

# 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.

|               |           |
|---------------|-----------|
| 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   |
| DILs         | 10.0   | 11.8   | 11.9   |
| FII          | 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         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| <b>Net Interest Income</b>   | <b>1,118</b> | <b>1,246</b> | <b>1,321</b> | <b>1,344</b> | <b>1,368</b> | <b>4,179</b> | <b>5,278</b> | <b>22.4%</b> | <b>1.8%</b> |
| 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%       |
| <b>Net Revenue</b>           | <b>1,384</b> | <b>1,530</b> | <b>1,610</b> | <b>1,708</b> | <b>1,719</b> | <b>4,913</b> | <b>6,567</b> | <b>24.2%</b> | <b>0.6%</b> |
| Operating Expenses           | 475          | 553          | 565          | 611          | 584          | 1,746        | 2,313        | 23.0%        | -4.4%       |
| <b>Operating profit</b>      | <b>910</b>   | <b>977</b>   | <b>1,044</b> | <b>1,097</b> | <b>1,135</b> | <b>3,167</b> | <b>4,254</b> | <b>24.8%</b> | <b>3.4%</b> |
| 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%      |
| <b>Profit before Tax</b>     | <b>840</b>   | <b>900</b>   | <b>964</b>   | <b>1,027</b> | <b>1,107</b> | <b>2,952</b> | <b>4,000</b> | <b>31.8%</b> | <b>7.8%</b> |
| 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         | -            | -           |
| <b>Net Profit</b>            | <b>640</b>   | <b>691</b>   | <b>743</b>   | <b>788</b>   | <b>835</b>   | <b>2,283</b> | <b>3,057</b> | <b>30.4%</b> | <b>5.9%</b> |
| YoY Change (%)               | 6.4          | 34.9         | 36.9         | 34.2         | 30.4         | 22.7         | 33.9         | -            | -           |
| <b>Business Metrics</b>      |              |              |              |              |              |              |              |              |             |
| 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         | -            | -           |
| <b>Asset Quality Metrics</b> |              |              |              |              |              |              |              |              |             |
| 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

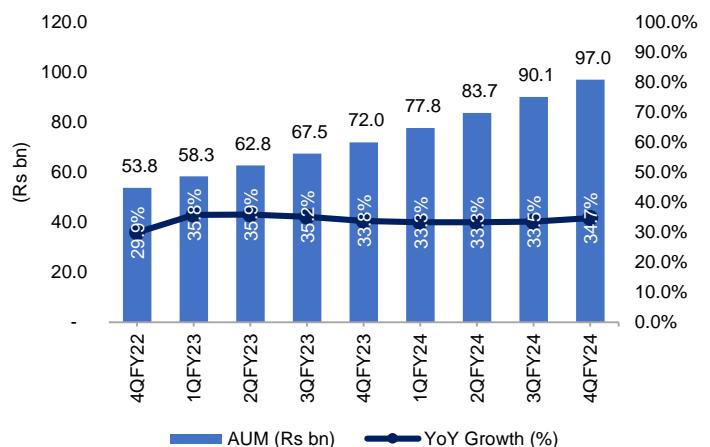
- Expanded distribution by adding 22 branches in FY24, totaling 133 physical branches across Tier 1 to Tier 5 markets in 13 states. Strengthened its presence in emerging affordable housing markets like Uttar Pradesh, Madhya Pradesh, and Rajasthan by opening 7 branches in these states.
- HL/ LAP/ Shop 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

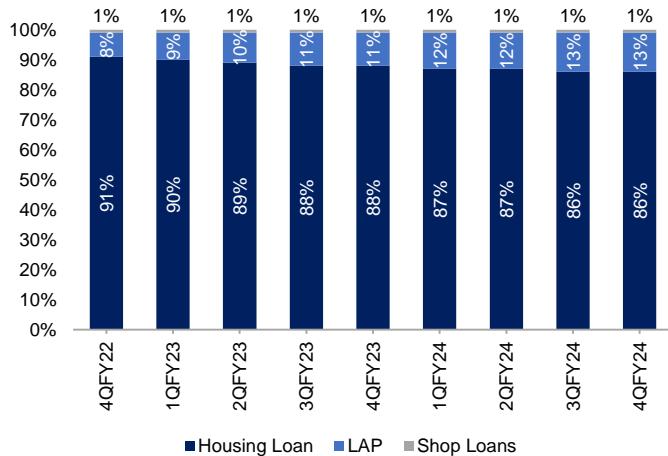
- Branch expansion target is set at 20 to 25 branches per year, along with 60 to 70 touch-points annually.
- Origination yield has seen fluctuations, but the target is to achieve a 13.5% origination yield.
- The aim is to reduce the share of Gujarat in the overall mix over time.
- The focus is to maintain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

