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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Home First Finance

19 January 2024

In-line operating results; growth guidance steady

RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: 1,004 Target Price: Rs 1,200

Stock Info

Sensex/Nifty	71,715/21,625
Bloomberg	HOMEFIRS IN
Equity shares	88 mn
52-wk High/Low	1,058/654
Face value	Rs 2
M-Cap	Rs 89bn/USD1.0bn
3-m Avg volume	USD 3mn

Financial Snapshot (Rs mn)

Y/E March	FY24E	FY25E	FY26E
NII	5,329	6,716	8,173
PPP	4,299	5,478	6,579
PAT	3,067	3,866	4,614
EPS (Rs)	34.8	43.9	52.4
EPS Gr. (%)	34.3	26.1	19.4
BV/Sh (Rs)	236	273	318

Ratios

NIM (%)	6.3	6.0	5.7
C/I ratio (%)	35.5	36.2	37.8
RoA (%)	3.7	3.4	3.1
RoE (%)	15.7	17.2	17.7
Payout (%)	15.0	15.0	15.0

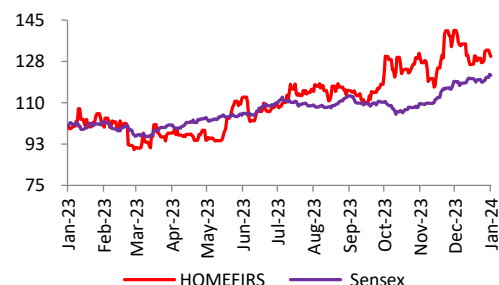
Valuations

P/E (x)	28.8	22.9	19.2
P/BV (x)	4.3	3.7	3.2
Div. Yield (%)	0.5	0.7	0.8

Shareholding pattern (%)

	Jun-23	Sep-23	Dec-23
Promoter	30.21	30.19	23.60
FII	17.56	17.02	24.83
DII	10.00	9.96	11.72
Others	42.24	42.83	39.84

Stock Performance (1-year)



Home First Finance (HFFC) 3QFY24 operational performance was in-line with our estimates. Higher other income compensates for lower spreads. NII/ OP came in at Rs1.34bn/ 1.09bn vs. estimate of Rs1.40bn/ 1.07bn. NII reported healthy growth of 21% YoY (2% QoQ) at Rs 1.3bn aided by 34% YoY growth in AUM. The operating performance during the quarter was healthy despite contraction in margins (~30bps QoQ decline) aided by higher assignment income and treasury income (other income grew 137% YoY). Opex to AUM ratio was steady QoQ at 2.8%. Asset quality stood steady QoQ with GS3/NS3 at 1.7%/1.2%. PCR on Stage 3 assets was largely steady at ~30%. While 1+dpd remained steady QoQ at 4.5%, bounce rate increased to 15.1% from 14.2% in Q2 and further increased to 15.3% in Jan'24. Strong growth in business with healthy operational efficiency should aid its earnings and return ratios ahead. We estimate 33% CAGR in AUM to drive 26% CAGR in earnings over FY23-FY26 with RoA/ RoE of ~3%/~18%. We retain our BUY rating and increase our TP of Rs.1,200 (from Rs.1,100) as we rollover to Mar-26, valuing the company at ~3.75x FY26E BV.

Key result highlights

- HFFC 3QFY24 operational performance was in-line with our estimates with NI/ OP at Rs1.7bn/ 1.09bn. NI reported healthy growth of 36% YoY (6% QoQ) aided by 34%yoy growth in AUM, even as NIMs contracted 30bps QoQ at 5.7%.
- Higher other income (137%YOY) compensated for lower spreads during the quarter. Spreads declined by 20bps QoQ to 5.3% due to 10bps fall in yields and 10bps increase in cost of borrowings. NIMs (reported) contracted by ~30bps QoQ at 5.7%.
- AUM growth was led by 31% YoY growth in home loan AUM and 58% growth in LAP AUM (13% of portfolio). Disbursement growth was healthy at 29% YoY / 5% QoQ. BT-out rate improved from 8.6% in Q2FY24 to 7.5% in Q3FY24.
- Operating expenses increased by 38% YoY / 8% QoQ (vs. avg growth of 35% YoY in past few quarters). However, opex to AUM ratio stood steady at 2.8% in Q3FY24.
- Asset quality was steady QoQ with GS3/NS3 at 1.7%/1.2%. PCR on Stage 3 assets was largely steady at ~30%. 1+dpd was also steady QoQ at 4.5%, while bounce rate has increased from 14.2% in Q2FY24 to 15.1 in Q3FY24 and further increased to 15.3% Jan'24. Provisions during Q3 stood at Rs 70mn (declined 12.4% QoQ) which resulted in credit costs of 0.3%; broadly steady on a sequential basis.

