HFFCIL/BSE/NSE/EQ/20/2023-24 **Date: 09-05-2023**

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 year ended March 31, 2023

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and year ended March 31, 2023 conducted on May 3, 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

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

Home First Finance Company India Limited

Q4 & FY23 Earnings Conference Call

May 03, 2023

.

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 Home First Finance Company India Limited Q4 and FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Kayal, Head, Investor Relations at Home First Finance. Thank you, and over to you, Mr. Manish Kayal.

Manish Kayal Thank you, Renju. Good afternoon, everyone. I hope that all of you and your families are safe and healthy. I am Manish Kayal and I look after Investor Relations of HomeFirst Finance. I extend a very warm welcome to all participants on our Q4 & full year FY23 financial results concall. As usual, HomeFirst management is represented by MD & CEO, Mr. Manoj Viswanathan and CFO Ms. Nutan Gaba Patwari. 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 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 afternoon, everyone.

I am pleased to share that HomeFirst reached several notable milestones in FY23.

- We now take pride in having served 1,00,000 customers since inception with total housing loans disbursed in excess of 10,000 Cr.
- Our physical branch office distribution crossed 100 branches (111 branches as of 31 Mar, 2023) and disbursed more than Rs 3,000 Crs in this financial year demonstrating a growth of 48.4% over the previous year.
- This year saw the entry of International Finance Corporation (member of the World Bank Group) as a lending partner to the Company with the issue of NCDs aggregating to Rs 280 Cr.
- We also received our first ESG Rating score under “low risk” category from Morningstar’s Sustainalytics.
- Declaring our maiden annual dividend of Rs 2.6/share (10% Dividend Payout).

Moving on to FY23 Financial Performance

- Profit After Tax at INR 228 Crs saw a growth of 31.1% on y-o-y basis over Rs 174 Cr in the previous year. This translates to a Return on Assets of 3.90% an increase of 30 bps compared to last year. As a result, ROE improved sharply by 170 bps to 13.5% in FY23 over 11.8% in FY22. In Q4FY23 the Company delivered an ROE of 14.4% vs 12.5% for Q4FY22.

- Strong financial results were achieved on the back of good disbursal momentum, AUM growth, portfolio quality and prudent management of cash and operating costs. AUM at INR 7,198 Crs, grew by 33.8% on y-o-y basis.
- Disbursal momentum continued into Q4FY23 with a disbursal of Rs 869 Cr a growth of 35.6% over Q4FY22.
- Portfolio health remains strong with further improvement. Bounce rates improved to 13.6% in Q4FY23 from 14.9% in Q3 FY23.
- 1+ DPD improved to 4.0% from 4.4% in Q3 and has dropped below Mar2020 i.e., pre-covid levels.
- 30+ DPD improved to 2.7% from 3.0% in Q3.
- Gross Stage 3 (GNPA) as per latest RBI guidelines, improved by 20bps to 1.6% in Q4 from 1.8% in Q3. This includes Rs 421 mn which is currently in buckets less than 90DPD but included in NPA due to asset classification norms as per RBI notification dated 12-Nov-2021. Prior to such classification it is 0.9% and stands below Mar20 levels

We will now focus on some of the key drivers and metrics of the business and outlook for the current year:

Technology:

- During Q4FY23, digital adoption has further improved.
- Usage of the customer app for various activities has increased. 93% of our customers are registered on our app as on Mar'23 compared to 91% in Dec'22.
- Unique User Logins have also seen increase to 57% in Q4 FY23 from 55% in Q3 FY23.
- 91% of our service requests were raised on app v/s 89% in Q3FY23.
- We continue to invest in technology and we have a number of projects lined up for the year that will enable us to widen our moats in origination, underwriting and collections.

Distribution

- We added 9 branches in Q4 and a total of 31 branches in the entire year. We now have 111 physical branches. 65 touch points were added this year taking the total touchpoints to 265.
- Our FY23 disbursements in our core segment of Rs 5-25 Lakhs ticket size are diversified with Top 50 districts of the industry contributing 72%, Next 50 districts of the industry contribute to 15% and the balance 13% from districts beyond the Top 100 districts of the industry. For reference, the Top 100 districts of the industry contribute to 62% of the disbursals in the Rs 5-25 Lakhs ticket size segment.
- We continue to focus our expansion in the States of Gujarat, Maharashtra, AP, Telangana, Karnataka and Tamil Nadu, supplemented by gradual and contiguous expansion in the other States where we are present. Expansion will span Tier 1, 2 and 3 levels of towns.
- We are targeting to reach 400 touch points by March 2025.

- We are targeting an AUM growth of 30%+ for FY24 to enable us to cross the 10,000 Cr AUM mark in the next 12-18 months.
- We have a three-pronged approach to growth – cantered on expanding distribution, increasing market share and expanding the addressable market through co-lending

Margins

- FY23 full year spreads at 5.7% is an improvement from 5.6% of FY22. Q4FY23 spreads at 5.5% declined by 10bps on y-o-y basis.
- We have increased our rates by 50 bps from 1st April onwards, an overall increase of 125 bps since July 2022 and this will stabilize spreads going forward.
- We are confident of maintaining spreads of 5.25% on our loan book in the medium term.

Asset Quality

- Asset quality is at pre-covid levels and we intend to maintain this with a bias towards gradual improvement. Our strategy is to achieve this by strengthening our data driven risk models and filters.
- The stability in input parameters post covid will enable us to accomplish this.

People

- We have always focused on building a high-quality team that is capable of high productivity.
- We have invested in creating a campus recruitment program with a connect across 200+ engineering colleges and business schools in the country. Freshers are equipped with the right knowledge and skill sets through a 1-year continuous training and testing process that will make them productive entry level employees.
- A majority of our Branch Managers and Cluster Managers are selected from amongst our existing employees and are trained on specific skills for the next role. This year we have planned some new initiatives to further strengthen our hiring and training programs

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

Nutan Patwari: Good afternoon, All

I will take you through our performance in Q4 FY23.

Key highlights

Financials

I will like to start by mentioning that we have now crossed 14% ROE and reported Q4FY23 ROE of 14.4%.

- Our Q4 Net Interest Margin is robust at 6.1%. For full year, it stands at 6.4%, increase from 5.4% on better utilisation of balance sheet and PLR increase of 75 bps we have taken till Mar'23. I would also like to convey that we have taken another round of hike of 50bps from 1st Apr'23.
- Net Interest Income has gone up by 44.6% in FY23 on YOY basis.
    - For the quarter, it increased by 30.6% on y-o-y basis to Rs 101 Crs.
- We did direct assignment of Rs 81 Crs during the quarter as a liquidity strategy (Rs 289 Crs for FY23). We continue to have a robust demand for our portfolio of assets.
- We executed Co-lending transaction of Rs 35 Crs in Q4 and Rs 89 Crs in FY23. Co-lending business is growing and expect this to contribute around 10% of disbursements in the near future.
- Opex to Assets stands at 2.9% for the quarter & 3.0% for FY23. As guided earlier, 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 34.4% in Q4FY23, decline of 130bps on yoy basis. For FY23, it stands at 35.7% v/s 34.0% in FY22. Q4FY23 PPOP stands at Rs 91 Crs, growth of 11.3% on qoq and 38.0% on yoy basis. For full year, this is Rs 317 Crs, growth of 26% from Rs 251 Crs in FY22.
- Credit cost in Q4FY23 at 0.4% is within our guided range of 30bps - 50bps. Our ECL provision stands at 1.0% of the total POS. We continue to be conservative with the provisions. Total PCR stands at 59.5%. Prior to NPA reclassification as per RBI circular, PCR stands at 104.8% vs 83.6% in FY22.
- Our adjusted PAT for Q4 of Rs 64 Crs; grew by 9.0% on qoq basis and 32.9% on Yoy basis. For full year FY23, Adjusted PAT is Rs 228 Crs, increase of 31.1% over FY22 PAT of Rs 174 Crs.

