

Home First Finance Company | BUY

Profitability intact; asset quality disappoints

HFFC reported a strong PAT growth of +36%/+14% YoY/QoQ, +8% above JMFe, leading to healthy RoA/RoE of 3.7%/15%. However, seasonal asset quality deterioration was slightly higher than usual as stressed pool (stage 2+3) moved up +44bps QoQ. AUM growth was healthy at +29%/+6% YoY/QoQ while disbursements slowed down -2%/+7% QoQ/YoY. NIMs moved up +33bps QoQ leading to strong NII growth of +33%/+12% YoY/QoQ. Higher other income was partially offset by higher opex leading to PPop growth of +41%/+16% YoY/QoQ. Credit cost was elevated at 0.36% (+11bps QoQ) as GS3/NS3 moved up +15bps/+17bps QoQ. Management highlighted that the uptick in stress was mainly in Surat/Coimbatore which is expected to improve in next 2 quarters and weaker disbursements was mainly in Apr'25 on account of muted growth in Tamil Nadu/Telangana. However, mgmt guidance for FY26E was maintained: i) ~26-30% AUM growth with disbursements of ~INR 56-58bn, ii) Opex/assets of 2.6-2.7% (vs 2.7% in 1QFY26) and iii) credit costs of 30-40bps. We maintain BUY with a TP of INR 1,500 (3.2x FY27E BVPS).

- **Sustained growth momentum:** AUM demonstrated steady growth, reaching INR 135bn (+29% YoY, +6% QoQ). However disbursements were weak at INR 12.4bn (+7% YoY, -2% QoQ) mainly as Apr'25 disbursements were weak with muted disbursements from Tamil Nadu and Telangana. Overall, seasonality impact was higher during the quarter, However, management remains confident to do healthy disbursements of INR 56-58bn for FY26 which should lead to 26-30%AUM growth. The growth during the quarter was led by LAP (+45% YoY, +8% QoQ), followed by HL (+26% YoY, +6% QoQ). Shop loans were up +17% YoY, +3% QoQ. We build in AUM CAGR of ~25% over FY25-27E.
- **Strong operating performance:** PAT stood healthy at INR 1.2bn (+36% YoY, +14% QoQ) which was +8% above our estimates. This was driven by strong NII growth of +33% YoY, +12% QoQ as NIMs moved up +33bps QoQ. Spreads improved by +5bps QoQ led by +27bps QoQ increase in yield partially offset by +22bps QoQ increase in CoFs at 8.4% (vs its guidance of 8.5%). Operating profit came in at INR 1.7bn (8% above our estimates) mainly led by 14% increase in other income. Credit costs inched up by +11bps QoQ to 36bps. Mgmt. remains confident in their ability to sustain spreads within 5-5.25% on a steady state. 60% of the borrowings of the company are bank borrowings (Pvt+PSU) out of which ~20% is repo linked where company has started benefiting while MCLR linked borrowings will be repriced over next 2 quarters. Company also received credit rating upgrade from AA- to AA which will lead to further cost tailwinds. We expect EPS CAGR of ~28% over FY25-27E.
- **Seasonal deterioration in asset quality:** GS3/NS3 moved up +15bps/+17bps QoQ to 1.8%/1.4% largely due to seasonality while PCR declined 314bps to 22.0%. Stage 2 also moved up 29bps QoQ to 1.6% indicating early delinquencies. 1+ DPD was up +94bps QoQ to 5.4%. Management indicated that the stress was observed largely in Surat and Coimbatore which has already started showing improvements. We revised our credit cost estimates +10bps for FY26 and expect avg credit costs of ~36bps over FY26-27E in line



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(We acknowledge the support services of **Dev Jogani** in preparation of this report)

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,500
Upside/(Downside)	15.0%
Previous Price Target	1,500
Change	0.0%

Key Data – HOMEFIRS IN

Current Market Price	INR1,304
Market cap (bn)	INR134.7/US\$1.6
Free Float	67%
Shares in issue (mn)	103.2
Diluted share (mn)	
3-mon avg daily val (mn)	INR501.7/US\$5.8
52-week range	1,519/839
Sensex/Nifty	81,338/24,821
INR/US\$	86.8

