




Indiabulls Housing Finance Ltd.

Industry	Financial
Bloomberg	IHFL IN
BSE CODE	535789

Rise in Delinquency with Slowdown in Growth Impact Profitability

RATING	NEUTRAL
CMP	506
Price Target	513
Potential Upside	1%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1360/425
Mkt Capital (Rs Cr)	24019
Free float (%)	76%
Avg. Vol 1M (,000)	17,226
No. of Shares (Crore)	43
Promoters Pledged %	

Fig. In Rs Cr.

	FY19	FY20E	FY21E
NII	5803	4469	4523
PPP	6182	5093	5545
PAT	4091	3081	3456
NIM %	4.8	3.4	3.0
EPS (Rs)	96	72	81
EPS	5	-25	12
ROE (%)	26.5	17.9	18.2
ROA (%)	3.1	2.3	2.5
BV	386	422	467
P/B (X)	2.2	1.2	1.1
P/E (x)	9.0	7.0	6.3

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1QFY20 Result Update

- ❑ NII growth has declined by 25% majorly on the back of the sequential drop in the AUM and Margin pressure. Other Income has grown at the rate of 95% majorly attributing to the huge quantum of sell down. C/I ratio stands elevated at 17.7%. PAT growth had declined by 25% YoY. Incremental spreads have decreased to 3.14% from 3.23% YoY.
- ❑ AUM growth has declined by 10% mainly on the back of Rs 6000 Cr of sell down in the corporate book. Growth remained impacted as management is focusing on liquidity & capital conservation, the growth in the corporate loan book has declined by 31%, growth in individual loan portfolio has declined by 4% and the LAP segment has declined by 5% YoY.
- ❑ GNPA has deteriorated sequentially from 88 bps to 1.47% QoQ, while NNPA has increased from 69 bps from 1.10% QoQ. PCR has improved to 25% from 22% QoQ. The credit cost has declined marginally from 54 bps to 51 bps.
- ❑ Management has applied to RBI, BSE & NSE for merger approvals. Management is expecting RBI approval to take another 45-60 days to come through.

AUM Growth Declined both On YoY/ QoQ basis

AUM Growth has declined by 10% YoY majorly on the back of securitization and sell down in the corporate book. Management priorities reduction of CRE exposure and increase in SME segment as the amalgamated bank will focus on the MSME and Home Loan segment. The share of mortgage has increased from 79% to 84% YoY with a steady declining in the corporate mortgage from 21% to 16% YoY. Going ahead management will restrict exposure in the higher-risk corporate segment and continue with the selldown but at a slightly moderate rate of Rs 2000-3000 Cr.

Asset Quality has Impacted Due to Wholesale Segment.

Gross Stage 3 has increased to 1.47% from 88 bps. Management is facing higher slippages in the wholesale segment. Management has made extra provision of Rs 450 Cr this quarter by increasing exposure in certain specific exposure like CCD & ZEE. Management is opting for sell down in its LRD and corporate exposures. Cash recovery from Palais Royale stood at Rs 700 Cr.

NII was Impacted with Growth Slowdown & Higher Cost of fund

NII growth has remained muted on the back of decline in the AUM, rise in securitization and margin pressure. Yield on Advances has increased to 12.05% from 10.86% YoY while cost of fund has increased to 8.91% from 7.92%. Incremental cost of fund stands elevated at 9.21% from 7.88% YoY. Incremental spreads for the period stands muted from 3.23% to 3.14% YoY.

View and Valuation

IBULHSGFIN's profitability impacted due to assets quality and liquidity pressure. AUM book contracted due to slower disbursement as well as rundown in commercial portfolio. Management has sold off Rs 6005 Cr of the corporate portfolio as well as restricted progressive disbursement in any riskier segment. Delinquency spiked reflecting the stress in real estate segment. However, it has successfully carved out its way through liquidity turmoil by resorting to securitization. After the announcement of the merger, IBULHSGFIN has prioritized liquidity and capital protection. As the merged entity will focus on the MSME/LAP and housing loan segment. On the back of slowdown in growth and pressure in real estate segment, we reduce our earning estimate by 31% in FY20. We remain watchful of the RBI approval for the merger and maintain a NEUTRAL stance. We value the stock at 1.1x FY21 and arrive at a target price of Rs 513.

Key Risks to our rating and target

- ❑ Higher Delinquency in Wholesale Segment will erode Profit.
- ❑ Competitive Intension in the Home Loan will Affect NIM.

