

Position strengthened among industry's best

Despite minor discrepancies in Q4 PAT due to capacity addition and forex losses, HUDCO'S (HUDCO IN) FY25 earnings showcased robust business growth and superior asset quality. Sustained business growth, coupled with consistent asset resolution and NIM expansion, is anticipated to prop HUDCO's RoE and RoA to 16% and 2.4%, respectively, in FY26E-FY27E, solidifying its position as a top-tier NBFC. Maintain BUY.

MTM/notional losses and high opex dent PAT: PAT was flat QoQ but rose 3.9% YoY to INR 7.3bn, surpassing estimates due to provision write-backs of INR 1.4bn. NII fell 2.2% QoQ but rose 26.3% YoY at INR 9.6bn, impacted by a high base, one-off Q3 income, notional losses and increased borrowing costs. Operating expenses surged 26.3% QoQ to INR 1.2bn due to the addition of 63 new employees, pushing cost/income to 11.8%. NIM for FY25 improved 4bps YoY to 3.22%, backed by yield expansion to 9.5% (9.04% in FY24), and is expected to improve further with a strong urban infra sanctions pipeline and lower incremental CoF at 6.75%.

Robust urban infra sanctions to drive business momentum: With a book of INR 1,248.3bn, up 5% QoQ/34.7% YoY, HUDCO is well-positioned to exceed FY26 target of INR 1,500bn, poised to clock in a 28.5% loan CAGR (25% CAGR in FY25-28E) and a 50% disbursement CAGR in FY24-27E, led by: 1) a calibrated entry into PPP models (HAM, BOT & focus on A-rated projects), 2) robust sanctions pipeline, up 128% YoY, to INR 358bn backed by projects in Maharashtra, Uttar Pradesh and Andhra Pradesh across sectors such as roads and urban mobility, 3) higher sanctions-to-disbursements at an 80% conversion rate.

Resolutions drive GNPA improvement; asset quality best in the industry: Asset quality improved significantly, with GNPA down 21bps QoQ/104bps YoY to 1.7%. Absolute GNPA fell 6% QoQ/17% YoY to INR 20.9bn, supported by resolution from long-standing NPAs in FY25. Of INR 20.9bn in NPA, INR 11.2bn (five accounts) is in NCLT with full provisioning, while INR 0.3bn (three accounts) outside NCLT is also fully provided for. The entire NPA pool is targeted for resolution within 18 months, with key accounts such as Shri Maheshwar, Konaseema (INR 1.02bn), Nagarjun Oil (INR 3.5bn) under active resolution. Anticipated resolutions of J&K project (INR 280-290mn) and Ahmedabad State asset (INR 1.24bn), which is in advanced auction stages with receipts likely in Q3FY26, may drive INR 4bn recoveries in FY26. One major account has been resolved in Q1. GNPA is expected to improve further to 1.2% by FY27E.

Reiterate BUY: We have maintained our estimates for FY26E-27E while introducing FY28E. A promising 25% AUM CAGR, anticipated NPA downcycle (with lowest order NPA of 1.2-1% by FY28) and RoEs stacking up to healthy 16% by FY27E-28E solidify HUDCO's position as a top-tier NBFC. The stock has seen >11% rally in the past month but has lurched for a fairly long period, reflecting tepid capex led project financing momentum in FY25. Said that, GoI's continued focus on infra segment (infusion of INR 10tn in the past three budgets), proactive participation by states, Co.'s planned forays into top notch PPP projects and PMAY-2 roll out may ensure sustained growth momentum. So, strong growth visibility underscored by efficient capital deployment (boosting RoEs) compel us to reiterate BUY. We retain our 2.7x FY27E P/ABV for a niche business model with TP at INR 361 (unchanged).

