HFFCIL/BSE/NSE/EQ/50/2024-25 **Date: 02-08-2024**

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

Sub: Transcript of the earnings conference call for the quarter ended June 30, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the earnings call with analysts and investors for the quarter ended June 30, 2024 conducted on Friday, July 26, 2024. The Company had referred to publicly available documents for discussions during the call.

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

This is for your information and records.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

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Date: 2024.08.02 23:39:50 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

“Home First Finance Company India Limited
Q1 FY25 Earnings Conference Call”

July 26, 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 26th July 2024. Click here to listen to the original audio.

Disclaimer: This transcript is edited for factual errors and does not purport to be a verbatim record of the proceedings. The reader is also requested to refer to audio recording of the call uploaded on the company website here on 26th July 2024. In case of discrepancy, the audio recordings will prevail. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Home First Finance Company India Limited.

Moderator: Ladies and Gentlemen, Good Day and Welcome to Home First Finance Company India Limited Q1 FY25 Earnings Conference Call.

As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the 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, sir.

Manish Kayal: Good afternoon, and a warm welcome to all the participants to HomeFirst Earnings call to discuss the results for Q1 of FY25.

We hope that you had an opportunity to go through our investor deck and press release uploaded on stock exchanges and website yesterday. We have also uploaded on our website an Excel factsheet that has the historical numbers.

On today's call, HomeFirst is represented by our MD & CEO, Mr. Manoj Viswanathan and CFO Ms. Nutan Gaba Patwari. We will start this call with an opening remark by Manoj and then by Nutan, and will then have a Q&A session.

With this, I will now request our MD & CEO – Mr. Manoj Viswanathan, to start today's call by sharing his thoughts on the overall performance.

Over to you Manoj.

Manoj Viswanathan: Thank you, Manish. Good morning and greetings to everyone.

Before I get into the Q1FY25 performance, I would like to highlight that HomeFirst has crossed the critical milestone of Rs. 10,000 Crs AUM during this quarter. I want to thank and express my sincere gratitude to all the stakeholders for their support in this journey.

We have been sequentially increasing our disbursement every quarter. Disbursement in Q1FY25 stands at a new high of Rs. 1,163 Cr with a growth of 29.9% on a yoy basis and 5.5% on a qoq basis. Growth has been broad based and coming in from all our markets. Notably, Maharashtra and Karnataka have shown better performance this year reflecting in their share of the total AUM. Our expansion in the new markets of UP, MP and Rajasthan have also been successful.

AUM grew by 34.8% yoy basis to Rs. 10,478 Cr and 8% on a q-o-q basis.

Spreads ex CL was at 5.2%. We will take the PLR up by 35 bps from 1st August. Since we are losing one month in Q2 quarter, we will get a lesser benefit on portfolio yield. In addition, we also have some portfolio under NHB schemes and some pools with good track record customers where we have to adjust the pricing for customers from a risk adjusted pricing perspective. As a result, we will get an impact of 10-15 bps.

PAT at Rs. 88 Cr grew by 27.0% on y-o-y basis leading to ROA of 3.6%. We are pleased to deliver ROE of 16.3% in the first quarter of FY25.

Branch count remains at 133. We have added 22 touchpoints taking the total to 343. We have about 7 branches in pipeline which are likely to be opened in the ongoing quarter.

Our asset quality continues to be strong with a focus on early delinquencies

- 1+ DPD stands at 4.5%
- 30+ DPD is at 2.9%
- Gross Stage 3 (GNPA) is at 1.7% (flat on q-o-q basis). Prior to RBI classification circular of Nov'21, it stands at 1.3%.
- Our credit cost at 20bps (up by 10 bps on q-o-q basis).

BT out rate has moderated in this quarter and stands at 6.3% as compared to 8.3% last quarter.

Technology remains central to our strategy. Account aggregator adoption has become mainstream with an adoption rate of 41% amongst new approvals in Q1FY25 (36% in Q4FY24). Digital penetration is strong with 95% of our customers registered on our app. Digital fulfilment has reached 70%+ with the use of digital agreements and e-NACH mandates. 90% of service requests are raised on the mobile app.

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

Nutan over to you.

Nutan G Patwari: Good afternoon, everyone.

Our overall Q1 Net Interest Margin remains at 5.3%.

Opex to Assets at 2.7% for the quarter. We expect the ratio to hover around 2.8%-2.9% going forward. Cost to Income is at 35.6% in Q1FY25.

Our Balance sheet is strong & ready to take on the growth ambitions of the company.

Starting with borrowings, the Company continues to have diversified & cost-effective long-term financing sources. This remained diversified across banks as well as NHB.

Our Borrowings mix is

- 59% of our borrowings are from Banks (Private sector 30% and public sector 29%)
- NHB refinance share is at 19%.
- 14% from Direct Assignment and 3% from Co-lending.
- 3% is from IFC NCD
- We continue to have zero borrowings through Commercial paper.

Our cost of borrowing is competitive at 8.3%.

Coming to capital**;**

- Our total CRAR is at 36.2% and Tier 1 CRAR is at 35.8%.
- Our Debt to Equity now is 3.6 times.
- Our Jun'24 Networth stands at Rs 2,188 Crs post dividend payout in Jun'24
- Our Book Value per share (BVPS) stands at Rs. 246

Moving to provisions, we have remained conservative and continue to carry provision overlay, over and above the ECL requirements. Total Provision coverage ratio stands at 48%. Prior to NPA re-classification as per RBI circular, PCR stands at 66%.

