

April 30, 2018

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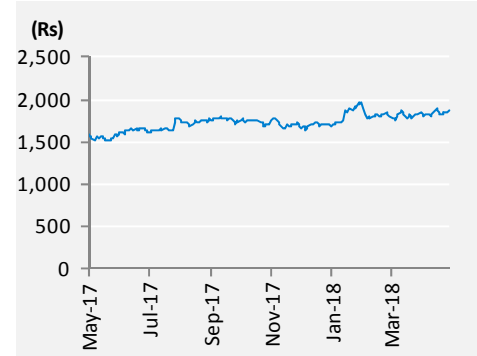
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Rating	<b>BUY</b>
Price	Rs1,885
Target Price	Rs2,228
Implied Upside	18.2%
Sensex	35,160
Nifty	10,739

(Prices as on April 30, 2018)

Trading data			
Market Cap. (Rs bn)	3,158.5		
Shares o/s (m)	1,675.9		
3M Avg. Daily value (Rs m)	5692.3		
Major shareholders			
Promoters	0.00%		
Foreign	73.97%		
Domestic Inst.	12.63%		
Public & Other	13.40%		
Stock Performance			
(%)	1M	6M	12M
Absolute	3.3	7.6	22.6
Relative	(3.3)	1.7	5.1
How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2019	61.2	59.0	3.8
2020	71.0	66.6	6.5

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



Source: Bloomberg

**HDFC's NII growth of 12.6% YoY was slower than expectations on slightly higher interest cost and opex. Loan growth came at 18% YoY (21% YoY incl. loans sold) with individual loans continuing to lead growth. Spreads also remained stable at 229bps but cost pressures have moved up and hence HDFC has increased PLR by 20bps effective 1<sup>st</sup> Apr'18 which will keep spreads steady. Management expects loan growth to be at 17-18% YoY, with similar growth in non-individual book. Loan growth momentum has improved and with stable spreads and hence, core operations is likely to remain upbeat. We have largely retained our estimates and revised our TP to Rs2,228 (up from 2,222) as we roll over to Mar-20. We have already factored Rs50bn warrant conversion in our estimates base for FY19.**

- **Slower NII but a quarter's aberration:** NII growth of 12.6% YoY was slightly slower on higher interest expense (slight increase in borrowings with higher mix towards term loans) but interest income was good on better management of loan mix & yields. Spreads were stable in both individual & non-individual segments at 229bps but cost pressure has been moving up but HDFC has passed on the increased costs by hike in PLR helping deliver steady spreads.
- **Strong loan growth continues:** HDFC clocked a 21% YoY loan growth led by retail loan growth of 23% YoY, while non-retail grew by 17% YoY. Loan growth in individual remained buoyant on seasonally better quarter, stabilizing from demonetisation base effect last year and lower buyout of loans by banca partners on lack of clarity on GST. Otherwise on like to like basis retail loans on AUM basis grew by 18.6% YoY and will continue to remain at similar levels in FY19. On the non-retail side, HDFC has been seeing good traction on developer loan book, while has been able to also close some good LRD deals. Incremental yields on non-retail book are at 10-10.5% in LRD and 12-12.5% in developer.
- **Looking out for acquisitions for capital allocations:** HDFC continues to closely lookout for acquisitions in general insurance (actively bidding currently) & affordable housing space and look to close out some in FY19 but will be prudent in capital allocation to see value adding in its subsidiaries (45% in our SOTP of Rs2,228) which should continue momentum in non-core earnings.

