

Stock Update Housing and Urban Development Corp. Ltd. (HUDCO)

July 10, 2023





Housing and Urban Development Corp. Ltd. (HUDCO)

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – NBFC	Rs 58.3	Buy in Rs 58-59 band & add on dips in Rs 52-53 band	Rs 65	Rs 71	2-3 quarters

HDFC Scrip Code	HUDCOEQNR
BSE Code	540530
NSE Code	HUDCO
Bloomberg	HUDCO IN
CMP Jul 7, 2023	58.3
Equity Capital (Rs cr)	2002
Face Value (Rs)	10
Equity Share O/S (cr)	200.2
Market Cap (Rs cr)	11691
Adj. Book Value (Rs)	75.1
Avg. 52 Wk Volumes	76,45,000
52 Week High (Rs)	62.8
52 Week Low (Rs)	34.4

Share Holding Pattern % (Mar, 2023)	
Promoters	81.8
Institutions	7.6
Non Institutions	10.6
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

HUDCO derives significant strength from majority Govt. ownership (81.8% stake) and AAA rating which provides comfort to the lenders and aids in reducing the cost of borrowing for the company. It plays an important role as a nodal agency for the implementation of Government policies in the high-priority sectors of social housing and urban infrastructure. Its portfolio carries relatively low risk profile given the focus on Government-sponsored urban infrastructure and social housing projects. HUDCO, since inception, over last 5 decades, has sanctioned a total of 17,326 housing and urban infrastructure projects (as of FY22), with a cumulative loan component of Rs 224,607 crore and has made a total disbursement of Rs 188,404cr. Apart from this, it has sanctioned more than 1.93cr houses in the country across both rural and urban India.

In longer term, we expect, demand for housing is likely to increase with the increasing urbanization, better affordability and higher incentives provided by the Govt. This is likely to be beneficial for companies like HUDCO. The Govt. is also looking to improve urban infrastructure and provide better living conditions to the rising urban population. HUDCO has restricted its fresh exposures to the private sector since 2013. Legacy private sector loans accounted for only ~3.37% of the total loan book as of Sep'22.

On January 6, 2023, we had released a Stock Update note on HUDCO ([Link](#)) with a recommendation to 'Buy in Rs 52-53 band and add on dips in Rs 46-47 band' for base case fair value of Rs 58.5 and bull case fair value of Rs 62.5 over next 2-3 quarters. The bull case target was achieved within the time frame.

Valuation & Recommendation:

HUDCO has off late ventured into corporate lending activities for urban infrastructure including power, lending to Gridcos in states. We expect the loan book of the company to grow at a conservative CAGR of ~8% over FY23-FY25E. PAT is expected to grow at 11.4% CAGR on account of, stable spreads and contained credit costs. Most of the concerns seem to be reflected in the price and the stock is available at an inexpensive valuation and offers an attractive dividend yield (FY23 dividend Rs 3.85).

We believe investors can buy the stock in the band of Rs 58-59 and add on dips in Rs 52-53 band (0.63x FY25E ABV) for base case fair value of Rs 65 (0.78x FY25E ABV) and bull case fair value of Rs 71 (0.85x FY25E ABV) in the next 2-3 quarters.



Housing and Urban Development Corp. Ltd. (HUDCO)

Financial Summary

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	681	607	12.2	561	21.4	2356	2476	2771	3113
PPoP	588	575	2.2	519	13.3	2100	2179	2503	2850
PAT	639	747	-14.4	254	151.3	1717	1665	1811	2065
EPS (Rs)	3.2	3.7	-14.4	1.3	151.3	7.3	8.3	9.0	10.3
P/E (x)						6.8	7.0	6.4	5.7
P/ABV (x)						0.83	0.78	0.73	0.68
RoAA (%)						2.2	2.1	2.2	2.3

(Source: Company, HDFC sec)

Q4FY23 Result Update

HUDCO reported strong NII growth of 12.2% in Q4FY23 to Rs 681cr driven by higher share of urban infra loans and recognition of interest from standardization of some of the NPA accounts. Yield on assets for FY23 declined by 14bps to 9.01% while Cost of funds fell 15bps to 7.25% resulting in 6bps expansion in NIMs to 3.19%. Disbursement fell by 58% to Rs 3354cr as housing loan/urban infra disbursements declined 72%/38% to Rs 189cr/3163cr. Operating profit grew 2% YoY to Rs 588cr on account of sharp increase in other expenses. HUDCO wrote back provisions of Rs 276cr as compared to Rs 478cr in Q4FY22 leading to 14% YoY decline in PAT to Rs 639cr.

