

HDFC

Healthy growth on stable asset quality

- HDFC Ltd. managed to maintain healthy growth momentum of ~16% yoy on an improvement in housing demand (~91% disbursements for new homes) across geographies. Adjusting for loans sold to HDFC Bank, AUM grew ~9.3% yoy to Rs5.52tn. The company assigned loans of Rs70.8bn to HDFC Bank vs. Rs42.6bn last year.
- NIMs remained stable at ~3.4% in Q3, supported by steady overall spreads of ~228bps (flat sequentially). The company manages spreads on individual loans at ~194bps while on non-individual book at ~314bps. Operational performance remained healthy with an improvement in cost-to-income ratio at ~8.1% vs. ~9.6% last year.
- Gross NPAs (without asset standstill) stood at ~1.91% of the loan portfolio (individual loans at 0.98% and non-individual at ~4.35%). Restructured loans stood at 0.9% of loans. Sharp rise in Stage-2 assets (~46% qoq) to Rs342.1bn remains a concern but management indicated it as a technical issue (OTR related, etc.) and the resolution of it as likely.
- HDFC remains our top pick considering the surge in housing demand and its ability to manage market share, superior liability franchise and healthy provision cover. We raise FY22/23E EPS by ~15%. Retain Buy (OW in EAP) with a revised TP of Rs3,020, ~2.1x P/B Mar'23E (standalone).

What we like about HDFC results

- We believe that HDFC is able to gain market share, especially from other HFCs and even smaller banks due to its superior liability franchise providing it an advantage on the cost of fund front.
- NIM witnessed a sequential improvement at 3.4% from 3.3% during last quarter as the company has gradually unwound its high liquidity levels seen in the previous quarter.
- The company continues to maintain heavy provision buffer with overall provisions available in balance sheet of Rs123.4bn against provision requirement of Rs65.8bn. The provisions carried as a percentage of the Exposure at Default (EAD) is equivalent to 2.56%.

Where we remain concerned

- Our market share analysis suggests consistent market share loss by HFCs to Banks which we expect to intensify further. Though HDFC Ltd still managed to hold its position due to superior reach and best-in-class liability franchise, in the housing segment competitive pressure is imminent.
- The sharp shift in Stage-2 assets to Stage-3 assets would be a concern; however, the high provision buffer provides comfort.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	155,403	277,620	174,041	205,284	231,229
Net profit	96,325	177,697	112,011	134,803	156,654
EPS (Rs)	56.0	102.6	63.2	76.1	88.5
ABV (Rs)	448.4	497.4	570.3	623.6	164.0
RoA (%)	2.5	4.1	2.3	2.4	2.4
RoE (%)	13.5	21.7	12.0	12.8	13.5
PE (x)	47.5	25.9	42.0	34.9	30.1
P/ABV	5.9	5.3	4.7	4.3	16.2

Source: Company, Emkay Research

CMP	Target Price
Rs 2,659	Rs 3,020 (▲)
as of (February 2, 2021)	12 months
Rating	Upside
BUY (■)	13.6 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	15/15
Target Price change (%)	30.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	63.2	76.1
Consensus	57.9	69.5
Mean Consensus TP (12M)	Rs 2,648	

Stock Details

Bloomberg Code	HDFC IN
Face Value (Rs)	2
Shares outstanding (mn)	1,800
52 Week H/L	2,778 / 1,473
M Cap (Rs bn/USD bn)	4,787 / 65.60
Daily Avg Volume (nos.)	5,302,489
Daily Avg Turnover (US\$ mn)	173.5

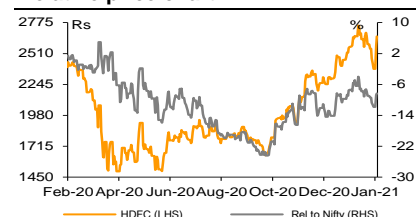
Shareholding Pattern Dec '20

Promoters	-%
FIIIs	72.0%
DIIIs	17.1%
Public and Others	10.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	30	49	17
Rel. to Nifty	(1)	4	13	(7)

