

India

ADD (no change)

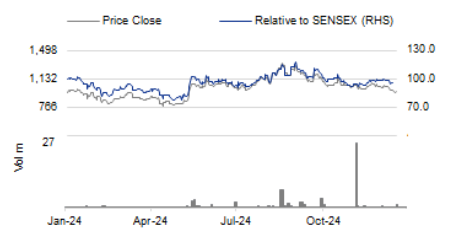
Consensus ratings*: Buy 20 Hold 2 Sell 1

Current price: Rs970
 Target price: ▼ Rs1,150
 Previous target: Rs1,350
 Up/downside: 18.6%
 InCred Research / Consensus: -8.5%

Reuters:
 Bloomberg: HOMEFIRS IN
 Market cap: US\$1,005m
 Rs86,980m
 Average daily turnover: US\$8.3m
 Rs718.8m
 Current shares o/s: 87.6m
 Free float: 38.0%
 *Source: Bloomberg

Key changes in this note

- Slowdown in disbursements, along with rising early bucket delinquencies, to be keenly monitored.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.8)	(18.2)	(1.7)
Relative (%)	(3.7)	(14.5)	(8.6)

Major shareholders	% held
Orange Clove Investments B.V.	12.2
True North	8.6
Aether(Mauritius) ltd	5.7

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Home First Finance company

Slow growth; concerns over rise in slippage

- HFFC posted in-line 3Q performance led by healthy AUM growth & improving operating leverage, partially offset by rising credit costs & NIM pressure.
- Early bucket delinquencies led by cash flow mismatches are expected to smoothen in the coming quarters; disbursements guided to improve.
- We like HFFC's unique connector-led business model, but slowing growth & rise in delinquencies are areas of concern. Retain ADD with lower Rs1,150 TP.

Slowdown may be temporary, but execution is key to growth

Home First Finance Company (HFFC) reported an in-line 3QFY25 PAT with a largely stable core operating performance. Disbursement growth at ~1% qoq and ~18% yoy was softer on account of the Karnataka government implementing 'e-khata' norms and tighter underwriting, which had a combined impact on ~2.5% of total disbursements. The recent slowdown in disbursement is an area of concern; however, management has indicated the same to be on account of a one-time impact and that disbursements will pick up pace from 4QFY25F. We believe that as the loan book is expanding into newer geographies, management is moving on cautious grounds and will accelerate growth again with seasoning of the portfolio. The states in focus are Uttar Pradesh, Madhya Pradesh and Rajasthan. AUM growth also eased to ~33% yoy and ~6% qoq to Rs119bn due to softer disbursements.

Margin pressure inevitable, although spreads hold firm

There was some net interest margin or NIM pressure with ~30bp qoq decline to 4.9% on account of the higher cost of borrowings, inching up of leverage and lower realized yield. The decline in spreads was relatively lower by ~10bp qoq at 5.2%, with management indicating the spreads to be rangebound from here on. We expect NIM pressure to remain in FY26F amid the probable rate cut from FY27F.

Initial spike in asset quality to be keenly watched

HFFC reported a spike in early bucket delinquencies with a ~30bp rise in both 1+ dpd and 30+ dpd, which raises concerns over higher asset quality pain. This was further echoed in a ~80bp qoq surge in the EMI bounce rate, which reached ~16% in 3QFY25 and Jan 2025. However, management clarified that these early delinquencies largely relate to cash flow mismatches and are expected to smoothen in the coming quarters.

