HFFCIL/BSE/NSE/EQ/134/2021-22 **Date: 09-02-2022**

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

Sub: Earnings Conference Call Transcript

Dear Sir/Madam,

With reference to our letter No. **HFFCIL/BSE/NSE/EQ/120/2021-22** dated January 24, 2022, please find attached the transcript in respect to the earnings conference call on the Reviewed Financial Results for the quarter ended December 31, 2021 held on Friday, January 28, 2022 at 4:00 P.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
DN: c=IN, postalCode=700007, st=WEST BENGAL, o=Personal, serialNumber=fde20153e75f5e87dabaa79d6eee7a1cd4ad6b8aad8b8e8951489217c6080659, 2.5.4.20=16307146407087da668653d4e9771e128e5f8b7d2c113998badd9215660e7810, email=SHREYANS.BACHHAWAT@HOMEFIRSTINDIA.COM, cn=SHREYANS BACHHAWAT, l=KOLKATA, title=2535, pseudonym=253520210819122932649
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Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS NO: 26700

Home First Finance Company India Limited

Q3 & 9M FY22 Earnings Conference Call Transcript

January 28, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Home First Finance Limited Q3 FY22 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. Manish Kayal, Investor Relation Head. Thank you and over to you sir.

Manish Kayal: Thank you Faizaan. Good afternoon, everyone. I hope that all of you and your families are safe and healthy. I am Manish Kayal and I head the Investor Relations for HomeFirst. On behalf of the company, I extend a very warm welcome to all participants on HomeFirst's Q3 FY22 Financial Results discussion call. Today on the call, I am joined by Manoj Viswanathan, MD & CEO and Ms. Nutan Gaba Patwari, CFO. I hope everybody had an opportunity to go through our investor deck and press release. We have also uploaded the excel version of our factsheet on our website and request you to have a look. With this, I handover the call to Manoj.

Manoj Viswanathan: Thank you, Manish.

Good afternoon, everyone. If there is one phrase that all of us have been eager to use in the last 24 months, it is BAU or "Business as Usual". We are pleased to use this phrase with respect to our Q3 performance. Some of the highlights being:

1. Highest ever disbursals of Rs 570 Crs, 11% higher than our Q2 disbursals which was the previous highest.
2. In December we saw the highest collection efficiency in the past 12 months leading to a significant improvement in 1+ and 30+ DPD levels. 1+ DPD improved to 6.5% from 7.6% and 30 DPD improved to 4.7% from 5.2%. Our Gross Stage 3 stands at 2.6%. Dec'21 Stage 3 includes NPA of INR 339mn which is less than 90DPD but included due to asset classification norms as per RBI notification dated 12-Nov-2021. However, the said change does not have a material impact on the financial results for Q3. Comparable Gross Stage 3 as per previous classification is 1.7%.
3. Physical branches went up to 76 and total distribution points have gone up to 187.
4. There is no incremental restructuring in Q3.

Immediately following this strong quarter, we saw the 3rd wave hitting the country in January. We are still in the midst of it in some parts of the country, while it is tapering off in some markets. However, now the number of new cases per day have gone below the weekly rolling average. 67% of the population has taken at least one dose of vaccination and 50% are fully vaccinated. Lockdowns have been restricted to weekends and night times. All this has helped in reducing the impact of the Omicron wave and has ensured that the economy continues at an almost BAU level. At HomeFirst, the impact of the Omicron wave has been minimal and the business momentum continues.

We are pleased to announce that our AUM has crossed the Rs 5000 Cr mark in January. We are grateful to our employees, customers, business partners, regulators and shareholders for placing their faith in us and encouraging us through our 12-year journey.

In December, we entered in to strategic co-lending partnership with Union Bank of India (UBI) to offer home loans to customers at competitive interest rates. This partnership aims at leveraging the strengths of both entities to provide a seamless experience to retail home loan customers. We are pleased to report that the initial response to this product has been encouraging.

Digital initiatives continue to see further progress. During Q3, we have added biometric authentication in our customer app. Our customer app continues to enjoy high usage with 76% of our customers registered on the app compared to 72% in Q2 FY22.

Payments and service requests made via the app in Q3 FY22 have gone up by 114% and 88% respectively on a yoy basis. 48-hour turn-around-time for loan approval improved to 90% from 88% in Q2FY22. Our e-onboarding initiatives have been received well with e-stamp adoption in 55% of the loans, e-NACH in 50% of the loans and e-sign in 18% of the loans in Q3.

I would also like to share that we have further strengthened our Board of Directors with the addition of one more Independent Director taking the total number of Independent Directors to 4 out of 9 total Directors. Based on the recommendation of the Nomination and Remuneration Committee, the Board has approved the appointment of Ms. Sucharita Mukherjee as an Independent Director, subject to shareholders approval.

Ms. Mukherjee's vast experience in financial inclusion and developing mass market financial solutions will hugely benefit HomeFirst.

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

Nutan Gaba Patwari: Thank you. Good afternoon all, I will take you through our performance in Q3 FY22.

We continue to stay focused on our operating matrices with an intention to deliver mid-teen ROEs in a couple of years.

Our NIM has expanded from 5.2% in Q2FY22 to 5.7% in Q3FY22; coming mainly from sustained spreads and optimization of cash on the balance sheet. Net Interest Income has gone up by 36.4% on YOY basis and 3.8% on QOQ basis.

Operating expense has been stable this quarter. Opex to Assets stands at 2.8% for the quarter, flat on qoq basis. As guided earlier, we expect this ratio to remain around 3%-3.2% going ahead; as we focus on expansion. Cost to income was 33.0% in Q3FY22 compared to Q2FY22 level of 35.2%.

PPOP stands at Rs 65 Crs, growth of 9.2%. This is coming from expanding NIM base as well as continued focus on Opex.

Credit cost was range-bound at 0.5%.

Our ECL provision stands at 1.2% of the total POS. We continue to be conservative with the provisions.

PCR stands at 46%. Prior to NPA reclassification as per RBI circular, PCR stands at 69% vs 77%.

Our reported PAT of Rs 46 Crs; grew by 6.6% on qoq basis.

On liquidity and borrowing

Our long-term credit outlook was upgraded by ICRA from A+ stable to A+ positive. The company continues to have diversified and cost-effective long-term financing sources. Total borrowings included debt securities are at 3024 crores as of December from 3075 crores as of September. We have a healthy borrowing mix with 45% of borrowings from banks, 25% public sector and 20% private sector, 23% from NHB refinance and 25% from direct assignment. We continue to have zero borrowings through commercial paper. Our cost of borrowing increased by three basis points to 7.2%. Our Q3 cost of borrowing stood at 7.2% increase from 7.1 in Q2. Our marginal cost of borrowing for Q3 were 7.6%.

Moving to capital, our total CRAR is at 59% and Tier-1 CRAR is at 57.8%. Our Dec'21 networth stands at INR 1510 crores. This is the INR 1381 crores as of Mar'21. Our quarter ROA stood at 4% higher from 3.9% witnessed in quarter two, our annualized ROE standards at 12.4%. Our book value per share is INR 172 as of Dec'21.