Relative price chart



Source: Bloomberg

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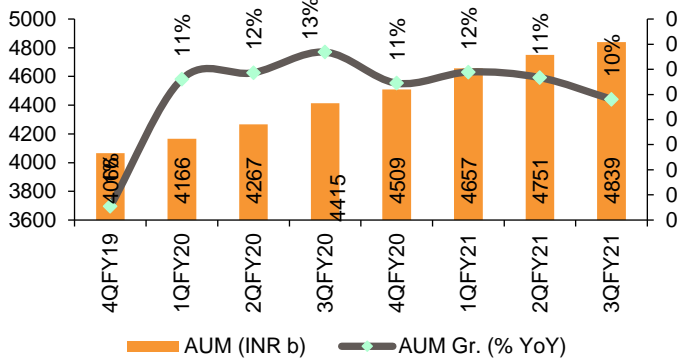
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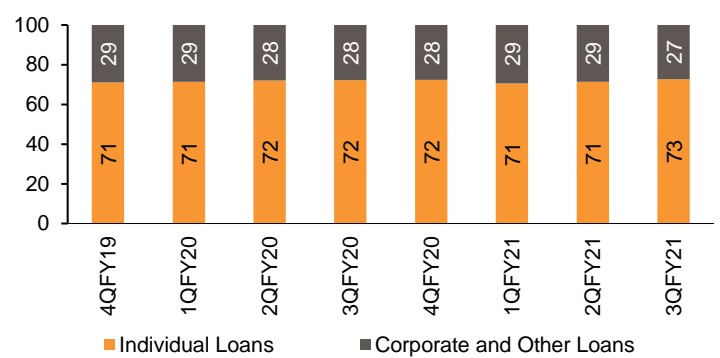
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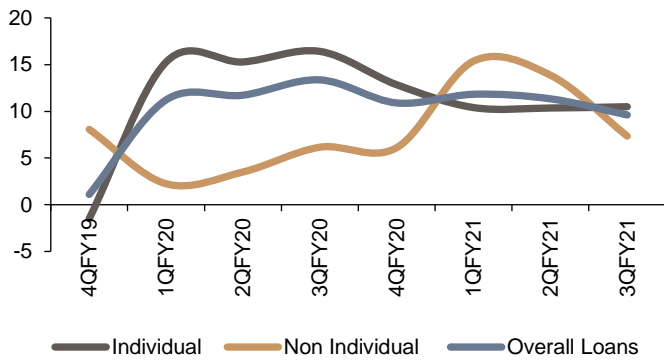
Story in Charts

