1 July 2020

Update | Sector: Financials - NBFC

HDFC

BSE SENSEX	S&P CNX
35,414	10,430

Stock Info

Bloomberg	HDFC IN
Equity Shares (m)	1,721
M.Cap.(INRb)/(USDb)	3183.4 / 40.3
52-Week Range (INR)	2500 / 1473
1, 6, 12 Rel. Per (%)	-1/-10/-8
12M Avg Val (INR M)	10084
Free float (%)	100.0

Financials Snapshot (INR b)

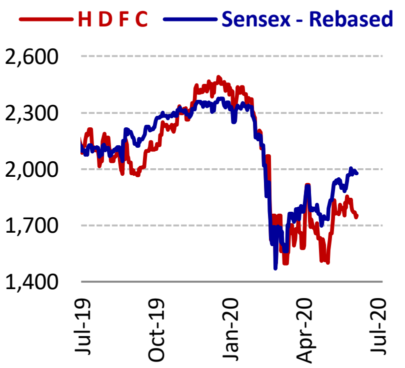
Y/E March	2020	2021E	2022E
Core PPoP	128	138	152
Adj. PAT	96	103	111
Adj. EPS (INR)	49.2	48.0	51.0
EPS Gr. (%)	10.8	-2.4	6.2
BV/Sh. (INR)	538	577	619
ABV/Sh. (INR)	412	451	494
Core RoA (%)	1.8	1.6	1.5
Core RoE (%)	13.4	11.1	10.8
Payout (%)	23.8	43.5	43.5
Valuation			
AP/E (x)	19.6	17.4	13.2
P/BV (x)	3.4	3.2	3.0
AP/ABV (x)	2.3	1.8	1.4
Div. Yield (%)	1.1	1.3	1.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	0.0	0.0	0.0
DII	18.0	16.7	16.7
FII	70.9	72.8	72.4
Others	11.1	10.6	10.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,835 **TP: INR2,150 (+17%)** **Buy**

Well-placed to capture market share

Tier I strong at 16%+ | Provisions > GNPA | Deposits 1/3rd of liabilities

- **HDFC is well-placed in the current environment to capture profitable market share. The company has access to low cost of funds, a strong ALM position, comfortable leverage, and adequate provisioning on the balance sheet.**
- **While the Tier-I ratio is healthy at 16.6%, it is likely to improve further with the proposed INR140b capital raise and stake sale in the Insurance business. This would help HDFC face any contingency, fund its own growth requirement, and further capture any inorganic opportunities at the parent (portfolio buyouts) and subsidiary levels (M&A opportunities).**
- **The share of retail customers (by value) that availed moratorium declined ~700bp in the second phase v/s the first phase. On the other hand, the share of corporate loans under moratorium remains high at 40%. However, we derive comfort from the fact that in the past four years, HDFC has quadrupled its provision buffer to INR110b; thus, its provisions now exceed its outstanding GNPLs.**
- **HDFC's most of subsidiaries are among the top three players in their respective segments. The company continues to support them when needed; for example, it infused INR85b equity capital in HDFCB in FY19 and is likely to do so again in the future, in our view. Importantly, the value contribution of subsidiaries/associates has been increasing; they now contribute ~54% to our SOTP v/s 37% five years ago and 34% 10 years ago (refer to Exhibit 29).**
- **Due to the COVID-19 crisis, near-term growth is likely to be challenging. However, the medium- to long-term outlook remains strong, especially given the much lower competitive intensity within housing finance companies (HFCs). Sharp decline in incremental cost of funds over the past three months would help maintain stable spreads at 2.1-2.3%. Maintain Buy, with SOTP (FY22E-based) of INR2,150.**

Stable growth across time periods; long-term opportunities intact

Over the last 5/10 years, HDFC has reported a stable retail AUM CAGR of 17%/19%. Despite its size, it has grown faster than its next largest peer (LICHF – five-year retail AUM CAGR of 9%). **Importantly, growth over the last three to four years has been driven by volumes rather than value, which is a positive.** We expect this trend to continue, especially given the strong momentum in the Affordable Housing Finance segment – 36% of loan approvals by volume are toward the Economically Weaker Sections (EWS) and Low Income Group (LIG) segments. While growth would take a backseat in the near term, we are confident of 12–15% retail AUM growth from FY22.

Low net credit loss; proactive NPL recognition

Given the high share of salaried customers (75%+) and Tier-I developers, HDFC has always maintained an excellent asset quality. **Its total write-offs since inception are barely 14bp of its cumulative disbursements.** The book quality is evident in the low moratorium numbers. In the Non-Retail segment, HDFC proactively recognized NPAs to expedite the resolution via recovery proceedings or account restructuring. Over one-third of the corporate NPLs are stuck in National Company Law Tribunal (NCLT) proceedings; as and when these get resolved, the company would be able to recover money and reverse provisions.

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Provisions exceed NPLs; buffer adequate for ~10% of loans

Whenever HDFC reports windfall gains, it adds 30% of these gains to its provision buffer. As a result, the total provisions now stand at ~INR110b (2.4% of loans) v/s INR90b of GNPLs (2.0% of loans). **As per our analysis, HDFC's provision buffer is adequate even in the scenario of ~10% of the loan book turning stressed (refer to Exhibit 12).** Note that in our calculation, we have not factored additional one-off provisions that could arise from subsidiary stake sales in the future.

Smart treasury management; key beneficiary of current risk aversion

Historically, HDFC has effectively managed spreads over cycles with proactive treasury management. For example, in downward rate cycles, it has availed short-term borrowings to gain from interest rate declines. It has further engaged in fixed-to-floating rate swaps to gain on cost of funds. In upward rate cycles, it has borrowed at fixed rates for long durations, while proactively increasing home loan rates on the asset side to manage spreads. **HDFC has also been a key beneficiary of targeted long-term repo operations (TLTRO), which happened in April and May. Currently, it is able to raise one- to three-year money at 6.5–7.0%. Its public deposit rates are also attractive at 7% across tenures.**

Clear outperformer among HFCs; valuations attractive

HDFC is among the few companies that have delivered a steady performance in an otherwise cyclical sector. In addition to its disciplined growth, we like its lean cost structure, competitive advantage on borrowings (leading to a lower-risk book), and the ability to resolve stressed corporate exposures. **Given its strong asset quality and high capitalization, net NPLs account for just 8% of core networth (excluding investments in subsidiaries).** Its subsidiaries have also outperformed peers in their respective segments. While the current stock price reflects the near-term issues impacting the economy, it undervalues the company's long-term potential. As stability returns gradually with the staggered unlocking of the economy, we expect HDFC to re-rate faster than peers with comfortable liquidity and capital situation. **Maintain Buy, with TP of INR2,150 (FY22E SOTP based).**

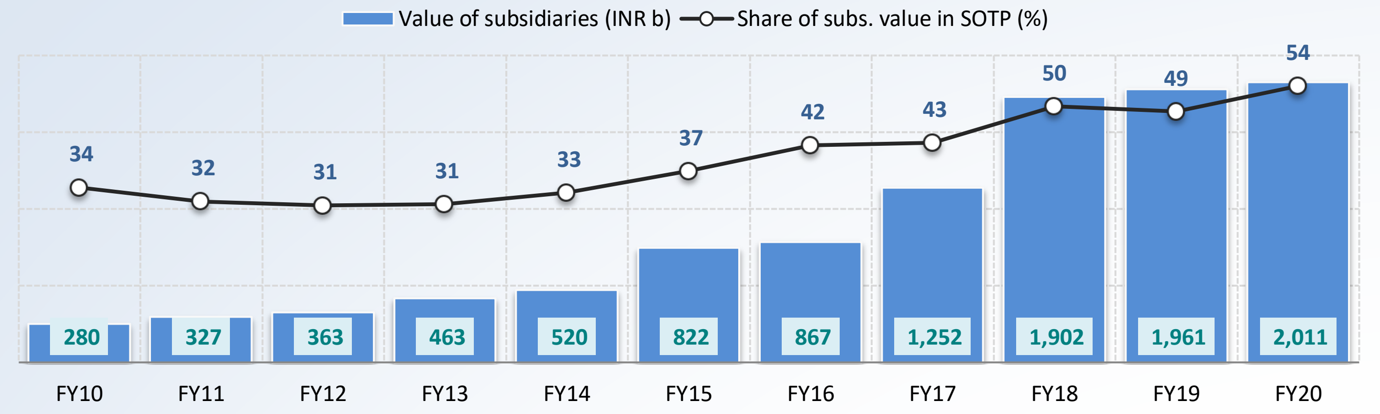
Exhibit 1: SOTP (FY22E-based)

Particular	Stake	Value (INR b)	Value (USD b)	Value/Sh. (INR)	% of total	Target Multiple (x)	Rationale
Core business		**1,710**	**24.4**	**987**	**45.9**	**2.0**	**PBV**
Key Ventures							
HDFC Bank	21.4	1,402	20.0	811	37.7	3.0	PBV
HDFC Standard Life	51.6	548	7.8	317	14.7	3.4	PEV
HDFC AMC	52.8	312	4.5	180	8.4		CMP
HDFC ERGO GIC	50.7	94	1.3	54	2.5	6.0	PBV
Bandhan Bank	10.0	102	1.5	59	2.7	2.6	PBV
Other Invt/Excess NW		56	0.8	32	1.5	1.0	Invested Capital
Total Value of Ventures		**2,514**	**35.9**	**1,453**	**67.6**		
Less: 20% holding discount		503	7.2	291	13.5		
Value of Key Ventures		**2,011**	**28.7**	**1,163**	**54.1**		
SOTP		**3,721**	**53.2**	**2,150**	**100.0**		
CMP		3,178	45.4	1,835			
Upside - %		**17.1**	**17.1**	**17.1**			

