

INDIABULLS HOUSING FINANCE LTD

Industry	Housing Finance
Bloomberg	IHFL IN
BSE Code	535789
NSE Code	IBULHSGFIN

Friday, August 31, 2018

RATING	ACCUMULATE
CMP	1,264
Price Target	1465
Previous Target	1277
Potential Upside	16%

52wk Range H/L	1439/1080
Mkt Capital (Rs Cr)	53,922
Free float (%)	76%
Avg. Vol 1M (000)	1,520
No. of Shares (Crore)	43
Promoters Pledged %	18%

IND AS boosted profitability

Key Highlights

- ☑ IBULHSGFIN AUM has grown at a CAGR growth of 29% in the last 5 years. 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 Rs 4 trillion book size and grow its earning to Rs 5500 Cr by 2020 and Rs 10000 Cr by 2023.
- ☑ IBULHSGFIN is a leading player in self-employed mortgage lending. It has given the highest loan book growth and ROE in the industry.
- ☑ Under IND-AS net worth of the bank has increased to Rs 16400 Cr as against Rs 12100 Cr in FY17. This was on account of fair value of investment in Oak North Bank, release of deferred tax liabilities of Rs 150 Cr, securitization income impact of Rs 300 Cr and other minor adjustments.
- ☑ NIM is likely to remain under pressure with the intensive competition and as the incremental cost of fund has increased due to continuous rise in bond yield. Incremental borrowing cost during the quarter increased to 7.88% from 7.65% in the previous quarter.

1Q FY19 Result:

IBULHSGFIN reported strong 1QFY19 numbers. NII grew by 32% YoY backed by strong 33% growth of AUM & 48% growth in disbursement. Operating expenses increased by 44% YoY, while total net income grew at 20% YoY, which led sudden rise in the cost to income (C/I) ratio from 13% a year back to 15%. Other income has de-grown this quarter by 33%. Provisions declined by 67% to Rs 65 Cr. Lower provisioning during the quarter led PBT to rise by 32% YoY. Asset quality remained stable QoQ with GNPA at 0.78%.

View and Valuation

IBULHSGFIN has increased the pace of AUM growth to 30% plus in last 4 quarters. We believe with the affordable housing push by Government, IBULHSGFIN is well placed to grow its AUM at 27% CAGR over FY18-20. However on the margin front, we remain cautious as the incremental cost of fund has increased due to continuous rise in bond yield. Assets quality has remained intact and under IND-AS there has been positive impact on ECL provisioning requirement due to lower LGD. Due to lower provisioning requirement our earnings estimates has increased. We value the stock at 3x P/BV FY20e to arrive at target price of Rs 1465 and recommend ACCUMULATE.

Key Risks to our rating and target

- ◆ Continuous increase in bond yield will further pressurize the NIM.
- ◆ Deterioration in the asset quality further may lead to credit cost at high level.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2870	3527	4831	6137	7701
PPP	3636	4554	6107	6564	8667
PAT	2345	2906	3847	4677	5944
NIM %	4.7	4.4	4.5	4.4	4.3
EPS (Rs)	56	69	90	110	139
EPS growth (%)	4.1	23.2	31.6	21.6	27.1
ROE (%)	27.1	25.5	30.1	30.1	30.9
ROA (%)	3.5	3.2	3.3	3.1	3.2
BV	254	286	315	415	488
P/B (X)	2.5	3.5	4.0	3.1	2.6
P/E (x)	11.6	14.5	14.1	11.6	9.1

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1Q FY 19 Results
Above expectation

