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

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the earnings call with analysts and investors for the quarter ended September 30, 2024 conducted on Friday, October 25, 2024. The Company had referred to publicly available documents for discussions during the call.

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

This is for your information and records.

For **Home First Finance Company India Limited**

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700



“Home First Finance Company India Limited
Q2 FY25 Earnings Conference Call”

October 25, 2024



MANAGEMENT: **MR. MANOJ VISWANATHAN – MD & CEO**
 MS. NUTAN GABA PATWARI – CFO

This document is a transcription of the conference call conducted on 25th October, 2024. Click [here](#) to listen to the original audio.

Disclaimer: This transcript is edited for factual errors and does not purport to be a verbatim record of the proceedings. The reader is also requested to refer to audio recording of the call uploaded on the company website [here](#) on 25th October, 2024. In case of discrepancy, the audio recordings will prevail. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Home First Finance Company India Limited

Moderator: Ladies and gentlemen, good day and welcome to the Home First Finance Company India Limited Q2 FY25 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Viswanathan, Managing Director and CEO of Home First Finance Company India Limited. Thank you, and over to you, sir.

Manoj Viswanathan: Thank you. Good evening and greetings to everyone and a warm welcome to all the participants to the Home First Earnings Call to discuss the results for Q2 of FY25. Today on the call, I'm joined by our CFO, Ms. Nutan Gaba Patwari. Together, we extend a warm welcome and hope you had a chance to review our investor presentation and press release that have been uploaded on our website and stock exchanges. Additionally, an excel factsheet including the historical data has also been uploaded on our website.

Let me start by giving you the highlights of our Q2 performance.

- We are pleased with the company's strong performance during the quarter. We continue to expand our distribution footprint deeper into our existing markets. In Q2, we added nine new branches, two branches in Gujarat, one branch each in Maharashtra, MP, Chhattisgarh, New Delhi, Uttarakhand, UP and Rajasthan bringing the total to 142 branches. With digital and potential branches, we now operate across 351 touch points in 138 districts spread across 13 states and union territories.
- We continue our track record of q-o-q increase in disbursements with our highest ever disbursement of INR 1,177 cr for Q2. The AUM has grown by 34.2% y-o-y to INR 11,229 cr. Employee strength has grown from 1,249 in March to 1,642 in Sept '24 which puts us on a good wicket for further expansion.
- Our asset quality remains strong with early-stage delinquencies under control.
 - 1+ DPD stands at 4.5%, which is flat on a q-o-q basis.
 - 30+ DPD stands at 2.8%, which is down 10 bps on a q-o-q basis.
 - Gross Stage 3 (GNPA) at 1.7% again, flat on a q-o-q basis.
 - Our credit cost at 20 bps has decreased by 20 bps on a y-o-y basis and has remained flat on a q-o-q basis.
- The profit after tax for the quarter stood at INR 92 cr which is an increase of 24% on a y-o-y basis, delivering an ROE of 16.5% which is an increase of 20 bps compared to Q1.
- Our well-diversified borrowing profile has enabled us to manage borrowing costs effectively maintaining the spreads at 5.3% in line with our guidance.
- Technology remains central to our strategy. Account aggregate adoption has become mainstream with an adoption rate of about 49% among new approvals. This was 41% in last quarter. We continue to exploit opportunities in technology and data analytics and keep optimizing and tracking our operational processes and productivity.

Penetration is strong with 95% of our customers registered on our app. Digital fulfilment has reached 75% plus with the use of digital agreements and e-NACH mandates. 89% of service requests are raised on the mobile app.

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

Nutan Patwari:

Thank you, Manoj, and good evening, everyone.

Let us start with the Key Financial Metrics:

- Starting with spreads, after repricing in Aug'24, our Spreads, excluding Co-Lending expanded by 10 bps, and it is at 5.3% right now.
- Net interest margin was 5.2% owing to the leverage effect.
- Operating expenses to assets were maintained at 2.7% for the quarter, in line with our expectations. The slight increase in employee cost is due to the new ESOP grants during the quarter. We expect the opex ratio to remain range bound within 2.7% to 2.8% as we focus on expansion.
- Fees and commission income saw an increase. This is due to our product and agreements falling in place with insurance companies after we received the corporate agency license in FY24.
- Credit cost is at 20 bps. Our annual guidance for credit cost is around 20 to 30 bps, being conservative here.

Moving on to the Balance Sheet and Capital Position.

- Balance sheet remains robust, providing a solid foundation to support the company's growth ambition.
- The company's borrowing profile continues to be well diversified and cost effective, reflecting our prudent financial management. We continue to maintain 3 months of cash on the balance sheet and high liquidity buffers. Liquidity buffer at the end of Sept'24 was INR 3,000 crores plus.
- We added a U.S. dollar ECB to the borrowings mix with a drawdown of \$35 million from DFC during the quarter. This is a 10-year loan fully hedged on our balance sheet.
- As part of our liquidity management strategy, we also executed a direct assignment transaction of INR 154 cr during the quarter.

