

HDFC

BANKS & FINANCIAL SERVICES

3 NOV 2017

Quarterly Update

BUY

Target Price: Rs 1,980

Value unlocking on the way

HDFC's Q2 PAT at Rs 21 bn (up 15% YoY) was in line with estimate. AUM growth was strong at 18% YoY driven by ~24% YoY growth in non-individual book (~30% of portfolio) while NIM declined by 10 bps QoQ to 3.9%. However, spreads remained stable at 2.3% and guidance maintained in range of 2.2-2.35%. Value unlocking from life insurance and AMC business is on the way and will be value accretive.

Asset quality deteriorated slightly with overall GNPA ratio up 2 bps QoQ at 1.14%. GNPA's in individual loans remained stable at 0.65% but for non-individual portfolio deteriorated further to 2.18%. The management intends to create a provision buffer in Q3 from the profits realized on listing of its life insurance subsidiary. **Retain BUY with TP of Rs 1,980.**

CMP : Rs 1,706
Potential Upside : 16%

MARKET DATA

No. of Shares : 1,593 mn
Free Float : 100%
Market Cap : Rs 2,718 bn
52-week High / Low : Rs 1,802 / Rs 1,185
Avg. Daily vol. (6mth) : 3.0 mn shares
Bloomberg Code : HDFC IB Equity
Promoters Holding : 0%
FII / DII : 76% / 13%

Q2FY18 highlights

- Individual loans comprise ~70% of AUM. In Q2, individual loans contributed ~79% of incremental loan growth while commercial lease rental discounting/construction finance contributed 11%/10% to loan growth. Overall AUM growth, including the loans sold, was higher at 23%
- While overall spreads was stable at 2.29%, spreads in non-individual portfolio declined by 11 bps QoQ to 3.07% largely due to increased competition

Maintain BUY with revised SOTP-based TP of Rs 1,980 (16% upside from CMP): HDFC will benefit from government's focus on the housing space (housing for all by FY22), lower interest rate regime, value unlocking from subsidiaries and market leadership of key subsidiaries/ JVs. Life insurance IPO process is on, whereas the AMC may be listed sometime next fiscal. Moreover, best in class return ratios and quality of book will help command premium valuations. At CMP, HDFC trades at 2.8x FY19E ABV of Rs 260 (adjusted for cost and value of investments).

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	70,931	74,426	76,374	87,885
EPS (Rs)	45	47	48	55
EPS chg (%)	18.0	4.3	2.6	15.1
Book value (Rs)	216	250	280	316
Adj. BV (Rs)	216	250	280	316
PE (x)*	18.3	16.5	15.1	13.1
P/ABV (x)*	5.0	3.9	3.2	2.8
RoE (%)	21.8	20.2	18.1	18.5
RoA (%)	2.6	2.4	2.1	2.2
Net NPA (%)	-	-	-	-

Source: Company, Axis Capital

* adjusted for cost & value of investments

Key drivers

(%)	Q3'17	Q4'17	Q1'18	Q2'18
Loan growth (YoY)	16	14	18	18
NIM	4.0	4.1	4.0	3.9
Spread	2.3	2.3	2.3	2.3
GNPA ratio	0.8	0.8	1.1	1.1

