

**Growth momentum continues,
but seasonal increase in early-stage delinquencies observed**

CMP: INR 958

Rating: Buy

Target Price: INR 1251

Stock Info

BSE	543259
NSE	HOMEFIRST
Bloomberg	HOMEFIRS:IN
Reuters	HOME.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Cr)	17.80
Mkt Cap (INR Bn)	8623
52w H/L (INR)	1383 / 777
Avg Yearly Vol (in 000')	374

Shareholding Pattern %

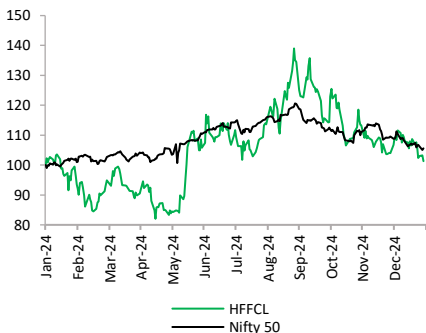
(As on December, 2024)

Promoters	14.31
Public & Others	85.69

Stock Performance (%)

	1m	6m	12m
Home First Finance	-8.8	-11	-2.8
Nifty 50	-2.3	-6.9	6.33

Home First Finance Vs Nifty 50



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Home First Finance (HFFC) delivered positive financial results for Q3FY25, showing some signs of stress as bounce rates increased by 90 bps YoY and 80 bps QoQ. PAT improved by 23.55% YoY/ up 5.59% QoQ, reaching INR 973.8 mn, as net interest income increased by 8.09% QoQ/ 28.43% YoY at INR 2133.2 mn. Further, finance costs increased in Q3FY25, as interest expenses rose by 47.94% YoY/ 9.72% QoQ. The company maintained strong business momentum with disbursements amounting to INR 11,928 mn (+18.43% YoY/+1.36% QoQ), leading to a robust 32.57% YoY/ 6.41% QoQ growth in AUM which stood at INR 1,19,494 mn. We expect the growth momentum to continue. Asset Quality remained largely stable but there was a notable increase in bounce rates to 16% YoY in Q3FY25 against 15.1% in Q3FY24. GNPA/NNPA came at 1.7% (flat QoQ/ flat YoY) and 1.3% (flat QoQ/ up 10 bps YoY), respectively. The company witnessed a degradation in the DPD 30+ book from 2.8% to 3.1% QoQ and DPD 1+ book increased from 4.5% to 4.8% QoQ.

Key Highlights:

1. NII stood at INR 2133.2 mn (up 28.43% YoY/up 8.09% QoQ). Spread for the quarter came at 5.2% against 5.3% QoQ. In Q3FY25, Yield for the quarter remained flat QoQ at 13.6%.
2. OPEX grew by 23.2% YoY/ 3.62% QoQ. The C-I ratio declined by +150bps QoQ/ 70 bps QoQ at 35.2%. PPOP increased by 27.2% YoY/ up 10.72% QoQ to INR 1,396 mn.
3. PAT increased by 5.59% QoQ to INR 973.8 mn. ROA fell by 30 bps YoY at 3.4%.
4. The lender added 10 branches during Q3FY25 and plans to add 30 – 40 branches in FY26.
5. AUM by product 84% 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- 15%.

Key Concall Highlights:

1. Sequentially disbursements were lower owing to E-khata requirement in the state of Karnataka and also due to tightening of certain credit filters. .
2. Balance transfers out rate for the company increased to 7.3% v/s 6.7% in the previous quarter.
3. NIMs declined by 30 bps QoQ and 80 bps YoY to 4.9%, of the sequential decline 11 bps was on account of rise in cost of borrowing, 7 bps due to higher liquidity and rest due to slightly lower yield.
4. Contribution from LAP is expected to increase to 20% in couple of years.
5. A minor seasonal increase in early-stage delinquencies observed, though management reassured confidence in asset quality.
6. Credit cost guidance stands at 30-40 bps for medium term..
7. New states in focus would be Uttar Pradesh, Madhya Pradesh and Rajasthan.