Source: MOFSL, Company

KEY CHARTS

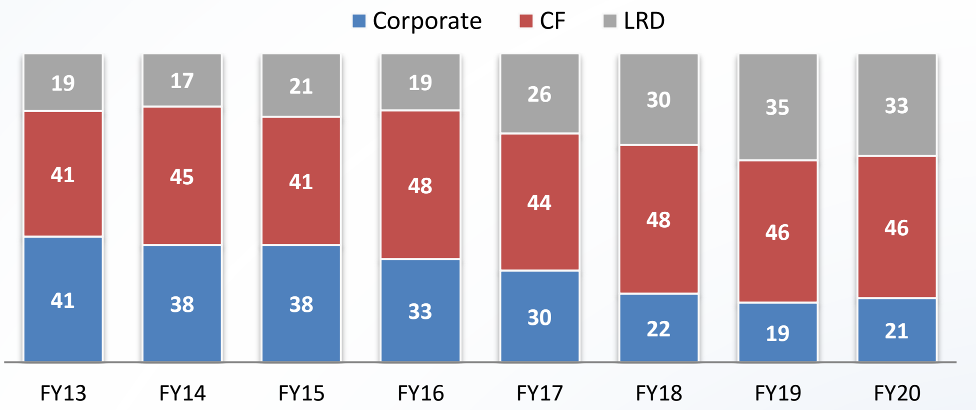
Exhibit 2: Share of subsidiaries' value in SOTP on the rise



Source: MOSL, Company

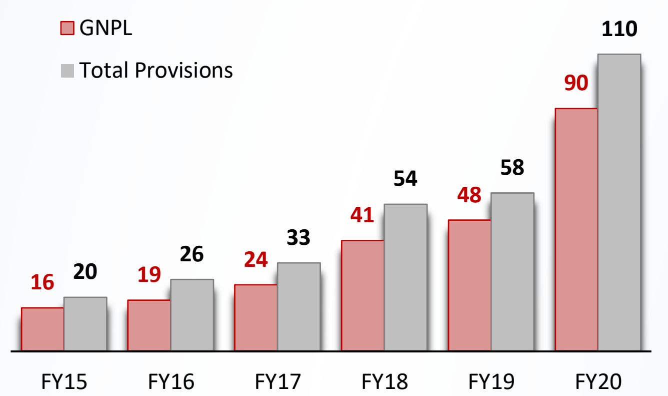
Share of corporate term loans in total wholesale lending declining

Exhibit 3: Corporate AUM moving toward lower risk assets (%)



Note: CF stands for Construction Finance and LRD stands for Lease Rental Discounting; Source: MOFSL, Company

Exhibit 4: Provisions exceed GNPLs (INR b)



Source: MOFSL, Company

Exhibit 5: Total provision coverage much higher than peers

Company	GNPL (INR b)	Total Provisions (INR b)	Total PCR (%)
HDFC	89.7	109.9	122.5
LICHF	56.2	25.8	46.0
PNBHF	12.1	8.8	73.0
CANFIN	1.6	0.4	26.2
REPCO	4.9	1.7	35.6
AAVAS	0.3	0.2	74.2

Source: MOFSL, Company

Consistent growth across cycles

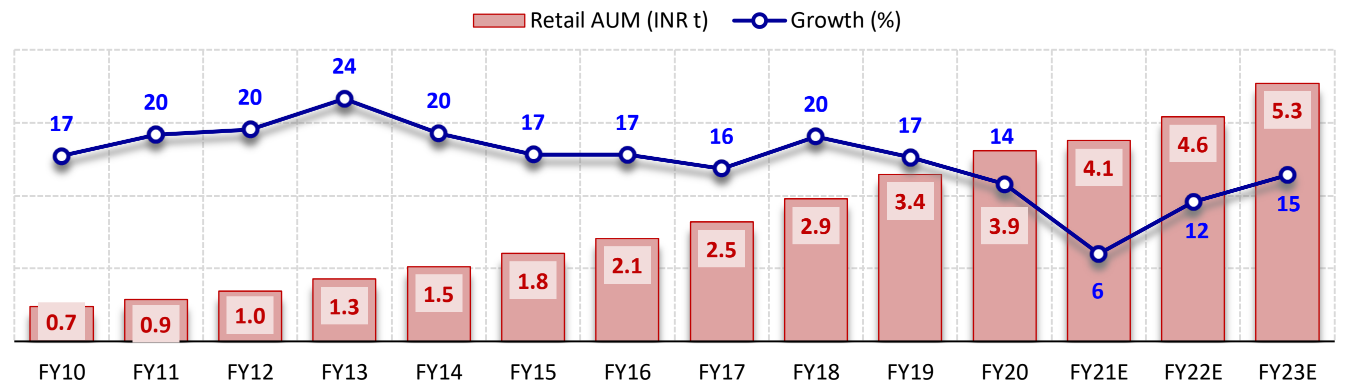
Regaining MS despite high competitive intensity from banks

19% retail AUM CAGR over the past decade

Steady growth in retail lending

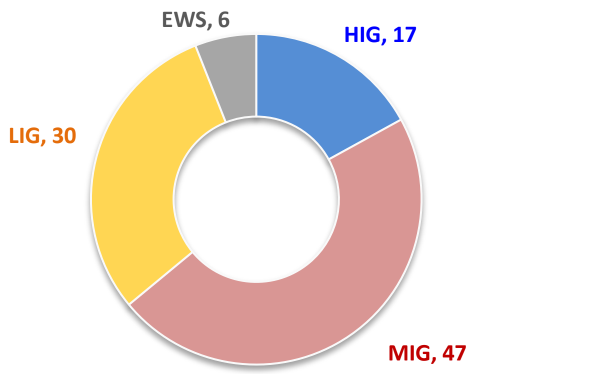
- Over the last 5/10 years, HDFC has reported a stable retail AUM CAGR of 17%/19%. The company witnessed the slowest growth in FY20 at 14% YoY.
- The company has scaled up well in the Affordable Housing Finance segment. The **average monthly approvals in the EWS and LIG segments have increased to ~9,400 from ~8,000 in the past two years.** The segment accounts for 36% of approvals by volume and 18% by value.
- In the pre-COVID-19 era, HDFC saw INR80–90b worth of monthly retail disbursements. While these came off sharply in April (negligible) and May (25% of monthly run-rate), disbursements reversed to 45–50% of the monthly run-rate in June. **Hence, growth in overall retail disbursements may come off by 25%+ YoY in FY21, but pick up strongly in FY22. The lifting of the lockdown, especially in the large / top seven cities that contribute 55%+ to the company's business, may come as a welcome surprise.**

Exhibit 6: 19% retail AUM CAGR in last decade; 12%+ CAGR expected in medium term on a higher base



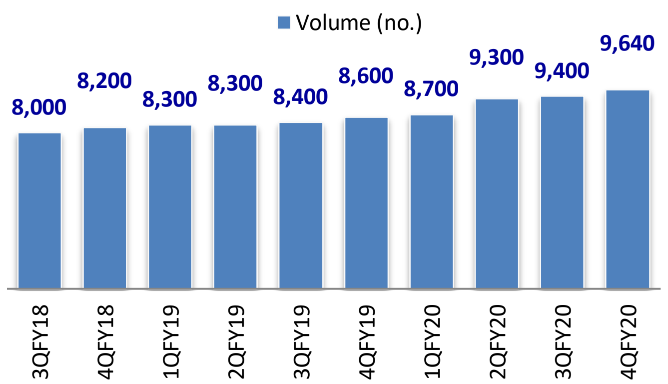
Source: MOFSL, Company

Exhibit 7: Mix of approvals in volume terms (%)



Source: MOFSL, Company; Note: LIG/MIG/HIG stands for Low/Middle/High Income Group and EWS for Economically weaker section

Exhibit 8: Average monthly volumes in EWS + LIG segments



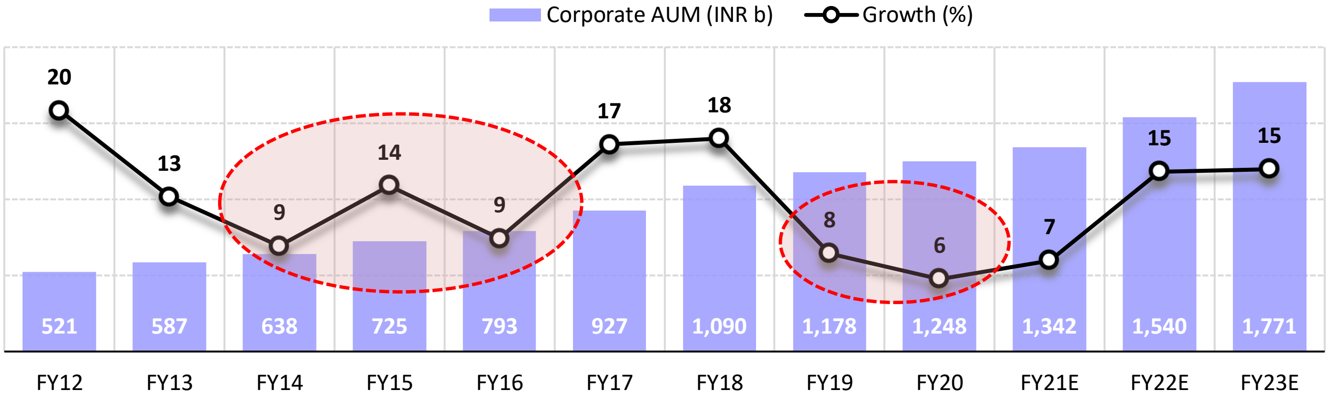
Source: MOFSL, Company

7% corporate AUM CAGR over the past two years

Opportunistic corporate loan growth

- Corporate lending, on the other hand, has been more opportunistic. For example, over FY13–16, corporate loan growth slowed to 11% YoY from 20%+ YoY earlier as the company turned cautious about corporate term loans due to a hyper-competitive scenario.
- Once again, post the IL&FS crisis, the corporate loan CAGR declined to 7% over FY18–20 amid weak macros and funding challenges among peers.

