

Housing and Urban Development Corporation Ltd

NBFC | Initiating Coverage

BUY
CMP: Rs325 | Target Price (TP): Rs375 | Upside: 15%
July 4, 2024

Stepping up growth accelerator in Infra Finance

Key Points

- We initiate coverage on Housing and Urban Development Corporation Ltd (HUDCO) with a 'BUY' rating and a target price (TP) of Rs 375, implying an upside of 15% from CMP.
- Key factors that reinforce our positive view are:
 - **Strategic position in Govt plans:** As a niche financier in the social housing and urban infrastructure space, HUDCO plays a key role in various Government schemes such as PMAY-Urban, PMAY-Rural, Smart City, AMRUT, HRIDAY, NULM, Swachh Bharat and Jal Jeevan Mission, through the appraisal and monitoring of projects in related sectors. HUDCO has built a strong relationship with state governments and their agencies, which gives it a better chance of providing loans to those entities.
 - **Huge growth opportunity in infra lending space:** As per a 2019 RBI report, estimated housing shortage is going to be ~100mn units till 2022-end. 96% of this was expected in EWS and LIG segments - HUDCO's stronghold. Further, as per the 2019 National Infrastructure Pipeline Report, the capex requirement for urban infrastructure sector is projected at Rs19.2tn during 2020-2025.
 - **Govt exposure at 97.5% of loan book:** HUDCO has not lent to the private sector since 2013 and has provided 100% on legacy private sector NPAs, leading to best-in-class PCR of 86.9%, which indicates that credit cost will remain lower in future as 97.5% is state/central govt exposure, which is a stable asset class and hence RoA is likely to expand. Some delays in payments by state governments can lead to temporary spikes in stage 2 and stage 3 assets in some quarters, but as per past trends, most of it gets upgraded in 1-2 quarters. Also, since majority of the exposure is government guaranteed, it mitigates the risk to an extent.
 - The company has been conferred the Navratna status recently and is also in the process of converting from a HFC to NBFC-IFC.
 - **NIM to improve:** We expect NIM to increase from 3.2% at present to 3.5% in FY26E because of increased lending to better yielding urban infrastructure segment, favourable repricing trends and raising of relatively lower cost borrowings.
 - **Strong capital position:** With CAR of 57.65% and leverage of 4.05x, even a small change in leverage can make a significant impact on RoE.
- **Valuation premium to sustain:** We have estimated HUDCO's earnings to grow at a CAGR of 24.1% over FY24-FY26E on the back of 22.1% AUM CAGR, 30bps improvement in NIM, stable opex costs and near zero credit costs. This will result in RoA/RoE of 2.6%/16.9% in FY26E. We have valued HUDCO at 3.6x June 2026E ABV and derive a target price (TP) of Rs 375. In our view, due to its niche position in social housing & urban infrastructure financing, its ability to grow faster due to its robust capital position, improving margins and low risk on balance sheet, the company's premium valuations should sustain.

Company Data and Valuation Summary

Reuters	HUDC.BO
Bloomberg	HUDCO IN Equity
Market Cap (Rsbn / US\$bn)	650.7 / 7.8
52 Wk H / L (Rs)	328 / 57
ADTV-3M (mn) (Rs / US\$)	6,460.3 / 77.4
Stock performance (%) 1M/6M/1yr	41.5 / 152.8 / 462.4
Nifty 50 performance (%) 1M/6M/1yr	7.9 / 7.9 / 25.3

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	81.8	75.2	75.0
DII's	7.2	11.8	11.4
FII's	0.7	1.2	1.9
Others	10.4	11.8	11.7
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
NII	24,764	26,924	34,488	42,921
% growth	5.1%	8.7%	28.1%	24.5%
NIM %	3.2%	3.1%	3.4%	3.5%
C/I Ratio %	14.1%	11.8%	9.4%	7.8%
Operating Profit	22,157	26,354	34,577	43,722
% growth	5.5%	18.9%	31.2%	26.4%
Adjusted PAT	17,016	21,167	25,759	32,575
% growth	-0.9%	24.4%	21.7%	26.5%
ABVPS (INR /share)	75.1	81.4	89.7	99.6
P/ABV	4.3	4.0	3.6	3.3
RoA (%)	2.1%	2.4%	2.5%	2.6%
Leverage (x)	5.3	5.4	5.9	6.4
RoE (%)	11.4%	13.2%	14.8%	16.9%

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [4QFY24 Presentation](#)

Key Sections to Read in the Report

- Major lending verticals for HUDCO.
- Macro overview of social housing and urban infrastructure sectors.
- Importance of Navratna status and guidelines on infrastructure financiers.
- Asset quality details and our interaction with an insolvency resolution professional.

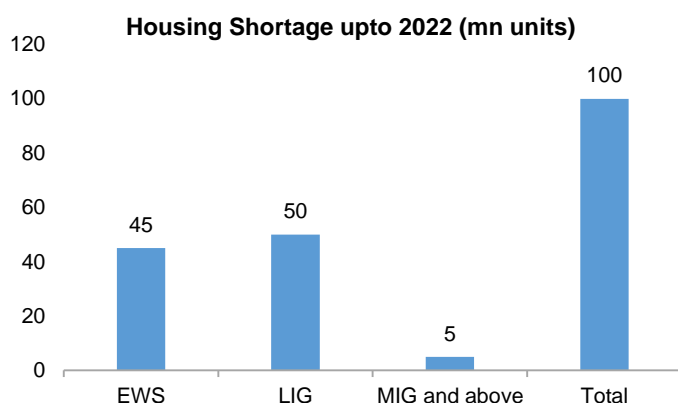
Please refer to the disclaimer towards the end of the document.

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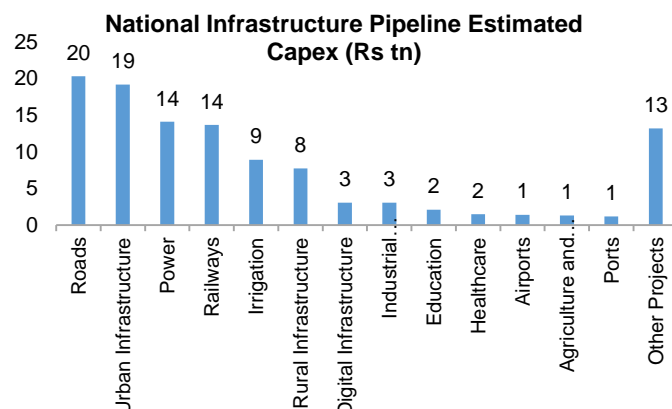
Investment Thesis in Charts

Exhibit 1: 96% of housing shortage is in EWS/LIG - segments to which HUDCO caters to



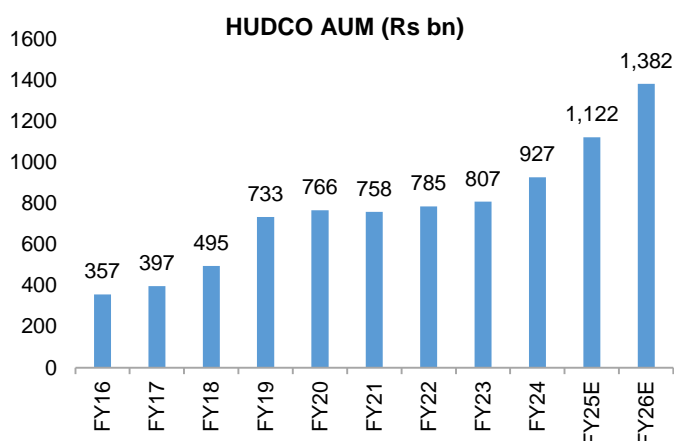
Source: RBI, Nirmal Bang Institutional Equities Research

Exhibit 2: Capex requirement for Urban Infrastructure estimated at Rs19.2tn over 2020-2025



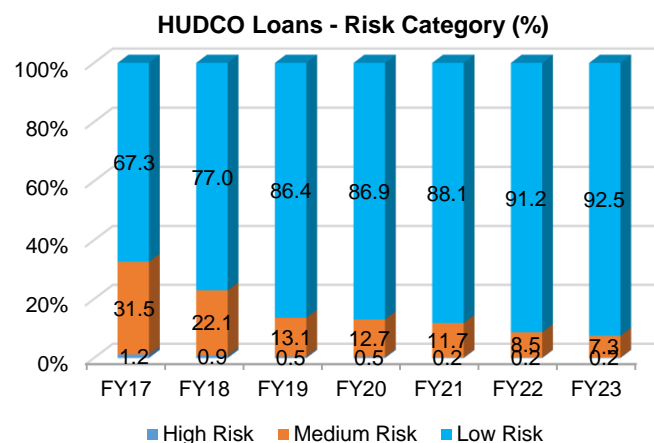
Source: NIP report, Nirmal Bang Institutional Equities Research

Exhibit 3: AUM to grow at a CAGR of 22.1% over FY24-FY26E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: With high exposure to government sector at 97.5%, proportion of low risk loans is high



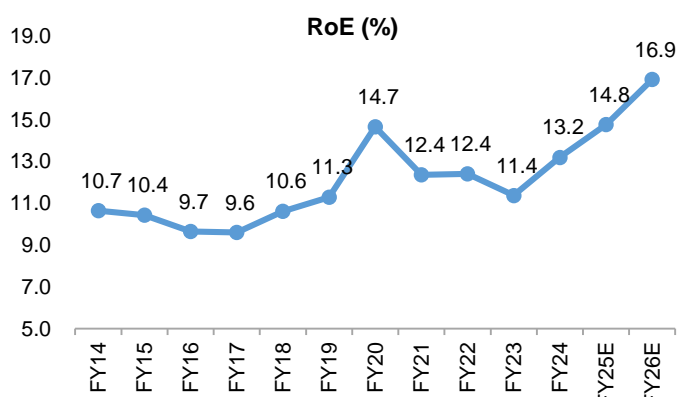
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: High CAR and lowest leverage vs. Peers

Company Name	CAR (%)	D/E (x)
HUDCO	57.7	4.1
PFC	25.4	5.1
REC	25.8	6.4
IREDA	20.1	5.8
IRFC	616.2	8.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: RoE to expand



Source: Company, Nirmal Bang Institutional Equities Research

Strategic position in government plans and high proportion of government lending

As a niche financier in the social housing and urban infrastructure space, HUDCO plays a key role in various government schemes such as s PMAY-Urban, PMAY-Rural, Smart City, AMRUT, HRIDAY, NULM, Swachh Bharat and Jal Jeevan Mission, through the appraisal and monitoring of projects in the related sectors. Through its role of appraising projects under various government schemes, HUDCO has built a strong relationship with state governments & their agencies, which gives it a better chance of providing loans to those entities, whether for projects under those schemes or otherwise.

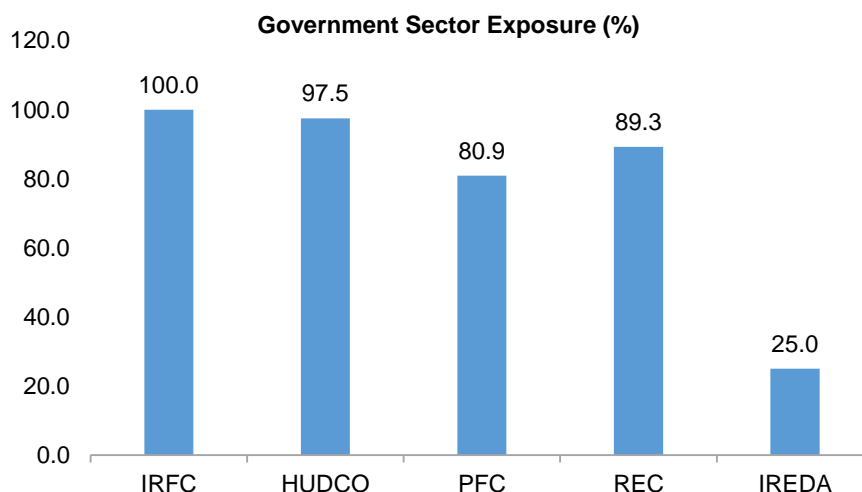
As at March 31, 2024, 97.5% of the company's total loan portfolio was to Central/State Govts and their agencies. Out of the Rs926.5bn loan book, Rs703.4bn was towards the state sector, of which 90% book is guaranteed by respective state governments. GOI-EBR loan exposure of Rs200bn pertains to projects that are completed and out of the remaining Rs23.1bn, private sector exposure (the company stopped financing private sector projects in 2013), ~Rs20bn is the legacy NPA book which is 100% provided for. In terms of segments, 53.3% of the loan book comprised social housing and the remaining 46.7% was towards urban infrastructure projects.

Exhibit 7: HUDCO's 97.5% loan exposure is towards State and Central Government Sector

Particulars	Amount (Rs bn)	Status
GOI exposure (EBR - PMAY-Urban)	200.0	Completed projects
State government / agencies	703.4	90% guaranteed by state governments
Private sector	23.1	Majority i.e ~Rs 20bn already in Stage 3 under various stages of resolution and is 100% provided for.
Total	926.5	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: HUDCO / Major NBFC-IFCs Government Sector Exposures (%)



Source: Company, Nirmal Bang Institutional Equities Research

Type of State Sector Entities Financed

A few examples of state sector entities that HUDCO finances include – water supply and sewerage boards, development authorities, state functional agencies for housing & development, new town development agencies, regional planning boards, improvement trusts, municipal corporations/ councils etc.

Major Lending Verticals for HUDCO

Segment	Sub Segment	Customers / Projects Financed
Housing Finance (53.3% of loan book)	Social housing	Lending to state governments and their agencies, who in turn extend the finance to or utilize the finance for the ultimate individual beneficiaries from EWS/LIG categories.
	Residential real estate	Lending to state governments and their agencies, who in turn extend the finance to or utilize the finance for the ultimate beneficiaries which include public/private borrowers for housing and commercial real estate projects (including land acquisition) catering primarily to the MIG and HIG categories. The state entities include state housing boards, rural housing boards, slum clearance boards, development authorities and municipal corporations.
	HUDCO Niwas	Provide financing directly to individuals (construction / purchase / renovation / refinancing of houses/flats. Includes purchase of plots from public agencies/CHS of government employees); bulk loans to state governments and their agencies and PSUs for on-lending to their employees; and to other HFCs for on-lending to the general public.
Urban Infrastructure (46.7% of loan book)	Water supply	Water related projects to un-serviced areas, rehabilitation projects and augmentation of existing supply and quality.
	Roads and transport	Financing roads (ring roads, multi modal corridors, industrial corridors, expressways), bridges, ports, airports, railways, metro, upgrades of state highways and purchase of buses.
	Power	Financing of power generation (hydro, thermal, wind, solar and bio mass based), transmission and distribution systems.
	Emerging sector	Financing of SEZs, industrial infrastructure, gas pipelines, oil terminals and telecom sector projects.
	Commercial infrastructure and others	Financing shopping centres, market complexes, malls-cum-multiplexes, hotels, IT parks, state quarters and office buildings.
	Social infrastructure and area development	Financing of health, education and infrastructure projects (such as hospital, health centres, schools and other educational institutions, community centres and parks), integrated area development schemes (such as the development of new towns, urban extensions and growth centres) and basic sanitation projects.
	Sewerage and drainage	Financing new schemes and augmentation and rehabilitation projects relating to sewerage, drainage and solid waste management.

Source: Company, Nirmal Bang Institutional Equities Research

Indicative List of Projects Financed by HUDCO



Andhra Pradesh Township And Infrastructure Development Corporation-Tenali



Construction/ Infrastructure Development of Kohima College, Kohima, Nagaland



Construction of Milenium Centre at Aizawl, Mizoram



LIG Housing Unit at Mara Autonomous District Council, Mizoram



LIG Housing Unit at Chakma Autonomous District Council, Mizoram



Sabarmati Riverfront at Ahmedabad



450 MW Baghlihar Hydro Electric Power Project, Chanderkot, District Ramban



Construction of Police staff quarters at Madhuban



Water supply and sewerage project in Rajpura Punjab



Construction of Commercial cum parking complex at Almora



Construction of Residential project at Haridwar



Construction of Commercial cum parking complex at Gopeshwar

Source: Company, Nirmal Bang Institutional Equities Research



*Financial Assistance under PMAY (Urban), Chhattisgarh
by State Urban Development Agency (SUDA)*



Road restoration and repair works Udaipur, Rajasthan.



