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IPO Note – Home First Finance Company India Ltd

21-January-2021

RETAIL RESEARCH

Home First Finance Company India Ltd

Issue Snapshot:
Issue Open: Jan 21 – Jan 25, 2021

Price Band: Rs. 517 –518

*Issue Size: 22,272,568 eq shares
(Fresh Issue of 5,115,830 eq sh
+ Offer for sale of 17,156,737 eq sh)

Issue Size: Rs. 1151.5 – 1153.7 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 2

Book value: Rs 126.06 (September 30, 2020)

Bid size: - 28 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 16.45 cr
Post issue Equity:	Rs. 17.48 cr*

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Ltd, Credit Suisse Securities (India) Private Ltd, ICICI Securities Ltd, Kotak Mahindra Capital Company Ltd

Registrar to issue: KFin Technologies Private Ltd

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter & Promoter Group	52.9	33.7
Public	47.1	66.3
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Home First Finance Company India Ltd (HFFC) 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 its Gross Loan Assets, as of September 30, 2020. Its Gross Loan Assets has grown at a CAGR of 63.4% between the financial year 2018 and the financial year 2020 and increased from Rs. 13,559.32 million as of March 31, 2018 to Rs. 37,300.12 million, as of September 30, 2020. It serves salaried and self-employed customers. It also offers other types of loans comprising loans against property, developer finance loans and loans for purchase of commercial property, which comprised 5.1%, 1.9% and 0.9% of its Gross Loan Assets, as of September 30, 2020, respectively.

As of September 30, 2020, HFFC 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. It has increased the scale of its operations and grown its branches by adopting a strategy of contiguous expansion across regions and has strategically expanded to geographies where there is substantial demand for housing finance. It 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 and customer referrals and branch walk-in customers.

HFCC has leveraged technology in various facets of its business such as processing loan applications, managing customer experience and risk management. It has developed a paperless process to onboard customers efficiently and its well-trained front-end teams appraise customers by conducting home and workplace visits and ensure minimal disruption to a customer's daily routine. It offers mobility solutions through dedicated mobile applications for its customers to enable quick and transparent loan related transactions. As of September 30, 2020, its Total Borrowings (including debt securities) were Rs.26,365.78 million. It typically obtains long-term funding from a variety of sources including private and public sector banks, the NHB and through assignment transactions. It has improved its credit ratings from 'CARE A-' as of March 31, 2017 to 'CARE A+' as of September 30, 2020 and also currently has an A+ (stable) rating from ICRA Limited.

Objects of Issue:

The Offer comprises the Fresh Issue by HFCC and an Offer for Sale by the Selling Shareholders.

Offer for Sale

Each of the Selling Shareholders will be entitled to the proceeds of the Offer for Sale, net of their proportion of Offer-related expenses and the relevant taxes thereon. HFCC shall not receive any proceeds from the Offer for Sale.

The Fresh Issue

HFCC proposes to utilise the Net Proceeds towards augmenting its capital base to meet its future capital requirements, arising out of the growth of the business and assets. In addition, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, including enhancement of Company's brand name and creation of a public market for Equity Shares in India.

The following table sets forth certain key financial and operational information, as of and for the periods indicated:

Metric (Rs in million)	H1FY21	FY20	FY19	FY18
Gross Loan Assets	37,300.12	36,183.60	24,435.74	13,559.32
Growth rate of Gross Loan Assets	19.80%	48.10%	80.20%	60.00%
Disbursements	2,959.48	16,182.88	15,728.21	7,455.29
Growth rate of Disbursements (%)	-66.60%	2.90%	111.00%	75.70%
Total Income	2,431.93	4,196.57	2,709.21	1,342.37
Profit after Tax	529.53	792.49	452.04	159.96
Net Worth	9,881.90	9,336.36	5,231.40	3,252.15
Stage 3 Loan Assets / Gross Loan Assets (%)	0.74	0.87	0.70	0.60
Stage 3 Loan Assets (Net) / Net Loan Assets	0.51	0.65	0.53	0.48
Average Yield on Loans - Principal Outstanding	6.5	13.2	13.2	12.1
Average Cost of Borrowing (excluding assignments)	4.3	8.7	8.5	7.7
Net Interest Margin (%) (Net Interest Income / Average total Assets	2.4	5.1	5.4	5.3
Operating Expenses / Average Total Assets	1.3	3.5	3.8	3.6
Cost to Income Ratio (Operating Expenses / Net Total Income)	34.9	45.8	50.3	61
CRAR (%) (in accordance with restated Ind AS financial information)	51.7	49	38.5	43
Number of Branches	70	68	60	42
Active Loan Accounts	44,796	43,094	29,372	15,723

Competitive Strengths

Technology Driven Company with Scalable Operating Model.: HFFC is a technology driven affordable housing finance company and has built a scalable operating model, which enables to expand its operations and drive growth in revenue with lower incremental costs. The company has established a differentiated technology framework with customized systems and tools, enhancing convenience for its customers as well as increasing operational efficiency. It is able to digitally capture 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. It captures and stores all its data on a cloud services platform. It has entered into arrangements with third party service providers through whom it obtain additional information such as fraud related data, banking, investment and taxation related data, and vehicle ownership of customers, which enables it with underwriting, and to identify areas of concern and take quick and accurate decisions.

