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Restructuring of the Portfolio along with Real Estate Stress is Affecting Profitability

RATING	UNDER REVIEW
CMP	321
Price Target	-
Potential Upside	-
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	919/166
Mkt Capital (Rs Cr)	13729
Free float (%)	76%
Avg. Vol 1M (,000)	1,534
No. of Shares (Crs)	43
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	5803	3621	2830
PPP	6182	3818	3374
PAT	4091	2523	2148
NIM %	0.5	3.3	2.8
EPS (Rs)	96	59	50
EPS growth (%)	5	-38	-15
ROE (%)	26.5	14.9	12.1
ROA (%)	3.1	2.2	2.1
BV	386	409	423
P/B (X)	2.2	0.8	0.8
P/E (x)	9.0	5.4	6.4

RESEARCH ANALYST

DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

SWETA PADHI

Shweta.padhi@narnolia.com

3QFY20 Result Update

- NII has decreased at 51%YoY on the back of a decline in the AUM by 18% YoY. Other income has declined by 56% with the slow down in the disbursement. PAT growth has de-grown at the rate of 44% even though provisioning has declined by 54%.
- Spreads have declined to 2.96%. Management has guided the NIM to fall to 2.7% with a further rundown of the real estate book. The cost remains inflated as the focus remains on converting the entire borrowings into long term loans. The incremental cost of the fund stood at 8.97%.
- AUM has declined by 17% YoY. Management has optimistically guided for 20% AUM growth from 1QFY20 with PAT growth standing at 16-18%. The rundown of the developer book from Oct 18 to Sep 19 was to the tune of Rs 10000 Cr.
- The disbursement stood at Rs 6396 Cr with more than 80% of the disbursement catering to the retail segment. The new sanction is happening towards retail loans so in the next 36 months the retail part of the book is expected to move more than 90%.
- GNPA has increased to 1.94% v/s 1.51% QoQ while NNPA has increased to 1.39% V/C 1.07% QoQ. Management has guided the asset quality may further deteriorate in the real estate segment. IBULHSGFIN has made Rs 330 Cr of provisioning for Supertech exposure..
- A hearing against allegations is due on 28th Feb . Management states the situation has largely normalized and IBULHSGFIN has raised a sanction to the quantum of Rs 16585 Cr in 3QFY20. Further it is planning to do more co-origination and other banking relationships for further disbursement.
- Capital adequacy stood at 28.98% with the highest on book balance sheet liquidity at 15%. The liquidity is expected to remain in this range.
- IBULHSGFIN will have positive cash flow of Rs 18980 Cr even after 1 year of no further disbursement.
- Indiabulls real estate is planning to completely exit the business after a merger with Blackstone. The entire proceeding of this transaction is targeted to come into the Indiabulls housing through one structure or another.
- Going ahead IBULHSGFIN has entered into co-origination agreement with few public sector banks. Where 80% of the loan will be on the bank's balance sheet and remainder 20% on IBH's

View and Valuation

AUM growth remains affected on the back of the decline in both individual & non-individual segment. The margin has remained affected on the back of the declining share of high yielding real estate segment. The asset quality is deteriorating on the back of higher corporate slippages. Though management is transitioning itself into a retail-focused housing segment the commercial book still stands at 16-17% of the balance sheet. We remain cautious on the STOCK as management has guided the 8-9% level of corporate NPA may inch up to 9-10% in due course of time. We maintain our UNDER REVIEW stance on the stock.

