RESULT UPDATE

INDIABULLS HOUSING FINANCE

Ends FY18 on a high note

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India Equity Research| Banking and Financial Services

Indiabulls Housing Finance's (IHFL) Q4FY18 earnings stood lower than estimates as the company continues to shore up coverage (floating provision at 80bps, aims to take it to 100bps). Going forward, we expect four triggers for RoE improvement, viz: a) sustained AUM growth of 30% plus (AUM grew >34% YoY in Q4FY18); b) higher sell-downs (from 10% to 20% over three years); c) improving operating efficiencies on technology leverage (aims for cost/income of sub-10% by FY20); and d) improvement in credit cost from >90bps in FY18 (including counter-cyclical provisioning) to 55bps by FY20. Given strong track record, rising housing finance demand and stringent risk mitigants, execution risks are minimal. Maintain 'BUY'.

Robust growth momentum sustained

Growth momentum sustained with disbursements rising >35% YoY led by home loans, leading to AUM jumping 34% YoY to INR1.23tn. Commendably, IHFL has been sharpening focus on beyond top-20 cities with spotlight on Smart City home loans (80 branches now, >11% of disbursements) and e-home loans; IHFL aims to take this to >50% by FY20.

Recent hike in lending rates to support spreads

Book spreads dipped to 3.11% for FY18 (3.22% for 9mFY18), with incremental spread at 2.77%. As liabilities re-price further, book spreads will come under pressure, but ratings upgrade and increase in BPLR by 20bps along with 40bps rate hike in LAP would help maintain book spreads within 300-325bps.

Asset quality intact; contingency provisions led to higher credit cost

GNPLs were steady at 77bps. However, credit cost was higher as IHFL prudently made higher contingency provisions (INR1.45bn). Higher proportion of in-house sourcing (>90%), lower LTV and focus on low-risk LRD enabled IHFL maintain stable asset quality.

Target FY23 unveiled

IHFL has embarked on its FY23 roadmap: a) **Loan book** target of INR4tn (implying >25% CAGR); b) **Earnings** of INR55bn by FY20 and INR100bn by FY23; c) **Cost/income** of 10% by FY20 and 8% by FY23; and d) **Credit cost** of 50bps.

Outlook and valuations: Pragmatic mover; maintain 'BUY'

We believe fundamentals are on strong footing with increasing market share in rising demand environment. We maintain **'BUY/SO'** with TP of INR1,600 (3.9x FY20E P/ABV).

Financials (Standalone)

Year to March	Q4FY18	Q4FY17	*Growth (%)*	Q3FY18	*Growth (%)*	FY18	FY19E	FY20E
Net revenue	17,058	13,904	*22.7*	19,970	*(14.6)*	64,279	77,026	93,821
Net profit	9,524	8,217	*15.9*	10,840	*(12.1)*	35,665	42,810	51,937
Dil. EPS (INR)	22.1	19.2	*15.2*	25.2	*(12.3)*	84.1	101.0	122.5
Adj. BV (INR)						297.2	348.4	410.2
Price/ Adj book (x)						4.6	3.9	3.3
Price/ Earnings (x)						16.1	13.4	11.1

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: INBF.BO, B: IHFL IN)*

CMP	: INR 1,356
Target Price	: INR 1,600
52-week range (INR)	: 1,440 / 956
Share in issue (mn)	: 426.5
M cap (INR bn/USD mn)	: 578 / 8,871
Avg. Daily Vol.BSE/NSE('000)	: 1,777.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	23.5	23.6	23.6
MF's, FI's & BK's	11.9	7.2	7.2
FII's	54.9	59.7	59.7
Others	9.6	9.6	9.6

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	13.2	4.3	2.8
3 months	4.2	(3.0)	(8.3)
12 months	38.5	15.6	14.3

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April 20, 2018

Table 1: Key takeaways from Q4FY18 earnings

(INR mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Interest income	34,008	28,125	20.9	31,159	9.1	
Interest expense	19,770	17,108	15.6	18,748	5.5	
Net interest income	14,238	11,017	29.2	12,411	14.7	*NII growth supported by robust AUM traction. On the other hand, spreads were lower which restricted NII growth*
Non-interest income	2,819	2,887	(2.3)	7,559	(62.7)	
Net revenues	17,058	13,904	22.7	19,970	(14.6)	
Operating expenses	1,609	1,287	25.0	2,319	(30.6)	*Controlled opex benefiting from e-Home loan and Smart City home loan initiatives. Management expects to draw further benefits as they scale smart city home loan branches to 100 (80 currently)*
-Staff expense	1,258	1,027	22.5	1,415	(11.1)	
-Depreciation	73	57	26.8	68	6.7	
-Other opex	278	202	37.4	836	(66.8)	
Operating profit	15,449	12,617	22.4	17,651	(12.5)	
Provisions	4,120	3,111	32.4	3,274	25.9	*Asset quality continues to be benign. Credit cost was higher as company made higher floating provisions.*
Profit before tax	11,329	9,506	19.2	14,377	(21.2)	
Tax expense	1,806	1,289	40.1	3,537	(48.9)	
Profit after tax	9,524	8,217	15.9	10,840	(12.1)	*Earnings supported by healthy revenue traction and controlled opex*
EPS (INR)	22.1	19.2	15.2	25.2	(12.3)	
Key Metrics						
AUM	12,26,000	9,13,010	34.3	10,73,000	14.3	*Healthy disbursement growth led to strong AUM traction. Expansion outside of Top 20 cities will help it sustain momentum*
Loan book	11,02,000	8,26,000	33.4	10,73,280	2.7	
Disbursements	1,95,540	1,44,285	35.5	1,22,800	59.2	*Robust home loan disbursements (up >50% YoY) fed into healthy disbursement growth*
GNPA	9,480	7,770	22.0	8,251	14.9	
GNPA (%)	0.8	0.9		0.8		*Asset quality continues to be pristine*
NNPA (%)	0.3	0.4		0.3		
Spreads (%)	3.1	3.2		3.2		*Spreads were under pressure following lower lending yields. Having said that, recent rate hikes in lending rates will support spreads henceforth (these are cumulative numbers)*

