

August 3, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	2,270		2,274	
NII (Rs.)	133,224	154,702	146,467	169,603
% Chng.	(9.0)	(8.8)		
PPoP (Rs.)	178,028	186,558	169,196	194,728
% Chng.	5.2	(4.2)		
EPS (Rs.)	44.9	47.0	43.0	49.4
% Chng.	4.3	(4.8)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Int.Inc. (Rs m)	96,351	114,026	133,224	154,702
Growth (%)	(3.2)	18.3	16.8	16.1
Op. Profit (Rs m)	96,956	128,414	178,028	186,558
PAT (Rs m)	108,874	95,009	115,960	121,396
EPS (Rs.)	42.5	36.8	44.9	47.0
Gr. (%)	41.2	(13.5)	22.1	4.7
DPS (Rs.)	20.6	24.0	25.5	25.5
Yield (%)	1.0	1.1	1.2	1.2
Margin (%)	3.6	3.6	3.6	7.7
RoAE (%)	16.7	13.3	15.2	15.3
RoAA (%)	2.9	2.2	2.3	2.1
PE (x)	49.9	57.7	47.3	45.2
P/BV (x)	8.3	7.1	7.3	6.6
P/ABV (x)	5.9	5.1	4.9	4.5

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.2,358 / Rs.1,645
Sensex / Nifty	37,118 / 10,997
Market Cap	Rs.3,666bn/ \$ 52,684m
Shares Outstanding	1,725m
3M Avg. Daily Value	Rs.13382.38m

Shareholding Pattern (%)

Promoter's	-
Foreign	74.69
Domestic Institution	14.63
Public & Others	10.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.9)	8.3	10.0
Relative	(0.1)	6.4	10.1

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On cautious mode, downgrade to Accumulate

Quick Pointers

- Core book and margins maintained
- Non-individual portfolio continues to slacken, GNPA show moderate increase

HDFC's Q1FY20 earnings with PAT at Rs32bn up 46% YoY was largely supported by subsidiary stake sale gains (Rs18.9bn) and income on subsidiary investments. The quarter saw steady NIMS at 3.3% although non-individual spreads shrunk moderately. As corporate portfolio slackens, the overall loans stood sluggish at 13% YoY growth as against PL expectation of 15%; said that, individual loan traction stood upbeat at 17% YoY. While HDFC's credit risk profile stands robust, Q1FY20 saw moderate asset quality deterioration reflective of macro slowdown. GNPA at 1.29% stood higher than expectations of 1.2%, ECL provisioning climbed to 1.55% from 1.44% in Q4FY19. As macro headwinds play out, the margin-NPA maintenance conundrum has come to fore. While HDFC maintains competitive superiority the spreads should stand maintained, however, GNPA and loan traction (15%) should see slight downward pressures for FY20. Against this backdrop, we trim our core book multiple to 2.6x (earlier 2.7x) arriving at TP of Rs2,270 (earlier Rs 2,274) at Mar-21 PABV. Downgrade to ACCUMULATE.

- Growth moderates; core book intact:** Gross loan book at Rs 4165.9bn (PL:Rs4269bn) reported slower growth at 13% YoY. While individual loan book maintains 17% YoY growth traction, non-individual growth slackens in-line with company stance of scaling down riskier portfolio. 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 maintained, asset quality slips:** Reported NIMs at 3.3% stood flat YoY but higher than PL estimates (3%). Non-individual spreads at 3.07% stood under tad pressure vis-à-vis previous year. While HDFC continues to garner sizeable individual business despite increased competition, individual loan spreads stood maintained at 1.9% YoY, these should stay intact in light of recent reduction in lending rates. **While HDFC has maintained robust risk profile across liquidity tightness, Q1FY20 saw slight deterioration as GNPA at 1.29% stood higher than estimates; ECL climbed to 1.55% as against 1.44% a year ago. We tweak GNPA estimates moderately higher, see slight variation in credit costs and yet believe the company stands strong in tackling the credit risks in-line with historical standards. Margins at 3.3% should be maintained.**
- Relative outperformer; but macro headwinds prompt downgrade:** Macro headwinds would mean even formidable player like HDFC tackling NIM-NPA conundrum. As growth slows, we too maintain cautious stance and downgrade to ACCUMULATE. While earnings stand largely supported by other income aided by monetization of subsidiaries' stake, the company maintains strong operating metrics with consistent business model. Therefore, the stock can be accumulated at dips.

