Sharekhan
by BNP PARIBAS

Housing Development Finance Corporation

Stable performance

Sector: Banks & Finance
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 1,516**	
Price Target: **Rs. 2,113**	↓

↑ Upgrade ↔ No change ↓ Downgrade

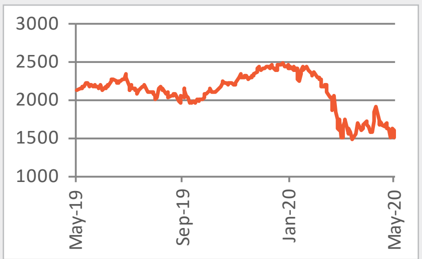
Company details

Market cap:	Rs. 2,62,674 cr
52-week high/low:	Rs. 2500/1473
NSE volume: (No of shares)	224.9 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	173.2 cr

Shareholding (%)

Promoters	0.0
FII	70.9
DII	17.8
Others	11.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.9	-33.9	-31.1	-28.6
Relative to Sensex	-6.6	-9.9	-6.6	-7.6

Sharekhan Research, Bloomberg

Housing Development Finance Corporation (HDFC) Limited posted stable Q4FY2020 results operationally, with NII and PPOP coming ahead of estimates, but rise in GNPAs due to the lockdown impact was sobering. Around 26% of HDFC's loans under management opted for Moratorium and Individual Loans under Moratorium account for 21% of the loan portfolio. During the year, spreads were at 2.27% (stable from 9MFY2020), while NIM stood at 3.4% (from 3.3% for 9MFY2020).Operationally, HDFC posted better-than-expected net interest income (NII) growth of 17% y-o-y because of reasonable assets under management (AUM) growth. Total AUM growth was at 11.9% and individual loans grew by 12.8% y-o-y, despite the second half of March (which is a seasonally strong disbursal period) being impacted by the lockdown. Asset-quality wise, gross NPA stood at 1.99% of the loan portfolio (from 1.36% in December2019) as collections were impacted during the lockdown. Moreover, in the non-individual category, two loans were downgraded to the NPA category, which technically were not NPAs. Hence, asset quality deteriorated marginally. Management expects NPAs to come down after the situation normalises. Due to exceptional items in earlier period such as fair value gain of Rs. 9,020 crore during Q3FY2020, and Q4FY2020 having a one-off income of Rs. 321 crore from gain from stake sale, Q4FY2020 PAT performance is not comparable with prior period. After adjusting for fair value adjustments, profit on sale of investment, dividend and provisioning, adjusted PBT for Q4FY2020 was Rs. 3,535 crore, up by 15% y-o-y. The impact of COVID-19 is likely to be seen across industries and would impact growth and credit cost for NBFCs, including HDFC as well; and we have accordingly adjusted our price multiples considering the dynamic environment. However, balance sheet strength, consistency and quality of earnings continue to be the key differentiators for HDFC, which will help it tide over medium-term challenges. The company is well capitalised (Tier-I at 16.6%) but carries surplus liquidity of around Rs. 30,000 crore against an average of Rs. 6,000 crore earlier, which is likely to be a drag on margins. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 2,113.

Key positives

- As per NHB norms, HDFC is required to carry total provision of Rs. 4,188 crore, against which actual provisions as of Q4FY2020 were at Rs. 10,988 crore, which is over and above regulatory requirement and provides investor comfort.
- During the year, spreads were at 2.27% (stable from 9MFY2020), while NIMs were at 3.4% (from 3.3% for 9MFY2020).
- Total AUM witnessed reasonable growth of 11.9% and individual loans grew by 12.8% y-o-y, despite the second half of March (which is seasonally strong disbursal period) impacted by the lockdown.

Key negatives

- Asset-quality wise, gross NPA stood at 1.99% of the loan portfolio (from 1.36% in December2019), as collections were impacted during the lockdown.
- HDFC carries surplus liquidity of around Rs. 30,000 crore against an average of Rs. 6,000 crore earlier, which is likely to be a drag on margins.

