

**CMP: INR 1102**

**Rating: Buy**

**Target Price: INR 1390**

**Stock Info**

BSE	543259
NSE	HOMEFIRST
Bloomberg	HOMEFIRS:IN
Reuters	HOME.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Cr)	17.70
Mkt Cap (INR Bn)	9827
52w H/L (INR)	1383 / 777
Avg Yearly Vol (in 000')	336

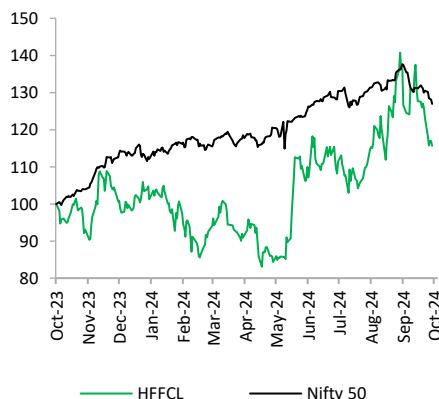
**Shareholding Pattern %**

(As on September, 2024)

Promoters	23.38
Public & Others	76.62

Stock Performance (%)	1m	6m	12m
Home First Finance	-8.6	24.5	15.7
Nifty 50	-7.6	6.8	26.9

**Home First Finance Vs Nifty 50**



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Home First Finance (HFFC) delivered positive financial results for Q2FY25, showing some signs of stress as bounce rates increased on a YoY basis. PAT improved by 24.11% YoY/ up 5.1% QoQ, reaching INR 922 mn, as net interest income increased by 9.68% QoQ/ 26.25% YoY at INR 1974 mn. Further, finance costs increased in Q2FY25, as interest expenses rose by 50.04% YoY/ 11.98% QoQ. The company maintained strong business momentum with disbursements amounting to INR 11,768 mn (+22.7% YoY/+1.23% QoQ), leading to a robust 34.24% YoY/ 7.17% QoQ growth in AUM which stood at INR 1,12,294 mn. We believe the growth momentum to continue. Asset Quality remained largely stable but there was a notable increase in bounce rates to 15.2% YoY in Q2FY25 against 14.2% in Q2FY24. GNPA/NNPA came at 1.7% (flat QoQ/ flat YoY) and 1.3% (flat QoQ/ up 10 bps YoY), respectively. The company witnessed a slight improvement in the DPD 30+ book from 2.9% to 2.8% QoQ and DPD 1+ book remained stable at 4.5%.

**Key Highlights:**

1. NII stood at INR 1,974 mn (up 26.25% YoY/up 9.68% QoQ). Spread for the quarter came at 5.3% against 5.1% QoQ. In Q2FY25, Yield for the quarter improved marginally by 10bps QoQ at 13.6%.
2. OPEX grew by 28.4% YoY/ 10.8% QoQ. The C-I ratio increased by +150bps YoY/ 110 bps QoQ at 36.7%. PPOP declined by 20.73% YoY/ up 5.89% QoQ to INR 1,261 mn.
3. PAT increased by 5.08% QoQ to INR 922 mn. ROA fell by 20 bps YoY at 3.4%.
4. The lender added 9 branches and 8 touch points during Q2FY25 taking total branch count to 142.
5. Company focuses on new regions like MP, UP and Rajasthan.
6. AUM by product 85% of the total advances are for house loans. With the average ticket size of INR 0.5-1.5 Mn, and with Shop loans- 1% and LAP- 14%.

**Key Concall Highlights:**

1. ROE is expected to remain in the range of 16.2% - 16.5% for the FY25.
2. Spreads (excluding co-lending) for the company improved by 20 bps QoQ and declined by 20 bps YoY to 5.3%.
3. Credit cost for the quarter stood at 0.2%. It declined by 20 bps YoY but remained flat QoQ.
4. The attrition rate has elevated since the last couple of quarters. Hence, the Management has started ESOP programs for customer retention, which led to rise in Opex.
5. The Management remained confident of their Connector & loan distribution Model with 2,900 connectors.
6. The company is focused on technology and wants to leverage it to provide better services to its customers.
7. The housing sector is performing well and the company is well positioned to leverage this growth and gain market share.

**Valuation and View**

HFFC has done well in terms of growth, and operational performance. During the quarter, the company witnessed robust growth in revenue and net profit driven by increase in disbursements. We continue to believe, HFFC is well positioned to capture the strong growth in the growing and underpenetrated HFC market on its smaller base and strong credit underwriting model. We expect AUM to grow by 30% for FY25. We maintain our Target Price to INR 1,390 based on 5x FY27E ABV.

