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HFFCIL/BSE/NSE/EQ/14/2020-21 **Date: 23-02-2021**

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

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

Dear Sir/Madam,

With reference to our letter No. **HFFCIL/BSE/NSE/EQ/04/2020-21** dated January 10, 2021, please find attached the transcript in respect to the earnings conference call on the Un-Audited Financial Results for the quarter and nine months ended December 31, 2020 held on Monday, February 15, 2021 at 11:00 A.M. IST. The transcript of the conference call can also be accessed at the website of the Company at www.homefirstindia.com

We request you to take the same on your record.

For **Home First Finance Company India Limited**

SHREYANS
BACHHAWAT

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

“Home First Finance Company India Limited Q3 and Nine Months FY ’21 Earnings Conference Call”

February 15, 2021

MANAGEMENT: **MR. MANOJ VISWANATHAN – MANAGING DIRECTOR AND CEO, HOME FIRST FINANCE COMPANY INDIA LIMITED**
MS. NUTAN GABA PATWARI – CFO, HOME FIRST FINANCE COMPANY INDIA LIMITED

Moderator: Ladies and Gentlemen, Good Morning and Welcome to the Q3 and nine months FY '21 Earnings Conference Call of Home First Finance Company India Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participants' 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 '*' and 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 Morning everyone. On behalf of the company, I extend a warm Welcome to all of you, thank you for joining us on the call. Today, on the call, I am joined by Nutan, our CFO, other members of our team, and members of the team of Orient Capital, our investor relations partners. We have uploaded our investor deck and results highlights on the stock exchanges and the company website, I hope everybody had an opportunity to go through the same. I would like to thank you all for supporting us in the IPO and making it a grand success. Since this is our first call after the listing, I would like to share a brief overview on Home First, its journey so far and growth strategies going forward. This would be followed by the operational and financial performance for the quarter and nine months ended FY '21 post which we will open the floor for questions and answers.

Home First is the leading player in the highly attractive affordable home finance sector. We cater to first-time homebuyers in the lower and middle income groups. We mainly offer housing loans for the purchase or construction of homes. Home First has deep penetration in the largest housing finance markets with a network of 72 branches across 60 districts in 11 States with a significant presence in the urbanized regions in the States of Gujarat, Maharashtra, Karnataka, and Tamil Nadu. We have diversified lead generating channels with a wide network of connectors. We have 47,440 live customers as of December 31, 2020, which is 18% higher on a year-on-year basis. We differentiate ourselves as a home finance company with a superior technological edge across the value chain right from origination to disbursements to collections. Our technology led operating model helps us in delivering industry-leading productivity ratios and the turnaround time of 48 hours against industry average of 8 to 10 working days. We have centralized data science backed underwriting model with a fully integrated CRM and a loan management system. Coming to key operational metrics of the company, for the first nine months of the year, we have 75% of the customers who are salaried and 25% of them who are self-employed. We have a very strong focus on home loans and it constitutes 92% of the loan book. The average ticket size is 10.1 lakhs. On the liability side, the liquidity pipeline is very strong with positive ALM. We have relationship with 17 banks and it is a good mix of institutions like public sector banks, private sector banks, and national housing bank. We are rated by ICRA and CARE and have a long-term rating of A plus with a stable outlook.

Moving to the results of Quarter-3 FY '21, we are pleased to report a good quarter. To start with, we have put COVID behind us with all branches as well as head office working in full strength from the office premises. We are also pleased to announce that the company was certified as a great place to work by the GPTW Institute in this quarter, which is testimony to the unique and strong culture that our business leaders have nurtured. Some of the key highlights, , the asset under management for December 31, 2020, stood at 39,406 million as against Rs. 33,939 million for December 31, 2019, that is a growth of 16.1% on a year-on-year basis. We stayed focused on housing loans with housing loans forming 92% of the AUM and 32% of the AUM is towards customers who are new to credit. We have opened six new branches in the last nine months and our branch count is 72 as of December 2020. Coming to disbursements, disbursements for the nine months FY '21 stood at 6,448 million as against 12,717 million which is down by 49% largely on account of COVID-19 pandemic, which had severe impact to the company's operation at the start of the Financial Year '20-21. Our December 2020 disbursements, however, are ahead of December 2019 and our Jan 2021 disbursements are ahead of December as well as last January 2020 thereby marking the end of the decline. On collection efficiency, it has been on an upward trend, improving month-on-month and has remained above 96% since September 2020. It was 96.3% in October 2020, 96.6% in November 2020, and 97.6% in December 2020. Our collection efficiency has further improved to 97.8% in January 2021. Coming to the asset quality, our gross Stage-3 as a percentage of the principal outstanding stood at 1.6% as on December 31, 2020, and net Stage-3 was at 1.1%. We have done zero restructuring. I would now like to hand over the call to Nutan to take you through the financial metrics. Nutan, over to you.

