

India

ADD (no change)

Consensus ratings*: Buy 22 Hold 2 Sell 4

Current price: Rs1,255
 Target price:  Rs1,650
 Previous target: Rs1,650
 Up/downside: 31.5%
 InCred Research / Consensus: 14.8%

Reuters:
 Bloomberg: HOMEFIRS IN
 Market cap: US\$1,464m
 Rs129,938m
 Average daily turnover: US\$4.9m
 Rs431.2m
 Current shares o/s: 102.9m
 Free float: 87.6%
 *Source: Bloomberg

Key changes in this note

- We largely maintain our estimates with a minor rise in credits costs.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.2)	4.8	5.3
Relative (%)	(3.5)	0.6	0.0

Major shareholders	% held
SMALLCAP WORLD FUND, INC	7.8
TRUE NORTH FUND V LLP	7.5
HDFC MUTUAL FUND	6.1

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Home First Finance company

Caution over uncertainty

- HFFC posted an in-line 2QFY26 PAT of ~Rs1.3 bn led by healthy AUM growth, 20bp qoq rise in NIM and contained opex, while credit costs inched up.
- AUM rose to ~142bn, up ~26% yoy and ~5% qoq, and disbursement moderated to ~13bn due to cautious lending to US tariff-affected sectors.
- We appreciate the connector-led model & conservative lending approach. The recent correction sweetens the deal. Maintain ADD rating with a TP of Rs1,650.

In-line PAT; NIM expands by 20bp qoq to 5.4%

Home First Finance Company (HFFC) reported an in-line 2QFY26 PAT of ~Rs1.3bn, up ~43% yoy and ~11% qoq. The growth was driven by healthy AUM growth of 5% qoq, 20 bp qoq improvement in NIM to 5.4% & contained opex, while credit costs rose by 8bp qoq. The cost-to-income ratio improved to 31.8% (vs. 34% in 1QFY26 and 36.5% in 2QFY25).

AUM growth awaits more clarity from uncertain trends

The pace of assets under management (AUM) growth was healthy at ~26% yoy & ~5% qoq, although slower than the 30%+ yoy run rate amid industrywide heating in stress assets. Disbursements were a tad lower than expected at ~Rs13bn, up ~10% yoy & ~4% qoq, due to a cautious stance at select locations like Coimbatore & Tirupur having a direct exposure to the sectors hit by US tariffs. The average loan ticket size remained at ~Rs1.18m (flat qoq) and its portfolio still tilting towards >Rs1.5m loans, as management feels customers are moving towards large-ticket loans due to rising real estate prices. HFFC is seeing tailwinds in 2HFY26F driven by easing inflation, supportive government measures, a good monsoon season, and an improving macroeconomic environment.

Stressed assets up largely led by rising delinquency in South India

Equated monthly instalment (EMI) bounce rates moved up to 17.4% in Oct 2025, partially impacted by the number of working days and the same is guided to be pulled back. The 1+DPD bucket rose to 5.5% (10bp qoq) and 30+ DPD to 3.7% (20bp yoy), driven by delinquencies at select locations in Tamil Nadu & Andhra Pradesh; management expects normalization in three-to-four months. However, there was some improvement in collections in Surat, which saw rising stress in recent quarters. Calculated credit costs were high at ~44bp, above the guided 30-40bp range, although FY26F guidance stays at 40bp.

Outlook and valuation

HFFC's connector model, strong tech infrastructure, and prudent geographic focus, coupled with a modest ~17% non-housing exposure, position it on a lower-risk footing amid an industry-wide uptick in asset quality stress. The recent capital raising will subdue return ratios in the near term; however, we believe the same will normalize by mid-FY27F. We believe a 15% correction in the last around four months makes the risk-reward ratio attractive, and maintain our ADD rating on HFFC with a stable target price of Rs1,650, valuing it at 3.6x FY27F BV. Downside risks: A sharp fall in NIM and asset quality stress.

