

Mar 03, 2024

COMPANY UPDATE | Sector: Financials

Home First Finance Company

Strong execution to continue

Firmly placed to sustain solid growth

Home First is well positioned to deliver 27-30% AUM CAGR over FY24-27 and reach Rs200bn AUM. Despite increase in BT Out and competition, HFF's AUM growth is expected to remain brisk aided by 1) large and growing low-ticket affordable housing market (AHFCs, SFBs and NBFCs reporting strong growth in Rs0.5-2mn HL segment), 2) demonstrated execution rigor by the Management, 3) persistent Branch/RO addition anchored on market potential, deeper penetration, and regional diversification, 4) continuous expansion of connector network with active engagement, 5) improved throughput from other sourcing channels with growing recognition of HFF brand, 6) further headroom to increase the share of LAP and 7) calibrated scaling-up of co-lending AUM. From the perspectives of funding, underwriting and tech capability, scaling the book to Rs200bn is unlikely to be an issue for HFF. Key monitorable would be employee management/attrition and portfolio spread.

Portfolio spread can calibrate further in near term

Given prevailing dynamics in new loan pricing, NHB refinancing, BT activity and funding cost/system interest rates, HFF's portfolio spread is expected to further come-off over the next couple of quarters. Even as the co. is negotiating for finer loan pricing/credit spread, the upward re-pricing of bank borrowings is expected to continue with majority linked to 1-year MCLR. Availment of NHB sanctions (Rs2.5bn unavailed as of Dec) and increase in its share within borrowings would impact portfolio yield/spread. BT activity has increased in recent quarters triggered by significantly extended loan tenors after effecting 125 bps rate hike in this rate cycle. BT Out in recent quarters was at 7-9%, and some of the BT requests may have been retained through reducing rates (likely by 100-150 bps) which also would have impacted portfolio yield by a marginal extent. Notably, the new loan pricing/origination yield (without co-lending) has been gradually improving in recent quarters and currently stands slightly above the portfolio yield. Disbursement yield in HL and LAP is similar to portfolio yield now. Consequently, portfolio spread would be largely driven by expected hardening of funding cost.

RoE improvement trajectory intact

HFF has improved its RoE by ~200 bps over the past four quarters aided by sustenance of 33-34% AUM growth, steady asset quality/credit cost, increase in DA activity/income and stable cost metric notwithstanding growth & tech investments. While strong growth is expected to continue, the pressure on portfolio spread (till CoF peaks out) can likely moderate the pace of incremental RoE expansion. We estimate RoE breaching the 17% mark in FY26 when portfolio spread could partially recover aided by calibrated transmission of funding cost decline.

Re-iterate BUY, valuation reasonable after recent price correction

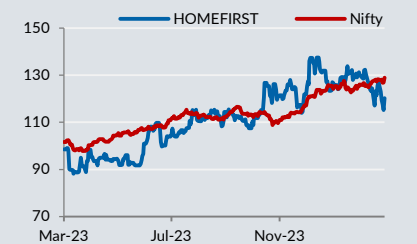
Home First has been among the few companies under our coverage where growth and earnings downgrade has been negligible through FY24. From growth and RoE standpoint, the co. has consistently met expectations. The growth outlook remains solid and RoE improvement trajectory appears intact, and hence the recent price correction makes the valuation attractive. The stock trades at 17x PE and 2.8x PABV on FY26 estimates for estimated earnings CAGR of 27-28% over FY23-26. We retain BUY and maintain 12m PT of Rs1140.

Reco	: BUY
CMP	: Rs 911
Target Price	: Rs 1,140
Potential Return	: +25.2%

Stock data (as on Mar 02, 2024)

Nifty	22,378
52 Week h/l (Rs)	1061 / 655
Market cap (Rs/USD mn)	80238 / 969
Outstanding Shares (mn)	88.5
6m Avg t/o (Rs mn):	196
Div. yield (%):	0.3
Bloomberg code:	HOMEFIRS IN
NSE code:	HOMEFIRST

Stock performance



	1M	3M	1Y
Absolute return	-7.2%	-0.9%	20.8%

Shareholding pattern (As of Dec 2023)

Promoter	23.6%
FII+DII	36.6%
Others	39.8%

Δ in stance

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

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	34.3	42.1	54.2
EPS (Old)	34.3	42.7	54.2
% Change	-	-1.4%	0.1

