February 27, 2023

Home First Finance Company India Limited: Ratings reaffirmed; withdrawn for Rs. 99-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	3,500.00	3,500.00	[ICRA]AA- (Stable); reaffirmed
Non-convertible debentures	131.00	131.00	[ICRA]AA- (Stable); reaffirmed
Non-convertible debentures	99.00	-	[ICRA]AA- (Stable); reaffirmed and withdrawn
Commercial paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**3,830.00**	**3,731.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in the steady growth in Home First Finance Company India Limited's (Home First) assets under management (AUM) and its healthy profitability indicators in 9M FY2023. Its AUM grew by ~35% (annualised) to Rs. 6,751 crore as on December 31, 2022 from Rs. 5,380 crore as on March 31, 2022. In addition, Home First's asset quality remained comfortable with gross non-performing assets (GNPAs) of 1.8% (on-book) as on December 31, 2022 compared to 2.3% as on March 31, 2022.

The ratings also factor in Home First's comfortable capitalisation position and strong investor base. It reported a net worth of Rs. 1,748 crore as on December 31, 2022 with an on-book gearing of 2.7 times and a managed gearing[1] of 3.3 times as on December 31, 2022. Moreover, the ratings consider Home First's fund-raising ability through a diversified lender base, though it would need to continue to diversify the lender base to support its growth plans. Going forward, the company's ability to significantly scale up its operations, sustain/enhance its profitability and maintain/improve its asset quality indicators will remain a monitorable.

The ratings, however, remain constrained by Home First's relatively high geographical concentration with Gujarat and Maharashtra accounting for a significant share of its AUM. ICRA notes that Home First's exposure in the top 3 states reduced to 60% of the AUM as on December 31, 2022 from 64% in March 2022, though it remains high. 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 (70% share of salaried borrowers in home loan book as on December 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 Home First'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.

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.

[1] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

The outstanding rating on the Rs. 99-crore non-convertible debenture (NCD) programme of Home First has been withdrawn in accordance with ICRA's policy on the withdrawal 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

Steady growth in AUM with comfortable profitability – Home First commenced its operations in 2010 and has been able to display steady growth in its AUM. The entity continues to benefit from its diversified board and experienced management team. Home First's AUM grew by ~35% (annualised) in 9M FY2023 to Rs. 6,751 crore as on December 31, 2022 from Rs. 5,380 crore as on March 31, 2022. Its compound annual growth rate (CAGR) was around 25% from March 2020 to December 2022.

In addition, its profitability remained healthy in 9M FY2023, supported by the improvement in the yield and hence the interest spread. Although Home First's operating expenses increased marginally as it expanded operations by opening branches, its overall profitability remained stable. The company reported a profit after tax (PAT) of Rs. 164 crore in 9M FY2023, translating into a return on average managed assets (RoMA) of 3.2% (annualised) and a return on average net worth (RoNW) of 13.2% (annualised) compared to Rs. 186 crore, 3.2% and 12.6%, respectively, in FY2022. 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.

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 got listed in February 2021, when it raised Rs. 265 crore via a primary issuance, which improved its capitalisation profile providing cushion for unseen losses and support for future growth. Home First's capital profile remains comfortable with a net worth of Rs. 1,748 crore, net worth/AUM of ~26% and a capital to risk weighted assets ratio (CRAR) of 49.6% as on December 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.

Comfortable asset quality – Home First witnessed an improvement in its asset quality in 9M FY2023 as it reported GNPAs of 1.8% as on December 31, 2022 compared to 2.3% as on March 31, 2022. The improvement was on account of recoveries and write-offs along with the growth in the loan book. Further, Home First had a relatively small standard restructured book (0.2% of its AUM as on December 31, 2022). In terms of delinquencies in the overall AUM, the 90+ days past due (dpd) stood at 1.2% in December 2022 compared to 1.3% in March 2022. Further, Home First had an adequate provision coverage ratio (PCR) of 29% on its GNPAs and an overall provision of 0.9% on its on-book portfolio as on December 31, 2022.

ICRA notes that Home First's book is relatively unseasoned as a significant part of the loan book growth was achieved in the last couple of years and mortgages are long-tenor assets. Nonetheless, Home First's focus is on the salaried affordable housing segment (70% share of salaried borrowers in home loan book as on December 31, 2022), which is likely to be more resilient from an asset quality perspective and relatively higher exposure to housing loan segment (88% of as on December 31, 2022) provide some comfort. The company's ability to maintain/further improve its asset quality would be important from a credit perspective.

Diversified funding profile – Home First has a diversified borrowing profile including direct assignment (DA) and securitisation and has funding relationships with around 25 lenders. Its funding (including off-book funding) profile comprised private banks (32%), public banks (24%), non-banking financial companies (NBFCs; 2%), National Housing Bank (NHB; 17%), NCDs (6%) and off-book (19%) as on December 31, 2022. ICRA notes, Home First has not drawn down the sanctions available from NHB and plans to draw down the same in the near future. Further, ICRA notes that Home First has been able to raise funds at competitive rates in 9M FY2023. Going forward, the company's ability to maintain a diversified debt profile and raise funds at competitive rates would be important for scaling up its operations.