Price performance

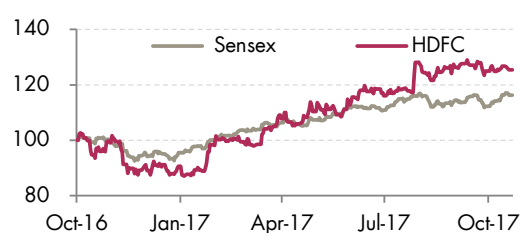
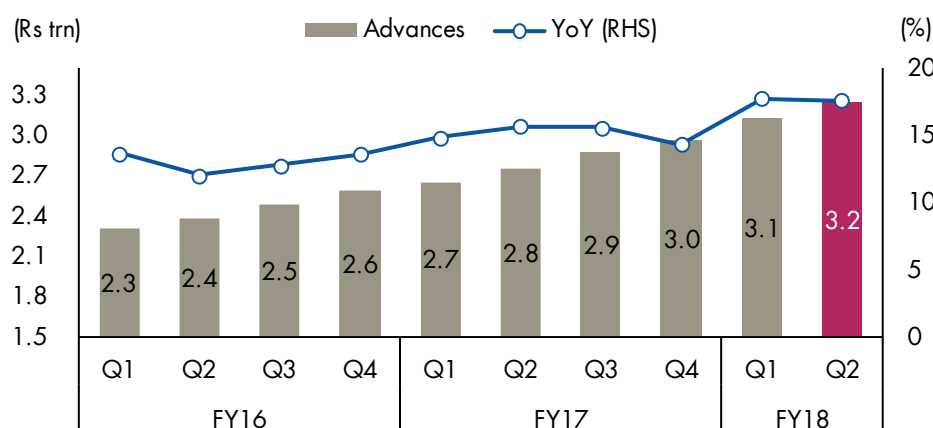
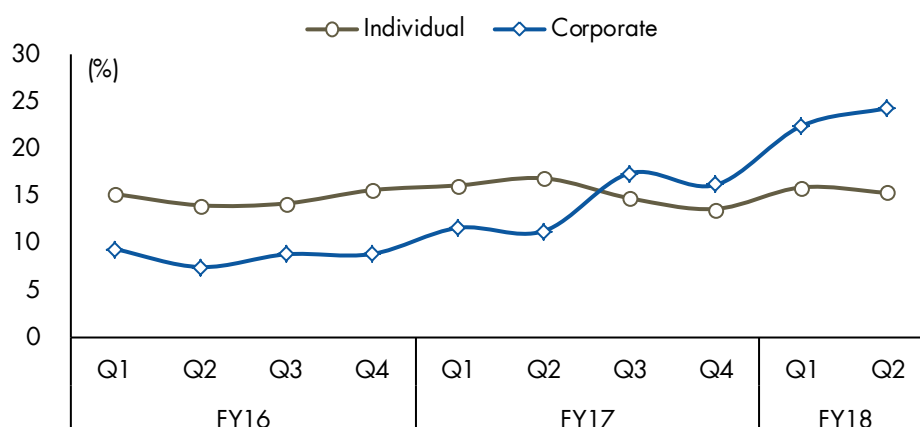


Exhibit 1: Advances grew ~18% YoY primarily driven by non-retail book



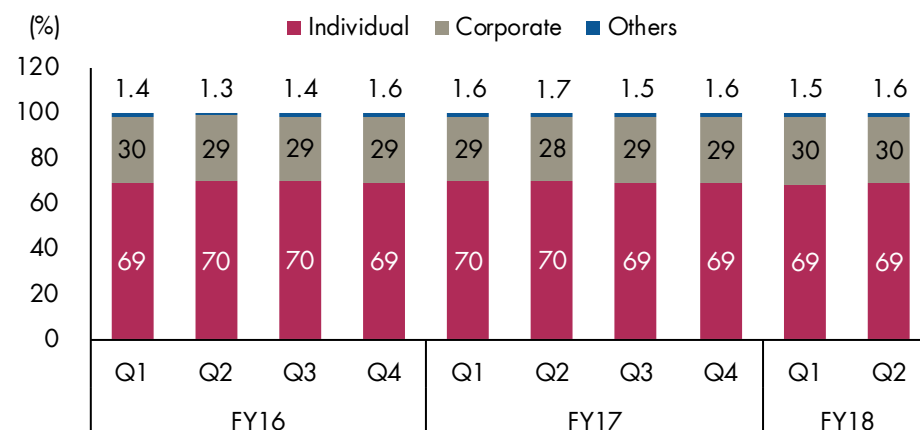
Source: Axis Capital, Company

Exhibit 2: Non-retail loans have grown faster than retail loans for a couple of quarters



