INSTITUTIONAL EQUITY RESEARCH

Affordable Housing

The next big boom for financiers

INDIA | FINANCIAL | Sector Update & Initiating

15 May 2017

Why does our report focus on affordable housing now?

→ It is emerging as a key growth segment.
→ Industry estimates peg this segment's total loan book at Rs 960bn at the end of FY16, with rapid growth of +30%.
→ Under 'housing for all by 2022', the government plans to build almost 20mn houses, which we believe will entail a total investment of Rs 18tn. The sheer size of investment needs higher government allocations and also opens up avenues for financiers.
→ We foresee an opportunity of Rs 7.2tn in individual home loans in the low-income group (LIG) and middle-income group (MIG). Because of the GoI's interest-linked credit subsidy, along with the benefits under income tax, the effective interest cost for LIG has come down to 2.4% (equivalent to India's average rental yield) and to about 4% for MIG.

Many risks and challenges exist for affordable housing: Allocation in the form of grants and subsidies under the Pradhan Mantri Awas Yogna (PMAY: HFA - 2022) is envisaged at Rs 3.6tn, with an aim to close the housing shortfall of 18.7mn housing units. Until March 2018, the government has allocated only Rs 19bn (under various urban housing projects), just 5% of the total estimated amount. The scheme needs large-scale allocation by the government in the ensuing budget if the housing shortfall is to be achieved. Other challenges include lack of land parcels in urban centres, slow pace of approval and permissions, lack of organised funding, and low margins for developers in affordable projects.

In the mortgage segment, we like DHFL, Indiabulls Housing Finance, and Repco Home

DHFL: Well positioned to capture the impending growth in affordable housing. Has been catering to the low- and mid-income housing segment and has gained requisite means to benefit from a fillip to this segment. Its home loans are already tilted towards the affordable segment (almost 60% of the incremental home loan disbursement meets the government's eligibility criteria for incentive under PMAY (U) – 2022). We initiate with **BUY**.

IBHFL: Balanced mix of housing and non-housing loans, stable margin driven by liability re-pricing, and declining cost-to-income ratio will remain earnings drivers. Strong capital position and superior RoE will provide adequate capital to take IBHFL through +30% AUM growth in the next three years. We initiate coverage with a **BUY** rating.

LICHF: Will not gain substantially from the incremental opportunity in affordable housing due to its weak bandwidth (only 9% of customers are sourced through its captive marketing subsidiary) and its limited exposure to the builder-loan portfolio vs. competitors (DHFL and IBHF), which gives it limited access to affordable housing borrowers. We Maintain **Neutral**.

Repco Home: A play on structural growth in the mortgage market, with a niche focus on the underserved self-employed segment in smaller towns and cities in India. Repco is in a good position to gain from the strong opportunity in rural and affordable housing, and incentives offered by the government. Risk-based pricing, strong underwriting standards, and efficient monitoring, will drive earnings. We upgrade the stock to **BUY** from Neutral.

Companies

DEWAN HOUSING FINANCE

Reco	BUY
CMP, Rs	431
Target Price, Rs	655

INDIABULLS HOUSING FINANCE

Reco	BUY
CMP, Rs	1063
Target Price, Rs	1320

LIC HOUSING FINANCE

Reco	NEUTRAL
CMP, Rs	686
Target Price, Rs	720

REPCO HOME FINANCE

Reco	BUY
CMP, Rs	754
Target Price, Rs	885

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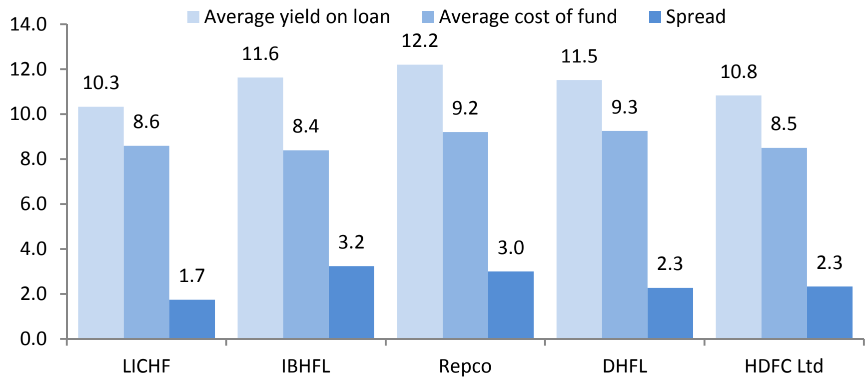
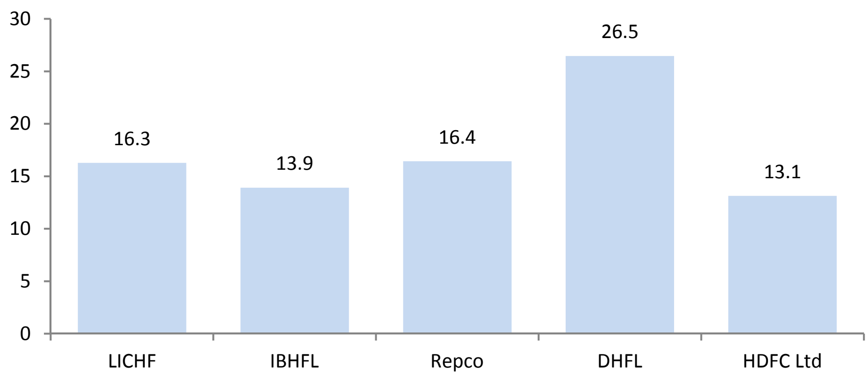
Comparative analysis of key financials

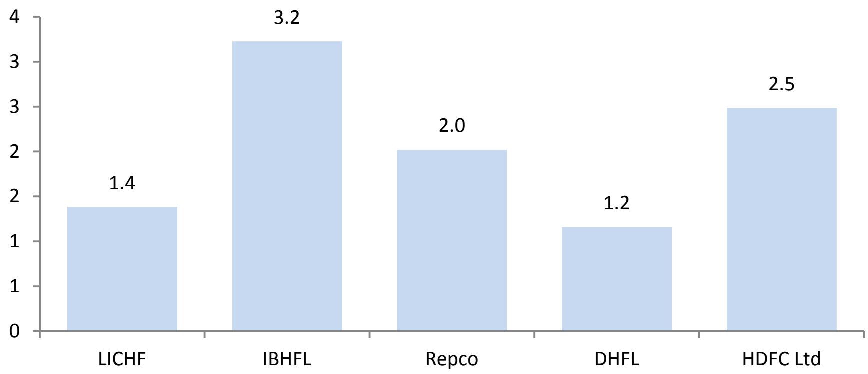
Spread profile (%)



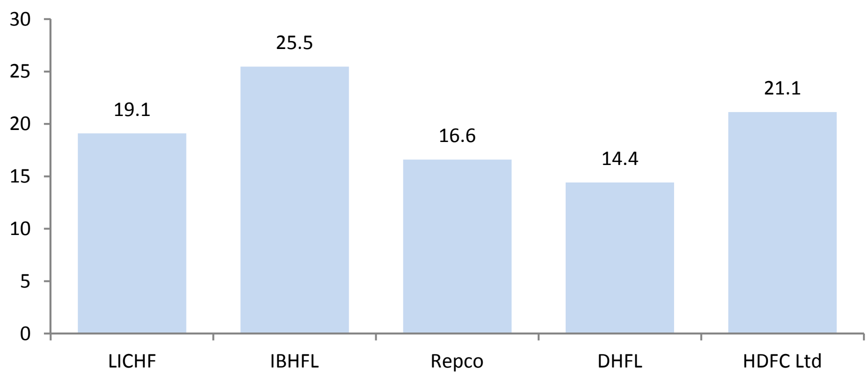
Cost to income ratio (%)



Return on asset (%)



Return on equity (%)



Source: PhillipCapital Research Estimates

Return on asset tree and valuation summary

RoA tree	IBHFL	DHFL	LICHF	Repco home	HDFC ltd
Interest earned	11.5	10.8	9.9	11.8	9.9
Interest expended	7.1	8.3	7.3	7.6	6.7
Interest spread	4.4	2.5	2.6	4.3	3.2
Non- Interest income	1.4	0.3	0.1	0.4	0.4
Total income	5.9	2.8	2.7	4.6	3.9
Employee expenses	0.6	0.3	0.2	0.5	0.1
Other expenses	0.3	0.4	0.3	0.3	0.1
Operating income	5.1	2.1	2.3	3.9	3.7
Provisions	0.9	0.3	0.2	0.8	0.1
Pre-tax earnings	4.2	1.8	2.1	3.1	3.4
Tax	1.0	0.6	0.7	1.0	1.0
RoA	3.2	1.2	1.4	2.0	2.2
Leverage	7.9	12.0	13.9	8.2	9.4
RoE	25.5	14.4	19.1	16.6	21.1

Source: PhillipCapital Research Estimates

Valuation summary

	CMP	TP	Upside	Rating	MCAP	RoE (%)			RoA (%)		
	Rs				Rs bn	FY17	FY18e	FY19e	FY17	FY18e	FY19e
Repco	754	885	17%	BUY	47	16.6	18.4	20.0	2.0	2.2	2.2
LIC	686	722	5%	NEUTRAL	346	19.1	16.9	16.6	1.4	1.3	1.3
HDFC	1556	1540	-1%	NEUTRAL	2472	21.1	22.1	22.0	2.5	2.5	2.5
DHFL	431	656	52%	BUY	135	14.4	13.6	13.9	1.2	1.2	1.3
IBHF	1063	1320	24%	BUY	451	24.0	22.7	25.5	3.2	3.0	2.9

Source: PhillipCapital Research Estimates

Valuation summary

	EPS (Rs)			BV (Rs)			PE (x)			P/ABV (x)		
	FY17	FY18e	FY19e	FY17	FY18e	FY19e	FY17	FY18e	FY19e	FY17	FY18e	FY19e
Repco	27	36	46	178	210	252	27.5	21.2	16.3	4.2	3.6	3.0
LIC	38	40	45	219	252	289	17.9	17.2	15.3	3.1	2.7	2.4
HDFC	47	54	61	173	203	241	33.2	28.9	25.3	5.0	4.2	3.6
DHFL	30	37	43	251	288	326	14.6	11.8	10.1	1.7	1.5	1.3
IBHF	69	84	106	286	314	349	15.5	12.6	10.1	3.7	3.4	3.0

Source: PhillipCapital Research Estimates

Affordable housing: A Rs 7.2bn opportunity for financiers

Almost 96% of the housing shortage is from the EWS and LIG segments

The report by The Technical Urban Group (TG-12), constituted by the Ministry of Housing and Urban Poverty Alleviation, highlighted a housing demand-supply mismatch of 18.78mn units in urban areas. Most of this shortfall comes from the economically weaker section (EWS, +56%) and the low-income group (LIG, almost 40%). The definition of EWS and LIG has undergone multiple revisions in the past – currently, EWS constitutes households with an annual income of up to Rs 300,000 and LIG, those with an annual income of Rs 300,000-600,000. Almost 96% of the housing shortage is from the EWS and LIG segments.

We see Housing 2022 entailing a total investment of Rs 18tn

We foresee an opportunity of Rs 7.2tn for mortgage financiers in the LIG and MIG segments

The Government of India (GOI)'s 'housing for all by 2022' mission plans to build almost 20mn houses by 2022, which we believe will entail a total investment of Rs 18tn. The sheer size of investment needs much higher allocations (vs. present) and also opens up opportunity to financiers. Our estimates suggest that by 2022, the central government would have to shell out a grant of Rs 3.6tn, and accordingly, the state government's contribution would be Rs 1.6tn. We foresee an opportunity of Rs 7.2tn for mortgage financiers in LIG and MIG segments. The balance Rs 5.7tn is the beneficiary contribution in the form of owner's equity. Since the EWS segment may not be bankable from a formal lender's point of view, we have avoided estimating the potential demand from this segment.

Affordable housing opportunity

PMAY – Urban	Total
No. of houses targeted, mn units	18.7
EWS, mn units	*10*
LIG, mn units	*7*
MIG, mn units	*1*
Project cost, Rs trillion	18.1
GOI subsidy involved, Rs trillion	3.6
State government allocation, Rs trillion	1.6
Mortgage opportunity, Rs trillion	7.2
Beneficiary contribution, Rs trillion	5.7
Bankable number houses under LIG+MIG segment, mn units	8.2
Project Cost (LIG+MIG), Rs trillion	12.3
Banking opportunity for individual loan @70% LTV, Rs trillion	**7.2**

Source: PhillipCapital research, MHUPA

Household monthly consumption expenditure

Decile group	Total housing shortage, mn unit	Average MPCE, Rs	Average HH size in Decile groups	Monthly HH consumption expenditure, Rs
0-10	3.8	599	5.85	3,506
10-20	3.3	831	5.29	4,396
20-30	2.2	1,012	5.05	5,110
30-40	3.7	1,196	4.74	5,669
40-50	0.9	1,398	4.63	6,473
50-60	1.7	1,633	4.15	6,779
60-70	1.4	1,931	3.97	7,666
70-80	1.0	2,330	3.64	8,481
80-90	0.6	3,051	3.34	10,189
90-100	0.2	5,863	2.73	16,007
	18.7			

Source: PhillipCapital Research; HH: Household

Increasing urbanisation to drive demand for housing

India's urban population is set to outpace its overall population growth. Over 2001-11, India's urban population CAGR was almost 3%, resulting in an increase in the urbanisation rate to 31.2% from 27.8%. Out of the 1.21bn people who live in India, 377mn are urban dwellers. Federation of Indian Chambers of Commerce (FICCI) estimates that by 2050, the country's cities will see a net increase of 900mn people! Over 2012-50, the urbanisation CAGR is likely to be 2.1%.

India's agriculture sector has a limited absorption capacity, so most of the growth in urbanisation is likely to be a consequence of a rural-to-urban migration. After India's economic liberalisation, its manufacturing and services sectors have seen an influx from rural youth (in terms of employment). With the country likely to witness rapid industrialisation, this migration trend (rural to urban) is likely to continue.

Meanwhile, in urban India, the looming housing shortage and growing concentration of people has resulted in an increase in the number of people living in slums and squatter settlements. Skyrocketing prices of land and real estate in urban areas have induced the poor and the economically weaker sections of the society to occupy the marginal lands typified by poor housing stock, congestion, and obsolescence. According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly 18.78 million households in 2012.

It is apparent that a substantial housing shortage looms in urban India and a wide gap exists between the demand and supply of housing, both in terms of quantity and quality in India (Bridging the Urban Housing Shortage – KPMG NAREDCO report).

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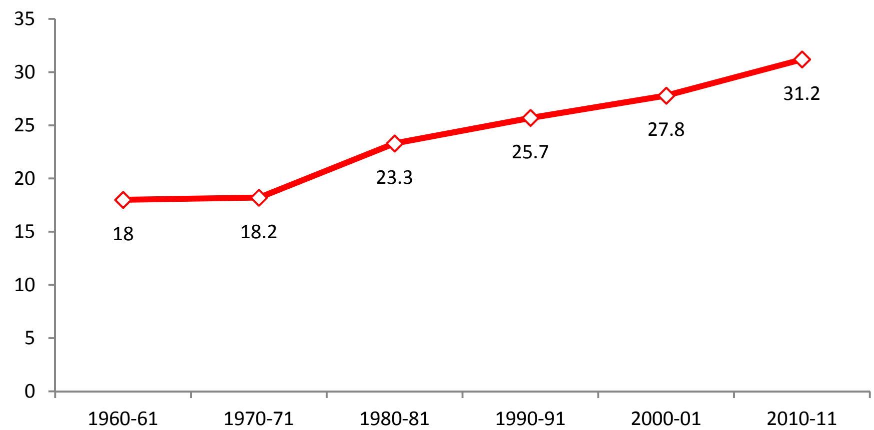
Urbanisation trend in India (%)



Source: PhillipCapital Research, MHUPA

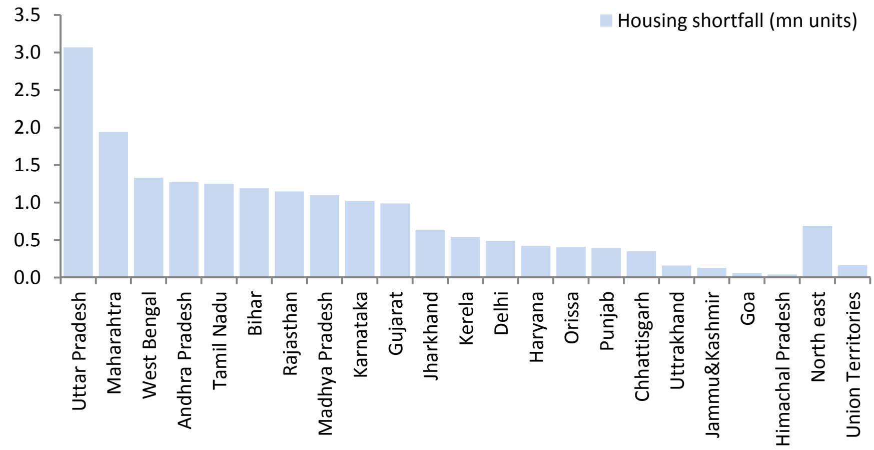
Housing shortage in urban India in 2012 (mn units)

Households living in non-serviceable *katccha*	0.99
Households living in obsolescent houses	2.27
Households living in congested houses requiring new houses	14.99
Households in homeless condition	0.53
Total	**18.78**

Source: Report of Technical Urban group TG-12, MHUPA

State-wise distribution indicates that top-10 states (in terms of population) contribute to 76% of India's total housing shortage, with Uttar Pradesh's contribution among the highest at 16.5%. State governments of various states such as Maharashtra and West Bengal have launched their respective housing schemes to tackle the housing need in the EWS segment. Though some progress has been made, the gap is still too wide.

State-wise housing shortage, mn units



Source: MHUPA

As per the TG-12 report, urban housing shortage is prominent across the economically weaker sections (EWS) and low-income groups, (LIG) which together constitute over 95% of total housing shortage. It estimates the housing shortage among the middle-income groups (MIG) and above at 4.38%.

Economic-group-wise housing shortage

	Units, mn	%
Economically weaker section (EWS) – Annual HH income upto Rs0.3 mn	10.55	56.2
Low income group (LIG) – Annual HH income Rs0.3-0.6 mn	7.41	39.5
MIG & above – Annual HH income > Rs0.6 mn	0.82	4.4
Total	**18.78**	**100.0**

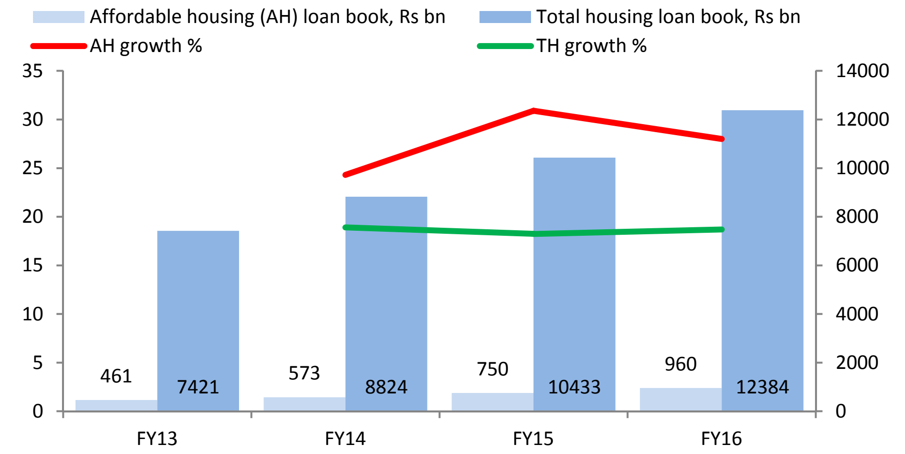
Source: Report of Technical Urban group TG-12, MHUPA   HH: Household

Affordable loan book growing rapidly

Affordable housing is emerging as a key growth segment

As per ICRA's estimates, the total loan book in this segment at the end of FY16 was Rs 960bn, up 28% yoy, while portfolio growth for new players was higher at 82% yoy. ICRA's report (Indian Mortgage Finance Market Update for Q1FY17) says, "Most players in the segment are of relatively recent vintage, starting operations around 4-5 years ago. Consequently, they continue to be in expansion mode and registered a three-year CAGR of close to 90% in loan portfolio, while the growth of seasoned players has been in line with overall HFC growth."

