



Choice

Nurturing Financial Excellence

IPO REPORT

**“Subscribe with Caution” to
Home First Finance**

‘Demanding valuation seems fully priced’

Salient features of the IPO:

- **Home First Finance Company India Limited (HFFL)**, is a affordable housing finance company that targets first time home buyers in low and middle income group.
- Home loans comprised 92.1% of gross loan assets as of Sep 30' 2020.

Key competitive strengths:

- Technology driven company with scalable operating model
- Customer centric organisation commitment
- Deep penetration in largest housing finance markets with diversified sourcing channels
- Centralized data science backed underwriting process
- Well-diversified and cost-effective financing profile
- Experienced management team with qualified operational personnel and marquee investors

Valuation: At the high price band of Rs518, the issue is valued at P/BV of 3.6x post issue BVPS of Rs143.5.

Below are few key observations of the issue: (continued in next page)

- HFFL is an affordable housing finance company that targets first time home buyers in low- & middle-income group. HFFL is dedicated HFCs as home loans comprised 92.1% of gross loan assets as of Sep 30' 2020. As per the business strategy, the company targets first time home buyers who find it difficult to disrupt their work routines to apply for a loan and comprehend the terms of a loan transaction.
- For disbursement, the company primary focuses on salaried people like school teacher having high predictability of cash flows. As of Sep 30' 2020, salaried customers account for 73.1% of gross loans assets while self-employed customers account for 25% of gross loan assets.
- HFFL targets affordable housing finance regions across the country and increased presence in over 60 districts in 11 states and union territory in India.
- Gross loan assets grew at a CAGR of 49.9% since FY18 to Rs37,300 mn as of Sep 30' 2020. Average ticket size of housing loans was Rs1.01 mn with average loan-to-value stood at 61.9% as time of sanctioning of the loan. A majority of housing finance loans that the company disburses fall under the category of PMAY where buyers are entitles to certain govt subsidies, which further reduce LTV once the PMAY subsidy is disbursed.
- The company also provides other loans include loans against property, developer finance loans and loans for purchase of commercial property which comprised 5.1%, 1.9% and 0.9% of gross loan assets, as of Sep 30, 2020, respectively.
- HFFL is in high growth phase as housing loan portfolio grew at a CAGR of 63.4% during FY18-FY20. Strong growth is mainly driven by low turn-around-time (TAT) of 48 hours as compared to other HFCs with TAT of 8-10 working days. As per the mgmt, low TAT is due to significantly investment on technology front as deployed proprietary machine learning customer-scoring models assist effective credit underwriting.

Recommendation	Subscribe with Caution
Price Band	Rs517-518 per share
Face Value	Rs2 per share
Fresh Issue Size	Rs2,650 mn
Share for Fresh Issue	5.1 mn shares
OFS Issue Size	Rs8,887.2 mn
Total Issue Size	Rs11,537.2 mn
Bidding Date	Jan 21 ' 2021 - Jan 25 ' 2021
MCAP at Higher Price Band	Rs45,266.4 mn
Book Running Lead Manager	Axis Capital Limited, Credit Suisse Securities (India) Private Limited, ICICI Securities Limited, Kotak Mahindra Capital Company Limited
Registrar	KFin Technologies Private Limited
Industry	HFCs

