

HDFC Limited

BUY

CMP Rs2,497

Target Rs3,020

Upside 21%

Solid traction in Individual Loans - annualized 18% growth run-rate in Q4

Individual loans AUM (Home Loans + LAP) of HDFC grew by robust 4.6% qoq/12% yoy, representing a sustained sequential growth acceleration through FY21. Disbursements in Q4 FY21 grew by 60% yoy and were highest-ever in March. While prepayment rate stood at 10.3% for FY21 (historically 10-12%), it was higher during the last quarter with significant increase in part-prepayments (not BT Out). Share of individual loans in incremental growth was 92% and 116% in FY21 and Q4 respectively. Growth in construction finance and LRD remains impacted by cautious disbursements and accelerated run-off.

Steady NIM and healthy core PPOP growth - remains immune to competition

Individual loan spreads of HDFC continues to be steady at 1.9%, notwithstanding tight competition in the market and the corporation not just maintaining but gaining marginal market share in recent quarters. Matching the decline in portfolio yield (strong disbursement momentum + existing loan re-pricing), the borrowing cost came-off on the back of favorable wholesale funding environment, bank's risk-aversion in HFC/NBFC segment and proactive cuts effected by the co. in deposit rates. Cumulative NIM improved further to 3.5% with systematic reduction of surplus liquidity. Core PPOP (adj. for non-operating and other income) growth in Q4/FY21 stood at 15.5%/17%, well ahead of AUM growth.

Stable asset quality - comforting ECL coverage on non-individual stress portfolio

Gross NPLs (Stage-3 assets) in individual loan segment was flat sequentially, while there was some increase in the non-individual loans. Collection efficiency through Q4 FY21 stood near pre-Covid level at 98% for individual loans, as against 96.3% in September (first month after moratorium). This portfolio remained pristine amid the first wave, reflected in 97% of loans in Stage-1 and marginal restructuring of <30 bps. Restructuring was 2.5% in non-individual loans portfolio, with one single account being 2%. ECLGS sanctions stand at 40 bps of AUM. Both restructured assets and ECLGS disbursements have been categorized as Stage-2 assets. While Stage-2 and Stage-3 levels in non-individual loans are high at 19% and 5% respectively, HDFC is holding significant coverage on them at 21% and 70% respectively. During Q4, the Covid buffer was also raised by Rs2.5bn to Rs8.4bn (20 bps of loan book)

Watchful near-term commentary - management confident about quick recovery

As per management, April did not witness any significant impact from the pandemic resurgence, as quantum of new loan applications was healthy, disbursements till the first week of May were higher than Q1 FY21 and collection efficiency was in-line with April 2019 (near normal). While business activity and collections is likely to get hit in May, HDFC remains confident of a swift recovery in operations post easing of the pandemic.

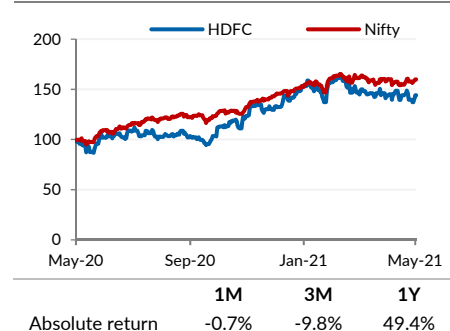
A relatively stronger play on structural housing upcycle - initiate coverage with a BUY and 12m PT of Rs3020

Considering HDFC's strong market position (~18% market share in individual mortgages), robust distribution and execution architecture (being bolstered by origination tie-ups), high-quality portfolio of individual loans, well-provided stress in non-individual segment (32% provisioning on PAR 30) and robust capital position (Tier-1 at 21.5% and D/E at 4.2x), we believe that company is well-placed to benefit from a widely expected structural housing market recovery. As compared to H2 FY21, we see stronger growth and asset quality outcomes over FY22-24 as business and asset quality should improve in non-individual segment also. We project core PPOP growth of 13-14% over FY21-24 with stable spreads (competition unlike to impact in future too). Initiate coverage with a BUY and 12m PT of Rs3020. The core mortgage business is available at 1.9x FY23 P/ABV.

