

HDFC Ltd.

31 July 2020

Reuters: HDFC.BO; Bloomberg: HDFC IN

Strong Balance sheet; growth aided by non-individual

HDFC Ltd (HDFC) reported Nil of Rs32.1bn, 7% below our estimate. The weak growth in Nil (up 4.6% YoY, down 9.7 QoQ) was due to NIM contraction (down 14bps YoY and 17bps QoQ on calc. basis). We note that the loan yield has contracted by ~26bps QoQ to 9.48% against a drop of ~18bps QoQ in cost of funds. Advances (net of ECL) grew by 10.5% YoY and 3.1% QoQ. Overall AUM grew by 11.7% YoY. Total disbursements stood at 71% of last year. In terms of incremental business (on AUM basis), the non-individual segment contributed 83% while the rest came from the individual segment. Individual loans grew by 10.4% YoY while non-individual loans grew by 15.2% YoY. The retail disbursements were affected during the quarter due to the lockdown. However, successive month-on-month trend has been improving in the individual business. Retail disbursements in June stood at 68% of last year's level. Further, digital applications received for individual loans for June and July are similar to last year's level, which may indicate that the inherent demand for home loans is strong. Disbursements trends in July are encouraging. On the other hand, to compensate for the loss of momentum in the retail side of the business, the company focused on lending to select AAA rated corporates. This also explains the sharp drop in calc. loan yields to some extent. Operating profit stood at Rs48bn, down 1.4% YoY but up 21.2% QoQ on account of substantial increase in non-interest income. During the quarter, the company booked Rs12.4bn worth of profit on sale of investments compared to Rs20mn in 4QFY20. Provisioning remained elevated at ~Rs12bn, up 34.7% YoY but down 5.9% QoQ. Absolute ECL stage 3 coverage remained stable QoQ at 47-48%, though 700bps higher YoY. However, standard asset provisions were increased during the quarter. Stage 1&2 ECL coverage increased to 1.6% compared to 1.4% in 4QFY20 and 1% in 1QFY20. ECL/EAD stands at 2.64%, up 20bps QoQ and 109bps YoY. We believe that the company's balance sheet is one of the strongest, especially given the kind of economic value that is held in the subsidiaries. HDFC's ability to monetize this economic value and create contingency buffers provides the balance sheet far more strength. Asset quality wise, the headline gross stage 3 ratio declined from 2.29% in 4QFY20 to 2.20% in 1QFY21. The improvement was led by 3bps QoQ decline in individual NPA to 0.92%. Non-individual NPA declined by 61bps QoQ to 4.1%. We maintain that the company scores over peers in terms of asset quality. Given the stressed environment in the real estate, we expect the company to focus on individual housing (as was the case in FY20). While profitability will be affected in the near term due to higher provisioning, we maintain our [thesis](#) and remain structurally positive on the company. We have revised our estimates for FY21/FY22 and retained Buy rating on HDFC. We are revising our target price to Rs2,101 (from Rs2,204 earlier), valuing the standalone entity at 1.7x FY22E PIABV and ascribing a value of Rs1,147 for subsidiaries.

Update on moratorium: Majority of the individuals, who availed the moratorium, did so for cash conservation purpose and only 5% (of the individual customers) have faced job losses and 9% have faced business closures. ~65% of individual loans under moratorium have never had a delay in repayment. Total portfolio under moratorium has declined to 22.4% in phase 2 from 27.0% in phase 1. Individual loans under moratorium have declined to 16.6% in phase 2 from 22.6% in phase 1.

Balance sheet comfortable: As a prudent measure, the company maintained excess liquidity, which resulted in a negative carry of Rs1.81bn during the quarter (a ~20bps impact on NIM). Deposits grew by 26% YoY to Rs1,433bn. Amount invested in liquid mutual funds stands at Rs308bn. Tier I ratio stands at 16.2% (down 40bps QoQ).

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BUY

Sector: NBFC

CMP: Rs1,811

Target Price: Rs2,101

Upside: 16%

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Key Data

Current Shares O/S (mn)	1,734.6
Mkt Cap (Rsbn/US\$bn)	3,140.8/42.0
52 Wk H / L (Rs)	2,500/1,473
Daily Vol. (3M NSE Avg.)	6,831,535

Price Performance (%)