Strong performance

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	3,016	3,067	3,349	3,690	3,890	29.0%	5.4%	9,938	12,485	25.6%
Interest Exp.	1,841	1,835	1,953	2,093	2,335	26.9%	11.6%	6,411	7,654	19.4%
NII	1,176	1,232	1,396	1,597	1,555	32.3%	-2.6%	3,527	4,831	37.0%
Other Income	272	275	756	278	181	-33.4%	-34.8%	1,764	2,155	22.2%
Total Income	1,447	1,507	2,153	1,874	1,736	19.9%	-7.4%	6,594	8,565	29.9%
Opex Exp.	187	212	266	220	269	43.7%	22.5%	737	880	19.4%
PPP	1,260	1,295	1,887	1,655	1,467	16.4%	-11.3%	4,554	6,107	34.1%
Provisions	198	182	327	412	65	-67.3%	-84.3%	783	1,131	44.5%
PBT	1,062	1,113	1,559	1,243	1,402	32.1%	12.9%	3,772	4,976	31.9%
Tax	257	262	394	218	354	37.6%	62.1%	863	1,150	33.2%
Net Profit	809	860	1,168	1,030	1,055	30.3%	2.4%	2,906	3,847	32.4%

*1Q FY18 results as per IND-AS

NIM remained under pressure, C/I ratio hiked.

NII growth has been strong at 32% YOY, backed by AUM growth of 33% and disbursement growth of 48%. Incremental spread on loans improved by 12 bps QoQ to 3.23% due to increase in yield by 29 bps to 11.15% higher than the rise in the cost of fund by 17 bps to 7.92% on QoQ basis. With the management focus to increase the bank's share towards low yield housing loans upto 67% and rise in the cost of fund due to hardening of bond yield, we expect NIM to remain under pressure.

C/I ratio increased to 15.49% from 12.93% a year back, due to increase in the employee expenses by 77% to Rs 209 Cr. While other income declined by 33% YoY to Rs 181 Cr, due to hardening of bond yields.

Asset quality remained stable.

Asset quality during the quarter remained stable QoQ with GNPA ratio at 0.78%, but the NNPA ratio increased by 25 bps to 0.59%. ECL provisioning made under stage 3 is around 25%. Stage 1 & 2 coverage ratio declined to 0.26% as against 0.29% in the corresponding quarter a year back. Under IND-AS management expects credit cost to be in the range of 20-25 bps going forward as against earlier guidance of 70-80 bps under IGAAP accounting. Under IND-AS loss given default in Stage-3 is around 25%.

AUM growth continued to be robust.

AUM growth remained robust at 33% YoY. Share of individual loan (home loan) continued to be stable at 60% QoQ. Disbursement during the quarter grew at 48% YoY. Home loan increased by 47% YoY to Rs 5600 Cr. While LAP/Project loan grew at 7%/88% on YoY basis to Rs 1500/3000 Cr. Securitization as a percentage of AUM stood at 10.9% as against 9.8% in the corresponding quarter a year back. Since the Home loan space is seeing reasonably good traction and the competition remains absolutely congenial, therefore it is expected to grow continuously going forward.

Concall Highlights :

- ✓ Under IND-AS owing to fair value accounting of investments the banks net worth now stands at Rs 16418 Cr at the end of June 2018, up from Rs 13424 Cr under IGAAP at the end of March 31st, 2018.
- ✓ The Bank borrows at about 8.05%. ECBs are at about 7.55%, sell-downs blended for both priority sector and non-priority sector is at about 7.6%.
- ✓ Yields on an incremental basis in home loans are at 9.25% which used to be 8.9% last quarter on incremental basis. LAP loans are 11.65% up from 11.15% last quarter and commercial loans are getting 12.86% up from 12.35% on incremental loans last quarter.
- ✓ Management expects e-home loans to contribute roughly a fourth of the incremental business of 25-26%. Smart city loans which are more likely in Tier-III, Tier-IV kind of locations contributes to about 20% of the bank business.
- ✓ There was MTM loss of around Rs 50 Cr on the bank's liquid investments from G-Sec movement.
- ✓ Spreads on the stock of loans now stands at 323 basis points and is hence, at the highest end of the management guided range between 300 to 325 basis points.
- ✓ The Bank has adjusted net gains from assignment transactions for the quarter, which stood at Rs 47 Cr.

