together and these are the top five states and I can give you a quick number which it is going to be about 70% to 75% would be coming from the top five states and this mix is likely to remain.

Jigar Jani: Will this change and will you see newer geographies contributing more because these are fresher branches and will grow faster?

Manoj Viswanathan: I think the mix is likely to remain with the slight variation of 5% or so. It is because we are progressing in all of these places so the mix is likely to be the same.

Jigar Jani: Just on the follow up on below NPA pool of Rs 44 Crores, so like Nutan mentioned that you cannot initiate SARFAESI on these accounts and probably these accounts will have two or three EMI's that are two EMI's at least pending. So will this be a sticky NPA eventually because it will be difficult for these people to make these payments or by when do you see this amount substantially go down will it be two quarters, three quarters that this amount will slowdown because we have seen an addition actually Q-on-Q basis in this amount so just your thoughts on that?

Manoj Viswanathan: So there will be both events that take place. So one is some of the customers from this Rs. 57 Crores which will start making more payments and coming into this lower bucket and some of the lower bucket customers will get fully resolved. So I think this phenomenon will keep happening I think for six to nine months before the pool starts reducing. So yes, it is going to take some time because customers do not have the capability to pay one entire extra installment in a month they will generally pay 25% or 50% of the installment. If they have three installments pending it is going to take them nine months.

Also, from the customer friendliness perspective it is not the right thing to do because these customers are actually trying hard to come out of delinquency and come back to zero DPD so does not make sense to take a hard legal action on them. So we would like to handhold these customers for as long as it takes maybe six, nine months or twelve months to get them back to zero.

Jigar Jani: Sure thank you very much, those were all my questions.

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

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

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