Home First Finance Company India Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	282.97	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**282.97 (Rs. Two Hundred Eighty-Two Crore and Ninety-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Home First Finance Company India Ltd (HomeFirst) continues to factor in the experienced management, healthy business growth while maintaining comfortable asset quality and moderate profitability. The ratings also factor in the company's comfortable capitalization levels due to periodic infusion of equity capital over the years from marquee institutional investors and comfortable liquidity profile. The rating is constraint due to HomeFirst's moderate track record, geographic concentration of the portfolio and exposure to the target customer segment of HomeFirst comprises of individuals in the low income group which may be vulnerable to economic downturns.

<u>Rating Sensitivities</u>

Positive Factors- Factors that could lead to positive rating action/downgrade:

- Significant seasoning of the loan portfolio
- Sustained growth while maintaining asset quality
- Geographical diversification of the product profile

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

- Deterioration in asset quality with GNPA % > 3%
- Moderation in profitability with ROTA < 0.5% on sustained basis
- Increase in the gearing levels beyond 5x times

Impact of COVID-19: As per the RBI's 'COVID-Regulatory Package', HomeFirst had not availed moratorium from any of its lenders however provided moratorium to its customers on Opt-in basis. During H1FY21, the company disbursed Rs. 296crore with close to nil disbursements during April 2020 and May 2020 and gradual pick-up from June 2020 with disbursements of Rs. 44 crore and reaching Rs. 97 crore disbursements during September 2020. Overall monthly collection efficiency (No. of customers who made at least one payment in the month/ No. of customer accounts) improved from 72.90% during April 2020 to 93.80% during September 2020.

Detailed description of the key rating drivers

Key Rating Strengths

Investment by marquee institutional investors and comfortable capitalization

HomeFirst was co-founded by former Mphasis Chairman, Mr. Jaithirth Rao and former Citibank Consumer Banking Head, Mr. P. S. Jayakumar. Over the years, the company has been raising equity capital from institutional investors and over the period the shareholding of promoters has seen a decline with Mr. Jayakumar's shareholding in the company declining to 5.16% as on March 31, 2020 while Mr. Rao has exited the company by selling his entire stake.

True North Fund LLP, through its five separate investment funds for India, has a combined corpus of around USD 2 billion with investments in more than 30 businesses. Bessemer Venture Partners (BVP) is a global venture capital firm that was founded in 1911. BVP currently invests through BVP IX fund.

During Q3FY21, Warburg Pincus LLC (via its investment special purpose vehicle named Orange Clove Investments B.V) acquired 25.64% for Rs.707 crore. Warburg Pincus is a leading global private equity firm focused on growth investing. The firm has more than $53 billion in private equity assets under management. The company stands to benefit from the expertise and experience of the current institutional investors along with capital and strategic support.

The company, as on October 15, 2020, is majorly owned by institutional investors with Truth North Fund Managers LLP holding 57.34% [via Aether (Mauritius) Ltd (22.90%) and True North Fund LLP (34.44%)], Warburg Pincus LLC (25.64%), Bessemer Venture Partners (via Bessemer India Capital Holdings II Ltd.) holding 11.54%. The remaining share is held by Mr. P.S Jayakumar (3.78% including Universal Trust (his family trust) and other individual investors holding 1.71%.

Regular equity infusion from the promoters to support business growth

Over the last ten years, the promoters have been able to bring in strong institutional investors who have infused equity capital into the company on a steady basis. During FY20, True North Fund Managers LLP (via Aether (Mauritius Ltd and True North Fund LLP)) and Bessemer India Capital Holdings Ltd invested further capital of Rs. 302.71 crore and a the employees and other individual investors invested Rs.25.71 crore in the company. Later, on October 15, 2020, Warburg Pincus LLC (via Orange Clove Investments B.V) acquired 25.64% stake in the company with primary infusion of Rs. 75 crore and secondary transfers of Rs.632 crore. On account of regular capital infusion and internal accruals, the tangible net-worth of the company increased to Rs.987.62 crore as on September 30, 2020 from Rs. 520.57 crore as on March 31, 2019.

