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HFFCIL/BSE/NSE/EQ/86/2021-22 **Date: 11-11-2021**

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

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

Dear Sir/Madam,

With reference to our letter No. **HFFCIL/BSE/NSE/EQ/74/2021-22** dated October 19, 2021, please find attached the transcript in respect to the earnings conference call on the Un-Audited Financial Results for the quarter and half year ended September 30, 2021 held on Tuesday, October 26, 2021 at 4:00 P.M. IST. The transcript of the conference call can also be accessed at the website of the Company at www.homefirstindia.com

We request you to take the same on your record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

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

Home First Finance Company India Limited

Q2 & H1 FY22 Earnings Conference Call Transcript

October 26, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY2022 Earnings Conference Call of Home First Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Viswanathan, Managing Director and CEO of Home First Finance Company India Limited. Thank you and over to you Sir!

Manoj Viswanathan: Good afternoon everyone, and welcome to our Financial Results Discussion Call for Q2 FY22. On behalf of the Company, I extend a very warm welcome to all of you. I hope that all of you and your families are safe and healthy. Today on the call, I am joined by Ms. Nutan Gaba Patwari – our CFO, Mr. Manish Kayal and Ms. Vidula Worlikar from our Investor Relations team and Orient Capital, our external investor relations advisors. I hope everybody had an opportunity to go through our investor deck and press release. We have also uploaded the excel version of factsheet on our website, request you to have a look.

We will quickly summarize our Q2 results. Firstly, COVID is behind us. Economic indicators say that we are ahead of pre-covid times in most areas. Government's sharp focus on vaccination with 1 Bn doses and reforms in various sectors including Production Linked Incentive schemes, have brought the economy back on track and growth expected to trend higher on the back of these reforms. Recovery and momentum in Affordable Housing Finance has also been excellent.

At HomeFirst we witnessed the following:

1) Very strong Q2 FY22 performance, with disbursals crossing INR 500 Crs for the first time. Disbursals grew by 14% on the previous high that we had seen in Q4FY21.

2) We are seeing improving trends in collection efficiency and bounce rates. Bounce rate reduced to 15.0% which has been the lowest since the start of the pandemic in April last year.

Coming to the Q2 FY22 results: PAT is at 45 Cr, a sequential growth of 27.8%. Our AUM stands at Rs 4,617 Crs, up 23.8% yoy and 7.5% qoq or 30% on an annual run rate basis. Cost to income was 35.2% in Q2FY22 compared to Q1FY22 level of 31.9%; driven by expansion. 30 DPD improved to 5.2% from 5.8% in previous quarter and 1 DPD improved to 7.6% in from 8.9% in previous quarter. Our Gross Stage 3 at 1.7% has declined by 20 bps in-line with expectation. Our net stage 3 stands at 1.2% with 0.3% restructuring in Q2. In Q2, 106 customers were restructured. Total restructuring across Q1 and Q2 is only 0.8% of AUM. ROE has touched 12.5% in Q2 on an annualized basis.

Next is distribution. We operated out of 72 physical branches in Q2 FY22. We have commenced business in 14 potential branch locations with digital presence in 10 more locations. Total touchpoints currently stand at 161.

As of today, we have 74 branches operational and 3 more leases have been signed. We are targeting 80+ physical branches by end of FY22.

Coming to digital. Digital initiatives continue to see further progress. As you know, we have launched electronic stamp paper, e-signatures and e-NACH across all branches earlier. In Q2, we have added instant soft approval feature on our app. This is our next step in providing a fully digital experience to customers.

Our customer app continues to enjoy high usage with more than 72% of our customers registered on the app compared to 67% in Q1 FY22.

Payments and service requests made via the app in Q2 FY22 have gone up by 118% on a yoy basis. 48-hour turn-around-time for loan approval sustained at 88%. Digital alliances got a boost with a formal agreement with Paytm for originating affordable housing loans. Our pilot with India Post Payments Bank was successful and is now moving to phase 2 of launch.

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

Nutan Gaba Patwari: I will take you through our financial performance in Q2 FY22. We continued to stay focus on NIM, Opex, PPOP and Credit cost. Our NIM has expanded from 4.9% in Q1FY22 to 5.2% in Q2FY22; coming from further improvement in cost of borrowing and optimization of cash on the balance sheet. Net Interest Income has gone up by 47.6% on yoy basis and 8.5% on qoq basis. Operating expense has increased this quarter, on expected lines. Opex to Assets stands at 2.8% for the quarter, higher by 30bps on qoq basis. We expect this ratio to remain around 3% for FY22; as we focus on expansion in H2. PPOP stands at Rs 60 Crs, coming from expanding NIM base as well as continued focus on Opex. Credit cost of 0.3% is within the long-term acceptable range. This reflects the strong improvement in asset quality. Our ECL provision continues to be at 1.3% of the total POS. We have continued to be prudent with the provisions and we have provided for the restructured loans on the highest Stage 2 ECL %age basis.

