July 03, 2020

Home First Finance Company India Limited: [ICRA]A+(Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	3,200.00	3,200.00	[ICRA]A+(Stable); outstanding
Non-convertible Debentures	200.00	200.00	[ICRA]A+(Stable); outstanding
Commercial Paper	100.00	100.00	[ICRA]A1+; outstanding
Non-convertible Debenture Programme	0.00	200.00	[ICRA]A+(Stable); assigned
Total	**3500.00**	**3700.00**	

**Instrument details are provided 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 0.87% as on March 31, 2020 and 0.68% as on March 31, 2019). The ratings also consider its comfortable capitalisation level through continuous capital support from the investors (Rs. 327-crore equity infusion in FY2020) with a gearing of 2.67 times as on March 31, 2020 (3.69 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 (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 Home First's limited track record in relation to the longer tenor of the asset class, its moderate profitability indicators (return on equity (RoE) of 10.93% in FY2020) and the 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 company's incremental portfolio yields. ICRA also takes note of the geographical concentration of the company's loan portfolio with Maharashtra and Gujarat accounting for 62% of the assets under management (AUM) as on March 31, 2020 (69% in FY2019 and 74% in FY2018), the low portfolio vintage, the skewed borrowings towards bank loans and the moderate, albeit improving, profitability profile.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that Home First will continue to benefit from its decade-long track record of operations and the experience of its management and promoters.

Key rating drivers and their description

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, 2020 with 73% disbursed to salaried customers within the affordable segment. Within the salaried portfolio, around 47% of the borrowers receive their salaries in bank accounts and are likely to be more resilient from an asset quality perspective.

Comfortable capitalisation levels to support medium-term growth plans – The company's capitalisation profile remains comfortable with a gearing of 3.69 times and a capital adequacy ratio of 38.01% on as on March 31, 2019. The capitalisation was strengthened further by an equity infusion of Rs. 327 crore by investors in FY2020, reducing the gearing to 2.67 times with a capital adequacy ratio of 49.19%. The current capitalisation is likely to support the company's target of a CAGR of 50-60% over the next two years, assuming a gearing cap of 5 times and a return on average total assets (ATA) of 1.8-2.0% during this period. ICRA also notes the long-term commitment from the 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 the asset quality – Home First has posted good growth in its scale of operations (48% in FY2020 and CAGR of 62% during FY2017–FY2020) compared to the affordable housing industry's growth of 21% in 9M FY2020 (CAGR of 18% during FY2016–FY2019), despite the challenging operating environment. The growth was driven by the deeper penetration in the existing market and the addition of eight new branches. Despite the growth in its scale of operations, the company's asset quality remained under control with gross NPA of 0.87% as on March 31, 2020 (0.68% as on March 31, 2019) and net NPA of 0.70% as of March 31, 2020 (0.50% as of March 31, 2019). Home First was able to maintain its asset quality on account of the high share of salaried borrowers, good underwriting norms, and the collection infrastructure. The gross NPA, on a one-year lagged basis, increased marginally to 1.29% as on March 31, 2020 from 1.22% as on March 31, 2019.

However, the company's portfolio vulnerability remains high, given its target borrower profile, low seasoning of the portfolio and the high proportion of loans originated through builder tie-ups which are exposed to property completion and occupancy risk. In March 2020, 50% of the business was originated through a developer-led model (63% in March 2018), although the proportion of the under-construction portfolio was moderate at 15%. Home First is focusing on self-construction markets such as Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Madhya Pradesh and Rajasthan, which form a higher share of the 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, 2020, 91% of the company's AUM comprised home loans (including insurance loans). Moreover, with nearly 88% of its 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, the competitive landscape and the impact of Covid-19, Home First's ability to manage the 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 work in small private enterprises or run small proprietary businesses and are more vulnerable to income shocks. 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, 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 (40% of AUM as on March 31, 2020), Maharashtra (22%), Tamil Nadu (10%) and Karnataka (9%). Its loan book is concentrated in a few cities like Surat, Ahmedabad, Bangalore and Mumbai. Surat and Ahmedabad account for 19.15% and 11.92% 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 Pradesh, Telangana and Madhya Pradesh have seen a growth in business in FY2020.

