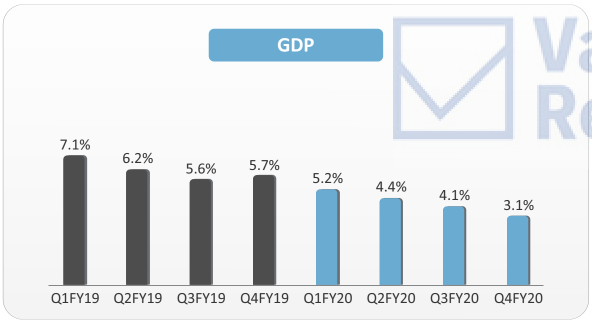
Management Discussion and Analysis

Macroeconomic Overview:

In 2019, India became a $2.7 trillion economy with the Economic Survey outlining the blueprint to achieve the vision of making India a $5 trillion economy by 2024-25. Following the path, India now stands at 63 among 190 countries in the World Bank's Ease of doing Business 2020 survey and has made it to world's top 10 most improved countries for the third consecutive time. However, the macro-economic environment in FY20 had been challenging with lower GDP growth rates, liquidity crunch, and peaking unemployment rate resulting in sluggish demand and weakened consumer sentiment. Underlying this decline in GDP growth is a fall in private consumption, stagnation in overall capex and contraction in trade volumes on account of the fall in global growth and demand. This is reflected in the declining GDP-growth trend.



Source: National Statistical Office (NSO), MOSPI

Global economic activity significantly slowed in 2019 following strong growth in 2018 on account of factors emanating from both advanced and emerging economies. After expanding by 4% in FY18, global growth remained somewhat buoyant at 3.6% in FY19, only to significantly drop to 2.9% in FY20. Global economy witnessed a loss in growth momentum along with generally tepid consumer and investor sentiments. Further, an unexpected COVID-19 breakout engulfed the world and India towards the end of the year resulting in nationwide lockdowns globally. The COVID pandemic has not only increased the financial stability challenges and elevated market volatility, but it has also put a significant pressure on an already stressed economic environment.

Latest World Economic Outlook Growth Projections

(real GDP, annual % change)	FY20E	FY21P	FY22P
World Output	2.9	-4.9	5.4
India	4.2	-4.5	6.0

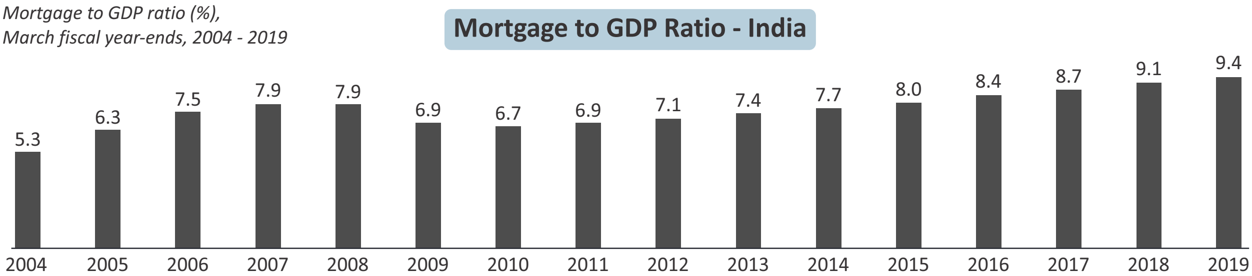
Source: IMF, World Economic Outlook, June 2020

According to the June 2020 update of World Economic Outlook, the International Monetary Fund (IMF) said that the pace of growth of the world economy is projected to slump to -4.9% in FY21 from 2.9% in FY20 and further mark a V-shaped normalisation to 5.4% growth in FY22. Indian economy has fared better and has recorded a moderation in the pace of growth to 4.2% in FY20 from 6.1% in FY19. However, the IMF has predicted a sharp contraction of 4.5% for the Indian economy in FY21. Under the assumption that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound— India's GDP is projected to bounce back in FY22 with a robust 6.0% growth as economic activity normalizes, helped by policy support.

