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MORTGAGE FINANCE

Making inroads in unchartered territory


(Click here for video clip)

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Edelweiss Securities Limited

Contents

Mortgage Finance: A space to be in

Characteristics of mortgage space	✓ Salaried segment over serviced leading to high competition ✓ No switching cost leading to thin lending rate differential ✓ Lending concentrated in a few states and in a few cities within respective states
New growth catalysts	✓ Opportunities galore in under-serviced segment: Self employed category (50% of India's workforce) and LAP ✓ Broader penetration into Tier II/III cities; states like MP, Rajasthan, Chattisgarh, WB, UP offer huge potential
Government & regulatory incentives	✓ Government support: Housing for all by 2022, 100 smart cities, REITs ✓ Regulatory incentives: Viability gap funding, limit raised for PSL credit/affordable housing, NHB refinancing
Game of scale	✓ With no swicthing cost, cost advantage becomes critical determinant in housing finance ✓ Prefer players that can leverage on opportunity to build scale in low-ticket segments
Valuation re-rating triggers	✓ High growth trajectory ✓ Limited risk to margins ✓ Lean cost structure ✓ Best-in-class credit cost
Preferred bets	✓ **Dewan Housing**: Pan-India player in niche markets of Tier II & III cities with significant asset base. **Initiate coverage with 'BUY' recommendation and target price of INR642** ✓ **Indiabulls Housing Finance:** Optimal product mix , heightened management focus will drive consistent earnings. **Initiate coverage with 'BUY' recommendation and target price of INR653**

Peer valuation

Company	CMP (INR)	Mcap (INR bn)	AUMs/Loans (H1FY15- INR bn)	CAR	ROA	ROE	GNPA	FY15 (x) P/E	FY15 (x) P/B	FY16 (x) P/E	FY16 (x) P/B	Reco	Target Price	Upside (%)
HDFC	1,113	1,750	2,326	17.9	2.8	30.0#	0.7	25.3	5.9	21.6	4.9	Hold	1,071	(3.8)
LICHF	473	239	975	16.3	1.6	19.9	0.6	17.3	3.0	15.3	2.6	Buy	525	10.9
Indiabulls Housing	496	176	450	19.1	4.0	28.0	0.9	9.4	2.6	8.0	2.3	Buy	653	31.8
Dewan Housing Finance	427	55	494	16.2	1.4	16.0	0.8	8.7	1.3	6.9	1.2	Buy	642	50.5
Gruh Finance	294	107	79	16.7	3.0	32.0	0.4	37.6	14.1	30.1	10.5	N.A.	N.A.	N.A.
Repco Home Finance	698	44	52	21.9	2.6	16.8	1.7	33.5	5.3	26.3	4.5	Buy	770	10.3
GIC Housing Finance	271	15	59	17.3*	1.7	17.0	1.4	13.5	2.1	11.6	1.9	N.A.	N.A.	N.A.
Can Fin Homes	657	13	70	13.8*	1.5	17.0	0.3	15.3	2.5	12.1	2.1	N.A.	N.A.	N.A.

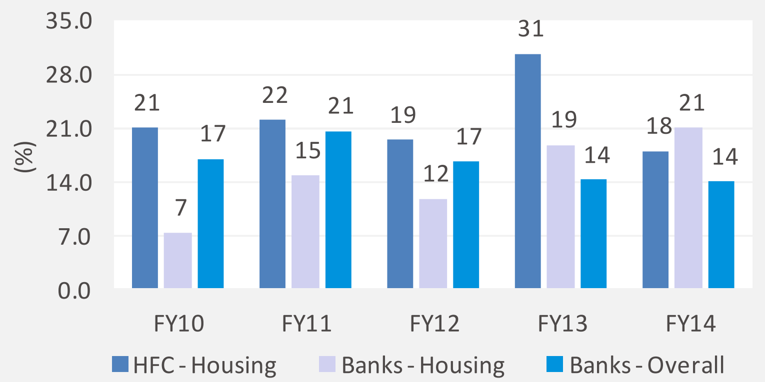
Source: Bloomberg, Edelweiss research
Note: # core RoEs and * As of FY14

Mortgage finance: Continuously evolving

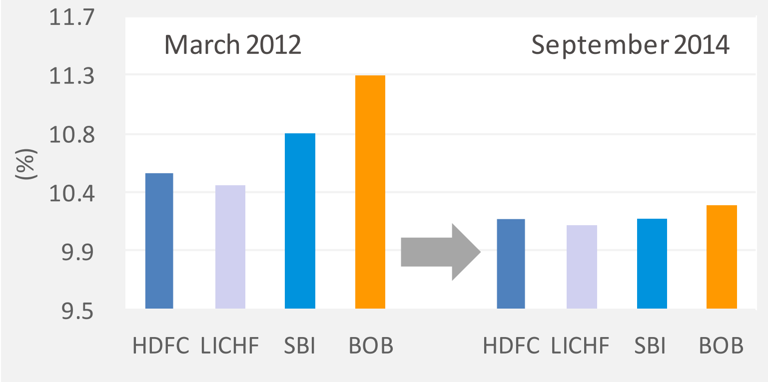
- **Characteristics of mortgage space : 2003 to 2014 (industry size INR9tn; market share between Banks and HFCs at 62:38)**
  - Salaried segment over serviced, leading to high competition
  - Banks' incremental focus feeds into aggressive pricing
  - With waiver of prepayment penalty, lending rate differential between financiers has become thin (less than 50bps)

Tremendous growth potential with lowest risk strata has attracted many financiers

HFCs growth outpaced overall banking growth

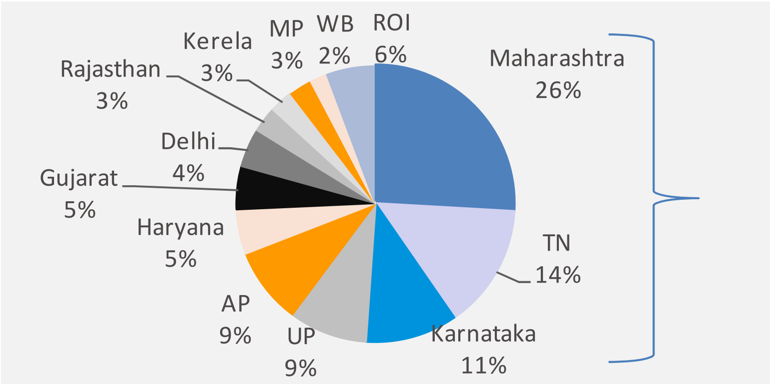


Increased competition lowering yield differential



Lending largely concentrated: Top 3 states constitute >50% and top 3 cities within each state contribute > 60%

Top 3 states constitute >50% of total market (HFC disbursements)...

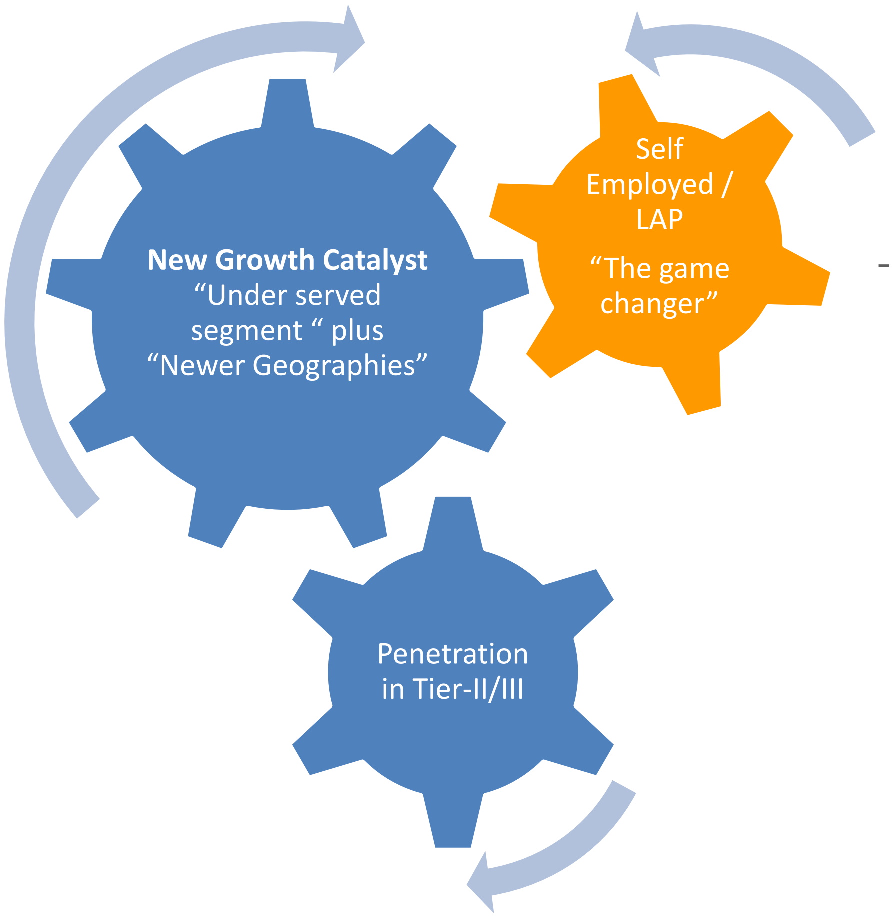


... with top 3 cities in these states contributing more than 60%

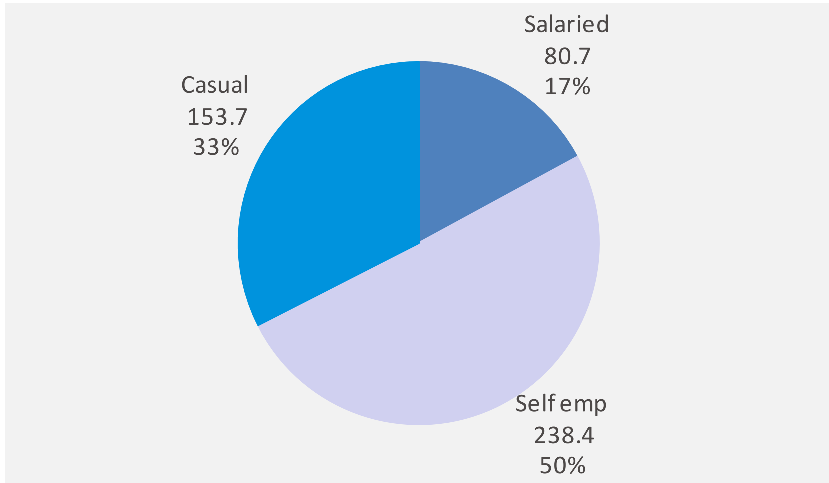
State	Top 3 District Contribution	Highest Contributor
Maharashtra	76%	Mumbai
Tamil Nadu	64%	Chennai
Karnataka	78%	Bengaluru

Source: NHB, RBI, Company

A. New growth catalyst on horizon for next 5 years: New customer segment



~50% workforce is self-employed which is largely under-serviced

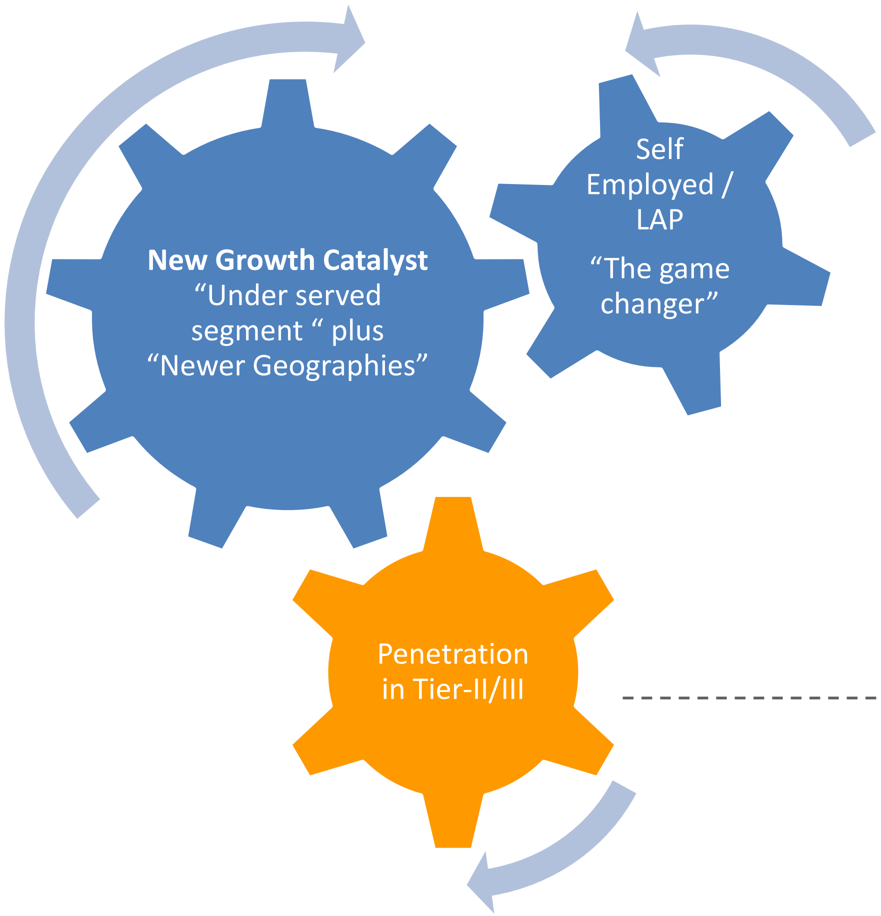


Know how in LAP will be key to success

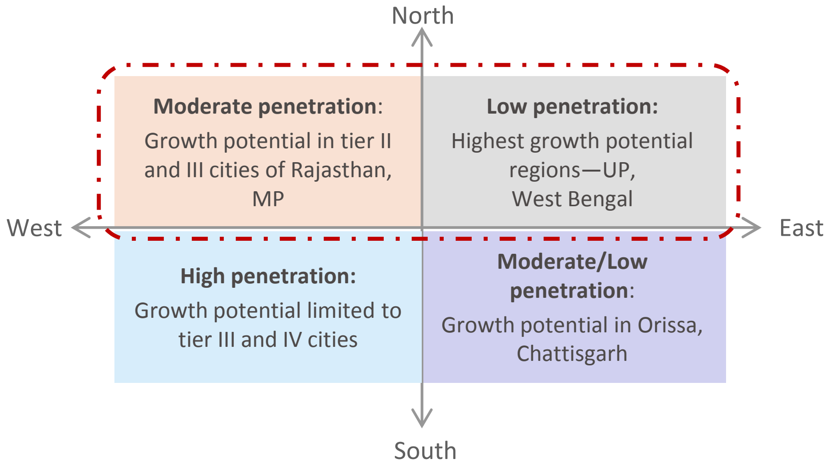
- Huge underserved demand from Self-Employed Non-Professional (SENP); banks reluctant
- Favourable risk-reward equation (interest protected as lower LTVs offered)
- Improving economic outlook feeding into improved cash flows

Source: Indiastat

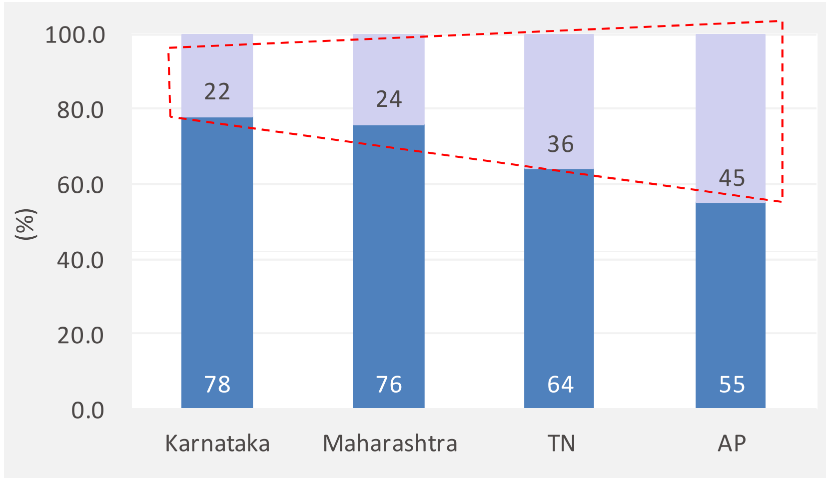
New growth catalyst on horizon for next 5 years: Broader geographies



Market penetration heat map (North/Central to drive growth)



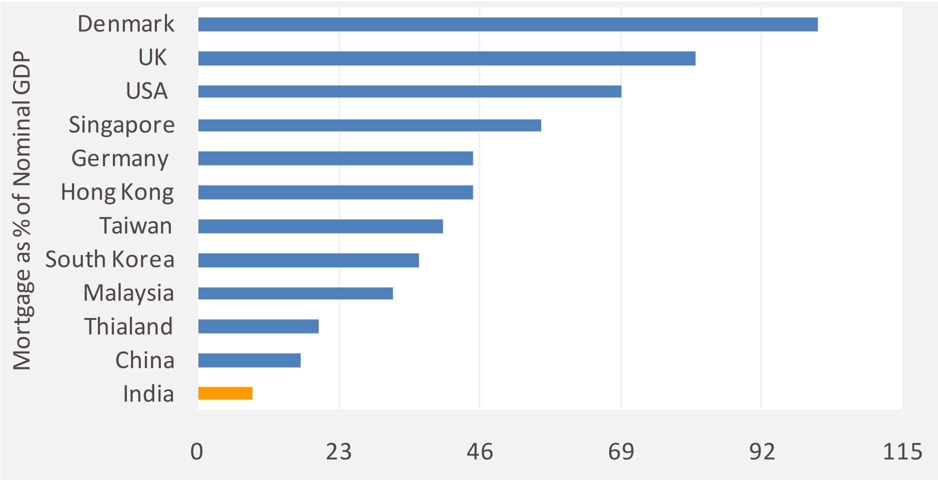
Top 3 cities concentration is high; going forward other cities (Tier II/III) to provide incremental delta to growth



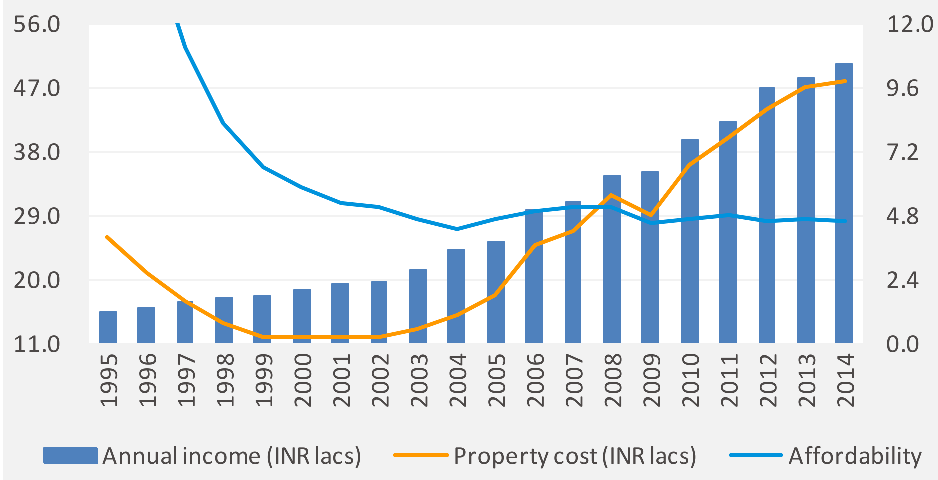
Source: NHB, RBI

B. Structural growth drivers in place

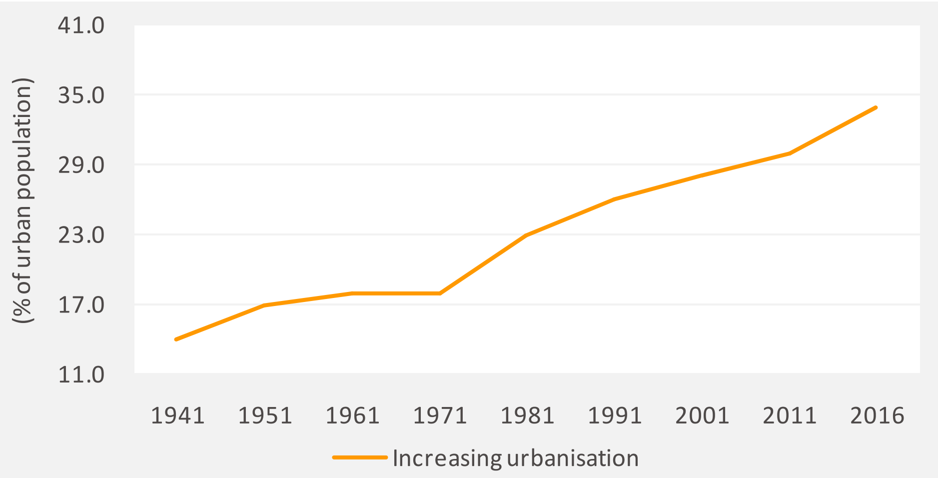
Indian houses relatively unlevered



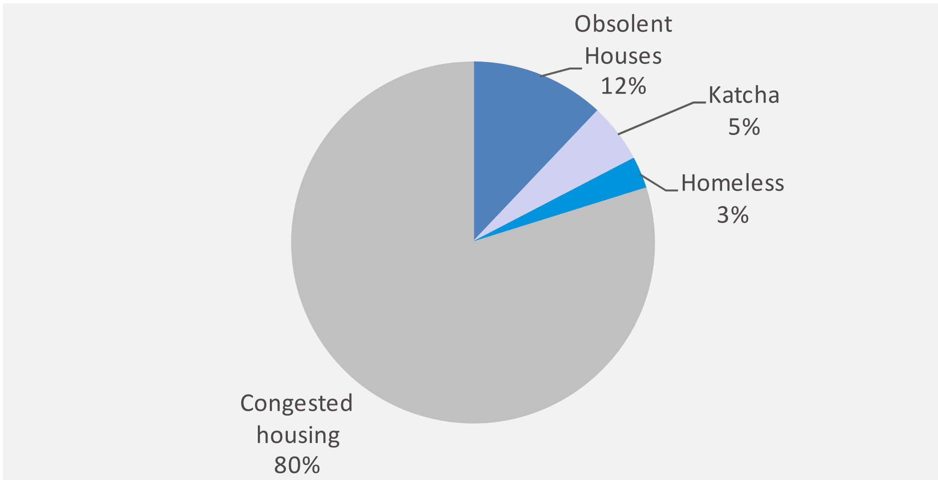
Affordability is comfortable despite steady rise in property prices



Rising urbanisation to drive demand



Housing shortage in urban areas of 18.78 mn units



Source: NHB, HDFC

C. Supported by government/regulatory incentives lends growth visibility

New catalysts on the horizon + Structural drivers in place + Regulatory incentives & government support → High growth visibility

Government support

- ✓ Housing for all by 2022
- ✓ Development of 100 Smart Cities
- ✓ Tax breaks for REIT

Regulatory incentives

- ✓ Viability gap funding
- ✓ NHB refinancing window
- ✓ Lower risk weights and CAR
- ✓ Limit raised for PSL credit and affordable housing

Game of scale in an under-served segment; cost advantage critical

	Rural	Urban
High income group / Middle income Group	✓ Lucrative product segment for banks to meet financial inclusion objective ✓ Regional NBFCs active in this space	✓ Commoditised market: Limited pricing power ✓ Prone to balance transfer: Thin spread ✓ Higher ticket size: Attracting high risk weights ✓ Easy to build scale with controlled asset quality
Low income Group	✓ Least penetrated market: high pricing power ✓ Cost advantage: PSL credit and NHB refinancing ✓ Scale can bring leverage & reduce cost pressure ✓ Stringent risk management can control delinquencies	✓ Leading HFCs/banks incrementally focusing on this segment ✓ Less prone to balance transfer

High income group

Middle income Group

Low income Group

Rural — Semi Urban — Urban

Geographical presence

Man of the match: Game of scale in this segment

With no swicthing cost, cost advantage becomes critical determinant in housing finance.
Players that can leverage opportunity and build scale in low-ticket segments will derive benefit.

How players are positioned to leverage emerging opportunities

HDFC	✓ Being a market leader with multi-decadal experience and strong brand, can leverage on emerging growth potential ✓ Sharpened focus on self-employed category: Forming 18% of incremental disbursement; dedicated team in place
LIC Housing Finance	✓ Extensive reach aided by widespread LIC agents to help explore new geographies ✓ Less inclined to self-employed class due to volatile cash flows, limited documentation and customised appraisal
Dewan Housing	✓ The pan-India player with dominance in niche markets of Tier II and III cities ✓ Comprehensive play on entire gamut of potential customer base (bottom end-***Aadhar***, middle segment – ***Dewan*** and higher end – ***First Blue***)
Indiabulls Housing Finance	✓ Market leadership and better understanding of LAP for its customer segment lends cutting edge over competition ✓ Strengthened borrowing profile (triggered from recent rating upgrades), ramped up sales force, and low gearing to help it in capitalising on emerging opportunities
Repco Home Finance	✓ Strong foothold in self-employed segment (55% of loans); despite customised appraisal, TAT is <2 weeks ✓ Presence in Tier II/III cities; now gradually moving out of home market (Tamil Nadu)
Gruh Finance	✓ Besides Gujarat and Maharashtra, focused presence in other high growth states of MP, Rajasthan, Chattisgarh ✓ Niche presence: >45% of business concentrated in rural areas and almost 50% of loans with ticket size <INR 1 mn
Can Fin Homes	✓ Business fortunes have changed post management change in FY11 with aggressive growth and branch ramp up ✓ However, focus will be retail segment and that too particularly the salaried category

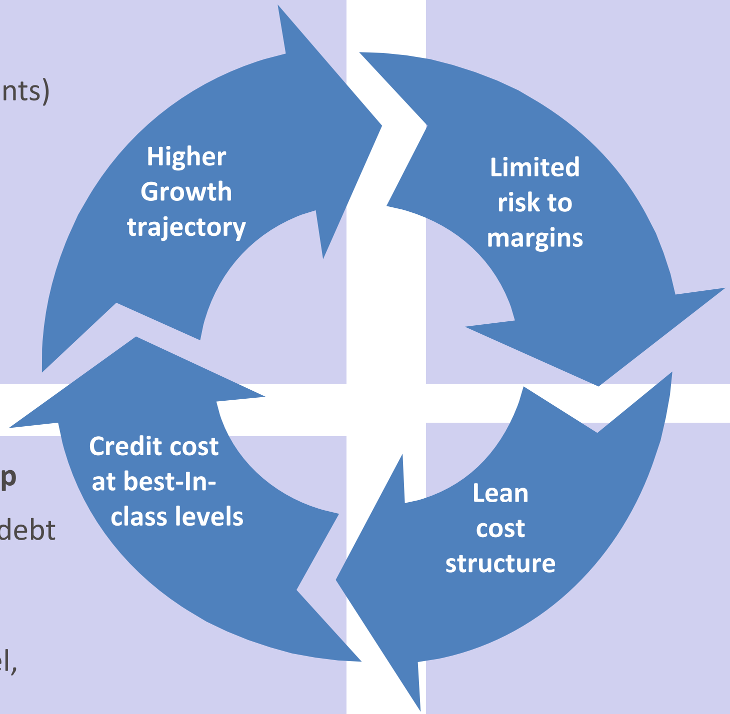
Visibility on improved return profile

Growth catalysts

- ✓ Structural drivers (rising affordability, improving macro and real estate sentiments)
- ✓ New growth hormones: Self employed segment, deeper penetration into geographies
- ✓ Regulatory Incentives

Margin triggers in place

- ✓ Falling interest rates to aid funding cost
- ✓ High yielding SE segment, LAP and developer loans to benefit
- ✓ Affordable/low-ticket housing to have PSL advantage
- ✓ Expected pick up in securitisation volume



Structurally safe; falling interest rates to help

- ✓ Every ~100bps change in rates improves debt service ability by ~6-8%
- ✓ Structural placates: Rising household savings, comfortable LTV at portfolio level, SARFAESI helps easier recovery

Lean cost structure

- ✓ Operating cost to rise at a proportion lower than asset growth
- ✓ Already invested in Infrastructure to optimise on emerging growth opportunities

Improving return ratios and sustained growth to trigger valuation rerating

Rerating triggers: Clear visibility on improved RoE profile

- Improving Macro & Industry outlook
  (Rising urbanization, falling interest rates, improving affordability)
- Deeper penetration – geography as well as customers
  (Self-employed, LAP, Tier II-Tier IV locations)
- Limited regulatory risk – as arbitrage is minimal
  (Lower risk-weights, lower Tier I requirement)
- Increasing government thrust
  (Affordable housing, housing for all initiatives)

Preferred bets

- Given our optimism on emerging growth opportunities in the housing finance space, we expect all mortgage financiers to atleast sustain valuation multiple, if not improve further.
- We prefer players with niche presence in Tier II/III cities and having optimal product mix to cash in on emerging potential. **We initiate coverage on Dewan Housing Finance (TP: INR642) and Indiabulls Housing Finance (TP: INR653) with BUY recommendation.**

Dewan Housing Finance

- ✓ Dominant player in Tier II & III cities with strong foothold in limited competition low/middle income segment.
- ✓ Has built a lucrative model (bolstered by strategic inorganic expansion) that caters to a gamut of potential customer base.
- ✓ Management conscious efforts to rectify high cost structure, alongwith ebbing concern on few other risks will lead to re-rating

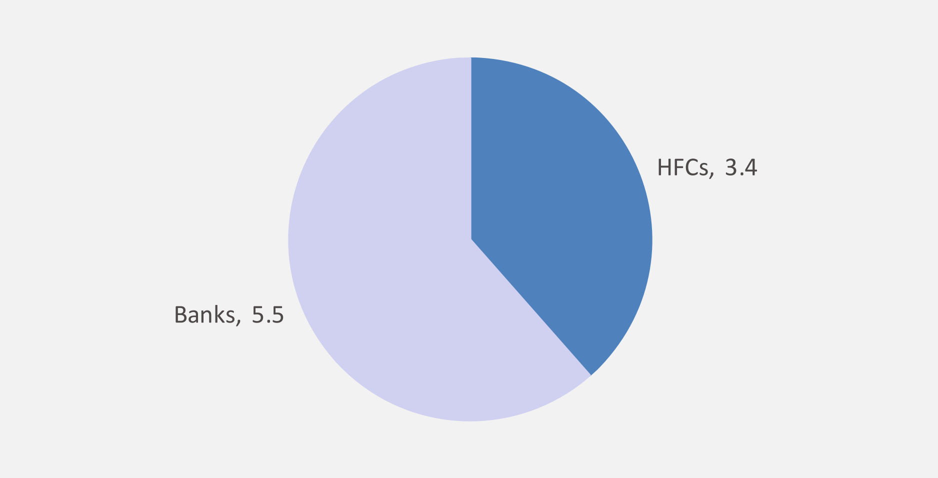
Indiabulls Housing Finance

- ✓ Witnessing structural metamorphosis with steady 20% plus asset growth, credit rating upgrades and active sell-downs.
- ✓ Optimal product strategy with stringent risk mitigants, stable franchise, high liquidity, low gearing = superior return ratios.
- ✓ High dividend yield and consistent earnings delivery, will lend predictability and result in re-rating of the stock.

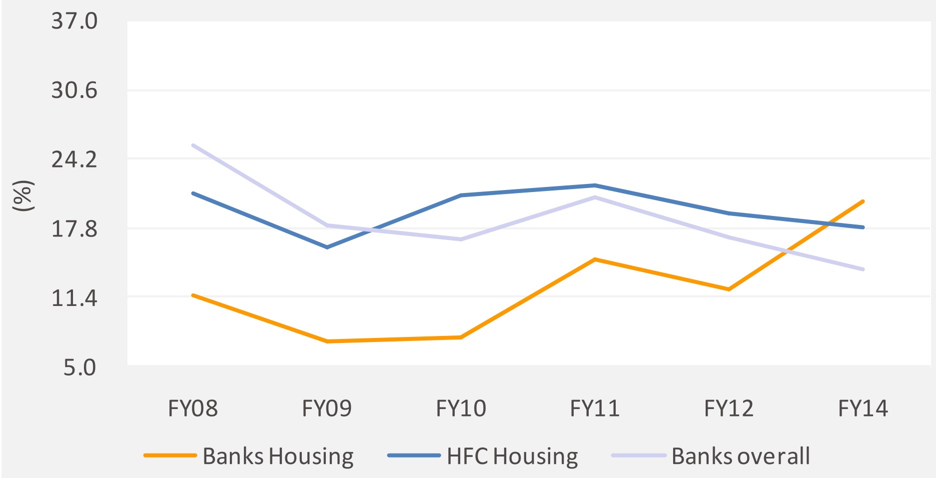
Current landscape: HFCs making inroads; South & West adequately served

HFCs making inroads; consistently improving market share

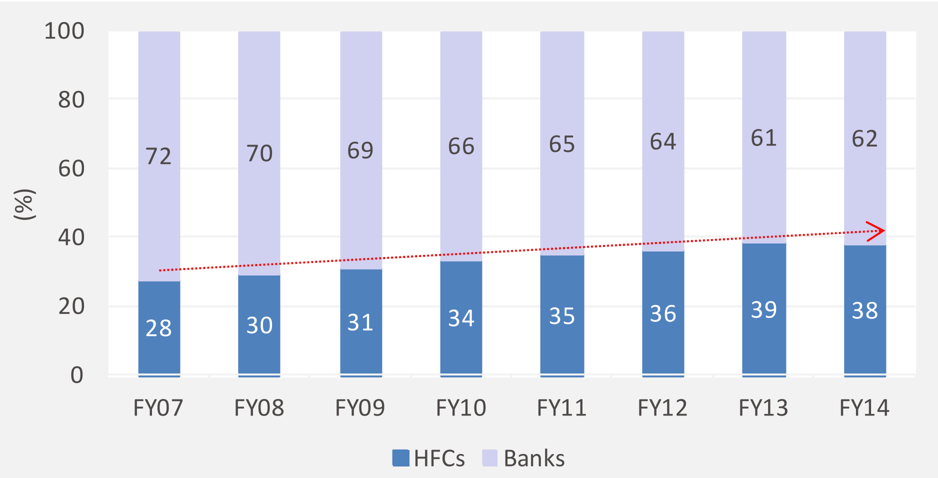
Housing loan industry size at ~INR9tn…..



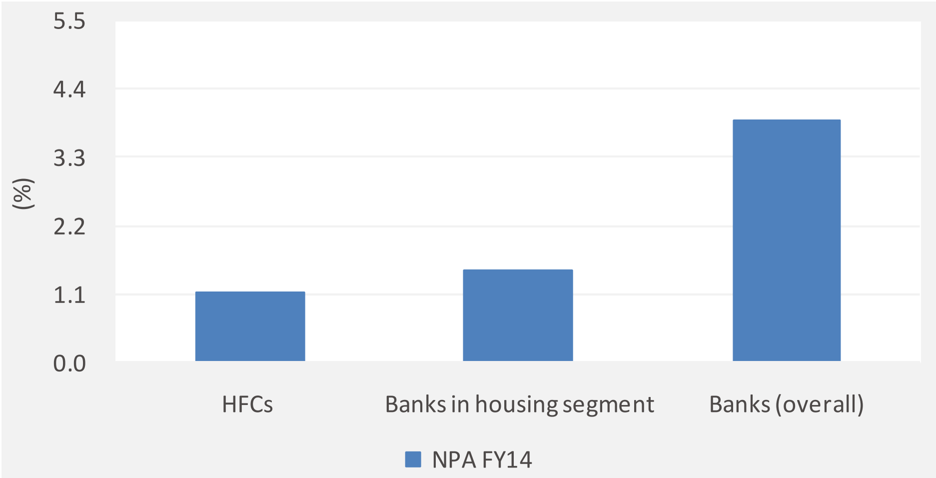
…led by more than 15% CAGR over past 5 years



HFCs incrementally making the mark (gaining market share)….



