Home First Finance Company

Q1FY22 Result Update | BFSI

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

Business remains strong and steady

August 01, 2021

Home First Finance Company (Home First) has reported a stable set of numbers for Q1FY22. Strong operating performance was supported by better margin (NIM 4.9% vs 4.7% QoQ), while profitability was hampered by higher Provisions (Credit Cost 1.1% vs 0.8% QoQ). Asset quality has been quite resilient for Home First, with collection efficiency improved to 97.6% in Jun'21 after dips in April and May, compared to 98.5% in Mar'21. Even Bounce rates improved to 16.1% in Jul'21 vs 18.3% in Q1FY22 (17.3% in Q4FY21).

- **NII came in at INR 554.6 Mn**, 11.8% QoQ / 16.9% YoY.
- **Net Income stood at INR 893.3 Mn**, 8.8% QoQ / 11.1% YoY.
- **PPOP came in at INR 606.7 Mn**, 19.3% QoQ / 6.0% YoY.
- **Provisions came in at INR 130.4 Mn**, 56.3% QoQ / 192.4% YoY.
- **PAT came in at INR 351.1 Mn**, 12.2% QoQ / -9.1% YoY.
- **EPS stood at INR 4.0** vs INR 3.6 QoQ / INR 4.9 YoY.

Financial Highlights

- AUM grew by 18.5% YoY/3.7% QoQ to Rs 42.94 Bn in Q1FY22. Disbursements of Rs 3.05 Bn in Q1 FY22, at 67.4% of Q4FY21 levels, and grew 477% YoY. While the second wave of Covid-19 impacted disbursement growth for Q1FY22, monthly disbursals picked up in June-21 post dips in April-21 & May-21, and are now running ahead of Q4FY21 levels in July-21.
- Portfolio quality has been largely stable, with GNPAs increasing only 9bps QoQ to 1.9%, while NNPAs up by 25bps QoQ to 1.4%. On provisions, ECL provision as of June 2021 is at Rs 491.2 million resulting in a total provision to loan outstanding ratio at 1.4%; out of which 26% provisioning on stage-3, 11.6% on stage-2, and 0.4% on stage-1 assets. Restructuring under the RBI framework during the quarter was just 60 bps (208 borrowers).
- 1+DPD jumped to 8.9% (vs 6.2% QoQ), while 30+ DPD surged to 5.8% (vs 4.1% QoQ). With the normalization of collections and business momentum, 1+ DPD print should gradually approach its pre-covid range of 3- 5%. The company is looking to improve its Stage 3 assets by 10 bps every month for the next 2 to 3 quarters, which will lead to a normalized Stage 3 ratio of sub-one percent level. This will further strengthen confidence in the underwriting standards of Home First.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	1609	2035	2576	3361
Net profit	795	1001	1507	2208
Net worth	9334	13805	15312	17521
Adj BVPS	116	153	171	196
EPS (Rs)	10	11	17	25
P/ABV (x)	5.2	3.9	3.5	3.1
P/E (x)	59	52	35	24
RoA (%)	2.7	2.5	3.1	3.8
RoE (%)	10.9	8.7	10.4	13.5

Source: Dalal & Broacha Research, Company

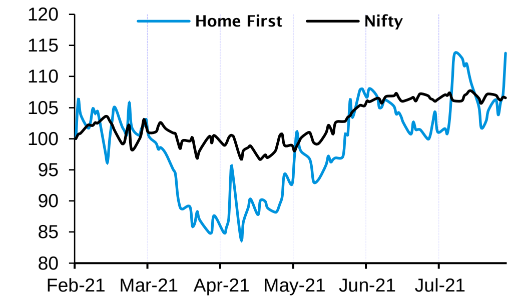
Rating	TP (Rs)	Up/Dn (%)
BUY	705	18

Market data

Current price	**Rs**	**600**
Market Cap (Rs.Bn)	(Rs Bn)	53
Market Cap (US$ Mn)	(US$ Mn)	706
Face Value	Rs	2
52 Weeks High/Low	Rs	640/440
Average Daily Volume	('000)	245
BSE Code		543259
Bloomberg		HOMEFIRS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	33.7	33.7
FII	11.6	10.9
DII	43.1	42.6
Others	11.6	12.8
Total	**100**	**100**

