

Indiabulls Housing Finance

NII in-line; EPS beat due to lower tax rate

P&L details not comparable; adjusted NII in-line with estimates

Net operating income declined q/q; however, this was due to difference in financial reporting. Revenue from mutual fund was reported as other income (vs income from operations in Q3FY14) as this was primarily in the form of capital gains. Adj. NII was in-line with estimates at Rs 7.04bn. Tax rates were lower as income from capital gain is tax exempt. This was partly offset by higher provisions made on GNPLs. Reported PAT was higher than estimates at Rs 4.5bn (up 23% y/y).

Positives: 23% profit growth, AUM growth guidance revised upwards

1) PAT beat despite higher provisions 2) Management increased the guidance for AUM growth to 25%+ 3) CI ratio continues to decline at 17% for FY14 (18% in FY12) 4) Spreads remained stable q/q at 3.5% 4) Dividend payout for FY14 at above 60% 5) Margins support from potential change in Liability mix in favor of bonds. Proportion to change from 30% currently to 35% by H2FY15 (management guidance) 6) PCRs improved from 46% in Q3FY14 to 57% due to higher provisions.

Negatives: Marginally higher delinquency

1) AUM growth in lower range of guidance at 20% y/y (similar to 3QFY14) 2) Adjusted for write-offs, GNPLs increased q/q. However, FY15 GNPLs/NNPLs guidance maintained at 70-90bps/30-50bps (3) Disbursements declined from Rs 42bn to Rs 38bn y/y.

Valuation: PT of Rs 290; Maintain Neutral

Our estimates imply a PAT CAGR of 16% over FY14-FY16E. Our price target is based on our residual income model, implying 1.5x FY15E P/BV and 5.3x FY15E P/EPS.

Equities

India
Diversified Financial

12-month rating **Neutral ***

12m price target **Rs290.00**

Price **Rs276.25**

RIC: INBF.BO BBG: IHFL IB

Trading data and key metrics

52-wk range Rs286.20-180.75

Market cap. Rs91.9bn/US\$1.50bn

Shares o/s 333m (ORD)

Free float 55%

Avg. daily volume ('000) 2,782

Avg. daily value (m) Rs618.1

Common s/h equity (03/14E) Rs57.1bn

P/BV (03/14E) 1.6x

Tier 1 ratio 15%

EPS (UBS, diluted) (Rs)

	UBS	Cons.
03/14E	46.82	47.47
03/15E	54.81	53.63
03/16E	58.18	56.45

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Highlights (Rsm)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Revenues	16,106	19,264	21,788	26,789	31,863	37,365	43,824	48,408
Profit before tax	9,916	13,220	16,551	19,818	24,159	27,753	33,554	36,593
Net earnings (local GAAP)	7,408	9,981	12,584	15,642	18,309	21,033	25,430	27,733
Net earnings (UBS)	7,408	9,981	12,584	15,642	18,309	21,033	25,430	27,733
Tier 1 ratio %	21.3	18.2	15.0	15.0	14.0	14.4	13.8	13.1
EPS (UBS, diluted) (Rs)	23.86	32.07	40.27	46.82	54.81	58.18	70.34	76.71
Profitability/valuation	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
ROE (UBS) %	16.7	21.1	25.3	29.1	30.1	28.9	29.2	27.8
P/PPOP (diluted)	4.1	3.3	4.3	4.1	3.5	3.2	2.7	2.5
P/BV x	1.1	1.1	1.6	1.6	1.4	1.2	1.1	0.9
P/BV (UBS) x	1.1	1.1	1.6	1.6	1.4	1.2	1.1	0.9
P/E (UBS, diluted)	6.6	5.2	6.0	5.9	5.0	4.7	3.9	3.6
Net dividend yield %	6.4	7.8	8.2	10.5	9.9	9.5	11.5	12.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs276.25 on 24 Apr 2014 22:38 HKT