…safest risk spectrum with NPLs being much lower



Source: NHB, RBI

Geographical heat map: Competition higher in South and West

Punjab
HFC/Branches: 12/50
Banks/Branches: 52/5607

Jammu & Kashmir
HFC/Branches: 2/2
Banks/Branches: 34/1554

Himachal Pradesh
HFC/Branches: 4/5
Banks/Branches: 35/1388

Uttarakhand
HFC/Branches: 12/25
Banks/Branches: 40/1756

Uttar Pradesh
HFC/Branches: 22/127
Banks/Branches: 61/14741

Bihar
HFC/Branches: 8/16
Banks/Branches: 41/5718

Arunachal Pradesh
HFC/Branches: 2/3
Banks/Branches: 22/132

Haryana
HFC/Branches: 18/69
Banks/Branches: 55/3966

Delhi
HFC/Branches: 27/62
Banks/Branches: 69/3266

Rajasthan
HFC/Branches: 26/169
Banks/Branches: 57/5921

Gujarat
HFC/Branches: 28/219
Banks/Branches: 61/6750

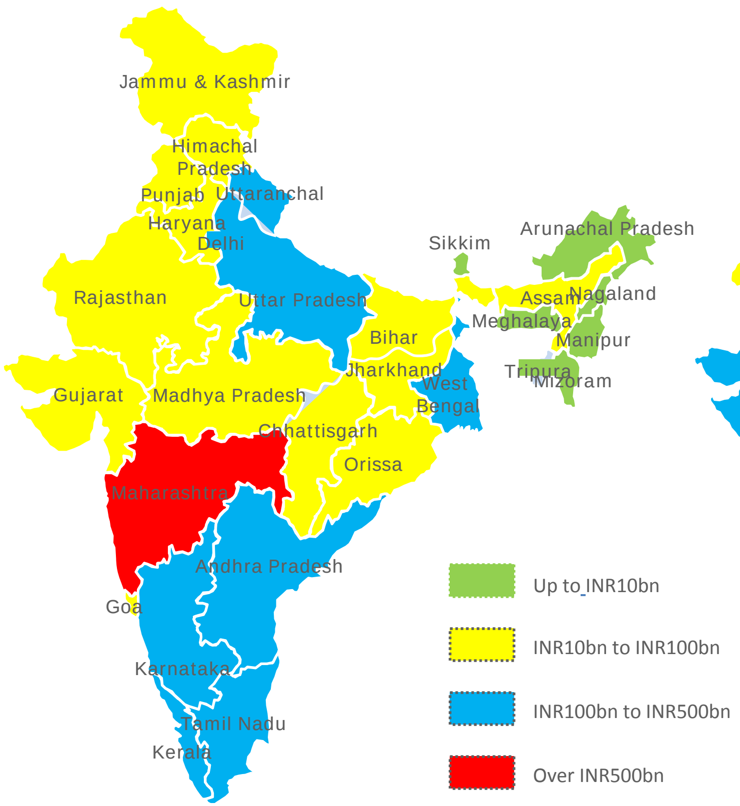
Madhya Pradesh
HFC/Branches: 25/142
Banks/Branches: 54/5601

Maharashtra
HFC/Branches: 39/411
Banks/Branches: 87/11223

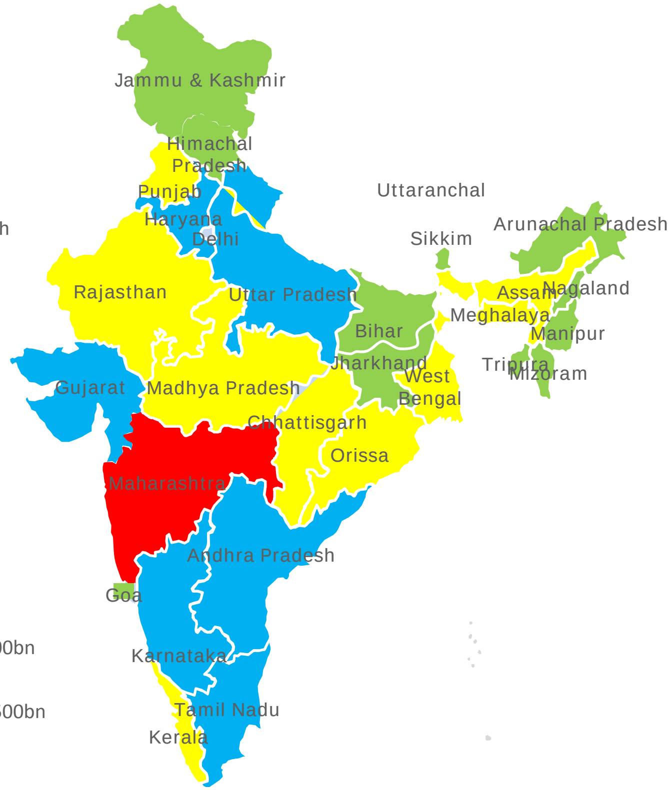
Goa
HFC/Branches: 7/9
Banks/Branches: 43/635

Karnataka
HFC/Branches: 27/267
Banks/Branches: 65/8697

Banks Outstanding heat map



HFCs Outstanding heat map



Sikkim
HFC/Branches: 2/2
Banks/Branches: 28/114

Assam
HFC/Branches: 3/7
Banks/Branches: 38/1992

Nagaland
HFC/Branches: 1/1
Banks/Branches: 25/142

Manipur
HFC/Branches: 3/9
Banks/Branches: 22/137

Mizoram
HFC/Branches: 2/15
Banks/Branches: 23/143

Tripura
HFC/Branches: 2/15
Banks/Branches: 31/365

Meghalaya
HFC/Branches: 1/1
Banks/Branches: 31/290

Jharkhand
HFC/Branches: 10/19
Banks/Branches: 40/2591

West Bengal
HFC/Branches: 15/54
Banks/Branches: 60/6933

Kerala
HFC/Branches: 21/145
Banks/Branches: 51/5882

Tamil Nadu
HFC/Branches: 28/363
Banks/Branches: 67/9137

Andhra Pradesh
HFC/Branches: 2/2
Banks/Branches: 53/5738

Chattisgarh
HFC/Branches: 17/39
Banks/Branches: 43/2069

Orissa
HFC/Branches: 15/31
Banks/Branches: 47/4007

Opportunities galore in self employed/LAP

Humungous opportunities in under served segments

- Considerable opportunities for HFCs to focus on non salaried, in tier II/III markets, that are largely under served

High income group

- Low competitive intensity
- Customised assessment model
- Select HFCs : Gruh, Kotak, IIFL

- Highly competitive segment
- Thin spreads
- Large market for banks and leading HFCs (HDFC , LICHF etc)
- Overcrowding feeds into lower growth potential

Middle income Group

- Largely catered to by regionally focused HFCs
- Repco, Gruh, Dewan etc
- Still huge growth potential
- Few banks incrementally making presence felt (SBI, ICICI etc)

Low income Group

- Huge untapped market
- Underserved market
- Customised assessment model
- Higher operating cost

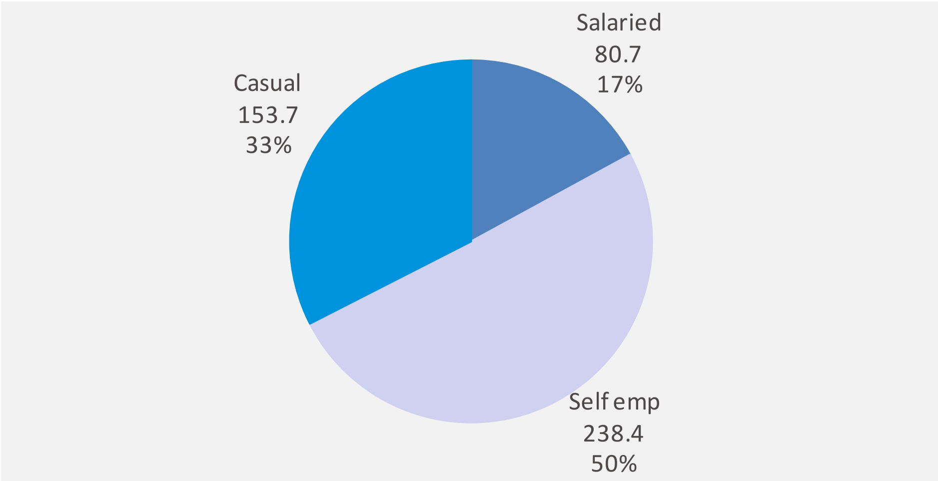
Informal	Semi Informal	Formal
Self employed in Tier III/IV cities No proper documentation No tax returns Largely assessment based	Salaried with no IT returns Self employed in Tier I/II cities Significant undisclosed income Some form of documentation	Salaried with IT returns Documentation in place Mostly Metros

Ease of assessment

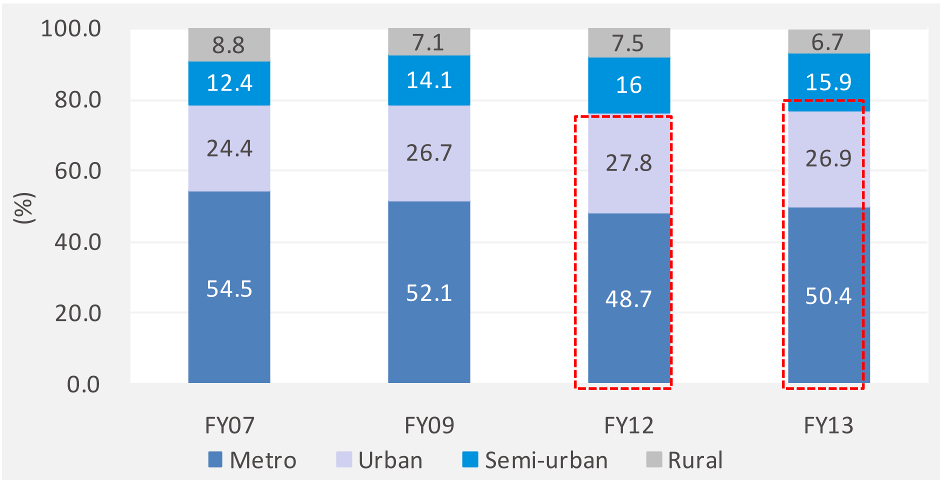
Self employed segment: Game changer

- Self employed segment forms ~50% of India's work force, but is largely under serviced:
  - Only a handful of HFCs serve them, that too on regional basis
  - Banks' home loan portfolios concentrated in metro and urban areas
  - Banks' focus on low ticket size segment has reduced
- Reflects considerable opportunity for players who get it right in terms of appraisal, evaluation and collection

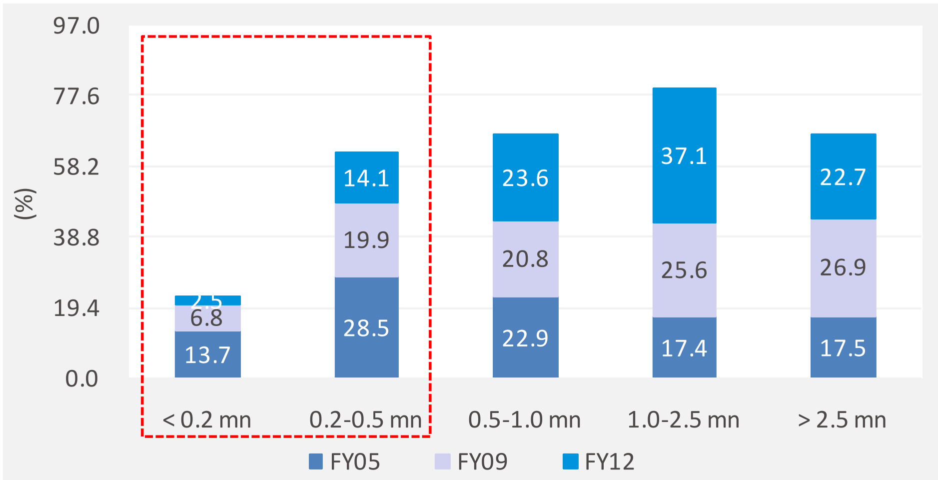
~50% of self employed in total workforce



Metro & urban areas continue to dominate banks' portfolios



Declining share of low ticket housing in banks loan book



Source: NHB, RBI

Higher SE presence, improving growth potential render few states key destinations

- A few states have huge untapped market in terms of higher self employed labour force
- This, however, needs to be seen in light of the ease of assessment, recovery potential, economic growth potential and demographics in these states
- Interactions with few managements indicate that Rajasthan, Uttar Pradesh, Madhya Pradesh, West Bengal, Maharashtra and Gujarat offers significant growth potential

	Employed					
(%)	Self employed	Regular wage/ Salaried	Casual labour	All	Unemployed	Not in labour force
Andhra Pradesh	13.2	5.4	24.6	43.2	3.6	53.2
Assam	13.5	5.1	15.8	34.4	2.2	63.4
Bihar	9.4	3.3	13.1	25.8	5.2	69.0
Chhatisgarh	26.1	5.9	14.8	46.8	1.6	51.6
Delhi	10.6	18.5	4.0	33.1	0.3	66.6
Goa	8.4	19.4	4.2	32.0	12.5	55.5
Gujarat	18.2	8.0	13.0	39.2	4.3	56.5
Haryana	14.5	5.4	8.8	28.7	2.7	68.6
Himachal Pradesh	18.8	8.3	5.0	32.1	2.0	65.9
Jammu & Kashmir	12.8	8.5	7.0	28.3	1.5	70.2
Jharkhand	15.9	4.4	8.7	29.0	10.9	60.1
Karnataka	16.7	5.5	21.1	43.3	1.3	55.4
Kerala	8.6	5.1	17.2	30.9	3.7	65.4
Madhya Pradesh	19.4	5.7	11.7	36.8	3.1	60.1
Maharashtra	19.8	10.2	13.9	43.9	2.8	53.3
Meghalaya	20.9	8.0	11.2	40.1	5.3	54.6
Orissa	11.9	6.2	14.9	33.0	3.5	63.5
Punjab	13.1	6.3	11.3	30.7	3.6	65.7
Rajasthan	15.7	4.3	12.9	32.9	7.2	59.9
Sikkim	25.4	10.0	9.2	44.6	3.0	52.4
Tamil Nadu	15.1	9.5	20.0	44.6	2.8	52.6
Uttaranchal	17.1	4.2	8.3	29.6	1.5	68.9
Uttar Pradesh	15.5	3.2	9.9	28.6	2.5	68.9
West Bengal	16.5	6.8	12.5	35.8	4.5	59.7
Chandigarh	11.5	14.1	6.3	31.9	0.5	67.6
Daman & Diu	14.9	9.2	7.9	32.0	1.8	66.2
Pondicherry	5.9	12.7	4.4	23.0	4.6	72.4

Source: Indiastat

LAP: Offers healthy growth potential

- LAP has seen strong growth, especially in past three years
- **Key drivers likely to be:**
  - New untapped markets, with larger contribution from tier-II cities, mostly as demand environment for small and medium enterprise increases (requiring funds for business growth, given improving macros)
  - Huge underserved demand from Self-Employed Non-Professional (SENP), banks are reluctant to step into this segment.
  - Improved accessibility with increased focus of incumbent players considering high return
- **Comfort of the product lies in**
  - **Favourable risk-return equation:** Relatively higher yields with limited asset quality pain (mortgage as collateral, reference to CIBIL scores). As compared to business loans, where cash credit limits enhancement during periodic reviews, are further drawn thereby keeping LTV constant, EMI nature of LAP pulls LTV down every year.
  - **Lower LTV:** Lower LTV ratio—50-55% range — provides comfort
- **Key risk:** Increasing competition pulling down yield (differential with home loans narrowed down to as low as150-200bps)

Operational characteristics of LAP and home loans

	Loan Against Property (LAP)	Home Loans (HL)
Average ticket sizes	INR5-6mn	INR1.0-2.0mn
Tenure at origination	5 years mostly, 10 at most	15-20 years mostly, 30 at most
Acutual Tenure (Years)	3-5 years	7-9 years
Maximum LTV	Based on market value	>75%
(at origination)	- Residential: 55%	
	- Commercial: 50%	
Nature of customers	Mostly self-employed	Mostly salaried class
End Use	Mostly business use	For buying the property

GNPLs higher; however, adequate cover feeds into higher profitability

	Loan Against Property (LAP)	Home Loans (HL)
Loan rates (%)	12-14%	10-11%
GNPLs	Marginally higher than HLs	Lowest among other asset classes
Credit losses	Comparable to HLs following adequate collateral	Lowest among other asset classes
Profitability	Higher yields and comparable credit cost feeds into higher probitability	RoAs of 1.5-1.6%

Source: Crisil, Edelweiss research

Dissecting growth drivers: Opportunities in Tier II/III cities & other states

Higher penetration in few states: Outcome of socio-economic factors

- Higher penetration in a few states primarily driven by higher per capita incomes, higher number of houses, job creation in that state , accessibility to finance, among others
- South and West are relatively higher penetrated given better recovery history supported by higher per capita incomes
- East and particular pockets of Central (such as UP) India lag because of poor recovery history and low per capita incomes (except Lucknow, Agra, Kanpur)
- Potential growth states for HFCs: **Madhya Pradesh, Rajasthan, Uttar Pradesh, Chattisgarh, Orissa and West Bengal**

			Penetartion	
	Per capita income	Houses (%)	SCB	HFC
Western				
GOA	145,923	0.2	0.5	0.2
GUJARAT	61,220	5.0	5.2	5.0
MAHARASHTRA	66,066	9.8	21.7	25.9
Central				
CHATTISGARH	27,400	2.9	0.9	0.7
MADHYA PRADESH	25,463	5.9	2.8	2.7
UTTAR PRADESH	18,866	13.1	4.7	9.1
UTTARAKHAND	56,251	0.8	0.7	0.8
South				
KARNATAKA	43,075	5.4	11.2	10.7
KERALA	56,115	3.2	6.3	2.8
TAMIL NADU	59,113	7.7	9.3	14.5
ANDHRA PRADESH	44,526	8.6	10.6	8.9
Eastern				
BIHAR	14,904	7.5	1.0	0.2
JHARKHAND	28,023	2.4	0.7	0.3
ORISSA	25,415	3.9	1.5	0.6
SIKKIM	75,137	0.1	0.1	0.1
WEST BENGAL	35,132	8.2	4.0	2.0

			Penetartion	
	Per capita income	Houses (%)	SCB	HFC
North Eastern				
ARUNACHAL PRADESI	37,051	0.1	0.0	0.0
ASSAM	23,448	2.7	0.9	0.3
MANIPUR	23,996	0.2	0.1	0.0
MEGHALAYA	38,627	0.2	0.1	0.0
MIZORAM	40,930	0.1	0.2	0.0
NAGALAND	46,889	0.2	0.0	0.0
TRIPURA	42,315	0.4	0.2	0.0
North				
HARYANA	64,631	1.8	2.9	5.2
HIMACHAL PRADESH	51,730	0.6	0.5	0.0
JAMMU & KASHMIR	30,335	0.8	0.8	0.0
PUNJAB	48,572	2.2	2.3	1.7
RAJASTHAN	29,244	5.1	3.0	3.0
CHANDIGARH	96,206	0.1	0.8	0.0
DELHI	118,960	1.3	6.7	4.5

Source: NHB

Concentration in top quartile states not only being >50%...

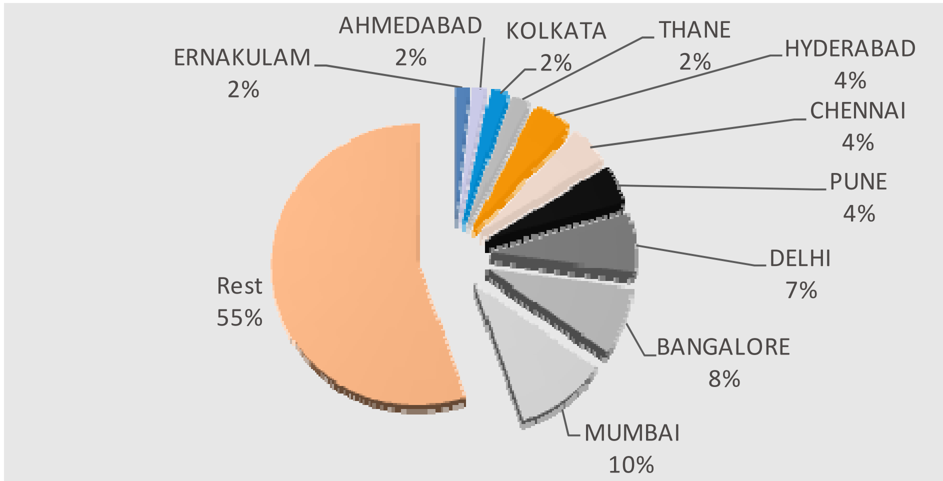
- Current landscape of mortgage penetration indicates huge concentrated geographical presence for both banks and HFCs
- To elucidate: top 5 states contribute ~60% to banks' outstanding home loans; the concentration is even more in case of HFCs with top 5 states contributing ~70% to disbursements
- The trend is no different when looked into districts /cities concentration—top 10 cities constitute ~45% of banks' outstanding books

Contribution of top 5 states for banks and HFCs

Bank Outstanding	Prop
Maharashtra	21.7%
Karnataka	11.2%
AP	10.6%
TN	9.3%
Delhi	6.7%

HFC disbursements	Prop
Maharashtra	25.9%
TN	14.5%
Karnataka	10.7%
UP	9.1%
AP	8.9%

Top 10 cities for banks contribute ~45%



Source: NHB, RBI

…but top 3 cities within each state also contributes > 50% reflecting huge untapped potential

- Even in top quartile states (in terms of outstanding basis) top 3 cities contribute > 50%, indicating untapped potential
  - Development in the periphery of these cities and stability in property prices likely to aid growth
- Expect banks/HFCs to identify potential growth cities in under-penetrated states which will contribute to future spurt
  - Our interaction with various industry participants suggest that Rajasthan (Jaipur, Jodhpur, Udaipur) , MP (Indore, Gwalior, Jabalpur) and UP (Lucknow, Agra, Kanpur) are potential growth areas

Maharashtra	
SCBs penetration	21.7%
Top 3 districts	75.6%
Highest contributor	Mumbai
HFCs penetration	25.9%
Houses penetration	9.8%

Karnataka	
SCBs penetration	11.2%
Top 3 districts	78.3%
Highest contributor	Bangaluru
HFCs penetration	10.7%
Houses penetration	5.4%

Andhra Pradesh	
SCBs penetration	10.6%
Top 3 districts	54.7%
Highest contributor	Hyderabad
HFCs penetration	8.9%
Houses penetration	8.6%

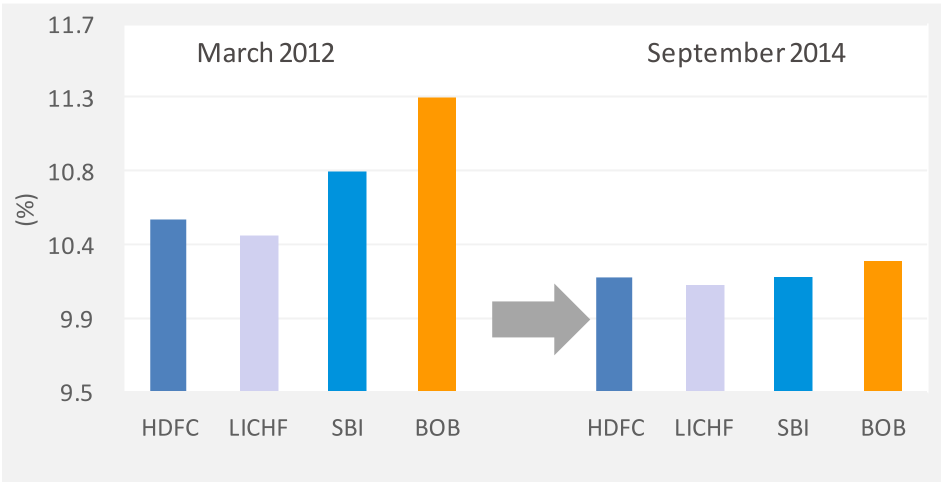
Tamil Nadu	
SCBs penetration	9.3%
Top 3 districts	64.0%
Highest contributor	Chennai
HFCs penetration	14.5%
Houses penetration	7.7%

Source: NHB, RBI

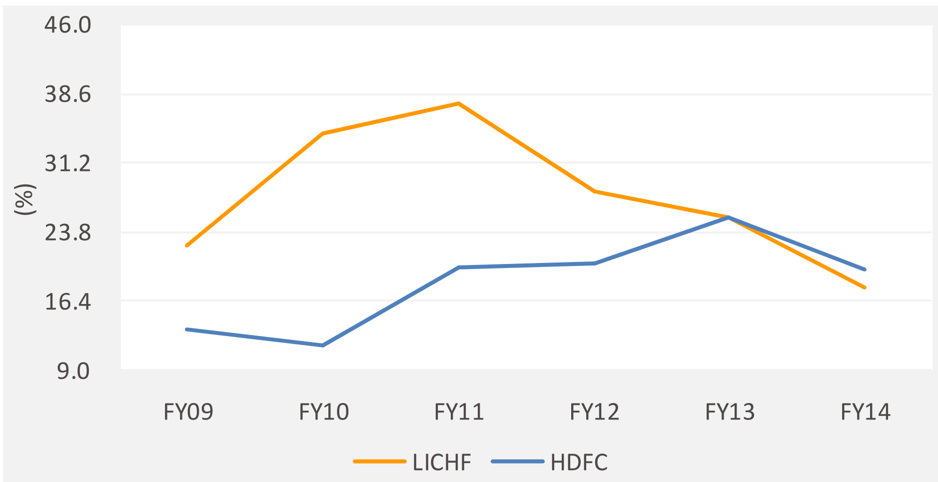
Metros/capital cities over crowded; tier II/III cities to drive growth

- Individual housing segment has become highly competitive with banks becoming aggressive in this segment, reflected in the tight yield competition
- Clear property titles and ease of assessment led banks to focus on these areas
- However, we expect some life line in this segment on account of increased urbanisation, creation of new cities, improving job growth, among others
- While top cities are likely to register only marginal increase in new home sales, we expect tier II and III markets to contribute majorly to growth

Ind. space competitive -reflected in competitive yields



Individual growth slowing in HDFC and LICHF



Source: NHB, Company

Identifying states providing growth opportunities

- Based on our in-depth analysis of various states on key growth drivers we find:
  - **Rajasthan, Madhya Pradesh, Uttar Pradesh Chattisgarh and West Bengal** offer humungous growth potential. Next leg of growth to be aided by expansion into these geographies
  - In addition, there will be higher penetration in lucrative markets like Gujarat, Tamil Nadu, Andhra Pradesh

	Growth attractiveness			Competitive
	Per capita inc	Self employed	Housing %	landscape
Western				
GOA	●	◔	◔	◑
GUJARAT	◕	◕	◕	◔
MAHARASHTRA	◕	◕	●	○
Central				
CHATTISGARH	◔	●	◑	◕
MADHYA PRADESH	◔	◕	◕	◕
UTTAR PRADESH	◔	◕	●	◕
UTTARAKHAND	◕	◕	◔	◑
South				
KARNATAKA	◑	◕	◕	○
KERALA	◕	◔	◑	○
TAMIL NADU	◕	◕	●	○
ANDHRA PRADESH	◑	◑	●	◔
Eastern				
BIHAR	◔	◔	●	◕
JHARKHAND	◔	◕	◑	◕
ORISSA	●	◑	◑	◕
SIKKIM	◕	●	◔	◑
WEST BENGAL	◔	◕	●	◕

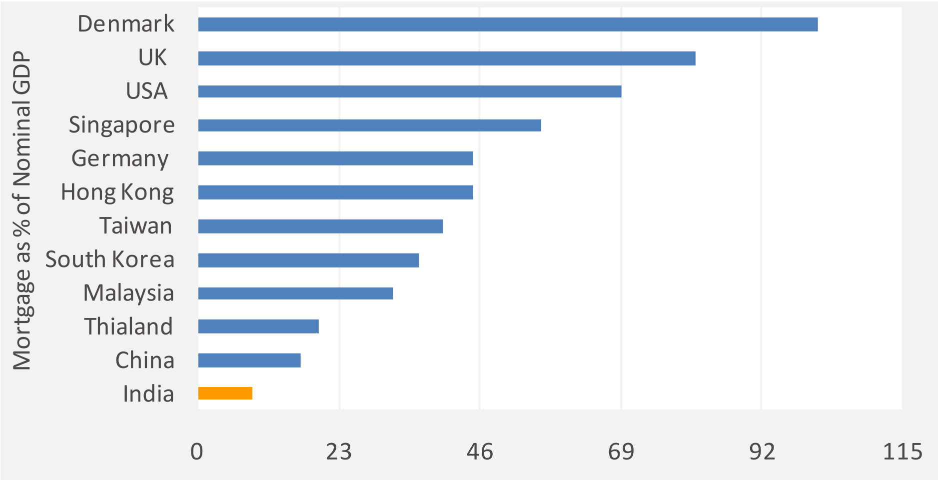
	Growth attractiveness			Competitive
	Per capita inc	Self employed	Housing %	landscape
North Eastern				
ARUNACHAL PRADESH	◔	◑	◔	◕
ASSAM	◔	◑	◑	◕
MANIPUR	◔	◔	◔	◕
MEGHALAYA	◔	●	◔	◕
MIZORAM	◑		◔	◕
NAGALAND	◑		◔	◕
TRIPURA	◑		◔	◕
North				
HARYANA	◕	◑	◑	○
HIMACHAL PRADESH	◑	◕	◔	◕
JAMMU & KASHMIR	◔	◑	◔	◑
PUNJAB	◑	◑	◑	◑
RAJASTHAN	◔	◕	◕	◕
CHANDIGARH		◑	◔	◑
DELHI	●	◑	◔	○

Source: NHB, RBI

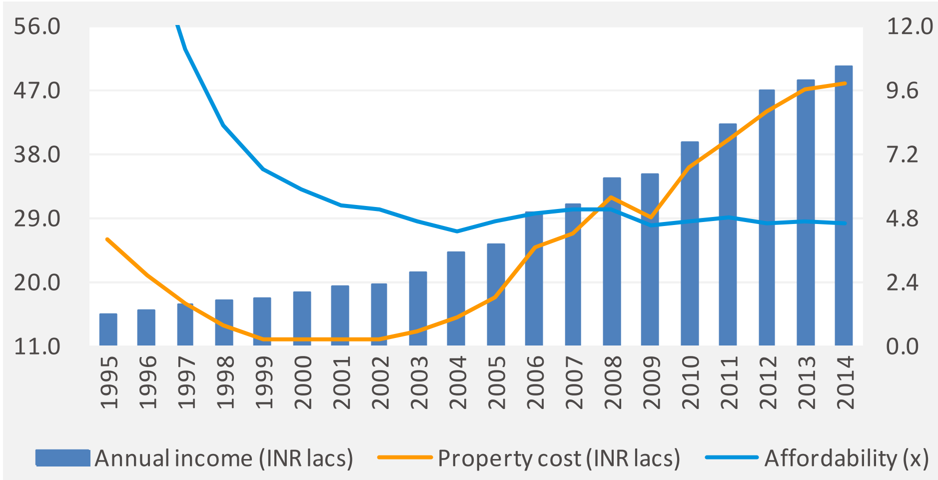
Structural and regulatory levers in favour of growth

Structural growth drivers in place

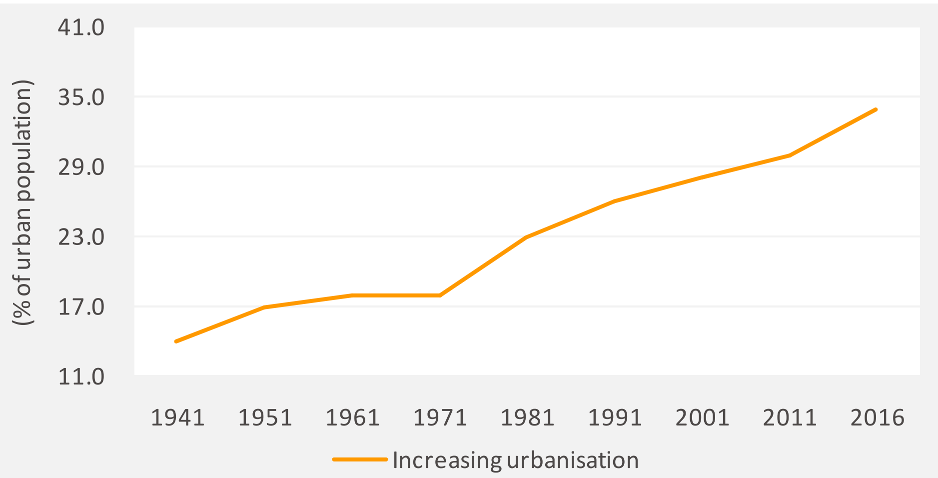
Indian houses relatively unlevered



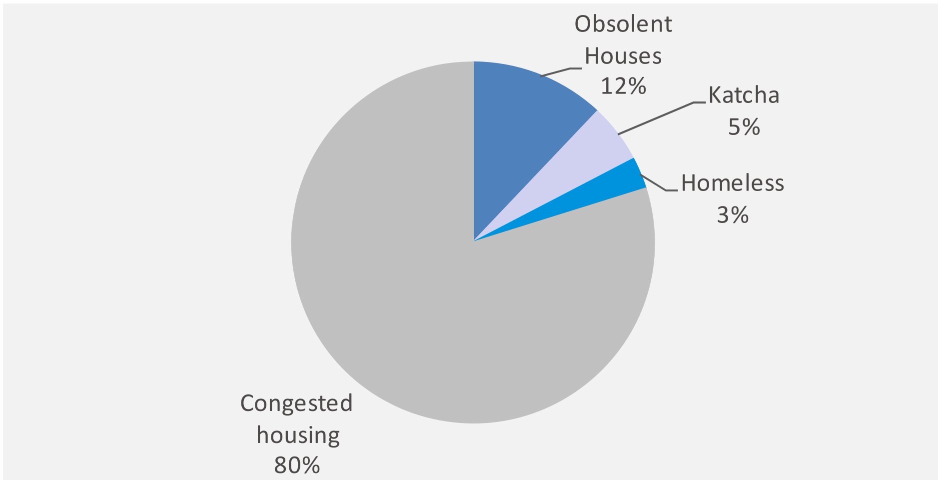
Affordability is comfortable despite steady rise in property prices



Rising urbanisation to drive demand



Housing shortage in urban areas of 18.78 mn units



Source: NHB, HDFC

Government / Regulatory incentives

Government support
Housing for all by 2022 • 65mn housing units
Development of 100 Smart Cities • Planned townships to throw open huge housing opportunity
Tax breaks for REIT • Indirectly help lower ticket lending

Regulatory incentives
Viability gap funding • Regulatory exemption for affordable housing • No CRR/SLR/PSL requirement if finance through long term bonds (of >7 years)
NHB refinancing window • INR80bn allocated for rural housing and INR40bn for urban poor
Lower risk weights and capital adequacy requirement
Limit raised for PSL credit & affordable housing

- Given the reduced regulatory arbitrage between banks and HFCs regulations, we do not expect any major regulatory headwinds going forward

Follows similar provisioning norms as banks

Asset Category	HFCs	Banks
Asset recognition norms	90-dpd	90-dpd
Provisioning Norms		
Standard Asset	0.4%	0.4%
Doubtful Asset		
Upto 1 year	25%	25%
One to 3 years	40%	40%
More than 3 years	100%	100%
Loss Assets	100%	100%

Source: NHB, RBI

Regulatory exemption for affordable housing: Does it weaken HFCs' edge?

- Regulatory incentives to banks on raising long-term bonds for financing affordable housing:
  - Affordable housing limit raised to INR5mn (property value INR6.5mn) in 6 cities and INR4mn in others (property value INR5mn)
  - Loans to HFCs for on-lending up to ticket size of INR1mn to be included as eligible credit
- **Impact analysis**
  - To improve competitive position of banks: Cost of funds in this segment to fall ~100bps due to regulatory exemptions
  - Level of issuances from banks will depend on:
    - ✓ **Investors' appetite for long-term bonds:** Limited corpus with large number of high quality issuers to choose from
    - ✓ **Bonds of fixed rate nature against lending of floating nature:** Need effective interest rate risk management
  - Pressure on securitisation volumes: Will be contingent on demand from banks with regulator providing PSL relaxations to banks
  - Players currently active in long-term bond issuances may see cost pressure as the number of issuers rises

Cost of funds to fall ~100 bps due to regulatory exemptions

	Liabilities				Assets			Net
	Amt (INR)	Yield (%)	Amt (INR)		Amt (INR)	Yield (%)	Amt (INR)	Amt (INR)
				SLR	23.0	8.0	1.8	
				CRR	4.0	0.0	0.0	
Bonds	100.0	9.0	9.0	Housing Loans	52.1	10.5	5.5	
				PSL	20.9	9.5	2.0	
	100.0	9.0	9.0		100.0		9.3	0.3

	Liabilities				Assets			Net
	Amt (INR)	Yield (%)	Amt (INR)		Amt (INR)	Yield (%)	Amt (INR)	Amt (INR)
Bonds	100.0	9.25	9.25	Housing Loans	100.0	10.5	10.5	
	100.0	9.25	9.25		100.0		10.5	1.3
Difference (%)								**1.0**

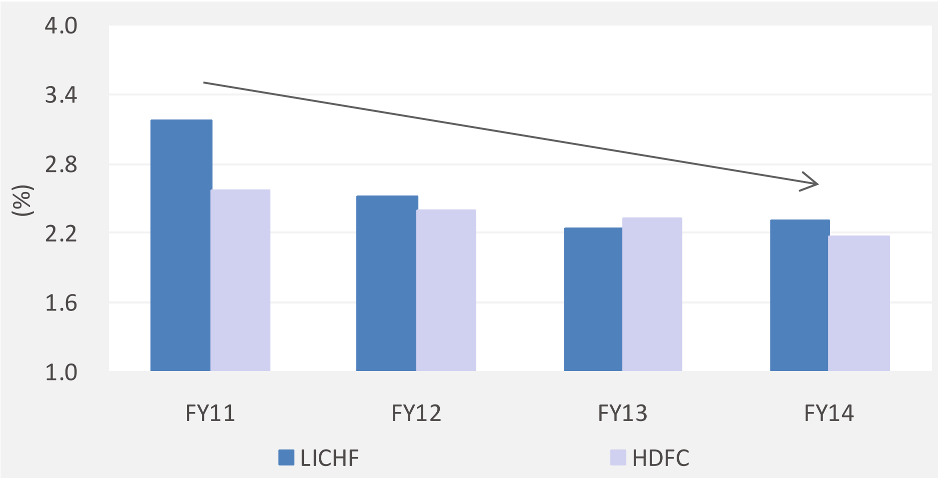
Source: Edelweiss research

Triggers for margin improvement

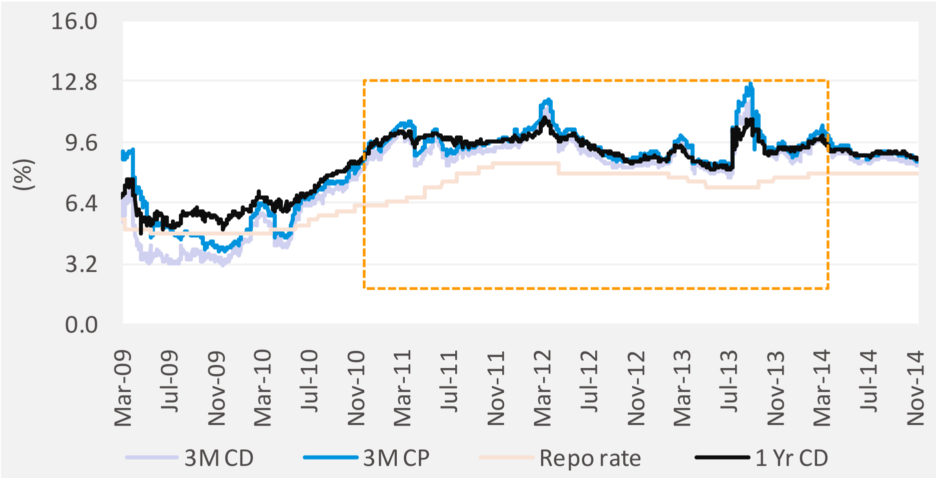
Falling interest rate scenario to aid NIMs, but only for few

- Thin spreads in individual mortgages primarily on account of elevated interest rates and banks' aggression in mortgage lending, a derivative of muted corporate growth
- Falling interest rate scenario will provide funding cost benefit; however, whether it will translate into NIM expansion will depend of HFCs' area of operations and customer segment they cater to
  - In individual mortgages, particularly in top 10 cities, we see limited positive impact on NIMs as banks will lead the cut and HFCs will have to follow suit
  - Incrementally, players who is able to optimally leverage on higher yielding self employed segment, LAP and developer loans (with liquidity getting comfortable) will be the key beneficiary.
  - Lenders with small ticket size to get funding cost advantage (PSL credit, NHB refinancing) and will have pricing power as well given relatively lower competition

Spreads have contracted over past few years ....



