homefirst
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HFFCIL/BSE/NSE/EQ/56/2021-22 **Date: 10-08-2021**

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: Earnings Conference Call Transcript

Dear Sir/Madam,

With reference to our letter No. **HFFCIL/BSE/NSE/EQ/45/2021-22** dated July 24, 2021, please find attached the transcript in respect to the earnings conference call on the Un-Audited Financial Results for the quarter ended June 30, 2021 held on Friday, July 30, 2021 at 5:00 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
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Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q1 FY22 Earnings Conference Call Transcript

July 30, 2021

MANAGEMENT:	**MR. MANOJ VISWANATHAN** **MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER** **MS. NUTAN GABA PATWARI** **CHIEF FINANCIAL OFFICER** **MR. MANISH KAYAL** **HEAD - INVESTOR RELATIONS** **MS. VIDULA WORLIKAR** **INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Home First Finance Q1 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 any assistance during the 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 Chief Executive Officer of Home First Finance. Thank you and over to you Sir.

Manoj Viswanathan: Thank you.

Good evening everyone, and welcome to our Financial Result Discussion Call for Q1 FY22. On behalf of the Company, I extend a very 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, Mr. Manish Kayal and Ms. Vidula Worlikar from our Investor Relations team.

I hope everybody had an opportunity to go through our investor deck and press release. We have also uploaded the excel version of factsheet on our website, request you to have a look.

We will quickly summarize our Q1 result:

The first topic is COVID wave 2: Q1 saw the entry of "Wave 2" in our vocabulary. From the middle of April till mid-June, the entire country was reeling under the onslaught of the virus. It started in North and West and then spread to the Southern part of the country. However, it was different this time. Health was impacted but livelihoods and income were protected. The economy did relatively well and exports reached a historical high.

At HomeFirst we witnessed the following: Vaccination has become a critical element of doing business and we have got 97.3% of our employees vaccinated with their 1st dose. Impact of wave 2 started in mid-April and collection efficiency was lower in April and May at 95% and 94%. In June most parts of the country started returning to normal. Bounce rate that had gone up in May, came down and collection efficiency went up to 97.6%. Business impact was highest in May with a lesser impact in April and June. Overall, disbursements ended at 67% of Q4 FY21 level (Rs 305 Cr compared to Rs 452 Cr). Both business and collections have shown a sharp rebound in July. Bounce rate reduced to

16.1% which has been the lowest since the start of the pandemic in April last year. Collection efficiency run-rate have reached Q4 levels. Originations and disbursals have also reached Q4 levels on the back of strong demand from all our markets.

Coming to Q1 FY22 result: PAT is at 35 Cr, a sequential growth of 12.2% despite challenges faced on account of covid wave-2. Our AUM stands at Rs 4,294 Crs, up 18.5% y-o-y. Cost to income was at 32% in Q1FY22 compared to Q4FY21 level of 38%. Our Gross Stage 3 is at 1.9% and net stage 3 at 1.4% with 0.6% restructuring. We have provided a moratorium to 208 borrowers; for their overdue payments and extended their tenure to accommodate the moratorium. We have selected customers on the basis of their ability to be cured. 30 DPD has gone up to 5.8% (increased from 4.1% in Q4) and 1 DPD has increased to 8.9% in Q1 FY22 from 6.2% in Q4 FY21.

Coming to distribution, we operate with 72 physical branches. We have commenced business in 33 potential branch locations. These have started contributing 14% of the incremental business. In addition, we have established digital presence in 32 locations that are currently contributing 6% of the incremental business. Totally these 65 new distribution points are contributing 20% of the new business. Total touchpoints currently stand at 137.

Coming to digital, Digital initiatives continue to see further progress. We have now launched electronic stamp paper, e-signatures and e-NACH across all branches. Our customer app continues to enjoy high usage with more than 67% of our customers registered on the app compared to 48% a year ago. Payments and service requests made via the app in Q1 FY22 have gone up by 135% and 148% respectively compared to Q1 FY21. Loan approval Turn-Around-Time has improved further with 91% of loans approved in 48 hours compared to 88% in previous quarter. Digital and Strategic channels have contributed 4% to new originations in Q1 compared to 3% in FY21.

