

Stock Update

Consistency is the hallmark

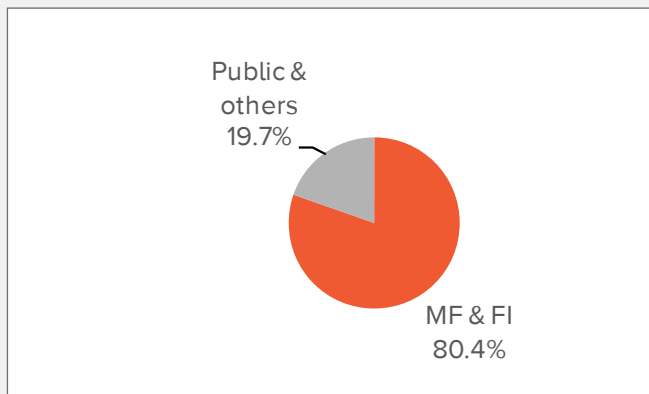
Housing Development Finance Corporation

Reco: Buy | CMP: Rs1,952

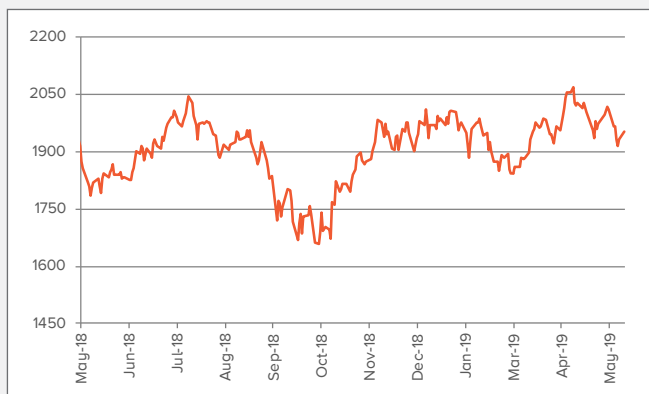
Company details

Price target:	Rs2,300
Market cap:	Rs335,928 cr
52-week high/low:	Rs 2071 / 1646
NSE volume: (No of shares)	27.9 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	172.14 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	-0.5	6.6	3.0
Relative to Sensex	-2.0	-3.1	-0.2	-4.3

Key points

- ◆ **Consistent performance:** HDFC Limited (HDFC) posted consistent performance yet again with better-than-expected NII growth (up 19% y-o-y), stable margins and improved stable asset quality.

During the quarter, net interest income (NII, Calculated) increased by 19.3% y-o-y to Rs. 3,161.1 crore backed by loan growth of 12.1% y-o-y. Net interest margin (NIM, including income on loans sold) was stable at 3.30% y-o-y; however, it was down by 20BPS q-o-q. Interest spread improved to 2.30% (up by 4 BPS q-o-q) mainly benefitted by PLR hikes that the NBFC had taken in the recent past. We believe, at present times when the NBFC sector is seeing challenges on rising Cost of Funds (COF) and liquidity front, the fact that HDFC has been able to maintain its stable margins speaks about the business model strength. In accordance with Ind-AS, pre-provisions profit for the quarter stood at Rs. 4,088.9 crore, growing much faster than NII and book growth, by 43.5% y-o-y and 37% q-o-q, respectively, partly helped by stake sale gain in subsidiary (of ~Rs. 390 crore) and net gain on fair value charges (treasury gains) of Rs. 167 crore (against Rs. 74.52 crore loss in Q4FY2018). On a sequential basis, the spread on individual loan book stood at 1.91% (up 10BPS from 1.89% in Q3FY2019), while the spread on non-individual loans was 3.17% (up 9BPS from 3.08% in Q3FY2019). During the quarter, HDFC made provisions (as per ECL in IND AS) worth Rs. 398 crore. Consequently, net profit for the quarter stood at Rs. 2,861 crore, registering 26.8% y-o-y growth.