... due to elevated interest rate scenario

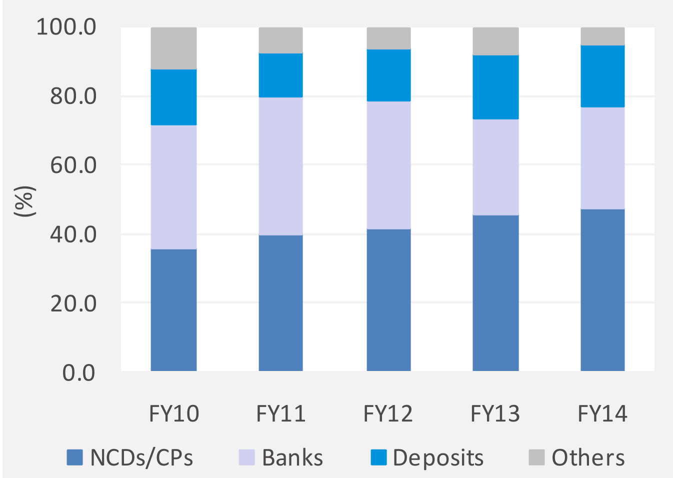


Source: Bloomberg, Company

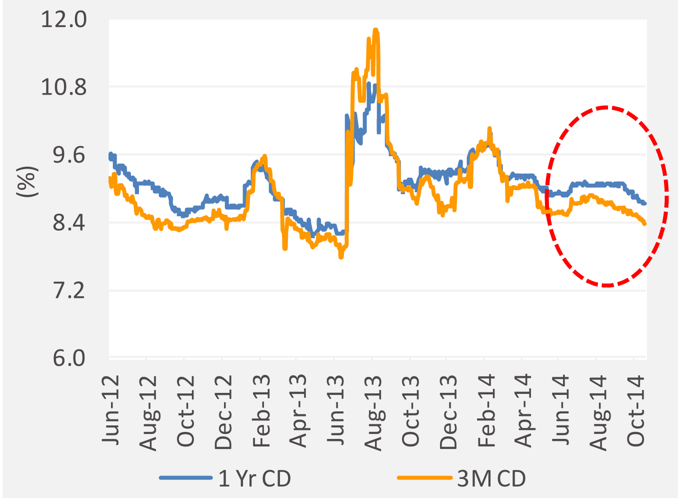
Diversified borrowing mix to support funding cost

- HFCs are prudent enough to diversify funding mix to maximise the benefit of lower funding cost
- Large part of funding (~50%) is through wholesale markets (NCDs) which will benefit from a falling interest rate scenario
- Players building scale in low ticket/affordable housing to benefit the most:
  - ✓ Lower borrowing cost from banks as it qualifies as PSL credit
  - ✓ Expected pick up in securitisation volumes
  - ✓ NHB refinancing
  - ✓ ECB borrowing for affordable housing
- The culmination of lower funding cost and stable/ marginally declining lending yields will allow HFCs to gain on margins

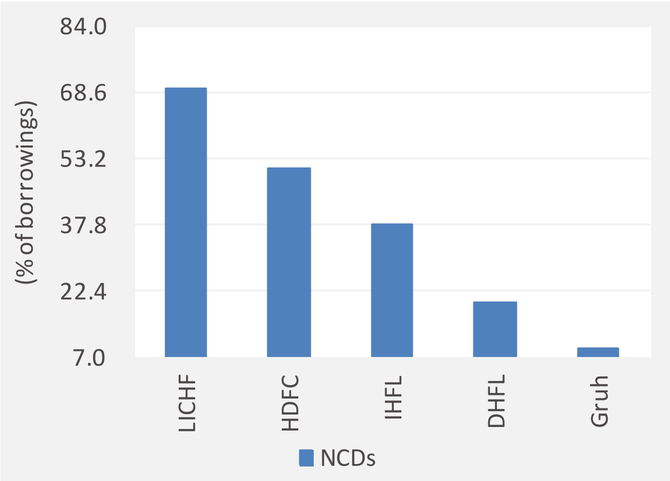
Diversified borrowing mix



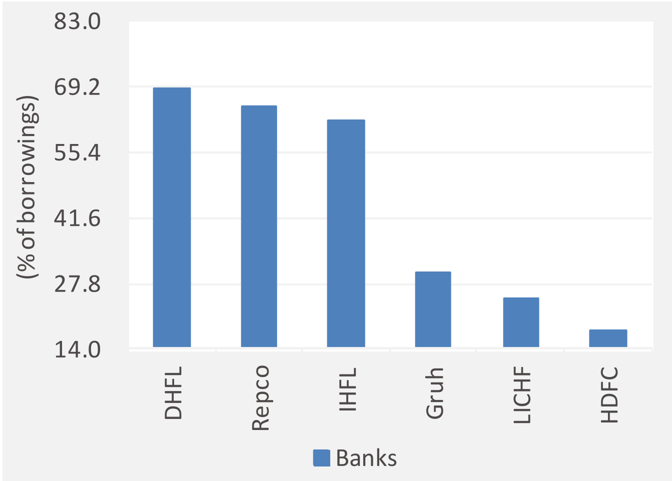
Declining interest rate to aid the cause



NCDs as a percentage of borrowings



Banks' borrowing as percentage of borrowings



Source: NHB, Bloomberg, Company

Company Section

HDFC – In Ivy league

CMP: INR1,113 | Market Cap: INR1,750bn | Reco.: Hold

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
LIC Housing	Prominent in Metro, capital cities	Pan India	Home loan: 93.5 LAP: 4 Corporate: 2.5	Salaried: 88 Self Employed: 12	LIC agents: 60 DSA: 33 LICHFL Financial Services: 3 Direct: 4	INR975bn, 21%	1.9	10.9	0.6	1.6	19.9	16.3
Dewan Housing	**DHFL:** Tier II, Tier III; **First Blue:** Metros; **Aadhar:** Rural	Pan India	Home loan: 78 LAP/LRD : 17 Project loans: 5	Salaried: 70 Self Employed: 30	Direct walkin: 6 DSA: 29 DST: 65	INR494bn, 47%	1.1	12.7	0.8	1.4	16.0	16.2
Indiabulls housing	Prominent in Tier I & Tier II cities	Pan India (North & West dominated)	Home loans: 51 LAP: 25 Corporate Mortgage: 21 CV: 3	Salaried: 70 Self emplyed: 30	Direct walkin: 9 DSA: 16 Bank tie-up: 5 DST : 70	INR450bn, 23%	Home loan: 2.4 LAP: 6.8	13.6	0.9	4.0	28.0	19.1*
Repco Home	Tier II, Tier III cities	South India (TN, Karnataka dominated)	Home loan: 80.5 LAP : 19.5	Salaried: 44.3 Self Employed: 55.7	Branches act as single point of contact	INR52bn, 29%	1.2	12.5	1.7	2.6	16.8	21.9
Gruh Finance	Tier II, Tier III cities	West India (Guajarat, Maharashtra dominated)	Home loan: 92.2 LAP: 4.6 Construction Finance: 3.3	Salaried: 61.5 Self Employed: 18.5 Businessmen: 20	Referral associates (61%) & Branches	INR79bn, 30%	0.8	13.4	0.4	3.0	32.0	16.7
Can Fin Homes	Tier I, Tier II cities	South India dominated	Retail: 88 Corporate: 12	Salaried: 84 Self Employed: 16	Branches (predominantly) & DSAs	INR70bn, 38%	1.9	11.5	0.3	1.5	17.0	13.8*
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

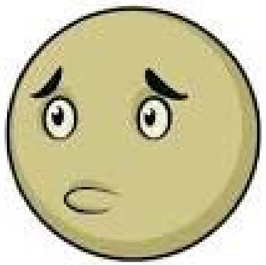
HDFC: Strengths, Opportunities, Threats

Key Differentiators

- Market leader : Largest HFC with AUM crossing INR2tn (building scale as high as banking franchise).
- Strong brand, an enviable proposition .
- Diversified liability franchise not easy to replicate: only non-banking entity to leverage deposit franchise effectively
- Extensive reach (pan-India presence) aided by strong HDFC Bank franchise.
- Consistency and stability in franchise led by optimal product mix (70% individual and 30% non-individual loans) .
- Pristine asset quality withstanding various cycles.
- Strong knowhow of developer finance (selective approach) - no hiccups witnessed in multi-decadal experience.
- Extremely lean cost structure.

Opportunities

- Best positioned to leverage on emerging growth opportunities in mortgage finance considering its brand and distribution franchise.
- Increased focus on self-employed category: Forms 18% of incremental disbursement; dedicated team in place.
- AAA rating and diversified /well-matched borrowing profile helps in effectively competing with banks.

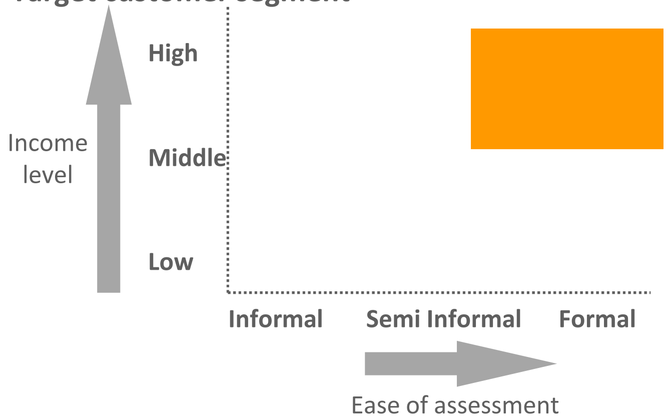


Threats

- Increasing competition in its operative segment may narrow the pace of outperformance (given very high base).
  - Already reflected in current trend of profitability being lower than historical average.
- Sustainable high return ratios have been key driver of HDFC's premium valuation compared to peers .
  - While superior valuation will continue, we expect gap to reduce given narrowing earnings performance.
- We maintain 'HOLD' recommendation with target price of INR1,071.

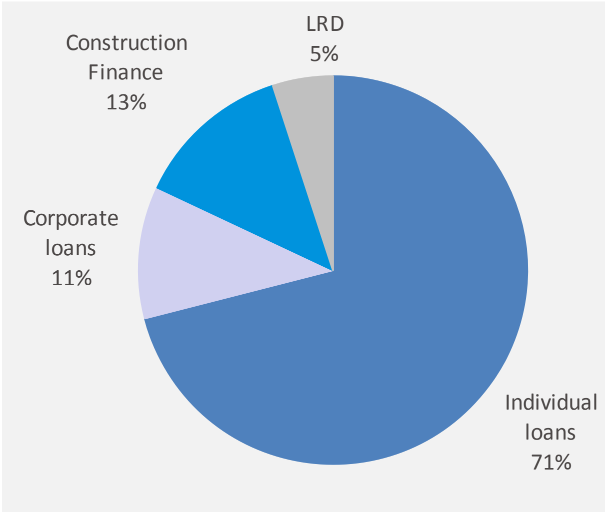
HDFC: Key operating metrics

Target customer segment

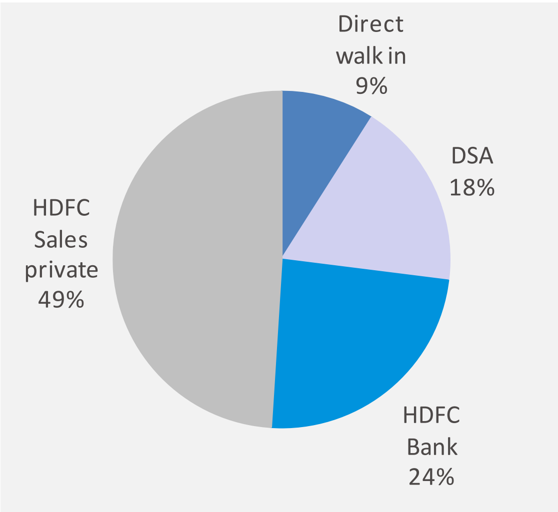


Pan-India player focused on metros/tier I cities

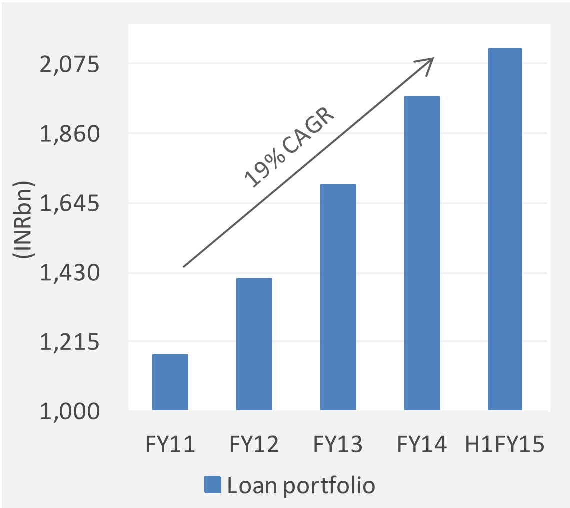
Optimal product mix: 30% non-individual



Leverage on in-house team, HDFC Bank's franchise



Loan CAGR of 19% over FY11-14



Financial snapshot

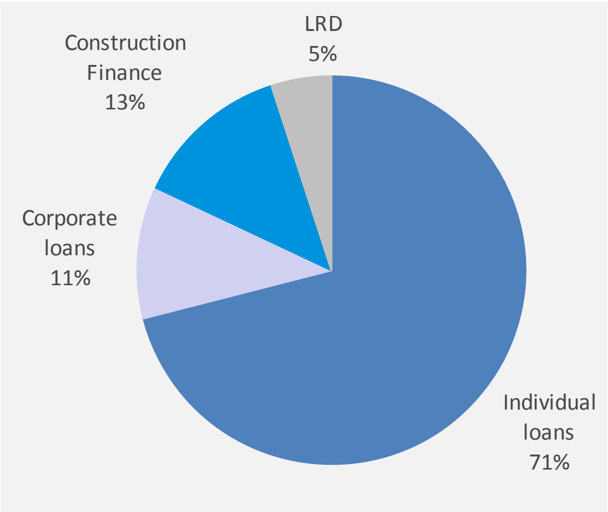
- **LTV :** 65%
- **PAT :** INR54.4bn
- **Avg ticket size** INR2.3mn
- **Avg RoA :** 2.8%
- **CAR:** 17.9%
- **Avg core RoE : 30%**

Source: Company

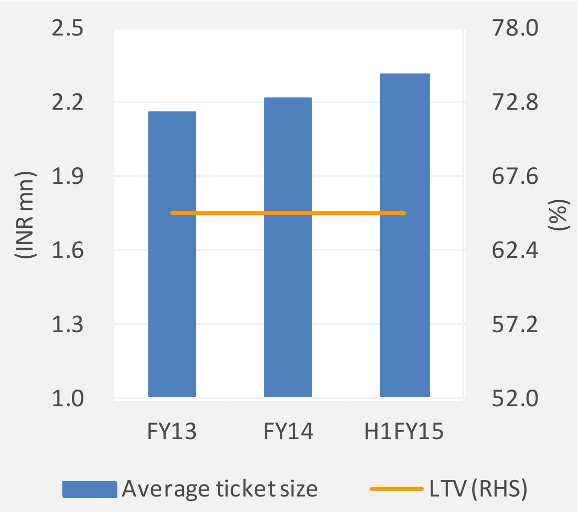
HDFC customer profile: Across the spectrum, focused on low risk, high quality

- HDFC, being a pioneer in home loan segment with strong developer relationship, distribution franchise, funding cost advantage and top-of-the-mind recall, competes head-on with banks.
- With first-mover advantage, it is able to cater largely to low risk high quality formal channels —upper end of salaried segment and self-employed professionals. Recognising the need and market potential, HDFC has started focusing on self-employed category (constitutes ~18% of incremental disbursements).
- With dominance in top-10 cities, HDFC 's average ticket size (ATS) stands at high INR2.3mn.
- HDFC, with multi-decadal experience, has developed strong relationship with high-end quality developers including Oberoi, Raheja and Shapoorji Pallonji, among others. Non-individual loans constituting ~30% of portfolio loans comprises corporate loans, lease rental discounting and developer loans (yield on LRD 11.5-12.5% and in developer loans at 14-15%).
- With more than 40% of portfolio qualifying for PSL, it sells down loans to HDFC Bank – off-book AUM constitutes 9% (at INR207bn) on which spread at 1.32% p.a. will be earned over life of the loan.

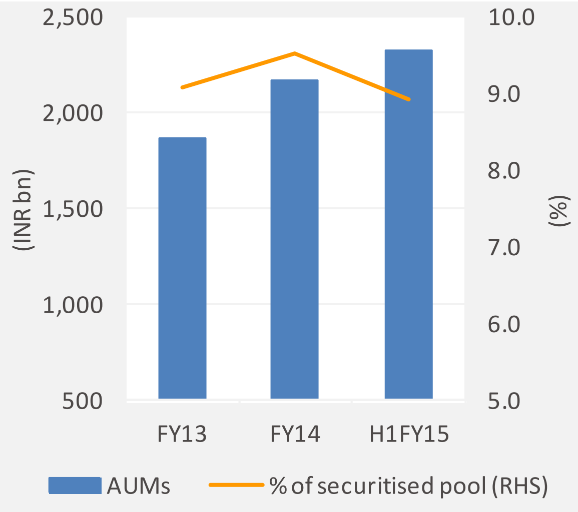
Optimal mix of individual and corporate loans



Dominance in top-10 cities leads to higher ATS



Sell-down arrangement with HDFC Bank



Source: Company

HDFC: Pan-India player focused on metros/Tier I cities

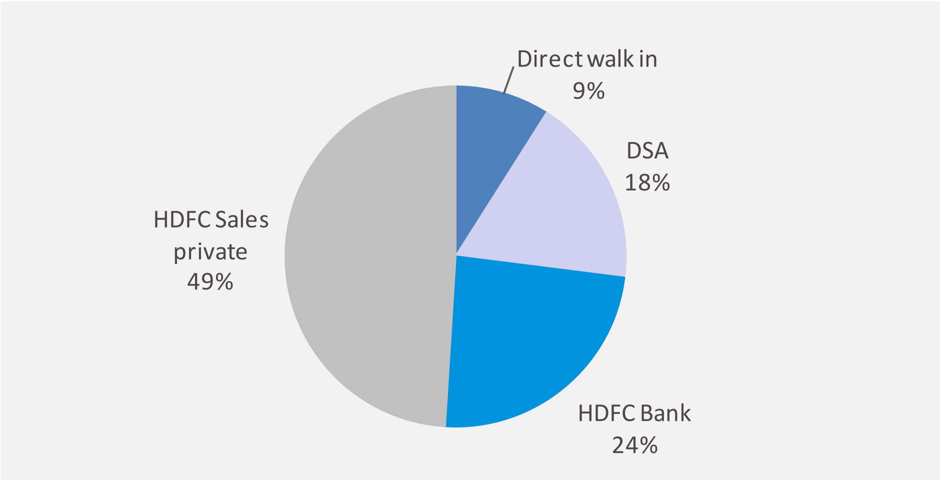
- HDFC has pan-India presence with strong distribution franchise—an enviable proposition for other players
- Most branch network and loan portfolio concentrated in metros and tier I cities. However, going forward, with emerging opportunities we expect it expand beyond metros.
- HDFC Bank and its sales subsidiary contribute ~70% to new loan leads. Considering the strong brand positioning, reliance on DSAs for sourcing loans is not high.
- Operating cost structure continues to be one of the lowest among peers, leveraging on in-house sourcing. Scale has also provided operating leverage benefits.

Pan-India player focused on metros/tier I cities

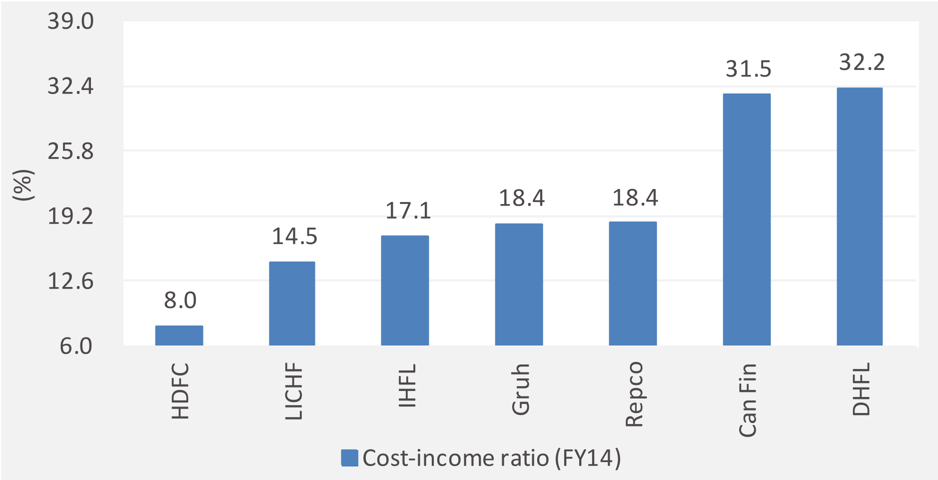
High productivity with low operating cost (INR mn)

	HDFC	LICHF	GRUH	DHFL	Canfin	Repco	IHFL
Emp./branch	5.5	7.4	3.8	6.5	4.4	3.8	20.0
Opex/branch	17.7	15.4	4.1	13.2	5.8	3.2	17.1
AUM/branch	5,568	4,478	494	1,400	704	382	2,008

Leverages on in-house sourcing



Lean cost structure in with significant scale

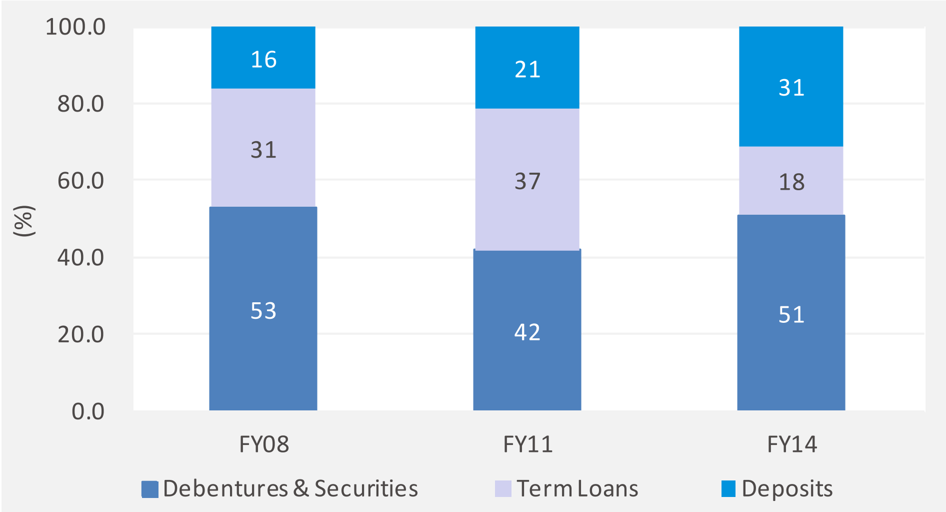


Source: Company

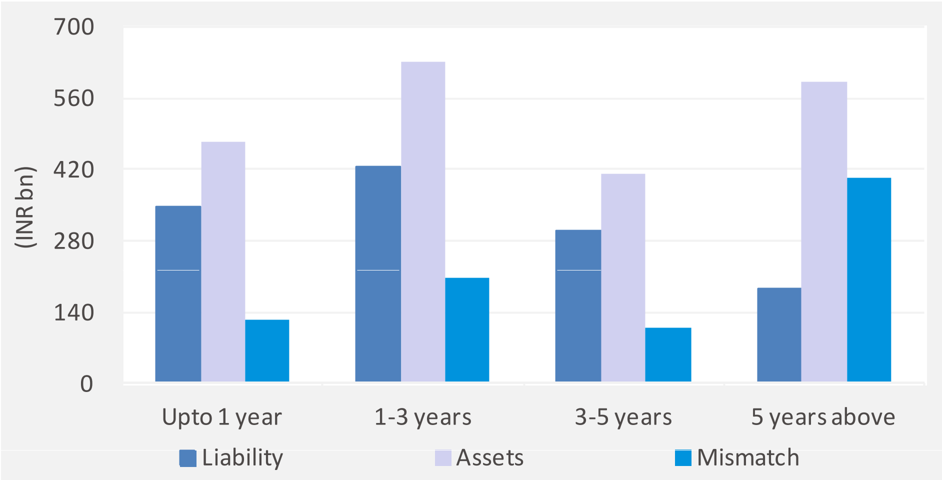
HDFC: Liability never a constraint to scalability

- **Diversified liability franchise**: Ability to shift swiftly between retail deposits and wholesale borrowings, depending on interest rate cycles.
- AAA rating and multi-decadal presence with strong brand allows it to borrow at attractive rates and compete head-on with banks.
- Diversified borrowing profile reduces vulnerability to systematic liquidity issue. Consistently adheres to well-matched ALM.
- Sell-down loans to HDFC Bank acts as another funding source.
- NIMs to draw support from declining interest rates scenario.

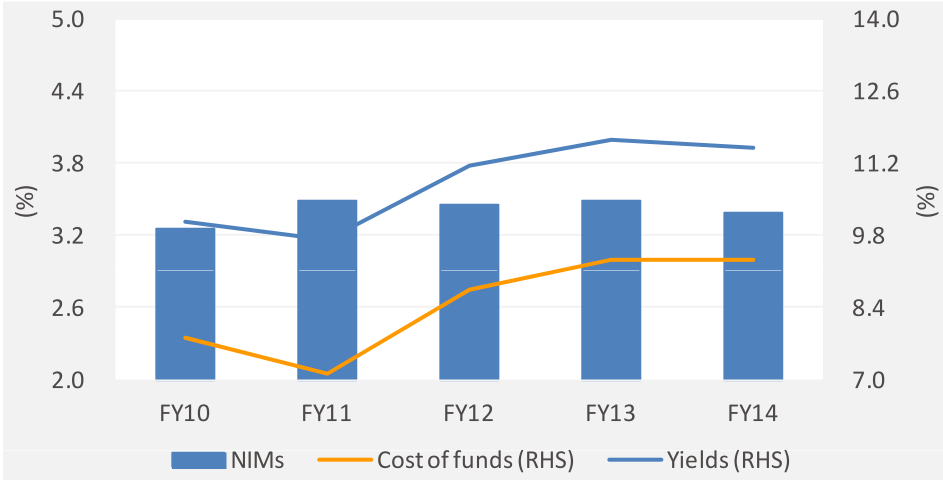
Efficiently switches between retail and wholesale market depending on rate cycle



Well-matched ALM profile across buckets



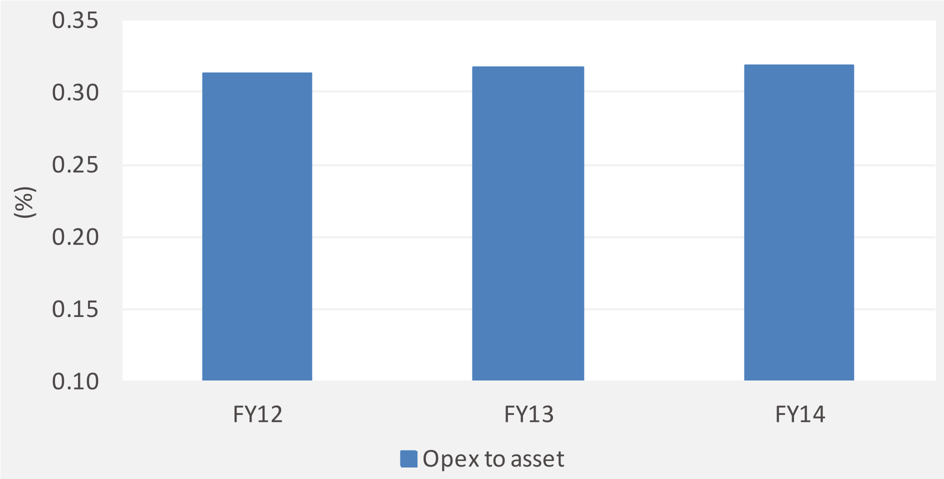
Spreads stable over past 20 years on optimal product mix and liability strength



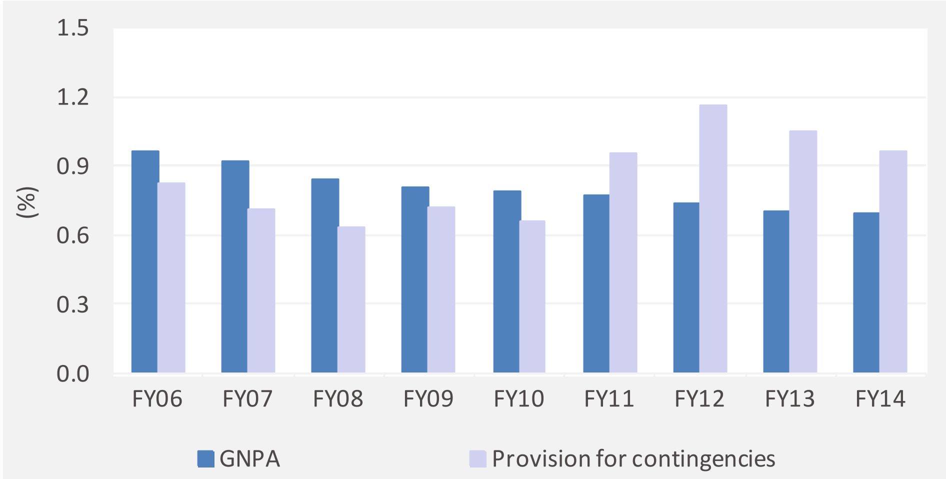
Source: Company

HDFC: Consistent, superior and sustainable return ratios

Low operating cost structure feeds into best-in-class cost ratio



Pristine asset quality maintained withstanding cycles

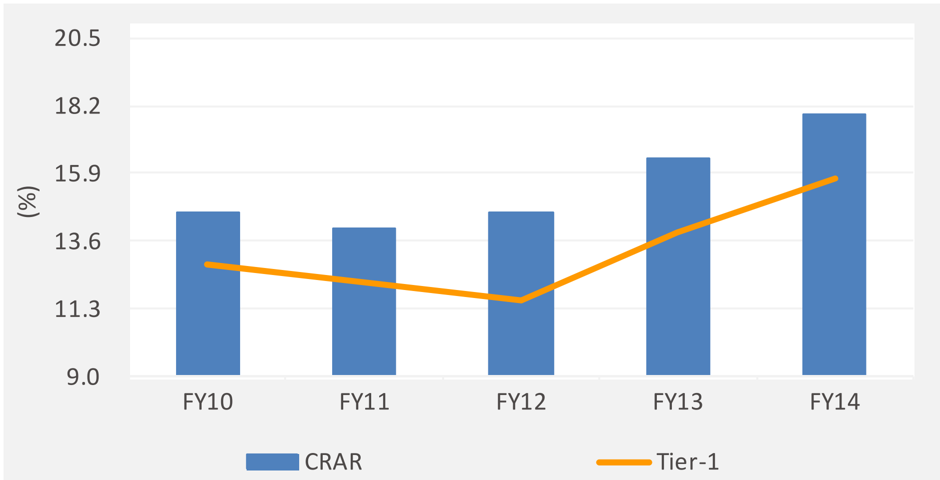


Strong return ratios—Best-in-class return ratios

RoE decomposition (%)	FY13	FY14	FY15E	FY16E
Net interest income/Assets	3.5	3.4	3.4	3.4
Other Income/Assets	0.6	0.6	0.7	0.7
Net revenues/Assets	4.3	4.1	4.1	4.1
Operating expense/Assets	0.3	0.3	0.3	0.3
Provisions/Assets	0.1	0.1	0.1	0.1
Taxes/Assets	1.0	1.0	1.2	1.1
Total costs/Assets	1.4	1.4	1.5	1.5
ROA	2.8	2.8	2.6	2.6
Equity/Assets	12.9	12.9	11.8	11.2
ROAE	22.0	21.4	22.1	23.3

Note: Mortgage business (excluding other financial subsidiaries) RoEs are 30%

Funds growth with internal accruals given strong return profile



Source: Company, Edelweiss research

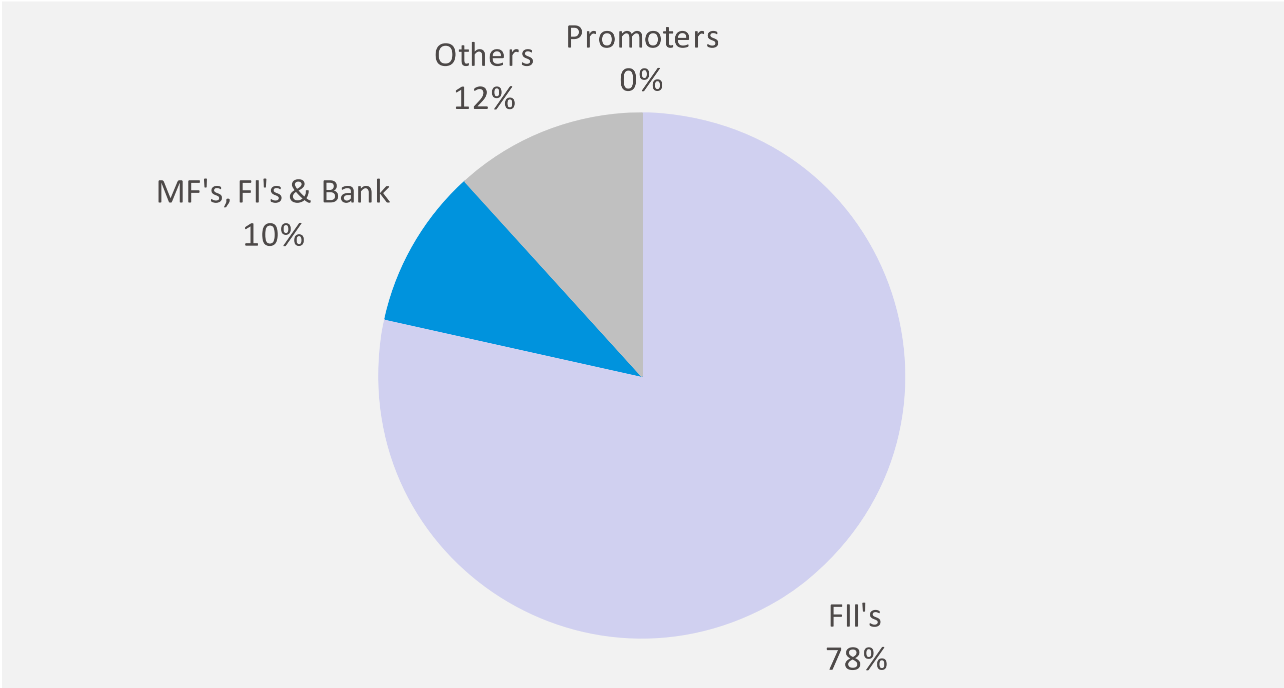
HDFC Group structure

HDFC

22.5%	HDFC Bank	• With loan book of INR3,273bn, it is amongst the largest private sector banks • 3,600 branches, 11,515 ATMs and 2,272 locations
72.4%	HDFC Standard Life Insurance	• AUM of INR591bn, consistent new business premium • Ranked 1st in group premium and 2nd in individual business premium for H1FY15 (within private sector market share)
59.8%	HDFC Asset Management	• AUM of INR1,492bn across 53 schemes comprising debt, equity, gold ETF as well as fund of funds • Largest in industry as per quarterly avg. AUM, market share -13.3%
73.6%	HDFC ERGO General Insurance	• Gross written premium of INR16.8bn as at H1FY15 • Market share of 8.8% (private sector) and 4.1% (overall) in terms of gross direct premium as at H1FY15
58.7%	GRUH Finance	• Loan portfolio of INR79.1bn as at H1FY15 and GNPA of 0.38%, which has been fully provided • Retail network of 148 offices across 7 states
100%	HDFC Property Ventures	HPVL is Investment advisor to 2 domestic funds managed by HVCL and an offshore fund managed by GRIHA
80.5%	HDFC Venture Capital	Fund manager to HDFC Property Fund manages 2 schemes of the fund, viz., HDFC India Real Estate Fund and IT Corridor Fund
90.5%	Credila Financial Services	• NBFC lending to under graduate and post graduate students studying in India or abroad • AUM of INR15.3bn

Source: Company

HDFC: Shareholding pattern



Source: BSE

As per last available data

LIC Housing Finance – Forte in retail segment

CMP: INR473 | Market Cap: INR239bn | Reco.: Buy

Comparative metrics

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
LIC Housing	Prominent in Metro, capital cities	Pan India	Home loan: 93.5 LAP: 4 Corporate: 2.5	Salaried: 88 Self Employed: 12	LIC agents: 60 DSA: 33 LICHFL Financial Services: 3 Direct: 4	INR975bn, 21%	1.9	10.9	0.6	1.6	19.9	16.3
Dewan Housing	**DHFL:** Tier II, Tier III; **First Blue:** Metros; **Aadhar:** Rural	Pan India	Home loan: 78 LAP/LRD : 17 Project loans: 5	Salaried: 70 Self Employed: 30	Direct walkin: 6 DSA: 29 DST: 65	INR494bn, 47%	1.1	12.7	0.8	1.4	16.0	16.2
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Repco Home	Tier II, Tier III cities	South India (TN, Karnataka dominated)	Home loan: 80.5 LAP : 19.5	Salaried: 44.3 Self Employed: 55.7	Branches act as single point of contact	INR52bn, 29%	1.2	12.5	1.7	2.6	16.8	21.9
Gruh Finance	Tier II, Tier III cities	West India (Guajarat, Maharashtra dominated)	Home loan: 92.2 LAP: 4.6 Construction Finance: 3.3	Salaried: 61.5 Self Employed: 18.5 Businessmen: 20	Referral associates (61%) & Branches	INR79bn, 30%	0.8	13.4	0.4	3.0	32.0	16.7
Can Fin Homes	Tier I, Tier II cities	South India dominated	Retail: 88 Corporate: 12	Salaried: 84 Self Employed: 16	Branches (predominantly) & DSAs	INR70bn, 38%	1.9	11.5	0.3	1.5	17.0	13.8*
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

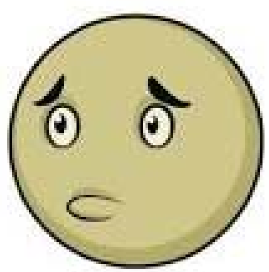
LICHF: Strengths, Opportunities, Threats

Key Differentiators

- Second largest non-banking mortgage financier, strong brand supported by LIC parentage and multi-decadal experience .
- Extensive reach (pan-India presence) aided by strong network of LIC agents; tough to replicate.
- Best-in-class funding cost, aided by higher credit rating and option of funding support from parent (LIC).
- High focus on retail segment results in benign asset quality. Though developer loans have put some NPL pressure, resolution in some accounts is expected soon providing near-term trigger.
- Utilisation of LIC agents has helped maintain low cost structure.

