HFFCIL/BSE/NSE/EQ/116/2023-24 **Date: 29-02-2024**

To, **BSE Limited**, Department of Corporate Services, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001. Scrip Code- **543259**	To, **The National Stock Exchange of India Limited,** The Listing Department, Bandra Kurla Complex, Mumbai- 400 051. Scrip Symbol- **HOMEFIRST**

Subject: Intimation of Credit Rating Outlook Revision from IND AA-/ Stable to IND AA-/ Positive of Home First Finance Company India Limited ("the Company") by India Ratings and Research Private Limited ("India Ratings")

Dear Sir/Madam,

In accordance with Regulation 30(6) read with Para A Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that based on rating assessment undertaken by **India Ratings**, the outlook of the Company's long term credit ratings has been revised from **IND AA-/ Stable to IND AA-/ Positive** and affirmed the Short term credit rating.

Name of the Company	Credit Rating Agency	Type	Instrument	Rating; Outlook	Rating Action
Home First Finance Company India Limited	India Ratings and Research Private Limited	Long Term	Credit Rating for Rs. 1000 Crore- Term Loan	IND AA-/ Positive	Assigned
		Long Term	Credit Rating for Rs. 2300 Crore- Term Loan	IND AA-/ Positive	Affirmed: Outlook revised to Positive from Stable
		Long Term	Credit Rating for Rs. 400 Crore- Non- Convertible Debentures	IND AA-/ Positive	Affirmed: Outlook revised to Positive from Stable
		Short Term	Credit Rating for Rs. 100 Crore- Commercial Paper	IND A1+	Affirmed

The credit rating rationale issued by India Ratings confirming the above rating is enclosed.

Request you to kindly take the same on record.

For **Home First Finance Company India Limited**

SHREYANS BACHHAWAT

Digitally signed by SHREYANS BACHHAWAT
Date: 2024.02.29 16:43:34 +05'30'

Shreyans Bachhawat
Company Secretary and Compliance Officer
ACS No.: 26700

India Ratings & Research
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India Ratings Revises Outlook on Home First Finance Company India's NCDs and Banks Loans to Positive; Affirms 'IND AA-'; CP Affirmed at 'IND A1+'

Feb 29, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has taken the following ratings action on Home First Finance Company India Limited's (Home First) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Banks loans	-	-	-	INR10.00	IND AA-/Positive	Assigned
Banks loans	-	-	-	INR23.00	IND AA-/Positive	Affirmed: Outlook revised to Positive from Stable
Non-convertible debentures (NCDs)*	-	-	-	INR4.00	IND AA-/Positive	Affirmed: Outlook revised to Positive from Stable
CP programme^	-	-	-	INR1.00	IND A1+	Affirmed

^yet to be issued
* Details in Annexure

Analytical Approach: Ind-Ra continues to take a standalone view of Home First to arrive at the ratings.

The Outlook revision reflects the continued improvement in Home First's credit profile, driven by an established and growing franchise in the retail affordable housing space with deepening geographical presence. The ratings are also supported by Home First's well-diversified funding access, adequate liquidity, sizeable capital base, stable profitability buffers and an adequate risk management process.

Key Rating Drivers

Established and Growing Franchise in Affordable Housing Segment: Home First is one of the key players in the affordable housing segment in term of market share, with asset under management (AUM) of INR90.1 billion in 3QFY24 (FY23: INR72.0 billion). It has a presence across 13 states and union territories, where it continues to deepen its presence as these are the key and significant markets in terms of the affordable housing markets in India. The company has been continuously expanding its reach and widening its footprint; consequently, in the 12 months ended December 2023, Home First increased its presence to 126 districts, through 123 branches and 305 touch points (3QFY23: 117 districts, 102 branches and 261 touchpoints). To support its growth and further scale up its AUM in the medium-to-long term, the company plans to keep adding branches and deepening its presence in its existing geographies. The agency believes market share gain would depend on the successful execution of its expansion strategy, driving overall AUM growth, and this would remain a key monitorable. The deepening of Home First's presence in its existing geographies will also result in geographic diversification in its key markets, thereby mitigating the impact of accentuated pressure in any key region/district on the asset quality at the portfolio level.