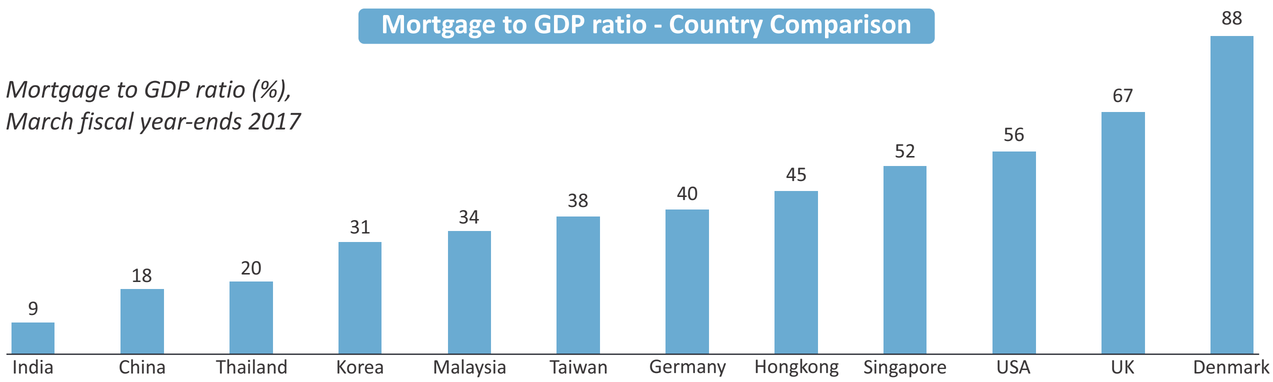
Improving Mortgage Penetration in India

As of December 2019, the total outstanding retail housing loans was ~₹21 trillion exhibiting a YoY growth of 13%. Although the mortgage penetration has improved over the years, it is still lower than other emerging and developing economies. Hence there is a potential for improving the mortgage penetration level in India.

Mortgage to GDP ratio (%),
March fiscal year-ends, 2004 - 2019



Source: CSO, RBI, NHB



Source: European Mortgage Federation, Hofinet, RBI

The major growth drivers supporting higher mortgage penetration are:

1. Urbanisation: Urbanisation rose from 28% in 2001 to around 31% by 2011 as per Census 2011. A United Nations report, World Urbanization Prospects: The 2018 Revision, expects nearly 52.8% of the country's population to live in urban areas by 2050.This will boost demand for housing in urban areas.

2. Nuclearization: Reducing average household size driven by changing lifestyle of people, changing social culture, and increased mobility of labour is expected to continue in future. It has reduced from 5.5 per household in 1991 to 4.8 per household in 2011 as per Census 2011.

3. Favourable Demographics: As per Economic Survey 2018-19, working age population will grow by 9.7 million per year during 2021-31 and 4.2 million per year during 2031-41. Favourable demographics coupled with declining age of home loan borrowers, growth in salaries and increasing preference to accumulate assets – will also boost mortgage penetration in India.

Indian Housing Finance Market

The Indian housing finance market grew at ~20% CAGR over fiscals 2015-2019 as a result of rise in disposable income, healthy demand and more market players catering to different segments.

Further, the overall affordable housing outstanding credit growth grew at a CAGR of 14% during the fiscals 2015-2019. The major growth drivers being increase in penetration of financiers in rural and semi-urban areas, favourable demographics, government push to promote Housing for All by 2022, and improved affordability of borrowers.

Within the affordable housing market, HFCs have managed to grow their affordable housing loan outstanding credit at a faster 18% CAGR between fiscals 2015 and 2019 on account of deeper reach, focused approach, and expertise in this niche segment and is projected to reach ~ ₹ 5 trillion by fiscal 2022.

Impact of COVID

The outbreak of COVID-19, which was declared a global pandemic on March 11, 2020 by the World Health Organisation continues to spread rapidly across the globe and has affected the world economy including India leading to significant decline and volatility in financial markets and decline in economic activities. Since March 24, 2020, the Indian government has announced a series of lockdowns. With a view to support economic activities, the government has announced several relaxation measures in geographical areas designated as red, orange and green zones depending on the prevalence of the pandemic in those areas. Further a relief package of around 10% of India's GDP in addition to previous monetary and fiscal measures was announced. 'Unlock 1' guidelines were issued on May 30,2020 paving way for phased re-opening of most activities across the country and limiting lockdown to containment areas. The centre also issued guidelines for Unlock Phase II, beginning from July

1, with relaxations in night curfew, provision for more domestic flights and trains, and clearance for more than five people in a shop.

Housing finance market is expected to see a slower credit growth to the tune of 9-12% in FY21 (vs last 4 years CAGR of ~20%) with self-employed borrowers to be affected the most. Asset quality is expected to deteriorate and higher provisioning requirements are estimated to drive up the credit costs over the next few quarters. Operating efficiencies will also moderate as growth slows; albeit for a limited period of time.