Kochi Metro Project, Kerala



Water Treatment Plant at Chengannur Municipality, Kerala



Panna Dhai Park, Goverdhan Sagar, AMRUT Scheme, Udaipur, Rajasthan

Source: Company, Nirmal Bang Institutional Equities Research

Segmental Breakup of Sanctions, Disbursements and Loan Book

In social housing, majority of HUDCO's funding is towards projects catering to the Economically Weaker Section (EWS) and Low-Income Group (LIG) segments.

Exhibit 9: Schemes, Projects and Dwelling Units Funded by HUDCO

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
No. of Schemes Sanctioned	140	134	162	202	178	116	77	50	43	44	41
Dwelling Units											
Total (Nos)	4,39,286	14,34,102	4,84,128	4,57,879	2,71,498	15,48,602	20,68,151	3,07,277	12488	88523	349308
% of EWS & LIG	96.8	98.5	83.0	93.7	96.0	99.9	94.4	99.9	59.0	99.7	99.9
Urban Infrastructure Projects (Nos)	76	72	121	170	149	92	55	40	32	32	36

Source: Company, Nirmal Bang Institutional Equities Research

The proportion of urban infrastructure loans, which was high at ~68% in FY18, is now at 46.7% of loan book. This is because during FY19, HUDCO had raised Rs200bn as Extra Budgetary Resources (EBR) for PMAY-Urban under Ministry of Housing and Urban Affairs (MoHUA). These bonds are fully serviced by Government of India (GOI). This amount was provided to Building Materials and Technology Promotion Council (BMTPC) for disbursing as central assistance to State/UTs/CNAs for PMAY-U programme.

Exhibit 10: Loans Sanctioned by HUDCO

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Housing	184810.0	68390.0	155830.0	271230.0	37902.6	9159.0	17467.9	34534.2	38990.0
Urban Infrastructure	119840.0	242910.0	228790.0	71960.0	161237.0	82652.7	189038.2	211061.9	784880.0
HUDCO Niwas	3090.0	7320.0	1860.0	1330.0	275.6	206.1	125.9	123.7	-
Loan Sanctioned	307740.0	318620.0	386480.0	344520.0	199415.2	92017.8	206632.0	245719.8	823870.0
% Change YoY	45.9	3.5	21.3	-10.9	-42.1	-53.9	124.6	18.9	235.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Loans Disbursed by HUDCO

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Social Housing	21576.3	18467.0	44847.3	270235.9	47630.9	36000.0	11535.4	17500.0	-
Residential Real Estate	6670.2	4465.6	3046.6	3636.7	2204.7	878.5	1160.0	794.5	-
Housing	28246.5	22932.6	47893.9	273872.6	49835.6	36878.9	12695.4	18294.5	23660.0
Water Supply & sewerage, drainage	24303.6	23504.0	14572.9	12569.5	16062.9	11698.7	46646.4	2450.4	-
Road and Transport	11057.4	19927.1	84621.8	17214.3	24525.5	22365.6	27524.4	35207.2	-
Power	4071.8	9619.1	12413.8	2500.0	7500.0	10000.0	0.0	0.0	-
Emerging Sector & commercial Infra	9581.4	7111.4	2460.7	512.4	3136.1	2163.6	1889.2	28621.5	-
Social Infra and Others	2139.8	3695.3	3411.1	3144.3	0.0	0.0	14.0	0.0	-
Urban Infrastructure	51154.0	63856.9	117480.3	35940.5	51224.5	46227.9	76074.0	66279.1	156210.0
HUDCO Niwas	3080.4	4161.8	274.3	272.9	158.2	126.9	95.9	85.5	-
Disbursements	82480.9	90951.3	165648.5	310086.0	101218.3	83233.7	88865.3	84659.1	179870.0
% Change YoY	1.8	10.3	82.1	87.2	-67.4	-17.8	6.8	-4.7	112.5
% to Sanctions	26.8	28.5	42.9	90.0	50.8	90.5	43.0	34.5	21.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Outstanding Loan Book of HUDCO

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Housing	110764.1	121353.2	154584.4	410765.0	439729.1	458272.2	445211.2	435216.0	493650.0
% YoY		9.6	27.4	165.7	7.1	4.2	-2.9	-2.2	0.1
% to total	31.1	30.6	31.2	56.0	57.4	60.5	56.7	53.9	53.3
Urban Infrastructure	239690.0	269318.4	335055.0	317062.9	322864.2	296790.6	337352.1	369820.0	432890.0
% YoY		12.4	24.4	-5.4	1.8	-8.1	13.7	9.6	0.2
% to total	67.2	67.9	67.6	43.2	42.2	39.2	43.0	45.8	46.7
HUDCO Niwas	6195.3	5938.1	5663.3	5427.0	3061.1	2803.1	2566.5	2397.2	-
% YoY		-4.2	-4.6	-4.2	-43.6	-8.4	-8.4	-6.6	-
% to total	1.7	1.5	1.1	0.7	0.4	0.4	0.3	0.3	-
Gross Loans	356649.4	396609.7	495302.7	733254.9	765654.4	757865.9	785129.8	807433.2	926540.0
Provisions	18598.8	24415.9	24263.9	23617.8	22975.2	14947.0	15230.6	15063.5	12889.5
Loans	338050.6	372193.8	471038.8	709637.1	742679.2	742918.9	769899.2	792369.7	913650.5
% YoY	8.9	10.1	26.6	50.7	4.7	0.0	3.6	2.9	15.3

Source: Company, Nirmal Bang Institutional Equities Research

Strong Participation in PMAY and other Major Government Schemes / Infrastructure Projects

Under PMAY-Urban, HUDCO has been nominated as a Central Nodal Agency (CNA), along with NHB & SBI, to channelize the subsidy to the beneficiaries through banks and HFCs, monitor the progress of the scheme and furnish utilization certificates to the MoHUA under the vertical of CLSS. Over here, as a CNA, it has executed MoU with 91 banks/primary lending institutions for EWS/LIG and 87 banks/PLIs for MIG-I and MIG-II categories.

Exhibit 13: PMAY-U CLSS Subsidy Disbursed by HUDCO till FY23

Category	Subsidy Disbursed by HUDCO (Rs bn)	Beneficiaries of Subsidy (No.s)
EWS / LIG	23.0	95,887
MIG	3.4	16,068
Total	26.4	111,955

Source: HUDCO annual report, Nirmal Bang Institutional Equities

In respect of the other three verticals of PMAY-Urban, the MoHUA has entrusted HUDCO to undertake desk and site scrutiny in respect of the three verticals viz - In-situ Slum Redevelopment (ISSR), Affordable Housing in Partnership (AHP) and Beneficiary Led Construction (New/Enhancement). Cumulatively up to March 31, 2023, HUDCO had carried out site and/or desk scrutiny of 595 projects for 1.2mn DUs with project cost of Rs579.5bn & GoI assistance of Rs182.7bn, covering 62 AHP projects, 511 BLC (New Construction/Enhancement) and 22 ISSR projects (inclusive of 1 ISSR – AHP project) at 431 towns/cities under 34 States/UTs.

Exhibit 14: Allocation of Major Schemes of GOI in which HUDCO has actively participated

In Mn	Actuals 2016-17	Actuals 2017-18	Actuals 2018-19	Actual 2019-20	Actual 2020-21	Actual 2021-22	Revised 2022-23	Budgeted 2023-24	Revised 2023-24	Budgeted 2024-25
Pradhan Mantri Awas Yojana	271220.0	311640.0	254430.0	249640.0	402600.0	900200.0	771300.0	795900.0	541030.0	806710.0
AMRUT and Smart Cities Mission	92770.0	94630.0	120850.0	95990.0	97540.0	138680.0	153000.0	160000.0	NA	NA
Swachh Bharat Mission	126190.0	194270.0	153740.0	94690.0	70000.0	50500.0	70000.0	121920.0	95500.0	121920.0
Jal Jeewan Mission	NA	70380.0	54840.0	100300.0	109980.0	631260.0	550000.0	700000.0	700000.0	701630.0
National Livelihood Mission - Aajeevika	31580.0	49260.0	62820.0	97550.0	100250.0	101770.0	138860.0	141290.0	146520.0	150470.0

Source: <https://prindia.org/budgets/parliament>, Nirmal Bang Institutional Equities Research

RBI report has estimated housing shortage of 100mn till 2022

The housing shortage in India has only increased since the initial estimates of the 12th 5-year plan (2012-2017), when the erstwhile Ministry of Housing and Urban Poverty Alleviation (MUHPA)'s (now re-united with Ministry of Urban Development to form Ministry of Housing and Urban Affairs) technical group report had estimated the urban housing shortage at ~19mn units and the Ministry of Rural Development (MoRD) had estimated rural housing shortage at 44mn during the same period.

As per the report of the RBI-appointed Committee on the development of housing finance securitization market (September 2019), the housing shortage in India is estimated to increase to 100mn units by 2022. A large part of this shortfall is in the social housing space, to which HUDCO caters to, as it is estimated that ~96% of the shortfall of 100mn dwellings is in the EWS and LIG segments. Assuming that the housing shortage will have increased since then, it indicates the immense latent potential of the market in case a further concrete action is taken for addressing the housing shortage in India.

Exhibit 15: Housing Shortage and Requirement till 2022 (as per 2019 RBI report)

Segment	Housing Shortage till 2022 (mn)	Proportion (%)	Construction Costs (Rs tn)	Value of Units (Rs tn)
EWS	45	45.0	36.0	33.8
LIG	50	50.0	62.5	100.0
MIG and above	5	5.0	15.0	40.0
Total	100		113.5	173.8

Source: RBI, Nirmal Bang Institutional Equities

Exhibit 16: GOI's Completion Rate of PMAY Projects

Particulars (mn)	PMAY (Rural)	PMAY (Urban)	Total
Ministry Target	29.5	11.8	41.3
Sanctioned	29.5	11.9	41.4
Completed	26.1	8.3	34.4
% Completed vs. initial target	88.5	70.5	83.3
Funds Transferred (Rs bn)	3306.0	1639.3	4945.3

Source: PMAY-R and PMAY-U websites, Nirmal Bang Institutional Equities Research

As per the interim budget 2024, under PMAY-Grameen, construction of 20mn+ houses will be taken up in next five years. In the same budget, the government also announced a housing scheme for the middle class living in rented houses, or slums, or chawls and unauthorized colonies to buy or build their own houses. Further, post elections in the cabinet meeting PM Modi approved government assistance for construction of 30mn houses of which 20mn will be under PMAY-Grameen and 10mn will be under PMAY-Urban. This indicates huge opportunity for HUDCO to finance social housing projects.

Increasing Urbanization to Support Investment in Urban Infrastructure

HUDCO's growth prospects in the urban infrastructure segment are crucially linked to the urbanization trend in the country. As per the World Bank's 2022 report, India's urban population is estimated to increase from 470mn to 600mn by 2036, which will be an urbanization level of 40% (up from 31.2% in 2011). The same report also estimated that India's cities require a capital investment of US\$840bn in urban infrastructure and municipal services till 2036, as per 2020 prices.

As per a 2019 National Infrastructure Pipeline (NIP) report, total capex requirement in the infrastructure sectors in India during FY20-FY25 is projected at ~Rs 111tn, including Rs19.2tn for urban infrastructure projects (NIP is now subsumed into PM Gati Shakti initiative). Thus, with continuous rise in the urbanization levels and the commensurate increase in capital investment requirement, HUDCO's potential for quantum jump in business operations augurs well, particularly in view of its impending operational transition from a HFC to NBFC-IFC (Infrastructure Finance Company) under the new RBI regulatory regime.

Exhibit 17: Estimated Capex as per National Infrastructure Pipeline

Sector	Amount (Rs tn)
Power	14.1
Roads	20.3
Railways	13.7
Ports	1.2
Airports	1.4
Urban Infrastructure	19.2
Digital Infrastructure	3.1
Irrigation	8.9
Rural Infrastructure	7.7
Agriculture and food processing	1.3
Education	2.1
Healthcare	1.5
Industrial Infrastructure	3.1
Other Projects	13.2
Total	111.0

Source: NIP 2019 report, Nirmal Bang Institutional Equities

NIP was launched with 6,835 projects and as per details of projects updated on www.indiainvestmentgrid.gov.in, it has expanded to capture 9,800 projects during 2020-2025 with a total outlay of US\$1,844.4bn (Rs154tn).

Strong Pan-India Presence

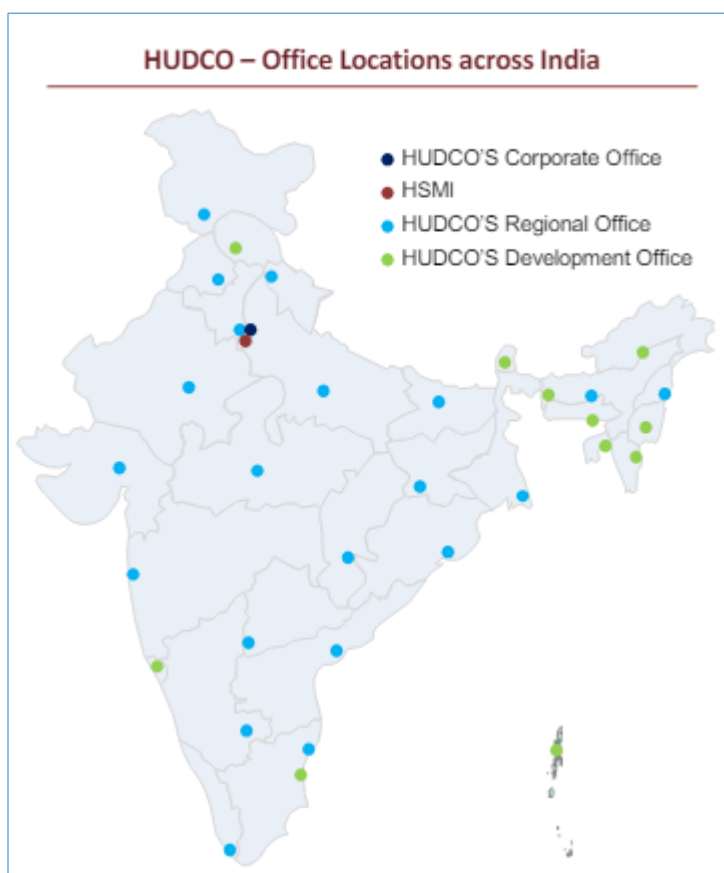
In addition to its registered & corporate office and research & training wing in New Delhi, HUDCO has 21 regional offices and 11 development offices, giving it a presence in the capital city of each state [except for Gujarat and Nagaland, where it has an office in Ahmedabad and Dimapur (Kohima), respectively], the major cities of three Union Territories and in other cities in two states.

Its regional offices are responsible for developing business and are able to sanction loans up to a certain limit. Its development offices are also responsible for developing business, but they are not permitted to sanction loans. HUDCO's strong pan-India presence has enabled it to develop strong relationships with State Governments & their agencies.

Its 21 regional offices are located in the following cities: Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi (NCR), Dehradun, Dimapur, Guwahati, Hyderabad, Jaipur, Jammu, Kolkata, Lucknow, Mumbai, Patna, Raipur, Ranchi, Thiruvananthapuram and Vijaywada.

The company's 11 development offices are located in the following cities: Agartala, Aizwal, Gangtok, Goa, Imphal, Itanagar, Kokrajhar, Puducherry, Port Blair, Shillong and Shimla.