Affordable housing loan book



Source: PhillipCapital Research, ICRA

Largely catered to by HFCs

Households falling under LIG and EWS categories find it difficult to secure formal housing finance

In terms of market dynamics, banks have a limited presence in this segment, which is largely catered to by HFCs. The current financing mechanism in India is tilted towards servicing the MIG and above segments. As a result, households falling under LIG and EWS categories find it difficult to secure formal housing finance. Commercial banks and other traditional housing finance entities typically do not serve low-income groups, whose income may vary with crop seasons, or is below the 'viable' threshold to ensure repayment, or who cannot provide collateral for loans. HFCs that cater to these income groups have developed their own internal models to assess the repayment capability of borrowers, given the lack of formal income proof. Opportunities for growth in these segments are high because of low penetration levels and the government's thrust on the segment. Even the asset quality seems to be low in small ticket segment such as Rs 0.5-1.0mn with a GNPA of 1.4%. Asset quality history in segments below Rs 0.5mn ticket size is worrying. The Rs 0.5mn segment comprises of the economically weaker section (EWS), which formal lending institutes do not usually serve.

Even the asset quality seems to be low in small ticket segment like Rs 0.5-1.0mn with a GNPA of 1.4%

Slab-wise individual home loan by PSBs

Ticket size	% of total Disbursement 2014	% of total Disbursement 2015	Housing Shortfall	NPA in % 2014	NPA in % 2015
Up to 0.2 mn	2	1	95.7	10.5	11.4
0.2-0.5 mn	4	3		3.3	2.8
0.5-1.0 mn	13	11		1.7	1.4
1.0-2.5 mn	38	36		0.9	0.9
> 2.5 mn	44	48	4.4	0.6	0.6

Source: NHB

GoI schemes to bring down housing costs

Central and state grants and incentives + local bodies

In order to incentivise borrowers and generate demand for housing, the government of India has provided various incentives and grants. For the EWS segment, it provides a (per dwelling) central grant of Rs 150,000 where the unit cost is around Rs 500,000. Apart from the central government, state governments and urban local bodies have various schemes with grant amounts of Rs 150,000-250,000. Due to the existence of both central and state grants, the beneficiary contribution tends to be minimal or nil in the EWS segment.

Due to the existence of both central and state grants, the beneficiary contribution tends to be minimal or nil in EWS segment

In order to incentivise the LIG and MIG segments, the government launched the credit-linked subsidy scheme (CLSS) scheme. It provides an interest subsidy of 6.5% in the LIG segment for loans up to Rs 600,000. Similarly, the interest subsidy available for MIG-1/2 (MIG 1: Household income Rs 0.6-1.2mn; MIG 2: Rs 1.2-1.8mn) is 4%/3%. The present value of the subsidy amount is reduced from the principal component, which brings down the cost of the dwelling unit. For the LIG segment, the subsidy benefit for a dwelling unit costing Rs 1.8mn translates to 14%. Similarly, the average benefit in MIG-1/2 works out to 7%/4%. Income tax benefits provided to home-loan borrowers, along with subsidy schemes, brings down the effective interest costs of home loans to as low as 2.4% for LIG, which is similar to rental yields in India, while for MIG-1/2, the costs come to 3.8%/4.4%.

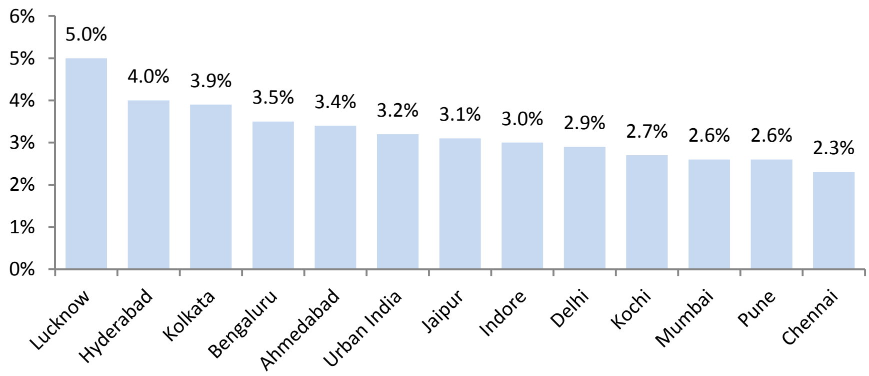
Interest subsidy of 6.5% for LIG segment; 4%/3% for MIG-1/2

Housing benefit in various segments

	EWS	LIG	MIG-I	MIG-II
Household income, Rs	300,000	3-600,000	6-1,200,000	12-1,800,000
Average monthly income, Rs	12,500	37,500	75,000	125,000
Max. monthly instalment, Rs	6,250	18,750	37,500	62,500
Max loan Affordable, Rs	600,000	1,800,000	3,600,000	6,000,000
Home loan eligible for CLSS, Rs	600,000	600,000	900,000	1,200,000
interest subsidy	6.50%	6.50%	4%	3%
Tenure years	20	20	20	20
Maximum dwelling unit carpet area covered	30 sq meter	60 sq meter	90 sq meter	110 sq meter
Processing fee, Rs	3000 to be given by govt	3000 for loan upto Rs6lac to be given by govt and above Rs6lac PLI can charge from borrower	3000 for loan upto Rs6lac to be given by govt and above Rs6lac PLI can charge from borrower	3000 for loan upto Rs6lac to be given by govt and above Rs6lac PLI can charge from borrower
Total interest subsidy, Rs	273,140	273,140	252,129	252,129
Interest subsidy as % to property value	**46%**	**15%**	**7%**	**4%**
Effective interest rate	**NA**	**2.4%**	**3.8%**	**4.4%**

Source: PhillipCapital Research

Chart of rental yields across India



Source: IBHFL

Supply: Low government funding, utilisation

Huge grants needed in the ensuing budgets under HFA 2022

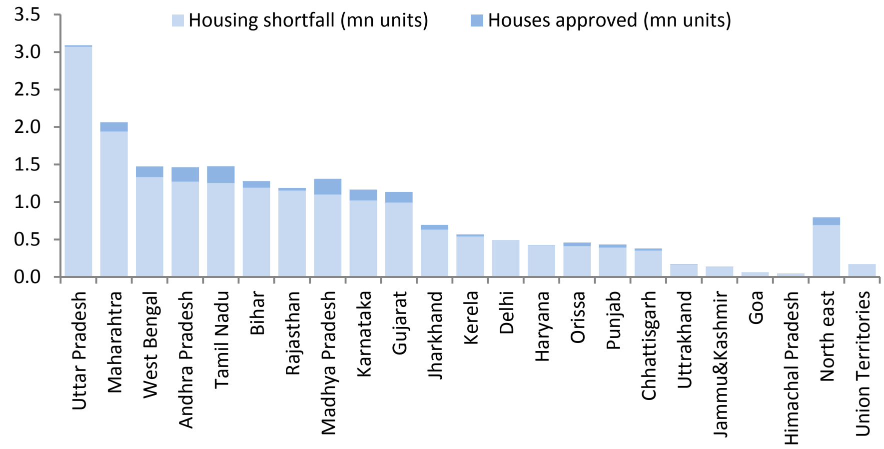
If the government truly wants to bridge the shortfall of 18.7mn housing units that currently exists in India, we estimate that it will have to make a total allocation (in the form of grants under the Pradhan Mantri Awas Yogna or HFA 2022) worth Rs 3.6tn. Up to March 2018, grants under PMAY and RAY (Rajiv Awas Yojna – now subsumed with PMAY) are just Rs 19bn, only 5% of our total estimate. To achieve targets, this scheme would need large-scale allocation by the government in the ensuing budget.

GoI investment under Pradhan Mantri Awas Yojna, RBI

Unit in Rs bn	PMAY-Rural		PMAY-Urban	
Year	Allocation	Utilisation	Allocation	Utilisation
2018	230.0		60.4	
2017	150.0		50.8	
2016	100.0	101.2	46.3	14.9
2015	159.8	111.0	31.0	10.9

Source: IndiaBudget.nic.in

State-wise progress of PMAY at the end of March 2017



Source: MHUPA, PhillipCapital Research

Progress of Housing for All scheme at the end of FY17

		Comments
Targeted dwelling, mn units	18.68	
Approved till date, mn units	1.77	Project approved is just 9.5% of target dwelling units
WIP, mn units	0.54	30% of approved projects are under construction
Completed till date, mn units	0.09	FY17-end: Only 0.50% of target households are complete by the end of FY17
Total GOI subsidy, Rs tn	3.62	
Approved till date, Rs tn	0.28	
Released till date, Rs tn	0.08	FY17-end: Only 2.2% of estimated government subsidy released

Source: MHUPA, PhillipCapital Research

Unavailability of land in urban areas

In urban areas, high population density has triggered huge demand. In such high-cost areas, the number of projects completed or under construction (such as Maharashtra and Delhi) tend to be low, suggesting that availability of adequate land is a must. Reports by various consultancy firms suggest that without the government's support, limited availability of land in urban areas makes it unviable for developers to take up affordable housing projects. A KPMG report on the urban housing shortage in India says that substantial non-marketable urban land that government-owned entities (such as railways) own, can be used more efficiently – a number of such land parcels are in centrally located areas. Through better monitoring, authorities can make more optimum use of these land parcels and prevent the on-going proliferation of slums and squatter settlements in these areas.

Substantial non-marketable urban land that government-owned entities such as railways own, can be used more efficiently

Delays in approvals and permission

Even though real estate and housing contribute significantly to India's economic growth, the sectors have "peculiar complexities that arise from uncertainties, inter-dependencies, and inefficiency in the operations of various process workflows and authorities", says a study by KPMG and NAREDCO. The building approval process in India is relatively slower and more expensive vs. several other countries. In India, various types of approvals are required at different stages by different authorities.

The KPMG-NAREDCO study says, "Development authorities allocate approvals based on land use and zoning regulations, while municipal corporations are responsible for the enforcement of building regulations as stipulated by the 'NBC'. Additionally, several non-planning permissions are also required to be obtained from various authorities such as the Traffic and Coordination Department, Airport Authority of India (AAI), Coastal Regulatory Zone (CRZ) authorities etc., as an assurance that buildings do not adversely affect its surrounding areas. Permits are also needed from utilities departments such as water and sewerage departments, electricity boards, etc." A FICCI research report titled 'Streamlining Approval Procedures for Real Estate Projects', which surveyed five states, suggests that in India, it takes anywhere between 2.5-4.0 years, on an average, to receive necessary building approvals.

In India, it takes anywhere between 2.5-4.0 years to receive necessary building approvals

Time taken for various approvals

Approvals	Maharashtra	Gujarat	Orissa	Tamil Nadu	Haryana
NA Permission/ Land conversion	3 months +	2 months	3-6 months	9 months	6 months
Ownership certificate	15 days	60 days	6-12 months	12 months	3 days
Building layout approval	1 month	6 months	6-12 months	45 days	6 months
Commencement certificate	15-30days	2-3 months	6 months	1-4 months	6-9 months
ASI	6 months	over 1 year	3-24 months		2 months
AAI	3-4 months	6 months	6-12 months	1-2 months	3 months
Environment	3 months +	1 year	30days to 12 months	4-8 months	2 years
Building completion certificate	30 days	3-4 months	6-12 months	3-6 months	6 months
Occupancy certificate	60days				6 months

Source: FICCI

As per the 'World Bank Group Report – 14', in terms of ease of dealing with construction permits, India is #185 in a ranking of 190 economies. The report highlights that in India, an average of 35 procedures are needed over a period of 190 days for obtaining construction permits (12 approvals over an average of 152 days in the OECD region, 16 approvals over an average of 196 days in the South Asia region).

Findings of the World Bank report on dealing with construction permits

	Mumbai	Delhi	India	South Asia	OECD high income
Procedures (numbers)	42	29	35	16	12
Times (days)	164	213	190	196	152
Cost (% of warehouse value)	25	27	35	17	2
Building quality control index (0-15)	12	11	11	9	11

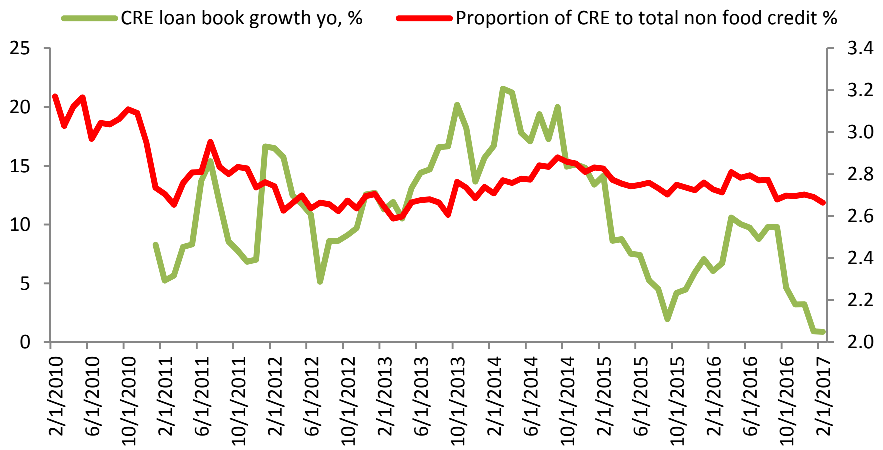
Source: World Bank

Poor fund availability to builders

For affordable housing developers, the funding situation is grim

Real-estate developers are grappling with funding challenges. Banks have curtailed their exposure to real estate (citing caution), leaving the developer segment with high-cost finance options such as Non-banking Financial Companies (NBFCs) and Private Equity (PE) funding. Moreover, the high cost of finance, coupled with waning demand, has disrupted developers' cash flows, leading to deferred project launches and a change in the slated supply. For affordable housing developers, the funding situation is even grimmer.

Bank credit to commercial real estate



Source: PhillipCapital Research

In order to ensure credit flow to commercial real estate in the affordable segment, the government has announced a slew of measures. These, we believe, would ensure adequate funding and provide some respite to commercial real-estate developers in the affordable segment:

Complete waiver of income tax would mean that the margins of affordable-housing players shoot up to nearly 30% levels

- In the 2016 budget, all profit from construction of affordable housing was proposed to be exempted from corporate tax. Historically, the affordable housing sub-segment has yielded margins of 15-20% for real estate developers, whereas in premium housing, profit margins have been substantially higher (>25%). Complete waiver of income tax would mean that the margins of affordable-housing players shoot up to nearly 30% levels, equalling or overtaking the profit margins from the premium segment. Also, buyers will be assured of timely completion as builders will have to deliver within three years to avail of the tax exemption.
- The budget also waived service tax for affordable housing, effectively reducing the cost of purchase for buyers, and improving affordability.

Companies Section

Dewan Housing Finance (DEWH IN)

At the cusp of a further re-rating

15 May 2017

INDIA | FINANCIAL | Initiating Coverage

Comprehensive lending model catering to the affordable housing segment

Over the years, DHFL has built a comprehensive business model (through inorganic expansion) to serve LIG and bottom-of-MIG customers. With an average ticket size of Rs 1.8mn, it caters to the segment with an average annual income of Rs 450,000. The huge housing shortfall in the affordable segment provides a lending opportunity of Rs 7.2tn for the industry. We expect DHFL's home loan portfolio to see strong CAGR of ~18% in FY17-19.

Stake sale in subsidiary has augmented capital position without dilution: In Q4FY17, DHFL monetised its entire 50% stake in DHFL Pramerica Life Insurance (DPLI) for Rs 20bn, which added Rs 19.7bn to its net worth. Consequently, its tier-1 capital increased 320bps to 14.9% while its book value increased by Rs 63 per share. More importantly, it achieved its improvement in capitalisation without any equity dilution. This will enable DHFL to pursue 18-20% growth in its affordable loan book for the next three years without any dilution.

Margin to remain stable: DHFL's approach of diversifying its borrowing profile has helped it to reduce its cost of funds. Along with a benign interest-rate cycle, it has reduced its share of high-cost bank borrowings (to 42% from 70% in FY13) and replaced them with relatively cheaper capital-market borrowings (42% share in Q3FY17 from 20% in FY14). Judicious borrowing mix and a balanced loan mix (individual and project) will enable DHFL to maintain its NIMs, despite heightened competition in the mortgage market.

Reduction in cost-income ratio to prop up return ratios: DHFL's RoA and RoE has been low among its peers, because of highest cost-income ratio of 30% (0.9% of total assets), driven by higher employee and marketing expenses. Nevertheless, it has achieved some success in improving cost efficiency – to 26.5% in FY17 from 32% FY13. Continued and sustained improvement in the cost-income ratio will eventually add to the RoA.

Adequate risk cover will protect against loan defaults: Superior underwriting standard, low LTV (loan-to-value ratio), and government subsidy benefit will lead owner's equity in home loan and would dissuade the borrower to default. Stable GNPA ratio at sub-1% over FY12-17 demonstrates its ability to contain credit costs.

Valuation and recommendation: DHFL is in a good position to capture impending growth in affordable housing. The company has been catering to low- and mid-income housing for a while now and has gained the requisite means to benefit from a fillip in this segment. Its home-loan segment is largely tilted towards affordable, with almost 60% of the incremental home-loan disbursements meeting the government's eligibility criteria for incentives under PMAY (U) – 2022.

We expect earnings CAGR of 20% over FY17-19 to translate into a RoA of 1.24/1.32% in FY18/19. At CMP, the stock trades at 1.5x/1.3x FY18/FY19 book value of Rs 288/326. We initiate coverage on DHFL with a BUY rating with a target (SOTP) of Rs 655. We value the housing finance business at 2x FY19 BPS of Rs 321 (net of investment in subsidiary of Rs 5 per share) and ascribe a per share value of Rs 15 to various subsidiaries.

SOTP	Stake	Per share value	Criteria of valuation
DHFL	100.0%	640	2x FY19 BV net of investment
DHFL Advisory & Investment Pvt ltd	100.0%	2	At current book value
Avanse Financial Services Ltd	36.8%	2	1x FY19 book value
DHFL Pramerica AMC	50.0%	15	Equity fund at 5% debt fund at 3%
Less: Holding co. discount @ 20%		4	
Total value of the entity		**655**	

BUY

CMP RS 431

TARGET RS 655 (+52%)

COMPANY DATA

O/S SHARES (MN) :	313
MARKET CAP (RSBN) :	134
MARKET CAP (USDBN) :	2.1
52 - WK HI/LO (RS) :	455 / 183
LIQUIDITY 3M (USDMN) :	15.7
PAR VALUE (RS) :	10

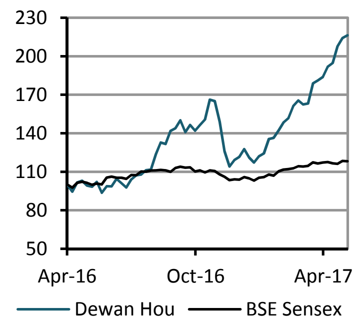
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	39.3	39.3	39.3
FII / NRI :	25.3	26.4	29.5
FI / MF :	7.2	6.0	3.9
NON PRO :	7.7	7.5	7.8
PUBLIC & OTHERS	20.6	20.9	19.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	10.2	41.1	108.3
REL TO BSE	8.3	34.5	91.2

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY17	FY18E	FY19E
Net Profit	9,270	11,443	13,367
% growth	27.1	23.4	16.8
EPS (Rs)	29.6	36.6	42.7
BVPS (Rs)	250.6	288.0	325.6
ROE (%)	14.4	13.6	13.9
ROA (%)	1.2	1.2	1.3
P/E (x)	14.4	11.7	10.0
Adj P/BV (x)	1.7	1.5	1.3

Source: PhillipCapital India Research Est.

