

## Retail Equity Research HDFC Ltd

NBFC

BSE CODE: 500010

NSE CODE: HDFC

Bloomberg CODE: HDFC:IN

SENSEX: 37,688

**BUY**

12M Investment period

Rating as per Large cap

CMP Rs. 1,784 TARGET Rs. 2,230 RETURN 25% ↑  
(Closing: 04-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Outlook remains promising with robust AUM

Housing Development Finance Corporation Limited provides housing finance to individuals and corporates in India. HDFC also provides construction finance to real estate developers and provides lease financing.

- Gross loans grew 11.8% YoY while net loans grew 10.5% YoY due to increased provision in Q1FY21.
- In Q1FY21, Net interest margin (NIM) was at 3.1% (3.3% in 1QFY20), while net interest income rose 10.2% YoY.
- Net profit declined by 4.7% YoY to Rs. 3,052cr mainly due to reduced sale of Investments in Q1FY21 and increased provision on YOY level.
- Gross NPL at 1.87% in Q1FY21 (vs. 1.99% last quarter)
- With improved affordability in last 2.5 decades, enhanced fiscal initiatives and credit linked subsidy scheme from government, we expect demand to pick up and hence reiterate our BUY rating on the stock, with a revised target price of Rs. 2,230, based on SOTP valuation.

### Skewed NIM due to negative carry on higher liquidity

Net interest income increased by 10.2% YoY to Rs. 3,392cr, though NIM dropped to 3.1% in Q1FY21 vs. 3.3% in Q1FY20, impacted due to negative carry on account of significantly higher liquidity of Rs. 181cr. The Company recorded a cost-to-income ratio of 9.0%. Higher provisions and increase in operating expenses led to decline in profit before tax (-9.5% YoY) to Rs. 3,607cr. Net profit for the quarter came in at Rs. 3,052cr (-4.7% YoY), supported by lower taxes. The average size of individual loans stood at Rs. 24.6 lac (vs. Rs. 27 lac in FY20) on the account of lockdown in Tier 1 cities.

### Momentum in Non-Individual loan book growth

HDFC's loan book increased 11.8% YoY to Rs. 465,685r in Q1FY21 (Rs. 416,597cr in Q1FY20). Individual loan book rose 10.4% YoY, while non-individual loan grew at 15.2% YoY during the quarter. Individuals AUM stood at Rs. 3,942bn (~11.0% YoY) while Non-Individuals AUM stood at Rs. 1,374bn (~15.0% YoY). Due to RBI guidelines on moratorium, 22.6%/16.6% of Individual loans and 27.0%/22.4% of total loans under management had opted for moratorium 1 and moratorium 2 respectively.

### Better Asset quality

Gross NPA declined 3.1% sequentially to reach Rs. 8,631cr in Q1FY21 (vs. Rs. 8,908cr in Q4FY20), which is equivalent to 1.87% of loan portfolio in 1QFY21 (vs. 1.99% in last quarter). Provisions stood at Rs. 12,285cr with 2.6% exposure at default. Capital adequacy ratio was at 17.3%, while Tier 1 capital was 16.2% and Tier 2 capital was 1.1%, well above the minimum requirement of 14.0%. The company made provisions of Rs. 1,199cr in Q1FY21 (+34.7% YoY; Q1FY20: Rs. 890cr), including a COVID-19 provision of Rs. 404cr.

### Outlook & Valuation

We expect both individual/non-individual loans to support earnings in the upcoming quarters with improved affordability, enhanced fiscal initiatives and credit linked subsidy scheme from government. We reiterate our BUY rating on the stock with a revised target price of Rs. 2,230 using the sum-of-the-parts (SOTP) valuation methodology (SOTP table on page 2).

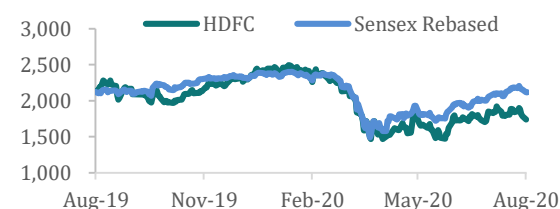
#### Company Data

Market Cap (cr)	Rs. 309,407
Outstanding Shares (cr)	173.2
Free Float	100.0%
Dividend Yield	1.2%
52 week high	Rs. 2,500
52 week low	Rs. 1,473
6m average volume (lacs)	2.7
Beta	1.2
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	0.0	0.0	0.0
FII's	72.8	70.9	70.2
MFs/Insti	16.7	18.0	18.5
Public	8.0	8.2	8.4
Others	2.6	2.9	2.9
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-7.2%	-23.0%	-18.1%
Absolute Sensex	9.6%	-7.4%	-0.5%
Relative Return*	-16.8%	-15.6%	-17.6%

