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HOME FIRST FINANCE COMPANY INDIA LTD

January 21, 2021

homefirst

We'll take you home

SMC Ranking

★★½☆☆ (2.5/5)

Issue Highlights

Industry	Home Finance
Offer for sale (Shares)	17,156,757
Fresh Issue (Shares)	5,115,830
Net Offer to the Public	**22,272,587**
Issue Size (Rs. Cr.)	1151-1154
Price Band (Rs.)	517-518
Offer Date	21-Jan-21
Close Date	25-Jan-21
Face Value	10
Lot Size	28

Issue Composition

	In shares
Total Issue for Sale	22,272,587
QIB	11,136,293
NIB	3,340,888
Retail	7,795,405

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	52.85%	30.12%
QIB	47.15%	57.13%
NIB	0.00%	3.82%
Retail	0.00%	8.92%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

To augment company's capital base to meet future capital requirement.

To achieve share listing benefits on the exchange.

Book Running Lead Manager

- Axis Capital Limited
- Credit Suisse Securities (India) Private limited
- ICICI Securities Limited
- Kotak Mahindra Capital Company Limited

Name of the registrar

- KFin Technologies Private Limited

About the Company

Incorporated on February 3, 2010, Home First Finance Company India Limited ("Home First Finance") is a technology driven affordable housing finance company that targets first time home buyers in low and middle income groups by offering them housing loans to construct and buy homes. It further offers other loans like loans against property, developer finance loans, and loans to buy commercial property. It has a strong presence in economically healthier states like Gujarat (39 percent of gross loan assets), Maharashtra (21 percent of GLA), Tamil Nadu (10.5 percent of GLA), Karnataka (9.3 percent of GLA) and Rajasthan (5.1 percent of GLA).The firm currently focuses on leveraging technology benefits in the area such as processing loan applications, risk management, and managing customer experience. It offers quick and transparent loan transactions through its mobile app. As of September 2020, the company had an AUM of Rs 3,730 crore and net worth of Rs 980 crore. Also as of September 2020 and March 2020, its Stage-3 loan assets expressed as a percentage of gross loan assets were 0.74 percent and 0.87 percent, respectively.

Strength

Technology Driven Company with Scalable Operating Model: Home First Finance is a technology driven affordable housing finance company and has built a scalable operating model. During the 6 months ended September 30, 2020 and the last 3 financial years, The company has invested ₹ 20.12 crore in its information technology systems. Its integrated customer relationship management and loan management system provides them with a holistic view of their customers and ensures connectivity and uniformity across their branches. It has also deployed proprietary machine learning customer-scoring models to assist them with effective credit underwriting. The company offers mobility solutions through dedicated mobile applications for its customers to enable quick and transparent loan related transactions. Home First has posted strong growth in net interest income (NII) of 58.6 percent CAGR between FY18-20 while net profits have grown at a CAGR of 122.6 percent during the same period. Despite the COVID-19 crisis The company's asset quality has remained largely stable with gross non-performing assets (NPA) and net NPA largely stable at 0.7 percent and 0.5 percent respectively at the end of September 2020.

Customer Centric Organizational Commitment: The company's customer centric approach has been a key driver of its growth and helped it to differentiate itself from competition and achieve superior net promoter scores. As of September 30, 2020, its customer mobile application, 'Home First Customer Portal' had approximately 26,098 active registrations comprising approximately 58.7% of its customer base and currently has a rating of 4.2 on the Google Play Store. It also has an application 'HomeFirst Connect' for its channel partners and 'HomeFirst RM Pro' for its relationship managers. The company has grown its Asset Under Management (AUM) from Rs 2,443.57 Crores in the previous year to Rs 3,618.36 crs as at March 31, 2020 recording a growth of 48.1%. This growth has come in mainly from growth in the markets of Bangalore, Chennai, Hyderabad and Jaipur.

