HFFCIL/BSE/NSE/EQ/85/2023-24 **Date: 03-11-2023**

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

Sub: Transcript of the earnings conference call for the quarter and half year ended September 30, 2023

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and half year ended September 30, 2023 conducted on October 27, 2023 for your information and records. The Company referred to publicly available documents for discussions during the call.

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

This is for your information and record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT
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Date: 2023.11.03 14:31:12 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q2 FY24 Earnings Conference Call

October 27, 2023

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

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY24 Earnings Conference Call of Home First Finance Company, India Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone 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: Thank you, Yashashri. Good evening, everyone.

I extend a very warm welcome to all participants on our Q2 FY24 conference call.

I hope everybody had an opportunity to go through our investor deck and press release uploaded on stock exchanges and on our website yesterday. We have also uploaded the excel factsheet on our website.

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 Nutan, and will then have a Q&A session.

With this introduction, I handover the call to Manoj. Over to you Manoj.

Manoj Viswanathan: Thank you, Manish.

Good evening, everyone.

I am pleased to share with you the highlights of our Q2FY24 performance.

- Q2FY24 performance has been strong across all operating and financial parameters. We have delivered an ROE of 15.6% in an inflationary and peak interest rate environment. This level of consistent and superior returns is a testimony to our strong risk management, use of right technology and scalability of our business model.
- We continue to build our distribution by simultaneously entering new markets and deepening our presence in existing markets. We added 7 branches in Q2 and now have 120 physical branches. Including potential branches & digital branches, we now do business from 295 touchpoints across Tier 1 to Tier 3 markets in 13 states / UT.

- Disbursement in Q2 at Rs 959 Cr was higher than Q1, with a growth of 36.6% on y-o-y basis and 7.1% on q-o-q basis, leading to an AUM growth of 33.3% on y-o-y basis to Rs 8,365 Cr.
- Spreads at 5.5% remain ahead of our guided levels of 5.25%.
- Our asset quality continues to be strong with a focus on early delinquencies
    - 1+ DPD is at 4.5%
    - 30+ DPD is flat at 2.9% in Q2; decline of 40 bps on y-o-y basis.
    - Gross Stage 3 (GNPA) is at 1.7% (Q1FY24- 1.6%, Q2FY23-1.9%). Prior to RBI classification circular of Nov'21, it stands at 1.1%.
    - Our credit cost is at 40bps for the quarter.

We will now move on to some more details on the business and our outlook for the current year:

Technology

Technology has been at the centre of our business since inception. Systemic tech led controls have been implemented across all our operations, providing a strong backbone for our risk management and internal audit processes.

Digital adoption continues to be strong and a key area of our focus as we grow. Some of our recent initiatives on technology include:

- Successful adoption of account aggregator model to access the bank statements of customers. This has now gone mainstream with a 30% penetration rate within 2 quarters of implementation.
- An Employee KRA module has been developed with full integration with our loan origination and collection system to make the goal setting and tracking process more effective.
- Tableau visualization within Salesforce to help drive superior analytical outcomes.
- Property Insight Ver 2.0 has been implemented to digitally validate the property titles and have an independent authentication of our primary security for the loan

Distribution

- We added 7 branches and 13 touch points in Q2. We now have 120 physical branches and 295 touch points.
- We are targeting an AUM growth of 30%+ for FY24 to enable us to cross the 10,000 Cr AUM mark in the next 12 months.

People

Pleased to report that

- We have added 137 employees in Q2 to reach a total strength of 1242 employees and we plan to add another 100-150 by Mar'24.
- We have expanded our ESOP coverage to encompass 335 employees, which is 27% of total employee base.
- Employee attrition is down from FY23 levels as a result of initiatives implemented by us supported by hiring lull in certain sectors

Demand continues to be strong in the affordable housing sector. With our expanded distribution and employee base we are well placed to gain market share and deliver strong numbers in the rest of this financial year.

With respect to the quarterly results, there are a few metrics that we would like to address:

- **Balance Transfers** have increased during the quarter. It is the result of series of interest rate hikes that our customers have witnessed in past 18months. We have sensitized our teams on customer retention and coached them on some techniques to arrest balance transfers.
- **Bounce Rate** uptick in Oct: We still see that a substantial portion of bounced customers pay within 3 days of bouncing the instalments. Bounce rates normalisation to pre-covid levels will take time. We are working towards improving this behaviour change that happened during Covid. NPCI data also validate our view where the bounce volume has increased. Our overall collection efficiency remains strong and continue to focus on containing early delinquencies as a collection strategy.

