

HDFC

Refer to important disclosures at the end of this report

Healthy operating performance backed by consistent growth revival

- HDFC reported ~19% yoy growth in individual loans (adjusting for loans sold) as of FY21, with individual disbursements up ~42% yoy in H2FY21 post the gradual unlocking of the economy. Going forward, we remain optimistic about demand for individual housing amid lower interest rates, SOPs offered by state governments and competitive environment.
- NIMs remained stable at ~3.5% in Q4FY21, supported by steady spreads of ~229bps (flat sequentially). The company manages spreads on individual loans at ~193bps and on non-individual book at ~322bps. Operational performance remained healthy with the cost-to-income ratio improving to ~7.7% vs. ~8.1% in Q3FY21.
- The annual spike in Stage 2 was due to recognition of accounts under ECLGS and one-time restructuring under Stage 2. Gross NPAs remained flat at ~1.98% of loans (~1.91% last quarter), with Individual loans contributing ~0.99% (0.98% last quarter) and non-individual portfolio contributing ~4.77% (4.35% last quarter).
- HDFC remains our top pick, considering the surge in housing demand, HDFC's ability to manage market share, superior liability franchise and healthy provision cover. We raise FY22E/23E earnings by ~6.2%/~7.3% and introduce FY24 estimates. We retain Buy (OW in EAP) with a revised TP of Rs3,140, based on ~2x P/B Mar'23E (Standalone).

What we like about HDFC results

- We believe that the company is able to gain the market share, especially from other HFCs and even smaller banks, as its superior liability franchise provides it an advantage on the cost of fund.
- The company maintains a heavy provision buffer of Rs130.2bn against the provision requirement of Rs54.9bn. The provisions carried as a percentage of the Exposure at Default (EAD) is equivalent to 2.62%.
- ~80% of incremental borrowings are done through deposits, which strengthens the company's liquidity stability.

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 Limited still managed to hold its position due to superior reach and best-in-class liability franchise, the competition pressure in the housing segment is imminent.
- The sharp shift in Stage 2 assets to Stage 3 assets would be a concern; however, the provision buffer provides comfort.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	277,620	195,611	217,705	248,269	281,202
Net profit	177,697	120,273	140,038	164,461	188,727
EPS (Rs)	102.6	66.7	77.6	91.2	104.6
ABV (Rs)	484.3	574.1	612.8	657.3	704.8
RoA (%)	4.1	2.5	2.6	2.6	2.6
RoE (%)	21.7	12.3	12.4	13.4	14.2
PE (x)	24.3	37.4	32.2	27.4	23.9
P/ABV	5.2	4.3	4.1	3.8	3.5

Source: Company, Emkay Research

CMP	Target Price
Rs 2,497 as of (May 7, 2021)	Rs 3,140 (▲) 12 months
Rating	Upside
BUY (■)	25.8 %

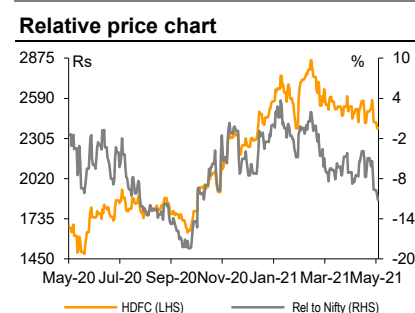
Change in Estimates	
EPS Chg FY22E/FY23E (%)	2.0/3.1
Target Price change (%)	4.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus		
EPS Estimates		
	FY22E	FY23E
Emkay	77.6	91.2
Consensus	72.2	83.9
Mean Consensus TP (12M)	Rs 3,026	

Stock Details	
Bloomberg Code	HDFC IN
Face Value (Rs)	2
Shares outstanding (mn)	1,804
52 Week H/L	2,938 / 1,486
M Cap (Rs bn/USD bn)	4,504 / 61.27
Daily Avg Volume (nos.)	3,891,030
Daily Avg Turnover (US\$ mn)	135.7