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	6,606	8,360	10,725
PPOP	4,255	5,251	6,767
Net profit	3,022	3,707	4,775
Growth (%)	32.4	22.7	28.8
EPS (Rs)	34.3	42.1	54.2
ABVPS (Rs)	232.4	271.9	322.9
P/E (x)	26.5	21.6	16.8
P/ABV (x)	3.9	3.4	2.8
ROAE (%)	15.4	16.1	17.5
ROAA (%)	3.8	3.5	3.5

RAJIV MEHTA

Lead Analyst

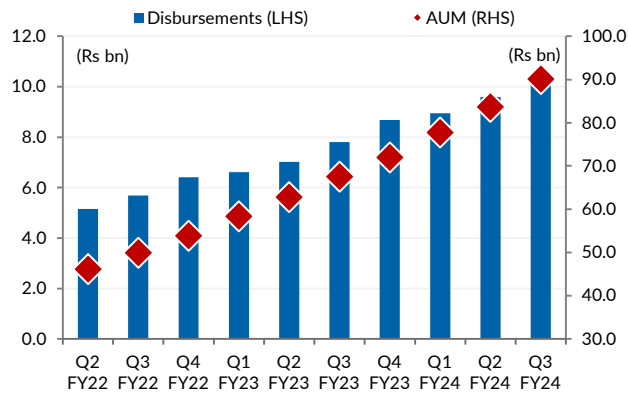
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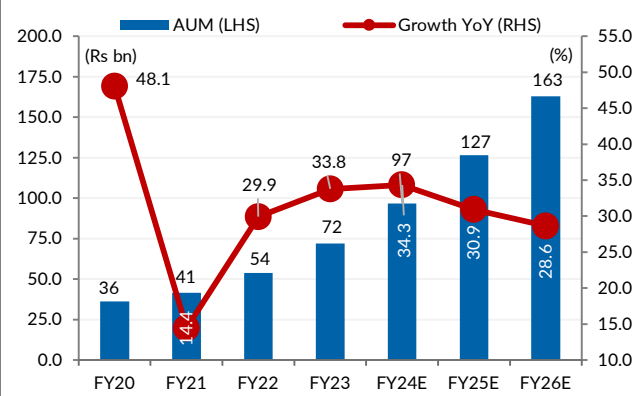
STORY IN CHARTS

Exhibit 1: Sustaining the growth momentum



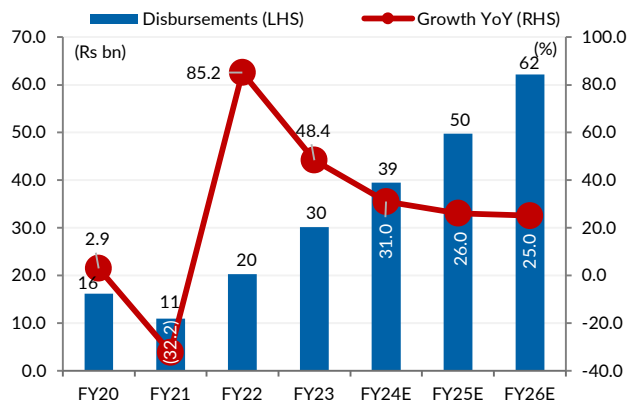
Source: Company, YES Sec

Exhibit 2: Estimate 27-30% AUM CAGR over FY24-27



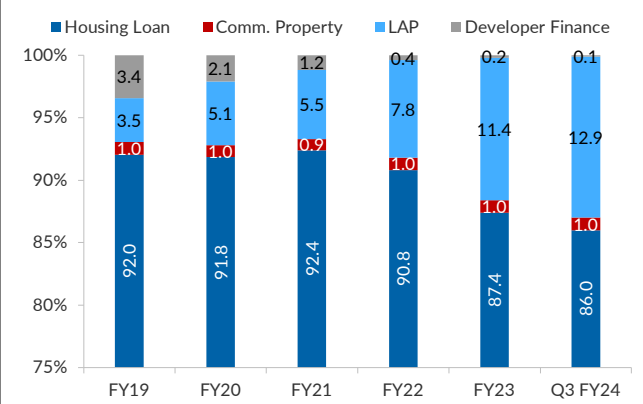
Source: Company, YES Sec

Exhibit 3: Disb. momentum to remain strong with augmentation of branch & connector network