With this, the Borrowing Mix now is

- 60% from banks, out of which private sector banks are 29% and 32% from public sector banks.
- NHB refinance is 16% of the borrowing mix,
- Direct assignment 13% and co-lending is now at 3%.
- NCD and ECB each constitute 3% in our borrowing mix.
- We have no commercial papers and zero borrowings through any short-term lines.

- Our cost of borrowing is competitive at 8.3%, excluding Co-Lending and 8.4% on the total, enabling us to maintain healthy spreads.

On Capital Adequacy and Liquidity:

- Our total capital adequacy is 36.4% with Tier 1 CRAR at 36%.
- Our debt-to-equity is 3.9x.
- As of Sept'24, our net worth is INR 2,289 cr.
- Our book value per share is INR 257 per share.

Finally, moving to the Provisions and Asset Quality:

- We continue to adopt a conservative approach to provisioning, maintaining a provision overlay above ECL requirements.
- Our Stage 3 provision coverage ratio stands at 48%. Before NPA reclassification as per RBI circular, the provision coverage ratio is 64%.

Overall, our business remains on a strong footing, supported by diversified borrowing profile on a solid capital base and prudent risk management practices. We remain focused on leveraging technology, expanding our distribution network and ensuring operational efficiency to deliver sustainable growth.

With that, we conclude our opening remarks and we are now happy to take your questions.

Moderator: Thank you very much. We will now begin the Q & A session. The first question is from the line of Renish from ICICI Securities. Please go ahead.

Renish: Congrats on a good set of numbers. Just two questions from my side. One on the bounce rate. So, while there has been a steady improvement since many quarters. But when we look at the October month number, there has been a sharp 40 bps increase in bounce rate to 15.6%. And this is, in fact, the highest in the last 8 quarters. So how one should read this bounce rate rise in October month?

Manoj Viswanathan: As of now, nothing to read into it, we are on 25th of this month, and a majority of bounce cases collections actually happens by 25th. We are trending very well as far as the collection is concerned. If you were to look at some of the good months of collections that we had in the last 7 to 8 months, October ranks on par with that.

As of now, I would say nothing to be read into it. The Bounce rate as on Oct'24 is 15.6%, if you see the collection figure 6 days post the bounce, about 5.6% of the people have paid and the bounce rate after 6 days is 10%, which is in line with what has been happening in the last several months or several quarters.

Renish: Got it. So basically, it is right to assume that in last 10 days, the collections by and large at par with the previous months?

Manoj Viswanathan: Yes.

Renish: Got it. Okay. And my next question is on the employee expense? Even in first quarter, that line item grew by 14 points sequentially. This quarter, it is up 20% sequentially. And also, when we look at the employee counts, we've been adding almost 250-350 people on annual basis. Last year as well, we added 250. First half, we added 350. So, are we redesigning our business model wherein the incremental, let's say, disbursement of the business will be more driven by the DSTs and less from the connector or I mean how one should think about it?

Manoj Viswanathan: No. We don't have a DST model. We have a connector model, which is a completely variable expense model. Our employees basically consolidate these leads and then they contact the customer and take it to closure. We have been following this model for the last 14 years, and have not changed anything. As we pointed out, we have increased the number of employees in the last 2 quarters. And that is in line with our plan. We are building the employee base for expansion over the next 2 to 3 years.

Renish: Got it. And Manoj, just last question. On the, slightly medium-term point of view. Now since we have sort of crossed that INR 10,000 crores mark on the AUM side, from next 2 to 3 years perspective, how confident we are about sustaining this 30-plus growth rate? Or do you foresee moderation in that?

Manoj Viswanathan: No, we don't see a moderation. We want to grow by 30% and all other activities in terms of employee hiring, branch expansion, new location expansion, etc. have been planned on that basis only. If you look at this year as well, we have disbursed more than INR 2,300 cr in the first 2 quarters.

The plan is that in the next two quarters, we should get our disbursement to about INR 2,500 - INR 2,600 cr. And that should deliver the 30% plus growth rate. Similarly, the plan for the next 2 years is that we get to an INR 500 cr run rate next year and an INR 600 cr run rate the year after. So, the expansion and employee base increase are on par with that.

Renish: Okay. And maybe, let's say, given the current stress in the MFI though our customer segment is very different. And given the regulator is also sort of not happy the way HFCs or NBFCs are growing. Do you foresee that risk playing out on our growth plans in near term as well?

Manoj Viswanathan: No. The MFI sector is fairly disconnected with our sector. We have had MFI cycles in the past as well, but it has not really impacted our sector too much. The housing loan customer is fairly conservative in their outlook and in terms of their borrowing profile. And we have very little overlap with the MFI sector actually. These would be customers who generally would have started their borrowing profile with maybe a consumer durable loan or a 2-wheeler loan, not really MFI loan. It is a different profile of customers.

