

Oct 29, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

# Home First Finance Company

## RoE improvement continues

### Performance ahead of expectations

Maintaining its RoE improvement journey (15.6% v/s 15% in Q1 FY24), Home First delivered a 4% beat on our NII/PPOP expectations (ex. of DA income) and 5% beat on PAT. The stronger performance was characterized by sustained robust disbursement/AUM growth momentum (up 37%/33% yoy) and stable asset quality performance (steady 30+ dpd). Spreads expectedly came-off by 20 bps on increase in CoF and marginal dip in portfolio yield (competitive rates on fresh loans).

BT Out increased sequentially from 6.5% to 8.6% due to increased competitive intensity in larger markets and transmission of 125 bps rate hikes to customers over the past 12 months. Bounce Rates moved down during Q2 FY24 (14.2% v/s 15% in Q1 FY24), but it has seasonally spiked to 15.7% in October due to festivities (similar spike was seen in Sept-Oct 2022). Though Stage-2 bucket was stable, there was a slight decline in ECL coverage. Write-offs were around Rs50mn and credit cost for the quarter was 40 bps.

### Management remains upbeat on growth and RoE

Home First is confident of 30%+ AUM growth in FY24 and about surpassing Rs100bn AUM mark in next 12 months. It is targeting 30% pa growth even in FY25 and FY26 with drivers being branch addition (20-30 pa) and augmentation of relationship officers and connectors. Distribution strategy includes deepening presence in existing states and expansion in newer states like UP, RJ and MP (mainly northern and central markets). Co-lending disbursements were Rs500mn in Q2 FY24, and its share is expected to increase to 10% in the future. Co. has taken initiatives to control BT Out which include sensitizing/coaching branch teams and monitoring and engaging with likely BT customers.

CoF is expected to further increase by 20 bps in H2 FY4, with the rise mitigated by likely availment on Rs4.5bn of NHB sanction. However, portfolio spread can move marginally lower in the near term due to pressure on portfolio yield. Opex/Assets is guided between 3-3.2% for coming quarters due to distribution expansion. Besides sustenance of strong growth, increasing share of co-lending would lift RoE in the medium term.

### Another quarter of earnings upgrade; maintain BUY

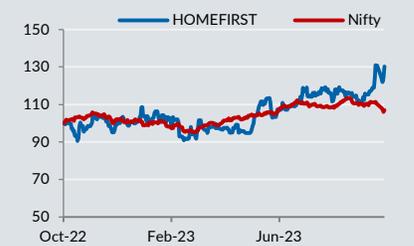
We raise FY24/25 earnings estimates by 1-3%. Home First has demonstrated consistent strong execution on growth, asset quality and RoE improvement which has supported its valuation re-rating (currently at 3.5x/22x PABV/PE on FY25 estimates). With valuation approaching near fair levels, one needs to closely monitor future RoE drivers viz. disbursement growth momentum, trends in BT Out, movement in loan spread and ECL coverage levels. We retain BUY rating on the stock with an increased 12m PT of Rs1,100. However, our order of preference among affordable HFCs is Aptus, Home First and Aavas.

Reco	: BUY
CMP	: Rs 953
Target Price	: Rs 1,100
Potential Return	: 15.4%

#### Stock data (as on Oct 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	985 / 652
Market cap (Rs/USD mn)	80012 / 961
Outstanding Shares (mn)	88
6m Avg t/o (Rs mn):	203
Div. yield (%):	0.3
Bloomberg code:	HOMEFIRS IN
NSE code:	HOMEFIRST

#### Stock performance



	1M	3M	1Y
Absolute return	17.4%	11.5%	30.4%

#### Shareholding pattern

Promoter	30.2%
FII+DII	27.0%
Others	42.8%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,100	1,050

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	34.3	42.9	54.6
EPS (Old)	33.6	42.6	-
% Change	2.1%	0.8%	-

