

May 05, 2022

RESULT REPORT Q4 FY22 | Sector: Financials

Home First Finance Company

Exceeds expectations on growth and asset quality

Our view

Home First surprised pleasantly on growth momentum as well as on the extent of asset quality improvement in Q4 FY22. Disbursements at Rs6.4bn (estimate of Rs6bn) were higher 12% qoq/42% yoy and drove a stronger-than-estimated AUM growth of 8% qoq/30% yoy. Portfolio run-off was materially higher qoq on stronger collections (sizeable correction across delinquency buckets) and seasonally higher BT out (annual trend largely unchanged). While NII was impacted by lower DA income, it still grew by 7% qoq/30% yoy. Portfolio spread was stable at 5.6% with incremental lending yield at 13% and marginal CoB at 5.8%/7.5% with/without NHB refinance. Opex grew 14% qoq on account of significant branch addition in H2 FY22, 24% growth in employee base and higher ESOP charges.

There was a material reduction in delinquency buckets with 1+ dpd decreasing to 5.3% from 6.5% qoq (6.2% as of March 2021) and 30+ dpd declining to 3.7% from 4.7% qoq (4.1% as of March 2021). GS3/GNPL declined from 2.6% to 2.3%, within which <90 dpd pool stood at 1% (0.9% as of Dec). The improvement in GS3/GNPL was largely underpinned by recovery/SARFAESI actions, as write-offs were marginal at Rs20-30mn (mainly recovery shortfall). Credit cost was marginal at Rs27mn (lowest since Covid), but ECL cover on Stage-2 assets and GS3/GNPL stood enhanced. Bounce rates are normalizing towards pre-Covid level, in-sync with the reduction in delinquent pool.

Management has guided for 30% AUM growth and 30-50 bps credit cost in FY23. Home First is reasonably confident about maintaining loan spread around 5% aided by 90% portfolio being on floating rate, ability to pass-on increase in CoF, significant headroom to improve product mix (LAP share) and impending benefits of recent credit rating upgrade.

Consistent strong execution on growth and asset quality reinforces our conviction on Home First. We raise FY23/24 earnings/ABV estimates by 7-10%/2-3% and hike 12m PT to Rs975 (earlier Rs910). We see strong growth prospects for the co. underpinned by low-to-moderate market share in most large affordable housing markets, validated policies and processes during Covid, constant investments in resources/distribution and accelerating business traction in maturing branches. The scaling-up of co-lending partnership with UBI would bring additional growth and profits. Stock trades at 3.4x FY24 P/ABV, palatable for a franchise with long-term growth visibility and high profitability.

Exhibit 1: Result table

(Rs mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Total Op. Income	1541	1484	3.8	1318	16.9
Interest expended	(538)	(547)	(1.6)	(545)	(1.2)
Net Interest Income	1003	937	7.0	774	29.7
Total Income	1023	970	5.4	811	26.2
Operating expenses	(364)	(319)	14.0	(302)	20.5
PPOP	659	651	1.2	509	29.6
Provisions	(27)	(60)	(55.1)	(83)	(67.9)
PBT	632	591	6.9	425	48.7
Tax	(30)	(132)	(77.1)	(112)	(73.1)
Reported PAT	602	459	31.0	313	92.4

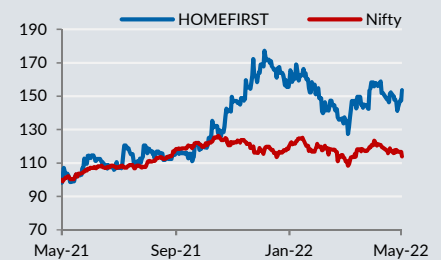
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 765
Target Price	: Rs 975
Potential Return	: 27.4%

Stock data (as on May 04, 2022)

Nifty	16,678
52 Week h/l (Rs)	921 / 481
Market cap (Rs/USD mn)	67342 / 881
Outstanding Shares (mn)	88
6m Avg t/o (Rs mn):	88
Div yield (%):	-
Bloomberg code:	HOMEFIRS IN
NSE code:	HOMEFIRST

