Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Housing Development Finance Corporation Ltd

Strong growth prospects going ahead

NBFC	Sharekhan code: HDFC
Reco/View: Buy ↔	CMP: Rs. 2,521 / Price Target: Rs. 3,589 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 19.19

Updated Jan 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

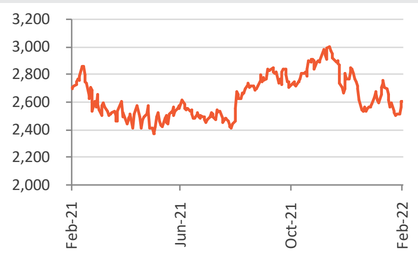
Company details

Market cap:	Rs. 457,316 cr
52-week high/low:	Rs. 3,021/2,354
NSE volume: (No of shares)	34.8 lakh
BSE code:	500010
NSE code:	HDFC
Free float: (No of shares)	180.8 cr

Shareholding (%)

Promoters	-
FII	72.1
DII	16.6
Others	11.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.6	-15.2	-5.6	-6.6
Relative to Sensex	-4.2	-12.8	-14.2	-24.1

Sharekhan Research, Bloomberg

Summary

- HDFC's PAT beat street expectations at Rs. 3,261 crore, up 11% y-o-y (but down ~14% q-o-q), led by strong individual loan growth (up by 16% y-o-y). Overall, AUM grew by 12% y-o-y and 4% q-o-q.
- We expect all its business segments – individual, corporate, LRD, and construction finance to perform better going ahead. The management sounded optimistic about the strong pipeline for construction finance and LRDs and expects a positive growth in the non-individual book.
- Credit costs continued to decline, coming in at 7 bps in Q3FY22 versus 9 bps in Q2FY22. NPLs witnessed deterioration on account of revised guidelines of NPA recognition by the RBI.
- We maintain a Buy rating on HDFC with an unchanged SOTP based PT of Rs. 3,589.

HDFC Ltd (HDFC) reported a PAT of Rs. Rs. 3,261 crore, up by 11% y-o-y and down by ~14% q-o-q, primarily led by strong AUM growth. Overall AUMs grew by 12% y-o-y and 4% q-o-q aided by robust individual loan growth (up by 16% y-o-y). Non-individual loan book was flat sequentially. NII grew by 7% y-o-y and 4% q-o-q to Rs. 4,284 crore while NIM was stable at 3.6% in Q3FY22. NIM was impacted by excess liquidity carry on the balance sheet and intense competition. Going forward, the management guided the NIM to be in the range of 3.2 to 3.6%. Gross NPL was at 2.32% up by 32 bps q-o-q, led by revised guidelines of NPA recognition by RBI which requires daily recognition versus monthly recognition earlier. Disbursements rose by 15% y-o-y and 5% q-o-q in Q3FY22. Demand for home loans and pipeline for the loans continued to remain strong and the growth was witnessed from both affordable housing segment and high-end properties. Loan approvals and disbursements continue to be strong in Jan 2022 as well. Collection efficiency for individual loans stood at 98.9% in December 2021.

Key positives

- Strong momentum was witnessed in individual loans (up by 16% y-o-y). The demand for the home loans and pipeline for the loans remained strong.
- Continuous decline in the credit costs with 7 bps in Q3FY22 versus 9 bps in Q2FY22 versus 14 bps in Q1FY22.

Key negatives

- In Q3FY22, NIM was impacted by the excess liquidity carry.

Management Commentary

- Within non individual loans, LRDs have seen a pick up and there is strong pipeline for construction finance and LRDs. The company expects a positive growth in the non-individual book in FY22.
- Loan approvals and disbursements stay strong in Jan 2022 as well. Growth in home loans is being witnessed in both affordable housing segment as well in high end properties. Within non individual loans, LRDs has seen a pick up and there is strong pipeline for construction finance and LRDs.
- Repayment rate for retail loans stood at 10% of the opening loan book and has been in line with the historical trends.

Our Call

Valuation: We maintain a Buy rating on HDFC with an unchanged SOTP based PT of Rs. 3,589. HDFC has weathered and emerged as the strongest player among all large HFCs, especially during the pandemic period. Management was optimistic in terms of improving collection efficiency and asset quality. With individual disbursements witnessing near historic highs and high yielding non-individual portfolio too seeing revival, we expect strong AUM growth going forward. Its credit costs has been on a declining trajectory. We believe that the company would emerge as the key beneficiary of the favourable macro factors play – low-interest rate regime, improved affordability, revival of demand for housing and stable property prices. At CMP, HDFC trades at 1.8x and 1.6x of FY23E and FY24E P/BV. Hence we maintain Buy on HDFC with an unchanged SOTP based PT of Rs.3,589.

