

BFSI | Q2FY24 Result Update

Superior growth trends continue

- HFFC reported a good quarter with NII growth of 27% YoY/7% QoQ. Further, higher other income & lower opex drove PAT growth of 37% YoY. Despite sequential rise in BT-outs, growth trends were intact at 7% QoQ/ 33% YoY.
- Reported spreads were lower by 17 bps QoQ led by lower NHB drawings (stable in H1 after +17 bps in Q1). AQ metrics were slightly weaker with stage-3% at 1.7% (+10 bps) & 1+ dpd at 4.5% (+20 bps).
- We upgrade earnings by 3-4% for FY24-25E, factoring in higher other income. Rolling over to Sep-25E, maintain Buy with TP of Rs1170, valuing the stock at 3.8x P/BV. The stock currently trades at 3x P/BV against RoA/RoE of 4%/18%.

Spreads moderate; in-line with expectations

Spreads were lower by 17 bps QoQ as rate hike benefit is built-in by now and as higher share of borrowings from banks during Q2 impacted spreads. Further, yields are also impacted by NHB funds (where customer yields are re-priced downwards) and co-lending portfolio which comes at lower yields. Spreads should moderate over the year, partly be offset by yield benefit from rising LAP share. We build in slightly lower spreads YoY for FY24E vs FY23.

Growth trends remain strong

On book advances grew by 8% QoQ and 37% YoY, with overall AUM growing at 33% YoY/7% QoQ. LAP book (+12% QoQ/ 68% YoY) has been consistently growing at a faster pace, with AUM share at 12%. Growth is also driven by rising ticket size, with share of loans >Rs1.5mn ticket size now constituting ~41% of AUM vs 29% two years back, led by increased co-lending and improved share in south, where ticket sizes are higher. We build in loan growth of 33% YoY over FY24/25/26E. The HFC is sensitizing its team to arrest rise in BT-outs, mainly driven by rate and tenor hikes.

Asset quality metrics slightly higher

Stage-3% was slightly higher QoQ at 1.7% (+10 bps), with steady credit costs at 50 bps. Early bucket delinquencies also increased, with 1+ dpd at 4.5% (+20 bps) and bounce rates at 15.7% v/s 15% in Q1. This is mainly owing to seasonality and coming off a low base. Amidst high growth, AQ trends remain a monitorable.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net interest income	1,178	926	27.2	1,099	7.2
Other income	432	257	68.2	432	0.0
Total Net Income	1,610	1,182	36.1	1,530	5.2
Operating expenses	565	441	28.2	553	2.2
Pre-provision profit	1,044	741	40.9	977	6.9
Provisions	80	50	61.0	77	4.0
Tax expense	221	149	48.6	209	5.9
Reported Net Profit	743	543	36.9	691	7.5
			bps		bps
Advances Growth YoY%	36.5	41.5	(493)	38.1	(152)
NIM (%)	6.2	6.6	(48)	6.3	(12)
RoA (%)	3.8	3.8	1	3.9	(6)
RoE (%)	15.6	13.1	248	15.0	58
Gross Stage 3 (%)	1.7	1.9	(23)	1.6	6

CMP	Rs 953
Target / Upside	Rs 1,170 / 23%
NIFTY	19,047

Scrip Details

Equity / FV	Rs 176mn / Rs 2
Market Cap	Rs 84bn
	USD 1.0bn
52-week High/Low	Rs 985/ 652
Avg. Volume (no)	185,927
Bloom Code	HOMEFIRS IN

Price Performance	1M	3M	12M
Absolute (%)	16	10	35
Rel to NIFTY (%)	20	13	27

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	33.4	30.2	30.2
MF/Banks/FIs	6.4	8.1	7.2
FIs	6.4	8.1	7.2
Public / Others	53.2	53.3	30.4

Valuation (x)

	FY24E	FY25E	FY26E
P/E	27.8	20.8	15.8
P/ABV	4.2	3.6	3.0
ROAA	3.9	4.0	4.0
ROAE	15.4	17.7	19.6

Estimates (Rs bn)

