ArihantCapital
Generating Wealth

Initiating Coverage
24th December 2021

Home First Finance Co. Ltd

Niche player in growing and underpenetrated HFC market with optimum use of technology, RoE set to expand in long run

CMP: INR 833

Rating: Accumulate

Target Price: INR 938

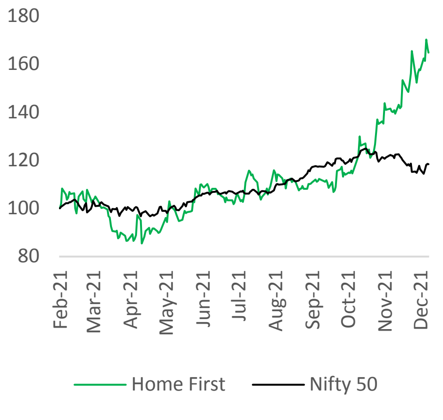
Stock Info	
BSE	543259
NSE	HOMEFIRST
Bloomberg	HOMEFIRS IN
Reuters	HOMEFIRS.BO
Sector	Banks
Face Value (INR)	2
Equity Capital (INR Cr)	17
Mkt Cap (INR Cr)	7,298
52w H/L (INR)	921 / 440
Avg Yearly Vol (in 000')	394

Shareholding Pattern %
(As on Sep, 2021)

Promoters	33.7
FII	12.7
DII	40.6
Public & Others	13.0

Stock Performance (%)	1m	3m	12m
Home First	5.9	39.2	-
Nifty 50	-2.5	-4.2	25.5

Home First vs Nifty 50



Raju Barnawal
raju.b@arihantcapital.com
022 67114870

Incorporated in 2010, Home First Finance Company (HFFC) is a technology driven small ticket housing loan provider which focuses on niche customer segment and had recorded strong AUM growth of 45% CAGR over FY18-21. HFFC was founded by Jaithirth Rao, PS Jayakumar and Manoj Viswanathan. It has an AUM of INR 4,617 cr as on Q2FY22 with ~92% portfolio share in home loans. On customer segment wise, it has high share of salaried customer (~74% of AUM) with strong presence in top markets like Gujarat and Maharashtra (~57% share in AUM). HFFC has tech led business model with focused branch operations and centralized underwriting process. We expect, HFFC to achieve AUM growth of ~29% CAGR over FY21-24E, driven by high tech usage which ensures optimization of operating cost, stable asset quality, normalizing credit cost and high capital ratios.

HFFC is a good play in underpenetrated and growing HFC market: With government's thrust on affordable housing like 'Housing for all' scheme, favorable demographic, Rising urbanization & nuclearisation, low housing penetration, Indian affordable housing finance market (HFC) is well-positioned to witness strong growth. Overall housing market is expected to deliver a AUM growth of ~9-11% CAGR over FY21-23E. HFFC being the focused lender in retail home loans in urban/semi urban area is in sweet spot to grab the opportunity and gain market share.

Leveraging technology helped to build a scalable operating model: With the use of technology, company has built a scalable operating model. It uses technology across the value chain right from lead generation (via connectors app) to data validation to disbursements and collections. It uses data analytics, application scorecard, mobile application for monitoring leads and geotagging of properties to mitigate the risks and improve the efficiency. With the effective use of technology, HFFC has industry leading productivity ratios and TAT (turnaround time) of 48 hours against the industry average of 8 to 10 working days.

Industry leading productivity ratio: With a smaller branch network and comparable employee strength, HFFC has the better productivity ratio then its comparable peers aided by effective use of technology. Employee productivity in the company is higher due to adoption of technology (cloud based loan processing, CRM and centralized underwriting). With the branch network of 72, HFFC's AUM/branch stood at INR 57.5 cr and AUM/Employee at INR 6 cr (shown in Exhibit 11 & 12)

Valuation and View: We initiate coverage on HFFC with Accumulate rating and target price of INR 938, based on 4.3x FY24E ABV. We believe HFFC is well positioned to capture the strong growth in the growing and underpenetrated housing market. We expect HFFC to deliver a ~29% AUM CAGR over FY21-FY24E with RoA/RoE of ~3%/13.5% over FY24E. Improving productivity, strong growth drivers, an experienced management and healthy capital position are its key positives.

Exhibit 1: Financial Snapshot

in Cr.	NII	PPOP	PAT	RoA (%)	RoE (%)	P/E(x)	P/BV(x)
FY19	127	73	46	2.4	10.8	NA	NA
FY20	198	124	80	2.7	10.9	NA	NA
FY21	247	166	100	2.5	8.7	70.0	5.2
FY22E	321	223	142	2.8	9.8	49.5	4.7
FY23E	391	276	183	2.9	11.3	38.3	4.2
FY24E	507	365	247	3.1	13.5	28.3	3.7

Source: Company, Arihant Research

Story in charts (Financials are as on FY21, unless stated)

Exhibit 2: Tech led housing player recorded strong AUM growth of 45% CAGR over FY18-21 and expected to clock 29% CAGR over FY21-24E

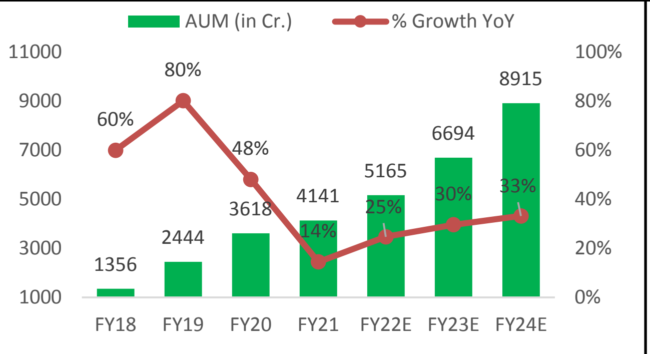


Exhibit 3: Profit of the company expected to grow by 35% CAGR over FY21-24E led by improving credit growth along with and normalising credit cost

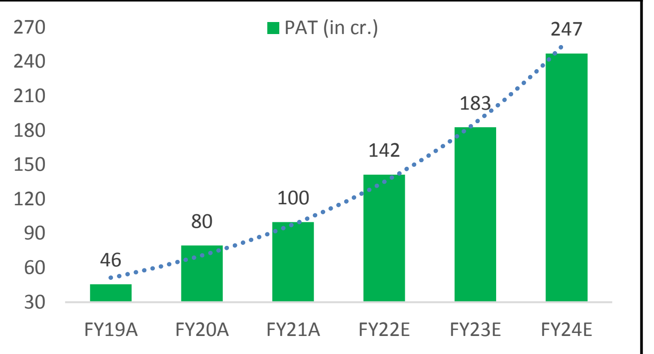


Exhibit 4: AUM profile of HFFC by customer segment

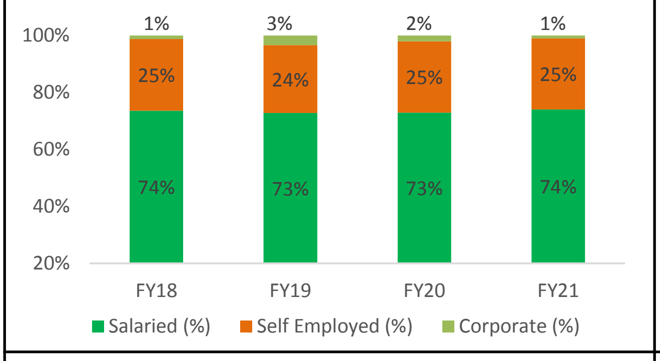


Exhibit 5: Granular portfolio. In FY21, average ticket size (ATS) for the entire book was INR 1 mn which remained constant historically

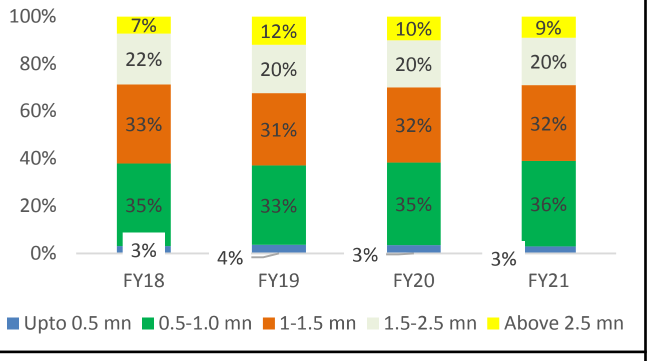


Exhibit 6: Strong AUM growth and maintaining CoF at current level may help to sustain NIM at >6% in future

