



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

Updated Oct 08, 2022

19.11

Low Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 4,53,832 cr
52-week high/low:	Rs. 3,021/2,026
NSE volume: (No of shares)	28.6 lakh
BSE code:	500010
NSE code:	HDFC
Free float: (No of shares)	179.9 cr

Shareholding (%)

Promoters	-
FII	67.8
DII	21.0
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.4	5.4	10.3	-13.8
Relative to Sensex	8.6	-8.4	6.0	-13.0

Sharekhan Research, Bloomberg

Housing Development Finance Corporation Ltd

Good Q2, Individual AUM growth robust

NBFC	Sharekhan code: HDFC			
Reco/View: Buy	↔	CMP: Rs. 2,497	Price Target: Rs. 3,025	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- HDFC's reported PAT at Rs. 4,454 crore, which was above street expectations and our estimates (3%), rising by 18% y-o-y/ 21% q-o-q mainly due to higher dividend income and contained credit cost.
- AUM growth was healthy at 16% y-o-y/ 3% q-o-q, with individual loans growing robustly by 20% YoY & Non-individual book grew mutedly by 1% YoY. NII grew by 13% y-o-y/ 4% q-o-q. NIMs (calculated as % of avg. AUMs) stood at 2.86% flat QoQ. Operating profits rose by 15%y-o-y / 15% q-o-q on the back of higher non-core income in the form of dividend from subsidiaries.
- Credit costs (% of avg AUM) stood at 28 bps vs 31bps QoQ. Combined gross Stage 2&3 assets fell by 62 bps QoQ tp 5.84% vs 6.47% in Q1FY23. GNPL in individual loans stood at 0.91% vs 0.98% in the last quarter, and in non-individual book, GNPL stood at 3.99% vs 4.44% in the last quarter.
- We maintain a Buy on the stock with an unchanged SOTP-based PT of Rs. 3,025. At CMP, HDFC trades at 1.5x and 1.4x of its FY23E/FY24E Core BV.

HDFC Ltd reported strong operational performance driven by higher dividend income. NII grew by 13% y-o-y/ 4% q-o-q. NIMs (computed as % of Avg. AUM) stood at 2.86% vs 2.85% in Q1FY23. Management guided that there was a lag effect in the transmission of rates on the asset book although they have passed on the entire repo rate hike. The overall margin trajectory should improve going forward as overall loan book gets repriced. Opex grew by 11%y-o-y/ flat %q-o-q. Operating profits grew by 15%y-o-y/15%q-o-q driven by higher non-core income (dividend income from subsidiaries – Rs. 1,360 cr vs Rs. 687 crore QoQ & Rs. 1,171 crore YoY). Provisions declined by 8% QoQ. Credit costs (% of avg AUM) stood at 28 bps vs 31bps QoQ/ 32 bps YoY. PAT grew by 18% YoY/ 21% QoQ driven by higher non-core income and contained credit cost. Total gross NPL declined by 19bps q-o-q, reported at 1.59% led by continuous improvement in collection efficiencies across loan segments. GNPL in individual loans stood at 0.91% versus 0.98% in the last quarter and in non-individual book GNPL stood at 3.99% versus 4.44% in the last quarter. Gross stage 3 & Net stage 3 assets at 1.90% / 0.85% versus 2.1%/1.0% in last quarter. PCR on stage 3 assets at 55.3% versus 52.7% in last quarter. The restructured book stood at 0.7% of total loans versus 0.8% in last quarter. AUM grew by 16% y-o-y / 3% q-o-q as strong uptick in demand seen in the affordable housing segment and in the middle & high-income group segment during the quarter. Individual loan book grew by 20% y-o-y while non-individual loan book grew by only 1% y-o-y. HDFC continued to have healthy pipeline of non-individuals' loans in the last 12 months and management expect growth to accelerate in the non-individual book in coming quarter which is a key positive.

Key positives

- Strong growth momentum witnessed in Individual AUM
- Stable asset quality

Key negatives

- Margins flat QoQ due to lag impact in repricing of book
- Higher Opex growth

Management Commentary

- Housing demand continued to remain strong in the affordable housing segment and in middle & high-income group segment. Growth in metro/tier I cities is certainly outpacing. Also, the company continued to have healthy pipeline of non-individual loans and management expects growth to accelerate in the non-individual book in the coming quarter which is a key positive.
- Management expects credit cost to normalise further and should be below pre pandemic level, along with further improvement in the asset quality matrix.

