

Revival in individual book; provision cover buoyant

HDFC Ltd posted better-than-expected profitability on account of better than estimated topline growth. Pick-up in individual business and broadly stable asset quality were also a hallmark for the quarter.

Overall asset quality performance was healthy as **proforma GNPA was marginally up ~8 bps QoQ to 1.91%**. Proforma GNPA in individual and non-individual book was at 0.98% and 4.35% vs. 0.88% and 4.19% QoQ, respectively. **Collection efficiency in individual loans for December 2020 improved to 97.6% vs. 96.3% QoQ** while overall collection efficiency remained at ~92%. The quantum of loans invoked and restructured under RBI's resolution framework for Covid-19 related stress was at 0.9% of AUM (~₹ 5010 crore), of which ~26% came from individual segment. Of total restructuring, one large account contributed ~₹ 2600 crore (~0.5% of AUM). HDFC has made provisions worth ₹ 594 crore during the quarter, including Covid provisions, thus taking cumulative Covid provisions to ₹ 959 crore. Further accretion in restructuring could not be ruled out. However, **provisioning buffer was at a healthy level of ~2.6% of advances vs. ~2.8% of stressed asset (1.91% proforma GNPA + 0.9% restructuring)**.

On the growth front, pick-up in **individual loans was key positive as disbursement in this category was up 26% YoY** compared to 11% jump in Q2, indicating sharp pick-up in business activities in this segment. Individual loan growth was at 16% YoY, after adding back loans sold. Overall loan growth was at 13% YoY. On AUM basis, overall growth was 9% YoY to ₹ 552167 crore. Also, ~91% of individual disbursements entailed property deals entered in the past four months, re-affirming that housing demand stays robust and is not pent-up demand. Prepayment from developers and cautious approach led to 3% QoQ decline in non-individual book.

Net interest income growth was healthy at ₹ 4068 crore, up 26% YoY, on account improving margins. **Reported NIM came at 3.4%, up ~20 bps QoQ and ~10 bps YoY**. The increase is attributable to deployment of excess liquidity. Other income growth came at ₹ 1006 crore, down 89% YoY. It is not comparable due to gains related to Gruh Finance last year. Excluding gains from sale of Gruh Finance, other income is up 121% YoY. PAT for the quarter was at ₹ 2926 crore; higher than our estimates.

Valuation & Outlook

Robust individual disbursement at 26% YoY, margin expansion of 20-30 bps and collection efficiency at 97.6% (near pre Covid level) remain key characteristics of revival in individual business that comprises ~72% of book. Subdued collection and stress accretion in non-individual book is offset by provision buffer at ~2.6% of advances. Business growth led by adequate capital and healthy earnings visibility on the back of funding advantage and provision buffer keeps us positive on the fundamental strength. We expect earnings to grow at 14% CAGR in FY21-23E with healthy RoA at 2.2% in FY23E. Rolling over to FY23E estimates, we arrive at a TP of ₹ 3100 (earlier ₹ 2200), value core business at 2.6x FY23E ABV and subsidiaries at 15% holding company discount. We upgrade our rating from HOLD to **BUY**.



Particulars

Particulars	Amount
Market Capitalisation	₹ 482883 crore
GNPA (Q3FY21)	₹ 8081 crore
Stage 3 (Q3FY21)	₹ 11002 crore
NIM (Q3FY21) (reported)	3.40
52 week H/L	2777 /1473
Networth	₹ 106080 crore
Face value	₹ 2
DII Holding (%)	17.1
FII Holding (%)	72.0

Key Highlights

- A 26% YoY growth in Individual loan book
- Outstanding total provision at ₹ 12342 crore (~2.6% of advances)
- Upgrade from HOLD to BUY with revised TP of ₹ 3100

Risk to our call

- Higher slippages from non-individual book could impact profitability
- Moderation in non-individual book could impact margins and thereby profitability