Exhibit 9: Corporate AUM growth has been more cyclical



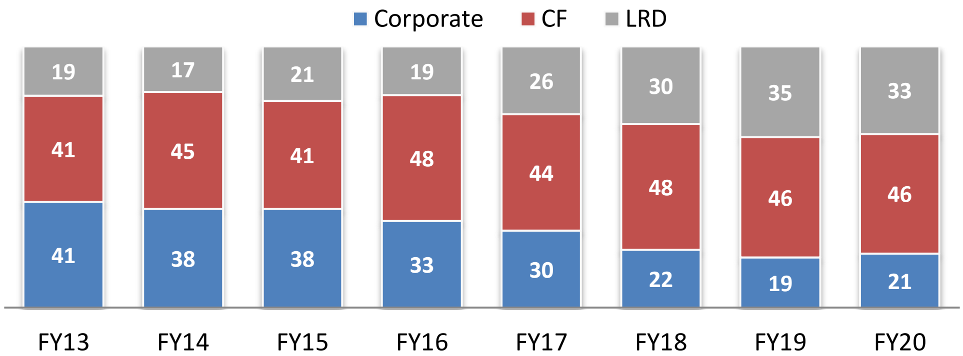
Source: Source: MOFSL, Company

Share of term loans has fallen to 21% of corporate AUM from 41% over the past seven years

Share of relatively safer LRD book, however, on the rise

- Not only has HDFC reduced the share of its corporate lending over the past seven years (to 24% of AUM from 32%) but also reduced its risk profile within the corporate lending segments.
- **Over this period, the share of corporate term loans nearly halved to 21% from 41%, while that of lease rental discounting (LRD) increased to 33% from 19%.** This indicates a shift toward lower yielding, but lower risk assets.
- **While the construction finance book within Retail remains in the range of 40–45%, our industry interaction suggests it has shifted toward the top-quality developers. Prudency over lending practices in this book has placed HDFC in a much better position than peers in these tough times.**

Exhibit 10: Corporate AUM moving toward lower risk assets (%)



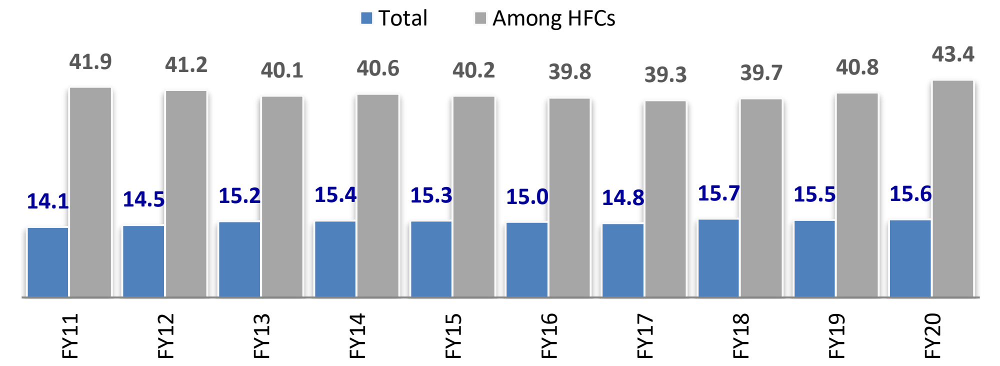
Note: CF stands for Construction Finance and LRD stands for Lease Rental Discounting;
Source: MOFSL, Company

Competitive intensity reducing; rapid MS gains witnessed

- Given the pullback from three of the five largest HFCs post the IL&FS crisis, HDFC was able to gain market share. **Its Retail Home Loans market share among HFCs (MOFSL est.) increased to 43.4% in FY20 from 39.7% in FY18.**
- Nevertheless, overall MS remains steady at 15–16% as large banks such as SBIN, ICICIBC, AXSB, and BOB remain aggressive in HDFC's target market segment**.**

Gained 350bp+ market share among HFCs in Retail Home Loans over FY18–20

Exhibit 11: 370bp increase in market share among HFCs over past two years for HDFC



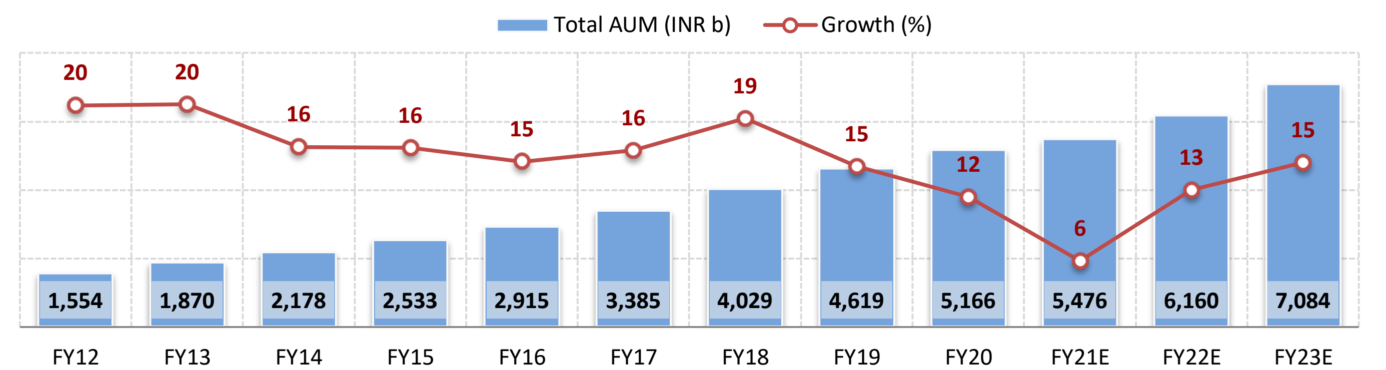
Source: MOFSL, Company; Note: Retail lending only

Near-term growth to be moderate; gradual pickup expected thereafter

Low book churn, coupled with 26% moratorium rate (repayment rate to be lower by ~300bp), would provide stability to AUM

- Given that ~75% of HDFC's book comprises Retail, the overall book churn is low. **While the company does not disclose this data, we expect the annual churn to be at 18%+. Additionally, with 26% of AUM under moratorium, repayments would be lower in FY21 – our calculation implies 300bp lower repayments due to moratorium.**
- Assuming ~30% YoY lower disbursements, we arrive at 6% AUM growth in FY21. Thereafter, we forecast a pickup to 12–15% in the coming years.

Exhibit 12: AUM growth to slow to 6% YoY in FY21 and pick up thereafter



Source: MOFSL, Company

Well-placed to manage asset quality stress

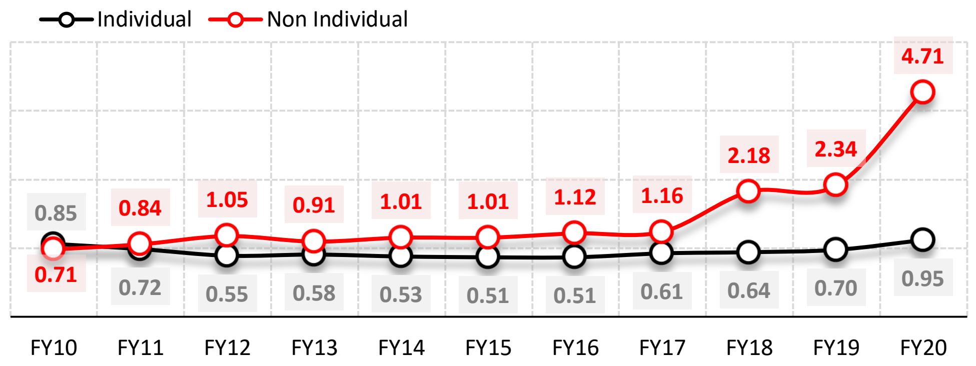
Existing ECL could take care of 7–8% of loans with 30% LGD

Marginal deterioration in asset quality due to proactive recognition

Retail NPLs have been largely stable over the past three years

- A key factor owing to which HDFC stands out from other financiers is the consistency of underwriting over the years. Given the stringent risk management practices, the GNPL ratio has never exceeded 2%. **Moreover, the total write-offs since inception amount to just 14bp.**
- However, over the past two to three years, delinquencies have increased in the corporate book due to underlying stress in the Real Estate segment as well as the proactive recognition of some stressed accounts as NPLs.

