Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

HDFC

Steady performance

Q4FY17 Result Update

May 05, 2017

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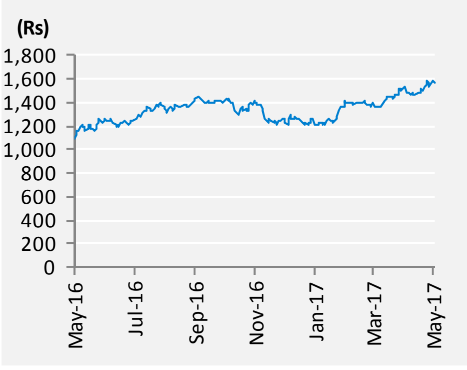
Rating	Accumulate
Price	Rs1,564
Target Price	Rs1,690
Implied Upside	8.1%
Sensex	30,126
Nifty	9,360

(Prices as on May 04, 2017)

Trading data			
Market Cap. (Rs bn)			2,485.3
Shares o/s (m)			1,588.7
3M Avg. Daily value (Rs m)			4131
Major shareholders			
Promoters			0.00%
Foreign			76.42%
Domestic Inst.			12.10%
Public & Other			11.48%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	2.1	12.9	38.3
Relative	1.3	2.4	18.3
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2018	55.7	52.7	*5.6*
2019	64.5	60.6	*6.6*

Price Performance (RIC: HDFC.BO, BB: HDFC IN)



Source: Bloomberg

HDFC's 4QFY17 net income was a slight beat on estimates at Rs20.4bn (PLe: Rs19.9bn) on back of lower opex and tax rate. Overall, loan book grew at 16.2% mainly led by non-individual book, while individual loans continue to grow on softer trajectory of 13-14%. Management reiterated it would target to grow overall loan book at 15-16% with non-individual growing at 15-18%. HDFC's Tier-I capital ratio has come off to 11.8% in Mar'17 owing to full impact of DTA on special reserve (Rs12.0bn impact in FY17) and slightly higher RWA on faster growth in non-retail book. We believe, capital will be not be a constraint as warrants issued earlier are likely to get converted to equity, helping it raise Rs50bn, which we have factored in FY18 estimates. We maintain Accumulate with increased PT of Rs1,690 (from Rs1,454) as we roll over our SOTP to Mar-19.

- **Performance steady and in-line:** NII growth was strong at 15.5% YoY helped by strong growth in non-individual book and stable spreads. Net income was slightly higher than estimated on controlled opex growth 13% YoY and comparatively lower tax rate. Spreads came off by 12-14bps QoQ to 2.3% (quarterly spreads) and mainly on individual book as company passed on CoF benefit by lowering RPLR by 15bps on loans in Jan'17. Management expects spreads from now on to be steady at 2.2-2.3% in FY18.
- **Loan book driven by non-individual book:** Loan growth showed some improvement to 16.2% but led by strong 22.3% YoY growth in non-individual loans. Individual loan growth remained soft at 13-14% YoY as individual loan disbursement growth in Q4FY17 was only 2-3% YoY as company continued to see slight impact of demonetisation playing in. Management reiterated it has seen strong growth in loan logins from Feb/Mar and expect to see improvement in individual loan growth to 15-16% in FY18, while see similar growth in non-individual book.
- **Asset quality improves seasonally; Capital impacted from DTA charge:** GNPAs improved by 2bps QoQ to 0.79% in Q4FY17 mainly in individual book but still has not completely recovered from demonetisation impact. HDFC's Tier-I came off by 160bps YoY to 11.8% as on Mar'17 owing to full DTA on special reserve of Rs12.0bn (50% as per circular), higher RWAs on faster growth in non-retail and dividend inclusion. We have factored in warrant conversion in FY18 helping it raise Rs50bn and take Tier-I to ~13.5% in FY18 (inclusive of internal accruals).

