

July 19, 2024

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
Commercial paper	100.00	100.00	[ICRA]A1+; Reaffirmed
Long term-others-fund based	4,500.00	4,500.00	[ICRA]AA- (Stable); Reaffirmed
NCD programme	561.00	561.00	[ICRA]AA- (Stable); Reaffirmed
Total	5,161.00	5,161.00	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in Home First Finance Company India Limited's (Home First) healthy profitability and comfortable asset quality. Its assets under management (AUM) grew by ~35% in FY2024 to Rs. 9,698 crore as on March 31, 2024. It reported a profit after tax (PAT) of Rs. 306 crore in FY2024, translating into a return on average managed assets (RoMA) of 3.2% and return on average net worth (RoNW) of 15.5%. The gross non-performing assets (GNPAs) stood at 1.7% (on-book) as on March 31, 2024 (1.6% as on March 31, 2023) with a provision coverage ratio (PCR) of ~30%¹ on GNPAs.

The ratings also factor in Home First's comfortable capitalisation with a net worth of Rs. 2,121 crore and a capital-to-risk weighted assets ratio (CRAR) of 39.5% as on March 31, 2024. ICRA notes that the gearing has been increasing with the on-book gearing at 3.5 times and the managed gearing² at 4.2 times as on March 31, 2024 compared to 2.7 and 3.3 times, respectively, as on March 31, 2023. In ICRA's opinion, Home First will need to raise equity capital in the next 2-3 years to support its growth plans while maintaining a prudent capitalisation profile. The ratings also consider Home First's good fund-raising ability through a diversified lender base, though it would need to continue expanding the same to support its growth plans.

The ratings remain constrained by Home First's relatively high geographical concentration with Gujarat accounting for 31% of its AUM as on March 31, 2024. ICRA notes that the share of Gujarat has been gradually declining along with the share of the top 3 states (58% of the AUM as on March 31, 2024 vis-à-vis 61% as on March 31, 2023). As the company continues to scale up its operations in the southern and northern states, the geographical diversity is expected to improve gradually with the same remaining important from a credit perspective.

The ratings are also constrained by Home First's relatively unseasoned book as a significant part of the AUM growth was achieved in the last few years and mortgages are long-tenor assets. ICRA takes note of the company's focus on the salaried affordable housing segment (68% share of salaried borrowers in AUM as on March 31, 2024), which is likely to be more resilient from an asset quality perspective, and the limited exposure to non-housing loans.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company would be able to maintain its portfolio quality and healthy profitability, supported by its experienced management, systems and processes.

¹ Provision on GNPAs / GNPAs

² Managed gearing = (On-book debt + Off-book portfolio)/Net worth

Key rating drivers and their description

Credit strengths

Comfortable asset quality metrics and earnings profile – Home First's asset quality metrics remained comfortable with GNPA³s of 1.7% as on March 31, 2024 (1.6% as on March 31, 2023). Delinquencies remain low in the overall AUM with the 90+ days past due (dpd) at 1.1% in March 2024 (0.9% in March 2023). Further, Home First's PCR is adequate at ~30%³ of its GNPA³s as on March 31, 2024. Its solvency (net NPA/net worth) increased marginally in FY2024 to 4.6% as on March 31, 2024 from 3.5% in March 2023, though the same remains comfortable.

Home First's earnings profile also remained comfortable, supported by the healthy net interest margin (NIM), higher non-interest income and low credit costs. The NIM moderated to 6.2% in FY2024 {with respect to average managed assets (AMA)} from 6.5% in FY2023 on account of the increase in the cost of funds and gearing. However, higher non-interest income kept the overall profitability comfortable. The company reported a profit after tax (PAT) of Rs. 306 crore in FY2024, translating into a RoMA of 3.2% and an RoNW of 15.5% compared to Rs. 228 crore, 3.2% and 13.5%, respectively, in FY2023. ICRA expects further moderation in NIM in the near term with an expected increase in the cost of funds and gearing. However, credit costs and operating expenses are expected to remain low, which shall support the overall profitability.

