

30<sup>th</sup> November 2023

Home First Finance Company India Ltd. – BUY

**CMP** : Rs. 882.0  
**Target Price** : Rs. 1120.0  
**Upside** : 27%  
**Stop Loss** : Rs. 740.0 (Closing basis)

## Investment Thesis

- Home First Finance Company India Ltd. (HFFC) is a fast growing, focused player in the affordable home loans (AHL) segment. With a wide distribution network, HFFC provides AHL to first time home buyers with a predominant focus on salaried individuals having income <Rs. 50,000 p.m.
- HFFC leverages its technological prowess to optimize the turnaround time (TAT) required to disbursed loans. HFFC has lowest TAT of 48 hours against the industry average of 8-10 days. Its machine learning credit scoring model, which captures 100+ data points on each customer, helps it to underwrite with high accuracy. This is a strong moat that help HFFC to overcome competition and sustain its leadership position.
- The AUM as on Sept - 23 stood at Rs. 8,365 crs which was up by 33.3% on a Y-o-Y basis and 7.6% on Q-o-Q basis. The AUM has grown at a CAGR of ~31% during FY19 – FY23. Management is targeting an AUM growth of 30%+ for FY24 to cross the 10,000 Cr AUM mark in the next 12-18 months.
- Management of HFFC kept asset quality intact and amongst the best in the industry. The 'Gross Stage 3 %' (GNPA) stood at 1.7% and the 'Net Stage 3 %' (NNPA) at 1.2%, both being stable. This pristine asset quality is a testament to the internal quality control and sound underwriting capabilities of HFFC.
- HFFC has maintained spread to above 5.5% for the previous 5 quarters, ahead of the 5.25% guidance, which have led them to generate higher Net Interest Margin (NIM). Management has guided that NIM for FY24 to be ~6%.

## Financials

- During Q2FY24, HFFC reported a 27.2% Y-o-Y jump in Net Interest Income (NII) to Rs. 118.4 crs from Rs. 92.8 crs in Q2FY23. This jump was driven by an 43.4% increase in Interest from loans, elevated spreads, and larger AUM base.

Particulars	FY21	FY22	FY23	FY24E	FY25E
NII (Rs. in Crs)	189	262	379	564	733
RoA (%)	2.50	3.60	3.90	3.00	3.00
Adj. PAT (Rs. in Crs)	100	174	228	282	367
Book Value (Rs.)	156	178	203	238	280
PB Multiple (x)	6.2	5.1	4.4	3.8	3.2
RoE (%)	8.7	11.8	13.5	14.4	16.1

## Stock Data

Market Cap (Rs. Crs)	7,617
Market Cap (\$ Mn)	915
Shares O/S (in Crs)	8.82
Avg. Volume (3 month)	3,52,522
52-Week Range (Rs.)	985 / 655

## Shareholding Pattern

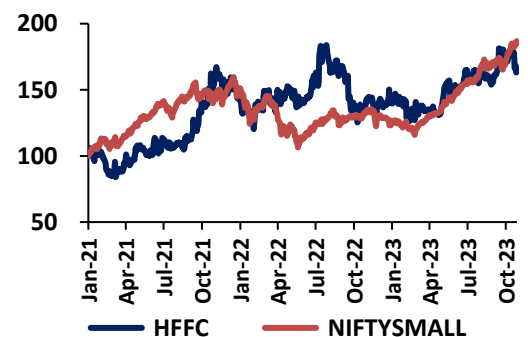
Promoters	30.19
FII's	17.02
Institutions	9.96
Others (incl. body corporate)	42.83

## Key Ratios

Div Yield (%)	0.30
TTM PE (x)	28.8
ROE (%)	14.4
TTM EPS (Rs.)	30.2

## Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-7.6	21.7	17.7
RELATIVE	-18.3	-17.6	-22.7



- Management has a disbursement target of Rs. 4,800 – 5,000 crs for FY25.
- The Credit cost during the quarter increased to Rs. 8.0 crs in Q2FY24 from Rs. 4.9 crs in Q2FY23. The increase is in-line with the seasonal trend in past.
- Disbursement reached an all-time high in Q2FY24 to Rs. 959.1 crs, up 36.6% Y-o-Y. Further, management aims to reach Rs. 1,000 crs / quarters by the end of FY24.
- RoA remained stable at 3.8%, while RoE saw an increase of 250 bps to 15.6% in Q2FY24 from 13.1% in Q2FY23 since PAT increased to Rs. 74.3 crs from Rs. 54.2 crs during the same period.