Stock performance



	1M	3M	1Y
Absolute return	-0.9%	3.8%	50.4%

Shareholding pattern

Promoter	33.6%
FII+DII	51.4%
Others	15.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	975	910

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	-	24.3	30.5
EPS (Old)	-	22.7	27.7
% change	-	7.0%	10.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	3,800	4,849	6,159
PPOP	2,513	3,122	3,934
Net profit	1,861	2,128	2,674
Growth (%)	85.8	14.3	25.7
EPS (Rs)	21.2	24.3	30.5
ABVPS (Rs)	170.9	195.8	225.8
P/E (x)	36.0	31.5	25.1
P/ABV (x)	4.5	3.9	3.4
ROE (%)	11.8	12.7	13.9
ROA (%)	3.6	3.7	3.6

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 22 6885 0521



MANUJ OBEROI, Associate

KEY CON-CALL HIGHLIGHTS

Disbursements, Growth & Portfolio Mix

- Disbursement run-rate of Rs2bn per month could increase in H2 FY23 - AUM growth expected at 30% for the year.
- BT Out has remained around 5% on annual basis - cases typically go to larger HFCs and PSBs at much lower rates of 7.5-8.5% - current BT trends not different from the past.
- Co. would add 4-5 physical branches every quarter - however, virtual branch addition would be higher.
- Witnessing strong demand across markets and it is unlikely to be impacted by marginal higher loan rate.
- Healthy progress thus far on UBI co-lending partnership and co. has onboarded certain transactions - however, more tangible progress would be seen from Q1 FY23 - co-lending will be margin and RoA accretive.
- Creeping increase in LAP will continue which is currently at 7% - can be a lever for margin.
- Progression in loan ATS is a natural phenomenon, but could be influenced in recent quarters by originations under co-lending program.
- Co has about 1500 connectors, and the base is increasing 100-150 per quarter - on an avg. each connector is generating 2 loans a month - efforts on for pushing them towards 3 loans - currently, 70% business coming from connectors and 30% from other channels.
- Top 5 states' (GJ, MH, TN, AP/TL and KTK) contribution in disbursements at 70-75% - may come-off by 5% in future.

Asset Quality, Restructuring & Credit Cost

- Write-off was Rs20mn in Q4 FY22, representing short-fall in recovery - some write-offs and associated provisions could continue as the stock of 90+ NPLs is resolved (properties disposed at lower values).
- OTR portfolio at Rs280mn (65 bps of loans) - about 20% is 90+ NPL and another 5-10% is <90 NPL.
- Sustained phase of strong collections would lead to further decline in 30+ dpd and NPLs - not allowed to initiate SARFAESI for roll-back cases (ONAN pool of 1%) - unwinding of this pool would be gradual.
- For loans originated in FY22, the 1+ dpd is 0.7%.
- Distribution expansion/deepening to not impact risk profile of portfolio since co. would not enter much smaller locations.
- Centralized underwriting model is doing great, and thus no plan to change.
- Credit cost would be 30-50 bps in FY23.

Spread, NIM & Opex

- Sustainable range for loan spreads at 4.75-5% - co. would timely transmit borrowing rate hike to customers - further, there is headroom to increase share of better-yielding LAP - current HL rate range is 11-13.5%.
- 90%+ loan portfolio is on floating rate (linked to internal PLR, which is linked to Bank MCLR) - small portion of NHB refinance at fixed rate (but even the borrowing rate is fixed).

- Within bank borrowings, repo-linked is relatively smaller portion and majority is MCLR linked having different reset frequency - overall re-pricing would take about 12 months.
- Co. working towards aligning its credit ratings as it is rated AA- (Stable) by India Ratings and A+ (Positive) by ICRA.
- Will be meeting 25% incremental borrowing requirement in FY23 from NCDs - management not too concerned about this.
- Yields on securitization volumes largely stable.
- Opex in Q4 FY22 higher due to employee and branch additions - the quarter also had expenses related to ESOPs.
- Would not putting physical branches in smaller towns - loans will get booked in nearest physical branch - branch structure would not change much.
- Despite deepening of distribution, the hiring texture would remain the same - does not call for any major operating model changes.
- Having cash & equivalents of Rs6.5bn, which is an optimal level from regulatory and business requirements standpoint.

