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Company update

Financials

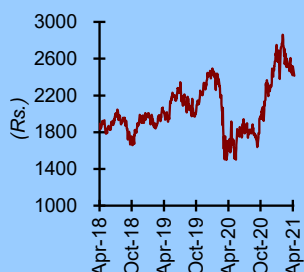
Target price: Rs3,231

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	0.0	0.0	0.0
Institutional investors	88.5	89.1	88.9
MFs and other	9.4	8.8	8.3
FIs/Banks	0.1	0.0	0.1
Insurance	8.8	8.1	7.5
FII	70.2	72.2	73.0
Others	11.5	10.9	11.1

Source: NSE

Price chart



HDFC Limited

BUY
Maintain

Co-origination partnership with Indiabulls – to complement business growth

Rs2,415

HDFC has entered into a strategic co-lending partnership with Indiabulls Housing Finance (IHFL) to offer retail housing loans at competitive rates. We believe the partnership will complement business growth for both the companies by jointly addressing the competitive as well as untapped home loan market. HDFC can leverage on IHFL's potential scalability (IHFL is targeting to increase its retail customer base 1.5x by Mar'23 and 2x by Mar'25 and achieve a monthly disbursement run-rate of Rs15bn by Sep'21). For IHFL, the partnership is in line with its strategy to pursue asset-light growth, and will lend further credibility to the quality of its lending origination. **Maintain BUY** on HDFC with a target price of Rs3,231.

► Terms of arrangement:

- IHFL will originate and process retail home loans as per jointly formulated credit parameters and eligibility criteria.
- 80% of the loans will be on HDFC's books and IHFL will retain 20%. HDFC's share in every loan will be approved by its own credit and underwriting team.
- IHFL will service the loan account throughout the lifecycle of the loan.
- Participation by both the entities in extending credit facility shall be on a sharing of risk and reward basis on mutually agreed terms.
- Technology led co-lending is expected to help offer convenient and seamless experience to customers and help expand the companies' reach to tiers-3&4 cities.

► Win-win arrangement for both the entities:

IHFL – valuable relationship lending credibility and pursuing scale aspirations

- This is in line with its strategy of pursuing asset-light growth business model.
- It will boost asset growth and revenues without consuming much capital. IHFL has stated it is targeting a monthly disbursement run-rate of Rs15bn by Sep'21.
- Partnership with HDFC will lend cost advantage to IHFL and will make it relatively more competitive (for co-originated loans) than it is presently.

HDFC – will complement growth prospects and expand reach

- Co-origination partnership with IHFL will complement HDFC's business growth to garner incremental business by jointly addressing the competitive as well as under-penetrated markets in the home loan segment.
- Given the potential scale of operations (that IHFL can achieve or has achieved earlier), it will add on to HDFC's scale further. IHFL has targeted to increase its retail customer base 1.5x by Mar'23 and 2x by Mar'25.
- It will also help HDFC leverage on IHFL's strength in the self-employed segment and jointly expand reach in tiers-3&4 locations. IHFL plans to add 50 technology-enabled smart branches in tiers-3&4 locations by Sep'21.

Market Cap	Rs4,356bn/US\$58.2bn
Reuters/Bloomberg	HDFC.BO/ HDFC IN
Shares Outstanding (mn)	1,803.9
52-week Range (Rs)	2895/1486
Free Float (%)	100.0
FII (%)	73.0
Daily Volume (US\$/'000)	1,54,668
Absolute Return 3m (%)	(6.2)
Absolute Return 12m (%)	48.3
Sensex Return 3m (%)	(2.9)
Sensex Return 12m (%)	51.8

