



Home First Finance is available at a P/B of 4.34x and a P/E of 48x for FY20, which is reasonable due to company's low base and scope for scalability in a rapidly growing housing and mortgage Industry. However, investors need to be cautious that the recent preferential allotment of Home First Finance was at ~Rs 335 in October 2020, which is 54% discount to the IPO issue price. Thus, we recommend subscribing to the issue for long-term gains.



About the Company :

The company is a technology driven affordable housing finance company that targets first time home buyers in low and middle-income groups. It primarily offers customers housing loans for the purchase or construction of homes, which comprised 92.1% of Gross Loan Assets, as of September 30, 2020. The company Gross Loan Assets have grown at a CAGR of 63.4% between the financial year 2018 and the financial year 2020 and increased from ₹ 13,559.32 million as of March 31, 2018 to ₹ 37,300.12 million, as of September 30, 2020.

As of September 30, 2020, the company had a network of 70 branches covering over 60 districts in 11 states and a union territory in India, with a significant presence in urbanized regions in the states of Gujarat, Maharashtra, Karnataka and Tamil Nadu.

Issue details

Price Band (in ₹ per share)	517-518
Issue size (in ₹ Crore)	1153.72
Fresh Issue (in ₹ Crore)	265
Offer for Sale (in ₹ Crore)	888.72
Total number of shares (lakhs)	222.16-222.73
Issue open date	21-01-2021
Issue close date	25-01-2021
Tentative date of Allotment	01-02-2021
Tentative date of Listing	03-02-2021
Offer Allocation	QIB-50 %, Retail— 35%, NII-15%
Minimum order quantity	28
Face value (in ₹)	2
Amount for retail investors (1 lot)	14476-14504
Maximum number of shares for Retail investors at lower Band	364(13 Lots)
Maximum number of shares for Retail investors at upper band	364(13 Lots)
Maximum amount for retail investors at lower Band-upper band (in ₹)	188188-188552
Exchanges to be listed on	BSE, NSE

Promoters

- True North Fund V LLP
- Aether (Mauritius) Limited

Objective of the Offer

- The sale of up to 1,71,56,726 Equity Shares by the Selling Shareholders
- To augment company's capital base to meet future capital requirement
- To receive the benefits of listing of the Equity Shares on the Stock Exchanges
- General corporate purposes

**Brief Financials**

Particulars (Rs. Cr)	H1FY21	FY20	FY19	FY18
Share Capital	15.68	15.66	12.67	10.32
Net Worth	988.19	933.64	523.14	325.22
Total Advances	3730	3618	2443	1356
PAT	52.95	79.25	45.20	16.00
ROA (%)	1.5	2.7	2.4	1.4
ROE (%)	5.5	10.9	10.7	5.1
GNPA/NNPA	0.8/0.5	1.0/0.8	0.8/0.6	/0.5
Basic EPS(Rs)	6.76	10.77	7.82	3.10
Net Asset Value (Rs)	126.06	119.24	82.59	63.01
CRAR (%)	51.7	49.0	38.5	43.0
P/E *	38.31 ^	48.09	N/A	N/A
P/B *	4.10	4.34	N/A	N/A

