Home First Finance Company India Limited (Revised)

July 04,2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	44.23 (Reduced from 282.97)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Total Bank Facilities	**44.23** **(₹ Forty-Four Crore and Twenty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to bank facilities of Home First Finance Company India Ltd (HomeFirst) factors in significant improvement in scale of operations supported by periodical equity infusion and improvement in geographical diversification in the past three years ended March 31, 2022. Asset under management (AUM) of the company grew from Rs 2,444 crore as on March 31, 2019 to Rs. 5,380 crore as on March 31, 2022 at CAGR of 30%. Further during the same period, the share of Top 3 states declined from 78% of AUM to 64% of AUM. The rating derives strength from HomeFirst's strong capitalisation levels, relatively stable profitability and comfortable asset quality. The rating also takes note of sequential improvement in cost funds during the period supported by favourable borrowing mix.

The rating remains constrained due to HomeFirst's moderately seasoned loan portfolio as the company has exhibited high growth in the last three years. Consequently, as growth stabilizes and the loan book gets seasoned, visibility on asset quality for the company will improve. Though company witnessed improvement in geographical diversification with exposure to top 5 states coming down to 83% as on March 31, 2022 as against 90% as on March 31, 2019, concentration of the loan portfolio towards Gujarat continues to be relatively high. Going forward, as the company expands into the southern markets, as seen during FY22 will help to reduce the geographical concentration. The profitability has witnessed improvement during the last year on account of lower cost of funds coupled with improved credit costs. As the company scales up further, the ability to maintain the operating efficiencies and the credit costs would be a key monitorable. Additionally, CARE Ratings takes note of the large focus on the salaried customer class by HomeFirst, comprising of 72% of the portfolio, however, the target customer segment comprises of borrowers in the low-income group which may be vulnerable to economic downturns. Thus, the ability of the company to manage the asset quality during such times would be a key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant scaling up of the AUM and improvement in seasoning
- Significant improvement in geographical diversification

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with Gross Stage 3 > 3%
- Moderation in profitability with ROTA < 2% on sustained basis
- Increase in the gearing levels (Debt to Equity) beyond 5x times on sustained basis

Detailed description of the key rating drivers

Key rating strengths

Strong Capital Base and Low Leverage Led by Steady Capital Infusions including IPO*:* HomeFirst's shareholders comprise established private equity funds - True North Fund V LLP (20.2%), Aether Mauritius Limited (13.4%), Warburg Pincus LLC (28.8%; through Orange Clove Investments BV) and Bessemer India Capital Limited (7.8%) who have infused the much-required capital over FY17-FY21 to fund growth. Consequently, Tier 1 and Total Capital Adequacy Ratio (CAR) stood high at 58.05% (Mar-21: 55.23%) and 58.61% (Mar-21: 56.19%) respectively as on March 31,2022 which is over and above the regulatory requirement for HFCs. Furthermore, gearing (debt/equity) stood at 2.21x March 31,2022. (Mar-21- 2.22x).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The comfortable capitalization is likely to enhance the company's ability to fund its estimated growth. Also, ample capital levels provide the required financial flexibility for a company in its growth phase. Substantial equity funding of growth results in reduced requirement for increased borrowings which supports the interest margins and aids profit levels.

Sequential Improvement in the Funding Profile: The funding mix for Mar-22 comprised – Bank term loans-61% (Mar-21: 56%), NHB refinance-34% (Mar-21: 36%) and NCD raised via TLTRO route issued to the PSU banks-2% (Mar-21: 8%), NCD-3% (Mar-21:0%). During FY22, the company raised Rs. 2015 crore (including direct assignment (DA)) at incremental cost of fund of 6.78%. (FY21: 6.82%). Excluding NHB refinancing, incremental cost of funding improved to 7.54% for FY22 (FY21: 8.09%) mainly as the company raised funds at competitive rates from banks, mutual funds.
HomeFirst has also tapped into DA for strengthening its liquidity and to take advantage of the lower rates. CARE Ratings notes that the company plans to continue with the current resource mix as the same helps in Asset Liability Management (ALM).

