

# HDFC Ltd.

03 February 2021

Reuters: HDFC.BO; Bloomberg: HDFC IN

## 3QFY21 re-affirms the business model strength

HDFC Ltd (HDFC) reported a strong beat on our estimates. NII/PPOP/PAT were up 12%/13%/17% YoY. NII growth was 37.9% YoY, led by NIM expansion and advances growth. NIM (calc.) came in at ~3.7%, up 56bps QoQ, largely driven by a drop in cost of funds (CoF), higher income on assigned loans (+141% YoY) and lower liquidity level (Rs168bn). CoF (calc.) at 6.4% was down 55bps QoQ (down 153bps YoY), more than making up for the compression in yields. Given the company's market positioning, we expect the comparatively lower CoF to be a durable competitive advantage for HDFC Ltd. Total loan book grew by 9.3% YoY and 1.9% QoQ. Segment wise, the individual loan book grew by 10.5% YoY and 3.8% QoQ. After adding back the loans sold, individual book growth was 16% YoY. Incremental growth trends continue to remain strong. Individual loan disbursements in 3QFY21 were up 26% YoY. There has been a significant recovery in volume and the momentum is expected to continue, owing to low interest rates, softer property prices, concessional stamp duty rates and continued fiscal incentives on home loans. In Dec'20, the company witnessed the highest ever level of receipts, approvals and disbursements. What makes the growth even more sustainable is that demand so far has mostly been fresh and not pent up. In 3QFY21, 91% of the individual disbursements entailed property deals entered over the past four months, re-affirming that fresh housing demand remains robust. Growth has been seen across affordable as well as high-end properties. During 9MFY21, EWS and LIG represented 34% and 17% of volumes and value disbursed, respectively. Growth in the non-individual segment was 7.3% YoY (down 3% QoQ). On a comparable basis, after adjusting for the one-offs, PBT for the quarter grew by 27% YoY to Rs39.94bn. Provisioning was Rs5.94bn, down 80% YoY but up 36% QoQ. The company holds Rs123.42bn worth of total provisions, representing 2.56% of EAD compared to 2.6% as of Sept'20 and 2.25% as of Dec'19. Given the company's superior underwriting skills and better-than-industry asset quality, we believe that the current stock of provisioning is adequate enough to absorb the expected slippages. For the quarter, pro-forma GNPA stood at 1.91% (vs. 1.99% as of Mar'20); gross stage 3 stood at 2.28%, unchanged over Mar'20. Individual pro-forma GNPA stood at 0.98% (vs. 0.95% as of Mar'20). Overall collection efficiency for individual loans continued to improve, nearing pre-Covid levels. Collection efficiency for Dec'20 stood at 97.6% compared to 96.3% for Sep'20. Non-individual pro-forma GNPA stood at 4.35%, down 36bps over Mar'20. During the quarter, the company saw resolutions in certain non-individual accounts. Overall, we remain comfortable on the asset quality front. The increase in individual segment NPA was in line with broader expectations. Total loans under restructuring are Rs50.1bn (0.9% of AUM; 74% from non-individual segment). Overall NPAs are expected to pan out lower than what we had anticipated before. On this account, we have lowered our NPA projections, leading to reduced credit cost estimates and upward revision in earnings. We also believe that the company's balance sheet is one of the strongest, especially given the kind of economic value that is held in the subsidiaries. HDFC's ability to monetize this economic value and create contingency buffers provides the balance sheet far more strength. We remain structurally positive on the company and expect it to maintain its leadership position in the housing finance industry. We keep HDFC Ltd as one of our top buys in the broader lending space given the strong performance by the company, dominant market share (14%) and reasonable valuation. We retain BUY rating with a target price (TP) of Rs3,128, valuing the standalone entity at 2.2x FY23E P/ABV and ascribing a value of Rs1,676 to the subsidiaries.