Our Call

Valuation: We maintain a Buy rating on the stock with an unchanged SOTP-based PT of Rs. 3,025. Currently, housing demand is very strong, which looks sustainable on the back of emerging trends across the young population to acquire homes at an early stage of life and it is emerging as a big aspiration among youngsters. HDFC, being the leader, would be able to capture large opportunities. Management is optimistic in improving the asset quality matrix, further led by improvement in collection efficiencies. With individual AUM growth highest in last eight years and high yielding non-individual portfolio is likely to see uptick in growth, we expect strong AUM growth going forward. Its credit costs have declined and are likely to fall below pre-pandemic levels. We believe that the company would emerge as the key beneficiary of the favorable macro factors play. At CMP, HDFC trades at 1.5x and 1.4x of its FY23E/FY24E Core BV. We believe valuations are reasonable. Hence, we maintain buy rating with an unchanged SOTP based PT of Rs. 3,025.

Key Risks

Economic slowdown due to slower loan growth and higher than anticipated credit costs may affect earnings.

Valuation

	Rs cr			
Particulars	FY21	FY22	FY23E	FY24E
NII	14,970	17,119	18,948	22,958
PAT	12,027	13,742	17,178	20,785
EPS (Rs.)	66.7	75.8	94.7	114.6
P/E (x)	16.3	14.3	11.5	9.5
P/BV(x)	1.8	1.6	1.5	1.4
ROE (%)	12.3	12.0	13.9	13.4
ROA (%)	2.2	2.3	2.5	2.6

Source: Company; Sharekhan estimates

Key Result highlights

- ♦ **NII growth driven by AUM growth, margins flat:** Net interest income grew by 13% y-o-y/ 4% q-o-q. NIMs (computed as % of Avg. AUM) stood at 2.86% vs 2.85% in Q1FY23. Management guided that there was a lag effect in the transmission of rates on the asset book although they have passed on the entire repo rate hike. Overall margin trajectory should improve going forward as overall loan book gets repriced and the share of non-individual book rises gradually.
- ♦ **Strong business momentum likely to sustain:** During the half-year that ended September 30, 2022, individual approvals and disbursements grew by 35% and 36%, respectively compared to the corresponding period in the previous year. Demand for home loans and the pipeline of loan applications remains strong. Growth in home loans was seen in both, the middle-income segment as well as in high-end properties. The company guided that growth is broad-based and sustainable.
- ♦ **Healthy AUM growth:** Higher demand is being witnessed in both the affordable housing segment as well in high-end properties. AUM grew by 16% y-o-y and 3% q-o-q. Individual AUM grew by 20% versus 19% y-o-y in last quarter. Non-individual loans grew by 1% versus 8% y-o-y in last quarter due to run down of book led by some assets resolution. The corporation continued to have a healthy pipeline of non-individuals' loans and management expect growth to accelerate in a non-individual book in coming quarter which is a key positive. As of Sep 30, 2022, individual loans comprise 81% of the assets under management (AUMs).
- ♦ **Asset quality improved:** Pre-payment rate in the retail book stood at 10.3% (annualized) of the book and was in line with the historical trends. Gross NPLs were at 1.59%, down by 19 bps q-o-q. Collection efficiency for individual loans stood at > 99% cumulatively for the quarter. Gross NPLs for individual and non-individual loans stood at 0.91% and 3.99%. As on Sep 30, 2022, the Corporation carried a total provision of Rs. 13,146 crores. Provisions carried as a percentage of the exposure at default (EAD) is equivalent to 2.21%. Credit cost stood at 0.28% in Q2FY23 (annualized).
- ♦ **Restructured book:** Restructured pool stood at 0.7% versus 0.8% of the book in last quarter. Of the loans restructured, 98% are individual loans and 2% are non-individual loans.
- ♦ **Outlook:** Structurally, housing demand is very strong. Growth is outpacing in metro & tier I cities. Within housing, affordable and luxury have been witnessing higher growth. Management expects credit costs to normalize further and should be below the pre-pandemic level, along with further improvement in the asset quality matrix.

