HFFCIL/BSE/NSE/EQ/16/2024-25 Date: 15-05-2024

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, 2024

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, 2024 conducted on May 9, 2024 for your information and records. The Company referred to publicly available documents for discussions during the call.

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

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Date: 2024.05.15 23:27:56 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q4 FY24 Earnings Conference Call

May 9, 2024

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MANAGEMENT: **MR. MANOJ VISWANATHAN, MD & CEO**
MS. NUTAN GABA PATWARI, CFO
MR. MANISH KAYAL, HEAD - INVESTOR RELATIONS

This document is a transcription of the conference call conducted on 9th May 2024. Click here to listen to the original audio.

Moderator: Ladies and gentlemen, good day, and welcome to Home First Finance Company India Limited Q4 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Kayal, Head, Investor Relations, at Home First Finance. Thank you and over to you, sir.

Manish Kayal Thank you, Ria. Good morning, everyone. I hope that all of you and your families are safe and healthy. I extend a very warm welcome to all participants on our Q4 & FY24 conference call. I hope everybody had an opportunity to go through our investor deck and press release uploaded on stock exchanges. We have also uploaded the excel factsheet with historical numbers on our website. On today's call, HomeFirst is represented by our MD & CEO, Mr. Manoj Viswanathan and CFO Ms. Nutan Gaba Patwari and we will start this call with an opening remark by Manoj and Nutan, and will then have a Q&A session. With this introduction, I will now hand over the call to Manoj. Over to you Manoj.

Manoj Viswanathan: Thank you, Manish. Good morning, everyone. I am pleased to share with you the highlights of Q4 & Full Year FY24 performance.

We concluded FY24 on a strong note. Disbursements at Rs 3,963 Crs, grew by 31.5% and AUM grew by 34.7%. Spreads remain healthy at 5.4%. PAT at Rs. 306 Cr grew by 33.9% on y-o-y basis leading to ROA of 3.8%. Delighted to deliver ROE of 15.5% for FY24 and Q4FY24 saw it higher at 16.1% even in a high interest rate environment.

We continue to build distribution by simultaneously entering new markets and deepening our presence in existing markets. Overall, we have added 22 branches in FY24 and now have 133 physical branches. Including potential & digital branches, we now do business across 321 touchpoints across Tier 1 to Tier 5 markets in 13 states / UT of India. States of Uttar Pradesh, Madhya Pradesh and Rajasthan are emerging as large affordable housing markets and we have taken steps to strengthen our presence and expand distribution in these states. We have added 7 branches in UP, MP and Rajasthan in FY24 serving 16 additional touchpoints in these States.

Our asset quality continues to be strong with a focus on early delinquencies. 1+ DPD is at 4.2%, decline of 30 bps on q-o-q. 30+ DPD at 2.8%, decline of 20 bps on q-o-q. Gross Stage 3 (GNPA) is at 1.7%, flat q-o-q. Prior to RBI classification circular of Nov'21, it stands at 1.1%. Our credit cost at 10bps, decline of 20 bps on q-o-q basis. Our overall collections remain strong and in Q4FY24 we have had considerable recoveries from previously written-off accounts contributing to these credit cost levels. We continue to maintain our credit cost guidance of 30 to 40bps.

Digital adoption continues to be strong and a key area of our focus as we grow. 95% of our customers are registered on our app as on Mar'24. Unique User Logins was 53% in Q4FY24.

Service requests raised on app was stable at 89%. In Q4FY24, we have processed 47% of loan sanctions with data coming from Account Aggregator.

Another important point to communicate is that our Chairman Mr. Deepak Satwalekar tenure has been extended for a second term of 5 years subject to shareholders approval at the upcoming AGM.

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

Nutan Patwari: Good morning, all.

Our overall Spread is at 5.2% and our spread ex CL is 5.4%. Our overall Q4 Net Interest Margin stands at 5.3%. The NIM compression is an outcome of continued growth and increase in financial leverage, increased cost of borrowing and higher cash and cash equivalent holding in Q4. The break-up of this NIM compression is: ~ 20bps coming from Cost of borrowing increase net of repricing, ~ 20bps on impact of financial leverage and ~ 20 bps on higher cash.

Our ex-CL Spread guidance of 5.0-5.25% stands for the medium term. CL is building well in line with plan and remains a return accretive product in markets we operate. Our first milestone is to take it to 10% of AUM. Today we are at 3%.

As you all must also be watching - the deposit rates are holding, MCLR of banks are all trending up on the back of tight liquidity situation. Despite all of this, our marginal cost of borrowing remains range bound for the last 5-6 quarters with continued diversification. Our ability to engage with banks for improved pricing comes from continuous focus on transparency of sharing information with lenders and our scalable business model that allows us to expand while managing risks.

We also got an outlook upgrade from India Ratings – one of our 3 rating agencies. This kicks-off a very important journey for us to move to the next rating category.

Opex to Assets at 2.5% for Q4 is due to clean-up of some old provisions as part of closing the financials for the year. We continue to maintain the guidance of around 3.0% going ahead; as we focus on expansion and get deeper into new markets.

Our Balance sheet is strong & ready to take on the growth ambitions of the company. Starting with borrowings, the company continues to have diversified & cost-effective long-term financing sources. This remained diversified across banks as well as NHB. Our Borrowings mix is: 60% of our borrowings from Banks (Private sector 31% and public sector 29%). NHB refinance share at 18%, we have drawn Rs 250 Crs in Apr’24 from NHB. 14% from Direct Assignment and 3% from Co-lending. 3% is from IFC NCD. We continue to have zero borrowings through Commercial paper. Our cost of borrowing is competitive at 8.25%, an increase of only 3 bps on q-o-q basis.

Coming to capital: Our total CRAR is at 39.5% and Tier 1 CRAR is at 39.1%. Our Debt to Equity is now at 3.4 times. Our Mar'24 Networth stands at Rs 2,122 Crs. Our Book Value per share (BVPS) stands at Rs. 239.7.

Moving to provisions, we have remained conservative and continue to carry provision overlay, over and above the ECL requirements. Total Provision coverage ratio stands at 50.9%. Prior to NPA reclassification as per RBI circular, PCR stands at 75.7%.

On specific transactions: We did a direct assignment of Rs 103 Crs during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets. Our total Co-lending volume in Q4 was Rs 68 Crs & Rs 214 Crs in FY24. Co-lending business is growing and expect this to contribute around 10% of disbursements in the near future.

With this I open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Congratulations, Manoj and Nutan. Let me congratulate on another good quarter for you and the team. I had just three questions. First one for Nutan, how should we look at cost of borrowings trending? I think you've guided that in 1 -2 quarters, it is going to stabilize. Where are we now in terms of the outlook on cost of borrowings.