	1 M	6 M	1 Yr
HDFC Ltd	3.2	(25.0)	(14.9)
Nifty Index	7.8	(7.8)	0.2

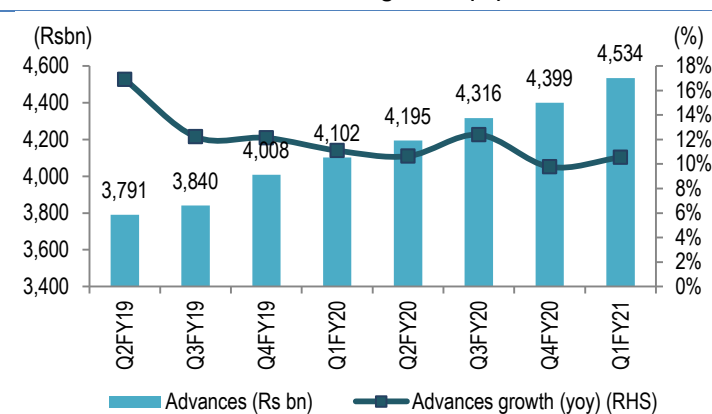
Source: Bloomberg

Y/E Mar (Rsmn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Interest Income	1,10,311	1,08,117	1,12,219	2.0	-1.7
Interest Expense	78,171	77,393	76,618	1.0	2.0
Net Interest Income	32,140	30,724	35,601	4.6	-9.7
NIM (%)	2.81	2.95	2.98	-14bps	-17bps
Fee & Other income	20,452	21,844	7,597	-6.4	169.2
Total Income	52,592	52,568	43,198	0.0	21.7
Staff Cost	1,604	1,554	1,396	3.2	14.9
Other Op Exp	2,930	2,263	2,138	29.4	37.0
Total Operating Expenses	4,534	3,817	3,534	18.8	28.3
Cost to Income (%)	8.6	7.3	8.2	136bps	44bps
Pre-Provisioning Operating profit	48,058	48,751	39,664	-1.4	21.2
Provisions	11,990	8,900	12,740	34.7	(5.9)
PBT	36,068	39,851	26,924	-9.5	34.0
Tax	5,553	7,820	4,599	-29.0	20.7
-effective tax rate	15.4	19.6	17.1	-423bps	-169bps
PAT	30,515	32,031	22,325	-4.7	36.7
Other Comprehensive Income	20,189	2,620	-60,122	670.6	-133.6
Total Comprehensive Income	50,704	34,651	-37,797	46.3	-234.1
EPS (Rs)	17.6	18.6	12.9	-5.4	36.5
Advances (Rsbn)	4,534	4,102	4,399	10.5	3.1

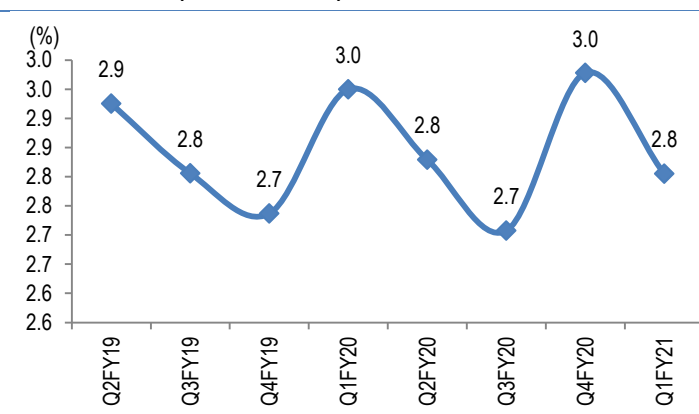
Source: Company, Nirmal Bang Institutional Equities Research

SOTP Valuation

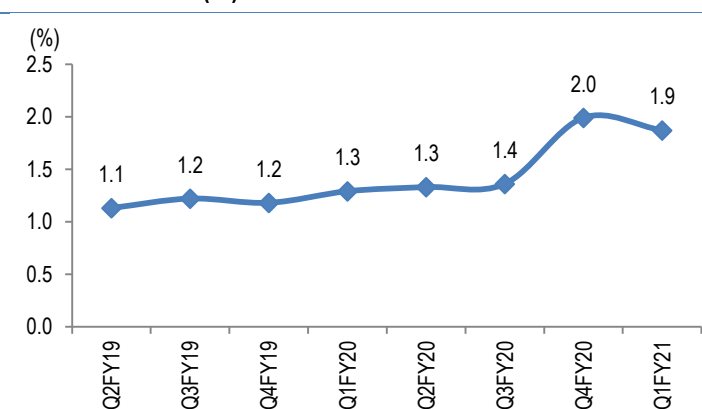
Entity	Valuation Methodology	Holding (%)	Value per share (INR)
			FY22E
HDFC Bank	3.2x FY22E ABV	21.4%	964
HDFC Life Insurance	4.7x FY22E EV	50.1%	49
HDFC AMC	42x FY22E EPS	52.7%	173
HDFC ERGO General Insurance	8.0x Latest BV	50.5%	46
Bandhan Bank	5.6x Latest BV	9.9%	31
HDFC Property Ventures	5.0% Latest AUM	100.0%	3
HDFC Capital Advisors	5.0% Latest AUM	100.0%	2
HDFC Credila	2.0x Latest BV	90.8%	6
Holding co. discount (%)			10%
Value of total (INR per share)			1,147
Standalone entity	1.7 FY22E ABV		955
Value of total (INR per share)			2,101

