Sharekhan by BNP PARIBAS

Housing Development Finance Corporation

Mixed performance

Sector: Banks & Finance
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 1,811**	
Price Target: **Rs. 2,113**	↔

↑ Upgrade ↔ No change ↓ Downgrade

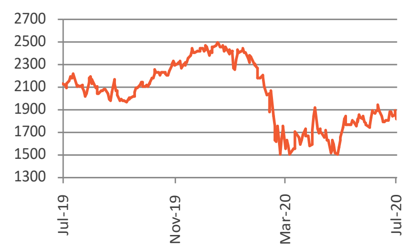
Company details

Market cap:	Rs. 3,14,137 cr
52-week high/low:	Rs. 2499/1822
NSE volume: (No of shares)	224.9 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	173.5 cr

Shareholding (%)

Promoters	0.0
FII	70.2
DII	18.3
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.0	-1.4	-16.8	-14.9
Relative to Sensex	-3.9	-16.7	-15.3	-15.8

Sharekhan Research, Bloomberg

HDFC Limited's results were mixed with better-than-expected operational results (benefitted by stake sale proceeds) and sequentially improved asset quality performance but the pace of loan growth slowed (understandably due to the lockdown) and moratorium book stood at 22.4% for overall loans; (from 26% earlier), the decline was lesser compared to other peers.

Net interest income (NII, Calculated) came at Rs. 3,518.8 crore, up 5% y-o-y and came better than expectations, even though assets under management (AUM) growth slowed. PAT came at Rs. 3,052 crore (up 36.7% q-o-q but was down 4.7% y-o-y, as Q1FY2020 also had a larger Rs. 1,894 crore stake sale benefit). AUM grew by 11% y-o-y on individual loan book, and non-individual book growth was 15%, with overall loan book growing by 12% y-o-y. During the quarter, HDFC focused on lending to only AAA-rated corporates. However, NIM came at 3.1% (down 30 bps q-o-q) impacted by the negative carry on the book of Rs. 181 crore and slower AUM growth.

Retail business growth was impacted due to the lockdown. However, successive m-o-m improvement was seen, which is encouraging with June disbursement being 68% of the disbursements in June 2019 month. Asset-quality performance was mixed bag, with GNPA at 1.87%, down 11 bps q-o-q. Loans opted under moratorium 2 were at 22.4% of the overall book (from 27% as under moratorium 1 earlier). Individual loans under moratorium 2 were 16.6% of the individual loan book (11.7% of the overall), which means that rest of the book is wholesale loans and others, which would be a considerable portion. Moreover, the decline in moratorium book is lower than that observed with other peers. During the quarter, HDFC had a one-time gain from stake sale in subsidiaries, which resulted in Rs. 1,241 crore benefit; and utilising the same, the corporation made provisions of Rs. 1,199 crore (additional provisions for COVID-19).

The impact of COVID-19 is likely to be seen across industries and would affect growth and credit cost for HFCs, including HDFC; and though its loan book quality is well-seasoned in terms of quality, we believe the dynamic environment makes credit costs a key monitorable in Q3. That said, we opine balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, and will help it tide over medium-term challenges. The company is well capitalised (Tier-I at 16.2%); but since it carries surplus liquidity, medium-term NIM may be muted. We have accordingly fine tuned our estimates for FY2021E and FY2022E. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 2,113.

Key positives

- During the quarter, HDFC had a one-time gain from stake sale in subsidiaries, which resulted in Rs. 1,241 crore benefit; and utilising the same, the corporation made provisions of Rs. 1,199 crore (additional provisions for COVID-19).
- As per NHB norms, HDFC is required to carry total provision of Rs. 4,452 crore, against which actual provisions stood at Rs. 12,285 crore, which is over and above regulatory requirement and provides investor comfort.
- Cost-to-income came at 9.0%, stable as compared to Q4 as the company sees digitalisation benefits.

