Equity Research
May 5, 2021
BSE Sensex: 48254

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Q4FY21 results review

BFSI

Target price Rs625

Earnings revision

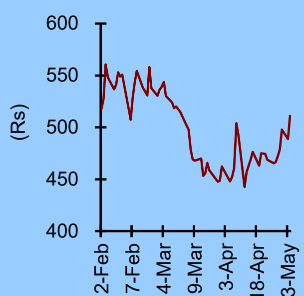
(%)	FY22E	FY23E
PAT	↑ 1	-

Shareholding pattern

	Dec '20	Mar '21
Promoters	33.7	33.7
Institutional investors	47.4	53.5
MFs and others	4.1	5.1
Foreign Corp Bodies	36.6	36.6
FPIs	6.7	11.8
Others	18.9	12.8

Source: CMIE

Price chart



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INDIA

ICICI Securities

Home First Finance Company

BUY
Maintain

Core earnings steady; profitability buoyed by securitisation income

Rs511

Home First Finance Company (HomeFirst) exited FY21 on expected lines with: 1) stage-3 assets at 1.8%, credit cost at 100bps, 1+ dpd pool at 6.2%, and zero restructuring; 2) disbursements regaining traction in Q4FY21 or H2FY21 (to be precise) supported AUM growth of 14% YoY / 5% QoQ; 3) after a pause, securitisation of Rs1.2bn of asset pool yielded income of Rs181mn (securitisation income in FY21 being at par with FY20 at 1.1% of assets); 4) Portfolio spreads drawing support of lower borrowing cost (down to 7.4% in Q4FY21) settled >5%. With >30% AUM growth, funding cost benefit, improved cost to income ratio, and contained credit cost, we expect earnings to compound at ~40% over FY21-FY23E. However due to excessive capitalisation (tier-1 at 55%) and despite >3% RoAs, RoEs will be modest at ~12%. Maintain BUY. Key risks: i) sourcing as well as collections managed by front-end team; ii) apartment home loans showing some stress (in pockets).

- **Earnings buoyed by securitised income besides growth uptick, stable credit cost and borrowing cost benefit:** HomeFirst reported PAT of Rs313mn for the quarter, up 96% QoQ and 150% YoY. Overall, for FY21, PAT stood at Rs1.0bn, very much in line with our estimate of Rs0.97bn. For FY21, RoA was 2.5%, down 20bps *vs* 2.7% in FY20. Core PAT was supported by growth uptick, decline in borrowing cost and stable credit cost; reported PAT was buoyed by securitised income.
- **Portfolio quality – stage-3 assets inch up 20bps to 1.8%; 1+ dpd at 6.2%:** Despite the covid-led disruption, the company ended FY21 with 100bps credit cost (as a % of on-book advances). Compared to 0.8-1.0% stage-3 assets over past few years (1.0% in FY20), it increased in these challenging times to 1.8% (up 20bps QoQ) in line with expectations.

  The above has to be read in conjunction with zero restructuring for FY21 and the high-yield nature of portfolio (>13%). Collection efficiency has improved to 98.5% as at Mar'21 *vs* 97.6% in Dec'20. With improved collection efficiency, bounce rates are steadily improving MoM to 17.3% in Q4FY21 from 20.1% in Q3FY21 and 16.3% in Apr'21

  1+ dpd however settled at higher than the normalised level of 6.2% (after rising to 7.5% in Q3FY21). With normalisation kicking in for the company in terms of collections and business momentum, 1+ dpd print should gradually approach its normalised range of 3-4% in the medium term. This will further strengthen confidence in underwriting and credit assessment standards of the company.

  30+ dpd remained sticky at 4.1% (higher than past average 1.4-1.8%). On an average 50% of 30+ dpd is generally reflected in stage-3 assets. With some further flow-through from the early delinquency buckets into stage-3, we expect stage-3 to inch up to 1.9% for FY22E and then moderate to sub-1.5% by FY23E. We therefore build-in credit cost of 55-60bps for FY22E/FY23E respectively.

Market Cap	Rs44.7bn/US$605mn
Reuters/Bloomberg	HOME.BO./HOMEFIRS IN
Shares Outstanding (mn)	87.4
52-week Range (Rs)	561/443
Free Float (%)	66.3
FII (%)	11.8
Daily Volume (US$'000)	NA
Absolute Return 3m (%)	(8.8)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(4.5)
Sensex Return 12m (%)	53.8

Year to Mar	FY20	FY21P	FY22E	FY23E
NII (Rs mn)	1,981	2,475	3,219	4,305
Net Income (Rs mn)	795	1,001	1,386	1,939
EPS (Rs)	10.5	11.0	15.2	21.3
% Chg YoY	38%	4%	38%	40%
P/E (x)	48.5	46.5	33.6	24.0
P/BV (x)	4.5	3.4	3.1	2.7
Net NPA (%)	0.8	1.2	1.0	0.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoA (%)	2.7	2.5	3.0	3.6
RoE (%)	10.9	8.7	9.7	12.0