Source: Company, Edelweiss research

Table 2: LAP portfolio graded by CRISIL, > 90% graded LAP1/LAP2

Grading					Segment Characteristics			
Grading Scale	Quality of LAP loans	Disbursal - Apr'15 - Mar'18 (%)	Disbursal - Apr'15 - Dec'17 (%)	Disbursal - Apr'15 - Mar'17 (%)	Interest service coverage ratio (x)	Total oustanding liabilities / Total networth (x)	LTV (%)	EBITDA margins (%)
LAP1	Highest	9.6	10.2	9.7	10.6 – 13.4	1.3 – 1.4	49.0	15 – 18
LAP2	High	82.2	82.0	81.1	8.6 – 11.9	2.1 – 2.2	50.0	12 – 15
LAP3	Average	7.7	7.4	8.7	9.3 – 12.0	2.9 – 3.0	54.0	9 – 12
LAP4	Below Average	0.2	0.2	0.2	12.0 – 14.0	1.5 – 1.6	47.0	13 – 16
LAP5	Poor	0.3	0.2	0.3	9.9 – 11.9	2.0 – 2.1	54.0	13 – 15

Source: Company

Table 3: LAP portfolio graded by ICRA

Grading			Characteristics	
Grading Scale	Level of credit worthiness	Grading distribution	Median LTV (%)	Median FOIR (%)
LAP1	Excellent	12.2	26.0	22.0
LAP2	Good	67.5	52.0	47.0
LAP3	Average	20.1	65.0	60.0
LAP4	Below Average	0.1	62.0	63.0
LAP5	Inadequate	-	-	-

Source: Company

Chart 1: Strong disbursement growth at ~35% YoY…

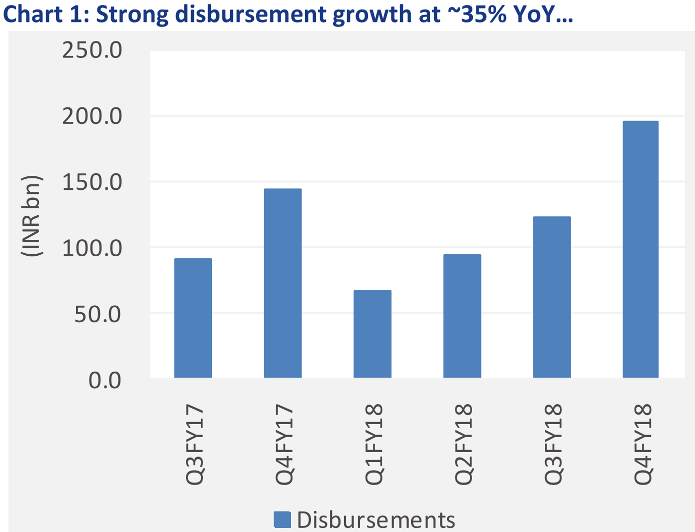
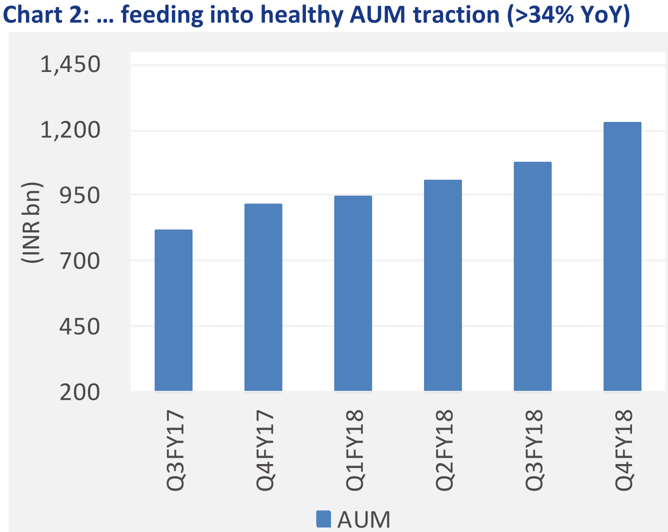