Key negatives

- Individual loans under moratorium 2 were 16.6% of the individual loan book (11.7% of the overall).
- NIMs came at 3.1% (down 30 bps q-o-q) impacted by the negative carry on the book of Rs. 181 crore and slower AUM growth.

Our Call

Valuation: HDFC is currently available at ~3.5x its FY2022E ABV, which we believe is reasonable considering its robust operating metrics, pedigree, strong brand recall across product categories, and sustainable business model. Even as the NBFC industry faces its own challenges, the consistency and relative outperformance of HDFC will help it sustain its growth as well as valuations. We maintain our Buy rating on the stock with an unchanged PT of Rs. 2,113.

Key Risks

Extension of the lockdown and subsequent economic impact may slow growth and cause rating downgrades (including the developer category), which may impact the industry and HDFC.

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	9,635	11,403	15,194	11,716	12,523
PAT	10,959	9,632	17,770	10,994	11,303
EPS (Rs.)	65.4	55.9	102.9	63.4	65.2
P/E (x)	27.7	32.4	17.6	28.5	27.8
ABVPS	339.6	400.9	449.2	483.0	517.7
P/ABV (x)	5.3	4.5	4.0	3.7	3.5
ROE %	16.7	12.3	31.1	11.9	11.5
ROA %	3.0	2.2	5.5	2.0	1.8

Source: Company; Sharekhan estimates

Key result highlights

Asset quality: Gross non-performing loans as of Q1FY2021 stood at Rs. 8,631 crore (down 3% q-o-q). This is equivalent to 1.87% (was 1.99% in Q4FY2020) of the loan portfolio. Non-performing loans of the individual portfolio stood at 0.92% (was 0.95% in Q4FY2020), while that of the non-individual portfolio stood at 4.10% (was 4.71% in Q4FY2020).

Lending operations: Total individual loan approvals grew by 11% in value terms during Q1FY2021. Individual loans comprised 74% of the total AUM.

Individual category continues to be strong: As of Q1FY2021, individual loans at 74% have declined from 76% of AUM in Q4FY2020. Of the incremental growth in the loan book during the quarter ended June 30, 2020, individual loans were 17% y-o-y, while non-individuals growth stood at 83%. On AUM basis, growth in the individual loan book was 11% y-o-y, while growth in the total loan book was 12% y-o-y.

Growth slows, loans assigned: As of June 2020, the corporation assigned individual loans amounting to Rs. 1,376 crore to HDFC Bank. The same in the preceding 12 months was Rs. 18,273 crore. Growth in the individual loan book, after adding back loans sold in the preceding 12 months, was 17% y-o-y. Growth in the total loan book after adding back loans sold was 16% y-o-y.

