Home Credit has grown to become one of the largest consumer durables loan providers in India

BY SHAILESH MENON, ET BUREAU | UPDATED: JAN 24, 2019, 12.36 PM IST

Skoda made the Czech Republic well-known in India in the new millennium. Nearly two decades later, another Czech multinational is trying to make a name for itself here. Home Credit, a non-bank originating from Prague, has grown to become one of the largest pure-play consumer durables loan providers.

Home Credit's India operations, with a loan book of over Rs 6,000 crore, is helmed by 10 executives — six of whom are eastern European nationals. The non-banking finance company (NBFC) has given loans to over 80 lakh Indians, 50% of whom are new to credit. That means, close to 40 lakh Home Credit borrowers have no borrowing and repayment history with credit rating agencies.

"Right now, there's nobody in India who can underwrite no-score customers like we do," says Ondrej Frydrych, global chief executive, Home Credit Group, which owns the India operations.

"We don't exclude no-score individuals; we lend to them. Half of our customers are first-time borrowers, which confirms we offer a strong value proposition for customers and retailers," Frydrych tells ET in an exclusive interview.

Home Credit India plays the volumes game like no other NBFC micro-financing. Its average consumer durables loan ticket size is Rs 10,000-12,000 per borrower, making it a clear retail-focused small-ticket financier.

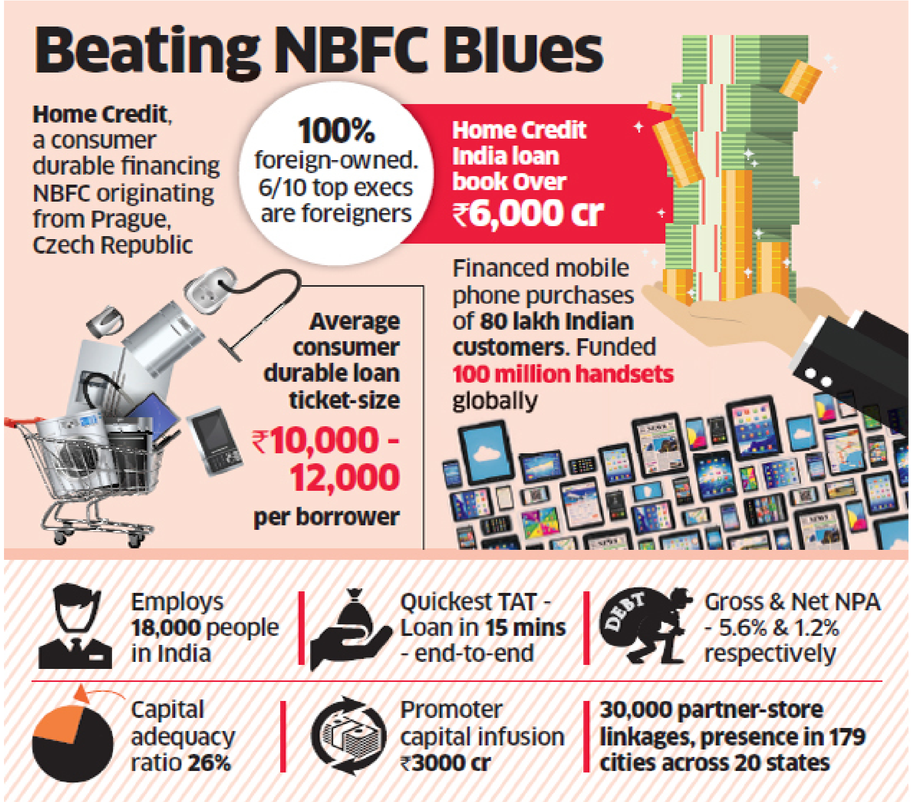
The strategy has paid off as Home Credit is very close to logging its "first profitable year" in India. It has half-yearly profits of Rs 294 crore, mainly on account of a deferred tax reversion of Rs 472 crore, as per data sourced from Capital Line.