We have changed the approach of creating DTL on NHB Special reserve from Q2. In addition to a lower effective tax rate in Q2, we have also reversed Q1 DTL provision of 1.77crs; shown as one-time adjustment in page 33 of our Q2 investor deck. On a PAT ex DA income basis, we have grown by 122% on a yoy basis and 53% on qoq basis. This reflects the strong underlying operational business growth across all parameters.

On liquidity and borrowings, we are rated A+ with a stable outlook for long-term credit from CARE and ICRA and A1+ plus for short term credit from ICRA and India Ratings. The Company has access to diversified & cost-effective long-term financing, with 19 lenders. Total borrowings including debt securities are at Rs. 3,075 Crs as on Sept'21 from Rs.3,084 Crs as on June'21.

We have a healthy borrowing mix with 44% of our borrowings from Banks (Public sector 24%, Private sector 21%), 24% from NHB Refinance and 23% from Direct Assignment. We continue to have zero borrowings through Commercial Paper. Our cost of borrowing has been trending downwards. Our Q2 FY22 Cost of borrowings stood at 7.1%; reduced further from 7.2% in Q1 FY22. Our marginal COB for Q2 FY22 was at 7.9%.

Moving to capital, our capital adequacy is at 56.4% with tier 1 at 55.2%. Our Sep'21 Networth stands at Rs 1463 Crs vis-à-vis Rs 1381 Crs as on Mar'21. Our Q2 ROA stood at 3.9%, higher from 3.1% witnessed in Q1 FY22. Our annualized ROE now stands at 12.5% on Q2 numbers. Our Book Value per share (BVPS) stand at Rs. 167 as on Sept'21.

Manoj Viswanathan: We have few announcements to make on the reconstitution of the Board of Directors and expansion of the management team:

The Board of Directors has approved the proposal for the appointment of Ms. Geeta Dutta Goel and Mr. Anuj Srivastava as Additional Directors on the Board of the Company to function as Non-Executive Independent Directors.

Ms. Goel's is a finance professional and Country Director for Michael & Susan Dell Foundation in India at present. She manages the strategy and implementation of the foundation's work in India in two key areas of Education and Family Economic Stability. Ms. Goel's vast experience and expertise in the financial service industry will further enrich the Board. Her insights in philanthropy and impact investing will guide the Company towards better social commitment to all stakeholders.

Anuj Srivastava is the co-founder and Chief Executive Officer of Livspace - a home interiors and renovation platform. Livspace has created an industry first design-to-manufacturing cloud platform that integrates the 3 marketplace participants - consumers, designers, and vendors to deliver homes, offices, co-working spaces and stores.

Mr. Anuj Srivastava's rich experience in the consumer-internet space will benefit HomeFirst in its journey to becoming a large mortgage fintech player.

Considering the new phase of growth and expansion, the company proposes to expand the management team through the appointment of a Chief Technology Officer (CTO) & Chief Risk Officer (CRO). Mr. Dharmvir Singh and Mr. Ashishkumar Darji will be joining the management team as CTO and CRO respectively.

With this I open the floor for Q&A.

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

Karthik Chellappa: Thank you for the opportunity. Good evening Manoj, Nutan and Manish. Congrats on a great quarter and all the best for the quarters ahead. I have three questions. The first one is on the loan yield so if you were to look at our loan yield trajectory, by and large it is kind of held up pretty well despite the mix changing in favor of people who are not new to credit as well as the salary mix remaining stable, which has also caused the funding cost advantage to reflect in our spreads. What is the outlook on this loan yield going forward and the context in which I ask this question is almost all the banks and the other HFCs are increasingly starting to focus on the salary segment which is 74% of our book. We are also starting to see banks release teaser kind of rates like 6.5%-7%, which could serve as some kind of anchor in terms of what the pricing is and thirdly our own spread at 5.6% is comfortably higher than our medium term guidance which is 4.75% to 5%. Putting all this together what is your outlook on the loan yield going forward?

Manoj Viswanathan: At the moment, the yields are in the region of 13% and because the cost of borrowing has reached a low point, you are seeing the kind of spreads you are seeing now which is around 5.5%, but we have always mentioned that in a steady state situation as cost of borrowing moves up a little bit, the spreads will also moderate to around 4.75% or 5% thereabouts, so that is really the kind of spread that we hope to achieve on a steady state basis.

