

## Other income aids earnings; steady performance

Given the unfavourable lending environment, advances growth continues to remain slower at 12% YoY to ₹ 426739 crore, led by moderation in individual as well as corporate book. Though the individual loan portfolio increased ~15% YoY to ₹ 307231 crore and accounted for ~72% of the total loan book, growth in corporate book was curtailed during the quarter at 2.9% YoY to ₹ 112194 crore (26.3% of book). Growth in individual loan book, after adding back loans sold in the preceding 12 months remained healthy at 24% YoY.

Asset quality was stable during the quarter with GNPA ratio up ~4 bps QoQ to 1.33% (GNPA - ₹ 5655 crore), led by slippage in non-individual GNPA. The non-performing loans in the non-individual portfolio increased ~19 bps to 2.87%, at multi year high. Individual portfolio continue to remain steady at 0.73%. Assets classified into Stage 3 category came in at ₹ 6685 crore vs. ₹ 6228 crore in Q1FY20 and ₹ 5022 crore in Q2FY19.

The operational performance was aided by higher other income from sale of stake in Gruh Finance (₹ 1627 crore) & dividend income (₹ 1074 crore) while NII growth was at 13% YoY to ₹ 2719 crore. Benefit from lower tax coupled with higher other income aided earnings. Accordingly, PAT came in at 61% YoY to ₹ 3962 crore. Reported margins were maintained at 3.3% led by stable spreads within individual & non-individual book.

## Moderation in non-individual book; marginal pressure on NPA

Total outstanding advance is ₹ 4.26 lakh crore, comprising individual loans at ~72% 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. Circular by National Housing Bank (NHB) applicable to HFCs curbing disbursement under subvention scheme & slower volume is seen impacting growth. Therefore, we model 13% CAGR in advances in FY19-21E to ₹ 519434 crore. While overall asset quality remained steady, marginal pressure from non-individual portfolio cannot be ruled out.

## Valuation & Outlook

Given lower volumes & difficult business situation in real estate, HFCs are facing problems of growth moderation and risk of deterioration in asset quality, especially on developers financing. HDFC, led by superior fundamentals, is expected to outperform its peers. However, as a prominent player in real estate lending, it will be impacted in terms of slower growth and marginal asset quality pain. Accordingly, we maintain **HOLD** rating with a revised target price of ₹ 2200 (earlier ₹ 2050), valuing core HFCs at ~2x FY21E ABV & ₹ 1390 for subsidiary post 15% holding company discount.

### Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	9,510	9,635	11,402	12,893	14,674	13%
PPP	11,427	15,305	14,052	18,066	18,564	15%
PAT	7,443	10,959	9,630	12,327	12,704	15%
ABV (₹)	232.3	318.5	365.4	399.5	430.6	
P/E	46.6	33.4	38.0	29.7	28.8	
P/ABV	9.4	6.9	6.0	5.5	5.1	
RoA	2.4	3.0	2.3	2.6	2.3	
RoE	21.0	23.5	16.4	19.2	18.3	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount
Market Capitalisation	₹ 377394 crore
GNPA (Q2FY20)	₹ 5676 crore
Stage 3 (Q2FY20)	₹ 6685 crore
NIM (Q2FY20) (reported)	3.30
52 week H/L	2357 /1775
Networth (Eq + Res)	₹ 81706 crore
Face value	₹ 2
DII Holding (%)	16.6
FII Holding (%)	72.5

### Key Highlights

- Advances growth in non-individual book muted on the back of unfavourable lending environment
- Adding loan sold, growth in individual book remains strong at 24% YoY
- Stage 3 gross NPA remains broadly stable at ₹ 6685 crore
- Maintain our HOLD rating with revised target price of ₹ 2200 (earlier ₹ 2050)

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**Exhibit 1: Variance Analysis**