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	6,537	8,418	10,632
PPOP	4,238	5,323	6,783
Net profit	3,019	3,778	4,809
Growth (%)	32.2	25.2	27.3
EPS (Rs)	34.3	42.9	54.6
ABVPS (Rs)	232.4	272.9	324.5
P/E (x)	27.8	22.2	17.4
P/ABV (x)	4.1	3.5	2.9
ROAE (%)	15.3	16.4	17.6
ROAA (%)	3.9	3.7	3.7

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## Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Op. Income	2,677	2,479	8.0	1,848	44.9
Interest expended	(1,170)	(1,068)	9.6	(712)	64.4
Net Interest Income	1,507	1,411	6.8	1,136	32.6
Other Income	103	119	(14.0)	46	121.8
Total Income	1,610	1,530	5.2	1,182	36.1
Operating expenses	(565)	(553)	2.2	(441)	28.2
PPOP	1,044	977	6.9	741	40.9
Provisions	(80)	(77)	4.0	(50)	61.0
PBT	964	900	7.1	692	39.4
Tax	(221)	(209)	5.9	(149)	48.6
Reported PAT	743	691	7.5	543	36.9

Source: Company, YES Sec

## Exhibit 2: Key Ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	6.0	6.1	(0.1)	6.5	(0.5)
Yield	13.6	13.7	(0.1)	13.0	0.6
Cost of Borrowings	8.1	8.0	0.1	7.1	1.0
Spread	5.5	5.7	(0.2)	5.8	(0.3)
Cost to Income	35.2	36.3	(1.1)	37.4	(2.2)
Gross NPA	1.7	1.6	0.1	1.9	(0.2)
Credit cost*	0.4	0.4	(0.0)	0.3	0.1
Collection Efficiency	98.5	98.5	-	98.5	-
Leverage (x)	4.1	3.9	0.2	3.5	0.6
RoA	3.8	3.9	(0.1)	3.8	-
RoE	15.6	15.0	0.6	13.1	2.5

Source: Company, YES Sec, \*Calculated

## Exhibit 3: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	83,654	77,759	7.6	62,754	33.3
Disbursements	9,591	8,952	7.1	7,022	36.6
Active loan accounts	86,102	81,842	5.2	69,002	24.8
<b>Customer-wise AUM</b>					
Salaried	57,721	53,654	7.6	44,555	29.5
Self-employed	25,933	24,105	7.6	18,199	42.5
<b>Product-wise AUM</b>					
Housing Loans	72,779	67,650	7.6	55,851	30.3
Loans - Comm. Property	837	778	7.6	628	33.3
LAP	10,038	9,331	7.6	6,275	60.0

Source: Company, YES Sec

## Exhibit 4: Asset Quality

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
1+ DPD	4.7	4.4	4.0	4.3	4.5
30+ DPD	3.3	3.0	2.7	2.9	2.9
Stage 2	1.4	1.2	1.1	1.3	1.2
Stage 3	1.9	1.8	1.6	1.6	1.7
Net Stage 3	1.4	1.3	1.1	1.1	1.2

Source: Company, YES Sec

## Exhibit 5: Top States AUM Concentration

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Gujarat	34.0	33.2	32.6	32.6	32.3
Maharashtra	15.2	14.8	14.4	14.0	13.6
Tamil Nadu	13.1	13.5	13.7	13.9	14.0
Karnataka	7.7	7.5	7.5	7.1	7.0
Rajasthan	5.9	5.8	5.7	5.7	5.8
Telangana	8.3	8.6	8.9	8.9	9.0
MP	5.0	5.1	5.1	5.3	5.5
UP	4.4	4.7	5.0	5.2	5.4
Others	6.4	6.8	7.1	7.3	7.4