Renish: And regulatory risk?

Manoj Viswanathan: What we are seeing is that the regulators are pro-housing. I think most of their actions have been to curtail unsecured lending and lending where they don't know the end use. But as far as housing is concerned, there has been a lot of support coming through and the PMAY has also been

relaunched. In all our discussions with the regulators we are not seeing any headwinds from there at all.

Moderator: The next question is from the line of Kunal Shah from Citi Group.

Kunal Shah: First question with respect to the geography, particularly Karnataka, it seems to be doing quite well, both with respect to sequential as well as the year-on-year growth. Anything specific to read into this? Is it the overall segment led by the network expansion? Or there is something else because that growth seems to be quite high? Both Karnataka & UP, While I think UP is anyways because of the presence, but Karnataka in particular.

Manoj Viswanathan: No, nothing specific as such. If you remember, maybe a year ago, there was some struggle with Karnataka. But we have kind of turned the corner there and it's growing as per our expectation now. Other than that, there is nothing else to read into it.

Kunal Shah: Okay. And second, with respect to fee income, not sure if you indicated but slightly higher fee income during the quarter. So, is there any element of one-off out there?

Nutan Patwari: Kunal, it's not a one-off. We have reworked on the entire insurance partnerships after the corporate agency license that we received last year. Moving ahead, we will accrue about INR 4 cr of income per month. It's a new start, which is more or less settled now.

Kunal Shah: This is just for a month? And when we look at fee income of now INR 9-odd cr, so is it like a month's income?

Nutan Patwari: There are two components to this fee and commission income. One is the commission income, which is approximately INR 7.5 - 8 cr for 2 months, because the entire partnership started from 1st Aug'24. And the balance, INR 1 - 1.5 cr is the usual number that we used to have even before, which would be your bounce fees or some or the other fees that gets charged to the customer on an on-going basis. Accordingly, we will continue to add around INR 4 cr commission income on a monthly basis.

Kunal Shah: Sure. And one last thing on the regulatory part, again, just to touch upon. So specifically, they're highlighting that maybe because of the investors' push, there is a chase for growth, ROE. And maybe the growth is significantly higher than what the actual demand seems to be at the ground level and they have indicated HFCs out there. So maybe any read-through for us, maybe any indications from the RBI with respect to how we are conducting or the pace at which we are growing here?

Manoj Viswanathan: No, Kunal. On the pricing side, the 12% - 13% range, which we and several other housing finance companies also operate at, is a very well socialized figure with the regulator. They have gone into very extensive discussions on what that figure should be. And they have also agreed that, a 12% - 13% rate is what is required in this business to sustain the cost and the credit costs and so on and so forth. So, it's a very well socialized number.

And we do not find any disconnect at all over there as far as the pricing is concerned when we are operating in the 12% - 14% range. As far as the growth is concerned, again, we have never heard anything in the last 2 years from the regulator about being aggressive on growth, etc. In fact, we have been part of some discussions where the regulators are actually pushing us for more housing growth. So, I would say that this is something that we have not heard at all.

Moderator: The next question is from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: My question was pertaining to the rate hike that we had taken in Aug'24. Do you believe all of it would have been reflected in our pricing or in our yields now? Or will it still take some time for the repricing or for the impact on tenures to get reflected?

Nutan Patwari: It's fully reflected.

Manoj Viswanathan: Fully reflected but you can say 2/3 of it has got reflected in this quarter, Q2FY25 because it got effective only from 1st August. A full impact will come in Q3. If we had a 10-basis points impact in Q2, may be in Q3 it will be 12 - 13 bps.

Shreepal Doshi: Got it. And the second question was on the leverage front. The leverage has been inching up for us in the last 12 months, 15 months' time period. What is the peak leverage that we have in mind up to which we would be comfortable with? And you would look at options like capital raise?

Nutan Patwari: If you see the key financial ratio, the leverage right now actually on debt-to-equity is about 3.7x. We think that we can increase it for a fair bit, perhaps closer to 5x. We have about 12 - 18 months before we need to look at a capital raise.

Shreepal Doshi: Okay. Got it. And then just last question was on ticket size front. If you look at the above INR 1.5 Mn ticket size, there the increase has been pretty sharp. In FY22, it was closer to 32% of our overall loan book. Today it stands at closer to 47%. And of course, that is inching our ATS as well. So where do you see this sort of stabilizing? Or would it trend towards INR 1.3 Mn sort of number as well?

Manoj Viswanathan: See, some gradual increase will be there because ticket sizes of properties are increasing. The same property in terms of size, 5 years ago and today, the price is very different. On one hand, there is an inflation effect. On the other hand, since incomes are rising faster than inflation, there is also an aspiration effect. The same kind of customers, same profile of customers are actually now looking at larger properties.