Shareholding Pattern Mar '21	
Promoters	-%
FIIIs	72.8%
DIIIs	16.1%
Public and Others	11.1%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	1	(8)	17	47
Rel. to Nifty	1	(7)	(1)	(9)



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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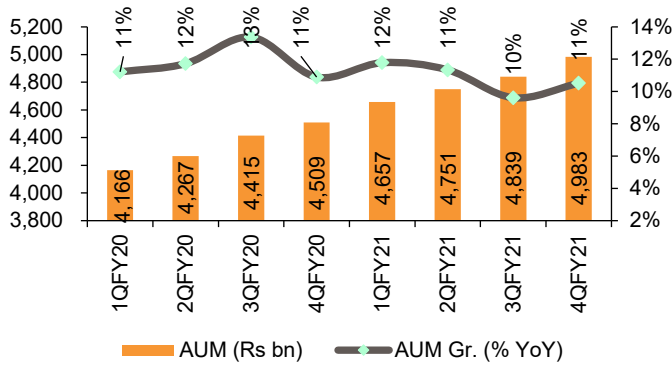
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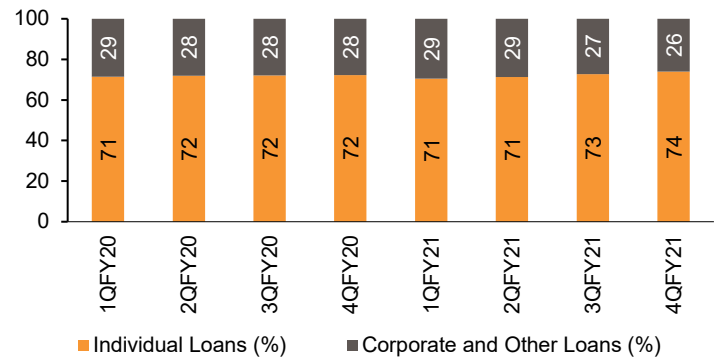
Story in Charts