Source: BSE

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- The company's credit cost jumped to 1.1% (from 0.8% in the prior quarter), largely due to higher provision on stage 2 & stage 3 assets and write-off of one small loan pool worth Rs 120 Mn. Out of Rs 130.4 Mn credit cost during the quarter, write-off costs Rs 30 Mn, increase provisioning on stage 2 & stage 3 assets costs Rs 80 Mn, and increase in loan book costs Rs 20 Mn.
- We expect credit cost to fully normalize only in H2FY22E onwards as the economy opens up from the second wave and bounce rates come off meaningfully. Also, an increase in stage 2 assets in Q1FY22 may spill over into stage 3 over the next few quarters. Therefore, we expect FY22E credit cost although lower YOY, to be marginally higher than the normal level. According to management, Credit cost is likely to be in the range of 60-80 bps for FY22 and more normalize ~40 bps in FY23.
- The company's operational efficiency remained strong, with cost to income ratio stood at 32.1% (-595 bps QoQ), backed by net income (NII + other income) growth of 8.8% QoQ vs opex declined by 8.2% QoQ in Q1FY22. During the quarter, lower opex was largely due to judicious spending and lower volume. On the other hand, NIM has improved to 4.9% (vs 4.7% in the prior quarter), supported by stable portfolio Yield (12.7% vs 12.8% QoQ) and better cost of borrowings (7.2% vs 7.4% QoQ). The company continues to carry high liquidity of Rs 10.01 Bn (cash & cash equivalent) as on Jun'21, which adversely impacting margin by ~25 bps. The company is looking to reduce its liquidity meaningfully in the next few quarters, which will benefit the margin going forward.
- We believe there is a good chance loan growth can surprise on the upside, especially in H2FY22E and FY23E, on the back of multiple tailwinds such as higher branch productivity due to early adoption of digital technology (centralized underwriting and a single cloud-based system for loan processing), potential business from new locations and government incentives for home buyers.
- The company continues to increase its distribution, with commencing business at 33 potential branch locations, which contributes 14% of incremental business. The company has also established a physical presence in 32 new locations that are currently contributing 6% of incremental business.
- With the growing productivity of existing branches and greater adoption of digital technology, we believe that HomeFirst will reduce its opex to assets ratio meaningfully in the next few years. We expect the company's RoA/RoE to be around 3.1%/10.4% in FY22 and improved to 3.8%/13.5% in FY23.

The company's credit cost jumped to 1.1% (from 0.8% in the prior quarter), largely due to increase provision on stage 2 & stage 3 assets and write-off of one small loan pool worth Rs 120 Mn

We expect credit cost to fully normalize only in H2FY22E onwards as the economy opens up from the second wave and bounce rates come off meaningfully

NIM has improved to 4.9% (vs 4.7% in the prior quarter), supported by stable portfolio Yield (12.7% vs 12.8% QoQ) and better cost of borrowings (7.2% vs 7.4% QoQ)

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We expect the company's RoA/RoE to be around 3.1%/10.4% in FY22 and improved to 3.8%/13.5% in FY23.

Valuation and outlook

We like Home First because of its Niche positioning, solid profitability and sustainable growth trajectory. Besides, its ability to leverage technology for better service delivery, funding availability with competitive cost of funds and investment by marque private equity players (like True North, Warburg Pincus, Aether Mauritius and Bessemer India) adds to positivity. We believe that it offers an 'early stage' investment opportunity given strong growth momentum, focused strategy and high capitalization. We have already seen similar instances wherein such companies have delivered strong returns, the classic example being GRUH Finance – was trading at >10.7x FY19 P/BV for RoA of ~2.7% levels. Thus, we have assigned a 'Buy' rating on Home First with a price target of Rs 705, valuing the stock at 3.6x FY23E P/Adj BV.