Comprehensive lending model, skewed towards affordable housing

Over the years, DHFL has built a comprehensive business model through inorganic expansion to serve LIG and bottom-of-MIG customers. Its home-loan portfolio CAGR has been strong at 24% in FY12-17 to reach Rs 474bn. In the last five years (FY12-17), its housing portfolio has registered a growth of 24% (~11% driven by price and 13% by volume).

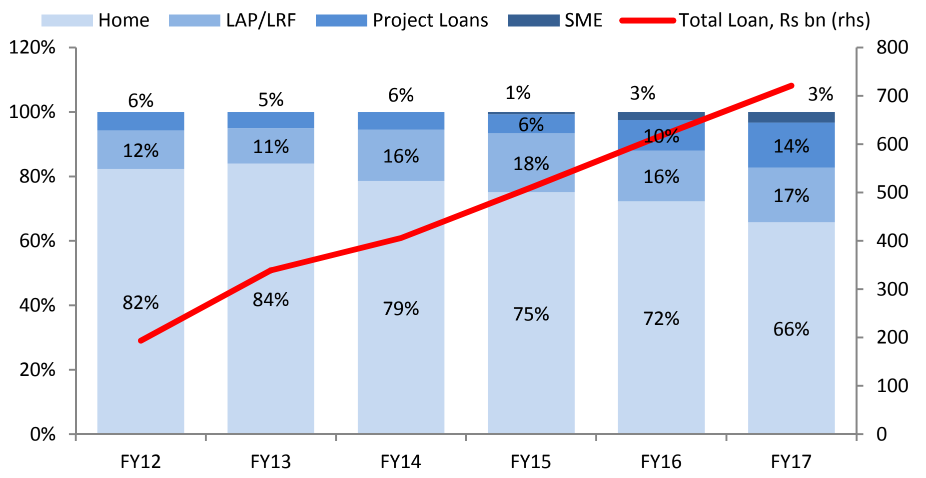
__Its incremental home-loan business is skewed toward the Rs 0.1-2.5mn segment, commanding 2/3rd share in India's total home-loan portfolios__

Its incremental home-loan business is skewed toward the Rs 0.1-2.5mn segment, commanding 2/3rd share in India's total home-loan portfolios. With an average ticket size of Rs 1.8mn (in housing disbursement), it caters to the segment with an average annual income of Rs 450,000. DHFL's home loans are largely tilted towards the affordable segment, with almost 60% of incremental home-loan disbursement meeting the eligibility criteria for government incentive under PMAY (U) – 2022.

The huge housing shortfall in the affordable segment provides a lending opportunity of Rs 7.2tn for the industry, which bodes well for DHFL. It is positioned towards the end-user customer segment, where affordability improves with moderation in prices and lower interest rates.

Supply of affordable housing has always been a constraint. The government's thrust on the affordable segment will provide an impetus to the supply side, which is positive for financiers.

DHFL: Loan mix by segment



Source: PhillipCapital Research, Company

DHFL's growing focus in the home loan and projects segments will moderate the growth in its loan against property (LAP) and SME segments. We expect the proportion of LAP and SME loans to hover around current levels of 16% and 3%. Given the opportunity in project finance in the affordable segment, the exposure in this segment is likely to grow. In its current project-finance portfolio, affordable projects contribute 70%. The total investment envisaged under PMAY-2022 is estimated at Rs 18tn, which, along with demand for home loans, will also create demand for financing affordable projects. The GoI has opened various funding avenues for affordable housing projects and relaxed some policies – details below:

- In the 2016 budget, all profit from construction of affordable housing was proposed to be exempted from corporate tax.
- Waived service tax for affordable housing, effectively reducing the cost of purchase for buyers, and improving affordability.

- Infrastructure status granted to affordable housing – expected to help developers access more funds at lower costs and increase supply of budget houses. The maximum amount of ECB that can be raised by a corporate is US$ 750mn or equivalent during a financial year.

The customer profile has changed radically in the last few years – self-employed now constitutes the largest segment at 43% vs. 24% in FY13. Similarly, the salaried (private companies) proportion has come down to 33% from 52% in FY13. The major reason for this shift is – (1) increasing competition in the salaried segment, where incremental spreads are becoming thinner, (2) increasing geographical presence, and (3) rising focus on tier-1 and tier-2 segments, where the opportunity is more in the self-employed category.

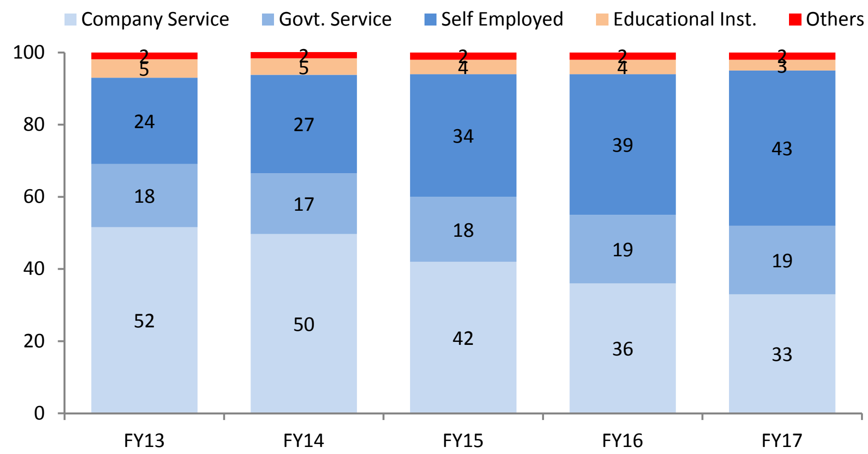
Product pProfile

Particulars	House Loan	LAP	Business loan
Ticket size (INR mn)	1.8	4	500mn
LTV %	70	45	na
Duration	6-7 yrs	4-5 yrs	2-3 yrs
Incremental Yield%	10.4	12.4-12.75	13-15
Proportion of loan book %	65.8	20.2	14.0
Self Employed	salaried 51% and self employed 49%	self employed/SME	Corporate

Source: PhillipCapital Research, company

The rising share of the self-employed segment will come with its own risk-reward dynamics. However, we believe the company has been able to demonstrate strong control on asset quality despite high share of self-employed (more on this later).

DHFL: Customer composition (%)



Source: PhillipCapital Research, Company

DHFL's sales network includes direct selling teams who work under the supervision of the company's sales supervisors and receive a combination of fixed fees and variable commissions based on the disbursements of loans that they source. Majority of the loans are sourced through the direct selling teams. DSAs and other business referral partners make up for the remaining field force for mobilising business.

Spread to stabilise at 2.3%

DHFL's NIMs benefitted from liability re-pricing to the tune of 3bps in FY17 to reach 2.99%. Average cost of funds declined by 74bps yoy due to factors such as increasing share of debt capital market (DCM) and re-pricing of bank borrowings owing to a cut in MCLR. We expect the share of DCM (currently at 42%) to increase in the borrowing mix going forward. Despite the rate differential narrowing between DCM and Bank borrowings, the difference of 50-60bps still remains.

The hawkish stance on interest rates and upside risk to inflation rules out possibility for a further cut in policy rate. This also rules out the possibility for a major increase in DCM proportion, but we do not rule out some increases in future.

Movement in cost of fund

Average cost of fund	FY15	FY16	FY17	FY18	FY19
Banks	10.9%	10.5%	9.5%	9.3%	9.2%
DCM	9.7%	9.4%	9.1%	8.8%	8.6%
Fixed deposit	10.5%	9.9%	9.2%	8.7%	8.4%
multilateral agencies	9.7%	8.6%	8.8%	8.2%	8.2%
NHB	8.0%	7.8%	7.6%	7.6%	7.6%
WACB	10.4%	10.0%	9.3%	8.9%	8.7%

Borrowing Mix	FY15	FY16	FY17	FY18	FY19
Banks	58%	53%	42%	40%	38%
DCM	28%	33%	44%	46%	48%
Fixed deposit	8%	8%	8%	8%	8%
Mutlilateral agencies	3%	4%	4%	4%	3%
NHB	3%	2%	3%	3%	3%

Source: PhillipCapital Research, Company

With re-pricing pressure on the home-loan book, its yield declined by 71bps in FY17. We expect the non-home-loan proportion to stabilise at current levels; however, pressure on re-pricing of the back book still remains, which will exert pressure on NIMs – we expect yields to remain soft due to all these factors, but high growth in affordable segment (in self-employed) will help insulate NIMs from a contraction.

Movement in yield on loan

Yield on various Loan product	FY15	FY16	FY17	FY18e	FY19e
Home	12.0%	11.3%	10.5%	10.1%	9.8%
LAP/LRF	13.8%	13.8%	12.8%	12.3%	12.3%
Project Loans	18.0%	18.0%	15.5%	14.8%	14.8%
SME	13.5%	13.5%	12.8%	12.3%	12.3%
Average yield on loan	12.6%	12.2%	11.5%	11.2%	11.0%

Source: PhillipCapital Research, Company

Change in loan mix

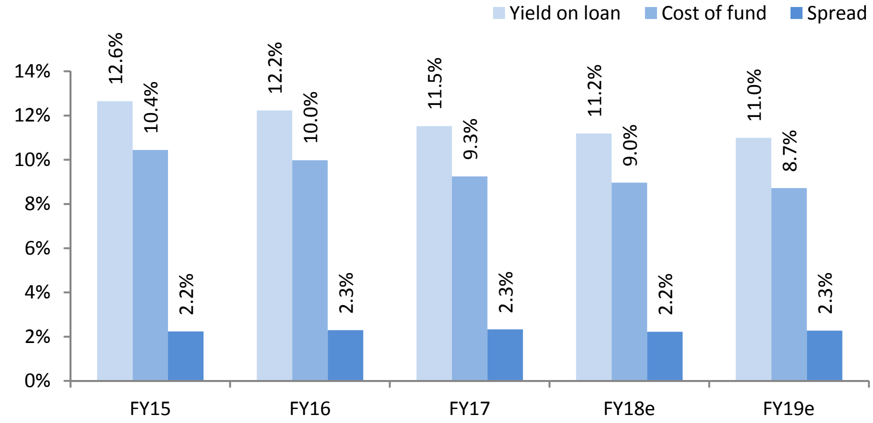
loan mix	FY15	FY16	FY17	FY18e	FY19e
Home	75.1%	72.3%	67.6%	66.6%	66.6%
LAP/LRF	18.3%	15.7%	15.6%	15.9%	15.9%
Project Loans	5.9%	9.5%	13.8%	15.0%	15.0%
SME	0.7%	2.5%	3.0%	2.5%	2.5%

Source: PhillipCapital Research, Company

We expect spread to stabilise at 2.4% level

We see the yield on loans contracting by 53bps over FY17-19, whereas further respite is likely from cost of funds, which could come down by a similar proportion – thus maintaining spread at current levels.

Spread analysis chart



Source: PhillipCapital Research, Company

Sufficiently capitalised without dilution due to stake sale

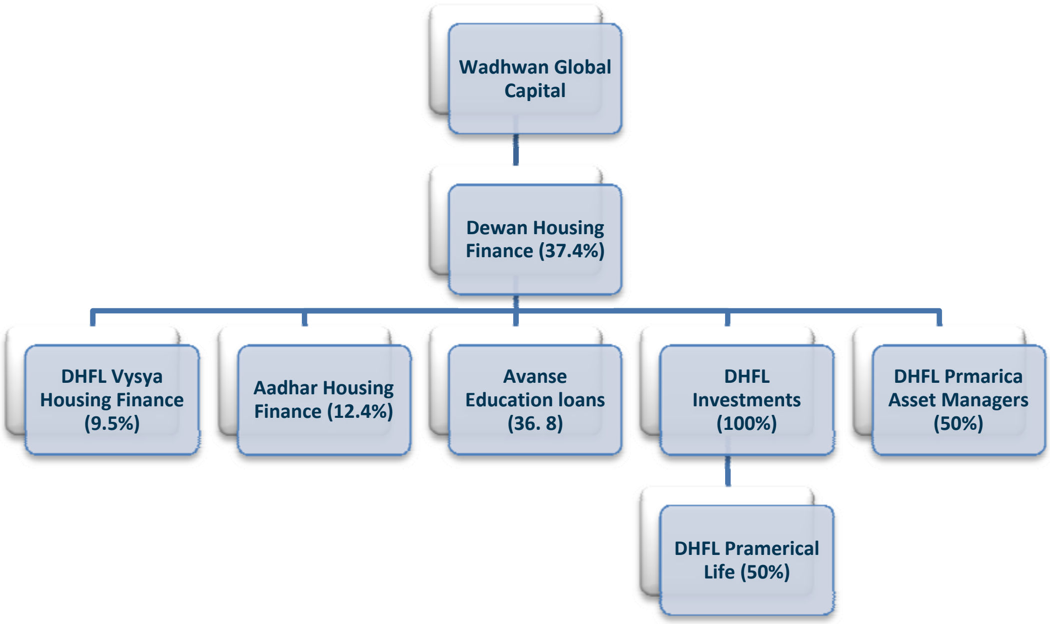
In Q4FY17, DHFL monetised its entire 50% stake in DHFL Pramerica Life Insurance (DPLI) for Rs 20bn, which added Rs 19.7bn to its net worth. Consequently, its tier-1 capital increased by 320bps to 14.9% while its book value increased by Rs 63 per share. More importantly, it has achieved this capitalisation improvement without any equity dilution – this will enable DHFL to pursue 18-20% growth in affordable housing for the next three years without any dilution.

Movement in capital adequacy ratio

%	FY13	FY14	FY15	FY16	FY17
CRAR	16.52	17.16	16.56	16.74	19.34
Tier 1	11.32	11.94	12.53	12.97	14.92
Tier 2	5.20	5.22	4.04	3.77	4.42
Equity issuance history	Raised Rs3bn via QIP		QIP Rs8.1bn	warrant conversion to promoter Rs5bn	Gain of Rs20bn in stake sale in DPLI

Source: PhillipCapital Research, Company

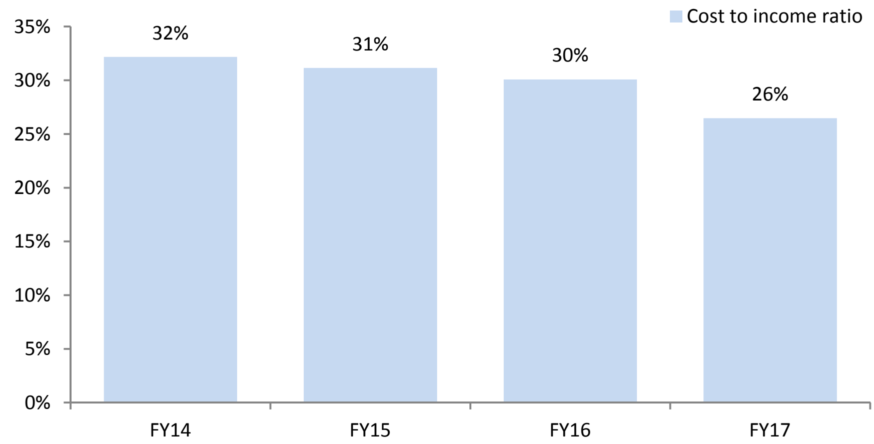
Group holding structure after the insurance deal



Reduction in cost-income ratio to prop up return ratios

DHFL has been reporting lowest RoAs and RoEs amongst its peers because of its highest cost-income ratio of 26% (0.7% of total assets), driven by higher employee and marketing expenses. Nevertheless, it has achieved some success in improving cost efficiency to 26% in FY17 from 32% FY13. Continued and sustained improvement in cost-income ratio by 200bps over FY17-19 will be a trigger for an improvement in return ratios.

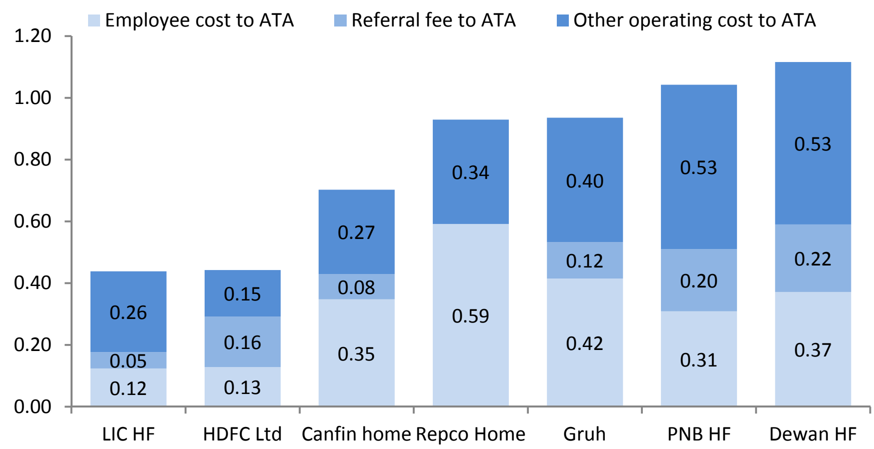
Cost-to-income ratio (%)



Source: PhillipCapital Research, Company

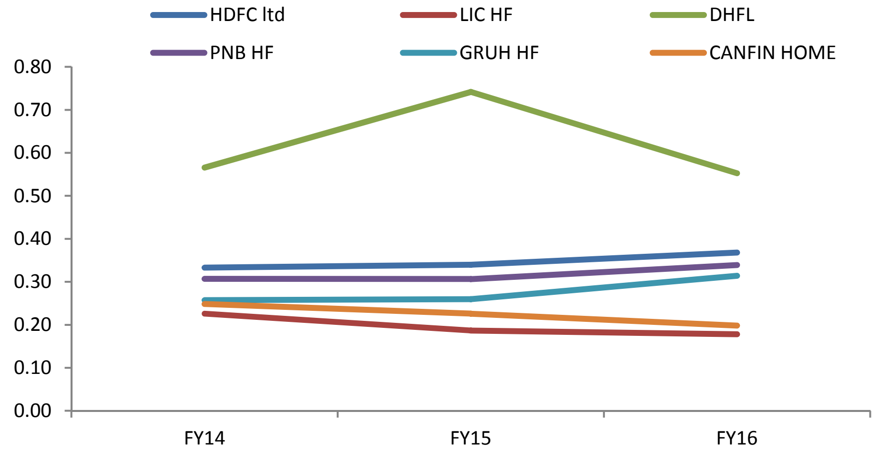
Of its total home loans, a majority (65%) comes from direct selling teams, DSAs contribute 28%, and the balance 7% comes from walk-ins, online, and other business referral partners. However, 70%-80% of its LAP businesses are through DSAs or business referral partners. Its high cost-to-income ratio in the past vs. peers was because of: (1) high referral fee paid to attract non-housing loan business, (2) expenses pertaining to advertisement, business promotion, legal, and professional expenses, and (3) high employee costs.