Loan sanctions/Disbursement were mostly for urban infra projects. Outstanding loan book grew by 3% YoY to Rs 80,743cr. Asset quality improved on standardization of some accounts with GNPA/NNPA at 3.42/0.52% against 4.27/0.96% in Q3FY23.

HUDCO has raised resources of Rs 6,850cr in Q4FY23 at an incremental cost of 7.42%. Yields are expected to improve going forward and NIMs are likely to expand as the company passes on the increased costs to the customers and the proportion of higher yield urban infra projects increases.

Key Triggers

Housing sales continue growth momentum

According to a report by real estate consultant Anarock, housing sales increased by 48% in FY23 across seven major cities on higher volumes and better price realisation. In volume terms, sales grew 36% to 3,79,095 units in 2022-23 from 2,77,783 units in the previous year. Real estate developers are building bigger apartments to meet consumer demand, with the average size of flats launched in Q4FY23 rising 5% annually across seven cities to 1225 square feet. The demand for bigger homes is likely to continue despite the increase in prices, leading to higher lending for housing finance companies.



Increased outlay for PMAY

The Finance Minister, Ms Nirmala Sitharaman increased the outlay for PMAY by 66% to Rs 79,000cr in the budget for FY24. The Pradhan Mantri Awas Yojana (PMAY) is a flagship mission of the Government of India announced in June 2015, with an aim to address the housing shortage among the EWS/LIG and MIG categories. 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 Prime Lending Institutions (e.g., banks and HFCs). PMAY has been extended to Mar'24 with a target to build 2.95cr houses.

HUDCO, as Central Nodal Agency (CNA) has executed MoU with 91 Banks/ Prime Lending Institutions (PLIs) for EWS/LIG category which includes 2 Public Sector Banks, 5 Private Sector Banks, 1 NBFC-MFI, 1 Small Finance Bank, 13 Grameen Banks and 69 Cooperative Banks. Further, for MIG-I and MIG-II categories, HUDCO has also executed MoU with 79 Banks/PLIs which includes 2 Public Sector Bank, 5 Private Sector Bank, 1 NBFC, 13 Grameen Bank and 58 Co-Operative Banks.

HUDCO has made concerted efforts to reach the unreached as well as support the flagship programmes of the Government of India. The company continues to address the housing requirements of weaker sections of the society by offering financial assistance/ loan to the Economically Weaker Sections (EWS) and Low-Income groups (LIG) segment of the society at a comparatively lower rate of interest.

Govt. maintains focus on infrastructure sector

In the budget for FY24, the government has decided to set up an Urban Infrastructure Development Fund (UIDF) of Rs 10,000 crore per year for creating infrastructure in Tier-2 and Tier-3 cities. The fund would be established through the use of priority sector lending shortfall and managed by the National Housing Bank. A World Bank report released in Nov'22 estimates that India will need to invest \$840 billion over the next 15 years—or an average of \$55 billion per annum—into urban infrastructure if it is to effectively meet the needs of its fast-growing urban population.

HUDCO has been actively participating in Government of India flagship programs such as Smart City Mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Jal Jeevan Mission, etc. Urban infra accounts for 46% of its outstanding loan book as of FY23 as compared to 39% in FY21. Disbursement to the segment remained high at 86/78% of total disbursements by HUDCO in FY22/FY23.

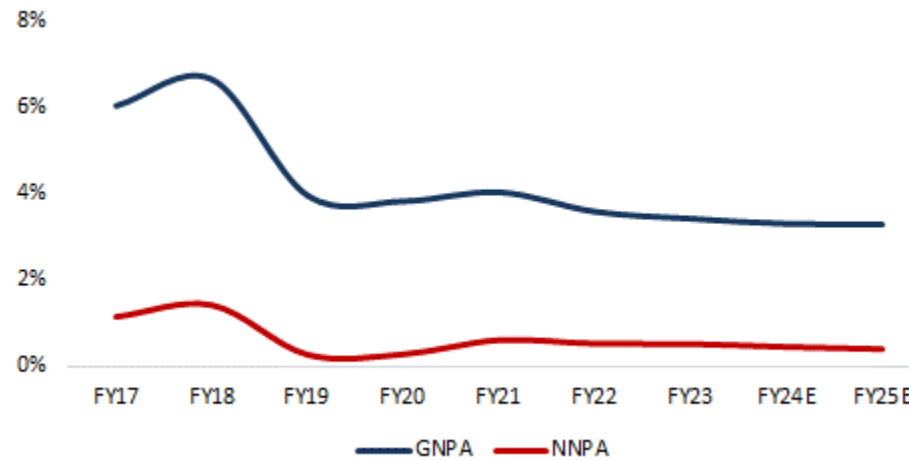
HUDCO has applied for conversion of the Company from HFC to NBFC-IFC with Reserve Bank of India that would enhance the range of infrastructure project financing company can provide.