Liquidity and Borrowings:

- The Company continues to have diversified & cost-effective long-term financing sources. During the quarter, we added South Korea's Shinhan Bank and Indian Bank as our new banking partners and we continue to work towards further diversification. We have a healthy borrowing mix with 58% of our borrowings from Banks (Public sector 26%, Private sector 31%), 15% from NHB Refinance and 19% from Direct Assignment. We continue to have zero borrowings through Commercial paper. Our cost of borrowing is competitive at 7.9% despite not drawing NHB's Rs 600 Crs in FY23 (drawn in Apr23 month), increase of 70bps from 7.2% on yoy basis. We pushed forward drawing the NHB funds in Apr'23; as we had sufficient liquidity through other lenders and NHB funds in Apr'23 will help us manage our COB better in FY24.

Capital:

- Our total CRAR is at 49.4% and Tier 1 CRAR is at 48.9%
- Our Mar'23 Networth stands at 1,817 Crs vis-à-vis Rs 1,574 Crs as on Mar'22
- Our quarter ROA stood at 3.9%.
- Our annualized ROE for Q4 stands at 14.4% vs 12.5% in Q4FY22. For full year FY23, ROE stands at 13.5% vs 11.8% in FY22.
- Our Book Value per share (BVPS) stand at Rs. 206.5 as on Mar'23.
- Declared our first ever dividend of Rs 2.6/- per share.

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

Moderator: The first question comes from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: What percentage of AUM, have you seen an increase in EMI so far after having exhausted the tenor increase?.

Manoj Viswanathan: We are looking at in terms of number of customers. So about 2% of our customers have undergone an increase of more than INR 1,000 and another 3% is between INR 500, INR1,000. The balance would be either lower than earlier or lesser than INR 500. There are about another 20% who have an increase between INR0 to INR500, but a significant increase is only 5% of the customers.

Moderator: Next question comes from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Good evening and excellent set of numbers. First of all, the disclosures regarding the ESG and all, etc, is very fantastic. My two questions, in the previous commentary last quarter, you had said in southern markets, the ATS is getting stable at least in the Tier 2 and Tier 3 cities. And in northern markets, the ATS has witnessed reduction. Can you give some brief colour on what has happened in quarter 4? And what are the insights you're getting at the start of this financial year?

Manoj Viswanathan: What I was referring to was that in northern markets, the ticket sizes are lower than southern markets. In southern markets, the size of the houses and also the material used, etc is more extensive, so the ticket sizes tend to be a little higher. So, the same trend continues. We are seeing the same trend even in this year or this quarter as well. The ticket size in the southern markets is marginally higher than what we're seeing in Northern markets.

Rahul Maheshwary: And on your slide, if we go in where you have given some detailed information on the tech interventions, you have developed a lead management system. Can you give some more numerical quantitative details on how it will be helping and in terms of the throughput, how the trajectory you would be seeing going ahead? And second thing, how much leads you are getting on a monthly basis? And what is the rejection rate?

Manoj Viswanathan: Lead management system is just to streamline the processing of leads. We are already using Salesforce platform to track our loans. So, we just thought the lead management system will act as a central database for all leads which are coming through, and we don't have to run all those leads through our Salesforce system. So that is the reason we're building this lead management system plus it also has integrations with things like SMS, WhatsApp, etc. So, it kind of makes it easier to interact with the customers. In case we have to answer queries, etc. There are multiple features in it. It helps to route the cases to the right person, right colour, act as the central repository where we can pull various details like bureau, etc directly. There are many features which help us to improve the productivity. And as far as number of leads are concerned, it depends on the channels.

Overall, our conversion rate is about 40% to 50%. If we are booking about 3,000 to 4,000 loans in a month and a number of leads will be double of that. But in certain channels, there is a very large number of leads coming through like in digital channels. So, I'm not considering that as far as this ratio is concerned.

Rahul Maheshwary: Just one more question related to this. Whenever suppose 6,000 to 8,000 leads you receive, only 50% is converted, how much fees you are charging at the beginning for those cases, also in case if they are not converted?

Manoj Viswanathan: Rahul, on the leads which get declined straight away based on initial parameters, we don't charge any fees. If the relationship manager on the ground feel that the loan is feasible to go through, which satisfies some of the basic criteria, then we charge a login fee, which is about INR 3,000.

Rahul Maheshwary: Okay. I will come back in queue. Thank you so much.

Moderator: Thank you. Next question comes from the line of Renish from ICICI. Please go ahead.

Renish: Congratulations on the set of numbers. So just one question is on the spread. In presentation, we have mentioned that our incremental spread is sort of pretty low at 4.7%. So just one thing, is that after considering this 50 basis point rate hike?

Nutan Patwari: No, spread of 4.7% is for the prior quarter origination.

Renish: And secondly, which is sort of linked to this only. So, in the opening remarks, we did mention about maintaining spread at around 5.25%. But when we look at the incremental spread at 4.7%, how confident we are that we'll be able to meet this 5.25% spread in coming quarters?

Nutan Patwari: 13.4% is our yield for Q4 and we have taken a 50 basis point yield increase in Apr’23. So, we expect that with this increase in yield, the Q1 yield will close around 13.7% to 13.8%. That is almost 30 to 40 basis points higher than reported quarter which is Q4. Now on the cost of borrowing, we have drawn down NHB in Apr’23 and also, we are able to maintain a similar marginal cost of borrowing. So, we expect that the cost of borrowing will be around the same range or at least not more than 10 basis points higher.

So essentially 5.5% spread could practically expand for a very short period in quarter one. And quarter two, when the cost of borrowing moves up to 8.20%, spread can go back again to 5.50% - 5.60% levels. So that is how we are projecting this. We are very comfortable with the watermark that we have set out for ourselves which is 5.25%. That's the next two quarter projection on the spread we have. We also has to monitor how the RBI repo rate progresses in June and August and then decide if you want to do any further changes.

Renish: Okay. So just a clarification, when we do the rate hike, what percentage of our AUM gets repriced in a month or quarter?

Nutan Patwari: So essentially, for example, for April 2023 rate hike, all customers who were in the AUM as on 31st January will get repriced with the exception of NHB funds.

Renish: Got it. So basically, it's a 3-month period kind of a thing?

Nutan Patwari: 2 months, you can say.

Renish: 2 months, okay. And secondly, on the disbursement run rate, so this quarter, of course, we have seen the improvement. So, what kind of a sequential growth we are expecting given we have added people and branches in this quarter? So maybe first half, what sort of disbursement growth rate we assume?

Manoj Viswanathan: So, we have always maintained about a 5% to 10% kind of a growth on previous quarter. So, we intend to maintain that kind of number.

Moderator: Thank you. Next question comes from the line of Mayank Agarwal from InCred Capital. Please go ahead.

Mayank Agarwal: Hi. Thanks for taking the question. My first question is on opex. So, we witnessed a 7% Q-o-Q growth on opex while there was no branch addition this quarter. So, is it different because of the increased disbursement or we might see an increased number of branches next quarter so that opex was up contained? And my second question is on margins again. So basically, your current forecast is factoring the rate hike. However, you are still factoring the rate hike or rate reduction in this fiscal quarter. You know what you guided for a 5.25% spread.

Nutan Patwari: We've actually added nine branches in Q4. And that is also mentioned in our presentation. That is where the operating cost increase is coming from. The second question on margins, it assumes that there is no rate change by RBI either upwards or downwards. We will have to watch how it progresses in June and then take further action.

Mayank Agarwal: Okay. And secondly, are you witnessing any kind of increase in competition from small regional player, is it higher than what you have seen within a year ago? Any colour on that?

Manoj Viswanathan: No significant change. I mean competition has always been there in the segment. So, no significant change as much.

Mayank Agarwal: And my last question is on DA income this quarter. It was higher just because you've done more assignments in this quarter or anything specific there?

Nutan Patwari: No, just the volume. And we've also given the volume trends. Largely, we have mentioned that we will do around this INR 100 crores plus minus INR 20 crores.

Moderator: Thank you. Next question comes from the line of Chandra from Fidelity. Please go ahead.

