HFFCIL/BSE/NSE/EQ/111/2023-24 **Date: 24-01-2024**

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

Sub: Transcript of the earnings conference call for the quarter and nine months ended December 31, 2023

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 nine months ended December 31, 2023 conducted on January 19, 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
Digitally signed by SHREYANS BACHHAWAT
Date: 2024.01.24 17:53:13 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q3 FY24 Earnings Conference Call

January 19, 2024

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 19th January 2024. Click here to listen to the original audio.

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 Earnings Conference Call of Home First Finance Company India Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Kayal from Home First Finance. Thank you and over to you, Mr. Manish.

Manish Kayal: Thank you. Good afternoon, 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 Q3 FY24 Conference Call.

I hope everybody had an opportunity to go through our Investor Deck and Press Release uploaded on stock exchanges yesterday. We have also uploaded the Excel fact sheet on our website. Please have a look.

On today's call, Home First is represented by our MD and CEO – Mr. Manoj Viswanathan and CFO – Ms. Nutan Gaba Patwari.

As usual, we'll start this call with an opening remark by Manoj and Nutan and then we will 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 afternoon, everyone.

I'm pleased to share with you the highlights of our Q3 FY24 performance:

- Growth momentum for Home First continues in Q3 with stable asset quality. Performance has been strong across all operating and financial parameters. During a high inflationary environment, we have delivered a RoE of 15.8%.
- We continue to build distribution by simultaneously entering new markets and deepening our presence in our existing markets. The states of Uttar Pradesh and Madhya Pradesh are emerging as large affordable housing markets, and we have taken steps to strengthen our existing presence and deepen distribution in these growing states.
- Overall, we have added three branches in Q3 and now have 123 physical branches. Including potential and digital branches, we now do business across 305 touch points across Tier-1 to Tier-5 markets in 13 States and 1 Union Territory of India.
- Disbursement in Q3 at Rs. 1,007 crores grew by 29.1% on a y-o-y basis, leading to an AUM growth of 33.5% on a y-o-y basis to Rs. 9,014 crores.
- Spreads remain healthy at 5.3%.

- The PAT delivered is Rs. 79 crores and RoE is range bound at 3.7%.
- Our Asset Quality continues to be strong with the focus on early delinquencies.
    - 1+ DPD is at 4.5%, which is an increase of 10 basis points on a y-o-y and flat on a q-o-q basis.
    - 30 DPD is at 3%, which is flat on a y-o-y basis and there is an increase of 10 basis points on a q-o-q basis.
    - Gross Stage-3 that is GNPA is at 1.7%, which is a decline of 10 bps on a y-o-y basis and flat on q-o-q basis. Prior to the RBI classification circular of November '21, it stands at 1.1% which is flat on y-o-y and q-o-q basis.
- Our Credit Costs is at 30 basis points declined by 10 basis points on a y-o-y and q-o-q basis.

Technology:

Technology continues to be at the core of our strategy. Account aggregator adoption has now become mainstream with close to 40% adoption rate. We have set in motion several account aggregator-led initiatives that will further strengthen our speed and accuracy in underwriting.

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

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

Coming to Financial Performance:

Starting with Spreads:

- Our Spread is at 5.3% and is within our guided range of 5% to 5.25%.

- Our Q3 NIM at 5.7% is due to projected increase in cost of borrowing and higher cash balances during the quarter. As discussed earlier, the increase in cost of borrowing is from the MCLR reset that has continued to happen on the historical borrowing book. Cost of Borrowing is expected to go by another 10 basis points, and I would like to reiterate our spread guidance of 5% to 5.25% for the medium term.
- Net Interest Income has gone up by 20.1% on a Y-o-Y basis.

Moving to Operating Cost:

- Operating Cost-to-Assets at 2.9% is stable. We expect this ratio to remain in the range of 3% to 3.2% going ahead as we focus on expansion and getting deeper into newer markets.
- Cost-to-Income at 35.9% is an increase of 60 basis points on a Y-o-Y basis.
- Credit Cost is at 30 basis point and remains well within our guided range.

Moving to Balance Sheet:

It remains strong and ready to take on the growth ambitions of the company.

Starting with Borrowing:

- Company continues to have a diversified sources and cost-effective long-term financing sources. Our sources are diversified across banks as well as NHB.
- Our Borrowing mix is 56% from banks. NHB refinance share is stable at 22%. We have drawn Rs. 200 crores in Q3 and we have another Rs. 250 crores to be drawn in Q4, 14% is from direct assignment, 3% from co-lending and 3% is from IFC NCD. We continue to have zero borrowing through commercial paper.
- Our cost of borrowing is competitive at 8.2%, an increase of 10 basis points on a Q-o-Q basis. We expect further increase of around 10 basis points in Q4.

Coming to Capital:

- Our total CRAR is at 40.9% and Tier-1 CRAR is at 40.5%. The impact of capital adequacy is 2% on account of organic growth and 3% on account of higher liquid fund balances at the end of the quarter.
- Our Debt-to-Equity is now 3.4x.
- Our Dec'23 Net Worth stands at Rs. 2,032 crores.
- The Book Value per Share (BVPS) stands at Rs. 230.