Healthy Capital Level; Leverage Remain Comfortable: Home First's AUM grew at a CAGR of nearly 39% over FY18-3QFY24 despite the growth momentum being disrupted by covid during FY20-FY21. The growth has been supported by regular capital infusions, the ability to mobilize funding and the government's growing impetus on affordable housing. The company has demonstrated its ability to raise capital in the past; it raised INR0.79 billion through a preferential allotment 3QFY21 and INR2.65 billion through an initial public offer in February 2021. Home First's net worth stood at INR20.3 billion at 3QFYE24(FY23: INR18.2 billion; FY22: INR15.7 billion), and its tier 1 capital remained at a comfortable level of 40.5% (48.9%; 58.1%). Home First's leverage (debt to equity) increased to 3.4x in 3QFY24 (FY23:2.6x; FY22: 2.2x) due to strong growth momentum in AUM. The management aims to keep the leverage at around 5.0x over the near-to-medium term. According to Ind-Ra, the company is well positioned to scale up its AUM over the medium term based on its existing capitalisation and the ability to mobilise funds through diverse sources.

Liquidity Indicator – Adequate: As on 31 December 2023, Home First had unencumbered cash/bank balances and liquid investments of INR12.2 billion, which is sufficient to meet the debt obligations until June 2024 without factoring inflows and assuming nil disbursements. During the same period, the company had undrawn bank lines of INR12.4 billion. This, together with the on-balance sheet liquidity, is more than adequate to meet the repayment obligations for the next 12 months, factoring in nil collections and disbursements. On an ongoing basis, Home First, aims at maintaining liquidity of over two months of disbursements. Furthermore, in the up-to-one-year bucket, Home First maintained a surplus on a cumulative basis during 3QFY24, and even when the structural liquidity statement is stressed by the agency, the surplus continues. Given that borrower cashflows in the affordable housing segment are more susceptible to shocks and even persistent inflationary pressures, Ind-Ra expects the company to maintain above-average liquidity buffers on an ongoing basis.

Diversified Lender Base with Availability of Long Dated Funding: Home First has mobilised funds from 28 financiers, including banks (67.8% of on-book borrowings at end-3QFY24), and a large non-banking finance company (2.3%) and investors for non-convertible debentures; it also has refinance lines (25.8%) from the National Housing Bank ('IND AAA'/Stable). More importantly, Home First has banking relationships with some of the largest public sector, private sector and foreign banks. Also, Home First raised INR2.8 billion from International Finance Corporation for a tenor of seven years in 3QFY23 and the entity is focusing on increasing the share of such funding further. Given the scale at which Home First operates, the number of lending relations it has is adequate. A major portion of its loan book qualifies for priority sector lending; therefore, securitisation/assignment is an additional source of fund raising. The company has also entered into partnerships for co-lending since FY23, wherein it offloads assets, thereby freeing up capital and maintaining similar return profiles on their share of co-lending.

Experienced and Stable Management Team: Home First has an operating track record of over 14 years and has established its presence as a key player in the affordable housing finance market. Its top management consists of experienced professionals, with a relevant experience of more than 15 years on an average basis, and most of the senior leadership has been with the entity for at least five years, with an average tenor of about seven years for the whole senior management team. The company has a strong focus on technology, building digital capabilities and management information systems. It has also benefited from the involvement of the key institutional investors such as True North Fund and its affiliates and Warburg Pincus, which together held 46.7% equity as on 31 December 2023. Home First's board of directors consists of eight members, comprising four independent directors with varied industry experience, three investor nominee directors and the managing director and chief executive officer.