The moratorium facility extended to the customers could pose a risk as it may impact the financial discipline of the borrowers. Besides the challenges on asset side, the funding challenges could mount again as banks become more selective in extending credit. The environment is turbulent and ever evolving and the priority for the housing finance company is to focus on asset quality, liquidity and slow return to growth path; as the economic outlook improves.

Sources: Research reports of various rating agencies

The company has been taking various measures in line with the local regulations to cope with the situation created by the pandemic:

- All Head Office and branch employees had moved to work-from-home modeat the beginning of the full 21 day lockdown. Since our customer relationship management software, lending as well as accounting applications, are on cloud, the Company did not face any challenges in this transition. As the lockdown has gradually lifted, we have opened our branches and started operations. As at June end, ~80% of our branches are operational.

- Due to lockdown imposed across the country, our employees faced hindrance in physical collections. Despite this, our collections for the month of April 2020 stood at 73%.98% of this was collected electronically. The Company's erstwhile investments in developing electronic collection processes have proved very useful in the current situation.

- We are currently focusing on collections and keeping a control on our asset quality as well as focusing on levers to reduce cost. At the same time, we have put in place new interim credit guidelines for further business and disbursals of already approved loans.

- Although the company has enough liquidity to meet it's obligations for the next 9 months, we are focusing on building cash on the balance sheet actively using measures announced by the RBI through existing and new lenders and thereby improving the funding pipeline.

Our stellar efforts at collections have resulted us in collecting 73% collections in April, 64% collections in May and 78% in the month of June'20. Our collection efficiency trend has been improving over time and in line with the lifting of the lockdown and economic activity on ground.

As of June end, we have collected atleast 1 full EMI payment from 85% of our customers, atleast 2 full EMI from 76% of our customers and all 3 EMI payments from 66% of our customers. It is also heartening to share that we have also collected 5% in prepayments in June'20 as compared to pre-COVID levels of 12% for FY20. Our focus on salaried customer base, high bar for bureau score and detailed assessment process has benefitted in tough times.

We continue to stay close to our customers and remaincognizant of their needs. We also continue to be agile and build on our strengths, to leverage market opportunities and to respond proactively to the challenges.

Regulatory Framework

Government has provided additional thrust to the housing finance sector by announcing various schemes and amendments to the existing rules and regulations. Some of the changes introduced in the regulatory framework are as mentioned below:

1. Time limit for PSL eligibility extended

Through a notification issued in 2019 the RBI provided that the loans extended by the banks to NBFCs on or before March 31, 2020 and which are on-lent to priority sector, shall be eligible to be classified as priority sector lending by the bank.The maximum ticket size of loans for Housing sector (for on-lending by HFCs) is ₹ 20 lakh per borrower. The maximum PSL Target that can be fulfilled by a bank using this mode is 5% of banks' total PSL. For this purpose, on-lending done by NBFC (except MFIs) and HFCs shall be reckoned.

RBI has issued another notification dated March 23, 2020, extending the above-mentioned time limit to cover originations during FY 2020-21. Accordingly, the loans originated by banks on or before March 31, 2021 and extended to NBFCs for on-lending to Priority Sectors shall be eligible to be classified under Priority Sector Lending of such bank.

2. Additional refinance facility
   NHB has been extended an additional special refinance facility(SRF) of ₹ 10,000 crs for housing finance companies. The HFCs can avail loans upto 1 year under this scheme and borrow upto 20% of Net Owned Fund (NOF) or maximum of ₹ 750 crs, whichever is lower. The scheme will be available to only eligible lending institutions, who have Net NPAs not exceeding 7.5 per cent, and must have lent at least 51 per cent of their total loans to individuals, and have at least 15 per cent or more cash flow impairment due to period of moratorium.

   This scheme was further revised on June 2, 2020 whereby the SRF can be availed by HFCs whose ratio of individual housing loans to total assets is revised to a minimum of 41% vs initial 51%. Further the maximum amount disbursable is increased up to 30% of Net Owned Fund (NOF) or maximum of ₹2000 crs, whichever is lower from original 20% of NOF or maximum of ₹ 750 crs, whichever is lower. Lastly, hypothecation of book debts or negative lien, as applicable, is included under security for refinance.

3. Union Budget proposals for housing

   (I) Interest deduction on loans taken until March 31, 2020, for the purchase of a house valued up to ₹ 45 lakhs, enhanced to ₹ 3.5 lakhs from ₹2 lakhs – this scheme is extended for a period of one more year.

