

## Faster than expected reversion...

HDFC Ltd reported higher than estimated Q2FY21 numbers led by improvement in AUM growth and steady asset quality. However, overall PAT growth was capped due to lower other income during the quarter.

Asset under moratorium (by value) was at ₹ 7977 crore as on September 2020 (~1.48% of AUM). Asset quality improved with GNPA ratio down ~6 bps QoQ to 1.81% (GNPA - ₹ 8511 crore vs ~₹ 8631 crore QoQ). GNPA in the non-individual portfolio deteriorated to 4.19% vs. 4.1% in June 2020. Individual portfolio GNPA came in a tad lower by ~8 bps QoQ to 0.84%. Excluding asset classification norms, overall GNPA ratio would be 1.83% with individual/corporate non-performing loans at 0.88% and 4.19%, respectively. As of September 2020, collections efficiency for individual loan was at ~96.3% while collection for non-morat customers was at ~99.5%.

AUM was at ₹ 540270 crore, up 10% YoY on the back of a pick-up in disbursement in individual loans, which grew 9% YoY and accounted for ~75% of the overall portfolio. Individual loan disbursements (by value) grew 11% YoY as of September 2020. However, this pace further accelerated to ~35% YoY for October 2020. Furthermore, the company has said individual loan disbursements have reached ~95% of pre-Covid levels. Average size of individual loans was at ₹ 26.7 lakh vs. ₹ 27 lakh in September 2019. Growth in individual loan book, after adding loans sold in the preceding 12 months remained healthy at 15% YoY. In terms of non-individual loan breakup, construction finance formed ~11% of overall loans followed by lease rental discounting and large corporates at 8% and 6%, respectively.

Provisioning for the quarter was at ₹ 436 crore, which was ₹ 754 crore in Q2FY20 and ₹ 1199 crore in Q1FY21. Covid provisioning as on September 2020 was at ₹ 1200 crore (~22 bps of advances). Total provisions were at ₹ 12304 crore (~2.6% of the EAD). Other income remained lower due to non-payment of dividend from subsidiaries, which was partially offset by lower provisioning leading PAT to decline 27.6% YoY to ₹ 2870 crore.

Net interest income growth was healthy at ₹ 3674 crore, up 21% YoY on account of stable margins. Reported NIM came in at 3.2%, down 10 bps YoY. Overall opex came in at ₹ 366 crore, down 3.5% YoY. Lower other income growth led PPP to come in at ₹ 3968 crore, down 25% YoY.

During the quarter ended September 2020, HDFC Ltd has assigned loans amounting to ₹ 3026 crore to HDFC Bank.

## Valuation & Outlook

Faster reversion to pre-Covid level in terms of disbursement to individual loans is seen propelling b/s growth. Thus, advances momentum is expected to pick up to 11.7% CAGR in FY20-22E. Shedding of excess liquidity and deployment of capital raised supporting margins. Improvement in collection in individual home loan at 96.3% and provision buffer of 2.6% aid to absorb any volatility ahead. Given recently raised capital and gradual pick-up in earnings, improvement in return ratios with RoE & RoA at ~11.8% & 2%, respectively by FY22E. We value the business at ₹ 2200 per share, valuing core HFC at ~1.7x FY22E ABV and subsidiaries at 15% holding company discount. With recent run-up, we revise our rating from BUY to **HOLD**.

### Key Financial Summary

₹crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22)
NII	9,635	11,402	12,990	14,516	16,663	13%
PPP	15,305	14,052	26,361	17,320	19,403	11%
PAT	10,959	9,630	8,846	10,911	12,845	10%
ABV (₹)	318.5	451.6	501.8	588.1	616.0	
P/E	27.7	32.4	17.6	33.9	25.5	
P/ABV	5.7	4.0	3.6	3.1	2.9	
RoA	3.0	2.2	3.6	1.7	2.0	
RoE	23.5	14.4	21.7	10.0	11.8	