Nutan Patwari: Abhijit, like I was mentioning, everyone is watching the overall liquidity situation, deposit rates and MCLRs. What we're experiencing is that the private banks are able to continue to maintain the pricing. Public sector banks, there is a little bit of pushback. Nonetheless, our pricing is maintained at the same level for the last 5 to 6 quarters as we've been disclosing the numbers as well. Net-net, coming to cost of borrowing another 10-20 bps increase at best is what we're looking at. We are not expecting any further increase, unless, of course, the policy rate changes or the G-Sec pricing changes. With this environment, another 10-20 bps, not more than that.

Abhijit Tibrewal: Manoj, if I look at the BT Out rate until last year, the number which used to be in the ballpark of 6%, right? Suddenly seems to have moved in this year to 7.5% to 8%. Is there anything you are seeing there? Because you've seen in the past, as organizations grow and mature and other lenders, have more comfort on your originations, the appetite to take the balance transfers of other institutions go up. Anything that you're seeing there on balance transfers?

Manoj Viswanathan: No, I think the balance transfers are slightly elevated only because of the repricing that has happened. We don't see any kind of long-term trend or anything like that. It is largely a reaction to this sharp increase in rates that has happened in the last 2 years. We are also putting in place a lot of new measures to address the balance transfers. It is a concern, but it's not a major concern because you can see the overall erosion levels are still at the same level. It balances out the balance transfers and own prepayments, etc. The total erosion still stands at about 16% to 18%, including the balance transfers. So, it's not like the increase in balance transfers have increased erosion rate of the portfolio.

Abhijit Tibrewal: Got it. And one last question that I had was more of the sectoral level. There was the circular from RBI, which spoke about HFC is now asked to start charging interest on loans only when the cheque was handed over to the customer. At the sectoral level, what you're seeing is it can even take up to 30 days, 40 days in a lot of cases from the time the cheque is printed to the time the cheque is actually handed over to the customer. Two things I wanted to understand from you in terms of our practices, what is our practice, when is it that we start charging interest to customers. And if at all, you see this having any impact on the interest income?

Manoj Viswanathan: In our case, we don't issue cheques at all. As a practice, we have been doing electronic transfers from day 1. There are, of course, a certain proportion of transactions, especially on the resale transactions, where the customers themselves require demand draft because they have to show the demand draft to the seller so that the seller will transfer the property in their name. It acts as a kind of assurance. Those are the only transactions where we issue a demand draft. But in the case of a demand draft, we are also incurring the cost from day 1 because the money goes out of our account so we charge the interest to the customer.

However, the clearance happens fairly quickly. We don't have a practice of actually issuing a cheque and then completing the transaction later, etc. The turnaround time between issuing the demand draft and transaction clearing happens quickly. Within 30 days, almost 90% -95% of the issued DDs get cleared. On an average, in about 15-day DDs are cleared.

And we don't have a very large volume of such transaction, it largely happens in the case of resale transactions where the seller requires the assurance. Those are the only cases where we issue a demand draft otherwise largely it is done electronically.

Abhijit Tibrewal: Got it. So, in essence, for us, it is not going to be much of an impact because anyway recent transactions should be a much lower proportion of our disbursements. And there also -- like you are saying, there was a 15-day on an average kind of a lag between the demand draft getting printed and handed over to the customer.

Manoj Viswanathan: Correct.

Abhijit Tibrewal: So now if at all, this is the only impact which will be there. But now on printing of demand draft, you can start charging the customer. Only when the demand draft gets handed over to the customer, we can start charging interest.

Manoj Viswanathan: Exactly. The RBI circular does not mention demand draft. So, we will have to get a clarification on that in due course.

Moderator: Next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: First question is on the origination yield ex of co-lending. That has come down by 30 basis points quarter-on-quarter. And the second is the AUM shift in this quarter towards more than 1.5

million loan ticket has been pretty accelerated. And this is also ex of co-lending. If you remove the impact of co-lending, the shift is pretty significant. What is driving this?

Manoj Viswanathan: Origination yield will be range bound. Our target is 13.5% kind of an origination yield, but there will be some quarter-to-quarter fluctuations on that. Nothing more to read into that.

Average ticket size, as we have mentioned before, there will be a secular increase in ticket size as we go forward because in certain states in the country, the ticket sizes have gone up because of higher incomes and aspirations of people to build or purchase larger houses. There will be a gradual uptick in ticket sizes. We're not going after a different segment. It is just a normal increase that we will likely to see as the country progresses.

Rajiv Mehta: And the second question is on Gujarat, which is a key market. Incrementally, there has been a growth slowdown in Gujarat. So, when I calculate the growth Q-on-Q has been around 4.5%, 5% this quarter versus 6%, 7%, 8% in the previous quarter. So, the slowdown which we have seen in this quarter in Gujarat, is it linked to competition what we have? Is it that the higher amounts of BT Out are happening in Gujarat because it's slightly more mature market for us. Or whether if there is any market slowdown happening in Gujarat.

Manoj Viswanathan: We are diversifying ourselves to other markets, so it's kind of intended number. Our aim is that over time, share of Gujarat will come down in the overall mix. Our market share in Gujarat is about 4% -5%. So, there is still a lot of headroom to grow. It's not that we are looking at a slower growth in Gujarat. We aim to grow by between 20% to 30% in Gujarat as well.

Rajiv Mehta: Okay. And just lastly, Nutan can you explain the decline in opex in the quarter, about the employee cost as well the non-employee cost because I see that branches have been added but the opex has come down. Have I missed out something in terms of explanation in the press release?

Nutan Patwari: Nothing to miss, Rajiv, essentially because March is a financial year close. We took this as an opportunity to clean up some excess provisions that got built up. And that's why in my opening remarks, I mentioned that the right number to look at moving ahead is 3%. We should not get anchored to the 2.5%.

Moderator: Next question is from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: My question was pertaining to the cost of funds side, so incrementally what is the rate of interest rate getting on sanctioning by NHB?

Nutan Patwari: NHB, again, has multiple schemes. It varies from scheme to scheme. The range that we get from NHB is anywhere from 5.5% to 8.5%. It depends on the funds available with them, the pool that we can tag and refinance their mix and how they want to share it with different HFCs with the combination of various factors, but that remains to be the range.

Shreepal Doshi: Okay. We must have seen a change or an increase in that range as well, right, in the last 6 months' time period?

Manoj Viswanathan: Yes.

Shreepal Doshi: So technically, we would have passed on that change to our customers as well, right?

Nutan Patwari: If it is the floating book, yes. If it is fixed book, then it does not change, but it is fixed from NHB as well. For Example, the AHF scheme rates remains fixed. The other scheme is floating which we pass on. But the pass-on is not 1:1. We do pass on at specific time periods which we plan for it. We will not specifically go and then pass on for customers which are tagged to NHB. We will not do that.

Shreepal Doshi: Okay. The second question was on the credit cost front, so if you look at structurally, we have had a credit cost ranging between 30 to 50 basis points. So, this quarter, it has been a little lower. While if you look at peers in the landscape, they have been in the range of 15 to 20 basis points. With portfolio seasoned now and having seen 2 big cycles, is it fair that incrementally, we can also stabilize at relatively lower levels.

