

India

**ADD** (no change)

Consensus ratings\*: Buy 23 Hold 0 Sell 1

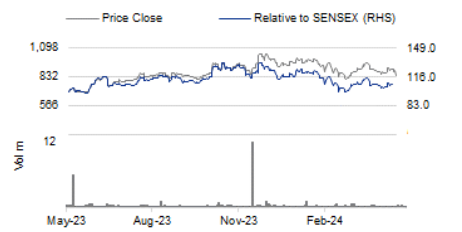
Current price: Rs849  
 Target price: ▲ Rs1,100  
 Previous target: Rs1,050  
 Up/downside: 29.6%  
 InCred Research / Consensus: -1.8%

Reuters:  
 Bloomberg: HOMEFIRS IN  
 Market cap: US\$900m  
 Rs75,164m  
 Average daily turnover: US\$3.4m  
 Rs283.7m  
 Current shares o/s: 87.6m  
 Free float: 38.0%

\*Source: Bloomberg

**Key changes in this note**

➤ With gradual utilization of capital (Tier I at 39.5%), RoEs to improve from ~13.5% in FY23 to ~17.5% in FY26F which will justify premium valuation.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.3)	(13.7)	19.3
Relative (%)	(6.0)	(14.6)	2.0

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

**Research Analyst(s)**



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# Home First Finance company

## Robust growth, recoveries boost profits

- 4Q net profit Rs835m, up 5.9% qoq despite NIM pressure, aided by lower credit costs amid stable asset quality & higher recoveries from written-off accounts.
- With a gradual utilization of capital (Tier-I at 39.5%), RoE to improve from ~13.5% in FY23 to ~17.5% in FY26F, which will justify its premium valuation.
- Retain ADD rating with a TP of Rs1,100, corresponding to ~3.6x FY26F BV, amid robust growth led by healthy capital adequacy ratio and improving RoE.

### Strong disbursements with extension of reach

Disbursements of Home First Finance Company or HFFC are moving at a steady pace and were up 9.4% qoq and 26.8% yoy at Rs 11bn in 4QFY24, led by deepening reach. AUM growth was healthy in the existing markets of Gujarat, Maharashtra and Tamil Nadu and fast-paced in Uttar Pradesh and Madhya Pradesh. The company sees an overall strong potential in affordable housing and intends to diversify its reach in other states as well. AUM grew 7.6% sequentially or 34.7% yoy to ~Rs97bn. Management is witnessing higher purchasing power among its clients with a willingness to purchase/build larger homes, which is leading to higher loan ticket sizes. However, average ticket size remained low and slightly inched up (~1% qoq) to Rs1.15m in 4QFY24.

### Margin pressure manageable with strong growth

Spreads continued to be under pressure and were down 10bp sequentially to 5.4%, though they remained well within the guided range of 5.25-5.5%. The company continues to prefer healthy AUM growth along with a range-bound NIM, given the ample capital buffer and strong asset quality. The last rate hike for customers took place in Apr 2023 and the company's management is willing to absorb another 10bp of a rate hike before passing it on to the customers with a view to increase customer stickiness.

### Steady asset quality, higher recoveries aid profitability

The overall asset quality remained strong, with gross stage-3 loans stable at 1.7%. Gross stage-2 loans declined by ~7% qoq to 1.12%. The company also witnessed higher recoveries from written-off accounts worth Rs250m, which were sharply higher than the usual run-rate of Rs5-7m. Resultant net credit costs were negligible during the quarter at 15bp. Management has, however, given guidance of stable credit cost of ~30bp. RoE inched up to 16.1% vs. 15.8% qoq.

