

INDIABULLS HOUSING FINANCE LIMITED

Industry **BANKING**
Bloomberg **IHFL IN**
BSE Code **535789**
NSE Code **IBULHSGFIN**

23 April 2018

RATING	ACCUMULATE
CMP	1354
Price Target	1490
Previous Target	1575
Potential Upside	10%

Stock Info

52wk Range H/L	1439/957
Mkt Capital (Rs Cr)	57778
Free float (%)	76%
Avg. Vol 1M (,000)	1475
No. of Shares (Crore)	43
Promoters Pledged %	12%

Strong growth in loan book

Key Highlights

- IBULHSGFIN AUM has grown at an average run rate of 30% in last 12 quarters. Despite this aggressive growth, assets quality has remained healthy with GNPA at 80 bps kind of range. We believe with the affordable housing push by Government, IBULHSGFIN is in right position to reap the benefits. Management says by 2023 it will target to reach to 4 trillion book size and grow its earning to 55 bn by 2020 and 100 bn by 2023.
- Management has been continuously focusing on technology to reduce cost; hence operating expenses has grown at moderate rate with the increased productivity. Management hopes for continuous decline trend in C/I ratio to 8% FY23.
- IBULHSGFIN is a leading player in self-employed mortgage lending .It has given the highest loan book growth and ROE in the industry.
- NIM pressure is increasing with rise in incremental borrowing cost. Incremental borrowing cost has increased from 7.50% in last quarter to 7.65% this quarter,and with the rise in cost of bond yield borrowing cost is subject to rise further.

4Q FY18 Result:

IBULHSGFIN reported strong 4QFY18 numbers. The NII grew by 34% yoy backed by strong 34% growth of AUM & 35 % growth in disbursement, Operating expenses grown by 5% yoy, while operating profit grew at 30% yoy , which led the cost to income (C/I) ratio to decline to 13% vs 12.25% in the corresponding quarter a year back. Fee income has degrown this quarter by 5% while Provision has increased this quarter as mangement has made buffer stock anticipating market volatility. PAT has increased 23% yoy.

View and Valuation

IBULHSGFIN AUM has grown at an average run rate of 30% in last 12 quarters. We believe with the affordable housing push by Government, IBULHSGFIN is well placed to grow its AUM at 25% CAGR over FY18-20. However on the margin front, we remain cautious as the incremental cost has increased and we expect spreads to remain under pressure going forward. Recent increase in credit cost by management also gives us cautious stance on assets quality front. **We recommend ACCUMULATE as we value the stock at 3.5x BV on FY20E to arrive the target price of Rs 1490.**

Key Risks to our rating and target

- Bond yield may rise further.
- Intensive competition from bank can affect both loan growth and yield.
- asset quality of LAP and Construction finance may deterioate.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2870	3527	4831	6209	7576
PPP	3636	4554	6107	7156	9001
PAT	2345	2906	3847	4469	5548
NIM %	4.7	4.4	4.5	4.5	4.4
EPS (Rs)	56	69	90	105	130
EPS growth (%)	4.1	23.2	31.6	16.2	24.1
ROE (%)	27.1	25.5	30.1	31.0	33.1
ROA (%)	3.5	3.2	3.3	3.1	3.1
BV	254	286	315	361	426
P/B (X)	2.5	3.5	4.3	3.7	3.2
P/E (x)	11.6	14.5	15.0	12.9	10.4