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

Nutan Patwari: Thank you, good evening, all.

I will like to start by mentioning that we have delivered our medium-term industry leading ROE goal of 15%-16% ahead of our expectations. Our superior performance in a tough environment gives us confidence that we can outperform these returns in the next 2-3 years.

Moving to financial performance;

- Our Q2 Net Interest Margin is robust at 6.0% and is in line with our guidance. We mentioned in our Q1 call about the stable yields and increase in CoB in Q2 which has led to 10bps decline in NIMs for Q2.
- Net Interest Income has gone up by 27.2% in Q2FY24 on YOY basis.
- Spread at 5.5% remains well above our guided range of 5%-5.25%.

- Opex to Assets is at 2.9% for the quarter. We expect this ratio to remain in the range of 3.0%-3.2% going ahead; as we focus on expansion. Cost to income at 35.2% in Q2FY24, decline of 110bps on q-o-q basis.
- Credit cost in Q2FY23 at 40 bps; is within our guided range of 30bps – 50bps.

Our Balance sheet is stronger than before.

- We continue to have a diversified & cost-effective long-term financing sources in our borrowings. This remained diversified across banks as well as NHB. Our Borrowings mix is
    - 55% of our borrowings from Banks (Private sector 33% and Public sector 21%)
    - NHB refinance share is stable at 22%. We have drawn Rs 250 Crs in Q2 FY24. We have another Rs 450 Crs to draw which we will calibrate as per requirements.
    - 16% from Direct Assignment and 2% from Co-lending.
    - 4% is from IFC NCD
    - We continue to have zero borrowings through Commercial paper.
- Our cost of borrowing is competitive at 8.1%, increase of 10bps from 8.0% on qoq basis. We expect further increase of 20bps in 2HFY24.

Coming to capital

- Our total CRAR is at 45.5% and Tier 1 CRAR is at 45.0%.
- Our Debt to Equity is now 3.1 times.
- Our Sept'23 Networth stands at 1,947 Crs.
- Our Book Value per share (BVPS) stand at Rs. 221.

Moving to provisions, we have remained conservative and continue to carry provision overlay over and above the ECL requirements. Total Provision Coverage Ratio (PCR) stands at 52.3%. Prior to NPA reclassification as per RBI circular, PCR stands at 84.6%.

On specific transactions;

- We did direct assignment of Rs 97 Crs during the quarter as a liquidity strategy. We continue to have a robust demand for our portfolio of assets. This is within our guided range of Rs 100 Crs +/- Rs 20 Crs.
- We executed Co-lending transaction of Rs 50 Crs in Q2. Co-lending business is growing and expect this to contribute around 10% of disbursements in the near future.

With this I open the floor for Q&A. Thankyou.

Moderator: We have our first question from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Congratulations to the management on a good quarter. There are a couple of things on the opening remarks that Manoj made. Manoj, you did touch upon the BT out being higher during the quarter and the fact that you have sensitized your team on customer retention. Are we seeing high competitive intensity? And are these balance transfers typically happening to banks, if yes, whether they're happening to PSU banks or private banks? Is there any particular bank which is overly aggressive and leading to such high competitive intensity?

Manoj Viswanathan: The players are the same that we have seen in the past. I don't think there is any change in the mix of players. Of course, some NBFCs are also doing balance transfers now at low rate, which probably is not sustainable. That might be more a tactical move in a particular quarter. We see the balance transfers more as a reaction to the rate hikes that have happened over the last year.

A lot of customers have gone through a 125 basis point rate hike. When the loan was originated, the tenure was 20 years, but now suddenly their tenures looked very extended, probably 25 to 30 years. So, this is provoking the balance transfers. We think it should moderate with the passage of time.

Abhijit Tibrewal: Got it. The second thing you touched upon was employee attrition, which is down from March levels. Another HFC, which had its earnings call just before you, were kind of hinting at significantly higher employee attrition, at the relationship officer level. How is it like for us? In the past, we used to talk about that at an industry level attrition remains very high. Has it gotten better for us? Are we seeing more stability in our frontline staff now?

Manoj Viswanathan: Yes. Last year, we had kind of elevated attrition levels, and it has reached about 40% levels. But in the first quarter of this year, it was lower than 30%. This quarter also, it has been around the 30-ish level, 32-odd so. We have taken some steps, as we had mentioned that we have expanded our ESOP program. We have started a different onboarding program for our front-end employees. We have taken several initiatives. However, this year we are also getting support from hiring lull in certain segments and certain sectors of the industry. I think a combination of these factors has led to a lower attrition for us in this year.

