

Stock Update

Clockwork performance

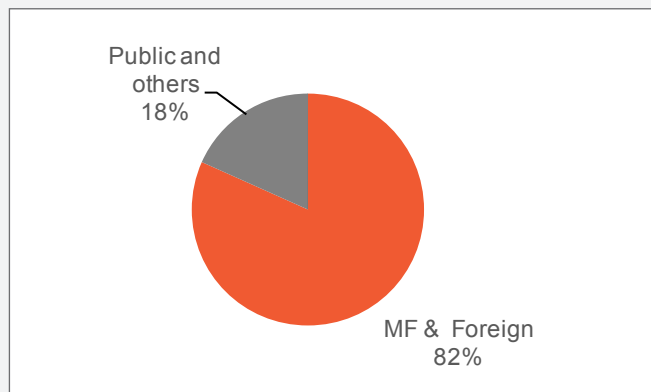
Housing Development Finance Corporation

Reco: Buy | CMP: Rs1,705

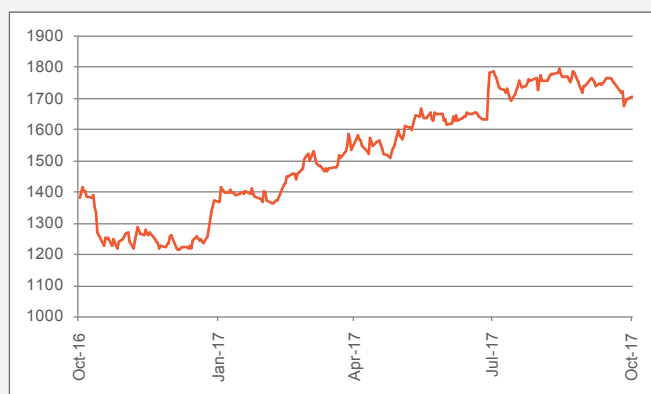
Company details

Price target:	Rs1,900
Market cap:	Rs272,043 cr
52-week high/low:	Rs1,802/1,185
NSE volume: (No of shares)	27.0 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	159.51 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.8	3.6	7.7	28.2
Relative to Sensex	-7.4	1.0	-3.0	6.4

Key points

- ♦ **Healthy operating performance:** HDFC Ltd. (HDFC) posted healthy operating performance during Q2FY2018. Net interest income (NII) grew by 13.7% YoY, aided by 17.7% YoY growth in loan book. Net interest margin (NIM) was stable during the quarter at 3.9% YoY. However, on a sequential basis, it showed a decline of 10BPS. Non-interest income during the quarter increased by 11.4% YoY to Rs.773.8 crore. Provisions during the quarter stood at Rs.95 crore (flat on a YoY basis), while net profit increased by 15.0% YoY to Rs.2,101.1 crore.
- ♦ **Asset quality remains steady:** Overall asset quality during the quarter remained steady, as GNPA ratio during the quarter stood at 1.14% versus 1.12% QoQ. In the individual segment, GNPA ratio remained flat at 0.65% sequentially; while in the developer segment, it reported a marginal rise of 9BPS to 2.18% QoQ. HDFC carries Rs.3,235 crore of provisions on its balance sheet (as of Q2FY2018) against NHB requirement of Rs.2,500 crore (standard assets Rs.1,446 crore + for NPA Rs.1,054 crore) and is, therefore, comfortably above the regulatory requirement.
- ♦ **Outlook:** HDFC's results are positive on the business traction part. In addition, a steady asset quality is a significant positive at these times. The company not only has the industry's best operating metrics in the housing finance space, but the government's push for housing, prevailing low interest rate environment and rising affordability also augur well for its future growth. HDFC plans to unlock value by listing of its life insurance subsidiary. As it is, the said listing, and considering the SOTP value, of its subsidiary and associate companies provide downside support for the stock in the medium term.
- ♦ **Valuation:** The premium valuation of HDFC is justified not only because of its conservative policies and market leadership but also due to high earnings visibility and best-in-class operating metrics. We have maintained our Buy rating on the stock with a revised price target (PT) of Rs.1,900.

- ♦ **Steady loan growth traction yet again:** During the quarter, overall loan book grew by 17.7% YoY to Rs.3,24,077 crore, driven by 15.3% YoY rise in individual loan book, while developer loan portfolio increased by 24.3% YoY.

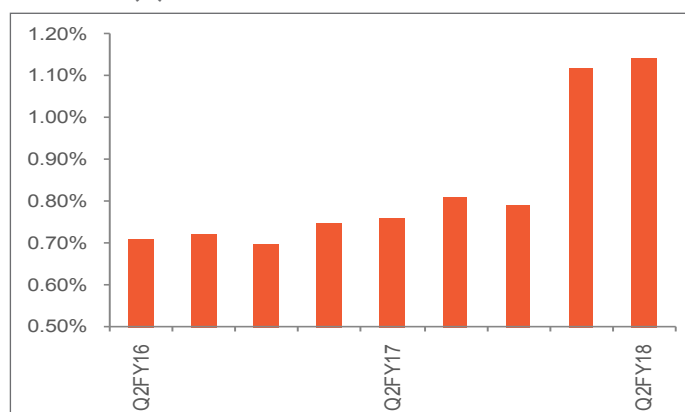
Growth in total loan book after adding back loans sold was 23% (18% net of loans sold). On assets under management (AUM) basis, 70% of incremental growth in loan book came from the individual segment. Growth in individual loan book, after adding back loans sold in the preceding 12 months, was 23% (15% net of loans sold). Non-individual loan book grew at 23%. During the quarter, the company sold