### Particulars

Particulars	Amount
Market Capitalisation	₹378160 crore
GNPA (Q2FY21)	₹8511 crore
Stage 3 (Q2FY21)	₹10370 crore
NIM (Q2FY21) (reported)	3.20
52 week H/L	2500 /1473
Networth (Eq +Res)	₹86921 crore
Face value	₹2
DII Holding (%)	18.5
FII Holding (%)	70.0

### Key Highlights

- Collection ratio in individual loan book at 96.3% for September 2020
- Outstanding total provision at ₹ 12304 crore (~2.6% of advances)
- Revised from BUY to HOLD with target price of ₹ 2200

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	3,647	3,405	2,719	34.1	3,392	7.5	NII growth healthy on account of stable margins
Reported NIM (%)	3.2	0.0	3.3	-10 bps	3.1	10 bps	
Other Income	687	945	2,945	-76.7	1,810	-62.0	Lower other income due to non-payment of dividend by subsidiaries, muted treasury income
Net Total Income	4,334	4,350	5,663	-23.5	5,202	-16.7	
Staff cost	181	150	141	28.4	160	12.9	
Other Operating Expenses	185	252	238	-22.3	236	-21.7	
PPP	3,968	3,948	5,284	-24.9	4,806	-17.4	
Provision	436	800	754	-42.2	1,199	-63.6	Covid provisioning as on September 2020 at ₹ 1200 crore (~22 bps of advances)
PBT	3,532	3,148	4,530	-22.0	3,607	-2.1	
Tax Outgo	662	818	569	16.3	555	19.2	
PAT	2,870	2,329	3,962	-27.6	3,052	-5.9	Lower provisioning offset by muted other income growth, which led to muted PAT
<b>Key Metrics</b>							
GNPA	8,511	9,149	5,676	50.0	8,631	-1.4	Asset quality improved with GNPA ratio with/without standstill asset norms at 1.81%, 1.83%, down 6 bps, 4 bps QoQ, respectively
NNPA	0	0	0	#DIV/0!	0	#DIV/0!	
Total Restructured assets				#DIV/0!		#DIV/0!	
Loans	475,121	460,878	426,739	11.3	465,685	2.0	AUM growth up 10% YoY on the back of healthy growth in non-individual portfolio at 13%
Borrowings	420,899	431,159	388,976	8.2	432,059	-2.6	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹Crore)	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Net Interest Income	13,577	14,516	6.9	15,813	16,663	5.4
Pre Provision Profit	16,380	17,320	5.7	16,671	19,403	16.4
NIM(%) (calculated)	2.6	2.8	16 bps	2.8	2.9	11 bps
PAT	7,700	10,911	41.7	10,400	12,845	23.5

Source: Company, ICICI Direct Research

**Exhibit 3: Assumption**

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	13.4	10.8	10.0	13.3	8.0	13.7
NIM Calculated (%)	2.7	2.7	2.8	2.9	2.6	2.8
Cost to income ratio	10.4	5.4	8.3	7.7	8.7	9.1
GNPA (₹crore)	4,798	8,701	12,880	14,187	12,800	15,417
NNPA (₹crore)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

## Outlook and valuation

Faster reversion to pre-Covid level in terms of disbursement to individual loans is seen propelling balance sheet growth. Thus, advances momentum is expected to pick up to 11.7% CAGR in FY20-22E. Shedding of excess liquidity and deployment of capital raised will yield support to margins. Improvement in collection in individual home loan at 96.3% and provision buffer of 2.6% aid are expected to absorb any volatility ahead. Given recently raised capital and gradual pick up in earnings, improvement in return ratios will get prolonged with FY22E RoE, RoA at ~11.8%, 2%, respectively. We value the business at ₹ 2250 per share, valuing core HFCs at ~1.7x FY22E ABV and subsidiaries at 15% holding company discount business. We revise our rating from BUY to **HOLD**.