Nutan Gaba Patwari: Good Morning, I will quickly take you through the rest of the performance of Q3 FY '21 and nine months FY '21. On borrowings, total borrowings including debt securities are at 28,393 million as of December 2020 from 22,050 million as of December 2019. We have healthy borrowings mix with 47% of our borrowings from banks both public and private sector banks, 26% from NHB refinance, and 20% from assignment. We have zero borrowings through commercial paper and our cost of borrowing has been trending downwards. Our Quarter-3 FY '21 cost of borrowing stood at 8%. During nine months FY '21, our assignment amount stands at 1,844 million, we have used the assignment judiciously in line with our liquidity planning and we have not done any assignment or securitization transactions in the last two quarters. We will continue to explore these transactions, which will help optimize the capital usage, bring down leverage, and improve cost of funds as well as balancing the existing liquidity position. Our liquidity buffer as of December 2020 was at 15,427 million. We recently raised 2,650 million through IPO, which will be utilized for increasing company's Tier-1 capital. Our CRAR as of December 2020 was at 51% on the Tier-1 line. Our net worth as of December 2020 was 10,921 million.

Moving to margins, our company has been operating at healthy and consistent spreads of over 4.5% over the past few quarters now. Our spread for Q3 FY '21 is at 5%, spreads have improved by 60 basis points on a year-on-year basis. The OPEX has seen a downward trend due to better and higher utilization of manpower and business from each branch and increasing operating efficiencies. We will further leverage our technology and strong internal processes to support growth and improve operating efficiencies. These will lead to profitable growth and drive returns. The productivity metrics continue to improve both on disbursement per branch and disbursement per employee basis. On provisions, ECL provision as of December 2020 is at 461.8 million resulting in a total provision to loan outstanding ratio at 1.4% and Stage-3 provision coverage ratio is at 90.4%. On returns, our returns on average assets stood at 2.5% as of December 2020 and our ROE is at 9.1%. Our ROE has been lower on account of negative carry from higher cash balance maintained at 12% of total assets and credit cost on account of COVID. We expect to continue to improve the returns going ahead with high growth on our disbursements and AUM and the operating leverage. On total income, our net interest income increased by 28% year-on-year to 1,364 million for nine months FY '21. Our NIMs for nine-month FY '21 stand at 4.9%, with this, I open the floor for Q&A.

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

Karthik Chellappa: Thank you very much for the opportunity team and congrats on the IPO. I have three questions, the first one is the Stage-3 loans which stands currently at about 1.6%, in your assessment at what point do you think that will be peak and what do you think will be the ultimate credit losses from this portfolio?

Manoj Viswanathan: Hi Karthik, regarding the total gross Stage-3 assets, so 1.6% is where we are now and this also includes the portion that has kind of bloated up because of the Supreme Court order where the cases cannot be declared as NPA and hence we cannot repossess those properties. We are expecting that Supreme Court order should get released probably in a couple of months and then these numbers should start trending down. We are estimating that this number should stay at this kind of a level maybe for the next couple of quarters and then based on when the Supreme Court order gets released, the numbers will start coming down. As far as the credit losses are concerned from this, so if we assume that the gross Stage-3 will be at about let us say 1.6% to 2%, typically the loss given default in this group is about 20% to 30%, so that would be the kind of losses that would come from this group, so 2% multiplied by about 20 to 30 percentage.

Karthik Chellappa: Okay, 20% to 30% perfect, this is great. My second question is what would be the incremental yield that you are earning on the portfolio let us say you have originated in the third quarter as well as probably even in January, a rough idea?

Nutan Gaba Patwari: Karthik, you are talking about spreads I presume.

Karthik Chellappa: Not spreads just the incremental portfolio yield based on the lending rate?

Nutan Gaba Patwari: At portfolio, yield on disbursements are at 13% for Quarter-3.

Karthik Chellappa: Okay, so that means the incremental portfolio yield that you are earning is more or less equal to the weighted average yield on the portfolio is the understanding that way?

Nutan Gaba Patwari: Yes and so is the product mix.

Karthik Chellappa: Okay, and the last question is on the LTV vintage that you have given by ticket size, if I were to just split it into two, which is below 1.5 million and above 1.5 million, what would roughly the difference in the yields be?

Manoj Viswanathan: Difference in the yields or difference in the LTV?

Karthik Chellappa: Difference in the yield, so let us say if it is a 20 lakh loan or a 25 lakh loan as opposed to let us say a 10 lakh loan, what would the difference in the yield roughly be?

Manoj Viswanathan: The yields generally are in the region of 12% to 14%, it would be more dependent upon the profile of the customer whether he is coming from a formal background or a self-employed background and link to ticket size. So I would say it would range between 12% to 14% across all ticket sizes and the yield would be more closely linked to whether the customer is coming from a formal salaried or informal salaried or a self-employed background because that is how the yield or the interest rates are pegged.

Karthik Chellappa: Okay got it, just one follow up the last one, if you look at the securitization income, it has actually been quite volatile over the periods because in the December quarter last year, there was a bulk of 160 million which we booked but for the last two quarters, we have not booked any securitization income, on a steady state basis, what percentage of your funding would you expect to come from direct assignment/securitization, that will be all thank you very much?