Key Financials

YE March	FY24	FY25	FY26E	FY27E	FY28E
NII (INR mn)	26,924	34,529	44,091	55,311	69,826
YoY (%)	8.7	28.2	27.7	25.4	26.2
PPoP (INR mn)	26,354	32,262	44,533	58,478	73,196
YoY (%)	18.9	22.4	38.0	31.3	25.2
PAT (INR mn)	21,167	27,091	32,793	41,029	51,396
YoY (%)	24.4	28.0	21.0	25.1	25.3
EPS (INR)	11	14	16	20	26
Core RoE (%)	13.2	15.7	15.8	16.0	17.0
RoA (%)	2.4	2.5	2.3	2.3	2.3
P/E (x)	20.0	15.6	12.9	10.3	8.2
P/ABV (x)	2.6	2.4	1.9	1.6	1.3

Note: Pricing as on 08 May 2025; Source: Company, Elara Securities Estimate

Rating: Buy

Target Price: INR 361

Upside: 71%

CMP: INR 211

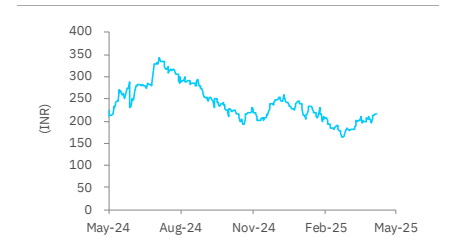
As on 08 May 2025

Key data

Bloomberg	HUDCO IN
Reuters Code	HUDC.NS
Shares outstanding (mn)	2,001.9
Market cap (INR bn/USD mn)	423/4,942
EV (INR bn/USD mn)	1,355/16,063
ADTV 3M (INR mn/USD mn)	1,705/20
52 week high/low	354/159
Free float (%)	25

Note: as on 08 May 2025; Source: Bloomberg

Price chart



Source: Bloomberg

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Shareholding (%)				
Promoter	75.0	75.0	75.0	75.0
% Pledge	0.0	0.0	0.0	0.0
FII	2.7	2.3	2.1	2.4
DII	11.7	9.2	9.8	9.7
Others	10.6	13.5	13.1	12.9

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	3.0	0.5	8.8
HUDCO	2.3	(3.2)	(5.5)
NSE Mid-cap	1.9	(2.5)	7.6
NSE Small-cap	(5.3)	(13.9)	(1.5)

Source: Bloomberg

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Financials (YE March)

Income statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
NII	26,924	34,529	44,091	55,311	69,826
Other income	1,638	371	2,321	5,242	6,558
Gross Income	29,883	36,009	47,837	62,687	79,032
Operating expenses	3,529	3,748	3,304	4,209	5,836
PPOP	26,354	32,262	44,533	58,478	73,196
Provisions	(2,081)	(4,105)	726	3,670	4,540
PBT	28,434	36,367	43,806	54,808	68,656
Tax	7,267	9,275	11,013	13,779	17,260
PAT	21,167	27,091	32,793	41,029	51,396
Balance Sheet (INR bn)	FY24	FY25	FY26E	FY27E	FY28E
Capital	20,019	20,019	20,019	20,019	20,019
Reserves and Surplus	146,124	159,679	215,486	256,515	307,911
Net worth	166,143	179,698	235,505	276,534	327,930
Borrowings	739,959	1,072,968	1,384,219	1,687,053	1,945,547
Other liabilities	28,139	32,308	39,250	95,357	272,393
Total Liabilities	934,241	1,284,974	1,658,974	2,058,944	2,545,870
Fixed assets	560	569	769	807	847
Loans	913,651	1,243,407	1,569,978	1,968,901	2,450,628
Net Current Assets	9,121	22,824	43,095	45,250	47,512
Other assets	10,910	18,173	45,132	43,986	46,882
Total Assets	934,241	1,284,974	1,658,974	2,058,944	2,545,870
Per Share data & Valuation Ratios	FY24	FY25	FY26E	FY27E	FY28E
EPS- (INR)	10.6	13.5	16.4	20.5	25.7
BV (INR)	83.0	89.8	117.6	138.1	163.8
ABV- (INR)	81.8	88.6	113.5	134.1	159.4
P/E- (x)	20.0	15.6	12.9	10.3	8.2
P/ABV-(x)	2.6	2.4	1.9	1.6	1.3
Yield and Cost (%)					
Yield on advances	8.8	9.4	9.2	9.2	9.1
Cost of Funds	7.2	7.4	7.0	7.0	7.2
Net Interest Margin (%)	3.1	3.2	3.1	3.1	3.2
Asset Quality (%)					
Gross NPA	2.7	1.7	1.6	1.4	1.2
Net NPA	0.4	0.3	0.5	0.6	0.6
% coverage of NPA	86.9	85.4	65.8	58.6	51.7
credit cost (calc)	(0.2)	(0.4)	0.1	0.2	0.2
Capital Adequacy					
Tier 1	64.7	50.5	50.1	46.4	42.8
CAR	64.8	50.6	50.3	46.6	42.9
Growth Rates					
Loan growth	14.8	34.7	25.8	25.4	24.5
Earnings growth	24.4	28.0	21.0	25.1	25.3
Business Ratios					
RoAA (%)	2.4	2.5	2.3	2.3	2.3
Core RoE (%)	13.2	15.7	15.8	16.0	17.0
Leverage (x)	5.4	6.4	7.1	7.3	7.6

