November 06, 2023

Home First Finance Company India Limited: Ratings reaffirmed; Rated amount enhanced, [ICRA]AA- (Stable) assigned to Rs. 500-crore NCD programme and rating withdrawn for Rs. 70-crore NCD programme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	4,500.00	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Non-convertible debentures	61.00	61.00	[ICRA]AA- (Stable); reaffirmed
Non-convertible debentures	70.00	-	[ICRA]AA- (Stable); reaffirmed and simultaneously withdrawn
Non-convertible debentures	-	500.00	[ICRA]AA- (Stable); assigned
Commercial paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**3,731.00**	**5,161.00**	

**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 FY2023 and H1 FY2024. Its AUM grew by ~35% (annualised) to Rs. 8,365 crore as on September 30, 2023 from Rs. 7,198 crore as on March 31, 2023. Moreover, Home First's asset quality remained comfortable with gross non-performing assets (GNPAs) of 1.7% (on-book) as on September 30, 2023 (1.6% as on March 31, 2023).

The ratings also factor in Home First's comfortable capitalisation. It reported a net worth of Rs. 1,947 crore as on September 30, 2023 with an on-book gearing of 3.1 times and a managed gearing[1] of 3.7 times as on September 30, 2023. Moreover, the ratings consider Home First's fund-raising ability through a diversified lender base, though it would need to continue expanding the lender base to support its growth plans. Going forward, the company's ability to scale up its operations significantly, sustain/enhance its profitability and maintain/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 its AUM. ICRA notes that Home First's exposure in the top 3 states reduced to 60% of the AUM as on September 30, 2023 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 (69% share of salaried borrowers in AUM as on September 30, 2023), 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/improve its asset quality further 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 few 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 robust profitability, supported by its experienced management, systems and processes.

[1] *Managed gearing = (On-book debt + Off-book portfolio) / Net worth*

The outstanding rating on Home First's Rs. 70-crore non-convertible debenture (NCD) programme 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 with no amount outstanding against the same.

Key rating drivers and their description

Credit strengths

Comfortable asset quality metrics and profitability profile – Home First's asset quality remained comfortable with GNPAs of 1.7% (on-book) as on September 30, 2023 (1.6% as on March 31, 2023). In terms of delinquencies in the overall AUM, the 90+ days past due (dpd) stood at 1.1% in September 2023 compared to 0.9% in March 2023. Further, Home First had an adequate provision coverage ratio (PCR) of 30% on its GNPAs and an overall provision of 0.8% on its AUM as on September 30, 2023. In terms of solvency, net NPA/net worth stood at 4.4% as on September 30, 2023 vis-à-vis 3.5% in March 2023.

Home First's profitability remained healthy, supported by healthy net interest margins and low credit costs. Although the operating expenses increased in FY2023 and H1 FY2024 because of branch expansion, the overall profitability remained comfortable. The company reported a profit after tax (PAT) of Rs. 143 crore in H1 FY2024, translating into a return on average managed assets (RoMA) of 3.3% (annualised; 3.2% in FY2023) and a return on average net worth (RoNW) of 15.2% (annualised; 13.5% in FY2023) 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 – Home First's capitalisation profile remains comfortable with a net worth of Rs. 1,947 crore as on September 30, 2023, a total capital-to-risk weighted assets ratio (CRAR) of 45.5% and a managed gearing of 3.7 times compared to Rs. 1,817 crore, 49.4% and 3.3 times, respectively, as on March 31, 2023. The growth in the net worth was supported by internal capital accretion. 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. Nonetheless, higher-than-expected growth would require a capital raise to maintain a prudent capitalisation profile and an adequate gearing level.