Exhibit 1: Improving retail traction maintains AUM growth momentum



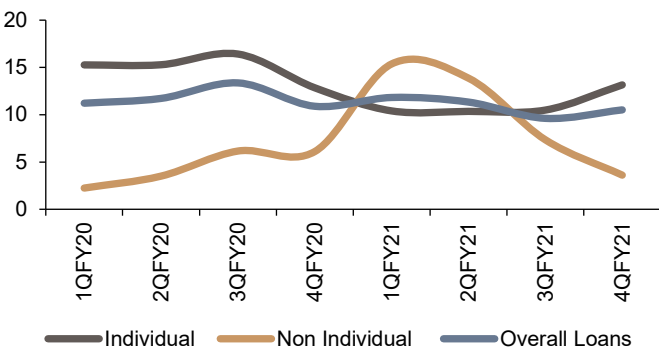
Source: Company, Emkay Research

Exhibit 2: Share of individual loans rises to 74% of loan book



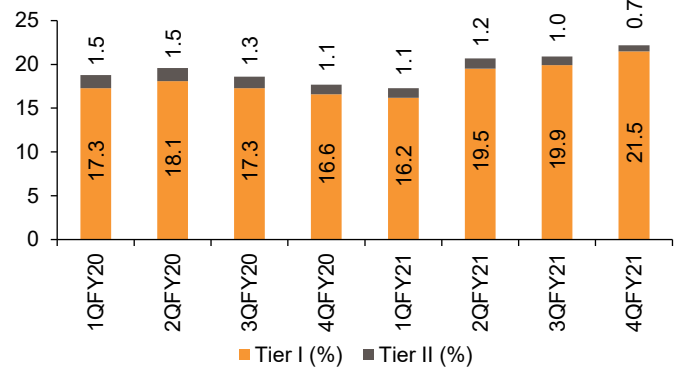
Source: Company, Emkay Research

Exhibit 3: Individual loans continue to show good signs of revival



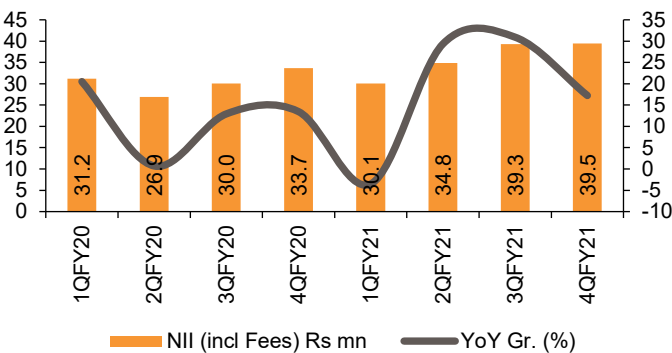
Source: Company, Emkay Research

Exhibit 4: Strong capital adequacy maintained at 22.2%



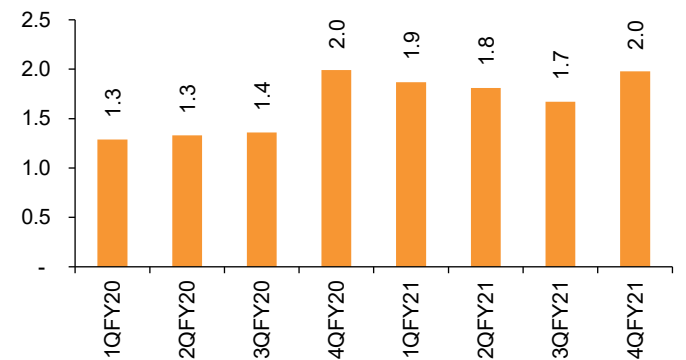
Source: Company, Emkay Research

Exhibit 5: NII sees slow growth of 17.2% yoy on business revival



Source: Company, Emkay Research

Exhibit 6: Asset quality deteriorates with GNPA at 1.98%



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY21)

Rs mn	Actual	Estimates (Emkay)	Estimates (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net Interest income	38,801	38,834	42,058	-0.1%	-7.7%	In line with estimates
Operating Profit	46,429	43,084	45,101	7.8%	2.9%	Better than expectations due to higher other income
PAT	31,798	28,947	29,211	9.8%	8.9%	Better than expectations due to higher PPOP

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Interest income	1,09,632	1,07,907	1,08,251	1,07,102	1,04,460	-4.7%	-2.5%	4,39,055	4,37,865	-0.3%
Interest expenses	76,618	78,171	73,991	68,327	65,660	-14.3%	-3.9%	3,10,014	2,86,148	-7.7%
NII	33,014	29,736	34,260	38,775	38,801	17.5%	0.1%	1,29,042	1,51,717	17.6%
Other income	10,160	9,874	9,076	10,062	12,615	24.2%	25.4%	1,48,578	43,894	-70.5%
Net Income	43,174	39,610	43,336	48,837	51,416	19.1%	5.3%	2,77,620	1,95,611	-29.5%
% of operating profit	30.8%	33.2%	26.5%	25.9%	32.5%			115.1%	28.9%	
Operating expenses	3,534	3,964	3,658	5,372	4,986	41.1%	-7.2%	14,980	17,980	20.0%
Operating profit	39,640	35,646	39,678	43,465	46,429	17.1%	6.8%	2,62,640	1,77,631	-32.4%
Provisions	12,740	11,990	4,360	5,940	7,190	-43.6%	21.0%	59,131	29,480	-50.1%
Profit before tax before extraordinary items	26,900	23,656	35,318	37,525	39,239	45.9%	4.6%	2,03,509	1,48,151	-27.2%
Extraordinary items	25	12,412	0	0	0					
Tax	4,599	5,553	6,617	8,267	7,441	61.8%	-10.0%	25,813	27,878	8.0%
Tax rate (%)	17.1%	23.5%	18.7%	22.0%	19.0%			12.7%	18.8%	
Profit after tax	22,325	30,515	28,701	29,258	31,798	42.4%	8.7%	1,77,697	1,20,273	-32.3%
AUM	45,09,030	46,56,850	47,51,210	48,39,190	49,82,980	10.5%	3.0%	45,09,030	49,82,980	10.5%

