

Home First Finance Co. Ltd.

Recommendation	Subscribe	
Price Band	Rs. 517 – Rs. 518	
Bidding Date	21 - 25 Jan	
Book Running Lead Manager	Axis Capital, Credit Suisse, ICICI Sec., Kotak	
Registrar	K-Fintech	
Sector	NBFC	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares (bid lot)	28	
Minimum Application Money	Rs. 14,504	
Payment Mode	ASBA	
Financials (Rs Cr)	FY19	FY20
Net Interest Income	105	161
Pre Provisioning Profit	73	124
PAT	45	79
Valuations	Lower Band	Upper Band
Market Cap (Rs. Cr)	4518	4527
EPS*	10.1	10.1
Adj. BVPS*	116	116
P/E *	51.1	51.2
P/Adj. BV *	4.4	4.5
*calculated on FY20		
Post Issue Shareholding Pattern		
Promoters	33.7%	
Institutions	57.5%	
Bodies Corporates & Public	8.8%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional Investors	15%	
Retail	35%	
Post Issue Equity (in Rs Cr)	17.48	
Issue Size (Rs in cr)	1,151 – 1,154	
Face Value (Rs)	2	
Jehan Bhadha (+91 22 6273 8174) Research Analyst jehankersi.bhadha@nirmalbang.com		

BACKGROUND

HFF (Home First Finance), founded in 2010 as an HFC, focuses on affordable home loans having an average ticket size of Rs. 10.1 lacs. The company's customers are typically salaried (73% of AUM) who work in small firms & self-employed (25% of AUM). HFF has an AUM of Rs. 3730 Cr and GNPA of 0.74% as on Sep 2020.

Details and Objects of the Issue

The public issue consists of –

- Offer for sale of Rs. 889 Cr by the promoter and other investors
 - Fresh issue of Rs. 265 Cr to augment Tier 1 capital for future growth.
- Post the IPO, promoter's stake in HFF would stand reduced from 52.9% to 33.7%.

Investment Rationale

- Focus on 'core housing loans' and low-risk 'salaried segment' lowers business risks and makes the company stand out amongst peers.
- Technology driven scalable business model.
- Strong track record of growth; with a long runway ahead
- Superior asset quality; Strong collection efficiency despite Covid

Valuation and Recommendation

With HFF's focus on 'core housing loans' and low-risk 'salaried segment', the business appears less risky compared to other listed peers. HFF has grown its AUM at a CAGR of 63% over FY18-20, one of the fastest amongst listed financials. With an AUM of just Rs. 3730 Cr, the runway for accelerated growth has a long way to go. Further, HFF has had a strong control over asset quality with one of the highest collection efficiencies post covid at 97.6% as on December 2020. Upon comparing HFF with its closest listed peer, Aavas Financiers, we observe that HFF's salaried customer mix stands at a healthy 73% (even ahead of Can Fin), far ahead of Aavas's 35% mix. Also HFF's exposure to LAP+Developer loans mix is much lower at 8% compared to 26% in case of Aavas. **HFF is being offered at a 47% discount to Aavas's valuations and thus we recommend to 'Subscribe' to the issue.**

Financial Snapshot	Rs. Cr			
	FY18	FY19	FY20	H1FY21
Total Income	68	145	226	132
Growth	-	112%	56%	29%
Pre Provisioning Profit	27	73	124	87
Growth	-	168%	70%	60%
PAT	16	45	79	53
Growth	-	183%	75%	44%
Adj. BVPS #	62	80	116	142
EPS	3.1	7.2	10.1	6.1
ROA	1.4%	2.4%	2.7%	3.0%
ROE	5.1%	10.7%	10.9%	11.0%
P/E *	167	72	51	43
P/Adj. BV #	8.4	6.4	4.5	3.7

Source: Company, NBRR

* H1FY21 P/E is annualised

H1FY21 P/E & P/ABV is adjusted for fresh IPO infusion

Home First Finance Co. Ltd.

