

Home First Finance (HOMEFIRS)

NBFC | 4QFY24 Result Update

BUY

CMP: Rs850 | Target Price (TP): Rs1,150 | Upside: 35%

May 09, 2024

Growth outlook strong; spreads under pressure in H1

Key Points

- HFFC has demonstrated robust AUM growth (34.7% YoY) in FY24; we expect the trajectory to continue, aided by deeper geographic expansion
- Despite high competitive intensity and BT-out pressures, we expect the company to maintain spreads in the range of ~5% - 5.25% in FY25E (5.5% for FY24), supported by expansion into new geographies/ LAP
- Expect opex spend to increase, factoring in planned branch expansion; credit costs to be contained in FY25E
- Stake sale by PE investors remains a key overhang; we remain structurally positive on HFFC's growth prospects and execution capability
- While near term RoE is suppressed due to high capital adequacy (39% Tier 1 ratio), we expect it to expand to 18% by FY26E with an RoA of 3.5%. Maintain BUY with a TP of Rs1,150 keeping the multiple unchanged at 3.6x FY26E P/ABV.

Expect to deliver strong AUM growth in FY25E: Q4 disbursements grew robust at 26.8% YoY/ 9.4% QoQ to Rs 11bn driven by steady demand for housing loans. FY24 disbursements also showed a strong trend (+31.5% YoY to Rs 39.6 bn). Consequently, AUM grew 34.7% YoY/ 7.6% QoQ to Rs 96.9 bn. The company is strengthening its presence in existing markets (GJ, MH) and expanding into new geographies (focus states of UP, MP, RJ) and has added 22 new branches in FY24. It plans to add ~20-25 branches in FY25 and expects incremental growth to be driven by newer geographies as well as deeper presence in existing locations. Gradual portfolio diversification to tier 3/ 4 cities and focus on LAP/ co-lending will likely augment growth, leading to an AUM growth of 32%/ 29% YoY in FY25/ 26E.

Near-term pressure on spreads; BT-outs a challenge: Q4 yield stood stable at 13.5% while CoB inched up by 10 bps QoQ to 8.3%. Q4 NIM however, declined by 40 bps (to 5.3% vs. 5.7% in 3Q) on account of higher CoB, financial leverage and cash reserves. Q4/ FY24 spreads stood stable at 5.4%/ 5.5%; the company expects to see a moderation to 5%- 5.25% over the near-term due to a further rise in CoB (~20 bps increase over H1FY25). We expect spreads to remain in the guided range aided by an expansion in new markets/ growing LAP portfolio. HFFC continues to see a higher trend of BT-outs (8.3% in 4QFY24 vs. 6.1% in 4QFY23) due to re-pricing/ high competitive intensity; however the company expects to see a moderation from current levels, led by a stable interest rate environment. While Opex to assets ratio improved to 2.5% in the quarter, we expect it to trend ~3% in FY25E (2.9% in FY24) as the company opens new branches/ hires new people.

Est Change	Upward
TP Change	No Change
Rating Change	No Change

Company Data and Valuation Summary

Reuters	HOME.BO
Bloomberg	HOMEFIRS IN
Market Cap (Rsbn / US\$bn)	78.5 / 946.3
52 Wk H / L (Rs)	1,061 / 686
ADTV-3M (mn) (Rs / US\$)	202.2 / 2.1
Stock performance (%) 1M/6M/1yr	7.7 / (2.5) / 23.7
Nifty 50 performance (%) 1M/6M/1yr	(0.8) / 0.5 / 25.4

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	30.2	23.6	23.6
DII's	10.0	11.8	11.9
FII's	17.0	24.8	25.1
Others	42.8	39.8	39.5
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
NII	4,179	5,278	6,993	9,185
% growth	41.2	26.3	32.5	31.3
NIM %	6.6	6.2	6.2	6.3
C/I Ratio %	35.5	35.2	38.5	38.5
Operating Profit	3,167	4,254	5,295	6,842
% growth	26.0	34.3	24.5	29.2
Adjusted PAT	2,283	3,057	3,807	4,937
% growth	22.7	33.9	24.5	29.7
ABVPS (INR /share)	199.2	228.6	268.1	321.2
P/ABV	4.3	3.7	3.2	2.6
RoA (%)	3.9	3.8	3.5	3.5
Leverage (x)	3.5	4.1	4.7	5.2
RoE (%)	13.5	15.5	16.5	18.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [4QFY24 Presentation](#)

Please refer to the disclaimer towards the end of the document.

