

Jan 21, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

# Home First Finance Company

## Core PPOP miss driven by spread compression

### Earnings in-line on reported basis, but internals mixed

Home First's earnings came in-line on reported basis but was supported by higher-than-usual assignment income. There was a miss of 4%/10% on NII/PPOP excluding the assignment income, as Portfolio Spread contracted by 20 bps qoq and Opex continued to grow at high rate due to tech and distribution investments. Home First's performance was internally characterized by 1) persistence of BT pressure (higher-than-trend BT Out and back-book repricing), 2) stable disbursement yield (competitive pricing for growth), 3) steady asset quality (stable PAR buckets) and 4) sustained ramp-up of LAP and Co-lending. Significant increase in Balance Sheet liquidity (14% of TA v/s 10% in Q2) exerted additional pressure on NIM. Though Bounce Rates have marginally gone up, it is not causing increase in 30+ dpd and hence stable credit cost trajectory remains stable. Decline in employee base during the quarter was not on account of increased attrition but due to recruitment cycle, as per the Management.

### Management remains confident about delivering 30% pa AUM growth

Home First's aspiration to grow AUM at 30% pa stays. The plan is to grow disbursements by 25-30% pa by gaining market share in existing markets/states by increasing branches/touchpoints in more pin codes. Sharper focus would be on states like UP, MP and RJ where co. has negligible-to-low market share. The number of overall touchpoints would be increased to 500 in next three years from around 300 currently, which will include core branch addition of around 25 per annum. Co-lending adds significant growth opportunity and the share of it in originations is expected to rise from current 6% to 10%. The share of LAP in book would also increase as portfolio's credit performance has been good. Management expects BT Out rate to moderate. The active connector base has been growing and stands at near 2900 from around 2400 as of Mar'23.

### Significant spread contraction; Asset quality stable

Home First witnessed a decline in Portfolio Yield for second consecutive quarter manifesting 1) re-pricing of some back-book (BT Requests), 2) NHB drawdowns (goes towards origination of lower-yielding loans) and 3) increasing share of co-lending. CoB moved up on expected lines reflecting impact of MCLR increases on bank loans. Management expects CoB to increase by another 10 bps in Q4 FY24 and has maintained its medium-term spread guidance of 5-5.25%. The co. intends to pass on the benefits of future CoB reduction to the customers. 1+ dpd/30+ dpd/Stage-3 loans were stable at 4.5%/3%/1.7% and write-offs continue to be marginal. Credit cost was steady at <40 bps. ECL coverage on Stage-2 assets further came down to 7.8% (8.6% in Q2 FY24 and 10.2% in Q1 FY24).

### Retain BUY, but watchful of BT pressure and employee dynamics

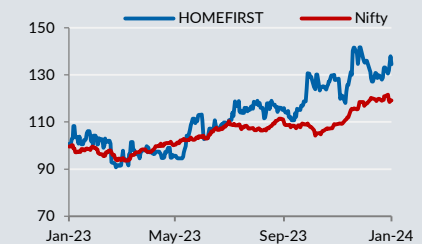
We are largely maintaining estimates but would closely monitor any emerging risks to current high growth rate and RoE progression. BT and employee management could become key challenges if they evolve further. However, management is confident about these matters not becoming challenges in the future and hence has retained growth and RoE improvement outlook. By maintaining estimates and BUY recommendation, we back management's expectations since they have delivered on guidance in the past.

Reco	: BUY
CMP	: Rs 985
Target Price	: Rs 1,140
Potential Return	: 15.8%

#### Stock data (as on Jan 20, 2024)

Nifty	21,572
52 Week h/l (Rs)	1061 / 655
Market cap (Rs/USD mn)	89297 / 1075
Outstanding Shares (mn)	88
6m Avg t/o (Rs mn):	213
Div. yield (%):	0.3
Bloomberg code:	HOMEFIRS IN
NSE code:	HOMEFIRST

#### Stock performance



	1M	3M	1Y
Absolute return	-0.7%	4.2%	33.6%

#### Shareholding pattern

Promoter	23.6%
FII+DII	36.6%
Others	39.8%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,140	1,100

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	34.3	42.7	54.2
EPS (Old)	34.3	42.9	54.6
% Change	-	-0.5%	-0.7%

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	6,586	8,408	10,651
PPOP	4,255	5,325	6,776
Net profit	3,016	3,755	4,771
Growth (%)	32.1	24.5	27.0
EPS (Rs)	34.3	42.7	54.2
ABVPS (Rs)	232.3	272.3	323.3
P/E (x)	28.7	23.1	18.2
P/ABV (x)	4.2	3.6	3.0
ROAE (%)	15.3	16.3	17.5
ROAA (%)	3.8	3.6	3.5