Key Financials (Y/e March)	2016	2017	2018E	2019E
Net interest income (Rs m)	86,945	99,542	117,119	138,973
Growth (%)	*8.7*	*14.5*	*17.7*	*18.7*
Non-interest income (Rs m)	3,742	3,462	4,314	4,932
Operating Profit (Rs m)	83,098	94,637	112,384	133,695
PAT (Rs m)	70,931	74,427	89,483	104,886
EPS (Rs)	45.0	47.0	55.7	64.5
Growth (%)	*20.0*	*4.5*	*18.5*	*15.9*
Net DPS (Rs)	19.9	21.6	22.9	23.2

Profitability & valuation	2016	2017	2018E	2019E
Spreads / Margins (%)	*3.6*	*3.6*	*3.7*	*3.7*
RoAE (%)	*21.8*	*20.2*	*20.3*	*20.3*
RoAA (%)	*2.6*	*2.4*	*2.5*	*2.6*
P/E (x)	34.8	33.3	28.1	24.2
P/BV (x)	7.3	6.3	5.2	4.6
P/ABV (x)	7.5	6.5	5.2	4.6
Net dividend yield (%)	*1.3*	*1.4*	*1.5*	*1.5*

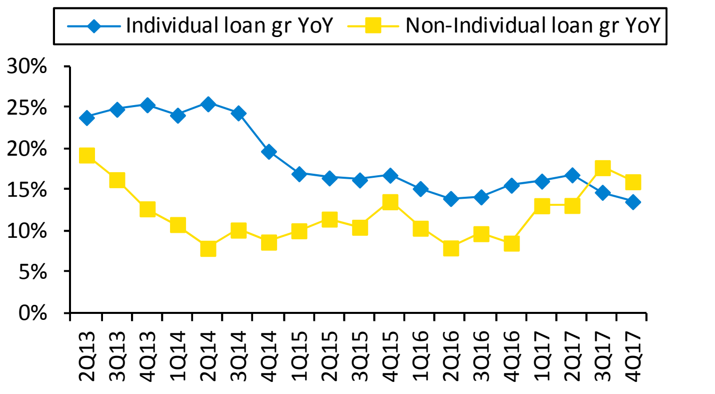
Source: Company Data; PL Research

Exhibit 1: Q4FY17 Financials – Steady performance mainly led by non individual book

P&L (Rs m)	Q4FY17	Q4FY16	YoY gr.	Q3FY17	QoQ gr.
Interest on advances	77,083	68,193	13.0	74,998	2.8
Other interest income	3,820	3,744	2.0	3,620	5.5
Total interest income	80,903	71,938	12.5	78,617	2.9
Interest expense	52,379	47,245	10.9	52,862	(0.9)
Net Interest Income	**28,524**	**24,693**	**15.5**	**25,755**	**10.8**
Capital Gains	486	15,199	(96.8)	34	NA
Total other income	4,242	18,866	(77.5)	2,869	47.9
Total income	**32,766**	**43,559**	**(24.8)**	**28,624**	**14.5**
Operating expenses	1,904	1,688	12.8	2,142	(11.1)
-Staff expenses	861	834	3.2	1,032	(16.6)
-Other expenses	1,043	854	22.2	1,109	(6.0)
Operating profit	**30,862**	**41,871**	**(26.3)**	**26,482**	**16.5**
Core operating profit	30,376	26,672	13.9	26,448	14.9
Total provisions	1,480	5,450	(72.8)	1,170	26.5
Profit before tax	29,382	36,421	(19.3)	25,312	16.1
Tax	8,940	10,350	(13.6)	8,300	7.7
Profit after tax	**20,442**	**26,071**	**(21.6)**	**17,012**	**20.2**
Balance Sheet (Rs m)					
Loan composition	**29,57,338**	**25,86,580**	**14.3**	**28,68,760**	**3.1**
-Individual loans (%)	69.0	70.5		69.5	
-Corporate loans (%)	29.5	27.9		29.0	
- Others (%)	1.6	1.6		1.5	
Borrowings composition	**28,05,340**	**23,81,930**	**17.8**	**26,34,880**	**6.5**
-Term loans (%)	13.3	17.9		11.9	
-Bonds/ Deb./ CPs (%)	55.9	50.7		55.7	
-Deposits (%)	30.9	31.3		32.4	
Ratios (%)					
Spreads	2.93	2.29	64	2.34	59
- Individual Loan Spreads	1.99	1.94	5	2.02	(3)
- Non-individual Loan Spreads	3.09	3.10	(1)	3.09	-
NIMs	**4.10**	**4.10**	-	**3.95**	**15**
Asset quality					
Gross NPL	0.7	0.7	(2)	0.8	(13)
Coverage ratio	36.4	31.3	517	30.3	611
Others / Ratios					
Cost-income ratio	5.8	3.9	193	7.5	(167)
Tier-I	11.8	13.2	(140)	13.4	(160)