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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AUM Growth Declined

3QFY20 Results

In Line With Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	4,237	4,343	3,534	3,200	2,935	-30.7%	-8.3%	12,811	15,529	21.2%
Interest Exp.	2,449	2,374	2,363	2,168	2,055	-16.1%	-5.2%	8,010	9,726	21.4%
NII	1,788	1,969	1,171	1,032	880	-50.8%	-14.8%	4,801	5,803	20.9%
Other Income	243	(134)	352	220	108	-55.8%	-51%	2,148	1,498	-30.3%
Total Income	2,031	1,835	1,523	1,252	987	-51.4%	-21.2%	8,569	8,350	-2.6%
Ope Exp.	336	244	270	268	231	-31.1%	-13.8%	951	1,120	17.8%
PPP	1,695	1,592	1,254	984	756	-55.4%	-23.2%	5,998	6,182	3.1%
Provisions	308	164	148	237	143	-53.6%	-39.7%	1,120	578	-48.4%
PBT	1,387	1,427	1,106	747	613	-55.8%	-18.0%	4,878	5,604	14.9%
Tax	415	426	316	45	66	-84%	46.6%	1,005	1,546	53.9%
Extra Items	-	-	-	-	-					
Net Profit	985	1,006	802	710	552	-44.0%	-22.2%	3,895	4,091	5%

Concall Highlights

- Even though the liquidity situation normalizes the ALM should be matched without resorting to a higher share of short-term borrowings.
- HFC has to build a model in collaboration with the banks for co-origination & securitization. IBULHSGFIN is tying up for co-origination with few banks. These relationships will aid IBULHSGFIN to offer housing loans at 8% while at 10% in tier 2 & tier 3 markets.
- Spreads during the quarter stood at 2.96%. Management has guided that spreads will decline to 2.7% and remain steady on that front while an increase in gearing will lead to RoE of 23% in 2023.
- Over 24-36 months of the IBULHSGFIN loan book will be granular loans to 90% of the portfolio. It is expected to register 20% book growth from FY21 onwards with PAT growth in high teens and single-digit balance sheet growth.
- IBULHSGFIN has been given a clean cheat against all allegations. There is another hearing on the 28th of Feb. The situation has largely normalized; it has received a sanction of Rs 16540 Cr across instruments out of which it has drawdown Rs 8040 Cr and remaining standing as undrawn sanctions.
- In the partial credit guarantee scheme, IBULHSGFIN has sold down Rs 2000 Cr in 3QFY20 v/s Rs 750 Cr QoQ.
- IBULHSGFIN will continue to buy back of rupee bond keeping intact the liquidity of the company. Request for dollar bond buyback is still pending with the RBI.
- The developer book has rundown to the quantum of Rs 2150 Cr through refinance or repayment method between Oct 19 and Jan 20.
- Not much of the book is in moratorium management says there will not be any sudden spike in the NPA. On the developer side, the NPL will be in the range of 8-9% while in the retail segment NPL average is at 1.9%.
- Disbursement stood at Rs 6396 Cr out of which 80% were of retail loans. The wholesale book is expected to continue running down.
- On balance sheet liquidity stands at 15.8%. It is expected to remain in the 15-20% range in the medium term.
- NNPA is at 1.39%. The share of housing and non-housing is at 2/3rd & 1/3rd. The share of commercial real estate segment in the balance sheet will be 16-17%.
- Capital adequacy stood 28.98%.
- An MoU is signed between embassy (investor i.e. Blackstone) & India bulls real estate will be merging underdeveloped asset into India bulls real estate after this merger it will exit the real estate development business.

Profitability Matrix

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	15.5	16.0	16.5	13.3	17.7	21.4	23.4	6.89	2.00
Empl. Cost/ Tot. Exp. %	77.7	72.2	61.2	68.5	69.6	55.0	64.5	3.35	9.57
Other Exp/Tot. Exp.%	19.1	23.8	35.4	26.6	19.6	33.7	26.6	-8.82	-7.09
Provision/PPP %	4.4	2.8	18.2	10.3	11.8	24.1	18.9	0.72	-5.17
Tax Rate %	25.2	25.4	29.9	29.9	28.6	6.0	10.8	-19.08	4.76
Int Exp./Int Inc. (%)	60.0	64.2	57.8	54.7	66.9	67.7	70.0	12.22	2.29
Other Inc./NII %	11.6	19.3	13.6	(6.8)	30.1	21.3	12.2	-1.39	-9.09
PPP/ Net Income %	84.5	84.0	83.5	86.7	82.3	78.6	76.6	-6.89	-2.00
PAT/ Net Income %	60.4	60.9	47.9	54.5	51.9	56.1	55.4	7.52	-0.67
NII Growth % (YoY)	32.3	14.4	32.8	(9.4)	(24.7)	(27.5)	(50.8)	-83.60	-23.29
PPP Growth YoY %	16.4	9.1	(6.2)	(2.4)	(14.6)	(31.0)	(55.4)	-49.22	-24.38
PAT Growth %	30.3	21.2	(13.8)	(7.1)	(24.0)	(32.1)	(44.0)	-30.25	-11.95