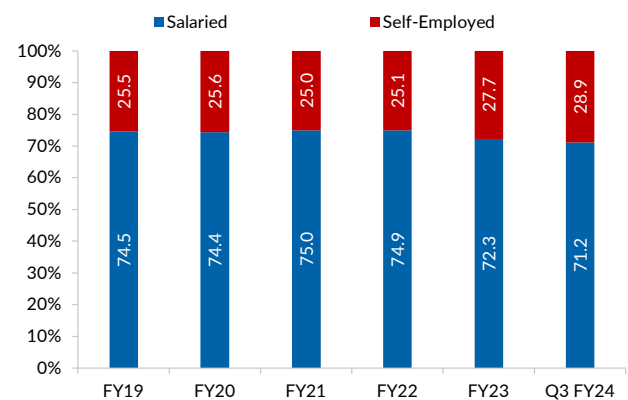
Source: Company, YES Sec

Exhibit 4: Retail AUM mix; calibrated increase in LAP's share



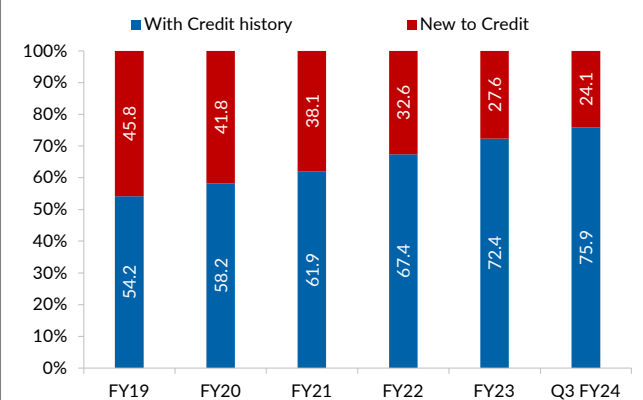
Source: Company, YES Sec

Exhibit 5: Occupation mix has moved towards Salaried



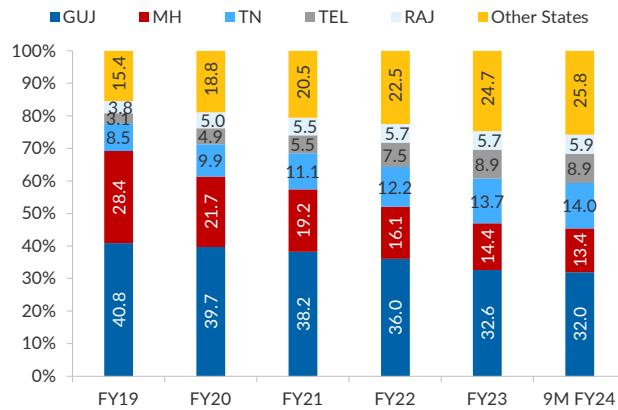
Source: Company, YES Sec

Exhibit 6: Share of NTC customers coming down



Source: Company, YES Sec

Exhibit 7: Regional AUM mix getting diversified



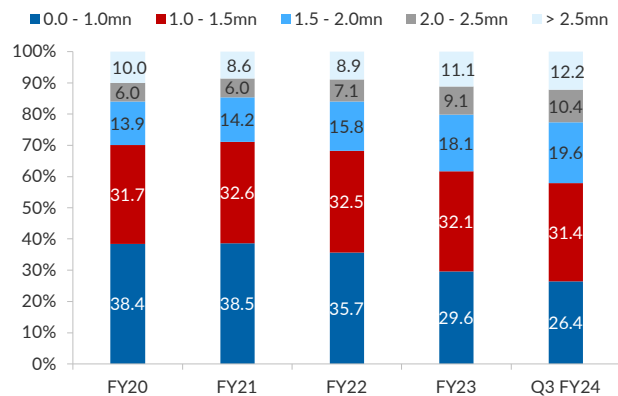
Source: Company, YES Sec

Exhibit 8: Branch addition has been accelerated

Branches	FY21	FY22	FY23	Q3FY24
GUJ	20	21	24	28
MAHA	15	17	19	21
TN	11	12	22	22
KAR	4	4	6	6
RAJ	6	7	8	8
TEL	4	5	8	8
MP	5	5	8	10
UP	1	1	3	5
HAR & NCR	1	1	1	2
CHAT	1	1	3	4
AP	4	6	9	9
TOTAL	72	80	111	123