Exhibit 18: HUDCO Office Locations in India

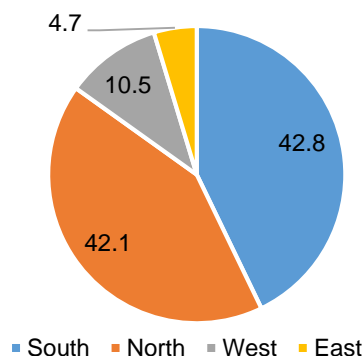


Source: Company, Nirmal Bang Institutional Equities Research

The total human resource strength of HUDCO is 621, with 530 employees at the executive level. HUDCO has a multi-disciplinary talent pool of professionals from Projects, Finance, Law, Information Technology, Human Resources, Public Relations, etc.

Traditionally, HUDCO's business has been dominated by South India, but over a period of time, it has been diversifying itself geographically.

Exhibit 19: Geographic Mix of Loan Book



Source: Company, Nirmal Bang Institutional Equities Research

The company plans to expand operations in Maharashtra, Gujarat and other states with relatively better financial health. In this direction, it has recently signed MoUs with [SITCO](#) (for financing construction and development of Surat Multi Modal Transportation), [Maharashtra State Electricity Distribution Company](#) (for financing up to Rs50bn under PM-Kusum scheme) and [State government of Gujarat](#) (investment up to Rs145bn for financing housing and urban infrastructure projects).

Exhibit 20: State Fiscal Deficit to GDP (%)

State/UT	FY23 RE	FY24 RE
Andhra Pradesh	3.6	4.3
Karnataka	2.7	2.3
Kerala	3.5	3.5
Tamil Nadu	3.2	3.0
Telangana	3.8	3.4
Puducherry	0.0	-
Goa*	5.1	5.1
South Average	3.1	3.1
Haryana	3.3	2.9
Himachal Pradesh	6.4	5.5
Punjab	4.9	4.3
Uttar Pradesh	3.6	3.2
Uttarakhand	2.7	1.9
Jammu and Kashmir	3.1	2.6
NCT Delhi	0.4	0.7
Rajasthan	4.3	4.5
North Average	3.6	3.2
Gujarat	1.5	1.7
Maharashtra	2.7	2.9
Chhattisgarh	3.2	5.8
Madhya Pradesh	3.6	3.5
West Average	2.8	3.5
West Bengal	4.0	3.0
Arunachal Pradesh*	3.1	3.1
Assam	8.1	2.8
Bihar	9.2	8.9
Jharkhand	2.2	2.7
Manipur	6.4	4.9
Meghalaya	4.4	6.3
Mizoram	7.0	4.7
Nagaland	6.3	6.1
Odisha	2.8	1.7
Sikkim*	4.4	4.4
Tripura	4.0	4.0
East and North East Average	5.2	4.4
All States and UTs	3.4	3.7

Source: GOI, Nirmal Bang Institutional Equities Research

*As the FY24 revised estimates are not released yet, we have assumed the figure to be same as FY23 RE.

Process and Policies from Loan Origination to Collections

Loan Originations: HUDCO's 21 regional offices and 11 development offices are responsible for business development. They also assess the varied needs and preferences of different market segments in the state/central government sector and provide suggestions to the corporate office for sanctioning of loans and development of new financial products.

Loan Sanction / Rejection: The loan sanction or rejection process primarily begins by the receipt and scrutiny of a loan application at one of the regional offices. HUDCO has a common loan application form for all its loans (except HUDCO Niwas). The application is appraised by a duly constituted appraisal team comprising three members: one member with project assessment skills; one member with finance skills and one lawyer (preferably from the concerned regional office).

If the amount of the loan applied for exceeds the amount that may be sanctioned at the regional office level, the application will be examined by HUDCO's Project Appraisal Committee-I for loans requiring sanction at the ED level or its Project Approval Committee-II for loans requiring sanction by either the Chairman & Managing Director or the Board. If required, the appraisal team/relevant Project Appraisal Committee will send consolidated comments on the applicant's application, seeking further information or documents required to complete the appraisal. As part of the loan application review process, the company also undertakes other actions, depending on the type of applicant and type of loan such as title verification checks on the collateral offered by the applicant to verify its quality and enforceability. If the value of the collateral exceeds a certain amount, depending upon the value of the collateral, the company appoints one or two independent valuers to value the collateral. The appraisal team/relevant Project Appraisal Committee then prepares an appraisal report in the prescribed format. If they recommend its approval, a sanction note is prepared in the prescribed format, along with any issues they think the competent authority should consider before approving the loan.

The sanctioning powers vest with different levels of authorities at regional offices and the corporate office. Once the proposal is approved by the competent authority, a sanction letter is issued by the concerned regional office.

If a borrower has gone for some market borrowing then it will have an external rating, which HUDCO refers to while giving sanctions in order to give them discount in interest rate.

Disbursements Linked to Stage of Project

The disbursements are made after completion of all required documentation, including, if applicable, the creation of the security interest by the relevant regional office. Disbursements for loans to finance projects are based on verification of the construction progress of the project and review of completion certificates or other documents provided by the borrower.

Infrastructure projects, which the company funds usually, have a gestation period of 2-3 years and the disbursements are linked to progress in a particular project. 25% of the sanctioned amount can be disbursed in the same financial year once the documentation is over. The documentation process can take 3-6 months because of various approvals required at state level, state government guarantee on these loans and the company's insistence for provision in state government budgets for repayment of debt obligations. The balance 75% amount is disbursed based on achievement of respective milestones in the project.

Monitoring and Default Resolution: HUDCO's Default Monitoring and Resolution Committee conducts periodical monitoring and review of loan defaults on the basis of information given to it by the recovery cells at its corporate office and the minutes of the default review committees at the regional offices. The committee also reviews the default resolution packages/one-time settlement (OTS) packages received from regional offices & agencies and considers requests by and recommendations of regional offices regarding waiver/relaxation of dues. The committee then makes recommendations to the Board regarding what actions the latter should approve.

In case of default, where recoveries become difficult, the company has systems & processes in place for invoking the securities given for loans for the recovery of dues.

Exhibit 21: HUDCO LTV, Security Cover and Security/Collateral Attached

Particulars	Housing Finance	Urban Infrastructure
Loan to Value (LTV)		
State governments and public sector agencies	90% of project cost	90% of project cost
Private sector	-	-
Housing finance	70%	-
Power and transport projects	-	90%
All other projects	-	70%
Individuals		
Property with market value of <Rs 3mn	90%	-
Property with market value of Rs 3-7.5mn	80%	-
Property with market value of >Rs 7.5mn	75%	-
Security Coverage		
	125%-150% of the loan outstanding	At least 125% of the loan outstanding
Security		
State governments and public sector agencies	Government guarantee, bank guarantee, mortgage	Government guarantee, bank guarantee, mortgage
Private sector	Mortgage of the project property, escrow of the receivables and hypothecation of the assets	Mortgage of the project property, escrow of the receivables, bank guarantee and hypothecation of the assets
Tenor		
Social housing	15 years	-
Residential real estate	15 years	-
HUDCO Niwas	25 years	-
Urban Infrastructure	-	Up to 5-15 years

Source: Company, Nirmal Bang Institutional Equities Research

Conferred the Navratna Status in April 2024

In April 2024, HUDCO was conferred the Navratna status, which so far has been accorded to 20 out of 256 operational PSUs. While in the long term, the company has plans for upgradation to the Maharatna status in the next 5-7 years, at present, it is focused on reaping the benefits of the Navratna status, which brings in more powers and financial autonomy compared to its former status of a Category-I Miniratna CPSE.

Exhibit 22: Description of Maharatna, Navratna and Miniratna Status of CPSEs

Category		Description
Maharatna	Purpose	Maharatna's plan, which was launched in 2010, has its principal goal to empower big CPSEs to expand their operations locally/globally and become worldwide giants.
	Eligibility	<ul style="list-style-type: none"> Having Navratna status. Networth of > Rs 150bn for previous 3 years. Average annual turnover of > Rs 250bn in past 3 years. Average annual PAT of > Rs 50bn in last 3 years. Stock exchange listed with min. public shareholding of 10%. Having strong worldwide presence and international activities.
	Powers	<ul style="list-style-type: none"> As compared to other CPSE's, Maharatna's are granted more autonomy in capital spending, strategic partnership creation and HR policy design. Can make equity investments in JVs and wholly owned subsidiaries, as well as M&As in India and overseas, subject to a cap of 15% of the CPSE's network and max. of Rs 50bn in a single project.
Navratna	Purpose	Launched in 1997, the Navaratna status gives the CPSE more financial autonomy, allowing it to invest up to 10bn in a single project without seeking clearance from the national government.
	Eligibility	<ul style="list-style-type: none"> Should have Miniratna Category-1 status and must be included in Schedule 'A' CPSEs. Must have received an 'excellent' or very good rating under the MoU system in 3 of the previous 5 years. Must have a composite score of 60 or above based on following parameters: PBDIT, manpower cost, cost of services, capital employed, network and net profit.
	Powers	<ul style="list-style-type: none"> Can invest upto Rs 10bn without seeking explicit government permission. They can invest upto 15% of net worth in a single project or 30% of their network over a year, but not more than Rs 10bn. These businesses have a competitive edge globally because they have more autonomy.
Miniratna	Purpose	Introduced in 1997, under this scheme, the GOI decided to grant further financial powers to certain CPSEs that generate reasonable profits.
	Sub-categories	<ul style="list-style-type: none"> Category 1 Miniratna CPSE – Must have made a profit of Rs 300mn or more in one of the past 3 years and should have positive network. Category 2 Miniratna CPSE – Should have made profits in 3 consecutive years and should have positive network.
	Powers	<ul style="list-style-type: none"> Category 1 Miniratna CPSE- Financial autonomy of upto Rs 5bn or equal to their network whichever is lower. Category 2 Miniratna CPSE – Financial autonomy of upto Rs 3bn or upto 50% of their network whichever is lower.

Source: GOI, Nirmal Bang Institutional Equities Research

Conversion to NBFC-IFC in Process

The Government of India (GOI) through its notification dated August 9, 2019 had made the RBI the regulator for HFCs and the supervision part continued to remain with the NHB.

As per the RBI notification dated 22nd October, 2020, on the regulatory framework for HFCs, the definition of HFCs has undergone a change. As per a condition in the notification, out of the total assets of an HFC, not less than 50% should be by way of housing finance for individuals. As HUDCO does not fulfill the said criteria, it has applied to the RBI on March 29, 2022 for conversion from a HFC to Non-Banking Financial Company – Infrastructure Finance Company (NBFC-IFC). The RBI's approval on the said matter is awaited, till then, HUDCO would retain its status as an HFC.

As per the scale-based regulations by the RBI effective from October 1, 2022, the RBI has decided not to subject government-based NBFCs like HUDCO (which are still in a transition period) to the upper layer regulatory framework. Hence, the guidelines applicable for the Middle Layer (ML) NBFCs shall be applicable to the company.

The NBFC-IFC status will be beneficial for HUDCO in two ways: (1) Make it the only multi sector infrastructure lending NBFC, which will enable it to get benefits of government schemes in the areas of affordable housing, water supply and sewerage, road transport, social infrastructure etc. (2) Enhance the single / group exposures upwards from 15% / 25% of net owned funds, to that of exposures applicable for middle layer NBFCs, as mentioned in the table below.

Exhibit 23: Regulatory Norms for different Regulated Entities in Infrastructure Lending

Parameter	NBFC-IFC	Banks	NBFC-IDF
Sectoral Exposure	Min. 75% of total assets towards infrastructure lending.	Diversified exposure with board approved sectoral limits.	ND-NBFC (1) Refinances post COD infrastructure projects that have completed atleast 1 year of satisfactory commercial operations. (2) Finances toll operate transfer projects as direct lender.
Min. Net Owned funds	Rs 3bn.	Rs 10bn.	Rs 3bn.
CRAR (%)	Min. CRAR of 15% with Tier-1 capital not being less than 10%.	Min. CRAR of 11.5% including CCB and min. CET-1 of 8%.	Min. CRAR of 15% with Tier-1 capital not being less than 10%.
Leverage (x)	N.A	Min. leverage ratio at 4% for DSIBs and 3.5% for other banks. Leverage ratio = capital measure / exposure measure * 100.	N.A
Min. credit rating	'A' or equivalent.	N.A	N.A
LCR (%)	LCR of 50% w.e.f December 1, 2020 progressively reaching upto 100% by December 1, 2024. At present the requirement is 85% w.e.f December 1, 2023.	LCR of 100% w.e.f January 1, 2019.	N.A
Single exposure limits	30% of tier-1 capital for middle layer NBFCs. 25% for upper layer NBFCs with additional 5% with board approval.	15% of the banks capital funds. 5% additional allowed if its towards infrastructure projects.	30% of Tier-1 capital.
Group borrower limit	50% of tier-1 capital for middle layer NBFCs. 35% for upper layer NBFCs.	40% of capital funds of the bank. 10% additional allowed on infrastructure projects.	50% of Tier-1 capital.
Borrowing routes	Non deposit taking, wholesale funding which includes INR/USD bonds, bank lines, ECBs, CPs etc.	Deposits form major part of liabilities. Keeping in view of ALM, banks have been raising infrastructure bonds to finance infrastructure projects.	Non deposit taking, wholesale funding which includes INR/USD bonds, bank lines, ECBs, CPs etc.

Source: RBI, Nirmal Bang Institutional Equities Research

Competitive Landscape

HUDCO is an NBFC with no listed comparable. However, major PSU NBFC-IFCs like PFC, REC, IRFC and IREDA would likely serve as proxies given the nature of their business being wholesale funded and into wholesale segment lending. Besides these NBFCs, banks (especially PSBs), are mainly active in housing and urban infrastructure projects which are self-sustainable and backed by cash flows. However, unlike banks which are not allowed to fund land acquisition, HUDCO is the only financial institution extending funding for the same.