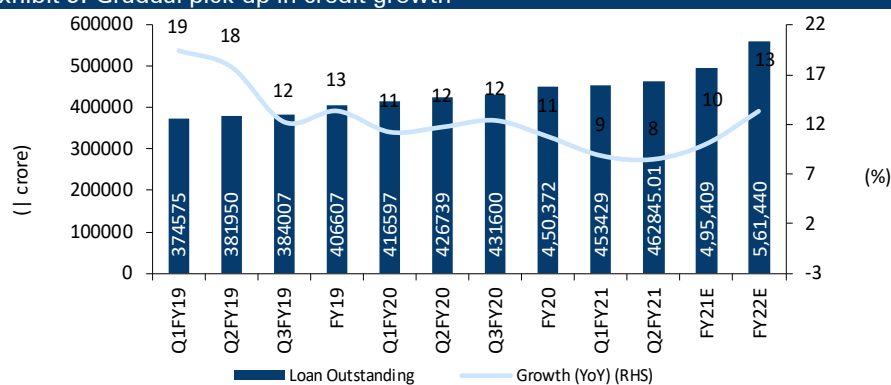
### Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	1.7x FY22E Core Mortgage ABV	100	1,047
HDFC Bank	3.7x FY22E ABV	19.4	835
HDFC AMC	Market cap	52.7	140
HDFC Life Insurance	Market cap	50.1	332
HDFC ERGO	18x FY22E PAT	50.8	20
Bandhan Bank	Market cap	9.9	30
Value per share			2,404
Discount @ 15%			204
<b>Value per share of HDFC</b>			<b>2,200</b>