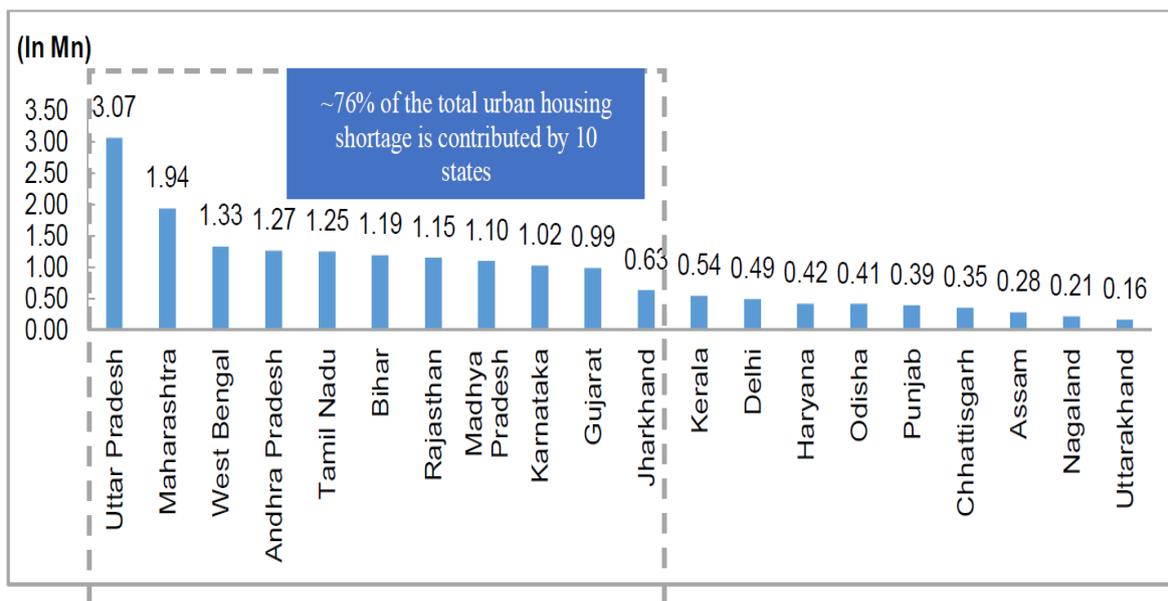
*Calculated at the upper band, ^ P/E is annualized

Industry Review**The Housing Scenario in India**

As per Census of India, 2011, the number of households increased from 192 million in 2001 to 247 million in 2011, at a CAGR of 1.3%. During the same period, housing stock increased from 187 million (2001) units to 245 million (2011).

Despite the constant focus on the housing segment, housing in India is far from adequate. The GOI, in its Twelfth Five Year Plan (2012 to 2017), accorded this issue utmost importance and focused on increasing the amount of housing units available both in the urban as well as the rural sector. As per the estimates of the Twelfth Five Year Plan, the shortage of housing in the urban segment stood at 18.78 million. The economically weaker section (“EWS”) accounts for three-fourths of the shortage and the lower income group (“LIG”) approximately accounts for a quarter of housing shortage.

As per the estimates of the Twelfth Five Year Plan, 10 states accounted for approximately 76% of the urban housing shortage. Uttar Pradesh has a housing shortage of over three million, followed by Maharashtra (1.94 million), West Bengal (1.33 million), Andhra Pradesh (1.27 million) and Tamil Nadu (1.25 million).



Note: The data above is as of 2012, when Telangana was not a separate state and was a part of Andhra Pradesh

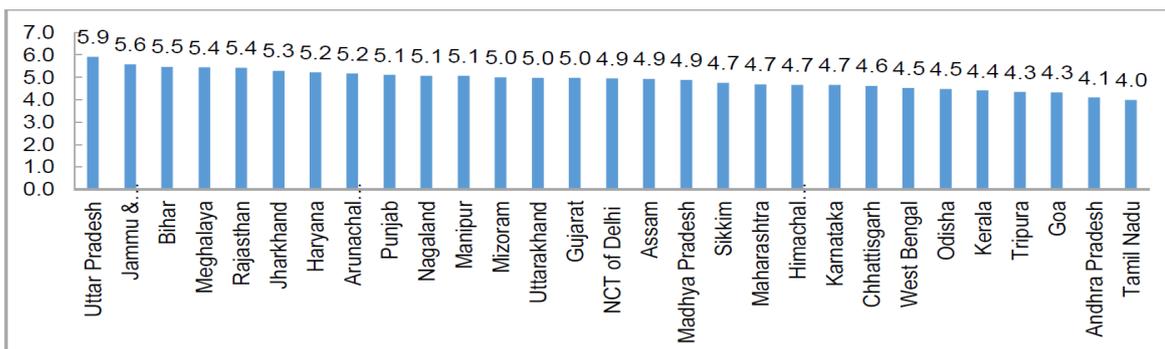
(Source: CRISIL Report)