Nutan Patwari: Let me give you the context and how we also look at from a ECL provisioning perspective because that impacts credit cost. Firstly, as you would have seen, our delinquencies have improved and stabilized across buckets. Therefore, the ECL movement is only for new growth that we build on the book. But we also try to carry a larger provision than what the ECL model throws up, and we have a significant overlay more from risk management perspective.

Specifically for this quarter, what has happened is that we've had some write-backs from loans that were originally written off during the COVID period because we've been taking prudent calls to do technical write-offs, but we've had recoveries of almost close to INR 2.5 crores. That is essentially why this quarter, the number is looking low.

Moving ahead because of the provisions that we've continued to carry, which is higher, we continue to carry slightly higher provisions from growth as well. The right number for us probably is around 30 basis points, not 15, not 20. Around 30 basis points is what we think we should be projecting for us.

Shreepal Doshi: Okay. And the last question was on the branch expansion side. So incrementally, which states would drive our branch expansion?

Manoj Viswanathan: We are looking at some of the emerging affordable markets like UP, MP and Rajasthan to drive further expansion. As we mentioned, 7 out of the 22 branches that we have put up last year are in these states. And in the coming years also, we intend to further expand into these states.

Moderator: Next question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Congrats on good quarter. If I look at the marginal cost of borrowing, that's still like 40 bps away from the on-book cost that we see on slide 29. By when do you think the both converge, like given the environment remains the way it is right now?

Nutan Patwari: Sameer, hopefully never is the answer because we also have NHB borrowing. As you would have seen on the liquidity slide, we have a INR 250 crores sanctioned line from NHB, which we have drawn down in April, which allows us to kind of maintain the cost of borrowing. And of course, in this FY25 is also hope to get a significant line which will again help us manage the cost of borrowing. From a projection perspective, the 8.3% would look more like 8.5% in 2 quarters to 3 quarters and hopefully flatline there. Again, the assumption is that there is no policy rate change or no significant changes in the overall Debt capital markets.

Sameer Bhise: So then is there a case for a bit of a pricing increase on the asset side?

Manoj Viswanathan: As we mentioned earlier, up to small increases like 10, 20 basis points, we are looking to absorb it, and we are not looking to pass it on to the customer. We want to give the customers a stable period where we don't keep changing the rates. We will watch the trends. If there is a substantial increase in COB, then, of course, we will have to pass it on. But if the difference remains in the 20 basis points range, we will not pass it on.

Sameer Bhise: Secondly, if I just look at the quarterly ROA profile. For the full year, I think we have been able to hold on well at around 3.8%. But say, if I look at a 5- to 6-quarter trend, steadily there has been like a 30 bps kind of a drop. Is it the right way to look at it on a quarterly basis? And would it be fair to comment that probably the ROA kind of bottomed out at current levels?

Manoj Viswanathan: ROA will keep declining slightly every quarter because that's the financial leverage that is playing out. That much of movement you will see. I mean there may be some fluctuations in some quarters because of higher cash being kept, etc. But otherwise, on a secular trend, you will see that there is a small decline every quarter, which is largely due to the financial leverage.

Sameer Bhise: Yes. So, in terms of our threshold on the downside, we would be towards the trough now?

Nutan Patwari: Yes. Let me share how we are looking at next year's ROA tree for example. We've always been talking about the spread of 5% - 5.25%. When you look at that, our NIM for full year is 5.8%. So, let's say, 5.5% NIM more or less, and 2.2% to 2.5% of other income. So that lands somewhere between 7.8% - 8% of total net total income. And an opex of 3% and a credit cost of 30 basis points, you will land at a ROA of around 3.5%. So that range can be 3.4% to 3.6%. But let's say you anchor around 3.5% plus/minus which essentially leaves you with a 16% plus ROE because the financial leverage will continue to go up. We are already at 4.5X. Let's say we exit close to 5X with an average of 4.7X to 4.8X. So, the idea is that we maintain a 16% plus ROE with a significant contribution from the core business itself.

Moderator: Next question from the line of Raghav Garg from Ambit Capital.

Raghav Garg: My first question on this thing where RBI pointed out charging of interest before the date of disbursal. But if I understand correctly, you gave in-principal approval but the actual disbursement happens later, right after further due diligence. Just wanted to clarify if you are charging any interest before the date of disbursal but after giving the in-principal approvals, just one clarification on that and then I will ask my other question.

Manoj Viswanathan: The interest starts only once the actual payment goes out of the system, once our account gets debited for the amount only then the interest starts.

Raghav Garg: My second question is on incremental spreads. So, I think you are guiding for 5%, 5.25% in that range but if I look at your incremental spreads, it's around 4.7%, right? So how is it that you will be able to bridge that gap from 4.7% to say 5%-5.25%?

Nutan Patwari: Raghav there are quarters where the spread will be lower. Essentially, those quarters really do not take the NHB funding. But the quarters where we've taken NHB funding, the spreads will also expand. The overall spread for the year, therefore, will kind of compensate that and land in that 5% to 5.25% range. That is one of the key drivers. The other driver, of course, we talked about more expansion. We've talked about the product mix slightly increased in the last slide. So, all of those things will contribute to spread as well.

Raghav Garg: Right. Nutan, if I look at your spreads since 1Q FY23, they've been coming down, right, and that's because of the higher cost of borrowing. There hasn't been a series of quarters where these spreads are fluctuated up and down. So why should that be the case going forward?

Nutan Patwari: The reason that is coming down is because the cost of borrowing has increased sharply. There has been a significant catch-up. Now that catch-up is complete. Therefore, it will kind of stabilize. But the yield line, I am talking about ex-co-lending numbers. We should start seeing some expansion in that from new products as well.

Raghav Garg: Understood. And last question, why was your opex ratio lower or absolute opex flat despite branch and employee addition?

Nutan Patwari: There's some cleanup in the financials, Raghav. We kind of did a deep clean-up of the financials. We had some old provisions which we decided to knock off.

Raghav Garg: Okay. Understood. What is the outstanding pool of written-off loans, from which you could potentially see some recoveries going ahead?

Nutan Patwari: The potential target pool, the number would be close to INR20 crores, but we do not expect the INR20 crores to come and hit us as write-backs anytime in the future. What we see is usually a reversal of around INR50 lakhs - INR70 lakhs every quarter. This quarter, it was around INR2.5 crores. Of course, we did some focused activity as well on that. I would not expect more than INR50 -70 lakhs going ahead every quarter.

Moderator: Next question is from the line of Pavan Kumar from RatnaTraya Investments.

Pavan Kumar: I just wanted to check if there has been any change in terms of NHB lending pool that is available to all the HFCs? And how do we see our NHB or NHB pool as a proportion of our entire borrowing pool going forward, is there going to be any kind of significant increase in proportion -- and how will that assess their overall spreads.