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1QFY20 Results Below Expectations

AUM Growth Declined

Fig. In Rs Cr.

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	3,890	3,980	4,237	4,343	3,534	-9.2%	-18.6%	12,811	15,529	21.2%
Interest Exp.	2,335	2,556	2,449	2,374	2,363	1.2%	-0.5%	8,010	9,726	21.4%
Nil	1,555	1,424	1,788	1,969	1,171	-24.7%	-40.5%	4,801	5,803	20.9%
Other Income	181	275	243	(134)	352	94.5%	-363%	2,148	1,498	-30.3%
Total Income	1,736	1,699	2,031	1,835	1,523	-12.3%	-17.0%	8,569	8,350	-2.6%
Opex Exp.	269	272	336	244	270	0.4%	10.8%	951	1,120	17.8%
PPP	1,467	1,427	1,695	1,592	1,254	-14.6%	-21.2%	5,998	6,182	3.1%
Provisions	65	40	308	164	148	127.6%	-10.3%	1,120	578	-48.4%
PBT	1,402	1,387	1,387	1,427	1,106	-21.1%	-22.5%	4,878	5,604	14.9%
Tax	354	352	415	426	316	-11%	-25.9%	1,005	1,546	53.9%
Extra Items	-	-	-	-	-					
Net Profit	1,055	1,044	985	1,006	795	-24.6%	-21.0%	3,895	4,091	5%

Concall Highlights

- Incremental yield for home loan stood at 9.5-9.75%, LAP is at 13%. while Incremental Cost of funds stood at 9.21%. Spreads is expected to remain in the guided range of 300-325 bps even as the CRE book runs down and SME book increases.
- Disbursal guidance for Q2 is around Rs 10000 Cr mainly driven by the SME segment.
- The decline in the loan asset was primarily on account of securitization & rundown in CRE book. CRE has declined by around Rs 6000 Cr through refinance and private equity investment.
- Going ahead run down is expected to be at a normal rate of Rs 2000-3000 Cr. With continuance of disbursement in the construction finance exposure which are already with IBULHSGFIN.
- Management priorities reduction of CRE exposure and increase our SME presence.
- IBHULHSGFIN's LCR of 552% as of 1QFY20.
- Management has Rs 28500 of ready liquidity available with the company which will be utilized to pay 1.4 x of debt repayment in coming 12 month time. CP ratio stands at 1% level.
- Management has applied to RBI, BSE & NSE for approvals. Management expects RBI approval for merger may take another 45-60 days.
- The amalgamated Bank will focus on MSME & Housing loan segment.
- GNPA in the retail book is almost stable. Gross stage is primarily in the wholesale book. Stage 2 mostly consists of share of retail & corporate book in 50:50 ratios.
- Cash recovery in Palais Royale stood at Rs 700 Cr with write off in the provision. Management has provided additional provision to the tune of Rs 450 Cr. Increased provision in some specific assets like CCD, Zee etc.
- Sold down book is Rs 11000 Cr.
- Investment of 38-40\$ mn is expected in the medium term before approval. Further investment will happen after approval, if the capital adequacy is in the high teens then lesser quantum of tier 1 will be needed.
- Securitization is done through direct assignment in which the minimum retention of risk is in the ratio of 20:80 on pari passu basis without any credit enhancement. If the exposure goes bad then 20% of the risk comes to IBULHSGFIN and rest to the buyer.
- Management has requested RBI approval for repurchase of dollar bonds upto 50\$ mn & masala bond which are maturing in August.
- Management priorities both liquidity and capital conservation therefore it restrains from increasing its exposure to any under executed projects, so incremental disbursement will be towards loans which are already sanction & additional focus will be on resale transaction.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	14.2	12.1	15.5	16.0	16.5	13.3	17.7	2.23	4.44
Empl. Cost/ Tot. Exp. %	62.5	64.3	77.7	72.2	61.2	68.5	69.6	-8.10	1.18
Other Exp/Tot. Exp.%	34.8	29.6	19.1	23.8	35.4	26.6	19.6	0.47	-7.01
Provision/PPP %	17.6	25.3	4.4	2.8	18.2	10.3	11.8	7.35	1.44
Tax Rate %	23.4	11.7	25.2	25.4	29.9	29.9	28.6	3.34	-1.29
Int Exp./Int Inc. (%)	60.6	49.7	60.0	64.2	57.8	54.7	66.9	6.83	12.19
Other Inc./NII %	56.4	(14.7)	11.6	19.3	13.6	(6.8)	30.1	18.42	36.85
PPP/ Net Income %	85.8	87.9	84.5	84.0	83.5	86.7	82.3	-2.23	-4.44
PAT/ Net Income %	54.2	58.0	60.4	60.9	47.9	54.5	51.9	-8.54	-2.69
NII Growth % (YoY)	41.2	82.4	32.3	14.4	32.8	(9.4)	(24.7)	-56.95	-15.24
PPP Growth YoY %	52.6	27.8	16.4	9.1	(6.2)	(2.4)	(14.6)	-30.98	-12.14
PAT Growth %	52.1	28.8	30.3	21.2	(13.8)	(7.1)	(24.6)	-54.94	-17.55