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Profitability Matrix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	13.7	14.1	12.9	14.1	12.3	11.7	15.5	2.56	3.78
Empl. Cost/ Tot. Exp. %	70.3	54.2	72.7	72.2	58.7	63.2	77.7	5.00	14.49
Other Exp/Tot. Exp.%	26.5	42.6	23.3	24.1	38.3	30.5	19.1	-4.14	-11.38
Provision/PPP %	15.0	24.0	15.7	14.1	17.3	24.9	4.4	-11.33	-20.48
Tax Rate %	25.4	13.7	24.2	23.5	25.3	17.6	25.2	1.02	7.66
Int Exp./Int Inc. (%)	63.1	59.3	61.0	59.8	58.3	56.7	60.0	-1.00	3.30
Other Income/NII %	44.0	24.6	23.1	22.3	54.2	17.4	11.6	-11.47	-5.74
PPP/ Net Income %	86.3	85.9	87.1	85.9	87.7	88.3	84.5	-2.56	-3.78
PAT/ Net Income %	54.7	56.4	55.6	56.5	54.1	54.7	60.4	4.80	5.74
NII Growth % (YoY)	28.7	36.8	22.3	39.7	46.5	33.9	32.3	9.94	-1.65
Operating Profit Growth	29.0	15.3	23.2	21.4	59.3	29.7	16.4	-6.77	-13.26
PAT Growth %	24.7	24.4	28.5	25.7	55.5	22.6	30.3	1.82	7.71

Margin Performance

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Overall Yield%	12.1	11.6	11.5	11.4	11.1	10.9	11.2	-0.34	0.29
Cost of Fund %	8.8	8.4	8.3	8.1	7.9	7.8	7.9	-0.33	0.17
Spread% (Cal)	4.8	5.7	5.2	5.1	5.2	5.5	4.9	-0.35	-0.62
NIM % on AUM (Cal)	5.8	6.7	6.1	6.0	6.3	6.7	6.1	0.00	-0.57

Exhibit: Yield and Cost

Both yield and cost of fund remained stable.

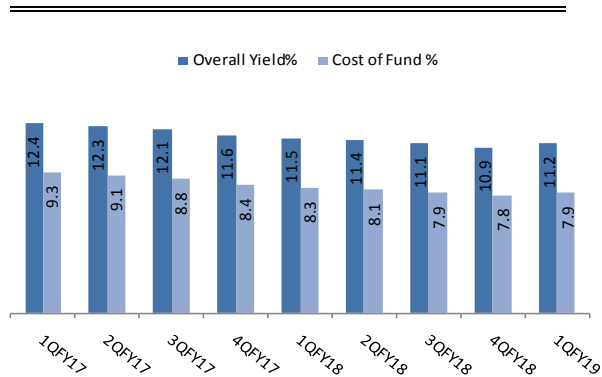
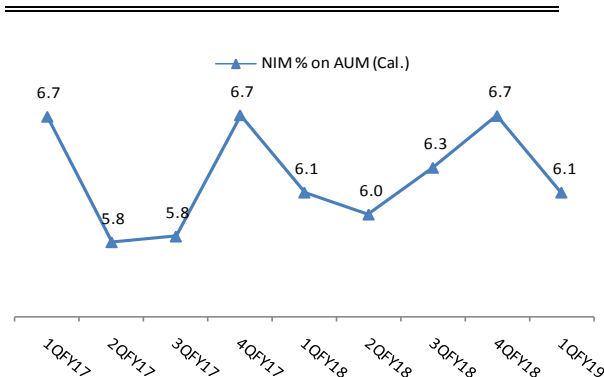


Exhibit: Net Interest Margin

NIM declines



Asset Growth Trend

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Disbursements	5250	6720	9098	14414	6799	9504	12257	19500	10044
Growth YoY %	15	9	41	58	30	41	35	35	48
AUM	71026	75313	81422	91300	94500	100300	107328	122600	125963
Growth YoY %	31	29	31	33	33	33	32	34	33
Borrowings	66230	74390	83180	85300	88470	96840	101980	110260	115990
Growth YoY %	30	41	48	40	34	30	23	29	31