- **Credit cost at 100bps for FY21:** Credit cost too came in line with expectations at Rs84mn for Q4FY21 taking cumulative credit cost for FY21 to 100bps (on 1-year lagged on-book AUM). No additional provision has been made towards covid resurgence. Nonetheless, the company carries 36% provisioning on stage-3, 14% on stage-2 and 0.4% on stage-1 assets. We are building-in 55-60bps credit cost for FY22E/FY23E.
- **Disbursements pick momentum:** Disbursement momentum had derailed in 9MFY21 (down 50% YoY) in the wake of the pandemic as Home First adopted stricter interim credit guidelines for the new business. However, with improved MoM collection efficiency and normalisation of economic activities, it started pursuing upcoming opportunities and disbursements picked up the lost momentum. Disbursements gained the lost traction being up 30% YoY as well as QoQ at Rs4.52bn. However, for the full year, it was down 32% -- on expected lines. AUM growth thereby grew 5% QoQ / 14% YoY to Rs41.4bn. Disbursement growth is expected to further accelerate to >60% over FY21-FY23E, thereby driving AUM growth by >30%. Key driving factors: i) digital adoption in reaching out to customers and channel partners; ii) leveraging technology and rising productivity at existing locations; and iii) increasing market share in Karnataka, Andhra Pradesh, Telangana, and Rajasthan.
- **Securtisation and other income buoyed earnings:** In line with its strategy, after a pause for past two quarters, it securitised assets worth Rs1.16bn and booked securitisation income of Rs181mn for the quarter – in line with our estimates. Company will continue to actively explore this source of borrowing to optimise capital usage, reduce leverage, and improve the cost of funds. We expect 30% of disbursements to be assigned / securitised over FY22E/FY23E, which will generate income to the tune of Rs650mn-950mn (12-13% of revenues and one-third of operating profit).

  Beside, other non-interest income of Rs143mn (compared to Rs90mn in Q3FY21) further supported earnings.
- **Sharp decline in borrowing cost:** Core NII was up 3% QoQ / 11% YoY to Rs496mn and for full year FY21 it was up 23% to Rs1.86bn. Cost of borrowings declined 60bps QoQ and 120bps YoY to 7.4%. This aided spreads increase of 40bps QoQ and 90bps YoY to 5.4%. More levers at work will get borrowing cost down further, sustained yields further buoyed by assignment income can help endure NIMs upward of 6.5% over FY22E-FY23E.
- **Improved productivity to drive cost efficiencies:** With growing productivity of existing branches through deeper and innovative distribution and leveraging technology to optimise operations, HomeFirst does not have very aggressive plan on branch expansion in the forthcoming years. Company did not add any branch in Q4FY21 as well. All this makes HomeFirst cost efficient with opex to assets ratio at 3.4-3.7% (compared to peers in 3.0-6.5% range). With the upscaling of branches and optimal utilisation, we expect opex to assets ratio to further improve by 90bps by FY23 (moving towards typical range of opex/AUM at 2.0-2.5% for large branches), which can act a trigger for RoE improvement.
- **Earnings growth robust, excess capitalisation to suppress RoEs:** With >30% AUM growth, funding cost benefit, improved cost to income ratio and contained credit cost, we expect earnings to compound at 40% over FY21-FY23E. However due to excessive capitalisation (tier-1 at 55%) and despite >3% RoAs, RoEs will be modest at ~12%.

Table 1: Income statement

(Rs mn, year ending Mar 31)

	Q4FY20	Q3FY21	Q4FY21	% YoY	% QoQ
Interest income	982	1,068	1,094	11.4	2.5
Interest expenses	509	544	545	7.0	0.1
Net interest income	**473**	**524**	**549**	**16.2**	**4.9**
Non-interest Income	75	37	261	246.5	611.5
Total Income (net of interest expenses)	**548**	**561**	**811**	**47.8**	**44.6**
Employee expenses	156	174	189	21.6	8.9
Depreciation and amortization	21	19	18	(12.0)	(3.1)
Other operating expenses	91	82	94	3.6	15.0
Total Operating Expense	**268**	**275**	**302**	**12.9**	**9.9**
Pre-provisioning profit (PPoP)	**281**	**286**	**509**	**81.1**	**77.9**
Provisions and write offs	117	74	83	(28.8)	12.9
PBT	**164**	**212**	**425**	**159.8**	**100.6**
Tax expenses	39	53	112	184.6	112.3
PAT	**124**	**159**	**313**	**151.9**	**96.6**
EPS (Rs)	**1.6**	**1.9**	**3.6**	**130.8**	**87.5**

Source: Company data, I-Sec research

Table 2: Balance Sheet

(Rs mn, year ending Mar 31)

