

Retail Equity Research HDFC Ltd

NBFC

BSE CODE: 500010

NSE CODE: HDFC

Bloomberg CODE: HDFC:IN

SENSEX: 49,162

BUY

12M Investment period Rating as per Large Cap
CMP Rs. 2,463 TARGET Rs. 2,860 RETURN 16% ↑
(Closing: 11-05-21)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Positive outlook over long-term

Housing Development Finance Corporation Limited provides housing finance to individuals and corporates in India. HDFC also provides construction finance to real estate developers and provides lease financing.

- NII grew moderately at 14.1% YoY with NIM of 2.9%.
- PAT jumped 42.4% due to lower provisioning (-43.5% YoY) and lower operating expenses.
- Deposits reached Rs. 150,131cr (+13.5%YoY) and Advances to Rs. 485,294cr (10.3% YoY).
- Robust pick-up in loan disbursement and healthy collection efficiency of 98%. The outlook over long-term remains positive on the back of well-diversified loan portfolio and adequate liquidity on hand. Hence we remain positive on the stock and maintain our rating to BUY with revised target price of Rs. 2,860 using SOTP Valuation.

Stable interest spreads leads to NII growth

For Q4FY21, Net interest income registered a moderate growth of 14.1% YoY to Rs. 4,065cr due to marginal improvement in interest spreads to 2.29% (vs 2.27% in Q4FY20). Profit before provisions and merger effects rose to Rs. 4,532cr (14.4% YoY) for the quarter, aided by lower operating expenses (-11.9% YoY). Additionally, due to lower provisions (-43.6% YoY) of Rs.719cr, PAT jumped 42.4% YoY to Rs. 3,180cr. For FY21, reported NIM stood at 3.5% while Cost to income ratio subsequently lowered to 7.7% for FY2021 (vs. 9.0% for FY2020) due to reduction in non-discretionary spends.

Loan disbursements pick up pace, NPAs also on the rise

Loan book was Rs. 485,294cr with 13.2% YoY growth in individual loans and 3.8%YoY in corporate loans. On AUM basis, Loan book stood at Rs. 569,894cr with 92% of AUMs from individual loans. Average loan ticket size saw uptick to Rs. 314,000. Gross Non-Performing Loans (GNPL) rose to 1.98% (vs 1.67% in Q3FY21) with Individual NPL at 0.99% and non-individual at 4.77%. Ratio of expected credit loss to exposure at default remained stable at 2.62% (+6bps QoQ). CARR stood at 22.2% (vs. 20.9% in Q3FY21).

Key Highlights

- Total write-offs were Rs. 1,372cr for FY2021 while Rs. 4,479cr loan amount, which is 0.8% of the AUM has been restructured (of which 73% were from non-individual loans).
- Actual provision carry was Rs. 13,025cr as against the Rs. 5,491cr required as per the regulation. COVID-related provisioning was Rs. 844cr as of 31st March '21.
- Exposure at default for Stage-1, Stage-2 and Stage-3 were 91.4%, 6.3% and 2.3% respectively.
- Despite impacts of second wave of COVID, April 2021 loan disbursements have been higher than the total Q1FY20 loan disbursements.

Valuation

Though we've seen robust pick-up in the loan disbursement and healthy collection efficiency of 98%, we expect growth to decelerate near-term given the lockdown restriction in various states of India. However the outlook over long-term remains positive on the back of well-diversified loan portfolio and adequate liquidity on hand. Hence, we remain positive on the stock and maintain our rating to BUY with revised target price of Rs. 2,860 using SOTP Valuation.

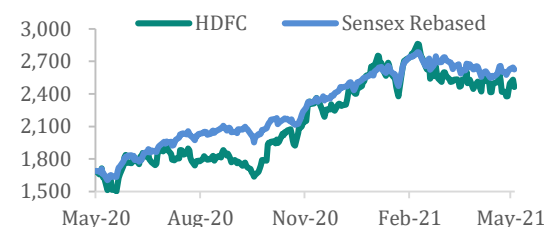
Company Data

Market Cap (cr)	Rs. 437,123
Outstanding Shares (cr)	177.5
Free Float	100.0%
Dividend Yield	0.9%
52 week high	Rs. 2,895
52 week low	Rs. 1,486
6m average volume (lacs)	2.9
Beta	1.2
Face value	Rs. 2

