

Improving business traction bodes well...

A healthy revival in credit offtake, especially individual segment thereby leading to improvement in operational performance remained a key highlight of the quarter. Asset quality remained broadly resilient.

For Q4FY21, the company posted a healthy operational performance with NII growth of 10% YoY to ₹ 3918 crore, driven by margin expansion and healthy AUM growth. **Reported NIM was at 3.5%, up ~10 bps QoQ, YoY.** Expansion in NIMs was aided by 8 bps sequential uptick in non-individual spreads. Reducing levels of surplus liquidity also helped in NIM expansion. Other income growth came in at ₹ 1224 crore, up 62% YoY. The sharp rise was partly on account of dividend income. The bank has made provisions worth ₹ 719 crore during the quarter including Covid-19 provisions, taking **cumulative Covid related provisions at ₹ 844 crore.** PAT for the quarter was at ₹ 3180 crore; higher than our estimates.

Asset quality was largely steady on a proforma basis but reported GNPA showed 31 bps uptick to 1.98% as standstill asset classification norms are quashed. **On a proforma basis, GNPA ratio was broadly stable at 1.98% vs. 1.91% QoQ.** GNPA in individual and non-individual book were at 0.99% and 4.77% versus proforma levels of 0.98% and 4.35% QoQ, respectively. Collection efficiency in individual loans improved to 98% vs. 97.6% in the previous quarter. **The quantum of loans restructured under RBI's resolution framework for Covid-19 related stress was at 0.8% of AUM,** of which 27% are individual loans while 73% come from non-individual book. One large single account under resolution framework amounted to 0.5% of AUM. **Provisioning buffer was at a healthy ~2.62% of advances vs. ~2.8% of stressed asset (1.98% proforma GNPA + 0.8% restructuring).**

AUM growth trajectory improved to 10.3% YoY and 3.2% QoQ to ₹ 569894 crore. **Healthy AUM growth was driven by 13.2% growth in individual portfolio** led by strong demand for home amid lower interest rates, softer property prices and concessional stamp duty in certain states. Among non-individual book, corporate segment (comprising 6% of AUM) and LRD (7% of AUM) witnessed a pick-up in Q4FY21, after a dip in 9MFY21. However, the company remained cautious on construction finance segment (10% of AUM) and continued to gradually de-grow the book in the last fiscal. Affordable segment continued to stay in focus with 33% by volume, 16% by value disbursements. After adding back loans sold, growth in individual book was at 19% YoY while growth in total loan book was at 15% YoY.

Valuation & Outlook

Robust pick up in individual disbursement at 60%, margin expansion of ~10 bps and collection efficiency at 98% reflect healthy revival in individual business which comprises ~74% of gross loan book. We remain positive on earnings visibility given 1) business growth led by market leadership, 2) adequate capital of 22.2%, 3) funding advantage and 4) healthy provision buffer. Healthy performance in subsidiaries would aid consolidated earnings. Stake sale in HDFC Ergo (to reduce stake as per regulatory regime) could lead to one off inflows. We expect earnings to grow at 14.6% CAGR in FY21-23E with healthy RoA at ~2.2% in FY23E. We maintain our target price at ₹ 3100, valuing core business at 2.5x FY23E ABV and subsidiaries at 15% holding company discount. We maintain **BUY**.

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	11,624	12,941	14,157	16,485	19,524	17%
PPP	14,054	26,264	17,763	20,476	23,683	15%
PAT	9,632	17,770	12,027	13,645	15,818	15%
ABV (₹)	449.4	497.4	602.1	632.5	665.1	
P/E	44.6	24.3	41.7	33.0	28.5	
P/ABV	5.6	5.0	4.1	3.9	3.8	
RoA	2.2	3.6	2.0	2.3	2.3	
RoE	14.4	21.7	11.1	12.3	13.5	

Source: Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 450310 crore
GNPA (Q4FY21)	₹ 9608 crore
NIM (Q4FY21) (reported)	3.50
52 week H/L	2895 / 1486
Networth	₹ 108616 crore
Face value	₹ 2
DII Holding (%)	16.1
FII Holding (%)	72.8

Key Highlights

- 60% YoY growth in disbursements in individual segment
- Outstanding total provision at 2.6% of loans vs. 2.8% of stressed assets
- Maintain target price at ₹ 3100 with BUY recommendation

Risk to our call

- Higher slippages from non-individual book could impact profitability
- Persistent impact of pandemic may delay further growth in business