On specific transactions during the quarter; We did a direct assignment of Rs 152 Crs during the quarter as a liquidity strategy. Our Co-lending volume in this quarter was Rs 42 Crs. Co-lending business is growing and we expect this to contribute around 10% of disbursements in the near future. With this, we conclude our opening remarks and we will be happy to take your questions.

Moderator: 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, Sir.

Rajiv Mehta: I have a few questions. Your disbursement volume was pretty strong in this quarter. It seems that you had negligible impact from the RBI circular of April. Can you comment why was it? And on this sequential reduction in BT out rate, it's really commendable, but now that you are increasing PLR for the back book from August 1, how do we ensure that we are able to control BT out in the coming quarter?

Manoj Viswanathan: On the disbursements, as we had mentioned last time, we actually do a majority of disbursements electronically through NEFT / RTGS. Also, we have a small set of payments which we do for resale transactions through demand draft, so which did not get impacted by this guideline. These are the two main reasons why we didn't have any disturbance in the disbursements. As far as BT out is concerned, the increase in PLR that we're contemplating is fairly small compared to what the customers have gone through over the last two years, and 90% of it will get transmitted through a tenure increase, not an EMI increase. So, it should not disturb the customers too much. Therefore, we don't anticipate any immediate impact from the increase in PLR which we are doing now.

Rajiv Mehta: Manoj, can you also comment on the origination yield ex of co-lending that is stable at 13.4%? I believe that in this quarter we had a higher origination share of LAP and despite of it the origination yield is stable at 13.4% and now that you're taking a PLR hike, just wanted to understand that is there a scope for taking up the origination yield in the coming quarters?

Manoj Viswanathan: The origination yield will largely be range-bound around 13.4%-13.5% and LAP ratio is also fairly range-bound. LAP share as a percentage of disbursal is generally in the 15% to 20% range. There may be minor changes within that range, but largely it's in that range. As a result of which, the origination yield also will be range-bound.

Rajiv Mehta: And one last question is on the cost of borrowing. It was stable. So, Nutan, I mean when you just look at the numbers and it seems that we did not have any significant upward repricing on existing borrowings. So, are we negotiating on the transmissions which are coming from the banks, are we trying to stop it or curtail it, which is why the stock of borrowings is not getting repriced in a significant manner?

Nutan G Patwari: That's right, Rajeev. We are doing that and also our overall marginal cost of borrowing has slightly improved. That is helping us.

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

Abhijit Tibrewal: Congratulations Manoj & Nutan. I think I mean the way in which we kind of keep improving our disbursements, delivery, healthy AUM growth without any significant impact on the margins, and our BT outs in particular, is really commendable and which is there I mean my question revolves, when we look at peers, the broader affordable housing sector, everyone talks about very high competitive intensity which is not allowing them to really pass on PLR hikes. There are players who have taken PLR hikes, but it's not really reflecting in their yields because it's not been absorbed. You partly answered this question in the first question that was posed to you. Just trying to understand what is it that will help us kind of take this PLR hike, maintaining yields at similar levels or like Manoj said can improve by 10- 15 basis points from here and yet keep our BT Out at these good levels?

Manoj Viswanathan: We are seeing; you can say; kind of worst-case scenario on the BT outs because over the last two years the increase in rate was almost 1.25%. What we are contemplating now is nowhere near that. It is a very small increase in PLR. This is why we are not overly worried on the BT out. Over the last two years BT Out has moved from about 5%-5.5% to about 8%. That was the range of movement in spite of such aggressive repricing of the customers and you can see that it has kind of moderated over the last quarter, which is why, 35 basis points increase that too largely passed on through a tenure increase should not hurt us that much.

Abhijit Tibrewal: The last question that I had was again on the liabilities. Nutan, just wanted to understand, maybe couple of quarters back we were saying that maybe one more quarter from now you are expecting the cost of borrowings to start stabilizing. Now that the spreads are very close to 5%. How we're looking at our cost of borrowing stabilizing and what could that translate into spreads and margins?

Nutan G Patwari: The cost of borrowing has stabilized now, may increase by another 10 basis points. As you can see, the deposit rates of the banks are still increasing, and the MCLR of banks are also creeping up. We are continuously working on managing our cost of borrowing so that we don't get the full increase.

Also, the current spread excluding co-lending is 5.2%, and that is the number that we are focusing on. Because we have this view on the cost of borrowing, we have been proactive and increased the PLR by 35 bps with effect from 1 August. From this PLR hike, we expect an annual impact of around 10-15 basis points. With this, the spread should be able to hold in this broad 5.2% region for another quarter or two.

Abhijit Tibrewal: Now that we have crossed that critical milestone of Rs. 10,000 crores in the AUM, have we started engaging with credit rating agencies that somewhere down the road if we can favorably look at a credit rating upgrade?