Slippages to remain contained

HUDCO had taken significant provisioning from FY17-FY20 on account of deterioration in asset quality. However, over the last couple of years we have witnessed low slippages and standardization of some of the accounts on the back of economic recovery. In the last 3 years, HUDCO has written back provisions of Rs 393cr. Since most of its lending is to Govt. agencies, we believe incremental slippages to remain benign and further contraction in NPA ratios.

Improvement in asset quality



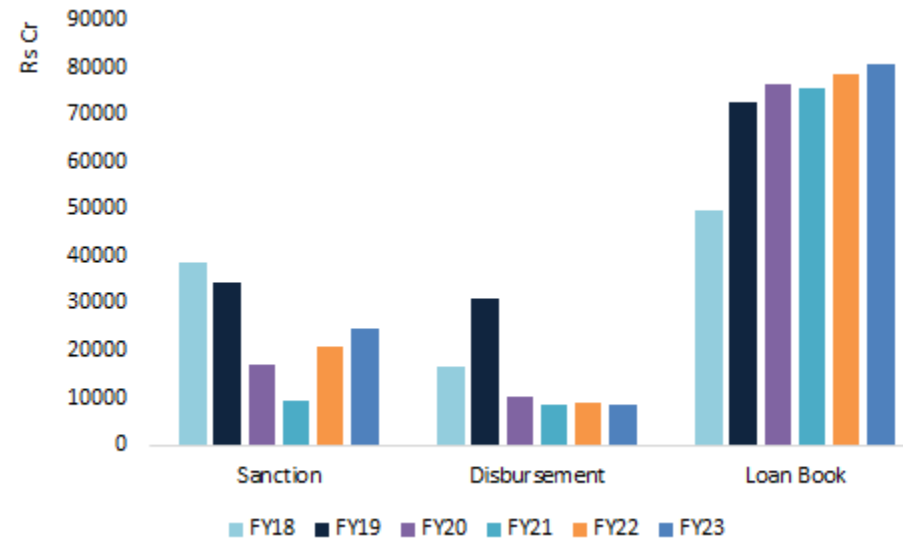
(Source: Company, HDFCsec)

Increasing loan sanction to drive advances growth

Loan sanction by the company have increased in the past two years. However, disbursements have remained flat due to lower drawdowns. We expects higher offtake of loans in the coming years as projects reach peak development phase. Overall credit growth is also showing strong signs of growth. We expect the company to report ~8% CAGR loan book growth over FY23-FY25E.



Sanction and Disbursement trend



(Source: Company, HDFCsec)

Risks & Concerns

Increase in interest rates

Rising interest rates are likely to make home loans costlier and could impact demand for them. It could also compress the NIMs atleast temporarily.

Regulatory changes

Regulatory changes like increase in risk weights for a certain category, cap on interest rates under refinance, provisioning requirements etc. could mar the growth and profitability of the company. Also if its access to cheap sources of funds like Tax free bonds is restrained due to whatever reason, its cost of funds can rise.

Rising competition from banks and peer companies

There is strong competition from banks and peer companies in the housing finance industry as it is considered relatively lower risk loan. Higher competition might result in lower yields going forward.



Delays in payments from State Govts.

Many of the State Governments (including AP and Telangana) have high amounts of debt and delays in payment from them could block the cash flows available for further lending and also increase the NPA levels. About 46% (or Rs 36,982cr) of the loan book of HUDCO is lent to urban Infra projects sponsored mainly by State Govts, while the balance is to housing finance.

The weak financial profile of many of the state governments remains a risk along with state-wise concentration risk in Telangana (18% of asset under management [AUM]) and Andhra Pradesh (AP; 15% of AUM) as on March 31, 2022.

Overhang of stake sale

The Central Govt is required to bring down its stake in the company from the current 81.8% to 75% presenting an overhang of stock supply on the counter.

