November 25, 2021

Home First Finance Company India Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	3,500.00	3,500.00	[ICRA]A+ (Positive); reaffirmed and outlook revised to Positive from Stable
Non-convertible Debentures	400.00	400.00	[ICRA]A+ (Positive); reaffirmed and outlook revised to Positive from Stable
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**4,000.00**	**4,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Home First Finance Company India Limited's (Home First) steady progress towards achieving the rating upgrade triggers with respect to the growth in its portfolio and improvement in its profitability. Notwithstanding the recent slippage on the asset quality front because of the Covid-19 pandemic-induced challenges, the same remains comfortable with the gross stage 3 (GS-3) at 1.7% as on September 30, 2021. The company's ability to further scale up its operations, sustain/enhance its profitability and improve its asset quality indicators will remain a monitorable.

The ratings also continue to factor in Home First's established track record in the industry with steady growth in its assets under management (AUM) to Rs. 4,617 crore as on September 30, 2021 from Rs. 4,141 crore as on March 31, 2021 (Rs. 3,618 crore as on March 31, 2020). The ratings also factor in Home First's strengthened capitalisation position, driven by the equity investment by private equity player – Warburg Pincus[1] – in October 2020 and the initial public offer (IPO) in February 2021. This led to an increase in its net worth to Rs. 1,463 crore as on September 30, 2021 from Rs. 988 crore as on September 30, 2020 (Rs. 1,381 crore as on March 31, 2021). Consequently, the reported gearing declined to 2.10 times as on September 30, 2021 from 2.23 times as on March 31, 2021.

The company's asset quality deteriorated in FY2021 owing to the disruptions caused by Covid-19. However, with its strong systems and recovery mechanism, Home First has been able to contain its delinquency level. It reported GS-3 of 1.7% as on September 30, 2021 compared to 1.8% as on March 31, 2021 (1.0% as on March 31, 2020) and had a small restructured portfolio outstanding of Rs. 31 crore (0.7% of AUM) as on September 30, 2021. The ratings also factor in Home First's ability to raise funds despite the challenging operating environment, though diversification in the funding profile is expected going forward. Further, it witnesses steady demand for direct assignment transactions, which adds to the borrowing cushion available with the company.

The ratings, however, remain constrained by Home First's geographically concentrated portfolio with Gujarat and Maharashtra accounting for a high share of the portfolio. Further, the top 3 states comprised 68% of its AUM as on September 30, 2021, down from 72% as on March 31, 2020. As the company scales up and further penetrates the southern market, the concentration in western geographies is expected to decline going forward.

[1] Through its entity – Orange Clove Investments B.V.

Though ICRA takes note of Home First's focus on the salaried affordable housing segment (74% share of salaried borrowers as on September 30, 2021), which is likely to be more resilient from an asset quality perspective, and the limited exposure to non-housing loans, the company's ability to maintain/further improve its asset quality would be important from a credit perspective. The ratings are also constrained by the company's relatively unseasoned book. Given its high growth in the past 3-4 years and the long-tenor nature of the assets, the vintage of the loan book is low. Nonetheless, Home First's ability to ramp up its operations while maintaining its leverage will be a key credit monitorable.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation to support medium-term growth plans – Home First is backed by a strong investor base that has supported it with timely capital infusions, resulting in a comfortable capitalisation profile. The company received an infusion of Rs. 328 crore from existing investors in FY2020. It subsequently on-boarded Warburg Pincus in October 2020 and January 2021 with a 28.8% stake, including a primary infusion of Rs. 75 crore and a secondary stake sale from existing investors.

Further, the company became public in February 2021, which added cushion to its capitalisation profile. Home First's net worth improved to Rs. 1,463 crore as on September 30, 2021 from Rs. 988 crore as on September 30, 2020 (Rs. 1,381 crore as on March 31, 2021). ICRA takes note of the company's ability to raise funds from the capital market and external investors.