Retail application money at higher cut-off price per lot

Number of shares per lot	28
Application Money	Rs14,504 per lot

Allocation Detail

Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern

	Pre-Issue	Post Issue
Promoter & promoter group	52.9%	33.7%
Public	47.1%	66.3%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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- Further, mgmt stated that it maintained a strong digitally recorded data base of customers taking information from credit bureau data, observations from front end teams, underwriting & mgmt. teams and data from third party source providers. The process helps company to take better underwriting decisions and identify the area of concerns and take quick & accurate decisions.
- The company has a large customer base of salaried customers, limited exposure to under construction homes (11% of gross loan assets) which led to low GNPA at 0.7% as of Sep 30' 2021. Collection efficiency is improving sequentially and in Dec 20 it rose to 97.6% in Dec. Meanwhile DPD 30+ rose to 3.1% in Oct 20 v/s average of ~1.5% over past five months raises some concerns. In the near term, NPAs may rise as the company will recognize slippages on moratorium availed book.
- HFFL generates ~13% yield on home loans which is significantly higher than industry trend of 8-9%. Mgmt attributed higher yield to low TAT, door steps services and focus on customers who faced difficulties with length documentation process at banks or find it difficult to disrupt their work routines to apply for a loan. HFFL is assigned with A+ credit rating and its CoB stood at 8.6% in H1FY21. NIM was reported at 5.1% in FY20 and 4.8% (annualized) in FY21. With the increasing competition in the industry, the company would face difficulties to sustain margin at these levels. PAT rose to Rs792.5 mn in FY20 from Rs160 mn in FY18. RoE stood at 10.9% in FY20 and 11% (annualized) in FY21.
- At the high price band of Rs518, the issue is valued at P/BV of 3.6x post issue BVPS of Rs143.5 which indicates positive fundamentals are largely factored in the demanding valuation of Rs45,266.4. HFFL at P/BV of 3.6x is premium to PNB Housing at P/BV of 0.7x, Repco Home Finance at 0.8x, Can fin Homes at 2.9x. Though, the issue is priced at discount to Aavas Financiers, we remain neutral as the Aavas Financiers, a small business player with loan book of Rs83 bn, is currently trading at extraordinary valuation of P/BV of 6.9x particularly driven by high liquidity market conditions. Furthermore, HFFL raised Rs790.8 mn through pre-IPO placement at Rs334.7 per share in Oct & Nov' 2020 from Orange Clove Investments -an affiliate of Warburg Pincus (Rs750 mn from Orange Clove and Rs40.8 mn from certain employees. The issue is priced 54.8% premium to this transaction which took place only two months ago.
- Affordable housing segment to grow at strong pace with govt's focus on 'Housing for All'. Segment favorable trend is also visible from affordable HFCs AUM which grew at CAGR of 53% in FY15-FY19 as compared to housing market CAGR of 16% during FY15-FY20. HFFL strategies to operate as niche play focusing on untapped class of first home buyers with monthly income below Rs50,000 per month. HFFL may witness strong growth in coming years, though the demanding valuation has already factored in these developments.

Considering all these parameters, we assign '**Subscribe with Caution**' rating to the issue.

