

India

ADD (no change)

Consensus ratings*: Buy 21 Hold 2 Sell 4

Current price: Rs1,254
 Target price:  Rs1,650
 Previous target: Rs1,650
 Up/downside: 31.6%
 InCred Research / Consensus: 13.9%

Reuters:
 Bloomberg: HOMEFIRS IN
 Market cap: US\$1,474m
 Rs129,849m
 Average daily turnover: US\$6.0m
 Rs528.4m
 Current shares o/s: 102.9m
 Free float: 87.6%

*Source: Bloomberg

Key changes in this note

- Our visit to a Mumbai-periphery branch indicated robust demand, high LTV ratio in select regions, and relatively better asset quality.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	(1.0)	17.7
Relative (%)	2.7	0.6	18.9

Major shareholders	% held
Orange Clover Investments B.V.	10.2
Capital Group	7.8
True North	7.5

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Home First Finance company

Branch visit update

- Our recent HFFC branch visit indicated that demand in the peripheral regions of Mumbai remains robust, despite rising supply.
- Consequently, the company is gearing up to deepen its reach by adding more branches and boosting the productivity of existing relationship managers.
- We appreciate the tech set-up and conservative geographic deepening. Maintain ADD rating on the stock with an unchanged target price of Rs1,650.

Strong demand for affordable housing

We visited a fast-growing branch of Home First Finance Company (HFFC) on the outskirts of Mumbai and interacted with the regional head and some connectors. The strong demand for loans is driven by rising aspiration for home ownership, growth in nuclear families, and improving standard of living of the people staying in rental homes in the city. The same is echoed in media reports citing realty consultancy firm Anarock's recent survey stating robust demand for affordable housing in the Mumbai metropolitan region, despite some cooling off in other key cities.

HFFC: APF tripling, branches expanding & RM productivity rising

To capture this demand, HFFC's approved project finance (APF), or the projects pre-approved for financing, have increased significantly from 40 to 110 in the current year. The company is also expanding its presence by opening new branches in improving-connectivity locations such as Virar and Badlapur. Further, rising demand and improving efficiency is expected to boost the disbursement productivity per relationship manager or RM from Rs4-4.5m/month to Rs7-7.5m/month. Incentives are offered to RMs, both at the disbursement and collection stage. Importantly, RMs are well-versed with documentation requirements and client screening, which ensures better-quality sourcing.

Connector interaction indicates best-in-class TAT - an outlier

HFFC has strong builder tie-ups, with a focus on Cat A (~20%) and Cat B (~60%) builders. Leads are also generated through single brokers who are contracted to sell an entire builder project. Our discussions with these connectors indicated that despite being offered a thin margin by HFFC (around 50bp vs. up to 100bp by peers), they prefer HFFC due to a shorter turnaround time (TAT), usually one-to-three days. Also, the loan-to-value or LTV in select regions is as high as 95-99% (Fig. 1) aided by ~10-15% price hike in the past two years; however, HFFC continues to be conservative and has among the lowest LTV ratios.

Outlook and valuation

We believe HFFC's connector model, tech set-up, and conservative geographic deepening justifies its valuation premium on the back of consistent market share gains. The recent capital raising will subdue return ratios in the near term; however, we believe the same will normalize by mid-FY27F. We maintain our ADD rating on HFFC with a stable target price of Rs1,650, valuing it at 3.8x FY27F BV. Downside risks: A sharp fall in NIM, asset quality stress or slow growth in assets under management or AUM.

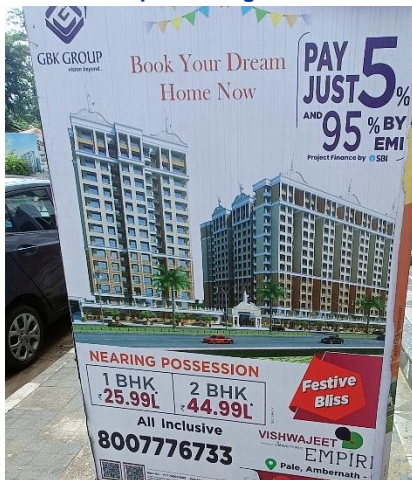
Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	4,698	5,649	7,483	9,301	11,374
Total Non-Interest Income (Rsm)	1,869	2,590	3,462	3,979	5,020
Operating Revenue (Rsm)	6,567	8,239	10,945	13,280	16,394
Total Provision Charges (Rsm)	(254)	(288)	(399)	(432)	(522)
Net Profit (Rsm)	3,057	3,821	5,236	6,422	8,114
Core EPS (Rs)	34.54	42.43	50.71	62.20	78.59
Core EPS Growth	33%	23%	20%	23%	26%
FD Core P/E (x)	36.32	29.56	24.73	20.17	15.96
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	407.5	457.3	520.2
P/BV (x)	5.23	4.48	3.08	2.74	2.41
ROE	15.5%	16.5%	15.6%	14.4%	16.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Other highlights ➤

