

India

ADD (no change)

Consensus ratings*: Buy 23 Hold 0 Sell 1

| | |
|------------------------------|---------|
| Current price: | Rs1,193 |
| Target price: ▲ | Rs1,450 |
| Previous target: | Rs1,150 |
| Up/downside: | 21.5% |
| InCred Research / Consensus: | 14.2% |

| | |
|-------------------------|--------------------------|
| Reuters: | |
| Bloomberg: | HOMEFIRS IN |
| Market cap: | US\$1,453m Rs122,841m |
| Average daily turnover: | US\$8.3m Rs701.8m |
| Current shares o/s: | 102.9m |
| Free float: | 87.5% |

*Source: Bloomberg

Key changes in this note

- We raise our AUM growth estimate led by the company's consistent performance and expansion into newer geographies fuelled by the recent capital raising.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | 20.4 | 24.0 | 34.0 |
| Relative (%) | 12.7 | 20.5 | 23.0 |

| Major shareholders | % held |
|-------------------------------|--------|
| Orange Clove Investments B.V. | 10.7 |
| True North | 7.5 |
| Capital Group | 6.0 |

Research Analyst(s)

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Home First Finance company

Gearing up to accelerate growth

- HFFC posted an in-line 4Q performance led by healthy AUM growth & improving operating leverage and contained credit costs & NIM pressure.
- Early-bucket delinquencies led by cash flow mismatches are expected to smoothen in the coming quarters.
- We like HFFC's unique connector-led business model conservative management practices & deepening presence. Retain ADD with Rs1,450 TP.

Disbursements pick pace led by a higher share from newer states

Home First Finance Company (HFFC) reported an in-line 4QFY25 PAT with a largely stable core operating performance. Disbursement growth at ~7% qoq and ~16% yoy was encouraging after softer disbursement growth in the previous quarter. The growth was led by strong performance of newer states such as Madhya Pradesh, Rajasthan, and Uttarakhand. Vintage states like Tamil Nadu and Gujarat grew at a slower pace than the assets under management or AUM as the company is restructuring branches in these states. We believe that as the company's loan book expands into newer geographies along with recalibrating strategies in existing states, AUM growth is expected to sustain its strong momentum of 25-30% yoy over FY26F-28F. Moreover, the recent capital raising provides good room for grabbing market share. AUM grew by ~31% yoy and ~6% qoq to Rs127bn due to strong disbursements.

Improving NIM led by better borrowing mix

There was some improvement in the net interest margin or NIM of ~20bp qoq to 5.1% on account of mark-to-market or MTM benefit along with reduced cost of borrowings and a changing borrowing mix. We expect NIM to improve in FY26F on account of capital raising and then ease from FY27F but largely remain range-bound.

Asset quality pressure contained; EMI bounce rate inches up

HFFC reported easing in early-bucket delinquencies with a ~30bp decline in 1+ dpd, addressing concerns over rising asset quality pain. Gross stage-3 assets remained stable qoq at 1.7%. However, we are keeping a close eye on the EMI bounce rate, which inched up to ~16.4% in 4QFY25 and eased to 16.2% in Apr 2025. However, management clarified that these are largely early delinquencies & are likely to smoothen in the coming quarters.

Outlook and valuation

With the successful capital raising (Rs12.5bn) in Apr 2025, growth levers will be fuelled. We retain our ADD rating on the stock due to its unique connector-led business model, conservative management practices and deepening geographic presence. With a gradual utilization of capital, we expect the RoE profile of HFFC to improve from ~14% in FY26F to ~16% in FY28F, which justifies its valuation premium. We have increased our target price to Rs1,450 (Rs1,150 earlier), valuing the stock at ~3.1x FY27F P/BV. Downside risks: Lower growth and a surge in non-performing assets or NPAs.

| Financial Summary | Mar-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Net Interest Income (Rsm) | 5,278 | 6,388 | 8,677 | 11,496 | 14,353 |
| Total Non-Interest Income (Rsm) | 1,289 | 1,852 | 2,288 | 2,622 | 3,021 |
| Operating Revenue (Rsm) | 6,567 | 8,239 | 10,965 | 14,117 | 17,374 |
| Total Provision Charges (Rsm) | (254) | (288) | (373) | (561) | (709) |
| Net Profit (Rsm) | 3,057 | 3,821 | 4,990 | 6,697 | 8,475 |
| Core EPS (Rs) | 34.54 | 42.43 | 48.47 | 65.06 | 82.32 |
| Core EPS Growth | 33% | 23% | 14% | 34% | 27% |
| FD Core P/E (x) | 34.55 | 28.13 | 24.62 | 18.34 | 14.50 |
| 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) | 239.7 | 280.0 | 410.0 | 462.0 | 527.9 |
| P/BV (x) | 4.98 | 4.26 | 2.91 | 2.58 | 2.26 |
| ROE | 15.5% | 16.5% | 14.8% | 14.9% | 16.6% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