**Balance sheet strongly capitalized:** The company has one of the strongest balance sheets in the non-bank sector with a tier-I of 19.9% as of Dec'20. The company has gradually unwound its high liquidity levels with average daily balance falling from Rs225bn in 2QFY21 to Rs168bn in 3QFY21.

| Y/E Mar (Rsmn)                           | Q3FY21        | Q3FY20          | Q2FY21        | YoY (%)      | QoQ (%)      |
|--|---------------|-----------------|---------------|--------------|--------------|
| Interest Income                          | 1,11,838      | 1,09,244        | 1,10,279      | 2.4          | 1.4          |
| Interest Expense                         | 68,327        | 77,696          | 73,991        | -12.1        | -7.7         |
| <b>Net Interest Income</b>               | <b>43,511</b> | <b>31,548</b>   | <b>36,287</b> | <b>37.9</b>  | <b>19.9</b>  |
| <b>NIM (%)</b>                           | <b>3.63</b>   | <b>2.91</b>     | <b>3.09</b>   | <b>72bps</b> | <b>54bps</b> |
| Fee & Other income                       | 5,959         | 93,671          | 7,486         | -93.6        | -20.4        |
| <b>Total Income</b>                      | <b>49,470</b> | <b>1,25,219</b> | <b>43,773</b> | <b>-60.5</b> | <b>13.0</b>  |
| Staff Cost                               | 2,905         | 1,530           | 1,811         | 89.9         | 60.4         |
| Other Op Exp                             | 3,099         | 2,309           | 2,284         | 34.2         | 35.7         |
| Total Operating Expenses                 | 6,005         | 3,839           | 4,095         | 56.4         | 46.6         |
| Cost to Income (%)                       | 12.1          | 3.1             | 9.4           | 907bps       | 278bps       |
| <b>Pre-Provisioning Operating profit</b> | <b>43,465</b> | <b>1,21,380</b> | <b>39,678</b> | <b>-64.2</b> | <b>9.5</b>   |
| Provisions                               | 5,940         | 29,950          | 4,360         | (80.2)       | 36.2         |
| <b>PBT</b>                               | <b>37,525</b> | <b>91,430</b>   | <b>35,318</b> | <b>-59.0</b> | <b>6.3</b>   |
| Tax                                      | 8,267         | 7,705           | 6,617         | 7.3          | 24.9         |
| -effective tax rate                      | 22.0          | 8.4             | 18.7          | 1360bps      | 330bps       |
| <b>PAT</b>                               | <b>29,258</b> | <b>83,725</b>   | <b>28,701</b> | <b>-65.1</b> | <b>1.9</b>   |
| Other Comprehensive Income               | 0             | -8,067          | -14,050       | -100.0       | -100.0       |
| <b>Total Comprehensive Income</b>        | <b>29,258</b> | <b>75,658</b>   | <b>14,651</b> | <b>-61.3</b> | <b>99.7</b>  |
| EPS (Rs)                                 | 16.3          | 48.5            | 16.0          | -66.5        | 1.7          |
| Advances (Rsbm)                          | 4,716         | 4,316           | 4,628         | 9.3          | 1.9          |

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: NBFC

CMP: Rs2,653

Target Price: Rs3,128

Upside: 18%

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### Key Data

|                          |              |
|--------------------------|--------------|
| Current Shares O/S (mn)  | 1,800.2      |
| Mkt Cap (Rsbm/US\$bn)    | 4,786.7/65.6 |
| 52 Wk H / L (Rs)         | 2,778/1,476  |
| Daily Vol. (3M NSE Avg.) | 5,369,235    |

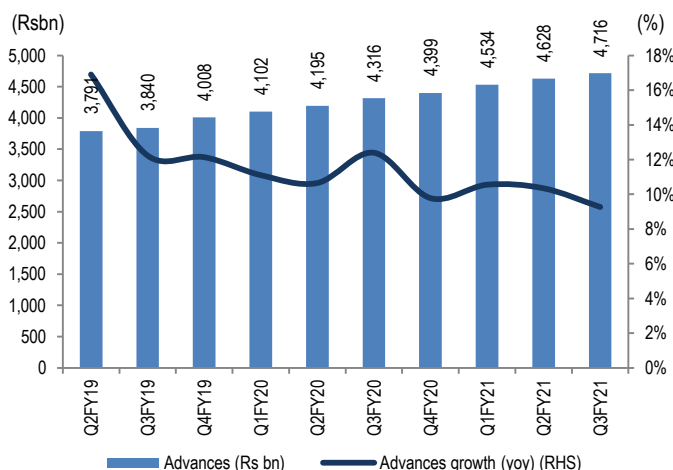
### Price Performance (%)

|             | 1 M | 6 M  | 1 Yr |
|-------------|-----|------|------|
| HDFC Ltd    | 3.5 | 52.8 | 17.7 |
| Nifty Index | 4.5 | 34.5 | 25.1 |