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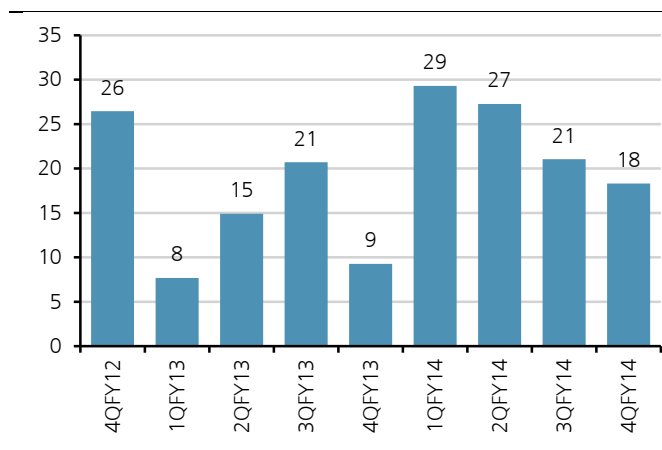
This report has been prepared by UBS Securities India Private Ltd. * Exception to core rating bands; See page 8 **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8**. UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Key Highlights

Net profit up 23% y/y; P&L numbers not comparable

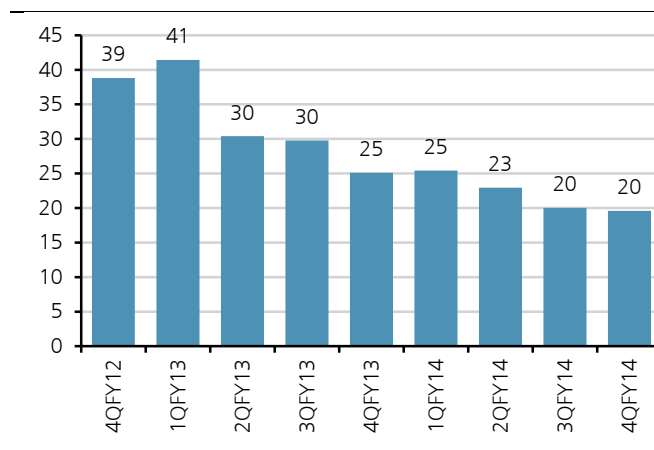
Net operating income declined q/q; however, this was due to difference in financial reporting. Revenue from mutual fund was reported as other income (vs income from operations in Q3FY14) as this was primarily in form of capital gains. Adj. NII was in-line with estimates at Rs 7.04bn. Tax rates were lower as income from capital gain is tax exempt. This was partly offset by higher provisions made on GNPLs. Reported PAT was higher than estimates at Rs 4.5bn (up 23% y/y). AUM grew by 20% y/y.