| Particulars (Rs m) | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 | 4QFY25 | YoY (%) | QoQ (%) |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Net Interest Income | 1,246 | 1,321 | 1,344 | 1,368 | 1,464 | 1,566 | 1,631 | 1,726 | 26.2% | 5.8% |
| <i>NIM (% of AUM)</i> | 6.1% | 6.0% | 5.7% | 5.3% | 5.3% | 5.2% | 4.9% | 5.1% | | |
| Other Operating Income | 285 | 289 | 364 | 351 | 382 | 421 | 517 | 533 | 51.9% | 3.1% |
| Operating Expenses | 553 | 565 | 611 | 584 | 655 | 726 | 752 | 803 | 37.5% | 6.7% |
| Operating Profit | 977 | 1,044 | 1,097 | 1,135 | 1,191 | 1,261 | 1,396 | 1,456 | 28.3% | 4.3% |
| Provisions | 77 | 80 | 70 | 27 | 56 | 57 | 98 | 77 | 180.6% | -21.3% |
| PBT | 900 | 964 | 1,027 | 1,107 | 1,135 | 1,204 | 1,298 | 1,379 | 24.5% | 6.2% |
| Tax | 209 | 221 | 239 | 273 | 258 | 281 | 324 | 332 | 21.7% | 2.4% |
| <i>Tax Rate (%)</i> | 23.2% | 23.0% | 23.3% | 24.6% | 22.7% | 23.4% | 25.0% | 24.1% | | |
| PAT | 691 | 743 | 788 | 835 | 878 | 922 | 974 | 1,047 | 25.4% | 7.5% |
| AUM (Rs bn) | 78 | 84 | 90 | 97 | 105 | 112 | 119 | 127 | 31.1% | 6.4% |
| Disbursement | 9 | 10 | 10 | 11 | 12 | 12 | 12 | 13 | 15.5% | 6.7% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

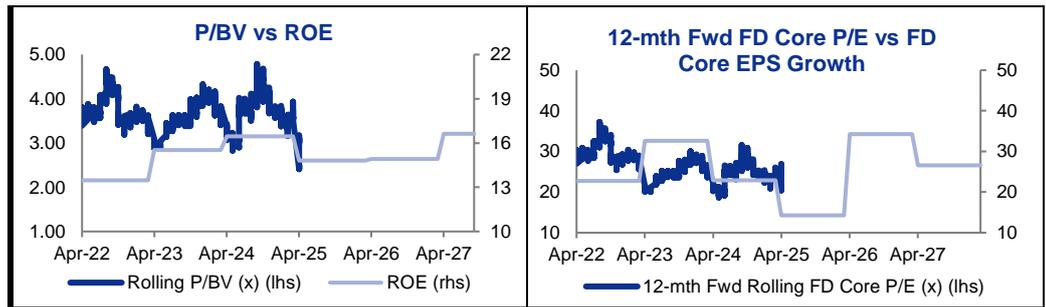
| Y/e Mar (Rs m) | FY26F | | | FY27F | | | FY28F | | |
|---------------------|---------|---------|----------|---------|---------|----------|---------|---------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | Earlier | Revised | % change |
| Net interest income | 8,220 | 8,677 | 5.6% | 10,173 | 11,496 | 13.0% | | 14,353 | |
| PPOP | 6,833 | 7,070 | 3.5% | 8,339 | 9,550 | 14.5% | | 12,084 | |
| PAT | 4,733 | 4,990 | 5.4% | 5,662 | 6,697 | 18.3% | | 8,475 | |
| EPS (Rs) | 53 | 48 | -8.5% | 64 | 65 | 2.4% | | 82 | |
| BV (Rs) | 319 | 410 | 28.5% | 363 | 462 | 27.3% | | 528 | |
| AUM(Rsbn) | 161 | 163.3 | 1.3% | 199 | 205.5 | 3.5% | | 260.6 | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ►

- HFFC's management indicated that RoE will return to 15%+ in six-to-seven quarters.
- The balance transfer out rate was 7.5%.
- Loan ticket size is expected to rise by 3-4% every year.
- New branches reached an AUM of Rs300-500m in two years and Rs500-700m in three-to-four years.
- Management maintained its credit cost guidance of 30bp to 40bp.
- The company targets co-lending to account for 10% of its disbursements.
- A rate cut results in a 60% reduction in the cost of borrowings over a 12-month period.
- The company hired ~400 employees in FY25, and the attrition rate was ~30%.