Price Performance

%	1M	6M	12M
Absolute	-11.5	34.5	21.1
Relative*	-9.0	26.9	21.3

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
Net Profit	3,057	3,821	4,957	6,235	7,189
Net Profit (YoY) (%)	33.9%	25.0%	29.7%	25.8%	15.3%
Assets (YoY) (%)	41.5%	28.1%	31.1%	17.6%	19.8%
ROA (%)	3.8%	3.5%	3.5%	3.6%	3.5%
ROE (%)	15.5%	16.5%	14.7%	13.8%	14.0%
EPS	34.5	42.4	48.0	60.4	69.7
EPS (YoY) (%)	33.2%	22.8%	13.2%	25.8%	15.3%
P/E (x)	37.8	30.7	27.1	21.6	18.7
BV	240	280	409	464	527
BV (YoY) (%)	16.1%	16.8%	46.1%	13.4%	13.7%
P/BV (x)	5.44	4.66	3.19	2.81	2.47

Source: Company data, JM Financial. Note: Valuations as of 29/Jul/2025

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

with management guidance of 30-40 bps.

- **Valuation and view:** Though the stress was elevated during the quarter, we believe that the credit rating upgrade followed by rate cuts will result in healthy decline in CoFs to offer strong margin tailwinds which will offset an incremental credit costs over the near term. While recovery in the asset quality is expected soon, we revised our credit cost estimate upward by +10bps for FY26E. As mgmt guidance for FY26E was maintained: i) ~26-30% AUM growth with disbursements of ~INR 56-58bn, ii) Opex/assets of 2.6-2.7% (vs 2.7% in 1QFY26) and iii) credit costs of 30-40bps, we do not anticipate any major headwinds for the company given that the company operates in mainly secured nature of business. We maintain BUY with a TP of INR 1,500 (3.2x FY27E BVPS).

HFFC – 1QFY26 key result highlights

Exhibit 1. HFFC: 1QFY26 Results Snapshot

Earnings Table (INR mn.)	Q1FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)	Q1FY26E	A/E (%)
Net Interest Income	1,464	1,726	1,941	32.6%	12.4%	1,862	4.2%
Total Non-Interest income	382	533	609	59.5%	14.3%	549	11.0%
Total Income	1,846	2,259	2,550	38.2%	12.9%	2,411	5.8%
Employee Cost	416	518	604	45.2%	16.5%		
Other expenses & Depreciation	239	285	264	10.6%	-7.2%	847	-68.8%
Total Operating Expenses	655	803	868	32.6%	8.1%	847	2.5%
Operating Profit (PPP)	1,191	1,456	1,682	41.2%	15.5%	1,564	7.5%
Total Provisions	56	77	117	110.4%	51.7%	98	19.5%
PBT	1,135	1,379	1,565	37.9%	13.5%	1,466	6.7%
Tax	258	332	376	46.0%	13.3%	367	2.6%
Reported Profit	878	1,047	1,189	35.5%	13.6%	1,100	8.1%
Balance Sheet Data (INR bn)							
AUM	104.8	127.1	134.8	28.6%	6.0%	104.8	127.1
Disbursements	11.6	12.7	12.4	7.0%	-2.3%	11.6	12.7
Ratios Analysis (%)							
Cost to Income (%)	35.5%	35.5%	34.0%	(144) bps	(150) bps	35.1%	(108) bps
Yield on AUM (Calc.)	12.0%	11.8%	12.0%	3 bps	27 bps	11.8%	30 bps
Cost of Funds (Calc)	8.3%	8.1%	8.3%	8 bps	22 bps	8.1%	28 bps
NIM	5.8%	5.6%	5.9%	12 bps	33 bps	5.7%	21 bps
Gross S3 (%)	1.74%	1.68%	1.84%	10 bps	15 bps		
Net S3 (%)	1.26%	1.26%	1.43%	17 bps	17 bps		
Coverage	27.6%	25.2%	22.0%	(551) bps	(314) bps		
Capital Adequacy (%)				0 bps	0 bps		
Tier I (%)	35.8%	32.4%	49.2%	1,340 bps	1,680 bps		
CAR (%)	36.2%	32.8%	49.6%	1,340 bps	1,680 bps		
Return ratios (%)				0 bps	0 bps		
ROA (%)	3.6%	3.5%	3.7%	12 bps	18 bps	3.4%	0.1%
ROE (%)	16.3%	17.0%	14.9%	(138) bps	(207) bps	16.6%	0.4%