Comparison of operating cost across various players (%)



Source: PhillipCapital Research, Company

Referral fee (% to disbursement)



Source: PhillipCapital Research, Company

DHFL is aware of this (high cost-to-income ratio) and has been working to bring down its cost structure. The management's efforts have started paying off – visible in the decline in this ratio in last few years. We understand that as the growth in LAP segment moderates further, the referral fee paid (high at 0.5% of disbursement) is also likely to come down. Higher employee cost can be attributed to the company's policy of having its own direct selling team. Control on advertisement and business promotion expenses and the non-recurring nature of legal and professional expenses along with high operating leverage will bring down the cost to income ratio by 200bps in the next two years.

Captive sourcing team, strict risk control to keep asset quality stable

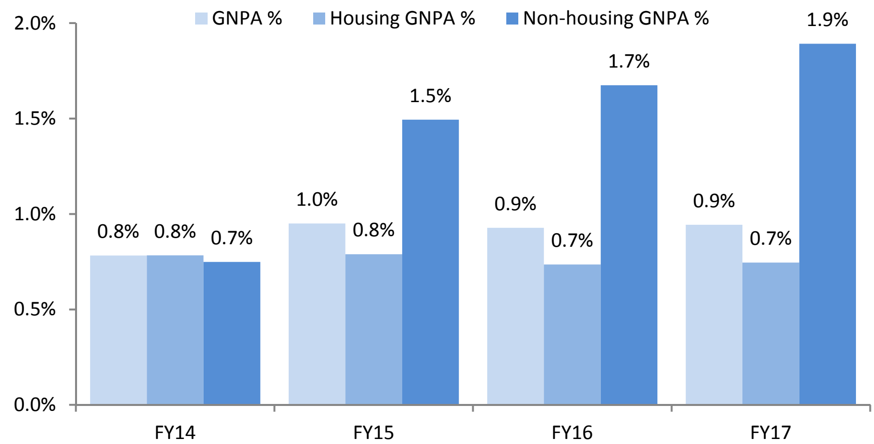
DHFL's asset quality has been stable across its product categories. Challenges in segments such as LIG and bottom-MIG are immense due to inadequate documentation and improper income proof in the self-employed segment. Despite the challenges, the stability of its asset quality is because of:

1. Disciplined lending with an LTV (loan-to-value) of 70% in housing and 40-45% in LAP. Instalment-to-income ratio is 35-50%. GNPA in LAP stable at 1.2% level.
2. Government subsidy for the segment DHFL operates in works out to be about 15% – a subsidy of Rs 270,000 for a loan average of Rs 1.8mn. Increased owner's equity dissuades borrowers to default.
3. In-house sourcing team contributes 70% of its home-loan business.
4. Stringent risk management systems and processes in place across all areas of operations, viz., loan origination, credit appraisal, loan disbursement, and collection and recovery.

GNPA in home loan 0.70-0.75%; LAP 1.2% and project loan 1.9%

Asset quality in the home loan segment has been stable at 0.70-0.75%. LAP has also seen stable asset quality with GNPA of 1.2%. GNPA in the projects segment and SME are higher at 1.9%. Given the vulnerability of the project segment, in term of delinquency, the high yield of 15.5% in project loans more than adequately prices the risk involved.

Segment-wise NPA



Source: PhillipCapital Research, Company

About the company: Dewan Housing Finance incorporated in 1984, is the fourth-largest housing finance company with an AUM of Rs 835bn. It primarily operates in tier-2 and tier-3 cities and caters to lower- and middle-income segments. It has a pan-India presence and operates in 352 locations. In FY11, it acquired 100% stake in First Blue Home (Erstwhile Deutsche Postbank Home Finance) for Rs 10.8bn. In FY13, First Blue Home was amalgamated with DHFL. Through its various subsidiaries, DHFL operates in many segments of housing finance. It has a stake in other housing finance companies – namely Aadhar Housing Finance (12.4%) which caters to EWS, and DHFL Vysya Housing Finance (9.5%) which caters to LIG. It also provides education loans through Avanse Financial Service (36.8%). Recently Dewan Housing Finance sold its 50% stake in DHFL Pramerica Life Insurance to DHFL Investments for Rs 20bn, which has augmented its capital position. It also provides asset management services through its subsidiary DHFL Pramerica Assets managers.

Key risks

1. Failure of the housing programme to take off in a meaning full way can derail the growth opportunity and optimism for the stock. Supply has always been a constraint in the affordable segment, but the incentive and initiative taken to ensure adequate supply allays some of the concern.
2. Establishment of a real-estate regulator: Real Estate Regulatory Act (RERA) has been notified. It seeks to make detailed information about projects public. In order to ensure that money collected for the project is utilised for *that* project only, all money need to be deposited in an escrow account. Diversion of funds for other projects and buying land has been a practice in real estate. The enactment of RERA could lead to cash flow constraints for some existing projects, and hence the risk of project delays leading to default could increase.
3. LIG and lower MIG are vulnerable groups, especially in the self-employed segment; most do not have a fixed regular income source. Decline in economic activity in this segment and laxity in lending could result in high delinquency.

Subsidiary and associate companies

Avanse Financial Services Ltd

- DHFL has a 36.8% stake in this education loan company (higher education in India and overseas).
- Present in eight major educational markets in India – including Mumbai, Delhi, Pune (exclusive Avanse branches) and an additional coverage through 180 DHFL Centres.
- AUM stands at Rs 10bn, +60% CAGR in FY15-17, with an average ticket size of Rs 1.5mn.

DHFL Vysya Housing Finance

- DHFL has 9.5% stake in DHFL Vysya Housing Finance, which is present in the low-income segment. DHFL has invested Rs 32mn in this entity.
- Average ticket size was Rs 1mn in FY17 with operations majorly in south India, (Karnataka, Andhra Pradesh, Telangana, Tamil Nadu, and Kerala) and in Maharashtra and Uttar Pradesh.
- 47 branches and 20 service centres
- AUM of Rs 18bn – 23% growth over FY06-17.

Aadhar Housing Finance

- Primary target customers are in the economically weaker section (EWS).
- The average ticket size stood at Rs 0.7mn in FY17
- Generates business through 13 low-income states in India (Uttar Pradesh, Madhya Pradesh, Bihar, Chhattisgarh, Jharkhand, West Bengal, Orissa, Gujarat, Rajasthan, Maharashtra, Uttarakhand, Punjab, and Haryana)
- Present at 131 locations.
- It has registered an AUM growth of 76% in FY17 to reach Rs 32bn.

DHFL Pramerica Asset Management

- 50:50 joint venture between DHFL and Prudential Financial Inc
- Caters to the mutual fund and portfolio management segment since 2015.
- Currently present in 19 cities
- Network of more than 5,000 empanelled distributors.
- AUM at Rs 233bn.

DHFL Advisory and Investment Pvt Ltd

- Incorporated with a networth of Rs 750mn
- Wholly owned subsidiary incorporated in February 2016
- To "carry on the business of providing all kinds of advisory/consultancy services and fees based intermediation activities and to promote / sponsor trusts or funds including Mutual Funds / Venture Capital Funds etc."

Valuation and recommendation

- Well positioned to capture impending growth in affordable housing.
- Caters to low- and mid-income housing segment
- Gained the means to benefit from a fillip in the segment
- In-house sourcing team, quality risk management practice, strong capital base, and presence in affordable project loan segment provides added advantage in sourcing individual loans.
- Loan book CAGR of ~18% for at least next five years, given huge opportunity and government thrust in affordable housing.
- Strong balance sheet growth, stability in margin and asset quality, and increase in operating leverage will drive return ratio
- Benefit of lower cost of funds and huge untapped opportunity in affordable housing along with judicious mix of individual and project loan will enable it to maintain margin.
- Superior underwriting standard, low LTV, and government subsidiary benefit will mean higher owner's equity, which will dissuade borrowers from defaulting.
- Focus on containing costs (advertisement, publicity, legal expenses), moderate growth in LAP, and higher operating expenses to bring down cost-income ratio.
- We expect earnings CAGR of 20% over FY17-19 to translate into a RoA of 1.24%/1.32% in FY18/19.
- At CMP, the stock trades at 1.5x/1.3x FY18/19 book value of Rs288/326.
- We initiate coverage with a BUY rating with a target (SOTP) of Rs 655. We value the housing finance business at 2x FY19 BPS of Rs 321 (net of investment in subsidiary of Rs 5 per share) and ascribe a per share value of Rs 15 to various subsidiaries.

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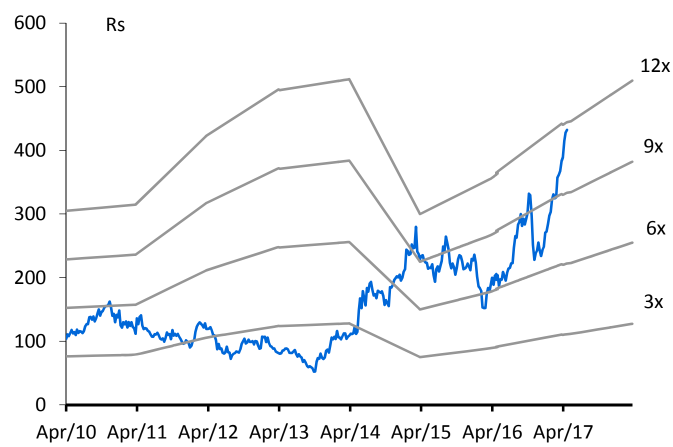
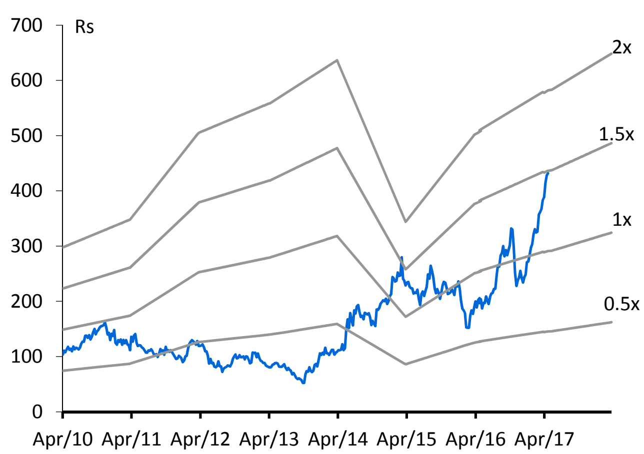
Less: Holding co. discount @ 20%		4	
Total value of the entity		**655**	

One-year forward P/E band



P/BV band



Source: PhillipCapital Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17*	FY18e	FY19e
Interest income	71,378	86,197	95,448	103,123
Interest expenses	54,900	66,536	73,137	78,365
NII	**16,478**	**19,661**	**22,311**	**24,758**
Other income	1,789	22,070	2,848	3,418
Total income	**18,267**	**41,731**	**25,159**	**28,175**
Employee Expenses	2,276	2,625	2,914	3,147
Other Expenses	3,219	3,207	3,447	3,695
Operating expenses	5,495	5,832	6,361	6,842
PPP	**12,772**	**35,898**	**18,798**	**21,333**
Provisions	1,750	2,180	1,718	1,381
Pre tax profit	**11,022**	**33,718**	**17,080**	**19,952**
Tax expense	3,730	4,754	5,636	6,584
PAT	**7,292**	**9,270**	**11,443**	**13,367**

*PAT adjusted for profit on sale of insurance business

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17	FY18e	FY19e
Cash & Bank Balances	34,083	34,300	42,875	53,594
Loans & Advances	617,750	720,960	851,967	1,007,713
Investments	8,932	135,349	12,181	13,400
Fixed Assets	7,805	8,427	7,163	6,088
Other Assets	9,961	23,945	12,458	11,748
Total assets	**678,531**	**922,980**	**926,644**	**1,092,542**
Share capital	2,918	3,132	3,130	3,130
Reserves & Surplus	46,002	75,324	87,034	98,799
Networth	50,170	78,454	90,165	101,929
Borrowings	610,496	813,400	802,500	953,929
Other liabilities	955	3,140	4,274	5,599
Provision	16,911	27,986	29,704	31,085
Total liabilities	**678,531**	**922,980**	**926,644**	**1,092,542**

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY16	FY17	FY18e	FY19e
Per share data				
No. of shares, mn	291.8	313.2	313.0	313.0
EPS	25.0	29.6	36.6	42.7
BV	171.9	250.6	288.0	325.6
Adj BVPS	163.3	241.2	276.8	311.7
DPS	2.0	1.3	5.0	6.0
Growth ratios				
Advances	21.0	16.7	18.2	18.3
Borrowings	24.9	33.2	(1.3)	18.9
NII	23.6	19.3	13.5	11.0
PPP	16.9	205.9	(49.3)	16.8
PAT	17.4	27.1	23.4	16.8
Margins				
Yield on funds	11.7	10.8	10.3	10.2
Cost of deposits	10.0	9.3	9.1	8.9
Spreads	1.7	1.4	1.3	1.3
NIMs	2.8	2.5	2.5	2.5
Cost ratios				
Cost to income	30.1	26.5	25.3	24.3
Cost to average assets	0.9	0.7	0.7	0.7
Return ratios				
RoA	1.2	1.2	1.2	1.3
RoE	15.1	14.4	13.6	13.9
Valuations				
P/E	17.1	14.4	11.7	10.0
P/BV	2.5	1.7	1.5	1.3
Asset quality & CRAR				
GNPA	0.9	0.9	1.0	1.0
NNPA	0.6	0.6	0.6	0.6
Provision coverage Ratio	37.0	37.8	40.3	40.5
Tier 1	13.0	14.9	16.8	16.1
CRAR	16.7	19.3	19.0	17.9

Indiabulls Housing Finance (IHFL IN)

Power of compounding

INDIA | FINANCIAL | Initiating Coverage

15 May 2017

Stimulating policy and fiscal incentive to boost GoIs ambitious housing objective

IBHFL is a play on the impending growth in affordable housing. We see loan demand driven by improved affordability and renewed need for project loans. GoI's credit-linked interest subsidy scheme and fiscal incentives have reduced the cost of owning a house for the LIG segment to 2.4% – equivalent to rental yield and for the MIG segment to ~4% (with the inclusion of this segment under CLSS). IBHFL's superior credit-underwriting ability in the builder segment augurs well for it to capture project-loan demand in the affordable segment. Policy initiatives such as zero income tax from affordable projects and increasing funding avenues will overcome supply constraints in the affordable segment and boost demand for project loans.

Focus on individual loans and a judicious mix of projects will drive an AUM CAGR of 30%

IBHFL's home-loan segment's proportion will increase to 66% by FY20 vs. 56% in FY17, driven by demand for affordable houses. The mix between salaried and self employed will remain constant at 70% and 30%, providing respite from increased competition in salaried mortgage. Over the next three years, corporate loan proportion will moderate to 20% while LAP will decline to 14%, and disbursement/loan-book CAGR will be +20%/+30%.

Margins to remain stable in the medium term

Increases in the proportion of individual loans, along with re-pricing of its home-loans portfolio (due to heightened competitive pressure) will put loan-book yields under pressure. Savings from lower costs of borrowing will be sufficient to cover this pressure. We expect these yields to fall 73bps in FY18 while costs of borrowing decrease 70bps, translating into a stable spread of 3.2%.

Focus on e-platform and increased operating leverage will bring down costs

IBHFL's cost-to-asset matrix has ample scope for improvement as it ventures into automating its loan-sourcing model. Its cost-to-income ratio will continue declining with increasing share of home loans and cost-effective expansions into tier-2 cities. Cost-to-asset ratio of 0.8% could also decline with an increase in loans from its e-platform, which costs 0.4% – half the cost on a portfolio basis. E-platform contributes 20% of incremental disbursement in home loans. Increasing scale of home loans from the e-platform will drive efficiency.

Superior credit appraisal/monitoring to maintain asset quality

IBHFL has maintained high asset quality across its product segments – GNPA / NNPA have remained stable at 0.85%/0.35%. Superior underwriting, strong monitoring, and fine mix of salaried and self-employed, along with low LTV, provides stability to its portfolio. An external rating of its sold-down LAP portfolio suggests that +90% of its incremental LAP pool is rated average and above.

Recommendation and valuation

Balanced mix of housing and non-housing loans, stable margin driven by liability re-pricing, and declining cost-to-income ratio will remain earnings drivers. Strong capital position with CRAR of 20.9% and RoE of ~30% will provide adequate capital to take IBHFL through +30% AUM growth in the next three years.

We expect earnings CAGR of 23% over FY17-19, which would translate into a RoA of 3% and FY18/19 RoE of 28%/32%. At CMP, the stock trades at 3.4x/3.0x FY18/19 book value of Rs 314/349. We initiate coverage with a **BUY** rating and target of Rs 1,320. We value the business at 3.5x our FY19 BVPS of Rs 349 and add dividend of Rs 95 per share over two years to arrive at a target of Rs 1320.

BUY

CMP RS 1063

TARGET RS 1320 (+24%)

COMPANY DATA

O/S SHARES (MN) :	424
MARKET CAP (RSBN) :	446
MARKET CAP (USDBN) :	6.9
52 - WK HI/LO (RS) :	1135 / 618
LIQUIDITY 3M (USDMN) :	33.6
PAR VALUE (RS) :	2

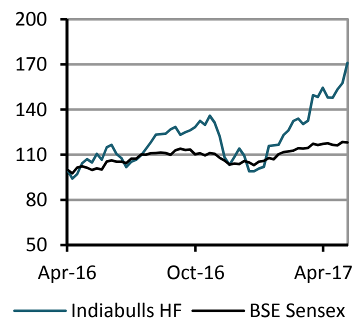
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	23.8	24.2	24.3
FII / NRI :	63.2	60.6	40.7
FI / MF :	3.7	2.7	23.4
NON PRO :	2.9	6.1	4.8
PUBLIC & OTHERS:	6.4	6.4	6.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	12.5	29.4	47.9
REL TO BSE	10.7	22.8	30.8

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs Bn	FY17	FY18E	FY19E
Net Profit	29.1	35.7	44.8
% growth	23.6	22.6	25.5
EPS (Rs)	68.6	84.1	105.6
BVPS (Rs)	286.0	314.0	349.3
ROE (%)	25.5	28.0	31.8
ROA (%)	3.2	3.0	2.9
P/E (x)	15.4	12.5	10.0
P/BV (x)	3.7	3.4	3.0

Source: PhillipCapital India Research Est.

Stimulating policy and fiscal incentive to boost the government's ambitious housing objective

IBHFL is a play on the impending growth in the affordable segment. We expect improved affordability and renewed demand for project loans to drive its loan demand. GoI's credit-linked interest subsidy scheme and fiscal incentive has reduced the cost of owning a house in the low-income segment (LIG) to 2.4%, which is equivalent to rental yield. Affordability in the MIG segment has also improved with the inclusion of the segment under CLSS, thus reducing the cost of a loan to ~4%. IBHFL's superior credit underwriting ability in the builder segment augurs well in capturing demand for project loans in the affordable segment. Government policy initiatives such as zero income tax from affordable projects and increasing funding avenues will overcome supply constraints in the affordable segment and boost demand for project loans.

