

Home First Finance

Strong operating performance

Home First reported strong AUM growth of 33.3% YoY and 7.6% QoQ to Rs 83.7bn driven by healthy disbursements of Rs 9.6 bn (up 36.6% YoY and 7.1% QoQ) during the quarter. NIMs on AUM (calculated) stood at 7.3% and has largely remained around this levels over the last 6 quarters. This supported strong NII growth of 32.8% YoY. Operating profits increased at a faster clip (up 41% YoY) driven by NII growth and controlled opex (up 2.2% QoQ). C/I ratio stood at 35.1% as against 37.3% in 2QFY23 and 36.1% in 1QFY24. Credit costs (on BS loans) stood at 47bps (stable QoQ) while stage 3 assets increased 10bps QoQ to 1.74%. Spread (reported) are down 20bps QoQ to 5.5% however, remains above management guidance of 5.25%. RoA/RoE for the quarter stood at 3.8% and 15.6%. We remain watchful of NIMs trajectory going ahead due to spread compression, however increase in share of LAP and penetration in Tier 1 to Tier 3 cities could be yields accretive. Overall, 2QFY24 performance has exceeded our expectations with NII/PPOP/PAT being 2%/6%/6% ahead of our estimates. We build in AUM/PPOP/PAT CAGR of 27%/27%/26% over FY23-26E and RoA/RoE of 3.65%/17.6% in FY26E. We have increased our earnings estimate by 3-5% over FY24-26E. We continue to value Home First at 4x H1FY26E P/ABV to arrive at our Target Price of Rs 1150. Maintain Buy and as our top pick in HFCs.

Strong business momentum continues

Home First has consistently delivered AUM growth of 30%+ over the last 7 quarters. Home Loans (87% of AUM in 2QFY24) grew at an avg of 30% while LAP (12% of AUM as on 2QFY24) grew at an avg of 92% over the same period. Disbursement for 2QFY24 stood at Rs 9.6bn, up 37% YoY and 7% QoQ. Repayment rates (calculated) have remained in the range of 4% to 5% given its target customer segment of salaried customers. Lean business model has aided faster growth than peers despite operating in two segments. Low share of LAP and granular portfolio is comforting.

Spreads contract 20 bps QoQ; Calculated NIMs stable

Portfolio yield (reported under IGAAP) declined by 10 bps QoQ to 13.6% while CoB (reported under IGAAP) increased by 10bps QoQ to 8.1%. Thus it led to 20bps spreads compression to 5.5% as against 5.7% in 1QFY24. Calculated NIMs on AUM remained stable sequentially to 7.3% (includes DA income). The company expect another 20bps increase in CoB in 2HFY24. Overall, company expects to maintain spreads over 5.25%.

Asset Quality has been resilient

Bounce rates declined 80bps QoQ to 14.2% in 2QFY24. 1+ dpd has seen slight surge however, company has been able to maintain 30+dpd at 2.9% (flat QoQ) arresting forward flows. Stage 3 increased 10bps QoQ to 1.74% driven by seasonal factors. Credit costs was stable QoQ at 47bps.

Earnings growth impressive

Earnings growth (up 37% YoY) has been ahead of AUM growth (up 33%) due to stable NIMs (calc) and slower growth in opex, which was up 28% YoY. Opex/Avg assets stood at 2.9%, however likely to inch up to 3.0%-3.2%.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
NII	1,472	1,109	32.8	1,371	7.4	5,947	7,468	9,237
PPoP	1,044	741	40.9	977	6.9	4,157	5,199	6,456
Provisions	80	50	61.0	77	4.0	321	397	512
PAT	743	543	36.9	691	7.5	2,962	3,722	4,606
AUM growth (%)	7.6	7.6	(0.3)	8.0	(5.6)	33.1	30.3	27.6
NIM (%)	7.3	7.3	(0.4)	7.3	(0.4)	7.1	6.8	6.5
C / I (%)	35.1	37.3	(5.9)	36.1	(2.8)	35.8	35.2	34.9
GNPA (%)	1.7	1.9	(8.4)	1.6	6.1	1.6	1.4	1.3
RoA (%)	3.8	3.8	0.0	3.9	(2.6)	3.8	3.7	3.6
RoE (%)	15.6	13.3	17.2	15.2	2.5	15.2	16.6	17.6
P/BV (x)	0.0	0.0	0.0	0.0	0.0	4.1	3.5	3.0