Quarterly Result Update (Rs Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	3,729	3,364	2,733	10.85%	36.43%
Interest Expended	1,756	1,568	1,170	11.98%	50.04%
Net Interest Income	1,974	1,796	1,563	9.86%	26.25%
Other Income	13	49	47	-73.07%	-71.59%
Operating Income	1,987	1,846	1,610	7.65%	23.42%
Operating Expenses	726	655	565	10.85%	28.41%
Employee Expenses	503	416	369	20.90%	36.30%
Other Operating Expenses	223	239	197	-6.61%	13.59%
PPOP	1,261	1,191	1,044	5.89%	20.73%
Provisions	57	56	80	3.24%	-28.34%
PBT	1,204	1,135	964	6.02%	24.80%
Tax Expenses	281	258	221	9.24%	27.10%
Net Profit	922	878	743	5.08%	24.11%
<b>Spreads (%)</b>					
Spread	5.30%	5.10%	5.5%	20bps	-20bps
Yield on Average Advances	13.60%	13.50%	13.6%	10bps	0bps
CAR (%)	36.40%	36.20%	45.5%	20bps	-910bps
<b>Asset Quality (%)</b>					
GNPA	1.7%	1.7%	1.7%	0bps	0bps
NNPA	1.30%	1.30%	1.2%	0bps	10bps
DPD 1+	4.50%	4.50%	4.5%	0bps	0bps
DPD 30+	2.80%	2.90%	2.9%	-10bps	-10bps
Cheque Bounce rate	15.20%	15.30%	14.2%	-10bps	100bps
<b>Returns &amp; Expenses</b>					
RoA	3.40%	3.60%	3.9%	-20bps	-50bps
RoE	16.50%	16.30%	15.6%	20bps	90bps
Cost / Income Ratio (%)	36.70%	35.60%	35.2%	110bps	150bps
<b>Asset growth trend</b>					
Total AUM	1,12,294	1,04,781	83,654	7.17%	34.24%
- Home Loans	95,450	90,112	72,779	5.92%	31.15%
- Loan for Commercial property	1,123	1,048	837	7.17%	34.24%
- LAP	15,721	14,669	10,038	7.17%	56.61%
- Developer Finance	-	-	-	#DIV/0!	#DIV/0!
Disbursements	11,768	11,625	9,591	1.23%	22.70%
<b>AUM by customer segment (%)</b>					
Salaried	68.00%	68.00%	69%	0bps	-100bps
Self Employed	32.00%	32.00%	31%	0bps	100bps
<b>AUM by Geography (%)</b>					
Gujarat	29.80%	30.40%	32%	-60bps	-250bps
Maharashtra	13.30%	13.30%	14%	0bps	-30bps
Tamil Nadu	13.70%	13.90%	14%	-20bps	-30bps
Karnataka	6.70%	6.70%	7%	0bps	-30bps
Rajasthan	6.10%	6.00%	6%	10bps	30bps
Telangana	8.50%	8.60%	9%	-10bps	-50bps
Madhya Pradesh	7.10%	6.60%	6%	50bps	160bps
Uttar Pradesh & Uttarakhand	6.60%	6.50%	5%	10bps	120bps
Others	8.20%	8.00%	7%	20bps	120bps

Source: Company, Arianth Research

## Concall Highlights

### Guidance

- The management expects credit cost to be around 20 - 30 bps.
- Going ahead, the opex ratio is expected to be around 2.7% - 2.8%.
- The lender looks to grow AUM at 30% YoY.
- Full impact of re-pricing of loan would be seen next quarter.
- The company plans to add 25 - 30 branches per year
- Spreads is expected to be around 5% to 5.3%.

### Highlights

- Net interest income increased by 18.1% YoY/ 6.5% QoQ to INR 1.39 bn and was driven by strong advances growth.
- NIMs declined by 80 bps YoY/ 10 bps QoQ to 5.2% while spreads for the company also declined ~40 bps YoY to 5.1% in Q2 FY25.
- Operating expenses jumped by 28.4% YoY and 10.8% QoQ to INR 0.73 bn, rise was on account of ESOP expenses and cost-to-income ratio jumped 142 bps YoY to 36.7%.
- Provisions were down 28.4% YoY and up 3.2% QoQ to INR 0.057 bn, as asset quality was largely stable.
- Net profit for the quarter has shown 24.1% YoY rise, owing to good operating performance and business growth.
- The company reported healthy AUM growth of 34.2% YoY and 7.2% QoQ to INR 112.29 bn.
- Disbursement growth for the quarter stood at 22.7% YoY and 1.2% sequentially to INR 11.77 bn.
- Average ticket size of housing loans stood at INR 11.7 lakh in which around 52% of loans have ATS of INR 5 lakh to INR 15 lakh.
- LTV on origination for the bank stands at 55.5% in which 28% loans are towards below 50% LTV segment. LTV on book stands at 47.1% as on September 2024.
- Balance transfer out rate for the company stands at 6.7% for Q2 FY25.
- Total housing loans formed 85% of overall loan book while LAP loans formed 14%.
- Salaried segment forms 68% of total outstanding loan book v/s 69% YoY.

