

# Indiabulls Housing Finance (IHFL IN)

Positive conversion to IndAS

INDIA | FINANCIAL | Quarterly Update

2 August 2018

## Top takeaways from Q1FY19

- ✓ IHFL reported strong performance with PAT of Rs 10.5bn (+30.3% yoy) driven by strong growth in NII growth and lower credit cost.
- ✓ NII at Rs 16.9bn (+22% yoy) was driven by 32% yoy growth in loan but NIM declined yoy.
- ✓ AUM growth was above expectation at 33.4% yoy, driven by 47% yoy growth in home loans and 87.5% growth in corporate loans, LAP grew 7% yoy.
- ✓ Asset quality continued to remain stable with GNPA (stage 3) at 0.78% (0.77% in Q4FY18 under NHB norms) and NNPA (stage 3) at 0.59% (0.34% under NHB norms).

## Key highlights:

- Spread were at 323 bps (-1 bps yoy & +12bps qoq). The qoq spread improvement is driven by 29bps qoq increase in yield on assets compared to 17bps increase in cost of fund, thus translating to a 12bps qoq increase in spread.
- Disbursement at Rs 100bn (+48% yoy) driven by home loans (+47% yoy), LAP and commercial credit at 7% yoy and 87% yoy respectively.
- Borrowings grew 31% yoy. The share of NCD were at 60% (+240 bps yoy), while banks borrowings were at 36% (-310 bps yoy).

## Management comments / concall takeaways

- Guidance on book spreads/incremental spread at 300-325bps/275-300bps.
- Under Ind AS network was positively impacted by Rs25bn due to revaluation of investment (Oak North bank) at market rate and deferred tax benefit of Rs3.5bn. Network of for June stands at Rs164.2bn Vs Rs125.5bn in March 2018.
- The augmented capital base improved CRAR to 24% which would be sufficient for loan book growth in near term.
- As per expected credit loss (ECL) method, the credit cost has come down significantly to 25bps. The credit cost to remain at 20-25bps bracket going forward.

**Outlook and valuation:** Balanced mix of housing /non-housing loans, stable margin driven by asset re-pricing, and declining cost-to-income ratio will continue to remain the earnings drivers. Strong capital position with CRAR of 24% and RoE of ~30% will provide adequate capital to take IBHFL through +28% AUM growth in the next two years. We expect earnings CAGR of 28% over FY18-20, which would translate into a RoA of 3% and RoE of 29%/31% in FY19/20. At CMP, the stock trades at 3x/2.7x FY19/20 book value of Rs 427/475. We maintain BUY with a target price of Rs 1550 (Rs 1492 earlier). We value the business at 3x our FY20 BVPS of Rs 475 and add dividend of Rs 125 per share over two years to arrive at a target of Rs 1550.

| (Rs mn)                  | Q1FY19  | Q1FY18 | yoy %     | vs. expect. % | Comments   |
|--------------------------|---------|--------|-----------|---------------|--|
| Net interest income      | 16892   | 13840  | 22.1      | 11.5          | Lower than loan growth due declining NIM (calculated)                            |
| NIM (%)                  | 5.0     | 5.2    | (19 bps)  |               | Increase in leverage in balance (ex-revaluation reserve)                         |
| Spread (%)               | 3.2     | 3.2    | (1 bps)   |               | Increase in lending rate helped improvement in spread qoq                        |
| Disbursement             | 100440  | 67990  | 47.7      |               | Growth - Home loan:47%; LAP: 7% & commercial credit : 88%                        |
| Loan Book                | 1122000 | 852000 | 31.7      | -0.3          | Management expects momentum in loan book to continue                             |
| Mortgages                | 756000  | 538371 | 40.4      |               |  |
| LAP                      | 239400  | 198347 | 20.7      |               | Constant Endeavour to bring down the LAP proportion                              |
| Commercial Loans         | 264600  | 207792 | 27.3      |               | Repayments are generally high on commercial loan due to short maturity           |
| Borrowings               | 1159900 | 884700 | 31.1      |               | Bank proportion declined whereas ECB witnessed increase qoq                      |
| Banks (%)                | 36      | 39     | (315 bps) |               |  |
| Operating expenses       | 2687    | 1946   | 38.1      | 13.3          |  |
| Cost to income ratio (%) | 15.5    | 13.4   | 204 bps   |               |  |
| Provision                | 650     | 1910   | (66.0)    |               | Under ECL credit cost declined to 25bps and expected to remain at current levels |
| PBT                      | 14024   | 10619  | 32.1      |               |  |
| tax                      | 3538    | 2571   | 37.6      |               |  |
| PAT                      | 10547   | 8095   | 30.3      | 8.5           | Last year's PAT re-adjusted under IndAS. Last PAT under IGAAP was Rs7.9bn        |
| GNPA % (Stage 3)         | 0.78    | 0.80   | (2 bps)   |               |  |
| NNPA % (stage 3)         | 0.59    | 0.61   | (3 bps)   |               | Coverage of stage 3 at 25%. Based on ECL, coverage to remain at current level    |

