

May 25, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,992		2,201	
NII (Rs.)	1,13,965	1,40,459	1,21,379	1,48,626
% Chng.	(6.1)	(5.5)		
PPoP (Rs.)	1,23,491	1,81,395	1,25,769	1,90,371
% Chng.	(1.8)	(4.7)		
EPS (Rs.)	34.8	70.7	39.2	75.9
% Chng.	(11.1)	(6.8)		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	1,14,413	1,27,480	1,13,965	1,40,459
Growth (%)	18.7	11.4	(10.6)	23.2
Op. Profit (Rs m)	1,40,538	2,62,640	1,23,491	1,81,395
PAT (Rs m)	96,325	1,77,697	60,315	1,22,520
EPS (Rs.)	55.9	64.4	34.8	70.7
Gr. (%)	-	-	-	-
DPS (Rs.)	24.0	25.4	25.5	22.0
Yield (%)	1.6	1.7	1.7	1.5
Margin (%)	3.0	3.0	2.5	2.8
RoAE (%)	33.4	32.7	12.5	19.6
RoAA (%)	2.2	2.3	1.1	2.0
PE (x)	27.1	23.5	43.5	21.4
P/BV (x)	5.4	4.6	3.4	3.1
P/ABV (x)	5.9	4.5	4.0	3.1

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.2,500 / Rs.1,473
Sensex / Nifty	30,673 / 9,039
Market Cap	Rs.2,626bn / \$ 34,574m
Shares Outstanding	1,732m
3M Avg. Daily Value	Rs.26723.64m

Shareholding Pattern (%)

Promoter's	-
Foreign	70.88
Domestic Institution	17.84
Public & Others	11.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.9)	(32.2)	(29.1)
Relative	(6.8)	(10.8)	(9.6)

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Pandemic contributes to asset quality woes

Quick Pointers:

- 26% of AUMs under moratorium; 21% of individual loans under morat
- Distortion in recovery efforts (3% of borrowers' follow-up at long odds) in latter half of Mar'20 led to spike in individual NPAs

COVID provisioning (Rs5.9bn; total provisions up 220%YoY) and weak other income (down 92%QoQ/38%YoY) dented Q4FY20 earnings for HDFC with reported PAT at Rs22.33bn (declined 73%QoQ/22%YoY). While NII grew 10%QoQ/12%YoY to Rs35.4bn, it failed to save PPOp that de-grew 67%QoQ/3%YoY. Loans at Rs4509bn stood in-line growing 11%YoY/2%QoQ. Pandemic shutdown contributed to asset quality woes (NPA ~2%) as distorted recovery efforts (3% of borrowers' follow-up at long odds) in latter half of Mar'20 led to 15bps/176bps QoQ spike in individual/non-individual NPAs respectively. This coupled with likelihood of increased morat loans than current 26% (albeit std category) and delay in IBC proceedings can further exasperate NPA stress. While steady spreads at 3.4% cushioned earnings, same could come under tad pressure with competition intensifying (lending rates pared down by 15bps vs 75bps by SBI). We, therefore, forecast NPA estimates higher to 2.45% (earlier 1.8%) but maintain growth estimates at 7%; EPS trim by 11% for FY21. We confide in HDFC's customer quality (80% salaried), strong CAR (17% Tier I) and liquidity sufficiency. However, we build-in LRD/corporate loan stress into our growth estimates (14%YoY; earlier 17%) yet expect better operating profit for FY22. Our SOTP metrics value mortgage business at 2.3x PBV FY22e (earlier 2.4x); subsidiaries at Rs1116 arriving at TP of Rs1992 (earlier Rs2201). Maintain Accumulate.

