

Home First Finance Company India Ltd

Incorporated in 2010, Home First Finance Company India Limited is a Housing Finance Company. It is primarily engaged in the business of lending of housing loans to first time home buyers in low and middle-income groups, loans for the purpose of purchasing commercial property, loan against property and construction finance.

Positives: (a) A technology driven affordable housing finance company that provides housing loan to first time home buyers in low and middle-income groups (b) The company has a strong network of 70 branches covering over 60 districts in 11 states and is strategically placed in geographies with high economic growth and substantial demand for affordable housing finance (c) Capital adequacy ratio of 51.7% at the end of 1HFY2021 which will allow the company to maintain high growth rates high growth rates given untapped potential in the affordable housing segment.

Investment concerns: (a) Given that the company primarily caters to customers in the low and middle income group there is a probability that customers may default in their repayment obligations due to various reasons (b) Any disruption in the sources of funding could have an adverse effect on the business, results of operations and financial condition (c) Any downgrade in credit ratings could increase our borrowing costs, and affect the company's ability to obtain financing, and have an adverse impact on the business.

Outlook & Valuation: Home First has posted strong growth in NII of 58.6% CAGR between FY18-20 while net profits have grown at a CAGR of 122.6% during the same period. Despite the Covid-19 crisis the company's asset quality has remained largely stable with GNPA and NNPA largely stable at 0.7% and 0.5% respectively at the end of 1HFY2021. The company had a CAR of 51.7% at the end of 1HFY2021 which provides comfort. At the higher end of the price band the stock would be trading at P/BV of 3.6x fully diluted post issue book value of ₹143.4 per share. We expect the company to post strong growth driven by strong demand for affordable housing. Given the growth prospects, **we recommend a SUBSCRIBE rating on the issue.**

Exhibit 1: Key Financials

| Y/E March (₹ cr) | FY18 | FY19 | FY20 |
|------------------|------|-------|-------|
| NII | 64 | 105 | 161 |
| % chg | | 65% | 53% |
| Net profit | 16 | 45 | 79 |
| % chg | | 183% | 75% |
| NIM (%) | 4.9% | 5.9% | 5.9% |
| EPS (₹) | 3.1 | 7.1 | 10.1 |
| P/E (x) | 167 | 73 | 51 |
| P/ABV (x) | 8.3 | 6.3 | 4.4 |
| RoA (%) | 1.2% | 2.4% | 2.73% |
| RoE (%) | 4.9% | 10.7% | 10.9% |

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Please refer to important disclosures at the end of this report

Subscribe

Issue Open: January 21, 2021

Issue Close: January 25, 2021

Issue Details

Face Value: ₹ 2

Present Eq. Paid up Capital: ₹ 15.7cr

Offer for Sale: ₹ 889 cr.

Fresh issue: ₹ 265cr

Post Eq. Paid up Capital: ₹ 17.5cr

Issue size (amount): ₹ 1154cr

Price Band: ₹ 517-518

Lot Size: 28 shares and in multiple thereafter

Post-issue implied mkt. cap: * ₹ 4518cr - ** ₹ 4527cr

Promoters holding Pre-Issue: 52.9%

Promoters holding Post-Issue: 49.2%

*Calculated on lower price band

** Calculated on upper price band

Book Building

| | |
|-------------------|--------------|
| QIBs | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail | 35% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-------|
| Promoters | 33.7% |
| Others | 66.3% |

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Company background

Home First Finance Company India Limited is a Housing Finance Company founded on 3 February 2010 with corporate office located in Andheri, Mumbai as well as other offices located across various cities in India. The Company obtained its license to carry on the business of a housing finance institution from National Housing Bank ('NHB') on 11 August 2010. The Company was converted to a public limited Company with effect from 14 March 2018.

The Company is primarily engaged in the business of lending of housing loans, loans for the purpose of purchasing commercial property, loan against property and construction finance.

Manoj Viswanathan is a Managing Director and the Chief Executive Officer of the Company. He holds a bachelor's degree in electrical and electronics engineering from the Birla Institute of Technology and Science, Pilani and a post graduate diploma in business management from XLRI, Jamshedpur. He has over 24 years of experience in consumer lending. Previously, he was associated with Computer Garage Private Limited, Asian Paints India Limited, Citibank and CitiFinancial Consumer Finance India Limited as vice president of personal loans.

Issue details

IPO is a mix of OFS & issue of Fresh Equity Shares. The issue would constitute fresh issue worth ₹265 crore & OFS worth ₹888.7 crore in the price band of ₹517-518 per share.