   (ii) The Union Budget 2020-21 provided for ~₹80 billion of budgetary allocation under PMAY-U. This allocation is the highest since the announcement of the scheme. This is a 17% increase over the revised estimates for 2019-20. The funding towards the scheme comes from the Central Road and Infrastructure Fund. From the total allocation for PMAY-U in 2020-21, the maximum (63%) will go towards interest payment against loans raised through extra budgetary sources (EBR) for the scheme. The credit linked subsidy scheme component received 17% of the total allocation for PMAY-U, while 16% was allocated for central assistance to states.

4. RBI measures to boost liquidity

   The RBI has also taken steps to infuse liquidity into the system via targeted long-term repo operations (TLTROs) of ₹1,00,000 crs, a 100-bps cut in the cash reserve ratio (CRR) of banks (available for one year) and an increase in the marginal standing facility (MSF) by 1% (available till June 2020).

   Further, RBI announced TLTRO 2.0 to provide liquidity to small and mid-sized corporates, including non-banking financial companies (NBFCs) and micro finance institutions (MFIs) that have been impacted by Covid-19 disruptions. Liquidity to be provided at the policy repo rate for tenors of up to three years for a total amount of up to ₹50,000 crs. The funds availed under TLTRO 2.0 shall be deployed in investment grade bonds, commercial paper (CPs) and non-convertible debentures (NCDs) of NBFCs with atleast 50% of the funds availed under TLTRO 2.0 apportioned as 10% towards instruments/securities issued by MFIs, 15% towards instruments/securities issued by NBFCs with asset size of ₹500 crs and below and 25% towards instruments/securities issued by NBFCs with assets size between ₹500 crs and ₹5,000 crs.

5. Special liquidity facility under Atmanirbhar

Management Discussion and Analysis

Scheme to provide further stimulus

The government announced further liquidity support to non-banking financial companies (NBFCs), housing finance companies (HFCs) and microfinance institutions (MFIs) by way of a ₹30,000 crore liquidity scheme and a partial credit guarantee (PCG) scheme of ₹45,000 crore. The ₹30,000 crore liquidity scheme will be implemented through a special purpose vehicle (SPV) set up by a large PSU bank. This SPV will issue bonds guaranteed by the government which will be purchased by the Reserve Bank of India. The money will be then used by the SPV to acquire the debt of at least investment grade of short duration (residual maturity of up to 3 months) of eligible NBFCs / HFCs.

The PCG scheme allows public sector banks to purchase high-rated pooled assets from financially sound NBFCs and HFCs. This will now be extended to cover papers with ratings of AA and below, including unrated papers, which will help MFIs access fresh liquidity support. The government will provide 20% first loss sovereign guarantee to public sector banks, resulting in total liquidity infusion worth ₹ 45,000 crore to the system.

6. Realty booster shot of ₹ 25,000 crore
   The government has announced establishing an alternate investment fund (AIF) worth ₹ 25,000 crs aimed at priority debt financing for the completion of stalled housing projects. The only condition that has been kept is that the project should be net worth positive and RERA registered.

7. Moratorium under COVID package
   RBI permitted banks & NBFCs to allow a 3-month moratorium to their borrowers on the payment of instalments from March 1, 2020 to May 31, 2020 and further extended it by three more months till August 31, 2020 without downgrade of asset classification or of borrower's rating with credit bureau agencies.

8. RBI releases proposed changes in regulations applicable to HFCs
   Key changes being definition of "housing finance" and "qualifying assets"wherein it says that 50% of net assets of HFCs should be towards Housing finance (excluding LAP, CRE, LRD etc.) and 75% of such assets towards individual housing loans. Other changes being: defining "Housing finance" or "providing finance for housing", classifying HFCs as systemically important (asset size of ₹500 crore & above) and non-systemically important (asset size less than ₹500 crore); and Reserve Bank's directions on Liquidity Risk framework , LCR, securitisation, etc., for NBFCs, to be made applicable to HFCs.

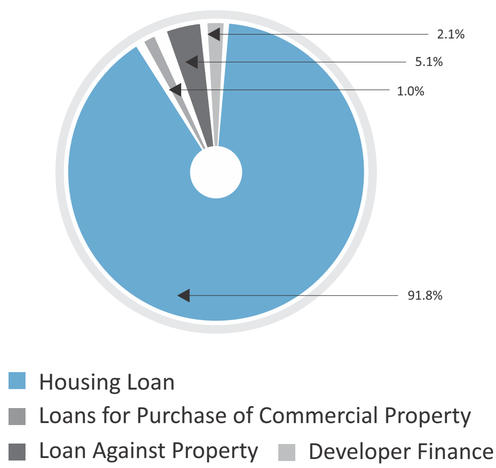
Our Performance Overview

Home First is in the business of providing housing loans to low- and mid-income affordable home buyers. Home First is a registered HFC and operates from its head office situated in Mumbai. As at March 31,2020, the company has presence across 11 States and a union territory of the country with a network of 68 branches across 60 districts.