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.9	11.4	12.0	12.2	12.1	11.9	11.8	-0.21	-0.12
Cost Of Funds	7.9	8.1	8.6	8.7	8.9	8.9	8.9	0.29	0.00
Spreads	3.2	3.2	3.5	3.4	3.1	3.1	3.0	-0.50	-0.09
NIM (Calc.)	5.5	4.7	5.7	6.3	3.8	3.6	3.2	-2.53	-0.38

Exhibit: Yield and Cost

Fall in Yields

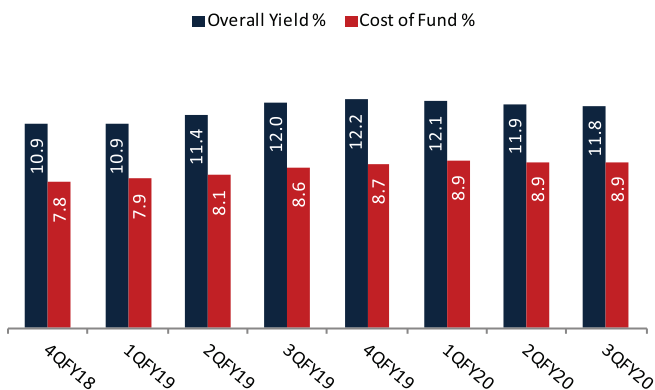
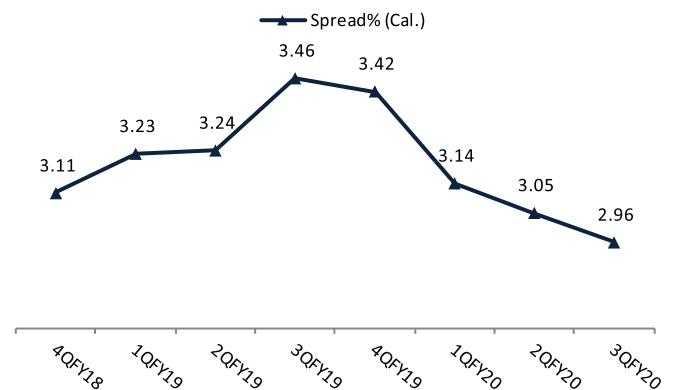


Exhibit: Spreads

Spreads Were Affected Due to Lower Yields.



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
AUM	107328	122600	125628	128900	124271	120525	113189	106330	102335
Growth YoY %	32	34	33	29	16	-1	-10	-18	-18
Borrowings	101980	110260	115990	120310	107609	104988	98226	89565	80007
Growth YoY %	23	29	31	25	6	-5	-15	-26	-26