Key Financials (Y/e March)	2017	2018	2019E	2020E
Net interest income (Rs m)	99,540	113,357	135,682	162,095
Growth (%)	14.5	13.9	19.7	19.5
Non-interest income (Rs m)	3,462	1,448	4,317	4,988
Operating Profit (Rs m)	94,634	105,305	129,284	155,113
PAT (Rs m)	74,427	121,733	103,720	121,538
EPS (Rs)	47.0	74.5	61.2	71.0
Growth (%)	4.5	58.6	(17.8)	15.9
Net DPS (Rs)	3.5	22.6	24.1	25.5

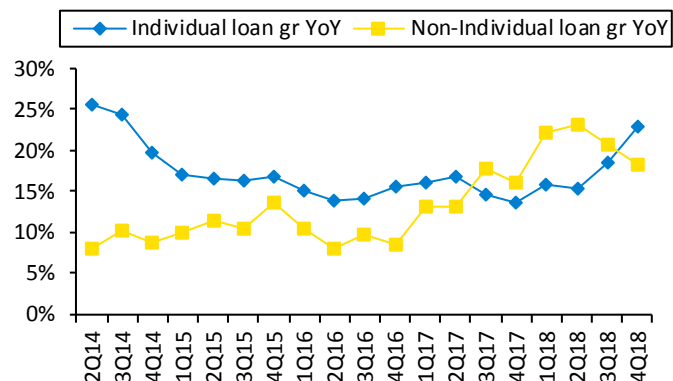
Profitability & valuation	2017	2018	2019E	2020E
Spreads / Margins (%)	3.6	3.5	3.5	3.5
RoAE (%)	20.2	24.1	15.4	15.8
RoAA (%)	2.4	3.3	2.4	2.4
P/E (x)	40.1	25.3	30.8	26.5
P/BV (x)	7.6	5.1	4.4	4.0
P/ABV (x)	7.9	5.3	4.4	4.0
Net dividend yield (%)	0.2	1.2	1.3	1.4

Source: Company Data; PL Research

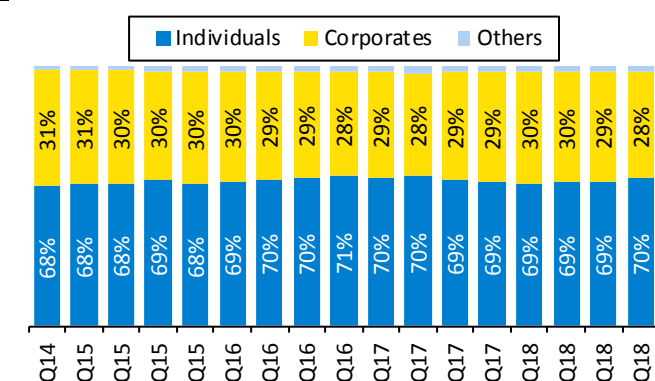
**Exhibit 1: Q4FY18 Financials – In-line performance; loan growth gradually improving**

