

## Performance outlier

24 January 2025

Firing on all cylinders, HUDCO (HUDCO IN), the *numero uno* firm, which finances urban infra and government's PMAY affordable projects to State agencies, recorded a robust earnings quarter underpinned by high order loans and asset resolution. HUDCO has ushered in 15% ROE ahead of expectations promising 25% loan growth and 15-16% ROE during FY26-27E. After witnessing a confluence of fundamental & cyclical tailwinds and with froth in valuation standing behind us, we reiterate our **Conviction Buy** call.

**Exceeding business benchmarks; ROE gets closer to the 15% mark:** Q3 was a good quarter, with PAT soaring to INR 7.4bn, up 6.7% QoQ and 42% YoY, powered by robust NII at INR 9.8bn, up 23.3% QoQ and 47.3% YoY, a provision write-back of INR 168mn, and AUM growth of 7.1% QoQ and 40.9% YoY. Asset quality strengthened further, with GNPA dipping 16bp to ~1.9%. The strategic pivot toward high-yield infrastructure projects paid off, with yield rising to ~9.4% in 9MFY25 vs ~9.4% in 9MFY24 while COF improved, easing from ~7.7% to ~7.5%, due to low-cost ECB borrowings. NIM held steady at ~3.2%, with good sanctions pipeline targeting urban infra assets offering upside potential.

**Healthy sanctions pipeline to fuel growth; PMAY 2.0 to aid in momentum:** With a loanbook of INR 1,189.3bn, up 7.1% QoQ and 40.9% YoY, HUDCO is well-positioned to exceed FY26 target of INR 1,500bn poised to clock in a 27.9% loan CAGR and a 50% disbursement CAGR during FY24-27E, led by: 1) robust sanctions pipeline, up 53% YoY, to INR 156.8bn backed by hydro & pump projects, mobility and energy projects, including PPA, land acquisition projects (Pune & Bengaluru Ring Road) under the PPP models, 2) counterpart funding to States for PMAY 2 beginning in FY26, and 3) higher sanctions-to-disbursements at an 80% conversion rate. Moreover, with robust disbursements pipeline underscored by 35% mobility and road projects, 15-20% power sector and 40% housing and the Meerut-Kumbh Mela and more such projects, HUDCO's growth visibility is robust.

**Improved asset quality; more NPA resolution in the pipeline:** Asset quality saw a marked improvement, with GNPA down 16bp QoQ and 126bp YoY to ~1.9%. The absolute GNPA stock declined by 2% QoQ and 16% YoY to INR 22.3bn, aided by the resolution of four long-standing NPA accounts of INR 2.6bn in FY25. As on Q3FY25, out of INR 22.3bn in NPA, INR 12.2bn (six accounts) are in the NCLT with 100% provisioning while INR 0.4bn (three accounts) outside NCLT are also fully provisioned. HUDCO aims to resolve its entire NPA portfolio by FY26, with key projects under resolution, including KSK Mahanadi, Nagarjun Oil, Naya Raipur Development Authority, and AP Housing. With an expected 80% recovery from NPA pool, we expect GNPA to decline to 1.5% by FY27E.

**Reiterate Conviction Buy with TP of INR 361:** We raise our EPS by 4% in FY25E, 6% in FY26E and 8% in FY27E after factoring in improving growth trajectory and write-backs led by accelerated bad asset resolution. Q3 was characterized by 40% YoY loan growth, upbeat guidance, steady margin and an NPA downcycle driving an earnings potential. Moreover, HUDCO ushering into 15% ROE corridor and GoI spend uptick, which supports robust growth visibility, make the bull case more compelling. We retain our TP at INR 361 on 2.7x FY27E P/B and reiterate our **Conviction Buy** call.

### Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
NII (INR mn)	24,764	26,924	35,400	47,339	61,541
YoY (%)	5.1	8.7	31.5	33.7	30.0
PPoP (INR mn)	22,157	26,354	33,242	43,920	56,850
YoY (%)	5.5	18.9	26.1	32.1	29.4
PAT (INR mn)	17,016	21,167	26,805	32,930	41,169
YoY (%)	(0.9)	24.4	26.6	22.9	25.0
EPS (INR)	8.5	10.6	13.4	16.4	20.6
Core RoE (%)	11.4	13.2	14.5	15.0	16.1
RoA (%)	2.1	2.4	2.5	2.4	2.4
P/E (x)	26.8	21.6	17.0	13.9	11.1
P/ABV (x)	3.0	2.8	2.3	2.0	1.7

Note: Pricing as on 23 January 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 361**

Upside: **61%**

CMP: **INR 224**

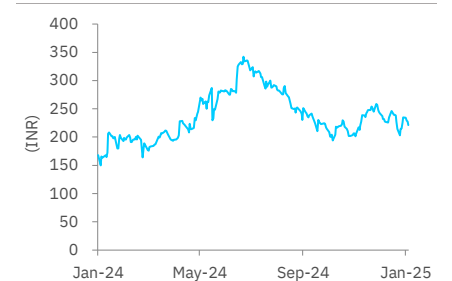
As on 23 January 2025

### Key data

Bloomberg	HUDCO IN
Reuters Code	HUDC.NS
Shares outstanding (mn)	2,002
Market cap (INR bn/USD mn)	443/5,127
Enterprise Value (INR bn/USD mn)	0/0
Avg daily volume 3M (INR mn/USD mn)	1,806/21
52 week high/low	354/145
Free float (%)	25

Note: as on 23 January 2025; Source: Bloomberg

### Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	75.0	75.0	75.0	75.0
% Pledged	0.0	0.0	0.0	0.0
FII	1.9	2.7	2.3	2.1
DII	11.6	11.7	9.2	9.8
Others	11.5	10.6	13.5	13.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.0)	(5.2)	9.3
HUDCO	10.5	(27.9)	47.8
NSE Midcap	(4.3)	(3.9)	16.2
NSE Smallcap	(5.0)	(5.6)	15.2

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## Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
NII	24,764	26,924	35,400	47,339	61,541
Other income	367	1,638	381	520	712
<b>Gross Income</b>	<b>25,791</b>	<b>29,883</b>	<b>36,800</b>	<b>48,582</b>	<b>63,209</b>
Operating expenses	3,634	3,529	3,558	4,662	6,359
<b>PPOP</b>	<b>22,157</b>	<b>26,354</b>	<b>33,242</b>	<b>43,920</b>	<b>56,850</b>
Provisions	(737)	(2,081)	(2,262)	(69)	1,856
<b>PBT</b>	<b>22,894</b>	<b>28,434</b>	<b>35,503</b>	<b>43,989</b>	<b>54,994</b>
Tax	5,878	7,267	8,698	11,059	13,826
<b>PAT</b>	<b>17,016</b>	<b>21,167</b>	<b>26,805</b>	<b>32,930</b>	<b>41,169</b>
Balance Sheet (INR bn)	FY23	FY24	FY25E	FY26E	FY27E
Capital	20,019	20,019	20,019	20,019	20,019
Reserves and Surplus	134,433	146,124	182,406	215,336	256,505
<b>Net worth</b>	<b>154,452</b>	<b>166,143</b>	<b>202,425</b>	<b>235,355</b>	<b>276,524</b>
Borrowings	629,051	739,959	1,028,268	1,273,558	1,556,387
Other liabilities	26,206	28,139	33,365	70,577	138,250
<b>Total Liabilities</b>	<b>809,710</b>	<b>934,241</b>	<b>1,264,057</b>	<b>1,579,490</b>	<b>1,971,161</b>
Fixed assets	619	560	588	617	648
Loans	792,370	913,651	1,242,829	1,549,842	1,938,050
Net Current Assets	5,891	9,121	9,277	12,524	13,150
Other assets	10,830	10,910	11,364	16,508	19,313
<b>Total Assets</b>	<b>809,710</b>	<b>934,241</b>	<b>1,264,057</b>	<b>1,579,490</b>	<b>1,971,161</b>
Per Share data & Valuation Ratios	FY23	FY24	FY25E	FY26E	FY27E
EPS- (INR)	8.5	10.6	13.4	16.4	20.6
BVS (INR)	77.2	83.0	101.1	117.6	138.1
ABVS- (INR)	75.6	81.8	98.9	113.5	134.1
P/E- (x)	26.8	21.6	17.0	13.9	11.1
P/ABV-(x)	3.0	2.8	2.3	2.0	1.7
Yield and Cost (%)					
Yield on advances	8.8	8.8	9.4	9.2	9.2
Cost of Funds	7.2	7.2	7.6	7.0	7.0
Net Interest Margin (%)	3.1	3.1	3.3	3.4	3.5
Asset Quality (%)					
Gross NPA	3.4	2.7	2.0	1.6	1.5
Net NPA	0.5	0.4	0.5	0.5	0.6
% coverage of NPA	85.2	86.9	75.5	66.9	61.3
credit cost (calc)	(0.1)	(0.2)	(0.2)	(0.0)	0.1
Capital Adequacy (x)					
Tier 1	73.6	64.7	57.8	52.6	48.5
CAR	73.8	64.8	57.9	52.8	48.7
Growth Rates (%)					
Loan growth	2.8	14.8	34.1	24.7	25.0
Earnings growth	(0.9)	24.4	26.6	22.9	25.0
Business Ratios					
RoAA (%)	2.1	2.4	2.5	2.4	2.4
Core RoE (%)	11.4	13.2	14.5	15.0	16.1
Leverage (x)	5.3	5.4	6.0	6.5	6.9

