

HUDCO Limited

HUDCO is a wholly owned Government company with focus on Housing and Urban Infrastructure Finance in India. The Government is divesting its 10% stake in the company as part of its disinvestment programs.

Unique portfolio focusing on urban infrastructure and housing: HUDCO primarily lends to urban infrastructure projects relating to water supply, roads & transport, and power accounting for 69% of the loan book. It also lends towards Housing Finance, which forms the balance 31% of the loan book. Both the segments have vast untapped opportunity in India, which would provide potential growth opportunity for HUDCO to scale up its operations.

Unleveraged balance sheet to boost growth without raising capital, making it ROE accretive: On a net worth of ₹8,968cr, HUDCO has a loan book of ₹34,288cr, implying a leverage of 3.8x. Further, the CAR of 68% at the end of 9MFY2017 leaves enough scope for leveraging balance sheet without having to raise capital for next 4-5 years. HUDCO reported ROE of 9.5% for FY2016, which is lower than the large NBFCs in India. However, ability to grow its balance sheet without dilution in the medium term would prove to be ROE accretive for HUDCO, and it can reach mid teens over the next few years.

Higher reported GNPA's is due to past NPAs from Private Sector: The reported GNPA's & NNPA's of HUDCO were 6.80% and 1.51% respectively at the end of 9MFY2017. HUDCO's high NPA was due to large defaults from some of the Private Sector Corporates in which it had exposure to earlier. However, it's NPA from Government sector is only 0.75%. It has already done substantial provisions on the Private sector NPAs and stopped lending to them from FY2013 onwards, and hence, we don't expect material change in NPAs in the near term. Further, a provisioning coverage ratio of 72% lends enough comfort on the loan book.

Ability to raise funds at competitive rates has enabled in high NIM: HUDCO has AAA rating on its long term borrowings from ICRA & CARE, which has helped it in borrowing at very competitive rates from the market. Despite funding to large and long gestation projects HUDCO has been able to maintain NIM in the range of 4.6-4.3% over the last three years.

Outlook Valuation: HUDCO has a unique blend of business with focus on financing both housing and urban infrastructure, which has vast untapped opportunity in India. Focus on Govt. sponsored projects and ability to raise funds at a competitive price provides earnings visibility for many years. **At the issue price band of ₹56-60, the stock is offered at 1.25x-1.35x its 9MFY2017 BV, which we believe is reasonably priced, and hence, recommend SUBSCRIBE to the issue.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9mFY2017
NII	1,296	1,249	1,571	1,345	1,104
% chg	17.0	(3.6)	25.8	(14.4)	
Net profit	700	734	768	811	496
% chg	12.6	4.9	4.7	5.5	
EPS	3.5	3.7	3.8	4.0	3.3
Book Value (₹)	32.5	35.6	38.9	42.3	44.8
P/E	17.2	16.4	15.6	14.8	18.2
P/BV (x)	1.8	1.7	1.5	1.4	1.3
RoE (%)	10.7	10.3	9.9	9.6	7.4

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: May 08, 2017
 Issue Close: May 11, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹2002cr

Offer for Sale: **20.4cr Shares

Fresh issue: Nil

Post Eq. Paid up Capital: ₹2001 cr

Issue size (amount): *₹1,128cr - **1,210cr

Price Band: ₹56-60

Lot Size: 200 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹11,211cr - **₹12,011cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 89.81%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	90%
Others	10%

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Company background

HUDCO is a wholly-owned Government company with more than 46 years experience in providing loans for housing and urban infrastructure projects in India. The corporation has been playing a key role in various Govt. schemes to develop the Indian housing and urban infrastructure sector. At the end of 9MFY2017, HUDCO had total outstanding loan portfolio of ₹36,385cr, of which 31% was towards Housing Finance and balance 69% was towards the Urban Infrastructure Finance segment. Of the total portfolio ~90% of the loans were given to various State Governments and their agencies.

The two segments which are served by HUDCO are Urban Infrastructure and Housing Finance. In the Urban infrastructure finance segment, HUDCO gives loans for projects relating to water supply, roads & transport and power. While the Housing Finance Loans are classified into Social Housing, Residential real estate, and Retail Finance, which is branded as HUDCO Niwas.

Key Management Personnel

Ravi Kanth Medithi – Chairman & MD- He is an IAS officer with 29+ years of experience in public administration. Prior to this he has held various positions with Government of India, Government of Kerala and Joint Secretary, Ministry of Power, Government of India.

Issue details

Issuance of 20.4cr Equity shares of face value via IPO at an offer price band of ₹56-60. The issue size is ₹1,128cr - ₹1210cr at the price band and there is a discount of ₹2/ share for retail category and for employees.