\*over- or underperformance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	13,872	13,170	15,908
Growth (%)	12.6	(5.1)	20.8
NIM (%)	2.9	2.4	2.6
Pre-provision Profit	26,264	16,195	18,346
Net Profit	17,770	9,752	12,927
Growth (%)	84.5	(45.1)	32.5
Adj. EPS	102.1	56.0	74.3
Growth (%)	82.1	(45.1)	32.5
BVPS	495.1	530.8	579.9
P/E	17.0	31.0	23.4
P/B	3.5	3.3	3.0
P/ABV	3.8	3.4	3.1
ROE (%)	21.7	10.9	13.4
ROA (%)	3.6	1.7	2.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	11,209	10,818	3.6	11,205	0.0
Interest Expense	7,817	7,739	1.0	7,662	2.0
<b>Net Interest Income (NII)</b>	<b>3,392</b>	<b>3,079</b>	<b>10.2</b>	<b>3,543</b>	<b>(4.3)</b>
Non-Interest Income	1,810	2,178	(16.9)	777	133.0
<b>Total Net Income</b>	<b>5,202</b>	<b>5,257</b>	<b>(1.0)</b>	<b>4,320</b>	<b>20.4</b>
<b>Total Income</b>	<b>13,019</b>	<b>12,996</b>	<b>0.2</b>	<b>11,982</b>	<b>8.7</b>
Operating Expenses	396	382	3.8	353	12.1
<b>Total Expenditure</b>	<b>8,213</b>	<b>8,121</b>	<b>1.1</b>	<b>8,015</b>	<b>2.5</b>
<b>Pre-Provision profit</b>	<b>4,806</b>	<b>4,875</b>	<b>(1.4)</b>	<b>3,966</b>	<b>21.2</b>
Provisions	1,199	890	34.7	1,274	(5.9)
<b>Profit Before Tax</b>	<b>3,607</b>	<b>3,985</b>	<b>(9.5)</b>	<b>2,693</b>	<b>34.0</b>
Tax	555	782	(29.0)	460	20.7
<b>Net Profit</b>	<b>3,052</b>	<b>3,203</b>	<b>(4.7)</b>	<b>2,233</b>	<b>36.7</b>
EPS - Diluted (Rs.)	17.6	18.5	(5.0)	12.8	37.5

### Business Performance (Rs. cr)

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
AUM	531,555	475,933	11.7	516,773	2.9
Loans	465,685	416,597	11.8	450,903	3.3
Borrowings	<b>432,059</b>	<b>374,884</b>	<b>15.3</b>	<b>419,102</b>	<b>3.1</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	15,041	17,249	13,170	15,908	(12.4)	(7.8)
Net Interest Margin (%)	2.8	2.9	2.4	2.6	(359bps)	(319bps)
Pre-Provision Profit	17,759	19,457	16,195	18,346	(8.8)	(5.7)
Net Profit	12,197	13,911	9,752	12,927	(20.0)	(7.1)
EPS (Rs.)	70.6	80.6	56.0	74.3	(20.6)	(7.8)

### Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
HDFC (Standalone)	FY22E P/BV	1.7x	100%	1,71,533	986
HDFC Bank	Geojit TP	-	21%	1,63,590	940
Life Insurance	Geojit TP	-	51%	70,428	405
General Insurance	FY22E P/BV	1.7x	51%	4,874	28
Asset Management	Geojit TP	-	53%	28,736	165
Bandhan Bank	Geojit TP	-	10%	3,331	19
(20% holding discount)				(54,463)	(313)
<b>Total</b>				<b>3,88,029</b>	<b>2,230</b>

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	33,827	40,155	44,873	49,771	57,926
Interest Expense	23,498	27,838	31,001	36,600	42,018
<b>Net Int. Income</b>	<b>10,329</b>	<b>12,317</b>	<b>13,872</b>	<b>13,170</b>	<b>15,908</b>
% Change	(4.4)	19.2	12.6	(5.1)	20.8
Non-Int. Income	6,880	3,223	14,046	4,943	4,636
<b>Net Income</b>	<b>17,209</b>	<b>15,540</b>	<b>27,918</b>	<b>18,114</b>	<b>20,544</b>
<b>Total Income</b>	<b>40,707</b>	<b>43,378</b>	<b>58,919</b>	<b>54,714</b>	<b>62,562</b>
Operating Exp.	1,905	1,486	1,654	1,919	2,198
<b>Total Exp.</b>	<b>25,403</b>	<b>29,324</b>	<b>32,655</b>	<b>38,519</b>	<b>44,216</b>
<b>Pre-Prov. Profit</b>	<b>15,304</b>	<b>14,054</b>	<b>26,264</b>	<b>16,195</b>	<b>18,346</b>
Provisions	2,115	935	5,913	3,692	1,773
<b>PBT</b>	<b>13,189</b>	<b>13,119</b>	<b>20,351</b>	<b>12,503</b>	<b>16,573</b>
Tax	2,230	3,486	2,581	2,751	3,646
Tax Rate (%)	17	27	13	22	22
<b>Net profit</b>	<b>10,959</b>	<b>9,633</b>	<b>17,770</b>	<b>9,752</b>	<b>12,927</b>
Adjustments	0	0	0	0	0
<b>Adj. Net Profit</b>	<b>10,959</b>	<b>9,633</b>	<b>17,770</b>	<b>9,752</b>	<b>12,927</b>
% Change	47.2	(12.1)	84.5	(45.1)	32.5
No. of Shares (cr)	165	172	174	174	174
Adj. EPS (Rs.)	66.5	56.1	102.1	56.0	74.3
% Change	45.5	(15.6)	82.1	(45.1)	32.5
DPS (Rs.)	16.5	17.5	21.0	20.5	25.5