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	0.0	0.0	0.0
FII's	70.0	72.0	72.8
MFs/Insti	18.7	17.3	16.3
Public	8.5	8.0	8.1
Others	2.8	2.7	2.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-10.7%	6.0%	48.5%
Absolute Sensex	-4.6%	12.8%	55.8%
Relative Return*	-6.1%	-6.8%	-7.3%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Net Interest Income	15,172	16,815	18,535
Growth (%)	17.6	10.8	10.2
NIM (%)	2.9	3.0	3.0
Pre-provision Profit	17,763	19,541	20,188
Net Profit	12,027	13,845	14,869
Growth (%)	(32.3)	15.1	7.4
Adj. EPS	67.2	77.4	83.1
Growth (%)	(34.2)	15.1	7.4
BVPS	607.8	659.6	715.3
P/E	40.3	35.0	32.6
P/B	4.5	4.1	3.8
P/ABV	4.6	4.3	3.9
ROE (%)	12.3	12.2	12.1
ROA (%)	2.2	2.4	2.4

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY2021	FY2020	YoY Growth %
Interest Income	10,631	11,226	(5.3)	10,901	(2.5)	43,787	43,906	(0.3)
Interest Expense	6,566	7,662	(14.3)	6,833	(3.9)	28,615	31,001	(7.7)
Net Interest Income (NII)	4,065	3,564	14.1	4,068	(0.1)	15,172	12,904	17.6
Non-Interest Income	1,077	756	42.4	816	32.0	4,389	14,858	(70.5)
Total Net Income	5,142	4,320	19.0	4,884	5.3	19,561	27,762	(29.5)
Total Income	11,708	11,982	(2.3)	11,716	(0.1)	48,176	58,763	(18.0)
Operating Expenses	499	353	41.1	537	(7.2)	1,798	1,498	20.0
Total Expenditure	7,065	8,015	(11.9)	7,370	(4.1)	30,413	32,499	(6.4)
Pre-Provision profit	4,643	3,966	17.1	4,347	6.8	17,763	26,264	(32.4)
Provisions	719	1,274	(43.6)	594	21.0	2,948	5,913	(50.1)
Profit Before Tax	3,924	2,692	45.7	3,753	4.6	14,815	20,351	(27.2)
Tax	744	460	61.8	827	(10.0)	2,788	2,581	8.0
Net Profit	3,180	2,233	42.4	2,926	8.7	12,027	17,770	(32.3)
EPS - Diluted (Rs.)	17.5	12.8	36.4	16.2	7.8	67.2	102.1	(34.2)

Business Performance (Rs. cr)

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
AUM	569,894	516,773	10.3	552,167	3.2
Loans	485,294	439,943	10.3	471,597	2.9
Borrowings	441,365	419,102	5.3	433,917	1.7

Change in Estimates

Year / Rs. cr	Old estimates		New Estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	19,115	19,660	16,815	16,815	(12.0)	(14.5)
Net Interest Margin (%)	3.4	3.2	3.0	3.0	(44bps)	(24bps)
Pre-Provision Profit	21,588	20,690	19,541	19,541	(9.5)	(5.6)
Net Profit	15,050	14,803	13,845	13,845	(8.0)	(6.5)
EPS (Rs.)	85.0	83.6	77.4	77.4	(9.0)	(7.5)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	% holding	Value (Rs. cr)	Value/share (Rs.)
HDFC (Standalone)	FY23E P/BV	2.0x	100%	253,888	1,431
HDFC Bank	Geojit TP	-	21%	192,039	1,082
Life Insurance	Geojit TP	-	51%	81,344	458
General Insurance	FY23E P/BV	1.5x	51%	4,767	27
Asset Management	Geojit TP	-	53%	33,226	187
Bandhan Bank	Geojit TP	-	10%	5,770	33
(20% holding discount)				(63,429)	(357)
Total				5,07,605	2,860



PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	40,155	43,906	43,787	47,528	51,579
Interest Expense	27,838	31,001	28,615	30,713	33,044
Net Int. Income	12,317	12,904	15,172	16,815	18,535
% Change	19.2	4.8	17.6	10.8	10.2
Non-Int. Income	3,223	14,858	4,389	4,672	3,583
Net Income	15,540	27,762	19,561	21,487	22,119
Total Income	43,378	58,763	48,176	52,200	55,163
Operating Exp.	1,486	1,498	1,798	1,946	1,931
Total Exp.	29,324	32,499	30,413	32,659	34,975
Pre-Prov. Profit	14,054	26,264	17,763	19,541	20,188
Provisions	935	5,913	2,948	2,487	1,873
PBT	13,119	20,351	14,815	17,054	18,315
Tax	3,486	2,581	2,788	3,209	3,446
Tax Rate (%)	27	13	19	19	19
Net profit	9,633	17,770	12,027	13,845	14,869
Adjustments	0	0	0	0	0
Adj. Net Profit	9,633	17,770	12,027	13,845	14,869
% Change	(12.1)	84.5	(32.3)	15.1	7.4
No. of Shares (cr)	172	174	179	179	179
Adj. EPS (Rs.)	56.1	102.1	67.2	77.4	83.1
% Change	(15.6)	82.1	(34.2)	15.1	7.4
DPS (Rs.)	17.5	21.0	23.0	25.7	27.6

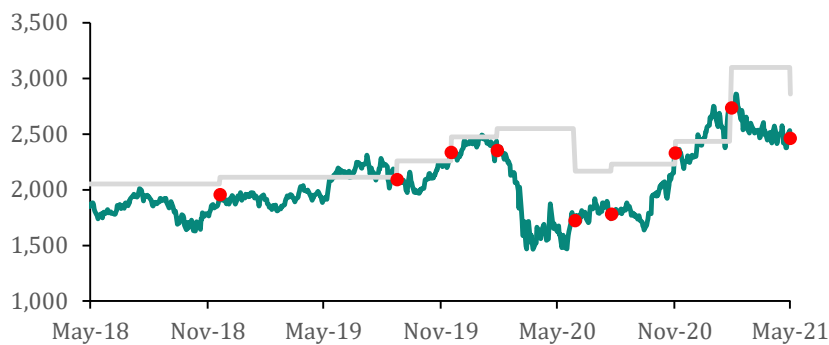
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	361	3,142	770	731	695
Investments	46,240	64,944	68,637	72,069	75,672
Advances	400,760	439,943	485,294	509,559	560,515
Fixed Assets	651	1,349	1,356	1,363	1,370
Other Assets	10,765	14,715	11,542	9,053	7,100
Total Assets	458,778	524,094	567,599	592,775	645,352
Capital	344	346	361	361	361
Reserves & Surplus	77,011	85,812	108,422	117,698	127,660
Deposits	105,599	132,324	150,131	170,334	193,256
Borrowings	254,167	281,777	287,234	292,796	298,466
Other Liabilities	21,656	23,834	21,451	11,585	25,609
Total Liabilities	458,778	524,094	567,599	592,775	645,352
BVPS (Rs.)	450.3	495.1	607.8	659.6	715.3
Adj. BVPS (Rs.)	430.4	456.9	584.0	636.9	690.2
% Change	13.8	6.2	27.8	9.1	8.4

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Valuation					
P/E (x)	35.1	15.6	40.3	35.0	32.6
P/BV (x)	4.4	3.2	4.5	4.1	3.8
Div. Yield (%)	0.9	1.3	0.8	1.0	1.0
Profitab. & Return (%)					
Yield on Funds	9.4	9.2	8.3	8.4	8.5
Cost of Funds	8.3	8.0	6.7	6.8	6.9
Spread	1.2	1.2	1.5	1.5	1.5
NIM	3.3	2.7	2.9	3.0	3.0
ROE	20.4	21.7	12.3	12.2	12.1
ROA	2.1	3.6	2.2	2.4	2.4
Capital Adequacy (%)					
CAR	19.1	17.6	22.2	23.6	23.9
Tier I	17.5	16.5	21.5	22.9	23.3
Tier II	1.6	1.1	0.7	0.7	0.6
Asset Quality (%)					
GNPA	1.2	2.0	2.0	1.7	1.7
NNPA	0.8	1.5	0.9	0.8	0.8
Operating Ratios (%)					
Cost/ Income	9.6	5.4	9.2	9.1	8.7

Recommendation Summary



Dates	Rating	Target
04-Apr-18	BUY	2,051
30-Nov-18	HOLD	2,112
03-Sep-19	HOLD	2,260
27-Nov-19	HOLD	2,474
07-Feb-20	HOLD	2,550
08-Jun-20	BUY	2,166
04-Aug-20	BUY	2,230
12-Nov-20	HOLD	2,434
08-Feb-21	BUY	3,100
12-May-21	BUY	2,860

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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