Credit challenges

Relatively high, albeit improving, geographical concentration of portfolio – The company's operations are relatively concentrated geographically with the top 3 states comprising 60% of the AUM as on December 31, 2022, though the same declined from 64% in March 2022 (68% in March 2021). Home First's AUM is mostly concentrated in Gujarat (33% as on December 31, 2022), followed by Maharashtra (15%), 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.

Limited portfolio seasoning as significant portion of the book was sourced in the last few years – Home First has a track record of around 13 years (in relation to the contractual loan tenor of up to 15-20 years; behavioural tenure is around 6-7 years) as it commenced operations in 2010. The company's disbursements in the last three fiscals (FY2021 to 9M FY2023) comprised around 79% of the AUM as on December 31, 2022. Going forward too, 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 given the limited vintage of a significant part of the portfolio.

Relatively vulnerable borrower profile – 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 with 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 recoveries from its overdue and standard restructured portfolio will remain important from a credit perspective.

Environmental and social risks

Environmental – While housing finance companies (HFCs) like Home First do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to which such HFCs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the HFCs. However, such risk is not material for Home First as it benefits from portfolio diversification.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for HFCs, as any material lapse could be detrimental to their reputation and invite regulatory censure. Home First has not faced any material lapses over the years, which highlights its sensitivity to such risks. While it contributes to promoting financial inclusion by lending to under-served segments, the company's lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

Home First continues to maintain a strong liquidity profile. It had unencumbered on-book cash and investments of ~Rs. 759 crore as on December 31, 2022, which is sufficient to meet its debt obligations (excluding interest) of Rs. 528 crore over the six-month period ending June 30, 2023, with collections (excluding interest) of Rs. 418 crore due during this period. Additionally, Home First had ~Rs. 765 crore of sanctioned but unutilised funding lines from various lenders as on December 31, 2022.

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 in various cities across 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 3, 2021. The company primarily provides housing loans, loans for the purpose of purchasing commercial property, and loan against property (LAP).

The company's AUM stood at Rs. 6,751 crore as on December 31, 2022 (Rs. 5,380 crore as on March 31, 2022). It caters to the affordable housing segment (both home loans and non-housing loans) with an average ticket size of Rs. 11 lakh. Home First reported a net worth of Rs. 1,748 crore as on December 31, 2022 and operates through 102 physical branches in 13 states/Union Territories (UTs).

Key financial indicators (audited – Ind AS)

Home First	FY2021	FY2022	9M FY2023*
Total income	489	596	564
Profit after tax	100	186	164
Net worth	1,381	1,574	1,748
AUM	4,141	5,380	6,751
Total managed assets	5,349	6,189	7,700
Return on average managed assets	2.1%	3.2%	3.2%
Return on average net worth	8.7%	12.6%	13.2%
Managed gearing (times)	2.8	2.9	3.3
Gross NPA / Gross stage 3	1.8%	2.3%	1.8%
Net NPA / Net stage 3	1.2%	1.8%	1.3%
Solvency (Net NPA/Net worth)	2.9%	4.8%	4.1%
90+ dpd (on AUM)	1.8%	1.3%	1.2%
CRAR	56.2%	58.6%	49.6%

*Source: Company, ICRA Research; * Limited review numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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
					Feb 27, 2023	Jul 5, 2022	Nov 25, 2021	Dec 11, 2020	Jul 03, 2020	Aug 28, 2019
1	Long-term fund based	Long term	3,500.0	3,254.6	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)^	-	-	-	-
2	Long-term fund based – Term loan	Long term	-	-	-	-^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-convertible debentures	Long term	131.0	70.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Non-convertible debentures	Long term	99.0	-	[ICRA]AA- (Stable); withdrawn	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Non-convertible debentures	Long term	170.0	-	-	[ICRA]AA- (Stable); withdrawn	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Commercial paper	Short term	100.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^Change in limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture programme	Simple
Long term fund based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not applicable	**Long-term fund based**	NA	NA	NA	3,500.00	[ICRA]AA- (Stable)
Not placed	**Commercial paper**	NA	NA	NA	100.00	[ICRA]A1+
INE481N07014	**NCD**	Jun 11, 2020	9.50%	Jun 09, 2023	45.00	[ICRA]AA- (Stable)
INE481N07022	**NCD**	Jun 18, 2020	9.50%	Jun 16, 2023	25.00	[ICRA]AA- (Stable)
INE481N07055^	**NCD**	Nov 29, 2021	7.50%	Nov 29, 2023	99.00	[ICRA]AA- (Stable); withdrawn
Unallocated	**NCD**	NA	NA	NA	61.00	[ICRA]AA- (Stable)

Source: Company; ^NCD redeemed in October 2022

Please click here to view details of lender-wise facilities rated by ICRA

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.

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