

Stake sale buoys earnings; headwinds still persist...

Given the unfavourable lending environment, advances growth was slower at 11.2% YoY to ₹ 4,16,597 crore compared to the previous run rate, on the back of moderation in corporate book. Though individual loan portfolio increased ~15.3% YoY to ₹ 297502 crore and accounted for ~71% of total loan book, growth in non-individual book was curtailed at 1.5% YoY to ₹ 112105 crore. Growth in individual loan book, after adding back loans sold in the preceding 12 months, remained healthy at 24% YoY.

Asset quality witnessed marginal deterioration with GNPA ratio up ~11 bps QoQ to 1.29, led by slippage in non-individual GNPA. The non-performing loans in non-individual portfolio increased ~34 bps to 2.68%, a level not seen in past several quarters. Individual portfolio also witnessed an increase of ~2 bps QoQ in GNPA ratio to 0.72%. Assets classified in Stage 3 category came at ₹ 6228 crore vs. ₹ 5743 crore in Q4FY19 & ₹ 5022 crore in Q1FY19.

Operational performance remain stable due to higher other income & healthy NII. Other income was aided by extraordinary gains from stake sale in Gruh Finance. Accordingly, PAT came in at 46% YoY to ₹ 3203 crore. Decline of ~10 bps in non-individual spreads has led to a marginal fall of 5 bps QoQ in overall spreads to 2.25%.

Moderation in non-individual book; marginal pressure on NPA

Total outstanding advance is ₹ 4.16 lakh crore, comprising individual loans at ~74% of book. Given the unfavourable lending environment, majority of incremental lending is undertaken towards individual and LRD segment that will keep pressure on growth in margin. Slowdown in non-individual disbursement (construction finance and corporate) led to moderation in overall AUM trajectory that is seen to continue ahead. Recent circular by National Housing Bank (NHB) applicable to HFCs curbing disbursement under subvention scheme with developers is seen further impacting incremental growth. Therefore, we model 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 the tight liquidity conditions and headwinds in real estate, HFCs are facing twin balance sheet problem of moderation in growth and risk of deterioration in asset quality, especially on developers financing. HDFC Ltd, led by superior fundamental is expected to outperform its peers. However, being a prominent player in real estate lending, it will be impacted in terms of slower growth and marginal asset quality pain. Therefore, we downgrade our multiple for the core/ standalone segment at ~2.1x FY21E ABV (earlier 2.5x). Accordingly, we revise our SOTP (15% discount) based target to ₹ 2040/share (earlier ₹ 2195). Given recent headwinds, we maintain our **HOLD** (with negative bias) recommendation on the stock.

Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	9,510	9,635	11,402	13,640	15,793	18%
PPP	11,427	15,305	14,052	16,953	18,540	15%
PAT	7,443	10,959	9,630	10,894	12,167	12%
ABV (₹)	232.3	318.5	365.4	400.6	429.8	
P/E	45.3	32.4	36.9	29.9	29.2	
P/ABV	9.1	6.7	5.8	5.3	4.9	
RoA	2.4	3.0	2.3	2.5	2.2	
RoE	21.0	23.5	16.4	18.5	17.5	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 368438 crore
GNPA (Q1FY20)	₹ 5374 crore
Stage 3 (Q1FY20)	₹ 6228 crore
NIM (Q1FY20) (reported)	3.30
52 week H/L	2357 /1646
Networth (Eq+Res)	₹ 81281 crore
Face value	₹ 2
DII Holding (%)	14.6
FII Holding (%)	74.7

Key Highlights

- Advances growth in non-individual book pared down on back of unfavourable lending environment
- Adding back loan sold, growth in individual book stays strong at 24% YoY
- Stage 3 gross NPA remain broadly stable at ₹ 6228 crore
- Downgrade our target price to ₹ 2040 from earlier ₹ 2195. Maintain HOLD

