

May 13, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Target Price	BUY		BUY	
Target Price	2,274		2,276	
NII (Rs.)	146,467	169,603	148,470	176,609
% Chng.	(1.3)	(4.0)		
PPoP (Rs.)	169,196	194,728	176,170	204,093
% Chng.	(4.0)	(4.6)		
EPS (Rs.)	43.0	49.4	44.2	51.2
% Chng.	(2.7)	(3.5)		

Key Financials

	FY18	FY19	FY20E	FY21E
Net Int.Inc. (Rs m)	96,351	114,026	146,467	169,603
Growth (%)	(3.2)	18.3	28.5	15.8
Op. Profit (Rs m)	96,956	128,414	169,196	194,728
PAT (Rs m)	108,874	95,009	111,135	127,546
EPS (Rs.)	42.5	36.8	43.0	49.4
Gr. (%)	41.2	(13.5)	17.0	14.8
DPS (Rs.)	20.6	24.0	25.5	25.5
Yield (%)	1.1	1.2	1.3	1.3
Margin (%)	3.6	3.6	4.0	8.4
RoAE (%)	20.8	13.3	14.6	16.1
RoAA (%)	3.0	2.2	2.2	2.2
PE (x)	45.9	53.1	45.4	39.5
P/BV (x)	7.7	6.5	6.7	6.1
P/ABV (x)	8.2	6.6	6.8	6.2

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.2,073 / Rs.1,645
Sensex / Nifty	37,091 / 11,148
Market Cap	Rs.3,362bn / \$ 47,669m
Shares Outstanding	1,721m
3M Avg. Daily Value	Rs.11777.83m

Shareholding Pattern (%)

Promoter's	-
Foreign	72.44
Domestic Institution	16.46
Public & Others	11.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.6)	7.0	1.7
Relative	0.8	1.4	(2.5)

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Encouraging quarter

Quick Pointers

- Core book strength led by individual loans sustained since Q3FY19, overall AUM at somber 15% growth
- Non-individual GNPA moderately down QoQ to 2.34%; yet trend higher at 2.3-2.4%

Robust revenue (33% YoY), continued strong individual loan momentum (17% YoY) and GNPA decline lead to PAT beat at Rs28.2bn (PLe: Rs27.4bn). While core book positioning strength remains intact, overall loan growth at 12% for FY19 stood tepid; loan sell downs stood elevated at Rs 252bn with FY17-18 (Rs 64.5bn FY18) backlog flowing into FY19. NIMs at 3.3% stood higher than estimates on securitization income recognition on Rs 660mn, but stood 20bps lower QoQ as funding costs caught up. The affordable loan momentum with avg. monthly approvals stands healthy at Rs14bn as against slowing corporate loan growth at 7% (v/s 17% in Q1FY19). Sequential asset quality improved as GNPA declined 4bps QoQ, absolute GNPA still grew higher 18% YoY. While our loan growth (16-18%) and NIM (3.3-3.4%) estimates spell conservatism on account of market apprehensions (competition from PSBs, falling corporate loans traction on concerns), the same stand rightly offset with improving credit costs (~30bps) and GNPA estimates at 1.25-1.3% over FY20-21. Capital sufficiency (19%+), extra provisioning and superior asset quality prompt us to reiterate BUY. Our TP at Rs2,274 based on SOTP metrics values HDFC at 2.7x at Mar-21 PABV incorporating slight moderation in earnings of subsidiaries on account of anticipated subdued capital markets.