Stock data (as on May 07, 2021)

Sensex:	14,823
52 Week h/l (Rs)	2896 / 1486
Market cap (Rs/USD mn)	4503994 / 61269
Outstanding Shares	1,804
6m Avg t/o (Rs mn):	10,757
Div yield (%):	1.8
Bloomberg code:	HDFC IN
NSE code:	HDFC

Stock performance



Shareholding pattern

Promoter	0.0%
FII+DII	88.9%
Others	10.9%

Financial Summary

	FY22E	FY23E	FY24E
Op. income	182,471	205,912	234,758
Core PPOP	162,684	184,211	210,953
Net profit	116,330	139,539	160,687
Growth (%)	(3.3)	20.0	15.2
EPS (Rs)	64.5	77.4	89.1
ABVPS (Rs)	609.9	660.6	723.0
P/E (x)	38.7	32.3	28.0
P/adj.BV (x)	4.1	3.8	3.5
ROE (%)	10.4	11.6	12.3
ROA (%)	2.0	2.1	2.2
CAR (%)	22.4	21.5	20.8

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CON-CALL HIGHLIGHTS

- ✓ Management had initially expected to achieve 75-80% of FY20 individual loan disbursements in FY21, but the co. was able to achieve 103%.
- ✓ Maharashtra contributed 28% of H2 FY21 individual loan disbursements v/s 26% in same period last year.
- ✓ Individual loan disbursements grew by 42% yoy in H2 FY21, 60% yoy in Q4 FY21 and was highest-ever in March - Individual loan AUM grew by 12% yoy in FY21.
- ✓ Individual loan disbursements ATS has been increasing due to pick-up in high-end property demand in the Metros.
- ✓ Of the incremental loan book growth in FY21, 92% was individual loans - the share of same In Q4 FY21 was 116% (de-growth in non-individual loans portfolio due to large prepayments).
- ✓ Prepayments of individual loans in FY21 stood at 10.3% of opening balance during FY21 v/s 10-12% witnessed in preceding years.
- ✓ Prepayments were around Rs400bn in FY21 v/s Rs370bn in FY20, and about 60% were full pre-payments (so BT Out at 5-6%) and 40% part-prepayments - higher prepayments were witnessed in Q4 FY21, but the share of part-prepayments was large.
- ✓ Received pre-payments worth Rs94bn (7% of opening non-individual book) during FY21 due to launch of REITs.
- ✓ ECLGS sanctions and disbursements as of March 31 at Rs24.8bn and Rs9.4bn respectively.
- ✓ Restructured loans at Rs45bn, 0.8% of AUM - 27% is Individual Loans and 73% Non-Individual Loans - 58% of restructured pool was just one account.
- ✓ Collection efficiency in March stood at 98% (near pre-Covid level) compared to 96.3% in Sept - collection efficiency in April is lower than March (usual drop), but in-line with April 2019 (normal level).
- ✓ Disbursements in Q1 FY22 (till May 6) have crossed the quantum of Q1 FY21 - second wave has had some impact on enquiries, but not to the extent feared (loan applications received in April were healthy).
- ✓ Growth being witnessed in both affordable housing and high-end markets in cities like Mumbai, Delhi and Bangalore.
- ✓ Stage-2 and Stage-3 in the non-individual segment would be mainly from construction finance and corporate loans portfolios.
- ✓ ECLGS loans and Restructured assets have been classified as Stage-2 assets - reason behind increase in this bucket from 5.5% to 6.3% during the year.
- ✓ Covid provisioning at Rs8.1bn (1.5% of loan book) is against loan exposure to borrowers employed in the more affected sectors - management will review the level of provisioning during the current year, but the underlying approach will be to retain over-provisioning.
- ✓ First wave did not have much impact on asset quality of the individual loans book.
- ✓ Spreads maintained despite competition - co. has been proactive in cutting deposit rates (current rates 6-6.2%) - wholesale funding rates have been favorable - reduction in lending rates not driven by competitive pressure.

- ✓ Open to other HFCs sourcing loans, but loans will ultimately get approved by HDFC after credit, legal and technical checks.
- ✓ RBI had asked to bring stake in insurance subs to 50% which has been achieved - there is no indication or requirement from the regulator to bring stake below 50%.

Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Interest Income	105,930	108,374	(2.3)	112,046	(5.5)
Interest Expended	(65,660)	(68,327)	(3.9)	(76,618)	(14.3)
Net Interest Income	40,271	40,047	0.6	35,428	13.7
Net Rev. from Operations	45,320	44,682	1.4	38,461	17.8
Non-Operating Income	6,096	4,155	46.7	4,738	28.7
Total Income	51,416	48,837	5.3	43,198	19.0
Operating expenses	(4,986)	(5,372)	(7.2)	(3,534)	41.1
Core PPOP	40,334	39,310	2.6	34,927	15.5
Reported PPOP	46,429	43,465	6.8	39,664	17.1
Provisions	(7,190)	(5,940)	21.0	(12,740)	(43.6)
PBT	39,239	37,525	4.6	26,924	45.7
Tax	(7,441)	(8,267)	(10.0)	(4,599)	61.8
Reported PAT	31,798	29,258	8.7	22,325	42.4

Source: Company, YES Sec - Research

Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
AUM	5,698,940	5,521,670	3.2	5,167,730	10.3
Individual	4,388,184	4,196,469	4.6	3,927,475	11.7
Corporate	341,936	331,300	3.2	258,387	32.3
Const. Finance	569,894	607,384	(6.2)	568,450	0.3
LRD	398,926	386,517	3.2	413,418	(3.5)
Loan book	4,982,980	4,839,190	3.0	4,509,030	10.5
Individual	3,688,040	3,519,380	4.8	3,259,000	13.2
Non-Individual	1,294,940	1,319,810	(1.9)	1,250,030	3.6
RWA	3,980,000	4,085,000	(2.6)	3,930,000	1.3

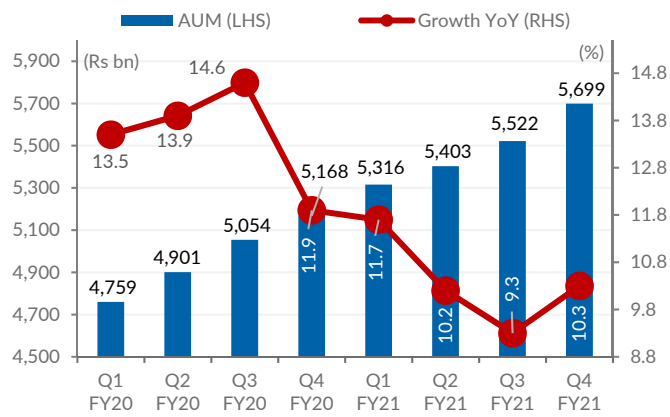
Source: Company, YES Sec - Research

Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	3.5	3.4	0.1	3.4	0.1
Spread	2.3	2.3	0.0	2.3	0.0
Individual loan spread	1.9	1.9	(0.0)	1.9	0.0
Non-Individual loan spread	3.2	3.1	0.1	3.1	0.1
Cost to Income*	9.7	11.0	(1.3)	8.2	1.5
Gross NPA	2.0	1.7	0.3	2.0	(0.0)
RoA	2.3	2.1	0.3	1.8	0.6
RoE	12.7	11.0	1.7	10.6	2.1
CAR	22.2	20.9	1.3	17.6	4.6

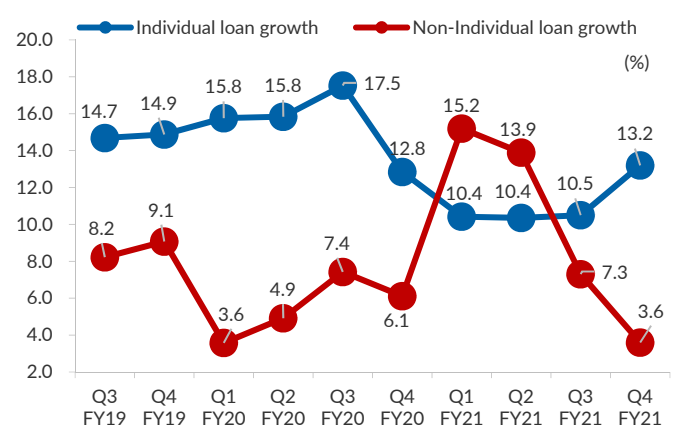
Source: Company, YES Sec - Research; * Calculated