Valuation & recommendation

HFFC reported healthy operating performance aided by strong growth in AUM, even as there was a slight contraction in NIMs. Management has maintained their AUM growth guidance of 30% YoY which will be driven by strong demand and deeper penetration in existing as well as newer geographies. At CMP the stock is currently trading at 3.2x FY26 BV with RoA/ RoE of 3.1%/ 17.7%. We retain our BUY rating and increase our TP of Rs.1,200 (from Rs.1,100) as we rollover to Mar-26, valuing the company at ~3.75x FY26E BV.

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Investors are advised to refer disclosures made at the end of the research report.

Management commentary

Business:

- HFFC will continue to focus on both new and existing geographies and tier I to tier V cities.
- Overall market share is 2.5%. Gujarat – 3-4% and Maharashtra – 1-1.5%
- States like Uttar Pradesh, Madhya Pradesh and Rajasthan are showing good traction aided by rising industrialisation, increasing per capita income etc.
- Strong traction seen in ticket size range between Rs 1mn to Rs 2mn.
- Co-lending will contribute ~10% of overall disbursements in next couple of quarters vs 6% currently. Co-lending business unlikely to change the profitability structure.
- Co-lending ticket size – Rs 2-2.5mn
- Total connectors count - 2900, total RMs count – 800

NIMs/COF/Yields:

- CoB to increase by 10bps in Q4.
- Rs 2bn availed from NHB in Q3 and Rs 2.5bn will be availed in Q4
- No capital raise on cards in near term.
- Yields decline was on account of repricing of loans linked to NHB funding, increased co-lending share in disbursement and exclusion of co-lending yields in reported yields.

Asset quality:

- Bounce rate at 13-15.5% is a comfortable range.
- Various initiatives have been taken to create models based on bank statements which will improve the underwriting process.
- Customers with credit score of less than 700 forms 10% of overall business.
- Majority of BT outs go to banks followed by other HFCs.

Opex:

- During Q3, 3 branches have been added. Management aim to add 200 branches and 500 touch points in next 3 years.
- Opex to asset ratio to remain elevated at 3-3.2% due to expansion and entry into newer markets.
- Employee attrition rate 30-35% which is still at moderate level compared to past.

Guidance:

- AUM growth guidance maintained at 30% YoY which will be driven by 20-25% growth in disbursements.
- Spreads guidance at 5-5.25%
- RoA guidance of 3.5-3.6% in next 2 years.
- Comfortable asset to equity: 6-7x