- PPoP down; growth stays:** PPOp comparison stands a bit unfair due to absence of hefty investment gains (Rs2mn vs Rs 3.2bn last year) and subsidiary dividend income (Rs 20mn vs Rs5.4bn last year) during Q4. NII held up well growing 10%QoQ cushioned by lower interest costs down 1.4%QoQ. Sequential loan traction has slowed to 2% growth led by tepid individual loans traction (2%QoQ growth) given pandemic shutdown stress. On the contrary, corporate loan traction has remained steady at 2.4-3%QoQ growth over past two quarters. Going forward, we build in tad pricing power pressures (rate cut differential with SBI being 60bps) and LRD/construction finance stress. Hence we expect loan growth at 7-14% over FY20-22E.
- Pandemic shutdown adds to asset quality woes:** Asset quality deteriorated with 47%QoQ increase in absolute Stage 3 assets followed by 43%QoQ increase in ECL provisions. The Co. has built-in higher ECL/EAD at 2.44% vs 2.25% in Q3FY20 and 1.44% in Q4FY19 led by COVID-led provisioning. GNPA stood at ~2% vs 1.37% in the previous quarter stood elevated led by individual NPAs that spiked 15bps QoQ to 0.95% & non-individual spike of 176bps QoQ to 4.71%. With recovery pressures come to torment with 3% borrowers already bothering, prolonged shutdown and likelihood of morat increase (from current 26%) call for elevated NPAs; we expect 2.45% for FY21.

Exhibit 1: Q4FY20 Financials: Steep fall in other income; provisions spike

P&L (Rs mn)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Interest on advances	1,09,632	1,00,510	9.1	1,07,274	2.2
Other interest income	2,414	2,919	(17.3)	2,554	(5.5)
Total interest income	1,12,046	1,03,430	8.3	1,09,827	2.0
Interest expense	76,618	71,819	6.7	77,696	(1.4)
Net Interest Income	35,428	31,611	12.1	32,132	10.3
Capital Gains	143	3,590		90,272	(99.8)
Other Income	7,628	8,846	(13.8)	2,815	170.9
Total other income	7,771	12,436	(37.5)	93,087	(91.7)
Total income	43,198	44,047	(1.9)	1,25,219	(65.5)
Operating expenses	3,534	3,158	11.9	3,839	(8.0)
-Staff expenses	1,396	1,226	13.9	1,530	(8.8)
-Other expenses	2,138	1,933	10.6	2,309	(7.4)
Operating profit	39,664	40,889	(3.0)	1,21,380	(67.3)
Core operating profit	39,664	40,889	(3.0)	1,21,380	(67.3)
Total provisions	12,740	3,980	220.1	29,950	(57.5)
Profit before tax	26,924	36,909	(27.1)	91,430	(70.6)
Tax	4,599	8,293	(44.5)	7,705	(40.3)
Profit after tax	22,325	28,616	(22.0)	83,725	(73.3)
Balance Sheet (Rs mn)					
Loan composition	45,09,030	40,66,070	10.9	44,14,720	2.1
-Individual loans (%)	72.3	71.0	1.3	72.1	0.1
-Corporate loans (%)	26.2	27.3	(1.1)	26.1	0.1
-Others (%)	1.5	1.7	(0.2)	1.7	(0.2)
Borrowings composition	41,91,020	36,62,140	14.4	39,51,280	6.1
-Term loans (%)	25.0	21.2	3.9	22.8	2.2
-Bonds/ Deb./ CPs (%)	43.4	50.0	(6.6)	45.4	(2.0)
-Deposits (%)	31.6	28.8	2.7	31.7	(0.2)
Spreads (%)					
Spreads	2.27	2.30	(0.0)	2.27	-
- Individual Loan Spreads	1.92	1.91	0.0	1.93	(0.0)
- Non-individual Loan Spreads	3.14	3.17	(0.0)	3.14	-
NIMs	3.40	3.30	0.1	3.30	10
Asset quality (%)					
Gross NPL	1.99	1.18	0.8	1.37	0.6
Others / Ratios (%)					
Cost-income ratio	8.2	7.2	1.0	3.1	5.1
Int. expense/Int. income	68.4	69.4	(1.1)	70.7	(2.4)
Tier-I	16.6	17.6	(1)	17.3	(18)

Source: Company, PL

PAT declined by -22% YoY to Rs22.33bn [PLe: Rs19.33bn] largely led by higher COVID provisioning (Rs5.9bn) and weak other income predominantly due to lower dividend income (Rs 20mn vs Rs5.4bn last year) and lower investment gains (Rs2mn vs Rs 3.2bn last year).