As far as yields holding out, this is a segment that is not directly addressed by the banks. The banks are targeting salaried customers in the prime segment and higher ticket space and that is really customer segment to whom they are offering the low rates that we are talking about which is around 6.5% etc. When it comes to our segment these are customers who are first time borrowers, customers with lower incomes and in many cases fragmented incomes wherein one income may be formal and other income may be informal, etc. In this segment, the rates are generally in the region of where we are operating somewhere in the 11% to 14% range which is why we were able to sustain the rates at these levels.

Karthik Chellappa: Got it, very clear. The second question then is if you look at securitization volumes this quarter it was actually higher than the first quarter but the income booked on securitization was actually down qoq is this is a sign of the securitization yields coming down or how else do we explain that?

Nutan Gaba Patwari: Karthik as you know we are diversifying the securitization or the assignment book that we have now, as we start diversifying and as we on-board new banks, banks are becoming more and more comfortable and that is why the diversification is happening at large but sometimes it encompasses slightly higher price and this is what is reflecting as you rightly picked up, the volumes are slightly higher but the income is slightly lower so this happened at a slightly lower spread. Also, the specific book that we picked up for securitization was at a marginally lower yield to begin with, which led to the compressed spread on the DA book and the resultant NPV on that.

Karthik Chellappa: My last question is on the two management appointments, you know that now we have a like a dedicated Chief Technology Officer and Chief Risk Officer from a signaling point of view how should we interpret that? Is this a sign that you are seeing improved growth visibility and you actually want to accelerate growth because of which you feel that you need professionals who are dedicated to looking at risk and technology per se or what is the kind of signaling that we can take away from these two appointments?

Manoj Viswanathan: Karthik, historically we have been kind of bootstrapped company started from scratch we have tried to maintain a very lean organization so in the initial years there were bunch of us in the management team who used to work on multiple areas including technology, risk, etc., but now as the company is growing and we have larger ambitions, we feel that it is important to have people handling those functions in a dedicated manner which is the reason why we have gone ahead with this decision. This will bring more focus and our ambition is to be a tech-led player in the affordable housing space so we thought it is appropriate to have a CTO who will be able to help us realize those ambitions and same on the risk side, as we expand, we wanted somebody who is formally trained in that function who will be able to guide us as we go to the next phase.

Karthik Chellappa: All the best for the remaining quarters. I will come back in the queue for more questions if any. This is very useful. Thank you.

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

Kunal Shah: Congratulations for good set of numbers. Sir now with respect to growth in sector, our disbursements we had seen a strong traction. We have also seen that there are more than 100 odd employees being added in this quarter so what is the kind of growth outlook looking at the environment and everything stabilizing?

Manoj Viswanathan: Kunal, the demand is looking very strong on the ground coming across all the geographies where we are present and we are also going ahead and expanding so our ambition is to cover all parts of the states in which we are present. So, we are adding more towns and this quarter also we added about 24 new towns to our distribution. We are fairly positive and optimistic as far as disbursals in coming quarters are concerned. We had about 14% to 15% kind of an increase in disbursals compared to our previous highest quarter which was the Q4FY21. Hence, we are looking at something like that on a quarter-on-quarter basis going forward.

Kunal Shah: Secondly in terms of bounce rates so they have been 15% odd and I think pre-COVID it used to be somewhere around 10% odd, so looking at the bounce rates and finally looking at in terms of DPD 30+ and 1+ should we see it stabilizing maybe in a couple of more quarters or maybe considering the trajectory which has been quite encouraging in Q2FY22 it can be normalized sooner maybe as soon as the Q3FY22 itself?

Manoj Viswanathan: Bounce rates will take some time to normalize Kunal because you know if you see the 1+ DPD is at about 7.6% and 30+ DPD is about 5.2%, so these customers are likely to bounce the payments straightaway and if you see our pre-COVID 30+ DPD that used to be around 2% to 3% kind of a range so there is a clear 2% to 3% which is because of COVID itself which our customers who have missed their payments in April, May, so they continue to bounce and pay etc. So that 2%-3% should get normalized maybe next two quarters and after that another 2%-3% will be a function of how we are able to educate the customer and change their behavior, because once customer get used to bouncing and pay cash it takes a bit of time to kind of educate & re-educate them and change their behavior. So, I would say normalization of bounce rate to 10% I would put it at more like three quarters away.

Kunal Shah: Last question in terms of credit cost how much would be the offsetting impact because of the recovery if we have to look at it or maybe should we expect this to be the normalized trend because I think Rs 3 Crores and 30 odd basis points, guess it is normalizing much sooner so should we say it as a trend or there is some one-off effect of the recoveries as well?

Manoj Viswanathan: No. This quarter there was no one off effect of recoveries, it is kind of normalizing.

Kunal Shah: Okay, sure thanks and all the best.