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Exhibit: AUM Growth %

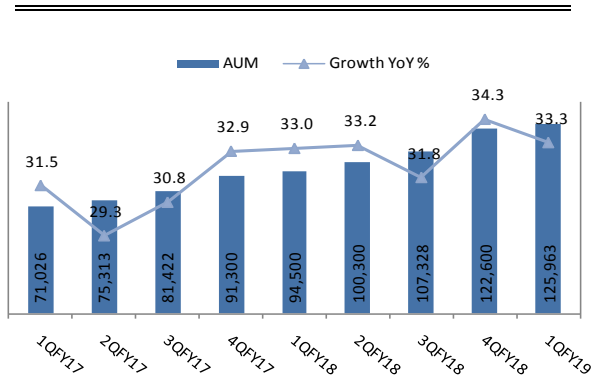
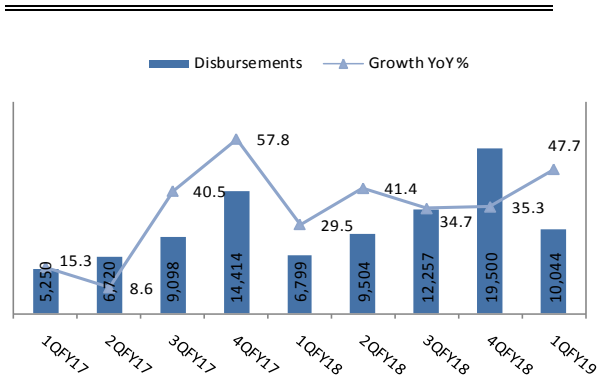


Exhibit: Disbursement Growth %



Borrowing Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Debentures and Securities	45	55	56	56	58	60	59	60	60
Bank Loans	53	43	41	41	39	36	38	38	36
Others	2	2	3	3	3	3	3	3	4

AUM Composition

Individual Loan Portfolio %	53	54	55	56	57	58	59	60	60
LAP %	24	24	24	22	21	20	20	19	19
Project/Developer loan	23	22	21	22	22	22	21	21	21

Asset Quality

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
GNPA (Rs in Cr)	598	624	694	777	757	782	825	948	980
GNPA %	0.8	0.8	0.9	0.9	0.8	0.8	1	1	1
NNPA (Rs in Cr)	258	254	296	328	293	311	334	420	735
NNPA %	0.4	0.3	0.4	0.4	0.6	0.3	0	0	1
Specific PCR %	56.9	59.3	57.3	57.8	24.7	60.2	60	56	25

Exhibit: Asset Quality

Stable assets quality

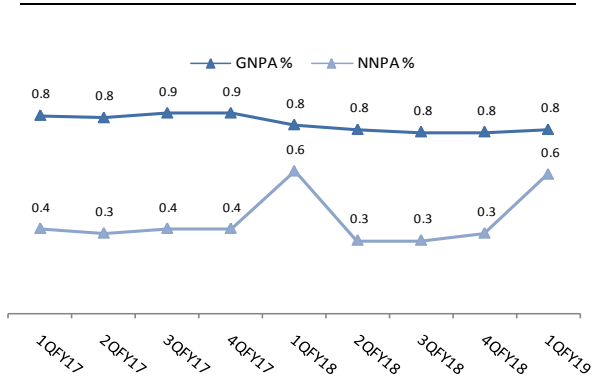
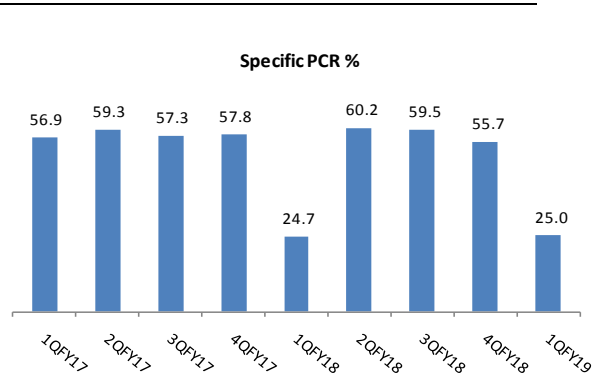