Source: Company, ICICI Direct Research

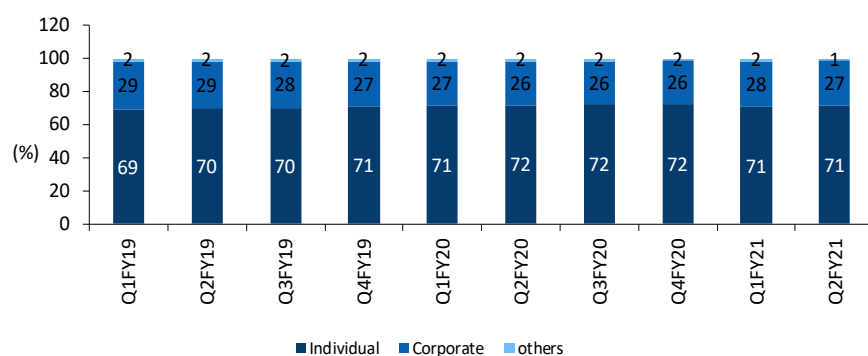
## Story in Charts

Exhibit 5: Gradual pick-up in credit growth



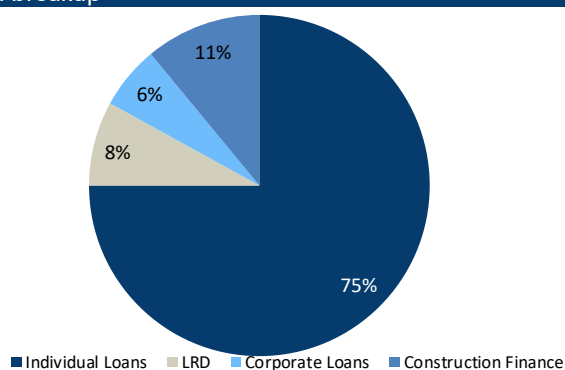
Source: Company, ICICI Direct Research

Exhibit 6: Proportion of individual segment healthy at ~71%



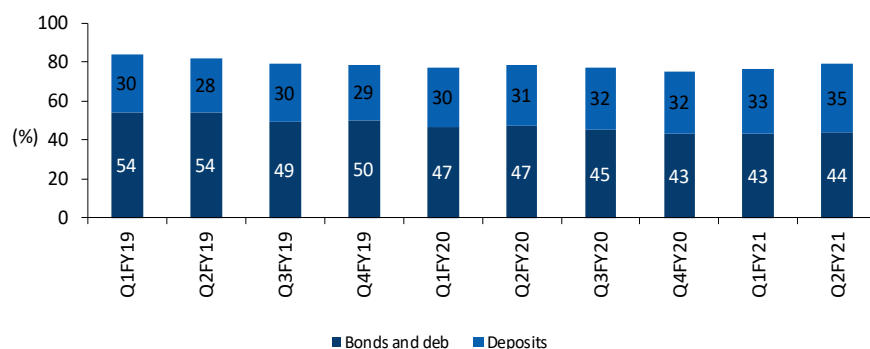
Source: Company, ICICI Direct Research

Exhibit 7: Net AUM breakup



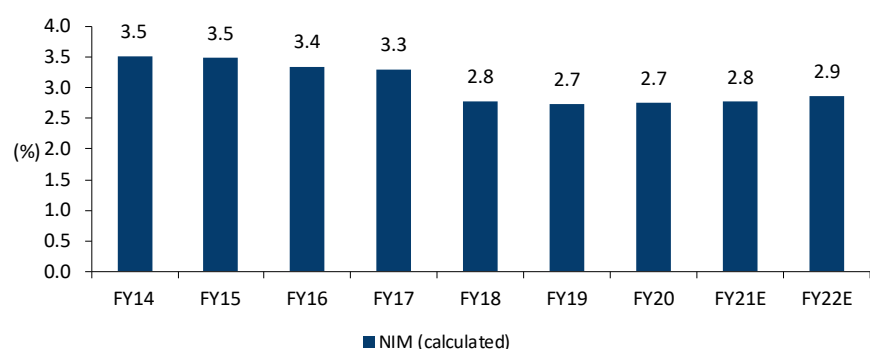
Source: Company, ICICI Direct Research

**Exhibit 8: Borrowing profile for HDFC Ltd**



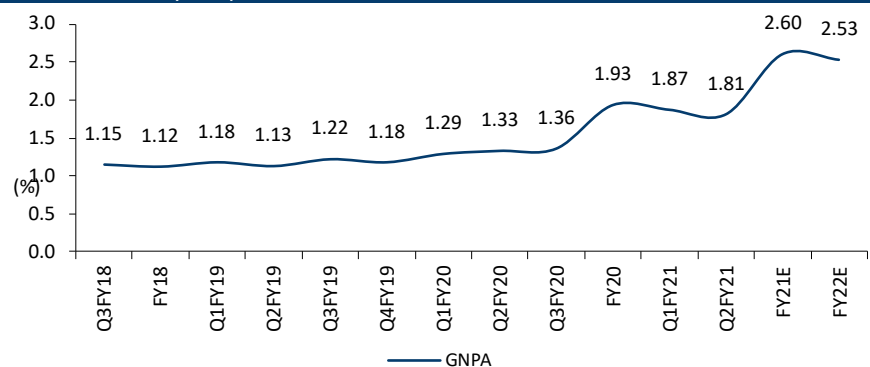
Source: Company, ICICI Direct Research

**Exhibit 9: Calculated margin to marginally contract**



Source: Company, ICICI Direct Research

**Exhibit 10: Asset quality trend for HDFC Ltd**

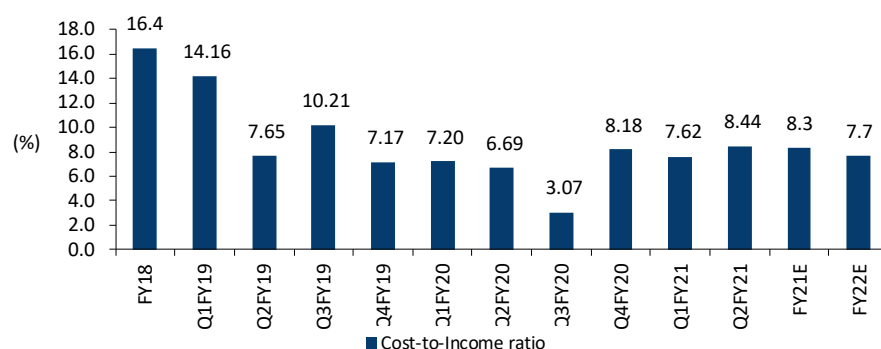


Source: Company, ICICI Direct Research

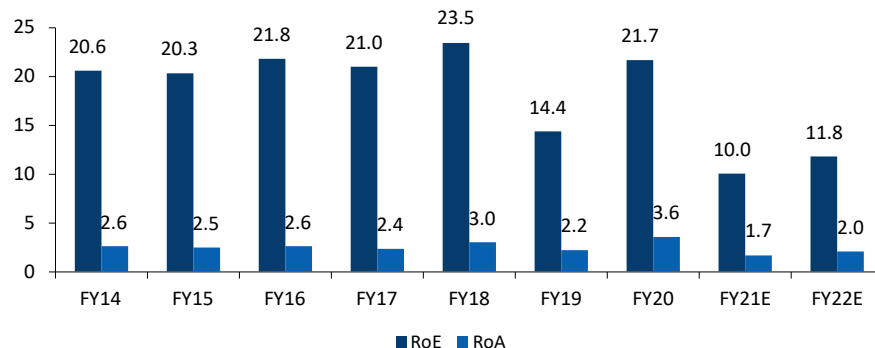
**Exhibit 11: Expected credit loss (ECL) based on exposure at default (EAD)**

As per IND AS	Sep 20	Sep 19