Chandra: Hi, good afternoon. I had a few questions. Manoj, maybe you can just help me tell us what is the number in terms of rupees increase, what is the percentage increase in the EMI for these customers? And second is, what does this mean to the FOIR at this point in time versus origination? What's been the change in FOIR if you've done some work around that?

Manoj Viswanathan: Yes, the percentage increase, so when if you take an INR 500, we have basically looked at two buckets, 500 to 1,000 and 1,000 plus. So, INR 500 plus increase would be like a 5% increase in the EMI generally because average EMI is about INR 10,000 and so a INR 1,000 would be about 10%. So, 5% to 10% maximum 15% would be the kind of EMI increase which is 5% of the customers. And FOIR again, we can calculate the average FOIR is about 40%. So, on 40% the, if you were to look at it on income of INR 25,000, there would be a 2.5% to 5% change in the FOIR.

Chandra: Right. Secondly, you also said that, once you cross sort of 14% ROI, you eventually start moving to a different target segment of customers. I mean, those which you may not necessarily want to do business, given that your incremental lending yields are at 14%. Does the customer profile start changing, you know, in any material way?

Manoj Viswanathan: Yes. So, this is why we kept the incremental lending rate at about 13% to 13.5%. If you see, even for the current quarter, the origination rate is 13.5%. We are always trying to keep it below the 14% because 14% we feel there is a psychological threshold where you move into a different segment. We originated between 13% and 14%. And if we have to reprice it, we reprice it after a couple of, after a quarter or so, because then it just gets passed on as a tenor increase and not as an EMI increase.

Chandra: Right. So, could you just tell me maybe what's then the origination yield on HL and LAP at this time? I mean after the rate hike, which is taken.

Manoj Viswanathan: Blended rate is about 13.5 and LAP would be giving us about 30 basis points. So, 13.2% for HL.

Chandra: So even after the April increase your originating at 13.2%.

Manoj Viswanathan: No, this is before the increase. This is at the origination, time of origination.

Chandra: Okay. So even at origination for your new customers, you'll be originating a cycle lower and then take a rate increase later.

Manoj Viswanathan: Right. At the time of origination, we are keeping it below 14% and then we increase it after maybe a couple of quarters, if required.

Chandra: Right, and this quarter, the repayment rate was a little higher. Is it just the CLSS subsidy or is there anything else to be writing?

Manoj Viswanathan: There was a big CLSS subsidy tranche, which came in this quarter. Which contribute 8% of the portfolio erosion on an annualised basis..

Chandra: Right. And then lastly, When do we come up for our next rating change with you? I mean, obviously you just had an upgrade a while back, but just trying to see how does it look like in a year or a couple of years? How do we think about that? And just within the context right now, currently could you just help us with what is the leverage caps you are working with?

Nutan Patwari: Chandra, on these rating improvements, essentially, it's now an outcome of scale, subject to we are maintaining good asset quality, diversifying in terms of markets, improving profitability, and everything else remaining the same. Now, its is a function of scale. So, let's say once we cost INR 10,000 crores, let's say in the next 12 to 15 months, and add say three to six months from then. So, give or take about 18 months from now is the broad timeline is what it should take for the next rating upgrade.

Now coming to your second question on leverage, we are actually at, 3.6x as we speak. Now this is really, if you look at from a debt to equity, it's around 2.6x. So not significant leverage as of now and capital adequacy is also high, and we get a 35% risk-weight benefit. So, in our conversations with rating agencies, they are comfortable with a debt to equity of almost 5x. Now, you know, we've also been talking about INR 100 crores of assignment every quarter. We've also been talking about co-lending of 10% disbursement.

So, this really allows us to look at a very different AUM from let's say five years before where some of these products couldn't be scaled the way they can today. So, the AUM context would be very different, but you know, your asset to equity could still operate at let's say a 5x to 6x in the next rating cycle. So, some of these questions haven't bothered us and we are remaining focused on growth per se. And we think that the way it will happen in the next 15-18 months once we cross INR 10,000 to the AUM.

Moderator: Thank you. Next question comes from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Taking forward Chandra's question. In terms of this CLSS subsidy, I didn't get the number. It was 8% of AUM. What was the absolute quantum, if you can highlight?

Nutan Patwari: Yes. INR 138 crores is the absolute amount of CLSS subsidy that we received in Q4. In FY23 we received INR 266 crores. And with this, the good news is that we've received everything. So, no more deals on this particular line going forward. If you look at it, in percentage terms total asset runoff was 25%, 8% out of this was pertaining to CLSS on annualised basis for Q4.

Manoj Viswanathan: This is annualized erosion rate we have calculated.

Kunal Shah: So out of INR 422-odd crores, INR 138 crores is this.

Nutan Patwari: Yes.

Kunal Shah: Okay. And when we look at this entire BT out, so given that there is another further 50 odd bps kind of an increase, which we have done from April. So, any risk out there in terms of elevated BT out, or this is more kind of a Q4 phenomenon?

Manoj Viswanathan: Yes, it is basically Q4 phenomena. If you see Q4FY22 also BT Out was a little higher than the Q4FY23. So, it's just a Q4 phenomenon.

Kunal Shah: Okay. So, the hike would also not have too much of impact on this. And again, we should see it normalizing in the coming months?

Manoj Viswanathan: Yes, it doesn't seem to be because last Q4, rates were low and the BT outs were also again high. So, it's more of a quarter end phenomenon.

Kunal Shah: Sure. And then in terms of the branches, we added more than 30 odd branches and you have been highlighting that maybe for another couple of years, should we see similar kind of a run rate or maybe we have done some part of it and now it should slow?

Manoj Viswanathan: No, I wouldn't say slow, maybe similar kind of phase, about 20 to 30 branches, 20 odd branches we can say.

Kunal Shah: Okay. And overall, in terms of the disbursement, so again, after 18, 24 months or maybe two years down the line, because when we look at it, it's like say from 19 to 22, there have hardly been like 20 odd branches which were added and still there is a strong run rate of disbursements. So once these branches mature, almost like say 30 on 80 odd branches, which is again more than 35 odd percent. Then the disbursements should see a strong uptake once the branch mature and maybe at least this growth momentum can sustain.

Manoj Viswanathan: We get disbursements from all categories of branches. We will continue to put some new branches and the growth momentum is coming up from the larger branches as well.

Kunal Shah: In terms of the opex, overall, when we look at the opex to the expense ratio, it should stabilise. We are not seeing any, maybe 3% odd levels, obviously it has gone up from 2.7% to 3% for the full fiscal with the 30 odd branch expansion. So, I think broadly should be able to sustain this level?

Manoj Viswanathan: Actually, around this level, we had said when it was at 2.5% / 2.7%, we said it will go up to 3% to 3.2%. So that is what we are maintaining. Maybe for some more time, it will stay at these kinds of levels before it starts coming down.

Kunal Shah: Sure. And lastly, in terms of the ROA trajectory, so it's commendable that maybe 30 / 50 bps kind of addition every quarter accretion, which is happening. But now incrementally, what would be the levers available, both in terms of the ROA and ROE?

Nutan Patwari: So, some of the levers that we have is to really utilize the co-lending and DA to full potential. So that is one of the aspects. We are looking closely at credit cost as well. We can further optimize some of our cash utilization. Even if we are able to hold on the ROA at around 3.7% / 3.8% levels, with the increased leverage, we are hopeful that we should be able to move towards 15% ROE trajectory in the next two to three quarters.

Kunal Shah: Okay. So, co-lending & DA? And secondly, you mentioned credit cost also any levers available?

Nutan Patwari: Credit cost, if you see, we are still carrying 1% of provision of ECL as a percentage of our principal outstanding. Now, when the 30+ DPD is 2.7%, sometimes we'll have to relook at it. Some of those areas, we will take a closer look and see if there is an opportunity. And the fourth area that I also mentioned was cash utilization.

Moderator: Thank you. Next question comes from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Thank you to give me this opportunity. Really wonderful results. My question is, in Q4, interest income rises 47% while net profit rise only 7% and finance costs rise 76%? What are the reasons? This is INR 204 Crs is the interest income against INR 139 Crs.