	Q4FY20	Q3FY21	Q4FY21	% YoY	% QoQ
Share capital	157	175	175	11.6	0.0
Reserves & surplus	9,178	10,746	13,631	48.5	26.8
Shareholders' funds	**9,334**	**10,921**	**13,805**	**47.9**	**26.4**
Borrowings	**24,938**	**25,998**	**28,141**	**12.8**	**8.2**
Deferred tax liabilities (net)	31	36	80	155.5	121.7
Other Liabilities and provisions	499	3,130	3,076	516.8	(1.7)
Total Liabilities	**34,802**	**40,084**	**45,102**	**29.6**	**12.5**
Fixed assets	205	160	164	(19.9)	2.4
Loans	30,139	32,067	33,265	10.4	3.7
Cash & bank balances	2,221	4,635	6,799	206.2	46.7
Investments	1,456	2,439	3,750	157.6	53.7
Other Assets	782	782	1,124	43.7	43.7
Total Assets	**34,802**	**40,084**	**45,102**	**29.6**	**12.5**

Source: Company data, I-Sec research

Table 3: Key ratios

(year ending Mar 31)

	Q4FY20	Q3FY21	Q4FY21	% YoY	% QoQ
AUM (Rs mn)	36,184	39,406	41,411	14.4	5.1
Disbursements (Rs mn)	3,466	3,488	4,518	30.4	29.5
Yields (%)	13.1	13.0	12.8	*-25 bps*	*-21 bps*
COB - excluding assignments (%)	8.6	8.0	7.4	*-117 bps*	*-61 bps*
Spreads (%)	4.5	5.0	5.4	*92 bps*	*40 bps*
Gross Stage 3 (%)	1.0	1.6	1.8	*80 bps*	*20 bps*
Net Stage 3 (%)	0.8	1.1	1.2	*40 bps*	*9 bps*
DPD 1+	4.4	7.5	6.2	*180 bps*	*-130 bps*
DPD 30+	2.0	4.1	4.1	*210 bps*	*0 bps*
ECL Provision (%)	0.9	1.4	1.4	*50 bps*	*0 bps*

Source: Company data, I-Sec research

Table 4: Strong disbursements in H2FY21 supported 14% YoY AUM growth

(Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
AUM	33,939	36,184	36,225	37,300	39,406	41,411	14	5
Disbursements	3,859	3,466	528	2,431	3,488	4,518	30	30

Source: Company data, I-Sec research

Table 5: Steep rise in NHB borrowings has helped contain funding cost

(%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Pvt sector banks	21	30	28	25	21	22	19	19	-600 bps	0 bps
Public sector banks	39	32	32	33	29	27	28	25	-800 bps	-300 bps
NBFC	2	1	1	2	2	2	1	1	-100 bps	0 bps
NHB refinance	23	20	18	21	21	21	26	29	800 bps	300 bps
NCD	0	0	0	0	5	7	7	6	600 bps	-100 bps
DA	15	17	21	19	22	21	19	20	100 bps	100 bps
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**		

Source: Company data, I-Sec research

Table 6: Spreads have jumped sharply in H2FY21, owing to lower funding cost

(%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Reported Yields	13.04	13.05	13.05	13.05	13.01	12.81	-25 bps	-21 bps
Reported COB - excluding assignments	8.79	8.59	8.5	8.27	8.03	7.42	-117 bps	-61 bps
Reported Spreads	4.25	4.46	4.55	4.78	4.98	5.39	92 bps	40 bps

Source: Company data, I-Sec research

Table 7: Gradually increasing penetration in newer geographies

Stae-wise % of loan assets	Q4FY18	Q4FY19	Q4FY20	Q3FY21	Q4FY21	YoY	QoQ
Gujarat	38.0	40.8	39.7	38.9	38.2	-153 bps	-70 bps
Maharashtra	35.6	28.4	21.7	20.1	19.2	-249 bps	-91 bps
Tamil Nadu	8.7	8.5	9.9	10.8	11.1	116 bps	29 bps
Karnataka	7.0	8.2	9.0	9.1	9.1	10 bps	0 bps
Rajasthan	3.0	3.8	5.0	5.3	5.5	54 bps	20 bps
Telangana	1.0	3.1	4.9	5.0	5.5	64 bps	50 bps
Madhya Pradesh	1.6	2.6	3.9	4.3	4.4	49 bps	10 bps
Uttar Pradesh	2.0	2.0	2.6	2.8	2.9	25 bps	10 bps
Haryana & NCR	2.0	1.3	1.1	1.0	1.0	-6 bps	0 bps
Chattisgarh	1.0	0.8	0.9	1.1	1.2	26 bps	9 bps
Andhra Pradesh	0.1	0.4	1.3	1.6	1.9	59 bps	30 bps
Total Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		

Source: Company data, I-Sec research

Table 8: DPD 1+ falls 130 bps QoQ; rise likely in Q1FY22 owing to covid 2nd wave

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Gross Stage 3 (%)	1.0	1.0	0.9	1.6	1.8	80 bps	20 bps
Net Stage 3 (%)	0.8	0.7	0.6	1.1	1.2	40 bps	9 bps
DPD 1+	4.4	2.0	6.7	7.5	6.2	180 bps	-130 bps
DPD 30+	2.0	1.5	1.3	4.1	4.1	210 bps	0 bps
Bounce rate on the day of EMI presentation (%)	10.5	36.4	28.3	20.1	17.3	680 bps	-280 bps