Exhibit 24: HUDCO and Major NBFC-IFCs Comparison Based on Size

Particulars (Rs Bn)	FY24				
	HUDCO	PFC	REC	IRFC	IREDA
AUM	926.5	4,814.6	5,093.7	4,646.4	597.0
Networth	166.1	792.0	687.8	491.8	85.6
NII	26.9	156.3	164.6	65.4	16.6
PPOP	26.4	173.5	165.9	64.1	16.0
PAT	21.2	143.7	140.2	64.1	12.5

Source: Company, Nirmal Bang Institutional Equities

Exhibit 25: Description of HUDCO and Major NBFC-IFCs

Particulars	PFC	REC	IRFC	IREDA	HUDCO
Promoter	President of India (acting through MoP)	PFC	President of India (acting through MoR)	President of India (through secretary MNRE)	President of India (54.27% through MoHUA, 20.73% through MoRD)
Promoter Stake (%)	56.0	52.6	86.4	75.0	75.0
CPSE Classification	Schedule-A Maharatna CPSE	Schedule-A Maharatna CPSE	Schedule A Mini Ratna (Category-I) CPSE	Schedule A Navatna CPSE	Schedule A Navatna CPSE
Administrative Control	Ministry of Power (MoP)	Ministry of Power (MoP)	Ministry of Railways (MoR)	Ministry of New and Renewable Energy (MNRE)	Ministry of Housing and Urban Affairs (MoHUA)
Nodal Agency / Primary Objective	Integrated Power Development Scheme, Ultra Mega Power Projects and Bid Process Coordinator for Independent Transmission Projects	In past had been nodal agency for GOI's SAUBHAGAYA, DDUGJY and NEF schemes. Is nodal agency for certain states for Revamped Distribution Sector Scheme (RDSS).	Dedicated financing arm of Indian Railways	For several prominent MNRE schemes	Played key role in various programmes related to Housing and Urban Infrastructure Sectors. Nominated as a Central Nodal Agency (CNA) along with SBI and NHB under PMAY-U's CLSS vertical. Also associated with other 3 verticals of PMAY-U.
Companies Act	Public Financial Institution u/s 4A of the Companies Act, 1956 (now defined in Section 2(72) of the Companies Act, 2013)				
RBI Classification	SI-ND-NBFC-IFC	SI-ND-NBFC-IFC	SI-ND-NBFC-IFC	SI-ND-NBFC-IFC	HFC (Appl. For NBFC-IFC under process)

Source: Company Websites, Nirmal Bang Institutional Equities

HUDCO's increasing focus on bankable projects

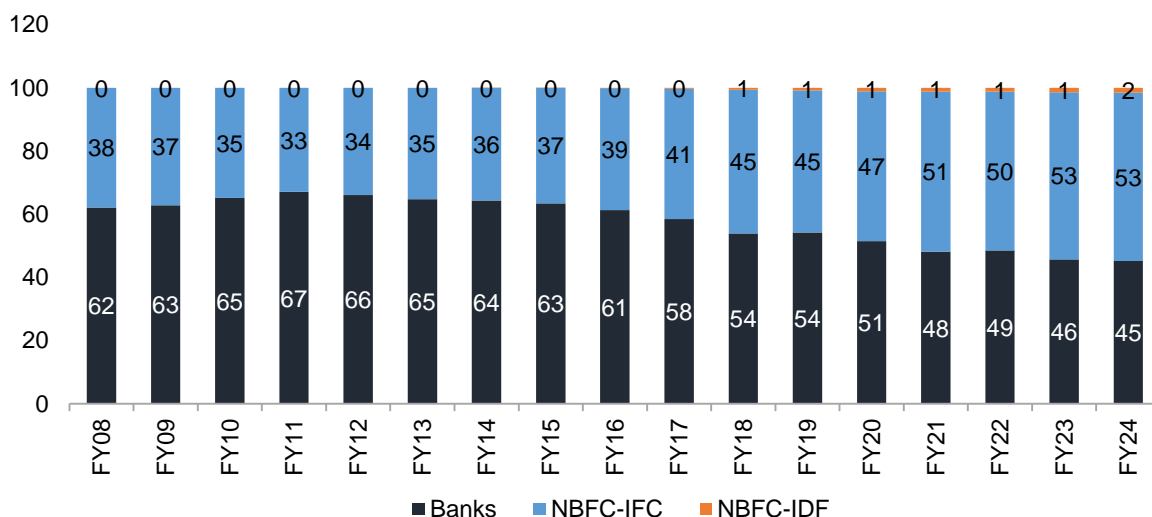
In case of government projects which don't have adequate cash flows but are backed by state government guarantees/budgetary provisions, HUDCO faces lower competition. Lately, the company is getting into funding of bankable projects where the cashflows are assured and there is a regulatory framework in place. In the short term, it is lending only to state sector entities. In the medium term, plans are being firmed up for funding the private sector entities where there are assured cash flows and regulations are well defined. The PPP model will also be explored, where in case of roads for example, there will be repayments assured by NHAI and in case of smart metering, there is some assurance of cash flows by Discoms. Besides this, the company will also work with transport corporations which have good profits and so the cash flow will be responsible for return.

Scope to Improve Market Share in Infrastructure Financing Space

HUDCO has been a strong player in social housing and urban infrastructure space. In FY18, the share of urban infrastructure was ~68% of the loan book. However, GOI-EBR loans of Rs200bn done in FY19 has led to an increase in the proportion of social housing at 53.3% in its loan book. Going forward, the company plans to increase lending to urban infrastructure segment, which has 25-50bps better yields compared to the social housing segment.

HUDCO's market share in infrastructure financing space stood at 3% in FY24. With banks' increased risk aversion towards corporate and infrastructure lending, the share of the same has fallen from a peak of 67% in FY11 to 45% in FY24. During the same period, the share of NBFC-IFCs (incl. HUDCO) has increased from 33% in FY11 to 53% in FY24.

Exhibit 26: Rising Share of HUDCO and NBFC-IFCs in Infrastructure Lending Sector



Source: RBI, Company, Nirmal Bang Institutional Equities

In our view, NBFC-IFCs and HUDCO will continue to grow faster and their share in infrastructure lending will continue to increase due to the following two reasons:

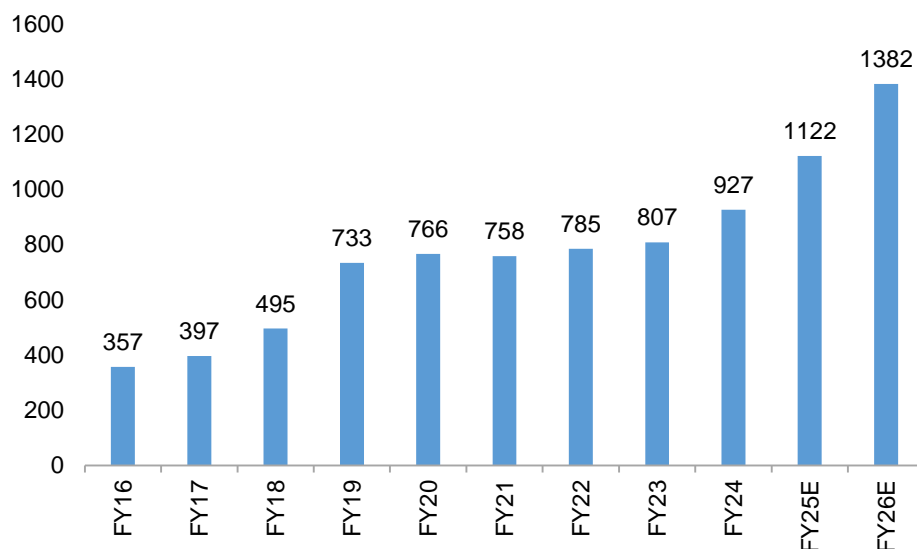
- (1) With constrained C/D ratios and necessity of ALM management compared to IFCs, banks have limited ability to lend against longer tenure infrastructure projects.
- (2) As banks are following IGAAP, the project lending norms (when implemented by the RBI), will increase their provisioning requirements, thereby impacting their profitability and ultimately leading them to go slow on project lending. This will be beneficial for HUDCO and NBFC-IFCs because as per IND-AS, the difference between IRAC norms and IND-AS provisioning goes in impairment reserve, which is deducted from Tier-1 capital. Thus, there is no P&L impact. All these NBFCs are well capitalized as they have adequate cushion to absorb the impact.

Aspiring for AUM of Rs3tn by FY30

As of March 31, 2024, HUDCO had outstanding sanctions of Rs820bn, which will be converted into disbursements in the next 2-3 years. The moratorium period in these projects is 6 months to 3 years. It expects to disburse Rs320-350bn from outstanding sanctions in FY25 and Rs400-450bn in FY26. The repayments will be Rs80bn each in FY25 and FY26. The company plans to have Rs1.5tn AUM by FY26 and Rs3tn by FY30.

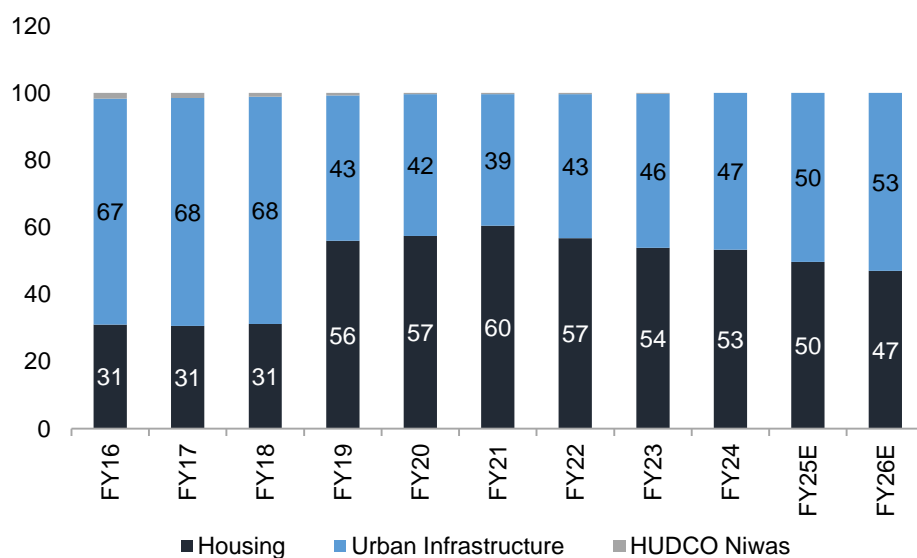
As per our conservative estimates, we have estimated that HUDCO's loan book will clock a CAGR of 22.1% over FY24-FY26E from Rs926.5bn in FY24 to Rs1.38tn in FY26E. This will be driven by 14.7% and 30.1% CAGR in social housing and urban infrastructure segments, respectively.

Exhibit 27: HUDCO AUM (FY16-FY26E)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: HUDCO Segments Proportion (%) (FY16-FY26E)



Source: Company, Nirmal Bang Institutional Equities Research

Highest credit rating ensures access to diversified, long-term and lower-cost funding

Domestically, the company holds a credit rating of AAA, the highest credit rating, for long-term borrowings from each of CARE, ICRA and IRRPL, which lowers its cost of borrowing. As at March 31, 2024, the company had met its funding requirements primarily through equity from the Government and market borrowings of various maturities, including tax-free bonds (16.7%), taxable bonds (13.3%), GOI fully serviced bonds (27%), refinance from NHB/IIFCL (0.8%) and remaining being banks (35.7%) and FCBs (6.6%). Owing to its stronger credit rating history, HUDCO was able to raise funds worth Rs135bn during 4QFY24 at a lower average cost of 7.02% as against blended cost of funds of 7.63% (higher due to GOI FSBs at 8.37-8.6% coupon rate).

Exhibit 29: Borrowing Breakup, Interest Rate Range and Maturities

Borrowing Type	Amount (Rs bn)	Average Maturity Period (From date of allotment)	Residual Maturity	Interests Rate Range
Tax Free Bonds	123.7	10-20 years	0.32 – 10.75 Years	7.00% - 9.01%
Taxable Bonds	298.1	3-10.25 years	0.70 – 10 Years	4.78% - 8.60%
Refinance Assistance from NHB/ IIFCL	5.5	10 years	0.25-4.00 years	4.86%- 5.11%
Banks	264.1	3 years	0.25- 3 years	7.32% - 7.67%
Public Deposits	-	12-84 months	0-1.75 Years	6.75% - 7.80%
FCL	48.8	25-30 years	0.25 - 7.25 Years	Fixed- 2.10%; Floating-USD 6M SOFR + (0.608%)
Total	740.3			

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 30: Credit Rating of HUDCO and Major NBFC-IFCs

Particulars	PFC	REC	IRFC	IREDA	HUDCO
Credit Rating					
Domestic Rating Agencies					
CRISIL	AAA/Stable	AAA/Stable	AAA/Stable	-	-
ICRA	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable
CARE	AAA/Stable	AAA/Stable	AAA/Stable	AA+/Positive	AAA/Stable
India Ratings	-	AAA/Stable	-	AAA/Stable	AAA/Stable
Brickwork Ratings	-	-	-	AAA/Stable	-
Acuite Rating	-	-	-	AAA/Stable	-
Sovereign Rating by International Rating Agencies					
Moody's	Baa3/Stable	Baa3/Stable	Baa3/Stable	-	Baa3/Stable
FITCH	BBB-/Stable	BBB-/Stable	BBB-/Stable	-	BBB-/Stable
S&P	-	-	BBB-/Stable	-	-
Japanese CRA	-	-	BBB+/Stable	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Outstanding Borrowings and Blended Cost of Funds (FY16-FY24)

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Tax Free Bonds	1,73,885	1,73,885	1,73,885	1,73,885	1,73,885	1,73,885	1,50,318	1,40,140	1,23,724
Taxable Bonds	19,992	46,934	88,283	1,21,167	1,54,687	1,92,294	1,94,685	1,42,200	98,100
GOI Fully Serviced Bonds	-	-	-	2,00,000	2,00,000	2,00,000	2,00,000	2,00,000	2,00,000
Refinance from NHB/IIFCL	23,504	29,980	32,090	41,239	40,826	26,400	23,189	7,771	5,545
Public Deposits	16,557	9,244	6,266	2,896	1,686	228	39	17	-
Foreign Currency Borrowings	5,354	5,088	4,509	3,988	3,400	2,369	1,407	774	48,842
Banks	-	-	-	-	302	186	20,064	1,20,882	1,97,566
FCL/FCTL/FCNR(B) (Loan from Banks)	-	-	21,002	4,363	-	-	-	-	-
Long Term Borrowings	2,39,291	2,65,131	3,26,033	5,47,538	5,74,787	5,95,362	5,89,701	6,11,784	6,73,777
Commercial papers	13,000	15,000	25,000	18,000	12,000	15,000	-	-	-
Short Term Loan from Banks	3,798	5,508	24,158	33,477	28,200	-	25,825	17,695	66,546
Short Term Borrowings	16,798	20,508	49,158	51,477	40,200	15,000	25,825	17,695	66,546
Borrowings	2,56,090	2,85,639	3,75,191	5,99,014	6,14,987	6,10,362	6,15,526	6,29,479	7,40,322
Blended cost of funds (%)	8.1	7.7	7.6	8.0	7.8	7.7	7.4	7.7	7.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Borrowings Raised Every Year and Incremental Cost of Funds

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Taxable Bonds	-	38,650	46,550	40,100	76,950	63,500	25,000	39,700	15,000
GOI Fully Serviced Bonds	-	-	-	2,00,000	-	-	-	-	-
Tax Free Bonds	50,000	-	-	-	-	-	-	-	-
Refinance from NHB/IIFCL	-	10,000	10,000	15,000	22,940	-	-	-	-
Public deposits	13,328	3,065	639	952	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-	-
Short-term Loans	2,635	4,900	23,645	33,066	-	-	25,825	17,695	66,546
Medium Term/ Long Term Loan	-	-	-	-	-	-	20,000	1,04,215	90,025
FCL/FCTL/FCNR (Banks)	-	-	21,002	4,363	-	-	-	-	39,902
ECBs	-	-	-	-	-	-	-	-	8,279
Commercial papers	13,000	15,000	25,000	18,000	12,000	15,000	-	-	-
Total borrowings raised	78,963	71,615	1,26,836	3,11,481	1,11,890	78,500	70,825	1,61,610	2,19,751
Incremental cost of borrowings (%)	7.9	6.9	7.2	8.4	6.8	5.6	4.8	7.5	7.1

Source: Company, Nirmal Bang Institutional Equities Research

Around 70% of its borrowings (including tax-free bonds, GOI FSBs, other taxable bonds, foreign borrowings and refinance) being at a tenure of 3-30 years augurs well for the asset liability maturity (ALM) profile as the asset tenures are of 5-15 years. HUDCO stopped accepting public deposits from FY20.

Due to the nature of their business, HUDCO and other peers in wholesale financing segment tend to have ALM mismatch in shorter tenure buckets, which they manage by redeeming these instruments with similar tenure instruments like bonds or term loans or short-term bank lines with the objective to replace them later with longer tenure instruments. According to India Ratings, as of March 31, 2024, HUDCO had undrawn bank lines of Rs 106.7bn and its average utilization levels of the sanctioned revolving / short-term bank lines was 46% over the 12 months ended March 2024.