	FY24E	FY25E	FY26E
NII	5.3	6.9	8.9
PPOP	4.2	5.6	7.4
PAT	3.0	4.0	5.3
Adj BV (Rs)	228.3	267.5	317.7

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Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	Q2FY24E	Dev. (%)
Net interest income	1,178	926	1,098	27.2	7.2	1,186	-0.7
Non-interest income	432	257	432	68.2	0.0	389	11.2
Pre-Provisioning Operating Profit	1,044	741	977	40.9	6.9	988	5.7
PAT	743	543	691	36.9	7.5	717	3.7

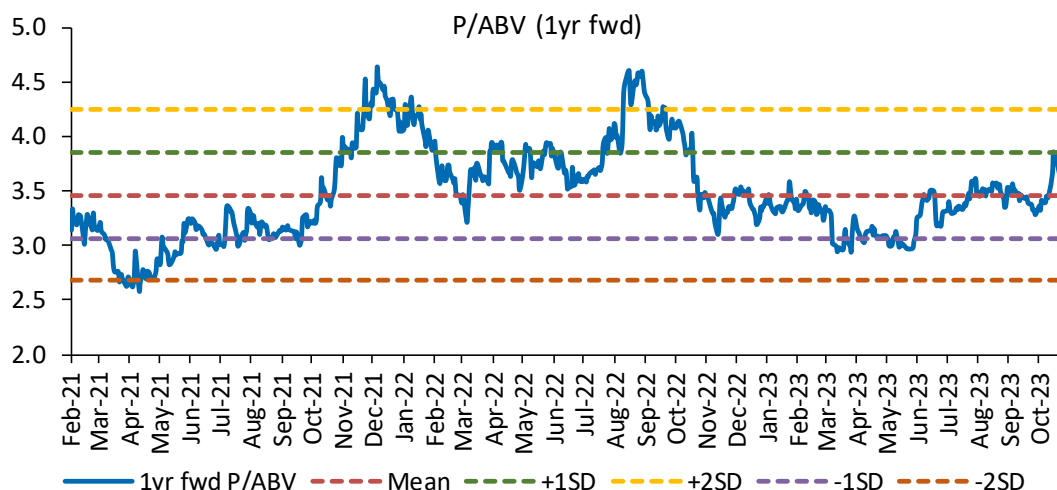
Source: Company, DART

Exhibit 2: Change in estimates

Particular (Rs.mn)	Previous		Revised		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income	5,357	7,091	5,293	6,918	(1.2)	(2.4)
NIMs (%)	7.1	7.1	7.0	7.0	(8 bps)	(16 bps)
Operating Profit	3,926	5,356	4,212	5,639	7.3	5.3
Provision	193	331	320	427	66.2	28.9
Profit after tax	2,893	3,894	3,016	4,039	4.2	3.7
Loan Book	80,206	1,06,940	80,104	106,762	(0.1)	(0.2)
ABVPS	228	267	228	267	0.2	0.2

