16 November 2022

Company Update | Sector: Financials - NBFC

Home First Finance

BSE SENSEX	S&P CNX
61,873	18,403

Stock Info

Bloomberg	HOMEFIRS IN
Equity Shares (m)	87
M.Cap.(INRb)/(USDb)	58.9 / 0.7
52-Week Range (INR)	1004 / 620
1, 6, 12 Rel. Per (%)	-26/-29/-10
12M Avg Val (INR M)	120
Free float (%)	66.4

Financials Snapshot (INR b)

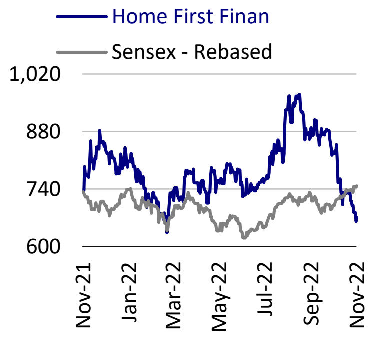
Y/E March	FY23E	FY24E	FY25E
NII	4.0	5.1	6.4
PPoP	3.0	3.8	4.8
PAT	2.2	2.8	3.5
EPS (INR)	25.2	31.1	39.7
EPS Gr. (%)	17.1	23.4	27.6
BV/Sh. (INR)	204	235	274
ABV/Sh. (INR)	198	228	267
Ratios			
NIM (%)	6.4	6.1	6.0
C/I ratio (%)	37.5	36.9	35.5
RoAA (%)	3.8	3.7	3.8
RoAE (%)	13.2	14.2	15.6
Valuations			
P/E (x)	26.6	21.6	16.9
P/BV (x)	3.3	2.9	2.4
P/ABV (x)	3.4	2.9	2.5

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	33.6	33.6	33.7
DII	6.4	41.2	40.6
FII	10.3	9.5	12.7
Others	49.7	15.7	13.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR671 TP: INR900 (+34%) Buy

Narrative and thesis intact; reiterate our conviction BUY

Valuations now attractive to invest in an otherwise quality franchise

- Home First Finance (HomeFirst), in our view, is among the few high-quality and transparent franchises in the listed Affordable Housing Finance (AHFC) sector. Particularly, the company has demonstrated consistent execution on its guided metrics, across AUM growth, margins/spreads, asset quality, and credit costs.
- Arguably, the company did slow down its disbursements during the two COVID waves and report asset quality deterioration (as did the rest of the sector). However, it has shown remarkable resilience to exhibit consistent business momentum and asset quality improvement over the last four quarters.
- We had initiated on HomeFirst in Sep'22. Since our initiation, the stock price has corrected ~22%. Further, the price correction since it reported its 1HFY23 result has also broadly been the same. While there could be other extraneous reasons that could have led to this sharp correction in stock price, we strongly believe that our thesis on HomeFirst and confidence in its ability to demonstrate healthy AUM growth, offset margin compression with a sustainable improvement in cost ratios complemented with benign credit costs still remain intact.
- HomeFirst is an affordable housing franchise that has consistently exceled in technology adoption aiding healthy underwriting and faster turnaround. The company has successfully cracked the connectors and developer channels for its loan originations. It has the core management team, infrastructure and processes in place to ensure healthy AUM growth and low risk-adjusted credit costs.
- We model an AUM/PAT CAGR of ~30%/~23%, respectively, over FY22-FY25E. HomeFirst's asset quality should exhibit strength and credit costs are likely to remain benign over FY23E-FY25E as there are no sticky NPAs from the past. With an RoA/RoE profile of 3.8%/15.6% by FY25E, we believe that the current valuation of 2.9x FY24E P/BV presents an attractive entry point to a quality franchise. **Reiterate BUY with a TP of INR900 premised on 3.5x (earlier: 4.0x) Sep'24E BVPS.** Key downside risk is a sharp contraction in spreads/margins due to its inability to pass on higher borrowing costs to sustain business momentum and avoid higher delinquencies.

Leveraging its core strengths; tech platform cutting across business functions

- HomeFirst was one of the earliest adopters of the cloud-based SalesForce platform. The company applies its robust technology infrastructure across its business functions – aggregator app for efficient sourcing of leads, RM app for entering all details with respect to potential opportunities into the system, an integrated customer CRM and LMS on a cloud-based platform and a dedicated portal for legal and technical vendors.
- Connectors form the backbone of originations for HomeFirst. Despite non-exclusivity, connectors pass on the leads to HomeFirst because of the company's fairness and transparency as well as the quick turnaround, which is appreciated by both the connectors and the customers alike.