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
NII	2,719	2,827	2,407	12.9	2,776	-2.1	Lower credit growth & higher interest expenditure led to NII being marginally lower compared to our estimates
Reported NIM (%)	3.3	2.7	3.3	0 bps	3.3	0 bps	
Other Income	2,945	3,421	1,805	63.1	2,526	16.6	Includes extraordinary gains of ₹ 1627 crore from stake sale in Gruh & dividend of ₹ 1074 crore
Net Total Income	5,663	6,248	4,212	34.4	5,302	6.8	
Staff cost	141	137	119	18.6	151	-6.8	
Other Operating Expenses	238	253	203	17.1	230	3.2	
PPP	5,284	3,627	3,890	35.8	4,920	7.4	
Provision	754	800	401	87.9	890	-15.3	
PBT	4,530	2,827	3,489	29.8	4,030	12.4	
Tax Outgo	569	1,416	1,022	-44.3	782	-27.3	
PAT	3,962	2,503	2,467	60.6	3,248	22.0	Benefit of lower tax rate coupled with one-off from stake sale & dividend income boosted earnings
Key Metrics							
GNPA	5,676	3,976	4,278	32.7	5,374	5.6	GNPA ratio steady with rise of 4 bps QoQ led by ~19 bps rise in non-individual GNPA ratio to 2.87% while individual loan steady at 0.73%
NNPA	0	0	0	NM	0	NM	
Loans	426,739	349,837	381,950	11.7	416,597	2.4	Slowdown in non individual segment kept growth on lower trajectory
Borrowings	388,976	325,419	340,622	14.2	373,629	4.1	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	13,640	12,893	-5.5	15,793	14,674	-7.1
Pre Provision Profit	16,953	18,066	6.6	18,540	18,564	0.1
NIM(%) (calculated)	2.9	2.7	-17 bps	2.8	2.8	-4 bps
PAT	10,894	12,327	13.2	12,167	12,704	4.4
ABV per share (₹)	400.6	399.5	-0.3	429.8	430.6	0.2

Source: Company, ICICI Direct Research

**Exhibit 3: Assumption**

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	21.3	13.4	12.2	13.9	13.9	15.8
NIM Calculated (%)	2.8	2.7	2.7	2.8	2.9	2.9
Cost to income ratio (%)	16.4	10.4	8.7	9.5	9.2	9.5
GNPA (₹ crore)	4,027	4,798	6,473	7,881	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 lower volumes & difficult business situation in real estate, HFCs are facing problems of moderation in growth and risk of deterioration in asset quality, especially on developers financing. HDFC Ltd, led by superior fundamentals, is expected to outperform its peers. However, as a prominent player in real estate lending, it will be impacted in terms of slower growth and marginal asset quality pain. Accordingly, we maintain our **HOLD** rating with a revised target price of ₹ 2200 (earlier ₹ 2050), valuing core HFCs at ~2x FY21 ABV & ₹ 1390 for subsidiary post 15% holding company discount.

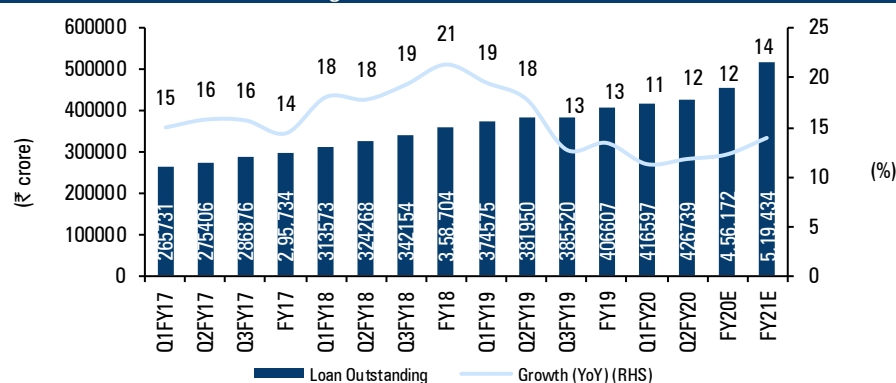
### Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	1.9x FY21E Core Mortgage ABV	100	810
HDFC Bank	3.9x FY21E ABV / 24x FY21 EPS	21.2	843
HDFC AMC	Market cap	60	171
HDFC Std. Life	Market cap	51.7	308
HDFC ERGO	17x FY21E PAT	50.8	25
Bandhan Bank	Market cap	10	48
<b>Value per share of HDFC</b>			<b>2,200</b>

