

Soft quarter !!!

Reported PAT came in at INR 974 mn, up by 23.5% yoy & 5.6% qoq led by strong AUM growth. Total loan assets increased by 35.1% yoy (6.4% qoq) to INR 119.5 bn. On the other hand, disbursements growth rate was lower at 18.4% yoy to INR 11.9 bn. Calculated margins declined by 10 bps to 5.8% on the back of decline in cost of funds. On the asset quality side, The Gross Stage 1 increased from 4.5% in Q2FY25 to 4.8% in Q3FY25 and Stage 2 assets from 2.8% to 3.1% for the same period respectively. while gross stage 3 assets remained stable at 1.7%. The management remains optimistic about maintaining asset quality going forward.

Future Outlook

- Management expects AUM growth of 30% over the next 2-3 years time on the back of disbursements growth of 20-25%
- Credit cost of 30-40 bps for FY25
- In Q4FY25, it is likely to add 10 branches from current 149. And it plans to add 30-40 branches each year over the next 2-3 years time

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24e	FY25e	FY26e	FY27e
NII	4,179	5,278	7,351	9,437	12,262
PAT	2,283	3,057	3,885	4,901	6,295
Net worth	18,173	21,215	25,100	31,251	37,546
Adj BVPS	197	229	270	332	398
EPS (Rs)	26	35	44	55	70
P/ABV (x)	4.8	4.2	3.5	2.9	2.4
P/E (x)	37	28	22	17	14
RoA (%)	3.9	3.8	3.7	3.8	3.8
RoE (%)	13.5	15.5	16.8	17.4	18.3

Source: Dalal & Broacha Research, Company



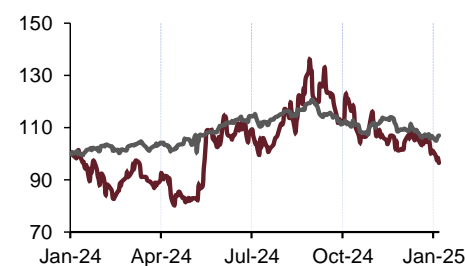
Rating	TP (Rs)	Up/Dn (%)
BUY	1,194	26

Market data

Current price	Rs	951
Market Cap (Rs.Bn)	(Rs Bn)	85
Market Cap (US\$ Mn)	(US\$ Mn)	985
Face Value	Rs	2
52 Weeks High/Low	Rs	1,383/ 777
Average Daily Volume	('000)	347
BSE Code		543259
Bloomberg		HOMEFIRST.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-24	Sep-24
Promoters	14	23
Public	86	77
Total	100	100

Source: BSE

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Valuations

Valuations of the stock has corrected sizeably over the last 6 months time from 4.0/3.4x FY26e/FY27e P/ABV to 2.9x/2.4x for the same period last year. In our view, market opportunity is sizeable for affordable finance players where the margins & ROA is better at 2.8% odd vs. prime housing finance players at 1.8%.

The HFC is raising capital to the tune of INR 1250 cr via over the next 3 months time which will result in dilution of ~1.5%. With the revision in the numbers, we expect PAT growth of 27% over FY25-27e on the back of 30% loan book growth (with ROE/ROA of 17-18%/3.8%). Given better visibility of asset growth, we retain BUY rating on the stock with revised TP of 1194 (discounting FY27e ABV by 3x) giving us upside of 26% from the current levels.

Financial Highlights Q3FY25

- AUM of the NBFC grew at strong pace of 35.1% yoy / 6.4% qoq to INR 119.5 bn; run-rate of the growth is similar to previous quarters. Currently, share of housing loans from 84% share in Q3FY25 vs. 86% a year back and at the same time, share of LAP loans has increased from 13% to 15% for the same period (which the management in comfortable taking to 20% in next 2-3 years time)
- It aims for AUM of INR 200 bn by FY27 end led by 20-25% growth in disbursements.
- **Which states are contributing to the incremental growth** - It has higher share of ~29% in the Gujarat state where the incremental yoy growth is coming down from 29% seen 4 quarters back to 23% currently. Similarly, other states like MP (7.6% share) & UP & Uttarakhand (6.7% share) are registering growth to the tune of 77% & 59% in Q3FY25 on yoy basis. And states like Rajashtan, AP, Chattisgarh, Haryana & NCR are growing at 40-50% levels
- **Disbursements growth** trend has come down at 18.4% in Q3 vs. 22.7% in Q2 vs. avg. 29% growth seen in previous 3 quarters. While off-book assets i.e. co-lending + assigned assets reported growth of 21% yoy forming 1.6% of total AUMs
- Margins came off on qoq basis - The calculated margins for the NBFC decreased by 10 bps qoq to 5.8% in Q3FY25 due to rising costs of funds. However, management expects margins to stabilize at current levels (+ advances yields maintained at around 13.5%)
- Increase in the gross 1 + 2 stage assets - There has been a rise in NPLs across various bucket sizes. The Gross Stage 1 increased from 4.5% in Q2FY25 to 4.8% in Q3FY25 and Stage 2 assets from 2.8% to 3.1% for the same period respectively. while gross stage 3 assets remained stable at 1.7%. The management remains optimistic about maintaining asset quality, citing that 80% of customers have bureau scores, which helps in early identification of potential defaults.
- It is likely to raise INR 1250 cr via QIP before Mar'25 to support its asset growth