Exhibit 1: Advances & advances growth (%)


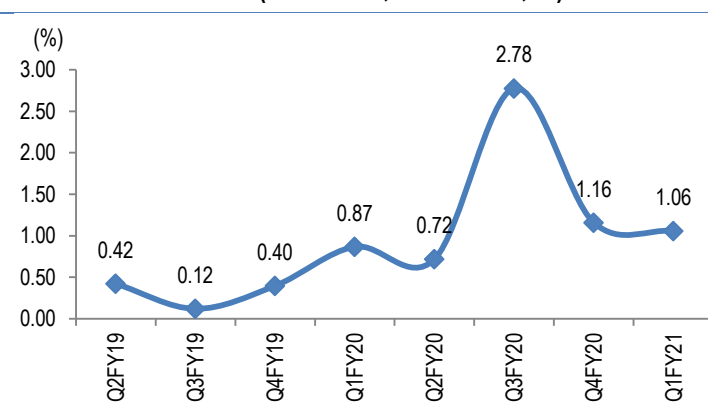
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: NIM (calculated, %)


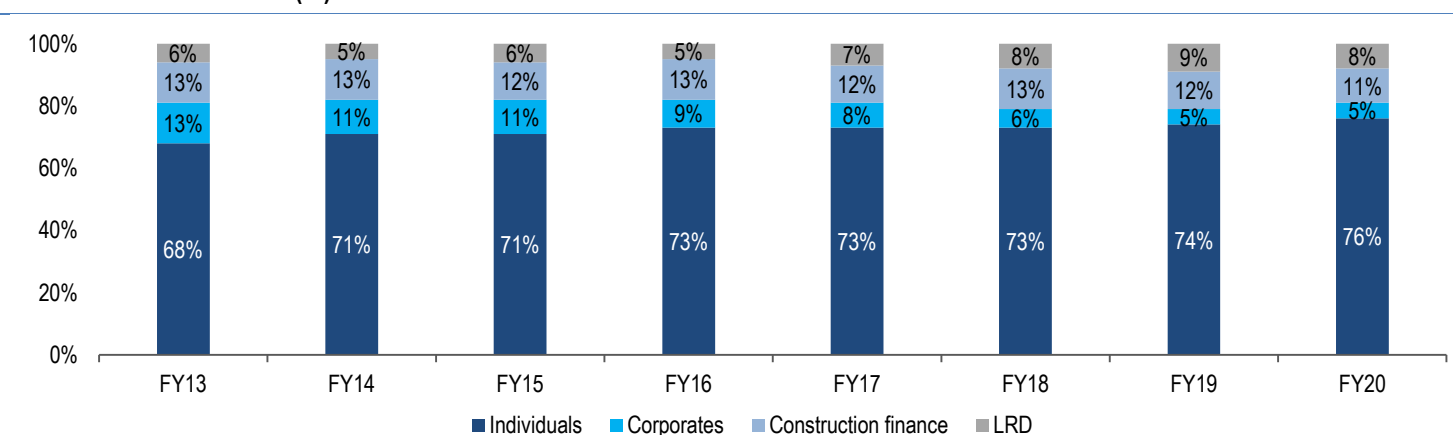
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: GNPA (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Credit cost (calculated, annualized, %)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Advances mix (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	1,01,688	1,22,626	1,40,792	1,40,246	1,51,111
Pre-Provisioning Operating profit	1,53,046	1,40,538	2,66,277	1,48,708	1,54,327
PAT	1,09,593	96,325	1,81,333	88,823	1,03,387
EPS (Rs)	65.4	56.0	104.7	51.3	59.7
BV (Rs)	578.0	685.3	772.7	833.2	924.2
P/E (x)	27.7	32.4	17.3	35.3	30.3
P/BV (x)	3.2	2.9	2.3	2.2	2.0
ROA (%)	3.0	2.2	3.6	1.6	1.7
ROE (%)	20.1	13.5	22.2	9.9	10.6
Gross NPA (%)	1.1	1.2	2.0	2.8	2.7
Net NPA (%)	0.8	0.8	1.5	1.6	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Q1FY21E	Devi. (%)
Net interest income	32,140	30,724	35,601	4.6	(9.7)	34,577	(7.0)
Pre-provisioning Operating Profit	48,058	48,751	39,664	(1.4)	21.2	49,997	(3.9)
PAT	30,515	32,031	22,325	(4.7)	36.7	28,427	7.3