HFFC's information technology systems allow to leverage economies of scale to increase productivity and reduce turnaround times and transaction costs. Its systems are designed to facilitate a sanction within an average turn-around-time of 48 hours, which it calculate from the time it collate all customer information in database to the sanctioning of the loan. In addition, its digital service delivery mechanisms and operating model brings uniformity in its operations, increases customer satisfaction and positions it well to expand its business in geographies that offers growth opportunities.

Customer Centric Organizational Commitment : HFFC is a customer centric organization and has developed strong relationships with its customers by addressing their key concerns in availing housing finance. It 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. In order to address such concerns, it has set up an easy and customer friendly process right from the loan application stage to disbursement of the loan. Its front-end teams, which comprise its relationship managers, customer service managers and branch managers are well educated, trained and able to effectively assess all sources of a customer's income and guide them on aspects of obtaining financing. It also review documents relating to assets of the customer such as property deeds, life insurance policies, vehicle ownership and business ownership for the purpose of credit evaluation. The company has set up a paperless process to onboard customers efficiently and its managers' conduct home and workplace visits to ensure minimal disruption to a customer's daily routine.

HFFC maintains high levels of transparency in its interactions with customers and this has helped it to increase customer satisfaction and loyalty as reflected in its net promoter scores. It aims to maintain high levels of customer service and it has mapped each customer to a dedicated service manager and a relationship manager. The company has endeavor to address a significant majority of customer queries within 24 hours. Its customer centric approach has been a key driver of its growth and helped it differentiate itself from competition and achieve superior net promoter scores.

Deep Penetration in the Largest Housing Finance Markets, with Diversified Sourcing Channels: HFFC had a network of 70 branches covering over 60 districts in 11 states and a union territory in India. It has successfully adopted a strategy of contiguous expansion across regions over the years and has 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. Before setting up a new branch in a district, it conducts an in-depth study of the micro markets around the branch to assess potential demand for housing finance and target regions with increasing urbanization and housing projects. It also engages with property valuers and legal advisors to obtain a better understanding of local markets and the quality of the underlying collateral. It has demonstrated its ability to successfully identify new regions to set up branches and grow market share in such regions.

HFFC utilize its 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 and customer referrals and branch walk-in customers. Connectors are third-parties who provides with customer leads on a commission basis paid only when a loan is disbursed and they do not assist in the loan application process. Its network of connectors has increased from over 470 active connectors as of March 31, 2018 to over 800 active connectors as of September 30, 2020, and it manages their leads effectively through connector application. HFFC has also entered into arrangements with certain digital lead aggregators and other digital players within the housing and real estate ecosystem, which helps it source leads with embedded customer data. Its presence in relevant housing finance markets in India, diversified lead sourcing channels and its ability to build up market share has resulted in an increase in the Gross Loan Assets and disbursements over the last three financial years.

Centralized, Data Science Backed Underwriting Process*:* HFFC serves salaried customers in low and middle-income groups which account for 73.1% of its Gross Loan Assets, and self-employed customers account for 25.0% of its Gross Loan Assets, as of September 30, 2020. Having a large customer base of salaried customers has led to low Stage 3 Loan Assets as a result of predictability of their cash flows. It spends considerable time to understand the formal and informal income sources of such customers as well as that of their family members, stability of their employment, savings capacity and repayment track record with their formal and informal borrowings to take an informed decision to approve or decline a housing loan after collating all customer information in its database. The Company has employed well-trained and educated front-end teams to visit a customer’s residence and workplace and gather detailed information to enable to make right decision on several parameters, including the size of the loan. Its customer relationship management system is integrated with its loan management system, which is set up on a leading cloud based customer relationship platform.

Its 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 September 30, 2020, respectively. As of September 30, 2020, completed homes comprised 89.0% of Gross Loan Assets, while properties under construction accounted for 11.0% of Gross Loan Assets. HFFC’s robust underwriting and loan approval process has helped to reduce bounce rates from 14.1% for the first quarter of the financial year 2018 to 10.5% for the fourth quarter of the financial year 2020.

Technology Driven Collections System*:* HFFC has set up a robust collections management system wherein approximately 93% of its collections for the financial year 2020 were non-cash based, which eases stress on monitoring financial transactions and reduces its cash management risk. All its borrowers register for an automated debit facility and track the status of installments collected on a real time basis through a collection module in its system. The Company’s collections process is completely managed by its branch teams and a significant portion of its front end team incentives are also dependent on collections. It initiate recovery action immediately after a customer defaults in their monthly payment and the severity of its action increases as the number of days past due increase. As of September 30, 2020, HFFC’s 30 days past due was at 1.1% of its Gross Loan Assets and 90 days past due was at 0.7% of its Gross Loan Assets.

Well-Diversified and Cost-Effective Financing Profile: HFFC is able to access borrowings at a competitive cost due to its stable credit history, superior credit ratings, conservative risk management policies and strong brand equity. It has improved its credit ratings from ‘CARE A-’ as of March 31, 2017 to ‘CARE A+’ as of September 30, 2020 and also currently has an A+ (stable) rating from ICRA Limited. As of September 30, 2020, its Total Borrowings (including debt securities) were Rs. 26,365.78 million. During the six months ended September 30, 2020, it had proceeds of borrowings from banks and financial institutions of Rs. 1,811.00 million. As of September 30, 2020, the effective tenure of HFFC Gross Loan Assets was 97.00 months, while the closing tenure of its outstanding borrowings and assignment was 96.45 months.