Key Risks

Any slowdown in the real estate sector may affect its earnings outlook.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
PAT	12,027	13,291	16,352	17,968
EPS (Rs.)	59.8	65.7	81.8	89.8
BVPS (Rs.)	603.0	654.0	718.6	790.2
P/E (x)	14.5	13.2	10.6	9.7
P/BVPS (x)	2.0	1.9	1.8	1.6
ROE (%)	12.3	11.7	13.2	13.4
ROA (%)	2.2	2.2	2.3	2.3

Source: Company; Sharekhan estimates

SOTP Valuation

Subsidiary/Associate/JV	% stake	Basis	Per share value
HDFC Bank	21.1%	Target Price	1,006
HDFC Life	49.9%	Target Price	379
HDFC ERGO General Insurance	50.0%	Book Value	97
HDFC AMC	52.7%	BBG consensus TP with holdco discount	150
Bandhan Bank	9.9%	BBG consensus TP with holdco discount	27
HDFC Credila	100.0%	Book Value	10
Value of subs (post holdco discount)			1,660
Core Mortgage Business		2.5x Book Value	1,928
Total SOTP Valuation (Rs)			3,589

Source: Company, Sharekhan Research

Concall highlights

Opening remarks: Recovery in individual loans continued to be sharp in Q3 as well. The partial disruption due to the third wave of COVID-19 did not had any material impact on the business of the company. There was ample liquidity in the system and interest rates were stable. However, January 2022 saw an uptick in the interest rates and the company has increased the deposit rates as well as lending rates on non-individual loan products.

Disbursements: Approvals and disbursements grew by 45% y-o-y and 48% y-o-y in 9MFY22. This is despite of a higher base on account of aa reduction in stamp duty in Maharashtra in Q3FY21. Disbursement were up by 15% y-o-y and 5% q-o-q in Q3FY22. Loan approvals and disbursements continue to be strong in January 2022 as well.

Loan book: Home loan growth is being witnessed in both affordable housing segment as well in high end properties. Within non individual loans, LRDs has seen a pick-up and there is strong pipeline for construction finance and LRDs. Individual loans constituted for 79% of the AUM versus 77% in FY21 and grew by 16% y-o-y in Q3FY22. Its AUM grew by 12% y-o-y and 4% q-o-q. The company expects a positive growth in the non-individual book in FY22.

Asset quality: Prepayment stood at 10% of the book and was in line with the historical trends. Gross NPLs were at 2.32% up by 32 bps q-o-q. Collection efficiency for individual loans stood at 98.9% in Q3FY22. Gross NPLs for individual and non-individual loans stood at 1.44% and 5.04%, up by 34 bps q-o-q and 35 bps q-o-q respectively. The cumulative COVID-related provisions stood at Rs. 1,187 crore (~9% of the provisions) in December 2021. Credit cost stood at 7 bps vs. 9 bps in Q2FY22.

Restructuring: OTR 1 &2 stood at 1.34% of the book, out which 64% came from individual loans while 36% was from non-individual loans. Of the total restructured loans, 34% (Rs. 680) is in respect of just one non individual account. The company has partly recovered from this account in January 2022 and the balance is expected in the near term. Under ECLGS, out of Rs. 2,215 crore approved, Rs. 1,643 has been disbursed as on December 2021.

Results (standalone) Rs cr

Particulars	Q3FY22	Q3FY21	Q2FY22	y-o-y (%)	q-o-q (%)
Income from Operations	11,157	10,837	10,683	2.9	4.4
Interest expenses	6,873	6,833	6,573	0.6	4.6
Net operating income	**4,284**	**4,005**	**4,110**	**7.0**	**4.2**
Other income	635	879	1,543	(27.7)	(58.8)
Net Operating income	**4,919**	**4,884**	**5,653**	**0.7**	**(13.0)**
Employee cost	173	143	158	21.0	9.8
Depreciation	40	52	39	(22.4)	3.8
Other costs	264	342	333	(22.7)	(20.6)
Operating expenses	**478**	**537**	**530**	**(11.0)**	**(9.8)**
Pre-provisioning profit (PPoP)	**4,441**	**4,347**	**5,123**	**2.2**	**(13.3)**
Provisions & Write-offs	393	594	452	(33.8)	(13.1)
PBT	**4,048**	**3,753**	**4,671**	**7.9**	**(13.3)**
Tax	787	827	891	(4.7)	(11.6)
Tax Rate (%)	19.5	22.0	19.1	-258 bps	38 bps
PAT	**3,261**	**2,926**	**3,781**	**11.4**	**-13.7**
EPS (Rs)	**18.0**	**16.3**	**20.9**	**10.8**	**-13.9**