Source: Company, ICICI Direct Research

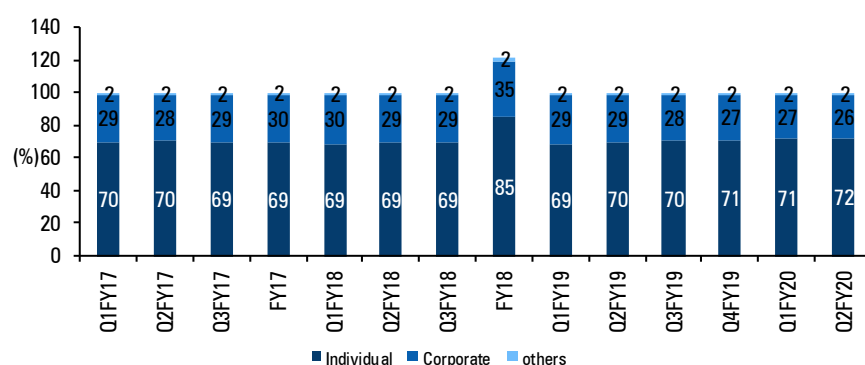
## Story in Charts

Exhibit 5: Moderation in credit growth seen



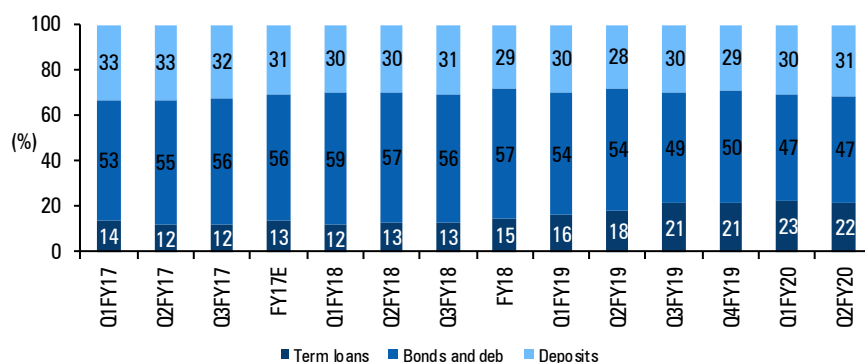
Source: Company, ICICI Direct Research

Exhibit 6: Proportion of Individual segment steady at 72%



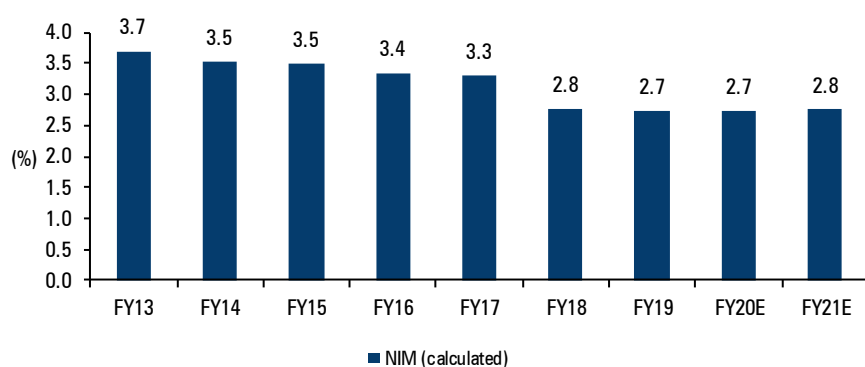
Source: Company, ICICI Direct Research

Exhibit 7: Diversified borrowing profile helps manage cost



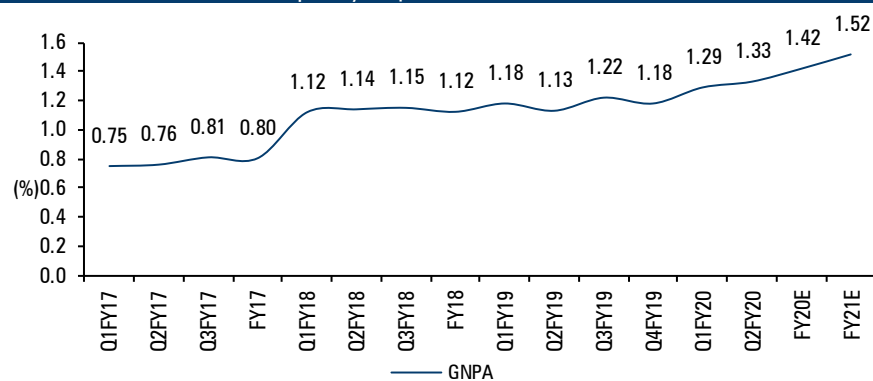
Source: Company, ICICI Direct Research

Exhibit 8: Calculated margin to marginally contract



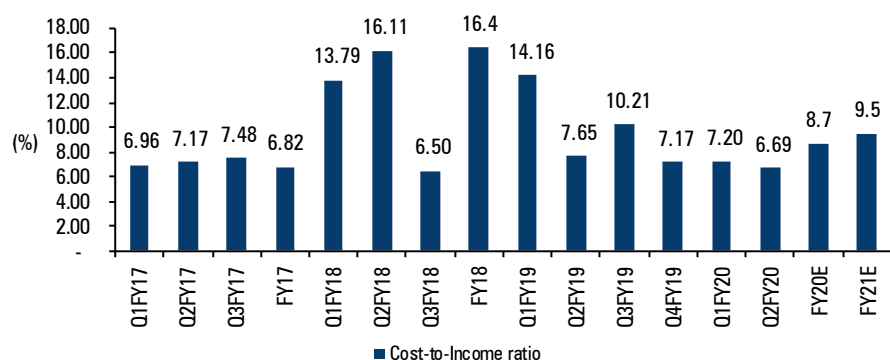
Source: Company, ICICI Direct Research

**Exhibit 9: Pressure on asset quality to persist**



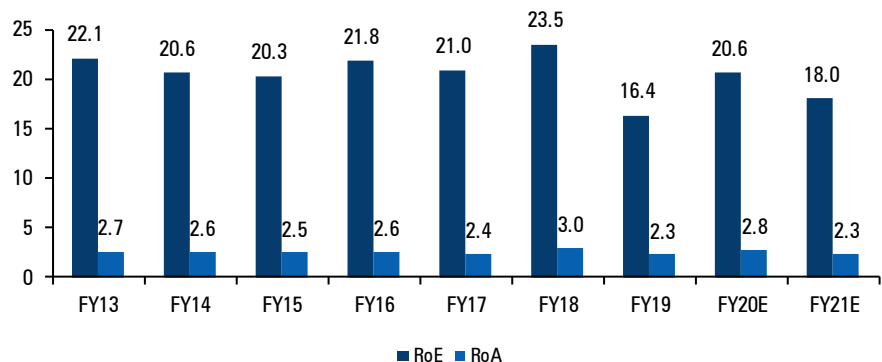
Source: Company, ICICI Direct Research