Chart 2: … feeding into healthy AUM traction (>34% YoY)



Source: Company

Chart 3: Bank borrowings at sub-40% levels

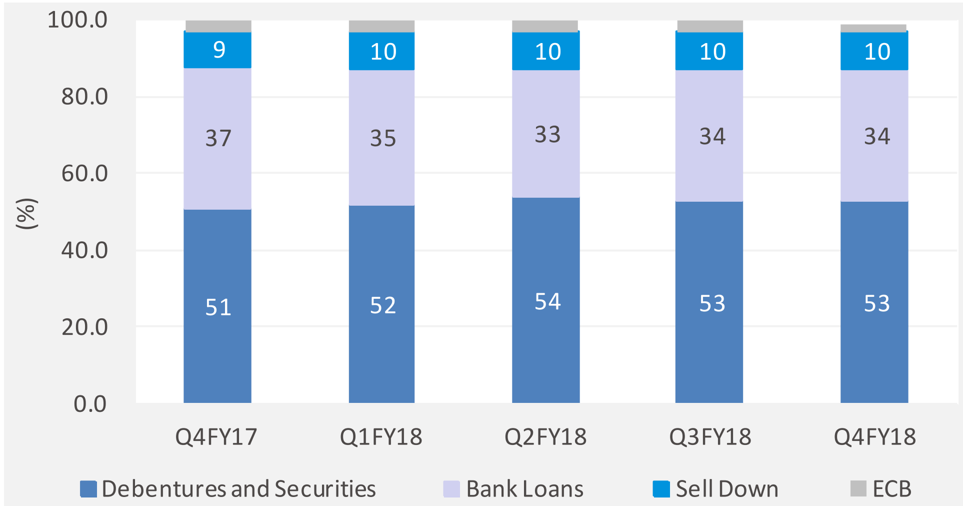


Chart 4: Endeavour to take home loan proportion to 66% (from current 60%) by FY20

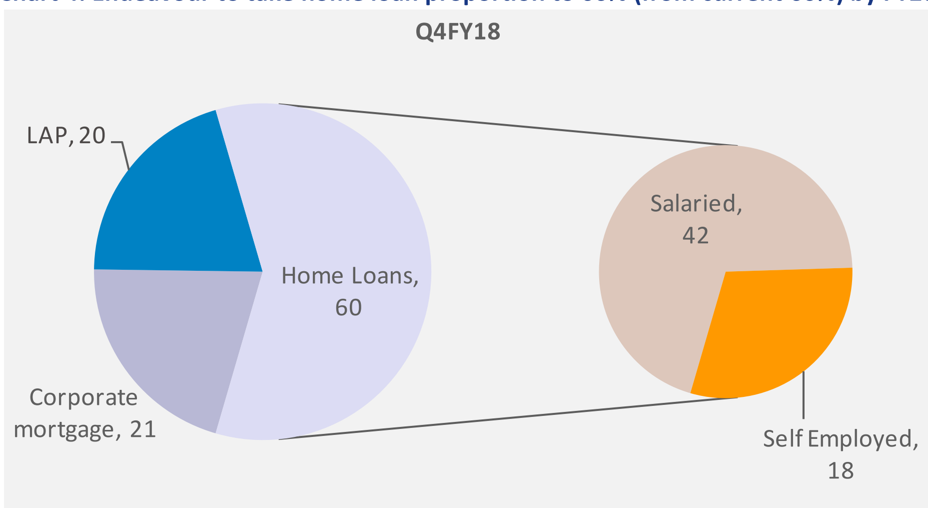
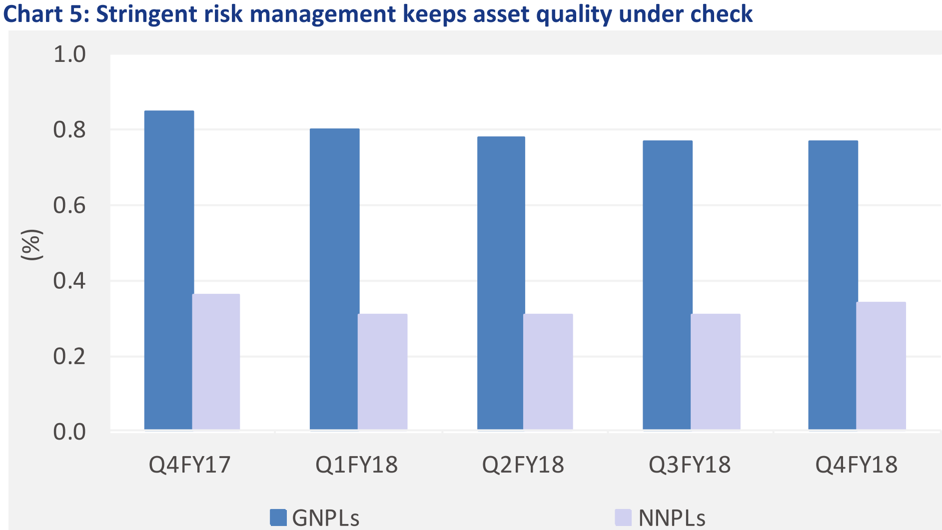