Asset quality trends stable: GS3/ NS3 ratios stood stable QoQ at 1.7%/ 1.2% respectively. The company highlighted a trend of strong collection efficiency and an improvement in delinquencies across buckets (1+ DPD improved to 4.2% vs. 4.5% in Q3). Credit cost stood lower at 10 bps in the quarter on account of recoveries of Rs 25mn from previously written-off loans and the company expects it to be in the range of 30-40 bps for FY25E.

Stake sale by PE investors remains a key overhang: Private Equity promoters - True North and Aether Mauritius own 14.2%/ 9.4% of HFFC respectively. Management commentary indicated a likely stake sale of ~10% share each year over the next 2 years (via a block deal, once a year) as these funds exit their positions. While this remains a key overhang for the stock, we remain structurally positive on HFFC's future growth potential.

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24	YoY	QoQ
Net Interest Income	1,118	1,246	1,321	1,344	1,368	4,179	5,278	22.4%	1.8%
YoY Change (%)	31.4	32.6	30.1	21.4	22.4	41.2	26.3	-	-
Non-interest income	266	285	289	364	351	734	1,289	31.7%	-3.8%
Net Revenue	1,384	1,530	1,610	1,708	1,719	4,913	6,567	24.2%	0.6%
Operating Expenses	475	553	565	611	584	1,746	2,313	23.0%	-4.4%
Operating profit	910	977	1,044	1,097	1,135	3,167	4,254	24.8%	3.4%
YoY Change (%)	38.0	39.8	40.9	34.3	24.8	26.0	34.3	-	-
Provisions	70	77	80	70	27	215	254	-60.5%	-60.8%
Profit before Tax	840	900	964	1,027	1,107	2,952	4,000	31.8%	7.8%
Tax	200	209	221	239	273	669	942	36.6%	14.0%
ETR (%)	23.8	23.2	23.0	23.3	24.6	22.7	23.6	-	-
Net Profit	640	691	743	788	835	2,283	3,057	30.4%	5.9%
YoY Change (%)	6.4	34.9	36.9	34.2	30.4	22.7	33.9	-	-
Business Metrics									
AUM	71,980	77,759	83,654	90,137	96,978	71,980	96,978	34.7%	7.6%
YoY Change (%)	33.8	33.3	33.3	33.5	34.7	33.8	34.7	-	-
Disbursements	8,691	8,952	9,591	10,072	11,019	30,129	39,634	26.8%	9.4%
YoY Change (%)	35.6	35.4	36.6	29.1	26.8	48.4	31.5	-	-
Asset Quality Metrics									
GS-3 (%)	1.61	1.64	1.74	1.70	1.70	1.61	1.70	9bps	0bps
NS-3 (%)	1.07	1.14	1.22	1.20	1.20	1.07	1.20	13bps	0bps
PCR (%)	34.0	31.0	30.3	29.9	29.7	34.0	29.7	-422bps	-18bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

Change in our estimates	Revised Estimates		Earlier Estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income	6,993	9,185	6,739	8,856	3.8	3.7
NIM (%)	6.2	6.3	6.0	6.1	20 bps	20 bps
Cost / Income (%)	38.5	38.5	39.6	38.6	-110 bps	-10 bps
Operating Profit	5,295	6,842	5,017	6,604	5.6	3.6
Credit Costs (%)	0.3	0.3	0.3	0.3	0 bps	0 bps
Net Profit	3,807	4,937	3,594	4,781	5.9	3.3
AUM (Rs bn)	127.8	165.2	126.3	162.6	1.1	1.6