Figure 1: NII growth y/y, %



Source: Company

Figure 2: AUM growth y/y, %

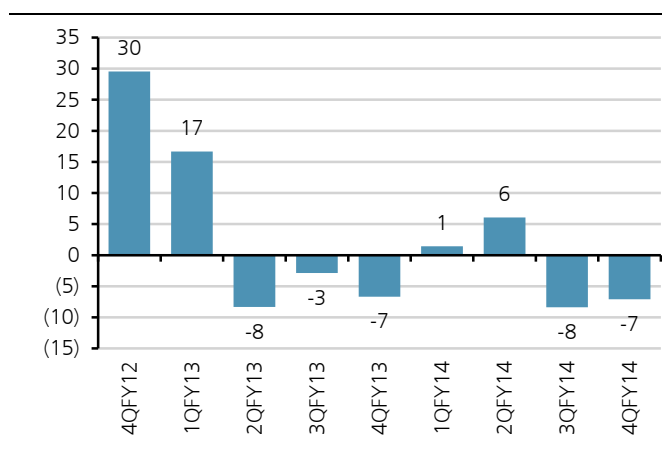


Source: Company

Higher disbursements q/q, liability profile shifted to bonds

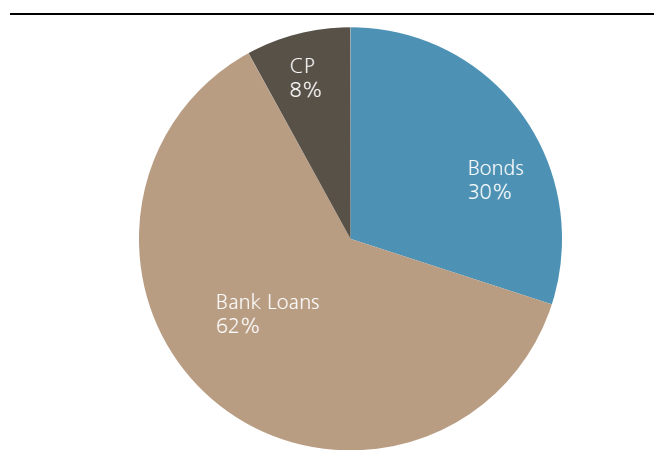
Disbursements declined 7% y/y but increased 22% q/q to Rs38 bn. Liability profile remained similar to FY13. The management has guided that in the liability mix, bonds would increase from 30% to 35% going forward.

Figure 3: Disbursements, %



Source: Company

Figure 4: Liability profile, %

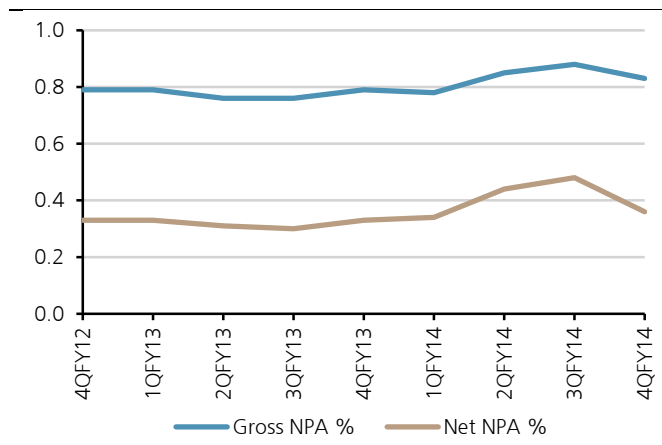


Source: Company

Asset quality improved on write-backs

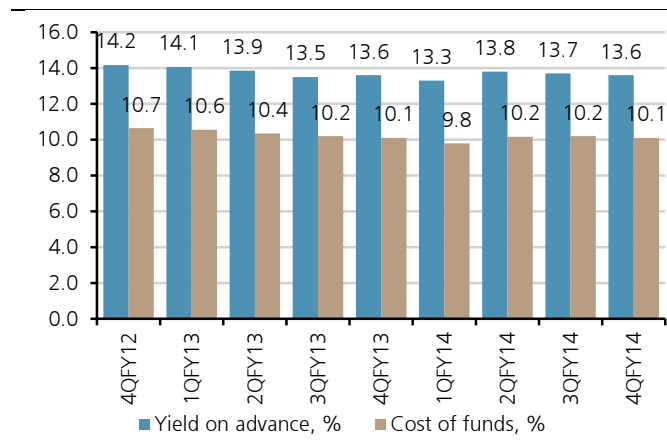
Gross NPA stood at 0.83% (-5 bps q/q), NNPA at 0.36% (-12 bps q/q). IBHFL has written off some loans; adjusted for that, GNPLs have increased q/q. NNPA declined due to higher NPL provisions. The yield on advances stood at 13.6%, while cost of funds at 10.1% resulting in a spread of 350 bps.