Exhibit 2: Key Ratios

(%)	Q4 FY22	Q3 FY22	chg qoq	Q4 FY21	chg yoy
NIM	6.4	5.8	0.6	4.8	1.6
Yield	12.8	12.8	-	12.8	-
Cost of Borrowings	7.2	7.2	-	7.4	(0.2)
Spread	5.6	5.6	-	5.4	0.2
Cost to Income	35.7	33.0	2.7	38.0	(2.3)
Gross NPA	2.3	2.6	(0.3)	1.8	0.5
Credit cost*	0.2	0.5	(0.3)	0.8	(0.6)
Collection Efficiency	99.4	99.1	0.3	98.5	0.9
Leverage (x)	3.2	3.1	0.1	3.4	(0.2)
RoA	4.0	4.0	-	2.9	1.1
RoE	12.5	12.4	0.1	10.1	2.4

Source: Company, YES Sec, *Calculated

Exhibit 3: Business Data

(Rs mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
AUM	53,803	49,940	7.7	41,411	29.9
Disbursements	6,411	5,696	12.6	4,518	41.9
Active loan accounts	61,684	15,731	292.1	18,214	238.7
Customer-wise AUM					
Salaried	38,738	36,456	6.3	30,644	26.4
Self-employed	14,527	12,984	11.9	10,353	40.3
Corporate	538	499	7.7	414	29.9
Product-wise AUM					
Housing Loans	48,961	45,445	7.7	38,098	28.5
Loans - Comm. Property	538	499	7.7	414	29.9
LAP	3,766	3,496	7.7	2,485	51.6
Developer Finance	538	499	7.7	414	29.9

Source: Company, YES Sec

Exhibit 4: Top States AUM Concentration

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Gujarat	38.2	38.2	37.5	37.0	36.0
Maharashtra	19.2	18.7	17.7	16.7	16.1
Tamil Nadu	11.1	11.4	11.8	12.0	12.2
Karnataka	9.1	8.9	8.7	8.3	8.1
Rajasthan	5.5	5.3	5.5	5.7	5.7
Telangana	5.5	5.7	6.3	6.8	7.5
MP	4.4	4.5	4.6	4.7	4.9
UP	2.9	3.0	3.3	3.6	3.9
Others	4.1	4.3	4.6	5.2	5.6

Source: Company, YES Sec

Exhibit 5: Asset Quality

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
1+ DPD	6.2	8.9	7.6	6.5	5.3
30+ DPD	4.1	5.8	5.2	4.7	3.7
Stage 2	2.3	3.8	3.5	2.1	1.4
Stage 3	1.8	1.9	1.7	2.6	2.3
Net Stage 3	1.2	1.4	1.2	2.0	1.8

Source: Company, YES Sec

Exhibit 6: ECL Summary

(Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Stage 1					
Loans - Principal outstanding	32,323	32,425	34,942	38,110	41,927
ECL Provisions	121	132	143	132	143
Net loans - Principal outstanding	32,202	32,293	34,799	37,978	41,784
ECL Provisions - (%)	0.4	0.4	0.4	0.3	0.3
Stage 2					
Loans - Principal outstanding	773	1,321	1,277	870	574
ECL Provisions	108	154	155	100	71
Net loans - Principal outstanding	665	1,167	1,122	770	503
ECL Provisions - (%)	14.0	11.6	12.1	11.5	12.4
Stage 3					
Loans - Principal outstanding	622	666	640	1,024	1,015
ECL Provisions	224	174	190	232	253
Net loans - Principal outstanding	398	491	451	792	763
ECL Provisions - (%)	36.0	26.2	29.6	22.7	24.9
TOTAL ECL Provisions - (%)	1.4	1.4	1.3	1.2	1.1