Other Income stood weakest with -38% YoY to Rs7.8bn [PLe: Rs3.7bn]

NII grew 12% YoY to Rs35.4bn [PLe: Rs33.6bn] largely led by advances that grew by 11% YoY to Rs 4509 (PL: Rs 4547.2bn). Individual loans comprise 76% of the Assets Under Management (AUM). Spreads at 2.27%, Net Interest Margin at 3.4%.

Operating expenses declined by 8%QoQ to Rs3.5bn [PLe: Rs4.0bn].

PPoP declines at -3%YoY/67%QoQ to Rs39.7bn [PLe: Rs33.3bn] largely due to weak other income

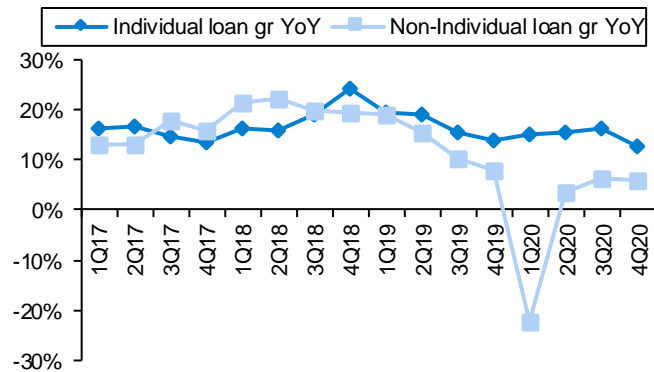
Provisions spiked by 220% YoY to Rs12.7bn [vs. PLe of Rs7.5bn] but down 58%QoQ due to lack of chunky investment gains this quarter unlike the previous quarter.

GNPA stood at 1.99% vs 1.37% in the previous quarter [PLe: 1.4%]. Individual NPAs stood at 0.95% while that of the non-individual at 4.71%.

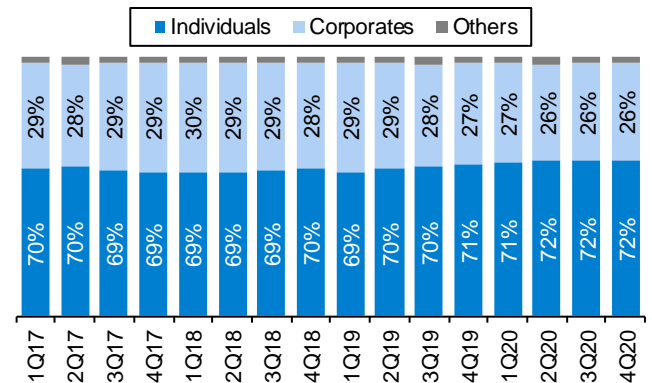
97% of customers use electronic modes of repayment for their instalments. However, in respect of 3% of borrowers, where follow ups would have otherwise been done through personal visits, this was not possible owing to the national lockdown. Recovery efforts were hampered in the latter half of Mar'20, which resulted in an increase in individual NPAs.

As of date, ~ 26% of loans stand under the moratorium. Individual loans under moratorium account for 21% of individual loans

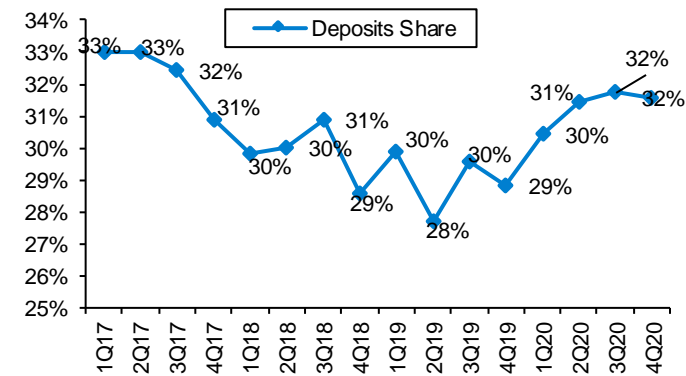
As of date ~90% of HDFC's offices are open for business.