Delays in urban infra projects

Urban infrastructure projects in India are notorious for delays and cash flow mismatches due to failure to enforce pay for use of these facilities and/or poor finances of State Govts.

HUDCO has a strong reliance on wholesale funding. However, its status as a government-owned company results in very good access to domestic funding from banks and the bond market.

Company Background:

Housing & Urban Development Corp. (HUDCO) is a Government owned company with more than 5 decades of experience in providing loans for housing and urban infrastructure projects in India. Set up in 1970 it is mandated to provide long-term finance for social housing & core urban infrastructure development in the country. HUDCO is also a housing finance company registered with National Housing Bank (NHB). HUDCO's lending is mainly focused towards state undertakings in the housing or urban infrastructure segment. HUDCO is also a Central Nodal Agency, along with NHB, for the implementation and monitoring of the "Pradhan Mantri Awas Yojna – Housing for All by 2022" scheme to be implemented over the period 2015-2022. Presently, HUDCO operates through a corporate office along with 21 regional offices and 11 development offices. It has been conferred the status of Miniratna by the GoI.

HUDCO provides financing for the purpose of developing urban infrastructure in the States and for housing projects. State governments/entities are the major borrowers.



Housing Finance

HUDCO classifies housing finance loans into social housing, residential real estate and retail finance, which is branded as HUDCO Niwas.

Social Housing: Under social housing, the ultimate beneficiaries of the loans are borrowers belonging to the economically weaker sections of the society, which is defined as families with household income of Rs 300,000 p.a. or less, and borrowers belonging to the lower income group, which is defined as families with household income from Rs 3-6 lakhs p.a. Social housing and residential real estate are financed through primarily lending to State Governments and their agencies, which, in turn, extend the finance to or utilize the finance for the ultimate individual beneficiaries. Since FY13 no sanction has been made to new social housing and residential real estate loans to entities in the private sector.

Residential Real Estate: Under residential real estate, the ultimate beneficiaries of the loans are public and private sector borrowers for housing and commercial real estate projects, including land acquisition. Such housing and commercial real estate projects cater primarily to the middle-income group and high-income group of society.

HUDCO Niwas: Under HUDCO Niwas, financing is provided to individuals directly and bulk loans to State Governments, their agencies and public sector undertakings for on-lending to their employees and to other HFCs for on-lending to the general public.

Urban Infrastructure

With respect to urban infrastructure finance, it makes loans for projects relating to:

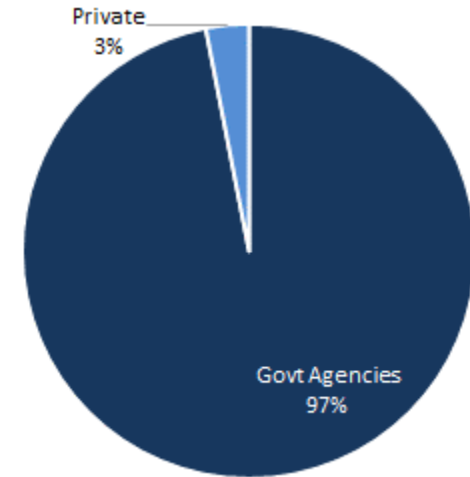
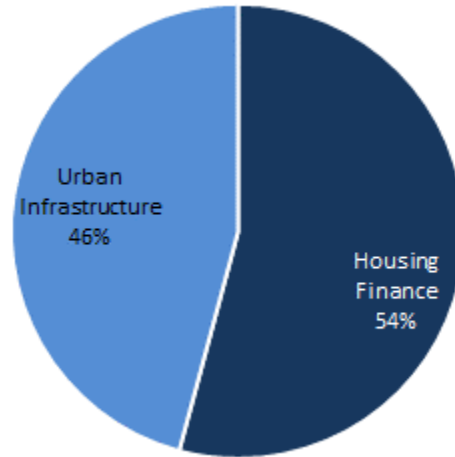
- Water supply
- Roads and transport, which includes railways and ports
- Power
- Emerging sectors, which includes SEZs (special economic zones), industrial infrastructure, gas pipelines, oil terminals and telecom sector projects
- Commercial infrastructure and others, which includes shopping centres, market complexes, malls-cum-multiplexes, hotels and office buildings
- Social infrastructure and area development and
- Sewerage, drainage and solid waste management

Borrowers under Urban Infrastructure Finance are primarily State Governments and their agencies.