Moving to Provisions:

- We continue to have remained conservative and continue to carry provision overlay over and above the ECL requirements.
- Our total Provision coverage ratio stands at 52%. Prior to NPA reclassification as per RBI circular, PCR stands at 79.0%.
- On specific transactions, we did direct assignment of Rs. 135 crores during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets.
- We also executed a co-lending transaction of Rs. 61 crores in Q3.
- Co-lending business is growing and is expected to contribute to around 10% of disbursement in the near future.

With this, I open the floor for questions and answers, thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Manoj, how should we read the persistence of BT pressure which is reflecting in both BT Out remaining higher than trend and the pressure on the back book yield because of repricing of BT requests? And also when I look at your incremental lending rate, the origination yield, it has been pretty stable over the past few quarters and we haven't been able to fully pass on the increase in the incremental cost of borrowing. So, can you comment on both these things in the context of the competitive intensity?

Manoj Viswanathan: The BT Out has moderated slightly if you see compared to last quarter, that is the result of some of the actions that we have taken to retain customers, etc. It's moderating and trending back towards our earlier levels. Repricing of the back book, we have not done a lot, that is not really the reason for the compression of the spreads. The spreads have compressed because the cost of borrowing has gone up. Back book repricing is minimal. There are few customers who come to us with some requests, only they are getting repriced. There is no systematic repricing of the back book at this point and as far as the origination is concerned, we have always been maintaining that we are operating at a certain yield point and we continue to operate there and the spreads are moving up and down depending upon the cost of borrowing. We don't want to operate at very high yield because then we tend to tread into a different customer segment altogether. So, we have kept that balance and we have always maintained that the spreads are likely to hover around 5% to 5.25%. That is just coming to play right now.

Nutan Gaba Patwari: I'll just like to add to that. The 13.5%-13.6% yield that you see is an outcome of three aspects, one, the new business that we have done at 13.7%, second is that the NHB led repricing like I was mentioning earlier, we've taken Rs. 200 crores of NHB this quarter, which entails repricing of that pool of customers down to 10.7% and thirdly, this line that you see of yields is gross of co-lending. But what you are seeing on the origination yield line is net of co-lending. So, that difference contributes as well. Overall, we have not passed on any systematic repricing downwards to customers apart from NHB repricing.

Rajiv Mehta: Nutan, just to clarify the origination yield which you put out in the presentation, that is excluding the co-lending yield, right? That's what you're saying?

Nutan Gaba Patwari: Yes.

Rajiv Mehta: And that is a blended number for both home loan as well as LAP?

Nutan Gaba Patwari: Yes. But the yield line does not exclude co-lending.

Rajiv Mehta: And the second question is on the employee base. This quarter we have seen some decline in the employee base. So, any comments on whether the challenges persist in terms of employee attrition?

Manoj Viswanathan: No, It is the cycle of when people are hired, when they join, etc. Generally, our hiring is largely from campuses. The hiring actually happens in October to December period and then they join between January to June. This month itself probably more than 100 people would have joined us. It's just the way the cycle is. The employee attrition is at similar levels, it's in the range of 30%-35% and still not gone to the highs that we saw last year, so the employee number should come back again in Q4.

Rajiv Mehta: Just the last thing on the bounce rate in January remaining slightly higher than usual. So, typically in Q4, the bounce rate subsides, but in January it has been slightly higher. Just understanding whether the increase in bounce rate has any repercussions for our RMs productivity?

Manoj Viswanathan: The increases are fairly marginal, so it does not really impact productivity much. If you see as on date, hardly 4% out of the bounce cases are left. Today we are sitting on the 19th Jan and each RM would have probably 3-4 loans left to collect with 10 to 12 days left in the month. Hence, this marginal change does not really impact productivity.

Moderator: Thank you. Our next question is from the line of Renish from ICICI. Please go ahead.

Renish: Again, two questions on spread and bounce rate. On spread, if you look at the incremental spread at 5.3% which is broadly at par with our Q3 marginal spread and also it is very close to our guided range as well. But now if you look at the pricing trend and we have not hiked our rate since April '23. And if you look at the competition, I'm assuming it would be difficult to hike rates further. So, in that scenario, let's say where do you see the spreads settling and if one has to assume the rate cycle, we were saying over next 2 to 3 quarters and given we have a fairly high share of floating rate book, directionally how should spread behave considering the rate cycle as well as the competition considering limited room for further rate hike?

Manoj Viswanathan: We intend to maintain the origination yields that we have and unless there is a reduction in rates, then we obviously intend to pass that on to the customer as we mentioned earlier. So, if we do that, then the spreads will remain where it is. Overall, we are looking to maintain this 5% to 5.25% range of spread guidance. If there is any advantage that we're getting out of reduction in cost of borrowing, then we intend to pass most of it to the customer so that we remain competitive and we are still earning a healthy 5.25% kind of a spread.

