

May 3, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	2,900		3,272	
NII (Rs.)	1,83,975	2,07,394	1,99,999	2,32,381
% Chng.	(8.0)	(10.8)		
PPoP (Rs.)	2,12,219	2,36,151	2,26,391	2,59,877
% Chng.	(6.3)	(9.1)		
EPS (Rs.)	80.2	90.7	86.2	100.5
% Chng.	(7.0)	(9.7)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Int.Inc. (Rs m)	1,49,700	1,65,580	1,83,975	2,07,394
Growth (%)	17.4	10.6	11.1	12.7
Op. Profit (Rs m)	1,77,631	1,91,783	2,12,219	2,36,151
PAT (Rs m)	1,20,273	1,37,422	1,45,463	1,64,496
EPS (Rs.)	77.8	76.0	80.2	90.7
Gr. (%)	-	-	-	-
DPS (Rs.)	25.0	55.9	40.0	40.0
Yield (%)	1.1	2.5	1.8	1.8
Margin (%)	3.2	3.2	3.1	3.1
RoAE (%)	36.8	27.3	21.9	20.2
RoAA (%)	2.5	2.3	2.1	2.1
PE (x)	29.1	29.8	28.2	25.0
P/BV (x)	6.5	5.5	4.3	3.9
P/ABV (x)	7.1	6.1	4.6	4.2

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.3,101 / Rs.2,046
Sensex / Nifty	56,976 / 17,069
Market Cap	Rs.4,105bn/ \$ 53,645m
Shares Outstanding	1,813m
3M Avg. Daily Value	Rs.14308.94m

Shareholding Pattern (%)

Promoter's	-
Foreign	69.19
Domestic Institution	18.99
Public & Others	11.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.7)	(21.9)	(6.5)
Relative	(4.0)	(17.7)	(19.9)

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Beat on core metrics, demand outlook strong

Quick Pointers:

- Good quarter with a beat on loan growth, NII, PPOP and asset quality
- Demand outlook remains strong led by structural housing growth potential.

HDFC reported a good quarter with all core metrics beating estimates. AuM growth was higher at 14% YoY mainly driven by individual loans while NII and margins too were ahead of projections. Core PPOP was ahead by 5.1% while due to softer provisions, PAT was a beat by 12%. FY22 core PAT at Rs104.5bn (+26.4% YoY). Management indicated that home loan demand remains strong while construction finance could see an uptick. Certain aspects of the merger were clarified i.e. HDFC Ltd's non-individual loans, borrowings and deposits would form part of the merged balance sheet. We cut FY23/24E earnings by average 8% led by lower NII also trimming our core FY24 ABV multiple from 3.3x to 2.7x. Revise SoTP from Rs3,228 to Rs2,900 but maintain BUY.

- Growth upbeat; margins maintained:** NII grew by 14% YoY to Rs46bn (PLe Rs43.8bn) led by slight higher AuM growth of 14% YoY to Rs5.7trn. Opex was a miss at Rs5.14bn. Core PPOP was a beat at Rs40.9bn (PLe Rs38.9bn) led by better NII. GNPA declined QoQ by 40bps to 1.9%. Provisions were lower at Rs4.0bn although PCR is comfortable. Core PAT was better at 29.5bn (PLe Rs26.3bn) while PAT at Rs37bn was higher owing to other income. For FY22 NII grew by 14% YoY to Rs171bn while NIM was flat YoY at 3.2% (calc.). Core PPOP grew by 14.0% YoY to Rs150.5bn although core PAT growth was higher +26.4% YoY at Rs104.5bn owing to reduction in provisions.
- Momentum in individual housing loans continue:** Individual disbursements saw an accretion of 18% YoY. Affordable housing saw good traction. Individual loan disbursements saw a 37% YoY growth in FY22. AUM mix is: individual-79%, construction finance-9%, LRD-7%, corporate-5%. Management commentary suggests that home loan demand remains strong while the pipeline in construction finance and LRD is healthy. Average liquidity has come down to Rs.460bn from Rs550bn, which had a positive impact on quarterly margins.
- Further clarity on few merger issues:** Management clarified that construction finance would form a part of the merged balance sheet and the bank would continue to operate in these segments. Similarly, HDFC Ltd.'s borrowings and deposits would be carried forward to the bank balance sheet at their funding cost. These liabilities would be replaced as and when they would mature. In terms of synergies, HDFC Bank currently sources 28% of new loans for HDFC Ltd. and post the merger, all bank branches would source home loans which could drive strong home loan growth for the bank.
- Reduction in stress:** Individual/non-individual NPA fell by 45bps/28bps QoQ to 0.99%/4.77%. Provisioning held was Rs135bn. OTR reduced QoQ from 1.3% to 0.8% of AuM as a large account of Rs27.6bn that was under resolution was repaid as at March 31, 2022. The OTR mix is individual/non-individual was 98%/2%. Stage-2 pool further reduced QoQ from 5.1% to 4.4%.