Source: Company, Emkay Research

Exhibit 9: SOTP valuation

Particulars	Stake (%)	Value per share (Rs)	% of total	Rationale
Core business	100.0%	1,357	43%	ERoE
HDFC Bank	26.1%	1,476	47%	3.6x Mar'23 Adj BV
HDFC Standard Life	49.9%	473	15%	4.3x P/FY23 EV
HDFC General Insurance	50.5%	50	2%	40x Mar'20 Earnings
HDFC AMC	52.8%	185	6%	50x Mar'20 Earnings
Bandhan Bank	9.9%	44	1%	3.1x Mar'23 Adj BV
Value of Subsidiaries / Associates		2,229	71%	
Less: 20% holding discount		446	14%	
Value of Subsidiaries / Associates (post hold. co. discount)		1,783	57%	
Target Value Post 20% Holding Company Discount		3,140	100%	

Source: Company, Emkay Research

Exhibit 10: Revision in earnings estimates

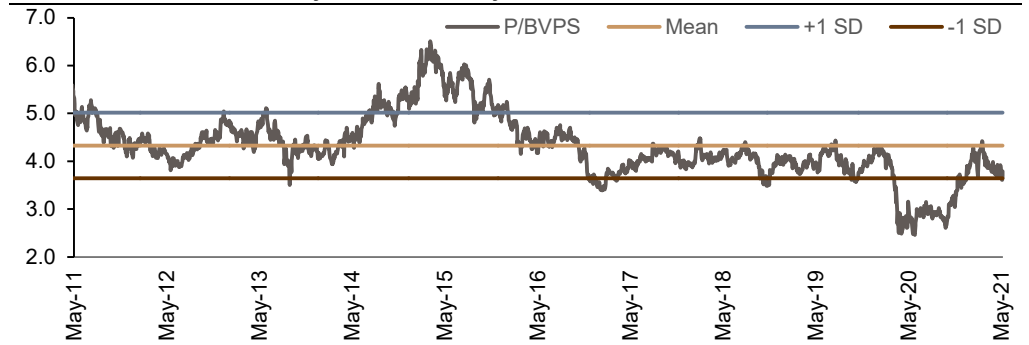
Y/e Mar (Rs m)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	
Net interest income	1,58,745	1,70,551	7.4%	1,78,669	1,96,680	10.1%	2,23,941
PPOP	1,85,956	1,97,751	6.3%	2,10,007	2,25,944	7.6%	2,56,092
PAT	1,34,803	1,40,038	3.9%	1,56,654	1,64,461	5.0%	1,88,727
EPS (Rs)	76	78	2.0%	88	91	3.1%	105
BV (Rs)	624	653	4.8%	686	708	3.3%	766

Source: Company, Emkay Research

Exhibit 11: Key assumptions

(%)	FY21	FY22E	FY23E	FY24E
AUM growth	10.3%	18.0%	16.0%	18.0%
Borrowings growth	5.3%	18.7%	15.4%	18.6%
Yield on average loans	8.3%	8.0%	7.8%	7.7%
Cost of average int. liabilities	6.7%	6.4%	6.1%	6.0%