- Home loans traction exceed corporate:** HDFC continues to record lower AUM growth (15% since 2 quarters now) and loan growth (12% YoY) trends vis-à-vis its historical standards; loan sell downs also stood elevated at Rs 251.5bn v/s 64.5bn a year ago. Yet individual loan traction at 14% exceeding corporate loan growth at 7% stands relieving and indicative of market share augmentation in less riskier individual loan space. We incorporate slowing corporate loan traction, increased competitiveness in the individual space and therefore moderately trim our loan growth estimates to 16-18% over FY20-21E.
- Margins somber, asset quality hold up:** Reported NIMs at 3.3% stood flat YoY but declined 20bps QoQ led by steady spreads across individual and non-individual loans at 1.91% and 3.17% respectively. Despite HDFC garnering sizeable business on individual business side, we do foresee increased competition from the tapering PSB home loan rates, hence expect NIMs to stay at current levels over FY120-21E. We believe, the anticipated improvement in credit costs at 30bps and GNPA at 1.2-1.3% over FY20-21E should compensate for the soft outlook on growth and margins. **However, the quarter gone by saw Stage1/2 assets jumping 12% YoY, although ECL provision stood lower YoY. Said that, we remain watchful of the non-individual loan exposures on the developer side and hence expect 15% earnings CAGR, 2.24% RoA and 17-18% RoEs over FY20-21E.**

Exhibit 1: Q4FY19 Financials – Revenue healthy, opex lower, GNPA % decline

P&L (Rs mn)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Total interest income	103,430	86,054	20.2	101,389	2.0
Interest expense	71,819	59,558	20.6	72,586	(1.1)
Net Interest Income	31,611	26,496	19.3	28,802	9.8
other income	65	53	22.5	75	(12.5)
Total other income	9,161	4,136	121.5	4,362	110.0
Total income	40,837	30,685	33.1	33,239	22.9
Operating expenses	3,158	5,166	(38.9)	3,391	(6.9)
-Staff expenses	1,189	1,009	17.9	1,347	(11.7)
-Other expenses	1,969	4,157	(52.6)	2,044	(3.7)
Operating profit	37,679	25,520	47.6	29,848	26.2
Core operating profit	37,679	25,520	47.6	29,848	26.2
Total provisions	3,980	2,480	60.5	1,160	243.1
Profit before tax	36,909	26,020	41.8	28,688	28.7
Tax	8,293	3,453	140.2	7,550	9.8
Profit after tax	28,229	21,768	29.7	21,391	32.0
Balance Sheet (Rs mn)					
Loan composition	4,066,070	3,628,110	12.1	3,855,200	5.5
-Individual loans (%)	71.0	70.0		70.3	
-Corporate loans (%)	27.3	28.5		27.9	
-Others (%)	1.7	1.6		1.8	
Borrowings composition	3,652,660	3,197,160	14.2	3,547,280	3.0
-Term loans (%)	21.3	14.6		21.1	
-Bonds/ Deb./ CPs (%)	49.8	56.8		49.4	
-Deposits (%)	28.9	28.5		29.5	
Spreads (%)					
Spreads	2.30	2.29	1	2.26	4
- Individual Loan Spreads	1.91	1.92	(1)	1.89	2
- Non-individual Loan Spreads	3.17	3.10	7	3.08	9
NIMs	3.30	3.30	-	3.50	(20)
Asset quality (%)					
Gross NPL	1.2	1.1	7	1.2	(4)
Coverage ratio	26.8	31.9	(501)	30.0	(315)
Others / Ratios (%)					
Cost-income ratio	7.7	16.8	(910)	10.2	(247)
Int. expense/Int. income	69.4	69.2	23	71.6	(216)
Spread	2.3	2.3	1	2.3	4
Tier-I	17.6	17.3	30	17.2	40

Source: Company, PL

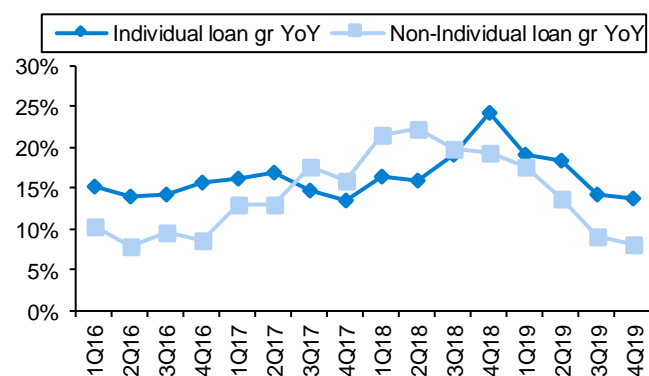
HDFC Ltd reported improvement in GNPA's but higher Stage 1/2 assets