Our Call

Valuation: HDFC is currently available at ~2.6x its FY2022E BV, which we believe is reasonable considering its robust operating metrics, pedigree, strong brand recall across product categories, and sustainable business model. Even as the NBFC industry faces its own challenges, the consistency and relative outperformance of HDFC will help it sustain its growth as well as valuations. We maintain our Buy rating on the stock with a revised PT of Rs. 2,113.

Key Risks

Extension of the lockdown and subsequent economic impact may slow growth and cause rating downgrades (including in the developer category), which may impact the industry and HDFC.

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	9,635	11,403	12,904	14,452	16,671
PAT	10,959	9,632	17,770	12,794	14,092
EPS	65.4	55.9	102.9	73.8	81.3
P/E (x)	23.2	27.1	14.7	20.5	18.7
BVPS	389.4	449.4	497.4	536.7	580.0
P/BV (x)	3.9	3.4	3.0	2.8	2.6
ROE %	16.7	12.3	25.0	13.8	14.0
ROA %	3.0	2.2	4.3	2.2	2.1

Source: Company; Sharekhan estimates

Key result highlights

Asset quality: Gross non-performing loans as on March 31, 2020, stood at Rs. 8,908 crore. This is equivalent to 1.99% of the loan portfolio. Non-performing loans of the individual portfolio stood at 0.95%, while that of the non-individual portfolio stood at 4.71%.

Lending operations: Total individual loan approvals grew by 14% in volume terms and 12% in value terms during the year. The average size of individual loans stood at Rs. 27 lakh, which was stable on a y-o-y basis. As on March 31, 2020, the loan book stood at Rs. 450,903 crore as against Rs 4,06,607crore in the previous year, representing 11% y-o-y growth.

Individual category continues to be strong: As on March 31, 2020, individual loans comprised 76% of AUM. During the year ended March 31, 2020, individual loans accounted for 89% of incremental growth of AUM. On AUM basis, growth in the individual loan book was 14%y-o-y, while growth in thetotal loan book was 12%y-o-y.

Loans assigned: During the year ended March 31, 2020, the corporation assigned individual loans amounting to Rs. 24,127 crore (previous year Rs. 25,150 crore). Growth in the individual loan book, after adding back loans sold in the preceding 12months, was 21%y-o-y. Growth in the total loan book after adding back loans sold was17%y-o-y.

Results — Rs cr

Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Revenue from Operations	**11,975.70**	**11,542.00**	**3.8**	**20,285.50**	**-41**
Interest Income	10,963.20	10,343.00	6	10,727.40	2.2
Surplus from deployed in Cash Mgmt MF Schemes	241.4	-	NA	255.4	-5.5
Dividend Income	2.1	536.9	-99.6	3.8	-44.5
Rental Income	21.4	20.3	5.7	18	19
Fee andCommission income	65.7	87.6	-25	44.5	47.6
Net gain / (loss) on Fair Value Change	427.6	167.2	155.8	39	996.4
Fair Value gain (merger of Gruh)	-	-	NA	9,019.80	NA
Profit on Sale of Investment	16.8	321	-94.8	7.4	126.5
Income on de-recognised / assigned loans	237.6	66.2	259	170.3	39.5
Total Operating Income	**11,975.70**	**11,542.00**	**3.8**	**20,285.50**	**-41**
Other Income	5.9	6.5	-9	6	-0.7
Total Income	**11,981.70**	**11,548.60**	**3.8**	**20,291.50**	**-41**
Finance Cost	7,661.80	7,181.90	6.7	7,769.60	-1.4
Net Interest Income	**3,780.30**	**3,227.30**	**17.1**	**3,383.40**	**11.7**
Employee Benefit Expenses	139.6	122.6	13.9	153	-8.8
Establishment expense	5.2	21.1	-75.5	9.4	-45.2
Other Expenses	165.5	158.8	4.2	179.4	-7.8
Depreciation and Amortisation	43.2	13.4	221.8	42.1	2.6
Pre Provision Profit	**3,966.40**	**4,050.90**	**-2.1**	**12,138.00**	**-67.3**
- Add: Profit on sale of investments	0	0	NA	0	NA
- less: Provision on Expected Credit Losses	1,274.00	398	220.1	2,995.00	-57.5
Profit before Tax	**2,692.40**	**3,652.90**	**-26.3**	**9,143.00**	**-70.6**
Tax Expense	**459.9**	**829.3**	**-44.5**	**770.5**	**-40.3**
- Current	541.7	937.1	-42.2	652.6	-17
- Deferred Tax	-81.8	-107.8	NA	117.9	NA
Profit after Tax	**2,232.50**	**2,823.60**	**-20.9**	**8,372.50**	**-73.3**