Comfortable capitalisation – Home First's capitalisation profile remains comfortable with a net worth of Rs. 2,121 crore as on March 31, 2024, a total CRAR of 39.5% and a managed gearing of 4.2 times compared to Rs. 1,817 crore, 49.4% and 3.3 times, respectively, as on March 31, 2023. The increase in the managed gearing and the decline in the CRAR resulted from the higher pace of growth in the scale compared to internal capital accretion. In ICRA's opinion, Home First will need to raise fresh capital in the next 2-3 years to support its growth plans while maintaining a prudent capitalisation profile.

Diversified funding profile – Home First has a diversified borrowing profile including direct assignment (DA), co-lending and securitisation and has funding relationships with more than 30 lenders. Its funding (including off-book funding) profile comprised private banks (31%), public banks (29%), non-banking financial companies (NBFCs; 2%), National Housing Bank (NHB; 18%), NCDs (3%) and off-book (17%) as on March 31, 2024. ICRA notes that the share of capital market instruments in the company's funding profile has remained limited. While Home First has been able to raise funds at competitive rates, its ability to maintain a diversified debt profile and continue to raise funds at competitive rates would be important for scaling up its operations.

Credit challenges

Relatively high, albeit improving, geographical concentration – The company's operations are relatively concentrated geographically with the top 3 states comprising 58% of the AUM as on March 31, 2024, though the same declined from 61% in March 2023. Home First's AUM is mostly concentrated in Gujarat (31% as on March 31, 2024), followed by Tamil Nadu (14%), Maharashtra (13%) and Telangana (9%). Despite a marginal improvement, the geographical concentration 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 increases its operations in the southern markets of Andhra Pradesh, Telangana and Tamil Nadu along with deeper penetration in northerns/central regions, the concentration in western geographies is expected to reduce gradually.

Limited portfolio seasoning as significant portion of the book was sourced in the last few years – Home First has a track record of around 14 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. Disbursements in the last three fiscals (FY2022 to FY2024) stood at ~93% of the AUM as on March 31, 2024. Going forward too, the portfolio growth rate is expected to remain high. Though the portfolio has

³ Provision on GNPA³s / GNPA³s

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. Nevertheless, ultimate 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. ICRA takes note of the relatively higher share of salaried borrowers (~68% of AUM as on March 31, 2024), moderate LTV (average LTV of ~47% on AUM as on March 31, 2024) and fixed obligation-to-instalment ratio (FOIR; only ~1.7% of AUM as of March 2024 had a FOIR of more than 60%). Nevertheless, 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 with ~Rs. 1,156 crore of unencumbered cash and bank balances and liquid investments as on March 31, 2024. This, along with the scheduled collections of Rs. 1,383 crore over the next 12 months (till March 31, 2025), is expected to be sufficient to meet its scheduled debt repayments of Rs. 1,546 crore during this period. Additionally, Home First had ~Rs. 774 crore of sanctioned unutilised funding lines (excluding DA sanctions) from various lenders as on March 31, 2024. The company's liquidity coverage ratio of 180% for the quarter ended March 31, 2024 was well above the regulatory requirement of 70%.

Rating sensitivities

Positive factors – A significant scale-up in operations, while reducing the geographical concentration and maintaining/improving the asset quality and earnings profile with RoMA of more than 3.0% on a sustained basis, could positively impact the rating.

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 earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
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 is a public limited company, listed on stock exchanges since February 3, 2021. The company primarily provides housing loans, loans for the purchase of commercial property, and loan against property (LAP) under the affordable finance category.

Home First's AUM stood at Rs. 9,698 crore as on March 31, 2024, managed through 133 branches (excluding satellite branches) spread across 13 states and Union Territories across India. It primarily caters to the affordable housing segment (both home loans and non-housing loans) with an average ticket size of Rs. 11-12 lakh and average rate of interest of 13-15%. The company also offers relatively higher ticket size loans of ~Rs. 20-25 lakh under co-lending arrangements with partner banks (RoI of 10.5-11.0%). Home First reported a net worth of Rs. 2,121 crore as on March 31, 2024 and a net profit of Rs. 306 crore in FY2024 on a total managed asset base of Rs. 11,096 crore (including off-book and expected credit loss (ECL) provision).