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.1	10.9	10.9	11.4	12.0	12.2	12.1	1.19	-0.10
Cost Of Funds	7.9	7.8	7.9	8.1	8.6	8.7	8.9	0.99	0.18
Spreads	3.2	3.1	3.2	3.2	3.5	3.4	3.1	-0.09	-0.28
NIM (Calc.)	5.7	6.0	5.5	4.7	5.7	6.3	3.8	-1.62	-2.46

Exhibit: Yield and Cost

Rise in Cost of Borrowings

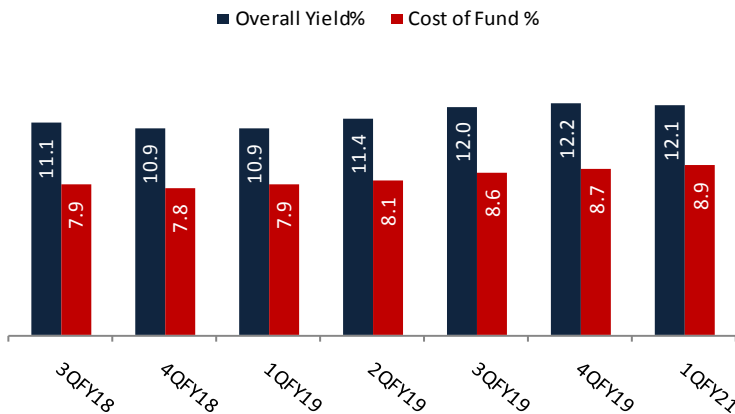
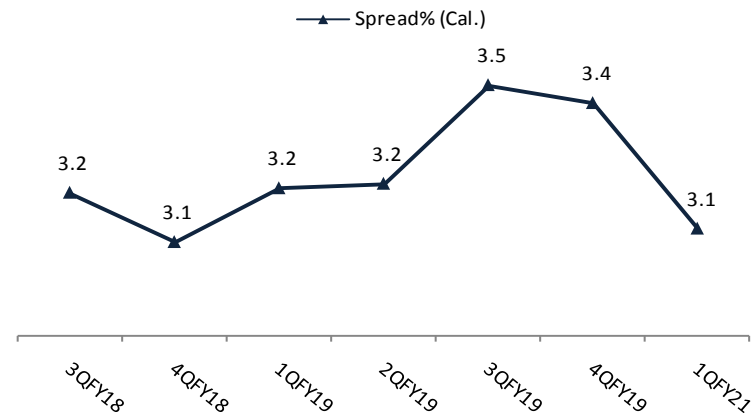


Exhibit: Spreads

Spreads Were Affected Due to Higher Cost of Borrowings and Slowdown in Growth



Asset & Borrowings Growth Trend

Fig. In Rs Cr.

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
AUM	94451	100300	106971	122233	125628	128900	124271	120525	113189
Growth YoY %	33	33	31	34	33	29	16	-1	-10
Borrowings	88470	96620	101700	110204	115990	120310	107609	104988	98226
Growth YoY %	34	30	22	29	31	25	6	-5	-15

AUM Composition %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Mortgage (%)	78	78	79	79	79	80	81	83	84
Corporate Mortgage (%)	22	22	21	21	21	20	19	17	16