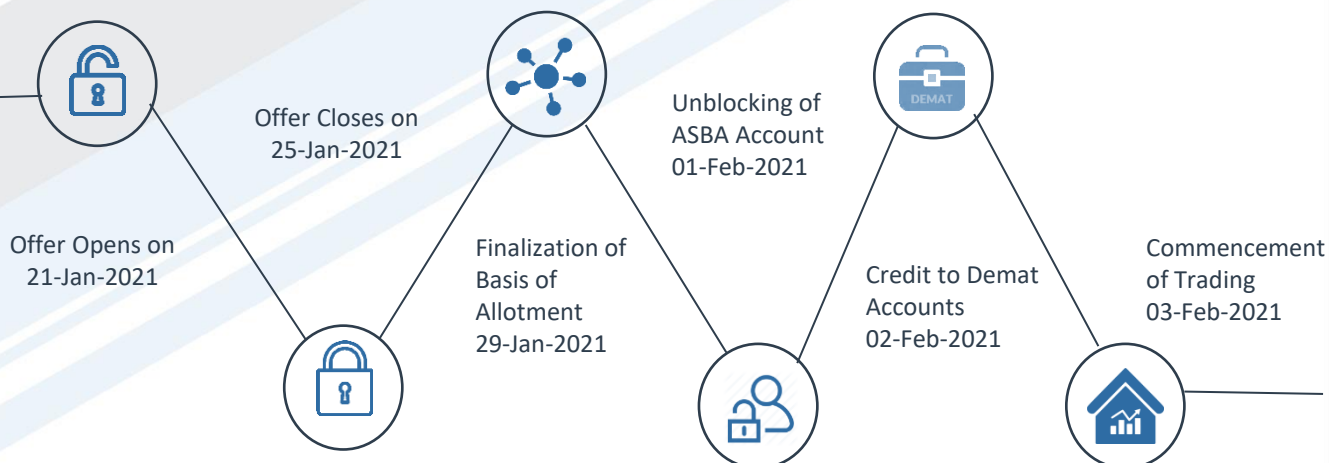
Companies (Rs mn)	CMP (Rs/sh)	6M R%	12M R%	M Cap	P/BV (x)	NIM (%)	GNPA (%)	NNPA (%)
Home First Finance	518	-	-	45,266.4	3.6	4.8%	0.7%	0.5%
Aavas Financiers	1,943	47%	-3.3%	1,52,292.3	6.9	6.8%	0.5%	0.3%
PNB Housing Finance	373	74.4%	-35.4%	62,664.0	0.7	3.5%	2.6%	1.2%
Repco Home Finance	267	107.2%	-25.8%	16,703.5	0.8	4.6%	4.0%	2.3%
Can fin Homes	515	39.8%	11.5%	68,580.0	2.9	3.9%	0.7%	0.5%
Companies	P/BV (x)	P/E (x)	BVPS (Rs/sh)	EPS (Rs/sh)	RoE (%)	RoA (%)	CAR (%)	C/I (%)
Home First Finance	3.6	42.7	143.5	12.2	11.0%	3.0%	51.7%	34.9%
Aavas Financiers	6.9	61.2	283.4	31.1	11.0%	2.9%	53.1%	42.0%
PNB Housing Finance	0.7	11.1	506.5	32.4	6.4%	0.7%	18.7%	16.9%
Repco Home Finance	0.8	5.8	314.4	44.6	14.2%	2.2%	26.8%	20.2%
Can fin Homes	2.9	16.5	177.3	31.5	17.7%	2.0%	24.8%	11.6%
Companies (Rs mn)	RoE (%)	TTM PAT	AUM	Net Worth	Total Assets	AUM	Share capital	Face value
Home First Finance	11.0%	792	37,300	10,023	37,222	37,300	874	2
Aavas Financiers	11.0%	2,440	83,669	22,212	84,666	83,669	784	10
PNB Housing Finance	6.4%	5,440	8,12,210	85,090	7,70,850	8,12,210	1,680	10
Repco Home Finance	14.2%	2,790	1,20,892	19,671	1,24,311	1,20,892	626	10
Can fin Homes	17.7%	4,190	2,08,300	23,611	2,08,994	2,08,300	266	2

*- Home First Finance - mentioned PAT in FY20, EPS annualized for FY21, RoE & RoA is annualized, while is taken trailing basis

About the issue:

- Home First Finance Company India Limited (HFFL) is coming out with initial public offering of Rs11,537.2 mn.
- The issue comprises fresh issue size of Rs2,650 mn. At the higher price band of Rs518, the company will issue fresh issue shares of 5.1mn.
- Public issue includes offer for sale (OFS) of Rs8,887.2 mn. Number of OFS share is stood at 17.2 mn at higher price band.
- True North Fund V LLP and Aether (Mauritius) Ltd. are the promoters holding 52.9% of pre-issue shares. True Value will sell 8.4 mn shares while Aether will sell 5.6 mn shares.
- Post issue, promoter stake will reduce to 33.7%. True Value stake will reduce to 20.3% post issue from 31.7% and Aether to 13.4% from 21.1%.
- Issue will open for subscription on Jan 21' 2021 and close on Jan 25' 2021
- Fresh issue proceed will be utilize to meet future capital requirements arising out of growth in business.
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- HFFL had undertaken preferential allotment of Rs750 mn to Orange Clove Investments at a price of Rs334.7 on Oct 2020.
- In Nov 2020, the company did preferential allotment to Rs40.8 mn to certain employees at price of Rs334.7.
- Size of fresh issue has been reduced by Rs790.8 mn to Rs2,650 mn from Rs3,331 mn due to its pre-IPO placement to Orange Clove and employees.

