

India

ADD (no change)

Consensus ratings*: Buy 21 Hold 1 Sell 1

Current price:	Rs1,102
Target price:	Rs1,350
Previous target:	Rs1,350
Up/downside:	22.5%
InCred Research / Consensus:	10.4%

Reuters:	
Bloomberg:	HOMEFIRS IN
Market cap:	US\$1,169m
	Rs98,267m
Average daily turnover:	US\$6.1m
	Rs509.4m
Current shares o/s:	87.6m
Free float:	76.6%

*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 (%)	(15.4)	7.0	23.6
Relative (%)	(8.8)	9.6	(0.7)

Major shareholders	% held
Orange Clove Investments B.V.	22.9
True North	14.1
Aether(Mauritius) ltd	9.3

Research Analyst(s)



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Home First Finance company

Consistency drives the valuation premium

- HFFC has posted an in-line 2Q PAT of Rs922m (+24.1% yoy/+5.1% qoq) amid steady sequential margin (~5.3%) and lower credit costs (~20bp).
- Disbursements remained flat sequentially, but AUM growth remained robust (+7.2% qoq) through deepening presence & curtailing repayments.
- Improved profitability & efficient capital utilization to drive RoE outperformance and justify premium valuation. Retain our ADD rating with a TP of Rs1,350.

Strong AUM growth led by deepening penetration

Home First Finance Company (HFFC) managed steady disbursement momentum (+1.2% qoq/+22.7% yoy) at Rs11.8bn in 2QFY25, led by deepening reach into existing geographies (Gujarat/Maharashtra/Tamil Nadu) & improving presence in new states (Rajasthan/Madhya Pradesh/Uttar Pradesh). Assets under management or AUM growth remained robust, up by ~7.2% qoq at Rs112.3bn, as HFFC managed to contain balance transfers at ~6.3% (annualized). Management is firm regarding managing this growth momentum amid improving demand for affordable housing. The company currently manages an average loan ticket size of Rs1.17m, which provides enough headroom for growth. We are building in ~30.6% CAGR in AUM over FY24-27F.

Margin pressure manageable; trend in fee income improving

Overall spreads witnessed ~10bp sequential improvement to ~5.2% as HFFC went for a PLR hike during the quarter. The company continues to prefer healthy AUM growth along with a range-bound NIM, given the ample capital buffer and strong asset quality. The company also remains a major beneficiary in a rate-cut environment as it can pass on the rate benefit gradually, depending on the demand environment. Other income during the quarter witnessed a sequential spurt (+10.2%) as HFFC revised its insurance distribution contract. Management remains firm on ramping up fee income through insurance distribution in coming quarters. The spurt in employee costs was also visible amid higher recruitments as well as ESOP-related expenses.

Steady asset quality, high recoveries aids profitability

Overall asset quality remained strong, with gross stage-3 loans stable at 1.7%. The EMI bounce rate during the quarter improved by ~10bp sequentially to ~15.2%, which provides further confidence. Net credit costs were negligible during the quarter at ~20bp. Management has, however, given guidance of stable credit costs at ~30bp.

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 ~18.7% in FY27F, which justifies its valuation premium. We maintain our ADD rating on the stock with a target price of Rs1,350, valuing it at ~4.2x FY26F P/BV. Downside risk: 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	6,442	8,226	10,270
Total Non-Interest Income (Rsm)	734	1,289	1,726	1,915	2,239
Operating Revenue (Rsm)	4,913	6,567	8,168	10,142	12,509
Total Provision Charges (Rsm)	(215)	(254)	(276)	(355)	(456)
Net Profit (Rsm)	2,283	3,057	3,786	4,639	5,623
Core EPS (Rs)	26.05	34.54	42.77	52.41	63.53
Core EPS Growth	23%	33%	24%	23%	21%
FD Core P/E (x)	42.30	31.91	25.77	21.03	17.35
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	276.0	318.0	362.4
P/BV (x)	5.31	4.60	3.99	3.47	3.04
ROE	13.5%	15.5%	16.6%	17.6%	18.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,246	1,321	1,344	1,368	1,464	1,566	18.6%	7.0%
<i>NIM (% of AUM)</i>	6.1%	6.0%	5.7%	5.3%	5.3%	5.2%		
Other Operating Income	285	289	364	351	382	421	45.6%	10.2%
Operating Expenses	553	565	611	584	655	726	28.4%	10.8%
Operating Profit	977	1,044	1,097	1,135	1,191	1,261	20.7%	5.9%
Provisions	77	80	70	27	56	57	-28.3%	3.2%
PBT	900	964	1,027	1,107	1,135	1,204	24.8%	6.0%
Tax	209	221	239	273	258	281	27.1%	9.2%
<i>Tax Rate (%)</i>	23.2%	23.0%	23.3%	24.6%	22.7%	23.4%		
PAT	691	743	788	835	878	922	24.1%	5.1%
AUM (Rs bn)	78	84	90	97	105	112	34.2%	7.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