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

Nutan Gaba Patwari: Good Evening All. I will take you through our performance in Q1 FY22. Starting with the financial performance, we stayed focused on NIM, Opex, PPOP and Credit cost. Our NIM has expanded from 4.7% in Q4FY21 to 4.9% in Q1FY22; due to expansion of spread from 5.4% to 5.5%. Net Interest Income has gone up by 16.9% on y-o-y basis and 11.8% on q-o-q basis. Operating expense has seen a downward trend due to improving operating efficiencies and judicious spending. Opex to AUM stands at 2.5% for the quarter, lower by

40bps on q-o-q basis. The PPOP now has crossed Rs 60 Crs, a q-o-q growth of 19.3%, coming from an expanding NIM base as well as continued focus on Opex as mentioned earlier. Credit cost of 1.1% is due to additional provisioning as well as write-off of the one-off sticky portion of the asset base. Out of the 13crs in credit cost, the impact of write-off is Rs 3 Crs, Rs 2 Crs is on account of increase in book and Rs 8 Crs is on account of higher stage 2 and stage 3 balances.

With the onset of the 2nd wave of Covid, recovery from this one-off sticky asset base looks weak and as a result, our Board and auditors felt it was prudent to write-it off. The total write-off amount was Rs 12 Crs. Our ECL provision continues to be at 1.4% of the total POS. We have continued to be prudent with the provisions and we have provided for the restructured loans on the highest Stage 2 ECL %age basis. Our PAT at Rs 35 Crs continued to expand on a qoq basis; and reported a growth of 12.2%. On a PAT ex DA income basis, we have grown by 5% on a YOY basis.

Moving to liquidity and borrowing, we are rated A+ with Stable Outlook for Long-term credit from CARE & ICRA and A1+ for Short-term credit from ICRA & India Ratings. The company has access to diversified & cost-effective long-term financing, with 19 marquee lenders. We expanded our banking relationship in the quarter with a foreign bank by adding HSBC Bank. Total borrowings including debt securities are at Rs. 3,083 Crs as on June'21 from Rs.3,054 Crs as on Mar'21. We have a healthy borrowing mix with 45% of our borrowings from Banks (Public sector 24%, Private sector 21%), 26% from NHB Refinance and 22% from Direct Assignment. We continue to have zero borrowings through Commercial paper. Our cost of borrowing has been trending downwards. Our Q1 FY22 Cost of borrowings stood at 7.2%; reduced further from 7.4% in Q4 FY21. Our marginal COB for Q1 FY22 was at 7.6%.

Moving to capital, our total CRAR is at 56.4% and Tier 1 CRAR is at 55.2%, our Jun'21 Networth stands at 1417 Crs vis-à-vis Rs 1381 Crs as on Mar'21, our quarter ROA stood at 3.1%, higher from 2.9% witnessed in Q4 FY21.

Our annualized ROE stands at 10.0% on Q1 numbers. Our Book Value per share (BVPS) stands at Rs. 162 as on June'21 and Diluted EPS for the quarter was Rs 3.9 vs Rs 3.6 in Q4FY21.

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 times. 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 of Rs 1,480 Cr (cash plus undrawn lines) to facilitate the planned growth. With our lean organizational and process architecture, we continue to work on reducing costs and improving profitability. We have taken prudent measures on provisioning and early risk recognition. Our high ECL provision of 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 is question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much team. Congrats for the quarter. I have three questions. The first one is if we were to look at our gross NPA of about 1.9%, at what stage do you think it peaks and at what point of time should we start to see some moderation in that ratio?

Manoj Viswanathan: Karthik, we were at 1.8% last quarter and this quarter there has been a 10 basis points slippage and it has come to 1.9%. We have restructured about 200 accounts, so that is about 60 basis points. Including the restructured accounts we are dealing with 2.5%, plus there will obviously be some flow from the earlier buckets into NPA in the coming months. So, overall if we look at, in the next two to three quarters we are targeting to get back to pre-COVID level, so which means 1.9% going down to 1%, so we are looking at winding this down by about 10 basis points every month, that is really our internal target.

Karthik Chellappa: Okay, excellent. Manoj, second question is if I were to look at most of the internal metrics whether it is your cheque bounce rate or whether it is your 1+ DPD or 30+ DPD relative to the Q4 which was actually a recovering quarter, the pace of deterioration has not been that high at least compared to the other peers who had reported so far, in your view what would explain this relative resilience?