Exhibit 13: Corporate GNPLs up due to Real Estate stress and proactive recognition as NPLs



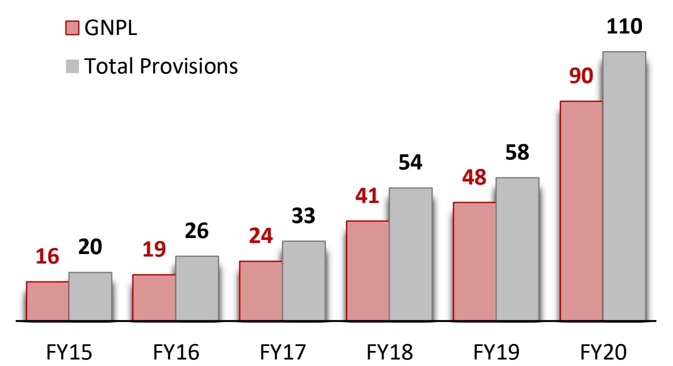
Source: MOFSL, Company

Balance sheet provisions exceed GNPLs

Total provisions of INR110b were greater than GNPLs of INR90b

- When the company reports windfall gains (from stake sales in subsidiaries), it uses 30% of these gains as incremental provisions**. As a result, over the past five years, the total provisions outstanding has grown to INR110b from INR20b, v/s INR90b worth of GNPLs currently**. Among all the HFCs under our coverage, HDFC is the only one to have total provisions in excess of GNPLs.

Exhibit 14: Provisions exceed GNPLs (INR b)



Source: MOFSL, Company

Exhibit 15: Total provision coverage much higher than peers

Company	GNPL (INR b)	Total Provisions (INR b)	Total PCR (%)
HDFC	89.7	109.9	122.5
LICHF	56.2	25.8	46.0
PNBHF	12.1	8.8	73.0
CANFIN	1.6	0.4	26.2
REPCO	4.9	1.7	35.6
AAVAS	0.3	0.2	74.2

Source: MOFSL, Company

With blended LGD of 30%, current capitalization could take care of the worst case of 9% stress loans by FY23 (assuming max. leverage of 7x)

Adequately capitalized to face ~9% stressed loans

- In this exercise, we calculate the adequacy of outstanding provisions to withstand asset quality stress. With extreme conservatism, we assume an optimal leverage ratio of 7x on the core lending business; hence, at current leverage of 6.5x, HDFC is modestly overcapitalized. The excess capital available stood at ~INR50b as of FY20 and is likely to reduce to INR35b by FY23 as growth picks up.
- Provisions are likely to increase to INR185b by FY23E from INR110b currently. This, along with the excess capital of INR35b, would take the provisioning buffer to INR220b. On a conservative basis, we have modeled credit cost of 50bp each for FY21/FY22 (excluding the benefit of any provisions with one-off stake sale gains) v/s an average of ~15bp in the past decade and ~35bp in FY20.
- Of this INR220b, we assume INR56b would be allocated to Stage 1 & 2 loans (1% of loans). As a result, INR163b would be allocated to stressed loans. **With the assumption of 30% loss given default (LGD), this INR163b could provide for INR540b+, i.e., 9% of outstanding loans by FY23.**

Exhibit 16: Current capitalization adequate to take care of stress loans up to ~9%

	FY20	FY21	FY22	FY23
NW incl. OCI	862	929	1,002	1,084
Less: Subs Invt	169	169	169	169
Lending NW (A)	**693**	**761**	**834**	**915**
Loans (B)	4,509	4,764	5,360	6,164
Leverage (B/A x)	6.5	6.3	6.4	6.7
Capital Reqd. with 7x leverage (C)	644	681	766	881
O/S Provisions (D)	**110**	**131**	**156**	**184**
Excess capital (E = C-A)	49	80	68	35
Total Prov (F = D+E)	159	211	224	219
GS1&2 Prov at 1% (G)		42	48	56
Balance GS3 Prov. (H = F-G)		169	176	163
Stress loans (assuming 30% LGD) %		**11.8**	**11.0**	**8.8**

Source: MOFSL, Company

Best managed liability side among peers

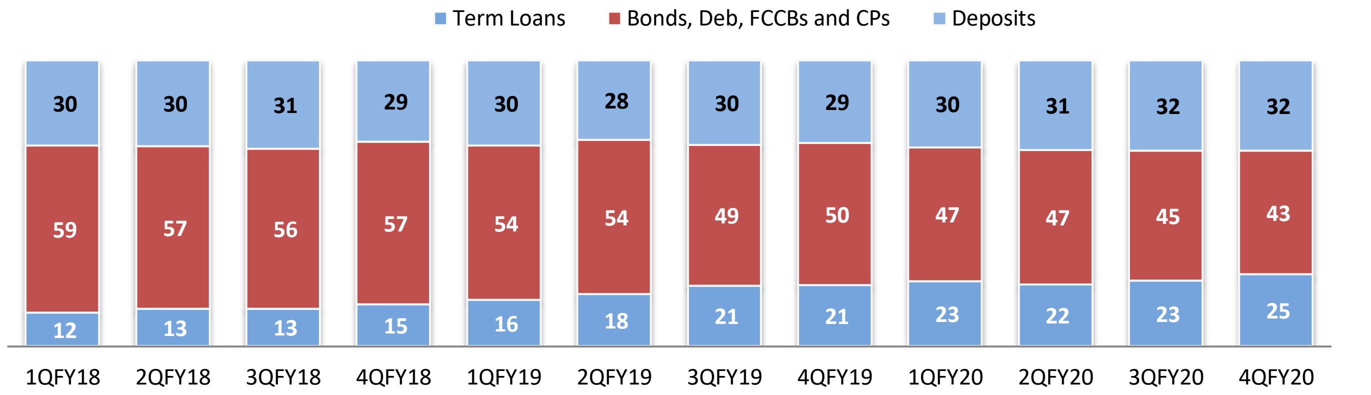
Deposits provide stability; refinancing NCDs at lower cost

Share of deposits has been up 400bp to 32% since the IL&FS crisis

Diversifying the liability mix; public deposit traction stands strong

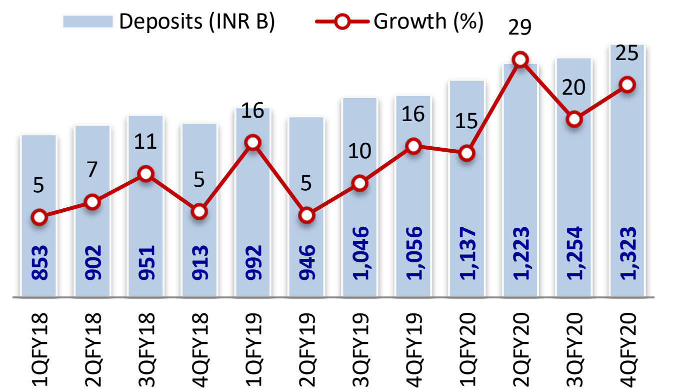
- Since the IL&FS crisis, the company has reduced its dependence on capital market borrowings and increased its share of bank borrowings. The share of capital market borrowings has declined to 43% currently from 54% pre-crisis (1HFY19).
- **Additionally, total deposit accretion has gained pace in the past year. Despite the large base of over INR1t, deposits grew 25% YoY in FY20.** Our interaction with the management suggests retail deposits account for ~50% of total deposits.

Exhibit 17: Reduction in share of capital market borrowings over past three years (%)



Source: MOFSL, Company

Exhibit 18: Focus on deposits post liquidity crisis



Source: MOFSL, Company

Exhibit 19: Interest rate on deposits lower than for other NBFCs

%	1–2 years	2–3 years	3–4 years
HDFC	6.68	6.68	6.68
PNBHF	7.20	7.57	8.20
BAF	7.40	7.45	7.50
SHTF	7.6-7.87	8.1-8.82	9-9.39
MMFS	7.41-7.62	7.99-8.25	8.56

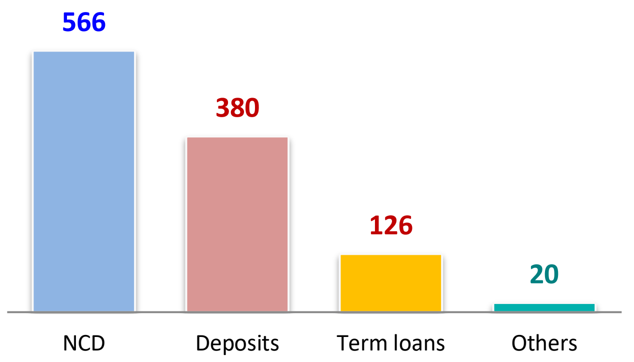
Source: MOFSL, Company

Refinancing savings from maturing NCDs

Around 52% of NCDs maturing over the next two years bear cost of 8.01–10.00%

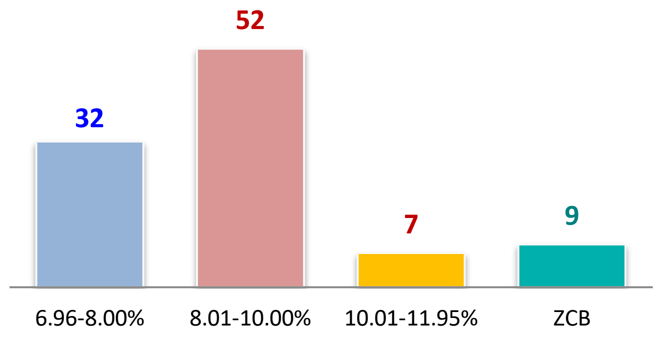
- Over the next two years, HDFC has INR565b worth of non-convertible debentures (NCDs) and INR380b of deposits coming up for maturity.
- While the company has not disclosed the exact cost of these liabilities, it has given a range. **Around 52% of the NCDs maturing in this time period bear cost of 8.01–10.00%. In our opinion, these liabilities are likely to get refinanced at 100bp + lower cost, given that the company is raising incremental NCDs at ~7%.**