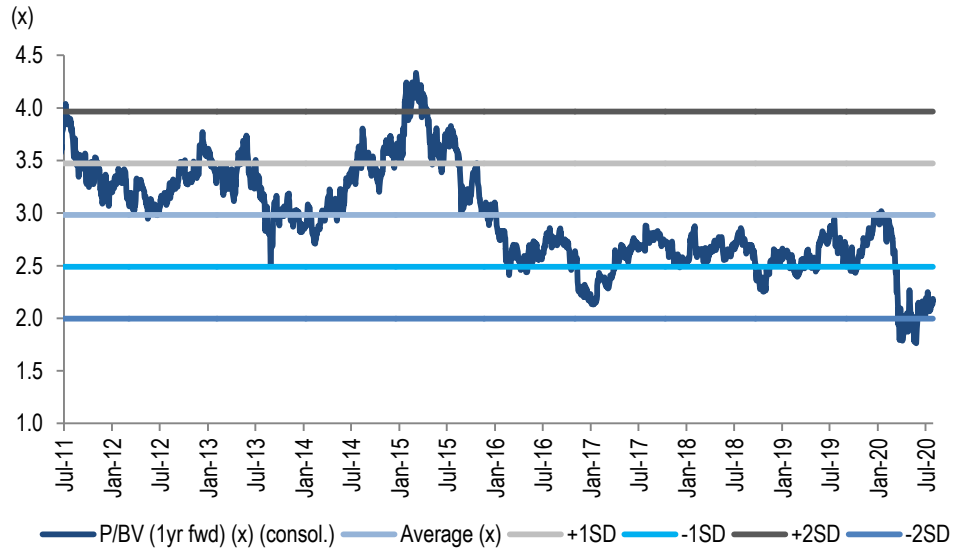
Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 8: Change in our estimates

Earning Revision	Revised Estimate		Earlier Estimate		% Revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (Rs mn)	1,40,246	1,51,111	1,41,642	1,53,748	(1.0)	(1.7)
Net Interest Margin (%)	2.9	2.9	2.9	3.0	-6 bps	-14 bps
Operating Profit (Rs mn)	1,48,708	1,54,327	1,47,026	1,59,187	1.1	(3.1)
Profit after tax (Rs mn)	88,823	1,03,387	86,360	1,08,033	2.9	(4.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials
Exhibit 10: Income statement

Y/E March (RsMn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	3,36,668	4,01,002	4,50,806	4,65,573	5,02,738
Interest Expense	2,34,980	2,78,377	3,10,014	3,25,328	3,51,626
Net Interest Income	1,01,688	1,22,626	1,40,792	1,40,246	1,51,111
Non Interest Income	70,407	32,778	1,40,461	26,131	22,271
Net Revenue	1,72,095	1,55,403	2,81,253	1,66,376	1,73,382
Operating expenses	19,049	14,866	14,977	17,668	19,055
-Employee expenses	13,721	7,165	5,929	6,515	6,848
-Other expenses	5,328	7,701	9,047	11,153	12,207
Pre-Provisioning Operating profit	1,53,046	1,40,538	2,66,277	1,48,708	1,54,327
Provisions	21,150	9,350	59,131	34,832	25,093
PBT	1,31,896	1,31,188	2,07,146	1,13,876	1,29,234
Tax	22,303	34,863	25,813	25,053	25,847
PAT	1,09,593	96,325	1,81,333	88,823	1,03,387

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (RsMn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	3,352	3,443	3,464	3,464	3,464
Reserves & surplus	6,49,808	7,70,593	8,58,117	9,29,175	10,06,715
Networth	6,53,160	7,74,036	8,61,581	9,32,639	10,10,180
Borrowings	31,97,157	36,52,657	41,91,016	44,84,388	49,55,248
Other liability & provisions	1,93,778	2,20,368	3,07,275	2,65,729	2,61,229
Total liabilities	40,44,095	46,47,060	53,59,872	56,82,755	62,26,657
Fixed Assets	6,467	6,562	13,490	13,624	13,761
Investments	3,11,119	4,65,622	6,58,348	7,11,016	7,67,897
Loans	36,28,114	40,66,071	45,09,028	47,79,572	52,57,529
Cash	14,851	15,963	34,257	35,970	37,768
Other assets	83,545	92,844	1,44,750	1,42,573	1,49,702
Total assets	40,44,095	46,47,060	53,59,872	56,82,755	62,26,657