Abhijit Tibrewal: Got it. One last question, Manoj. If I look at your AUM today, looking at the run rate, probably early next financial year is where we'll probably look to hit the milestone of INR10,000 crores in AUM. From a business model perspective, we've been unique in terms of the connector model that we have, as well as the fact that our sales and collections both are done by our relationship officer.

Over a course of time over the last few years, you've grown this business model, but I just wanted to understand, even at that size and scale, our conviction remains same, that this business model is something which will help us scale further beyond INR10,000 crores towards INR15,000 crores and INR20,000 crores?

Manoj Viswanathan: Yes, of course. We are very confident now. We are seeing strong demand wherever we go and we are confident of expanding and deepening our distribution in our focus states. In some of the other states where we had a thin presence, we are looking at expanding distribution more in the Central and Northern states. Distribution expansion itself should allow us to get from the INR10,000 crores to INR20,000 crores level.

As far as the connector model is concerned, there is still a lot to be done. We currently have probably about 2,500 - 2,600 active connectors in a quarter. And that number can go up multi-fold as we expand our distribution. So, we are confident of the model and that it will help us to achieve those numbers.

Moderator: Thank you. We have our next question from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Circling back to BT out rate. Despite the higher BT out rate, our growth has been quite steady at around 8% sequentially. Once we restrict the BT out as you highlighted that we have initiated in several steps. What kind of AUM growth we target in near term?

Manoj Viswanathan: Renish, we are looking at a 30% growth rate. I think that is the growth that we have been talking about last couple of years and which we have been delivering. And it's a number that we have derived through a ground up calculation, taking into account the number of distribution points we will be able to add, people we need to hire. Our growth projection remains the same at 30% plus.

Renish Bhuva: Got it. Again, just to understand a bit more on the BT out. Most of this BT out is due to the rate, there is no other thing which can sort of restrict or result in a higher BT. So, when you say that we have taken an initiative, could you highlight what kind of initiatives we have taken to restrict BT outs? I mean, apart from rates, and if we sort of get into the rate would you assume any margin compression going ahead?

Manoj Viswanathan: Yes. Across the board, reduction of rate not really be useful to address this BT out because then our yields also will get reduced. That is not what we are aiming to do. What we have done is, we have kind of sensitized our teams on the ground on how to address the BT out because there is a certain point at which the customer approaches us.

The person who is doing a balance transfer needs to be approached or counselled at an early stage. When the person is coming with the BT cheque or with the transfer request from the other banks, at that point, it will be difficult to stop the person. So, we have done some coaching camps for our teams to help them understand how to address the BT outs. We have also circulated or tagged the cases which have a high likelihood of BT outs so that they can give special attention to those cases.

Overall, what we feel after having talked to our teams, etcetera, and traveling across the country, it's more of a awareness and sensitization issue. If we are able to pay more attention to customers who are at an initial stage of exploring a balance transfer, we will be able to reduce the numbers.

Renish Bhuva: Got it. So, maybe is it fine to assume that October monthly BT out will be lower than last quarter average?

Manoj Viswanathan: I can't say for sure, hopefully yes.

Renish Bhuva: Okay. Got it. And lastly, on the marginal increase in the Stage 3 we have had, I mean, is there any specific trend which is emerging or this is just transitory in nature?

Manoj Viswanathan: No, this is first half of the year. Generally, the March figures are extraordinarily good. So, after that, any figure looks worse when compared to March which is really what we saw this year also. The level of collection efficiency that we managed to achieve in March was not repeated over the last six months. That kind of performance again comes in the second half of the year. It's more a seasonal movement, nothing else to it because if you see the 30 DPD figures, they are flat compared to last quarter. So, nothing really to be read into the figures.

Renish Bhuva: Got it. And just last question on the ROE. We have been able to achieve this, maintain ROE may be higher than our plans. And now we are exploring 10% of co-lending on the disbursement side. So, what's the next level of ROE we are targeting? And the co-lending piece, would it add anything to our earlier assumption on the ROE front?

Nutan Patwari: Renish, if you see in the last six months, we've been able to expand the ROE by almost 200 basis points. It will stablilise here for some time. And the co-lending business will require a little bit more time to grow with the right interest rate environment. In a good interest rate environment, we presume co-lending can be good. So, give us some time and hopefully, we should outperform these numbers as well.

Renish Bhuva: Got it. Got it. So, the near-term target would be to sustain this mid-teen level?