Source: Company, Nirmal Bang Institutional Equities Research

HFFC 4QFY24 Concall KTAs

Business Updates

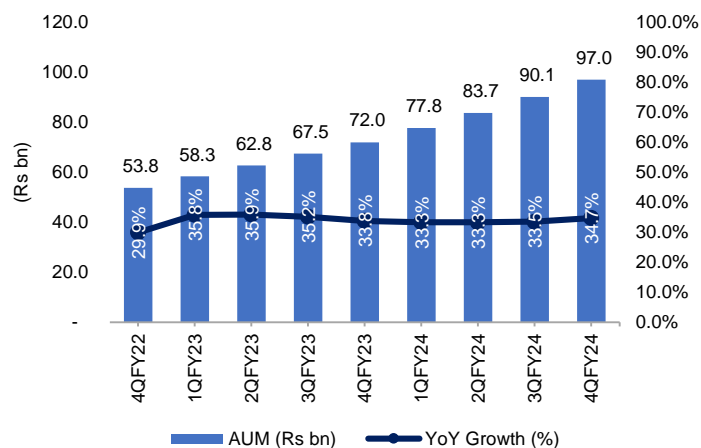
- Expanded distribution by adding 22 branches in FY24, totaling 133 physical branches across Tier 1 to Tier 5 markets in 13 states. Strengthened its presence in emerging affordable housing markets like Uttar Pradesh, Madhya Pradesh, and Rajasthan by opening 7 branches in these states.
- HL/ LAP/ Shop loans stood at 86%/ 13%/ 1% of the portfolio as of Q4FY24. 68% of the book is salaried.
- Digital adoption is a key focus, with 95% of customers registered on the app and 53% unique user logins in 4Q. Processed 47% of loan sanctions using data from the account aggregator in 4Q.
- The range of interest rates from NHB varies from 5.5% to 8.5%, depending on the scheme and factors like available funds and refinancing pool. Changes in interest rates from NHB are passed on to customers in the floating book, while fixed-rate books remain unchanged. Rs2.5bn drawn in April-24, and expect more to be drawn in FY25.
- The company's outlook is upgraded by India Ratings, aiming to move to the next rating category.
- Small increases in costs (10-20 bps) are being absorbed without passing them on to customers to provide stability. Delinquencies have stabilized and improved.
- The decline in OpEx, including both employee and non-employee costs, was due to cleaning up of excess provisions that had accumulated by the financial year's end.
- BT-out rate for 4QFY24 (annualized) is 8.3%. This increase is mainly due to re-pricing, following sharp rate increases in the last two years. The company is implementing measures to address balance transfers, but it's not a major concern as the overall erosion levels remain stable.
- The total repayment rate, including balance transfers, is around 18-20%, indicating a balanced impact between balance transfers and prepayments on the portfolio.
- Last rate hike was in Apr-23.

Operational Performance

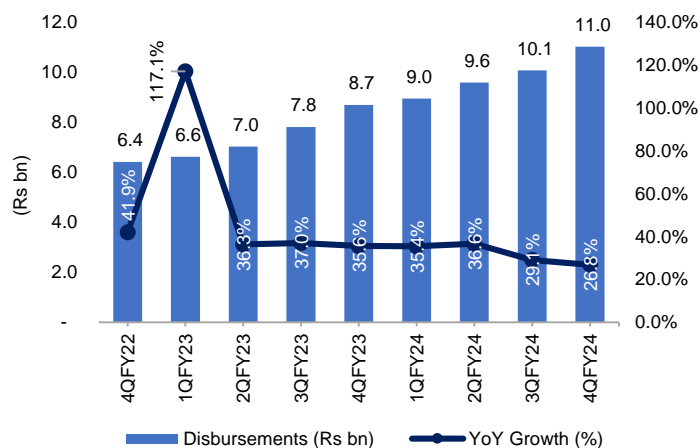
- Overall spread is at 5.2%, with Ex-Co-Lending spread at 5.4% and 4Q NIM at 5.3%. NIM compression in 4Q was due to continued growth, increase in financial leverage, higher cost of borrowing, and increased cash holdings.
- Operating cost to assets at 2.5% for 4Q; maintaining guidance of 3% for future expansion.
- Ex-Co-Lending spread guidance is 5.25% for the median term; aiming to reach 10% of AUM mix from the current 3%.
- Diversified borrowing mix with 60% from banks, 18% from NHB, 14% from direct assignment, and 3% from co-lending.
- Cost of borrowing is expected to remain stable with a slight increase of 10 to 20 basis points in the near future.

