

# Reliance Home Finance

Sector: Housing Finance / Small Cap | Earnings Update – 4QFY18

**BUY**

26 April 2018

**Background:** Reliance Home Finance (RELHF), a Reliance group (ADAG) company, formed in 2008, is a non deposit taking housing finance company, focused on providing financing products for the LMI to HMI segment in India, primarily in Tier II and Tier III cities and towns, with more thrust on the self-employed segment. Its loan book portfolio is diversified with across - Home loans (30%), Affordable Housing (21%), LAP (21%) and Construction Finance (28%) segments. The company has its presence in over 125 locations spread over 54 cities, with over 45000 client accounts.

Sensex	34,714
Nifty	10,618
Price	INR 63
Target Price	INR 100
Recommendation	BUY

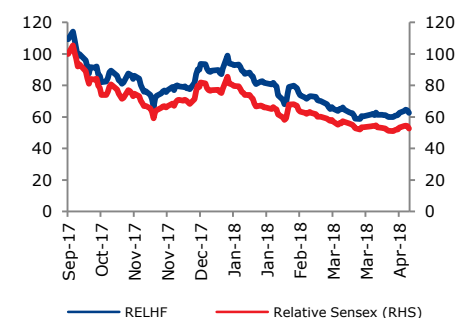
52 Week High/Low	INR 923/552
Bloomberg / Reuters	RELHOME IN / RLIC BO
Equity (shares in mn)	485.06
Mkt. Cap in bn	INR 30.29/ \$ 0.45
Avg. Daily Vol. ('000)	1115.74
Avg. Daily Vol. (mn)	INR 69.68 / \$ 1.04

Shareholding	Sep 17	Dec 17	Mar 18
Promoters (%)	74.99	74.99	74.99
FII (%)	9.88	7.49	5.98
DII (%)	4.01	5.27	5.44
Others (%)	11.12	12.25	13.59
Pledge (% of promoter holding)	10.85	22.17	21.62

## Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Interest Inc	5.6	9.2	11.6
Other Inc	0.6	1.7	2.1
Pre Prov Profit	3.6	7.5	9.4
PAT	1.8	4.5	6.0
EPS	3.7	9.4	12.3
EPS growth (%)	6.6	151.2	31.2
PE	16.8	6.7	5.1
P /BV	2.0	1.5	1.2
Div Yield (%)	0.6	1.0	1.0
ROA (%)	1.3	2.6	2.8
ROE (%)	13.9	25.8	26.4
CAR (%)	19.7	21.9	22.3

Performance %	1M	3M	6M
RELHF	6.4	-23.2	-22.9
Sensex	4.9	-3.7	4.7



## Robust growth in AUM led by high yielding segments; PBT up by 116%YoY

- RELHF's loan book recorded robust growth of 33%YoY (10.2% QoQ) and stood at INR 163.8bn, largely driven by growth in Affordable Housing Segment (35% YoY). In FY18 disbursements grew by 19% YoY to INR 87bn. The management expects its AUM to grow by 45% CAGR over FY19-21E.
- Self employed segment, being the niche area for the company, constituted 75% of Home loan disbursements in 4QFY18. Higher growth in high yielding segments like self employed and affordable housing segments, helped in marginal increase in the average yield to 11.6% from 11.5% in 3QFY18.
- With increase in the share of NCDs in Borrowings (42%), Cost of funds dipped by 70bps YoY (-20bps QoQ) to 8.6%. This coupled with robust growth in loan book (predominantly the high yielding segments) led to a 50bps YoY expansion in NIMs (currently at 3.9%). Going forward, the management expects NIMs to remain in the range of 3.5-3.9%.
- Asset quality remained intact, with the reported GNPA's at (same levels as 3QFY18) a healthy 0.8% and NNPA at 0.42%. PCR stood at 47% up from 26% in 4QFY17. With focus on small ticket lending, and strict policy measures (w.r.t credit appraisal) in place, the management expects NPAs to remain at current levels.
- Net Interest Income skyrocketed by 95% YoY to INR 1.4bn. However other income saw a de-growth of 38.2% YoY. Although the impact of the same was offset by a 9.3% YoY de-growth in opex and a 2.2% YoY decline in provisions. Consequently Profit before tax grew by 116% YoY to INR 900mn. Due to the availability of Deferred tax Assets until FY17, PAT saw a decline of 47% YoY (up sequentially buy 23.9%).
- Amongst the 11 new branches set up in FY18, 4 were low cost affordable branches, which along with the operational efficiency setting in brought the cost to income ratio to 38% in 4QFY18 from 55% in 4QFY17. Going forward the company plans to extend its reach to over 200 locations (from current 125 locations) and open 75 new branches over FY19-20E, yet trying to maintain C/I ratio in the current levels with low cost affordable branches.
- The board has recommended a dividend of INR 1/share (face value INR 10/share), yielding 1.6% at CMP.

**Valuation:** Robust loan book growth, coupled with improving cost efficiency, and well maintained asset quality should act as an catalyst to spur the earnings growth of the company. The stock is currently trading at 1.2X P/BV and 5.1X P/E of FY20E. We maintain our BUY rating on Reliance Home Finance with revised target price of INR 100, assigning a P/BV of 1.9X.

**Risks:** Rising bond yields could put pressure on NIMs; asset quality deterioration as the share of riskier segment increases; rising competition in HFC space.

## Results Summary 4QFY18

Y/E March ( INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
<b>Net Interest Income</b>	1702.0	1000.0	70.2%	1350.0	26.1%
<b>Other Income</b>	170.0	460.0	-63.0%	200.0	-15.0%
<b>Pre Provisioning Profit</b>	1170.0	686.0	70.6%	849.0	37.8%
<b>PAT</b>	570.0	1080.0	-47.2%	460.0	23.9%
<b>Cost / Income (%)</b>	37.5	53.0		45.2	
<b>Gross NPA (%)</b>	0.8	0.8		0.8	
<b>Net NPA (%)</b>	0.4	0.6		0.4	
<b>Prov Coverage ratio (%)</b>	47.0	26.0		47.0	
<b>CAR (%)</b>	19.7	19.3		21.5	

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