

Home First Finance Company | BUY

Consistency prevails; Premium valuations justified



Home First Finance Company (HFFC) reported a strong AUM growth of (+8% QoQ, +35% YoY) at INR 105bn led by healthy disbursements of INR 11.6bn (+5.5% QoQ, +30% YoY). NII grew (+17.5% YoY, +7% QoQ) as NIMs remained stable at 5.3%. CoFs remained steady at 5.3% and yields were down -10bps QoQ. C/I ratio moved up to 35.5% (+151bps) on account of higher employee hiring during the quarter resulting in PPop of INR 1.19bn (+22% YoY, +4.9% QoQ). Credit costs stood at INR 56mn (22bps of total AUM vs 12bps QoQ) which led to a PAT of INR 878mn (+27% YoY, +5.2% QoQ; -2% JMFe). Asset quality was largely stable with gross stage 3 at 1.74% (+4bps QoQ) and net stage 3 at 1.26% (+7bps QoQ). PCR was down -219bps QoQ at 27.6%. In terms of growth, HFFC plans to go deeper into geographies (central and north) from here-on which would aid in consistent growth of 35%+ in the near term. Though focus on increased co-lending and NHB borrowings restricted a material increase in CoFs to a certain extent, mgmt expects CoFs to rise +10bps in the near term. This warranted to increase its PLR rates by +35bps (effective 1Aug'24) in order to consistently maintain NIMs at ~5%+. Company is also in discussion with ratings agencies to improve its credit rating as it crossed INR 100bn AUM mark, which would provide strong tailwinds to its CoFs in the long-term. With consistent efforts to retain its customers, mgmt laid out a clear action plans for its employees which have effectively resulted in lower BT-outs (6.3% vs 8.3% QoQ). Despite lower provision requirements as indicated by ECL model on the back of improved collection efficiencies, company has also prudently maintained an additional overlay of INR 150mn. We believe that the management's capacity to predict potential deviations from its strategic plan and to proactively implement countermeasures sets HFFC at a superior position to its peers. The company's sustained excellence across all key metrics viz. margins, profitability, productivity and asset quality positions HFFC to trade at a premium valuation thus valuing the stock at 3.8x FY26E BV in return for consistent RoAs of 3.5%+ with a revised TP of INR 1,250. Maintain BUY.

- **Consistent and robust AUM growth:** HFFC disbursements stood healthy at INR 11.6bn (+5.5% QoQ, +30% YoY) which led to a strong AUM growth of (+8% QoQ, +34.8% YoY) at INR 105bn. The concentration of HL book now stands at 85% of total AUM (vs 87% YoY) on account of higher focus towards LAP. The HL book grew (+7% QoQ, +32% YoY) while LAP grew (+12% QoQ, +59% YoY). Mgmt. guides LAP to constitute 20% of total AUM (currently at 14%) in next 3 years. The growth from commercial property purchase loan was also strong at (+4% QoQ, +34% YoY). Mgmt guided growth to sustain as the company grows deeper into geographies in next 3 years. We expect HFFC AUM to grow at 34% CAGR over FY24-26E.
- **Continued strong profitability:** NII grew (+17.5% YoY, +7% QoQ) as NIMs remained stable at 5.3%. CoFs remained steady at 5.3% and yields were down -10bps QoQ. C/I ratio moved up to 35.5% (+151bps) on account of higher employee hiring during the quarter resulting in PPop of INR 1.19bn (+22% YoY, +4.9% QoQ). Credit costs stood at INR 56mn (22bps of total AUM vs 12bps QoQ) which led to a PAT of INR 878mn (+27% YoY, +5.2% QoQ; -2% JMFe). RoA remains steady at 3.6% while RoE moved up further

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,250
Upside/(Downside)	17.8%
Previous Price Target	1,180
Change	5.9%

Key Data – HOMEFIRS IN

Current Market Price	INR1,062
Market cap (bn)	INR94.4/US\$1.1
Free Float	49%
Shares in issue (mn)	88.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR391.7/US\$4.7
52-week range	1,195/777
Sensex/Nifty	81,333/24,835
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	2.5	10.1	24.2
Relative*	-0.4	-2.7	1.0

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	1,861	2,283	3,057	3,858	4,992
Net Profit (YoY) (%)	85.8%	22.7%	33.9%	26.2%	29.4%
Assets (YoY) (%)	13.5%	31.7%	41.5%	31.5%	29.2%
ROA (%)	3.9%	3.9%	3.8%	3.5%	3.5%
ROE (%)	12.6%	13.5%	15.5%	16.8%	18.4%
EPS	21.2	25.9	34.5	43.6	56.4
EPS (YoY) (%)	85.3%	22.1%	33.2%	26.2%	29.4%
P/E (x)	50.0	40.9	30.7	24.4	18.8
BV	180	206	240	280	332
BV (YoY) (%)	13.7%	15.0%	16.1%	16.7%	18.5%
P/BV (x)	5.91	5.14	4.43	3.80	3.20

Source: Company data, JM Financial. Note: Valuations as of 26/Jul/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

to 16.3% (+20bps QoQ) during the quarter. Mgmt anticipates a ~10bps hike in CoFs from here and guided for PLR hike of +35bps (effective Aug'24). This would limit any further NIMs compression from here and thus remains confident to maintain NIMs of 5.5%+. In addition, the company also started discussion with rating agencies to upgrade its credit ratings as it crossed 100bn AUM. We forecast earnings CAGR of 28% over FY24-26E to deliver avg RoA/RoEs of 3.5%/18.4% over FY25-26E.

