

July 28, 2017

## Home First Finance Company India Pvt. Ltd.

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	100.00	[ICRA]A1+; assigned
Term Loans	1,300.00	[ICRA]A+ (stable); outstanding
<b>Total</b>	<b>1,400.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the short term rating of [ICRA]A1+ (pronounced [ICRA A one plus) to the Rs. 100 crore Commercial Paper Programme of Home First Finance Company India Pvt. Ltd. (HFFC). ICRA also has rating of [ICRA]A+ (pronounced ICRA A plus) outstanding on the Rs. 1,300 crore fund based Term loans of HFFC. The outlook on the long term rating is stable.

### Rationale

The rating takes into account the company's demonstrated ability to scale up its business (CAGR of 73% over FY2014-17); its strong investor profile (71.52% held by True North (formerly India Value Fund) as on May 31, 2017); and experienced management team with a good understanding of the target customer segment; and the large untapped market in the affordable housing finance segment which is likely to support growth going forward. While HFFC is focussed on the affordable housing segment, where the borrower profile is relatively riskier than the mainstream home loan segment, ICRA notes that owing to its higher focus on salaried customers and individual homes loans which are developer originated new properties, the underlying risks are lower than the segment served by many other emerging affordable housing finance companies. Given the difference in the risk profile, HFFC charges higher interest rates than the large mortgage financiers, but lower rates than the emerging affordable housing finance companies. The rating also factors in HFFC's good asset quality indicators (gross NPA of 0.69% and net NPA of 0.57% as on March 31, 2017) supported by centralised underwriting, good lending norms, appraisal processes and monitoring mechanism albeit on a relatively less seasoned book. ICRA takes note of the capital infusion of Rs. 150 crore by True North in March 2017; and the capital commitment from shareholders for incremental growth, which is likely to help the company maintain good capitalisation indicators in its growth phase.

The rating is, however, constrained by the limited track record and moderate scale of operations of the company (assets under management of Rs. 937 crore as on June 30, 2017), its low profitability indicators (ROE of 3.79% in FY2017) owing to the relatively high operating expenses (3.11% of ATA) and limited diversification in earnings. ICRA also takes note of the increasing competition in the affordable housing finance segment, which could impact incremental portfolio yields. However, given the increase in supply of affordable homes given the Government of India's (GoI's) focus on Housing for All by 2022, and the improved affordability of borrowers supported by the GoI's credit linked subsidy scheme, ICRA expects HFFC to achieve its targeted portfolio growth supported by its competitive cost of funds.

Going forward, HFFC's ability to maintain asset quality as it expands the portfolio, tie up long term funding at competitive rates, maintain a good liquidity profile and reduce operating expenses so as to improve its earnings profile will be the key rating sensitivities.

## Key rating drivers

### Credit strengths

- Focus on the affordable housing sector; large share of the portfolio qualifies for Pradhan Mantri Awas Yojana (PMAY) - Credit Linked Subsidy Scheme
- Higher share of salaried customers within the low to middle income affordable segment
- Developer-led origination model reduces legal title related risks associated with the segment; exposure diversified across projects and developers, with moderate share of under construction properties reducing the concentration risk
- Centralised underwriting processes and good lending norms, appraisal processes, and MIS systems
- Strong management team with long standing experience in mortgage finance
- Capital support from shareholders demonstrated by the equity infusion of Rs. 150 crore in March 2017 and committed equity of Rs. 150 crore in H2FY2019

### Credit weaknesses

- Limited track record and moderate scale of operations (AUM of Rs. 937 crore as on June 30, 2017)
- Geographical concentration of the loan book in Maharashtra and Gujarat
- To expand the second line of management
- To diversify funding profile by tapping the debt capital markets
- To improve profitability in the face of competition in the affordable housing segment

### Description of key rating drivers:

HFFC was founded in 2010 with the objective of providing housing loans to the affordable segment. The company had a managed portfolio of Rs. 847.32 crore as on March 31, 2017 with a 3-year CAGR of 73% over FY2014-17. It lends primarily to new projects in the affordable housing segment with ticket size of Rs. 5 lakh to Rs. 40 lakh. The company currently operates through 36 branches mostly in southern and western India. HFFC's operations are mostly concentrated in Maharashtra (37% of AUM as on March 31, 2017), Gujarat (33%), Tamil Nadu (9%) and Karnataka (9%). The AUM further increased to Rs. 936.90 crore as on June 30, 2017 with similar geographical concentration of operations.

As on March 31, 2017, 93% of the company's AUM comprised of home loans with the balance being top-up loans, insurance loans and loans against property (LAP). Within the affordable segment, the company's focus is on salaried customers; as on March 31, 2017, 72% of the loans outstanding were to salaried customers. Within the salaried portfolio, only around 20% of the borrowers were in the cash salaried category. Currently, HFFC is largely focussed on home loans with the share of LAP and top-up loans in the loan book being low.