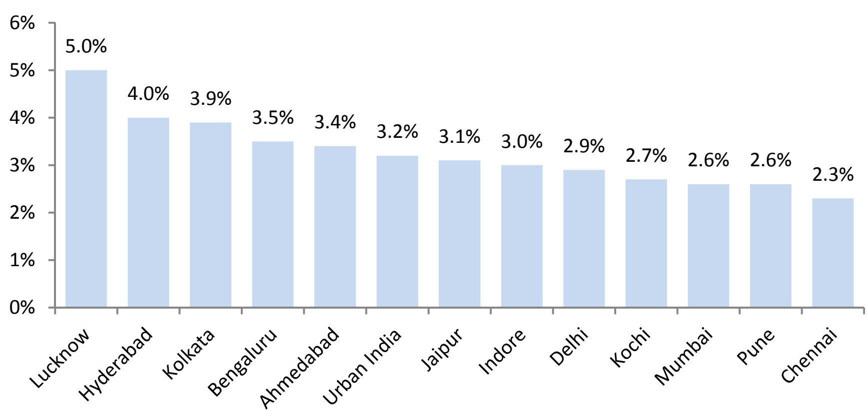
Housing benefit in various segments

	LIG	MIG-I	MIG-II
Household income, Rs	3-600,000	6-1,200,000	12-1,800,000
Average monthly income, Rs	37,500	75,000	125,000
Max. monthly instalment, Rs	18,750	37,500	62,500
Max loan Affordable, Rs	1,800,000	3,600,000	6,000,000
Home loan eligible for CLSS, Rs	600,000	900,000	1,200,000
interest subsidy	6.50%	4%	3%
Maximum dwelling unit carpet area covered	60 sq meter	90 sq meter	110 sq meter
Total interest subsidy, Rs	273,140	252,129	252,129
Interest subsidy as % to property value	**15%**	**7%**	**4%**
Effective interest rate	**2.4%**	**3.8%**	**4.4%**

Source: Phillicapital Research, MHUPA

In its FY17-18 budget, the government increased allocation for interest subsidy under credit-linked interest subsidy (CLSS) to Rs 14bn vs. Rs 4.75bn for FY16-17. Out of the total allocation of Rs 14bn, the GoI has allocated Rs 10bn for the mid-income segment (MIG). MIG has been divided into two categories, MIG-1 (annual income between Rs 600,000-1.2mn) and MIG-2 (annual income between Rs 1.2-1.8mn). In MIG-1, the interest subsidy of 4% will be available up to Rs 900,000 (for the balance loan, normal interest will be applicable). Similarly, for MIG-2, interest subsidy provided is 3% on loans up to Rs 1.2mn. The interest subsidy under CLSS brings down the principal value of loans by 15% for the LIG segment, and 4-7% for MIG. The affordability of home loans has seen improvement if the interest benefits and fiscal incentives are considered. We believe that effective interest rate for a home buyer in LIG is 2.4% while it is 3.8%/4.4% MIG-1/2 vs. yield rental of 2.4%.

Rental yields across major Indian cities



Source: IBHFL

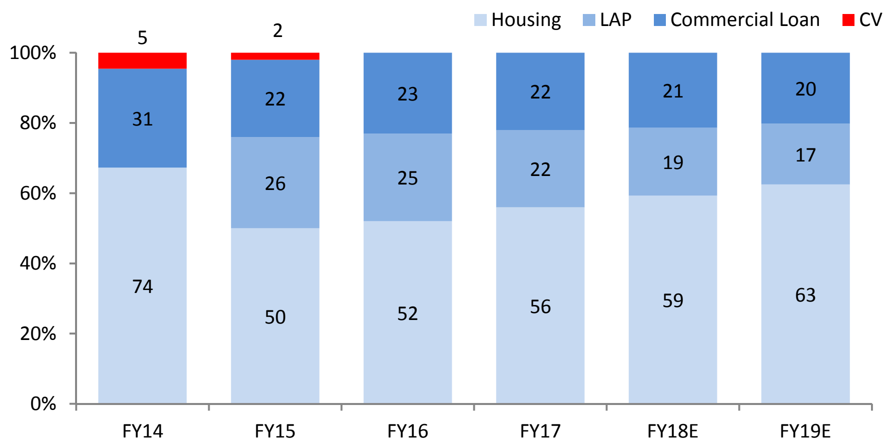
Focus on individual loans and judicious mix of projects to drive AUM at CAGR of 30%

In the light of the government's focus on affordable housing and various schemes to improve affordability, IBHFL has geared its focus on this segment. With an incremental ticket size of Rs 2.4mn, 87% of its incremental loan portfolio is in this segment.

Over the next three years, we expect:

- Home-loan proportion to increase to 66% by 2020 vs. 56% in FY17, translating into a CAGR of +40%.
- The mix between salaried and self-employed remaining constant at 70% and 30%, providing respite from increased competition in salaried mortgage.
- Corporate loan portfolio moderating to ~20%, LAP declining to 14%.
- Disbursement and loan book CAGR of +20% and +30%.
- Home loan to grow at an accelerated pace of +37%, LAP at 15%, and commercial loan at ~24%.

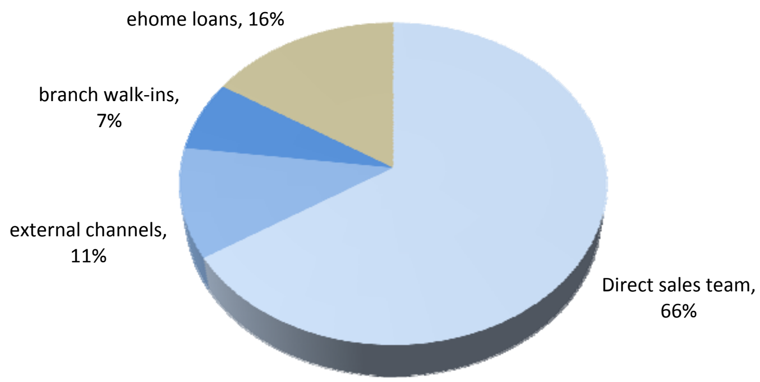
Loan breakup (%)



Source: PhillipCapital Research, company

Direct sales team and e-home loans contribute 90% of home-loan disbursement. In case of LAP, the in-house team's contribution is 55%, 30% comes from connectors and the balance 15% from direct selling agents (DSA). IBHFL has opened 43 branches in tier-2 cities to capture impeding growth in affordable housing. So far, the response for its e-loan platform has been encouraging – it contributes 20% of incremental home loans.

Sourcing mix



Source: PhillipCapital Research, company

Product profile

Particulars	Home loan	Loan against property	Business loan
Ticket size (INR mn)	2.4	7	na
LTV %	71	50	na
Duration (years)	6-7 yrs	6-7 yrs	4-5 yrs
Incremental Yield%	9.0	11.25	12.0
Proportion of loan book %	56	22	22
Customer Profile	salaried 70% and self employed 30%	Self Employed/SME	Corporate

Source: PhillipCapital Research, company

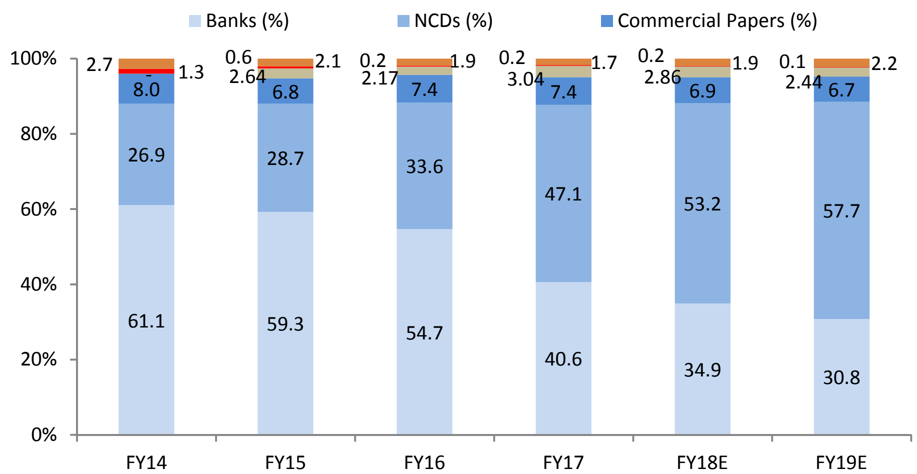
Margin to remain stable in the medium term

Increase in proportion of individual loans along with re-pricing of its home loan portfolio due to heightened competitive pressure will keep yield in the loan book under pressure. However, savings from lower costs of borrowing will be sufficient to cover this pressure. We expect yields on loans to decline by 70bps in FY18, with cost of borrowing also declining similarly – translating to a stable margin of 3.2%.

Improvement in rating and increasing share of NCDs to reduce cost of funds: IBHFL has been rationalising its cost of funds by incrementally replacing bank borrowings with lower-cost NCDs. In FY14, bank borrowings comprised 61% while NCDs comprised 27%. It has reduced the share of bank borrowings to 40%, while increasing the share of NCDs to 47% in FY17. Decline in MCLR, shift in borrowing towards NCDs, coupled with improvement in the credit rating, has enabled IBHFL to reduce blended costs of funds to 8.76% from 9.82% over the same period.

Costs of funds are likely to reduce further by 70bps over FY19 to 7.7% as incremental borrowings continue to be tilted towards NCDs, which can be raised at <7.5% due to upgrade in credit rating (In May FY17, IBHFL's long-term instrument rating was upgraded from CRISIL AA+ stable to CRISIL AA+ positive). It will target the proportion of NCDs at 60% of total borrowing by FY20.

Borrowing mix



Source: Phillipcapital Research, company

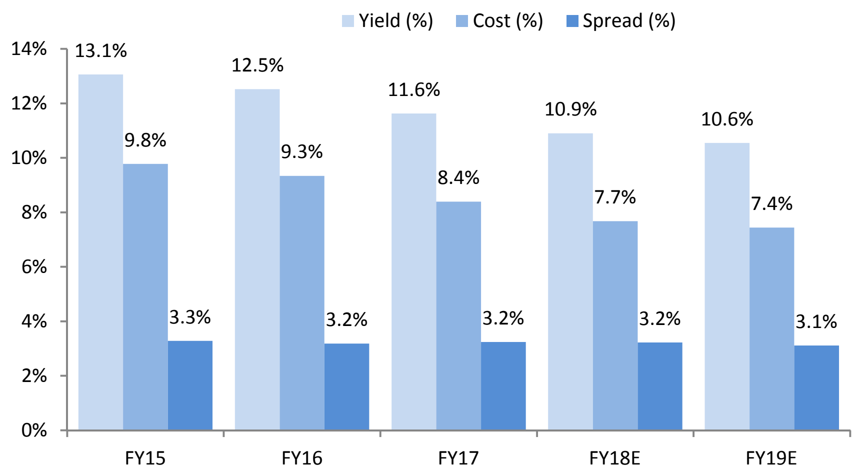
Credit rating

Instrument Category	Rating	Rating Outlook	Date
Long Term	CRISIL AA+	Positive	May-17
	CRISIL AA+	Stable	Apr-17
Short Term	CRISIL A1+		-
Structured Obligation	CRISIL AAA(SO)		-
	CRISIL AA+(SO)		-
	CRISIL AA(SO)		-
	Provisional CRISIL AAA(SO)		-

Source: CRISIL

Pressure on yield persists: Loan portfolio have been seeing yield pressure due to heightened competition. The yield on stock of loan at the end of FY17 was 11.6% but incremental businesses are getting booked at 10.6%. Hence, with increase in new loan portfolio, and some re-pricing of old portfolio, the yield will come down by 70bps in FY18. The yield differential of 25-30bps between outstanding book and incremental book is seen to persist for the system and hence re-pricing of the entire loan book seems unlikely.

Spread profile



Source: PhillipCapital Research, Company

Focus on e-platform and increased operating leverage to bring down cost

Cost-to-asset matrix has ample scope for improvement as IBHFL automates its loan-sourcing model. Increasing share of home loans and cost-effective expansion into tier-2 cities will lead to continuing decline in the cost-to-income ratio – increasing scale and technology has led to optimisation of the cost-income ratio. IBHFL's cost-income ratio/cost-asset ratio has improved from 18.7%/1.1 in FY13 to 13.9%/0.8 in FY17. We expect further improvement through technological innovation.

E-platform framework

Filling up of online application and uploading the document with attestation of e-signature.	• Single e-signature for multiple documents uploaded, replacing over 70 signature required on physical form.
Analysis of forms submitted online, with focus on appraisal and approval through a digitally signed letter	• No scope of errors as there is no manual entry, quick turnaround time, increased productivity,
The loan agreement is attested by e-signature, property document collected from customer, RTGS made to builder account	• Adds to the borrower's convenience as there is no need to physically go to the branch,

IBHFL recently launched e-home loans, which reduces the time spent by borrowers in approvals and disbursements. The authentication of the application is done through Aadhar and the borrower needs to attest it with single e-signature for multiple documents uploaded, which replaces over 70 signatures required on a physical form – resulting in quicker turnaround time. The incremental cost of generating business through the e-platform is significantly lower at 0.4% of asset, compared to current cost-asset ratio of 0.8%. In FY17, e-platform constituted 20% of its total home-loans disbursements. The management is targeting increasing the share of e-loans to 40% of home-loan disbursement, which will enable IBHFL to reduce its cost-income ratio to 10% by FY20.

Superior credit appraisal/monitoring to maintain asset quality

The company has maintained high asset quality across product segments. GNPA / NNPA have remained stable at 0.85%/0.35%. Home loan segment contributes 56% of the portfolio with GNPA of 0.3%. Strong underwriting standards, low LTV, and judicious mix of salaried and non-salaried proportion has enabled IBHFL to maintain low delinquency in home loans. With its plan to increase the proportion of home loans to 66% by FY20, the overall impact on asset quality and credit cost is likely to be beneficial.

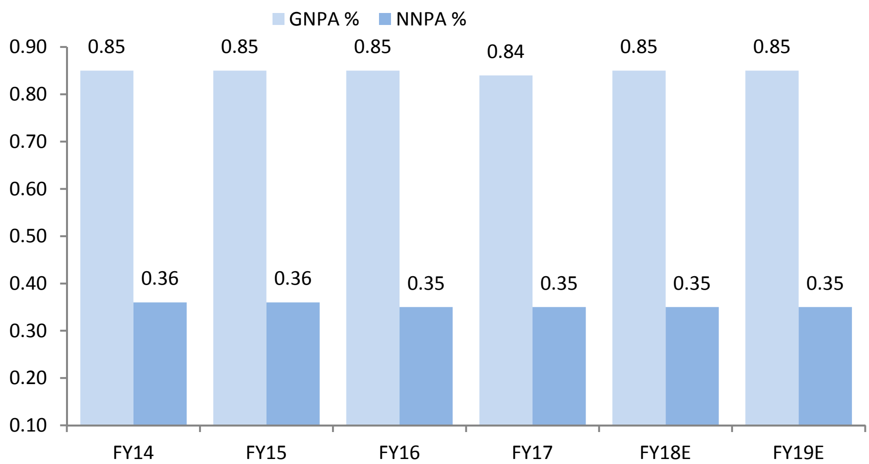
Unlike the industry average, IBHFL's LAP segment has demonstrated stable delinquency. GNPA in LAP has been around 0.40% vs. industry's 2.4%. IBHFL has initiated the process of external validation of its LAP portfolio by rating agencies. At the end of FY17, around 86% of its LAP portfolio and 100% of incremental book were rated. Almost 99% of incremental portfolio is rated "average" and above by rating agency CRISIL. The continuous external validation of its LAP portfolio allays concerns of high delinquency in LAP. Various factors that have been instrumental in lower GNPA in LAP for IBHFL vs. other industry players are:

1. Low average ticket size of Rs 7.8mn compared to industry average of Rs 12mn.
2. Loan-to-value ratio of 50% vs. industry average of ~60%.
3. LAP-lending based on cash flow only for commercial activity. Hence most of the customers are self employed.
4. Loan is provided only for self-occupied residential property vs. industry practice of loan against commercial property.

Growth in LAP portfolio will moderate because of increasing penetration in the segment and declining yield. Asset quality in commercial loans is slightly stressed at 2% due to factors such as high delinquency in its legacy commercial-vehicle book (Rs 1.15bn) and some of its exposure in the builder segment. IBHFL carries a floating provision of Rs 0.75bn in its books. Apart from these legacy books, the builder's portfolio seems to be fairly stable.

We believe that increasing proportion of home loans, moderation in LAP growth, and strong underwriting standards in its commercial segment will enable IBHFL to maintain its asset quality at current levels.

Trend in asset quality

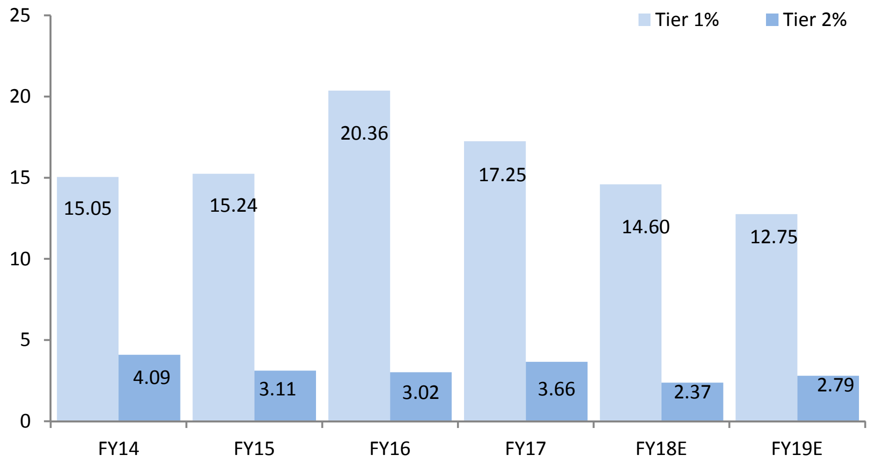


Source: PhillipCapital Research, Company

Adequately capitalised to capture growth in affordable housing

IBHF is very well capitalised with CAR of 20.9% and tier-1 capital of 17.25% way above the regulatory benchmark of 12%. It had raised fresh equity in FY16 through a QIP of Rs 40bn, which has strengthened its capital base. Despite having a higher dividend payout ratio (50%), we believe IBHFL's will able to grow its balance sheet of above 25 CAGR over FY17-20, due to its ability to generate higher RoE, which ensures higher internal capital generation rate.

Capital adequacy ratio



Source: PhillipCapital Research, Company

Capital issuance history

%	FY14	FY15	FY16	FY17
CRAR	19.14	18.35	23.38	20.91
Tier 1	15.05	15.24	20.36	17.25
Tier 2	4.09	3.11	3.02	3.66
Equity issuance history	Warrant conversion of Rs 4.3bn	Warrant conversion of Rs 1.2bn	QIP of Rs 40bn, warrant conversion of Rs 14.9bn	

Source: PhillipCapital Research, Company

Key Risk

- **Incrementally, more than 90% of its funding is sourced through debt capital market.** Any adverse movement in interest rate can restrict the expected benefit from re-pricing of borrowing. However, lower inflation, adequate liquidity, and weak capital expenditure will keep interest rate benign. Expected rating upgrade will support its cost of funding further.
- **Failure of the housing programme to take off in a meaning full way can derail the growth opportunity and optimism for the stock.** Supply has always been a constraint in the affordable segment, but the incentive and initiative taken to ensure adequate supply allays some of this concern.
- **Establishment of a real-estate regulator:** Real Estate Regulatory Act (RERA) has been notified. It seeks to make detailed information about projects public. In order to ensure that money collected for the project is utilised for *that* project only, all money need to be deposited in an escrow account. Diversion of funds for other projects and buying land has been a practice in real estate. The enactment of RERA could lead to cash flow constraints for some existing projects, and hence the risk of project delays leading to default could increase.

Associate: Investment in Associate OakNorth Bank to remain at current level: In November 2015, IBHFL bought 39.76% stake in OakNorth Bank (a bank founded by Rishi Khosla and Joel Periman in March 2015) at GBP 80.6 per share, for an overall consideration of Rs 6.6bn. The bank has a loan-book size of GPB 280mn with average yield of 8.5% and cost of fund of 1.8%. It earned a NIM of 6.7%. Oak North bank is a niche bank that provides business loans to small- and mid-size firms in the range of GBP 1-15mn. It also provides property development finance for individuals and businesses with a lending cap of 75% to cost or 65% to gross development value. As per recent financials, the bank has achieved cash breakeven. It is expected to grow its loan book to GBP 2.5bn with PAT of Rs 75mn, earning a RoE of 25% in the next three years. In April 2017, OakNorth raised equity capital at GBP 119.4 per share, which is 50% higher than what IBHFL paid.