Results (standalone)

	Rs cr				
Particulars	Q2FY23	Q2FY22	Q1FY23	y-o-y	q-o-q
Income from Operations	13,199	10,683	12,003	24%	10%
Interest expenses	8,560	6,573	7,556	30%	13%
Net Interest income	4,639	4,110	4,447	13%	4%
Other income	1,837	1,543	1,246	19%	47%
Net Operating income	6,476	5,653	5,693	15%	14%
Employee cost	198	158	207	25%	-4%
Depreciation	58	39	54	50%	8%
Other costs	333	333	328	0%	2%
Operating expenses	589	530	589	11%	0%
Pre-provisioning profit (PPoP)	5,887	5,123	5,104	15%	15%
Provisions & Write-offs	473	452	514	5%	-8%
PBT	5,414	4,671	4,590	16%	18%
Tax	960	891	921	8%	4%
Tax Rate (%)	18%	19%	20%		
PAT	4,454	3,781	3,669	18%	21%
EPS (Rs)	25	21	20	17%	21%

Source: Company, Sharekhan Research

Key ratios

Particulars	Q2FY23	Q2FY22	Q1FY23	y-o-y	q-o-q
Loan AUM (Rs mn)	69,02,847	59,73,387	67,13,640	16%	3%
-Individuals (Rs mn)	46,57,520	39,11,950	44,74,020	19%	4%
-Non-Individuals (Rs mn)	12,95,167	12,96,027	13,36,380	0%	-3%
Loan Outstanding (Rs mn)	59,52,687	52,07,977	58,10,400	14%	2%
NIM - Computed(%)	2.86	2.89	2.85		
GNPL (% of total loans)	1.59	2.00	1.78		
Capital Adequacy	22.50	22.40	21.90		
Tier I	21.90	21.60	21.40		
Tier II	0.60	0.80	0.50		

Source: Company, Sharekhan Research

SOTP Valuation

Subsidiary/Associate/JV	Per share value
HDFC Bank	832
HDFC Life	299
HDFC ERGO General Insurance	97
HDFC AMC	150
Bandhan Bank	22
HDFC Credila	10
Value of subs (post holdco discount)	1,412
Core Mortgage Business	1613
Total SOTP Valuation (Rs)	3,025

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Housing demand to grow exponentially

Long-term structural drivers remain strong for mortgages in India. There is an emerging trends across young population to acquire homes at early stage of life and it is emerging as a big aspiration among the youngsters, which is likely to prop up demand. Higher interest rates are not going to affect the demand. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake. 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. The outlook is resilient for well-run HFCs.

■ Company Outlook – Strong triggers to drive growth, with stable asset quality

Balance sheet strength, consistency and quality of earnings continue to be the key differentiators for HDFC, which support long-term investments thesis. HDFC is well-capitalised and its book with high-quality granular individual loans make it comfortably placed. We expect HDFC's leadership to sustain going forward, even as growth momentum in the housing market is encouraging. HDFC's strong operating metrics and huge opportunity gives strong triggers for growth ahead.

■ Valuation – We maintain our Buy rating on HDFC with an unchanged SOTP based PT of Rs. 3,025

We maintain a Buy rating on the stock with an unchanged SOTP based PT of Rs. 3,025. Currently housing demand is very strong which looks sustainable on the back of emerging trends across young population to acquire homes at early stage of life and it is emerging as a big aspiration among youngsters. HDFC, being the leader, would be able to capture large opportunity. Management is optimistic in terms of improving asset quality matrix further led by improvement in collection efficiencies. With individual AUM growth highest in last 8 years and high yielding non-individual portfolio is likely to see uptick in growth, we expect strong AUM growth going forward. Its credit costs have been declining and are likely to fall below pre-pandemic levels. We believe that the company would emerge as the key beneficiary of the favorable macro factors play. At CMP, HDFC trades at 1.5x and 1.4x of its FY23E/FY24E Core BV. We believe valuations are reasonable. Hence, we maintain buy rating with an unchanged SOTP based PT of Rs .3,025.

Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HDFC Ltd	2,497	4,53,832	11.5	9.5	1.5	1.4	13.9	13.4	2.5	2.6
LIC Housing Finance	370	20,344	5.3	4.3	0.7	0.6	14.6	15.8	1.4	1.5
Can Fin Homes	521	6,942	11.4	10.2	1.9	1.6	18.1	17.1	2.0	1.8

Source: Company, Sharekhan Research

About company

HDFC Limited is a largest & leading HFC 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 tuff macro cycles. 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. HDFC's strong operating metrics and huge opportunity, gives strong triggers for growth ahead.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost may affect earnings.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIFE INSURANCE CORP OF INDIA	4.49
2	INVESCO LTD	4.26
3	VANGUARD GROUP INC	3.98
4	INVESCO DEVELOPING FUND	3.92
5	SBI FUNDS MANAGEMENT LTD	3.60
6	REPUBLIC OF SINGAPORE	3.10
7	BLACKROCK INC	2.95
8	JPMORGAN CHASE & CO	2.41
9	BAILEE GLIFFORD & CO	2.39
10	FMR LLC	2.02

Source: Bloomberg

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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 deteriorating 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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