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	2,776	3,008	2,564	8.3	2,847	-2.5	
Reported NIM (%)	3.3	2.9	3.5	-20 bps	3.1	20 bps	A ~10 bps decline in spreads in non-individual book led to fall in overall spreads by 5 bps QoQ to 2.25%
Other Income	2,481	2,301	1,036	139.5	1,558	59.3	Includes extraordinary gains of ₹ 1895 crore from stake sale in Gruh
Net Total Income	5,257	5,309	3,599	46.1	4,405	19.3	
Staff cost	151	149	133	13.9	119	27.2	
Other Operating Expenses	230	217	377	-38.8	197	17.0	
PPP	4,875	3,627	3,090	57.8	4,089	19.2	
Provision	890	400	20	4,417.8	398	123.6	
PBT	3,985	3,227	3,070	29.8	3,691	8.0	
Tax Outgo	782	1,272	880	-11.1	829	-5.7	
PAT	3,203	2,503	2,190	46.3	2,862	11.9	Steady balance sheet growth & one off other income from stake sale led to earnings growth
Key Metrics							
GNPA	5,374	3,976	0	#DIV/0!	4,798	12.0	GNPA ratio deteriorated 11 bps QoQ led by ~34 bps rise in non-individual GNPA ratio to 2.68% while individual loan inched up 2 bps QoQ to 0.72%
NNPA	0	0	0	NM	0	NM	
Loans	416,597	349,837	374,575	11.2	406,607	2.5	Slowdown in non individual segment kept growth on lower trajectory
Borrowings	373,629	325,419	332,078	12.5	365,266	2.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	Change	Old	New	Change
Net Interest Income	13,205	13,640	3.3	15,293	15,793	3.3
Pre Provision Profit	14,623	16,953	15.9	17,369	18,540	6.7
NIM(%) (calculated)	2.8	2.9	9 bps	2.8	2.9	9 bps
PAT	9,263	10,894	17.6	11,348	12,167	7.2
ABV per share (₹)	395.0	400.6	1.4	421.5	429.8	2.0

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	21.3	13.4	13.9	15.8	13.9	15.8
NIM Calculated (%)	2.8	2.7	2.9	2.9	2.8	2.8
Cost to income ratio (%)	16.4	10.4	9.2	9.5	10.5	10.1
GNPA (₹ crore)	4,027	4,798	6,501	7,960	6,501	7,960
NNPA (₹ crore)	2,919.8	0.0	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 the twin balance sheet problem of moderation in growth and risk of deterioration in asset quality, especially on developer financing. HDFC Ltd, led by superior fundamental, is expected to outperform its peers. However, being a prominent player in real estate lending, it will be impacted in terms of slower growth and marginal asset quality pain. Therefore, we downgrade our multiple for the core/ standalone segment at ~2.1x FY21E ABV (earlier 2.5x). Accordingly, we revise our SOTP (15% discount) based target price to ₹ 2040/share (earlier ₹ 2195). Given recent headwinds, we maintain our **HOLD** (with negative bias) recommendation on the stock.

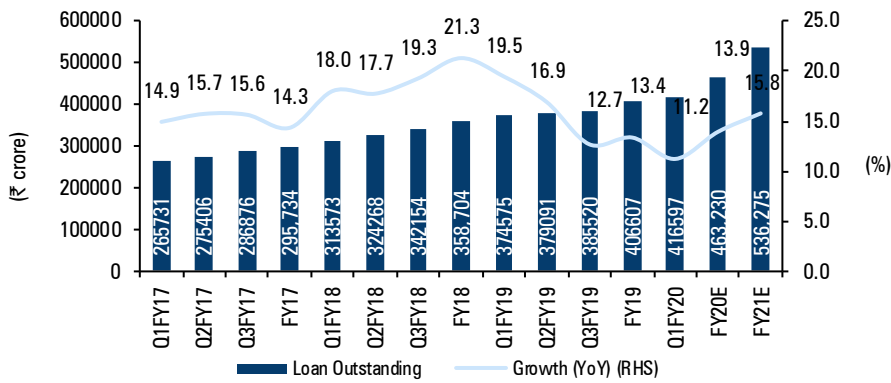
Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2x FY21E Core Mortgage ABV	100	899
HDFC Bank	3.2x FY21E ABV / 20x FY21 EPS	21.2	703
HDFC AMC	Market cap	60	117
HDFC Std. Life	Market cap	51.7	258
HDFC ERGO	17x FY21E PAT	50.8	25
GRUH Finance	Market cap	10	38
Value per share of HDFC			2,040

