

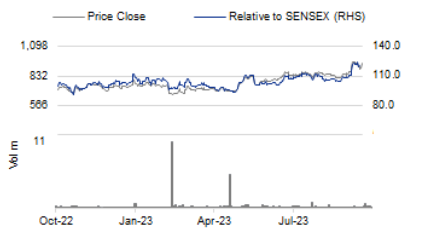
India

ADD (no change)

Consensus ratings*: Buy 22 Hold 0 Sell 1

Current price:	Rs953
Target price:	Rs1,050
Previous target:	Rs1,050
Up/downside:	10.2%
InCred Research / Consensus:	5.1%
Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$1,157m Rs83,988m
Average daily turnover:	US\$2.8m Rs203.4m
Current shares o/s:	87.6m
Free float:	38.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.4	9.6	34.6
Relative (%)	20.1	13.7	26.5

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

Strong 2Q growth; RoE profile improves

- HFFC posted a strong 2QFY23 PAT of Rs743m (36.9% yoy/7.5% qoq) driven by strong AUM growth (33.3% yoy/7.6% qoq) and stable credit costs.
- Addition of branches in new geographies and deepening penetration in existing geographies improves growth visibility for HFFC, despite strong competition.
- We retain our ADD rating on HFFC due to its robust growth and a better RoE profile, with an unchanged target price of Rs1,050, or ~3.8x FY25F BV.

Solid growth led by geographical expansion; momentum to continue

Home First Finance Company or HFFC reported strong assets under management or AUM growth of 33.3% yoy/7.6% qoq for 2QFY23, leading to AUM of Rs83bn being driven by strong disbursement growth of 36.6% yoy/7.1% qoq. Karnataka and Haryana are the states which now have started contributing to disbursement growth while Gujarat's share fell from 33% to 24%. As much as 28% of incremental loans during the quarter comprised loans having LTV (Loan to Value) of 80% and more which, its management indicated, was due to co-lending to better-rated customers. We believe that with a rising branch network and deepening market penetration, HFFC will achieve its 30% AUM growth guidance for the medium term.

Yields to improve structurally

HFFC witnessed yield compression of 10bp qoq, despite the rise in the cost of funds by 10bp qoq which, management indicated, was due to retention of customers. We believe that rising competition will keep the yields under check for affordable housing financiers. However, for HFFC its overall margin structure will remain intact due to a rising share of self-employed, self-construction and non-housing loans, which are better-yield products.

Stable asset quality to support profitability

Gross stage-3 assets increased marginally by 10bp qoq to 1.7%. While 30+DPD remains stable at 2.9%, overall credit costs continue to stay low at 0.5% (annualized). Due to superior underwriting practices, we expect HFFC to witness superior asset quality, which would restrict credit costs to 30-50bp, in line with management's guidance.

Valuation and risks

We believe that lower turnaround time or TAT and hassle-free loan processing are important factors for customer acquisition in the case of HFFC. The company, despite rising competition from regional smaller players and larger banks, would continue its high growth trajectory led by deepening its reach in existing geographies and increasing branch presence in newer geographies. The RoE has now improved by 250bp yoy to 15.6%, which along with a strong capital adequacy ratio of 45%, gives enough room for RoE expansion. HFFC is our high conviction stock idea, and we maintain ADD rating on it with an unchanged target price of Rs1,050, or ~3.8x FY25F P/BV. Downside risks: Lower growth due to rising competition and asset quality problem.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	2,960	4,179	5,532	6,942	8,665
Total Non-Interest Income (Rsm)	840	734	995	1,343	1,714
Operating Revenue (Rsm)	3,800	4,913	6,527	8,285	10,379
Total Provision Charges (Rsm)	(250)	(215)	(345)	(444)	(568)
Net Profit (Rsm)	1,861	2,283	2,885	3,594	4,688
Core EPS (Rs)	21.24	26.05	32.92	41.01	53.49
Core EPS Growth	85%	23%	26%	25%	30%
FD Core P/E (x)	44.86	36.56	28.93	23.23	17.81
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	240.3	277.2	325.4
P/BV (x)	5.30	4.59	3.96	3.44	2.93
ROE	12.6%	13.5%	14.7%	15.9%	17.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	940	1,016	1,106	1,118	1,246	1,321	30.1%	6.0%
<i>NIM (% of AUM)</i>	6.4%	6.5%	6.4%	6.1%	6.1%	6.0%		
Other Operating Income	147	167	154	266	285	289	73.2%	1.5%
Operating Expenses	387	441	443	475	553	565	28.2%	2.2%
Operating Profit	699	741	817	910	977	1,044	40.9%	6.9%
Provisions	36	50	60	70	77	80	61.0%	4.0%
PBT	663	692	757	840	900	964	39.4%	7.1%
Tax	151	149	170	200	209	221	48.6%	5.9%
<i>Tax rate (%)</i>	22.7%	21.5%	22.4%	23.8%	23.2%	23.0%		
PAT	512	543	587	640	691	743	36.9%	7.5%
AUM (Rs bn)	58	63	68	72	78	84	33.3%	7.6%