Research Analyst
DEEPAK KUMAR SHAH
Deepak.kumar@narnolia.com
SWETA PADHI

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

4Q FY 18 Results In line

Strong Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	2,931	2,956	3,067	3,349	3,690	25.9%	10.2%	9,938	13,062	31.4%
Interest Exp.	1,739	1,772	1,835	1,953	2,093	20.4%	7.2%	6,411	7,654	19.4%
NII	1,192	1,184	1,232	1,396	1,597	33.9%	14.4%	3,527	5,408	53.3%
Other Income	293	269	275	756	278	-5.4%	-63.3%	1,764	1,578	-10.5%
Total Income	1,486	1,453	1,507	2,153	1,874	26.1%	-12.9%	6,594	8,565	29.9%
Ope Exp.	210	193	212	266	220	4.7%	-17.4%	737	880	19.4%
PPP	1,276	1,260	1,295	1,887	1,655	29.7%	-12.3%	4,554	6,107	34.1%
Provisions	306	200	182	327	412	34.5%	25.9%	783	1,131	44.5%
PBT	970	1,060	1,113	1,559	1,243	28.1%	-20.3%	3,772	4,976	31.9%
Tax	132	276	262	394	218	64.8%	-44.6%	863	1,150	33.2%
Extraordinary	-	-	-	-	-					
Net Profit	841	788	860	1,168	1,030	22.6%	-11.8%	2,906	3,847	32.4%

NIM under pressure

NII growth has been strong at 34% YOY, backed by AUM growth of 34% and disbursement growth of 35.3%. Spread has fallen by 13 bps to 3.11% in 4qfy18. The yield on advances decreased by 63 bps yoy to 10.86% while the cost of funds has fallen by 64 bps yoy to 7.75%. NIM is under pressure with the rise in incremental borrowing cost to 7.65% this quarter, further down the line with the hardening of bond yield incremental borrowing may rise further. Management has guided to increase its portion of housing loans to 67% , while it will cause decline in the yield. Management also says that it is going to increase the share of securitisation to 20% which is a relief to the escalating borrowing cost.

Operational Efficiency

Cost to income ratio has decreased from 13.33% to 12.25% YOY . Operating profit has grown at 30% YOY while Operating expenses has grown at 5% yoy .IBULHSGFIN increase in operational efficiency has led to fall in cost to income ratio to 12.25%. from 13% corresponding quarter last year. Provision has increased this quarter to 1.43% ,company has increased provision witnessing market volatility. Management says that credit cost is going to decrease to 50 bps further down the line.

Loan Book Growth

Loan Book Growth was strong at 34%, while Disbursement growth is 35% yoy .Strong growth of 44% in housing loan segment followed by 28% increase in project loan fueled AUM growth. LAP continues to witness moderation after demonetization.IBULHSGFIN has increased its home loan portfolio from 56% in 4qfy17 to 60% in qfy18, LAP has declined to 19% from 22% yoy, while Corporate mortgage loan is at 21% of the over all portfolio. Securitisation is presently at 10% while management has guided for a 20% level of securitisation to manage spread.

Asset Quality

Asset Quality is at 77 bps in 4QFY18 but there is rise in credit cost to 1.43% which we believe management is cautious about the RERA implementation so we maintain a cautious stance about the asset quality going ahead.

Concall

- * Disbursement during the quarter 19500 Cr and 48000 for FY18 . 9900 Cr from home loan , 2600 cr from LAP and 7000 cr from construction finance.
- * Masala bond is raised at 7.8% yearly and 7.4% monthly.
- Guidance
 - * Home Loan Book to increase to 75% by 2020
 - * Spreads in Construction finance is going to increase, as bank presence is low.
 - * With the growth of home loan , priority sector loan to increase to 2/3rd.
 - * Credit cost to decline to 70 bps (fy18) then it is going to lower to 90bps.
 - * Loan will grow to 2 trillion by 2020 4 tn by 2023.
 - * Earning to compound to 55 bn by 2020 and 100 bn to 2023.
 - * Credit cost to fall to 50 bps by 2023.
 - * C/I ratio will decrease from 10% 2020 to 8% 2023.
 - * Securitization may increase to 20% level by FY20 from current current 10% level to manage the spread
 - * IBULHSGFIN is planning to raise capital in next 18 months.

Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	14.5	13.7	14.1	13.3	14.1	12.3	11.7	-2.40	-0.64
Empl. Cost/ Tot. Exp. %	75.2	70.3	54.2	69.1	72.2	58.7	63.2	9.07	4.56
Other Exp/Tot. Exp. %	21.9	26.5	42.6	27.0	24.1	38.3	30.5	-12.09	-7.77
Provision/PPP %	13.6	15.0	24.0	15.9	14.1	17.3	24.9	0.90	7.55
Tax Rate %	25.5	25.4	13.7	26.1	23.5	25.3	17.6	3.90	-7.70
Int Exp./Int Inc. (%)	64.9	63.1	59.3	60.0	59.8	58.3	56.7	-2.60	-1.59
Other Inc./NII %	-	-	-	-	-	-	-	0.00	0.00
PPP/ Net Income %	85.5	86.3	85.9	86.7	85.9	87.7	88.3	2.40	0.64
PAT/ Net Income %	55.0	54.7	56.4	53.9	56.5	54.1	54.7	-1.70	0.52
NII Growth % (YoY)	39.6	28.7	36.8	23.2	39.7	46.5	33.9	-2.92	-12.57
PPP Growth YoY %	24.8	29.0	15.3	23.1	21.4	59.3	29.7	14.33	-29.65
PAT Growth %	23.2	24.7	24.4	25.1	25.7	55.5	22.6	-1.85	-32.91

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	13.7	13.2	13.6	12.7	12.6	12.9	12.8	-0.74	-0.07
Cost Of Funds	9.3	8.3	8.3	8.2	7.9	7.9	7.9	-0.37	0.03
Spreads	4.5	4.9	5.3	4.6	4.7	5.0	4.9	-0.37	-0.10
NIM	4.8	4.9	5.5	5.1	5.1	5.4	5.6	0.03	0.18

Exhibit: Yield and Cost
Stable Margins

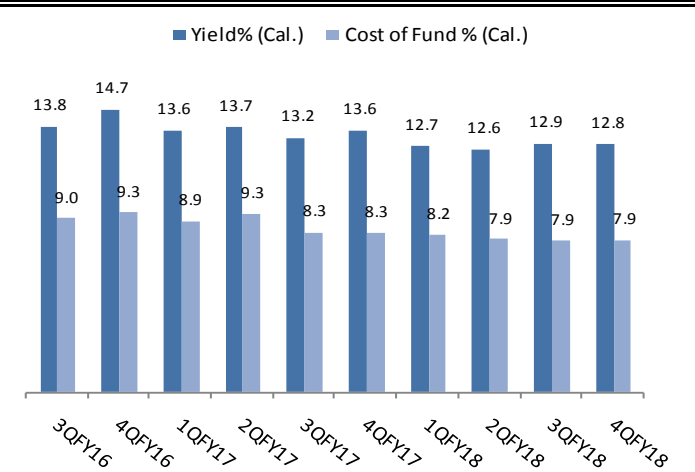
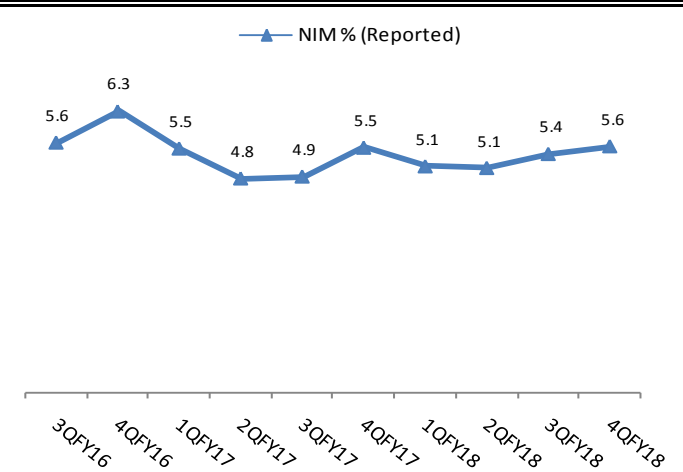