Exhibit 2: Individual loans traction slows QoQ


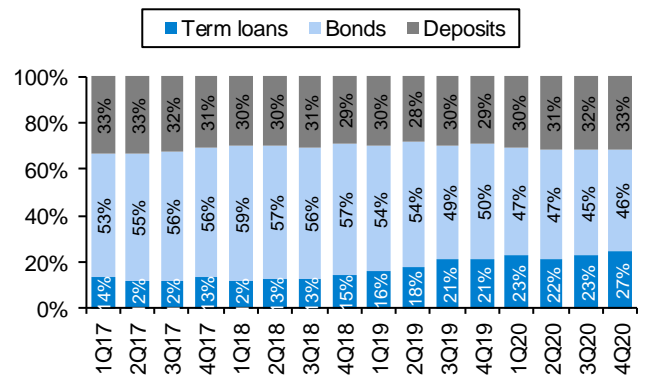
Source: Company, PL

Exhibit 3: Loan mix largely unchanged


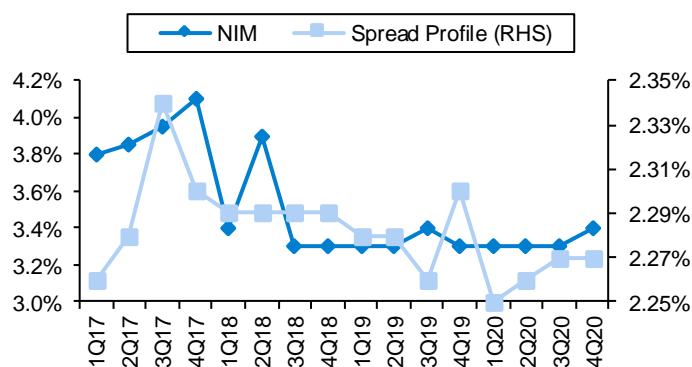
Source: Company, PL

Exhibit 4: Deposit share increases within borrowing mix


Source: Company, PL

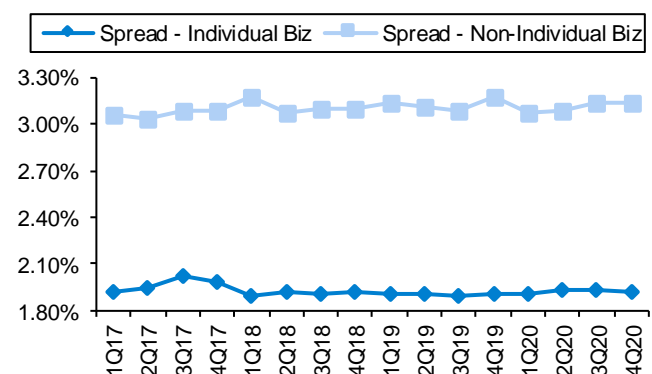
Exhibit 5: Term loans, Bonds share increase marginally