- **Steady asset quality:** Asset quality was largely stable during the quarter with gross stage 3 at 1.74% (+4bps QoQ) and net stage 3 at 1.26% (+7bps QoQ). PCR was down -219bps QoQ at 27.6%. 1+DPD was up +30bps QoQ at 4.5% while 30+DPD was up +10bps QoQ at 2.9%. Overall ECL cover for the company remains steady at 0.8% of total AUM (-3bps QoQ). We do not see any major asset quality headwinds going forward while the management also maintains additional overlay of INR 150mn over and above ECL provisions to prevent any major shocks going forward. We build avg. credit costs of 30bps over FY25-26E.
- **Valuation and view:** We believe that the management's capacity to predict potential deviations from its strategic plan and to proactively implement countermeasures sets HFFC at a superior position to its peers. HFFC's sustained excellence across all key metrics viz. margins, profitability, productivity and asset quality positions the company to trade at a premium valuation thus valuing the stock at 3.8x FY26E BV in return for consistent RoAs of 3.5%+ with a revised TP of INR 1,250. Maintain BUY.

HFFC – 1QFY25 Quarterly Performance

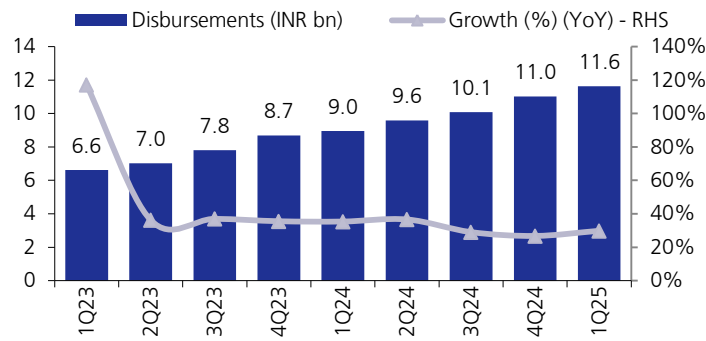
Exhibit 1. 1QFY25 Key financial highlights

Earnings Table (INR mn.)	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Net Interest Income	1,246	1,368	1,464	17.5%	7.0%
Total Non-Interest income	285	351	382	34.1%	8.9%
Total Income	1,530	1,719	1,846	20.6%	7.4%
Employee Cost	359	366	416	15.8%	13.7%
Other expenses & Depreciation	194	218	239	23.2%	9.5%
Total Operating Expenses	553	584	655	18.4%	12.1%
Operating Profit (PPP)	977	1,135	1,191	21.9%	4.9%
Total Provisions	77	27	56	-27.8%	102.3%
PBT	900	1,107	1,135	26.1%	2.5%
Tax	209	273	258	23.2%	-5.6%
PAT (Pre-Extraordinaries)	691	835	878	27.0%	5.2%
Reported Profit	691	835	878	27.0%	5.2%
Balance Sheet Data (INR bn)					
AUM	77.8	97.0	104.8	34.8%	8.0%
Disbursements	9.0	11.0	11.6	29.9%	5.5%
Ratios Analysis (%)					
Cost to Income (%)	36.1%	34.0%	35.5%	-0.67%	1.51%
Effective Tax Rate (%)	23.2%	24.6%	22.7%	-0.5%	-1.9%
Credit Quality					
Gross S3 (INR Mn.)	1,077	1,393	1,540	43.0%	10.5%
Net S3 (INR Mn.)	743	979	1,116	50.2%	14.0%
Gross S3 (%)	1.64%	1.70%	1.74%	0.10%	0.04%
Net S3 (%)	1.13%	1.19%	1.26%	0.10%	0.07%
Coverage	31.0%	29.7%	27.6%	-3.5%	-2.2%
Capital Adequacy (%)					
Tier I (%)	45.5%	39.1%	35.8%	-9.70%	-3.30%
CAR (%)	46.0%	39.5%	36.2%	-9.80%	-3.30%
Return ratios (%)					
ROA (%)	3.9%	3.6%	3.6%	-0.30%	-0.05%
ROE (%)	15.0%	16.1%	16.3%	1.29%	0.22%