Manoj Viswanathan: See we have always been maintaining this stance that we are present in the larger markets, also if you look at our portfolio it is largely skewed towards housing loans which is 90%+. Third factor is 74% of our customers are salaried. So, these are all contributing factors, which is why you can say bounce rate is coming down, so our bounce rate in July was the best that we are seeing after the pandemic started last April, so these are all the contributing factors to why the portfolio is more resilient.

Karthik Chellappa: Okay, great excellent. My last question is on your effective tax rate, now almost all Housing Finance companies are required to appropriate 20% of their profits under a special reserve, under the NHB Act and the same has allowed as a deduction under the IT Act, so effectively they end up paying 25% tax on 80% of the profits which gets to a 20% effective tax rate. One of your closest peers also reports that kind of an effective tax rate, why is Home First still having a 25%-26% kind of effective tax rate and unable to take advantage of this benefit?

Nutan Gaba Patwari: Karthik, we have continued to create deferred tax liability on the special NHB reserve and that essentially creates the difference. We have started the work on this and we should be able to come back to you in a quarter's time.

Karthik Chellappa: Yes, can we say that over a period of time our effective tax rate should go towards the normalized 20%-21% rate which should be the case in principle, can we say that comfortably or do you need another quarter or two confidently say?

Nutan Gaba Patwari: We have to work with the Auditors. As you are aware, our auditors are changing. So, by Q2 we will be able to give you a definite answer.

Karthik Chellappa: Okay, not a problem. Thank you very much for this color Manoj and Nutan. Wish you and the team all the very best. I will come back in the queue for more questions if any. Thank you.

Moderator: Thank you. The next question is from the line of Apoorv Trivedi from Moon Capital. Please go ahead.

Apoorv Trivedi: Thanks for the opportunity. Couple of questions, one on operating expenses, you mentioned you had a fairly significant reduction in opex to AUM q-o-q, just wanted to understand how much of that was driven by your disbursements versus kind of more substantial reduction in opex?

Manoj Viswanathan: Apoorv, there will be secular reduction in opex continuously as we keep scaling up and keep optimizing our processes. Particularly for this quarter, there was obviously some impact of lower level of activity, so some limited amount of travel etc, because of the second wave, so that has contributed to the sharp decline but otherwise over the course of next two quarters there should be a gradual decline in operating expenses.

Apoorv Trivedi: Okay but will you be able to break that reduction for this quarter because I am assuming some portion of that is due to lower volumes, right?

Nutan Gaba Patwari: Right, so the way to look at it is essentially in two buckets, the amount contributed by the lower disbursement and the amount contributed by let us say lower spending on a discretionary side, so probably 60:40 kind of a ratio is what I think we can say right now.

Apoorv Trivedi: Understood. In terms of origination, I think you mentioned that July numbers are already in line with Q4 levels, just wanted to get a sense from here on do you see those originations accelerating again barring third wave and all those kind of factors or do you think in the next few months, it will be stable, and you know you would love to watch the market before it kind of picks-up?

Manoj Viswanathan: Origination started coming back sharply in June itself and July has been even better, so we are seeing a sustained improvement in origination and disbursement going forward. It is across all markets we are seeing this recovery and fairly sustained and it is not just the spurt immediately after the second wave, but we are continuously seeing good improvements in demand in origination and disbursal. So, we will feel confident that this recovery will last the entire year.

Apoorv Trivedi: Maybe I just slip in one more question, in terms of provisions I think you gave some color in terms of the number of accounts restructured and the reduction in NPA etc., maybe just help us understand a little bit how you are thinking about the adequacy of provisions you have and that of the trajectory for that over the next few quarters?

Nutan Gaba Patwari: Apoorv, if you see our total book of around Rs 3400 Crores of principal outstanding, our provision cover on overall basis is 1.4% which has been consistent over the last few quarters. Now given the kind of recovery we are already seeing with the leading indicators, on bounce rates and also the collections, we are very positive and like Manoj mentioned about it 10 bps reduction on the overall GNPA, we are feeling very confident, so from that perspective, provisions look reasonable. Coming to the specific point on stage-3 where you see the ECL provision coming off from 36% to 26%, that is because one of the items that I mentioned impacted the weighted average contribution. Now that we have taken that off and there was a provision already against it, the total number dropped but because the current book of stage-3 is fully distributed, we do not see any need to take higher provisions than this. So, that is how we are looking at it.

