

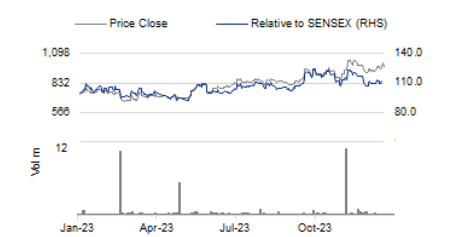
India

ADD (no change)

Consensus ratings*: Buy 22 Hold 0 Sell 1	
Current price:	Rs985
Target price: ▲	Rs1,100
Previous target:	Rs1,050
Up/downside:	11.7%
InCred Research / Consensus:	-0.2%
Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$1,048m
	Rs87,031m
Average daily turnover:	US\$3.3m
	Rs276.6m
Current shares o/s:	87.6m
Free float:	38.0%
*Source: Bloomberg	

Key changes in this note

► With a gradual utilization of capital, RoE profile of the company to improve from ~13.5% in FY23 to ~17.8% in FY26F, which will justify its premium valuation.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.7)	4.2	33.6
Relative (%)	(1.1)	(4.6)	13.4

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

RoE expansion to drive valuation premium

- HFFC posted an in-line 3QFY24 PAT of Rs787m (+34.2% yoy/+6.1% qoq), despite ~30bp squeeze in margin amid superior fee income & lower credit cost.
- With a gradual utilization of capital, RoE profile of the company to improve from ~13.5% in FY23 to ~17.8% in FY26F, which justifies its valuation premium.
- Retain ADD rating on HFFC with a TP of Rs1,100, corresponding to ~4x FY25F BV, amid robust growth led by healthy capital adequacy and improving RoE.

Solid growth led by geographical expansion; growth to continue

Home First Finance Company (HFFC) continued reporting a robust growth in assets under management or AUM by +34.2%yoy/+6.1%qoq to Rs90bn in 3QFY24, led by strong disbursement growth of +29.1% yoy/+5% qoq, improved loan-to-value (LTV) mark-up and lower repayments. Maharashtra, Uttar Pradesh and Madhya Pradesh continued to witness an improved momentum whereas Tamil Nadu and Telangana witnessed a 6-9% qoq decline. Considering the superior capital adequacy (Tier-1 at ~40.5% as of Dec 2023-end) and deepening geographic penetration (~123 branches in 13 states), we are building in ~33.2% CAGR in AUM over FY23-26F to Rs170.1bn by Mar 2026F.

Margin decline as expected; gradual easing likely post 2QFY25F

HFFC witnessed margin compression of ~30bp qoq/~70bp yoy led by yield compression of ~10bp qoq which, we believe, was due to elevated competition and the cost of funds rising by ~10bp qoq due to tightening of systemic liquidity. HFFC is riding on superior capital adequacy, which is allowing it to grow at a faster pace despite the recent margin pressure. Management is trying to manage spreads in the range of ~5.2-5.5%, but the pressure on margin may stay at least for a couple of quarters. We expect some pass-on to start from 1QFY25F, which would provide some relief but granular easing is likely only in 2HFY25F after the easing in systemic liquidity by the Reserve Bank of India (RBI). A rising share of self-employed and non-housing loans, which are better-yield products, will also support margins in the coming quarters.

Valuation and risks

We have been liking HFFC in the affordable housing space due to its unique connector-led business model, sensible and conservative management practices and strong capital adequacy which could aid growth despite the volatile interest rate environment. The company has been delivering robust growth without much impact on its asset quality. With a gradual utilization of capital, we expect the RoE profile of the company to improve from ~13.5% in FY23 to ~17.8% in FY26F, which justifies the valuation premium. We retain ADD rating on the stock with a higher target price of Rs1,100 (Rs1,050 earlier), valuing it at ~4.0x FY25F P/BV. Downside risk: Lower growth and a surge in non-performing assets or NPAs.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	2,960	4,179	5,341	6,813	8,814
Total Non-Interest Income (Rsm)	840	734	1,254	1,409	1,576
Operating Revenue (Rsm)	3,800	4,913	6,595	8,222	10,390
Total Provision Charges (Rsm)	(250)	(215)	(314)	(498)	(766)
Net Profit (Rsm)	1,861	2,283	2,949	3,576	4,508
Core EPS (Rs)	21.24	26.05	33.65	40.81	51.44
Core EPS Growth	85%	23%	29%	21%	26%
FD Core P/E (x)	46.39	37.81	29.27	24.14	19.15
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	241.0	276.9	319.3
P/BV (x)	5.49	4.75	4.09	3.56	3.09
ROE	12.6%	13.5%	15.0%	15.8%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,016	1,106	1,118	1,246	1,321	1,344	21.4%	1.7%
<i>NIM (% of AUM)</i>	6.5%	6.4%	6.1%	6.1%	6.0%	5.7%		
Other Operating Income	167	154	266	285	289	364	137.2%	26.2%
Operating Expenses	441	443	475	553	565	611	37.9%	8.0%
Operating Profit	741	817	910	977	1,044	1,097	34.3%	5.1%
Provisions	50	60	70	77	80	70	17.0%	-12.4%
PBT	692	757	840	900	964	1,027	35.6%	6.5%
Tax	149	170	200	209	221	239	40.7%	8.1%
<i>Tax rate (%)</i>	21.5%	22.4%	23.8%	23.2%	23.0%	23.3%		
PAT	543	587	640	691	743	788	34.2%	6.1%
AUM (Rs bn)	63	68	72	78	84	90	33.5%	7.7%