Home Credit reported a total income of Rs 1,497 crore and net loss of Rs 261 crore in FY18, as against net loss of Rs 426 crore in FY17.

In fact, while addressing a small group of investors at Amsterdam recently, Frydrych said India operations have turned profitable on the back of double-digit growth during July-September 2018. Home Credit's new loan volumes increased close to 60% around the time when most NBFCs were finding it difficult to raise funds.

Frydrych refuses to share specific profit and loss figures, citing a silent period prior to quarterly results, but admits that India is an "inspiring market with untapped potential. We're very optimistic. We'll continue expanding here."

The group is predominantly owned by Czech billionaire Petr Kellner. The India operations are wholly owned by Home Credit Group, which is registered in Amsterdam. Home Credit has operations in China, Russia, the US, Indonesia, the Philippines, Vietnam, Kazakhstan, Czech Republic and Slovakia. "We like to be in markets with rapidly growing consumer population and significant barriers to entry. Our audience is those underserved by traditional financial institutions," Frydrych quips.
The group does consumer durables (CD) financing across all locations and prefers to fund mobile phone purchases. In fact, Home Credit is one of the largest financiers of mobile phones in the world – having aided over 100 million (mobile handset) purchases in 10 markets. In India, it has financed mobile phone purchases of 80 lakh customers.



NEED FOR SPEED

Home Credit's expertise lies in churning out quick CD loans for online and offline purchasers. It claims to have around 30,000 partner-store linkages across 179 cities in 20 states, and employs close to 18,000 in India. Home Credit competes with Bajaj Finance, Capital First and HDFC Bank-promoted HDB Financial Services in the segment.

"Unlike Bajaj Finance or Capital First, Home Credit is mostly active in the electronic durables and mobile phones space. These are usually low-ticket loans, which are less risky but offer high scope for growth," says Siddharth Purohit, banking analyst, SMC Institutional Equities.

The Czech company is the smallest in the pack, mainly on account of its thin product bouquet. Home Credit only disburses CD loans and small personal loans (with an upper limit of Rs 2.5 lakh per borrower). Its rivals have a swathe of products: loan for housing, loan against property (LAP), lending to SME, asset finance and auto finance.

"We're primarily a CD financing company, with some cross-sell into personal and two-wheeler loans. We're planning to roll out differentiated products, but you will never see us running a housing loan or such other books," says Martin Navratil, business development head, Home Credit India.

The NBFC's loan book can be split into three — close to 40% attributed to CD loans, 55% to cash loans and over 2% under the newly set up two-wheeler loans vertical.
Competitors with larger books reckon Home Credit as a formidable force in the CD financing space, mainly on account of its ability to disburse several batches of 'sub-Rs 10,000 loans' in a short span of time. The Czech company's loan algorithm is the best in its class, they say.

"Their loan turnaround time (TAT) is probably the lowest among the Big 4 CD financing companies," says the marketing head of a competing NBFC. "They are able to disburse loans to people without any credit rating references. That's one thing we're not able to do. Also, their niche is small-purchase loans, which many of us have not managed to crack."

Senior executives at Home Credit say their expertise lies in gathering data about the customer and coming to a decision, all automated. The company claims to disburse CD loans 15 minutes from the time a customer approaches them.

"We took much lesser time (than 15 minutes) when Aadhaar was a legal KYC document. Now, we don't use Aadhaar for authentication;

we use other eligible documents. This has increased our TAT to 15 minutes," says Ankush Khosla, chief operating officer, Home Credit India.

Home Credit analyses creditworthiness of a borrower by making lending models on the basis of records with telecom and other utility service providers. The NBFC also checks social networking sites of prospective customers to gather transactional and behavioural data – all in 15 minutes.

"We may not give credit to everybody who approaches us but we're able to give credit to much more people than other formal institutions do. Our loan approval rates are above 80%," Navratil adds.