Nutan Gaba Patwari: Thank you Karthik, so far we have been maintaining a healthy ratio of around 15% to 20%. Firstly, securitization is a big liquidity measure for us. When we are planning for next year, we are expecting securitization to be in the range of around 20% to 25%, so we expect that this will become more consistent quarter-on-quarter going forward.

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

Chetan Gindodia: Sir, my question is what would be your incremental cost of borrowing?

Nutan Gaba Patwari: Our incremental cost of borrowing for Quarter-3 is 5.8%, it includes a substantial NHB proportion.

Chetan Gindodia: Okay, and we have seen a sharp increase in our 1+ DPD and plus 30 DPD, so what would be the reason for this and when do we expect this to settle?

Manoj Viswanathan: The delinquencies have increased in keeping with the whole COVID pandemic, so we had a number of customers who took their moratoriums and the moratorium ended in August, so from September these customers had to start repaying, so some of them may be about 1% to 2% of the entire base are having some struggle in repaying the installments which is why the one DPD as well as 30 DPD have moved up. To some extent, this has also contributed because of the embargo on declaring cases as NPA, so as a result of which we are not able to impose the SARFAESI and repossess these properties, so as a result of which the Stage-3 keeps increasing, so what we are thinking is that our assessment of our bounce rate which is the most leading indicator of how the portfolio is behaving - that has been continuously declining. So if you look at our bounce rates it has gone down to about 20% in February and even in January, the bounce rates have come down further, so looking at the trend of bounce rates, we think that the delinquency trend will continue at this current level for maybe another two to three quarters post which we can expect it to kind of come back to the pre-COVID levels.

Chetan Gindodia: Okay, and what is our ROE aspirations on a medium-term basis or what ROE would we like to reach?

Manoj Viswanathan: If you look at the way our ROEs have been trending, we have been at about 10% ROE for the last couple of years and this also has factored in the extra cash that we are carrying since the ILFS days, so which you know contributes around another 2% in a sense. ROE drag of about 2% because the cash that we are carrying, and we are on a continuous path in terms of reducing our cost to income and improving our spreads and efficiencies, so you will see a kind of secular improvement in the ROEs going forward.

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

Nidhesh Jain: Thanks for the opportunity Sir, firstly on the securitization when we do securitization it is under direct assignment route or on a PTC route?

Nutan Gaba Patwari: It is on direct assignment route.

Nidhesh Jain: Can you just explain the accounting treatment of the transaction, what percentage, if securitizing Rs. 100 of loans, how much of income comes in that particular quarter?

Nutan Gaba Patwari: The accounting basically, for example on a Rs. 100 loan, if I book is at 13% and I am securitizing that 8%, so the spread difference of 5% over the balance tenure of the pool of loans, we need to do an NPV and take as income in the month of securitization itself on the spread and the discussion and the sanction from the bank, at what rate they are buying the pool.

Nidhesh Jain: Is there any ballpark number that of Rs. 100, how much of the income will be recognized, Rs. 10, Rs. 20 or?

Nutan Gaba Patwari: We did assignment of around 357 crores last year and we booked 37 crores of income. This year we have done to-date 184 crores of assignment and we have booked 25 crores of income. The reason for this expansion is because the spreads have expanded as a result of MCLR reduction and our improvement in quality of the pool, so this helps you forming a trend.

Nidhesh Jain: Okay, is there any impact on our P&L of assignment this quarter or there is no income?

Nutan Gaba Patwari: We have not done any assignment in Quarter-2 or Quarter-3.

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

Susmit Patodia: Good Morning team and congratulations, my first question is if you can just take us through in a normal business case scenario, if you have a 10% cheque bounce rate, what does that finally translate to in terms of your collection mechanism because what I am trying to get at is that, today we have a 20% cheque bounce rate and that leads to 4% DPD 30 plus versus 1.6% GS3 (Gross Stage 3) trend is more like 10:1, so are we underestimating GS3 (Gross Stage 3) right now?

Manoj Viswanathan: Yes, so let me take you through the pre-COVID ratios, so 10% used to be the bounce rates which roughly used to translate into 1.5% to 2% of 30 days past due, which would further translate into a NPA of about anywhere between 70 basis points, 0.7% to about 1% so that used to be the waterfall pre-COVID. What we are seeing now is the kind of doubling of that which is 10% has gone to 20% and on similar lines the 30 days past due has moved to close to 4% and the Stage-3 or the pro forma NPA has moved to about 1.6%, so which is why we are saying that if you look at the pre-COVID ratios let us say roughly 50% of the 30 plus moves to NPA, so on similar lines we are looking at between say 1.5% to 2% as the NPA in the current scenario.

Susmit Patodia: I am saying that with so much capital and so much liquidity, does it still make sense to securitize the same proportion that you have been doing at least for the next two or three years or would it make sense to use the capital and rundown the liquidity?

Nutan Gaba Patwari: We will have to be judicious on all lines, securitization per se works very well from an ALM point of view because it is linked directly to the asset. It helps build credibility with banks and lending institutions as they review our book and form an opinion on our book on a more detailed basis because securitization goes through a fairly detailed level of audit and when that happens and currently liquidity that we are carrying of around 1500 crores, we will need to raise further liquidity for our next year plans, so it will have to go hand-in-hand.