Exhibit 4: AUM growth gaining traction



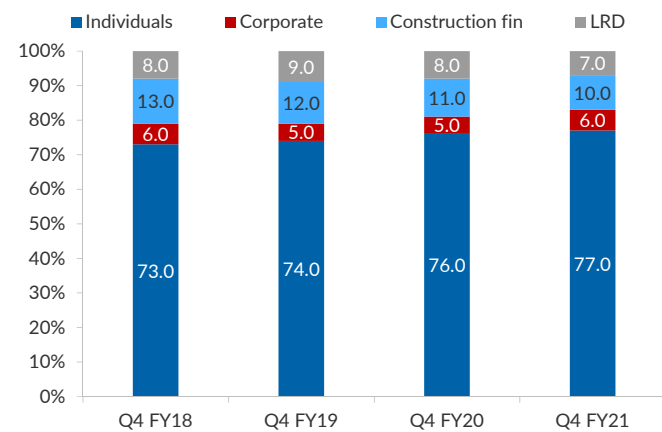
Source: Company, YES Sec - Research

Exhibit 5: More resilient Individual loan book growth



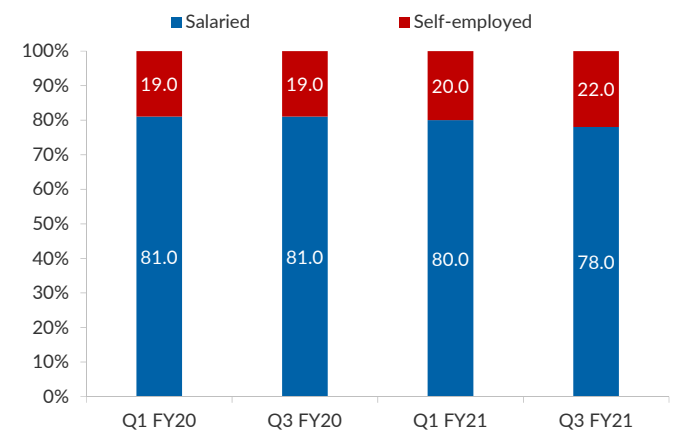
Source: Company, YES Sec - Research

Exhibit 6: Share of individual mortgages increasing



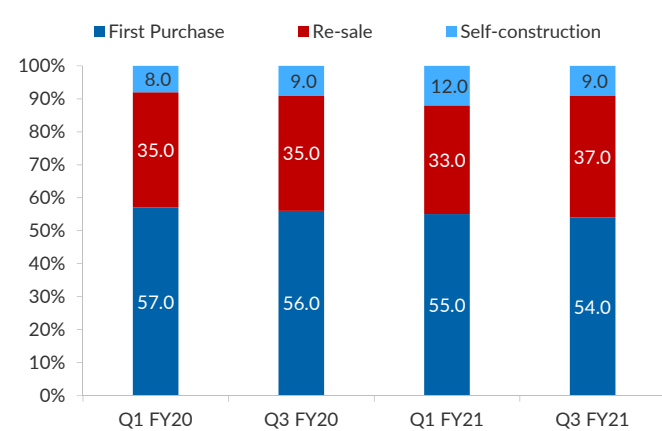
Source: Company, YES Sec - Research

Exhibit 7: Salaried focus remains within individual loans



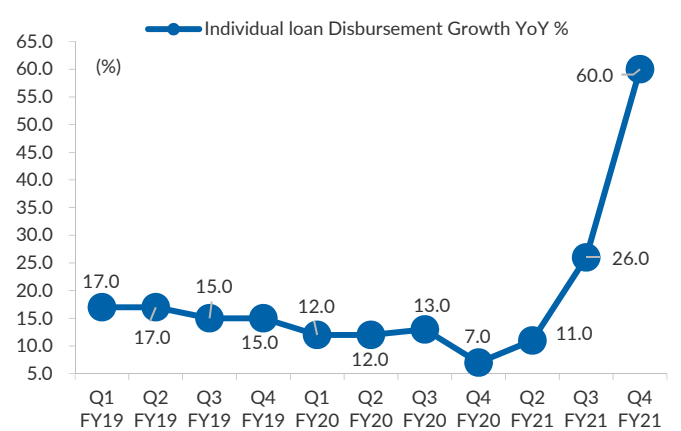
Source: Company, YES Sec - Research