Experienced Management Team with Qualified Operational Personnel and Marquee Investors: HFFC has a professional and experienced management team, led by its CEO and founder, Manoj Viswanathan, who has over 24 years of experience in the consumer lending industry. Its management team has extensive experience in the financial services sector and is supported by qualified operational personnel who have an in-depth understanding of the geographic regions in which it operates, its loan products and types of collateral. HFFC has a distinguished Board comprising industry professionals with significant experience in the financial services industry.

Its Promoters are True North Fund V LLP and Aether (Mauritius) Limited. Further, Bessemer has invested in HFFC 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. It has and expects to continue to benefit from strong capital sponsorship and professional expertise of its marquee shareholders. In addition to assisting it with capital raising and strategic business advice, its shareholders have assisted in implementing strong corporate governance, which has been critical to the growth of its business.

Business Strategy:

Leverage Technology to Grow Business and Drive Operational Efficiency: HFFC seeks to leverage technology to enhance its lead sourcing and customer fulfilment process. It intends to launch a customer self-onboarding application through which a customer can make a loan application and upload relevant documents. It has also entered into arrangements with certain digital lead aggregators and other digital companies in the housing and real estate ecosystem such as Homelane, Paisa Bazaar, Quikr India, Credit Mantri and Aapka Painter, which helps to source leads embedded with customer data. The Company intends to further strengthen and invest in technology to accelerate its growth, improve customer experience and continue to achieve industry-leading turnaround times in its operations. It further aims to upgrade and automate its existing loan application processing and credit assessment systems by developing advanced underwriting algorithms.

Expand Branch Network in Large Affordable Housing Markets: HFFC intends to expand its business in a contiguous manner into regions with increasing urbanization, growing commercial activity and rising household incomes. Before setting up new branches, it will continue to conduct in-depth studies and market research to assess potential demand for its products and engage with local property valuers and legal advisors. It currently operates 70 branches covering 11 states and a union territory in India, of which it had set up 28 branches between April 1, 2018 and September 30, 2020 and it expects its future growth to be from such branches as it continues to gain market share. It also intends to increase the number of its branches to 90 by the end of the financial year 2022, in order to achieve deeper penetration in its existing 11 states and union territory.

Grow the Productivity of Existing Branches*:* HFFC focus on increasing the productivity of its existing branches to drive growth. It categorize its branches into large branches, mid-sized branches and small branches, on the basis of the Gross Loan Assets of each branch, and it track key performance indicators such as growth in Gross Loan Assets and disbursements per branch to determine branch productivity. While some of its branches currently operate at optimum levels, it intends to focus on improving productivity at its newer branches. As of September 30, 2020, it had 21 large branches operating with average Gross Loan Assets of Rs. 1,049.40 million, 21 mid-sized branches operating with average Gross Loan Assets of Rs. 507.73 million, and 28 small branches operating with average Gross Loan Assets of Rs. 164.30 million. The Company has set up a scalable operating model, which will assist in expanding its operations with lower incremental costs to drive efficiency and profitability.

Diversify Sources of Borrowings to Optimize Borrowing Costs *:* HFFC has historically secured funding from private and public sector banks, the NHB and through assignment transactions. As it continues to increase the scale of its operations, it intends to diversify the sources of its funding to reduce dependence on term loans and optimize its capital costs. To diversify sources of capital, it seeks to obtain funding through the issuance of non-convertible debentures and external commercial borrowings. It also intends to continue to further increase its lender base, which has grown from 10 as of March 31, 2017 to 17 as of September 30, 2020.

Focus on Enhancing Risk Management Framework*:* As HFFC increase the scale of its operations and expand into new geographies, it intends to focus on enhancing its risk management framework to maintain the credit quality of its loan portfolio. Its risk management initiatives will include obtaining a better understanding of the geographies in which it is present and the ones where it intends to expand to, improving the credit scoring models and algorithms that it has currently deployed, improving its collection techniques and its property underwriting procedures. HFFC also intends to continue serving salaried customers in the 11 states and a union territory in which it is currently present. As of September 30, 2020, 73.1% of its Gross Loan Assets came from salaried customers. Salaried customers are more resilient from a credit quality perspective and this will help HFFC to build a robust loan portfolio.

Industry

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). Out of these 245 million houses, approximately 61 million houses are obsolescent or congested or non-serviceable.

The Housing Shortage in India

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).

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.

India's Mortgage Penetration Lower than Other Economies

As of March 2019, the total outstanding retail housing loans in India was Rs. 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.