## BUY

CMP RS 1301

TARGET RS 1550 (+19%)

## COMPANY DATA

|                        |             |
|------------------------|-------------|
| O/S SHARES (MN) :      | 424         |
| MARKET CAP (RSBN) :    | 548         |
| MARKET CAP (USDBN) :   | 8.0         |
| 52 - WK HI/LO (RS) :   | 1439 / 1080 |
| LIQUIDITY 3M (USDMN) : | 35.3        |
| PAR VALUE (RS) :       | 2           |

## SHARE HOLDING PATTERN, %

|                   | Jun 18 | Mar 18 | Dec 17 |
|-------------------|--------|--------|--------|
| PROMOTERS :       | 21.7   | 23.6   | 23.7   |
| FII / NRI :       | 54.4   | 53.6   | 55.3   |
| FI / MF :         | 14.6   | 14.2   | 12.0   |
| NON PRO :         | 2.6    | 2.4    | 2.3    |
| PUBLIC & OTHERS : | 6.8    | 6.2    | 6.7    |

## Key Financials

| Rs mn      | FY18  | FY19E | FY20E |
|------------|-------|-------|-------|
| Net Profit | 38.3  | 46.7  | 58.7  |
| % growth   | 31.5  | 22.1  | 25.8  |
| EPS (Rs)   | 84.6  | 110.2 | 138.6 |
| BVPS (Rs)  | 324.8 | 427.5 | 475.6 |
| ROE (%)    | 27.4  | 29.3  | 30.7  |
| ROA (%)    | 3.0   | 3.1   | 3.1   |
| P/E (x)    | 15.4  | 11.8  | 9.4   |
| P/BV (x)   | 4.0   | 3.0   | 2.7   |

## CHANGE IN ESTIMATES

| Rs bn    | Revised Est. FY19E | % Revision FY19E |
|----------|--------------------|------------------|
| NII      | 54.5               | -14%             |
| PPP      | 66.1               | -10%             |
| Core PAT | 46.7               | 4%               |
| EPS (Rs) | 110.2              | 4%               |

Manish Agarwalla  
Sujal Kumar

**Result update**

| Rs mn                      | Q1FY19  | Q1FY18 | YoY (%) |
|----------------------------|---------|--------|---------|
| Interest income            | 38433   | 29530  | 30.1    |
| Interest expenses          | 23351   | 18408  | 26.9    |
| Net Interest Income        | 15081   | 11123  | 35.6    |
| NIM (%)                    | 0.0     | 0.0    | 0.0     |
| Other Income               | 1811    | 2718   | -33.4   |
| Total Income               | 16892   | 13840  | 22.1    |
| Operating Expenses         | 2687    | 1946   | 38.1    |
| Cost/Income (%)            | 0.0     | 0.0    | 0.0     |
| Pre Provision Profits      | 14204   | 11894  | 19.4    |
| Provisions & contingencies | 650     | 1910   | -66.0   |
| Profit before tax          | 13554   | 9985   | 35.8    |
| Provision for taxes        | 3538    | 2571   | 37.6    |
| Profit after tax           | 10547.2 | 8094.9 | 30.3    |
| EPS                        | 24.7    | 19.1   | 29.6    |
| AUM                        | 1260000 | 944510 | 33.4    |
| Borrowings                 | 1160000 | 884700 | 31.1    |
| Disbursements              | 100440  | 67990  | 47.7    |
| Gross Stage 3              | 9800    | 7600   | 28.9    |
| (%)                        | 0.78    | 0.80   | -0.02   |
| Net stage 3                | 7400    | 5800   | 27.6    |
| (%)                        | 0.59    | 0.61   | -0.03   |

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

| Y/E Mar, Rs Bn        | FY17        | FY18        | FY19e       | FY20e       |
|-----------------------|-------------|-------------|-------------|-------------|
| Interest income       | 99.4        | 119.7       | 155.5       | 197.4       |
| Interest expenses     | 64.1        | 76.5        | 101.0       | 129.3       |
| <b>NII</b>            | <b>35.3</b> | <b>43.2</b> | <b>54.5</b> | <b>68.0</b> |
| Other income          | 17.6        | 26.7        | 21.5        | 25.7        |
| Total income          | 52.9        | 69.9        | 76.0        | 93.7        |
| Employee Expenses     | 5.0         | 5.8         | 6.8         | 7.9         |
| Other Expenses        | 2.4         | 2.8         | 3.0         | 3.3         |
| Operating expenses    | 7.4         | 8.6         | 9.8         | 11.2        |
| <b>PPP</b>            | <b>45.5</b> | <b>61.3</b> | <b>66.1</b> | <b>82.6</b> |
| Provisions            | 7.8         | 11.5        | 3.9         | 4.2         |
| <b>Pre tax profit</b> | <b>37.7</b> | <b>49.8</b> | <b>62.3</b> | <b>78.3</b> |
| Tax expense           | 8.6         | 11.5        | 15.6        | 19.6        |
| <b>PAT</b>            | <b>29.1</b> | <b>38.3</b> | <b>46.7</b> | <b>58.7</b> |

