

Gradual growth & moratorium to impact valuation

Housing and Urban Development Corporation (Hudco), a Miniratna company, plays a key role in various government schemes to develop Indian housing & urban infrastructure. Hudco reported a weak set of Q1FY21 numbers wherein muted topline and surge in provisioning dented PAT growth. **Moratorium increased from ~25% in Q4FY20 to ~37-38% as of June 2020.** Advances growth was muted at 3% YoY to ₹ 78179 crore due to slower economic activity. Housing loan growth was healthy at 7.6% YoY to ₹ 45868 crore while urban infrastructure book de-grew 2.2% YoY to ₹ 32009 crore. In terms of loan composition, government agencies accounted for ~96.3% of advances while loans to private companies accounted for 3.64% of total loan book. Disbursements for the quarter was at ₹ 2285 crore with a substantial portion of disbursements skewed towards low yielding social housing segment at ₹ 2200 crore (~96.3% of total disbursements).

NII fell 2.9% YoY to ₹ 563 crore on account of muted credit growth and weak margins. NIMs were down ~29 bps YoY to 2.96% on account of contraction in yields led by higher lending to social housing segment. Muted topline was offset by lower opex, which led operating profit to come in at ₹ 518 crore.

GNPA, NNPA came in at 4.33%, 0.57%, respectively, with absolute GNPA at ₹ 3383 crore. The company said two assets in Chhattisgarh and Rajasthan (that got upgraded in Q2FY21) slipped into NPA. Exposure to Rajasthan, Chhattisgarh was at ₹ 91 crore, ₹ 347 crore wherein provision was at ₹ 31 crore, ₹ 121 crore, respectively. Covid provisions were at ₹ 81 crore, leading to outstanding provision at ₹ 168 crore (~21 bps of advances). Provisions for Q1FY21 increased to ₹ 247 crore (~31 bps of advances), which marred PAT growth to ₹ 203 crore, down 39.4% YoY.

Valuation & Outlook

The government's focus on housing and shortage of dwelling provides an opportunity for balance sheet. However, muted construction activity amid pandemic is seen keeping near term credit offtake benign. Decline in cost of funds & revival in urban infrastructure activities is seen leading to uptick in margin (that remained under pressure due to incremental lending to low yield social housing projects). Higher PCR at ~87% provides comfort but given impact on state government revenue, volatility in asset quality cannot be ruled out. Therefore, we expect credit cost to remain higher in FY21E. **Dividend yield of 8% or higher is attractive but sustainability of payment is to be seen ahead.** Though exposure to state government entities provides comfort, anticipation of near term volatility in provisioning and, thereby, earnings makes us adopt a cautious stance. Therefore, we maintain **HOLD** rating with a target price of ₹ 38, valuing the stock at 0.5x FY22E EPS.



Particulars

Market Capitalisation	₹ 6846 crore
Stage 3 (Q1FY21)	₹3383 crore
NIM (Q1FY21)	2.96%
52 week H/L	46 / 18
Face value	₹10
D II Holding (%)	2.6
F II Holding (%)	0.0

Key Highlights

- Moderate economic activity led to dismal advances growth at 3% YoY
- Moratorium at 37-38% of advances. Outstanding Covid provision at ₹ 168 crore (~21 bps of advances)
- Maintain HOLD rating with revised target price of ₹ 38/share

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Key Financial Summary

Financial performance	FY16	FY17	FY18	FY19	FY20	CAGR (FY17-FY20)
NII (₹crore)	1328	1448	1738	2395	2635	22.1%
PPP (₹crore)	1250	1472	1679	2190	2330	16.5%
PAT (₹crore)	805	842	1010	1180	1708	26.6%
EPS (₹)	3.92	4.21	5.05	5.90	8.53	
P/E (x)	8.9	8.3	6.9	5.9	4.1	
P/BV (x)	0.8	0.8	0.7	0.6	0.6	
RoA (%)	2.3	2.4	2.4	2.0	2.2	
RoE (%)	10.0	9.2	10.2	10.8	13.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY	Q4FY20	QoQ	Comments
Interest Income	1,762.3	1796.7	-1.9%	1871.1	-5.8%	
Interest Expense	1,198.8	1209.5	-0.9%	1189.3	0.8%	
NII	563.5	587.2	-4.0%	681.8	-17.3%	NII was down 4% YoY due to muted credit growth and contraction in margins
Other Income	19.5	19.5	-0.2%	29.3	-33.5%	
Net Revenue	583.0	606.7	-3.9%	711.1	-18.0%	
Employee Expenses	50.2	51.6	-2.8%	75.1	-33.2%	
Other Expenses	14.9	34.6	-56.9%	71.3	-79.1%	
Total Expenses	65.1	86.2	-24.5%	146.4	-55.6%	
PPP	517.9	520.5	-0.5%	564.7	-8.3%	Muted topline growth was offset by lower opex which led to stable operating profit
Provisions	247.1	5.1	4725.4%	19.3	1177.5%	Covid provisions for the quarter stood at ₹81 crore
PBT	270.9	515.3	-47.4%	545.4	-50.3%	
Tax	67.5	179.7	-62.5%	104.4	-35.4%	
PAT	203.4	335.7	-39.4%	441.0	-53.9%	Higher provisions dented PAT growth
Key Metrics						
GNPA	3382.8	3280.1	3.1%	2927.7	15.5%	2 assets with exposures of ₹91 crore and ₹347 crore slipped into NPA
NNPA	445.6	356.7	24.9%	145.5	206.3%	
Advances	78,180	75,891	3.0%	76565.4	2.1%	Advances growth was muted on account of slower economic activity