Note: Pricing as on 23 January 2025; Source: Company, Elara Securities Estimate

### Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (% / bp)	Q2FY25	QoQ (% / bp)	Q3FY25	Est. beat/miss (%/bp)
NII	9,831	6,674	47.3	7,973	23.3	8,322	18.1
Operating profit	9,148	6,371	43.6	7,669	19.3	7,977	14.7
Reported profit	7,350	5,192	41.6	6,886	6.7	6,318	16.3

Source: Company, Elara Securities Estimate

### Exhibit 1: Q3FY25 earnings

(INR mn)	Q3FY25	Q3FY24	YoY (% / bp)	Q2FY25	QoQ (% / bp)	Comment
Interest Income	27,455	19,801	38.7	24,593	11.6	
Interest Expenses	17,625	13,127	34.3	16,620	6.0	
<b>Net Interest Income</b>	<b>9,831</b>	<b>6,674</b>	<b>47.3</b>	<b>7,973</b>	<b>23.3</b>	NII at ~INR 9.8bn was well ahead of our estimates of ~INR 8.3bn up 23.3% QoQ and 47.3% YoY, led by healthy interest income
Other Income	242	428	(43.5)	668	(63.8)	Other income stood at INR 242mn, down 63.8% QoQ and 43.5% YoY
<b>Total Income</b>	<b>10,073</b>	<b>7,102</b>	<b>41.8</b>	<b>8,641</b>	<b>16.6</b>	
Total Operating Expenses	925	731	26.5	972	(4.9)	Opex for the quarter came in at INR 925mn, down 4.9% QoQ but up 26.5% YoY. The cost-income was lower at 9.2% vs 11.3% in Q2FY25
<b>Operating Profit (PPOP)</b>	<b>9,148</b>	<b>6,371</b>	<b>43.6</b>	<b>7,669</b>	<b>19.3</b>	PPoP at INR 9.1bn was ahead of estimates of INR 8.0bn with growth of 19.3% QoQ and 43.5% YoY
Provisions & Write Offs	(168)	(590)	(71.5)	(2,332)	(92.8)	Write-backs worth INR 168mn were recorded for the quarter vs INR 2,332mn in the last quarter bolstering PAT
<b>PBT</b>	<b>9,316</b>	<b>6,961</b>	<b>33.8</b>	<b>10,000</b>	<b>(6.8)</b>	
Tax	1,966	1,769	11.2	3,114	(36.9)	
<b>Reported Profit</b>	<b>7,350</b>	<b>5,192</b>	<b>41.6</b>	<b>6,886</b>	<b>6.7</b>	PAT at INR 7.35bn came in ahead of our estimates of ~INR 6.3bn, up 6.7% QoQ and 41.6% YoY, led by robust business traction, and resultant strong NII, provision writebacks due to sharp improvement in asset quality
<b>Balance sheet</b>						
Disbursement	100,610	40,454	148.7	90,740	10.9	Disbursements were robust at 11% QoQ to INR 100.6bn after a glitch in Q2, led by strong urban infrastructure disbursements at INR 98.5bn, up 22% QoQ and 189% YoY
Loans	1,189,310	844,240	40.9	1,110,680	7.1	AUM grew by 7.1% QoQ and 40.9% YoY to reach INR 1,189.3bn, ahead of our estimates & historically the highest, driven by healthy urban infrastructure growth, up 6% QoQ and 72% YoY, forming 60% of AUM
<b>Key Ratios</b>						
Gross NPA	22,340	26,502	(15.7)	22,704	(1.6)	Absolute GNPA stock at INR 22.3bn saw a decline of 2% QoQ and 16% YoY
Gross NPA (%)	1.88	3.14	(126.0)	2.04	-16 bps	GNPA improved to ~1.9%, declining 16bp QoQ and 126bp YoY

