



### Business remains strong and steady

**Home First Finance Company has reported a healthy set of numbers for the quarter ended March 31, 2021. Profitability was supported by higher other income, mainly coming from net gain on direct assignment transaction (INR 182 Mn vs Nil QoQ & YoY). Except for GNPA, all other leading indicators such as bounce rates, Collection efficiency and 1 DPD have shown improvement over the previous quarter.**

- NII came in at INR 496 Mn, 3% QoQ / 11% YoY.
- Other Income stood at INR 325 Mn, 257% QoQ / 198% YoY.
- PPOP came in at INR 509 Mn, 78% QoQ / 81% YoY.
- Provisions came in at INR 83 Mn, 13% QoQ / -29% YoY.
- PAT came in at INR 313 Mn, 97% QoQ / 151% YoY.
- EPS stood at INR 3.65 vs INR 1.95 QoQ / INR 1.59 YoY.

### Financial Highlights

- Asset quality has been largely stable, with GNPA's increasing only 20bps QoQ to 1.8%, while NNPA's up by 10bps QoQ to 1.2%. Considering that SARFAESI restrictions have been lifted recently, management is confident in resolving its Stage 3 accounts in coming quarters. Out of 1.8% Stage 3, 10% is at resolution stage.
- Bounce rates have improved to 17.3% vs 20.1% QoQ, while 1 DPD has improved to 6.2% vs 7.5% QoQ. Collection efficiency has also improved to 98.5% in March 2021 from 97.6% in December 2020. The company carries 36% provisioning on stage-3, 14% on stage-2 and 0.4% on stage-1 assets.
- With the second wave of Covid-19 and subsequent lockdown, the company's bounce rates might be elevated in the near term, leading to some credit cost spillover into FY22E. However, we expect it to fully normalize in H2FY22, further aiding RoAs.
- The company's AUM growth recovers to 5.1% QoQ / 14.4% YoY, supported by 30.4% YoY and 29.5% QoQ growth in disbursements. We believe there is a good chance loan growth can surprise on the upside, especially in FY22/23E, on multiple tailwinds such as better affordability, and government incentives for home buyers.
- Bounce rate for the month of April stood at 16.25% (improved MOM), while collections have been normal except the last week of April, where few customers have been asking for some more time to pay their dues.

### Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
Adj BVPS	116	153	173	197
EPS (Rs)	10	11	19	25
P/ABV (x)	4.6	3.4	3.1	2.7
P/E (x)	52	46	27	21
RoA (%)	2.7	2.5	3.4	3.6
RoE (%)	10.9	8.7	11.5	13.3

Source: Dalal & Broacha Research, Company

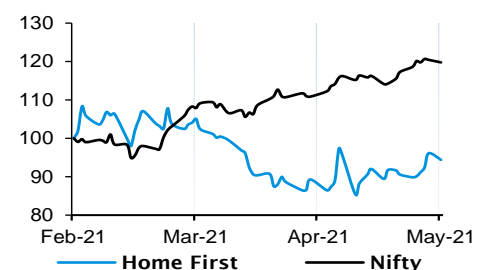
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>651</b>	<b>23</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>529</b>
Market Cap (Rs.Bn)	(Rs Bn)	46
Market Cap (US\$ Mn)	(US\$ Mn)	627
Face Value	Rs	2
52 Weeks High/Low	Rs	640/441
Average Daily Volume	('000)	377
BSE Code		543259

Bloomberg **HOMEFIRS:IN**  
Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Jan-21
Promoters	33.70	33.70
FII	10.86	6.73
DII	41.70	40.66
Others	12.79	18.91
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- The company's loan book quality remains uncompromised, with 92% housing loans and salaried employees contribute to 74% of total loans.
- The company's C/I ratio drop by 1126 bps YoY to 38%, backed by net income (NII + Other Inc) growth of 48% YoY vs opex growth of 14% YoY. We believe this level is not sustainable and will bounce back to 40-45% level in upcoming quarters. However with growing productivity in existing branches and leveraging technology to optimise operations, we expect this number to come down meaningfully in the next few years.
- Portfolio spreads which was improved to 5.4% from 5.0% QoQ, supported by lower borrowing cost (down to 7.4% vs 8% QoQ & 8.5% YoY).
- During Q4, the company securitised assets worth Rs 1.16 bn and booked securitisation income of Rs 181 mn. These kind of transactions helps the company to optimize the capital usage, bring down leverage and improve cost of funds as well as balance the existing liquidity position.
- 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.

