

India

**ADD** (no change)

Consensus ratings*: Buy 19 Hold 0 Sell 2	
Current price:	Rs708
Target price:	Rs950
Previous target:	Rs1,200
Up/downside:	34.2%
InCred Research / Consensus:	1.2%
Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$858m
	Rs62,338m
Average daily turnover:	US\$2.3m
	Rs168.2m
Current shares o/s:	87.6m
Free float:	38.0%
*Source: Bloomberg	

**Key changes in this note**

- ▶ We are building in compression in incremental spreads with a surge in opex amid cost escalation and a rise in expenses led by rapid branch expansion.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(1.5)	(3.8)	(3.4)
Relative (%)	(4.8)	(4.3)	(12.1)

<b>Major shareholders</b>	% held
True North	20.2
Orange Clove Investments B.V.	28.8
Aether(Mauritius) ltd	13.4

**Analyst(s)**

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# Home First Finance company

## Quality growth to support profitability

- HFFC posted a better-than-estimated 4Q PAT of Rs640m (6.4% yoy/9% qoq) driven by healthy operating performance and well-managed asset quality.
- We are building in compression in incremental spreads with a surge in opex amid cost escalation and a rise in expenses led by rapid branch expansion.
- HFFC is our high-conviction bet with robust and superior quality growth but margins may remain under pressure. Retain ADD with a lower TP of Rs950.

### Solid growth led by geographical expansion, momentum to continue

Home First Finance Company or HFFC posted strong 4QFY23 AUM growth of 33.8% yoy/6.6% qoq leading to AUM of Rs71bn, driven by strong disbursement growth of 35.6% yoy/11.4% qoq in affordable housing. We feel growth pick-up at newer branches is faster for HFFC as the dynamics of urban customers are similar across states. We believe HFFC's guidance of 30% assets under management or AUM growth is achievable and the higher growth trajectory will sustain for the next three-to-five years.

### Margins to remain under pressure in the near term

Margins compressed by 30bp qoq to 6.1% led by a 50bp increase in the cost of funds. Reported yields increased by 30bp qoq to 13.4% in response to a rate hike of 50bp in Dec 2022. HFFC has indicated further margin compression in 1HFY24F, assuming the Reserve Bank of India doesn't increase rates, despite a 50bp rate hike done by HFFC in Apr 2023. Accordingly, we have factored in lower margins by 30bp for FY24F.

### Elevated operating expenses amid rapid branch expansion

We believe opex growth will remain lower than revenue growth, despite the branch expansion phase, due to the quick scalability of new branches. HFFC added 31 branches in FY23 and plans to open another 20 branches in FY24F. However, operating leverage from existing branches would now benefit HFFC. We are building in a cost-to-assets ratio of 2.8% for FY25F against 3.1% in 4QFY23.

### Superior trend in asset quality to support profitability

Gross stage-3 assets improved by 20bp yoy/70bp qoq to 1.6%. 1+DPD improved to 4% from 4.4% in 3Q. Overall credit cost continued to stay low at 0.5% (annualized). Due to superior underwriting, we expect HFFC to deliver superior asset quality which will restrict credit cost to 30-50bp, in line with management's guidance.

### Valuation and risks

We feel lower turnaround time or TAT and hassle-free loan processing are important factors for customer acquisition. However, we expect margin pressure in FY24F/25F amid a surge in the cost of funds. HFFC is our high-conviction idea with an ADD rating and a lower target price of Rs950 (Rs1,200 earlier), valuing the stock at ~3.5x FY25F P/BV. Downside risk: Lower growth due to rising competition

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	2,960	4,179	5,240	6,478	8,097
Total Non-Interest Income (Rsm)	840	734	861	1,040	1,245
Operating Revenue (Rsm)	3,800	4,913	6,101	7,518	9,342
Total Provision Charges (Rsm)	(250)	(215)	(272)	(432)	(594)
Net Profit (Rsm)	1,861	2,283	2,772	3,327	4,217
Core EPS (Rs)	21.24	26.05	31.63	37.96	48.12
Core EPS Growth	85%	23%	21%	20%	27%
FD Core P/E (x)	33.35	27.19	22.39	18.66	14.72
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)	179.6	207.4	239.0	273.2	316.5
P/BV (x)	3.94	3.42	2.96	2.59	2.24
ROE	12.6%	13.5%	14.2%	14.8%	16.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Particulars (Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	851	940	1,016	1,106	1,118	31.4%	1.1%
<i>NIM (% of AUM)</i>	6.4%	6.4%	6.5%	6.4%	6.1%		
Other Operating Income	172	147	167	154	266	55.0%	73.4%
Operating Expenses	364	387	441	443	475	30.5%	7.2%
<b>Operating Profit</b>	<b>659</b>	<b>699</b>	<b>741</b>	<b>817</b>	<b>910</b>	<b>38.0%</b>	<b>11.3%</b>
Provisions	27	36	50	60	70	159.2%	16.2%
<b>PBT</b>	<b>632</b>	<b>663</b>	<b>692</b>	<b>757</b>	<b>840</b>	<b>32.9%</b>	<b>10.9%</b>
Tax	30	151	149	170	200	560.6%	17.5%
<i>Tax rate (%)</i>	4.8%	22.7%	21.5%	22.4%	23.8%		
<b>PAT</b>	<b>602</b>	<b>512</b>	<b>543</b>	<b>587</b>	<b>640</b>	<b>6.4%</b>	<b>9.0%</b>
<b>AUM (Rs bn)</b>	<b>54</b>	<b>58</b>	<b>63</b>	<b>68</b>	<b>72</b>	<b>33.8%</b>	<b>6.6%</b>