Source: Company, JM Financial

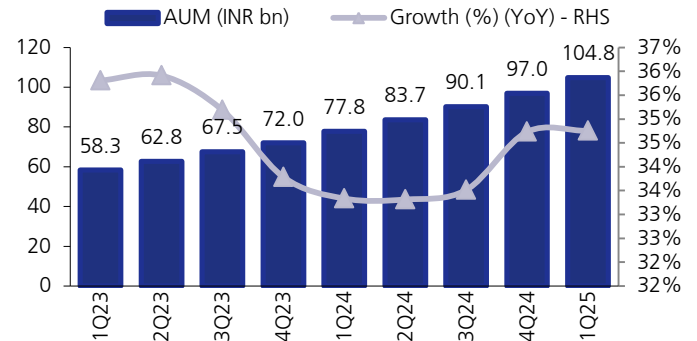
Quarterly Trends

Exhibit 2. Trend in Disbursements growth



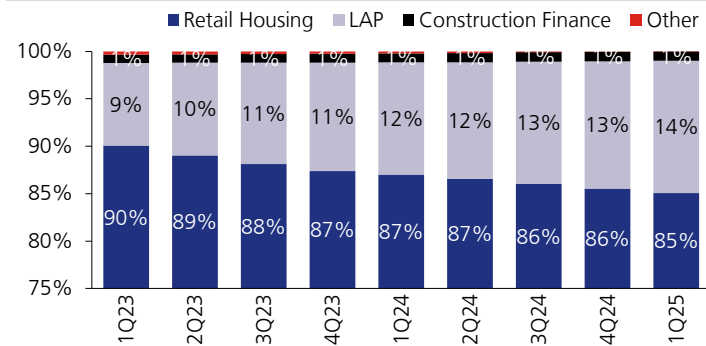
Source: Company, JM Financial

Exhibit 3. Trend in AUM growth



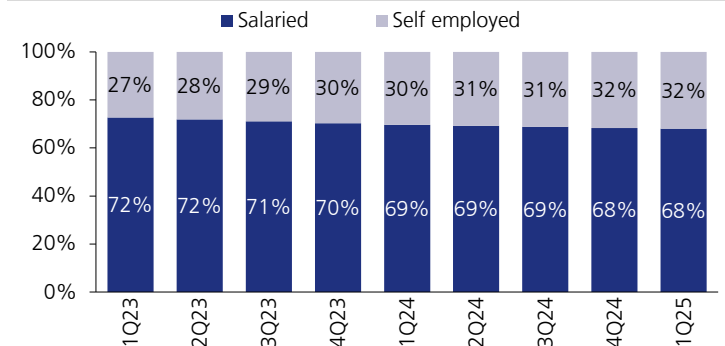
Source: Company, JM Financial

Exhibit 4. Trend in Product wise AUM Mix



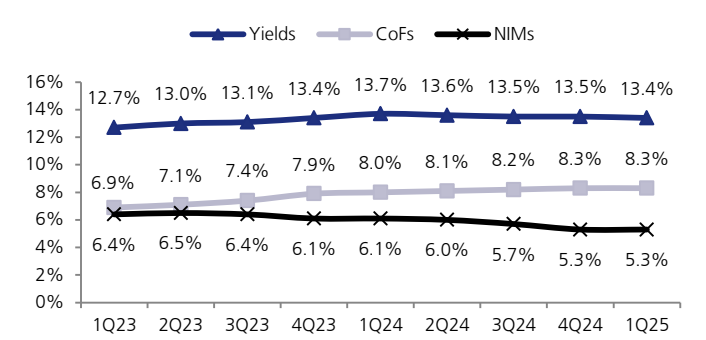
Source: Company, JM Financial

Exhibit 5. Trend in Product wise Customer mix



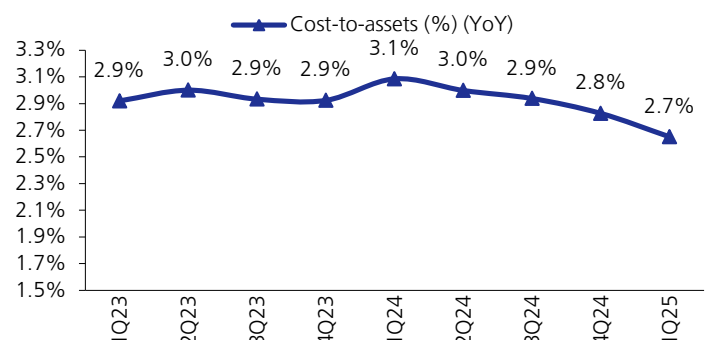
Source: Company, JM Financial

Exhibit 6. Margins Trend (Reported)