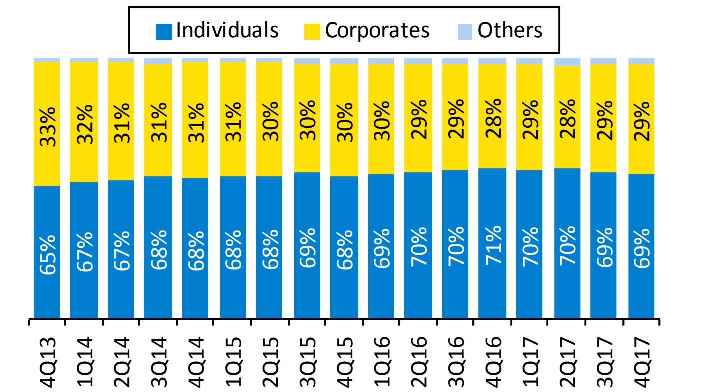
Source: Company Data, PL Research

Exhibit 2: Individual loans continue moderate growth



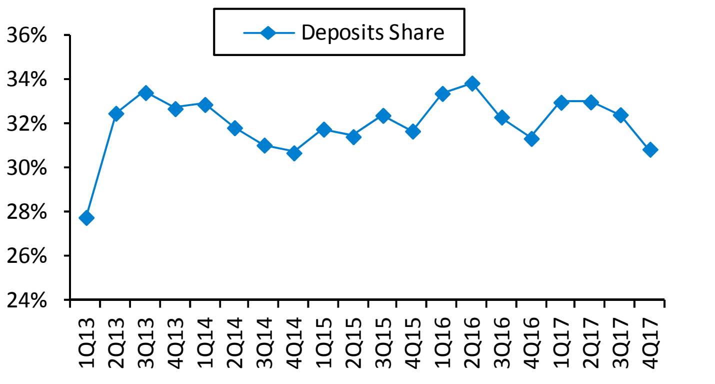
Source: Company Data, PL Research

Exhibit 3: Loan mix largely steady within retail & non-retail



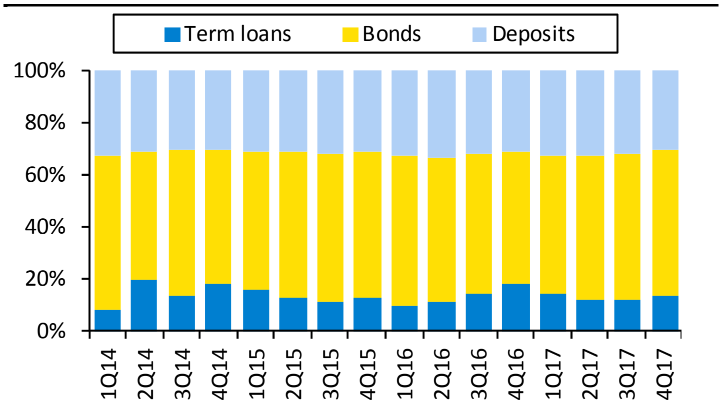
Source: Company Data, PL Research

Exhibit 4: Deposit share remains steady



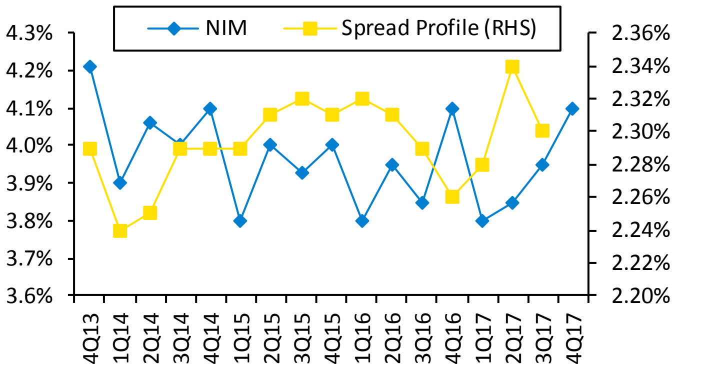
Source: Company Data, PL Research

Exhibit 5: Share of market borrowings increases as company opted for benign rate scenario



