

## Growth momentum continues; outlook optimistic

**About the stock:** HDFC Ltd is the largest NBFC engaged in the housing finance business. It has demonstrated a consistent performance in terms of both business growth as well as asset quality.

- Individual loans contribute ~79% of AUM
- Stake in subsidiaries in insurance and asset management business aid value

**Q4FY22 Results:** HDFC reported a healthy overall performance.

- Loan growth at 14.1% YoY wherein individual loans were up 17% YoY
- NII up 12.6% YoY, NIMs steady at 3.5% YoY
- Provisions lower YoY and flat QoQ; thus, PAT up 16.4% YoY at ₹ 3700 crore
- GNPA down 41 bps QoQ to 1.91%. R/s book down 50 bps to 0.8% of loans

**What should investors do?** HDFC Ltd's share price has grown ~2x in past five years. Market leadership in industry with growth opportunity & strong fundamentals bodes well. However, merger related uncertainty to keep price in a broad range.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** We value HDFC Ltd at ~2x FY24E core ABV and ₹ 1452 (post15% discount) for subsidiaries and assign a target price of ₹ 2840/share.

**Key triggers for future price performance:**

- Demand for individual loans in both affordable and higher end properties bodes well for business growth
- Focus on non-individual lending to aid business growth & margin
- Healthy provision buffer & improvement in collection to keep provision low
- Merger related clarification and approval could lead to near term volatility

**Alternate Stock Idea:** Apart from HDFC Ltd, in our coverage we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970



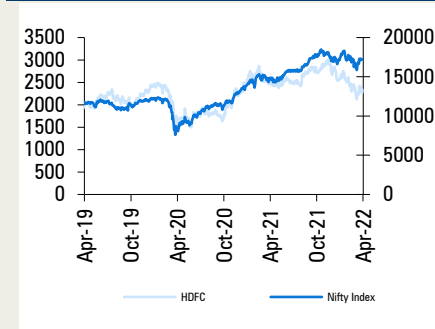
### Particulars

Particulars	Amount
Market Capitalisation	₹ 410233 crore
52 week H/L	3021 / 2046
Networth (Eq + Res)	₹ 120251 crore
Face value	₹ 2

### Shareholding pattern

in %	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	-	-	-	-	-
FII	72.8	72.2	72.0	72.1	69.2
DII	16.1	16.5	16.9	16.6	19.0
Others	11.1	11.3	11.2	11.3	11.8

### Price Chart



### Recent Event & Key risks

- GNPA down 41 bps QoQ to 1.9%; Restructured book at 0.8% of loans
- Key Risk:** 1) Impact of pandemic on NPA 2) Increased competitive intensity

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	12,941	14,157	16,558	13%	19,541	23,425	19%
PPP	26,264	17,763	19,178	11%	22,644	26,779	18%
PAT	17,770	12,027	13,742	13%	15,320	18,167	15%
ABV (₹)	497.4	602.1	665.9		674.4	694.0	
P/E	22.1	37.8	31.2		26.7	22.5	
P/ABV	4.5	3.8	3.4		3.4	3.3	
RoA	3.6	2.0	2.2		2.2	2.3	
RoE	21.7	11.1	11.4		12.7	14.7	

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Healthy business growth

- HDFC Ltd posted good set of numbers with net interest income rising by 12.6% YoY and 4.5% QoQ on the back of improving loan trajectory and steady margins. NIMs were stable at 3.5% YoY but down 10 bps sequentially. Other income was up 59% QoQ to ₹ 1169 crore, mainly due to income earned on assignment of loans
- With increase in business activity, opex increased 7.6% QoQ but growth on YoY front was modest at 3.1%, thus C/I ratio due to faster income growth than cost was down 40 bps to 9.3%. Provisions were largely flat QoQ and down 44% YoY to ₹ 401 crore. As a result, net profit for the quarter was up 16.4% YoY to ₹ 3700 crore
- Asset quality improved significantly as GNPA ratio declined from 2.32% to 1.91% QoQ as collection efficiency improved 10 bps sequentially to 99% for individual segment. GNPA in the individual segment was at 0.99% while in non-individual segment GNPA came in at 4.76%. HDFC Ltd carried a total provision of ₹ 13,506 crore. The provisions carried as a percentage of the exposure at default (EAD) is equivalent to 2.38%
- Loans restructured under RBI's Resolution Framework for Covid-19 related stress declined from ~1.3% to 0.80%, as the corporation recovered ₹ 2764 crore from one large account. Of the loans restructured, 98% are individual loans and 2% are non-individual loans
- Credit growth gathered further momentum as it was up 14.1% YoY to ₹ 5.7 lakh crore. Growth in the individual segment was healthy at 17% YoY (AUM basis). Now this segment forms 79% of total gross AUM. The growth in individual loan book, after adding back loans sold in the preceding 12 months was 25%