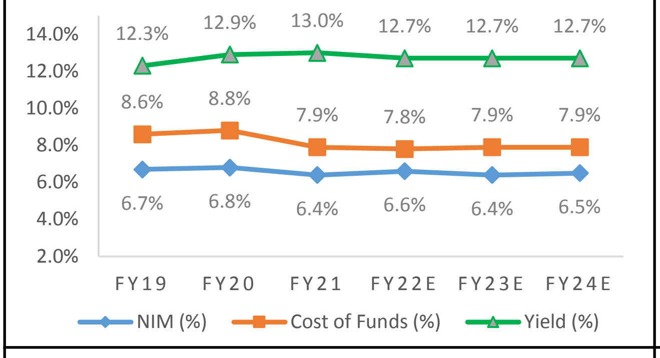


Exhibit 7: Return ratios to improve from historical level to reach ~14% by FY24E led by increase in leverage and profitability

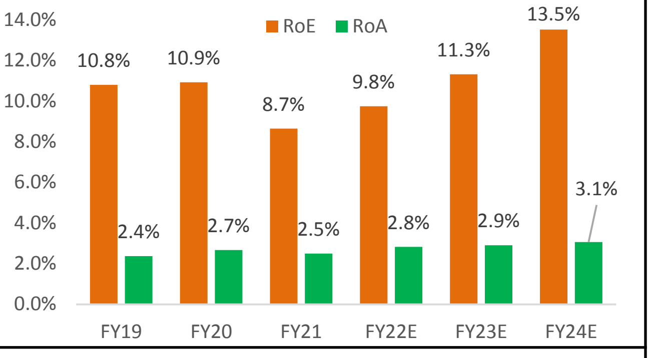


Exhibit 8: GNPA of the company has inched up in FY21 due to pandemic led challenges

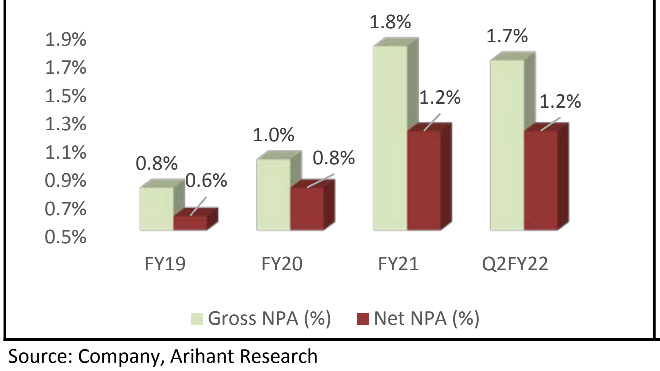
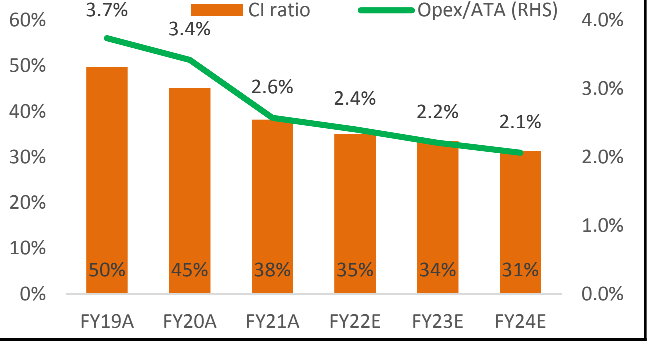


Exhibit 9: With improving growth and strong focus on technology and operating leverage benefit, OPEX/ASSET ratio set to improve



Source: Company, Arihant Research

Story in charts (Details are as on FY21)

Exhibit 10: HFFC has significant ~69% exposure in three states but diversification happening in other states too

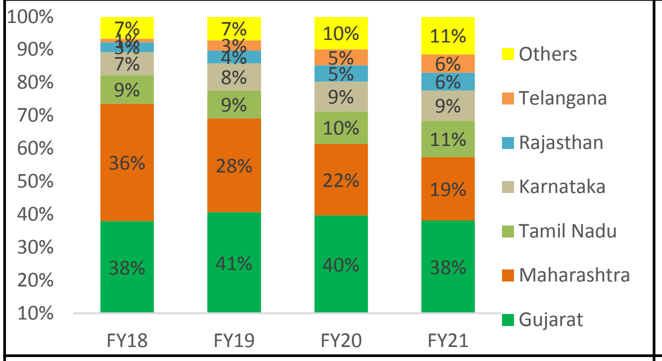


Exhibit 11: Housing loan forms ~92% of AUM

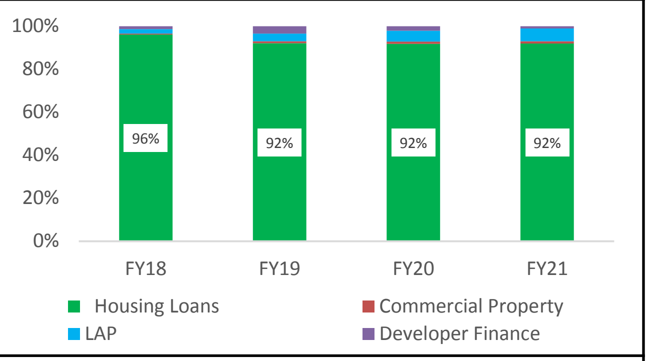


Exhibit 12: Branch productivity highest amongst peers (As on FY21)

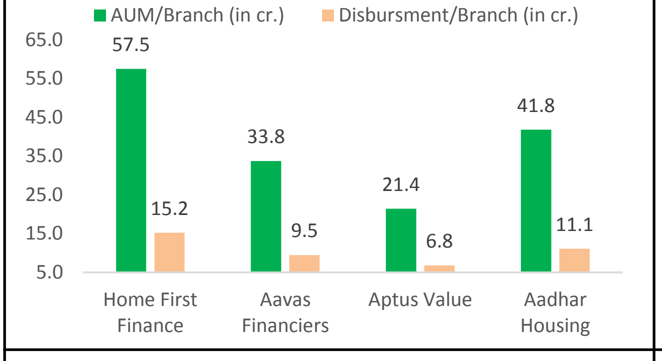


Exhibit 13: Higher employee productivity ratio compared to peers led by technology focus

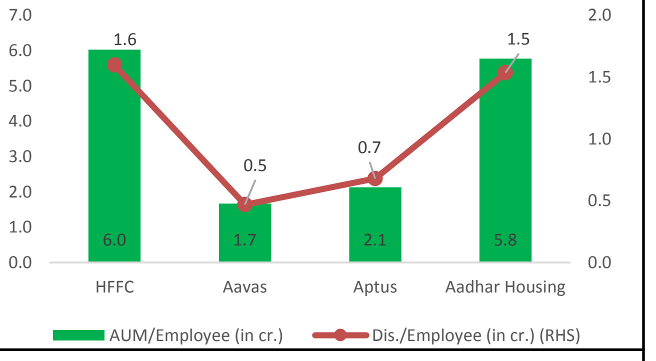


Exhibit 14: HFFC has highest share of Housing loans amongst peers as it majorly focus on home loans

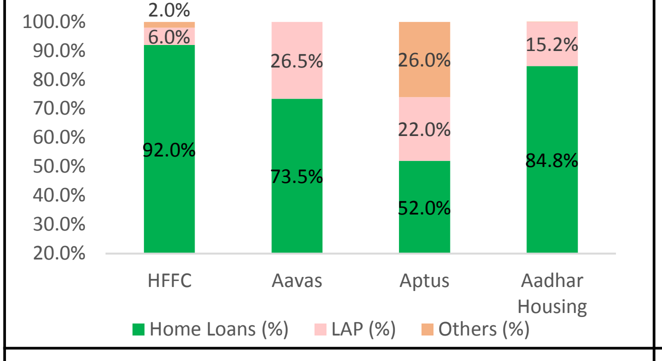


Exhibit 15: HFFC has highest share of salaried class (incl. Informal class) customers as compared to peers

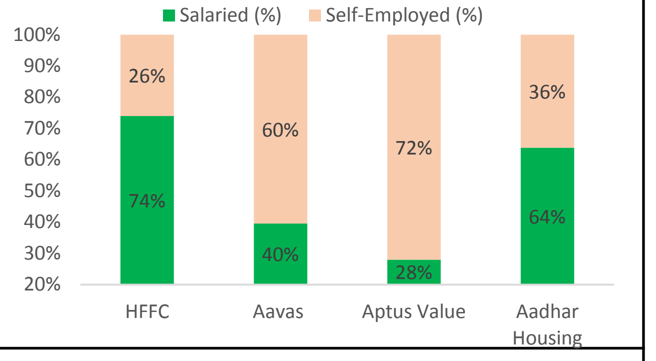


Exhibit 16: HFFC has lower yield than peers due to high share of home loans (As on FY21)

