

INDIABULLS HOUSING FINANCE

Merger uncertainty ends, but operational challenges persist

India Equity Research | Banking and Financial Services



In the most anticipated and a potential test case outcome, the RBI has formally rejected the proposal to merge Indiabulls Housing Finance (IHFL) and Lakshmi Vilas Bank (LVB). The likelihood of a positive outcome was anyways bleak given the way events were unfolding—litigation & investigation initiated against IHFL and LVB put under PCA framework recently by the RBI. With this, IHFL's banking licence aspiration is likely to come to halt. On the operational front, persistent challenges in the real estate segment (developer finance/LAP), liquidity tightness (accessibility and cost) and soft disbursements along with rundown in CRE book are likely to lead to sharp contraction in on-book AUM. These cumulatively are likely to further pressurise earnings. Hence, we are revising down FY20/21E EPS 26%/34% and P/BV to 0.8x (from 1.25x), leading to revised TP of INR267 (INR527 earlier). Maintain 'HOLD'.

Banking aspirations come to a naught

The RBI's rejection of merger proposal, we believe, will come as a major disappointment for IHFL given management's resolve to do whatever it takes to overcome regulatory impediments. The RBI's decision is likely to halt the company's banking licence aspiration (earlier it had bought Oak North stake to prove to the regulator its ability to manage a deposit-taking franchise). While this ends merger uncertainty for IHFL and management can now focus on regular business, issues in real estate segment (developer finance and LAP) and access to liquidity in the current environment will remain challenging.

Implications for BFSI sector

How IHFL group emerges out of the current tight liquidity and risk aversion environment will be key to watch. Also, this was touted as a test case (if it went through) for other players planning to apply for a banking licence. While rationale for rejection could be group specific issues as well, RBI implicitly making its stance clear, potentially other business houses may have to apply via universal/SFB on tap licence than the acquisition route.

Outlook and valuation: Operational challenges persist; retain 'HOLD'

Given the adverse developments, weak real estate sentiments, probe/investigation directed by court to various agencies/regulators, IHFL's valuations will be under pressure (despite trading at mere 0.7x FY21E P/BV post >70% correction in past six months). However, management is trying its best to infuse confidence by evaluating potential buy back (subject to regulatory nod) and higher dividend. We maintain 'HOLD/SU'.

Financials

(INRmn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	64,279	64,122	48,898	49,349
Net profit	35,665	36,896	23,764	22,971
Diluted EPS (INR)	84.1	87.0	56.1	54.2
Adj. BV (INR)	297.2	337.8	337.2	333.9
Price/ Adj book (x)	0.8	0.7	0.7	0.7
Diluted P/E (x)	2.8	2.8	4.3	4.4
ROE (%)	28.8	26.8	15.9	14.8

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: INBF.BO, B: IHFL IN)

CMP	: INR 240
Target Price	: INR 267
52-week range (INR)	: 989 / 213
Share in issue (mn)	: 427.6
M cap (INR bn/USD mn)	: 103 / 1,446
Avg. Daily Vol.BSE/NSE('000)	: 14,703.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	21.5	21.5	21.5
MF's, FI's & BK's	13.2	13.0	13.6
FII's	52.1	55.9	55.3
Others	13.2	9.6	9.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(42.7)	2.6	3.6
3 months	(62.3)	(5.0)	(8.6)
12 months	(72.4)	2.8	13.4