Source: Company, JM Financial

HFFC- Key takeaways from concall:

Growth:

- Affordable Housing growth in FY26 to remain similar to that of FY25.
- LAP to be maintained 15-20% over next 5 years. Share of disbursal is 15-17% of total.
- Disbursements targeted at 20%+. 20-25% from new branches and remaining from existing branches. Run offs expected at 17-18% of which BT out ranges 7-8%. Company should be able to get 26-30% AUM growth in FY26.
- Company remains confident to reach INR 200bn AUM by FY27 and INR 350bn by FY30.
- Market share of company is ~2% and the ambition is to reach 4-5% in medium term in 3-5 yrs.
- ATS to grow 3-5% every year.
- Branches to expand at 30-35 per year from 25-30 previously.
- Tamil Nadu (TN) has 24 branches and the company is currently exploring options on where they can expand more here. It has not capped out on the state. The company is looking to invest in MP more as it has worked well so far.
- Company has 50-60 branches in smaller category with AUM per branch of <INR 250mn, 50 branches with age of 2+ years having AUM per branch of 250-500mn. And 50 branches with age of 3-4 yrs (Mid-size) with AUM per branch of >INR 750mn.

Asset quality:

- Credit cost guidance maintained at 30-40bps for medium-term.
- As per ECL model, PCR requirement is 25% on stage 3. Model refresh happens every year and last it was done in Mar'25.
- For stage 1, company uses 12month PD in its ECL model.
- Large part of customers pay immediately after bounce, hence the reported bounce rates are largely inflated due to payments which are captured during month end.
- Write off for FY25 was 170mn and recoveries from write-offs was 20mn leading to INR 15cr net write offs. Write-offs in Q4 was INR 50mn
- Company maintains ECL overlay of INR 130mn (0.1% of AUM).

Margins and opex:

- In the book stage, spreads is 5%+ while incremental spread is 4.7% during Q4. However, 5%+ spreads will be maintained. If the spread goes below 5%, company will pass the rates to customers and return back to ~5% spreads immediately.
- Asset origination yield is currently at 13-13.5%. Company has a fully floating rate book. Hence once CoFs go down, company has flexibility to move their yields down.
- CoFs were targeted at ~8.50% in Q4 end, while the company ended with 8.4%. Marginal CoBs are not re-priced and is currently ranging 8.4-8.5%. This is expected to go down from Q1FY26.
- NIMs will expand in next few quarters; currently it will remain lower due to QIP funds raised during the quarter. And as leverage moves above 6x, margins will fall again.
- 60% of the borrowings are bank borrowings (Pvt+PSU) out of which repo linked is 18-19% where company has started benefiting while Tbill rate cuts will start flowing from Q1FY26. 17% is assignment + colending, 16% NHB (will maintain 15-20% mix).
- Company expects credit rating upgrade from AA- to AA in next 6 months.

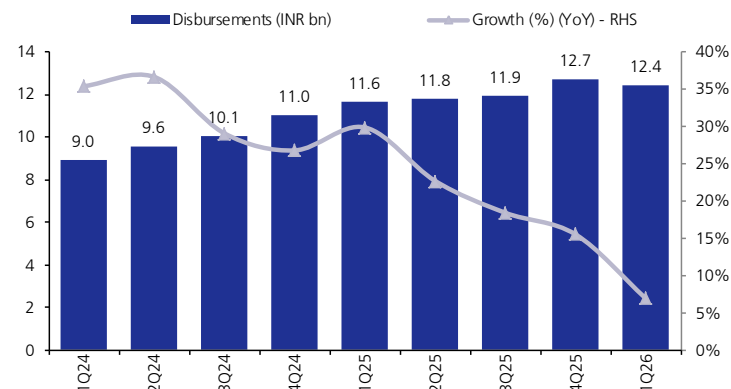
- Assuming 100bps rate cut, ~60% transmission takes around 12 months to flow (considering 10 years data). Currently no change is done in PLR rates.
- NIMs were up 20bps due to better liquidity management. NIMs are likely to expand on the back of capital raise.
- Opex/assets to be maintained at 270-280bps.
- Company manages avg 10-11 employees per branch at organization level.
- Not too much increase or decrease is expected in productivity going forward.