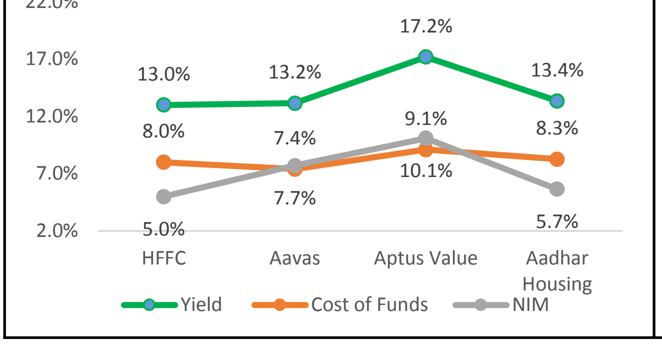
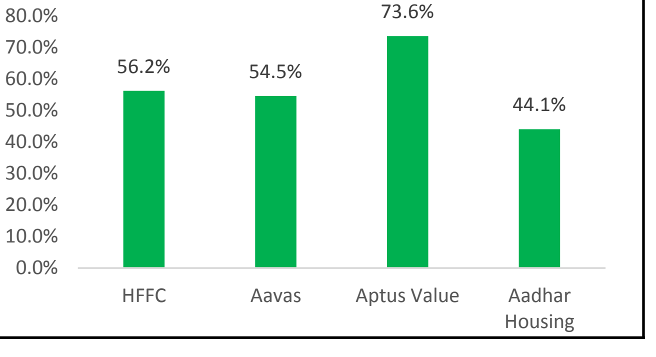


Exhibit 17: Company has high capital adequacy ratio (As on FY21)



Source: Company, Arihant Research

Industry Overview:

Affordable housing (Low cost housing market) has multiple levers to grow

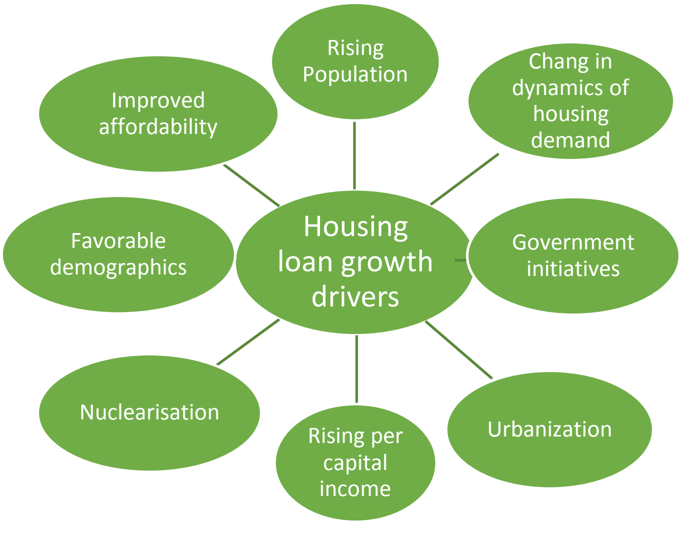
- **India has lower mortgage penetration than other emerging economies. Hence, incremental opportunities are high**
- **Housing shortage is at 100 mn units; ~95% of shortage is from LIG and EWS category**
- **With GOI's initiatives; housing sector witnessing healthy translation**

As per the rating agency CRISIL, Indian Housing Finance market size is at INR 22.8 tn as on FY21 (Banks market share at 67% and HFCs & NBFCs market share at 33%) which is expected to grow with CAGR of ~9-10% by FY25E at INR 32.1 tn. Housing finance market had clocked a healthy ~13% CAGR growth in loan outstanding over FY18-20. India has low mortgage penetration at 11% (as of 2020) as compared to other countries such as USA at ~52% and UK at ~68%. While mortgage penetration ratio has improved over the last few years, it is still lower than several other emerging and developed economies, leaving huge scope for growth in demand for housing loans. India's mortgage penetration is expected to increase to 15.3% by 2025 as per CRISIL estimates.

India's mortgage market can broadly be divided into two segments by ATS (average ticket size) of the housing loan at the time of disbursement – i) loans with ATS of > INR 1.5 mn ii) loans with equal/less then ATS of INR 1.5 mn. Affordable housing comes under the equal/low ticket size of INR 1.5 mn where the focus is on niche customer segment. The overall size of the affordable housing finance market in India was around INR 4 tn as of March 2020, constituting a tad under one-fifth of the housing finance industry.

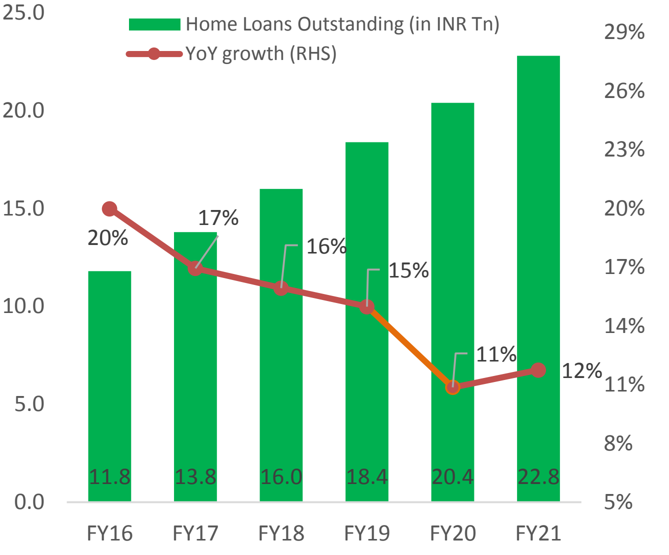
The Indian housing space has historically seen a slew of measures being implemented across central/state level authorities. Over the last few years, the sector has seen a strong push by the government. Government has introduced Credit Linked Subsidy Scheme (CLSS) for its 'Housing for All' scheme by 2022 under the Pradhan Mantri Awas Yojana (PMAY), which aimed to fill the supply-demand gap in the housing sector. The scheme was about to contributing the credit flow to the housing needs of the urban poor by providing subsidy on home loans taken by eligible poor for purchase of houses. GST and RERA law introduced in order to make the sector more transparent.

Exhibit 18: Housing loan growth drivers



Source: Company, Arihant Research

Exhibit 19: India's housing finance market expected to reach to INR 32.1 tn by FY25E



Source: Company's DRHP, Arihant Research

The PMAY was launched in 2015 with a target of constructing 50 mn new housing units by 2022, of which 30 million units are proposed to be constructed in rural areas (through PMAY-Rural or PMAY-G) and 20 mn in urban areas (through PMAY-Urban or PMAY-U). PMAY-U and PMAY-G have been focused on providing affordable housing for LIG (Lower income groups) and EWS (economically weaker sections) of households.

Exhibit 20: Progress report of PMAY-U as on Jun'21

Progress report	As on Jun'21
Houses sanctioned	11.24 mn
Houses grounded for construction	8.27 mn
Houses completed	4.95 mn
Total investment	INR 7,140 bn
Central assistance released	INR 956 bn

Source: Aptus DRHP

In India housing shortage estimated at 100mn units by 2022; incremental housing finance opportunity pegged at INR 50-60 tn

As per the report of a RBI appointed committee on the development of housing finance securitization market (Sept'19), the housing shortage in India is estimated to increase to 100 mn units by 2022. This will result into incremental loan demand of INR 50-60 tn. This is as compared to overall housing market outstanding of ~22.8 tn for FY21 implying immense potential for the housing finance market.

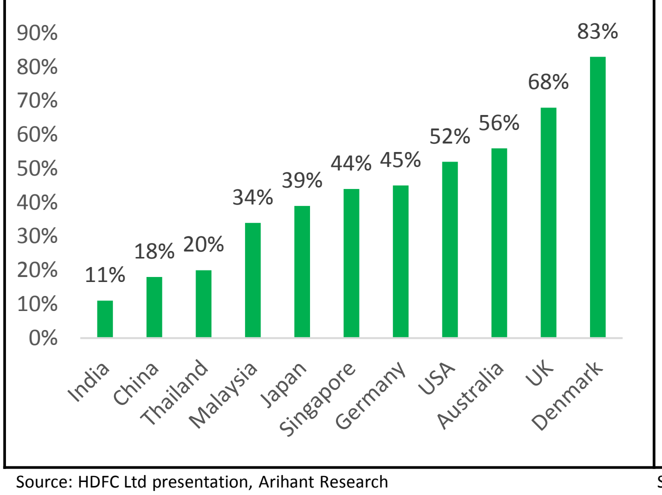
~95% of household shortage is from Lower income group (LIG) and Economic weaker section (EWS) with the remaining 5% of the shortage coming from Middle income group (MIG) or above.