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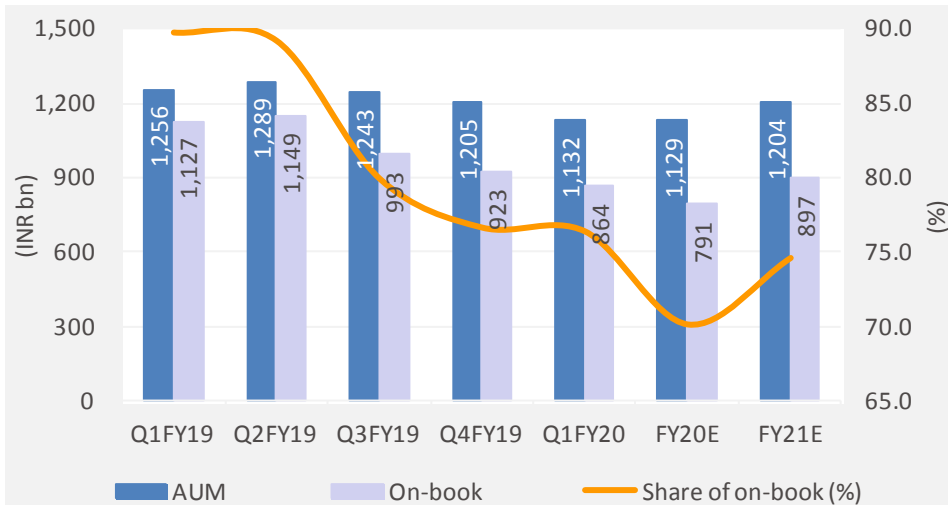
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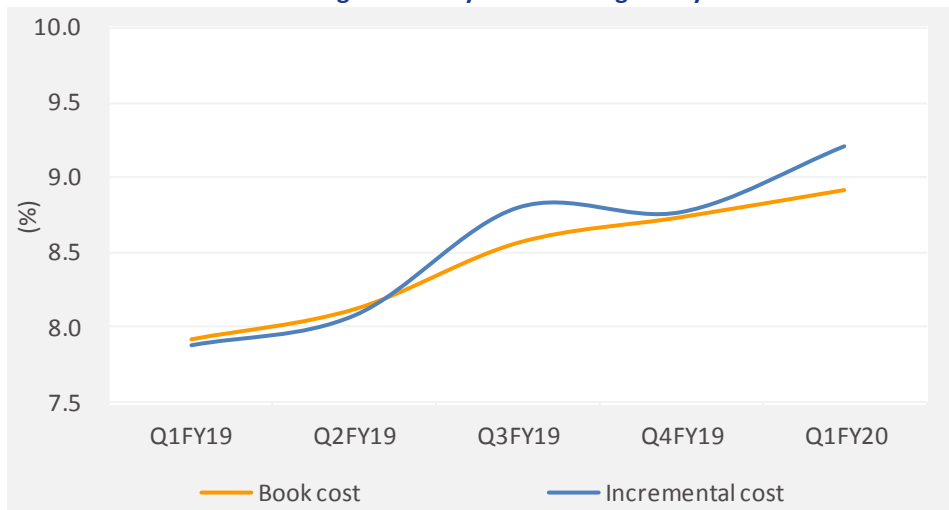
October 10, 2019

Chart 1: Soft disbursements and rundown in CRE will lead to run-down in AUM



Source: Company, Edelweiss research

Chart 2: Pressure on borrowing costs likely to continue given systemic risk aversion



Source: Company

Table 1: CP has come down significantly; sell down to support liquidity management

Borrowings (INR bn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Bank loans	434	418	412	461	441
Debentures and securities	505	733	568	487	482
Commercial papers	192	NA	47	53	11
ECB	31	52	49	48	48
Sell down	138	148	258	290	275
Total	1,299	1,351	1,334	1,340	1,257

Source: Company

Chart 3: Significant de-rating in the valuation given the skepticism and uncertainty


Source: Bloomberg

Chart 4: Stock price has corrected sharply in last 1 year...


Source: Bloomberg

Table 2: ...leading to significant relative underperformance

Duration	Stock returns (%)	NIFTY returns (%)	Relative returns (%)
1 month	(43.52)	2.82	(46.34)
3 months	(64.59)	(2.10)	(62.49)
6 months	(70.31)	(3.07)	(67.24)
1 year	(73.11)	9.83	(82.94)
2 years	(79.34)	13.26	(92.60)

Change in Estimates

	New	FY20E Old	% change	New	FY21E Old	% change	Comments
NII	30,690	40,339	(23.9)	31,688	45,196	(29.9)	Factoring in lower growth and pressure on margins given higher funding cost
PPOP	40,129	49,680	(19.2)	40,621	54,325	(25.2)	
Provisions	8,444	7,127	18.5	9,994	8,770	14.0	Factoring in some stress emerging in real estate segment (developer and LAP portfolio)
PAT	23,764	31,915	(25.6)	22,971	34,166	(32.8)	
NIMs	2.7	3.4		2.7	3.5		

Company Description

IHFL is the fourth largest housing finance company in India with AUM of INR1.13bn. It was established as a wholly-owned subsidiary of Indiabulls Financial Services (IBFSL), a leading non-banking financial firm providing home loans, commercial vehicle loans and business loans that was established in 2000. In early 2013, keeping with IHFL's long-term commitment to the housing finance business, the company was reversed-merged into its housing finance subsidiary IHFL. IHFL offers a broad suite of lending and other financial products to target client base of middle and upper-middle income individuals and small- and medium-sized enterprises or SMEs.