Exhibit: AUM Growth %

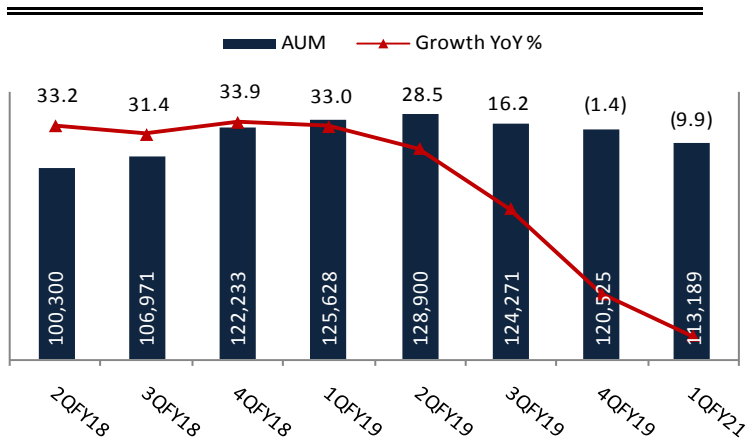
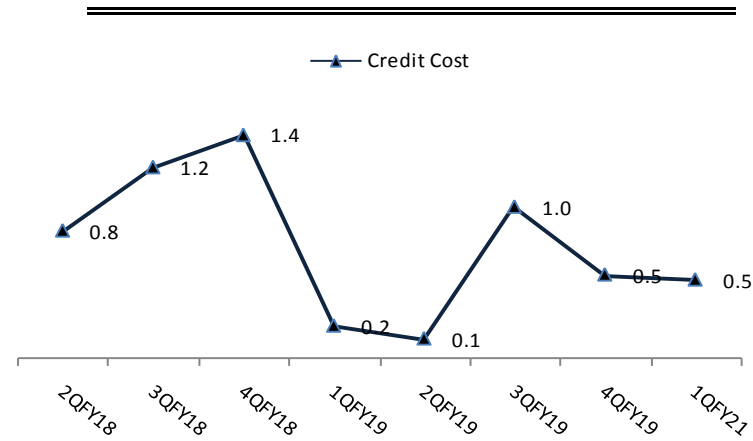


Exhibit: Provision % to AUM



Borrowings Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Debentures and Securities	54	41	42	60	54	43	36	38
Bank Loans	33	34	34	36	31	31	34	35
Others	13	25	24	4	15	26	30	27

Asset Quality

Fig. in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross Stage 3	980	990	987	1,061	1,662
% Portfolio in Stage 3	0.78	0.77	0.79	0.88	1.47
ECL Provision Stage 3	240	250	247	228	416
Net Stage 3	740	750	739	832	1,246
Coverage Ratio % Stage 3	25.0	25.0	25.0	22.0	25.0
Gross Stage 1&2	124980	127910	123284	119464	111527
% Portfolio in Stage 1&2	99.2	99.2	99.2	99.1	98.5
ECL Provision Stage 1&2	320	370	673	728	953

Exhibit: Asset Quality

Assets Quality Slightly Deteriorated QoQ

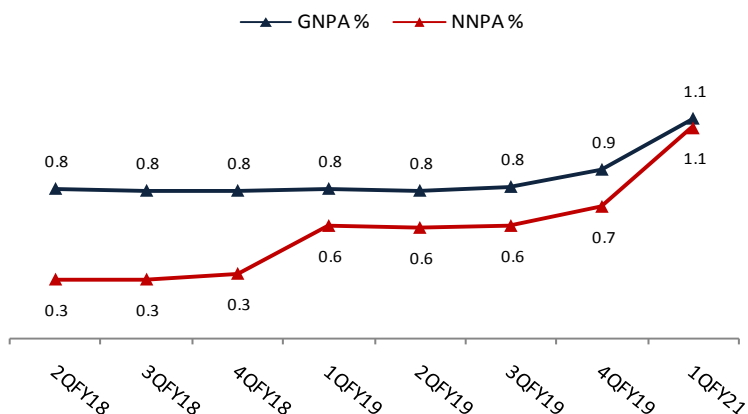
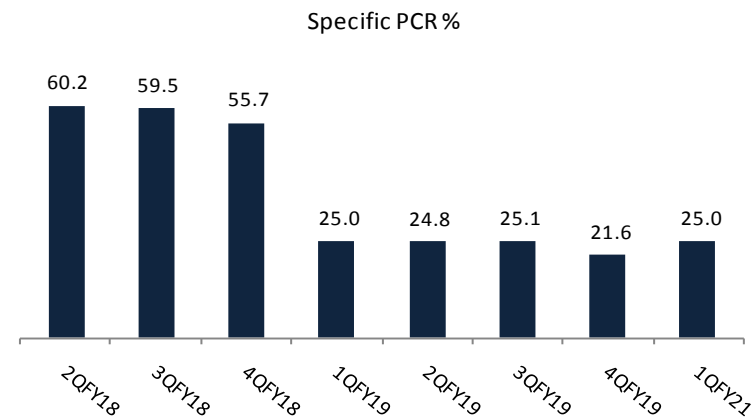