Other highlights:

- RoEs will return back to 15%+ levels in next 6-7 quarters.
- HFFC successfully raised INR 12.5bn by issuing 13mn of equity shares in a QIP transaction. It won't need to raise funds for next 4 years unless company growth faster than its guidance.
- Campus hiring is done majorly in Q1, hence largely the employee addition is lower in Q4. Attrition stands at 25-30% and has gone down 2-3% YoY. Will remain same going forward.
- Pvt banks are less competitive as compared to PSU banks in mortgage business while large SFBs are also active here
- LAP LTV will always be maintained at <60% in all the cases.
- Active connectors are 3,800. And no of RMs are 1,200. Top 10 exposure is <4%.
- Connector commission in 40-50bps.
- Company is still awaiting clarity on CLM2 whether it is allowed or nit. CLM1 is tedious as disbursements have to be done by both entities at same time here. CLM2- entire loan is disbursed by HFFC and later is paid back by bank.
- Partnership acquisition inched up as it partnered with Phonepe a few quarters back.

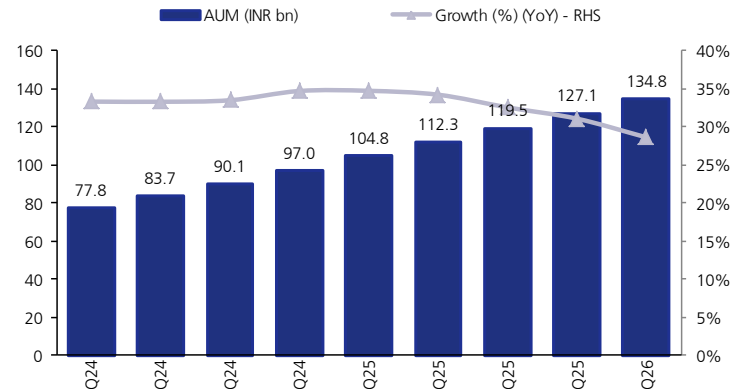
HFFC- Quarterly Trends:

Exhibit 2. Seasonally weak disbursements



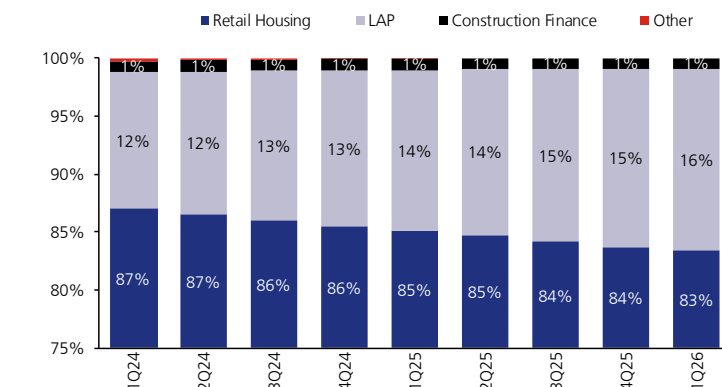
Source: Company, JM Financial

Exhibit 3. AUM growth normalizing with increase in base



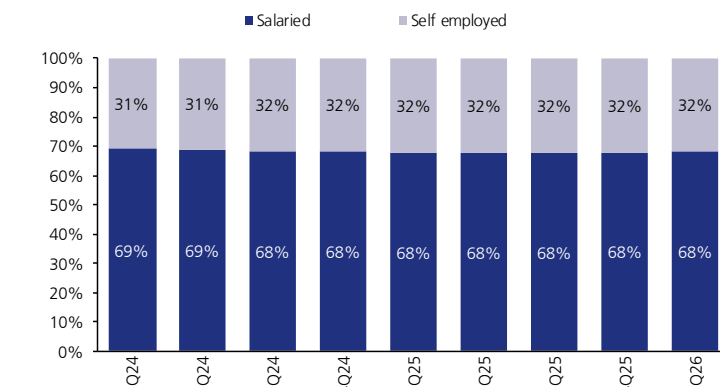
Source: Company, JM Financial

Exhibit 4. AUM Mix to remain intact with LAP to range 15-20%



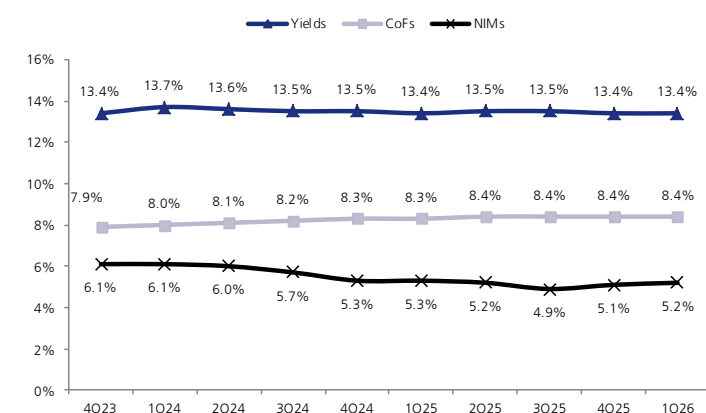
Source: Company, JM Financial

Exhibit 5. Higher salaried mix



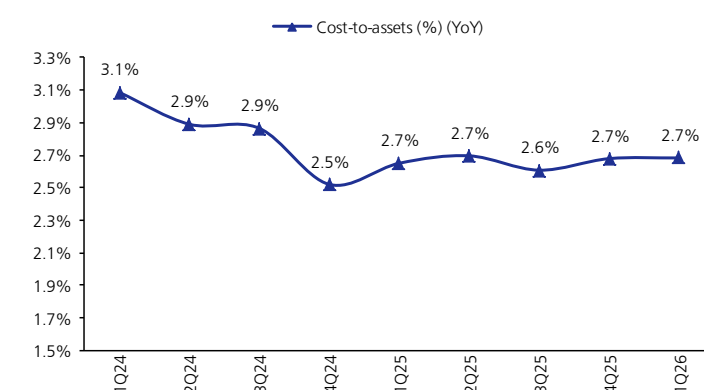
Source: Company, JM Financial

Exhibit 6. Margins improved sequentially



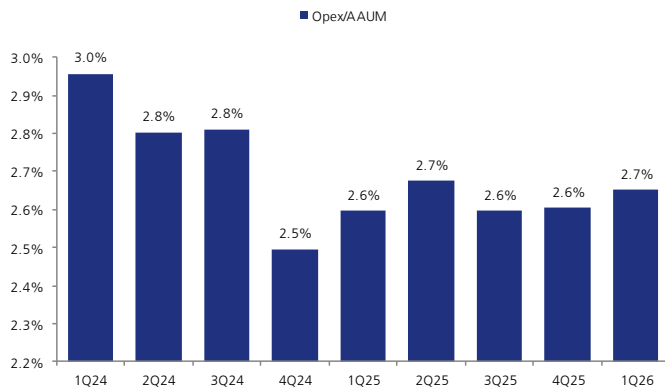
Source: Company, JM Financial

Exhibit 7. Cost-to-assets largely steady



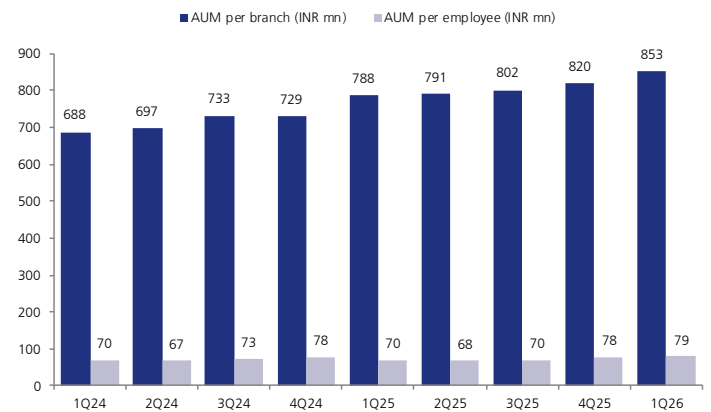
Source: Company, JM Financial

Exhibit 8. Steady Opex/AAUM



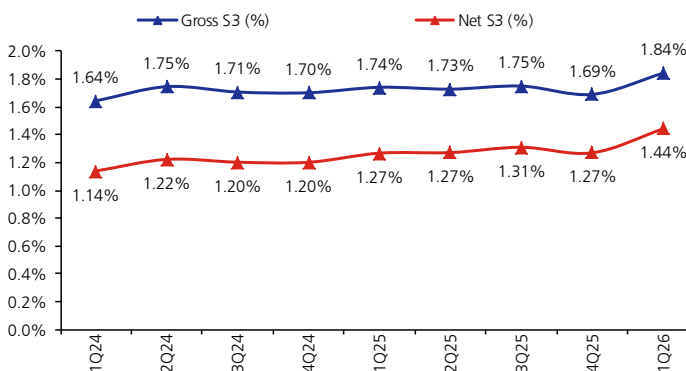
Source: Company, JM Financial

Exhibit 9. AUM/Branch and AUM/Employee best among peers



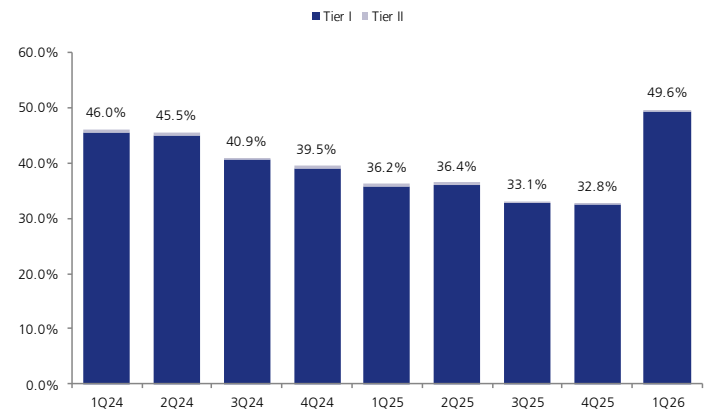
Source: Company, JM Financial

Exhibit 10. Asset Quality deteriorates sequentially



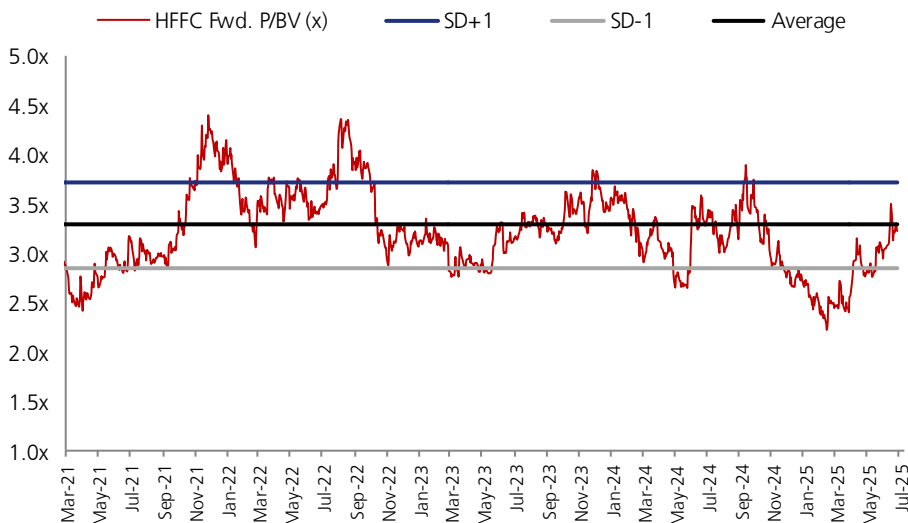
Source: Company, JM Financial

Exhibit 11. Comfortable Liquidity



Source: Company, JM Financial

Exhibit 12. HFFC: 1-yr fwd PB Chart



Source: Company, JM Financial

Exhibit 13. HFFC: Change in our estimates