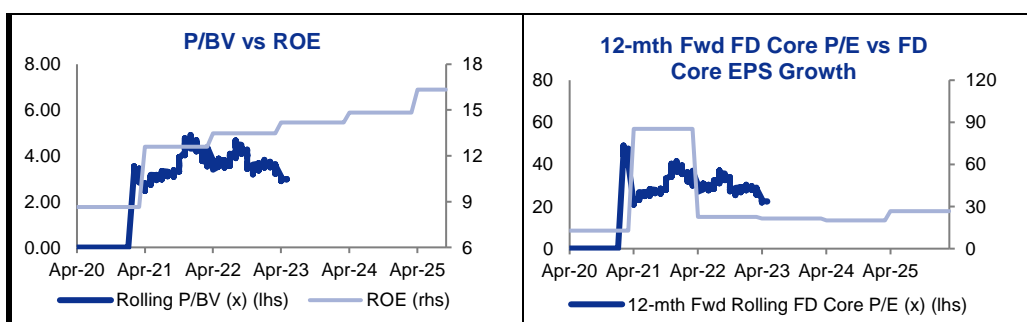
SOURCE: INCRED RESEARCH

**Figure 2: Our revised estimates**

Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest Income	5,775.5	5,240.0	-9%	7,301.2	6,477.8	-11%	8,097.3
Non-interest Income	1,015.1	861.1	-15%	1,228.4	1,040.2	-15%	1,244.7
PAT	2,897.0	2,772.2	-4%	3,639.4	3,326.8	-9%	4,217.2
EPS (Rs)	33.1	31.6	-4%	41.5	38.0	-9%	48.1
BV (Rs)	238.4	239.0	0%	271.6	273.2	1%	316.5

SOURCE: INCRED RESEARCH

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	2,960	4,179	5,240	6,478	8,097
<b>Total Non-Interest Income</b>	<b>840</b>	<b>734</b>	<b>861</b>	<b>1,040</b>	<b>1,245</b>
Operating Revenue	3,800	4,913	6,101	7,518	9,342
<b>Total Non-Interest Expenses</b>	<b>(1,212)</b>	<b>(1,655)</b>	<b>(2,103)</b>	<b>(2,615)</b>	<b>(3,080)</b>
Pre-provision Operating Profit	2,513	3,168	3,999	4,903	6,262
<b>Total Provision Charges</b>	<b>(250)</b>	<b>(215)</b>	<b>(272)</b>	<b>(432)</b>	<b>(594)</b>
Operating Profit After Provisions	2,263	2,952	3,726	4,472	5,668
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	2,263	2,952	3,726	4,472	5,668
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	1,423	2,218	2,865	3,431	4,423
<b>Exceptional Items</b>					
Pre-tax Profit	2,263	2,952	3,726	4,472	5,668
Taxation	(402)	(669)	(954)	(1,145)	(1,451)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	1,861	2,283	2,772	3,327	4,217
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	1,861	2,283	2,772	3,327	4,217
Recurring Net Profit					

**Balance Sheet**

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	14.0%	8.2%	5.1%	4.2%	3.0%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>17.7%</b>	<b>9.4%</b>	<b>5.6%</b>	<b>4.5%</b>	<b>3.2%</b>
Net Cust Loans/Assets	84.1%	89.0%	92.0%	94.8%	95.4%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	36.6%	30.3%	27.5%	24.8%	23.2%
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>43,049</b>	<b>59,957</b>	<b>76,290</b>	<b>96,427</b>	<b>119,523</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	43,049	59,957	76,290	96,427	119,523
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	43,049	59,957	76,290	96,427	119,523
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>1,239</b>	<b>1,368</b>	<b>1,231</b>	<b>1,108</b>	<b>997</b>
<b>Total Non-Interest Earning Assets</b>	<b>1,442</b>	<b>1,621</b>	<b>1,535</b>	<b>1,473</b>	<b>1,435</b>
Cash And Marketable Securities	6,678	2,984	4,619	3,218	3,675
<b>Long-term Investments</b>		<b>2,808</b>	<b>500</b>	<b>550</b>	<b>605</b>
Total Assets	51,169	67,370	82,945	101,668	125,238
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	34,668	48,134	60,341	75,651	94,857
Total Interest-Bearing Liabilities	34,668	48,134	60,341	75,651	94,857
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	764	1,063	1,659	2,077	2,645
Total Liabilities	35,432	49,197	61,999	77,728	97,503
Shareholders Equity	15,737	18,173	20,946	23,940	27,735
<b>Minority Interests</b>					
Total Equity	15,737	18,173	20,946	23,940	27,735

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	45.4%	41.2%	25.4%	23.6%	25.0%
Operating Profit Growth	48.9%	25.9%	22.7%	22.6%	27.7%
Pretax Profit Growth	69%	30%	26%	20%	27%
Net Interest To Total Income	77.9%	85.1%	85.9%	86.2%	86.7%
Cost Of Funds	6.62%	7.35%	8.30%	8.00%	7.60%
Return On Interest Earning Assets	13.4%	14.0%	14.3%	13.8%	13.5%
Net Interest Spread	6.80%	6.67%	6.00%	5.80%	5.90%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	10%	7%	7%	9%	9%
Interest Return On Average Assets	6.15%	7.05%	6.97%	7.02%	7.14%
Effective Tax Rate	17.8%	22.7%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio					
Return On Average Assets	3.87%	3.85%	3.69%	3.60%	3.72%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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