Susmit Patodia: You will need further liquidity next year beyond what you have and the capital?

Nutan Gaba Patwari: We will need cash flow definitely.

Susmit Patodia: My next question is you have this LTV on origination which it says 44% of 80 plus and effective LTV on book drops to 18% of this number, but your book is not seasoned that much, so I am just trying to understand how are you able to finance because the repayment will not be to that extent, so effectively property price has to go up and that has not gone up in the last three or four years in India?

Manoj Viswanathan: No, these LTVs, we are not really pegging it on the revised property prices, these are only original property prices. The reduction in LTV is because of prepayments, so if you look at it in our segment, typically while the contractual tenure is around 17 to 20 years, the effective tenure is in the region of around six to seven years. So there are lot of prepayments that come in from customers from their own funds, so that is one reason. Secondly, there is also the credit linked subsidy scheme, which is provided by the Pradhan Mantri Awas Yojana, so that reduces the loan amount by about 20% in the first year itself. So about 20% of the loan amount that is prepaid as part of the credit linked subsidy scheme, so that reduces the LTV by about 20%, so these are the two contributors and the reason for this reduction in the LTVs.

Moderator: Thank you. The next question is from the line of Gurpreet Arora from Aviva Life India. Please go ahead.

Gurpreet Arora: Thank you for the opportunity, just one question what sort of cost ratios, OPEX ratios are we looking to achieve going ahead on sustainable basis?

Nutan Gaba Patwari: If you look at it our OPEX to AUM is around 3.5%, which is fairly good given our scale and we continue to work on our operating leverage by improving efficiency across branches, across our operations in head office and we are confident that the ratios will continue to improve over the medium term.

Gurpreet Arora: Any specific number you are targeting?

Manoj Viswanathan: If you look at our new branches versus the branches which are little larger or matured branches, so the larger branches are typically in the region of 2% to 2.5% of OPEX to AUM, so you can say that is the kind of number that we have as a pro forma for all the branches.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Equentis PMS. Please go ahead.

Jaspreet Singh Arora: Thanks for the opportunity, just a clarification so our net worth post the IPO and fresh issue, would it be ballpark 1200 crores now?

Nutan Gaba Patwari: 1092 crores is our December net worth post the IPO and 255 crores is the capital that we raised through IPO.

Manoj Viswanathan: So it is about 1350 crores.

Jaspreet Singh Arora: This is post December and including IPO proceeds?

Nutan Gaba Patwari: Right.

Jaspreet Singh Arora: Great and what sort of loan book growth range would suffice, can we expect in the next couple of quarters, what is your comfort zone?

Manoj Viswanathan: If you see our AUM growth in the first nine months of this year has been 16% on a year-on-year basis and this is considering the fact that we had almost nil disbursal in the first quarter and the disbursals in second quarter was also fairly low. So if you kind of add that back that 16% will move up by certain number. Let us say our current quarter that is the October, November, December quarter numbers if you kind of extrapolate that can give you an indication of the kind of growth that we are expecting.

Jaspreet Singh Arora: Okay, the reason I am asking is because of the current industry tailwinds and way some of the larger peers are growing which is in low to mid double digit, should not we be on a slightly higher terrain at least maybe the 20% to 30% zone and also given the fact that we are looking at our average ticket size is like 10 lakhs, so just curious why we are not in that given we also have liquidity to support us?

Manoj Viswanathan: Right, if you look at our growth last year that was in the region of about 40% that is FY '20 over FY '19, so this year as I mentioned the first two quarters the disbursals were quite low because of the pandemic, so we will have to look at the growth rate as a function of what we have disbursed in the third quarter and using that as a run rate we can extrapolate what the growth rate would be. So it would not be very different from the kind of numbers which you are talking about.

Jaspreet Singh Arora: Just lastly, the new to credit segment I believe that is about 40% in our case.

Manoj Viswanathan: That is right, on the book it is about 32% and on our number of customers basis is around 40%.

Jaspreet Singh Arora: The sourcing mix between direct and indirect is like equally split, is that how it is for us?

Manoj Viswanathan: Indirect and direct as in channels you are talking about?

Jaspreet Singh Arora: Yes.

Manoj Viswanathan: It is about 50:50, 50% is sourced by our own in-house efforts and about 50% comes from connector channels.

Jaspreet Singh Arora: So in both these areas, are you comfortable with this both the sourcing mix as well as the new to credit or is there a better number you think could be there a year down the line, what is your take?

Manoj Viswanathan: As far as the new to credit is concerned, that is a function of the population itself, so if you see when we started business 10 years ago, the new to credit used to be around 70% and only about 30% of the customers had a credit bureau history. But overtime since credit has become more easily available to customers, more and more customers tend to have a consumer durable loan or a two wheeler loan before they come in for a home loan, so that number ie. the new to credit number is constantly decreasing, so we are seeing that decreasing on a quarter-on-quarter basis that is more of a function of how the population is behaving, so we expect it to be in this region for maybe a couple of quarters and then keep decreasing so maybe after two or three years, they will be very little new to credit in a sense even in affordable housing, that is how we are seeing it. As far as the second question, of the channel split is concerned, we are fairly comfortable with this and as the company grows both of these in-house as well as the connector channels -we will focus on growing both of them simultaneously.