Exhibit 1: Q1FY20 Financials – Operating profit healthy, Other income supports PAT

P&L (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
Total interest income	107,811	90,957	18.5	103,430	4.2
Interest expense	77,393	63,527	21.8	71,819	7.8
Net Interest Income	30,418	27,430	10.9	31,611	(3.8)
Capital Gains	19,077	235	8,031.5	3,590	431.4
Other Income	19,495	506	3,755.9	4,531	330.2
Total other income	2,655	8,057	(67.0)	7,905	(66.4)
Total income	52,568	35,993	46.1	44,047	19.3
Operating expenses	3,817	5,096	(25.1)	3,158	20.9
-Staff expenses	1,554	3,243	(52.1)	1,226	26.8
-Other expenses	2,263	1,853	22.1	1,933	17.1
Operating profit	48,751	30,897	57.8	40,889	19.2
Core operating profit	48,751	30,897	57.8	40,889	19.2
Total provisions	8,900	197	4,417.8	3,980	123.6
Profit before tax	39,851	30,700	29.8	36,909	8.0
Tax	7,820	8,800	(11.1)	8,293	(5.7)
Profit after tax	34,651	21,608	60.4	28,229	22.7
Balance Sheet (Rs mn)					
Loan composition	4,269,374	3,745,750	14.0	4,066,070	5.0
-Individual loans (%)	71.4	68.9		71.0	
-Corporate loans (%)	26.9	29.5		27.3	
-Others (%)	1.7	1.6		1.7	
Borrowings composition	3,736,290	3,320,780	12.5	3,652,660	2.3
-Term loans (%)	22.7	16.1		21.3	
-Bonds/ Deb./ CPs (%)	46.9	54.1		49.8	
-Deposits (%)	30.4	29.9		28.9	
Spreads (%)					
Spreads	2.25	2.28	(3)	2.30	(5)
- Individual Loan Spreads	1.91	1.91	-	1.91	-
- Non-individual Loan Spreads	3.07	3.14	(7)	3.17	(10)
NIMs	3.30	3.30	-	3.30	-
Asset quality (%)					
Gross NPL	1.3	1.2	11	1.2	11
Coverage ratio	40.0	32.8		26.8	
Others / Ratios (%)					
Cost-income ratio	7.3	14.2	(690)	7.2	9
Int. expense/Int. income	71.8	69.8	194	69.4	235
Spread	2.3	2.3	(3)	2.3	(5)
Tier-I	17.3	15.0	230	17.6	(30)

Source: Company, PL

HDFC Ltd reported slight deterioration in GNPA.

Stage 3 assets spike 21% YoY

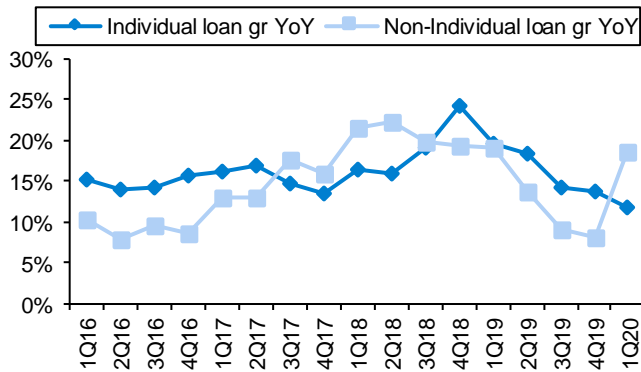
Coverage ratio down to 40%

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

As per IND AS	Q1FY20	Q1FY19	YoY gr.	Q4FY19	QoQ gr.
Gross Stage 3	62280	51450	21%	57430	8%
ECL Provision Stage 3	24760	23610	5%	24990	-1%
Net Stage 3	37520	27840	35%	32440	16%
Coverage Ratio% Stage 3	40%	46%		44%	
Gross Stage 1 & 2	4100960	3694590	11%	4013890	2%
ECL Provision Stage 1 & 2	39940	27540	45%	33790	18%
Net Stage 1 & 2	4061020	3667050	11%	3980100	2%
ECL Provision % Stage 1 & 2	0.97%	0.75%		0.84%	
ECL/EAD	1.55%	1.37%		1.44%	