Apoorv Trivedi: Alright. Thank you very much.

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

Susmit Patodia: Good evening. Great set of numbers. A few questions, first is on the spread at 5.5% near all time high for you, how do you think about it, will you claw it back and if doing so will it boost growth?

Manoj Viswanathan: Historically, we have been competing in the larger markets where there is a challenge on rate or there is battle on rate with the larger lenders. Gradually we are also expanding our network into smaller towns and so we are feeling confident that the yields that we are actually clocking can be sustained but at the same time we are at a kind of let us say low point in the interest rate cycle and the cost of borrowing has been continuously declining which is why you are seeing kind of all-time high spreads, so I would say confidently that we can maintain spreads of around 4.75% to 5% whether it will stay 5.5% depends on lot of other things.

Susmit Patodia: Just on the competition part, whenever we talk to any DSAs or any channel partners they are already saying that the only thing that the bank is comfortable doing now is housing loans right now, so are you seeing any competition pressure, any BT that is happening on your books?

Manoj Viswanathan: Yes, there is heightened activity on home loans and you know large lenders are also quite active on home loans but if you see the overall home loan market including the prime segment, mid segment there is a recovery across all segments, so the rate war is largely in the prime and mid prime segments in the housing loans, when it comes to affordable housing, most of the players in this space operate in a certain range and in that sense there is no direct battle or direct war on the pricing the market, so which is why we are able to maintain those kind of yields. So, the larger lenders kind of restrict themselves to do premium segment and affordable housing players have operated in a certain price range, so that is the really how the market is placed.

Susmit Patodia: You would not have pressure of customers coming back and asking for repricing saying they saw the ad at 6.6% etc?

Manoj Viswanathan: We do have anecdotal incidents like that, but it is not like a surge of customers coming to us.

Susmit Patodia: The third question if I may ask is you have given us the framework of 10-2-1 which is 10% bounce rate to 2% 30+ and 1% NPA, this quarter is quite amazing it is 18-6-2, so how did you manage this, is there any special collection machinery you put in, following up from what Karthik asked in the beginning, how did you manage this?

Manoj Viswanathan: Our branch architecture has been, from the beginning, the entire team being responsible for collections, so in every branch the 5 to 10 members team is responsible for collections, so in some sense that has helped us because we do not have to then add an additional team for collections or specialized team for collections. We are able to do the load balancing very nicely, so let us say if there is a spike in let us say delinquency in one branch, we are able to deploy people from another branch and manage that, so as far as last quarter was concerned nothing special, I think there was only a temporary spike because of sudden surge in COVID. So in April and May, some customers who were generally used to making their payments, so if you see our 1+ DPD in March, it was 6.2% and in June it is gone up to 8.9%, because it was a 2.7% of our customers who have obviously missed some payments in April, May or June. So, that is the reason, it is a temporary issue. Large number of these customers are going to pay off their next payments and come back to normalcy. We help them out by doing partial collections so that they can catch up on the payments in 2-3 months, so they make one instalment payment and for the missed payment, they will make partial payment and they catch it up in two months to three months, so that is what we will do and help them to get back to a normal payment situation. So, it is just the collection architecture I mean the branch architecture the way we have created it where everybody is responsible for collections and that helps us to manage these numbers.

Susmit Patodia: Okay and just if I may one last question is on your digital dashboard slide, you have got 50,000 customers and you have mentioned that 4000 are now paying via the app?

Manoj Viswanathan: That is true.

Susmit Patodia: Now, when you see paying via the app, could you just explain to us what that would mean?

Manoj Viswanathan: Let me explain, so you must be wondering because obviously all the customers should be on NACH / electronic debit, so that is true. 100% of our customers are on electronic debit but at the same time you know, it is in our interest as an organization to keep people hooked onto the app because that will also enable us to retain customers, so we have provided a very smooth payment experience on the app and some customers in fact prefer to use that rather than doing in an NACH getting debited through the NACH method, that is one reason. Another big reason is that we allow customers to make very small prepayment amount through their app, so if somebody wants to prepay Rs. 1000 on his loan or Rs. 2000 on his loan, he is free to do so on the app. So, that is the unique feature that we provide on the app and that is the another thing that attracts customers. So, it keeps them hooked on so they have an excess of Rs.1000 – Rs.2000 in a particular month, they can actually pay the loan balance by that month. It does couple of things, one is it keeps them hooked on our app, it helps us to build retention because then if he is able to prepay his loan through our app and on a regular basis then such customers find no reason to balance transfer their loan. So, these are all reasons for us to promote this and that is the reason we are tracking this number.

