December 11, 2020

Home First Finance Company India Limited: Ratings reaffirmed; [ICRA]A+(Stable) assigned to enhanced limit of Rs. 300.00-crore bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	3,200.00	3,500.00	[ICRA]A+(Stable); reaffirmed
Non-convertible Debentures	400.00	400.00	[ICRA]A+(Stable); reaffirmed
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**3,700.00**	**4,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings take into account Home First Finance Company India Limited's (Home First) comfortable capitalisation profile with continued support from its strong investor base. ICRA takes note of the investment by Warburg Pincus[1] in the company (25.6% stake as on October 31, 2020; shareholding expected to increase to 30% after receiving pending RBI approval), resulting in a net worth of ~Rs. 1,060 crore as of October 2020. ICRA also takes note of the company's plan to file for an initial public offer (IPO) in H2 FY2021, which will further provide the base for planned expansion and give sufficient headroom for deploying debt funding to scale up. The ratings also take into account Home First's ability to raise funds despite a challenging operating environment, though diversification in the funding profile is expected going forward. Further, the ratings factor in the company's focus on maintaining good asset quality, given its strong credit appraisal and portfolio monitoring processes, though the gross non-performing assets (NPAs) as a percentage of gross on-book advances increased by 25 bps in FY2020 and are expected to increase further by 50-100 bps in FY2021 mainly due to the impact of the Covid-19-induced stress. It is also reflected in the better-than-anticipated performance of the company in terms of moratorium opt-in with only 1.63% of the book opting for the full 6 months of moratorium.

The ratings are, however, constrained by Home First's geographically concentrated portfolio with Gujarat and Maharashtra accounting for a high share of the portfolio. Going forward, as the company scales up and further penetrates the southern market, the concentration on western geographies is expected to reduce. The ratings are also constrained by the company's relatively un-seasoned book, given its high growth in the past 3-4 years and the long-tenor nature of the assets. The company's ability to scale up its operations while driving down the operating costs and maintaining control over the asset quality would remain critical to deliver the targeted profitability with an optimum leverage level. Though ICRA takes note of Home First's focus on the salaried affordable housing segment (73% share of salaried borrowers), which is likely to be more resilient from an asset quality perspective, and the limited exposure to non-housing loans, the company's ability to manage the adverse impact of Covid-19 on the vulnerable borrower profile in the affordable housing segment will remain a key credit monitorable.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that Home First will continue to benefit from its decade-long track record of operations and the experience of its management and promoters.

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

Key rating drivers and their description

Credit strengths

Comfortable capitalisation to support near-to-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 received an infusion of Rs. 327 crore from existing investors in FY2020. It subsequently on-boarded Warburg Pincus in October 2020 with a 25.6% stake, including a primary infusion of Rs. 75 crore and a secondary stake sale from existing investors. With this, the company's net worth increased to ~Rs. 1,060 crore as on October 31, 2020 from Rs. 933 crore as on March 31, 2020. ICRA takes note of the long-term commitment from the shareholders to support Home First and its plan to raise funds through an IPO for incremental growth.

Focussed approach towards maintaining good asset quality, supported by strong credit appraisal and portfolio monitoring processes – The company continues to focus on maintaining its asset quality, which is reflected in its portfolio mix (~86% home loans and ~73% salaried borrowers as on September 30, 2020), its credit appraisal policies and portfolio monitoring processes. Home First has witnessed high growth in the last few years with the business growing at 48% in FY2020 and at a CAGR of 62% during FY2017–FY2020 (compared to the affordable housing industry's growth of 21% in 9M FY2020 and CAGR of 18% during FY2016–FY2019). However, the company has been able to maintain good reported asset quality indicators with gross NPAs of 0.87% as on March 31, 2020 (0.68% as on March 31, 2019) and net NPAs of 0.70% as of March 31, 2020 (0.50% as of March 31, 2019). Further, it has reported good performance during the moratorium period with only 1.63% of the book opting for the full 6 months of moratorium. There has also been a secular increase in the collection efficiency each month with the collection efficiency for October 2020 touching ~96%. Nevertheless, since a large part of its portfolio remains under-seasoned, Home First's ability to maintain its asset quality going forward remains to be seen.

Ability to raise funds, though diversification of funding profile expected to improve going forward – Home First has been able to access debt funding despite a challenging operating environment. The company has funding relationships with over 17 lenders. Though the reliance on funding from banks and National Housing Bank (NHB) has been high so far, the company is expected to diversify its funding profile by tapping long-term money from the capital markets, borrowing from development finance institutions (DFIs) and using a higher share of securitisation/direct assignment as a source of funding. Though the cost of funds increased slightly in FY2020, in line with market trends, the marginal cost of borrowing has reduced in FY2021. With a comfortable capital base, post completion of its IPO, Home First would have sufficient headroom for debt capital to fund its planned growth and would need to tie up additional funds at competitive rates accordingly.

Credit challenges

Relatively high, though improving, geographical concentration of portfolio – The company's operations are mostly concentrated in Gujarat (39% of assets under management (AUM) as on September 30, 2020), Maharashtra (21%), Tamil Nadu (10%) and Karnataka (9%). Its loan book is concentrated in a few cities like Surat, Ahmedabad, Bangalore and Mumbai. Surat and Ahmedabad account for 18.24% and 11.80%, respectively, of the loan book. Further, given the target borrower segment, low seasoning of the book and high proportion of loans originated through builder tie-ups, which are exposed to property completion and occupancy risk, the geographical concentration risk adds to the overall portfolio vulnerability. Nonetheless, Home First plans to penetrate the existing geographies of Andhra Pradesh, Telangana and Tamil Nadu, which will reduce the overall concentration. Further, ICRA takes note that the under-construction portfolio (comprising apartment as well as self-construction) as on September 30, 2020 is ~11% of the AUM and that within the lower than planned disbursements of H1FY21, the share of originations through builder tie-ups declined.

