

# Stock Update

Strong player, leading the way

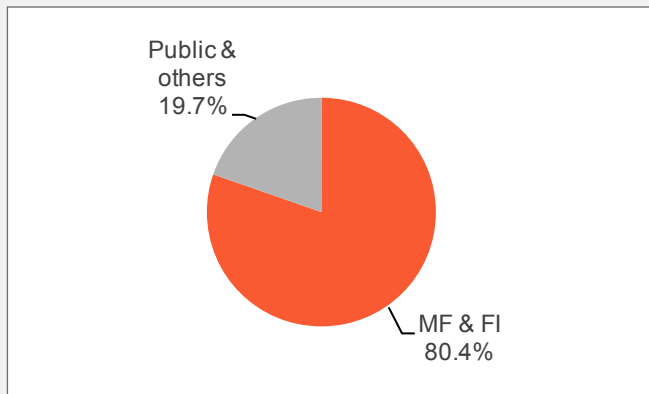
## Housing Development Finance Corporation

Reco: Buy | CMP: Rs2,183

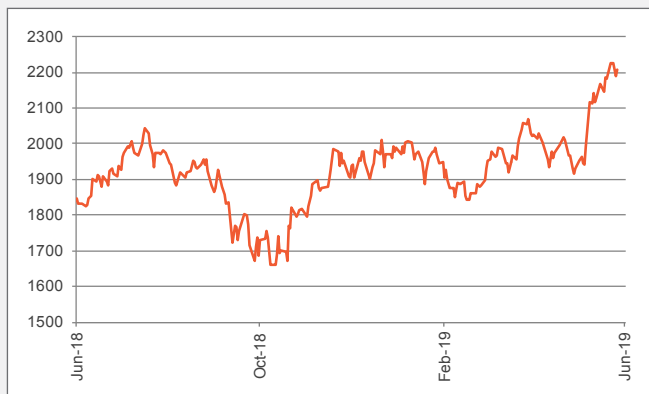
### Company details

Price target:	Rs2,500
Market cap:	Rs376,100 cr
52-week high/low:	Rs2234 / 1646
NSE volume: (No of shares)	29.8 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	13.4	15.6	15.1	20.2
Relative to Sensex	6.1	6.9	0.9	5.6

### Key points

◆ **Competitive intensity slackens, strong player to benefit:** In the mortgage industry, competition from peer housing finance companies (HFCs) has slackened. Several factors such as tighter regulations, liquidity problems and recalibration of asset liability for some NBFC players has significantly reduced competitive intensity in the housing finance market, which until a few quarters back, was seeing staggering growth rates and stiff competition for market share. Recent developments such as the RBI's draft framework for NBFCs (where the regulator proposed to tighten the asset-liability mix), liquidity drying up for several mid-size NBFCs, etc have all affected the competition among most NBFCs and HFCs. However, industry bellwethers such as Housing Development Finance Corporation (HDFC) have not been affected. HDFC continues to enjoy high credit ratings, a low asset risk and can easily look to further cherry pick its way to market share gains. Strong business fundamentals allow HDFC Ltd to raise funds at competitive rates at its discretion.

HDFC Ltd has been a consistent performer, maintaining loan spreads of 2.29-2.33% loan spreads since last 5 years, across interest rates cycles. It also enjoys the industry's best rating (CRISIL AAA/Stable), due to its healthy asset quality (GNPA at a stable 1.18%) and a diversified and stable resource profile. We believe that lower competitive intensity should benefit strong players such as HDFC.

◆ **Outlook:** We believe HDFC will continue to maintain its robust credit risk profile in the medium term, backed by its healthy asset quality and a strong financial risk profile. The financier's strong franchise and financial risk profile will enable it to maintain competitive superiority and pole position in the market. Its subsidiaries like HDFC Bank, HDFC Asset Management Company and HDFC Life are industry leaders in their own respective segments and their listing further strengthens the financial risk profile of the franchise.

◆ **Valuations:** HDFC is trading at 4.1x of its FY2021E book value, which we believe is reasonable considering strong operating metrics, consistency and sustainable business model. While the NBFC industry faces its own challenges, the consistency and relative outperformance of HDFC will help it to sustain premium valuations. We maintain our Buy rating on the stock with a revised price target (PT) of Rs 2,500.

- ◆ **Govt policies thrust for housing expected to continue:** With the Government's oft stated focus towards Housing, one can reasonably expect measures benefitting / encouraging demand in the segment. Earlier, in the first edition of the NDA government, steps like GST rates reduction,

policy incentives for homebuyers etc were helpful. Financiers, should be a key component and beneficiary of favorable govt. policies and HDFC being the Industry leader, should be key beneficiaries.

#### Valuation

Particulars	Rs cr					
	FY16	FY17	FY18	FY19	FY20E	FY21E
PAT	7,093	7,443	10,959	9,632	10,083	11,946
EPS (Rs)	44.9	46.8	65.4	55.9	58.5	69.4
P/E	48.7	46.6	33.4	39.0	37.3	31.5
BVPS	216.0	249.6	389.4	449.4	487.4	532.4
P/BV	10.1	8.7	5.6	4.9	4.5	4.1
ROE (%)	20.8	18.8	16.7	12.3	12.0	13.0
ROA (%)	2.6	2.4	3.0	2.2	2.0	2.1

Source: Company, Sharekhan Research

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