Company Background

HFF (Home First Finance) was **founded in 2010** and over the last 10 years has established its presence in 60 districts across 11 states and a union territory. The company **targets first time home buyers (33% of AUM)** and leverages technology to deliver the service with minimum disruption to the work routines of its customers. The company's customers are typically **salaried (73% of AUM)** who work in small firms or **self-employed (25% of AUM)** who run small businesses. HFF deploys proprietary machine learning & customer scoring models for underwriting & delivers quick turnaround time of two days.

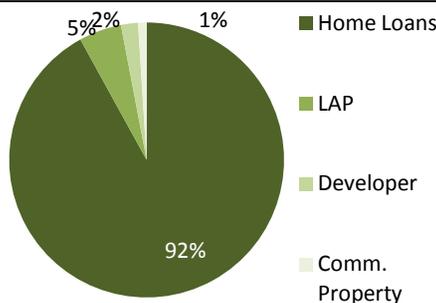
HFF was founded by Jaithirth Rao, P. S. Jayakumar and Manoj Viswanathan and commenced operations in 2010 while **True North Fund V LLP and Aether (Mauritius) entered the company as promoters. Later, other marquee investors also invested in the company including Warburg Pincus, GIC (Singapore), Bessemer, Alpha TC Holdings.**

HFF expects to continue to benefit from strong capital sponsorship and professional expertise of its marquee shareholders. In addition to assisting HFF with capital raising, its shareholders have assisted the company in implementing strong corporate governance.

As of September 30, 2020, HFF has an **AUM of Rs. 3730 Cr and GNPA of 0.74%**. HFF also offers LAP (loans against property), developer finance loans and loans for purchase of commercial property, which comprised 5%, 2% and 1% of its AUM, respectively. The **average ticket size of home loans is Rs. 10.1 lacs**, with an average loan-to-value of 49%, as of Sep 30, 2020.

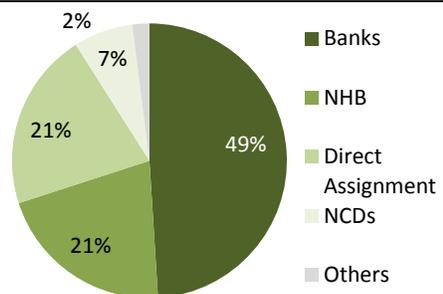
HFF has a network of **70 branches** covering over 60 districts in **11 states and a union territory** in India, with a significant **presence in urbanized regions** in the states of Gujarat, Maharashtra, Karnataka and Tamil Nadu. HFF utilizes a diverse range of lead sourcing channels such as connectors, architects, contractors, developers, in addition to conducting loan camps and micro marketing activities, and utilizing employee and customer referrals and branch walk-in customers.