Exhibit 8: Individual loans mix by House type stable



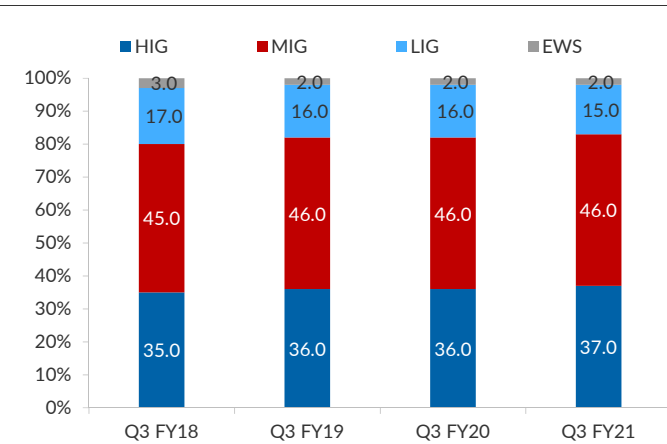
Source: Company, YES Sec - Research

Exhibit 9: Exceptional uptick in disbursement growth



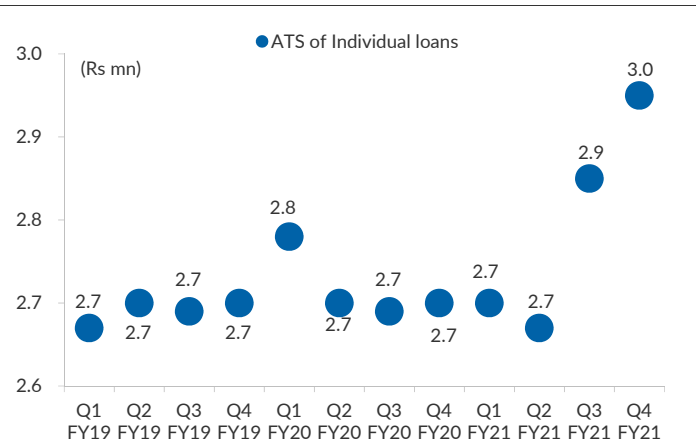
Source: Company, YES Sec - Research

Exhibit 10: Demographic mix of Home Loans approval



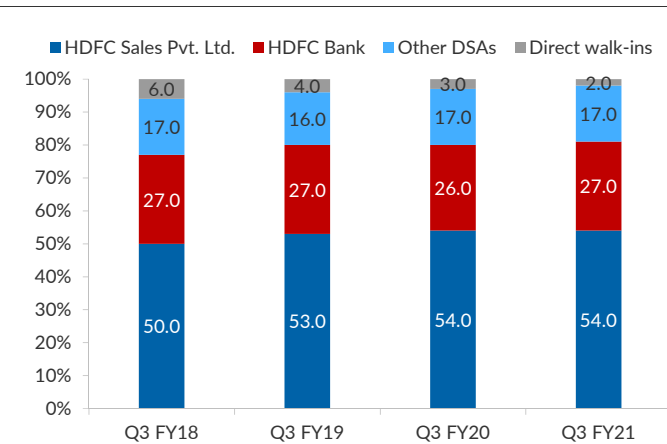
Source: Company, YES Sec - Research

Exhibit 11: Disbursement ATS increasing due to pick-up in demand for high-end properties