Source: Company, ICICI Direct Research

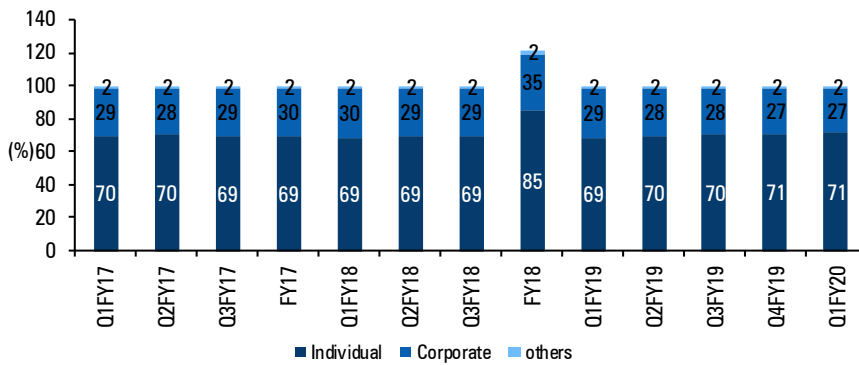
Story in Charts

Exhibit 5: Credit growth to remain on slower track



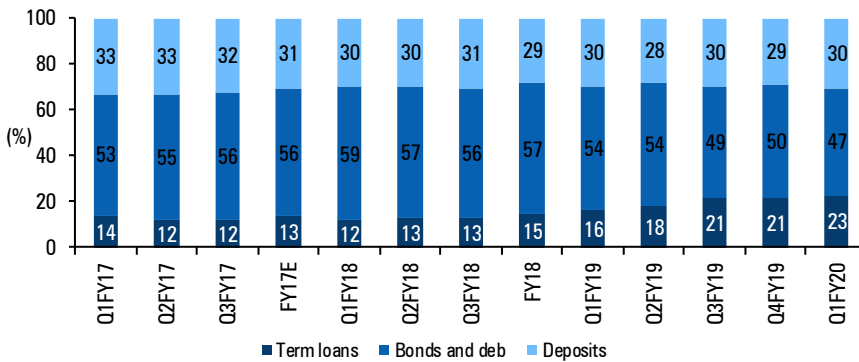
Source: Company, ICICI Direct Research

Exhibit 6: Proportion of Individual segment steady at ~71%



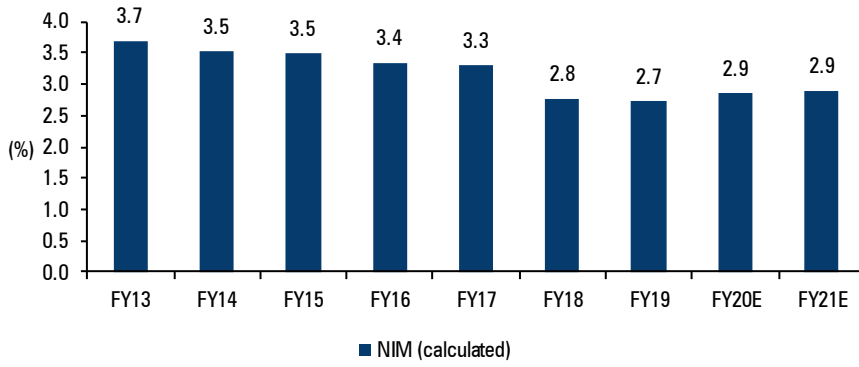
Source: Company, ICICI Direct Research

Exhibit 7: Diversified borrowing profile helps manage cost



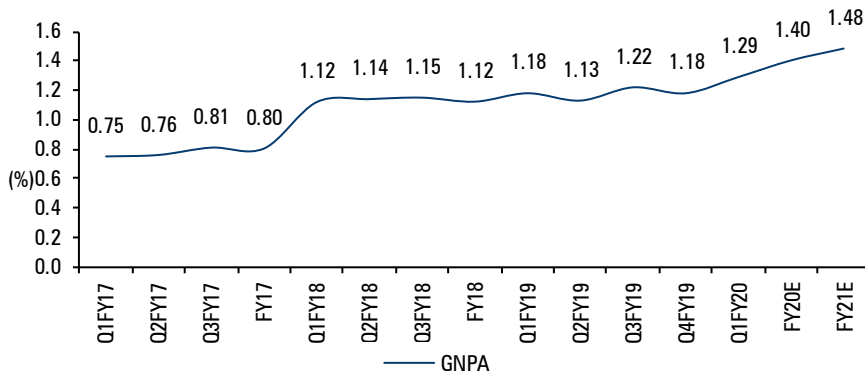
Source: Company, ICICI Direct Research

Exhibit 8: Calculated margin to remain broadly stable



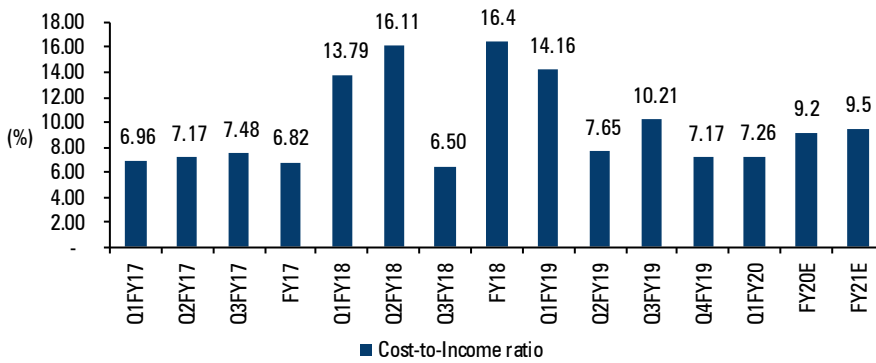
Source: Company, ICICI Direct Research

Exhibit 9: Pressure on asset quality to persist



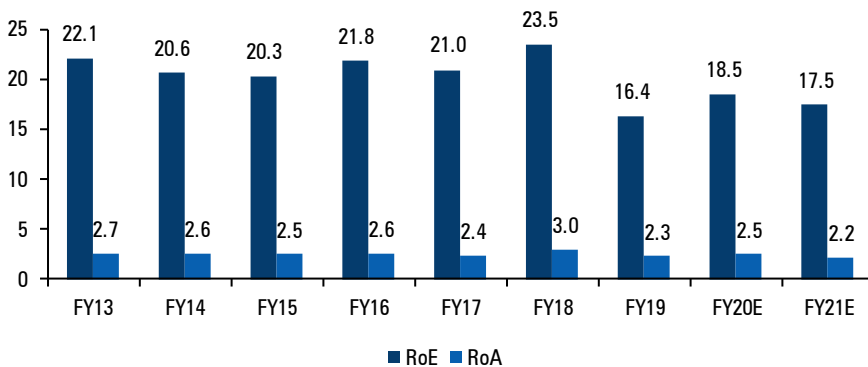
Source: Company, ICICI Direct Research

