Home First Finance Company India Limited

July 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,014.04 (Enhanced from 514.04)	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Home First Finance Company India Limited (HomeFirst) factors in significant improvement in scale of operations with growth in the asset under management (AUM) by 35% from ₹7,198 crore as on March 31, 2023, to ₹9,698 crore as on March 31, 2024. Supported by branch expansion and improvement in geographical diversification in the past three years, share of top three states declined from 64.30% of AUM in FY22 to 58.50% in FY24. The rating derives strength from HomeFirst's strong capitalisation levels, stable profitability, diversified lender base and comfortable asset quality.

The rating remains constrained due to HomeFirst's moderately seasoned loan portfolio as the company exhibited high growth in the last three years. As growth stabilises and loan book gets seasoned, visibility on asset quality for the company will improve. Though the company witnessed improvement in geographical diversification, concentration of loan portfolio towards Gujarat continues to be relatively high at 31% of overall Gross loan book as on March 31,2024 as compared to 33% as on March 31, 2023. Going forward, as the company expands in southern and northern markets, as seen in FY24, it will help reduce geographical concentration further. As the company scales up, its ability to maintain operating efficiencies and credit costs would be a key monitorable. CARE Ratings Limited (CARE Ratings) takes note of the large focus on salaried customer class by HomeFirst, comprising 68% of the portfolio. However, the target customer segment comprises of borrowers in the low-income group, who may be vulnerable to economic downturns. Thus, the company's ability to manage the asset quality in 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 alongwith comfortable capital and liquidity buffer, will be key monitorable.

Detailed description of key rating drivers

Key strengths

Growth in portfolio and business over the years and comfortable profitability levels

In the last three years ending March 31, 2024, the company's AUM grew at compounded annual growth rate (CAGR) of 33% supported by small base and favorable growth prospects of affordable housing finance sector. The company's AUM as on March 31, 2024, stood at ₹9,678 crore witnessing a substantial growth of 35% on a y-o-y basis. The company's outreach also increased and presently HomeFirst operates through 133 branches (111 branches as on March 31, 2023) across 13 states in India with 95,512 (77,512 as on March 31, 2023) live accounts. In FY24, HomeFirst disbursed ₹3963 crore of loans with an average monthly run rate of ₹330 crore as compared to ₹3013 crore in FY23 with an average monthly run rate of ₹251

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

crore.Portfolio mix for March 2024 remains similar as March 2023 with slight increase in the LAP book as envisaged by the company, housing loan book stood at 79% of the total AUM (PY:80.8%), Loan Against Property (LAP) comprises 12.7% (PY:10.8%), 1.1% going towards commercial loans and construction finance (PY: 1.2%), 1.5% being Top up loans (PY: 1.6%) and 5.3% being Insurance loan (PY: 5.3%) and 0.4% being Plot loans (PY: 0.3%). The customer segment comprises of 68% of salaried class.

In FY24, the company reported an improved Net interest margin (NIM) of 6.49% as compared to 7.05% in FY23. The decline in the NIM was considering increase in cost of funds led by repricing and negative carry on the liquidity. The operating expense/average assets improved to 2.84% in FY24 as compared to 2.95% in FY23 led by higher operating efficiency and change in provisions for employee expenses. The credit costs improved slightly to 0.31% in FY24 as compared to 0.36% in FY23 due to recoveries from written off accounts. Considering this, ROTA stood at 3.76% in FY24 (FY23: 3.85%)

Comfortable asset quality

HomeFirst's portfolio mix has been largely stable through the years with the company mainly lending towards retail affordable housing. HomeFirst's credit underwriting policies remain conservative with 68% of the AUM comprising of salaried borrowers and the self-employed segment forming the rest.

The asset quality stood comfortable with a Gross Stage 3 (GS3) ratio of 1.70% as on March 31, 2024 (Mar-23: 1.61%). Restructured assets stood at 0.2% with nil exposure towards Emergency Credit Line Guarantee Scheme (ECLGS) as on March 31,2024. For FY24, the average monthly collection efficiency (including arrears) stood at 99.07% as against 98.5% in FY23.

The 0+ days past due book on AUM stood at 4.00% as on March 31,2024 (Mar-23: 4.23%) and the 30+ days past due book stood at 2.57% as on March 31,2024. (Mar-23: 2.66%).