Nutan G Patwari: Yes, we have. The discussion is ongoing. We had always said that the credit rating upgrade will take maybe around 9-12 months once we cross this threshold. It's just the 1st Quarter since we crossed Rs. 10,000 Crs AUM. Hopefully, in another 12 months, we should get that going as well and then probably that should also help us by another 10 basis points in our cost of borrowing with interest rate cycles remaining where they are. It's all moving in the right direction. It's not a question of if, it's a question of when I would say. Earlier the better.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Congratulations on good set of numbers. On this 10,000 crores AUM milestone, obviously it's a great thing from your end, but generally when we look at it in terms of commentary from most of the players, once we cross this milestone, they talk about moderating growth trajectory. At any point in time, or maybe anything which is happening with you believe that maybe this 35% or maybe 38%-plus kind of AUM growth might not be sustainable or maybe what we have delivered over the last three-five years, you see same trajectory over the next three years as well?

Manoj Viswanathan: Disbursal has been very strong in Q1FY25 and if you just look at it from a run rate perspective, this should translate to at least Rs. 4,800 crores of disbursal for the year, which basically then translates into a 30%+ growth. We are not seeing any slowdown at this point. Demand seems to be quite strong on the ground. There seems to be enough opportunity for us to grow. At least there are two areas where we have headroom to grow. We have a lot of markets still to penetrate, especially in the central and northern part of the country, we can go much deeper, even in the other parts where we are already been present. Our penetration in LAP or our contribution from LAP is fairly low. That's another area where we have headroom. We have multiple areas where we have headroom to grow. We are not very much concerned about our ability to grow at the pace that we are growing at.

Kunal Shah: And secondly, with respect to maybe now there would be some spread benefit which might play to, but overall, any thoughts in terms of building up some buffer given this kind of healthy growth over the last 3-4 years and increasing the coverage across various cities, because it's been coming up for the past few quarters. So, would we want to create any management overlay or something and just try to manage the ROA or maybe we are very comfortable with this kind of ECL provisioning.

Manoj Viswanathan: Kunal, we have been doing that. As you would have seen, there is a certain management overlay on top of what the ECL model throws up. But the fact of the matter is, the portfolio post-COVID since once the normalcy has returned, so there is improvement in how the portfolio is behaving and as a result of which the ECL is throwing up lower provision. Beyond a point, it will be difficult for us to overlay too much on top of that. But we are taking some overlay over and above what ECL model is throwing up. But the ECL model itself is throwing up lower numbers. It will be difficult for us to maintain that coverage which we had during Covid period. But yes, there is a regular process of reviewing it and taking overlay.

Nutan G Patwari: I just want to add to that. Kunal, we've also done back testing on when we closed loans to see that whether we have significant amount which is under-recovered. And as you would see from the credit cost line, the credit cost is also reducing and it's now settling at around 0.2%, though we've been guiding 0.3%-0.4%. Again, that gives further comfort to say that the portfolio quality is improving and in an eventual NPA situation also, the recoveries are not compromised. So, that is also getting captured in the ECL flow.

Kunal Shah: On the co-lending part, now that's it's closer to like 3%-odd, but maybe at what level we would want to scale that to given now maybe all the work with respect to integrating and everything would have been done? And finally, maybe what support can it provide to the overall ROE at the level of the portion that we are looking at?

Manoj Viswanathan: Our immediate milestone is to hit a 10% of disbursal, which is what we are aiming for, 10% of disbursal is our first milestone. Maybe over a longer period, maybe in 2-3 years that number can go up, but first milestone is hit 10% of disbursal.

Kunal Shah: Given the lower capital requirement, it will boost the ROE?

Manoj Viswanathan: Correct. That is something that we have mentioned that it is an ROE-accretive product. So, we have lesser capital allocation.

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

Nidhesh: First, a slightly longer-term question. Can you elaborate on the strategy from a 3-year perspective for the company in terms of how we prepare? We have reached around Rs 10,000 crores of book. How we prepare for the growth over the next three years? And how do you see return ratio panning out in that journey over the next three years?

Manoj Viswanathan: Yes, over three years, broadly, it's a distribution-led strategy. When we started speaking about this three years ago, we said we are going to double down on our older markets which is West and South and we are going to penetrate deeply in these markets, which we have done. And then we said, we will look at three large markets where we had a fairly little presence, which is UP, MP and Rajasthan and we will then start building our distribution there. Our three-year plan is to basically double down on distribution on all these nine markets and improve the penetration and try to cover as much of the state as possible. That is our primary focus for the next three years.

As far as the product is concerned, largely we are going to be focused on housing loans. We want to be known in the market as a housing loan provider. We are very focused on that. Plus, also the focus on housing loans that helps us to understand the dynamics in the market better in terms of the properties and nuances in various geographies, etc., That is our strategy from a product focus perspective.

And as far as the ability to retain margins, etc., is concerned, as I mentioned, we have some headroom over there because as we go deeper and deeper into smaller markets, we have a greater ability to retain the margins, plus we also have good amount of headroom on the LAP product where we are still at about 15% of disbursals. So there again, we have headroom to be able to protect our margins.

So, broadly, this is a simple strategy, distribution-led, granular connector led distribution as well as hub-and-spoke led branch model, keep the product focus on housing loans and maintain the margins for the next three years. That's what we are basically looking at.

Nidhesh: Do you expect operating leverage basically cost-to-asset improving over next three years and which may lead to ROA expansion in your three-year journey or that is not what you are building?

Manoj Viswanathan: Yes, there will be some gradual operating leverage which is flowing through. As you can see, while we have guided to around 3% opex to AUM, we are still kind of hovering below that. The operating leverage is flowing through gradually. And while our intention is that we want to use that in building distribution, etc., still you will see some of it flowing through in the next three years. Our aim is to kind of eventually get to maybe not in three years but in five years get to about 2.5% opex to assets and closer to 30% cost-to-income.