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Business model centered on managing costs, TAT and risks

- Turnaround time, in our view, is also one of the surrogates for cost. Higher efficiency/productivity of existing branches and employees by deploying automation, technological interventions and digital tools can lead to a steady improvement in cost ratios. HomeFirst, with its lean physical branch network, effectively utilizes its virtual branches and connector network. While investments in physical branches and employee onboarding will keep opex elevated in FY23E, we expect ~40bp decline in opex over the next three years to reach a steady-state opex/average AUM of ~2.2% by FY27.
- The company has adopted technological innovations such as e-NACH, e-Sign, e-Vault and e-Stamp Paper and has also introduced various apps/web portals for connectors, RMs and customers to make the customer onboarding journey extremely seamless as well as further improve on turnaround times. **It has exhibited a consistent improvement in the proportion of loans approved within 48 hours (from the time of login by the RM).** In 2QFY23, the company reported that 89% of its loans were approved within 48 hours.
- Centralized underwriting has kept asset quality benign and aids HomeFirst in taking objective credit decisions. Given the company's strong focus on managing risks, it is not undertaking any activities that would lower its TAT at the cost of higher risks.
- The company has also reduced its exposure to under-construction properties, and the proportion of pre-EMI in its gross loan assets has declined steadily over the last five years. The objective of all these measures is to benefit from its robust underwriting framework in order to demonstrate superior asset quality and low risk-adjusted credit costs across cycles.

Benign credit costs; superior RoA profile among peers

- GNPA/Stage 3 of <1%, in our view, is the gold standard in affordable housing finance, and we estimate the company to move towards that target very quickly over the next three years. Based on our asset quality estimates, we expect HomeFirst's credit costs to remain benign at ~30bp over FY23-FY25.
- A quick glance at the DuPont table makes it clear that HomeFirst has levers on operating costs and credit costs to mitigate the adverse impact of margin compression. In a normalized environment, HomeFirst can deliver an RoA of 3.7-3.8% over FY23-FY25E. We have factored in a ~20-40bp YoY improvement in leverage over FY23-FY25E. With this gradual improvement, we estimate the company to deliver an RoE of ~16% by FY25.

A brief update on the 2QFY23 performance

- Disbursements grew 36% YoY to ~INR7b, leading to an AUM growth of 36% YoY to ~INR62.8b. AUM growth was marginally impacted by subsidy received under the PMAY scheme.
- Reported spreads were stable sequentially at 5.8%, while reported NIM expanded 10bp QoQ to 6.5%. Incremental spreads in 2QFY23 declined ~20bp QoQ to 5.4%. The company suggested that the moderation in spreads will continue for the next few quarters since it will transmit only a part of the increase in borrowing costs and absorb the rest.

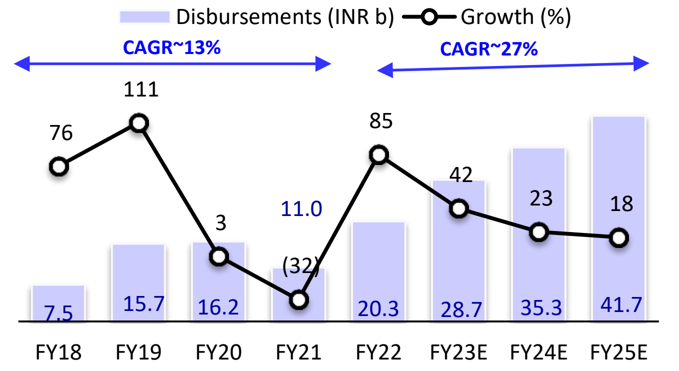
- HomeFirst's 1+dpd declined ~30bp QoQ to 4.7%, while bounce rates increased to 15.6% in 2QFY23 and 15.1% in Oct'22 (v/s 14% in 1QFY23). The company attributed the increase in bounce rates to the changing preference or payment behavior of customers (to make repayments through UPI). Gross Stage 3 (including the RBI NPA circular) improved ~20bp QoQ to 1.9%.