Exhibit 1: Pre and post IPO shareholding pattern

| | No of shares (Pre-issue) | % | No of shares (Post-issue) | % |
|--------------|--------------------------|------------|---------------------------|------------|
| Promoter | 43,480,894 | 52.9 | 29,448,114 | 33.7 |
| Public | 38,790,067 | 47.1 | 57,938,677 | 66.3 |
| Total | 82,270,961 | 100 | 87,386,791 | 100 |

Source: Company, Angel Research

Note: Calculated at upper price band

Objectives of the Offer

- Augmenting company equity capital base to meet their future capital requirements arising out of growth in their business
- To receive the benefits of listing of the Equity Shares on the Stock Exchanges.

Exhibit 2: Profit & Loss Statement

| Y/E March (₹ Cr) | FY2018 | FY2019 | FY2020 | H1FY21 |
|-------------------------------|--------|--------|--------|--------|
| Net Interest Income | 64 | 105 | 161 | 96 |
| - YoY Growth (%) | - | 65% | 53% | - |
| Other Income | 4 | 39 | 65 | 36 |
| - YoY Growth (%) | - | 811% | 66% | - |
| Operating Income | 68 | 144 | 226 | 132 |
| - YoY Growth (%) | - | 111% | 56% | - |
| Operating Expenses | 41 | 72 | 102 | 45 |
| - YoY Growth (%) | - | 75% | 42% | - |
| Pre - Provision Profit | 27 | 73 | 124 | 87 |
| - YoY Growth (%) | - | 167% | 71% | - |
| Prov. & Cont. | 3 | 7 | 17 | 16 |
| - YoY Growth (%) | - | 154% | 126% | - |
| Profit Before Tax | 24 | 65 | 107 | 70 |
| - YoY Growth (%) | - | 169% | 65% | - |
| Prov. for Taxation | 8 | 20 | 28 | 17 |
| - as a % of PBT | - | 31% | 26% | 25% |
| PAT | 16 | 45 | 79 | 53 |
| - YoY Growth (%) | - | 183% | 75% | - |

Source: Company, Angel Research

Exhibit 3: Balance Sheet

| Y/E March (₹ Cr) | FY18 | FY19 | FY20 | H1FY21 |
|---------------------|-------|-------|-------|--------|
| Equity | 10 | 13 | 16 | 16 |
| Reserve & Surplus | 315 | 510 | 918 | 973 |
| Networth | 325 | 523 | 934 | 988 |
| Deposits | - | - | - | - |
| - Growth (%) | | | | |
| Borrowings | 1,020 | 1,927 | 2,494 | 2,637 |
| Other Liab. & Prov. | 19 | 32 | 52 | 97 |
| Total Liabilities | 1,365 | 2,482 | 3,480 | 3,722 |
| Cash Balances | 23 | 186 | 148 | 217 |
| Bank Balances | 7 | 6 | 74 | 204 |
| Investments | - | 103 | 146 | 219 |
| Advances | 1,309 | 2,135 | 3,014 | 2,972 |
| - Growth (%) | | 63% | 41% | -1% |
| Fixed Assets | 11 | 17 | 21 | 17 |
| Other Assets | 15 | 35 | 77 | 93 |
| Total Assets | 1,365 | 2,482 | 3,480 | 3,722 |
| - Growth (%) | | 82% | 40% | - |

Source: Company, Angel Research

Exhibit 4: Key Ratios

| Y/E March | FY2018 | FY2019 | FY2020 |
|---------------------------------|--------|--------|--------|
| Profitability ratios (%) | | | |
| NIMs | 4.9% | 5.9% | 5.9% |
| Cost to Income Ratio | 60.2% | 49.8% | 45.2% |
| RoA | 1.2% | 2.4% | 2.7% |
| RoE | 4.9% | 10.7% | 10.9% |
| B/S ratios (%) | | | |
| CASA Ratio | - | - | - |
| Credit/Borrowings Ratio | 128.3% | 110.8% | 120.8% |
| CAR | 43.0% | 38.5% | 49.0% |
| Tier I | 42.6% | 37.7% | 47.7% |
| Asset Quality (%) | | | |
| Gross NPAs | 0.6% | 0.7% | 0.9% |
| Net NPAs | 0.5% | 0.5% | 0.7% |
| Slippages | 0.5% | 0.6% | 0.7% |
| Loan Loss Prov. /Avg. Assets | 0.2% | 0.4% | 0.6% |
| Provision Coverage | 22% | 24% | 25% |
| Per Share Data (₹) | | | |
| EPS | 3.1 | 7.1 | 10.1 |
| BVPS | 63.0 | 82.6 | 119.2 |
| ABVPS (70% cover.) | 62.4 | 82.0 | 118.3 |
| DPS | - | - | - |
| Valuation Ratios | | | |
| PER (x) | 167.1 | 72.6 | 51.2 |
| P/ABVPS (x) | 8.3 | 6.3 | 4.4 |

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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