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	9,635	11,624	12,941	15,046	17,239	19,620	14%
PPP	15,305	14,054	26,264	17,989	20,369	22,921	13%
PAT	10,959	9,632	17,770	11,816	13,567	15,253	14%
ABV (₹)	318.5	449.4	497.4	585.8	613.7	642.1	
P/E	40.6	47.5	25.9	45.4	35.4	31.5	
P/ABV	8.3	5.9	5.3	4.5	4.3	4.1	
RoA	3.0	2.3	3.6	1.9	2.2	2.2	
RoE	23.5	14.4	21.7	11.0	12.5	13.4	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	3,941	3,695	2,985	32.0	3,470	13.6	NII growth was healthy on account of increase in margins
Reported NIM (%)	3.4	3.1	3.3	10 bps	3.2	20 bps	NIMs expand due to decline in excess liquidity and better deployment of fund
Other Income	1,006	454	9,537	-89.5	864	16.5	Decline as last year had one-off gain from merger of Gruh with Bandhan Bank
Net Total Income	4,947	4,149	12,522	-60.5	4,334	14.2	
Staff cost	291	160	150	93.8	181	60.4	
Other Operating Expenses	310	198	234	32.4	185	67.8	Increasing promotional, sales related activity aided opex rise
PPP	4,347	3,791	12,138	-64.2	3,968	9.5	
Provision	594	500	2,995	-80.2	436	36.2	Cumulative Covid related provisions at ₹959 crore
PBT	3,753	3,291	9,143	-59.0	3,532	6.3	
Tax Outgo	827	856	771	7.3	662	24.9	
PAT	2,926	2,435	8,372	-65.1	2,870	1.9	PAT ahead of estimates as a result of better than expected top-line
Key Metrics							
GNPA	7,876	8,766	5,870	34.2	8,511	-7.5	Proforma NPA has remained largely stable
Loans	4,83,919	4,95,648	4,41,472	9.6	4,75,121	1.9	Pick up in Individual disbursement aided growth
Borrowings	4,33,917	4,19,999	3,96,224	9.5	4,20,899	3.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	14,515	15,046	3.7	16,650	17,239	3.5	19,620
Pre Provision Profit	17,335	17,989	3.8	19,418	20,369	4.9	22,921
NIM(%) (calculated)	2.8	2.9	10 bps	2.9	3.0	10 bps	3.0
PAT	10,919	11,816	8.2	12,854	13,567	5.5	15,253

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	13.4	10.9	10.0	13.3	13.4	8.0	13.7
NIM Calculated (%)	2.8	2.7	2.9	3.0	3.0	2.6	2.8
Cost to income ratio (%)	9.6	5.4	8.9	7.8	7.4	8.7	9.1
GNPA (₹ crore)	4,798	8,706	11,898	12,146	12,695	12,800	15,417
NNPA (₹ crore)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

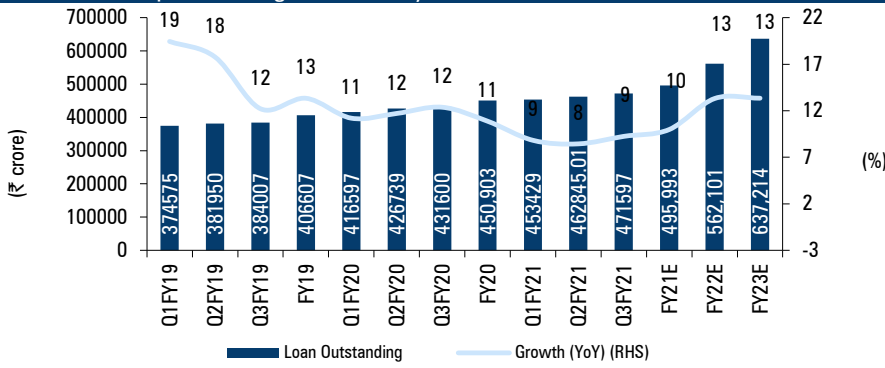
Exhibit 4: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2.6x FY23E Core Mortgage ABV	100	1,666
HDFC Bank	3.7x FY23E ABV	19.4	1,000
HDFC AMC	12.4% FY23E AUM	52.7	186
HDFC Life Insurance	5x FY23E EV	50.1	446
HDFC ERGO	18x FY23E PAT	50.8	25
Bandhan Bank	Market cap	9.9	30
Value per share			3,354
Discount @ 15%			253
Value per share of HDFC			3,100