Source: Company, YES Sec

## Exhibit 6: ECL Summary

(Rs mn)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
<b>Stage 1</b>					
Loans - Principal outstanding	50,259	54,804	58,891	63,875	68,820
ECL Provisions	154	157	164	179	186
Net loans - Principal outstanding	50,106	54,647	58,726	63,696	68,633
ECL Provisions - (%)	0.3	0.3	0.3	0.3	0.3
<b>Stage 2</b>					
Loans - Principal outstanding	690	669	657	842	832
ECL Provisions	78	76	69	86	71
Net loans - Principal outstanding	612	593	587	756	761
ECL Provisions - (%)	11.3	11.4	10.5	10.2	8.6
<b>Stage 3</b>					
Loans - Principal outstanding	1,001	1,008	974	1,077	1,233
ECL Provisions	265	293	331	334	374
Net loans - Principal outstanding	737	715	643	743	859
ECL Provisions - (%)	26.4	29.1	34.0	31.0	30.3
<b>Total ECL Provisions - (%)</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, YES Sec

## Exhibit 7: Funding Mix

(%)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Private Sector Banks	32.0	32.0	32.0	32.0	33.0
Public Sector Banks	20.0	24.0	26.0	22.0	21.0
NBFC	3.0	2.0	2.0	3.0	2.0
NHB Refinance	21.0	17.0	15.0	22.0	22.0
NCD	3.0	6.0	6.0	4.0	4.0
DA	21.0	19.0	19.0	17.0	18.0

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Disbursements & AUM Growth

- Confident of 30%+ AUM growth in FY24 and surpassing Rs100bn AUM mark in next 12 months.
- Targeting 30% pa growth even in FY25 and FY26 with drivers being branch addition (20-30 pa) and augmentation of ROs and connectors.
- Demand across markets remains strong and supply is not an issue – planned distribution expansion to position the co. well for further market share gains.
- Distribution strategy is deepening presence in existing states and expansion in newer states like UP, RJ and MP (mainly northern and central markets).
- HFF added 7 branches in Q2 FY24 taking the count to 120 - employee base would be increased by 100-150 in H2 and to 1600-1700 in next couple of years from current 1242.
- Stronger growth seen in the ticket size of Rs1mn+.
- Share of salaried customers would come-off due to penetration of Tier 2/3 markets.
- Co-lending disbursements were Rs500mn in Q2 FY24 – the share would increase to 10% of overall disbursements in the future.
- RoE has increased by 200 bps in past six months – RoE can be sustained at 15-16% in near term and co-lending will help in lifting RoE in the medium term.

### BT Out

- BT going out to Banks and some NBFCs with main reason of customers having gone through 120 bps rate hike and having witnessed significant increase of tenor
- Initiatives take to rein in BT Out are a) sensitizing/coaching branch teams on restricting BT out, b) closely monitoring and tagging likely BT customers and c) reducing rates where required
- BT Out higher in larger cities and branches due to higher competitive intensity

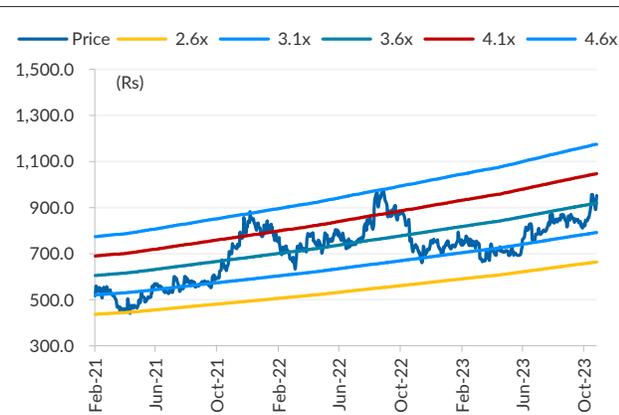
### NIM & Opex

- Incr. CoF at 8.6-8.7 is past two quarters w/o NHB and with NHB it would be 8.1-8.2%.
- Further 20 bps rise in CoF expected in H2.
- NHB borrowings share at 22% - Rs4.5bn sanctions available to be drawn by June'24.
- Current spread of 5.5% is well ahead of the long-term guidance of 5.25% - can moved marginally lower due to expected increase in CoF.
- DA was Rs970mn in the quarter done as a liquidity strategy - robust demand for DA.
- Connector base stands at 2500-2600 - Connector cost is 30-50 bps across markets.
- Attrition has come-off to 30-32% v/s around 40% last year.
- ESOP coverage extended to 335 employees, about 27% of the base.
- Opex at 2.9% and guided to remain between 3-3.2% in coming quarters due to distribution expansion.