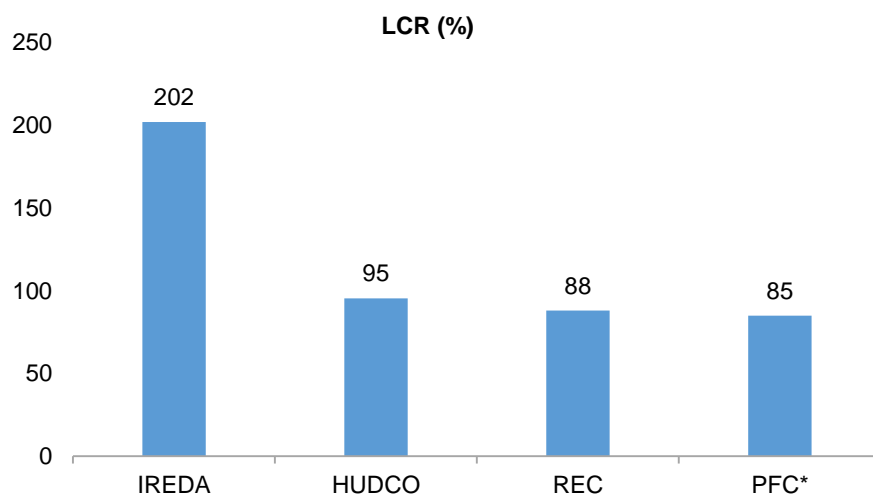
Exhibit 33: ALM profile of HUDCO and NBFC-IFCs for FY23

Asset/Liability Management (ALM) - FY23				
Housing and Urban Development Corporation (HUDCO)				
Rs mn	< 1 Year	1 - 5 Years	> 5 Years	Total
Assets	69542.1	248449.3	480692.0	798683.4
Liabilities	108819.9	238743.2	281487.7	629050.8
Difference	-39277.8	9706.1	199204.3	169632.6
Power Finance Corporation (PFC)				
Rs mn	< 1 Year	1 - 5 Years	> 5 Years	Total
Assets	906485.2	2525240.1	3135046.2	6566771.5
Liabilities	795821.1	2217287.8	1912789.9	4925898.8
Difference	110664.1	307952.3	1222256.3	1640872.7
Rural Electrification Corporation (REC)				
Rs mn	< 1 Year	1 - 5 Years	> 5 Years	Total
Assets	654191.4	1674865.7	1923161.9	4252219.0
Liabilities	830151.3	1808947.1	1169265.7	3808364.1
Difference	-175959.9	-134081.4	753896.2	443854.9
Indian Renewable Energy Development Agency Ltd				
Rs mn	< 1 Year	1 - 5 Years	> 5 Years	Total
Assets	75057.6	181869.7	207795.2	464722.6
Liabilities	85598.0	168120.6	148379.3	402097.9
Difference	-10540.3	13749.1	59415.9	62624.7

Source: Company, Nirmal Bang Institutional Equities Research

While in case of NBFC-IFCs, they are required to maintain LCR of 85% from December 1, 2023 and 100% from December 1, 2024, in case of HUDCO, which is still functioning as a NBFC-HFC, the requirement is 70% from December 1, 2023.

Exhibit 34: LCR Disclosure



Source: Company, Nirmal Bang Institutional Equities Research

*For December 31, 2023

**IRFC is exempt from LCR norms

NIM at 3%+ Despite Lower Spread of 40bps on EBR Loans

Prior to FY20, HUDCO had NIM of 4%+. During FY19, it raised Rs200bn as Extra Budgetary Resources (EBR) for PMAY-Urban under the Ministry of Housing and Urban Affairs (MoHUA). These bonds are fully serviced by the Government of India (GOI). This amount was provided to the Building Materials and Technology Promotion Council (BMTPC) for disbursing as central assistance to State/UTs/CNAs for PMAY-U programme. As a result, the NIM as of FY24 appears optically lower due to the impact of low spread of 40bps available on the funding extended out of the extra budgetary resources.

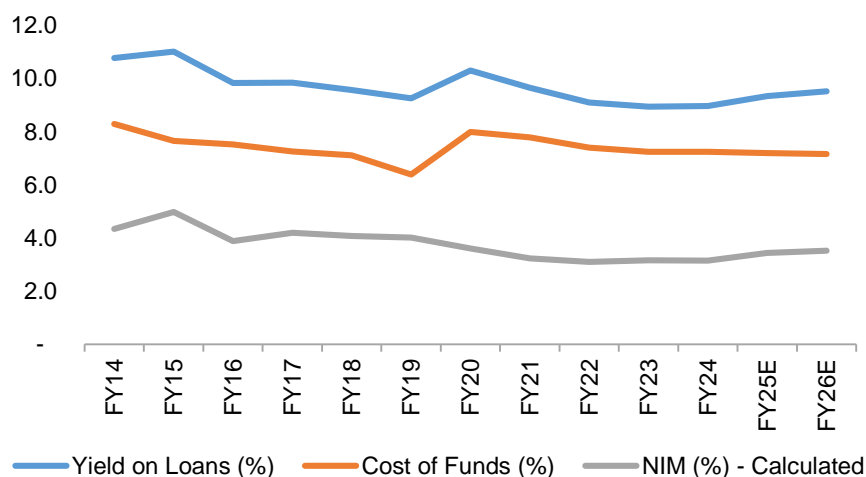
The company's current NIM of 3%+ (including EBR loans which have spreads of 40bps) is a result of charging the state government-owned entities higher rates than those at which the state governments are able to borrow from the capital market through State Development Loans (SDL). Loans from HUDCO to the state government-owned entities, being largely guaranteed by state governments, are considered as off-balance sheet borrowings for the respective governments, under FRBM. As a result, the state governments are incentivized to use HUDCO as a funding agency, despite HUDCO's interest rate being higher at 8.75-9% for social housing and 8.75-9.5% for urban infrastructure as compared to the rate applicable on SDLs.

We have estimated HUDCO's NIM to improve from 3.2% at present to 3.5% by FY26E due to three factors:

- (1) **Asset mix change:** With strong focus of government on infrastructure projects, the company's urban infrastructure segment, which comprises funding to road projects, water supply, power, commercial infrastructure etc., is seeing higher growth. As it has better yields as compared to social housing segment, the NIM should see a gradual improvement.
- (2) **Favorable repricing trends:** Besides anticipated business mix change, the other factor which will help improve NIM will be favorable repricing trends. On the borrowing side, it has not borrowed majorly from capital markets in the past two years when interest rates increased and a major part of Rs264.1bn loans availed from banks (form 35.7% of borrowings) are linked to floating rate benchmarks. On the other hand, 80% of loan assets are on a fixed rate, of which 80% are at a reset of 1 year and remaining at 3 years' reset. So, when interest rate reversal happens in 2HFY25, the cost of borrowings will decline faster than the yield on advances, thereby supporting the NIM.

- (3) **Raising low-cost borrowings:** Thirdly, whenever it gets an opportunity in future, HUDCO plans to tap cheaper funding sources, including foreign borrowings, tax free bonds, 54EC capital gains bonds and refinancing from NHB/IIFCL. HUDCO plans to take the share of foreign borrowings from 6.6% at present to 20% over the next few years. It expects to raise US\$1bn via ECB in FY25, which will be in the form of loans and bonds. The company will prefer borrowing from the Japanese market till the time the USD starts softening. The forex borrowings are fully hedged. As per [announcement dated March 20, 2024](#), HUDCO's Board has set a maximum borrowing limit of Rs 400bn through bonds/debentures for FY25 and the overall borrowing limit for the current year has been increased from Rs 1tn to Rs 1.5tn.

Exhibit 35: HUDCO Yield, Cost and NIM Trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: NIM and Spreads of HUDCO and Major NBFC-IFCs

Particulars (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
HUDCO*							
Yield on Advances	10.0	10.2	10.3	9.7	9.2	9.0	9.0
Cost of Funds	7.3	7.0	7.8	7.8	7.4	7.3	7.3
Spread	2.7	3.1	2.5	1.9	1.8	1.8	1.8
NIM	4.5	4.5	3.7	3.3	3.1	3.2	3.2
PFC							
Yield on Advances	10.6	10.6	10.6	10.6	10.2	10.0	10.0
Cost of Funds	8.2	8.0	7.8	7.5	7.3	7.5	7.4
Spread	2.4	2.7	2.8	3.1	2.9	2.5	2.6
NIM	3.5	3.4	3.2	3.5	3.6	3.4	3.5
REC							
Yield on Advances	10.5	10.4	10.6	10.3	10.2	9.7	10.0
Cost of Funds	7.3	7.2	7.3	7.3	7.0	7.3	7.1
Spread	3.2	3.2	3.3	3.0	3.2	2.5	2.9
NIM	4.1	3.9	3.7	3.7	4.0	3.4	3.6
IRFC							
Spread - Rolling Stock	-	0.4	0.4	0.4	0.4	0.4	0.4
Spread - Project Assets	-	0.4	0.4	0.4	0.4	0.4	0.4
NIM	1.83	1.6	1.4	1.5	1.6	1.4	1.4
IREDA							
Yield on Advances	-	-	-	-	-	9.7	10.0
Spread	-	-	-	-	-	1.8	2.2
NIM	-	-	-	-	-	2.8	2.9

Source: Company, Nirmal Bang Institutional Equities Research

Lean Business Model

With an employee strength of 621 and total 34 offices (including corporate office), HUDCO operates on a lean business model. So, similar to other wholesale segment NBFC-IFCs it is having lower cost ratios. As per our estimates, as the company reports better growth in revenue and operating costs remain stable, its cost-to-income ratio is expected to be 8.6% over FY24-FY26E.

Exhibit 37: HUDCO Cost to Income Ratio (%)

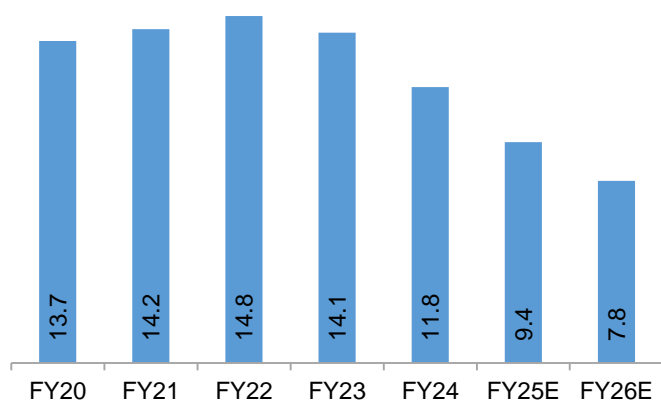
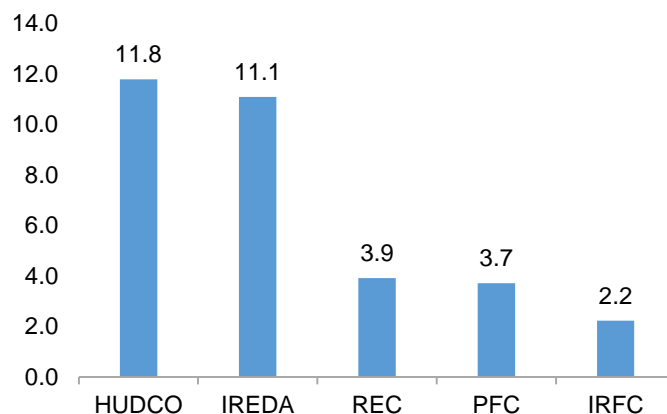


Exhibit 38: Cost to Income Ratio (%) vs. Peers

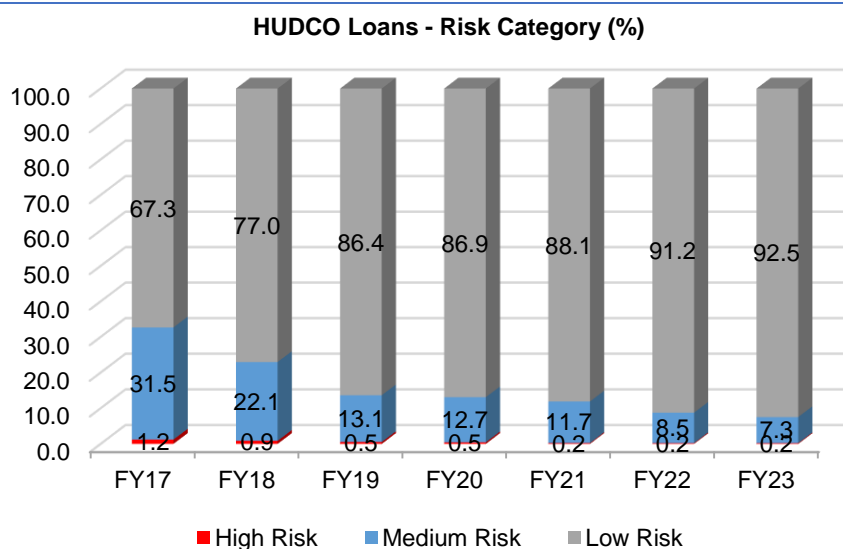


Source: Company, Nirmal Bang Institutional Equities Research

No incremental lending to private sector; core focus to recover legacy private sector NPAs:

Both GNPA/NNPA improved from 3.42%/0.52% in FY23 to 2.71%/0.36% in FY24. HUDCO has also witnessed an improvement in the provision coverage ratio from 85.24% in FY23 to 86.87% in FY24. Since 2013, HUDCO has stopped lending to the private sector, which has had the highest delinquencies in the past. Of its Rs703.4bn state government exposure, 90% of assets are backed by government guarantees and Rs200bn are EBR loans of the central government. This makes HUDCO one of the safest infrastructure finance plays. From the exhibit below, we can see that the proportion of low-risk loans has improved from 67.3% in FY17 to 92.5% in FY23.

Exhibit 39: HUDCO Loans – Risk Category



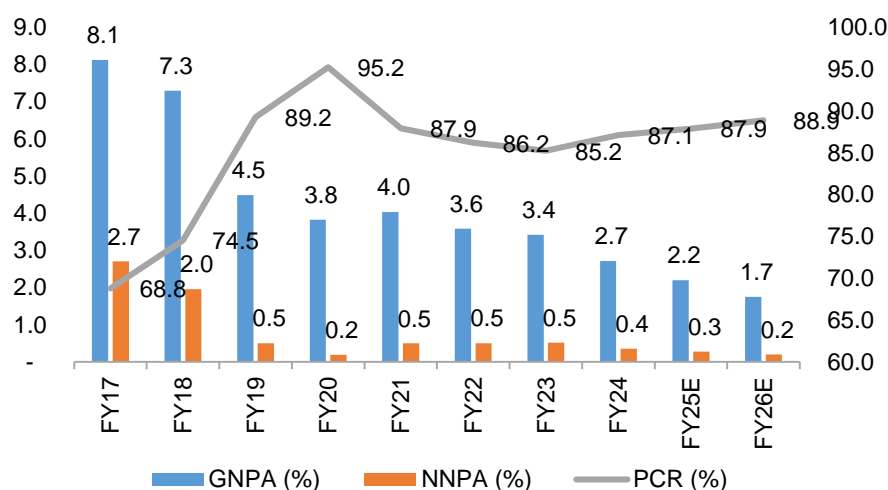
Source: Company annual report, Nirmal Bang Institutional Equities Research

Exhibit 40: Risk Categorization – FY23

Particulars (Rs mn)	Stage 1	Stage 2	Stage 3	Total
Government – Housing				
High Risk	-	-	-	-
Medium Risk	1,299.5	-	3,772.1	5,071.6
Low Risk	394,952.7	32,987.7	1,044.6	428,985.0
Total	396,252.2	32,987.7	4,816.7	434,056.6
Government - Urban Infrastructure				
High Risk	1.3	-	-	1.3
Medium Risk	28,139.8	-	1,430.5	29,570.3
Low Risk	299,892.0	17,553.8	58.5	317,504.3
Total	328,033.1	17,553.8	1,489.0	347,075.9
Non-Government				
High Risk	-	-	114.3	114.3
Medium Risk	2,795.2	-	20,937.9	23,733.1
Low Risk	-	-	56.1	56.1
Total	2,795.2	-	21,108.3	23,903.5
Retail				
High Risk	1,536.1	-	-	1,536.1
Medium Risk	682.3	1.1	177.7	861.1
Low Risk	-	-	-	-
Total	2,218.4	1.1	177.7	2,397.2
Total Loan Book				
High Risk	1,537.4	-	114.3	1,651.7
Proportion (%)	0.2	-	0.4	0.2
Medium Risk	32,916.8	1.1	26,318.2	59,236.1
Proportion (%)	4.5	0.0	95.4	7.3
Low Risk	694,844.7	50,541.5	1,159.2	746,545.4
Proportion (%)	95.3	100.0	4.2	92.5
Total	729,298.9	50,542.6	27,591.7	807,433.2

Source: Company annual report, Nirmal Bang Institutional Equities Research

Out of HUDCO's GNPA's of Rs 25.1bn, ~Rs20bn are legacy private sector NPAs which are 100% provided for. As a result of high PCR of 86.87% (FY24) and no incremental lending to private sector, credit costs are expected to remain low, which will lead to an improvement in RoA over the next 2-3 years. In some quarters in future whenever legacy private sector assets are recovered, the credit costs may turn out to be negative. However, as per our conservative estimates, we have not factored in negative credit costs. We have estimated the GNPA/NNPA to decline from 2.71%/0.36% at present to 1.75%/0.2% by FY26E.