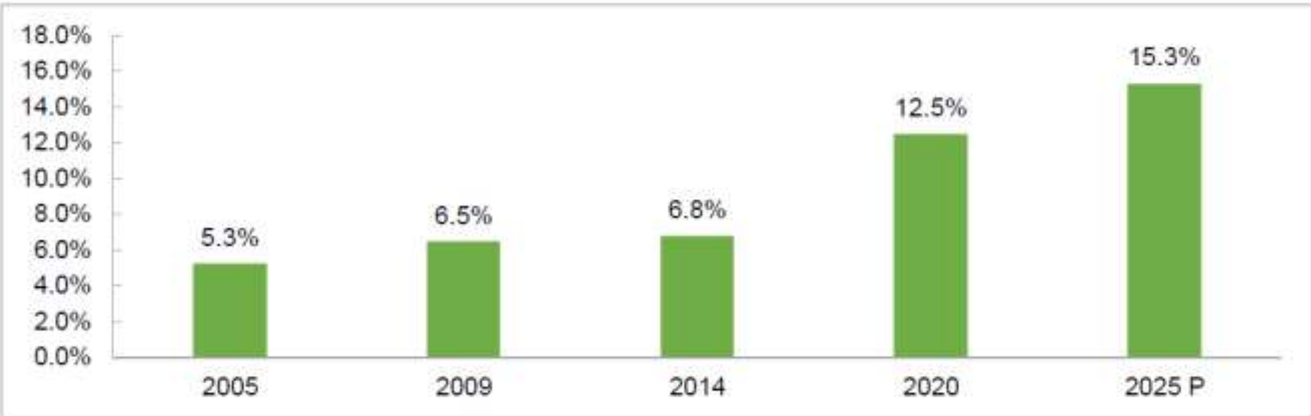
Rise in Per Capita Income to Drive the Growth of Mortgage Penetration in India

The mortgage penetration in China is correlated to the GDP per capita of the country. The GDP-to-mortgage ratio of China has grown from 12% in 2008 to 26% in 2017. The per capita income of the country has increased from USD 7,900 to USD 15,300 during the same period. India has gone through a similar trajectory with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 that is correlated to the increase in per capita income of the country from USD 3,900 in 2008 to USD 6,500 in 2017. CRISIL Research expects that India will continue on this trajectory to reach mortgage penetration of 15% by Fiscal 2024.

India's Mortgage Penetration Expected to Touch 15.3% by 2025

In Fiscal 2020, India's mortgage-to-GDP ratio stood at 12.5%. Though low compared with other developing countries, it has significantly improved from 6.5% in Fiscal 2009. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearisation of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth, CRISIL Research projects the ratio at 15.3% by Fiscal 2025

The following graph sets forth trend in Mortgage-to-GDP ratio in India (2005-2025P):



(Source: CRISIL Report)

Factors Affecting Mortgage-to-GDP Ratio in India

Mortgage penetration in India is lower than other emerging economies owing to lower per capita income and higher proportion of informal employment in the country. However, CRISIL Research believes rising urbanisation, growing disposable income, and favourable demographics will lead to higher mortgage penetration going forward.

Low per capita GDP in India: An analysis by CRISIL Research indicates that housing loan penetration increases at relatively higher levels of per capita GDP. In other words, India's lower per capita income acts as a constraint to deeper mortgage penetration.

Relatively high house prices: Housing demand has a direct relationship with affordability of homes and annual income. Though affordability of homes has improved in the last few years due to real estate prices remaining stagnant and rising incomes, home prices are obstinately high in several parts of the country. Affordability is arrived at dividing home price with average annual income.

High percentage of population in informal employment: Higher proportion of informal employment makes income assessment difficult and increases credit risk premiums, thereby impacting the mortgage market growth. According to a report by the International Labour Organisation ("**ILO**"), the overall proportion of informal workers in total employment is nearly 92% in India based on a survey conducted in 2011 to 2012. These informal workers include workers in the unorganised sector and informal workers in organised sector (i.e. workers without access to social security). *Information asymmetry in smaller cities*: Data availability in India has improved with access to a number of online property portals and databases. However, information asymmetry persists, especially in smaller cities, where reliable valuation is also generally difficult to obtain.

Inadequate legal infrastructure: According to the World Bank's Ease of Doing Business index, India ranks low in registering property. A country's legal and regulatory support that ensures ease in dealing with property-related matters and cost-effective foreclosure of loans in a timely manner is critical for development of the housing loan market. However, India lags behind in this respect. *(Source: CRISIL Report)*

Indian Housing Finance Market

The Indian housing finance market experienced a healthy growth in housing loan outstanding of approximately 16% over Fiscals 2015 to 2020 on account of a rise in disposable income, healthy demand and a greater number of players entering the segment.

The following graphs set forth growth in housing loan disbursement and credit outstanding over periods indicated below:

(Source: CRISIL Report)

CRISIL Research estimates the total housing loan outstanding of Rs. 20.4 trillion in Fiscal 2020. Growth in the total housing loan outstanding declined in Fiscals 2019 and 2020 due to slow growth of the HFCs post the IL&FS default and the economic slowdown. The COVID-19 pandemic has further intensified the issues that were already being faced by the housing finance sector. The first quarter of Fiscal 2021 was severely impacted due to disruptions caused by the COVID-19 pandemic and the resultant lockdown. The nationwide lockdown has had a cascading impact on the construction activity. The migrant labourers, who account for 80% of the construction workforce, returned to their villages during the pandemic. The restricted income growth and limited employment opportunities that have weakened demand from end-buyers, particularly self-employed borrowers. However, the second quarter of Fiscal 2021 witnessed a rise in demand for housing loans for major HFCs and banks

Market Share Growth of HFCs Loses Momentum due to Liquidity Crisis

With tightened liquidity post the Infrastructure Leasing and Financial Services ("**IL&FS**") default in September 2018, HFCs have encountered structural challenges in the form of increased refinancing risk and asset-liability mismatch, which slowed down disbursements in Fiscal 2019. HFCs' access to funds from the debt capital markets has also declined considerably, especially for those companies with high negative asset liability management ("**ALM**") mismatches. Consequently, several players in the industry have been focusing on managing ALM rather than growing their book. Resultantly, overall credit growth in housing loans for HFCs declined 8% on-year in Fiscal 2019. Hence, of the total amount of home loan outstanding of Rs. 18.7 trillion as of March 2019, HFCs accounted for 39% share.