Exhibit 1: Quarterly performance

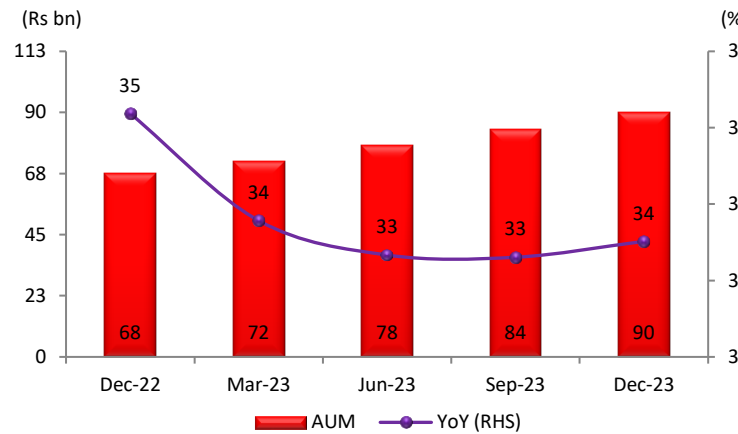
(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	1,106	1,118	1,246	1,321	1,344	21.4	1.7
Other Income	154	266	285	289	364	137.2	26.2
Net Income	1,260	1,384	1,530	1,610	1,708	35.6	6.1
Total Operating Expenses	443	475	553	565	611	37.9	8.0
<i>As % Of Net Income</i>	<i>35.1</i>	<i>34.3</i>	<i>36.1</i>	<i>35.1</i>	<i>35.7</i>	<i>61bps</i>	<i>63bps</i>
Employee Expenses	274	275	359	369	390	42.5	5.8
<i>As % Of Net Income</i>	<i>21.7</i>	<i>19.9</i>	<i>23.5</i>	<i>22.9</i>	<i>22.8</i>	<i>112bps</i>	<i>(7bps)</i>
Other Expenses	169	200	194	197	220	30.5	12.1
<i>As % Of Net Income</i>	<i>13.4</i>	<i>14.4</i>	<i>12.7</i>	<i>12.2</i>	<i>12.9</i>	<i>(50bps)</i>	<i>69bps</i>
Operating Profit	817	910	977	1,044	1,097	34.3	5.1
<i>As % Of Net Income</i>	<i>64.9</i>	<i>65.7</i>	<i>63.9</i>	<i>64.9</i>	<i>64.3</i>	<i>(61bps)</i>	<i>(63bps)</i>
Provisions	60	70	77	80	70	17.0	-12.4
PBT	757	840	900	964	1,027	35.6	6.5
Total Tax	170	200	209	221	239	40.7	8.1
Reported PAT	587	640	691	743	788	34.2	6.1
Adjusted PAT	587	640	691	743	788	34.2	6.1
Yield Analysis (%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Yield on AUM (Calculated)	11.7	11.7	12.4	12.3	12.2	50bps	(17bps)
Yield on Advances (Calculated)	14.2	14.1	14.8	14.7	14.5	36bps	(19bps)
Cost of funds (Calculated)	4.9	5.3	5.7	5.8	6.0	111bps	19bps
Cost of borrowing (Calculated)	7.2	7.8	8.2	8.1	8.1	92bps	6bps
NIMs on AUM (Calculated)	6.8	6.4	6.7	6.5	6.2	(61bps)	(36bps)

Asset quality (IndAs)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Gross Stage 3	1,008	974	1,077	1,233	1,295	28.5	5.0
Net Stage 3	715	643	743	859	908	27.0	5.7
Gross Stage 3 (%)	1.8	1.6	1.6	1.7	1.7	(8bps)	(4bps)
Net Stage 3 (%)	1.3	1.1	1.1	1.2	1.2	(7bps)	(2bps)
Net NPAs/Net worth (%)	4.1	3.5	4.0	4.4	4.5	38bps	5bps
Provision cover (%)	29.1	34.0	31.0	30.3	29.9	84bps	(42bps)

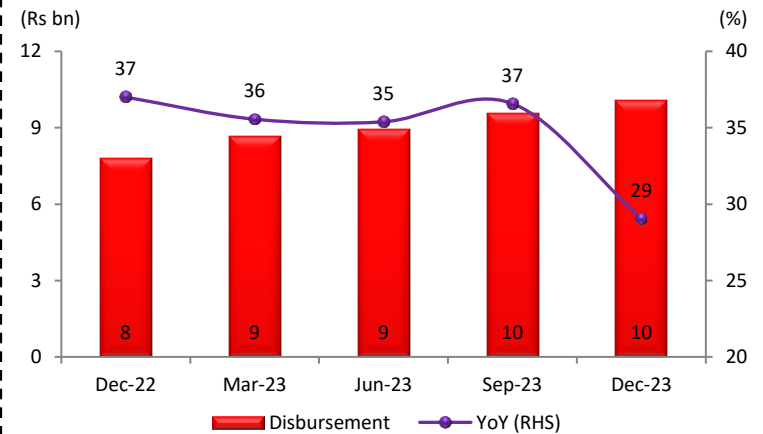
AUM (Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	% of total
Housing loan	59,411	63,342	67,650	72,779	77,518	30.5	6.5	86
Shop loan	675	720	778	837	901	33.5	7.7	1
LAP	7,426	7,918	9,331	10,038	11,718	57.8	16.7	13
Total	67,512	71,980	77,759	83,654	90,137	33.5	7.7	100