Exhibit: Provisions

PCR remained stable



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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	17,611	20,741
Networth	5,068	5,707	6,632	10,694	12,122	13,423	17,697	20,826
Change (%)	3	13	16	61	13	11	32	18
Total Borrowing	31,286	35,539	47,492	61,090	85,300	110,260	140,114	174,982
Change (%)	24	14	34	29	40	29	27	25
Provisions	1,194.9	1,250.3	768.9	891.9	1,075.8	1,360.0	1,751.4	2,187.3
Other Liability	1,479	1,922	2,339	3,760	5,207	6,860	6,018	7,478
Total Liabilities	39,141	44,418	57,231	76,436	103,705	131,903	165,580	205,473
Assets Side								
Investments	2,308	2,947	6,164	10,693	13,617	14,871	16,948	19,674
Loans	30,881	35,580	46,473	61,618	83,088	110,560	140,490	177,018
Change (%)	21.3	15.2	30.6	32.6	34.8	33.1	27.1	26.0
Fixed Assets	46	47	54	69	101	112	173	218
Other Assets	1,019	1,425	1,050	1,155	1,217	1,612	2,258	2,821
Cash Balance	4,888	4,419	3,490	2,902	5,683	4,748	5,711	5,742
Total Assets	39,141	44,418	57,231	76,436	103,705	131,903	165,580	205,473

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	4,263	5,187	6,121	7,842	9,938	12,485	16,377	20,639
Interest expended	2,599	3,282	3,944	4,971	6,411	7,654	10,239	12,938
Net Interest Income	1,664	1,904	2,177	2,870	3,527	4,831	6,137	7,701
Change (%)	27.7	14.4	14.3	31.9	22.9	37.0	27.0	25.5
Other Income	515	775	1,149	1,384	1,764	2,155	1,446	2,082
Change (%)	(17.4)	50.6	48.3	20.4	27.5	22.2	(32.9)	44.0
Total Net Income	2,179	2,679	3,326	4,254	5,291	6,987	7,583	9,783
Change (%)	13	23	24	28	24	32	9	29
Operating Expenses	401	411	553	618	737	880	1,020	1,116
Change (%)	5	3	35	12	19	19	16	9
>> Employee Expenses	225	264	325	413	500	581	717	759
Change (%)	16.7	17.5	23.2	27.2	20.9	16.3	23.3	5.8
>> Other Expenses	176	147	229	205	237	298	303	357
Pre-provisioning Profit	1,778	2,268	2,773	3,636	4,554	6,107	6,564	8,667
Change (%)	15.0	27.5	22.2	31.1	25.3	34.1	7.5	32.1
Provisions	123	286	300	507	783	1,131	356	673
Change (%)	(45.0)	132.5	4.8	68.8	54.5	44.5	(68.6)	89.3
PBT	1,655	1,982	2,473	3,129	3,772	4,976	6,208	7,994
Tax	389	413	571	776	863	1,150	1,555	2,078
Profit After Tax	1,266	1,569	1,901	2,353	2,908	3,826	4,653	5,915
Change (%)	25.8	23.9	21.2	23.8	23.6	31.5	21.6	27.1
Adjusted PAT	1,258	1,564	1,901	2,345	2,906	3,847	4,677	5,944
Change (%)	26.1	24.3	21.5	23.3	23.9	32.4	21.6	27.1

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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	122,600	156,928	197,729
>> Off-Book AUM	3,544.2	5,589.0	5,762.1	7,065.4	8,212.3	12,040.0	16,437.5	20,711.3
AUM Growth (%)	25.1	19.6	26.9	31.5	32.9	34.3	28.0	26.0
Borrowing Growth (%)	23.7	13.6	33.6	28.6	39.6	29.3	27.1	24.9
Loan/Borrowing Ratio	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Disbursement (Rs Cr)	14,600	14,000	20,304	26,354	35,482	48,060	57,943	72,257
Disbursement Growth (%)	19.6	19.6	19.6	19.6	34.6	35.4	20.6	24.7
CRAR (%)	18.5	19.1	18.4	20.5	18.3	20.8	16.8	15.8
>> Tier 1 (%)	15.0	15.1	15.2	17.9	15.1	15.1	13.7	13.0
>> Tier 2 (%)	3.5	4.1	3.1	2.7	3.2	5.8	3.1	2.8
Debt/Equity (x)	6.0	6.2	7.2	5.7	7.0	8.2	7.9	8.4