Results Rs cr

Particulars	Q1FY21	Q1FY20	yoy%	Q4FY20	QoQ%
Revenue from Operations	11,778.3	11,096.1	6.1	11,975.7	(1.6)
Interest Income	10,790.7	10,478.2	3.0	10,963.2	(1.6)
Surplus from MFs etc.	361.7	302.9	NA	241.4	49.9
Dividend Income	300.0	1.1	28,473.3	2.1	14,324.0
Rental Income	16.2	13.3	21.3	21.4	(24.5)
Fee & Commission income	32.2	36.1	(10.6)	65.7	(50.9)
Net gain / (loss) on Fair Value Change	94.0	(45.0)	(308.8)	427.6	(78.0)
Fair Value gain (merger of Gruh)	-	-	NA	-	NA
Profit on Sale of assets	-	13.5	NA	16.8	NA
Income on de-recognised / assigned loans	183.4	296.2	(38.1)	237.6	(22.8)
Total Operating Income	**11,778.3**	**11,096.1**	**6.1**	**11,975.7**	**(1.6)**
Other Income	1.6	5.8	(72.3)	5.9	(72.9)
Total Income	**11,779.9**	**11,101.9**	**6.1**	**11,981.7**	**(1.7)**
Finance Cost	7,817.1	7,739.3	1.0	7,661.8	2.0
Net Interest Income	**3,518.8**	**3,338.0**	**5.4**	**3,780.3**	**(6.9)**
Employee Benefit Expenses	160.4	155.4	3.2	139.6	14.9
Establishment expense	13.7	18.3	(25.4)	5.2	164.8
Other Expenses	188.1	178.8	5.2	165.5	13.7
Depreciation and Amortisation	34.6	29.2	18.5	43.2	(19.7)
Pre-Provision Profit	**3,566.0**	**2,980.9**	**19.6**	**3,966.4**	**(10.1)**
-Add: Profit on sale of investments	1,241.2	1,894.2	NA	-	NA
-Less: Provision on Expected Credit Loss	1,199.0	890.0	34.7	1,274.0	(5.9)
Profit before Tax	**3,608.2**	**3,985.1**	**(9.5)**	**2,692.4**	**34.0**
Tax Expense	**555.3**	**782.0**	**(29.0)**	**459.9**	**20.7**
- Current	839.4	903.6	(7.1)	541.7	55.0
- Deferred Tax	(284.1)	(121.6)	NA	(81.8)	NA
Profit after Tax	**3,052.9**	**3,203.1**	**(4.7)**	**2,232.5**	**36.7**

