July 05, 2022

Home First Finance Company India Limited: Long-term rating upgraded; outlook revised to Stable from Positive, Short-term rating reaffirmed; Rating withdrawn for Rs. 170-crore NCD programme

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]AA-; upgraded from [ICRA]A+ and outlook revised to Stable from Positive
Non-convertible Debentures	230.00	230.00	[ICRA]AA-; upgraded from [ICRA]A+ and outlook revised to Stable from Positive
Non-convertible Debentures	170.00	-	[ICRA]AA-; upgraded from [ICRA]A+ and outlook revised to Stable from Positive and simultaneously withdrawn
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**4,000.00**	**3,830.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the steady growth in Home First Finance Company India Limited's (Home First) assets under management (AUM) and the improvement in its profitability indicators in FY2022. The AUM grew by 30% to Rs. 5,380 crore as on March 31, 2022 from Rs. 4,141 crore as on March 31, 2021. ICRA has also taken note of the reduction in Home First's delinquencies in FY2022, which had increased earlier because of the Covid-19 pandemic-induced disruptions. Home First's 90+ days past due (dpd) declined to 1.3% of AUM as on March 31, 2022 from 1.8% as on March 31, 2021. The company reported gross non-performing assets (GNPAs) of 2.3% as on March 31, 2022 (the same would have been 1.3% as on March 31, 2022 without factoring in the Reserve Bank of India's (RBI) circular[1] dated November 12, 2021) and March 31, 2021.

The ratings also factor in Home First's robust capitalisation position and strong investor base. It reported a net worth of Rs. 1,574 crore as on March 31, 2022 with an on-book gearing of 2.2 times and a managed gearing[2] of 2.9 times as on March 31, 2022 compared to 2.2 times and 2.8 times, respectively, as on March 31, 2021. The asset quality deteriorated in FY2021 and H1 FY2022 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. Further, it had a small standard restructured portfolio outstanding of ~Rs. 19 crore as on March 31, 2022. The ratings also consider Home First's fund-raising ability through a diversified lender base, though it would need to continue to diversify the lender base, going forward as well, given its growth plans. The company's ability to significantly scale up its operations, sustain/enhance its profitability and improve its asset quality indicators will remain a monitorable.

The ratings remain constrained by Home First's relatively high geographical concentration with Gujarat and Maharashtra accounting for a significant share of the portfolio. The top 3 states comprised 64% of the AUM as on March 31, 2022, though

[1] Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021

[2] Managed gearing = (On-book debt + Off-book portfolio)/ Net Worth

the same declined from 68% as on March 31, 2021. As the company scales up and penetrates the southern market further, the concentration in western geographies is expected to decline going forward.

ICRA takes note of Home First's focus on the salaried affordable housing segment (72% share of salaried borrowers as on March 31, 2022), which is likely to be more resilient from an asset quality perspective, and the limited exposure to non-housing loans. Nonetheless, 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 as a significant part of the loan book growth was achieved in the last couple of years and mortgages are long-tenor assets. Overall, Home First's ability to ramp up its operations while maintaining its leverage will be a key credit monitorable.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company would be able to maintain its healthy financial profile with a steady growth in its scale of operations and healthy profitability, supported by its experienced management, systems and processes.

The outstanding rating on the Rs. 170-crore non-convertible debenture (NCD) programme of Home First has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by the company. The rated instrument was fully paid and no amount is outstanding against the same.

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 onboarded Warburg Pincus[3] 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. Thereafter, the company got listed in February 2021, when it raised Rs. 265 crore via a primary issuance, which added a cushion to its capitalisation profile. Home First's net worth stood at Rs. 1,574 crore with net worth/AUM of ~29% and a capital to risk weighted assets ratio (CRAR) of 58.6% as on March 31, 2022. ICRA expects the company to maintain a prudent capitalisation profile supported by the expected internal capital accretion, while increasing its scale of operations in the near to medium term.

Steady growth in AUM and improvement in profitability – Home First has been able to achieve steady growth in its AUM even during the pandemic. The AUM grew by ~30% to Rs. 5,380 crore as on March 31, 2022 from Rs. 4,141 crore as on March 31, 2021. Its 3-year compound annual growth rate (CAGR) was also around 30% till March 2022.

In addition, it has witnessed an improvement in its lending spreads with a marginal improvement in the yield on average earning assets and a reduction in the cost of average funding. Its net interest margin (NIM)[4] improved to 6.3% of the average managed assets (AMA) in FY2022 from 5.4% in FY2021. With the reduction in delinquencies and the improvement in the asset quality, the credit cost declined to 0.4% of AMA in FY2022 from 0.7% in FY2021. Consequently, Home First's return on AMA (RoMA) improved to 3.2% in FY2022 from 2.1% in FY2021.