Growth Drivers for Housing Finance

Higher transparency in the sector, increasing affordability and urbanisation, and government incentives is expected to push up the housing finance market over the next five years.

Rising Urbanisation. The share of urban population in relation to the total population has been consistently rising over the years. The urban population was 377 million in 2011, marking a CAGR of 2.8%; rural population was 833 million, marking a CAGR of 1.16%. Urbanisation levels rose from 28% in 2001 to approximately 31% in 2011. A United Nations report, World Urbanization Prospects: The 2011 Revision, expects approximately 36% of the country's population to live in urban areas by 2020. This percentage is expected to increase further in the years to come, thereby translating into higher demand for housing and related amenities in the urban areas.

Favourable demographics: Currently, India has one of the largest young population in the world, with a median age of 28 years. CRISIL Research expects that approximately 90% of Indians will be below the age of 60 years by the calendar year 2020, of which 63% will be between 15 and 59 years. Comparatively, US, China and Brazil is expected to have 77%, 83% and 86% of their population below the age of 60 years by the calendar year 2020.

Rising Nuclearisation. Nuclearisation refers to formation of multiple single families out of one large joint family. Each family lives in a separate house, while the ancestral house may be retained or partitioned to buy new houses. Nuclearisation in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities. These trends are expected to continue in future. Average household size has fallen from 5.5 in 1991 to 5.3 in 2001 and 4.8 in 2011, as per Census 2011.

Changing Floor Space Requirement. Floor space requirement is dependent on the family size as well as affordability determined by income levels. With increasing nuclearisation, the per capita floor space area required reduces as the family size shrinks. As income rises, people shift to bigger houses, thus increasing demand. For lower income groups, floor space required is marginally higher in rural areas than in urban areas. This may be attributed to lower prices in rural areas.

Rising Demand for Independent Houses. Indians traditionally prefer to live in independent houses. However, the increase in population density, especially in urban areas, has increased the demand for flats. This will continue to drive the demand for such homes, which are often self-constructed, especially in the smaller cities.

Declining Age of Home Loan Borrowers. Average age of borrowers has been declining over the years and was estimated at 33 years in Fiscal 2020. CRISIL Research expects this figure to decline further to 30 years in Fiscal 2025 with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose and tax benefits. *(Source: CRISIL Report)*

Government Initiatives

The Government's scheme to provide housing for all by 2022 and various steps taken to implement it are expected to boost sales of affordable and low-cost housing units. This is expected to, consequently, increase the demand for loans. Under the "Housing for All" mission, the Government has introduced credit-linked subsidy scheme ("**CLSS**") as a demand-side intervention in order to expand institutional credit flow and meet the urban demand.

Affordable Housing: Under the PMAY-G, the target is to construct 12 million houses by Fiscal 2022 under the Phase-II of the scheme. Of this, 11.7 million have been constructed as of October 5, 2020. Further, under the PMAY-U, the target is to construct 11 million houses over Fiscals 2016 to 2022. Of this, 10.8 million have been sanctioned as of October 5, 2020. Of the sanctioned houses, 3.78 million have been constructed. The flow of funds from the Government remains crucial for the success of both the schemes.

Interest Subsidy under PMAY: Under the "Housing for All" scheme, in order to expand institutional credit flow to the urban population, the Government had introduced the CLSS as a demand-side intervention. In May 2020, the Government extended the CLSS until March 2021. This move is expected to boost the loan disbursements over the coming fiscals. The subsidy will be provided on home loans for eligible urban population to acquire and construct houses. For loans of up to Rs. 0.6 million for EWS and LIG beneficiaries, the interest subsidy has been fixed at 6.5% for eligible borrowers buying a home of up to 60 sq. m carpet area. In case the beneficiary takes a loan higher than Rs. 0.6 million, no subsidy would be available on the additional amount. In February 2017, the CLSS was extended to include middle-income group ("MIG") households with incomes ranging in Rs. 0.6 to 1.8 million per annum.

Last Mile Affordable Housing Funding Package. The Government has announced Rs. 100 billion special window to provide last-mile funding for the completion of ongoing housing projects that are non-NPA, non-NCLT and are net worth positive in affordable and middle-income category. The Government will contribute about Rs. 100 billion and outside investors, such as Life Insurance Corporation of India, private capital and sovereign wealth funds and development finance institutions, will contribute roughly the same amount. The objective of this move is to focus on the construction of unfinished units, and this move is expected to benefit roughly 0.35 million projects in India.