With this I open the floor for Q&A.

Moderator: Thank you very much. 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: I just have two questions. The first one is, if we were to look at the RBI classification, per se it is well appreciated that excluding the RBI classification, Gross Stage 3 hasn't changed much. But I'm just curious why you have allowed the coverage ratio on Stage 3 to actually dip which was around 29%-30% for the last few quarters, it has now gone below 23% so what is the thought process behind not keeping the coverage ratio steady?

Nutan Gaba Patwari: So, Karthik, the current Stage 3 that you're looking at is a combination of the prior stage 3 as well as the <90 DPD in line with the RBI circular, which has been provided at 18%. So, the composite number is at 23% and for the pre-RBI circular classification that ratio remains high.

Manoj Viswanathan: If you look at the PCR as per the earlier method, it is about close to 70%.

Karthik Chellappa: So, basically on the incremental NPA of the INR 339 million, you've just provided 18% which is why the blended mixture is 23%, is it?

Manoj Viswanathan: That's right.

Karthik Chellappa: Okay, got it. And going forward, will there be any initiative on our part to also convert the daily reporting of NPA to our regular NPA or we will just let that run its course?

Manoj Viswanathan: This is what we have done. So, this 2.6% of Gross Stage 3 reflects the daily reporting of NPA and is as per the new guidelines. As mentioned earlier, 1.7% is as per earlier method of calculation, but going forward we'll have to report the new number which is in this case is 2.6% for Q3FY22.

Karthik Chellappa: Got it. The second question I have is, if I look at the write-off for this quarter, it's at about INR 80 million or so, on an annualized basis it works about 60 to 70 basis points whereas historically it was much lower. What led to the high write-off this quarter and how should we think about write-offs on a more sustainable basis given that we are reaching a BAU kind of scenario?

Manoj Viswanathan: So, Karthik we are still disposing of properties, which were COVID impacted and we still have some. So, this quarter we have done probably +200 properties. So, on each property there is some residual write-off impact which is what we have taken and we will have to be ready for may be couple of more quarters because, as we try and get that 1.7% Gross Stage 3 number down, it will basically involve selling off of properties and squaring off the account. So, there will be some residual write-off in each case, which we will have to take.

Karthik Chellappa: My last question which is more of a clarification, if I look at our restructure book about 943 accounts have been under the restructured book, which is basically the resolution plan framework 2.0 adding up to about INR 316 million, but that represents only 314 customers, which is basically three accounts per customer, any reason why we actually have three accounts per customers for restructured?

Manoj Viswanathan: Karthik, historically there is insurance which is provided for each case for covering the loan. So, as per normal industry practice, we also provide a loan for the insurance premium. We have been booking that as a separate loan, that was a recommended practice and so, from the time we started, we decided to follow the recommended practice which is booking a separate loan for the insurance premium. So, practically every loan comes with an additional loan, which is the insurance loan, plus all of these customers which we are talking about restructured customers are people who had taken a moratorium last year during the first wave of COVID. So, there again, we decided to provide these customers rather than adding the principle to the original loan, the customer's request at that point of time was that we would like to treat this as a separate loan and pay it off at our own convenience. So, we had again provided the moratorium as a separate account. So, which is why there are three accounts for each of these customers.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I just had two questions. So, one is how do you see the net interest margins from current level considering that our NIM is improved quite a bit in last four, six quarters, how do you see that from here?

Manoj Viswanathan: So, this year we have enjoyed good spreads because the cost of borrowing has come down and correspondingly our yields have not come down as they have held up. So, which is why our NIMs have gone up. Going forward, further improvement, at least in the immediate future, will be difficult, but we would try and sustain the NIMs and sustain the spreads that we have been holding so far. There may be slight compression next year, because we see that rates are tending to go up. So, we are expecting maybe 20-30 basis points spread compression, but otherwise we should be in a position to, at a ballpark maintain the current NIMs and spreads.

Rajesh Kothari: So, when you say current means, see 1Q was 4.9%, 2Q was 5.2% and 3Q is 5.7%. So, when you say current means, can you clarify?

Manoj Viswanathan: We will be able to maintain spreads in the region of around 5% going forward.

Rajesh Kothari: Okay. My second question is, if I took it from the competitive intensity perspective, what is on ground from where you are seeing the competition, is it from the new FinTech kind of firm which are into housing finance, from which part you are getting primarily competition from?

Manoj Viswanathan: Competition is there in multiple fronts. So, if you look at urban markets, commercial banks as well as small finance banks, some of them are also providing affordable housing loans. And if you go a little more to smaller towns, et cetera you have the traditional housing finance companies and affordable housing finance companies which are competing over there. So, competition varies depending on the market. So, this level of competition has always been there in our segment, and we don't see it as a new phenomenon.

Rajesh Kothari: No, why I'm asking this question is basically from the yield perspective, if I look at many of your competitors, of course on a blended basis they have a lower yield. So, I'm just thinking from that perspective that do think your yield can be at risk for the same quality of underwriting?

Manoj Viswanathan: See, historically we have always competed in some of the larger markets, where the competition has been intense. And since we also have a reasonable play in the apartment segment, that is a segment where there are larger players like banks also competing. So, we are used to that level of competition. Now, as we go into smaller markets, as we are also doing more of self-construction cases, competitive intensity or pricing pressure is a little lesser than what we have faced in the past.

Rajesh Kothari: I see. And my one more question is from the digital perspective, what kind of steps you have taken to improve the productivity, to improve the cost to income ratio, to improve the turnaround time, any major new additional steps, which you would have taken in last three, six, nine months. And also, in terms of the your spend on such technology from the platform perspective, what kind of spend you are doing and what kind of resources if any, you've added on the same?

Manoj Viswanathan: So, we continue to invest on technology, and for us investment is largely in terms of getting technology specialists on board. A lot of the technology that we use are not very expensive, it's more about adapting the right type of technology and putting it to use. So, some of the things that we've introduced are basically, the electronic or e-onboarding initiatives, which is electronic stamp paper and the e-NACH process as well as electronic signatures process. So, this helps in saving time for the customer, because the customer can do these processes remotely from his residence. And for us also it saves time and effort because we don't have to spend that level of time with the customer at the branch. So, these are some of the initiatives that we have taken. And as we mentioned, the penetration of these initiatives, for example electronic signatures is about 18%, i.e. 18% of our customers have started using e-signatures. And that number is likely to keep going up and will obviously result in a lot of saving for us in terms of manpower, time consumed, et cetera.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: So, I just want to understand what would be the average work experience of the salaried customer and what is the onboarding FOIR and the second question is slightly more qualitatively is that, what is the second line of management after you, how do we look at the second line of management, if you can speak on that slightly qualitatively. These are the two questions?

