

Steady performance; still caution recommended

HDFC reported loan growth of 13.1% YoY to ₹ 406607 crore. Individual loan book which constitutes ~71% of the portfolio continue to grow at a healthy pace of 14.9% YoY at ₹ 288819 crore. Growth in non-individual/ corporate portfolio slowed for 2nd consecutive quarter in a row to 8.4% YoY on back of unfavourable lending environment. Traction in individual loan book, after adding back loans sold in preceding 12 months came strong at 24% YoY.

On asset quality front, HDFC reported marginally improvement in asset quality QoQ with GNPA ratio declining ~4 bps to 1.18%. GNPA in non-individual/ corporate witnessed improvement of ~12 bps QoQ to 2.34%, while individual loans GNPA remained steady at 0.7%. As per IND AS accounting, assets classified into Stage 3 category remained broadly steady on sequential basis at ₹ 5743 crore vs. ₹ 5618 crore in Q3FY19.

Operational performance remain stable, attributable to higher other income & healthy NII. Other income was aided by extra ordinary gains from stake sale in Gruh finance. Accordingly, PAT came in at ₹ 2862 crore.

Moderation in non-individual book; marginal pressure on NPA

Total outstanding loan book is ₹ 4.06 lakh crore, comprising individual loans at ~74% of book, while non-individual pie is made up of construction finance (CF) at 12%, lease rental discounting (LRD) at ~9% and corporate at ~5%. Given unfavourable lending environment, 95% of incremental lending is undertaken towards individual and LRD segment, while ~5% is towards corporate and CF. Slowdown in non-individual disbursement (construction finance and corporate) led to moderation in overall AUM trajectory which is seen to continue ahead. Therefore, we have modelled 14.8% CAGR in advances in FY19-21E to ₹ 536275 crore. While overall asset quality remained steady, marginal pressure from non-individual portfolio cannot be ruled out.

Valuation & Outlook

Given tight liquidity conditions and headwinds in real estate, HFCs are facing twin balance sheet problem of moderation in growth as well as increasing risk of deterioration in asset quality, especially on exposure to developers financing. HDFC Ltd, led by superior fundamental is expected to outperform its peers, however, being a prominent player in real estate lending will be impacted in terms of slower growth and marginal asset quality pain. We expect credit growth at 14.8% CAGR for FY19-21E to ₹ 536275 crore. Given the business strength, we value the core/ standalone segment at 2.5x FY21E ABV. Rolling over to FY21E estimates, we revise our SOTP (15% discount) based target to ₹ 2195/ share (earlier ₹ 2050). However, given recent headwinds, we change our recommendation on the stock from **BUY** to **HOLD**.



Particulars

Particulars	Amount
Market Capitalisation	₹ 332711 crore
GNPA (Q4FY19)	₹ 4798 crore
Stage 3 (Q4FY19)	₹ 5743 crore
NIM (Q4FY19) (reported)	3.10
52 week H/L	2071 /1646
Networth (Eq+Res)	₹ 77011 crore
Face value	₹ 2
DII Holding (%)	16.5
FII Holding (%)	72.4

Key Highlights

- Advances growth in non-individual book was pared down on back of unfavourable lending environment
- Adding back loan sold, growth in individual book remain strong at 24% YoY
- Stage 3 Gross NPA remain broadly stable at ₹ 5743 crore
- Maintain our BUY recommendation with a target price of ₹ 2190

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Harsh Shah
shah.harsh@icicisecurities.com

Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	9,510	9,635	11,402	13,205	15,293	16%
PPP	11,427	15,305	14,052	14,623	17,369	11%
PAT	7,443	10,959	9,630	9,263	11,348	9%
ABV (₹)	232.3	318.5	365.4	395.0	421.5	
P/E	39.9	28.6	32.5	30.5	27.6	
P/ABV	8.1	5.9	5.1	4.7	4.4	
RoA	2.4	3.0	2.3	2.1	2.1	
RoE	21.0	23.5	16.4	16.1	16.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	2,847	2,917	2,197	29.6	2,695	5.7	
Reported NIM (%)	3.1	0.0	3.1	0 bps	3.2	-10 bps	Higher interest expense led to marginal contraction
Other Income	1,558	1,021	873	78.3	625	149.3	Includes extra ordinary gains of ₹ 321 crore from stake sale in Gruh
Net Total Income	4,405	3,938	3,071	43.5	3,320	32.7	
Staff cost	119	124	101	17.9	135	-11.7	
Other Operating Expenses	197	225	416	-52.6	204	-3.7	
PPP	4,089	3,627	2,554	60.1	2,981	37.2	
Provision	398	150	248	60.5	116	243.1	
PBT	3,691	3,477	2,306	60.1	2,865	28.8	
Tax Outgo	829	963	345	140.2	755	9.8	
PAT	2,862	2,503	1,961	46.0	2,110	35.6	Steady balance sheet growth & higher other income led to earnings growth
Key Metrics							
GNPA	4,798	3,976	4,019	19.4	4,703	2.0	GNPA ratio improved marginally by 4 bps QoQ. GNPA ratio in non-individual segment improved by 12 bps QoQ to 2.34%, while individual loan stayed steady at 0.7%
NNPA	0	0	0	NM	0	NM	
Loans	406,607	349,837	362,811	12.1	385,520	5.5	Slowdown in Non individual segment kept growth on a lower trajectory
Borrowings	365,266	325,419	319,716	14.2	354,728	3.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E
	Old	New	% Change	Introduced
Net Interest Income	13,140	13,205	0.5	15,293
Pre Provision Profit	14,076	14,623	3.9	17,369
NIM(%) (calculated)	2.9	2.8	-9 bps	2.8
PAT	9,158	9,263	1.1	11,348
ABV per share (₹)	393.6	395.0	0.4	421.5

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current			Earlier	
	FY18	FY19	FY20E	FY21E	FY20E
Credit growth (%)	21.3	13.4	13.9	15.8	12.9
NIM Calculated (%)	2.8	2.7	2.8	2.8	2.9
Cost to income ratio (%)	16.4	10.4	10.5	10.1	9.6
GNPA (₹ crore)	4,027	4,798	6,501	7,960	5,021
NNPA (₹ crore)	2,919.8	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

Outlook and valuation

Given tight liquidity conditions and headwinds in real estate, HFCs are facing twin balance sheet problem of moderation in growth as well as increasing risk of deterioration in asset quality, especially on exposure to developers financing. HDFC Ltd, led by superior fundamental is expected to outperform its peers, however, being a prominent player in real estate lending will be impacted in terms of slower growth and marginal asset quality pain. We expect credit growth at 14.8% CAGR for FY19-21E to ₹ 536275 crore. Given the business strength, we value the core/ standalone segment at 2.5x FY21E ABV. Rolling over to FY21E estimates, we revise our SOTP (15% discount) based target to ₹ **2195/ share** (earlier ₹ 2050). However, given recent headwinds, we change our recommendation on the stock from **BUY** to **HOLD**.

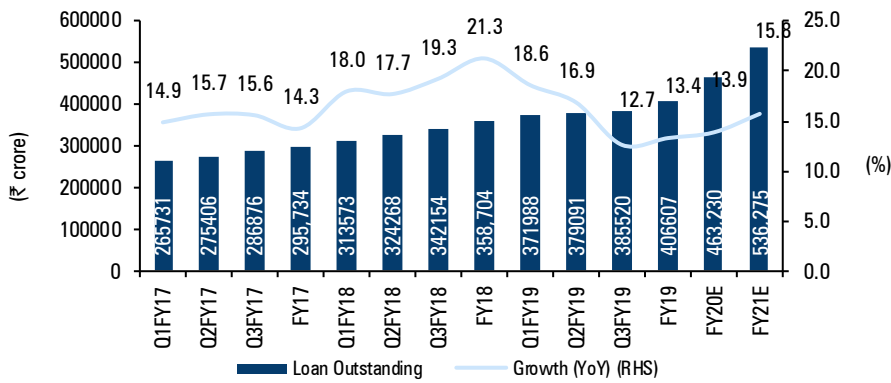
Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2.5x FY21E Core Mortgage ABV	100	1,043
HDFC Bank	3.6x FY21E ABV / 21x FY21 EPS	21.2	789
HDFC AMC	Market cap	60	90
HDFC Std. Life	Market cap	51.7	205
HDFC ERGO	17x FY21E PAT	50.8	25
GRUH Finance	Market cap	10	43
Value per share of HDFC			2,195