Relaxation of External Commercial Borrowings Guidelines. The Government also announced that the guidelines of External Commercial Borrowings ("**ECB**") would be relaxed to facilitate financing of home buyers. This will be carried out in consultation with the RBI to help identify eligible beneficiaries under PMAY. The relaxation to be provided will be in addition to the existing norms for the ECB for affordable housing.

Tax Incentives. The Government has traditionally used tax concessions to promote the housing and housing finance sectors. In the Union Budget for Fiscal 2020, the Government enhanced interest deduction on loans taken until March 31, 2020, for purchase of houses valued up to Rs. 4.5 million to Rs. 0.35 million from Rs. 0.2 million. Other tax benefits available for home loan consumers include: (i) annual interest payments of up to Rs. 200,000 (Rs. 300,000 for senior citizens) on housing loans can be claimed as a deduction from taxable income; (ii) principal repayments of up to Rs. 150,000 on a housing loan are allowed as a deduction from gross total income; and (iii) an additional deduction in respect of interest of Rs. 50,000 per annum has been provided exclusively for first-time home buyers, given the property value is up to Rs. 5 million and the loan is up to Rs. 3.5 million.

Real Estate (Regulation and Development) Act, 2016. The implementation of the Real Estate (Regulation and Development) Act (the "**RERA Act**") in 2016 had a direct impact on the supply-demand dynamics in the sector. The RERA Act is expected to improve transparency, timely delivery, and organized operations over time. The RERA Act does not permit developers to launch new projects unless they are registered with the real estate authority. The RERA Act also puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project to be maintained in a separate escrow account, and used only for the same project.

GST. GST is expected to bring in transparency and simplicity on account of the availability of input tax credit ("**ITC**") paid on inputs, capital goods and input services. A drastic 700 bps reduction in GST from 8% to 1% for under-construction affordable housing projects (effective rate after deducting one-third for land cost) and from 12% to 5% for other under-construction housing projects (effective rate after deducting one-third for land cost) with effect from April 2019 has reduced the differential between GST for ready possession and under-construction properties, and is likely to increase end-user demand. Over the last two years, completed projects were being preferred by end-users because of the additional GST burden and execution risks associated with under-construction properties. With the implementation of the RERA framework as well as reduction in GST, end-user confidence towards under-construction properties is expected to improve, resulting in growth in the housing segment.

Facility of Corpus Withdrawal by Employees' Provident Fund Organisation. To promote the "Housing for All" by 2022 scheme, the Government has streamlined and eased various related means for people to avail benefits and, in turn, promote the housing sector. In a similar effort, the Employees' Provident Fund Organisation ("**EPFO**"), in 2017, allowed its members to withdraw up to 90% of their provident fund accumulations (if it is less than the cost of the property) to make down payment for a house. To help boost the housing sector, only fresh purchases are allowed this facility and not purchases from the secondary market. EPFO has also allowed its members to use their provident fund contributions to pay monthly equated monthly instalments for home loans. *(Source: CRISIL Report)*

Regulator Initiatives

Risk Weight Rationalisation on Housing Loans. Until October 2020, risk weight for housing loans was allocated on the basis of the ticket size and loan-to-value ("**LTV**") ratio. However, for all the new housing loans sanctioned up to March 31, 2022, risk weight for housing loans will be allocated only on the basis of the LTV ratio. While such revised risk weight allocation will be applicable to all ticket sizes, housing loans above Rs. 7.5 million will benefit the most as risk weight allocation for these loans will reduce from 50% to 35%.

Regulatory Authority on HFCs Shifted from NHB to the RBI. The Union Budget 2019-2020 announced the transfer of regulatory power on HFCs from NHB to the RBI. This is expected to result in more streamlined regulations and implementation as well as better risk management framework for HFCs. The RBI Act will be amended to give the central bank powers to regulate HFCs. This move is expected to ensure there is greater parity in regulations for NBFCs and HFCs.

Increase in Public Sector Lending Eligibility. The RBI has increased (under the notification released in June 2018) the eligibility for public sector lending ("**PSL**") in housing loans with a view to converge PSL guidelines with PMAY. The eligibility has been increased from Rs. 2.8 million to Rs. 3.5 million for metropolitan centres and from Rs. 2 million to Rs. 2.5 million for other centres. The cost of dwelling unit has been capped at Rs. 4.5 million in metropolitan centres and at Rs. 3 million in other centres.

NHB's Refinance Schemes to Aid Borrowing Cost for HFCs Catering to Affordable Housing Segment. While access to the debt markets allows large HFCs to mobilise resources at competitive rates, niche HFCs have benefited from the NHB's refinance schemes. The NHB runs various schemes under which it refinances banks and HFCs.

Increased Refinancing Limits. NHB has raised refinancing target from Rs. 240 billion in July 2018 to Rs. 300 billion for July 2019. Further, the RBI has increased the celling for lending to a single NBFC from 10% to 15% until December 2019. The RBI has also reduced the minimum holding requirement for NBFCs raising funds through securitisation of loans of original maturity above five years. The NBFCs will now be allowed to securitise loans after showing six months of repayments against the earlier requirement of 12 months.