Assets Quality Metrics

Gross NPA	271	342	443	577	777	948	1,187	1,584
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	878	1,172
Net NPA (%)	0.3	0.4	0.4	0.4	0.4	0.3	0.6	0.7
Provision Coverage (%)	57.7	56.9	58.0	58.8	57.8	55.7	26.0	26.0
Provision/Average Advances (%)	0.4	0.8	0.6	0.8	1.0	1.1	0.3	0.4

Margin Metrics

Yield On Advances (%)	13.8	13.7	13.1	13.0	12.4	11.7	11.7	11.6
Cost Of Funds (%)	9.2	9.8	9.5	9.2	8.8	7.8	8.2	8.2
Spread (%)	4.6	3.9	3.6	3.8	3.7	3.8	3.5	3.4
NIM (%)	5.4	5.0	4.7	4.7	4.4	4.5	4.4	4.3

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	61.0	63.3	64.4	63.4	64.5	61.3	62.5	62.7
Other Income/NII (%)	30.9	40.7	52.8	48.2	50.0	44.6	23.6	27.0
Operating Profit/ Net Income (%)	81.6	84.7	83.4	85.5	86.1	87.4	86.6	88.6
Net Profit/Net Income (%)	58.1	58.6	57.2	55.3	55.0	54.8	61.4	60.5
Cost to Income (%)	18.4	15.3	16.6	14.5	13.9	12.6	13.4	11.4
Employee Exp/ Net Income (%)	10.3	9.8	9.8	9.7	9.4	8.3	9.5	7.8
Cost on Average Assets (%)	1.1	1.0	1.1	0.9	0.8	0.7	0.7	0.6
Provisions/PPP (%)	6.9	12.6	10.8	13.9	17.2	18.5	5.4	7.8
Tax Rate (%)	23.5	20.9	23.1	24.8	22.9	23.1	25.1	26.0

Valuation Ratio Metrics

EPS (Rs)	40	47	53	56	69	90	110	139
Change (%)	-	16.3	14.2	4.1	23.2	31.6	21.6	27.1
ROAE (%)	25.2	29.0	30.8	27.1	25.5	30.1	30.1	30.9
ROAA (%)	3.5	3.7	3.7	3.5	3.2	3.3	3.1	3.2
Dividend Payout (%)	57.8	72.2	56.5	91.5	47.3	55.9	49.3	47.4
Dividend yield (%)	-	8.5	4.7	7.0	2.7	3.6	3.9	4.8
DPS	-	20.0	26.0	45.0	27.0	42.0	45.0	55.0
Book Value (Rs)	162	171	187	254	286	315	415	488
Change (%)	-	5.3	9.2	36.1	12.7	10.0	31.8	17.7
P/B (X)	-	1.4	3.0	2.5	3.5	4.0	3.1	2.6
P/E (X)	-	5.0	10.4	11.6	14.5	14.1	11.6	9.1

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Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	12.4	12.0	11.7	11.0	10.6	11.0	11.1
Interest expended	7.9	7.8	7.4	7.1	6.5	6.9	7.0
Net Interest Income	4.6	4.3	4.3	3.9	4.1	4.1	4.2
Other Income	1.9	2.3	2.1	2.0	1.8	1.0	1.1
Total Income	6.4	6.5	6.4	5.9	5.9	5.1	5.3
Total Operating Expenses	1.0	1.1	0.9	0.8	0.7	0.7	0.6
>> 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	4.4	4.7
Provisions	0.7	0.6	0.8	0.9	1.0	0.2	0.4
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	4.2	4.3
Tax	1.0	1.1	1.2	1.0	1.0	1.0	1.1
PAT/ROAA	3.7	3.7	3.5	3.2	3.3	3.1	3.2
Equity Multiplier (x)	7.8	8.2	7.7	7.9	9.2	9.6	9.6
ROAE	29.0	30.8	27.1	25.5	30.1	30.1	30.9

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