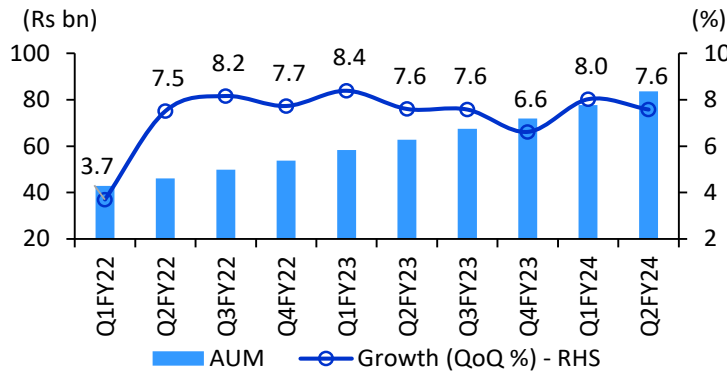
Source: Company, DART

Exhibit 3: The stock currently trades at 3.4x 1-year forward P/ABV

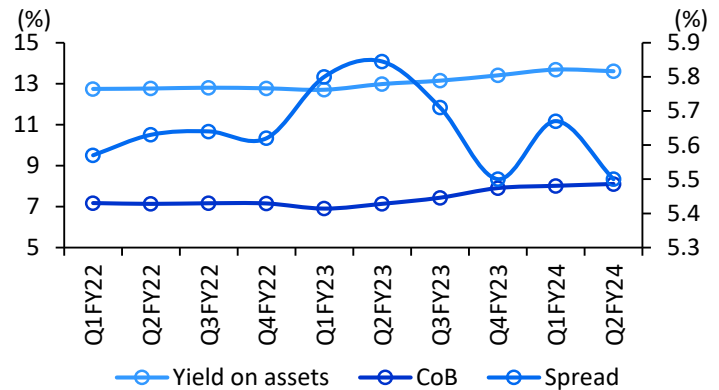


Earning call KTAs

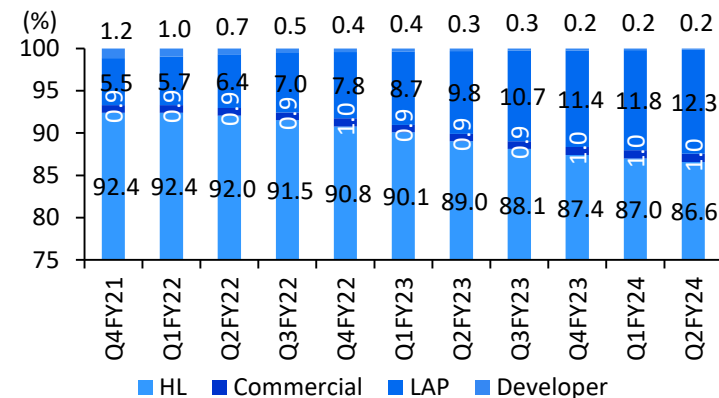
- **Guidance:** AUM growth of 30% plus YoY over medium term (2-3 years). Spreads guided at 5.25% for FY24. Opex to asset to remain in the range of 3-3.2% for FY24. Advance yield to be maintained at 13-13.5%.
- **Margin:** CoB could rise by 20 bps in H2FY24. Un-availed NHB sanction line of Rs4.5bn. The transmission of rates on CoF is largely done but there is some residual impact pending to play out. As we get NHB funds, we re-price the customers downwards, which results in lower yields. Also, co-lending portfolio is at a slightly lower rate, which also pulls down yields. No more PLR hikes unless there is rise in repo rate.
- **BT-outs** were higher in Q2 and team has been sensitized for customer retention, it was more a reaction to the rate hike and rise in tenure. Early stage counselling and tagging for high BT-out risk customers should help. Acquirers include banks and NBFCs. Connector initiated BT-outs are not many, mostly led by customers themselves.
- **Asset quality:** Rise in NPA led by seasonality. Bounce rates returning to pre-COVID levels will take some time, but bounce rate across industry have increased. LTV at origination should keep declining as we move towards self-construction segment.
- **Advances:** Most of the growth to come from distribution expansion, do not factor in ATS rise in the guidance. Salaried share could moderate to 60% over time as we enter newer geographies. Acquisition cost at 30-50 bps for connectors. Demand for affordable loans not an issue. States where incomes have risen have very high demand for AFHC loans.
- **Branches and employees:** Adding 20-30 branches a year. 295 touch points today, which should increase by 150 and 1200 employees should rise to 1600-1700 over the next two years. Deepening presence in existing geographies. Will start expanding in northern states as well. Last year attrition was at 40%, but less than 30% in H1FY24. Also hiring lull in industry has helped arrest attrition. There is scope for the connector model to further expand.