Steady growth in AUM and improvement in profitability – Home First has been able to achieve steady growth in its AUM even during the pandemic. Its AUM grew to Rs. 4,617 crore as on September 30, 2021 from Rs. 3,618 crore as on March 31, 2020. In addition, it witnessed an improvement in its lending spreads with a marginal improvement in the yields and a reduction in the cost of funds. Its net interest margins (NIMs) improved to 6.0% in H1 FY2022 from 5.4% in FY2021. The operating expense with respect to average managed assets (AMA) has remained largely in line and is expected to remain around the current levels in the near to medium term. Consequently, Home First's return on AMA (RoMA) improved to 2.9% in H1 FY2022 from 2.1% in FY2021.

With annual AUM growth of ~30% envisaged over the near to medium term, Home First's ability to maintain the spreads, moderate the operating expenses and limit the credit costs while operating at optimum leverage levels would be key for delivering the targeted profitability with expansion.

Focused approach towards maintaining good asset quality, supported by strong credit appraisal and portfolio monitoring processes – The company continues to focus on maintaining its asset quality, which is reflected in its portfolio mix, its credit appraisal policies and portfolio monitoring processes. ICRA notes that Home First remains focused on home loans (~92% as on September 30, 2021) with loan against property (LAP) comprising the balance. Around 74% of the borrower profile is in the form of salaried customers, providing additional comfort to the company's credit quality. ICRA further notes that Home First has been growing its loan book at a 3-year compound annual growth rate (CAGR) of 45% during FY2018-2021. While growing at a high rate, Home First was able to contain its asset quality despite some slippages related to Covid-19-induced challenges.

There was a marginal improvement in GS-3% in H1 FY2022 as the company reported GS-3 of 1.7% as on September 30, 2021 compared to 1.8% as on March 31, 2021. This was driven by the improvement in the collection efficiency in Q2 FY2022 post the decline in Q1 FY2022. Home First had not done any restructuring under Restructuring 1.0. However, it undertook some restructuring under Restructuring 2.0 and had a restructured portfolio outstanding of Rs. 31 crore (0.7% of the AUM) as on September 30, 2021.

Ability to raise funds and support from lenders; diversification of funding profile expected to improve – Home First has been able to access debt funding despite the challenging operating environment. It has funding relationships with over 17 lenders. Though its reliance on funding from banks and National Housing Bank (NHB) has been high so far, the company is expected to diversify its funding profile by tapping long-term money from the capital markets, borrowing from development finance institutions (DFIs) and maintaining a steady share of securitisation/direct assignment as a source of funding.

Credit challenges

Relatively high, albeit improving, geographical concentration of portfolio – The company's operations were mostly concentrated in Gujarat (38% of AUM) followed by Maharashtra (18%), Tamil Nadu (12%) and Karnataka (9%) as on September 30, 2021. The top 3 states comprised 68% of the AUM as on September 30, 2021, though this declined from 72% as on March 31, 2020. While there has been a marginal improvement in the concentration, it remains high at the state as well as city level. Further, given the target borrower segment and the low seasoning of the book, the geographical concentration risk adds to the overall portfolio vulnerability. Going forward, as Home First scales up and further penetrates the southern market of Andhra Pradesh, Telangana and Tamil Nadu, the concentration in western geographies is expected to reduce.

Exposure to relatively vulnerable borrower profile; recovery from overdue and restructured book key monitorable – Home First operates in the affordable housing segment, which is relatively riskier in nature given the low-to-middle-income profile of the borrowers. Most of the borrowers work in small private enterprises or proprietorships and remain vulnerable to economic cycles and have limited income buffers to absorb income shocks. While the losses on default are expected to be limited considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios and good credit appraisal and monitoring mechanisms, the company's ability to manage the adverse impact of the Covid-19-induced stress on the asset quality profile and manage recovery from its overdue and restructured portfolio will remain critical from a credit perspective.

ICRA notes that owing to Home First's higher focus on salaried customers and individual self-construction home loans, the underlying risks are lower than the segment served by many other emerging affordable housing finance companies (HFCs). However, the asset quality indicators could exhibit more volatility, given the pace of growth and the relatively-riskier borrower profile of the low-and-assessed-income segments.