Exhibit 20: Maturity of various instruments over FY20–22



Source: MOFSL, Company; Note: Data taken from FY19 Annual Report and hence does not include fresh borrowings made in FY20

Exhibit 21: Mix of NCDs maturing over FY20–22 as per cost of borrowing (%)



Source: MOFSL, Company; Note: Data taken from FY19 Annual Report and hence does not include fresh borrowings made in FY20

Incremental NCDs raised at ~7% cost

Exhibit 22: Some recent NCD issuances by the company

Month of issue	Tenure of instrument (years)	Interest rate (%)
Jun	1.5	6.22
May	1.5	7.06
Apr	3.0	6.95
Apr	3.0	7.20
Feb	10.0	7.40
Feb	3.0	6.99
Jan	5.0	7.50

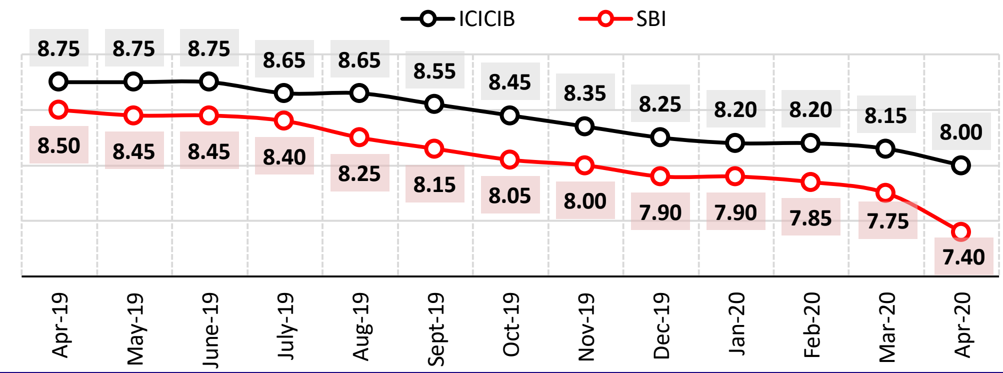
Source: MOFSL, Company, NSE, FTRAC

Cost of bank borrowings on the decline

Leading banks have cut one-year MCLR by 75–110bp over the past year

- Over the past year, banks have also cut the marginal cost of funds based lending rate (MCLR) meaningfully. **Large banks such as SBI and ICICIB have cut one-year MCLR by 110bp and 75bp, respectively.** There is also the possibility of further MCLR cuts given the reduction in deposit rates.
- Unlike NCDs, in the case of bank borrowings, the pass-through on cost of funds happens quicker (floating rates).

Exhibit 23: One-year MCLR of SBI and ICICI down meaningfully over past year



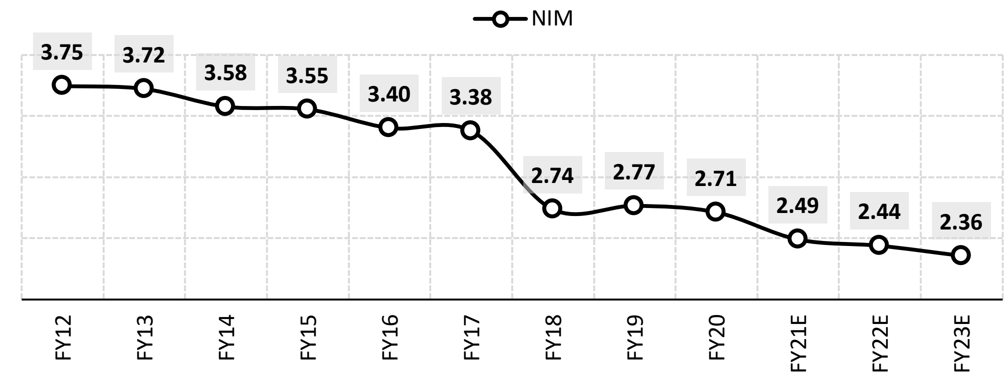
Source: MOFSL, Company

Expect 30bp margin compression over next three years

Expect 30bp margin compression with excess liquidity and higher negative carry

- While tailwinds to cost of funds are likely to accrue over the next two years, we factor moderation in HDFC's margins due to: a) high competitive intensity on core home loans, b) a lower share of high-yielding corporate loans, c) expected stress on asset quality and resultant interest reversals, d) an increase in leverage, and e) the requirement of keeping excess liquidity on the balance sheet at a higher negative carry.
- Key risks to margins stem from hyper-competition among banks post sharp cuts in repo-rate-linked home loans.
- Note that we have not factored the proposed capital raise in our numbers.

Exhibit 24: Trend in net interest margins (%)



Source: MOFSL, Company; Note that the sharp decline in FY18 is on account of migration to IndAS accounting

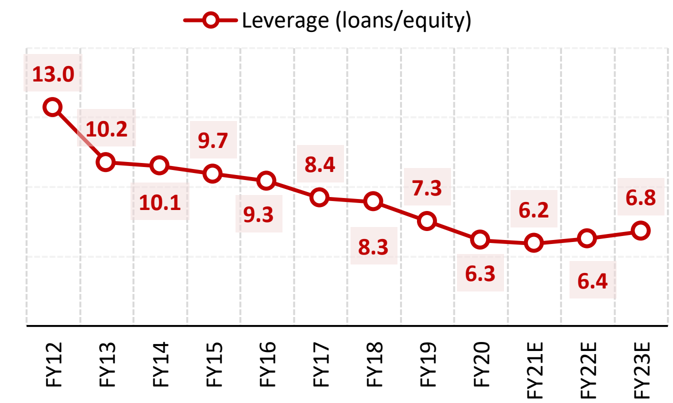
High capitalization a big positive

Leverage meaningfully lower in the current cycle v/s the past

Low leverage a major positive in this environment

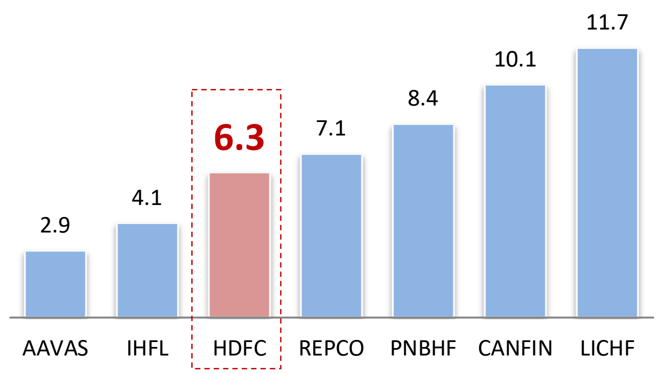
- Compared with two of its largest peers (LICHF and PNBHF), HDFC has much lower leverage, a key positive in this environment.
- **Over the past five years, HDFC has structurally reduced the leverage at which it operates to 6–6.5x currently from 9–10x earlier.**
- With the Tier-I ratio requirement increasing to 10% from 6%, the rating agency threshold leverage level is likely to come down, in our view. Furthermore, any fund requirement at HDFC Bank or other subsidiaries could meaningfully impact leverage; as any investment into subsidiaries is deducted from the networth for the calculation of Tier-I and leverage.

Exhibit 25: Leverage in this cycle lower than previous (x)



Source: MOFSL, Company

Exhibit 26: Leverage lower than that of most HFCs (x)

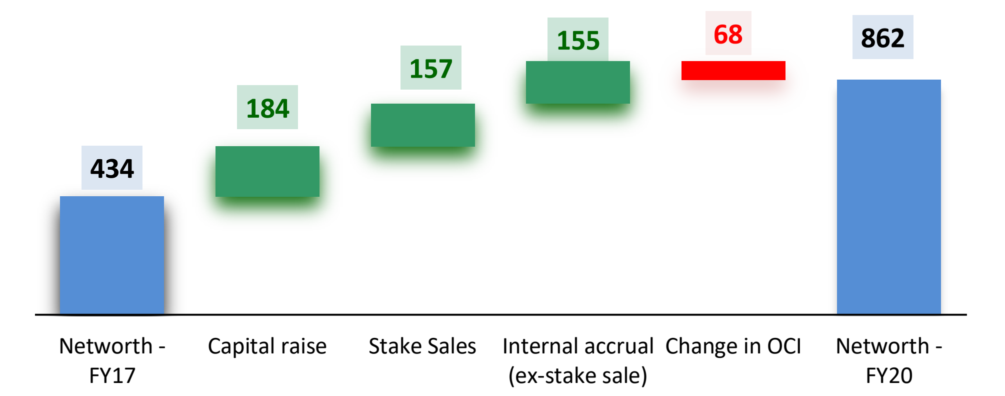


Source: MOFSL, Company; Note: Leverage = Loans/m Equity

Networth doubles in last three years

- Networth (incl. OCI) has doubled in the last three years to INR862b v/s INR434b.
- The company raised INR184b worth of capital via: a) INR111b worth of preferential allotment, b) INR19b worth of QIP, and c) INR54b worth of warrant conversion money.
- Monetization of stakes in various ventures has helped the company garner ~INR200b. Key transactions include: a) the HDFC Life IPO, resulting in gains of INR55b, b) the HDFC AMC IPO, leading to gains of INR9b, c) the Gruh stake sale of INR38b, and d) accounting profits owing to the merger of Bandhan with Gruh, resulting in gains of INR90b. The company follows the policy of allotting one-third of gains as provisions, which has led to net additions of ~INR157b to the networth.
- Strong internal accruals of INR155b post the dividend payout are in line with our estimates.

