CHOLA SECURITIES CALL A 'BUY' ON RELIANCE HOME FINANCE

CMP: 65 **Target: 91**

Robust loan book growth, while maintaining best in class asset quality

Government's push for Affordable Housing: 'Housing for All by 2022' to aid AUM growth: Implementation of RERA and revised GST rates, along with Government's push for Affordable Housing and flagship projects like Housing for All, have boosted sentiments of home buyers and the Housing finance industry (retail home loans) is expected to grow at a CAGR of 18-20% over FY18-20E. RELHF's loan book (ex-securitized portion) grew by a robust 48% CAGR over FY14-17 to INR 100.7bn and currently stands at INR 128.8bn as of 3QFY18 (recording 52% growth YoY), and we expect it to capitalize the ongoing uptick in housing demand and grow with similar momentum going forward, at a CAGR of 32% over FY17-FY20E.

Concentration in high yielding segments while maintaining stable asset quality: The company has created a niche for itself by concentrating on higher yielding segments like the self employed (constituting ~73% of Home loans) and Low income groups (Affordable Housing-currently comprising 20% of loan book portfolio), while with strict policy measures (w.r.t credit appraisal), in place, it has been able to bring down the NPA ratios to 0.8%(in 3QFY18) from 1% in FY17.

Digital support and low cost branches to aid in keeping Cost to Income (C/I) low: RELHF has digitalized various arenas in its loan processing (from sourcing to collections), thereby minimizing costs and has also set up low cost branches to garner to the needs of low income groups while also maintaining the cost to income ratio, which helped lower its C/I to ~39% in 3QFY18 from 51% in FY17.

Valuation: Robust loan book growth, coupled with improving cost efficiency, and well maintained asset quality should act as an catalyst to spur the earnings growth of the company. The stock is currently trading at 1.5X P/BV and 8.3X P/E of FY20E. We initiate coverage on Reliance Home Finance with a BUY rating and arrive at a target price of INR 91, assigning a P/BV of 1.9X.

Risks: Rising bond yields could put pressure on NIMs; asset quality deterioration as the share of riskier segment increases; rising competition in HFC space.