Exhibit 2: ECL provisioning down, stage 3 coverage ratio up

As per IND AS	Q419	Q418	YoY gr.	Q319	QoQ gr.
Gross Stage 3	57430	47,170	22%	56,180	2%
ECL Provision Stage 3	24990	19700	27%	22380	12%
Net Stage 3	33800	27470	23%	33800	0%
Coverage Ratio% Stage 3	44.00%	41.76%		40.00%	
Gross Stage 1 & 2	4013890	3579610	12%	3855480	4%
ECL Provision Stage 1 & 2	33790	34760	-3%	29660	14%
Net Stage 1 & 2	3980100	3544850	12%	3825820	4%
ECL Provision % Stage 1 & 2	0.84%	0.97%		0.77%	
ECL/EAD	1.44%	1.50%		1.33%	

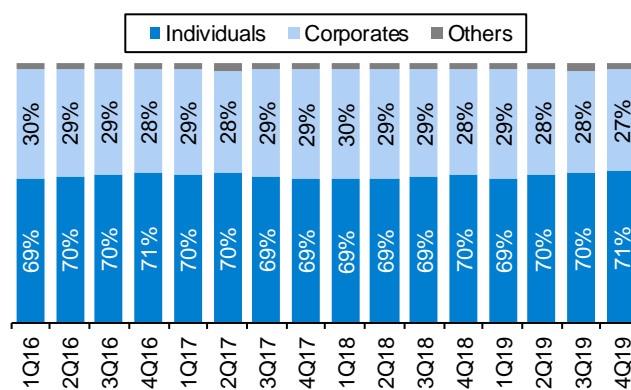
Source: Company, PL

Exhibit 3: Non-individual loan declined



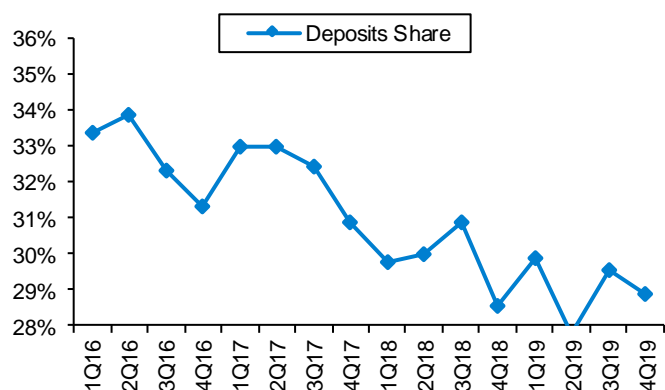