Exhibit 4: AUM growth remains strong at 8% QoQ


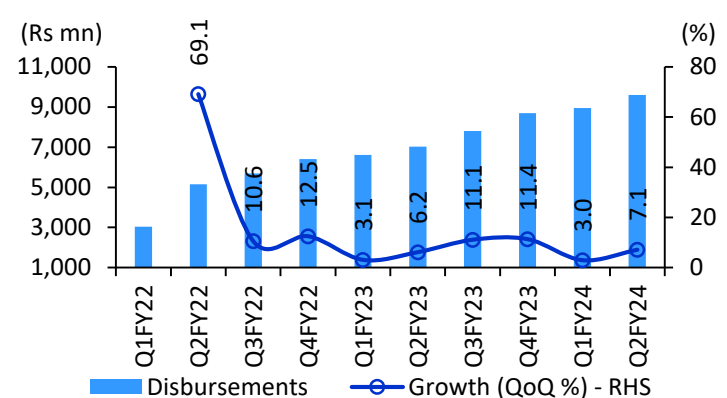
Source: Company, DART

Exhibit 5: Spreads moderate QoQ; on expected lines


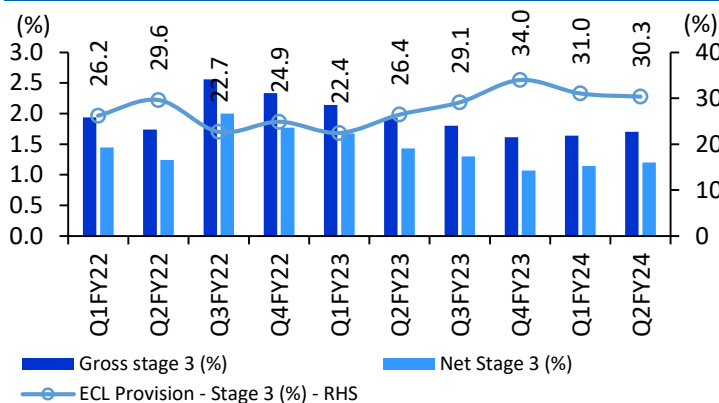
Source: Company, DART

Exhibit 6: Continued rise in LAP share aiding yields


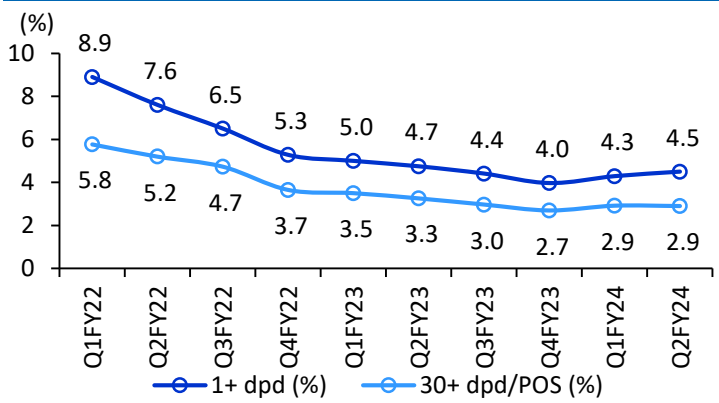
Source: Company, DART

Exhibit 7: Disbursements remain strong, driving growth


Source: Company, DART

Exhibit 8: Headline asset quality slightly higher QoQ


Source: Company, DART

Exhibit 9: Sequential rise in early bucket delinquencies


Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Interest Income	2,348	1,637	2,166	43.4	8.4	7,222	5,117	41.1
Interest Expense	1,170	712	1,068	64.4	9.6	3,043	2,157	41.1
Net Interest Income	1,178	926	1,099	27.2	7.2	4,179	2,960	41.2
NIM (%)	6.2	6.6	6.3	(48 bps)	(12 bps)	7.2	6.3	91 bps
Non-Interest Income	432	257	432	68.2	0.0	734	840	(12.7)
Total Income	1,610	1,182	1,530	36.1	5.2	4,913	3,800	29.3
Employee expenses	369	266	359	38.8	2.7	1,070	808	32.5
Other expenses	197	175	194	12.1	1.3	676	479	40.9
Total Operating Expenses	565	441	553	28.2	2.2	1,746	1,287	35.6
Cost to Income (%)	35.1	37.3	36.1	(218 bps)	(103 bps)	35.5	33.9	166 bps
Pre-Provisioning Operating Profit	1,044	741	977	40.9	6.9	3,167	2,513	26.0
Provisions	80	50	77	61.0	4.0	215	250	(14.0)
PBT	965	692	900	39.4	7.1	2,952	2,263	30.5
Tax expense	221	149	209	48.6	5.9	669	402	66.5
-effective tax rate	22.9	21.5	23.2	141 bps	(27 bps)	22.7	17.8	491 bps
PAT	743	543	691	36.9	7.5	2,283	1,861	22.7
EPS (Rs)	8	6	8	36.2	7.4	26	21.2	22.1
BV (Rs)	221	#N/A	212	#N/A	4.1	206.5	179.6	15.0
AUM	83,654	62,754	77,759	33.3	7.6	71,980	53,803	33.8
RoA	3.8	3.8	3.9	1 bps	(6 bps)	3.9	3.9	(0.4)
RoE	15.6	13.1	15.0	248 bps	58 bps	13.5	12.6	6.9

Source: Company, DART,