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I NBFC

29 October, 2023

BUY

Price: Rs952

Target Price: Rs1,150

Forecast return: 21%

Institutional Research

Market Data

Bloomberg:	HOMEFIRS IN
52 week H/L:	985/652
Market cap:	Rs83.9bn
Shares Outstanding:	88.2mn
Free float:	38.4%
Avg. daily vol. 3mth:	2,01,708

Source: Bloomberg

Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs1150; Changed by 1.8%
EPS:	FY24E; Changed by 3.4%
	FY25E; Changed by 5.6%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	30.2	30.2	33.5	33.5
FIIs	17.0	17.6	15.7	9.4
DIIs	8.3	10.0	8.4	6.5
Public/other	44.5	42.2	42.4	50.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
NII	1,448	1,472	1.7
PPOP	986	1,044	5.9
PAT	703	743	5.7

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
NII	5,947	5,805	2.4	7,468	7,212	3.5
PPoP	4,157	4,013	3.6	5,199	4,933	5.4
PAT	2,962	2,865	3.4	3,722	3,526	5.6

Source: Centrum Broking

Home First Finance versus NIFTY Midcap 100

	1m	6m	1 year
HOMEFIRS IN	16.3	34.8	34.4
NIFTY Midcap 100	(4.8)	23.2	24.2

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Disbursement growth	30.6%	23.8%
AUM growth	33.1%	30.3%
NIMs	7.1%	6.8%
C/I	35.8%	35.2%
Credit costs	0.41%	0.40%

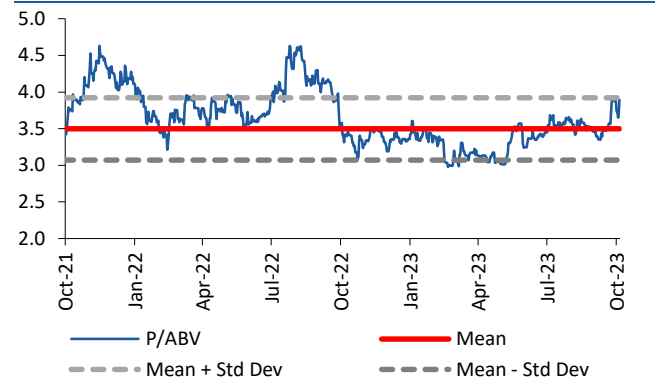
Source: Centrum Broking

Valuations

We build in AUM/PPoP/PAT CAGR of 27%/27%/26% over FY23-26E and RoA/RoE of 3.65%/17.6% in FY26E. We have increased our earnings estimate by 3-5% over FY24-26E. We continue to value Home First at 4x H1FY26E P/ABV to arrive at our Target Price of Rs 1150. Maintain Buy.

Valuations	Rs/share
1H FY26 P/ABV	285
Target multiple	4.0
Target Price	1,150
CMP	952
Upside to CMP	21%

P/BV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US \$bn	FY23A	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aptus value	145	1.7	4.3	3.9	3.3	2.8	4.4	4.0	3.4	2.9	16.1	17.0	18.8	20.1
Aavas financiers	122	1.5	3.7	3.2	2.8	2.4	3.8	3.3	2.9	2.4	14.2	14.1	15.1	16.0
Home first	84	1.0	4.6	4.1	3.5	3.0	4.8	4.2	3.6	3.1	13.5	15.2	16.6	17.6

