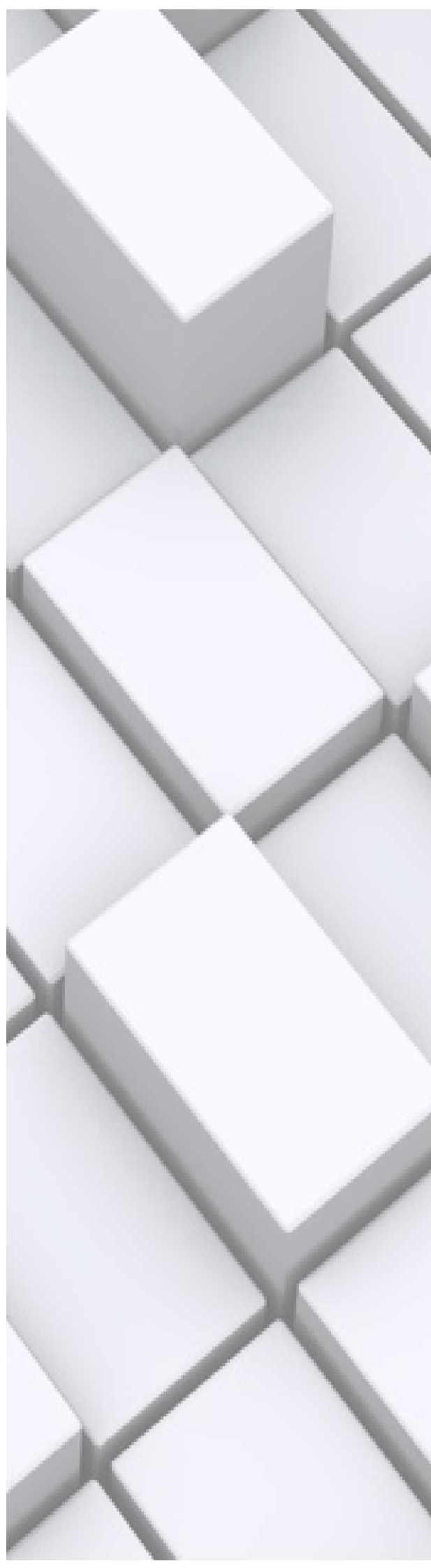


July 13, 2017



## Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

## Housing and Urban Development (HUDCO)

₹ 97

**Hudco**, a Miniratna company, plays a key role in various government schemes to develop Indian housing & urban infrastructure. It is the only institutional lender in housing development for government and may be a key beneficiary of the government's push towards affordable housing.

### Triggers

#### Large opportunity size....

India has an estimated population of 1.3 billion and is expected to have the largest and youngest workforce globally. Improved affordability and rapid pace of urbanisation has led to shortage of housing. As per a study by the Ministry of Rural Development, shortage in rural housing is ~44 million units and for urban areas is ~19 million. The government's push towards housing through various schemes and subsequent infrastructure development enables ample growth opportunity for Hudco, engaged primarily in the institutional lending business.

#### Strong capital adequacy, growth to be RoE accretive

Hudco has been engaged in providing loans to state governments and their agencies. As per HFC directions, loans backed by state government guarantee are accorded a "zero" risk weight. Therefore, Hudco's capital adequacy has been strong at 63.85% as of March 2017. With majority of incremental lending to state government entities, capital consumption is seen remaining lower. Thus, advances growth will be RoE accretive.

#### High credit rating, low CoF, asset quality manageable

Hudco has credit rating of "AAA" for long-term borrowings from each of CARE, IcrA and IRRPL, which lowers its cost of borrowing. Issuance of tax-free bonds domestically enables it to keep cost of borrowing lower. As of March 31, 2017, Hudco's GNPA was at 6%, led by higher NPA from private sector borrowers. As per board decision (in March 2013) to focus on lending to state government, more than 99% of incremental sanctions in FY14-17 were to state government entities. With majority of lending to the state government, asset quality is seen remaining strong ahead.

#### Valuation & Outlook

Having grown its loan book (gross) at reasonable rate of ~10% to ₹ 39661 crore in the last two years, Hudco managed an RoE range of 9-10%. As capital requirement on incremental lending remains limited, we believe ~12-15% CAGR in advances will lead to RoE expansion.

At ₹ 97, the stock is available at ~1.7x FY19E ABV. Even at 2-2.2x FY19E ABV, which is at discount to retail housing peers (2.5-5x FY19E ABV), the stock can be expected to reach ₹ 112-123 from 12-15 months perspective.

#### Exhibit 1: Financial Performance

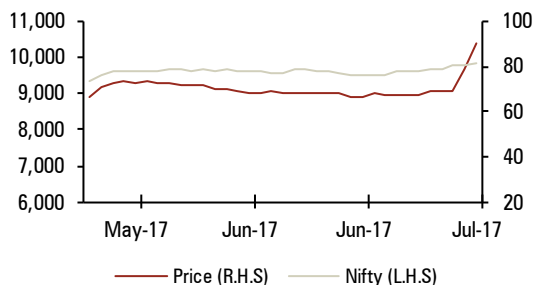
(Year-end March)	FY14	FY15	FY16	FY17
<b>P&amp;L</b>				
Revenues (₹ crore)	1,301.2	1,652.5	1,442.8	1,523.2
Operating profit (₹ crore)	1,134.3	1,443.7	1,249.8	1,423.1
Net Profit (₹ crore)	734.0	768.3	810.7	841.8
<b>Balance Sheet</b>				
Net worth (₹ crore)	7,131.9	7,780.4	8,471.9	9,167.6
Total assets (₹ crore)	30,224.0	33,114.0	35,882.0	39,322.2
<b>Ratios</b>				
Net Interest Margins (%)	4.6	5.2	4.1	4.2
ROE	10.8	10.3	10.0	9.5
ROA	2.6	2.4	2.4	2.4
P/E	22.4	21.8	20.8	19.7
P/ABV	2.6	2.3	2.1	1.9
Gross NPA (%)	6.8	6.3	6.7	6.0
Net NPA (%)	2.5	1.6	2.1	1.2

Source: Company, ICICIdirect.com Research

Rating Matrix	
Rating	: Buy
Target	: ₹ 112-123
Target Period	: 12 -15 months
Potential Upside	: 15-27%

Stock Data	
Particulars	Amount
Market Capitalisation	₹ 19541 crore
GNPA (FY17)	6.0%
NNPA (FY17)	1.2%
NIM % (FY17)	4.2%
52 week H/L	97/66
Net worth	₹ 9167 Crore
Face value	₹ 10
DII Holding (%)	2.8
FII Holding (%)	0.9

#### Price Movement\*



- Limited trading history as the stock listed on 19 May 2017

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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