Chart 5: Stringent risk management keeps asset quality under check



Source: Company

Financial snapshot **(INR mn)**

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*	FY17	FY18E	FY19E
Interest income	34,008	28,125	*20.9*	31,159	*9.1*	97,309	118,483	160,629
Interest exp	19,770	17,108	*15.6*	18,748	*5.5*	63,148	73,548	105,058
Net int. inc. (INR mn)	14,238	11,017	*29.2*	12,411	*14.7*	34,161	44,935	55,571
Net revenues	17,058	13,904	*22.7*	19,970	*(14.6)*	50,025	64,279	77,026
Operating expenses	1,536	1,229	*24.9*	2,251	*(31.8)*	5,613	7,227	8,264
Staff expense	1,258	1,027	*22.5*	1,415	*(11.1)*	4,537	5,266	6,132
Other opex	278	202	*37.4*	836	*(66.8)*	869	1,691	1,915
Provisions	4,120	3,111	*32.4*	3,274	*25.9*	7,604	11,152	10,517
Depreciation	73	57	*26.8*	68	*6.7*	207	270	216
Profit before tax	11,329	9,506	*19.2*	14,377	*(21.2)*	36,808	45,900	58,246
Provision for taxes	1,806	1,289	*40.1*	3,537	*(48.9)*	8,384	10,236	15,435
PAT	9,524	8,217	*15.9*	10,840	*(12.1)*	28,424	35,665	42,810
Diluted EPS (INR)	22.1	19.2	*15.2*	25.2	*(12.3)*	67.1	84.1	101.0
GNPLs	0.8	0.9		0.8		0.9	0.8	0.8
NNPLs	0.3	0.4		0.3		0.4	0.3	0.3
Provision coverage (%)	55.8	57.6		59.7		60.0	60.0	60.0
B/V per share (INR)						280.0	304.1	357.4
Adj book value / share						274.6	297.2	348.4
Price/ Book (x)						4.8	4.5	3.8
Price/ Adj. book (x)						4.9	4.6	3.9
Price/ Earnings						20.2	16.1	13.4

Key highlights from Q4FY18 earnings call

5 year financial outlook (till FY23)

- ***Balance sheet 25% compounding – INR2tn by FY20 and INR4tn by FY23***
- ***Earning CAGR of 22% - INR55bn by FY20 and INR100bn by FY23***
- C/I ratio of sub 10% by FY20 and 8% by FY23
- Credit cost to be around 50-55bps by FY20
- Smart city home loans – 50% from top 20 cities
- Spreads to be sustained within range of 300-325bps
- ***Current home loan book is around INR726bn (44% growth YoY) and by FY20, 2/3rd of entire book will be home loans vs 60% currently***

With respect to growth

- Strong growth in MIG segment and on affordable housing side during the year which is the focus area for the company.
- ***The company saw strong traction for loan sell down, a good source of funding and which makes capital more efficient. Around INR100bn worth of loan assets were sold to banks (highest for the company in a year). The contribution of sell downs will increase from the current 10% levels to around 20% in the next few years. Sell down rates for PSL at 7% to 7.5% and Non- PSL at 7.5%-8.0%. Going forward it should be 7.5% or slightly lower. There should be strong demand from foreign banks this year due to change in regulations (slightly lower funding cost of ~7.25%). The composition would be around 66% - PSL and 33% Non- PSL on an average.***
- ***E-home loan product evolved into an integrated product; Technology will drive next leg of growth for the company – 25% of incremental home loans sourced through e-home loans.***
- Top 5 players accounts for nearly 93% of the total housing loans in the market; Don't see any lucrative opportunity now for inorganic growth.
- Top 6 cities account for nearly 95% of the Construction finance, wherein the average ticket size would be INR 2bn-3bn (worth sanctions and not disbursements necessarily)
- Pressure on rent discounting book in second half of FY17 but after that rates have effectively moved up
- 30% home loans and LAP are to self employed people

With respect to operational metrics

- Spreads have been ~277bps for the loans done in Q4FY18
- Opex was higher last quarter due to frontloading of CSR and hiring during first 9mFY18
  - Frontload in hiring to continue next year too, both for mid and junior management; first three quarters will also see higher bonus payouts.
- 1.3% - 2.0% of commission on the home loans while LAP and commercial loans have hefty processing fees plus insurance commission

    - Since home loans proportion increasing – ability to sell multiple insurance products(commission of ~1.5% of the loans) has gone up materially. Most lucrative product is the Group life policy – 85% plus attachment rate target – primarily a risk management exercise but significant income for the company.