Going forward, Home First's ability to maintain the spreads, improve its operating efficiency and contain the credit costs would be key for delivering the targeted profitability while expanding its scale of operations.

Prudent internal controls and underwriting policies support asset quality performance – Home First 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 (~91% as on March 31, 2022 on total AUM, including insurance loans and plot loans) with loan against property (LAP; excluding top-up LAP) comprising around 7% and remaining ~2% pertaining towards shop loans and project loans. Around 72% of the borrower profile is in the form of salaried customers,

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

[4] *All ratios as per ICRA's calculations*

providing additional comfort to the company's credit quality. While growing at a high 3-year CAGR of ~30%, Home First was able to control its asset quality despite some slippages related to Covid-19-induced challenges.

Home First reported GNPAs of 2.3% as on March 31, 2022 (1.3% without factoring in the RBI circular dated November 12, 2021) as well as March 2021. In terms of delinquencies on the overall AUM, the 90+ dpd stood at 1.3% as on March 31, 2022, down from 1.8% as on March 31, 2021. Home First had a provision coverage ratio (PCR) of 25% on its GNPAs and an overall provision of 1.1% on its on-book portfolio as on March 31, 2022.

Continued support from lenders with diversified funding profile, which is expected to improve further – Home First has been able to access debt funding despite the challenging operating environment. It has funding relationships with 17 lenders (excluding National Housing Bank (NHB), direct assignment (DA) partners and NCD investors). Though its reliance on funding from banks and NHB has been high so far, the company is expected to diversify its funding profile by tapping long-term money from the capital markets and borrowings from development finance institutions (DFIs) with a steady share of securitisation/DA as a source of funding.

Credit challenges

Relatively high, albeit improving, geographical concentration of portfolio – The company's operations are relatively concentrated geographically with the top 3 states comprising 64% of the AUM as on March 31, 2022, though the same declined from 68% in March 2021 (72% in March 2020). Home First's AUM is mostly concentrated in Gujarat (36% of AUM as on March 31, 2022), followed by Maharashtra (16%), Tamil Nadu (12%) and Karnataka (8%). While there has been a marginal improvement in the concentration, it remains relatively high. Further, given the target borrower segment and the low seasoning of the book, the geographical concentration makes the company vulnerable to specific geographical issues. 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.

High growth resulting in limited portfolio seasoning – Home First has a track record of around 12 years (in relation to the contractual loan tenor of up to 10-15 years; behavioural tenure is around 6-7 years) as it commenced operations in 2010. The company's disbursements in the last three fiscals (FY2020 to FY2022) comprised around 89% of the AUM as on March 31, 2022. Going forward, 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.

Exposure to relatively vulnerable borrower profile; ability to contain further slippages remains monitorable – Home First operates in the affordable housing segment, which is relatively riskier 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 asset quality profile, contain further slippages and manage material recoveries from its overdue and restructured portfolio will remain important from a credit perspective.

Liquidity position: Strong

Home First's liquidity profile was strong, as on March 31, 2022, with no negative cumulative mismatches in any of the buckets. It continued to maintain sufficient on-balance sheet liquidity of Rs. 626 crore, as on March 31, 2022, in the form of unencumbered cash and liquid investments. In addition to this, the company had Rs. 437 crore of sanctioned but undrawn lines (including DA sanctions) as on March 31, 2022. This is sufficient to meet the debt obligations till March 31, 2023, even with nil collections. Home First's ability to maintain its liquidity profile, going forward, in addition to the regular flow of funds will be critical for maintaining business growth.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if the company is able to report a healthy growth in its scale of operations and maintain a healthy profitability profile with RoMA > 3.0% on a sustainable basis. Its ability to maintain/improve its asset quality further and improve its geographical diversification could also result in a rating upgrade.

Negative factors – Pressure on the ratings could arise in case of an increase in the managed gearing beyond 5 times or a deterioration in the asset quality indicators (90+ dpd above 2.5%), thereby impacting the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies (NBFCs) ICRA Policy on Withdrawal of Credit Ratings
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 (audited)

Home First Finance Company India Limited	FY2020	FY2021	FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	160	211	289
Profit before tax	107	134	226
Profit after tax	80	100	186
AUM (including assigned portfolio; IGAAP valuation)	3,618	4,141	5,380
Total managed assets	4,106	5,349	6,189
Gearing (times)	2.7	2.2	2.2
Managed gearing (times)	3.3	2.8	2.9
Net profit / Average managed assets (RoMA)	2.3%	2.1%	3.2%
Return on net worth	10.9%	8.7%	12.6%
Gross NPA	1.0%	2.3%	2.3%
Net NPA	0.8%	1.7%	1.8%
Net NPA / Net worth	2.5%	2.9%	4.8%