Balance Sheet Analysis (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY % / bps	QoQ % / bps
LIABILITIES AND EQUITY					
Share capital	176	175	176	0.5	0.1
Reserves & surplus	19,291	16,681	18,503	15.6	4.3
Shareholders' funds	19,467	16,856	18,680	15.5	4.2
Borrowings	60,018	41,541	56,264	44.5	6.7
Other liabilities and provisions	949	1,157	1,115	(17.9)	(14.8)
TOTAL	80,434	59,554	76,058	35.1	5.8
ASSETS					
Cash & balance balances	4,885	3,218	5,437	51.8	(10.2)
Investments	3,557	3,397	3,657	4.7	(2.7)
Loans	70,253	51,454	65,194	36.5	7.8
Fixed and other assets	1,739	1,484	1,770	17.2	(1.7)
TOTAL	80,434	59,554	76,058	35.1	5.8
AUM	83,654	62,754	77,759	33.3	7.6
Cash as a proportion of total assets (%)	6.1	5.4	7.1	67 bps	(108 bps)
Loans to borrowings (%)	117.1	123.9	115.9	(681 bps)	118 bps
Leverage (EOP; x)	4.1	3.5	4.1	60 bps	6 bps

Source: Company, DART

Asset Quality (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ % / bps	YTD % / bps
Gross stage 3	1,020	1,001	1,008	974	1,077	1,233	14.5	23.2
Gross stage 3 (%)	2.1	1.9	1.8	1.6	1.6	1.7	6bps	(23bps)
Net Stage 3	791	737	715	643	743	859	15.6	16.6
Net Stage 3 (%)	1.7	1.4	1.3	1.1	1.1	1.2	6bps	(23bps)
ECL Provision - Stage 3	229	265	293	331	334	374	11.9	41.5
ECL Provision - Stage 3 (%)	22.4	26.4	29.1	34.0	31.0	30.3	(69bps)	392bps
Overall ECL PCR (%)	1.0	1.0	0.9	0.9	0.9	0.9	(2bps)	(6bps)

Source: Company, DART

Loan Book Analysis (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	QoQ % / bps	YTD % / bps
Housing Loan	52,535	55,873	59,489	62,904	67,648	72,417	7.0	29.6
Loans for Purchase of Commercial Property	504	544	625	692	752	815	8.4	49.9
Loans Against Property	5,069	6,137	7,212	8,214	9,201	10,284	11.8	67.6
Developer Finance	211	201	186	170	158	138	(12.4)	(31.0)
Total Advances	58,319	62,754	67,512	71,980	77,759	83,654	7.6	33.3