Objects of the offer

- To achieve the benefit of listing the stock on the exchanges.

Investment rationale

Unique portfolio focusing on urban infrastructure and housing – which has huge potential in India: HUDCO primarily lends to Urban infrastructure projects relating to water supply, roads & transport and power, which accounts for 69% of the loan book. It also lends towards Housing Finance, which forms the balance 31% of the loan book. Both the segments have vast untapped opportunity in India, which would provide potential growth opportunity for HUDCO to scale up its operations. The Government's ambitious projects of upgrading urban infrastructure like transport is a positive trigger for HUDCO, as opportunities to finance large scale projects could be expected.

Exhibit 1: Loan bifurcation

(₹ Cr)	FY14	FY15	FY16	9mFY17
Segmental Loan Portfolio				
Housing Finance Loan Portfolio	7,875	9,661	11,696	11,228
Urban Infrastructure Finance Loan Portfolio	22,137	23,473	23,969	25,158
Total Loans	30,012	33,135	35,665	36,386
Segmental Loan Portfolio %				
Housing Finance Loan Portfolio	26.2%	29.2%	32.8%	30.9%
Urban Infrastructure Finance Loan Portfolio	73.8%	70.8%	67.2%	69.1%

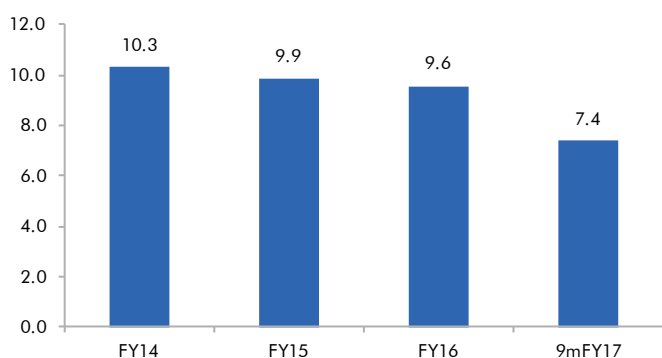
Source: RHP, Angel Research

Exhibit 2: Break up of Urban Infrastructure

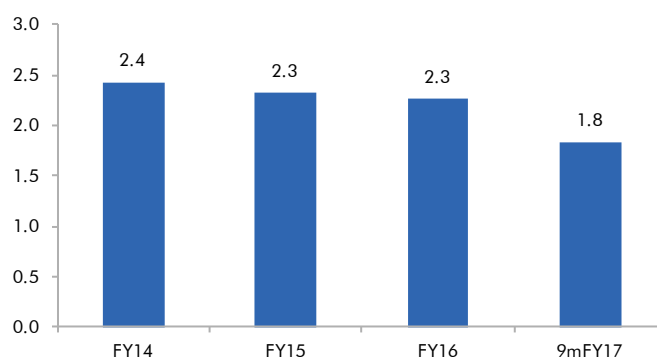
Loan Portfolio (₹ Cr)	FY14	FY15	FY16	9mFY17
Water Supply	3,752	5,638	7,284	8,485
Roads & Transport	6,074	6,041	6,041	6,142
Power	7,626	7,138	5,380	5,226
Emerging Sector	1,636	1,932	1,814	2,127
Commercial Infrastructure	1,224	1,135	1,662	1,411
Social Infrastructure	1,233	943	1,033	1,045
Sewerage and Drainage	591	647	755	722
Total	22,137	23,473	23,969	25,158
% of Portfolio				
Water Supply	17%	24%	30%	34%
Roads & Transport	27%	26%	25%	24%
Power	34%	30%	22%	21%
Emerging Sector	7%	8%	8%	8%
Commercial Infrastructure	6%	5%	7%	6%
Social Infrastructure	6%	4%	4%	4%
Sewerage and Drainage	3%	3%	3%	3%
Total	100%	100%	100%	100%