HFFC has an in-house loan origination team with relationship managers (RM) stationed at the branches of the company spread across the country. HFFC also has an in-house underwriting team at the head office which approves projects, taking into account the status of regulatory approvals, ownership documents and construction progress. As on March 31, 2017, ~90% of the portfolio was generated through tie-ups with developers. HFFC generally enters a project after a significant amount of construction is completed. Therefore, the proportion of under construction projects in its portfolio was moderate at 26%, as on March 31, 2017. The company's good underwriting norms and the high share of salaried segment have enabled it to report good asset quality indicators albeit on a less seasoned book. Its gross NPAs stood at 0.69% as on March 31, 2017.

With its average lending yields being around 13% and cost of funds around 9.8%, the company earns interest spreads of 3% on its portfolio. The company aims to operate at spreads of 3-3.5% in the near

future. The spreads could expand marginally as the share of LAP and non-retail, non-developer book increase, as these portfolios generate higher yields. The company's operating expenses/ATA remained largely stable at 3.11% in FY2017 (3.18% in FY2016). In ICRA's opinion, HFFC's operating efficiencies will increase as the scale of its operations increases. The return on equity remains low as the company is still in the process of scaling up operations.

HFFC's net worth stood at Rs. 307.84 crore as on March 31, 2017 vis-à-vis Rs. 153.70 crore as on March 31, 2016 supported by an equity infusion by True North of Rs. 150 crore. True North also provided a full/part exit to some of the existing investors (Mr. Jaithrith Rao, Mr. PS Jayakumar, and Alpha TC Holdings (Tata Capital)). True North has committed to infuse additional capital of Rs. 150 crore which can be drawn as required by the management. ICRA expects the Rs. 150 crore to be infused in H2FY2019. True North has a greater than 12 year time frame for an exit, which is a credit positive for a growing firm like HFFC. Though the company aims to grow at a CAGR of 60-70% over the next three years, in ICRA's opinion, the incremental capital requirements are likely to remain low.

The current gearing levels are low at 2.14 times as on March 31, 2017 (vis-a-vis 2.82 times as on March 31, 2016) as against the industry average of 4-5 times. The gearing is expected to increase to around 5-6 times over the medium term. HFFC has a diverse funding profile, with tie-ups with 9 bankers as well as NHB lines in the overall funding mix. As on March 31, 2017, ~90% of the company's borrowings were term loans from banks with the balance being funded by NHB lines.

**Analytical approach:**

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria**

Rating Methodology for Housing Finance Companies  
ICRA's Approach for Rating Commercial Papers

**About the company:**

Home First Finance Company India Pvt. Ltd. (HFFC) was incorporated in 2010 as a housing finance company (HFC) and is registered with National Housing Bank (NHB). HFFC provides housing loans to the affordable segment with ticket sizes ranging from Rs. 5 lakh to Rs. 40 lakh. Its average ticket size was Rs. 9.76 lakh as on March 31, 2017. In March 2017, True North (formerly India Value Partners) invested Rs. 150 crore directly into the company and also provided exit to some of the existing investors.

HFFC reported a PAT of Rs. 8.77 crore on average managed assets (AMA) of Rs. 844.48 crore in FY2017 vis-a-vis a PAT of Rs. 6.01 crore on an AMA of Rs. 507.22 crore in FY2016.

**Table: Key Financials of HFFC**

	<i>Mar-16</i>	<i>Mar-17</i>
Total Income	61.30	92.22
PAT	6.01	8.77
Net worth	153.70	307.83
Total Loan Book	509.30	793.08
Total Assets	596.80	999.47
AUM	547.74	847.32
Return on average assets	1.26%	1.11%
Return on average equity	4.70%	3.79%
Gearing	2.82	2.14
Gross NPA/Gross Advances	0.39%	0.69%
Net NPA/Net Advances	0.32%	0.57%
Capital adequacy ratio (CRAR)	48.46%	66.66%

Source: HFFC and ICRA Research; Amounts in Rs. crore

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table:**

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	July 2017	FY2018	FY2017	FY2016	FY2015
					June 2017	-	-	-
1	Term Loans	Long term	1,300.00	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-	-	-
2	Commercial Paper Programme	Short term	100.00	[ICRA]A1+; assigned	-	-	-	-

**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 [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Term Loans	2011	NA	2029	761.91	[ICRA]A+ (stable)
Term Loans - Proposed	NA	NA	NA	538.09	[ICRA]A+ (stable)
Commercial Paper Programme	NA	NA	7-365 days	100.00	[ICRA]A1+

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