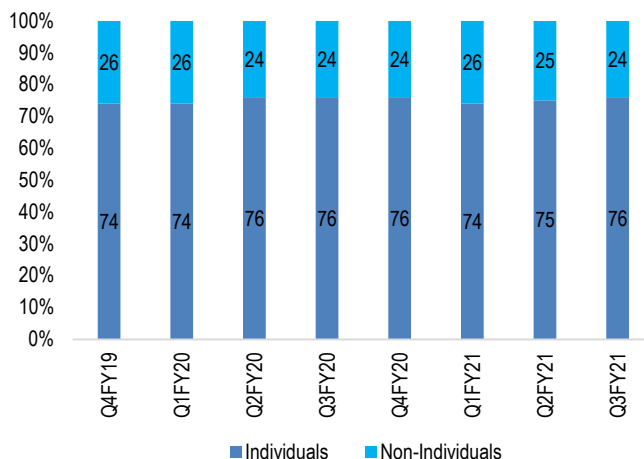
Source: Bloomberg

## SOTP Valuation

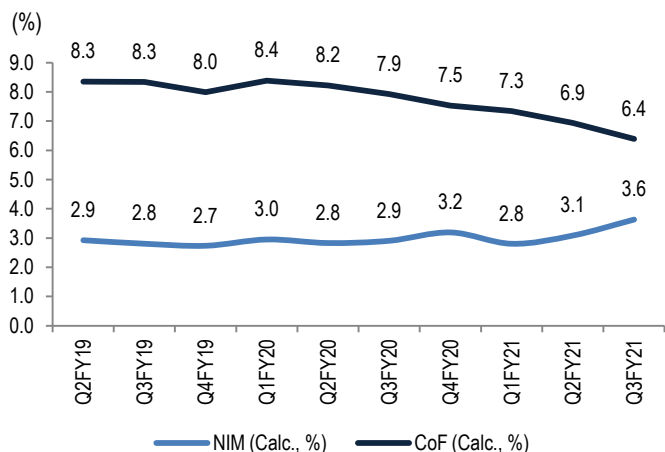
| Entity                         | Valuation Methodology | Holding (%) | Value per share (INR) |
|--------------------------------|-----------------------|-------------|-----------------------|
|                                |                       |             | FY23E                 |
| HDFC Bank                      | 3.5x FY23E ABV        | 21.4%       | 1,136                 |
| HDFC Life Insurance            | 4.5x FY23E EV         | 50.1%       | 458                   |
| HDFC AMC                       | 39x FY23E EPS         | 52.7%       | 204                   |
| HDFC ERGO General Insurance    | 8.0x Latest BV        | 50.5%       | 121                   |
| Bandhan Bank                   | 3.2x FY23E ABV        | 9.9%        | 41                    |
| HDFC Credila                   | 2x latest BV          | 90.8%       | 11                    |
| Holding co. discount (%)       |                       |             | 15%                   |
| Value of total (INR per share) |                       |             | 1,675                 |
| Standalone entity              | 2.2 FY23E ABV         |             | 1,453                 |
| Value of total (INR per share) |                       |             | 3,128                 |

**Exhibit 1: Advances (Rsbn), advances growth (%)**


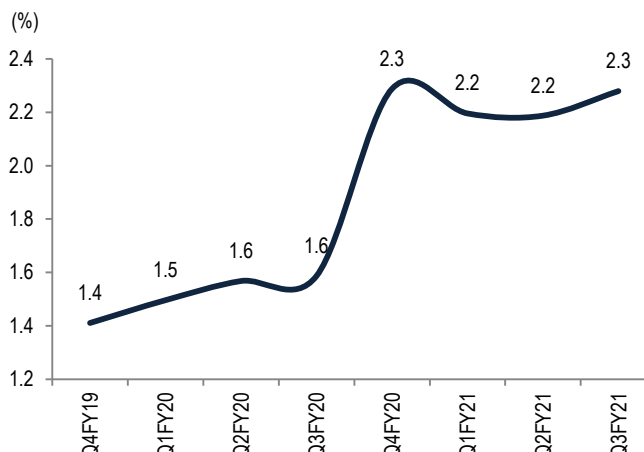
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Loan book break-up (%) – Growth led by the individual segment**