Source: Company data, I-Sec research

Table 9: Steady improvement in collection efficiency; Q1FY22 collection efficiency key to watch for

(%)	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	MoM
Collection efficiency	72.5	64.4	78.4	84.6	94.3	99.8	96.3	96.6	97.6	97.8	97.7	98.5	79 bps
Unique customers	72.9	63.7	74.7	79.8	83.5	93.8	95.3	95.5	96.1	96.3	96.3	96.9	60 bps

Source: Company data, I-Sec research

Table 10: Ramping up coverage ratio to prepare itself for uncertainties, if any

Provision Coverage (%)	Q3FY20	Q4FY20	Q3FY21	Q4FY21	YoY	QoQ
Overall	0.6%	0.9%	1.4%	1.4%	0 bps	0 bps
Stage 1	0.3%	0.5%	0.6%	0.4%	-1 bps	-1 bps
Stage 2	6.5%	12.2%	13.6%	14.0%	1 bps	0 bps
Stage 3	20.9%	25.7%	28.6%	36.0%	10 bps	7 bps

Source: Company data, I-Sec research

Table 11: Return ratios improve considerably, aided by securitization income

(%)	Q4FY20	Q3FY21	Q4FY21	YoY	QoQ
RoA	1.5	1.6	2.9	140 bps	130 bps
RoE	5.4	6.1	10.1	470 bps	400 bps
D/E (x)	2.7x	2.6x	2.2x		

Source: Company data, I-Sec research

Table 12: Capital buffers increase post equity fund raising in Q4FY21

(%)	Q3FY20	Q4FY20	Q3FY21	Q4FY21	YoY	QoQ
Tier 1 CAR	51.3%	47.7%	51.0%	55.2%	7 bps	4 bps
Tier 2 CAR	0.9%	1.3%	1.3%	0.9%	-1 bps	-1 bps
CAR (%)	**52.2%**	**49.0%**	**52.3%**	**56.1%**	7 bps	3 bps

Source: Company data, I-Sec research

Table 13: Return ratios impacted by higher credit cost; likely to improve in FY22

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Interest Income on term loans/ Average total assets	11.5%	11.3%	11.3%	10.4%	10.5%	9.7%
Interest on borrowings and debt securities / Average total assets	6.3%	6.0%	6.0%	6.1%	5.5%	5.0%
Net Interest Margin	**5.2%**	**5.3%**	**5.3%**	**4.4%**	**5.0%**	**4.7%**
Net Gain on DA/ Average total Assets	2.0%	2.0%	5.9%	0.0%	0.0%	1.7%
Non-Interest Income / Average total assets	1.5%	1.5%	4.3%	1.3%	0.9%	1.3%
Operating Expenses / Average total assets	3.6%	3.3%	2.6%	2.5%	3.0%	2.9%
Credit Cost / Average total assets	0.1%	1.4%	0.5%	1.3%	0.8%	0.8%
Profit before tax / Average total assets	**5.0%**	**2.0%**	**5.9%**	**1.9%**	**2.2%**	**4.0%**
Tax expense/ Average total assets	1.3%	0.5%	1.6%	0.3%	0.5%	1.1%
Profit after tax on average total assets (ROA)	**3.7%**	**1.5%**	**4.3%**	**1.5%**	**1.6%**	**2.9%**
Leverage (Average total assets/average Equity or average Net-worth)	3.6x	3.6x	3.8x	3.8x	3.7x	3.4x
Profit after tax on average equity or average Net-worth (ROE)	**13.3%**	**5.4%**	**16.2%**	**5.8%**	**6.1%**	**10.1%**

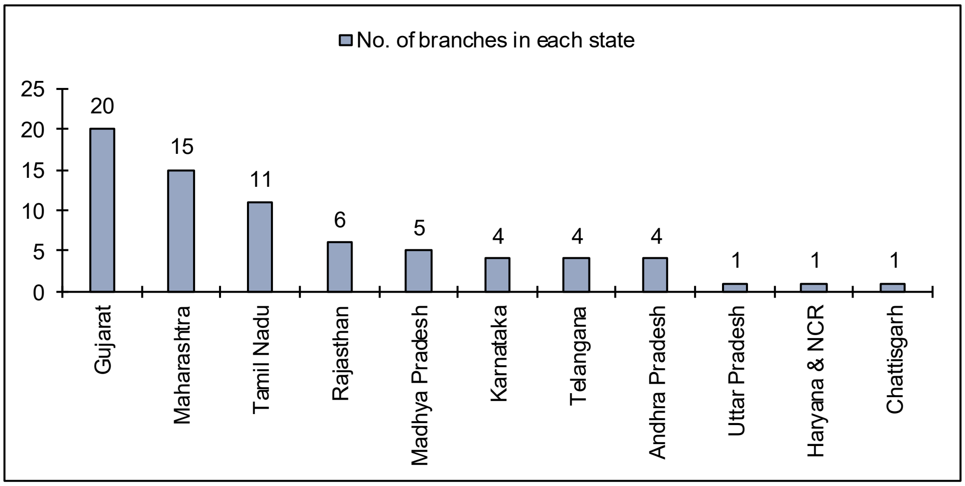
Source: Company data, I-Sec research

Table 14: Secured lending at the forefront; developer loans halted for the time being