HomeFirst had filed a draft red herring prospectus (DRHP) in November, 2019 and the approval on the DRHP was received from SEBI in February 2020. HomeFirst had plans to list the company in March 2020, however, due to COVID-19 outbreak and the stringent lockdown announced by the Government which led to stagnant economic activities and volatility in the markets, the IPO plan was on a standstill. Later, the company submitted amendment to the already approved DRHP in November 2020 and now plans to get listed in March 2021.

Experienced Management

Mr. Deepak Satwalekar is the chairman of the board of HomeFirst. Mr. Satwalekar was the erstwhile Managing Director of Housing Development Finance Corporation (HDFC) 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 also includes three independent directors from the 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.

Comfortable capitalization and low gearing levels

Due to periodic capital infusion, the company has been maintaining healthy capitalization levels over the past. The company reported Capital Adequacy Ratio (CAR) and Tier I CAR at 48.89% and 48.03% respectively as on March 31, 2020 (CAR: 38.01% and Tier I CAR: 37.42% as on March 31, 2019) which is over and above the regulatory requirement of 13% as on March 31, 2020. On account of the above, the gearing level reduced from 3.66x as on March 31, 2019 to 2.67x as on March 31, 2020.

Moderate Resources profile & comfortable liquidity profile

As on March 31, 2020, the resource profile consisted of bank facilities (term loans and overdraft facilities) which formed 72% of total borrowings and re-finance from National Housing Bank (NHB) which formed 28% of total borrowings. During June 2020, the company raised resources non-convertible debentures of Rs.240 crore under the Targeted Long Term Repo Operations (TLTRO) route.

As on September 30, 2020, the liquidity profile of the company was comfortable with positive cumulative mismatches in all the time buckets up to one year. The company had debt obligations (including interest) of Rs. 829.2 crore in up to one year bucket against which it had receivables from loan portfolio (including interest and other income receivable) of Rs. 816.54 crore and Rs.640 crore consisting of cash and cash equivalents.

Stable growth in business

As on March 31, 2020, the assets under management (AUM) of the company comprised of 86% of home loans, 5% of loan against property (LAP), 4% of loans against insurance policy, 2% of construction finance and 1% each of commercial loans, top up loans and plot loans.

The loan portfolio outstanding increased by 42% in FY20, from Rs.2,147 crore as on March 31, 2019 to Rs.3,041 crore as on March 31, 2020 and AUM stood at Rs.3,618 crore. During FY20, HomeFirst disbursed loans of Rs.1,618 crore witnessing growth of 3% on a Y-o-Y basis. As on September 30, 2020, the loan portfolio was Rs.3735 crore and AUM was Rs.3019 crore.

The company also has been doing securitization of its loan portfolio through the direct assignment route and has securitized portfolio of Rs.576.09 crore of loans as of FY20.

Outstanding loan portfolio has average tenure of 19 years, average LTV of 70%, average 13.2% and average ticket size of 10.5 lakhs. The AUM consists of 73% of salaried customers and 27% of self -employed customers as on March 31, 2020.

Comfortable asset quality

HomeFirst disburses through builder tie-ups, home connectors and direct selling teams. Under builder tie up, HomeFirst enters into a loan agreement with the builder whereby in case of inability of the borrower to pay equity component of the purchased property, which generally takes place during construction period, the sale is reversed and the builder shall first refund the money to HOMEFIRST and then to the customer. This mitigates the credit risk to some extent.

As on March 31, 2020, fully constructed portfolio accounted for over ~89% of the total AUM and only 11% of the total AUM accounted for under-constructed portfolio which comprises of apartment as well as self-construction portfolio.

The asset quality parameters of the company continued to remain comfortable in spite of marginal increase with Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) ratios at 1.04% (P.Y.: 0.74%) and 0.78% (P.Y.: 0.60%), respectively as on March 31, 2020.
As on September 30, 2020, the GNPA and NNPA stood at 0.83% and 0.57% respectively (excluding the impact of the principal portfolio outstanding where asset classification benefit is extended to Rs. 391 crore of AUM as on September 30,2020 as per Covid-19 Regulatory package asset classification and provisioning). Given the moderate track record of the company with limited seasoning of portfolio, asset quality of HOMEFIRST is yet to be tested.

