Home First Finance Company

Q2FY22 Result Update | BFSI

JUST GETTING STARTED; BEST IS YET TO COME!

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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Home First Finance Company (Home First) has reported a strong set of numbers for Q2FY22, supported by better margin (NIM 5.2% vs 4.9% QoQ), lower provisions (Credit Cost 0.3% vs 1.1% QoQ) and higher other income (24.8% YoY/3.9% QoQ). Asset quality has been quite resilient, with collection efficiency improved to 98% in Sep'21. Even Bounce rates improved to 15% in Oct'21 vs 16.5% in Q2FY22 (18.3% in Q1FY21). Total restructuring was just at 0.8% as of Sep'21.

- **NII came in at INR 601.7 Mn**, 8.5% QoQ / 47.6% YoY.
- **Net Income stood at INR 920.6 Mn**, 3.3% QoQ / 74.9% YoY.
- **PPOP came in at INR 596.4 Mn**, -1.7% QoQ / 102% YoY.
- **Provisions came in at INR 33.3 Mn**, -74.5% QoQ / -72.2% YoY.
- **PAT came in at INR 448.7 M**n, 27.8% QoQ / 213% YoY.
- **EPS stood at INR 5.1** vs INR 4.0 QoQ / INR 1.8 YoY.

Financial Highlights

- Home First's disbursement crosses Rs 500 cr for the first time and stood at ~ Rs 515 Cr, up by 112% YoY and 69.1% QoQ in Q2FY22. AUM up by 23.8% YoY and 7.5% QoQ to Rs 4,617 Cr in Q2FY22, mainly led by home loan segment (24% YoY/weightage 92%) and LAP segment (55% YoY/ weightage 6%). However, developer finance book (weightage 0.68%) declined by 55% to Rs 314 Mn. We strongly believe that the company will continue with its strategy of focussing on the affordable housing financing segment and limit the share of non-HL products to < 10% in the near-medium term
- Portfolio quality has improved during Q2FY22, with GNPAs declined by 20 bps QoQ to 1.7%, while NNPAs down by 21bps QoQ to 1.2%. On provisions, ECL provision as of September 2021 is at Rs 496 Mn resulting in a total provision to loan outstanding ratio at 1.3%; out of which 29.6% provisioning on stage-3 (vs 26.2% QoQ), 12.1% on stage-2 (vs 11.6% QoQ), and 0.4% on stage-1 assets.
- 1+DPD declined to 7.6% (vs 8.9% QoQ), while 30+ DPD dropped to 5.2% (vs 5.8% 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 a normalized Stage 3 ratio of sub-one percent level in next few quarters. 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

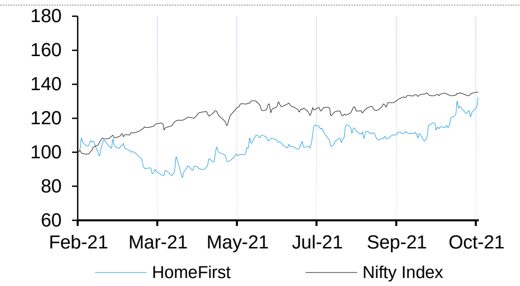
Rating	TP (Rs)	Up/Dn (%)
BUY	825	20

Market data

Current price	**Rs**	**685**
Market Cap (Rs.Bn)	(Rs Bn)	60
Market Cap (US$ Mn)	(US$ Mn)	799
Face Value	Rs	2
52 Weeks High/Low	Rs	723 / 440
Average Daily Volume	('000)	307
BSE Code		543259
Bloomberg		Homefirs.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	33.7	33.7
FII	12.7	11.6
DII	40.6	43.1
Others	13.1	11.6
Total	**100**	**100**

Source: BSE

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- 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's cost to income ratio stood at 35.2% (+333 bps QoQ), backed by higher opex growth of 14% QoQ vs net income (NII + other income) growth of 3% QoQ in Q2FY22. During the quarter, higher opex was largely due to higher volume and other expenses.
- The company's opex to assets ratio stood at 2.8% (vs 2.5% QoQ) in Q2FY22, which will likely to go up further in H2FY22 mainly due to expansion and other business-related expenses. According to management, the opex to assets ratio will be ~ 3% in FY22. With the growing productivity of existing branches and greater adoption of digital technology, we believe that Home First will reduce its opex to assets ratio meaningfully in the next few years.
- With capital adequacy ratio (post completion of IPO) of 56% compared to 15% regulatory threshold, Home First is well positioned to grow without the need to raise capital over the medium-term. It has sufficient headroom for debt capital to fund its planned growth and will likely to tie up additional funds at competitive rates accordingly.
- Spread on loans stood at 5.6% in Q2FY22 vs to 5.5% QoQ and 4.8% YoY, supported by stable portfolio Yield (12.8% vs 12.7% QoQ) and better cost of borrowings (7.1% vs 7.2% QoQ). According to management, spread will come down in coming quarters and will be maintained at around 4.7-5.0% on a sustainable basis. There is limited room for further reductions in the cost of borrowing.

