

- ❑ Housing Development Finance Corporation Limited (HDFC) reported consolidated revenues of ₹166,000 million in Q4FY20, registering a de-growth of 42.3% on year-over-year (y/y) basis, mainly reflecting loss on investments in life insurance business. Profit after tax decreased 8.4% y/y to ₹41,160 million.
- ❑ On standalone basis, revenues of ₹119,757 million increased up 3.4% y/y. Net interest income (NII) grew by 17% y/y to ₹37,800 million in Q4FY20. The company witnessed slowdown in revenue growth as the reported quarter included dividend income of ₹21 million as against ₹5,369 million in Q4FY19 and profit on sale of investments of ₹24 million compared to ₹3,210 million in the previous year quarter. Also, Q4FY20 included fair value changes of ₹4,276 million mainly due to the fall in the stock markets compared to ₹1,672 million in Q4FY19.
- ❑ Including impact for COVID-19, provisions jumped to ₹12,740 million in the reported quarter compared to ₹3,980 million in Q4FY19. Standalone PAT for Q4FY20 stood at Rs.22,325 million, down 22% y/y.
- ❑ For FY20, standalone revenues increased 35.5% y/y to ₹587,389 million while PAT jumped 84.5% y/y to ₹177,697 million. The improved numbers primarily reflect growth in NII and recognition of fair value gain of ₹ 90,198 million consequent to merger of GRUH Finance Ltd., an associate, with Bandhan Bank Ltd in FY20. Consolidated revenues were up 6% y/y ₹1,017 billion and PAT increased 32% y/y to ₹214 billion in FY20.
- ❑ As at Mar 31, 2020, the loan book stood at Rs. 4,509 billion against Rs.4,066 billion in the previous year, reflecting a growth of 11% y/y. Individual loans which comprised 76% of the Assets Under Management (AUM) grew 12% y/y. Owing to uncertainty and risk averseness in the corporate sector, the company continued to reduce some its lending in non-individual loan portfolio.
- ❑ The spread on loans over the cost of borrowings for the quarter was 2.27%, compared to 2.30% in the previous year. Net interest margin stood at 3.4%, up from 3.3% in FY19.
- ❑ Gross non-performing loans as at Mar 31,2020 stood at 89,080 million, equivalent to 1.99% of the loan portfolio, up from 1.36% at the end of the previous quarter. The non-performing loans of the individual portfolio stood at 0.95% compared to 0.75% in previous quarter while that of the non-individual portfolio stood at 4.71% as against 2.91% in previous quarter. Management stated that the actual provisions as at Mar 31, 2020 stood at ₹109.9 billion which is ₹68 billion over and above the regulatory requirement. Also, it noted that the individual NPA is likely to return in normal levels once the overall environment normalizes.

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- ❑ Reflecting strong capital position, capital adequacy ratio stood at 17.7% and Tier I capital ratio was 16.6%, exceeding the minimum requirement for the capital adequacy ratio and Tier I capital of 13% and 10% respectively. Management noted that the company has continued to raise funds from the capital markets, banks and refinance facilities during the lockdown.
- ❑ The company remains focused on growing its individual segment and will continue to remain cautious on the non-individual loan portfolio.
- ❑ Regarding the moratorium which has been further extended to Aug 31, 2020, by the Reserve Bank of India, management noted that the company has adopted 'opt-in' structure. Currently about 26% of the company's loans under management have opted for the moratorium. Individual loans under moratorium account for 21% of the individual loan portfolio.
- ❑ Given the current uncertain environment stemming from COVID-19, growth is likely to get impacted in the short term as HDFC may face headwinds in several fronts including slow growth in lending operations, pressure on net interest margin, higher provisioning and asset quality risks. However we believe that over the medium to long term the company remains well positioned for growth given its strong market position, stable spreads, healthy capital position and strength from its subsidiaries. We have updated our estimates factoring in latest numbers and continue to remain positive on the company and maintain our **BUY** rating with a revised target price of **₹2,215** per share.



Standalone Financials						
(In ₹ mn)	Q4-FY20	Q4-FY19	Chg	FY20	FY19	Chg
Operating Income	119,757	115,801	3.4%	497,191	433,480	14.7%
Operating Expense	15,842	7,004	126.2%	72,633	23,551	208.4%
Operating Profit	103,915	108,796	-4.5%	424,558	409,930	3.6%
Other Income	59	65	-9.0%	244	300	-18.5%
Depreciation	432	134	221.8%	1,477	665	122.1%
EBIT	103,543	108,727	-4.8%	423,325	409,564	3.4%
Interest	76,618	71,819	6.7%	310,014	278,377	11.4%
Misc. Items	-	-		90,198	-	
PBT	26,924	36,909	-27.1%	203,509	131,188	55.1%
Tax	4,599	8,293		25,813	34,863	
PAT	22,325	28,616	-22.0%	177,697	96,325	84.5%

Margins	Q4-FY20	Q4-FY19	Chg BPS	FY20	FY19	Chg BPS
Operating Margin %	86.8%	94.0%	-718	85.4%	94.6%	-918
Net Margin %	18.6%	24.7%	-607	35.7%	22.2%	1352

Note: During FY20, the company recognized Fair Value gain of ₹ 90,198 million consequent to merger of GRUH, an associate, with Bandhan Bank.