- Flat to rising rate environment – conservative on bond swapping for bonds greater than 3 years. Currently ~30% of the bonds would have been swapped out.
- *The repayment rate has been 75bps of amortization on a monthly basis (no arbitrage in the market and hence lower rates); Internally taken more stiffer targets and so this is sustainable with higher interest rate cycle acting as a catalyst.*
- *Focusing hard on reducing costs which is visible in the decline in cost to income ratio from 21% to 12.5%. This is expected to decline further to single digits by FY20.*
- Rating upgrades have enabled offsetting most of the rise in yields
- Demand for portfolio security was reasonable especially on the PSL side
- *The company has a strong transmission vehicle which will pass on any increase in the cost of funds. BPLR increased by 20bps for home loans from 1st April 2019 – this will add up to the 311bps from this quarter onwards*

With respect to asset quality

- *Total credit cost at INR 4.1bn which includes a floating provision of INR 1.45bn w.r.t. substandard assets of INR 1.8bn and w.r.t. standard – INR 860mn*
    - *Excess provision pool of INR8bn which is approximately 80bps of the loan book which should increase to 100bps by FY20*
- LAP disbursement has only been to small business lenders and rating agencies have confirmed that there is no worsening in credit quality
- *20% of the loans are large in size (>50mn ticket size) and markets have been volatile in nature – at sometime there may be a need for provisioning and hence the buffers are created*
    - *Target is to reduce the proportion of large loans from 20% to around 15%-16%*
- *Target is to maintain 20% of loan book as cash and a provision pool of 100bps of loan book (this will lead to reduction in credit cost of 80bps currently to 70bps of credit cost in the short term and gradually to 50bps by FY20)*

With respect to market analysis

- RE sector picked up in FY18. Loans <2.5mn grew at >30% YoY.
- *Sees a huge growth opportunity in India when compared to China's mortgage market. Growth in NCR and Mumbai markets was very attractive. Premium market too showing recovery. Bangalore – 45% growth in residential apartments. Higher stamp duty collection is more than govt. estimates*
- Commercial office space vacancy at a 10 year low as per agency reports and the levels are in single digits for top cities
- Home loans continues to not be a focus area by banks in the current scheme of things; Field open for IHFL for growth as bank recap too had no positive impact.

- GST and RERA impact is behind and positive impact now visible. WC finance growth to builders is through the roof

Other highlights

- On existing books - 10.86% yields and 7.75% cost of funds
- Disbursement for Q4FY18 – INR 195bn out of which INR 99bn is HL , INR 26bn is LAP and rest INR 70bn is Commercial Loan
- Disbursement for FY18 INR 480bn, HL – INR 260bn, LAP - INR 80bn and Commercial - INR 140bn
- Exit yields for Q4FY18 - 9.4% HL, 12.5% LAP, 10.2% LRD and 15% CF
- ***For the Home loan book, New sales account for 65%, Balance transfer – 10-15% and Resale transactions - 20%***
- For Construction Finance – 60 loans this year vs. 50 in FY17
- On the asset size – no fixed rate loans; All ECB's have been refinanced which materially reduced rates to 7.5% from 8.1%; Masala bonds raised at 7.8% annualised
- Sustainable tax rate to be around 25% for the full year
- ***Over next 18months the company may go for capital raising assuming a maximum gearing of 7x***
- Dividend policy – 50% of profit inclusive of taxes
- ***General expectation that IndAS will get deferred. Lot of clarification required but the impact will be minimal as per our internal estimates – no meaningful impact on networth. IndAS notice will be from MCA and NHB to implement the same. Guidelines will be given out by RBI***

Key highlights from Q3FY18 earning call

With respect to operational metrics

- In Nov 2017, ***IHFL sold ~10% stake in OakNorth Bank for a consideration of INR7.68bn, recording a one-off pre-tax profit on sale of Investment of INR5.43bn.As a prudent means IHFL has utilised 33% of the one-off pre-tax gain, to make an additional special provision, in the form of counter-cyclical provisions, of INR1.8bn (not towards any particular asset).*** The balance shareholding in Oak North bank Is 20% which is valued at ~15bn
- An interim dividend of INR14/ share. An additional dividend of INR5 over the regular INR9, is being distributed from the profits of sale of ~10% stake in OakNorth Bank to GIC of Singapore
- ***Core PAT (excluding impact of stake sale in Oak north bank) registered a 23.8% YoY growth. Management continues to maintain its stance of 20-25% growth across financial parameters.***
- The proportion of home loans has increased from 50% as at FY17 to 59% currently , management expects this to further rise to 66% by FY20 (guidance intact)
- ***Disbursement composition: Home loans at INR70.9bn, LAP : INR20.4bn, construction finance : INR31.5bn*** (higher as the market is picking up especially in INR10-30mn TS, with RERA and GST behind the company is also more comfortable on sustainability of growth). The growth in construction finance is spread across developers, the company will syndicate and sell down across to various banks.
  - The competitive landscape especially in construction finance by the bank is not much , as the banks has a cap around commercial real estate and most of the banks are very close to threshold levels. Having said that there is some rise in the competition in LRD space by banks
- The focus continued on expanding distribution model through e-home loans and smart city home loans
  - ***27% of incremental home loans are end-to-end disbursed through the 'eHome Loans' platform***
  - Have launched 59 smart city HL branches; will launch it in 100 cities going ahead

