Home First Finance Company India Limited

July 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	514.04 (Enhanced from 44.23)	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating of the long-term bank facilities of Home First Finance Company India Limited (HomeFirst) continues to factor in the improvement in scale of operations supported by branch expansion alongside improvement in geographical diversification in the past three years ended March 31, 2023. Furthermore, as on March 31, 2023, the share of top three states declined from 69% of assets under management (AUM) in FY21 to 61% in FY23. The rating derives strength from HomeFirst's strong capitalisation levels, comfortable profitability levels, diversified lender base and comfortable asset quality. The rating also takes note of continuation of healthy business growth with AUM of the company growing 34% Y-o-Y from ₹5,380 crore as on March 31, 2022, to ₹7,198 crore as on March 31, 2023.

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 stabilises and the loan book gets seasoned, visibility on asset quality for the company will improve. Though company witnessed improvement in geographical diversification in FY23, concentration of loan portfolio towards Gujarat continues to be relatively high and exposure to top 5 state stood at 77% as on March 31, 2023 as against 83% as on March 31, 2022. Going forward, as the company further expands into the southern markets, as seen during FY23, geographical concentration is likely to decline further. As the company scales up further, the ability to maintain the operating efficiencies and the control over credit costs would be a key monitorable. Additionally, CARE Ratings Limited (CARE Ratings) takes note of the large focus on the salaried customer class by HomeFirst, comprising 70% of the portfolio, however, the target customer segment comprises 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 return on total assets (ROTA) < 2% on a sustained basis.
- Increase in the gearing levels (Debt to Equity) beyond 5x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook factors in the continuation of growth in portfolio and improvement in asset quality. Going forward, continuation of growth momentum along with comfortable capital and liquidity buffer, will be key monitorable.

Detailed description of the key rating drivers

Key strengths

Growth in the portfolio and business over the years and comfortable profitability levels: During the past three years ended March 31, 2023, AUM of the company grew at a compounded annual growth rate (CAGR) of 26% supported by small base and favourable growth prospects of affordable housing finance sector. The AUM of the company as on March 31, 2023 stood at ₹7,198 crore witnessing a substantial growth of 34% on a Y-o-Y basis. Outreach of the company has also increased, and presently, HomeFirst operates through 111 branches (80 branches as on March 31, 2022) across 13 states in India with

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

77,512 (61,684 as on March 31, 2022) live accounts. During FY23, HomeFirst disbursed ₹3,012 crore of loans (FY22: ₹2,031 crore) with a monthly run rate of ₹251 crore on an average. The company remains focused on providing affordable housing finance to majorly salaried customers with average ticket size of ₹10.65 lakh and loan-to-value of 65.32%.

During FY23, the company reported improved net interest margin (NIM) of 7.05% (FY22: 6.15%). The operating expense/average assets stood at 2.95% in FY23 (FY22: 2.67%), the increase was due to higher employee expense and addition of branches in FY23. The credit costs improved to 0.36% in FY23 (FY22: 0.52%) as GNPA/GS-3 declined from 2.30% as of March 2022 to 1.60% as of March 2023. On account of the above, the ROTA stood at 3.85% in FY23 (FY22: 3.87%). CARE Ratings expects ROTA to stabilise in the range of 3.0% – 3.5% over the medium term, as operational efficiencies are maintained and asset quality remains stable.

Comfortable asset quality: HomeFirst's portfolio mix has been largely stable through the years with the company mainly lending towards retail affordable housing (consists of Housing Loan, Insurance Loan, Plot Loan and Top up Loan) which constitutes 88% of the total AUM, while loan against property (LAP) comprises 11% and the balance going towards commercial loans and construction finance. HomeFirst's credit underwriting policies remain conservative with 70% of the AUM comprising salaried borrowers and the self-employed segment forming the rest.
Asset quality stood comfortable with a GS3 ratio of 1.61% as on March 31, 2023 (March 2021: 2.33%). Restructured assets stood at 0.4% with nil exposure towards Emergency Credit Line Guarantee Scheme (ECLGS) as on March 31, 2023. For FY23, the average monthly collection efficiency (including arrears) stood at 98.5% as against 97.3% in FY22.
The 0+ days past due book stood at 4.23% as on March 31, 2023 (March 2022: 5.30%) and the 30+ days past due book stood at 2.66% as on March 31, 2023 (March 2022: 3.70%). With conservative underwriting practices as observed from LTV ratios, bureau scores of the borrowers, borrower profile (mostly salaried), CARE Ratings expects asset quality to remain comfortable.