Opportunities

- Given the reach of LIC agents and LIC's strong corporate relationship, LICHF can leverage effectively on emerging opportunities in mortgage finance.
- Corporate developer loan book has been pruned to less than 3%. However, the company seems to have learnt from the past and going forward could calibrate growth in this segment as opportunities emerge.
- Incrementally, the company is focusing on the high-yielding LAP forming ~4% of loan book (7-8% of disbursements).
- With <40% of loans being on floating rate and re-pricing of fixed rate loans (teaser loans) at relatively higher rates will aid margin expansion in falling interest rates scenario.

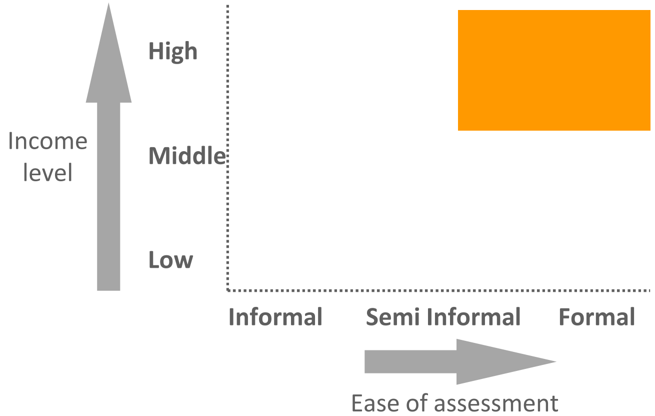


Threats

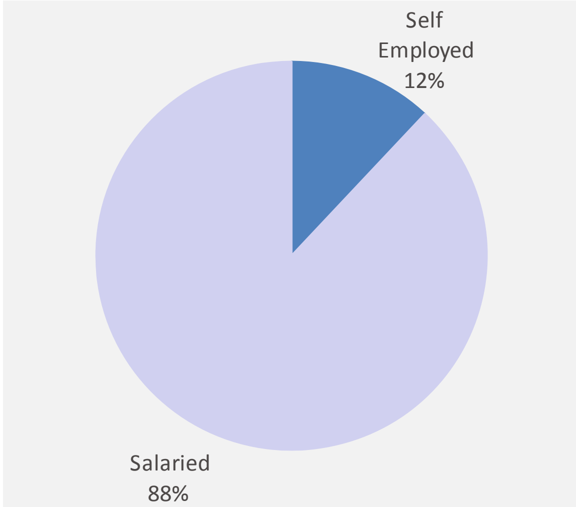
- Increasing competition in its forte of retail loans may structurally pull down lending yields.
- The stock has recently outperformed broader markets (>40% over past 6 months) and run up to valuations of 2.6x FY16E P/BV. However, given the scope for NIMs improvement, improving growth visibility and resolution impending in few corporate NPLs, the stock has the potential to further re-rate.
- We maintain **'BUY'** recommendation with target price of INR525.

LICHF: Key operating ratios

Targeting salaried class in metros/tier 1 cities

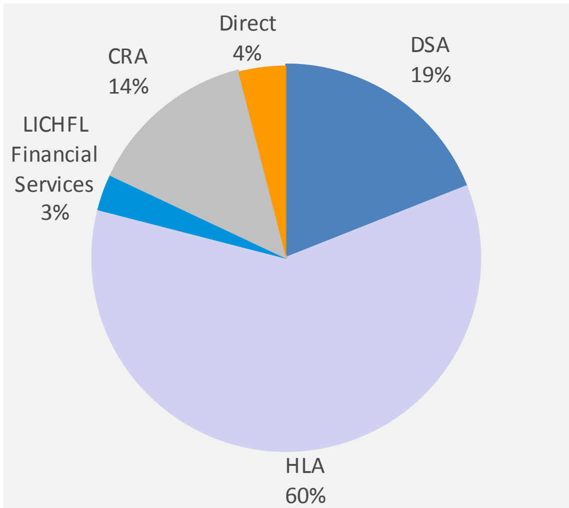


Rising focus on SE which forms 12% of book

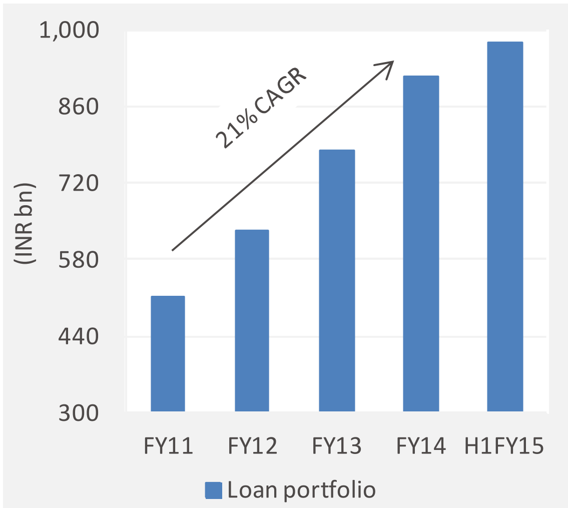


Pan-India player focused on metros/tier I cities

Leverages on strong network of LIC agent



Loan CAGR of 21% over FY11-14



Financial snapshot

LTV : ~<50%

PAT : INR13.2bn

Avg ticket size INR1.9mn

Avg RoA : 1.6%

CAR: 16.3%

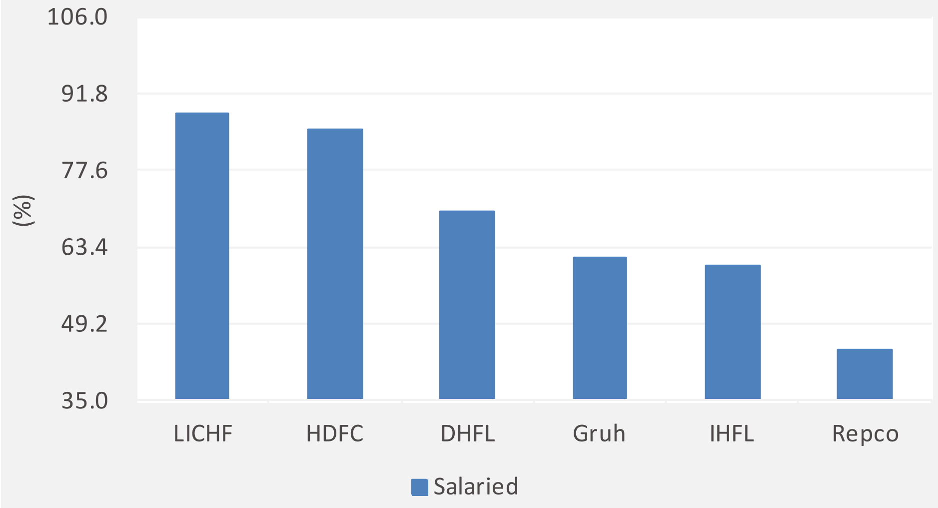
Avg RoE : 19.9%

Note : CRA -Corporate referral agents
Source: Company

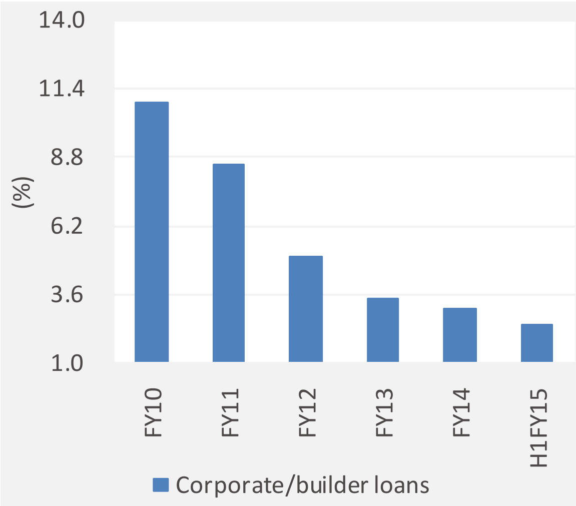
LICHF customer profile: Dominant focus on retail segment

- Strong brand (supported by LIC) coupled with reach of LIC agents helps attract retail segment —leading lender to salaried category.
- Conservative underwriting standards: Offers lower LTV ratios (sub-50% levels on incremental sanctions) and caps installment to income ratio (sub-40%); there's no compromise on documentation too. Thus, exposure to non-salaried segment (self-employed, LAP) is low.
- Post the controversy surrounding corporate developer book (in 2010) and amidst challenging macros, the company has slowed down considerably in this segment.

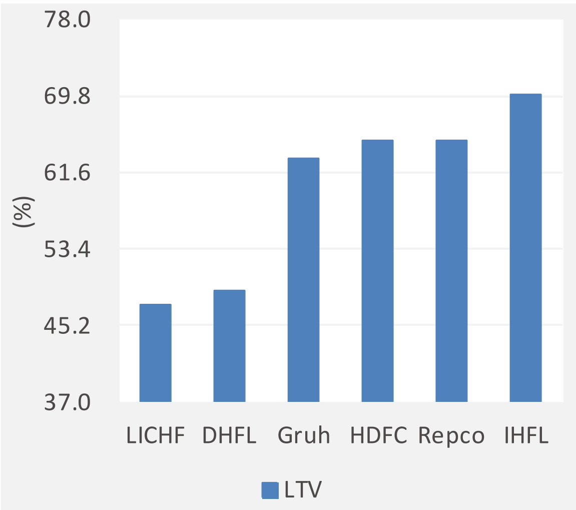
Focused on salaried segment (particularly PSU corporates)

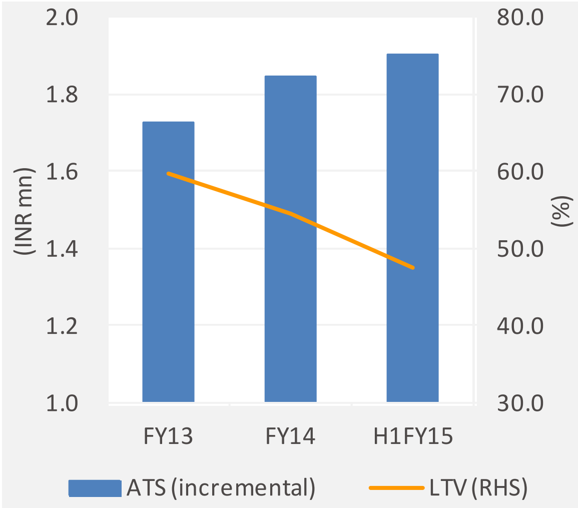


Running down corporate loan exposure



Lower LTV ratios (lowest among peers) and lower average ticket size lend comfort





Source: Company

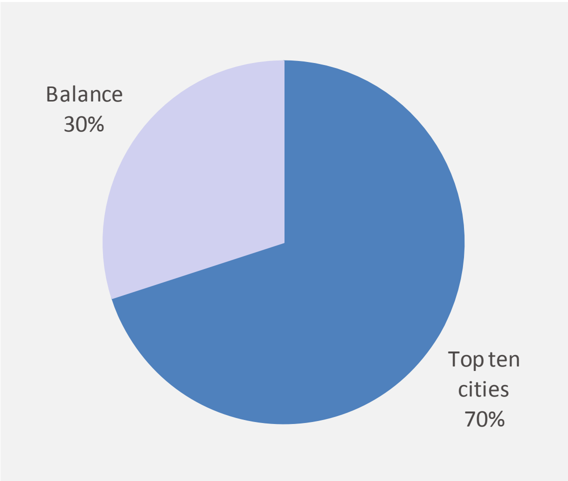
LICHF presence: Pan-India, strong parent support - enviable propositions

- Pan-India presence with strong distribution network (support from extensive LIC agents network), an enviable proposition vis-à-vis other players.
- LIC agents contribute ~60% of new loan leads; also enables the company to maintain a lean cost structure.
- ~70% of LICHF's current business comes from top-10 cities. But, expansion into other cities could be a long-term growth driver.
- Operating cost structure continues to be one of the lowest among peers: scale comes with operating leverage benefits.

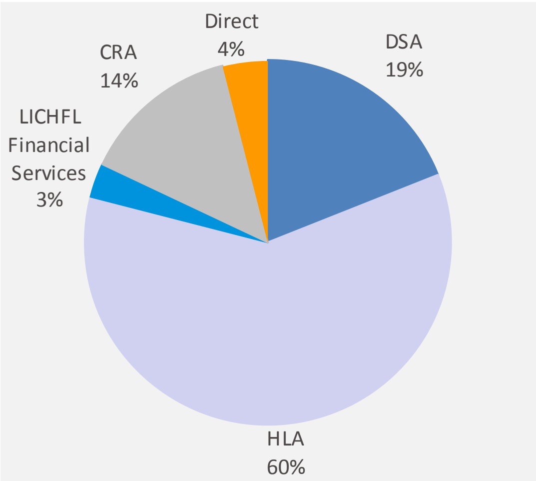
Cost comparision (INR mn)

	HDFC	LICHF	GRUH	DHFL	Canfin	Repco	IHFL
Emp./branch	5.5	7.4	3.8	6.5	4.4	3.8	20.0
Opex/branch	17.7	15.4	4.1	13.2	5.8	3.2	17.1
AUM/branch	5,568	4,478	494	1,400	704	382	2,008

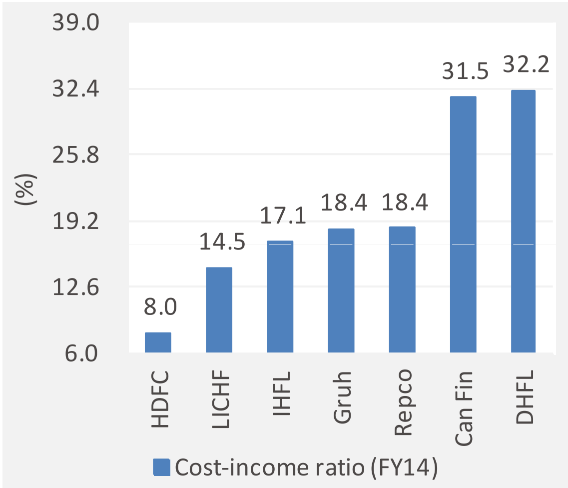
Top-10 cities contribute ~70%



Leverages on LIC agents network



Cost ratio amongst the best in industry



Source: Company

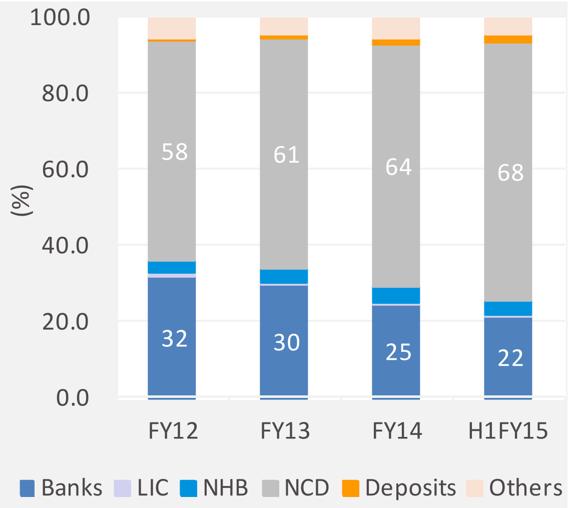
LICHF: Lower funding cost and loan re-pricing to support NIMs

- Strong parental support and stability in performance helps LICHF command AAA rating—borrows from debt market at finest possible rates.
- With <40% of loans on floating rates, re-pricing of fixed rate loans (teaser loans) at relatively higher rates and focus on higher-yielding LAP will aid yields.
- This, coupled with lower funding cost, are likely to aid NIMs expansion in a falling interest rates scenario.

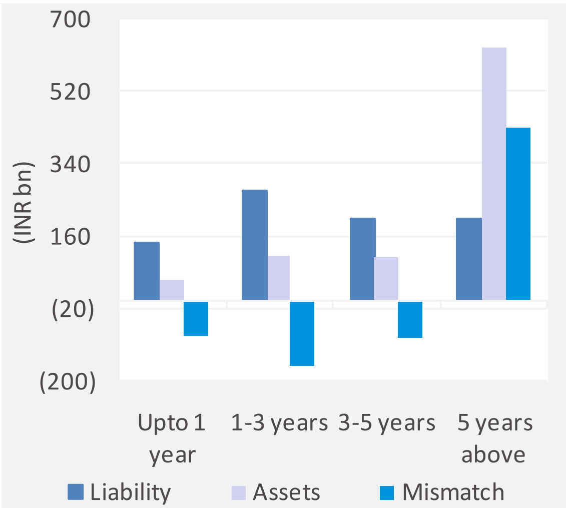
Best rating profile

Nature of Borrowing	Rating / Outlook	
	CRISIL	CARE
Upper tier-II bonds	AAA	AAA
Public deposits	FAAA	
Subordinated Debt	AAA	AAA
NCDs	AAA	AAA
Long-term Bank Loans	AAA	

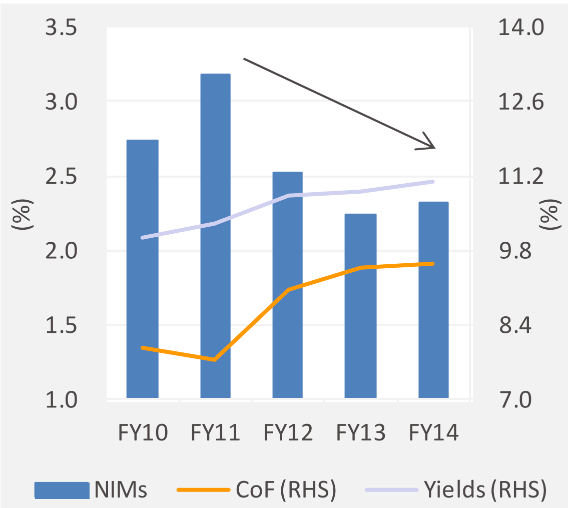
Diversified borrowing profile: Switch aptly between retail and wholesale



ALM mismatch in lower tenor bucket has led to pressure on spreads



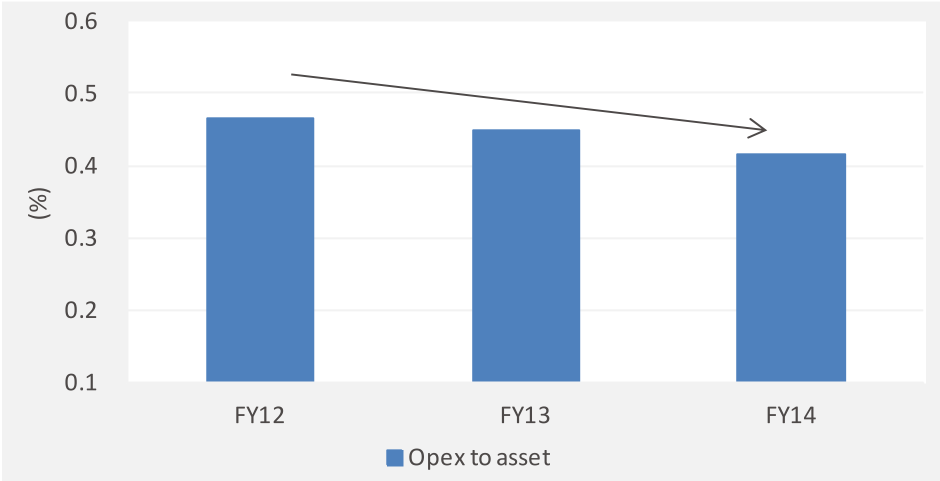
Higher fixed loans + rising competition dented NIMs – trend likely to reverse



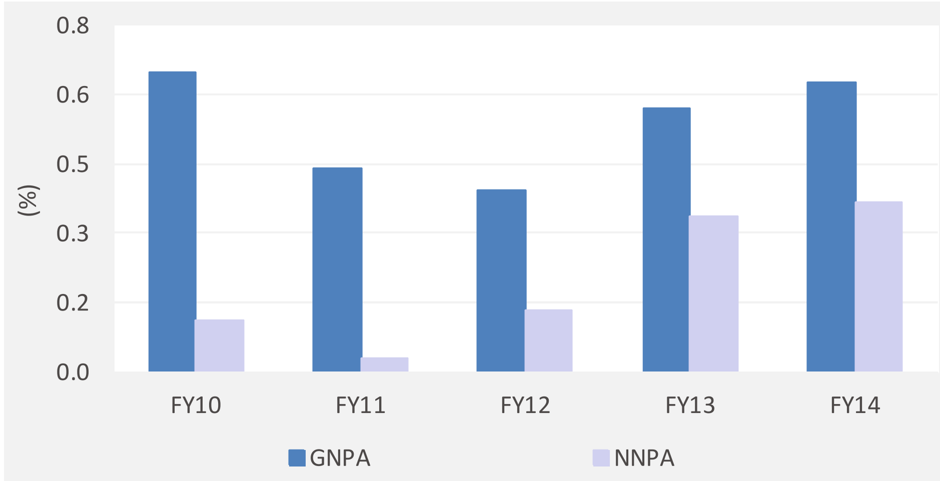
Source: Company

LICHF: Retail segment focus leads to relatively lower RoAs

Scale comes with operating leverage benefit



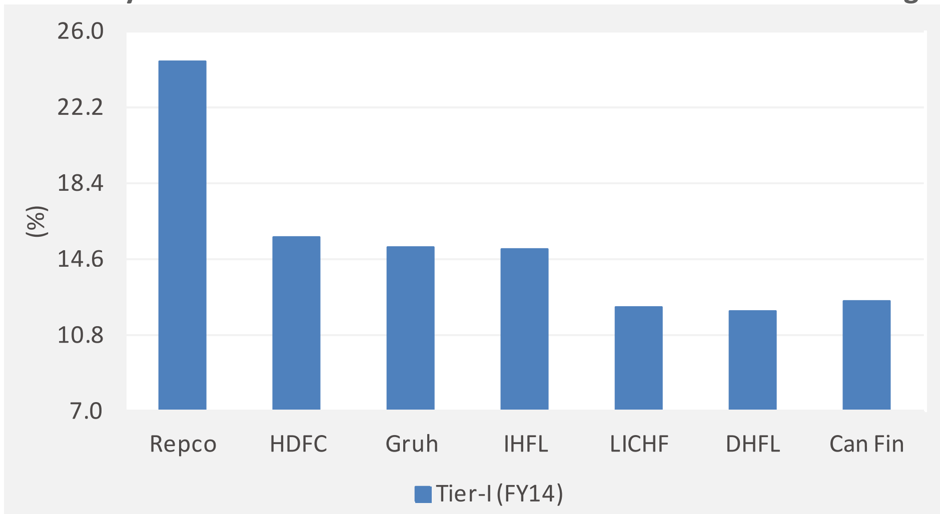
Conservative underwriting lead to benign retail NPLs; some stress in developer loans though



Rising competition in retail segment lead to relatively lower RoA

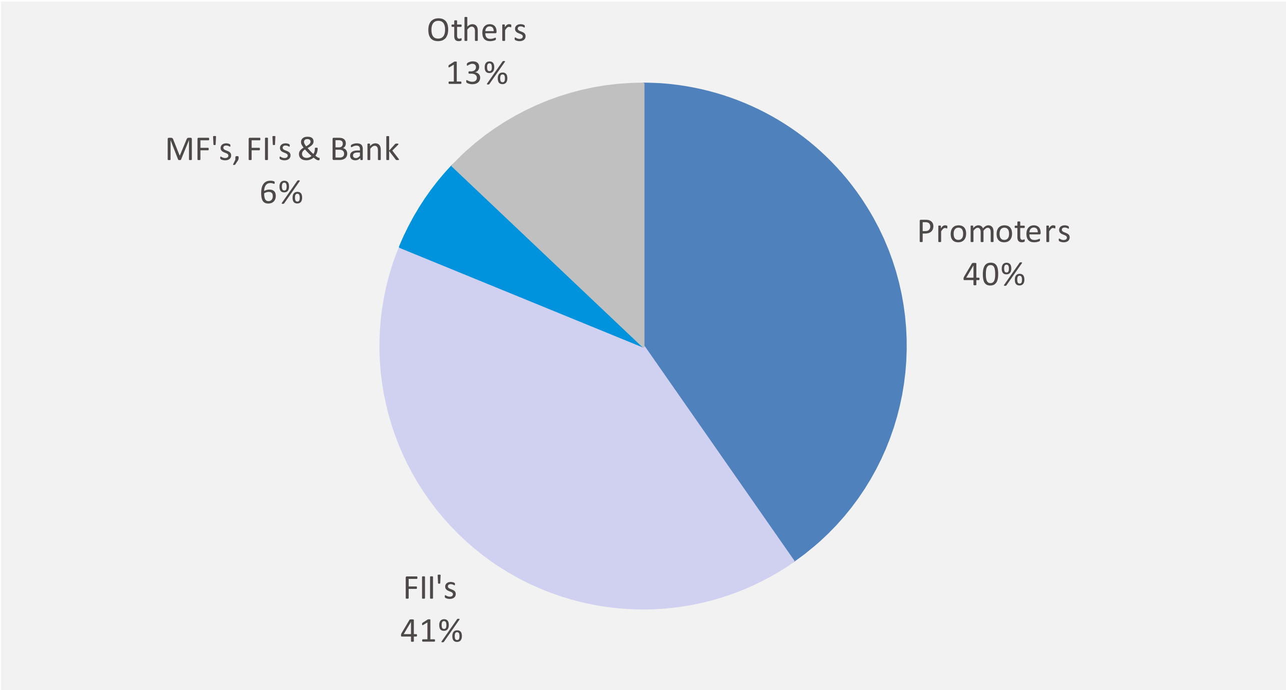
RoE decomposition (%)	FY13	FY14	FY15E	FY16E
Net interest income/assets	2.2	2.3	2.2	2.2
Non interest income/assets	0.3	0.3	0.3	0.3
Investment gains/assets	0.0	0.0	0.0	0.0
Net revenues/assets	2.6	2.6	2.5	2.5
Operating expense/assets	0.4	0.4	0.4	0.4
Provisions/assets	0.1	0.0	(0.0)	0.1
Taxes/assets	0.5	0.6	0.7	0.7
Total costs/assets	1.1	1.0	1.1	1.1
ROA	1.5	1.6	1.4	1.4
Equity/assets	8.9	8.1	7.5	7.3
ROAE	16.8	19.9	18.9	18.5

Relatively lower Tier 1: Current CAR + internal accrual to fund 20% growth



Source: Company, Edelweiss research

LICHF: Shareholding pattern



Source: BSE

As per last available data

Dewan Housing Finance – Opportune prospects; concerns waning

CMP: INR427 | Market Cap: INR55bn | Reco.: Buy

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
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DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

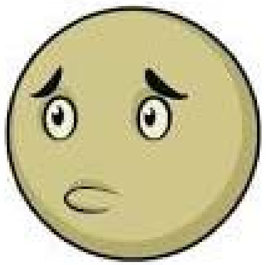
DHFL: Strengths, Opportunities, Threats

Key Differentiators

- Comprehensive play on under-penetrated housing finance segment in India—caters to entire gamut of potential customer base (bottom end–Aadhar, middle segment –DHFL, higher end–First Blue).
- Pan-India player in niche markets of tier II /III cities with significant asset base.
- Prominent financier for low/middle income segment where risk of competition is not that fierce.
- **Ideal mix of customer segment**: ~70% salaried category (of which 18% government employees, 46% private and 5% in educational trust) and 30% self-employed class.
- Despite higher yields, asset quality has been healthy and withstood various cycles.

Opportunities

- Opportunities emerging in low ticket segment and in tier II/III cities to benefit DHFL the most.
- Long-term credit ratings recently upgraded to 'AAA' by CARE and Brickwork Ratings—this will provide wider access to debt borrowing at relatively lower cost; help it shift away from high cost bank borrowings (currently at >60%).
- Rural housing through Aadhar housing has tremendous growth potential.
- Management's conscious efforts to rectify high cost structure (cost/income currently high at 30% plus) by controlling few discretionary cost items.

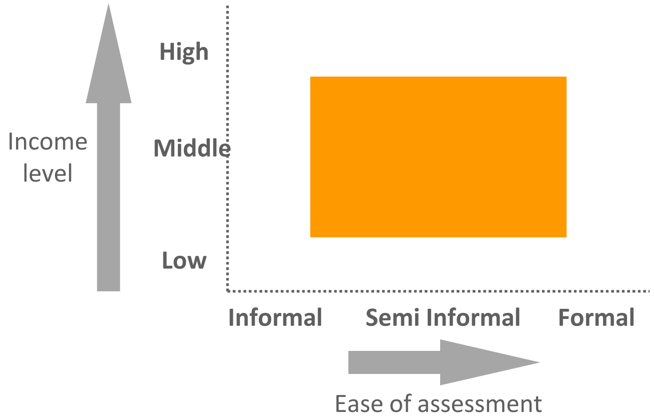


Threats

- DHFL is promoted by the Rajesh Wadhawan Group, which has diversified business interest in real estate (Dheeraj Builders), hospitality sector, etc.
- The stock trades at huge discount to other mortgage financiers (~1.2x FY16E adjusted book compared to peers on average trading in excess of 2x) - due to higher cost structure. However, management's conscious efforts to rectify the same, along with ebbing investor concerns on a few other risks will lead to re-rating
- Visible triggers for sustainable improvement in return ratios (RoE to rise closer to 19%).
- We initiate coverage with **'BUY'** recommendation and target price of INR642.

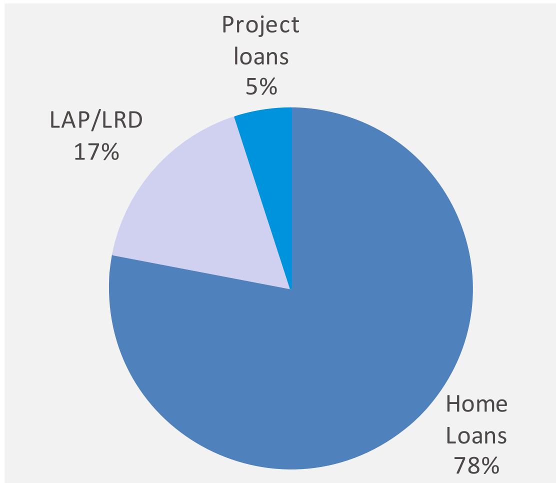
DHFL: Key operating metrics

Caters to entire gamut of potential customer base

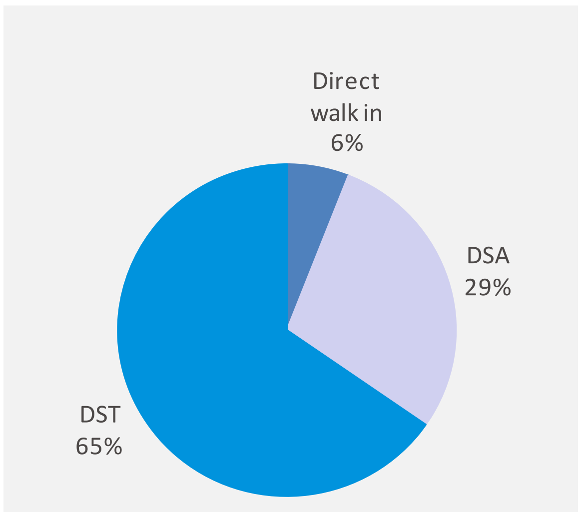


Pan-India player with dominance in Tier II/Tier III cities

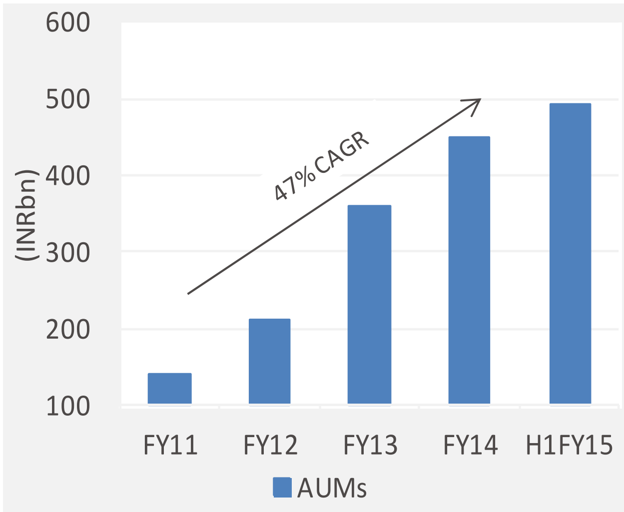
Retail focused with limited exposure to developer segment



In-house loan origination through DST



Growth aided by strategic inorganic expansion



Financial snapshot

LTV : ~50%

PAT : INR5.3bn

Avg ticket size INR1.1mn

Avg RoA : 1.4%

CAR: 16.2%

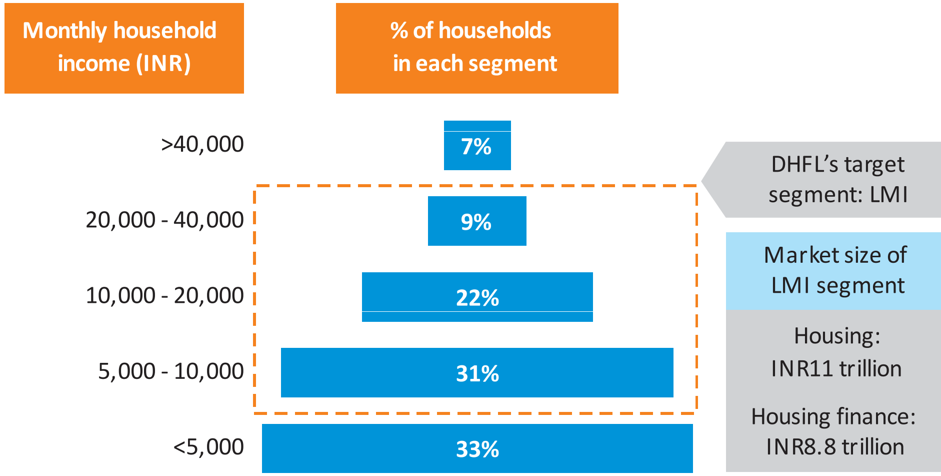
Avg RoE : 16%

Source: Company

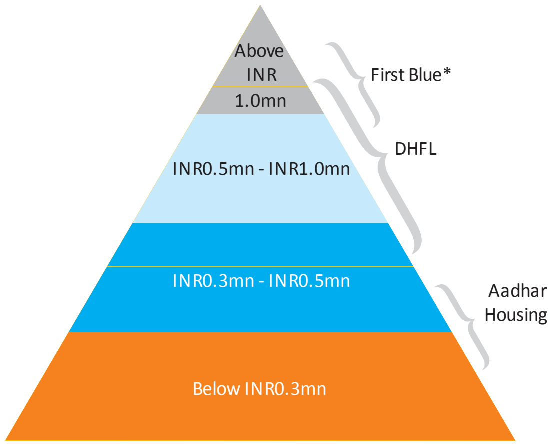
DHFL customer profile: Operates across the spectrum

- Comprehensive play on entire gamut of potential customer base (bottom end–Aadhar, middle segment–DHFL and higher end–First Blue).
- Proficiency in servicing SE category: Constitutes 28% of portfolio.
- Opportunities emerging in low ticket segment and tier II/III cities to benefit DHFL the most.