Concall Highlights – Q3FY25

- **Branch Expansion:** The non-banking financial company (NBFC) plans to add 10 more branches in Q4FY25, increasing its total from 149 branches. In Q3FY25, it successfully added 7 branches. It is focusing on expanding its presence in new geographies, particularly in Madhya Pradesh (MP), Uttar Pradesh (UP), and Rajasthan. It currently has a larger presence in MP and plans phased investments in UP, where it operates in only four cities.
- **Increase in the gross 1 + 2 stage assets -** There has been a rise in NPLs across various bucket sizes. The Gross Stage 1 increased from 4.5% in Q2FY25 to 4.8% in Q3FY25 and Stage 2 assets from 2.8% to 3.1% for the same period respectively. While gross stage 3 assets remained stable at 1.7%. The management remains optimistic about maintaining asset quality, citing that 80% of customers have bureau scores, which helps in early identification of potential defaults.
- **Capital Raising:** The NBFC is likely to raise capital amounting to INR 1250 crore to support its asset growth.
- **Long-Term Growth Targets:** The company aims for an AUM growth of 30% over the next 2-3 years time, supported by 20-25% increase in disbursements.
- **Competition Landscape:** Management noted that large housing finance companies (HFCs) are entering the affordable housing segment, with average ticket sizes for loans ranging from INR 20-25 lakhs, while the average ticket size for Home First is around INR 10-12 lakhs, indicating relatively lower competition.
- **Margin Outlook:** The calculated margins for the HFC decreased by 10 basis points quarter-on-quarter to 5.8% in Q3FY25 due to rising costs of funds. However, management expects margins to stabilize at current levels, with yields maintained at around 13.5%.
- **Provisioning Outlook:** The Provision Coverage Ratio (PCR) is expected to be maintained between 30-40 bps vs. 20-30 bps estimated earlier
- HFC is anticipating rating upgrade over the next 6-9 months given its AUM has crossed INR 100 bn
- The company has enhanced its underwriting norms by tightening credit filters for certain loans such as retail apartments and construction loans to manage risk better.

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The HFC is raising capital to the tune of INR 1250 cr via over the next 3 months time which will result in dilution of ~1.5%. With the revision in the numbers, we expect PAT growth of 27% over FY25-27e on the back of 30% loan book growth (with ROE/ROA of 17-18%/3.8%). Given better visibility of asset growth, we retain BUY rating on the stock with revised TP of 1,194 (discounting FY27e ABV by 3x) giving us upside of 26% from the current levels.

Quarterly Financials (Q3FY25)

(Rs mn)	Q3FY24	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Interest income	2646	3322	3558	34.5	7.1
Interest expense	1302	1756	1926	47.9	9.7
Net interest income	1344	1566	1631	21.4	4.2
<i>growth (yoy %)</i>	<i>21.4</i>	<i>18.6</i>	<i>21.4</i>		
Net gain on DA	206	202	215	4.2	6.6
<i>DA income / Assigned Assets</i>	<i>13.0</i>	<i>10.7</i>	<i>11.2</i>		
Other Income	158	219	302	90.8	37.8
<i>growth (yoy %)</i>	<i>355.2</i>	<i>169.8</i>	<i>90.8</i>	<i>-74.4</i>	<i>-46.5</i>
<i>as a % of AUM</i>	<i>0.18</i>	<i>0.19</i>	<i>0.25</i>		
Net Income	1708	1987	2148	25.8	8.1
Operating Expenses	611	726	752	23.2	3.6
<i>growth (yoy %)</i>	<i>37.9</i>	<i>28.4</i>	<i>23.2</i>		
<i>growth (qoq) %</i>	<i>8.0</i>	<i>10.9</i>	<i>3.6</i>		
<i>Cost/Income ratio</i>	<i>35.7</i>	<i>36.5</i>	<i>35.0</i>		
Employee expense	390	503	508	30.2	1.1
Other expense	220	223.31	244.28	10.8	9.4
PPOP	1097	1261	1396	27.2	10.7
Provisions	70	57.3	97.9	39.7	70.8
<i>Credit Cost / Advances (%)</i>	<i>0.09</i>	<i>0.06</i>	<i>0.10</i>		
PBT	1027	1204	1298	26.4	7.9
Tax	239.22	281.32	324.3	35.6	15.3
<i>Tax Rate (%)</i>	<i>23.3</i>	<i>23.4</i>	<i>25.0</i>		
One-time tax adjustment					
PAT	788	922	974	23.5	5.6
<i>growth (yoy %)</i>	<i>34.2</i>	<i>24.1</i>	<i>23.5</i>		
<i>growth (qoq %)</i>	<i>6.1</i>	<i>5.1</i>	<i>5.6</i>		

