



India

ADD (no change)

Consensus ratings*: Buy 15 Hold 0 Sell 3

Current price:	Rs793
Target price:	Rs1,200 ▲
Previous target:	Rs1,050
Up/downside:	51.3%
InCred Research / Consensus:	27.0%

Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$959m
	Rs69,631m
Average daily turnover:	US\$2.1m
	Rs152.2m
Current shares o/s:	87.6m
Free float:	38.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.1	8.5	4.6
Relative (%)	13.4	7.3	0.5

Major shareholders	% held
True North	20.2
Orange Clove Investments B.V.	28.8
Aether(Mauritius) Ltd	13.4

Analyst(s)

Mayank AGARWAL

T (91) 22 4161 0000

E mayank.agarwal@incredcapital.com

Jignesh SHIAL

T (91) 22 4161 1547

E jignesh.shial@incredcapital.com

Akshay DOSHI

T (91) 22 4161 1548

E akshay.doshi@incredcapital.com

Home First Finance company

Accelerates its profitable growth engine

- HFFC reported strong 3QFY23 profit at Rs587m, up 27.9% yoy/8.2% qoq, led by higher AUM growth at 35.2% yoy/7.6% qoq, low opex, and low credit cost.
- Branch expansion and strong demand in the niche segment to drive growth. Its ability to raise lending rates by 50bp on 1 Dec 2022 shows the pricing power.
- HFFC is our high-conviction stock idea due to its niche customer segment, faster TAT, and best-in-class execution. Retain ADD rating on the stock.

Solid growth momentum likely to continue

Home First Finance Company or HFFC reported strong 3QFY23 assets under management or AUM growth of 35.2% yoy/7.6% qoq, leading to AUM of Rs67.5bn driven by strong disbursement growth of 37% yoy/11.1% qoq in the affordable housing segment. HFFC, due to its presence in the niche segment and branch expansions, witnessed strong demand despite various macro-economic headwinds in housing demand. We believe the growth pick-up at newer branches was faster for HFFC as customer dynamics of urban customers are similar across states. We believe HFFC's guidance of 30% AUM growth is achievable and the higher growth trajectory will sustain for the next three-to-five years.

Change in product mix to structurally drive margins

HFFC increased the interest rates for its customers by 50bp from 1 Dec 2022, the full benefit of which will come in 4QFY23F yields and will largely offset the rise in the cost of borrowing. HFFC is raising the share of its non-housing loan portfolio which has a higher yield of 150-200bp and is also increasing self-constructed home loans' share in Tier-2/Tier-3 cities as a result which its margins may improve structurally.

Operating leverage and strong asset quality to support profitability

Despite higher loan disbursement growth, opex growth during the quarter was sequentially muted because of lower branch/employee addition during the quarter. Asset quality improved by 10bp qoq to 1.8%, 30+ days past due (DPD) improved by 30bp qoq to 3%, and the equated monthly instalment or EMI bounce rate improved by 70bp to 14.9%. We believe that opex growth will remain lower than revenue growth, despite the branch expansion phase, due to quick scalability and superior asset quality restricting the credit cost at 30-50bp, in line with management's guidance.

Valuation and risks

We believe that lower TAT and hassle-free loan processing are important factors for customer acquisition and establishing a strong brand, for which HFFC is a benchmark to affordable housing financiers. HFFC is our high-conviction stock idea as we believe it will continue to grow its AUM at 30%, and with an improved share of higher-yield loans and operating leverage will maintain its current ROA of 3.8%. We retain ADD rating on HFFC with a higher target price of Rs1,200 (Rs1,050 earlier), valuing the stock at ~5x FY24F P/BV. Downside risk: Lower growth because of rising competition.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	2,035	3,097	4,330	5,776	7,301
Total Non-Interest Income (Rsm)	655	703	934	1,137	1,375
Operating Revenue (Rsm)	2,690	3,800	5,264	6,913	8,676
Total Provision Charges (Rsm)	(322)	(250)	(230)	(379)	(451)
Net Profit (Rsm)	1,001	1,861	2,432	2,988	3,748
Core EPS (Rs)	11.46	21.24	27.75	34.09	42.77
Core EPS Growth	13%	85%	31%	23%	25%
FD Core P/E (x)	69.18	37.33	28.57	23.25	18.53
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)	158.0	179.6	207.3	241.4	275.6
P/BV (x)	5.02	4.41	3.82	3.28	2.88
ROE	8.7%	12.6%	14.3%	15.2%	16.5%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Net Interest Income	759	851	940	1,016	1,106	45.7%	8.9%
<i>NIM (% of AUM)</i>	5.7%	6.4%	6.4%	6.5%	6.4%		
Other Operating Income	211	172	147	167	154	-27.1%	-7.9%
Operating Expenses	319	364	387	441	443	38.7%	0.3%
Operating Profit	651	659	699	741	817	25.5%	10.2%
Provisions	60	27	36	50	60	0.3%	20.5%
PBT	591	632	663	692	757	28.1%	9.5%
Tax	-132	-30	-151	-149	-170	28.7%	14.1%
<i>Tax rate (%)</i>	-22.3%	-4.8%	-22.7%	-21.5%	-22.4%		
PAT	459	602	512	543	587	27.9%	8.2%
AUM (Rs bn)	50	54	58	63	68	35.2%	7.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