About Indiabulls Housing Finance

Indiabulls Housing Finance (IBHFL) is the third largest housing finance company with an AUM of Rs 913bn. It was established in FY00 as a wholly owned subsidiary of Indiabulls Financial Services. In FY06, it launched secured mortgage and commercial vehicle loans. In FY13, it was reverse-merged with Indiabulls Financial Services and converted to an HFC. It is primarily into financing residential and commercial properties, and granting loan against property (LAP). IBHFL focuses its lending operation in tier-2, tier-3, and has a pan-India presence with a network of 250+ branches. Product wise, residential mortgage forms 56% of its loan portfolio, LAP comprises 20%, and corporate loans comprise 22%.

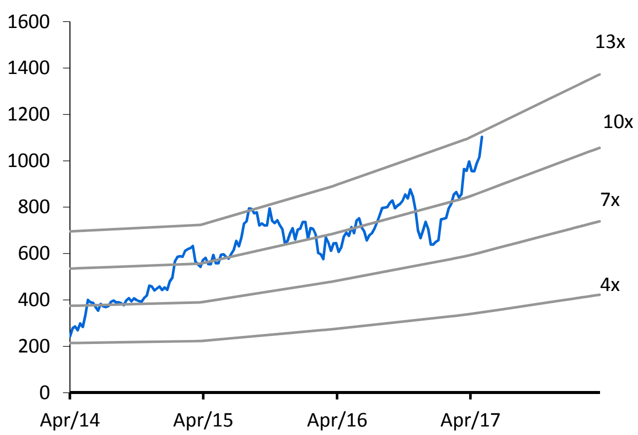
Valuation and recommendation

IBHFL is a play on the impending growth in the affordable segment. Loan demand is likely to be driven by improved affordability and renewed demand for project loans. GoI's credit-linked interest subsidy scheme and fiscal incentive has reduced the cost of owning a house in the low-income segment (LIG) to 2.4% (equivalent to rental yield) and in MIG to ~4% with this segment included under CLSS. IBHFL's superior credit underwriting ability in the builder segment augurs well for it to capture demand for project loans in the affordable segment. Policy initiatives such as zero income tax from affordable projects and increasing funding avenues will overcome supply constraints in the affordable segment and boost demand for project loans.

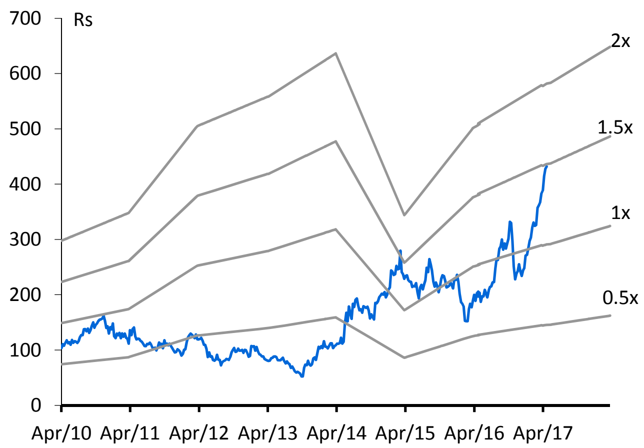
Continued traction in assets under management (CAGR of +30%), balanced mix of housing and non-housing loans, stable margin driven by liability re-pricing, and declining cost-to-income ratio will remain earnings drivers. Strong capital position with CRAR of 20.9% and return on equity of ~30% will provide adequate capital to take IBHFL through +30% AUM growth in the next three years. Increased proportion of housing loan will allay concerns on asset quality and improve earnings visibility.

We expect earnings CAGR of 23% over FY17-19, which would translate into a RoA of 3% and FY18/19 RoE of 28%/32%. At CMP, the stock trades at 3.35x/3.0x FY18/19 book value of Rs 314/349. We initiate coverage with a BUY rating and target of Rs 1,320. We value the business at 3.5x our FY19 BVPS of Rs 349 and add dividend of Rs 95 per share over two years (historically the payout ratio has been strong for IBHFL).

One-year forward P/E band



P/BV band



Source: PhillipCapital Research

Financials

Income Statement

Y/E Mar, Rs Bn	FY16	FY17	FY18e	FY19e
Interest income	78.4	104.0	132.2	166.4
Interest expenses	49.7	64.1	81.4	102.6
NII	**28.7**	**39.9**	**50.8**	**63.8**
Other income	13.8	13.0	15.6	18.8
Total income	42.5	52.9	66.4	82.6
Employee Expenses	4.1	5.0	5.9	6.7
Other Expenses	2.1	2.4	2.6	2.8
Operating expenses	6.2	7.4	8.5	9.5
PPP	**36.4**	**45.5**	**57.9**	**73.1**
Provisions	5.1	7.8	10.4	13.4
Pre tax profit	**31.3**	**37.7**	**47.5**	**59.7**
Tax expense	7.8	8.6	11.9	14.9
PAT	**23.5**	**29.1**	**35.7**	**44.8**

Balance Sheet

Y/E Mar, Rs Bn	FY16	FY17	FY18e	FY19e
Cash & Bank Bal.	29.0	56.8	71.0	88.8
Loans & Advances	608.9	830.9	1,090.9	1,394.7
Investments	106.9	136.2	170.2	212.8
Fixed Assets	0.7	1.0	1.1	1.2
Other Assets	18.8	12.2	15.1	18.6
Total assets	**764.4**	**1,037.1**	**1,348.3**	**1,716.1**
Share capital	0.8	0.8	0.8	0.8
Reserves	106.1	120.4	132.2	147.2
Networth	106.9	121.2	133.1	148.0
Borrowings	610.9	853.0	1,133.1	1,466.0
Other liabilities	37.6	52.1	69.0	86.0
Provision	8.9	10.8	13.1	16.0
Total liabilities	**764.4**	**1,037.1**	**1,348.3**	**1,716.1**

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY16	FY17	FY18e	FY19e
Per share data				
No. of shares, mn	421.3	423.9	423.9	423.9
EPS	55.7	68.6	84.1	105.6
BV	253.8	286.0	314.0	349.3
Adj BVPS	250.3	281.2	307.7	341.2
DPS	42.3	27.0	42.1	52.8
Growth ratios				
Advances	32.2	36.5	31.3	27.8
Borrowings	28.6	39.6	32.8	29.4
NII	31.9	38.9	27.3	25.8
PPP	31.1	25.3	27.2	26.2
PAT	23.8	23.6	22.6	25.5
Margins				
Yield on funds	11.7	11.5	11.1	10.9
Cost of deposits	9.2	8.8	8.2	7.9
Spreads	2.6	2.8	2.9	3.0
NIMs	4.3	4.4	4.3	4.2
Cost ratios				
Cost to income	14.5	13.9	12.7	11.5
Cost to average assets	0.9	0.8	0.7	0.6
Return ratios				
RoA	3.5	3.2	3.0	2.9
RoE	27.1	25.5	28.0	31.8
Valuations				
P/E	18.9	15.4	12.5	10.0
P/BV	4.1	3.7	3.4	3.0
Asset quality & CRAR				
GNPA	0.8	0.9	0.9	0.9
NNPA	0.4	0.4	0.4	0.4
Provision coverage Ratio	58.3	58.8	53.0	47.7
Tier 1	20.4	17.3	14.6	12.7
CRAR	23.4	20.9	17.1	15.9

INSTITUTIONAL EQUITY RESEARCH

PhillipCapital

LIC Housing Finance (LICHF IN)

Cap on LAP/project loan will restrict upside potential

INDIA | FINANCIAL | Company Update

15 May 2017

Moderate real estate prices and weak volume growth to slow the loan book

We see LICHF's loan book CAGR at 12% in FY17-19, on stable property prices and weak volume growth, with the aggregate proportion of LAP and project loans remaining at current levels of 15% – thus restricting upside potential. Rising competitive intensity in the mortgage market, lack of inflation in property prices and stability in the loan mix does not bode well for its loan-book growth. Hence, we expect disbursement growth of 8% over FY17-19, translating into a loan book growth of 12%.

Focus on affordable is not feasible with its current sourcing infrastructure

We believe that its current marketing and sourcing structure will not support low-cost affordable housing; LIC agents, DSAs, or customer-relationship associates would not have the right reach and bandwidth to serve this segment. Moreover, lack of a strong builder portfolio will act as a deterrent for LICHF for being a preferred home financer for such as project.

Net interest spread to contract by 20bps due to re-pricing of its loan book

The competitive rate offered by banks, increasing customer awareness, and active participation of direct selling agents in the mortgage market has put pressure on HFCs to not only match new loans with competition, but to also re-price existing loans in order to avoid balance transfers. Given this back drop, we expect loan books to be re-priced lower and erode LICHF's overall yield by 60bps in FY18.

Similarly, re-pricing of high-cost borrowing and lower incremental cost of funds compared to average cost of funds, will bring down the funding cost by 40bps in FY18. But the decline in yields on loan portfolios will outpace the benefits of the decline in costs of funds, leading to an 18bps contraction in spreads in FY18, and stable spreads in FY19.

Stable asset quality to provide relief in provision

Asset quality has been stable due to LICHF's prudent underwriting standards and focus on highly-rated companies for project loans. Low LTV (loan-to-value ratio) in home loans/ LAP at 65%/27% increases owner's equity lower the probability of defaults. Similarly, the instalment-to-income ratio of 32% eludes riskiness in the portfolio.

Valuation and recommendation

LICHF's loan book CAGR in FY15-17 was 16%, primarily driven by strong growth in LAP/project loans (CAGR of 79%/42%), taking its share to 15% of the loan book. However, individual loan segment exhibited weak growth (11% CAGR). We expect 12% CAGR in FY17-19 loan growth as LAP and project loan growth is expected to moderate (upper limit of 15% of loan book), while individual loans will continue to grow moderately due to weak disbursement.

We do not expect LICHF to gain substantially from the incremental opportunity in affordable housing due to its weak bandwidth (only 9% of customers are sourced through its captive marketing subsidiary) and also its limited exposure to the builder loan portfolio (compared to its competitors DHFL and IBHF) which will limit its access to affordable-housing borrowers. Competitive pressures will bring down spreads by 20bps in FY18, as decline in yields will outpace decline in cost of funds. LICHF will deliver PAT CAGR of 8% with average RoE/RoA of 17%/1.3% between FY17-19. At CMP, the stock trades at 2.8x/2.4x FY18/19 ABVPS of Rs 247/283. Given the weak earnings and declining RoA, we value the LICHF at 2.5x FY19 BVPS. Therefore, we reiterate our Neutral rating with a revised target of Rs 720 (Rs 570 earlier).

NEUTRAL (Maintain)

CMP RS 686

TARGET RS 720 (+5%)

COMPANY DATA

O/S SHARES (MN) :	505
MARKET CAP (RSBN) :	345
MARKET CAP (USDBN) :	5.4
52 - WK HI/LO (RS) :	727 / 432
LIQUIDITY 3M (USDMN) :	17.4
PAR VALUE (RS) :	2

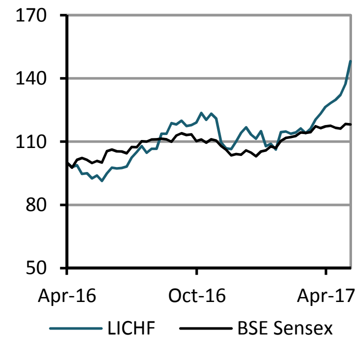
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	40.3	40.3	40.3
FII / NRI :	40.7	43.5	40.6
FI / MF :	5.3	5.0	5.2
NON PRO :	5.9	3.3	6.3
PUBLIC & OTHERS:	7.9	7.9	7.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	8.5	23.4	45.9
REL TO BSE	6.7	16.9	28.8

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs Bn	FY17	FY18E	FY19E
Net Profit	19.3	20.2	22.6
% growth	16.3	4.4	12.3
EPS (Rs)	38.2	39.9	44.8
BVPS (Rs)	219.4	251.7	288.9
ROE (%)	19.1	16.9	16.6
ROA (%)	1.4	1.3	1.3
P/E (x)	17.9	17.1	15.2
P/BV (x)	3.1	2.7	2.4

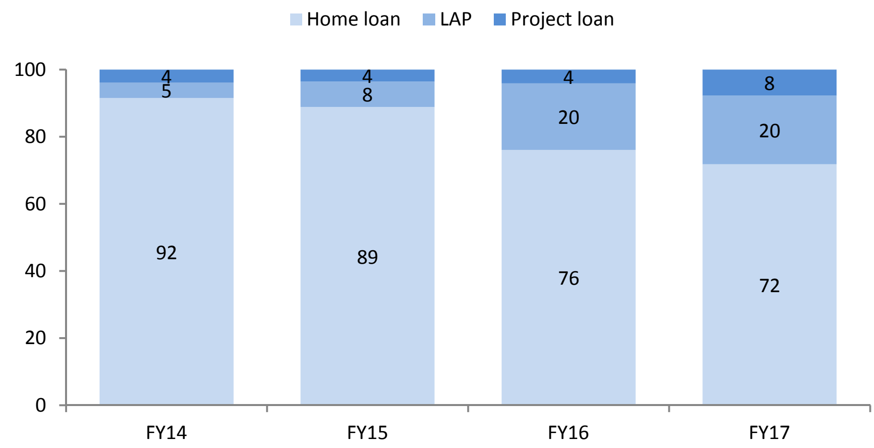
Source: PhillipCapital India Research Est.

Moderate real-estate prices and weak volume growth to slow the loan book

We see LICHF's loan book CAGR at 12% in FY17-19, on stable property prices and weak volume growth, with the aggregate proportion of LAP and project loans remaining at current levels of 15% – thus restricting upside potential.

Disbursement CAGR was 14% between FY13-17, with growth in various segments being – core home loan 7%, LAP 90%, and project 30%. The proportion of LAP and project loans has reached 15% of total book. The management expects this proportion to remain stable from here.

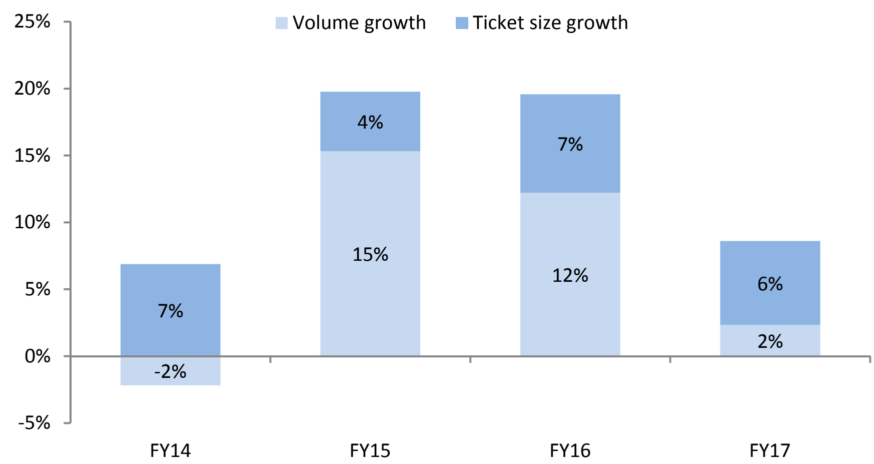
Contribution to disbursement by various segments (%)



Source: PhillipCapital Research, Company

LICHF's history of volume growth in individual loans (home loan + LAP) segment has not been encouraging – 7%, driven by ticket size growth of 6% in FY13-17. Rising competitive intensity in the mortgage market, lack of inflation in property prices and stability in loan mix does not bode well for this growth. Hence, we expect disbursement growth of 8% over FY17-19, translating into a loan book growth of 12%.

Drivers of individual loans (home loan + LAP)



Source: PhillipCapital Research, Company

Product profile

Particulars	Home Loan	Loan Against Property	Business Loan
Ticket size (INR mn)	2.2	1.2	na
LTV %	65	27	na
Duration (years)	6-7 yrs	3-4 yrs	3-4 yrs
Incremental Yield%	8.5	11	13-14
Proportion of loan book %	84	12	4
Customer Profile	salaried 83% and self employed 17%	Salaried	Corporate

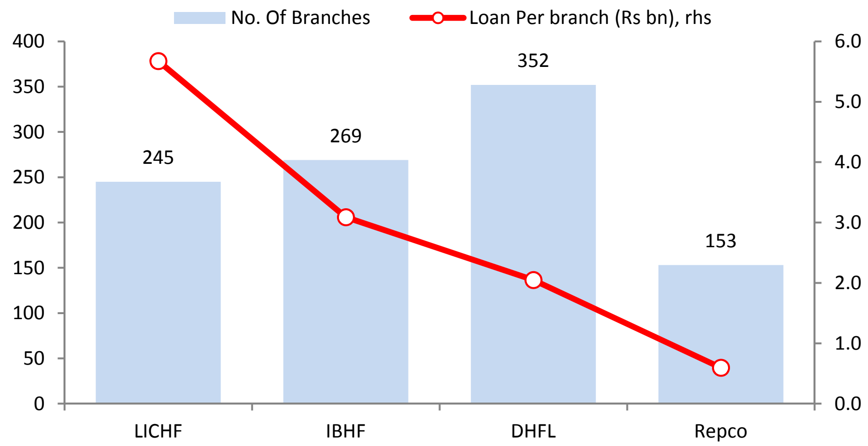
Source: Phillipcapital Research, company

Focus on affordable not feasible with current sourcing infrastructure

LICHF currently serves customers mainly through home-loan agents, direct selling agents, and customer-relation associates. Only 9% of its customers sourced through LICHF's captive marketing subsidiary – LICHF Financial services Ltd – and 6% are direct walk-ins. LICHF has 245 marketing offices throughout India, which we think are inadequate for sourcing affordable home loans, which would require more presence on the ground and at various project sites.

We believe that its current marketing and sourcing structure will not support low-cost affordable housing as LIC agents, DSAs, or customer-relation associates will not have that reach and bandwidth to serve this segment. Moreover, lack of a strong builder portfolio would act as a deterrent for LICHF being a preferred home financer for any such project.

Company-wise branch network



Source: PhilipCapital Research

Net interest spread to contract by 20bps due to re-pricing of loan book

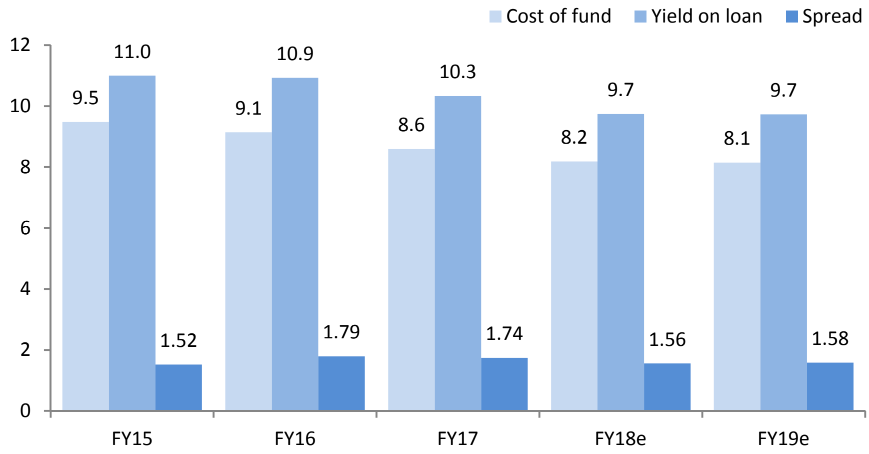
Salaried mortgage finance has been seeing rising competition from all types of financiers. Competitive rate offered by banks, increasing customer awareness, and active participation of direct selling agents in the mortgage market has put pressure on HFCs to match new loan rates with competition and also to re-price existing loans in order to avoid balance transfers. Given this back drop, we expect LICHF's loan book to re-price lower, eroding its overall yield by 60bps in FY18. We believe that 50bps of downward adjustment in yield will be because of re-pricing of its back book. The average yield on individual home loans at the end of FY17 is ~10% while the new loans are originated at ~8.5%. Even partial re-pricing of the back book, along with lower yields on new origination, will bring down LICHF's overall yield by 60bps in FY18 to 9.74%.