Nutan Patwari: Yes. 15% to 16% range is what we will sustain in the near term.

Moderator: Thank you. We have our next question from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Firstly, on the growth, so this year you've guided for 30% growth. How should we think about growth for subsequent year FY'25? And how are you preparing for that, any guidance on branch addition, etcetera?

Manoj Viswanathan: Nidhesh the growth of 30%, we are looking for the next two to three years because our planning is in instalments of two to three years. 2.5 years ago, we said we will be able to grow at 30% for the next three years. As per our current plans and what we are seeing on the ground, next two to three years, we should be able to grow at a 30% kind of a level.

Nidhesh Jain: And what would be the branch addition plans for that?

Manoj Viswanathan: Branch addition, broadly, we are thinking of adding about 20 to 30 branches in a year. But the distribution will be more on the number of locations we are adding, the number of relationship managers, number of connectors, etcetera. So those will get added and that will contribute to the business.

295 touch points is where we are today. We should be adding another 100 - 150 touch points in the next two years and a corresponding number of Relationship Managers. We are at about 1,200 employees as of now. That number should go up to about 1,600 - 1,700 employees in the next two years.

Nidhesh Jain: Sure. Secondly, sir, in last two years, we have expanded in Tier 3 locations as well. In the past, we were operating largely in Tier 1, Tier 2 locations. How is the experience in terms of asset quality, bounce rate in Tier 3 geographies?

Manoj Viswanathan: Asset quality, bounce rate etcetera of Tier 3 locations are largely very similar to our existing portfolios. Location-wise, we don't see any major differences. When we go to Tier 2, Tier 3 locations, these are generally not very remote locations. They would be within driving distance from a branch. So, in that sense, they would be periphery of urban areas not really remote Tier 3 locations.

Nidhesh Jain: Sure, sir. And lastly, on the BT out, are you monitoring connector wise BT out? And are we seeing any trends there, any connector, which is inducing this BT out?

Manoj Viswanathan: There would be sporadic instances of connectors referring our customers, etcetera. But those get addressed very quickly by blocking those connectors or penalizing those connectors. The trend is more towards larger cities, larger branches where there are more BT outs because of more intense competitive activity.

Moderator: Thank you. We have our next question from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: My question pertains to the NHB sanctioned pipeline that we have, what can be drawn down in the second half of the year during -- I mean during FY'24?

Nutan Patwari: We have an unavailed sanction line of Rs 450 crores, which we can utilize between now and June'24. We will plan to draw down based on the business need.

Shreepal Doshi: So just wanted some comments or colour on where do we see the share of salaried customers stabilizing in the overall loan book?

Manoj Viswanathan: We are not structurally changing that. As we penetrate deeper into markets, etcetera, probably more self-employed customers could come on board. I would say right now, we are at about

70%-30%, I would put it maybe in the medium term, maybe at 60%-40% if at all. There is no such strong trend, but if you're asking for a number, it could be 60 salaried, 40 self-employed.

Moderator: Thank you. We have our next question from the line of Shubranshu Mishra from Phillip Capital.

Shubranshu Mishra: First one is on the regulations and the collateral and the documents that need to be given back to the customer in a time that's been stipulated. How does that change our opex? Second is why are we not looking at or why are we not making any kind of representations to the rating agencies for a rating upgrade despite having a strong asset quality number? Third is if we can talk on the cost of acquisition for our home loan customers across markets and the cost connectors?

Manoj Viswanathan: We already have a practice of returning the documents within 30 days to customers. It does not really change anything for us. We have a strong monitoring on that. As far as the rating is concerned, yes, at the suitable time the rating will get updated, and we are in continuous discussions with rating agencies. At a point when they find it appropriate, the rating should get upgraded. On the cost of acquisition, there is not much differential across markets. It anyway flows in a tight range. The acquisition cost is generally 30 to 50 basis points for the connectors. It's agnostic to market. It's broadly based on size and nature of the connector, etcetera. It's a very narrow range of 30 to 50 basis points across the board.

Shubranshu Mishra: Sure. And if I can just squeeze in two more questions. The first one is, if you can decompose the 30% growth guidance that you're giving, how much would come from the ticket size increase, how much would come from productivity increase and how much would come from volume increase? That is first. Second is, you're talking about BT out, however, given the ticket sizes that we deal with and across lenders, the affordable housing comes at a higher yield. And the fee is barely anything in it for someone to really churn a customer -- for a connector to churn the customer. So why should we have BT out in the first place?