Gross Stage 1	4,40,430	4,01,513.0
ECL Provision Stage 1	1,316	218.0
Net Stage 1	4,39,114	4,01,295.0
<b>Coverage Ratio% Stage 1</b>	<b>0.3%</b>	<b>0.1%</b>
Gross Stage 2	23,313	18,193.0
ECL Provision Stage 2	5,905	4,204.0
Net Stage 2	17,408	13,989.0
<b>Coverage Ratio% Stage 2</b>	<b>25.3%</b>	<b>23.1%</b>
Gross Stage 3	10,370	6,685.0
ECL Provision Stage 3	5,083	2,891.0
Net Stage 3	5,287	3,794.0
<b>Coverage Ratio% Stage 3</b>	<b>49.0%</b>	<b>43.2%</b>
EAD	4,74,113	4,26,391.0
ECL Provision	12,304	7,313.0
Net	4,61,809	4,19,078.0
<b>ECL/EAD</b>	<b>2.6%</b>	<b>1.7%</b>

Source: Company, ICICI Direct Research

**Exhibit 12: CI ratio trend**


Source: Company, ICICI Direct Research

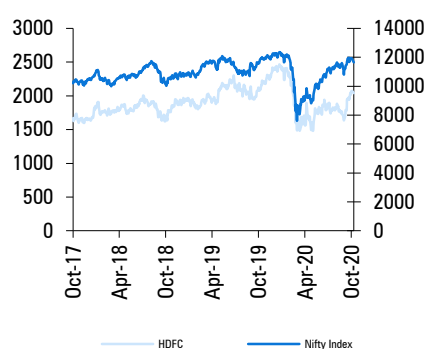
**Exhibit 13: Return ratio to be maintained**


Source: Company, ICICI Direct Research

**Exhibit 14: Shareholding Pattern**

in %	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	-	-	-	-	-
F II	72.5	72.8	70.9	70.2	70.0
D II	16.5	16.5	17.8	18.3	18.5
Others	11.0	10.7	11.3	11.5	11.6