Exhibit 1: Improving retail traction maintains AUM growth momentum


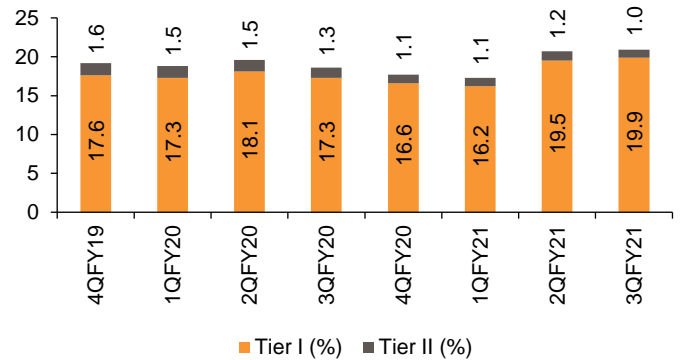
Source: Company, Emkay Research

Exhibit 2: Share of individual loans increase to 73% of loan book


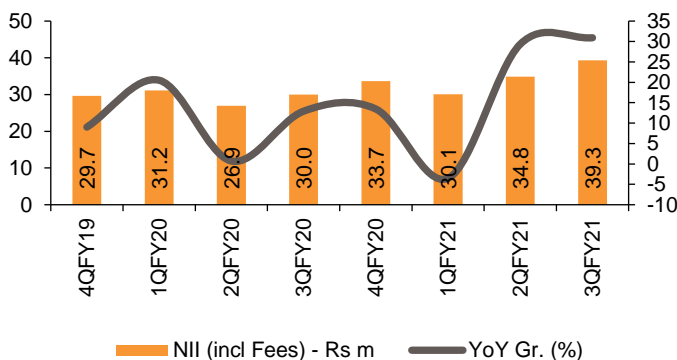
Source: Company, Emkay Research

Exhibit 3: Individual loans show good signs of revival


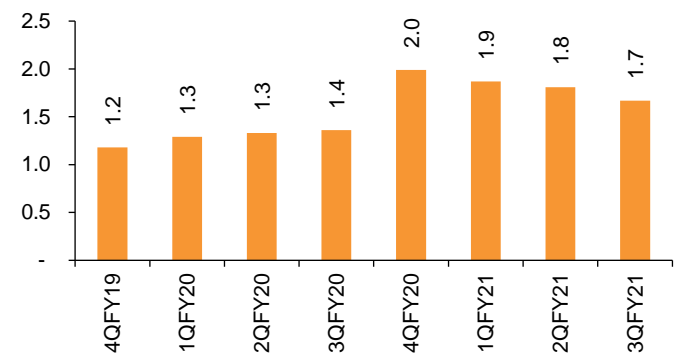
Source: Company, Emkay Research

Exhibit 4: CAR stands at 20.9%


Source: Company, Emkay Research

Exhibit 5: NII surges on business revival and sharp cut in cost of funds


Source: Company, Emkay Research

Exhibit 6: GNPA' sequentially improve to 1.7%. However, pro forma GNPA's come in at 1.91%


Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q3FY21)

Rs mn	Actual	Estimate (Emkay)	Estimate (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net Interest income	38,775	34,812	37,515	11.4%	3.4%	Strong disbursements boost NII
Operating Profit	43,465	35,464	38,580	22.6%	12.7%	In line with estimates
PAT	29,258	23,254	27,121	25.8%	7.9%	Business revival boosts PAT

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Interest income	107,274	109,632	107,907	108,251	107,102	-0.2%	-1.1%	439,055	431,129	-1.8%
Interest expenses	77,696	76,618	78,171	73,991	68,327	-12.1%	-7.7%	310,014	289,524	-6.6%
NII	29,578	33,014	29,736	34,260	38,775	31.1%	13.2%	129,042	141,605	9.7%
Other income	5,443	10,160	9,874	9,076	10,062	84.9%	10.9%	148,578	32,436	-78.2%
Net Income	35,021	43,174	39,610	43,336	48,837	39.5%	12.7%	277,620	174,041	-37.3%
% of operating profit	18.4%	30.8%	33.2%	26.5%	25.9%			115.1%	22.9%	
Operating expenses	3,839	3,534	3,964	3,658	5,372	39.9%	46.8%	14,979.6	17,578.1	17.3%
Operating profit	31,182	39,640	35,646	39,678	43,465	39.4%	9.5%	262,640	156,463	-40.4%
Provisions	29,950	12,740	11,990	4,360	5,940	-80.2%	36.2%	59,131	27,980	-52.7%
Profit before tax before extraordinary items	1,232	26,900	23,656	35,318	37,525	2946.4%	6.3%	203,509	140,894	-30.8%
Extraordinary items	90,198	25	12,412	0	0			0.0	12,412.0	
Tax	7,705	4,599	5,553	6,617	8,267	7.3%	24.9%	25,813	28,883	11.9%
Tax rate (%)	625.5%	17.1%	23.5%	18.7%	22.0%			12.7%	20.5%	
Profit after tax	83,725	22,325	30,515	28,701	29,258	-65.1%	1.9%	177,697	112,011	-37.0%
AUM	4,414,720	4,509,030	4,656,850	4,751,210	4,839,190	9.6%	1.9%	4,399,433	4,927,365	12.0%