Exhibit 1: AUM Mix



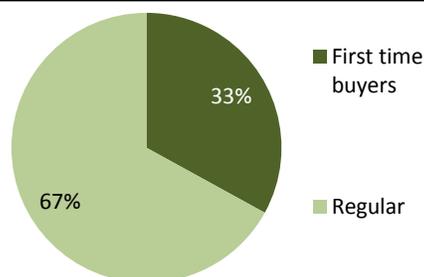
Source: Company, NBRR

Exhibit 2: Borrowing Mix



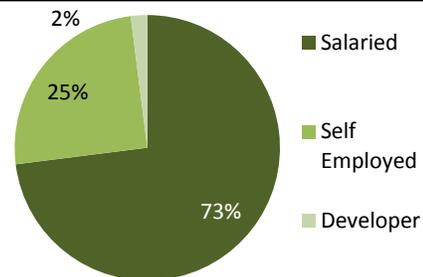
Source: Company, NBRR

Exhibit 3: Customer Mix



Source: Company, NBRR

Exhibit 4: Customer Mix



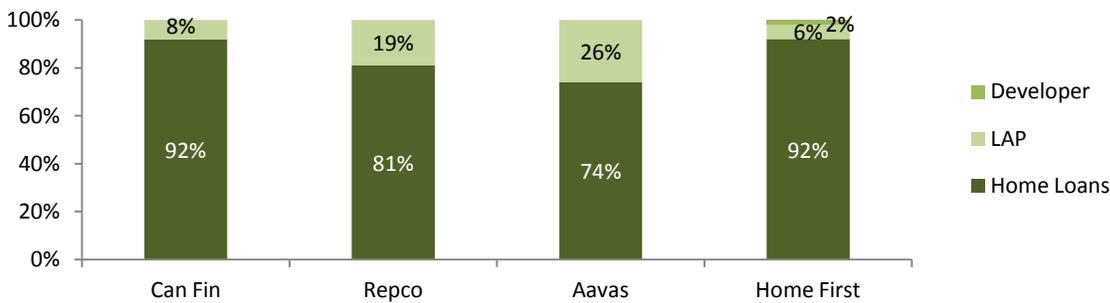
Source: Company, NBRR

Investment Rationale

Focus on 'core housing loans' and low-risk 'salaried segment' lowers business risks and makes the company stand out amongst peers

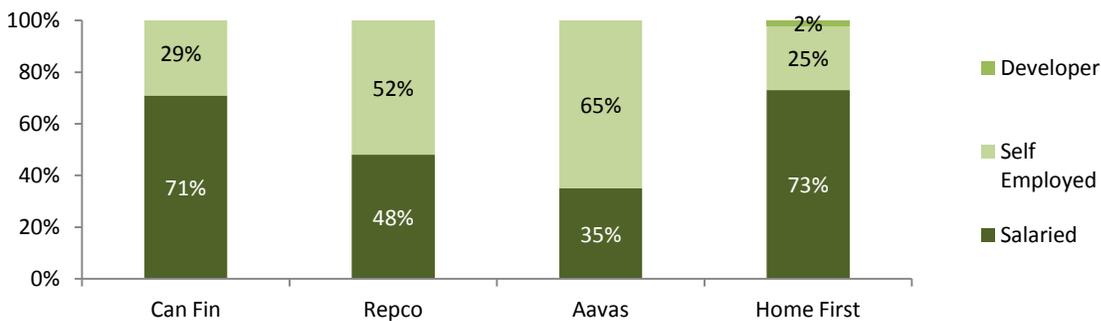
As the spreads in core housing loans are the lowest, most HFCs try and utilize the regulatory leeway in order to prop up spreads and ROAs by diversifying in high yield - high risk segments like LAP and developer financing. Another tool which HFCs use to expand spreads is to focus more on the Self Employed segment which typically offers an extra yield of ~100 bps over the salaried segment. HFF has stuck to the core business model of 'housing loans' which comprises 92% of its AUM, with almost three-fourth of customer mix from the 'salaried segment' which makes HFF a safer company to invest in.

Exhibit 5: Segmental Mix of HFCs



Source: Companies, NBRR

Exhibit 6: Customer Mix of HFCs



Source: Companies, NBRR

Technology driven scalable business model

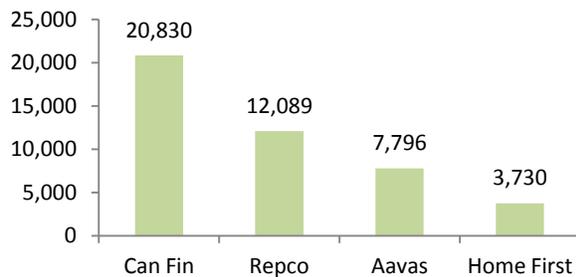
HFF established a differentiated technology framework with customized systems and tools, enhancing convenience for customers as well as increasing operational efficiency. Since FY17, HFF has invested Rs. 20 Cr in I.T. systems. HFF digitally captures over 100 data points of a customer in addition to credit bureau data, observations of its front end teams and feedback from its underwriting and management teams. HFF has entered into arrangements with third party service providers through whom it obtains additional information such as fraud related data, banking, investment cum taxation related data, and vehicle ownership of customers, which enables HFF with underwriting, and to identify areas of concern and take quick and accurate decisions. HFF has also deployed proprietary machine learning customer-scoring models to assist it with effective credit underwriting. The seamless integration and availability of data across platforms and users enables HFF to process loans in a paperless manner and with quick turn-around time of 2 days compared with industry average of 7-8 days.