**Exhibit 10: Decline in CI ratio due to stake sale in subsidiary & higher dividend**



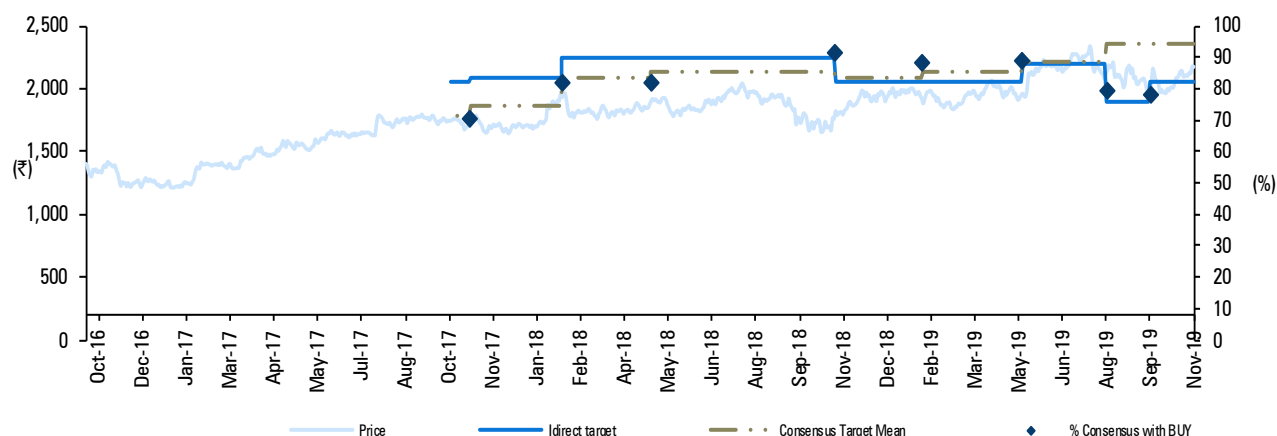
Source: Company, ICICI Direct Research

**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	Latest Filing Date	% O/S Position (m)	Change (m)
1	Life Insurance Corporation of India	30-09-2019	4.05%	69.86M
2	GIC Private Limited	30-09-2019	3.48%	60.16M
3	Invesco Advisers, Inc.	30-09-2019	3.13%	54.07M
4	The Vanguard Group, Inc.	30-09-2019	3.10%	53.47M
5	JPMorgan Asset Management U.K. Limited	30-09-2019	2.30%	39.77M
6	SBI Funds Management Pvt. Ltd.	30-09-2019	2.20%	38.00M
7	Capital International, Inc.	30-06-2019	1.84%	31.81M
8	Fidelity Management & Research Company	30-09-2019	1.71%	29.49M
9	Baillie Gifford & Co.	30-09-2019	1.47%	25.36M
10	T. Rowe Price International (UK) Ltd.	30-09-2019	1.29%	22.19M

Source: Reuters, ICICI Direct Research

### Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
ICICI Prudential Life Insurance Company Ltd.	+514.8M	+18.40M	Capital Research Global Investors	-486.42M	-17.38M
Life Insurance Corporation of India	+153.8M	+5.49M	The Vanguard Group, Inc.	-239.53M	-8.56M
SBI Funds Management Pvt. Ltd.	+127.24M	+4.55M	GIC Private Limited	-142.61M	-5.10M
Kotak Mahindra Asset Management Company Ltd.	+79.73M	+2.85M	Invesco Advisers, Inc.	-51.48M	-1.84M
Aditya Birla Sun Life AMC Limited	+77.38M	+2.76M	CI Investments Inc.	-50.22M	-1.58M

Source: Reuters, ICICI Direct Research

### Exhibit 15: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	-	-	-	-	-
FII	72.2	72.2	72.4	74.7	72.5
DII	13.8	16.9	16.5	14.6	16.5
Others	14.0	10.9	11.1	10.7	11.0