Exhibit 10: Operating efficiency unmatched



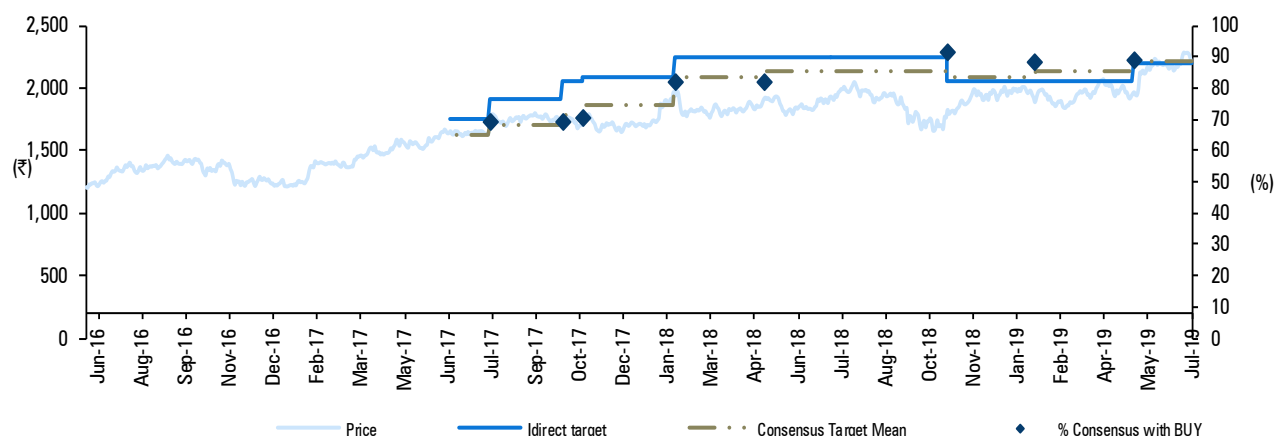
Source: Company, ICICI Direct Research

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	3.73%	64.36M	0
2	GIC Private Limited	31-03-2019	3.66%	63.20M	+26.56M
3	The Vanguard Group, Inc.	31-05-2019	3.57%	61.66M	+0.53M
4	OppenheimerFunds, Inc.	31-05-2019	3.21%	55.44M	-0.07M
5	BlackRock Institutional Trust Company, N.A.	30-06-2019	2.89%	49.81M	+0.06M
6	JPMorgan Asset Management U.K. Limited	30-06-2019	2.27%	39.12M	-0.01M
7	SBI Funds Management Pvt. Ltd.	31-05-2019	2.03%	35.04M	+1.54M
8	Capital Research Global Investors	31-03-2019	1.84%	31.81M	0
9	Fidelity Management & Research Company	31-05-2019	1.71%	29.46M	+0.18M
10	Baillie Gifford & Co.	31-05-2019	1.39%	23.97M	+0.00M