Exhibit 21: Projected Housing Requirement by 2022

Category	Shortage (mn)	Value of units (INR tn)	Aggregate Loan demand (INR tn)
EWS	45	34	5
LIG	50	75	30
MIG and above	5	40	22
Total	**100**	**149**	**58**

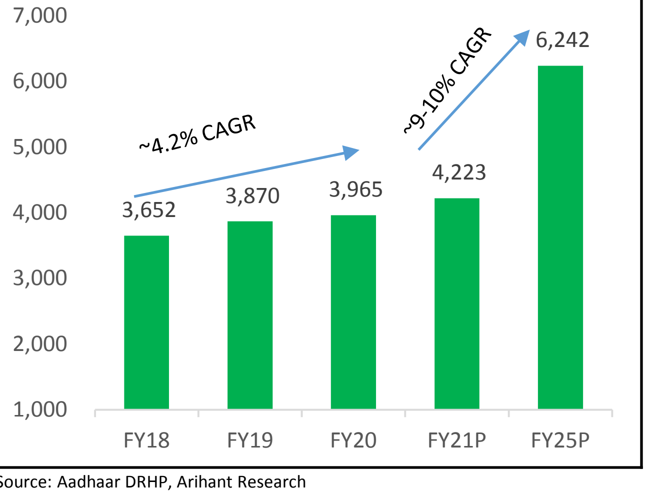
Source: Company Annual report, Arihant research

Exhibit 22: Low penetration implies room for growth; Mortgages as a percent of nominal GDP



Source: HDFC Ltd presentation, Arihant Research

Exhibit 23: Projected growth in affordable housing loan outstanding (Rs bn) P – Projected (CRISIL Estimates)



Source: Aadhaar DRHP, Arihant Research

HFFC is a good play in underpenetrated and growing housing finance sector

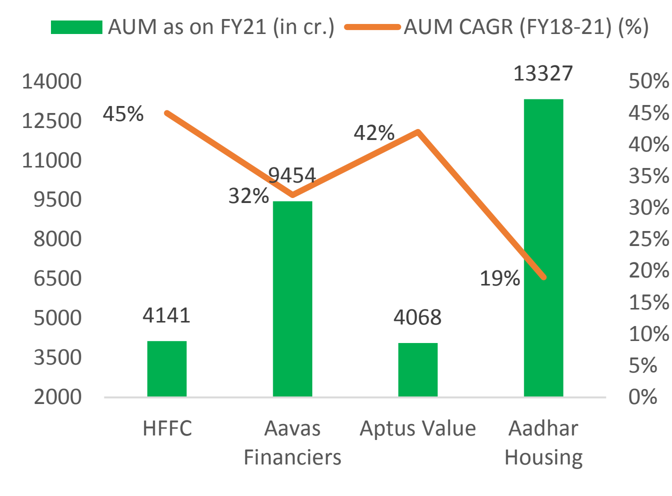
- **AUM of the company is expected to grow at 29% CAGR over FY21-24E**
- **It has major focus on home loans which forms ~92% of the portfolio**
- **Top 3 states i.e. Gujarat, Maharashtra and Tamil Nadu contributes ~69% of the AUM**

With the government's thrust on affordable housing, under-penetration in the mortgage segment, Favourable demographic, Rising urbanization and HFFC's niche customer segment focus, it is well positioned to deliver strong AUM growth going forward. HFFC primarily focuses on home loans which is ~92% of its portfolio followed by LAP at 6% and other at 2%. The company will continue with its strategy of focusing on the home loan (affordable housing) segment. Within home loan, average loan tenure is 6-7 years for the company. ~71% of its portfolio are with ticket size of INR <1.5 mn and on LTV basis, ~51% of the portfolio has LTV in the range of 50-80%. Overall ticket size of the loan for the company is INR 1 mn which remained stable. Ticket size of the company is relatively higher than peers company due to urban/semi-urban focused book and high share of salaried class people.

~74% of HFFC's AUM consists of salaried class (Formal + Informal) while ~25% of the AUM consists of self employed customers. Self employed customers are those type of customers where they have monthly income of less than INR 50K and would not have formal documentation, hence not served by big banks and large HFCs. As on Q2FY22, ~28% of the AUM contributed by New to credit customers.

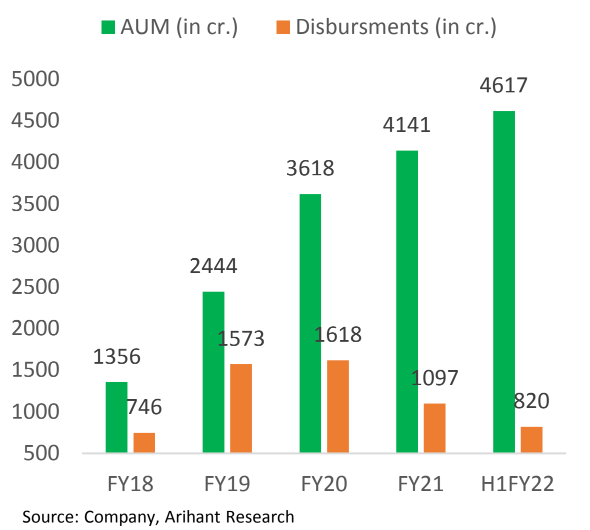
In terms of geography, HFFC has total 72 branches, most of which are in Western and Southern region. It started operations in the states of Gujarat & Tamil Nadu and later it has diversified to other states gradually, with current presence in 13 states. Top 3 states i.e. Gujarat (~37.5% of AUM), Maharashtra (~19% of AUM) and Tamil Nadu (~12% of AUM) which put together contributes ~69% of the AUM. This states has relatively higher share in housing finance market as compared to other states (Ex-Karnataka). HFFC's strategy is to focus on states where the concentration of housing market is large. Company targets branch count to increase to +80 from 72 currently. As on Sep'21, HFFC's AUM stood at INR 4,617 cr with ~54,903 active loan accounts. The company has delivered a robust AUM CAGR of ~45% over FY18-21 and it is expected to deliver 29% loan CAGR over FY21-24E.

Exhibit 24: AUM growth trajectory of peers company; HFFC recorded higher AUM growth



Source: Company, Arihant Research

Exhibit 25: HFFC's AUM and disbursements trend over the years



Source: Company, Arihant Research

Leveraging technology which has helped to build a scalable operating model; Productivity at its best

- **Lead generation through Omni channel**
- **Data science backed centralized underwriting model**
- **Productivity ratios at its best; TAT at 48 hours against industry average of 8 to 10 working days**

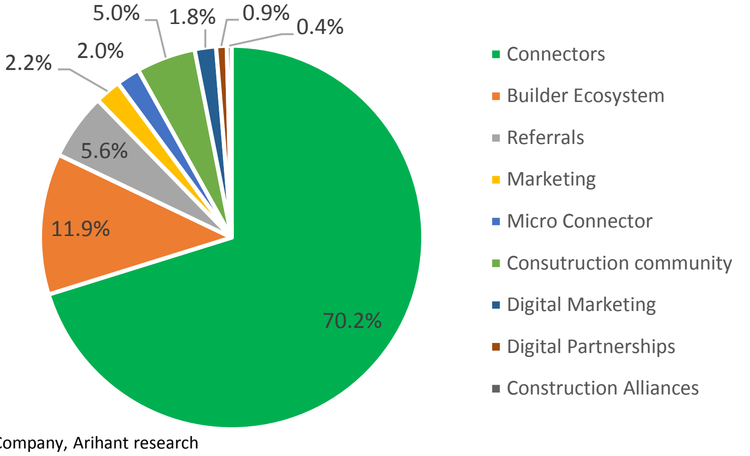
Technology is the key differentiator for HFFC. Company has Omni channel lead generation from where the sourcing is done through the connectors app, builder, ecosystem and through digitally. Majority, ~70% leads has been sourced through connectors app. ~94.5% connectors are registered on the Connector application. Connectors are generally individuals such as insurance agents, tax practitioners and local shopkeepers. While sourcing is through diversified channels, the role of these channel partners is limited to passing on the lead to the company's respective branch/employee for which they charge a commission of nearly 30-50bps. After generating the lead respective HFFC's RM do the field visit and upload all the necessary information in the salesforce platform. The company has also entered into arrangements with certain digital lead aggregators and other digital companies in the housing and real estate ecosystem such as Homelane, Paisa Bazaar, Quikr India, Credit Mantri and Aapka Painter.

All financed properties are geo-tagged and it uses a machine learning backed property price predictor, which help to reduce the turnaround time for approving loans, as well as achieve a higher accuracy in determining the LTV. With the use of technology, company have built a scalable operating model. It uses technology across the value chain right from lead generation to data validation to disbursements and collections. It use data analytics, application scorecard, mobile application for monitoring leads and geotagging of properties to mitigate the risks and improve efficiency. With the effective use of technology, it has industry leading productivity ratios and TAT(turnaround time) of 48 hours vs industry average of 8 to 10 working days (Collecting information to Sanction).

Its technology platforms enable the company to digitally capture over 100 data points of a customer such as photographs, videos, scanned collateral documents, taxation documents and vehicle ownership details. All the documents are stored digitally and saved on cloud. This integrated customer relationship management and loan management system provides a holistic view of its customers and ensures connectivity and uniformity across its branches.