Exhibit: AUM Growth %

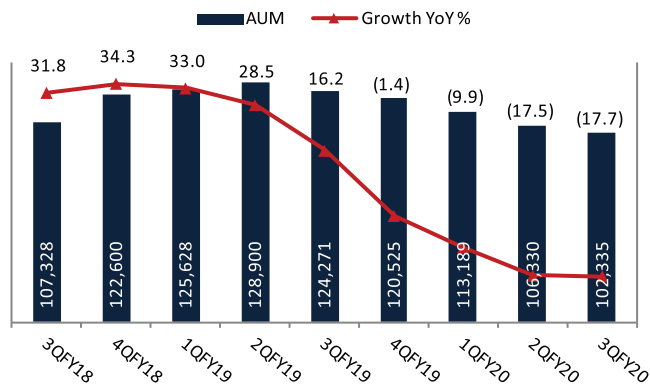
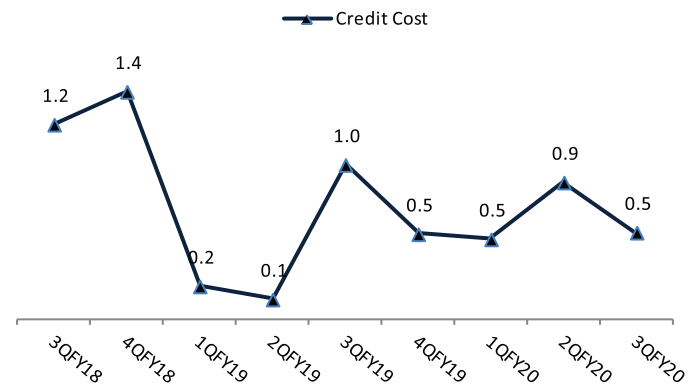


Exhibit: Provision % to AUM



Borrowings Mix

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Debentures and Securities	41	42	39	61	53	46	38	38	38
Bank Loans	34	34	34	35	38	44	35	35	35
Others	25	24	27	4	9	10	27	27	27

Exhibit: Asset Quality

Assets Quality has Deteriorated QoQ

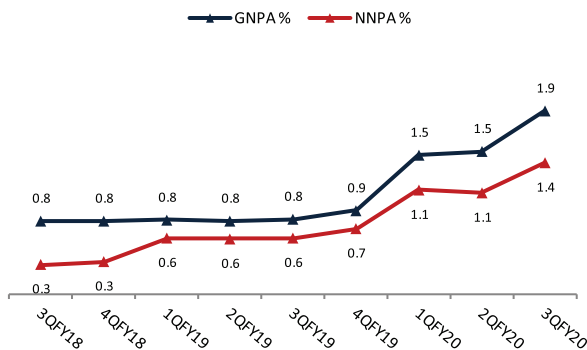


Exhibit: Provisions

PCR has Improved Sequentially

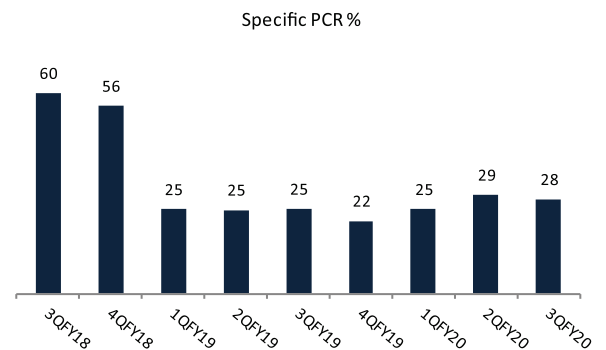


Exhibit: Share of Off Book %

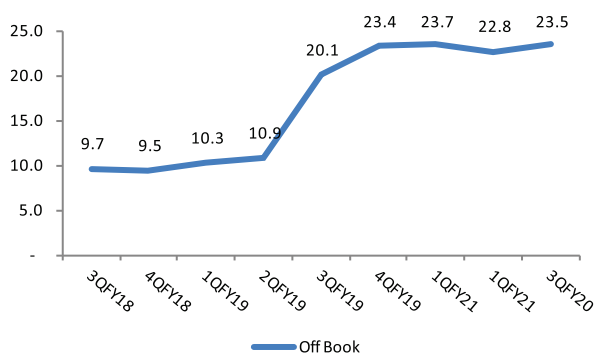
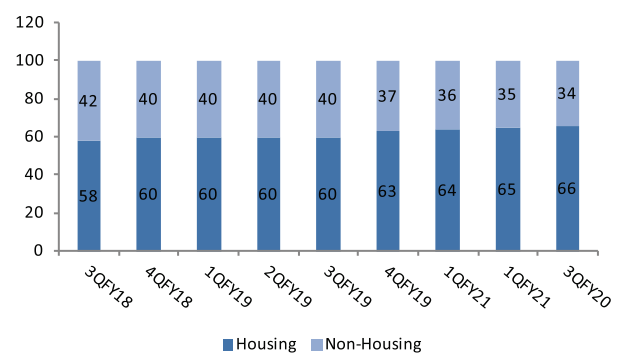


