

Estimate change



TP change



Rating change



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Bloomberg	HDFC IN
Equity Shares (m)	1,721
M.Cap.(INRb)/(USD\$)	4446.3 / 59.8
52-Week Range (INR)	2895 / 1623
1, 6, 12 Rel. Per (%)	-1/-14/-3
12M Avg Val (INR M)	9955

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Core PPOp	146.5	170.9	191.6
Adj. PAT	106.9	127.8	144.2
Adj. EPS (INR)	54.5	63.7	71.6
EPS Gr. (%)	10.8	16.9	12.4
BV/Sh. (INR)	609.3	656.3	709.7
ABV/Sh. (INR)	475.9	522.9	576.3
Core RoA (%)	1.9	2.0	2.0
Core RoE (%)	12.7	12.8	13.0
Payout (%)	40.0	44.1	44.1
Valuation			
AP/E (x)	23.5	17.4	12.6
P/BV (x)	4.0	3.8	3.5
AP/ABV (x)	2.7	2.1	1.6
Div. Yield (%)	0.9	1.2	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	0.0	0.0	0.0
DII	16.6	16.3	18.5
FII	72.2	72.8	70.2
Others	11.2	10.9	11.3

FII Includes depository receipts

CMP: INR 2,462
TP: INR3,290 (+34%)
Buy

Core operating profit in-line; commentary suggests healthy recovery from second wave impact

- HDFC's core PBT grew 12% YoY to INR32.2b (5% beat). NII (ex-assignment income) at INR41.3b was 2% above our estimate. On the other hand, provisions at INR6.9b were lower than our est. of INR8b. Better-than-expected MTM gains on investment led to an 11% beat on reported PAT (down 6% QoQ / 2% YoY).
- Strong disbursement growth (on a low base) of 181% YoY, stable QoQ spreads at 2.3%, 26bp QoQ decline in GNPA to 2.24%, and an increase of 30bp QoQ in Stage 2 assets were some of the operational highlights for the quarter.
- We increase our FY22E/FY23E estimates by 7–8%, factoring in higher NII and non-core income. We expect HDFC to report core RoA/RoE of 2%/13% over FY22–23E. Reiterate **Buy**, with SOTP-based TP of INR3,290 (FY23E SOTP-based).

Disbursements recover sharply over Jun–Jul'21; loan mix largely stable

- The recovery in disbursements was much stronger than expected at the start of the second COVID wave. July'21 disbursements were the third highest ever and the highest ever in a non-quarter month-end. Overall individual AUM grew 2% QoQ / 14% YoY to INR4.5t. **The share of individual loans was up ~100bp QoQ to 78.3% (the highest ever).**
- Non-Individual segment AUM declined ~4% QoQ and ~9% YoY. Growth in this segment was partially impacted by pre-payments in LRD due to the listing of REITs, leading to a run-off of AUM. Also, because construction activity was impacted during the lockdowns, even the disbursements in construction finance suffered in 1QFY22. Overall AUM grew +1% QoQ / 8% YoY to INR5.74t.
- The company assigned loans worth INR55b during the quarter v/s INR14b YoY. The corresponding assignment income stood at INR2.7b (v/s INR4.4b QoQ and INR1.8b YoY).

GNPLs at 2.34% | Stage 2 loans up QoQ | Restructuring under RBI OTR 2.0 at 15bp of AUM

- The overall GNPL ratio increased 26bp QoQ to 2.24%. This was more pronounced for the individual book, which saw 38bp QoQ deterioration in GNPA. However, the corporate book witnessed just a 10bp increase in the GNPL ratio to 4.87%.
- Stage 2 loans increased 30bp QoQ to 6.64% on some proactive downgrades and restructured advances classified under Stage 2. On a YoY basis, Stage 2 was up 133bp.
- During the quarter, the company restructured loans worth INR7.78b (15bp of AUM). ~62% of the restructured advances is from the Non-Individual segment and largely pertains to just one account, which forms ~50bp of AUM.**
- The company continues to maintain elevated provisions. **The total buffer stands at ~2.64% of loans.**
- In Jul'21, for the Individual Lending business, collection efficiency (CE) stood at 98.3% v/s 98.0% in Mar'21.

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Healthy margins; lower liquidity on balance sheet reduces negative carry

- Overall spreads were sequentially stable at 2.3%; reported NIMs improved 20bp QoQ to 3.7%, while calculated NIMs were stable. The average daily balance in liquid funds was INR152b in 1Q v/s INR157b QoQ.
- While individual spreads were stable QoQ at 1.93%, non-individual spreads improved to 3.32% (v/s 3.22% for FY21).
- Total borrowings were largely flat at INR4.4t. The share of deposits in total borrowings inched up ~105bp QoQ to ~35.1%. Total deposits were up ~2% QoQ to INR1.54t.

