August 28, 2019

Home First Finance Company India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2,000	3,200	[ICRA]A+(Stable); reaffirmed
Non-convertible Debentures	200	200	[ICRA]A+(Stable); reaffirmed
Commercial Paper Programme	100	100	[ICRA]A1+; reaffirmed
Total	2,300	3,500	

**Instrument details in Annexure-1*

Rationale

The ratings take into account Home First Finance Company India Limited's (Home First) demonstrated ability to scale up its business while maintaining a good asset quality (gross NPA of 0.86% as on June 30, 2019 and 0.65% as on March 31, 2019). The ratings also consider its comfortable capitalisation level through continuous capital support from the investors (Rs. 226-crore equity infusion in June 2019) with a gearing of 2.64 times as on June 30, 2019 (3.68 times as on March 31, 2019) and its good liquidity position despite the challenging operating environment. ICRA also considers the company's focus on the salaried affordable housing segment (with 73% share of salaried borrowers), which is likely to be more resilient from an asset quality perspective, and the limited exposure to non-housing loans.

The ratings are, however, constrained by the limited track record in relation to the asset class, moderate profitability indicators (return on equity (RoE) of 9.83% in FY2019) and high proportion of loans originated through builder tie-ups where risks are associated with the completion/delivery of the project, etc. Further, increasing competition in the affordable housing finance segment could impact the incremental portfolio yields of the company. ICRA also takes note of the geographical concentration of the company's loan portfolio with Maharashtra and Gujarat accounting for 69% of the assets under management (AUM) as on March 31, 2019 (74% as on March 31, 2018), low portfolio vintage, skewed borrowings towards bank loans and the moderate, albeit improving, profitability profile.

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 and capitalisation indicators, leading to an adverse impact on its financial profile.

Key rating drivers

Credit strengths

Focus on salaried home loan segment within low to middle income affordable segment – Home loans (including insurance loans) constituted 91% of the total portfolio as on March 31, 2019 with 73% disbursed to salaried customers within the affordable segment. Within the salaried portfolio, around 64% of the borrowers receive their salaries in bank accounts and are likely to be more resilient from an asset quality perspective.

C**omfortable capitalisation levels to support medium-term growth plans** – The company's capitalisation profile remains comfortable with a gearing of 3.68 times and capital adequacy ratio of 38.01% on as on March 31, 2019. The capitalisation was strengthened further by an equity infusion of Rs. 226 crore by investors in June 2019, reducing the gearing to 2.64 times with a capital adequacy ratio of 51.51%. The current capitalisation is likely to support the company's target of CAGR of 50-60% over the next two years, assuming a gearing cap of 5 times and return on average total assets of 1.8-2.0% during this period. ICRA also notes the long-term commitment from shareholders and Home First's plan to raise funds through an initial public offering (IPO) for incremental growth, which is likely to help it maintain good capitalisation indicators during its growth phase.

Good scale up of operations, while maintaining asset quality – Home First has posted good growth in its scale of operations (80% in FY2019 and CAGR of 65% during FY2016–FY2019) compared to the industry growth of 11% in H2 FY2019 (CAGR of 18% during FY2016–FY2019), despite the challenging operating environment. The growth was driven by deeper penetration in the existing market and the addition of 15 new branches. Despite the growth in its scale of operations, the company's asset quality remained under control with gross NPA of 0.65% as on March 31, 2019 (0.86% as on June 30, 2019 and 0.59% as on March 31, 2018) and net NPA of 0.50% as on March 31, 2019 (0.70% as on June 30, 2019 and 0.50% as on March 31, 2018). Home First was able to maintain its asset quality on account of the high share of salaried borrowers, good underwriting norms, and collection infrastructure. Gross NPA, on a one-year lagged basis, increased marginally to 1.18% as on March 31, 2019 from 0.94% as on March 31, 2018. However, the company's portfolio vulnerability remains high, given its target borrower profile, low seasoning of the portfolio and high proportion of loans originated through builder tie-ups which are exposed to property completion and occupancy risk. In March 2019, 41% of the business is originated through a developer led model (63% in March 2018), although proportion of under construction portfolio is moderate at 18%. The company is focusing on self-construction market such as Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Madhya Pradesh and Rajasthan and this forms a higher share of origination.

Focus on affordable segment, which has good growth opportunity – Given the low penetration level and the Government of India's (GoI) thrust on 'Housing for All by 2022', there are good growth opportunities for small ticket size home loans. As on March 31, 2019, 91% of the company's AUM comprised home loans (including insurance loans). Moreover, with nearly 90% of its loan portfolio comprising ticket sizes up to Rs. 25 lakh, the company is well placed to tap the demand in the affordable housing segment. However, given the new entrants and the competitive landscape, Home First's ability to manage pressure on margins will remain a key monitorable.

Credit challenges

High pace of growth with relatively-riskier target segment – The company targets salaried and non-salaried borrowers from low to moderate income segments (monthly income in the range of Rs. 10,000-30,000). Most of the borrowers are working in small private enterprises or running small proprietary businesses and are more vulnerable to income shocks. ICRA notes that owing to its 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. Given the pace of growth and the relatively-riskier borrower profile of the low and assessed income segments, the asset quality indicators could exhibit more volatility. While Home First has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment.