Source: Company, Elara Securities Research

## Conference call takeaways

### Business update

- ▶ HUDCO has fully transitioned to an NBFC-IFC company and continues to operate as a multi-sector financing company
- ▶ The company is involved in urban development, which includes an array of infrastructure, such as roads, as well as rural infrastructure. In addition, it has started providing consultancy services and offers handholding support under this initiative. The company also has commissioned a training institute to deliver comprehensive, 360-degree solutions
- ▶ A robust pipeline will drive disbursement growth
- ▶ Loanbook currently stands at INR 1,189.3bn and is expected to grow
- ▶ The company holds an AAA rating and is 75% owned by the Government of India
- ▶ It targets 25% loan CAGR to be steady state. The company benefits from tailwinds in the infrastructure sector, with growth rates projected to stabilize after two years. By FY26, loanbook is likely to reach INR 1,500bn, INR 1,250bn by FY25, implying a 25% loan CAGR and thereafter, sustainable across cycles and reaching INR 3,000 by FY30
- ▶ States are becoming increasingly competitive in creating infrastructure, and HUDCO is well-positioned across sectors. The housing portfolio is likely to sustain a 40% share, particularly due to the roll-out of PMAY 2, which is an INR 12,000bn program, with INR 1,000bn of disbursements likely through HUDCO
- ▶ The focus will remain on urban infrastructure, with PMAY 2 set to bolster the housing book significantly
- ▶ Urban infrastructure projects usually have long gestation periods, with ~30-35% of disbursements happening within a year. Overall, the conversion rate from sanctions to disbursements stands at ~80%
- ▶ HUDCO's loan book will retain a composition of 40% housing and 60% urban infrastructure
- ▶ A majority of loans are backed by government guarantees, especially in sectors, such as roads, water, highways, and housing under PMAY
- ▶ HUDCO has been involved in consortium projects with PFC and REC, but the company is aiming to become the sole lender in the projects it invests in
- ▶ The percentage of government-guaranteed loans is set to decrease, as the focus shifts to more highly bankable projects
- ▶ The company has signed an MOU for an INR 250bn port project, which is likely to yield 8-9% returns with a spread that is not lower than 2%. This project is in the consortium stage and has yet to be sanctioned
- ▶ The average age of the loan book is currently around seven years, and HUDCO plans to retain it at around 6-7 years

### Financial performance

- ▶ HUDCO's D/E ratio is below 6%, and CRAR stands at a healthy 7%, with no further capital infusion expected
- ▶ The C/I will largely remain stable at current levels
- ▶ The ROA is ~2.4% and is likely to be maintained, although current profit has been bolstered by write-backs
- ▶ GOI bonds are scheduled to be retired by FY28-29

**Margin analysis**

- ▶ Cost of borrowing has been reduced, and in the past nine months, HUDCO's borrowings have increased to ~INR 400bn, with COB at 6.8%
- ▶ The company raised funds from Japan in the past year, with 17% of borrowings in foreign currency. This proportion is set to rise to 20%, helping further reduce COB, which has already been lowered from 7.2% to 6.8%
- ▶ NIM is set to be ~3.2%, with a spread of ~2.2% through FY25-FY27. Yield is based on internal benchmarks, with HUDCO's own rate cards