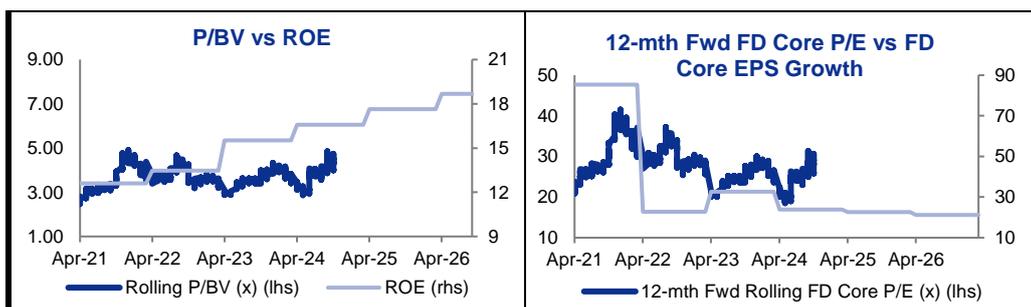
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	6,629	6,442	-2.8%	8,641	8,226	-4.8%	11,439	10,270	-10.2%
PPOP	5,379	5,225	-2.9%	7,034	6,582	-6.4%	8,876	8,004	-9.8%
PAT	3,867	3,786	-2.1%	4,834	4,639	-4.0%	5,896	5,623	-4.6%
EPS (Rs)	44	43	-2.1%	55	52	-4.0%	67	64	-4.6%
BV (Rs)	277	276	-0.3%	321	318	-0.8%	367	362	-1.3%
AUM (Rs bn)	132	130.5	-0.9%	177	170.4	-3.6%	231	215.9	-6.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings-call highlights

- The interest rate at which HFFC is operating is ~12-13%, which completely justifies the risk and the opex involved in the business.
- The spread guidance is ~5-5.3%, which can be achieved.
- The rate hike taken last quarter is fully reflected in 2QFY25.
- The debt-to-equity ratio is ~3.7x, which can be stretched to 5x. Before raising it to 5x, there will be fund-raising, which will take place in the next two years.
- The rise in the average ticket size or ATS of home loans is due to inflation. The aspiration for bigger homes has led to a rise in ATS.
- The EMI or equated monthly instalment bounce rate for Oct 2025 is mid-way; it gets better by the end of the month. The bounce rate is expected to continue its healthy trend.
- There is no change in the company's business model - it's the connector model where leads are generated from outside the organization on variable pay and then the HFFC staff gets connected to the borrower.
- Employee expenses were high as some employees were hired for expansion over the next two-three years.
- Advances set to grow by 30%, despite the loan book topping the Rs100bn-mark. The disbursement so far this year stands at Rs23bn and the next two quarters' disbursement to be ~Rs25-26bn, leading to a 30% growth in advances.
- The growth rate in advances to be ~30% for the next two years, with the disbursement being Rs50bn annually.
- Microfinance or MFI cycles in the past have not affected the housing market as the customer segment is different.
- The rate hike led to a rise in the tenure of loans, where 93% of the customers chose to increase the tenure.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	4,179	5,278	6,442	8,226	10,270
Total Non-Interest Income	734	1,289	1,726	1,915	2,239
Operating Revenue	4,913	6,567	8,168	10,142	12,509
Total Non-Interest Expenses	(1,655)	(2,196)	(2,791)	(3,366)	(4,263)
Pre-provision Operating Profit	3,168	4,254	5,225	6,582	8,004
Total Provision Charges	(215)	(254)	(276)	(355)	(456)
Operating Profit After Provisions	2,952	4,000	4,949	6,227	7,548
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	2,952	4,000	4,949	6,227	7,548
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,218	2,711	3,222	4,311	5,310
Exceptional Items					
Pre-tax Profit	2,952	4,000	4,949	6,227	7,548
Taxation	(669)	(942)	(1,163)	(1,588)	(1,925)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	2,283	3,057	3,786	4,639	5,623
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	2,283	3,057	3,786	4,639	5,623
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%	9.4%	8.9%	8.4%
Avg Liquid Assets/Avg IEAs	9.4%	7.9%	11.0%	10.3%	9.5%
Net Cust Loans/Assets	89.0%	85.4%	85.1%	87.9%	87.9%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	30.3%	26.1%	23.8%	21.0%	18.9%
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	102,616	134,102	169,877
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	59,957	81,434	102,616	134,102	169,877
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	59,957	81,434	102,616	134,102	169,877
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	12,059	12,235	16,686
Long-term Investments	2,808	3,788	4,167	4,584	5,042
Total Assets	67,370	95,340	120,614	152,581	193,172
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	1,587	1,792	2,046
Total Liabilities	49,197	74,125	96,182	124,437	161,092
Shareholders Equity	18,173	21,215	24,433	28,144	32,080
Minority Interests					
Total Equity	18,173	21,215	24,433	28,144	32,080

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	41.2%	26.3%	22.0%	27.7%	24.9%
Operating Profit Growth	25.9%	34.2%	23.0%	26.0%	21.7%
Pretax Profit Growth	30%	35%	24%	26%	21%
Net Interest To Total Income	85.1%	80.4%	78.9%	81.1%	82.1%
Cost Of Funds	7.35%	8.25%	8.40%	7.90%	7.60%
Return On Interest Earning Assets	14.0%	14.5%	14.7%	14.2%	13.8%
Net Interest Spread	6.67%	6.29%	6.25%	6.30%	6.20%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	7%	6%	5%	5%	6%
Interest Return On Average Assets	7.05%	6.49%	5.97%	6.02%	5.94%
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%	3.51%	3.40%	3.25%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.