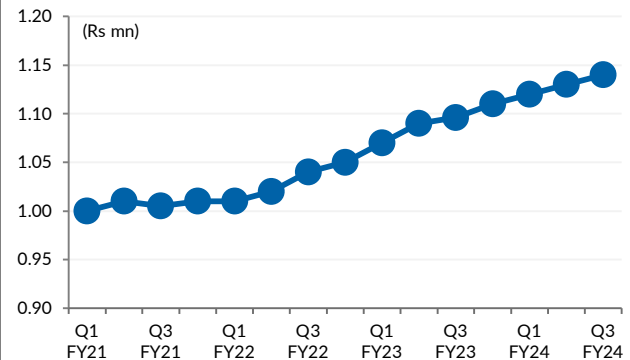
Source: Company, YES Sec

Exhibit 9: Shift of AUM towards >Rs.1.5mn ticket size



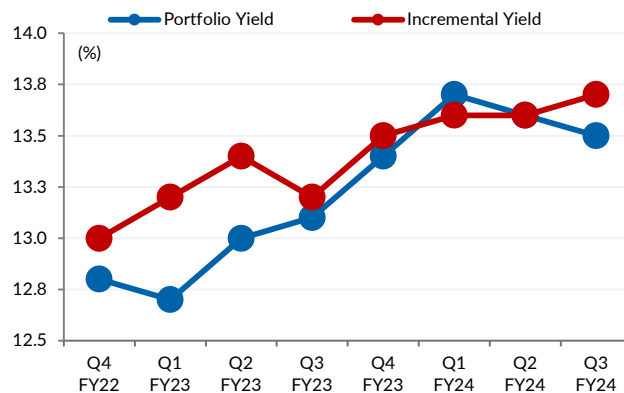
Source: Company, YES Sec

Exhibit 10: ... consequently Loan ATS has increased



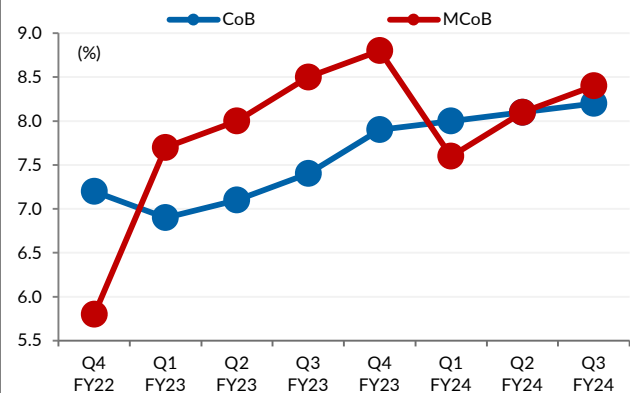
Source: Company, YES Sec, * ATS from Q3FY23 and onwards excludes Co-lending.

Exhibit 11: Origination Yield now above Portfolio Yield



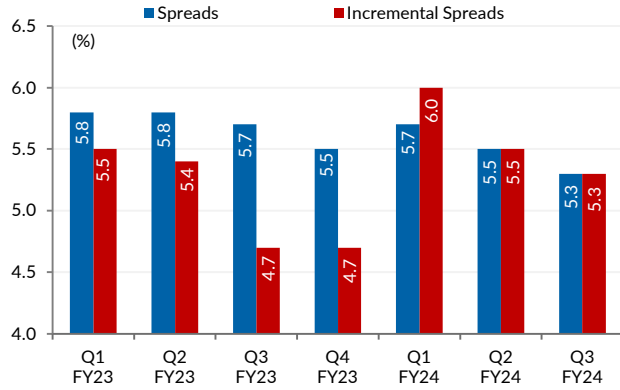
Source: Company, YES Sec, * Loans originated for Co-Lending are excluded while computing Incremental Yield.