Funding mix: The funding mix as on March 2023 comprised – Bank term loans-74% (March 2022: 61%), NHB refinance-19% (March 2022: 34%), NCD- 7% (March 2022: 5%). During FY23, the company raised ₹3,618 crore crore (including direct assignment (DA)) at incremental cost of fund of 8.10%. (FY22: 6.78%).
HomeFirst has also tapped into DA of loans for strengthening its asset liability management (ALM), as on March 31, 2023 the company had DA of ₹1,056.49 crore compared with ₹1,025.16 crore as on March 31, 2022. HomeFirst has also entered into partnerships for co-lending and during FY23 executed co-lending transactions of ₹89.08 crore. CARE Ratings notes that the company plans to continue with the current resource mix as the same helps in ALM.

Strong capitalisation: HomeFirst's shareholders comprise established private equity funds - True North Fund V LLP & Aether Mauritius Limited holding 30.26% as on June 29, 2023, Warburg Pincus LLC (26.52%; through Orange Clove Investments BV) who have infused the much-required capital over FY17-FY21 to fund growth and also HomeFirst raised funds through IPO in FY21.
Consequently, capital adequacy ratio (CAR; entirely Tier-I) stood high at 48.90% (March 2021: 58.00%) and 49.40% (March 2021: 58.60%), respectively, as on March 31, 2023, which is over and above the regulatory requirement for HFCs. Furthermore, gearing (debt/equity) stood at 2.65x March 31, 2023 (March 2022- 2.20x). With increase in scale, the leverage will increase but expected to remain under 5x in the near term. CARE Ratings expects leverage to remain well below 5x in the near term.

The comfortable capitalisation 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.

Experienced management team: Manoj Vishwanathan, Managing 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. Deepak Satwalekar is the chairman of the board of HomeFirst. The board of Directors of the company includes Nominee Directors from existing PE investors', viz., True North and Warburg Pincus. The company has a strong focus on technology, building digital capabilities and management information systems.

Key weaknesses

Moderate size and seasoning; vulnerable to economically weaker borrowers: HomeFirst caters to the affordable housing segment and started its disbursements since FY10 with 64% of the cumulative disbursements made during the last 4 years. The AUM of the company grew at a 3YCAGR of 26% as on March 31, 2023. The average tenure of the home loans is 15-

20 years forming 84% of the total AUM with behavioural 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 segments which are vulnerable to economic downturns which increases the risk for maintaining asset quality especially during times of stress. New-to-credit customers forms 20% 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 33% of the AUM followed by Maharashtra (14%), Tamil Nadu (14%) as on March 31, 2023 as compared with 36% of the AUM in Gujarat followed by Maharashtra (16%), Tamil Nadu (12%) as on March 31, 2022. 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 FY23, 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, and Chhattisgarh.

Liquidity: Strong

As on March 31, 2023, there are positive cumulative mismatches across the time buckets. The company has contractual debt repayments of ₹1,108 crore upto one year against which there are expected inflow from advances of ₹853 crore. The company-maintained liquidity (unencumbered) to the tune of ₹537 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 percentage of one year principal debt obligations stood at 48.48% as on March 31, 2023. Over and above the said unencumbered liquidity, HomeFirst also maintained undrawn lines of ₹1,264 crore as on the same date.

Environment, social, and governance (ESG) risks:

The company has a ESG Execution Team and is led by management team members along with the team. A monthly ESG dashboard is reported to the management team to track the progress of ESG-related initiatives. Quarterly updates of ESG plans and status updates are done in the Board Meeting. The ESG policy is also reviewed annually for any changes if required.

The company had received an ESG rating from Morningstar's Sustainalytics (a leading ESG rating agency) with a risk score of 16.2 in low-risk category vis-à-vis majority of BFSI Peers in medium to high-risk category. The company remain committed to promoting financial inclusion through affordable housing finance. During the year, the company had disbursed loans worth ₹3,013 crore for affordable housing that has enabled 20,000+ families in the economically weaker section and low-income groups to realise their dream to own a home.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Housing Finance Companies

About the company

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance 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, Jaithirth (Jerry) Rao and P. S. Jayakumar (former Citibank Consumer Banking Head and former MD & CEO of Bank of Baroda). HomeFirst operates through a network of 111 branches as on March 31, 2023 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 993 employees with 77,512 live customer accounts as on March 31,2023.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)
Total income	489.2	595.7	795.6
PAT	100.1	186.1	228.3
Overall debt/ Equity ratio (times)	2.2	2.2	2.6
Total assets	4,509.9	5,116.6	6,736.7
Net NPA (%)	1.2	1.8	1.1$
ROTA (%)	2.51	3.87	3.85

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'
$-post Nov 2021 RBI circular, increase mainly on account of revised RBI norms on NPA recognition and like to like comparable NNPA (%) is 0.9% for 31-03-2023.

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: Annexure-4

Lender details: Annexure-5

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	514.04	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	514.04	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Jul-22)	1)CARE A+; Stable (05-Nov-21)	1)CARE A+; Stable (06-Jan-21)

*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 12x
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

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

Annexure-5: Lender details

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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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