Year to March	FY20	FY21E	FY22E	FY23E
NII (Rs mn)	127,480	153,401	173,100	189,986
Net Income (Rs mn)	179,951	118,317	135,604	165,337
EPS (Rs)	40.5	52.0	58.0	74.1
% Chg YoY	85.7	-36.7	14.6	21.9
P/E (x)	28.0	21.8	19.6	15.3
P/BV (x)	2.9	2.4	2.2	1.9
Net NPA (%)	1.3	1.8	1.9	1.2
Dividend Yield (%)	0.8	0.6	0.8	0.9
RoA (%)	3.7	2.1	2.2	2.3
RoE (%)	22.0	12.3	12.3	13.4

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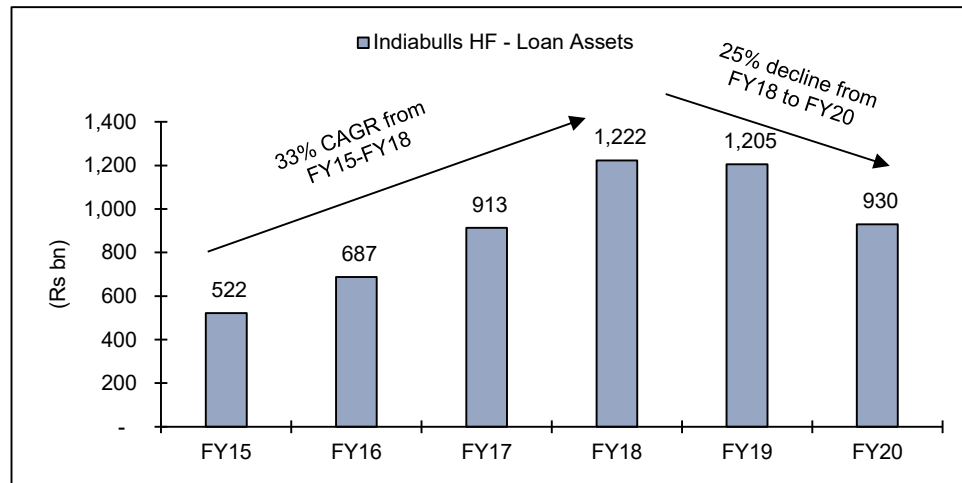
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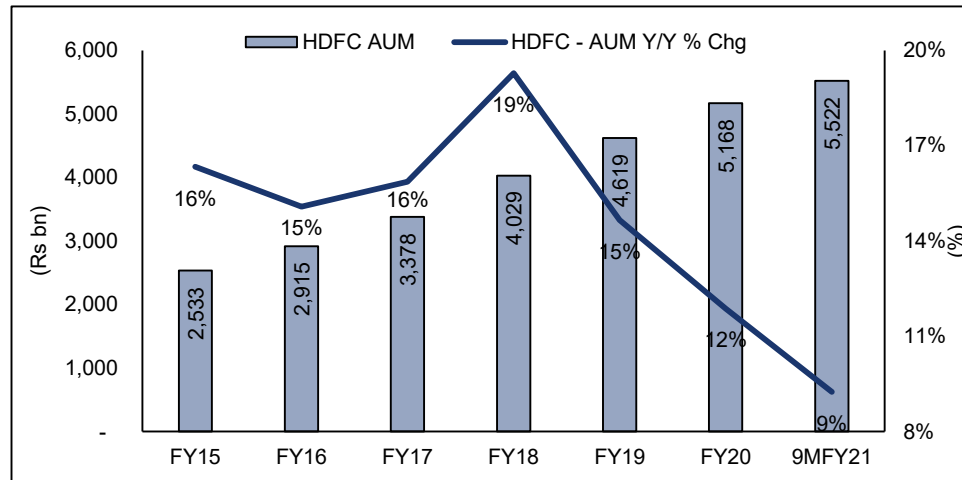
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Chart 1: IHFL to pursue asset light growth strategy, but still increase customer reach 1.5x by FY23 and 2x by FY25