A good franchise available at much *affordable* valuations now

- HomeFirst has invested in building a franchise, which is strongly positioned to capitalize on the growth opportunity in affordable housing finance.
- Given its lean physical distribution network, and ability to effectively utilize the connector and builder channels, HomeFirst enjoys the best productivity metrics (AUM/disbursement per branch or per employee) among its peers. This will help drive cost efficiencies for the company.
- The company has adopted strong risk mitigation measures, including slowing disbursements when the external environment is difficult, limiting exposures to particular projects/apartments, continuously building on its expertise of different geographical pockets and dominant customer profiles to limit risk, and real-time tracking of business volumes as well as collections that are actioned upon (as appropriate). We have extensively covered HomeFirst's 'Right to Win' in affordable Housing Finance in our initiating coverage report (link).
- Technical considerations such as the noise around the supply overhang from the existing private equity promoters aside, we believe that the current valuation of 2.9x FY24E P/BV has made risk-reward highly favorable for a high-growth good asset quality franchise. **Reiterate BUY with a TP of INR900 premised on 3.5x (earlier: 4.0x) Sep'24E BVPS.**

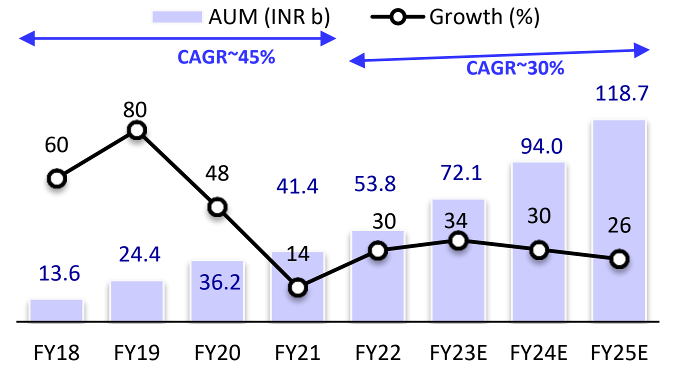
Story in charts

Exhibit 1: Expect disbursements to clock a CAGR of ~27% over FY22-25…



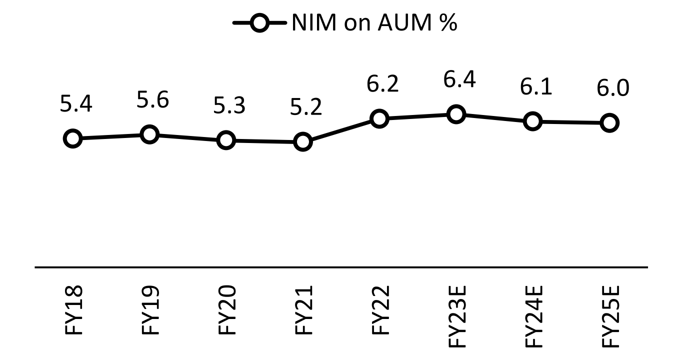
Source: MOFSL, Company

Exhibit 2: …leading to an AUM CAGR of ~30% over this period



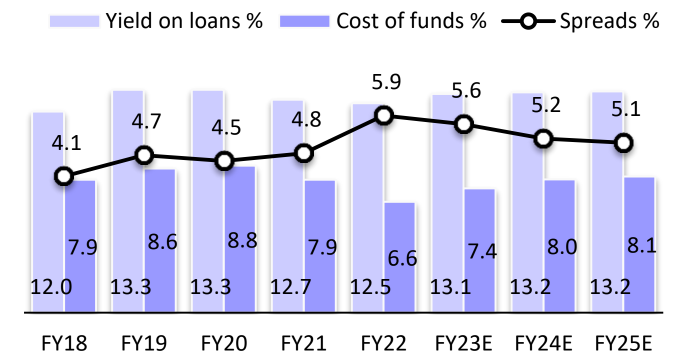
Source: MOFSL, Company

Exhibit 3: Margin likely to moderate to ~6% by FY25



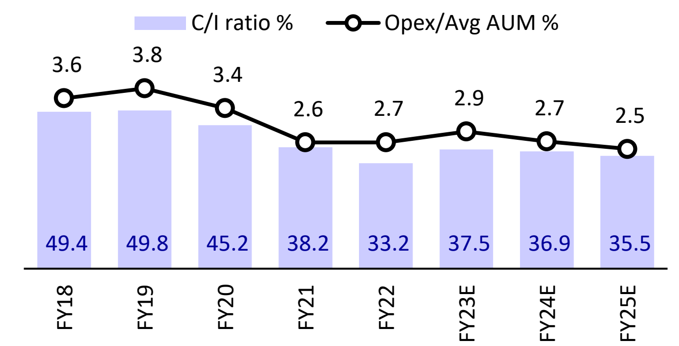
Source: MOFSL, Company

Exhibit 4: Estimate spreads to decline led by higher CoF



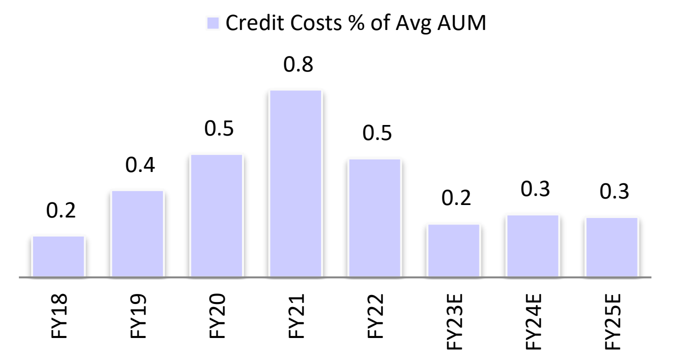
Source: MOFSL, Company

Exhibit 5: Opex to AUM to moderate by FY25 due to economies of scale



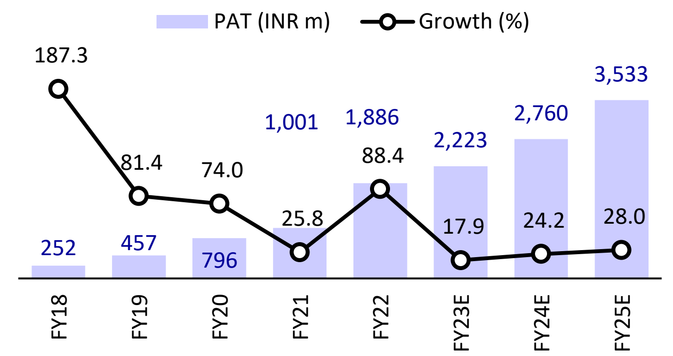
Source: MOFSL, Company

Exhibit 6: Credit costs would normalize to levels of ~30bp



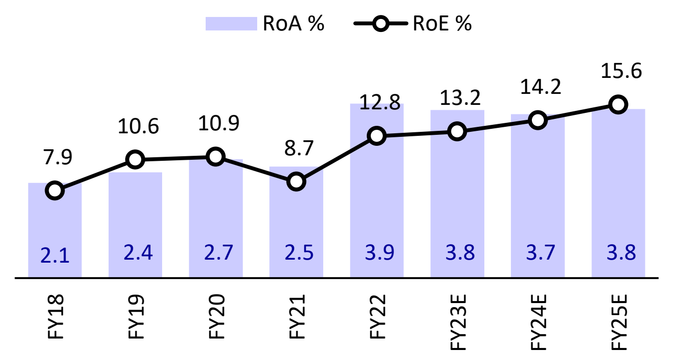
Source: MOFSL, Company

Exhibit 7: Expect PAT CAGR of ~23% over FY22–25



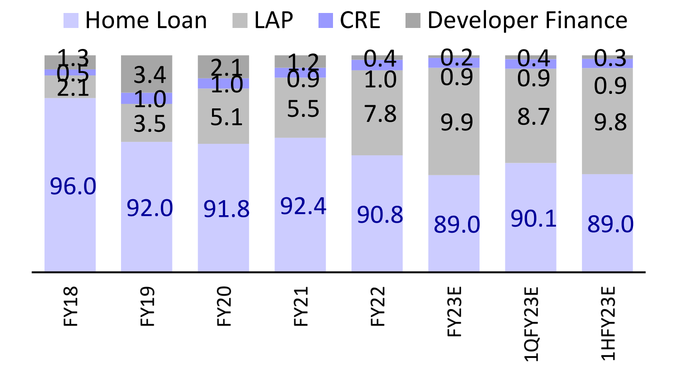
Source: MOFSL, Company

Exhibit 8: Expect healthy RoE of ~16% by FY25



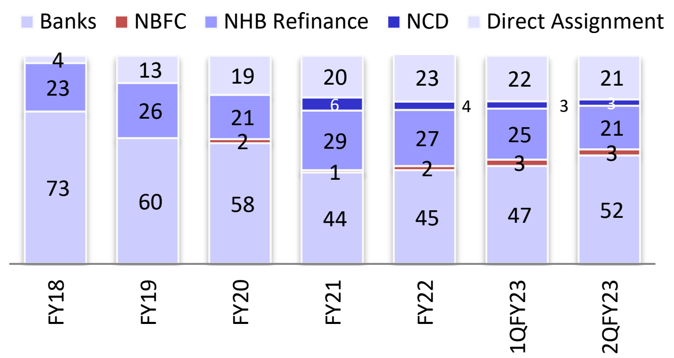
Source: MOFSL, Company

Exhibit 9: AUM mix (%)