Guidance & Future Outlook

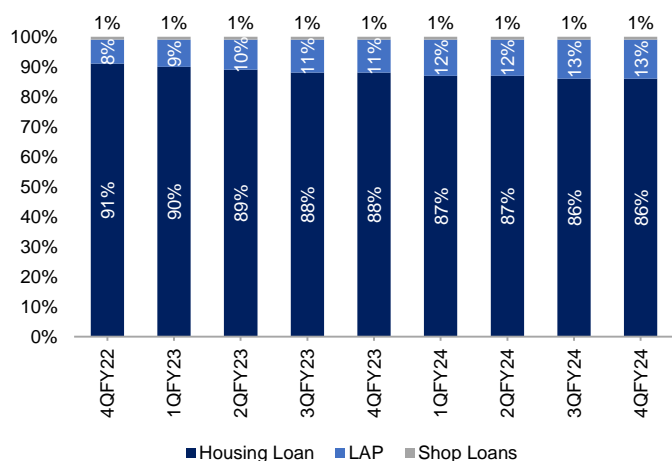
- Branch expansion target is set at 20 to 25 branches per year, along with 60 to 70 touch-points annually.
- Origination yield has seen fluctuations, but the target is to achieve a 13.5% origination yield.
- The aim is to reduce the share of Gujarat in the overall mix over time.
- The focus is to maintain OpEx at around 3%.
- The company aims to stabilize credit costs around 35-40 basis points moving forward.

Exhibit 3: AUM Trend


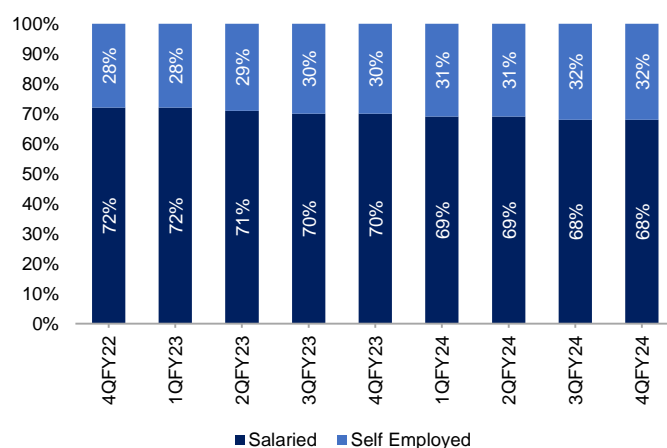
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Disbursements Trend


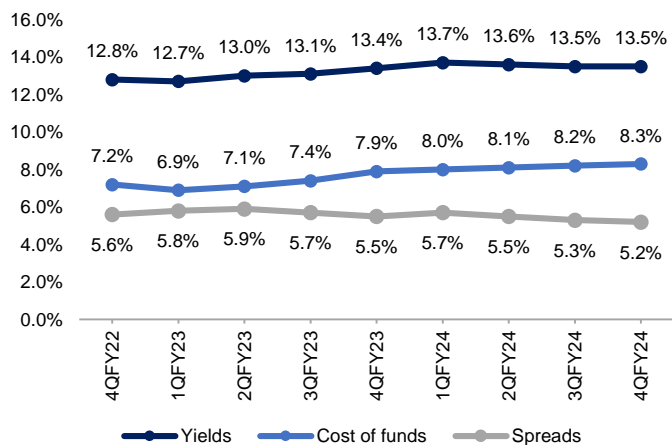
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: AUM mix by Product


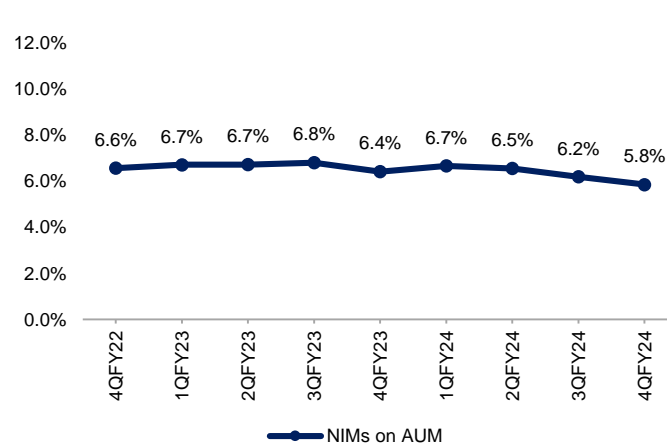
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: AUM mix by Occupation