Exhibit: Provisions

PCR has Improved Sequentially



*Data from 1QFY19 are IND-AS

Financial Details
Balance Sheet

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	67	71	84	85	85	85	85	85
>> Equity Capital	67	71	84	85	85	85	85	85
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	5,640	6,561	10,610	12,037	14,273	16,397	17,939	19,856
Networth	5,707	6,632	10,694	12,122	14,358	16,482	18,025	19,941
Change (%)	13	16	61	13	18	15	9	11
Total Borrowing	35,539	47,492	61,090	85,300	110260	104988	117461	135080
Change (%)	14	34	29	40	29	(5)	12	15
Provisions	1,250	769	892	1,076	155	176	193.743	213.117
Other Liability	1,922	2,339	3,760	5,207	7,829	8,458	8,881	9,325
Total Liabilities	44,418	57,231	76,436	103705	132603	130104	144560	164559
Investments	2,947	6,164	10,693	13,617	14,792	19,717	20,702	21,738
Loans	35,580	46,473	61,618	83,088	109833	92387.2	103953	119546
Change (%)	15	31	33	35	32	(16)	13	15
Fixed Assets	47	54	69	101	111	156	166	191
Other Assets	1,425	1,050	1,155	1,217	2,999	3,223	3,545	3,900
Cash Balance	4,419	3,490	2,902	5,683	4,867	14,621	16,193	19,185
Total Assets	44,418	57,231	76,436	103705	132603	130104	144560	164559

Income Statement

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	5,187	6,121	7,842	9,938	12,811	15,529	13,467	14,248
Interest expended	3,282	3,944	4,971	6,411	8,010	9,726	8,997	9,725
Net Interest Income	1,904	2,177	2,870	3,527	4,801	5,803	4,469	4,523
Change (%)	14	14	32	23	36	21	(23)	1
Other Income	775	1,149	1,384	1,764	2,148	1,498	1,579	2,012
Change (%)	51	48	20	27	22	(30)	5	27
Total Net Income	2,679	3,326	4,254	5,291	6,949	7,302	6,049	6,535
Change (%)	23	24	28	24	31	5	(17)	8
Operating Expenses	411	553	618	737	951	1,120	955	990
Change (%)	3	35	12	19	29	18	(15)	4
>> Employee Expenses	264	325	413	500	645	777	686	719
Change (%)	17	23	27	21	29	21	(12)	5
>> Other Expenses	147	229	205	237	306	343	270	271
Pre-provisioning Profit	2,268	2,773	3,636	4,554	5,998	6,182	5,093	5,545
Change (%)	28	22	31	25	32	3	(18)	9
Provisions	286	300	507	783	1,120	578	927	918
Change (%)	132	5	69	54	43	(48)	61	(1)
PBT	1,982	2,473	3,129	3,772	4,878	5,604	4,166	4,626
Tax	413	571	776	863	1,005	1,546	1,112	1,203
Profit After Tax	1,569	1,901	2,353	2,908	3,873	4,058	3,054	3,424
Change (%)	24	21	24	24	33	5	(25)	12
Adjusted PAT	1,564	1,901	2,345	2,906	3,895	4,091	3,081	3,456
Change (%)	24	22	23	24	34	5	(25)	12

Financial Details
Key Ratios

Fig. in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	41,169	52,235	68,683	91,300	122600	120525	138604	159394
>> Off-Book AUM	5,589	5,762	7,065	8,212	12,767	28,138	34,651	39,849
AUM Growth (%)	20	27	31	33	34	(2)	15	15
Borrowing Growth (%)	14	34	29	40	29	(5)	12	15
Loan/Borrowing Ratio	1	1	1	1	1	1	1	1
Disbursement (Rs Cr)	14000	20304	26354	35482	48060	32231	47481	55089.9
Disbursement Growth (%)	19.6	19.6	19.6	34.6	35.4	(32.9)	47.3	16.0
CRAR (%)	19.1	18.4	20.5	18.3	20.8	26.3	20.0	19.0
>> Tier 1 (%)	15.1	15.2	17.9	15.1	15.1	19.7	16.0	15.5
>> Tier 2 (%)	4.1	3.1	2.7	3.2	5.8	6.6	4.0	3.5
Debt/Equity (x)	6.2	7.2	5.7	7.0	7.7	6.4	6.5	6.8

