

# Q2FY23 Result Update

## Home First Finance Company

### Growth Momentum Continues; Retain 'BUY'

- Home First Finance Company (HFFC) continued its trailblazing growth momentum in Q2FY23, with record-high quarterly disbursements of INR 702cr. This resulted in AUM growth of 36% YoY and 8% QoQ. Management expects disbursements to increase by 5% QoQ for the rest of FY23. Net revenue (NR) exceeded our estimate by 3%, driven by strong loan book growth. PPOP and PAT were marginally higher than our estimates driven by higher opex.
- Asset quality continued to improve, with GS-3 declining by 21bps QoQ to 1.93% and NS-3 down by 25bps QoQ to 1.43%. Among early asset-quality indicators, 1+dpd improved by 30bps QoQ to 4.7% and 30+dpd improved by 20bps QoQ to 3.3%. However, bounce rates spiked sequentially to 15.6% vs. 14.0% in Q1FY23, as customers preferred to pay via UPI while allowing the NACH mandates to fail. However, payments were made within 1–3 days of the EMI presentment, as reflected in the fall of 1+dpd numbers.
- Management reiterated its guidance of achieving 30% AUM CAGR and mid-teens RoE over the medium term. Given the opportunity size and the company's proven ability to capture growth, we expect HFFC's AUM to grow at a CAGR of ~32% over the medium term and RoAE to reach ~14.2% by FY24. We reiterate our 'BUY' rating with TP of INR 935/share.

### Strong demand traction, driven by highest quarterly disbursements

Disbursements grew by 6% QoQ to INR 702cr, the highest ever at a quarterly level for the fifth straight quarter. AUM grew by 36% YoY to INR 6,275cr, indicative of strong demand momentum on ground. HFFC added 8 branches in the quarter, taking the total branch count to 101 and total touchpoints to 249 from 224 in Q1FY23. This is in line with management's target to reach 150 branches and 400 touchpoints in the next two years. Management aspires to achieve an AUM target of INR 15,000cr in the next four years, expanding at a ~30% CAGR.

### Margins to compress marginally going forward

Net Interest Income (NII) increased by 10% QoQ to INR 93cr on the back of strong AUM growth and marginal improvement in reported spread by 10bps QoQ to 5.9%. Spread expanded primarily due to repricing of loans by 25bps effective from July 2022. Management expects another hike in lending rate and spread to maintain at 5.5–5.6% for the rest of FY23. Over the long term, management expects spread of ~5.25% to be maintained. NR increased by 9% QoQ to INR 119cr. PPOP increased by 6% QoQ to INR 74cr, lower than NR growth, as operating expenses rose by 14% QoQ to INR 44cr resulting in a 164bps QoQ rise in C/I ratio to 37.4%. Management expects opex to assets ratio to remain at 3–3.2%. Provisions came in at INR 5cr, higher than our estimate of INR 4cr, resulting in PAT of INR 54cr (up 7% QoQ).

### Asset quality improvement continues

GS-3 and NS-3 improved to 1.93% and 1.43%, respectively, in line with new RBI norms. However, had HFFC stuck to old RBI norms, GS-3 and NS-3 would have been 1.1% and 0.7%, respectively. Bounce rates increased by 160bps QoQ to 15.6% in Q2FY23 due to customer preference of making UPI payments post missing EMI presentments. However, 1+dpd improved by 30bps QoQ to 4.7%.

### Valuation and outlook

We expect HFFC's AUM to grow by ~32% CAGR over the medium term with NR/PPoP/PAT growth of 26%/23%/21%, respectively over FY22-24E. We believe strong AUM growth, improving leverage and low credit costs will ensure RoA of 3.9% and RoE of 14.9% by FY24E. Thus, we reiterate our BUY recommendation with TP of INR 935, valuing the stock at ~4.0x FY24 ABV.

INR Cr	Q2FY23	Q2FY22	% Change	Q1FY23	% Change	FY22	FY23E	FY24E
Net Revenues (INR Cr)	119	69	72.0	109	8.9	380	487	608
Net Profit (INR Cr)	54	22	150.0	51	6.9	174	220	275
Basic EPS (INR Cr)	6	2	136.7	5	5.5	20	25	31
P/E (x)						40.5	32.0	25.7
Adj. BPS						178	203	234
P/ABV (x)						4.5	4.0	3.4