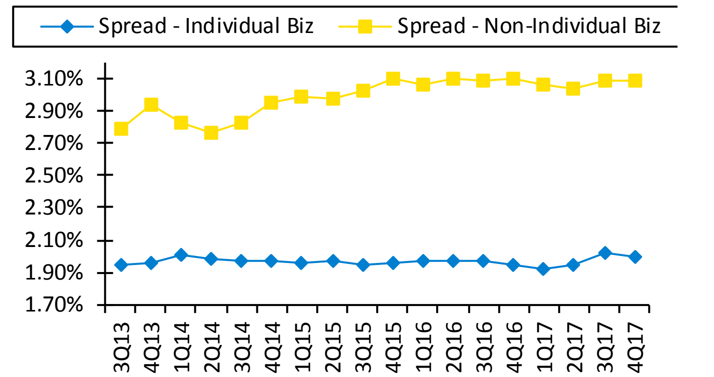
Source: Company Data, PL Research

Exhibit 6: Overall spreads came off by 3-4bps QoQ as HDFC passed on interest rate reduction in last quarter



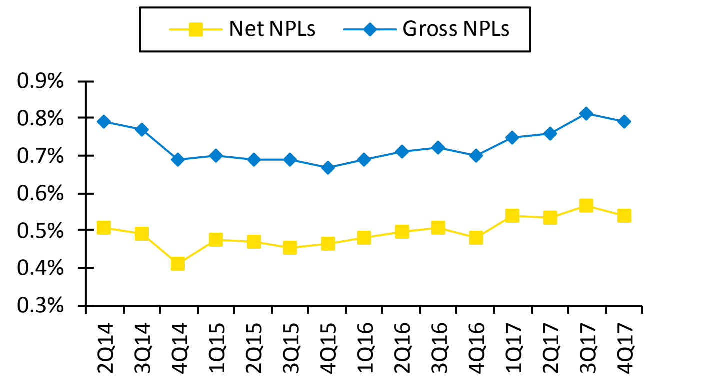
Source: Company Data, PL Research

Exhibit 7: Spreads in non-retail book remains stable; individual portfolio sees slight fall



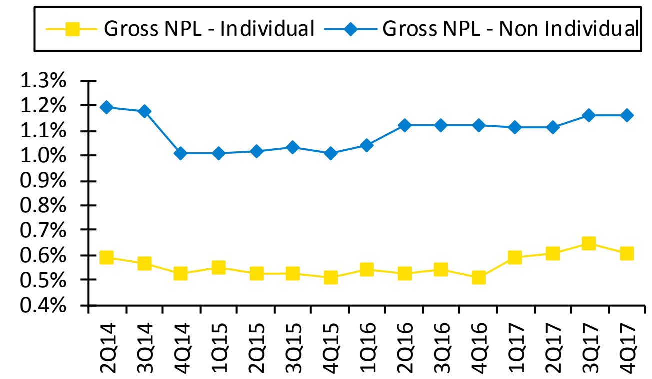
Source: Company Data, PL Research

Exhibit 8: Asset quality improved but still has some effect of demonetisation



Source: Company Data, PL Research

Exhibit 9: Non retail book showing stable asset quality trends



Source: Company Data, PL Research

Exhibit 10: Earnings Change Table - We factor in warrants conversion for equity in FY18 and slightly lower opex

Rs (mn)	Old		New		*% Change*	
	FY18E	FY19E	FY18E	FY19E	*FY18E*	*FY19E*
Net interest income	118,463	138,808	117,119	138,973	*(1.1)*	*0.1*
Operating profit	130,386	150,216	131,634	153,885	*1.0*	*2.4*
Net profit	87,743	101,057	89,483	104,886	*2.0*	*3.8*
EPS, Rs.	55.5	64.0	55.7	64.5	*0.3*	*0.9*
ABVPS, Rs.	271.3	312.0	298.0	339.4	*9.9*	*8.8*
Price target, Rs.	**1,454**		**1,690**		***16.3***	
Recommendation	**ACCUMULATE**		**ACCUMULATE**			