Highlights from management commentary

- ECLGS of INR13.9b was disbursed up to Jun'21. Many of these loans are classified as Stage 2. It received applications worth INR2.66b (~5bp of AUM) under ECLGS 3.0.
- HDFC is optimistic about reducing credit costs in the coming years, driven by provision reversals/write-backs on customer accounts, where it has conservatively made provisions.
- All collection efforts are now online, and currently, there are restrictions on resorting to legal means through SARFAESI.

Other highlights

- The average size of individual loans disbursed in 1QFY22 stood at INR3.09m (INR2.95m in FY21). An uptick was seen in the average ticket size and was attributable to demand for higher end properties, especially in metro cities.
- In 1QFY22, ~33%/14% of home loans approved in volume/value terms was to customers from the Economically Weaker Sections (EWS) and Low Income Groups (LIG). Average home loans to the EWS/LIG segment stood at INR1.11m/INR1.93m.
- CAR remains healthy at 22.0%, with Tier I of 21.3%. RWA declined marginally to INR3.97t (v/s INR4.0t in 4QFY21) on account of a higher proportion of individual loans in the mix.

Valuation and view

1QFY22 was a decent quarter on the operational front, despite the impact on disbursements in Apr/May'21. Disbursements picked up MoM in Jun/Jul'21, far exceeding YoY levels. With declining cost of funds and a reduction in excess liquidity on the balance sheet, margins should be stable despite pressure on retail lending yield due to continued aggression from banks in the Mortgage space. Reported CE trends in Jul'21 were encouraging and better v/s Mar'21 levels. With provisions >GNPLs, we believe the company has made more-than-adequate provisions for any potential asset quality slippage in the ensuing quarters. We increase our core PBT/PAT estimate for FY22/FY23E by 7–8% to factor in higher NII and fee income. We expect HDFC to report core RoA/RoE of 2%/13% over FY22–23E. Reiterate Buy, with SOTP-based TP of INR3,290 (FY23E SOTP-based).

HDFC: Quarterly Performance

Y/E March	FY21				FY22E				FY21	FY22E	1Q FY22E	v/s Exp (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	112	110	108	106	106	110	113	116	436	445	107	0
Interest Expense	78	74	68	66	65	67	69	71	286	271	66	-2
Net Interest Income	33	36	40	40	41	43	44	45	150	173	40	2
YoY Change (%)	9.7	22.1	24.6	13.7	23.7	18.6	10.1	12.2	17.4	15.8	20.9	
Assignment Income	2	2	4	4	3	3	4	4	12	14	3	-14
NII (including assignment income)	35	38	44	45	44	46	48	49	162	187	43	1
YoY Change (%)	5.4	17.0	30.5	18.1	24.8	22.3	8.4	10.5	17.8	15.8	23.4	
Other Operating Income	0	1	1	1	1	1	1	1	3	3	1	
Core Income	36	38	45	46	45	47	49	50	164	190	44	1
YoY Change (%)	4.9	17.1	29.9	17.3	24.9	21.7	8.5	10.4	17.4	15.6	23.7	
Operating Expenses	4	4	5	5	6	5	4	5	18	19	5	3
YoY Change (%)	3.8	-3.5	39.9	41.1	38.9	37.8	-21.1	-9.1	20.0	7.5	35.5	
Core Operating profits	32	35	39	41	39	42	44	46	146	171	39	1
YoY Change (%)	5.0	19.8	28.6	14.9	23.1	20.0	12.5	12.7	17.0	16.7	22.2	
Provisions	3	4	6	7	7	6	6	5	20	24	8	
Core PBT	29	30	34	33	32	36	39	41	126	147	31	5
YoY Change (%)	6.4	14.9	20.9	19.0	12.0	17.5	16.1	21.5	15.4	16.9	7.0	
Profit on Sale of Inv./MTM on Inv.	13	2	4	5	7	2	2	2	24	11	3	
Dividend income	3	3	0	1	0	5	4	3	7	12	0	
One off expense/Prov	-9	0	0	0	0	0	0	0	-9	0	0	
Other Income	0	0	0	0	0	0	0	0	0	0	0	
PBT	36	35	38	39	39	42	44	45	148	171	34	15
YoY Change (%)	-9.5	-22.0	-59.0	45.7	8.3	19.7	18.6	14.9	-27.2	15.4	-6.2	
Provision for Tax	6	7	8	7	9	8	8	9	28	34	7	34
PAT	31	29	29	32	30	34	36	36	120	137	27	11
YoY Change (%)	-4.7	-27.6	-65.1	42.4	-1.7	19.3	23.2	14.6	-32.3	13.7	-11.3	

