

July 27, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

# Home First Finance Company

## A strong show, yet again

### Sustained high growth, expected decline in spread and resilient asset quality

HFF expectedly delivered strong AUM growth and continued contraction of Spread in Q1 FY25, while Asset Quality performance was resilient in a slightly challenging backdrop. PAT was 6% above our estimate, largely on higher DA income and a more moderate credit cost. 1+ dpd/30+ dpd increased by 30 bps/10 bps and Gross Stage-3 was stable on sequential basis. Controlled flows and marginal write-offs drove lower credit cost of 20 bps (usual 40 bps).

Disbursements stood at Rs11.63bn (up 5.5% qoq/30% yoy), reflecting only marginal impact of RBI's April-end circular due to small proportion of disbursements through DD. Portfolio run-off was moderate with sequential reduction in BT Out from 8.3% to 6.3%, which aided AUM growth performance (up 8% qoq/35% yoy). Overall growth was well-spread between vintage markets (GJ, MH & TN) and newer markets (RJ, MP & UP). The share of LAP in AUM rose to 14%, in line with strategic objective.

Portfolio Spread expectedly came-off by 10 bps qoq and stood at 5.1%, and it was mainly driven by a similar decline in Portfolio Yield. Origination Yield (excl. Co-lending) was stable at 13.4% despite higher origination share of LAP in this quarter. CoB was stable at 8.3% aided by marginal cost trimming to 8.6% (8.7% in Q4 FY24) and no significant upward re-pricing on existing borrowings. NHB borrowings share increased to 19% with HFF availing sanctions worth Rs2.5bn outstanding as of March.

### Strong growth to continue; spreads to stabilize after announced PLR hike

Management is confident about growing at 30%+ pa for the next few years aided by 1) significant branch addition in existing and new markets during FY23/24, 2) distribution augmentation to continue for tapping new markets (Central & Eastern India) and new locations (going deeper) in existing states, 3) consistent growth in connector base, 4) headroom to grow LAP at a faster rate and 5) scaling-up co-lending (to 10% of Disbursements).

HFF will be taking a PLR hike of 35 bps from August, and it is estimated to improve the Portfolio Yield by 10-15 bps over the next couple of quarters. The hike would be adjusted by elongation of portfolio tenor in majority of the cases and hence it is expected to not impact BT Out/AUM growth meaningfully. Management expects Origination Yield (excl. Co-lending) to remain stable. CoB is expected to further inch-up due to higher marginal rate and residual re-pricing of existing bank loans. Overall, Portfolio Spread is expected to be steady in the short term aided by the PLR hike. In the longer term, the spread can recover by some extent in the initial phase of the rate downcycle.

### Upgrade estimates by 2-4% and 12m TP to Rs1215

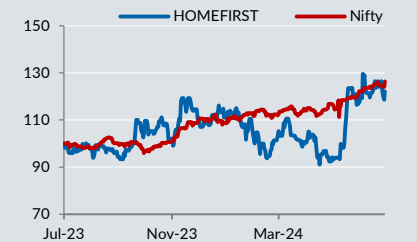
HFF's execution on growth and RoE has been consistent and strong. We had got concerned about elevated BT and spreads decline intensity in the preceding quarters, but now are comforted by BT reduction in Q1 FY25 and PLR hike announced. We believe these trends/initiatives will help the co. in delivering sustained RoE expansion amidst range-bound opex/assets ratio. We estimate 31% AUM and 26.5% PAT CAGR over FY24-26 with RoE reaching almost 18% in FY26. Stock trades at 19x P/E and 3.3x P/ABV on FY26 estimates. Retain BUY with an increased 12m TP of Rs1215.

Reco	: BUY
CMP	: Rs 1,062
Target Price	: Rs 1,215
Potential Return	: +14.5%

#### Stock data (as on July 26, 2024)

Nifty	24,835
52 Week h/l (Rs)	1195 / 777
Market cap (Rs/USD mn)	91707 / 1096
Outstanding Shares (mn)	89
6m Avg t/o (Rs mn):	266
Div. yield (%):	0.3
Bloomberg code:	HOMEFIRS IN
NSE code:	HOMEFIRST

#### Stock performance



	1M	3M	1Y
Absolute return	4.1%	21.6%	22.2%

#### Shareholding pattern

Promoter	23.6%
FII+DII	36.9%
Others	39.5%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,215	1,080

#### Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	34.5	41.4	55.1
EPS (Old)	34.5	40.8	53.0
% Change	-	1.4%	4.0%

#### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	6,567	8,066	10,676
PPOP	4,254	5,128	6,973
Net profit	3,057	3,662	4,878
Growth (%)	33.9	19.8	33.2
EPS (Rs)	34.5	41.4	55.1
ABVPS (Rs)	228.6	269.1	320.6
P/E (x)	30.7	25.7	19.3
P/ABV (x)	4.6	3.9	3.3
ROAE (%)	15.5	15.9	17.9
ROAA (%)	3.8	3.4	3.5

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## Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Op. Income	3,267	3,015	8.4	2,479	31.8
Interest expended	(1,568)	(1,459)	7.5	(1,068)	46.8
Net Interest Income	1,699	1,556	9.2	1,411	20.4
Other Income	147	163	(10.1)	119	22.7
Total Income	1,846	1,719	7.4	1,530	20.6
Operating expenses	(655)	(584)	12.1	(553)	18.4
PPOP	1,191	1,135	4.9	977	21.9
Provisions	(56)	(27)	102.3	(77)	(27.8)
PBT	1,135	1,107	2.5	900	26.1
Tax	(258)	(273)	(5.6)	(209)	23.2
Reported PAT	878	835	5.2	691	27.0

Source: Company, YES Sec

## Exhibit 2: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NIM	5.3	5.3	-	6.1	(0.8)
Yield	13.4	13.5	(0.1)	13.7	(0.3)
Cost of Borrowings	8.3	8.3	-	8.0	0.3
Spread	5.1	5.2	(0.1)	5.7	(0.6)
Cost to Income	35.6	34.1	1.5	36.3	(0.7)
Gross NPA	1.7	1.7	-	1.6	0.1
Credit cost*	0.2	0.1	0.1	0.4	(0.2)
Collection Efficiency	98.5	99.1	(0.6)	98.5	-
Leverage (x)	4.6	4.5	0.1	3.9	0.7
RoA	3.6	3.6	-	3.9	(0.3)
RoE	16.3	16.1	0.2	15.0	1.3

Source: Company, YES Sec, \*Calculated

## Exhibit 3: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
AUM	1,04,781	96,978	8.0	77,759	34.8
Disbursements	11,625	11,019	5.5	8,952	29.9
Total loan accounts	1,01,561	95,974	5.8	82,266	23.5
<b>Customer-wise AUM</b>					
Salaried	71,251	65,945	8.0	53,654	32.8
Self-employed	33,530	31,033	8.0	24,105	39.1
<b>Product-wise AUM</b>					
Housing Loans	89,128	82,938	7.5	67,648	31.8
Loans - Comm. Property	1,005	963	4.3	752	33.6
LAP	14,625	13,019	12.3	9,201	59.0
Developer Finance	23	58	(60.9)	158	(85.7)

Source: Company, YES Sec

## Exhibit 4: Asset Quality

(%)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
1+ DPD	4.3	4.5	4.5	4.2	4.5
30+ DPD	2.9	2.9	3.0	2.8	2.9
Stage 2	1.3	1.2	1.3	1.1	1.2
Stage 3	1.6	1.7	1.7	1.7	1.7
Net Stage 3	1.1	1.2	1.2	1.2	1.3

Source: Company, YES Sec

## Exhibit 5: Top States AUM Concentration

(%)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Gujarat	32.6	32.3	32.0	31.2	30.4
Maharashtra	14.0	13.6	13.4	13.3	13.3
Tamil Nadu	13.9	14.0	14.0	14.0	13.9
Karnataka	7.1	7.0	6.9	6.8	6.7
Rajasthan	5.7	5.8	5.8	5.9	6.0
Telangana	8.9	9.0	8.9	8.9	8.6
MP	5.3	5.5	5.8	6.2	6.6
UP	5.2	5.4	5.7	6.1	6.5
Others	7.3	7.4	7.5	7.6	8.0

Source: Company, YES Sec

## Exhibit 6: ECL Summary

(Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
<b>Stage 1</b>					
Loans - Principal outstanding	63,875	68,820	73,864	79,817	86,192
ECL Provisions	179	186	200	202	214
Net loans - Principal outstanding	63,696	68,633	73,663	79,615	85,978
<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	842	832	984	916	1,007
ECL Provisions	86	71	76	76	79
Net loans - Principal outstanding	756	761	907	840	928
<b>ECL Provisions - (%)</b>	<b>10.2</b>	<b>8.6</b>	<b>7.8</b>	<b>8.2</b>	<b>7.8</b>
<b>Stage 3</b>					
Loans - Principal outstanding	1,077	1,233	1,295	1,393	1,540
ECL Provisions	334	374	388	414	424
Net loans - Principal outstanding	743	859	908	979	1,116
<b>ECL Provisions - (%)</b>	<b>31.0</b>	<b>30.3</b>	<b>29.9</b>	<b>29.7</b>	<b>27.6</b>
<b>Total ECL Provisions - (%)</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>