Source: Company, Emkay Research

Exhibit 9: SOTP FY22E

Particulars	Stake (%)	Value per share (Rs)	% of total	Rationale
Core business	100.0%	1,232	41%	ERoE
HDFC Bank	26.1%	1,504	49%	3.6x Mar'23 Adj BV
HDFC Standard Life	49.9%	447	15%	4.3x P/FY23 EV
HDFC General Insurance	50.5%	51	2%	40x Mar'20 Earnings
HDFC AMC	52.8%	188	6%	50x Mar'20 Earnings
Bandhan Bank	9.9%	45	1%	3.1x Mar'23 Adj BV
Value of Subsidiaries / Associates		2,235	73%	
Less: 20% holding discount		447	15%	
Value of Subsidiaries / Associates (post hold. co. discount)		1,788	59%	

Target Value Post 20% Holding Company Discount**3,020 100%**

Source: Company, Emkay Research

Exhibit 10: Revision in earnings estimates

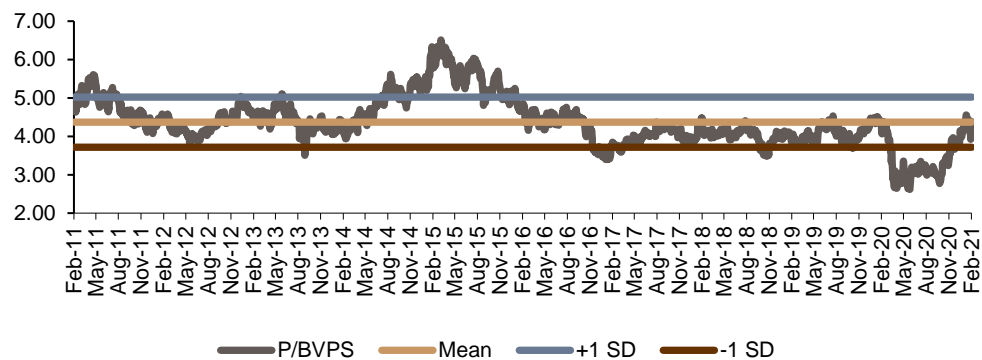
Y/e Mar (Rs m)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	133,916	141,605	5.7%	144,748	158,745	9.7%	163,643	178,669	9.2%
PPOP	146,340	156,463	6.9%	168,700	185,956	10.2%	188,080	210,007	11.7%
PAT	99,020	112,011	13.1%	117,786	134,803	14.4%	136,153	156,654	15.1%
EPS (Rs)	56	63	13.1%	67	76	14.5%	77	88	15.2%
BV (Rs)	555	570	2.7%	587	624	6.2%	629	686	9.0%

Source: Company, Emkay Research

Exhibit 11: Key assumptions

(in %)	FY20	FY21E	FY22E	FY23E
AUM growth	9.8%	12.0%	16.0%	18.0%
Borrowings growth	14.7%	9.3%	15.4%	18.0%
Yield on average loans	9.2%	8.1%	7.9%	7.7%
Cost of average int. liabilities	7.9%	6.6%	6.4%	6.2%

Source: Company, Emkay Research

Exhibit 12: The stock currently trades at 4.4x 1-year forward P/B

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	114,566	129,042	141,605	158,745	178,669
Other income	40,838	148,578	32,436	46,540	52,560
Fee income	2,124	2,172	2,194	2,413	2,775
Net income	155,403	277,620	174,041	205,284	231,229
Operating expenses	14,866	14,980	17,578	19,328	21,222
Pre provision profit	140,538	262,640	156,463	185,956	210,007
Provisions	9,350	59,131	27,980	15,965	12,460
Profit before tax	131,188	203,509	128,482	169,991	197,547
Tax	34,863	25,813	28,883	35,188	40,892
Tax rate	27	13	22	21	21
Profit after tax	96,325	177,697	99,599	134,803	156,654

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	3,443	3,464	3,542	3,542	3,542
Reserves	770,112	858,117	1,006,446	1,100,809	1,210,467
Net worth	773,555	861,581	1,009,988	1,104,350	1,214,009
Deposits	3,652,660	4,191,016	4,582,449	5,287,062	6,238,734
Total liabilities	4,587,776	5,240,936	5,814,677	6,649,211	7,749,210
Cash and bank	15,963	34,257	53,871	59,537	67,121
Investments	462,404	649,444	668,927	702,373	758,563
Loans	4,007,600	4,399,433	4,927,365	5,715,743	6,744,577
Others	95,367	147,941	154,554	161,498	168,789
Total assets	4,587,776	5,240,936	5,814,677	6,649,211	7,749,210