Deep Penetration in the Largest Housing Finance Markets, with Diversified Sourcing Channels: The company has commenced its operations in August 2010 and as of September 30, 2020, it had a network of 70 branches covering over 60 districts in 11 states and a union territory in India. The company has successfully adopted a strategy of contiguous expansion across regions over the years and has strategically expanded to

relevant geographies by evaluating areas with high economic growth and substantial demand for affordable housing finance, along with industry portfolio-at-risk levels and socio economic risk profile. It has demonstrated its ability to successfully identify new regions to set up branches and grow its market share in such regions. Connectors are third-parties who provide The company with customer leads on a commission basis paid only when a loan is disbursed and they do not assist in the loan application process. The network of connectors has increased from over 470 active connectors as of March 31, 2018 to over 800 active connectors as of September 30, 2020, and it manages its leads effectively through its connector application.

Centralized, Data Science Backed Underwriting Process: The company serves salaried customers in low and middle-income groups which account for 73.1% of their Gross Loan Assets, and self-employed customers account for 25% of the Gross Loan Assets, as of September 30, 2020. Its technology platforms enable it to digitally capture over 100 data points of a customer from the inception of the lead. A majority of the housing finance loans for affordable houses fall within the purview of the Pradhan Mantri Awas Yojana which further reduces its loan-to-value ratio once the PMAY subsidy gets disbursed. As of September 30, 2020, completed homes comprised 89.0% of their Gross Loan Assets, while properties under construction accounted for 11.0% of their Gross Loan Assets. The robust underwriting and loan approval process have helped The company to reduce bounce rates from 14.1% for the first quarter of the financial year 2018 to 10.5% for the 4 th quarter of the financial year 2020.

Technology Driven Collections System: The company has set up a robust collections management system wherein approximately 93% of its collections for the financial year 2020 were non-cash based, which eases stress on monitoring financial transactions and reduces its cash management risk. The effective credit risk management is reflected in its portfolio quality indicators such as high repayment rates, and low rates of Stage 3 Loan Assets and Stage 3 Loan Assets (Net) across economic cycles and events such as demonetization and the implementation of RERA.

Well-Diversified and Cost-Effective Financing Profile: The company is able to access borrowings at a competitive cost due to its stable credit history, superior credit ratings, conservative risk management policies and strong brand equity. Moreover, The company has improved its credit ratings from 'CARE A-' as of March 31, 2017 to 'CARE A+' as of September 30, 2020 and also currently has an A+ (stable) rating from ICRA Limited. As of September 30, 2020, its Total Borrowings (including debt securities) were ₹ 26,36.58 Crore. During the six months ended September 30, 2020, it had proceeds of borrowings from banks and financial institutions of ₹ 1,81.10 crore. It carefully monitor the contractual maturity periods of its assets and liabilities and categorize them on the basis of the number of years in which they mature. As of September 30, 2020, the effective tenure of our Gross Loan Assets was 97.00 months, while the closing tenure of its outstanding borrowings and assignment was 96.45 months.

	As of and for the six months ended September 30,		As of and for the financial year ended March 31,		
	2020	2019	2020	2019	2018
Number of banks borrowed from and issued debt securities to	17	14	15	14	10
Private sector banks	8	7	8	7	4
Public sector banks	9	7	7	7	6
Amount borrowed (Borrowings + Debt securities) *(₹ million)*	26,365.78	22,956.31	24,938.05	19,256.41	10,198.76
Private sector banks (₹ million)	7,518.78	8,205.90	7,536.20	4,447.04	2,144.93
Public sector banks (₹ million)	9,003.24	8,916.93	10,256.77	8,941.74	5,598.82
Other parties	514.65	364.67	601.42	-	-
NHB loans *(₹ million)*	6,934.53	5,468.81	6,543.66	5,867.63	2,455.01
Debt securities *(₹ million)*	2,394.58	-	-	-	-
Average Cost of Borrowings (excluding assignments)	4.3%	4.3%	8.7%	8.5%	7.7%
Total Equity	9,881.90	8,893.03	9,336.36	5,231.40	3,252.15
Debt to Equity ratio*	2.67	2.58	2.67	3.68	3.14
CRAR (in accordance with restated Ind AS financial information)	51.7%	47.6%	49.0%	38.5%	43.0%

Strategy

Leverage Technology to Grow Business and Drive Operational Efficiency: The company seeks to leverage technology to enhance its lead sourcing and customer fulfillment process. It intends to launch a customer self-onboarding application through which a customer can make a loan application and upload relevant documents. It has also entered into arrangements with certain digital lead aggregators and other digital companies in the housing and real estate ecosystem such as Homelane, Paisa Bazaar, Quikr India, Credit Mantri and Aapka Painter, which helps The company source leads embedded with customer data. It intends to further strengthen and invest in technology to accelerate its growth, improve customer experience and continue to achieve industry-leading turnaround times in its operations.