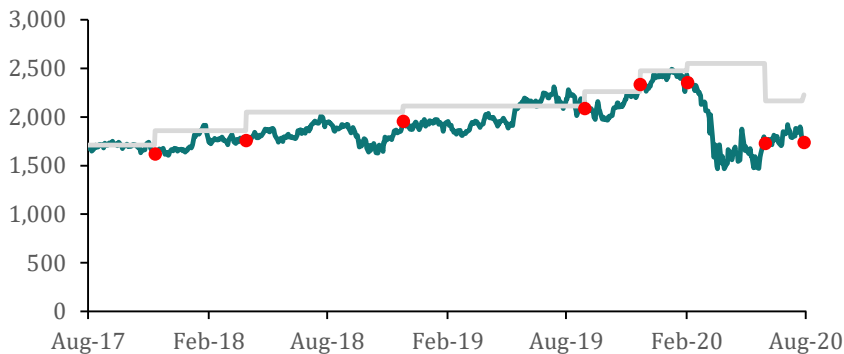
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	1,232	361	3,142	3,456	3,802
Investments	30,717	46,240	64,944	91,214	1,28,110
Advances	3,57,381	4,00,760	4,39,943	4,82,958	5,30,179
Fixed Assets	645	651	1,349	1,416	1,487
Other Assets	8,935	10,765	14,715	15,451	16,223
<b>Total Assets</b>	<b>3,98,910</b>	<b>4,58,778</b>	<b>5,24,094</b>	<b>5,94,495</b>	<b>6,79,801</b>
Capital	335	344	346	346	346
Reserves & Surplus	64,930	77,011	85,812	92,024	1,00,555
Deposits	91,269	1,05,599	1,32,324	1,48,203	1,65,988
Borrowings	2,22,947	2,54,167	2,81,777	3,21,226	3,66,198
Other Liabilities	19,429	21,656	23,834	32,696	46,713
<b>Total Liabilities</b>	<b>3,98,910</b>	<b>4,58,778</b>	<b>5,24,094</b>	<b>5,94,495</b>	<b>6,79,801</b>
<b>BVPS (Rs.)</b>	<b>395.9</b>	<b>450.3</b>	<b>495.1</b>	<b>530.8</b>	<b>579.9</b>
<b>Adj. BVPS (Rs.)</b>	<b>378.2</b>	<b>430.4</b>	<b>456.9</b>	<b>505.9</b>	<b>558.5</b>
% Change	47.4	13.8	6.2	10.7	10.4

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Valuation</b>					
P/E (x)	26.9	35.1	17.0	31.0	23.4
P/BV (x)	4.5	4.4	3.5	3.3	3.0
Div. Yield (%)	0.9	0.9	1.2	1.2	1.5
<b>Profitab. &amp; Return (%)</b>					
Yield on Funds	9.5	9.4	9.2	9.2	9.4
Cost of Funds	8.0	8.3	8.0	8.3	8.4
Spread	1.5	1.2	1.2	0.9	1.0
NIM	3.3	3.3	2.9	2.4	2.6
ROE	21.0	20.4	21.7	10.9	13.4
ROA	2.5	2.1	3.6	1.7	2.0
<b>Capital Adequacy (%)</b>					
CAR	19.2	19.1	17.6	17.0	16.7
Tier I	17.3	17.5	16.5	15.9	15.8
Tier II	1.9	1.6	1.1	1.1	0.9
<b>Asset Quality (%)</b>					
GNPA	1.1	1.2	2.0	1.4	1.7
NNPA	0.8	0.8	1.5	0.9	0.7
<b>Operating Ratios (%)</b>					
Cost/ Income	11.1	9.6	5.9	10.6	10.7

## Recommendation Summary



Dates	Rating	Target
03-Feb-17	HOLD	1,510
25-May-17	BUY	1,710
16-Nov-17	BUY	1,859
04-Apr-18	BUY	2,051
30-Nov-18	HOLD	2,112
03-Sep-19	HOLD	2,260
27-Nov-19	HOLD	2,474
07-Feb-20	HOLD	2,550
08-Jun-20	BUY	2,166
04-Aug-20	BUY	2,230

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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