Source: Company; Sharekhan Research

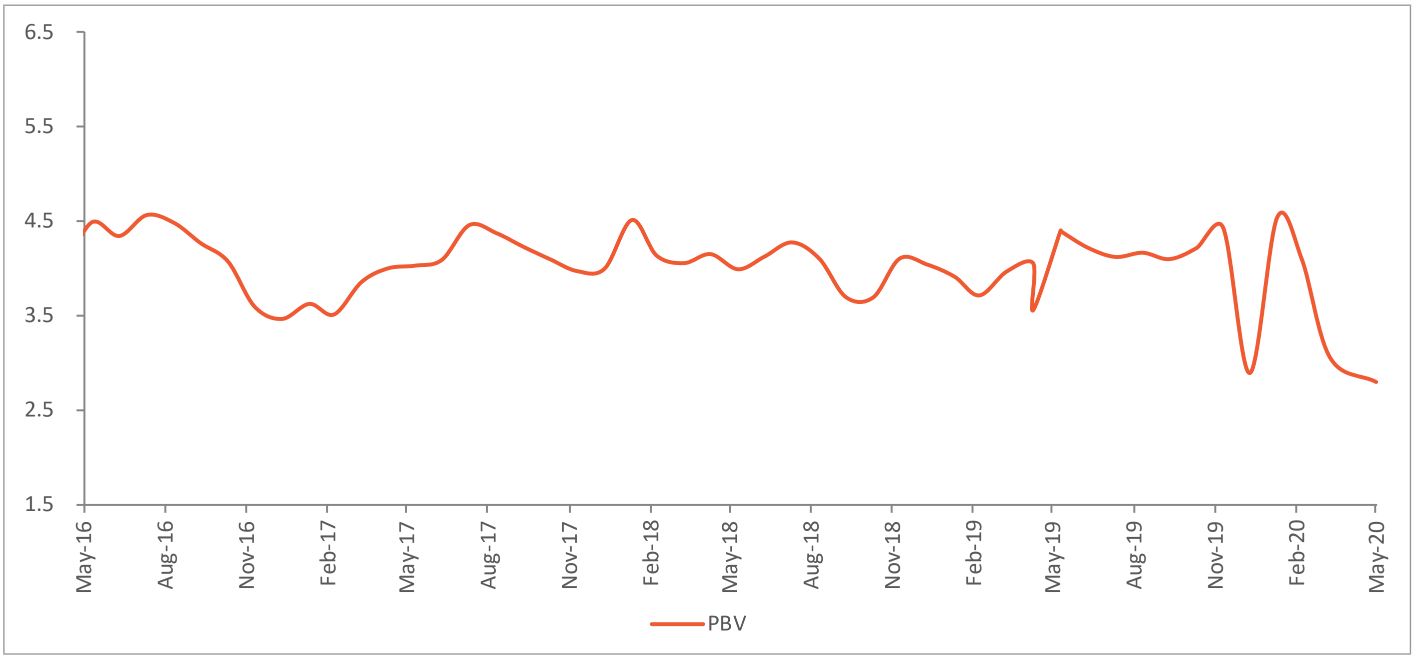
Outlook

HDFC's results were stable and management has indicated that given the prolonged uncertainty and risk aversion in the lending environment for non-individual loans, the corporation continued to be prudent in its lending. While there was marginal deterioration in the asset quality, some impact was due to collections being stopped because of the lockdown, and two large accounts being downgraded. However, we expect high provisions cover and stable margins to be supportive. At such times, we believe the need to have cautious growth, especially for players such as HDFC, is justified. Balance sheet strength, consistency and quality of earnings continue to be the key differentiators for HDFC, which offer key support to long-term investment. The company is well capitalised at CRAR of 17.7% and Tier-1 of 16.6% (minimum requirement of 13% and 10%, respectively) and is comfortably placed. Given the market dominance of HDFC, we expect the leadership to sustain going forward, as the business environment normalises. HDFC's strong operating metrics, supported by its industry's best credit rating, enable it to attract best rates and, hence, optimum COF, which are crucial supports for margins.

Valuation

HDFC is currently available at ~2.6x its FY2022E BV, which we believe is reasonable considering its robust operating metrics, pedigree, strong brand recall across product categories, and sustainable business model. Even as the NBFC industry faces its own challenges, the consistency and relative outperformance of HDFC will help it to sustain its growth as well as its valuations. We maintain our Buy rating on the stock with a revised PT of Rs. 2,113.

One-year forward P/BV (x)



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HDFC Ltd	1,516	2.8	2.6	20.5	18.6	2.2	2.1	13.8	14.0
Bajaj Finance	1896	3.1	2.6	20.3	13.5	3.1	3.6	16.1	20.1

Source: Company, Sharekhan research, Bloomberg

About company