Source: Company, ICICI Direct Research

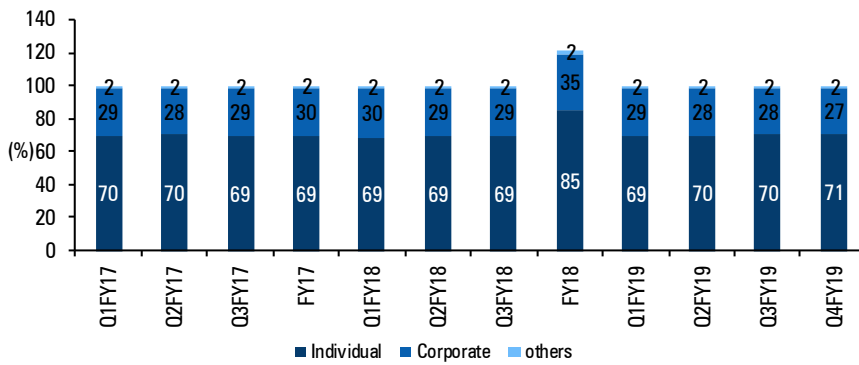
Story in Charts

Exhibit 5: Credit growth to remain steady



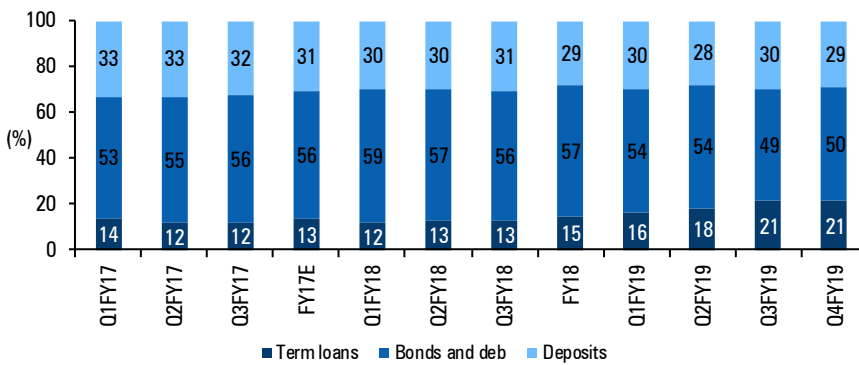
Source: Company, ICICI Direct Research

Exhibit 6: Proportion of Individual segment steady at 71%



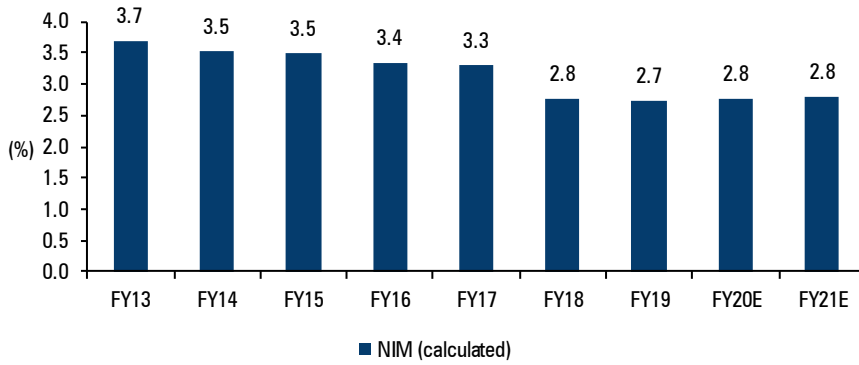
Source: Company, ICICI Direct Research

Exhibit 7: Diversified borrowing profile helps manage cost



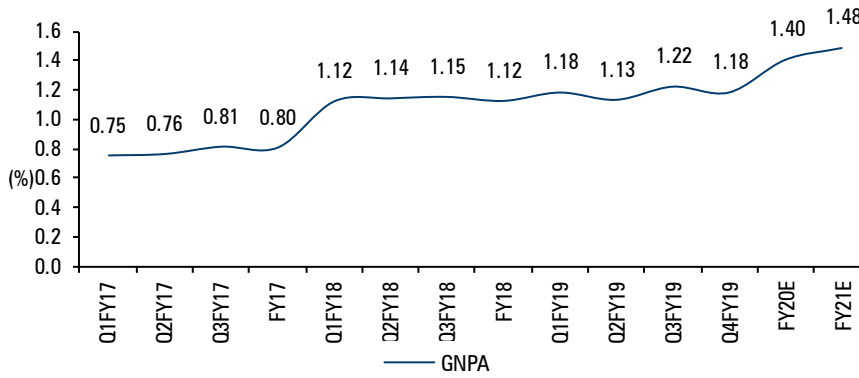
Source: Company, ICICI Direct Research

Exhibit 8: Calculated margin to marginally contract



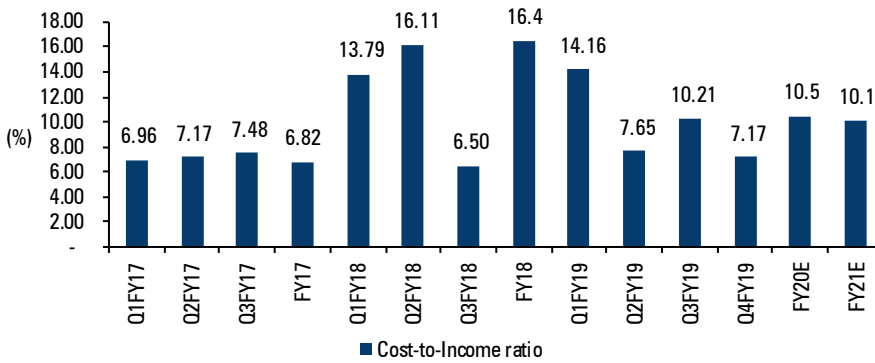
Source: Company, ICICI Direct Research

Exhibit 9: Pressure on asset quality to persist



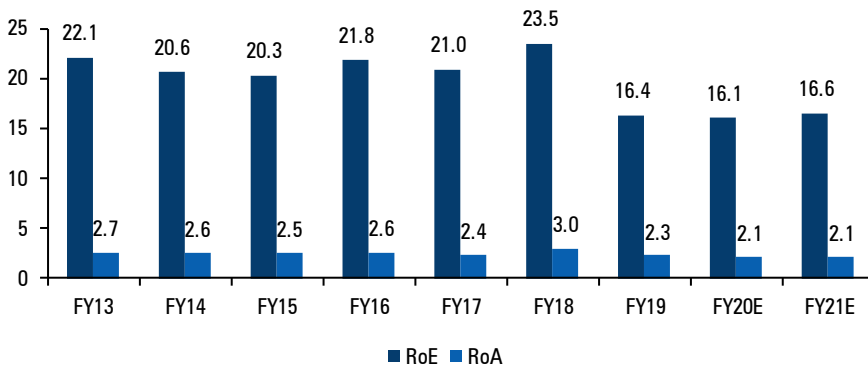
Source: Company, ICICI Direct Research

Exhibit 10: Operating efficiency unmatched



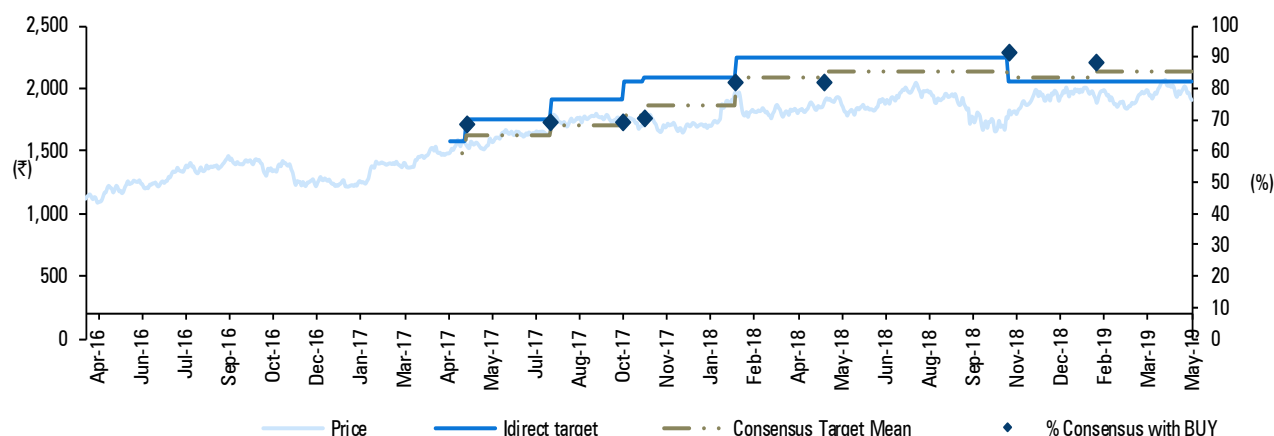
Source: Company, ICICI Direct Research

Exhibit 11: Return ratio to be maintained



Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	Life Insurance Corporation of India	31-03-2019	3.74%	64.36M	0
