

Reliance Home Finance

Sector: Housing Finance / Small Cap | Earnings Update – 1QFY19

BUY

14 September 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 (31%), Affordable Housing (20%), LAP (20%) and Construction Finance (29%) segments. The company has its presence in over 140 locations spread over 58 cities, with over 45000 client accounts.

Sensex	37,949
Nifty	11,462
Price	INR 66
Target Price	INR 91
Recommendation	BUY

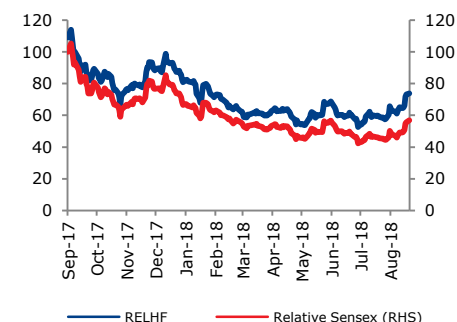
52 Week High/Low	INR 115/51
Bloomberg / Reuters	RELHOME IN / RLIC BO
Equity (shares in mn)	485.06
Mkt. Cap in bn	INR 31.87/ \$ 0.44
Avg. Daily Vol. (*000)	524.97
Avg. Daily Vol. (mn)	INR 34.49 / \$ 0.48

Shareholding	Dec 17	Mar 18	Jun 18
Promoters (%)	74.99	74.99	74.99
FII (%)	7.49	5.98	5.48
DII (%)	5.27	5.44	5.80
Others (%)	12.25	13.59	13.73
Pledge (% of promoter holding)	22.17	21.62	21.62

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Interest Inc	5.6	7.1	10.6
Other Inc	0.6	1.3	1.9
Pre Prov Profit	3.6	5.5	8.5
PAT	1.8	3.4	5.4
EPS	3.7	7.0	11.0
EPS growth (%)	-75.0	86.8	58.4
PE	17.6	9.4	6.0
P /ABV	2.2	1.8	1.4
Div Yield (%)	0.6	0.9	0.9
ROA (%)	1.3	2.1	3.0
ROE (%)	13.9	19.8	25.4
CAR (%)	19.7	21.9	22.3

Performance %	1M	3M	6M
RELHF	25.0	23.2	13.4
Sensex	0.1	7.0	13.9



Muted growth in Interest Income due to falling yields and decline (sequential) in AUM

- RELHF's loan book grew by 26% YoY to INR 156.4bn (lower than CSEC's estimate of 47%). However, the book declined by 4.5% sequentially. Growth in AUM came predominantly from Construction finance and individual loans segments which grew by 25% and 21% YoY respectively. The management expects its AUM to grow by 45% CAGR over FY19-21E.
- Self employed segment, being the niche area for the company, continued to constitute 75% of Home loan disbursements in 1QFY19. Adding to the de-growth in loan book, the company also saw a 30bps (QoQ) dip in yields on the overall book. Fall in yields were higher in LAP and affordable housing segments which shrunk by 120bps and 50bps QoQ respectively.
- In the current scenario of rising bond yields, RELHF's cost of funds increased by 20bps (YoY/QoQ), as 42% of the borrowings are in the form of NCDs. As a result, NIMs fell by 60bps YoY to 3.2% (-70bps QoQ). 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 a healthy 0.8% (same levels as FY18) and NNPA at 0.63%. PCR (GS-3) stood at 23% up from 19% in 1QFY18. 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 grew by a muted 3.5% YoY to INR 1.13bn (vs. CSEC's estimate of INR 2.02bn). Other income saw a de-growth of 65% YoY. Although the impact of the same was offset by a 9.2% YoY de-growth in opex and a 93% YoY decline in provisions. Consequently PAT grew by 45.5% YoY to INR 480mn (lower than CSEC's estimate of INR 942mn).
- Despite lower opex due to operational efficiency setting in, the cost to income ratio spiked to 40.3% in 1QFY19 from 38.5% in 1QFY18, largely led by lower interest income. Going forward the company plans to extend its reach to over 200 locations (from current 140 locations) over FY19-20E, yet trying to bring C/I ratio to the 35-38% levels with low cost affordable branches.

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 1.4X P/ABV and 6X P/E of FY20E. We maintain our BUY rating on Reliance Home Finance with a revised target price of INR 91, owing to the pressures on interest front, assigning a P/ABV 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 1QFY19- IND AS

Y/E March (INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18*	QoQ Growth
Net Interest Income	1128.0	1090.0	3.5%	1418.0	-20.5%
Other Income	127.0	358.0	-64.5%	454.0	-72.0%
Pre Provisioning Profit	749.0	891.0	-15.9%	1170.0	-36.0%
PAT	480.0	330.0	45.5%	570.0	-15.8%
Cost / Income (%)	40.3	38.5		37.5	
Gross NPA (%)	0.8	0.8		0.8	
Net NPA (%)	0.6	0.7		0.4	
Prov Coverage ratio (%)	22.7	19.1		47.0	
CAR (%)	21.0	17.0		19.7	

As per I-GAAP

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