Source: Company, Nirmal Bang Institutional Equities Research

In the table below, we can see that as compared to major NBFC-IFCs, HUDCO has the highest PCR at 86.87%.

Exhibit 41: Asset Quality of HUDCO and Major NBFC-IFCs

Particulars (%)	FY19	FY20	FY21	FY22	FY23	FY24
HUDCO						
GNPA	4.5	3.8	4.0	3.6	3.4	2.7
NNPA	0.5	0.2	0.5	0.5	0.5	0.4
PCR	89.3	95.2	88.0	86.2	85.3	86.9
PFC						
GNPA	9.4	8.1	5.7	5.6	3.9	3.3
NNPA	4.6	3.8	2.1	1.8	1.1	0.9
PCR	51.5	53.0	63.3	68.6	72.6	74.6
REC						
GNPA	7.2	6.6	4.8	4.5	3.4	2.7
NNPA	3.8	3.3	1.7	1.5	1.0	0.9
PCR	47.7	49.6	64.7	67.4	70.5	68.3
IREDA						
GNPA	6.1	10.1	8.8	5.2	3.2	2.4
NNPA	3.7	7.2	5.6	3.1	1.7	1.0
PCR	38.9	28.8	36.0	40.1	48.3	58.1

Source: Company, Nirmal Bang Institutional Equities Research

Out of HUDCO's GNPA's of Rs 25.1bn, Rs 15bn was pertaining to 10 consortium projects on which 100% provision has already been made. Out of this, 7 consortium projects with exposure of Rs14.7bn were under NCLT resolution in 4QFY24, on which 100% provision is done. The company expects 60-70% of NCLT exposure to get resolved in FY25. Three consortium projects with exposure of Rs 349.8mn were under resolution outside NCLT and on the same 100% provision has been made.

Temporary patterns seen in stage 2 and stage 3 assets: The billing cycles for most state sector entities are in August, November, February and May. Normally, stage-2 assets see some increase in 3Q and 4Q of any year because in case of some state agencies, the repayment happens 3-4 weeks after due date and December/March have 31 days. So, any overdue on the 31st day falls in stage-2 category. As of March 31, 2024, the stage 2 assets stood at 4.4%, down from 6.26% in FY23.

Besides the above factors leading to an increase in stage 2 assets, some delays in payments by state government lead to a spike in GNPA's in some quarters, but most of it is a technical fault and usually gets recovered/upgraded in 1-2 quarters. Even if it is not recovered, the ultimate LGDs are minimal on state sector NPAs.

LGDs in Stressed Road, Renewable and Transmission Projects in India

While at present not much data is available in public domain on LGDs of infrastructure loans, we have referred to a [Crisil Study](#) dated September 2023, where it had put out data on 80 stressed infrastructure assets, taking into account a decade long history. In the table below, we can see that stressed projects in roads, renewables and transmission sectors have had lower LGDs compared to conventional power generation. Further, with IBC and other reforms in the infrastructure sector and timely actions for resolution of assets, the LGDs of new stressed assets in our opinion would be even lower.

Exhibit 42: Crisil Study on LGD of 80 stressed infrastructure assets

Sector	No. of assets studied	Estimated LGD range (%)
Renewables	12	20-30%
Transmission	4	20-30%
Roads	33	30-50%
Power plants (thermal, gas)	31	60-70%

Source: Crisil, Nirmal Bang Institutional Equities Research

Our Interaction with an Insolvency Resolution Professional

We interacted with an insolvency resolution professional who has handled NCLT cases across different sectors to understand how the IBC framework has been implemented and the way ahead. According to him, IBC code was implemented with the intent of fast-tracking resolutions in a time bound manner.

The code provides for stress resolution in two ways:

1. **Resolution of a company:** A company is under stress if it is not performing well. The resources at its disposal are under-utilized. If the company has a viable business, it should be possible to revive it. The IBC provides for the corporate insolvency resolution process (CIRP) that enables the market to find a feasible & viable resolution plan to revive the company as a going concern. If such a plan is approved, the company gets a new lease of life and resources are put to optimal use.
2. **Liquidation of a company:** If the company has an unviable business, the market is unlikely to find a resolution plan. In that case, it undergoes liquidation, which releases resources, including entrepreneurs, as per the priority rule, for optimal use elsewhere.

Thus, the code enables the market to determine the viability of a company and on that basis to rescue or close it down. According to him, implementation IBC framework has been useful in resolutions in a time bound manner besides resulting in better recovery rates for companies in steel, power and few other sectors. But, with the average resolution time stretching to 4-5 years overall for NCLT cases, it is a key cause of concern for corporate lenders. The resolution delays are often triggered by litigations from multiple stakeholders with conflicting interests that not only erode the value of already distressed corporate defaulter but also significantly reduces the recovery rates for lenders.

So far, while the legacy stressed asset resolution for HUDCO has been very much on track and recovery rates on some assets have been as high as 100%, we will be watchful of resolution timeline and recovery rates of remaining NPAs.

A Small Change in Leverage Can Lead to Significant Jump in RoEs

As at March 31, 2024, the company had total borrowings of Rs740.3bn (standalone), representing 4.05x company's NoF of Rs166.1 bn (standalone). With state government exposures risk weighted at 20% and 0% risk weight in case of funding to Building Materials and Technology Promotion Council (BMTPC) out of the extra budgetary resources (funded through GOI fully service bonds), its CRAR stood at 57.65%, which gives enough room to expand leverage. With HUDCO expected to see better balance sheet growth going ahead, a small change in its leverage can lead to significant jump in RoE, which we have estimated at 16.9% on the back of loan and earnings CAGR of 22.1% and 24.1%, respectively over FY24-FY26E.

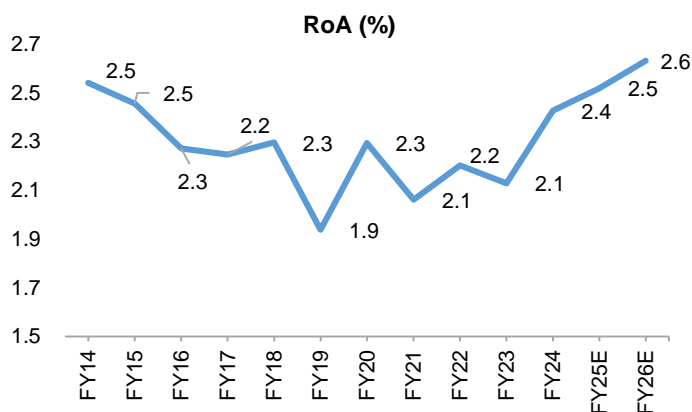
Exhibit 43: CRAR & Leverage vs. Peers

Company Name	CRAR (%)	D/E (x)
HUDCO	57.7	4.1
PFC	25.4	5.1
REC	25.8	6.4
IREDA	20.1	5.8
IRFC	616.2	8.4

Source: Company, Nirmal Bang Institutional Equities Research

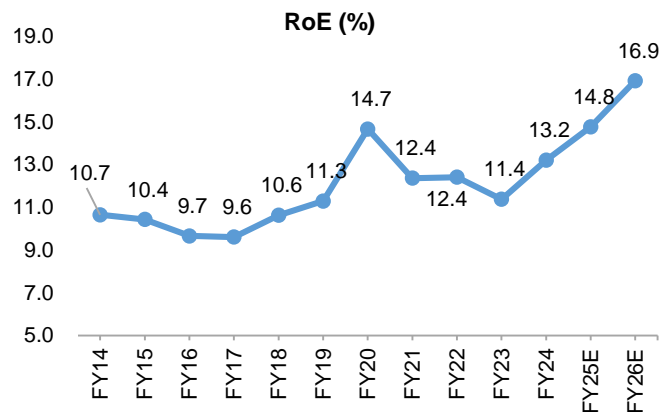
According to management, the company won't need to go for equity dilution to fulfil its growth plans of Rs3tn AUM by FY30.

Exhibit 44: HUDCO RoA (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45: HUDCO RoE (%)



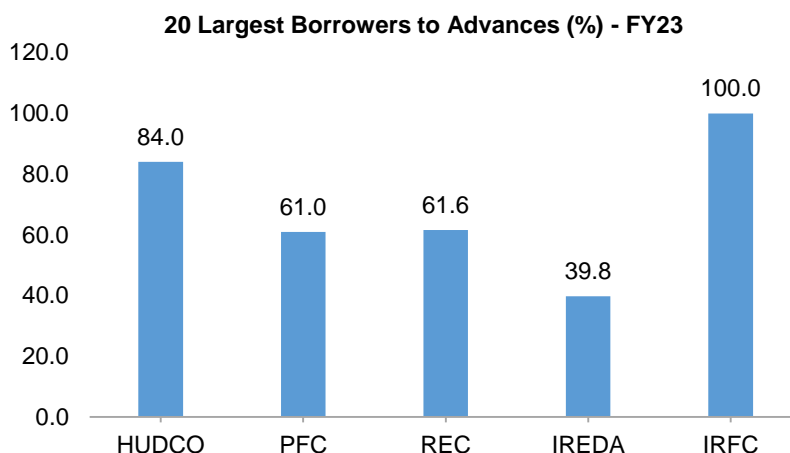
Source: Company, Nirmal Bang Institutional Equities Research

High Capitalization Levels and High Government Exposures Shield HUDCO from Regulatory Risks and Credit Risks

Prudent capitalization is one of the key mitigants against the concentration risk arising out of the wholesale nature of HUDCO's exposures and despite being on a growth path, we expect it to maintain high capitalization levels in future also.

The credit risk for HUDCO's loan portfolio is also mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments. In this regard, with the revision in the RBI circular, exposures covered by state/central guarantees will not be subjected to the concentration norms ([Link to RBI's credit concentration norms dated January 15, 2024](#)). Nevertheless, HUDCO does face high concentration risk from lumpy nature of temporary spikes in stage 2 and stage 3 assets, although the ultimate losses are expected to be limited.

Exhibit 46: 20 Largest Borrowers to Advances (%) – FY23



Source: Company, Nirmal Bang Institutional Equities Research

With respect to the increase in provisions to 1-5% on project loans across various phases of construction and implementation, over a period of three years (starting from FY25 to FY27), as per the proposed **new project lending norms of the RBI** ([link](#)), HUDCO will see a negligible negative impact, if these norms are implemented. This is because as per initial discussions by **REC** ([4QFY24 transcript link](#)) and other managements with the RBI, the government guaranteed portion will be exempt from these norms. In case of HUDCO, the break-up of its exposures is as follows: (1) GOI exposure of Rs200bn pertains to projects that are completed. (2) 90% of its Rs703.4bn worth of state sector exposure is guaranteed by respective state governments and (3) Majority of Rs23.1bn private sector exposure is already into NPA and fully provided for.

As HUDCO's books hadn't grown in the past four years, its under construction book is only Rs100-120bn. So, if project lending norms are implemented, their total impact will be Rs 5bn over three years and the annual impact will be Rs1.3bn. As a result of this circular, the management expects banks to hike rates, which will help the company to position itself competitively.

Further, in case of NBFCs, the difference between IRAC norms and IND-AS norms is taken in impairment reserve, which is deducted from Tier-1 capital and not routed through P&L, like in case of banks which are still following IGAAP.

From the data given below, we can see that high capitalization levels of HUDCO shields it from any adverse regulatory risks.

Exhibit 47: HUDCO Impairment Reserve

Particulars (Rs mn)	FY21	FY22	FY23	FY24
Stage 1 ECL provisions	74.7	314.6	309.5	-
Stage 2 ECL provisions	613.3	513.6	481.9	-
Total Stage 1&2 ECL provisions	688.0	828.2	791.4	-
Stage 1 & 2 IRAC provisions	3084.0	3176.8	3385.2	-
Stage 1 & 2 provision shortfall included in impairment reserve (A)	-2396.0	-2348.6	-2593.8	-
Stage 3 ECL provisions	26849.8	24214.1	23519.2	-
Stage 3 IRAC provisions	26071.8	24085.4	23824.1	-
Stage 3 provision shortfall included in impairment reserve (B)	778.0	128.7	-304.9	-
Impairment reserve (A + B)	-1618.0	-2219.9	-2898.7	-4633.0
% to Gross Loans	-0.2	-0.3	-0.4	-0.5
% to Networth	-1.2	-1.5	-1.9	-2.8
Tier-1 capital ratio (%)	63.1	74.1	73.6	57.5

Source: Company, Nirmal Bang Institutional Equities Research

Other Value Additions

Consultancy Services

HUDCO provides consultancy services in the areas of Architectural Design & Development; Urban & Regional Planning; Appraisal, Scrutiny & Monitoring of Government Projects and Environmental Engineering, for the housing and urban development sector, through a dedicated team of qualified and experienced professionals from diverse background such as Architects, Planners, Landscape Experts, Geographers, Engineers, Valuers, GIS Expert and other allied professionals that form the core team. The regional offices of HUDCO, having their presence in all state capitals, add to HUDCO's outreach for consultancy works. HUDCO's Construction and Consultancy Wing, along with the Regional Offices of HUDCO, not only generate fee-based income providing unique design concepts but also contribute towards branding HUDCO as a nationally recognized premier techno financial institution.

In this direction, it has recently entered into MoU with [NBCC](#) for consultancy services, asset monetization and CSR activities.

Valuable Investments in Equity of Unlisted Companies and Prime Real Estate Property

As per the FY23 annual report, HUDCO has invested in 12.6mn shares of Cochin International Airport. While we don't have the fair value estimates of the airport company, considering that it's one of the busiest airports in the country, the value must be significantly higher than HUDCO's investment of Rs571.9mn. It has also invested in the equity shares of IIFCL AMC and National Industrial Corridor Development Corporation Ltd, the fair value of which would be higher than the cost of investment.

Exhibit 48: Select Investments at Cost

Particulars (Rs mn)	Valuation	FY23
IIFCL Assets Management Company Limited (IAMCL)	At cost	757
1,25,68,829 equity shares of Cochin International Airport Ltd. (including 25,68,829 Right issue of Cochin International Airport Ltd.- Shares of `10/- each at premium of `40/- per share) FV `10/- per share %	At cost	571.9
1,99,00,000 equity shares of National Industrial Corridor Development Corporation Limited (Earlier DMIDC)	At cost	1144.3

Source: Company annual report, Nirmal Bang Institutional Equities Research

As per its FY23 annual report, HUDCO had invested Rs 506.8mn in prime properties in Tier-1 and Tier-II cities, the fair value of which as per market approach/income approach totalled Rs 9.2bn.