Nidhesh: When should we start seeing fee income from the corporate insurance license in our P&L?

Manoj Viswanathan: We should start seeing something coming in from the next quarter.

Nidhesh: Any quantification for the full year that you have in your mind at this point in time?

Manoj Viswanathan: It will not be appropriate to provide any figures on this because we are still in negotiations with the insurance companies. I think we'll have to wait for that.

Nidhesh: And the last book-keeping question is on the active number of connectors for the quarter?

Manoj Viswanathan: Active connectors is about 3,500.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Over the last one year, we have seen sort of pressure on yield despite the fact that cost of borrowing has been going up and this is true for all the players in the industry. Now over the next one year, we're probably looking at interest rate sort of that going out or maybe, maybe coming off. What gives us comfort that yields will not come down further or probably yield will not come down faster than the cost of borrowing, leading to further pressure on core spreads and especially in the backdrop of some of the larger players getting into the smaller ticket businesses?

Manoj Viswanathan: Generally speaking, if you see our last cycle also, in a decreasing interest rate environment when the borrowing costs are decreasing for us, generally we have actually been able to maintain our yields and the spreads have actually expanded for us. That is what has happened in the last cycle. You will see that across cycles we are able to maintain our yields at around 13.5% or thereabout. As the borrowing cost reduces, we are anticipating that the spreads will expand. And as I mentioned, we have some tailwinds on that. As we go into smaller markets, we have ability to retain margins, we have ability to take on higher LAP. Those are both kind of cushions that we have as far as the yield is concerned. We're confident of maintaining yields at these levels. If the borrowing cost reduces, hopefully it will mean that our spread expands.

Nischint Chawathe: And over the next four quarters, let's say, if I look at your ticket size breakup of book, given the fact that you're going into lower tickets, should it remain similar or would you kind of expect a trend where the larger tickets, Rs. 15 lakhs, Rs. 20 lakhs and Rs. 25 lakhs plus grow at a faster pace in the overall company growth?

Manoj Viswanathan: Overall, if you take a 5-10 year view, the ticket size is to migrate up. So, when we started out, we were focused on between Rs 5 lakhs to Rs 15 lakhs, but that number has moved up over time. Now if you see between Rs 15 lakhs to Rs 25 lakhs or Rs 15 lakhs to Rs 30 lakhs is where the growth is in the affordable segment itself. That's where we are likely to focus. Growth in all these segments Rs 15 lakhs plus, Rs 15 lakhs to Rs 20 lakhs, Rs 20 lakhs to Rs 25 lakhs, Rs 25 lakhs to Rs 30 lakhs are fairly similar for us and that is where we will be focusing.

Moderator: The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish: Just two questions. One on this BT out rate which has improved sharply this quarter. So, any particular initiative we have taken to arrest this?

Manoj Viswanathan: Renish, there are two things that have happened. One is that recency effect has faded out for the customer because the last rate increase happened on 1st April 2023. It's been 12 to 15 months since then. And secondly, in the previous quarter we had put in place a set of protocols for arresting the BT out. Some of it has started working. So, I think both the things have contributed to the slight decrease.

Renish: You mean you have put out a separate team for that?

Manoj Viswanathan: No, not a separate team. It's more like a set of rules or a set of protocols we have rolled out for the branches, and we have given them training on that as to what needs to be done when a customer comes for a BT out, step one, step two, step three, step four. That is beginning to help.

Renish: Lastly, again sorry to be circling back to spread and yield. So, now when we look at the origination yield, still at 13.4% wherein our cost of borrowing is higher at 8.6% which is almost 30 basis points higher than the blended cost which essentially means at the ground competitive intensity such that even in the origination yield side we are not able to charge a premium to that extent. Given the base as well, right, when we tap new markets, what is your ground experience? I mean, where do you see this yield settling in near term and does that possess risk on the spread what you're guiding today?

Manoj Viswanathan: On the borrowing cost, when we compare, we should actually take the book borrowing cost because the origination borrowing cost will not reflect the correct cost of borrowing for us because in the overall borrowing cost, there is a blend of NHB also which comes to us at a slightly lower rate and hence the overall borrowing cost is lower, but in a particular quarter there may not be any NHB borrowings, so as a result of which the cost of borrowing for that quarter might show up higher. I would say, we should take the origination yield and the borrowing cost for the overall book, that that will give us the trend of spread. If you take it that way, it is 13.5% minus 8.3%, so 5.2%, which also happens to be the book spread. That is the better way to look at what will be the trend of spread in the book going forward.

Renish: But sir, if I look at our slide #32, the share of NHB refinance, it must actually gone up this quarter? That's why I'm wondering, despite the higher NHB borrowing, why our marginal cost of borrowing is significantly higher?

Manoj Viswanathan: It depends on the schemes under which we are drawing from NHB. There are schemes where there is no concession, there are some schemes there is a concession. On an overall basis, if you look at it, it will be different. In this particular quarter for example, we drew down on a particular scheme where there is no concession in terms of the borrowing cost. So, the cost of borrowing is reflecting higher.