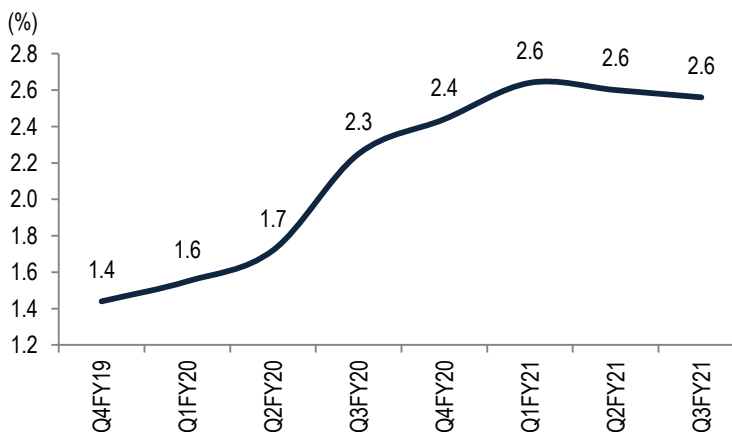
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: NIM (calc., %), CoF (calc., %) – relatively lower CoF a durable competition advantage**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Overall GS-3 – asset quality largely stable; restructuring at 0.9% (Rs50bn)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Overall ECL coverage (%) – provision coverage healthy and more than adequate given the expected slippages**


Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 6: Financial summary

| Y/E March (Rsmn)                  | FY19     | FY20     | FY21E    | FY22E    | FY23E    |
|-----------------------------------|----------|----------|----------|----------|----------|
| Net Interest Income               | 1,13,188 | 1,30,027 | 1,56,045 | 1,72,235 | 1,91,952 |
| Pre-Provisioning Operating profit | 1,40,538 | 2,66,397 | 1,78,512 | 1,83,702 | 2,04,471 |
| PAT                               | 96,325   | 1,81,453 | 1,21,047 | 1,18,133 | 1,44,263 |
| EPS (Rs)                          | 48.9     | 53.6     | 58.6     | 65.6     | 80.1     |
| BV (Rs)                           | 685.3    | 772.7    | 889.0    | 982.8    | 1,096.8  |
| P/E (x)                           | 54.2     | 49.5     | 45.3     | 40.4     | 33.1     |
| P/BV (x)                          | 2.9      | 3.4      | 3.0      | 2.7      | 2.4      |
| ROA (%)                           | 2.2      | 3.6      | 2.2      | 2.0      | 2.2      |
| ROE (%)                           | 13.5     | 22.2     | 12.5     | 10.5     | 11.8     |
| Gross NPA (%)                     | 1.4      | 2.3      | 2.5      | 2.4      | 2.3      |
| Net NPA (%)                       | 0.8      | 1.2      | 1.3      | 1.1      | 1.0      |

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 7: Actual performance versus our estimates

| (Rsmn)                            | Q3FY21 | Q3FY20   | Q2FY21 | YoY (%) | QoQ (%) | Q3FY21E | Devi. (%) |
|-----------------------------------|--------|----------|--------|---------|---------|---------|-----------|
| Net interest income               | 43,511 | 31,548   | 36,287 | 37.9    | 19.9    | 38,726  | 12.4      |
| Pre-Provisioning Operating profit | 43,465 | 1,21,380 | 39,678 | (64.2)  | 9.5     | 38,543  | 12.8      |
| PAT                               | 29,258 | 83,725   | 28,701 | (65.1)  | 1.9     | 25,100  | 16.6      |