Home First Finance Co. Ltd.

Strong track record of growth; long runway ahead

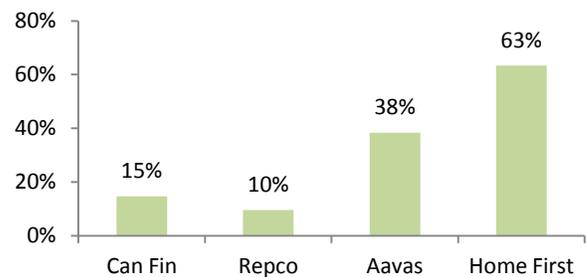
HFF has demonstrated robust growth in AUM over FY18-20 at 63% CAGR, one of the highest amongst listed financials. The base is remains low at Rs. 3,730 Cr as on Q2FY21; combined with established presence in 60 housing clusters (important cities), we believe there is a long runway for accelerated growth. (although much lower than what was achieved in the past)

Exhibit 7: Company wise AUM



Source: Companies, NBRR

Exhibit 8: AUM CAGR over FY18-20

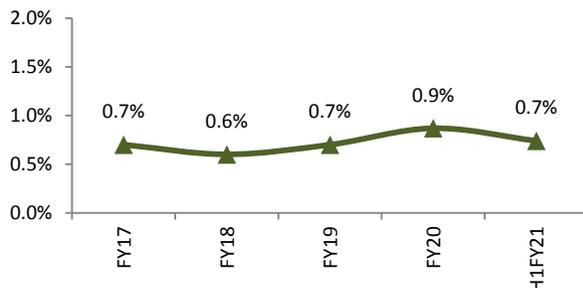


Source: Companies, NBRR

Superior asset quality; Strong collection efficiency despite Covid

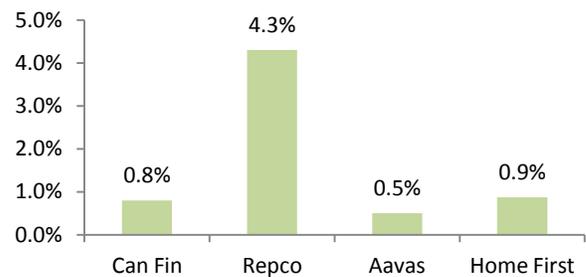
Since inception in 2010, HFF's GNPA has never crossed the 1% mark despite undergoing demonetization which severely impacted most NBFCs/HFCs catering to the self employed segment.

Exhibit 9: Trend in GNPA



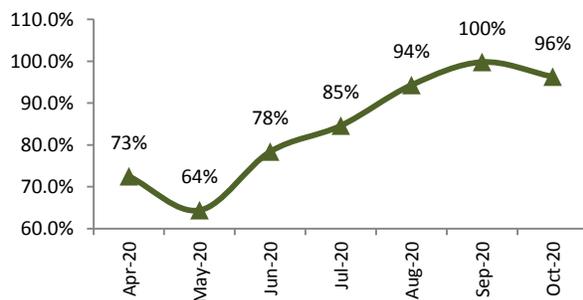
Source: Companies, NBRR

Exhibit 10: GNPA comparison



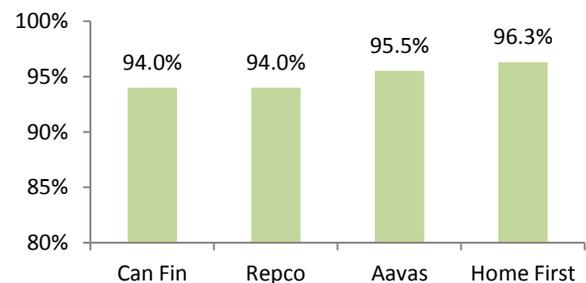
Source: Companies, NBRR

Exhibit 11: Trend in Collection Efficiency



Source: Companies, NBRR

Exhibit 12: Collection Efficiency as on October 2020



Source: Companies, NBRR

Key Risks

Catering to lower strata of the society could put strain on the company if risk is not managed