There was once a scenario in Bombay where there was a concept of one room kitchen. Now no builder is building a one-room kitchen because there is no demand for one room kitchen. So even the basic first-time buyer is now moving from 300-400 sq.ft. to a 600-700 sq.ft. requirement. That inflation effect will be there. And the trend that you're seeing will probably continue. There will be maybe at least a 1% or 2% increase in ticket size every year.

Shreepal Doshi: Got it. Sir, just one follow-up here. So are we not seeing decent traction or decent number of opportunities in the say INR 7 to 8 lakh ticket size as well because there will be a customer

segment who will be moving from say probably INR 4 or 5 lakh in the Tier 3, 4 geography to INR 8 or 9 lakh loan as well as we go ahead, as we look at this inflation scenario playing out for that customer segment as well. Are we not targeting that customer segment?

Manoj Viswanathan: Yes, so we are not excluding any segment. The key issue is that, maybe 5 years ago also, there used to be properties built by the developers, available in the INR 5 - 10 lakh range. Today, those kinds of properties are not available in this range. A property in this range is only possible if the customer is constructing on their own and if they already have a plot of land.

Basically, the supply in that segment is also reducing for the same reasons that I indicated, which is partly inflation and partly aspiration. The demand for housing in the less than INR 10 lakh category is also slowly diminishing. Today, INR 10 - 15 lakh is the new INR 5 - 10 lakh you can say.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congrats on the very good numbers. My first question is on disbursements. When I look at disbursements on a q-o-q basis, there is a growth, but the growth has been lesser than what we have generally seen in Q2 over Q1. And generally, what we have been delivering in the past few quarters. In terms of momentum, there seems to be a slight slowness. Any markets or locations where we are calibrating growth approach on our own for reasons like pricing, competition or initial quality indicators? Or otherwise, if you can tell us whether can we revert again to the growth momentum that we've been delivering so far in the next quarter or so?

Manoj Viswanathan: Rajiv, I would not read too much into it because if you see the quarterly trends, Q1 is fairly slow. If you see the last 2 years before this, the Q1 growth has been generally maybe less than 3% over Q4. This year, we kind of reversed that trend, and we had almost a 6% growth in Q1 over Q4. To that extent, Q2 was a little more moderate. If you actually see H1 over H2 of the previous year, it has the same trend as the last 2 years. I mean it's about 11% to 12% kind of a growth in H1 over H2 of the previous year.

If you take the last 3 years, the growth of H1 over H2 of previous year, it has been about 11%, 12%. This year also, it's the same trend. I think, it is just a rebalancing between 2 quarters. I mean it's a question of maybe INR 20 - 30 cr moving from one quarter to the other quarter. I mean, let's say, instead of booking it in Q1, if we have booked it in Q2, maybe we would not even be having this discussion.

Rajiv Mehta: Understood. On an annual basis, that 28%, 30% disbursement growth run rate should continue, right?

Manoj Viswanathan: Yes. Our design has been to get to a 30% AUM growth. The design is not for a 30% disbursal growth. With a 20% to 30% disbursal growth, we should be able to achieve a 30% plus AUM growth. The design is that this year, we will clock a run rate of about INR 400 cr per month.

Next year, we'll clock about INR 500 cr and the year after about INR 600 cr per month. And that will help us to reach that 30% AUM growth.

- Rajiv Mehta:** Okay. And Manoj, do we play on pricing when we get into a new market or if you want to grow faster in a certain market? or is the pricing standardized because the underwriting is centralized? Just want to check on that.
- Manoj Viswanathan:** Pricing is actually fairly customized. It's a risk-based pricing model, which we run at the back end. For each loan, we expect the relationship managers to discuss with the customer and onboard the customer data on the system. And based on the customer data, we then run the probability of default and then throw up the risk-based pricing for that customer. It's a customized pricing for literally every customer. It depends on the customer profile, location, risk profile of that particular area, etc. Based on all that, we kind of throw up an individualized or customized risk pricing for each customer.
- Rajiv Mehta:** Because I think, I was coming from trying to understand, for example, a market like Rajasthan, which is fairly mature and established. There's a lot of competition already in that market. And we've been growing very fast. And the share of Rajasthan in overall AUM has been increasing. I just wanted to understand whether one aspect of growth could also be a play on price. I understand distribution is a larger aspect, but we don't do that, right? That's what you are saying. It's purely customer profiles specific.
- Manoj Viswanathan:** Yes. It is customer profile specific. For larger cities, maybe Mumbai or Ahmedabad it depends on multiple factors. It depends on the product, depends on the city. We customize the pricing according to that. In some places, yes, we may be more competitive on pricing. Some places where we can extract the higher pricing, we would be able to, we will be doing that.
- Rajiv Mehta:** And just one last thing on funding. We've got INR 500 crores NHB sanction. Is it between the two schemes of AHF and refinancing? That's the first question. And then what could be the blended cost of it when we avail it?
- Nutan Patwari:** Yes, it will be a combination of both. The exact breakup will be known when we come closer to the drawdown depending on how they are raising the funds from ministry or otherwise. Cost again depends on the proportion. For example, the regular refinance is just above 8%, whereas the AHF portion is much more attractive. Of course, we have to also pass on the benefit to the customer. I think only once we avail this, then only we can give you an exact number.
- Manoj Viswanathan:** Because the ratio gets determined actually very close to the disbursal date, and we're still discussing with them on the disbursal. Closer to the date, actually, they determine the ratio. As of now, we don't yet know that ratio, how much is the AHF and how much is normal.
- Rajiv Mehta:** And Nutan, just last one thing. The bank loans, what is the mix across benchmarks, MCLR, repo and any other benchmark?
- Nutan Patwari:** The repo T-bill, etc which is your short-term benchmark will be close to 20% of the entire borrowing book of the bank portion. The rest will be MCLR 3, 6 and 12 months, broadly equally split. Let's say, once the rate cycle reverses, the first 3 months, we should be able to get about 30% - 40% of the book repriced.