Source: Company; Sharekhan Research

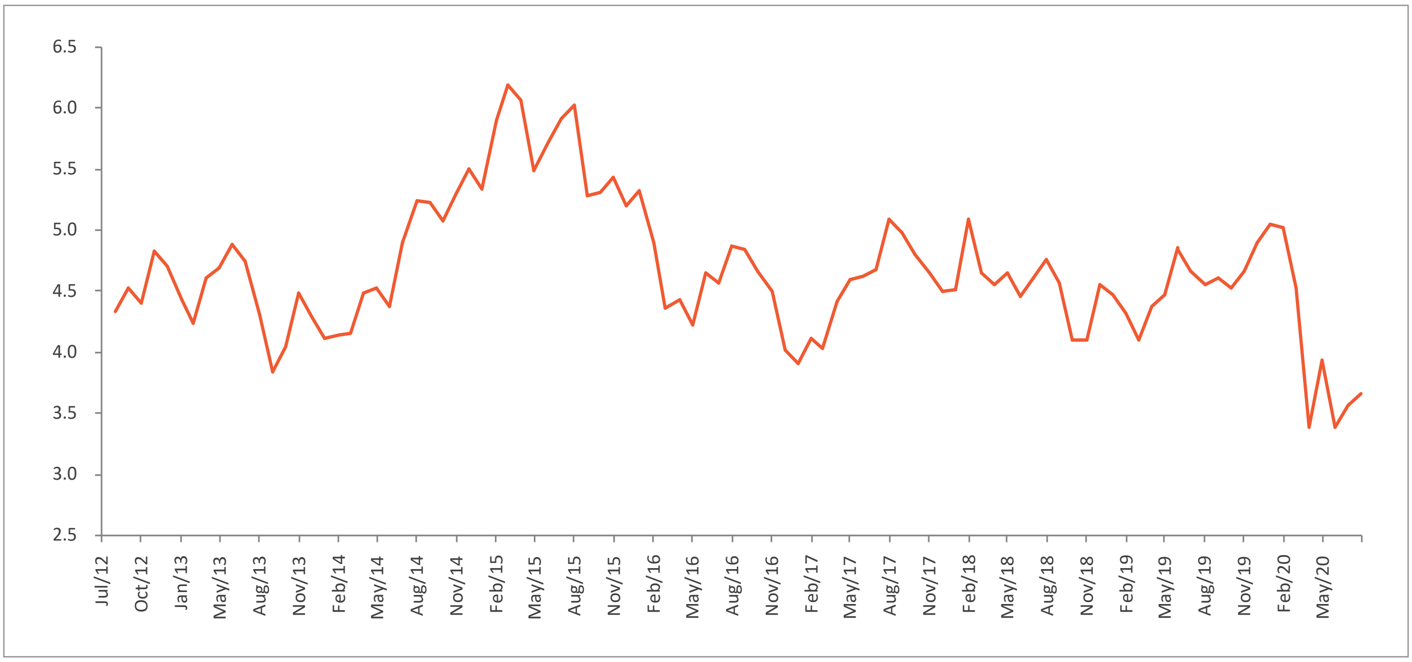
Outlook

HDFC's results were stable and management has indicated that given the prolonged uncertainty and risk aversion in the lending environment for non-individual loans, the corporation continued to be prudent in its lending. While there was sequential improvement in asset quality, there was some impact due to the lockdown. However, we expect high provisions cover and stable margins to be supportive. At such times, we believe the need to have a cautious growth and incremental growth should be high quality as well. Balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, which offer key support to long-term investments. The company is well capitalised at CRAR of 17.3% and Tier-1 of 16.2% (minimum requirement of 13% and 10%, respectively) and is comfortably placed. Given the market dominance of HDFC, we expect the leadership to sustain going forward, as the business environment normalises. HDFC's strong operating metrics, supported by its industry's best credit rating, enable it to attract best rates and, hence, optimum COF, which will be crucial supports for margins.

Valuation

HDFC is currently available at ~3.5x its FY2022E ABV, which we believe is reasonable considering its robust operating metrics, pedigree, strong brand recall across product categories, and sustainable business model. Even as the NBFC industry faces its own challenges, the consistency and relative outperformance of HDFC will help it sustain its growth as well as valuations. We maintain our Buy rating on the stock with an unchanged PT of Rs. 2,113.

One year forward P/BV Chart



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HDFC Ltd	1,811	3.7	3.5	28.5	27.8	2.0	1.8	11.9	11.5
Bajaj Finance	3,218	5.3	4.5	42.9	26.0	2.5	3.7	13.0	18.5
LIC Housing Finance	264	0.7	0.6	7.7	5.4	0.7	1.1	9.1	12.1

Source: Company, Sharekhan research

About company

Housing Development Finance Corporation (HDFC) Limited is a major provider of finance for housing in India. The company is also present in banking, life and general insurance, asset management, venture capital, realty, education, deposits, and education loans via its formidable subsidiaries. As pioneers in housing mortgages, it is a brand name that has been characterised by trust, solidity, both financial and managerial, and sound principles. Established in 1977, HDFC has been able to maintain and set high standards in the housing finance sector.

Investment theme

HDFC has a strong portfolio of subsidiaries, which are market leaders in their own respective fields, which add to the value of the parent. By virtue of its strong market position, it has been able to withstand most market headwinds in the recent past. The impact of COVID-19 is likely to be seen across industries and would impact growth and credit cost for NBFCs, including HDFC. However, balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, and will help it tide over medium-term challenges. We believe HDFC is an attractive business franchise due to its strong retail book, a quality developer finance book (with sufficient cover), opportunity of quality market share gains (AUM growth), access to reasonably priced funds, and superior underwriting practices.

Key Risks

Extension of the lockdown and subsequent economic impact may slow growth and cause rating downgrades (including the developer category), which may impact the industry and HDFC.

Additional Data

Key management personnel

Renu S Karnad	Managing Director
Keki M Mistry	Vice Chairman & CEO
Mr V Srinivasa Rangan	Whole Time Director

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.4
2	Vanguard Group Inc/The	4.3
3	Invesco Ltd	3.8
4	INVESCO ADVISERS INC	3.5
5	Republic of Singapore	3.2
6	JPMorgan Chase & Co	2.9
7	SBI Funds Management Pvt Ltd	2.8
8	BlackRock Inc	2.7
9	FMR LLC	1.8
10	FIL Ltd	1.4

Source: Bloomberg

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