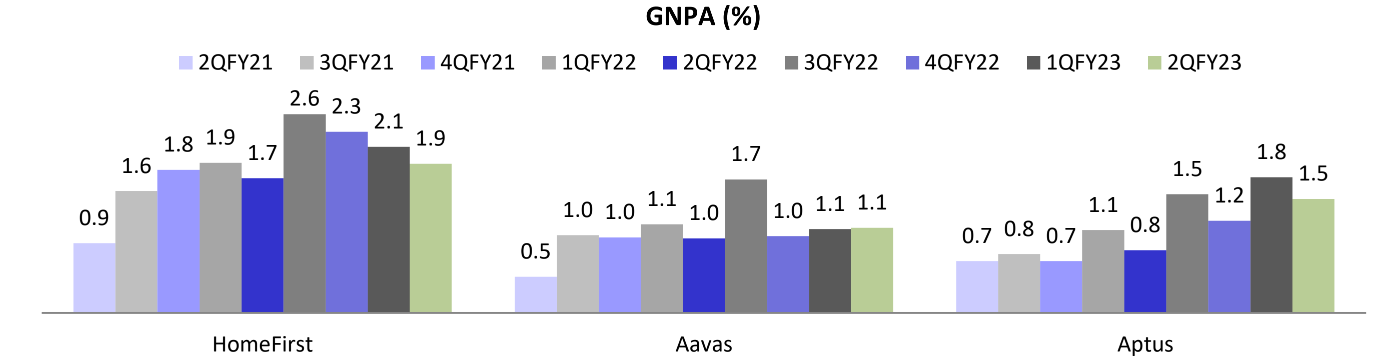
Source: MOFSL, Company

Exhibit 10: Borrowing mix (%)



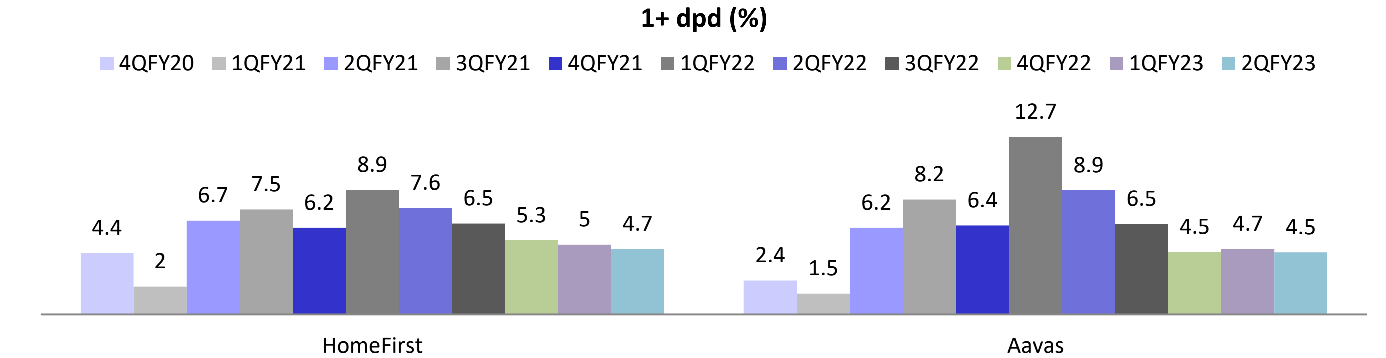
Source: MOFSL, Company

Exhibit 11: HomeFirst has exhibited a steady improvement in its asset quality over the last four quarters



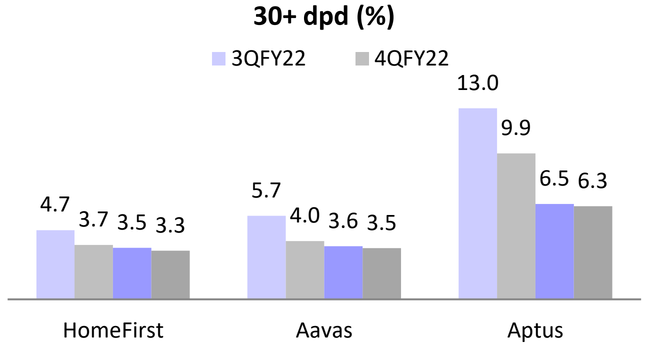
Source: MOFSL, Company

Exhibit 12: 1+dpd that peaked during the second COVID wave has been steadily improving