Household Sizes and Number of Dwelling Rooms

With increased urbanisation, India is also moving towards higher nuclearisation leading to smaller family sizes. This is also reflected in the steady reduction in average household size from 5.5 members per household as of 1991 to 5.3 members in 2001 to 4.8 members, as per Census 2011. Furthermore, according to the Census of India, 2011, majority of the Indian households live in a one-room or two-room house. According to the National Sample Survey Organisation (“NSSO”) Survey on Housing Conditions conducted in 2012, the average floor area of a dwelling unit was 40.03 sq. m in rural India and 39.20 sq. m in urban India during 2012. The average household size in India was 4.5. It was 4.8 in rural India and 4.2 in urban India. The states of Uttar Pradesh and Jammu and Kashmir had the highest average household size of 5.9 and 5.6 respectively, whereas in the states of Andhra Pradesh and Tamil Nadu, the average household size was 4.1 and 4.0 respectively.

The following graph sets out state-wise average household size:

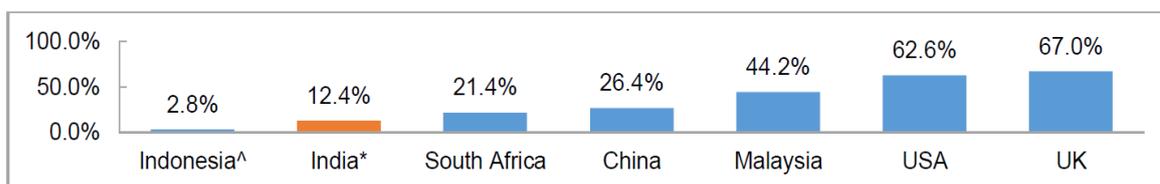


(Source: CRISIL Report)

India’s Mortgage Penetration Lower than Other Economies

As of March 2019, the total outstanding retail housing loans in India was ₹ 18.7 trillion, translating into a mortgage-to-GDP ratio of 12.4%. While the ratio has improved over the last few years, it is still lower than several other emerging and developed economies. CRISIL Research analysis indicates the mortgage penetration in India is 9 to 11 years behind other regional emerging markets such as China. Going forward, CRISIL Research expects a steady and gradual increase in mortgage penetration due to various structural drivers, such as a young population, smaller family sizes, increased urbanisation and rising income levels.

The following graph sets forth Mortgage-to-GDP ratio in India compared with other countries (2017):



Note: (*) – As of calendar year 2019, (^) As of calendar year 2016

(Source: CRISIL Report)

The following table sets forth trend in Mortgage-to-GDP ratio of different countries:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Indonesia	1.6%	1.8%	2.0%	2.2%	2.4%	2.4%	2.7%	2.8%	2.8%	NA
India	6.2%	6.6%	6.1%	5.5%	6.3%	6.6%	6.9%	7.7%	7.5%	8.7%
South Africa	45.4%	33.2%	29.7%	23.3%	24.0%	21.3%	21.2%	18.1%	22.0%	21.4%
China	11.6%	11.8%	14.5%	14.1%	14.1%	15.5%	16.6%	18.4%	22.6%	26.4%
Malaysia	28.2%	35.0%	33.9%	31.7%	34.7%	35.0%	36.1%	33.6%	42.0%	44.2%
USA	82.7%	75.9%	80.1%	72.8%	68.8%	66.3%	63.8%	62.7%	62.9%	62.6%
UK	78.2%	80.2%	77.1%	74.2%	73.3%	71.3%	69.0%	68.7%	67.2%	67.0%

(Source: CRISIL Report)

**COMPETITIVE STRENGTHS:****Technology Driven Company with Scalable Operating Model**

Home First Finance is a technology driven affordable housing finance company and have built a scalable operating model, which enables the company to expand operations and drive growth in revenue with lower incremental costs. It has established a differentiated technology framework with customized systems and tools, enhancing convenience for customers as well as increasing operational efficiency. During the six months ended September 30, 2020 and the last three financial years, the company had invested ₹ 201.19 million in information technology systems.

The company is able to digitally capture over 100 data points of a customer in addition to credit bureau data, observations of front-end teams and feedback from underwriting and management teams. The company captures and stores all data on a cloud services platform. It had entered into arrangements with third party service providers through whom it obtains additional information such as fraud related data, banking, investment and taxation related data, and vehicle ownership of customers, which enables them with underwriting, and to identify areas of concern and take quick and accurate decisions.