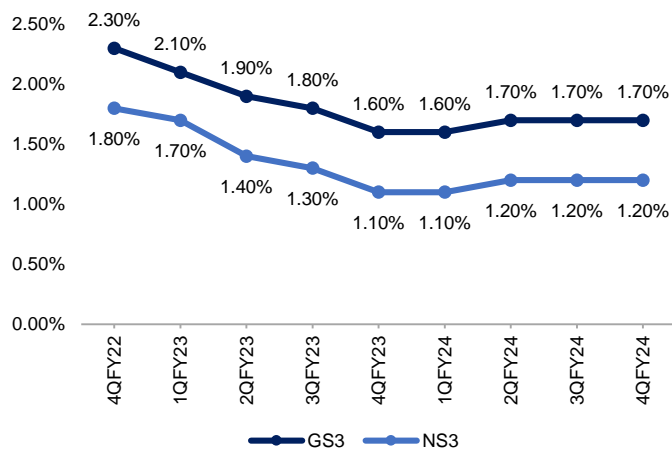
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Exhibit 7: Interest Yields, CoF & Spreads


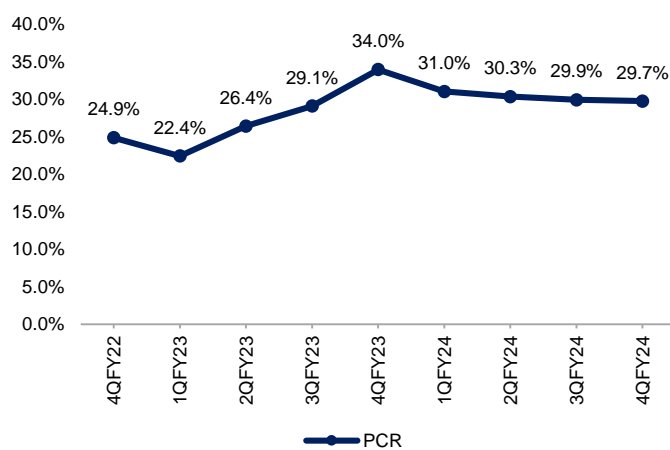
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: NIMs on AUM


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Gross stage 3 and Net stage 3


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Stage 3 ECL provisions


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Financial summary

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	2,960	4,179	5,278	6,993	9,185
Pre-provisioning operating profit	2,513	3,167	4,254	5,295	6,842
PAT	1,861	2,283	3,057	3,807	4,937
P/E (x)	40.0	32.8	24.6	19.8	15.2
P/BV (x)	4.7	4.1	3.5	3.0	2.5
P/ABV (x)	5.0	4.3	3.7	3.2	2.6
EPS (Rs)	21.2	25.9	34.5	43.0	55.8
BV (Rs)	179.6	206.5	239.7	282.7	338.5
ABV (Rs)	170.9	199.2	228.6	268.1	321.2
Gross NPAs (%)	2.4	1.6	1.7	1.6	1.5
Net NPAs (%)	1.8	1.1	1.2	1.2	1.1
RoA (%)	3.9	3.9	3.8	3.5	3.5
RoE (%)	12.6	13.5	15.5	16.5	18.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 13: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	5,117	7,222	10,277	13,402	17,217
Interest expense	2,157	3,043	4,999	6,409	8,031
Net interest income	2,960	4,179	5,278	6,993	9,185
Non-interest income	840	734	1,289	1,611	1,947
Net Revenue	3,800	4,913	6,567	8,604	11,133
Operating Expense	1,287	1,746	2,313	3,309	4,291
Operating profit	2,513	3,167	4,254	5,295	6,842
Provisions	250	215	254	351	430
PBT	2,263	2,952	4,000	4,944	6,412
Taxes	402	669	942	1,137	1,475
PAT	1,861	2,283	3,057	3,807	4,937