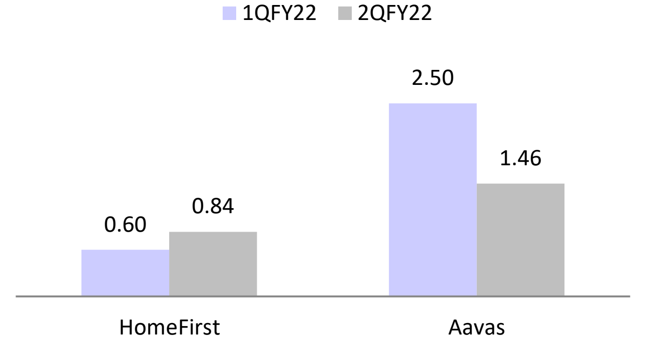
Source: MOFSL, Company

Exhibit 13: 30+dpd levels largely similar to that of Aavas



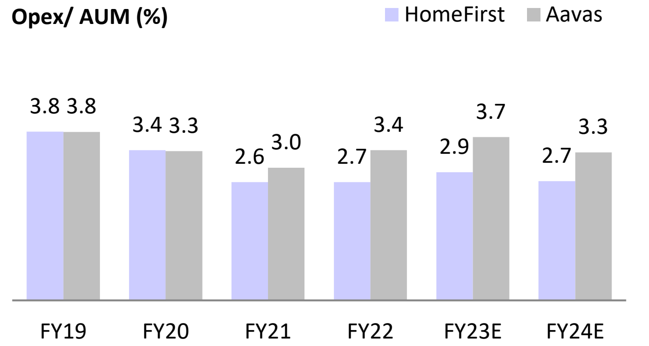
Source: MOFSL, Company

Exhibit 14: HomeFirst has chosen lower quantum of restructuring rather than delaying the recognition of asset quality stress



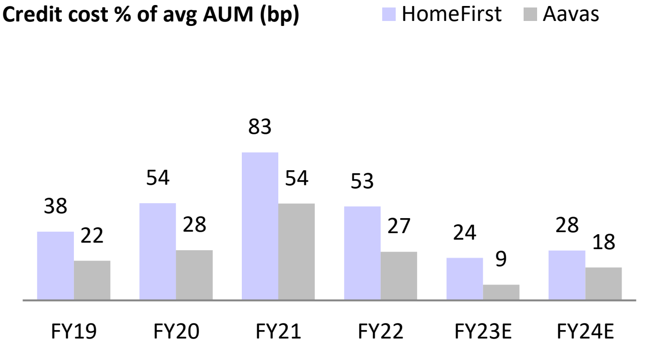
Source: MOFSL, Company

Exhibit 15: Even though the respective business models are very different, HomeFirst has better cost ratios than Aavas



Source: MOFSL, Company

Exhibit 16: Aavas has demonstrated better asset quality and much lower credit costs than HomeFirst



Source: MOFSL, Company

Exhibit 17: Cut our FY24/25 earnings estimates by 2%/3%, respectively, to factor in lower margins

INR B	Old Est.			New Est.			% Change		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
NII	4.0	5.2	6.6	4.0	5.1	6.4	0.0	-1.7	-2.4
Other operating Income	0.6	0.7	0.8	0.6	0.7	0.8	0.0	0.0	0.0
Other Income	0.2	0.3	0.3	0.2	0.3	0.3	0.0	0.0	-0.1
Total Income	**4.8**	**6.1**	**7.7**	**4.8**	**6.0**	**7.5**	**0.0**	**-1.4**	**-2.0**
Operating Expenses	1.8	2.2	2.7	1.8	2.2	2.7	0.0	0.0	-0.1
Operating Profits	**3.0**	**3.9**	**5.0**	**3.0**	**3.8**	**4.8**	**0.0**	**-2.2**	**-3.1**
Operating Profits									
Provisions	0.1	0.2	0.3	0.1	0.2	0.3	0.0	-0.4	-1.9
PBT	**2.9**	**3.6**	**4.7**	**2.9**	**3.6**	**4.6**	**0.0**	**-2.3**	**-3.2**
Tax	0.6	0.8	1.1	0.6	0.8	1.0	0.0	-2.3	-3.2
PAT	**2.2**	**2.8**	**3.6**	**2.2**	**2.8**	**3.5**	**0.0**	**-2.3**	**-3.2**
Loans	72	94	119	72	94	119	0.0	-0.2	-0.4
Borrowings	47	62	77	47	61	77	0.0	-0.2	-0.4
RoA	**3.8**	**3.8**	**3.9**	**3.8**	**3.7**	**3.8**	**0.0**	**-0.1**	**-0.1**
RoE	**13.2**	**14.5**	**16.0**	**13.2**	**14.2**	**15.6**	**0.0**	**-0.3**	**-0.4**