Moderator: Thank you. The next question is from the line of Apoorv Trivedi from Moon Capital. Please go ahead.

Apoorv Trivedi: Thanks for the opportunity, I was just looking at page 28 of your presentation, the non-interest income line item has been down quarter-on-quarter, could you just explain what are the sources, this is excluding DA I think given that disbursement had increased, I would have expected this to do well, just wanted to understand what is driving this?

Nutan Gaba Patwari: Apoorv, Good Morning, so you are right the non-interest income is composition of multiple items, so first there are two items that are going up, so what is going up is the interest on bank deposits from the fact that we are maintaining better liquidity. The second item that is going up is other interest income which we earn through our liquid funds, so that is essentially again coming from the treasury route. What is going down is a one-off income that we had booked last year through some displays and advertisements that we had done in our branches across our 60 branches, so there we had booked around 6 crores, which we have not been able to book this time because post-COVID those contracts have not continued simply because there is the lack of footfalls in the branches, so that is one line that has gone out. We are not expecting this line, Apoorv to come back any time soon given not everyone is looking at customers coming to branches and looking at advertisements from other products, so that is the difference. You are right, the assignment income has not happened, which was the larger chunk of 16 crores. Like I mentioned, assignment is something we would like to continue doing more consistently quarter-on-quarter so that will nullify in our lines.

Apoorv Trivedi: Okay, the non-interest income that the 9 crores that is there, it does not include kind of origination fees etc. that you would charge customers, is that correct?

Nutan Gaba Patwari: The origination fee is amortized in Ind-AS, so it goes and gets added into the interest income line on an amortized basis.

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

Abhijit Tibrewal: Good Morning, congratulations Manoj and Nutan, so I was just trying to understand the competitive landscape right now, can you help me understand what was the balance transfers like in the last quarter and how does it compare with Q3 of FY '20?

Manoj Viswanathan: Balance transfers have been declining gradually over the last three-four years, so last year I think same time on an annualized basis, we were at around 4% which is coming down to around if you look at it last quarter was around 1.7% or 2% was the balance transfers, so it is declining gradually so against the 4%, I think we would be at around 2% this year.

Abhijit Tibrewal: Okay, Manoj a follow up question on that and that is my last question, I was just curious in terms of how are we able to maintain our portfolio and incremental yields of about 13% given that the cost of borrowings have come down from March, are affordable housing in peers, the larger banks has also received and despite that if you are able to maintain incremental yields of about 13%, I mean does it suggest that these are customers who would probably not get a housing loan from anyone else and this is why we lend to them and that is how we are able to maintain our yields at these levels?

Manoj Viswanathan: Abhijit, we have always if you look at the last few years, we have always been maintaining similar kind of yields, we have been operating on similar competitive landscape, so there are certain USPs that we bring to the table, we are much quicker in terms of turning around the loan for the customer. We do a more holistic assessment of the customer's family income, so we spend time with the customer to understand what other sources of income they have, how many family members are working and so on. So in the affordable housing space, this is the kind of value addition that we are bringing to the table and customers are willing to pay that little premium for that service that we are providing, so speed is very critical for them. This holistic assessment and providing the right loan amount is very critical for the customers, so they are willing to pay that little extra to get that additional service, so which is why we are able to operate at these kind of rates.

Abhijit Tibrewal: My last question to you has the repricing of the book happened or is it still ongoing now?

Manoj Viswanathan: Repricing as in?

Abhijit Tibrewal: Given that interest rates have come down, customers kind of start approaching you and kind of check with you if their interest rates can be reduced given that you said some other peer would be offering a lower interest rate now, I am talking about the existing customers that we have?

Manoj Viswanathan: Yes, as you can see our balance transfers are not very high, they are in fact declining on a quarter-on-quarter basis, so there has been no trigger in that sense from a customer retention perspective, so that is one. Secondly, wherever we are getting a benefit of rate for example when we draw down funds from national housing bank at a lower rate, we pass on that benefit to the customers, so we have actually passed on I think benefit to about 2,000 to 3,000 customers in the last quarter and probably we will pass on the benefit to another 2,000 to 3,000 customers in the current quarter as well, so as we are drawing down funds at lower rates we are passing on the same benefit to the customers as well.

Abhijit Tibrewal: Thank you so much and that is very helpful, wish you and your team the very best.

Manoj Viswanathan: Thank you.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Sir, I have only one question, I just wanted to understand what will be your average age of customers like on an incremental basis and on the book, if you have this data available?

Manoj Viswanathan: Average Age of customers, is around 35 to 37 years, but we have the entire gamut from say 20 years till 50 years in our customer base, but the average if you say would be around 35 years and the larger population is typically between say 30 to 50 years.

Moderator: Thank you. The next question is from the line of Deepak Mittal from Edelweiss. Please go ahead.