Exhibit 12: CoF to increase as MCoF is higher



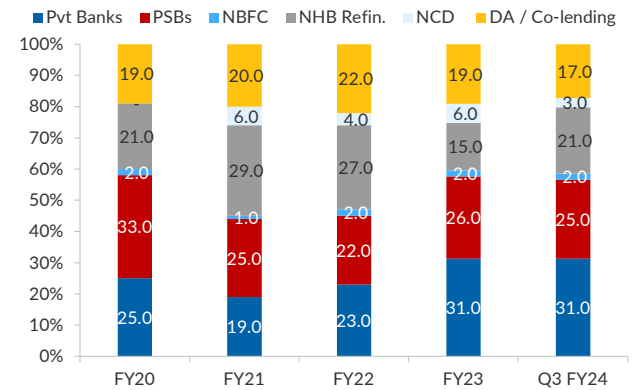
Source: Company, YES Sec

Exhibit 13: Incr. Spread near Portfolio Spread



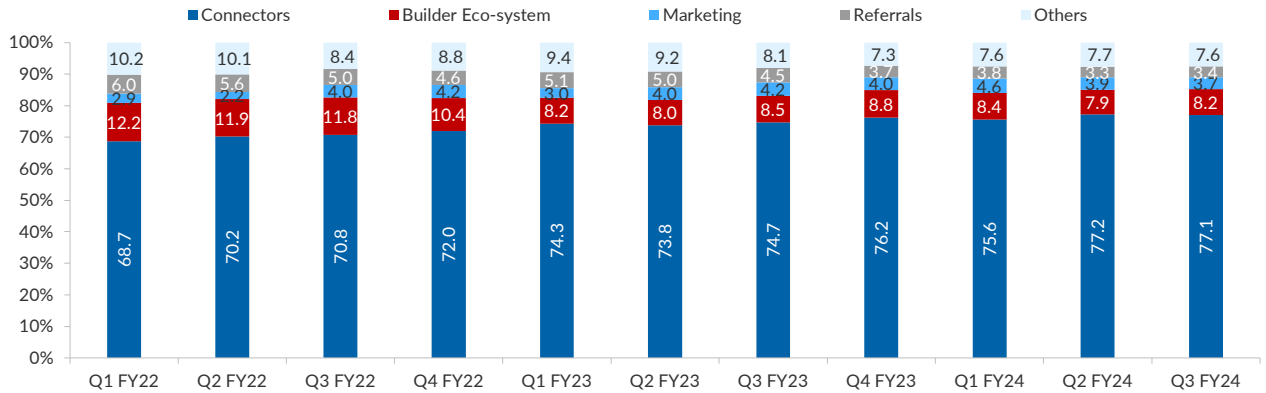
Source: Company, YES Sec

Exhibit 14: Borrowing reliance on Banks/DA



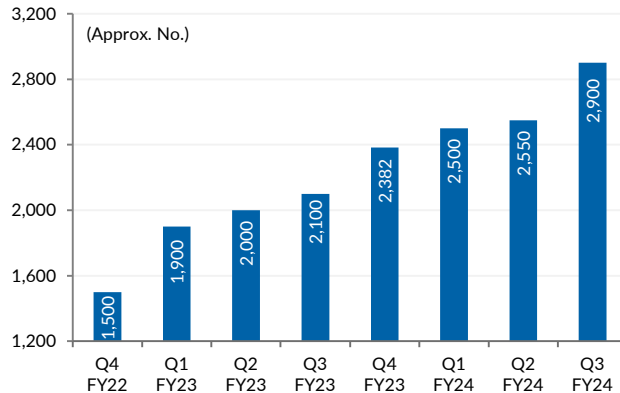
Source: Company, YES Sec

Exhibit 15: Lead generation dominated by Connectors



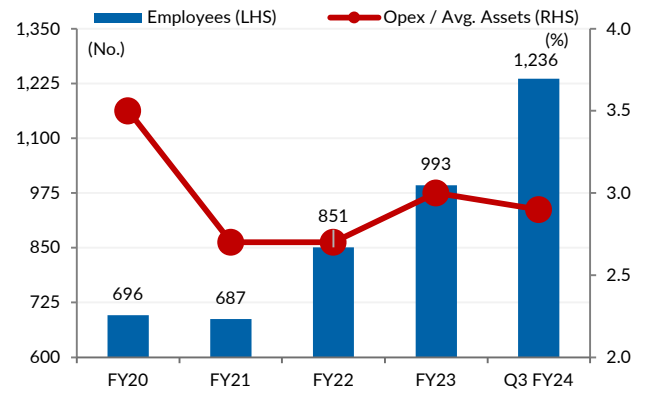
Source: Company, YES Sec

Exhibit 16: Strong growth in active Connectors



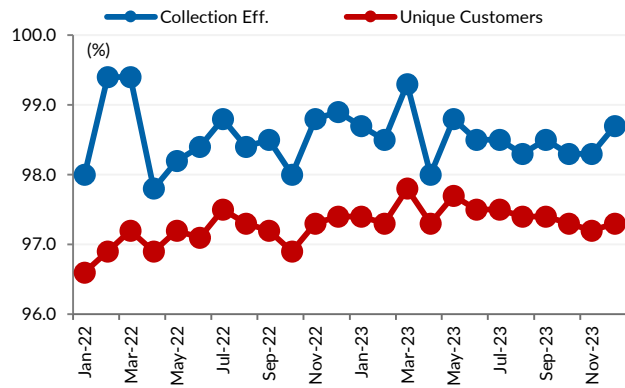
Source: Company, YES Sec

Exhibit 17: Cost metric largely stable



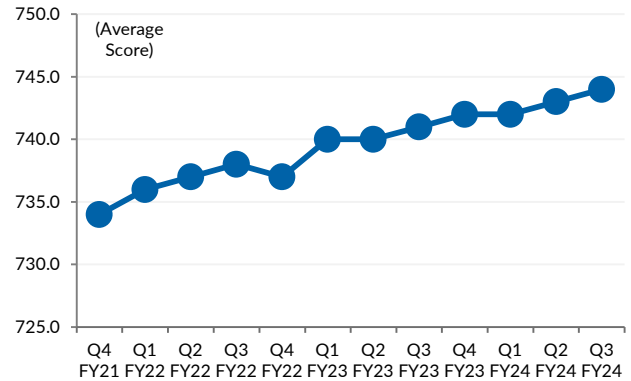
Source: Company, YES Sec

Exhibit 18: Collection efficiency at normal level



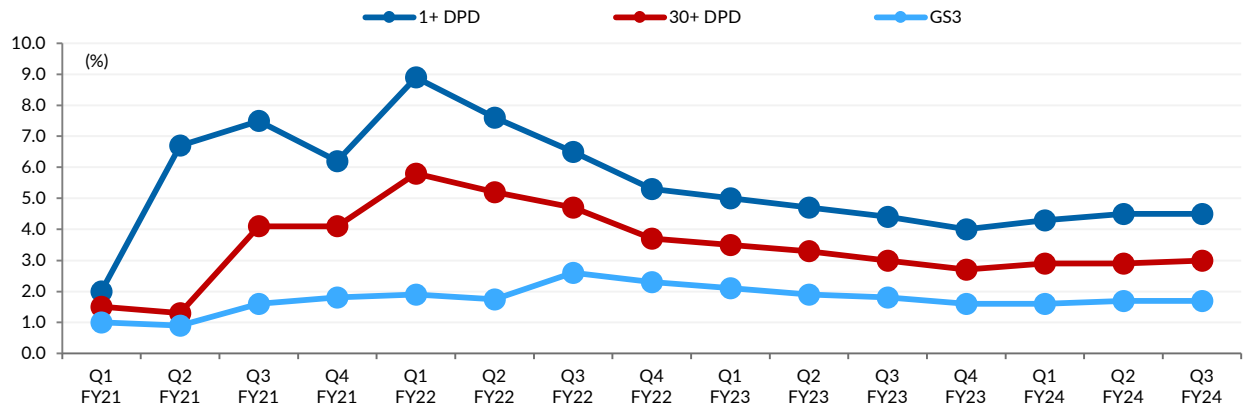