Manoj Viswanathan: Quarter four total income is INR 139.7 crores for this year quarter four versus INR 102 crores for the last year quarter four. So that's a 35.3% increase in total income.

Ravi Naredi: The finance cost rises more than that.

Nutan Patwari: Sir, that is because the finance cost has gone up because there has been a lag in the increase in cost of borrowing. If you look at our last four quarters of cost of borrowing, though the repo rate has increased by 250 basis points, our rate is only by approximately 70 basis points. And there has been a very high degree of lag. We were able to maintain almost flat levels of cost of borrowing in Q1 and Q2 because they linked to MCLR borrowing. There has been a lot of lag and the cost of borrowing increased only Q3 and substantially in Q4. That is the reason why you are seeing a sharper increase in interest expense versus interest income. But when you look at it at a full year level, the interest income has gone up by 43% and the interest expense has gone up by 41%. So, we've performed better.

Ravi Naredi: For these other expenses also high, very high, INR 175 million against INR115 million?

Nutan Patwari: Sir, as we expand the businesses into more branches and more people, that is the reason. If you see the overall quality of return has improved sharply on a quarter-on-quarter basis consistently.

Ravi Naredi: Okay. And Mr. Manoj, can we assume the 30% CAGR growth is possible in next 2, 3 years?

Manoj Viswanathan: Yes, sir, we are targeting AUM growth of about 30% over the next 2, 3 years.

Moderator: Thank you. Next question comes from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: Congrats on good set of numbers. Just setting new standards as far as disclosures are concerned. So quite good disclosures. Particularly my question was on opex. So last year we guided that we'll carry on with some investment in this year, wherein the opex should be around 3% to 3.2%. We have closed it at about 3% and last couple of quarters, the opex has been over at about 2.8% / 2.9%. So how do we see this now over the FY24-FY25?

Nutan Patwari: So Sanket, we still want to expand, let's say, from 265 touchpoints to 400 odd in the next two years, which will essentially mean more branch locations, physical branch locations, more people, more travel and all of that. And as you know that you know there is a vintage by which the branch really starts to perform and the productivity etc. picks up. Basis all of that, we've done a bottom-up analysis and we are projecting a 3% to 3.2% level of operating cost to assets. We have calibrated it to 30% plus growth, this level of operating cost is essential today. So operating costs will be directly variables on a growth perspective. This is something we have in mind.

Sanket Chheda: And now that the stress has also normalized in terms of the credit cost, what run rate do we see in FY24-25?

Nutan Patwari: 30 to 40 basis points. We don't need more than that.

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

Raghav Garg: Yes. Hi. Thanks for the opportunity. Just a couple of questions. First one on the treasury income side. So, I see that you reported about INR 95 million of treasury income this quarter. The run rate usually has been about INR 20 / INR 22 million in last few quarters. When I look at that as percentage of average assets, that's about 1.6% versus a run rate of about 1.1% in last several quarters. So, can you explain what is the reason behind this bump up and whether this is sustainable or not?

Nutan Patwari: Raghav, when you look at the overall treasury investment management, it essentially falls into three buckets. We look at liquid funds, essentially overnight funds for the very short-term liquid funds, which carries no underlying risk. The second category is deposits with the consortium banks and the third category is T-Bills. Now depending on the underlying disbursal and operating cost plan, we choose between these three products, essentially depending on where we think we can maximize the returns even if it is 10 or 20 basis points. So, in this quarter, it so happens that we placed more deposits and lesser liquid funds, which is why you see now reduction in mutual fund income and an increase in the bank deposit income in our fact sheet.

Coming to your second part of the question on sustainability, at a very high level, this presents almost a 6.5% to 6.6% of yields on the funds placed across these three categories. So, it will depend on two things. One, the operating rate in the market and secondly volume. As far as volume is concerned, we don't expect to increase it by any meaningful number. So, we want to keep approximately two months of disbursals with us in cash and cash equivalents on the balance sheet to optimize our cash holdings. That we will continue to do. We don't expect the overall treasury income to be changing meaningfully. It can change between the three categories.

Raghav Garg: Right. So is this understanding correct that, you know, the run rate will not be as high or whether if we look at this, the yield that you just mentioned around 5%, 6% versus around 1% / 1.5% that we've seen previously is not sustainable. Is that, would that be fair to assume?

Nutan Patwari: No. So, it will really depend on where the repo rate is. So as long as the repo rate is 6.5%, there is no reason why this should change. We have not seen 1.5% earlier. We used to see more in the range of 4%, 4.5%, which is similar to the repo rate then. It is really a function of the repo rate at that point of time.

Raghav Garg: Understood. My second question is on your PLR hike. So, if I do the math, July, you would take in about 25 basis points. December, again, another 50 basis points. Cumulatively, that's about 75 basis points that you've taken in FY23. But on your reported yields, the increases are only about 60 basis points. So, can you explain, to what extent have you been able to pass on the rate hikes that you've taken in FY23? And in light of that, how confident are you that this 50 basis points of PLR hike that you've taken in April 2023, to what extent will you be able to pass that on in order to mitigate any margin compression?

Nutan Patwari: So, let me break down this for you. So, when we take any rate hike, we look at various pools of AUM. And there is one significant chunk, which is your NHB's AHF pool, which is a fixed rate pool on asset side as well as liability side where we do not increase the rate. Now, please also remember that this particular pool has similar or better spreads to us in itself. So, you know, there is no need to worry from a spread compression on that particular part of the pool. That pool has been about INR700 crores, more recently it's increased to INR900 crores. So, when we take any rate hike, we have to exclude INR900 crores out of our total rate hike pool. So, when you look at the blended increase in the yield line, the drop from 75 to 60 represents the fact that you've not taken any increase on this pool because it is fixed in nature on both sides.

Raghav Garg: Sure. I understand. This INR700 crores that you're mentioning, this is as of March 2023, is that?

Nutan Patwari: Yes. This is as of March, and INR900 crores as of April.

Raghav Garg: And this would be under affordable housing fund?

Nutan Patwari: Yes.

Raghav Garg: Right. Do you have any visibility or any sense whether this AHF fund will be rolled over or whether it will get any new deposits in FY24 or not?

Nutan Patwari: So out of the INR 600 crores that we have drawn down in FY24 in the month of April, we already have received INR 300 crores under this fund. This next application will happen in July because the NHB refinance year is July to June. So, we will have to engage with the officials at that point of time and we would only have a better understanding perhaps in Q2 of this year.

Raghav Garg: Sure. And if at the system level, the AHF fund does not get rolled over in FY24, would that mean that typically, if a company is lending under the AHF, then without it, there would be some kind of pressure on margins for a typical housing finance company? Would that be correct to assume?

Nutan Patwari: No, simply because it's a very small set of our book today. If you see, like I mentioned, INR 700 crores as of March out of INR 7,200 of AUM and we're able to manage the margin on the spread to the rest of the book. So, there will be no impact or anything of that front.

Raghav Garg: Sure. Thanks a lot, Nutan. That's all from my side. Thanks.

Nutan Patwari: Okay. Thank you.

Moderator: Thank you. Next question comes from the line of Amit Ganatra from Invesco AMC. Please go ahead.

Amit Ganatra: A couple of questions. One is that I think at the beginning of the last year, so during first quarter concall, you had mentioned that spreads from 5.8% can come down to 5.25%. Now if you see the spreads have come down to 5.5%. But when they have touched 5.5%, your guidance seems to be that spread should remain stable. So, any specific reason as to why this change in thought process when it comes to spread? So that's my first question, and I'll ask the second question later.

Nutan Patwari: Our guidance still remains at 5.25% on the lower end. What we are trying to say that the visibility for the next quarter seems to be stable on spreads.

Manoj Viswanathan: Yes. And also, one year after that, sitting where we are today, the overall outlook on interest rates seems to be more that there may be a minor increase or to flatten out. So, which is the reason for our slight change in stance.

Amit Ganatra: Okay. And on the borrowing side, I mean, your reported cost of borrowing is 7.9%, right? And what is the incremental right now, cost of borrowing?

Nutan Patwari: 8.80% excluding NHB.

