

January 29, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	2,266		2,265	
NII (Rs.)	149,245	180,169	143,080	169,591
% Chng.			4.3	6.2
PPoP (Rs.)	170,104	200,918	165,274	191,834
% Chng.			2.9	4.7
EPS (Rs.)	44.3	51.7	43.6	50.6
% Chng.			1.6	2.1

Key Financials

	FY18	FY19E	FY20E	FY21E
Net Int.Inc. (Rs m)	116,232	122,653	149,245	180,169
Growth (%)	16.8	5.5	21.7	20.7
Op. Profit (Rs m)	169,082	145,514	170,104	200,918
PAT (Rs m)	123,222	98,993	112,773	131,432
EPS (Rs.)	48.6	38.9	44.3	51.7
Gr. (%)	61.4	(20.0)	13.9	16.5
DPS (Rs.)	20.6	24.2	25.5	25.5
Yield (%)	1.1	1.3	1.3	1.3
Margin (%)	3.6	3.2	3.3	3.4
RoAE (%)	29.6	17.5	17.5	18.2
RoAA (%)	3.4	2.3	2.3	2.3
PE (x)	39.5	49.4	43.4	37.2
P/BV (x)	7.9	7.0	6.3	5.7
P/ABV (x)	8.5	7.0	6.4	5.8

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.2,053 / Rs.1,645
Sensex / Nifty	35,593 / 10,652
Market Cap	Rs.3,299bn/ \$ 46,392m
Shares Outstanding	1,719m
3M Avg. Daily Value	Rs.10570.34m

Shareholding Pattern (%)

Promoter's	-
Foreign	72.20
Domestic Institution	16.87
Public & Others	10.93
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(3.1)	(6.3)	(2.5)
Relative	(1.8)	(1.7)	(0.6)

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

Prabal Gandhi

prabalgandhi@plindia.com | 91-22-66322258

Not an encouraging quarter

Quick Pointers

- Records lowest AUM growth of 15%
- Reports highest ever non-individual GNPA at 2.46%

While the knowns in the form of higher base (listing gains from insurance biz:Q3FY18 & likewise from AMC listing: Q2FY19) dragged HDFC's PAT to Rs 21bn (PLe: 26bn), the miss came on account of lower than anticipated growth and elevated GNPA's (non-individual side). Subsequently, PPOp took a beating de-growing 61% YoY, however, low provisioning requirement supported the bottom-line. Loan growth of 17% YoY in individual loan book stood decent, but non-individual side slowed down for the quarter. Slight moderation in spreads both on individual and non-individual book as Q3 proves to be a dampener, reported NIMs stood healthy at 3.5% up from 3.3% a quarter ago given the timely PLR hikes. Incorporating market apprehensions, we envisage 16% loan growth for FY19 and 17-18% over FY20-21E, we tweak our credit costs and GNPA estimates moderately higher as we stand wary of the non-individual portfolio. These should have a bearing on RoAs and we reckon the same should move in the range of 2.2-2.3% over next two years. While superior track record and resilient balance sheet prompt us to reiterate BUY, we closely monitor the du-pont metrics for the non-individual business. Our TP at Rs2,266 based on SOTP metrics values HDFC at 2.7x at Sep-21 PABV.

- Margins sound, asset quality deteriorates:** Reported NIMs expansion by 20 bps both YoY/QoQ to 3.5% can be largely attributed to >50bps increase in yields that largely offsetted the funding costs increase. However, asset quality disappointed with absolute GNPA's reporting 20% increase YoY and gross Stage 3 up by 12% YoY led by meaningful pain from the non-individual side that put highest ever GNPA's of 2.5% for the quarter. Moreover, Stage 1 & 2 assets dominated by 30-day bucket inched up 2.2% QoQ and continues to maintain the run-rate. Against this backdrop, we envisage 1.2-1.3% GNPA's over FY19-21E.
- AUM disappoints:** HDFC recorded its lowest AUM growth at 15% and declined 2% QoQ for Q3FY19 as non-individual business slowed. Individual AUMs put up steady 17% YoY traction leading to equally healthy growth in NII. Incorporating market apprehensions, we envisage 16% loan growth for FY19 and 17-18% over FY20-21E.
- Expect RoAs at 2.3% ahead:** Going forward, NIMs at 3.3-3.4%+ over FY20-21E should largely compensate the pressures emanating from credit costs and higher slippages from the non-individual side. Our somber expectations on growth and tad higher NPAs should imply RoAs trending at 2.3% levels over next two years. While RoEs maintain their strength given the healthy balance sheet, market challenges cannot be undermined.

