

India

ADD (no change)

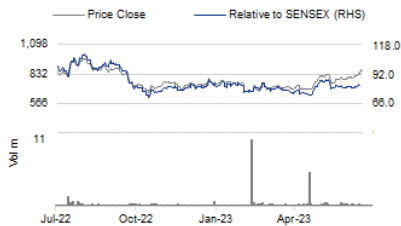
Consensus ratings*: Buy 20 Hold 0 Sell 1

Current price:	Rs855
Target price:	Rs1,050 ▲
Previous target:	Rs950
Up/downside:	22.8%
InCred Research / Consensus:	10.4%
Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$1,037m Rs75,293m
Average daily turnover:	US\$3.2m Rs235.3m
Current shares o/s:	87.6m
Free float:	38.0%

*Source: Bloomberg

Key changes in this note

- We raise our target price to Rs1,050 due to better growth and stable margin visibility.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.9	19.9	3.2
Relative (%)	6.5	10.8	(10.2)

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

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Home First Finance company

Quality growth to support profitability

- HFFC posted 1QFY24 PAT of Rs640m (+34.9%yoy/8%qoq) driven by strong AUM growth (+33.3%yoy/8%qoq), stable margins & stable credit cost.
- Branch addition in new geographies and deepening penetration in existing geographies improves growth visibility, despite strong competition.
- HFFC is our high-conviction stock bet having robust & superior quality. We maintain our ADD rating on it with a higher TP of Rs1,050, or ~3.8x FY25F BV.

Solid growth led by geographical expansion; momentum to continue

Home First Finance Company or HFFC posted strong 1QFY24 AUM growth of 33.3% yoy/8% qoq, leading to assets under management or AUM of Rs77bn, driven by strong disbursement growth of 35.4% yoy/3% qoq. 50% of the incremental loan growth was from Gujarat and Karnataka, which indicate that despite rising competition, HFFC is able to manage its growth by deepening its reach. 34% of incremental loans during the quarter had loan-to-value of 80% and more, which management indicated is because of co-lending to better-rated customers. We feel that with a rising branch network and deepening market penetration, HFFC will achieve its 30% AUM growth guidance.

Margin visibility is improving

Margin remains stable at 6.1% qoq because of a 50bp rate hike in Apr 2023 and increased share of low-cost National Housing Bank or NHB funding at 21.7% from 15.3% in 4QFY23. Increased liquidity of Rs5.4bn (Rs2.9bn in 4QFY23) and a rising share of better-yield products to offset the rise in cost of borrowing (20-25bp) in the next few quarters due to MCLR repricing. The rising share of self-employed and non-housing loans, which are better-yield products, to structurally protect margins in an intense competition environment.

Superior trend in asset quality to aid profitability

Gross stage-3 assets remained stable at 1.6%. However, 30+DPD slightly increased by 20bp qoq to 2.9% which, we believe, is seasonal. Overall credit cost continues to stay low at 0.5% (annualized). Due to superior underwriting, we expect HFFC to deliver superior asset quality, which would restrict credit cost to 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. HFFC, despite rising competition from regional smaller players and large banks, would continue its high growth trajectory led by deepening reach in existing geographies and increased branch presence in newer geographies. RoE has now improved by 220bp yoy to 15% which, along with a strong capital adequacy ratio of 45%, gives enough room for RoE expansion. HFFC is our high-conviction stock. Retain our ADD rating on it with a higher target price of Rs1,050 (Rs950 earlier), valuing the stock at ~3.8x FY25F P/BV. Downside risk: Lower growth due to rising competition & asset quality risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	2,035	2,960	4,179	5,518	6,945
Total Non-Interest Income (Rsm)	655	840	734	862	1,043
Operating Revenue (Rsm)	2,690	3,800	4,913	6,380	7,988
Total Provision Charges (Rsm)	(322)	(250)	(215)	(343)	(444)
Net Profit (Rsm)	1,001	1,861	2,283	2,877	3,416
Core EPS (Rs)	11.46	21.24	26.05	32.83	38.99
Core EPS Growth	13%	85%	23%	26%	19%
FD Core P/E (x)	74.58	40.24	32.80	26.03	21.92
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	207.4	240.2	275.3
P/BV (x)	5.41	4.76	4.12	3.56	3.10
ROE	8.7%	12.6%	13.5%	14.7%	15.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	851	940	1,016	1,106	1,118	1,246	32.6%	11.4%
<i>NIM (% of AUM)</i>	6.4%	6.4%	6.5%	6.4%	6.1%	6.1%		
Other Operating Income	172	147	167	154	266	285	93.7%	6.9%
Operating Expenses	364	387	441	443	475	553	42.8%	16.5%
Operating Profit	659	699	741	817	910	977	39.8%	7.4%
Provisions	27	36	50	60	70	77	112.6%	10.5%
PBT	632	663	692	757	840	900	35.8%	7.2%
Tax	30	151	149	170	200	209	38.9%	4.7%
<i>Tax rate (%)</i>	4.8%	22.7%	21.5%	22.4%	23.8%	23.2%		
PAT	602	512	543	587	640	691	34.9%	8.0%
AUM(Rsbn)	54	58	63	68	72	78	33.3%	8.0%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 2: Our revised estimates