Other Details

(Rs mn)	Q3FY24	Q2FY25	Q3FY25
Gross Loan Assets / AUM	88,438	112,294	119,494
<i>growth (yoy %)</i>	31.0	34.2	35.1
<i>growth (qoq %)</i>	5.7	7.2	6.4
Disbursements	10074	11768	11928
<i>growth (yoy %)</i>	29.1	22.7	18.4
<i>growth (qoq %)</i>	5.0	1.2	1.4
Assigned + Co-lending	1592	1880	1927
<i>growth (yoy %)</i>	78.1	27.8	21.1
<i>growth (qoq %)</i>	8.2	-2.9	2.5
<i>Assigned / AUMs</i>	1.8	1.7	1.6
-Direct Assignments	1347	1535	1701
-Co-lending Transactions	609	345	226

Ratios	Q3FY24	Q2FY25	Q3FY25
DPD 1+	4.5	4.5	4.8
DPD 30+/POS	3.0	2.8	3.1
Gross Stage 3 (GNPAs)	1.7	1.7	1.7
Net Stage 3 (Net NPAs)	1.2	1.3	1.3
PCR	29.4	23.5	23.5
Bounce Rates	15.1	15.6	16.0
Collection Efficiency	98.7	98.5	98.4
Portfolio Yield (IGAAP)	13.5	13.6	13.6
Cost of Borrowings (IGAAP)	8.2	8.4	8.4
Cost of borrowings (ex-co-lending)	8.2	8.3	8.4
Spread (Overall)	5.3	5.1	5.1
Spread (Ex CL)	5.5	5.3	5.2

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Mn)	FY23	FY24e	FY25e	FY26e	FY27e
Interest income	7,222	10,277	14,002	17,763	23,086
Interest expense	3,043	4,999	6,651	8,326	10,824
NII	4,179	5,278	7,351	9,437	12,262
Non-interest income	734	1,289	1,263	1,601	2,039
Net revenues	4,913	6,567	8,615	11,038	14,301
Operating expenses	1,746	2,313	2,997	3,935	5,169
PPOP	3,167	4,254	5,617	7,103	9,132
Provisions	215	254	424	551	716
PBT	2,952	4,000	5,194	6,552	8,416
Tax	669	942	1,309	1,651	2,121
PAT	2,283	3,057	3,885	4,901	6,295

Balance Sheet (Rs.mn)	FY23	FY24e	FY25e	FY26e	FY27e
Share capital	176	177	177	180	180
Reserves & surplus	17,997	21,038	24,923	31,071	37,367
Net worth	18,173	21,215	25,100	31,251	37,546
Borrowings	48,135	73,021	87,233	113,402	147,423
Other liability	1,062	1,104	1,749	2,201	2,774
Total liabilities	67,370	95,340	114,081	146,854	187,744
Fixed assets	253	298	361	437	528
Investments	2,808	3,788	3,978	4,176	4,385
Loans	59,957	81,434	105,900	137,670	178,972
Cash	2,984	8,215	2,027	2,516	1,532
Other assets	1,368	1,604	1,816	2,055	2,326
Total assets	67,370	95,340	114,081	146,854	187,744

Ratios	FY23	FY24e	FY25e	FY26e	FY27e
Growth (%)					
NII	41.2	26.3	39.3	28.4	29.9
PPOP	26.0	34.3	32.1	26.4	28.6
PAT	22.7	33.9	27.1	26.2	28.4
Advances	39.3	35.8	30.0	30.0	30.0
Spread (%)					
Yield on Funds	13.3	13.9	14.5	14.5	14.5
Cost of Funds	7.3	8.3	8.3	8.3	8.3
Spread	5.9	5.7	6.2	6.2	6.2
NIM	7.2	6.6	7.2	7.4	7.4
Asset quality (%)					
Gross NPAs	1.9	1.6	1.5	1.5	1.4
Net NPAs	1.4	1.2	1.1	1.0	1.0
Provisions	26.4	27.7	28.7	29.4	29.9
Return ratios (%)					
RoE	13.5	15.5	16.8	17.4	18.3
RoA	3.9	3.8	3.7	3.8	3.8
Cost Ratios (%)					
C/I Ratio	35.5	35.2	34.8	35.6	36.1
Opex / Avg. Assets	2.9	2.8	2.9	3.0	3.1
Per share (Rs)					
EPS	25.9	34.5	43.9	54.6	70.1
BV	206.5	239.7	283.6	348.1	418.3
ABV	196.8	228.8	270.5	332.2	398.1
Valuation (x)					
P/E	36.6	27.5	21.6	17.4	13.5
P/BV	4.6	4.0	3.4	2.7	2.3
P/ABV	4.8	4.2	3.5	2.9	2.4

Source: Dalal & Broacha Research, Company

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