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

Abhijit Tibrewal: Thanks for allowing me question; just two clarifications that I wanted and before I ask them congratulations on a very healthy set of results. On your restructured book I am seeing that we have about 314 customers having around 943 accounts which have availed resolution with OTR 2.0 which suggests that three accounts per customer, so just wanted to understand what are the three accounts which are there for customer because I mean which three actually on an average which could either be is your customer's having two accounts or maybe even four accounts. Is there an angle of customer of having an account also which is separate for the insurance that you have to finance for the customers? That is my query.

Manoj Viswanathan: There are three accounts for customer. Additional accounts for customer is on account of insurance loans, because we have since the beginning has a practice of booking a separate loan for insurance, because that is I think required from income tax perspective and another account is for customers who have availed restructuring / moratorium in the last year between April and June. So last time when we did the moratorium, we booked the moratorium as a separate account for the customer because at that time customers expressed a desire to actually close out the moratorium and not add it to their main loan.

So those are three accounts that we are talking about so one is an insurance loan, one is the original moratorium that was booked last year and as a result of it each customer has basically three loan accounts.

Abhijit Tibrewal: Sir basically these are not really customers who have given up top-up amount, these are basically customers who had taken up moratorium last year and what you suggested insurance, moratorium account, and the primary loan account that they have?

Manoj Viswanathan: That is right.

Abhijit Tibrewal: Thanks it was useful. Sir next question that I had for Nutan is our marginal cost of borrowings during the quarter was 7.9% and despite that our weighted average cost of borrowings during the quarter declined maybe about 5 to 10 basis points about 7.1%?

Manoj Viswanathan: That is right.

Abhijit Tibrewal: I mean were this at the fag end of the quarter or what is that kind of led to this increase in the cost of borrowings and what is that finally led to a decline in your weighted average cost of borrowings?

Nutan Gaba Patwari: Essentially, you are right, these are fag end at the end of the quarter. Also, these are some of the older approvals that we had got which we kind of had to take and close those and also the overall diversification in the assignment book. However, as you can see the 7.1% on the blended cost indicates a strong liability book. This also happens to be a quarter when there are no NHB loans so that is also kind of reflected in the 7.9%.

Abhijit Tibrewal: Some resets have happened which is reducing cost from 7.2% to 7.1%?

Nutan Gaba Patwari: Yes there are some resets also which is helping to achieve the 7.1%.

Abhijit Tibrewal: Okay and the last two questions for Manoj , one is on the restructuring - I think 80 basis points of restructuring when I compare it with all the other affordable houses financiers, this is by far the best or the lowest I would say restructured pool that you have had so what is it that is helping you or your customers kind of pay on time and to that extent allowing you to settle with a lower restructured pool. Second question which I have is this quarter, one of the other small to mid ticket size affordable housings financiers mentioned kind of reported results they also reported very very strong disbursements during the second quarter and like you far better than the maybe the fourth quarter. This was again strong quarter, so do you think that this was one off quarter and maybe going forward this kind of momentum that we are seeing in disbursements will moderate or at least you still you have seen through October what are the trends suggesting, do you think this momentums sustaining over the let us say 6 months of this fiscal year?

Manoj Viswanathan: Let me take the restructuring first - the restructuring as we did two small tranches across two quarters for about 300 customers and we carefully curated to make sure that these customers would be able to be cured because of restructuring and the reason we have done very less because on an overall basis as you can see our 1+ DPD is also moderating and 30 DPD is also coming down and we have clear visibility of the 30 DPD customers. You know most of them have expressed an interest in catching up on their payments and becoming normal in the next couple of quarters. So, which is why the restructuring number is also low. Also, we have already had a very strong focus on collections in earlier buckets which is way you see our one plus as well as 30 plus at fairly low levels. So that is the restructuring part.

As far as disbursement is concerned, the momentum continues, you know we have had good originations in October as well and is likely to continue. Affordable housing demand has always been there and post pandemic it has come back again to pre-COVID levels so we expect the disbursement momentum to continue even in the coming two quarters.

Abhijit Tibrewal: Thank you so much. I will come back in the question queue.

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

Susmit Patodia: Good evening. Can you tell me how much balance transfer in this quarter?

Manoj Viswanathan: It is 4.5% annualized.

Susmit Patodia: How has the trend been over the last couple of quarters?

Manoj Viswanathan: Nothing significant to report. It is business as usual as far as balance transfer is concerned.

Susmit Patodia: You know you also in your presentation had a slide on the queries on the app that are raised, so are seeing a lot of people asking Kotak is giving it in 6.5% and why am I at 13%?