Renish: So, trying to assume that over the next two to three quarters, we will maintain the spread guidance of 5% to 5.25%?

Manoj Viswanathan: That's right.

Renish: And sorry again, circling back to the cheque bounce rate, so of course our 1+ DPD, 30+ DPD has been stable quite sequentially, but generally your Q4 is the strongest quarter in terms of asset-led growth, but in Jan'24 this cheque bounce rate going up, though it is marginal. How should one read this data? Is there a change in customer behavior because of like say last 3-4 quarters rate hike so that the EMI might have gone up, etc. So, how one should look at this data?

Manoj Viswanathan: I would say these minor fluctuations keep on happening. If you see the overall bounce rate curve, it's kind of an up and down. Sometimes it's 15.6%, sometimes it's gone down to 14%. Within that 100-150 basis points gap, there is always some movement. As long as its range bound, frankly, it does not impact our operations that much. Sometimes it is just the date on which it is presented. If it is a Sunday, the bounce rate is a little higher, things like that. So, can't read much into it as we have mentioned before. As long as it is in this 13% to 15.5% kind of a range, can't really read much into it because the collection results are fairly similar whether it is 13% or 15%. By 20th of the month, we would have collected about 10%-11% out of that 15%. So, you would be left with hardly 4% as on date which is a very reasonable number for the organization or for even an individual RM to kind of focus on in the remaining 10 days of the month. You can't really read much into it.

Renish: Just follow up on that. Let's say on ground we don't foresee any early warning signal in any of the geography as of now, right?

Manoj Viswanathan: Not at all. As far as the collections is concerned, we're not really seeing any headwinds which is worse than what we have seen in the past.

Moderator: Thank you. Our next question is from the line of Mayank Agarwal from InCred Research. Please go ahead.

Mayank Agarwal: My first question is on bounce rate. So, is there any specific geography like Tamil Nadu or any place which has increased bounce rate because of any particular region or it was broad based?

Manoj Viswanathan: No, it is broad based. Generally, the fluctuations happen only branch to branch and not region to region. We have never seen any major increase or decrease in any particular region as a whole, but of course there are fluctuations within the region in specific branches, etc. which is all business as usual.

Mayank Agarwal: My second question is on account, use of account aggregators. So, in terms of understanding of the customer, speed, have you witnessed any kind of benefits from the use of account aggregators or how it works for you?

Manoj Viswanathan: To start with, the major benefit is that the bank statements of the customers come to us directly. It helps us in two ways. One is that we get a more detailed understanding of the customer. Plus, we are guaranteed that it is an authentic document. So, we don't need any further verification of the bank statement or any cross-check to ensure that it is an authentic document. So, it helps us to start the credit evaluation process quickly by getting the bank statement electronically. That is the basic or the most elementary advantage that we gain out of account aggregators. Of course, there will be other benefits like I mentioned in the call that we have set in motion couple of initiatives which is based on account aggregator, which will allow us to improve our underwriting further because analysis of the bank statements and models built on the basis of bank statements, etc. help us to underwrite better. After looking at the initial success of almost 40% adoption within a few months of launching, we are encouraged to kind of create models based on the bank statements.

Mayank Agarwal: Any changes in rejection rates or a change in the CIBIL score category wise rejection rates like you can now give loan to certain lower CIBIL score per customer as well or any interesting thing to highlight in that?

Manoj Viswanathan: Based on credit score, it's more of an elimination. If you look at credit scores which are less than 700, we have only about 10% of our business coming from that segment, where the credit score is less than 700. Within that, it is more of a case-to-case decision that we take. If the customer has good credentials and some justification for earlier defaults, etc. Hence, below 700, it's more of a selection criteria. Credit score itself will not be the sole criteria. We will have to look at multiple other criteria. Approval rates, yes, definitely, if the credit score is more than 700, the approval rate will be definitely higher. In less than 700, it is more of a selection, like I said. It is likely that the customer will get declined rather than approved, if the score is less than 700.

Mayank Agarwal: Any trends you are witnessing that a customer rejected by you is still getting the loan at a similar rate from the competitors? Anything you want to highlight because what we are seeing is that competition is getting aggressive day by day and they have the ability to, because of easy capital availability, they have the ability to offer a riskier customer at lower rates also. So, anything you are witnessing on that front?

Manoj Viswanathan: I can't say it is anything new, but this kind of trend usually happens because we are a fairly large player now in affordable housing. So, yes, there may be declines on credit score, etc. which are picked up by smaller players. That has been a general industry trend. When a new player comes in the market, they have to take a little higher risk. They tend to be more liberal or more lenient. That's a normal market trend. We are not seeing anything new or something significant.

Moderator: Thank you. Our next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: One of my questions is that you give this breakup by ticket size, right? Rs. 1mn to Rs. 1.5mn and then all the way up to Rs 2.5mn and above. Is there any yield differential between these cuts in terms of the ticket sizes? And if yes, can you please give us the data in terms of which ticket size would be commanding how much yield.