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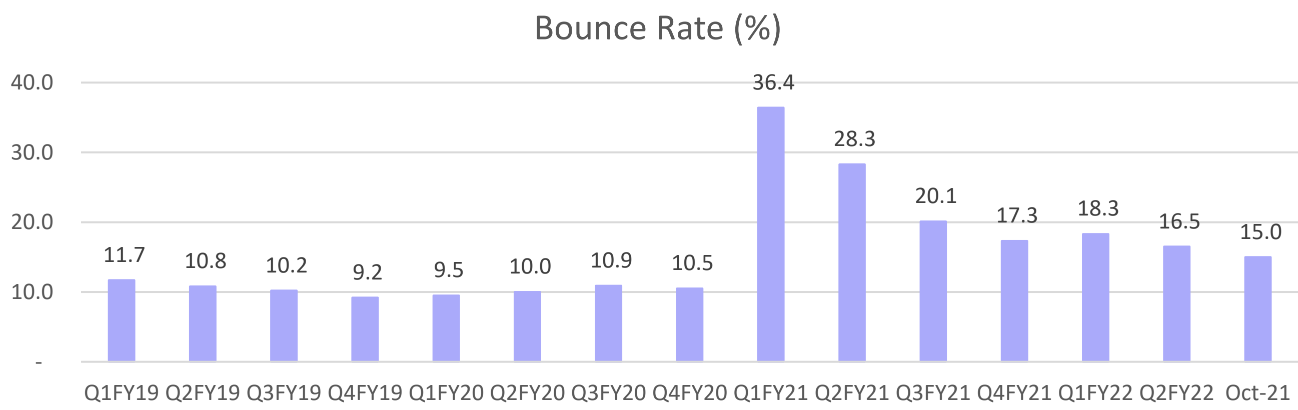
Valuation and outlook

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 825, valuing the stock at 4.2x FY23E P/Adj BV.

Bounce Rates Improving (%)



Source: Dalal & Broacha Research, Compan

Financials

Rs Mn	Q2FY22	YoY (%)	QoQ (%)	Q1FY22	Q2FY21
Interest Earned	1142.5	17.9	5.6	1082	969
Interest Expended	540.8	-3.7	2.6	527	562
NII	**601.7**	**47.6**	**8.5**	**555**	**408**
Net gain on DA	170.7	-	-11.8	194	-
Other Income	148.2	24.8	3.9	143	119
Net Income	**920.6**	**74.9**	**3.3**	**891**	**526**
Operating Expenses	324.3	40.3	14.1	284	231
PPOP	**596.4**	**102.0**	**-1.7**	**607**	**295**
Provisions & Contingencies	33.3	-72.2	-74.5	130	120
Profit Before Tax	**563.1**	**220.5**	**18.2**	**476**	**176**
Tax	114.4	**253.4**	**-8.6**	125	32
PAT	**448.7**	**213.0**	**27.8**	**351**	**143**
Operational Details					
AUM	46170	23.8	7.5	42943	37300
Disbursements	5152	111.9	69.1	3046	2431
Assigned Assets	9285	23.8	9.4	8488	7501
Loans – Principal Outstanding	**36859**	**22.4**	**7.1**	**34411**	**30121**
DA drawn-down	1273	-	7.6	1183	-
Efficiency Ratio					
Cost to Income Ratio (%)	35.2	-868 bps	333 bps	31.9	43.9
Debt to equity ratio (%)	2.1	-57 bps	-7 bps	2.2	2.7
Opex / Average assets (%)	2.8	33 bps	32 bps	2.5	2.5
CRAR - Tier I Capital (%)	55.2	480 bps	-3 bps	55.2	50.4
Asset Quality					
Gross Stage 3 (%)	1.7	82 bps	-20 bps	1.9	0.9
Net Stage 3 (%)	1.2	61 bps	-21 bps	1.4	0.6
PCR (%)	29.6	-280 bps	342 bps	26.2	32.4
DPD 1+ (%)	7.6	90 bps	-130 bps	8.9	6.7
DPD 30+ (%)	5.2	386 bps	-57 bps	5.8	1.3
Asset Mix/segment (Retail and corporate)					
Housing Loan (%)	92.0	-4 bps	-35 bps	92.4	92.1
Loans for Commercial Property (%)	0.9	-2 bps	0 bps	0.9	0.9
Loans Against Property (%)	6.4	127 bps	61 bps	5.7	5.1
Developer Finance (%)	0.7	-120 bps	-27 bps	1.0	1.9

Source: Dalal & Broacha Research, Company

Financial

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	3,547.33	4,236.98	5,058.30	6,514.35
Interest expense	1,938.28	2,201.56	2,481.98	3,151.59
NII	**1,609**	**2,035**	**2,576**	**3,363**
Non-interest income	649	655	1,120	1,558
Net revenues	**2,258**	**2,690**	**3,697**	**4,921**
Operating expenses	1,020	1,028	1,341	1,719
PPOP	**1,238**	**1,662**	**2,356**	**3,203**
Provisions	165	322	293	252
PBT	**1,073**	**1,340**	**2,063**	**2,951**
Tax	278	339	520	744
PAT	**795**	**1,001**	**1,543**	**2,207**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	157	175	175	175
Reserves & surplus	9,178	13,631	15,173	17,381
Net worth	**9,334**	**13,805**	**15,348**	**17,555**
Borrowings	24,938	30,537	36,034	45,006
Other liability	530	759	903	1,148
Total liabilities	**34,802**	**45,101**	**52,285**	**63,710**
Fixed assets	210	167	203	254
Investments	1,456	3,750	4,106	3,896
Loans	30,139	33,265	42,604	56,259
Cash	2,221	6,799	4,296	2,172
Other assets	777	1,121	1,076	1,128
Total assets	**34,802**	**45,101**	**52,285**	**63,710**

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	53	26	27	31
PPOP	71	34	42	36
PAT	76	26	54	43
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	10.6	13.4
RoA	2.7	2.5	3.2	3.8
Per share (Rs)				
EPS	10.2	11.5	17.7	25.3
BV	119	158	176	201
ABV	116	153	171	196
Valuation (x)				
P/E	67.5	59.8	38.8	27.1
P/BV	5.7	4.3	3.9	3.4
P/ABV	5.9	4.5	4.0	3.5

Source: Dalal & Broacha Research, Company

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