Deepak Mittal: Thank you for taking my question, this is actually a follow-up of question on non-interest income which Nutan answered to some extent, so if we look at this non-interest income, if was also about 12 crores in Quarter-2 FY '21 versus 9 crores in Quarter-3 FY '21, so this advertising contract which is no longer there, which I think was in Quarter-3 FY '20, was the advertising contract continue till Quarter-2 FY '21 and then got finished or I understand YOY why there was a decline, but I have not understood quarter-on-quarter why there was a decline from 12 crores to 9 crores in non-interest income?

Nutan Gaba Patwari: Deepak the contracts ended in March, right at the time when COVID happened, so we were not able to continue. The 12 crores in September that you see is a totally different composition because it is non-interest income, the composition keeps changing every time. So in 12 crores that you see for H1 FY '21 is a mix of again some large amounts from treasury income that we earned during that period as well as some other income that came from because when we pass on some subsidies or when we get subsidy approvals, we also get some income from NHB, all of that comes and sits here, so we are not effectively looking at this income being a mainline of income, what we are looking at the main line of income is the interest income which you see has improved both on a quarter-on-quarter basis as well as on a year-on-year basis, so that is a real focus.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

Vivek Gautam: My question is if we compare our number to that of your rivals like Aavas, because Aavas was the criteria decided by you while going in for a higher pricing of price-to-book value, there the growth is much better, 37% and PAT is 26%, topline is 30% and provisioning figure is also much better and why our growth has sort of been tepid in that record and when can we set it back to growth to that particular level?

Manoj Viswanathan: As we mentioned, the first two quarters of this year we were fairly focused on collections and wanted to make sure that we were taking all the right steps to protect the portfolio, so some of the growth plans etc. we started rolling out in the third quarter. So you will probably see the impact of that in the coming quarters and in spite of all of this, we have still grown by 16% on a year-on-year basis so we are basically being prudent in the first two quarters to make sure that we are focusing more on collections to get things under control before we really step out into the market and start working on the growth aspects. So I think most of the initiatives that we have taken in terms of rolling out new locations, new launches etc. have happened in the third quarter, so you will see the impact of that coming in the next few quarters.

Vivek Gautam: All the stress accounted for in the books or still something is left?

Manoj Viswanathan: If you see the overall provisioning that we have created, it is substantially higher than what we normally do, so typically our provision on the book is around 60 basis points whereas as you can see now we are sitting at about 1.4% of the book as provisions. Similarly, the coverage ratio is typically in the region of about 50%-60% which has now gone up to almost 90%, so you can say that yes we are sufficiently provided for whatever stress that we are anticipating and to some extent the stress is also because of inability to repossess and foreclose the properties, which I think once the Supreme Court order gets released, we should be able to start doing.

Vivek Gautam: Our capital adequacy ratio is very high and leading to very low return on equity of 9% and we have given beautiful exits to our private equity True North and everyone at 4x and even to this Warburg Pincus they got in very cheap at Rs. 334 and public has got at 518, so what was the need for such a high capital adequacy and money infusion by Warburg Pincus also because as you can see that as per the expectation, the performance is slightly on the lower side?

Nutan Gaba Patwari: If I may clarify, True North is a promoter, they have a lock-in for three years as part of the SEBI guidelines and Warburg Pincus has just come in October and they also have a lock-in for one year. As far as specific performance is concerned, yes the ROE is at 9%, our prior ROE has been in the range of 10%-10.1%. Specifically for this year given that there is COVID, there are two specific aspects, the first aspect is the negative carry in the cash that the entire industry and we have had to carry that has subdued the ROE by almost 2%. The second is around the COVID provisions that we have taken like Manoj mentioned from 0.6% to almost 1.4% so that is a significant ROE drag that we had to take. With things settling down and with growth improving like we have discussed, ROE is something, we are keenly focused on growth along with focus on operating and improving leverage are the three things where we believe we should be able to improve ROE on a quarter-on-quarter basis going forward.

Moderator: Thank you. The next question is from the line of Kaushik Agarwal from Haitong Securities. Please go ahead.

Kaushik Agarwal: Good Morning and thank you for the opportunity, I just have two questions, first is on regarding your Stage-2 asset, so seeing Slide Number 26 on the PPT comparing March 2020 numbers and December 2020, the Stage-2 assets have spiked during this quarter, so wanted to understand what kind of customer profile is basically in this Stage-2 and what will be the likely slippages of the Stage-2 into Stage-3 in the coming quarters, and the second question is on the branch expansion strategy for the company, wanted to understand like what is the likely target for the branch count for the company in the next year and which regions are the company focusing on?

Manoj Viswanathan: As far as the Stage-2 is concerned, so this will typically as you can see our 30 days past due has moved from pre-COVID levels of about 1.5% to 2% to about 4% in the last couple of months, so that is where this Stage-2 increase also is coming from. If you look at the customer and if I were to give you some granularity on the customers who are in this bucket, so this will be typically customers who would have taken a moratorium during the moratorium period which ended in August and who would have defaulted say for example in September or October and after that they are in stage of trying to catch up on their missed installments. So you can say compared to pre-COVID levels, we are getting a lot of customers who are paying one installment and remaining in the same bucket in the last couple of months and there are also customers where we are trying to collect more than one installments and trying to roll them back. so the Stage-1 and 2 would consist of these customers who probably had some impact during COVID and from September or October they would have missed a couple of payments and now they are coming back on track. They are making payments regularly but they are able to make only one payment a month and hence they are kind of stuck in Stage-2, so that would be it if I were to give you a granular feel of what kind of customers are in Stage-2 that would be the profile of these customers.

