

CMP: INR 983

Rating: Hold

Target Price: INR 1073

Stock Info

BSE	543259
NSE	HOMEFIRST
Bloomberg	HOMEFIRS:IN
Reuters	HOME.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Bn)	17.67
Mkt Cap (INR Bn)	85.26
52w H/L (INR)	1058 / 654
Avg Yearly Vol (in 000')	259

Shareholding Pattern %

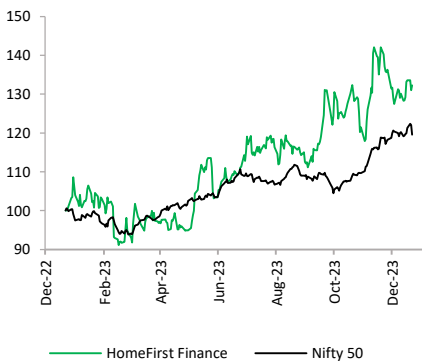
(As on December, 2023)

Promoters	23.6
Public & Others	76.4

Stock Performance (%)

	1m	6m	12m
Home First Finance	-5.8	21	32
Nifty 50	0.73	9	20

Home First Finance Vs Nifty 50



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Home First Finance (HFFC) delivered positive financial results for Q3FY24, showing a some signs of stress as bounce rates increased. PAT declined by 28.7% YoY/up 6.1% QoQ, reaching INR 788 mn, primarily due to increase in finance costs as interest expenses rose by 40.6% YoY/11.3% QoQ. The company maintained strong business momentum with disbursements amounting to INR 10.07 bn (+29.1% YoY/+5% QoQ), leading to a robust 33.5% YoY/7.7% QoQ growth in AUM which stood at INR 90.13 bn. Management remains optimistic about the demand and growth prospects, expecting its book to expand by around 30%. Asset Quality remained stable sequentially but there was a notable increase in bounce rates to 15.1% in Q3FY24 against 14.2% in Q2FY24. GNPA/NNPA came at 1.7% (flat QoQ/down 10 bps YoY) and 1.2% (flat QoQ/down 10 bps YoY), respectively. The company witnessed a slight increase in the DPD 30+ book from 2.9% to 3% QoQ and DPD 1+ book remained flat QoQ at 4.5%. However, the Collection Efficiency remained healthy at 98.7% against 98.3% in Q2FY24.

Key Highlights:

1. NII stood at INR 1.66 bn (down -8.1% YoY/+up 6.25% QoQ). The dip in NII as compared to interest income was due to a sharp increase in finance cost by 40.6% YoY/11.3% QoQ. Spread for the quarter came at 5.3% against 5.5%. In Q2FY24, Yield for the quarter declined marginally by 10bps QoQ at 13.5%.
2. OPEX grew by 28% YoY/8% QoQ. The C-I ratio increased by 60bps YoY/70 bps QoQ at 35.9%. PPOP declined by 20.2% YoY/ up 5.1% QoQ to INR 1,097 mn.
3. PAT increased by 6.1% QoQ to INR 788 mn. ROA fell by 10 bps QoQ 3.7%.
4. 94% of their customers are registered on their app as on Sept'23. Unique User Logins were 54% in Q2FY24. Service requests raised on the app were stable at 88%.
5. They are doing business across 305 touchpoints across Tier 1, Tier 2, and Tier 3 markets in 13 states/ UT.
6. AUM by product 87% of the total advances are for house loans. With the average ticket size of INR 0.5-1.5 Mn, and with Shop loans- 1% and LAP-12%.

Key Concall Highlights:

1. Company delivered a ROE of 15.8%, in an inflationary and peak interest rate environment, up by 20bps QoQ / 210 bps YoY.
2. Spreads came at 5.3% against the guided levels of 5.25%.
3. Credit Cost came down to 30 bps (down 10 bps YoY & QoQ) in Q3FY24, which is within the guidance of 30-50 bps as earlier given by the Management.
4. The attrition rate has elevated since the last couple of quarters. Hence, the Management has started ESOP programs for customer retention. Their ESOP coverage encompasses 315 employees which is 25.5% of their total employee base.
5. The Management remained confident of their Connector & loan distribution Model with 2,900 connectors.
6. The company is focused on technology and wants to leverage it to provide better services to its customers.
7. The housing sector is performing well and the company is well positioned to leverage this growth and gain market share.