Source: Company, Emkay Research

Exhibit 12: The stock currently trades at 3.8x 1-year forward P/B

Source: Company, Emkay Research

Con-Call highlights

- Though the second wave of Covid-19 and partial lockdowns have brought new challenges, management is confident of tackling the extant challenges, given the scale up of the company's digital platforms for borrowers, depositors, channel partners and deposit agents, coupled with the learnings from the past year.
- Disbursement in Q4FY21 grew 60% yoy in individual loans to around Rs400bn. Mar'21 witnessed the highest levels of individual receipts, approvals and disbursements. Growth in home loans was seen in the affordable housing segment as well as high-end properties. Disbursement for FY21 was 3% higher yoy at Rs1,600bn.
- Disbursement in individual loans in Apr'21 has crossed the Q1FY20 level.
- In FY21, 33% of home loans approved in volume terms and 16% in value terms were to customers from the Economically Weaker Section (EWS) and Low Income Groups (LIG). Average home loan to the EWS and LIG segments stood at Rs1.08mn and Rs1.86mn, respectively.
- The average size of individual loans disbursed in FY21 stood at Rs2.95mn compared to Rs2.7mn in FY20. There was an uptick in the average ticket size in Q4FY21 to Rs3.14mn, attributable to demand for high-end properties, especially in the metro cities.
- As of FY21, the individual loan book on an AUM basis grew 12% and the non-individual loan book grew 4%. Growth in the total AUM was 10%. Growth in the individual loan book after adding back loans sold in the preceding 12 months was 19%. Growth in the total loan book after adding back loans sold was 15%.
- The collection efficiency for individual loans stood at 98.0% in Mar'21 compared to 96.3% in Sep'20 (~97% in Dec'20).
- Overall spreads for FY21 stood at 2.29%; individual book 1.93% and non-individual loan book 3.22%. NIM was 3.5% for FY21 compared to 3.4% in FY20. NIM is expected to remain at similar level.
- GNPA stood at 1.98% in FY21. GNPA for individual portfolio stood at 0.99% and non-individual portfolio at 4.77%.
- HDFC Ltd is carrying the total provision of Rs130.25bn (~2.6% of EAD) as of FY21 compared to the regulatory requirement of Rs54.91bn, which provides comfort in the stress scenario of the Covid-19 second wave.
- CAR and Tier 1 are at 22.2% and 21.5%, respectively, compared to the regulatory requirement of 14% and 10%.
- As of FY21, total restructured loans under RBI's Resolution Framework for Covid-19 related stress stood at Rs44.8bn (0.8% of AUM). Of the loans being restructured, 27% are individual loans and 73% non-individual loans. The largest account under the resolution framework accounted for 0.5% of AUM.
- Cumulative Covid-19 provision as at March 31, 2021, stood at Rs8.44bn.
- Disbursement mix in individual loan: 27% HDFC Bank, 54% HDFC sales, 17% other channel and 2% walk-ins.
- Prepayment in the individual book was around 10.4% in FY21 compared to 10.9% in FY20 (normalised level is of 10-12%).
- It is going slower on construction finance. Total construction finance loans used has generally accounted for 14% of the book, which has now come down to 10%. Construction finance did not grow due to high prepayment (Rs90bn) in FY21 (due to REITs issue) and is not expected to happen again.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	129,042	151,717	170,551	196,680	223,941
Other income	148,578	43,894	47,155	51,589	57,261
Fee income	2,172	2,378	2,615	2,929	3,339
Net income	277,620	195,611	217,705	248,269	281,202
Operating expenses	14,980	17,980	19,954	22,324	25,110
Pre provision profit	262,640	177,631	197,751	225,944	256,092
PPP excl treasury	262,640	177,631	197,751	225,944	256,092
Provisions	59,131	29,480	21,159	18,554	18,101
Profit before tax	203,509	148,151	176,592	207,391	237,991
Tax	25,813	27,878	36,555	42,930	49,264
Tax rate	13	19	21	21	21
Profit after tax	177,697	120,273	140,038	164,461	188,727

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	3,464	3,608	3,608	3,608	3,608
Reserves	858,117	1,084,219	1,175,243	1,273,919	1,377,719
Net worth	861,581	1,087,827	1,178,851	1,277,527	1,381,327
Deposits	4,191,016	4,413,650	5,239,722	6,044,864	7,172,132
Total liabilities	5,240,936	5,675,986	6,621,004	7,555,187	8,821,173
Cash and bank	34,257	11,448	48,074	7,821	236
Investments	649,444	686,368	720,686	778,341	856,175
Loans	4,399,433	4,852,943	5,726,472	6,642,708	7,838,395
Others	147,941	115,364	115,858	116,354	116,354
Total assets	5,240,936	5,675,986	6,621,004	7,555,187	8,821,173