With respect to NIMs

- ***Management has maintained spreads guidance of 300-325bps on book basis and 275-300bps on incremental basis***
  - Currently, spreads on book and incremental basis stand at ~322bps and 280bps respectively
- The CRISIL upgrades has come this quarter, the funding cost benefits has been visible on company financials (spread benefit of 15-85bps versus May 2017).
  - The management expects the benefit of rating upgrade to further be there atleast for 18-24months given re-pricing of bonds (INR400bn of bonds will re-price over next 18-24 months)

- ***Cost of funds on-book basis is 7.92%. The incremental cost of funds (as of Q3FY18) was 7.5%. Having said that, first few days into this quarter the incremental loans were at 7.65% (still lesser than on-book cost). Further to this management expects the benefit to flow from INR30bn of securitisation (slated for in Q4FY18) , which will be done with the handle of < 7%.*** Just to put into some perspective, of the incremental funding cost benefit in Q4FY18, ~20% should come from higher securitisation.
- Assets Yields will stabilise or start going up (if bond market were not to cool off). The transmission is somewhat reflected in rate movements by few banks also by few large HFCs (one of them raise BPLR by 15bps for corporate lending)
    - ***Incremental yields (10.3%): Home loan : 8.9%, LAP : 11% , LRD: 10% , Construction Finance: 15%***

With respect to market analsysis

- The management expects that the housing penetration in India will rise to 12% by FY22 (from current level of 9%)
- The share of the affordable housing segment in terms of the number of housing projects launched increased to 30% in 2017 from 25% in 2016
    - The Delhi/NCR has seen a very good traction in the affordable housing scheme

Other highlights

- Core net credit (excluding counter cyclical provisions) at INR1.47bn (versus INR1.78bn in Q3FY17)
- The commercial paper borrowing would have come down by ~INR30bn, with overall proportion being less than 10% levels.

Company Description

IHFL is the fourth largest housing finance company in India with AUM of INR582bn. It was established as a wholly-owned subsidiary of Indiabulls Financial Services (IBFSL), a leading non-banking financial firm providing home loans, commercial vehicle loans and business loans that was established in 2000. In early 2013, keeping with IHFL's long-term commitment to the housing finance business, the company was reversed-merged into its housing finance subsidiary IHFL. IHFL offers a broad suite of lending and other financial products to target client base of middle and upper-middle income individuals and small- and medium-sized enterprises, or SMEs. It has presence across 200+ locations across India and in house sales team of sourcing agents

Investment Theme

IHFL, a prominent mortgage financier (with AUM of over INR1tn), emerged much stronger after down-sizing riskier assets post FY09. The company is undergoing structural metamorphosis with steady 20% plus asset growth, credit rating upgrades and active sell-downs supporting its best-in-class NIMs. We believe an optimal product strategy with stringent risk mitigants to manage NPLs, stable franchise, high liquidity and low gearing will help sustain superior return ratios (RoA/RoE of > 3%/27% - post capital raising). Moreover, high dividend yield and consistent earnings delivery will lend predictability and result in further re-rating of the stock.

Key Risks

Any slowdown in the real estate sector will adversely hit growth and earnings. It will also impact the default rates and recoverability in the event of default.

Adverse regulatory changes like increase in risk weights, cap on the interest spread under refinance schemes, etc., can impact IHFL's growth and profitability. Changes in the terms and eligibility conditions of the refinance schemes can also impact margins.

The self-employed category accounts for ~30% of home loans. This indicates the company's high asset quality risks as these borrower segments are susceptible to volatile income stream.

Financial Statements (Standalone)

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	6.5	7.0	7.1
Company				
Yield on advances	13.6	12.3	12.6	12.4
Cost of funds	8.6	7.5	8.2	8.3
Spread	4.9	4.8	4.3	4.1
Employee cost growth	23.1	16.1	16.5	11.9
Other opex growth	(48.4)	94.5	13.2	13.4
Dividend payout	53.7	50.0	44.0	44.0
Disbursement growth	34.6	35.7	25.5	24.2
Repayment rate	19.2	18.1	17.6	16.0
Gross NPLs	0.9	0.8	0.8	0.9
Net NPLs	0.4	0.3	0.3	0.4
Provision coverage	57.8	55.7	60.0	60.0

