

Good quarter !!!

Home First reported good set of numbers – PAT came in at INR 743 mn, up by 36.9% yoy and 7.5% qoq led by strong asset growth. Key highlights for the quarter were – AUMs grew at healthy pace of 33.3% yoy (7.9% qoq) to INR 83.7 bn. At the same time, disbursements grew by 36.6% yoy to INR 9.6 bn. Management said demand continues to remain strong and it will continue to grow AUMs by 25-30% CAGR over the next 3-4 years time. Spreads contracted marginally by 20 bps qoq to 5.5% levels. Asset quality was stable. There was increase in the BT out rates to 8.6% vs. 6.1% in Q4FY23 due to increase in the lending rates. We expect good performance to continue – assign TP of 1055, upside of 11% from the current levels.

Outlook

- AUMs are likely to grow at 25-30%+ CAGR over the next 2 years
- Spreads are expected not to below 5.25% levels
- Credit cost outlook - ~30-40 bps in FY24e
- Branch expansion plans – It is likely to add ~20 branches over the next 2-3 years time

Valuations

Going forward, we expect PAT to grow at 29% CAGR during FY23-25e led by higher asset growth of 30%, which will be despite marginal fall in the spreads as per our calculations. Given strong demand for affordable loans and better visibility of asset growth, we expect the re-rating on the stock to continue. It is currently trading at 4.2x/3.5x FY24e/FY25e ABV on ROE/ROA of 16%/3.9% in FY25e. **We assign TP of INR 1,055, upside of 11% from the current levels.**

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
NII	2,135	2,960	4,179	5,635	7,282
PAT	1,001	1,861	2,283	2,979	3,788
Net worth	13,805	15,737	18,173	21,152	24,940
Adj BVPS	153	171	197	229	271
EPS (Rs)	11	21	26	34	43
P/ABV (x)	6.2	5.6	4.8	4.2	3.5
P/E (x)	83	45	37	28	22
RoA (%)	2.5	3.9	3.9	3.9	3.9
RoE (%)	8.7	12.6	13.5	15.1	16.4

Source: Dalal & Broacha Research, Company

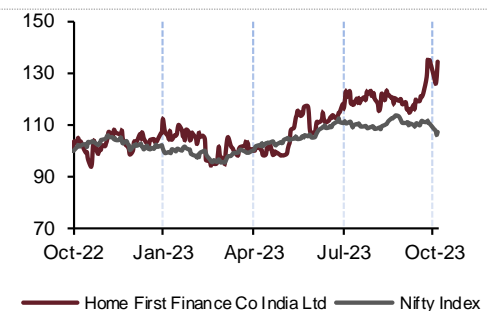
Rating	TP (Rs)	Up/Dn (%)
BUY	1,055	11

Market data

Current price	Rs	952
Market Cap (Rs.Bn)	(Rs Bn)	84
Market Cap (US\$ Mn)	(US\$ Mn)	1,008
Face Value	Rs	2
52 Weeks High/Low	Rs	985 / 652
Average Daily Volume	('000)	183
BSE Code		543259

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Mar-23
Promoters	30	30
Public	70	70
Others		
Total	100	100

Source: Bloomberg

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Concall Highlights

- As per management, AUMs are likely to grow at 30%+ CAGR over the next 2 years. While disbursements are likely grow by INR 40 bn in FY24 and by ~48-50 bn in FY25
- During the call, management highlighted that demand for affordable loans is quite strong and there is no slowdown witnessed. Their focus geographies are South and West but they are incrementally adding distribution network in Northern markets as well (Rajasthan, MP). Southern market is becoming more urbanized and industrialized as well, hence demand is increasing and that too on higher ticket size of the loans
- Co-lending and assignment increased during the quarter to INR 1471 mn (71.6% yoy growth and 28.7% qoq). Pace of co-lending and assignment will increase further and its share is expected to touch 10% of the AUMs (vs. 1.8% share currently)
- During the quarter, spreads had come down to 5.5% (fall of 20 bps on qoq basis) due to marginal dip in the yields and increase in the cost of funds. Incremental yields are at 13.6% and cost of funds at 8.7% (ex NHB borrowings) Cost of funds incl. NHB borrowings is at 8.1% levels. NHB sanctioned pipeline is ~2.5 bn, which can be utilized over the next 6-8 months time.
- Going forward, management expects spread will not fall beyond 5.25% mark.
- Opex cost will be ~3-3.25% in the near future. Management expects the operating leverage benefits to kick in from FY25 period onwards
- Credit cost outlook - ~30-40 bps in FY24e
- Branch expansion plans - It is likely to add 20 branches each year over the next 2-3 years time. For the quarter, it added 7 branches taking total count to 120 branches across 295 touchpoints across Tier I to Tier 3 markets in 13 States / UTs
- ROA will be maintained at current levels of 3.8-3.9%; while the levers for the same will be increase in the co-lending/securitisation book and improvement in the cash utilisation
- Conversion rate is ~40% of the leads it generates. It usually gets 6000-8000 leads per month, out of which, 3000-4000 leads gets converted into the loans
- BT out rates during the quarter had increased from 6.1% in Q4FY23 to 8.6% in Q2FY24. As per management, many customers witnessed rise in their lending rates by 100-125 bps and in some cases, duration of the loans increased from 20 years to 25-30 years - this was one of the prime reasons for surge in BT out rates.
- Employee attrition has been reduced to 30%+ levels vs. 40% seen during the same period last year.
- It is looking at near term ROEs of 16-18% levels