Manoj Viswanathan: So, salaried customers, typically we onboard customers who are +25 years. So, the overall work experience generally tends to be at least three years if not more, average age is in the region of around 35 to 37 years. So, generally I would say on the book the customers would have an average work experience of over 10 years at least. As far as FOIR is concerned, we have a cutoff of 50%. Generally, the FOIR average comes to around 40% or so, for most of our customers.

And as far as the second line of management is concerned after me, we have we that in our deck also. So, we have a management committee consisting of 10 members, one is myself and there are nine other members. So, that would be second line of management and as you can see from the profiles that we have put up these are all professionals from very good backgrounds and very good industries and companies, and pedigree that we have taken the management team from. So that we can say second line and even below the management team, we have a strong line of people who are in at a senior leadership level within the company and we also have a program where we kind of groom them for larger roles, et cetera. So, I would say depth of management, depth of leadership in the company is very strong.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: My question was, in last one year we have beautifully ramped up our ROA profile from 1.7%-1.8% to now 4%. But now going ahead, how do we see this panning out for maybe next couple of years. So, any thought process on that, any further levers that you see or you would be happy to maintain it in the range of 3.5% to 4%?

Manoj Viswanathan: Yes. So, ROA, it's a function of leverage also. With higher leverage, the ROA probably it will trend down, but maybe we will have to look at the combination of leverage and ROA. And as we had mentioned in the past, the coming year that is FY23 and maybe part FY24 are going to be growth years for us, we are going to do a lot of investments. So, from that perspective, our cost are likely to go up a little bit. But we should be in the ballpark of between 3% to 4% ROA, as we leverage further up.

Sanket Chheda: Okay. And sir as far as the previous question was concerned, maybe competition from FinTechs and everything, as far as I understand maybe mortgage or higher ticket size lending would be a last piece that the FinTech would look. Maybe currently, all the FinTechs who have started some lending business, they're all operating between Rs 5000 to Rs 10,000, average ticket size. So, what's the thought process on that, unlikely to face any competition, at least mortgage as a piece, I believe would never face such competition from FinTech players for new FinTech players?

Manoj Viswanathan: So, we are actually in touch with a number of FinTechs and frankly that is part of our strategic alliances initiative, where we partner with Fintechs and online aggregators to acquire customers. So, one common trend is that is running across is that yes, it's easier to do personal loans and BNPL, et cetera through the FinTech model, where there is probably just one level of check and a lot of that verification can be done online, in the case of property and specifically housing loans, the process is a little more elaborate, and customers have to also go through a lot of decision making process at their end, and arrangement of initial down payment and so on and so forth, which adds to the complexity of the process. So, practically all these players the FinTechs or large aggregators have also been kind of going through this struggle or journey of converting customers. We are actually partnering with a number of them and trying to assist in the journey, trying to kind of build the journey together. It is going to be slightly complex process and maybe a longer journey. But eventually, through a collaborative process, we intend to kind of address this conversion problem. And the FinTech will probably have to partner with companies like us to ensure that the customer gets a seamless experience, because on their own and they don't also have large balance sheet sizes and the asset liability match that is required, which is required for a product like housing loan. So, it will be a partnership or collaborative effort with the FinTechs and it will happen gradually.

Sanket Chheda: Right. So, in the absence of maybe having a meaningful capital access at a cost that make some business sense, they are just likely to be enablers at least as far as your segment is concerned, and not lenders, is that correct?

Manoj Viswanathan: That's right.

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

Abhijit Tibrewal: So, two or three questions, one thing and during the quarter have you received any subsidies under the PMAY Scheme?

Manoj Viswanathan: No, this quarter, we did not receive any subsidy.

Abhijit Tibrewal: The second is, I remember sometime last month we've given out a disclosure to the exchanges around the co-lending partnerships with Union Bank of India. So, just talk about retaining a minimum 20% of the loans and the remainder with the bank, can you give some more color around what is the rate at which you will be kind of let's say giving these loans to Union Bank of India. So, what are the effective yields or spreads that work out for you. So, at least my understanding is compared to the direct lending, this co-lending model should lead to better ROAs for you, right?

Manoj Viswanathan: So, Abhijit I'll break this into two parts, some of the transaction details with the bank are a bit confidential. But broadly speaking, the idea is to offer the loans at a competitive rate to customers. So, typically in the affordable housing segment interest rates are in the region of between 11% to 13%. The idea is to offer these loans at much lower levels, closer to the prime rates that are prevalent in the market. The exact information is something that is confidential between us and the partner bank and so the idea is to address a different segment, a segment which is more formal and probably you're looking at slightly higher ticket size properties, but of course subject to the priority sector definitions, which are applicable to this co-lending program. So, that is really the objective behind this.

Yes, to talk about the ROA, yes this is definitely an ROE accretive program, because the 20% that we are keeping on our books will obviously be, the way the co-lending program is structured or recommended by RBI it will be running at a higher rate, whereas the part that is with the partner bank will be at a lower rate and there is a blended rate that is offered to the customer. And, as per the terms that we have now with our partner banks that we are signed up with, it is an ROE accretive model.

Abhijit Tibrewal: So, if I understood you right, this partnership should be both fee income as well as NII accretive, your net interest income should also benefit from this co-lending partnerships, so as you said the blended rate at which you are offering it to the customer while you will be in a parking with the bank at a lower rate?

Manoj Viswanathan: That's right.

Abhijit Tibrewal: And the other question which I had is on this liquidity rationalization that we have now started that we can see, is it also kind of feeding into the NIMs that we have reported during the quarter. In terms of the negative carry coming down and to that extent, benefiting you on the NIMs?

Nutan Gaba Patwari: Definitely. So, at a spread of 5.6%, our NIMs has gone up from 5.2% to 5.7%, large part of the contribution is from the cash optimization and of course from the growth also coming from leverage. So, those two are the contributors, but a large contributor is the cash optimization.

Abhijit Tibrewal: And lastly, if I might ask, we have taken write-offs of, about INR 8 crores during the quarter, right?

Nutan Gaba Patwari: Yes.

Abhijit Tibrewal: And earlier in the year, you had already taken write-off of another INR 12 crores?

Nutan Gaba Patwari: That was in Q1FY22.

Manoj Viswanathan: Yes. So, Abhijit in quarter one we had taken the one-time write-off because there were some sticky accounts which we had mentioned earlier, in the NCR region. So, we have taken that as a one time, this time it's more of a BAU, because here as I mentioned we are disposing of a lot of properties to square off the COVID impact. So, as a result, there is some loss that we are incurring, and which is the reason for the write-offs.

Abhijit Tibrewal: Okay. So, what I was trying to understand here is, let's say if you have taken write-offs of INR 8 crores during the quarter, it will be fair to assume that it would have at least 50% provided before we choose to write it off. So, despite just do this math that we have reported a gross Stage 3 of INR 102 crores after including those INR 339 million of assets which were classified in the Stage 3 in terms of RBI. Even if I remove that, that works out to about INR 68 crores. And then if I were to maybe just add let's say INR 16 crore. And please correct me if I'm wrong, I'm just giving a simple math that if you have taken write-off of INR 8 crores assuming those loans were worth something like INR 16 crores. So, what that means?