	Q4FY18	Q4FY19	Q4FY20	Q3FY21	Q4FY21	YoY	QoQ
AUM by product category							
Housing Loan	96	92	92	92	92	16 bps	0 bps
Loans for purchase of commercial property	1	1	1	1	1	3 bps	0 bps
Loans against property	2	4	5	5	6	90 bps	100 bps
Developer finance	1	3	2	2	1	-111 bps	-100 bps
AUM by occupation						**YoY**	**QoQ**
Salaried	74	73	73	74	74	106 bps	0 bps
Self employed	25	24	25	25	25	5 bps	0 bps
Corporate	1	3	2	1	1	-110 bps	0 bps
AUM by credit history						**YoY**	**QoQ**
With credit history	58	63	66	68	69	326 bps	100 bps
New to credit	42	37	34	32	31	-327 bps	-100 bps
AUM by avg ticket size						**YoY**	**QoQ**
Upto 0.5 mn	3	4	3	3	3	-44 bps	0 bps
0..5 - 1 mn	35	33	35	36	36	103 bps	0 bps
1mn - 1,5mn	33	31	32	32	32	33 bps	0 bps
1.2mn - 2-.5mn	22	20	20	20	20	8 bps	0 bps
Above 2.5mn	7	12	10	9	9	-102 bps	0 bps

Source: Company data, I-Sec research

Chart 1: Gujarat state dominates, followed by Maharashtra



Source: Company data, I-Sec research

Home First Q4FY21 Earnings Conference Call Takeaways

<u>On covid 2nd wave</u>

- ***Expect 2nd wave to be steeper, but shorter***
- ***Bounce rate for April at 16.25% has been lower than March***
- ***Collection efficiency was >95% in April***
- ***Collections have been normal except the last week of April, wherein customers have been asking for some more time to pay their dues***
- ***On disbursements, company was able to disburse 70-80% of normal disbursements***
- Hopeful that business would be 70-80% of normal disbursements for the next few months
- ***Approximately 100-150 bps rise can be seen in 1+ DPD in the near-term, but then it would normalise***
- *119 employees have been tested so far, of which 109 have recovered and 10 are recovering*
- *10% of employees have taken first dose of covid vaccine*

<u>On FY21 which was the covid year</u>

- During peak 1 of covid 1, Warburg Pincus acquired 30% stake in Home First
- In Q4, Home First moved into full recovery mode and also got listed on exchange

<u>On Asset quality</u>

- Collection efficiency at 98.5%
- ***Stage 3 of 1.8% includes Rs 260mn of legacy accounts in NCR***
- ***P&L impact of write-offs was Rs 50mn during the quarter***

- Stage 3 at 1.8%, of which 50% are customers where company will have to take SARFAESI action. These customers have shifted to their village and hence company will have to take possession and sell their property to recover their dues
- *Over the next 3 months, plan is to reduce Stage 3 using SARFAESI and then divert provisions towards Stage 1/2*
- ***Overall, company is comfortable around 130-140 bps on ECL as of now***
- Out of 1.8% Stage 3, 10% is at resolution stage
- 1.8% under Stage 3 would be part of 3% who have not paid their outstanding dues
- *From the time the embargo was lifted on SARFAESI, the timeline is 90 days post which the property can be sold. This timeline should end in mid-June 2021.*

On 1+DPD & 30 DPD

- ***1DPD has improved significantly from 7.2% to 6.5%***
- ***30+ DPD at 4.1%***
- ***1+ DPD after an uptick in the near-term should gradually normalise***
- ***Stage 1 has come down sharply during the quarter***
- ***Historically, 1+ DPD used to 3.5% of which 50% used to until 30+ and rest in GNPA***

On AUM & Disbursements

- AUM at Rs 41bn, up 14% YoY
- Overall, repayments were ~Rs2.5bn
- Of the total repayments, ~Rs1bn was due to subsidy received towards Pradhan Mantri Awaas Yojana (PMAY)
- Typically, repayments monthly run-rate is Rs0.5bn per month (excluding subsidy)
- Subsidy impact would generally be seen in 2-3 quarters every year
- BT out was in the range of 3-3.5% of opening AUM, which is not significant portion of prepayments
- ***LAP mix can inch up to 10-15% gradually***