Diversified funding profile – Home First has a diversified borrowing profile including direct assignment (DA), co-lending and securitisation and has funding relationships with 27 lenders. Its funding profile comprised private banks (33%), public banks (21%), non-banking financial companies (NBFCs; 2%), National Housing Bank (NHB; 22%), NCDs (4%) and off-book (18%) as on September 30, 2023. Home First drew down the sanctions available from NHB in Q2 FY2024, large part of which are at a fixed rate, leading to an increase in NHB's share in the funding profile. Further, ICRA notes that Home First was able to raise funds at competitive rates in FY2023 and H1 FY2024. 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 September 30, 2023, though the same declined from 64% in March 2022 (68% in March 2021). Home First's AUM is mostly concentrated in Gujarat (32% as on September 30, 2023), followed by Maharashtra (14%), Tamil Nadu (14%) and Telangana (9%). 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 FY2023) comprised around 86% of the AUM as on March 31, 2023. 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 lapse over the years, which highlights its sensitivity to such risks. While it contributes to promoting financial inclusion by lending to underserved segments, the company's lending practices remain prudent as reflected in the healthy asset quality numbers in this segment.

Liquidity position: Strong

Home First continues to maintain a strong liquidity profile. It had unencumbered on-book cash and investments of ~Rs. 862 crore as on June 30, 2023, which is sufficient to meet its debt obligations (excluding interest) of Rs. 623 crore for the six-month period ending December 31, 2023, with collections due (excluding interest) of Rs. 478 crore during this period. Additionally, Home First had ~Rs. 1,230 crore of sanctioned but unutilised funding lines from various lenders as on June 30, 2023. As on September 30, 2023, the company had free on-book liquidity of Rs. 802 crore along with unavailed sanctions (including sanctions from NHB) of Rs. 1,815 crore. Its debt obligations over the next 12 months amount to Rs. 1,750 crore, while collections due during this period amount to Rs. 2,112 crore.

Rating sensitivities

Positive factors – Positive factors include the company's ability to scale up its operations significantly, while maintaining a healthy profitability profile with RoMA of more than 3.0% on a sustainable basis. The 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 on 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's 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 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).

Home First's AUM stood at Rs. 8,365 crore as on September 30, 2023 (Rs. 7,198 crore as on March 31, 2023). It caters to the affordable housing segment (both home loans and non-housing loans) with an average ticket size of Rs. 11-12 lakh. Home First reported a net worth of Rs. 1,947 crore as on September 30, 2023 and operates through 120 physical branches in 13 states/Union Territories (UTs).

Key financial indicators (audited)

Home First	FY2021	FY2022	FY2023	H1 FY2024*
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total income	489	596	796	538
Profit after tax	100	186	228	143
Net worth	1,381	1,574	1,817	1,947
AUM	4,141	5,380	7,198	8,365
Total managed assets	5,349	6,189	7,936	9,384
Return on average managed assets	2.1%	3.2%	3.2%	3.3%
Return on average net worth	8.7%	12.6%	13.5%	15.2%
Managed gearing (times)	2.8	2.9	3.3	3.7
Gross NPA/Gross stage 3	1.8%	2.3%	1.6%	1.7%
Net NPA/Net stage 3	1.2%	1.8%	1.1%	1.2%
Solvency (Net NPA/Net worth)	2.9%	4.8%	3.5%	4.4%
90+ dpd (on AUM)	1.8%	1.3%	1.0%	1.1%
CRAR	56.2%	58.6%	49.4%	45.5%

*Source: Company, ICRA Research; * Limited review numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
Total managed assets includes impairment allowance as well as the off-book portfolio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					Nov 06, 2023	Feb 27, 2023	Jul 5, 2022	Nov 25, 2021	Dec 11, 2020	Jul 03, 2020
1	Long-term fund based	Long term	4,500.0	3,568.27	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)^	-	-	-
2	Long-term fund based – Term loan	Long term	-	-	-	-	-^	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-convertible debentures	Long term	70.0	70.0	[ICRA]AA- (Stable); withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Non-convertible debentures	Long term	61.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Non-convertible debentures	Long term	-	-	-	[ICRA]AA- (Stable); withdrawn	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Non-convertible debentures	Long term	-	-	-	-	[ICRA]AA- (Stable); withdrawn	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
7	Commercial paper	Short term	100.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Non-convertible debentures	Long term	500.0	-	[ICRA]AA- (Stable)	-	-	-	-	-

^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	4,500.00	[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); withdrawn
INE481N07022	**NCD**	Jun 18, 2020	9.50%	Jun 16, 2023	25.00	[ICRA]AA- (Stable); withdrawn
Unallocated	**NCD**	NA	NA	NA	561.00	[ICRA]AA- (Stable)

Source: Company

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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