Source: Company, Centrum Broking

Concall highlights

- AUM growth is expected to be above 30% over next 2-3 years. This will be driven by deeper penetration in focussed states and geographical expansion in North. The company plans to add about 20-30 branches in a year.
- Disbursement target for FY24 is at Rs 40bn and Rs 48bn to 50bn for FY25
- Co-lending is likely to contribute to 10% of disbursements. Co-lending is done in ATS of Rs2 mn to 2.5mn. The customer segment is salaried
- Company has 80% sanction to disbursal ratio
- Employee attrition is down. It had reached 40% levels last year. It is down to 30% in 1Q as well as 2Q due to (1) extended ESOP program (2) hiring lull in certain segments of industry
- Company has sensitized employees on the BT out and certain actions are taken at the earlier stage. The players are the same (Public banks, NBFCs, etc) in BT out. Some NBFCs are doing BT at lower rates which is not sustainable. BT should moderate with passage of time
- Distribution expansion should take AUM to Rs 200bn with same model. Company has around 2500-2600 active connectors in a quarter and can increase it multifold
- 90+ dpd is generally high in H1. Collection Efficiency will improve in H2
- RoE will remain stable for some time before it starts going up due to rising interest rate environment. Co-lending will take some time to grow
- Company plans to add about 100-150 touchpoints in next 2 years. It will go up to 1600-1700 employees from 1200 employees now
- Share of salaried customers will go down as company penetrates deeper. In medium term it will be 60:40
- NHB sanction limits – sanction line of Rs 4.5 bn is available between now and June'24
- Incremental CoB is between 8.6%-8.7% (ex-NHB). With NHB it will be 8.1% and will go up by 20bps
- New markets – company only enters those markets which fit into its operating leverage parameters.
- Yields will have variation QoQ. Spreads of 525bps due to increase in CoF. Yields will remain at similar levels

Exhibit 1: Quarterly result review

Y/E March (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	2,491	1,727	2,313	44.2	7.7
Gain on DA of Financial instruments	151	93	126	62.3	20.4
Interest + Gain on DA	2,642	1,821	2,439	45.1	8.3
<i>Yield on AUM</i>	13.1%	12.0%	13.0%	107bps	6bps
Interest Expense	1,170	711.6	1067.73	64.4	9.6
<i>CoF</i>	8.1%	7.2%	8.2%	88bps	-13bps
Net Interest Income(includes DA)	1,472	1,109	1,371	32.8	7.4
NIMs (calculated)	7.3%	7.3%	7.3%	-3bps	-3bps
Non Interest Income	137	73	159	87.0	-13.5
Total Income	1,610	1,182	1,530	36.1	5.2
Employee Cost	369	266	359	38.8	2.7
Other Op Exp	197	175	194	12.1	1.3
Total Op Exp	565	441	553	28.2	2.2
<i>Cost to Income (%)</i>	35.1%	37.3%	36.1%	-218bps	-103bps
Pre-provision op profit	1,044	741	977	40.9	6.9
Provisions	80	50	77	61.0	4.0
<i>Credit costs</i>	0.47%	0.40%	0.49%	7bps	-2bps
PBT	964	692	900	39.4	7.1
Tax	221	149	209	48.6	5.9
<i>-effective tax rate</i>	23.0%	21.5%	23.2%	141bps	-27bps
PAT	743	543	691	36.9	7.5
Disbursements	9,591	7,022	8,952	36.6	7.1
AUM	83,654	62,754	77,759	33.3	7.6
Loans on BS	70,253	51,454	65,194	36.5	7.8
Borrowings	60,018	41,541	56,264	44.5	6.7
GNPA	1.7%	1.9%	1.6%	-19bps	10bps

Source: NBFC, Centrum Broking

Exhibit 2: Actual performance vs our estimates

(Rs mn)	Q2FY24A	Q2FY24E	Devi (%)
AUM	82,650	83,654	1.2%
Net Interest Income (incl. DA)	1,448	1,472	1.7%
Pre-provisioning operating profit	986	1,044	5.9%
PAT	703	743	5.7%