Valuation and View

HFFC has done well in terms of growth, and operational performance, though disbursements growth was impacted. Disbursements were slower on sequential basis due to E-Khata related issue in Karnataka and tightened credit filters. NIM slightly decreased to 4.9% due to higher co-lending borrowing costs. During the quarter, the company witnessed robust growth in revenue and net profit driven by healthy growth in AUM. 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 1,251 based on 4.5x FY27E ABV.

Quarterly Result Update (Rs Mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Interest Income	4,059.5	3,729.2	2,963.1	8.86%	37.00%
Interest Expended	1,926.3	1,755.6	1,302.1	9.72%	47.94%
Net Interest Income	2,133.2	1,973.6	1,661.0	8.09%	28.43%
Other Income	15.0	13.2	47.0	13.78%	-68.04%
Operating Income	2,148.2	1,986.8	1,708.0	8.12%	25.77%
Operating Expenses	752.2	725.9	610.5	3.62%	23.20%
Employee Expenses	507.9	502.6	390.1	1.05%	30.19%
Other Operating Expenses	244.3	223.3	220.4	9.39%	10.83%
PPOP	1,396.0	1,260.9	1,097.5	10.72%	27.20%
Provisions	97.9	57.3	70.1	70.77%	39.71%
PBT	1,298.2	1,203.6	1,027.4	7.86%	26.35%
Tax Expenses	324.3	281.3	239.2	15.29%	35.58%
Net Profit	973.8	922.3	788.2	5.59%	23.55%
Spreads (%)					
Spread	5.20%	5.30%	5.5%	-10bps	-30bps
Yield on Average Advances	13.60%	13.60%	13.7%	0bps	-10bps
CAR (%)	33.10%	36.40%	40.9%	-330bps	-780bps
Asset Quality (%)					
GNPA	1.7%	1.7%	1.7%	0bps	0bps
NNPA	1.30%	1.30%	1.2%	0bps	10bps
DPD 1+	4.80%	4.50%	4.5%	30bps	30bps
DPD 30+	3.10%	2.80%	3.0%	30bps	10bps
Cheque Bounce rate	16.00%	15.20%	15.1%	80bps	90bps
Returns & Expenses					
RoA	3.40%	3.40%	3.7%	0bps	-30bps
RoE	16.60%	16.50%	15.8%	10bps	80bps
Cost / Income Ratio (%)	35.20%	36.70%	35.9%	-150bps	-70bps
Asset growth trend					
Total AUM	119,494	112,294	90,137	6.41%	32.57%
- Home Loans	100,374.96	95,450	77,518	5.16%	29.49%
- Loan for Commercial property	1,195	1,123	901	6.41%	32.57%
- LAP	17,924.10	15,721	11,718	14.01%	52.96%
- Developer Finance	-	-	-	#DIV/0!	#DIV/0!
Disbursements	11,928	11,768	10,072	1.36%	18.43%
AUM by customer segment (%)					
Salaried	68.00%	68.00%	68.00%	0bps	0bps
Self Employed	32.00%	32.00%	32.00%	0bps	0bps
AUM by Geography (%)					
Gujarat	29.20%	29.80%	32.00%	-60bps	-280bps
Maharashtra	13.60%	13.30%	13.40%	30bps	20bps
Tamil Nadu	13.40%	13.70%	14.00%	-30bps	-60bps
Karnataka	6.40%	6.70%	6.90%	-30bps	-50bps
Rajasthan	6.20%	6.10%	5.80%	10bps	40bps
Telangana	8.60%	8.50%	8.90%	10bps	-30bps
Madhya Pradesh	7.60%	7.10%	5.80%	50bps	180bps
Uttar Pradesh & Uttarakhand	6.70%	6.60%	5.70%	10bps	100bps
Others	8.30%	8.20%	7.00%	10bps	130bps