Exhibit: Share of Housing & Non-Housing %



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	17,381	17,990
Networth	5,707	6,632	10,694	12,122	14,358	16,482	17,466	18,076
Change (%)	13	16	61	13	18	15	6	3
Total Borrowing	35,539	47,492	61,090	85,300	110,260	104,988	85,199	91,163
Change (%)	14	34	29	40	29	(5)	(19)	7
Provisions	1,250	769	892	1,076	155	176	193,743	213.12
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	103,705	132,603	130,104	111,739	118,776
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	109,833	92,387	76,099	81,426
Change (%)	15	31	33	35	32	(16)	(18)	7
Fixed Assets	47	54	69	101	111	156	119	127
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	15,533	13,532
Total Assets	44,418	57,231	76,436	103,705	132,603	130,104	115,998	120,722

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	12,100	10,177
Interest expended	3,282	3,944	4,971	6,411	8,010	9,726	8,479	7,347
Net Interest Income	1,904	2,177	2,870	3,527	4,801	5,803	3,621	2,830
Change (%)	14	14	32	23	36	21	(38)	(22)
Other Income	775	1,149	1,384	1,764	2,148	1,498	1,160	1,335
Change (%)	51	48	20	27	22	(30)	(23)	15
Total Net Income	2,679	3,326	4,254	5,291	6,949	7,302	4,781	4,165
Change (%)	23	24	28	24	31	5	(35)	(13)
Operating Expenses	411	553	618	737	951	1,120	963	791
Change (%)	3	35	12	19	29	18	(14)	(18)
Employee Expenses	264	325	413	500	645	777	611	516
Change (%)	17	23	27	21	29	21	(21)	(15)
Other Expenses	147	229	205	237	306	343	352	275
Pre-provisioning Profit	2,268	2,773	3,636	4,554	5,998	6,182	3,818	3,374
Change (%)	28	22	31	25	32	3	(38)	(12)
Provisions	286	300	507	783	1,120	578	741	514
Change (%)	132	5	69	54	43	(48)	28	(31)
PBT	1,982	2,473	3,129	3,772	4,878	5,604	3,078	2,859
Tax	413	571	776	863	1,005	1,546	586	743
Profit After Tax	1,569	1,901	2,353	2,908	3,873	4,058	2,491	2,116
Change (%)	24	21	24	24	33	5	(39)	(15)
Adjusted PAT	1,564	1,901	2,345	2,906	3,895	4,091	2,523	2,148
Change (%)	24	22	23	24	34	5	(38)	(15)