The average yield on individual home loans at the end of FY17 is ~10% while the new loans are originated at ~8.5%. Re-pricing of the back book, along with lower yields on new origination, will bring down LICHF's overall yield by 60bps in FY18 to 9.74%

LICHF will gain on the liability front

Re-pricing of high-cost borrowing and lower incremental costs of funds compared to average cost of funds will bring down the funding cost by 40bps in FY18. Approximately 10% of borrowings (Rs 120bn) costing over 9% will be re-priced in FY18. The weighted average cost of funds is 8.59%, whereas incremental cost of funds available is 7.68%. However, the decline in yield on its loan portfolio will outpace the benefit of a decline in the costs of funds, leading to an 18bps contraction in spread in FY18 and stable spread in FY19.

Spread analysis (%)



Source: PhillipCapital Research, Company

Stable asset quality to provide relief in provision

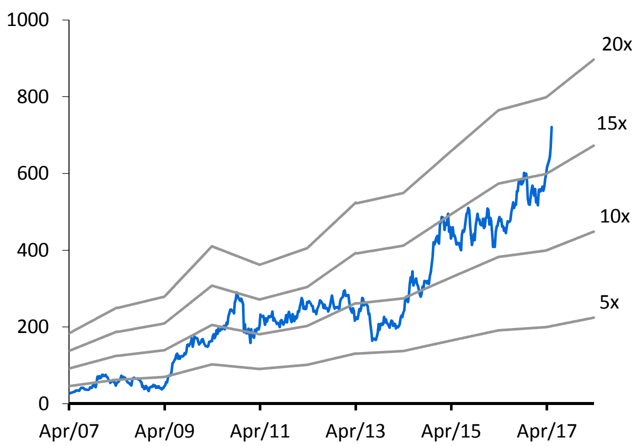
Asset quality has been stable due to prudent underwriting standards and a focus on highly-rated companies for project loans. Low LTVs in home loans/LAP at 55%/27% increases owner's equity and lowers the probability of defaults. Similarly, the instalment-to-income ratio of 32% eludes riskiness in the portfolio.

Segment-wise GNPA

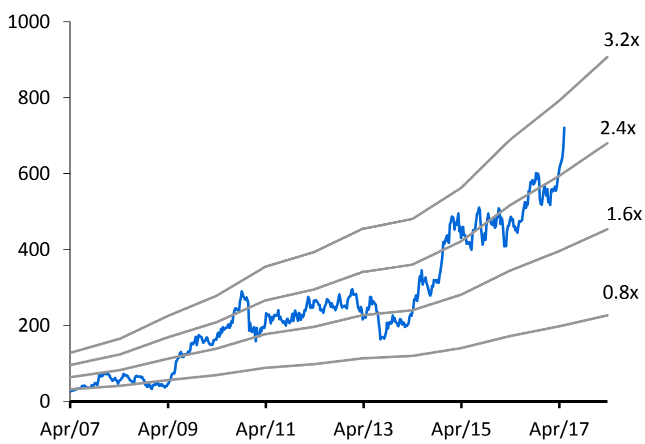
% to loan book	FY14	FY15	FY16	FY17
GNPA - Individual	0.3	0.2	0.2	0.3
GNPA - Project	13.0	8.6	9.2	3.0
GNPA - Total	0.7	0.5	0.5	0.4

Source: PhillipCapital Research, Company

One-year forward P/E band



P/BV band



Source: PhillipCapital Research

Financials

Income Statement

Y/E Mar, Rs Bn	FY16	FY17	FY18e	FY19e
Interest income	122.5	138.8	148.6	166.9
Interest expenses	93.1	102.3	111.3	125.0
NII	**29.4**	**36.5**	**37.4**	**41.8**
Other income	2.3	2.0	2.1	2.3
Total income	**31.8**	**38.5**	**39.5**	**44.1**
Employee Expenses	1.5	2.5	2.8	3.3
Other Expenses	3.2	3.7	4.1	4.5
Operating expenses	4.7	6.1	6.9	7.8
PPP	**27.1**	**32.4**	**32.6**	**36.4**
Provisions	1.5	2.8	1.7	1.7
Pre tax profit	**25.6**	**29.6**	**30.9**	**34.7**
Tax expense	9.0	10.2	10.7	12.0
PAT	**16.6**	**19.3**	**20.2**	**22.6**

Balance Sheet

Y/E Mar, Rs Bn	FY16	FY17	FY18e	FY19e
Cash & Bank Balances	39.3	44.6	51.0	58.2
Loans & Advances	1,251.7	1,445.3	1,629.2	1,824.4
Investments	2.8	5.3	5.9	6.6
Fixed Assets	0.9	1.0	1.1	1.3
Other Assets	10.3	12.8	14.1	15.5
Total assets	**1,305.0**	**1,509.0**	**1,701.3**	**1,906.0**
Share capital	1.0	1.0	1.0	1.0
Reserves & Surplus	90.4	109.8	126.1	144.9
Networth	91.5	110.8	127.1	145.9
Borrowings	1,109.4	1,263.4	1,430.4	1,613.4
Other liabilities	91.5	123.5	130.7	131.9
Provision	12.7	11.4	13.1	14.8
Total liabilities	**1,305.0**	**1,509.0**	**1,701.3**	**1,906.0**

Valuation Ratios

	FY16	FY17	FY18e	FY19e
Per share data				
No. of shares, mn	50.5	50.5	50.5	50.5
EPS	32.9	38.2	39.9	44.8
BV	181.1	219.4	251.7	288.9
Adj BVPS	175.8	215.3	247.1	283.4
DPS	5.5	6.0	6.5	6.5
Growth ratios				
Advances	15.5	15.5	12.7	12.0
Borrowings	15.9	14.2	12.7	13.1
NII	31.6	23.8	2.5	11.9
PPP	28.5	19.4	0.7	11.6
PAT	19.8	16.3	4.4	12.3
Margins				
Yield on funds	10.2	10.0	9.3	9.3
Cost of deposits	9.0	8.6	8.3	8.2
Spreads	1.2	1.3	1.1	1.1
NIMs	2.4	2.6	2.3	2.3
Cost ratios				
Cost to income	15.1	16.3	17.8	17.9
Cost to average assets	0.4	0.4	0.4	0.4
Return ratios				
RoA	1.4	1.4	1.3	1.3
RoE	19.6	19.1	16.9	16.6
Valuations				
P/E	20.8	17.9	17.1	15.2
P/BV	3.8	3.1	2.7	2.4
Asset quality & CRAR				
GNPA	0.5	0.4	0.4	0.5
NNPA	0.2	0.1	0.1	0.2
Provision coverage Ratio	52.4	67.3	68.5	67.5
Tier 1	13.9	14.3	14.6	15.0
CRAR	17.0	17.0	17.9	18.0

Source: Company, PhillipCapital India Research Estimates

PhillipCapital

Repco Home Finance (REPCO IN)

Well positioned to capture the growth opportunity

INDIA | FINANCIAL | Company Update

15 May 2017

Focus on the underserved self-employed segment
The shortfall in housing in the five southern states is estimated at 4.2mn units. The shortfall in LIG and MIG is around 1.6mn units, which translates into a banking opportunity of Rs 1.4tn. RHFL's focus on this segment, with 75% of incremental disbursement to the affordable segment, especially in small towns and cities, will continue to fuel its loan-book CAGR of +25% (primarily driven by volume growth) over the next five years – enabled by increasing geographical presence and strong demand in self-construction. Traction in recently opened branches and addition of new branches will add to volume growth. A self - imposed ceiling of 20% in LAP will restrict growth in per-unit average ticket size.

Re-pricing of liability to provide stability to spreads
Due to the interest rate differential between bank loans and money-market borrowings, RHFL will increase its reliance on NCDs and commercial paper to bring down its weighted average cost of borrowing. Change in liability mix and a cut in base rate by banks will reduce its costs of funds by 40bps in FY18, translating into stability in spread. The increase in the proportion of the non-salaried segment to 60% will provide stability to yield due to lower competition in the segment.

Superior credit appraisal/monitoring to maintain asset quality; LAP risk amply priced
RHFL has maintained high asset quality, even in the self-employed segment, because of granular loans, lower LTVs, and superior credit appraisal and monitoring. Credit risk is higher on LAP (adequately priced in loans) and a 20% internal ceiling protects it from undue risk. RHFL is reasonably immune to systemic risk due to low inventory, stable property prices, and a strong end-user property market in south India. Demonetisation resulted in an increase in delinquency in the non-salaried segment due to liquidity crunch, but as economy returns to normalcy, overdue amounts in this segment are likely to be recovered eventually.

Geographical concentration may pose a risk in terms of asset quality
RHFL has a 63% exposure to Tamil Nadu – and the five southern states contribute 90% of its total business. Any adverse impact from politics, economic downturn, or natural calamities poses a risk to its business growth and asset quality. Nevertheless, low inventory in residential mortgage in this region, stable property prices, and low LTVs suggest low risk.

Recommendation and valuation
RHFL is a play on the structural growth in the mortgage market with a niche focus on the underserved self-employed segment in smaller towns and cities in India. Given the strong opportunity in rural and affordable housing and incentives offered by the government, Repco is in a good position to gain from this opportunity. Risk-based pricing model, strong underwriting standards and efficient monitoring will drive earnings CAGR of +30% over FY17-19. Re-pricing of liability and change in funding mix will maintain spread in a competitive environment and provide stability to returns on assets.

Recently, due to demonetisation, Repco's asset quality took a hit because of higher delinquencies in the LAP book (LAP has an LTV of ~50%) due to cash crunch. Management is confident of recovering from the dent as cash flows improve. We expect asset quality returning to normal by H1FY18 and rebound in RoE/RoA to 18.4%/2.1% in FY18 and 20%/2.2% in FY19. At CMP the stock trades at 3.5x/2.9x FY18/19 book value of Rs210/Rs252. Given the sustainable growth and improvement in return ratios we upgrade RHFL to BUY from Neutral and revise our target to Rs 885 (Rs 800 earlier) valuing the stock at 3.5x FY19 BV.

BUY (Upgrade)
CMP RS 754
TARGET RS 885 (+17%)

COMPANY DATA

O/S SHARES (MN) :	63
MARKET CAP (RSBN) :	47
MARKET CAP (USDBN) :	0.7
52 - WK HI/LO (RS) :	891 / 500
LIQUIDITY 3M (USDMN) :	2
PAR VALUE (RS) :	10

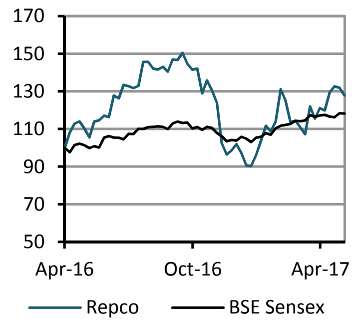
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	37.1	37.1	37.1
FII / NRI :	24.2	24.5	27.3
FI / MF :	24.0	23.8	21.9
NON PRO :	4.3	3.8	3.8
PUBLIC & OTHERS	10.4	10.7	10.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	1.3	3.1	15.1
REL TO BSE	-0.5	-3.4	-1.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY17E	FY18E	FY19E
Net Profit	1,713.9	2,227.7	2,894.1
% growth	14.2	30.0	29.9
EPS (Rs)	27.4	35.6	46.2
Adj BVPS (Rs)	177.5	210.0	252.4
ROE (%)	16.6	18.4	20.0
ROA (%)	2.0	2.2	2.2
P/E (x)	27.0	20.8	16.0
Adj P/BV (x)	4.2	3.5	2.9

Source: PhillipCapital India Research Est.

Systematic and well-planned growth strategy

The shortfall in housing in the five southern states is estimated at 4.2mn units. The shortfall in LIG and MIG is around 1.6mn units, which translates into a banking opportunity of Rs 1.4tn. RHFL's focus on this segment, with 75% of incremental disbursement to the affordable segment especially in small towns and cities, will continue to fuel its loan-book CAGR of +25% (primarily driven by volume growth) over the next five years – enabled by increasing geographical presence and strong demand in self-construction.

State-wise housing shortage

	Housing shortfall (mn units)	Houses approved for construction till date (mn units)	houses approved % to shortfall
Andhra Pradesh*	1.3	0.20	15.4
Tamil Nadu	1.3	0.23	18.2
Karnataka	1.0	0.15	14.4
Kerela	0.5	0.03	5.2
Total	**4.1**	**0.60**	**14.6**

Source: PhillipCapital Research, MHUPA *including telengana

RHFL has developed a robust business model based on opportunities in the affordable housing segment, which has lower penetration and is largely under-served, especially in smaller towns and cities. Most banks and larger HFCs have been aggressive in lending to the salaried segment (can easily ascertain cash flows and repayment capabilities), while neglecting the self-employed segment (high-risk perception, difficulty in credit appraisal and understanding cash flow streams).

Taking cognisance of this funding void, RHFL differentiated itself from larger HFCs and banks by strongly focusing on tier-2, tier-3, and peripheries of tier-1 cities. It distinguished itself by developing local expertise, maintaining high standards, quick turnaround time, and superior underwriting skills.

RHFL has established a strong franchisee in the underpenetrated self-employed segment in tier 2/3 cities. Incrementally, 50% of its loans are towards self-construction of houses – this segment has been seeing strong traction, as people need loans for renovation, extension, or building new homes.

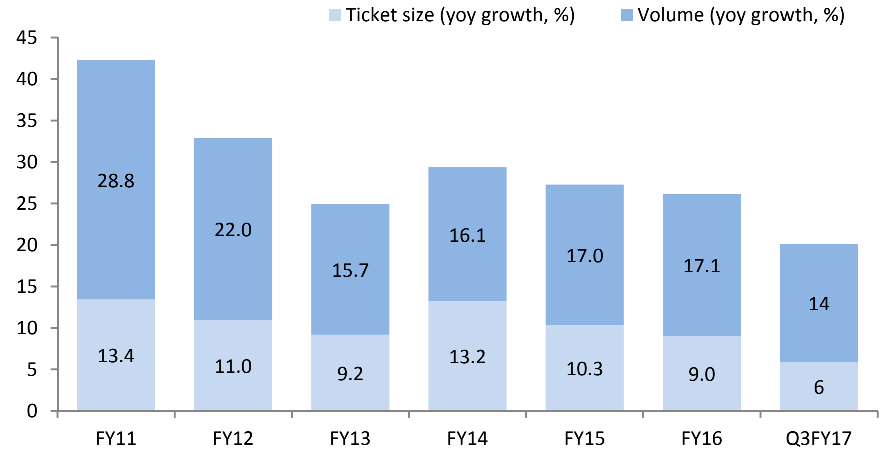
Over the last three years, RHFL's volume CAGR was strong at 16%, driven by branch expansion, penetration, and new geographies. Volume of ~16-20% over the next few years is likely to be driven by continued expansion of branches (15-20 per annum) and tapping underutilised capacity of existing branches. Given the internal cap of 20% on LAP, this segment's growth will mirror RHFL's home-loan segment's growth. Factoring volume growth of 20% and small improvement in ticket size, we see loan growth at +25% over FY17-19.

Product profile

Particulars	Home Loan	Loan Against Property
Ticket size (INR mn)	1.4	1.8
LTV %	75	52
Duration (years)	6-7 yrs	3-4 yrs
Incremental Yield%	11.6	14.8
Proportion of loan book %	79	20.6
Customer Profile	salaried 53% and self employed 47%	Self employed

Source: PhillipCapital Research, company

Home loan driver



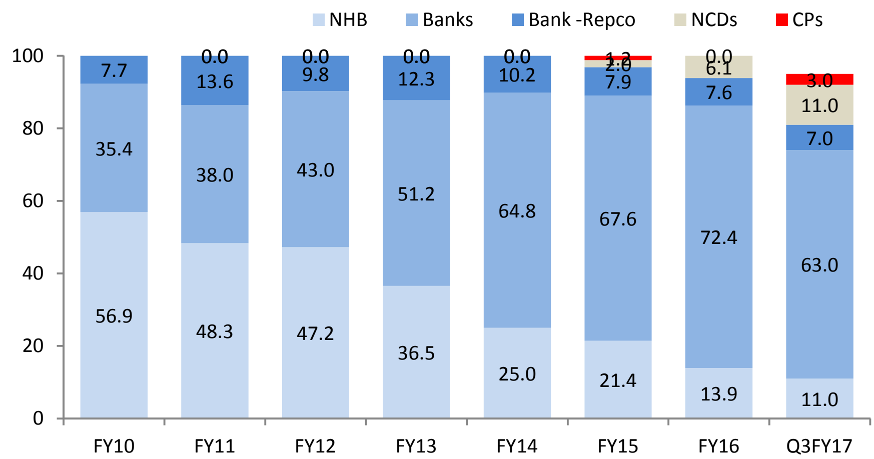
Source: PhillipCapital Research, Company

Re-pricing of liability to provide stability to spreads

Due to the interest rate differential between bank loans and money market borrowings, RHFL will increase its reliance on NCDs and commercial paper to bring down its weighted average cost of borrowing. Change in liability mix and cut in base rate by banks will reduce its costs of funds by 40bps in FY18, translating into stability in spreads. The increasing proportion of the non-salaried segment to 60% provides stability to yields, due to lower competition in the segment.

Bank borrowings constitute the largest source of funds for RHFL. The benefit of cuts in the MCLR is not yet visible in RHFL's costs of funds. The company has diversified its sources of funding – refinance from NHB, bank loans, non-convertible debentures (NCDs), and commercial paper (CP). Due to cost difference between bank borrowing and prevailing NCD rates, RHFL is likely to rely more on NCDs and CPs going forward. Bank borrowings are linked to the one-year MCLR and re-pricing benefits for the existing book will take time to flow in. Expected increase in proportion of NCDs and CPs along with lower costs of bank borrowings will reduce overall costs of funds by 50-60bps over the next two years.

Funding mix (%)



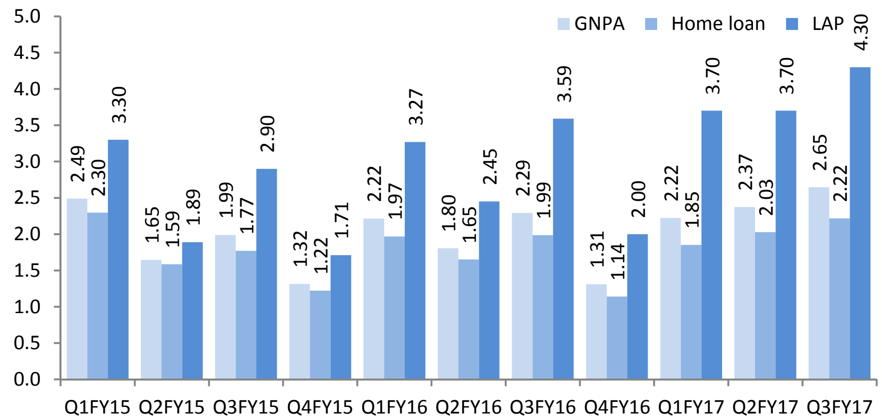
Source: PhillipCapital Research, Company

In its loan book, the yield in the salaried segment will remain under pressure – 43% of overall portfolio. However, benefit of liability re-pricing will offset the yield pressure, enabling RHFL to maintain interest spread at ~3%.

