

## HDFC Ltd (HDFC)

₹ 1747

### Inherent strength stays; value unlocking seen

HDFC Ltd is the first specialised housing finance company (HFC) and also the largest with an outstanding loan book of ₹ 312978 crore. The conglomerate has a presence and superior position in growing financial business segments like insurance, both life and general, asset management and banking apart from its own core housing loan leadership business.

#### Play on housing loan both retail & institutional, with good margins

HDFC Ltd's outstanding loan book was at ₹ 312978 crore as on Q1FY18 of which individual loans accounted for ~69% while the corporate proportion has declined to ~30% from highs of 36% in FY12 led by strong individual home loan growth. HDFC has witnessed healthy traction of 18% CAGR in the past four years vs. 16% industry CAGR mainly driven by individual loans. It has maintained its leading position despite a challenging macro environment. This is owing to its unique strengths such as a strong franchise, brand pedigree, in-house model, large network and a dedicated business. Factoring the RERA benefit, we believe the corporate loans segment may see an uptick. Going ahead, owing to enhanced competition in individual loans, we expect total loan growth of 16.2% CAGR in FY17-19E to ₹ 399035 crore. We expect NIMs (calculated) to stay broadly stable at ~3.2% with reported spreads maintained close to ~2.2%.

HDFC has one of the best asset quality parameters in the industry with nil NNPA. Its GNPA as on Q1FY18 was 1.12% with provision coverage ratio maintained at 100%.

#### Healthy performance of subsidiaries adding to consolidated level

Consolidated profits for FY17 were at ₹ 11051 crore, with subsidiaries contributing 33%. We expect insurance subsidiaries to start generating better profitability ahead. Even consolidated RoEs have been healthy at ~20% with RoA at 2.5%.

#### Upgrade valuations of insurance, AMC, Bank, re-iterate BUY

HDFC has commanded premium valuations over the years due to its consistent track record in earnings. Return ratios have remained healthy across economic cycles with RoE >20% & RoA ~2.2-2.3%. We expect PAT CAGR of ~11.9% in FY17-19E and loan CAGR of 16.2%. We value the standalone business at 3.5x ABV. Based on recent life insurance IPOs at 3.8-4.2x trailing EV, we upgrade HDFC life valuation to 3.6x forward EV (4.2x trailing). IPOs expected in asset management industry, lead to revised valuations for HDFC AMC business to 8% of AUM from 6% earlier. We revise our SOTP based target price higher to ₹ 2056/share from ₹ 1910. We reiterate our **BUY** recommendation on the stock.

#### Exhibit 1: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	3.5x FY19E Core Mortgage ABV	100	982
HDFC Bank	4.5x FY19E ABV / 22x FY19 EPS	21.2	666
HDFC AMC	8% of MF AUM	60	112
HDFC Std. Life	3.6x FY19E Embedded Value	61.5	202
HDFC ERGO	15x FY19E PAT	50.8	21
GRUH Finance	Market cap	58.5	72

**Value per share of HDFC**

**2,056**

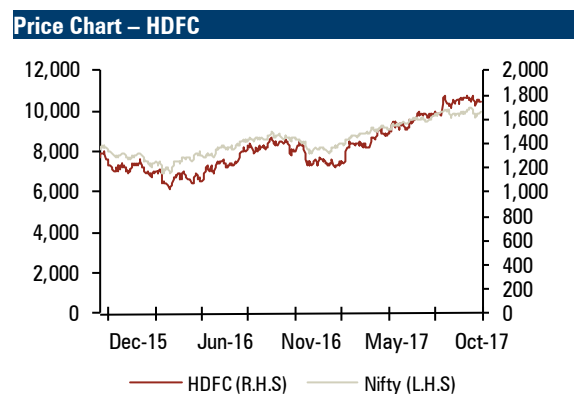
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	Buy
Target	₹ 2056
Target Period	12 months
Potential Upside	17%

Key Financials – HDFC Ltd				
₹ crore	FY16	FY17	FY18E	FY19E
NII	8,388	9,510	10,734	12,357
PPP	10,823	11,427	12,579	14,212
PAT	7,093	7,443	8,203	9,325

Stock data- HDFC Ltd	
Market Capitalisation	₹ 277546 crore
GNPA (Q1FY18)	₹ 3513 crore
NNPA (Q1FY18)	Nil
NIM (Q1FY18) (reported)	4.00
52 week H/L	1802 / 1185
Networth (Eq + Res)	₹ 39404 crore
Face value	₹ 2
DII Holding (%)	11.4
FII Holding (%)	77.5

Financial and valuation summary				
Financial Performance	FY16	FY17	FY18E	FY19E
NII (₹ crore)	8388	9510	10734	12357
PPP (₹ crore)	10823	11427	12579	14212
PAT (₹ crore)	7093	7443	8203	9325
EPS(₹)	45	47	52	59
P/E (x)	38.9	37.3	33.8	29.8
P/ABV (x)	8.1	7.5	6.8	6.1
RoA (%)	2.6	2.4	2.3	2.3
RoE (%)	21.8	21.0	21.1	21.6



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