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 1: Loan book composition

Outstanding advances	FY15	%	FY16	%	FY17	%	FY18	%	FY19	%	FY20	%	Q1FY21	%
Housing Finance	9,283	29.2	11,076	32.8	12,135	31.1	15,458	31.6	41,077	56.0	43,973	57.4	45,868	58.7
HUDCO Niwas	379	3.9	620	5.3	594	1.5	566	1.2	543	0.7	306	0.4	303	0.4
Urban Infrastructure Finance	23,473	70.8	23,969	67.2	26,932	68.9	33,506	68.4	31,706	43.2	32,286	42.2	32,009	40.9
Total Loan Portfolio	33,135	100.0	35,665	100.0	39,067	100.0	48,964	100.0	73,325	100.0	76,565	100.0	78,180	100.0
Sanctions	FY15	%	FY16	%	FY17	%	FY18	%	FY19	%	FY20	%	Q1FY21	%
Housing Finance	7,156	33.9	18,481	60.1	6,839	21.5	15,583	40.3	27,123	78.7	3,790	19.0	-	0.0
HUDCO Niwas	514	2.4	309	1.0	732	2.3	186	0.5	133	0.4	28	0.1	1	0.1
Urban Infrastructure Finance	13,426	63.6	11,984	38.9	24,291	76.2	22,879	59.2	7,196	20.9	16,123	80.9	1,171	99.9
Total Sanction	21,096	100.0	30,774	100.0	31,862	100.0	38,648	100.0	34,452	100.0	19,942	100.0	1,172	100.0
Disbursement	FY15	%	FY16	%	FY17	%	FY18	%	FY19	%	FY20	%	Q1FY21	%
Housing Finance	3,067	38.5	2,825	34.2	2,293	25.2	4,789	28.9	27,387	88.3	4,984	49.2	2,200	96.3
HUDCO Niwas	9	0.1	308	3.7	416	4.6	27	0.2	27	0.1	16	0.2	3	0.1
Urban Infrastructure Finance	4,897	61.4	5,115	62.0	6,386	70.2	11,748	70.9	3,594	11.6	5,122	50.6	82	3.6
Total Sanction	7,973	100.0	8,248	100.0	9,095	100.0	16,565	100.0	31,009	100.0	10,122	100.0	2,285	100.0

Source: Company, ICICI Direct Research

Exhibit 2: Government agencies account for ~96% of total advances

	FY15	FY16	FY17	FY18	FY19	FY20	Q1FY21							
State Governments and their agencies	28,982	87.5	31,964	89.6	36,054	90.9	45,986	92.8	70,050	95.5	73,722	96.3	75,333.3	96.4
Private sector entities	4,153	12.5	3,701	10.4	3,607	9.1	3,545	7.2	3,275	4.5	2,843	3.7	2,846.3	3.6
Total	33,135	100.0	35,665	100.0	39,661	100.0	49,530	100.0	73,325	100.0	76,565	100.0	78,179.5	100.0

Source: Company, ICICI Direct Research

Exhibit 3: Borrowing mix trend

Borrowing	FY15 %	FY16 %	FY17 %	FY18 %	FY19 %	FY20 %	Q1FY21 %							
Tax Free Bonds	12,388	52.8	17,388	67.9	17,388	61.2	17,388	46	17,388	29	17,388	28	17,388	28
Taxable Bonds	3,308	14.1	1,999	7.8	4,565	16.1	8,720	23	32,117	54	35,469	58	38,602	62
Refinance from NHB	2,820	12.0	2,350	9.2	2,998	10.5	3,209	9	4,124	7	4,083	7	3,522	6
Public Deposits	1,424	6.1	1,656	6.5	924	3.3	627	2	290	0	169	0	118	0
Foreign Currency Borrowings	572	2.4	535	2.1	465	1.6	414	1	399	1	340	1	313	0
Banks *	2,946	12.6	380	1.5	591	2.1	2,450	7	3,348	6	2,850	5	1,185	2
FCL/FCFL/FCNR (B)	-	0.0	-	0.0	-	0.0	2,100	6	436	1	-	-	-	-
Commercial papers	-	0.0	1,300	5.1	1,500	5.3	2,500	7	1,800	3	1,200	2	1,500	2
Total	23,468	100.0	25,609	100.0	28,432	100.0	37,408	100	59,901	100	61,499	100	62,628	100