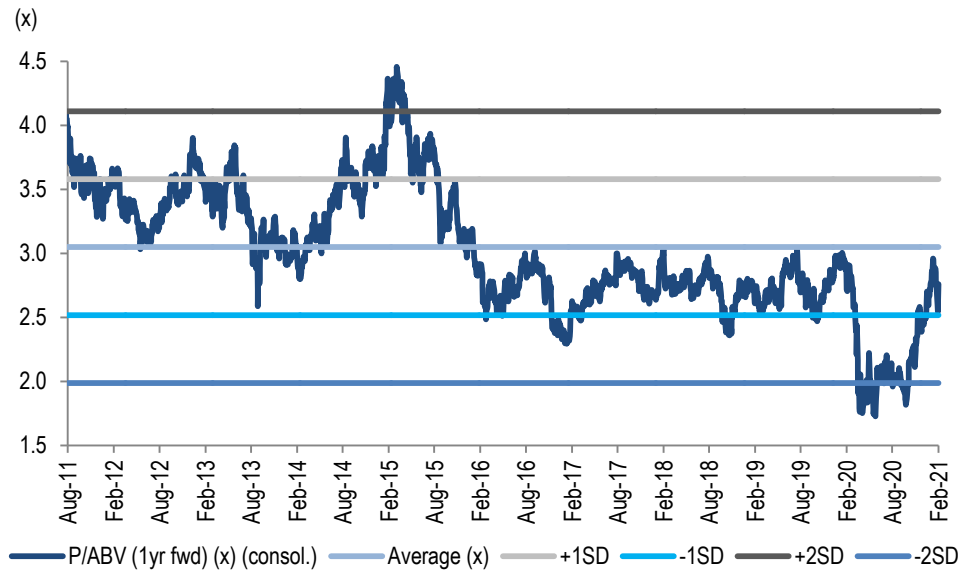
Source: Company, Nirmal Bang Institutional Equities Research.

## Exhibit 8: Change in our estimates

| Earning Revision            | Revised Estimate |          |          | Earlier Estimate |          |          | % Revision |        |        |
|-----------------------------|------------------|----------|----------|------------------|----------|----------|------------|--------|--------|
|                             | FY21E            | FY22E    | FY22E    | FY21E            | FY22E    | FY22E    | FY21E      | FY22E  | FY22E  |
| Net Interest Income (Rs mn) | 1,56,045         | 1,72,235 | 1,91,952 | 1,46,881         | 1,63,429 | 1,81,797 | 6.2        | 5.4    | 5.6    |
| Net Interest Margin (%)     | 3.2              | 3.2      | 3.2      | 3.0              | 3.0      | 3.0      | 17 bps     | 17 bps | 18 bps |
| Operating Profit (Rs mn)    | 1,78,512         | 1,83,702 | 2,04,471 | 1,67,014         | 1,75,724 | 1,95,250 | 6.9        | 4.5    | 4.7    |
| Profit after tax (Rs mn)    | 1,21,047         | 1,18,133 | 1,44,263 | 1,02,268         | 1,11,383 | 1,37,350 | 18.4       | 6.1    | 5.0    |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: One-year forward P/ABV**



Source: Company, Nirmal Bang Institutional Equities Research

**Financials**
**Exhibit 10: Income statement**

| Y/E March (RsMn)                         | FY19            | FY20            | FY21E           | FY22E           | FY23E           |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Interest Income                          | 3,91,564        | 4,40,040        | 4,46,718        | 4,85,243        | 5,42,325        |
| Interest Expense                         | 2,78,377        | 3,10,014        | 2,90,673        | 3,13,009        | 3,50,373        |
| <b>Net Interest Income</b>               | <b>1,13,188</b> | <b>1,30,027</b> | <b>1,56,045</b> | <b>1,72,235</b> | <b>1,91,952</b> |
| Non Interest Income                      | 42,216          | 1,51,484        | 41,587          | 30,527          | 33,236          |
| <b>Net Revenue</b>                       | <b>1,55,403</b> | <b>2,81,510</b> | <b>1,97,632</b> | <b>2,02,762</b> | <b>2,25,188</b> |
| Operating expenses                       | 14,866          | 15,113          | 19,120          | 19,060          | 20,717          |
| -Employee expenses                       | 5,054           | 5,929           | 8,194           | 7,502           | 8,107           |
| -Other expenses                          | 7,701           | 9,047           | 10,926          | 11,557          | 12,611          |
| <b>Pre-Provisioning Operating profit</b> | <b>1,40,538</b> | <b>2,66,397</b> | <b>1,78,512</b> | <b>1,83,702</b> | <b>2,04,471</b> |
| Provisions                               | 9,350           | 59,131          | 27,707          | 26,192          | 12,120          |
| PBT                                      | 1,31,188        | 2,07,266        | 1,50,806        | 1,57,510        | 1,92,351        |
| Tax                                      | 34,863          | 25,813          | 29,758          | 39,378          | 48,088          |
| <b>PAT</b>                               | <b>96,325</b>   | <b>1,81,453</b> | <b>1,21,047</b> | <b>1,18,133</b> | <b>1,44,263</b> |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Balance sheet**