SOURCE: INCRED RESEARCH

Figure 2: Our revised earnings estimates

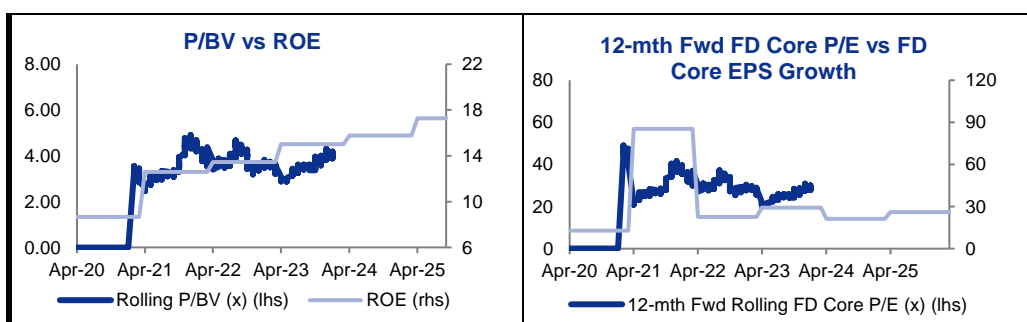
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	5,532	5,341	-3.5%	6,942	6,813	-1.9%	8,665	8,814	1.7%
Non-Interest Income	995	1,254	26.0%	1,343	1,409	4.9%	1,714	1,576	-8.1%
PAT	2,885	2,949	2.2%	3,594	3,696	2.8%	4,688	4,646	-0.9%
EPS (Rs)	32.9	33.7	2.3%	41	42.2	2.9%	53.5	53.0	-0.9%
BV (Rs)	240.3	241.0	0.3%	277.2	276.9	-0.1%	325.4	319.3	-1.9%

SOURCE: INCRED RESEARCH

Conference-call highlights

- Account aggregator adoption has become mainstream, with close to 40% adoption rate during the quarter. Account aggregator gives HFFC better access to customer financial data in a faster way.
- The fall in spreads is due to the rise in borrowing cost, which is not passed to customers as HFFC's management does not want to raise the lending rate because it would lead to shifting the customer base with a higher risk.
- Tier-1 capital reduction is due to the RBI circular on risk weight, which impacts LAPs (loans against property) of HFFC. However, the company is still evaluating and seeking clarification on the applicability of the same on LAPs.
- The rise in equated monthly instalment or EMI bounce rate during the quarter from 14.2% to 15.3% is broad-based which, management believes, will not have any impact on the overall asset quality. HFFC makes efforts to educate its customers regarding the charges and other consequences of bounced EMI cheques, but customers still indulge in such practices and pay via other routes.
- Employee attrition is now normalizing and is lower than the peak of last year.
- HFFC will continue to open branches in the range of four-to-five branches every quarter. Overall, it will have a total of 200 branches in the next three years (123 branches in 3QFY24).

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	2,960	4,179	5,341	6,813	8,814
Total Non-Interest Income	840	734	1,254	1,409	1,576
Operating Revenue	3,800	4,913	6,595	8,222	10,390
Total Non-Interest Expenses	(1,212)	(1,655)	(2,323)	(2,828)	(3,388)
Pre-provision Operating Profit	2,513	3,168	4,168	5,274	6,864
Total Provision Charges	(250)	(215)	(314)	(498)	(766)
Operating Profit After Provisions	2,263	2,952	3,855	4,776	6,098
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	2,263	2,952	3,855	4,776	6,098
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	1,423	2,218	2,601	3,366	4,522
Exceptional Items					
Pre-tax Profit	2,263	2,952	3,855	4,776	6,098
Taxation	(402)	(669)	(906)	(1,199)	(1,590)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,861	2,283	2,949	3,576	4,508
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	1,861	2,283	2,949	3,576	4,508
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%	5.8%	6.5%	3.3%
Avg Liquid Assets/Avg IEAs	17.7%	9.4%	6.7%	7.7%	3.7%
Net Cust Loans/Assets	84.1%	89.0%	84.2%	85.9%	92.4%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	36.6%	30.3%	26.6%	23.8%	20.9%
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	79,425	101,751	133,881
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	43,049	59,957	79,425	101,751	133,881
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	43,049	59,957	79,425	101,751	133,881
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	1,510	1,415	1,334
Cash And Marketable Securities	6,678	2,984	6,345	7,538	1,203
Long-term Investments		2,808	7,020	7,722	8,494
Total Assets	51,169	67,370	94,299	118,426	144,913
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	34,668	48,134	71,702	92,519	115,066
Total Interest-Bearing Liabilities	34,668	48,134	71,702	92,519	115,066
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	764	1,063	1,475	1,643	1,867
Total Liabilities	35,432	49,197	73,177	94,162	116,933
Shareholders Equity	15,737	18,173	21,122	24,264	27,980
Minority Interests					
Total Equity	15,737	18,173	21,122	24,264	27,980

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	45.4%	41.2%	27.8%	27.6%	29.4%
Operating Profit Growth	48.9%	25.9%	31.1%	26.2%	29.8%
Pretax Profit Growth	69%	30%	31%	24%	28%
Net Interest To Total Income	77.9%	85.1%	81.0%	82.9%	84.8%
Cost Of Funds	6.62%	7.35%	8.30%	7.70%	7.40%
Return On Interest Earning Assets	13.4%	14.0%	14.8%	14.5%	14.0%
Net Interest Spread	6.80%	6.67%	6.50%	6.80%	6.60%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	10%	7%	8%	9%	11%
Interest Return On Average Assets	6.15%	7.05%	6.61%	6.41%	6.69%
Effective Tax Rate	17.8%	22.7%	23.5%	25.1%	26.1%
Net Dividend Payout Ratio					
Return On Average Assets	3.87%	3.85%	3.65%	3.36%	3.42%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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