Note: Pricing as on 08 May 2025; Source: Company, Elara Securities Estimate

Exhibit 1: Q4FY25 earnings

INR mn	Q4FY25	Q4FY24	YoY (% / bp)	Q3FY25	QoQ (% / bp)	Comments
Interest income	28,209	20,016	40.9	27,455	2.7	
Interest expenses	18,593	12,403	49.9	17,625	5.5	
Net interest income	9,616	7,613	26.3	9,831	(2.2)	NII declined 2.2% QoQ but grew 26.3% YoY to INR 9,616mn, missing estimates of INR 10,488mn on a higher base led by higher disbursements in Q3, one off income of INR 1,300mn reflecting in NII of Q3 and increased borrowings.
Other income	340	1,924	(82.3)	246	38.3	
Total income	9,957	9,537	4.4	10,077	(1.2)	
Total operating expenses	1,172	1,088	7.7	928	26.3	Operating expenses spiked 26.3% QoQ/7.7% YoY to INR 1,172mn, above estimates of INR 986mn. Cost/income spiked to 11.8%, up 256bps QoQ/26bps YoY.
Operating profit (PPOP)	8,784	8,449	4.0	9,148	(4.0)	PPOP was down 4.0% QoQ but up 4.0% YoY at INR 8,784mn, missing estimates of INR 9,765mn dragged by one off reflecting in Q3 NII and higher opex.
Provisions & write offs	(1,418)	(982)	44.4	(168)	742.2	Provision write backs stood at (INR 1,418mn) versus (INR 168mn) in last quarter, significantly boosting PAT.
PBT	10,203	9,431	8.2	9,317	9.5	
Tax	2,925	2,430	20.4	1,966	48.8	
Reported profit	7,277	7,002	3.9	7,350	(1.0)	PAT was flat QoQ but up 3.9% YoY at INR 7,277mn, beating estimates of INR 6,933mn due to provision write-backs.
Key ratios:						
Gross NPAs	20,907	25,130	(16.8)	22,340	(6.4)	Absolute GNPA stock at INR 20.9bn witnessed a decline of 6.4% QoQ/16.8% YoY.
Gross NPA (%)	1.67	2.71	(104.0)	1.88	(21 bps)	GNPA improved to 1.67% declining 21bps QoQ/104bps YoY