### Outlook and valuation

We continue to like HFFC due to its unique connector-led business model, 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 to improve from ~15.5% in FY24 to ~18.3% in FY27F, which justifies the valuation premium. We retain ADD rating on the stock with a higher target price of Rs1,100, valuing it at ~3.6x FY26F P/BV. Downside risk: Lower growth and a surge in non-performing assets.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	4,179	5,278	6,742	8,761	11,292
Total Non-Interest Income (Rsm)	734	1,289	1,491	1,759	2,063
Operating Revenue (Rsm)	4,913	6,567	8,233	10,520	13,355
Total Provision Charges (Rsm)	(215)	(254)	(460)	(716)	(1,082)
Net Profit (Rsm)	2,283	3,057	3,506	4,411	5,328
Core EPS (Rs)	26.05	34.54	39.61	49.84	60.19
Core EPS Growth	23%	33%	15%	26%	21%
FD Core P/E (x)	32.59	24.59	21.44	17.04	14.11
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)	207.4	239.7	274.7	316.1	366.1
P/BV (x)	4.09	3.54	3.09	2.69	2.32
ROE	13.5%	15.5%	15.4%	16.9%	17.6%
% 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	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,016	1,106	1,118	1,246	1,321	1,344	1,368	22.4%	1.8%
NIM (% of AUM)	6.5%	6.4%	6.1%	6.1%	6.0%	5.7%	5.3%		
Other Operating Income	167	154	266	285	289	364	351	31.7%	-3.8%
Operating Expenses	441	443	475	553	565	611	584	23.0%	-4.4%
<b>Operating Profit</b>	<b>741</b>	<b>817</b>	<b>910</b>	<b>977</b>	<b>1,044</b>	<b>1,097</b>	<b>1,135</b>	<b>24.8%</b>	<b>3.4%</b>
Provisions	50	60	70	77	80	70	27	-60.5%	-60.8%
<b>PBT</b>	<b>692</b>	<b>757</b>	<b>840</b>	<b>900</b>	<b>964</b>	<b>1,027</b>	<b>1,107</b>	<b>31.8%</b>	<b>7.8%</b>
Tax	149	170	200	209	221	239	273	36.6%	14.0%
Tax rate (%)	21.5%	22.4%	23.8%	23.2%	23.0%	23.3%	24.6%		
<b>PAT</b>	<b>543</b>	<b>587</b>	<b>640</b>	<b>691</b>	<b>743</b>	<b>788</b>	<b>835</b>	<b>30.4%</b>	<b>5.9%</b>
<b>AUM(Rsbn)</b>	<b>63</b>	<b>68</b>	<b>72</b>	<b>78</b>	<b>84</b>	<b>90</b>	<b>97</b>	<b>34.7%</b>	<b>7.6%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

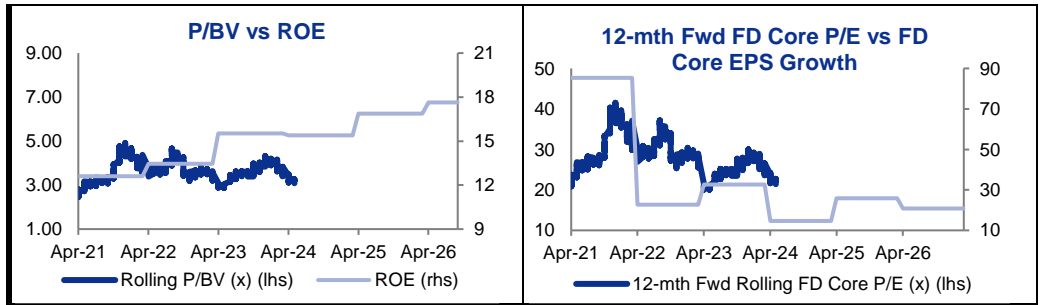
Y/e Mar (Rs mn)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	6,942	6,742	-2.9%	8,665	8,761	1.1%	NA	11,292	NA
Non-interest income	1,343	1,491	11.0%	1,714	1,759	2.6%	NA	2,063	NA
PAT	3,594	3,647	1.5%	4,688	4,580	-2.3%	NA	5,530	NA
EPS (Rs)	41	41.2	0.5%	53.5	51.7	-3.3%	NA	62.5	NA
BV (Rs)	277.2	274.7	-0.9%	325.4	316.1	-2.9%	NA	366.1	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 4QFY24 earnings conference-call highlights

- AUM growth guidance at 30% yoy for FY25F.
- Management gave guidance of increasing co-lending to 10% of AUM from 3% currently.
- Total erosion in the portfolio was around 16-18%, including balance transfers. Management doesn't see balance transfer as a major concern.
- Three quarters of the borrowings book are linked to MCLR, and the rest linked to external benchmarks.
- The cost of borrowings will rise by another 10-20bp before stabilizing.
- The company intends to open another 20-25 branches and 60-70 touchpoints in FY25F.
- The cost-to-income ratio is targeted to be 34-35% in the next two years and targeted to reach ~30% in the long term or three-to-five years.