**Exhibit 3: AUM Trend**


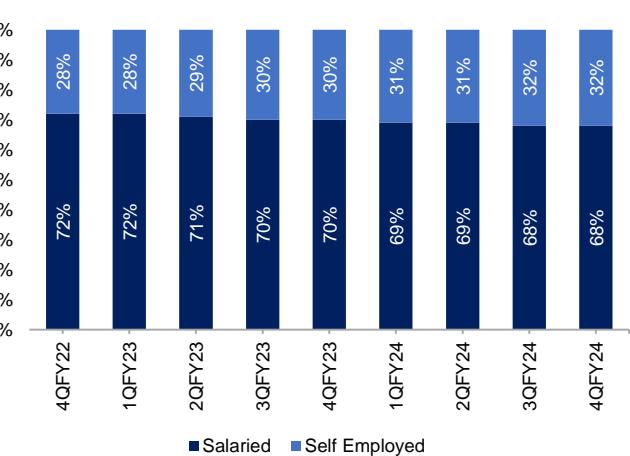
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Disbursements Trend**

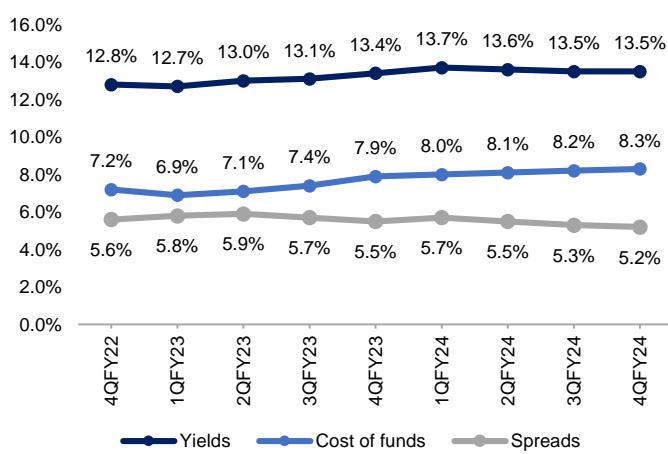

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: AUM mix by Product**


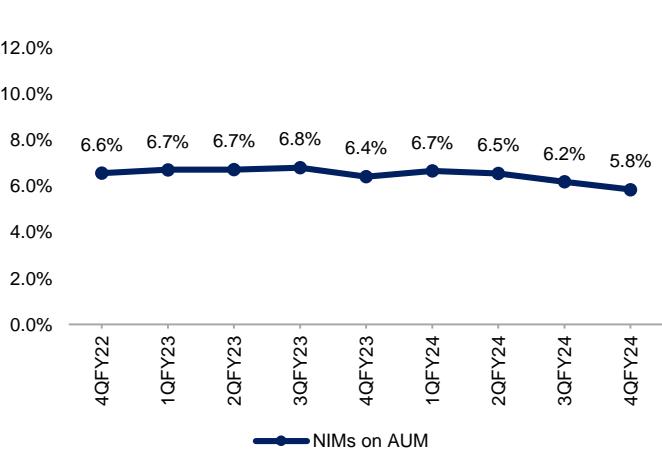
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: AUM mix by Occupation**


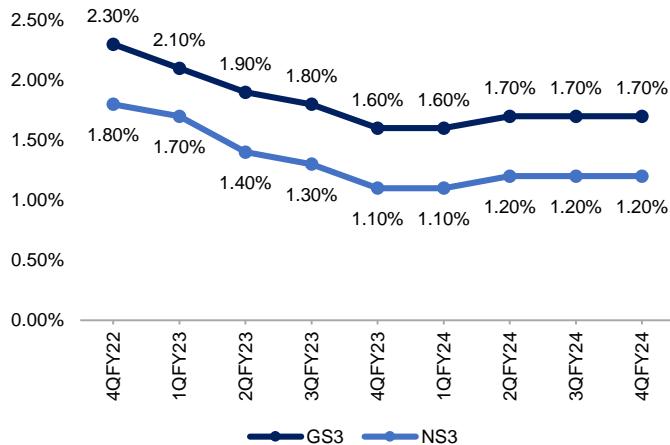
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Interest Yields, CoF & Spreads**


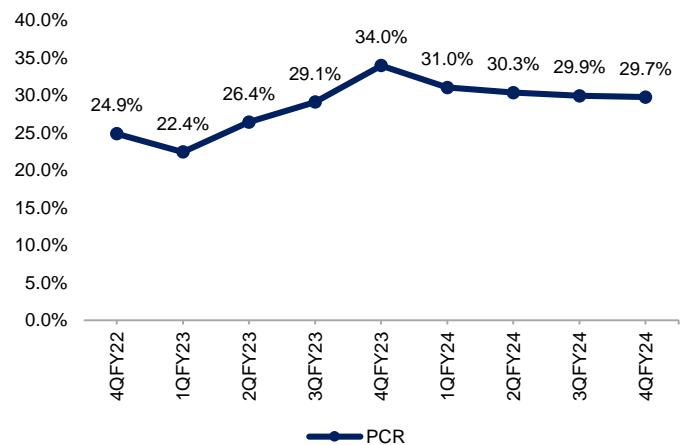
Source: Company, Nirmal Bang Institutional Equities Research