Funding mix

The funding mix as on March 31, 2024, comprised – Bank term loans-75% (March 2023: 74%), NHB refinance-21% (March 2023: 19%), NCD- 4% (March 2023: 7%). In FY24, the company availed total bank sanctions of ₹4,015 crore, direct assignment (DA) sanctions of ₹219.31 crore and co-lending sanctions of ₹213.68 crore. In FY24, the company availed DA of ₹414.13 crore. HomeFirst tapped into DA of loans 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 it helps in Asset Liability Management (ALM).

Strong capitalisation:

HomeFirst's shareholders comprise established private equity funds such as True North Fund V LLP (14.18%), Aether Mauritius Limited (9.38%), Warburg Pincus LLC (23.07%; through Orange Clove Investments BV) as on March 31, 2024, who had infused much-required capital from FY17-FY21 to fund growth.

The capital adequacy ratio (CAR) stood comfortable at 39.48% (March 2023: 49.38%) and Tier 1 CAR stood at 39.08% (March 2023: 48.89%) as on March 31, 2024, which is substantially above the regulatory requirement for HFCs. Gearing (debt/equity) stood at 3.45x March 31,2024, as compared to 2.65x March 31,2023. With increase in scale, leverage is envisaged to increase, however, expected to remain under 5x in the near term. CARE Ratings expects leverage to remain comfortably below 5x in the near term. The comfortable capitalisation is likely to enhance the company's ability to fund its estimated growth.

Experienced management team:

Manoj Vishwanathan, Managing Director and CEO, has a total experience of more than 26 years andpossess extensive experience in consumer lending, encompassing sectors such as automobile loans, mortgages, and unsecured lending. At Home First, he is assisted by a team of experienced management 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 include 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 operations in FY10 with 61% of the cumulative disbursements made during the last 3 years. The AUM of the company grew at a 3YCAGR of 33% as on March 31,2024. The sanctioned tenure of the home loans is 16-20 years forming 70% 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 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 ~17% 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 as on March 31,2024, is concentrated in the state of Gujarat consisting of 31% of the AUM followed by Maharashtra- 13%, Tamil Nadu- 14% as on March 31,2024 as compared to 33% of the AUM in Gujarat followed by Maharashtra-14.4%, Tamil Nadu -14% as on March 31,2023. There was improvement observed in the concentration with shift in focus towards less concentrated states during the last 4 years, however, Gujarat continues to dominate the geographical concentration. During FY24, the company expanded within the same states venturing into new Tier 2 and Tier 3 cities. Going forward, the growth in the AUM is expected to be contributed by expansion into the markets of Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Madhya Pradesh, Rajasthan.

Liquidity: Strong
As on March 31, 2024, there are positive cumulative mismatches across the time buckets. The company has contractual debt repayments of ₹1,545 crore upto one year against which there are expected inflow from advances of ₹1,383 crore. The company maintained liquidity (unencumbered) to the tune of ₹1,156 crore in the form of fixed deposits, bank balances and liquid investments to overcome the above mismatch. Over and above the said unencumbered liquidity, HomeFirst also maintained undrawn lines of ₹899 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 and 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 changes.
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 against majority BFSI Peers in the medium-to-high-risk category and had received S&P ESG Rating with a score of 34. The company remains committed to promoting financial inclusion through affordable housing finance. During the year, the company had disbursed loans worth ₹3,963 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
Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
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). Presently, Mr. Manoj Vishwanathan is the Managing Director and CEO. HomeFirst operates through a network of 133 branches as on March 31,2024, 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 1,249 employees with 95,512 live customer accounts as on March 31,2024.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	31-03-2024 (A)
Total income	595.70	795.60	1,156.55
PAT	186.10	228.29	305.72
Overall debt/ Equity ratio (times)	2.20	2.65	3.45
Total assets	5,116.63	6,735.70	9,530.44
Net NPA (%)	1.77	1.07	1.20
ROTA (%)	3.87	3.85	3.76

A: Audited; Note: these are latest available financial results
$-post November 2021 RBI circular, increase mainly considering revised RBI norms on NPA recognition and like-to-like comparable NNPA (%) prior to such reclassification is 0.77% for 31-03-2024 (0.50% for 31-03-2023).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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	1014.04	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1014.04	CARE AA-; Stable	-	1)CARE AA-; Stable (03-Jul-23)	1)CARE AA-; Stable (04-Jul-22)	1)CARE A+; Stable (05-Nov-21)

*LT-Long 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: 022- 6754 3500 / 582 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Vineet Jain Senior Director **CARE Ratings Limited** Phone: 912267543623 E-mail: vineet.jain@careedge.in Akansha Manohar Jain Assistant Director **CARE Ratings Limited** Phone: 91226754410 E-mail: akansha.jain@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in