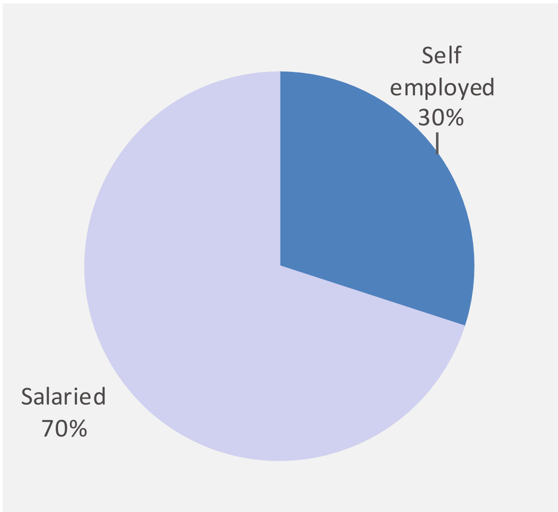
Large untapped potential in LMI segment



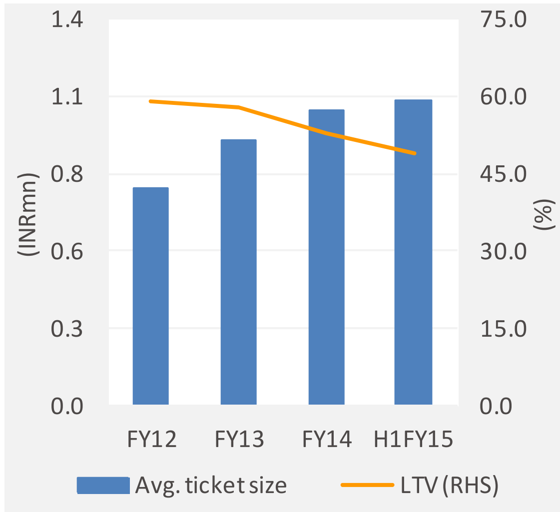
Operating across potential customer segments



Judicious business mix – key positive



LTV at sub 50% levels lends comfort



Source: Company

DHFL: Pan-India player dominated in niche markets of tier II/III cities

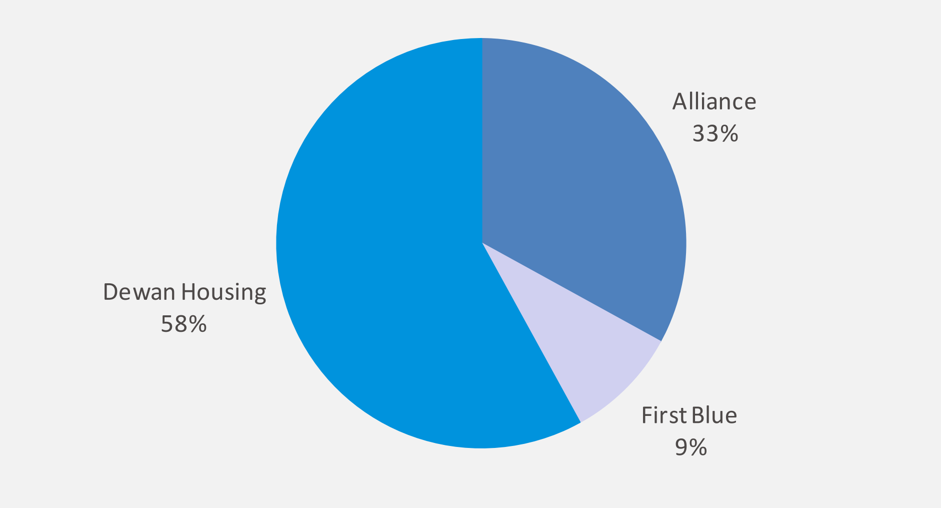
- DHFL is the only pan-India player in niche markets of tier II/III cities (~80% footprint in these locations) with significant asset base.
- Besides huge untapped potential, the risk of competition in its area of operation is not that prominent and fierce.
- It has forged alliances with other banks to expand geographically.
- Large part of business is sourced through own branches, supplemented by DSAs.

Pan-India player with dominance in Tier II/Tier III cities

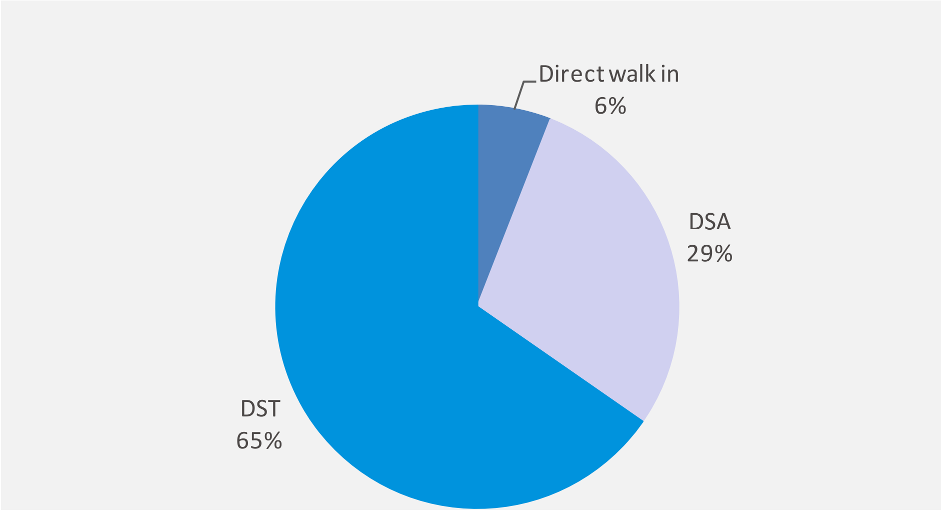
Alliance with banks to leverage on their network

Banking partner	Regions
Punjab and Sindh Bank	Chandigarh, Punjab and Delhi NCR
United Bank	West Bengal
Central Bank of India	Madhya Pradesh
Yes bank	All India

DHFL's presence through alliances and group entities



Large part of business sourced through in-house team

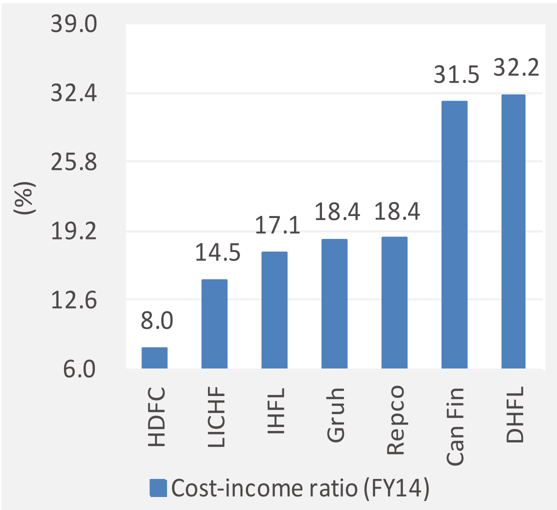


Source: Company

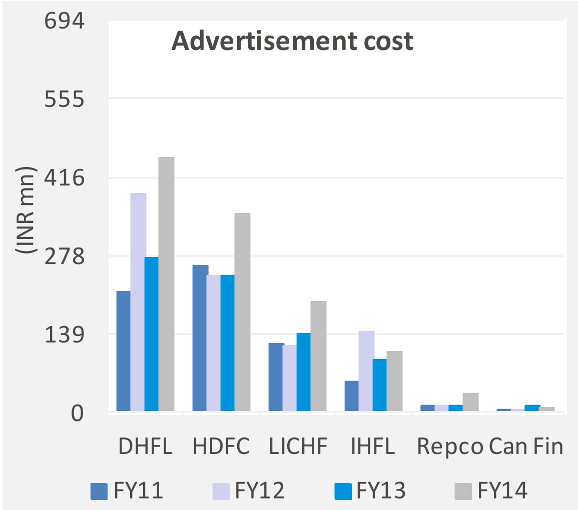
DHFL: Runs high cost structure; scope to lower it as discretionary in nature

- DHFL runs a relatively high cost structure with cost-to-income ratio in mid thirties (versus mid teens for peers).
- Advertisement cost is high for DHFL vis-à-vis peers: Roped in high cost celebrity (Shahrukh Khan) and advertised with IPL team. However, this cost item can be reined in significantly as it is discretionary in nature.
- Legal and professional fees are too high as the company has incurred non-recurring expenditure pertaining to advisory on a few deals cracked in past 2-3 years. In absence of any major M&A deals, this cost is likely to dip going forward.
- Higher operating cost remains the primary culprit behind RoE remaining at 17% despite the company's higher growth and superior credit track record. Given management focus we expect this to rectify going forward.

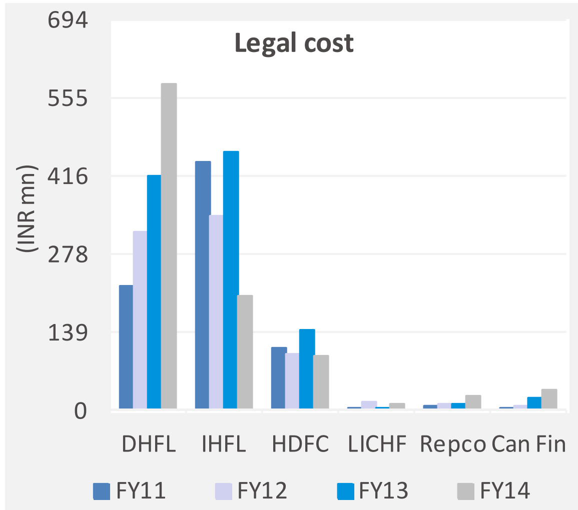
Runs high cost operating structure



Non-recurring cost can be controlled

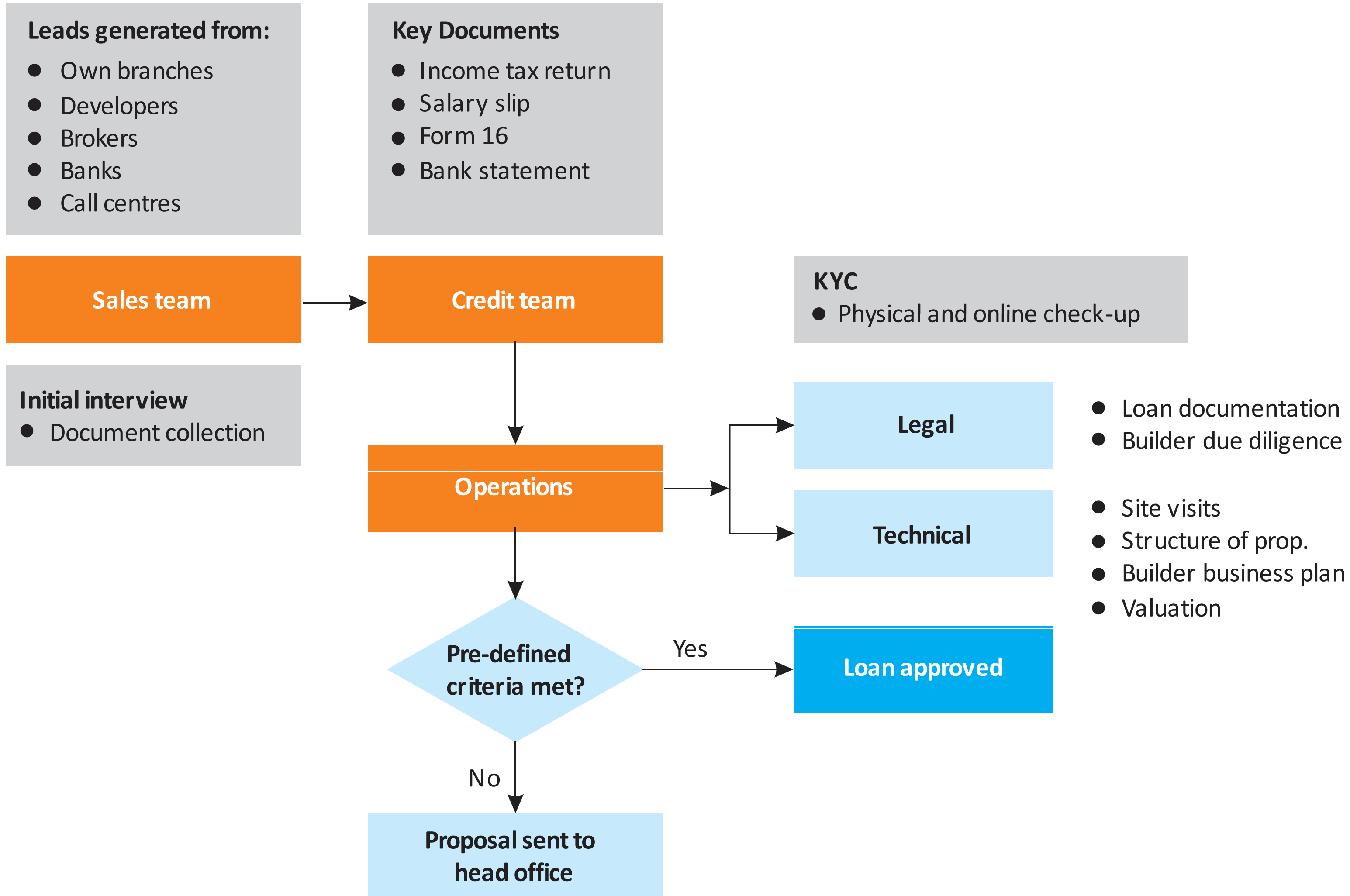


Legal cost rising on inorganic expansion



Source: Company

DHFL: Strong risk management and appraisal process



Source: Company

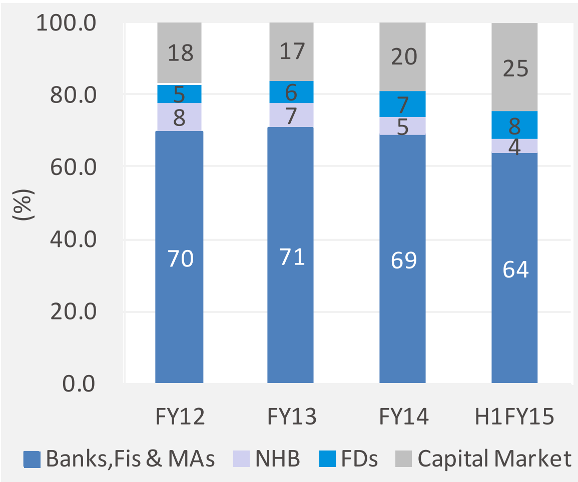
DHFL: Ratings upgrade to aid funding cost and reduce ALM mismatch

- DHFL's long-term credit rating recently upgraded to 'AAA' by CARE and Brickwork Ratings. This will provide wider access to debt borrowing at relatively lower cost.
- Not only will it help shift away from high cost bank loans (currently at >60% of borrowings), but also manage ALM better with access to long-term resources.
- Given the pricing power advantage, NIMs will draw support from declining interest rate scenario.

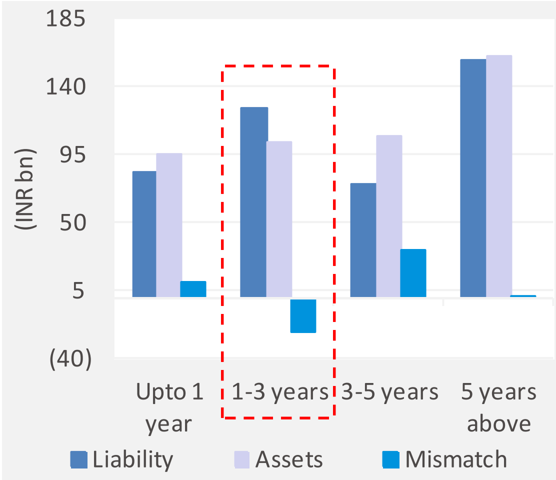
Credit rating recently upgraded

Nature of Borrowing	Rating / Outlook			
	CARE	Brickworks	ICRA	CRISIL
Short-Term Debt / CP			ICRAA1+	CRISILA1+
Fixed Deposits	CARE AA+ (FD)	BWR FAAA		
Subordinated Debt	CARE AA	BWR AAA		
NCDs	CARE AAA	BWR AAA		
Perpetual Debenture	CARE AA-	BWR AAA		
Long-term Bank Loans	CARE AA+			
Structured Obligations	CARE AAA(SO)		ICRA AAA(SO)	CRISIL AAA(SO)

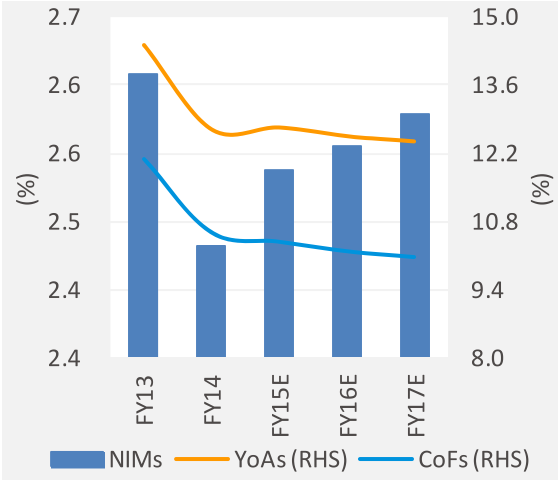
Higher proportion of bank funding – likely to dip as now can access wider debt market



Ratings upgrade to rectify ALM mismatch in 1-3 years category



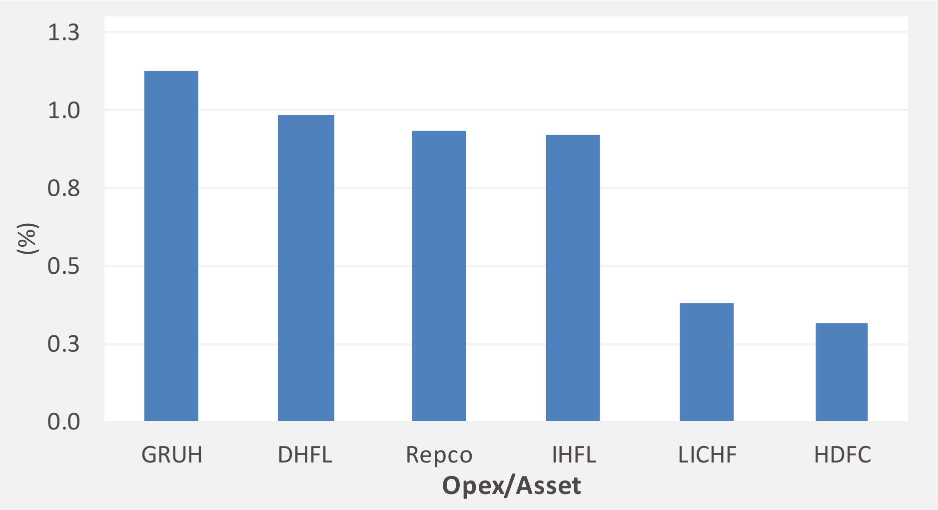
Improving funding cost and higher pricing power will aid NIMs expansion



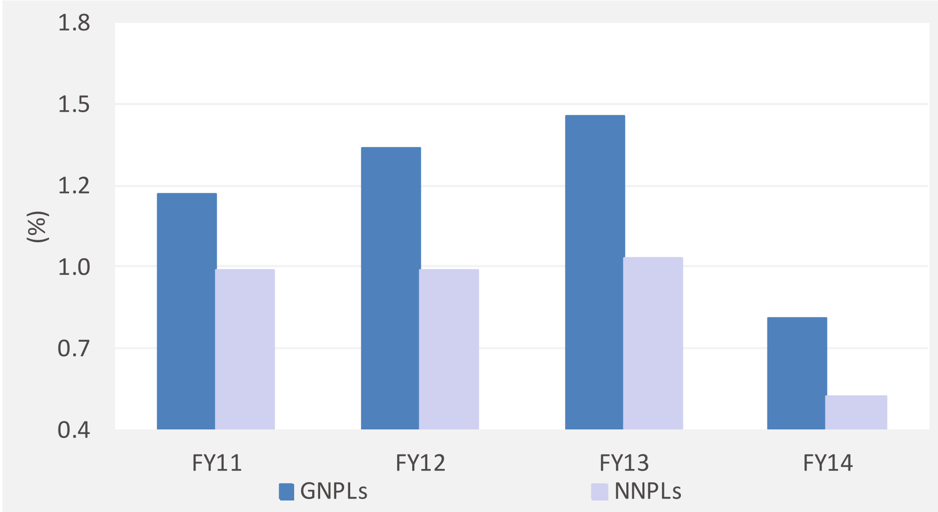
Source: Company

DHFL: Key financial ratios

Relatively higher cost metrics versus peers – a key monitorable



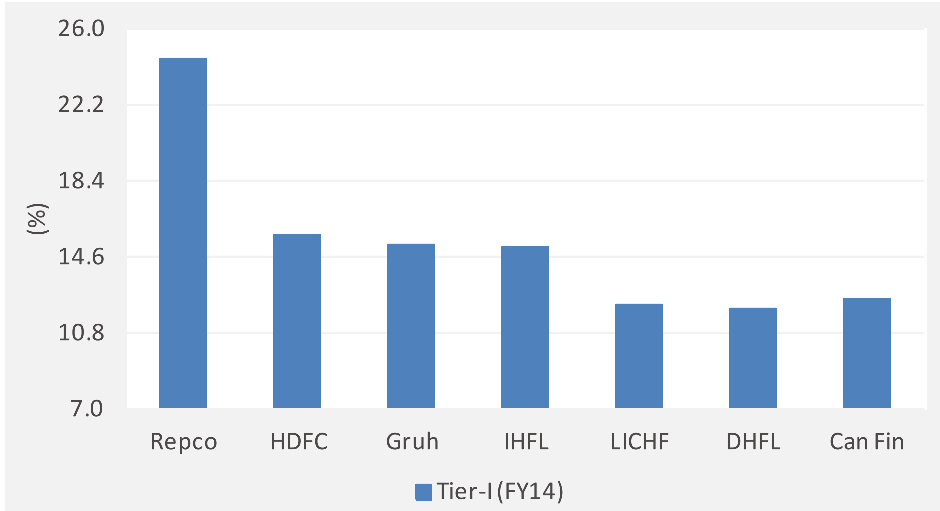
Controlled asset quality on lower LTV, despite operating in relatively riskier segment



RoAs marred by high operating ratios, RoEs up on higher leverage

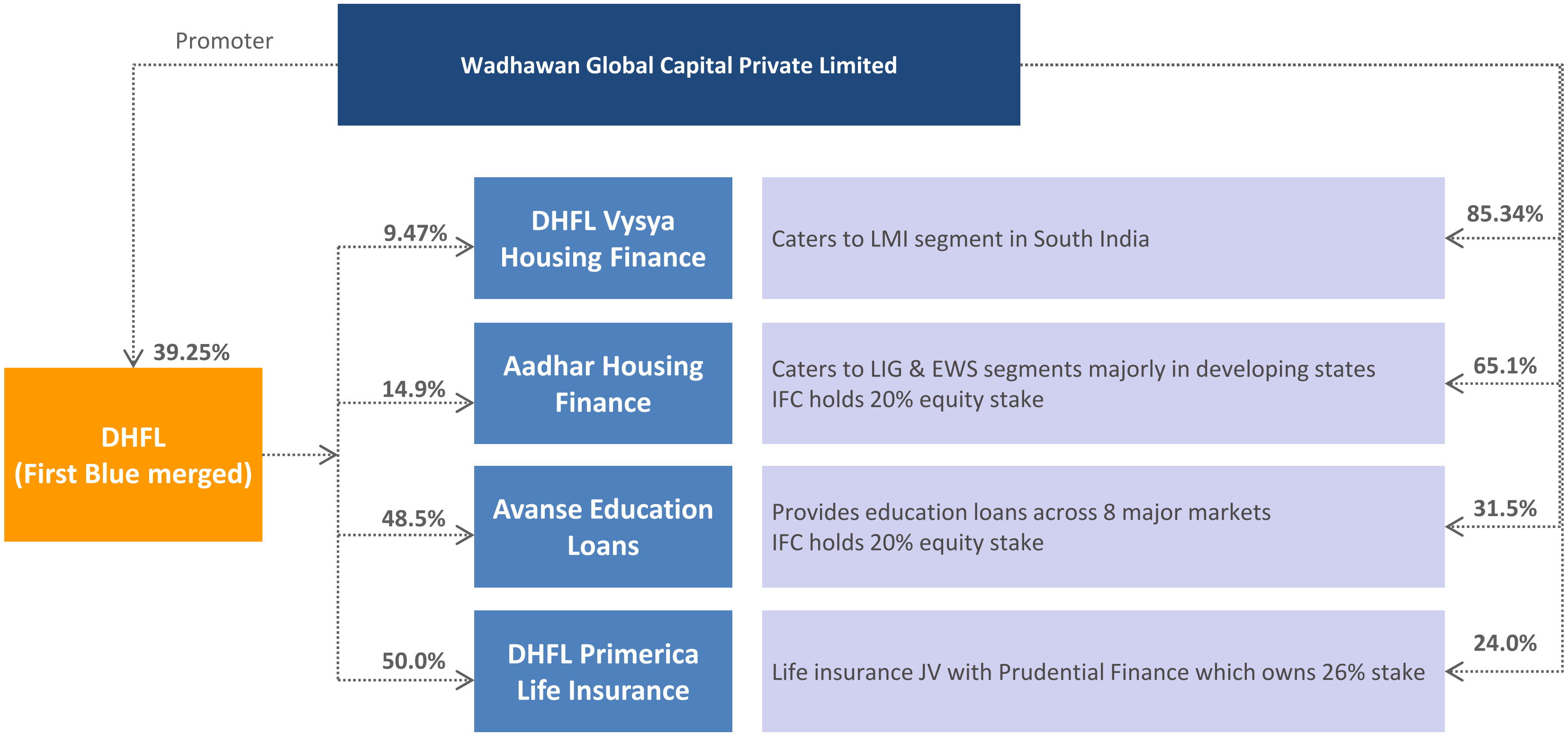
RoE decomposition (%)	FY14	FY15E	FY16E	FY17E
Net interest income/Assets	2.5	2.5	2.6	2.6
Other Income/Assets	0.6	0.6	0.6	0.5
Net revenues/Assets	3.1	3.1	3.1	3.1
Operating expense/Assets	1.0	0.9	0.9	0.8
Provisions/Assets	0.2	0.2	0.2	0.2
Taxes/Assets	0.5	0.7	0.7	0.7
Total costs/Assets	1.7	1.8	1.7	1.7
ROA	1.4	1.4	1.4	1.4
Equity/Assets	8.8	8.2	7.7	7.4
ROAE	15.6	16.6	18.1	19.4

Relatively lower tier I compared to peers



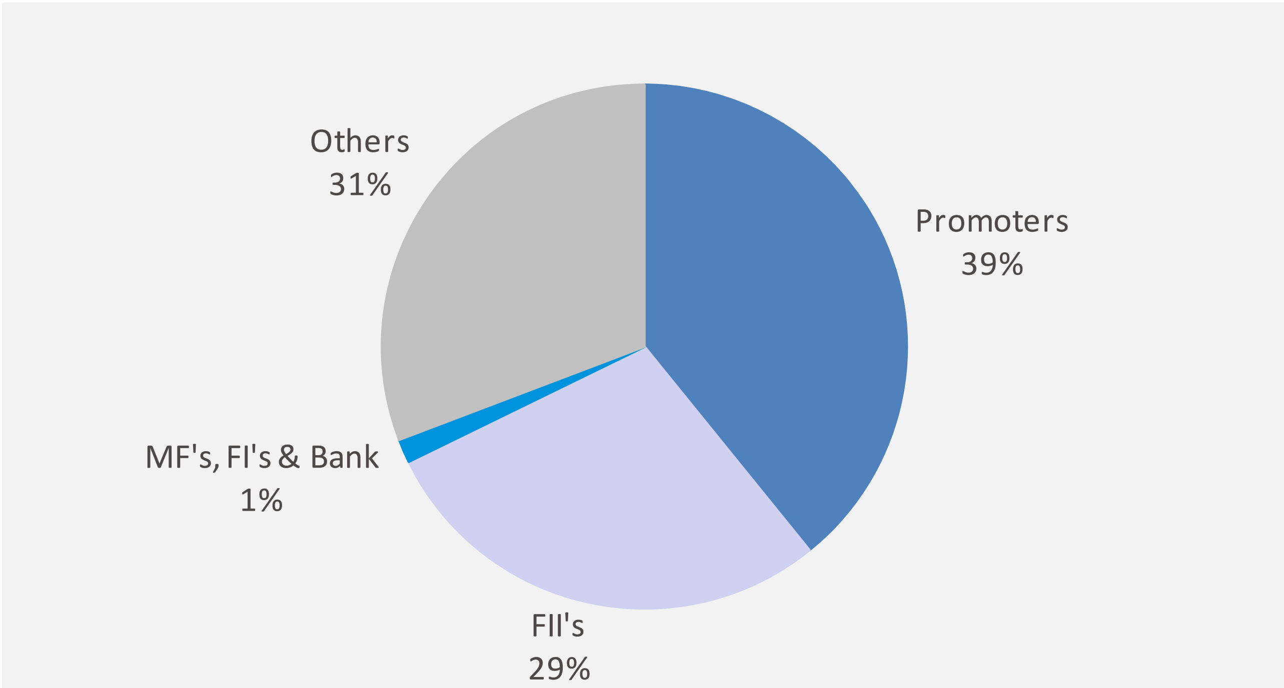
Source: Company, Edelweiss research

DHFL: Company Structure



Source: Company

DHFL: Shareholding pattern



Source: BSE

As per last available data

Indiabulls Housing Finance – Treading on right track

CMP: INR496 | Market Cap: INR176bn | Reco.: Buy

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
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Indiabulls housing	Prominent in Tier I & Tier II cities	Pan India (North & West dominated)	Home loans: 51 LAP: 25 Corporate Mortgage: 21 CV: 3	Salaried: 70 Self emplyed: 30	Direct walkin: 9 DSA: 16 Bank tie-up: 5 DST : 70	INR450bn, 23%	Home loan: 2.4 LAP: 6.8	13.6	0.9	4.0	28.0	19.1*
Repco Home	Tier II, Tier III cities	South India (TN, Karnataka dominated)	Home loan: 80.5 LAP : 19.5	Salaried: 44.3 Self Employed: 55.7	Branches act as single point of contact	INR52bn, 29%	1.2	12.5	1.7	2.6	16.8	21.9
Gruh Finance	Tier II, Tier III cities	West India (Guajarat, Maharashtra dominated)	Home loan: 92.2 LAP: 4.6 Construction Finance: 3.3	Salaried: 61.5 Self Employed: 18.5 Businessmen: 20	Referral associates (61%) & Branches	INR79bn, 30%	0.8	13.4	0.4	3.0	32.0	16.7
Can Fin Homes	Tier I, Tier II cities	South India dominated	Retail: 88 Corporate: 12	Salaried: 84 Self Employed: 16	Branches (predominantly) & DSAs	INR70bn, 38%	1.9	11.5	0.3	1.5	17.0	13.8*
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

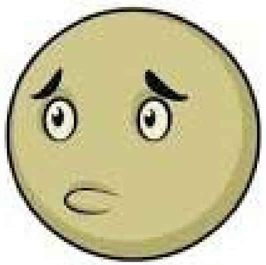
IHFL: Strengths, Opportunities, Threats

Key Differentiators

- Optimal product strategy marks it business model: Focuses on yield generators and asset quality stabilisers. ~50% of its loan portfolio comprises the relatively safer home loans; balance is tilted towards high-yielding loan against property (LAP) and corporate mortgage loans.
- Built significant scale with INR450bn AUM, registering >25% CAGR over past 6 years.
- Stable funding cost, a derivative of liquidity buffer of ~15-20% of loans in the form of cash & cash equivalents; further trigger to come from recent ratings upgrade to AAA (by CARE & Brickwork) and AA+ (by CRISIL & ICRA).
- In-house sourcing and collection team—79% loans sourced in-house (70% DST; 9% walk-ins).
- Headroom to grow—net gearing of 5.7x.
- High dividend yield—of more than 50% payout ratio.

Opportunities

- Self-employed and LAP products are emerging long-term growth drivers for mortgage segment. Pan-India presence, diversified product offerings and strong foothold and branding will help it leverage on these opportunities.
- Market leadership and understanding of LAP: Market segmentation strategy is a winner and management will be cherry picking low-risk customers to sustain growth rates of ~20% in this segment.
- Further supported by strengthened borrowing profile, ramped-up sales force and adequate capitalisation.
- Equitable mix of branch presence in tier I/II/III cities (28%/44%/28% as of FY14) will help deepen presence in existing locations.

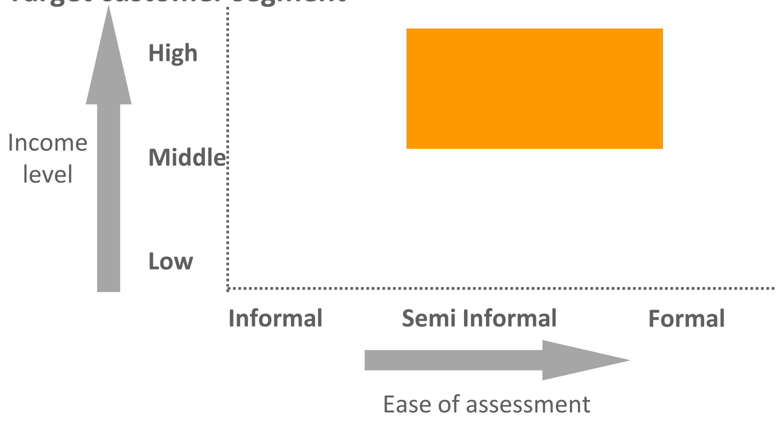


Threats

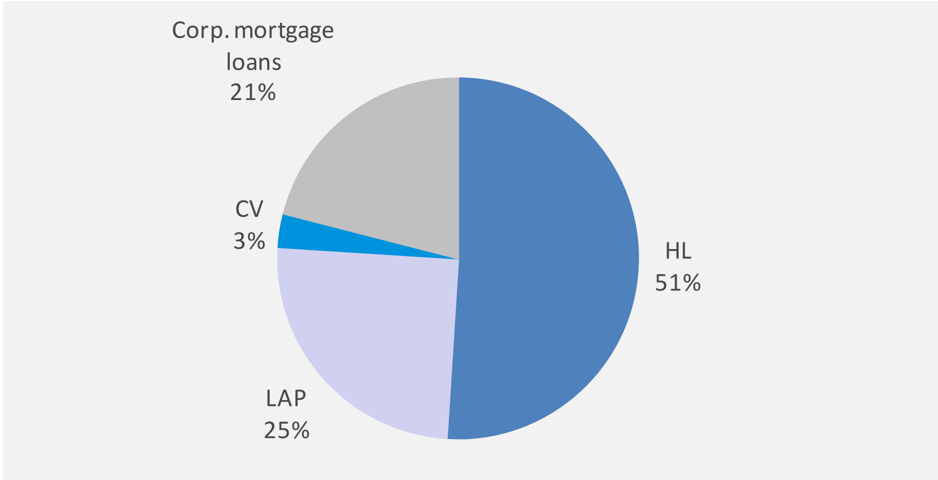
- Yields under pressure as incremental business is being generated at 50-75bps lower than reported yield in home loans and 100-150 bps lower in LAP.
- High yielding corporate mortgage loans and LAP are susceptible to asset quality risks.
- We initiate coverage with **'BUY'** recommendation and target price of INR653.

IHFL: Key operating metrics

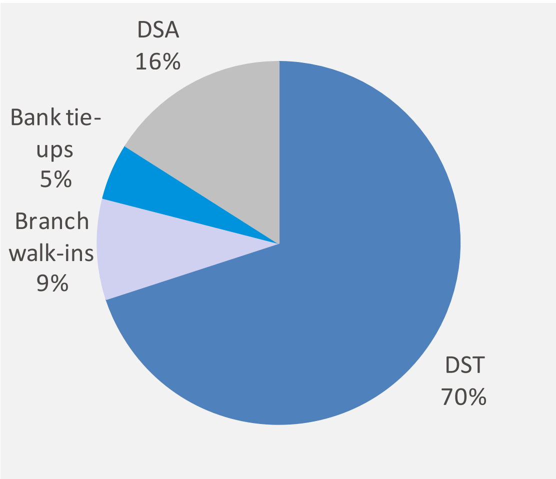
Target customer segment



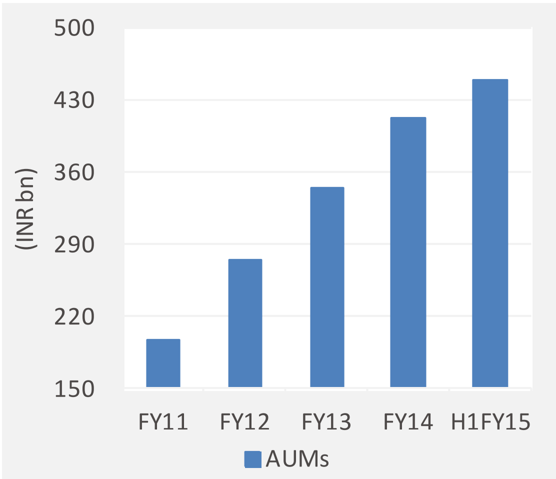
Loan book optimally distributed between high yield, low risk products



20% of loans sourced in-house



Tracked 22% AUM CAGR over FY11-14



Financial snapshot

LTV (HL): 70%
LTV (LAP): 49%

PAT : INR15bn

ATS (HL): INR2.4mn
ATS (LAP): INR6.8mn

Avg. RoA : 4.0%

CAR: 19.1%

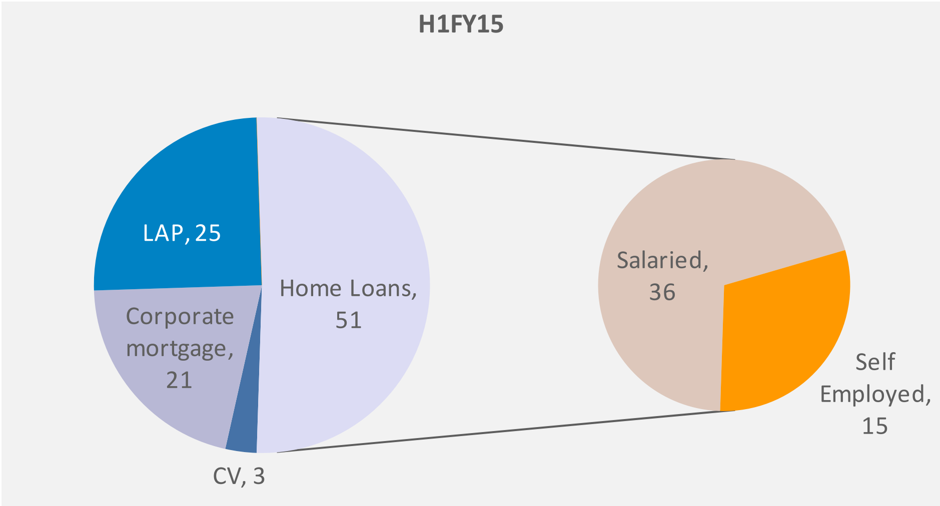
Avg. RoE : 28%

Source: Company

IHFL customer profile: Strong foothold in LAP, corporate mortgage loans

- Optimal product strategy: Yield generators and quality stabilisers.
- Ramping up franchise, getting closer to customers at property site and realigning lending rates with peers aids in making dent in home loans.
- Loans to highly competitive low-yielding salaried segment constituted ~70% of home loans and balance to self-employed (30%). Within self-employed, the focus is on own residential properties only.
- Strong foothold in LAP, aided by clear market segmentation, customer-centric model and established brand.
- In corporate mortgage loans, it diversifies risks by concentrating portfolio around LRD (major 75% share) and residential construction financing.