Key Financial Highlights

- PAT came in at INR 743 mn, up by 36.9% yoy and 7.5% qoq led by strong asset growth
- AUM showed a healthy growth of 33.3% yoy and 7.9% qoq to INR 83654 mn. Management is confident that current run-rate of growth will continue in future quarters.
- While on the other hand, disbursements growth too was strong at 36.6% yoy and 7.4% qoq to INR 9591 mn.
- Assigned and co-lending assets increased exponentially at by 71.6% yoy and 28.7% qoq to INR 1471 mn.
- NII growth was at 30.1% yoy to INR 1321 mn
- Spreads came off marginally by 30 bps yoy and 20 bps qoq to 5.5% led by rise in cost of funds and marginal decline in yields. It expects spreads will not fall below 5.25% mark.
- **Asset quality performance was stable** – GNPL/NNPL was at 1.7%/1.2% vs. 1.6%/1.1% on qoq basis. Credit cost for the quarter was at 11 bps vs. 12 bps qoq. Collection efficiency in Sep'23 was at 98.5% similar to Jun'23 levels. While there was marginal increase in the bounce rates for the month of Oct'23 to 15.7% vs. 14.2% in Q2FY24 vs. 15% in Q1FY24.

Quarterly Financials (Q2FY24)

(Rs mn)	Q2FY23	Q1FY24	Q2FY24	YoY(%)	QoQ (%)
Interest income	1,727.2	2,313.4	2,491.0	44.2	7.7
Interest expense	711.6	1,067.7	1,170.1	64.4	9.6
Net interest income	1016	1246	1321	30.1	6.0
Net gain on DA	140	198	208	48.8	5.1
<i>DA income / Assigned Assets</i>	<i>16.3</i>	<i>17.3</i>	<i>14.1</i>		
Other Income	27	87	81.15	197.9	-6.9
Net Income	1,182	1,530	1,610	36.1	5.2
Operating Expenses	284	553	565	99.0	2.2
<i>Cost/Income ratio</i>	<i>24.0</i>	<i>36.1</i>	<i>35.1</i>		
Employee expense	266	359	369	38.8	2.7
Other expense	175	194	197	12.1	1.3
PPOP	741	977	1044	40.9	6.9
Provisions	50	77	80	61.0	4.0
<i>Credit Cost / Advances (%)</i>	<i>0.10</i>	<i>0.12</i>	<i>0.11</i>		
PBT	692	900	964	39.4	7.1
Tax	149	209	221	48.6	5.9
<i>Tax Rate (%)</i>	<i>21.5</i>	<i>23.2</i>	<i>23.0</i>		
One-time tax adjustment					
PAT	543	691	743	36.9	7.5
<i>growth (yoy %)</i>	<i>20.9</i>	<i>34.9</i>	<i>36.9</i>		
<i>growth (qoq %)</i>	<i>5.9</i>	<i>8.0</i>	<i>7.5</i>		
EPS	6.2	7.9	8.4		
Gross Loan Assets / AUM	62,754	77564	83654		
<i>growth (yoy %)</i>	<i>35.9</i>	<i>33.0</i>	<i>33.3</i>		
<i>growth (qoq %)</i>	<i>7.6</i>	<i>7.8</i>	<i>7.9</i>		
Disbursements	7,022	8926	9591		
<i>growth (yoy %)</i>	<i>36.3</i>	<i>35.0</i>	<i>36.6</i>		
<i>growth (qoq %)</i>	<i>6.2</i>	<i>2.7</i>	<i>7.4</i>		
Assigned + Co-lending	857	1143	1471		
<i>growth (yoy %)</i>	<i>-32.7</i>	<i>30.0</i>	<i>71.6</i>		
<i>growth (qoq %)</i>	<i>-2.5</i>	<i>-1.0</i>	<i>28.7</i>		
<i>Assigned / AUMs</i>	<i>1.4</i>	<i>1.5</i>	<i>1.8</i>		
Loans - Principal Outstanding					
Ratios					
DPD 1+	4.7	4.3	4.5		
DPD 30+/POS	3.3	2.9	2.9		
Gross Stage 3 (GNPAs)	1.9	1.6	1.7		
Net Stage 3 (Net NPAs)	1.4	1.1	1.2		
PCR	26.3	31.3	29.4		
Bounce Rates	15.6	15.0	14.2		
Collection Efficiency	98.5	98.5	98.5		
Portfolio Yield (IGAAP)	13.0	13.7	13.6		
Cost of Borrowings (IGAAP)	7.1	8.0	8.1		
Spread	5.8	5.7	5.5		
NIM					
Cost-to-income	24.0	36.3	35.2		
CRAR	50.7	46.0	45.5		
Return on assets	3.8	3.9	3.8		
Return on equity	13.1	15.0	15.6		