Source: MOFSL, Company

Financials and valuation

Income statement									(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Interest Income	840	1,258	2,320	3,548	4,237	5,117	7,084	9,398	12,046
Interest Expenses	541	665	1,265	1,938	2,202	2,157	3,048	4,331	5,622
Net Interest Income	**300**	**593**	**1,055**	**1,610**	**2,035**	**2,960**	**4,036**	**5,068**	**6,425**
Change (%)		98.0	77.9	52.6	26.4	45.4	36.3	25.6	26.8
Gain on Direct assignment	23	23	215	371	439	678	523	601	691
Fee and Commissions	15	31	33	38	35	13	80	85	100
Other Income	65	150	142	239	180	148	190	257	295
Total Income (net of interest expenses)	**402**	**797**	**1,445**	**2,258**	**2,690**	**3,800**	**4,829**	**6,010**	**7,511**
Change (%)		98.2	81.2	56.3	19.1	41.3	27.1	24.5	25.0
Employee Expenses	144	222	432	611	661	808	1,132	1,475	1,774
Depreciation	5	9	46	72	76	75	83	94	105
Other Operating Expenses	99	163	241	337	291	379	596	649	790
Operating Expenses	**249**	**394**	**719**	**1,020**	**1,028**	**1,262**	**1,811**	**2,218**	**2,669**
PPoP	**154**	**404**	**726**	**1,238**	**1,662**	**2,538**	**3,018**	**3,793**	**4,842**
Change (%)		162.4	79.9	70.6	34.2	52.7	18.9	25.7	27.7
Provisions/write offs	17	20	73	165	322	250	150	231	284
PBT	**137**	**383**	**653**	**1,073**	**1,340**	**2,288**	**2,868**	**3,561**	**4,558**
Tax	49	131	196	278	339	402	645	801	1,026
Tax Rate (%)	35.8	34.2	30.0	25.9	25.3	17.6	22.5	22.5	22.5
PAT	**88**	**252**	**457**	**796**	**1,001**	**1,886**	**2,223**	**2,760**	**3,533**
Change (%)		187.3	81.4	74.0	25.8	88.4	17.9	24.2	28.0

Balance sheet									
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Equity Capital	103	103	127	157	175	175	176	178	178
Reserves & Surplus	2,975	3,228	5,135	9,178	13,631	15,562	17,858	20,689	24,261
Net Worth	**3,078**	**3,331**	**5,262**	**9,334**	**13,805**	**15,737**	**18,034**	**20,867**	**24,439**
Borrowings	**6,571**	**10,199**	**19,256**	**24,938**	**30,537**	**34,668**	**47,479**	**61,466**	**76,828**
Change (%)		55.2	88.8	29.5	22.5	13.5	37.0	29.5	25.0
Other liabilities	253	110	297	530	759	764	917	1,054	1,213
Total Liabilities	**9,903**	**13,639**	**24,815**	**34,802**	**45,102**	**51,169**	**66,430**	**83,387**	**1,02,479**
Loans	**7,877**	**13,087**	**21,347**	**30,139**	**33,265**	**43,049**	**58,616**	**76,832**	**97,250**
Change (%)		66.2	63.1	41.2	10.4	29.4	36.2	31.1	26.6
Investments	**0**	**0**	**1,029**	**1,456**	**3,750**	**0**	**3,500**	**3,675**	**3,859**
Change (%)				41.4	157.6	-100.0		5.0	5.0
Fixed Assets	26	112	174	210	167	202	243	279	321
Cash and cash equivalents	1,770	302	1,920	2,221	6,799	6,678	2,646	1,033	-675
Other assets	230	138	345	777	1,121	1,239	1,425	1,568	1,724
Total Assets	**9,903**	**13,639**	**24,815**	**34,802**	**45,102**	**51,169**	**66,430**	**83,387**	**1,02,479**

E: MOFSL Estimates

Financials and valuation

AUM and Disbursements (in INR m)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM	8,473	13,559	24,436	36,184	41,411	53,800	72,148	93,969	1,18,657
On-book Loans	7,912	13,142	21,467	30,407	33,718	43,515	59,161	77,524	98,130
Off-book Loans	561	417	2,969	5,777	7,693	10,285	12,987	16,445	20,528
Disbursements	4,244	7,455	15,728	16,183	10,966	20,304	28,747	35,271	41,679