	<b>P&amp;L (Rs m)</b>	<b>Q4FY18</b>	<b>Q4FY17</b>	<b>YoY gr. (%)</b>	<b>Q3FY18</b>	<b>QoQ gr. (%)</b>
<i>NII growth of 12.6% YoY was slightly slower on interest cost</i>	Interest on advances	85,415	77,083	10.8	81,231	5.2
	Other interest income	3,804	3,820	(0.4)	3,513	8.3
	<b>Total interest income</b>	<b>89,219</b>	<b>80,903</b>	<b>10.3</b>	<b>84,744</b>	<b>5.3</b>
	Interest expense	57,109	52,379	9.0	55,457	3.0
	<b>Net Interest Income</b>	<b>32,110</b>	<b>28,524</b>	<b>12.6</b>	<b>29,287</b>	<b>9.6</b>
<i>HDFC booked stake sale gains from its subsidiaries of Rs3.0bn</i>	Capital Gains	3,006	486	518.2	36,915	(91.9)
	Total other income	7,183	4,242	69.3	38,960	(81.6)
	<b>Total income</b>	<b>39,293</b>	<b>32,766</b>	<b>19.9</b>	<b>68,247</b>	<b>(42.4)</b>
<i>Other opex was slightly higher than expected</i>	Operating expenses	2,321	1,904	21.9	2,395	(3.1)
	-Staff expenses	959	861	11.4	1,093	(12.2)
	-Other expenses	1,361	1,043	30.6	1,302	4.6
	<b>Operating profit</b>	<b>36,972</b>	<b>30,862</b>	<b>19.8</b>	<b>65,852</b>	<b>(43.9)</b>
<i>As a prudent policy HDFC made additional contingent provisions from stake sale gains (30% of gains)</i>	Core operating profit	33,966	30,376	11.8	28,937	17.4
	Total provisions	1,800	1,480	21.6	950	89.5
	<b>Profit before tax</b>	<b>35,172</b>	<b>29,382</b>	<b>19.7</b>	<b>64,902</b>	<b>(45.8)</b>
	Tax	6,710	8,940	(24.9)	8,200	(18.2)
	<b>Profit after tax</b>	<b>28,462</b>	<b>20,442</b>	<b>39.2</b>	<b>56,702</b>	<b>(49.8)</b>
<b>Balance Sheet (Rs m)</b>						
<i>Individual loan growth momentum improved, even on adjusting loans sold to HDFCB last FY</i>	<b>Loan composition</b>	<b>35,94,420</b>	<b>29,57,338</b>	<b>21.5</b>	<b>34,21,360</b>	<b>5.1</b>
	-Individual loans (%)	70.0	69.0		69.1	
	-Corporate loans (%)	28.5	29.5		29.3	
	- Others (%)	1.6	1.6		1.6	
	<b>Borrowings composition</b>	<b>32,06,560</b>	<b>28,05,340</b>	<b>14.3</b>	<b>30,79,780</b>	<b>4.1</b>
<i>Spreads remained steady in both business segments</i>	-Term loans (%)	14.6	13.3		13.3	
	-Bonds/ Deb./ CPs (%)	56.6	55.9		55.8	
	-Deposits (%)	28.8	30.9		30.9	
	<b>Ratios (%)</b>					
	<b>Spreads (Cumulative)</b>	<b>2.29</b>	<b>2.30</b>	<b>(1)</b>	<b>2.29</b>	<b>-</b>
<i>Spreads remained steady in both business segments</i>	- Individual Loan Spreads	1.92	1.99	(7)	1.91	1
	- Non-individual Loan Spreads	3.10	3.09	1	3.10	-
	<b>NIMs</b>	<b>4.00</b>	<b>4.10</b>	<b>(10)</b>	<b>3.86</b>	<b>14</b>
<b>Asset quality</b>						
<i>Spreads remained steady in both business segments</i>	Gross NPL	1.1	0.8	32	1.2	(4)
	Coverage ratio	31.9	31.6	27	32.6	(74)
<b>Others / Ratios</b>						
<i>Spreads remained steady in both business segments</i>	Cost-income ratio	5.9	5.8	10	3.5	240
	Tier-I	17.3	11.8	550	14.5	280