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Borrowings	58,009	59,556	68,215	72,792	82,514
Break up %					
DA	19.0	19.0	17.0	18.0	14.0
NCD	6.0	6.0	4.0	4.0	3.0
NHB Refinancing	17.0	15.0	22.0	22.0	22.0
NBFC	2.0	2.0	3.0	2.0	2.0
Public sector bank	24.0	26.0	22.0	21.0	25.0
Private sector bank	32.0	32.0	32.0	33.0	31.0

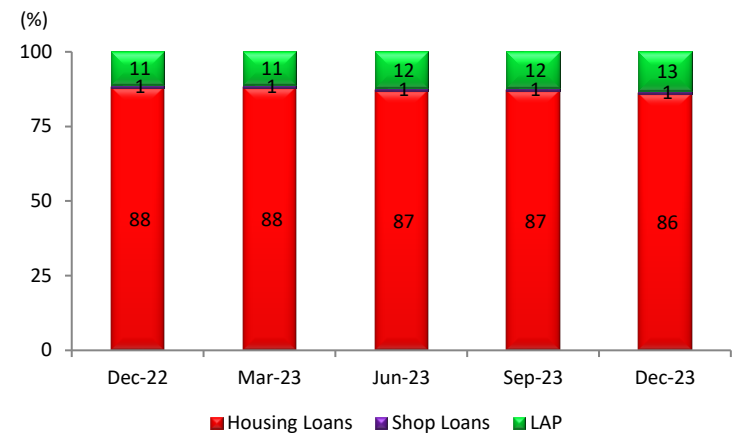
Source: Company, Systematix Institutional Research

Exhibit 2: AUM growth steady

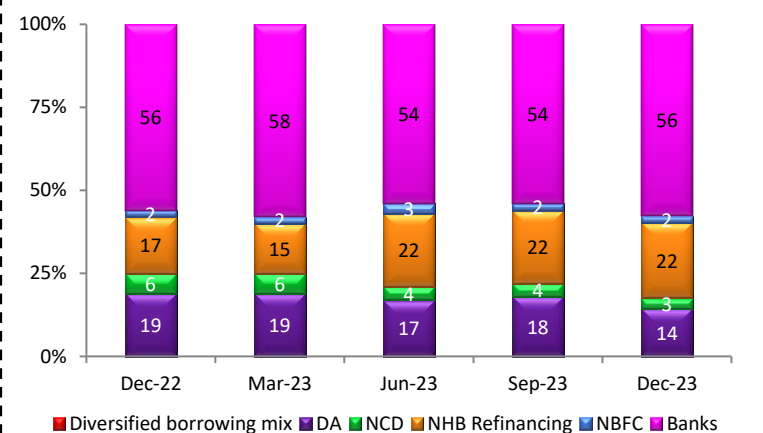
Source: Company, Systematix Institutional Research

Exhibit 3: Disbursements growth moderated

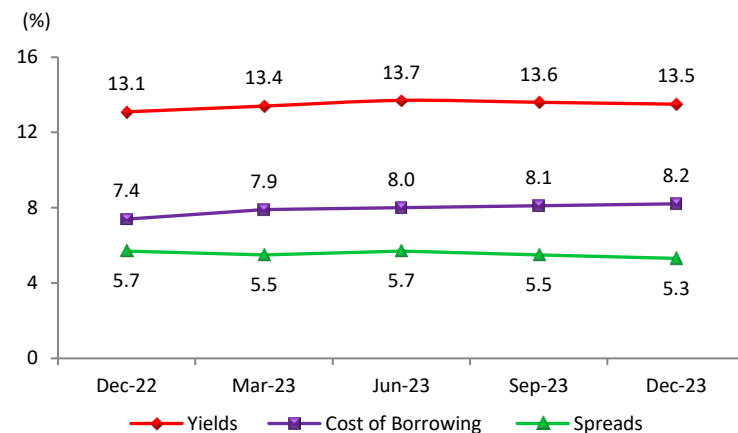
Source: Company, Systematix Institutional Research