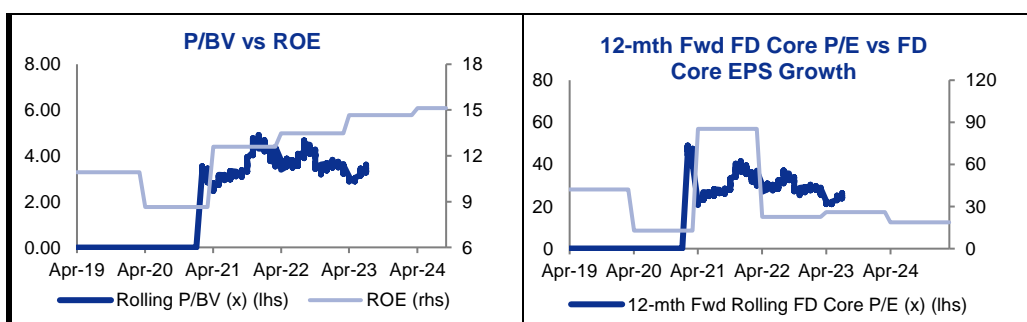
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	5,240	5,518	5.3%	6,478	6,945	7.2%	8,097	8,907	10.0%
Non-Interest Income	861	862	0.1%	1,040	1,043	0.3%	1,245	1,256	0.9%
PAT	2,772	2,877	3.8%	3,327	3,416	2.7%	4,217	4,419	4.8%
EPS (Rs)	31.6	32.8	3.9%	38	39.0	2.6%	48.1	50.4	4.8%
BV (Rs)	239	240.2	0.5%	273.2	275.3	0.8%	316.5	320.7	1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Out of the 1,105-strong employee base, HFFC has extended ESOP benefits to 358 employees.
- Opex to remain in the range of 3.1-3.2% because of rising branch expansion.
- The impact of NHB funding is 20bp on the overall cost of funds.
- HFFC expects a further increase of 20-25bp in the cost of funds due to MCLR-linked loans.
- The rise in higher LTV loans is due to co-lending done with banks.
- AUM growth to remain at 30%.
- HFFC to set up ~20 branches in FY24F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	2,035	2,960	4,179	5,518	6,945
Total Non-Interest Income	655	840	734	862	1,043
Operating Revenue	2,690	3,800	4,913	6,380	7,988
Total Non-Interest Expenses	(952)	(1,212)	(1,655)	(2,170)	(2,952)
Pre-provision Operating Profit	1,662	2,513	3,168	4,210	5,036
Total Provision Charges	(322)	(250)	(215)	(343)	(444)
Operating Profit After Provisions	1,340	2,263	2,952	3,867	4,592
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	1,340	2,263	2,952	3,867	4,592
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	686	1,423	2,218	3,005	3,549
Exceptional Items					
Pre-tax Profit	1,340	2,263	2,952	3,867	4,592
Taxation	(339)	(402)	(669)	(990)	(1,176)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,001	1,861	2,283	2,877	3,416
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	1,001	1,861	2,283	2,877	3,416
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%	8.2%	4.5%	3.3%
Avg Liquid Assets/Avg IEAs	14.2%	17.7%	9.4%	4.9%	3.5%
Net Cust Loans/Assets	73.8%	84.1%	89.0%	93.1%	95.7%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	41.5%	36.6%	30.3%	27.2%	24.1%
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	59,957	77,294	100,126
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	33,265	43,049	59,957	77,294	100,126
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	33,265	43,049	59,957	77,294	100,126
Intangible Assets					
Other Non-Interest Earning Assets	1,121	1,239	1,368	1,231	1,108
Total Non-Interest Earning Assets	1,288	1,442	1,621	1,535	1,473
Cash And Marketable Securities	6,799	6,678	2,984	3,723	2,504
Long-term Investments	3,750		2,808	500	550
Total Assets	45,102	51,169	67,370	83,052	104,653
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	30,537	34,668	48,134	60,341	78,443
Total Interest-Bearing Liabilities	30,537	34,668	48,134	60,341	78,443
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	759	764	1,063	1,661	2,086
Total Liabilities	31,296	35,432	49,197	62,002	80,528
Shareholders Equity	13,805	15,737	18,173	21,050	24,125
Minority Interests					
Total Equity	13,805	15,737	18,173	21,050	24,125

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	26.4%	45.4%	41.2%	32.0%	25.9%
Operating Profit Growth	32.6%	48.9%	25.9%	29.2%	19.6%
Pretax Profit Growth	25%	69%	30%	31%	19%
Net Interest To Total Income	75.7%	77.9%	85.1%	86.5%	86.9%
Cost Of Funds	7.94%	6.62%	7.35%	8.30%	8.40%
Return On Interest Earning Assets	13.4%	13.4%	14.0%	14.6%	14.4%
Net Interest Spread	5.43%	6.80%	6.67%	6.30%	6.00%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	10%	7%	8%	9%
Interest Return On Average Assets	5.09%	6.15%	7.05%	7.34%	7.40%
Effective Tax Rate	25.3%	17.8%	22.7%	25.6%	25.6%
Net Dividend Payout Ratio					
Return On Average Assets	2.51%	3.87%	3.85%	3.83%	3.64%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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