Source: Company, PL

Exhibit 4: Loan mix broadly tilts towards individual lending



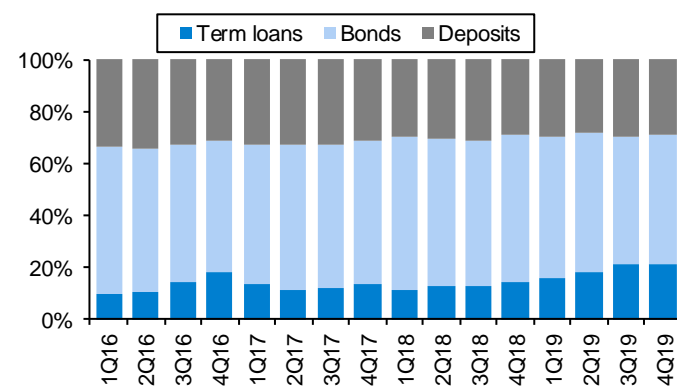
Source: Company, PL

Exhibit 5: Deposit share slowed post demonetization

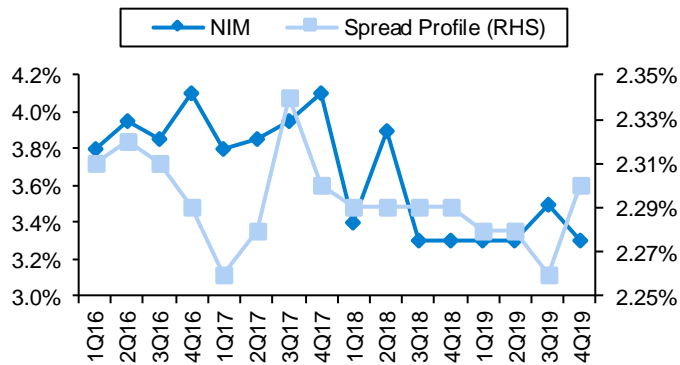


Source: Company, PL

Exhibit 6: Bond mix broadly steady

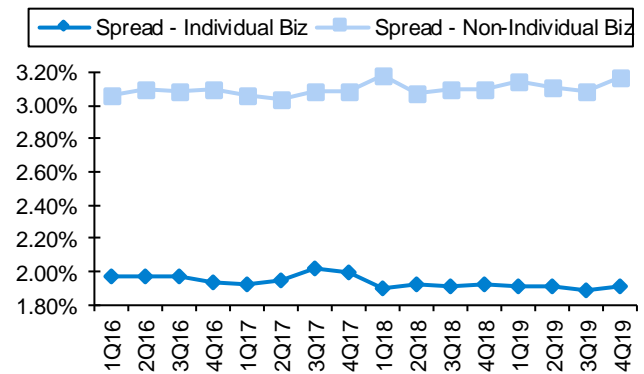


Source: Company, PL

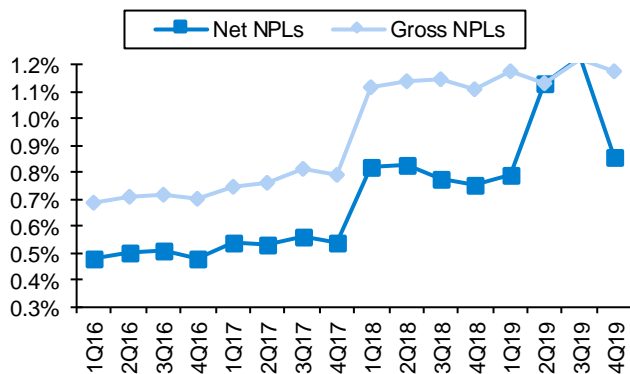
Exhibit 7: Overall reported spreads steady, NIMs decline


Source: Company, PL

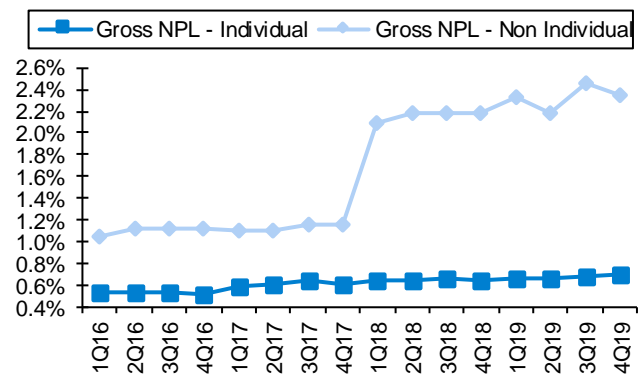
Note – Q1FY18 & Q1FY19 on IND-AS

Exhibit 8: Spreads maintained on back of yield expansion


Source: Company, PL

Exhibit 9: GNPLs decline...