HUDCO also provide consultancy services in the area of housing and urban development. Consultancy services include providing services for government housing and urban infrastructure programmes. It plays a key role in various Government's schemes to develop the Indian housing and urban infrastructure sectors, such as DAY-NULM and PMAY-HFA (Urban), through the appraisal and monitoring of projects.



Housing Finance and Govt. agencies dominate loan book



(Source: Company, HDFC sec)



Housing and Urban Development Corp. Ltd. (HUDCO)

Financials

Income Statement

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	7173	6888	6983	7572	8386
Interest Expenses	4765	4533	4507	4801	5273
Net Interest Income	2408	2356	2476	2771	3113
Non interest income	105	110	66	123	160
Operating Income	2513	2465	2542	2895	3273
Operating Expenses	358	365	363	392	423
PPP	2155	2100	2179	2503	2850
Prov & Cont	-74	-246	-74	82	89
Profit Before Tax	2229	2346	2253	2421	2761
Tax	650	629	588	610	696
PAT	1579	1717	1665	1811	2065

Balance Sheet

(Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	2002	2002	2002	2002	2002
Reserves & Surplus	11187	12465	13442	14451	15616
Shareholder funds	13189	14467	15444	16453	17618
Borrowings	60955	61499	62903	67730	73837
Other Liab & Prov.	2815	2928	2622	2661	2658
SOURCES OF FUNDS	76959	78894	80969	86845	94113
Fixed Assets	120	119	109	116	120
Investment	251	257	630	426	461
Cash & Bank Balance	1427	644	69	170	185
Advances	74292	76990	79237	85195	92296
Other Assets	869	885	924	937	1051
TOTAL ASSETS	76959	78894	80969	86845	94113

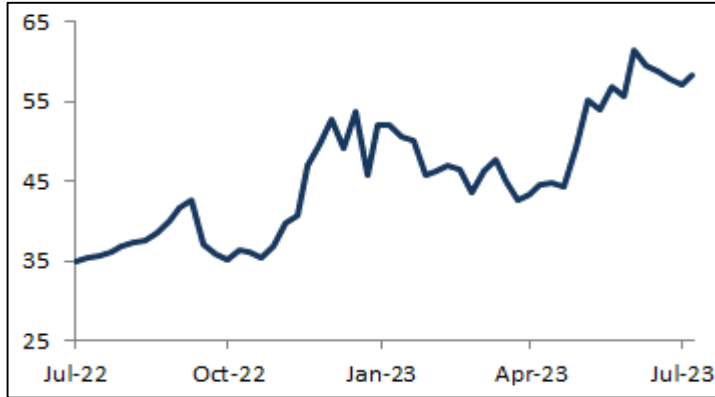
Ratio Analysis

Particulars	FY21	FY22	FY23	FY24E	FY25E
Return Ratios (%)					
Calc. Yield on adv	9.7	9.1	8.9	9.2	9.5
Calc. Cost of borr	7.8	7.4	7.2	7.4	7.5
NIM	3.2	3.1	3.2	3.4	3.5
RoAE	12.4	12.4	11.1	11.4	12.1
RoAA	2.1	2.2	2.1	2.2	2.3
Asset Quality Ratios (%)					
GNPA	4.0	3.6	3.4	3.3	3.3
NNPA	0.6	0.5	0.5	0.5	0.4
Growth Ratios (%)					
Advances	0.0	3.6	2.9	7.5	8.3
Borrowings	-0.5	0.9	2.3	7.7	9.0
NII	-8.6	-2.2	5.1	11.9	12.3
PPoP	-7.5	-2.5	3.7	14.9	13.9
PAT	-7.6	8.7	-3.0	8.7	14.1
Valuation Ratios					
EPS (Rs)	7.9	8.6	8.3	9.0	10.3
P/E (x)	7.4	6.8	7.0	6.4	5.7
Adj. BVPS (Rs)	63.7	70.3	75.1	80.3	86.2
P/ABV (x)	0.92	0.83	0.78	0.73	0.68
Dividend per share (Rs)	2.2	3.5	3.9	4.0	4.5
Dividend Yield (%)	3.7	6.0	6.6	6.9	7.7
Other Ratios					
Cost-Income (%)	14.2	14.8	14.3	13.5	12.9
Leverage (x)	5.6	5.3	5.1	5.2	5.2



Housing and Urban Development Corp. Ltd. (HUDCO)

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Housing and Urban Development Corp. Ltd. (HUDCO)



Disclosure:

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