Nutan Patwari: So, no significant change as far as we are familiar with. NHB does have this process of inspection and quality of reporting and everything else, which determines the size of the borrowing. One of the new criteria's that we also understand has got an added is the incremental housing loans. And essentially a percentage of that is what NHB will be funding. We are the best placed from that perspective.

Coming to the second part of your question, NHB refinance as a percentage of the overall book my sense it will be 20% on an average basis. I mean we believe plus/minus 2%, depending on whether we've taken disbursal or not, but ballpark around 20%, the percentage of cost of borrowing of 8.3% is where we are right now, like I was mentioning earlier, 8.50% assumes that we will continue to maintain a 20% in NHB finance and able to deliver COB of 8.5%, let's say, for the rest of this year.

Pavan Kumar: The HFCs that are there in the market, the pool should have significantly increased since the biggest housing finance player has now merged with the bank.

Nutan Patwari: We tend to agree with you. But going back, NHB runs a treasury function. It's not the money that they have from the government or subsidies. They essentially raise from the market because they have a significant advantage in rating. They add a small margin to that and then they lend to us. So, the overall, what they have been raising has reduced to account for the largest HFC becoming a bank.

Pavan Kumar: Okay. Now one last question from my side. What would be the difference in the borrowing rate NHB versus marginal borrowing rate at the moment?

Nutan Patwari: Almost 50 basis points.

Moderator: Next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Three small questions. One is, where do you account for recovery from written-off loans?

Nutan Patwari: In the credit cost line.

Nischint Chawathe: So, this is adjusted with the credit cost?

Nutan Patwari: Yes.

Nischint Chawathe: Okay. How do you account for co-lending income? Where does it get reflected?

Nutan Patwari: The co-lending income gets reflected on the spread basis. Essentially, only the delta gets represented in the net interest income line.

Nischint Chawathe: Okay. It is not like fee income or something.

Nutan Patwari: No. The fee income is sitting in the fee line, but there's no up-fronting, if that's your question.

Nischint Chawathe: I got it. And this comes -- sorry, just to clarify, this comes on interest on loans or does it come on other interest income?

Nutan Patwari: Interest on loans.

Nischint Chawathe: Okay. Got it. Can you quantify the number for this quarter or the year or it's too insignificant?

Nutan Patwari: I'll have to come back to you.

Nischint Chawathe: Okay. Maybe you can do it from next year, when it will start getting a little more relevant.

Nutan Patwari: Yes, my view is that once we get to this milestone of 10% on co-lending, it merits a separate disclosure on the product. Otherwise, it's too small.

Nischint Chawathe: No, no, fair point. The reason why I'm saying is that you can just book a spread and the IGAAP yield calculation that you do sort of tends to get a little distorted and obviously kind of get into that discussion mode. The other one was that, why did the repayment rate go up for the quarter? And ideally, I would have expected the repayment rate to be lower this year versus the previous year.

Nutan Patwari: The number is 18%, right? That you're looking at the same number.

Nischint Chawathe: 18.5% for the quarter. For the full year, it remains flat at 20.5%, which we would have ideally expected to go down. So, just some color on that. Is it something that BT Outs have gone up?

Manoj Viswanathan: No. If you see the total erosion rate quarter-on-quarter largely in the 18% range only. It ranges between, 17% to 20%. This quarter has not been very different. The total erosion rate that is what you're referring to is 18.5% for the quarter. That includes the balance transfer, which is about 8% odd. And the balance comes from loan prepayments and the EMI portion, etc.

Nischint Chawathe: Last year, the BT Out was lower than 8%, right?

Manoj Viswanathan: Yes. Last year, the BT Out was lower than 8%. But if you see the erosion rate that again was in the same 18% to 20% range only.

Nischint Chawathe: So last year, anything there was something because of the CLSS scheme and the repayment rates were higher, and this year, despite the fact that there's no CLSS scheme, the repayment rate is still at around 20.5%, which probably means that the difference is BT Outs. I think that's what my question was.

Manoj Viswanathan: Last year, including CLSS, rate was higher actually. It was higher by about 2%- 3%. This year, it's come down to about 2%-3%. Last year average was about 20%. This year average is about 18%.

Nischint Chawathe: No, sir mathematically both, I can take it offline, but mathematically repayment rate for '23 and '24, both years is 20.5%. And we would have expected that ex of CLSS, probably this goes down to maybe 200 basis points or so. So maybe that is the increase in BT Outs. that's what I wanted to check.

Manoj Viswanathan: Reduction in CLSS probably has been compensated by a slight increase in BT Out.

Nischint Chawathe: And is this because of competition? Or what is it that you are seeing the high in BT Outs.

Manoj Viswanathan: BT Out rates are higher largely because of rates being higher because we have repriced the large part of our book and that is creating some tension with customers. That's primarily the reason. We have analysed our BT Out also. In the last 2 years, we have increased the PLR thrice. The customers who received the three hikes are more prone to BT Out.

Nischint Chawathe: And the last rate hike you would have done in which month?

Manoj Viswanathan: Last hike, we did in April'23

Nischint Chawathe: That's a long time back, right? I mean some of your peers have done it as late as Jan'24. So, it's not like nobody else is hiking price rates. Are you seeing new players in the market? Are any of your borrowers getting migrated to the larger bank?

Manoj Viswanathan: Migration is largely to the larger banks. New players in any case, will not target BT Out as their starting point or as their core business because they'll have a challenge on cost of borrowing, etc. It will be largely the bigger banks and bigger housing finance companies that target BT Out.

Nutan Patwari: If you compare us with the peers because you brought up that point. Home loan to home loan, we are operating at a much higher pricing in the competitive markets. So that makes us more prone to BT Out per se, but we've kind of maintained that and we've delivered the growth despite that.

The second issue in comparison is that most peers run with a mix of fixed and floating book. BT Out numbers are not fairly disclosed on the floating and the fixed book. The comparison is not very fair. What we can compare is the total runoff. And if you compare that, HomeFirst versus anyone else in the market, we are broadly aligned. So, it's not isolated issue for us in the sense that our BT rate is higher compared to anyone else. If you compare runoff, it's identical. Pricing in the market is higher so that makes us more prone to BT Out by design.

Nischint Chawathe: Got it. But is it something that you may want to review going forward given the fact that competitive intensity seems to be heating up?

Nutan Patwari: Yes. We have a thought in mind that we will want to look at customers and cohorts and see where we need some pool of customers to reprice upwards and downwards also take risk into consideration. That is something that we will do probably this quarter.

Nischint Chawathe: And in that backdrop, what kind of margin guidance would you give? Would you say that we are willing to sort of drop down the spreads a little bit

Nutan Patwari: No. The idea is that the increase and reduction compensate each other.

Nischint Chawathe: Sorry, what is the increase?