E: MOFSL Estimates



Highlights from management commentary

Business updates

- July disbursements are up 64% YoY / 14% MoM. This is the third highest level of disbursements in the history of HDFC. Individual disbursements in July'21 were up from February'21 levels, but below March'21 levels. July disbursements stood at INR125.18b (March at INR160b).
- The repayment rate stood at 8.0% v/s 10.3% in the previous quarter.
- HDFC has a healthy pipeline in the corporate loan book.
- Higher prepayments in the LRD segment (due to REITs) have led to decline in Non-Individual AUM. HDFC has a strong pipeline in the LRD segment going forward.
- In the total loan book, LRD and Corporate comprise 6% each.
- The management expects ~INR11b in dividend income from HDFC Bank, HDFC Life, and HDFC AMC in 2QFY22. Since dividend income is tax-exempt, this would result in decline in the tax rate in 2Q.
- Pre-COVID LTV was at 67%; during COVID, this declined to ~48%.
- 1Q disbursements stood at INR255.18b (v/s INR90.74b YoY).
- ECLGS disbursements were INR14.55b up to June'21.
- ESOP adjustments and the impact on securities premium are reflected in the network.
- 81% of new customers are employed and 19% are self-employed. ATS is INR3.09m.
- The geographical mix of new businesses is as follows: North: 26%, South: 33%, West: 37%, and East: 4%.

- The business mix (%) is as follows: 56% from new property sales, 36% from residential sales, and 8% from self-constructions.
- The IHFL partnership is yet to take off. The documentation process is still on. The final sanctioning and credit evaluation would be entirely vested with HDFC.

Asset quality

- Total restructuring requests stood at INR7.78b (~15bp of the book). There are minimal requests in OTR2.0. Total OTR (1 + 2) restructuring stands at 9b of the book.
- Some of the OTR1.0 was not invoked.
- ECLGS requests stand at 5bp of the loan book (INR2.66b).
- HDFC witnessed certain resolutions in some defaulting accounts during the quarter. Hence, the number of Stage 2/3 accounts has reduced marginally during the quarter.
- The EAD breakup for Stage1/2/3 is as follows – 90.8%/6.6%/2.6%.
- ECL/EAD % for Stage 2/3 stood at 18%/48%.
- The management does not see much slippage from Stage 2 going forward.
- Write-offs stood at INR5.3b during the quarter, largely from the Non-Individual segment.
- 62% of the restructuring came from the Non-Individual book, largely on account of one single account.
- The total provisioning on the books stands at INR131.89b (regulatory requirement at INR57.78b); the management intends to carry this excess provision until macro situations normalize.

Liabilities and margins

- NIMs improved during the quarter on the back of lower finance costs.
- HDFC has shifted some liquid fund investments in government securities with better yields.

Others

- HDFC is optimistic about delivering growth the soft lockdowns.
- HDFC is positive about reducing credit costs in the coming years, driven by provision reversals/write-backs on customer accounts, where it has conservatively made provisions.
- All collection efforts are now online, and currently, there are restrictions on resorting to legal means through SARFAESI.

Valuation and view

- HDFC is well-placed in the current environment to capture a profitable market share. The company has access to low cost of funds, a strong ALM position, comfortable leverage, and adequate provisioning on the balance sheet, with a healthy Tier I ratio of 21.3%.
- Given the strong momentum in disbursements, **we expect HDFC to deliver 14% AUM growth over FY22–23E.**
- With declining cost of funds and a reduction in excess liquidity on the balance sheet, margins should be stable despite the pressure on retail lending yield.
- Asset quality performance has been better than initially expected. **Jul'21 CE of 98.3% in the Individual Lending book is certainly encouraging.** We believe the

company has made more-than-adequate provisions for any potential asset quality slippages in the ensuing quarters. **Its total provision buffer of INR132b is higher than its Stage 3 loans of INR130b.**

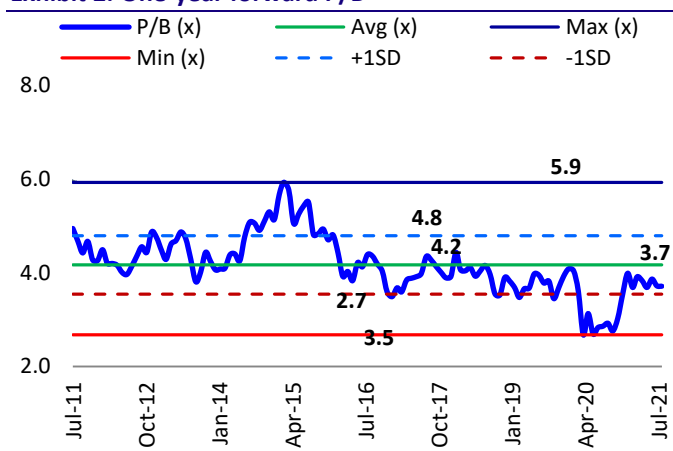
- Most of HDFC's subsidiaries are among the Top 3 players in their respective segments. Importantly, the value contribution of the subsidiaries/associates has been increasing. They now contribute ~59% to our SOTP.
- For FY22–23E, we increase our core PBT/PAT estimates by 6–7% to factor in higher NII and fee income. We expect HDFC to report core RoA/RoE of 2%/13% over FY22–23E. Reiterate **Buy**, with SOTP-based TP of INR3,290 (FY23E SOTP-based).