individual loans amounting to Rs.3,530 crore. As of Q2FY2018, individual loans comprised 72% of AUM. Of the incremental loans, nearly 70% came from individual loans and 30% from commercial lease rental discounting and construction finance. HDFC Ltd. sold individual loans amounting to Rs.3,530 crore during Q2FY2018 (Rs.2,992 crore in Q1FY2018). Of this, Rs.3,165 crore (Rs.2,458 crore in Q1FY2018) was assigned to HDFC Bank pursuant to the buyback option embedded in the home loan arrangement between HDFC and HDFC Bank and Rs.365 crore was assigned to another bank. In respect of the loans assigned to the other bank, the residual income is 2.4% per annum.

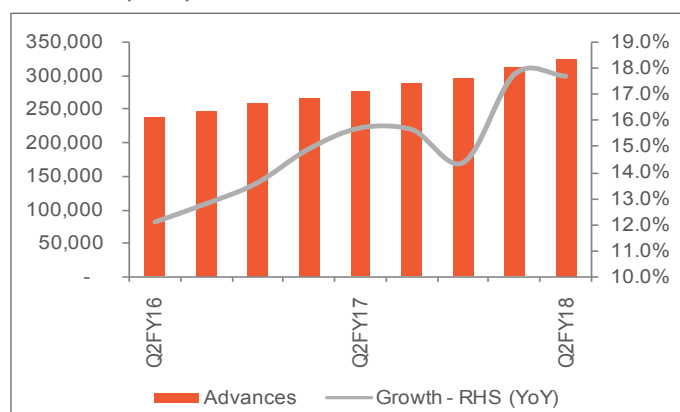
Results

Particulars	Q2FY18	Q2FY17	YoY %	Q1FY18	QoQ %
Interest earned	8,144.9	7,543.1	8.0	8,029.6	1.4
Interest expended	5,534.1	5,245.9	5.5	5,444.4	1.6
Net interest income	2,611	2,297	13.7	2,585	1.0
Non-interest income	773.8	695	11.4	283	173.8
Net total income	3,385	2,992	13.1	2,868	18.0
Operating expenses	382	339	12.7	424	-9.8
Pre-provisioning profit	3,002	2,653	13.2	2,444	22.8
Provisions	95	95	0.0	85	11.8
Profit before tax	2,907	2,558	13.7	2,359	23.2
Tax	806	731	10.3	803	0.4
Profit after tax	2,101	1,827	15.0	1,556	35.1
Key items					
Loans	324,077	275,406	17.7	312,978	3.5
Borrowings	300,296	255,542	17.5	286,195	4.9
Spread (%)	2.29	2.28	1 bps	2.29	0 bps
Gross NPA %	1.14	0.76	38 bps	1.12	2 bps

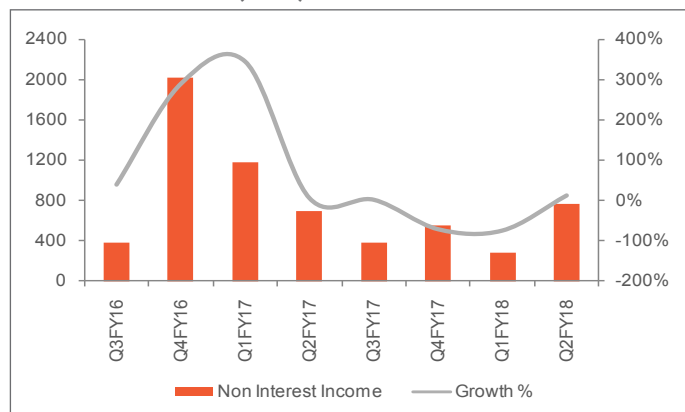
Gross NPA (%)



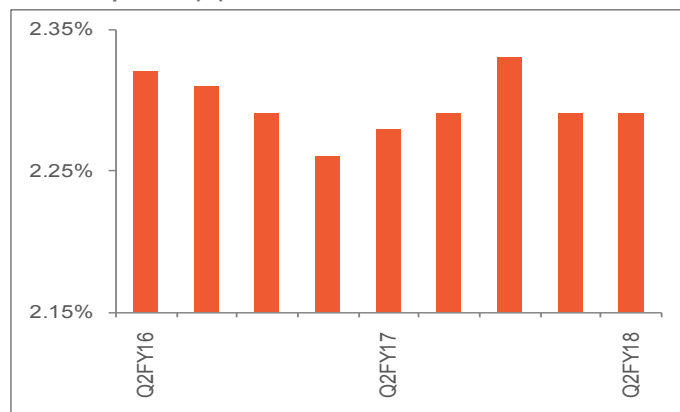
Advances (Rs cr)