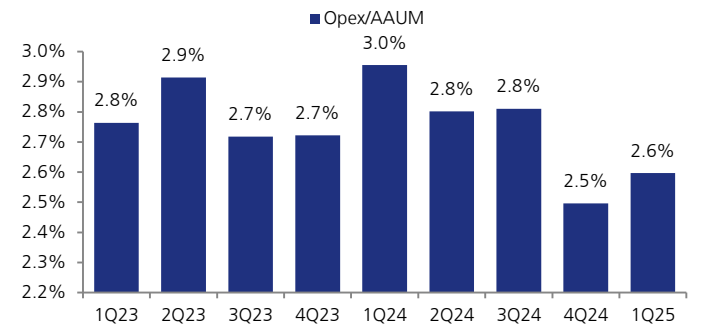
Source: Company, JM Financial

Exhibit 7. Cost-to-assets trend



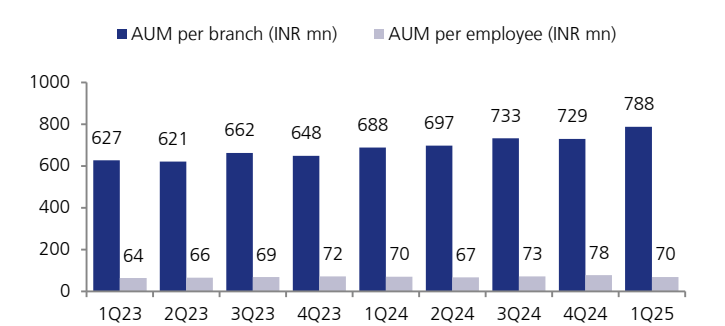
Source: Company, JM Financial

Exhibit 8. Opex/AAUM Trend



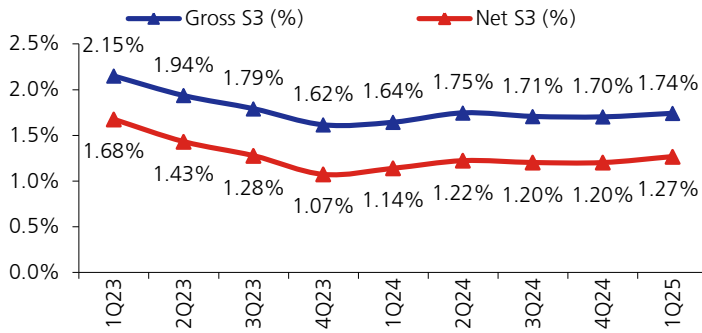
Source: Company, JM Financial

Exhibit 9. AUM/Branch and AUM/Employee Trend



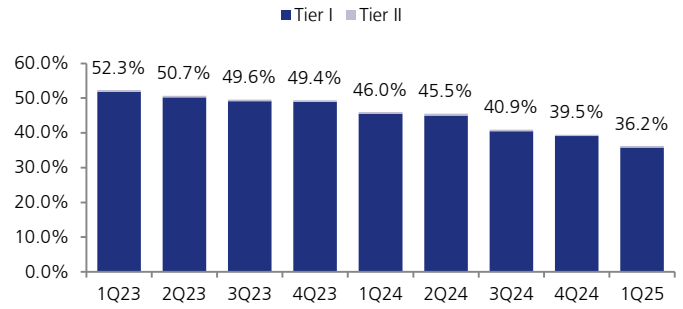
Source: Company, JM Financial

Exhibit 10. Trend in Asset Quality



Source: Company, JM Financial

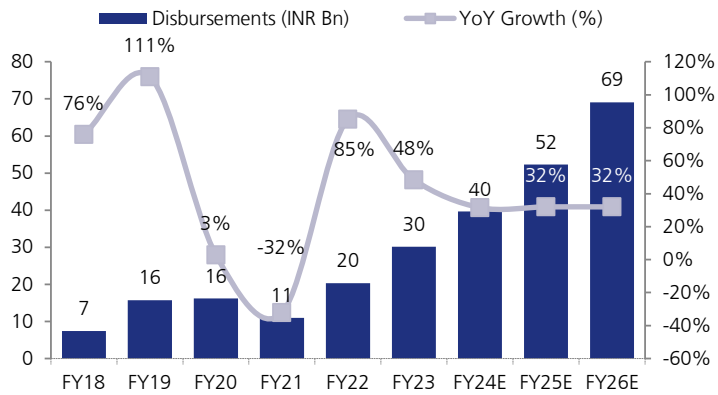