Expand Branch Network in Large Affordable Housing Markets: The company intends to expand its business in a contiguous manner into regions with increasing urbanization, growing commercial activity and rising household incomes. Before setting up new branches, it will continue to conduct in-depth studies and market research to assess potential demand for its products and engage with local property valuers and legal advisors. It believes that this high-density model would allow it to grow its business with lower costs and increase its profitability.

Grow the Productivity of Existing Branches: The company focuses on increasing the productivity of its existing branches to drive its growth. It categorizes its branches into large branches, mid-sized branches and small branches, on the basis of the Gross Loan Assets of each branch, and it tracks key performance indicators such as growth in Gross Loan Assets and disbursements per branch to determine branch productivity. While some of its branches currently operate at optimum levels, it intends to focus on improving productivity at its newer branches. As of September 30, 2020, it had 21 large branches operating with average Gross Loan Assets of ₹ 1,04.94 crore, 21 mid-sized branches operating with average Gross Loan Assets of ₹ 50.77 crore, and 28 small branches operating with average Gross Loan Assets of ₹ 16.43 Crore. It believes that it has set up a scalable operating model, which will assist The company in expanding its operations with lower incremental costs to drive efficiency and profitability.

Diversify Sources of Borrowings to Optimize Borrowing Costs: The company has historically secured funding from private and public sector banks, the NHB and through assignment transactions. As it continues to increase the scale of its operations, it intends to diversify the sources of its funding to reduce dependence on term loans and optimize the capital costs. To diversify sources of capital, it seeks to obtain funding through the issuance of non-convertible debentures and external commercial borrowings. It also intends to continue to further increase its lender base, which has grown to 17 as of September 30, 2020. It has been able to reduce its average cost of borrowings (excluding assignments) to 8.7% as of March 31, 2020.

Focus on Enhancing the Risk Management Framework: The company intends to focus on enhancing its risk management framework to maintain the credit quality of its loan portfolio. Credit assessment is crucial to its operations since several of its customers are new to credit or belong to low and middle income groups.

Risk factor

- Default by borrowers and delay in repayment of loans can affect company business.
- Company relies significantly in its IT Systems and any failure or security breach can affect its business.
- Company major operations are concentrated in Gujarat and Maharastra. Any adverse developments in these states can affect the business.
- In case credit rating agency downgrades company credit ratings, it would increase The company borrowing costs and this could impact the profitability.

Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Aavas Financiers Limited	978.58	243.66	31.08	61.26	6.72	283.36	10	1903.85	14924.16
Home first finance	204.81	79.25	9.07	57.12	3.47	149.41	10	518.00	4526.64

*Peer Companies comparative financials are based on TTM
*Prince Price valuation based on FY19

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs. 518, the stock is priced at pre issue P/E of 53.78x on its actual annualised FY20 EPS of Rs. 9.63. Post issue, the stock is priced at a P/E of 57.12x on its EPS of Rs. 9.07. Looking at the P/B ratio at Rs. 518 the stock is priced at P/B ratio of 4.31x on the pre issue book value of Rs.120.11and on the post issue book value of Rs. 149.41 the P/B comes out to 3.47x.

On the lower end of the price band of Rs.517 the stock is priced at pre issue P/E of 53.67x on its annualised FY20 EPS of Rs. 9.63.Post issue, the stock is priced at a P/E of 57.01x on its EPS of Rs. 9.07. Looking at the P/B ratio at Rs.517, the stock is priced at P/B ratio of 4.30x on the pre issue book value of Rs. 120.11 and on the post issue book value of Rs. 149.41, the P/B comes out to 3.46x.

