

Home First Finance Company India Ltd.

Issue Opens: Jan 21, 2021; Issue Closes: Jan 23, 2021; Price Band: ₹517 - 518

Recommendation

SUBSCRIBE

Issue Details

| | |
|--------------|-------------------|
| Face Value | ₹2 |
| Public Issue | ~2.23 Cr shares |
| Price Band | ₹517 - 518 |
| Issue Size# | ₹1,154 Cr |
| Bid lot | 28 Equity shares |
| Issue Type | OFS & Fresh Issue |

Post Issue M. Cap: ~₹4,527cr; # - at upper band

| % Shareholding | Pre IPO | Post IPO |
|----------------|---------|----------|
| Promoter group | 52.85 | 33.70 |
| Public | 47.15 | 66.30 |

Post Issue percentage is at upper price band

| Share Reservation | % of Net Issue |
|-------------------|----------------|
| QIB | 50 |
| NII | 15 |
| Retail | 35 |

Company Management

| | |
|------------------------|---------------------|
| Mr. Manoj Viswanathan | Founder, M.D. & CEO |
| Ms. Nutan Gaba Patwari | CFO |

Issue Managers

| | |
|-----------|--|
| BRLMs | Axis Capital, Credit Suisse, ICICI Securities and Kotak Mahindra Capital |
| Registrar | KFin Technologies Pvt. Ltd. |

Source: RHP

IIFL Securities Research
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January 21, 2021

Home First Finance Company (HFFC) is a niche HFC with an AUM of ₹3,730 cr as of 1HFY21. It focuses on the affordable housing segment for salaried/self-employed segments in tier 2-5 towns, with largest exposure in Gujarat, Maharashtra and Tamil Nadu.

Small size, niche market sets it up for growth: At ₹3,730 cr of AUM, HFFC has a huge growth runway ahead of it. Further, individual categories like LAP (₹190 cr) and developer loans (₹70 cr) are even smaller, providing HFFC a very low base to start with. Small size, strong parentage, low NPAs and a tier 1 CAR of 50.4% (with additional capital to be added through the IPO) would mean that HFFC will not find funding to be a constraint. At its current size, NHB funding would also provide a meaningful form of support.

Strong pricing power in its customer segment: HFFC's home loan yields at 12.9% are among the highest across listed peers. This is primarily due to focus on a customer base which is unserved/underserved and which faces difficulties in accessing credit at a quick TAT. Such a customer base provides HFFC healthy pricing power in a highly competitive market.

High core profitability and low credit costs set-up its strong RoAs: High growth, strong NIM (pricing power + free funds benefit due to high Tier 1 CAR), and operating leverage are contributing to PPop RoAs at 4.2/5% as of FY20/1HFY21. As the COVID related provision phase passes, overall RoAs could be in the 3-3.5% range.

Outlook & Valuation: The key advantages of HFFC are small size and niche positioning which sets it up for growth as well as provides pricing power in its customer base, its ability to leverage technology for better service delivery, funding availability with competitive cost of funds, strong parentage and high capitalisation (Tier 1 CAR of 50.4% as of 1HFY21). Risks, in the form of an unseasoned loan book and relatively riskier customer base, are also present. However, in the medium to long term, HFFC should be able to take advantage of strong underlying growth momentum in the affordable housing space. This, coupled with its own strong core operating metrics (2.5-3% RoA) would help it lever up the current capital. While the pricing is a tad expensive at 3.4x 1HFY21 P/BV, we believe its strong metrics and high growth would lead to healthy EPS growth and therefore, healthy returns from the issue price. **We recommend Subscribe.**

Exhibit 1: Financial Summary

| (₹ Cr, unless specified) | FY18 | FY19 | FY20 | 1HFY21 |
|----------------------------|-------|-------|-------|--------|
| Gross Loan Assets | 1,356 | 2,444 | 3,618 | 3,730 |
| YoY (%) | 60.0 | 80.2 | 48.1 | 19.8 |
| Disbursements | 746 | 1,573 | 1,618 | 296 |
| YoY (%) | 75.7 | 111.0 | 2.9 | -66.6 |
| Total Assets | 1,365 | 2,482 | 3,480 | 3,722 |
| Total Income | 132 | 260 | 399 | 237 |
| Net Interest Income | 64 | 127 | 198 | 122 |
| PAT | 16 | 45 | 79 | 53 |
| ROE (%) | 9.8 | 10.7 | 10.9 | 11.3 |
| ROA (%) | 2.3 | 2.4 | 2.7 | 3.0 |
| Cost to income ratio (%) | 60.2 | 49.8 | 45.2 | 34.2 |
| Gross NPLs as % of loans | 1.2 | 0.9 | 1.0 | 0.7 |
| Net NPLs as % of net loans | 0.5 | 0.6 | 0.8 | 0.5 |