Loan Products

The Company offers customers home loans for the purchase or construction of residential properties and for the extension and repair of existing housing units. As at March 31,2020, housing loans contributed ₹ 3,323.06 crs of the loan portfolio. In addition to home loans, the company also offers Loans against property which contributed ₹184.33 crs, Loans for purchase of commercial property which contributed ₹ 34.75 crs and Developer Finance loans which contributed ₹ 76.22 crs of the loan portfolio.

Product Mix as at March 31, 2020



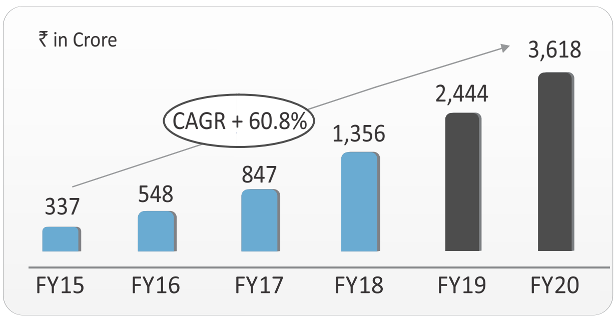
The Company has grown its Asset Under Management (AUM) from ₹ 2,443.57 crs in the previous year to ₹ 3,618.36 crs (including Direct Assignment of ₹ 576.09 crs) as at March 31, 2020 recording a growth of 48.1%. This growth has come in mainly from growth in the markets of Bangalore, Chennai, Hyderabad and Jaipur. These markets have grown by 78.7% over last year. This has helped us diversify our portfolio and reduce concentration in the States of Gujarat and Maharashtra.

Disbursements have grown from ₹ 1,618.37 crs compared to ₹ 1,572.84 crs in the previous year, an annual growth of 2.9%. We are achieving scale by driving presence in our core states of Gujarat and Maharashtra while also creating new moats in Tamil Nadu, Andhra Pradesh, Telangana and Rajasthan. This has also enabled the business to strengthen its presence in the self-construction business within the housing finance industry. With this, the company now has the knowledge and capability to grow in builder led and self-construction markets.

New originations in FY20 stood at ₹ 2,012.39 crs showing a slight decline compared to previous year ₹ 2,078.57 crs with an annual decline of 3.2%. This is mainly on account of prudent reduction in exposure to housing projects of mid and large developers. In contrast the Company has grown its origination of individual retail housing loans to 10,115 loans in FY20 from 7,778 loans in the previous period recording a growth of 30.1%

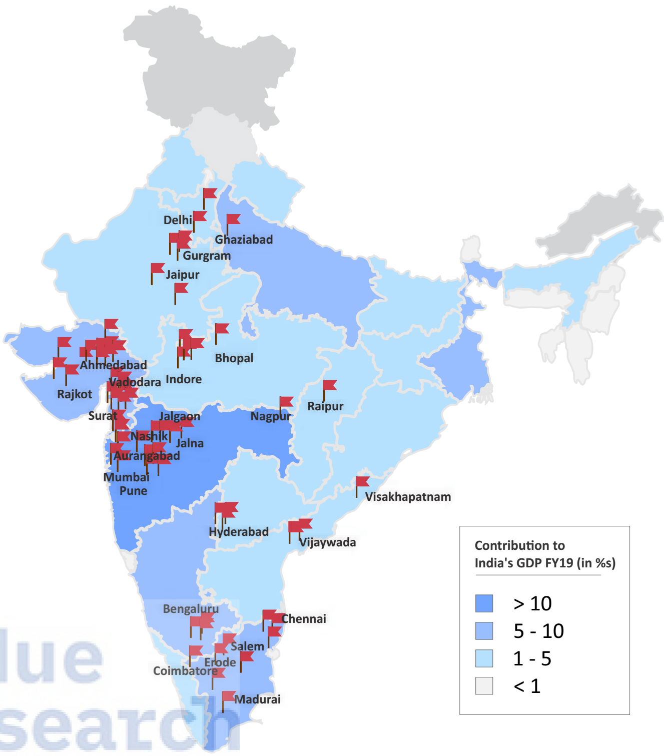
The 5-year growth of the portfolio of the Company is as follows:

Assets Under Management



We have been consistent in delivering of our operating metrics with the 5-year AUM CAGR of ~61%.We have scaled up our book from ₹ 336.83 crsto ₹ 3,618.36 crs over the last 5 years, delivering profitable and sustainable growth, while being guided by our key focus on asset quality and maintaining adequate liquidity.