Source: RHP, Angel Research

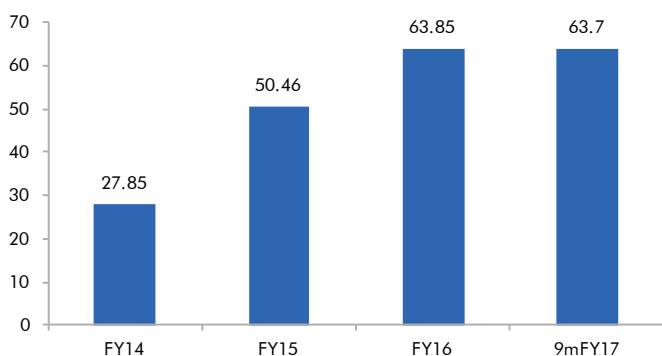
Unleveraged balance sheet to boost growth without raising capital, making it ROE accretive: On a net worth of ₹8,968cr, HUDCO has a loan book of ₹34,288cr, implying a leverage of 3.8x. Further, the CAR of 68% at the end of 9MFY2017 leaves enough scope for leveraging balance sheet without having to raise capital for next 4-5 years. HUDCO reported ROE of 9.5% for FY2016, which is lower than the large NBFCs in India. However, ability to grow its balance sheet without dilution in the medium term would prove to be ROE accretive for HUDCO, and it can reach mid teens over the next few years.

Exhibit 3: ROE (%) has been moderate


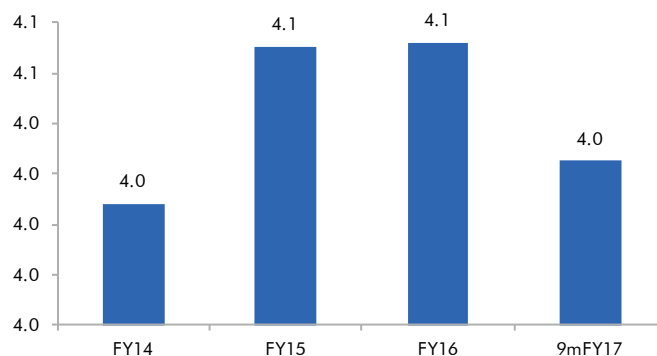
Source: Company, Angel Research

Exhibit 4: ROA (%) trend


Source: Company, Angel Research

Exhibit 5: CAR %- Well capitalised to grow


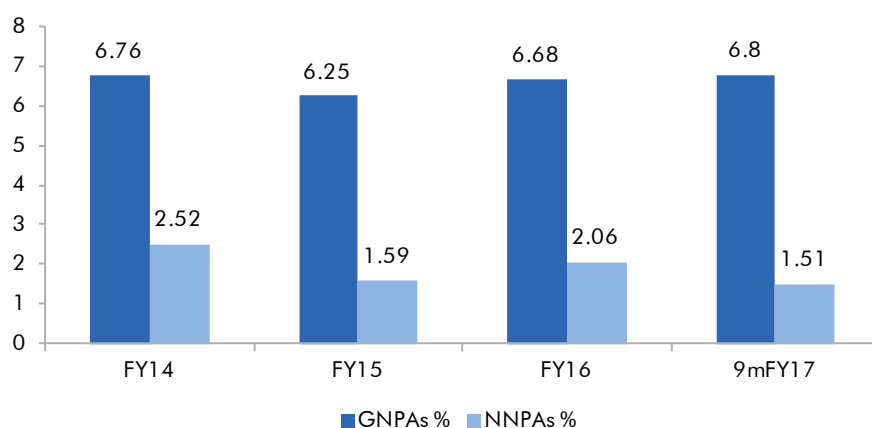
Source: Company, Angel Research

Exhibit 6: Leverage (X)- Scope for further leveraging


Source: Company, Angel Research

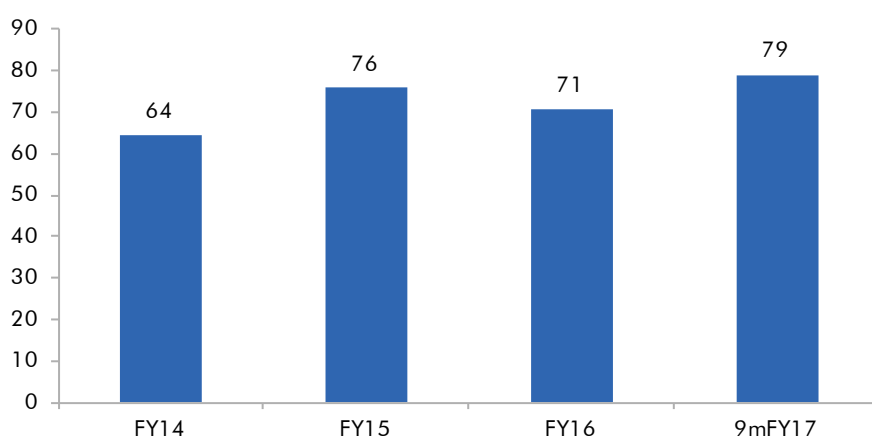
Higher reported is GNPA's due to past NPA's from Private Sector, where it has ceased to lend: The reported GNPA's and NNPA's of HUDCO were 6.80% and 1.51% at the end of 9MFY2017. HUDCO's high NPA was due to large defaults from some of the Private Sector Corporates in which it had exposure to earlier. However, it's NPA's from Government sector is only 0.75%. It has already done substantial provisions on the Private sector NPA's and stopped lending to them since FY2013, and hence, we don't expect material change in NPA's in the near term. Further, a PCR of 72% provides enough comfort on the loan book. Moreover, HUDCO normally finances large projects by State Govt. entities. The chances of defaults in these projects are negligible since they are Government projects and carry Govt. guarantees. However, as a policy, even if the loans are given to Govt. entities, if an interest payment is due above 90 days it is classified as NPA. However, it has been noted by the management that subsequently it is recovered.