Comfortable Asset Quality: HomeFirst's portfolio mix has been largely stable through the years with the company mainly lending towards retail housing which constitutes 91% of the total AUM, while Loan Against Property (LAP) comprises a low 7%. HomeFirst's credit underwriting policies remain conservative with 72% of the AUM comprising of salaried borrowers and the self-employed segment forming the rest. Asset quality stood comfortable with a Gross Stage 3 (GS3) ratio of 2.33% as on March 31, 2022 (Mar-21: 1.7%), the rise mainly on account of revised RBI norms on NPA recognition. Excluding which, the GS3 stood at 1.3% (Mar-21: 1.8%), witnessing improvement over last year. Restructured assets stood at 0.7% with nil exposure towards Emergency Credit Line Guarantee Scheme (ECLGS) as on March 31,2022. For the month of March 2022, collection efficiency (including arrears) stood at 99.27%.

The 0+ days past due book stood at 5.30% as on March 31,2022 (Mar-21:6.3%) and the 30+ days past due book stood at 3.70% as on March 31,2022 (Mar-21: 4.10%). CARE Ratings observes that post pandemic, there has been a relative ballooning of the softer delinquency loans. Additionally, the new-to-credit borrowers are on the higher side for the affordable housing finance sector. However, the performance of the loan book has witnessed improvement over the last year.

Lower costs of funds and credit costs aides improvement in profitability: During FY22, the company reported improved Net interest margin (NIM) of 6.15% (FY21: 5.16%) mainly on account of lower cost of funds during FY22 attributed to larger share of NHB borrowings and funds raised at competitive rates. The operating expense/avg. assets stood at 2.67% in FY22 (FY21: 2.64%), the slight increase was due to higher employee expense. The credit costs improved to 0.52% in FY22 (FY21: 0.80%). On account of the above, the ROTA stood at 3.87% in FY22 (FY21: 2.51%), which has surpassed the expectations foreseen by the company. Over the last few years, the ROTA has witnessed improving trajectory.

Growth in the portfolio and business over the years: During the past three years ended March 31, 2022, asset under management (AUM) of the company grew at CAGR of 30% supported by small base and favorable growth prospects of affordable housing finance sector. Outreach of the company has also increased and presently HomeFirst operates through 80 branches (60 branches as on March 31, 2019) across 98 districts in 13 states (11 states) in India with 62055 (29372 as on March 31,2019) live accounts. The AUM of the company stood at Rs. 5380 crore witnessing a substantial growth of 30% on a Y-o-Y basis and a 3YCAGR of 30%. During FY22, HomeFirst disbursed Rs. 2031 crore of loans (FY21: Rs 1138 cr) with a monthly run rate of Rs. 160 crore on an average. Portfolio mix remains same as Mar-21 with slight increase in the LAP book as envisaged by the company: Home loans stood at 91% (PY:92%) followed by LAP 7% (PY:5%) as on March 31, 2022. The customer segment comprises of 72% of salaried class, out of which 23% is cash salaried.

Experienced Management Team: Mr. Deepak Satwalekar is the chairman of the board of HomeFirst. Mr. Satwalekar was the erstwhile Managing Director of Housing Development Finance Corporation (HDFC) Ltd and HDFC Standard Life Insurance Co. Ltd., and has also served as a consultant to the World Bank, the Asian Development Bank, the United States Agency for International Development (USAID) and the United Nations Human Settlements Programme (HABITAT). The board of Directors of the company includes Nominee Directors from existing PE investors' viz. Bessemer Venture Partners, True North and Warburg Pincus. Mr. Manoj Vishwanathan, Director and CEO, has an experience of more than 15 years in consumer lending for Citigroup in India and he is assisted by a team of experienced professionals to run the day-to-day operations of the company.