Source: Company, PL

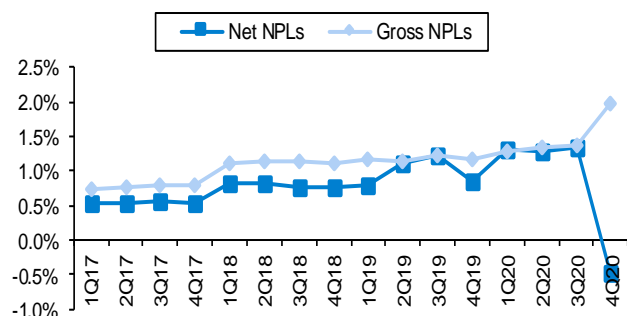
Exhibit 6: Overall spreads steady


Source: Company, PL

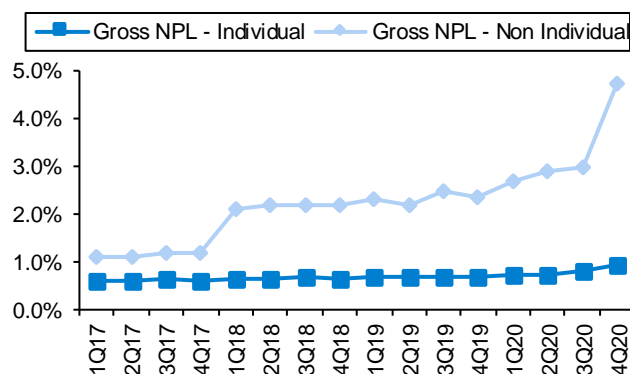
Note - Q1FY18 & Q1FY19 on IND-AS

Exhibit 7: Both retail/non-retail spreads remained steady


Source: Company, PL

Exhibit 8: Overall NPAs deteriorate sharply


Source: Company, PL

Exhibit 9: Non-individual NPA spike 176bps


Source: Company, PL

Exhibit 10: ECL provisioning spike on increased EAD due to COVID

As per IND AS	Q4FY20	Q4FY19	YoY gr.	Q3FY20	QoQ gr.
Gross Stage 3	1,02,920	57,430	79.2%	69,960	47.1%
ECL Provision Stage 3	48,920	24,990	95.8%	34,310	42.6%
Net Stage 3	54,000	32,440	66.5%	35,650	51.5%
Coverage Ratio% Stage 3	48.0%	44.0%		49.0%	
Gross Stage 1 & 2	43,96,140	40,13,890	9.5%	43,39,680	1.3%
ECL Provision Stage 1 & 2	60,960	33,790	80.4%	65,030	-6.3%
Net Stage 1 & 2	43,35,180	39,80,100	8.9%	42,74,650	1.4%
ECL Provision % Stage 1 & 2	1.4%	0.8%		1.5%	
ECL/EAD	2.4%	1.4%		2.3%	

Source: Company, PL

Exhibit 11: Change in estimates on account of hefty elevated NPA and provisioning stress

(Rs mn)	Old			New			% Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net interest income	1,25,661	1,21,379	1,48,626	1,27,480	1,13,965	1,40,459	1%	-6%	-5%
Operating profit	2,56,285	1,25,769	1,90,371	2,62,640	1,23,491	1,81,395	2%	-2%	-5%
Net profit	1,74,692	67,481	1,30,658	1,77,697	60,315	1,22,520	2%	-11%	-6%
EPS (Rs)	101.5	39.2	75.9	64.4	34.8	70.7	-37%	-11%	-7%
Price target, (Rs)	2,201			1,992			-9.5%		
Recommendation	ACCUMULATE			ACCUMULATE					

Source: PL

Exhibit 12: Core multiple declines to 2.3x PABV Mar'22E; maintain ACCUMULATE

PT calculation and upside	
Fair price - EVA	900
Fair price - P/ABV	852
Average of the two	876
Target P/ABV	2.28
Target P/E	25.2
Value of subs/associates	1,116
Fair value of consol. entity	1,992
Current price, Rs	1,516
Upside (%)	31%
Dividend yield (%)	1%
Total return (%)	33%

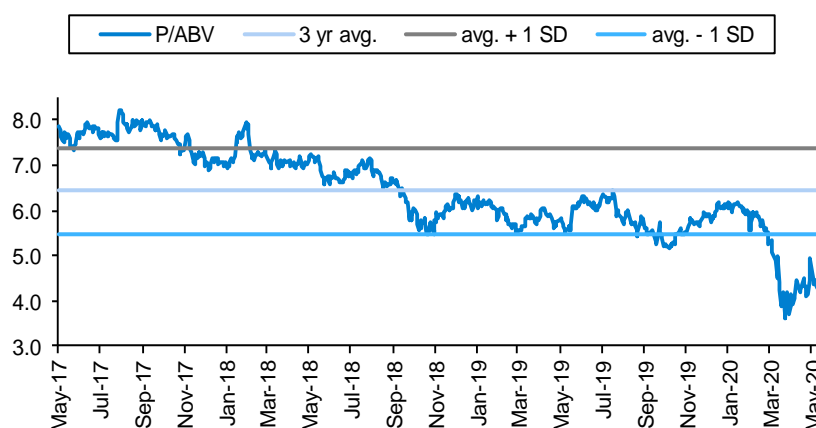
Source: PL Research

Exhibit 13: SOTP Metrics: core valued at 2.3x PABV Mar'22E, subsidiaries 56% of SOTP, TP now at Rs1,992