The chart below shows our branch network:

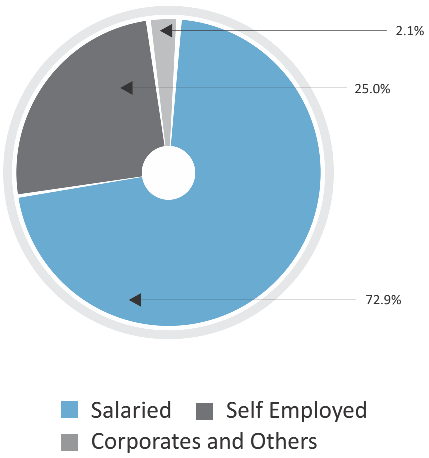


Source for Contribution of states to India's GDP: NSO, MOSPI

Customer Segment

Home First focuses on salaried customers. We believe that salaried customers are more resilient from a credit quality perspective and this will help to build a robust loan portfolio. As at March 31, 2020, the Company's customer base consisted of

Customer Segment Mix As at March 31, 2020



Management Discussion and Analysis

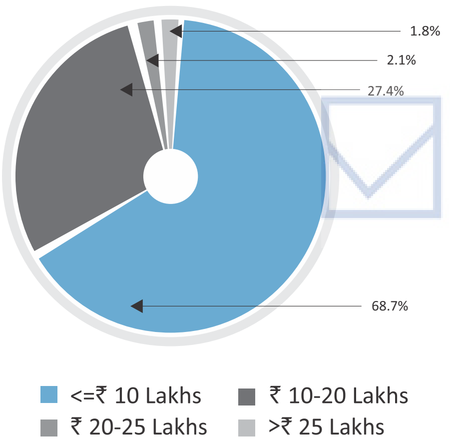
Credit Linked Subsidy Scheme under PMAY

We have been actively promoting the Credit Linked Subsidy Scheme (CLSS) under the Pradhan Mantri Awas Yojana for EWS, LIG and MIG. During the financial year 2020, the Company passed on subsidies amounting to ₹109.50 crs in respect of 5654 beneficiaries.

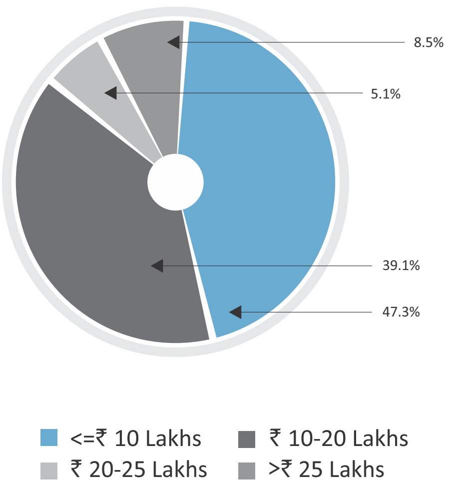
Average Ticket Size

We continue to target the affordable segment and therefore ~98% of the loans are below the ticket size of ₹25 lakhs. As at March 31, 2020, the average ticket size of the portfolio for Home Loan was ₹10.1 lakhs

Ticket size contribution by No. of Loans
As at March 31, 2020



Ticket size contribution by Sanction Value
As at March 31, 2020



[1]As per IndAS calculations

Spread on Loans

During the financial year 2020, the average yield on loans outstanding was maintained 13.2% as in the previous year[1].

The average cost of borrowings was 8.6% per annum as compared to 8.5% in the previous year. Average Spread on Loan for the year was 4.6%

Our Results of Operations for financial year 2020

- Our total income was ₹419.67 crs which grew by 54.8% as against ₹271.02 crs in the previous year, primarily due to an increase in revenue from operations. Our revenue from operations increased by 53.3% from ₹259.98 crs in FY19 to ₹ 398.66 crs in FY20, mainly due to increase in interest on term loans and net gain on derecognition of financial instruments under amortised cost category. This increase in interest on term loans was consistent with the increase in our customer base and AUM.