Susmit Patodia: Got it. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Two questions, first is in terms of our cost of fund. I see marginal cost of borrowing at 7.6% where average was 7.24%, should we take it that cost of fund is now going to rise?

Nutan Gaba Patwari: I will explain. 7.2% blended is because we have a high share of NHB, now the NHB borrowing is a seasonal through Q3 and Q4 essentially, so given that our marginal rate now it is around 7.6%, once the NHB loans comes for FY22, we will again see some relaxation there, so overall we should be able to stay in this range provided the interest environment stays here. Apart from the interest environment, this range of 7.2 to 7.4 is reasonable to build in for one or two quarters more.

Anand Bhavnani: Do you have any sense of the approximate funding that we might get from an NHB due course?

Nutan Gaba Patwari: It will depend on the specific scheme. So, it is bit premature to have a guess on that number.

Anand Bhavnani: In terms of securitization given that there is anaemic loan growth in the banking system as the whole, are you seeing better terms, than let us say a year ago?

Nutan Gaba Patwari: Because these are from the affordable home segment, which is the PSL loan, so we have always enjoyed very good rates and we continue to do so, we have seen slightly increased demand and more option but pricing it already at MCLR, so that is where we are.

Anand Bhavnani: Okay and lastly, in terms of asset quality it has turned out very, very good for us and do you see any particular value that might lead to any deterioration effect from Wave 3**,** are you confident of maintaining asset quality going forward from here on?

Manoj Viswanathan: See, in our case frankly wave 2 was milder than wave 1, it was also shorter and in most of the markets where we are present. The economy has recovered quite sharply and people if you see our investor presentation the first couple of pages, you can see actually that the unemployment rate is even lower than pre-COVID levels in some of our markets. So, all of this has contributed to very sharp recovery in collections for us. So, at the moment we are feeling fairly positive, we are not seeing any reason to be worried about it.

Anand Bhavnani: Thank you. I will come back in the queue.

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

Nidhesh Jain: Thanks for the opportunity. Firstly, how do you see the opex to AUM ratio trending over next few years. It has been quite volatile in last five quarters to six quarters and probably because of COVID but on a steady state basis, over the next two years to three years, how should we think about this?

Manoj Viswanathan: We have planned for a gradual decrease in opex to AUM and this will come from just two areas, one is this scaling up and better utilization of our branches, so the operating leverage that is sitting there plus we are taking a lot of initiatives to convert processes into digital processes and automate various processes etc., so some of those gains will come from the efficiency gains. So our aim is to get 2.5% to 3% over a two to three year period, so like I said the sharp decline that we are seeing in the last quarter is also slightly contributed because of some lull created by the Wave 2.

Nidhesh Jain: So, opex to AUM should be around 2.5% over the next 3 years?

Manoj Viswanathan: That is right.

Nidhesh Jain: Secondly, what we are seeing that some of the Affordable Housing Finance companies are selling lot of insurance products and that have significant amount of the fee income in some cases fee income is almost 1% to 1.5% of the disbursement amount that they announce on the insurance product but what I see in your P&L there is no a significant fee income that we are earning, so how do we think about that strategy?

Manoj Viswanathan: Basically, we sell only one insurance product which is the credit life cover and that is basically to protect our customers in case of any event and that product does not have any income attached to it, so what we basically earn on that product is basically the insurance premium that we finance, so whatever is the interest earning on that portion that is what we earn on it.

Nidhesh Jain: But why are we not getting any commission on that I think other companies get a decent amount of commission?

Manoj Viswanathan: For a credit life product IRDA does not allow commission.

Nidhesh Jain: Lastly, on the asset quality as you mentioned that on every quarter we should expect 30 basis points reduction in GNPA, what should be the credit cost that we should factor in for the full year?