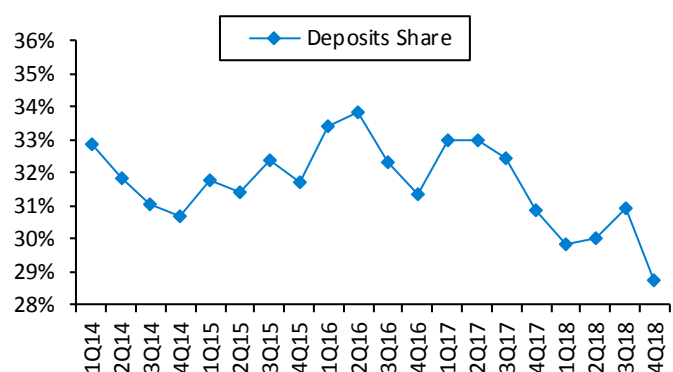
Source: Company Data, PL Research

**Exhibit 2: Individual loans growth was stronger**


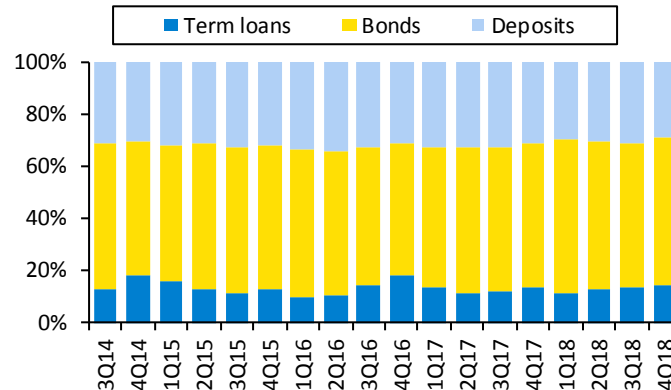
Source: Company Data, PL Research

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


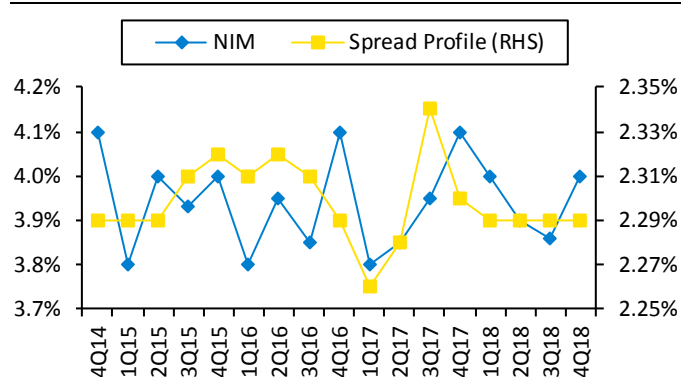
Source: Company Data, PL Research

**Exhibit 4: Deposit share decreases within borrowing mix but remains good source of funding**


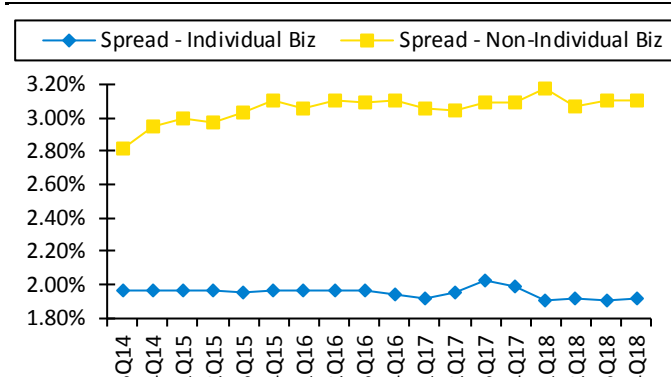
Source: Company Data, PL Research

**Exhibit 5: Bonds remains dominant share while term loans share marginally increases**


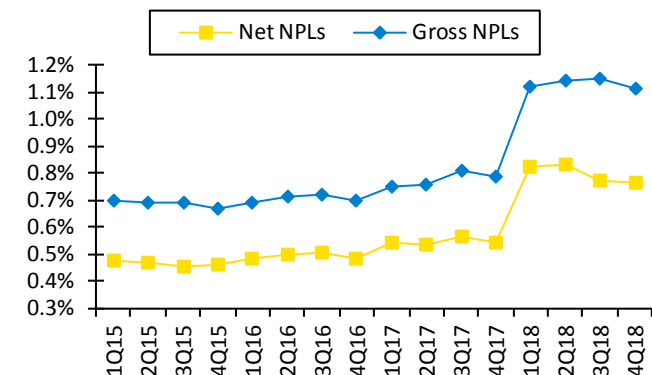
Source: Company Data, PL Research

**Exhibit 6: Overall spreads were steady at 2.29%**


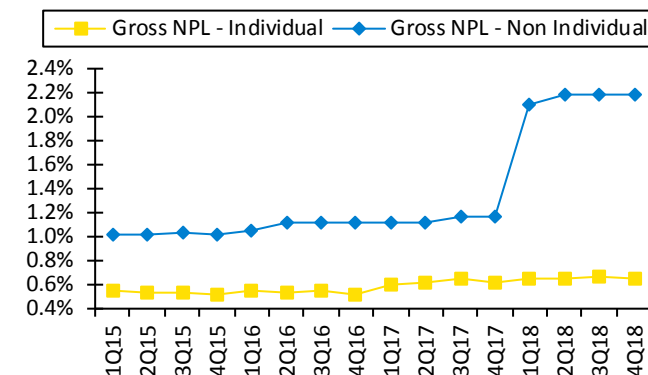
Source: Company Data, PL Research

**Exhibit 7: Spreads were steady in both retail/non-retail segments**


Source: Company Data, PL Research

**Exhibit 8: Asset quality remained steady..**


Source: Company Data, PL Research

**Exhibit 9: ...both in individual and non-individual**


Source: Company Data, PL Research

**Exhibit 10: Earnings Change Table – We have largely retained our estimates on loan growth, spreads and credit cost**

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net interest income	1,35,703	1,57,013	1,35,682	1,62,095	(0.0)	3.2
Operating profit	1,53,879	1,78,639	1,53,150	1,79,482	(0.5)	0.5
