

India

ADD (no change)

Consensus ratings*: Buy 23 Hold 0 Sell 1

Current price: Rs1,193
 Target price: ▲ Rs1,450
 Previous target: Rs1,150
 Up/downside: 21.5%
 InCred Research / Consensus: 14.2%

Reuters:
 Bloomberg: HOMEFIRS IN
 Market cap: US\$1,453m
 Rs122,841m
 Average daily turnover: US\$8.3m
 Rs701.8m
 Current shares o/s: 102.9m
 Free float: 87.5%

*Source: Bloomberg

Key changes in this note

- We raise our AUM growth estimate led by the company's consistent performance and expansion into newer geographies fuelled by the recent capital raising.



Price performance	1M	3M	12M
Absolute (%)	20.4	24.0	34.0
Relative (%)	12.7	20.5	23.0

Major shareholders

	% held
Orange Clove Investments B.V.	10.7
True North	7.5
Capital Group	6.0

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Home First Finance company

Gearing up to accelerate growth

- HFFC posted an in-line 4Q performance led by healthy AUM growth & improving operating leverage and contained credit costs & NIM pressure.
- Early-bucket delinquencies led by cash flow mismatches are expected to smoothen in the coming quarters.
- We like HFFC's unique connector-led business model conservative management practices & deepening presence. Retain ADD with Rs1,450 TP.

Disbursements pick pace led by a higher share from newer states

Home First Finance Company (HFFC) reported an in-line 4QFY25 PAT with a largely stable core operating performance. Disbursement growth at ~7% qoq and ~16% yoy was encouraging after softer disbursement growth in the previous quarter. The growth was led by strong performance of newer states such as Madhya Pradesh, Rajasthan, and Uttarakhand. Vintage states like Tamil Nadu and Gujarat grew at a slower pace than the assets under management or AUM as the company is restructuring branches in these states. We believe that as the company's loan book expands into newer geographies along with recalibrating strategies in existing states, AUM growth is expected to sustain its strong momentum of 25-30% yoy over FY26F-28F. Moreover, the recent capital raising provides good room for grabbing market share. AUM grew by ~31% yoy and ~6% qoq to Rs127bn due to strong disbursements.

Improving NIM led by better borrowing mix

There was some improvement in the net interest margin or NIM of ~20bp qoq to 5.1% on account of mark-to-market or MTM benefit along with reduced cost of borrowings and a changing borrowing mix. We expect NIM to improve in FY26F on account of capital raising and then ease from FY27F but largely remain range-bound.

Asset quality pressure contained; EMI bounce rate inches up

HFFC reported easing in early-bucket delinquencies with a ~30bp decline in 1+ dpd, addressing concerns over rising asset quality pain. Gross stage-3 assets remained stable qoq at 1.7%. However, we are keeping a close eye on the EMI bounce rate, which inched up to ~16.4% in 4QFY25 and eased to 16.2% in Apr 2025. However, management clarified that these are largely early delinquencies & are likely to smoothen in the coming quarters.

Outlook and valuation

With the successful capital raising (Rs12.5bn) in Apr 2025, growth levers will be fuelled. We retain our ADD rating on the stock 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 HFFC to improve from ~14% in FY26F to ~16% in FY28F, which justifies its valuation premium. We have increased our target price to Rs1,450 (Rs1,150 earlier), valuing the stock at ~3.1x FY27F P/BV. Downside risks: Lower growth and a surge in non-performing assets or NPAs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	5,278	6,388	8,677	11,496	14,353
Total Non-Interest Income (Rsm)	1,289	1,852	2,288	2,622	3,021
Operating Revenue (Rsm)	6,567	8,239	10,965	14,117	17,374
Total Provision Charges (Rsm)	(254)	(288)	(373)	(561)	(709)
Net Profit (Rsm)	3,057	3,821	4,990	6,697	8,475
Core EPS (Rs)	34.54	42.43	48.47	65.06	82.32
Core EPS Growth	33%	23%	14%	34%	27%
FD Core P/E (x)	34.55	28.13	24.62	18.34	14.50
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)	239.7	280.0	410.0	462.0	527.9
P/BV (x)	4.98	4.26	2.91	2.58	2.26
ROE	15.5%	16.5%	14.8%	14.9%	16.6%
% 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	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	1,246	1,321	1,344	1,368	1,464	1,566	1,631	1,726	26.2%	5.8%
<i>NIM (% of AUM)</i>	6.1%	6.0%	5.7%	5.3%	5.3%	5.2%	4.9%	5.1%		
Other Operating Income	285	289	364	351	382	421	517	533	51.9%	3.1%
Operating Expenses	553	565	611	584	655	726	752	803	37.5%	6.7%
Operating Profit	977	1,044	1,097	1,135	1,191	1,261	1,396	1,456	28.3%	4.3%
Provisions	77	80	70	27	56	57	98	77	180.6%	-21.3%
PBT	900	964	1,027	1,107	1,135	1,204	1,298	1,379	24.5%	6.2%
Tax	209	221	239	273	258	281	324	332	21.7%	2.4%
<i>Tax Rate (%)</i>	23.2%	23.0%	23.3%	24.6%	22.7%	23.4%	25.0%	24.1%		
PAT	691	743	788	835	878	922	974	1,047	25.4%	7.5%
AUM (Rs bn)	78	84	90	97	105	112	119	127	31.1%	6.4%
Disbursement	9	10	10	11	12	12	12	13	15.5%	6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

