

CMP: INR 731

Rating: Buy

Target Price: INR 917

Stock Info

BSE	543259
NSE	HOMEFIRS
Bloomberg	HOMEFIRS IN
Reuters	HOME.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Cr)	
Mkt Cap (INR Cr)	6,358
52w H/L (INR)	920 / 441
Avg Yearly Vol (in 000')	191

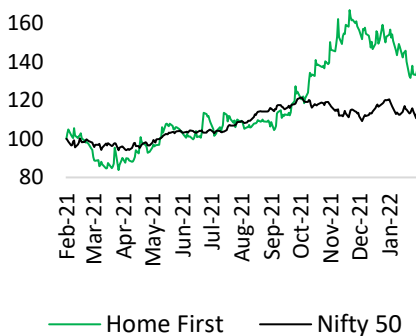
Shareholding Pattern %

(As on December, 2021)

Promoters	33.6
FII	12
DII	3.9
Public & Others	50.5

Stock Performance (%)	1m	3m	12m
Home First Finance	(10.9)	(8.7)	37.2
Nifty 50	(5.1)	(3)	14.2

Home First Finance Vs Nifty 50



Home First Finance (HFFC) reported operational numbers was above our estimate on all front. It has reported profit of INR 46 cr (189% YoY/2% QoQ) as against our estimate of INR 40 cr driven by strong NII growth and controlled cost. Company has reported highest ever quarterly disbursement growth of 63% YoY/11% QoQ. Consequently, sequential loan growth was up by 8% for the second consecutive quarter. Collection efficiency and early bucket indicator of the company improving but it remains lower than pre-covid levels. Gross stage 3 assets (before RBI's circular impact) stood flat QoQ at 1.7% aided by higher write offs. Due to RBI's norms on NPA classification, loans amounting to INR 34 cr were classified as NPAs with GS 3 assets stood at 2.6%. Management looking to increase its branch count from 76 to 140 in the next 2 years and has a plan to cover 360 distribution point for achieving the higher growth.

Key Highlights:

- NII for the quarter grew by 70% YoY/10% QoQ at INR 89 cr driven by 27% YoY growth in AUM and 69bps QoQ expansion in NIM at 8%. Margin expansion was mainly due to sharp decline in liquidity buffers on YoY basis (Cash and Investments was down by 45% QoQ). Incremental borrowings cost stood at 7.6% for Q3FY22 was lower than 7.9% for 2QFY22.
- Operating profit increased by 128% YoY/9% QoQ to INR 65 cr as compared to our estimate of INR 54 cr driven by strong income growth and improvement in cost ratio. Cost to income ratio of the company declined by 104 bps QoQ at 32.5%.
- **Highest ever disbursements was seen in Q3FY22:** Disbursements remained strong during the quarter and it has recorded 63% YoY/11% QoQ growth at INR 570 cr. Consequently, gross AUM of the company increased by 27% YoY/8% QoQ to INR 4,994 cr. ~91% of the loan book comprise of housing loans with average ticket size of INR 1 mn. BT out rate for Q3FY22 stood at 5%. During Q3FY22, Home First entered into co-lending partnership with Union Bank of India. This partnership will be NII plus fee income accretive.
- Gross stage 3 and net stage 3 assets stood at 2.6% and 2% in Q3FY22 as against 1.7% and 1.2% in Q2FY22. Excluding, RBI norms on NPA classification, gross stage 3 assets stood stable at 1.7% QoQ. HFFC has reported improvement in collection trends with Bounce rates declined to 15.7% in Q3FY22 from 16.5% in Q2FY22 (20.1% in Q3FY21) and 15.2% in January 2022. However, it remained higher than the pre-covid level bounce rate of 9.5-10%. Collection efficiency in Dec'21 stood at 99.1% vs. 98% in the month of Sep'21. Write-off was INR 8 cr during Q3FY22, on which LGD was 25%. As the company expects to reduce its GNPA's, it will be going for disposing some properties which will include some residual write-offs. Restructure book of the company stood stable at INR 30 cr or 0.76% of the AUM.

Valuation and View: We have increased our FY22-24 earnings estimates by 8-15% to factor in higher loan growth. We continue to believe HFFC is well positioned to capture the strong growth in the growing and underpenetrated housing market. We expect HFFC to deliver a ~35% AUM CAGR over FY21-FY24E with RoA/RoE of ~3.4%/15% by FY24E. Improving productivity, strong growth drivers, an experienced management and healthy capital position are its key positives. We upgrade our rating on the stock to Buy from Accumulate with a revised TP of INR 917, based on 4x FY24E P/ABV.

Financial Snapshot

	in Cr.	NII	PPOP	PAT	RoA (%)	RoE (%)	P/E(x)	P/BV(x)
FY21	247	166	100	2.5	8.7	63.8	4.6	
FY22E	338	241	154	3.0	10.6	41.5	4.2	
FY23E	423	310	207	3.2	12.7	30.8	3.7	
FY24E	560	422	288	3.4	15.3	22.2	3.1	

Source: Company, Arihant Research

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Q3FY22 Result update snapshot