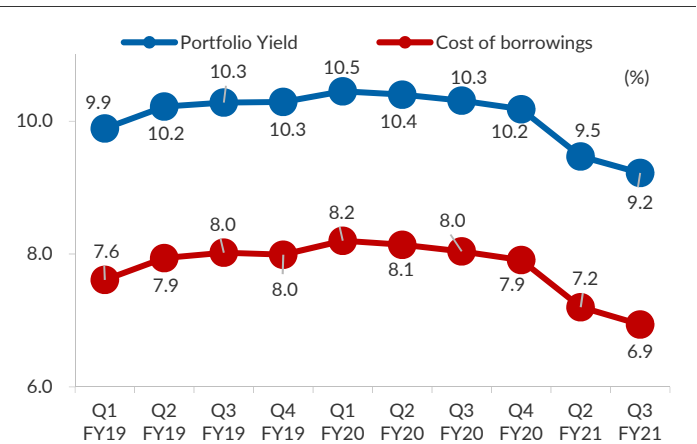
Source: Company, YES Sec - Research

Exhibit 12: Internal loan sourcing - an integral strength



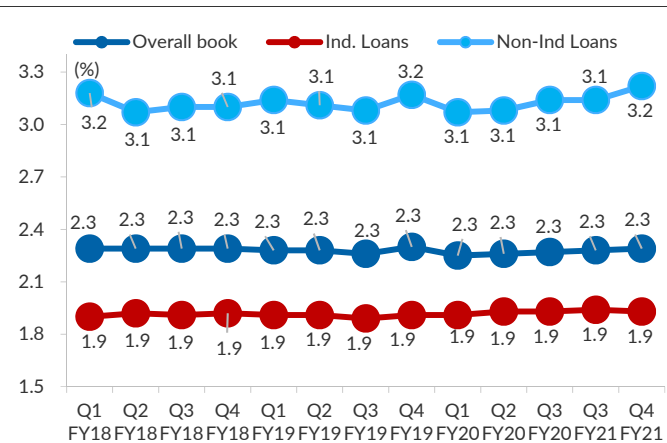
Source: Company, YES Sec - Research

Exhibit 13: Systemically managing loan spreads



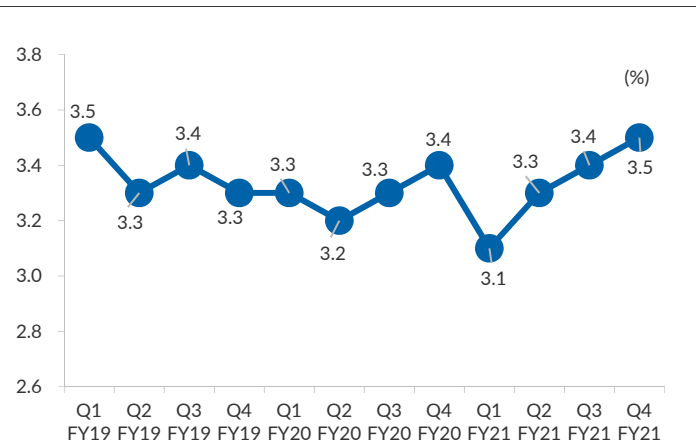
Source: Company, YES Sec - Research

Exhibit 14: Segmental loan spreads rock-solid



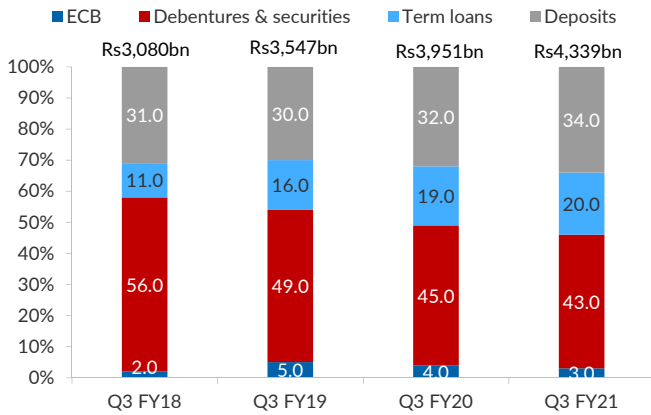
Source: Company, YES Sec - Research

Exhibit 15: Margins in narrow band



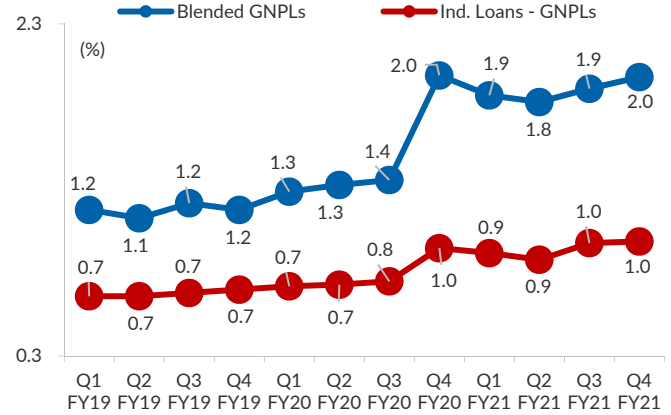
Source: Company, YES Sec - Research

Exhibit 16: Reliance on Bank TLs & Deposits increased



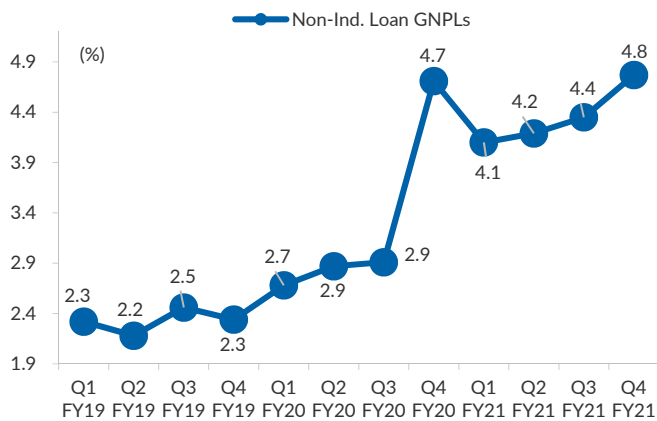
Source: Company, YES Sec - Research

Exhibit 17: Capped impairment of individual loans



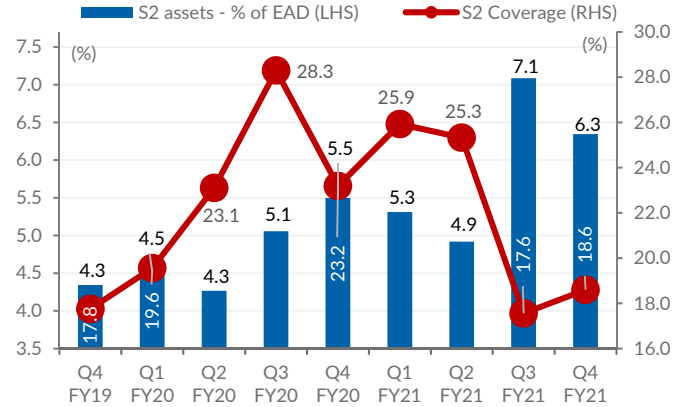
