Home First Finance Company India Limited

June 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,300.00	2,000.00	[ICRA]A+ (stable); reaffirmed
Non-convertible Debentures Programme	-	200.00	[ICRA]A+ (stable); assigned
Commercial Paper Programme	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**1,400.00**	**2,300.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 2,000-crore[1] (enhanced from Rs. 1,300 crore) term loans and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 100-crore commercial paper (CP) programme of Home First Finance Company India Limited (HFFC)[2]. ICRA has also assigned [ICRA]A+ (pronounced ICRA A plus) to the Rs. 200-crore non-convertible debentures (NCD) programme of HFFC. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation takes into account the company's stable performance supported by steady growth in the portfolio to Rs. 1,355.93 crore as on March 31, 2018 (3-year CAGR of 59%) while maintaining good asset quality indicators (gross NPA of 0.59% as on March 31, 2018). The ratings continue to factor in HFFC's strong investor profile, experienced management team and adequate systems and controls. ICRA also takes into account the majority ownership of True North (71.50% ownership as on March 31, 2018), and its focus on the affordable housing segment, which offers good growth potential. The ratings further factor in the comfortable capitalisation profile (capital adequacy ratio (CRAR) of 42.03% and gearing of 3.07 times as on March 31, 2018) and commitment from the investors for incremental capital support if needed.

The ratings are, however, constrained by the limited seasoning of the loan portfolio given its limited track record in relation to the asset class and moderate profitability indicators (return on equity (ROE) of 7.86% in FY2018). Further, increasing competition in the affordable housing finance segment could impact the company's incremental portfolio yields. ICRA also takes note of the company's plan to diversify its product mix and have a small share in the builder loan portfolio. Ability to maintain asset quality in that segment will be a key monitorable. The ratings are further constrained by the geographical concentration of the loan portfolio with Maharashtra and Gujarat accounting for 74% of the assets under management (AUM) as on March 31, 2018. ICRA takes note of the high share of National Housing Bank (NHB) funding (24% of overall borrowings) in HFFC's overall funding mix, which has helped it to bring down the cost of funds to 7.86% in FY2018 from 9.81% in FY2017. Going forward, HFFC's ability to maintain interest spreads in a rising interest rate scenario, and the asset quality as it expands the portfolio, diversify long-term funding at competitive rates, maintain a good liquidity profile and improve the profitability indicators, will be the key rating sensitivity.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

The outlook may be revised to Positive if there is a sustained improvement in the company's profitability while the growth trajectory is maintained, leading to an improvement in its financial risk profile. The outlook may be revised to Negative in case of any deterioration in the company's asset quality indicators leading to an adverse impact on its financial profile.

Key rating drivers

Credit strengths

Focus on affordable segment provides good growth opportunity - Given the low penetration level and the Government of India's (GoI) thrust on 'Housing for All by 2022', there is good growth opportunity for small ticket size home loans. As on March 31, 2018, 92% of the company's AUM comprised home loans and with nearly 90% of the loan portfolio comprising ticket sizes up to Rs. 20 lakh, the company is well placed to tap the demand in the affordable housing segment. However, given the new entrants and the competitive landscape, the company's ability to manage pressure on margins will remain a key monitorable.

Higher share of salaried customers within the low- to middle-income affordable segment - Within the affordable segment, the company's focus is on salaried customers. As on March 31, 2018, 74% of the loans outstanding were to salaried customers. Within the salaried portfolio, around 50% of the borrowers were in the cash-salaried category. Higher share of the salaried borrowers segment is expected to sustain the company's good asset quality, while scaling up of operations.

Experienced management team; good appraisal and monitoring systems – HFFC's senior management team has adequate experience in the mortgage segment. The company's board has seven directors comprising the CEO, four nominee director representatives from private equity investors (True North and Bessemer India) and two independent directors. The company has an in-house loan origination, and a centralised underwriting and collection team, and has adequate internal control and portfolio tracking systems in place. For FY2018, ~50% of the portfolio was generated through tie-ups with developers. HFFC generally enters a project after a significant amount of construction is completed. Therefore, the proportion of under-construction projects in its portfolio was moderate at 22%, as on March 31, 2018. Moreover, it has a comprehensive MIS system covering the origination, appraisal and disbursement process.

Comfortable capitalisation levels to support medium-term growth plans – The company's capitalisation profile remains comfortable with gearing of 3.07 times and capital adequacy ratio of 42.03% on as on March 31, 2018. The current capitalisation is likely to support the company's CAGR target of 50-60% over the next two years, assuming a gearing cap of 4-5 times and return on average total assets of 2-2.5%. ICRA also notes the long-term commitment from shareholders for incremental growth, which is likely to help the company maintain good capitalisation indicators in its growth phase.

Good asset quality, albeit on lower seasoned books – The company's asset quality remained under control with gross NPA of 0.59% as on March 31, 2018 (0.69% as on March 31, 2017) and net NPA of 0.50% as on March 31, 2018 (0.58% as on March 31, 2017), on the strength of the high share of salaried borrowers, good underwriting norms and collection infrastructure. Gross NPA, on a one-year lagged basis, was 0.95% as on March 31, 2018 compared to 1.07% as on March 31, 2017. However, the company's portfolio vulnerability remains high given its target borrower profile and low seasoning of the portfolio. Thus, delinquencies in the softer buckets are likely to remain volatile. The overall ability of the company to maintain the asset quality indicators as the portfolio seasons would be important for its credit profile.