Financial summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	4,698	5,649	7,559	9,365	11,192
Total Non-Interest Income (Rsm)	1,869	2,590	3,556	3,705	4,582
Operating Revenue (Rsm)	6,567	8,239	11,115	13,070	15,774
Total Provision Charges (Rsm)	(254)	(288)	(505)	(571)	(686)
Net Profit (Rsm)	3,057	3,821	5,358	6,350	7,856
Core EPS (Rs)	34.54	42.43	51.74	61.32	75.86
Core EPS Growth	33%	23%	22%	19%	24%
FD Core P/E (x)	36.33	29.57	24.25	20.46	16.54
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	239.7	280.0	410.0	459.1	519.7
P/BV (x)	5.24	4.48	3.06	2.73	2.41
ROE	15.5%	16.5%	15.8%	14.1%	15.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Net Interest Income	1,391	1,418	1,534	1,669	1,859	33.7%	11.4%
NIM (% of AUM)	5.2%	4.9%	5.1%	5.2%	5.4%		
Other Operating Income	596	730	725	880	905	51.8%	2.8%
Operating Expenses	726	752	803	868	879	21.2%	1.3%
Operating Profit	1,261	1,396	1,456	1,682	1,885	49.5%	12.1%
Provisions	57	98	77	117	152	166.0%	30.5%
PBT	1,204	1,298	1,379	1,565	1,732	43.9%	10.7%
Tax	281	324	332	376	414	47.1%	10.1%
Tax rate (%)	23.4%	25.0%	24.1%	24.0%	23.9%		
PAT	922	974	1,047	1,189	1,318	43.0%	10.9%
AUM(Rsbn)	112	119	127	135	142	26.3%	5.2%
Disbursement	12	12	13	12	13	9.6%	3.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision summary

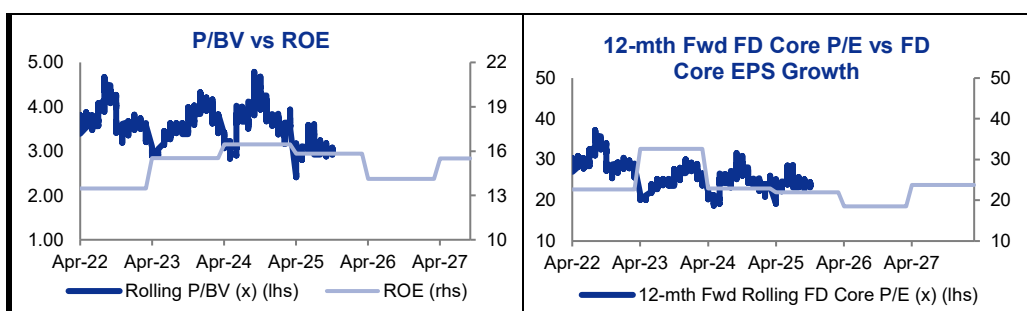
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	7,656	7,559	-1.3%	9,483	9,365	-1.2%	11,374	11,192	-1.6%
PPOP	7,464	7,549	1.1%	9,067	8,914	-1.7%	11,202	11,008	-1.7%
PAT	5,368	5,358	-0.2%	6,564	6,350	-3.3%	8,125	7,856	-3.3%
EPS (Rs)	52	52	-0.5%	64	61	-3.5%	79	76	-3.6%
BV (Rs)	409	410	0.3%	460	459	-0.1%	522	520	-0.5%
AUM (Rs bn)	160	158	-1.4%	191	192	0.1%	226	227	0.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY26 earnings-call highlights ►