Financial Details

Key Ratios

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	98831	105749
Off-Book AUM	5,589	5,762	7,065	8,212	12,767	28,138	22,731	24,322
AUM Growth (%)	20	27	31	33	34	(2)	(18)	7
Borrowing Growth (%)	14	34	29	40	29	(5)	(19)	7
Loan/Borrowing Ratio	1	1	1	1	1	1	1	1
Disbursement (Rs Cr)	14000	20304	26354	35482	48060	32231	32756	39571
Disbursement Growth (%)	19.6	19.6	19.6	34.6	35.4	(32.9)	1.6	20.8
CRAR (%)	19.1	18.4	20.5	18.3	20.8	26.3	24.3	24.0
Tier 1 (%)	15.1	15.2	17.9	15.1	15.1	19.7	19.3	19.2
Tier 2 (%)	4.1	3.1	2.7	3.2	5.8	6.6	5.0	4.8
Debt/Equity (x)	6.2	7.2	5.7	7.0	7.7	6.4	4.9	5.0
Assets Quality Metrics								
Gross NPA (Rs)	342	443	577	777	948	1,061	1,482	1,586
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	1,097	1,110
Net NPA (%)	0.4	0.4	0.4	0.4	0.3	0.7	1.1	1.1
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	0.5
Margin Metrics								
Yield On AUM (%)	13.7	13.1	13.0	12.4	12.0	12.8	11.0	9.9
Cost Of Funds (%)	9.8	9.5	9.2	8.8	8.2	9.0	8.9	8.3
Spread (%)	3.9	3.6	3.8	3.7	3.8	3.7	2.1	1.6
NIM (%)	5.0	4.7	4.7	4.4	4.5	4.8	3.3	2.8
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	63.3	64.4	63.4	64.5	62.5	62.6	70.1	72.2
Other Income/NII (%)	40.7	52.8	48.2	50.0	44.7	25.8	32.0	47.2
Operating Profit/ Net Income (%)	84.7	83.4	85.5	86.1	86.3	84.7	79.9	81.0
Net Profit/Net Income (%)	58.6	57.2	55.3	55.0	55.7	55.6	52.1	50.8
Cost to Income (%)	15.3	16.6	14.5	13.9	13.7	15.3	20.1	19.0
Employee Exp/ Net Income (%)	9.8	9.8	9.7	9.4	9.3	10.6	12.8	12.4
Cost on Average Assets (%)	1.0	1.1	0.9	0.8	0.8	0.9	0.8	0.7
Provisions/PPP (%)	12.6	10.8	13.9	17.2	18.7	9.3	19.4	15.2
Tax Rate (%)	20.9	23.1	24.8	22.9	20.6	27.6	19.1	26.0
Valuation Ratio Metrics								
EPS (Rs)	47	53	56	69	91	96	59	50
Change (%)	16.3	14.2	4.1	23.2	33.2	5	(38.3)	(14.9)
ROAE (%)	29.0	30.8	27.1	25.5	29.4	26.5	14.9	12.1
ROAA (%)	3.7	3.7	3.5	3.2	3.3	3.1	2.2	2.1
Dividend Payout (%)	72.2	56.5	91.5	47.3	-	50.2	61.0	71.6
Dividend yield (%)	8.5	4.7	7.0	2.7	4.2	4.7	10.0	10.0
DPS	20	26	45	27	52	40	30	30
Book Value (Rs)	171	187	254	286	337	386	409	423
Change (%)	5.3	9.2	36.1	12.7	17.7	15	6.0	3.5
P/B (X)	1.4	3.0	2.5	3.5	3.7	2.2	0.8	0.8
P/E (X)	5.0	10.4	11.6	14.5	13.5	9.0	5.4	6.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	12.4	12.0	11.7	11.0	10.8	11.8	9.8	8.8
Interest expended	7.9	7.8	7.4	7.1	6.8	7.4	6.9	6.3
Net Interest Income	4.6	4.3	4.3	3.9	4.1	4.4	2.9	2.4
Non-Fund Based Income	1.9	2.3	2.1	2.0	1.8	1.1	0.9	1.2
Total Income	6.4	6.5	6.4	5.9	5.9	5.6	3.9	3.6
Total Operating Expenses	1.0	1.1	0.9	0.8	0.8	0.9	0.8	0.7
Employee Expenses	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.4
Other Expenses	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Operating Profit	5.4	5.5	5.4	5.1	5.1	4.7	3.1	2.9
Provisions	0.7	0.6	0.8	0.9	0.9	0.4	0.6	0.4
Others	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0
PBT	4.7	4.9	4.7	4.2	4.1	4.3	2.5	2.5
Tax	1.0	1.1	1.2	1.0	0.9	1.2	0.5	0.6
PAT/RoAA	3.7	3.7	3.5	3.2	3.3	3.1	2.1	1.9
Equity Multiplier (x)	7.8	8.2	7.7	7.9	8.9	8.5	7.2	6.5
ROAE	29.0	30.8	27.1	25.5	29.4	26.5	14.9	12.1

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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