Exhibit 4: Share of housing loans largely steady

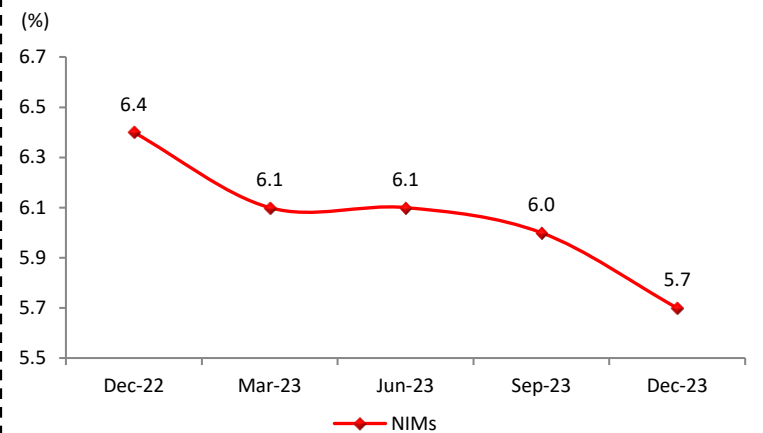
Source: Company, Systematix Institutional Research

Exhibit 5: Bank borrowing forms major portion

Source: Company, Systematix Institutional Research

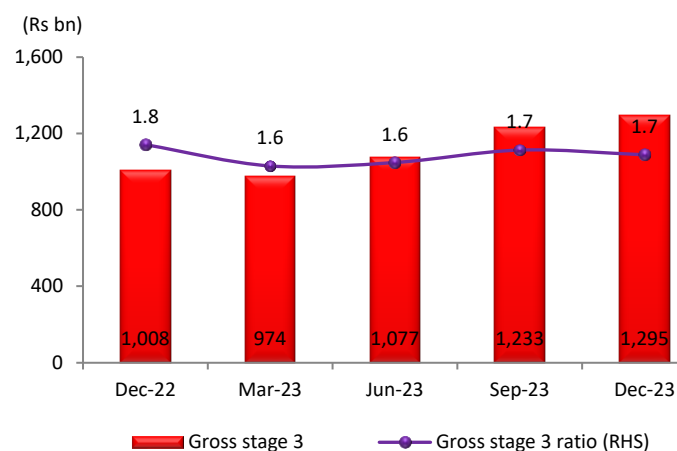
Exhibit 6: Spreads contracted due to drop in yields and rise in cost

Source: Company, Systematix Institutional Research

Exhibit 7: NIMs declined by ~30bps QoQ

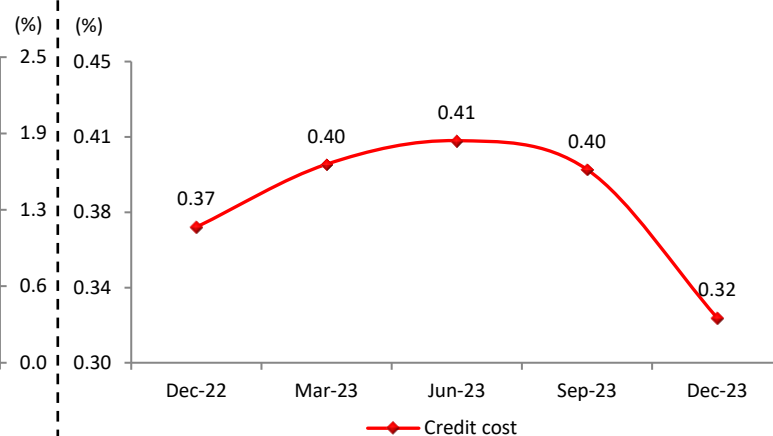
Source: Company, Systematix Institutional Research

Exhibit 8: Asset quality trend steady QoQ



Source: Company, Systematix Institutional Research

Exhibit 9: Credit cost continue to remain benign



Source: Company, Systematix Institutional Research

Exhibit 10: Change in estimates

(Rs bn)	Old Estimates			New Estimates			% Change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
NII	5.6	7.1	-	5.3	6.7	8.2	-5.0	-5.9	-
Operating Profit	4.3	5.3	-	4.3	5.5	6.6	0.5	3.4	-
PAT	2.9	3.6	-	3.1	3.9	4.6	5.0	7.7	-
BV	235	269	-	236	273	318	0.6	1.5	-
EPS	33	41	-	35	44	52	5.0	7.7	-