High growth resulting in limited portfolio seasoning – Home First has a moderate track record (in relation to the loan tenor of up to 10-15 years) as it commenced operations in 2010. Its portfolio has grown considerably in the last two-three years as reflected by the 3-year CAGR of 45% in its AUM till March 31, 2021. Going forward as well, the portfolio growth rate is expected to remain high. Though the portfolio has witnessed various economic disruptions over the past few years, its performance in the longer term is yet to be seen considering the limited vintage of a significant part of the portfolio.

Liquidity position: Strong

Home First's liquidity profile was healthy as on September 30, 2021 with no negative cumulative mismatches in any of the short-term buckets. It continued to maintain sufficient on-balance sheet liquidity of Rs. 807 crore as on September 30, 2021 in the form of unencumbered cash and liquid investments. In addition to this, as on September 30, 2021, the company had Rs. 533 crore (including direct assignment sanctions) of sanctioned but undrawn lines. This is sufficient to meet the debt obligation for the next 6 months till March 31, 2022. Home First's ability to maintain its liquidity profile going forward in addition to the regular flow of funds will be critical for maintaining normal business growth.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates an improvement in its profitability indicators with a return on managed assets (RoMA) of over 3% on a sustainable basis along with its ability to scale up its operations, diversify its borrowing profile and keep the 90+ days past due (dpd) at less than 1.5%.

Negative factors – The outlook could be revised to Stable or the pressure on the company's ratings could arise if there is a deterioration in the asset quality with the 90+ dpd exceeding 2.5%, thereby affecting the profitability. The weakening of the capitalisation profile (gearing above 5 times) or a stretch in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Home First Finance Company India Limited (Home First) is a housing finance company founded on February 3, 2010 with offices across various cities in India. It obtained its licence to carry on the business of a housing finance institution from NHB on August 11, 2010. Home First was converted to a public limited company with effect from March 14, 2018 and it got listed on stock exchanges on February 8, 2021. The company primarily provides housing loans, loans for the purpose of purchasing commercial property, and LAP.

Key financial indicators

	FY2020	FY2021	H1 FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	165.89	208.75	128.68
Profit before tax	107.33	134.04	103.94
Profit after tax	79.55	100.14	79.97
AUM (including assigned portfolio)	3,618	4,141	4,617
Total managed assets	4,083	5,326	5,612
Gearing (times)	2.68	2.23	2.10
Adjusted gearing (times)	3.32	2.78	2.77
% Net profit / Average managed assets^	2.32%	2.13%	2.92%
% Return on net worth^	10.93%	8.66%	11.25%
% Gross Stage-3	1.04%	1.84%	1.7%
% Net NPAs	0.77%	1.19%	1.2%
% Net NPA / Net worth	2.51%	2.88%	4.38%

Source: *Company, ICRA Research; ^ Annualised; All ratios as per ICRA calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Nov 25, 2021	Dec 11, 2020	Jul 03, 2020	Aug 28, 2019	Jun 18, 2018
1	Term Loan	Long Term	3,500	3,177.5	**[ICRA]A+ (Positive)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-convertible Debentures	Long Term	400	260	**[ICRA]A+ (Positive)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Commercial Paper	Short Term	100	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Instrument Name	Complexity Indicator
Non-convertible Debenture Programme	Very Simple
Term Loan	Simple
Commercial Paper Programme	Very Simple

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans (various term loans)	Mar 2014 – Nov 2020	4.61-10.00%	Jun 2020 – Apr 2030	3,500.00	[ICRA]A+ (Positive)
Yet to be placed	Commercial Paper	NA	NA	NA	100.00	[ICRA]A1+
INE481N07014	Non-convertible Debenture	Jun 11, 2020	9.50%	Jun 09, 2023	45.00	[ICRA]A+ (Positive)
INE481N07022	Non-convertible Debenture	Jun 18, 2020	9.50%	Jun 16, 2023	25.00	[ICRA]A+ (Positive)
INE481N07030	Non-convertible Debenture	Jun 23, 2020	8.50%	Dec 23, 2021	120.00	[ICRA]A+ (Positive)
INE481N07048	Non-convertible Debenture	Jul 22, 2020	8.50%	Jan 21, 2022	50.00	[ICRA]A+ (Positive)
Unallocated	Non-convertible Debenture	NA	NA	NA	160.00	[ICRA]A+ (Positive)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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