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.7	2.9	2.8	2.8	2.8
Non-ll/avg assets	3.0	0.8	0.8	0.7	0.7
Opex/avg assets	0.3	0.3	0.3	0.3	0.3
Provisions/avg assets	1.2	0.5	0.3	0.3	0.2
PBT/avg assets	4.1	2.7	2.9	2.9	2.9
Tax/avg assets	0.5	0.5	0.6	0.6	0.6
RoA	4.1	2.5	2.6	2.6	2.6
RoAE	21.7	12.3	12.4	13.4	14.2
GNPA (%)	2.0	2.0	2.0	2.2	2.2
NNPA (%)	1.5	0.9	0.8	0.9	0.9

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	102.6	66.7	77.6	91.2	104.6
BVPS	497.4	603.0	653.5	708.2	765.7
ABVPS	484.3	574.1	612.8	657.3	704.8
DPS	21.0	23.0	27.2	16.6	19.8

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	24.3	37.4	32.2	27.4	23.9
P/BV	5.2	4.3	4.1	3.8	3.5
P/ABV	5.2	4.3	4.1	3.8	3.5
P/PPOP	16.5	25.4	22.8	19.9	17.6
Dividend Yield (%)	0.8	0.9	1.1	0.7	0.8

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	12.6	17.6	12.4	15.3	13.9
PPOP	86.9	(32.4)	11.3	14.3	13.3
PAT	84.5	(32.3)	16.4	17.4	14.8
Loans	9.8	10.3	18.0	16.0	18.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	33,014	29,736	34,260	38,775	38,801
NIM (%)	3.1	2.7	3.0	3.3	3.5
PPOP	39,640	35,646	39,678	43,465	46,429
PAT	22,325	30,515	28,701	29,258	31,798
EPS (Rs)	12.89	17.59	15.98	16.25	17.63

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	-	-	-	-	-
FIIIs	70.9	70.2	70.0	72.0	72.8
DIIIs	17.8	18.3	18.5	17.1	16.1
Public and Others	11.3	11.5	11.6	10.9	11.1

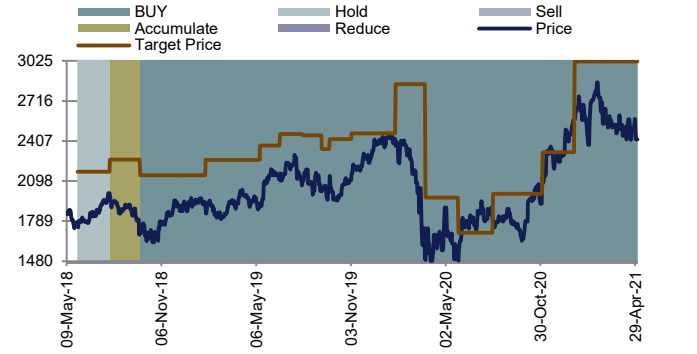
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Mar-21	2,544	3,020	12m	Buy	Jignesh Sial
19-Feb-21	2,741	3,020	12m	Buy	Jignesh Sial
03-Jan-21	2,569	3,020	12m	Buy	Jignesh Sial
03-Nov-20	2,131	2,320	12m	Buy	Jignesh Sial
16-Sep-20	1,768	2,000	12m	Buy	Jignesh Sial
31-Jul-20	1,782	2,000	12m	Buy	Jignesh Sial
16-Jun-20	1,802	1,700	12m	Buy	Jignesh Sial
26-May-20	1,485	1,700	12m	Buy	Jignesh Sial
14-May-20	1,614	1,971	12m	Buy	Jignesh Sial
05-May-20	1,671	1,971	12m	Buy	Jignesh Sial
19-Apr-20	1,662	1,971	12m	Buy	Jignesh Sial
11-Apr-20	1,684	1,971	12m	Buy	Jignesh Sial
05-Apr-20	1,483	1,971	12m	Buy	Jignesh Sial
30-Mar-20	1,541	1,971	12m	Buy	Jignesh Sial
24-Mar-20	1,488	1,971	12m	Buy	Jignesh Sial
08-Mar-20	2,086	2,846	12m	Buy	Jignesh Sial
27-Jan-20	2,369	2,846	12m	Buy	Jignesh Sial
19-Nov-19	2,187	2,466	12m	Buy	Jignesh Sial
04-Nov-19	2,157	2,466	12m	Buy	Jignesh Sial
23-Sep-19	2,138	2,421	12m	Buy	Jignesh Sial
08-Sep-19	2,019	2,344	12m	Buy	Jignesh Sial
28-Aug-19	2,163	2,450	12m	Buy	Jignesh Sial
02-Aug-19	2,101	2,450	12m	Buy	Jignesh Sial
20-Jun-19	2,159	2,462	12m	Buy	Jignesh Sial
25-May-19	2,084	2,372	12m	Buy	Jignesh Sial
13-May-19	1,917	2,372	12m	Buy	Jignesh Sial
15-Feb-19	1,837	2,260	12m	Buy	Jignesh Sial
29-Jan-19	1,883	2,260	12m	Buy	Jignesh Sial
01-Nov-18	1,726	2,142	12m	Buy	Jignesh Sial
19-Oct-18	1,627	2,142	12m	Buy	Jignesh Sial
26-Sep-18	1,732	2,142	12m	Buy	Jignesh Sial
24-Sep-18	1,684	2,264	12m	Accumulate	Jignesh Sial
30-Jul-18	1,988	2,264	12m	Accumulate	Jignesh Sial
29-May-18	1,759	2,171	12m	Hold	Jignesh Sial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