Source: Company, ICICI Direct Research

**Exhibit 15: Price Chart**


Source: Company, ICICI Direct Research

## Financial summary

Exhibit 16: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	39,239	43,993	47,992	54,257
Interest Expended	27,838	31,003	33,475	37,594
Net Interest Income	11,402	12,990	14,516	16,663
% growth	18	14	12	15
Non Interest Income	4,137	14,869	4,317	4,344
Net Income	15,538	27,859	18,833	21,007
Employee cost	505	579	585	591
Other operating Exp.	981	919	928	1,013
Operating Income	14,052	26,361	17,320	19,403
Provisions	935	5,914	2,675	2,162
PBT	13,117	20,447	14,645	17,242
Exceptional gain	1,212	9,020	-	-
Taxes	3,486	2,581	3,735	4,397
Net Profit (excl bandhan excep	9,630	8,846	10,911	12,845
% growth	-12.1	-8.1	23.3	17.7
EPS (₹)	55.9	103.1	53.5	71.0

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	172.1	173.2	180.8	180.8
EPS (₹)	55.9	103.1	53.5	71.0
BV (₹)	451.6	501.8	588.1	616.0
ABV (₹)	451.6	501.8	588.1	616.0
P/E	32.4	17.6	33.9	25.5
P/BV	4.0	3.6	3.1	2.9
P/adj.BV	4.0	3.6	3.1	2.9
Yields & Margins (%)				
Yield on interest earning	9.2	9.1	9.1	9.3
Avg. cost on funds	8.1	7.9	7.6	7.7
Net Interest Margins	2.7	2.7	2.8	2.9
Spreads	1.5	1.2	1.4	1.7
Quality and Efficiency				
Cost/Total net income	10.4	5.4	8.3	7.7
GNPA%	1.2	1.9	2.6	2.5
NNPA%	0.0	0.0	0.0	0.0
ROE (%)	14.4	21.7	10.0	11.8
ROA (%)	2.2	3.6	1.7	2.0

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	344.3	346.4	361.6	361.6
Reserves and Surplus	77404.8	86574.2	105985.7	111019.1
Networth	77749.1	86920.6	106347.4	111380.7
Borrowings	365265.7	420500.0	459210.8	523063.8
Other Liabilities & Provisions				
Total	4,63,862	5,30,534	5,91,109	6,62,863
Applications of Funds				
Fixed Assets	972.0	2238.0	2282.8	2328.4
Investments	29536.9	29348.0	28795.8	28392.0
Advances	406607.0	450372.2	495409.4	561440.0
Other Assets	26745.9	48576.2	64621.4	70702.5
Total	4,63,862	5,30,534	5,91,109	6,62,863

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	17.0	14.4	11.4	12.1
Advances	13.4	10.8	10.0	13.3
Borrowings	14.2	15.1	9.2	13.9
Total Income	20.1	39.5	-12.1	13.2
Net interest income	18.3	13.9	11.7	14.8
Operating expenses	-22.0	0.8	1.0	6.0
Operating profit (excl trading)	37.8	108.1	-31.8	12.0
Net profit	-12.1	85.5	-45.9	32.8
Book value	38.1	11.8	22.4	4.7
EPS	(14.5)	84.4	(48.2)	32.8

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		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC (HDFC)	2,093	2,200	Hold	3,78,160	103.1	53.5	71.0	20.3	39.1	29.5	4.2	3.6	3.4	3.6	1.7	2.0	21.7	10.0	11.8
Mahindra & Mahindra Financial	127	140	Hold	15,524	14.7	14.7	14.7	8.6	8.6	8.6	1.1	1.3	1.1	1.3	1.3	1.7	8.1	7.3	8.2
Bajaj Finserv (BAFINS)	5,983	7,000	Buy	93,801	269.7	249.3	300.4	22.2	24.0	19.9	3.0	2.6	2.3	1.9	1.4	1.3	15.3	11.6	12.4
Bajaj Finance (BAJFI)	3,233	3,850	Buy	1,94,831	89.5	68.7	95.4	36.1	41.1	33.9	6.1	5.7	5.1	2.8	1.8	2.2	20.2	12.1	14.8
LIC Housing Finance (LIC HF)	283	345	Buy	15,170	46.5	59.0	66.1	6.1	4.8	4.3	1.0	1.0	0.9	1.1	1.2	1.2	13.8	15.5	15.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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