Nutan Patwari: There could be some pool of customers where the risk has gone up, so we can reprice them. And some pool of customers where we think they are prone to BT Out and hence we need to reprice them downwards so we can go cohort by cohort rather than looking at the entire book.

Moderator: Next question is from the line of Nidhesh from Investec.

Nidhesh Jain: First is on insurance income. We have got corporate insurance license. So, any update on that? And what could be the quantum of fee income that can be related from that vertical?

Nutan Patwari: We got the agency license in February '24. We are in the process of discussions with multiple insurance companies. We are in advanced stages. We hope that we should be able to sign one agreement in this quarter. Once we sign with at least 2 to 3 companies and cover the entire book that we onboard today, my expectation is that should add close to INR5 crores to INR6 crores of additional income into the P&L, on a quarterly basis. So, let's say Q3 onwards is when you should be able to see the full income of INR5 crores to INR6 crores in the P&L. And how fast can we get there, maybe mid of Q2 or early Q3, something that we'll have to see. But INR5 crores to INR6 crores quarterly is what we have in mind.

Nidhesh Jain: Secondly, what will be the branch expansion target for this year and next year?

Manoj Viswanathan: Branch expansion, we are targeting 20 to 25 branches every year. And along with that, say, about 60 to 70 touchpoints per year. So that's our expansion plan.

Nidhesh Jain: And in the new geographies, specifically UP, Rajasthan and MP where we are expanding our branches, what is the sourcing strategy and what is the profile of connectors that we are acquiring here? Do you see any change in the financial profile? Are these connectors new to market or they are already sourcing business for someone in those markets?

Manoj Viswanathan: Sourcing strategies is going to be the same that we have followed in other markets. And it's not that we are new to these states. We have been doing business in these states for a while now. It's just that we are scaling up. So largely, the profile of connectors, etc, remains the same. It's a mix of both new connectors as well as people who might be sourcing for others. That's generally the case in all the markets and true for these markets as well.

Nidhesh Jain: And what is the active connector number for the quarter and number of RMs at the end of March '24 and March '23?

Manoj Viswanathan: Active connectors, we had about 3,000 connectors for the quarter. And RMs was in the range of about 700.

Moderator: Next question is from the line of Rahul Maheshwary from Ambit Asset Management.

Rahul Maheshwary: Good set of numbers, Manoj and Nutan. Just two questions. First, can you give some highlight on the borrowers across pan-India? What is the income? How the income is shaping up, specifically in the India hinterland? Are you witnessing the growth or some kind of pressure? We have witnessed that there is some recovery, rural recovery taking place. So, can you give some highlight that how the income-ish thing?

And second, as you mentioned that UP and MP are the 2 states where you are becoming more and more growth drivers. Can you highlight that each state has its own credit cost as a regional specific? Are you finding specifically towards those states? I mean you're entering or it's a pan-India basis, same kind of credit policy which you are now opting up?

Manoj Viswanathan: On the first question, as far as the income etc is concerned, we are not seeing any stress with our customers. Overall, its looking strong. And whatever stress was there, immediately post COVID, etc, has also kind of tapered out now. Jobs are available, so overall, it's a more positive picture across the country.

Rural is where we do not have a large part of our business. Customers would have a very small impact or small advantage from rural incomes. So largely, our customers are from service background or from manufacturing sector or they have their own businesses, etc. So, they are not highly dependent on rural incomes or agricultural incomes.

As far as the credit cost by state is concerned, there is no such trend. It's largely location-led and depending upon the supervision in that location, etc. Credit quality of the quality of that particular portfolio because consumer behaviour across states, we have seen is fairly similar. It is more related to the occupation the customer comes from, their own income streams, etc. So not connected to the state as such. We are not seeing any such trends. And the variations are not really state-led. It's more customer-led or customer profile-led, or customer occupation-led.

Rahul Maheshwary: Manoj, just one thing on the first question, how much income growth you have witnessed in the last 1 year for them? Whatever the self-employed people, which are with you and who are regularly paying the EMI, any such number or some color you can quantify?

Manoj Viswanathan: Income growth is not something that we track as a specific number, but we can just extrapolate based on ticket size growth because it flows from income growth. Ticket size growth as you can see annually, we are seeing about a 10% kind of ticket size growth. So, I would say incomes are also broadly moving up maybe 10% to 15% income growth is what we can kind of extrapolate.

Moderator: Next question is from the line of Arvind R from Sundaram.

Arvind R: It was mentioned that leverage would reach 5x by fourth quarter 2025. What would be the maximum leverage you would be comfortable with?

Nutan Patwari: At our planned expansion, debt-to-equity of 5x or asset-to-equity of 6x is what we have in mind. We also look at capital adequacy ratios and what is the comfort level with banks and rating agencies. So, all of that, we've taken into consideration and asset to equity of 6x, which gives us another 2- 2.5 years of runway is what is on our mind.

Arvind R: And like a provision coverage ratio, ours is one of the highest among the peers. And considering we are also doing loans to the better set of customers, like can we expect credit cost to come down like I can also see like your PCR, our PCR also like come down in last 1 year consecutively, are we getting more and more comfortable with the lower credit cost than what we have done in the past?

Nutan Patwari: So, there are 2 ways we look at it. One, you are absolutely right, the PCR overall is coming down. We've not reduced absolute provision. What has happened is that the new growth that we're adding that is the reason why the PCR looks low. What we track internally is the overall ECL provision as part of principal outstanding, which is around 0.9%. That is the approximate 0.8%- 0.9% is what gives us comfort. Our ECL throws up around 0.5% number. So, we want to kind of keep 40% / 50% higher than that. So that's the broad thought process at our end. So, when we look at that our credit cost comes around 30 basis points going ahead.

Arvind R: And just one question on the yields. I mean excluding co-lending also that come down. I'm just trying to understand how it will like move? This is despite increasing the mix of LAP loans and it's like high-yielding segments, like yields we are not able to hold up that question I have. Yes.

Nutan Patwari: I mean, firstly, quarter-on-quarter a few quarters, it's largely stable, I would say. It has not been reducing ex co-lending. The other angle to keep in mind is that compared to the peers, we're actually on the higher side with an 85% housing book and 13.6% yield is something that we feel is really competitive from a market perspective.

Arvind R: And just one last question on the competition; BT Out rates increasing, in case of the rate cut scenario like can this competition even become aggressive. What is your view on that?

Manoj Viswanathan: It is largely relative. So, when the rate is cut, then we'll also pass something on to the customer, etc. So, it becomes relative. I think BT Out is largely a result of sharp increases over the last 12 to 18 months, which has been passed on to the customer. And if there is a period of stable interest rates and the BT Out rates should moderate a little bit.

Arvind R: Our borrowings, especially the bank borrowings, is it only predominantly linked to MCLR or is it linked to our other external benchmarks.

Nutan Patwari: Almost 3/4 is MCLR linked while 1/4 is other external benchmarks.