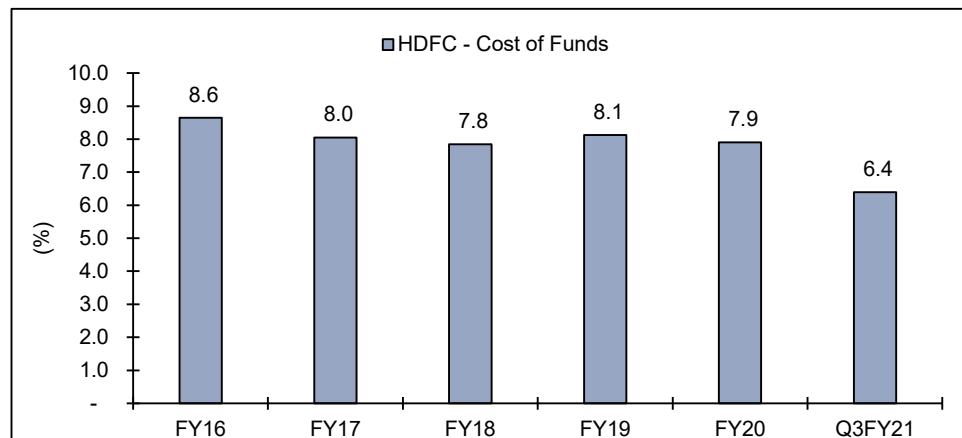
Source: Company data, I-Sec research

Chart 2: HDFC AUM growth steady, tie-up to complement growth



Source: Company data, I-Sec research

Chart 3: IHFL to leverage on lower funding cost of HDFC to be relatively more competitive



Source: Company data, I-Sec research

Financial summary

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	3,92,402	4,37,493	4,42,896	4,90,437	5,56,355
Interest expended	2,78,377	3,10,014	2,89,495	3,17,337	3,66,369
Net interest income	1,14,026	1,27,480	1,53,401	1,73,100	1,89,986
Other income	41,378	1,50,140	45,657	61,718	67,282
Operating expenses	5,457	5,455	7,113	7,751	8,533
Employee costs	5,054	5,793	9,328	12,769	9,132
Depreciation	665	1,477	1,751	2,252	2,486
Pre-provisioning op profit	1,40,538	2,64,894	1,80,866	2,12,046	2,37,117
Provisions & contingencies	9,350	59,131	34,652	42,542	30,446
Profit before tax	1,31,188	2,05,763	1,46,214	1,69,505	2,06,671
Income taxes	34,863	25,813	27,897	33,901	41,334
Net profit	96,325	1,79,951	1,18,317	1,35,604	1,65,337

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	3,443	3,464	3,600	3,600	3,600
ESOPs					
Reserves and surplus	7,70,112	8,58,117	10,54,425	11,46,540	13,11,876
Minority Interest					
Borrowings	36,52,660	41,91,020	45,73,928	51,86,601	59,25,541
Current liabilities & provisions	1,61,561	1,88,335	2,11,154	2,41,678	2,76,650
Total liabilities & stockholders' equity	45,87,776	52,40,936	58,43,107	65,78,419	75,17,667
Loans & advances	40,07,600	43,99,430	50,50,570	57,28,237	66,05,606
Fixed assets	6,442	9,861	9,748	11,849	14,402
Investments	4,65,617	6,49,444	7,31,197	7,91,471	8,56,714
Cash and Balance	15,963	34,257	3,678	2,996	2,440
Current assets	83,845	1,32,265	31,550	33,434	35,307
Deferred tax assets	8,309	15,679	16,364	10,431	3,198
Total assets	45,87,776	52,40,936	58,43,107	65,78,419	75,17,667