Manoj Viswanathan: Generally, the yields tend to follow the ticket size trend. So, the higher the ticket size, the yields tend to be a little lower. Our interest rate offers in the market are based on an algorithm which takes into account multiple factors including ticket size, bureau scores, customer's income, whether it is salaried or self-employed, etc. Multiple factors are taken into account before we offer the rate. But generally, in the market if you look at it, higher ticket sizes come at lower yield because the customer generally tends to be more affluent, having more stable income, etc. They have more choices in the market, and it becomes more competitive. Broadly that is the trend because we are operating in a fairly tight band up to Rs. 25 lakhs, we don't deviate that much, and we have a fairly strict policy as far as rates are concerned. We have to maintain a certain yield so we don't fluctuate much on the yields between ticket sizes, but yes, there would be some trend of lower pricing as the ticket size increases.

Raghav Garg: The reason why I ask this question is that if you look at your trends for the last several quarters, the AUM cut where the ticket size is more than Rs 2 million, that's been growing at some 50%-

60% for the last many quarters. Now, is that something that's weighing on your yields, which have come off by about 12 basis points versus last quarter?

Manoj Viswanathan: It's a more gradual trend but if you see the AUM cuts, the segment that is more than Rs. 25 lakhs is still in the 12% odd range. I think maybe 6-8 quarters ago it might have been 10% and 9%, it has gone up by about 2%-3%. That is a more secular trend which is following inflation and overall price increases, etc. We are not going after that segment specifically.

Nutan Gaba Patwari: Just to add, the co-lending product that we do is in the Rs. 20 lakhs+ segment, where the spreads are protected given the nature of the agreements with the bank and the regulatory interface. Now, like I was mentioning earlier to a previous question, the yield line that you see does not exclude the co-lending yield, but the origination yield that we've given does. And that probably is what is the issue. And the second part, the 12 basis points decline that you see is also contributed by the NHB led repricing.

Raghav Garg: Understood. The second question is, would you have seen any impact of elections in Rajasthan and Madhya Pradesh on collections?

Manoj Viswanathan: In our portfolio, these are states which are doing extremely well on collections.

Moderator: Thank you. Our next question is from Mr. Nidhesh Jain from Investec, please go ahead.

Nidhesh Jain: First question is on the growth. So, as we prepare for the next 3 years, reaching roughly around Rs. 20,000 crores book, how do we prepare ourselves in terms of distribution, in terms of products, customer segment? Do we see that the current segments that we are operating that can take us to that level of loan book over the next 3 or 4 years and how we plan to scale our distribution to achieve that?

Manoj Viswanathan: So, if you see the quarterly disbursement in this segment, even if we take the ticket size only up to Rs. 25 lakhs, the quarterly disbursement is around Rs. 45,000 crores to Rs. 50,000 crores. If you exclude the states where we are not present, say about 20% of the volume will go away. So, let us say, ballpark around Rs. 40,000 crores is the potential or addressable market that we have in the states that we are present in. The plan for the next 3 years is to ensure that we are able to get to all the pockets, all the pin codes of the existing states so that we have complete access to that entire Rs. 40,000 crores potential market which is there in this segment. As we have been saying in the past, there were two or three states which are central and northern states where we had only skeletal presence. Rajasthan, UP, and MP are states which we are focusing on, now they are emerging as large states. The per capita income is increasing in these states. The industrialization is increasing, and they are getting more urbanized. So, we are seeing those green shoots. We are looking at building distribution in these states. That will be one of our key focus areas to ensure that we have access to that Rs. 40,000 crores. Currently as you can see, we have done Rs. 1000 crores out of that Rs. 40,000 crores. It's kind of a 2.5% share that we have in that segment. The idea is to take that Rs. 1,000 crores to a Rs. 2,000 crores kind of a level over the next 3-4 years. Parallelly, to expand the addressable market we are also doing co-lending. So, that will give us access to probably another Rs. 10,000 crores to Rs. 15,000 crores which is in the Rs 25 Lakh to Rs 35 Lakh segment which can be addressed through co-lending. On LAP, we have been conservative in the past. We have maintained it at about 15% of disbursal and about 12% to 13% of the AUM. So, that is also something which we can explore in terms of taking it up a little bit more because our credit performance so far has been good in that and we still have a lot of headroom there from a regulatory sense. These are three ways in which we are looking at the next 3 years. The aim is to get from Rs. 10,000 crores to Rs. 20,000 crores in the next 3 years. And at the same time, deliver similar productivity and keep improving on the other metrics, which is cost as well as profitability metrics. To try and deliver a 17% plus kind of a RoE in that timeframe.

Nidhesh Jain: Sure, and what will be the branch network expansion strategy in terms of number of branches, number of employees, what are the numbers?

Manoj Viswanathan: Branch expansion strategy, when we listed the company, we were at about 100 touch points and we said we are going to take that to about 400 touch points in the next 3 to 4 years. Currently we are at 300 touch points. Now our strategy is to take the 300 to 500 touch points in the next 3 years and branches will keep expanding as a by-product of that at about 25 branches a year. Currently we are at 123, so probably in the next 3 years, we will expand to about 200 branches, and servicing about 500 touch points. This is our overall strategy in terms of distribution.