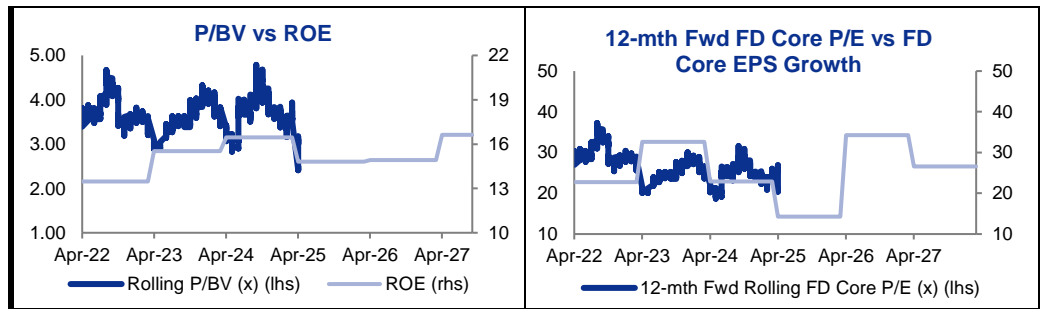
Y/e Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	8,220	8,677	5.6%	10,173	11,496	13.0%		14,353	
PPOP	6,833	7,070	3.5%	8,339	9,550	14.5%		12,084	
PAT	4,733	4,990	5.4%	5,662	6,697	18.3%		8,475	
EPS (Rs)	53	48	-8.5%	64	65	2.4%		82	
BV (Rs)	319	410	28.5%	363	462	27.3%		528	
AUM(Rsbn)	161	163.3	1.3%	199	205.5	3.5%		260.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ➤

- HFFC's management indicated that RoE will return to 15%+ in six-to-seven quarters.
- The balance transfer out rate was 7.5%.
- Loan ticket size is expected to rise by 3-4% every year.
- New branches reached an AUM of Rs300-500m in two years and Rs500-700m in three-to-four years.
- Management maintained its credit cost guidance of 30bp to 40bp.
- The company targets co-lending to account for 10% of its disbursements.
- A rate cut results in a 60% reduction in the cost of borrowings over a 12-month period.
- The company hired ~400 employees in FY25, and the attrition rate was ~30%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	5,278	6,388	8,677	11,496	14,353
Total Non-Interest Income	1,289	1,852	2,288	2,622	3,021
Operating Revenue	6,567	8,239	10,965	14,117	17,374
Total Non-Interest Expenses	(2,196)	(2,780)	(3,697)	(4,320)	(4,982)
Pre-provision Operating Profit	4,254	5,304	7,070	9,550	12,084
Total Provision Charges	(254)	(288)	(373)	(561)	(709)
Operating Profit After Provisions	4,000	5,016	6,698	8,989	11,375
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	4,000	5,016	6,698	8,989	11,375
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,711	3,164	4,409	6,368	8,354
Exceptional Items					
Pre-tax Profit	4,000	5,016	6,698	8,989	11,375
Taxation	(942)	(1,195)	(1,708)	(2,292)	(2,901)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	3,057	3,821	4,990	6,697	8,475
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	3,057	3,821	4,990	6,697	8,475
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	6.9%	8.1%	5.8%	5.8%	6.2%
Avg Liquid Assets/Avg IEAs	7.9%	9.4%	6.5%	6.4%	6.8%
Net Cust Loans/Assets	85.4%	87.2%	91.2%	89.3%	91.1%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	26.1%	23.7%	29.7%	26.6%	24.0%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	81,434	106,487	141,991	178,623	226,482
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	81,434	106,487	141,991	178,623	226,482
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	81,434	106,487	141,991	178,623	226,482
Intangible Assets					
Other Non-Interest Earning Assets	1,602	2,353	2,589	2,848	3,132
Total Non-Interest Earning Assets	1,902	2,645	2,909	3,200	3,520
Cash And Marketable Securities	8,215	9,382	6,807	13,733	13,913
Long-term Investments	3,788	3,602	3,963	4,359	4,795
Total Assets	95,340	122,117	155,670	199,916	248,710
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	73,021	95,507	111,544	150,114	191,770
Total Interest-Bearing Liabilities	73,021	95,507	111,544	150,114	191,770
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,104	1,397	1,922	2,240	2,599
Total Liabilities	74,125	96,904	113,466	152,354	194,369
Shareholders Equity	21,215	25,213	42,204	47,561	54,341
Minority Interests					
Total Equity	21,215	25,213	42,204	47,561	54,341

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	26.3%	21.0%	35.8%	32.5%	24.9%
Operating Profit Growth	34.2%	24.9%	33.1%	34.8%	26.5%
Pretax Profit Growth	35%	25%	34%	34%	27%
Net Interest To Total Income	80.4%	77.5%	79.1%	81.4%	82.6%
Cost Of Funds	8.25%	8.49%	8.30%	8.00%	7.60%
Return On Interest Earning Assets	14.5%	14.4%	13.9%	13.7%	13.5%
Net Interest Spread	6.29%	5.92%	5.60%	5.70%	5.90%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	6%	5%	5%	6%	6%
Interest Return On Average Assets	6.49%	5.87%	6.25%	6.47%	6.40%
Effective Tax Rate	23.6%	23.8%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	3.76%	3.51%	3.59%	3.77%	3.78%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- 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.

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.

Sector Ratings

Definition:

- 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.

Country Ratings

Definition:

- 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.