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

Ravi: Congratulations to Manoj and his team to reach INR9,697 crores of AUM and might probably reach INR10,000 crores in 40 days. At present you might be INR10,000 crores, I mean to say. Sir, cost-to-income ratio, what is our target to reach in next 3 years? At present, it is 34.1%.

Manoj Viswanathan: Our aim is to keep pushing it down. In the next 1 or 2 years, likely to hover around the same level. Maybe from third year onwards, we can start seeing some decline. Our aim in the medium term is to get that down to around close to 30% levels. In maybe 3- to 5-year timeframe, we should be able to get it down to 30% levels. Otherwise, next 1 to 2 years, we are looking at 34%, 35% level.

Ravi: Okay. Sir, our 2 promoters, True North and Aether Mauritius, both having 23.56%. What I saw our price share is always down in fear that they will exit from our company. So, any information do you have about the exit of their promoter holding?

Manoj Viswanathan: As we mentioned in the past, they are likely to exit gradually because they are private equity funds. So currently, only 23% is left. The aim is to probably exit by about 10% every year. So, once a year, there will be a 10% sale in the market through a block and exit through that process. We have tried to give it a bit of predictability in structure. And since the last transaction they have given a 6-month lock-in after previous transaction, which happened in November. Just to give comfort to the market that it will happen only once a year.

Moderator: Next question is from the line of Sonal Gandhi from Centrum Broking Limited.

Sonal Gandhi: Sir, I had a couple of questions. One is for the co-lending book, what is the yield that we are getting?

Nutan Patwari: Close to 10%.

Sonal Gandhi: Nutan, I mean our yields has gone down by 30 basis points. Now I understand I'm talking about origination yield. I understand the rates are competitive, but our BT Out is a little high, our co-lending rate is a little low. What gives this confidence that we'll be able to maintain between 5% to 5.25% kind of spread? If you could just try and give some clarity over there? Also, what will be the percentage of LAP portfolio in our book in the next one or two years, which would kind of cushion up yields to?

Nutan Patwari: Currently, our spread is 5.4%. And we are guiding to 5% to 5.25%. So, on the upper side, 5.25% to 5.40%, we already have 15 basis points that we have with us. We are saying that our cost of borrowing can go up to maximum 20 basis points. So, we are still within that range. Mathematically, we feel very comfortable. Of course, on the yield side, we have opportunities in LAP, we have opportunities in smaller markets, which will continue to drive. The LAP portion of our current portfolio is 13%. Our 3-year plan is to take it to 20%. So, it will be gradual, it will not be very sharp but March'27 is 20%. We have room there. Those are the things on our mind, which give us the confidence to maintain this 5% to 5.25% ex of co-lending.

Sonal Gandhi: And any range that you would like to give for co-lending, what would be the spread then?

Nutan Patwari: The problem of co-lending spread and the reason we kind of split it out this time is that co-lending, we only keep 20% on our balance sheet. Let's say, when I said that the yield is 10%. And let's say, I am having a cost of borrowing of 8.75%. The spread is 1.25% but that's an incorrect way to look at it because you have to multiply that by 5. Therefore, the number becomes 6.50% or 6.75%. That is the right way to look at it. Right now, the number is low because we have a very high interest rate situation.

Our aim and our thought process is that by the time we scale this up to 10%, co-lending today remains a return accretive product on the balance sheet, primarily because we access the same markets we are presented in an adjacent segment. It uses our capital more effectively and allows us to build a return of equity product. We're at 3% today. We can scale this up to 10%. And by the time the interest rate situation will improve, adding significantly to the overall profitability of the company. So, co-lending spread is not a straight answer, unfortunately.

Sonal Gandhi: Just other way to ask it would be basically saying because you are taking the spread income on the co-lending book. So, the spread should logically be higher than your on-book, probably that's not the case right now, but the spreads would be higher than on your on-book spreads. Is that correct understanding?

Manoj Viswanathan: If you look at spread on assets, it will be. The example, which Nutan gave, it's 125 basis points is the spread. But if you look at it on the asset, the asset is only INR20 out of INR 100. So, if you take 125 bps on INR20, it actually then works out to 6.25%, so it's relatively higher than the spread that we are running on our core affordable housing finance. That's the way to look at it. Here, the asset is only 20% of the loan.

Sonal Gandhi: Okay. Another question was on fee income. So that looks a little low this quarter. So have the rates come down in the market, if you could give some clarity around it?

Nutan Patwari: We have a lot of liquidity already on the balance sheet. We continue to do DA primarily because we have relationships with banks. And if you see our DA mix on the balance sheet, is at an all-time low of 12%-13%. So just more from a liquidity perspective, we did not want to load more cash on the balance sheet so we kept it at a lower number. I mean, probably, we should start doing a little bit more, perhaps another INR 150 crores, let's see. That is something that we will plan it out.

Sonal Gandhi: Okay. Let me just take this offline because I think if I just calculate the percentage, that is also looking lower on a Q-o-Q basis. I take this offline.

My next question was on employee addition. So, employee addition, I mean, we've added about 10 branches this quarter and employee addition is only around 13 employees. So, what exactly is happening here?

Nutan Patwari: The employee addition does not happen when the branches get added. There is always people come onboard and then branch will be reported. So, it's a lead-and lag effect. It's not 1:1 matching, but I'll request Manoj to get into the strategy on how we hire.

Manoj Viswanathan: Yes. We hire almost 90% of our hiring as freshers. They are hired from campuses, so there are periods when there are large batches which come in. So, for example, as of March, you're seeing the number. But if you see, as of April, there would be a large number of people who would have joined in April. So, there is a bit of a spike in certain months when there are larger number of people joining. It's more of a step function, not a smooth curve.

Sonal Gandhi: UP market, MP market then Rajasthan that you're growing really strong. I mean what is the initials sense that you have on the asset quality in this market from the initial trends?

Manoj Viswanathan: Asset quality, as I mentioned, it is largely consumer-led and consumer profile-led, so we are taking care to ensure that we are onboarding what we are comfortable with. The idea is to keep the credit quality similar to what we have in the rest of the country. So as such, the early signals are good. Credit quality in these markets are also very similar to other markets. Plus, as I also mentioned, we have been in this market for a while now, so they are not new to us, just that we are scaling up. From that perspective, the credit quality is similar to what we had in the past.

Moderator: Next question is from the line of Sanidhya from Unicorn Assets.

Sanidhya: Congratulations on great set of numbers. Our NIMs have been going slightly down as compared to like quarter-on-quarter also and last year as well like from around 6% to now 5.3% in the latest quarter. So how are we looking at this?

Nutan Patwari: As I was mentioning in the opening remarks, there are 3 key contributors. One, we've had more cash on the balance sheet, then there is financial leverage. And of course, the cost of borrowing has also gone up, and we've repriced as well, but the net impact is there. So approximately 20 basis points, if you look at year-on-year is the impact. More or less, most of these things have settled. We are going ahead from here, let's say if you maintain this 5% to 5.25% spread, which we have a significant degree of confidence.