Old vs. New Estimates	FY26E, Old	FY26E, New	Change	FY27E, Old	FY27E, New	Change	FY28E, Old	FY28E, New	Change
Income Statement (Rs mn)									
Net Interest Income	8,405	8,576	2.0%	10,590	10,688	0.9%	12,900	12,794	-0.8%
Non-Interest Income	2,112	2,462	16.6%	2,414	2,802	16.1%	2,771	3,010	8.6%
Total Income	10,517	11,038	5.0%	13,004	13,490	3.7%	15,672	15,804	0.8%
Operating Expenses	3,753	3,819	1.8%	4,473	4,662	4.2%	5,149	5,449	5.8%
Pre-provisioning Profits	6,764	7,219	6.7%	8,531	8,828	3.5%	10,523	10,355	-1.6%
Total Provisions	438	609	39.1%	527	514	-2.3%	757	770	1.7%
PBT	6,327	6,610	4.5%	8,005	8,313	3.9%	9,766	9,586	-1.8%
Tax	1,582	1,652	4.5%	2,001	2,078	3.9%	2,441	2,396	-1.8%
PAT (Pre-Extra ordinaries)	4,745	4,957	4.5%	6,003	6,235	3.9%	7,324	7,189	-1.8%
Key Ratios (%)									
NIM (%)	5.99%	6.25%	0.3%	6.06%	6.36%	0.3%	6.23%	6.40%	0.17%
ROA (%)	3.32%	3.51%	0.2%	3.38%	3.58%	0.2%	3.46%	3.47%	0.01%
ROE (%)	14.1%	14.7%	0.6%	13.4%	13.8%	0.4%	14.4%	14.0%	-0.4%
EPS (Rs.)	46.0	48.0	4.5%	58.2	60.4	3.9%	71.0	69.7	-1.8%
BV (Rs.)	407.5	409.3	0.5%	460.4	464.3	0.9%	525.0	527.7	0.5%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
Net Interest Income (NII)	5,290	6,407	8,576	10,688	12,794
Non Interest Income	1,289	1,852	2,462	2,802	3,010
Total Income	6,579	8,258	11,038	13,490	15,804