Figure 5: Asset quality, %



Source: Company

Figure 6: Yield on advance and cost of funds, %



Source: Company

Figure 7: Quarterly Income Statement, Rs mn

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	yy %
Operating income	10,395	11,728	12,106	13,234	13,124	14,546	15,658	13,224	7
Other income	169	112	99	105	316	195	88	2,463	162
Interest expenses	5,740	6,654	6,655	6,947	7,136	8,098	9,068	8,522	23
Total Income	10,564	11,840	12,206	13,339	13,440	14,741	15,746	15,686	18
Other exp.	626	664	638	1,038	878	897	608	1,872	80
Establishment exp.	97	-	-	-	-	-	-	-	-
Staff expenses	559	600	564	522	694	673	688	583	12
Depreciation	22	31	20	21	21	20	20	18	- 13
PBT	3,519	3,891	4,329	4,811	4,711	5,053	5,362	4,691	- 2
Tax	843	855	1,058	1,135	1,196	1,350	1,411	176	- 84
PAT	2,677	3,036	3,272	3,676	3,515	3,704	3,951	4,515	23
Tax rate (%)	24.0%	22.0%	24.4%	23.6%	25.4%	26.7%	26.3%	3.8%	

Source: Company

Figure 8: Other key details

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	y/y %
AUM (Rs mn)	293,980	310,250	325,510	344,250	368,740	381,400	390,690	411,690	20
Asset compositions									
Mortgage	71.0%	71.0%	71.0%	72.0%	72.0%	73.0%	73.0%	74.0%	
Corporate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
Others	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
CV	8.0%	8.0%	8.0%	7.0%	7.0%	6.0%	6.0%	5.0%	
Gross NPLs (Rs mn)									
	2,330	2,360	2,474	2,720	2,876	3,242	3,438	3,417	26
Gross NPL ratio (%)									
	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%	
Net NPLs (Rs mn)									
	982	970	977	1,136	1,254	1,678	1,875	1,482	30
Net NPL ratio (%)									
	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.5%	0.4%	

Source: Company

Figure 9: Balance sheet details (Rs mn)

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	y/y %
Shareholders Fund	51,024	51,734	52,413	50,558	51,012	55,200	56,491	57,070	13
Loan Funds	275,030	253,497	247,082	248,155	261,015	298,296	296,172	293,129	18
Fixed Assets	456	455	457	456	456	459	477	469	3
Investments	38,124	27,395	21,737	23,079	38,176	23,487	44,598	29,470	28
Current Assets	345,181	340,478	343,325	360,943	370,940	399,146	385,232	403,538	12
Loans & Advances	275,190	306,616	305,222	308,798	333,472	346,241	347,146	355,800	15
Current Liabilities									
	66,044	106,322	66,323	86,221	96,973	74,352	82,079	90,280	5
Provisions	8,296	8,467	8,177	8,277	9,069	10,712	8,613	8,842	7
Net Current Assets	279,137	234,156	277,001	274,722	273,968	324,793	303,154	313,258	14

Source: Company

[Note: This item updates a comment published on 24 April 2014 to restate Tier 1 ratio data in the front page and management guidance for liability mix on page 2.]

Indiabulls Housing Finance (INBF.BO)