Investment Theme

While IHFL's proven track record, liquidity position and high dividend yield lend comfort, we expect its valuations to settle lower until clarity/comfort emerges around its real estate segment. Maintain 'HOLD/SP'.

Key Risks

Any slowdown in the real estate sector will adversely hit growth and earnings. It will also impact the default rates and recoverability in the event of default.

Adverse regulatory changes like increase in risk weights, cap on the interest spread under refinance schemes, etc., can impact IHFL's growth and profitability. Changes in the terms and eligibility conditions of the refinance schemes can also impact margins.

Financial Statements (Standalone)

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	7.0	7.1	7.1
Company				
Yield on advances	12.3	12.5	12.2	12.4
Cost of funds	7.5	8.4	9.4	9.3
Spread	4.8	4.1	2.9	3.1
Employee cost growth	16.1	16.5	3.8	(1.3)
Other opex growth	94.5	13.2	13.4	1.3
Dividend payout	50.0	45.0	60.0	70.0
Disbursement growth	35.7	(31.5)	(15.3)	15.7
Repayment rate	18.1	28.6	25.0	19.0
Gross NPLs (%)	0.8	0.9	2.0	2.8
Net NPLs (%)	0.3	0.4	1.3	1.8
Provision coverage	55.7	60.0	35.0	35.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	118,483	136,685	1,24,469	1,24,717
Interest expended	73,548	90,574	93,780	93,030
Net interest income	44,935	46,111	30,690	31,688
Fee & other income	2,093	5,034	5,659	5,716
Other income	17,251	12,977	12,549	11,945
Net revenues	64,279	64,122	48,898	49,349
Operating expense	7,227	8,264	8,768	8,728
- Employee exp	5,266	6,132	6,365	6,280
- Depn /amortisation	270	216	231	246
- Other opex	1,691	1,915	2,172	2,201
Preprovision profit	57,052	55,859	40,129	40,621
Provisions	11,152	4,897	8,444	9,994
Profit Before Tax	45,900	50,962	31,685	30,627
Less: Provision for Tax	10,236	14,065	7,921	7,657
Net profit	35,665	36,896	23,764	22,971
Reported Profit	35,665	36,896	23,764	22,971
Shares o /s (mn)	424	424	424	424
Basic EPS (INR)	84.1	87.0	56.1	54.2
Diluted shares o/s (mn)	424	424	423.9	423.9
Adj. Diluted EPS (INR)	84.1	87.0	56.1	54.2
Dividend per share (DPS)	42.1	39.2	33.6	37.9
Dividend Payout Ratio(%)	50.0	45.0	60.0	70.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Operating income growth	31.5	2.6	(33.4)	3.3
Revenues	28.5	(0.2)	(23.7)	0.9
Opex growth	28.7	14.3	6.1	(0.5)
PPP growth	28.5	(2.1)	(28.2)	1.2
Provisions growth	46.7	(56.1)	72.4	18.4
Adjusted Profit	25.5	3.5	(35.6)	(3.3)

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	12.3	12.5	12.2	12.4
Cost of funds	7.5	8.4	9.4	9.3
Net interest margins	4.1	3.8	2.7	2.7
Spread	4.8	4.1	2.9	3.1
Cost-income	11.2	12.9	17.9	17.7
Tax rate	22.3	27.6	25.0	25.0