Manoj Viswanathan: There are a set of customers which we normally also have who have these queries because whenever they see headline rates in the market, they come back and ask us why are we 13% and so on but these are obviously clearly affordable housing finance customers and if they were to really approach a larger bank for a loan at this point, they may find it difficult to get the same loan amount or they even may find it difficult to get the loan itself. We basically educate them on this aspect and most of the customers are satisfied with our answers, but again generally a very small fraction of people who come back with this kind of queries every month so as a process we have a service team which educates and counsels these customers.

Susmit Patodia: Got it. My next question on your incremental cost of borrowing, are you missing the CP market, what is the strategy towards that because that is clearly a big gap between bank rates and the CP rates?

Nutan Gaba Patwari: CP typically is a one year or a smaller line so it does not work from our asset liability perspective. It is not something we are looking at and the overall liquidity is very comfortable going ahead as well, banks are very comfortable with the kind of ALM structure we have and the asset quality. We are not seeing any stress there, so we are not looking to access the CP market specifically.

Susmit Patodia: Got it and my last question - Manoj mentioned to another question that it may take another three quarters for normalcy to happen. Just wanted to understand in the whole of stage 3 how much is the old sticky NPA?

Manoj Viswanathan: Now it is more business as usual numbers which are there in stage 3. The old book we had written off in quarter one itself.

Susmit Patodia: So this stage 3 is not any of those big one or two loans that you had?

Manoj Viswanathan: There is no lumpiness. It is just normal resolution that is going on.

Susmit Patodia: Thank you so much.

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

Shreepal Doshi: Congratulations on good set of numbers. My question is what will be the NHB limit that we have for the year and how do you see that, because now that is 24%-25% of our liability mix and what is the cost of borrowing from that for us?

Nutan Gaba Patwari: Shreepal, the overall NHB borrowing is around Rs 972 Crores. There are various schemes but only categorizing into two parts - fixed rate and floating rate. The fixed rate scheme which is the affordable housing scheme comes with a 6% spread and has a fixed borrowing rate and a fixed on-lending rate also. On the floating rate, it is linked to their internal benchmark typically it ranges anywhere between 6% and 7.5% depending on when that particular line was taken and what is the margin added on that.

Manoj Viswanathan: In terms of limits and line, they have multiple of networth and various other criterion, so we still have a lot of headroom for NHB refinancing. As Nutan mentioned it is about Rs 972 Crores is the total borrowing from NHB and our networth is about Rs 1400 Crores so I think even as per NHB rules we have fairly good amount of headroom for the borrowings.

Shreepal Doshi: Sir if you look at on the opex side, for the year we are looking at 3% opex, whereas if you look at the first half the annualized number is coming out to be 2.4% to 2.5% so the second half we expect opex to be materially higher than the first half?

Manoj Viswanathan: First quarter was a bit subdued because of COVID, less activity and less expenses as a result of that so now we are really going full scale as far as expansion, hiring, etc. is concerned so second half is like bit higher probably 3% plus and which is why overall it will kind of moderate to about 3%.

Shreepal Doshi: Last question was what is the share of informal salary in our overall loan book?

Manoj Viswanathan: Pure informal salary is around 25% but the formal salary also, generally there is at least another earning member in the family who has some informal income so the way we cut it people with at least one formal income is around 40% to 50%, people with only informal income is about 25% and people who are self-employed is around 25% that is the broad cut of the three segments.

Shreepal Doshi: Thank you so much Sir and good luck the rest of the year.

Moderator: Thank you. The next question is from the line of Amar Mourya from Alfaccurate Advisors. Please go ahead.

Amar Mourya: Just wanted to understand on the cost of borrowing front, so currently our cost of borrowing is at 7.1% and has been consistently declining since last year. So how do you see this current cost of borrowing for the next three quarter, do you think there is still headroom for us to keep on reducing our borrowing cost?

Manoj Viswanathan: I think as far as market rates are concerned it looks like we are at a low point at this time but of course if there is some NHB line then there is a temporary reduction in borrowing cost but otherwise I think our opinion is that we are at a low point as far as borrowing cost is concerned.

Amar Mourya: If I can see normally other housing finance companies have seen pressure on their yield side also and thereby seeing a yield reduction of around 100 to 200 basis points but our portfolio consistently remained around same numbers so who are all typical competitors for the customers that we are lending in the main geographies, so if you can name a few players who are our main competitors?

Manoj Viswanathan: Competition, it is fairly regional in nature. There are affordable housing finance companies which operate in specific geographies who generally are our competition. At the national level, to name of couple of names it would be Aadhar, Aavas, these kinds of companies would be our competitors and in different geographies there are of course different competitors as well. I think the yield pressure or interest rate pressure that you are talking about with some companies because they also operate in probably prime or near-prime kind of segment which is formal salaried segment and which is very rate sensitive. We operate in a slightly different segment, it is more combination of formal and informal plus it is a combination of larger towns and smaller towns or satellite towns around the larger towns so it is a different segment compared to the larger players which is why we do not see that kind of rate pressure in our segment.

