



Housing and Urban Development Corporation Limited ("HUDCO") was incorporated on April 25, 1970. 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 ("GoI"). The Company classifies their Housing Finance Loans into Social Housing, Residential Real Estate and Retail Finance, which is branded as HUDCO Niwas (collectively, "Housing Finance"). 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. As at Dec.31, 2016, Housing Finance loans accounted for 30.86% and Urban Infrastructure Finance Loans and project linked bonds accounted for 69.14% of total loan book of Rs. 364 bn.

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.

With respect to Urban Infrastructure Finance, HUDCO make loans for projects relating to: Water supply; Roads and transport; Power; Emerging sectors, which includes SEZs, 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 (collectively, "Urban Infrastructure Finance").

HUDCO enjoys a credit rating of "AAA" for long-term borrowings from each of CARE, ICRA and IRRPL, which lowers the cost of borrowing. As at 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.

HUDCO has been profitable since it's 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 at 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.

#### Investment rationale and recommendation

At the upper end of the price band of Rs. 60, the IPO is valued at 1.3x at FY17E post issue Book Value which is cheap. There are no direct listed peers when the Company is considered as a whole as it is catering mainly to state governments for housing and infrastructure projects. With due consideration to factors like a) HUDCO's key role in various Government's

|                              |   |        |        |        |
|------------------------------|---|--------|--------|--------|
| Issue date                   | May 08 – 11, 2017   |        |        |        |
| Type of issue                | Offer for sale: 204 mn equity shares (Rs. 12.09 bn)                       |        |        |        |
| Face Value                   | Rs. 10  |        |        |        |
| Price Band                   | Rs. 56 – Rs. 60 per share   |        |        |        |
| Discount                     | Rs. 2 for retail investors and employees                                  |        |        |        |
| Lot size                     | 200 equity Shares & multiple of 200 equity shares thereafter              |        |        |        |
| Equity shares pre/post issue | 2001.9 mn equity shares at upper end of price band                        |        |        |        |
| Issue structure              | QIB: 50%<br>Retail: 35%<br>Non – Institutional: 15%                       |        |        |        |
| Post issue market cap        | Rs. 112.1 – 120.1 bn  |        |        |        |
| Book Running Lead Managers   | IDBI Capital, ICICI Securities, Nomura, SBI Capital Markets               |        |        |        |
| Registrar to the issue       | Alankit Assignments Ltd.  |        |        |        |
| Shareholding                 | Promoters - 89.8 % (post issue)<br>Public and others - 10.2% (post issue) |        |        |        |
| Allotment /Refund date       | 18 <sup>th</sup> May, 2017  |        |        |        |
| Listing date                 | 19 <sup>th</sup> May, 2017  |        |        |        |
| Y/e 31 Mar (Rs. mn)          | 9MFY17  | FY16   | FY15   | FY14   |
| Total op. income             | 11,694  | 14,428 | 16,525 | 13,012 |
| Operating profit             | 10,213  | 12,497 | 14,437 | 11,343 |
| PAT                          | 4,963   | 8,106  | 7,683  | 7,340  |
| EPS (Rs.)                    | 3.3   | 4.0    | 3.8    | 3.7    |
| Book Value (Rs.)             | 42  | 39     | 36     | 32     |
| P/BV(x)                      | 1.4   | 1.5    | 1.7    | 1.9    |
| P/E (x)                      | 18  | 15     | 15.6   | 16     |
| CAR (%)                      | 63.7  | 63.9   | 50.5   | 27.89  |
| RoA (%)                      | -   | 2.3    | 2.4    | 2.6    |
| RoE (%)                      | -   | 9.6    | 10     | 10.4   |

Source: RHP, Ajcon Research

*schemes to develop the Indian housing and urban infrastructure sectors, b) highest credit ratings, access to diversified and lower-cost funding and ability to significantly increase the borrowings in compliance with HFC directions, c) established track record, profitable since inception and a strong financial position, d) lending to state agencies with zero default risk, e) pan – India presence and strong relationships with State governments and their agencies, e) decent asset growth with strong RoA of 2.3 percent augurs well for the Company, we recommend "SUBSCRIBE" to the issue.*



## Objects of the issue

- a) Offer for sale of 204,058,747 equity shares by Government of India as part of Disinvestment process constituting 10.19 percent of the Company's pre-offer paid up equity share capital and to achieve the benefits of listing the equity shares on the stock exchanges

## Company and Promoters' background

Housing and Urban Development Corporation Limited ("HUDCO") was incorporated on April 25, 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. Subsequently, the name of the company was changed to its present name, "Housing and Urban Development Corporation Limited" ("HUDCO") on July 9, 1974. The company was notified as a Public Financial Institution on December 9, 1996, by the Department of Company Affairs, Ministry of Finance, GoI. HUDCO is a wholly-owned Government company. Further, the National Housing Bank ("NHB") issued a certificate of registration to HUDCO on July 31, 2001, permitting HUDCO to carry on the business of a housing finance institution.

Ravi Kanth Medithi, IAS (r), is the Chairman and Managing Director of the company. He has been associated with the company since April 11, 2014. He has over 29 years of experience in public administration and has held various positions with government organisations, including, the Projects and Development India Limited as its Chairman and Managing Director and the Nuclear Fuel Complex, Department of Atomic Energy as its Deputy Chief Executive. He has also held various positions with the GoI, Government of Kerala and the Government of the National Capital Territory of Delhi, including Principal Secretary to Government of Kerala and Joint Secretary, Ministry of Power, GoI.



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