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	848	848	848	848	
Reserves & Surplus	128,061	145,299	152,294	155,840	
Shareholders' funds	128,909	146,147	153,141	156,688	
Long term borrowings	647,285	616,649	558,014	618,876	
Short term borrowings	455,315	433,764	392,519	435,331	
Total Borrowings	1,102,600	1,050,413	950,534	1,054,207	
Long Term Liabilities	3,475	3,983	3,397	3,340	
Def. Tax Liability (net)	1,230	3,778	926	313	
Sources of funds	1,236,214	1,204,320	1,092,170	1,214,549	
Gross Block	2,087	2,237	2,387	2,537	
Net Block	941	877	798	705	
Intangible Assets	29	27	24	22	
Total Fixed Assets	970	904	823	727	
Non current investments	31,203	34,594	42,049	39,270	
Cash and Equivalents	43,480	17,572	14,897	18,223	
Loans & Advances	1,102,000	1,088,761	946,774	1,062,918	
Current assets (ex cash)	124,871	138,441	168,266	157,160	
Trade payable	286	281	264	281	
Other Current Liab	66,024	75,671	64,546	63,467	
Total Current Liab	66,310	75,952	64,810	63,748	
Net Curr Assets-ex cash	58,560	62,489	103,456	93,411	
Uses of funds	1,236,214	1,204,320	1,092,170	1,214,549	
Earning assets	1,231,769	1,199,434	1,103,778	1,210,482	
Disbursements	481,368	329,887	279,502	323,521	
BVPS (INR)	304.1	344.8	361.3	369.7	
AUM	1,226,000	1,205,256	1,129,485	1,203,871	
Total borrowing	1,226,583	1,332,687	12,88,600	13,60,748	
AUM growth	34.8	(1.7)	(6.3)	6.6	
EA growth	26.7	(2.6)	(8.0)	9.7	
Gross NPAs	9,480	10,623	22,472	33,369	
Net NPAs	4,200	4,249	14,607	21,690	
Provision coverage	55.7	60.0	35.0	35.0	
Gross NPA ratio	0.8	0.9	2.0	2.8	
Net NPA ratio	0.3	0.4	1.3	1.8	

RoE decomposition (%)					
Year to March	FY18	FY19	FY20E	FY21E	
Net int. income/assets	4.1	3.8	2.7	2.7	
Other income/Assets	1.8	1.5	1.6	1.5	
Net revenues/assets	5.8	5.3	4.2	4.3	
Operating expense/assets	0.7	0.7	0.8	0.8	
Provisions/assets	1.0	0.4	0.7	0.9	
Taxes/assets	0.9	1.2	0.7	0.7	
Total costs/assets	2.6	2.2	2.2	2.3	
ROA	3.2	3.0	2.1	2.0	
Equity/assets	11.2	11.3	13.0	13.4	
ROAE (%)	28.8	26.8	15.9	14.8	

Valuation parameters					
Year to March	FY18	FY19	FY20E	FY21E	
Adj. Diluted EPS (INR)	84.1	87.0	56.1	54.2	
Y-o-Y growth (%)	25.5	3.5	(35.6)	(3.3)	
BV per share (INR)	304.1	344.8	361.3	369.7	
Adj. BV per share (INR)	297.2	337.8	337.2	333.9	
Diluted P/E (x)	2.8	2.8	4.3	4.4	
P/B (x)	0.8	0.7	0.7	0.6	
Price/ Adj. BV (x)	0.8	0.7	0.7	0.7	
Dividend Yield (%)	17.5	16.3	14.0	15.8	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Indiabulls Housing Finance	1,446	4.3	4.4	0.7	0.6	15.9	14.8
Aavas Financiers	1,768	54.9	41.0	6.1	5.3	11.7	13.8
HDFC	48,727	22.1	16.5	2.3	2.1	14.1	15.2
LIC Housing Finance	2,689	7.2	6.0	1.0	0.9	15.3	16.1
Mahindra & Mahindra Financial Services	2,906	17.6	12.7	1.9	1.7	10.6	13.9
Manappuram General Finance	1,664	14.0	12.1	2.4	2.0	18.2	18.3
Muthoot Finance	3,876	12.5	11.0	2.5	2.2	22.1	21.3
Power Finance Corp	3,521	4.3	3.6	0.5	0.5	13.1	13.9
Repco Home Finance	267	7.0	6.1	1.1	0.9	16.4	16.2
Rural Electrification Corporation	3,479	4.6	4.2	0.7	0.6	15.0	15.1
Shriram City Union Finance	1,231	7.7	6.8	1.2	1.0	16.6	16.4
Shriram Transport Finance	3,594	9.4	7.9	1.5	1.3	17.0	17.4
Median	-	8.5	7.3	1.3	1.2	15.6	15.6
AVERAGE	-	14.5	11.9	2.0	1.7	15.5	16.0