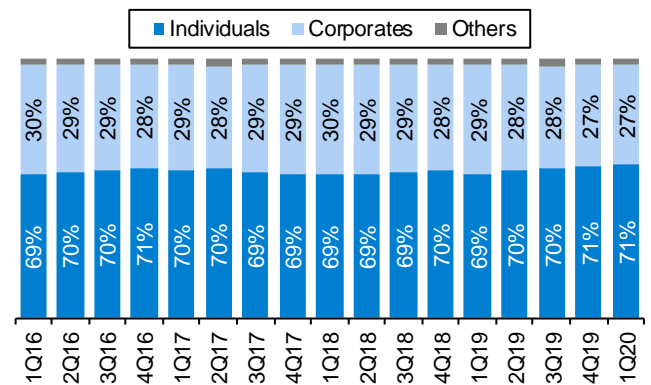
Source: Company, PL

Exhibit 3: Non-individual loan decline continues



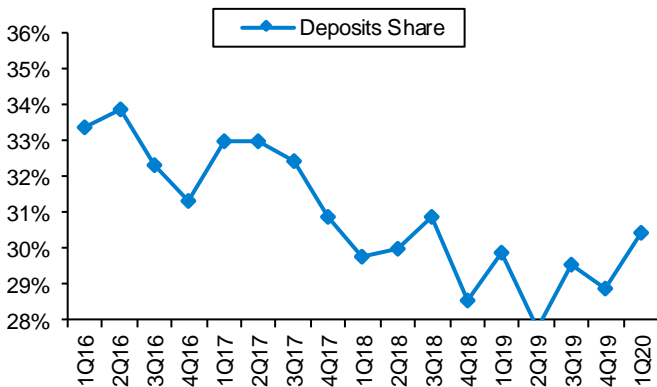
Source: Company, PL

Exhibit 4: Loan mix tilt towards individual lending maintained



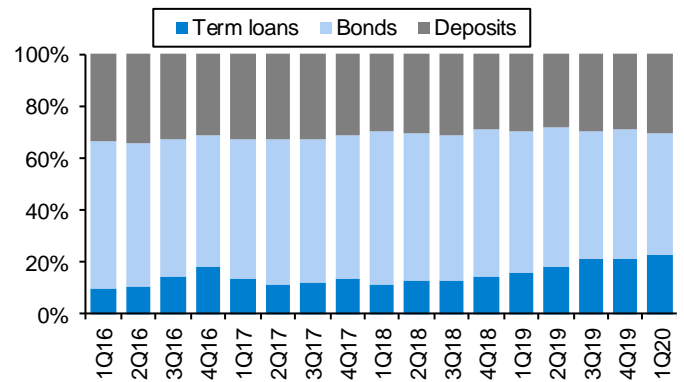
Source: Company, PL

Exhibit 5: Deposit share slowed post demonetization

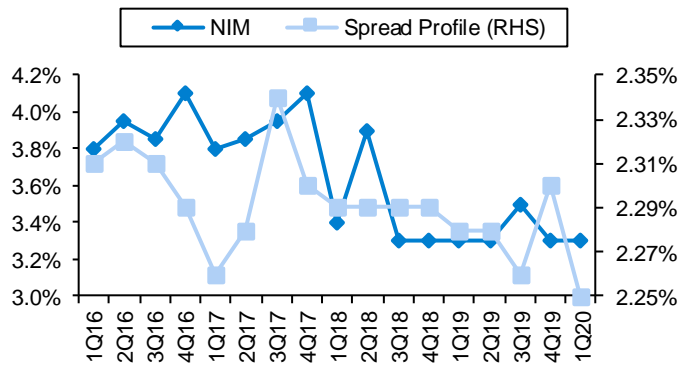


Source: Company, PL

Exhibit 6: Bond mix broadly steady

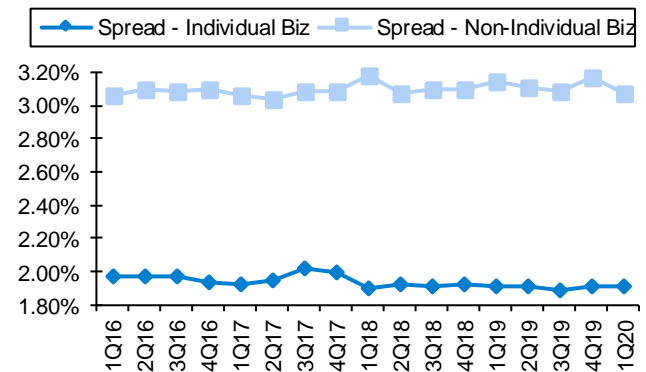


Source: Company, PL

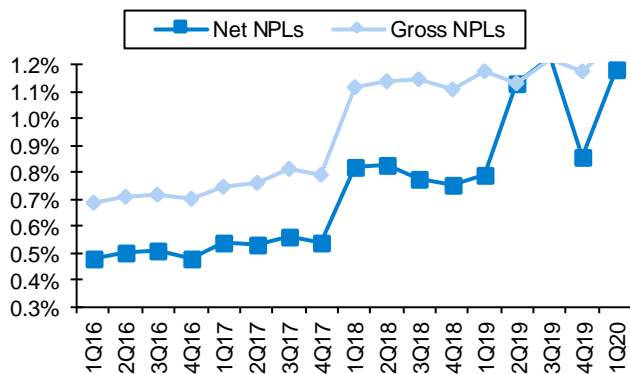
Exhibit 7: Despite high liquid assets on BS, NIMs holds


Source: Company, PL

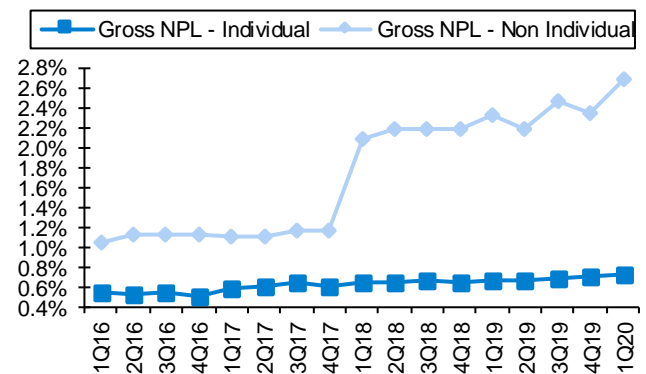
Note – Q1FY18 & Q1FY19 on IND-AS

Exhibit 8: Individual spreads steady


Source: Company, PL

Exhibit 9: GNPLs spike moderately...


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	1,283
Fair price - P/ABV	936
Average of the two	1,110
Target P/ABV	2.6
Target P/E	15.8
Value of subs/associates	1,160
Fair value of consol. entity	2,270
Current price, Rs	2,174
Upside (%)	5%
Dividend yield (%)	1%
Total return (%)	6%

Source: PL Research

Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Inc. / Opt. Inc.	331,331	392,402	469,927	550,046
Interest Expenses	234,980	278,377	336,703	395,343
Net interest income	96,351	114,026	133,224	154,702
Growth(%)	(3.2)	18.3	16.8	16.1
Non-interest income	19,654	29,254	61,615	49,739
Growth(%)	(14.9)	48.8	110.6	(19.3)
Net operating income	116,005	143,280	194,839	204,441
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	178,028	186,558
Growth(%)	(15.1)	32.4	38.6	4.8
Provisions	21,150	9,350	14,703	15,578
Profit Before Tax	75,806	119,064	163,324	170,980
Tax	22,303	34,863	47,364	49,584
Effective Tax rate(%)	29.4	29.3	29.0	29.0
PAT	108,874	95,009	115,960	121,396
Growth(%)	(28.1)	57.4	37.7	4.7

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	751,075	828,539