2	GIC Private Limited	31-03-2019	3.67%	63.20M	+26.56M
3	OppenheimerFunds, Inc.	30-04-2019	3.14%	54.03M	+0.00M
4	The Vanguard Group, Inc.	31-03-2019	3.12%	53.69M	+1.21M
5	BlackRock Institutional Trust Company, N.A.	30-04-2019	2.87%	49.33M	-0.06M
6	JPMorgan Asset Management U.K. Limited	30-04-2019	2.08%	35.88M	+0.00M
7	SBI Funds Management Pvt. Ltd.	31-03-2019	1.94%	33.38M	+1.13M
8	Capital Research Global Investors	31-03-2019	1.85%	31.81M	0
9	Waverly Pte Ltd	31-12-2018	1.75%	30.13M	0
10	Fidelity Management & Research Company	31-03-2019	1.69%	29.09M	+0.15M

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
GIC Private Limited	+755.6M	+26.56M	Invest AD	-55.41M	-1.95M
Caisse de Depot et Placement du Quebec	+180.7M	+6.39M	Artisan Partners Limited Partnership	-42.85M	-1.51M
C WorldWide Asset Management FondsmæglerSelskab A/S	+126.90M	+4.48M	Reliance Nippon Life Asset Management Limited	-35.34M	-1.24M