Amit Ganatra: Okay. That was my other question that in terms of your borrowing mix, so why is it that NHB as a percentage is continuously coming down?

Nutan Patwari: If you see March '22, we were at around 27%. And in the last four quarters, we did not drawn on any NHB, which we draw on in April '23. So, when you look at Q1, that number will go back to 20-plus levels. So, it's just a function of when we have drawn down the NHB funds.

Amit Ganatra; Okay. So, during the course of the year, you did not draw down anything and that's why that kept on coming down? And now once again, if you're saying that in April you drawdown automatically in the first quarter the share should go up?

Nutan Patwari: Yes.

Amit Ganatra: So then if that happens, then that also helps in terms of overall cost of funds, right?

Nutan Patwari: Absolutely. So that's why we are saying that our Q1 cost of fund will not go up. See if you remember, Amit, we've always said that there is a lot of lag in MCLR. So, the increase actually started to happen in Q3. So, we've seen the increase in Q3, Q4, but because of NHB, we are saying we should be able to hold it in Q1 and then see another 20 basis points rise in MCLR, 30 basis points in Q2, and then there's a flat line after that.

Amit Ganatra: Okay. After that, okay, you're saying and then there should be a flat line?

Nutan Patwari: Yes.

Amit Ganatra: And cost, you are saying that you still will be in the investment mode?

Nutan Patwari: Yes, we have to be right.

Amit Ganatra: Okay. So more or less, from an ROA perspective, this year, the fact that you managed to protect ROA itself is decent, right? Because overall, there was this possibility that ROEs could have declined. I mean at the beginning of the year considering interest rates going up, that was this possibility, but that has not happened. So now the important thing is that more or less, we should be able to maintain ROAs at these levels and as leverage should go up, which should drive ROEs, right? That should the thought process?

Nutan Patwari: Absolutely. That is the thought process.

Amit Ganatra: Okay. Understood. Thank you.

Moderator: Thank you. Next question comes from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Firstly, on the disbursement, can you share the disbursement per branch on three-year vintage branches, the branches which we opened three years back, what is the disbursement per branch on an annual basis for FY23 from those branches?

Manoj Viswanathan: Three years plus vintage generally will be about INR 3 crores-plus per branch.

Nidhesh Jain: INR 3 crores-plus, per month?

Manoj Viswanathan: Per month, yes.

Nidhesh Jain: Sure, and secondly, in the distribution in the origination, the share of connectors continues to go up. So, the origination mix is becoming much more concentrated towards Connectors. So, does it worry you or is it a stated strategy that Connectors is the best segment to originate loans?

Manoj Viswanathan: No, the Connector group itself is a very diversified group, and the distribution of loans is also very diversified. So, most of the connectors are only providing us one or two loans in a month. And the connectors are also from different categories. So, these are not large entities which are giving us any concentrated business. We are very comfortable with this channel. And if you look at the asset quality also, the connector groups asset quality is good or better than the overall average. We are very comfortable with this channel.

Nidhesh Jain: And what will the count of active connectors for the quarter?

Manoj Viswanathan: Active connectors for the quarter is about 2,382.

Nidhesh Jain: There is significant increase in the quarter-on-quarter on active connectors in this quarter. I think last quarter was in the 2,100 connectors.

Manoj Viswanathan: Correct, about 200-plus is the addition.

Nidhesh Jain: And lastly, on the operating cost, when should we expect operating leverage cost to asset ratio to start improving? FY24, I think it will still be in investment mode. But should we expect operating leverage to play out from FY25, or that will also be early to expect that?

Manoj Viswanathan: I think from FY25 some operating leverage should play out. So, I mean the objective is to bring the cost to income at least marginally lower in FY25.

Nutan Patwari: Nidhesh, having said that, if you compare us with the larger players in the affordable housing industry or even the prime industry, we are actually quite competitive when it comes to operating cost. Whether you look at it an opex-to-AUM per loan or per lakh of disbursals, whichever way you slice it. So, from that perspective, the focus right now is growth and of course maintaining the right optimal levels, not over stressing about the operating cost and compromising growth. So, it's really a choice that we are making to focus on growth, maintain right asset quality, and then also not go overboard on operating cost. We've been maintaining this 3% approximately, which is actually quite good.

Nidhesh Jain: Sure. Last question on the LAP segment, which is witnessing a reasonably strong growth and the share of LAP has now increased to almost 13%. And we have guided that long term, we want to keep the share of LAP at around 15%. So, if you can share what is the ticket size in LAP and the 15% limit still holds true for us?

Manoj Viswanathan: Yes. was currently disbursing at about 15% rate. And so, I guess maybe in a couple of quarters, the AUM will also catch up to that level. So, at the moment, our stand is that we'll stay with 15%. We'll see the portfolio quality for maybe a few more quarters before we start taking a decision to take it further up. The ticket sizes are generally in the same range as our regular housing loans, no major difference.

Nidhesh Jain: Sure. That's it from my side. Thank you.

Moderator: Thank you. Next question comes from the line of Karthik Chellappa from Indus Capital Advisors Limited. Please go ahead.

Karthik Chellappa: Hi, Manoj and Nutan. Congrats on the quarter. So, I have three questions. The first is, if you were to look at your 78,000 odd borrowers, how many of them either anecdotal or so have either experienced a drop in their income or possibly face the job loss? It could be economic, it could be macro, but I'm just trying to see what portion of your customers based on the interactions that your field officers had with them would have experienced a drop in income, whether it is inflationary or macro or fall in demand or any reason?

Manoj Viswanathan: Generally, if you look at it on a steady-state basis, we keep reviewing our collection cases. Typically, about 15% to 20% of the collection cases, the reason comes as job loss. I'm talking about the collection cases, And in most of the cases, the resolution is also that the customer has got another job. So now he will catch up on his instalments. So, in job loss cases, we don't normally see a permanent delinquency. So, this is all from our collection experience.

Karthik Chellappa: And the 15% to 20%, what was the pre-Covid number and has it gone up in any significantly, or is this more in line?

Manoj Viswanathan: Well, ratios have actually come down to pre-Covid levels. If you see 1+ DPD is at 4%. So, since the numbers have come back to pre-Covid levels, we are not seeing anything different from our pre-Covid times. And 30+ DPD has also come down to 2.7%. Generally, the reasons are similar, temporary job loss, and the customer will get back another job or is getting another job. The problem is more permanent in case of medical problems, where there is a serious medical issue in the family, etc. The ratios are generally the same. We have not seen any particular reason going up as such.

Karthik Chellappa: Got it. My question is, if you were to just look at our AUM mix by credit history, the new credit is now almost 20%. And if I'm right, it's probably one of the lowest among our previous two to three years or so. Typically, what is the difference in the yield with new to credit customers and customers with a credit score? And at what point of time do you think you'll be comfortable to increase this ratio?

Manoj Viswanathan: This ratio is actually coming down because it's more of a market phenomenon. There are more-and-more customers getting some form of credit, and they end up getting a score. We are being true to our segment, which is, people who are building their first home between 20,000 to 50,000 income levels, coming with some form of informal income, etc. So, in that segment, more-and-more customers are getting credit, either a small personal loan or a consumer loan, etc. As a result of it, they're getting a score. So, this number, according to us, is actually reducing secularly every quarter. So, every quarter, you're seeing a 1% - 2% kind of a drop in this number. It's just a question of time, maybe in the next six quarters to eight quarters, it will vanish completely. I mean, you may not find customers in our segment who don't have a credit bureau score. So that is really the way we are looking at it.

Karthik Chellappa: Okay, interesting. And my last question is basically on channels. Now, in the past, we've had this separate channel, which we're trying to develop called strategic alliances. And I think we have an officer heading that. What constraint are you actually facing in scaling up this channel, if any?

Manoj Viswanathan: It's a channel which, has multiple problems that need to be solved. And we along with partners are working towards it. The challenge is not getting leads. I think I've mentioned this in the past also that you get a very large number of leads through these channels. But the intervention that the connector provides of actually filtering the leads to understand which customer is serious, which customer is eligible, etc. So, there is some value-addition being provided by the connector, which is absent in the other channels including the strategic alliance channels, because they have leads come through without much of much filtration. So as a result of it, the conversion rates are low. So, we are working with the partners to see how to address this challenge. And at some point, there will be a good enough solution to it and then the channel will start scaling up.