Income statement **(INR mn)**

Year to March	FY17	FY18	FY19E	FY20E
Interest income	97,309	118,483	160,629	207,189
Interest expended	63,148	73,548	105,058	137,728
Net interest income	34,161	44,935	55,571	69,461
Fee & other income	4,804	2,093	5,545	6,357
Other income	11,060	17,251	15,911	18,003
Net revenues	50,025	64,279	77,026	93,821
Operating expense	5,613	7,227	8,264	9,263
- Employee exp	4,537	5,266	6,132	6,860
- Dep /amortisation	207	270	216	231
- Other opex	869	1,691	1,915	2,172
Preprovision profit	44,412	57,052	68,763	84,558
Provisions	7,604	11,152	10,517	12,424
Profit Before Tax	36,808	45,900	58,246	72,134
Less: Provision for Tax	8,384	10,236	15,435	20,198
Net profit	28,424	35,665	42,810	51,937
Reported Profit	28,424	35,665	42,810	51,937
Shares o /s (mn)	424	424	424	424
Basic EPS (INR)	67.1	84.1	101.0	122.5
Diluted shares o/s (mn)	424	424	424	424
Adj. Diluted EPS (INR)	67.1	84.1	101.0	122.5
Dividend per share (DPS)	36.0	42.1	44.4	53.9
Dividend Payout Ratio(%)	53.7	50.0	44.0	44.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Operating income growth	25.7	31.5	23.7	25.0
Revenues	25.1	28.5	19.8	21.8
Opex growth	0.9	28.7	14.3	12.1
PPP growth	29.0	28.5	20.5	23.0
Provisions growth	95.0	46.7	(5.7)	18.1
Adjusted Profit	23.9	25.5	20.0	21.3

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	13.6	12.3	12.6	12.4
Cost of funds	8.6	7.5	8.2	8.3
Net interest margins	4.1	4.1	3.9	3.8
Spread	4.9	4.8	4.3	4.1
Cost-income	11.2	11.2	10.7	9.9
Tax rate	22.8	22.3	26.5	28.0

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	848	848	848	848
Reserves & Surplus	117,845	128,061	150,642	178,272
Shareholders' funds	118,693	128,909	151,490	179,120
Short term borrowings	352,243	455,315	596,546	778,070
Long term borrowings	500,757	647,285	848,063	1,106,121
Total Borrowings	853,000	1,102,600	1,444,608	1,884,192
Long Term Liabilities	2,477	3,475	4,294	5,256
Def. Tax Liability (net)	1,184	1,230	4,142	7,749
Sources of funds	**975,353**	**1,236,214**	**1,604,534**	**2,076,316**
Gross Block	1,787	2,087	2,237	2,387
Net Block	813	941	877	798
Intangible Assets	25	29	27	24
Total Fixed Assets	838	970	904	823
Non current investments	28,530	31,203	34,258	38,069
Cash and Equivalents	54,441	43,480	62,717	92,243
Loans & Advances	824,506	1,102,000	1,451,520	1,893,182
Current assets (ex cash)	114,162	124,871	1,37,096	1,52,347
Trade payable	69	286	377	492
Other Current Liab	47,055	66,024	81,583	99,856
Total Current Liab	47,124	66,310	81,960	100,348
Net Curr Assets-ex cash	67,038	58,560	55,136	51,998
Uses of funds	**975,353**	**1,236,214**	**1,604,534**	**2,076,316**
Earning assets	972,038	1,231,769	1,599,336	2,070,237
Disbursements	354,816	481,368	604,026	750,156
BVPS (INR)	280.0	304.1	357.4	422.6
AUM	909,582	1,226,000	1,614,849	2,106,208
Total borrowing	940,012	1,226,583	1,605,830	2,089,259
AUM growth	32.4	34.8	31.7	30.4
EA growth	36.3	26.7	29.8	29.4
Gross NPAs	7,770.0	9,480.0	13,657.4	18,708.0
Net NPAs	3,280.0	4,200.0	5,463.0	7,483.2
Provision coverage	57.8	55.7	60.0	60.0
Gross NPA ratio	0.9	0.8	0.8	0.9
Net NPA ratio	0.4	0.3	0.3	0.4

RoE decomposition (%)

Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	4.1	4.1	3.9	3.8
Other income/Assets	1.9	1.8	1.5	1.3
Net revenues/assets	5.9	5.8	5.4	5.1
Operating expense/assets	0.7	0.7	0.6	0.5
Provisions/assets	0.9	1.0	0.7	0.7
Taxes/assets	1.0	0.9	1.1	1.1
Total costs/assets	2.6	2.6	2.4	2.3
ROA	3.4	3.2	3.0	2.8
Equity/assets	13.3	11.2	9.9	9.0
ROAE (%)	25.4	28.8	30.5	31.4

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	67.1	84.1	101.0	122.5
Y-o-Y growth (%)	*23.2*	*25.5*	*20.0*	*21.3*
BV per share (INR)	280.0	304.1	357.4	422.6
Adj. BV per share (INR)	274.6	297.2	348.4	410.2
Diluted P/E (x)	20.2	16.1	13.4	11.1
P/B (x)	4.8	4.5	3.8	3.2
Price/ Adj. BV (x)	4.9	4.6	3.9	3.3
Dividend Yield (%)	2.7	3.1	3.3	4.0