Geographical concentration of loan book in Maharashtra and Gujarat – The company's operations are mostly concentrated in Gujarat (41% of AUM as on March 31, 2019), Maharashtra (28%), Tamil Nadu (9%) and Karnataka (8%). Its loan book is concentrated in a few cities like Surat, Ahmedabad, Bangalore and Mumbai. Surat and Ahmedabad account for 22.30% and 12.03% of the loan book, respectively. With a high share of its portfolio concentrated in a few cities, Home First remains exposed to geographical concentration risks. However, other locations in states like Karnataka, Andhra Pradhesh, Telengana and Madhya Pradhesh have seen a growth in business in FY2019.

To tie up funds for meeting growth plans – The company's borrowing profile is skewed towards bank borrowings, which accounted for 70% of its total borrowings as on March 31, 2019 (76% as on March 31, 2018 and 90% as on March 31, 2017). The share of National Housing Bank (NHB) financing (30% as of March 2019) has increased, helping the company achieve growth despite the liquidity crunch in H2 FY2019. Home First has been able to diversify its funding profile, with an increase in the number of bankers as well as the NHB lines in the overall funding mix. The cost of funds increased to 8.64% in FY2019 from 7.86% in FY2018, in line with market trends. As the company plans to grow at 40% over the next 12-18 months, it would need to tie up additional funds at competitive rates, commensurate with its growth plans.

Moderate profitability indicators – Home First's profit after tax (PAT) improved to Rs. 42.24 crore from Rs. 25.20 crore in FY2018 and its return on average total assets (RoTA) remained moderate at 2.19% in FY2019 (2.13% in FY2017). The average yield on loans and cost of funds increased marginally in FY2019 to 12.45% and 8.64%, respectively, from 11.08% and 7.86%, respectively in FY2018, translating into an improved net interest margin (NIM). The company's operating expenses/AMA increased slightly to 3.52% in FY2019 from 3.21% in FY2018 and remained comparable with the median numbers for affordable housing finance companies. Credit cost/AMA increased to 0.22% in FY2019 from 0.17% in FY2018. In ICRA's opinion, the operating efficiencies are expected to improve as Home First's operations scale up. With moderate RoTA and gearing levels, the RoE improved to 9.83% in FY2019 from 7.86% in FY2018. ICRA expects the company to achieve double-digit RoE over the next 12-18 months, provided the credit costs remain under control.

Liquidity position

Home First's debt profile had a total maturity of Rs. 165.42 crore in the next six months as on June 30, 2019. Against this, it had cash and liquid investments of Rs. 338.08 crore and unutilised bank lines (including direct assignment) of Rs. 221 crore. Moreover, it expects inflows (collections) of ~Rs. 216 crore in the next six months. The liquidity profile thus remains adequate for meeting the debt repayments over the next six months. However, the regular flow of funds would be critical to meet the growth plans.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Housing Finance Companies]
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Home First Finance Company India Ltd. (Home First), incorporated in 2010 as a housing finance company (HFC), is registered with National Housing Bank (NHB). As on June 30, 2019, private equity investors had a significant stake in Home First – True North (45.8%), Aether (Mauritius) Limited (30.7%) and Bessemer Venture Partners (17.3%). Home First provides housing loans to the affordable segment. In FY2019, Home First reported PAT of Rs. 42.24 crore on total assets of Rs. 2,490.44 crore compared to PAT of Rs. 25.20 crore on total assets of Rs. 1,372.35 crore in FY2018.

Key financial indicators (audited financial statements)

	FY2017	FY2018	FY2019
Net interest income	32.97	63.66	104.86
Profit before tax	13.67	38.32	59.02
Profit after tax	8.77	25.2	42.24
Loans and advances	847.32	1,319.96	2,154.31
Total assets	990.28	1,372.35	2,490.44
% Tier 1	65.98%	41.90%	37.42%
% CRAR	66.66%	42.59%	38.01%
Gearing	2.17	3.07	3.68
% Return on assets	1.11%	2.05%	2.02%
% Return on net worth	3.80%	7.86%	9.83%
% Gross NPAs	0.69%	0.59%	0.65%
% Net NPAs	0.58%	0.50%	0.50%
Net NPA/Net worth	1.61%	1.82%	2.31%

Amounts in Rs. crore; Source: Company & ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2019	FY2018		FY2017
					Aug-19	Jun-18	Jul-17	Jun-17	
1	Term loans	Long Term	3,200	2,000.80	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-
2	Non-convertible debentures	Long Term	200	-	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-	-	-
3	Commercial paper	Short Term	100	-	[ICRA]A1+	[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	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Term Loans	2018-19	-	2022-28	2,065.80	[ICRA]A+(Stable)
NA	Term Loans – Proposed	NA	NA	NA	1,134.20	[ICRA]A+(Stable)
NA	Non-convertible Debentures - Proposed	NA	NA	NA	200	[ICRA]A+(Stable)
NA	Commercial Paper	NA	NA	NA	100	[ICRA]A1+

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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