Source: Company, Dalal & Broacha Research

Financials

P&L (Rs Mn)	FY21	FY22	FY23	FY24E	FY25E
Interest income	4,301	5,117	7,222	9,954	13,099
Interest expense	2,166	2,157	3,043	4,319	5,817
NII	2,135	2,960	4,179	5,635	7,282
Non-interest income	590	840	734	959	1,211
Net revenues	2,726	3,800	4,913	6,594	8,493
Operating expenses	1,064	1,287	1,746	2,301	3,026
PPOP	1,662	2,513	3,167	4,293	5,467
Provisions	322	250	215	311	402
PBT	1,340	2,263	2,952	3,982	5,064
Tax	339	402	669	1,003	1,276
PAT	1,001	1,861	2,283	2,979	3,788
<i>Growth (yoy)</i>	<i>28.8</i>	<i>85.8</i>	<i>22.7</i>	<i>30.5</i>	<i>27.2</i>
Balance sheet	FY21	FY22	FY23	FY24E	FY25E
Share capital	175	175	176	176	176
Reserves & surplus	13,631	15,562	17,997	20,976	24,764
Net worth	13,805	15,737	18,173	21,152	24,940
Borrowings	30,537	34,668	48,135	62,613	82,814
Other liability	759	764	1,062	1,389	1,732
Total liabilities	45,101	51,169	67,370	85,154	1,09,487
Fixed assets	167	200	253	312	377
Investments	3,750	-	2,808	2,948	3,096
Loans	33,265	43,049	59,957	77,640	1,00,537
Cash	6,799	6,678	2,984	2,715	3,735
Other assets	1,121	1,242	1,368	1,539	1,742
Total assets	45,101	51,169	67,370	85,154	1,09,487
Ratios	FY21	FY22	FY23	FY24E	FY25E
Growth (%)					
NII	32.6	38.6	41.2	34.8	29.2
PPOP	36.2	51.2	26.0	35.5	27.4
PAT	28.8	85.8	22.7	30.5	27.2
Advances	10.4	29.4	39.3	29.5	29.5
Spread (%)					
Yield on Funds	13.6	13.4	14.0	14.2	14.5
Cost of Funds	7.8	6.6	7.3	7.8	8.0
Spread	5.8	6.8	6.7	6.4	6.5
Asset quality (%)					
Gross NPAs	1.8	2.3	1.9	1.7	1.6
Net NPAs	1.2	1.8	1.4	1.2	1.1
Provisions	36.0	24.9	26.4	27.6	28.6
Return ratios (%)					
RoE	8.7	12.6	13.5	15.1	16.4
RoA	2.5	3.9	3.9	3.9	3.9
Cost Ratios (%)					
C/I Ratio	39.0	33.9	35.5	34.9	35.6
Opex / Avg. Assets	2.7	2.7	2.9	3.0	3.1
Per share (Rs)					
EPS	11.5	21.2	25.9	33.8	43.0
BV	158.0	179.6	206.5	240.3	283.4
ABV	153.4	170.9	196.8	229.5	270.5
Valuation (x)					
P/E	83.2	44.9	36.7	28.2	22.1
P/BV	6.0	5.3	4.6	4.0	3.4
P/ABV	6.2	5.6	4.8	4.2	3.5

Source: Dalal & Broacha Research, Company

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