Peer comparison valuation

	Market cap	Diluted P/E (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Indiabulls Housing Finance	8,871	13.4	11.1	3.8	3.2	30.5	31.4
Dewan Housing Finance	2,820	13.5	12.0	1.9	1.7	15.3	15.6
HDFC	47,371	18.4	13.9	2.2	1.8	16.9	16.4
LIC Housing Finance	4,252	12.6	10.7	1.9	1.6	17.8	18.1
Mahindra & Mahindra Financial Services	4,892	26.9	22.5	3.2	2.9	12.3	13.4
Manappuram General Finance	1,548	12.1	10.3	2.5	2.2	22.0	22.7
Muthoot Finance	2,605	9.4	8.4	1.9	1.6	21.7	20.8
Power Finance Corp	3,449	3.5	3.3	0.5	0.5	15.0	14.6
Repco Home Finance	585	14.8	12.8	2.4	2.1	17.8	17.6
Rural Electrification Corporation	3,876	4.5	4.1	0.6	0.6	14.5	14.4
Shriram City Union Finance	2,207	12.9	10.9	2.3	1.9	18.8	18.9
Shriram Transport Finance	5,448	13.0	10.8	2.4	2.0	19.8	20.0
Median	-	13.0	10.9	2.3	2.0	17.8	17.9
AVERAGE	-	14.1	12.1	2.3	2.1	18.5	18.7

Source: Edelweiss research

Additional Data

Directors Data

Sameer Gehlaut	Founder & Executive Chairman	Gagan Banga	Vice-Chairman & MD
Ashwini Kumar Hooda	Deputy Managing Director	Ajit Kumar Mittal	Executive Director
Sachin Chaudhary	Chief Operating Officer & Whole-time Director	Bisheshwar Prasad Singh	Director
Labh Singh Sitara	Director	Samsher Singh Ahlawat	Director
Prem Prakash Mirdha	Director	Kamalesh Shailesh Chandra Chakrabarty	Director
Manjari Ashok Kacker	Director	Gyan Sudha Misra	Director

Auditors - S.R. Batliboi & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	4.25	Euro Pacific Growth	3.85
Merrill Lynch Capital Markets Es	3.72	Blackrock	3.37
Vanguard Group	2.74	Merrill Lynch Mkt Sgp Ltd	2.53
Tupelo Consultancy LLP	2.14	Nomura	1.83
BNY Mellon	1.62	Dimensional Fund Advisors LP	1.51

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
03 Apr 2018	Merrill Lynch Markets Singapore Pte. Ltd.	Sell	7597785	1292.50
03 Apr 2018	Treetop Convertible Sicav - Treetop Convertible International	Buy	7597785	1292.50
09 Nov 2017	Europacific Growth Fund	Sell	3100000	1190.17
09 Nov 2017	Bnp Paribas Arbitrage	Buy	2742373	1190.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
11 Apr 2018	Naveen Uppal	Sell	20000.00
12 Feb 2018	Naveen Uppal	Sell	17508.00
12 Feb 2018	Mukesh Kumar Garg	Sell	50000.00
08 Feb 2018	Manvinder Singh Walia	Sell	19500.00
05 Feb 2018	Amit Gandhi	Sell	30600.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	HOLD	SU	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	BUY	SP	L
Indiabulls Housing Finance	BUY	SP	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SO	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Date: 2018.04.20 22:25:51 +05'30'

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
19-Apr-18	**IndusInd Bank**	Strong strides towards Phase IV targets ; *Result Update*	1833	Buy
16-Apr-18	**Banking**	Racing against time; *Result Update*		
16-Apr-18	**DCB Bank**	Growth perks up; productivity improvement key; *Result Update*	190	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

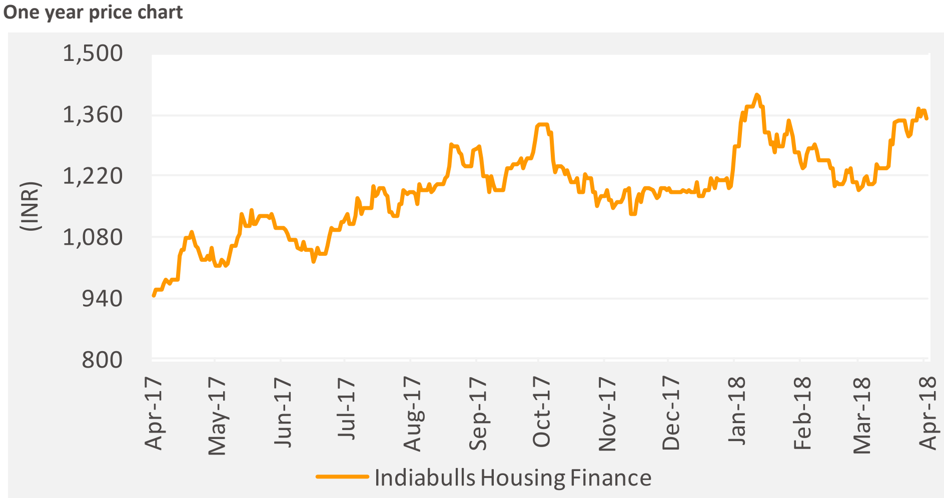
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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