Nutan G Patwari: Renish, in a full year of funding, there'll be many things that will be playing out. There'll be new borrowings from banks, from NHB under different schemes, there'll be repricing for older loans and a whole bunch of things. So, to pick up a quarter and then anchor that to the cost of borrowing, is not a good reflection of how the spreads will move forward. The right anchor should be what ultimately lands on the book on an average quarterly basis. And also, the other way to look at it is interest expense, what's actually getting charged to the P&L. Those will be two more appropriate methods when you look at the cost of borrowing.

Renish: Anything on origination yield side in terms of competitive pressure?

Manoj Viswanathan: Origination yield side, probably we have been able to maintain 13.5%. We will continue to do that. 13.4%-13.5% is what we have been targeting and we are able to maintain that.

Renish: We have seen the two largest affordable housing finance players are now getting into the smaller ticket size loans to sort of sustain the yield wherein in this call we are mentioning that the incremental growth or the larger opportunities in between Rs. 15 to Rs. 30 lakhs ticket size segment. So, does that segment provide that price advantage for us or how is it?

Manoj Viswanathan: In terms of customer profile, it is the same, it is just the ticket sizes have gradually moved up over time, because incomes have moved up. The profile of the customer would be the same. I mean so 10 years ago, a person who was earning probably Rs. 25,000 is today earning Rs. 40,000 or Rs. 50,000 and correspondingly the price of the property that they are targeting to build or buy also has also gone up. As far as the segment is concerned, it is the same segment. It is just that there is an inflation effect on the ticket size. It's a very gradual movement. What was Rs. 10 lakhs five years ago is now Rs. 15 lakhs. That is the only way to look at it.

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

Raghav Garg: I have three questions. My first one is that you often talk about increasing LAP being a margin enhancer for you. But if I look at over the last 8-9 quarters, despite share of LAP increasing, the spreads have declined consistently, which probably implies that there is pressure on HL yield. So, what gives you the confidence that increasing LAP will help you improve yields or NIM when it has not happened in the past?

Nutan G Patwari: I want to first address, the calculation of yields then hand over to Manoj on the origination side. When you look at yield, whenever we take an NHB borrowing or a drawdown which includes the HL pool, we have to reprice that pool of customers. When you look at that total number, that repricing is also included and bulk of that decline is coming from that line. Of course, the LAP is contributing to the increase and maybe Manoj can articulate better on the origination yield of both the products.

Raghav Garg: The spreads have still declined, right? That may have been a function of NHB.

Manoj Viswanathan: Spreads have declined in line with the cost of borrowing increase. If you see in Q1 of last year, the cost of borrowing was 8%. So, that's 30 basis points increase and broadly that's the range in which the spreads have declined. That is something that we have acknowledged, that there is a cost of borrowing increase and we have not increased the rate over the last 1.5 years and which is why we are now going in for a repricing to bridge that gap.

Raghav Garg: And that's 35 basis points, right, from August onwards?

Manoj Viswanathan: From August onwards, correct.

Raghav Garg: And the book is repricable as and when the PLR hike is taken, is that it?

Manoj Viswanathan: Yes, because we have a floating rate book except for the portion which is maybe under NHB schemes where we cannot reprice. Rest of the book is we have the ability to reprice.

Raghav Garg: My second question is on the ECL on LAP portfolio, which seems to be low relatively compared to peers or even when compared to your own home loan portfolio. Now that may be the case because it's not a very well seasoned portfolio given you've recently started focusing on it. But in your opinion, what should be an ideal ECL cover on the LAP portfolio, and do you think over a period of time as the LAP portfolio seasoned that will lead to higher credit cost for you?

Manoj Viswanathan: See, we have been kind of late starters on LAP, and we have also observed how our peers are doing on that product because some of them started earlier, and they have a higher proportion of LAP. Even throughout the COVID cycle, the LAP book in this segment seems to have done fairly well without any stress. We also don't see any early signals on the LAP portfolio in terms of stress, etc., We think it will play out more or less like our home loan portfolio only. We're not seeing any different behavior on it.

Raghav Garg: What was the incremental disbursement ticket size?

Manoj Viswanathan: Incremental disbursement ticket size would be around Rs. 13.5 lakhs.

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

Shreepal Doshi: My question was on capital adequacy. So, tier-one has dropped by almost 380 basis points sequentially. What explains this decline?

Nutan G Patwari: We have discussed this in some previous calls that when we have our investments parked in mutual funds, they carry 100% risk weight. Almost 1% is attributed to that. The rest is more consumption of capital because of growth in segments for example LAP now requires 125% risk weight which used to be 100% until a few quarters back. All of that is contributing now to higher consumption. 1%, out of this is contributed by the higher mutual funds.

Shreepal Doshi: The other question was on the technology front. So, while we aspire to grow our book at 30% incrementally and also expand our reach in terms of branches, how well are we placed in technology front or do we further need tech-related capex in the coming years?

Manoj Viswanathan: We decided to adopt cloud-based technology very early on in our journey. We adopted the Salesforce platform. Salesforce is a globally used platform and it has very high scalability. The version that we are using and the implementation that we have done, we don't have to worry about it as far as the scale is concerned, I mean we can add 5x, 10x, 20x the number of customers to it without any change in the response or without any additional investment. From that perspective we don't need to spend anything significant on our core applications. But of course, we will keep enhancing some of the ancillary applications or mobile apps, plus the cyber security and various other MIS-related visualization applications etc., Those kinds of things we'll keep enhancing so that the customer experience keeps improving. But on the core application itself, we will not need to do any significant additional expense.