Exhibit 7: Asset Quality (%)



Source: RHP, Angel Research

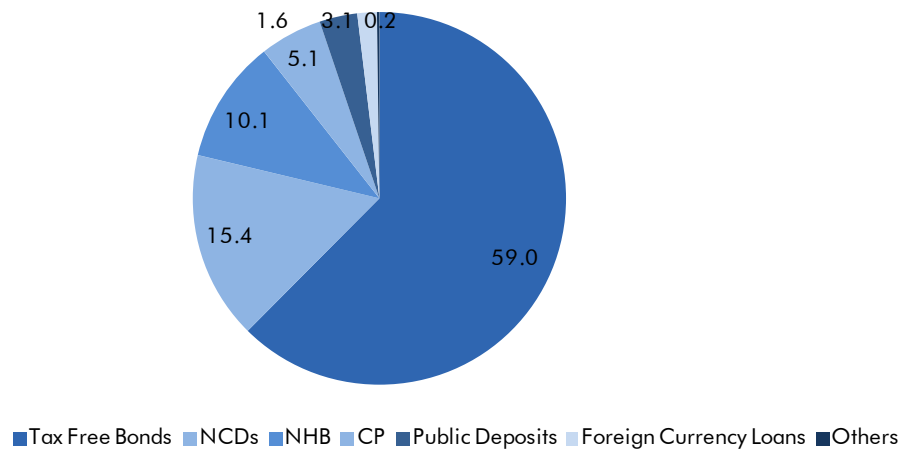
Exhibit 8: Provisioning Coverage Ratio (%)



Source: RHP, Angel Research

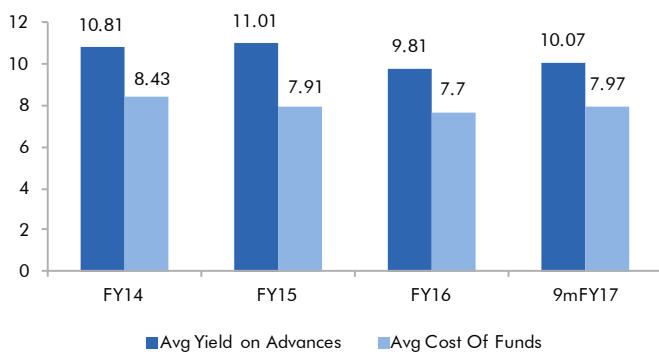
Ability to raise funds at competitive rates has enabled in high NIM: HUDCO has AAA rating on its long term borrowings from ICRA & CARE, which has helped it in borrowing at very competitive rates from the market. Despite funding to large and long gestation projects HUDCO has been able to maintain NIM in the range of 4.6-4.3% over the last three years. In funding large scale and long gestation projects, the sources of funds also has to be long term in nature and to meet this HUDCO partly depends on tax free bonds, which in addition to carry lower coupon rates are also of long tenure in nature.

Exhibit 9: Wide source of Funding (%)



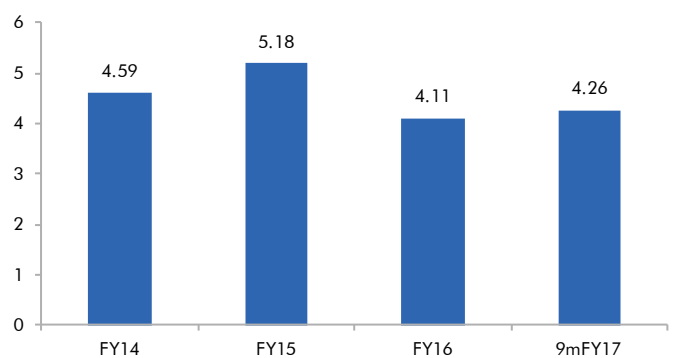
Source: RHP, Angel Research

Exhibit 10: Cost of Funds has been trending down



Source: Company, Angel Research

Exhibit 11: NIM (%) has been largely stable



Source: Company, Angel Research

Outlook & Valuation

HUDCO has a unique blend of business with focus on financing both housing and urban infrastructure, which has vast untapped opportunity in India. Focus on Govt. sponsored projects and ability to raise funds at a competitive price provides earnings visibility for many years. **At the issue price band of ₹56-60, the stock is offered at 1.25x-1.35x its 9MFY2017 BV, which we believe is reasonably priced, and hence, recommend SUBSCRIBE to the issue.**