Source: Company, YES Sec - Research

Exhibit 18: Stress largely in non-individual loans



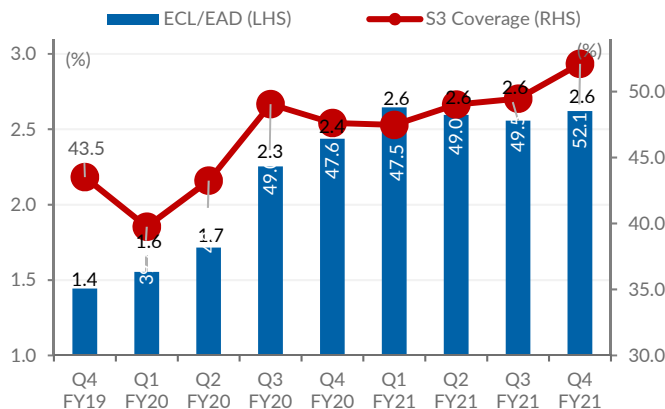
Source: Company, YES Sec - Research

Exhibit 19: Increase in Stage-2 assets largely due to classification of restructured assets here



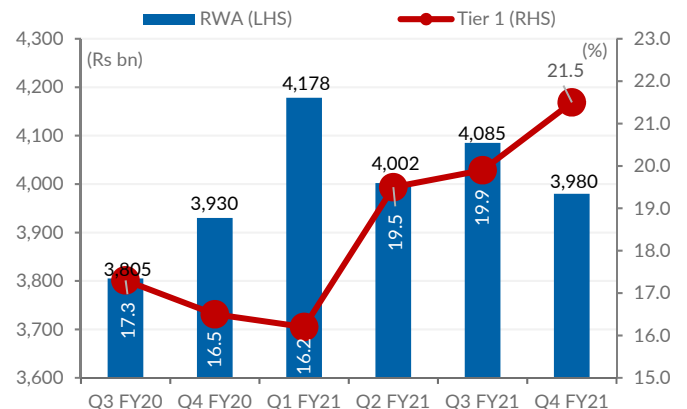
Source: Company, YES Sec - Research

Exhibit 20: Overall ECL and Stage-3 coverage raised



Source: Company, YES Sec - Research

Exhibit 21: Robust capitalization and low leverage



Source: Company, YES Sec - Research

Exhibit 22: SOTP Valuation

Entity	Holding (%)	Stake Value (Rs mn)	Rs/Share	Share
Standalone	-	2,681,327	1,486	49.2
HDFC Bank	21.1	1,675,251	929	30.7
HDFC Life	50.0	624,174	346	11.5
HDFC MF	52.7	291,402	162	5.3
HDFC Ergo	50.6	132,987	74	2.4
Bandhan Bank	9.9	37,885	21	0.7
1-yr fwd. TP			3,020	100.0