HFF primarily serves salaried and self employed customers in the low and middle-income groups. Borrowers may default in their repayment obligations due to - loss of employment, insolvency, lack of liquidity or personal emergencies such as the death of an income generating family member. Some of the customers do not have credit histories supported by tax returns and other documents that would enable HFF to accurately assess their creditworthiness. HFF may not receive updated information regarding any change in the financial condition of such customers. Thus it is difficult to carry out precise credit risk analysis on all customers.

Highly concentrated in two states viz. Gujarat at 39% and Maharashtra at 21%

Any adverse changes in regulation, social unrest, economic disruption or a natural calamity including floods/drought, etc in the states of Gujarat and Maharashtra would impact the real estate and the housing finance industry in the respective states.

Over-capitalization leading to low ROE

Exhibit 13: Excess capital is putting pressure on ROE

	Aavas	Can Fin	Repco	Home First
ROA	3.8%	1.9%	2.4%	2.7%
Leverage	3.4x	10.1x	6.8x	4.0x
ROE	12.7%	19.1%	16.4%	10.9%
Tier 1 (min. 10%)	53.8%	20.5%	25.9%	48.0%

Continuation of Covid crisis could impact asset quality and growth

Despite the lifting of the lockdown, there is significant uncertainty regarding the duration and long-term impact of the COVID-19 pandemic, as well as possible future responses by the Government, which makes it impossible to predict with certainty the impact that COVID-19 will have on the business and operations in the future. After initial reduction in collection efficiency, it has improved to 97.6% in December against ~99% levels experienced pre-covid.

Valuation and Recommendation

HFF is a quality proxy play on the affordable housing industry which is one of the fastest growing sub-industries across all financial products. With its focus on 'core housing loans' and low-risk 'salaried segment', the business appears less risky compared to other listed peers. HFF has grown its AUM at a CAGR of 63% over FY18-20, one of the fastest amongst listed financials. With an AUM of just Rs. 3730 Cr, the runway for accelerated growth has a long way to go. Further, HFF has had a strong control over asset quality with one of the highest collection efficiencies post covid at 97.6% as on December 2020.

Upon comparing HFF with its immediate listed peer, Aavas Financiers, we observe that Aavas scores higher on NIMs and slightly on GNPA as well. Although, considering Aavas's higher exposure to the high risk segments of LAP (26% mix) as well as Self Employed segment (65% mix); we believe HFF's business model which is characterized by low-risk, low-yield provides better comfort on the long term asset quality prospects. HFF's salaried customer mix stands at a healthy 73% (even ahead of Can Fin), far ahead of Aavas's 35% mix. Also HFF's exposure to LAP+Developer loans mix is much lower at 8% compared to 26% in case of Aavas. **HFF is being offered at a 47% discount to Aavas's valuations and thus we recommend to 'Subscribe' to the issue.**