Nutan Gaba Patwari: Abhijit let me do the math for you. So, the loans written off is INR 8 crores and the P&L impact is INR 2 crores. So, you take INR 102 crores of NPA, you remove the INR 34 crores you get INR 68 crores. So, that is essentially what we have from 1.7% equivalent number.

Manoj Viswanathan: Yes, pre-RBI classification number is INR 68 crores basically, that's the correct number.

Nutan Gaba Patwari: The write-offs for loans have been INR 8 crores which is the principal outstanding value and the impact of that in the P&L is only INR 2 crores because we were already carrying the provision.

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

Susmit Patodia: My first question is, if you could tell us when do you think the cheque bounce rate comes back to your old levels of 10%, 12% or you think this is the new normal?

Manoj Viswanathan:: It should come down, we are just also dealing with some new phenomenon as far as the cheque bounce is concerned, which is a lot of customers now have multiple accounts. And some of them prefer to pay through online methods post the date of the date of electronic debit. So, that is something that we are dealing with, that is a new phenomenon that is now taking place. And we have to address that separately to also bring down the bounce rate. But yes, we are working on it. And it is something that is there on our radar, it will come down.

Susmit Patodia: So, Manoj actually on this. I was wondering if you have explored Open Credit Enablement Network (OCEN) and if you can push your customers to go and open OCEN with their respective bank that they have. I understand that SBI is very soon coming on it. Have you thought about this, whether you would go on or have you done any API testing?

Manoj Viswanathan: Yes, so we will eventually use OCEN. It will help us to understand the customer profile better, at least some of the digital imprints that they are leaving we will be able to pick up et cetera. But it's still very early days, even the account aggregator network is not fully settled. And, it's still work in progress. So, it will take some time for the OCEN network to start giving results.

Susmit Patodia: Okay, and the second question, one of this, which is for daily sampling while it's still a little confusing for us because please correct me if I'm wrong GS2 doesn't have daily stamping correct. So, it's only the NPA recognition which has got daily stamping?

Manoj Viswanathan: Let me explain what the daily stamping is all about it is. Basically, the new rule is that once a customer crosses into 90 days past, you see, our reporting date is generally the end of the month. And typically, the presentation or the cheque clearance date is on a particular day in the month. So, let us say 4th as far as we are concerned, so on 4th of the month, if the customer let's say bounces his 4th payment, he basically steps into the +90 territory because he has crossed 90 days from his earliest payment. So, historically we still had another 26 days to collect the payment from this customer, and the customer would have then come back into the lesser than 90-day category, when we were reporting the numbers at the end of the month, but with daily reporting what happens is, that on the 4th of the month, the customer has already crossed into 90-day zone. So, we have to continue to keep them in 90-day category even if he pays one more payment and comes below 90 days. So, that is the rule. So, now as of the end of the month, even if we have managed to collect one payment from the customer, we will still have to record him as a NPA or a potential NPA. So, which is the increase that you are seeing so about 90 basis points, those are the customers who would have normally paid one installment and stayed out of being an NPA. But now as per the new rules, we have to also classify them as NPA.

Susmit Patodia: So, the only thing from an analysts point of view, and somebody who is sitting outside is then the relevance of GS2 could not be that important anymore because the measurement of GS2 is different from the measurement of GS3 now?

Manoj Viswanathan: Yes, it is different but yes to that extent GS2 is obviously much higher quality than a GS3, a GS3 or rather we can say GS3 you have to look at GS3 is split into two parts. So, who is a chronic customer, who's continuously in GS3.

Susmit Patodia: Won't be available to us right?

Manoj Viswanathan: Yes, who is kind of borderline, right now the data is not there but, that's something which we can look at or analyze that bucket.

Susmit Patodia: And just the last thing on this Manoj is, will you gear the organization now towards the strict daily stamping 90 DPD, or you're comfortable with the current situation?

Manoj Viswanathan: We were anyway a very early bucket focused organization, as you can see from our 1+, 30+ numbers, our 30+ is only 4.7%, and 1+ is 6.5%. So, we are very early bucket focused that is basically collect from the customer as soon as possible so that he doesn't step into 30 days past dues. So, this is in a way step in the right direction for us. So, it brings more focus on collecting from the customer before he hits the 90-day barrier, and those steps have already been taken on the ground. People have been more sensitized now more towards the 60-89 customers that we have to collect before they hit the 90-day mark. And it's likely to be good for us in the long run.

Susmit Patodia: Got it and just last question from my side is, can you share what would have been the LGD on the recent quarter write-offs?

Nutan Gaba Patwari: About 25%.

Susmit Patodia: Only 25%.

Nutan Gaba Patwari: About on an average that will be the number.

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

Kunal Shah: Sorry, again touching upon Susmit's question. So, when do we actually see the convergence of maybe the currently recognized norms to the previous Stage 3, which used to be kept below 1.7%-1.8% odd. So, how much time is that going to take, once we gear up the entire organization towards this kind of a collection and the daily stamping mechanism?

Manoj Viswanathan: Actually Kunal, it's a little early days, we'll have to see how the flows are moving for a couple of months to make a more proper prediction. Plus, we also require a decent period of no COVID period and sustained collections or good collection period to predict better. So, maybe in a couple of months, we'll be able to give a better number, a better idea of how that trajectory will move.

Kunal Shah: Okay. And given this kind of scenario, maybe in the normal circumstances, should we then ideally see our 30+ DPD, which on an average would have been less than 2% odd and very low, maybe less than 1% odd as well in March 18, 19, 20, do we see it somehow getting towards that number broadly, maybe at least in terms of the Stage 2, excluding the Stage 3 so would it really help in terms of focusing on such an early bucket will get the numbers down structurally?

Manoj Viswanathan: Yes, internally we are very focused on that our idea is that 1+ and 30+ should go down. And as you can see, one quarter of good collections or even one month, actually December being a great month for collections resulted in a good significant decrease in 1+ and 30+. So, all we need is a sustained period of you can say normalcy without any COVID or any disruptions due to lockdowns, which will basically help us to bring our numbers back to pre-COVID levels. And in this segment, anyway that is what you require because once a customer slips into 30+, then the customer also struggles to make more than one payment, then he continuously gets stuck in that bucket and it becomes challenging for the customer as well. So, it's better to encourage the customer in the early bucket to make one payment and stay out of delinquency, which is our focus and we will continue to remain focused on that.

Kunal Shah: Sure, and that this entire INR 34 odd crores that could be purely because of daily stamping or there would be some accounts where in maybe because of the upgrades not allowed till they clear the entire overdue, there could be some sticky buckets or customers in some sticky buckets. Who are now getting recognized or this is purely daily stamping that maybe we would have recognized it on a December end number when this INR 34 crores wouldn't have been there? How would it be split between the two up-gradations and maybe the daily stamping?

Manoj Viswanathan: This is why we have given both the numbers so and this is purely on because of the up-gradation issue because as per the earlier method if we were to look at it, it is 1.7% only.