**Asset quality**

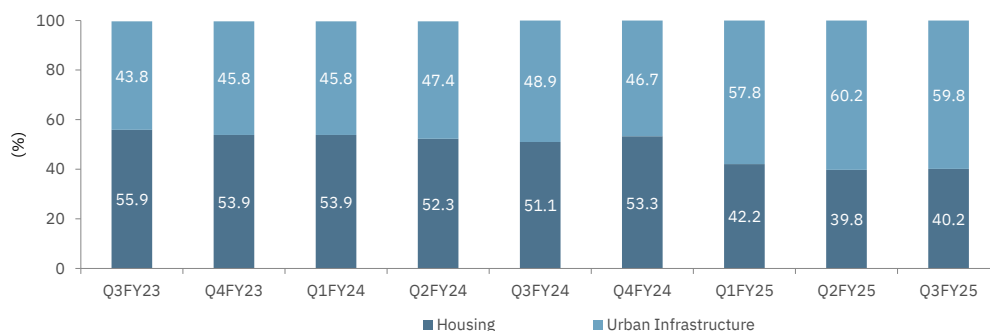
- ▶ HUDCO has taken an aggressive approach to resolving NPA, and both GNPA and NNPA have reduced
- ▶ The company has also reduced its SMA-2 loans
- ▶ Around INR 12bn out of INR 22bn under NCLT is in advanced stage of resolution
- ▶ A significant portion of PSU NPA has been resolved, and HUDCO is working on the resolution of NPA cases related to Jammu & Kashmir and Ahmedabad Municipal Corporation projects, with PSU NPA likely to be reduced to nil
- ▶ There are no new NPA in the private sector, and credit cost is likely to decrease further

**Exhibit 2: Business and financial metrics at a glance**

Particulars (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>AUM</b>	396,610	495,303	733,255	765,654	757,866	785,130	807,433	926,540	1,242,829	1,549,842	1,938,050
Growth YoY (%)	12.1	24.9	48.0	4.4	(1.0)	3.6	2.8	14.8	34.1	24.7	25.0
<b>Disbursements</b>	91,450	165,649	326,486	101,218	83,236	88,865	84,659	179,870	391,134	516,308	631,426
Growth YoY (%)	10.8	81.1	97.1	(69.0)	(17.8)	6.8	(4.7)	112.5	117.5	32.0	22.3
<b>NII</b>	14,866	17,384	23,951	26,348	24,078	23,555	24,764	26,924	35,400	47,339	61,541
Growth YoY (%)	14.6	16.9	37.8	10.0	(8.6)	(2.2)	5.1	8.7	31.5	33.7	30.0
<b>Opex</b>	1,754	2,601	3,302	3,935	3,579	3,649	3,634	3,529	3,558	4,662	6,359
Growth YoY (%)	(9.4)	48.3	27.0	19.2	(9.1)	1.9	(0.4)	(2.9)	0.8	31.0	36.4
<b>Provisions</b>	2,973	2,708	3,273	1,558	(736)	(2,457)	(737)	(2,081)	(2,262)	(69)	1,856
Growth YoY (%)	130.1	(8.9)	20.8	(52.4)	(147.3)	233.6	(70.0)	182.4	8.7	(96.9)	(2,775.0)
<b>PAT</b>	8,418	10,102	11,802	17,084	15,786	17,166	17,016	21,167	26,805	32,930	41,169
Growth YoY (%)	8.8	20.0	16.8	44.8	(7.6)	8.7	(0.9)	24.4	26.6	22.9	25.0
<b>Net worth</b>	90,737	99,430	109,558	123,435	131,891	144,683	154,452	166,143	202,425	235,355	276,524
Growth YoY (%)	7.4	9.6	10.2	12.7	6.9	9.7	6.8	7.6	21.8	16.3	17.5
<b>EPS (INR)</b>	4.2	5.0	5.9	8.5	7.9	8.6	8.5	10.6	13.4	16.4	20.6

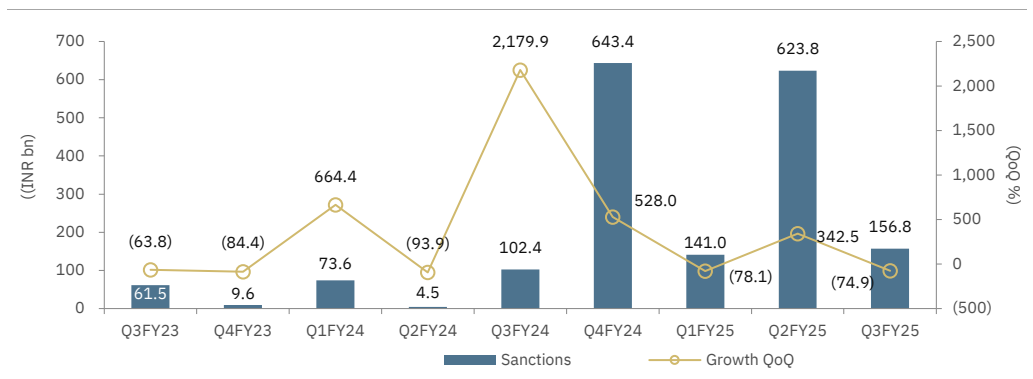
Source: Company, Elara Securities Estimate