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## Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Op. Income	2,883	2,677	7.7	2,011	43.3
Interest expended	(1,302)	(1,170)	11.3	(796)	63.7
Net Interest Income	1,581	1,507	4.9	1,216	30.0
Other Income	127	103	23.8	44	187.3
Total Income	1,708	1,610	6.1	1,260	35.6
Operating expenses	(611)	(565)	8.0	(443)	37.9
PPOP	1,097	1,044	5.1	817	34.3
Provisions	(70)	(80)	(12.4)	(60)	17.0
PBT	1,027	964	6.5	757	35.6
Tax	(239)	(221)	8.1	(170)	40.7
Reported PAT	788	743	6.1	587	34.2

Source: Company, YES Sec

## Exhibit 2: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	5.7	6.0	(0.3)	6.4	(0.7)
Yield	13.5	13.6	(0.1)	13.1	0.4
Cost of Borrowings	8.2	8.1	0.1	7.4	0.8
Spread	5.3	5.5	(0.2)	5.7	(0.4)
Cost to Income	35.9	35.2	0.7	35.3	0.6
Gross NPA	1.7	1.7	-	1.8	(0.1)
Credit cost*	0.3	0.4	(0.1)	0.4	(0.0)
Collection Efficiency	98.7	98.5	0.2	98.9	(0.2)
Leverage (x)	4.3	4.1	0.2	3.6	0.7
RoA	3.7	3.8	(0.1)	3.8	(0.1)
RoE	15.8	15.6	0.2	13.7	2.1

Source: Company, YES Sec, \*Calculated

## Exhibit 3: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	90,137	83,654	7.7	67,512	33.5
Disbursements	10,072	9,591	5.0	7,804	29.1
Active loan accounts	90,851	86,102	5.5	73,149	24.2
<b>Customer-wise AUM</b>					
Salaried	61,293	57,721	6.2	47,258	29.7
Self-employed	28,844	25,933	11.2	20,254	42.4
<b>Product-wise AUM</b>					
Housing Loans	77,518	72,779	6.5	59,411	30.5
Loans - Comm. Property	901	837	7.7	675	33.5
LAP	11,718	10,038	16.7	7,426	57.8

Source: Company, YES Sec

## Exhibit 4: Asset Quality

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

Source: Company, YES Sec

## Exhibit 5: Top States AUM Concentration

(%)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Gujarat	33.2	32.6	32.6	32.3	32.0
Maharashtra	14.8	14.4	14.0	13.6	13.4
Tamil Nadu	13.5	13.7	13.9	14.0	14.0
Karnataka	7.5	7.5	7.1	7.0	6.9
Rajasthan	5.8	5.7	5.7	5.8	5.8
Telangana	8.6	8.9	8.9	9.0	8.9
MP	5.1	5.1	5.3	5.5	5.8
UP	4.7	5.0	5.2	5.4	5.7
Others	6.8	7.1	7.3	7.4	7.5

Source: Company, YES Sec

## Exhibit 6: ECL Summary

(Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
<b>Stage 1</b>					
Loans - Principal outstanding	54,804	58,891	63,875	68,820	73,864
ECL Provisions	157	164	179	186	200
Net loans - Principal outstanding	54,647	58,726	63,696	68,633	73,663
<b>ECL Provisions - (%)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>Stage 2</b>					
Loans - Principal outstanding	669	657	842	832	984
ECL Provisions	76	69	86	71	76
Net loans - Principal outstanding	593	587	756	761	907
<b>ECL Provisions - (%)</b>	<b>11.4</b>	<b>10.5</b>	<b>10.2</b>	<b>8.6</b>	<b>7.8</b>
<b>Stage 3</b>					
Loans - Principal outstanding	1,008	974	1,077	1,233	1,295
ECL Provisions	293	331	334	374	388
Net loans - Principal outstanding	715	643	743	859	908
<b>ECL Provisions - (%)</b>	<b>29.1</b>	<b>34.0</b>	<b>31.0</b>	<b>30.3</b>	<b>29.9</b>
<b>Total ECL Provisions - (%)</b>	<b>0.9</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

(%)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Private Sector Banks	32.0	32.0	32.0	33.0	31.0
Public Sector Banks	24.0	26.0	22.0	21.0	25.0
NBFC	2.0	2.0	3.0	2.0	2.0
NHB Refinance	17.0	15.0	22.0	22.0	22.0
NCD	6.0	6.0	4.0	4.0	3.0
DA	19.0	19.0	17.0	18.0	17.0