Exhibit 1: Q4FY22 Result Overview

P&L (Rs mn)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Interest on advances	111,397	104,460	6.6	110,552	0.8
Other interest income	2,319	1,470	57.8	1,017	128.0
Total interest income	113,716	105,930	7.4	111,569	1.9
Interest expense	67,708	65,660	3.1	68,731	(1.5)
Net Interest Income	46,009	40,271	14.2	42,838	7.4
Capital Gains	-	-	-	-	-
Other Income	9,368	11,145	(15.9)	6,354	47.4
Total other income	9,368	11,145	(15.9)	6,354	47.4
Total income	55,377	51,416	7.7	49,192	12.6
Operating expenses	5,142	4,986	3.1	4,780	7.6
-Staff expenses	2,266	2,820	(19.7)	2,345	(3.4)
-Other expenses	2,877	2,166	32.8	2,435	18.1
Operating profit	50,235	46,429	8.2	44,412	13.1
Core operating profit	50,236	46,429	8.2	44,412	13.1
Total provisions	4,010	7,190	(44.2)	3,930	2.0
Profit before tax	46,225	39,239	17.8	40,482	14.2
Tax	9,222	7,441	23.9	7,875	17.1
Profit after tax	37,003	31,798	16.4	32,607	13.5
Balance Sheet (Rs mn)					
Loan composition	5,548,625	4,982,980	14.1	5,389,940	5.4
-Individual loans (%)	75.9	74.0	1.9	76.1	0.4
-Corporate loans (%)	23.0	24.6	(1.6)	24.1	(0.9)
-Others (%)	1.0	1.4	(0.3)	1.1	(0.1)
Borrowings composition	4,249,886	4,413,650	(3.7)	4,890,022	(13.1)
-Term loans (%)	25.0	23.8	1.2	27.3	(2.3)
-Bonds/ Deb./ CPs (%)	43.0	42.2	0.8	40.8	2.2
-Deposits (%)	33.0	34.0	(2.0)	31.9	0.1
NIMs	3.50	3.50	-	3.60	(10)
Asset quality (%)					
Gross NPL	1.91	1.98	(7)	2.32	(41)
Others / Ratios (%)					
Cost-income ratio	9.3	9.7	(0.4)	9.7	(0.4)
Int. expense/Int. income	59.5	62.0	(2.4)	61.6	(2.1)
Tier-I	22.2	21.5	1	21.7	(21)

Source: Company, PL

NII stood at Rs 46.0bn higher than our estimates [vs. PLe of Rs43.8bn] and registered a growth of 4.2% QoQ / 14.2% YoY.

Operating expenses grew 7.6%QoQ / 3.1% YoY to Rs5.1bn [vs. PLe of Rs4.9bn]

PPoP stood at Rs. 50bn [vs. PLe of Rs43.2bn] grew 13.1%QoQ and 8.2% YoY.

Provisions shrunk 44% YoY, while it increased 2% QoQ to Rs1.0bn and stood below estimates [vs. PLe of Rs6.0bn]

PAT at Rs 37bn (grew 16.4% YoY) was beat to our est. [vs. PLe of Rs29.7bn] led by lower provisions and better NII growth.