### Q4FY22: Conference Call Highlights

- Currently, not all branches of HDFC Bank are engaged in selling home loan. This could lead to improved push of from more branches post the merger.
- Post-merger, HDFC Bank would have opportunity to engage ~70% of HDFC Ltd customers, which do not have repeated relationship with the bank
- Additional liquidity has come down from ₹ 55,000 crore in Q3FY22 to ₹ 46,000 crore in Q4FY22
- The bank will continue to disburse non-individual loans after merger. Have increased ~30 bps yield in non-individual portfolio
- HDFC Ltd has requested for grand-fathering of existing borrowing till maturity. Exposure to G-sec is at ₹ 40,000 crore
- Total ~28% of business is sourced from HDFC Bank, while tie up RBL Bank contributes ~10 bps of business. Also, ~18% of business is sourced by partners excluding HDFC Bank and HDFC Sales
- HDFC Bank has a right to buy out 70% of business sourced by them

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

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Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC (HDFC)	2,263	2,840	Buy	4,102	59.8	72.5	84.8	100.6	37.8	31.2	26.7	22.5	3.8	3.4	3.4	3.3	11.1	11.4	12.7	14.7
Bajaj Finserv (BAFINS)	14,950	18,900	Buy	2,359	176.2	708.4	416.3	531.0	84.9	21.1	35.9	28.2	6.8	5.1	4.5	3.9	8.3	27.7	13.4	14.8
Bajaj Finance (BAJFI)	6,625	9,500	Buy	3,999	73.6	116.5	158.7	201.4	90.1	56.9	41.7	32.9	11.1	9.4	7.9	5.9	12.8	17.4	19.9	20.0

Source: Company, ICICI Direct Research

**Exhibit 2: SOTP valuation**

Business Segment	Basis of valuation	HDFC's stake ( % )	₹/share
HDFC Ltd	2x FY24E Core Mortgage ABV	100	1,388
HDFC Bank	3.2x FY24E ABV	19	1,042
HDFC AMC	28.5x FY24E EPS	53	149
HDFC Life Insurance	2.8x FY24E EV	50	392
HDFC ERGO		51	110
Bandhan Bank	Market cap	5	15
Value per share			3,096
Discount @ 15%			256
<b>Value per share for HDFC Ltd</b>			<b>2,840</b>

Source: Company, ICICI Direct Research

**Exhibit 3: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	4,369	4,445	3,880	12.6	4,182	4.5	Healthy growth on improved AUM growth
Reported NIM (%)	3.5	3.6	3.5	0 bps	3.6	-10 bps	Largely stable margins
Other Income	1,169	733	1,262	-7.4	737	58.6	
Net Total Income	5,538	5,178	5,142	7.7	4,919	12.6	
Staff cost	166	176	138	20.2	173	-4.6	Cost control aids improvement in C/I ratio
Other Operating Expenses	349	308	361	-3.4	304	14.5	
PPP	5,023	4,694	4,643	8.2	4,441	13.1	
Provision	401	377	719	-44.2	393	2.0	YoY fall in provisions on improved asset quality
PBT	4,622	4,317	3,924	17.8	4,048	14.2	
Tax Outgo	922	950	744	23.9	787	17.1	
PAT	3,700	3,367	3,180	16.4	3,261	13.5	PAT boosted by healthy operating performance
Key Metrics							
GNPA	10,598	12,321	9,609	10.3	12,199	-13.1	Recovery in one large account helped improve GNPA
Loans	5,68,363	5,18,007	4,98,298	14.1	5,38,994	5.4	Growth driven by Individual loans
Borrowings	4,99,681	4,91,447	4,41,365	13.2	4,89,002	2.2	