Source: Company, DART

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Interest Income	7,222	9,911	13,288	17,697
Interest expense	3,043	4,618	6,371	8,755
Net interest income	4,179	5,293	6,918	8,942
Other income	734	1,191	1,588	2,115
Total income	4,913	6,484	8,506	11,058
Total expenses	1,746	2,272	2,867	3,618
- Employee cost	1,070	1,380	1,726	2,157
- Other	676	892	1,141	1,461
Pre provisioning profit	3,167	4,212	5,639	7,440
Provisions	215	320	427	598
Profit before taxes	2,952	3,891	5,212	6,842
Tax provision	669	875	1,173	1,539
Profit after tax	2,283	3,016	4,039	5,303
Adjusted profit	2,283	3,016	4,039	5,303

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	176	176	176	176
Reserves & Surplus	17,997	20,750	24,455	29,302
Net worth	18,173	20,926	24,631	29,478
Borrowings	48,135	64,501	89,011	121,945
Other liabilities & provisions	1,062	1,395	1,693	1,662
Total Liabilities	67,370	86,822	115,335	153,085
Application of Funds				
Cash and equivalents	2,984	2,801	3,737	4,977
Investments	2,808	2,101	2,803	3,733
Advances	59,957	80,104	106,762	142,098
Fixed assets	257	288	323	361
Other assets	1,363	1,527	1,710	1,915
Total Assets	67,370	86,822	115,335	153,085

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Yield on advances	13.3	14.0	14.1	14.1
Yield on interest earning assets	12.5	13.1	13.4	13.4
Cost of funds	7.3	8.2	8.3	8.3
Spread	5.9	5.8	5.8	5.8
NIM	7.2	7.0	7.0	6.8
(B) Asset quality and capital ratios (%)				
Gross stage 3	1.6	1.6	1.6	1.7
Net stage 3	1.1	1.0	1.0	1.1
CAR	49.4	0.0	0.0	0.0
Tier 1	48.9	0.0	0.0	0.0
RoA	3.9	3.9	4.0	4.0
RoE	13.5	15.4	17.7	19.6
(D) Measures of Investments				
EPS - adjusted	25.9	34.3	45.9	60.2
BV	206.5	237.8	279.9	334.9
DPS	228.8	290.4	396.1	396.1
Dividend payout ratio	0.1	0.1	0.1	0.1
(E) Growth Ratios (%)				
Net interest income	41.2	26.7	30.7	29.3
PPoP	26.0	33.0	33.9	31.9
Adj PAT	22.7	32.1	34.0	31.3
Advances	39.3	33.6	33.3	33.1
Total borrowings	38.8	34.0	38.0	37.0
Total assets	31.7	28.9	32.8	32.7
(F) Valuation Ratios				
Market Cap (Rs. mn)	83,986	83,986	83,986	83,986
CMP (Rs.)	953	953	953	953
P/E (x)	36.7	27.8	20.8	15.8
P/BV (x)	4.6	4.0	3.4	2.8
Div Yield (%)	24.0	30.5	41.6	41.6

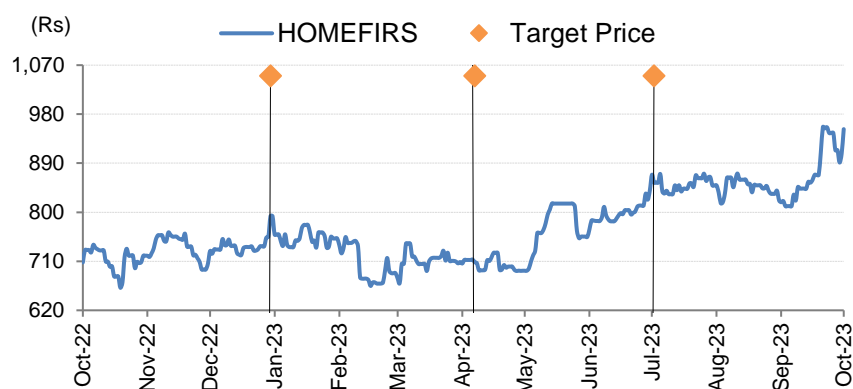
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-23	BUY	1,050	793
May-23	BUY	1,050	708
Jul-23	BUY	1,050	855

*Price as on recommendation date

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