Source: Company, Aриhant Research

Concall Highlights

Guidance

- Management has guided AUM to reach INR 200 bn by FY27 v/s current AUM of INR 119bn in Q3FY25.
- The management expects credit cost to be around 30 - 40 bps.
- The lender looks to grow AUM at 30% YoY.
- Company plans to grow disbursements by nearly 20% for FY25, with an average monthly disbursement target of approximately INR 5 bn in the following year.
- They plan to add approximately 10 branches in the current quarter and 30-40 in FY26, focusing on deeper penetration in selective states.
- Spreads is expected to be around 5% to 5.3%.
- Co lending is expected to contribute around 10% of disbursements in the medium term.

Highlights

- Net interest income increased by 28.43% YoY/ 8.09% QoQ to INR 2.13 bn and was driven by strong advances growth.
- NIMs declined by 80 bps YoY/ 30 bps QoQ to 4.9% while spreads for the company also declined ~30 bps YoY/ 10 bps to 5.2% in Q2FY25. NIMs compression was due to various factors including increased co-lending borrowing costs.
- Operating expenses jumped by 23.2% YoY and 3.62% QoQ to INR 0.75 bn, rise was on account of other expenses. and cost-to-income ratio declined by 70 bps YoY to 35.2%.
- Provisions were up 39.71% YoY and up 70.77% QoQ to INR 0.098 bn, as asset quality remained largely stable.
- Net profit for the quarter has shown 23.55% YoY rise, owing to good operating performance and business growth.
- The company reported healthy AUM growth of 32.57% YoY and 6.41% QoQ to INR 119.494 bn.
- Disbursement growth for the quarter stood at 18.43% YoY and 1.36% sequentially to INR 11.93 bn.
- Disbursements were slightly lower than expected attributable to Karnataka and credit policy impacts.
- Average ticket size of housing loans stood at INR 11.7 lakh in which around 51% of loans have ATS of INR 5 lakh to INR 15 lakh.
- LTV on origination for the bank stands at 55.3% in which 28% loans are towards below 50% LTV segment. LTV on book stands at 55.5% as on September 2024.
- Balance transfer out rate for the company stands at 7.3% for Q3FY25.
- Total housing loans formed 84% of overall loan book while LAP loans formed 15%.
- Salaried segment forms 68% of total outstanding loan book.
- Board approved raising up to INR 12.50 bn in equity capital.

Source: Company, Aриhant 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
NII	378	528	623	706	827
Non-interest income	113	129	204	194	208
Net revenues	491	657	828	901	1,034
Operating expenses	175	231	280	338	410
PPOP	317	425	548	563	625
Provisions	22	25	43	55	71
PBT	295	400	506	508	553
Tax	67	94	127	128	139
PAT	228	306	378	380	414

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
Net worth	1,817	2,121	2,500	2,880	3,293
Borrowings	4,813	7,302	8,056	10,431	13,507
Other liability	106	110	164	207	260
Total liabilities	6,737	9,534	10,720	13,518	17,061
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
Total assets	6,737	9,534	10,720	13,518	17,061

Source: Arian Research, Company Filings

Key Ratios

Ratios	FY23	FY24	FY25e	FY26e	FY27e
Growth (%)					
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
Balance sheet ratios (%)					
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
Operating efficiency (%)					
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
Profitability (%)					
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
Asset quality (%)					
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
Per share data / Valuation					
EPS	25.9	34.5	42.7	42.9	46.7
BV	206.5	239.7	282.4	325.3	372.1
ABV	130.6	172.1	213.0	247.4	278.0
P/E	36.9	27.7	22.4	22.3	20.5
P/BV	4.6	4.0	3.4	2.9	2.6
P/ABV	7.3	5.6	4.5	3.9	3.4

Source: Arianth 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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