Indicative IPO process time line:



Company introduction:




Home First Finance Company India Limited (HFFL), established in 2010, is a technology driven affordable housing finance company that targets first time home buyers in low- and middle-income group. The company primarily offer customers housing loans for purchase or construction of homes which comprised 92.1% of gross loan assets as of Sep 30' 2020.

HFFL has a network of 70 branches covering over 60 districts in 11 states and a union territory in India. These regions accounted for approximately 48% of the affordable housing finance market in India in FY19, as per Crisil. HFFL has a significant presence in urbanized regions in the states of Gujarat, Maharashtra, Karnataka and Tamil Nadu.

Key Financials

Particulars (Rs mn)	FY18	FY19	FY20	H1FY21
Net Interest Income	639.9	1,053.8	1,609.1	961.5
Net Interest Margin	5.3%	5.4%	5.1%	2.4%
Total Income	682.7	1,443.8	2,258.3	1,319.0
Growth (%)		111.5%	56.4%	
Pre-Prov. Operating Profit	271.4	725.1	1,237.9	867.7
Adjusted PAT	160.0	452.0	792.5	529.5
Growth (%)		182.6%	75.3%	
AUM	13,559	24,436	36,184	37,300
RoA	1.4%	2.4%	2.7%	1.5%
RoE	5.1%	10.7%	10.9%	5.5%

Source: Choice Broking Research, RHP

	Formal Salaried Customer 1 Age:44 / Location: KR Puram (suburbs of Bangalore)	Informal Salaried Customer 2 Age: 32 / Location: Sayan (suburbs of Surat)	Self employed Customer 3 Age: 36 / Location: Avadi (suburbs of Chennai)
Who are they?	 Teacher with several years of experience and monthly family income of INR 49,000	 Diamond polisher for 10+ years with monthly family income of INR 29,000	 Owns an iran fabricating shop for 15 years with monthly income of INR 40,000
What is their story?	<ul style="list-style-type: none"> Salary income from school Additional income from tuitions Husband earning cash income 	<ul style="list-style-type: none"> Cash salary of INR 20,000 p.m. Wife's income of Rs 9,000 also in cash. 	<ul style="list-style-type: none"> Faced difficulty with lengthy documentation process at banks; taking time out of his workshop meant loss of a day's business
How we made a difference!	<ul style="list-style-type: none"> Detailed assessment of <u>total</u> income Sanctioned 15 Lakhs 	<ul style="list-style-type: none"> Workplace verification to confirm income sources Sanctioned Rs 8 Lakhs Enabled PMAY subsidy of ~Rs 3 lakhs which reduced EMIs by Rs 3,500 p.m 	<ul style="list-style-type: none"> Door step service and workplace verification to confirm scale of business and income KYC related documents collected digitally Sanctioned Rs 9.3 lakhs
	Formal Salaried Segment	Informal Salaried Segment	Self Employed Segment

Source: Choice Broking Research, RHP

Business Overview:

Gross loan assets grew at a CAGR of 50% since FY18 to Rs37,300 mn as of Sep 30' 2020. HFFL serves salaried and self-employed customers. Salaried customers account for 73.1% of gross loans assets while self employed customers account for 25% of gross loan assets. The company has 44,796 active loan accounts as of Sep 30' 2020. Other type of loans comprising loans against property, developer finance loans and loans for purchase of commercial property comprised 5.1%, 1.9% and 0.9% of gross loan assets, as of Sep 30, 2020, respectively.

Average ticket size of housing loans was Rs1.01 mn. Stage 3 loan assets as a percentage of gross loan assets were 0.74% and 0.87% respectively as of Sep 30' 2020 (H1FY20) and FY20.