Loan book at Rs55489bn grew 2.9% QoQ / 11.4% YoY. Individual book grew decent.

GNPA stood at 1.91% vs 2.3% in the previous quarter standing lower than our estimates [vs. PLe of 2%]

Key Concall Takeaways:

Business Update:

- In Q4FY22, there was a slight uptick in interest rates, consequent to which corporation increased deposit rates as well as rates on non-individual loan products.
- Total AUM mix – Individual HL: 79%, Construction Finance: 9%, LRD: 7%, Corporate Loans: 5%. The incremental loan growth was driven by individual loans – 88% and balance from non-individual loans. Margins stood at 3.5% vs 3.6% in Q3FY22
- Individual approvals and disbursements grew by 18% YoY and 24% YoY. The growth was seen across affordable housing. ATS for EWS and LIG segment stood at Rs 11.2 lakhs and Rs 19.7 lakhs.
- Q4FY22 saw pick up in non-individual loans as well. Healthy pipeline in construction finance segment and lease rental discounting; expect trend to continue.
- Loans approved under the ECLGS stood at Rs 22.16bn, of which 79% has been disbursed.

Provisions:

- As at March 31, 2022, the Corporation carried a total provision of Rs.135bn. The provisions carried as a percentage of the Exposure at Default (EAD) is equivalent to 2.38%.
- Credit cost during the quarter reduced by 29bps (annualised). As the AQ issues ease, credit cost is expected to come down, which should improve the ROEs.

Asset quality & Collection efficiency:

- The overall GNPA's declined to 1.91% (vs 2.32% in Q3FY22). GNPA in individual segment stood at 0.99% (1.44% in Q3FY22) and non-individual segment stood at 4.76% (5.04% in Q3FY22).
- Stage 1 is 93.3%, Stage 2 is 4.4%, and Stage 3 is 2.3%. there has been 2.5 percentage point reduction in the aggregate of Stage 2 and Stage 3 assets from the peak of 9.2% in June'21 to the current level of 6.7% of the exposure at default in March 2022.
- Average collection efficiency in individual loan segment in cumulative basis for Q4 was over 99%.

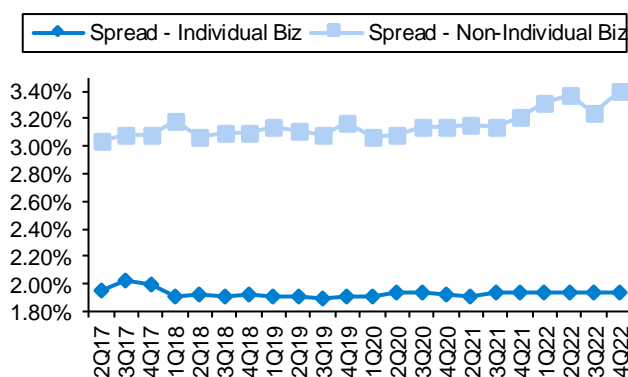
Restructured book:

- As at March 31, 2022, loans restructured under the RBI's Resolution Framework for COVID-19 Related Stress (OTR 1.0 & 2.0) was equivalent to 0.80% of the loan book. Of the loans restructured, 98% are individual loans and 2% are non-individual loans.

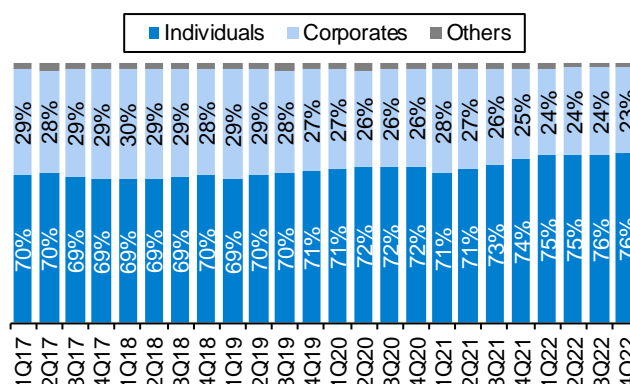
- The largest account restructured under the resolution framework of Rs.27.6 bn was fully repaid as at March 31, 2022. (No additional impact on margins)