Exhibit 1: Q3FY19 Financials – NII healthy, higher base impacts PAT (Rs mn)

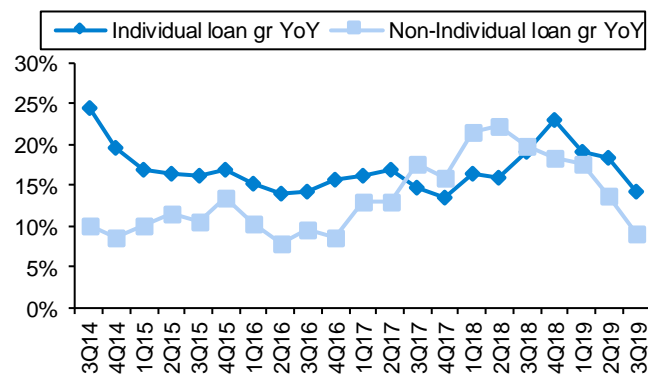
Y/e March (IND-AS)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)
Total interest income	101,297	83,849	20.8	96,733	4.7
Interest expense	72,586	59,429	22.1	70,445	3.0
Net Interest Income	28,711	24,420	17.6	26,288	9.2
Capital Gains	4	52,632	(100.0)	10,000	(100.0)
Other income	4,394	4,397	(0.1)	5,836	(24.7)
Total other income	4,398	57,029	(92.3)	15,837	(72.2)
Total income	33,109	81,449	(59.4)	42,124	(21.4)
Operating expenses	3,261	5,293	(38.4)	3,221	1.3
-Staff expenses	1,347	1,143	17.9	1,189	13.2
-Other expenses	1,914	4,150	(53.9)	2,031	(5.8)
Operating profit	29,848	76,156	(60.8)	38,904	(23.3)
Core operating profit	29,844	23,524	26.9	28,904	3.3
Total provisions	1,160	17,650	(93.4)	4,013	(71.1)
Profit before tax	28,688	58,506	(51.0)	34,891	(17.8)
Tax	7,550	5,506	37.1	10,220	(26.1)
Profit after tax	21,138	53,000	(60.1)	24,671	(14.3)
Balance Sheet (Rs mn)					
Loan composition	3,855,200	3,421,540	12.7	3,790,910	1.7
-Individual loans (%)	70.3	69.3		70.0	
-Corporate loans (%)	27.9	29.1		28.4	
- Others (%)	1.8	1.6		1.7	
Borrowings composition	3,547,280	3,080,680	15.1	3,406,358	4.1
-Term loans (%)	21.1	13.1		18.1	
-Bonds/ Deb./ CPs (%)	49.4	56.0		54.1	
-Deposits (%)	29.5	30.9		27.8	
Spreads (%)					
Spreads	2.26	2.29	(3)	2.28	(2)
- Individual Loan Spreads	1.89	1.91	(2)	1.91	(2)
- Non-individual Loan Spreads	3.08	3.10	(2)	3.11	(3)
NIMs	3.50	3.30	20	3.30	20
Asset quality (%)					
Gross NPL	1.2	1.2	7	1.1	9
Coverage ratio	30.0	32.6	(260)	-	3,000
Others / Ratios (%)					
Cost-income ratio	9.8	6.5	335	7.6	220
Int. expense/Int. income	71.7	70.9	78	72.8	(117)
Spread	2.3	2.3	(3)	2.3	(2)
Tier-I	17.2	14.5	270	-	1,720

Source: Company, PL

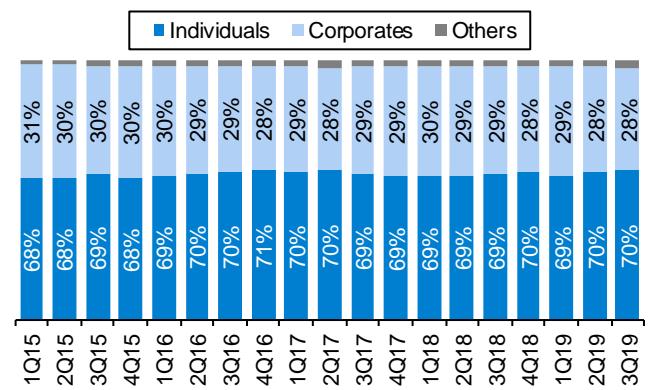
HDFC Ltd reported deterioration in Stage 3 assets
Exhibit 2: Stage 3 assets spike