BY THE NUMBERS



Profit & Loss

| (Rsm) | Mar-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
|---|----------------|----------------|----------------|----------------|----------------|
| Net Interest Income | 5,278 | 6,388 | 8,677 | 11,496 | 14,353 |
| Total Non-Interest Income | 1,289 | 1,852 | 2,288 | 2,622 | 3,021 |
| Operating Revenue | 6,567 | 8,239 | 10,965 | 14,117 | 17,374 |
| Total Non-Interest Expenses | (2,196) | (2,780) | (3,697) | (4,320) | (4,982) |
| Pre-provision Operating Profit | 4,254 | 5,304 | 7,070 | 9,550 | 12,084 |
| Total Provision Charges | (254) | (288) | (373) | (561) | (709) |
| Operating Profit After Provisions | 4,000 | 5,016 | 6,698 | 8,989 | 11,375 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Operating EBIT (incl Associates) | 4,000 | 5,016 | 6,698 | 8,989 | 11,375 |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 2,711 | 3,164 | 4,409 | 6,368 | 8,354 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 4,000 | 5,016 | 6,698 | 8,989 | 11,375 |
| Taxation | (942) | (1,195) | (1,708) | (2,292) | (2,901) |
| Consolidation Adjustments & Others | | | | | |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 3,057 | 3,821 | 4,990 | 6,697 | 8,475 |
| Minority Interests | | | | | |
| Pref. & Special Div | | | | | |
| FX And Other Adj. | | | | | |
| Net Profit | 3,057 | 3,821 | 4,990 | 6,697 | 8,475 |
| Recurring Net Profit | | | | | |

Balance Sheet Employment

| (Rsm) | Mar-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
|--|-------------|-------------|-------------|-------------|-------------|
| Gross Loans/Cust Deposits | | | | | |
| Avg Loans/Avg Deposits | | | | | |
| Avg Liquid Assets/Avg Assets | 6.9% | 8.1% | 5.8% | 5.8% | 6.2% |
| Avg Liquid Assets/Avg IEAs | 7.9% | 9.4% | 6.5% | 6.4% | 6.8% |
| Net Cust Loans/Assets | 85.4% | 87.2% | 91.2% | 89.3% | 91.1% |
| Net Cust Loans/Broad Deposits | | | | | |
| Equity & Provns/Gross Cust Loans | 26.1% | 23.7% | 29.7% | 26.6% | 24.0% |
| 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-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
| Total Gross Loans | 81,434 | 106,487 | 141,991 | 178,623 | 226,482 |
| Liquid Assets & Invst. (Current) | | | | | |
| Other Int. Earning Assets | | | | | |
| Total Gross Int. Earning Assets | 81,434 | 106,487 | 141,991 | 178,623 | 226,482 |
| Total Provisions/Loan Loss Reserve | | | | | |
| Total Net Interest Earning Assets | 81,434 | 106,487 | 141,991 | 178,623 | 226,482 |
| Intangible Assets | | | | | |
| Other Non-Interest Earning Assets | 1,602 | 2,353 | 2,589 | 2,848 | 3,132 |
| Total Non-Interest Earning Assets | 1,902 | 2,645 | 2,909 | 3,200 | 3,520 |
| Cash And Marketable Securities | 8,215 | 9,382 | 6,807 | 13,733 | 13,913 |
| Long-term Investments | 3,788 | 3,602 | 3,963 | 4,359 | 4,795 |
| Total Assets | 95,340 | 122,117 | 155,670 | 199,916 | 248,710 |
| Customer Interest-Bearing Liabilities | | | | | |
| Bank Deposits | | | | | |
| Interest Bearing Liabilities: Others | 73,021 | 95,507 | 111,544 | 150,114 | 191,770 |
| Total Interest-Bearing Liabilities | 73,021 | 95,507 | 111,544 | 150,114 | 191,770 |
| Banks Liabilities Under Acceptances | | | | | |
| Total Non-Interest Bearing Liabilities | 1,104 | 1,397 | 1,922 | 2,240 | 2,599 |
| Total Liabilities | 74,125 | 96,904 | 113,466 | 152,354 | 194,369 |
| Shareholders Equity | 21,215 | 25,213 | 42,204 | 47,561 | 54,341 |
| Minority Interests | | | | | |
| Total Equity | 21,215 | 25,213 | 42,204 | 47,561 | 54,341 |

| Key Ratios | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-24A | Mar-25A | Mar-26F | Mar-27F | Mar-28F |
| Total Income Growth | 26.3% | 21.0% | 35.8% | 32.5% | 24.9% |
| Operating Profit Growth | 34.2% | 24.9% | 33.1% | 34.8% | 26.5% |
| Pretax Profit Growth | 35% | 25% | 34% | 34% | 27% |
| Net Interest To Total Income | 80.4% | 77.5% | 79.1% | 81.4% | 82.6% |
| Cost Of Funds | 8.25% | 8.49% | 8.30% | 8.00% | 7.60% |
| Return On Interest Earning Assets | 14.5% | 14.4% | 13.9% | 13.7% | 13.5% |
| Net Interest Spread | 6.29% | 5.92% | 5.60% | 5.70% | 5.90% |
| Net Interest Margin (Avg Deposits) | | | | | |
| Net Interest Margin (Avg RWA) | | | | | |
| Provisions to Pre Prov. Operating Profit | 6% | 5% | 5% | 6% | 6% |
| Interest Return On Average Assets | 6.49% | 5.87% | 6.25% | 6.47% | 6.40% |
| Effective Tax Rate | 23.6% | 23.8% | 25.5% | 25.5% | 25.5% |
| Net Dividend Payout Ratio | | | | | |
| Return On Average Assets | 3.76% | 3.51% | 3.59% | 3.77% | 3.78% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

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.