Access to SARFAESI Helps HFCs Accelerate Recoveries. Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest ("**SARFAESI**") Act, 2002, allows lenders in India auction commercial or residential properties to recover loans. For HFCs, SARFAESI recovery is allowed for all loans of greater than Rs. 0.10 million ticket size. Over time, SARFAESI has proved to be an effective tool in the lender's hands and has acted as a deterrent against wilful defaulters. *(Source: CRISIL Report)*

Analysis of Housing Finance Companies

HFCs Account for 39% of Retail Housing Loans Outstanding

The credit outstanding of HFCs accounted for 39% of the Rs. 18.7 trillion housing finance market, as of March 2019. This was a decline from 41%, as of March 2018, on account of the liquidity crisis that occurred after the IL&FS default in September 2018. However, over a longer timeframe of four years, HFCs have been able to increase their market share.

As per CRISIL Research analysis, the variation in performance of HFCs on the basis of assets under management (including home loans, loan against property, developer loans and any other loans by the HFC) as well as focus segment in terms of ticket size. Accordingly, the HFCs have been classified as large HFCs, medium HFCs and small HFCs, based on the book size of the company. HFCs have also been classified as affordable HFCs, based on higher share of housing loans with ticket size less than Rs. 2.5 million in their portfolio. According to Experian data, the entities included in its analysis together account for 96% of the outstanding retail home loans given by HFCs.

Competitive Landscape among HFCs in Affordable Housing Finance Space
The market share of HFCs in affordable housing finance increased from 37% in Fiscal 2015 to 45% in Fiscal 2019 in terms of home loan disbursements. The credit outstanding of HFCs also increased over the last four years, leading their market share to increase from 34%, as of March 2015, to 39%, as of March 2019.

Peer Benchmarking
Consideration of Peer Set: Gruh Finance *(merged with Bandhan Bank)*, Aspire Home Finance, Aadhar Housing Finance, Aavas Financiers, Aptus Value Housing Finance and Home First Finance Company ("**Home First**"). These companies have been selected on the basis of average ticket size of housing loans in the range of Rs. 0.7 million and Rs. 1.2 million. Based on peer comparisons of the above mentioned companies, Home First has registered the highest AUM growth over Fiscals 2015 to 2020 as well as the second highest disbursement growth over the same period. In terms of profitability, Aptus Value Housing Finance has the highest RoA compared to others during Fiscal 2020. In terms of operational parameters, Home First leads with highest disbursement per branch and disbursement per employee during Fiscal 2020. Aadhar Housing Finance has the strongest distribution network among the peers. In terms of the customers' profile the companies cater to, Home First has the least risky profile with highest proportion of salaried customers. The overall book of Home First grew at 61% CAGR over Fiscals 2015 to 2020, which is the highest among peers. Other peers such as Aadhar Housing Finance and Aspire Home Finance Company registered healthy growth as well. With a strong focus on the affordable segment and keen focus on the salaried segment, Home First registered the second-highest CAGR in disbursement (50% CAGR over Fiscals 2015 to 2020) after Aptus Value Housing Finance (51% CAGR).

Key Concerns:

- The Coronavirus disease (COVID-19) has had an adverse effect on HFFC's business and operations and the extent to which it may continue to do so in the future, is uncertain and cannot be predicted.
- Any disruption in sources of funding could have an adverse effect on the business, results of operations and financial condition.
- Inability to meet obligations, including financial and other covenants under its debt financing arrangements could adversely affect the business, results of operations and financial condition.
- HFFC have had negative net cash flows in the past and may continue to have negative cash flows in the future.
- The risk of non-payment or default by borrowers may adversely affect the business, results of operations and financial condition.
- Non-compliance with the NHB's or RBI's observations made pursuant to its periodic inspections and violations of regulations prescribed by the NHB or RBI, could expose HFFC to certain penalties and restrictions.
- HFFC require certain statutory and regulatory approvals for conducting its business and inability to obtain, retain or renew them in a timely manner, or at all, may adversely affect the operations.
- Any downgrade in credit ratings could increase borrowing costs, affects HFFC's ability to obtain financing, and adversely affect the business, results of operations and financial condition.
- HFFC is affected by volatility in interest rates for both its lending and treasury operations, which could cause its net interest income to vary and consequently affect its profitability.
- Inability to detect money-laundering and other illegal activities fully and on a timely basis may expose to additional liability and adversely affect the business and reputation.

- HFFC relies significantly on its information technology systems for business and operations and any failure, inadequacy or security breach in such systems could adversely affect the business, results of operations and reputation.

- HFFC may face asset-liability mismatches, which could affect its liquidity and consequently may adversely affect the operations and profitability.

- Operations of HFFC are concentrated in the states of Gujarat and Maharashtra and any adverse developments in these regions could have an adverse effect on its business and results of operations

- Inability to recover the full value of collateral, or amounts outstanding under defaulted loans in a timely manner, or at all, could adversely affect the business, results of operations and financial condition.

- HFFC has experienced significant growth in recent years and it may not be able to sustain its growth or manage it effectively.

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

- Any failure or significant weakness of internal processes or systems could cause operational errors or incidents of fraud, which would adversely affect the business, profitability and reputation.

- HFFC inability to expand its business into new regions and markets in India could adversely affect the business, results of operations, financial condition and cash flows.

- Inability to maintain capital adequacy ratio could adversely affect the business.