	03/11	03/12	03/13	03/14E	% ch	03/15E	% ch	03/16E	03/17E	03/18E
Profit & Loss (Rsm)										
Net income interest	12,252	13,035	16,643	19,041	14.4	22,777	19.6	26,962	31,349	34,568
Total non interest income	3,854	6,229	5,145	7,748	50.6	9,086	17.3	10,403	12,475	13,840
Total income	16,106	19,264	21,788	26,789	23.0	31,863	18.9	37,365	43,824	48,408
Total cash expenses	(4,073)	(3,712)	(3,920)	(4,435)	-13.1	(5,119)	-15.4	(5,907)	(6,842)	(8,114)
Pre-depreciation operating profit	12,033	15,551	17,868	22,354	25.1	26,745	19.6	31,458	36,982	40,294
Depreciation & amort (excl. goodwill)	(110)	(91)	(94)	(79)	15.9	(99)	-25.0	(123)	(154)	(193)
Operating profit pre provisions	11,923	15,460	17,774	22,275	25.3	26,646	19.6	31,334	36,828	40,102
Total provisions	(2,007)	(2,240)	(1,223)	(2,457)	-100.9	(2,487)	-1.2	(3,581)	(3,274)	(3,509)
Operating profit post provisions	9,916	13,220	16,551	19,818	19.7	24,159	21.9	27,753	33,554	36,593
Income from associates & JVs (pre-tax)	0	0	0	0	-	0	-	0	0	0
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	9,916	13,220	16,551	19,818	19.7	24,159	21.9	27,753	33,554	36,593
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	9,916	13,220	16,551	19,818	19.7	24,159	21.9	27,753	33,554	36,593
Tax	(2,406)	(3,156)	(3,891)	(4,132)	-6.2	(5,798)	-40.3	(6,661)	(8,053)	(8,782)
Profit after tax	7,510	10,065	12,660	15,685	23.9	18,361	17.1	21,092	25,501	27,811
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(102)	(83)	(76)	(44)	42.6	(51)	-17.1	(59)	(71)	(78)
Net earnings (local GAAP)	7,408	9,981	12,584	15,642	24.3	18,309	17.1	21,033	25,430	27,733
Net earnings (before pref divs)	7,408	9,981	12,584	15,642	24.3	18,309	17.1	21,033	25,430	27,733
Net earnings (UBS)	7,408	9,981	12,584	15,642	24.3	18,309	17.1	21,033	25,430	27,733
Per share (Rs)										
EPS (local GAAP, basic)	23.86	32.07	40.27	46.82	16.3	54.81	17.1	58.18	70.34	76.71
EPS (UBS, diluted)	23.86	32.07	40.27	46.82	16.3	54.81	17.1	58.18	70.34	76.71
PPOP (diluted)	38.40	49.67	56.87	66.68	17.2	79.77	19.6	86.67	101.86	110.92
Net DPS	10.01	13.01	19.99	29.08	45.5	27.48	-5.5	26.25	31.74	34.61
BVPS	146.55	157.53	151.97	170.84	12.4	193.65	13.4	223.82	257.22	293.64
BVPS (UBS)	146.55	157.53	151.97	170.84	12.4	193.65	13.4	223.82	257.22	293.64
Balance sheet (Rsm)										
Banking assets (year end)	252,272	322,255	391,288	444,184	13.5	541,261	21.9	662,221	794,057	956,341
Banking assets (average)	193,745	287,264	356,772	417,736	17.1	492,722	18.0	601,741	728,139	875,199
Total assets (year end)	252,272	322,255	391,288	444,184	13.5	541,261	21.9	662,221	794,057	956,341
Risk weighted assets (RWA) (year end)	209,733	262,768	337,215	370,396	9.8	451,347	21.9	552,213	662,148	797,474
Risk weighted assets (RWA) (average)	164,526	236,250	299,992	353,806	17.9	410,871	16.1	501,780	607,181	729,811
Customer loans	196,632	254,675	308,808	355,800	15.2	443,672	24.7	548,032	661,677	801,562
Customer loans (average)	152,844	225,653	281,741	332,304	17.9	399,736	20.3	495,852	604,854	731,619
Interest earning assets (average)	160,889	237,530	296,570	349,794	17.9	420,774	20.3	521,949	636,689	770,126
Customer deposits	0	0	0	0	-	0	-	0	0	0
Common s/h equity (year end)	45,398	49,055	50,558	57,070	12.9	64,690	13.4	80,921	92,997	106,167
Common s/h equity (average)	44,249	47,226	49,806	53,814	8.0	60,880	13.1	72,806	86,959	99,582
Total SHF (equity, pref & MI) (year end)	46,507	50,266	51,873	58,519	12.8	64,709	10.6	80,940	93,016	106,186
Total SHF (equity, pref & MI) (average)	45,319	48,386	51,069	55,196	8.1	61,614	11.6	72,825	86,978	99,601
Net tangible assets	46,507	50,266	51,873	58,519	12.8	64,709	10.6	80,940	93,016	106,186
Balance sheet structure (%)										
Loans / banking assets (year end)	77.9	79.0	78.9	80.1	1.5	82.0	2.3	82.8	83.3	83.8
Deposits / banking assets (year end)	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Loans / deposits	-	-	-	-	-	-	-	-	-	-
Total SHF / banking assets (year end)	18.4	15.6	13.3	13.2	-0.6	12.0	-9.3	12.2	11.7	11.1