Manoj Viswanathan: Ao addressing the first question, which is the growth. Most of the growth will come from distribution expansion. We have not really factored in growth on account of ticket size or productivity. Those should come as an addition. Broadly, we are targeting distribution expansion for the growth. Coming to BT outs, BT out is largely customer initiated which is why the BT out is kind of spike now because this has come on the back of three consecutive pricing increases for the customer.

As customers are getting more irritated with the extension of their tenures and increase in rates, they initiate the balance transfers more from their side. Which is why I said, connector-initiated balance transfers are not many. There would be sporadic here and there, but not really a major cause. The major cause is the customer initiated only. And when the customer sees the differential of maybe 4% on the loan, where they feel that they can get at least a 3% to 4% reduction, then they try very hard and pursue a balance transfer. Largely, they end up being customer initiated.

Moderator: Thank you. We have our next question from the line of Omkar Kamtekar from Bonanza Portfolio.

Omkar Kamtekar: Can we have a bifurcation to understand is there a specific bucket size of a specific ticket size, seeing more growth. So, say, for example, is the two million to 2.5 million having a higher disbursed sales than a one million to 1.5 million, is there -- can we see some change in there? Are we seeing some trends there?

Manoj Viswanathan: Growth is largely coming from 10 lakh plus. Less than 5 lakh is not really an area of growth. There is moderate growth in five to 10 lakh and largely, the growth is from 10 lakh plus.

Omkar Kamtekar: Okay. And with respect to the cost of borrowing, our current cost of borrowings as for H1, it's standing at 8.1%. The incremental cost of borrowings, what would be that if we can have some colour on that on going forward?

Nutan Patwari: Incremental cost of borrowing for the last two quarters is in the range of 860 to 870 bps. We also actually published that on our Slide 27. This 860, 870 range does not include the NHB borrowing. If you were to include that, the cost of borrowing is around 8.1%.

Omkar Kamtekar: Okay. So that would be what would also go ahead for maybe two, three quarters or more?

Nutan Patwari: Assuming no change in the policy rates, yes.

Omkar Kamtekar: Okay. Okay. And with respect to branch addition, I think you had mentioned but I did not catch it. What is the number of branch additions that we are looking at and geographical expansion also, if you could add?

Manoj Viswanathan: Branch additions, we are looking at 20 to 30 branches a year and geographies, our focus markets are West and South. Currently branch additions are happening in Maharashtra, Gujarat, Tamil Nadu, Andhra, Telangana, Karnataka. We're also beginning to expand in the Northern market. We are gaining traction in MP, Rajasthan and UP also. In the future, you will also see some branch additions coming from these markets. You can say 70-30 split, 70% will come from our focus markets of west and south and the 30% would come from the northern markets.

Omkar Kamtekar: Okay. Is the southern market seeing more growth than any of the other markets because generally, we have a dichotomy because south being slightly more prosperous and high earning states. Is there something of a trend going on that we might see more concentrated growth in the southern states, would that be fair?

Manoj Viswanathan: In Southern states, growth is stronger in higher ticket sizes because of the incomes going up, states becoming more urbanized and industrialized, etc. But Northern markets are also, are growing in the core affordable segment, which is the five to 15 lakh segments. Growth in different forms is coming from both areas.

Omkar Kamtekar: Okay. And finally, just a macro update on the specific low-ticket size, affordable housing segment. What is your view from a two- or three-year horizon? Are we seeing any systemic problems in the space?

Manoj Viswanathan: Not at all, not at all. See there are large, different states are at different income levels, If you look at the per capita incomes. For example, on a PPP basis, the average for the entire country is about $7,000. States like MP, Rajasthan, UP are at about $ 4000-5000 PPP level of per capital income.

Whereas southern states are closer to $10,000. The growth is coming in different forms. In these northern states, we get growth in the core affordable segment. Ticket sizes between INR5 lakh to INR15 lakh is growing fast in the northern states. In the southern states, higher ticket prices INR10 lakh to INR20 lakh is growing fast. In different forms, you're getting growth from both the sectors. We don't see a problem at all.

We are actually seeing a very, very strong growth at the ground level. I think it's only our own capacity to grow, our own capacity to hire, train, which is a limiting factor. Supply of housing or demand is really not a limiting factor at all.

Moderator: Thank you. We have a next question from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Manoj, when we are talking of a 30% CAGR growth, so we expect to more than double the size of the portfolio, the AUM from March '23 level. And when we are seeing that we are also expanding distribution where the ticket size is a little low and where we have to also develop a new connector and our own capacities, which you just highlighted. So how does one really see that will happen?