Others:

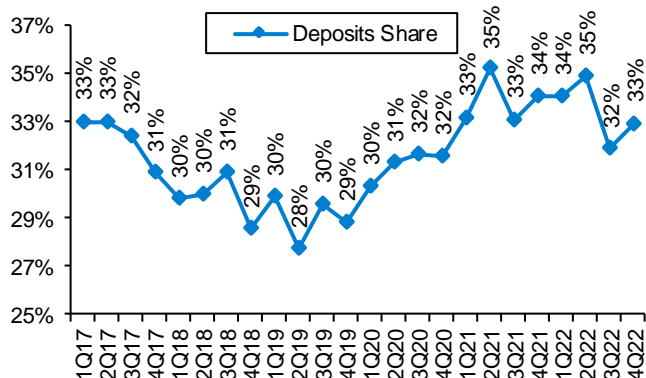
- The average level of liquidity during this quarter has been about Rs.460bn from Rs550bn, resulting in positive impact on margins. Current liquidity is higher than requirement and management believes there won't be further need to build up liquidity
- The recent hike in RPLR by 5bps is an adjustment as the short term rates have gone up, to ensure spreads remain stable.

Exhibit 2: Spreads on non-individual saw uptick


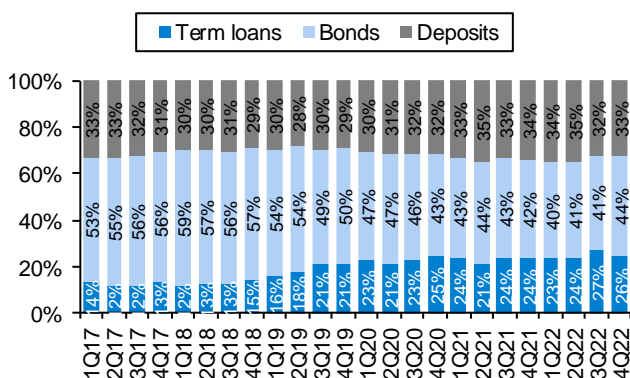
Source: Company, PL

Exhibit 3: Loan mix largely stable QoQ


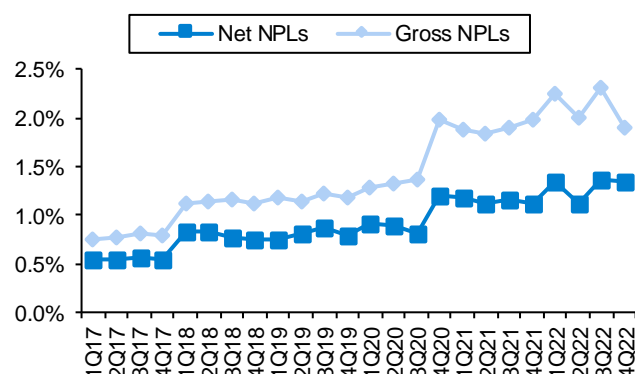
Source: Company, PL

Exhibit 4: Deposit share steady


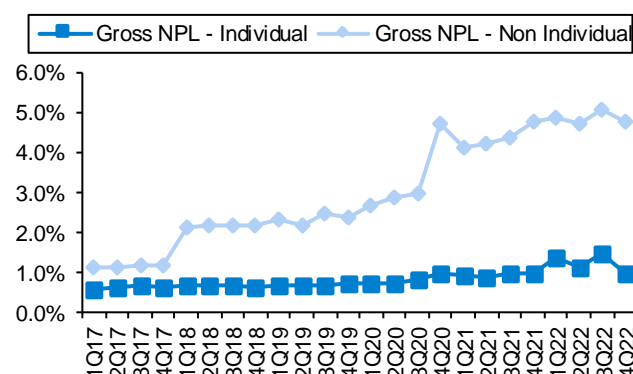
Source: Company, PL

Exhibit 5: Borrowing mix stable


Source: Company, PL

Exhibit 6: GNPA's have come off...