- ◆ **AUM growth healthy, asset quality healthy:** During the quarter, HDFC reported decent growth in loan book of 12.1% y-o-y, but notably, assets under management (AUM) growth was better at 14.7% y-o-y, wherein individuals growth contributed to 85% of the total y-o-y increase of AUM. However, considering the current liquidity challenges before real estate players, HDFC's calibrated growth in the developers' segment will be taken as a cautious and prudent step. The loan book also reflects lower growth as loans assigned during FY2019 were significantly higher at Rs. 25,150 crore compared to Rs. 6,453 crore in FY2018. Growth in individual loan book (after adding

back loans sold) stood at 24%, while loan book increased by 14% y-o-y of loans sold). This is due to some residual portfolio sell-off by the NBFC to its banking arm. During the quarter, asset-quality performance improved as GNPA ratio for the quarter declined by 4 BPS q-o-q to 1.18%. GNPA for individual loans stood steady at 0.70% q-o-q; whereas for non-individual loans, it improved by 14 BPS q-o-q to 2.34%.

◆ **Outlook:** HDFC's results were steady and better than expectations, with stable margins and healthy asset quality. Notably, in such times, consistency of players such as HDFC is further emphasised. Balance sheet strength, consistency and quality of earnings continue to be the key differentiators for HDFC, which are key support to the premium valuations it enjoys. Given the market dominance of HDFC,

we expect the leadership to sustain going forward, as HDFC capitalises on the benefits of reduced competitive pressure from other NBFC peers and PSU banks. HDFC's strong operating metrics support its credit rating, which enables it to attract best rates and, hence, optimum cost of funds, which are crucial support for margins. The company is well capitalised at CRAR of 19.2% and Tier-1 of 17.6% (minimum requirement of 12% and 6%, respectively) and, hence, is comfortably placed.

◆ **Valuation:** HDFC is available at 3.7x its FY2021E book value, which we believe is reasonable considering its strong operating metrics, consistency and sustainable business model. Thus, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 2,300.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY%	Q3FY19	QoQ%
Interest Income & Fees	10343.0	8605.4	20.2	10129.7	2.1
Interest and Other Charges	7181.9	5955.8	20.6	7258.6	-1.1
Net Interest Income	3161.1	2649.6	19.3	2871.1	10.1
Other Income	1243.6	717.0	73.5	439.8	182.8
Total Income	4404.7	3366.5	30.8	3310.9	33.0
Staff Expenses	118.9	100.9	17.9	134.7	-11.7
Adjustment due to fair value of stock options	3.6	279.1	-98.7	7.5	-51.5
Establishment Expenses	21.1	20.4	3.4	26.4	-20.1
Other Expenses	113.5	103.7	9.4	106.9	6.1
CSR Expenses	45.3	0.0	NA	36.8	23.0
Depreciation & Amortisation	13.4	12.5	7.5	13.8	-2.5
Total Expenses	315.8	516.6	-38.9	326.1	-3.1
PPoP	4088.9	2850.0	43.5	2984.8	37.0
Provisions and Loan losses	398.0	248.0	60.5	116.0	243.1
PBT	3690.9	2602.0	41.8	2868.8	28.7
Tax Expense	829.3	345.3	140.2	755.0	9.8
Profit After Tax	2861.6	2256.7	26.8	2113.8	35.4
Key Items					
NPA%	1.18%	1.11%	7 bps	1.22%	-4 bps
NIM %	3.30%	3.10%	20 bps	3.20%	10 bps
Loan book (Rs Cr)	406607	362811	12.1	385520	5.5

Valuations

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
PAT	7,443	10,959	9,632	10,083	11,946
EPS (Rs)	46.8	65.4	55.9	58.5	69.4
P/E (x)	41.7	29.9	34.9	33.3	28.1
BVPS (Rs)	249.6	389.4	449.4	487.4	532.4
P/BV (x)	7.8	5.0	4.3	4.0	3.7
ROE (%)	18.8	16.7	12.3	12.0	13.0
ROA (%)	2.4	3.0	2.2	2.0	2.1

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