Source: Company, Elara Securities Research

Conference call – Key takeaways

Business updates

- ▶ HUDCO has fully transitioned into an NBFC-IFC and continues to operate as a multi-sector financing entity. It plays a strategic role in key GoI-led urban infrastructure initiatives—including metro, railways, hospitals, water supply, sewage, and drainage—under the oversight of MoHUA.
- ▶ In the past three Union Budgets, the GoI has consistently allocated over INR 10tn annually to infrastructure, with significant participation from states such as Maharashtra, Tamil Nadu, and Andhra Pradesh, creating strong tailwinds for business expansion.
- ▶ The loan book is targeted at INR 1.5tn by FY26 and INR 3tn by FY30. A calibrated entry into PPP models such as HAM and BOT is planned, with a strict focus on A-rated projects. No business targets are set in this segment to ensure quality is not compromised, with cautious stance on appraisal, risk evaluation, and third-party monitoring—especially given past learnings from earlier PPP exposures.
- ▶ Sanctions currently stand at INR 1.27tn, with disbursements at INR 400bn. Typically, around 3x of sanctioned amounts convert to disbursements, with a lag of around two years due to project gestation periods. The current sanctions are thus expected to translate into disbursements in the next two years.
- ▶ A committed pipeline of INR 2tn in sanctions is already in place, led by projects in Maharashtra, Uttar Pradesh, and across sectors such as roads and urban mobility, reinforcing the strong urban infrastructure financing potential. Disbursements have doubled YoY, aided by the momentum in sanctions, although time lags are inherent.
- ▶ To support growth, 63 new employees have been recruited, adding capacity for book building. This, along with reclassification of certain establishment-related expenses, has led to an uptick in overall employee-related costs.
- ▶ HUDCO remains actively engaged with states to vet projects early in the cycle, with funding decisions made later as project viability is confirmed. The targeted loan book of INR 1.5tn by FY26

is seen as achievable without compromising on asset quality, supported by opportunities such as the Urban Challenge Fund and PMAY 2.0.

- ▶ As per RBI's guidelines for NBFC-IFCs, 75% of exposure is mandated towards urban infrastructure, which includes affordable housing. No equity capital infusion is anticipated to meet current or planned growth.

Financial performance

- ▶ On account of dollar movement, due to the global uncertainty, MTM losses have been registered on P&L pertaining to USD borrowings (these are notional calculations, and no cash is involved).

Margin analysis

- ▶ GoI bonds maturing by 2028-29 may exert some pressure on CoF. Despite this, FY25 saw a 35bps reduction in CoF, defying prevailing challenges.
- ▶ CRAR remains strong at 50%.
- ▶ Fair value changes increased due to hedging and the downward movement of the dollar, leading to MTM and notional losses in the quarter.
- ▶ NIM guidance stands at 3.25–3.3%.
- ▶ A 15 bps CoF reduction is anticipated with the support of 54EC bonds. Additionally, a zero-coupon bond issuance of INR 50bn this year is expected to further ease CoF.
- ▶ The borrowing mix is evenly split between fixed-rate bonds and variable-rate instruments (linked to repo and MCLR). With 1–2 repo rate cuts likely, the plan is to raise more fixed-rate bonds and retire high-cost term loans early to optimize CoF. EBLR-linked loans from banks are also targeted for retirement.
- ▶ On the asset side, the average reset period is two years (ranging from 1–3 years), implying a one-year lag in rate transmission. In a declining rate environment, the company is well positioned to benefit.

Asset quality

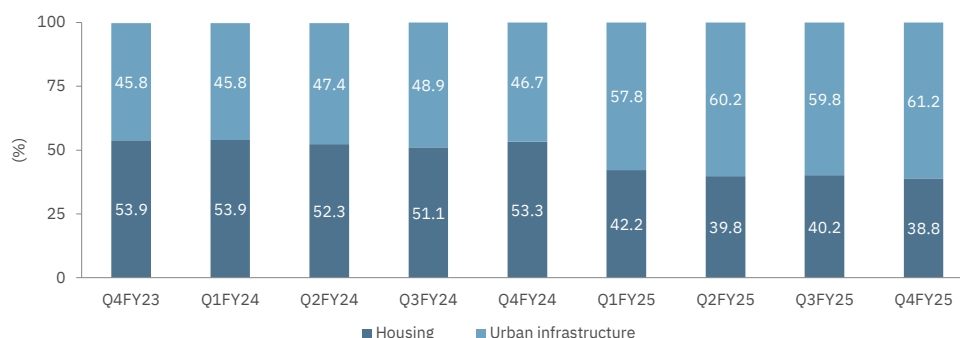
- ▶ Out of the total ~INR 20bn of NPAs, INR 11bn is under NCLT, with orders received for INR 8bn, and most projects now stand resolved. Accounts such as Konaseema (INR 1.02bn) and Nagarjun Oil (INR 3.5bn) have received NCLT orders. The entire INR 20bn is expected to be resolved within a maximum of 18 months.
- ▶ Provision write-backs of INR 6bn for FY25 comprised INR 3.5bn towards principal and the remaining towards interest as part of recovery. For FY26, INR 4bn of recoveries are expected, with one major account already resolved in Q1FY26.
- ▶ In J&K, exposure stands at INR 280–290mn. Given the sensitivity of the state, progress is cautious, but discussions are underway and resolution is expected soon. In Ahmedabad, exposure is INR 1,240mn. The asset value is strong, and a round of auction has already taken place, and the process is in an advanced stage. Receipts are expected in Q3FY26.