Kaushik Agarwal: Sir, just a follow-up question on this, do we have any such customer who has taken moratorium has not paid single installment till now, the moratorium customer?

Manoj Viswanathan: Yes, that is included in this 1.6% which is there in the gross Stage-3 so we have about you can say close to say 400 or 500 customers who would have also taken moratorium, but post moratorium ending, they were not able to make any payments and hence they have now slipped into Stage-3, so that is part of the 1.6% which is there in Stage-3.

Kaushik Agarwal: Okay Sir, that answers the question, second on the branch expansion strategy?

Manoj Viswanathan: We have always believed that the total number of branches is not a factor for growth, we are looking at actually building up the AUM or disbursal that each branch can do, so that is where our focus is, having said that we are looking at number of locations which are contiguous to our existing locations, so we have currently identified about 20 such locations, we have started work in these locations, typically our process is that we work on building the business in these locations before putting up a branch, so we have a kind of outreach program where a person works in the location for about six months, builds up a small portfolio and then we put the branch. Currently that process is underway in about 20 locations and as the portfolio builds up there to about 5 to 10 crores, we will put up a branch, so you can expect that branch roll out to happen after a certain lag, so this quarter we have actually rolled out operations in about 20 new locations.

Moderator: Thank you. The next question is from the line of Rishabh Doshi from Pro Invest Wealth Managers. Please go ahead.

Rishabh Doshi: Hi Manoj congrats on a successful IPO listing, just on the last point, I wanted to understand like if we have decided to go in a particular location then why do we wait to build a 10 crore book like because having a branch in a new location it gives confidence to the customer also, and my second question is that our major chunk of our book around 60% has been built after FY '18, so could you just give us some qualitative data on how the delinquencies have been on the older book, the book which has been written before FY '18?

Manoj Viswanathan: Sure, so this is a process that we have followed for branch expansion or new location roll out since several years and it has paid us good dividends in terms of being able to identify all the issues and problems before we enter the location and put up a branch. So there have also been instances where after working there for a couple of months we realized that the market is not conducive and we should ideally not put up a branch in those location, so it helps us identify those problems at an earlier stage, so which is why we continue to follow that process plus it also gives us an advantage from a cost perspective because the moment the physical branch comes up, we have sufficient portfolio to actually cover the cost, so we are kind of breaking even very quickly, so these are the two reasons. As far as the portfolio buildup is concerned, if you look at our lagged delinquency that will give you an indication. So pre-COVID our delinquency was around 0.8%-0.9% and if you look at our lagged delinquency, that is if you take away the growth for the last two years, the lagged delinquency was in the region of around 2%, so that will give you an indication of delinquency of the book prior to that growth.

Rishabh Doshi: I just missed one point like I could not hear it properly regarding the direct assignment, this year it was 184 crores and the income was?

Nutan Gaba Patwari: 26 crores.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal and Broacha. Please go ahead.

Avinash Tanawade: Sir, thank you for the opportunity, my first question is on our employee attrition, it is around 36% in FY '19 and FY '20, what are the steps we are taking to reduce that rate or what is the reason for such a high attrition rate?

Manoj Viswanathan: If you see employee attrition typically most of our employees are in frontline roles and these are all people who are largely freshers or people with one to two years of experience. Even if you compare with the industry, we fare quite reasonable in terms of the attrition rate, so we are not very worried about the attrition rate, at that entry level and at the frontline sales level, you can see this kind of attrition. So it is not something that worries us. When we look at our attrition at a stage wherein the employee has already spent say two to three years with us, that number is very, very low so which is why we are comfortable with the overall process.

Avinash Tanawade: Sir, about our write-off policies, how much year or how much months later after tagging as NPA, we write-off our accounts?

Manoj Viswanathan: We basically look at it from the recovery aspect itself as per the Ind-AS guidelines. So if our assessment of the loan is that there is a very low possibility of recovery then we write it off, so it is not directly linked only to the vintage of the loan itself, it also depends upon what legal actions have been taken, what is the recovery estimate that we have, what is the property price, so multitude of factors and we basically look at whether what is the possibility of recovery from the property. If the possibility is very low then we put it in the write-off category.

Avinash Tanawade: So historically what kind of loan loss ratio we have seen or what kind of recoveries we have seen in our NPA accounts?

Manoj Viswanathan: Loss given default is in the region of around 18% to 20%, so once the loan moves into the NPA bucket, the loss given default is around 18% to 20%.

Avinash Tanawade: Even though we have a secure loan and LTV of lower than 80% we have such a loss ratio of 18%?

Manoj Viswanathan: Yes, this ratio is on a very low base if you look at it, so this would be a total of maybe in historically say 200 or 300 accounts on which this calculation is being done, so to that extent in a sense it is a self-selected weak base on which this 20% is being arrived at, so the 98% of the book or 99% of the book that logic holds good that our LTV is low and the recovery is possible, but on few accounts that go bad, there will obviously be some say challenge in selling the property or some reduction in price etc. because of which we incur that loss.

