

India

ADD (no change)

Consensus ratings*: Buy 22 Hold 0 Sell 1

Current price: Rs1,062
 Target price: ▲ Rs1,350
 Previous target: Rs1,100
 Up/downside: 27.1%
 InCred Research / Consensus: -17.6%

Reuters: HOME.NS
 Bloomberg: HOMEFIRS IN
 Market cap: US\$1,300m
 Rs94,379m
 Average daily turnover: US\$4.0m
 Rs291.5m
 Current shares o/s: 88.9m
 Free float: 53.6%

*Source: Bloomberg

Key changes in this note

- Improved profitability & efficient capital utilization to drive RoE outperformance & justify premium valuation.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.1	21.6	22.2
Relative (%)	1.1	11.7	(0.6)

Major shareholders	% held
True North	23.0
Orange Clove Investments B.V.	14.1
Aether(Mauritius) ltd	9.3

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Home First Finance company

Improving RoE to justify premium valuation

- HFFC posted a healthy 1QFY25 PAT of Rs878m (+27% yoy/+5.2 qoq) amid a steady sequential margin (~5.3%) & lower credit costs (~20bp).
- The company managed robust growth in disbursements (+5.5% qoq) & AUM (+8% qoq) by deepening its presence & curtailing repayments.
- Improved profitability & efficient capital utilization to drive RoE outperformance & justify premium valuation. Retain ADD rating with a higher TP of Rs1,350.

Strong loan disbursements along with reach extension

Home First Finance Company (HFFC) reported steady loan disbursement momentum in 1QFY25, up 5.5% qoq at Rs11.6bn, led by deepening its reach into existing geographies (Gujarat/Maharashtra/Tamil Nadu) & improving the presence in new states (Rajasthan/Madhya Pradesh/Uttar Pradesh). AUM growth was equally healthy, growing at ~8% qoq to Rs104.8bn, as the company's management could manage to curtain balance transfers at ~6.3% (annualized). Management is firm in managing this growth momentum amid improving demand for affordable housing loans. The company currently manages an average loan ticket size of Rs1.16m, which also provides enough headroom for growth. We are building in ~33.6% CAGR in AUM led by ~27.5% CAGR in disbursements over FY24-27F, with the overall repayments declining to 18% from ~23% in FY24.

Margin pressure manageable on the back of strong growth

Overall spreads continued to be under pressure and were down 10bp sequentially at 5.1%, although they remained well within the guided range. The company continues to choose healthy AUM growth along with a range-bound net interest margin or NIM, given the ample capital buffer and strong asset quality. The last rate hike for customers took place in Apr 2023, and management is willing to absorb another 10bp rate hike before passing it on to the customers, with a view to increase customer stickiness.

Steady asset quality and higher recoveries aids profitability

The overall asset quality remained strong, with gross stage-3 loans stable at 1.7%. The EMI bounce rate during the quarter improved by ~80bp in Jul 2024 to ~14.5%, which provides further confidence. Net credit costs were negligible during the quarter at ~20bp. Management has, however, given guidance of stable credit costs of ~30bp. The RoE inched up to 16.3% yoy vs. 16.1% qoq.

Outlook and valuation

We continue to like HFFC due to its unique connector-led business model, conservative management practices and deepening geographic presence. With a gradual utilization of capital, we expect the RoE profile of the company to improve from ~15.5% in FY24 to ~18.3% in FY26F, which justifies the valuation premium. We retain ADD rating on the stock with a higher target price of Rs1,350 (Rs1,100 earlier), valuing it at ~4.2x FY26F P/BV. Downside risks: Lower growth and a surge in non-performing assets or NPAs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	4,179	5,278	6,629	8,641	11,439
Total Non-Interest Income (Rsm)	734	1,289	1,627	1,953	2,262
Operating Revenue (Rsm)	4,913	6,567	8,256	10,594	13,701
Total Provision Charges (Rsm)	(215)	(254)	(324)	(546)	(963)
Net Profit (Rsm)	2,283	3,057	3,867	4,834	5,896
Core EPS (Rs)	26.05	34.54	43.69	54.61	66.61
Core EPS Growth	23%	33%	26%	25%	22%
FD Core P/E (x)	40.74	30.73	24.30	19.44	15.94
DPS (Rs)	0.00	0.00	6.55	10.92	19.98
Dividend Yield	0.00%	0.00%	0.62%	1.03%	1.88%
BVPS (Rs)	207.4	239.7	276.8	320.5	367.1
P/BV (x)	5.12	4.43	3.83	3.31	2.89
ROE	13.5%	15.5%	16.9%	18.3%	19.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings estimates