Source: Company, Anand Rathi Research

Housing Development Finance Corporation Limited (HDFC IN) Standalone Financials:

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(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Operating Income	433,480	497,191	443,023	486,439
Operating Expense	301,927	382,647	301,950	323,855
Operating Profit	131,553	114,544	141,073	162,584
Other Income	300	244	218	239
Depreciation	665	1,477	1,745	2,053
EBIT	131,188	113,311	139,545	160,770
Misc. items	-	90,198	-	-
PBT	131,188	203,509	139,545	160,770
Tax	34,863	25,813	35,124	40,466
PAT	96,325	177,697	104,422	120,304
Margins	FY-19	FY-20	FY-21E	FY-22E
Operating Margin %	30.3%	23.0%	31.8%	33.4%
Net Margin %	22.2%	35.7%	23.6%	24.7%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
<u>Liabilities</u>				
Equity Share Capital	14,424	3,464	3,464	3,464
Reserves & Surplus	759,131	858,117	962,538	1,082,842
Total Shareholder's Funds	773,555	861,581	966,002	1,086,307
Long-Term Liabilities	1,040,858	1,049,086	1,049,086	1,049,086
Other Long-term Liabilities	11,323	1,537,383	1,617,383	1,707,383
Deferred Tax Liability	(8,309)	(15,679)	(15,679)	(15,679)
Short-term Liabilities	2,762,041	1,792,886	2,310,864	2,537,328
Total	4,579,466	5,225,256	5,927,656	6,364,425
<u>Assets</u>				
Loans	4,007,596	4,399,433	4,663,399	5,120,412
Net Fixed Assets	6,513	13,490	16,651	17,203
Long-Term L&A	28,790	31,018	31,018	31,018
Non Current Investments	3,213	8,904	8,904	8,904
Other Non-Current Assets	142	1,898	1,898	1,898
Current Asset	533,212	770,514	1,205,787	1,184,990
Total	4,579,466	5,225,256	5,927,656	6,364,425
(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	55.6	102.6	60.3	69.5
P/E (x)	31.8	17.2	29.3	25.4
P/B (x)	4.0	3.6	3.2	2.8
ROE	12.5%	20.6%	10.8%	11.1%

Note: FY20 include profits tied with stake sale of GRUH Finance and related Fair Value gain of ₹ 90,198 million.

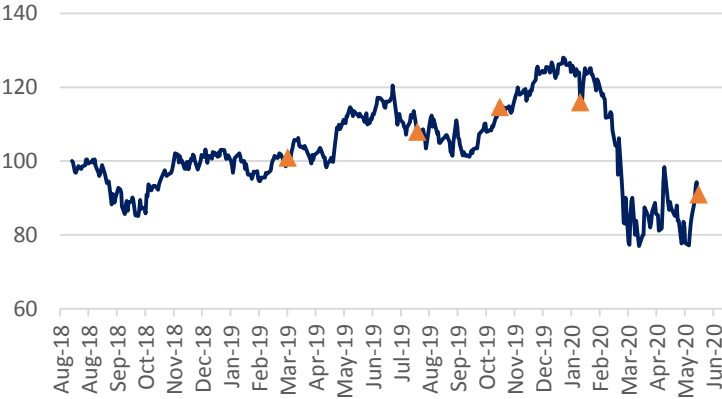
Source: Company, Anand Rathi Research

Key Risks:

- ❑ Stiff competition in the housing finance sector could weigh on pricing as players become aggressive. This in turn may lower HDFC's market share.
- ❑ Slowdown in the economy could affect the overall housing finance industry adversely.
- ❑ Any increase in cost of funding is likely to put pressure on margins.

Rating and Target Price history:

HDFC rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on June 6, 2020.

HDFC rating details

Date	Rating	Target Price (₹)	Share Price (₹)
31-May-2019	BUY	2,539	2,182
14-Aug-2019	BUY	2,539	2,118
11-Nov-2019	BUY	2,539	2,235
3-Feb-2020	BUY	2,539	2,260
6-Jun-2020	BUY	2,215	1,767

Source: Bloomberg, Anand Rathi Research



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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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