Avinash Tanawade: How much time it usually takes to SARFAESI Act to recover the money from NPA accounts?

Manoj Viswanathan: So once the loan goes into NPA it takes about three months to complete the SARFAESI process, and after we repossess, it typically takes around maybe two to three months to sell, so you can say totally an average of about four to six months from the time the loan goes into NPA.

Avinash Tanawade: Sir, what is our incremental cost of borrowing?

Nutan Gaba Patwari: Our incremental cost of borrowing for Quarter-3 FY ’21 is 5.8%.

Avinash Tanawade: How much loan we have taken from banks, what kind of incremental cost they are offering to us?

Nutan Gaba Patwari: The range is between 7.6% to 8.2%.

Avinash Tanawade: And out of our total borrowings, how much percentage is fixed and how much is variable?

Nutan Gaba Patwari: Fixed is a very small percentage, fixed is around 21%.

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

Karthik Chellappa: Thank you for the opportunity again Sir, just two follow-ups, the 7.5% of one day DPD how will get that split between salaried and self-employed and which would be the geographies above the 7.5%?

Manoj Viswanathan: Yes, typically speaking if you look at our overall ratio, the population that is 75% is salaried and 25% is self-employed, but if you look at our delinquency buckets, typically the ratio tends to be 50:50, so 50% is salaried and 50% is self-employed, so typically that would be the breakup. As far as geographies are concerned, the geographies that got impacted by COVID more, so if you take say a Bombay, Pune, NCR region, Surat for example, so these are the three or four markets where the COVID impact was highest and as a result of which the one DPD is also higher in these places.

Karthik Chellappa: Got it, my last question is on the securitization under direct assignment income booking, now given that you have actually taken NPV of the spread over the tenure of the loan and recognize it upfront, what happens when that loan becomes the subject matter of a BT out, do you have to reverse it at some point of time in case it gets switched to another financial institution?

Nutan Gaba Patwari: Karthik, technically the loan is already sold, so it is not a BT out from our books, it is BT out from the bank books, so we have to work very closely with the bank helping them record each of these subsequent transaction and that is the role that we operate as a servicer to these loans.

Karthik Chellappa: So hypothetically I mean if you were to direct assign it to another bank and then the borrower comes forward with the proposal from a bank B and wants to do a BT out and assuming that does get balanced transferred out, it is the bank to whom you have assigned it which loses the loan, so the income that you have booked upfront does any portion of that need to be reversed because of this or is it without any recourse to you?

Nutan Gaba Patwari: It is absolutely without any recourse.

Karthik Chellappa: So the only loser would probably be the bank that bought the loan from you, it has to leave their books basically because you will intimate them accordingly?

Nutan Gaba Patwari: Right, the only caveat to this Karthik is that when we do assignment, we do not assign 100% of the loan, we assign 80% of the loan or 90% depending on the sanction of that point in time, so the balance 20% or 10% is what we will lose, which is like any other BT out.

Moderator: Thank you. The next question is from the line of Pooja Ahuja from Equentis Wealth. Please go ahead.

Pooja Ahuja: Good Morning, I just had two questions, firstly you had mentioned earlier that there are certain branches which have matured and have AUM about 150 crores, so out of the 72 branches, how many would have this kind of AUM?

Manoj Viswanathan: We will give you the exact number, it should be around 15 branches.

Pooja Ahuja: Okay, and currently your top three States are contributing 70% to AUM, is there any particular target to lower this number and what time?

Nutan Gaba Patwari: We could not hear your question well, can you repeat?

Pooja Ahuja: Is the top three states are currently contributing 70% to the AUM, do we have any target to lower this and in what time period?

Manoj Viswanathan: The way we look at it is, these top three states which you are talking about that would be Gujarat, Maharashtra, and Tamil Nadu, and they also happened to be the largest housing as well affordable housing markets in the country. So in a sense the percentage or the proportion that is coming from here is justified, so we are not really targeting and reducing that, however, we are also focusing on certain states, for example, Karnataka, Andhra Pradesh, Telangana, Rajasthan etc. to increase the share and share of the business coming from these states and market share in these states. So there will be a kind of secular reduction in the contribution that is coming from the top three states and while the other states go up slightly, that is the way we are looking at it.

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

Manoj Viswanathan: Thank you everyone for joining us on this first call. I hope we have been able to answer all your queries, in case you require any further details you can get in touch with us directly or with Orient Capital, our investor relations partners. In summary, I just want to mention that our asset under management is continuously increasing, our spreads are continuously increasing and our cost to income is decreasing, so all profit metrics are on an improving or increasing path. The direct assignment is a tool for liquidity and ALM management and due to the Ind-AS accounting guidelines, the income from the DA needs to be taken upfront, so depending upon whether the DA is done in a particular month, carried out in a particular quarter or not, there will be some variation in the PAT for that quarter, so that is what I wanted to summarize. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Home First Finance Company India Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.