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

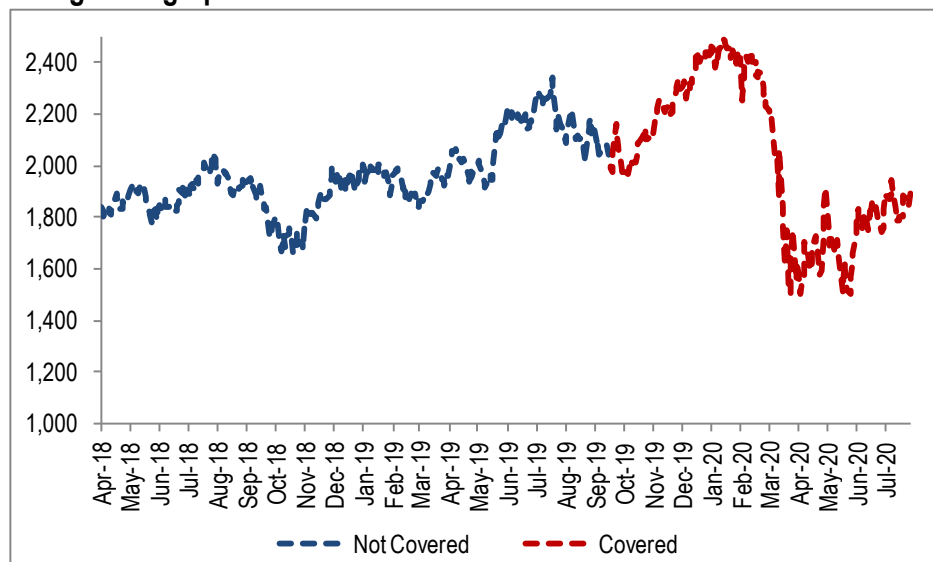
Y/E March- Ratios	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
Net Interest Income	2.2	20.6	14.8	-0.4	7.7
Operating Profit	33.9	-8.2	89.5	-44.2	3.8
Profit After Tax	47.3	-12.1	88.3	-51.0	16.4
Advance Growth	22.4	12.1	10.9	6.0	10.0
Spreads (%)					
Yield on loans	9.6	9.7	9.7	9.4	9.4
Cost of Borrowings	7.8	8.1	7.9	7.5	7.5
Spread	1.7	1.6	1.8	1.9	2.0
NIMs	2.9	3.0	3.1	2.9	2.9
Operational Efficiency (%)					
Cost to Income	11.1	9.6	5.3	10.6	11.0
Cost to AUM	0.6	0.4	0.3	0.4	0.4
CRAR (%)					
Tier I	17.3	17.5	16.6	16.0	15.7
Tier II	1.9	1.5	1.1	1.2	1.2
Total	19.2	19.1	17.7	17.2	16.9
Asset Quality (%)					
Gross NPA	1.1	1.2	2.0	2.8	2.7
Net NPA	0.8	0.8	1.5	1.6	1.1
PCR	28.4	29.0	25.4	43.1	57.9
Credit Cost	0.6	0.2	1.4	0.8	0.5
Return Ratio (%)					
ROE	20.1	13.5	22.2	9.9	10.6
ROA	3.0	2.2	3.6	1.6	1.7
Per Share (%)					
EPS	65.4	56.0	104.7	51.3	59.7
BV (consol.)	578.0	685.3	772.7	833.2	924.2
ABV (consol.)	560.6	665.4	734.4	789.5	889.6
Valuation (x)					
P/E	27.7	32.4	17.3	35.3	30.3
P/BV (consol.)	3.2	2.9	2.3	2.2	2.0
P/ABV (consol.)	3.3	3.0	2.5	2.3	2.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 September 2019	Buy	1,985	2,527
7 October 2019	Buy	1,978	2,528
5 November 2019	Buy	2,180	2,655
8 January 2020	Buy	2,406	2,760
28 January 2020	Buy	2,396	2,771
27 March 2020	Buy	1,755	2,519
9 April 2020	Buy	1,559	2,519
26 May 2020	Buy	1,515	2,062
9 July 2020	Buy	1,886	2,204
31 July 2020	Buy	1,811	2,101

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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