Our NIM should be in a similar range where we are today like 5.3%- 5.5% is what we have thought. The next question you might say, your financial leverage is going to go up, then how will you maintain the NIM because we have the cash cushion, which we can kind of look to manage better.

Sanidhya: Okay. That's fine. So, like 5 would be the minimum level, which we are looking 5% to 5.25% would be the ideal?

Nutan Patwari: Yes,

Sanidhya: Okay. And like my question was that we have been a major player in Gujarat, Karnataka, Maharashtra kind of states with a good per capita income, right? And now we are aggressively venturing into MP and UP, Rajasthan and all these states. Whereas I see per capita income in these states are lower. How is the ticket size that we are referring to in these states? Is it the same like in the earlier we had for the states with higher per capita income or is it slightly lower

Manoj Viswanathan: Ticket size is lower. In these states, the ticket size is lower, in these states the product is largely self-construction.

And your question on the profile. When we started the business 10 years ago, the per capita income in places like Gujarat, Tamil Nadu, etc, was where it is in UP, MP today. So, we are at that starting point when we started the business, so which is why we feel very confident that these states now will be large contributors for affordable housing.

And as we see some of the development like in the more industrialized states, we will have more affordable housing coming in. And the people's income also will keep going up in the same manner, and we'll have a similar trajectory like what we have had in Gujarat, Tamil Nadu, etc.

Sanidhya: Okay. That's a good perspective to look at. Any number you want to give for the average ticket size compared to states like Gujarat and Maharashtra versus these newer states? And at the same time, what are the yields, particularly in these states compared to what in the other states?

Manoj Viswanathan: Gujarat you can say slightly different from other states because it's largely an apartment-led market. So, to that extent, the ticket sizes tend to be a bit higher and the interest rates also tend to be slightly lower. But most of the other markets are very similar because they all serve the self-construction market. Ticket sizes tend to be around 10 lakhs to 12 lakhs in the new states that we are talking about. And rates you can say it would be maybe 20 to 30 basis points higher because self-construction market rates are slightly higher.

Sanidhya: Okay. Just on the same state bifurcation, just AUM. So, I can see that as a percentage of gross loan when compared to states total AUM versus the particular states. These states are continuously losing like from Gujarat from almost 36%, 38% to now 31%, same for Maharashtra and same for Karnataka whereas for Uttar Pradesh, Rajasthan, we are aggressively trying to increase this. So, what is the mix that we are going to see? Like currently, I can see 50% is coming from these 3 states Gujarat, Maharashtra and Karnataka, I would say, more than 50%, so is it going to be much lower? Which would be the highlighted state, like 3 years, 4 years down the line? I'm not talking in the short term

Manoj Viswanathan: 3 - 4 years down the line, I think we would be aiming for something like a 10% share across the states. In similar size states. If the population is very small, the state is small and the ratio will be likely to be lower but amongst the top 10 states, 6-7 states, the ratio is likely to be in the same 10%, 12% range is what we think it will happen.

Sanidhya: Okay. And just on the branch and number of districts. We are seeing that we have covered 11 districts in Uttar Pradesh whereas branches are just 6. So how are we managing in that part?

Manoj Viswanathan: It's a large state, and we are expanding gradually. And like I mentioned, a single branch caters to nearby areas as well. It can cater to multiple locations. A single branch can cater to multiple distribution points across districts also. So that's probably the multiple locations.

Sanidhya: So yes, that's okay, but as I could see a trend from all the different states versus branches and compared to just states, every time the branches are higher, of course than the districts. So, we have multiple branches maybe more than 1 name, certain district in other states versus compared to UP and other and I can see that 11 districts are covered under 6 branches.

I'm not sure how are we doing a fact check for those people who we are disbursing. Is it totally technology-driven? Or is it some kind that we are physically -- if the person is site and section is done? How are we doing in like just 10 districts, whereas our branch is in different district. Are we really able to do the know-how of the place? Or is it just a little bit riskier that we are?

Manoj Viswanathan: No, no, it's not. You're just seeing the starting point because we have just started our expansion into UP. So, we generally have what we call it protocol which we follow, which is we start with a person going into a new location. We call it a digital branch. And then it becomes a virtual branch or a proposed branch where we start looking out for a new branch premises.

We are in that early stage in UP. And in the coming years, you will see that this number converge, as you have seen in other places. So, a number of branches will be either equal to or overtake the number of districts in due course, because right now we are at an early stage because many of the branches are in the digital or virtual stage. So that's where you're seeing the number of branches being smaller than the number of districts.

Moderator: Next question is from the line of Jigar Jani from B&K Securities.

Jigar Jani: Congrats on a good set of numbers. Just one question or clarification. Your guidance on yield of 13.5% and cost of borrowing as on IGAAP, or is it ex co-ending IGAAP?

Nutan Patwari: This is essentially on AUM. So, it will be on IGAAP.

Jigar Jani: So essentially, you were saying that this 5.2% will probably end up near 5% on an IGAAP basis all sides.

Nutan Patwari: The number that we disclose on an IGAAP basis.

Jigar Jani: So, on an IGAAP basis your cost of borrowing is 8.3% because you see in your fact sheet as of Q4, which you are saying probably will end up in the next 2 quarters at 8.5% because there could be a 10 to 20 bps increase whereas you are yields you are guiding towards 13.5%. Is my understanding correct for this number?

Nutan Patwari: That is right. But the number I'm referring to on the spread guidance is ex of co-lending. So, the number you need to anchor to is 13.6%.

Jigar Jani: Okay. And for the cost of borrowing also, I need to anchor to 8.2% then in that way.

Nutan Patwari: Yes, exactly.

Moderator: Next question is from the line of Gaurav Sharma from HSBC.

Gaurav Sharma: Yes. Sir, my question is on the disbursement side for LAP segment. So, LAP segment in disbursements will grow at a similar rate of overall disbursement or it will grow faster in FY '25. Can you do some color around AUM growth guidance?

Manoj Viswanathan: Not substantially different. We are trying to increase or we will gradually increase the LAP share. So, it might have a slightly higher growth rate than housing loans, but not very significantly different.

Gaurav Sharma: Okay. And AUM growth will also be in the similar rate, right?

Manoj Viswanathan: Yes. AUM growth overall, we are targeting a 30% AUM growth. LAP is currently, it's only about 13% - 14% of our book. So, I mean the AUM growth in LAP will look a little higher. But overall, we are targeting 30% growth.

Moderator: Next question is from the line of Varun, an individual investor.

Varun: Just wanted to check why do we have so much of cash balance on our balance sheet this quarter and even in the last quarter?