Source: Company, ICICI Direct Research

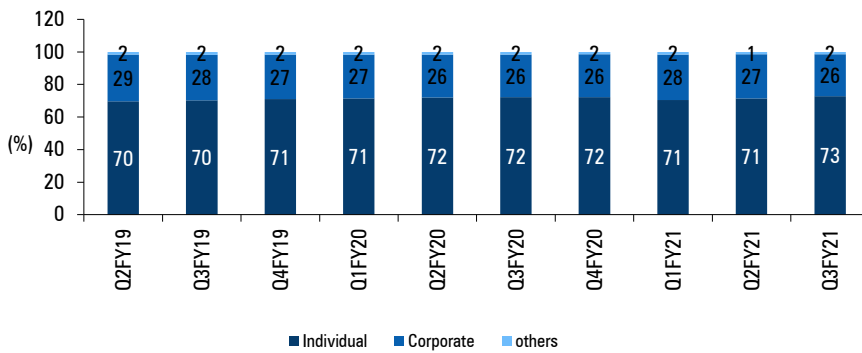
Story in Charts

Exhibit 5: Pick up in credit growth led by individual book



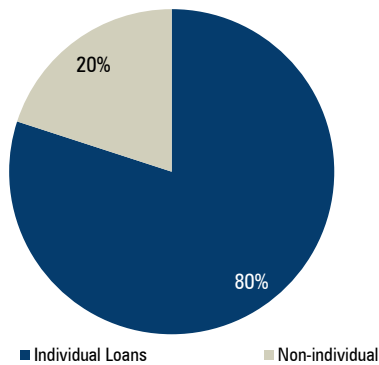
Source: Company, ICICI Direct Research

Exhibit 6: Proportion of individual segment healthy at ~73%



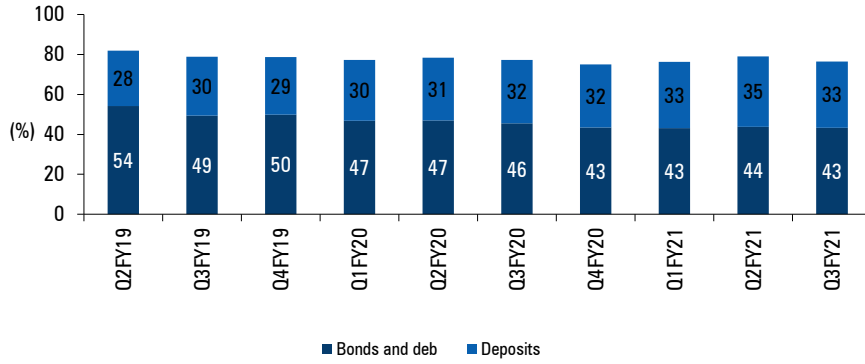
Source: Company, ICICI Direct Research

Exhibit 7: Incremental AUM contribution for 9MFY21



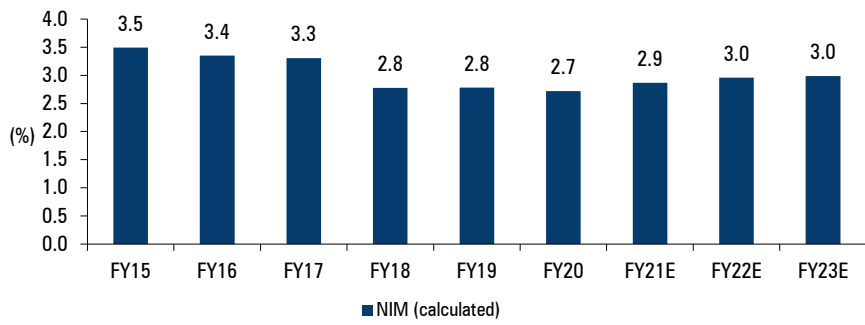
Source: Company, ICICI Direct Research

Exhibit 8: Borrowing profile



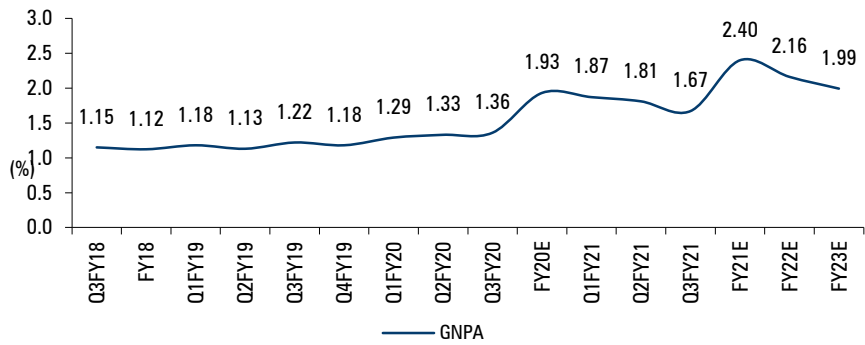
Source: Company, ICICI Direct Research

Exhibit 9: NIMs (calculated) to expand



Source: Company, ICICI Direct Research

Exhibit 10: Asset quality trend for HDFC Ltd



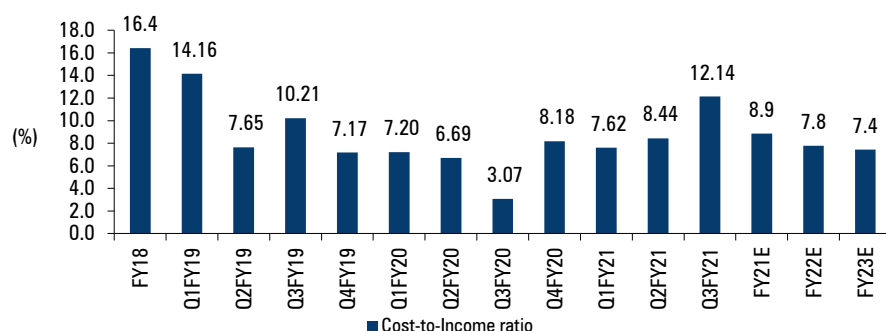
Source: Company, ICICI Direct Research

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

As per Ind AS	Dec 20	Dec 19