Norges Bank Investment Management (NBIM)	+53.38M	+1.89M	Bessemer Trust Company, N.A. (US)	-19.28M	-0.71M
The Vanguard Group, Inc.	+34.32M	+1.21M	JM Financial Asset Management Pvt. Ltd.	-19.93M	-0.70M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Dec-17	Mar-18	Sep-18	Dec-18	Mar-19
Promoter	-	-	-	-	-
FII	74.8	74.0	72.2	72.2	72.4
DII	13.8	12.8	13.8	16.9	16.5
Others	11.4	13.2	14.0	10.9	11.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	33,133.0	39,239.3	44,392.1	50,888.5
Interest Expended	23497.9	27837.6	31187.4	35595.5
Net Interest Income	9,635.1	11,401.7	13,204.8	15,293.0
% growth	1.3	18.3	15.8	15.8
Non Interest Income	7574.3	4136.5	3128.9	3951.5
Net Income	17209.4	15538.2	16333.7	19244.5
Employee cost	434.5	505.4	578.4	647.6
Other operating Exp.	1470.3	981.2	1132.5	1227.7
Operating Income	15304.6	14051.6	14622.8	17369.2
Provisions	2115.0	935.0	1389.7	1158.4
PBT	13189.6	13116.6	13233.1	16210.9
Taxes	2230.3	3486.3	3969.9	4863.3
Net Profit	10,959.3	9,630.3	9,263.1	11,347.6
% growth	47.2	-12.1	-3.8	22.5
EPS (₹)	65.4	57.5	61.2	67.7