Exhibit 2: Business and financial metrics at a glance

Particulars (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
AUM	495,303	733,255	765,654	757,866	785,130	807,433	926,540	1,248,280	1,569,978	1,968,901	2,450,628
Growth YoY(%)	24.9	48.0	4.4	(1.0)	3.6	2.8	14.8	34.7	25.8	25.4	24.5
Disbursements	165,649	326,486	101,218	83,236	88,865	84,659	179,870	400,370	456,531	515,389	598,403
Growth YoY(%)	81.1	97.1	(69.0)	(17.8)	6.8	(4.7)	112.5	122.6	14.0	12.9	16.1
NII	17,384	23,951	26,348	24,078	23,555	24,764	26,924	34,529	44,091	55,311	69,826
Growth YoY(%)	16.9	37.8	10.0	(8.6)	(2.2)	5.1	8.7	28.2	27.7	25.4	26.2
Opex	2,601	3,302	3,935	3,579	3,649	3,634	3,529	3,748	3,304	4,209	5,836
Growth YoY(%)	48.3	27.0	19.2	(9.1)	1.9	(0.4)	(2.9)	6.2	(11.8)	27.4	38.7
Provisions	2,708	3,273	1,558	(736)	(2,457)	(737)	(2,081)	(4,105)	726	3,670	4,540
Growth YoY(%)	(8.9)	20.8	(52.4)	(147.3)	233.6	(70.0)	182.4	97.3	(117.7)	405.4	23.7
PAT	10,102	11,802	17,084	15,786	17,166	17,016	21,167	27,091	32,793	41,029	51,396
Growth YoY(%)	20.0	16.8	44.8	(7.6)	8.7	(0.9)	24.4	28.0	21.0	25.1	25.3
Net worth	99,430	109,558	123,435	131,891	144,683	154,452	166,143	179,698	235,505	276,534	327,930
Growth YoY(%)	9.6	10.2	12.7	6.9	9.7	6.8	7.6	8.2	31.1	17.4	18.6
EPS (INR)	5.0	5.9	8.5	7.9	8.6	8.5	10.6	13.5	16.4	20.5	25.7

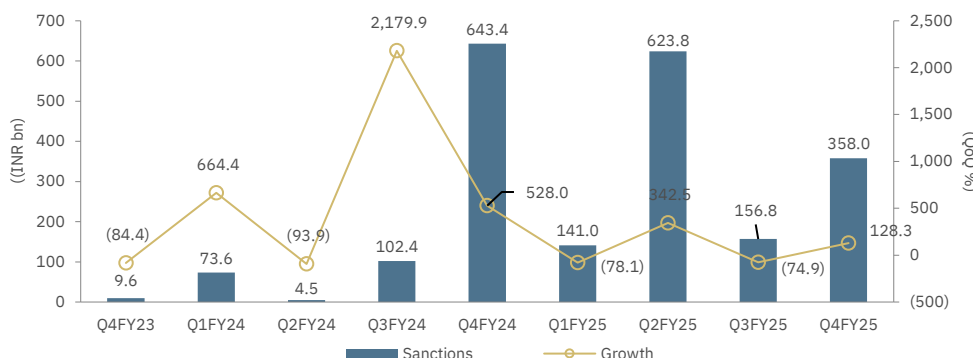
Source: Company, Elara Securities Estimate