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Indiabulls Housing Finance (INBF.BO)

	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Capital adequacy (Rsm)								
Tier 1 capital	44,636	47,929	50,447	55,708	63,192	79,273	91,185	104,173
Total capital	45,085	49,637	62,284	70,820	78,304	94,385	106,297	119,285
Risk weighted assets (RWA) (year end)	209,733	262,768	337,215	370,396	451,347	552,213	662,148	797,474
Core tier 1 ratio %	21.3	18.2	15.0	15.0	14.0	14.4	13.8	13.1
Tier 1 ratio %	21.3	18.2	15.0	15.0	14.0	14.4	13.8	13.1
Total capital ratio %	21.5	18.9	18.5	19.1	17.3	17.1	16.1	15.0
Tangible equity	45,398	49,055	50,558	57,070	64,690	80,921	92,997	106,167
Equity / assets %	18.0	15.2	12.9	12.8	12.0	12.2	11.7	11.1
Tangible equity to tangible assets %	18.0	15.2	12.9	12.8	12.0	12.2	11.7	11.1
Asset quality (Rsm)								
Non performing assets	2,042	2,174	2,720	3,417	5,069	6,513	7,874	9,416
Total risk reserves	1,289	1,287	1,584	1,935	3,787	5,463	7,290	9,244
NPLs / loans %	-	0.8	0.9	1.0	1.1	1.2	1.2	1.2
NPL coverage %	63.1	59.2	58.2	56.6	74.7	83.9	92.6	98.2
Provision charge / average loans %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net NPAs / shareholders funds %	1.6	1.8	2.2	2.5	2.0	1.3	0.6	0.2
Profitability (%)								
Net interest margin (avg assets)	6.32	4.54	4.66	4.56	4.62	4.48	4.31	3.95
Provisions / operating profit	16.8	14.5	6.9	11.0	9.3	11.4	8.9	8.7
ROE (UBS earnings)	16.7	21.1	25.3	29.1	30.1	28.9	29.2	27.8
RoAdjE (UBS earnings & equity)	16.7	21.1	25.3	29.1	30.1	28.9	29.2	27.8
RoRWA (UBS)	4.56	4.26	4.22	4.43	4.47	4.20	4.20	3.81
RoA (UBS earnings)	3.88	3.50	3.55	3.75	3.73	3.51	3.50	3.18
Productivity (%)								
Cost income ratio	26.0	19.7	18.4	16.9	16.4	16.1	16.0	17.2
Cost / average assets	2.16	1.32	1.13	1.08	1.06	1.00	0.96	0.95
Compensation expense ratio	12.2	11.1	11.2	10.6	10.2	10.0	9.8	10.6
Growth (%)								
Revenue	55.3	19.6	13.1	23.0	18.9	17.3	17.3	10.5
Operating profit pre provisions	55.5	29.7	15.0	25.3	19.6	17.6	17.5	8.9
Net earnings (UBS)	154.9	34.7	26.1	24.3	17.1	14.9	20.9	9.1
Net DPS	88.8	30.0	53.7	45.5	-5.5	-4.5	20.9	9.1
Total assets (year end)	86.6	27.7	21.4	13.5	21.9	22.3	19.9	20.4
Customer loans	80.3	29.5	21.3	15.2	24.7	23.5	20.7	21.1
Customer deposits	-	-	-	-	-	-	-	-
Value (x)								
Market cap/revenues	3.0	2.7	3.7	3.4	2.9	2.5	2.1	1.9
Market cap/deposits	-	-	-	-	-	-	-	-
P/PPOP (diluted)	4.1	3.3	4.3	4.1	3.5	3.2	2.7	2.5
P/E (local GAAP, basic)	6.6	5.2	6.0	5.9	5.0	4.7	3.9	3.6
P/E (UBS, diluted)	6.6	5.2	6.0	5.9	5.0	4.7	3.9	3.6
Net dividend yield %	6.4	7.8	8.2	10.5	9.9	9.5	11.5	12.5
P/BV x	1.1	1.1	1.6	1.6	1.4	1.2	1.1	0.9
P/BV (UBS) x	1.1	1.1	1.6	1.6	1.4	1.2	1.1	0.9