Source: Company data, I-Sec research

Table 3: Key ratios*(Year ending March 31)*

	FY19	FY20	FY21E	FY22E	FY23E
Growth:					
AUM	14.7	11.9	11.5	13.8	15.8
Net Interest Income	18.5	11.8	20.3	12.8	9.8
Total Non-Interest Expenses	-22.0	-14.4	43.0	25.2	-11.5
Pre provisioning operating profits	-8.2	88.5	-31.7	17.2	11.8
PAT	-12.1	86.8	-34.3	14.6	21.9
EPS	-16.9	85.7	-36.7	14.6	21.9
Yields, interest costs and spreads (%)					
NIM on AUM	3.0	3.0	3.2	3.2	3.1
Yield on loan assets	9.8	9.9	9.0	8.8	8.7
Average cost of funds	8.1	7.9	6.6	6.5	6.6
Interest Spread on loan assets	1.7	2.0	2.4	2.3	2.1
Operating efficiencies					
Non interest income as % of total income	9.5	25.5	9.3	11.2	10.8
Cost to income ratio (%)	13.0	10.0	11.9	13.2	10.6
Op.costs/avg AUM (%)	0.3	0.3	0.3	0.4	0.3
Salaries as % of non-int.costs (%)	34.0	45.5	51.3	56.1	45.3
NII /employee (Rsmn)	4,154	4,373	4,972	5,318	5,547
AUM/employee(Rsmn)	1,683	1,773	1,868	2,015	2,218
AUM/ branch (Rs mn)	13,546	14,516	15,533	16,991	18,947
Capital Structure					
Debt-Equity ratio	4.7	4.9	4.3	4.5	4.5
Leverage (x)	5.9	6.1	5.5	5.7	5.7
CAR (%) -standalone	19.2	17.7	21.0	20.6	20.4
Tier 1 CAR (%) -standalone	17.6	16.6	19.8	19.4	19.2
Tier 2 CAR (%) - standalone	1.6	1.1	1.2	1.2	1.2
Asset quality and provisioning					
GNPA (%)	1.4	2.3	3.3	3.5	2.2
NNPA (%)	0.8	1.3	1.8	1.9	1.2
GNPA	57,430	1,00,307	1,66,669	2,00,488	1,45,323
NNPA	32,440	55,169	91,668	1,10,269	79,928
Coverage ratio (%)	43.5	45.0	45.0	45.0	45.0
	0.22	1.21	0.63	0.69	0.43
Return ratios & capital management					
RoAA (%)	2.2	3.7	2.1	2.2	2.3
RoAE (%)	13.5	22.0	12.3	12.3	13.4
Payout ratio (%)	33.3	12.5	20.4	26.5	27.2
Valuation Ratios					
EPS (Rs)	42.5	40.5	52.0	58.0	74.1
EPS (core business) (Rs)	62.6	65.7	51.1	45.8	35.9
Price to Earnings (adj)	26.7	28.0	21.8	19.6	15.3
BVPS (Rs)	449.4	497.4	587.8	639.0	730.8
BVPS (core business) (Rs)	351.4	387.1	467.7	505.0	583.0
Price to Book (adj)	3.2	2.9	2.4	2.2	1.9
Dividend yield (%)	0.9	0.9	0.6	0.8	1.0

Source: Company data, I-Sec research

Table 4: Du-pont analysis*(%, year ending March 31)*

	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	10.4	10.4	9.4	9.1	9.0
Interest expended	7.3	7.4	6.1	5.9	5.9
Gross Interest Spread	3.0	3.0	3.2	3.2	3.1
Provisioning for NPAs	0.2	1.4	0.7	0.8	0.5
Net Interest Spread	2.8	1.6	2.5	2.4	2.6
Operating cost	0.4	0.3	0.4	0.4	0.3
Lending spread	2.4	1.3	2.1	2.0	2.3
Non-interest income	1.1	3.6	1.0	1.1	1.1
Operating spread	3.5	4.9	3.1	3.1	3.4
Tax	0.9	0.6	0.6	0.6	0.7
Return on average loan assets	2.5	4.3	2.5	2.5	2.7
Effective leverage (average loan assets/ average equity)(x)	5.3	5.1	4.9	4.9	5.0
RoAE	13.5	22.0	12.3	12.3	13.4

Source: Company data, I-Sec research

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