A majority of the housing finance loans that the company disburses are for affordable houses that fall within the purview of the Pradhan Mantri Awas Yojana (PMAY) where buyers are entitled to certain government subsidies. Housing loans, loans against property, developer finance loans and loans for purchase of commercial property had an average loan-to-value at the time of the sanctioning of the loan of 61.9%, 27.8%, 31.8% and 55.3%, as of Sep 30, 2020, respectively. 30 days past due was at 1.1% of gross loan assets and 90 days past due was at 0.7% of gross loan assets as of Sep 30' 2020.

The company utilize a diverse range of lead sourcing channels such as connectors, architects, contractors, affordable housing developers, in addition to conducting loan camps and micro marketing activities, and utilizing employee, customer referrals and branch walk-in customers.

The company has a diversified funding profile which include borrowings from PSU banks at 27%, NHB at 21%, private banks at 22% and debt securities at 7% of the total borrowings. The company is assigned with A+ credit rating by credit rating agency ICRA and CARE.

Metric	As of and for the six months ended September 30,		As of and the year ended March 31,		
	2020	2019	2020	2019	2018
Gross Loan Assets ¹ (₹ million)	37,300.12	31,133.76	36,183.60	24,435.74	13,559.32
Growth rate of Gross Loan Assets ² (%)	19.8%	63.1%	48.1%	80.2%	60.0%
Disbursements (₹ million)	2,959.48	8,857.53	16,182.88	15,728.21	7,455.29
Growth rate of Disbursements ³ (%)	-66.6%	23.6%	2.9%	111.0%	75.7%
Total Income (₹ million)	2,431.93	1,937.73	4,196.57	2,709.21	1,342.37
Profit after Tax (₹ million)	529.53	367.41	792.49	452.04	159.96
Net Worth ⁴ (₹ million)	9,881.90	8,893.03	9,336.36	5,231.40	3,252.15
Stage 3 Loan Assets ⁵ / Gross Loan Assets (%)	0.74	0.86	0.87	0.70	0.60
Stage 3 Loan Assets (Net) ⁶ / Net Loan Assets ⁷ (%)	0.51	0.68	0.65	0.53	0.48
Average Yield on Loans - Principal Outstanding ⁸ (%)	6.5	6.5	13.2	13.2	12.1
Average Cost of Borrowing (excluding assignments) ⁹ (%)	4.3	4.3	8.7	8.5	7.7
Net Interest Margin ¹⁰ (%) (Net Interest Income / Average total Assets ¹¹)	2.4	2.2	5.1	5.4	5.3
Operating Expenses ¹² / Average Total Assets (%)	1.3	1.7	3.5	3.8	3.6
Cost to Income Ratio ¹³ (Operating Expenses / Net Total Income)	34.9	47.5	45.8	50.3	61.0
CRAR (%) (in accordance with restated Ind AS financial information)	51.7	47.6	49.0	38.5	43.0

Source: Choice Broking Research, RHP



Competitive strengths:

- Technology driven company with scalable operating model
- Customer centric organisation commitment
- Deep penetration in largest housing finance markets with diversified sourcing channels
- Centralized data science backed underwriting process
- Well-diversified and cost-effective financing profile
- Experienced management team with qualified operational personnel and marquee investors

Business strategy:

- Leverage technology to grow business and drive operational efficiency
- Expands branch network in large affordable housing markets
- Grow the productivity of existing branches
- Diversify source of borrowings to optimize borrowings cost
- Focus on enhancing risk management framework
- Maintaining liquidity position and reducing cost of borrowings



Risk and concerns:

- Increasing competition in affordable housing market
- Risk of higher slippages in the near term
- Economic crises due to pandemic impacting low - middle class people income

Financial statements:

Rs mn

Profit And Loss Statement

Particulars (Rs mn)	FY18	FY19	FY20	H1FY21
Interest Income	1,299.6	2,319.3	3,547.3	2,074.4
Growth (%)		78.5%	53.0%	
Interest Expended	659.6	1,265.4	1,938.3	1,112.9
Growth (%)		91.8%	53.2%	
Net Interest Income	639.9	1,053.8	1,609.1	961.5
Net Interest Margin	5.3%	5.4%	5.1%	2.4%
Other Income	42.8	390.0	649.2	357.6
% of Interest Income	3.3%	16.8%	18.3%	17.2%
Total Income	682.7	1,443.8	2,258.3	1,319.0
Growth (%)		111.5%	56.4%	0.0%
Operating & Other expenses	411.3	718.7	1,020.4	451.4
Pre-Prov. Operating Profit	271.4	725.1	1,237.9	867.7
Provisions and contingencies		73.1	165.0	
Operating Profit before Tax	242.7	652.0	1,072.8	703.6
Growth (%)		168.6%	64.6%	
Pre-tax Margin %	35.5%	45.2%	47.5%	53.3%
Tax	82.7	199.9		
% of PBT	34.1%	30.7%	26.1%	24.7%
Reported PAT	160.0	452.0	792.5	529.5
Net Profit Margin %	23.4%	31.3%	35.1%	40.1%
Extraordinary Income	0	0	0	0
Adjusted PAT	160.0	452.0	792.5	529.5
Growth (%)		182.6%	75.3%	

Balance Sheet

Particulars (Rs mn)	FY18	FY19	FY20	H1FY21
Cash and balance with Reserve Bank of India.....	302.2	1,919.8	2,220.6	4,208.6
Loans	13,087.4	21,347.1	30,139.1	29,721.6
Investment	0.0	1,029.2	1,455.6	2,192.1
Fixed assets	111.6	174.3	210.0	173.1
Other assets	148.3	349.7	770.8	926.5
TOTAL ASSETS	13,649.4	24,820.1	34,796.1	37,222.0
Capital	103.2	126.7	156.6	156.8
Reserves and Surplus	3,148.9	5,104.7	9,179.8	9,725.1
Provisions	18.7	29.6	66.4	73.3
Borrowings	10,198.8	19,256.4	24,938.1	26,365.8
Other financial liabilities	179.8	302.6	455.9	901.0
TOTAL CAPITAL AND LIABILITIES.....	13,649.4	24,820.1	34,796.7	37,222.0

IPO UPDATE

Financial Ratios

Particulars	FY18	FY19	FY20	H1FY21
Return / Profitability Ratios (%)				
Net interest margin (NIM)	5.3%	5.4%	5.1%	2.4%
Cost of borrowings	7.7%	8.5%	8.7%	8.6%
EPS (Diluted) (Rs)	1.83	5.17	9.07	6.06
RoA	1.4%	2.4%	2.7%	1.5%
RoE	5.1%	10.7%	10.9%	5.5%
Business Ratios (%)				
AUM (Rs mn)	13,559.3	24,435.7	36,183.6	37,300.1
Disbursements (Rs mn)	7,455.3	15,728.2	16,182.9	2,959.5
CAR (Basel III)	43.0%	38.5%	49.0%	51.7%
Equity / Assets	23.8%	21.1%	26.8%	26.5%
AUM / Assets	99.3%	98.5%	104.0%	100.2%
Cost/Income	61.0%	50.3%	45.8%	34.9%
Asset Quality ratios (%)				
GNPA	0.6%	0.7%	0.9%	0.7%
NNPA	0.5%	0.5%	7.0%	0.5%
Per Share Data (Rs)				
EPS (Diluted)	1.8	5.2	9.1	6.1
BVPS	37.2	59.9	106.8	143.5
Valuation ratios (x)				
P/E (x)	283.0	100.1	57.1	42.7
P/BV (x)	13.9	8.7	4.8	3.6
Growth ratios (%)				
AUM		80.2%	48.1%	
NII		64.7%	52.7%	
PAT		182.6%	75.3%	

Source: Choice Broking Research, RHP

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