Exhibit: Net Interest Margin
NIM has remained stable



Asset & Borrowings Growth Trend

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Disbursements	9137	5250	6720	9098	14414	6799	9504	12257	19500
Growth YoY %	42	15	9	41	58	30	41	35	35
AUM	68683	71026	75313	81422	91300	94500	100300	107328	122600
Growth YoY %	31	31	29	31	33	33	33	32	34
Borrowings	61090	66230	74390	83180	85300	88470	96840	101980	110260
Growth YoY %	29	30	41	48	40	34	30	23	29

Asset Composition

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Individual Loan Portfolio %	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	59.0
LAP %	24.0	24.0	24.0	24.0	22.0	21.0	20.0	20.0	20.0
Project/Developer loan	23.0	23.0	22.0	21.0	22.0	22.0	22.0	21.0	21.0
Others %	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Exhibit: AUM Growth %

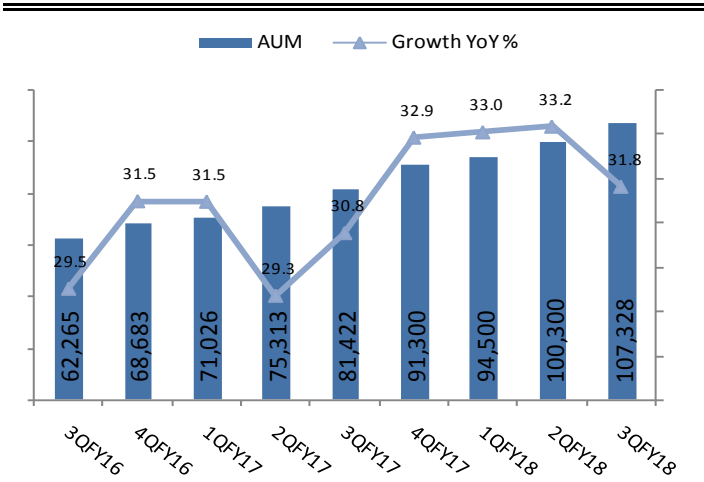
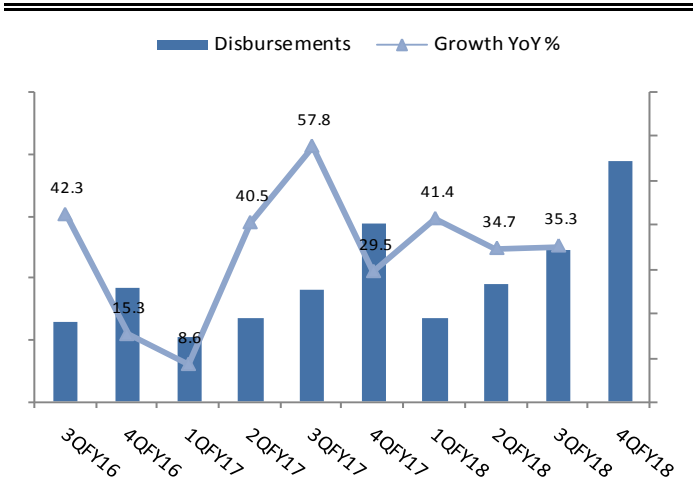


Exhibit: Disbursement Growth %



Borrowing Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Debenture and Securities	43	45	55	56	56	58	60	59	60
Bank Loans	55	53	43	41	41	39	36	38	38
Others	2	2	2	3	3	3	3	3	3

Disbursement Break up

Core Home Loans	4,999	1,200	4,200	4,930	6,400	3,800	5,720	7,090	9,900
Lap	2,100	2,700	1,600	1,900	2,000	1,400	1,800	2,040	2,600
Corporate Loan	1,996	1,300	900	2,200	3,100	1,600	1,900	3,150	7,000
Total	9,095	5,200	6,700	9,030	11,500	6,800	9,420	12,280	19,500

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	624	694	777	757	782	825	948	22%	15%
GNPA %	0.8	0.9	0.9	0.8	0.8	0.8	0.8	-0.08	0
NNPA (Rs in Cr)	254	296	328	293	311	334	420	28%	26%
NNPA %	0.3	0.4	0.4	0.3	0.3	0.3	0.3	-0.02	0.03
Specific PCR %	59.3	57.3	57.8	61.3	60.2	59.5	55.7	-2.09	-3.82