Amar Mourya: Okay, just lastly wanted to understand what is your outlook on AUM growth and what kind of growth rate are we targeting from here on, would you like to maintain this kind of 24% to 25% kind of growth rate or given our capital adequacy we can even accelerate this further?

Manoj Viswanathan: Our ambition is get to 30% year-on-year growth rate and we want to maintain that with good portfolio quality and build a good trustworthy brand so that is really what we are aiming for and we are on track to reach those kinds of numbers.

Amar Mourya: Thank you Manoj. Thank you for your team and all the best.

Moderator: Thank you. The next question is from the line of Amit Bhatia an individual investor. Please go ahead.

Amit Bhatia: Congratulations on a great set of numbers. Two questions here. First one being you mentioned incremental yield for Q2 stands at 13.2% so this is the acquisition yield including processing free and insurance income?

Manoj Viswanathan: No. It is just the interest rate on the loan.

Amit Bhatia: So the PF, etc., is separate?

Manoj Viswanathan: That is right.

Amit Bhatia: Okay, the second question is that from a distribution standpoint are you focusing any specific space going forward because you were mentioning there is region specific competition that is emerging. So which are the focused markets that you are looking at?

Manoj Viswanathan: We have been strong in Gujarat historically. We want to strengthen that further. Maharashtra is the second largest contributor after Gujarat for us and we want to further expand and cover the entire state and then the four southern states which is Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka. These are states where we have a decent presence but we want to further consolidate and make sure that we are present in all the large towns of the states. These are six states which are focused states you can say but apart from that we are also present in Madhya Pradesh, Chhattisgarh, Rajasthan, and Uttar Pradesh and in these states our distribution strategy is little more selective. It is in and around large towns where affordable housing is concentrated and we are following a different distribution strategy for these four states. To sum it up deep penetration in six states which I mentioned earlier and more selective distribution in the four other states which is the northern ones.

Amit Bhatia: Got it one last question any chance of growing the developer book because that is something which we will perhaps have the incremental yields?

Manoj Viswanathan: We are not looking at growing that book. Given the huge potential that exists in retail affordable housing finance we are not really looking at growing the developer book.

Amit Bhatia: Thank you.

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

Karthik Chellappa: Thank you for the opportunity again. Just have two questions. One house keeping one the first one is for the provision expenses this quarter, is there any like adjustment either in the form of income from accounts written off etc., or is it just pure provision expenses of Rs 33 million which we have booked?

Nutan Gaba Patwari: You are talking about the credit cost line?

Karthik Chellappa: Yes.

Nutan Gaba Patwari: There is a small amount of write off that is Rs 40 lakhs odd which is in the normal course of business when we did the whole SARFAESI action in Q2 there were some situations where we had to take the marginal write off.

Karthik Chellappa: The second question is if I were to look at the statistics, which you disclosed which is average payment per user on the app that was about Rs 29104 this quarter and the same amount in the last quarter was Rs 30630 so in a quarter where the collection efficiency actually improved and the penetration actually improved the per user payment is actually down 5% how should we read this?

Manoj Viswanathan: Payment on app is intuitively more from regular repayment customers as well as some prepayments. It is a combination of both. So, there are likely to be fluctuations and it would not be a direct reflection of collection or collection efficiency or the collection results because the customers using app would be the ones who are proactive, will pay on time who have just probably missed the payment and who were paying immediately after that etc., these would not be customers where we are following up for payment typically.

Karthik Chellappa: So this 29000 or 30000 which is the range it has been in the first and second quarter what would this be as a percentage of the average payment per user on the whole would it be like materially, materially higher?

Manoj Viswanathan: Coincidentally, it is very similar to our monthly repayment of customer but that is a pure coincidence. I would say there is nothing to do with the average installment of the customer because like I said this is a combination of installment payments and prepayments. So its just pure coincidence and it happens to be around Rs10000 a month.

Karthik Chellappa: Okay so it is more or less similar so whether it is on digital platform or whether a normal payment the average payment size is almost similar basically?

Manoj Viswanathan: Yes, but I like said 29000 is the combination of prepayments also which customers make. See the average installment of the customer is around Rs.10000. If you look at this Rs.29000 it looks like the customer made three installments in a quarter but that is not really the case. This is a combination of prepayments and normal EMI payments so it is just a coincidence that that number is averaging at Rs 10000 a month.

Karthik Chellappa: Okay, got it, this is clear, that is all from my side. Thank you Manoj.