Kunal Shah: No, I am saying maybe apart from the daily stamping, somewhere there would be some customers who would always be sticky in say 31 - 60 DPD or 61-90 DPD bucket. So, is there any recognition which was done for those accounts as well or this is purely a daily stamping one?

Manoj Viswanathan: Sorry for I did not understand your question.

Nutan Gaba Patwari: In Stage 2, is there a sticky bucket in that or it's just a full roll back issue. It will be a mix actually.

Manoj Viswanathan: So, yes, all those customers would have ideally paid installments during the month, which is why as per old method we are still at 1.7%.

Kunal Shah: Sure. And one last question in terms of balance transfer out. It is gradually moving up, it's now 5% odd. Should we consider it to be more BAU as maybe it's a normal course and we will not be too worried or maybe it's been inching up all through over last 4-5 quarters. And we would be taking maybe the measures in order to reduce this BT out from 5% currently?

Manoj Viswanathan: No, its range bound I would not get alarmed by it. It's generally in 3% - 5% range.

Kunal Shah: Yes, so 3% to 5% it's now getting towards the higher end of the range. And that's the reason maybe anything which we have, maybe any initiatives or measures which we are taking to ensure that okay now it doesn't cross 5% odd the way the gradual trajectory has been upward all through our last three quarters?

Manoj Viswanathan: There are usual engagement process that we have with customers which we are doing and we are confident that we will be able to stay in that range.

Kunal Shah: Okay. So, maybe the context was would we ever look at maybe lowering the rate in order to maybe manage this at a lower level, would that be one of the requirements or not at this point in time?

Manoj Viswanathan: No, Kunal actually we have done that analysis and frankly speaking the balance transfer rate at lower rates is higher, so if you plot the balance transfer rate, right from say 9% customer rate, interest rate to 14%, it generally tends to be higher in the 9% to 10% or less than 9% range. So, reducing the rate by 20 or 30 or 50 basis points doesn't generally help.

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

Nidhesh Jain: Can you speak about the expansion in branches and employees that we are talking about and which will lead to our Opex ratio increase to 3.2%? Can you speak about what is the number of branches and which locations we are adding and what is the quantum of, number of employees that will be added and timeframe as well?

Manoj Viswanathan: Yes, so we had prepared a plan for the next three years and we are in the process of rolling that out. If you see it involves a deeper presence and distribution in our six chosen states which is Gujarat, Maharashtra, Tamil Nadu, Karnataka, Andhra and Telangana. We are looking at; over the next two years we are looking at doubling our sales workforce on the ground. So, that plan is again underway on hiring, training, et cetera. We have identified a set of close to 350 towns where we want to be present by FY24. Out of which we have already covered about 180 of them, and there is another 180 to be covered. So, we have a quarterly plan for those for the rollout of distribution in these remaining 180 towns. So, all of that is underway, so every quarter as you can see the number of towns that we are present in this distribution points are getting added. And that is all basically the implementation of our distribution strategy for the next three years.

Nidhesh Jain: And in that context, does the ROE target of mid-teens will get pushed by some couple of years or it will remain there for over next two years? When do we expect to reach a mid-teens target?

Manoj Viswanathan: Yes, the target is to get to mid-teens in the next couple of years.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: I have a few questions. One is, today you said that at the end of the first and second quarter is that, if you BAU that you typically focus on reducing your NPAs by about 10 bps per month so that the exit under the old norms would be about 1% by Mar'22, we are at 170 bps under the old norms, any reasons why we're still not there just from a target perspective. Then just related to this, you did say that the LGD on the apartments was what you wrote off was 25%. I thought you did say that you sold about 200 apartments, and we wrote off eight crores seems like the LGD was 40%, so just trying to understand that.

Third was, where are just we in conversations on a rating upgrade and given where our cost of borrowing will that result in any meaningful change in the cost of funds and this last one is, given where the yields are currently, do we have the ability to price up keeping a similar business mix, to keep spreads with these levels or if cost of funds go up there'll be maybe a slight down shift in spreads. Thank you.

Manoj Viswanathan: On the NPA side, I will probably first talk about the 1+ and 30+ metrics which has significantly improved. So, we have actually focused on improving early delinquency because eventually that is what will be, the NPA flows will come from there. So, this quarter there has been a lot of focus on bringing that down and there is more than a 1% improvement in 1+ for example, so that improvement will flow through. Plus talking about the 10 basis points or the reduction back to pre-COVID levels, it will require a stretch of period where there is no disruption. So, unfortunately again we have had a COVID wave three and we'll have to see how that plays out. So, a stretch of six to nine months or 12 months is required to get things back to a pre-COVID level. So, we are hoping that now going forward we will, hopefully this year we will have that continuous stretch.

Coming to the NPAs and write-off. So, yes if you take it as a straight percentage, you are right, it works out to some 40%. But this largely, what Nutan was mentioning is that out of the 200 properties that we have sold, predominantly the properties have been sold at 25% kind of an LGD. And there are few properties where we have let's say poor chances of recovery, where we have taken a larger write-off or written it off. So, as a combination you are seeing a larger number, but predominantly the 200 properties that we have sold, we are in the region in the ballpark of around 20% - 25% LGD.

Your third question was on the pricing, our ability to price, the pricing power and commentary on cost of borrowings. So, let me tell you the pricing power first. So, we have historically competed in very competitive markets, larger towns in the apartment segment, et cetera. And we have developed competitive advantages in that segment, which allow us to still get a good pricing from the customers. Now, today at the juncture we have the distribution that we are planning is in urban peripheries and smaller towns, the ability to price is much better. So, the 180 towns that we are now planning to go into, are relatively less competitive towns, and hence our ability to price is better. Similarly, so far, our exposure to LAP, has been fairly low. That's another area where there is a headroom for pricing. So, we are still at about 10% penetration on LAP and on higher yielding products. So, there again, there is some headroom where we have ability to price, so our ability to price will be strong going for the next couple of years, as we go into smaller markets and do a bit more of LAP.

On the cost of borrowing side, yes, we have enjoyed very good cost of borrowing this year. And some of that is likely to tighten over the next few quarters and some of those gains may go down. But we'll have to wait and see, as of now, it's still early. And last quarter, the cost of borrowing has increased only by 10 basis points.

Chandrasekhar Sridhar: So, you're saying that, cost of borrowing goes up is a possibility, and you can maintain this level of pricing, but you can't sort of have been able to up yield beyond a certain point, which is why maybe there could be from where spreads right now. There may be a 50 bps down tick over the next couple of years.

Manoj Viswanathan: Yes, that's right. We are going to see continuous period of cost of borrowing increase of let's say, 40, 50 basis points, and we may be able to claw back some of that, but not entirely.

Chandrasekhar Sridhar: Sure. Can this be alleviated by if you were to get a rating upgrade, then the impact on cost of funds?