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

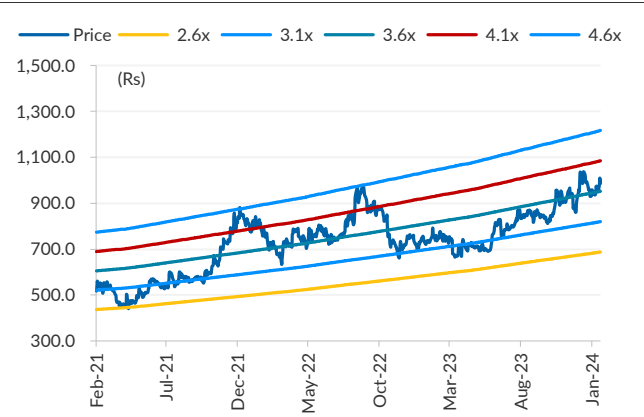
### Growth, Distribution & BT

- Management confident about sustaining 30% pa AUM growth with 25-30% pa disbursement growth.
- HFF targets to reach Rs200bn AUM by FY27 with similar asset quality but improved opex metrics – RoA/RoE is expected to stabilize at 3.4-3.6%/17-18% in next couple of years.
- The potential addressable market is Rs400bn in terms of disbursement per quarter in the States where HFF is present – Co's Rs10bn current disbursement run-rate translates into ~2.5% market share – HFF would like to increase gather pace of disbursements to Rs20bn in next 3-4 years.
- Number of Touchpoints would be increased to 500 in next three years from around 300 currently - core branch addition would be 25 per annum.
- Company would like to cover most pockets/pin codes in the present states.
- UP and MP are emerging as significant Affordable Housing markets and HFF is strengthening its presence.
- HFF has market share of 3-3.5% in GJ and 1-1.5% in MH.
- Co-lending share in disbursements at 6% currently, which is expected to reach 10% in two quarters - Co-lending has added growth opportunity.
- LAP share would be taken up as credit performance would be good.
- Co. want to remain competitive in terms of incr. pricing for growth.
- Active Connector base at 2900 - RM count at 800.
- BT Out has come-off qoq due to focused actions taken - BT Out is likely to trend further lower.
- Majority BT Out going to Banks and smaller portion to HFCs/NBFCs.

### Portfolio Spread, Opex & Asset Quality

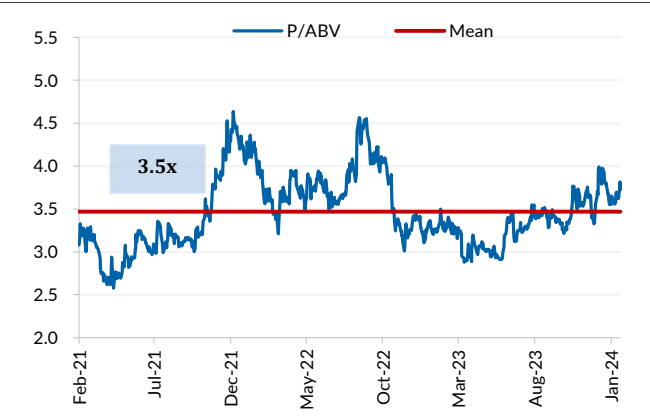
- Medium-term spread guidance of 5-5.25% reiterated.
- HFF has largely maintained the origination yield in rising CoB scenario but would pass on the benefits of future CoB reduction - hence incremental Spread would remain stable.
- CoB is expected to increase by another 10 bps - MCLR linked repricing would be largely done with in Q4.
- There was no re-pricing of significant back-book in Q3 – other reasons behind sequential Portfolio Yield decline were NHB drawdowns (a portion goes towards originating loans at lower yields of 10.7%) and increasing share of co-lending.
- Getting more preference from Banks after RBI RW move.
- HFF makes 5%+ spread in Co-lending and it will improve when rates decline.
- Opex/Assets to stay 3-3.2% in coming quarters due to distribution investment.
- Increase in Bounce Rate is marginal and hence does not have any significant bearing on RM's business productivity and operations.
- No headwinds seen with respect to Collections.

