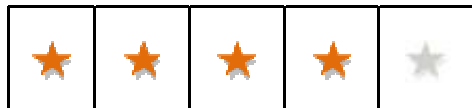


### Recommendation:

**Subscribe**

### Rating:



### Issue Summary:

Price band (Rs)	56-60
Face Value (Rs)	2
Opens	8 <sup>th</sup> May, 2017
Closes	11 <sup>th</sup> May, 2017
Issue Size (Rs)	1209.57cr
Listing	BSE, NSE

### Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

### Book Running Lead Managers:

➤ IDBI Capital Markets & Securities Limited
➤ ICICI Securities Limited
➤ Nomura Financial Advisory and Securities Private Limited
➤ SBI Capital Markets Limited

### Registrar

➤ Alankit Assignments Ltd
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### Company & Business Profile

Housing and Urban Development Corporation Limited (“HUDCO”) was incorporated on 25<sup>th</sup> April, 1970. HUDCO is a wholly-owned government company. The company was incorporated as “The Housing and Urban Development Finance Corporation Private Limited” as a private limited company under the Companies Act, 1956. The company was notified as a Public Financial Institution on December 9, 1996, by the Department of Company Affairs, Ministry of Finance, and Government of India. The “National Housing Bank” issued a certificate of registration to HUDCO on July 31, 2001, permitting HUDCO to carry on the business of a housing finance institution.

### Objects of the Issue:

To carry out the disinvestment of 204,058,747 equity shares by the selling shareholder constituting 10.19% of the company’s pre-offer paid up equity share capital. To achieve the benefits of listing the equity shares on the stock exchanges.

### Business Model:

Housing and Urban Development Corporation Limited (“HUDCO”) is a wholly owned government company with more than 46 years of experience in providing Loans for Housing and Urban Infrastructure Projects in India. HUDCO has been conferred the status of Miniratna (Category- I Public Sector Enterprise) by the Government of India.

As at December 31, 2016 the Total Outstanding Loan Portfolio:

Types of Loans	Loan Amount (in Cr)	% to Total
Housing Finance Loans	11,228.14	30.86%
Urban Infrastructure Finance loans	25,157.68	69.14%
Total Outstanding loan portfolio	36,385.82	100%

HUDCO classify their Housing Finance Loans into Social Housing, Residential Real Estate and Retail Finance, which is branded as HUDCO Niwas. Under HUDCO Niwas, the company provides financing to individuals directly and bulk loans to state Governments, their agencies and public sector undertakings (“PSUs”) for on – lending to their employees and to other HFCs for on-lending to the general public.

HUDCO finance social housing and residential real estate through lending to state governments and their agencies, which in turn extend the finance for the ultimate individual beneficiaries.



With Respect to Urban Infrastructure Finance, HUDCO make loans for projects relating to:

- Roads and transport;
- Power;
- Water supply;
- Special Economic Zones, Industrial infrastructure, Gas pipeline, Oil terminals and Telecom sector projects;
- Social Infrastructure and Area development.

#### Competitive Strength:

- **Key role in various governments' schemes to develop the Indian housing and urban infrastructure sectors:**  
HUDCO play a key role in various Governments schemes to develop the Indian housing and urban infrastructure sectors, such as DAY-NULM, JNNURM and PMAY-HFA (Urban), through the appraisal and monitoring of projects. Through their role of appraising projects under various government schemes, HUDCO has built a strong relationship with state governments and their agencies. As at December 31, 2016, Rs 32,721.98 crore or 89.93% of the total loan portfolio, were to state governments and their agencies.
- **Highest credit ratings, access to diversified and lower cost funding and ability to significantly increase the borrowings:**  
HUDCO hold a credit rating of "AAA" for long-term borrowings from each of CARE, ICRA and IRRPL, which lowers the cost of borrowing. As on March 31, 2017, HUDCO met their funding requirements through the equity shares issued to their promoter and from market borrowings, including tax-free bonds, taxable bonds, deposits, commercial paper, re-financing assistance from the NHB and term loans. Company's relationship with the government currently provides them with access to funds for a long-term duration and at a lower cost of borrowing. It has also enabled them to source foreign currency loans from bi-lateral and multi-lateral agencies, which diversifies their lenders.
- **Company has established track records, profitable since inception and a strong financial position:**  
HUDCO has been profitable since its inception over 46 years ago, the profit after tax of Rs. 496.86 crore (consolidated), Rs. 809.61 crore (consolidated), Rs.768.32 crore and Rs. 733.97 crore for the 9 months ended December 31, 2016 and Fiscals 2016, 2015 and 2014, respectively. As on December 31, 2016, HUDCO had a net worth of Rs 8908.26 crore (standalone). The CRAR as at December 31, 2016 was 63.70%, all of which was Tier 1 capital, compared to the minimum required CRAR of 12.00% and a minimum Tier 1 CRAR of 6.00%. Their sustained performance and profitability enabled them to earn the Miniratna (Category-I Public Sector Enterprise) status, which conferred to HUDCO in Fiscal 2005.

#### Concern:

- Increase in non-performing assets in outstanding loans, advances, and investments would adversely affect the profitability of the company.
- Default on the obligations by borrowers may adversely affect the financial metrics of the company.
- Social housing segment exposes the company to high NPA's in the future.

**Outlook & Valuations:**

- The issue has been offered in a price band of Rs 56-60 per equity share. At the upper price band the stock is available at P/E of 18 (x) based on annualized EPS of FY17E financials. Industry composite PE for the company stands at 30 (x). However, the RoE for the stock is 7.59% for Dec'FY16. We have **"4 star"** rating for the issue.
- We recommend subscribing to the issue.

**Financials (Rs in Crs):**

Description	FY14	FY15	FY16	Dec'FY16
Share capital	2002	2002	2002	2002
Reserves	5130	5779	6470	6967
Net Worth	7073	7721	8412	8908
Long Term Loans & Advances	24034	27174	29567	30025
Long term Borrowings	18868	18315	21354	23082
Revenue from Operations	2951	3347	3253	2613
Profit Before Tax	1105	1170	1125	742
Net Profit	734	768	810	497
Net Profit Margin(NIM)	24.8%	22.7%	24.9%	19.0%
EPS	3.7	3.8	4	2.5*
ROE (%)	10.8%	10.3%	9.9%	7.6%
NAV (Rs per Share)	35.3	38.6	42	44.5
Return on Average Asset	2.57%	2.43%	2.35%	1.84%
Debt Equity Ratio	2.9	2.7	3.0	2.8
(*Annualised EPS = Rs 3.33)				

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