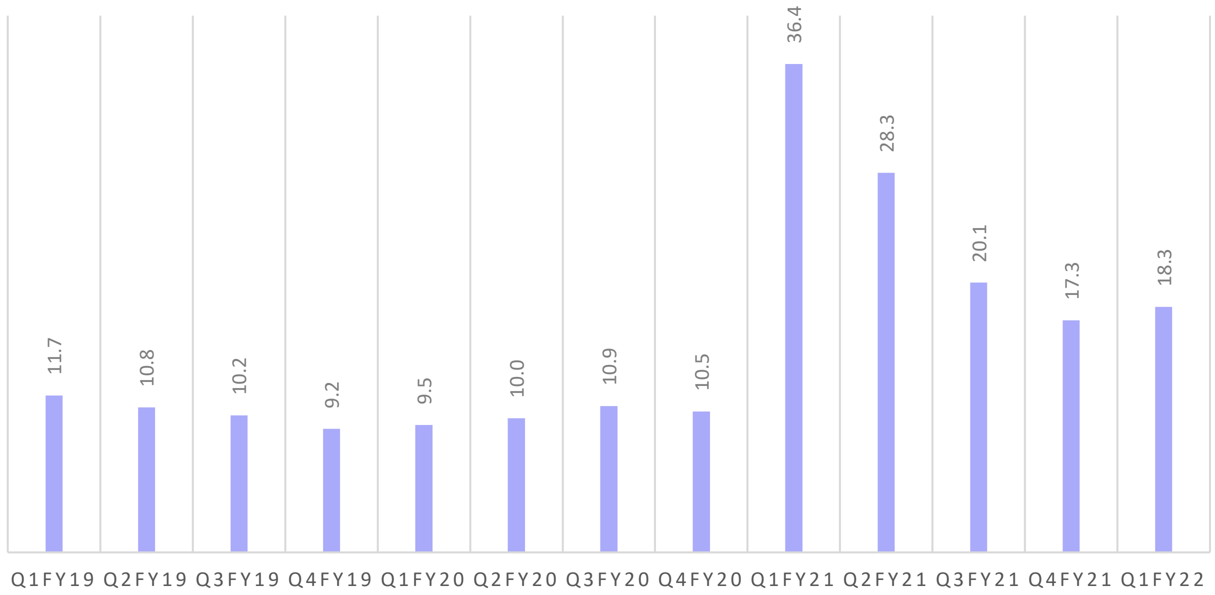
Financials

Rs Mn	Q1FY22	YoY	QoQ	Q4FY21	Q1FY21
Interest Earned	1082	6.8%	4.9%	1031	1012
Interest Expended	527	-2.1%	-1.4%	535	538
NII	**555**	**16.9%**	**11.8%**	**496**	**474**
Other Income	339	2.7%	4.3%	325	330
Net Income	**893**	**11.1%**	**8.8%**	**821**	**804**
Opex	287	23.6%	-8.2%	312	232
PPOP	**607**	**6.0%**	**19.3%**	**509**	**572**
Provisions	130	192%	56%	83	45
PBT	**476**	**-9.7%**	**12.0%**	**425**	**528**
Tax	125	-11.5%	11.5%	112	141
PAT	**351**	**-9.1%**	**12.2%**	**313**	**386**
Operational Details					
AUM	42943	18.5%	3.7%	41411	36225
Assigned Assets	8488	13.2%	10.9%	7656	7501
Principal Outstanding	34411	18.7%	2.1%	33718	29001
Total Borrowings	39322	15.5%	3.0%	38193	34042
Efficiency Ratio					
Cost to Income Ratio (%)	32.1	324 bps	-595 bps	38.0	28.8
Debt to equity ratio (%)	2.2	-55 bps	-4 bps	2.2	2.7
Opex / Average assets (%)	2.5	-6 bps	-41 bps	2.9	2.6
CRAR - Tier I Capital (%)	55.2	959 bps	0 bps	55.2	45.6
Asset Quality					
Gross Stage 3 (%)	1.9	98 bps	9 bps	1.8	0.9
Net Stage 3 (%)	1.4	74 bps	25 bps	1.2	0.7
PCR (%)	26.2	3 bps	-977 bps	36.0	26.2
DPD 1+ (%)	8.9	690 bps	270 bps	6.2	2.0
DPD 30+ (%)	5.8	432 bps	163 bps	4.1	1.4
Asset Mix/Occupation					
Salaried (%)	73.9	101 bps	16 bps	73.8	72.9
Self Employed (%)	25.1	7 bps	4 bps	25.1	25.0
Corporate (%)	1.0	-108 bps	-20 bps	1.2	2.0
Asset Mix/segment (Retail and corporate)					
Housing Loan (%)	92.4	44 bps	0 bps	92.4	91.9