Moderator: The next question is from the line of Jignesh Shial from InCred Research. Please go ahead.

Jignesh Shial: Again, beginning to the same area, the yield softening what we are seeing in cost of funds are moving up. You would have done some PLR hike and all. So, is it not getting reflected in yield because you're doing more of doing products or how exactly is it matching? I'm still a bit confused on that thing. And two more strategy related questions I have, but if you can just give me some idea on this that would be really helpful?

Manoj Viswanathan: PLR hike we have not yet taken; we are going to take in this quarter. So, PLR increase has been initiated. That is what we have mentioned because we are required to give the customer 30-days' notice. We have given the 30-days' notice and implementation will happen from 1st of August.

Jignesh Shial: But whatever if you see the sequential if I'm seeing all your yields, it has been softening it out on a sequential basis, on a consistent basis. So, that is the reason I'm a little confused that have we not taken any rate hike and we are not passing on to the end customer or how exactly does it work?

Manoj Viswanathan: What you're seeing here, from Q1 of last year, we have not taken any rate increase. If you see page #28 of our investor deck, the repricing schedule is mentioned on the right-hand side. So, the last repricing that we did was 50 basis points on 1st April '23. Post that we have not taken any repricing. Over the last entire five quarters, you can see there is no repricing, so which is why there is a softening of the spread.

Jignesh Shial: Two more strategy questions. We have been tracking it for a while and there have been discussions about moving away from your concentrated states and all. So, what I see from Gujarat, correct me if I am wrong, Gujarat, Maharashtra and Tamil used to be a top three states earlier. Still, I see more or less there have been some reduction, but more or less your contribution comes out from these three states on the large basis. Are we going to see the similar trend going forward as well as you grow going forward as well or we see that some other states might be contributing pretty heavily in the next say two years or three years down the line, how this geographical change is going to plan out if I see three years down the line?

Manoj Viswanathan: Gujarat still contributes 30% of the AUM, and if you see Maharashtra and Tamil Nadu, they are about 13% and 14% of the AUM. We will more or less be able to maintain this share, but yes as the other states grow a little faster states like maybe Telangana, Andhra Pradesh, UP, MP, etc., their share in the overall AUM will start climbing up a bit. If you see page #12 of our investor deck, you can see that MP has moved up from last quarter 6.2% to 6.6%, UP and Uttarakhand moved from 6.1% to 6.5%. There is a gradual increase in the share of the overall AUM from the new states and which is likely to continue. Over a longer period maybe over, let's say 8 to 16 quarters, these numbers can change. You can see probably Gujarat share coming down below 30% and the share of some of the other states climbing up. We have mentioned in the past that we are expecting that over maybe a three to five year period, we would expect many of these states to be at the 10% mark as a share of the overall AUM of the country.

Jignesh Shial: So, fair to say that digging deeper into the existing states but more entering into the new states, I mean, improving penetration into the new states would make sure that the growth momentum remains healthy for the coming years?

Manoj Viswanathan: Absolutely.

Jignesh Shial: And just lastly, if I see your bounce rate, it's more or less in the mid-teens apart from jump which that happened during COVID, but your pre-COVID bounce rates used to be pretty lower. So, is it possible that this trend of the mid-teens will continue, or do you think that even we can go back to the pre-COVID levels as because we're moving more towards relatively high ticket sizes and all, say Rs. 10 lakhs to Rs. 25 lakhs size, that's the average I'm seeing it up. But do you see that the bounce rate will remain more or less similar, or we might see an improvement happening on that particular front as well?

Manoj Viswanathan: Our intent is to try and improve it. But there is some customer behavior that has changed post-COVID, especially with the introduction of UPI. We are finding it difficult to bring customers back on track because of that. A lot of customers have multiple bank accounts now and they kind of move funds between accounts. We are seeing a slightly more casual approach towards the ECS debit, but a lot of customers are clearing the payment within three to four days of bouncing the payment. If you see the bounce rate, let us say on the 8th of the month that is three days after the presentation date, the bounce rate is very similar to what it was pre-COVID. Within the first three to four days, the customers are actually making the payment even though they are bouncing on the ECS date.

Jignesh Shial: And our mix is still more tilted towards salaried. So, that trend will also continue going forward also, right, you will still be focusing on salaried customers itself?

Manoj Viswanathan: In the market, we don't have any stated focus towards salaried customers. It's more a natural flow that comes to us because we have a more convenient process. We are agnostic, whether it is salaried or self-employed customers, and in some of the smaller markets, as we kind of go deeper in the market, we do get more self-employed customers. It has not changed much, but then it can gradually change over a period of time.

Moderator: The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Just still wanted to double click on certain aspects of your operations. Could you provide some color on the operations of your field teams and RMs, what are the 2-3 key activities carried out by them and what's their contribution to the underwriting, basically trying to understand how you deal with the subjectivity of underwriting with the centralized underwriting system?

Manoj Viswanathan: The teams have basically two or three core activities. Core activity is to develop business development, which is involved basically meeting builders, meeting connectors and originating loans from them. And the second activity is once the lead comes in, go convince the customer and close the deal with the customer. They also capture some physical information in terms of photographs of the property, photographs of the customers place of work and things like that. And rest of the correlation actually happens centrally. Today a lot of information is available on customers through digital API integrations and with account aggregator coming in even that has become even more strengthened. We basically pull the bank statements directly through the account aggregator for example with the salaried customer, we can correlate from the EPF records or Form 16 records. That triangulation happens centrally. Some information gets captured locally and gets uploaded on our cloud-based system. And then the triangulation is done by a central team of underwriters and the approval is given to the customer.