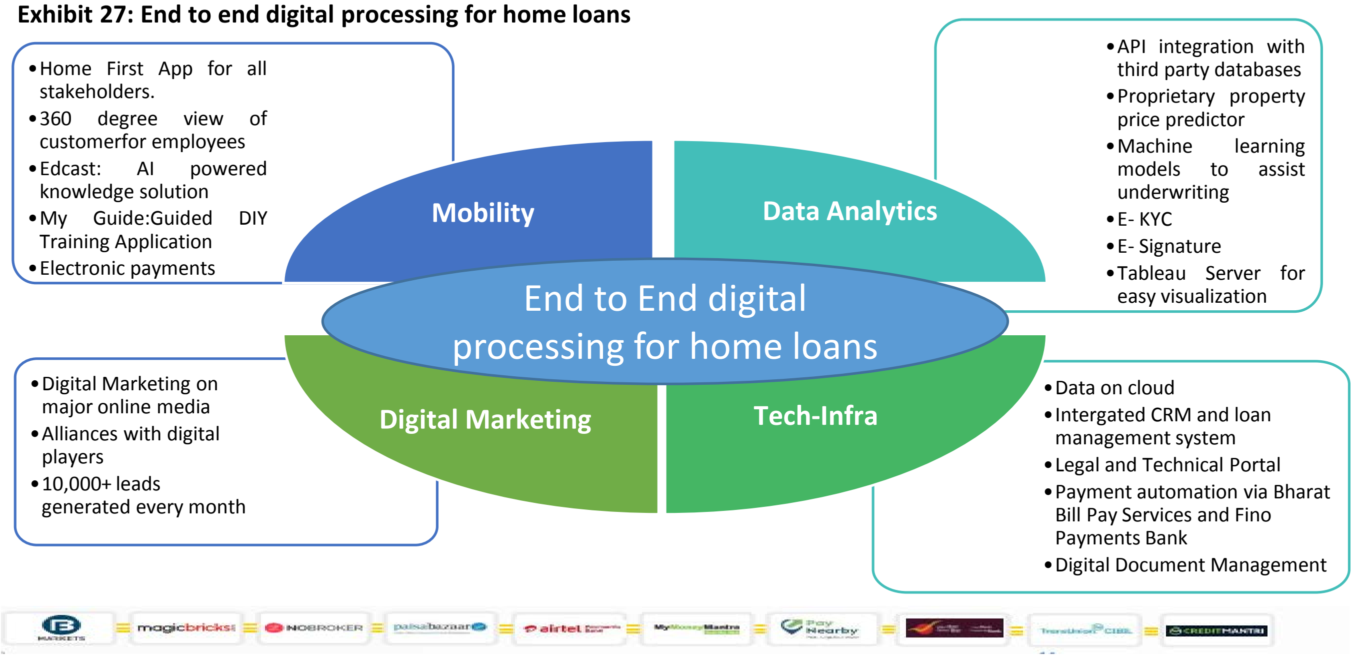
94.5% connectors registered on the connectors app

Exhibit 26: Omni channel lead generation sourcing



Source: Company, Arihant research

Exhibit 27: End to end digital processing for home loans



source: Company, Arihant research

72% of the customers registered on HFFC's app

88% of the loan has approved within 48 hrs (In Q2FY22)

100% in-house conversion by Home First RMs.

Centralized, data science backed underwriting process

HFFC has centralized underwriting team assisted by data science backed customer-scoring model to evaluate a customer's ability to repay the loan and maintain consistency in underwriting procedures across branches and regions. It has integrated customer relationship management and loan management system, which serves as a single platform for all internal and external customer related interactions and allow underwriters to conduct the credit appraisal process in a quick and efficient manner. It uses a proprietary machine learning credit scoring models for credit assessment process and evaluate the customers into different categories based on the level of risk, to take a final call. As a part of the credit policy, company limit their exposure to properties that are under construction. As of Sep'20, completed homes comprised 89.0% of AUM.

Initial screening and pre-sanction check of customers profile: Fresh customer leads are logged into the system by RM. All customer interaction and scanning and review of customer documents are done by HFFC's in house team and trained RMs. It do not employ intermediaries or third-parties for customer interaction or loan documentation. Each lead is checked against KYC, credit bureau and other third-party databases to establish customer credentials. The completed digital loan application is submitted by RM along with key noting on residence and workplace visits and personal discussion with the customer. This is cross checked by the underwriting and operations team of HFFC for a number of factors including completeness of application form, KYC, eligibility, fraud check, credit bureau, income assessment, LTV, value of collateral, bank statements and third party databases for income and asset ownership.

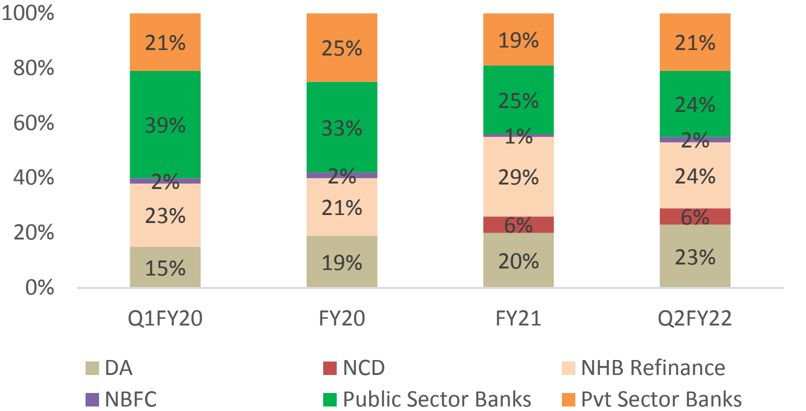
Loan Collection and Monitoring: HFFC has set a robust collections management system with prescribed collection action at each stage of severity of default. All borrowers of the company register for an automated debit facility, which reduces the cash management risk and company can track the status of installments collected on a real time basis through a collections module. ~93% of collections were non-cash based in nature (FY20). Collection process is completely managed by the branch team and a significant portion of its employee incentives are dependent on collections.

Diversified borrowing profile with NIL exposure to CP

HFFC has diversified set of borrowings which reduced the risk of its dependent on single source. Home First funding profile includes: i) Loan from the direct assignments (23% of the borrowings) followed by ii) NCDs at 6%, iii) Bank borrowings at 45%, iv) NHB refinance at 24% of the total borrowing and v) Others at 2%. In order to maintain positive ALM and as a conservative practices, HFFC has not raised any money through CP and has zero borrowings through this route. DA is a good source of borrowings which ensures liquidity in the company. With the rising share of NHB borrowings and Direct assignments, cost of borrowing of the company trending downwards. Its reported cost of borrowings has come down from 8.9% in Sep'19 to 7.1% in Sep'21.

HFFC has ICRA long-term borrowings rating at ICRA A+/Positive (Recently outlook has been revised to Positive from Stable) while its short term rating is at ICRA A1+. Company's long term bank facilities rating by CARE is CARE A+/Stable. Going forward, any further upgrade in rating will reduce help in to reduce cost of borrowings of the company.

Exhibit 28: Borrowing mix: HFFC benefits from a diversified funding mix

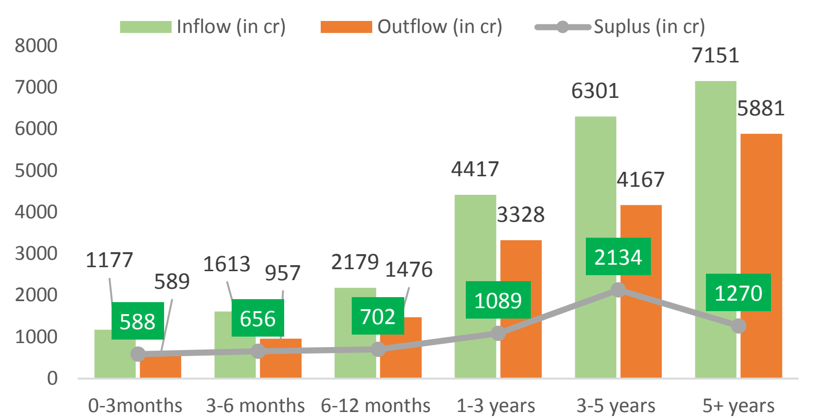


source: Company, Arihant research

Well matched ALM profile

As company has diversified source of borrowings and its focus is on largely towards long-term borrowings, HFFC ALM remains comfortable across the bucket. Its robust ALM profile ensuring sufficient liquidity buffers for the company. As on Sep'21, it has liquidity of INR 1,400 cr in the book. Better ALM profile enables the company to manage its margins in a rising/decreasing interest rate cycle.