Source: Company, Arianth Research

## Key Financials

P&L (INR in Cr)	FY23	FY24	FY25e	FY26e	FY27e
Interest income	683	1,028	1,232	1,478	1,877
Interest expense	304	500	609	772	1,050
<b>NII</b>	<b>378</b>	<b>528</b>	<b>623</b>	<b>706</b>	<b>827</b>
Non-interest income	113	129	204	194	208
<b>Net revenues</b>	<b>491</b>	<b>657</b>	<b>828</b>	<b>901</b>	<b>1,034</b>
Operating expenses	175	231	280	338	410
<b>PPOP</b>	<b>317</b>	<b>425</b>	<b>548</b>	<b>563</b>	<b>625</b>
Provisions	22	25	43	55	71
<b>PBT</b>	<b>295</b>	<b>400</b>	<b>506</b>	<b>508</b>	<b>553</b>
Tax	67	94	127	128	139
<b>PAT</b>	<b>228</b>	<b>306</b>	<b>378</b>	<b>380</b>	<b>414</b>

Balance sheet	FY23	FY24	FY25e	FY26e	FY27e
Share capital	18	18	18	18	18
Reserves & surplus	1,800	2,104	2,482	2,862	3,276
<b>Net worth</b>	<b>1,817</b>	<b>2,121</b>	<b>2,500</b>	<b>2,880</b>	<b>3,293</b>
Borrowings	4,813	7,302	8,056	10,431	13,507
Other liability	106	110	164	207	260
<b>Total liabilities</b>	<b>6,737</b>	<b>9,534</b>	<b>10,720</b>	<b>13,518</b>	<b>17,061</b>
Fixed assets	25	30	39	50	66
Investments	281	379	398	418	439
Loans	5,996	8,143	9,667	12,518	16,209
Cash	311	838	469	381	194
Other assets	124	144	147	151	154
<b>Total assets</b>	<b>6,737</b>	<b>9,534</b>	<b>10,720</b>	<b>13,518</b>	<b>17,061</b>

Source: Arihant Research, Company Filings

## Key Ratios

Ratios	FY23	FY24	FY25e	FY26e	FY27e
<b>Growth (%)</b>					
Advances	39.3	35.8	18.7	29.5	29.5
Borrowings	38.8	51.7	10.3	29.5	29.5
Total assets	31.7	41.5	12.4	26.1	26.2
NII	44.7	39.6	18.1	13.3	17.0
PPOP	26.0	34.3	28.9	2.7	10.9
PAT	22.7	33.9	23.7	0.5	8.9
<b>Balance sheet ratios (%)</b>					
Advances/Total assets	89.0	85.4	90.2	92.6	95.0
Leverage (x) (Asset/Shareholder's Fund)	3.5	4.1	4.4	-	-
CAR	49.2	39.8	40.8	36.6	32.5
CAR - Tier I	48.5	39.3	40.4	36.3	32.3
<b>Operating efficiency (%)</b>					
Cost/income	35.5	35.2	33.8	37.5	39.6
Opex/total assets	2.7	2.8	2.9	2.7	2.5
<b>Profitability (%)</b>					
NIM	6.5	6.6	6.3	5.9	5.5
RoA	3.9	3.8	3.7	3.1	2.7
RoE	13.5	15.5	16.4	14.1	13.4
<b>Asset quality (%)</b>					
Gross NPAs	1.6	1.2	1.1	1.0	1.0
Net NPAs	1.1	0.7	0.6	0.6	0.5
PCR	31.4	38.2	42.6	45.0	46.2
Credit cost	36.0	50.0	50.0	50.0	50.0
<b>Per share data / Valuation</b>					
EPS					
BV	25.9	34.5	42.7	42.9	46.7
ABV	206.5	239.7	282.4	325.3	372.1
P/E	130.6	172.1	213.0	247.4	278.0
P/BV	42.5	31.9	25.8	25.7	23.6
P/ABV	5.3	4.6	3.9	3.4	3.0

Source: Arihant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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