Exhibit: Asset Quality

Stable assets quality

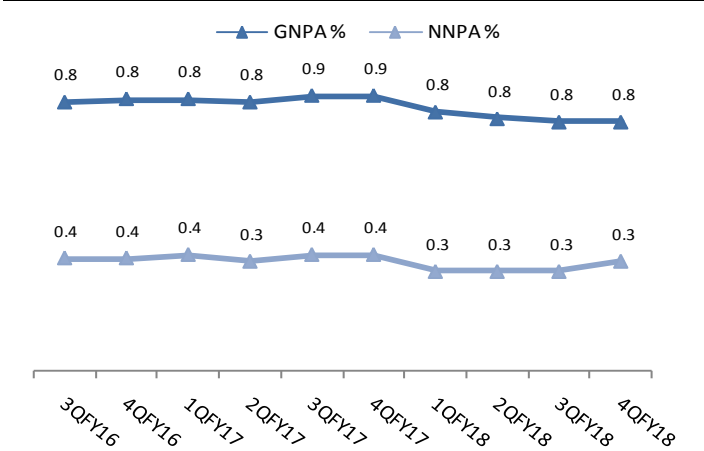
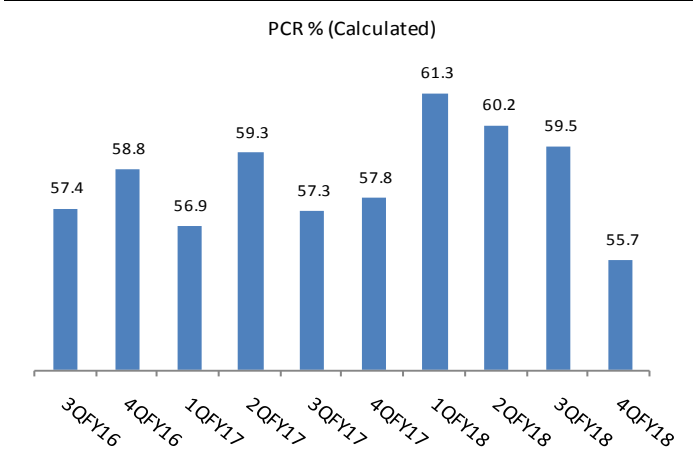


Exhibit: Provisions

Healthy PCR



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	63	67	71	84	85	85	85	85
>> Equity Capital	63	67	71	84	85	85	85	85
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	5,006	5,640	6,561	10,610	12,037	13,338	15,316	18,077
Networth	5,068	5,707	6,632	10,694	12,122	13,423	15,401	18,163
Change (%)	N/A	12.6	16.2	61.3	13.4	10.7	14.7	17.9
Total Borrowing	31,286	35,539	47,492	61,090	85,300	1,10,260	1,37,925	1,70,881
Change (%)	N/A	13.6	33.6	28.6	39.6	29.3	25.1	23.9
Provisions	1,195	1,250	769	892	1,076	1,360	1,724	2,136
Other Liability	1,479	1,922	2,339	3,760	5,207	6,860	3,857	2,179
Total Liabilities	39,141	44,418	57,231	76,436	1,03,705	1,31,903	1,58,908	1,93,359
Investments	2,308	2,947	6,164	10,693	13,617	14,871	19,310	20,275
Loans	30,881	35,580	46,473	61,618	83,088	1,10,560	1,32,080	1,65,100
Change (%)	N/A	15.2	30.6	32.6	34.8	33.1	19.5	25.0
Fixed Assets	46	47	54	69	101	112	170	212
Other Assets	1,019	1,425	1,050	1,155	1,217	1,612	2,224	2,757
Cash Balances	4,888	4,419	3,490	2,902	5,683	4,748	5,125	5,015
Total Assets	39,141	44,418	57,231	76,436	1,03,705	1,31,903	1,58,908	1,93,359