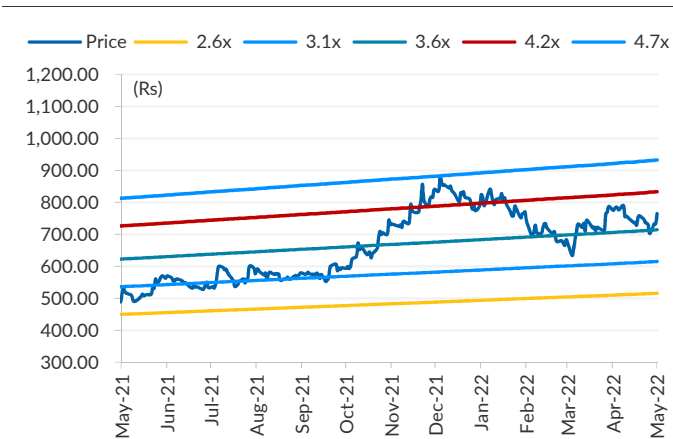
Source: Company, YES Sec

Exhibit 7: Funding Mix

(%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Private Sector Banks	19.0	21.0	21.0	20.0	23.0
Public Sector Banks	25.0	24.0	24.0	25.0	22.0
NBFC	1.0	1.0	2.0	2.0	2.0
NHB Refinance	29.0	26.0	24.0	23.0	27.0
NCD	6.0	6.0	6.0	5.0	4.0
DA	20.0	22.0	23.0	25.0	23.0

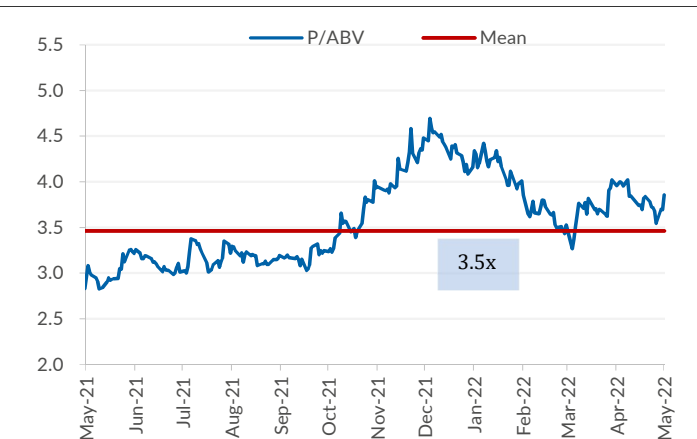
Source: Company, YES Sec

Exhibit 8: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	157	175	175	175	175
Reserves	9,178	13,631	15,562	17,689	20,364
Shareholder's funds	9,334	13,805	15,737	17,865	20,539
Deferred Tax Liabilities	66	32	45	54	65
Total Non-Financial liabilities	170	176	133	156	184
Debt Securities	0	2,396	1,688	2,245	2,963
Borrowings (Excl. Debt Sec.)	24,938	28,141	32,980	43,863	57,899
Other Financial Liabilities	356	535	569	740	962
Total Financial liabilities	25,298	31,120	35,299	46,910	61,886
Total Equities and Liabilities	34,802	45,102	51,169	64,931	82,609
Assets					
Cash and Cash Equivalents	1,477	2,094	6,178	7,239	8,354
Bank balances	743	4,705	501	501	501
Loans	30,139	33,265	43,049	55,559	71,904
Investments in Associates	1,456	3,750	0	0	0
Other Financial Assets	663	1,012	1,150	1,323	1,521
Total Financial assets	34,479	44,825	50,877	64,621	82,280
Property, Plant and Equipment	18	27	1	1	1
Other Intangible Assets	5	76	111	111	111
Other Non-Financial Assets	95	82	88	97	107
Total Non-Financial assets	324	276	292	309	329
Total Assets	34,802	45,102	51,169	64,931	82,609

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	3,987	4,771	5,820	7,613	9,999
Interest expense	(1,938)	(2,174)	(2,157)	(2,874)	(3,966)
Net interest income	2,048	2,597	3,663	4,740	6,033
Non-interest income	210	120	137	110	126
Total op income	2,258	2,718	3,800	4,849	6,159
Total op expenses	(1,020)	(1,056)	(1,287)	(1,727)	(2,226)
PPoP	1,238	1,662	2,513	3,122	3,934
Provisions	(165)	(322)	(250)	(277)	(358)
Profit before tax	1,073	1,340	2,263	2,845	3,575
Taxes	(278)	(339)	(402)	(717)	(901)
Net profit	796	1,001	1,861	2,128	2,674