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	3,918	3,828	3,564	9.9	3,941	-0.6	NII growth driven by margin expansion & healthy AUM growth
Reported NIM (%)	3.5	3.2	3.4	10 bps	3.4	10 bps	NIMs expanded as excess liquidity reduced
Other Income	1,224	737	756	61.9	1,006	21.6	Other income jumped due to dividend income effect on YoY basis
Net Total Income	5,142	4,565	4,320	19.0	4,947	3.9	
Staff cost	138	149	140	-1.3	291	-52.6	
Other Operating Expenses	361	476	214	68.8	310	16.4	
PPP	4,643	3,940	3,966	17.1	4,347	6.8	
Provision	719	380	1,274	-43.6	594	21.0	Buffer creation led to sequential hike in provision
PBT	3,924	3,560	2,692	45.7	3,753	4.6	
Tax Outgo	744	819	460	61.8	827	-10.0	
PAT	3,180	2,741	2,233	42.4	2,926	8.7	Higher other income and controlled opex helped PAT ahead of estimates
Key Metrics							
GNPA	9,609	8,112	8,755	9.8	7,876	22.0	Spike in reported GNPA but on proforma basis asset quality was largely stable
Loans	498,298	504,992	450,903	10.5	483,919	3.0	Led by 13% YoY growth in Individual loans
Borrowings	441,365	459,952	419,102	5.3	433,917	1.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23		
	Old	New	% Change	Old	New	% Change
Net Interest Income	17,239	16,485	-4.4	19,619.9	19,524	-0.5
Pre Provision Profit	20,369	20,476	0.5	22,920.8	23,683	3.3
NIM(%) (calculated)	3.0	2.9	-11 bps	3.0	3.0	-2 bps
PAT	13,567	13,645	0.6	15,253.0	15,818	3.7

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	8.2	10.3	13.7	13.4	10.0	13.3	13.4
NIM Calculated (%)	2.7	2.7	2.9	3.0	2.9	3.0	3.0
Cost to income ratio (%)	5.4	9.2	8.6	8.1	8.9	7.8	7.4
GNPA (₹ crore)	8,706	9,782	10,033	10,587	11,898	12,146	12,695
NNPA (₹ crore)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

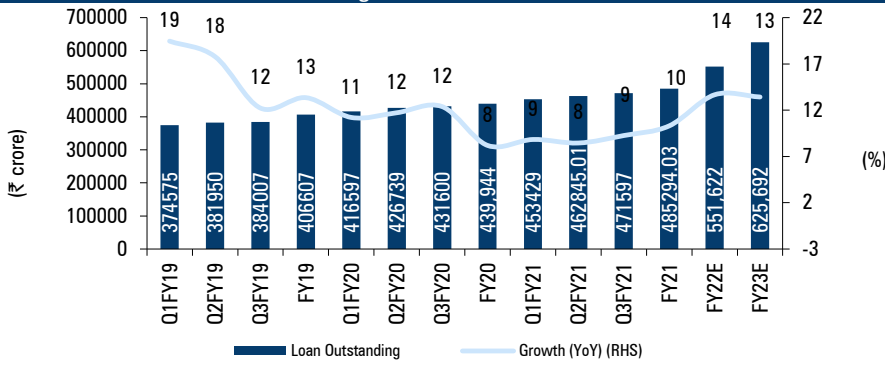
Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2.5x FY23E Core Mortgage ABV	100	1,666
HDFC Bank	3.7x FY23E ABV	19.4	1,000
HDFC AMC	12.4% FY23E AUM	52.7	186
HDFC Life Insurance	5x FY23E EV	50.1	446
HDFC ERGO	18x FY23E PAT	50.8	25
Bandhan Bank	Market cap	9.9	30
Value per share			3,354
Discount @ 15%			253
Value per share of HDFC			3,100