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	4,263	5,187	6,121	7,842	9,938	12,485	15,751	19,596
Interest expended	2,599	3,282	3,944	4,971	6,411	7,654	9,542	12,019
Net Interest Income	1,664	1,904	2,177	2,870	3,527	4,831	6,209	7,576
Change (%)	N/A	14.4	14.3	31.9	22.9	37.0	28.5	22.0
Other Income	515	775	1,149	1,384	1,764	2,155	1,956	2,577
Change (%)	N/A	50.6	48.3	20.4	27.5	22.2	(9.2)	31.7
Total Net Income	2,179	2,679	3,326	4,254	5,291	6,987	8,165	10,153
Change (%)	N/A	23	24	28	24	32	17	24
Operating Expenses	401	411	553	618	737	880	1,009	1,151
Change (%)	N/A	3	35	12	19	19	15	14
Employee Expenses	225	264	325	413	500	581	675	787
Change (%)	N/A	17.5	23.2	27.2	20.9	16.3	16.2	16.6
Other Expenses	176	147	229	205	237	298	334	364
Pre-provisioning Profit	1,778	2,268	2,773	3,636	4,554	6,107	7,156	9,001
Change (%)	N/A	27.5	22.2	31.1	25.3	34.1	17.2	25.8
Provisions	123	286	300	507	783	1,131	1,230	1,543
Change (%)	N/A	132.5	4.8	68.8	54.5	44.5	8.7	25.5
PBT	1,655	1,982	2,473	3,129	3,772	4,976	5,926	7,458
Tax	389	413	571	776	863	1,150	1,482	1,939
Profit After Tax	1,266	1,569	1,901	2,353	2,908	3,826	4,445	5,519
Change (%)	N/A	23.9	21.2	23.8	23.6	31.5	16.2	24.2
Adjusted Profit	1,258	1,564	1,901	2,345	2,906	3,847	4,469	5,548
Change (%)	N/A	24.3	21.5	23.3	23.9	32.4	16.2	24.1

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	34,425	41,169	52,235	68,683	91,300	1,22,600	1,54,476	1,93,095
Off Book AUM	3,544	5,589	5,762	7,065	8,212	12,040	22,396	27,995
AUM Growth (%)	N/A	19.6	26.9	31.5	32.9	34.3	26.0	25.0
Borrowing Growth (%)	N/A	13.6	33.6	28.6	39.6	29.3	25.1	23.9
Loan to Borrowing Ratio (%)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Disbursement	14,600	14,000	20,304	26,354	35,482	48,060	56,936	71,264
Disbursement Growth	20	20	20	20	35	35	18	25
CRAR (%)	18.5	19.1	18.4	20.5	18.3	20.8	15.7	15.0
>> Tier 1 (%)	15.0	15.1	15.2	17.9	15.1	15.1	12.4	12.0
>> Tier 2 (%)	3.5	4.1	3.1	2.7	3.2	5.8	3.2	3.0
Debt-Equity ratio	6.0	6.2	7.2	5.7	7.0	8.2	9.0	9.4

Assets Quality Metrics

Gross NPA	271	342	443	577	777	948	1,116	1,477
Gross NAP (%)	0.8	0.8	0.9	0.8	0.9	0.8	0.9	0.9
Net NPA	115	147	186	238	328	420	446	591
Net NPA (%)	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.4
Specific Provision Coverage (%)	57.7	56.9	58.0	58.8	57.8	55.7	60.0	60.0
Provision/Average Advances (%)	0.4	0.8	0.6	0.8	1.0	1.1	0.9	0.9

Margin Metrics

Yield On Aum (%)	13.8	13.7	13.1	13.0	12.4	11.7	11.4	11.3
Cost Of Funds (%)	9.2	9.8	9.5	9.2	8.8	7.8	7.7	7.8
Spread (%)	4.6	3.9	3.6	3.8	3.7	3.8	3.7	3.5
NIM (%)	5.4	5.0	4.7	4.7	4.4	4.5	4.5	4.4