Exhibit 29: ALM position as on September 2021



source: Company, Arihant research

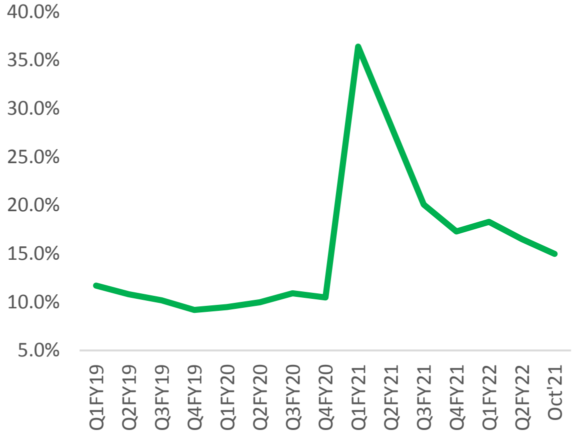
Resilient Asset quality; Bounce rate normalizing gradually

HFFC has maintained resilient asset quality. Prior to the covid, asset quality of the company in terms of GNPA was at sub 1%. However, with the covid related lockdowns which has impacted the collections and borrowers cash flow, there was a rise in delinquencies. As a result, DPD 1+ book of the company jumped to 7.6% as on Q2FY22 (vs. 4.4% in FY20 and 6.2% in FY21). Similarly, Stage 3 assets increased to 1.7%, which started improving gradually with the normalization of the economy. It has not done any ECLGS lending.

Bounce rates of the company which has increased up to 36% in Covid wave 1 and 18.3% in Covid wave 2 has come down to 15% in Oct'21 as collection efficiency started returning back to the normalcy. However, Bounce rates are yet to go back to the normal pre-covid level of 10-11%. Collection efficiency of the company stood at 98% as on Sep'21. Management stated that bounce rates to improve by 2-3% in the next 2 quarter and further improvement expected after that. Restructuring (1.0+2.0) quantum stood lower at only 0.8% as of September 2021. DPD 1+ book of HFFC at 7.6% stood lower than Aavas at 8.9% due to HFFC's high share of salaried class customers at 74% vs. 40% for Aavas.

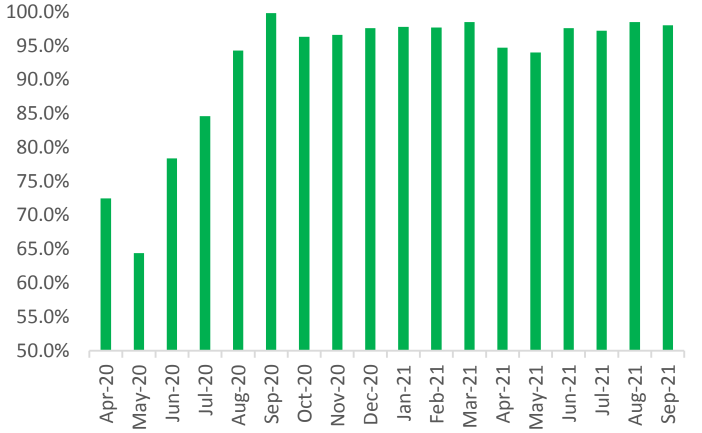
On provisioning front, provision as of Sep'21 stood at INR 49.6 cr resulting in a provision/loan ratio of 1.4% and Stage-3 coverage ratio is at 29.6%. We expect credit cost of the company to normalize gradually by the end of FY22E as collection efficiency improving and bounce rates coming off. Full normalization of credit cost expected to be at 60bps by the end of FY23E.

Exhibit 30: Bounce rate normalizing gradually



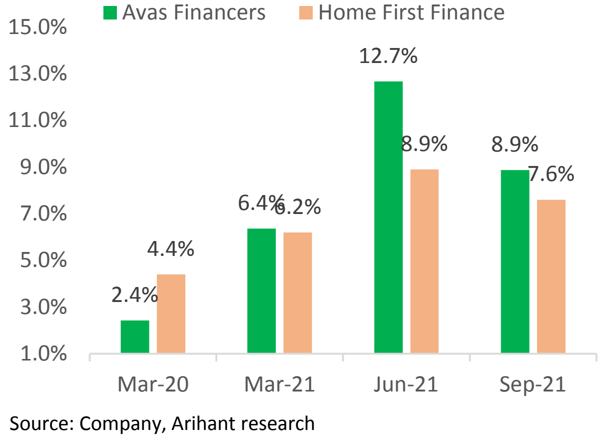
Source: Company, Arihant research

Exhibit 31: Collection efficiency returning back to normalcy



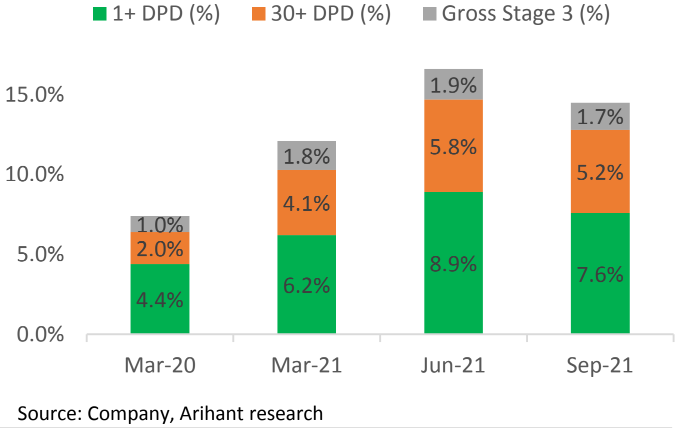
Source: Company, Arihant research

Exhibit 32: DPD 1+ movement better than Aavas



Source: Company, Arihant research

Exhibit 33: DPD movement across the bucket



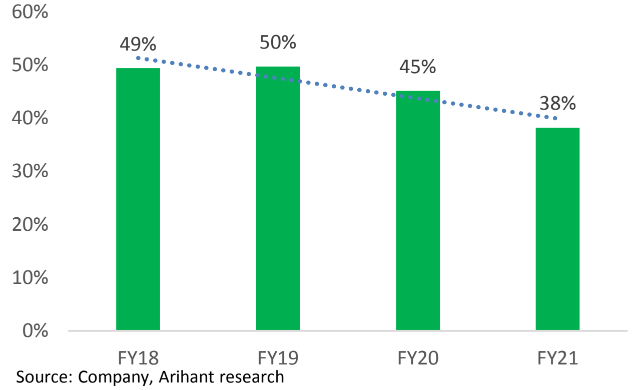
Source: Company, Arihant research

Improving operational leverage to aid into improvement in cost ratio

HFFC has highest productivity amongst peers and cost to income ratio currently is close to its peers led by its focus on technology. The company's branch expansion strategy is before expanding to newer geographies or setting up new branches, it conducts in-depth studies and market research to assess potential sustainable demand for its products and engage with local property valuers and legal advisors. It is also focusing on to increase the productivity of existing branches to drive the growth. As on Q2FY22, company has commenced business in 14 potential branch locations with digital presence in 10 more locations. This strategy of building the digital presence prior to putting in a physical branch will majorly offset costs incurred in branch expansion. Currently, company has total 42 digital branches.

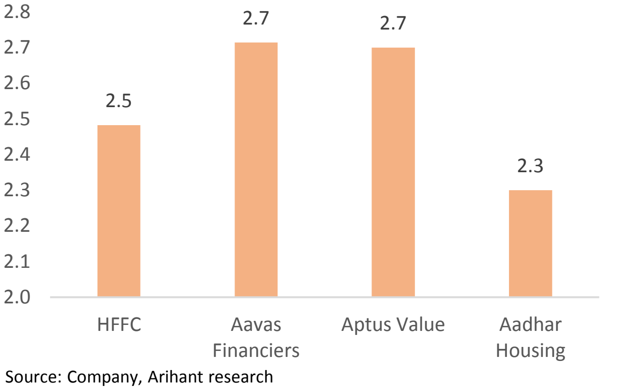
Cost/Income ratio of the company improved from 49% in FY18 to 33.5% as on Q2FY22. Management strategy is to achieve C/I ratio of ~30% over the medium term. We expect OPEX/AAUM of the company to be in the range of 3.2% in FY22E as business momentum stated picking up. With operational leverage kicking in, OPEX/AAUM is likely to improve to ~2.5% by FY24E.

Exhibit 34: Declining trend of HFFC's C/I ratio



Source: Company, Arihant research

Exhibit 35: Comparison of OPEX/AUM with peers



Source: Company, Arihant research

Yields of the company remained largely stable

HFFC has maintained its yield and it is quite in the range with peers despite having high share of salaried class customers and high share of home loans. In comparison with HFFC, Aavas has high share of self-employed customers (~60%) and home loan share at ~72% with LAP at 27%. Aptus has significantly higher yields due to mix between home loans at ~52%, LAP ~21% which are high yielding segment and small business loans at 27% with major customers profile is self-employed category which forms ~78% of the AUM. HFFC's yield remained sticky in the range of 12-13% with cost of funds (CoF) declined from its peak of ~9%. With high share of NHB and direct assignments, CoB witnessed meaningful improvement. Also, Affordable housing players serve to the underserved segment where the competition from large HFC players/Banks are lower.