Operating Expenses	2,325	2,955	3,819	4,662	5,449
Pre-provisioning Profits	4,254	5,304	7,219	8,828	10,355
Loan-Loss Provisions	128	129	609	514	770
Others Provisions	125	155	0	0	0
Total Provisions	254	288	609	514	770
PBT	4,000	5,016	6,610	8,313	9,586
Tax	942	1,195	1,652	2,078	2,396
PAT (Pre-Extra ordinaries)	3,057	3,821	4,957	6,235	7,189
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	3,057	3,821	4,957	6,235	7,189
Dividend	301	333	446	561	647
Retained Profits	2,756	3,488	4,511	5,674	6,542

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
Equity Capital	177	180	206	206	206
Reserves & Surplus	21,038	25,033	42,018	47,691	54,234
Stock option outstanding	0	0	0	0	0
Borrowed Funds	73,021	95,507	1,09,833	1,33,996	1,63,475
Deferred tax liabilities	0	24	24	24	24
Preference Shares	1,104	1,373	8,004	6,403	7,671
Current Liabilities & Provisions	0	0	0	0	0
Total Liabilities	95,340	1,22,117	1,60,085	1,88,321	2,25,610
Net Advances	81,434	1,06,487	1,33,481	1,64,847	2,02,296
Investments	3,788	3,602	10,678	8,242	8,092
Cash & Bank Balances	8,215	9,382	10,678	8,242	8,092
Loans and Advances	0	0	0	0	0
Other Current Assets	1,573	2,197	4,660	6,298	6,303
Fixed Assets	298	448	587	691	828
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	31	0	0	0	0
Total Assets	95,340	1,22,117	1,60,085	1,88,321	2,25,610