Key financial indicators (audited)

Home First	FY2023	FY2024
Total income	796	1,157
PAT	228	306
Total managed assets	7,936	11,096
Return on managed assets	3.2%	3.2%
Managed gearing (times)	3.3	4.2
Gross NPA	1.6%	1.7%
CRAR	49.4%	39.5%

Source: Company, ICRA Research; * Provisional numbers; 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 (FY2025)				Chronology of Rating History for the Past 3 Years			
	Type	Amount	Date & Rating in	Date & Rating in	Date & Rating in FY2023		Date & Rating in	
		Rated (Rs. crore)	FY2025	FY2024	Feb 27, 2023	Jul 5, 2022	FY2022	
1 Long term-others-fund based	Long term	4,500.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)^	-	
2 Long-term fund based – Term loan	Long term	-	-	-	-	-^	[ICRA]A+ (Positive)	
3 Non-convertible debentures	Long term	561.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	
4 Commercial paper	Short term	100.0	[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-others-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
NA	Long term-others-fund based	Mar-2014 to Jun-2024	NA	NA	4,500.00	[ICRA]AA- (Stable)
Not issued	NCD programme	NA	NA	NA	561.00	[ICRA]AA- (Stable)
Not issued	CP programme	NA	NA	NA	100.00	[ICRA]A1+

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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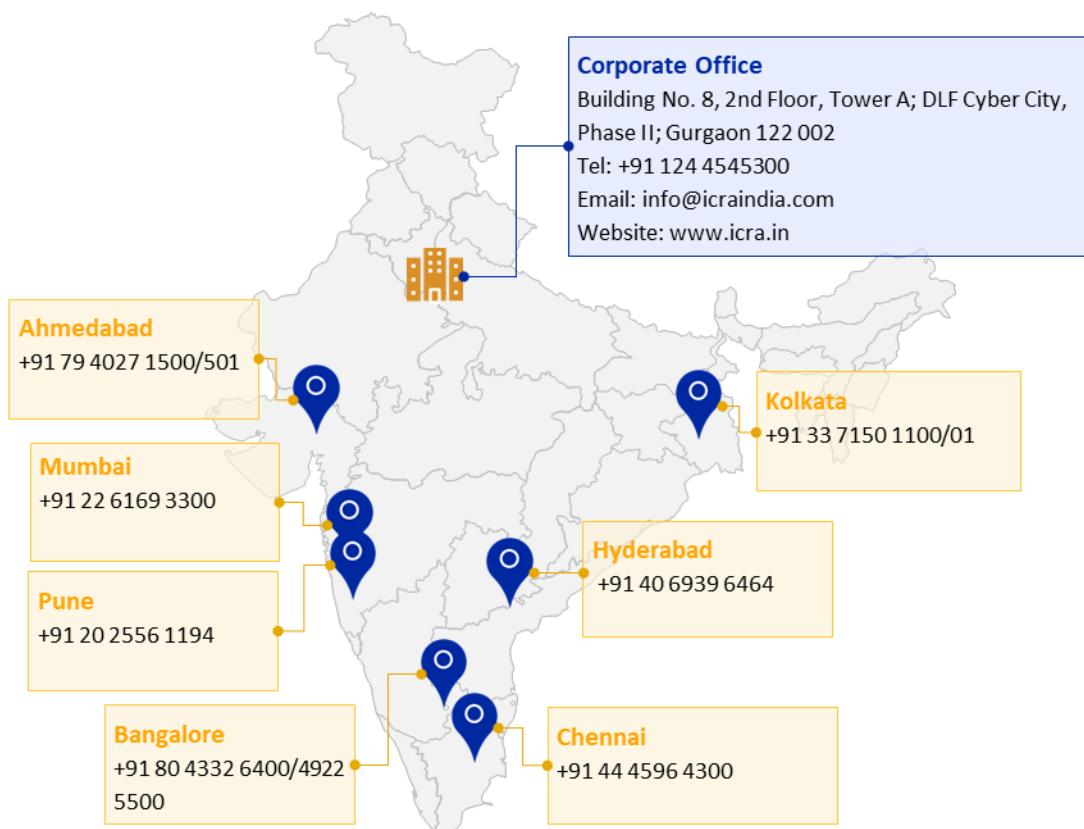
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