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

Jigar Jani: Thanks for taking my question and congratulations on great set of numbers. So I just wanted to clarify something that you said on disbursements earlier. You were saying we are intending to grow up 14% to 15% on a quarter-on-quarter basis, is that right?

Manoj Viswanathan: That is the kind of disbursement growth we saw this quarter and broadly that is the kind of growth that we can anticipate going forward.

Jigar Jani: We are seeing incremental yields and incremental cost of borrowing both going up on a marginal basis but if you look on a blended basis they have been going down since the last two quarter so how do you read this. When do you see the marginal yields and marginal cost of borrowing start reflecting on an overall basis because obviously there will be some resets that you would be doing?

Manoj Viswanathan: The increasing cost of borrowing you are seeing are prevailing from lines that were sanctioned earlier at a little higher rate and it was done towards the end of the quarter which is why you are seeing that number higher, but in spite of that you would see that our overall cost of borrowing has gone down that is because large number of lines that were already sanctioned and disbursed, some of them have got reset to a lower rate which is why the 7.2% has gone down to 7.1%.

As far as the yields on new originations are concerned we have got a slightly higher origination yield in this quarter and we are likely to see that number moving in the 12.9% to 13.2% kind of a range, depending upon the mix of products, mix of geographies, etc., so that is our outlook as of this point.

Jigar Jani: The second half should we expect a marginal rise increase in your cost of borrowing or it should stabilize at this level?

Manoj Viswanathan: The market rates are likely to be stable at the same levels but then a certain tranche of NHB finding there could be some reduction.

Jigar Jani: Thanks a lot.

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

Pooja Ahuja: Thank you for the opportunity and congratulations on the good set of numbers. My first question was relating to your opex while this term we are expecting about 3% of opex to AUM and the kind of branch expansion and management team expansion we have been doing what is the kind of trajectory do we expect let us say from two to three years point of view in your opex to AUM?

Manoj Viswanathan: Cost to income we want to get to about 30%. So 30% cost to income rate translates to about 2.5% opex ratio in steady state.

Pooja Ahuja: Also just wanted to understand your bounce rate pre-COVID was around 10%, with the level of seasoning that you could expect in the book do we see the bounce rate going back to those levels or do we see some sort of increment in that on a normalized basis?

Manoj Viswanathan: We should see it normalizing to 10%. It is trending down month on month we can see it and out of the 15% that is bouncing, we clearly have 5% which is already sitting in 30+ DPD so as the 30 days past due also moderates comes down, the bounce rate would keep coming down. We have visibility of 12% to 13% as of now getting it from 12% -13% range to about 10% will take a lot of effort and actually educating, re-educating our customers.

Pooja Ahuja: Okay, alright that is it from mine. Thank you.

Moderator: Thank you. The next question is from the line of Franklin Moraes from Equentis Wealth Advisory. Please go ahead.

Franklin Moraes: Congratulations on a good set of numbers. What I wanted to understand is what are the various tie-ups that you all have with any of the Fintechs or any of the apps that are there?

Manoj Viswanathan: Tie ups are in the nature of new originations. Some of the Fintechs, they do a lot of marketing on the internet space plus some of them have a very large number of customers because they are operating payment apps and so on and many of these customers at some point they keep looking for housing loan and this is a way for the Fintechs to kind of monetize those leads and for us to get a good reliable channel of leads for all the loans so that is really the thought process behind it. We have good relationship with Paisa Bazaar which has become a steady channel and we have been working closely with them. We had also tied up with India Post Payments Bank on a pilot. We did a pilot across about 5 districts where the postmen in those districts were trained on housing loans and they were acting as agents or connectors for us. So that pilot has been considered as success and they are kind of moving to phase two of the launch. So basically more number of postmen will be recruited to look for housing loans. Similarly, as I mentioned we have a now a formal agreement with PayTM so PayTM will be basically channeling their existing customer's who are looking for housing loans to us. They will apply certain filters etc., they will send the customers to us and we curate and complete the loan process. This is how it normally works with these digital partnerships.

Franklin Moraes: In terms of disbursements what would be the percentage of your disbursements that would be coming from all these various channels?

Manoj Viswanathan: The digital channels sourcing, combining in-house and these digital partnerships comes to around between 2.5% to 3% and it is more a function of understanding and learning how to make that channel more efficient and then the numbers are likely to go up sharply.

Franklin Moraes: What is the kind of in terms of the operating profit level, is there any material difference by these channels and the regular ones?

Manoj Viswanathan: Currently, the channels are more expensive because the cost of curating these leads is a little bit higher because the conversion rate is about 1%, so if 100 leads comes to us from any of these channels, the ultimate conversion is only about 1% or lesser than that, so the cost of curating the lead is higher currently. But we are looking at digital process for that and if that digital process is successful then the cost of curating is going to fall sharply.