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	175	176	177	177	177
Reserves & surplus	15,562	17,997	21,038	24,845	29,782
Networth	15,737	18,173	21,215	25,022	29,959
Borrowings	34,668	48,135	73,021	97,513	127,820
Other liability & provisions	764	1,081	1,104	1,342	1,631
Total liabilities	51,169	67,390	95,340	123,877	159,409
Cash	6,678	2,984	8,215	5,350	7,769
Investments	0	2,808	3,788	8,671	9,565
Loans	43,049	59,957	81,434	107,291	138,684
Fixed & Other assets	1,442	1,641	1,902	2,564	3,392
Total assets	51,169	67,390	95,340	123,877	159,409

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Growth (%)					
Net Interest Income (%)	39.2	41.2	26.3	32.5	31.3
Operating Profit (%)	51.2	26.0	34.3	24.5	29.2
Profit After Tax (%)	85.8	22.7	33.9	24.5	29.7
Loans	29.4	39.3	35.8	31.8	29.3
Spreads (%)					
Yield on loans	13.4	14.0	14.5	14.2	14.0
Cost of Borrowings	6.6	7.3	8.3	7.5	7.1
NIMs	6.2	6.6	6.2	6.2	6.3
Operational Efficiency (%)					
Cost to Income	33.9	35.5	35.2	38.5	38.5
Opex to AUM	2.7	2.8	2.7	2.9	2.9
CRAR (%)					
Total CRAR	58.6	49.4	39.5	37.7	35.2
Asset Quality (%)					
Gross NPA	2.4	1.6	1.7	1.6	1.5
Net NPA	1.8	1.1	1.2	1.2	1.1
Provision Coverage	24.9	34.0	29.7	30.0	30.0
Credit Cost	0.5	0.3	0.3	0.3	0.3
Return Ratio (%)					
ROE	12.6	13.5	15.5	16.5	18.0
ROA	3.9	3.9	3.8	3.5	3.5
Per Share (Rs)					
EPS	21.2	25.9	34.5	43.0	55.8
BV	179.6	206.5	239.7	282.7	338.5
ABV	170.9	199.2	228.6	268.1	321.2
Valuation (x)					
P/E	40.0	32.8	24.6	19.8	15.2
P/BV	4.7	4.1	3.5	3.0	2.5
P/ABV	5.0	4.3	3.7	3.2	2.6

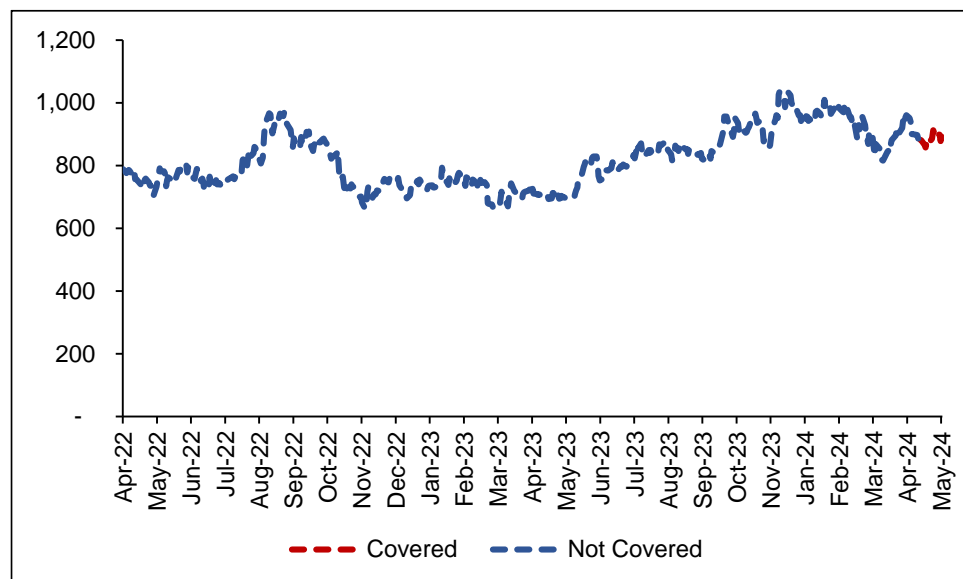
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2024	Buy	886	1,150
09 May 2024	Buy	850	1,150

**The coverage has been transferred to Shreya Khandelwal from August 8, 2023*

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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