Assets Quality Metrics

Gross NPA (Rs)	342	443	577	777	948	1,061	2,079	2,391
Gross NPA (%)	0.8	0.9	0.8	0.9	0.8	0.9	1.5	1.5
Net NPA (Rs)	147	186	238	328	420	832	1,539	1,674
Net NPA (%)	0.4	0.4	0.4	0.4	0.3	0.7	1.5	1.4
Provision Coverage (%)	57	58	59	58	56	22	26	30
Provision/Average Advances (%)	0.8	0.6	0.8	1.0	1.0	0.5	0.7	0.6

Margin Metrics

Yield On AUM (%)	13.7	13.1	13.0	12.4	12.0	12.8	10.4	9.6
Cost Of Funds (%)	9.8	9.5	9.2	8.8	8.2	9.0	8.1	7.7
Spread (%)	3.9	3.6	3.8	3.7	3.8	3.7	2.3	1.9
NIM (%)	5.0	4.7	4.7	4.4	4.5	4.8	3.4	3.0

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	63.3	64.4	63.4	64.5	62.5	62.6	66.8	68.3
Other Income/NII (%)	40.7	52.8	48.2	50.0	44.7	25.8	35.3	44.5
Operating Profit/ Net Income (%)	84.7	83.4	85.5	86.1	86.3	84.7	84.2	84.9
Net Profit/Net Income (%)	58.6	57.2	55.3	55.0	55.7	55.6	50.5	52.4
Cost to Income (%)	15.3	16.6	14.5	13.9	13.7	15.3	15.8	15.2
Employee Exp/ Net Income (%)	9.8	9.8	9.7	9.4	9.3	10.6	11.3	11.0
Cost on Average Assets (%)	1.0	1.1	0.9	0.8	0.8	0.9	0.7	0.7
Provisions/PPP (%)	12.6	10.8	13.9	17.2	18.7	9.3	18.2	16.6
Tax Rate (%)	20.9	23.1	24.8	22.9	20.6	27.6	26.7	26.0

Valuation Ratio Metrics

EPS (Rs)	47	53	56	69	91	96	72	81
Change (%)	16.3	14.2	4.1	23.2	33.2	5	(24.7)	12.2
ROAE (%)	29.0	30.8	27.1	25.5	29.4	26.5	17.9	18.2
ROAA (%)	3.7	3.7	3.5	3.2	3.3	3.1	2.3	2.5
Dividend Payout (%)	72.2	56.5	91.5	47.3	-	50.2	49.9	44.5
Dividend yield (%)	8.5	4.7	7.0	2.7	4.2	4.7	5.9	5.9
DPS	20	26	45	27	52	40	30	30
Book Value (Rs)	171	187	254	286	337	386	422	467
Change (%)	5.3	9.2	36.1	12.7	17.7	15	9.4	10.6
P/B (X)	1.4	3.0	2.5	3.5	3.7	2.2	1.2	1.1
P/E (X)	5.0	10.4	11.6	14.5	13.5	9.0	7.0	6.3

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	12.4	12.0	11.7	11.0	10.8	11.8	9.8	9.9
<i>Interest expended</i>	7.9	7.8	7.4	7.1	6.8	7.4	6.6	6.7
<i>Net Interest Income</i>	4.6	4.3	4.3	3.9	4.1	4.4	3.3	3.1
<i>Non-Fund Based Income</i>	1.9	2.3	2.1	2.0	1.8	1.1	1.2	1.4
<i>Total Income</i>	6.4	6.5	6.4	5.9	5.9	5.6	4.4	4.5
<i>Total Operating Expenses</i>	1.0	1.1	0.9	0.8	0.8	0.9	0.7	0.7
>> <i>Employee Expenses</i>	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5
>> <i>Other Expenses</i>	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2
<i>Operating Profit</i>	5.4	5.5	5.4	5.1	5.1	4.7	3.7	3.8
<i>Provisions</i>	0.7	0.6	0.8	0.9	0.9	0.4	0.7	0.6
<i>Others</i>	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0
<i>PBT</i>	4.7	4.9	4.7	4.2	4.1	4.3	3.1	3.2
<i>Tax</i>	1.0	1.1	1.2	1.0	0.9	1.2	0.8	0.8
<i>PAT/RoAA</i>	3.7	3.7	3.5	3.2	3.3	3.1	2.2	2.4
<i>Equity Multiplier (x)</i>	7.8	8.2	7.7	7.9	8.9	8.5	8.0	7.6
<i>ROAE</i>	29.0	30.8	27.1	25.5	29.4	26.5	17.9	18.2

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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