Loan book proportionately distributed between high yield, low risk products

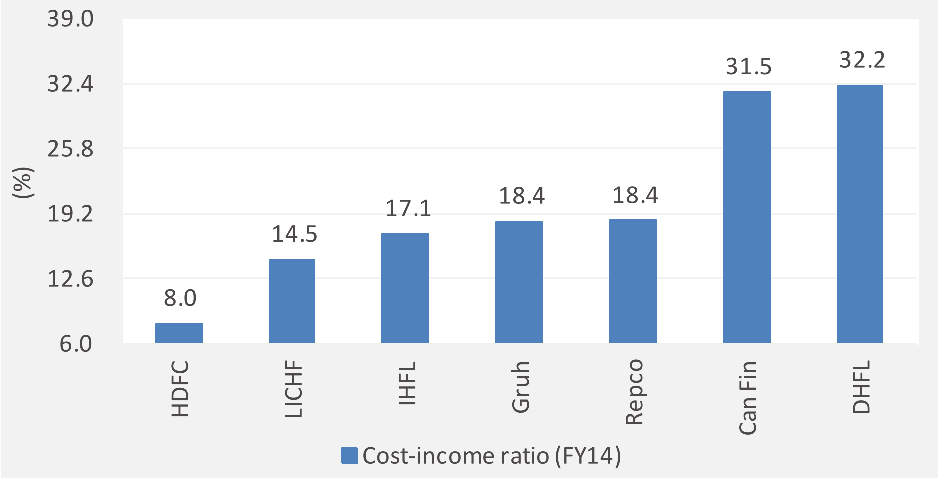


Source: Company

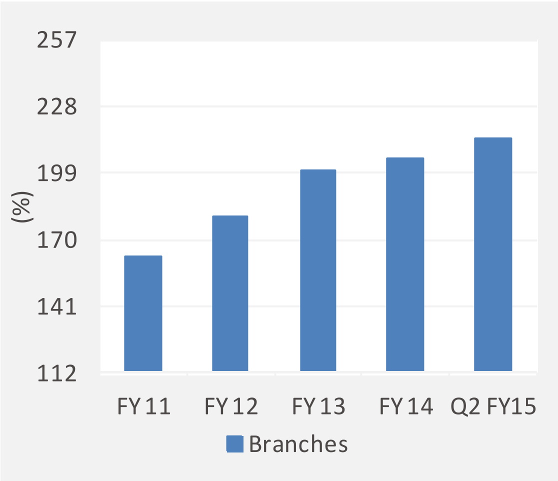
IHFL: Pan-India presence with concentration in top-10 cities

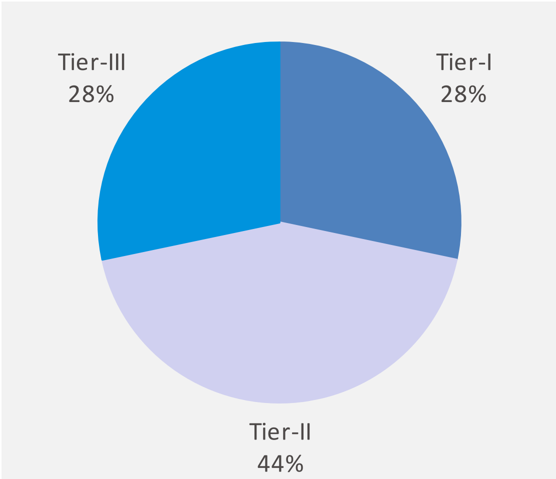
* Pan-India presence with multiple distribution models (with balanced distribution within tier-I,II and III cities).
* Currently, top-5 cities account for 40% of its disbursements with top-10 cities contributing 65%.
* Business is primarily sourced in-house through DST (70%), direct walk-ins (10%), supplemented by DSAs and bank partnerships (YES Bank and Doha Bank).
* Plans to add 10-12% branches every year wherein 65-70% will be in existing locations and 30-35% in new locations.

Lean cost structure coming in with significant scale

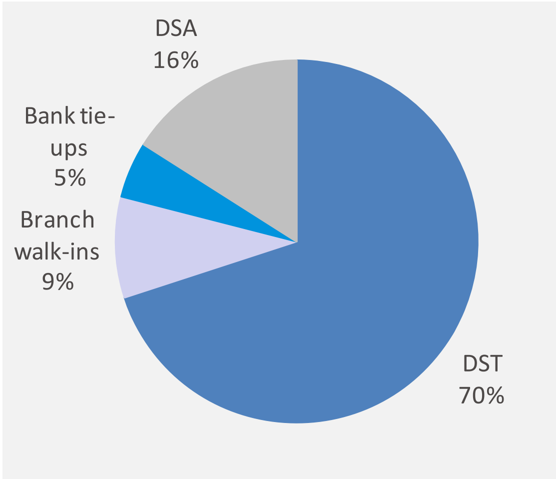


Consistently growing network, covering cities where 90% of real estate transactions take place





80% of mortgage sourced in-house



Source: Company

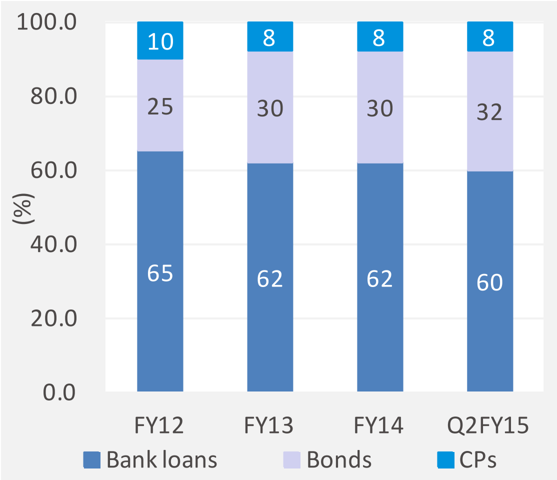
IHFL: Ratings upgrade provides scope to diversify borrowing profile

- **Recently upgraded to AAA by CARE & Brickwork and AA+ by CRISIL & ICRA:** Will help access relatively longer tenor and low-cost bond borrowings (currently constitutes mere 30%).
- Huge liquidity buffer of 15-20% of loans (INR71bn as of H1FY15) keeps it averse to volatility in wholesale rates.
- Resort of active sell downs (11% of AUM) as 40% of LAP and 60% of home loans qualify for PSL.
- While yields can moderate from current level, lower funding cost with adequate liquidity buffer will support NIMs.

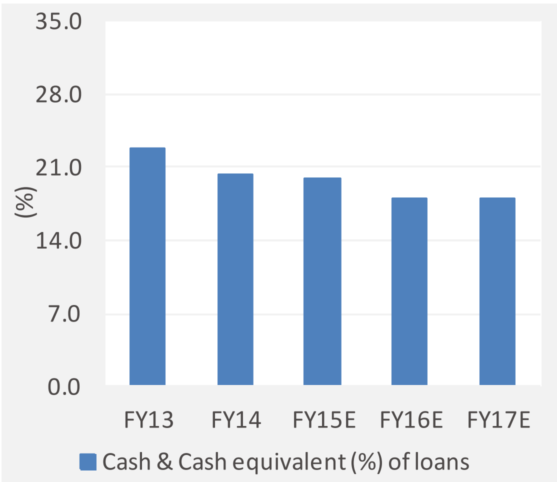
Long-term rating recently upgraded...

	Long Term Rating	Short Term Rating
CARE Ratings	AAA	
Brickwork Ratings	AAA	
CRISIL	AA+	A1+
ICRA	AA+	A1+
India Ratings & Research		A1+

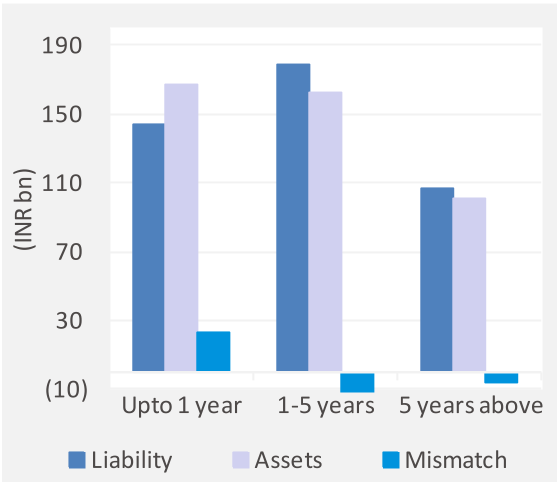
...will help diversify borrowing



Higher liquidity buffer to avoid volatility in cost



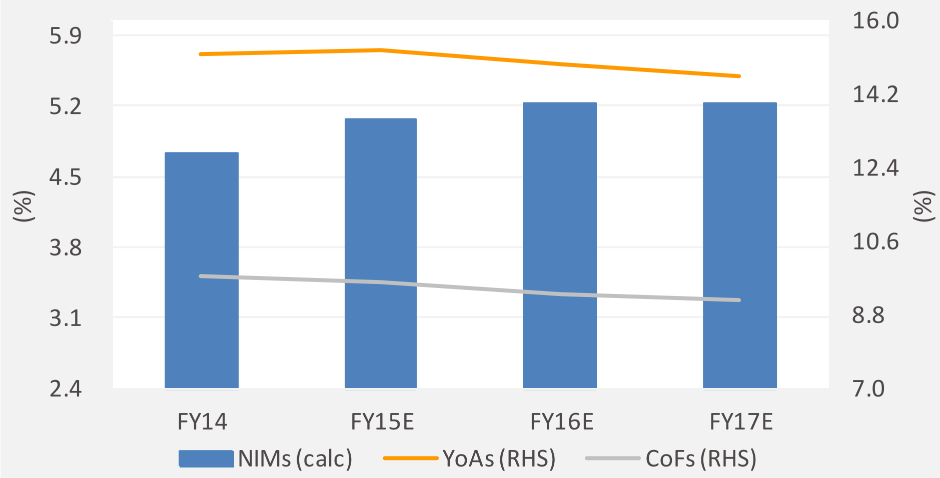
Well matched asset liability profile



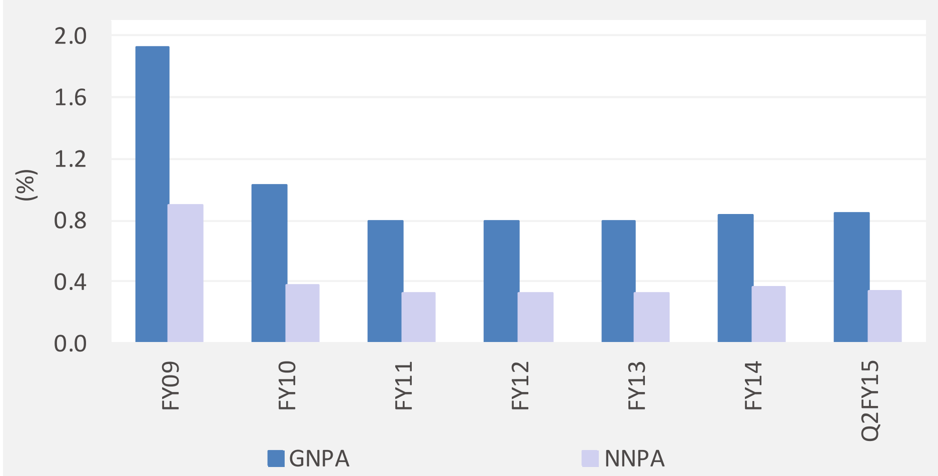
Source: Company

IHFL: Optimal product strategy + stable franchise = sustain superior RoAs

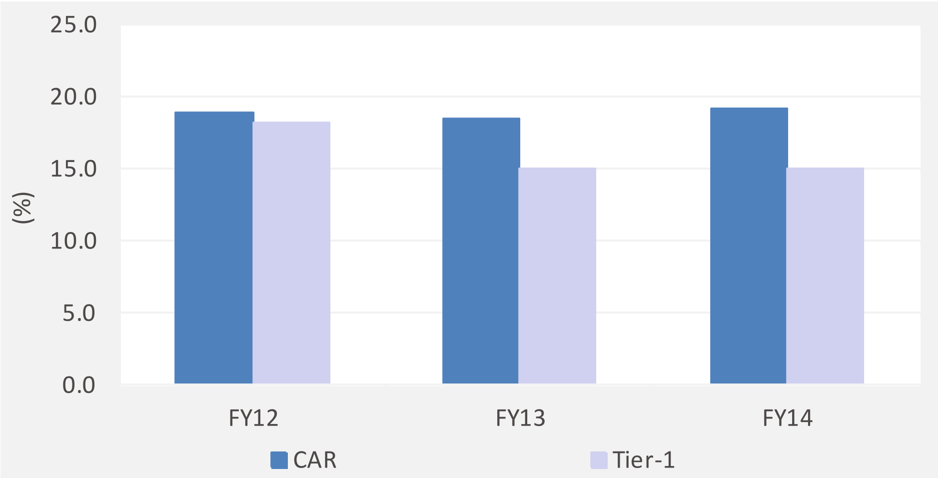
Improving funding cost to offset yield pressure



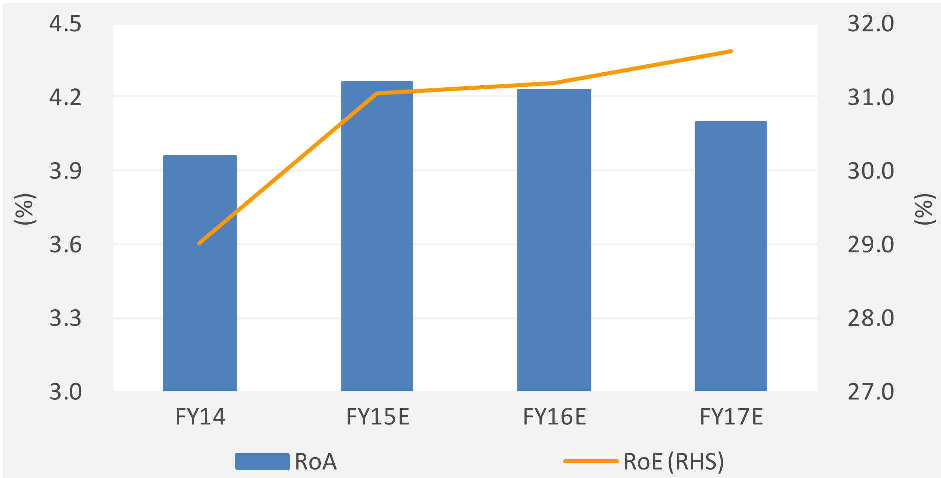
GNPLs contained at <1% after down-sizing riskier



Capital adequacy at comfortable levels

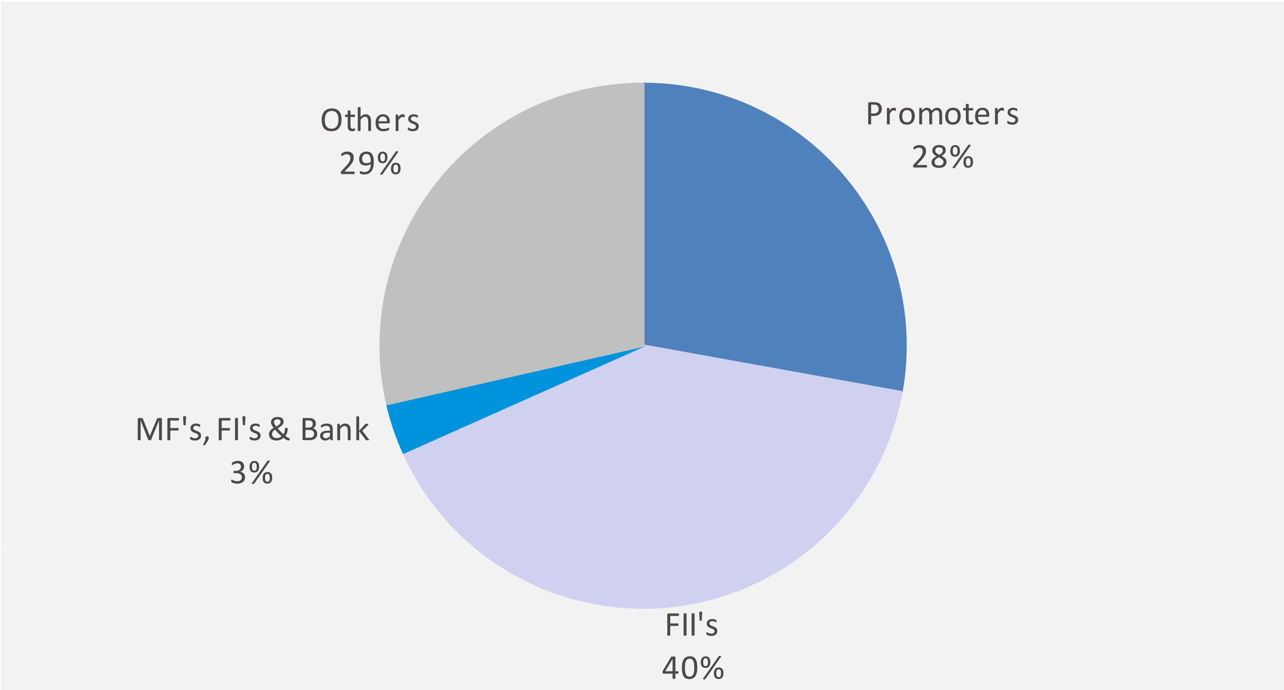


Generating superior RoA/RoE



Source: Company

IHFL: Shareholding pattern



Source: BSE

As per last available data

Repco Home Finance - Scalable model with superior returns

CMP: INR698 | Market Cap: INR44bn | Reco.: Buy

Comparative snapshot

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Repco Home	Tier II, Tier III cities	South India (TN, Karnataka dominated)	Home loan: 80.5 LAP : 19.5	Salaried: 44.3 Self Employed: 55.7	Branches act as single point of contact	INR52bn, 29%	1.2	12.5	1.7	2.6	16.8	21.9
Gruh Finance	Tier II, Tier III cities	West India (Guajarat, Maharashtra dominated)	Home loan: 92.2 LAP: 4.6 Construction Finance: 3.3	Salaried: 61.5 Self Employed: 18.5 Businessmen: 20	Referral associates (61%) & Branches	INR79bn, 30%	0.8	13.4	0.4	3.0	32.0	16.7
Can Fin Homes	Tier I, Tier II cities	South India dominated	Retail: 88 Corporate: 12	Salaried: 84 Self Employed: 16	Branches (predominantly) & DSAs	INR70bn, 38%	1.9	11.5	0.3	1.5	17.0	13.8*
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

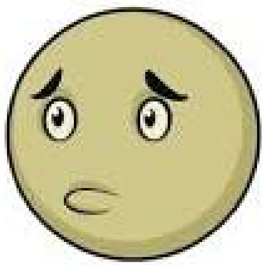
Repco: Strengths, Opportunities, Threats

Key Differentiators

- Player with strong brand and superior franchise, particularly in South India.
- Developed forte in self-employed category (> 55% of loan book) where it commands adequate pricing power. Not reliant on highly competitive salaried segment and exposure is restricted to <45% (much lower compared to peers).
- Despite customised and detailed appraisal, turnaround time is the fastest (2-3 weeks).
- Lucrative model entailing superior NIMs (4% plus as it caters to under-served high-yielding market and reaps refinancing benefits from NHB).
- As it eschews DSAs, client engagement is higher, further bolstered by personal interview, visits to residential/business premises and employment checks for sanctions.
- Lean cost model with centralised loan processing and lower branch rentals result in 18% cost-income ratio.
- Repco has zero exposure to developer/builder loans (relatively lumpy and riskier segment).

Opportunities

- Vast opportunity in low/middle income group and self-employed segment where it has developed strong expertise and franchise, providing significant growth potential.
- Its customer segment is not a focus area for many banks given the time and efforts involved in customised appraisal along with difficulties in evaluating the volatile income streams.
- Recent rating assigned by ICRA and CARE rating will help it diversify its funding to debt market.

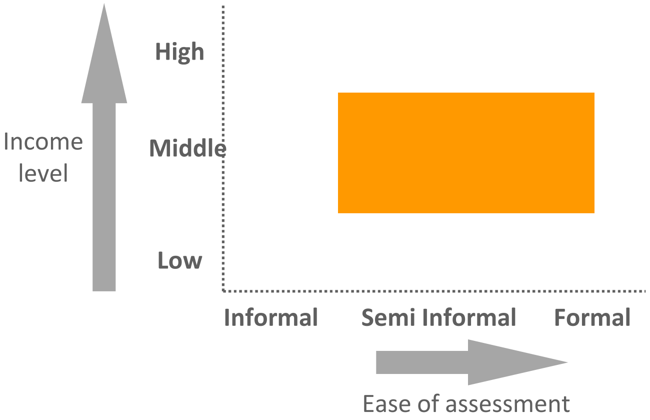


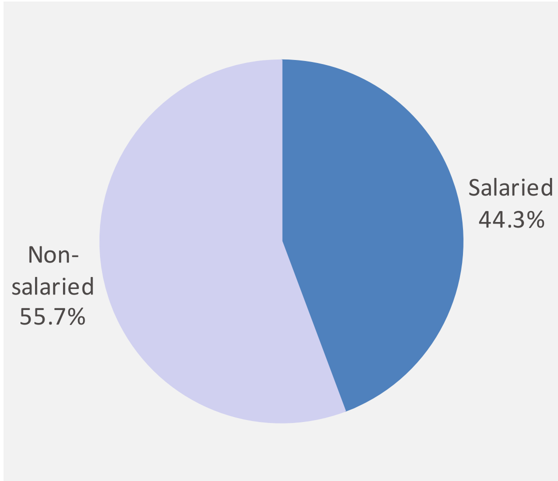
Threats

- Concentration risk: Over 60% of its book is dominated by home market, Tamil Nadu.
- Penetrating into other geographies to involve cost.
- NPLs trend would be volatile given low predictability in cash flows of self-employed customers.
- Relatively expensive valuations. However, given sustained earnings visibility rendering superior return ratios, further re-rating of the stock from current levels is possible.
- We maintain 'BUY' recommendation with target price of INR770.

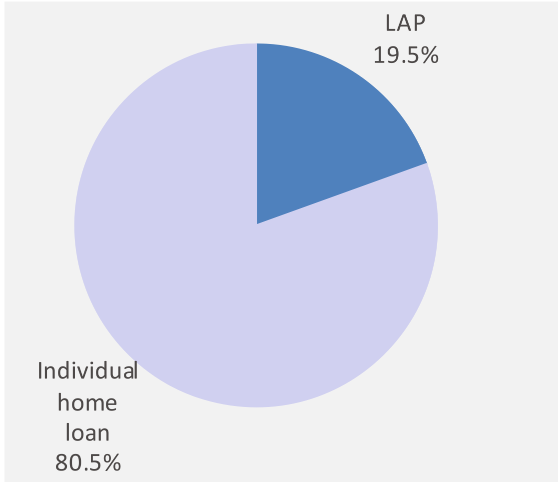
Repco: Key operating metrics

Developed forte in self-employed segment which needs customised and detailed appraisal

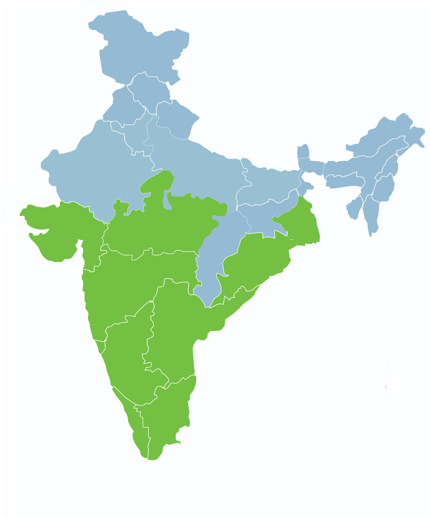




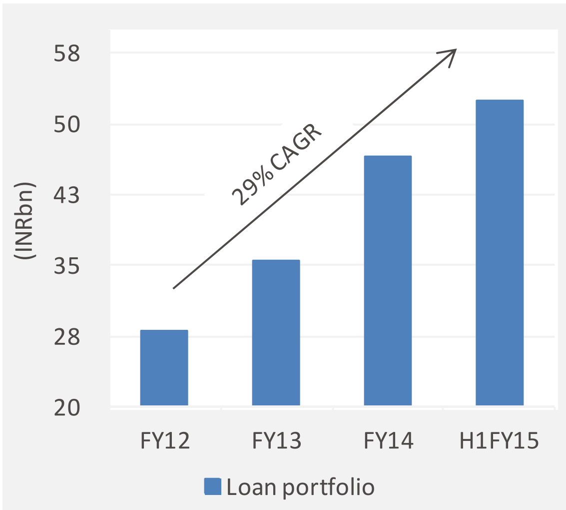
LAP proportion is rising consistently



Player with strong brand in South India



Despite potential, loan growth managed at 29%



Financial snapshot

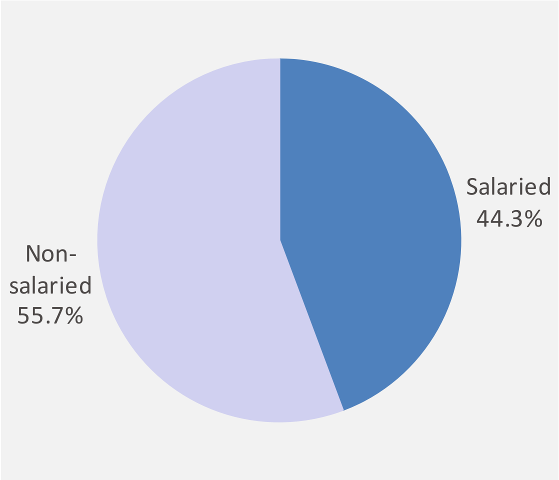
LTV : 65%	**PAT :** INR1.1bn
Avg Ticket size INR1.2mn	**Avg RoA :** 2.6%
CAR: 21.9%	**Avg RoE : 16**.8%

Source: Company

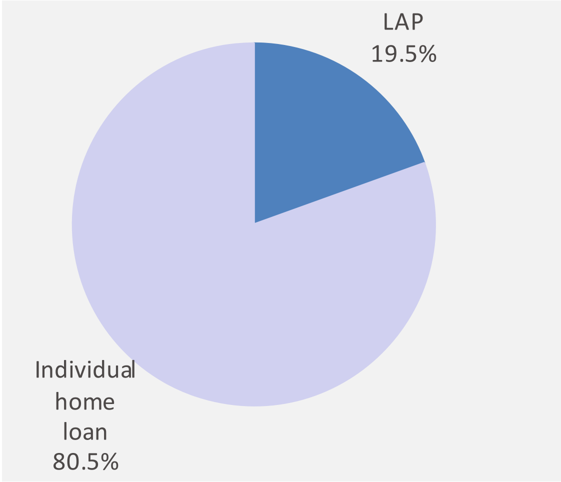
Repco customer profile: Strong foothold in self-employed retail segment

- Strong foothold in self-employed segment under-served by large HFCs and banks.
- Mastered skills in evaluating self-employed class given its: 1) direct customer contact; 2) tailored approach; and 3) personal evaluation processes, which helps assess credit quality of this segment.
- Demonstrated viability of operations in relatively lower ticket size (INR1mn) with controlled costs. Share of banks in low-ticket housing loans has seen a steady decline.
- Repco has zero exposure to developer/builder loans (relatively lumpy and riskier segment).

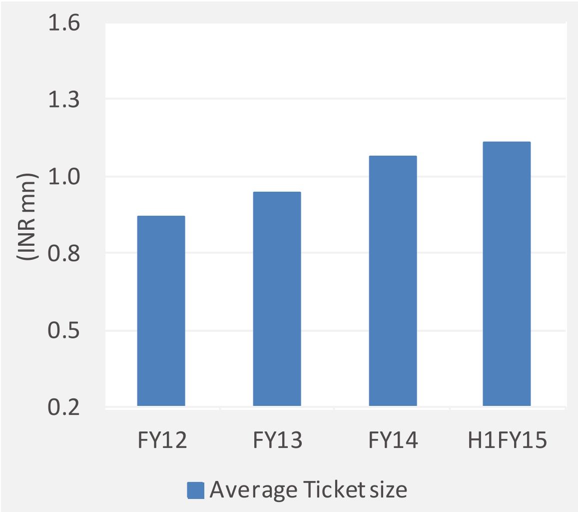
Forte in self-employed segment

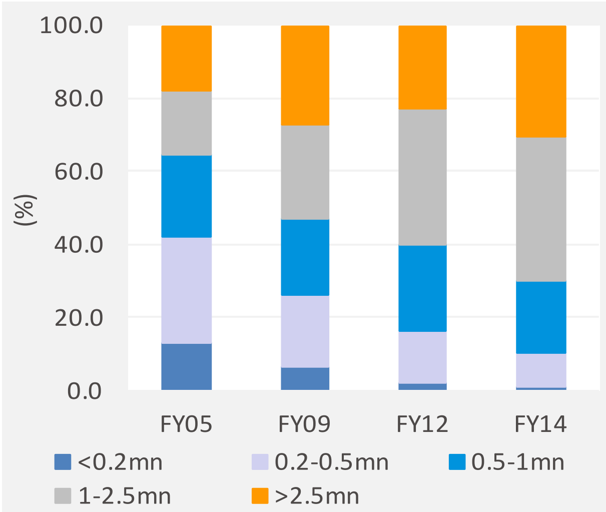


LAP proportion also rising consistently



Avg. loan size of INR1mn has lower competition, reflected in declining share of banks





Source: Company, RBI

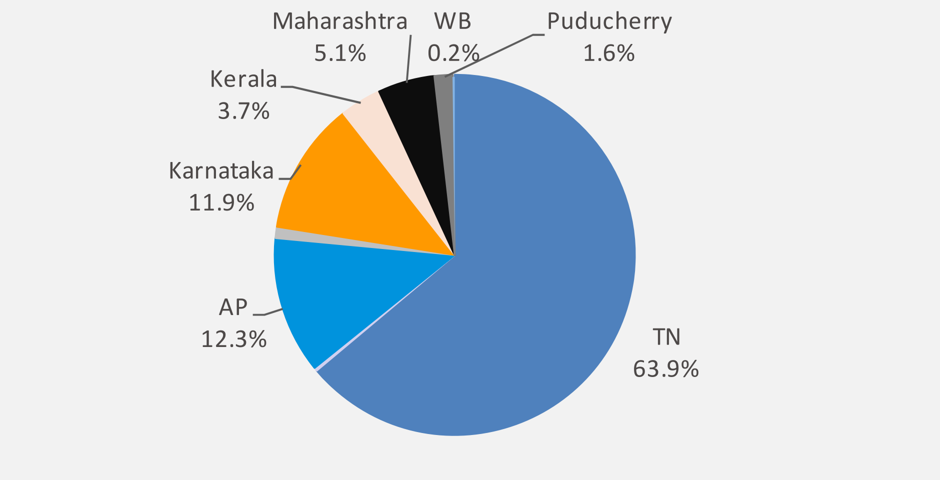
Repco: Continued focus on under-penetrated tier II/III cities

- Focused on under-served and under-penetrated areas in tier II/III cities and peripheral areas of tier I cities, giving it first-mover advantage.
- Outside South, increasing presence in Maharashtra, Gujarat, MP, West Bengal, Orissa and Puducherry.
- Lower housing penetration of banks in rural areas provides good opportunity to Repco with lower cost of operations (lowest opex/branch) and good understanding of rural markets.

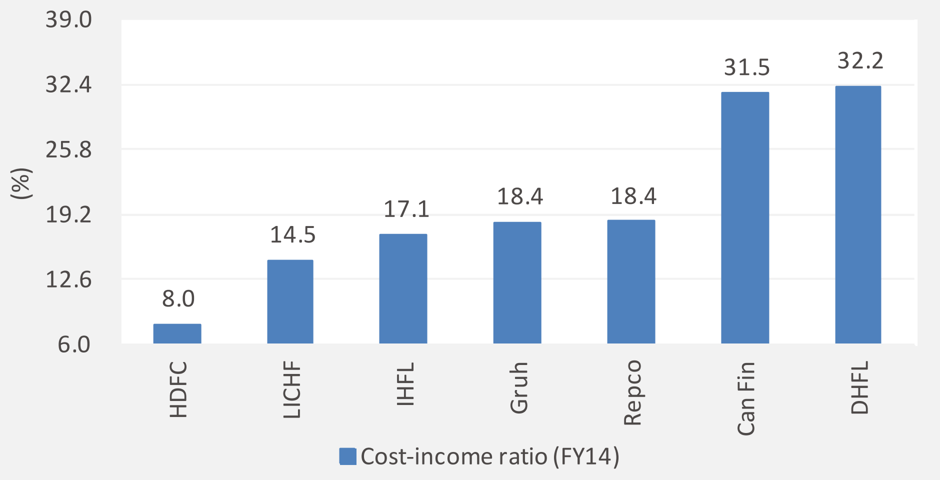
Cost comparision (INR mn)

	HDFC	LICHF	GRUH	DHFL	Canfin	Repco	IHFL
Emp./branch	5.5	7.4	3.8	6.5	4.4	3.8	20.0
Opex/branch	17.7	15.4	4.1	13.2	5.8	3.2	17.1
AUM/branch	5,568	4,478	494	1,400	704	382	2,008

Strong franchise in South – diversification strategy in place



Presence in tier II/III cities leading to lower cost of operations



Source: Company

Repco: Key competitive advantage - Faster turnaround time

2 Tier credit appraisal

Through branch

Branch level process

- Personal interview
- Through review of documents & CIBIL checks
- Scrutiny of property documents & visit to property
- Visits to business & residential premises; employment checks
- Technical valuation report
- Independent legal opinion

Loan proposal via loan origination system

Head office level process

- Scrutiny by credit officer
- Approval by sanctioning authority
- Appraisal note, evaluation summary
- Loan amount based on LTV & IR
- Credit score-linked interest rate

Loan sanction order to borrower

Verification & submission of original title deeds as security

Loan & security document execution & registration

Loan disbursement (progress-linked for under construction property)

Ongoing monitoring

- Annual inspection of each branch by internal inspection team
- Internal audit by external chartered accountants firms
- Head office visits during loan camps
- Periodical inspections of secured properties before and after disbursement
- Audit of strategic branches on random basis by statutory auditor
- Strong co-ordination between branch and HO: Monthly performance scoring of branches, monthly MIS and branch manager report, periodic review meetings

Collection & recovery

- Incentivising branch personnel for timely recovery
- Post-dated cheques
- Insuring of loans with property insurance
- Dedicated recovery team at head office, Focused recovery camps when needed
- Visits by branch personnel
- Proceedings under Negotiable Instruments Act, & SARFAESI Act: Out of 466 cases, cases implemented successfully (loan outstanding collected in full) were 302 cases

Source: Company

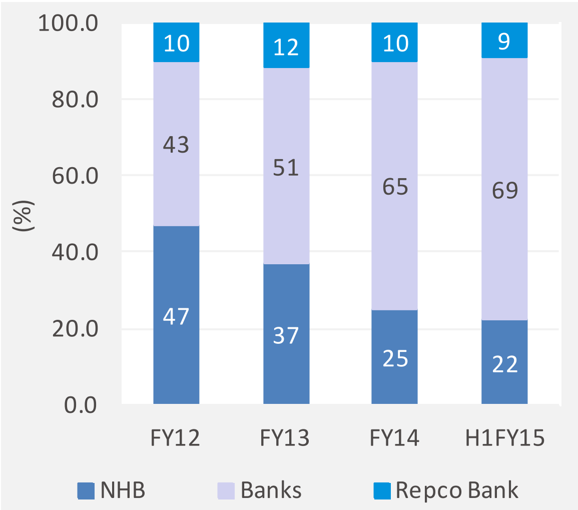
Repco: Levers for funding cost improvement

- Key sources of funds: Bank loans, NHB refinance and loan from promoters.
- 22% of borrowings via NHB refinancing at lower rate of ~8%. Moreover, banks lend at favourable rates as on-lending to Repco is mostly towards PSL.
- Recently both ICRA and CARE assigned AA-/A1+ to NCDs/CPs: Potential to diversify its funding source towards debt market borrowings.