Source: Company, Sharekhan Research

Key ratios Rs cr

Particulars	Q3FY22	Q3FY21	Q2FY22	y-o-y (%)	q-o-q (%)
Loan AUM (Rs mn)	6,18,917	5,52,167	5,97,339	12.1	3.6
-Individuals (Rs mn)	4,88,104	4,20,011	4,67,561	16.2	4.4
-Non-Individuals (Rs mn)	1,30,813	1,32,156	1,29,778	-1.0	0.8
Loan Outstanding (Rs mn)	5,38,994	4,83,919	5,20,798	11.4	3.5
NIM - reported (%)	3.6	3.4	3.6	20 bps	0 bps
GNPL (% of total loans)	2.32	1.91	2.00	41 bps	32 bps
Capital Adequacy	22.4	20.9	22.4	150 bps	0 bps
Tier I	21.7	19.9	21.6	180 bps	9 bps
Tier II	0.7	1.0	0.8	-30 bps	-10 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Housing demand to grow exponentially amid favourable macros, better affordability and low interest rates

Long-term structural indicators remain strong for housing and mortgages in India. Interest rates are low and several states have given incentives for home buying, which is likely to prop up demand. Correction in borrowing costs, which was steep for high-rated NBFCs, is another positive. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake and LTV outlook for HFCs. India has a young population and government schemes such as CLSS, etc, which will facilitate even the affordable housing segments along with low penetration levels of mortgages in India (at 11% of GDP, against 18% in China and 56% in the US). We believe economic recovery is also gaining momentum and stimulus/supportive measures by the government and the Reserve Bank of India (RBI) will further aid to the same. We believe the outlook is resilient for well-run NBFC sector in general and HFCs in particular.

■ Company outlook - Strong triggers to drive growth, with resilient asset quality

Balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, which support long-term investments. HDFC is well-capitalised and its book with high-quality granular individual loans make it comfortably placed. Given HDFC's market dominance, we expect the leadership to sustain going forward, even as growth momentum in the housing market is encouraging. HDFC's strong operating metrics, supported by its industry's best credit rating, enable it to attract best rates and, hence, optimum cost of funds, which will be crucial supports for margins.

■ Valuation - We maintain our Buy rating on HDFC with an unchanged SOTP based PT of Rs. 3,589

HDFC has weathered and emerged as the strongest player among all large HFCs, especially during the pandemic period. Management was optimistic in terms of improving collection efficiency and asset quality. With individual disbursements witnessing near historic highs and high yielding non-individual portfolio too seeing revival, we expect strong AUM growth going forward. Its credit costs has been on a declining trajectory. We believe that the company would emerge as the key beneficiary of the favourable macro factors play – low-interest rate regime, improved affordability, revival of demand for housing and stable property prices. At CMP, HDFC trades at 1.8x and 1.6x of FY23E and FY24E P/BV. Hence we maintain Buy on HDFC with an unchanged SOTP based PT of Rs. 3,589.

Peer Comparison

Company	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	(Rs/Share)	(Rs Cr)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HDFC Ltd	2,521	4,57,515	65.7	81.8	1.9	1.8	11.7	13.2	2.2	2.3
LIC Housing Finance	401	22,063	13.1	6.7	1.0	0.9	7.6	14.3	0.7	1.2
Can Fin Homes	660	8,781	17.8	15.5	3.1	2.6	18.1	18.1	2.0	2.0

Source: Bloomberg; Sharekhan Research

About company

HDFC Limited is a major provider of finance for housing in India. The company (via its subsidiaries and group companies) is also present in banking, life and general insurance, asset management, venture capital, realty, education, deposits, and education loans via its formidable subsidiaries. As pioneers in housing mortgages, it is a brand name that has been characterised by trust, solidity, both financial and managerial, and sound principles. Established in 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. We believe balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC and will help it tide over challenges. 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

Any slowdown in the real estate sector may affect its earnings outlook.

Additional Data

Key management personnel

Mr. Deepak S. Parekh	Chairman
Mr. Keki M. Mistry	Vice Chairman & CEO
Ms. Renu S Karnad	Managing Director
Mr V Srinivasa Rangan	Executive Director and CFO
Mr. Mathew Joseph	Chief Risk Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Invesco Ltd	4.3
2	Vanguard Group Inc/The	3.8
3	Life Insurance Corp of India	3.7
4	JPMorgan Chase & Co	3.3
5	BlackRock Inc	3.2
6	SBI Funds Management Pvt Ltd	3.1
7	Baillie Gifford & Co	2.7
8	FMR LLC	2.4
9	Abrdn plc	2.3
10	T Rowe Price Group LLC	1.4

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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