Industry overview

The Indian housing finance market experienced a healthy growth in housing loan outstanding of approximately 16% over Fiscals 2015 to 2020 on account of a rise in disposable income, healthy demand and a greater number of players entering the segment. CRISIL Research expects total housing loan outstanding to grow at a CAGR of 5% to 6% in Fiscal 2021 and at 8% to 9% CAGR over Fiscals 2020 and 2023. Although public sector banks lead in terms of value, in terms of volume, housing finance companies (“HFCs”) have the highest market share compared with other lending institutions. The market share of HFCs, in terms of volume, have increased from 35% in Fiscal 2015 to 47% in Fiscal 2019, which can be attributed to rising focus of HFCs on lower ticket size loans and their relatively stronger market presence in this category compared with banks. Higher transparency in the sector, increasing affordability and urbanisation, and government incentives is expected to push up the housing finance market over the next five years.

Outlook

Home First Finance is a fastest growing mortgage lender in India. It has shown strong revenue and margin growth in the last 4 years. However at this valuation, the issue looks expensive. As affordable housing segment is set to grow more with Government of India’s drive of “HOME FOR ALL BY 2022”, investors may opt the issue with long term perspectives.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	January 21, 2021
Bid/Offer Closing Date	January 25, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about January 29, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about February 1, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about February 2, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about February 3, 2021

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Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Interest earned	207.44	354.73	231.93
Interest expended	111.29	193.83	126.54
Net interest earned	**96.15**	**160.91**	**105.38**
Other operating income	**29.71**	**43.91**	**27.95**
Total Operating Income	**125.86**	**204.81**	**133.33**
Operating expenses	57.65	111.31	74.61
Operating Profit	**68.21**	**93.51**	**58.73**
OPM%	32.88	26.36	25.32
Other Income	6.04	21.02	11.05
PBDIT	**74.26**	**114.52**	**69.77**
Depreciation	3.90	7.24	4.58
PBIT	**70.36**	**107.28**	**65.20**
Fiancial charges	0.00	0.00	0.00
PBT	**70.36**	**107.28**	**65.20**
Tax	17.41	28.03	19.99
Profit After Tax	**52.95**	**79.25**	**45.20**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Current Tax Assets (Net)	1.6	1.8	1.0
Deffered tax assets (net)	0.0	0.0	2.5
Property, plant and equipment	17.0	20.5	16.8
Other Intangible Assets	0.4	0.5	0.7
Other Non -current assets	6.6	9.5	5.3
Total non-current assets	**25.45**	**32.36**	**26.28**
Financial Assets			
cash and cash equivalents	216.58	147.72	185.72
Bank balance other than above	204.28	74.33	6.26
Loans	2972.16	3013.91	2134.71
Investments	219.21	145.56	102.92
Other financial assets	84.51	65.73	26.12
Total Financial assets	**3696.74**	**3447.26**	**2455.73**
Total Assets	**3722.20**	**3479.61**	**2482.01**
Non-current liabilities			
Current Tax Assets (Net)	1.21	0.00	0.00
Deffered tax liabilities (Net)	5.97	2.31	0.03
Provisions	7.33	6.64	2.96
other non-financial liabilities	7.46	7.42	4.08
Total non-current liabilities	**21.95**	**16.36**	**7.07**
Financial Liabilities			
Derivative financial instruments	0	0	0
payables-total o/s due msme	0	0	0
payables - total o/s dues creditors	0.01	0.43	1.36
Debt securities	239.46	0.00	0.00
Borrowing	2397.12	2493.81	1925.61
other financial liabilities	75.47	35.38	24.82
Total Financial Liabilities	**2712.05**	**2529.61**	**1951.80**
Total Liabilities	**2734.01**	**2545.98**	**1958.87**
NET Worth	**988.19**	**933.64**	**523.14**
Net worth represented by:			
Share capital	15.68	15.66	12.67
Other Equity	972.51	917.98	510.47
Total Net worth	**988.19**	**933.64**	**523.14**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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