<u>Key rating weaknesses</u>
Moderate Size and Seasoning; vulnerable to economically weaker borrowers: HomeFirst caters to the affordable housing segment and started its disbursements since FY10 with 81% of the cumulative disbursements made during the last 4 years after substantial capital infusions by the PE funds. AUM of the company grew at a 3YCAGR of 30% and 5YCAGR of 45%

as on March 31,2022. The average tenure of the home loans is 15-20 years forming 83% of the total AUM with behavioral maturity of the loans being 6-7 years and thus, sustenance of the asset quality of the portfolio is yet to be witnessed. As such, seasoning of the portfolio is improving though remains moderate.

The customers in the affordable housing segment are from the economically weaker, low-to-middle income segment which are vulnerable to economic downturns which increases the risk for maintaining asset quality especially during times of stress. New-to-credit customers form 40% of the total AUM of HomeFirst. This is partly offset by the higher share of the relatively low-risk segment i.e., the salaried borrowers in HomeFirst's portfolio, the secured nature of the asset class and the conservative lending practices.

Geographical concentration albeit improvement: Majority of the portfolio is concentrated in the state of Gujarat consisting of 36% of the AUM followed by Maharashtra- 16%, Tamil Nadu- 12% as on March 31,2022 as compared to 41% of the AUM in Gujarat followed by Maharashtra-28%, Tamil Nadu -9% as on March 31,2019. There was improvement witnessed in the concentration with shift in focus towards less concentrated states during the last 4 years, however, Gujarat continue to dominate the geographical concentration. During FY22, the company expanded within the same states venturing into new Tier 2 and Tier 3 cities. The growth in the AUM is contributed on the back of expansion into the markets of Andhra Pradesh, Telangana, Tamil Nadu, Madhya Pradesh, Chhattisgarh.

Liquidity: Strong

As on March 31,2022, there are positive cumulative mismatches across the time buckets. The company has contractual debt repayments of Rs. 894 crore upto one year against which there are expected inflow from advances of Rs. 688 crore. The company maintained liquidity (unencumbered) to the tune of Rs. 626 crore in the form of fixed deposits, bank balances and liquid investments to overcome the above mismatch. The unencumbered on-balance sheet liquidity as a % of one year principal debt obligations stood at 70% as on March 31,2022. Over and above the said unencumbered liquidity, HomeFirst also maintained undrawn lines of Rs. 437 crore as on the same date.

Analytical approach: Standalone

Applicable criteria

CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings
Policy of Default Recognition
Rating Methodology- Housing Finance Companies
Financial ratios – Financial Sector

About the company

Set up in February 2010,HomeFirst registered with the National Housing Bank (NHB) and is engaged in providing affordable housing loans. The company was co-founded by former Mphasis Chairman, Mr. Jaithirth (Jerry) Rao and Mr. P. S. Jayakumar (former Citibank Consumer Banking Head and former MD & CEO of Bank of Baroda). HomeFirst operates through a network of 80 branches as on March 31,2022 spread across 13 states in India which includes Mumbai (suburbs), National Capital Region (NCR), Karnataka, Tamil Nadu, Gujarat, Rajasthan, Telangana, Andhra Pradesh, Haryana, Uttar Pradesh, Madhya Pradesh and Chhattisgarh. The company had 851 employees with 61,684 live customer accounts as on March 31,2022.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total income	419.68	489.16	595.7
PAT	79.55	100.14	186.10
Interest coverage (times)	1.55	1.61	2.05
Total Assets	3,479.69	4,509.89	5,116.63
Net NPA (%)	0.77	1.18	1.76$
ROTA (%)	2.67	2.51	3.87

A: Audited; $-post Nov 2021 RBI circular, increase mainly on account of revised RBI norms on NPA recognition and like to like comparable NNPA (%) is 0.92% for 31-03-2022.
Ratios based on CARE's calculation.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	April 2029	44.23	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	44.23	**CARE AA-; Stable**	-	1)CARE A+; Stable (05-Nov-21)	1)CARE A+; Stable (06-Jan-21)	1)CARE A+; Stable (20-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	Minimum CAR at 12% or as per NHB/RBI guidelines
II	TOL / TNW of not more than 12 times
III	ACR to be maintained as per the sanctioned terms
B. Non financial covenants	
I	Rating to remain at BBB and above
II	Company to comply with RBI/NHB guidelines

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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