Spread of the company has increased from 3.8% in FY18 to 5.6% in Q2FY22 benefitted from decrease in borrowing cost. Company has increased its LAP (~200bps higher yield than housing loan) portfolio to 6% in FY21 from 4% in FY19. Going ahead, the company plans to increase its share of LAP to ~15% of loans with no lumpy developer exposure in the next 2-3 years time period. Company carries a excess liquidity buffer of INR 1,400 cr which is expected to come down gradually. Going forward, we expect some compression in spread due to increasing competition, some marginal increase in CoF. Management has guided spreads to be in the range of 4.5-5.5% on a consistent basis.

Valuation and View

Initiate with 'ACCUMULATE' rating with target price of INR 938

HFFC is a niche player in growing affordable housing finance market and we like the company due to its: i) Strong presence in key affordable housing markets like Gujarat, Maharashtra, Tamil Nadu and Karnataka, ii) Best productivity amongst peers, iii) Superior management, iv) Strong execution with high tech usage, v) Centralized underwriting process, vi) Strong capital adequacy ratio and vii) AUM growth trajectory with strong profitability.

HFFC is in sweet spot to capture the opportunities in affordable housing market. Disbursements of the company was impacted during covid but it is expected to grow strongly in FY22/23E. AUM of the company expected to grow sustainably by ~20% over the next 3-5 years. It has different form of technology and lead generation source due to which it has better productivity ratio and lower TAT amongst the peers. While its RoE was slightly muted historically because of low leverage, it is expected to increase going forward to reach at ~14% by FY24E.

It is currently trading at 4.3x/3.7x of FY23E/FY24E P/BV. We are valuing HFFC at 4.3x FY24E ABV to arrive at a target price of INR 938. We expect its AUM and PAT to clock 29% and 35% CAGR over FY21-FY24E, while RoA and RoE expected to reach at at 3%/13.5% by FY24E.

Key risks: a) Loan growth issue, b) Asset quality risk, c) Liquidity, credit and ALM risks, d) Any change in government policies, change in regulation by NHB.

Exhibit 36: Peer group comparison

Company (In Cr.)	CMP (Rs.)	Mcap (cr.)	AUM	AUM CAGR (FY18-21) (%)	Disbursments	Yield	Cost of Funds	NIM
HFFC	833	7,298	4,141	45%	1,097	13.0%	8.0%	5.0%
Aavas Financiers	2477	19,551	9,454	32%	2,657	13.2%	7.4%	7.7%
Aptus Value	334	16,602	4,068	42%	1,298	17.2%	9.1%	10.1%
Aadhar	-	-	13,327	19%	3,545	13.4%	8.3%	5.7%

Exhibit 36: Peer group comparison (continued)

Company	No. of Branches	AUM/ Branch	Disbursement/Branch	Staff Count	AUM/ Employee	Disbursement/Employee	Opex/AUM (x)	Cost-Income Ratio (%)
HFFC	72	57.5	15.2	687	6.0	1.6	2.5	38.2
Aavas	280	33.8	9.5	5679	1.7	0.5	2.7	39.8
Aptus Value	190	21.4	6.8	1910	2.1	0.7	2.7	24.5
Aadhar	319	41.8	11.1	2310	5.8	1.5	2.3	33.6

Exhibit 36: Peer group comparison (continued)

Company	GNPA (%)	NNPA (%)	AUM by product			AUM by Customer profile		ATS (in mn)
			Home Loan (%)	LAP (%)	Others (%)	Salaried (%)	Self-Employed (%)	
HFFC	1.8%	1.2%	92%	6%	2%	74%	26%	1.01
Aavas	1.0%	0.7%	74%	27%	0%	40%	60%	0.85
Aptus Value	0.7%	0.5%	52%	22%	26%	28%	72%	0.70
Aadhar Housing	1.1%	0.8%	85%	15%	0%	64%	36%	0.85

Exhibit 36: Peer group comparison (continued)

Company	RoE (%)				RoA (%)				P/BV			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HFFC	8.7	9.8	11.3	13.5	2.5	2.8	2.9	3.1	5.3	4.8	4.3	3.7
Aavas	12.9	13.2	14.6	14.9	3.5	3.3	3.4	3.3	8.1	7.1	6.1	5.2
Aptus Value	14.5	13.8	13.5	14.1	7.4	6.8	6.9	6.5		5.6	4.9	4.3
Aadhar	13.5	--	--	--	--	--	--	--	--	--	--	--

Source: Company, Arihant Research (Financials are as on FY21; unless stated) Bloomberg estimates taken for Aavas, Aptus Value

Exhibit 37: RoA Tree of HFFC

in %	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income/Average total assets	10.5%	13.2%	13.1%	11.7%	11.8%	12.0%	12.3%
Interest Expended/Average total assets	4.9%	6.6%	6.5%	5.5%	5.4%	5.8%	6.0%
Net Interest Income/Average total assets	**5.6%**	**6.6%**	**6.6%**	**6.2%**	**6.4%**	**6.2%**	**6.3%**
Other Income/Average total assets	0.2%	0.9%	0.9%	0.5%	0.5%	0.4%	0.3%
Operating Income/Average total assets	**5.8%**	**7.5%**	**7.6%**	**6.7%**	**6.9%**	**6.6%**	**6.6%**
Operating Expenses / Average total assets	2.9%	3.7%	3.4%	2.6%	2.4%	2.2%	2.1%
PPOP/Average total assets	**3.0%**	**3.8%**	**4.2%**	**4.2%**	**4.5%**	**4.4%**	**4.5%**
Provisions/Average total assets	0.1%	0.4%	0.6%	0.8%	0.7%	0.5%	0.4%
PBT/Average total assets	**2.8%**	**3.4%**	**3.6%**	**3.4%**	**3.8%**	**3.9%**	**4.1%**
Tax expense/ Average total assets	1.0%	1.0%	0.9%	0.8%	1.0%	1.0%	1.0%
ROA	**1.8%**	**2.4%**	**2.7%**	**2.5%**	**2.8%**	**2.9%**	**3.1%**
Leverage (Average total assets/average Equity	4.2x	4.5x	4.1x	3.5x	3.5x	3.9x	4.4x
ROE	**7.8%**	**10.8%**	**10.9%**	**8.7%**	**9.8%**	**11.3%**	**13.5%**

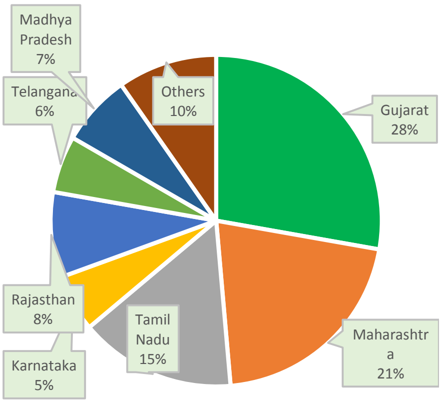
Source: Company, Arihant research

Exhibit 38: Top Shareholders (As on September 2021)

Particulars	Holding (%)
Orange Clove Investments B.V.	28.78
True North Fund V LLP (Part of promoter group)	20.23
Aether (Mauritius) Limited (Part of promoter group)	13.42
Bessemer India Capital Holidngs II Ltd	7.78
Sundaram Mutual Fund	2.14
Kuwait Investment Authority Fund	1.97
Universal Trustees Pvt Ltd	1.81
Buena Vista Asian Opportunities Master Fund Lts.	1.7
Al Mehwar Commercial Investments	1.51
Goldman Sachs Fund	1.27

Source: Ace equity, Arihant Research

Exhibit 39: Branch Distribution



About the Company:

Incorporated in 2010, Home First Finance Company (HFFC) registered with NHB is technology driven small ticket housing loan financier which focuses on niche customer segment. Company has been founded by Jaithirth Rao, P.S. Jayakumar and Manoj Viswanathan. HFFC is a professionally run entity with Manoj Viswanathan being its CEO. As on Sep'21, True North (~20.23% stake in the company) and Aether (~13.4% holding) are part of the promoters group .

As on Sep'21, it has an AUM of INR 4,617 cr with housing loans contributing 92.4% of the AUM. It has high share of salaried class customers which, contributes nearly ~74% of its AUM. Employee count of the company stood at 806 as on Q2FY22. Company's average ticket size of loans is at INR 1 mn. 35% of its customers are new to credit. As of H1FY22, the company has a network of 70 branches in over 60 districts and 11 states and union territories. Majority of its branches located in Gujarat (20 branches), Maharashtra (15 branches and Tamil Nadu (11 branches). In terms of AUM, ~67% of its AUM come from this states.