On branch expansion

- ***Identified more than 20 locations where company wants to set up branches***
- It has commenced operations digitally and will open branch, once AUM crosses Rs 50bn
- *For Maharashtra, a large part of business used to be from Mumbai. With prices increasing in suburbs as well, share of Maharashtra in AUM has fallen to 19% from 28% two years ago*
- Most parts of Mumbai is no longer an affordable housing market
- ***Identified 100 pockets across the country, where company is looking to make a presence***

- Company intends to deepen presence in existing states
- Strategy is to increase average AUM in existing branches from currently Rs 550mn to Rs 1bn and then to Rs 1.5bn
- Trying to focus on value added activities and provide customers with digital access as far as possible

On Opex

- ***3-3.5% opex to assets for FY22***
- Cost to income has gone below 40% mark for Q4 as well as FY21 due to improving operating efficiency
- Exit Opex to assets for Q4 was 2.9%

On Securitisation

- Rs3bn of securitisation for FY21 and company will continue to maintain similar run-rate in future
- Assignment would be ~25-30% for the next 18-24 months
- ***Yield 13% while sell-down rate is 7.6% and discounting is being done at behavioural maturity***

On Yields, Cost & Margins

- ***On a sustainable basis, company is confident of maintaining spreads around 4.75%***
- Spreads improved 90bps for FY21 led by lower cost of funds
- Not looking to change PLR during the next two quarters
- ***Yield differential between home loan & LAP is usually 200bps***

On connectors

- These are usually from the finance industry or the construction industry
- ***Fees is usually in the range of 30-40bps***
- For connectors, fee income is not the primary source of income
- This is different arrangement wherein any person can become a connector and they only are liable to provide with lead and then the company's RM takes over

On Digitisation

- More than 60% customers registered on app and 92.2% connectors registered on app
- ***88% of loans have been approved in FY21 within 48 hours vs 75% in FY20***

On Under-construction projects

- ~10% book is towards under construction of which 45% is self-construction , 15-20% is raw houses while apartment is only 2-3%
- For apartments, company lends only to those apartments, where 50% work has been done

On developer finance

- ***Currently, incremental disbursements to builders have been put on hold***
- Developer finance now constitutes 1% of AUM as against 3% two years ago
- Company won't be looking at developer finance over the next 18-24 months
- Yield is around 14-14.%
- During this covid crisis, only 1 developer had approached the company for moratorium

On alliance with Airtel Payments Bank

- Strategic alliances include Airtel Payments Banks, which is one of its partner
- They are not in a position to offer loans to their customers, but are used for lead generation
- Company is getting a large number of leads, but conversion ratio is limited
- Company is also working on an entire digital delivery model for customers sourced through strategic alliances

On customers with credit history & ticket size

- When Home First started business, only 30% customers had credit history which has now improved to 69%
- Management says that before taking a home loan, customers usually have credit history which could be in the form of consumer durables loan with a tenure of less than 12 months
- A sharp uptick in ticket size is highly unlikely

Home First Q3FY21 Earnings Conference Call Takeaways

About HomeFirst

- Home loans constitute 92% of loan book
- Average ticket size is Rs 1.01mn
- Company has a positive ALM
- ***It has relationship with 17 banks (mix of PSU banks, private banks & NHB)***
- Long term rating of A+ with stable outlook by ICRA
- Certified as great place to work

On AUM & disbursements

- AUM as of Dec'20 – Rs 39.4 bn, up 16% YoY
- ***Disbursements for 9MFY21 at Rs 6.5bn, down 49% YoY largely on account of covid-19***
- Top 3 states contribute 70% of AUM (Gujarat, Maharashtra & Tamil Nadu)

On borrowings

- Borrowings - Rs 29,393 mn with healthy borrowings mix (47% form banks, 26% NHB refinance)
- ***Incremental cost of borrowings for Q3 was at 5.8% (which included substantial portion from NHB)***
- Cost of borrowings for Q3 at 8%
- *Average borrowings cost from banks currently is 7.6-8.2%*

On securitisation

- ***Company has not done any assignment/securitisation transactions during Q2 as well as Q3***
- *Securitisation is done via direct assignment route*
- *FY20 - securitisation pool Rs 3.57bn and income Rs 370mn*
- *9MFY21 – securitisation pool Rs 1.84bn and income Rs 260mn (higher income due to expansion in spreads on account of MCLR reduction)*
- ***When assignment is done, company assigns only 80-90% of the loan***

On margins

- *Margins have been stable around 4.5% over the past few quarters*
- Spreads have improved 60bp YoY
- ***Portfolio yields on incremental disbursements were ~13% for Q3, which is largely in-line with total portfolio yield***
- ***Company is passing on the benefit of lower cost to consumers***
- ***21% of the total book is on fixed rate basis***

On asset quality

- ***Collection efficiency at 97.8% in January***
- Gross stage 3 as of now stands at 1.6%
- ***Once a loan moves to NPA bucket, LGD is typically 18-20%***
- ***1.6% Gross Stage 3***
- ***Zero restructuring***
- ***There are 400-500 customers who have not made a single payment till date since moratorium***
- ***1% dpd is equally split between salaried and self-employed***

On return ratios

- ***Net worth – Rs 10.9bn mn as of Dec'20 pre-IPO, Rs 13.5bn post IPO***
- ***There is a drag of ~2% on RoE on account of higher liquidity levels which should gradually cool-off***
- RoE lower on account of negative carry and higher credit cost. It is expected to improve further going forward.