Source: Company, YES Sec

Exhibit 19: Marginal improvement in CIBIL Score of portfolio



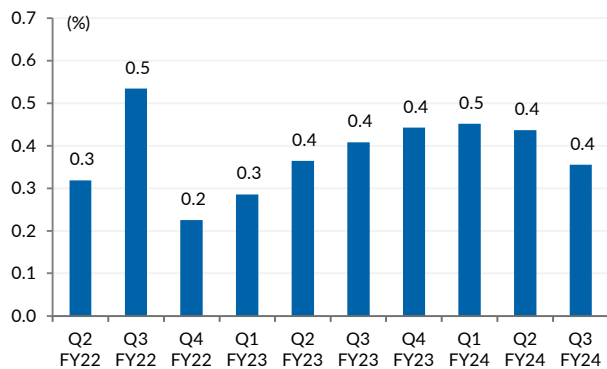
Source: Company, YES Sec

Exhibit 20: Delinquency profile stable



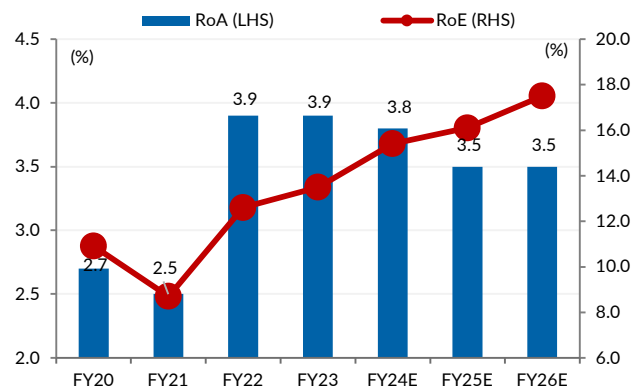
Source: Company, YES Sec

Exhibit 21: Credit cost has been steady



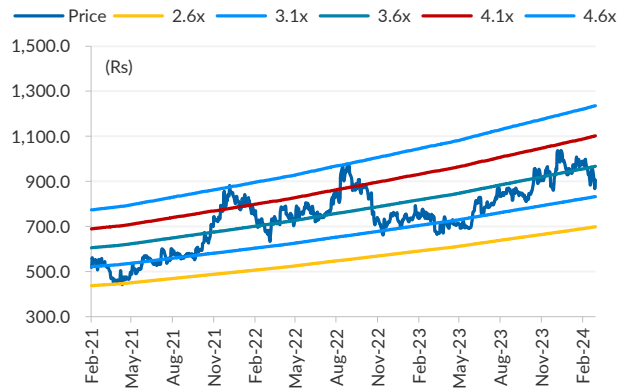
Source: Company, YES Sec

Exhibit 22: RoE to breach 17% mark in FY26



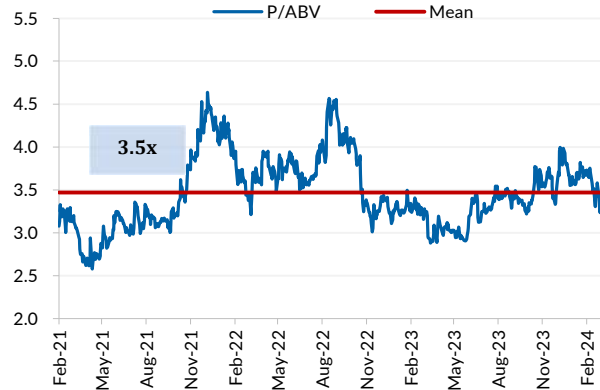
Source: Company, YES Sec

Exhibit 23: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 24: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 25: 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	21,019	24,726	29,501
Shareholder's funds	15,737	18,173	21,195	24,902	29,677
Deferred Tax Liabilities	45	60	71	86	103
Total Non-Financial liabilities	133	159	190	228	274
Debt Securities	1,688	3,469	4,961	6,599	8,578
Borrowings (Excl. Debt Sec.)	32,980	44,665	63,871	84,949	1,10,433
Other Financial Liabilities	569	754	1,079	1,435	1,865
Total Financial liabilities	35,299	49,038	70,061	93,131	1,21,026
Total Equities and Liabilities	51,169	67,370	91,446	1,18,262	1,50,977
Assets					
Cash and Cash Equivalents	6,178	2,356	5,640	7,306	9,588
Bank balances	501	628	628	628	628
Loans	43,049	59,957	80,542	1,05,455	1,35,617
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
Total Financial assets	50,877	66,990	91,046	1,17,839	1,50,529
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
Total Non-Financial assets	292	380	401	423	448
Total Assets	51,169	67,370	91,446	1,18,262	1,50,977