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+5.0%
Forecast dividend yield	9.9%
Forecast stock return	+14.9%
Market return assumption	13.8%
Forecast excess return	+1.1%

Statement of Risk

We believe a slowdown in real estate volumes and a spike in interest rates could impact mortgage demand. A spike in interest rates and irrational competition will impact NIMs for the company. Change in regulatory requirements particularly capital requirements would dilute medium term returns for the business. A diversion from stated management strategy of lending towards mortgages could lead to concerns on the risk perception of the book.

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UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities India Private Ltd: Ishank Kumar; Vishal Goyal, CFA. **UBS AG Hong Kong Branch:** Stephen Andrews, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Indiabulls Housing Finance²⁰	INBF.BO	Neutral (CBE)	N/A	Rs276.25	24 Apr 2014

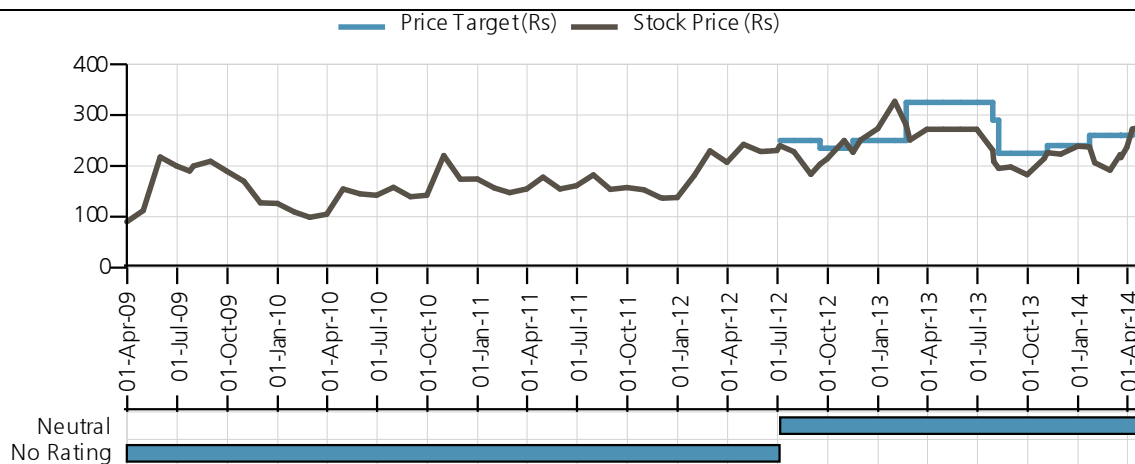
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

20. Because this security exhibits higher-than-average volatility, the FSR has been set at 15% above the MRA for a Buy rating, and at -15% below the MRA for a Sell rating (compared with 6/-6% under the normal rating system).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Indiabulls Housing Finance (Rs)



Source: UBS; as of 24 Apr 2014

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