**Exhibit 3: Loan mix tilting toward urban infra assets**



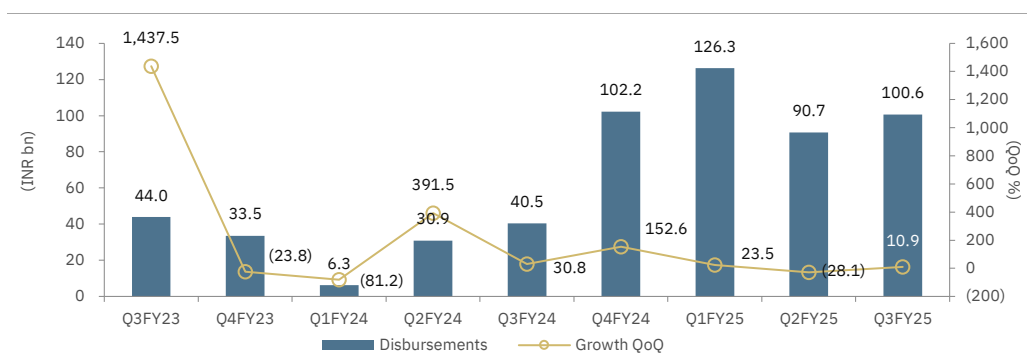
Source: Company, Elara Securities Research

**Exhibit 4: Sanctions erratic over quarters with a significant spike of 342.5% QoQ in Q2**



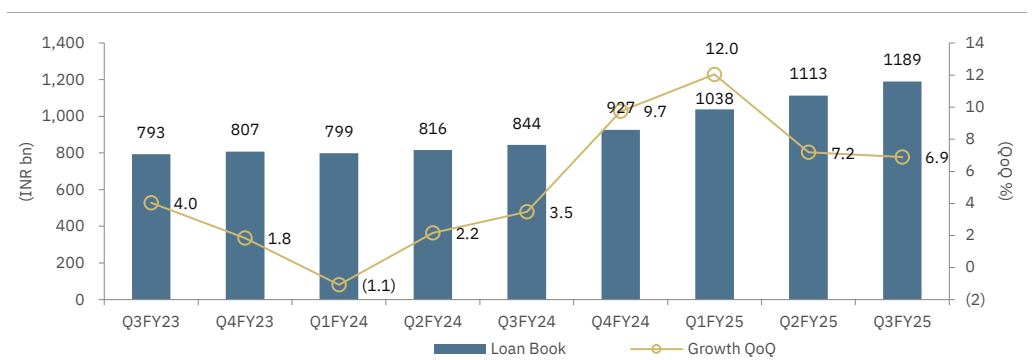
Source: Company, Elara Securities Research