Source: Company, PL

Exhibit 7: ...across segments


Source: Company, PL

Exhibit 8: ECL/EAD down QoQ/YoY

As per IND AS	Q4FY22	Q4FY21	YoY gr	Q3FY22	QoQ gr
Gross Stage 3	130,723	116,320	31.9%	145,070	11.7%
ECL Provision Stage 3	71,022	60,570	30.4%	70,990	-0.4%
Net Stage 3	59,701	55,750	33.2%	74,080	26.3%
Coverage Ratio% Stage 3	54.3%	52.0%	-0.1%	49%	-11.0%
Gross Stage 1 & 2	5,552,907	4,855,760	11.1%	5,240,360	3.3%
ECL Provision Stage 1 & 2	64,679	69,680	-11.7%	60,960	-1.9%
Net Stage 1 & 2	5,488,228	4,786,080	11.4%	5,179,400	3.4%
ECL Provision % Stage 1 & 2	1.2%	1.4%	-20.5%	1.16%	-5.0%
ECL/EAD	2.4%	2.6%	-4.2%	2.45%	-4.4%

Source: Company, PL

Exhibit 9: We lower our earnings assumptions

(Rs mn)	Old		Revised		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income	199,999	232,381	183,975	207,394	-8.0%	-10.8%
Operating profit	226,725	260,295	212,219	236,151	-6.3%	-9.1%
Net profit	155,850	181,624	145,463	164,496	-6.5%	-9.3%
EPS (Rs)	86.4	100.7	80.2	90.7	-7.0%	-9.7%
Price target, (Rs)	3,272		2,900		-11.4%	
Recommendation	BUY		BUY			

Source: PL

Exhibit 10: Core multiple maintained at 2.7x PBV Mar'24E; maintain BUY

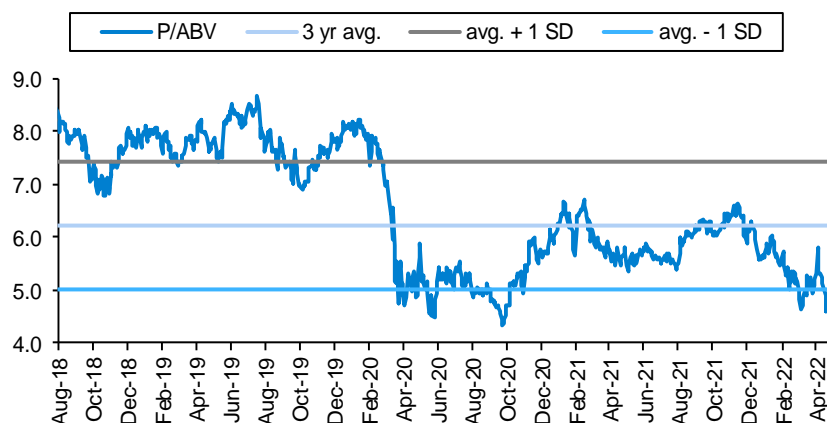
PT calculation and upside	
Fair price – EVA	2,667
Fair price - P/ABV	216
Average of the two	1,442
Target P/ABV	2.7
Target P/E	18.5
Value of subs/associates	1,458
Fair value of consol. Entity	2,900
Current price, Rs	2,264
Upside (%)	28%
Dividend yield (%)	1%
Total return (%)	29%

Source: PL

Exhibit 11: SOTP Metrics: core valued at 2.7x PABV MAR'24E, subsidiaries 46.8% of SOTP