Source: Company, PL

Exhibit 10: ... non-individual NPA fall sequentially


Source: Company, PL

Exhibit 11: We have tweaked our GNPA & credit costs estimates moderately; SOTP valuation based on Mar-21, maintain TP at Rs 2,274

PT calculation and upside	
Fair price - EVA	1,341
Fair price - P/ABV	979
Average of the two	1,160
Target P/ABV	2.7
Target P/E	15.7
Value of subs/associates	1,113
Fair value of consol. entity	2,274
Current price, Rs	1,953
Upside (%)	16%
Dividend yield (%)	1%
Total return (%)	18%

Source: PL Research

Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Inc. / Opt. Inc.	331,331	392,402	483,170	564,947
Interest Expenses	234,980	278,377	336,703	395,343
Net interest income	96,351	114,026	146,467	169,603
<i>Growth(%)</i>	(3.2)	18.3	28.5	15.8
Non-interest income	19,654	29,254	39,540	43,008
<i>Growth(%)</i>	(14.9)	48.8	35.2	8.8
Net operating income	116,005	143,280	186,008	212,611
Expenditures				
Employees	4,345	5,054	5,358	6,590
Other Expenses	14,212	9,146	6,737	9,299
Depreciation	492	665	4,716	1,994
Operating Expenses	19,049	14,866	16,812	17,883
PPP	96,956	128,414	169,196	194,728
<i>Growth(%)</i>	(15.1)	32.4	31.8	15.1
Provisions	21,150	9,350	12,668	15,086
Profit Before Tax	75,806	119,064	156,528	179,642
Tax	22,303	34,863	45,393	52,096
<i>Effective Tax rate(%)</i>	29.4	29.3	29.0	29.0
PAT	108,874	95,009	111,135	127,546
<i>Growth(%)</i>	(28.1)	57.4	32.0	14.8

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Source of funds				
Equity	3,352	3,443	3,443	3,443
Reserves and Surplus	649,297	770,112	746,249	829,863
Networth	652,649	773,555	749,692	833,306
<i>Growth (%)</i>	64.8	18.5	(3.1)	11.2
Loan funds	3,197,157	3,652,657	4,393,693	5,115,826
<i>Growth (%)</i>	14.3	14.2	20.3	16.4
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	135,389	157,567	190,656	228,787
Other Liabilities	1,825	2,096	2,598	3,222
Total Liabilities	3,987,020	4,585,874	5,336,640	6,181,141
Application of funds				
Net fixed assets	10,396	9,727	9,277	10,668
Advances	3,573,809	4,007,596	4,728,932	5,498,799
<i>Growth (%)</i>	20.8	12.1	18.0	16.3
Investments	307,167	462,404	465,630	493,347
Current Assets	83,228	-	100,119	104,498
Net current assets	(52,161)	(157,567)	(90,537)	(124,289)
Other Assets	1,701	-	-	-
Total Assets	3,987,020	4,585,874	5,336,640	6,181,141
<i>Growth (%)</i>	19.1	12.7	18.4	15.1
Business Mix				
AUM	2,907,863	3,366,192	4,016,164	-
<i>Growth (%)</i>	17.4	15.8	19.3	(100.0)
On Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-
Off Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	3.6	3.6	4.0	8.4
ROAA	3.0	2.2	2.2	2.2
ROAE	20.8	13.3	14.6	16.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Int. Inc. / Operating Inc.	92,357	96,733	101,389	103,430
Income from securitization	-	-	-	-
Interest Expenses	63,527	70,445	72,586	71,819
Net Interest Income	28,830	26,288	28,802	31,611
<i>Growth (%)</i>	18.7	5.4	17.9	19.3
Non-Interest Income	7,163	15,837	4,436	9,226
Net Operating Income	35,993	42,124	33,239	40,837
<i>Growth (%)</i>	41.9	33.2	(59.2)	33.1
Operating expenditure	4,966	3,087	3,123	3,024
PPP	30,897	38,904	29,848	37,679
<i>Growth (%)</i>	9.4	8.7	112.3	7.5
Provision	197	4,013	1,160	3,980
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	30,700	34,891	28,688	33,699
Tax	8,800	10,220	7,550	8,293
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	28.7	29.3	26.3	24.6
PAT	21,900	24,671	21,138	25,406
<i>Growth</i>	54	25	(60)	30
AUM	4,161,849	4,509,243	4,410,220	4,619,130
YoY growth (%)	16.2	21.3	14.8	15.0
Borrowing	3,325,260	3,406,358	3,533,066	3,652,657
YoY growth (%)	16.1	13.4	14.7	14.2

