Home First Finance Company

Management Meet | BFSI

Ability to Leverage Technology

DALAL & BROACHA STOCK BROKING PVT. LTD.

Equity Research Desk

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Incorporated in 2010, Home First Finance Company (HFFC) is a technology driven affordable housing finance company, which targets first time home buyers in low and middle-income groups. The company primarily offers customers housing loans for the purchase or construction of homes, which comprised 92% of total loan assets, as of Dec 31, 2020. Gross Loan grew at a CAGR of 63% between FY18 and FY20 and currently stood at Rs 39.41 Bn as of Dec 31, 2020. HFFC's IT systems leverage economies of scale to increase productivity & reduce turnaround times & transaction costs.

Takeaways from management interaction

What Does HFFC Bring to the Table?

- HFFC does a more holistic assessment of the customer's family income, spends time with the customer to understand what other sources of income they have, how many family members are working and so on. This holistic assessment and providing the right loan amount are very critical for the customers, so they are willing to pay that little extra to get that additional service (HFFC's average yield stood at 13% vs 9-11% of large peers).
- The company's technology led operating model helps it to deliver industry-leading productivity ratios and the turnaround time of 48 hours against the industry average of 8 to 10 working days.

Strong Recovery in Business

- HFFC saw a strong recovery in disbursements, which stood at Rs 3.49 Bn in Q3FY21 vs Rs 2.43 Bn QoQ.
- While disbursements for Q3FY21 declined by 9.6% YoY, disbursements for Dec 2020 and Jan 2021 are ahead of Dec 2019 & Jan 2020 thereby marking the end of the decline.

Financial Summary

Y/E Mar (Rs Mn)	FY20	FY21E	FY22E	FY23E
NII	1513	2088	2600	3229
Adjusted net profit	792	901	1273	1719
Net worth	9336	13730	14811	16272
EPS (Rs)	10	10	15	20
Adj BV	116	152	165	181
Growth (%)	42	2	41	35
P/E (x)	51	50	35	26
P/Adj BV (x)	4.4	3.4	3.1	2.8
RoA (%)	2.7	2.4	2.7	3.0
RoE (%)	11	7.8	8.9	11

Source: Dalal & Broacha Research, Company

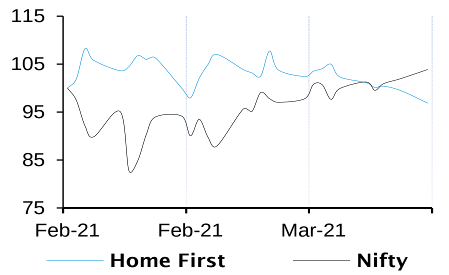
Rating	TP (Rs)	Up/Dn (%)
NOT RATED		

Market data

Current price	**Rs**	**502**
Market Cap (Rs.Bn)	(Rs Bn)	44
Market Cap (US$ Mn)	(US$ Mn)	605
Face Value	Rs	2
52 Weeks High/Low	Rs	640/497
Average Daily Volume	('000)	329
BSE Code		543259
Bloomberg		HOMEFIRS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

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Future aspiration

- The company is targeting AuM growth of ~30% for next few years
- Given the recent capital raise, RoE will come down this year, but the company is targeting RoE of 12% for next year & ~15-16% in medium-term.
- While operating costs will remain elevated in near term as the company investing in technology, on people & branch expansion, it will reduce in medium as volume start picking up. Targeting cost to income ratio of 32-35% in medium-term.
- HFFC will reduce access liquidity in next few quarters (carrying liquidity worth ~Rs 15 Bn on AUM of ~Rs 40 Bn).

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Asset quality

- Collection efficiency is improving month-on-month and has remained above 96% since Sep 2020. It was stood at 97.6% in Dec 2020 and further improved to 97.8% in Jan 2021.
- Zero restructuring, with 0.9% cases are pending due to not able to impose the SARFAESI process.
- Less than 2% of its customers took whole six months loan moratorium
- Less than 5% of its customers took five months loan moratorium
- Normalized credit cost for the company is 30-40 bps of assets based on historical experience

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Technology led operating model

- The company has strong digital penetration among its customers, with ~65% of its customers use its application.
- While disbursing the loan the company also educate their customer about how to use its application, making them self-sufficient so that they don't need to visit branches for every small query. This brings efficiency on both sides, with customers queries getting resolved quickly and reduces overall load on branches.
- On an average, the company spend Rs 5-6 Cr on technology (capex & opex)
- The company source ~3% of its loan through digital channels and looking to increase this number meaningfully in medium term.

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Robust capital adequacy

- The company's current capital adequacy ratio post IPO is stood at 63%.
- Considering the AuM growth of 30%, the company will not require to raise any capital for the next 3 to 4 years.

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Branch expansion

- The company is looking to add 20-30 branches in the next two to three years.
- It typically takes 9-12 months for a branch to get break-even.
- Out of 72 branches, 12 branches are having AuM of Rs 100 cr plus. These large branches are operating at cost to income ratio of 22-25%.

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Other important Points

- While the company's contractual tenure is ~ 17 to 20 years, the effective tenure is in the region of around 6 to 7 years.
- ~50% of its customers received CLSS benefits.
- Balance transfer usually stood at 2-3% of portfolio

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Valuation and outlook

We like HFFC's ability to deliver strong operating performance across parameters, particularly in challenging environs. Its small size and niche positioning sets it up for growth as well as provides pricing power in its customer base. Furthermore, its ability to leverage technology for better service delivery, funding availability with competitive cost of funds, investment by marque private equity players (like True North, Warburg Pincus, Aether Mauritius and Bessemer India) and high capitalization adds to positivity. While risks, in the form of an unseasoned loan book and relatively riskier customer base, are present, we believe in the medium to long term, HFFC should be able to take advantage of strong underlying growth momentum in the affordable housing space. While the pricing is a tad expensive at 2.8x of FY23 P/ Adj BV, it's still lower compared to its rival Aavas Financiers. We believe its strong operating metrics and high growth would lead to healthy return ratios in medium term.

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