Asset Quality as per IND AS (Rs mn)	Q3FY19	Q2FY19	QoQ gr.
Gross Stage 3	56180	50,220	11.9%
ECL Provision Stage 3	22380	19,460	15.0%
Net Stage 3	33800	30,760	9.9%
Coverage Ratio% Stage 3	40%	39%	2.6%
Gross Stage 1 & 2	3855480	3,774,290	2.2%
ECL Provision Stage 1 & 2	29660	30,680	-3.3%
Net Stage 1 & 2	3825820	3,743,610	2.2%
ECL Provision % Stage 1 & 2	0.77%	0.81%	

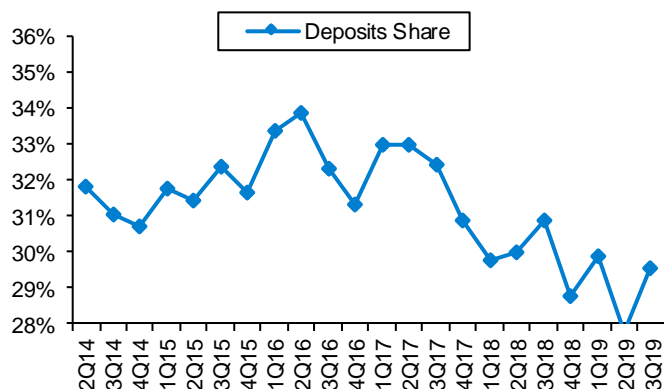
Source: Company, PL

Exhibit 3: Non-individual loan declined


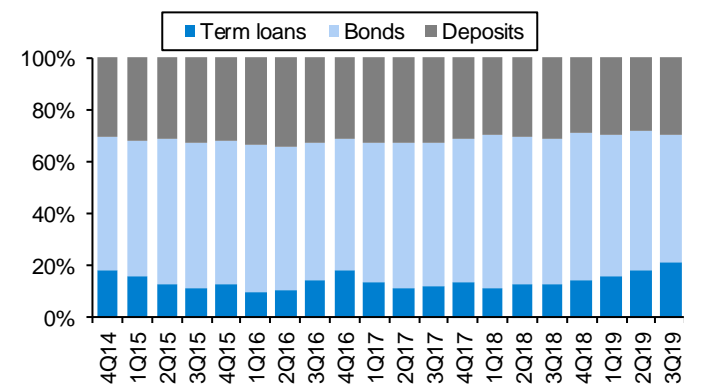
Source: Company, PL

Exhibit 4: Loan mix broadly tilts towards individual lending


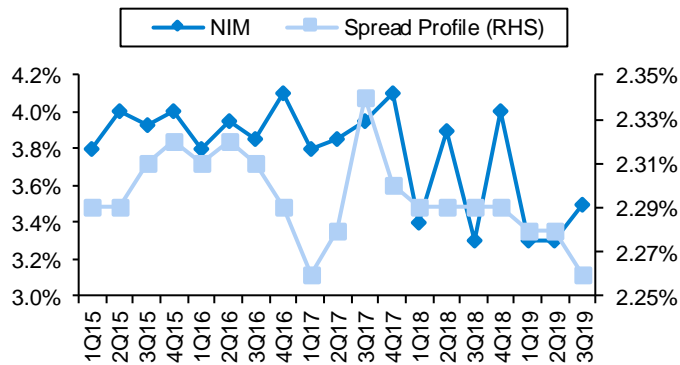
Source: Company, PL

Exhibit 5: Deposit share slowed post demonetization


Source: Company, PL

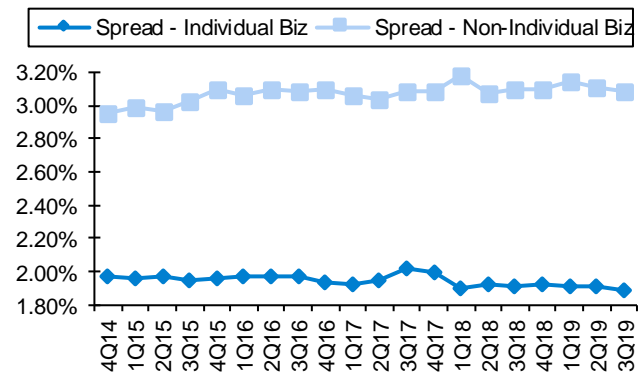
Exhibit 6: Bond mix broadly steady


Source: Company, PL

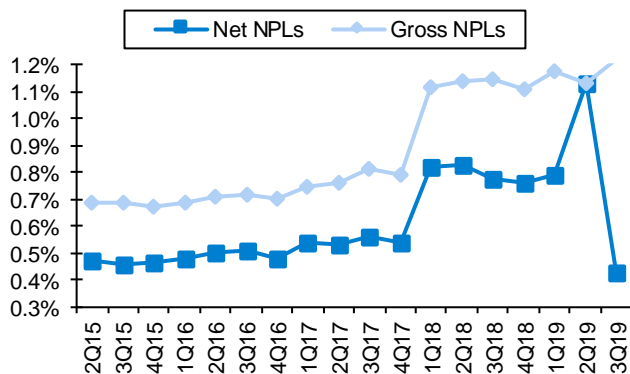
Exhibit 7: Overall reported spreads steady, NIMs up