Nutan Gaba Patwari: Chandra as you would have seen that our rating outlook has got upgraded by ICRA. So, I would give it a time period of 6 to 12 months, assuming that we continue to perform on all parameters. So, the conversations are going in the right direction. So, that's the timeframe we are putting 6 to 12 months.

Chandrasekhar Sridhar: Sorry, does this result in cost of funds dropping hereon, relatively to where we are?

Nutan Gaba Patwari: Marginally, it opens up more opportunities from a liquidity standpoint, let's say the insurance companies and a deeper bond market. So, those are the bigger benefits. If I have to look at from an ALM perspective, a seven year, the pricing will change maybe 10 or 20 basis points, but not very meaningfully.

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

Shreepal Doshi: Sir my question was with respect to what would be the incremental yields in the housing and in the LAP segment currently for the quarter. And what was it during 2QFY22 and 3QFY21. And the second part of the question is that, we've seen share of LAP inching up marginally. So, would it be a thought process that we would take the share higher of the LAP to support NIMs going ahead?

Manoj Viswanathan: Yields are in the region of 13.1% i.e., incremental yield for quarter three. And sorry, other question related to that?

Shreepal Doshi: Sir, is that for the housing and what would be for the LAP?

Manoj Viswanathan: So, LAP is generally in the region of 14.5% to 15% and housing yield typically between 12% to 13%. And since about 8% actually of the AUM is LAP, I would say housing would have been about 12.8%, so the housing yield for the last quarter is 12.8% and LAP is as I mentioned 14.5% to 15%. So, giving an overall blended deal of about 13.1%. So, we have always guided that there will be some creeping up of LAP because as we increase distribution points and we have a more mature presence in our existing markets, there is a lot of demand for LAP product and as we also understand the market better, we don't say no to customer, so, it's likely to inch up, but we're not looking at some dramatic increase in LAP, it's likely to inch up and we are comfortable up to 15% or 20% kind of a number on an overall basis, which will probably take a few years. So, as you can see it's probably inching up by 1% every quarter. So, to get from the current 8% to even 15% will probably trigger eight quarters.

Shreepal Doshi: Got it. So, what would be, like if you can give some color on the LAP loan book as in, will it track the end use, would it be more for the business purpose or would it be more for the personal use of the people?

Manoj Viswanathan: It definitely falls in three buckets, the LAP loans that we do, a large part of it actually about 40% of it is the customers who have recently built a house and when they were building the house, they decided to borrow from friends, relatives, et cetera. And then once they have completed the house, they realize that some of that money has to be returned and they take a loan against the property to refund or reimburse their relatives, et cetera. So, that is a big chunk of the LAP that we do. It is really housing finance which comes at a lag and it's just classified as LAP. The other two buckets are consumption and business. So, about 30% of the LAP business is for business use. So, businessmen who want to increase the inventory and things like that, and another 30% is consumption, so medical expenses, educational expenses, marriage expenses, et cetera things like that.

Shreepal Doshi: Got it. And sir there was a discussion with respect to co-lending. So, what is the thought process like what you want percent of our AUM would we want to limit that channel of business in our overall AUM.

Manoj Viswanathan: So, we have to see how this pans out and the objective of this program is to leverage our existing distribution, we have a strong presence in the apartment segment and even in the self-construction, we work through channel partners like connectors, et cetera. So, every day we come across customers who are rate sensitive, who are more formal customers and who have proper documentation for income. And we have to let go of such customers because they are rate sensitive. So, the idea is to leverage our distribution and also onboard some of these customers under the co-lending program, so that way it improves our productivity of our own network, and our branches and allows us to leverage our infrastructure better. That's really the objective of the program. How much to do is a function of how much we can do without disturbing the existing business. So, we don't want to cannibalize the existing business, we don't want to lose the focus on the existing business. So, we will tread very carefully in terms of how we implement it on the ground. And, since you are asking for a number, I would say, maybe 10% of our business is something that we can experiment with. And then we will see how it goes, like I said we absolutely don't want to lose focus on our affordable housing, which is our strength in the market.

Shreepal Doshi: Got it. So, maybe it would be for the rate sensitive customers who are in the same ticket size or will it be focused towards relatively higher ticket size?

Manoj Viswanathan: Ticket size there could be a slight uptick in ticket size, because actually the customers who are rate sensitive and whom we lose are, who are also looking at a slightly higher ticket size, but within the priority segment, because anyway this program is applicable only for priority sector. So, the highest ticket size that we can offer under this program is only INR 35 lakhs.

Shreepal Doshi: So, one last question was, we have brought down the liquidity on balance sheet to almost 11%. So, is this the level of you would be maintaining at BAU level?

Nutan Gaba Patwari: That's right yes. We will maintain about one quarter of disbursal approximately as liquidity.

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

Karthik Chellappa: Just two quick clarifications, on the co-originating model. So, basically the arrangement is that 20% of the loan stays on the balance sheet and we also get a loan servicing fee. And, if I contrast this let's say with our direct assignment where 10% of the loan actually stays on the book. Being so what limited business, you have done with Union Bank till now, how does the yield on securitization compare with the NIM plus fee that you are earning on the co-lending model?

Manoj Viswanathan: So, the difference will be primarily the fee that we are earning and maybe a slightly better spread.

Karthik Chellappa: So, can you say that this co-lending model on an ultimate spread level including the fee is actually better than securitization, from our yield perspective?

Manoj Viswanathan: Yes, you are putting us in a spot but yes, mathematically yes.

Karthik Chellappa: Okay, mathematically yes, this is useful. The second one is, if I were to look at 6000 odd cases which have been directly assigned, so far of which 10% you have retained on the balance sheet, the holding period after origination was about 20 months, and the remaining period is about 207 months which adds up to about 227 months, or roughly 19 years is the total duration of the loan. This seems to be slightly on the higher side, because I thought usually the loan tenure is something like 13 to 14 years with the actual duration being somewhere between six to seven, because 18 to 19 years looks to be on the higher side, is that the case or is that pretty much the total duration for most of the loans?

Nutan Gaba Patwari: So, Karthik, what you are looking is at the disclosures in the financials. So, the holding period, the residual holding period is coming to 19 years. So, our contracted tenure is 20 years or 25 years. On behaviors it will end up being seven years, which is what the real performance on the book.

Karthik Chellappa: And the yield is what you will use to compute your NPV for your securitization case, right?

Nutan Gaba Patwari: It is a behavioral tenure, not this tenure.

Moderator: Thank you. The next question is from the line of Abhijit from Sundaram Mutual Fund. Please go ahead.

Abhijit: I just have one question what is outstanding restructure book as on date?

Manoj Viswanathan: Restructure book is same INR 30 odd crore which is about 0.76% of the AUM.

Abhijit: Sure. And is the momentum in disbursals are expanding sir in Q4 and what if you can without telling us what numbers, what do you see on ground?

Manoj Viswanathan: On ground demand is very, very strong actually, between the two waves, I've managed to travel to quite a number of places across the country and also speak to customers, connectors, et cetera. Demand is phenomenally strong in this segment and constraint is only how much you can kind of take in and how much you can process of these loans. So, very, very strong demand we are seeing. So, we are kind of implementing our distribution strategy, we are focused on getting deeper into the focus states that we have and build up the distribution. So, very, very strong demand on the ground.