Exhibit 11. Comfortable Liquidity



Source: Company, JM Financial

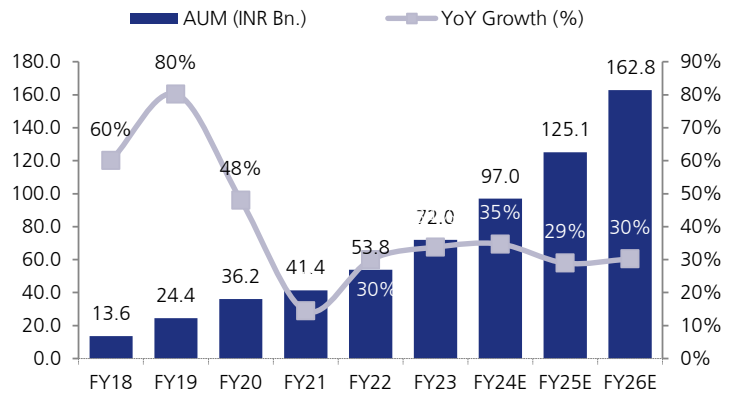
Annual Trends

Exhibit 12. Trend in disbursements growth



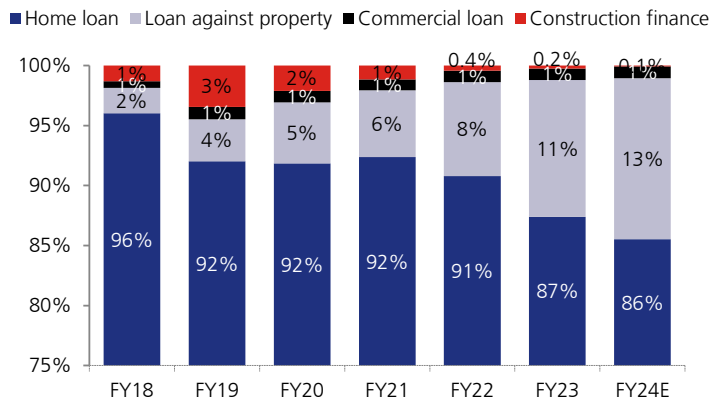
Source: Company, JM Financial

Exhibit 13. Trend in AUM growth



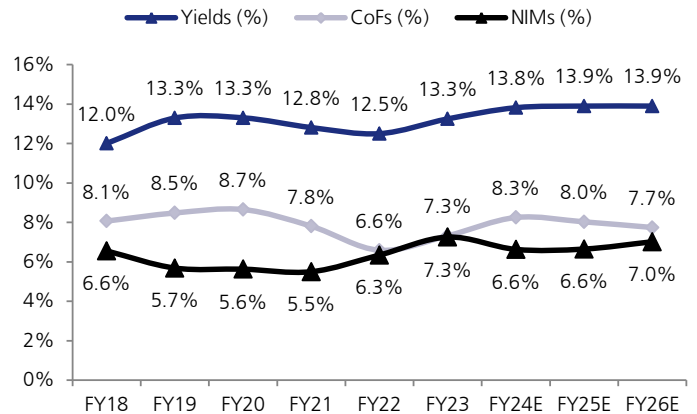
Source: Company, JM Financial

Exhibit 14. Trend in AUM Mix



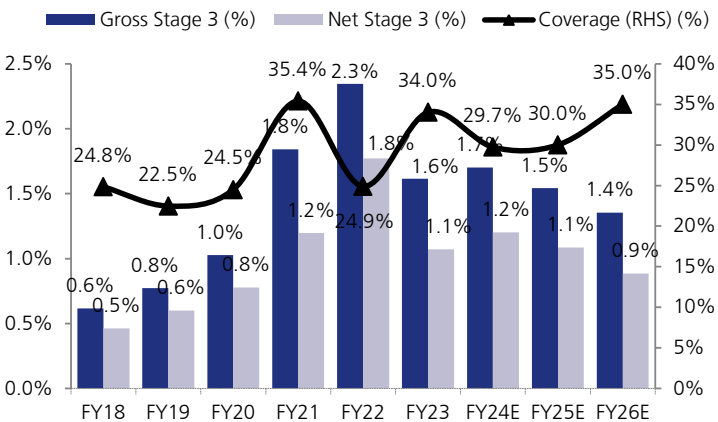
Source: Company, JM Financial

Exhibit 15. Margins Trend (Calculated)