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	2,960	4,179	5,329	6,716	8,173
Other income	840	734	1,332	1,867	2,403
Net Income	3,800	4,913	6,661	8,582	10,575
Operating expenses	1,287	1,746	2,362	3,105	3,996
Preprovision profit	2,513	3,167	4,299	5,478	6,579
Provisions	250	215	306	444	572
Profit before tax	2,263	2,952	3,993	5,033	6,007
Tax	402	669	926	1,167	1,393
Tax rate	17.8	22.7	23.2	23.2	23.2
Reported Profit after tax	1,861	2,283	3,067	3,866	4,614

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	10.6	12.2	12.4	12.1	11.8
Interest Expense	4.5	5.1	6.0	6.2	6.3
Net Interest Income	6.1	7.1	6.4	5.9	5.5
Other income total	1.7	1.2	1.6	1.6	1.6
Net Income total	7.9	8.3	8.1	7.5	7.1
Operating expenses total	2.7	2.9	2.9	2.7	2.7
Preprovision profit	5.2	5.3	5.2	4.8	4.4
Provisions	0.5	0.4	0.4	0.4	0.4
Profit before tax and exce. items	4.7	5.0	4.8	4.4	4.1
Profit before tax	4.7	5.0	4.8	4.4	4.1
Tax total	0.8	1.1	1.1	1.0	0.9
Profit after tax	3.9	3.9	3.7	3.4	3.1

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	39.2	41.2	27.5	26.0	21.7
Net Income total	39.8	29.3	35.6	28.8	23.2
Preprovision profit	51.2	26.0	35.7	27.4	20.1
Profit before tax	68.8	30.5	35.2	26.1	19.4
Profit after tax	85.8	22.7	34.3	26.1	19.4
Loan	29.4	39.3	37.6	32.6	29.1
Disbursement	85.2	48.4	31.0	25.0	23.0
AUM	29.9	33.8	34.1	30.3	27.5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity	175	176	176	176	176
Reserves	15,562	17,997	20,604	23,891	27,813
Net worth	15,737	18,173	20,780	24,067	27,989
Borrowings	34,668	48,135	69,795	98,411	135,808
Others	764	1,062	7,441	7,167	3,203
Total liabilities	51,169	67,370	98,016	129,645	167,000
Cash	6,678	2,984	5,886	7,671	9,777
Investments	-	2,808	7,623	9,935	12,663
Loans	43,049	59,957	82,481	109,398	141,194
Others	1,239	1,364	1,737	2,264	2,885
Total assets	51,169	67,370	98,016	129,645	167,000

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Yield on portfolio	13.4	14.0	14.4	14.4	14.0
cost of borrowings	6.6	7.3	8.4	8.4	8.0
Interest Spread	6.8	6.7	6.0	6.0	6.0
NIM (on AUM)	6.2	6.6	6.3	6.0	5.7
Cost/ Income (%)	33.9	35.5	35.5	36.2	37.8
Credit cost (%)	0.5	0.4	0.4	0.4	0.4
RoA(%)	3.9	3.9	3.7	3.4	3.1
RoE(%)	12.6	13.5	15.7	17.2	17.7
Leverage (x)	3.3	3.5	4.2	5.1	5.7
Tier I (%)	58.0	48.9	38.5	33.7	30.4
CAR (%)	58.6	49.4	38.8	34.0	30.6
Gross NPA (%)	2.3	1.6	1.7	1.7	1.7
Net NPA (%)	1.8	1.1	1.2	1.2	1.2
Provision coverage (%)	24.9	34.0	29.9	29.9	29.9

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
FDEPS (Rs)	21.1	25.9	34.8	43.9	52.4
PER (x)	47.5	38.7	28.8	22.9	19.2
Book value (Rs)	178.8	206.5	236.1	273.4	318.0
P/BV (Rs)	5.6	4.9	4.3	3.7	3.2
Adjusted book value (Rs)	170.1	199.2	224.8	258.5	298.7
P/ABV (Rs)	5.9	5.0	4.5	3.9	3.4
P/PPP (x)	35.2	27.9	20.6	16.1	13.4
Dividend yield (%)	0.0	0.3	0.5	0.7	0.8

Source: Company, Systematix Institutional Research

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