Outlook and valuation

With a probable capital raising (Rs12.5bn), RoE may be temporarily subdued; however, growth levers will be fuelled. We retain our ADD rating on the stock; however, considering slowing disbursement growth, continued pressure on margins and a recent rise in delinquencies, we have cut our target price to Rs1,150 (Rs1,350 earlier), valuing the stock at ~3.5x FY26F P/BV. Downside risks: Lower growth and a surge in non-performing assets or NPAs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	4,179	5,278	6,383	8,220	10,173
Total Non-Interest Income (Rsm)	734	1,289	1,754	2,033	2,365
Operating Revenue (Rsm)	4,913	6,567	8,136	10,253	12,538
Total Provision Charges (Rsm)	(215)	(254)	(282)	(480)	(739)
Net Profit (Rsm)	2,283	3,057	3,766	4,733	5,662
Core EPS (Rs)	26.05	34.54	42.55	53.47	63.97
Core EPS Growth	23%	33%	23%	26%	20%
FD Core P/E (x)	37.23	28.08	22.80	18.14	15.16
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	207.4	239.7	275.8	318.6	363.4
P/BV (x)	4.68	4.05	3.52	3.04	2.67
ROE	13.5%	15.5%	16.5%	18.0%	18.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings performance

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,246	1,321	1,344	1,368	1,464	1,566	1,631	21.4%	4.2%
<i>NIM (% of AUM)</i>	6.1%	6.0%	5.7%	5.3%	5.3%	5.2%	4.9%		
Other Operating Income	285	289	364	351	382	421	517	41.8%	22.9%
Operating Expenses	553	565	611	584	655	726	752	23.2%	3.6%
Operating Profit	977	1,044	1,097	1,135	1,191	1,261	1,396	27.2%	10.7%
Provisions	77	80	70	27	56	57	98	39.7%	70.8%
PBT	900	964	1,027	1,107	1,135	1,204	1,298	26.4%	7.9%
Tax	209	221	239	273	258	281	324	35.6%	15.3%
<i>Tax Rate (%)</i>	23.2%	23.0%	23.3%	24.6%	22.7%	23.4%	25.0%		
PAT	691	743	788	835	878	922	974	23.5%	5.6%
AUM (Rs bn)	78	84	90	97	105	112	119	32.6%	6.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

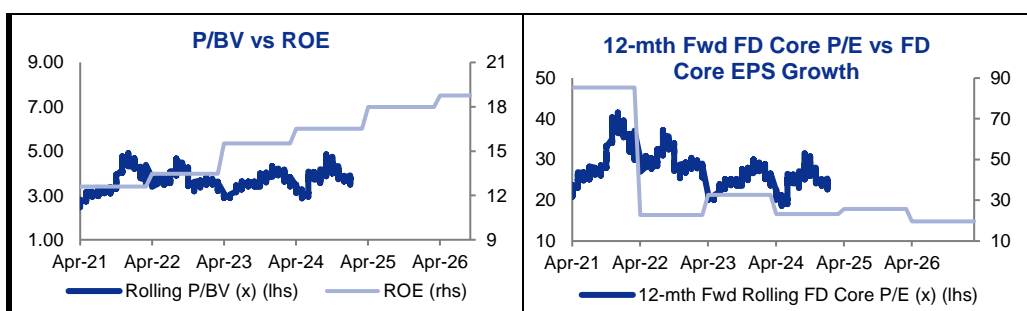
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	6,442	6,383	-0.9%	8,226	8,220	-0.1%	10,270	10,173	-1.0%
PPOP	5,225	5,221	-0.1%	6,582	6,833	3.8%	8,004	8,339	4.2%
PAT	3,786	3,766	-0.5%	4,639	4,733	2.0%	5,623	5,662	0.7%
EPS (Rs)	43	43	-0.5%	52	53	2.0%	64	64	0.7%
BV (Rs)	276	276	-0.1%	318	319	0.2%	362	363	0.3%
AUM(Rsbn)	130	127.6	-2.2%	170	161.3	-5.4%	216	198.6	-8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights from 3QFY25 earnings call