Source: Company, ICICI Direct Research

**Exhibit 4: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	19,825	19,541	-1.4	23,087.1	23,425	1.5
Pre Provision Profit	22,357	22,644	1.3	25,664.1	26,779	4.3
NIM(%) (calculated)	3.0	3.0	-4 bps	3.0	3.1	4 bps
PAT	15,106	15,320	1.4	17,336.3	18,167	4.8

Source: Company, ICICI Direct Research

**Exhibit 5: Assumption**

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	15.7	15.8	14.6	15.0
NIM Calculated (%)	3.0	3.1	3.0	3.0
Cost to income ratio (%)	9.0	8.4	9.3	9.0
GNPA (₹ crore)	11,142	12,132	11,142	12,132

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	43,942	42,772	43,297	52,045	60,693
Interest Expended	31,001	28,615	26,739	32,504	37,268
Net Interest Income	12,941	14,157	16,558	19,541	23,425
% growth	11	9	17	18	20
Non Interest Income	14,821	5,404	4,693	5,347	5,814
Net Income	27,762	19,561	21,251	24,888	29,239
Employee cost	593	914	1,061	1,152	1,232
Other operating Exp.	905	884	1,012	1,092	1,228
Operating Income	26,264	17,763	19,178	22,644	26,779
Provisions	5,913	2,948	1,932	2,081	2,393
PBT	20,351	14,815	17,246	20,563	24,386
Exceptional gain	-	-	-	-	1
Taxes	2,581	2,788	3,504	5,244	6,218
Net Profit (excl bandhan	17,770	12,027	13,742	15,320	18,167
% growth	84.5	-32.3	14.3	11.5	18.6

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	173.2	180.4	181.3	180.6	180.6
EPS (₹)	102.6	59.8	72.5	84.8	100.6
BV (₹)	497.4	602.1	663.3	674.4	694.0
ABV (₹)	497.4	602.1	665.9	674.4	694.0
P/E	22.1	37.8	31.2	26.7	22.5
P/BV	4.5	3.8	3.4	3.4	3.3
P/adj.BV	4.5	3.8	3.4	3.4	3.3
Yields & Margins (%)					
Yield on interest earning assets	8.4	7.9	7.7	7.9	8.0
Avg. cost on funds	7.9	6.7	6.0	6.1	6.1
Net Interest Margins	2.7	2.7	2.9	3.0	3.1
Spreads	0.5	1.3	1.7	1.7	1.9

Quality and Efficiency					
Cost / Total net income	5.4	9.2	10.0	9.0	8.4
GNPA%	2.0	2.0	1.9	1.7	1.6
ROE (%)	21.7	11.1	11.4	12.7	14.7
ROA (%)	3.6	2.0	2.2	2.2	2.3

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	346.4	360.8	362.6	361.2	361.2
Reserves and Surplus	85811.7	108255.5	119888.4	121420.4	124963.5
Networth	86158.1	108616.3	120251.0	121781.5	125324.6
Borrowings	419101.6	441365.0	499681.1	573346.1	646389.9
Other Liabilities & Provisi	18833.3	17559.2	20930.3	34588.9	45621.9
Total	5,24,093	5,67,541	6,40,862	7,29,717	8,17,336
Applications of Funds					
Fixed Assets	1884.5	1827.0	3759.7	2210.7	2431.7
Investments	64944.4	68636.8	68592.2	79545.9	82702.2
Advances	439943.8	485296.0	554862.5	638460.9	739364.8
Other Assets	17320.4	11780.7	13648.1	9499.1	-7162.6
Total	5,24,093	5,67,541	6,40,862	7,29,717	8,17,336

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios (%)					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	14.6	7.6	12.9	14.7	12.0
Advances	8.2	10.3	14.3	15.7	15.8
Borrowings	14.4	5.3	13.2	18.1	12.7
Total Income	35.5	-18.0	8.6	17.2	15.9
Net interest income	11.3	9.4	17.0	18.5	19.9
Operating expenses	0.8	20.0	16.7	7.0	9.6
Operating profit (excl	105.6	-21.8	8.0	43.0	37.7
Net profit	84.5	-39.3	14.3	17.0	18.6
Book value	11.4	26.1	10.2	1.3	2.9
EPS	83.3	(41.7)	14.3	17.0	18.6

Source: Company, ICICI Direct Research

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