Karthik Chellappa: What exactly is the difference between a connector and a micro connector?

Manoj Viswanathan: Yes, just a certain classification difference. Micro connectors are located near the branches. I mean, they're like neighbourhood shops. Whereas these connectors are more of people who are in the real estate segment or in the financial services segment and they are in touch with our kind of customers. So, the neighbourhood shops, the arrangement or relationship with neighbourhood shops, we call it as micro connectors.

Karthik Chellappa: Okay, got it. Very clear. Thank you very much for your replies and wish you and the team all the very best for FY24. Thank you.

Manoj Viswanathan: Thanks, Karthik.

Moderator: Thank you. Next question comes from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Hi, Manoj. Hi, Nutan. Congrats on a good quarter. I joined around 20 minutes late, so please let me know in case some of the questions that I ask is a repetition. I'll listen to the recording after the call. First things first, I mean, have you already addressed why we chose to increase the provisioning cover in this quarter?

Nutan Patwari: We've kept it at the similar levels compared to what we've been doing last five quarters or six quarters.

Manoj Viswanathan: We wanted to keep it at 1% of the overall book. We have kept at that. We'll observe our delinquencies more over the next four quarters, then we'll take a call on whether to bring that down or not.

Abhijit Tibrewal: Got it. And secondly, Nutan, the other income that we are seeing now, it's a fair thing to annualize it, right, for year-on-year.

Nutan Patwari: Yes, you can annualize it.

Abhijit Tibrewal: Then the other question that I had was on the branches, some of the mature branches that we have today, in terms of productivity, do you think that they are anywhere close to their peak capabilities in terms of the kind of AUM that they manage, or do you think we still have basically capabilities in even our mature branches to further scale up?

Manoj Viswanathan: We are looking at, say, branches reaching at least INR 200 crores before we start thinking about them tapering off. So, I think at the moment, we have only maybe one branch approaching that number. But we have a lot of branches in the INR 100 crores to INR 200 crores category, or INR100 crores to INR150 crores category, so they still have maybe at least a couple of years to go before we can start thinking about them tapering off. But I think every time a branch crosses a certain threshold, we are able to discover new ways of making them more productive. So, we are hoping that even at the INR 100 crores, INR 200 crores barrier, we'll be able to kind of push it further.

Abhijit Tibrewal: Got it. Maybe one more question that I had was, again, I'm not trying to suggest that we should grow faster. As a matter of fact, I feel analysts or investors are happy if you continue to grow at maybe a 30% kind of a CAGR over the next few years. But just try to understand when you look at the demand which is there in the affordable housing segment, when you look at some of your peers in the unlisted affordable housing segment, and the rate at which you are growing. So is it that we are consciously kind of trying to maintain these levels of disbursements so that our asset quality is under control, we cherry-pick our customers, we are able to pick and choose which customers we want to lend to.

Given that there is so much demand, given that there is so much of disbursements that's happening even from some of the unlisted affordable players, are we making a conscious decision of keeping disbursements under check, or how should we kind of read this?

Manoj Viswanathan: Yes, to some extent, I mean, we are focusing on, it's a question of bandwidth. If we put all our attention on disbursals, maybe, as you mentioned, we can grow more. But we are trying to just balance it, because we also have to create an organization that will be able to handle a much larger book. And, coming back to the question on branches, we have to start thinking what happens when a branch is INR 150 crores or INR 200 crores, how do we make it more productive? So, we are also spending time answering some of those questions and getting the branches ready for that. So that occupies some time.

And plus, if you see our rate of interest is also has been extremely good, even though we have very little loan against property, our blended yields are very strong compared to our peers. That is also another area, where we kind of focus. We are trying to get the right kind of customers in the segment who are willing to pay that kind of rate, that also is one of the parameters that we look at.

Given all this, given that we want to create a strong foundation for a strong, strong brand structure, get the right kind of customer who will pay us, good yield, we feel comfortable with a 30% kind of growth rate.

Abhijit Tibrewal: One last question. Here, if you assume basically two scenarios that going forward, there are no more repo rate hikes and assuming another 25 basis points repo rate hike. Under these scenarios, what says where we are in terms of cost of borrowings, where should we be? If there are no repo rate hikes and if there is a 25 basis point repo rate hike, where should I cost of borrowing stabilize?

And against that, against these two scenarios, in case there is a 25 basis point hike, what is the, I would say, increase in yields that you would have to take to maintain or to meet the guidance of stable spreads from here?

Nutan Patwari: Right. So, let's go one by one. The first scenario is where there are no more changes in the repo rate. We are seeing that our cost of borrowing will be at 8.20% in the next two quarters. So that is the peak. Now moving to the second scenario, if there is a 25 basis point rate hike in repo in June, let's say, we will see this 8.20% getting to 8.40%.

Then that takes us to the yield question. So, if we want to stick to 5.25%, we frankly don't have to do much. We don't have to do anything. But it will be a call at that point in time, how we want to look at new growth versus old customers, how we want to look at this whole EMI portfolio, etc. And at that stage, we can decide if we want to pass on or want to absorb. But those decisions will have to come post the June rate hike, if it happens.

Moderator: Thank you. Next question comes from the line of Nischint Chawathe from Kotak Institution Equities. Please go ahead.

Nischint Chawathe: Thanks for taking my question. Firstly, you mentioned that your incremental cost of funds is around 8.8%. Then how do you expect your average cost to flatten out as 8.2%? I understand that there is some support coming from NHB. But if your incremental rate is higher than your weighted average, then it should kind of start continuing to inch up, right?

Nutan Patwari: Right. So, we've discussed this. So, there is a 50 to 70 basis points impact that comes because of the NHB portion. So, we've taken INR 600 crores of NHB drawdown in the middle of April. That will really help us to hold our rates at around 7.9% to 8% in quarter one. And then, of course, if I look at the rate today, it is below 7.9% because of a sudden increase in NHB in April. But of course, the lag is also being passed on.

I will touch closer to 7.9% / 8% for the full quarter. And then 8.1% to 8.2% is the peak that we are seeing in Q2. So, this essentially depends on what is the mix of NHB in the overall borrowing book. As long as I am at 20% levels broadly, I will continue to get that 60-70 basis points NHB impact on the blended cost of borrowing.

Nischint Chawathe: So basically at 8.2%, you're just sort of building in the annual borrowing program?

Nutan Patwari: Yes. And for the first half of this year, we've already drawn down in April. So, it's no longer an if or when, it's already done.

Nischint Chawathe: Got it. The second question is on collections, in stage two is at around 1.1%. And peak was, I think, the best was like 80 or 90 basis points in 2018 or so. Do you think that we are already there at the best level where we can be? Is there a scope for improvement? And do you see that we are already at the best levels where we can be or are not coming to further? And probably how was April vs April last year?

Manoj Viswanathan: Yes, so we are more or less there in terms of the pre-Covid levels. Of course, our aim is to keep on improving. And I think as our experience also keeps growing, we will be able to improve it. Maybe not substantially, but at least marginally we will keep improving it because our experience on what works and what doesn't work will keep on increasing. So, we will implement that, and we will try to bring some improvements. So yes we are more or less there. We will keep trying to improve marginally from here on.

Nischint Chawathe: And how was April vs April last year?

Manoj Viswanathan: April was April last year was, I mean, compared to April last year was substantially like March versus last March has been substantially better. So, April is on that base. And generally, we don't have that kind of a skew in March. Our first quarter is generally similar to our last quarter of the previous year. So, I would say, I mean, there's nothing significant to report as far as April is concerned. It was a good month. Are you talking about collections or are you talking about disbursals?

Nischint Chawathe: I am talking about collections.

Manoj Viswanathan: Collections, yes.

Nischint Chawathe: The collection efficiency, which I think some of your peers put out, we'll probably say that April versus April would not be very different.