- CRAR as of Dec at 51%

On provisions

- ***1.4% is provisions to loan ratio***
- ***91% coverage on Gross stage 3***

On liquidity

- Currently excess liquidity is ~Rs 15bn

On sourcing mix

- *~50% sourcing is done via in-house channels and company is fairly comfortable with the same*
- New to credit used to be ~70% a decade ago when company started business and it has been trending downwards since then

On customer profile

- *Average age of customers is 35-37 years*
- Most of the customers are in the range of 30-50 years

Financial summary

Table 15: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Interest Income	1,300	2,534	3,920	4,676	5,612	7,082
Interest Expenses	660	1,265	1,938	2,202	2,393	2,777
Net Interest Income (NII)	**640**	**1,269**	**1,981**	**2,475**	**3,219**	**4,305**
Non-Interest Income	43	175	277	215	177	197
Total Income (net of interest expenses)	**683**	**1,444**	**2,258**	**2,690**	**3,396**	**4,502**
Employee benefit expenses	251	432	611	661	843	1,073
Depreciation and amortisation	25	46	72	76	84	90
Other operating expenses	136	241	337	291	396	468
Total Operating Expense	**411**	**719**	**1,020**	**1,028**	**1,323**	**1,631**
Pre Provisioning Profits (PPoP)	**271**	**725**	**1,238**	**1,662**	**2,074**	**2,871**
Provisions and write offs	29	73	165	322	218	275
Profit before tax (PBT)	**243**	**652**	**1,073**	**1,340**	**1,855**	**2,596**
Total tax expenses	83	200	278	339	469	657
Profit after tax (PAT)	**160**	**452**	**795**	**1,001**	**1,386**	**1,939**

Source: Company data, I-Sec research

Table 16: Balance sheet

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Share capital	103	127	157	175	176	177
Reserves & surplus	3,149	5,105	9,180	13,631	14,915	16,928
Shareholders' funds	**3,252**	**5,231**	**9,336**	**13,806**	**15,091**	**17,105**
Borrowings	10,199	19,256	24,938	30,537	32,204	42,711
Provisions	19	30	66	77	84	93
Deferred tax liabilities (net)	0	0	23	80	84	88
Other Liabilities	180	303	432	603	663	730
Total Liabilities and SHE	**13,649**	**24,820**	**34,796**	**45,102**	**48,126**	**60,726**
Fixed assets	112	174	210	164	180	198
Loans	13,087	21,347	30,139	33,265	40,380	52,965
Cash & bank balances	302	1,920	2,221	6,799	4,079	3,998
Investments	0	1,029	1,456	3,750	2,250	2,205
Other Assets	148	350	771	1,124	1,236	1,360
Total Assets	**13,649**	**24,820**	**34,796**	**45,102**	**48,126**	**60,726**