HDFC SOTP valuation	Stake (%)	Value per share (Rs)	Basis
HDFC Parent (A)		1,442	Avg. of EVA and two-stage GGM, 2.7x P/ABV MAR'24E
Subsidiaries / Associates			
HDFC Bank	21.0	1,218	Value of stake in HDFC Bank as per our fair value
Life insurance	47.8	323	M-Cap
AMC	52.6	125	M-Cap
General Insurance	50.0	51	18x forward earnings
Bandhan Bank	9.9%	52	6x of Book value
HDFC CAPITAL ADVISORS	100.0%	2	15x forward earnings
HDFC CREDILA	100.0%	6	15x forward earnings
HDFC Property Ventures	80.5%	2	15x forward earnings
Total subs/associates (B) @18% discount		1,458	
Fair value (A+B)		2,900	
Current market price		2,264	
<i>Upside (%)</i>		28	
Contribution of subs to total (%)		50.3	

Source: PL

Exhibit 12: HDFC core multiple to sustain at higher end


Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Inc. / Opt. Inc.	4,35,847	4,32,972	5,46,661	6,60,567
Interest Expenses	2,86,148	2,67,392	3,62,686	4,53,173
Net interest income	1,49,700	1,65,580	1,83,975	2,07,394
Growth(%)	17.4	10.6	11.1	12.7
Non-interest income	45,911	46,930	51,469	58,875
Growth(%)	(69.4)	2.2	9.7	14.4
Net operating income	1,95,611	2,12,510	2,35,444	2,66,269
Expenditures				
Employees	9,141	10,608	12,942	16,177
Other Expenses	7,251	8,396	9,907	13,493
Depreciation	1,588	1,723	376	448
Operating Expenses	17,980	20,727	23,225	30,118
PPP	1,77,631	1,91,783	2,12,219	2,36,151
Growth(%)	(32.4)	8.0	10.7	11.3
Provisions	29,480	19,320	17,828	16,325
Profit Before Tax	1,48,151	1,72,463	1,94,391	2,19,826
Tax	27,878	35,041	48,928	55,330
Effective Tax rate(%)	18.8	20.3	25.2	25.2
PAT	1,20,273	1,37,422	1,45,463	1,64,496
Growth(%)	(32.3)	14.3	5.9	13.1

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Source of funds				
Equity	3,608	3,626	3,626	3,626
Reserves and Surplus	10,84,219	11,98,884	14,05,949	14,97,923
Networth	10,87,827	12,02,510	14,09,575	15,01,549
Growth (%)	26.3	10.5	17.2	6.5
Loan funds	44,13,650	49,96,811	57,11,851	65,30,973
Growth (%)	5.3	13.2	14.3	14.3
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	1,71,996	2,06,603	2,53,952	2,66,649
Other Liabilities	2,513	2,700	40,403	25,031
Total Liabilities	56,75,986	64,08,625	74,15,781	83,24,203
Application of funds				
Net fixed assets	21,965	41,296	31,507	37,493
Advances	48,52,943	55,48,625	63,36,657	70,99,715
Growth (%)	10.3	14.3	14.2	12.0
Investments	6,86,368	6,85,922	9,01,434	10,25,319
Current Assets	41,234	48,319	54,589	61,849
Net current assets	(1,30,762)	(1,58,284)	(1,99,363)	(2,04,800)
Other Assets	73,477	84,462	91,595	99,826
Total Assets	56,75,986	64,08,625	74,15,781	83,24,203
Growth (%)	8.3	12.9	15.7	12.2
Business Mix				
AUM	48,52,943	55,48,625	63,36,657	70,99,715
Growth (%)	10.3	14.3	14.2	12.0
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	3.2	3.2	3.1	3.1
ROAA	2.5	2.3	2.1	2.1
ROAE	36.8	27.3	21.9	20.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Int. Inc. / Operating Inc.	1,06,471	1,06,831	1,11,569	1,13,716
Income from securitization	-	-	-	-
Interest Expenses	65,219	65,735	68,731	67,708
Net Interest Income	41,252	41,096	42,838	46,009
Growth (%)	23.7	14.1	7.0	14.2
Non-Interest Income	10,161	15,433	6,354	9,369
Net Operating Income	51,412	56,529	49,192	55,378
Growth (%)	(1.2)	30.4	0.7	7.7
Operating expenditure	5,130	4,912	4,379	7,408
PPP	45,906	51,231	44,412	47,411
Growth (%)	8.8	7.4	(22.4)	52.9
Provision	6,860	4,520	3,930	4,010
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	39,046	46,711	40,482	43,401
Tax	9,039	8,906	7,875	9,222
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	23.1	19.1	19.5	21.2
PAT	30,007	37,805	32,607	34,179
Growth	(2)	32	11	7
AUM	50,04,90	52,07,98	53,89,94	56,83,63
	0	0	0	0
YoY growth (%)	7.5	9.6	11.4	14.1
Borrowing	45,18,69	46,27,37	48,90,02	49,96,81
	1	0	2	0
YoY growth (%)	4.6	9.9	12.7	13.2