Ability to tie up funds for meeting growth plans – The company's borrowing profile is skewed towards bank borrowings, which accounted for 73% of its total borrowings as on March 31, 2020 (70% as on March 31, 2019 and 76% as on March 31, 2018). Despite a challenging environment for HFCs, the company achieved portfolio growth as it added new lenders in FY2020 as a result of which the share of National Housing Bank (NHB) financing (27% as of March 2020) decreased. The cost of funds increased to 8.75% in FY2020 from 8.64% in FY2019, in line with market trends. As Home First 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.79.55 crore in FY2020 from Rs. 45.72 crore in FY2019 and its return on average total assets (RoTA) remained moderate at 2.65% in FY2020 (2.37% in FY2019). The yield on average on-book portfolio moderated to 13.06% in FY2020 from 13.21% in FY2019 whereas cost of funds increased to 8.75% in FY2020 from 8.57% in FY2019 translating into lower net interest margin (NIM). The NIM (as a percentage of average total assets(ATA)) of 5.40% in FY2020 (5.59% in FY2019) was however, supported by non-interest income (including the direct assignment income recognised upfront under Ind-AS) to the extent of 2.13% in FY2020 (1.88% in FY2019). The company's operating expenses/ATA decreased to 3.40% in FY2020 from 3.72% in FY2019 and remained comparable with the median numbers for affordable housing finance companies. Credit cost/ATA increased to 0.55% in FY2020 from 0.38% in FY2019. In ICRA's opinion, the operating efficiencies are expected to improve further as Home First's operations scale up. With improved RoTA (PAT / ATA), the RoE improved to 10.93% in FY2020 from 10.69% in FY2019.

Liquidity position: Adequate

Home First's liquidity profile was comfortable as per its reported liquidity statement as on March 31, 2020 as there were no negative cumulative mismatches in any bucket. Having raised around Rs. 509-crore funding in Q1 FY2021, the company maintained sufficient on-balance sheet liquidity (~Rs. 560 crore as on June 25, 2020) and off-balance sheet liquidity in the form of undrawn sanctions of around Rs. 320 crore. While the present liquidity is comfortable to make repayments over the near term, the regular flow of funds will be critical for maintaining normal business growth.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating or change the outlook if the company demonstrates an improvement in its profitability indicators with RoMA of over 3% on a sustainable basis. ICRA could upgrade the rating if Home First is able to profitably scale up its operations, diversify its borrowing profile and keep the 90+ dpd to less than 1.5% on a sustained basis.

Negative triggers – 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	The ratings are based on the standalone financial statements of the rated entity

About the company

Home First Finance Company India Limited, incorporated in 2010 as a housing finance company (HFC), is registered with National Housing Bank (NHB) and provides housing loans to the affordable segment borrowers. As on March 31, 2020, private equity investors had a significant stake in Home First – True North (45.97%), Aether (Mauritius) Limited (30.65%) and Bessemer Venture Partners (16.28%). In FY2020, the company reported a profit after tax of Rs. 79.55 crore on total assets of Rs. 3,507.19 crore.

Key financial indicators (audited; as per Ind-AS)

	FY2019	FY2020
Net interest income	108.08	162.05
Profit after tax	45.72	79.55
Net worth	522.66	933.43
Total assets	2,481.53	3,507.19
Gross portfolio	2,443.57	3,618.36
Gross stage 3%	0.79%	1.04%
Net stage 3%	0.60%	0.77%
CRAR %	38.01%	49.19%

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 (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	
					03-Jul-2020	28-Aug-2019	18-Jun-2018	28-Jul-2017	19-Jun-2017
1	NCD	Long Term	200	0	[ICRA]A+ (Stable); assigned	-	-	-	-
2	NCD	Long Term	200	190	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	-
3	Commercial Paper	Short Term	100	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Term Loan	Long Term	3200	2519	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Amount in Rs. crore

Note: Rs. 210-crore NCD unallocated as on date; Term loans outstanding figure is as on 31.05.2020

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 click here

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 – Jun 2020	4.61%-10.20%	Jun 2020 – Apr 2029	3200.00	[ICRA]A+(Stable)
NA	Commercial Paper	NA	NA	NA	100.00	[ICRA]A1+
INE481N07014	Non-Convertible Debenture	11.06.2020	9.50%	09.06.2023	45.00	[ICRA]A+(Stable)
INE481N07022	Non-Convertible Debenture	18.06.2020	9.50%	16.06.2023	25.00	[ICRA]A+(Stable)
INE481N07030	Non-Convertible Debenture	23.06.2020	8.50%	23.12.2021	120.00	[ICRA]A+(Stable)
NA	Non-Convertible Debenture - Unallocated	NA	NA	NA	10.00	[ICRA]A+(Stable)
NA	Non-Convertible Debenture - Proposed	NA	NA	NA	200.00	[ICRA]A+(Stable)
	Total				**3700.00**	

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

Analyst Contacts

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

Supreeta Nijjar
+91 124 4545 324
supreetan@icraindia.com

Deeksha Agarwal
+91 124 4545 833
deeksha.agarwal@icraindia.com

Sudam Shingade
+91 22 6114 3425
sudam.shingade@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-9354738909 (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) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents