

HDFC

BUY

Restructured assets at 0.9%; Collection efficiency at pre-covid levels

Summary

HDFC's gross stage 3 assets increased to 2.6% vs 2.34% QoQ (vs 2.2% YoY) better than its peer (LICHF at 5.93%). Restructured assets stood at 0.9% (vs 0.8% FY21) of AUM which majorly comprises of one large real estate builder group (62% of restructured). The overall collection efficiency ratio for individual loans has improved during the June month to pre-COVID levels and stood at 98.3% vs 98% in March'21. PAT declined by 2% YoY (down 6% QoQ) led by higher tax bracket due to tax on capital gains on sale of equity was lower (23% vs 15% YoY). NII grew by 22% YoY led by improvement in margins. PPoP declined by 4.5% YoY due to higher operating expenses (up 39% YoY). Disbursements for individual loan segment grew by 181% YoY in July month; highest ever in a non-quarter month. Provisions stood at Rs.131.89bn higher than regulatory requirement (Rs.57.78bn). It should support asset quality shocks in P&L. We have a BUY rating with TP at Rs.2,950, valuing parent business at Rs1,736 (2.9x P/ABV FY23) and rest for the subsidiaries.

Key Highlights and Investment Rationale

- **AUM growth slowed down:** AUM growth slowed down to 8% YoY (vs 10% FY21) during the quarter. Individual loan growth improved to 14% vs 12% while non-individual loan declined sequentially due to run down in LRD portfolio led by Rites. Individual forms 78% of the AUM. Individual disbursements grew by 181% YoY growth during the July month. The month of July 2021 witnessed the highest levels ever in non-quarter month. Growth in home loans was seen in both, the affordable housing segment as well as high-end properties.
- **Margins improved sequentially:** NIMs improved sequentially as corporation gradually unwound its high levels of liquidity (Rs152bn vs 157bn QoQ). In Q1FY22, NIMs stood at 3.7% vs 3.5% (FY21). Competition from large banks could put pressure on spreads however; growth from non-individual portfolio and lower liquidity should support NIMs.
- **Restructured assets at 0.9% of AUM; Asset quality worsens a bit:** Collections efficiency stood at 98.3% for June month vs 98% for March. Restructured assets stood at 0.9% (0.8% FY21) of AUM which majorly comprises of one large real estate builder group (62% of restructured); however adequately provided for the same. Asset quality worsens a bit with gross stage 3 assets stood at 2.6% vs 2.34% QoQ; GNPA at 2.2% vs 1.98% QoQ.
- **Outlook:** We believe HDFC should gain the market share as few HFCs are focusing on liability side and slowing down on asset growth. Higher provisions on the balance sheet give the cushion in P&L from any negative impact on non-individual portfolio if third Covid-19 wave impacts.

TP	Rs2,950
CMP	Rs2,462

Potential upside / downside +20%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	69.7	81.5
Consensus	72.4	84.0
% difference	(3.7)	(3.0)

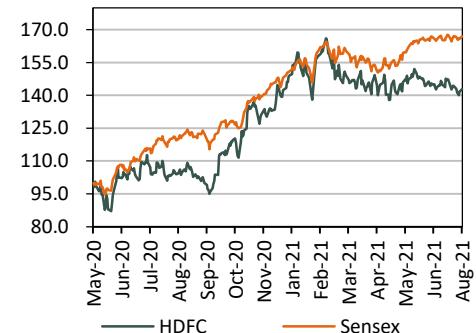
Key Stock Data

Bloomberg / Reuters	HDFC IN / HDFC.BO
Sector	Housing Finance
Shares o/s (mn)	1,806
Market cap. (Rs mn)	4,446,306
Market cap. (US\$ mn)	59,754
3-m daily avg Trd value (Rs mn)	4,621.6
52-week high / low	Rs2,895/1,623
Sensex / Nifty	52,951 / 15,885

Shareholding Pattern (%)

Promoters	0.0
FII	72.2
DII	16.2
Public	11.6

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.5)	1.7	38.1
Rel to Sensex	(1.4)	(6.8)	(2.7)

Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	114,131	129,041	151,718	173,696	196,664
Net Profit	95,679	177,697	120,274	125,759	146,998
EPS (Rs)	55.6	102.6	66.7	69.7	81.5
BV (Rs)	449.3	497.4	603.0	648.2	705.1
PER (x)	44.3	24.0	36.9	35.3	30.2
P/BV (x)	5.5	5.0	4.1	3.8	3.5
ROE (%)	13.8	21.7	12.3	11.1	12.0
ROA (%)	2.2	3.6	2.2	2.1	2.1
GNPA (%)	1.4	2.3	2.3	2.5	2.5
NNPA (%)	0.8	1.2	1.2	1.2	1.2
CAR (%)	19.1	17.6	22.2	21.4	20.3

Source: IDBI Capital Research;

Conference Call Highlights

Restructuring-

- OTR 1.0 implemented Rs37.04bn (0.7% of loans) and in OTR 2.0 received request of Rs7.78bn (0.15% of loan book). Overall stands at 0.9% of book.
- Out of loans under OTR 2.0, 38% consists of individual loans and 62% are non-individual loans (pertains to single account).

Disbursement-

- Disbursement for Q1FY22 stood at Rs255.18bn vs Rs90.74bn YoY.
- Individual's loan approval and disbursement were 96 and 97% respectively of the disbursement of Q2FY21.
- Individuals disbursements in July stood at Rs125.18bn (14% QoQ, 64% YoY) were higher as against 1HFY21. March disbursement was Rs160bn.
- Sequentially disbursement saw a decline due to the second covid wave.
- Last 12 months saw large pre-payments in the LRD portfolio that led to an impact on the growth of the non-individual portfolio.
- Construction activities were slow down in April and May (till 15th May), which led to lower disbursement. However, have a strong pipeline of the big proposal and expect to disburse further.
- Pre-payments on retail loans were lower at 8.2% of opening loan book vs 10.3% YoY.

Loan book-

- AUM breakup- Individual loans- 78% (74% YoY), construction finance- 10%, LRD- 6%, and corporate loan- 6%.
- Incremental loan book growth largely constituted by Individual loan book.
- Expects the LRD book to grow healthy and have a strong pipeline further.
- 81% of new customers are an employee, and 19% are self-employed.
- Average loan amount for new loans stood at Rs30.9lakh.

Other Highlights-

- **ECLGS**- under ECLGS 1.0 & 2.0, sanctions- Rs25.09bn and disbursed- Rs13.91bn (June'21). Under ECLGS 3.0, received the request of Rs2.66bn (5bps of loan book). Total disbursement stands at Rs14.5bn.
- The collection efficiency for individual loans on a cumulative basis stood 98.3% vs 98.0% (QoQ).
- Covid provision stands at Rs10.17bn.
- Credit costs stand at 50bps (incl. 13bps for covid provision) and as a prudent measure will continue to have 50bps credit costs while further as situation normalizes will reduce in next couple of years.
- Liquidity in liquid funds is Rs152.25bn vs Rs320bn in FY21, and in G-sec is Rs92bn.
- Write off stood at Rs5bn in Q1FY22 and mostly constitutes non-individual loans.
- Branches- Northern branches account for 26% of the business, southern- 33%, western- 37%, and eastern-4%.

Exhibit 1: Quarterly Snapshot

		(Rs mn)				
Year-end: March		Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Interest Income		106,686	112,094	106,308	(4.8)	0.4
Interest Expenses		65,219	78,171	65,660	(16.6)	(0.7)
Net Interest Income		41,467	33,923	40,648	22.2	2.0
NIM (%)		3.7	3.1	3.5	60 bps	20 bps
Fee & Other Income		7,316	5,687	10,767	28.6	(32.1)
Treasury gains		2,630	12,412	0	(78.8)	NA
Operating Income		51,413	52,022	51,415	(1.2)	0.0
Staff Cost		1,735	1,590	1,378	9.1	25.9
Other Op Exp		3,772	2,374	3,608	58.9	4.5
Total Operating Expenses		5,507	3,964	4,986	38.9	10.4
<i>Cost to Income (%)</i>		10.7	7.6	9.7	309 bps	101 bps
<i>Cost to AUM (%)</i>		0.4	0.3	0.4	8 bps	3 bps
Operating Profit		45,906	48,058	46,429	(4.5)	(1.1)
Provisions		6,860	11,990	7,190	(42.8)	(4.6)
<i>Credit Cost (%)</i>		0.6	1.1	0.6	(51 bps)	(4 bps)
PBT		39,046	36,068	39,239	8.3	(0.5)
Tax		9,039	5,553	7,441	62.8	21.5
<i>-effective tax rate</i>		23.1	15.4	19.0	775 bps	419 bps
PAT		30,007	30,515	31,798	(1.7)	(5.6)
EPS (Rs)		16.6	17.6	17.6	(5.5)	(5.7)
BV (Rs)		621.2	527.6	603.0	17.8	3.0
Loans		4,873,070	4,534,290	4,852,943	7.5	0.4
AUM		5,741,360	5,311,860	5,698,940	8.1	0.7

Source: Company; IDBI Capital Research

Exhibit 2: SOTP Valuation (Sum of the parts valuation for HDFC and its subsidiaries, associates)

HDFC & HDFC Subsidiaries	Metho-dology	ABV Rs mn	Val. (x)	Val. Rs mn	Eq. stake (%)	Attributable Val. (Rs)	Value/share Rs
HDFC Ltd. (core mortgage business)	P/ABV	1,092,799	2.9	3,130,869	100.0	3,130,869	1,736
Listed subs. / asso.							
HDFC Bank Ltd.	CMP		7,877,740		20.9	1,646,448	913
Bandhan Bank	CMP		482,070		9.9	47,725	26
HDFC Life Insurance Co. Ltd.	CMP		1,354,830		51.5	697,466	387
HDFC Asset Management Co. Ltd.	CMP		611,930		52.8	323,160	179
Value of listed subs. / asso.							
1,505							
Unlisted subs. / asso.							
HDFC Ergo General Insurance Co. Ltd.	Latest transaction	-	48,991		50.7	24,853	14
Value of unlisted subs. / asso.							
14							
Discounted value of listed/unlisted subs. / asso.							
304							
Total equity investment in subs. / asso.							
2,950							

Exhibit 3: ROE Decomposition

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	2.7	2.6	2.8	2.9	2.8
Fees	0.6	0.3	0.5	0.4	0.4
Other Income	0.4	2.8	0.3	0.2	0.2
Net Revenue	3.6	5.6	3.6	3.5	3.5
Op.Exp	0.3	0.3	0.3	0.3	0.3
Op.Profit	3.3	5.3	3.3	3.2	3.2
Provisions	0.2	1.2	0.5	0.6	0.5
PBT	3.0	4.1	2.7	2.6	2.7
Tax	0.8	0.5	0.5	0.6	0.6
ROA	2.2	3.6	2.2	2.1	2.1
Leverage (x)	6.2	6.0	5.6	5.4	5.7
ROE	13.8	21.7	12.3	11.1	12.0

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account					(Rs mn)	Financial Ratios				(%)
Year-end: March	FY20	FY21	FY22E	FY23E		Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	129,041	151,718	173,696	196,664		Growth				
Fee Income	12,586	29,917	26,039	29,899		Advances	9.8	10.3	14.6	15.0
Treasury Gains	135,950	13,977	14,205	15,516		NII	13.1	17.6	14.5	13.2
Operating Income	277,577	195,612	213,941	242,079		Pre-Provision Profit	87.7	(32.4)	9.3	13.0
Operating expenses	(14,936)	(17,980)	(19,790)	(22,724)		Net Profit	85.7	(32.3)	4.6	16.9
Employee expenses	(5,831)	(5,758)	(6,770)	(7,774)		Spreads				
Other expenses	(9,105)	(12,222)	(13,020)	(14,950)		Yield on Assets	9.9	9.0	9.1	9.1
Pre-Provision Profit	262,640	177,632	194,151	219,355		Cost of Funds	7.9	6.7	6.8	6.8
Provision	(59,131)	(29,480)	(34,962)	(33,282)		NIM	2.8	2.9	3.0	2.9
Loan loss Provisions	(8,637)	(11,646)	(28,433)	(13,350)		Operating Efficiency				
Other Provisions	(50,494)	(17,834)	(6,529)	(19,931)		Cost-to-Income	5.4	9.2	9.3	9.4
PBT	203,510	148,152	159,189	186,073		Cost-to-Assets	0.3	0.3	0.3	0.3
Taxes	(25,813)	(27,878)	(33,430)	(39,075)		Asset Quality				
)Net profit	177,697	120,274	125,759	146,998		GNPA	2.3	2.3	2.5	2.5
Balance Sheet					(Rs mn)	NNPA	1.2	1.2	1.2	1.2
Year-end: March	FY20	FY21	FY22E	FY23E		Provision Coverage	47.5	52.1	52.0	52.0
Capital	3,464	3,608	3,608	3,608		Credit Cost	1.4	0.6	0.7	0.6
Reserves	858,116	1,084,219	1,165,714	1,268,448		Capital Adequacy				
Networth	861,580	1,087,827	1,169,322	1,272,056		CAR	17.6	22.2	21.4	20.3
Borrowings	4,191,020	4,413,650	5,087,740	5,877,101		Tier I	16.5	21.5	19.8	18.7
Total Liab. & Equity	5,240,936	5,675,986	6,462,406	7,380,622		Valuation				
Cash & Bank with RBI	34,257	11,448	22,251	25,588		EPS	102.6	66.7	69.7	81.5
Investments	649,444	686,368	741,488	810,076		BV	497.4	603.0	648.2	705.1
Advances	4,399,430	4,852,943	5,562,680	6,397,082		P/E	24.0	36.9	35.3	30.2
Other Assets	144,316	111,668	122,835	135,118		P/BV	5.0	4.1	3.8	3.5
Total assets	5,240,936	5,675,986	6,462,406	7,380,622		ROE	21.7	12.3	11.1	12.0
						ROA	3.6	2.2	2.1	2.1
						RORWA	4.8	3.0	2.9	2.9

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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