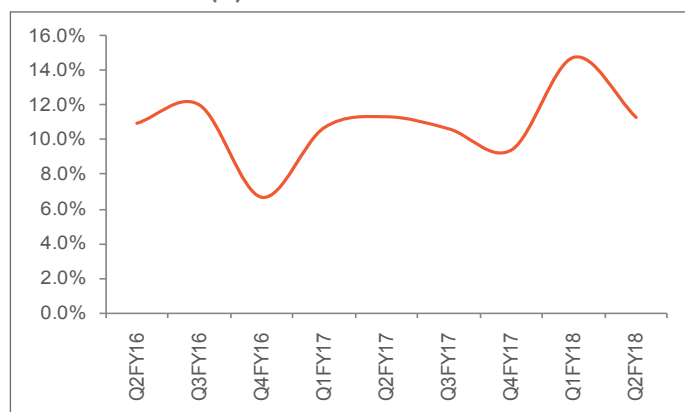
Non-interest income (Rs cr)



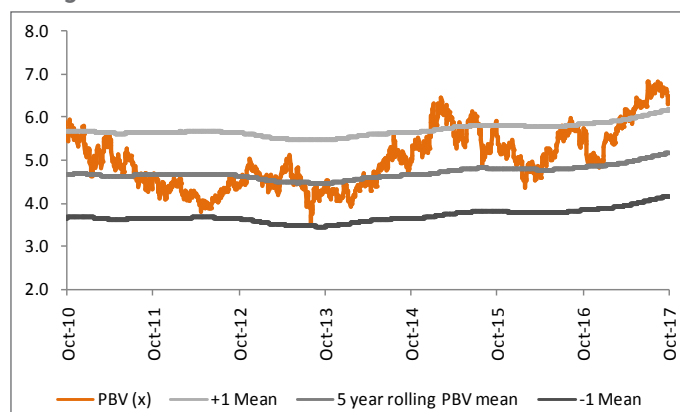
Interest spreads (%)



Cost-income ratio (%)



One-year forward P/BV SD band



Profit and loss statement

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income	7,631	8,388	9,510	10,574	12,055
Non-interest income	1,865	3,195	2,754	2,905	3,162
Net total income	9,496	11,582	12,263	13,480	15,217
Operating expenses	677	705	781	874	979
Pre-provisioning profit	8,819	10,877	11,483	12,605	14,237
Provisions	195	769	756	758	982
Profit before tax	8,624	10,108	10,727	11,847	13,256
Tax	2,634	3,015	3,284	3,613	4,043
Profit after tax	5,990	7,093	7,443	8,234	9,213

Balance sheet

	Rs cr				
Particulars	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	315	316	318	319	319
Reserves & Surplus	30,655	33,805	39,328	45,140	51,119
Networth	30,970	34,121	39,645	45,459	51,438
Borrowings	208,599	238,317	280,534	331,667	392,708
Term Loans	26,194	42,802	37,270	48,078	62,021
Bonds, Debentures	116,317	120,845	156,690	184,894	218,175
Deposits	66,088	74,670	86,574	98,694	112,512
Current Liabilities & Provisions	14,383	16,439	16,179	9,494	4,051
Total liabilities	253,952	288,877	336,358	386,620	448,197
Assets					
Loans	228,181	259,224	296,472	342,425	398,925
Investments	14,294	15,345	20,410	20,920	21,443
Deferred tax asset	0	0	0	0	0
Current assets, Loans and advances	10,799	13,643	18,833	22,600	27,120
Net block	677	665	642	674	708
Total assets	253,952	288,877	336,358	386,620	448,197

Key ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share Data (Rs)					
Earnings	38.0	44.9	46.8	51.7	57.8
Book Value	196.7	216.0	249.6	285.4	322.9
Dividend	13.0	17.0	15.0	16.5	17.4
Spreads (%)					
Yield on funds	10.6	10.1	9.6	9.5	9.5
Cost of funds	9.2	8.7	8.1	7.8	7.7
Net interest margins	3.2	3.1	3.0	2.9	2.9
Operating ratios (%)					
Interest expended/ Interest earned	70.2	69.8	68.7	69.2	69.7
Cost to income	7.1	6.1	6.4	6.5	6.4
Non interest income / Total income	6.8	10.3	8.3	7.8	7.4
Assets/Equity (x)	8.2	8.5	8.5	8.5	8.7
Return ratios (%)					
RoE	19.3	20.8	18.8	18.1	17.9
RoA	2.50	2.6	2.4	2.3	2.2
Growth Ratios (%)					
Net interest income	12.2	9.9	13.4	11.2	14.0
PPP	16.5	23.3	5.6	9.8	12.9
PAT	10.1	18.4	4.9	10.6	11.9
Advances	16.1	13.6	14.4	15.5	16.5
Deposits	13.2	14.2	17.7	18.2	18.4
Valuation ratios (%)					
P/E	44.8	38.0	36.4	33.0	29.5
P/BV	8.7	7.9	6.8	6.0	5.3

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