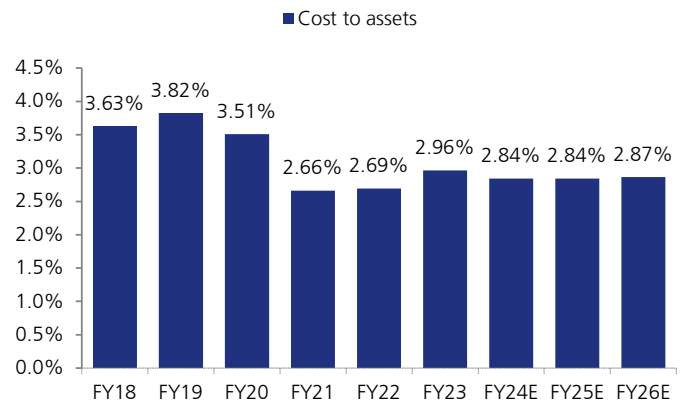
Source: Company, JM Financial

Exhibit 16. Trend in Asset Quality



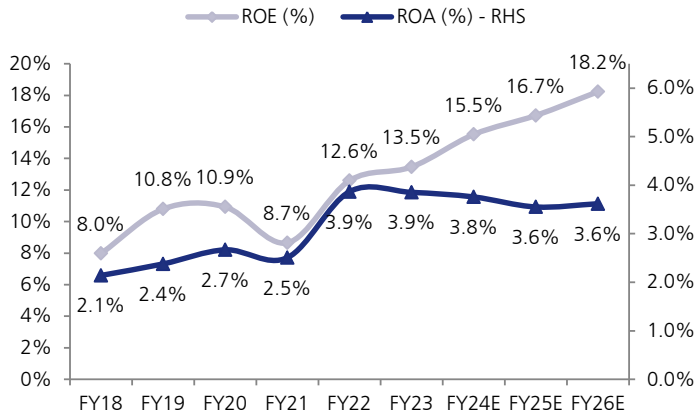
Source: Company, JM Financial

Exhibit 17. Cost-to-Assets Trend



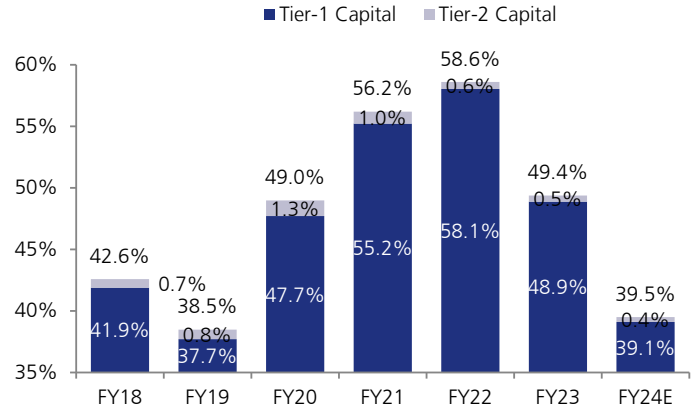
Source: Company, JM Financial

Exhibit 18. Return Ratios Trend



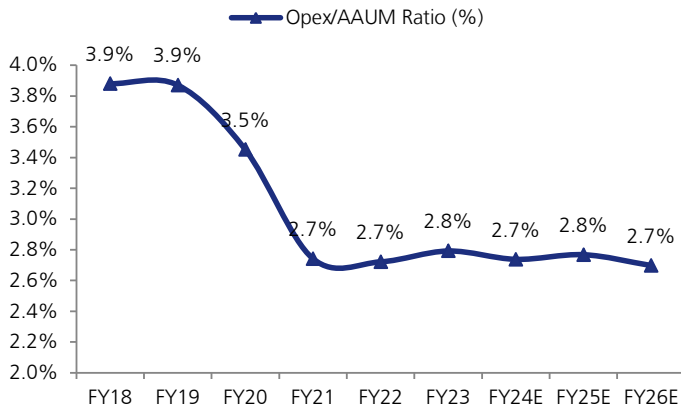
Source: Company, JM Financial

Exhibit 19. Comfortable liquidity



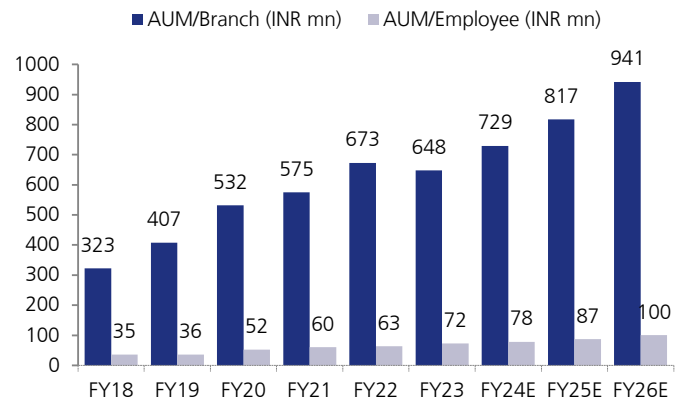
Source: Company, JM Financial

Exhibit 20. Opex/AAUM Trend



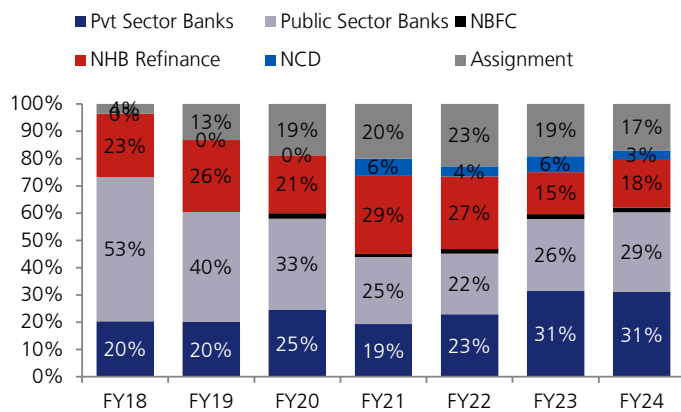
Source: Company, JM Financial

Exhibit 21. AUM/Branch and AUM/Employee Trend



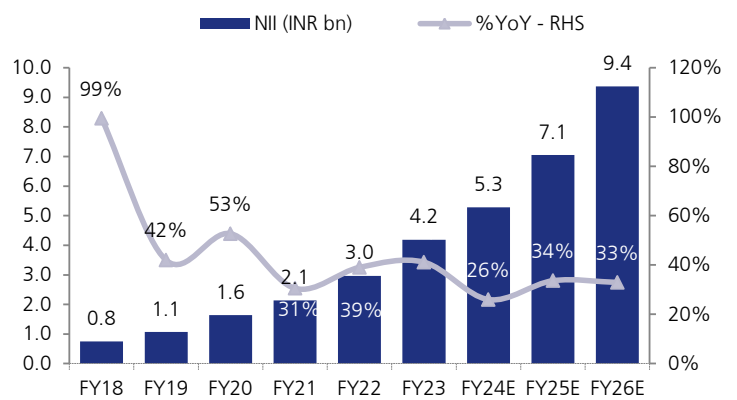
Source: Company, JM Financial

Exhibit 22. Trend in borrowings mix



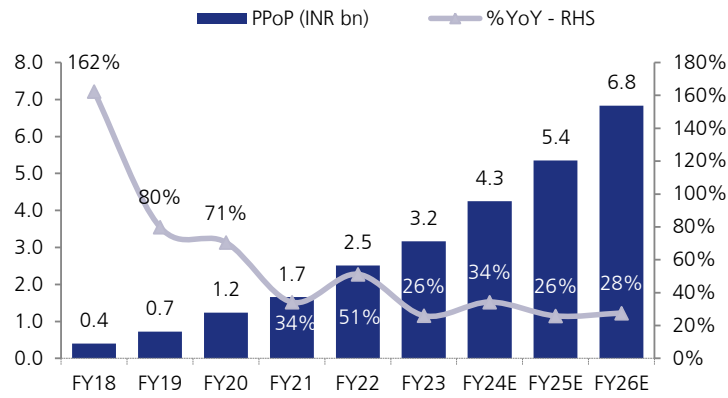
Source: Company, JM Financial