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CMP INR: 805

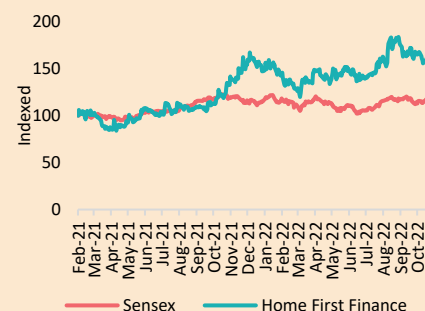
Rating: BUY

Target Price INR: 935

Upside: 16%

Date: October 20, 2022

Bloomberg:	HOMEFIRS:IN
52-week range (INR):	1,005 / 602
Shares in issue (crore):	9
M-cap (INR crore):	7,061
Promoter holding (%)	33.7



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### Q2FY23 Result Highlights

INR Cr	Q2FY23	Q2FY22	% Change	Q1FY23	% Change
Interest Income	164	114	43%	145	13%
Interest Expenses	71	54	31%	61	17%
Net Interest Income	93	60	54%	84	10%
Net gain on DA	9	(6)	nm	10	-6%
Other Income	16	15	10%	14	13%
Net Revenue	119	69	72%	109	9%
Operating Expenses	44	32	37%	39	14%
Operating Profit	74	36	103%	70	6%
Provisions & Contingencies	5	3	49%	4	37%
PBT	69	33	109%	66	4%
Tax	15	11	30%	16	-4%
Adj. PAT	54	22	150%	51	7%
<b>Ratios</b>					
C/I Ratio	37.4	47.1	-962bps	35.8	164bps
Yield on Advances (Rep.)	13.0	12.8	20bps	12.7	30bps
Cost of Funds (Rep.)	7.1	7.1	0bps	6.9	20bps
Spread	5.9	5.7	20bps	5.8	10bps
NIM (Rep.)	7.2	6.7	50bps	7.2	0bps
<b>Balance Sheet</b>					
AUM	6,275	4,617	36%	5,832	8%
Disbursement	702	515	36%	661	6%
<b>Asset Quality</b>					
GS-3 (%)	1.93	1.74	19bps	2.14	-21bps
NS-3 (%)	1.43	1.24	19bps	1.68	-25bps
1+DPD (%)	4.7	7.6	-290bps	5.0	-30bps

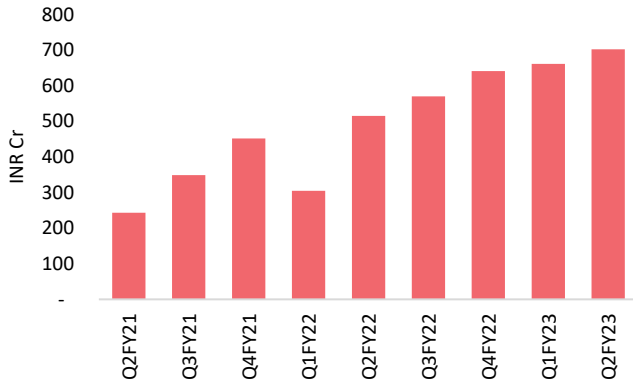
# Q2FY23 Result Update

## Home First Finance Company

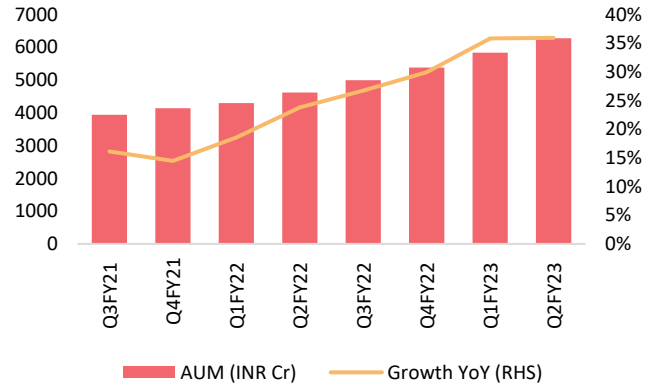
Growth Momentum Continues; Retain 'BUY'

### Charts

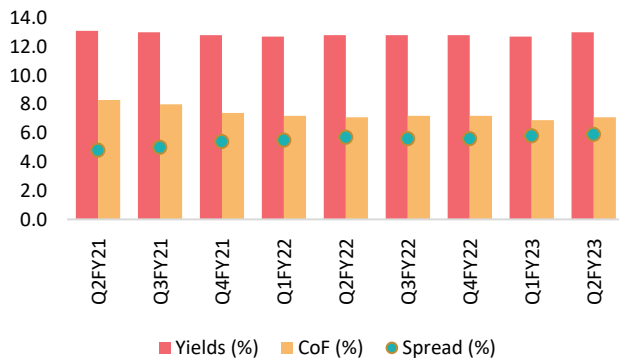
**Exhibit 1: Highest ever quarterly disbursements for the fifth straight quarter crossing INR 700cr mark..**