Source: RHP; IIFL Research

Exhibit 2: Key valuation metrics

| Particulars | FY20 | 1HFY21 |
|---|------|--------|
| Pre-money | | |
| Net worth (₹ Cr) | 934 | 988 |
| Net profit (₹ Cr) | 79 | 106 |
| Post money | | |
| Net worth (₹ Cr) | 934 | 1,332* |
| Net profit (₹ Cr) | 79 | 106 |
| Per share data (post money for 1HFY21) | | |
| BVPS | 119 | 152* |
| EPS | 10 | 12 |
| Valuation multiples (post money) | | |
| P/BV (x) | 4.8 | 3.4 |
| P/E (x) | 57.1 | 42.7 |

Source: RHP; IIFL Research; *Includes ₹79 cr raised in pre-IPO placement and the fresh issue in the IPO

Offer Details

The total issue size is ₹1,154Cr which consist of Fresh Issue of ₹265Cr and Offer for sale of ~1.72Cr shares aggregating to ₹889Cr at the upper end of the price band. The net proceeds from the fresh issue is proposed to be utilized towards augmenting HFFC's capital base to meet future capital requirements.

Business Description

HFFC is a technology driven affordable housing finance company targeting first time home buyers in the low and middle-income groups. HFFC was founded by Mr. Jaithirth Rao, Mr. P. S. Jayakumar and Mr. Manoj Viswanathan and commenced operations in August 2010. Its current promoters, True North Fund, Aether (Mauritius) Limited, Bessemer India, Warburg Pincus and Mr. P.S. Jayakumar own 93.5% in the company. HFFC has now expanded its presence to 60 districts across 11 states as of 1HFY21. Currently, the top 4 states – Gujarat (39%), Maharashtra (20.9%), Tamil Nadu (10.5%) and Karnataka (9.3%) form ~80% of the loan book. HFFC has reached an AUM of ₹3,730 cr growing at a CAGR of 50% over FY18- 1HFY21 and has a base of 44,467 customers as of 1HFY21.

Exhibit 3: Geographic Mix of gross loan assets

| (%) | FY18 | FY20 | 1HFY21 |
|----------------|------|------|--------|
| Gujarat | 38.0 | 39.7 | 39.0 |
| Maharashtra | 35.6 | 21.7 | 20.9 |
| Tamil Nadu | 8.7 | 9.9 | 10.5 |
| Karnataka | 7.0 | 9.0 | 9.3 |
| Rajasthan | 3.0 | 5.0 | 5.1 |
| Telangana | 1.0 | 4.9 | 5.0 |
| Madhya Pradesh | 1.6 | 3.9 | 4.1 |
| Uttar Pradesh | 2.0 | 2.6 | 2.6 |
| Haryana | 2.0 | 1.1 | 1.0 |
| Chhattisgarh | 1.0 | 0.9 | 1.0 |
| Andhra Pradesh | 0.1 | 1.3 | 1.4 |

Source: RHP, IIFL Research

Key business metrics

Affordable housing loans for purchase and construction of homes comprise 92.1% of its AUM, followed by LAP at 5.1% while developer loans are just ₹70 cr or 1.9% of AUM. Housing loans are at an average ticket size of ₹10.2 lk with an average loan to value of 50.4% based on Gross loan assets. The developer portfolio is still in its nascent stages with an average ticket size of ₹6.7 cr and LTV of 17.6%.

Exhibit 4: Segment-wise key metrics

| 2QFY21 | AUM mix (%) | Loans a/cs (nos) | Lending Yield (%) | Disbursement Yield (%) | Stage 3 (%) | ATS (₹ Mn) | LTV (%) |
|---|-------------|------------------|-------------------|------------------------|-------------|------------|---------|
| Housing loans | 92.1 | 42,047 | 12.9 | 13.0 | 0.8 | 1.0 | 50.0 |
| Loans for purchase of commercial property | 0.9 | 454 | 15.3 | 15.1 | 0.4 | 0.9 | 48.9 |
| LAP | 5.1 | 25 | 14.2 | 14.1 | 1.6 | 66.8 | 17.6 |
| Developer finance | 1.9 | 2,270 | 15.7 | 15.3 | 0.1 | 0.9 | 26.2 |

Source: RHP, IIFL Research

Exhibit 5: Disbursement mix

| (%) | FY18 | FY19 | FY20 | 1HFY21 |
|---|------|------|------|--------|
| Housing loans | 95.4 | 88.1 | 89.9 | 94.2 |
| Loans for purchase of commercial property | 0.7 | 1.2 | 0.9 | 0.7 |
| LAP | 1.5 | 4.1 | 6.9 | 3.9 |
| Developer finance | 2.4 | 6.6 | 2.3 | 1.2 |

Source: RHP, IIFL Research

Customer profile

The retail portfolio comprises mainly salaried customers (73.1% of AUM), with self-employed customers comprising 25.0% of AUM as of 2QFY21. Salaried customers are typically employed by small firms or work in junior positions in larger companies. The self-employed customers are small business owners. Gradually, HFFC has been increasing its focus on customers who already have a credit history - the share of such customers has increased to 59.6% in 1HFY21 from 51.9% in FY18. The remaining 40.4% customers are new to credit customers as of 1HFY21 as compared to 48.1% in 2018. HFFC promises a 48 hour turn-around-time after it has gathered all customer level data for its credit assessment.