FINANCIALS

Exhibit 23: Balance sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity Capital	3,464	3,608	3,608	3,608	3,608
Other Equity	858,117	1,084,219	1,152,427	1,243,843	1,356,408
Shareholder's funds	861,581	1,087,827	1,156,035	1,247,451	1,360,015
Financial Liabilities	4,355,156	4,563,568	5,022,907	5,719,098	6,518,100
Derivative financial instruments	3,207	16,609	21,591	28,069	36,489
Trade payables	1,968	3,392	3,392	3,392	3,392
Debt Securities	1,768,687	1,820,547	2,002,602	2,278,961	2,595,737
Borrowings (Other than Debt Securities)	1,049,086	1,051,792	1,156,971	1,316,633	1,499,645
Deposits	1,323,243	1,501,311	1,651,442	1,879,341	2,140,570
Other Financial Liabilities	208,965	169,917	186,909	212,702	242,268
Non-Financial Liabilities	24,199	24,592	27,302	30,334	33,729
Current tax liabilities (net)	1,929	4,413	4,854	5,340	5,874
Provisions	2,605	2,513	3,015	3,619	4,342
Other non-financial liabilities	19,665	17,666	19,433	21,376	23,513
Total Liabilities + Equity	5,240,936	5,675,986	6,206,244	6,996,883	7,911,845
Assets					
Financial Assets	5,169,947	5,609,235	6,134,637	6,919,823	7,828,654
Cash and Cash Equivalents	31,419	7,700	2,782	3,008	3,670
Bank balances	2,838	3,748	4,123	4,535	4,988
Derivative financial instruments	57,093	21,545	21,545	21,545	21,545
Receivables	2,301	1,554	1,554	1,554	1,554
Loans	4,399,433	4,852,943	5,345,031	6,053,619	6,877,777
Investments	649,444	686,368	720,686	792,755	872,030
Other Financial Assets	27,420	35,379	38,917	42,808	47,089
Non- Financial Assets	70,989	66,751	71,607	77,059	83,191
Current tax assets (Net)	31,018	23,569	27,104	31,170	35,845
Deferred tax assets (Net)	15,679	16,553	17,381	18,250	19,162
Investment Property	8,904	8,406	8,406	8,406	8,406
Property, Plant and Equipment	9,861	9,864	10,357	10,875	11,419
Other Intangible assets	3,629	3,695	3,695	3,695	3,695
Other Non-Financial Assets	1,898	4,664	4,664	4,664	4,664
Total Assets	5,240,936	5,675,986	6,206,244	6,996,883	7,911,845

Source: Company, YES Sec - Research

Exhibit 24: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	437,493	435,847	474,098	532,698	607,340
Interest expense	(310,014)	(286,148)	(306,995)	(343,805)	(391,433)
Net interest income	127,480	149,700	167,103	188,893	215,907
Net Revenue from Operations	139,086	163,719	182,471	205,912	234,758
Other Non-operating income	138,534	31,892	16,399	19,894	20,466
Total income	277,620	195,611	198,869	225,806	255,225
Total op expenses	(14,980)	(17,980)	(19,787)	(21,701)	(23,805)
PPoP	262,640	177,631	179,082	204,105	231,419
Provisions	(59,131)	(29,480)	(23,560)	(17,556)	(16,597)
Profit before tax	203,509	148,151	155,522	186,549	214,822
Taxes	(25,813)	(27,878)	(39,192)	(47,010)	(54,135)
Net profit	177,697	120,273	116,330	139,539	160,687

Source: Company, YES Sec – Research

Exhibit 25: Key ratios

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)					
Net interest income	11.4	17.4	11.6	13.0	14.3
Net Revenue from Operations	11.4	17.7	11.5	12.8	14.0
PPoP	86.9	(32.4)	0.8	14.0	13.4
Net profit	84.5	(32.3)	(3.3)	20.0	15.2
Advances	9.8	10.3	10.1	13.3	13.6
Borrowings	35.3	0.3	10.0	13.8	13.9
Total assets	14.2	8.3	9.3	12.7	13.1
Profitability Ratios (%)					
NIM	3.0	3.2	3.2	3.2	3.3
Non-int. income/Total income	49.9	16.3	8.2	8.8	8.0
Return on Avg. Equity	21.7	12.3	10.4	11.6	12.3
Return on Avg. Assets	3.6	2.2	2.0	2.1	2.2
Per share ratios (Rs)					
EPS	102.6	66.7	64.5	77.4	89.1
ABVPS	459.0	572.1	609.9	660.6	723.0
DPS	21.0	23.0	23.0	23.0	23.0
Other key ratios (%)					
Loans/(Borrowings + Deposits + Debt)	106.2	111.0	111.1	110.6	110.3
Cost/Income	10.8	11.0	10.8	10.5	10.1
CAR	17.6	22.2	22.4	21.5	20.8
Tier-I capital	16.5	21.5	20.9	20.0	19.3
Gross NPLs/Loans	2.0	2.0	1.8	1.6	1.4
Credit Cost	1.4	0.6	0.5	0.3	0.3
Net NPLs/Net loans	1.5	0.0	1.0	0.9	0.8
Tax rate	12.7	18.8	25.2	25.2	25.2
Dividend yield	0.8	0.9	0.9	0.9	0.9

Source: Company, YES Sec – Research

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

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