Net profit	1,04,283	1,21,038	1,03,720	1,21,538	(0.5)	0.4
EPS (Rs)	61.6	70.8	61.2	71.0	(0.6)	0.3
ABVPS (Rs)	426.5	474.0	426.2	471.6	(0.1)	(0.5)
<b>Price target (Rs)</b>	<b>2,222</b>		<b>2,228</b>		<b>0.3</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

Source: Company Data, PL Research

**Exhibit 11: SOTP valuation table based on Mar-20**

HDFC SOTP valuation	Stake (%)	Value per share (Rs)	Basis
HDFC Parent (A)		1,226	Avg. of EVA and two-stage GGM, 3.3x P/ABV & 16.3x P/E Sep-19E
<b>Subsidiaries / Associates</b>			
HDFC Bank	21.1	682	Value of stake in HDFC Bank as per our fair value
Life insurance	51.9	252	Appraisal value & NBP
AMC	59.8	73	6.0% of AUM
General Insurance	50.9	16	20x forward earnings
Others		89	
<b>Total subs/associates (B) @10% discount</b>		<b>1,001</b>	
<b>Fair value (A+B)</b>		<b>2,228</b>	
<i>Contribution of subs to total (%)</i>		45	

Source: Company Data, PL Research

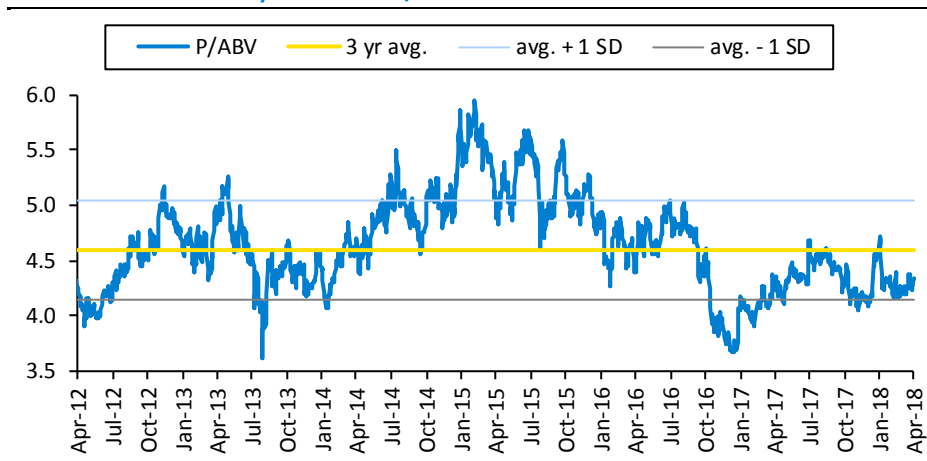
### Exhibit 12: We revise our PT to Rs2,228 (from Rs2,222) based on Mar-20ABV & SOTP valuation

#### PT calculation and upside

Fair price - EVA	1,235
Fair price - P/ABV	1,218
<b>Average of the two</b>	<b>1,226</b>
<b>Target P/ABV</b>	<b>2.9</b>
<b>Target P/E</b>	<b>17.3</b>
Value of subs/associates	1,001
<b>Fair value of consol. entity</b>	<b>2,228</b>
Current price, Rs	1,882
<b>Upside (%)</b>	<b>18%</b>
Dividend yield (%)	1%
<b>Total return (%)</b>	<b>20%</b>