Nidhesh Jain: Sure. And in terms of the market share in some of the states like Gujarat, Maharashtra, in the segment where we operate, what would be the market share and disbursement in these states?

Manoj Viswanathan: On an overall average, our market share is about 2.5%. But in Gujarat, it would be higher, it would be 3% to 4% market share. Maharashtra, we still have some way to go. We are still at about 1%-1.5% market share. And so that is the journey that we will be undertaking in the next 3 years. Wherever we are at 1% or 1.5%, the idea is to take it to about 3% and where we are already at about 3%-4%, we take it beyond 5%. So, that's the aim.

Nidhesh Jain: And as the co-lending scales up, so first of all, what is the timeline by when we will reach 10% of disbursement through co-lending? And as co-lending scales up, how it will change the P&L construct?

Manoj Viswanathan: We are at about 6% of our disbursal. You see, last quarter we disbursed Rs. 60 crores in co-lending out of Rs. 1,000 crores overall. So, we maybe a couple of quarters away from hitting a 10% share of co-lending as a percentage of disbursal. So, our aim is to do that first and then take co-lending to 10% of the AUM. Co-lending would not change the profitability structure very much because at the current rate that we are lending, we are making a 5% plus spread on the co-lending portfolio and our aim is to keep doing that. If the rates start trending down, then the spread should improve, making it more RoE accretive.

Nidhesh Jain: And lastly, what is the number of active connectors this quarter and the number of sales manager or RMs as of December '23?

Manoj Viswanathan: We have scaled up the connectors to about 2,900 active connectors this quarter and relationship managers are at about 800 now.

Moderator: Thank you. Next question is from the line of Arjun Bagga from Baroda BNP Paribas Mutual Fund. Please go ahead.

Arjun Bagga: I had just one question regarding the yields. I understand the last repricing that we took, I think that was in the month of April and we did take some 50 basis points. At that time, I think Q4 we were at 13.4% yield. Then Q1 we improved to some 13.7% but since then we have been coming down. So, how should I understand because I think my understanding would be that yield should actually increase for the remainder of the loans as and when they are repriced, but is it the BT out pressure which is keeping the yields under pressure?

Nutan Gaba Patwari: What has been happening every quarter we have been taking the NHB drawdown and when we take the NHB drawdown, there is a portion of that drawdown which we allocate to specific customers which happened at 10.7% yield to customer and approximately 5.5% cost of borrowing to us. So, when we reprice, the overall yield shows a drop and that's what you see in that number. We've been taking about Rs. 200 crores every quarter.

Arjun Bagga: So, this decline is entirely due to that spread maintenance.

Nutan Gaba Patwari: Yes.

Moderator: Thank you. Our next question is from the line of Mohit Surana from HDFC AMC. Please go ahead.

Mohit Surana: If you can throw some light around in terms of the BT out customer, how their eventual asset quality has behaved versus if you have tracked versus your own book. And secondly, what is the percentage of BT out customer that go to a bank lending institution versus a NBFC?

Manoj Viswanathan: Majority of the BT out go to banks. I mean if we now consider HDFC, HDFC used to be one of the large entities doing the BT outs, but if you now consider that the large part of the BT outs goes to banks only. There would be a small residual portion that goes to other housing finance companies. And as far as the quality is concerned, post BT out, we have not kept track of the customer asset quality.

Moderator: Thank you. Next question is from the line of Gaurav Sharma from HSBC. Please go ahead.

Gaurav Sharma: Yesterday, one of the HFCs mentioned that they have slowed down their disbursement through co-lending as they received some intimation from NHB that a minimum certain threshold of their loan has to be maintained in their own book. So, just wanted to understand whether you have also received such instruction like this and if yes, can you please elaborate on that?

Manoj Viswanathan: No, we have not received any intimation and we are maintaining the minimum percentage as per the RBI guidelines which is 20%.

Nutan Gaba Patwari: The co-lending guidelines are fairly well articulated and there is a transfer of loans circulars also which companies need to follow. We are following both of them.

Manoj Viswanathan: Okay, so no intimation from NHB as of now?

Nutan Gaba Patwari: No intimation at all.

Moderator: Thank you. Our next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: This is on your guidance for spreads. I mean, if I get it right, you're now guiding to 5.0% to 5.3%. I think earlier you used to guide to about 5.3%. So, is there a downward revision in the spread guidance and what is this being driven by?

Nutan Gaba Patwari: Bhaskar, the guidance was always 5% to 5.25%. What's been happening is that we've seen this cost of borrowing projection for a long time. And of course, we've been managing above 5.5% levels. So, we've slightly gotten used to that number, but if you look at the business model, the business model works best from a growth perspective as well at a 5% to 5.25%.

Bhaskar Basu: And I mean from a perspective of the recent RBI tightening and general increase in funding cost, what is the incremental impact you're seeing? I mean, I see that marginal cost of borrowing is kind of similar. So, do you see some increase because of this, because of the RBI tightening?