- Moderator:** The next question is from the line of Raghav Garg from AMBIT Capital.
- Raghav Garg:** Congrats on the results. I have three questions. One is, can you give some sense on whether the balance transfer request this quarter were relatively on the higher side versus maybe what you would have seen in the previous few quarters of last year? And also, if you can give some sense on what percentage of the BT requests were retained by you as compared to last time? Any broad sense would do? Just trying to understand the competitive intensity here for you. That's my first question.
- Manoj Viswanathan:** The peak that we have seen in balance transfer is about 8% and last quarter was about 6.7%. One way to look at it is, yes, there has been some moderation on the BT out because last 2-3 quarters, the number has been closer to 6% rather than 8%. So, there has been some moderation in the BT out. Now it's difficult to say whether it's because of reduction in BT intensity in the market or whether it's because of our own efforts.
- About 2 to 3 quarters back, we launched a very concerted effort to retain the balance transfers. We put in place a protocol and training for the branches to retain that. We would like to believe that, that has made some impact. I wouldn't say there is any reduction in the BT intensity in the market. It would be more or less similar to what it was over the last several quarters.
- Raghav Garg:** What I was trying to understand was that you've taken a PLR hike in this quarter, right, 2/3 of which has been passed on. And despite that, what I see is that the origination yields are flat. So, just correlating as to whether the incremental yields being flat here. Does it mean that you may have passed on some kind of benefit to the customer? And as a result of that, you may have been able to control the BT for you?
- Nutan Patwari:** Raghav, why are you comparing the origination yield with PLR increase? The book yield is not flat.
- Manoj Viswanathan:** It's gone up by 10 bps.
- Raghav Garg:** The book yield has increased by about 10 bps. Okay. So, there's no correlation as such?
- Manoj Viswanathan:** In FY23, the rate increase that was passed on was almost 125 basis points across two, three instalments. That was a pretty large increase that was passed on at that point. Compared to that, what we have passed on now is very small, 35 basis points. And it is coming after almost a gap of 15 months. This has not created any ripple effect as far as the customers are concerned. Almost 93% of the customers actually underwent only a tenure change. They did not undergo any EMI change. To that extent, they did not get disturbed. I would say there has not been much impact of this rate increase on the customers.
- Raghav Garg:** Understood. That's fairly clear. Another question is -- it's pretty clear that you've been very aggressive in terms of hiring compared to the usual trend that's there for your company. And as a result of that, what I'm seeing is that the number of employees per branch has increased, I think at an all-time high of some 11, 11.5 employees per branch.

Is there some change in sourcing strategy or organizational structure? Can you throw some light later on, maybe you'll expand branches at a higher rate and not the employee base, so the employees for a branch could come down. That's my limited question.

Manoj Viswanathan: There has been no change in the hiring strategy. Normally, we do a lot of hiring in the first two quarters because that's the placement season. And we do most of our hiring from campuses. The campus recruits join during these 2 quarters. So that trend has continued. I think what you would be seeing is a sharper increase in the employee base, right, from 1,250 in end of last year to about 1,650. About 400 employee increase in the first two quarters, which generally is a little more modest. That is because of the attrition also shrinking parallelly. Generally, there is also attrition, which is 30% -35% plus.

But this year, the attrition has been sub 30%. To that extent, we have been able to retain more employees. As a result, you are seeing the employee base going up more sharply. But we don't intend to let up on the hiring because we feel that this is a good opportunity. While the attrition is shrinking, this is a good opportunity to hire more employees and kind of build the employee base for the future.

That is really, I think, what is behind the strategy. In the normal course, if attrition was lower, probably we could have ended up hiring fewer people. But we have continued with our hiring plan so that we are able to kind of add the employee base for the future.