Source: Company, ICICI Direct Research

Exhibit 4: Asset quality to remain key watch

Asset quality	FY16	FY17	FY18	FY19	FY20	Q1FY21
Gross NPA	2,382	2,386	3,280	3,287	2,928	3,383
Gross NPA ratio (%)	6.68	6.02	6.28	4.48	3.82	4.33
Net NPA	701	434	674	367	145	445.62
Net NPA ratio (%)	2.06	1.15	1.42	0.50	0.19	0.57

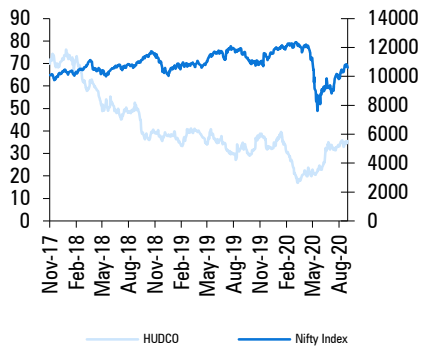
Source: Company, ICICI Direct Research

Exhibit 5: Incremental lending to social housing leads to NIM contraction

Key metrics	FY16	FY17	FY18	FY19	FY20	Q1FY21
Yield on Loan (%)	9.7	9.7	9.6	10.2	10.3	9.3
Cost of Funds (%)	7.8	7.3	6.9	7.3	7.8	7.8
Interest Spread (%)	2.0	2.4	2.7	2.7	2.5	1.5
NIM (%)	4.0	4.2	4.3	4.5	3.7	3.0

Source: Company, ICICI Direct Research

Exhibit 6: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY17	FY18	FY19	FY20
Interest Earned	3,434.2	4,033.2	5,465.6	7,482.6
Interest Expended	1986.3	2294.8	3070.5	4847.8
Net Interest Income	1,447.9	1,738.4	2,395.1	2,634.8
% growth	9.0	20.1	37.8	10.0
Non Interest Income	150.6	201.0	125.6	89.1
Net Income	1598.5	1939.4	2520.7	2723.8
Employee cost	124.4	176.4	224.1	239.0
Other operating Exp.	51.0	83.5	106.1	154.5
Operating Income	1472.0	1679.4	2190.4	2330.3
Provisions	297.3	270.8	327.3	155.8
PBT	1174.7	1408.6	1863.2	2174.5
Taxes	333.2	398.5	683.1	466.1
Net Profit	841.5	1,010.2	1,180.1	1,708.4
% growth	4.5	20.0	16.8	44.8
EPS (₹)	4.2	5.1	5.9	8.5

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
(Year-end March)	FY17	FY18	FY19	FY20
Valuation				
No. of Equity Shares	2001.9	2001.9	2001.9	200.2
EPS (₹)	4.21	5.05	5.90	8.53
BV (₹)	46.0	50.0	55.0	61.7
P/E	10.0	8.3	7.1	4.9
P/BV	0.9	0.8	0.8	0.7
Yields & Margins (%)				
Yield on interest earning asset	9.7	10.0	10.2	10.3
Avg. cost on funds	7.3	7.0	7.3	7.8
Net Interest Margins	4.2	4.5	4.5	3.7
Spreads	2.4	3.1	2.7	2.5
Quality and Efficiency				
Cost/Total net income	11.0	13.4	13.1	14.4
GNPA%	6.3	7.3	4.5	3.8
NNPA%	1.4	2.0	0.5	0.2
RONW (%)	9.2	10.2	10.8	13.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY17	FY18	FY19	FY20
Sources of Funds				
Capital	2001.9	2001.9	2001.9	2001.9
Reserves and Surplus	7165.4	7940.4	8953.0	10340.4
Networth	9167.3	9942.3	10954.9	12342.3
Borrowings	26693.7	35650.0	59558.8	61268.1
Other Liabilities & Provisions	3461.2	3321.9	2314.6	2515.4
Total	39,322	48,914	72,828	76,126
Applications of Funds				
Fixed Assets	103.9	106.6	122.0	96.8
Investments	368.5	526.8	534.5	231.5
Advances	37526.5	47103.9	70963.7	74267.9
Other Assets	1323.0	1176.7	1207.8	1529.5
Total	39,322	48,914	72,828	76,126

Source: Company, ICICI Direct Research

Exhibit 10: Key ratio (%)				
(Year-end March)	FY17	FY18	FY19	FY20
Total assets	9.6	24.4	48.9	4.5
Advances	11.0	25.5	50.7	4.7
Borrowings	4.95	33.55	67.07	2.87
Total Income	10.8	21.3	30.0	8.1
Net interest income	9.0	20.1	37.8	10.0
Operating expenses	-9.1	48.2	27.1	19.2
Net profit	4.5	20.0	16.8	44.8
Book value	8.7	8.7	10.0	12.1
EPS	7.4	20.0	16.8	44.6

Source: Company, ICICI Direct Research

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