Credit challenges

Limited seasoning in scale of operations – The company was incorporated in 2010 and has grown at a 3-year CAGR of 59% during FY2015-FY2018 to manage AUM of Rs. 1,355.93 crore as on March 31, 2018. The company operates through 45 branches across 10 states, primarily Maharashtra, Gujarat, Tamil Nadu and Karnataka. The company plans to grow at a CAGR of 50-60% over the medium term.

High pace of growth – While the company is focussed on the affordable housing segment, where the borrower is more vulnerable to income shocks, ICRA notes that owing to its higher share of home loans and salaried customers, the income volatility for borrowers is likely to be lower. However, as the company scales up operations, the asset quality indicators could exhibit more volatility. While the company has a good credit appraisal mechanism in place, it remains exposed to the volatility in asset quality given the risk associated with the target borrower segment.

Geographical concentration in Maharashtra and Gujarat – The company's operations are mostly concentrated in the states of Maharashtra (36% of AUM as on March 31, 2018), Gujarat (38%), Tamil Nadu (9%) and Karnataka (7%). Further, its loan book is concentrated in a few cities like Surat, Ahmadabad, Bangalore and Mumbai. Surat, Ahmadabad and Mumbai account for 23%, 11% and 7% of the loan book, respectively.

Ability to diversify funding profile by tapping debt capital markets - The company's borrowing profile is skewed towards bank borrowings, which accounted for 76% of its total borrowings as on March 31, 2018 (90% as on March 31, 2017). It was able to diversify its funding profile, with an increase in the number of bankers as well as NHB lines in the overall funding mix. During FY2018, the share of NHB refinancing increased to 24%, as on March 31, 2018, from 9% as on March 31, 2017. Consequently, the company was able to reduce its incremental cost of funds to below 9%. The company is looking to diversify its funding profile further and is planning to raise funds through NCDs as well as commercial papers. Overall, the company's ability to diversify the funding profile and raise funds at competitive rates would be important for scaling up operations.

Moderate profitability – Though the ROE improved to 7.86% in FY2018 from 3.80% in FY2017, supported by higher net interest margin (NIM) and non-interest income, HFFC's profitability indicators remained moderate. PAT improved to Rs. 25.20 crore compared to Rs. 8.77 crore in FY2017 and return on average total assets (RoTA) remained moderate at 2.13% in FY2018 (1.11% in FY2017). The company's operating expenses/ATA increased to 3.33% in FY2018 from 3.13% in FY2017 owing to an increase in rent, travelling expenses, marketing expenses, legal and professional fees and others. In ICRA's opinion, operating efficiencies are expected to increase as HFFC's operations scale up. Going forward, the company's ability to maintain interest spreads, given the rising interest rate scenario, and bring down the operating expense ratios will be critical from a rating perspective. The company's ability to improve profitability as it scales up, while maintaining lending spreads in the competitive affordable housing segment would be critical.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Rating Methodology for Housing Finance Companies

About the company

Home First Finance Company India Ltd. (HFFC), incorporated in 2010 as a housing finance company (HFC), is registered with National Housing Bank (NHB). HFFC was promoted by former Mphasis chairman, Mr. Jaithirth (Jerry) Rao, and former Citibank Consumer Banking Head, Mr. P.S. Jayakumar (at present the MD & CEO of Bank of Baroda). As on March 31, 2018, Mr. P.S. Jayakumar held a 6.36% stake in HFFC while Mr. Jaithirth (Jerry) Rao sold his entire stake during a private equity funding in 2017. Private equity investors hold a significant stake in HFFC – True North (71.50%) and Bessemer Venture Partners (20.08%) as on March 31, 2018.

HFFC provides housing loans to the affordable segment with ticket sizes ranging from Rs. 5 lakh to Rs. 40 lakh. Its average ticket size was Rs. 8.45 lakh as on March 31, 2018. In FY2018, HFFC reported PAT of Rs. 25.20 crore on total assets of Rs. 1,372.32 crore, while it reported PAT of Rs. 8.77 crore on total assets of Rs. 990.28 crore in FY2017.

Key financial indicators

(Rs. crore)	FY2017 audited	FY2018 unaudited
Net interest income	32.97	63.66
Profit before tax	13.67	38.32
Profit after tax	8.77	25.20
AUM	847.32	1,355.93
Total assets	990.28	1,372.32
Tier 1 (%)	65.98%	41.46%
CRAR (%)	66.66%	42.03%
Gearing (times)	2.17	3.07
Return on average total assets (%)	1.11%	2.13%
Return on net worth (%)	3.80%	7.86%
Gross NPA (%)	0.69%	0.59%
Net NPA (%)	0.58%	0.50%
Net NPA / Net worth (%)	1.61%	2.02%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Chronology of Rating History for the Past 3 Years FY2018 July 2017	June 2017	FY2017	FY2016
1	Term Loans	Long Term	2,000.00	1,146.12	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-	-
2	Non Convertible Debentures	Long Term	200.00	-	[ICRA]A+ (stable)	-	-	-	-
3	Commercial Paper	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	March 2014	NA	April 2029	2,000.00	[ICRA]A+ (stable)
NA	Proposed Non Convertible Debentures	NA	NA	NA	200.00	[ICRA]A+ (stable)
NA	Commercial Paper	NA	NA	7-365 days	100.00	[ICRA]A1+

Source: HFFC

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sahil Udani
+91 22 6114 3429
sahil.udani@icraindia.com

Mayank Chheda
+91 22 6114 3424
mayank.chheda@icraindia.com

Ankur Verma
+91 22 6114 3427
ankur.verma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999