Raghav Garg: Is it fair to assume that in H2, the employee hiring would be a lot more moderate compared to the trends that have been there in the first half?

Manoj Viswanathan: We do the hiring in H2. We do the campus visits, and we make the offers, etc in H2, which we intend to do now. These candidates generally join us in the first 2 quarters.

Raghav Garg: Understood. And you are still sticking to that branch opening for this year, I think 20 or 30, is that correct for the full year?

Manoj Viswanathan: Yes. We continue to operate on that format. So about 25 - 30 branches per year.

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

Aravind R: Congratulations on a good set of numbers. Sir, like one question I had on disbursement, I think you answered that in terms of like q-o-q, the growth was flattish in disbursement. I understand that, but I also wanted to understand like in terms of asset quality, I understand like our GNPA has been stable. Do you track any data in terms of our customers in either defaulting or anything like that in their unsecured or in their other loans? And do we have any set of data or anything of that to track?

Manoj Viswanathan: The data scrub we do once a year, but then that would be a bit dated. This phenomenon which we're seeing in the market is more recent, maybe in last 2-3 months. We would not have a recent data to say anything about whether that is there, that is happening. The data scrub normally happens once a year. So that will take some time.

- Aravind R:** Okay. Because the stress was not just seen in MFI but also in unsecured portion of even some large banks. That's why I was trying to understand that. And also, sir, like in terms of fee income, I understand like this insurance broking business is just panning out and it can also grow. But do we see any other forms of fee income drivers that can come in the future? Like do you foresee anything like that?
- Manoj Viswanathan:** We want to focus on insurance because insurance itself is still a large business. We want to kind of focus, stabilize that before we think of something else. For the next 2 years, we will be basically focusing on this to stabilize it. And maybe after that, we can think of other opportunities.
- Aravind R:** May I know, is this life insurance or like general insurance, health insurance?
- Manoj Viswanathan:** Life and general, both. Life insurance, basically to protect the loan in case of any unfortunate event to the customer. And the general insurance basically to protect the property from a natural disaster, etc.
- Moderator:** The next question is from the line of Chandra from Fidelity.
- Chandra:** Three questions. One is, what percentage of the people was the last increase in PLR rolled out to? Was it rolled out for everybody or just a certain set?
- Manoj Viswanathan:** The PLR increase basically happens on the entire base. It's an internal benchmark change. What we also did was the customers who had a good track record for maybe more than 1 year or 2 years, we gave them a discount on the rate. To basically help them to adjust for the increase in PLR. So, you can say the PLR increase affected about maybe 50% of the customers.
- Chandra:** Okay. Got it. Secondly, is it fair to say that spread is sort of now plateaued from where they are? I mean how do you think just around cost of funds and spreads? And then in the sort of previous cycle when cost of borrowing went down, you managed to show an increase in spreads. As we look over the next 12 to 24 months, given the rate cycle going the other way at some point in time, what do you think of spreads? And then just lastly, the ESOP pool, can you just remind me, what percentage of people does it cover and percentage of people from branch?
- Manoj Viswanathan:** We have been maintaining that 5% - 5.3% is the kind of spread that we will be able to achieve in this business. It's kind of hovering over there. But if there is reduction in rate, cost of borrowing reduces, there will be periods where we probably enjoy a larger spread because there will be some lag and passing that on to the customers. But on a steady state basis, 5.2% - 5.3% is something that we should be able to maintain. As far as the ESOPs is concerned, we are providing ESOPs from a supervisory level. Basically, at the branches, it is all the branch managers who are covered through the ESOPs. In other functions, it's basically people who are supervising teams.
- Chandra:** Any branch manager basically of these 140 branches is covered in the ESOP pool?