Housing Development Finance Corporation (HDFC) Limited is a major provider of finance for housingin India. The company is also present in banking, life and general insurance, asset management, venture capital, realty, education, deposits and education loans. As pioneers in housing mortgages, it is a brand name thathas been characterised by trust, solidity, both financial and managerial, and sound principles. Establishedin 1977, HDFC has been able to maintain and set high standards in the housing finance sector.

Investment theme

HDFC has a strong portfolio of subsidiaries, which are market leaders in their own respective fields, which add to the value of the parent. By virtue of its strong market position, it has been able to withstand most market headwinds in the recent past. The impact of COVID-19 is likely to be seen across industries and would impact growth and credit cost for NBFCs, including HDFC as well; and we have accordingly adjusted our price multiples considering the dynamic environment. However, balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, which will help it tide over medium-term challenges. Going forward, we believe HDFC's robust rating profile and strong book quality bolster its ability to raise funds at market-competitive rates, thereby providing cushion to its NIMs. Though the retail lending book of HDFC is witnessing healthy growth trends, a conservative growth approach in the corporate book was due to sluggish demand from good-quality corporates along with cautious stand preferred by management. We believe HDFC is an attractive business franchise due to its strong retail book, a quality developer finance book (with sufficient cover), opportunity of quality market share gains (AUM growth), access to reasonably priced funds, and superior underwriting practices.

Key Risks

Extension of the lockdown and subsequent economic impact may slow growth and cause rating downgrades (including in the developer category), which may impact the industry and HDFC.

Additional Data

Key management personnel

Deepak Parekh	Chairman
Renu S Karnad	Managing Director
Keki M Mistry	Vice Chairman & CEO
Mr Nasser Munjee	Independent Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.0
2	Invesco Ltd.	3.8
3	Vanguard Group	3.5
4	Republic of Singapore	3.2
5	Blackrock	3.0
6	JPMorgan Chase & Co.	2.8
7	SBI Funds Management Pvt. Ltd.	2.7
8	FMR LLC	2.0
9	T. Rowe Price Group	1.4
10	FIL Ltd.	1.4

Source: Bloomberg

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