Exhibit 23. Trend in NII



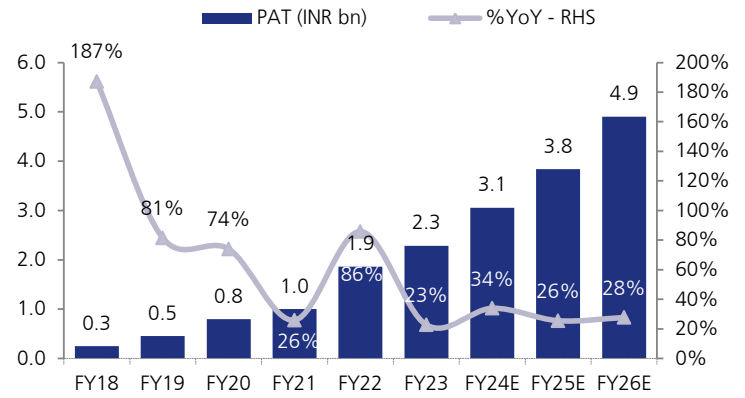
Source: Company, JM Financial

Exhibit 24. Trend in PPOP



Source: Company, JM Financial

Exhibit 25. Trend in PAT



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	2,969	4,190	5,290	7,190	9,679
Non Interest Income	840	734	1,289	1,420	1,381
Total Income	3,809	4,923	6,579	8,611	11,061
Operating Expenses	1,296	1,756	2,325	3,100	3,981
Pre-provisioning Profits	2,513	3,167	4,254	5,511	7,080
Loan-Loss Provisions	241	212	253	366	423
Others Provisions	0	0	0	0	0
Total Provisions	250	215	254	366	423
PBT	2,263	2,952	4,000	5,144	6,656
Tax	402	669	942	1,286	1,664
PAT (Pre-Extra ordinaries)	1,861	2,283	3,057	3,858	4,992
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	1,861	2,283	3,057	3,858	4,992
Dividend	0	229	301	309	399
Retained Profits	1,861	2,054	2,756	3,550	4,593