Source: Company, YES Sec

Exhibit 26: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	5,820	7,731	11,120	14,620	18,944
Interest expense	(2,157)	(3,043)	(4,986)	(6,756)	(8,764)
Net interest income	3,663	4,688	6,134	7,864	10,180
Non-interest income	137	225	472	496	546
Total op income	3,800	4,913	6,606	8,360	10,725
Total op expenses	(1,287)	(1,746)	(2,351)	(3,109)	(3,958)
PPoP	2,513	3,167	4,255	5,251	6,767
Provisions	(250)	(215)	(320)	(424)	(550)
Profit before tax	2,263	2,952	3,935	4,827	6,217
Taxes	(402)	(669)	(913)	(1,120)	(1,442)
Net profit	1,861	2,283	3,022	3,707	4,775

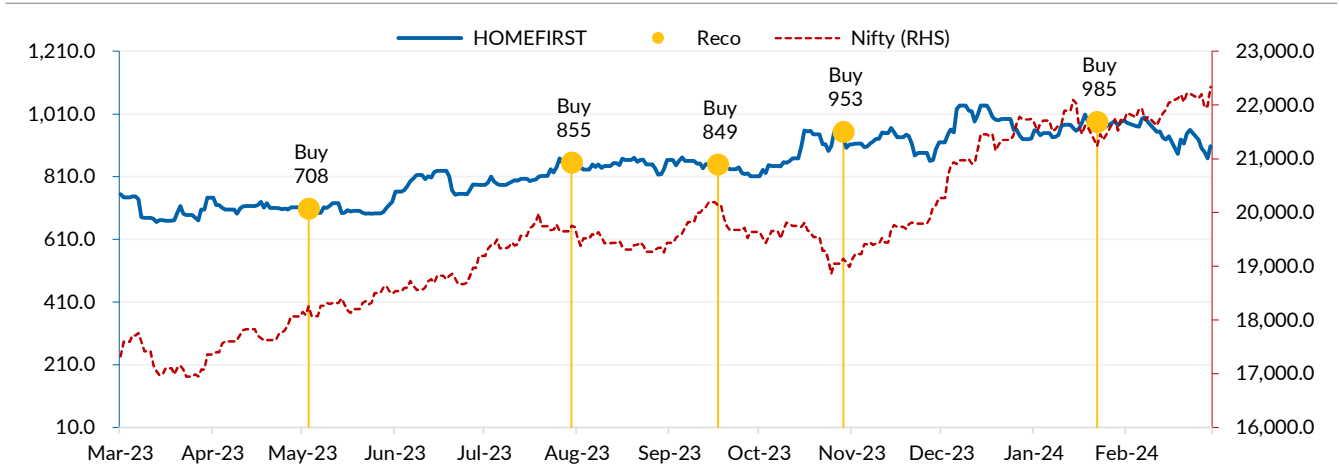
Source: Company, YES Sec

Exhibit 27: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	41.0	28.0	30.8	28.2	29.4
Total op income	39.8	29.3	34.5	26.5	28.3
Op profit (pre-provision)	51.2	26.0	34.3	23.4	28.9
Net profit	85.8	22.7	32.4	22.7	28.8
Advances	29.4	39.3	34.3	30.9	28.6
Borrowings + Debt	13.5	38.8	43.0	33.0	30.0
Total assets	13.5	31.7	35.7	29.3	27.7
Profitability Ratios (%)					
NIM	7.7	7.5	7.3	7.0	7.0
Non-interest income /Total income	3.6	4.6	7.2	5.9	5.1
Return on Avg. Equity	11.8	13.5	15.4	16.1	17.5
Return on Avg. Assets	3.6	3.9	3.8	3.5	3.5
Per share ratios (Rs)					
EPS	21.2	25.9	34.3	42.1	54.2
Adj. BVPS	170.9	199.2	232.4	271.9	322.9
Other key ratios (%)					
Loans/Borrowings	124.2	124.6	117.0	115.2	114.0
Cost/Income	33.9	35.5	35.6	37.2	36.9
CAR	58.6	49.4	42.8	38.4	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	23.2	23.2	23.2

Source: Company, YES Sec

Recommendation Tracker



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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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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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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.