Fine credit appraisal/monitoring to maintain asset quality; LAP risk amply priced
RHFL has maintained high asset quality, even in the self-employed segment, because of granular loans, lower LTV, and superior credit appraisal and monitoring. Credit risk is higher on LAP (adequately priced in loans) and a 20% internal ceiling protects it from undue risk. RHFL is reasonably immune to systemic risk due to low inventory, stable property prices, and strong end-user property market in south India. Demonetisation resulted in an increase in delinquencies in the non-salaried segment due to a liquidity crunch, but as economic activity returns to normalcy, the company expects to recover the overdue amount.

Quarterly volatility persists due to erratic cash flows in the self-employed segment. Historical trends suggest that the increase in GNPA (in the first and third quarters of a financial year) is primarily due to delayed payments by borrowers. These slippages are subsequently upgraded on repayment of overdue balances. The cumulative write-off of 0.06% of cumulative disbursement since inception suggests that quarterly movements of NPAs are temporary.

Segment-wise asset quality

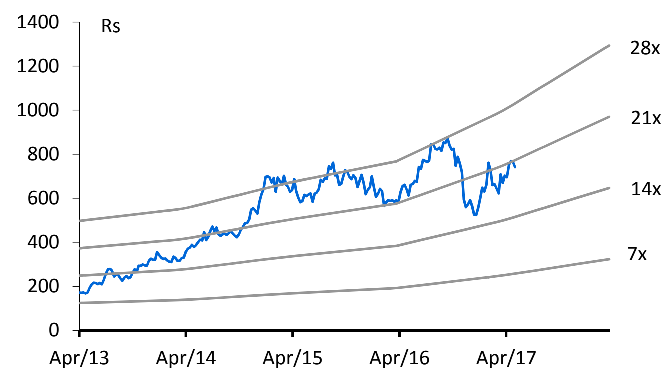


Source: PhillipCapital Research, Company

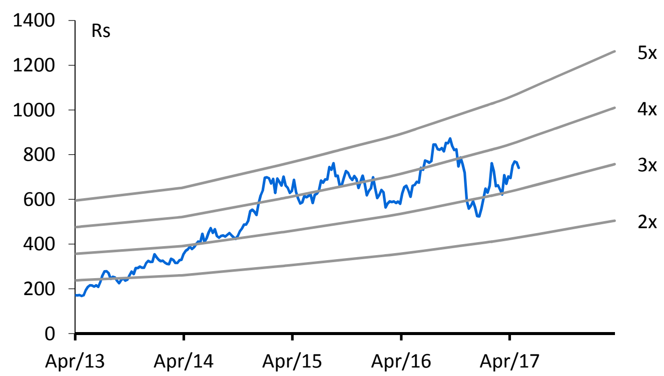
Q4FY17 asset quality to be impacted due to expiry of forbearance period provided by RBI for NPA recognition in low value loan. Low LTV and recovery in income earning ability of its borrower, the overdue in these a/c will be recovered albeit with a lag.

In the aftermath of demonetisation, Repco's asset quality was impacted due to sharp rise in delinquencies, especially from the LAP portfolio. As a result, GNPAs increased from 28bps qoq to 2.65% (GNPA in home loans/LAP increased 19/60bps qoq to 2.22/4.3%). Had it not taken RBI's forbearance, GNPAs would have been significantly high at 4.2% (home loans/LAP at 6.2/3.7%). As the RBI forbearance has not been extended, NPAs will remain elevated (higher than 2.65%). The LTVs of LAP/home loans is around 50/75%, which gives enough cushion in case there is default by the borrower. However, we believe most of these delinquencies are an aberration and will be recovered by H1FY18.

One-year forward P/E band



P/BV band



Source: PhillipCapital Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Interest income	8,521	10,026	11,775	14,732
Interest expenses	5,483	6,415	7,521	9,482
NII	**3,039**	**3,611**	**4,254**	**5,250**
Other income	297	302	378	472
Total income	**3,336**	**3,913**	**4,631**	**5,723**
Employee Expenses	409	406	481	572
Other Expenses	234	237	262	290
Operating expenses	643	643	743	862
PPP	**2,693**	**3,270**	**3,888**	**4,861**
Provisions	392	674	513	476
Pre tax profit	**2,301**	**2,597**	**3,375**	**4,385**
Tax expense	800	883	1,148	1,491
PAT	**1,501**	**1,714**	**2,228**	**2,894**

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & Bank Balances	200	243	291	348
Loans & Advances	76,912	91,096	113,575	142,534
Investments	124	149	176	207
Fixed Assets	93	116	145	181
Other Assets	303	432	530	475
Total assets	**77,632**	**92,036**	**114,716**	**143,746**
Share capital	625	625	626	627
Reserves & Surplus	8,923	10,478	12,524	15,191
Networth	9,548	11,103	13,150	15,818
Borrowings	65,379	77,956	97,898	123,361
Other liabilities	1,488	1,577	2,129	2,874
Provision	1,217	1,400	1,540	1,694
Total liabilities	**77,632**	**92,036**	**114,716**	**143,746**

Valuation Ratios

	FY16	FY17e	FY18e	FY19e
Per share data				
No. of shares, mn	62.5	62.5	62.6	62.7
EPS	24.0	27.4	35.6	46.2
BV	152.7	177.5	210.0	252.4
Adj BVPS	146.8	149.0	191.7	233.9
DPS	1.8	2.1	2.4	3.0
Growth ratios				
Advances	27.7	18.4	24.7	25.5
Borrowings	28.1	19.2	25.6	26.0
NII	27.7	18.8	17.8	23.4
PPP	30.4	21.5	18.9	25.0
PAT	21.9	14.2	30.0	29.9
Margins				
Yield on funds	12.4	11.9	11.5	11.5
Cost of deposits	9.4	9.0	8.6	8.6
Spreads	3.0	3.0	3.0	2.9
NIMs	4.4	4.3	4.3	4.2
Cost ratios				
Cost to income	19.3	16.4	16.0	15.1
Cost to average assets	0.9	0.8	0.7	0.7
Return ratios				
RoA	2.2	2.02	2.15	2.24
RoE	17.0	16.6	18.4	20.0
Valuations				
P/E	30.8	27.0	20.8	16.0
P/BV	4.8	4.2	3.5	2.9
Asset quality & CRAR				
GNPA	1.3	3.3	2.4	2.2
NNPA	0.5	2.0	1.0	0.8
Provision coverage Ratio	63.2	40.6	58.7	63.0
Tier 1	20.8	20.1	19.1	18.3
CRAR	20.8	20.1	19.1	18.3

Source: Company, PhillipCapital India Research Estimates

Annexure

Housing for all by 2022

Targets urban areas with following components/options for states/union territories and cities:-

a) Slum rehabilitation of slum dwellers with participation of private developers using land as a resource
b) Promotion of affordable housing for weaker section through credit linked subsidy
c) Affordable housing in partnership with public and private sectors and
d) Subsidy for beneficiary-led individual house construction or enhancement

Features

- Central grant of Rs 100,000 per house, on an average, available under the slum rehabilitation programme. State governments would have flexibility in deploying this slum rehabilitation grant to any slum rehabilitation project taken for development using land as a resource for providing houses to slum dwellers.
- Under the Credit Linked Interest Subsidy component, interest subsidy of 6.5% on housing loans availed up to tenure of 15 years will be provided to EWS/LIG categories, wherein the subsidy pay-out on NPV basis would be about Rs 230,000 per house for both categories.
- Central assistance at the rate of Rs 150,000 per house for EWS will be provided under 'affordable housing' in partnership and beneficiary-led individual house construction or enhancement.
- State government or their urban local bodies (like housing boards) can take up project of affordable housing to avail the central government's grant.
- Will be implemented as a Centrally Sponsored Scheme except the credit-linked subsidy component, which will be implemented as a Central Sector Scheme.
- The Mission also prescribes certain mandatory reforms for easing up the urban land market for housing, to make adequate urban land available for affordable housing. Houses constructed under the mission would be allotted in the name of the female head of the households or in the joint name of the male head of the household and his wife.
- The scheme will cover the entire urban area consisting of 4,041 statutory towns with an initial focus on 500 Class-1 cities and it will be implemented in three phases –
  - Phase-I (April 2015 – March 2017) to cover 100 cities to be selected from States/UTs as per their willingness.
  - Phase – 2 (April 2017 – March 2019) to cover additional 200 cities.
  - Phase-3 (April 2019 – March 2022) to cover all other remaining cities.
- However, there will be flexibility in covering number of cities in various phases and inclusion of additional cities may be considered by the Ministry of Housing & Urban Poverty Alleviation in case there is demand from states and cities, and have capacity to include them in earlier phases.
- Credit linked subsidy component of the scheme would be implemented across the country in all statutory towns from the very beginning.

Implementation:

- Dimension of the task at present is estimated at 20mn house. Exact number of houses, though, would depend on demand survey for which all states/cities will undertake detailed demand assessment for assessing actual demand by integrating Aadhar number, Jan Dhan Yojana account numbers, or any such identification of intended beneficiaries.
- A Technology sub-mission under the Mission would be set up to facilitate adoption of modern, innovative, and green technologies and building material for faster and quality construction of houses. It will:
  - Facilitate preparation and adoption of layout designs and building plans suitable for various geo-climatic zones.

- Assist States/Cities in deploying disaster resistant and environment friendly technologies.
- Will coordinate with various regulatory and administrative bodies for mainstreaming and up-scaling deployment of modern construction technologies and material in place of conventional construction.
- Coordinate with other agencies working in green and energy efficient technologies, climate change etc.
- Will also work on the following aspects: i) Design & Planning ii) Innovative technologies & materials iii) Green buildings using natural resources and iv) earthquake and other disaster resistant technologies and designs.

In the spirit of cooperative federalism, the Mission will provide flexibility to States for choosing best options amongst four verticals of the Mission to meet the demand of housing in their states. The process of project formulation and approval in accordance with Mission Guidelines would be left to the states, so that projects can be formulated, approved and implemented faster. The Mission will provide technical and financial support in accordance to the Guidelines to the States to meet the challenge of urban housing.

The Mission will also compile best practices in terms of affordable housing policies of the States/UTs designs and technologies adopted by States and Cities with an objective to spread best practices across States and cities and foster cross learning. The Mission will also develop a virtual platform to obtain suggestions and inputs on house design, materials, technologies and other elements of urban housing.

Previous urban housing projects

Rajiv Awas Yojana (now subsumed with PMAY)

- Vision – Slum free India
- Launched in June 2011 in two phases
- Central Government has approved the implementation phase for 2013-22.
- To be implemented in a mission mode and will provide financial support to States/UTs/Urban Local Bodies (ULBs)/Central Government Agencies for providing housing and improvement of basic civic infrastructure and social amenities in each selected slums.
- Will also extend financial support to states for creation of affordable housing stock through public-private partnership (PPP) under the affordable housing in Partnership (AHP) component of the scheme.

Affordable Housing in Partnership (AHP) The Government has also approved the scheme of Affordable Housing in Partnership (AHP) as part of Rajiv AwasYojana (RAY) on 03.9.2013 to increase affordable housing stock, as part of the preventive strategy. Central support is provided at the rate of Rs 75,000 per Economically Weaker Sections (EWS)/Low Income Group (LIG) Dwelling Units (DUs) of size of 21 to 40 sqm in affordable housing projects taken up under various kinds of partnerships including private partnership. A project size of minimum 250 dwelling units is eligible for funding under the scheme. The DUs in the project can be a mix of EWS/LIG-A/LIG-B/Higher Categories/ Commercial of which at least 60% of the FAR/ FSI is used for dwelling units of carpet area of not more than 60 sqm. Under AHP Scheme, a total of 21 projects from Karnataka, Gujarat, and Rajasthan for construction of 24,141 DUs have been sanctioned.

Progress report as on March 2017

Particulars	RAY	AHP	TOTAL
Number of States	22	3	22
No of Projects approved initially	240	22	262
No of Projects Cancelled	78	1	79
Number of Project(s) on-going	162	21	183
Originally Project Cost Approved, Rs bn	89	15	103
Project Cost Approved as on, Rs bn	63	14	77
Originally Central Share Approved, Rs bn	49	1	51
Net Central Share Cancelled, Rs bn	14	0	15
% cancelled	29	6	29
Central Share Approved as on, Rs bn	35	1	36
Originally Dwelling Units Approved	168,604	25,407	194,011
Net Dwelling Units Cancelled	50,897	1,266	52,163
% cancelled	30	5	27
Dwelling Units Approved as on	117,707	24,141	141,848
Construction Completed of DUs	24,603	17,325	41,928
Dwelling Units Under Progress	57,502	6,045	63,547
Dwelling Units yet to Start	35,602	771	36,373

Source: MHUPA

Jawaharlal Nehru National Urban Renewal Mission

JnNURM implemented by MoHUPA in 2005 has two components e.g. Basic Services for Urban poor (BSUP) and Integrated Housing and Slum Development Programme (IHSDP) which aimed at integrated development of slums through projects for providing shelter, basic services and other related civic amenities with a view to providing utilities to the urban poor. The Mission was initially for a seven-year period, i.e., up to March 2012 – which was extended up to March 2015.

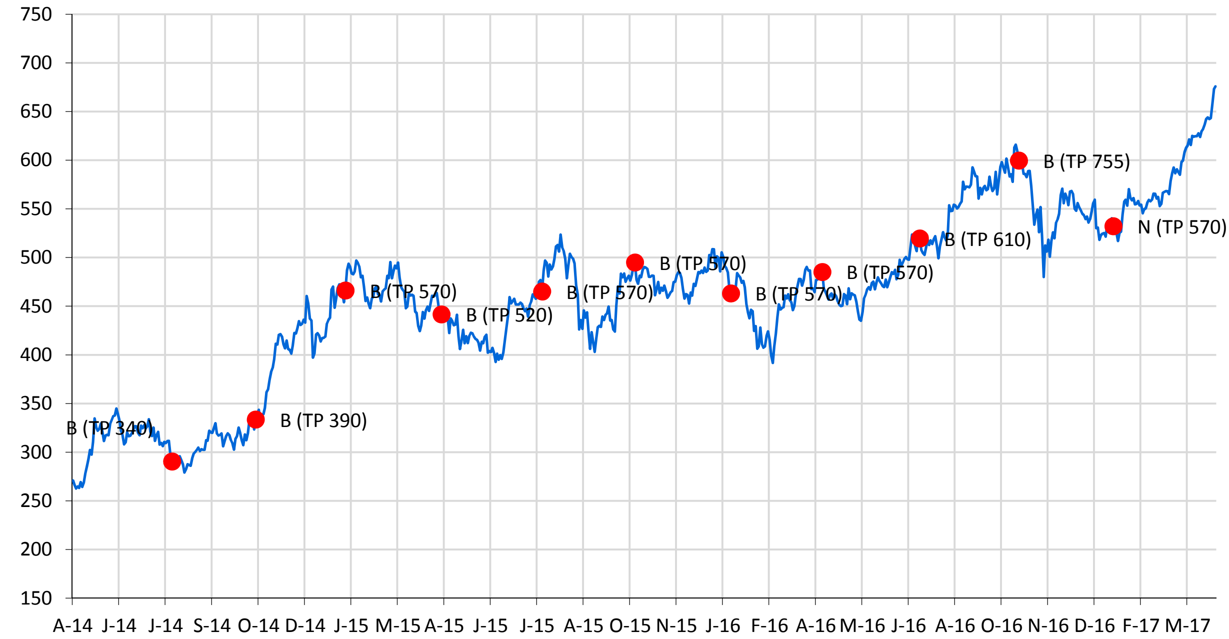
Under BSUP, entire cost of construction of Dwelling Units (DUs) and associated infrastructure was shared in the ratio of 50:50 for cities with a population of more than 1mn (as per Census 2001), 80:20 for other smaller Mission Cities and 90:10 for North Eastern and Special category States. Under IHSDP, project cost is shared in the ratio of 80:20 for remaining smaller cities and 90:10 for North Eastern and Special Category States. Cost ceiling of Rs 100,000 per DU, including cost of infrastructure was applicable for projects taken up under IHSDP Scheme.

JnNURM report card

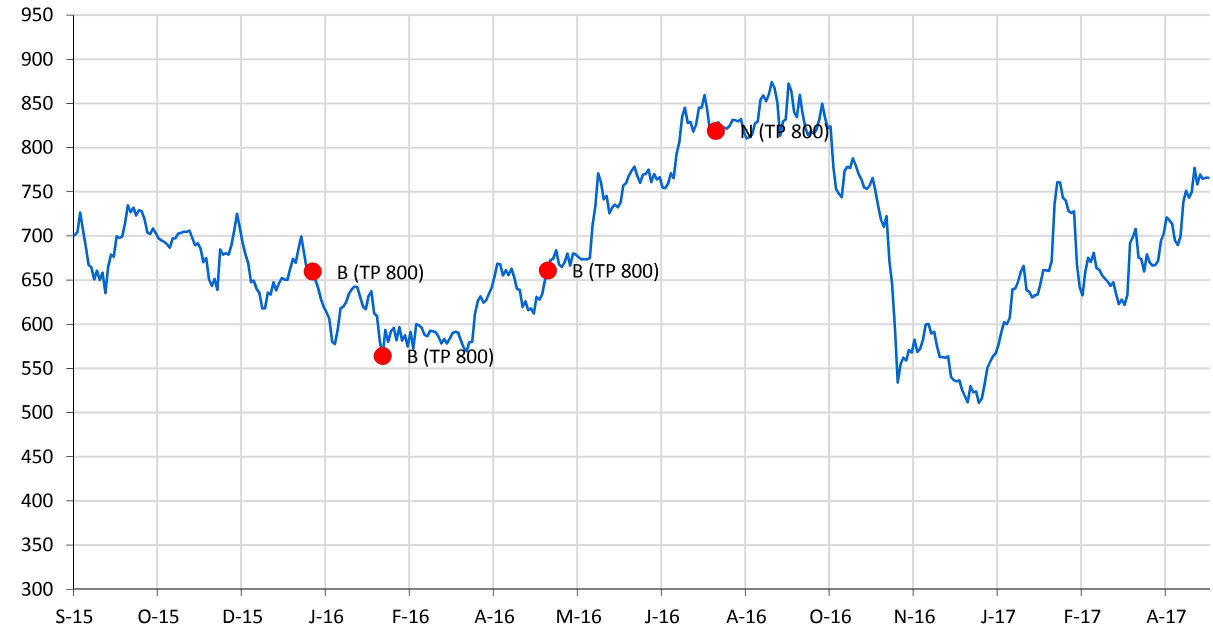
Particulars	BSUP	IHSDP	TOTAL
States	32	33	35
DPRs/Projects approved initially	553	1,137	1,690
DPRs/Projects Cancelled by State	76	107	183
Project(s) Approved as on	477	1,030	1,507
Originally Project Cost Approved, Rs bn	318	128	445
Project Cost after Dropped DUs, Rs bn	231	96	327
Originally Central Share Approved, Rs bn	161	83	243
Net Central Share Cancelled, Rs bn	50	21	72
% cancelled	31	26	29
Central Share Committed as on, Rs bn	112	62	174
Originally Dwelling Units Approved	1,129,823	614,380	1,744,203
Net Dwelling Units Cancelled	340,508	164,177	504,685
% cancelled	30	27	29
Dwelling Units Approved as on date	788,953	451,951	1,240,904
Dwelling Units Completed	687,231	378,304	1,065,535
Dwelling Units Under Progress	87,034	63,286	150,320
Dwelling Units yet to Start	14,688	10,361	25,049

Source: MHUPA

Stock Price, Price Target and Rating History (LIC Housing Finance)



Stock Price, Price Target and Rating History (Repco Home Finance)



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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