Loans for Commercial Property (%)	0.9	-5 bps	0 bps	0.9	1.0
Loans Against Property (%)	5.7	69 bps	20 bps	5.5	5.1
Developer Finance (%)	1.0	-108 bps	-20 bps	1.2	2.0
Top five states contribution					
Gujarat (%)	38.2	-142 bps	-5 bps	38.2	39.6
Maharashtra (%)	18.7	-283 bps	-56 bps	19.2	21.5
Tamil Nadu (%)	11.4	134 bps	28 bps	11.1	10.1
Karnataka (%)	8.9	-16 bps	-18 bps	9.1	9.1
Rajasthan (%)	5.3	33 bps	-14 bps	5.5	5.0
ROE Tree					
Interest Income/ Avg assets (%)	9.5	-176 bps	-16 bps	9.7	11.3
Interest on borrowings / Avg assets (%)	4.6	-136 bps	-38 bps	5.0	6.0
Net Interest Income / Avg assets (%)	**4.9**	**-40 bps**	**22 bps**	**4.7**	**5.3**
Net gain on DA/ Avg assets (%)	1.7	-117 bps	0 bps	1.7	2.9
Non-Interest Income/ Avg assets (%)	1.3	47 bps	-7 bps	1.3	0.8
Net Income/ Avg assets (%)	**7.9**	**-110 bps**	**16 bps**	**7.7**	**9.0**
Operating Expenses / Avg assets (%)	2.5	-6 bps	-41 bps	2.9	2.6
PPOP/ Avg assets (%)	**5.3**	**-104 bps**	**56 bps**	**4.8**	**6.4**
Credit Cost / Avg assets (%)	1.1	65 bps	36 bps	0.8	0.5
Profit before tax / Avg assets (%)	**4.2**	**-169 bps**	**20 bps**	**4.0**	**5.9**
Tax expense/ Avg assets (%)	1.1	-47 bps	5 bps	1.1	1.6
ROA (%)	**3.1**	**-121 bps**	**15 bps**	**2.9**	**4.3**
Leverage (Avg assets/Avg Net-worth) (X)	3.2	-52 bps	-20 bps	3.4	3.8
ROE (%)	**10.0**	**-617 bps**	**-8 bps**	**10.1**	**16.2**

Source: Dalal & Broacha Research, Company

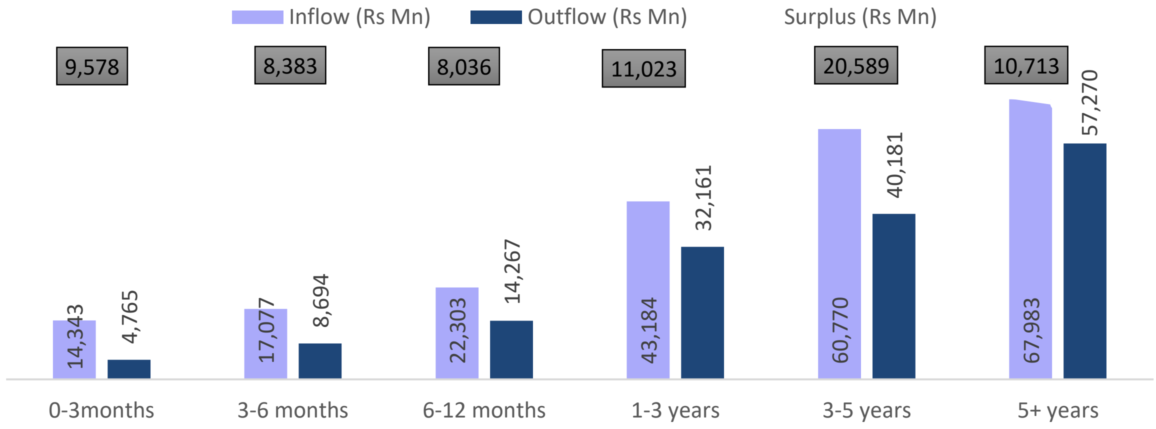
Other Highlights

Bounce Rates Improving (%)