Moderate profitability
During FY20, HomeFirst witnessed rise in the interest income (including interest on investments) of 53% which is in line with the growth in the portfolio by 42%, growth in the investments by 41% and substantial rise in the fixed deposits on a y-o-y basis. The borrowing cost of the company has remained in the range of 8.5%-8.7% in FY20 as compared to FY19. The yield on the advances have remained stable at 13.21% since FY19. On account of the above, the Net Interest Margin (NIM) stood at 5.4% in FY20 as compared to 5.5% in FY19. The operating expenses constituted 3.43% of total assets in FY20 as compared to 3.73% in FY19 on account of economies of scale. The credit costs of the company stood at 0.55% in FY20 as compared to 0.38% in FY19. The company has made additional COVID related provisions of Rs.6.9 crore in Q4FY20 and thus, there is a rise in the total impairment. The credit costs also includes Rs.2 crore of write off of bad debts during FY20. On account of the above, return on total assets (ROTA) stood at 2.67% in FY20 (2.37% in FY19) and Return on Tangible Net worth (RONW) stood at 10.95% in FY20 (10.72% in FY19).
The profitability of the company continues to remain moderate as compared to its peers in the industry. However, the company expects the profitability to improve going forward through economies of scale with improving efficiency of existing branches.

Key rating weakness
Moderate stage of operations and moderately unseasoned portfolio
Incorporated in February 2010, HomeFirst's operations are still in moderate stage and the loan portfolio is moderately unseasoned. The company has seen a CAGR of around 63% in its outstanding loan portfolio from FY14 to FY20. During FY19, the company registered a growth of 42% in its outstanding portfolio. Average tenure of the loan portfolio is around 17-19 years as on March 31, 2020. However, the company continues to witness healthy prepayment rates (prepayment rate for FY20 stood at 13% of the opening portfolio with average monthly prepayment rate of 1.20% of the opening portfolio). The asset quality of the company currently stands comfortable, nonetheless, going forward maintaining asset quality is of the key importance.

Geographical concentration
HomeFirst's loan portfolio is spread across twelve states of India through a network of 68 branches as on March 31, 2020. The company expanded its reach in the state of Uttarakhand in FY20. The top state i.e. Gujarat accounted for 40% of the total AUM as on March 31, 2020 as compared to 41% of the total AUM as on March 31, 2019, followed by Maharashtra with 22% of the total AUM as on March 31, 2020 as compared to 28% of the total AUM as on March 31, 2019 and Tamil Nadu with 10% of the total AUM as on March 31, 2020 as compared to 9% of the total AUM as on March 31, 2019. The top 3 states accounted for 72% of the total AUM as on March 31, 2020.

Liquidity Profile: Strong
The liquidity profile of HomeFirst is strong. As on November 30,2020, the liquidity buffer of the company stood at Rs. 1516 crore which comprises of unencumbered fixed deposit of Rs. 245 crore, unencumbered liquid mutual funds of Rs. 202 crore, cash in bank of Rs. 11 crore and undrawn bank term loans and cash credit of Rs. 1058 crore.
As on September 30, 2020, on balance sheet liquidity available was Rs. 640 crore comprising of cash and bank balance (including fixed deposit) of Rs.421 crore and liquid mutual funds of Rs. 219 crore. The said liquidity was sufficient for repayment of principal debt obligations of the next 12 months as on September 30, 2020 without considering inflows from advances.

Analytical approach: Standalone

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

About the Company

Set up in February 2010, Home First Finance Company India Ltd. (HomeFirst) (previously known as Home First Finance Company India Pvt. Ltd) is Housing Finance Company (HFC) 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 68 branches as on March 31, 2020 spread across 12 states in India which includes Mumbai (suburbs), National Capital Region (NCR), Karnataka, Tamil Nadu, Gujarat, Rajasthan, Telangana, Andhra Pradesh Haryana, Uttar Pradesh, Madhya Pradesh, Chhattisgarh and Uttarakhand. The company had 785 employees as on March 31, 2020

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total income	271.02	419.68
PAT	45.72	79.55
Interest coverage (times)	1.51	1.55
Total Assets	2479.43	3479.69
Net NPA (%)	0.60	0.78
ROTA (%)	2.37	2.67

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	282.97	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	282.97	CARE A+; Stable	-	1)CARE A+; Stable (20-Mar-20)	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (14-Jul-17)

Annexure 3: Complexity level of various instruments rated for this company

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

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

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