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	61	63	64	63	65	61	61	61
Other Income/NII (%)	31	41	53	48	50	45	32	34
Operating Profit/ Net Income (%)	82	85	83	85	86	87	88	89
Net Profit/Net Income (%)	58	59	57	55	55	55	54	54
Cost to Income (%)	18	15	17	15	14	13	12	11
Employee Exp/ Net Income (%)	10	10	10	10	9	8	8	8
Cost on Average Assets (%)	1	1	1	1	1	1	1	1
Provisions/PPP (%)	7	13	11	14	17	19	17	17
Tax Rate (%)	24	21	23	25	23	23	25	26

Valuation Ratio Metrics

EPS (Rs)	40	47	53	56	69	90	105	130
Change (%)	N/A	16.3	14.2	4.1	23.2	31.6	16.2	24.1
ROAE (%)	25.2	29.0	30.8	27.1	25.5	30.1	31.0	33.1
ROAA (%)	3.5	3.7	3.7	3.5	3.2	3.3	3.1	3.1
Dividend Payout (%)	57.8	72.2	56.5	91.5	47.3	49.2	48.1	48.0
Dividend yield (%)	#DIV/0!	8.5	4.7	7.0	2.7	2.7	3.1	3.8
Dividend Per Share	-	20.0	26.0	45.0	27.0	37.0	42.0	52.0
Book Value (Rs)	162	171	187	254	286	315	361	426
Change (%)	N/A	5.3	9.2	36.1	12.7	10.0	14.7	17.9
P/B (X)	-	1.4	3.0	2.5	3.5	4.3	3.7	3.2
P/E (X)	-	5.0	10.4	11.6	14.5	15.0	12.9	10.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	12.4	12.0	11.7	11.0	10.6	10.8	11.1
Interest expended	7.9	7.8	7.4	7.1	6.5	6.6	6.8
Net Interest Income	4.6	4.3	4.3	3.9	4.1	4.3	4.3
Other Income	1.9	2.3	2.1	2.0	1.8	1.3	1.5
Total Income	6.4	6.5	6.4	5.9	5.9	5.6	5.8
Total Operating Expenses	1.0	1.1	0.9	0.8	0.7	0.7	0.7
>> Employee Expenses	0.6	0.6	0.6	0.6	0.5	0.5	0.4
>> Other Expenses	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Operating Profit	5.4	5.5	5.4	5.1	5.2	4.9	5.1
Provisions	0.7	0.6	0.8	0.9	1.0	0.8	0.9
Others	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0
PBT	4.7	4.9	4.7	4.2	4.2	4.1	4.3
Tax	1.0	1.1	1.2	1.0	1.0	1.0	1.1
PAT/RoA	3.7	3.7	3.5	3.2	3.3	3.1	3.1
>> Equity Multiplier (x)	7.8	8.2	7.7	7.9	9.2	10.1	10.5
RoE	29.0	30.8	27.1	25.5	30.1	31.0	33.1



Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose
Road | Kolkata-700 020 , Ph : 033-40501500

email: narnolia@narnolia.com,
website : www.narnolia.com

Risk Disclosure & Disclaimer: This report/message is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Narnolia Securities Ltd. (Hereinafter referred as NSL) is not soliciting any action based upon it. This report/message is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. The report/message is based upon publicly available information, findings of our research wing "East wind" & information that we consider reliable, but we do not represent that it is accurate or complete and we do not provide any express or implied warranty of any kind, and also these are subject to change without notice. The recipients of this report should rely on their own investigations, should use their own judgment for taking any investment decisions keeping in mind that past performance is not necessarily a guide to future performance & that the value of any investment or income are subject to market and other risks. Further it will be safe to assume that NSL and /or its Group or associate Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise, individually or otherwise in the recommended/mentioned securities/mutual funds/ model funds and other investment products which may be added or disposed including & other mentioned in this report/message.