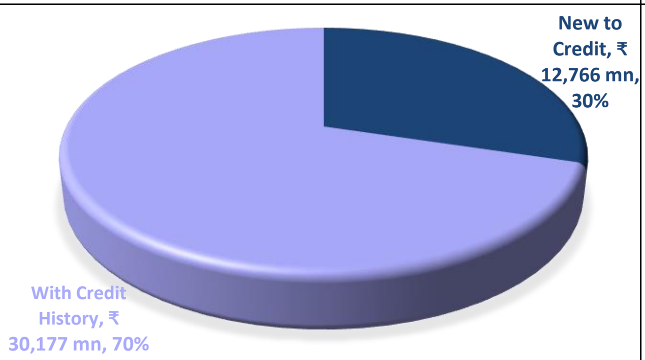
Source: Dalal & Broacha Research, Company

ALM Position as of Jun'21 Cumulative



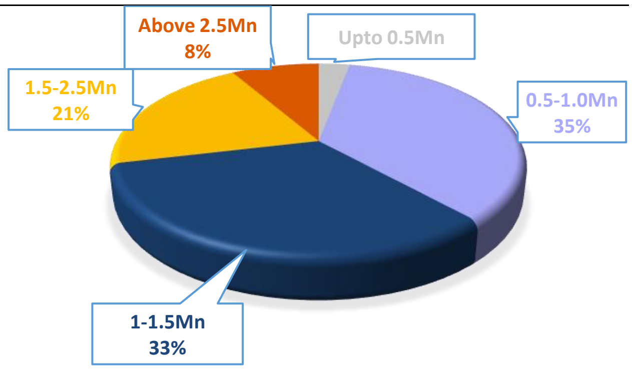
Source: Dalal & Broacha Research, Company

AUM by Credit history



Source: Dalal & Broacha Research, Company

AUM by Ticket Size



Source: Dalal & Broacha Research, Company

Financial

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	3547	4237	5058	6513
Interest expense	1938	2202	2482	3152
NII	**1609**	**2035**	**2576**	**3361**
Non-interest income	649	655	1120	1558
Net revenues	**2258**	**2690**	**3697**	**4920**
Operating expenses	1,020	1,028	1,341	1,719
PPOP	**1238**	**1662**	**2356**	**3201**
Provisions	165	322	341	249
PBT	**1073**	**1340**	**2015**	**2952**
Tax	278	339	508	744
PAT	**795**	**1001**	**1507**	**2208**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	157	175	175	175
Reserves & surplus	9178	13631	15138	17346
Net worth	**9334**	**13805**	**15312**	**17521**
Borrowings	24938	30537	36034	45006
Other liability	530	759	903	1148
Total liabilities	**34802**	**45101**	**52249**	**63675**
Fixed assets	210	167	203	254
Investments	1456	3750	4106	3896
Loans	30139	33265	42604	56259
Cash	2221	6799	4260	2138
Other assets	777	1121	1076	1128
Total assets	**34802**	**45101**	**52249**	**63675**

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	53	26	27	30
PPOP	71	34	42	36
PAT	76	26	50	47
Advances	41	10	28	32
Spread (%)				
Yield on Funds	13.3	12.7	12.6	12.8
Cost of Funds	8.8	7.9	7.5	7.8
Spread	4.5	4.8	5.1	5.0
NIM	5.0	4.7	4.9	5.2
Asset quality (%)				
Gross NPAs	1.0	1.8	1.4	1.2
Net NPAs	0.8	1.2	0.9	0.7
Provisions	26	36	37	39
Return ratios (%)				
RoE	10.9	8.7	10.4	13.5
RoA	2.7	2.5	3.1	3.8
Per share (Rs)				
EPS	10.2	11.5	17.2	25.3
BV	119	158	175	200
ABV	116	153	171	196
Valuation (x)				
P/E	59.1	52.4	34.8	23.8
P/BV	5.0	3.8	3.4	3.0
P/ABV	5.2	3.9	3.5	3.1

Source: Dalal & Broacha Research, Company

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