Nutan Gaba Patwari: The RBI framework on this aspect, either capital adequacy or the bank credit to NBFC actually is favorable for housing finance companies that you would have read. What we are actually seeing on the liquidity and the funding side, we are getting more preference over NBFCs. We're able to retain the exact same marginal cost of borrowing for four quarters now, despite increase in MCLR, despite the RBI regulations. Coming to the capital adequacy part of it, the housing part is clearly excluded. There remains a confusion on the non-housing part, specifically LAP portfolio for us. We have also looked at the details. We've also engaged with some experts. The clarity is still not there on the secured asset side, specifically loan against property. Our understanding is that there is likely to be some clarification, so we await that clarification. However, we've also done simulation at our end to see that if LAP gets considered at 125% risk weight, what will be the impact for us? That is about 2% for us on the capital adequacy. What you see is 40.9% will perhaps come down to 38%-39%. From a capital perspective, we are fairly well covered. Even leverage is at 4.3. So, long way to go on the capital side.

Bhaskar Basu: Okay, so just following up on the spread and the cost of fund issue, with this 10-bps hike increase, which you're kind of guiding for the next quarter, would you say that the whole MCLR repricing is largely done or we continue to see some more increase in the coming quarters?

Nutan Gaba Patwari: Largely done, Bhaskar. However, if you see, HDFC Bank, in the last six months, the MCLR for one year has gone up by 20 basis points. SBI in the last 6 months has gone up by 10 basis points. We should assume a formula of, let's say, a public sector bank. Let's say SBI is a good representative. Whatever MCLR increase is happening for SBI, 50% of that comes and resides on our book over a one-year period. So, if SBI is taken up by 10 basis points, we will get another 5 basis points in the next 12 months. That's really the impact, hence we've kind of chosen to call it minimal. So, 8.30% levels is what we are likely see in the next quarter, but I think after that we are largely done.

Bhaskar Basu: Whenever kind of rate cycle turns given that MCLR, your borrowing is largely MCLR and you intend to pass on some of the rate cuts to the borrower, do you see some kind of a timing difference between the way you kind of passed on or would you kind of time it similarly because your cost of fund will also fall with a lag, I guess.

Nutan Gaba Patwari: Similar is the best approach. However, a few weeks here and there can always be there.

Moderator: Thank you. Our next question is from the line of Arvind R from Sundaram Alternates, please go ahead.

Arvind R: Are we comfortable with current BT out trades? That is my first question. What about yields continuously declining, is it because of the higher ticket sizes, is it that the higher ticket sizes continue to grow faster than the overall?

Manoj Viswanathan: BT out trend is moderated compared to last quarter. So, still maybe about 1% point higher than what we used to see earlier, but it's moderated from the high of last quarter.

Nutan Gaba Patwari: The question is on why yields are dropping right? So, yields are not dropping, the yields are only getting adjusted for the NHB drawdown that we are taking every quarter.

Arvind R: What is the cap on spreads on the NHB front?

Nutan Gaba Patwari: Close to 5.5%.

Arvind R: And do we have anything like leverage cap we are comfortable with?

Nutan Gaba Patwari: We have 4.3x on asset to equity. We are very comfortable to at least go up to 5.5x-6x levels.

Moderator: Thank you. Our next question is from the line of Omkar Kamtekar from Bonanza Portfolio, please go ahead.

Omkar Kamtekar: One of the questions was in regard to the leverage. So, you said you're comfortable to go up to 5.5x - 6x leverage. So, it would be assumed that by FY26 if we hit a leverage of say 5.5x and the ROA remains same, so our RoE would be much higher. So, our ROEs could be closer into the 20%. Would that be fair assumption then?

Nutan Gaba Patwari: What we are looking at is more in the range of 17% ROE as we grow the book. Also, as the debt portion of the balance sheet becomes larger, there will be some compression in the NIMs. We are looking at an ROA close to 3.5%-3.6%in about 24 months' time. And with leverage of let's say 5x, ROEs of approximately 17%-18% is the range that we are working at. We are not looking at a 20% ROE as of now.

Omkar Kamtekar: Okay, so if we take it at 5x, then it makes sense. And also, will there be an equity raise required by the firm? Do you see a need for an equity raise to happen in the near future?

Nutan Gaba Patwari: In the future, yes. Maybe not in the next 2 years.

Omkar Kamtekar: And with respect to the run rate, we hit the Rs. 1,000 crores disbursement per quarter. Will this become sustainable from the next quarter itself or will it take some time to steady state itself at this level and then run at Rs. 1,000 crores per quarter?

Manoj Viswanathan: Rs. 1,000 crores per quarter, if you see last 12 quarters, we have continuously increased the disbursal quarter-on-quarter. We are looking at a similar trend going forward.

Omkar Kamtekar: So, if that is the case, what is the base target that we are looking at for disbursals for FY25 and FY26?

Manoj Viswanathan: We are looking at 30% AUM growth. The disbursals will follow the trend which is required to achieve that. So, probably a disbursal growth of 20% to 25% should be able to achieve AUM growth of 30%.