Source: NBFC, Centrum Broking

Exhibit 3: Quarterly overview- detailed

Y/E March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Interest Income	1,547	1,727	1,902	2,047	2,313	2,491
Gain on DA of Financial instruments	99	93	76	112	126	151
Interest + Gain on DA	1,646	1,821	1,978	2,159	2,439	2,642
<i>Yield on AUM</i>	11.7%	12.0%	12.1%	12.4%	13.0%	13.1%
Interest Expense	607	712	796	929	1,068	1,170
<i>CoF</i>	6.7%	7.2%	7.2%	7.8%	8.2%	8.1%
Net Interest Income	1,039	1,109	1,182	1,230	1,371	1,472
<i>NIMs (calculated)</i>	7.4%	7.3%	7.3%	7.1%	7.3%	7.3%
Non Interest Income	48	73	78	154	159	137
Total Income	1,086	1,182	1,260	1,384	1,530	1,610
Employee Cost	256	266	274	275	359	369
Other Op Exp	132	175	169	200	194	197
Total Op Exp	387	441	443	475	553	565
<i>Cost to Income (%)</i>	35.7%	37.3%	35.1%	34.3%	36.1%	35.1%
Pre-provision op profit	699	741	817	910	977	1,044
Provisions	36	50	60	70	77	80
<i>Credit costs</i>	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%
PBT	663	692	757	840	900	964
Tax	151	149	170	200	209	221
<i>-effective tax rate</i>	22.7%	21.5%	22.4%	23.8%	23.2%	23.0%
PAT	512	543	587	640	691	743
Growth	46.0%	21.0%	27.9%	6.4%	34.9%	36.9%
Disbursements	6,612	7,022	7,804	8,691	8,952	9,591
AUM	58,319	62,754	67,512	71,980	77,759	83,654
Borrowings	37,803	41,541	47,014	48,135	56,264	60,018
GNPA	1,020	1,001	1,008	974	1,077	1,233
GNPA (%)	2.14%	1.93%	1.78%	1.61%	1.64%	1.74%
Stage 3 Provisions (%)	22.4%	26.4%	29.1%	34.0%	31.0%	30.3%

Source: NBFC, Centrum Broking

Exhibit 4: Change in our estimates

	Revised Estimates			Earlier Estimates			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest income (Rs mn)	5,947	7,468	9,237	5,805	7,212	8,973	2.4%	3.5%	2.9%
Operating Profit (Rs mn)	4,157	5,199	6,456	4,013	4,933	6,179	3.6%	5.4%	4.5%
Profit after tax (Rs mn)	2,962	3,722	4,606	2,865	3,526	4,406	3.4%	5.6%	4.5%
AUM	95,818	1,24,805	1,59,277	94,835	1,23,167	1,56,899	1.0%	1.3%	1.5%
BVPS	233	271	318	232	268	313	0.6%	1.3%	1.8%
Adj BVPS	225	262	307	225	259	303	0.3%	0.9%	1.3%

Source: NBFC, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	5,795	7,603	10,777	13,663	17,230
Interest expense	2,190	3,081	4,830	6,195	7,993
NII	3,605	4,522	5,947	7,468	9,237
Other income	162	353	524	560	672
Total income	3,767	4,875	6,471	8,027	9,909
Operating expenses	1,254	1,708	2,314	2,828	3,454
Employee	808	1,070	1,470	1,795	2,195
Others	446	638	844	1,033	1,259
PPOP	2,513	3,168	4,157	5,199	6,456
Provisions	250	215	321	397	512
PBT	2,263	2,952	3,836	4,802	5,944
Tax	402	669	874	1,081	1,337
PAT	1,861	2,283	2,962	3,722	4,606

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	29.9	33.8	33.1	30.3	27.6
Borrowings	22.5	13.5	38.8	37.9	30.8
NII	42.2	25.4	31.5	25.6	23.7
Other income	6.7	118.7	48.2	6.8	20.1
Opex	22.4	36.2	35.5	22.2	22.1
PPoP	51.2	26.0	31.2	25.1	24.2
Provisions	(22.2)	(14.0)	49.2	23.6	28.9
PAT	85.8	22.7	29.7	25.7	23.8
Profitability (%)					
Yield on advances	10.9	12.5	13.4	13.1	13.1
Cost of funds	6.7	7.4	8.4	8.1	8.1
NIM (on AuM)	7.6	7.2	7.1	6.8	6.5
Other Income/ Total Income	4.3	7.2	8.1	7.0	6.8
Other Income / Total Assets	0.3	0.5	0.6	0.5	0.5
Cost/Income	33.3	35.0	35.8	35.2	34.9
Employee	21.4	21.9	22.7	22.4	22.1
Others	11.8	13.1	13.0	12.9	12.7
Opex/ Avg AuM	2.6	2.7	2.8	2.6	2.4
Provisions	0.2	0.4	0.4	0.4	0.4
Tax Rate	17.8	22.7	22.8	22.5	22.5
RoA	3.9	3.9	3.8	3.7	3.6
RoE	12.6	13.5	15.2	16.6	17.6