Exhibit 27: Sharp rise in capitalization in the last three years (INR b)



Source: MOFSL, Company; Note: Stake sales are net of provisions and include INR90b gain on reclassification of GRUH stake after merger with Bandhan

Adequately capitalized for growth over the next three years

- We believe rating agencies' comfort level on adequate leverage based on the product mix is likely to reduce across products in this cycle, especially considering the challenges witnessed in the NBFC space over the last two years and the credit events in large entities in the past.
- Over the past decade, HDFC has structurally reduced the leverage at which it operates to 6–6.5x currently from 10x+ earlier. For the products in which HDFC operates, in our view, ~8x is the adequate leverage at which rating agencies would be comfortable. We expect retail salaried housing loan leverage at 9–10x and non-retail segments at ~5x, resulting in a blended no. of ~8x. Apart from this, parentage, history of operations, sector outlook, and the ability to raise both equity and debt capital would be important factors.
- In the exercise below, we demonstrate how existing capital would take care of organic growth or asset quality without the need to raise capital.
- Nevertheless, HDFC has already taken approval to raise INR140b, which, in our view, would be to: a) keep sufficient headroom for growth/confidence capital, b) capitalize on any inorganic opportunities at the subsidiary/associate level, c) keep the option to buy out portfolios considering the capital stress for peers. A capital raise would be taken very positively by rating agencies / debt markets, in our view.

While rating agencies' comfort level in loans/equities could be ~7.8x, HDFC would like to keep a buffer for growth; hence, we expect a threshold level of ~7x, which it is likely to reach over FY23–24

Exhibit 28: Adequately capitalized to take care of next three years of organic growth

	FY20	FY21	FY22	FY23
NW incl. OCI	862	929	1,002	1,084
Less: Subs Invt	169	169	169	169
Lending NW (A)	**693**	**761**	**834**	**915**
Loans (B)	4,509	4,764	5,360	6,164
Leverage (B/A x)	6.5	6.3	6.4	6.7
Threshold for rating (C = B/D)	571	605	683	785
Max leverage (D x)	7.9	7.9	7.8	7.8
Excess capital (E = C-A)	122	155	151	130
% of NW (E/A %)	18	20	18	14

Max leverage based on loan mix of 72:28 Retail:Non Retail and max permissible leverage of 9x:5x respectively; Source: MOFSL, Company

Exhibit 29: Return ratios lower in this cycle v/s in the past

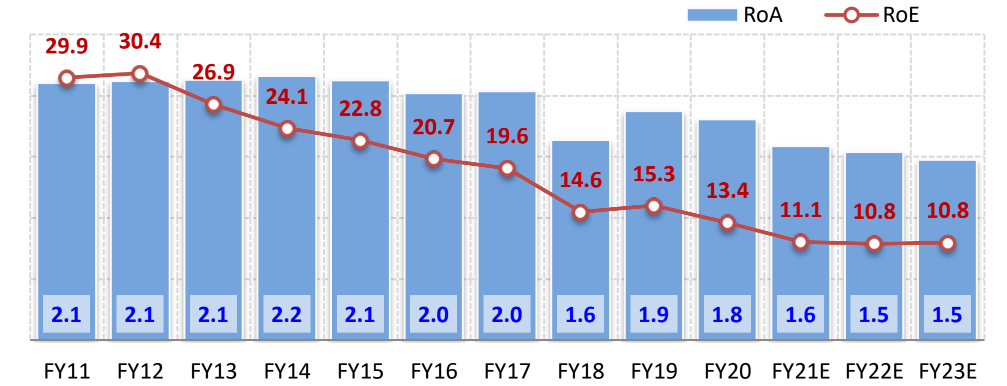


Exhibit 30: Impact on book value and adj. book value assuming INR140b raised in 1HFY21

	FY20	FY21	FY22	FY23
Existing Estimates				
BV	538	577	619	666
ABV	412	451	494	541
Change post dilution				
BV	497	594	637	682
ABV	400	500	544	589
Dilution		4.5		
BV additon		9.6	9.1	8.2
ABV Addition		13.5	12.5	11.1

Capital raise assumed at INR1800/share; Float benefit assumed at 9%; ABV is adjusted for investment in subsidiaries and excess NW; Source: MOSL, Company

HDFC LTD CAPITAL RAISES OVER THE PAST 12 YEARS

FINANCIAL YEAR	AMOUNT RAISED (INR b)	NO OF SHARES ISSUED (m)	TYPE OF INSTRUMENT	PARTICULARS OF INSTRUMENT	DILUTION ON PREVIOUS YEARS CAPITAL BASE (%)
Sept 05	USD0.5B		FCCB	❖ Conversion Price of INR280/share; ❖ Conversion anytime over Aug 06–July 10; ❖ Zero Coupon with YTM of 4.6%; listed on Singapore Exchange	~6% ultimate dilution upon conversion up to July 2010
2008	INR26.4/4.8b	76.3/13.8	Preferential allotment	❖ INR346/share to Carlyle/Citigroup	6.03/1.09
Aug 09	INR40b NCD and INR3b warrant upfront money	NIL at the date of issuance	NCD + Warrant	❖ 54.75m warrant at exercise price of INR600 (INR55/paid upfront); ❖ To be exercised before Aug 2012; ❖ Ultimate capital raise of INR32.85b ❖ INR20b NCD 1 (Zero Coupon with YTM of 7.15% 2 yrs) + INR20b NCD2 (Zero Coupon with YTM of 7.85% 3 yrs)	~3.7% upon conversion up to FY13
Oct 15	INR50b NCD and INR0.5b warrant upfront money	NIL at the time of issuance	NCD + Warrant	❖ 36.5m warrant at a price of INR1489 (INR14/paid upfront); ❖ To be exercised before 5th Oct'18 – INR54.4b total raise ❖ INR50b worth of NCD with coupon of 1.4%	~2.2% upon conversion up to FY19
Feb 18	111	64.3	Preferential allotment	❖ Price INR1,726/share	4.05
	19	10.4	QIP	❖ Price INR1,825/share	0.65

Well-placed to capture market share

Buy, with SOTP of INR2,150

Buy, with SOTP of **INR2,150**

- HDFC is among the very few franchises that have delivered a steady performance in an otherwise cyclical sector. Apart from disciplined growth, we like its lean cost structure, the lowest cost of funding (leading to a lower-risk book), and the ability to resolve stressed corporate exposures.
- Given the low NPLs and high capitalization, its net NPLs account for just 8% of the networth (excluding investments in subsidiaries). Its subsidiaries have also outperformed in their respective segments.
- While the current stock price reflects the near-term issues impacting the economy and company, it undervalues its long-term potential. Post the lifting of the lockdown, as stability in growth returns and with the company's comfortable liquidity and capital situation, we expect HDFC to re-rate faster than peers.
- In our SOTP, subsidiaries contribute ~54% to TP post the holding company discount. We value the parent at 2x PBV FY22. Maintain Buy, with TP of INR2,150 (FY22E SOTP based).

Exhibit 31: Buy, with FY22E SOTP of INR2,150

Particular	Stake	Value (INR b)	Value (USD b)	Value/Sh. (INR)	% of total	Target Multiple (x)	Rationale
Core business		**1,710**	**24.4**	**987**	**45.9**	**2.0**	**PBV**
Key Ventures							
HDFC Bank	21.4	1,402	20.0	811	37.7	3.0	PBV
HDFC Standard Life	51.6	548	7.8	317	14.7	3.4	PEV
HDFC AMC	52.8	312	4.5	180	8.4		CMP
HDFC ERGO GIC	50.7	94	1.3	54	2.5	6.0	PBV
Bandhan Bank	10.0	102	1.5	59	2.7	2.6	PBV
Other Invt/Excess NW		56	0.8	32	1.5	1.0	Invested Capital
Total Value of Ventures		**2,514**	**35.9**	**1,453**	**67.6**		
Less: 20% holding discount		503	7.2	291	13.5		
Value of Key Ventures		**2,011**	**28.7**	**1,163**	**54.1**		
SOTP		**3,721**	**53.2**	**2,150**	**100.0**		
CMP		3,178	45.4	1,835			
Upside - %		**17.1**	**17.1**	**17.1**			

