

ISSUE DETAIL :

Type	100% Book Building
Issue Size	Rs. 1224 Crore
Offer Price	*Rs (56-60)/Equity Share
Min App Size	200 Shares
Issue Open	8-May-17
Issue Close	11-May-17
Shares Offer	20.40 Cr.
Face Value	Rs 10
Lead Mgrs	ICICI Securities Ltd, IDBI Capital Market Services Ltd, Nomura Financial Advisory And Securities (India) Pvt Ltd , SBI Capital Markets Ltd
Listing	BSE, NSE
Registrar	Alankit Assignments Ltd
Market Cap (Post Issue)	11210.6

No of shares (Post & Pre Issue)

Noof Shares(Pre Issue)	2,001,900,000
Offer for Sale	204,058,747
Fresh Issue made	0
Employee Reservation	3868747
No of Shares (Post Issue)	2001900000

Bid allocation pattern

QIB	50%
Non-Institutional	15%
Retail	35%

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RECOMMENDATION :

HUDCO is a wholly-owned Government company with more than 46 years of experience in providing loans for housing and urban infrastructure projects in India. HUDCO's AUM stands at ~Rs 36800Cr out of which 89% is to state government and their agencies. The loan book of the company has till date been growing at 7.5% CAGR for last 4 years which appears low considering other listed housing finance company. GNPA of the company stands at 6.80% while NNPA at 1.51% which is again higher than its listed peers. However the company is expected to benefit hugely from Pradhan Mantri Awas Yojna under Housing for All by 2022. As the CAR is high at 63.9%, risk of any equity dilution in the near term gets eliminated.

The company is attractively priced at 1.4 times BV with Return on Equity at 7.6%

We recommend SUBSCRIBE

COMPANY OVERVIEW:

Housing and Urban Development Corporation Ltd (HUDCO) incorporated in 1970, which is a wholly-owned Government company with more than 46 years experience in providing loans for housing and urban infrastructure projects in India. They provides long term finance for construction of houses and to undertake housing and urban infrastructure development programs. Apart from the financing operations, Hudco offers consultancy services, promotes research and studies and help propagate use of local building materials, cost-effective and innovative construction technologies.

HUDCO offers loans for housing projects, such as urban and rural housing, co-operative housing, community toilets, slum upgradation, staff housing, repairs and renewals, private sector projects, land acquisition, and housing programs. They also offers take out finance for housing and infrastructure projects to state government, public agencies, and private corporate sector agencies. Company provide loans for implementing agencies comprising state government bodies, co-operative societies, corporate employers, and community sectors; and building technology and rent to own schemes. It also provides finance for infrastructure projects in the sectors of water supply, sewerage, drainage, solid waste management, roads and transport, and electricity in the urban areas; and social infrastructure component, such as play/primary schools, health centers, play grounds, police stations, courts, jails, crematorium, etc. In addition, the company offers consultancy services, including URP services, environmental engineering, and government programs and disaster mitigation services.

COMPANY STRATEGIES :

- Company is focusing on housing finance loans and benefit from state govt initiatives to help build new dwellings for the LIG , EWS & rural population. Housing finance loan offers better NIM (4.26% for Urban infrastructure) & lower GNPA (3.08% for housing Vs 8.26% for urban infrastructure)
- Company focus on sanctioning loans to state govts to avoid credit risk of the private sector entities . Company sanctions to state Govt and their Agencies represent 99.93% of total sanction. Company ceased the sanctioning of new housing finance loan to private sector.
- Company continue to participate in the implementation of govt housing and urban infrastructure programme such as DAY- NULM , JNNURM & PMAY HFA among other.
- Company is increasing geographical footprint in smaller cities to cater to increasing financing requirement in these cities.

OBJECTS OF ISSUE:

- To carry out the disinvestment of 204,058,747 Equity Shares by the Selling Shareholder constituting 10.19% of the company's pre-Offer paid up Equity Share Capital
- To achieve the benefits of listing the Equity Shares on the stock exchanges

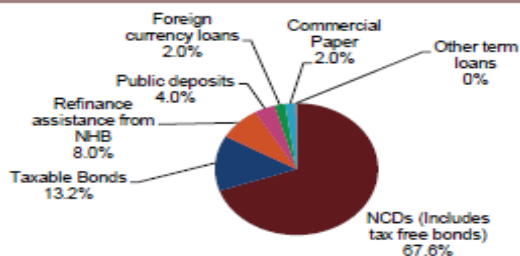
RATINGS

India Ratings (Fitch Group), ICRA and CARE have assigned a rating of 'AAA' to HUDCO's long-term bonds, long-term bank facilities and fixed deposit programme

HUDDCO BORROWING OVERVIEW :

Borrowing Type	Amount (bn)	(INR)	Average Period (From date of allotment)	Maturity Residual Maturity	Interests Rate Range
Tax Free Bonds	173.88		10-20 years	4.83-17.25 years	7.00%-9.01%
Taxable Bonds	34.4		Upto 10 years	0.75-5.50 years	6.80%-8.14%
Refinance Assistance from NHB	21.2		7-10 years	1.83-8.08 years	6.25%-8.00%
Other Term Loans	0.61		24 years	5.50 years	0.54%
Public Deposits	9.48		12-84 months	12-24 months	7.00%-9.55%
ECB	4.89		25-30 years	6.58-13.75 years	Fixed: 2.10% Floating – USD 6M LIBOR + (18-40bps)