| Y/E March (RsMn)             | FY19             | FY20             | FY21E            | FY22E            | FY23E            |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Share capital                | 3,443            | 3,464            | 3,600            | 3,600            | 3,600            |
| Reserves & surplus           | 7,70,593         | 8,58,117         | 10,78,137        | 11,66,737        | 12,74,934        |
| <b>Net worth</b>             | <b>7,74,036</b>  | <b>8,61,581</b>  | <b>10,81,738</b> | <b>11,70,337</b> | <b>12,78,534</b> |
| Borrowings                   | 36,52,657        | 41,91,016        | 42,95,792        | 47,76,920        | 53,78,812        |
| Other liability & provisions | 2,20,368         | 2,98,316         | 2,97,624         | 3,28,700         | 3,66,117         |
| <b>Total liabilities</b>     | <b>46,47,060</b> | <b>53,50,913</b> | <b>56,75,154</b> | <b>62,75,958</b> | <b>70,23,463</b> |
| Fixed Assets                 | 6,562            | 13,490           | 13,624           | 13,761           | 13,898           |
| Investments                  | 4,65,622         | 6,58,348         | 6,81,113         | 7,40,262         | 8,06,822         |
| Loans                        | 40,66,071        | 45,09,035        | 48,03,694        | 53,36,148        | 60,04,900        |
| Cash                         | 15,963           | 34,257           | 34,457           | 36,409           | 40,997           |
| Other assets                 | 92,844           | 1,35,784         | 1,42,265         | 1,49,378         | 1,56,847         |
| <b>Total assets</b>          | <b>46,47,060</b> | <b>53,50,913</b> | <b>56,75,154</b> | <b>62,75,958</b> | <b>70,23,463</b> |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Key ratios**