HDFC SOTP valuation	Stake (%)	Value per share (Rs)	Basis
HDFC Parent (A)		876	Avg. of EVA and two-stage GGM, 2.3x P/ABV Mar-22E
Subsidiaries / Associates			
HDFC Bank	21.4	735	Value of stake in HDFC Bank as per our fair value
Life insurance	51.5	272	Appraisal value & New Business premium
AMC	52.8	150	8% of AUM
General Insurance	50.5	45	16x forward earnings
Others		110	Include real estate funds and unrealised gains
Total subs/associates (B) @12% discount		1,116	
Fair value (A+B)		1,992	
Current market price		1,516	
Upside (%)		31	
Contribution of subs to total (%)		56.01	

Source: PL

Exhibit 14: HDFC core multiple to struggles



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Inc. / Opt. Inc.	3,92,790	4,37,493	4,63,108	5,31,025
Interest Expenses	2,78,377	3,10,014	3,49,142	3,90,566
Net interest income	1,14,413	1,27,480	1,13,965	1,40,459
Growth(%)	18.7	11.4	(10.6)	23.2
Non-interest income	40,990	1,50,140	30,171	61,927
Growth(%)	(45.9)	266.3	(79.9)	105.3
Net operating income	1,55,403	2,77,620	1,44,136	2,02,385
Expenditures				
Employees	7,165	5,929	7,847	8,789
Other Expenses	7,035	7,573	10,449	11,509
Depreciation	665	1,477	2,349	693
Operating Expenses	14,866	14,980	20,645	20,990
PPP	1,40,538	2,62,640	1,23,491	1,81,395
Growth(%)	(8.2)	86.9	(53.0)	46.9
Provisions	9,350	59,131	43,070	17,664
Profit Before Tax	1,31,188	2,03,509	80,421	1,63,731
Tax	34,863	25,813	20,105	41,211
Effective Tax rate(%)	26.6	12.7	25.0	25.2
PAT	96,325	1,77,697	60,315	1,22,520
Growth(%)	(12.1)	84.5	(66.1)	103.1

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Source of funds				
Equity	3,443	3,464	3,464	3,464
Reserves and Surplus	7,70,112	8,58,117	10,58,585	11,42,966
Networth	7,73,555	8,61,581	10,62,049	11,46,430
Growth (%)	18.5	11.4	23.3	7.9
Loan funds	36,62,144	41,91,016	46,35,296	52,19,462
Growth (%)	14.5	14.4	10.6	12.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	1,48,080	1,85,733	1,83,765	2,60,518
Other Liabilities	3,997	2,605	5,211	3,885
Total Liabilities	45,87,776	52,40,936	58,86,321	66,30,295
Application of funds				
Net fixed assets	9,727	22,394	18,091	21,529
Advances	40,07,596	43,99,433	47,23,198	53,70,360
Growth (%)	12.1	9.8	7.4	13.7
Investments	4,62,404	6,49,444	5,98,111	6,20,033
Current Assets	46,763	69,473	3,46,470	3,88,156
Net current assets	(1,01,317)	(1,16,260)	1,62,705	1,27,637
Other Assets	61,286	1,00,192	2,00,451	2,30,218
Total Assets	45,87,776	52,40,936	58,86,321	66,30,295
Growth (%)	15.0	14.2	12.3	12.6
Business Mix				
AUM	40,07,596	43,99,433	47,23,198	53,70,360
Growth (%)	12.1	9.8	7.4	13.7
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	3.0	3.0	2.5	2.8
ROAA	2.2	2.3	1.1	2.0
ROAE	33.4	32.7	12.5	19.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Int. Inc. / Operating Inc.	1,07,811	1,07,809	1,09,827	1,12,046
Income from securitization	-	-	-	-
Interest Expenses	77,393	78,307	77,696	76,618
Net Interest Income	30,418	29,502	32,132	35,428
Growth (%)	10.9	12.1	11.0	12.1
Non-Interest Income	22,150	27,132	93,087	7,771
Net Operating Income	52,568	56,634	1,25,219	43,198
Growth (%)	74.1	34.4	276.7	(1.9)
Operating expenditure	3,525	3,456	3,419	3,102
PPP	48,751	52,845	1,21,380	39,664
Growth (%)	125.2	149.3	57.1	221.8
Provision	8,900	7,541	29,950	12,740
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	39,851	45,304	91,430	26,924
Tax	7,820	5,689	7,705	4,599
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.6	12.6	8.4	17.1
PAT	32,031	39,615	83,725	22,325
Growth	99	61	296	(22)
AUM	38,81,486	42,67,390	44,14,720	45,09,030
YoY growth (%)	3.6	11.7	13.4	10.9
Borrowing	24,87,845	32,89,759	39,51,280	41,91,020
YoY growth (%)	(25.1)	(3.4)	(13.8)	14.4