Chinmay Nema: What's the strength of the centralized underwriting team?

Manoj Viswanathan: Centralized underwriting team, we have about 30-35 people in our central office.

Chinmay Nema: For the self-employed segment where there's higher degree of unpredictability of cash flows, how is it done, if you could explain that on a centralized level, is it done through transaction statements and bank account statements, or do you have more on the feet operations for underwriting to that segment?

Manoj Viswanathan: It started with subjectivity. But our objective since starting the company was to remove the subjectivity from this process by collecting data and using that over a period of time. Today we have removed a lot of the subjectivity from the process. First, a lot of records are available centrally, for example, if the customer has a GST registration or Udyog Aadhaar, we can check that centrally. As I mentioned, the banking comes completely centrally through the account aggregator. And now we have an experience with various segments and sectors and occupations of people as to what their approximate monthly income would be. We benchmark to that. Plus, we are also supported with bureau data as well as our own proprietary algorithm. If a particular customer comes from a particular segment with certain set of characteristics, we know what would be the probability of default. From the time we started 15-years ago to now, we have eliminated a lot of subjectivity from the process and that reduces the requirement of the local touch and feel and data collection that used to happen on the ground. A lot of the data collation now happens centrally and the triangulation happens centrally.

Moderator: The next question is from the line of Preetam Agarwal, an individual investor. Please go ahead.

Preetam Agarwal: So, my first question is with respect to the sourcing mix for Q1'25. So, can you throw some light on what is the mix of direct connectors and the DSA, what you source and what was it for FY'24 and the way it will be going forward, how do you see it?

Manoj Viswanathan: Connectors is about 77% and it's mentioned in page #13 of our investor deck, all the various channels from which we source. Broadly, it has remained the same. Connectors range between 70% to 78% of our origination and then there is a long tail of various other channels. Broadly that is how we operate.

Preetam Agarwal: And you see it same going forward also?

Manoj Viswanathan: Yes, at least the medium term we are seeing this will continue. Maybe for the next between one to three years, this is the trend that will be there.

Preetam Agarwal: My another question is with respect to the under-construction property in the outstanding?

Manoj Viswanathan: Under-construction properties have also been largely range-bound. If you see our pre-EMI to overall ratio is about 13%. Pre-EMI as a percentage of total reflects what is under construction because till the time the full disbursal happens, they remain in pre-EMI mode. Broadly that is the ratio of under-construction property as a percentage of the overall property, so about 13%.

Manoj Viswanathan: So, on an AUM basis, it is 13%, right?

Manoj Viswanathan: That is right.

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

Chintan Shah: Just wanted to understand, so now if we move further now going down the line 2-3 years from going to 100 billion to 200 billion, so how would the growth dynamics be, so now also more or less it to be sourced via connector model or continue with the lean branch structure or in the new geographies would we be also expanding our branches, for example if we see in the new geographies that you are expanding in UP, MP and Rajasthan, the players which are already present there are the leaders. They are mostly expanding via the branch network. They have a very exhaustive branch network in those areas. So, would we also go via the branch model or the connector model? And secondly, on the technology piece. I think we are very well developed on the tech piece, but so if we want to double our AUM, so would the current tech investment suffice or would there also be some one-time CAPEX expense to be taken there?

Manoj Viswanathan: On the first question, our distribution model will remain the same. There are two, three pillars in our distribution strategy. One is the hub-and-spoke model. We have branches and then we operate through touch points which are connected to the branches. That strategy will remain the same, we are not looking to change it in any of the new expansions that we are planning. And second is the connector model. Connectors again the last mile connectivity with the customer. There again we intend to be very granular. We are not going after some of the large DSAs. The origination from each connector is very low in terms of annual contribution. So, we are talking about probably in the range of between 5 to 10 loans in a year contributed by a connector. A very granular connector approach is what we are intending to pursue. No change absolutely in that process at all.

As far as the second question is concerned on the technology, the technology that we have adopted is very scalable. It's a Salesforce platform, it's a globally used platform by very, very large companies in this world with a much larger customer base than us. It's a very scalable platform, and does not require any additional investment as such. It's a cloud-based platform and then we have to just only buy the licenses. Of course, there are some enhancements on which we need to invest which we are investing on an ongoing basis, but nothing which is like a very significant jump in the investment that we need to make to sustain the growth.

Chintan Shah: Just one more bit on the spread. On the cost of borrowing, so assuming say there is a rate cut in the next 12-months or so, so how are we placed on the cost of borrowing side due to a rate cut, how much beneficial would it be or how much percentage of a borrowing would be on the floating?

Manoj Viswanathan: Rate cuts, I think as and when it happens generally it gives us temporary expansion in spread as we have seen in the last rate cycle also. But that is still some quarters away. There is some lag between the rate cut happening and passing it on to the customer. There is a temporary expansion in spread, which is there for a couple of quarters.

Chintan Shah: And this 35 bps translation would be immediate and almost for the entire book, except for the NHB related, right?