**Exhibit 5: Disbursements growth moderates to 10.9% QoQ; robust pipeline to ensure disbursements growth**



Source: Company, Elara Securities Research

**Exhibit 6: Loanbook grows by 6.9% QoQ to INR 1,189bn; target is to reach INR 1,250bn by FY25-end**



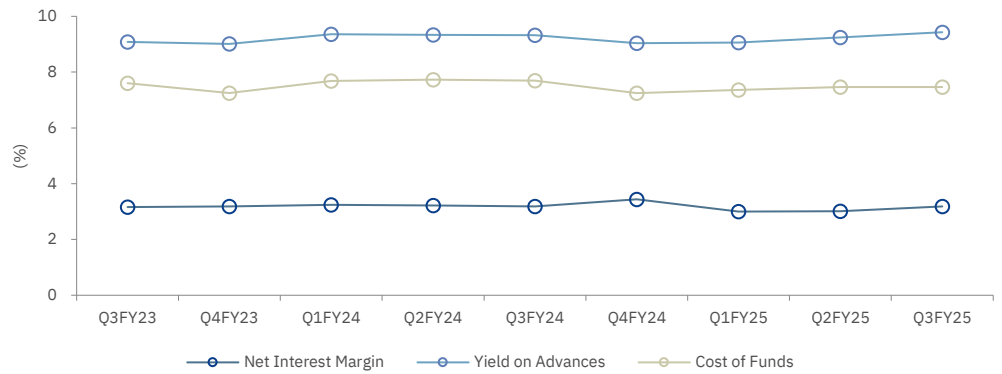
Source: Company, Elara Securities Research

**Exhibit 7: Incremental business tilting toward high-yielding urban infra assets**

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Sanctions mix (%)</b>									
Housing	0.7	3.9	5.1	0.3	3.9	4.9	0.0	0.0	0.0
Urban Infrastructure	99.3	96.1	94.9	99.7	96.1	95.1	100.0	100.0	100.0
<b>Disbursements mix (%)</b>									
Housing	35.0	5.7	40.2	7.9	15.7	12.0	1.0	10.9	2.1
Urban Infrastructure	64.8	94.3	59.8	92.1	84.3	88.0	99.0	89.1	97.9
<b>Loan mix (%)</b>									
Housing	56.2	54.2	54.2	52.6	51.1	53.3	42.2	39.8	40.2
Urban Infrastructure	43.8	45.8	45.8	47.4	48.9	46.7	57.8	60.2	59.8

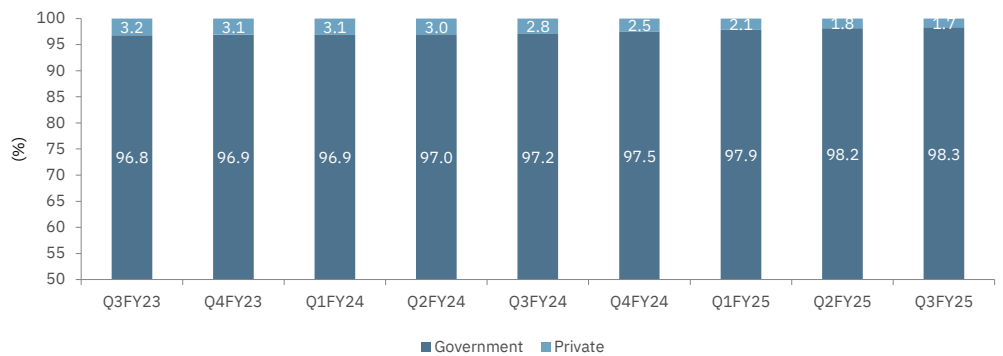
Source: Company, Elara Securities Research

**Exhibit 8: NIM improves in Q3 as focus shifts to urban infrastructure**



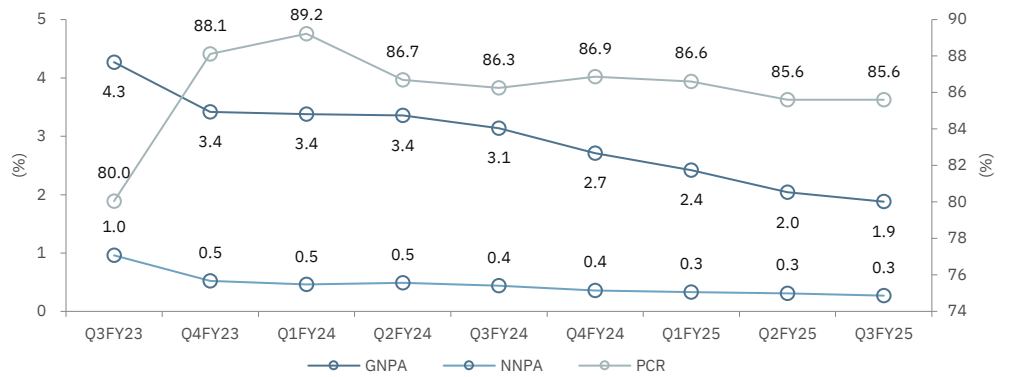
Source: Company, Elara Securities Research