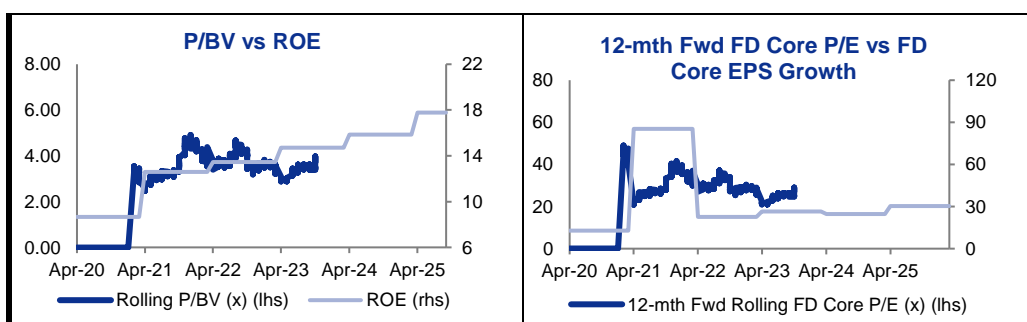
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	5,518	5,532	0.3%	6,945	6,942	0.0%	8,907	8,665	-2.7%
Non-interest income	862	995	15.4%	1,043	1,343	28.8%	1,256	1,714	36.4%
PAT	2,877	2,885	0.3%	3,416	3,594	5.2%	4,419	4,688	6.1%
EPS (Rs)	32.83	32.9	0.3%	38.99	41.0	5.2%	50.4	53.5	6.1%
BV (Rs)	240	240.3	0.1%	275.3	277.2	0.7%	320.7	325.4	1.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	2,960	4,179	5,532	6,942	8,665
Total Non-Interest Income	840	734	995	1,343	1,714
Operating Revenue	3,800	4,913	6,527	8,285	10,379
Total Non-Interest Expenses	(1,212)	(1,655)	(2,325)	(3,038)	(3,628)
Pre-provision Operating Profit	2,513	3,168	4,202	5,247	6,750
Total Provision Charges	(250)	(215)	(345)	(444)	(568)
Operating Profit After Provisions	2,263	2,952	3,857	4,803	6,182
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	2,263	2,952	3,857	4,803	6,182
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	1,423	2,218	2,862	3,460	4,468
Exceptional Items					
Pre-tax Profit	2,263	2,952	3,857	4,803	6,182
Taxation	(402)	(669)	(972)	(1,209)	(1,494)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,861	2,283	2,885	3,594	4,688
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	1,861	2,283	2,885	3,594	4,688
Recurring Net Profit					

Balance Sheet Employment

(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%	5.3%	6.0%	5.4%
Avg Liquid Assets/Avg IEAs	17.7%	9.4%	5.8%	6.5%	5.8%
Net Cust Loans/Assets	84.1%	89.0%	91.7%	92.1%	93.6%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	36.6%	30.3%	26.9%	24.5%	22.3%
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-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	43,049	59,957	78,202	99,233	128,117
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	43,049	59,957	78,202	99,233	128,117
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	43,049	59,957	78,202	99,233	128,117
Intangible Assets					
Other Non-Interest Earning Assets	1,239	1,368	1,231	1,108	997
Total Non-Interest Earning Assets	1,442	1,621	1,535	1,473	1,435
Cash And Marketable Securities	6,678	2,984	5,058	6,469	6,771
Long-term Investments		2,808	500	550	605
Total Assets	51,169	67,370	85,295	107,724	136,928
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	34,668	48,134	62,574	81,346	105,750
Total Interest-Bearing Liabilities	34,668	48,134	62,574	81,346	105,750
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	764	1,063	1,663	2,085	2,666
Total Liabilities	35,432	49,197	64,237	83,431	108,416
Shareholders Equity	15,737	18,173	21,058	24,293	28,512
Minority Interests					
Total Equity	15,737	18,173	21,058	24,293	28,512

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	45.4%	41.2%	32.4%	25.5%	24.8%
Operating Profit Growth	48.9%	25.9%	29.0%	24.8%	28.7%
Pretax Profit Growth	69%	30%	31%	25%	29%
Net Interest To Total Income	77.9%	85.1%	84.8%	83.8%	83.5%
Cost Of Funds	6.62%	7.35%	8.60%	8.60%	8.60%
Return On Interest Earning Assets	13.4%	14.0%	14.9%	14.8%	14.7%
Net Interest Spread	6.80%	6.67%	6.30%	6.20%	6.10%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	10%	7%	8%	8%	8%
Interest Return On Average Assets	6.15%	7.05%	7.25%	7.19%	7.08%
Effective Tax Rate	17.8%	22.7%	25.2%	25.2%	24.2%
Net Dividend Payout Ratio					
Return On Average Assets	3.87%	3.85%	3.78%	3.72%	3.83%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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