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	51.7%	30.8%	15.0%	22.0%	22.0%
Advances	35.8%	30.8%	25.3%	23.5%	22.7%
Total Assets	41.5%	28.1%	31.1%	17.6%	19.8%
NII	26.3%	21.1%	33.9%	24.6%	19.7%
Non-interest Income	75.6%	43.7%	32.9%	13.8%	7.4%
Operating Expenses	32.4%	27.1%	29.3%	22.1%	16.9%
Operating Profits	34.3%	24.7%	36.1%	22.3%	17.3%
Core Operating profit	30.0%	21.2%	42.5%	24.9%	18.9%
Provisions	18.2%	13.1%	111.6%	-15.5%	49.7%
Reported PAT	33.9%	25.0%	29.7%	25.8%	15.3%
Yields / Margins (%)					
Interest Spread	5.48%	5.16%	5.07%	4.87%	4.87%
NIM	6.65%	6.02%	6.25%	6.36%	6.40%
Profitability (%)					
ROA	3.76%	3.51%	3.51%	3.58%	3.47%
ROE	15.5%	16.5%	14.7%	13.8%	14.0%
Cost to Income	35.3%	35.8%	34.6%	34.6%	34.5%
Asset quality (%)					
Gross NPA	1.70%	1.69%	2.24%	2.00%	1.85%
LLP	0.36%	0.31%	0.51%	0.34%	0.42%
Capital Adequacy (%)					
Tier I	39.08%	32.47%	43.89%	41.95%	40.14%
CAR	39.48%	32.84%	44.18%	42.19%	40.34%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
NII / Assets	6.50%	5.89%	6.08%	6.14%	6.18%
Other Income / Assets	1.58%	1.70%	1.74%	1.61%	1.45%
Total Income / Assets	8.09%	7.60%	7.82%	7.74%	7.64%
Cost / Assets	2.86%	2.72%	2.71%	2.68%	2.63%
PPP / Assets	5.23%	4.88%	5.12%	5.07%	5.00%
Provisions / Assets	0.31%	0.26%	0.43%	0.30%	0.37%
PBT / Assets	4.92%	4.61%	4.68%	4.77%	4.63%
Tax rate	23.6%	23.8%	25.0%	25.0%	25.0%
ROA	3.76%	3.51%	3.51%	3.58%	3.47%
Leverage	4.5	4.8	3.8	3.9	4.1
ROE	15.5%	16.5%	14.7%	13.8%	14.0%

Source: Company, JM Financial

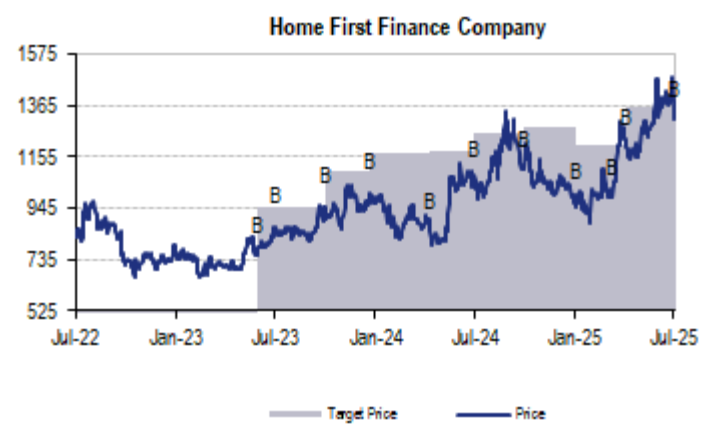
Valuations					
Y/E March	FY24A	FY25A	FY26A	FY27E	FY28E
Shares in Issue	88.5	90.1	103.2	103.2	103.2
EPS (INR)	34.5	42.4	48.0	60.4	69.7
EPS (YoY) (%)	33.2%	22.8%	13.2%	25.8%	15.3%
P/E (x)	37.8	30.7	27.1	21.6	18.7
BV (INR)	240	280	409	464	527
BV (YoY) (%)	16.1%	16.8%	46.1%	13.4%	13.7%
P/BV (x)	5.44	4.66	3.19	2.81	2.47
DPS (INR)	3.4	3.7	4.3	5.4	6.3
Div. yield (%)	0.3%	0.3%	0.3%	0.4%	0.5%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Jun-23	Buy	950	
31-Jul-23	Buy	950	0.0
29-Oct-23	Buy	1,095	15.3
19-Jan-24	Buy	1,170	6.8
9-May-24	Buy	1,180	0.9
28-Jul-24	Buy	1,250	5.9
27-Oct-24	Buy	1,275	2.0
29-Jan-25	Buy	1,200	-5.9
8-Apr-25	Buy	1,200	0.0
4-May-25	Buy	1,360	13.3
29-Jul-25	Buy	1,500	10.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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