**Exhibit 9: Loans to government agencies form 98.3% of AUM as on Q3FY25**



Source: Company, Elara Securities Research

**Exhibit 10: Asset quality improves as GNPA declines to 1.9% in Q3FY25**



Source: Company, Elara Securities Research

**Exhibit 11: Valuation**

<b>(INR)</b>	
Fair price - EVA (INR)	207
Fair price - P/ABV (INR)	516
<b>Target price (INR)</b>	<b>361</b>
<b>Target P/ABV (x)</b>	<b>2.7</b>
<b>Target P/E (x)</b>	<b>17.58</b>
CMP (INR)	224
<b>Upside (%)</b>	<b>61.4</b>
Dividend yield (%)	0.0%
<b>Total return (%)</b>	<b>61.4</b>

Note: Pricing as on 23 January 2025; Source: Elara Securities Estimate

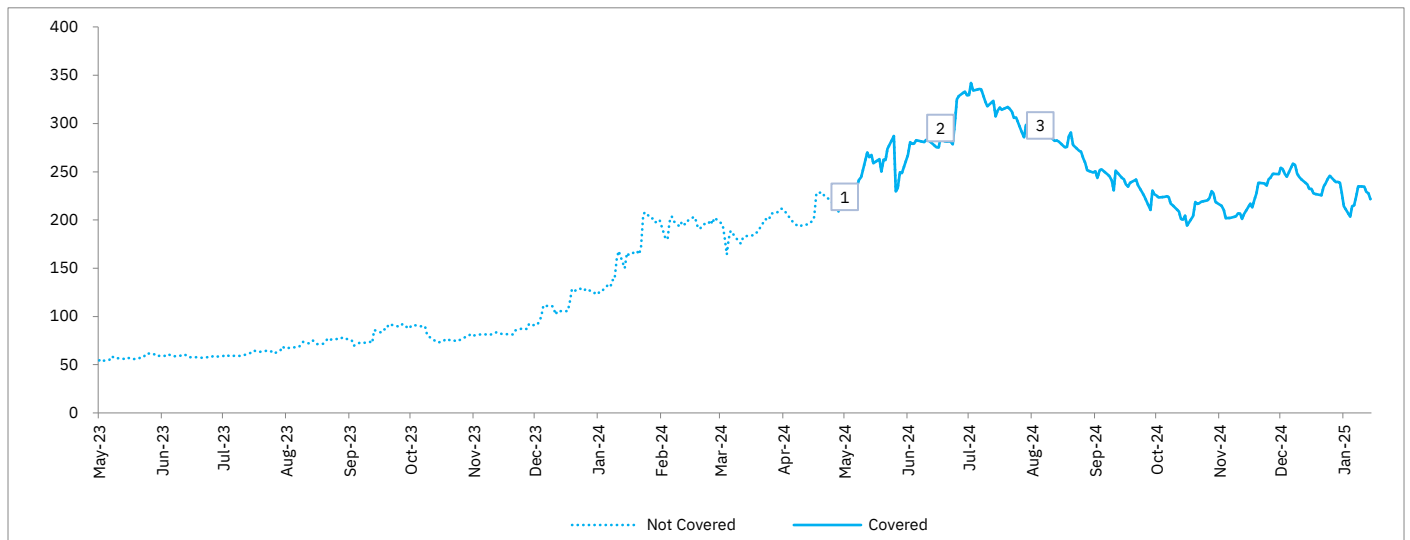
**Exhibit 12: Change in estimates**

<b>(INR mn)</b>	<b>Earlier</b>			<b>Revised</b>			<b>% Change</b>		
	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Net interest income	37,536	48,328	60,020	35,400	47,339	61,541	(5.7)	(2.0)	2.5
Operating profit	35,625	45,790	31,051	33,242	43,920	56,850	(6.7)	(4.1)	83.1
PAT	25,839	31,051	38,225	26,805	32,930	41,169	3.7	6.1	7.7
EPS (INR)	12.9	15.5	19.1	13.39	16.45	20.56	3.8	6.1	7.7

Source: Elara Securities Estimate



## Coverage History



	Date	Rating	Target Price	Closing Price
1	10-May-2024	Buy	INR 297	INR 214
2	26-Jun-2024	Buy	INR 350	INR 285
3	14-Aug-2024	Buy	INR 361	INR 289

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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