## Asset Quality & Credit Cost

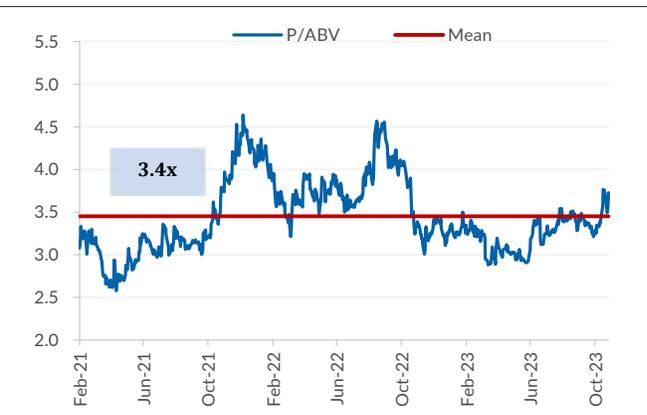
- While bounce rate witnessed an uptick in October, most EMIs were collected within three days of bounce.
- Asset Quality and Bounce Rates are similar in Tier 2/3 locations versus Tier-1 locations – HFF is building presence in more urban Tier 2/3 locations.
- Credit Cost guided range is 30-50 bps.

**Exhibit 8: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	175	176	176	176	176
Reserves	15,562	17,997	21,016	24,794	29,603
<b>Shareholder's funds</b>	<b>15,737</b>	<b>18,173</b>	<b>21,192</b>	<b>24,970</b>	<b>29,779</b>
Deferred Tax Liabilities	45	60	71	86	103
<b>Total Non-Financial liabilities</b>	<b>133</b>	<b>159</b>	<b>190</b>	<b>228</b>	<b>274</b>
Debt Securities	1,688	3,469	4,788	6,368	8,278
Borrowings (Excl. Debt Sec.)	32,980	44,665	61,638	81,979	106,572
Other Financial Liabilities	569	754	1,041	1,385	1,800
<b>Total Financial liabilities</b>	<b>35,299</b>	<b>49,038</b>	<b>67,616</b>	<b>89,880</b>	<b>116,800</b>
<b>Total Equities and Liabilities</b>	<b>51,169</b>	<b>67,370</b>	<b>88,999</b>	<b>115,079</b>	<b>146,853</b>
<b>Assets</b>					
Cash and Cash Equivalents	6,178	2,356	4,440	6,450	9,082
Bank balances	501	628	628	628	628
Loans	43,049	59,957	79,294	103,128	131,998
Investments in Associates	0	2,808	2,808	2,808	2,808
Other Financial Assets	1,150	1,241	1,427	1,641	1,887
<b>Total Financial assets</b>	<b>50,877</b>	<b>66,990</b>	<b>88,598</b>	<b>114,655</b>	<b>146,405</b>
Property, Plant and Equipment	1	6	6	6	6
Other Intangible Assets	111	141	141	141	141
Other Non-Financial Assets	88	88	97	107	117
<b>Total Non-Financial assets</b>	<b>292</b>	<b>380</b>	<b>401</b>	<b>423</b>	<b>448</b>
<b>Total Assets</b>	<b>51,169</b>	<b>67,370</b>	<b>88,999</b>	<b>115,079</b>	<b>146,853</b>

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	5,820	7,731	10,909	14,285	18,406
Interest expense	(2,157)	(3,043)	(4,754)	(6,307)	(8,280)
<b>Net interest income</b>	<b>3,663</b>	<b>4,688</b>	<b>6,155</b>	<b>7,978</b>	<b>10,126</b>
Non-interest income	137	225	382	440	506
Total op income	3,800	4,913	6,537	8,418	10,632
Total op expenses	(1,287)	(1,746)	(2,299)	(3,095)	(3,848)
<b>PPoP</b>	<b>2,513</b>	<b>3,167</b>	<b>4,238</b>	<b>5,323</b>	<b>6,783</b>
Provisions	(250)	(215)	(334)	(438)	(565)
<b>Profit before tax</b>	<b>2,263</b>	<b>2,952</b>	<b>3,904</b>	<b>4,885</b>	<b>6,219</b>
Taxes	(402)	(669)	(885)	(1,108)	(1,410)
<b>Net profit</b>	<b>1,861</b>	<b>2,283</b>	<b>3,019</b>	<b>3,778</b>	<b>4,809</b>