- Our operating expenses increased from ₹ 73.54 crs during previous year 2019 to ₹ 104.61 crs during financial year 2020 on account of an increase in the number of our branches from 60 as at March 31, 2019 to 68 as at March 31, 2020 and increase in employee base from 675 as at March 31, 2019 to 696 as at March 31, 2020; to continue the expansion of the business.

- Our Profit after tax was ₹79.55 crs which grew by 74.0% as against ₹45.72 crs in the previous year, contributed by higher loan book, operating efficiency and lower tax rate.

- The EPS (basic) (Nominal value – ₹2) was ₹10.81 against previous year of ₹7.91

- Return on Average Net worth of 10.9% against previous year of 10.8%

- Return on Total Assets of 2.7% against previous year of 2.4%

- Average Debt/Equity ratio for the year stood at 3.04 times

- Special provision of ₹ 6.94 crs was made towards COVID-19 impact based on an understanding of customer situation, the sectors they operate in, the impact of FOIR and LTV and is reflective of our confidence on the asset quality.

Asset Quality

We employ a structured collection process wherein we remind the customers of their payment schedules and perform predictive analytics to predict the probability of default, which helps us in obtaining early signals of potential defaults and initiate action to mitigate risks. As at March 31, 2020, our stage 3 loan assets stood at ₹ 31.54 crs which was 0.87% of the Gross Loan Assets and stage 3 loan assets (net) stood at 0.65% of Net Loan Assets. The company has not taken the moratorium benefit while classifying the assets[2]; for the month of March 2020. The moratorium benefit to customers was provided to customers effective April 2020.

In the financial year 2020, the Company by way of prudence and abundant caution has recognised impairment on financial instruments amounting to ₹16.50 crs out of which provision recognized towards COVID-19 impact on the Company's financial assets is ₹ 6.94 crs. As at March 31, 2020, the total impairment loss allowance stood at ₹ 26.74 crs with Provision Coverage Ratio at 87.7%.

Shareholders' Funds

As at March 31, 2020, our Shareholders' Funds was ₹933.43 crs, representing 26.8% of our total assets. As at March 31, 2019, our Shareholders' Funds was ₹522.66 crs, representing 21.1% of our total assets.

The increase in our Shareholders' Funds was primarily due to an increase in our securities premium account due to the allotment of equity shares to the existing investors and the management team of the Company by way of private placement and preferential issue.

Borrowings

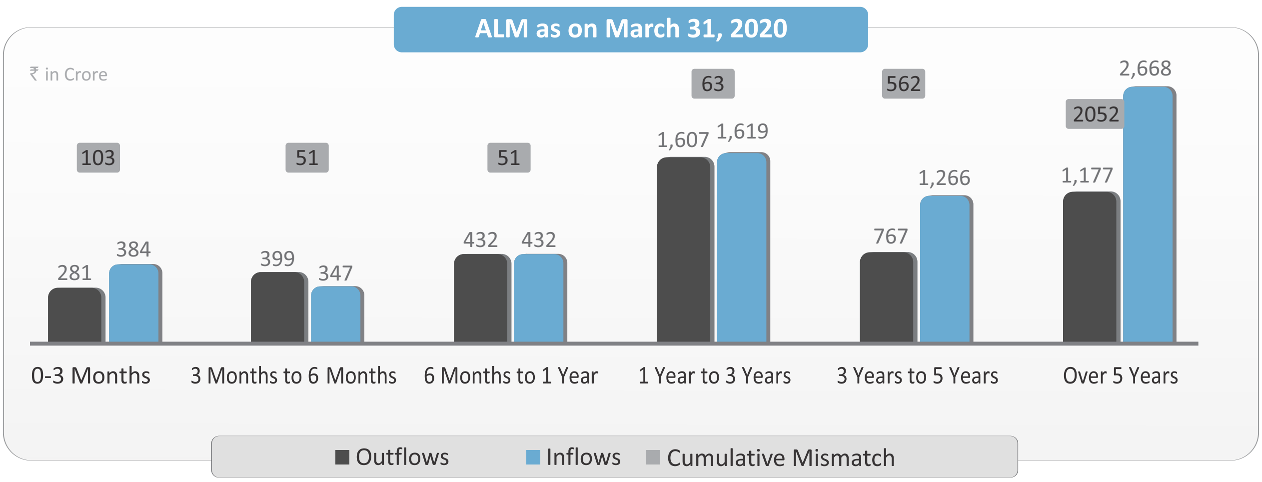
As at March 31, 2020, borrowings of the company stood at ₹ 2,493.80 crs compared to ₹ 1,925.64 crs as at March 31,2019.