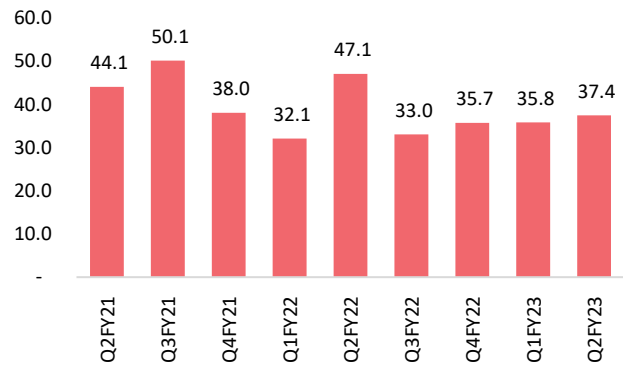
**Exhibit 2: ..lead to a robust AUM growth of 36% YoY**



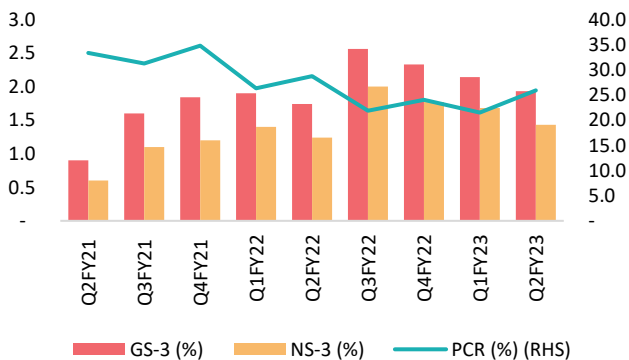
**Exhibit 3: Yield increase in the quarter was higher than rise in CoFs resulting spread improvement QoQ**



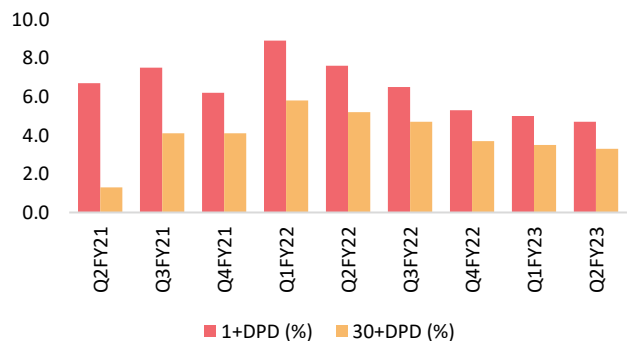
**Exhibit 4: Sequential increase in C/I ratio due to higher expenses as HFFC added 8 new branches**



**Exhibit 5: Improvement in asset quality continues QoQ**



**Exhibit 6: Early asset quality indicators also continue to improve**



Source: Edelweiss Wealth Research

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## Previous outlook

**Q1FY23:** We expect HFFC's AUM to grow by ~30% CAGR over the medium term and raise our EPS estimates for FY23/24 by 3/5% respectively. Strong AUM growth coupled with improving leverage and low credit costs will ensure RoA and RoE expansion to 3.9% and 14.0%, respectively, by FY24. Thus, we reiterate our BUY recommendation and raise our target price to INR935, valuing the stock at ~4.0x FY24 ABV.

**Q4FY22:** We believe HFFC is well placed to capitalise on the high-growth yet underpenetrated affordable housing market. High growth, improving leverage and low credit costs should ensure RoA and RoE to expand to 3.8–3.9% and 12.6–13.4% over FY23 and FY24, respectively. Thus, we maintain our BUY recommendation with a target price of INR900, valuing at nearly ~4x FY24 ABV.



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### Company Profile

Home First Finance Company Ltd. (HFFC) is a technology-driven affordable housing finance company, supported by centralized underwriting with in-depth understanding of local properties having pan-India presence. The company provides home loans to first-time buyers with prominent focus on salaried individuals having monthly income of <INR50,000. Incorporated in 2010 and supported by private equity firm 'True North', which owns 33.6% shareholding in it. HFFC's customer profile comprises salaried individuals (71% of loans, including informal class) and non-salaried (29% of loans). Home loans account for 89% of the book in Q2FY23, primarily catering to the lower ticket size segment (average ticket size of about INR 10.9lakh for housing loans).

### Key Risks

- Significant AUM concentration is noted in Gujarat (nearly 34% of AUM).
- Higher than expected slippages from the early buckets.
- In a rising interest rate scenario, stiff competition posed by new entrants in the AHF market can have some pressure on margins and profitability.