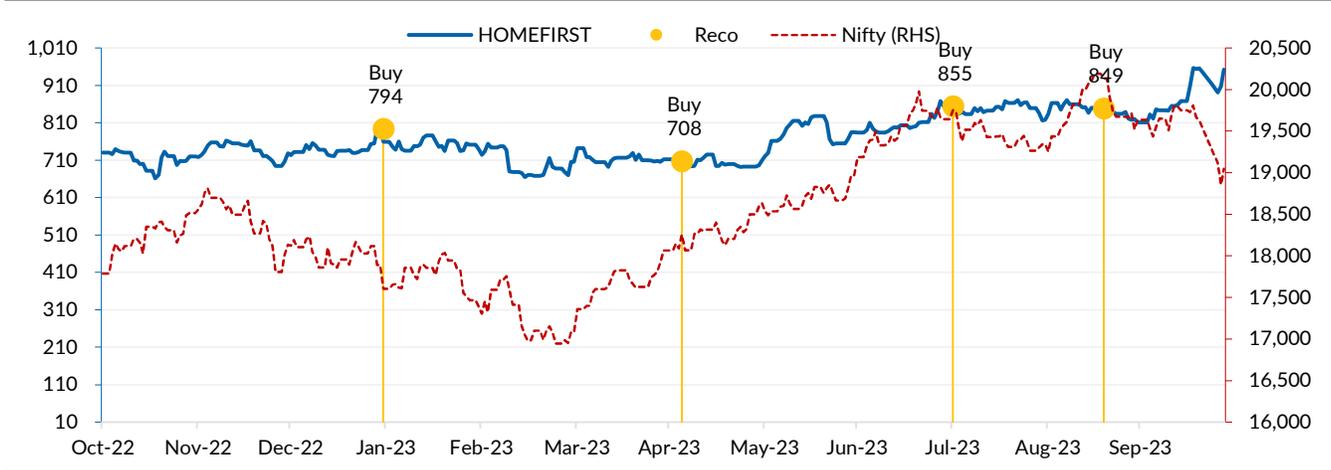
Source: Company, YES Sec

## Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	41.0	28.0	31.3	29.6	26.9
Total op income	39.8	29.3	33.1	28.8	26.3
Op profit (pre-provision)	51.2	26.0	33.8	25.6	27.4
Net profit	85.8	22.7	32.2	25.2	27.3
Advances	29.4	39.3	32.3	30.1	28.0
Borrowings + Debt	13.5	38.8	38.0	33.0	30.0
Total assets	13.5	31.7	32.1	29.3	27.6
<b>Profitability Ratios (%)</b>					
NIM	7.7	7.5	7.4	7.3	7.2
Non-interest income /Total income	3.6	4.6	5.8	5.2	4.8
Return on Avg. Equity	11.8	13.5	15.3	16.4	17.6
Return on Avg. Assets	3.6	3.9	3.9	3.7	3.7
<b>Per share ratios (Rs)</b>					
EPS	21.2	25.9	34.3	42.9	54.6
Adj. BVPS	170.9	199.2	232.4	272.9	324.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	124.2	124.6	119.4	116.7	114.9
Cost/Income	33.9	35.5	35.2	36.8	36.2
CAR	58.6	49.4	43.5	39.4	36.6
Gross Stage 3 (%)	2.3	1.6	1.4	1.4	1.4
Credit Cost	0.5	0.3	0.4	0.4	0.4
Tax rate	17.8	22.7	22.7	22.7	22.7

Source: Company, YES Sec

## Recommendation Tracker



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NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |  
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:  
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Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Analyst  
Signature

Analyst  
Signature

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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