During the financial year 2020, term loan of ₹ 150 crs was sanctioned by Central bank of India, ₹ 250 crs by HDFC Bank, ₹ 150 crs by Axis Bank, ₹ 100 crs by Bank of India. The company expanded lending relationships with two new lenders : Bajaj Finance sanctioned term loan of ₹ 70 crs in 2 tranches and Kotak Bank sanctioned term loan of ₹ 25 crs.

Company received refinance from NHB for total amount of ₹ 240 crs out of which ₹ 150 crs was availed under Liquidity Infusion Facility Scheme and ₹90 crs under Regular Refinance Scheme.

Our average cost of borrowings increased from 8.5% during previous year to 8.6% during financial year 2020. Slight increase in cost of borrowing can be attributed to elevated MCLR of various Bank between Q4 2019 and Q1 2020. We have witnessed softening of rates from Q2 2020 onwards and effect of that is visible now.

We regularly monitor our funding levels to ensure that we are able to satisfy the requirements for loan disbursements and maturity of our liabilities. We have optimally matched assets and liabilities:



[2] As per RBI guidelines, company has granted a moratorium of three months to the eligible customers. For accounts where moratorium is granted, prudential asset classification shall remain stand still during the moratorium period. While classifying the assets according to stages, we have not taken the moratorium benefit since the applications for moratorium were received after March 31, 2020.

Direct Assignment

During the financial year 2020, we received a purchase consideration of ₹ 361.15 crs from direct assignment and the securitized assets were derecognized in the books of the company. As at March 31, 2020, the company has Direct Assignment of ₹ 576.09 crs in the total portfolio compared to ₹ 292.06 crs as at March 31, 2019.

Capital to Risk-Weighted Assets Ratios

The following table sets forth our capital to risk-weighted assets ratios for the periods indicated:

	March 31, 2020	March 31, 2019
CRAR (%)	48.97%	38.48%
CRAR - Tier I capital (%)	47.72%	37.71%
CRAR - Tier II capital (%)	1.25%	0.77%

Credit Ratings

As at March 31, 2020, the following table sets forth our credit ratings:

Rating Agency	Instrument	Credit Ratings
CARE Ratings	Long-term Bank Facilities	A+ (Stable)
ICRA Limited	₹ 3200 crore Term Loans	A+ (Stable)
	₹ 200 crore Non-Convertible Debenture Programme	A+ (Stable)
	₹ 100 crore Commercial Paper Programme	A1+
India Ratings & Research	Commercial Paper Programme	A1+

Human Resource

We have a professional and an experienced management team, led by our CEO and founder, Manoj Viswanathan, who has over 23 years of experience in the consumer lending industry. Their experience, and industry knowledge is supported by experienced credit underwriters, business and operations teams who have in-depth knowledge and understanding of the location in which they operate.

We primarily employ people who have obtained their engineering or management degrees and we hire them directly from campuses instead of hiring them from other organizations. We have an elaborate year-long training and development program for all our new hires, which comprises of classroom-training sessions, on the job training and a buddy program. We are a young and diverse organization with a median age of 25 years, and approximately 32.6% of our employees are women. As at March 31, 2020, the employee strength stood at 696 as compared to 675 as at March 31, 2019.

Outlook

We are positive about the outlook of the business post return to normalcy from the current situation. We aim to scale our business by expanding our reach to more markets and more customers. Our robust processes backed by an efficient risk management framework will help maintain portfolio quality. In the current situation, we are actively working on further strengthening the liquidity situation and working on further streamlining the processes to prepare the business for a quick rebound as soon as the market opportunity arises.

Our historical focus on building a technology driven business with digital infrastructure and cloud computing has made it easy for us to transition to the new realities of working. We aim to continue our investment in technology to enhance our processes right from lead sourcing to machine assisted underwriting and build a low touch approval and fulfilment model. Our highly motivated workforce and an experience leadership team is organized to steer the growth and navigate through the challenges. Our strong fundamentals make us well poised to unlock the market opportunities and thereby to grow and emerge stronger.

As of June end, our disbursements have reached ~22% of Pre-COVID level. We have resumed operations and 80% of our branches are open. We are in a comfortable liquidity situation; backed by steady collections and a strong ALM framework to fund the growth of the business.

We are optimistic in scaling up with sustainable and profitable growth. We continue our focus on serving the affordable housing finance segment with good asset quality, adequate liquidity and steadily improving profitability.