Company has one of the highest productivity ratio in terms of disbursement/branch and AUM/branch due to its effective use of technology. In term of loan sourcing, the company utilizes many channels such as architects, contractors, housing developers, etc. in addition to their own marketing activities.

In Jan'21, HFFC came out with an IPO of INR 1,154 cr in which fresh issue was INR 265 cr and OFS was INR 889 cr. The price band of IPO was at INR 517-518. The IPO was subscribed 26.66x.

Exhibit 40: Key Milestones:

Year	Event
2010	- Incorporation of the company - Obtained the Certificate of Registration from NHB with Jaithirth Rao and P. S. Jayakumar as a promoters
2011	Investment by Bessemer Venture Partner in the Company
2012	Expanded operations in Gujarat and Tamil Nadu
2013	- CARE Credit Rating for long term bank facilities was BBB- - Investment by Alpha TC Holdings Pte Ltd. in the Company
2014	CARE Credit Rating for long term bank facilities improved to BBB+
2016	- Further investment by Bessemer in the Company and Alpha TC Holdings Pte Ltd - CARE Credit Rating for long term bank facilities improved to A-
2017	- Investment by TN V LLP and Aether in the Company - ICRA Credit Rating for long term bank facilities improved to A+ and CARE Credit Rating for long term bank facilities improved to A - Exit of Alpha TC Holdings Pte Ltd
2018	Declassification of Jaithirth Rao as the promoter
2019	Declassification of P. S. Jayakumar as the promoter
2020	Investment by Orange Clove (an affiliate of Warburg Pincus) in the Company
2021	Listed on NSE and BSE

Source: Company, Arihant Research

Exhibit 41: Management Profile

Name and Designation	Brief Profile
Deepak Satwalekar (Chairman & Independent Director)	Deepak Satwalekar is the Chairman and Independent Director of HFFC. Previously, he was associated with HDFC Ltd. as a director and HDFC Standard Life Insurance Company Ltd. as the managing director and chief executive officer. He holds a bachelor’s degree in Mechanical Engineering from Indian Institute of Technology (IIT), Mumbai, and a master’s degree in Business Administration from American University.
Manoj Viswanathan (MD & CEO)	Mr. Viswanathan is the Managing Director and CEO of the company. He holds a bachelor’s degree in electrical and electronics engineering from the Birla Institute of Technology and Science, Pilani and a post graduate diploma in business management from XLRI, Jamshedpur.He has over 24 years of experience in consumer lending. Previously, he was associated with Computer Garage Private Limited, Asian Paints India Limited, Citibank and CitiFinancial Consumer Finance India Limited as vice president of personal loans.
Nutan Gaba Patwari (CFO)	Nutan Gaba Patwari is the Chief Financial Officer of the company. She joined the company in Jan'19 as a Chief Financial Officer. She is a qualified Chartered Accountant and has over 14 years of experience in Finance. In her last stint, she was Vice President – Finance with True North and was responsible for strategy implementation of the Financial Services Portfolio. In her professional journey, she has worked with Hindustan Unilever Ltd, ITC Ltd, and Philip Morris Asia Ltd across Business Finance, Supply Chain and Distribution Finance and Corporate Finance. She leads the Accounts, Tax, Finance and Treasury, Secretarial, Investor relations and FP&A functions of the company.
Ajay Khetan (Chief Business Officer)	Ajay Khetan is the Chief Business Officer of the company. He is a Mechanical Engineer and has done his post graduate diploma in management from Xavier Instute of Management, Bhubaneswar. He has over 21 years of experience in Consumer finance, Operaons and Risk Management. Prior to joining the Company, he was associated with Macquarie Finance (India) Private Limited, Hewle Packard Financial Services (India) Private Limited, Citi Financial Consumer Finance India Private Limited, MIRC Electronics Limited and The Tata Engineering and Locomove Company Limited. Ajay has been part of the Company since March 2012.
Gaurav Mohta (Chief Marketing Officer)	Gaurav Mohta Mohta is the Chief Markeng Officer of the Company. He is a mechanical engineer and has done his post graduate diploma in business administraon from ICFAI Business School, Hyderabad. He has over 17 years of experience in consumer finance, markeng and product management. At HomeFirst, he has been instrumental in seng up sales distribuon and evolving the brand identy of the company. In his earlier career he has worked with Kotak Mahindra Bank Limited, Citi Financial Consumer Finance India Private Limited and Foodworld Supermarkets Private Limited. Gaurav has been part of the company since March 2011.
Vilasini Subramaniam (Head – Strategic Alliances)	Ms. Subramaniam is the Head - Strategic Alliances of HFFC since Aug’14. She is a Chartered Accountant with over 18 years of experience in Consumer Finance and Credit. Prior to joining HFFC, she was associated with Citibank India, Janalakshmi Financial Services and Micro Housing Finance Corporation Ltd, where she handled Credit Underwriting, Product Development, Analytics and Business Strategy.

Source: Company, Arihant Research

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	392	468	593	753	991
Interest Expended	194	220	272	362	484
Net Interest Income	**198**	**247**	**321**	**391**	**507**
Other Income	28	22	23	24	25
Operating Income	226	269	344	415	532
Operating Expenses	102	103	121	139	167
Employee Expenses	61	66	79	90	109
Other Operating Expenses	41	37	42	49	58
PPOP	**124**	**166**	**223**	**276**	**365**
Provisions	17	32	34	31	34
PBT	107	134	189	244	331
Tax Expenses	28	34	48	62	83
Net Income	**80**	**100**	**142**	**183**	**247**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity & Liabilities					
Share Capital	16	17	17	17	17
Reserves & Surplus	918	1,363	1,505	1,687	1,935
Net Worth	933	1,381	1,522	1,705	1,952
Deposits	2,494	3,054	3,888	5,239	6,967
Borrowings	7	8	10	13	17
Deferred tax liabilities	3	8	10	14	18
Other Liabilities and Provisions	43	60	77	103	137
Total Capital & Liabilities	**3,480**	**4,510**	**5,507**	**7,073**	**9,093**
Assets					
Cash & Balances with RBI	148	209	220	231	242
Balances with Other Banks & Call Money	74	470	494	519	545
Investments	3,014	3,327	4,236	5,690	7,578
Advances	146	375	394	413	434
Fixed Assets	21	17	21	29	38
Other Assets	78	112	143	192	255
Total Assets	**3,480**	**4,510**	**5,507**	**7,073**	**9,093**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
Growth rates					
Advances (%)	41.2%	10.4%	27.3%	34.3%	33.2%
Deposits (%)	29.5%	22.5%	27.3%	34.7%	33.0%
Total assets (%)	40.2%	29.6%	22.1%	28.4%	28.5%
NII (%)	56.1%	24.9%	29.7%	21.7%	29.7%
Pre-provisioning profit (%)	70.6%	34.2%	34.2%	23.6%	32.3%
PAT (%)	74.0%	25.9%	41.4%	29.2%	35.3%
Balance sheet ratios					
Advances/Total assets (%)	86.6%	73.8%	76.9%	80.4%	83.3%
Leverage (x) (Asset/Shareholder's Fund)	3.7	3.3	3.6	4.1	4.7
CAR (%)	49.0%	56.2%	53.8%	49.3%	45.4%
CAR - Tier I (%)	47.7%	55.2%	52.8%	48.3%	44.4%
Operating efficiency					
Cost/income (%)	45.2%	38.2%	35.1%	33.5%	31.4%
Opex/total assets (%)	3.4%	2.6%	2.4%	2.2%	2.1%
Profitability					
NIM (%)	6.8%	6.4%	6.6%	6.4%	6.5%
RoA (%)	2.7%	2.5%	2.8%	2.9%	3.1%
RoE (%)	10.9%	8.7%	9.8%	11.3%	13.5%
Asset quality					
Gross NPA (%)	1.0%	1.8%	1.5%	1.0%	0.9%
Net NPA (%)	0.8%	1.2%	1.0%	0.7%	0.6%
PCR (%)	25.8%	36.0%	35.0%	35.0%	35.0%
Credit cost (%)	0.6%	1.0%	0.8%	0.6%	0.5%
Per share data / Valuation					
EPS (INR)	10.2	11.5	16.2	20.9	28.3
BVPS (INR)	119	158	174	195	223
ABVPS (INR)	116	153	169	191	218
P/E (x)	NA	NA	51.4	39.8	29.4
P/BV (x)	NA	NA	4.8	4.3	3.7
P/ABV (x)	NA	NA	4.9	4.4	3.8

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	
Building No. 10, 1st Floor	Arihant House
Andheri Ghatkopar Link Road	E-5 Ratlam Kothi
Chakala, Andheri (E)	Indore - 452003, (M.P.)
Mumbai – 400093	Tel: (91-731) 3016100
Tel: (91-22) 42254800	Fax: (91-731) 3016199
Fax: (91-22) 42254880	

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880