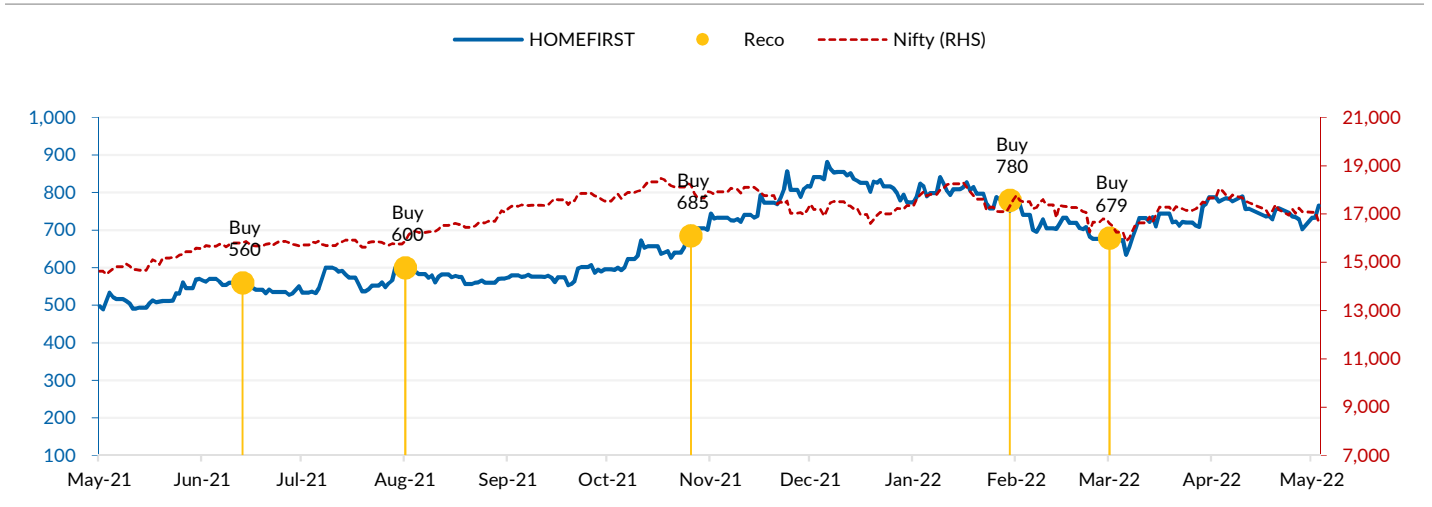
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Net interest income	53.6	26.8	41.0	29.4	27.3
Total op income	56.4	20.3	39.8	27.6	27.0
Op profit (pre-provision)	70.8	34.2	51.2	24.2	26.0
Net profit	76.0	25.9	85.8	14.3	25.7
Advances	41.2	10.4	29.4	29.1	29.4
Borrowings + Debt	29.5	22.5	13.5	33.0	32.0
Total assets	40.2	29.6	13.5	26.9	27.2
Profitability Ratios (%)					
NIM	6.8	6.7	7.7	7.7	7.6
Non-interest income /Total income	9.3	4.4	3.6	2.3	2.0
Return on Avg. Equity	10.9	8.7	11.8	12.7	13.9
Return on Avg. Assets	2.7	2.5	3.6	3.7	3.6
Per share ratios (Rs)					
EPS	10.2	11.5	21.2	24.3	30.5
Adj. BVPS	116.2	153.4	170.9	195.8	225.8
Other key ratios (%)					
Loans/Borrowings	120.9	108.9	124.2	120.5	118.1
Cost/Income	45.2	38.8	33.9	35.6	36.1
CAR	49.0	56.2	58.6	51.5	45.7
Gross Stage 3 (%)	1.0	1.8	2.3	1.7	1.4
Credit Cost	0.5	0.8	0.5	0.5	0.5
Tax rate	25.9	25.3	17.8	25.2	25.2

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member
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Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No: +91-22-6885 0278