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Equity Capital	175	176	177	177	177
Reserves & Surplus	15,562	17,997	21,038	24,587	29,180
Stock option outstanding	0	0	0	0	0
Borrowed Funds	34,668	48,135	73,021	96,388	1,27,232
Deferred tax liabilities	17	0	0	0	0
Preference Shares	747	1,062	1,104	4,264	5,511
Current Liabilities & Provisions	0	0	0	0	0
Total Liabilities	51,169	67,370	95,340	1,25,416	1,62,100
Net Advances	43,049	59,957	81,434	1,08,055	1,44,481
Investments	0	2,808	3,788	4,322	6,791
Cash & Bank Balances	6,678	2,984	8,215	10,805	8,669
Loans and Advances	0	0	0	0	0
Other Current Assets	1,242	1,339	1,573	1,800	1,600
Fixed Assets	200	253	298	392	507
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	0	28	31	41	53
Total Assets	51,169	67,370	95,340	1,25,416	1,62,100

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	13.5%	38.8%	51.7%	32.0%	32.0%
Advances	29.4%	39.3%	35.8%	32.7%	33.7%
Total Assets	13.5%	31.7%	41.5%	31.5%	29.2%
NII	39.0%	41.1%	26.3%	35.9%	34.6%
Non-interest Income	42.3%	-12.7%	75.6%	10.2%	-2.8%
Operating Expenses	21.8%	35.5%	32.4%	33.3%	28.4%
Operating Profits	51.2%	26.0%	34.3%	29.5%	28.5%
Core Operating profit	50.1%	51.9%	30.0%	31.9%	31.8%
Provisions	-22.2%	-14.0%	18.2%	44.1%	15.6%
Reported PAT	85.8%	22.7%	33.9%	26.2%	29.4%
Yields / Margins (%)					
Interest Spread	4.35%	5.18%	4.68%	4.89%	5.21%
NIM	6.35%	7.26%	6.65%	6.64%	6.84%
Profitability (%)					
ROA	3.87%	3.85%	3.76%	3.50%	3.47%
ROE	12.6%	13.5%	15.5%	16.8%	18.4%
Cost to Income	34.0%	35.7%	35.3%	36.0%	36.0%
Asset quality (%)					
Gross NPA	2.35%	1.62%	1.70%	1.55%	1.43%
LLP	0.66%	0.42%	0.36%	0.39%	0.34%
Capital Adequacy (%)					
Tier I	58.05%	48.89%	39.08%	34.71%	31.87%
CAR	58.61%	49.38%	39.48%	35.02%	32.10%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	6.17%	7.07%	6.50%	6.51%	6.73%
Other Income / Assets	1.75%	1.24%	1.58%	1.29%	0.96%
Total Income / Assets	7.91%	8.31%	8.09%	7.80%	7.69%
Cost / Assets	2.69%	2.96%	2.86%	2.81%	2.77%
PPP / Assets	5.22%	5.34%	5.23%	4.99%	4.92%
Provisions / Assets	0.52%	0.36%	0.31%	0.33%	0.29%
PBT / Assets	4.70%	4.98%	4.92%	4.66%	4.63%
Tax rate	17.8%	22.7%	23.6%	25.0%	25.0%
ROA	3.87%	3.85%	3.76%	3.50%	3.47%
Leverage	3.3	3.7	4.5	5.1	5.5
ROE	12.6%	13.5%	15.5%	16.8%	18.4%

Source: Company, JM Financial

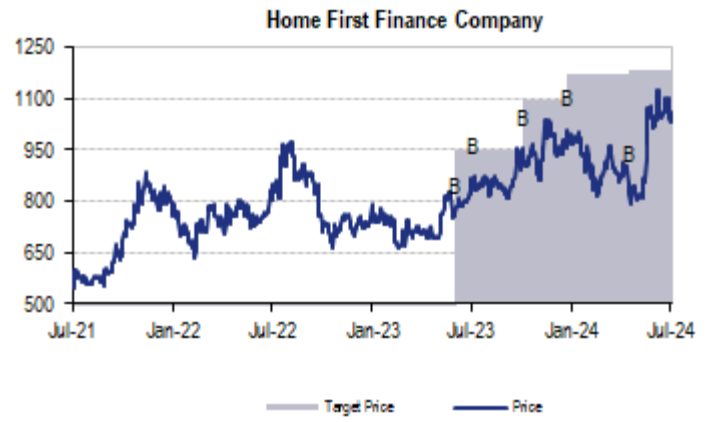
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	87.6	88.0	88.5	88.5	88.5
EPS (INR)	21.2	25.9	34.5	43.6	56.4
EPS (YoY) (%)	85.3%	22.1%	33.2%	26.2%	29.4%
P/E (x)	50.0	40.9	30.7	24.4	18.8
BV (INR)	180	206	240	280	332
BV (YoY) (%)	13.7%	15.0%	16.1%	16.7%	18.5%
P/BV (x)	5.91	5.14	4.43	3.80	3.20
DPS (INR)	0.0	2.6	3.4	3.5	4.5
Div. yield (%)	0.0%	0.2%	0.3%	0.3%	0.4%

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

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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