Source: Company Data, PL Research

Exhibit 11: SOTP valuation table – Subs carry 46% weightage

HDFC SOTP valuation	Stake (%)	Value per share (Rs)	Basis
HDFC Parent (A)		915	Avg. of EVA and two-stage GGM, 3.2x P/ABV & 14.2x P/E Mar-19E
Subsidiaries / Associates			
HDFC Bank	21.7	573	Value of stake in HDFC Bank as per our fair value
Life insurance	61.6	124	Appraisal value
AMC	59.8	56	5% of AUM
General Insurance	50.9	15	20x forward earnings
Others		93	
Total subs/associates (B) @10% discount		**775**	
Fair value (A+B)		**1,690**	
Contribution of subs to total (%)		*46*	

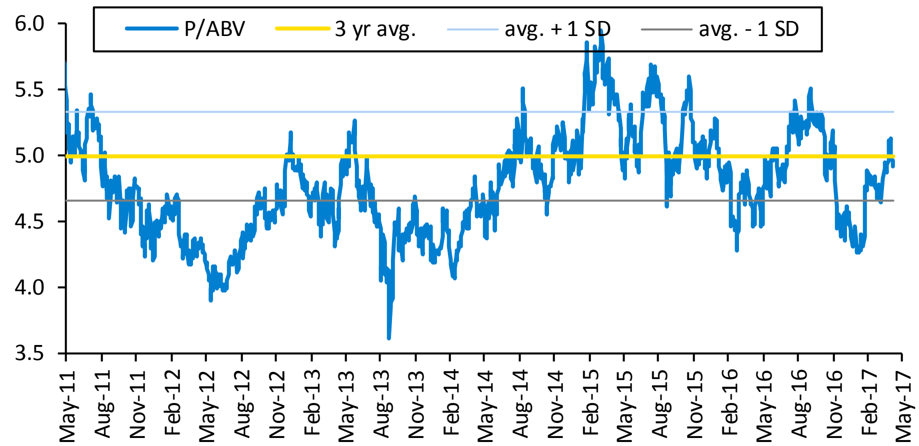
Source: Company Data, PL Research

Exhibit 12: We revise our PT to Rs1,690 (from Rs1,454) based on Mar-19ABV & SOTP valuation

PT calculation and upside	
Fair price - EVA	914
Fair price - P/ABV	917
Average of the two	**915**
Target P/ABV	**3.2**
Target P/E	**14.2**
Value of subs/associates	775
Fair value of consol. entity	**1,690**
Current price, Rs	1,564
Upside (%)	**8%**
Dividend yield (%)	1%
Total return (%)	**9%**

Source: PL Research

Exhibit 13: HDFC Ltd – 1 year forward P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Int. Inc. / Opt. Inc.	280,690	308,504	357,566	412,262
Interest Expenses	193,745	208,962	240,447	273,289
Net interest income	**86,945**	**99,542**	**117,119**	**138,973**
Growth (%)	*8.7*	*14.5*	*17.7*	*18.7*
Non interest income	3,742	3,462	4,314	4,932
Growth (%)	*28.6*	*(7.5)*	*24.6*	*14.3*
Net operating income	90,688	103,005	121,433	143,905
Expenditure				
Employees	3,491	3,888	4,413	4,987
Other expenses	3,556	3,920	4,449	5,028
Depreciation	543	560	187	196
Total expenditure	7,590	8,368	9,049	10,210
PPP	**83,098**	**94,637**	**112,384**	**133,695**
Growth (%)	*11.3*	*13.9*	*18.8*	*19.0*
Provision	7,150	7,000	2,881	2,970
Other income	—	—	—	—
Exchange Gain / (Loss)	7,150	7,000	2,881	2,970
Profit before tax	**101,081**	**107,267**	**128,752**	**150,915**
Tax	30,150	32,840	39,269	46,029
Effective tax rate (%)	*29.8*	*30.6*	*30.5*	*30.5*
PAT	**70,931**	**74,427**	**89,483**	**104,886**
Growth (%)	*20.7*	*4.9*	*20.2*	*17.2*