Exhibit 3: Loan mix tilting towards urban infra assets



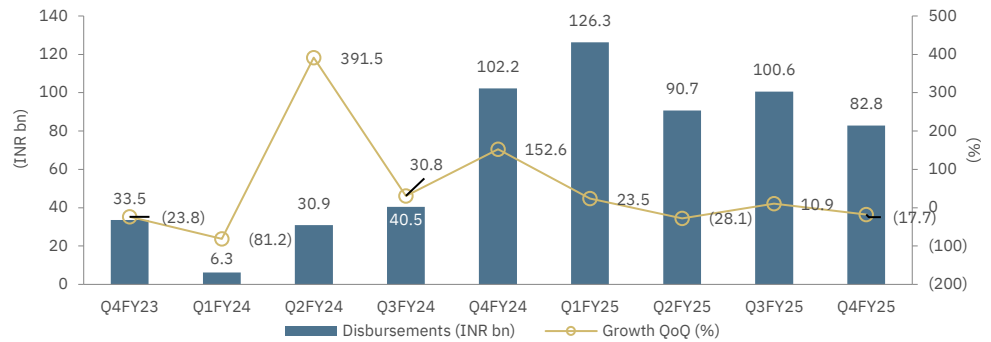
Source: Company, Elara Securities Research

Exhibit 4: Sanctions erratic over quarters with significant 128.3% QoQ boost in Q4



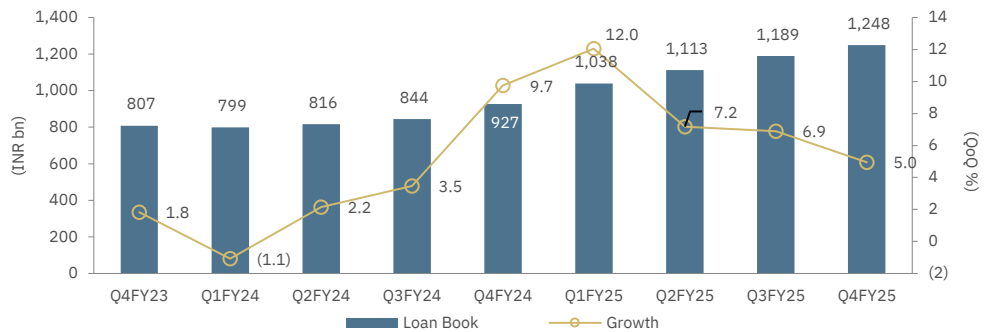
Source: Company, Elara Securities Research

Exhibit 5: Disbursements declined 17.7% QoQ; robust pipeline, however, to ensure growth



Source: Company, Elara Securities Research

Exhibit 6: Loan book grew by 5% QoQ to INR 1,248.3bn; target to reach INR 1,500bn by FY26-end



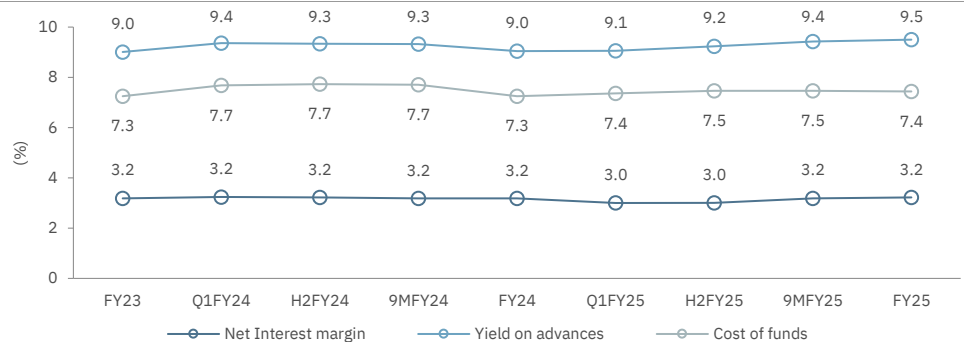
Source: Company, Elara Securities Research