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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	7.96	7.96	0%	0	100.00
Bajaj Finance	1.75	1.75	0%	0	22.03
Cholamandalam Investment	0.27	0.28	3%	1	3.53
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.24	5.24	0%	1	65.90
L&T Finance Holdings	0.08	0.08	0%	0	1.01
LIC Housing Finance	0.15	0.16	8%	1	2.02
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.11	0.07	-37%	-4	0.87
Nippon Life	0.06	0.06	0%	0	0.76
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.29	0.31	5%	2	3.89
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
	01-Apr-19	06-May-20	05-Nov-20	04-Feb-21	07-Apr-21	06-May-21
EAP - BFSI-NBFCs	100.0	82.8	106.9	143.9	134.6	134.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	77.6	100.3	135.2	126.6	125.8

*Performance measurement base date 1st April 2019

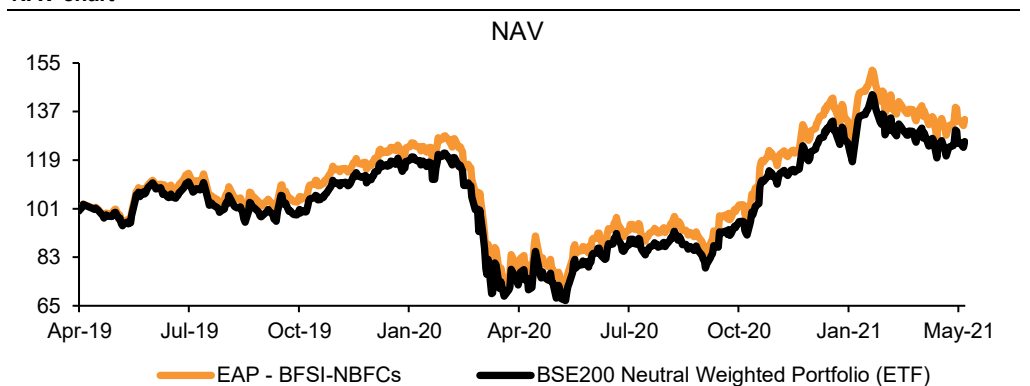
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-0.5%	-6.9%	25.4%	61.9%
BSE200 Neutral Weighted Portfolio (ETF)	-0.6%	-6.9%	25.5%	62.2%

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%

Completed Date: 07 May 2021 22:57:26 (SGT)

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