Source: Edelweiss research

Additional Data

Directors Data

Sameer Gehlaut	Founder & Executive Chairman	Gagan Banga	Vice Chairman, MD & CEO
Ajit Kumar Mittal	Executive Director	Ashwini Kumar Hooda	Deputy MD
Sachin Chaudhary	COO & Whole-time Director	Kamalesh Shailesh Chandra Chakrabarty	Director
Subhash Sheoratan Mundra	Director	Justice Gyan Sudha Misra	Director
Samsher Singh Ahlawat	Director	Satish Chand Mathur	Director
Prem Prakash Mirdha	Director		

Auditors - S.R. Batliboi & Co. LLP

**as per last annual report*

Holding - Top 10

Perc. Holding		Perc. Holding	
Life Insurance Corp of India	10.72	Jasmine Capital Investments	5.40
Euro Pacific Growth	3.84	Vanguard Group	2.88
BlackRock	2.80	Nomura Holdings	2.30
Dimensional Fund Advisors	1.93	Franklin Resources	1.88
Steadview Capital Mauritius	1.53	Tupelo Consultancy	1.47

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
16 Nov 2018	PRINCIPAL GLOBAL INVESTORS LLC	SELL	2700000	767.26

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Jul 2019	Harshil Suvarnkar	Sell	20000.00
01 Jul 2019	Sunil Kumar Gupta	Sell	26350.00
24 Jun 2019	Ajit Kumar Mittal	Sell	30000.00
19 Jun 2019	Anji Reddy Karumadi	Sell	18200.00
11 Jun 2019	Mukesh Kumar Garg	Sell	29800.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SP	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	REDUCE	SU	M	DCB Bank	HOLD	SP	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	BUY	SO	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	BUY	SP	L
Indiabulls Housing Finance	HOLD	SU	M	IndusInd Bank	BUY	SO	L
Kotak Mahindra Bank	BUY	SP	M	L&T Finance Holdings	HOLD	SU	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram Finance	BUY	SP	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SP	M
Punjab National Bank	REDUCE	SU	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SP	M	Rural Electrification Corporation	HOLD	SU	M
Shriram City Union Finance	BUY	SP	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	HOLD	SU	M	Yes Bank	HOLD	SU	M

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Sep-19	IFCI	Down, but inching up; <i>Visit Note</i>	8	Not Rated
13-Sep-19	Axis Bank	Risk-reward turning favourable; <i>Company Update</i>	674	Buy
13-Sep-19	BFSI	Peek-a-boo: Unravelling India's private banks; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

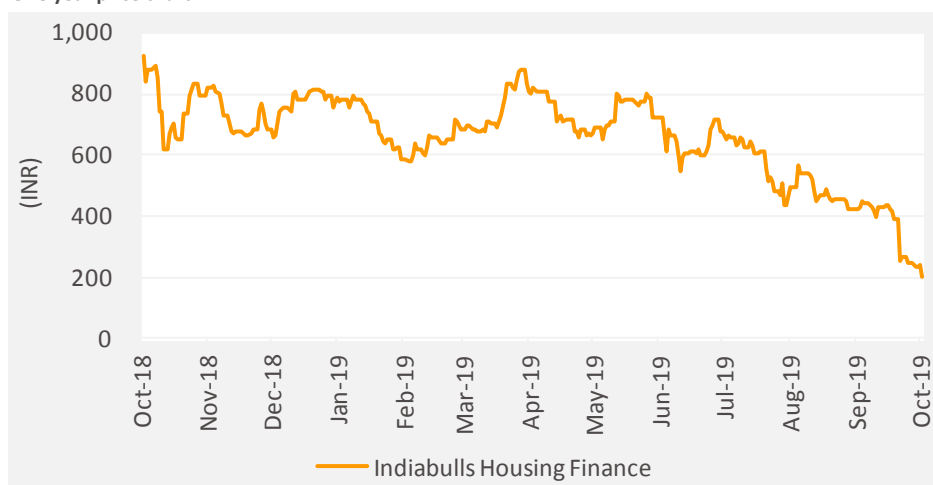
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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