Manoj Viswanathan: April versus March is still very similar. I would say maybe just a marginal difference.

Moderator: Thank you. Next question comes from the line of Jatin Sangwan from Burman Capital. Please go ahead.

Jatin Sangwan: Hi, thanks for taking my question. I wanted to understand under the breakup of this other non-interest income, there is a section called others. It was more or less zero for the last eight quarters. Now it has increased to INR 4.5 crores. What is this income related to?

Nutan Patwari: We started some work on using our website for marketing, etc, and getting revenue against that. We expect that this will be consistent on a quarterly basis going forward.

Jatin Sangwan: Okay, great. And now the second question is around the AUM growth you're guiding for 30% AUM growth for FY24. Is that conservative guidance because on one hand you're guiding for 5% to 10% Q-o-Q growth for disbursements and repayment rate will come down as there will be no impact of CLSS subsidy. So just doing the backend calculation, you will be growing at 35%-36% growth. So, are you being conservative by giving like 30% growth guidance for FY24?

Manoj Viswanathan: I can only say we are aiming for 30%.

Moderator: Thank you. Next question comes from the line of Amit Ganatra from Invesco AMC. Please go ahead.

Amit Ganatra: Just one question I missed was this co-lending business. Can you explain, if this business grows, then what kind of implication it has on, first of all, where does the income get looked? Just like, any other lending that you do, the entire thing gets reported in interest income and interest expense in your proportion, or how does it get recognized?

Nutan Patwari: Yes. So as far as reporting goes, Amit, it gets reported in the respective lines. There is no up-fronting in co-lending. So, no spiking of income or expense, so just on the tenor based for our portion as well as for the portion to bank. The only portion that we get up front is the processing fee that we collect from the customer. And then we sell down 80%. So that part of the processing fee comes to us in the quarter where we actually transfer the loans, which is not a very large number.

Coming to the portion of how we are looking at it from an overall level. See, once we do the transfer to the bank, we are able to leverage a book much better. That's one from a financial perspective. Second, we're able to actually address the adjacent market, because we actually can look at a sizable portion of slightly higher ticket cases of 20 / 25 / 30 lakhs where the borrower expects a lower rate of interest.

So that opens up and it also improves productivity for our front-end teams. So those are the broad two or three aspects on how we're looking at it. Maybe I can just request Manoj to share how we are looking at expanding this.

Manoj Viswanathan: Yes, mainly co-lending will have the impact of helping us expand the addressable market. I mean, that's the key benefit from co-lending, because we end up spending time on distribution, building distribution. But in some places what happens is, in the same area there are adjacent ticket sizes. In the same project, same area, there are adjacent ticket sizes that come to us.

So, we generally operate in the 5 to 25 lakhs. But when the ticket size comes in the 25 to 40 lakh range, generally the customers are a little more rate conscious. They are a little more formal in their overall outlook. And as a result of which they are more rate conscious. That is the segment that we have to give up. I mean, we may end up even meeting the customer, but then the customer does not take the loan from us.

So that is a customer segment that we can address through co-lending. And it helps us overall improve our productivity of our teams and improves our brand presence in the market. So that is really how we are looking at co-lending. And of course, it is an accretive product because the capital allocation from our side is also very low for this product. So overall it is a win-win. And for the bank it is very good because they get extra distribution, and so it's good for them as well.

Amit Ganatra: But from a customer's perspective, he is taking loan from your company only, right? Or is he aware that there is a bank?

Manoj Viswanathan: Yes, we are the front face for the customer. So, the customer knows that he's going to interact with us through the life of the loan. He is made aware of that it's a co-lending product. So, there are two parties involved. That is something that we make the customer aware. And for that anyway, the customer gets a benefit of a lower rate.

Amit Ganatra: Okay. So effectively, I mean, if proportion of co-lending goes up, then from an optical perspective, it has a deflationary impact on your yield as well as cost, right?

Manoj Viswanathan: Sorry, inflationary impact on yield?

Amit Ganatra: Deflationary, because if co-lending goes up as a proportion, then the reported yields tend to go down, reported cost?

Manoj Viswanathan: Yes, but we are reporting origination yields, we are reporting ex-co-lending.

Nutan Patwari: Yes. So, see, if you see page 27 of the presentation, the 13.5% is excluding co-lending.

Amit Ganatra: Okay. But from a calculated perspective, when we calculate it, it will, come down, right? And leverage goes up?

Nutan Patwari: Leverage goes up, yes.

Amit Ganatra: But leverage, why should it go up? I mean, you, you have the same risk weight, right? Why should leverage go up?

Nutan Patwari: It will go up when you look at it from an AUM perspective.

Manoj Viswanathan: No, but when they calculate also, it should work out now because the principal on our book is only 20%. So, the interest that we're getting will be measured on the 20%, not on the total. So, the yield also should work out.

Nutan Patwari: But it's a lower yield loan. That's why.

Manoj Viswanathan: So, a rate to the customer.

Nutan Patwari: So, a rate to the customer, so the blended will go down.

Amit Ganatra: It goes down, but leverage should not necessarily go up, right? It basically helps you to improve your leverage faster is what I can understand. There was a possibility that this customer would never have been your customer. If co-lending was not a product available to you. So, it helps you to report higher growth. It actually helps you to improve your TAM to some extent. And to a large extent, I mean, since the risk and everything is shared, so to that extent, yes, it's actually a win-win at this stage if it works.

Manoj Viswanathan: And the customer also is marginally better because it's the formal customer.

Amit Ganatra: Correct. Exactly. Understood. Thank you.

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

Aravind R: Good set of numbers. I just have one question. So, like on fee income side, I can see like, there was like a INR 3.6 crores in fourth quarter and INR 3 crores in third quarter, but it was virtually nothing in the previous years. What are the driving factors behind this? And the other question is just a clarification. You are mentioning 50 basis points rate hike in first of April 2023. So, the overall impact on yields will be 30 to 40 basis points, and then it could be stabilized around that?

Nutan Patwari: Yes. So, one by one, on your first question of the fee income, this largely represents the processing fee that we get on closures. So, every time there is a repayment or a partial repayment or a BT out or when we do assignment or co-lending or when we receive any CLSS subsidy, we get a small fee from NHB. So, every time we get like we got INR 137 crores of subsidy, so that's why you see this number going up. So that is the first part. The second part of 50 basis points, yes, once we take this rate hike in first April, it will stabilize around that 30 to 40 basis points plus levels.

Moderator: Thank you. Next question comes on the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hello, sir. Good evening and thank you for giving me the opportunity. And congrats on yet another strong quarter. So, my question was pertaining to the branches that we have. So, what percent of our branches would be more than INR 100 crores? And what percent of our branches would be less than INR 50 crores? And checking in line with the same question, what would be the KRA, like if you could highlight some KRAs of a branch or of an employee who would be operating at a mature branch.

Manoj Viswanathan: So, about 25 branches out of 111 are more than INR100 crores.

Moderator: Since there is no reply on the line of Mr. Shreepal, we'll go with the next. Next comes Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: So firstly, on the non-interest income, this component has declined sharply in FY23. So, what is the outlook here? I understand it's partly driven by lower DA direct assignments. So, could this as a percentage of assets remain the same going forward? Or how do you see this?

Nutan Patwari: We've been doing about INR 100 crores of DA approximately. We will continue to maintain that. So as a percentage, the gain on DA as a percentage will remain ballpark around 1%.

Mona Khetan: Okay, so what was the primary reason for non-interest income coming down so sharply this year?

Nutan Patwari: Are you specifically referring to net gain on DA or any specific line? Because when I see non-interest income, it's actually gone up from 1.1% to 1.3%.

Mona Khetan: I'll take it offline. The other question was, on the write-offs, so how many write-offs have you made this year? And if you could also share the cumulative write-off the company has made so far?

Nutan Patwari: So last year, we had a write-off of INR 22 crores. And this year has been less than 50% of that. So approximately INR 10 crores. Also, it's important to remember that the write-offs are majorly short recoveries when we close loans. And for most part of this write-off, we already have a provision. But when we actually close the loans, it appears in the write-off line and not in the net provision line. So, there is no financial impact per se, because we are replacing those provisions with newer provisions. Your second question was about the cumulative write-off, it will be approximately INR 40 crores to INR 45 crores.