- Manoj Viswanathan:** Yes, they will be covered by the ESOP pool. Unless they have kind of just become a branch manager and they missed the previous cycle. But otherwise, they will all be covered.
- Moderator:** The next question is from the line of Harshit from Premji Investments.
- Harshit:** Sir, just one thing. On the model which we follow of the connector, I think when we recently look at the other players, maybe they were late in catching up and maybe it could have been -- they were not aggressive in this, but the peers have started becoming aggressive on this channel itself. And in a very similar concept to ours, building up an app and then giving it, making it more technologically easier for them. Do you see this as a greater competition aggressiveness on this part of the segment?
- Manoj Viswanathan:** Yes, there is always some new players coming or some players starting this concept. Also, this concept always existed in some form or the other. Probably more companies are getting more formal or giving it a more formal structure to it. But otherwise, many companies were sourcing through connectors earlier also. Ultimately, it boils down to what new insights you can gain and how you can kind of make your own app, more user-friendly for the connectors and develop certain insights, which will make it easier for them to deal with us.
- We continue to kind of keep innovating on that front. There will be others who are trying to catch up, but we will try to stay ahead of them because we kind of have a first mover advantage. We have certain insights, certain database and track record of these connectors. We will hopefully stay ahead of that curve.
- Harshit:** Got it. Sure, sir. And one more thing, sir, I think for us, if I'm not wrong, the underwriting part, the legal validation of the documents, the technical part, that happens in-house in the central location in Mumbai, if I'm not wrong?
- Manoj Viswanathan:** No. There are two parts to the process. There is a legal check that happens through legal vendors in the respective locations. And then the legal report gets verified or vetted by an internal property underwriting person. It's a 2-phase approval process that we have.
- Harshit:** Okay. And that underwriting team is something which is there in-house in our Mumbai Office, unlike other peers, it's not diversified across the region?
- Manoj Viswanathan:** Correct. That is correct.
- Harshit:** If you can, sir, just help with the total team size of that underwriting team. And in general, how has the attrition been in that particular region? Probably the third question more practically since the nuances of individual areas defer a lot, how do we ensure that any recent updates, whatever has been happening in a particular region or in a particular district gets adequately captured in the underwriting process?
- Manoj Viswanathan:** Yes. The underwriting team has the size of about 30 - 35 people, and we keep continuously adding to that team. We do a capacity planning in terms of how many applications likely to be received and what is the processing time, etc., and we keep adding people to that team. And

there are two, three things that we do to address the local nature of some of this information. One is that we have these legal and technical valuers who are located in each of these locations, and we have a relationship with them. They process the application first or they process the title papers and the technical report first.

They bring in the local nuance. And then that report is then checked by our internal person who's sitting here in head office. The underwriting team that you see, 30- 35 people over here, they are actually, cultivated from various parts of the country. There would be people who have been branch managers or relationship managers in other various parts of the country. We actually move them to Mumbai to be part of the underwriting team. They bring with them their local experience of those locations as well.

And thirdly, what we also do is we have a continuous process of field visits by the central team. Every month, there are 1 or 2 or 3 people who are visiting various parts of the country to kind of correlate whatever they do in the central office with what is happening on the field. To keep themselves updated on what is happening in the field. Through this three-pronged approach, we combine the local nuance with the kind of centralized control.

Moderator: The next question is from the line of Pavan Kumar from Ratna Traya Capital.

Pavan Kumar: Can you just highlight why we should keep growing our disbursements lower than the AUM rate? Is it because of the adjustment you are looking for assigned loans that are there, for which you are receiving money? Or how does that work exactly?

Manoj Viswanathan: The planning that we have done for the next 3 years is based on a certain AUM growth. The disbursal growth will be more of a derived number.

Like I said, by FY27, we want to hit the INR 20,000 cr number. Broadly, that translates to 30% AUM growth y-o-y. The disbursal growth, maybe 20%, 25%, 27% it could vary q-o-q. But the ultimate aim or goal being that we have to grow the AUM by 30%.

Pavan Kumar: Okay. Perfect. And any early signs of stress you are seeing, especially on our lower ticket size book?

Manoj Viswanathan: No, we are not seeing anything ticket size specific as such in terms of stress.

Pavan Kumar: Okay. And so going forward also, we are expecting the credit cost at least as of now to stay between 20 bps to 30 bps, that is what our expectation is, right?

Manoj Viswanathan: The expectation, yes.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: Mr. Manoj ji and your entire team doing very nicely working. It is a good thing you reduce the impairment on financial instrument. Sir, only thing to ask our net interest rise is 50.4% in this quarter against our AUM rise of 34%. What is the reason?

Manoj Viswanathan: Yes, because interest cost is also increasing. Whenever there's an interest cost increase the net interest number increases by a disproportionate percentage. The company is getting more leverage. There is more debt getting added to the balance sheet. That is one factor. And secondly, the interest cost is also increasing because of borrowing cost increase. That is why you're seeing a disproportionate increase in the interest cost line.

Ravi Naredi: In the longer term rise of AUM percentage and interest costs will be similar?

Manoj Viswanathan: Sir, in a steady state, it will be similar. But as the company is growing and adding more debt, the leverage is increasing. So, at some point, let us say, we say that, we are going to maintain a leverage of, say, 5.5x or 6x. At that point, on q-o-q, you will find that both will increase at the same pace. But as the leverage keeps increasing, the interest cost will rise at a higher rate.

Ravi Naredi: Mr. Manoj ji, my one concern is that, we are maintaining more liquidity. That is the reason we are paying more interest?

Manoj Viswanathan: No, sir. There are two reasons. One is, as I said, the debt component in the balance sheet is increasing. Last quarter, you would have seen 4.6x was our asset-to-equity ratio. This time it is 4.8x. Our debt equity ratio has moved from 3.5x to 3.7x. There is more debt proportionately in the balance sheet. That is one reason for the increase. In a steady state, once that number stabilizes, once we reach 5x debt to equity and we are maintaining the 5x debt to equity q-o-q, then you will not see this disproportionate increase.