Source: Company, PL

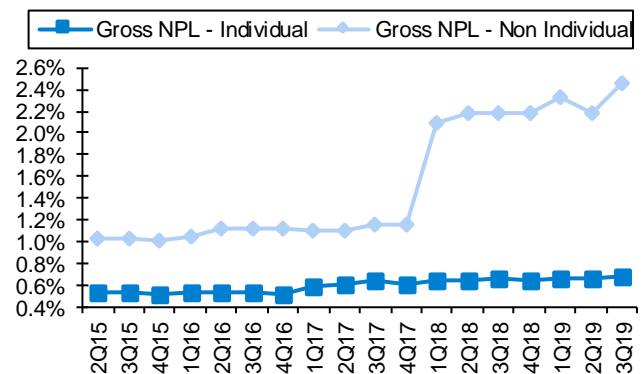
Note – Q1FY18 & Q1FY19 on IND-AS

Exhibit 8: Spreads maintained on back of yield expansion


Source: Company, PL

Exhibit 9: GNPLs increase...


Source: Company, PL

Exhibit 10: ... non-individual NPA spike


Source: Company, PL

Exhibit 11: We have tweaked our GNPA & credit costs estimates moderately; SOTP valuation based on Sep-21, maintain TP at Rs 2,266

PT calculation and upside	
Fair price - EVA	1,227
Fair price - P/ABV	1,057
Average of the two	1,142
Target P/ABV	2.7
Target P/E	15.9
Value of subs/associates	1,124
Fair value of consol. entity	2,266
Current price, Rs	1,918
Upside (%)	18%
Dividend yield (%)	1%
Total return (%)	19%

Source: PL Research

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Inc. / Opt. Inc.	335,479	397,119	474,241	555,181
Interest Expenses	219,247	274,466	324,996	375,012
Net interest income	116,232	122,653	149,245	180,169
Growth(%)	16.8	5.5	21.7	20.7
Non-interest income	69,054	40,843	41,179	43,393
Growth(%)	199.0	(40.9)	0.8	5.4
Net operating income	185,286	163,497	190,424	223,562
Expenditures				
Employees	5,247	7,199	8,063	8,950
Other Expenses	10,465	10,508	11,872	13,294
Depreciation	492	275	385	400
Operating Expenses	16,204	17,982	20,320	22,645
PPP	169,082	145,514	170,104	200,918
Growth(%)	48.0	(13.9)	16.9	18.1
Provisions	20,300	13,524	13,475	15,802
Profit Before Tax	148,782	131,990	156,629	185,115
Tax	25,560	32,998	43,856	53,683
Effective Tax rate(%)	17.2	25.0	28.0	29.0
PAT	123,222	98,993	112,773	131,432
Growth(%)	65.6	(19.7)	13.9	16.5