**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	21,013	24,769	29,540
<b>Shareholder's funds</b>	<b>15,737</b>	<b>18,173</b>	<b>21,190</b>	<b>24,945</b>	<b>29,716</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	4,961	6,648	8,643
Borrowings (Excl. Debt Sec.)	32,980	44,665	63,871	85,588	1,11,264
Other Financial Liabilities	569	754	1,079	1,446	1,879
<b>Total Financial liabilities</b>	<b>35,299</b>	<b>49,038</b>	<b>70,061</b>	<b>93,831</b>	<b>1,21,935</b>
<b>Total Equities and Liabilities</b>	<b>51,169</b>	<b>67,370</b>	<b>91,440</b>	<b>1,19,004</b>	<b>1,51,925</b>
<b>Assets</b>					
Cash and Cash Equivalents	6,178	2,356	5,334	7,734	10,169
Bank balances	501	628	628	628	628
Loans	43,049	59,957	80,842	1,05,769	1,35,985
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>91,040</b>	<b>1,18,581</b>	<b>1,51,477</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>91,440</b>	<b>1,19,004</b>	<b>1,51,925</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	11,107	14,620	18,935
Interest expense	(2,157)	(3,043)	(4,971)	(6,684)	(8,804)
<b>Net interest income</b>	<b>3,663</b>	<b>4,688</b>	<b>6,136</b>	<b>7,936</b>	<b>10,131</b>
Non-interest income	137	225	450	472	520
Total op income	3,800	4,913	6,586	8,408	10,651
Total op expenses	(1,287)	(1,746)	(2,331)	(3,083)	(3,875)
<b>PPoP</b>	<b>2,513</b>	<b>3,167</b>	<b>4,255</b>	<b>5,325</b>	<b>6,776</b>
Provisions	(250)	(215)	(338)	(448)	(580)
<b>Profit before tax</b>	<b>2,263</b>	<b>2,952</b>	<b>3,917</b>	<b>4,877</b>	<b>6,196</b>
Taxes	(402)	(669)	(901)	(1,122)	(1,425)
<b>Net profit</b>	<b>1,861</b>	<b>2,283</b>	<b>3,016</b>	<b>3,755</b>	<b>4,771</b>

Source: Company, YES Sec

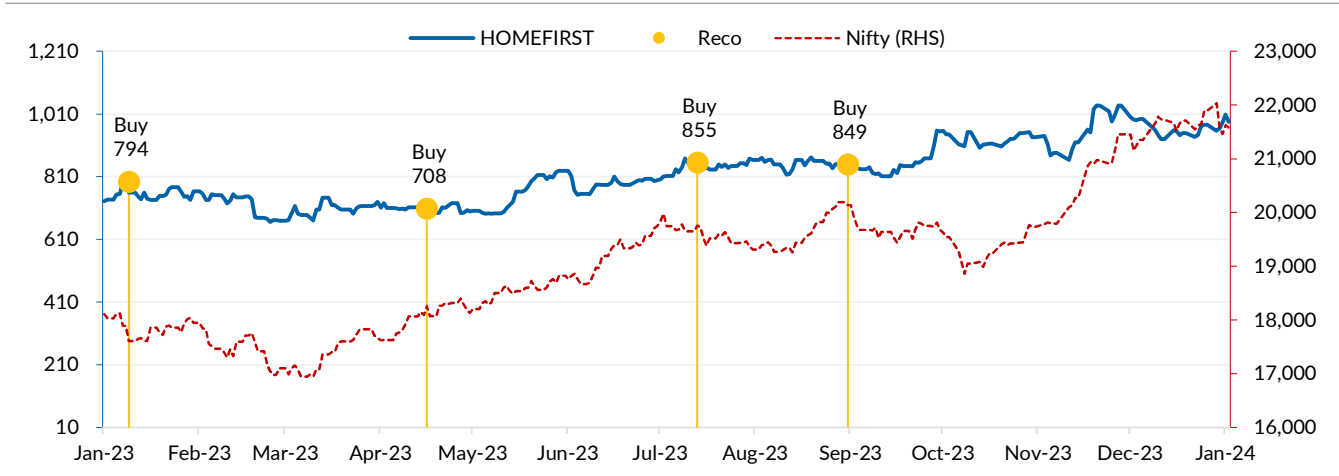
## Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	41.0	28.0	30.9	29.3	27.7
Total op income	39.8	29.3	34.1	27.7	26.7
Op profit (pre-provision)	51.2	26.0	34.3	25.2	27.2
Net profit	85.8	22.7	32.1	24.5	27.0
Advances	29.4	39.3	34.8	30.8	28.6
Borrowings + Debt	13.5	38.8	43.0	34.0	30.0
Total assets	13.5	31.7	35.7	30.1	27.7
<b>Profitability Ratios (%)</b>					
NIM	7.7	7.5	7.3	7.1	7.0
Non-interest income /Total income	3.6	4.6	6.8	5.6	4.9
Return on Avg. Equity	11.8	13.5	15.3	16.3	17.5
Return on Avg. Assets	3.6	3.9	3.8	3.6	3.5
<b>Per share ratios (Rs)</b>					
EPS	21.2	25.9	34.3	42.7	54.2
Adj. BVPS	170.9	199.2	232.3	272.3	323.3
<b>Other key ratios (%)</b>					
Loans/Borrowings	124.2	124.6	117.4	114.7	113.4
Cost/Income	33.9	35.5	35.4	36.7	36.4
CAR	58.6	49.4	42.7	38.3	35.5
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	23.0	23.0	23.0

Source: Company, YES Sec



## Recommendation Tracker



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NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |  
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:  
INA000007331 | Sponsor and Investment Manager to YSL Alternates  
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |  
AMFI ARN Code - 94338.

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Name of the Research Analyst : Rajiv Mehta, Manuj Oberoi

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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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Analyst Signature

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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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