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.7	2.7	2.7	2.6	2.6
RoA	2.5	4.1	2.3	2.4	2.4
RoAE	13.5	21.7	12.0	12.8	13.5
GNPA (%)	1.1	1.1	1.1	1.0	1.0
NNPA (%)	0.8	0.8	0.8	0.8	0.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	56.0	102.6	63.2	76.1	88.5
BVPS	449.4	497.4	570.3	623.6	685.5
ABVPS	448.4	497.4	570.3	623.6	164.0
DPS	21.0	21.0	19.0	22.8	16.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	47.5	25.9	42.0	34.9	30.1
P/BV	5.9	5.3	4.7	4.3	16.2
P/ABV	5.9	5.3	4.7	4.3	16.2
Dividend Yield (%)	0.8	0.8	0.7	0.9	0.6

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	18.9	12.6	9.7	12.1	12.6
PPOP	(8.2)	86.9	(40.4)	18.9	12.9
PAT	(12.1)	84.5	(43.9)	35.3	16.2
Loans	12.1	9.8	12.0	16.0	18.0

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
NII	29,578	33,014	29,736	34,260	38,775
NIM(%)	2.9	3.1	2.7	3.0	3.3
PPOP	31,182	39,640	35,646	39,678	43,465
PAT	83,725	22,325	30,515	28,701	29,258
EPS (Rs)	48.40	12.89	17.59	15.98	16.25

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	-	-	-	-	-
FII	72.8	70.9	70.2	70.0	72.0
DII	16.5	17.8	18.3	18.5	17.1
Public and Others	10.8	11.3	11.5	11.6	10.9

Source: Capitaline

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.52	8.51	0%	0	100.00
Bajaj Finance	1.69	1.69	0%	0	19.84
Cholamandalam Investment	0.22	0.24	8%	2	2.80
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.85	5.87	0%	1	68.90
L&T Finance Holdings	0.09	0.10	8%	1	1.15
LIC Housing Finance	0.17	0.17	6%	1	2.05
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.12	0.05	-58%	-7	0.60
Nippon Life	0.06	0.06	0%	0	0.72
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.31	0.34	7%	2	3.94
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

High Conviction/Strong Over Weight High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Feb-20	3-Aug-20	2-Nov-20	1-Jan-21	1-Feb-21
EAP - BFSI-NBFCs	100.0	118.0	88.9	102.6	135.3	136.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	111.9	83.8	96.3	127.2	127.9

*Performance measurement base date 1st April 2019

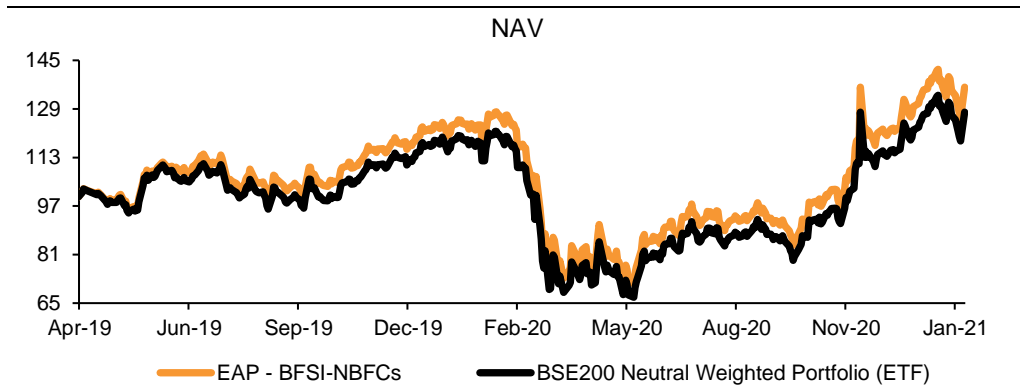
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	0.7%	32.7%	53.1%	15.5%
BSE200 Neutral Weighted Portfolio (ETF)	0.6%	32.8%	52.6%	14.3%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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