Abhijit: And this is without even diluting any underwriting requirements, which you have?

Manoj Viswanathan: Absolutely, without diluting, without considering new segments.

Moderator: Thank you. The next question is from the line of Pooja Ahuja from Monarch Networth Capital. Please go ahead.

Pooja Ahuja: I just had one question. So, this quarter, we've seen some level of branch expansion and employee addition. And we have guided a 3% opex to AUM, but our OPEX this quarter has largely been under control. So, do we expect, are we still maintaining that 3% guidance for this financial year, and so then we are expecting a bulk of these cost is going to come in the next quarter.

Nutan Gaba Patwari: So, quarter four is what we are expecting 3% and going forward as well.

Manoj Viswanathan: Yes, so the number of people addition, et cetera was still not very large this quarter, so as those numbers are increasing further, you will see the impact on opex.

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

Abhijit Tibrewal: When I asked you and when I am going through the notes to the financial statement, it shows eight crore is the P&L impact of the write-offs right?

Nutan Gaba Patwari: Let me explain this for the benefit of everyone. So, the credit cost in P&L is six crores, the write-off impact is two crores, so for new growth which is essentially sitting in Stage 1 that is approximately two crores. The NPA reclassification, which has moved into GNPA or Stage 3, the re-classification impact is one crore and the balance one crore is some slippage from one bucket to the other. So, that's the total of six crores that you see on the P&L. Against this two crore of write-off the loan value of the write-off is eight crores and approximately 200 accounts where we had to take a write-off, there are also some loan accounts which pre-closed which we did not need to take any write-off. So, that's the full mathematics of this number. I just thought I'll spell it out once.

Moderator: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: I had just two questions and in the recent remarks you had said that for LAP, the 40% of the nature of the transaction is towards those who people take and repay to their own relatives. So, in LAP, the collateral is the same house property. So, how the LTV moves, because while giving the home loan to that same customer, the LTV would be generally at a 50% - 55%. And then when the LAP a small portion is given how the LTV moves for that same property or it's the different property you take as a collateral?

Manoj Viswanathan: No, it's the same property. So, customers when they construct a house, typically the construction stages so when they start many customers sometimes want to do it with their own funds. So, they start by doing with their own funds, but they realize in between that they have to borrow and many of them are not aware that housing loans are available, et cetera. So, they end up taking from friends, relatives or even local moneylenders and so on and complete the house. So, after completing the house, they go through a phase where somebody wants the money back and so on. So, that's when they realize that yes, I can take a loan against this house and they come to us. The LTVs generally are as per the LAP product, which is generally we do about 40% to 50% max. So, it typically stays in that range only. So, we don't do, even though the actual requirement is to own that house, we don't take the LTV up too much, generally in the 50% range only.

Rahul Maheshwary: So, Manoj the same customer who has taken the initial Home Loan, how many are the overlap taking the LAP also with you or they are completely fresh.

Manoj Viswanathan: These will be customers basically see, what we are talking about these are customers who would not have taken a home loan in the beginning. They are basically trying to manage with their own funds or borrow from relatives, et cetera and there is no loan against that property.

Rahul Maheshwary: Okay. And that's very helpful and second thing can you give some sense on the recent write-off that had taken place, no doubt Nutan has explained all financial details everything, but going forward are you finding such stress which you had witnessed in NCR where you had sold of the property, how the ground level activity is taking place or still you are finding such instances can take place where few of the properties can be written-off until and unless the stress gets abate?

Manoj Viswanathan: No, so this is more of a COVID impact or COVID stress as Nutan mentioned, we had already, since we have been last four quarters you would have seen we have taken a lot of provisions, even today our provision stands at 1.2% of the AUM which is fairly high. So, as this is just the process of now liquidating these properties. So, while we have liquidated a large number of properties the P&L impact is INR 2 crores as Nutan mentioned. So, which means we are carrying a lot of provision against those properties already. So, we are likely to see this for a couple of quarters as we dispose of more and more properties, because we are still at the end of the day, we are sitting on INR 68 crores or right now INR 100 crores of NPA as per new classification. So, as we tried to bring those NPA number down, we will have to basically sell these properties and there will be some loss that we'll have to take in these properties, because as you can see in the market there are a large number of entities which are also trying to sell properties. So, there is especially in NPA properties there is some loss that we need to take. So, that is where this is coming from.

Rahul Maheshwary: So, basically the LGD if it's 25% and you are taking a write-off for those properties, because of the COVID impact that is taking place. So, on P&L impact the 20%, 25% of the provision will definitely get built up so rest 75% is at least the recoverable value am I going right or?

Manoj Viswanathan: You are absolutely right, but in many cases the recoverable value will be even lower, because there is dumping of properties in the market. So, because of that we'll have to take some write-off in all of these cases.

Rahul Maheshwary: Okay. And in your loan mix, how much is linked to floating of fixed, any such nature can you give highlight?

Manoj Viswanathan: It's largely floating only. So, except for a small portion of loans that are linked to an NHB scheme, where we are supposed to offer a fixed rate to the customer, the rest is all floating. So, 90% plus would be floating. And in those loans fixed rate loan we also get a fixed rate from NHB. So, in effect it is back-to-back fixed.

Rahul Maheshwary: And just last question Manoj, on a strategic level as you are going slow on the state expansion whichever state, you're going you are going more deeper into that, but going forward in next two-three years which are the new states which would be planning out to expand your branches, how the network expansion is in the radar for you?

Manoj Viswanathan: So, all of these six states which I mentioned are focus states for us as far as network expansion is concerned. Gujarat, Maharashtra, Tamil Nadu, Andhra, Telangana and Karnataka. So, we are at varying levels of distribution or penetration in each of these states. So, for example in Gujarat we are very strong and deeply penetrated. And so, our attempt is to kind of take that or take it to that level in all the other five states as well. So, at the end of maybe two to three years, we want to kind of be at a fairly deep level of penetration in all the six states.

Moderator: Thank you. The next question is from the line of Dhruvish from Mirabilis Investment. Please go ahead.

Dhruvish: So, I have three questions, firstly on the connecter front, if I look at the sourcing mix roughly 65% if I include the micro connector comes from connector, so what this number would be as of now and since it's like two third of the coming from connector so, fundamentally how do we see this are we comfortable with this, because I'm trying to understand fundamentally why would a connector refer to us, what if the competitor raises the payout to the connector so why would he have a reason to stick with us. So, that's the first question.