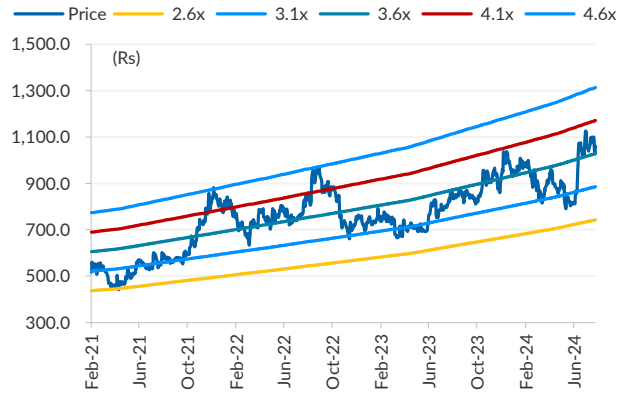
Source: Company, YES Sec

## Exhibit 7: Funding Mix

(%)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Private Sector Banks	32.0	33.0	31.0	31.0	30.0
Public Sector Banks	22.0	21.0	25.0	29.0	29.0
NBFC	3.0	2.0	2.0	2.0	2.0
NHB Refinance	22.0	22.0	22.0	18.0	19.0
NCD	4.0	4.0	3.0	3.0	3.0
DA	17.0	18.0	17.0	17.0	17.0

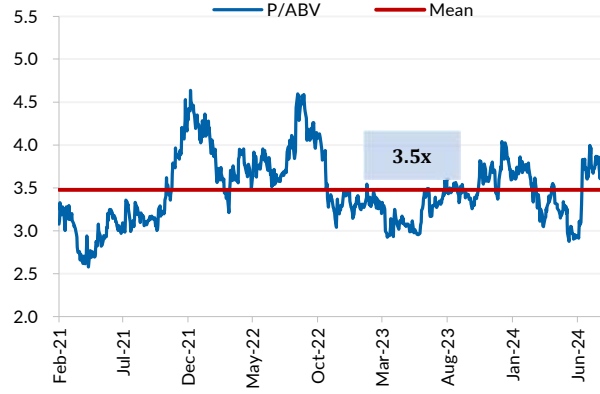
Source: Company, YES Sec

**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	FY24	FY25E	FY26E
Equity Capital	175	176	177	177	177
Reserves	15,562	17,997	21,038	24,700	29,578
<b>Shareholder's funds</b>	<b>15,737</b>	<b>18,173</b>	<b>21,215</b>	<b>24,877</b>	<b>29,755</b>
Deferred Tax Liabilities	45	60	74	89	106
<b>Total Non-Financial liabilities</b>	<b>133</b>	<b>159</b>	<b>197</b>	<b>232</b>	<b>274</b>
Debt Securities	1,688	3,469	2,775	3,663	4,836
Borrowings (Excl. Debt Sec.)	32,980	44,665	70,246	92,724	1,22,396
Other Financial Liabilities	569	754	789	1,041	1,374
<b>Total Financial liabilities</b>	<b>35,299</b>	<b>49,038</b>	<b>73,928</b>	<b>97,548</b>	<b>1,28,726</b>
<b>Total Equities and Liabilities</b>	<b>51,169</b>	<b>67,370</b>	<b>95,340</b>	<b>1,22,657</b>	<b>1,58,756</b>
<b>Assets</b>					
Cash and Cash Equivalents	6,178	2,356	5,805	6,593	9,994
Bank balances	501	628	2,410	2,410	2,410
Loans	43,049	59,957	81,434	1,07,721	1,40,140
Investments in Associates	0	2,808	3,788	3,788	3,788
Other Financial Assets	1,150	1,241	1,441	1,657	1,905
<b>Total Financial assets</b>	<b>50,877</b>	<b>66,990</b>	<b>94,878</b>	<b>1,22,169</b>	<b>1,58,238</b>
Property, Plant and Equipment	1	6	3	3	3
Other Intangible Assets	111	141	159	159	159
Other Non-Financial Assets	88	88	127	140	154
<b>Total Non-Financial assets</b>	<b>292</b>	<b>380</b>	<b>461</b>	<b>488</b>	<b>518</b>
<b>Total Assets</b>	<b>51,169</b>	<b>67,370</b>	<b>95,340</b>	<b>1,22,657</b>	<b>1,58,756</b>