Manoj Viswanathan: The pre-COVID levels credit cost has been in the region of 40 basis points, this year likely to be slightly higher because the COVID impact is still not fully played out, so we anticipate somewhere between 60-80 basis points in that range for this year and then from next year, it should normalize.

Nidhesh Jain: Sure. Thank you.

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

Chintan Shah: Thank you for the opportunity. One thing on the restructuring part, so if you can just give some flavor on the nature of the restructuring, would the accounts have been restructured as it would be a tenure extension or EMI change or what would be the nature of that and secondly any sectoral flavor or would it be from home loans or LAP or anything on that?

Manoj Viswanathan: Yes, 90% plus of our book is home loans itself, so a majority of the restructuring is also in similar ratio kind of 90:10 or 85:15 skewed between housing finance and LAP and the way we have given the restructuring is pretty uniform across all the customers, whatever number of installments that they had pending, we have basically given the moratorium for that and we have extended the tenure to accommodate the moratorium. So, if somebody has four installments pending, we have added that to their principal and we have extended the tenure to pay that back.

Chintan Shah: Sir, the interest component for the six months, for example, if the restructuring is for six months, so interest also would be charged on that six month, right?

Manoj Viswanathan: That is right, so interest will be charged, so that is the portion that we have added to the principal to extend the loan.

Chintan Shah: Sir, one thing on the liquidity part for year currently having a liquidity of around Rs 1500 Crs, so would you be maintaining this much liquidity or would that liquidity buffer go down as the COVID pandemic goes away?

Nutan Gaba Patwari: In the case of liquidity around Rs 1000 Crs is on the balance sheet and Rs 480 Crs is undrawn line, so over the next two to three quarters, we will want to bring it down to somewhere around Rs 500 Crs as a first target.

Chintan Shah: How much does that impact our margins, any rough estimate?

Nutan Gaba Patwari: Almost 25 basis points in that range.

Chintan Shah: One last thing is on digital branch sourcing, so suppose for the digital branches, so how is the sourcing done for the digital branching, since we do not have any manpower employed at any of our physical offices, so is the sourcing also completely online via connectors or what will be the sourcing mix, any rough estimate on that?

Manoj Viswanathan: Yes, sourcing mix for digital branches is fairly similar to the other branches, so the way we operate digital branches is basically these are outreach locations where our relationship managers visit from the nearest physical branch, the origination methods are similar to normal branches, so there is digital sourcing, there are connectors, there is local marketing that we do etc., and as happens in the branches, the connectors basically update the leads on their app and it comes to us digitally and then a relationship manager takes on from that point, meets the customer and take this forward. So whatever would be the channel, the relationship manager basically picks up a lead and then he visits that market and meets the customer and takes the lead forward. The digital part actually plays out more from the post disbursal point. Prior to disbursal there is an agreement that need to be signed, so we have started e-agreement process, so we basically have send a link to the customer, we counsel him from the nearest branch through a video channel and the customer can then use his Aadhar number to sign the agreement, so that is the digital operations part and post disbursal, the collection as well as the servicing is again digital, so we have the app, so if customers have any queries they put it up on the app and similarly, if he has any payment, if he wants to make a payment, you can make it through the app itself. So, basically 70% of the engagement with the customers in these locations is digital. There is an initial 20%-30% of engagement when the loan is being originated and the RM needs to meet the customer to educate, etc.

Chintan Shah: Sure. Thank you. One last thing on the restructuring part, anything in pipeline for the next quarter or so?

Manoj Viswanathan: Looking at our collection numbers and looking at the bounce rate which are decreasing, collection numbers, collection momentum is very good, at the moment we are of the mind that we do not want to do any further restructuring; however, you know we will look at what kind of requests we get from customers and then take a final call.

Chintan Shah: This is very helpful and Sir, one last thing that on the collection part, so what percentage of our collections would be in digital mode, if we look at the collection efficiencies, there has been hardly any blip in April and May despite the second wave, so just wanted to understand, what percentage of collections will be in digital mode, any cash collections or most of them would be in digital form?

Manoj Viswanathan: Let me start with the bounce rate, for example, let us say July you are looking at our bounce rate with 16%, so which means 84% of the customers have anyway cleared the payment through the electronic debit, so that is the electronic payment straightaway. Out of the balance 16% who have bounced their payment, about 4% to 5% is in cash, the remaining 11% of the customers pay through some or the other electronic modes, so either they make a NEFT payment or they pay through our own app, or they pay through the BBPS the methodology that is through any of the payment gateways, GooglePay etc., so all of this put together is about 10%-11% and about 4% cash.