Borrower Type (By Outstanding Loan Portfolio)¹



Borrowings¹



COMPETITIVE RISKS

- ☑ If the level of non-performing assets in their outstanding loans, advances and investments in project-linked bonds were to increase or the NHB-mandated provisioning requirements were to increase. The results of operations and financial condition would be adversely affected.
- ☑ If borrowers default on their obligations to company, they may be unable to foreclose on their loans on a timely basis, or at all, or realise the expected value collaterals and this may have a material adverse effect on results of operations and financial condition.
- ☑ Company operations are substantially dependent upon the amount of our NII and NIM. The interest rates company pay on their borrowings and the interest rates company charge on their loans are sensitive to many factors, many of which are beyond our control, including the RBI's monetary policies . Volatility in interest rates could adversely affect our business, net interest income and net interest margin, which in turn would adversely affect our results of operations and financial condition.
- ☑ Company business is dependent upon timely access to, and the costs associated with, borrowings. The debt funding requirements historically have been primarily met from a combination of the issuance of tax-free bonds, the issuance of unsecured taxable bonds, foreign currency loans, refinance assistance from NHB, public deposits . Company may be unable to secure funding on commercially acceptable terms and at competitive rates, which could adversely affect business and results of operations.

Financials Snap Shot

Balance Sheet

Rs in Crores

Y/E March	FY14	FY15	FY16	9MFY17
Share Capital				
Equity Capital	2,002	2,002	2,002	2,002
Reserves & Surplus	5,130	5,779	6,470	6,966
Networth	7,132	7,781	8,472	8,968
Borrowings	21,305	23,468	25,609	24,843
Provisions	406	451	467	408
Deferred Tax Liability (Net)	495.1	506.9	485.7	455.9
Other Liabilities	886	908	848	1,423
Total Liabilities	30,225	33,114	35,882	36,098
Loans and Advances	28,214	31,043	33,805	34,288
Investments	754	756	369	369
Cash and Bank Balances	272	285	590	387
Fixed Assets	95	100	101	104
Other Assets	890	931	1,017	951
Total Assets	30,225	33,114	35,882	36,098

Detail of Loan Portfolio

Y/E March	FY14	FY15	FY16	9MFY17
Gross Loan Portfolio				
Social housing	4,721	6,722	8,201	7,755
Residential real estate	2,445	2,561	2,876	2,898
HUDCO Niw as				
>> Individual Retail Loans	190	166	141	132
>> Bulk Retail Loans	520	212	479	444
Housing Loans	7,875	9,661	11,696	11,228
Water supply	3,752	5,638	7,284	8,485
Roads and transport	6,074	6,041	6,041	6,143
Power	7,626	7,138	5,380	5,226
Emerging sectors	1,636	1,932	1,814	2,127
Commercial inf rastructure and others	1,224	1,135	1,662	1,411
Social inf rastructure and area develop	1,233	943	1,033	1,045
Sewerage and drainage	591	647	755	722
Urban Infrastructure	22136.6	23473.4	23969	25157.7
Total Loan Portfolio	30,012	33,135	35,665	36,386

Income Statement

Rs in Crores

Y/E March	FY14	FY15	FY16	9MFY17
Interest on Loans	2,822	3,256	3,157	2,571
(+) Interest on Bonds	0	0	0	0
(+) Interest on Loan against	48	2	55	12
(+) Interest on Fixed Deposit	477.0	19.0	554.0	124.0
(-) Interest Expense	1,702	1,775	1,907	1,509
Total Interest Income	(1,367)	(1,448)	(1,531)	(1,238)
Other Income on Loans	21	27	13	12
(+) Consultancy, Trusteeship	6	8	4	1
(+) Other Income	52	81	97	65
Non-interest income	(1,288)	(1,332)	(1,416)	(1,160)
Net of Interest Expense	1,222	1,537	1,328	1,091
Non-interest income	(2,510)	(2,868)	(2,744)	(2,251)
Employee Benefits Expense	105	161	140	115
Depreciation and Amortisation	4	5	5	3
Other Expenses	47.4	38.8	43.4	27.4
Corporate Social Responsibility	11	3	5	2
Operating expenses	166.9	208.8	193	148.2
Pre-Provision Operating Profit	(1,455)	(1,541)	(1,609)	(1,308)
Provisions	9	274	129	281
Exceptional Items	(20)	-	5	0
Profit Before Tax	(1,484)	(1,814)	(1,733)	(1,588)
Tax Expense	371	402	315	245
Profit After Tax	(1,855)	(2,216)	(2,048)	(1,833)

Margin Metrics

Yield on Earning Assets (%)	10.81%	11.01%	9.81%	10.07%
Cost of interest bearing liabilities (%)	8.43%	7.91%	7.70%	7.97%
Cost to Income Ratio	12.1%	12.9%	13.7%	13.1%
Debt to Equity Ratio (X)	2.9	2.7	3.0	2.8
Net Asset Value per Equity Share	35.3	38.6	42.0	44.5

Assets Quality Metrics

Gross NPA (Rs)	2,030	2,070	2,383	2,475
Gross NPA (%)	6.76%	6.25%	6.68%	6.80%
Net NPA (Rs)				
Net NPA (%)	2.52%	1.59%	2.06%	1.51%
Provision Coverage (%)	64.4%	75.8%	70.6%	79.0%
NIM (%)	4.59%	5.18%	4.11%	4.26%

Valuation Ratio Metrics

EPS (Rs)	3.7	3.8	4.0	
Book Value per share	35.6	38.9	42.3	
P/B (X)	1.68	1.54	1.42	
P/E (X) (Upper brand)	16.2	15.8	15.0	
P/E (X) (Lower brand)	15.1	14.7	14.0	
ROAE (%)	10.8%	10.3%	10.0%	
ROAA (%)	2.6%	2.4%	2.3%	
Shareholders' Funds as % Assets	24%	23.5%	23.6%	
Dividend Payout (%)	15.9%	15.7%	15.5%	