

# Shubh Nivesh



CMP: ₹ 67.4

Target: ₹ 85 (26%)

Target Period: 6 months

Aug 14, 2023

**BUY (HIGH CONVICTION IDEA)**

## Play on infrastructure growth available at lower valuation ...

**About the stock:** HUDCO, a Miniratna company, plays a key role in various government's schemes to develop Indian housing & urban infrastructure sector. HUDCO is one of the nominated nodal agency for subsidy to beneficiaries under credit-linked subsidy scheme.

- As of June 2023, AUM stands at ₹79875 crore with 96.88% of loan book to government agencies
- Operations spread across India with 21 regional and 11 development offices

### Investment Rationale:

- Key role in infrastructure development in India:** HUDCO has been a key partner engaged in financing of infrastructure development undertaken by government with considerable emphasis on housing for 'Economically Weaker Sections (EWS) & Low-Income Groups (LIG). With government's focus on implementation of Sustainable Development Goals & Urbanization, there exists huge growth potential in housing and infrastructure sector. Capital expenditure in infrastructure sector is expected at ~₹111 lakh crore in FY2-25E, of which urban infrastructure is projected at ~₹19 lakh crore.
- Continued revival in growth expected in FY24-25E:** Post stalling in Covid, state government capex for housing & urban infrastructure witnessed gradual recovery in FY22-FY23; which is expected to gather pace in FY24-25E. Strong budgetary allocation of ~₹10 lakh crore for capex in FY24 with focus on PMAY (housing), Jal Jeevan Mission (water) and other projects to enable healthy growth at ~10% CAGR in FY24-25E.
- Steady operational performance with stable margins & asset quality:** HUDCO holds credit rating of "AAA" for long-term borrowings from each of CARE, ICRA and IRRPL. Highest credit rating and issuance of tax-free bonds enables lower cost of funds. Substantial proportion of exposure to state government enables asset quality to remain steady with GNPA ratio at ~3.3-3.5% and NNPA ratio at ~0.5%; which is expected to remain in similar range ahead.
- Strong capital adequacy, growth to remain RoE accretive:** HUDCO has been engaged in providing loans for housing & urban infrastructure to state government and their agencies which attracts relatively lower risk weights. Thus, HUDCO's capital adequacy has remained strong (Tier I at 64.65% as of March 2022) without any need for capital infusion. With continued exposure to state entities, capital consumption is expected to remain lower and thus advances growth will be RoE accretive.

### Rating and Target Price

- As a play on India's infrastructure story, HUDCO offers steady business growth with steady operational performance and asset quality. Low capital consumption to ensure no equity dilution with healthy dividend payout
- At CMP, the stock is trading 0.75x FY25E BV which seems relatively lower. Assigning **BUY** rating to the stock, we value HUDCO at | **85 i.e. ~0.95x FY25E BV factoring ~10% CAGR growth in business and steady RoE**

### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR	FY24E	FY25E	2 year CAGR
NII	2634.8	2467.7	2419.3	2540.3	-1.2%	2794.3	3073.7	10.0%
PPP	2330.3	2155.0	2100.3	2215.7	-1.7%	2347.7	2581.2	7.9%
PAT	1708.4	1578.6	1716.6	1701.6	-0.1%	1760.8	1935.9	6.7%
BV	61.7	65.9	72.3	77.2		82.9	89.2	
P/ABV	1.1	1.0	0.9	0.9		0.8	0.8	
RoA	2.2	2.1	2.2	2.1		2.0	2.0	
RoE	13.8	12.0	11.9	11.0		10.6	10.8	

Source: Company, ICICI Direct Research



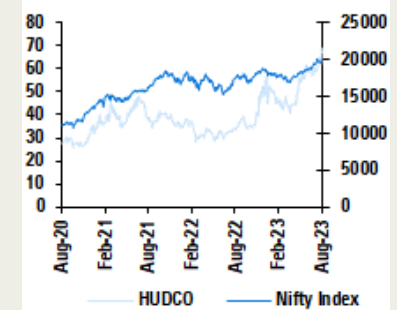
### Particulars

Particulars	Amount
Market Capitalisation	13,483
52 week H/L	70.3/34.4
Net Worth	15,445
Face Value	10.00
DII Holding (%)	7.17
FII Holding (%)	0.32

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	81.8	81.8	81.8	81.8	81.8
FII	0.2	0.2	0.1	0.3	0.3
DII	7.8	7.6	7.3	7.3	7.2
Others	10.2	10.4	10.8	10.6	10.7

### Price Chart



### Recent Event & Key risks

- Gradual recovery seen in business growth post Covid
- Key Risk:** (i) Pressure on margin amid higher interest rates, (ii) Slower than expected revival in business growth

### Research Analyst

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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