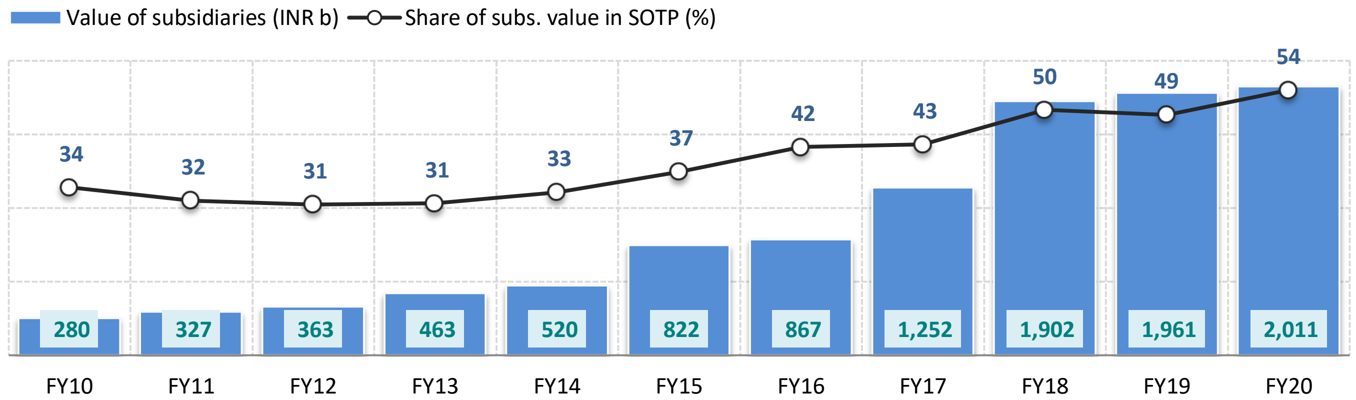
Source: MOFSL, Company

Exhibit 32: DuPont Analysis

(%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	10.83	10.32	9.87	9.03	9.15	8.90	8.57	8.34	8.34
Interest Expended	7.50	7.13	6.69	6.40	6.49	6.31	6.18	6.00	6.07
Net Interest Income	**3.33**	**3.20**	**3.19**	**2.63**	**2.66**	**2.59**	**2.39**	**2.34**	**2.27**
Other core operating income	0.12	0.14	0.11	0.06	0.08	0.06	0.05	0.05	0.05
Core Income	**3.46**	**3.34**	**3.30**	**2.69**	**2.74**	**2.65**	**2.44**	**2.39**	**2.32**
Operating Expenses	**0.29**	**0.28**	**0.27**	**0.52**	**0.35**	**0.30**	**0.27**	**0.27**	**0.27**
Cost to Income Ratio (%)	*8.53*	*8.37*	*8.12*	*19.32*	*12.65*	*11.48*	*11.06*	*11.45*	*11.55*
Employee Expenses	0.14	0.13	0.12	0.37	0.17	0.12	0.10	0.10	0.10
Other Expenses	0.16	0.15	0.14	0.15	0.18	0.18	0.17	0.17	0.17
Core Operating Profits	**3.16**	**3.06**	**3.03**	**2.17**	**2.39**	**2.35**	**2.17**	**2.12**	**2.05**
Provisions/write offs	0.07	0.10	0.14	0.13	0.12	0.32	0.40	0.42	0.42
Core PBT	**3.09**	**2.96**	**2.89**	**2.04**	**2.27**	**2.03**	**1.77**	**1.70**	**1.63**
Dividend Income	0.29	0.30	0.29	0.29	0.26	0.22	0.40	0.42	0.42
Treasury and Other Income	0.22	0.63	0.34	1.56	0.42	2.58	0.16	0.17	0.18
One off provisions/Expenses	0.00	-0.17	-0.09	-0.45	-0.10	-0.88	0.00	0.00	0.00
PBT	**3.60**	**3.72**	**3.43**	**3.45**	**2.86**	**3.94**	**2.33**	**2.30**	**2.24**
Tax	1.10	1.11	1.05	0.61	0.81	0.53	0.53	0.53	0.51
Tax Rate (%)	*30.54*	*29.83*	*30.62*	*17.62*	*28.44*	*13.32*	*22.81*	*22.93*	*23.00*
Reported PAT	**2.50**	**2.61**	**2.38**	**2.84**	**2.05**	**3.42**	**1.80**	**1.77**	**1.72**
Leverage (x)	*8.01*	*8.01*	*7.87*	*6.75*	*6.01*	*6.01*	*6.04*	*6.13*	*6.45*
RoE	**20.02**	**20.90**	**18.74**	**19.18**	**12.30**	**20.55**	**11.48**	**11.46**	**11.72**
Core RoE	**22.76**	**20.66**	**19.60**	**14.57**	**15.29**	**13.38**	**11.12**	**10.79**	**10.80**

Source: MOFSL, Company

Exhibit 33: Share of subsidiaries' value in SOTP on the rise



Source: MOSL, Company

Valuation matrix

	Rating	CMP	Mcap	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,835	40.0	17.4	13.2	1.8	1.4	1.6	1.5	11.1	10.8
LICHF	Buy	277	1.8	6.8	5.9	0.7	0.7	1.0	1.1	11.0	11.5
PNBHF	Neutral	218	0.5	14.7	4.6	0.4	0.4	0.3	1.0	3.1	9.3
REPCO	Buy	124	0.1	2.8	2.6	0.4	0.3	2.3	2.4	14.4	13.6
Vehicle fin.											
SHTF	Buy	702	2.1	10.6	5.9	0.8	0.7	1.4	2.4	8.1	13.0
MMFS	Buy	173	1.4	21.8	12.1	0.9	0.8	0.7	1.2	4.2	7.2
CIFC	Buy	197	2.1	20.7	15.3	1.9	1.7	1.2	1.6	9.4	11.6
Diversified											
BAF	Neutral	2,954	21.6	44.1	28.9	4.9	4.3	2.4	3.4	11.8	15.9
SCUF	Buy	682	0.6	6.9	6.0	0.6	0.5	2.1	2.4	8.7	9.2
LTFH	Buy	68	1.7	7.9	5.8	0.9	0.8	1.6	2.1	11.3	13.8
MUTH	Neutral	1,097	5.8	12.8	10.9	3.1	2.5	6.4	6.6	26.6	25.4
MAS	Buy	636	0.5	20.6	17.2	3.1	2.7	3.7	4.0	16.0	16.9

*Multiple adjusted for value of subsidiaries/associate

Financials and valuations

Income statement — INR b

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	280.7	308.5	331.3	392.4	437.5	463.1	493.7	561.3
Interest Expended	193.7	209.0	235.0	278.4	310.0	334.1	355.1	408.5
Net Interest Income	**87.0**	**99.5**	**96.4**	**114.0**	**127.5**	**129.0**	**138.6**	**152.8**
Change (%)	8.8	14.5	-3.2	18.3	11.8	1.2	7.4	10.2
Assignment income	0.0	0.0	5.3	8.6	9.7	10.8	12.5	14.3
NII (including assignment income)	**87.0**	**99.5**	**101.7**	**122.6**	**137.2**	**139.9**	**151.1**	**167.1**
Change (%)	8.8	14.5	2.2	20.6	11.9	2.0	8.0	10.6
Other core operating income	3.8	3.5	2.2	3.5	3.0	2.7	3.0	3.3
Core Income	**90.7**	**103.0**	**103.9**	**126.2**	**140.1**	**142.6**	**154.1**	**170.4**
Change (%)	9.5	13.5	0.9	21.4	11.1	1.7	8.1	10.6
Operating Expenses	**7.6**	**8.4**	**19.0**	**14.9**	**15.0**	**14.6**	**16.2**	**18.0**
Change (%)	7.4	10.3	127.6	-22.0	0.8	-2.7	11.2	11.2
% of core income	8.4	8.1	18.3	11.8	10.7	10.2	10.5	10.6
Core operating profits	**83.1**	**94.6**	**84.9**	**111.3**	**125.2**	**128.0**	**137.9**	**152.4**
Change (%)	9.7	13.8	-10.3	31.1	12.5	2.3	7.7	10.5
Provisions/write offs	2.7	4.3	4.6	5.2	15.9	21.4	24.6	28.3
Core PBT	**80.5**	**90.4**	**80.3**	**106.1**	**109.2**	**106.6**	**113.2**	**124.0**
Change (%)	8.5	12.3	-11.2	32.2	2.9	-2.4	6.2	9.5
Profit on sale/MTM on Invt.	16.5	10.0	57.2	17.6	126.4	8.4	10.0	11.9
Dividend Income	8.1	9.1	10.8	11.3	10.8	21.6	24.9	28.6
One off exp/prov	-4.5	-2.8	-16.6	-4.2	-43.2	0.0	0.0	0.0
Miscellaneous Income	0.6	0.5	0.2	0.3	0.2	0.2	0.2	0.2
PBT	**101.1**	**107.3**	**131.9**	**131.2**	**203.5**	**136.8**	**148.3**	**164.8**
Tax	30.2	32.8	22.3	34.9	25.8	28.7	31.1	34.6
Tax Rate (%)	29.8	30.6	16.9	26.6	12.7	21.0	21.0	21.0
Reported PAT	**70.9**	**74.4**	**109.6**	**96.3**	**177.7**	**108.1**	**117.2**	**130.2**
Change (%)	18.4	4.9	47.3	-12.1	84.5	-39.2	8.4	11.1
PAT adjusted for EO*	**65.9**	**74.0**	**67.5**	**87.1**	**96.2**	**102.8**	**110.7**	**122.3**
Change (%)	8.9	12.2	-8.7	29.0	10.5	6.8	7.7	10.5
Proposed Dividend	31.4	28.7	40.2	43.4	43.7	40.5	43.9	48.8