Asset Quality Largely Stable; Sustainability Key as Scale Expanding Significantly: Home First's gross stage three (GS3) assets saw a marginal uptick to 1.1% in 3QFY24 (FY23:0.9%; FY22: 1.3%). Furthermore, gross non-performing assets, which had increased to 2.6% with the addition of 0.9% in 3QFY22 due to the impact of the Reserve Bank of India's (RBI) circular dated 12 November 2021, moderated to 1.7% during 3QFY24. 1+ days past due (dpd) marginally deteriorated to 4.5% in 3QFY24 (FY23:4.0%; FY22: 5.3%; FY21: 6.2%). Bounce rates have improved compared to the level seen during covid but continue to be above pre-pandemic level and hovered around 15% in 9MFY24. In addition, the company's restructured portfolio declined to 0.2% of the AUM in 3QFY24 (around 20% of this is already in stage 3), with a provision coverage of 28.1%.

The company's stage 3 provision increased to 29.9% in 3QFY24 (3QFY23: 29.1%), but the total provision coverage on the loan portfolio was marginally lower at 0.87% (0.93%). With 72.2% of the AUM in 3QFY24 (38.9% in the last four quarters) consisting of disbursements in the last eight quarters and Home First's plans to further increase its AUM to INR200 billion over the next three years, the asset quality would be a key monitorable.

Profitability Remains Strong but Likely to Moderate Over Medium Term: Home First's spread has come under pressure in FY24, with rising interest rates having led to elevated cost of funds. The spread fell to 5.3% in 3QFY24 (3QFY23: 5.7%); on a steady state basis, the management expect the spread to remain around 5.2%. The agency believes the pressure on spreads would continue over the near-to-medium term and Home First needs to balance the same through maintaining the credit costs at existing levels (credit cost to average loans ratio: 9MFY24: 0.3%; FY23: 0.4%; FY22: 0.5%) by managing the asset quality, and sustaining the opex-to-average asset ratio sustaining between 2.8%-3.0% (FY23: 2.9%; FY22: 3.7%). Home First's profitability trajectory will depend on the benefits it derives from lowering its borrowing cost, driving fee income through direct assignment and cross sell, deriving operating leverage benefits through the scaling of AUM, and maintaining control on the asset quality in the medium term. In Ind-Ra's opinion, the company's profitability ratio (pre-provisioning operating profit to credit cost), which stood at 15.7x in 9MFY24 (FY23: 14.7x; FY22: 10.0x)) and adequate capitalisation, with Tier 1 at 40.5% (48.9%; 58.1%) are adequate to absorb the existing levels of stress in the loan book.

Rating Sensitivities

Positive: Significant growth in the scale of operations with market share gains, continued geographic diversification, sustained profitability levels, continued improvements in the funding profile and cost of funding relative to peers and a demonstrated ability to manage its asset quality could lead to a positive rating action.

Negative: Significant deterioration in the profitability, impacting the capital buffers, and challenges in mobilising incremental funds could lead to a negative rating action. Furthermore, deterioration in the asset quality with the gross non-performing assets crossing 4% on a sustained basis could lead to a rating review.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Home First, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Home First is a Mumbai-based affordable housing finance company, primarily engaged in extending home loans to borrowers in the low-to-middle income groups. It operates through a network of 123 branches and 117 digital branches across 126 districts through a total of 305 touch points. The company's key investors include True North LLP and affiliate Aether Investments (23.6%) and Orange Clove (Warburg Pincus; 23.1%). The company was listed on the BSE and National Stock Exchange of India Limited in FY21.

FINANCIAL SUMMARY

Particulars (in billion)	9MFY24	FY23	FY22
Total assets	90.0	67.4	51.1

Total equity	20.3	18.2	15.7
Net income	2.2	2.3	1.9
Return on average assets (%)	3.7	3.9	3.9
Equity/assets (%)	22.6	27.0	30.8
Capital adequacy ratio (%)	40.9	49.4	58.6
Source: Ind-Ra, Home First			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	2 March 2023	4 March 2022	27 August 2021	27 August 2020
Bank loans	Long-term	INR33.00	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	-	-
NCDs	Long-term	INR4.00	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	-	-
CP	Short-term	INR1.00	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

Annexure

NCD

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook

INE481N07063	23 December 2022	MIOIS linked rate	21 December 2029	INR2.8	IND AA-/Stable
			Total unutilised	INR1.2	IND AA-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Description	Complexity Indicator
Bank loans	Low
NCDs	Low
CP	Low

For details on complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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