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	2,264	2,264	2,264	2,264
EPS (Rs)	77.8	76.0	80.2	90.7
Book value (Rs)	350.3	411.8	526.0	576.8
Adj. BV(Rs)	319.4	370.5	494.6	542.9
P/E(x)	29.1	29.8	28.2	25.0
P/BV(x)	6.5	5.5	4.3	3.9
P/ABV(x)	7.1	6.1	4.6	4.2
DPS (Rs)	25.0	55.9	40.0	40.0
Dividend Payout Ratio(%)	37.5	73.7	49.9	44.1
Dividend Yield(%)	1.1	2.5	1.8	1.8

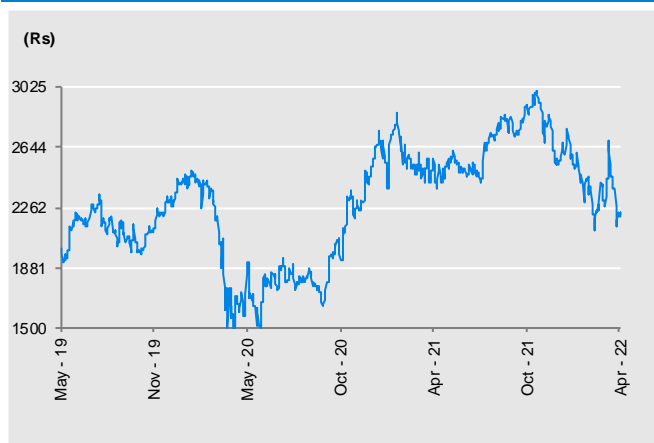
Asset Quality

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs(Rs m)	95,043	1,09,863	95,050	99,396
Net NPA(Rs m)	55,750	74,863	57,050	61,396
Gross NPAs to Gross Adv.(%)	2.0	2.0	1.5	1.4
Net NPAs to net Adv.(%)	1.1	1.3	0.9	0.9
NPA coverage(%)	41.3	31.9	40.0	38.2

Du-Pont as a % of AUM

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	2.7	2.8	2.7	2.6
NII INCl. Securitization	2.7	2.8	2.7	2.6
Total income	3.6	3.6	3.4	3.4
Operating Expenses	0.3	0.3	0.3	0.4
PPOP	3.3	3.2	3.1	3.0
Total Provisions	0.5	0.3	0.3	0.2
RoAA	2.5	2.3	2.1	2.1
Avg. Assets/Avg. net worth	14.6	12.0	10.4	9.6
RoAE	36.8	27.3	21.9	20.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-22	BUY	3,272	2,445
2	03-Feb-22	BUY	3,228	2,528
3	11-Jan-22	BUY	3,322	2,660
4	01-Nov-21	BUY	3,322	2,888
5	05-Oct-21	BUY	3,214	2,741
6	02-Aug-21	BUY	3,028	2,462
7	06-Jul-21	BUY	3,087	2,495
8	07-May-21	BUY	3,094	2,497

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	3,500	2,485
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	150	120
4	Can Fin Homes	BUY	800	661
5	City Union Bank	BUY	180	140
6	DCB Bank	BUY	120	86
7	Federal Bank	BUY	135	100
8	HDFC	BUY	3,272	2,445
9	HDFC Bank	BUY	1,740	1,465
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	979
13	Kotak Mahindra Bank	Accumulate	1,925	1,785
14	LIC Housing Finance	Accumulate	420	393
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	610	516

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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