Franklin Moraes: My next question is I wanted to understand - of the 800 odd employees what would be the mix in terms of the tech related employees?

Manoj Viswanathan: We have about 20 people in technology.

Franklin Moraes: That team continues to remain as it is right? I mean there is no plan of kind of scaling up that team?

Manoj Viswanathan: No. We are looking at scaling up that team quite sharply.

Franklin Moraes: Any numbers that this could go to?

Manoj Viswanathan: Maybe doubling it in about 18 months' time.

Franklin Moraes: Thanks a lot.

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

Abhijit Tibrewal: Thanks Sir for allowing me a followup. This question is for Nutan, so under this NHB scheme for affordable housing where the interest rate spreads are capped at 6%. I wanted to understand how much have we borrowed under this scheme and you had shared that rationale, why I ask this is and I come from I understand NHB is giving loans in the big scheme at 3% and with spread gap of 6%, it means that potentially you could be lending at 9% because of which your other customers where you lend at anywhere around 11% to 14% so what I was trying to understand is, it is there a separate sales team or any other scheme which kind of works on a particular customer segment or does it work like this at customers who come to us asking for BT out, we can lend to these customers and the scheme has detailed it?

Manoj Viswanathan: Abhijit, it's a combination of some of these things, and typically we do not have visibility on when these NHB schemes will come out, how much quantum will be granted under this scheme so we cannot really proactively originate loans under these schemes and as you rightly mentioned it will also disturb our existing origination because our teams are trained to originate on a certain manner and certain segment of customers at a certain rate, so we cannot suddenly get them to originate loans at a lower rate so typically the way the schemes are implemented is that when the grant comes then we reprice existing customers based on some logic. Lets say, if you are the most formal amongst customers, and if you satisfy the criteria of NHB, we reprice to the lower rate and then we avail the scheme. Typically that is how we do this it is very difficult to proactively originate under these schemes.

Abhijit Tibrewal: Got it. Sir basically I mean we can actually kind of leverage this scheme from NHB to retain some of the customers who have a good credit track record and who if we do not kind of reprice their loan he will potentially end up moving to another lender?

Manoj Viswanathan: Yes, there is an opportunity..

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Thanks for the opportunity. Two questions, if you can delve upon what kind of salaried customers are we catering to, what percentage comes out of private sector, how much is from PSU sector, how much are government employees, what is the average on boarding age and what kind of income levels do we see in each of these categories which is government, PSU and private and also if you could delve upon the self-employed segment how many of them come out of manufacturing industry, how many of them are traders, what kind of different industries segments do they come out of? Thank you.

Manoj Viswanathan: Let me start with the overall bifurcation which is 50% is formal salary, 25% is informal salaried and 25% is self employed so the 25% informal salaried will be almost entirely private sector. Out of the 50% of the formal salaried typically the bifurcation is say 10:40, 10% of the overall book would be public sector employees and the balance 40% from private sector. Age on an average is around 35 to 40 years, 36- 37 being the average age of of the customers and as far as self-employed bifurcation is concerned, it is quite widely diversified, so if you look at top occupations of self-employed customer's one of them would be for example a Kirana Store. Kirana Store would be say about 1% of total population of customers, 1% to 2% so about 500 to 1000 customers will be Kirana Store owners and that is one of our largest segments. Then you would have autorickshaws drivers that would be probably around may be 1% or less than 1% you would have people who are like I said traders who are intermediaries who are into various works would be 0.5% so it is very fragmented so the 25% self employed, I do not think any segment would be more than 1% in that 25%.

Shubhranshu Mishra: Average income level?

Manoj Viswanathan: Average income level across all these categories is in the region of Rs.20000 to Rs.50000 rupees family income per month.

Shubhranshu Mishra: Family income, but then the person who is the borrower what is the income?

Manoj Viswanathan: One single income will be typically about Rs.20000.

Shubhranshu Mishra: Rs.20000?

Manoj Viswanathan: One single income will be around 20000 and there will be additional income of maybe another two people or one person which will add up to about say another Rs.10000 to Rs.20000.

Shubhranshu Mishra: Just one more question if I could squeeze in when we are talking about private sector, government my fair assumption is that we are not catering to the Cat A kind of companies, these are lower than Cat A?

Manoj Viswanathan: There would be some Cat A. I mean there will be employees working in lower positions in Cat A companies as well but yes largely Cat B and smaller firms

Shubhranshu Mishra: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for the day I would now like to hand the conference over to Mr. Manoj Viswanathan for closing comments.

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

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

The reader is also requested to refer to audio recording of the call uploaded on company website.