- Any deterioration in the performance of any pool of receivables assigned to banks and other institutions may adversely impact the financial performance.

- The Indian housing finance industry is extensively regulated and any changes in laws and regulations applicable to HFCs could have an adverse effect on its business.

- HFFC depends on the accuracy and completeness of information provided by the customers and certain third party service providers and its reliance on any misleading information may affect its judgment of their credit worthiness, as well as the value of and title to the collateral.

- Significant changes by the Government, the RBI or the NHB in their policy initiatives facilitating the provision of housing and housing finance or any change in the tax incentives that the Government currently provides to HFCs may have an adverse effect on the business, results of operations and financial condition.

- HFFC is exposed to risks that may arise if its customers opt for balance transfers to other banks or financial institutions, or if customers face increased difficulties in refinancing their existing housing loans from other banks and financial institutions to the Company.

- Fluctuations in the market values of investments could adversely affect the result of operations and financial condition.

- The bankruptcy code in India may affect HFFC's rights to recover loans from its customers.

- Political, economic or other factors that are beyond control may have an adverse effect on its business and results of operations.

- The growth rate of India's housing finance industry may not be sustainable.

Profit & Loss

Particulars (Rs in million)	H1FY21	FY20	FY19	FY18
Revenue from operations				
Interest income	2074.4	3547.3	2319.3	1299.6
Fees and commission income	12.2	38.4	33.4	14.5
Net gain on derecognition of financial instruments under amortised cost category	257.6	371.2	214.8	0.0
Other operating income	27.3	29.5	31.4	6.9

Total revenue from operations	**2371.5**	**3986.4**	**2598.8**	**1320.9**
Other income	60.4	210.2	110.5	21.5
Total income	**2431.9**	**4196.6**	**2709.2**	**1342.4**
Expenses				
Finance costs	1112.9	1938.3	1265.4	659.6
Impairment on financial instruments	164.1	165.0	73.1	28.7
Employee benefits expense	298.0	611.1	431.8	250.8
Depreciation and amortisation	39.0	72.4	45.8	24.6
Other expenses	114.4	337.0	241.2	135.9
Total expenses	**1728.4**	**3123.7**	**2057.3**	**1099.7**
Profit before tax	**703.6**	**1072.8**	**652.0**	**242.7**
Tax expense				
Current tax	143.1	231.9	160.5	120.4
Deferred tax expense / (income)	37.1	48.4	39.4	-37.6
Excess provision for tax of earlier years written back	**-6.1**	**0.0**	**0.0**	**0.0**
Total Tax	**174.1**	**280.3**	**199.9**	**82.7**
Profit after tax	**529.5**	**792.5**	**452.0**	**160.0**
EPS	6.8	10.1	7.1	3.1
Equity	156.8	156.6	126.7	103.2
FV	2	2	2	2

(Source:RHP)

Balance Sheet

Particulars (Rs in Million)	H1FY21	FY20	FY19	FY18
Financial assets				
Cash and cash equivalents	2165.8	1477.2	1857.2	230.1
Bank balance other than cash and cash equivalents	2042.8	743.3	62.6	72.0
Loans	29721.6	30139.1	21347.1	13087.4
Investments	2192.1	1455.6	1029.2	0.0
Other financial assets	845.1	657.3	261.2	49.5
Total financial assets	**36967.4**	**34472.6**	**24557.3**	**13439.0**
Non-financial assets				
Current tax assets (net)	15.8	18.3	10.3	4.7
Deferred tax assets (net)	0.0	0.0	24.8	63.8
Property, plant and equipment	169.6	204.8	167.6	97.6
Capital work-in-progress	0.0	0.0	0.0	7.9
Intangible assets under development	0.0	0.0	0.0	2.6
Other intangible assets	3.6	5.2	6.7	3.5
Other non-financial assets	65.6	95.3	53.4	30.3
Total non-financial assets	**254.5**	**323.6**	**262.8**	**210.4**
Total Assets	**37222.0**	**34796.1**	**24820.1**	**13649.4**
EQUITY AND LIABILITIES				
Financial liabilities				
Trade payables				
Total outstanding dues of creditors other than micro enterprises and small enterprises	0.1	4.3	13.6	5.4
Debt securities	2394.6	0.0	0.0	0.0
Borrowings (other than debt securities)	23971.2	24938.1	19256.4	10198.8
Other financial liabilities	754.7	353.8	248.2	136.7
Total financial liabilities	**27120.5**	**25296.1**	**19518.2**	**10340.9**
Non-financial liabilities				
Current tax liabilities (net)	12.1	0.0	0.0	0.0
Provisions	73.3	66.4	29.6	18.7
Deferred tax liabilities (net)	59.7	23.1	0.0	0.0
Other non-financial liabilities	74.6	74.2	40.8	37.7
Total non-financial liabilities	**219.5**	**163.6**	**70.4**	**56.4**

Total liabilities	**27340.1**	**25459.8**	**19588.7**	**10397.3**
Equity				
Share capital	156.8	156.6	126.7	103.2
Other equity	9725.1	9179.8	5104.7	3148.9
Total equity	**9881.9**	**9336.4**	**5231.4**	**3252.2**
Total liabilities and equity	**37222.0**	**34796.1**	**24820.1**	**13649.4**

(Source:RHP)