Exhibit 6: Loan account details

| (%, unless specified) | FY18 | FY19 | FY20 | 1HFY21 |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Salaried loan accounts | 72.7 | 74.5 | 74.4 | 74.6 |
| Self-employed loan accounts | 27.3 | 25.5 | 25.6 | 25.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| New to Credit loan accounts | 48.1 | 45.8 | 41.8 | 40.4 |
| Account with existing credit History | 51.9 | 54.2 | 58.2 | 59.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Total Loan accounts (nos) | 15,723 | 29,372 | 43,094 | 44,796 |

Source: RHP, IIFL Research

Exhibit 7: Borrowing mix

| (%) | FY18 | FY19 | FY20 | 1HFY21 |
|---------------|------|------|------|--------|
| Banks | 75.9 | 69.5 | 71.3 | 62.7 |
| NHB | 24.1 | 30.5 | 26.2 | 26.3 |
| NCDs | - | - | - | 9.1 |
| Other parties | - | - | 2.4 | 2.0 |

Source: RHP, IIFL Research

Exhibit 8: AUM growth trends

| Particulars | FY18 | FY19 | FY20 | 1HFY21 |
|---|-------|-------|-------|--------|
| AUM Mix (%) | | | | |
| Housing loans | 96.0 | 92.0 | 91.8 | 92.1 |
| Loans for purchase of commercial property | 0.5 | 1.0 | 1.0 | 0.9 |
| LAP | 2.1 | 3.5 | 5.1 | 5.1 |
| Developer finance | 1.3 | 3.4 | 2.1 | 1.9 |
| % YoY growth | | | | |
| Housing loans | 72.7 | 47.8 | 20.6 | 72.7 |
| Loans for purchase of commercial property | 238.3 | 39.1 | 6.8 | 238.3 |
| LAP | 198.6 | 114.8 | 29.6 | 198.6 |
| Developer finance | 377.9 | -9.3 | -18.9 | 377.9 |
| Total AUM | 80.2 | 48.1 | 19.8 | 80.2 |

Source: RHP, IIFL Research

Exhibit 4: Valuation comparison (based on FY20 metrics)

| | Mcap (₹ Cr) | ROA | ROE | BVPS | EPS | P/B | P/E |
|------------|----------------|-----|------|-------|------|-----|------|
| HDFC | 4,84,293 | 3.6 | 21.7 | 497.4 | 44.7 | 5.4 | 59.6 |
| LICHSGFIN | 21,792 | 1.2 | 13.9 | 360.3 | 47.6 | 1.2 | 9 |
| PNBHOUSING | 6,261 | 0.8 | 8.3 | 475.5 | 38.4 | 0.8 | 9.7 |
| REPCOHOME | 1,677 | 2.4 | 16.9 | 285.6 | 44.8 | 0.9 | 5.9 |
| AAVAS | 15,086 | 3.8 | 12.7 | 267.9 | 31.5 | 7.2 | 61.3 |
| HFFC | 4,527 | 2.7 | 10.9 | 119.2 | 10.1 | 4.3 | 51.3 |

Source: Company, IIFL Research

Key Risks

- ❖ **Untested customer base, informal income category:** The biggest risk for HFFC is that ~40% of its customer base is new to credit and therefore untested. Further, despite having 72.6% of its customers from the salaried segment, most of these are customers who lack formal income proofs. That is why a surrogate income assessment is needed. Therefore, unlike a typical salaried customer employed in the mid-income segment, these customers would be relatively risky due to the combination of being new to credit and being in the informal income category.
- ❖ **Unseasoned loan portfolio:** The loan book has expanded more than 4x in the last 2.5 years and clearly, is unseasoned. As the loan book seasons, the following effects will show up:

- Growth will moderate as balance transfer (BT) increases,
 - Pricing pressure from customers who are new to credit today but will have some credit history in future and therefore will be candidates for BT,
 - GNPA's will start growing faster, putting pressure on NIMs, risk appetite and provisions,
 - ECL models will have to evolve and factor in higher structural credit costs, lowering RoAs
- ❖ **Structurally low RoE due to muted leverage:** HFFC already has a 50.4% Tier 1 CAR and will be adding to this through the listing process. Given low risk weighted assets, the key RoE driver for HFCs is usually the leverage. Levering up the capital will take time and therefore, RoEs could hover at 12-13% in the medium term.

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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