Omkar Kamtekar: And the asset quality has also remained very much stable at 1.2% and 1%. Will this remain stable at 1.2%? Do we see any points of concern that it might marginally increase?

Manoj Viswanathan: Absolutely not. On asset quality, there is absolutely no concern at all. It is looking very stable and even from the ground, the feedback that we get, the monitoring that we are doing, it looks absolutely stable.

Omkar Kamtekar: And finally, with respect to co-lending, I think we did about Rs. 60 crores worth of disbursement. You said we will be targeting 10% of AUM. So, incrementally, there will be a higher share of disbursement through co-lending in the coming quarters. Will that be a fair assumption?

Manoj Viswanathan: Yes, marginally higher because we are currently at about 6% or 7% of the disbursal. As we kind of inch up towards 10%, yes, the share of co-lending you can say is going up.

Omkar Kamtekar: And the spreads on that, what I think someone had mentioned from the management was up to 5%, did I get it right?

Manoj Viswanathan: That’s right.

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

Chandrasekhar Sridhar: Spread which is ranging between 5%-5.25%, is that more a function that beyond the point while your costs are increasing, still because of some of these MCLR hikes, you don't want to basically underwrite beyond a certain hurdle rate in terms of the customer of yield because you sort of underwrite a different set of customers. Is that primarily why you're looking to absorb a little bit at this moment?

Manoj Viswanathan: That is correct. As you know, we have already passed-on 125 basis points to our customers. We don't want to reprice the back book too much. Also, over the last quarter, we have got a 20-basis points COB increase, but we are not passing that on to the customer.

Chandrasekhar Sridhar: So, some of this is relatively clear. It's a function of where we are. Maybe at some point in time, if it goes down some of these things could change.

Manoj Viswanathan: That's right.

Moderator: Thank you. Next question is from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: Do we get any fee income for co-lending?

Manoj Viswanathan: Yes, we get a processing fee on originating the loan. This is the normal processing fee that we charge on our own core affordable housing loans that we originate. Same processing fee we earn on co-lending home loans as well.

Arvind R: And just one more thing, when we say that we intend to pass the benefits of funding costs with the rate cycle reverses, would we be looking to pass on everything or part of it?

Manoj Viswanathan: It depends on how sharply it moves. If it moves very gradually, then we may just pass it on. If it moves sharply, we could probably retain a portion and pass on the balance.

Moderator: Thank you. Next question is from the line of Amit Jain from Axis Capital. Please go ahead.

Amit Jain: As you grow bigger and bigger, so in terms of distribution, will account aggregator be the way ahead or would you like to look at other forms as well such as DSA?

Manoj Viswanathan: No, our distribution is basically through individual connectors, individual agents who refer customers to us. We intend to continue that model. That model has worked extremely well for us. We have certain competitive advantages there in the way we manage it, etc. So, we intend to continue to leverage the connector model. Account aggregator is more for credit evaluation, that is for basically collecting information about the customer. That is for a different purpose altogether. As far as distribution is concerned, we intend to stick to our connector model.

Moderator: Thank you. Next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: My question is on the average ticket size of the loan. Is there any specific bucket of loan that is growing faster and from the previous comment on the co-lending becoming 10% of the AUM and I think the higher ticket size that is Rs. 25 lakhs and above is where the co-lending transactions are there. So, would the average ticket size on a whole increase over the next 2 to 3 years?

Manoj Viswanathan: Yes, average ticket size will increase. The reason being that what was let us say Rs 5 lakhs few years ago is now around Rs 10 lakhs and so on and so forth. If you rewind 5 years ago, our core segment used to be between Rs 5 to Rs 10 lakhs. But now the Rs 5 to Rs 10 lakh segment, because of inflation, that segment has moved to Rs 10 to Rs 15 lakhs. So, now our core segment is Rs 10 to Rs 15 or Rs 10 to Rs 20 lakhs. It's just the impact of inflation. The profile of the customer is the same, but the ticket sizes are gradually moving up. As a result, yes, every 5 years you will see some shift in the ticket sizes.

Omkar Kamtekar: So, is it more so from the perspective of structural change and not because of the co-lending and, etc. that you would see a higher, a bigger expansion in the ATS?

Manoj Viswanathan: Yes, ex of co-lending. Yes, co-lending is definitely contributing to it or it is contributing more to it. But if you remove co-lending also, there is a gradual shift in the ticket sizes. You will see that our growth in the Rs 10 to Rs 15 lakh and Rs 15 to Rs 20 lakh is higher than the Rs 5 to Rs 10 lakh segment. That's because of the gradual shift in ticket sizes. Apart from that, there is obviously an extra contribution from the co-lending aspect as well.

Omkar Kamtekar: Got it. And any specific bucket of the bifurcation that you have given by ticket size, any specific segment that is growing, if you could give which is the fastest growing and maybe anything in that sense?

Manoj Viswanathan: Yes, so like I mentioned, Rs 10 to Rs 20 lakhs. Rs 10 to Rs 15 and Rs 15 to Rs 20 are growing faster than the smaller segments.