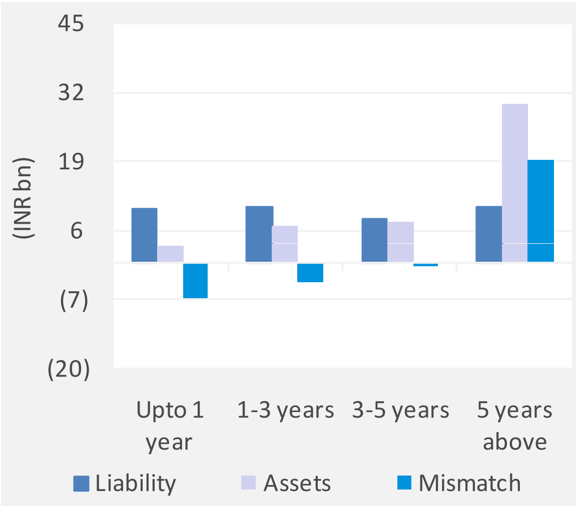
Recently assigned credit ratings

Nature of Borrowing	Rating / Outlook	
	CARE	ICRA
Term loans from banks	AA-	AA-
NCDs	AA-	AA-
Commercial paper	A1+	A1+

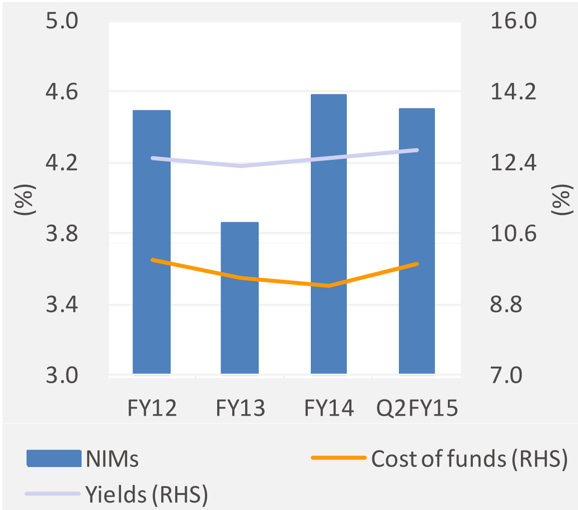
Borrowings concentrated to banks; scope for diversification



Well-matched ALM profile



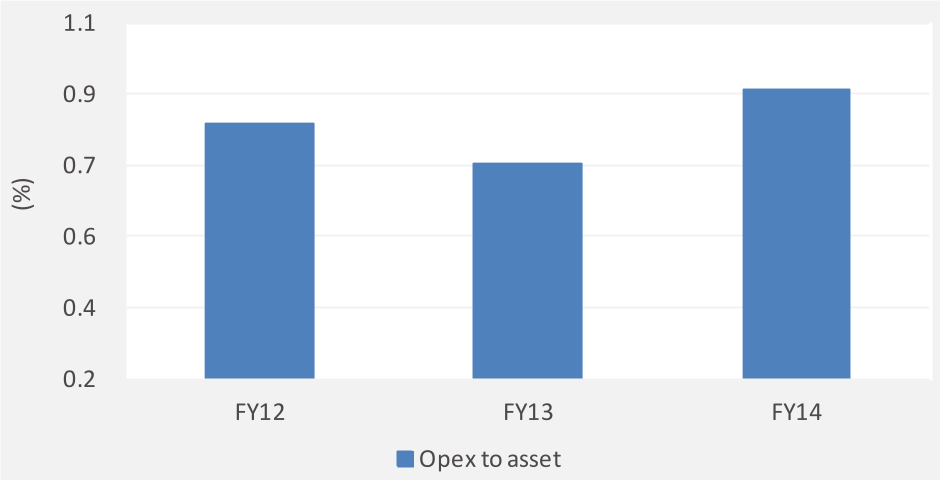
Higher yields, lower costs translating into lucrative NIMs of 4% plus



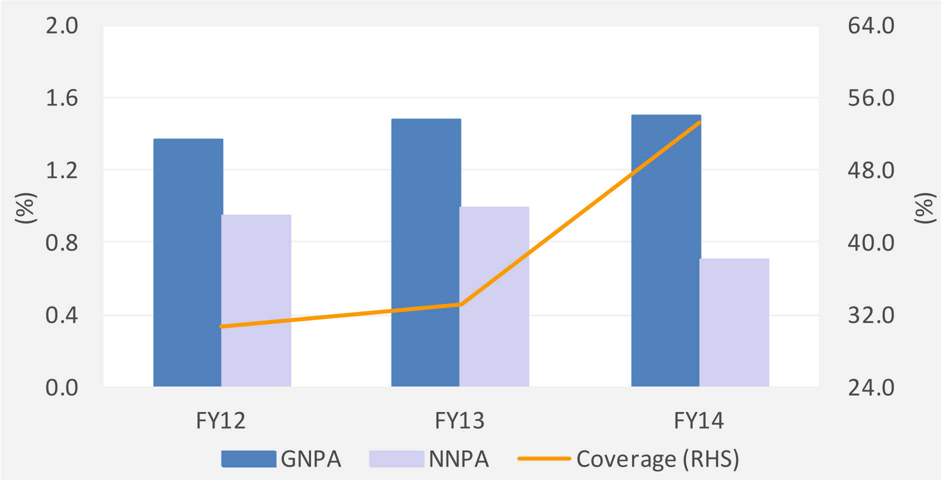
Source: Company

Repco: Niche operating segment helps generate superior RoAs

Operating cost ratios to improve as it builds scale



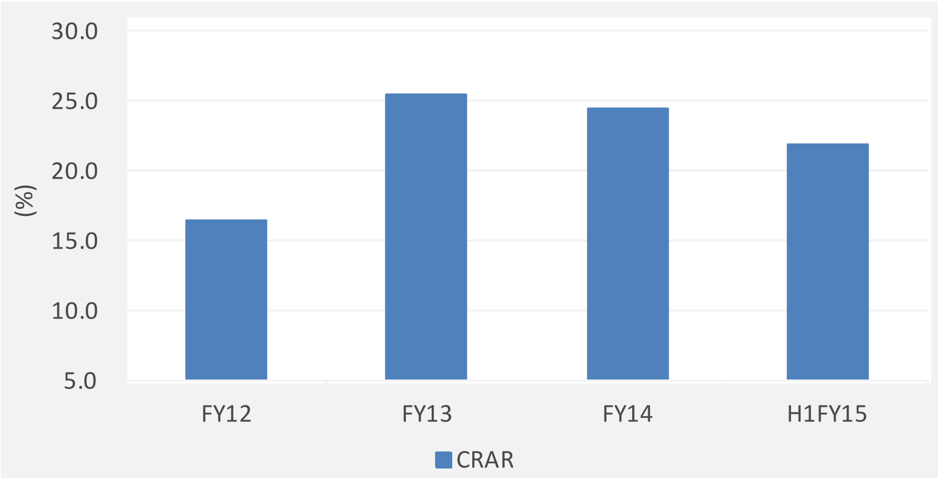
Volatility in cash flows of its customer base leads to higher NPL profile



Superior return ratios backed by niche operating segment

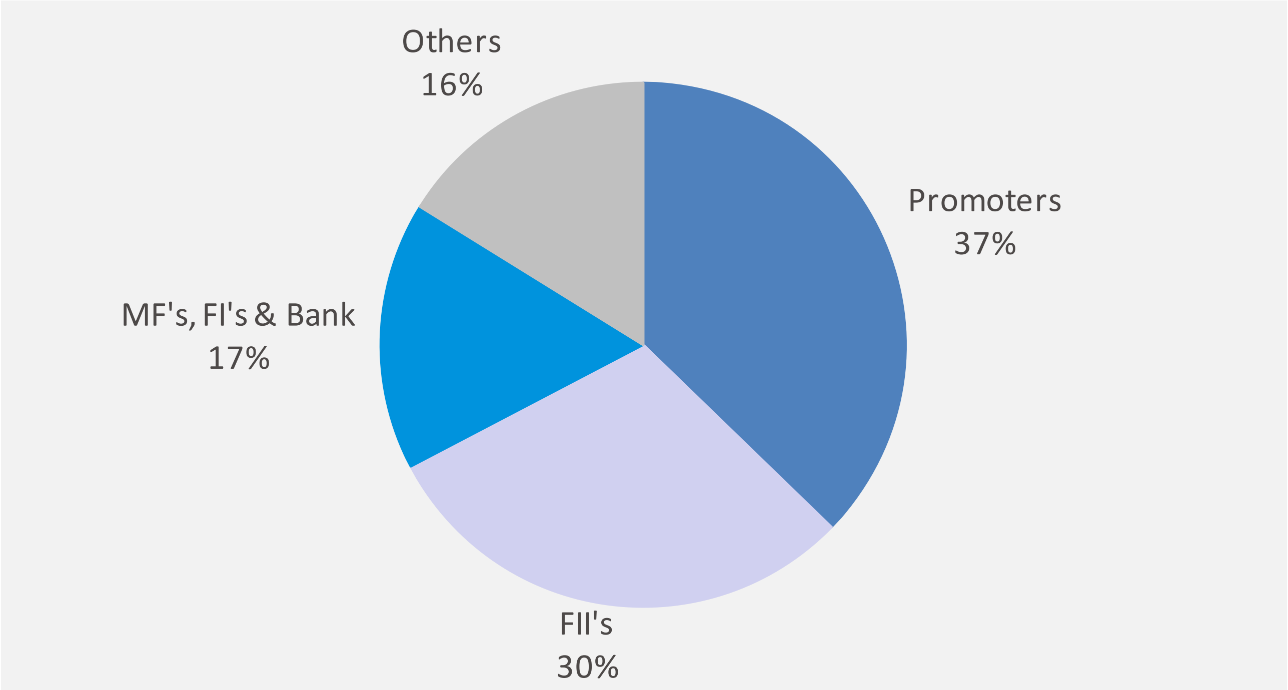
RoE decomposition (%)	FY13	FY14	FY15E	FY16E
Net interest income/Assets	3.9	4.6	4.5	4.5
Other Income/Assets	0.4	0.5	0.5	0.5
Net revenues/Assets	4.3	5.1	5.0	5.0
Operating expense/Assets	0.7	0.9	0.9	0.8
Provisions/Assets	0.3	0.5	0.4	0.5
Taxes/Assets	0.8	0.9	1.2	1.2
Total costs/Assets	1.9	2.4	2.6	2.5
ROA	2.5	2.6	2.5	2.5
Equity/Assets	14.4	16.0	14.3	13.2
ROAE	17.1	16.5	17.2	18.6

Low gearing leads to sub-20% RoEs but provides buffer to scale



Source: Company, Edelweiss research

Repco: Shareholding pattern



Source: BSE

As per last available data

Gruh Housing Finance –Consistently + scalability aptly reflected in valuations

CMP: INR294 | Market Cap: INR107bn | Reco.: Not Rated

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
LIC Housing	Prominent in Metro, capital cities	Pan India	Home loan: 93.5 LAP: 4 Corporate: 2.5	Salaried: 88 Self Employed: 12	LIC agents: 60 DSA: 33 LICHFL Financial Services: 3 Direct: 4	INR975bn, 21%	1.9	10.9	0.6	1.6	19.9	16.3
Dewan Housing	**DHFL:** Tier II, Tier III; **First Blue:** Metros; **Aadhar:** Rural	Pan India	Home loan: 78 LAP/LRD : 17 Project loans: 5	Salaried: 70 Self Employed: 30	Direct walkin: 6 DSA: 29 DST: 65	INR494bn, 47%	1.1	12.7	0.8	1.4	16.0	16.2
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DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

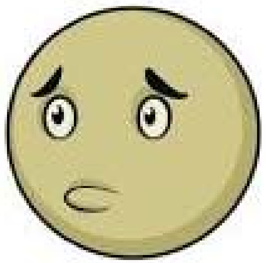
Gruh: Strengths, Opportunities, Threats

Key Differentiators

- Focused approach with consistent track record.
  - **Niche presence in limited area of competition**: >45% of business is concentrated in rural areas and loan book with ticket size of <INR1mn is almost 50%.
  - **State-specific presence:** Operates only in 7 states — Gujarat, Maharashtra, Karnataka, Rajasthan, MP, Chhattisgarh and Tamil Nadu.
  - Stable earnings and loan CAGR of 25-30% over 3, 5 and 10 years.
- Rural housing finance provides benefits of NHB refinancing at lower cost—constitutes >35% of overall borrowings.
- Strong HDFC parentage and stability in operating/financial parameters have fetched better ratings from rating agencies.
- Unique business sourcing model—ropes in >60% business via referral agents (eliminating intermediary cost); however, control retained over credit, legal and technical appraisal.
- Stable asset quality with GNPLs contained below 2% even in worst of times and below 0.5% since past 3 years.

Opportunities

- In the states where it is present provide huge growth opportunities; strong brand and first-mover advantage will always be in Gruh's favour in terms of gaining market share.
- Higher pricing power (operates in niche segment) coupled with diversified liability franchise (higher deposit base, NHB refinancing) will aid NIMs expansion in falling interest rates environment.

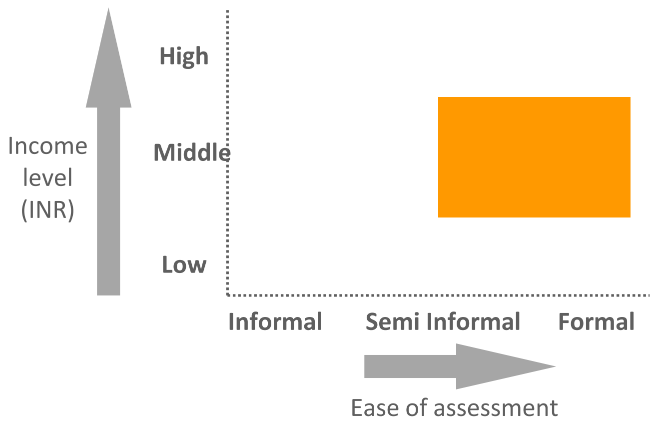


Threats

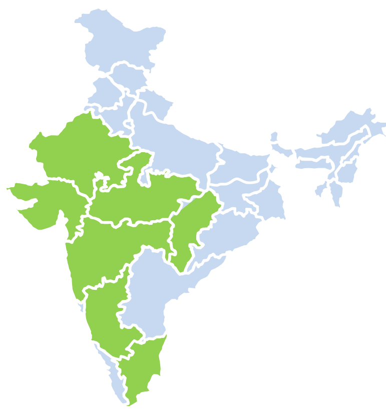
- Consistency + Sustainability + Stability = Premium Valuations compared to peers (highest valued stock in financial space trading at >10x price to book). Although we believe superior valuations will likely continue, we expect the gap to narrow with other financiers.

Gruh: Key operating metrics

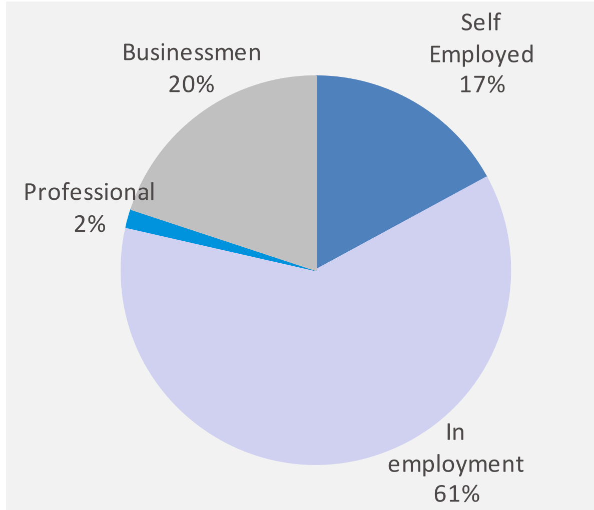
Targeting lower ticket size in informal/semi-formal



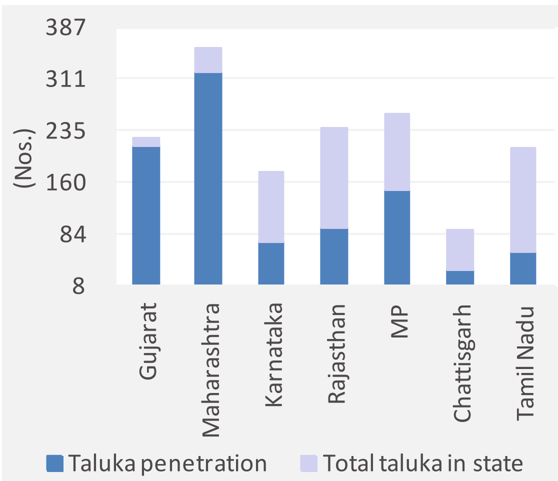
West dominanted, particularly Maharashtra, Gujarat



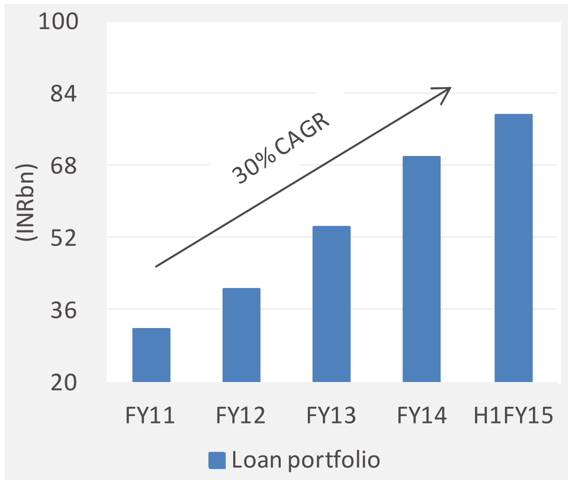
Salaried class constitute 61% of book



Increasing penetration to aid growth



Loan CAGR of 30% over FY11-14



Financial snapshot

LTV : 63%

PAT : INR1.8bn

Avg Ticket size INR0.8mn

Avg RoA : 3.0%

CAR: 16.7%

Avg RoE : 32%

Source: Company

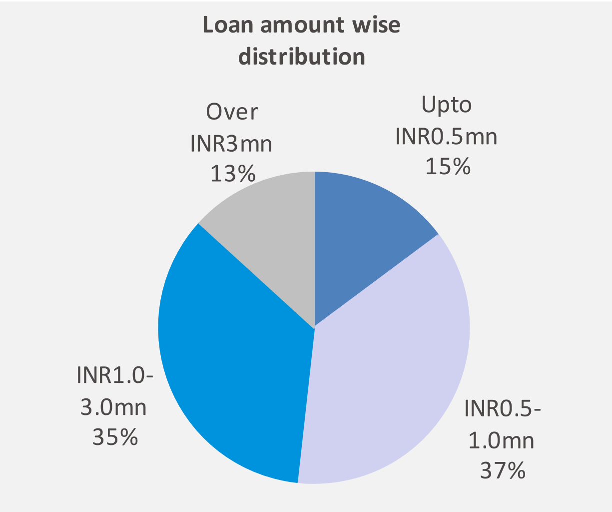
Gruh key edge: Focus on lower income profile and lower ticket size loans

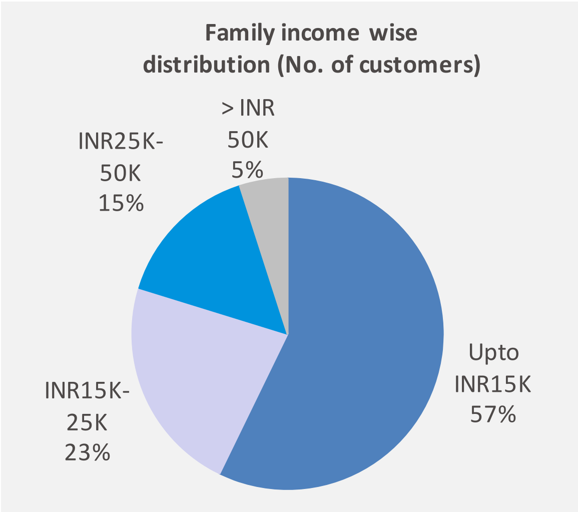
- Operates in niche segments which are under-served by large HFCs/banks (lower ticket size loans).
- Average monthly income of borrower is INR45k as >45% of its business is concentrated in rural areas and loan book with ticket size of <INR1mn is almost 50%.
- Balanced customer mix with ~60% salaried class and ~40% SE/businessmen.
- Product portfolio suited to tap rural housing finance opportunity. *Surakhsa* (for salaried), *Suvidha* (for SE with no direct income proof), *Sajavat* (home loan improvement) and *Samruddhi* (SE for purchase of office or business premises).

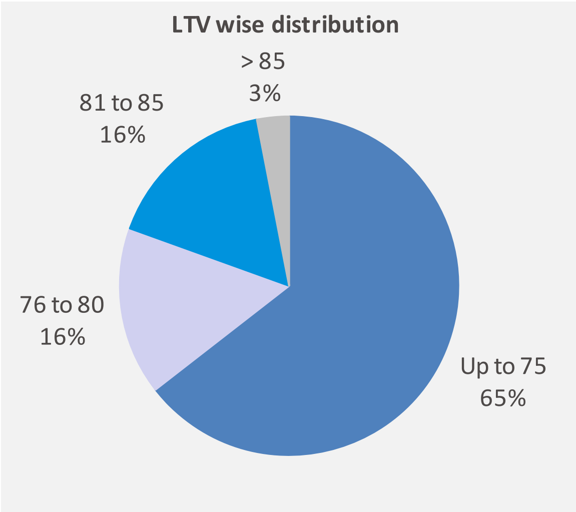
Product suite tailored to meet rural demand

	Suraksha	Suvidha	Sajavat	Samruddhi
Target segment	Salaried Individuals and professional	Professionals and self employed	Salaried Individuals, professionals and self-employeed	Professional and self-employeed
Purpose	Construction or purchase of homes	Construction or purchase of homes	Fund repair and renovation work	Purchase of office for business
Tenure	Max 25 years	Max 15 years	Max 15 years	Max 15 years
LTV	75%/80%/85%	75%/80%/85%	75%/80%/85%	75%/80%/85%

Focus on lower income group and lower ticket size loans where there is limited competition; lower LTV keeps it guarded







Source: Company

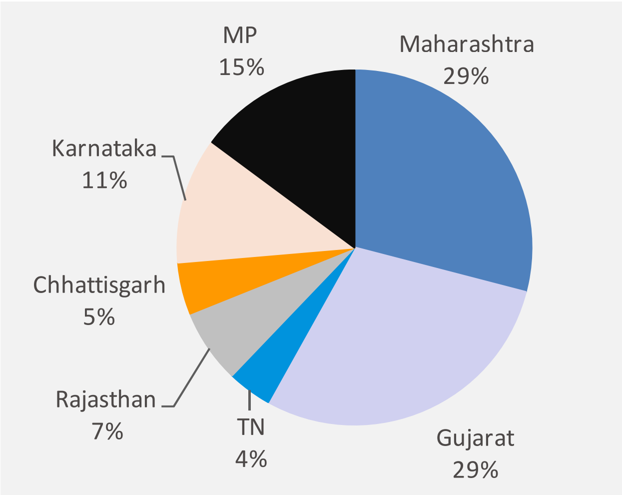
Gruh: Largely a rural play, mostly dominated in Western India

- **Unique branch expansion strategy**: Has identified specific states and developed unmatched understanding of local markets leading to pristine asset quality despite operating in riskier segments.
- **Unique business sourcing model:** Ropes in referral agents (thus avoiding intermediary and related costs). However, processing, appraisal, etc., are controlled internally.
- Lean cost model with centralised loan processing and lower branch rentals.

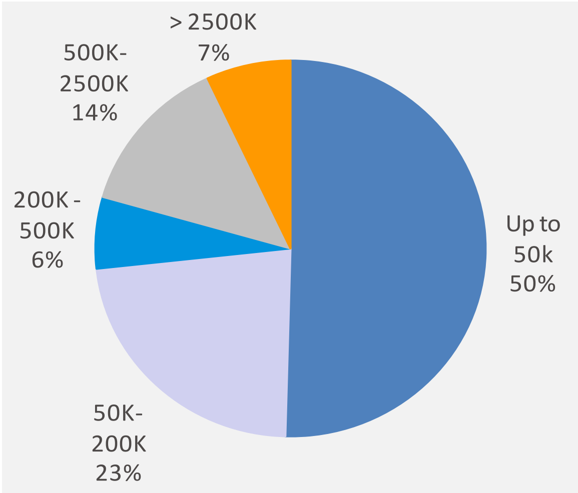
Cost comparision (INR mn)

	HDFC	LICHF	GRUH	DHFL	Canfin	Repco	IHFL
Emp./branch	5.5	7.4	3.8	6.5	4.4	3.8	20.0
Opex/branch	17.7	15.4	4.1	13.2	5.8	3.2	17.1
AUM/branch	5,568	4,478	494	1,400	704	382	2,008

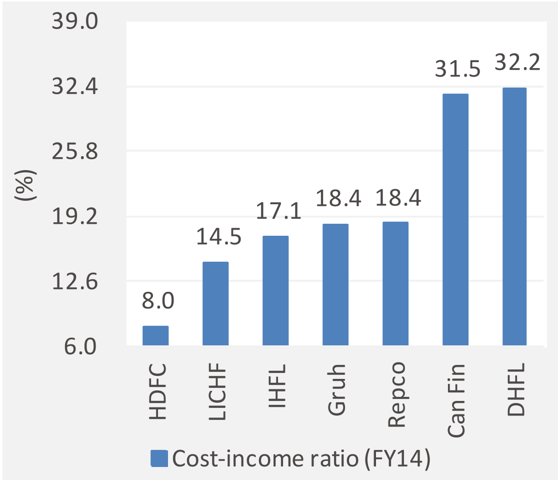
Branch distribution – West concentrated, mostly Gujarat/Maharashtra



Around 50% of cumulative disbursements in < 50K population area



With significant presence in rural areas, cost ratio well under control



Source: Company

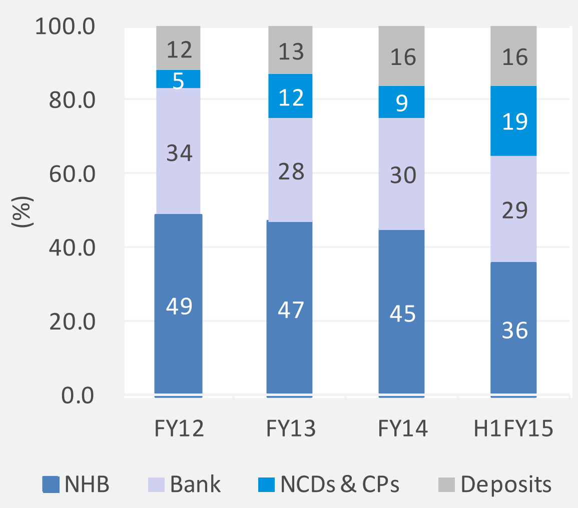
Gruh: Access to cheaper funding avenues + higher yields = superior NIMs

- **Diversified liability franchise**: Higher deposit franchise (versus other regional players), NHB refinancing supports funding cost.
- Strong parental support and healthy performance help Gruh maintain better credit rating in turn aiding NCD rates.
- Given presence in niche operating segment, it has been able to charge higher yields. These two factors have led to superior NIMs.

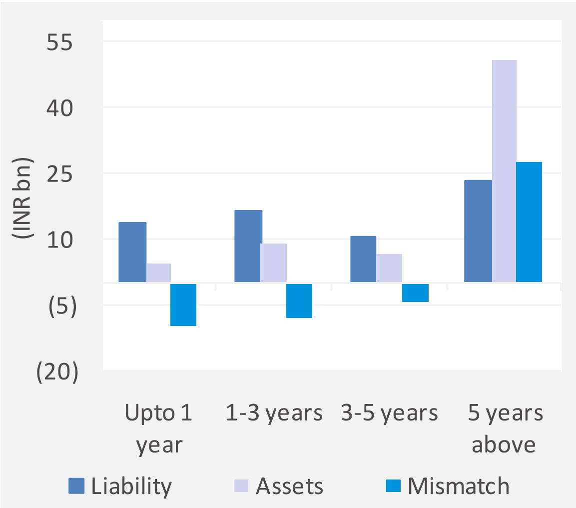
Ratings profile

Nature of Borrowing	Rating / Outlook	
	ICRA	CRISIL
Public deposits	MAAA	FAAA
NCDs	AA+	AA+
Subordinated NCDs	AA+	AA+
CPs	A1+	A1+

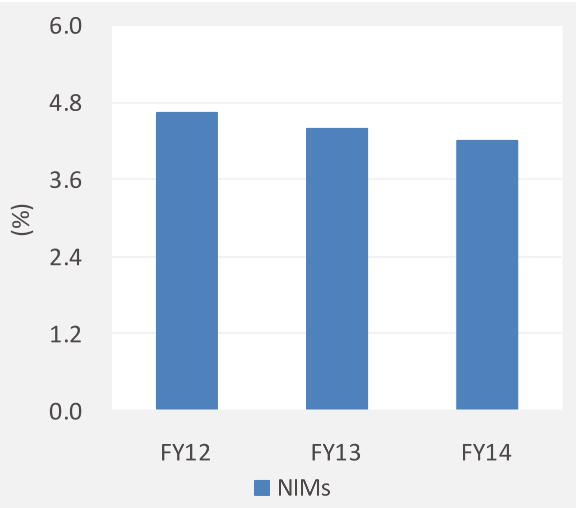
Diversified borrowing profile: Relatively higher reliance on NHB refinancing and deposits



Longer duration of assets leading to mismatch in lower maturity bucket



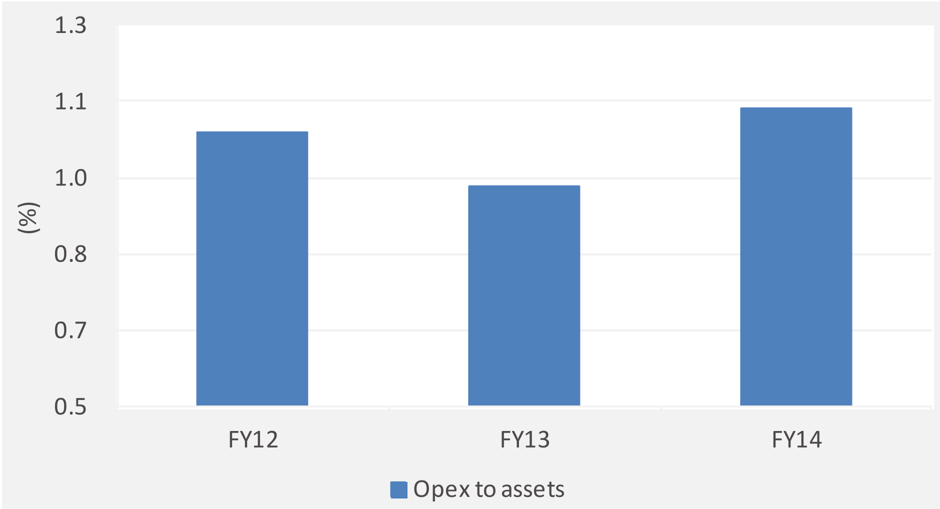
Higher yields and lower costs translating into lucrative NIMs of 4% plus



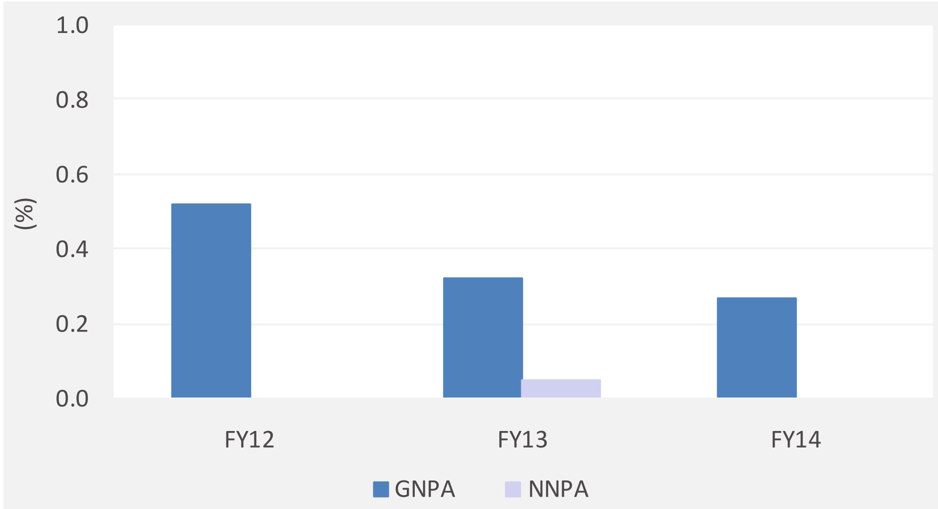
Source: Company

Gruh: Superior and sustainable RoA/RoE profile

Relatively higher opex/assets versus peers – a derivative of operating in hinterlands



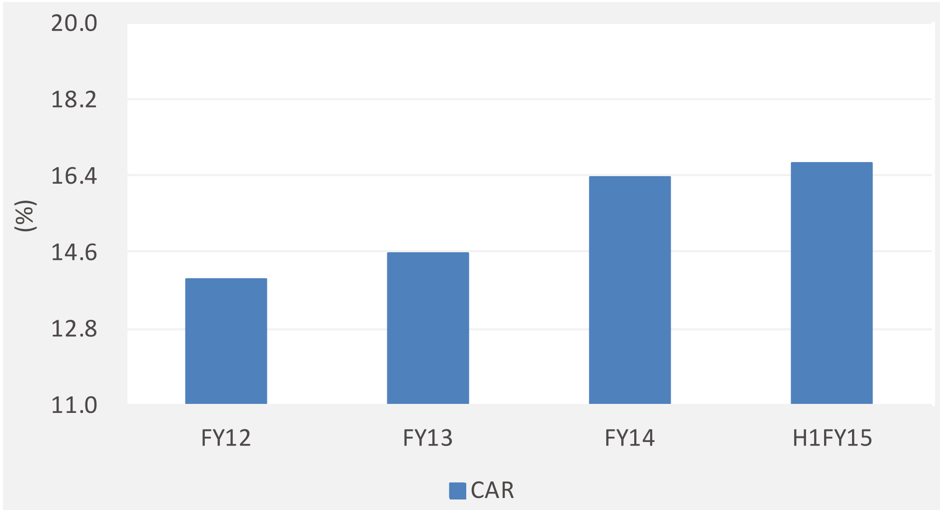
Benign asset quality despite garnering higher yield: Function of strong local understanding and stringent underwriting



Superior and sustainable return aided by niche operating segment

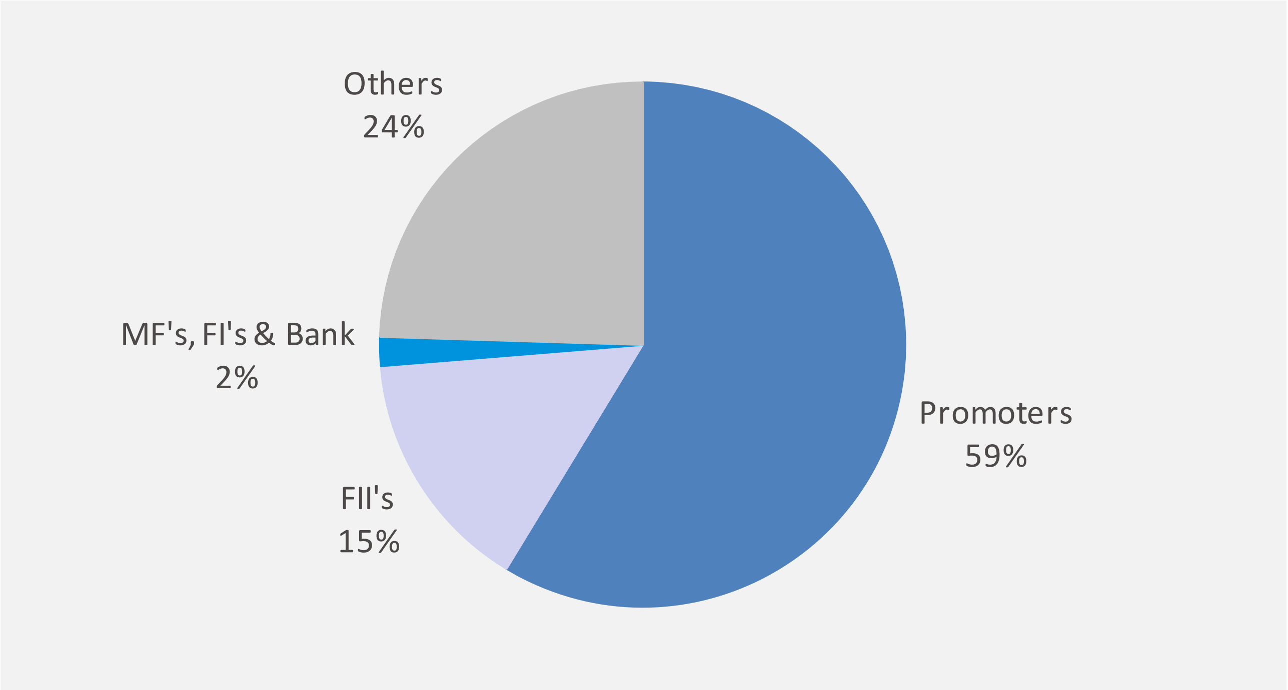
RoE decomposition (%)	FY11	FY12	FY13	FY14
Net interest income/Assets	4.9	4.8	4.5	4.3
Other Income/Assets	0.6	0.7	0.6	0.6
Net revenues/Assets	5.4	5.4	5.1	4.9
Operating expense/Assets	1.1	1.1	1.0	1.1
Provisions/Assets	0.1	0.0	0.1	0.1
Taxes/Assets	1.2	1.1	1.1	1.0
Total costs/Assets	2.3	2.2	2.1	2.2
ROA	3.1	3.2	3.0	2.7
Equity/Assets	9.9	9.4	9.1	8.8
ROAE	31.4	34.2	33.3	30.8

High RoE profile and adequate CAR provide enough buffer to scale up



Source: Company,

Gruh: Shareholding pattern



Source: BSE

As per last available data

Can Fin Homes – Climbing up the ladder

CMP: INR657 | Market Cap: INR13bn | Reco.: Not Rated

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
LIC Housing	Prominent in Metro, capital cities	Pan India	Home loan: 93.5 LAP: 4 Corporate: 2.5	Salaried: 88 Self Employed: 12	LIC agents: 60 DSA: 33 LICHFL Financial Services: 3 Direct: 4	INR975bn, 21%	1.9	10.9	0.6	1.6	19.9	16.3
Dewan Housing	**DHFL:** Tier II, Tier III; **First Blue:** Metros; **Aadhar:** Rural	Pan India	Home loan: 78 LAP/LRD : 17 Project loans: 5	Salaried: 70 Self Employed: 30	Direct walkin: 6 DSA: 29 DST: 65	INR494bn, 47%	1.1	12.7	0.8	1.4	16.0	16.2
Indiabulls housing	Prominent in Tier I & Tier II cities	Pan India (North & West dominated)	Home loans: 51 LAP: 25 Corporate Mortgage: 21 CV: 3	Salaried: 70 Self emplyed: 30	Direct walkin: 9 DSA: 16 Bank tie-up: 5 DST : 70	INR450bn, 23%	Home loan: 2.4 LAP: 6.8	13.6	0.9	4.0	28.0	19.1*
Repco Home	Tier II, Tier III cities	South India (TN, Karnataka dominated)	Home loan: 80.5 LAP : 19.5	Salaried: 44.3 Self Employed: 55.7	Branches act as single point of contact	INR52bn, 29%	1.2	12.5	1.7	2.6	16.8	21.9
Gruh Finance	Tier II, Tier III cities	West India (Guajarat, Maharashtra dominated)	Home loan: 92.2 LAP: 4.6 Construction Finance: 3.3	Salaried: 61.5 Self Employed: 18.5 Businessmen: 20	Referral associates (61%) & Branches	INR79bn, 30%	0.8	13.4	0.4	3.0	32.0	16.7
Can Fin Homes	Tier I, Tier II cities	South India dominated	Retail: 88 Corporate: 12	Salaried: 84 Self Employed: 16	Branches (predominantly) & DSAs	INR70bn, 38%	1.9	11.5	0.3	1.5	17.0	13.8*
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

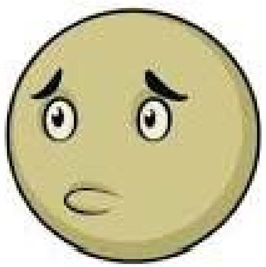
Can Fin: Strengths, Opportunities, Threats

Key Differentiators

- Established brand name (Canara Bank being the parent) and superior franchise quality, particularly in South India (4 southern states constitute 72% of loan book).
- **Business fortunes improved significantly post management change in FY11**: After being dormant all through FY07-11, CanFin has ramped up aggressively in past 3 years — crossed the 100 branches mark (65 branches added in past 3 years) and grew loan portfolio by >35% CAGR to INR70bn. A completely overhauled business model—process centralisation, effective use of DSAs and rapid branch expansion — has set the ball rolling for its business.
- Focused on individual salaried segment (88% of loans for individual housing; 84% towards salaried segment).
- Relatively faster turnaround time than PSU banks of less than 2 weeks).
- Strong credit rating and NHB refinancing support (constituting >40% of borrowings); low-cost funding mix.
- **Aggressive growth has not deterred quality**: GNPLs have improved consistently from 1.4% in FY09 to 0.3% currently.