Exhibit 12: Income Statement

Y/E March (₹ Cr)	FY14	FY15	FY16	9mFY17
NII	1,249	1,571	1,345	1,104
- YoY Growth (%)	-3.6	25.8	-14.4	
Other Income	52	81	97	65
- YoY Growth (%)	-11.1	55.7	19.9	
Operating Income	1,301	1,652	1,443	1,169
- YoY Growth (%)	-3.9	27.0	-12.7	
Operating Expenses	167	209	193	148
- YoY Growth (%)	-6.3	25.1	-7.5	
Pre - Provision Profit	1,134	1,444	1,250	1,021
- YoY Growth (%)	-3.6	27.3	-13.4	
Prov. & Cont.	9	274	129	281
- YoY Growth (%)	-93.2	2882.6	-52.8	
Profit Before Tax	1,125	1,170	1,121	741
- YoY Growth (%)	8.1	4.0	-4.2	
Exceptional Item	-20.3	0.0	5.2	0.3
PBT After Exceptional Item	1,105	1,170	1,126	741
Prov. for Taxation	371	402	315	245
- as a % of PBT	34	34	28	33
PAT	734	768	811	496
- YoY Growth (%)	4.9	4.7	5.5	

Source: RHP, Angel Research

Exhibit 13: Balance Sheet

Y/E March (₹ cr)	FY14	FY15	FY16	9mFY17
Share Capital	2,002	2,002	2,002	2,002
Reserve & Surplus	5,130	5,779	6,470	6,966
Net Worth	7,132	7,780	8,472	8,968
Borrowings	18,888	18,315	22,732	23,470
- Growth (%)	39.4	-3.0	24.1	
Other Liab. & Prov.	3,289	6,051	3,707	2,788
Total Provisions	406	451	467	408
Others	14	9	18	7
Deferred Tax	495	507	486	456
Total Liabilities	30,224	33,114	35,882	36,098
Cash and Cash equivalents	272	285	590	387
Investments	754	356	369	369
Total Loans & Advances	28,214	31,043	33,805	34,288
- Growth (%)	13.9	10.0	8.9	
Fixed Assets	95	100	101	104
Current Investments	0	400	0	0
Others	10	10	2	2
Other Assets	879	920	1015	949
Total Assets	30,224	33,114	35,882	36,098

Source: RHP, Angel Research

Exhibit 14: Key Ratios

Y/E March	FY14	FY15	FY16	9mFY17
Profitability ratios (%)				
NIMs	4.6	5.2	4.1	4.3
RoA	2.6	2.4	2.3	1.8
RoE	10.6	9.9	9.5	7.4
Asset Quality (%)				
Gross NPAs %	6.8	6.3	6.7	6.8
Net NPAs %	2.5	1.6	2.1	1.5
Credit Cost	0.1	0.9	0.4	0.8
PCR %	64.4	75.8	70.6	79.0
Per Share Data (₹)				
EPS	3.7	3.8	4.0	3.3
BVPS	35.6	38.9	42.3	44.8
Adj BV	32.1	36.4	38.8	42.2
DPS	0.5	0.5	0.5	-
Valuation Ratios				
PER (x)	16.4	15.6	14.8	18.2
P/BVPS (x)	1.7	1.5	1.4	1.3
P/ABVPS (x)	1.9	1.6	1.5	1.4
Dividend Yield (%)	0.8	0.8	0.8	0.0
DuPont Analysis				
Interest Income	10.3	10.6	9.4	9.7
Interest Expenses	6.0	5.6	5.5	5.6
NII	4.4	5.0	3.9	4.1
Other Inc.	0.2	0.3	0.3	0.2
Total Income	4.6	5.2	4.2	4.3
Opex	0.6	0.7	0.6	0.5
PPP	4.0	4.6	3.6	3.8
Provision	0.0	0.9	0.4	1.0
PBT	3.9	3.7	3.2	2.7
Taxes	1.3	1.3	0.9	0.9
RoA	2.6	2.4	2.3	1.8
Leverage	4.0	4.1	4.1	4.0
RoE	10.6	9.9	9.5	7.4

Source: RHP, Angel Research

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