Moderator: Thank you. Next question is from the line of Sonal Gandhi from Centrum Broking Limited. Please go ahead.

Sonal Gandhi: Basically, I needed a few clarifications before I moved to questions. So, if you could just let me know what exactly happened in Tier-1 capital wherein it has fallen from 45% to 40.5%. Because I heard Nutan saying that if we take that risk weightage on the LAP portfolio, this might actually go down to 38.5%.

Nutan Gaba Patwari: Let's discuss CRAR's journey from 45% to 40%. So, there are two components to this. If you see our investments in December versus September, they have gone up significantly. When you park funds in liquid funds, they carry a 100% risk weight under the capital adequacy regulations. However, if you park the same money in fixed deposits, they carry a 0% risk weight. So, this 3% increase is contributed by just how we've chosen to invest our cash and cash balances. The other 2%, which is basically coming from organic growth of the business. What I was trying to mention earlier, if we took the impact of the circular, then this 40% will look like 38%. Now if you want to look at it, 3% is just how we choose to allocate funds between fixed deposits and liquid funds. So, March quarter for example, you can see this going back. But organic growth-related capital consumption will continue to happen.

Sonal Gandhi: That's helpful. The other one was on co-lending. So, is there an upfront income in co-lending as we do in direct assignment? Can we say fair value gains?

Nutan Gaba Patwari: No, we don't do that.

Sonal Gandhi: So, we had this stated policy, wherein we were planning to do about Rs. 100 crores of direct assignments every quarter. That number has gone up this quarter. So, how should we see this up-fronting income moving from here?

Nutan Gaba Patwari: There are two ways to look at this. Rs. 100 crores +/- is the kind of number we've discussed in the past. The other way to look at this is the proportion of direct assignment to the overall AUM. If you look at that, that has remained constant at this 13%-14% level. I think that will be the right number to look at that the overall composition of the off book contributed by assignment is not increasing. But with the growth in the book, the absolute number might shift.

Moderator: Thank you. Our next question is from the line of Ravi Naredi from Naredi Industries. Please go ahead.

Ravi Naredi: First of all, congratulations on crossing the 1 billion market cap of our company. Sir, our cheque bounce rate increased and was higher side at 15%+. So, many questions asked by so many investors. My point is that if cheque bounces, customer bank also charge cheque bounce charges to the customer, it increases the cost of middle-class borrowers, so have you plan to control this?

Manoj Viswanathan: We keep educating customers that they should clear the payment at the first clearing, etc. But there would be a set of customers where it is not impacting them because probably, they are not using those accounts or maybe those accounts are in minimum balance, etc. Which is probably the reason they are bouncing those payments. We of course encourage our customers to keep clearing it on the same date and not bounce it. But today with so many different options for repayment through UPI and through multiple channels, customers don't take that very seriously which is also one reason why there is higher bounce rate.

Ravi Naredi: Sir, company maintained Rs 2,460 crore liquidity against AUM of Rs 9,014 crore or against borrowing of Rs 6,843 crore or 36% of borrowing is the liquidity we are maintaining. So, do you think Manoj it is higher side?

Nutan Gaba Patwari: That number that you are seeing includes the undrawn line. What we are carrying on the balance sheet is around Rs. 1,200 crores sir.

Ravi Naredi: Sir, any equity raise on cards?

Manoj Viswanathan: Not for the next 2 to 3 years sir. We have enough accruals which will carry us through for at least 2 to 3 years.

Moderator: Thank you. Next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: At what rate would we be getting the NHB borrowing? Would it be somewhere around 6.5%?

Nutan Gaba Patwari: Depends on schemes, Raghav, so the weighted average cost will be around 6.5%, but it is different for different schemes.

Raghav Garg: And you also mentioned that our spreads on this particular piece is about 5.5%?

Nutan Gaba Patwari: That's right.

Raghav Garg: So, Nutan, if I just calculate the impact of NHB borrowing that comes to about 5 basis points. But your yields have actually compressed by about 12 basis points. So, what explains the other 7-8 basis points of compression?

Nutan Gaba Patwari: Right. So, the full delta is actually 8 basis points. I think there could be some rounding of numbers. About 5 basis points is contributed by NHB and around 2 basis points is contributed by co-lending and there is also some marginal contribution by the BT out. So, that is the full breakup.

Raghav Garg: Sorry, how do you arrive at 8 basis points? As per your reported numbers, it's about 12 basis points.

Nutan Gaba Patwari: Where do you see that? Because what we have is 13.5%.

Raghav Garg: Moving down to 13.5%.

Nutan Gaba Patwari: No, so there is a rounding off that we're doing. So, we are looking at 13.58% to 13.52%.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. As there are no further questions from the participants, I now hand the conference over to Mr. Manoj Viswanathan for closing comments.

Manoj Viswanathan: Thank you. Thank you, everyone, for joining us on the call. I hope we have been able to answer all your questions. In case you require any further details, you may get in touch with Manish Kayal. Thank you very much.

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