Gross Stage 1	4,37,507	4,11,675
ECL Provision Stage 1	892	194
Net Stage 1	4,36,615	4,11,481
Coverage Ratio% Stage 1	0.2%	0.0%
Gross Stage 2	34,208	22,292
ECL Provision Stage 2	6,008	6,309
Net Stage 2	28,200	15,983
Coverage Ratio% Stage 2	17.6%	28.3%
Gross Stage 3	11,002	6,996
ECL Provision Stage 3	5,442	3,431
Net Stage 3	5,560	3,565
Coverage Ratio% Stage 3	49.5%	49.0%
EAD	4,82,717	4,40,963
ECL Provision	12,342	9,934
Net	4,70,375	4,31,029
ECL/EAD	2.6%	2.3%

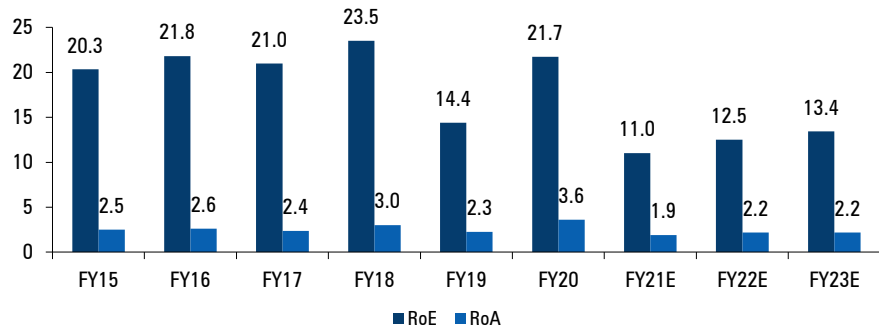
Source: Company, ICICI Direct Research

Exhibit 12: Cost-to-income ratio trend



Source: Company, ICICI Direct Research

Exhibit 13: Return ratio to improve



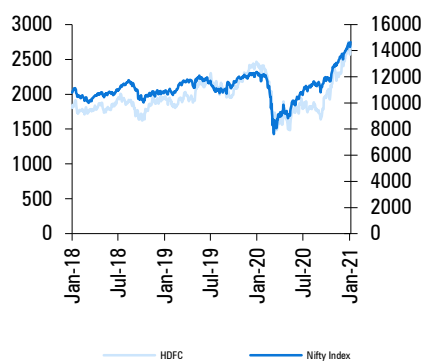
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

in %	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	-	-	-	-	-
FII	72.8	70.9	70.2	70.0	72.0
DII	16.5	17.8	18.3	18.5	17.1
Others	10.7	11.3	11.5	11.6	10.9