Ability to scale up operations profitably – Home First has been able to maintain its lending spreads while containing the credit costs. With the yields holding up despite some pressure and the cost of funds softening slightly, the lending spreads held at ~4.3% in H1 FY2021. Though the operating expenses to average managed assets declined to 2.95% in FY2020 and 2.10% in H1 FY2021 from 3.68% in FY2019, a sustained moderation in the operating expenses could be achieved with economies of scale from further portfolio growth. However, the company's ability to scale up while maintaining control over the credit costs would be critical for an improvement in its profitability going forward. With annual AUM growth of 30-40% envisaged over the near to medium term, Home First's ability to maintain the spreads, moderate the operating expenses and limit the credit costs while operating at optimum leverage levels would be key for delivering the targeted profitability with expansion.

Exposure to relatively vulnerable borrower profile a risk; ability to manage adverse impact of pandemic key monitorable – Home First operates in the affordable housing segment, which is relatively riskier in nature 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 adverse impact of the Covid-19-induced stress on the asset quality profile of the portfolio will remain critical from a credit perspective. ICRA notes that owing to Home First's higher focus on salaried customers and individual self-construction home loans, the underlying risks are lower than the segment served by many other emerging affordable housing finance companies (HFCs). However, the asset quality indicators could exhibit more volatility, given the pace of growth and the relatively-riskier borrower profile of the low-and-assessed-income segments.

Liquidity position: Strong

Home First's liquidity profile was comfortable as on September 30, 2020 with no negative cumulative mismatches in any of the short-term buckets. The company continued to maintain sufficient on-balance sheet liquidity of Rs. 622 crore as on September 30, 2020 in addition to undrawn lines of Rs. 300 crore. It raised Rs. 500 crore from NHB in December 2020, demonstrating good access to funding. The company's total liquidity buffer amounted to Rs. 1527 crore as on December 09, 2020 (compared to total asset base of Rs. 3763 crore as on September 30, 3030). The company's ability to deploy securitisation/ direct assignment would also support liquidity profile going forward in addition to the regular flow of funds which will be critical for maintaining normal business growth.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating or change the outlook if the company demonstrates an improvement in its profitability indicators with a return on managed assets (RoMA) of over 3% on a sustainable basis. ICRA could upgrade the rating if Home First is able to profitably scale up its operations, diversify its borrowing profile and keep the 90+ dpd at less than 1.5% on a sustained basis.

Negative triggers – Pressure on the company's ratings could arise if there is a deterioration in the asset quality with the 90+ dpd exceeding 2.5%, thereby affecting the profitability. The weakening of the capitalisation profile (gearing above 5 times) or a stretch in the liquidity could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

Home First Finance Company India Limited, incorporated in 2010 as a housing finance company (HFC), is registered with National Housing Bank (NHB) and provides housing loans to the affordable segment borrowers. As on March 31, 2020, private equity investors had a significant stake in Home First – True North (45.97%), Aether (Mauritius) Limited (30.65%) and Bessemer Venture Partners (16.28%). In FY2020, the company reported a profit after tax of Rs. 79.55 crore on total assets of Rs. 3,507.19 crore.

Key financial indicators (audited; as per Ind-AS)

	FY2019	FY2020	H1 FY2021
Total income	271.03	419.67	243.17
Profit after tax	45.72	79.55	52.95
Net worth	522.66	933.43	987.98
Total assets	2,481.53	3,507.19	3,763.45
Gross portfolio	2,438.74	3,653.87	3,729.58
Gross stage 3%	0.79%	1.04%	0.81%
Net stage 3%	0.60%	0.77%	0.54%
CRAR %	38.01%	49.19%	51.62%

Amount in Rs. crore

Note: Gross portfolio includes impairment; Gross stage 3 has been taken as a percentage of gross on-book advances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating		FY2020	FY2019	FY2018	
					12-11-2020	07-03-2020	08-28-2019	06-18-2018	07-28-2017	06-19-2017
1	NCD	Long Term	400	240	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Commercial Paper	Short Term	100	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Term Loan	Long Term	3,500	2,307	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Amount in Rs. crore

Note: Rs. 160-crore NCD and Rs. 636.45 crore of term loan limits are unallocated as on date; Term loans outstanding figure is as on 11.30.2020

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 click here

Annexure-1: 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 – Nov 2020	4.61%-10.00%	Jun 2020 – Apr 2030	3,500.00	[ICRA]A+(Stable)
NA	Commercial Paper	NA	NA	NA	100.00	[ICRA]A1+
INE481N07014	Non-convertible Debenture	11.06.2020	9.50%	09.06.2023	45.00	[ICRA]A+(Stable)
INE481N07022	Non-convertible Debenture	18.06.2020	9.50%	16.06.2023	25.00	[ICRA]A+(Stable)
INE481N07030	Non-convertible Debenture	23.06.2020	8.50%	23.12.2021	120.00	[ICRA]A+(Stable)
INE481N07048	Non-convertible Debenture	22.07.2020	8.50%	21.01.2022	50.00	[ICRA]A+(Stable)
Unallocated	Non-convertible Debenture	NA	NA	NA	160.00	[ICRA]A+(Stable)
	Total				**4,000.00**	

Annexure-2: 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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