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	1,953	1,953	1,953	1,953
EPS (Rs)	42.5	36.8	43.0	49.4
Book value (Rs)	255.0	299.6	290.3	322.7
Adj. BV(Rs)	239.1	296.6	285.2	315.6
P/E(x)	45.9	53.1	45.4	39.5
P/BV(x)	7.7	6.5	6.7	6.1
P/ABV(x)	8.2	6.6	6.8	6.2
DPS (Rs)	20.6	24.0	25.5	25.5
<i>Dividend Payout Ratio(%)</i>	64.6	49.1	39.5	34.4
<i>Dividend Yield(%)</i>	1.1	1.2	1.3	1.3

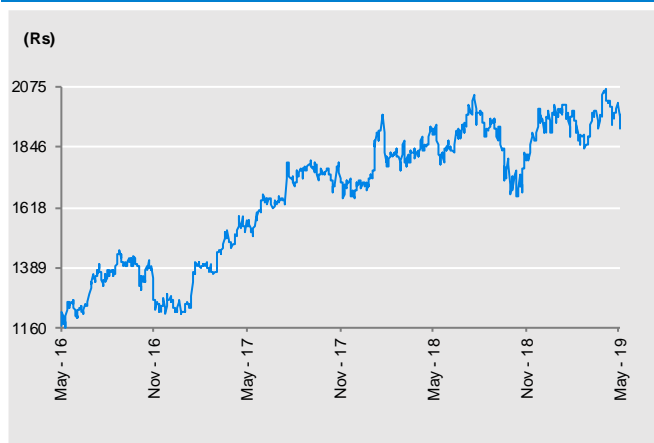
Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs(Rs m)	40,258	47,770	59,112	71,484
Net NPA(Rs m)	27,432	5,157	8,898	12,219
Gross NPAs to Gross Adv.(%)	1.1	1.2	1.3	1.3
Net NPAs to net Adv.(%)	0.8	0.1	0.2	0.2
NPA coverage(%)	31.9	89.2	84.9	82.9

Du-Pont

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	2.7	3.4	3.0	2.9
NII INCI. Securitization	2.7	3.4	3.0	2.9
Total income	3.3	4.0	3.7	3.7
Operating Expenses	0.5	0.3	0.3	0.3
PPOP	2.8	3.7	3.4	3.4
Total Provisions	0.6	0.2	0.3	0.3
RoAA	1.6	2.7	2.2	2.2
Avg. Assets/Avg. net worth	13.2	5.0	6.5	7.3
RoAE	20.8	13.3	14.6	16.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-18	BUY	2,228	1,920
2	31-Jul-18	BUY	2,287	2,029
3	5-Oct-18	BUY	2,265	1,778
4	1-Nov-18	BUY	2,265	1,762
5	7-Jan-19	BUY	2,265	1,973
6	29-Jan-19	BUY	2,266	1,922
7	5-Apr-19	BUY	2,275	2,059

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,665	1,389
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,275	2,059
5	L&T Finance Holdings	Accumulate	178	131
6	LIC Housing Finance	Accumulate	597	484
7	Mahindra & Mahindra Financial Services	Accumulate	527	436
8	Shriram Transport Finance	BUY	1,481	1,027

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

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