Chintan Shah: Okay Sir. This is very helpful. Thank you.

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

Chandrashekar S: I just wanted to confirm again one what was write off number for the quarter and I think you said it was related to some larger accounts, so just some clarity on that and the second one, you still carrying some level fairly reasonably high levels of liquidity on the balance sheet and just your thoughts on how do they run off or you continue to keep this liquidity on balance sheet and just the third question is where are we in the whole process of getting through to about Rs 180 odd Crores of monthly disbursals, in the last quarter we did Rs 150 odd Crores and I am trying to understand are we on track to get to Rs 180 Crs for the remainder of the year?

Nutan Gaba Patwari: Sure Chandra, I will take the first two. On write off, the write off impact on the P&L is around Rs 3 Crs, the total value of the loan which is written off is around Rs 12 Crores, so essentially, we were already carrying Rs 9 Crores provision against the same, so that I think addresses the first one.

Manoj Viswanathan: He asked whether it is any large account. It is not any large account. It is basically a retail accounts only but Chandra if you remember, we were carrying some of these assets in Alwar and places like that which were sticky, where we could not dispose off and we do not see a recovery in the medium term, so the board felt that ideally we should see writing it off because recovery is not anticipated in the medium term, so that is the part that has been written off.

Nutan Gaba Patwari: Your second question on your liquidity and the fact that we are carrying close to Rs 1000 Crores**,** yes it will have to come off the balance sheet in a slightly gradual manner, so in about two quarters, we are targeting to close to around Rs 500 Crores, so that is our first goal and then we move from there. On the question on disbursement of Rs 1800 Crore, I will hand over to Manoj.

Manoj Viswanathan: Chandra, the disbursement momentum has come back quite sharply and so this quarter we should be able to get to at least the previous quarter levels or more actually, so that is where we are, I mean to your question of whether we will be able to get to that I think you are saying Rs 180 Crores monthly average, so which is about 2000 Crores for the year, we are fairly confident of reaching those numbers.

Chandrashekar S: Thank you.

Moderator: Thank you. The next question is from the line of Dhruvish from Mirabilis Investment. Please go ahead.

Dhruvish: Thanks for the opportunity. I have three questions, first is on the expansion strategy, around 68% of our book do come from Gujarat, Maharashtra, and Tamil Nadu, so do we plan to penetrate deeper in these three states or we look forward to enter the other states as well?

Manoj Viswanathan: On distribution, we are trying to focus on states which are more urbanized and which are larger contributors to the country's GDP because we are seeing a strong correlation between that and the demand for affordable housing. So you can see that we are fairly strong in Gujarat and to some extent in Maharashtra, we have started our expansion in South about two years ago and South has also now started contributing about 30% of our business. So our expansion is focused on six states, namely Gujarat, Maharashtra, Karnataka, Andhra, Telangana and Tamil Nadu. So, these six states are at the core of our expansion strategy and in states like Chhattisgarh, Madhya Pradesh, Rajasthan and UP, it is opportunistic, so we are just targeting specific pockets of opportunity and we are expanding there. We will prefer to focus on the larger markets and the big pockets in these states whereas the other six states that I mentioned, it is more deeper and wider coverage strategy.

Dhruvish: It is nine months our number of branches have been stable at 72, so do we have any target this year to expand the branches in terms of absolute numbers?

Manoj Viswanathan: We have already started operations in about 33 locations which deserve to have branches. In the normal course, we would have probably put up some of those branches in the last quarter but because of the COVID wave, we were refraining from doing that, but you will start seeing those branches now coming up in the next two quarters.

Dhruvish: Okay, any plans to penetrate in the east since we are not present there?

Manoj Viswanathan: We are just going by market size, so if you see that the eastern parts of the country, it is not a large contributor to the overall Housing Finance business, and which is why we are for the moment we are not focusing on it.

Dhruvish: Okay and my second question is with the respect to the overcapitalized balance sheet, so we have like CRAR of 55% which is intact since last two years and because of that our ROEs stagnant at 10%, so do we have a ballpark number in terms of capital adequacy by the end of year?