Manoj Viswanathan: No. First of all, we will lose one month in this quarter. It will be effective from 1st of August. So, you'll get two-third impact in this quarter. Plus there is the NHB book as well as some historical customers where we need to do some adjustment in terms of the risk adjustment because we have to offer similar rates to similar profiles of customers. Those customers will get the advantage of it. So, like I said, in this quarter, we will get a get a benefit of about 15 basis points.

Moderator: The next question is from the line of Siddharth Chandrashekar, an individual investor. Please go ahead.

S Chandrashekar: My question is regarding our capital structure and the way we are utilizing our off-book strategy, right? So, right now, if I see we are already a AA-rated company and we already have if I am not wrong capital adequacy ratio of around 36 percentage, right? So, if I see this off-book, there is a trend, and even if I listen to your comments on last two calls, right, we are doing more amount of co-lending along with securitization, right? So, why we are not actually utilizing our on-book and make sure like our capital adequacy falls to 25 percentage or something like that, then we go for off-book strategy, right? Just comments on this.

Manoj Viswanathan: We are trying to build it parallelly which is why if you see we have not aggressively gone after co-lending or direct assignment. It's just a start and it will also take time to understand the product, understand the partners, because co-lending is to be done with bank partners. There is also the process that needs to be streamlined, etc., It will take time for it to scale up. We don't want to start late because then again it will take two years for us to understand the process and streamline all of that. Which is why we have started early, and we are doing at a very nominal level. At this point, the contribution of co-lending is only about 5% to 7%. Our first aim is to take it to about 10%. Similarly, on the assignment 13% percent is our assignment as a percentage of AUM. We have kept both at a fairly low level at this point and when required we can always scale it up. The idea is to understand the dynamics and understand the process well, so that when it is required, we can actually utilize it.

S Chandrashekar: One more question is on the capital front, right. So, at what point of time you will hit the market again for the capital raise and what sort of mature level capital adequacy ratio that as a business we are looking for, is it something around 20 percentage and whether we are looking for around 30 percentage and we will keep on going for market for new funds?

Manoj Viswanathan: If you see our consumption as Nutan mentioned in the call, it's about 2%-2.5% is the capital consumption based on our growth that we are having at this point. We have a cushion of about

15% to 18%. So, we can say about four to eight quarters worth of capital is still there, and even after that we will still have a cushion because the regulatory cutoff is 15%. Somewhere in that zone in the next six to eight quarters we will look at raising capital.

S Chandrashekar: So, during that time we will be in capital adequacy of around 25% or something?

Manoj Viswanathan: Keeping an internal threshold of say 20% because 15% is a regulatory cut-off. We don't want to go very close to the regulatory cut-off and start looking for capital at that point. So, I'm saying keeping the regulatory cut-off at about 20%, that is how we will approach the capital raise.

S Chandrashekar: And regarding ROE profile, so when you are in maximum utilization level of our capital part, right, so what sort of return on equity that we can look for?

Manoj Viswanathan: Return on equity, last year we ended the year at 16.1% in Q4FY24 and for the full year we delivered 15.5% ROE. We had mentioned that every year we are looking to increase that by about 75 basis points. We can expect those kinds of numbers. Last year we delivered 15.5%, this full year we want to deliver between 16.2% to 16.5% kind of a number and every year we can expect 50 to 75 basis points increase in ROE.

S Chandrashekar: Business model will be 20% plus ROE or 18-19% would be the maximum kind of level that you are looking at?

Manoj Viswanathan: Our first milestone is to hit about 17.5%-18% and then we will see from there depending on how the market is.

Moderator: The next question is from the line of Aravind R from Sundaram Alternates. Please go ahead.

Aravind R: Can you quantify how much we have as a floating provision over and above ECL if you can give me that? The second query like will this 35-bps hike in PLR, will it be on the entire home loan book or will it be like in a phase manner?

Nutan G Patwari: On your first question, over and above ECL is about Rs 15 crores approximately. On your second question, the hike is on the entire book, but like Manoj was mentioning that the NHB fixed book does not undergo repricing and we're also looking at the back book, looking at the risk categorization, and considering the good pool of customers, we are seeing how we can adjust the pricing there because that's the right thing to do. Adjusting for all of this, about 10 to 15 basis points is the net impact that we expect from this increase in PLR of 35 basis points.

Moderator: The next question is from the line of Sonal from AMSEC. Please go ahead.

Sonal: Just similar questions. So, generally banks who are giving out loans for the first year, the loan is a fixed rate loan. So, for us whatever the process was done in last one year, even over there will be repricing the PLR or how does that happen?

Manoj Viswanathan: We do not do any fixed price loan. When we originate the loan, it is a floating rate loan, but some of the NHB schemes require us to fix the interest rate later if the concession needs to be passed on to the customer. So, a certain portion of the book gets fixed at a later point if we are getting a corresponding fund from NHB. That is what we are calling a fixed NHB book.

Sonal: So, basically for disbursements what we've done in Q4 of last year, even for those disbursements there will be a 35 bps of PLR hike, is that correct?

Manoj Viswanathan: Yes, depending upon the risk categorization of the customer.

Sonal: The other question I had was on DA income, direct assignment. So, do we upfront this income or is it only for the same year that we take the income in our P&L, how does it happen?

Manoj Viswanathan: In the Ind AS, we do have to upfront, that is the regulatory guideline.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Manoj Viswanathan for closing comments. Please go ahead, sir.

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

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