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

	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Sanctions mix (%)									
Housing	3.9	5.1	0.3	3.9	4.9	0.0	0.0	0.0	12.4
Urban infrastructure	96.1	94.9	99.7	96.1	95.1	100.0	100.0	100.0	87.6
Loan mix (%)									
Housing	54.2	54.2	52.6	51.1	53.3	42.2	39.8	40.2	38.8
Urban infrastructure	45.8	45.8	47.4	48.9	46.7	57.8	60.2	59.8	61.2

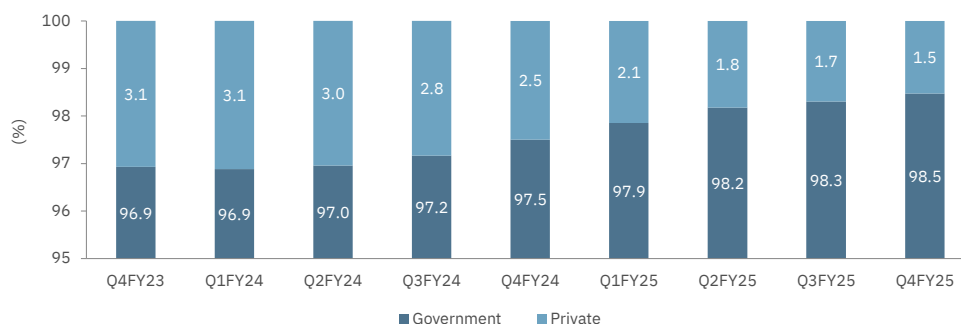
Source: Company, Elara Securities Research

Exhibit 8: NIMs improved marginally YoY for FY25 as focus shifts to Urban Infra



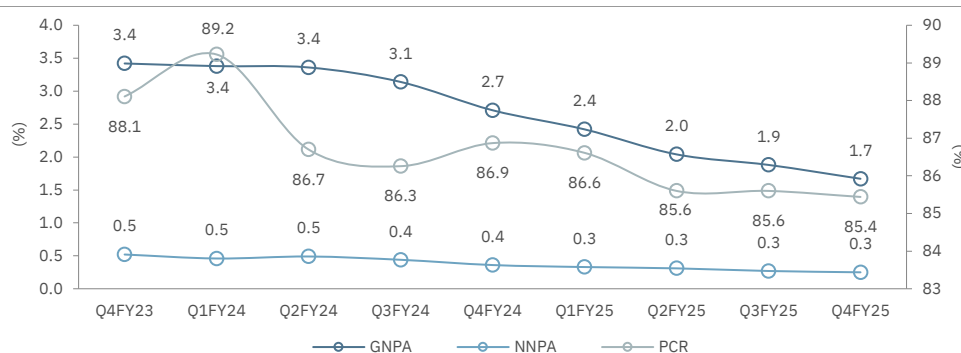
Source: Company, Elara Securities Research

Exhibit 9: Loans to government agencies form 98.5% of AUM as of Q4FY25



Source: Company, Elara Securities Research

Exhibit 10: Asset quality improved as GNPA declined to 1.7%



Source: Company, Elara Securities Research

Exhibit 11: Valuation

Fair price – EVA (INR)	318
Fair price – P/ABV (INR)	403
Target price (INR)	361
Target P/ABV (x)	2.7
Target P/E (x)	17.59
CMP (INR)	211
Upside (%)	70.5
Dividend yield (%)	-
Total return (%)	70.5

Source: Company, Elara Securities Estimates

Exhibit 12: Change in estimate

(INR mn)	Earlier		Revised		Change (%)		New
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	
Net interest income	47,339	61,541	44,091	55,311	(6.9)	(10.1)	69,826
Operating profit	43,920	56,850	44,533	58,478	1.4	2.9	73,196
PAT	32,930	41,169	32,793	41,029	(0.4)	(0.3)	51,396
EPS (INR)	16.5	20.6	16.38	20.50	(0.4)	(0.3)	25.67

Source: Company, Elara Securities Estimate

Coverage History



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

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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