Source: Company, ICICI Direct Research

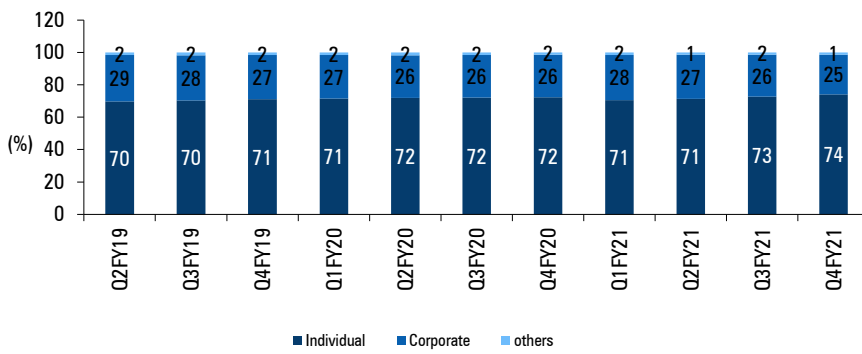
Story in Charts

Exhibit 5: Individual book to drive growth



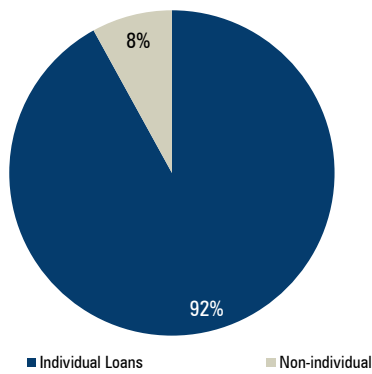
Source: Company, ICICI Direct Research

Exhibit 6: Individual segment continues to be key driver



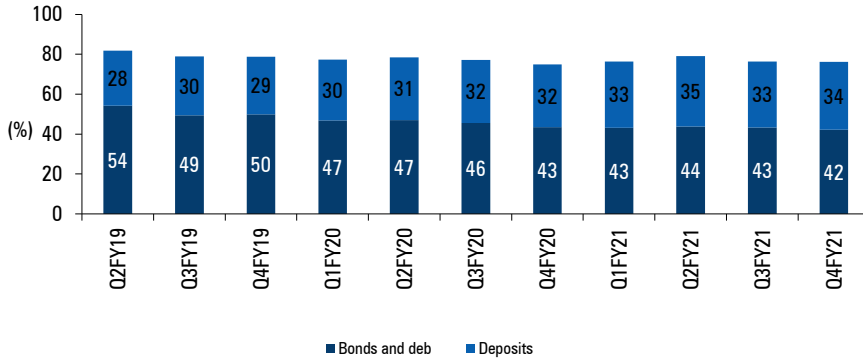
Source: Company, ICICI Direct Research

Exhibit 7: Incremental AUM contribution for FY21



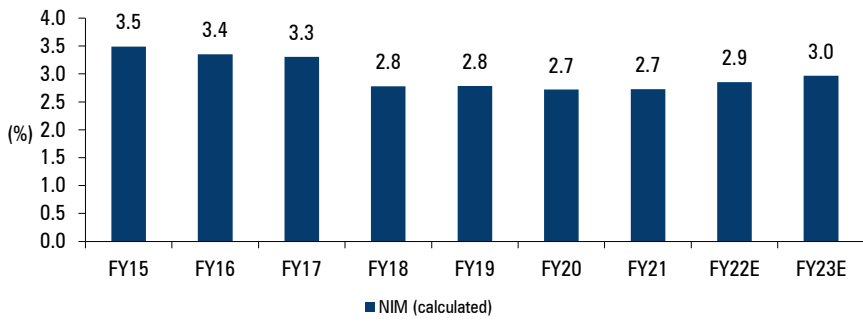
Source: Company, ICICI Direct Research

Exhibit 8: Borrowing profile



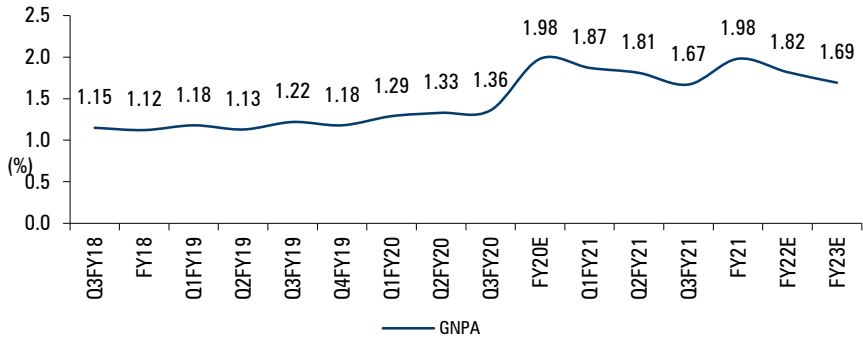
Source: Company, ICICI Direct Research

Exhibit 9: NIMs (calculated) to show gradual expansion



Source: Company, ICICI Direct Research

Exhibit 10: Asset quality trend



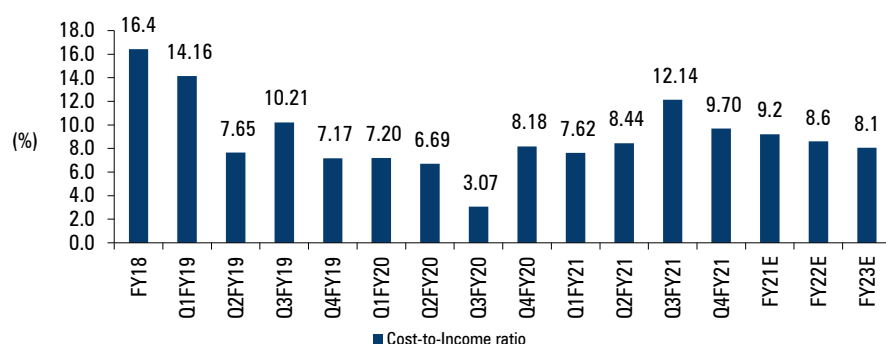
Source: Company, ICICI Direct Research

Exhibit 11: Expected credit loss (ECL) based on exposure at default (EAD)

As per IND AS	Mar-21	Dec 20	Mar 20
Gross Stage 1	4,54,029	4,37,507	4,15,864