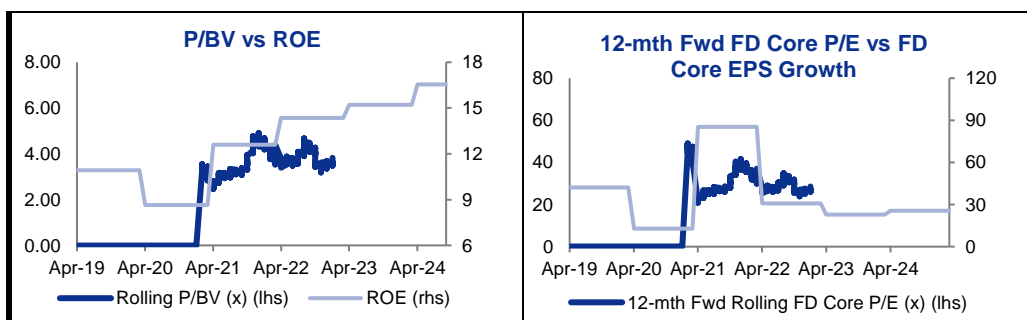
Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	4,165	4,300	3.2%	5,709	5,776	1.2%	7,512	7,375	-1.8%
Non-Interest Income	934	728	-22.1%	1,141	974	-14.6%	1,379	1,180	-14.5%
PAT	2,358	2,253	-4.5%	3,009	2,937	-2.4%	3,808	3,678	-3.4%
EPS (Rs)	26.9	25.7	-4.4%	34.3	33.5	-2.4%	43.5	42.0	-3.4%
BV (Rs)	206.5	205.3	-0.6%	240.8	238.8	-0.8%	275.6	272.4	-1.2%

SOURCE: INCRED RESEARCH

Conference-call highlights

- HFFC has increased its interest rates by 50bp on 1 Dec 2022 and is expected to take a decision soon on further rate hike.
- The company expects the full impact of its elevated cost of borrowing to be felt in the coming quarters and later it sees the margins structurally improving on the back of a rise in the share of higher-yield loans, and also increasing the share of Tier-3 cities that are less price-sensitive.
- Whenever the interest rate cycle reverses, we believe it will lead to a sharp jump in margins.
- On the back of higher investment in technology and new branches, it expects the opex-to-assets ratio to remain in the range of 3-3.2%.
- HFFC expects the credit cost to remain in the range of 30-50bp.
- HFFC expects to reach an AUM of Rs100bn in the next 15-18 months from its current AUM of Rs68bn.
- HFFC will open five-to-seven branches in 4QFY23F and thereafter continue to open four-to-five branches every quarter. The company plans to reach 400 touch-points in the next two years from 261 touch-points currently.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	2,035	3,097	4,330	5,776	7,301
Total Non-Interest Income	655	703	934	1,137	1,375
Operating Revenue	2,690	3,800	5,264	6,913	8,676
Total Non-Interest Expenses	(952)	(1,212)	(1,766)	(2,518)	(3,186)
Pre-provision Operating Profit	1,662	2,513	3,498	4,395	5,490
Total Provision Charges	(322)	(250)	(230)	(379)	(451)
Operating Profit After Provisions	1,340	2,263	3,268	4,016	5,038
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	1,340	2,263	3,268	4,016	5,038
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	686	1,560	2,335	2,879	3,663
Exceptional Items					
Pre-tax Profit	1,340	2,263	3,268	4,016	5,038
Taxation	(339)	(402)	(837)	(1,028)	(1,290)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,001	1,861	2,432	2,988	3,748
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	1,001	1,861	2,432	2,988	3,748
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	11.3%	14.0%	10.4%	7.1%	6.1%
Avg Liquid Assets/Avg IEAs	14.2%	17.7%	12.0%	7.8%	6.6%
Net Cust Loans/Assets	73.8%	84.1%	89.2%	91.6%	92.0%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	41.5%	36.6%	30.8%	26.9%	23.7%
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-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Gross Loans	33,265	43,049	59,035	78,710	101,883
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	33,265	43,049	59,035	78,710	101,883
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	33,265	43,049	59,035	78,710	101,883
Intangible Assets					
Other Non-Interest Earning Assets	1,121	1,239	1,363	1,227	1,104
Total Non-Interest Earning Assets	1,288	1,442	1,606	1,518	1,454
Cash And Marketable Securities	6,799	6,678	5,558	5,169	6,836
Long-term Investments	3,750			500	550
Total Assets	45,102	51,169	66,200	85,897	110,723
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	30,537	34,668	46,801	63,182	84,602
Total Interest-Bearing Liabilities	30,537	34,668	46,801	63,182	84,602
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	759	764	1,230	1,559	1,965
Total Liabilities	31,296	35,432	48,031	64,741	86,567
Shareholders Equity	13,805	15,737	18,169	21,156	24,155
Minority Interests					
Total Equity	13,805	15,737	18,169	21,156	24,155

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	26.4%	52.2%	39.8%	33.4%	26.4%
Operating Profit Growth	32.6%	48.9%	35.1%	25.6%	24.9%
Pretax Profit Growth	25%	69%	44%	23%	25%
Net Interest To Total Income	75.7%	81.5%	82.3%	83.5%	84.2%
Cost Of Funds	7.94%	6.62%	7.10%	7.30%	7.50%
Return On Interest Earning Assets	13.4%	13.8%	14.1%	14.2%	14.2%
Net Interest Spread	5.43%	7.15%	7.05%	6.91%	6.72%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	10%	7%	9%	8%
Interest Return On Average Assets	5.09%	6.43%	7.38%	7.59%	7.43%
Effective Tax Rate	25.3%	17.8%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio					
Return On Average Assets	2.51%	3.87%	4.14%	3.93%	3.81%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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