Deep Penetration in the Largest Housing Finance Markets, with Diversified Sourcing Channels

The company had 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. It had successfully adopted a strategy of contiguous expansion across regions over the years and have 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.

The company had demonstrated the ability to successfully identify new regions to set up branches and grow the market share in such regions. For example, during the last three financial years, the company had identified Jaipur, Ahmedabad, Surat, Indore, Nagpur, Raipur, Hyderabad, Bengaluru and Chennai to set up branches and as of September 30, 2020. The following table reflects the improvement in the market share, in terms of origination of home loans in the bucket size of ₹ 500,000 to ₹ 2,500,000, for the periods indicated:

Branch Location	Our market share during Q1 FY18	Our market share during Q4 FY20
Jaipur	0.1%	2.3%
Ahmedabad	1.7%	2.7%
Surat	1.7%	2.5%
Indore	0.2%	2.3%
Nagpur	0.9%	2.2%
Raipur	0.3%	0.8%
Hyderabad	0.2%	1.1%
Bengaluru	0.2%	1.9%
Chennai	1.0%	2.0%

For details of the market size of home loans in the cities above, see "Industry Overview – Indian Housing Finance Market – Healthy Housing Finance Market Growth" beginning on page 111. Our market share represents the percentage of the origination of our home loans over the market size in such cities, as provided in the CRISIL Report.

Experienced Management Team with Qualified Operational Personnel and Marquee Investors

The company is having a professional and experienced management team, led by CEO and founder, Manoj Viswanathan, who has over 24 years of experience in the consumer lending industry. In addition, Ajay Khetan, Gaurav Mohta and Vilasini Subramaniam part of founding team over five years ago. Apart from the management team the company has a distinguished Board comprising industry professionals with significant experience in the financial services industry.

The company Promoters are True North Fund V LLP and Aether (Mauritius) Limited. Further, Bessemer has invested in the company since January 2011 and Orange Clove Investments B.V. (an affiliate of Warburg Pincus, a global private equity investor) has acquired a stake in the Company in October 2020. The company expects to continue to benefit from strong capital sponsorship and professional expertise of its marquee shareholders.



Risk Factors

Any disruption in sources of funding could have an adverse effect on the company's business

The company's ability to raise funds on acceptable terms, at competitive rates and in a timely manner, depends on various factors including current and future results of operations and financial condition, risk management policies, credit ratings, brand equity, the regulatory environment and policy initiatives in India and developments in the international markets affecting the Indian economy including the effect of events such as the COVID-19 pandemic. Further, changes in economic, regulatory and financial conditions or any lack of liquidity in the market could adversely affect the ability to access funds at competitive rates, which could adversely affect the liquidity and financial condition.

Geographical Concentration Risk

The company's operations are concentrated in the states of Gujarat and Maharashtra and as of September 30, 2020 and March 31, 2020, 2019 and 2018, 39.0%, 39.7%, 40.8% and 38.0% of the Gross Loan Assets was from Gujarat, while 21.0%, 21.7%, 28.4% and 35.6% was from Maharashtra, respectively. As of September 30, 2020, of total 70 branches, 35 branches were located in the states of Gujarat and Maharashtra. Consequently, any significant social, political or economic disruption, or natural calamities or civil disruptions in these regions, or changes in the policies of the state or local governments of these regions or the Government of India, could disrupt the business operations, require the company to incur significant expenditure and change the business strategies.

The Indian housing finance industry is highly competitive and the company's inability to compete effectively could adversely affect the business and results of operations.

The housing finance industry in India is highly competitive and the company competes with banks, other HFCs, small finance banks and NBFCs in each of the geographies in which the company operates. The competitors may have more resources, a wider branch and distribution network, access to cheaper funding, superior technology and may have a better understanding of and relationships with customers in these markets. This may make it easier for competitors to expand and to achieve economies of scale to a greater extent. Thus its difficult to assume the past growth rate and margins of the company going forward.