Quarterly Result Update (Rs Cr)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Interest Income	145	138	107	5.0%	35.3%
Interest Expended	55	56	54	-2.1%	1.6%
Net Interest Income	89	81	52	9.9%	70.4%
Other Income	7	8	4	-15.3%	94.7%
Operating Income	96	90	56	7.5%	72.0%
Operating Expenses	31	30	27	4.2%	14.1%
Employee Expenses	20	19	17	5.1%	15.7%
Other Operating Expenses	11	11	10	2.6%	11.3%
PPOP	65	60	29	9.2%	127.7%
Provisions	6	3	7	79.4%	-19.3%
PBT	59	56	21	5.0%	178.9%
Tax Expenses	13	11	5	15.5%	149.8%
Net Income	46	45	16	2.3%	188.6%
Spreads					
NIMs (%)	5.6%	5.6%	5.0%	-3bps	60bps
Cost of Funds	7.2%	7.1%	8.0%	7bps	-80bps
Yield on Average Advances	12.8%	12.8%	13.0%	4bps	-20bps
CAR (%)	59.0%	56.4%	52.3%	264bps	670bps
Asset Quality					
GNPA (%)	2.6%	1.7%	1.6%	86bps	100bps
NNPA (%)	2.0%	1.2%	1.1%	76bps	90bps
GNPA (%)	0.5%	0.3%	0.8%	19bps	-27bps
Returns & Expenses					
RoA	4.0%	3.9%	1.6%	9bps	238bps
RoE	12.2%	12.3%	5.8%	-11bps	634bps
Cost / Income Ratio	32.5%	33.5%	49.0%	-104bps	-1650bps
Asset growth trend					
Total AUM	4,994	4,617	3,941	8.2%	26.7%
Disbursements	570	515	349	10.6%	63.3%

Key Concall takeaways

- In December, company saw the highest collection efficiency in the past 12 months leading to a significant improvement in 1+ and 30+ DPD levels. 1+ DPD improved to 6.5% from 7.6% and 30 DPD improved to 4.7% from 5.2% on QoQ basis.
- Physical branches went up to 76 and total distribution points have gone up to 187.
- There was no incremental restructuring in Q3FY22. Restructure book stood same INR 30 odd cr which is about 0.76% of the AUM.
- Company has entered into strategic co-lending partnership with Union Bank of India (UBI) to offer home loans to customers at competitive interest rates.
- 48-hour turn-around-time for loan approval improved to 90% from 88% in Q2FY22.
- Credit cost was range-bound at 0.5%. PCR stands at 46%. Prior to NPA reclassification as per RBI circular, PCR stands at 69% vs 77%.
- Management targets spread to maintain at 5%.
- Yield on LAP is generally in the region of 14.5% to 15% and housing yield typically between 12% to 13%.
- HFFC's stage 3 loans increased by ~90 bps reflecting the impact of RBI circular (i.e. daily stamping of NPA). The effective PD and LGD estimates of the underlying borrower however are unchanged by the company. As such, there was no P&L impact due to adoption of the above circular.

Key Financials

Profit & Loss Statement (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	392	468	604	787	1,055
Interest Expended	194	220	266	364	495
Net Interest Income	198	247	338	423	560
Other Income	28	22	24	26	29
Operating Income	226	269	361	449	589
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	241	310	422
Provisions	17	32	35	33	37
PBT	107	134	206	277	385
Tax Expenses	28	34	52	70	97
Net Income	80	100	154	207	288

Balance Sheet (in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity & Liabilities					
Share Capital	16	17	17	17	17
Reserves & Surplus	918	1,363	1,517	1,724	2,013
<i>Source: Arihant Research, Company Filings, Ace Equity, Bloomberg</i>					
Net Worth	933	1,381	1,535	1,742	2,030
Deposits	2,494	3,054	4,013	5,521	7,440
Borrowings	7	8	10	14	19
Deferred tax liabilities	3	8	10	14	19
Other Liabilities and Provisions	43	60	79	109	147
Total Capital & Liabilities	3,480	4,510	5,647	7,400	9,655
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	4,371	6,005	8,120
Advances	146	375	394	413	434
Fixed Assets	21	17	22	30	41
Other Assets	78	112	147	202	274
Total Assets	3,480	4,510	5,647	7,400	9,655

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

Key Ratios

Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
Growth rates					
Advances (%)	41.2%	10.4%	31.4%	37.4%	35.2%
Deposits (%)	29.5%	22.5%	31.4%	37.6%	34.7%
Total assets (%)	40.2%	29.6%	25.2%	31.0%	30.5%
NII (%)	56.1%	24.9%	36.5%	25.2%	32.5%
Pre-provisioning profit (%)	70.6%	34.2%	44.9%	28.7%	36.1%
PAT (%)	74.0%	25.9%	53.8%	34.6%	39.1%
Balance sheet ratios					
Advances/Total assets (%)	86.6%	73.8%	77.4%	81.1%	84.1%
Leverage (x) (Asset/Shareholder's Fund)	3.7	3.3	3.7	4.2	4.8
CAR (%)	49.0%	56.2%	52.6%	47.7%	44.1%
CAR - Tier I (%)	47.7%	55.2%	51.6%	46.8%	43.1%
Operating efficiency					
Cost/income (%)	45.2%	38.2%	33.4%	30.9%	28.4%
Opex/total assets (%)	3.4%	2.6%	2.4%	2.1%	2.0%
Profitability					
NIM (%)	6.8%	6.4%	6.9%	6.7%	6.8%
RoA (%)	2.7%	2.5%	3.0%	3.2%	3.4%
RoE (%)	10.9%	8.7%	10.6%	12.7%	15.3%
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	17.6	23.7	33.0
BVPS (INR)	119	158	176	199	232
ABVPS (INR)	116	153	171	195	227
P/E (x)	NA	NA	41.5	30.8	22.2
P/BV (x)	NA	NA	4.2	3.7	3.1
P/ABV (x)	NA	NA	4.3	3.8	3.2

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

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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%

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