Ravi Naredi: Okay. And one more thing, net profit rise by 24% against AUM rise of 34%. What is the main reason? One is the interest and other is staff cost?

Manoj Viswanathan: Yes, sir. Again, same reason because interest cost is rising. Hence the PBT/PAT is rising at a slightly slower rate than the AUM increase.

Ravi Naredi: Okay. But we are keeping the growth rate 30% onwards for the full year, right?

Manoj Viswanathan: Yes, sir, for the full year.

Moderator: The next question is from the line of Jatin from Burman Capital.

Jatin: First one is on the clarification related to fee income. You mentioned that fee income from insurance commission will be around INR 12 cr. Earlier, we used to book advertisement income from insurance that used to be around INR 4.5 cr. Is my understanding right that the net delta would be INR 7.5 cr or similar?

Nutan Patwari: The net delta would be slightly higher. We will reduce the marketing income that we used to get, but not fully eliminate it. The delta could be in the range of INR 9 cr - INR 10 cr.

Jatin: Second question is around the PMAY CLSS scheme. Now please correct me if my understanding is wrong. If a customer gets the CLSS scheme, then he will have to stick with the same lender for the 5-years till he is getting the subsidy. If he switches, then he won't get the full

benefit of subsidy. Does it mean that BT out rate will reduce because customer will anyway stick to the same lender and that will also get reflected in our BT out rate?

Manoj Viswanathan: Yes. Theoretically, as of now, the way the scheme is structured, that looks like a possibility.

Moderator: The next question is from the line of Omkar Shinde, who is an Individual Investor.

Omkar Shinde: In Madhya Pradesh, the growth has been very good. We have seen 15% growth on q-o-q. It is now at INR 800 cr book. And almost every quarter, we have added INR 80 cr to INR 85 cr in the book. My question is what is it that we are doing in Madhya Pradesh that it is growing so fast because share in the AUM has also increased very much in the past 4 quarters? So that is the first question.

Manoj Viswanathan: Yes. As we had articulated there are 2 - 3 states where we are focusing now. Earlier, our focus used to be in the western and southern part of the country. About maybe 1 year ago, we said that we will now start increasing our distribution in MP, UP and Rajasthan. These three are the new emerging states, which have large populations and where affordable housing is coming up in a big way. We are just going ahead with that plan. We have actually opened up locations in MP. We have added more people in MP. The distribution expansion is picking up pace in MP. Also true to some extent in Rajasthan and UP, you will see that our pace of growth is higher than other parts of the country. Rajasthan has grown by about 41% and UP has also grown by about 50-odd percent. So, in all these 3 states, we are now focusing our expansion, and you are seeing the results from that.

Omkar Shinde: I was also going to come on UP. In UP & Uttarakhand, you showed that it is a combined INR 746 cr book. Can you give us the split between Uttar Pradesh and Uttarakhand, if it is possible, what is Uttar Pradesh and Uttarakhand?

Manoj Viswanathan: Uttarakhand would be about 2% of the AUM, and the balance comes from UP. So totally, it's about 6% of the AUM. Out of which Uttarakhand will be about 2% and the balance will be from UP.

Omkar Shinde: Understood. And now one question on the ECL provision. So ECL provision Stage 2 has increased to 10.1% in the current quarter. Q-o-Q, it has seen a big jump from 7.8%. What is that? Because our credit cost, the provisioning that is there in the P&L, that has remained more or less stable. Have we seen any recovery or anything? Can you please explain?

Nutan Patwari: When we do the ECL model, we look at the model as to what changes or any overlays that we may have to take. If you see y-o-y, our number had reduced from 8.6% to 7.8% last quarter. And we just thought it is prudent to take the number slightly higher. We made some very basic changes to accommodate that. If you look at our 30+ DPD, that has improved. If you look at the composition of the credit cost also, about 90% of that is just on account of provision.

The losses are actually negligible in the credit cost line. This is just being more conservative that we have added a little bit more provision to the Stage 2. We've also maintained our Stage 3 provision at 27%. This is just being a little bit conservative on maintaining healthy provisions.

- Omkar Shinde:** Okay. So, you have changed the model or we have taken management overlay?
- Nutan Patwari:** Management overlay.
- Omkar Shinde:** Because the overall provision also has decreased. So that was just to understand. So you have taken a management overlay, that is correct to understand?
- Nutan Patwari:** Yes. The overall provision has increased by almost INR 5 crores.
- Moderator:** Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Manoj Viswanathan for closing comments. Over to you, sir.
- Manoj Viswanathan:** Thank you, everyone, for participating and engaging in the call. We hope we have been able to answer all the questions to your satisfaction. In case you want to reach out for further questions, you can always reach out to Nutan or write to us at investor.relations@homefirstindia.com. Thank you so much. Have a good weekend and Happy Diwali in advance.
- 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.