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### Financials

#### Income statement

Year to March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Interest income	355	442	525	662	856
Interest charges	191	217	216	280	386
Net interest income	164	225	310	383	471
Non-interest income	65	47	70	104	137
Net revenues	228	272	380	487	608
Operating expense	105	106	129	180	225
- Employee exp	61	66	81	113	141
- Other opex	44	39	48	67	84
Preprovision profit	124	166	251	307	383
Provisions	17	32	25	24	31
PBT	107	134	226	283	352
Taxes	28	34	40	62	77
PAT	80	100	186	220	275
Extraordinaries	0.0	0.0	(12.0)	0.0	0.0
Reported PAT	79.5	100.1	174.2	220.4	274.5
Basic number of shares (crs)	7.4	8.1	8.8	8.8	8.8
Basic EPS (INR)	10.8	12.4	19.9	25.1	31.3
Diluted number of shares (cr)	7.5	8.2	8.8	8.8	8.8
Diluted EPS (INR)	10.6	12.2	21.2	25.1	31.3
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0

#### Growth ratios (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
NII growth	52.8	37.4	37.8	23.6	23.0
Net revenues growth	66.5	(27.5)	49.5	48.0	31.5
Opex growth	42.3	0.9	21.9	40.0	24.8
PPP growth	70.8	34.2	51.2	22.1	24.8
Provisions growth	125.7	94.8	(22.2)	(3.2)	27.7
PAT growth	76.0	25.9	85.9	18.4	24.6

#### Operating ratios (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
Yield on assets	12.9	13.0	12.5	13.0	13.3
Cost of funds	8.8	8.0	6.6	7.4	8.2
Spread	4.1	5.0	5.9	5.6	5.1
Net interest margins	6.6	6.9	8.1	7.9	7.6
Cost-to-income	45.8	38.8	33.9	37.0	37.0
Tax rate	25.9	25.3	17.7	22.0	22.0

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### Balance sheet

As on 31st March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Paid Capital	16	17	18	18	18
Reserve & Surplus	918	1,363	1,556	1,777	2,051
Shareholder's Fund	934	1,381	1,574	1,794	2,069
Borrowings	2,494	3,054	3,467	4,089	5,314
Other Liabilities	52	76	76	287	496
Total Liabilities	3,480	4,510	5,117	6,171	7,878
Cash & Bank Balance	222	680	668	646	699
Investment	146	375	0	0	0
Loan & Advances	3,014	3,327	4,305	5,381	6,992
Net Fixed Assets	21	17	20	27	35
Other assets	77	112	124	117	152
Total Assets	3,480	4,510	5,117	6,171	7,878

### Balance sheet ratios (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
Loan growth	41.2	10.4	29.4	25.0	29.9
IEA growth	39.2	29.6	13.5	21.2	27.6
Deposits growth	0.0	0.0	0.0	0.0	0.0
IBL growth	48.0	14.5	29.9	33.3	29.9
Gross NPA ratio	0.9	1.8	2.3	1.9	1.7
Net NPA ratio	0.7	1.2	1.8	1.5	1.3
Provision coverage	25.3	33.3	24.8	23.6	22.7

### RoE decomposition (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
Net interest income/Assets	4.8	5.1	6.2	6.4	6.1
Other Income/Assets	2.2	1.2	1.5	1.9	2.0
Net revenues/Assets	7.1	6.3	7.7	8.2	8.1
Operating expense/Assets	3.6	2.7	2.8	3.3	3.3
Provisions/Assets	0.6	0.8	0.5	0.4	0.5
Taxes/Assets	1.0	0.9	0.9	1.1	1.1
Total costs/Assets	3.6	2.7	2.8	3.3	3.3
ROA	2.7	2.5	3.9	3.9	3.9
Equity/Assets	4.1	3.5	3.0	3.4	3.6
ROAE	10.9	8.7	11.8	13.1	14.2

### Valuation metrics

Year to March	FY20	FY21	FY22	FY23E	FY24E
Diluted EPS (INR)	10.6	12.2	21.2	25.1	31.3
EPS growth (%)	38.4	15.4	73.9	18.4	24.6
Adjusted BV per share	118.7	157.0	177.8	202.9	234.0
Diluted P/E (x)	74.5	65.1	40.5	32.0	25.7
Price/Adj. Book Value(x)	0.0	2.9	4.5	4.0	3.4

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### The Team

Analysts	Sector
Vinay Khattar	Head of Research
Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Amit Agarwal	Infra, Real Estate, Hotels
Praveen Sahay	Consumer Durables, Building materials, Healthcare services, Hospitality
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Ranvir Singh	Pharma, Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Tushar Chaudhari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader
Nikhil Shetty	Mid Caps

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

### Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries. Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydus Wellness Ltd
40	Tarsons Products Ltd
41	MTAR Technologies Ltd.
42	S J S Enterprises Ltd

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spitiis Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd
27	Kennametal India Ltd



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