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	2017	2018	2019E	2020E
Int. Inc. / Opt. Inc.	308,502	335,707	399,015	469,747
Interest Expenses	208,962	222,350	263,333	307,652
<b>Net interest income</b>	<b>99,540</b>	<b>113,357</b>	<b>135,682</b>	<b>162,095</b>
<i>Growth (%)</i>	<i>14.5</i>	<i>13.9</i>	<i>19.7</i>	<i>19.5</i>
Non interest income	3,462	1,448	4,317	4,988
<i>Growth (%)</i>	<i>(7.5)</i>	<i>(58.2)</i>	<i>198.2</i>	<i>15.5</i>
Net operating income	103,002	114,804	139,999	167,083
<b>Expenditure</b>				
Employees	3,888	4,255	4,808	5,433
Other expenses	3,920	4,769	5,434	6,141
Depreciation	560	476	472	397
Total expenditure	8,368	9,500	10,714	11,970
<b>PPP</b>	<b>94,634</b>	<b>105,305</b>	<b>129,284</b>	<b>155,113</b>
<i>Growth (%)</i>	<i>13.9</i>	<i>11.3</i>	<i>22.8</i>	<i>20.0</i>
Provision	7,000	20,300	3,913	4,607
Other income	—	—	—	—
Exchange Gain / (Loss)	7,000	20,300	3,913	4,607
<b>Profit before tax</b>	<b>107,267</b>	<b>152,733</b>	<b>149,237</b>	<b>174,875</b>
Tax	32,840	31,000	45,517	53,337
<i>Effective tax rate (%)</i>	<i>30.6</i>	<i>20.3</i>	<i>30.5</i>	<i>30.5</i>
<b>PAT</b>	<b>74,427</b>	<b>121,733</b>	<b>103,720</b>	<b>121,538</b>
<i>Growth (%)</i>	<i>4.9</i>	<i>63.6</i>	<i>(14.8)</i>	<i>17.2</i>

### Balance Sheet (Rs m)

Y/e March	2017	2018	2019E	2020E
<b>Sources of funds</b>				
Equity	3,177	3,352	3,424	3,424
Reserves & Surplus	392,766	610,674	726,129	803,980
Networth	395,943	614,025	729,553	807,404
<i>Growth (%)</i>	<i>16.2</i>	<i>55.1</i>	<i>18.8</i>	<i>10.7</i>
Loan funds	1,939,593	2,276,691	2,688,644	3,172,047
<i>Growth (%)</i>	<i>—</i>	<i>17.4</i>	<i>18.1</i>	<i>18.0</i>
Deposits	857,729	922,430	1,033,122	1,157,096
Other Liabilities	146,429	180,262	189,275	198,739
<b>Total</b>	<b>3,339,693</b>	<b>3,993,409</b>	<b>4,640,594</b>	<b>5,335,286</b>
<b>Application of funds</b>				
Net fixed assets	6,423	6,445	6,767	7,038
Advances	2,957,338	3,594,420	4,231,179	4,983,210
<i>Growth (%)</i>	<i>14.3</i>	<i>21.5</i>	<i>17.7</i>	<i>17.8</i>
Net current assets	116,124	55,057	104,610	20,318
Investments	144,157	222,603	180,856	205,194
<i>Growth (%)</i>	<i>51.7</i>	<i>54.4</i>	<i>(18.8)</i>	<i>13.5</i>
Deferred tax asset	—	—	—	—
Other Assets	115,650	114,883	117,181	119,525
<b>Total</b>	<b>3,339,693</b>	<b>3,993,408</b>	<b>4,640,594</b>	<b>5,335,286</b>

Source: Company Data, PL Research.

### Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Int. Inc. / Operating Inc.	80,296	81,449	84,744	89,219
Income from securitization	—	—	—	—
Interest Expenses	54,444	55,341	55,457	57,109
<b>Net Interest Income</b>	<b>25,852</b>	<b>26,108</b>	<b>29,287</b>	<b>32,110</b>
<i>Growth</i>	<i>16.0</i>	<i>13.7</i>	<i>13.7</i>	<i>12.6</i>
Non interest income	1,122	6,161	38,960	7,183
<b>Net operating income</b>	<b>26,974</b>	<b>32,269</b>	<b>68,247</b>	<b>39,293</b>
<i>Growth</i>	<i>(17.4)</i>	<i>12.9</i>	<i>138.4</i>	<i>19.9</i>
Operating expenditure	2,536	2,248	2,395	2,321
<b>PPP</b>	<b>24,437</b>	<b>30,021</b>	<b>65,852</b>	<b>36,972</b>
<i>Growth</i>	<i>(19.6)</i>	<i>13.2</i>	<i>148.7</i>	<i>19.8</i>
Provision	850	950	950	1,800
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	23,587	29,071	64,902	35,172
Tax	8,030	8,060	8,200	6,710
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>34.0</i>	<i>27.7</i>	<i>12.6</i>	<i>19.1</i>
<b>PAT</b>	<b>15,557</b>	<b>21,011</b>	<b>56,702</b>	<b>28,462</b>
<i>Growth</i>	<i>(16.8)</i>	<i>15.0</i>	<i>233.3</i>	<i>39.2</i>

### Key Ratios

Y/e March	2017	2018	2019E	2020E
CMP (Rs)	1,885	1,885	1,885	1,885
Eq. Shrs. O/s. (m)	1,589	1,676	1,712	1,712
Market Cap (Rs m)	2,994,049	3,158,485	3,226,305	3,226,305
Market Cap to AUM (%)	0.9	0.8	0.7	0.6
EPS (Rs)	47.0	74.5	61.2	71.0
Book Value (Rs)	249.2	366.4	426.2	471.6
Adjusted Book Value (Rs)	239.2	358.4	429.8	474.8
P/E (x)	40.1	25.3	30.8	26.5
P/BV (x)	7.6	5.1	4.4	4.0
P/ABV (x)	7.9	5.3	4.4	4.0
DPS (Rs)	3.5	22.6	24.1	25.5
Dividend Yield (%)	0.2	1.2	1.3	1.4

### Asset Quality

Y/e March	2017	2018	2019E	2020E
Gross NPAs (Rs m)	23,363	40,258	31,734	34,882
Net NPAs (Rs m)	15,983	13,331	(6,290)	(5,445)
Gross NPAs to Gross Adv. (%)	0.8	1.1	0.8	0.7
Net NPAs to Net Adv. (%)	0.5	0.4	(0.1)	(0.1)
NPA Coverage (%)	31.6	66.9	119.8	115.6

### Profitability (%)

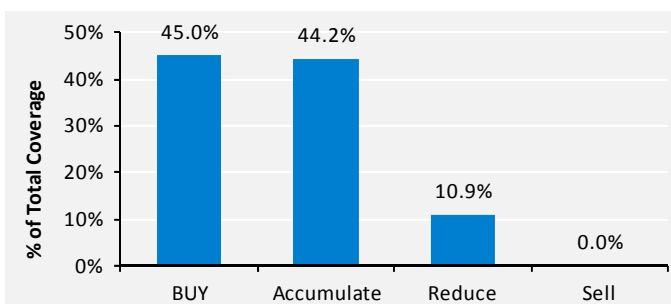
Y/e March	2017	2018	2019E	2020E
NIM	3.6	3.5	3.5	3.5
RoAA	2.4	3.3	2.4	2.4
RoAE	20.2	24.1	15.4	15.8

Source: Company Data, PL Research.

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**Rating Distribution of Research Coverage**

**PL's Recommendation Nomenclature**

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

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**ANALYST CERTIFICATION**

We/I, Mr. Pritesh Bumb (MBA, M.com), Mr. R Sreesankar (B.Sc.), Ms. Shweta Daptardar (MBA-Finance), Ms. Vidhi Shah (CA), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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