Nutan Patwari: It's close to around 2 to 2.5 months of disbursal that we have been keeping. Now this is something that we started right after IL&FS crisis and then we kind of maintained these sorts of balances. What also happens is the number that you look at is the end of the quarter number where we take most drawdowns towards the end of the quarter. So that our overall interest cost is managed, and we also are able to manage banks in terms of broad periodic drawdown. The average cash holding will be slightly lower than what you end up seeing.

Varun: Okay. So, should we expect this to remain at a similar level going forward? Or should we expect it to go down in the coming quarters?

Nutan Patwari: Not immediately, I would say, but perhaps 12 months from now, once the liquidity situation in the overall market improves, we are fully covered as far as our next rating upgrade is concerned. Then I think we definitely have a case for improvement here.

Moderator: Next question is from the line of Harshit Porwal, an individual investor.

Harshit Porwal: My question is with respect to the cash salaried customer percentage in the total salaried book.

Manoj Viswanathan: Cash salaried will be around, so out of the total, it will be around 20%, 25%. So, within the salaried, it will be maybe 30% plus.

Harshit Porwal: Okay. So, 30% plus. Any amount of construction finance in our total book?

Manoj Viswanathan: No, there is residual of about INR4 crores or so left. 2 loans are left in the portfolio. The rest are all closed.

Moderator: Next question is from the line of Raj Tater, an Individual Investor.

Raj Tater: I just wanted to know, what is the vision for next 5 years in terms of new products or new business line?

Manoj Viswanathan: We want to stay focused on housing because we feel that there's a huge opportunity in housing for a dedicated housing finance company. And so our aim is to stay focused on housing and specialize in housing itself. And of course, the related products like loan against property, etc, we will continue to offer. But otherwise, largely remain as a housing finance company and stay focused on housing.

Moderator: Next question is from the line of Divyansh Gupta from Latent Advisors.

Divyansh Gupta: Yes, one data keeping question. For this quarter, how much was the write-off in absolute amount?

Nutan Patwari: Around INR2 crores.

Divyansh Gupta: INR2 crores. Got it. And the collection efficiencies that you have mentioned in the presentation deck is based on the number of EMIs or the customers? What could be your collection efficiency from a POS perspective, given the ticket sizes are now varying, the EMI does not necessarily present the POS collection efficiency.

Nutan Patwari: So, the first point is that this is based on number of customers, not value.

Divyansh Gupta: Yes, I'm asking from a value perspective or cost outstanding, right, typical industry collection efficiency.

Nutan Patwari: Slightly better.

Manoj Viswanathan: It would be slightly better because in higher ticket sizes, the delinquency slightly lower than the lower ticket sizes. So, it will be slightly better.

Divyansh Gupta: Would it be possible to give a number? Or do you want to keep it right now with you?

Manoj Viswanathan: It is not significantly different. So that is why we are not publishing it. It will be very similar, but very marginally better.

Divyansh Gupta: Got it. Just one last question around BTs. How much of our origination is coming in from balance transfers?

Manoj Viswanathan: Less than 1%.

Divyansh Gupta: Less than 1%. Got it. And in the similar way to the balance transfer, you mentioned that, let's say, till 20 bps, you are comfortable in taking hit in your P&L and not pass it on to the customer. Now let's say, the overall increase happens 30 bps. So, when you pass on, ultimately pass on the interest rate hike, do you pass 10 bps or do you pass 30 bps?

I'll tell you; the origination of the question is that certain 30 bps will affect our customers psyche much more, which might lead to a higher incidence of balance transfer because others will just sit at 10 basis point hike has happened. But for Home First customer, it has become 30 bps. So, does it play any role in the psyche of customers leading to BT Out?

Manoj Viswanathan: See, last time when there was rate increase, we passed on 25 basis points and then 50 basis points and another 50 basis points. So, a total of 125 basis points was passed on. Anywhere between 25 to 50 basis points can be passed on to the customer. As of now, we are running a deficit of 20 basis points. I think your question is, let us say that rates grow by another 20 basis points, whether we will pass on 20 or whether we will pass on 40. The answer to that will be that we will probably pass on 25 basis points and leave the 15 for later.

It all depends upon how the rates move and how sharply they move. If they were to move much more sharply, which is unlikely. So, let's say they move another 30 or 40 basis points, then we may have to pass on 50 basis points at one go. It all depends upon how the rates move.

Divyansh Gupta: Got it. And given this will be last time and we were passing on rate hikes then the whole industry was also doing it. Home First was not the only player who was passing on these hikes. So that as a customer in the industry did not have a big option to go to another lender who might be doing a predatory pricing but now the other players are increasing the rate. So why aren't we taking that hike?

Manoj Viswanathan: We have had an ideology that we do not want to change the rates too many times for the customer. Frequently changing the rates with the customer not only agitates the customer, but it's also upsets their planning, etc, which is why we want to hold on to the rates as much as possible. Unless there is a serious increase, we don't want to pass it on. We want to keep it stable for the customer. It's just a good fair practice as far as the customers are concerned.

Divyansh Gupta: Got it. And just one last question. So, when the rate increases actually happened, do you increase the tenure or do you increase the EMI keeping the tenure constant?

Manoj Viswanathan: We always increase the tenure so that the customer's budget does not get upset. Our first attempt is always to increase the tenure. Unless the tenure crosses a certain limit in which case, we have to then change the EMI.

Divyansh Gupta: Got it. Understood.

Moderator: Next question is from the line of Abhishek, an individual investor.

Abhishek: The question pertains to, I think, in the earlier years, management has spoken that there is reversal of provisions for the year and leading to the lower opex to AUM ratio. So that would be pertained to the employee expense, I guess, and not the provisions. Am I right?

Manoj Viswanathan: Yes, largely employee-related and expense-related provisions.

Abhishek: Yes. And the provisions, lower provisions for the quarters that those, I think earlier, the CFO has spoken regarding the other write-back or the recovery has been booked in the provisions hence the lower provisions for the quarter.

Manoj Viswanathan: Write back pertains to the lower credit losses.

Abhishek: Yes. So, you are not booking the other income part, you book in the provisions part.

Nutan Patwari: Credit costs.

Manish Kayal: Yes.

Abhishek: The lower line item in the P&L. I mean just before the PBT provision for lower. So that is the lower is because of the recovery we have booked.

Nutan Patwari: Yes. Yes. The recoveries have been parked in the credit cost line.

Manoj Viswanathan: The recoveries from the write-offs is the reason for the lower credit cost. The lower operating expense is because of certain other provisions on the employee side, employee expenses etc, which there were some provisions which have been or we have got rid of it. That is the reason for the reduction in operating expenses. Both are different.

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

Manoj Viswanathan: Thank you. We are confident of continuous growth momentum led by a strong economic environment, expanding distribution network and differentiated business model. We continue to stay focused on providing loans for affordable housing led by distribution and use of technology and backed by diversified funding and strong risk management. Thank you, everyone, for joining on the call. I hope we have been able to answer all your queries. In case you require any further details, you may please get in touch with Manish Kayal. Thank you very much.

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