- Asset quality remains a priority. Lending is restricted to customers who meet defined guardrails. The equated monthly instalment or EMI bounce rate stands at 11%, below the company average of ~15-16%.
- The login-to-sanction conversion ratio is ~80%, reflecting strong customer screening. Thorough checks are conducted at residence and employment/business locations before a loan moves to the sanction stage.
- Ticket sizes are moving up in regions like Navi Mumbai and surrounding areas, resulting in higher contribution from co-lending. The share of co-lending at the Badlapur branch was ~30%.
- ~90% of the loans in this belt qualify for the PMAY 2.0 scheme and initial flows are seen in some cases.
- Customers are provided with all the required documentation, including repayment schedules, once the screening is done, bringing in transparency and clarity at both fronts, customer as well as RM.
- Balance transfers (BT-outs) currently stand at 5.5% though are trending downwards because of competitive interest rates offered by HFFC.

Figure 1: High LTV rates dominate the affordable housing segment in Mumbai metropolitan region



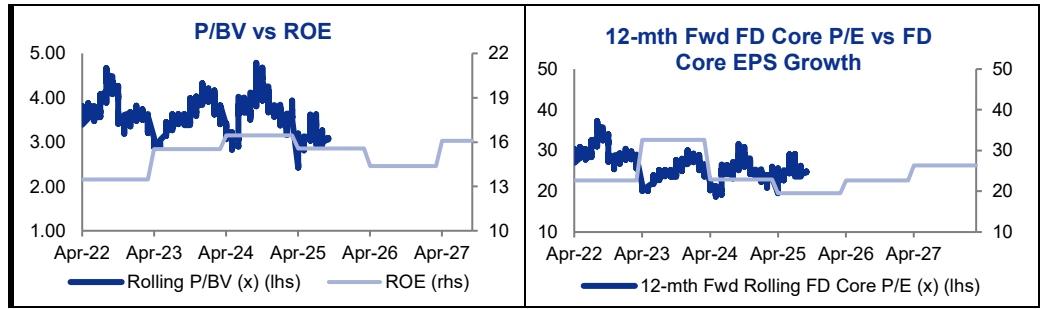
SOURCE: INCRED RESEARCH

Figure 2: Dense supply in catchment areas with easy connectivity to the city



SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	4,698	5,649	7,483	9,301	11,374
Total Non-Interest Income	1,869	2,590	3,462	3,979	5,020
Operating Revenue	6,567	8,239	10,945	13,280	16,394
Total Non-Interest Expenses	(2,196)	(2,780)	(3,465)	(4,166)	(4,912)
Pre-provision Operating Profit	4,254	5,304	7,291	8,885	11,203
Total Provision Charges	(254)	(288)	(399)	(432)	(522)
Operating Profit After Provisions	4,000	5,016	6,892	8,453	10,680
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	4,000	5,016	6,892	8,453	10,680
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,130	2,425	3,430	4,474	5,661
Exceptional Items					
Pre-tax Profit	4,000	5,016	6,892	8,453	10,680
Taxation	(942)	(1,195)	(1,656)	(2,031)	(2,566)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	3,057	3,821	5,236	6,422	8,114
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	3,057	3,821	5,236	6,422	8,114
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%	6.1%	5.2%	4.8%
Avg Liquid Assets/Avg IEAs	7.9%	9.4%	6.9%	5.9%	5.4%
Net Cust Loans/Assets	85.4%	87.2%	89.7%	88.5%	89.1%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	26.1%	23.7%	31.3%	29.0%	27.2%
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	134,229	162,938	197,083
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	81,434	106,487	134,229	162,938	197,083
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	81,434	106,487	134,229	162,938	197,083
Intangible Assets					
Other Non-Interest Earning Assets	1,602	2,353	2,712	3,297	4,083
Total Non-Interest Earning Assets	1,902	2,645	3,213	3,839	4,682
Cash And Marketable Securities	8,215	9,382	7,187	10,260	9,157
Long-term Investments	3,788	3,602	5,076	7,165	10,300
Total Assets	95,340	122,117	149,705	184,202	221,222
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	1,602	1,767	1,987
Total Liabilities	74,125	96,904	113,145	151,881	193,757
Shareholders Equity	21,215	25,213	42,075	47,212	53,703
Minority Interests					
Total Equity	21,215	25,213	42,075	47,212	53,703

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	24.2%	20.3%	32.5%	24.3%	22.3%
Operating Profit Growth	34.2%	24.9%	37.0%	21.8%	26.0%
Pretax Profit Growth	35%	25%	37%	23%	26%
Net Interest To Total Income	71.5%	68.6%	68.4%	70.0%	69.4%
Cost Of Funds	8.25%	8.49%	7.79%	7.14%	6.72%
Return On Interest Earning Assets	13.7%	13.6%	12.9%	12.5%	12.7%
Net Interest Spread	5.46%	5.14%	5.13%	5.41%	5.98%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	6%	5%	5%	5%	5%
Interest Return On Average Assets	5.77%	5.20%	5.51%	5.57%	5.61%
Effective Tax Rate	23.6%	23.8%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	3.76%	3.51%	3.85%	3.85%	4.00%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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:

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Definition:

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