ECL Provision Stage 1	1,087	892	346
Net Stage 1	4,52,942	4,36,615	4,15,518
Coverage Ratio% Stage 1	0.2%	0.2%	0.1%
Gross Stage 2	31,547	34,208	24,794
ECL Provision Stage 2	5,881	6,008	5,750
Net Stage 2	25,666	28,200	19,044
Coverage Ratio% Stage 2	18.6%	17.6%	23.2%
Gross Stage 3	11,632	11,002	10,273
ECL Provision Stage 3	6,057	5,442	4,892
Net Stage 3	5,575	5,560	5,381
Coverage Ratio% Stage 3	52.1%	49.5%	47.6%
EAD	4,97,208	4,82,717	4,50,931
ECL Provision	13,025	12,342	10,988
Net	4,84,183	4,70,375	4,39,943
ECL/EAD	2.6%	2.6%	2.4%

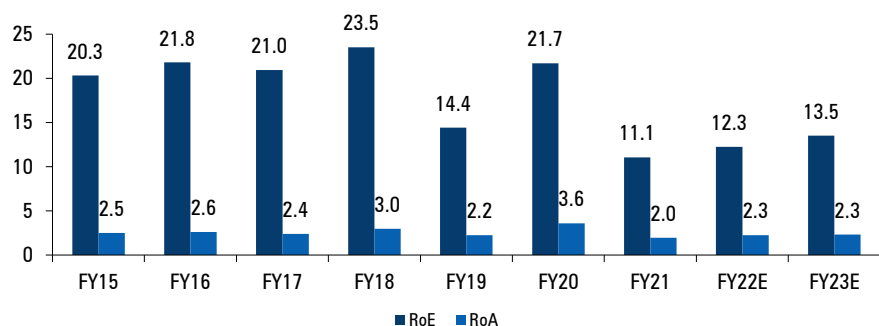
Source: Company, ICICI Direct Research

Exhibit 12: Cost-to-income ratio to decline



Source: Company, ICICI Direct Research

Exhibit 13: Return ratio showing improving trajectory



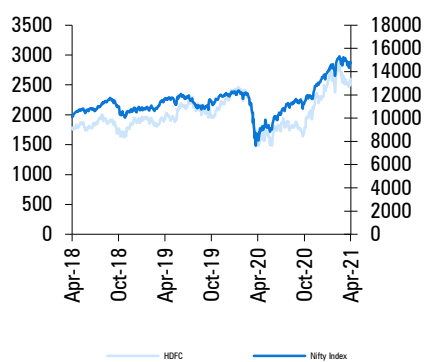
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

in %	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	-	-	-	-	-
FII	70.9	70.2	70.0	72.0	72.8
DII	17.8	18.3	18.5	17.1	16.1
Others	11.3	11.5	11.6	10.9	11.1