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	39,461	43,942	48,018	54,627	61,699
Interest Expended	27,838	31,001	32,971	37,388	42,079
Net Interest Income	11,624	12,941	15,046	17,239	19,620
% growth	21	11	16	15	14
Non Interest Income	3,917	14,821	4,600	4,783	5,076
Net Income	15,540	27,762	19,647	22,023	24,696
Employee cost	717	593	800	720	756
Other operating Exp.	770	905	857	933	1,019
Operating Income	14,054	26,264	17,989	20,369	22,921
Provisions	935	5,913	2,604	2,158	2,447
PBT	13,119	20,351	15,386	18,211	20,474
Exceptional gain	-	-	-	-	-
Taxes	3,486	2,581	3,569	4,644	5,221
Net Profit (excl bandhan exceptional)	9,632	17,770	11,816	13,567	15,253
% growth	-12.1	84.5	-33.5	14.8	12.4
EPS (₹)	56.0	102.6	58.5	75.0	84.4

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares	172.1	173.2	180.8	180.8	180.8
EPS (₹)	56.0	102.6	58.5	75.0	84.4
BV (₹)	449.4	497.4	585.8	613.7	642.1
ABV (₹)	449.4	497.4	585.8	613.7	642.1
P/E	47.5	25.9	45.4	35.4	31.5
P/BV	5.9	5.3	4.5	4.3	4.1
P/adj.BV	5.9	5.3	4.5	4.3	4.1
Yields & Margins (%)					
Yield on interest earning assets	9.2	9.1	9.0	9.3	9.3
Avg. cost on funds	8.1	7.9	7.5	7.6	7.6
Net Interest Margins	2.8	2.7	2.9	3.0	3.0
Spreads	1.5	1.2	1.5	1.6	1.7
Quality and Efficiency					
Cost / Total net income	9.6	5.4	8.9	7.8	7.4
GNPA%	1.2	1.9	2.4	2.2	2.0
NNPA%	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.4	21.7	11.0	12.5	13.4
ROA (%)	2.3	3.6	1.9	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital	344.3	346.4	361.6	361.6	361.6
Reserves and Surplus	77011.2	85811.7	105556.4	110605.5	115744.1
Networth	77355.5	86158.1	105918.1	110967.1	116105.8
Borrowings	366214.4	419101.6	457864.5	521721.1	592247.6
Other Liabilities & Provisions					
	15207.1	18833.3	21351.1	23796.9	26540.8
Total	4,58,777	5,24,093	5,85,134	6,56,485	7,34,894
Applications of Funds					
Fixed Assets	972.0	2238.0	2282.8	2328.4	2375.0
Investments	46239.8	64944.4	72282.1	77028.0	82420.2
Advances	406607.1	450902.8	495993.3	562100.6	637214.3
Other Assets	3361.8	2582.2	14575.6	15028.0	12884.8
Total	4,57,181	5,20,667	5,85,134	6,56,485	7,34,894

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios (%)					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	15.7	14.2	11.6	12.2	11.9
Advances	13.4	10.9	10.0	13.3	13.4
Borrowings	14.5	14.4	9.2	13.9	13.5
Total Income	23.6	35.5	-12.0	13.5	12.5
Net interest income	20.6	11.3	16.3	14.6	13.8
Operating expenses	-22.0	0.8	10.6	-0.2	7.4
Operating profit (excl trading)	50.8	105.6	-20.8	37.8	33.5
Net profit	-12.1	84.5	-40.5	28.3	12.4
Book value	37.4	11.4	22.9	4.8	4.6
EPS	(14.4)	83.3	(43.0)	28.3	12.4

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
LIC Housing Finance (LICHF)	431	345	Buy	22,405	46.5	44.2	58.6	9.3	9.8	7.4	1.5	1.4	1.3	1.1	0.9	1.1	13.8	11.9	14.5
HDFC (HDFC)	2,657	3,100	Buy	4,85,142	102.6	58.5	75.0	25.9	45.4	35.4	5.3	4.5	4.3	3.6	1.9	2.2	3.6	1.9	2.2
Bajaj Finserv (BAFINS)	9,484	10,500	Buy	1,44,019	269.7	253.3	305.6	35.2	37.4	31.0	4.7	4.2	3.7	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	5,238	5,900	Buy	3,00,157	89.5	68.7	96.9	58.6	76.3	54.0	9.8	9.2	8.2	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Finance	185	140	Hold	23,580	14.7	7.9	10.9	12.6	23.4	16.9	1.5	1.9	1.6	1.3	1.3	1.7	8.1	7.3	8.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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