Exhibit 49: Investment in Prime Property at Cost

Investment Property - at cost (Rs mn)	Valuation in Balance Sheet	FY23
Building (Freehold)	At cost	78.9
Building (Leasehold)	At cost	383.6
Flat (Freehold)	At cost	36.2
Flat (Leasehold)	At cost	8.1
Gross Fixed Assets	At cost	506.8
Accumulated Depreciation		302.1
Net Fixed Assets		204.7

Source: Company annual report, Nirmal Bang Institutional Equities Research

Exhibit 50: Fair Value of Investment in Prime Property

Investment Property - At Fair Value (Rs mn)	Valuation Approach	FY23
Jaipur (Jyoti Nagar, Lal Kothi)	Market Approach	47.3
Chennai (CMDA Tower)	Income Approach - 8%	462.7
Bhopal (Parayavas Bhavan)	Market Approach	52.8
Mumbai (Shreyas Chambers)	Income Approach - 6%	173.6
Bhubaneswar (Deendayal Bhawan)	Market Approach	65.6
Jammu (Hudco Bhawan, Rail Head Complex)	Market Approach	100.0
Ahmedabad (Hudco Bhawan, Navrangpura)	Market Approach	221.5
Ahmedabad (Trupti Appartments)	Market Approach	15.6
Mumbai (Oshiwara Flats)	Market Approach	64.0
Bhikaji Cama Place, Delhi	Market Approach	7975.9
Total Fair Value of Property Investments		9179.0

Source: Company annual report, Nirmal Bang Institutional Equities Research

Exiting Investments in JVs

As mentioned in its FY23 annual report, HUDCO has decided to exit from three joint venture companies by invoking the exit clauses, as the performance of these JVs is not found to be satisfactory. The accounts of SUIDL are being consolidated with HUDCO accounts.

In case of associate Ind Bank Housing Ltd, as per regulatory guidelines, HUDCO has to bring down its stake from 25% to 15%. Indian Bank, along with strategic investors, are proposing to infuse further capital in Ind Bank Housing Finance to revive its operations, which would dilute HUDCO's stake.

Exhibit 51: Subsidiaries and Associates

Company Name	Investment Category	Stake (%)	BV of Investments (Rs mn)
Pragati Social Infrastructure & Development Ltd. (PSIDL)	Joint Venture	26%	1.3
Shristi Urban Infrastructure Development Ltd. (SUIDL)	Joint Venture	40%	20.0
Signa Infrastructure India Ltd. (SIIL)	Joint Venture	26%	0.1
Ind Bank Housing Limited	Associate	25%	25.0

Source: Company annual report, Nirmal Bang Institutional Equities Research

Valuation History of HUDCO / Major PSU NBFC-IFCs

With the balance sheet cleanup done and improvement in growth, HUDCO and major PSU NBFC-IFCs have been re-rated in the past one year. We expect the fundamentals of this segment to remain robust due to the following factors, which should lead to sustenance of higher valuations compared to historic valuations:

1. With constrained C/D ratios and necessity of ALM management compared to IFCs, banks have limited ability to lend against longer tenure infrastructure projects.
2. The project lending norms, if implemented by the RBI, will lead to increased provisioning requirements for banks, which will be routed through P&L. As against this, in case of NBFC-IFCs, there will be no P&L impact, as under IND-AS the provisioning difference between IRAC norms and IND-AS is transferred to impairment reserve, which is deducted from Tier-1 capital. At present, HUDCO and major NBFC-IFCs are well capitalized to absorb the impact of project lending provisions. These factors will lead to banks slowing down on project lending segment, which in turn will be beneficial for NBFCs in the wholesale segment.
3. When interest rates decline in FY25, the MCLR based bank borrowings will reprice downwards faster than assets which are at 1-3 years' reset.
4. Due to anticipated part recovery in legacy private sector NPAs, credit costs may be negative in some quarters.

Exhibit 52: Valuation History of HUDCO / NBFC-IFCs

Valuation History - HUDCO / NBFC-IFCs																			
Company Name	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
REC																			
RoA (%)	2.1	2.3	2.7	3.4	3.3	2.9	3.2	3.3	3.1	2.9	3.0	2.0	2.1	1.5	2.2	2.5	2.5	2.8	2.6
P/BV (x)	-	0.6	0.4	0.7	0.9	0.5	0.5	0.4	0.5	0.3	0.6	0.8	0.5	0.6	0.4	0.4	0.5	1.1	1.7
PFC																			
RoA (%)	-	-	-	-	2.8	2.5	2.9	3.0	2.8	2.6	0.9	1.6	2.2	1.6	2.2	2.5	2.8	3.0	2.9
P/BV (x)	-	-	-	0.8	0.9	0.5	0.4	0.3	0.4	0.3	0.7	0.7	0.4	0.5	0.4	0.4	0.4	1.1	1.7
HUDCO																			
RoA (%)	-	1.7	2.2	2.5	2.5	2.6	2.5	2.5	2.5	2.3	2.2	2.3	1.9	2.3	2.1	2.2	2.1	2.4	2.5
P/BV (x)	-	-	-	-	-	-	-	-	-	-	-	1.6	0.9	0.6	0.5	0.6	0.5	1.2	2.6
IRFC																			
RoA (%)	-	1.6	0.6	1.2	1.1	0.9	0.8	0.9	0.9	0.9	0.8	1.4	1.2	1.3	1.4	1.5	1.4	1.3	1.4
P/BV (x)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.9	0.7	0.7	2.1	3.9
IREDA																			
RoA (%)	-	1.8	2.3	2.1	3.1	3.4	3.1	3.0	2.8	2.5	2.4	2.1	1.1	0.8	1.3	1.9	1.7	2.2	1.9
P/BV (x)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.2	4.7

Source: Company, Nirmal Bang Institutional Equities Research

While PFC and REC have had a good institutional investor holding, HUDCO has seen a rise in the same in the recent past.

Exhibit 53: Institutional Investors Holding (%) – HUDCO / PSU NBFC-IFCs

Institutional Investors Holding (%) - HUDCO / NBFC-IFCs																		
Power Finance Corporation Ltd (PFC)																		
Investor Category (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
MF/AIF/QIB	2.3	1.2	2.5	2.4	1.8	5.0	2.7	6.2	3.6	1.5	3.2	6.0	11.8	13.9	14.3	18.2	12.3	13.3
FI/Banks	0.4	0.1	0.1	0.0	0.0	0.2	1.6	0.1	0.2	3.0	1.3	0.8	0.7	0.5	0.2	0.2	0.1	0.1
Ins. Co.s/Pension Funds	0.1	0.4	0.6	0.8	1.2	3.6	4.5	4.8	5.1	9.8	8.2	6.3	6.2	6.1	6.0	0.4	6.3	4.9
FII/FPIs	3.9	5.5	4.0	3.9	3.6	9.9	12.5	11.2	13.1	13.3	15.5	14.0	16.6	18.9	17.3	16.8	16.5	17.2
Total Insti. Holding	6.7	7.2	7.2	7.0	6.7	18.6	21.3	22.2	22.0	27.6	28.2	27.1	35.3	39.4	37.8	35.5	35.2	35.4
Rural Electrification Corporation Ltd (REC)																		
Investor Category (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
MF/AIF/QIB	-	2.8	7.2	4.9	1.8	1.7	2.1	3.5	3.2	2.1	3.8	4.8	10.4	9.7	10.1	13.1	7.4	10.3
FI/Banks	-	0.4	0.4	0.2	0.4	1.7	0.2	0.7	0.3	0.9	0.8	0.5	0.4	0.2	0.2	0.1	0.1	0.0
Ins. Co.s/Pension Funds	-	0.5	0.7	1.8	2.4	3.0	3.9	5.7	3.9	8.5	6.4	3.4	3.1	3.0	3.0	3.0	4.4	5.2
FII/FPIs	-	7.4	3.4	17.8	20.8	19.5	20.7	18.7	20.9	21.4	21.3	23.2	25.3	27.0	26.8	24.3	21.5	19.9
Total Insti. Holding	-	11.0	11.7	24.7	25.3	25.9	26.9	28.5	28.2	32.8	32.3	31.9	39.2	39.9	40.1	40.4	33.4	35.4
Housing and Urban Development Corporation Ltd (HUDCO)																		
Investor Category (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
MF/AIF/QIB	-	-	-	-	-	-	-	-	-	-	-	1.4	0.9	0.7	0.6	1.8	1.2	2.3
FI/Banks	-	-	-	-	-	-	-	-	-	-	-	0.2	0.3	0.3	0.0	0.3	0.0	0.0
Ins. Co.s/Pension Funds	-	-	-	-	-	-	-	-	-	-	-	1.6	1.6	1.9	1.7	5.9	6.1	9.1
FII/FPIs	-	-	-	-	-	-	-	-	-	-	-	0.3	0.1	0.1	0.1	0.2	0.3	1.9
Total Insti. Holding	-	-	-	-	-	-	-	-	-	-	-	3.5	2.9	3.0	2.4	8.2	7.6	13.3
Indian Railway Finance Corporation Ltd (IRFC)																		
Investor Category (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
MF/AIF/QIB	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.2	2.0	1.4	0.2
FI/Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0
Ins. Co.s/Pension Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.2	1.2	1.3	0.7
FII/FPIs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4	1.1	1.1	1.1
Total Insti. Holding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8	4.3	3.8	2.0
Indian Renewable Energy Development Agency Ltd (IREDA)																		
Investor Category (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
MF/AIF/QIB	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5
FI/Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0
Ins. Co.s/Pension Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4
FII/FPIs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4
Total Insti. Holding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Valuation and Recommendation

We have estimated HUDCO's earnings to grow at a CAGR of 24.1% over FY24-FY26E on the back of 22.1% AUM CAGR, 30bps improvement in NIM, stable opex costs and near zero credit costs. This will result in RoA/RoE of 2.6%/16.9% in FY26E. We have valued HUDCO at 3.6x June 2026E ABV and have derived a TP of Rs 375. In our view, due to its niche in social housing and urban infrastructure financing space, ability to grow faster due to robust capital position, potential for NIM improvement and low risk on balance sheet due to high government exposure, the company's premium valuations should sustain. We initiate coverage on HUDCO with a 'BUY' rating.

Exhibit 54: Peer Comparison

Company Name	CMP (Rs)	Mcap (Rs bn)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
PFC	533.8	1761.6	1.9	1.7	11.1	10.1	2.9	2.8	18.6	17.8
REC	575.5	1515.4	1.9	1.6	9.9	8.7	2.6	2.5	20.6	20.0
IREDA	220.5	592.7	5.9	5.0	39.4	32.9	1.9	1.9	15.5	15.7
IRFC	177.7	2322.3	4.3	3.9	34.5	32.8	1.4	1.4	13.1	12.5
HUDCO	325.0	650.5	3.6	3.2	25.3	20.0	2.5	2.6	14.8	16.9

Source: Company, Nirmal Bang Institutional Equities Research

Investment Risks

- **Temporary spikes in stage 2 and stage 3 assets in past:** As mentioned earlier, due to December and March months having 31 days and some state agencies making payment in 3-4 weeks after due date, stage 2 assets tend to see temporary spikes during 3Q and 4Q of a few years, which can lead to volatility in credit costs. Payment delays from state governments beyond 90 days can lead to rise in NPAs. Although loss given default is likely to be minimal, as per the past track record such loans are recovered in 1-2 quarters.
- **Rising competition from banks and peer companies:** HUDCO faces strong competition from banks and peer NBFCs in case of self-sustaining projects in housing finance and urban infrastructure sectors. As banks have relatively cheaper sources of funds (as compared to HUDCO), they pose stiff competition to HUDCO's business and can lead to pressure on the margins.
- **Regulatory changes:** Regulatory changes like increase in risk weights for a certain category, cap on interest rates under re-financing facilities, provisioning requirements for under construction projects (if implemented) etc. are few of the key regulatory risks.
- **Concentration Risk:** HUDCO's exposure to top 20 largest borrowers (as a % of total advances of HFC's) stood at 84.04% in FY23 (vs. 80.38% in FY20). Although the credit risk for HUDCO's loan portfolio is mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments, the weak financial profile of many of the state governments remains a key risk or the company.
- **Delay in Resolution of Legacy Stressed Assets:** As per our interaction with an insolvency resolution professional, while IBC has resulted in resolution in a time bound manner and better recoveries for some projects in steel, power and other infrastructure sectors, the average resolution of overall NCLT cases has been 4-5 years. Longer the resolution time, the recovery rates accordingly are lower. So, slower court proceedings of legacy assets in NCLT is another concern.
- **Off balance sheet borrowings of states:** Loans from HUDCO to the state government-owned entities, being largely guaranteed by state governments, are considered as off-balance sheet borrowings for respective governments under FRBM. In the recent past, the central government has been nudging state governments to bring off balance sheet borrowings into their respective balance sheet assets. If such a development takes place, then the incentive to borrow from HUDCO and other lenders will be less and can impact its growth.

Company Overview

Incorporated in 1970, HUDCO is a Schedule 'A' Navratna CPSE with President of India holding 75% stake through MoHUA (54.27%) and MoRD (20.73%). Apart from financing low-cost social housing and non-commercial urban infrastructure projects, HUDCO offers consultancy services in cost-effective and innovative construction technologies. It is regulated by the RBI through supervision of NHB and administered by the Ministry of Housing and Urban Affairs. At present, it is in the process of registering as a NBFC-IFC.

Exhibit 55: Key Milestones Achieved Since Inception

Years	Milestone
1970-1980	<ul style="list-style-type: none"> 1970 - Incorporation under Companies Act with equity of Rs 20mn. Funding of rural housing. Design and development activities.
1980-1990	<ul style="list-style-type: none"> 1985 - 'Human Settlement Management Institute' established. 1989 – Exclusive urban infrastructure window.
1990-2000	<ul style="list-style-type: none"> 1996 – Recognized as 'Public Financial Institution' (PFI). 1998 – 'Key role in 2 million housing programme'. 1999-2000 – Bagged PM's award for top 10 PSUs.
2000-2010	<ul style="list-style-type: none"> 2000 – HUDCO Niwas vertical added. 2001 – Authorized capital increased to Rs 25bn. 2002 – Included in 'Schedule-A' of CPSE classification. 2004 – Accorded 'Miniratna-1' status.
2010-2020	<ul style="list-style-type: none"> 2011-2016 – Public Issue of Tax-Free Bonds. 2015-2016 – Credit Rating upgraded to 'AAA'. 2017 – Divestment of 10.19% equity stake. Consistently got excellent MoU rating in 9 out of 10 years.
2020-2024	<ul style="list-style-type: none"> 2021 – Divestment of 8% equity stake. 2023 – Divestment of 6.64% equity stake. (Till date 24.83% divested, 0.17% remaining in order to achieve min. public shareholding). FY23 – Paid all time high dividend of Rs 7.7bn. FY25 – CPSE status upgraded from Miniratna (Category 1) to Navratna. In the process of registering as an NBFC-IFC.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 56: Board of Directors