DuPont (% avg assets)					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	12.0	12.8	13.9	13.6	13.6
Interest expense	4.5	5.2	6.2	6.2	6.3
NII	7.5	7.6	7.7	7.5	7.3
Other income	0.3	0.6	0.7	0.6	0.5
Total income	7.8	8.2	8.3	8.0	7.8
Operating expenses	2.6	2.9	3.0	2.8	2.7
Employee	1.7	1.8	1.9	1.8	1.7
Others	0.9	1.1	1.1	1.0	1.0
PPOP	5.2	5.3	5.3	5.2	5.1
Provisions	0.5	0.4	0.4	0.4	0.4
PBT	4.7	5.0	4.9	4.8	4.7
Tax	0.8	1.1	1.1	1.1	1.1
PAT	3.9	3.9	3.8	3.7	3.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	49,727	65,749	86,627	1,10,492	1,38,964
Cash	6,678	2,984	3,297	2,968	2,672
Loans	43,049	59,957	79,772	1,03,967	1,32,735
Investment	0	2,808	3,557	3,557	3,557
Non-financial assets	1,442	1,593	1,490	1,641	1,610
Deferred tax assets	0	0	0	0	0
Fixed Assets	202	257	295	335	375
Other Non-fin. assets	1,239	1,336	1,195	1,306	1,235
Total Assets	51,169	67,342	88,116	1,12,133	1,40,575
Financial liabilities	34,668	48,135	66,371	86,812	1,10,834
Borrowings	34,668	48,135	66,371	86,812	1,10,834
Non-financial liabilities	764	1,034	1,047	1,272	1,546
Other Non-fin liabilities	764	1,034	1,047	1,272	1,546
Total equity	15,737	18,173	20,699	24,049	28,194
Share capital	175	176	176	176	176
Other equity	15,562	17,997	20,523	23,873	28,018
Total Liabilities	51,169	67,342	88,116	1,12,133	1,40,575
Balance Sheet ratios (%)					
Debt / Equity	2.2	2.6	3.2	3.6	3.9
Assets / Equity	3.3	3.5	4.0	4.5	4.8
Cash / Borrowings	19.3	6.2	5.0	3.4	2.4
Details on loans					
AUM	53,803	71,980	95,818	1,24,805	1,59,277
Disbursements	20,305	30,129	39,358	48,725	59,977
Capital Adequacy (%)					
CRAR	58.6	49.4	41.7	37.4	35.0
Tier-1	58.1	48.9	41.5	37.2	34.8
Tier-2	0.6	0.5	0.2	0.2	0.2
Asset quality (%)					
GNPA (Rs mn)	1,015	974	1,288	1,478	1,726
Growth (%)	63.3	(4.1)	32.2	14.8	16.8
NNPA (Rs mn)	763	643	889	1,020	1,191
Growth (%)	91.6	(15.7)	38.1	14.8	16.8
GNPA	2.3	1.6	1.6	1.4	1.3
NNPA	1.8	1.1	1.1	1.0	0.9
PCR	24.9	34.0	31.0	31.0	31.0
NNPA / Equity	4.8	3.5	4.3	4.2	4.2
Per share (Rs)					
EPS	21.0	26.0	33.7	42.3	52.3
BVPS	180.0	206.0	233.2	271.2	318.3
ABVPS	170.9	199.2	225.1	261.6	306.8
DPS	0.0	2.6	3.4	4.2	5.2
Valuation (x)					
P/E	45.4	36.7	28.3	22.5	18.2
P/BV	5.3	4.6	4.1	3.5	3.0
P/ABV	5.6	4.8	4.2	3.6	3.1
Dividend yield	0.0	0.0	0.3	0.4	0.4

Source: Company, Centrum Broking

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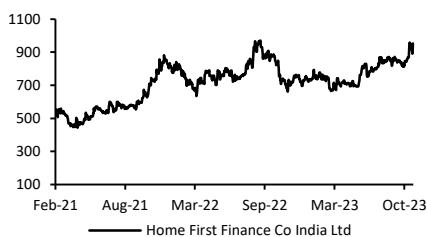
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Home First Finance



Source: Bloomberg

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