Peer Comparison

Company (FY20)	FV (₹)	Revenue (₹ In Crores)	Basic EPS	NAV (₹)	RONW (%)	P/E*	P/B*
Home First Finance Ltd	2	398.64	10.77	119.24	10.9	48.10	4.34
Aavas Financiers Ltd	10	902.55	31.85	267.86	12.7	59.78	7.11

*P/E & P/B ratio based on closing market price as on January 19th, 2021, At the upper price band of IPO, financial details con-

Our Views

Home First Finance has been setup by well experienced Industry professionals with robust Technological framework. The company's advances have grown up with ~62% CAGR in between FY17-20 without much asset delinquencies. 92% of the total advances are housing loans with 75% salaried customer base. The company has made its presence in a highly competitive housing industry and likely to grow at a rapid phase in view of increasing demand for housing along with the Government priority on affordable housing schemes.

Home First Finance is available at a P/B of 4.34x and a P/E of 48x for FY20, which is reasonable due to company's low base and scope for scalability in a rapidly growing housing and mortgage Industry. However, investors need to be cautious that recent preferential allotment of Home First Finance was at ~Rs 335 in November 2020, which is 54% discount to the IPO issue price. Thus, we recommend subscribing to the issue for long-term gains.

Sources: Company Website and Red Herring Prospectus



Analyst Certification

We/I, Spandan, B Tech, PGPSM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Disclosures and Disclaimers

Expected Absolute Returns over 12 months:

BUY - More than +10%
HOLD - Between -10% to 10%
REDUCE - Below -10%

CANARA BANK SECURITIES LTD (CBSL), a wholly owned subsidiary of CANARA BANK, is a SEBI registered intermediary offering broking services to its institutional and retail clients, we also run a proprietary trading desk. CBSL is member of BSE & NSE. Neither CBSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of the report (iv) have received any compensation from the subject company in the past twelve months (v) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vi) have received any compensation for product or services from the subject company in the past twelve months (vii) have received any compensation or other benefits from the subject company or third party in connection with the research report. (viii) Research Analyst involved in the preparation of Research report discloses that he /she has not served as an officer, director, or employee of subject company(ix) is involved in market making activity of the company.

We shall adhere to SEBI guidelines from time to time.

We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of CBSL. The Research Desk does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of CBSL. CBSL will not treat recipients as clients by virtue of their receiving the research report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, the Research Desk does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive it. The securities discussed in the report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive the research report should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in the research report and of evaluating the merits and risks involved in the securities forming the subject matter of the reports. All projections and forecasts in research reports have been prepared by our research team.

The client should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by CBSL For these reasons; The client should only consider the projections and forecasts described in the research reports after carefully evaluating all of the information in the report, including the assumptions underlying such projections and forecasts. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. CBSL or its research team involved in the preparation of the research reports, accept no liabilities for any loss or damage of any kind arising out of the use of these reports. The technical levels and trend etc mentioned in our reports are purely based on some technical charts/levels plotted by software used by us and these charts/levels are believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. The recommendation expressed in the reports may be subject to change. The recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. This research reports are for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of CBSL. The Research reports or any portion hereof may not be printed, sold or distributed without the written consent of CBSL. The research report is strictly confidential and is being furnished to client solely for client's information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely based on certain assumptions & calculations and are given as part of the normal research activity of CBSL and are given as of this date and may be subject to change. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection. The report has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Any opinions and projections contained herein are entirely based on certain assumptions and calculations. None of the directors of the company or any other persons in the research team accepts any liability whatsoever for any loss arising from any use of the research report or its contents or otherwise arising in connection therewith. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that the client has read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India (SEBI) before investing in Securities Market. Please remember that investment in stock market is subject to market risk and investors/traders need to do study before taking any position in the market.

Research Desk
Canara Bank Securities Ltd
SEBI: RESEARCH ANALYST REGISTRATION: INH000001253
BSE: INB 011280238, BSE F&O: INF 011280238
NSE: INB 23180232, F&O: INF 231280232, CDS: 231280232
Maker Chambers III, 7th floor,
Nariman Point, Mumbai 400021
Contact No. : 1800220369/18001031369, 022 - 22802441/42,
43603841/42
Email id: researchdesk@canmoney.in Website: www.canmoney.in