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Int. Inc. / Operating Inc.	73,553	75,431	78,617	80,903
Income from securitization	—	—	—	—
Interest Expenses	51,262	52,459	52,862	52,379
Net Interest Income	**22,292**	**22,972**	**25,755**	**28,524**
Growth	*9.4*	*14.5*	*18.0*	*15.5*
Non interest income	10,380	5,601	2,869	4,242
Net operating income	**32,672**	**28,573**	**28,624**	**32,766**
Growth	*48.2*	*11.5*	*16.4*	*(24.8)*
Operating expenditure	2,274	2,048	2,142	1,904
PPP	**30,397**	**26,525**	**26,482**	**30,862**
Growth	*51.8*	*11.7*	*17.3*	*(26.3)*
Provision	3,400	950	1,170	1,480
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	26,997	25,575	25,312	29,382
Tax	8,290	7,310	8,300	8,940
Prov. for deferred tax liability	—	—	—	—
Effective tax rate (%)	*30.7*	*28.6*	*32.8*	*30.4*
PAT	**18,707**	**18,265**	**17,012**	**20,442**
Growth	*37.5*	*13.8*	*11.9*	*(21.6)*

Balance Sheet (Rs m)

Y/e March	2016	2017	2018E	2019E
Sources of funds				
Equity	3,160	3,177	3,250	3,250
Reserves & Surplus	337,540	392,766	481,103	548,285
Networth	340,700	395,943	484,353	551,535
Growth (%)	*10.0*	*16.2*	*22.3*	*13.9*
Loan funds	1,635,230	1,939,600	2,228,297	2,563,465
Growth (%)	*—*	*18.6*	*14.9*	*15.0*
Deposits	741,162	865,740	969,629	1,085,984
Other Liabilities	161,415	145,888	160,477	176,524
Total	**2,878,506**	**3,347,171**	**3,842,756**	**4,377,509**
Application of funds				
Net fixed assets	6,645	6,423	6,701	7,036
Advances	2,586,582	2,964,720	3,438,346	3,986,125
Growth (%)	*13.6*	*14.6*	*16.0*	*15.9*
Net current assets	106,762	116,124	116,980	71,718
Investments	95,010	145,958	167,474	195,278
Growth (%)	*12.3*	*53.6*	*14.7*	*16.6*
Deferred tax asset	—	—	—	—
Other Assets	83,507	113,849	113,254	117,351
Total	**2,878,506**	**3,347,075**	**3,842,756**	**4,377,509**

Source: Company Data, PL Research.

Key Ratios

Y/e March	2016	2017	2018E	2019E
CMP (Rs)	1,564	1,564	1,564	1,564
Eq. Shrs. O/s. (m)	1,580	1,589	1,625	1,625
Market Cap (Rs m)	2,471,517	2,485,284	2,542,385	2,542,385
Market Cap to AUM (%)	0.9	0.7	0.7	0.6
EPS (Rs)	45.0	47.0	55.7	64.5
Book Value (Rs)	215.7	249.2	298.0	339.4
Adjusted Book Value (Rs)	207.8	239.2	298.6	339.6
P/E (x)	34.8	33.3	28.1	24.2
P/BV (x)	7.3	6.3	5.2	4.6
P/ABV (x)	7.5	6.5	5.2	4.6
DPS (Rs)	19.9	21.6	22.9	23.2
Dividend Yield (%)	1.3	1.4	1.5	1.5

Asset Quality

Y/e March	2016	2017	2018E	2019E
Gross NPAs (Rs m)	18,106	23,363	24,756	27,903
Net NPAs (Rs m)	12,444	15,983	(979)	(357)
Gross NPAs to Gross Adv. (%)	0.7	0.8	0.7	0.7
Net NPAs to Net Adv. (%)	0.5	0.5	—	—
NPA Coverage (%)	31.3	31.6	104.0	101.3

Profitability (%)

Y/e March	2016	2017	2018E	2019E
NIM	3.6	3.6	3.7	3.7
RoAA	2.6	2.4	2.5	2.6
RoAE	21.8	20.2	20.3	20.3

Source: Company Data, PL Research.

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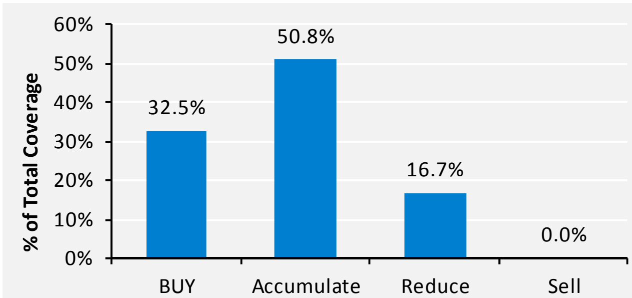

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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