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	4,179	5,278	6,742	8,761	11,292
<b>Total Non-Interest Income</b>	<b>734</b>	<b>1,289</b>	<b>1,491</b>	<b>1,759</b>	<b>2,063</b>
Operating Revenue	4,913	6,567	8,233	10,520	13,355
<b>Total Non-Interest Expenses</b>	<b>(1,655)</b>	<b>(2,196)</b>	<b>(2,942)</b>	<b>(3,656)</b>	<b>(4,849)</b>
Pre-provision Operating Profit	3,168	4,254	5,150	6,695	8,303
<b>Total Provision Charges</b>	<b>(215)</b>	<b>(254)</b>	<b>(460)</b>	<b>(716)</b>	<b>(1,082)</b>
Operating Profit After Provisions	2,952	4,000	4,690	5,979	7,221
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	2,952	4,000	4,690	5,979	7,221
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	2,218	2,711	3,199	4,220	5,158
<b>Exceptional Items</b>					
Pre-tax Profit	2,952	4,000	4,690	5,979	7,221
Taxation	(669)	(942)	(1,184)	(1,568)	(1,893)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	2,283	3,057	3,506	4,411	5,328
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	2,283	3,057	3,506	4,411	5,328
Recurring Net Profit					

**Balance Sheet Employment**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	8.2%	6.9%	7.8%	3.9%	1.6%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>9.4%</b>	<b>7.9%</b>	<b>9.0%</b>	<b>4.3%</b>	<b>1.7%</b>
Net Cust Loans/Assets	89.0%	85.4%	87.8%	94.3%	94.6%
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans	30.3%	26.1%	23.7%	20.6%	18.7%
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-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>59,957</b>	<b>81,434</b>	<b>102,599</b>	<b>136,031</b>	<b>173,069</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,957	81,434	102,599	136,031	173,069
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	59,957	81,434	102,599	136,031	173,069
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>1,368</b>	<b>1,602</b>	<b>1,442</b>	<b>1,298</b>	<b>1,168</b>
<b>Total Non-Interest Earning Assets</b>	<b>1,621</b>	<b>1,902</b>	<b>1,772</b>	<b>1,661</b>	<b>1,567</b>
Cash And Marketable Securities	2,984	8,215	8,339	1,954	3,198
<b>Long-term Investments</b>	<b>2,808</b>	<b>3,788</b>	<b>4,167</b>	<b>4,584</b>	<b>5,042</b>
Total Assets	67,370	95,340	116,877	144,229	182,876
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	48,134	73,021	90,999	114,467	148,424
Total Interest-Bearing Liabilities	48,134	73,021	90,999	114,467	148,424
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,063	1,104	1,563	1,783	2,048
Total Liabilities	49,197	74,125	92,562	116,250	150,472
Shareholders Equity	18,173	21,215	24,315	27,979	32,403
<b>Minority Interests</b>					
Total Equity	18,173	21,215	24,315	27,979	32,403

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	41.2%	26.3%	27.7%	29.9%	28.9%
Operating Profit Growth	25.9%	34.2%	21.0%	29.7%	23.9%
Pretax Profit Growth	30%	35%	17%	27%	21%
Net Interest To Total Income	85.1%	80.4%	81.9%	83.3%	84.6%
Cost Of Funds	7.35%	8.25%	7.60%	7.50%	7.40%
Return On Interest Earning Assets	14.0%	14.5%	14.1%	13.8%	13.6%
Net Interest Spread	6.67%	6.29%	6.50%	6.30%	6.20%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	7%	6%	9%	11%	13%
Interest Return On Average Assets	7.05%	6.49%	6.35%	6.71%	6.90%
Effective Tax Rate	22.7%	23.6%	25.2%	26.2%	26.2%
Net Dividend Payout Ratio					
Return On Average Assets	3.85%	3.76%	3.30%	3.38%	3.26%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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