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Net Interest Income	940	1,016	1,106	1,118	1,246	1,321	1,344	1,368	1,464	17.5%	7.0%
<i>NIM (% of AUM)</i>	6.4%	6.5%	6.4%	6.1%	6.1%	6.0%	5.7%	5.3%	5.3%		
Other Operating Income	147	167	154	266	285	289	364	351	382	34.1%	8.9%
Operating Expenses	387	441	443	475	553	565	611	584	655	18.4%	12.1%
Operating Profit	699	741	817	910	977	1,044	1,097	1,135	1,191	21.9%	4.9%
Provisions	36	50	60	70	77	80	70	27	56	-27.8%	102.3%
PBT	663	692	757	840	900	964	1,027	1,107	1,135	26.1%	2.5%
Tax	151	149	170	200	209	221	239	273	258	23.2%	-5.6%
<i>Tax rate (%)</i>	22.7%	21.5%	22.4%	23.8%	23.2%	23.0%	23.3%	24.6%	22.7%		
PAT	512	543	587	640	691	743	788	835	878	27.0%	5.2%
AUM (Rsbn)	58	63	68	72	78	84	90	97	105	34.8%	8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	6,742	6,629	-1.7%	8,761	8,641	-1.4%	11,292	11,439	1.3%
PPOP	5,150	5,379	4.4%	6,695	7,034	5.1%	8,303	8,876	6.9%
PAT	3,506	3,867	10.3%	4,411	4,834	9.6%	5,328	5,896	10.7%
EPS (Rs)	40	44	10.3%	50	55	9.6%	60	67	10.7%
BV (Rs)	275	277	0.8%	316	321	1.4%	366	367	0.3%
AUM(Rsbn)	135	131.6	-2.4%	180	176.7	-2.0%	234	231.1	-1.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings conference-call highlights for 1QFY25

- Considering the disbursal run rate during the quarter, management expects the full-year disbursal number to be at Rs48bn, posting a 30% growth rate.
- Over three years, the target is to improve its presence and penetrate in the states like Uttar Pradesh, Madhya Pradesh, Telangana and Andhra Pradesh, with an aim to double disbursements by penetrating deeper into the existing markets of Gujarat, Maharashtra and Tamil Nadu.
- Loan against property or LAP has a good amount of headroom to grow, as it now accounts for only 15% of disbursements.
- The PLR rate hike of 35bp will be effective from 1 Aug 2024, and the hike in interest rate will not lead to higher balance transfer cases because the rate hike is very small as compared to the rate hike of 125bp in FY22.
- Rate hike in ~90% of the cases is through increasing the loan tenure without affecting the customer's cash flow.
- The yield on originated loans will remain around 13.5%.
- The overall marginal cost of borrowing has improved due to effective bargaining with lenders.
- The decline in the capital adequacy ratio is due to higher risk weight on mutual fund investments and LAP.
- Co-lending is targeted to account for 10% of total disbursements. Co-lending, being low capital-intensive and RoE-accretive, makes it an attractive product for growth.
- Opex will gradually improve to the 3% level as the operating leverage plays out.
- The distribution strategy is of maintaining the Hub and Spoke model by having hub location and touch points across various areas. Management's strategy is to go through small originators instead of large direct sales agents or DSAs, having sourced around 5-10 loans per year and building that level of granularity in its books.
- The active number of connectors for the quarter stood at 3,500.
- Management expects the borrowing costs to come down and the yields to be maintained, despite projecting a falling interest rate scenario, leading to

improving spreads. High-yield products like LAP and small-ticket home loans will fill the gap of falling yields.

- Over the last 5-10 years, the loan ticket size increased from Rs. 0.5-1.5m to Rs1.5-2.5m across India in the affordable home segment, showing huge growth potential and making it an attractive and focused area for the company.

Figure 3: InCred BFSI coverage universe

Banks	Rating	CMP(Rs)	TP(Rs)	P/B(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	848	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,616	2,000	3.1	2.8	2.6	1.9%	2.0%	2.0%	15.4%	16.3%	16.9%
ICICI Bank	ADD	1,197	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,175	1,300	2.3	2.0	1.7	1.7%	1.7%	1.7%	16.8%	15.9%	16.3%
IndusInd Bank	HOLD	1,379	1,650	1.8	1.6	1.4	1.7%	1.7%	1.7%	14.1%	14.4%	14.8%