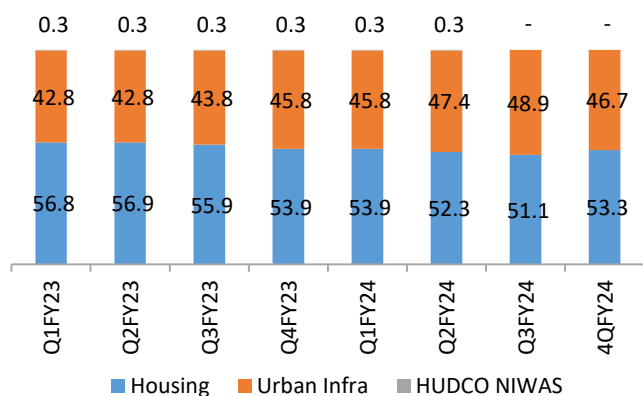
Name and Designation	Experience
Shri Sanjay Kulshrestha Chairman & Managing Director	Shri Sanjay Kulshrestha joined Housing and Urban Development Corporation Limited (HUDCO) on 16th October 2023, a CPSE under Ministry of Housing & Urban Affairs (MoHUA). Sh. Kulshrestha brings along with him three decades of rich experience in the infrastructure sector, particularly in power generation, transmission, and distribution. Starting his illustrious career with a Multinational Company, Sh. Kulshrestha's professional journey spans across various prestigious roles in State PSUs, Private sector Companies, and Central Public Sector Undertakings. Prior to joining HUDCO, he had dedicated 17 years of his career to REC, a Maharatna NBFC under the Government of India, where he led business operations with distinction and had also served as head of CSR arm and consultancy subsidiary.
Shri M Nagaraj Director (Corporate Planning)	Shri M Nagaraj, is the Director (Corporate Planning). He is a qualified Cost Accountant & Company Secretary and also a certified Banker having qualification of CAIIB. He holds Post Graduate degree in Management i.e., MBA with Specialisation in Finance. He has varied experience of over 35 years in multitude of sectors such as Housing, Infrastructure Finance, Skill Development & Micro Finance in Social Sector, and International Trading.
Shri Kuldip Narayan (IAS) Director HUDCO and JS (HFA)	Shri Kuldip Narayan, Joint Secretary, Ministry of Housing and Urban Affairs (MoHUA), Government of India is an Indian Administrative Service (IAS) Officer of 2005 batch Bihar Cadre and did his B. Tech in Mechanical Engineering from IIT Kanpur. Shri Narayan is looking after its flagship programme of Housing for All / Pradhan Mantri Awas Yojna (Urban) since October 14, 2021. He is also serving as Nominee Official Director in National Housing Bank (NHB), HPL and NCRTC.
Shri Sanjeet (IRAS) Director HUDCO and JS & FA	Shri Sanjeet is an Indian Railway Accounts Service (IRAS) Officer of 1998 batch. Presently he is serving as Joint Secretary & Financial Advisor in the Ministry of Housing and Urban Affairs, Government of India since 12th December, 2022. Shri Sanjeet, holds Masters and M.Phil. degree(s) in International Studies from Jawaharlal Nehru University, New Delhi in addition to Master of Business Administration.
Mrs. Sabitha Bojan Independent Director	Mrs. Sabitha Bojan is M.A in Sociology and M.B.A in Human Resources and completed her Diploma in Co-operation. She has 15+ years of experience in corporate, education and management field with key positions as state and regional head in various organizations.
Dr. Ravindra Kumar Ray Independent Director	Dr. Ravindra Kumar Ray, is an Educationist, Political and Social Worker. He did his graduation from St. Columba's College, Hazaribag and Master's degree from Ranchi University and PhD from Vinoba Bhave University, Jharkhand.
Dr. Siyaram Singh Independent Director	Dr. Siyaram Singh is MBBS and MD (General Medicine) and hails from Bihar. He is eminent medical professional in healthfulness of Barh's, Bihar and is active in social activities from past 15 years.

Source: Company, Nirmal Bang Institutional Equities Research

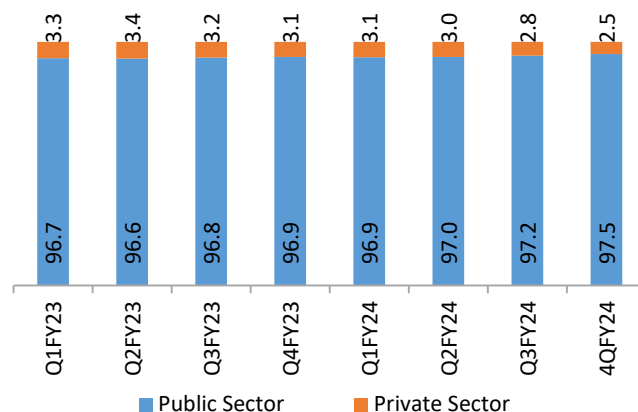
Exhibit 57: Management Team

Name	Designation
Shri Sanjay Kulshrestha	Chairman & Managing Director
Shri M Nagaraj	Director (Corporate Planning)
Shri Vineet Gupta	Chief Vigilance Officer
Shri Shailesh Tripathi	Executive Director (IT & CSO), Appellate Authority
Smt. Reva Sethi	Executive Director (F), Banking, Investment and Financial Co-ordination
Shri SK Solanki	Executive Director (Law), Delhi Regional Office
Smt. Vandana Motsara	Executive Director (HR), Human Resource Development
Shri LVS Sudhakar Babu	Executive Director (F), Resource Mobilization
Shri H M Bhatnagar	Executive Director (L), Corporate Law
Shri Koshy Varghese	Executive Director (F), Loan Accounts & Retail Finance
Smt. Anju Thakur	Executive Director (F), Accounts
Shri VT Subramanian	Executive Director (P), Mumbai Regional Office
Smt. Beena Philipose	Executive Director (P), Operations-I
Shri Rajiv Sharma	Executive Director(P), Administration, CSR, Official Language, Public Relations & APMCHUD
Dr. Sukanya Ghosh	Executive Director (P), Consultancy Services
Smt. Radha Roy	Executive Director(P), Operations-II
Shri S Thangaraju	Executive Director (P), Property Development & Services
Shri P Venkateswara Reddy	Executive Director (P), Hyderabad Regional Office
Shri Achal Gupta	General Manager (Finance)
Shri Vikas Goyal	Company Secretary

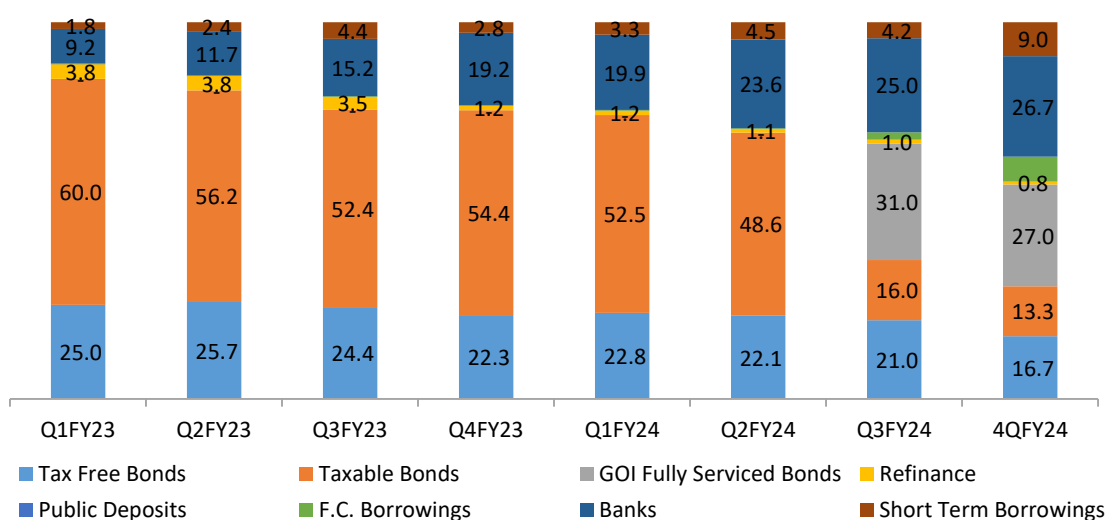
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 58: AUM Mix (%) - Product Segment Wise


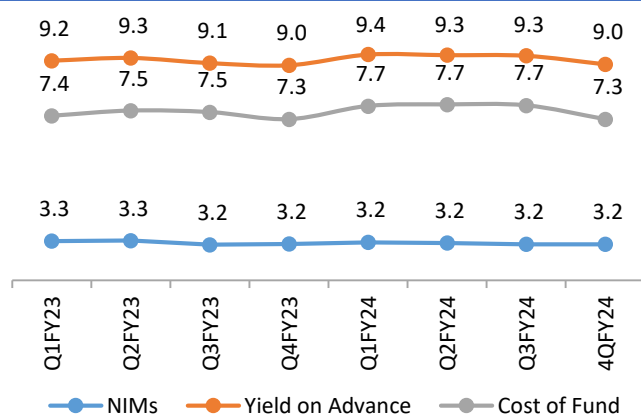
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 59: AUM Mix (%) - Borrower Wise


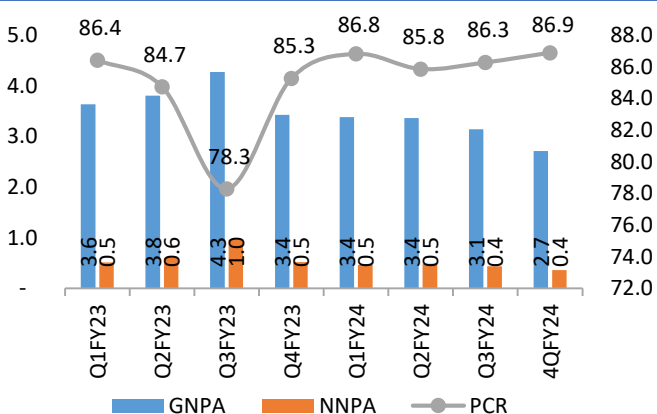
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 60: Borrowing Mix (%)


Source: RBI, Nirmal Bang Institutional Equities Research

Exhibit 61: Operating Margin (%)


Source: Company, Nirmal Bang Institutional Equities Research

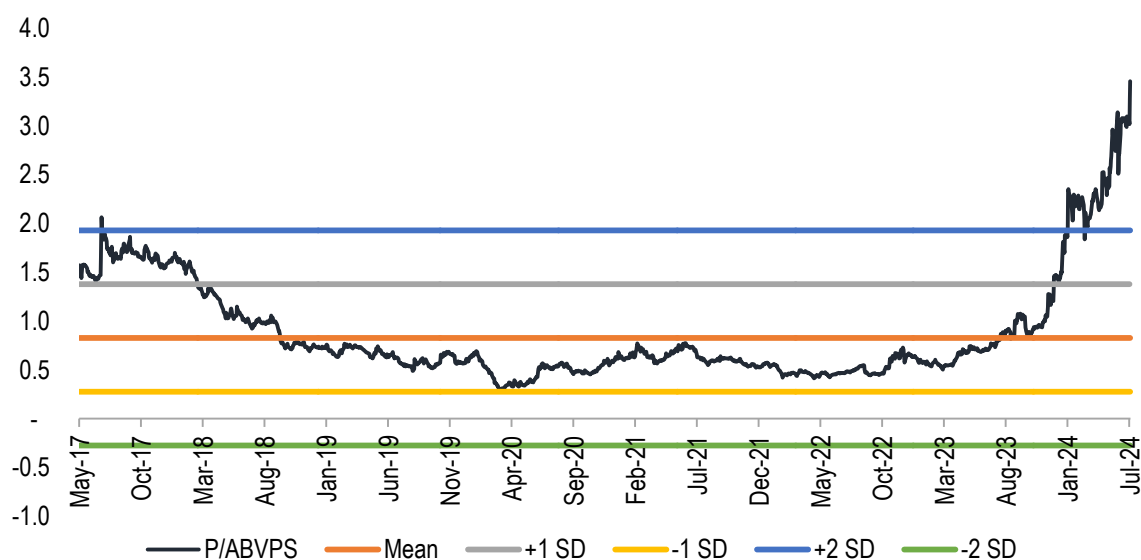
Exhibit 62: Asset Quality (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 63: Financial summary

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
NII	23,555	24,764	26,924	34,488	42,921
PPOP	21,003	22,157	26,354	34,577	43,722
PAT	17,166	17,016	21,167	25,759	32,575
Loans (Rs bn)	769,899	792,370	913,651	1,088,823	1,341,239
RoA (%)	2.2	2.1	2.4	2.5	2.6
RoE (%)	12.4	11.4	13.2	14.8	16.9
P/ABV	4.6	4.3	4.0	3.6	3.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 64: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 65: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	68,881	69,834	76,532	93,512	115,652
Interest expenses	45,325	45,071	49,608	59,023	72,730
Net interest income	23,555	24,764	26,924	34,488	42,921
Non-interest income	1,096	1,027	2,949	3,690	4,486
Net revenues	24,651	25,791	29,873	38,178	47,408
Operating expenses	3,649	3,634	3,519	3,601	3,685
-Employee Exp	2,181	1,866	2,325	2,383	2,443
-Other Exp	1,468	1,768	1,194	1,218	1,242
Operating profit	21,003	22,157	26,354	34,577	43,722
Provisions	-2,457	-737	-2,081	154	190
PBT	23,459	22,894	28,434	34,423	43,532
Tax	6,293	5,878	7,267	8,664	10,957
PAT	17,166	17,016	21,167	25,759	32,575

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 67: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	20,019	20,019	20,019	20,019	20,019
Reserves & surplus	124,664	134,434	146,124	162,574	182,137
Shareholders' funds	144,683	154,453	166,143	182,593	202,156
Borrowings	615,030	629,051	739,959	899,725	1,132,841
Other liability & provisions	29,238	26,206	28,139	28,706	29,284
Total liabilities	788,952	809,710	934,241	1,111,024	1,364,280
Fixed Assets	1,185	1,094	1,033	1,053	1,075
Investments	2,587	2,130	2,988	2,988	2,988
Loans	769,899	792,370	913,651	1,088,823	1,341,239
Cash	6,439	689	3,874	4,948	5,231
Other assets	8,841	13,428	12,696	13,212	13,748
Total assets	788,952	809,710	934,241	1,111,024	1,364,280

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 68: Dupont Analysis

Y/E March (% to avg. assets)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	8.8	8.7	8.8	9.1	9.3
Interest Expense	5.8	5.6	5.7	5.8	5.9
Net Interest Income	3.0	3.1	3.1	3.4	3.5
Non-Interest Income	0.1	0.1	0.3	0.4	0.4
Net Revenue	3.2	3.2	3.4	3.7	3.8
Operating expenses	0.5	0.5	0.4	0.4	0.3
Operating profit	2.7	2.8	3.0	3.4	3.5
Provisions	(0.3)	(0.1)	(0.2)	0.0	0.0
PBT	3.0	2.9	3.3	3.4	3.5
Tax	0.8	0.7	0.8	0.8	0.9
ROA	2.2	2.1	2.4	2.5	2.6
Leverage	5.6	5.3	5.4	5.9	6.4
ROE	12.4	11.4	13.2	14.8	16.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 66: Key ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Growth (%)					
Net interest income	-2.2	5.1	8.7	28.1	24.5
Operating profit	-2.5	5.5	18.9	31.2	26.4
Profit after tax	8.7	-0.9	24.4	21.7	26.5
AUM	3.6	2.8	14.8	21.0	23.2
Spreads (%)					
Yield on loans	9.1	8.9	9.0	9.3	9.5
Cost of Borrowings	7.4	7.2	7.2	7.2	7.2
Spread	1.7	1.7	1.7	2.1	2.4
NIMs	3.1	3.2	3.1	3.4	3.5
Operational efficiency (%)					
Cost-to-income	14.8	14.1	11.8	9.4	7.8
Cost to avg assets	0.5	0.5	0.4	0.4	0.3
CAR (%) & Leverage (x)					
Tier I	74.1	73.6	57.5	53.6	48.9
Tier II	0.2	0.2	0.1	0.1	0.1
CAR	74.3	73.8	57.7	53.7	49.0
Leverage – D/E (x)	4.3	4.1	4.5	4.9	5.6
Asset quality (%)					
GNPA (%)	3.6	3.4	2.7	2.2	1.7
NNPA (%)	0.5	0.5	0.4	0.3	0.2
PCR (%)	86.2	85.2	87.1	87.9	88.9
Credit costs (%)	-0.3	-0.1	-0.2	0.0	0.0
Profitability (%)					
ROE	12.4	11.4	13.2	14.8	16.9
ROA	2.2	2.1	2.4	2.5	2.6
Per share (Rs)					
EPS	8.6	8.5	10.6	12.9	16.3
BVPS	72.3	77.2	83.0	91.2	101.0
ABVPS	70.3	75.1	81.4	89.7	99.6
Valuation (x)					
P/E	37.9	38.2	30.7	25.3	20.0
P/BV	4.5	4.2	3.9	3.6	3.2
P/ABV	4.6	4.3	4.0	3.6	3.3

Source: Company, Nirmal Bang Institutional Equities Research

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