Manoj Viswanathan: So, if we want to get into a let's say a very deep level of penetration in the states where we are present, we need a local connect with the customer because we are talking about customers who are probably building or buying a house for the first time in their lives and you need to reach out to the customer at that specific moment when you are thinking about purchasing the property or building the property, which a local person will be able to do better. So, in each of the markets you need somebody who is locally connected, who is with the local ecosystem and who knows immediately when a customer is looking to purchase a property. So, that is the connector network and just like any other dealer network or distribution network, we will have to engage with them, we will have to provide good service and have a method of kind of developing or nurturing that network, which is what we are doing. It is not entirely about payout because payouts are fairly generic in nature. There are no players who are offering substantially high payouts. So, there is generally a 20 to 40 basis points or 50 basis points kind of a payout that is norm that is there in the market and generally everybody practices the same. So, like I said like any other distribution network where you have to nurture the network using both qualitative and quantitative methods, this is what we are doing and technology helps to some extent plus our focus on turnarounds, et cetera helps to some extent. So, we are able to engage these people on mobile apps, provide them various promotions on mobile apps, et cetera. So, that is how we nurture that network.

Dhruvish: Okay. So, do we expect this number to remain stagnant or would it come down gradually like this connector network concentration?

Manoj Viswanathan: No, in some form or the other the connector network will be there. So, which is why we have kind of also divided into different categories. So, there is a builder ecosystem, there is a financial connector, there is construction community, micro connector, et cetera. So, while one goes up the other might come down kind of a scenario. So, but ultimately there has to be a local connect or local person in the market in the ecosystem with whom you will need to have a tie up to understand who in that market is interested in taking a loan. So, that's really how we are seeing it.

Dhruvish: Okay. And my second question is, with respect to the branch target for the next three years, you did talk about doubling the sales force, ground level sales force in two years, but like fundamentally, I'm trying to understand how do we expect the AUM to double from here, like would it majorly come from the branch network, because right now we are at some INR 66 odd crores that is a AUM per branch. So, do we expect that to go up substantially or the substantial increase in AUM would come from the increasing number of branches so, some your thoughts on that?

Manoj Viswanathan: So, both will work in supporting each other. So, our branch network also we are looking at increasing it from the current 76 to about 140 in the next two years. So, that number is also almost doubling. Plus, the number of distribution points are also going up from about 180 to 360, so both new locations as well as the physical branches are going up. From the existing branch network again, we will get some throughput because some of the digital branches are serviced or are mapped to the large existing branches. So, it will be both, existing branches have to go on to the next level and there will be, currently about 20% of our business comes from new distribution expansion, but then that is a rolling number so, we will be in the 25% to 40% ballpark number for new distribution expansion or loans coming from new distribution expansion for the next couple of years and the balance will be coming from our existing branches.

Dhruvish: Got it sir. So, my next question is on, you talked about majorly the rate is floating, so is it only linked to repo, and when the repo gets re-priced in what time does the re-pricing happen to the customer in the timeframe?

Manoj Viswanathan: It's actually largely linked to the MCLR of banks, which are lending to us, that's what it is linked to. So, our internal PLR or lending rate benchmark is linked to our borrowing rate, which in turn then linked to the customer rate. So, if the MCLR changes, then our internal benchmark also will change. When we pass on, we normally have some threshold after which we pass it on. So, if it is only 5, 10 basis points we normally kind of absorb it, because the cost of passing it on, the logistics, et cetera will be challenging. Plus, it also makes it very unpredictable for customers. But if the change is more then we will be able to pass it on. So, since it's all floating and we have done this in the past it's not a challenge, we can pass it on to the customer.

Dhruvish: Okay. And my last question is on the LTV, so like the LTV on a blended basis is some 47%. So, theoretically speaking like on INR 100 crore exposure, when we have just given a INR 47 crores loan then theoretically we don't expect a write-off. So, the write-off which we talked about earlier is just because of that COVID impact or do we expect some minuscule write-offs to continue going forward as well?

Manoj Viswanathan: Miniscule write-offs will be there because of COVID impact, so out of the INR 100 crores let us keep aside the INR 33 crores which are there because of the classification, because those are most, those are higher better-quality customers who are paying some installments. So, let us talk about the INR 68 crores which are a more chronic NPAs. So, out of INR 68 crores let us say our attempt is to bring that down over the next one year. So, whatever properties we are disposing of, there will be some impact of selling those properties. So, that is the write-off that we can expect going forward.

Dhruvish: Okay. And just one data keeping question. So, the NCD which we recently issued from ICICI Prudential the INR 99 crore, so wanted to understand the tenure and the rate of the same.

Nutan Gaba Patwari: Two years NCD, it has a structure around the put option at the end of one year and the pricing is 7%.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Just a few follow up questions on previous comments, you mentioned that we are inclined to have the LAP uptick in tier two, tier three cities, is this more to do with a longer timeframe for the home loans to break even. Also, how do we manage the liquidity risk of the LAP itself as we go down, in the tier of the cities. The liquidity of that property also comes off. So, that's the first question. Second is on the insurance attachment, we mentioned that we have 100% insurance attachments which are the insurance companies we work with or we give the customer a freedom of choice and is insurance part of the same home loan or is it a separate loan?

Manoj Viswanathan: Yes. So, your first question was related to liquidity of properties in smaller towns, across both home loans and LAPs, or was it basically specific to LAP?

Shubhranshu Mishra: Why are we more incline to increase the proportion of LAP, is it more to do with the break-even time of the HL, as the breakeven time of HL gone up**?**

Manoj Viswanathan: See, what happens, because we are dealing with external channels and we have our own branch distribution also. So, generally in the market people see LAP as a related product and if a customer wants a LAP, he walks into a housing loan company, similarly our channels, the connectors refer LAP cases also to us. So, while we are not actively pursuing a LAP number, 10% to 15% of the loans that come through, come through loan against property, and we find that the profile is good and we find the loan is doable loan and we go ahead and approve it. So, which is the reason our LAP number is where it is. So, we are not really actively pursuing our target or a number for LAP. And as far as properties are concerned, smaller town versus larger, it has its own pros and cons. So, when we say smaller town, we are not really going very remote where there is a very thin population or if there is a liquidity issue, these would be reasonably large towns and have a vibrant market for property. So, just to put things in perspective we know for example we are currently present only in about 150 towns. Whereas, Domino's or McDonald's are present in 300 plus towns. So, the simple benchmark is that any town that we go into there will be a vibrant market for a house that we are financing. So, that's on the liquidity side, as far as insurance question is concerned, we work with Bharti Axa, as the insurance partner and we have been working with them for a while and we finance the premium and we book it as a separate loan. So, it's not part of the housing loan, it is a separate loan, all the clarity is given to the customer that there is a separate loan that is being booked to finance the premium for the insurance. We you have done it that way because some customers sometimes prefer to pay off the insurance loan faster when they get some extra funds. So, we have kept it for convenience plus also as per the income tax rules, your housing loan benefit cannot be extended to the insurance loan. So, which is why we keep it as a separate loan.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Manoj Viswanathan: Thank you everyone for joining us on the call. I hope we have been able to answer all your queries. In case you require any further details, you may get in contact with Manish Kayal, who heads the Investor Relation function or get in touch with Orient Capital, our external Investor Relations advisors.

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

The reader is also requested to refer to audio recording of the call uploaded on company website.