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Source of funds				
Equity	3,352	3,393	3,393	3,393
Reserves and Surplus	610,170	697,582	767,063	855,203
Networth	613,522	700,975	770,456	858,596
Growth (%)	55.0	14.3	9.9	11.4
Loan funds	3,179,571	3,698,803	4,302,057	5,008,795
Growth (%)	13.7	16.3	16.3	16.4
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	127,520	133,896	140,591	147,620
Other Liabilities	52,742	55,379	58,148	61,055
Total Liabilities	3,973,355	4,589,053	5,271,252	6,076,067
Application of funds				
Net fixed assets	6,445	6,717	6,986	7,265
Advances	3,582,840	4,145,412	4,837,847	5,697,139
Growth (%)	21.2	15.7	16.7	17.8
Investments	305,325	332,307	368,844	411,932
Current Assets	55,057	71,813	24,116	(74,399)
Net current assets	(72,463)	(62,083)	(116,475)	(222,019)
Other Assets	32,161	32,804	33,460	34,130
Total Assets	3,981,829	4,589,053	5,271,252	6,076,067
Growth (%)	19.2	15.2	14.9	15.3
Business Mix				
AUM	2,907,863	3,366,192	3,983,849	-
Growth (%)	17.4	15.8	18.3	(100.0)
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	3.6	3.2	3.3	3.4
ROAA	3.4	2.3	2.3	2.3
ROAE	29.6	17.5	17.5	18.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Int. Inc. / Operating Inc.	89,219	92,357	96,733	101,297
Income from securitization	-	-	-	-
Interest Expenses	57,109	63,527	70,445	72,586
Net Interest Income	32,110	28,830	26,288	28,711
Growth (%)	12.6	18.7	5.4	17.6
Non-Interest Income	7,183	7,163	15,837	4,398
Net Operating Income	39,293	35,993	42,124	33,109
Growth (%)	19.9	41.9	33.2	(59.4)
Operating expenditure	2,196	4,966	3,087	3,123
PPP	36,972	30,897	38,904	29,848
Growth (%)	(8.6)	9.4	8.7	9.2
Provision	1,800	197	4,013	1,160
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	35,172	30,700	34,891	28,688
Tax	6,710	8,800	10,220	7,550
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.1	28.7	29.3	26.3
PAT	28,462	21,900	24,671	21,138
Growth	39	54	25	(60)
AUM	3,983,849	4,161,849	4,509,243	4,410,220
YoY growth (%)	18.3	16.2	21.3	14.8
Borrowing	3,199,121	3,325,260	3,406,358	3,533,066
YoY growth (%)	14.8	16.1	13.4	14.7

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	1,922	1,922	1,922	1,922
EPS (Rs)	48.6	38.9	44.3	51.7
Book value (Rs)	242.1	275.5	302.8	337.4
Adj. BV(Rs)	225.9	273.0	298.7	331.0
P/E(x)	39.5	49.4	43.4	37.2
P/BV(x)	7.9	7.0	6.3	5.7
P/ABV(x)	8.5	7.0	6.4	5.8
DPS (Rs)	20.6	24.2	25.5	25.5
Dividend Payout Ratio(%)	28.0	41.5	38.4	32.9
Dividend Yield(%)	1.1	1.3	1.3	1.3

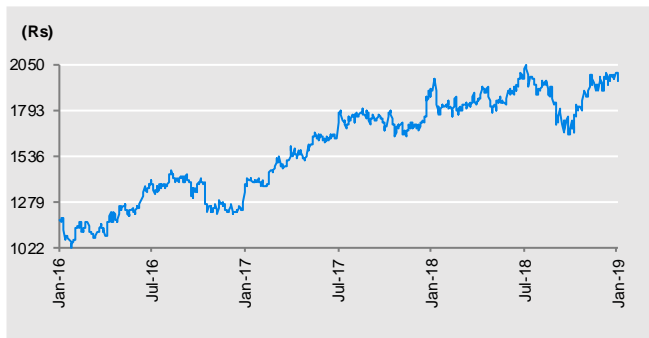
Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs(Rs m)	40,258	49,745	60,473	74,063
Net NPA(Rs m)	27,432	4,210	6,853	10,962
Gross NPAs to Gross Adv.(%)	1.1	1.2	1.3	1.3
Net NPAs to net Adv.(%)	0.8	0.1	0.1	0.2
NPA coverage(%)	31.9	91.5	88.7	85.2

Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	3.2	2.9	3.0	3.2
NII INCI. Securitization	3.2	2.9	3.0	3.2
Total income	5.1	3.8	3.9	3.9
Operating Expenses	0.4	0.4	0.4	0.4
PPOP	4.6	3.4	3.5	3.5
Total Provisions	0.6	0.3	0.3	0.3
RoAA	3.4	2.3	2.3	2.3
Avg. Assets/Avg. net worth	7.2	6.5	6.7	7.0
RoAE	29.6	17.5	17.5	18.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Jan-18	BUY	2,160	1,953
2	13-Apr-18	BUY	2,222	1,837
3	30-Apr-18	BUY	2,228	1,885
4	10-Jul-18	BUY	2,228	1,920
5	31-Jul-18	BUY	2,287	2,029
6	5-Oct-18	BUY	2,265	1,778
7	1-Nov-18	BUY	2,265	1,762
8	7-Jan-19	BUY	2,265	1,973

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,597	1,198
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,265	1,973
5	L&T Finance Holdings	Accumulate	172	137
6	LIC Housing Finance	Accumulate	537	479
7	Mahindra & Mahindra Financial Services	Accumulate	514	417
8	Shriram Transport Finance	BUY	1,657	1,056

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Ms. Shweta Daptardar- MBA-Finance, Mr. Prabal Gandhi- BTech, CFA Level II 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.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Shweta Daptardar- MBA-Finance, Mr. Prabal Gandhi- BTech, CFA Level II Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>