### Balance Sheet

| Y/E Mar, Rs Bn           | FY17           | FY18           | FY19e          | FY20e          |
|--------------------------|----------------|----------------|----------------|----------------|
| Cash & Bank Bal.         | 56.8           | 47.5           | 59.3           | 71.2           |
| Loans & Advances         | 829.5          | 1,105.6        | 1,423.4        | 1,812.0        |
| Investments              | 136.2          | 148.7          | 188.6          | 207.4          |
| Fixed Assets             | 1.0            | 1.1            | 1.2            | 1.3            |
| Other Assets             | 13.5           | 16.1           | 19.7           | 23.1           |
| <b>Total assets</b>      | <b>1,037.1</b> | <b>1,319.0</b> | <b>1,692.2</b> | <b>2,115.0</b> |
| Share capital            | 0.8            | 0.8            | 0.8            | 0.8            |
| Reserves                 | 123.8          | 136.8          | 180.3          | 200.7          |
| Networth                 | 124.7          | 137.7          | 181.2          | 201.6          |
| Borrowings               | 853.0          | 1,102.6        | 1,417.7        | 1,794.8        |
| Other liabilities        | 52.1           | 68.6           | 81.0           | 103.5          |
| Provision                | 7.3            | 10.2           | 12.4           | 15.1           |
| <b>Total liabilities</b> | <b>1,037.1</b> | <b>1,319.0</b> | <b>1,692.2</b> | <b>2,115.0</b> |

Source: Company, PhillipCapital India Research Estimates

### Valuation Ratios

|                                 | FY17  | FY18  | FY19e | FY20e |
|---------------------------------|-------|-------|-------|-------|
| <b>Per share data</b>           |       |       |       |       |
| No. of shares, mn               | 423.9 | 423.9 | 423.9 | 423.9 |
| EPS                             | 68.6  | 84.6  | 110.2 | 138.6 |
| BV                              | 294.1 | 324.8 | 427.5 | 475.6 |
| Adj BVPS                        | 289.3 | 317.9 | 414.5 | 459.1 |
| DPS                             | 26.9  | 42.3  | 55.1  | 69.3  |
| <b>Growth ratios</b>            |       |       |       |       |
| Advances                        | 36.2  | 33.3  | 28.7  | 27.3  |
| Borrowings                      | 39.6  | 29.3  | 28.6  | 26.6  |
| NII                             | 22.9  | 22.5  | 26.1  | 24.9  |
| PPP                             | 25.3  | 34.5  | 7.9   | 24.9  |
| PAT                             | 23.6  | 31.5  | 22.1  | 25.8  |
| <b>Margins</b>                  |       |       |       |       |
| Yield on funds                  | 11.0  | 10.2  | 10.3  | 10.4  |
| Cost of deposits                | 8.8   | 7.8   | 8.0   | 8.1   |
| Spreads                         | 2.3   | 2.3   | 2.3   | 2.3   |
| NIMs                            | 3.9   | 3.7   | 3.6   | 3.6   |
| <b>Cost ratios</b>              |       |       |       |       |
| Cost to income                  | 13.9  | 12.3  | 13.0  | 11.9  |
| Cost to average assets          | 0.8   | 0.7   | 0.7   | 0.6   |
| <b>Return ratios</b>            |       |       |       |       |
| RoA                             | 3.2   | 3.0   | 3.1   | 3.1   |
| RoE                             | 25.1  | 27.4  | 29.3  | 30.7  |
| <b>Valuations</b>               |       |       |       |       |
| P/E                             | 19.7  | 15.9  | 12.3  | 9.7   |
| P/BV                            | 4.6   | 4.2   | 3.2   | 2.8   |
| <b>Asset quality &amp; CRAR</b> |       |       |       |       |
| GNPA                            | 0.9   | 0.8   | 0.8   | 0.8   |
| NNPA                            | 0.4   | 0.3   | 0.6   | 0.6   |
| Provision coverage Ratio        | 58.8  | 55.7  | 28.5  | 28.9  |
| Tier 1                          | 17.3  | 15.1  | 15.8  | 14.4  |
| CRAR                            | 20.9  | 20.8  | 19.0  | 17.8  |

### Stock Price, Price Target and Rating History



### 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     | $\geq +15\%$                | Target price is equal to or more than 15% of current market price |
| NEUTRAL | $-15\% > \text{to} < +15\%$ | Target price is less than +15% but more than -15%                 |
| SELL    | $\leq -15\%$                | Target price is less than or equal to -15%.                       |

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