Ratios									
Growth %	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
AUM		60.0	80.2	48.1	14.4	29.9	34.1	30.2	26.3
Disbursements		75.7	111.0	2.9	-32.2	85.2	41.6	22.7	18.2
Loan book (on balance sheet)		66.1	63.3	41.6	10.9	29.1	36.0	31.0	26.6
Total Assets		37.7	81.9	40.2	29.6	13.5	29.8	25.5	22.9
NII		98.0	77.9	52.6	26.4	45.4	36.3	25.6	26.8
PPOP		162.4	79.9	70.6	34.2	52.7	18.9	25.7	27.7
PAT		187.3	81.4	74.0	25.8	88.4	17.9	24.2	28.0
EPS		187.2	47.8	40.7	12.7	87.9	17.1	23.4	27.6

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads and margin (%)									
Avg yield on loans	10.7	12.0	13.3	13.3	12.7	12.5	13.1	13.2	13.2
Avg. cost of funds	8.2	7.9	8.6	8.8	7.9	6.6	7.4	8.0	8.1
Interest Spread	2.4	4.1	4.7	4.5	4.8	5.9	5.6	5.2	5.1
NIM on AUM	3.5	5.4	5.6	5.3	5.2	6.2	6.4	6.1	6.0

Capital Structure & Profitability Ratios	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Debt-Equity ratio	2.1	3.1	3.7	2.7	2.2	2.2	2.6	2.9	3.1
CAR	66.7	43.6	38.0	49.0	56.2	58.6	47.3	42.9	40.2
Tier-I	66.0	41.9	37.4	47.7	55.2	58.1	46.8	42.4	39.7
Leverage	3.2	4.1	4.7	3.7	3.3	3.3	3.7	4.0	4.2
RoAA	0.9	2.1	2.4	2.7	2.5	3.9	3.8	3.7	3.8
RoAE	2.8	7.9	10.6	10.9	8.7	12.8	13.2	14.2	15.6
ROAAUM	1.0	2.3	2.4	2.6	2.6	4.0	3.5	3.3	3.3
Int. Expended/Int. Earned	64.3	52.9	54.5	54.6	52.0	42.1	43.0	46.1	46.7
Other Inc./Net Income	16.2	18.8	9.8	10.6	6.7	3.9	3.9	4.3	3.9

Cost/Productivity Ratios (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cost/Income	61.8	49.4	49.8	45.2	38.2	33.2	37.5	36.9	35.5
Op. Exps./Avg Assets	2.5	3.3	3.7	3.4	2.6	2.6	3.1	3.0	2.9
Op. Exps./Avg AUM	2.9	3.6	3.8	3.4	2.6	2.7	2.9	2.7	2.5
Non-interest income as % of Total income	16.2	18.8	9.8	10.6	6.7	3.9	3.9	4.3	3.9
AUM/employee (INR m)	42	35	36	52	60	63	66	75	87
AUM/ branch (INR m)	235	323	407	532	575	673	644	696	791
Empl. Cost/Op. Exps. (%)	58	56	60	60	64	64	63	67	66

Asset Quality (INR m)									
Gross NPA	54	75	170	315	622	1,015	968	1,045	1,144
GNPA %	0.7	0.6	0.8	1.0	1.8	2.3	1.6	1.3	1.2
Net NPA	45	61	128	234	398	763	731	774	846
NNPA %	0.6	0.5	0.6	0.8	1.2	1.8	1.2	1.0	0.9
PCR %	16.5	19.6	24.9	25.8	36.0	24.9	24.5	26.0	26.0
Credit cost % of avg AUM (bps)	20	18	38	54	83	53	24	28	27

Valuation	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
No. of Shares (m)	**51.6**	**51.6**	**63.3**	**78.3**	**87.4**	**87.6**	**88.2**	**88.8**	**89.1**
EPS	1.7	4.9	7.2	10.2	11.5	21.5	25.2	31.1	39.7
P/E (x)	**394.7**	**137.4**	**93.0**	**66.0**	**58.6**	**31.2**	**26.6**	**21.6**	**16.9**
BV (INR)	60	65	83	119	158	180	204	235	274
Price-BV (x)	**11.2**	**10.4**	**8.1**	**5.6**	**4.2**	**3.7**	**3.3**	**2.9**	**2.4**
Adjusted BV (INR)		64	82	117	155	173	198	228	267
Price-ABV (x)		**10.5**	**8.2**	**5.7**	**4.3**	**3.9**	**3.4**	**2.9**	**2.5**
DPS (INR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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