- HFFC continues to operate a connector-led model, with ~77% of the business sourced through connectors.
- Co-lending share is expected to scale up to 10% to cater to the higher-ticket loan segment.
- NIM expansion is expected to be faster than spread.
- AUM growth guidance at 25%+ for FY26F.
- Spread guidance in the range of 5.0-5.25%.
- Cost of borrowing targeted to be under 8% by Mar 2026F.
- Opex-to-asset ratio guidance steady at 2.6-2.7%.
- Credit cost guidance for the full year is ~40 bp.
- 1+ DPD & 30+ DPD buckets guided to remain at 5% and 3-3.5%, respectively.
- Branch expansion guidance: 4-5 branches qoq in focused states such as Madhya Pradesh, Rajasthan, Gujarat, Maharashtra, Tamil Nadu, and Andhra Pradesh.
- Export-oriented sectors such as Chennai (leather), and textile hubs (Coimbatore, and Tirupur in Tamil Nadu, and Andhra Pradesh) are witnessing higher delinquencies due to the US tariff impact. Delinquencies in the affected regions are expected to normalize within three-to-four months as the tariff impact subsides, and recovery measures continue.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	4,698	5,649	7,559	9,365	11,192
Total Non-Interest Income	1,869	2,590	3,556	3,705	4,582
Operating Revenue	6,567	8,239	11,115	13,070	15,774
Total Non-Interest Expenses	(2,196)	(2,780)	(3,379)	(3,929)	(4,491)
Pre-provision Operating Profit	4,254	5,304	7,549	8,914	11,008
Total Provision Charges	(254)	(288)	(505)	(571)	(686)
Operating Profit After Provisions	4,000	5,016	7,043	8,344	10,322
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	4,000	5,016	7,043	8,344	10,322
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,130	2,425	3,487	4,639	5,740
Exceptional Items					
Pre-tax Profit	4,000	5,016	7,043	8,344	10,322
Taxation	(942)	(1,195)	(1,685)	(1,993)	(2,466)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	3,057	3,821	5,358	6,350	7,856
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	3,057	3,821	5,358	6,350	7,856
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	6.9%	8.1%	7.1%	7.4%	7.8%
Avg Liquid Assets/Avg IEAs	7.9%	9.4%	8.1%	8.4%	8.9%
Net Cust Loans/Assets	85.4%	87.2%	88.3%	87.3%	87.7%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	26.1%	23.7%	32.3%	29.8%	28.5%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	81,434	106,487	131,381	159,504	188,764
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	81,434	106,487	131,381	159,504	188,764
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	81,434	106,487	131,381	159,504	188,764
Intangible Assets					
Other Non-Interest Earning Assets	1,602	2,353	2,920	3,286	3,771
Total Non-Interest Earning Assets	1,902	2,645	3,255	3,663	4,203
Cash And Marketable Securities	8,215	9,382	9,919	14,566	16,533
Long-term Investments	3,788	3,602	4,175	4,884	5,824
Total Assets	95,340	122,117	148,729	182,617	215,324
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	73,021	95,507	111,544	150,114	191,770
Total Interest-Bearing Liabilities	73,021	95,507	111,544	150,114	191,770
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,104	1,397	1,500	1,500	1,530
Total Liabilities	74,125	96,904	113,044	151,614	193,300
Shareholders Equity	21,215	25,213	42,459	47,539	53,824
Minority Interests					
Total Equity	21,215	25,213	42,459	47,539	53,824

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	24.2%	20.3%	33.8%	23.9%	19.5%
Operating Profit Growth	34.2%	24.9%	41.7%	18.2%	23.4%
Pretax Profit Growth	35%	25%	40%	18%	24%
Net Interest To Total Income	71.5%	68.6%	68.0%	71.7%	71.0%
Cost Of Funds	8.25%	8.49%	7.85%	7.19%	6.72%
Return On Interest Earning Assets	13.7%	13.6%	13.2%	12.9%	13.0%
Net Interest Spread	5.46%	5.14%	5.34%	5.72%	6.30%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	6%	5%	7%	6%	6%
Interest Return On Average Assets	5.77%	5.20%	5.58%	5.65%	5.62%
Effective Tax Rate	23.6%	23.8%	23.9%	23.9%	23.9%
Net Dividend Payout Ratio					
Return On Average Assets	3.76%	3.51%	3.96%	3.83%	3.95%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.**Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.***Sector Ratings**

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.**Country Ratings**

Definition:

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