Manoj Viswanathan: Our distribution strategy for the next two to three years is as follows. One part of it is deepening our distribution in our existing state. These are the states which were already urbanized, industrialized, where we had a decent presence. There we are deepening our penetration. Gujarat, Maharashtra, Tamil Nadu, etcetera, we were already present to some extent. We are deepening our penetration there.

I think three years back, we said that we are going to focus on these states. And we said that we will keep the expansion in the Northern states for a little later time. We are starting that expansion now. We feel that this is the right time to start expansion in the Northern states.

MP, Rajasthan, UP, etcetera, which are at a kind of a threshold level today and where we see that in the next five years, the demand for affordable housing will be good. We are setting our footprint there, establishing certain locations so that we are well prepared to serve the customers over the next five years. This is how we are looking at our distribution plan.

Bharat Sheth: And second, also, you said that our own capacity to increase because then we more than doubling our asset AUM. But in this kind of a number of additions of the branch or will that or addition of the people will be that sufficient?

Manoj Viswanathan: No, which is why I said we are looking at a 30% growth. If we are able to move faster and because we also have a limitation on number of people, branches, etcetera, that we can add. Currently we are at about 1,200 employees. We may be able to add maybe another 400 - 500 employees in the next two years, not more than that. That is what I meant is a limiting factor. If somebody can move faster than that, then the market is not the limiting factor There is enough demand in the market.

Bharat Sheth: Okay. And last question, you said that demand for affordability will continue to grow over the next four, five years. So, what is the underlying assumption that are we taking? I mean that this market will grow because in past, we have seen there is a lot of ups and downs. With that background so if you can give a little more colour?

Manoj Viswanathan: Affordable housing is a direct function of income in that particular state. We are seeing that correlation quite strongly. States where the incomes have risen, for example, Gujarat, Tamil Nadu, etcetera, the affordable housing demand is high. Today, for example, a state like Gujarat accounts for about INR25,000 crores of affordable housing disbursements every year, which is probably higher than the affordable housing demand in a state like UP, which is 4x the population of Gujarat.

We have seen that the affordable housing demand is a function of per capita incomes, which is why in states like UP, Rajasthan, MP, etcetera, we feel that as the incomes start rising in the next few years, the demand should reach the same level as the other states like, Gujarat Tamil Nadu, etcetera. We are projecting that this demand will continue to grow over the next five years.

Bharat Sheth: But do you think that in that case, competitive scenario may further increase because everyone who are looking of this kind of a market, but they were not actually going on and now the kind of business transfer that also we are seeing?

Manoj Viswanathan: The competitive intensity has been there and it will continue to be there. But it's also a business that has a lot of complexity. Somebody who has been in the business for a while, who understands that complexity and who was able to execute well on the ground are the ones who will succeed, competition will continue to exist. We have to find ways of addressing that.

Moderator: We'll take our next question from the line of Chandrasekhar Sridhar from Fidelity International.

Chandrasekhar Sridhar: After the start of the rate cycle, our borrowing costs are up 90 to 100 basis points. And just curious to understand the marginal cost of borrowing basically for the last couple of quarters except NHB basically has not really changed. Whether the entire cost of fund is showing up in our books right now because the marginal number has not changed. It seems the increase in rates has been much higher, but it's not showing up in the book?

Nutan Patwari: Chandra, you're right. The transmission is largely done, but there is some residual transmission that's still to come in. That is why we've been saying that this 810 could look more like 830 by March. So, let's say, another 10-basis point increase in the next two quarters. And let's say, if there are no further rate changes, then that should be where we should be for a while.

Chandrasekhar Sridhar: Understood. the 525, which you have always said just in terms of spread bets will pretty much stay what you're working with because spreads are still holding up reasonably well.

Nutan Patwari: Yes, absolutely, yes.

Chandrasekhar Sridhar: Okay. And then on the yield side, you've taken cumulatively 125 bps hike starting from July last year. But the on-book yields are up since then only up 60 bps. So I would presume onboarding yields must be lower for customers? And also, is it fair to assume because of this slightly higher balance transfer that you've sort of given some discounting yields to some customers. Is that the way to think of it? Or are you basically given that cost system hasn't risen as much that we've been far more okay, just on passing on yields entirely, I mean, for some customers.