- The company has its board approval for raising Rs12.5bn of equity capital to fuel its next level of growth.
- The balance sheet leverage is currently ~5x and the company is comfortable moving to ~6x; however, management indicated maintaining some buffer from 6x.
- The company gave guidance of achieving assets under management or AUM of ~ Rs20bn by FY27F, with ~20% being contributed from the loan against property or LAP book and ~10% of co-lending.
- Thus, disbursements are guided to grow by ~19-20% yoy, with an AUM growth of 27-30% yoy divided into home loan growth of ~15-20% yoy and LAP AUM growth of 20-23% yoy.
- The balance transfer (BT) was <1% while the BT out was ~6%.
- This was the first quarter of complete insurance commission, and the same is guided to be Rs150-180m per quarter, growing by ~16-18% yoy.
- Credit cost guidance is ~30-40bp in the near- to medium-term.
- Organic capital consumption is ~75bp per quarter.
- Only ~1% of the company's customers had microfinance or MFI loans.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	4,179	5,278	6,383	8,220	10,173
Total Non-Interest Income	734	1,289	1,754	2,033	2,365
Operating Revenue	4,913	6,567	8,136	10,253	12,538
Total Non-Interest Expenses	(1,655)	(2,196)	(2,763)	(3,226)	(3,963)
Pre-provision Operating Profit	3,168	4,254	5,221	6,833	8,339
Total Provision Charges	(215)	(254)	(282)	(480)	(739)
Operating Profit After Provisions	2,952	4,000	4,939	6,353	7,600
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	2,952	4,000	4,939	6,353	7,600
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,218	2,711	3,185	4,320	5,235
Exceptional Items					
Pre-tax Profit	2,952	4,000	4,939	6,353	7,600
Taxation	(669)	(942)	(1,173)	(1,620)	(1,938)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	2,283	3,057	3,766	4,733	5,662
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	2,283	3,057	3,766	4,733	5,662
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	8.2%	6.9%	7.5%	6.1%	5.5%
Avg Liquid Assets/Avg IEAs	9.4%	7.9%	8.6%	6.8%	6.0%
Net Cust Loans/Assets	89.0%	85.4%	88.5%	90.0%	91.0%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	30.3%	26.1%	22.9%	21.2%	19.8%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	59,957	81,434	106,756	133,332	162,217
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,957	81,434	106,756	133,332	162,217
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	59,957	81,434	106,756	133,332	162,217
Intangible Assets					
Other Non-Interest Earning Assets	1,368	1,602	1,442	1,298	1,168
Total Non-Interest Earning Assets	1,621	1,902	1,772	1,661	1,567
Cash And Marketable Securities	2,984	8,215	7,912	8,501	9,348
Long-term Investments	2,808	3,788	4,167	4,584	5,042
Total Assets	67,370	95,340	120,607	148,077	178,175
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	48,134	73,021	94,594	118,079	143,978
Total Interest-Bearing Liabilities	48,134	73,021	94,594	118,079	143,978
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,063	1,104	1,596	1,796	2,031
Total Liabilities	49,197	74,125	96,191	119,875	146,009
Shareholders Equity	18,173	21,215	24,416	28,202	32,166
Minority Interests					
Total Equity	18,173	21,215	24,416	28,202	32,166

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	41.2%	26.3%	20.9%	28.8%	23.8%
Operating Profit Growth	25.9%	34.2%	22.9%	30.8%	22.0%
Pretax Profit Growth	30%	35%	23%	29%	20%
Net Interest To Total Income	85.1%	80.4%	78.4%	80.2%	81.1%
Cost Of Funds	7.35%	8.25%	8.72%	8.30%	7.80%
Return On Interest Earning Assets	14.0%	14.5%	14.6%	14.2%	13.8%
Net Interest Spread	6.67%	6.29%	5.83%	5.90%	6.00%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	7%	6%	5%	7%	9%
Interest Return On Average Assets	7.05%	6.49%	5.91%	6.12%	6.24%
Effective Tax Rate	22.7%	23.6%	23.7%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	3.85%	3.76%	3.49%	3.52%	3.47%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.