Key Ratios

Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	1,516	1,516	1,516	1,516
EPS (Rs)	55.9	64.4	34.8	70.7
Book value (Rs)	278.6	327.7	443.5	492.2
Adj. BV(Rs)	258.3	339.7	381.0	494.1
P/E(x)	27.1	23.5	43.5	21.4
P/BV(x)	5.4	4.6	3.4	3.1
P/ABV(x)	5.9	4.5	4.0	3.1
DPS (Rs)	24.0	25.4	25.5	22.0
Dividend Payout Ratio(%)	43.0	24.8	73.3	31.1
Dividend Yield(%)	1.6	1.7	1.7	1.5

Asset Quality

Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs(Rs m)	47,770	89,080	1,14,690	96,666
Net NPA(Rs m)	34,944	(20,800)	1,08,165	(3,334)
Gross NPAs to Gross Adv.(%)	1.2	2.0	2.4	1.8
Net NPAs to net Adv.(%)	0.9	(0.5)	2.3	(0.1)
NPA coverage(%)	26.8	123.3	5.7	103.4

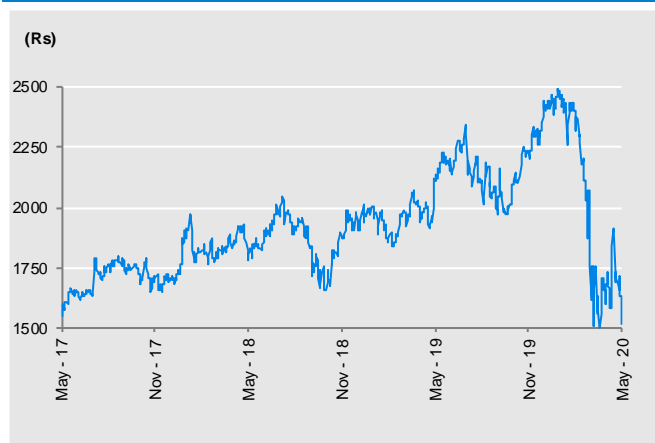
Du-Pont as a % of AUM

Y/e Mar	FY19	FY20	FY21E	FY22E
NII	(6.5)	(6.3)	2.1	2.2
NII INCI. Securitization	(6.5)	(6.3)	2.1	2.2
Total income	(5.5)	(3.3)	2.6	3.2
Operating Expenses	0.3	0.3	0.4	0.3
PPOP	(5.9)	(3.6)	2.2	2.9
Total Provisions	0.2	1.2	0.8	0.3
RoAA	(6.9)	(5.3)	1.1	2.0
Avg. Assets/Avg. net worth	(4.8)	(6.2)	11.5	10.0
RoAE	33.4	32.7	12.5	19.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Apr-20	Accumulate	2,201	1,681
2	27-Jan-20	Accumulate	2,612	2,390
3	18-Jan-20	BUY	1,406	1,278
4	03-Jan-20	Accumulate	2,568	2,454
5	18-Dec-19	Accumulate	2,568	2,445
6	04-Nov-19	Accumulate	2,361	2,181
7	03-Oct-19	Accumulate	2,274	1,972
8	03-Aug-19	BUY	2,270	2,125
9	22-Jul-19	BUY	2,700	2,376
10	04-Jul-19	BUY	2,237	2,280

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,000	1,965
2	Cholamandalam Investment and Finance Company	BUY	229	177
3	Edelweiss Capital	NR	-	276
4	HDFC	Accumulate	2,201	1,681
5	L&T Finance Holdings	Sell	50	53
6	LIC Housing Finance	Reduce	282	278
7	Mahindra & Mahindra Financial Services	Reduce	171	168
8	Manappuram Finance	Accumulate	142	123
9	SBI Cards and Payment Services	BUY	643	562
10	Shriram Transport Finance	BUY	940	802

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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