Source: Company, ICRA Research; All ratios as per ICRA's 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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jul 5, 2022	Nov 25, 2021	Dec 11, 2020	Jul 03, 2020	Aug 28, 2019
1	Term Loan	Long Term	3,500.0	3,254.6	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-convertible Debentures	Long Term	230.0	169.0	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-convertible Debentures	Long Term	170.0	-	[ICRA]AA- (Stable); withdrawn	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Commercial Paper	Short Term	100.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

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

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: 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 – May 2022	4.61-10.00%	Aug 2022 – Jan 2032	3,500.00	[ICRA]AA- (Stable)
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]AA- (Stable)
INE481N07022	Non-convertible Debenture	Jun 18, 2020	9.50%	Jun 16, 2023	25.00	[ICRA]AA- (Stable)
INE481N07030	Non-convertible Debenture	Jun 23, 2020	8.50%	Dec 23, 2021	120.00	[ICRA]AA- (Stable); withdrawn
INE481N07048	Non-convertible Debenture	Jul 22, 2020	8.50%	Jan 21, 2022	50.00	[ICRA]AA- (Stable); withdrawn
INE481N07055	Non-convertible Debenture	Nov 29, 2021	7.50%	Nov 29, 2023	99.00	[ICRA]AA- (Stable)
Unallocated	Non-convertible Debenture	NA	NA	NA	61.00	[ICRA]AA- (Stable)

Source: Company

Annexure II: 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.

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.

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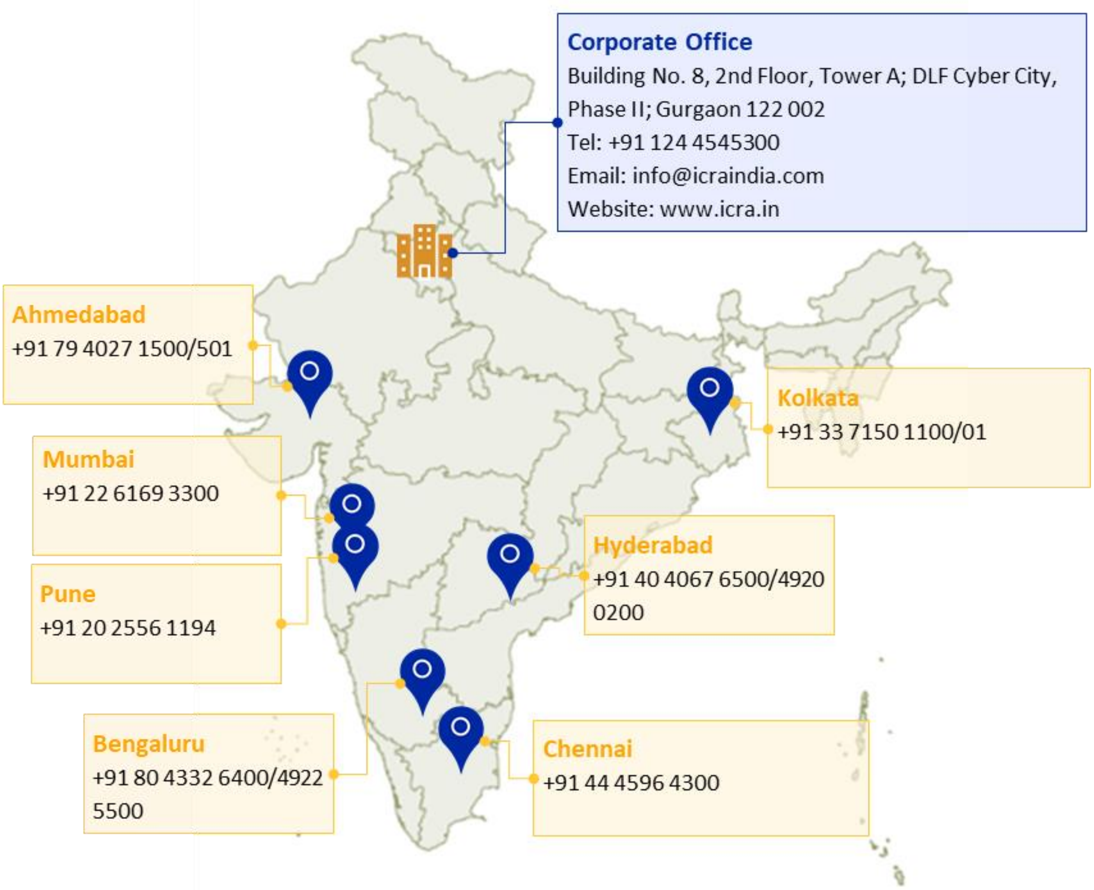

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