## Key Business Highlights

- HFFC is a technology-driven affordable housing finance company (HFC) focused on first-time homebuyers in low and middle-income groups. It primarily offers housing loans for the purchase or construction of homes. It also offers other types of loans comprising loans against property, developer finance loans and loans for purchase of commercial property.
- 87% of book comprise of housing loans. The average ticket size of loans is Rs. 11.3 lakhs.
- HFFC has a presence in 13 states / UT, through 282 touches points and 113 branches. During Q1FY24 HFFC expanded its presence in the 4 new districts.
- HFFC began co-lending in Q1FY23, which has gained traction and reached Rs. 350 crs in Q1FY24. Management expects faster growth here over the next 2 quarters.

## Valuation

HFFC has come of the highs after a block deal wherein promotor Private equity investors including Warburg Pincus, True North, and Aether sold ~9.8% stake in the company at Rs. 869/ share.

A strong Q2FY24 result lends us the confidence that HFFC is placed well and solidify its position as a market leader. Currently available at Rs. 886, that implies a TTM PB multiple of 4.0x, in-line with the median PB of 4.0x. Further when compared the average Industry PB of 2.4x, indicating a substantial premium. We believe given HFFC robust distribution, a healthy balance sheet and sound management which has pushed for growth by building capacity justify this premium. And the recent correction is a great opportunity to enter the counter.

Therefore, we assign a **BUY** rating for **HFFC** with a **target price** of **Rs. 1,120**, translating to an **upside** of **27%+**.

## Risk & Concern

- Increased competition based on lowering Interest rate to attract new customers.
- Interest rate hikes by RBI could dampened fresh loan disbursements.
- Slowdown in the Real estate sector.

## Graphs & Charts

Figure1: NII & Spread Trend (FY23 Rs. in Crs)

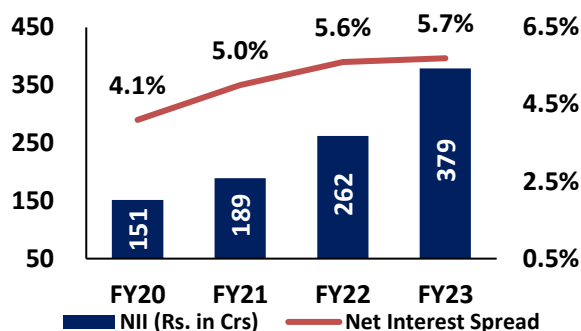


Figure 2: GNPA & NNPA Trend (Q2FY24)

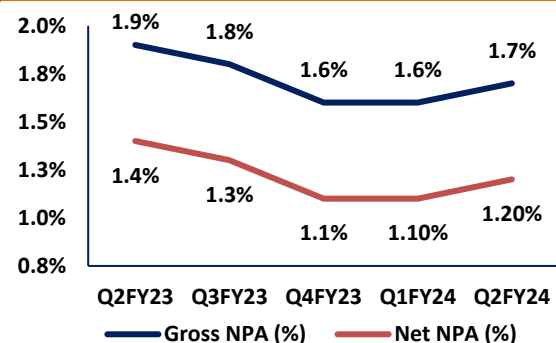


Figure 3: Loan Book (Rs. in crs) (Q2FY24)

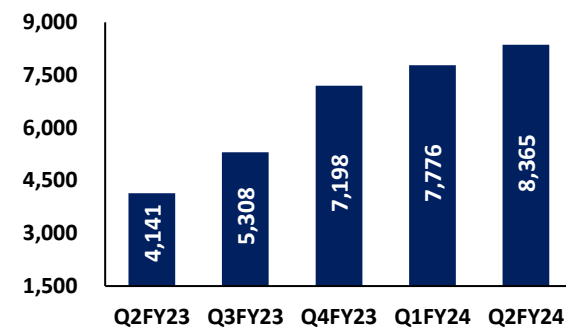
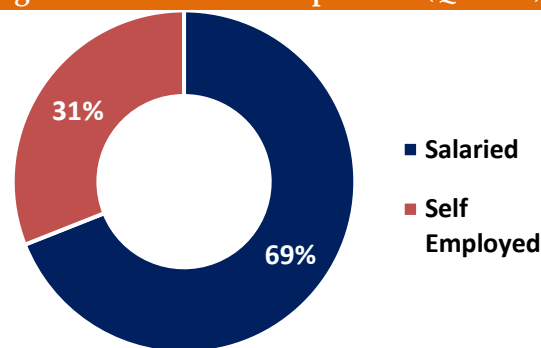


Figure 4: Loan Book Composition (Q2FY24)



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