Nutan Patwari: Chandra, customers have been repriced 125 basis points. However, what also happens is as and when we get the NHB AHF fund, we reprice the customers downwards. And that reflects in the yield line. You will see that while the spread is protected, the yield shows an optical reduction. That is largely because of this NHB AHF fund. And last two or three quarters, we've been doing quite a bit of it.

On the origination yield, it has stayed around 13.5%-13.6% almost since the increase of the policy rate. That has not changed. And that is the second part. The third part is our co-lending portfolio is booked at a slightly lower rate. That gets excluded from the origination yield, but not from this particular line but that is sitting at a lower yield. That also pulls down the rates here.

Chandrasekhar Sridhar: And then just maybe just lastly, it seems that over a period of time, the LTV on origination is changing little marginally. I mean I don't want to read too much into it, but the LTV on origination actually at less than 50% actually goes up and more than 80% is actually going down. Is there a change in just the apartment types or anything else you just want to highlight?

Manoj Viswanathan: No, I think what we see in coming years is more self-construction and resale taking a larger share so the higher LTV at origination should keep decreasing going forward. Higher LTV origination is largely only in apartment segment because that's a builder-driven market and where the industry practice is to give higher LTVs. But going forward, as we expand into the other states where the self-construction is the larger business, self-construction resales, they both come at lower LTVs, so the LTV at origination should keep declining going forward.

Chandrasekhar Sridhar: Sure. Manoj, just a last question for you. You did make a comment on the share of self-employed potentially going up over a period of time, is that just natural? Or is it a conscious strategy?

Manoj Viswanathan: No, no, we never had a conscious strategy to exclude self-employed, from the beginning. It is just a natural flow of loans to us, the ratio has got formed over a period. Partly because we started out with large cities where there are more employment opportunities, so more salaried customers were there.

Plus our processes are quicker, so salaried customers find it easy to deal with us. Some of those factors have contributed to a slightly higher share of salaried customers. But otherwise, in the market, we don't have an articulated strategy of going only after salaried customers or excluding a self-employed. That has never been there. Now as we are going deeper in the market, we are going into markets where there are more self-employed customers, lesser of organized salaried customers. Just a long-term projection that this could move to a 60-40 kind of a figure.

Moderator: Thank you. We have a next question from the line of Aravind R from Sundaram Alternates.

Aravind R: Sir the higher ticket size book is growing faster, if I take INR15 lakhs to INR20 lakhs or above INR20 lakhs kind of loans, are these loans are growing faster? Is it a conscious strategy? Is the profile of customers slightly different when it comes to the higher ticket size loans?

Manoj Viswanathan: No. As I mentioned, it's more a function of where we are expanding distribution, etcetera. I think last three years, our articulated strategy was that we will expand in West and South and as we expanded more in South, the ticket sizes are slightly higher. We are getting more loans in the INR10 lakh to INR20 lakh ticket size range there. But as we now build our distribution in the northern part of the country that should again get moderated.

We are not really going after higher ticket size as such. It's just the same segment where the ticket sizes in South are slightly higher because of higher income etcetera. And some part of it is also contributed by co-lending because now we have INR200 crores - INR250 crores co-lending book, where the ticket size is naturally high, because of which also the ticket sizes are showing up higher.

Aravind R: And am I correct in understanding that the yields should not move up that much going forward like considering if there are no other rate hikes or?

Manoj Viswanathan: Yes, if there are no further rate hikes, we will not increase the rates for our customers. Broadly, we should be in the same ballpark origination.

Aravind R: What is the cost of funds, sir?

Manoj Viswanathan: Cost of funds, we are anticipating maybe a 10 to 20 basis point increase, but that's something that we will absorb. We are not looking at passing on such a small increase to customers at this stage.

Aravind R: Okay. Even though marginal cost of borrowing is still going up, is it because of the repricing?

Manoj Viswanathan: Yes, there are some lines which are still left to be repriced. So, as they get repriced, it will go up, please.

Aravind R: Okay. And just one more question. Like so in the new markets, like we are entering into this new market. Does it affect the operating efficiency, like opex to AUM or opex to assets?

Manoj Viswanathan: No, not really. That is something that we are conscious of. We don't go into really remote markets which don't fit into our operating metrics. We are very much cognizant of our RM productivity, the disbursal a RM has to deliver every month. We only go into markets where that can be delivered comfortably. Otherwise, we will not enter those markets.

Moderator: Thank you. We have a next question from the line of Omkar Kamtekar from Bonanza Portfolio.

