

Home First Finance Company Limited

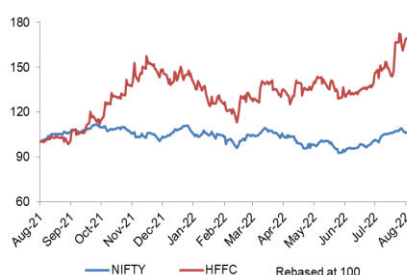
23 August 2022

Rating downgauged as most upside already achieved

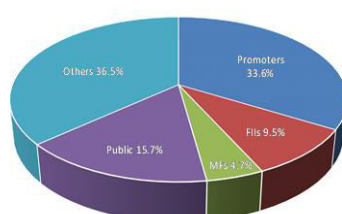
HOLD

Sector	: Housing Finance
Target Price	: Rs 1,003
Last Closing Price	: Rs 950
Market Cap	: Rs 8,326 crore
52-week High/Low	: Rs 1,005/535
Daily Avg Vol (12M)	: 1,58,773
Face Value	: Rs 2
Beta	: 0.73
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 543259
NSE Scrip Code	: HOMEFIRST
Bloomberg Code	: HOMEFIRS IN
Reuters Code	: HOME.NS
Nifty	: 17,578
BSE Sensex	: 59,031
Analyst	: Research Team

Price Performance



Shareholding Pattern



1Q FY23 Update

Results Analysis

- Home First Finance Company (HFFC) reported solid results as the company made the highest-ever quarterly disbursements in 1Q FY23.
- AUM registered a robust 35.8% y-o-y growth to reach Rs 5,832 crore as of 31 June 2022. Loan disbursements increased by 117.0% y-o-y to Rs 661 crore during the quarter.
- NII expanded 44.0% y-o-y to Rs 94.0 crore as net revenues increased 22.2% y-o-y to Rs 108.6 crore. PAT increased 46.0% y-o-y to Rs 51.2 crore.
- Gross Stage 3 ratio stood at 2.1% as of June-end compared to 2.3% in March 2022. GNPA ratio based on the old classification was 1.2% (vs 1.3% in Mar-22). GNPA provision coverage ratio stood at 45.8% in Jun-22 vs 47.1% in Mar-22. PCR without the impact of the new RBI circular was 81.0% in Jun-22 vs 83.6% in Mar-22 and 69.1% in Dec-21.
- Total CRAR was 52.3% while Tier-1 capital was 51.8% as of June-end.
- Physical branches and total distribution points increased from 80 to 93 and from 200 to 224, respectively on a q-o-q basis.

Outlook & Valuation

We expect HFFC's revenues to be driven by continued brisk demand for low-cost housing that the company plans to capture through 20-25% annual increase in physical branches and stronger expansion in virtual locations. Healthy growth in loans/AUM will result in strong increase in earnings and book value, enabling the company to maintain high levels of ROA and ROE. The HFFC stock has appreciated by 26% since we initiated coverage on the company on 01 February 2022. Marginally revising upward FY24E earnings, we value HFFC at Rs 1,003 (up from Rs 988), implying a FY24E P/E of 35x and P/BV of 4.3x and informing an upside of 6%. Consequently, we change our rating for the stock from BUY to HOLD as we believe, at current levels, the stock is near its fair value.

Key Financial Metrics

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Net interest income	105.5	161.0	203.5	296.0	397.9	509.9
Non-interest income	39.0	64.8	65.5	84.0	58.8	64.7
Net revenues	144.5	225.8	269.0	380.0	456.6	574.5
PPOP	72.6	123.8	166.2	251.3	298.3	376.5
PAT	45.7	79.6	100.1	186.1	205.0	258.7
Diluted EPS (₹)	7.74	10.57	12.18	20.85	22.80	28.77
BVPS (₹)	413	119	158	180	203	232

Source: Company data, Khambatta Research

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Financial Performance

₹ crore	1Q FY22	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Net interest income	65.3	85.1	94.0	44.0%	10.4%
Non-interest income	23.7	17.2	14.7	-37.9%	-14.5%
Net revenues	88.9	102.3	108.6	22.2%	6.2%
PPOP	60.7	65.9	69.9	15.2%	6.1%
PAT	35.1	60.2	51.2	46.0%	-14.9%
Diluted EPS	3.94	6.73	5.70	44.7%	-15.3%

Source: Company data, Khambatta Research

Profit & Loss Account

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Net interest income	105.5	161.0	203.5	296.0	397.9	509.9
Non-interest income	39.0	64.8	65.5	84.0	58.8	64.7
Net revenues	144.5	225.8	269.0	380.0	456.6	574.5
Operating expenses	67.3	94.8	95.2	121.2	150.3	189.5
Depreciation & amortization	4.6	7.2	7.6	7.5	8.1	8.5
PPOP	72.6	123.8	166.2	251.3	298.3	376.5
Provisions & impairment of assets	7.3	16.5	32.2	25.0	24.4	30.8
PBT	65.3	107.3	134.0	226.3	273.9	345.7
Tax expense	19.6	27.8	33.9	40.2	69.0	87.0
PAT	45.7	79.6	100.1	186.1	205.0	258.7
Diluted EPS (₹)	7.74	10.57	12.18	20.85	22.80	28.77

Source: Company data, Khambatta Research

Abridged Balance Sheet

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Total shareholders' equity	522.7	933.4	1,380.5	1,573.7	1,778.7	2,037.4
Total debt	1,925.6	2,493.8	3,053.7	3,466.8	4,694.9	6,302.6
Loans	2,134.7	3,013.9	3,326.5	4,304.9	5,725.5	7,328.6
Cash & cash equivalents	185.7	147.7	209.4	617.8	619.5	873.1
Total assets/equity & liabilities	2,481.5	3,480.2	4,510.2	5,116.9	6,559.2	8,432.3

Source: Company data, Khambatta Research

Ratio Analysis

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
GNPA	0.8%	1.0%	1.8%	1.3%	1.4%	1.6%
NNPA	0.6%	0.8%	1.2%	0.9%	1.0%	1.2%
NIM	5.9%	5.9%	5.8%	7.1%	7.9%	7.8%
Cost-to-income ratio	24.8%	22.6%	35.4%	31.9%	32.9%	33.0%
ROAA	2.4%	2.7%	2.5%	3.9%	3.5%	3.5%
ROAE	10.8%	10.9%	8.6%	12.6%	12.2%	13.6%
BVPS (₹)	413	119	158	180	203	232

Source: Company data, Khambatta Research

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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