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	167.6	167.6	167.6	167.6
EPS (₹)	65.4	57.5	61.2	67.7
BV (₹)	335.9	365.4	395.0	421.5
ABV (₹)	318.5	365.4	395.0	421.5
P/E	28.6	32.5	30.5	27.6
P/BV	5.6	5.1	4.7	4.4
P/adj.BV	5.9	5.1	4.7	4.4
Yields & Margins (%)				
Yield on interest earning assets	9.4	9.2	9.2	9.3
Avg. cost on funds	7.8	8.1	8.0	7.9
Net Interest Margins	2.8	2.7	2.8	2.8
Spreads	1.6	1.1	1.3	1.3
Quality and Efficiency				
Cost / Total net income	16.4	10.4	10.5	10.1
GNPA%	1.12	1.2	1.4	1.5
NNPA%	0.8	0.0	0.0	0.0
ROE (%)	23.5	16.4	16.1	16.6
ROA (%)	3.0	2.3	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	335.2	335.2	335.2	335.2
Reserves and Surplus	55957.9	60904.8	65870.0	70302.7
Networth	56293.1	61240.0	66205.2	70637.8
Borrowings	319715.7	365265.7	418856.6	479690.8
Other Liabilities & Provisions				
	20359.8	20847.0	23063.1	25577.3
Total	396,369	447,353	508,125	575,906
Applications of Funds				
Fixed Assets	789.6	804.6	827.4	860.2
Investments	30532.5	29536.9	28809.6	28252.1
Advances	358704.0	406607.0	463230.2	536275.3
Other Assets	6392.9	10404.1	15257.7	10518.3
Total	396,419	447,353	508,125	575,906

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	18.2	12.8	13.6	13.3
Advances	21.3	13.4	13.9	15.8
Borrowings	14.0	14.2	14.7	14.5
Total Income	5.8	20.1	12.7	14.1
Net interest income	1.3	18.3	15.8	15.8
Operating expenses	127.6	-22.0	15.1	9.6
Operating profit (excl trading)	-7.0	37.8	15.4	20.1
Net profit	47.2	-12.1	6.6	10.6
Book value	52.6	8.8	8.1	6.7
EPS	39.6	(12.1)	6.6	10.6

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	
LIC Housing Finance (LICHF)	478	540	Hold	24,108	39.9	46.2	53.6	12.0	10.3	8.9	2.0	1.7	1.5	1.2	1.3	1.3	16.9	16.3	15.8	
Reliance Capital (RELCAP)	114	145	Hold	3,077	51.7	44.2	53.9	2.2	2.6	2.1	0.2	0.6	0.5	1.5	1.2	1.4	10.0	12.5	25.5	
HDFC (HDFC)	1,940	2,195	Hold	334,027	65.4	57.5	61.2	29.7	33.8	31.7	6.1	5.3	4.9	3.0	2.3	2.1	23.5	16.4	16.1	
Bajaj Finserv (BAFINS)	7,347	6,950	Buy	116,909	164.0	208.9	273.7	44.8	35.2	26.8	5.6	4.9	4.1	1.8	1.8	1.9	14.3	14.9	16.6	
Bajaj Finance (BAJFI)	2,934	2,900	Buy	169,588	44.5	67.9	91.7	65.9	43.2	32.0	11.9	9.0	7.0	3.3	3.9	3.9	19.5	21.6	23.1	
Mahindra & Mahindra Finar	375	500	Buy	23,191	18.5	25.3	29.9	158.4	115.9	98.0	28.6	23.6	20.3	2.2	2.6	2.6	13.4	15.2	15.6	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA and Harsh Shah, MBA, 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. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

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

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

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

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.