Omkar Kamtekar: Sir my follow up question is as we keep continuing to hold a 30% growth target and we are also expanding our technological capabilities to a certain extent and capacity capabilities. Are we targeting some specific disbursement targets for the quarter or particular month? And do we have something in our mind that we would target this much per quarter per month, anything like that?

Manoj Viswanathan: Yes, broadly, the plan is made for the year, and that is kind of bifurcated into first half, second half, and we follow that plan. If you see, our disbursal this quarter is about 7% higher than the previous quarter. Broadly, we follow that kind of a framework through the quarters in the year.

Omkar Kamtekar: Okay. Okay. So, would it be possible for you to share what would be the range for FY'25, if it is possible, the FY'24 half, if you could extrapolate it?

Manoj Viswanathan: The current year disposal, the target would be around INR4000 crores. That is what we are targeting for this year. Next year, the target will be maybe INR4,800 crores to INR5,000 crores.

Omkar Kamtekar: Okay. And what is the sanction to disbursement ratio, if you can share, is that data point available? sanction to disbursement?

Manoj Viswanathan: Normally, around 80%-85% is the sanction to disbursement ratio range.

Omkar Kamtekar: Okay. And lastly, a question with respect to quality measures. So, as we go deeper into the more Tier 3, Tier 4 city, expand into these areas. So, the probability of us encountering people who are new to credit and as you said, the self-employed people. So, there is also a higher probability of they having subpar asset quality, so what will be the measures that we tighten our credit policy so that we don't increase the NPAs. Will there be specific additional measures involved or the current system would suffice?

Manoj Viswanathan: While we expand into this market, our basic principles are that the asset needs to be a formal asset, which has got a registered title. We will never deviate from that. That is our basic principle. From a property perspective, we will not deviate, we will maintain that. From a customer profile perspective, in smaller markets, there would be more self-employed customers compared to salaried customers because there would be lesser organized employment opportunities.

That is the only variation that we will kind of accept. So far, we have not seen any asset quality difference in smaller markets. Other than the difference between salaried and self-employed we don't anticipate any asset quality difference in smaller markets.

Omkar Kamtekar: Okay. So, we will also as a consequence, we are also not required to tighten our measures to disburse loans to them?

Manoj Viswanathan: Our screens are more or less the same. There is no difference in screens between a smaller market and a larger market.

Moderator: Thank you. We have our next question from the line of Punit Daga from VT Capital.

Punit Daga: Could you just state the reason like why we saw a decline in our yields by 10 basis points? Is it because of some pricing pressures which we are facing like in this segment?

Manoj Viswanathan: There will be some amount of variation month-to-month, quarter-to-quarter. Broadly, we are committed to maintaining a 13.5% kind of a yield on an overall basis.

Punit Daga: We are envisaging that the yield would go down going forward. Like could you state like why is it so?

Manoj Viswanathan: No, no. We mentioned that we have guided to spreads of about 525 basis points. That is more from an anticipation of increase in cost of borrowing, like borrowing could go up by another 10 - 20 basis points. So, which we have been saying for the last several quarters that we are planning to absorb that increase. Which is why we have guided to spreads of 525 basis points. Otherwise, the yields are broadly going to be in the same level that we are talking about.

Moderator: Thank you. We have our next question from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Congrats Manoj and team for the good set of numbers. Just wanted to get a sense on the co-lending piece. Can you comment a bit on the ticket size of the origination and probably, how does it vary in terms of what customers are selected across banks, some sense there would be helpful.

Manoj Viswanathan: Co-lending is allowed up to INR35 lakhs the ticket size. The ticket size falls between INR20 lakhs to INR35 lakhs. Broadly, if you see the average, it's between 20 and 25, the average ticket size for co-lending. From a profile, it is a little more formal customer segment. Customers who have salary credited in the bank and working for large organizations, etcetera.

That's the profile of the customer. And so, they would be purchasing properties which are priced between say INR30 lakhs, INR40 lakhs or to INR50 lakhs to gets the profile. This was a profile that earlier, we would avoid because the pricing would not fit into our pricing norms. But now we can actually address the segment through the co-lending program.

Sameer Bhise: And is the portfolio quality meaningfully different from our core segment or it is in the similar ballpark?

Manoj Viswanathan: As of now, this is a low vintage portfolio. I think the oldest case would be probably just one year old. At least from our own evidence or our own experience, we will not be able to comment. But logically, yes, it should be a slightly better portfolio quality.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Manoj Viswanathan for closing comments. Over to you, sir.

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 touch with Manish Kayal. Wish you a very Happy Diwali. Thank you.

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