Opportunities

- Expansion drive to help capture growing business prospects outside South.
- Operating leverage to come into play.
- Lower proportion of LAP provides opportunity to grow in this segment—humungous potential

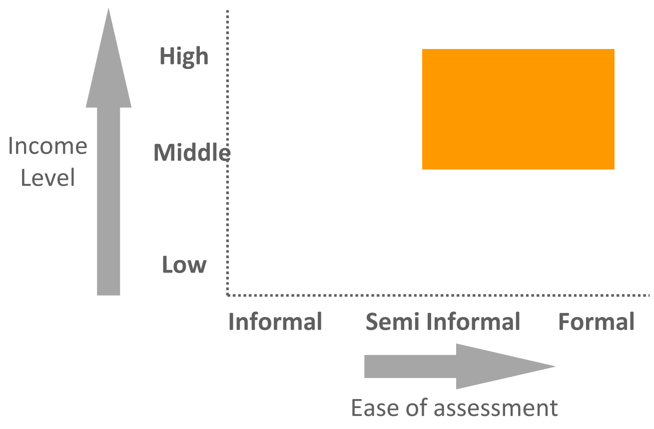


Threats

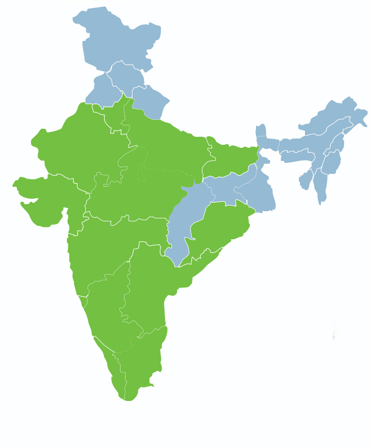
- Rising competition in its operative segment (~88% of loans are retail Individual housing loans).
- Penetration in other geographies to involve cost.

Can Fin: Key operating metrics

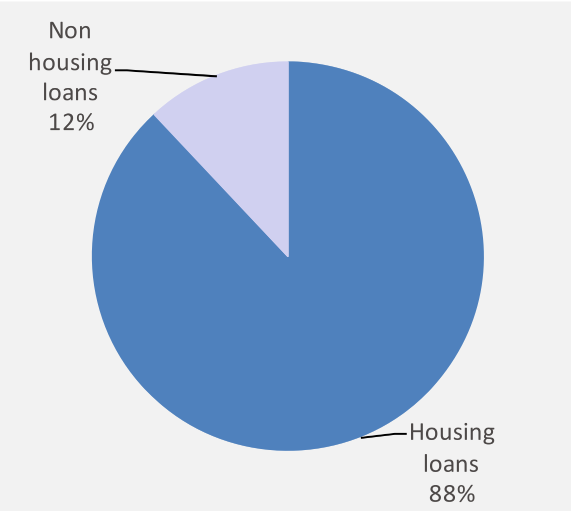
Target customer segment



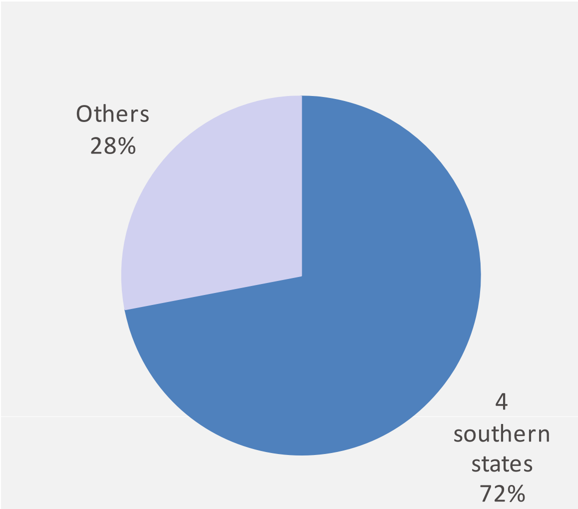
Geographical presence



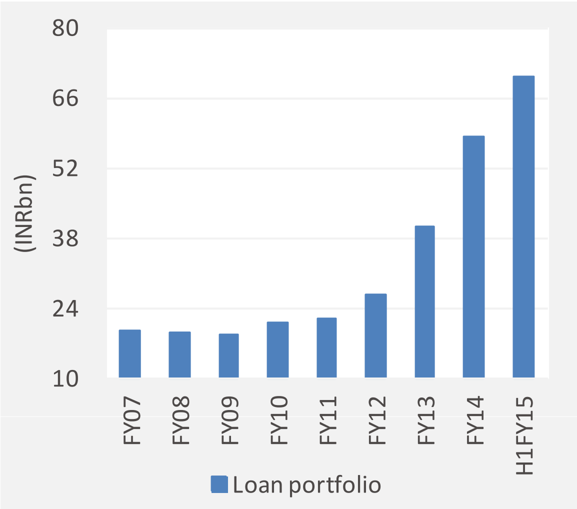
Focus on retail individual housing



Dominates in 4 southern states



Business fortunes improved significantly post management change in FY11



Financial snapshot

LTV : ~60%

PAT : INR760mn

Avg Ticket size INR1.9mn

Avg. RoA : 1.5%

CAR: 13.8%

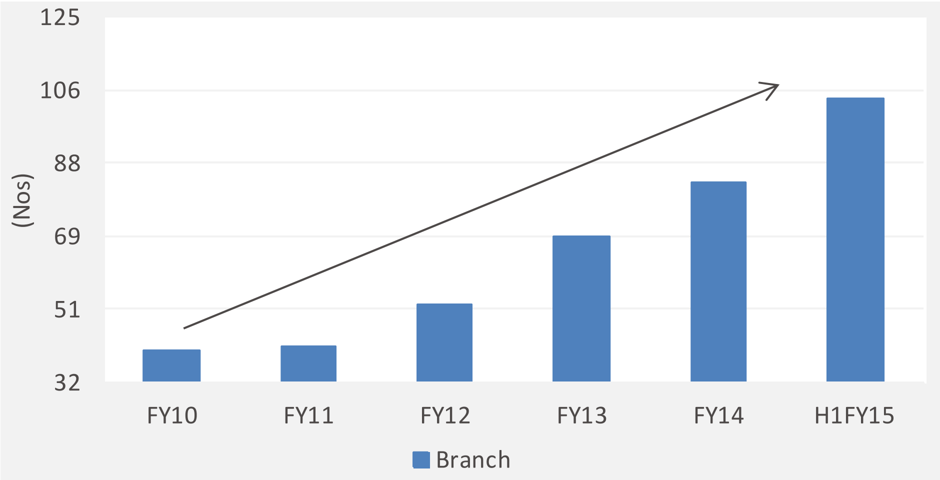
Avg. RoE : 17%

Source: Company

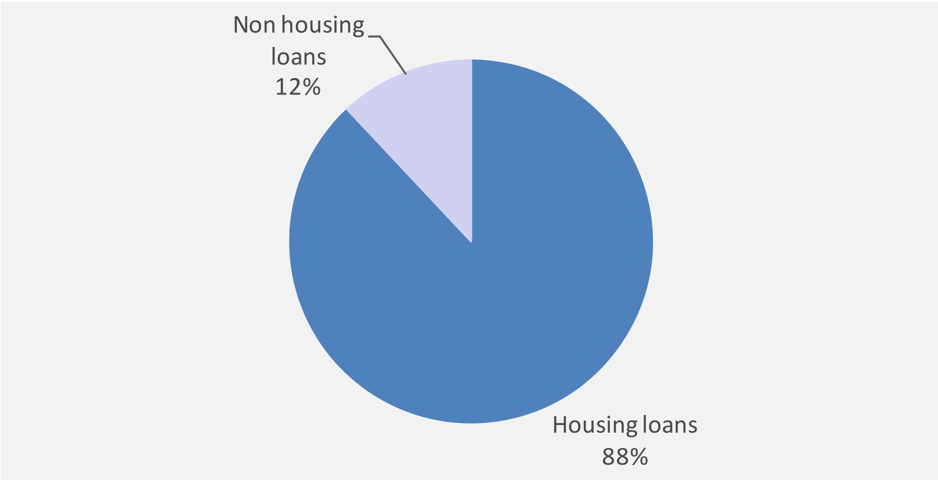
Can Fin customer profile: Focus on salaried segment

- CanFin has a strong presence in South India with focus on salaried class.
- After being dormant all through FY07-11, CanFin has ramped up aggressively over the past 3 years—crossed 100 branches mark (with 65 branches added in past 3 years) and grew loan portfolio by >35% CAGR to INR70bn.
- Complete overhaul of business model—process centralisation, effective use of DSAs and rapid branch expansion have set the ball rolling for its business.
- Focused on individual salaried segment (88% of loans for individual housing; 84% towards salaried segment).
- Turnaround time is amongst the shortest (less than 2 weeks).

Branch expansion likely to continue, which will drive loan growth



Focus on retail loans to salaried class



Source: Company

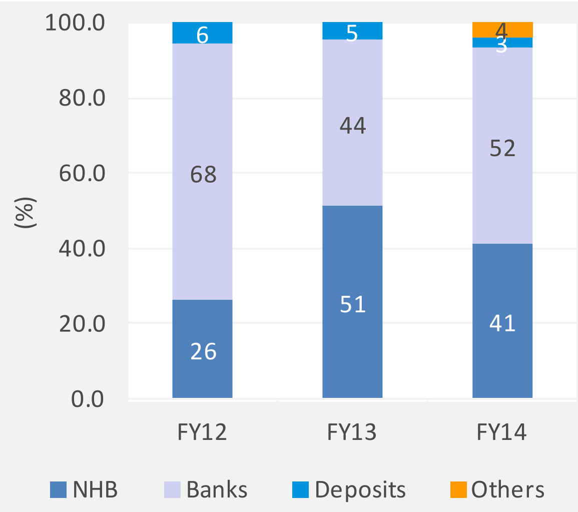
Can Fin: NHB refinancing provides cheaper funding avenue

- Strong parental support and healthy performance help maintain better credit rating.
- **Benefits of NHB refinancing at lower cost:** Constitutes >40% of overall borrowings, borrowing from banks at >50%. In backdrop of banks pruning their base rates and higher incremental borrowing from markets (at lower cost) will lower funding cost.

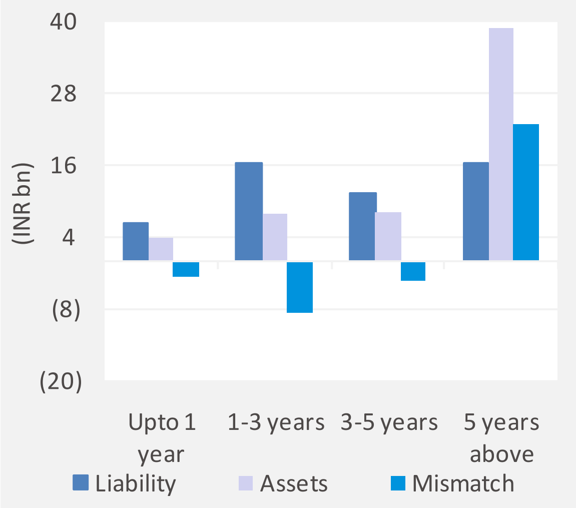
Ratings profile

Nature of Borrowing	Rating / Outlook		
	ICRA	FITCH	CARE
Deposits	MAAA	AA-	
Term Loans (Long)	[ICRA] AAA	AA-	
Term Loans (short)	[ICRA] A1+	A1+	
Secured NCDs (SRNCD)	[ICRA] AAA	IND AAA	CARE AAA
Unsecured NCDs (Tier II Subordinated Bonds)	[ICRA] AAA	IND AAA	CARE AAA
Commercial Paper	[ICRA] A1+		

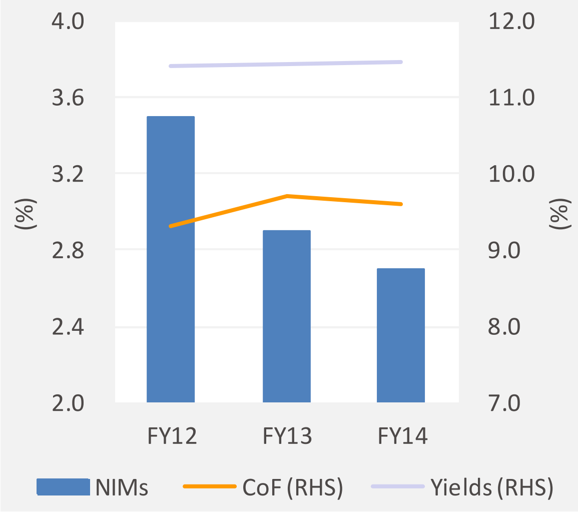
Borrowing mostly from NHB and bank loans; recently started accessing debt market window



Longer duration home loans leading to mismatch at shorter end of maturity bucket



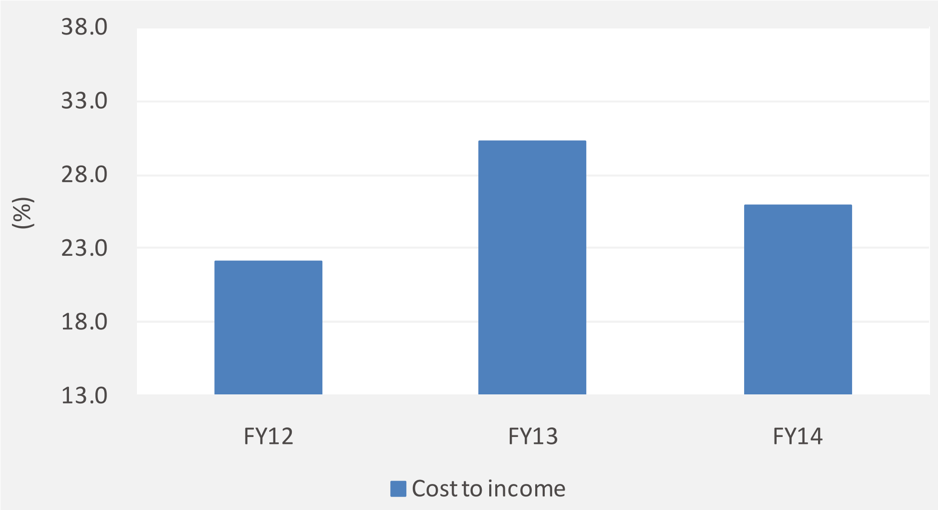
Lower funding cost likely to arrest dip in NIMs



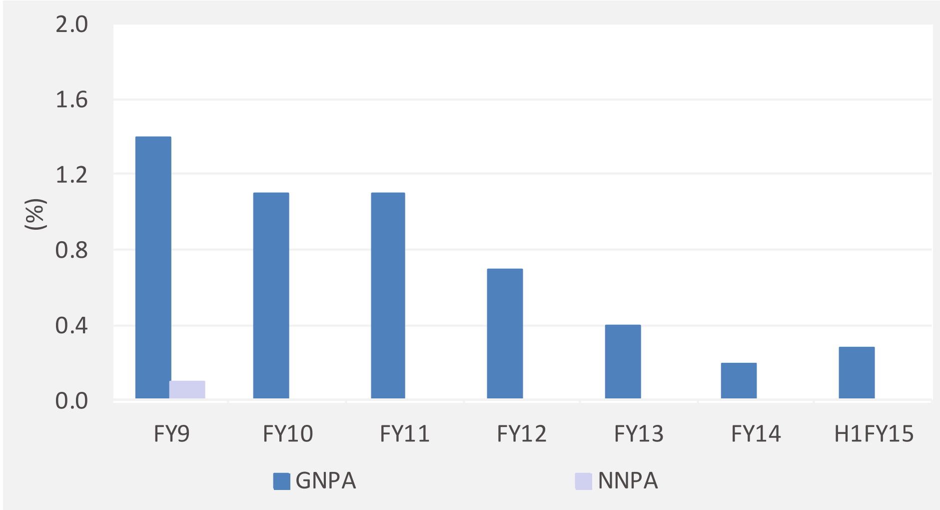
Source: Company

Can Fin: Improving RoE profile post management overhaul

Branch expansion keeping cost-to-income ratio elevated



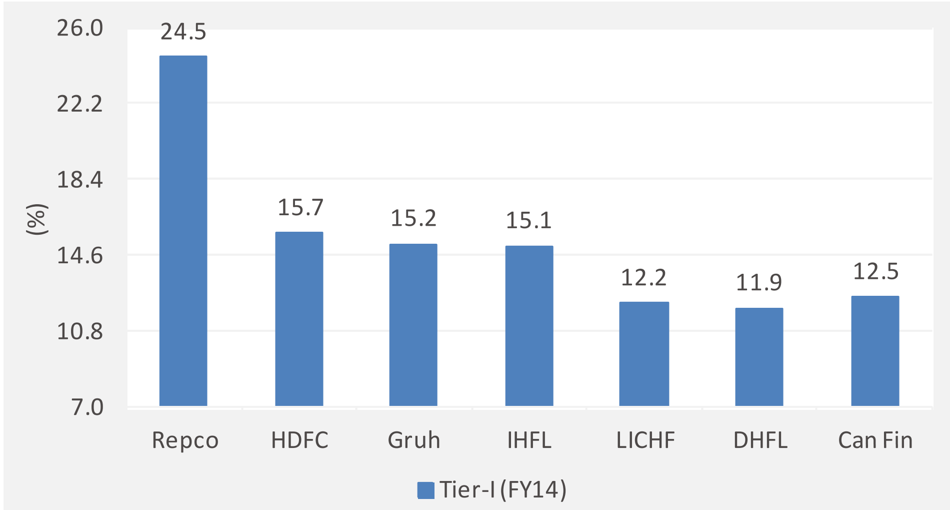
Consistent improvement in asset quality to as low as 0.3% GNPLs



Improving RoE profile post management overhaul

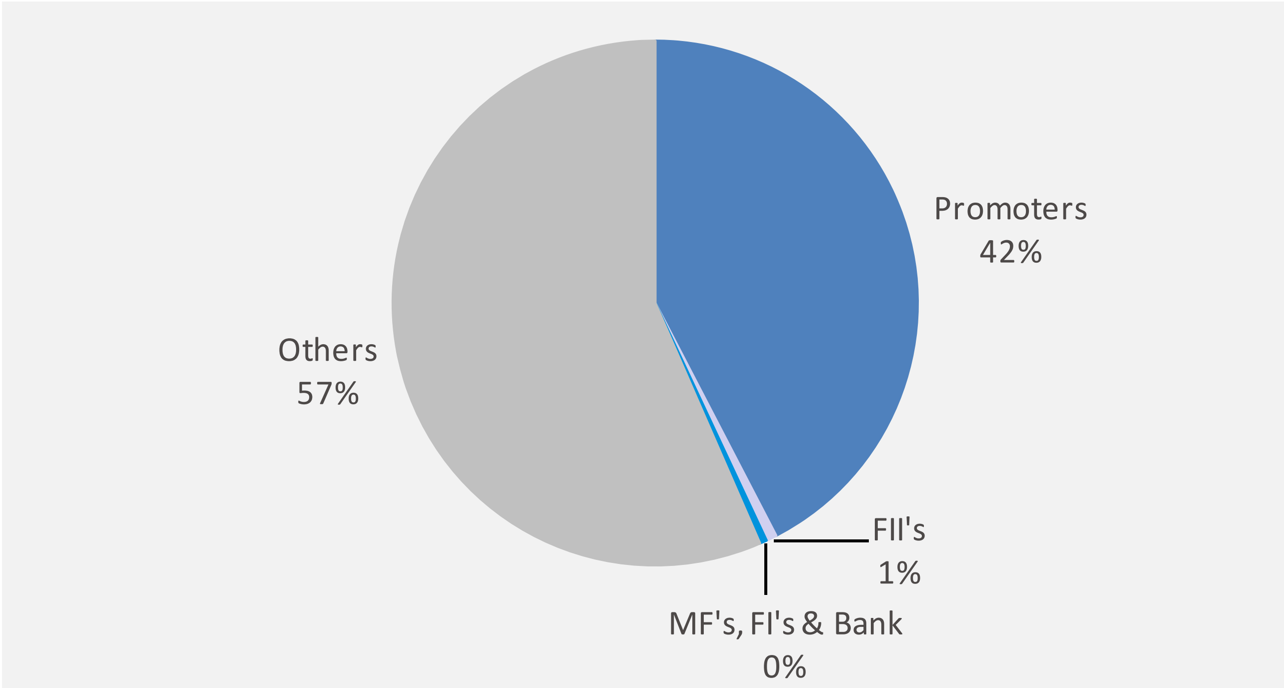
RoE decomposition (%)	FY11	FY12	FY13	FY14
Net interest income/Assets	3.3	3.4	2.9	2.76
Other Income/Assets	0.2	0.3	0.4	0.4
Net revenues/Assets	3.5	3.7	3.3	3.2
Operating expense/Assets	0.8	0.8	1.0	0.8
Provisions/Assets	0.1	0.4	0.1	0.2
Taxes/Assets	0.8	0.7	0.6	0.6
Total costs/Assets	1.6	2.0	1.7	1.6
ROA	1.9	1.8	1.6	1.6
Equity/Assets	7.5	7.4	9.0	11.5
ROAE	14.3	13.3	14.6	18.0

Relatively lower Tier 1: Current CAR + internal accrual to fund 20% growth



Source: Company

Can Fin: Shareholding pattern



Source: BSE

As per last available data

GIC Housing Finance – Smaller catch in big pond

CMP: INR271 | Market Cap: INR15bn | Reco.: Not Rated

Comparative snapshot

	Presence	Geographical mix	Loan composition (%)	Retail target segment (%)	Sourcing (%)	AUM, 3 yr CAGR (%)	ATS (INR mn)	Avg. Yield (%)	GNPLs (%)	Average ROA (%)	Average RoE (%)	CAR (%)
HDFC	Prominent in Metro, capital cities	Pan India	Retail: 71 Corporate: 11 Construction Finance: 13 LRD: 5	Salaried: 85 Self Employed: 15	Direct walkin: 9 DSA: 18 HDFC Bank: 24 HDFC Sales : 49	INR2331bn, 19%	2.3	11.8	0.7	2.8	30#	17.9
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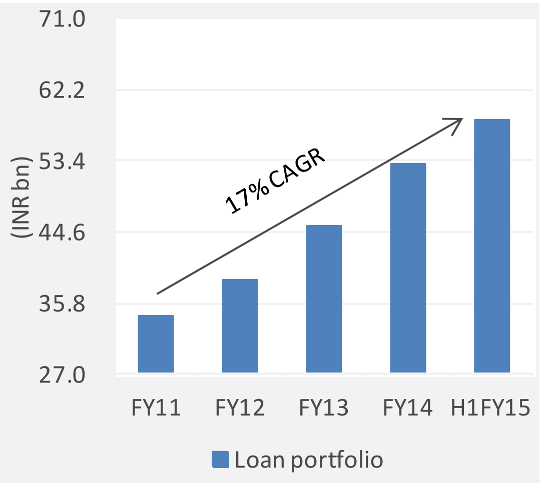
GIC Housing	Lower/middle income in Tier 1 cities	West dominated	Home loan: 90 LAP: 10	Salaried: 85-90		INR59bn, 17%		12.6	1.4	1.7	17.0	17.3*

DSA: Direct Selling Agent; DST: Direct Selling Team ; LRD : Lease Rental Discounting; LAP : Loan Against Property, * FY14, # core RoEs
Source: Company

GICHF: Focused on small ticket retail loans for low/middle income group

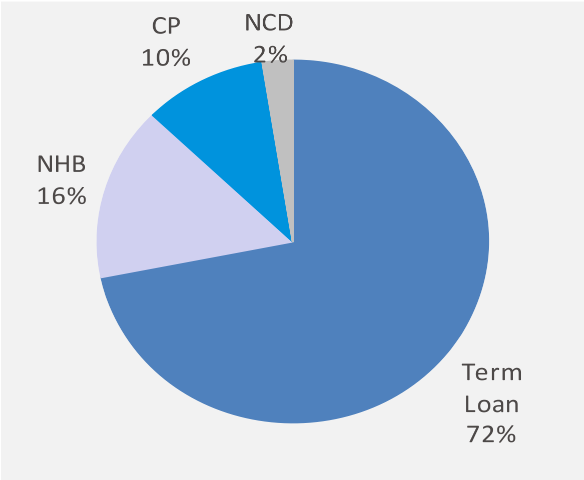
- Geographically, GIC Housing Finance (GICHF) is a regional play with focus on small ticket loans in Maharashtra (particularly Mumbai). Loan book has grown at 17% CAGR to INR58bn over FY11 - H1FY15.
  - Entire loan book constitutes retail loans.
  - Recognising the need to diversify, GICHF has started focusing on LAP and developer loans (as at Q2FY15, while LAP has scaled up and forms 10% of loans, housing loans still constitute 90%).
- Target audience is lower/middle income segments with presence in tier-I/II cities. Within these, base of salaried customer continues to remain key focus area.
- GICHF primarily relies on bank borrowings (72% of borrowings by way of term loans from banks).
- Asset quality has been consistently improving with GNPLs declining to 1.4% as at H1FY14. However, GNPLs are still comparatively higher vis-à-vis industry peers.
- With rating of A1+ or AA+/stable, GICHF has been able to curtail its cost of funds. This has also helped GICHF report NIM of 2.8% for FY14.

Focused on retail loans growing at 17% CAGR

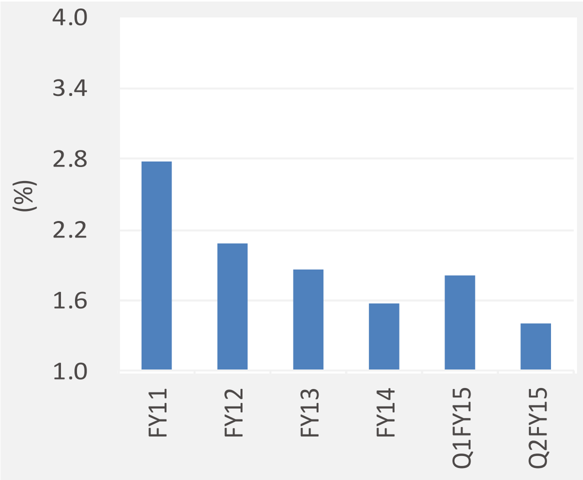


Source: Company

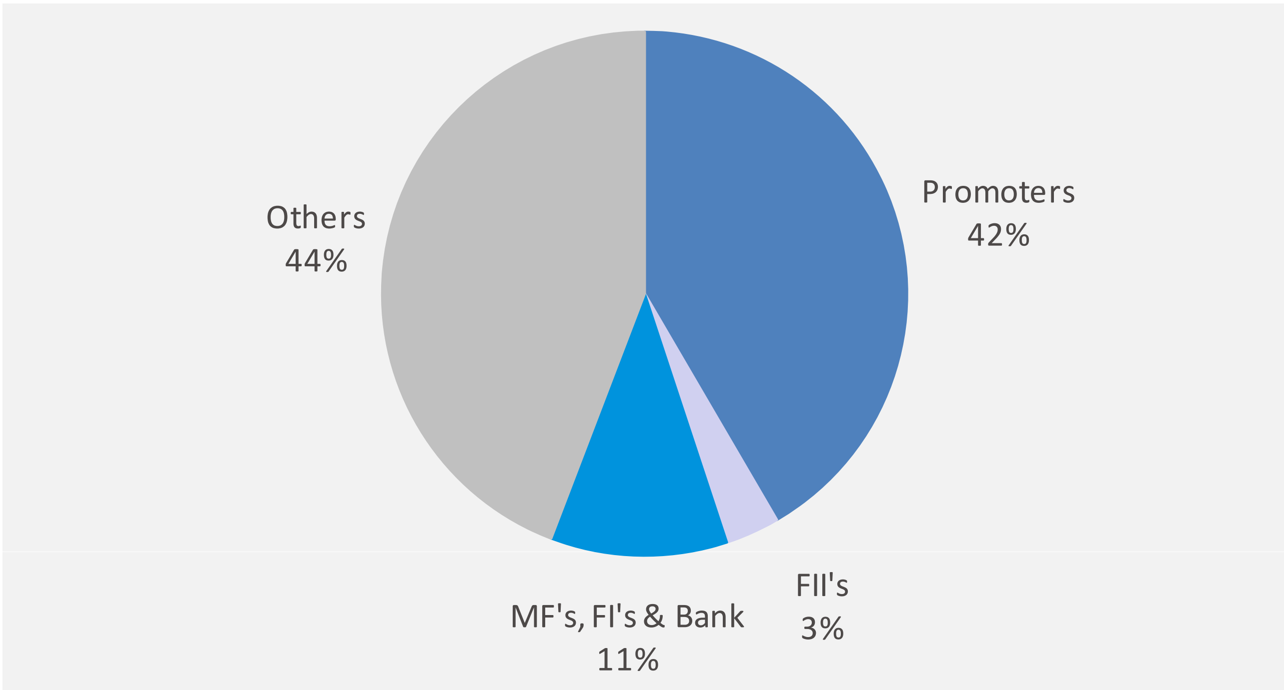
Bank loans constitute significant portion of borrowings



GNPLs though declining still higher than peers



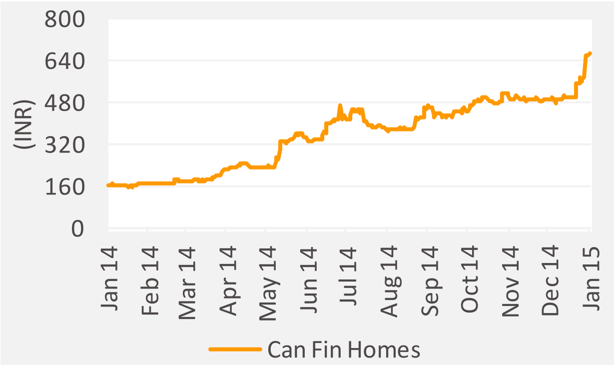
GIC Housing: Shareholding pattern

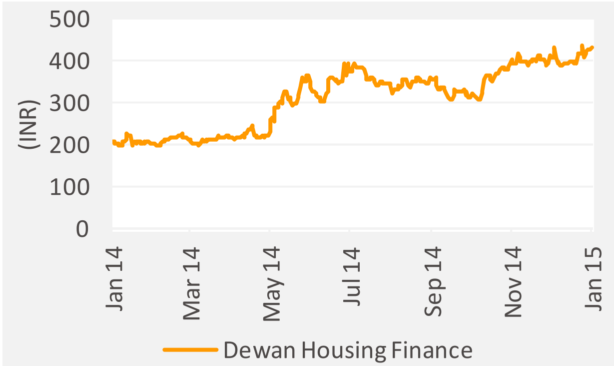


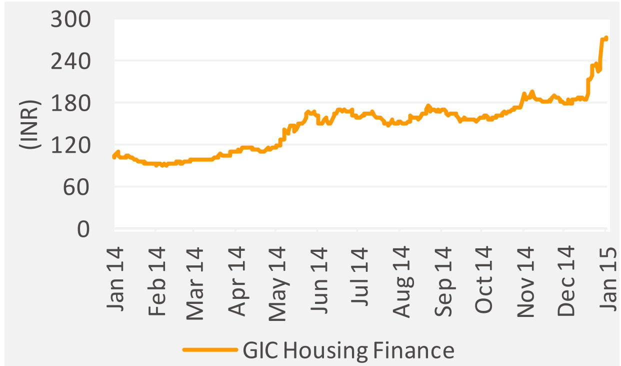
Source: BSE

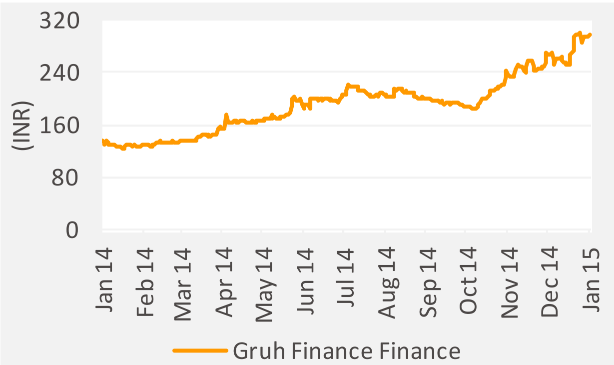
As per last available data

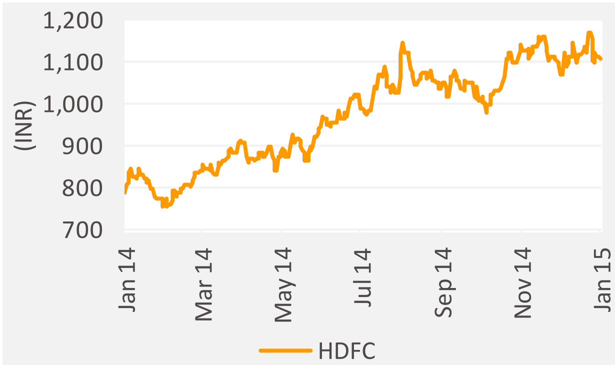
Companies one year price chart

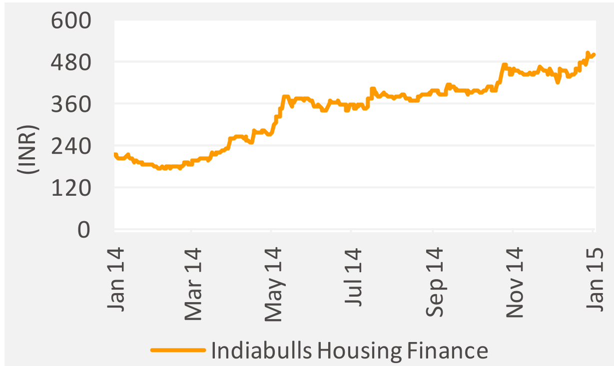


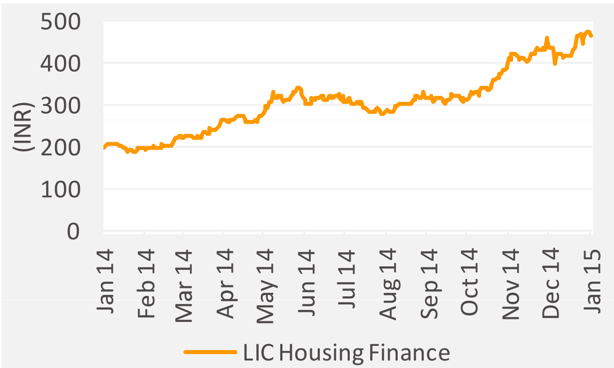


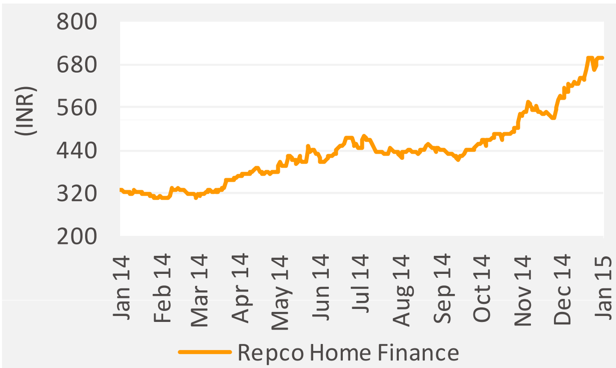












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