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	39,461	43,942	42,772	51,974	59,958
Interest Expended	27,838	31,001	28,615	35,489	40,434
Net Interest Income	11,624	12,941	14,157	16,485	19,524
% growth	21	11	9	16	18
Non Interest Income	3,917	14,821	5,404	5,912	6,232
Net Income	15,540	27,762	19,561	22,396	25,757
Employee cost	717	593	914	960	1,027
Other operating Exp.	770	905	884	960	1,046
Operating Income	14,054	26,264	17,763	20,476	23,683
Provisions	935	5,913	2,948	2,161	2,452
PBT	13,119	20,351	14,815	18,315	21,232
Exceptional gain	-	-	-	-	-
Taxes	3,486	2,581	2,788	4,670	5,414
Net Profit (excl bandhan exceptio	9,632	17,770	12,027	13,645	15,818
% growth	-12.1	84.5	-32.3	13.4	15.9
EPS (₹)	56.0	102.6	59.8	75.6	87.7

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	172.1	173.2	180.4	180.4	180.4
EPS (₹)	56.0	102.6	59.8	75.6	87.7
BV (₹)	449.4	497.4	602.1	632.5	665.1
ABV (₹)	449.4	497.4	602.1	632.5	665.1
P/E	44.6	24.3	41.7	33.0	28.5
P/BV	5.6	5.0	4.1	3.9	3.8
P/adj.BV	5.6	5.0	4.1	3.9	3.8
Yields & Margins (%)					
Yield on interest earning assets	9.2	9.1	9.0	9.0	9.1
Avg. cost on funds	8.1	7.9	6.7	7.5	7.5
Net Interest Margins	2.8	2.7	2.7	2.9	3.0
Spreads	1.5	1.2	2.3	1.5	1.6
Quality and Efficiency					
Cost / Total net income	9.6	5.4	9.2	8.6	8.1
GNPA%	1.2	2.0	2.0	1.8	1.7
NNPA%	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.4	21.7	11.1	12.3	13.5
ROA (%)	2.2	3.6	2.0	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	344.3	346.4	360.8	360.8	360.8
Reserves and Surplus	77011.2	85811.7	108255.5	113744.5	119620.4
Networth	77355.5	86158.1	108616.3	114105.3	119981.2
Borrowings	366214.4	419101.6	441365.0	502913.1	573104.6
Other Liabilities & Provisions					
Total	4,58,777	5,24,093	5,67,541	6,36,847	7,15,529
Applications of Funds					
Fixed Assets	972.0	1884.5	1827.0	2009.7	2210.7
Investments	47836.1	64944.4	68636.8	69874.2	74851.4
Advances	406607.1	439943.8	485296.0	551622.4	625691.7
Other Assets	3361.8	17320.4	11780.7	13341.0	12775.7
Total	4,58,777	5,24,093	5,67,541	6,36,847	7,15,529

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios (%)					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	16.1	14.6	7.6	12.2	12.4
Advances	13.4	8.2	10.3	13.7	13.4
Borrowings	14.5	14.4	5.3	13.9	14.0
Total Income	23.6	35.5	-18.0	20.0	14.3
Net interest income	20.6	11.3	9.4	16.4	18.4
Operating expenses	-22.0	0.8	20.0	6.8	8.0
Operating profit (excl trading)	50.8	105.6	-21.8	40.6	37.1
Net profit	-12.1	84.5	-39.3	26.5	15.9
Book value	37.4	11.4	26.1	5.1	5.1
EPS	(14.4)	83.3	(41.7)	26.5	15.9

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Finance (LICHF)	422	475	Hold	213	58.9	65.3	76.0	7.2	6.5	5.6	1.3	1.1	1.0	1.2	1.2	1.2	15.4	15.1	15.9
HDFC (HDFC)	2,496	3,100	Buy	4,503	59.8	75.6	87.7	41.7	33.0	28.5	4.1	3.9	3.8	2.0	2.3	2.3	11.1	12.3	13.5
Bajaj Finserv (BAFINS)	11,315	11,500	Hold	1,801	253.3	305.6	405.3	44.7	37.0	27.9	5.0	4.4	3.8	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	5,491	5,900	Buy	3,314	73.5	102.9	131.7	74.7	53.4	41.7	9.2	8.1	6.2	2.2	3.3	3.5	12.1	15.6	16.3
Mahindra & Mahindra Finance	154	160	Reduce	190	2.7	7.2	10.4	56.6	21.5	14.8	1.7	1.4	1.2	0.4	1.2	1.6	2.6	5.7	7.3

Source: Company, ICICI Direct Research

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