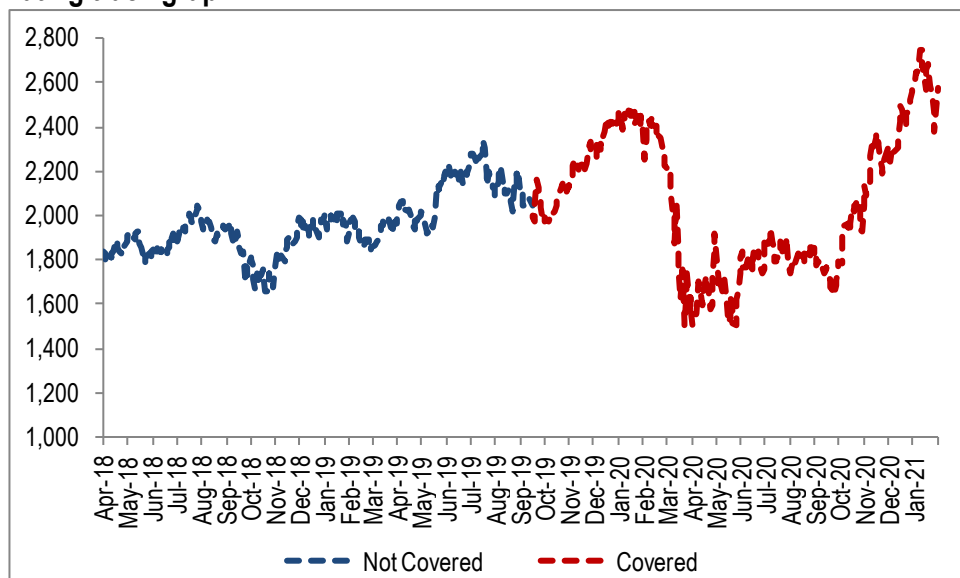
| Y/E March- Ratios                 | FY19  | FY20  | FY21E | FY22E | FY23E  |
|-----------------------------------|-------|-------|-------|-------|--------|
| <b>Growth (%)</b>                 |       |       |       |       |        |
| Net Interest Income               | 16.3  | 14.9  | 20.0  | 10.4  | 11.4   |
| Operating Profit                  | -8.2  | 89.6  | -33.0 | 2.9   | 11.3   |
| Profit After Tax                  | -12.1 | 88.4  | -33.3 | -2.4  | 22.1   |
| Advance Growth                    | 12.1  | 10.9  | 6.5   | 11.1  | 12.5   |
| <b>Spreads (%)</b>                |       |       |       |       |        |
| Yield on loans                    | 9.7   | 9.7   | 9.1   | 9.1   | 9.1    |
| Cost of Borrowings                | 8.1   | 7.9   | 6.9   | 6.9   | 6.9    |
| Spread                            | 1.6   | 1.8   | 2.3   | 2.2   | 2.2    |
| NIMs                              | 2.7   | 2.8   | 3.2   | 3.2   | 3.2    |
| <b>Operational Efficiency (%)</b> |       |       |       |       |        |
| Cost to Income                    | 9.6   | 5.4   | 9.7   | 9.4   | 9.2    |
| Cost to AUM                       | 0.4   | 0.4   | 0.4   | 0.4   | 0.4    |
| <b>CRAR (%)</b>                   |       |       |       |       |        |
| Tier I                            | 17.5  | 16.4  | 19.7  | 19.3  | 18.9   |
| Tier II                           | 1.5   | 1.2   | 1.2   | 1.2   | 1.2    |
| Total                             | 19.1  | 17.6  | 20.9  | 20.5  | 20.1   |
| <b>Asset Quality (%)</b>          |       |       |       |       |        |
| Gross NPA                         | 1.4   | 2.3   | 2.5   | 2.4   | 2.3    |
| Net NPA                           | 0.8   | 1.2   | 1.3   | 1.1   | 1.0    |
| PCR                               | 43.3  | 47.5  | 48.0  | 55.0  | 55.0   |
| Credit Cost                       | 0.2   | 0.5   | 0.6   | 0.5   | 0.2    |
| <b>Return Ratio (%)</b>           |       |       |       |       |        |
| ROE                               | 13.5  | 22.2  | 12.5  | 10.5  | 11.8   |
| ROA                               | 2.2   | 3.6   | 2.2   | 2.0   | 2.2    |
| <b>Per Share (%)</b>              |       |       |       |       |        |
| EPS                               | 48.9  | 53.6  | 58.6  | 65.6  | 80.1   |
| BV (consol.)                      | 685.3 | 772.7 | 889.0 | 982.8 | 1096.8 |
| ABV (consol.)                     | 665.4 | 734.3 | 854.8 | 950.9 | 1062.3 |
| <b>Valuation (x)</b>              |       |       |       |       |        |
| P/E                               | 54.2  | 49.5  | 45.3  | 40.4  | 33.1   |
| P/BV (consol.)                    | 2.9   | 3.4   | 3.0   | 2.7   | 2.4    |
| P/ABV (consol.)                   | 3.0   | 3.6   | 3.1   | 2.8   | 2.5    |

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

| Date              | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|--------|-------------------|-------------------|
| 17 September 2019 | Buy    | 1,985             | 2,527             |
| 7 October 2019    | Buy    | 1,978             | 2,528             |
| 5 November 2019   | Buy    | 2,180             | 2,655             |
| 8 January 2020    | Buy    | 2,406             | 2,760             |
| 28 January 2020   | Buy    | 2,396             | 2,771             |
| 27 March 2020     | Buy    | 1,755             | 2,519             |
| 9 April 2020      | Buy    | 1,559             | 2,519             |
| 26 May 2020       | Buy    | 1,515             | 2,062             |
| 9 July 2020       | Buy    | 1,886             | 2,204             |
| 31 July 2020      | Buy    | 1,811             | 2,101             |
| 23 September 2020 | Buy    | 1,676             | 2,469             |
| 7 October 2020    | Buy    | 1,934             | 2,488             |
| 3 November 2020   | Buy    | 2,022             | 2,483             |
| 26 November 2020  | Buy    | 2,190             | 2,620             |
| 08 January 2021   | Buy    | 2,661             | 3,067             |
| 03 February 2021  | Buy    | 2,653             | 3,128             |

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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