* (Core PBT +Dividend Income + Other income) adjusted for applicable tax

Balance sheet — INR b

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	3.2	3.2	3.4	3.4	3.5	3.5	3.5	3.5
Reserves and Surplus (Ex OCI)	356.6	433.3	652.1	774.1	928.6	996.2	1,069.4	1,150.8
Net Worth (Ex OCI)	**360**	**436**	**655**	**778**	**932**	**1,000**	**1,073**	**1,154**
Other Comprehensive Income	0.0	-2.1	-2.8	-4.0	-70.5	-70.5	-70.5	-70.5
Net Worth (Incl OCI)	**360**	**434**	**653**	**774**	**862**	**929**	**1,002**	**1,084**
Borrowings	2,376.4	2,793.5	3,197.2	3,652.7	4,191.0	4,430.6	5,038.0	5,855.3
Change (%)	13.9	17.6	14.4	14.2	14.7	5.7	13.7	16.2
Other liabilities	142.3	124.0	139.3	161.6	188.3	207.2	227.9	250.7
Total Liabilities	**2,879**	**3,352**	**3,989**	**4,588**	**5,241**	**5,567**	**6,268**	**7,190**
Loans	2,592.2	2,989.5	3,628.1	4,066.1	4,509.0	4,764.1	5,359.6	6,163.5
Change (%)	13.6	15.3	21.4	12.1	10.9	5.7	12.5	15.0
Investments	153.5	201.8	307.2	462.4	649.4	681.9	750.1	825.1
Change (%)	7.4	31.5	52.2	50.5	40.4	5.0	10.0	10.0
Net Fixed Assets	6.6	10.4	10.4	9.7	22.4	24.6	27.1	29.8
Other assets	144.2	150.2	43.4	49.6	60.1	96.3	131.5	171.3
Total Assets	**2,897**	**3,352**	**3,989**	**4,588**	**5,241**	**5,567**	**6,268**	**7,190**

Y/E March	2016	2017	2018	2019	2020E	2021E	2022E	2023E
AUM (INR b)	**2,915**	**3,385**	**4,029**	**4,619**	**5,166**	**5,476**	**6,160**	**7,084**
Change (%)	15.1	16.1	19.0	14.7	11.8	6.0	12.5	15.0
Individual loans (%)	72.8	72.6	72.9	74.5	75.8	75.5	75.0	75.0
Non Individual loans (%)	27.2	27.4	27.1	25.5	24.2	24.5	25.0	25.0
On Balance Sheet (%)	88.9	88.3	90.1	88.0	87.3	87.0	87.0	87.0
Assignment/Securitization (%)	11.1	11.7	9.9	12.0	12.7	13.0	13.0	13.0

E: MOFSL Estimates

Financials and valuations

Ratios								(%)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Spreads Analysis (%)								
Avg Yield on Hsg Loans	**11.0**	**10.5**	**9.6**	**9.7**	**9.7**	**9.5**	**9.2**	**9.2**
Avg. Yield on Funds	11.0	10.5	9.4	9.5	9.3	8.9	8.7	8.6
Avg. Cost of funds	8.7	8.1	7.8	8.1	7.9	7.8	7.5	7.5
Interest Spread on loans	**2.3**	**2.5**	**1.7**	**1.6**	**1.8**	**1.7**	**1.7**	**1.7**
Net Interest Margin	**3.4**	**3.4**	**2.7**	**2.8**	**2.7**	**2.5**	**2.4**	**2.3**
Profitability Ratios (%)								
RoAE	20.9	18.7	20.2	13.5	21.7	12.1	12.1	12.5
Core ROE	**20.7**	**19.6**	**14.6**	**15.3**	**13.4**	**11.1**	**10.8**	**10.8**
RoA	2.42	2.37	1.84	2.03	1.96	1.90	1.87	1.82
Core ROA	**2.02**	**2.04**	**1.64**	**1.88**	**1.80**	**1.59**	**1.54**	**1.47**
Efficiency Ratios (%)								
Int. Expended/Int.Earned	69.0	67.7	70.9	70.9	70.9	72.1	71.9	72.8
Op. Exps./Net Income	6.6	6.8	11.1	9.6	5.4	8.4	8.6	8.5
Empl. Cost/Op. Exps.	46.0	46.5	72.0	48.2	39.6	36.6	36.2	35.8
Asset Quality (INR b)								
Gross NPAs	18.8	24.4	40.8	48.4	89.7	145.3	173.5	203.0
Gross NPAs to Adv. (%)	0.7	0.8	1.1	1.2	2.0	3.1	3.2	3.3
Net NPAs	12.7	16.5	29.2	34.3	54.0	87.2	104.1	121.8
Net NPAs to Adv. (%)	0.5	0.6	0.8	0.8	1.2	1.9	2.0	2.0

VALUATION	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Book Value (INR)	227.7	274.7	391.1	451.7	538.1	577.1	619.4	666.4
Price-BV (x)					**3.4**	**3.2**	**3.0**	**2.8**
Adjusted BV* (INR)	176.6	223.0	262.2	325.0	412.3	451.3	493.6	540.6
Adj Price-ABV (x)					**2.3**	**1.8**	**1.4**	**0.9**
Adjusted EPS (INR)#	33.7	39.1	34.5	44.4	49.2	48.0	51.0	55.9
Adjusted EPS Growth YoY	8.2	15.9	-11.7	28.7	10.8	-2.4	6.2	9.5
Adj Price-Adj EPS (x)					**19.6**	**17.4**	**13.2**	**8.6**
Dividend per share (INR)	17.0	18.0	20.0	21.0	21.0	23.4	25.4	28.2
Dividend yield (%)					**1.1**	**1.3**	**1.4**	**1.5**

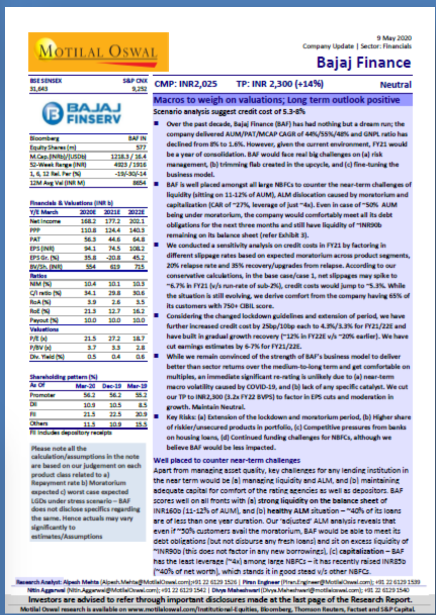
E: MOSL Estimates; * BV is adj. by ded. invt in Subs/Asso. from NW

Adjusted EPS is adjusting for dividend from key ventures and one-offs

GALLERY


MOTILAL OSWAL
30 January 2020
Initiating Coverage | Sector: NBFCs
IIFL Wealth Management
Building unique business model
Investors are advised to refer through important disclosures made at the last page of the Research Report.


MOTILAL OSWAL
19 May 2020
Initiating Coverage | Sector: NBFCs
ICICI Securities
Brokerage
Distribution
Capital Markets
Wealth Management
Not just a broker!
Investors are advised to refer through important disclosures made at the last page of the Research Report.


MOTILAL OSWAL
9 May 2020
Company Update | Sector: Financials
Bajaj Finance
CMP: INR2,025
TP: INR 2,300 (+14%)
Neutral
Macros to weigh on valuations; Long term outlook positive
BAJAJ FINSERV
Well placed to counter near-term challenges
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MOTILAL OSWAL
Sector Update | 27 April 2020
NBFC
Large NBFCs comfortable on liquidity front in near term
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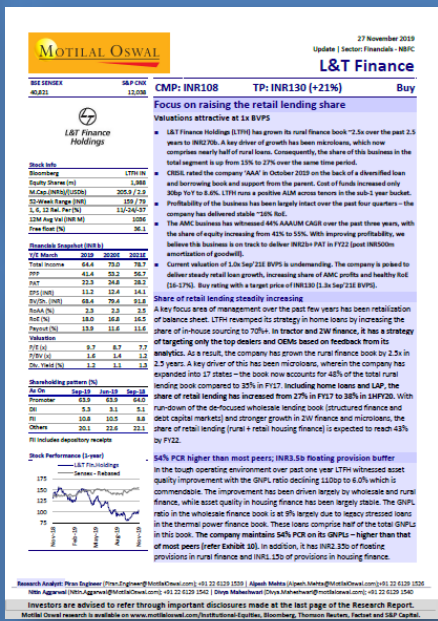
MOTILAL OSWAL
27 November 2019
Update | Sector: Financials - NBFC
L&T Finance
CMP: INR108
TP: INR130 (+21%)
Buy
Focus on raising the retail lending share
Share of retail lending steadily increasing
54% PCR higher than most peers; INR3.5b floating provision buffer
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MOTILAL OSWAL
28 June 2020
Update | Sector: Financials
Piramal Enterprises
CMP: INR1,343
TP: INR1,600 (+19%)
Buy
Simplifying group structure
Pharma benchmark valuation established at INR210b
Unlocking value in Pharma business
Significant reduction in consolidated leverage
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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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