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	Fidelity International	-189.12M	-6.03M
Caisse de Depot et Placement du Quebec	+180.7M	+6.39M	FIL Investment Management (Hong Kong) Limited	-86.65M	-2.76M
APG Asset Management N.V.	+59.49M	+2.10M	Invest AD	-55.41M	-1.95M
Norges Bank Investment Management (NBIM)	+53.38M	+1.89M	Artisan Partners Limited Partnership	-42.85M	-1.51M
SBI Funds Management Pvt. Ltd.	+48.36M	+1.54M	Stewart Investors	-37.26M	-1.19M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	-	-	-	-	-
FII	74.0	72.2	72.2	72.4	74.7
DII	12.8	13.8	16.9	16.5	14.6
Others	13.2	14.0	10.9	11.1	10.7

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	44,827.0	51,388.2
Interest Expended	23497.9	27837.6	31187.4	35595.5
Net Interest Income	9,635.1	11,401.7	13,639.7	15,792.7
% growth	1.3	18.3	19.6	15.8
Non Interest Income	7574.3	4136.5	5023.9	4622.7
Net Income	17209.4	15538.2	18663.6	20415.5
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	16952.7	18540.2
Provisions	2115.0	935.0	1389.7	1158.4
PBT	13189.6	13116.6	15563.0	17381.8
Taxes	2230.3	3486.3	4668.9	5214.5
Net Profit	10,959.3	9,630.3	10,894.1	12,167.3
% growth	47.2	-12.1	13.1	11.7
EPS (₹)	65.4	57.5	71.0	72.6

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	71.0	72.6
BV (₹)	335.9	365.4	400.6	429.8
ABV (₹)	318.5	365.4	400.6	429.8
P/E	32.5	37.0	29.9	29.3
P/BV	6.3	5.8	5.3	4.9
P/adj.BV	6.7	5.8	5.3	4.9
Yields & Margins (%)				
Yield on interest earning assets	9.4	9.2	9.3	9.3
Avg. cost on funds	7.8	8.1	8.0	7.9
Net Interest Margins	2.8	2.7	2.9	2.9
Spreads	1.6	1.1	1.4	1.4
Quality and Efficiency				
Cost / Total net income	16.4	10.4	9.2	9.5
GNPA%	1.12	1.2	1.4	1.5
NNPA%	0.8	0.0	0.0	0.0
ROE (%)	23.5	16.4	18.5	17.5
ROA (%)	3.0	2.3	2.5	2.2

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	66799.6	71699.5
Networth	56293.1	61240.0	67134.8	72034.6
Borrowings	319715.7	365265.7	418856.6	479690.8
Other Liabilities & Provisions				
Total	396,369	447,353	509,152	577,352
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	16285.2	11964.3
Total	396,419	447,353	509,152	577,352

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	18.2	12.8	13.8	13.4
Advances	21.3	13.4	13.9	15.8
Borrowings	14.0	14.2	14.7	14.5
Total Income	5.8	20.1	18.2	11.1
Net interest income	1.3	18.3	19.6	15.8
Operating expenses	127.6	-22.0	15.1	9.6
Operating profit (excl trading)	-7.0	37.8	33.8	10.4
Net profit	47.2	-12.1	23.5	2.3
Book value	52.6	8.8	9.6	7.3
EPS	39.6	(12.1)	23.5	2.3

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
LIC Housing Finance (LICHF)	496	540	Hold	25,044	39.9	46.2	52.6	12.4	10.7	9.4	2.1	1.8	1.5	1.2	1.3	1.2	16.9	16.3	15.5
HDFC (HDFC)	2,134	2,040	Hold	368,093	65.4	57.5	71.0	32.6	37.1	30.1	6.7	5.8	5.3	3.0	2.3	2.5	23.5	16.4	18.5
Bajaj Finserv (BAFINS)	6,974	7,280	Hold	110,975	164.0	208.9	273.7	42.5	33.4	25.5	5.4	4.6	3.9	1.8	1.8	1.9	14.3	14.9	16.6
Bajaj Finance (BAJFI)	3,161	2,900	Reduce	183,296	44.4	69.3	84.3	71.2	45.6	37.5	12.8	10.1	6.8	2.9	3.6	3.5	18.7	22.4	20.5
Mahindra & Mahindra Finar	296	360	Buy	18,289	18.5	25.3	25.0	16.0	11.7	11.9	2.9	2.4	2.4	2.2	2.6	2.1	13.4	15.2	13.1

Source: Company, ICICI Direct Research

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