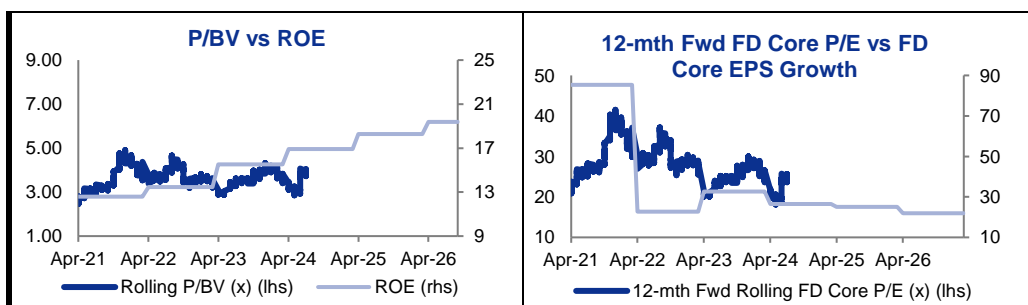
NBFCs	Rating	CMP(Rs)	TP(Rs)	P/B(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Bajaj Finance	ADD	6,647	9,000	6.0	5.1	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam Finance	ADD	1,363	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	289	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.3%	14.0%	15.7%
Shriram Finance **	ADD	2,679	2,950	2.0	1.7	1.4	3.4%	3.5%	3.5%	16.9%	17.3%	17.9%
SBI Cards **	REDUCE	730	500	3.5	3.0	2.6	3.9%	3.6%	3.6%	18.7%	17.8%	17.5%
Aavas Financiers	ADD	1,778	2,000	3.6	3.0	2.6	3.1%	3.1%	3.1%	14.1%	14.7%	15.8%
Home First Finance	ADD	1,030	1,350	4.9	4.2	3.7	3.6%	3.5%	3.4%	16.9%	18.3%	19.4%
Spandana Spoorthy	ADD	699	1,300	2.1	1.8	1.5	4.4%	4.6%	4.6%	16.7%	17.9%	18.2%
Fusion Micro Finance	HOLD	438	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%

AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			ROAUM(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Nippon AMC	ADD	639	800	35.7	29.5	23.7	0.28%	0.26%	0.25%	35.2%	41.8%	50.7%
HDFC AMC	HOLD	4,058	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	1,027	1,200	16.8	13.8	11.8	0.30%	0.30%	0.29%	19.5%	21.1%	22.0%
ABSL AMC**	ADD	697	950	26.9	22.0	18.2	0.27%	0.27%	0.27%	29.9%	32.0%	33.9%

Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (x) (at TP)			Return on EV (%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI Life Insurance	HOLD	1,695	1,750	2.5	2.2	1.8	18.9%	18.5%	18.1%	15.4%	16.6%	16.2%

NOTE: ** HIGH CONVICTION
SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	4,179	5,278	6,629	8,641	11,439
Total Non-Interest Income	734	1,289	1,627	1,953	2,262
Operating Revenue	4,913	6,567	8,256	10,594	13,701
Total Non-Interest Expenses	(1,655)	(2,196)	(2,724)	(3,366)	(4,583)
Pre-provision Operating Profit	3,168	4,254	5,379	7,034	8,876
Total Provision Charges	(215)	(254)	(324)	(546)	(963)
Operating Profit After Provisions	2,952	4,000	5,055	6,488	7,914
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	2,952	4,000	5,055	6,488	7,914
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,218	2,711	3,428	4,536	5,651
Exceptional Items					
Pre-tax Profit	2,952	4,000	5,055	6,488	7,914
Taxation	(669)	(942)	(1,188)	(1,655)	(2,018)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	2,283	3,057	3,867	4,834	5,896
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	2,283	3,057	3,867	4,834	5,896
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%	9.0%	6.9%	3.7%
Avg Liquid Assets/Avg IEAs	9.4%	7.9%	10.5%	7.7%	3.9%
Net Cust Loans/Assets	89.0%	85.4%	85.8%	91.0%	93.9%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	30.3%	26.1%	23.7%	20.4%	17.9%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	59,957	81,434	103,513	139,056	181,855
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,957	81,434	103,513	139,056	181,855
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	59,957	81,434	103,513	139,056	181,855
Intangible Assets					
Other Non-Interest Earning Assets	1,368	1,602	1,442	1,298	1,168
Total Non-Interest Earning Assets	1,621	1,902	1,772	1,661	1,567
Cash And Marketable Securities	2,984	8,215	11,234	7,518	5,157
Long-term Investments	2,808	3,788	4,167	4,584	5,042
Total Assets	67,370	95,340	120,686	152,819	193,621
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	48,134	73,021	94,594	122,645	159,046
Total Interest-Bearing Liabilities	48,134	73,021	94,594	122,645	159,046
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,063	1,104	1,589	1,804	2,079
Total Liabilities	49,197	74,125	96,184	124,449	161,125
Shareholders Equity	18,173	21,215	24,502	28,369	32,496
Minority Interests					
Total Equity	18,173	21,215	24,502	28,369	32,496

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	41.2%	26.3%	25.6%	30.4%	32.4%
Operating Profit Growth	25.9%	34.2%	26.5%	30.7%	26.2%
Pretax Profit Growth	30%	35%	26%	28%	22%
Net Interest To Total Income	85.1%	80.4%	80.3%	81.6%	83.5%
Cost Of Funds	7.35%	8.25%	8.20%	7.90%	7.60%
Return On Interest Earning Assets	14.0%	14.5%	14.6%	14.2%	13.8%
Net Interest Spread	6.67%	6.29%	6.40%	6.30%	6.20%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	7%	6%	6%	8%	11%
Interest Return On Average Assets	7.05%	6.49%	6.14%	6.32%	6.60%
Effective Tax Rate	22.7%	23.6%	23.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	3.85%	3.76%	3.58%	3.53%	3.40%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

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