This easy, hassle-free lending model leaves Home Credit vulnerable to higher levels of non-performing assets (NPA) risk. A lion's share of its loans is unsecured. Given these two factors, the company has managed to keep its gross and net NPA in check at 5.6% and 1.2%, respectively. To put this in perspective, Capital First keeps a favourable gross and net NPA ratios at 1.6% and 1%, respectively.

"Unlike others, we're not scared to lend. Lending to first-time borrowers is in our DNA. Our competency lies in assessing risk, lending and then managing to get our money back," says Vijay Dhingra, legal head, Home Credit India. "We keep a capital adequacy ratio (CAR) of 26% — one of the highest in the space where we operate. Higher CAR allows us to stay comfortable; it's partly a liquidity buffer for us too."

That said, Home Credit does not intend to maintain high CAR in the months to come as it lends more. NBFCs are required to keep a CAR of 15%, as per RBI guidelines.

THE BIG CHEQUE

Apart from promoter-infused capital, Home Credit borrows from banks and also issues commercial papers and non-convertible debentures (NCDs). It has also raised funds by securitising a few batches of two-wheeler and CD loans. Foreign promoters of Home Credit India have invested close to Rs 3,000 crore in its India business, apart from giving 'guarantees' to its bank borrowings.

Care Ratings grades the issuance of Home Credit and the scale has moved up consistently, starting from BB+ (below investment grade) in June 2016, to BBB in September 2017 and A- in July 2018, reflecting 'adequate safety.'

"If you look at pure-play CD loans, Home Credit is the largest financier in India currently," says Mitul Budhbhatti, associate director, Care Ratings. "When we met them first, we were not sure of their survival. But they have done well over the past three years. They seem to have a good plan and solid backing from promoters. The group has pivoted to profitability in Russia and China; they would be profitable in India too very soon."

Home Credit's gearing ratio was 2.54 times at the end of last fiscal; this is much lower than larger NBFCs such as Bajaj Finance, with levels upwards of 5x. Gearing ratio measures the impact of debt on capital structure and assesses the financial risk due to additional debt.

"Many NBFCs are undergoing a lot of asset liability mismatch stress. We're pretty comfortable. A majority of our liabilities are long-term and a good portion of our loans comes back in less than one year," says Navratil.

A large number of the phones it has funded is through 'zero-per cent finance' options (interest subvention schemes) structured by phone manufacturers, retailers or both. In such deals, the NBFC pockets the interest portion (on loans disbursed to purchasers) from the manufacturer or the retailer. Currently, 70-75% customers opt for EMI financing across categories, as compared to 40-45% three years ago, states a recent Motilal Oswal research report.

"Zero-per cent finance and zero-down payment options make great selling points. Customers are encouraged to buy when such schemes are floated, along with launches," says Vishal Mewani, director, Kohinoor Televideo. However, Mewani is not very happy. "When NBFCs launch such financing options, we turn very skeptical. We just don't get our money on time," he says. Kohinoor has no formal tie-up with Home Credit just yet.

THIRD CORE HOME CREDIT MARKET

Frydrych aims at funding more of the 90 million mobile phones purchased in India every year. The group may also finance goods of higher value, including home appliances. According to Frydrych, India may soon become the third core market for Home Credit Group, after China and Russia.

Home Credit has a significant presence in north India, with over 35% of its loan book concentrated in Delhi, Punjab, Uttarakhand, Haryana and Chandigarh. Delhi-NCR alone contributed close to 20% of the loan book, notes a Care Ratings paper.

"CD financiers like Home Credit would grow further if they expand to smaller towns and cities. There's great demand for small-ticket consumer loans in such places," believes Purohit of SMC.

The company is now trying to spread out to the south with more store-level tie-ups. "We've emerged a leading player in the sub-Rs10,000 category in a short span. We'll expand through wider and deeper penetration into cities and product categories," says Ondrej Kubik, India chief executive, Home Credit.

The Czech surely knows – without hard work, there's no kolach.

In Case You Missed It

All about PNB Fraud
Home Loan Calculator
NBFC
Income Tax
Car sales
Future Group
Income Tax Calculator
Budget 2019
Education Loan Calculator
TRAI
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