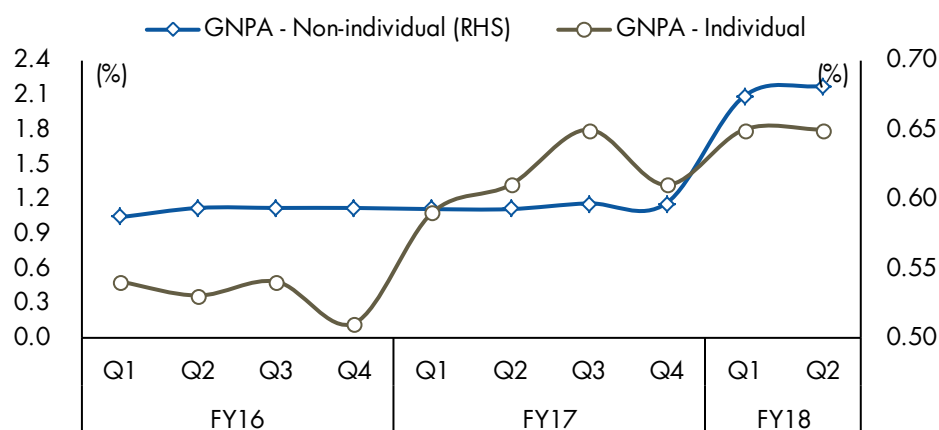
Source: Company, Axis Capital

Exhibit 3: Trend in advances mix – individual loans continue to dominate the mix



Source: Axis Capital, Company

Exhibit 4: Asset quality deteriorated marginally in Q2



Source: Axis Capital, Company

Exhibit 5: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% chg	Jun-17	% chg	FY18E	FY17	% chg
Interest income	86,851	80,632	8	81,288	7	357,740	331,128	8
Interest expended	55,341	52,459	5	54,444	2	221,754	208,962	6
Net interest income	31,511	28,174	12	26,844	17	135,986	122,166	11
Non-interest income	758	399	90	130	484	164	468	(65)
Net income	32,269	28,573	13	26,974	20	136,150	122,634	11
Operating expenses	2,248	2,048	10	2,536	(11)	9,066	8,368	8
Operating profit	30,021	26,525	13	24,437	23	127,084	114,266	11
Provision & Contingencies	950	950	0	850	12	13,093	7,000	87
PBT	29,071	25,575	14	23,587	23	113,991	107,266	6
Tax	8,060	7,310	10	8,030	0	37,617	32,840	15
Reported net profit	21,011	18,265	15	15,557	35	76,374	74,426	3
Ratios (%)								
Gross NPAs	1.1	0.8	38 bps	1.1	2 bps	1.1	0.8	27 bps
Tier-I	12.6	13.3	(70)bps	12.1	50 bps	11.5	11.8	(30)bps
CAR	15.1	16.5	(140)bps	14.7	40 bps	14.0	14.5	(50)bps
Spread	2.3	2.3	1 bps	2.3	0 bps	3.6	3.6	(3)bps
Balance sheet (Rs bn)								
Advances	3,241	2,754	18	3,130	4	3,375	2,957	14

Source: Company, Axis Capital

Exhibit 6: SoTP valuation

	Valuation basis	Value/shr (Rs)
Subsidiaries		
HDFC Standard Life Insurance	IPO valuation	222
HDFC AMC	6% of AUM	61
GRUH Finance*	At CMP	53
HDFC ERGO General Insurance	20x FY19E earnings	38
Value of subsidiaries		375
HDFC Bank*	Based on target price	520
Other Investments	At Cost	85
Value of standalone housing loan business	3.8x FY19E ABV	1,000
Value per share of HDFC Ltd (Rs)		1,980

Source: Axis Capital, Company *Factored in 20% holdco discount

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	309	331	358	402
Interest expended	(194)	(209)	(222)	(249)
Net interest income	115	122	136	153
Non interest income	1	-	-	-
Net income	116	123	136	153
Operating expenses	(8)	(8)	(9)	(10)
Staff expenses	(3)	(4)	(4)	(4)
Other operating expenses	(4)	(4)	(5)	(6)
Operating profit	108	114	127	143
Provisions & contingencies	(7)	(7)	(13)	(12)
Pre-tax profit	101	107	114	131
Tax expense	(30)	(33)	(38)	(43)
Profit after tax	71	74	76	88
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	71	74	76	88

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	2,889	3,364	3,806	4,311
Cash & Balances with RBI	53	63	66	70
Investments	153	204	212	222
Advances	2,587	2,957	3,375	3,851
Fixed assets	7	6	7	7
Other assets	89	133	146	162
Total liabilities	2,889	3,364	3,806	4,311
Equity capital	3	3	3	3
Preference capital	-	-	-	-
Reserves & surplus	338	393	442	499
Networth	341	396	446	503
Borrowings	2,378	2,797	3,133	3,576
Deposits	-	-	-	-
Other liabilities & prov.	170	170	227	233

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs)	45	47	48	55
BV (Rs)	216	250	280	316
Adj. BV (Rs)	216	250	280	316
DPS (Rs)	17	-	15	17
Dividend payout (%)	38	-	31	31
Yields & Margins (%)				
Yield on advances	12.7	11.9	11.3	11.1
Cost of deposit	-	-	-	-
Net interest margin	4.7	4.3	4.2	4.2
Asset quality (%)				
Gross NPAs	0.7	0.8	1.1	1.2
Net NPAs	-	-	-	-
Credit cost	0.3	0.3	0.4	0.3
Provisioning coverage	147.0	129.0	120.0	125.0
Capital (%)				
Tier-I	13.2	11.8	11.5	11.1
CAR	16.6	14.5	14.0	13.2
Efficiency (%)				
ROA	2.6	2.4	2.1	2.2
ROE	21.8	20.2	18.1	18.5
Cost to income	7	7	7	7
CASA	-	-	-	-
Effective tax rate	30	31	33	33
Growth (%)				
Net interest income	22	6	11	12
Fee income	-	-	-	-
Operating expenses	7	10	8	12
Profit after tax	18	5	3	15
Advances	14	14	14	14
Deposits	-	-	-	-
Total assets	14	16	13	13

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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