**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         |
| <b>Net interest income</b> | <b>2,960</b> | <b>4,179</b> | <b>5,278</b> | <b>6,993</b> | <b>9,185</b>  |
| Non-interest income        | 840          | 734          | 1,289        | 1,611        | 1,947         |
| <b>Net Revenue</b>         | <b>3,800</b> | <b>4,913</b> | <b>6,567</b> | <b>8,604</b> | <b>11,133</b> |
| Operating Expense          | 1,287        | 1,746        | 2,313        | 3,309        | 4,291         |
| <b>Operating profit</b>    | <b>2,513</b> | <b>3,167</b> | <b>4,254</b> | <b>5,295</b> | <b>6,842</b>  |
| Provisions                 | 250          | 215          | 254          | 351          | 430           |
| <b>PBT</b>                 | <b>2,263</b> | <b>2,952</b> | <b>4,000</b> | <b>4,944</b> | <b>6,412</b>  |
| Taxes                      | 402          | 669          | 942          | 1,137        | 1,475         |
| <b>PAT</b>                 | <b>1,861</b> | <b>2,283</b> | <b>3,057</b> | <b>3,807</b> | <b>4,937</b>  |

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         |
| <b>Networth</b>              | <b>15,737</b> | <b>18,173</b> | <b>21,215</b> | <b>25,022</b>  | <b>29,959</b>  |
| Borrowings                   | 34,668        | 48,135        | 73,021        | 97,513         | 127,820        |
| Other liability & provisions | 764           | 1,081         | 1,104         | 1,342          | 1,631          |
| <b>Total liabilities</b>     | <b>51,169</b> | <b>67,390</b> | <b>95,340</b> | <b>123,877</b> | <b>159,409</b> |
| 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          |
| <b>Total assets</b>          | <b>51,169</b> | <b>67,390</b> | <b>95,340</b> | <b>123,877</b> | <b>159,409</b> |

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Key ratios

| Y/E March                         | FY22  | FY23  | FY24  | FY25E | FY26E |
|-----------------------------------|-------|-------|-------|-------|-------|
| <b>Growth (%)</b>                 |       |       |       |       |       |
| 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  |
| <b>Spreads (%)</b>                |       |       |       |       |       |
| 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   |
| <b>Operational Efficiency (%)</b> |       |       |       |       |       |
| 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   |
| <b>CRAR (%)</b>                   |       |       |       |       |       |
| Total CRAR                        | 58.6  | 49.4  | 39.5  | 37.7  | 35.2  |
| <b>Asset Quality (%)</b>          |       |       |       |       |       |
| 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   |
| <b>Return Ratio (%)</b>           |       |       |       |       |       |
| ROE                               | 12.6  | 13.5  | 15.5  | 16.5  | 18.0  |
| ROA                               | 3.9   | 3.9   | 3.8   | 3.5   | 3.5   |
| <b>Per Share (Rs)</b>             |       |       |       |       |       |
| 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 |
| <b>Valuation (x)</b>              |       |       |       |       |       |
| 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   |

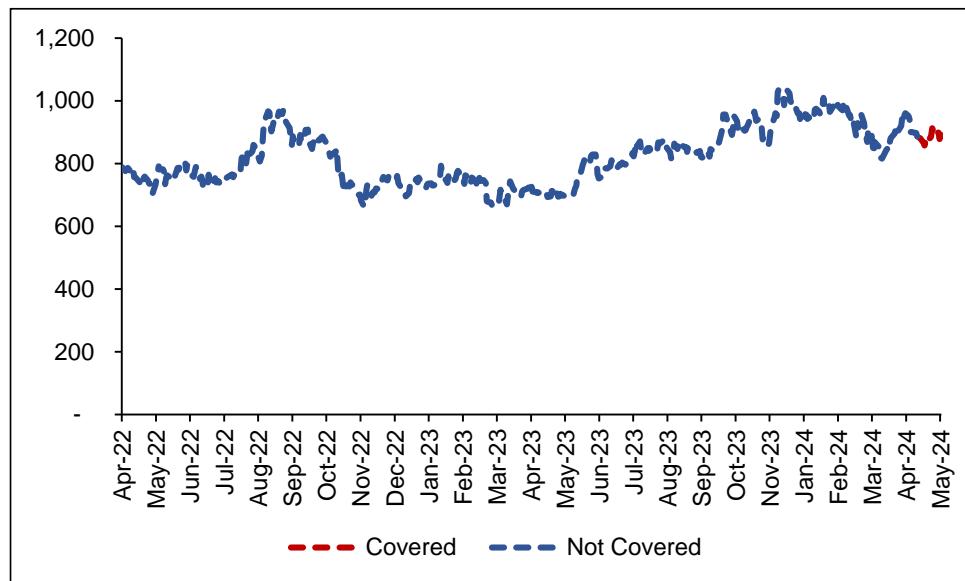
Source: Company, Nirmal Bang Institutional Equities Research

## 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



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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