Source: Company data, I-Sec research

Table 17: Key ratios

(Year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
AUM and Disbursements (in Rs mn)						
AUM	13,559	24,436	36,184	41,411	53,920	73,604
On-book Loans	13,185	21,515	30,423	33,755	40,979	53,731
Off-book Loans	375	2,921	5,761	7,656	12,941	19,873
Disbursements	7,455	15,728	16,183	10,966	18,596	28,803
Growth (%):						
AUM	60.0	80.2	48.1	14.4	30.2	36.5
Disbursements	75.7	111.0	2.9	-32.2	69.6	54.9
Loan book (on balance sheet)	66.2	63.2	41.4	11.0	21.4	31.1
Total Assets	38.0	81.8	40.2	29.6	6.7	26.2
Interest Income	43.5	95.0	54.7	19.3	20.0	26.2
Interest Expenses	22.1	91.8	53.2	13.6	8.7	16.1
Net Interest Income (NII)	75.1	98.2	56.2	24.9	30.1	33.7
Non-interest income	42.8	175.2	277.1	215.3	177.1	196.8
Total Income (net of interest expenses)	81.9	111.5	56.4	19.1	26.3	32.6
Total Non-Interest Expenses	61.7	74.7	42.0	0.8	28.6	23.3
Pre provisioning operating profits (PPoP)	124.5	167.1	70.8	34.2	24.8	38.4
PAT	139.6	182.6	75.9	25.9	38.4	39.9
EPS	-1.6	153.3	37.6	4.3	38.4	39.9
Yields, interest costs and spreads (%)						
NIM on avg loan AUM	5.8	6.7	6.5	6.4	6.8	6.8
NIM on ATA	5.4	6.6	6.6	6.2	6.9	7.9
Yield on interest-earning assets	10.8	12.3	11.7	10.2	10.0	10.1
Yield on on-book loans	12.1	13.2	13.2	12.9	12.8	12.7
Average cost of funds	7.8	8.6	8.8	7.9	7.6	7.4
Interest Spread on loan assets [on-book]	4.2	4.6	4.4	5.0	5.1	5.2
Operating efficiencies						
Non-interest income as % of Total income	6.3	12.1	12.3	8.0	5.2	4.4
Cost to income ratio (%)	60.2	49.8	45.2	38.2	38.9	36.2
Op.costs/avg AUM (%)	3.7	3.8	3.4	2.6	2.8	2.6
No of employees	382	675	696	687	846	929
Average annual salary (Rs '000)	657	640	878	963	997	1,155
Salaries as % of non-int.costs (%)	61.0	60.1	59.9	64.3	63.7	65.8
AUM/employee(Rs mn)	35	36	52	60	64	79
AUM/asset branch(Rs mn)	323	407	532	575	606	729
Capital Structure						
Debt-Equity ratio	3.1	3.7	2.7	2.2	2.1	2.5
Leverage [AUM/Net Worth] (x)	4.2	4.7	3.9	3.0	3.6	4.3
Leverage [Assets/Net Worth] (x)	4.2	4.7	3.7	3.3	3.2	3.6
Tier 1 CAR (%)	42.3	37.8	47.7	55.2	55.9	47.2
Tier 2 CAR (%)	0.8	0.8	1.2	0.9	0.7	0.5
CAR (%)	43.1	38.5	49.0	56.2	56.6	47.8
Tier I Capital	3,246	5,225	9,331	11,908	15,091	17,105
Tier II Capital	59	107	244	194	194	194
Total RWA	7,673	13,837	19,545	21,572	26,993	36,201
Asset quality and provisioning						
GNPL (Rs mn)	81	170	315	622	656	752
GNPL (%) as a % of on-book loans	0.6	0.8	1.0	1.8	1.6	1.4
NNPL (Rs mn)	64	128	234	398	407	451
NNPL (%) as a % of on-book loans	0.5	0.6	0.8	1.2	1.0	0.8
NPL coverage ratio (%)	20.5	24.9	25.8	36.0	38.0	40.0
Credit costs as % of average AUM (bps)	27	42	64	100	58	58
Return ratios						
RoAAUM (%)	1.5	2.4	2.6	2.6	2.9	3.0
RoA (%)	1.4	2.4	2.7	2.5	3.0	3.6
RoAE (%)	5.1	10.7	10.9	8.7	9.7	12.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Valuation Ratios						
No of shares (mn)	51.6	63.3	78.3	87.4	88.0	88.6
No of shares - fully diluted (mn)	51.6	63.3	82.6	91.1	91.1	91.1
ESOPs outstanding			4.3	3.7	3.2	2.6
EPS (Rs)	3.1	7.8	10.8	11.5	15.8	21.9
EPS fully diluted (Rs)	3.0	7.7	10.5	11.0	15.2	21.3
Price to Earnings (x)	164.8	65.3	47.4	44.6	32.4	23.3
Price to Earnings (fully diluted) (Rs)	169.2	66.8	48.5	46.5	33.6	24.0
BVPS (fully diluted) (Rs)	63.0	82.6	113.0	149.6	165.6	187.7
Adjusted BVPS (fully diluted) (Rs)	61.8	80.6	110.2	145.2	161.1	182.7
Price to Book (x)	8.1	6.2	4.5	3.4	3.1	2.7
Price to Adjusted Book (x)	8.3	6.3	4.6	3.5	3.2	2.8
DPS	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

Source: Company data, I-Sec research

Table 18: Du Pont Analysis (on average Assets)

(%, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Average Assets (Rs mn)	11,770	19,235	29,808	39,949	46,614	54,426
Interest earned	11.0	13.2	13.1	11.7	12.0	13.0
Interest expended	5.6	6.6	6.5	5.5	5.1	5.1
Gross Interest Spread	5.4	6.6	6.6	6.2	6.9	7.9
Credit cost	0.2	0.4	0.6	0.8	0.5	0.5
Net Interest Spread	5.2	6.2	6.1	5.4	6.4	7.4
Operating cost	3.5	3.7	3.4	2.6	2.8	3.0
Lending spread	1.7	2.5	2.7	2.8	3.6	4.4
Non-interest income	0.4	0.9	0.9	0.5	0.4	0.4
Final Spread	2.1	3.4	3.6	3.4	4.0	4.8
Tax rate (%)	34.1	30.7	25.9	25.3	25.3	25.3
ROA	1.4	2.4	2.7	2.5	3.0	3.6
Effective leverage (AA/ AE)	3.7	4.5	4.1	3.5	3.2	3.4
RoAE	5.1	10.7	10.9	8.7	9.7	12.0

Source: Company data, I-Sec research

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