Networth	652,649	773,555	754,517	831,982
Growth (%)	0.2	18.5	(2.5)	10.3
Loan funds	3,197,157	3,652,657	4,393,693	5,115,826
Growth (%)	14.3	14.2	20.3	16.4
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	135,389	157,567	219,064	229,587
Other Liabilities	1,825	3,997	2,598	3,222
Total Liabilities	3,987,020	4,587,776	5,369,873	6,180,617
Application of funds				
Net fixed assets	10,396	9,727	9,277	10,668
Advances	3,573,809	4,007,596	4,641,425	5,408,609
Growth (%)	20.8	12.1	15.8	16.5
Investments	307,167	462,404	465,630	493,347
Current Assets	83,228	-	126,770	133,996
Net current assets	(52,161)	-	-	-
Other Assets	1,701	108,049	126,770	133,996
Total Assets	3,976,301	4,587,776	5,369,873	6,180,617
Growth (%)	19.1	15.4	17.0	15.1
Business Mix				
AUM	2,907,863	3,366,192	4,016,164	-
Growth (%)	17.4	15.8	19.3	(100.0)
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	3.6	3.6	3.6	3.4
ROAA	2.9	2.2	2.3	2.1
ROAE	16.7	13.3	15.2	15.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Int. Inc. / Operating Inc.	96,733	101,389	103,430	107,811
Income from securitization	-	-	-	-
Interest Expenses	70,445	72,586	71,819	77,393
Net Interest Income	26,288	28,802	31,611	30,418
Growth (%)	5.4	17.9	19.3	10.9
Non-Interest Income	15,837	4,436	12,436	22,150
Net Operating Income	42,124	33,239	44,047	52,568
Growth (%)	33.2	(59.2)	43.5	46.1
Operating expenditure	3,087	3,123	3,024	3,525
PPP	38,904	29,848	40,889	48,751
Growth (%)	8.7	112.3	7.5	125.2
Provision	4,013	1,160	3,980	8,900
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	34,891	28,688	36,909	39,851
Tax	10,220	7,550	8,293	7,820
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	29.3	26.3	22.5	19.6
PAT	24,671	21,138	28,616	32,031
Growth	25	(60)	46	46
AUM	4,509,243	4,410,220	4,619,130	4,619,130
YoY growth (%)	21.3	14.8	15.0	10.6
Borrowing	3,406,358	3,533,066	3,652,657	2,700,534
YoY growth (%)	13.4	14.7	14.2	(18.7)