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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 marquee 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 651, valuing the stock at 3.3x FY23E P/Adj BV.

## Financials

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Income	949	1012	969	1014	1031	9%	2%
Interest Expenditure	503	538	562	532	535	6%	1%
<b>Net Interest Income</b>	<b>446</b>	<b>474</b>	<b>408</b>	<b>482</b>	<b>496</b>	<b>11%</b>	<b>3%</b>
Fees & Other Income	109	330	120	91	325	198%	257%
<b>Net Income</b>	<b>555</b>	<b>804</b>	<b>528</b>	<b>573</b>	<b>821</b>	<b>48%</b>	<b>43%</b>
Other Expenditure	274	232	233	287	312	14%	9%
<b>PPOP</b>	<b>281</b>	<b>572</b>	<b>295</b>	<b>286</b>	<b>509</b>	<b>81%</b>	<b>78%</b>
Credit Cost	117	45	120	74	83	-29%	13%
<b>PBT</b>	<b>164</b>	<b>528</b>	<b>176</b>	<b>212</b>	<b>425</b>	<b>159%</b>	<b>101%</b>
Tax expense	39	141	32	53	112	185%	112%
<b>PAT</b>	<b>125</b>	<b>386</b>	<b>143</b>	<b>159</b>	<b>313</b>	<b>151%</b>	<b>97%</b>

Source: Dalal & Broacha Research, Company

## Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	3425	4026	4872	6386
Interest expense	1912	2166	2431	3164
<b>NII</b>	<b>1513</b>	<b>1860</b>	<b>2440</b>	<b>3222</b>
Non-interest income	772	866	1358	1710
<b>Net revenues</b>	<b>2284</b>	<b>2726</b>	<b>3798</b>	<b>4932</b>
Operating expenses	1,046	1,064	1,377	1,766
<b>PPOP</b>	<b>1238</b>	<b>1662</b>	<b>2422</b>	<b>3166</b>
Provisions	165	322	165	216
<b>PBT</b>	<b>1073</b>	<b>1340</b>	<b>2256</b>	<b>2949</b>
Tax	280	339	569	743
<b>PAT</b>	<b>792</b>	<b>1001</b>	<b>1688</b>	<b>2206</b>
<b>Balance sheet</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Share capital	157	175	175	175
Reserves & surplus	9178	13631	15318	17525
<b>Net worth</b>	<b>9334</b>	<b>13805</b>	<b>15493</b>	<b>17699</b>
Borrowings	24938	30537	37560	48265
Other liability	530	759	907	1144
<b>Total liabilities</b>	<b>34802</b>	<b>45102</b>	<b>53961</b>	<b>67108</b>
Fixed assets	210	164	209	242
Investments	1456	3750	4474	3949
Loans	30139	33265	42831	56056
Cash	2221	6799	5372	5802
Other assets	777	1124	1076	1059
<b>Total assets</b>	<b>34802</b>	<b>45102</b>	<b>53961</b>	<b>67108</b>

Ratios	FY20	FY21	FY22	FY23
<b>Growth (%)</b>				
NII	45	23	31	32
PPOP	73	34	46	31
PAT	78	26	69	31
Advances	41	10	29	31
<b>Spread (%)</b>				
Yield on Funds	13.3	12.7	12.8	12.9
Cost of Funds	8.7	7.8	7.3	7.5
Spread	4.7	4.9	5.5	5.4
NIM	4.7	4.3	4.6	4.8
<b>Asset quality (%)</b>				
Gross NPAs	1.0	1.8	1.5	1.4
Net NPAs	0.8	1.2	0.9	0.8
Provisions	26	36	39	40
<b>Return ratios (%)</b>				
RoE	10.9	8.7	11.5	13.3
RoA	2.7	2.5	3.4	3.6
<b>Per share (Rs)</b>				
EPS	10.1	11.5	19.3	25.2
BV	119	158	177	203
ABV	116	153	173	197
<b>Valuation (x)</b>				
P/E	52.3	46.2	27.4	20.9
P/BV	4.4	3.3	3.0	2.6
P/ABV	4.6	3.4	3.1	2.7

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