Valuation and View

HFFC has done well in terms of growth, asset quality and operational performance. During the quarter, the company witnessed robust growth in revenue and net profit driven by increase in disbursements. We continue to believe, HFFC is well positioned to capture the strong growth in the growing and underpenetrated HFC market on its smaller base and strong credit underwriting model. We expect AUM to grow by 30% for FY24 and FY25. We maintain our Target Price of INR 1,073 based on 5.2x FY26E ABV.

Quarterly Result Update (Rs Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Interest Income	2,963	2,733	2,733	8.41%	8%
Interest Expended	1,302	1,170	926	11.28%	40.63%
Net Interest Income	1,661	1,563	1,807	6.25%	-8.10%
Other Income	47	47	45	1.14%	0.0547208
Operating Income	1,708	1,610	1,852	6.11%	-7.78%
Operating Expenses	611	565	477	7.99%	27.94%
Employee Expenses	390	369	275	5.80%	41.91%
Other Operating Expenses	220	197	202	12.11%	8.97%
PPOP	1,097	1,044	1,375	5.08%	-20.17%
Provisions	70	80	70	-12.40%	0.72%
PBT	1,027	964	1,305	6.53%	-21.29%
Tax Expenses	239	221	200	8.08%	19.75%
Net Profit	788	743	1,106	6.07%	-28.70%
Spreads (%)					
Spread	5.3%	5.5%	5.7%	-20bps	-40bps
Yield on Average Advances	13.5%	13.6%	13.1%	-10bps	40bps
CAR (%)	40.9%	45.5%	49.6%	-460bps	-870bps
Asset Quality (%)					
GNPA	1.7%	1.7%	1.8%	0bps	-10bps
NNPA	1.2%	1.2%	1.3%	0bps	-10bps
DPD 1+	4.5%	4.5%	4.4%	0bps	10bps
DPD 30+	3.0%	2.9%	3.0%	10bps	0bps
Cheque Bounce rate	15.1%	14.2%	14.9%	90bps	20bps
Returns & Expenses					
RoA	3.7%	3.9%	3.8%	-20bps	-10bps
RoE	15.8%	15.6%	13.7%	20bps	210bps
Cost / Income Ratio (%)	35.9%	35.2%	35.3%	70bps	60bps
Asset growth trend					
Total AUM	9,014	8,365	6,751	7.75%	33.51%
- Home Loans	7,752	7,278	5,941	6.51%	30.48%
- Loan for Commercial property	90	84	68	7.75%	33.51%
- LAP	1,172	1,004	743	16.73%	57.79%
Disbursements	1,007	959	780	5.03%	29.06%
AUM by customer segment (%)					
Salaried	68%	69%	70%	-100bps	-200bps
Self Employed	32%	31%	30%	100bps	200bps
AUM by Geography (%)					
Gujarat	32%	32%	33%	-30bps	-120bps
Maharashtra	13%	14%	15%	-20bps	-140bps
Tamil Nadu	14%	14%	14%	0bps	50bps
Karnataka	7%	7%	8%	-10bps	-60bps
Rajasthan	6%	6%	6%	0bps	0bps
Telangana	9%	9%	9%	-10bps	30bps
Madhya Pradesh	6%	6%	5%	30bps	70bps
Uttar Pradesh & Uttarakhand	6%	5%	5%	30bps	100bps
Others	7%	7%	7%	0bps	0bps

Source: Company, Arianth Research

Concall Highlights

Guidance:

- In the Next 3 years, the company is aiming to open 100 branches with 200 touchpoints.
- HFFC is targeting an RoE of 17% and RoA of 3-3.5% in the next 3 years.

Key Highlights:

- 1+ DPD at 4.5% (up 10 bps YoY/flat QoQ) while 30+ DPD is at 3.0% (flat YoY / up 10 bps QoQ).
- Credit Cost is at 30 bps (down 10 bps YoY/down 10 bps QoQ).
- The management confirms that there is no systematic repricing done by the company for the back book. New disbursements are done on slightly higher interest rates.
- The Portfolio Yield is at 13.5% in Q3FY24.
- The Management intends to maintain the origination rate of every account from their side, in order to maintain proper reputation with a customer.
- The Management explains that the bounce rates increased across all regions rather than a specific state.
- The HFC saw around 40% adoption with the bank statement based model of customers, they are rolling out that model for further growth.
- Management says the chances for loan approval rises much for a customer in their business model once the Credit score of a customer is seen above 700.
- Higher ticket sizes generally give lower yield for HFFC as the customer generally has higher income levels and better credit score.
- The Quarterly disbursement is around INR 400-450 bn which is the Total Addressable market for HFFC, states where they have any presence. Currently, HFFC is disbursing around INR 10 bn per quarter, i.e. 2.5% of the market share. Hence, the company is looking to get disbursement of upto INR 100 bn by FY27.
- The Management intends to see the Co-lending Portfolio rise to 10% of their total loan book.
- As of Q3, the company has 870 RMs and 2,900 connectors.
- The Management explains that the decline in yields was due to the company trying to maintain their spreads.
- The Company has not received any guideline from RBI on co-lending rules yet. Hence, they are maintaining a minimum of 20% share of individual loans in their books.
- The Management confirms that the true reflection on the cost of funds and yields for HFFC has mostly been done, and there may be a maximum of 10 bps of further change in the interest rates and yields in the coming quarters at these Repo/MCLR rates currently.
- The Management says they are comfortable to go up to 5-5.5x leverage levels.
- The Company has increased their disbursals every quarter over the last 12 quarters, and the management intends to follow the same trend, i.e., a growth of 20-25% of disbursals YoY basis every quarter, and they will be able to achieve their targets in that way.
- The Company maintains a spread of 5-5.5% for their business.
- The Company receives fee income in the form of Processing fee and Origination fee in the Co-lending business.
- The Management iterates that the ticket size of lending is increasing in their Portfolio, and is growing more in the Co-lending business.

Source: Company, Arihant Research

Key Financials

P&L (INR in Cr)	FY21	FY22	FY23	FY24e	FY25e
Interest income	406	477	683	899	1,144
Interest expense	217	216	304	414	566
NII	189	261	378	485	579
Non-interest income	83	119	113	123	151
Net revenues	272	380	491	608	730
Operating expenses	106	129	175	211	254
PPOP	166	251	317	397	477
Provisions	32	25	22	33	43
PBT	134	226	295	364	434
Tax	34	40	67	92	109
PAT	100	186	228	272	325

Balance sheet	FY21	FY22	FY23	FY24e	FY25e
Share capital	17	18	18	18	18
Reserves & surplus	1,363	1,556	1,800	2,072	2,397
Net worth	1,381	1,574	1,817	2,089	2,414
Borrowings	3,054	3,467	4,813	6,221	8,056
Other liability	76	76	106	135	168
Total liabilities	4,510	5,117	6,737	8,446	10,638
Fixed assets	17	20	25	33	43
Investments	375	-	281	295	310
Loans	3,327	4,305	5,996	7,465	9,667
Cash	680	668	311	525	489
Other assets	112	124	124	127	130
Total assets	4,510	5,117	6,737	8,446	10,638

Source: Arianth Research, Company Filings

Key Ratios

Ratios	FY21	FY22	FY23	FY24e	FY25e
Growth (%)					
Advances	10.4	29.4	39.3	24.5	29.5
Borrowings	22.5	13.5	38.8	29.2	29.5
Total assets	29.6	13.5	31.7	25.4	26.0
NII	26.9	38.5	44.7	28.3	19.3
PPOP	34.7	51.5	26.0	25.2	20.2
PAT	26.6	86.5	22.7	19.2	19.3
Balance sheet ratios (%)					
Advances/Total assets	73.8	84.1	89.0	88.4	90.9
Leverage (x) (Asset/Shareholder's Fund)	3.5	3.3	3.5	3.9	4.2
CAR	56.2	58.6	49.2	44.2	39.7
CAR - Tier I	55.2	58.0	48.5	43.7	39.3
Operating efficiency (%)					
Cost/income	39.0	33.9	35.5	34.7	34.7
Opex/total assets	3.4	2.7	2.7	2.8	2.6
Profitability (%)					
NIM	4.9	5.6	6.5	6.5	6.2
RoA	2.5	3.6	3.9	3.6	3.4
RoE	8.6	11.8	13.5	13.9	14.4
Asset quality (%)					
Gross NPAs	1.8	2.3	1.6	1.3	1.1
Net NPAs	1.2	1.8	1.1	0.8	0.6
PCR	36.0	24.9	31.4	38.1	42.6
Credit cost	97.0	58.0	36.0	50.0	50.0
Per share data / Valuation					
EPS	11.4	21.2	25.9	30.9	36.9
BV	158.0	179.6	206.5	237.4	274.3
ABV	112.4	92.5	130.6	170.7	206.4
P/E	83.5	44.9	36.7	30.8	25.8
P/BV	6.0	5.3	4.6	4.0	3.5
P/ABV	8.5	10.3	7.3	5.6	4.6

Source: Arianth Research, Company Filings

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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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