Mona Khetan: Sure. Thank you. So, FY23 was INR 10 crores?

Nutan Patwari: Yes. Write-off.

Moderator: Thank you. Next question comes from the line of Manuj Oberoi from Yes Securities. Please go ahead.

Manuj Oberoi: Yes. Hi. You know, congrats on great numbers. This question is on the provisioning coverage on Stage 3 assets. So that's been consistently taken up. Any specific reason behind this, or is this pure conservatism, or is it also driven by the recovery experience on the top?

Nutan Patwari: So, see, we have thought that we want to keep the overall provision at 1% of the principal outstanding. Now, if you have to do that, you have to park it against some exposure. Now, in a situation where the 30+ DPD is continuously improving, it becomes difficult to park it in Stage 2 or in Stage 1, because, probability of default models, etc, showing a right back. But then we said, okay, if you want to still continue with given the conservatism approach we want to follow, so then the only place where we can practically park is as an overlay in Stage 3.

So that's how it ends up appearing there. As you have seen from the credit indicators, even Stage 3, the pre-RBI NPA is back to March 20 levels. So, no indicative stress, but it's just a parking position from how we are looking at it.

Manuj Oberoi: If it's a management overlay, if in case if the Stage 2 increases in the future, would you dip into Stage 3 provision and, shift from provision in Stage 2, or would you still, so because I mean, if it's already allocated to Stage 3, then how would you then treat the provision in the future?

Nutan Patwari: So, see, movement between stages is allowed because it's an overlay. It's not a big issue. I think in a situation where Stage 2 increases, in my mind, that's a bigger issue to be resolved. So frankly, we'd have to go back and see where the concern is and why that would happen. What we are seeing even today based on daily collection, our fresh flows are actually improving. So, there is no reason that we think that in the near term we should get to a stage where 30 DPD is concerning from where we are today.

Manuj Oberoi: Got it. So, it's pretty much floating. And just on this Karnataka and, Maharashtra, I mean, they're part of our core focus markets, but they kind of continue to grow slightly slower than the overall book. When do we see a stronger turnaround in those markets, and they start growing in line with the overall book?

Manoj Viswanathan: Maharashtra should start turning around this year. And as far as Karnataka is concerned, a large part of the business comes basically from Bangalore itself. And I think it will continue at similar levels. But in Maharashtra, you should start seeing an increase in AUM.

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

Aravind R: Hi, sorry, the same questions on fee income itself. Like, can we expect, fee income run rate to be around this level? Or like, do you think it could increase like as a percentage of it or like something?

Nutan Patwari: So, I want to remind you that this fee income is not the processing fee income that we recover from customers at this stage of onboarding. That goes and gets booked in the interest line itself under the EIR norms of IndAS. This fee income pertains to early closures or any additional fee that we recover from CLSS subsidy. So CLSS subsidy is no longer there. So, you know, that portion will not come. So, what I can confirm is that probably 50% of this should continue because we will not have any more CLSS subsidy going forward.

Aravind R: And because of interest rate hike, do you expect a BT out rate to go up maybe?

Manoj Viswanathan: We have not seen that happening so far. You see the BT out rate, it's more of a, there is a year-end spike and otherwise it just follows a normal trend. Even through the last year, there were multiple interest rate hikes. You have not seen any spike. The spike happened only in March or in the last quarter. So, we expect the same trend to continue. And last year was a year of aggressive rate hike. This year that kind of aggressive rate hike should not happen. I think most people are expecting maybe one round or maybe not even that.

Aravind R: And lastly, just one question. I think at the start of the call, you were discussing higher disbursement rates or growth in certain markets, like some kind of breakdown. Can you repeat that?

Manoj Viswanathan: No, I was just discussing about ticket size. Ticket size is higher in Southern markets. Disbursement, if you see the share of disbursement more or less, if you see FY23, it reflects the same disbursement, share of disbursement as FY22. So, we have not seen any major changes geographically in terms of the share of disbursement.

Aravind R: Okay. Because we have by AUM in your fact book, but it was not very clear on disbursement size. So that's why I wanted to understand.

Manoj Viswanathan: Yes. Yes. Share of disbursement is more or less similar to what we had last year.

Moderator: Thank you. Next question comes from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hello, sir. Thank you for taking up my question. Also, my question was pertaining to what percent of our branches are mature, that is more than INR 100 crores AUM size and what percent of our branches will be below INR 50 crores AUM size. Secondly, in the same line, what are key KRA differences for a branch, which will be mature versus a branch, which is relatively new?

Manoj Viswanathan: So, we have about 25 branches which are 100 Crores plus and there's still a lot of headroom to grow because we are looking at each of these branches reaching at least INR 200 crores. And if you look at the branches which are below 50 Crores of AUM, it would be about 60 branches.

In terms of KRAs, the larger branches would have slightly more, you can say, focus or bias towards collections because the volume of collections would be higher in the larger branches. In smaller branches, the bias towards collections would be lower. It's just a function of volume of collections, just proportional to the portfolio.

Shreepal Doshi: And so, in terms of say employee targets, so like for an RM of a relatively larger branch, would probably have a target, monthly target or if you could highlight that?

Manoj Viswanathan: Yes, so relationship managers have broadly two sets of targets. One target is to achieve a disbursal number for the month. And so, it will be around INR 50 lakhs to INR 70 lakhs of disbursals per month. And they also have their collection allocation. So typically, a relationship manager would get about between 10 to 20 loans to be collected. So, we are talking about 75,000 plus loans and with a 13% rate bounce rate, it's about 10,000 loans to be collected every month.

So typically, an RM would get about 10 to 20 loans to collect. So broadly, I mean, at a very high level, this is the KRA. There is a disbursal target and there is a collection target. We also do on a quarterly basis, we set some new priorities for them, which is either it could be a target, or it could be a channel diversification target. It could be a number of active channels. It could be a product diversification target, things like that.

So that depends upon quarter to quarter, we change the priorities. But what remains static is basically the disbursal target and the collection target.

Shreepal Doshi: Got it, sir. The second question was with respect to the LTVs. So, if I look at it, more than 80% LTV is close to 34% of our overall origination currently. Now that has been coming down. Is there a strategy to further bring it down?

Manoj Viswanathan: So, this is actually ON AUM. So, this gives you a share of AUM at the time of origination. If you look at actually our current share of cases which are greater than 80% LTV, it would be far lower than this. So don't have the figure right down front of me, but my guess is it could be around maybe 10% to 15%.

Shreepal Doshi: Got it. The last question was with respect to the rate. So, you highlighted early in the call that there has been an increase of 5% to 10% in terms of EMI for a customer. Now, is that including the 50 basis point last rate hike that we have done?

Nutan Patwari: Yes.

Manoj Viswanathan: After the recent rate hike also.

Shreepal Doshi: Got it. And is there any other rate hike on the cards?

Manoj Viswanathan: Not at the moment. I mean, we'll have to see how the policy rates move and then we can decide, decide if at all we need to increase it.

Shreepal Doshi: Got it. So, this quarter we've also come up with a dividend payout. So, what's the strategy there in terms of payout ratio that we would want to sort of maintain?

Manoj Viswanathan: So, we have done some analysis and we said for a company of our size, and you know, which is declaring dividend for the first time, this kind of a ratio is a good ratio to have. And we'll maintain this for some time. You know, based on our analysis and dividend policy, we are at a 10% dividend payout. So, we are likely to probably keep it at these kinds of levels.

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

Aravind R: Hi, I just have this one last question. So, you mentioned MCLR based loans from banks. So, is that what funding from banks makes up like or does it also consist of, repo rate or another external benchmark?

Nutan Patwari: So, bulk of it is actually MCLR linked. Almost 75% of our bank loans are MCLR linked, and the rest is based on external benchmarks including repo and T-bill.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, we have reached the end of the question-and-answer session. I would now like to hand the conference over to Mr. Manoj Viswanathan for closing comments.

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

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