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Income from Operations	5,820	7,731	11,053	14,631	18,831
Interest expense	(2,157)	(3,043)	(4,999)	(7,180)	(8,863)
<b>Net interest income</b>	<b>3,663</b>	<b>4,688</b>	<b>6,055</b>	<b>7,451</b>	<b>9,969</b>
Non-interest income	137	225	512	615	707
Total op income	3,800	4,913	6,567	8,066	10,676
Total op expenses	(1,287)	(1,746)	(2,313)	(2,937)	(3,703)
<b>PPoP</b>	<b>2,513</b>	<b>3,167</b>	<b>4,254</b>	<b>5,128</b>	<b>6,973</b>
Provisions	(250)	(215)	(254)	(338)	(590)
<b>Profit before tax</b>	<b>2,263</b>	<b>2,952</b>	<b>4,000</b>	<b>4,791</b>	<b>6,382</b>
Taxes	(402)	(669)	(942)	(1,129)	(1,504)
<b>Net profit</b>	<b>1,861</b>	<b>2,283</b>	<b>3,057</b>	<b>3,662</b>	<b>4,878</b>

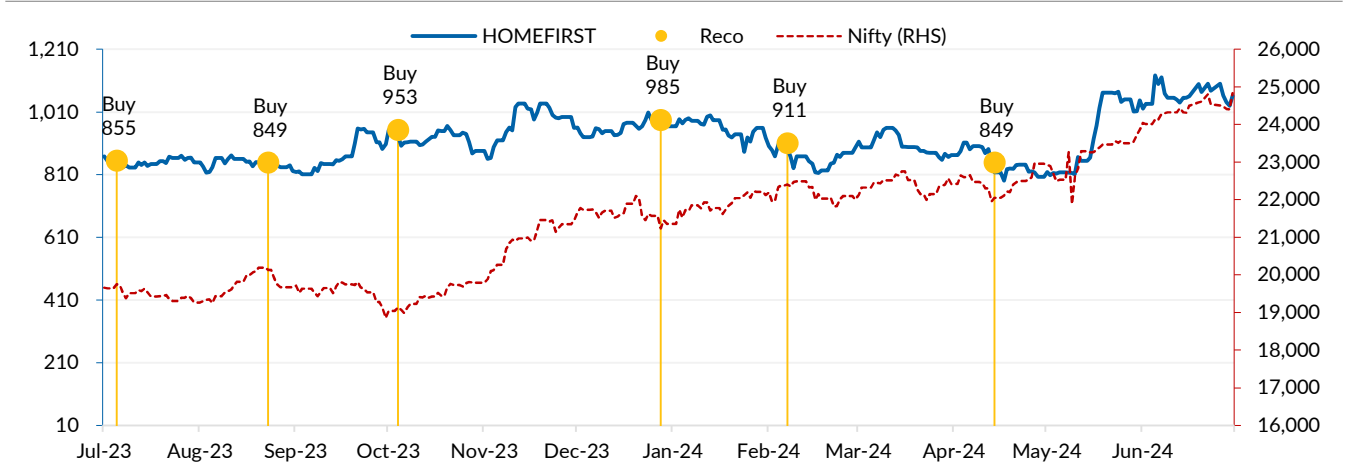
Source: Company, YES Sec

## Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	41.0	28.0	29.1	23.1	33.8
Total op income	39.8	29.3	33.7	22.8	32.4
Op profit (pre-provision)	51.2	26.0	34.3	20.6	36.0
Net profit	85.8	22.7	33.9	19.8	33.2
Advances	29.4	39.3	35.8	32.3	30.1
Borrowings + Debt	13.5	38.8	51.7	32.0	32.0
Total assets	13.5	31.7	41.5	28.7	29.4
<b>Profitability Ratios (%)</b>					
NIM	7.7	7.5	7.2	6.6	6.8
Non-interest income /Total income	3.6	4.6	7.8	7.6	6.6
Return on Avg. Equity	11.8	13.5	15.5	15.9	17.9
Return on Avg. Assets	3.6	3.9	3.8	3.4	3.5
<b>Per share ratios (Rs)</b>					
EPS	21.2	25.9	34.5	41.4	55.1
Adj. BVPS	170.9	199.2	228.6	269.1	320.6
<b>Other key ratios (%)</b>					
Loans/Borrowings	124.2	124.6	111.5	111.8	110.1
Cost/Income	33.9	35.5	35.2	36.4	34.7
CAR	58.6	49.4	39.5	35.0	32.1
Gross Stage 3 (%)	2.3	1.6	1.7	1.4	1.4
Credit Cost	0.5	0.3	0.3	0.3	0.4
Tax rate	17.8	22.7	23.6	23.6	23.6

Source: Company, YES Sec

## Recommendation Tracker





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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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Analyst signature

Analyst signature

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