Exhibit 14: Peer Comparison

Parameters	Closest Peer		Distant Peers	
	Aavas	Home First	Can Fin	Repco
As on Q2FY21				
Loan Book (Rs cr)	7,796	3,730	20,830	12,089
Avg Tkt Size of HL (Rs Lacs)	9.2	10.1	18.0	15.0
Customer Mix				
Salaried	35%	73%	71%	48%
Self Employed	65%	25%	29%	52%
Developer	0%	2%	0%	0%
Business Mix				
Home Loans	74%	92%	92%	81%
LAP	26%	6%	8%	19%
Developer	0%	2%	0%	0%
As on FY20				
NIM	8.2%	5.1%	3.4%	4.6%
Cost/Income	42%	45%	16%	21%
Credit Cost	0.2%	0.5%	0.3%	0.5%
GNPA	0.5%	0.9%	0.8%	4.3%
NNPA	0.3%	0.7%	0.5%	2.8%
Loan CAGR FY18-20				
	38%	63%	15%	10%
ROA				
ROA FY18	2.8%	1.4%	2.0%	2.1%
ROA FY19	3.6%	2.4%	1.7%	2.3%
ROA FY20	3.8%	2.7%	1.9%	2.4%
ROE				
ROE FY18	10.3%	5.1%	23.2%	16.3%
ROE FY19	11.6%	10.7%	18.7%	16.4%
ROE FY20	12.7%	10.9%	19.1%	16.4%
P/ABV Trailing (x)				
	6.9	3.7	3.0	1.0

Source: NBRR

Home First Finance Co. Ltd.

Financials

P&L (Rs. Crs)	FY18	FY19	FY20	H1FY21	#H1FY21 Ann.	Bal. Sheet (Rs. Crs)	FY18	FY19	FY20	H1FY21
Interest earned	130	232	355	207	415	Equity capital	10	13	16	16
Interest expended	66	127	194	111	223	Reserves & surplus	314	510	918	973
NII	64	105	161	96	192	Net worth	324	523	933	988
Non interest incom	4	39	65	36	72	Borrowings	1,020	1,926	2,494	2,637
Total income	68	145	226	132	264	Other liab and prov	20	33	53	97
<i>Growth</i>		112%	56%	29%	17%	Total liab and equity	1,364	2,482	3,480	3,722
Total Op. expenses	41	72	102	45	90	Cash & Bank Balance	30	192	222	421
<i>Growth</i>	66%	75%	42%	-5%	-12%	Investments	0	103	146	219
Staff costs	25	43	61	30	60	Net Advances	1,309	2,135	3,014	2,972
Other Op Exp	16	29	41	15	31	<i>Growth</i>	60%	80%	48%	14%
Profit before prov	27	73	124	87	174	Other assets	25	52	99	110
<i>Growth</i>		168%	70%	60%	40%	Total assets	1,364	2,482	3,480	3,722
Provisions	3	7	17	16	33					
Profit before tax	24	65	107	70	141	Asset Quality	FY18	FY19	FY20	H1FY21
Taxes	8	20	28	17	35	GNPA ratio	0.6%	0.7%	0.9%	0.7%
Net profit	16	45	79	53	106	NNPA ratio	0.5%	0.5%	0.7%	0.5%
<i>Growth</i>		183%	75%	44%	34%	Credit Cost	0.3%	0.4%	0.5%	1.1%
Per Share Data	FY18	FY19	FY20	H1FY21	#H1FY21 Ann.	Key Ratios	FY18	FY19	FY20	H1FY21
EPS	3.1	7.2	10.1	6.1	12.1	Yield on Advances	12.1%	13.2%	13.2%	13.0%
BVPS	63	83	119	143	NA	Cost of Borrowings	7.7%	8.5%	8.7%	8.6%
Adjusted BVPS	62	80	116	142	NA	Spread	4.4%	4.7%	4.5%	4.4%
						NIM	5.3%	5.4%	5.1%	4.8%
Valuation Ratios	FY18	FY19	FY20	H1FY21	#H1FY21 Ann.	CRAR	43.0%	38.5%	49.0%	51.7%
P/E	167.1	72.4	51.2	NA	42.7	Cost / Income Ratio	60.2%	49.7%	45.2%	34.2%
P/BV *	8.2	6.3	4.3	3.6	NA	ROA	1.4%	2.4%	2.7%	3.0%
P/ABV *	8.4	6.4	4.5	3.7	NA	ROE	5.1%	10.7%	10.9%	11.0%

Source: Company data, NBRR

* = P/E, P/B & P/ABV as on H1FY21 are on post diluted basis

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