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	44,045.6	50,203.5	
Interest Expended	23497.9	27837.6	31152.2	35529.3	
Net Interest Income	9,635.1	11,401.7	12,893.3	14,674.2	
% growth	1.3	18.3	13.1	13.8	
Non Interest Income	7574.3	4136.5	6883.8	5764.8	
Net Income	17209.4	15538.2	19777.1	20439.0	
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	18066.2	18563.7	
Provisions	2115.0	935.0	2499.8	1511.6	
PBT	13189.6	13116.6	15566.4	17052.1	
Taxes	2230.3	3486.3	3239.4	4348.3	
Net Profit	10,959.3	9,630.3	12,327.0	12,703.8	
% growth	47.2	-12.1	28.0	3.1	
EPS (₹)	65.4	57.5	73.6	75.8	

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	73.6	75.8
BV (₹)	335.9	365.4	399.5	430.6
ABV (₹)	318.5	365.4	399.5	430.6
P/E	33.4	38.0	29.7	28.8
P/BV	6.5	6.0	5.5	5.1
P/adj.BV	6.9	6.0	5.5	5.1
Yields & Margins (%)				
Yield on interest earning assets	9.4	9.2	9.2	9.3
Avg. cost on funds	7.8	8.1	8.0	7.9
Net Interest Margins	2.8	2.7	2.7	2.8
Spreads	1.6	1.5	1.3	1.4
Quality and Efficiency				
Cost / Total net income	16.4	10.4	8.7	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	19.2	18.3
ROA (%)	3.0	2.3	2.6	2.3

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	66616.3	71823.0	
Networth	56293.1	61240.0	66951.5	72158.2	
Borrowings	319715.7	365265.7	417763.5	478994.6	
Other Liabilities & Provisions	20359.8	20847.0	23247.0	25658.8	
Total	3,96,369	4,47,353	5,07,962	5,76,812	
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	456171.6	519433.8	
Other Assets	6392.9	10404.1	22153.5	28265.5	
Total	3,96,419	4,47,353	5,07,962	5,76,812	

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios					(%)
(Year-end March)	FY18	FY19	FY20E	FY21E	
Total assets	18.2	12.8	13.5	13.6	
Advances	21.3	13.4	12.2	13.9	
Borrowings	14.0	14.2	14.4	14.7	
Total Income	5.8	20.1	20.8	8.7	
Net interest income	1.3	18.3	13.1	13.8	
Operating expenses	127.6	-22.0	15.1	9.6	
Operating profit (excl trading)	-7.0	37.8	42.6	3.7	
Net profit	47.2	-12.1	28.0	3.1	
Book value	52.6	8.8	9.3	7.8	
EPS	39.6	(12.1)	28.0	3.1	

Source: Company, ICICI Direct Research

**Exhibit 20: ICICI Direct coverage universe (BFSI)**

Exhibit 20: Total Direct coverage universe (FY 21)																			
Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
LIC Housing Finance (LICHF)	419	440	Hold	21,140	46.2	54.0	63.6	9.1	7.8	6.6	1.5	1.3	1.1	1.3	1.3	1.3	16.3	15.9	16.2
HDFC (HDFC)	2,181	2,200	Hold	3,76,574	57.5	75.2	77.3	38.0	29.0	28.2	6.0	5.4	5.0	2.3	2.6	2.4	16.4	19.6	18.4
Bajaj Finserv (BAFINS)	8,836	8,800	Hold	1,40,614	196.9	286.7	358.8	44.9	30.8	24.6	5.9	5.0	4.1	1.6	1.8	1.9	14.1	17.5	18.3
Bajaj Finance (BAJFI)	4,193	4,350	Hold	2,43,146	69.3	96.8	119.9	60.5	43.3	35.0	13.4	7.9	6.9	3.6	3.9	3.7	22.4	22.0	19.8
Mahindra & Mahindra Finar	352	425	Buy	21,773	25.3	28.6	37.8	13.9	12.3	9.3	2.8	2.8	2.2	2.6	2.5	2.9	15.2	14.9	16.7
HDFC AMC (HDFAMC)	3,020	3,040	Hold	64,000	43.9	61.5	70.3	8.0	5.7	5.0	2.4	2.1	1.8	0.6	0.5	0.5	30.3	36.3	35.6

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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