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	2,125	2,125	2,125	2,125
EPS (Rs)	42.5	36.8	44.9	47.0
Book value (Rs)	255.0	299.6	292.2	322.2
Adj. BV(Rs)	363.2	420.0	433.1	474.6
P/E(x)	49.9	57.7	47.3	45.2
P/BV(x)	8.3	7.1	7.3	6.6
P/ABV(x)	5.9	5.1	4.9	4.5
DPS (Rs)	20.6	24.0	25.5	25.5
Dividend Payout Ratio(%)	64.6	49.1	37.9	36.2
Dividend Yield(%)	1.0	1.1	1.2	1.2

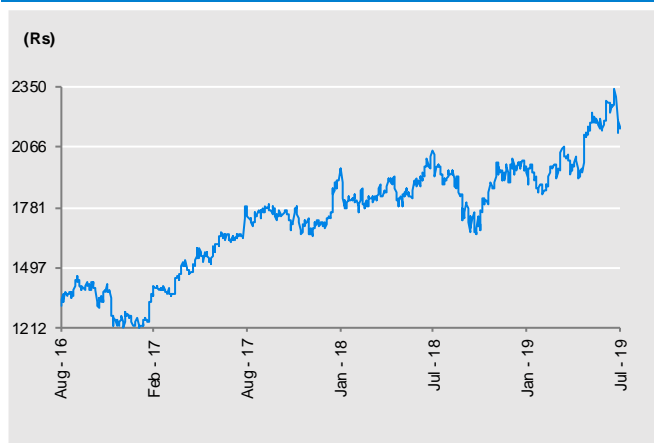
Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs(Rs m)	40,258	47,770	60,339	75,721
Net NPA(Rs m)	27,432	50,520	8,904	14,939
Gross NPAs to Gross Adv.(%)	1.1	1.2	1.3	1.4
Net NPAs to net Adv.(%)	0.8	1.3	0.2	0.3
NPA coverage(%)	31.9	(5.8)	85.2	80.3

Du-Pont

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	2.7	3.4	2.7	2.7
NII INCI. Securitization	2.7	3.4	2.7	2.7
Total income	3.2	4.0	4.0	3.6
Operating Expenses	0.5	0.3	0.3	0.3
PPOP	2.7	3.7	3.6	3.3
Total Provisions	0.6	0.2	0.3	0.3
RoAA	1.5	2.7	2.4	2.2
Avg. Assets/Avg. net worth	11.0	5.0	6.4	7.1
RoAE	16.7	13.3	15.2	15.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Jul-19	BUY	2,700	2,376
2	4-Jul-19	BUY	2,237	2,280
3	13-May-19	BUY	2,274	1,953
4	5-Apr-19	BUY	2,275	2,059
5	29-Jan-19	BUY	2,266	1,922
6	7-Jan-19	BUY	2,265	1,973
7	1-Nov-18	BUY	2,265	1,762
8	5-Oct-18	BUY	2,265	1,778

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	322	260
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,237	2,280
5	L&T Finance Holdings	Accumulate	178	120
6	LIC Housing Finance	Accumulate	597	569
7	Mahindra & Mahindra Financial Services	Accumulate	527	396
8	Shriram Transport Finance	BUY	1,481	1,063

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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