Manoj Viswanathan: Capital adequacy, we are maintaining high capital adequacy which is a strong point for rating agencies, lenders etc., so I think that is the number that we want to keep it high but at the same time, we are carrying lot of cash on the balance sheet which is something that we want to deploy, we have strategy to slowly start unwinding that over the next two to three quarters, so you will see that happening and there will be gradual reduction in CRAR as a result of that.

Dhruvish: Ballpark number we have in mind to bring down this CRAR by the year end?

Manoj Viswanathan: We do not have ballpark number for this CRAR, but liquidity is something as Nutan mentioned to you, we want to bring it down to about three months liquidity from current eight months of liquidity.

Dhruvish: Wanted to know your SMA2 as a percentage of AUM for Q1?

Manoj Viswanathan: SMA2 is basically the stage-2 part which is, the total stage-2 plus stage-3 is 5.8%, out of which the SMA2 is 3.8%.

Dhruvish: What was it in the last quarter?

Manoj Viswanathan: Last quarter was 2.3%.

Dhruvish: Okay and pre-COVID, if you recall?

Manoj Viswanathan: Pre-COVID it was about 1% or so.

Dhruvish: Okay and just last question on the KRAs of the RM, so since the RM is involved in the collection also, so from what I understand is before COVID more weightage was given to the sourcing over collection and post after the COVID and particularly after the second wave, we increased the collection KRA weightage of the RM, so how do we plan to do that going ahead?

Manoj Viswanathan: We always had a 50% weightage for sales and collections for the RMs, so pre-COVID also the weightage used to be 50:50, unless it is a market which is new market and where there is no collection accounts at all in which case we used to have higher weightage for sales etc., otherwise, it has always been 50:50. It was only during Q1 of last year when we had very little disbursals and practically you can say crisis situation because that is only quarter where we actually increased their weightage for collection. It has always been 50:50 levels.

Dhruvish: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity again. Sir, what percentage of book would now be fixed rate loans?

Manoj Viswanathan: As a process, we do not do any fixed rate loans. It is just that there are certain schemes of NHB where we have to actually offer a fixed rate loan to the customer and it is back-to-back fixed in the sense that NHB lending towards is also fixed for those loans, so that is only part that is fixed rate and that is around 10%-15% / Rs 500 Crores of our book . So, in real sense it is not fixed because it is back-to-back.

Anand Bhavnani: Got it and of our disbursal of Rs 3046 million in Q1, what will be the number of files underlying this disbursal, or number of top ups?

Manoj Viswanathan: It will be about 3000 to 4000 accounts.

Anand Bhavnani: Thanks. I was looking for an exact number, because I had a sense it would be around 3000 to 4000. Maybe I will connect offline with Manish.

Manoj Viswanathan: Anand, to tell you the reason because these are tranche disbursals, so the Rs 305 Crores is across multiple accounts which come for multiple disbursals, so you cannot really tag it one to one which is why I said give you an approximate number because if the disbursal happening over a period of 6 to 7 tranches for every loan, so the Rs 305 Crores that was disbursed is not against those specific 3000 loans.

Anand Bhavnani: Okay, there might be some completion linked, construction plans or something else for the drawdown?

Manoj Viswanathan: A loan will come up for disbursal then again after one or two months the balance disbursal will take place, so the Rs 305 Crores will constitute multiple such loans.

Anand Bhavnani: Okay, out of this Rs 305 Crores of disbursals what is the fresh disbursal as in not to a customer who is already part of the scheme that we know a new origination and new file altogether?

Manoj Viswanathan: Yes, I think you are talking about fresh originations from the last quarter?

Anand Bhavnani: Yes, exactly.

Manoj Viswanathan: That is about Rs 350 Crores. I am talking about 3000 cases.

Anand Bhavnani: So that is what I was actually looking for 3000 cases and Rs 350 Crores and Sir what percentage of the disbursals that you did Rs 3046 million would be any top-ups to existing customer?

Manoj Viswanathan: Total top up in the last quarter was Rs. 5 Crores.

Anand Bhavnani: Got it. Thank you, Sir.

Moderator: As there are no further questions, I would now like to hand the conference over to 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. Thank you so much.

Moderator: Thank you. On behalf of Home First Finance that concludes this conference. Thank you for joining us and you may now disconnect your lines.