Exhibit 1: SOTP'23E-based

Particular	Stake	Value (INR b)	Value (USD b)	Value/Sh. (INR)	% of total	Target Multiple (x)	Rationale
Core business		3,119	41.3	1,729	52.6	3.0	PBV
Key Ventures							
HDFC Bank	21.1	2,097	27.7	1,164	35.4	3.7	PBV
HDFC Standard Life	50.0	732	9.7	406	12.3	4.0	PEV
HDFC AMC	52.7	401	5.3	222	6.8	45.0	PE
HDFC ERGO GIC	49.9	129	1.7	71	2.2	7.0	PBV
Bandhan Bank	10.0	54	0.7	30	0.9	2.0	PBV
Credila	100.0	82	1.1	46	1.4		Last deal
Other Invt		17	0.2	9	0.3	1.0	Invested Capital
Total Value of Ventures		3,512	46.5	1,949	59.3		
Less: 20% holding discount		702	9.3	390	11.9		
Value of Key Ventures		2,810	37.2	1,559	47.4		
SOTP		5,929	78.4	3,288	100.0		
CMP		4,441	58.7	2,462			
Upside - %		33.5	33.5	33.6			
SOTP W/O Holdco discount		6,631	87.7	3,678			
CMP		4,441	58.7	2,462			
Upside - %		49.3	49.3	49.4			

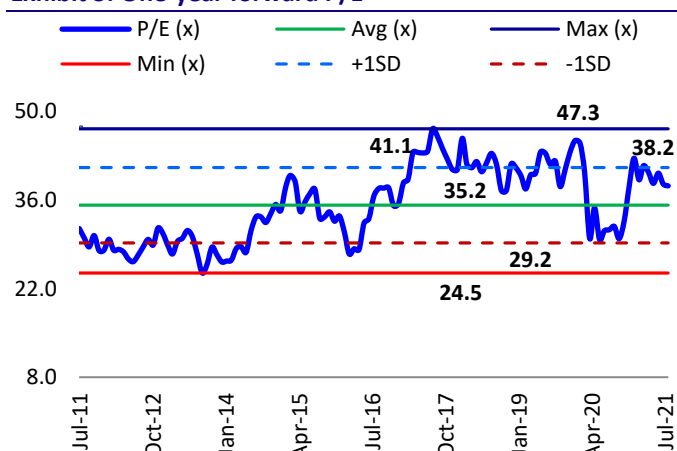
Source: MOFSL, Company

Exhibit 2: One-year forward P/B



Source: MOFSL, Company

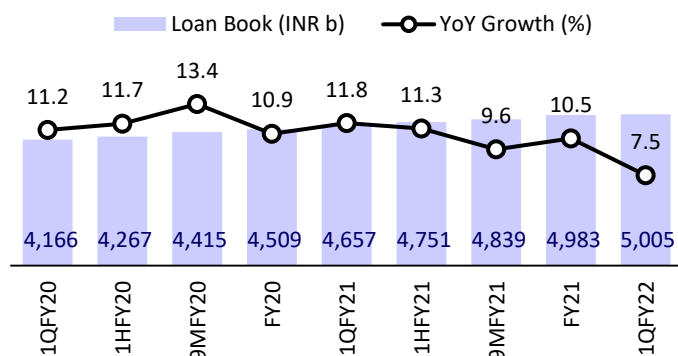
Exhibit 3: One-year forward P/E



Source: MOFSL, Company

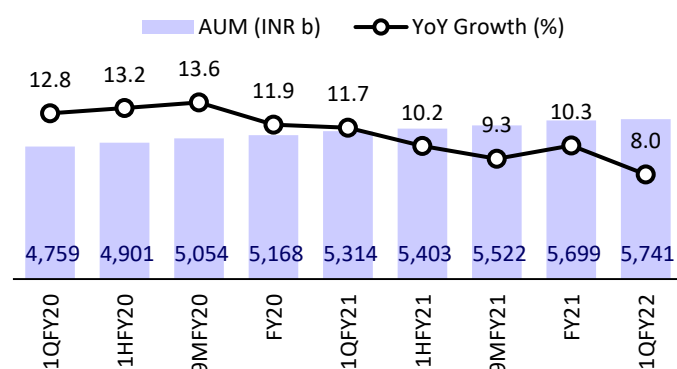
Key exhibits

Exhibit 4: Loan growth trend



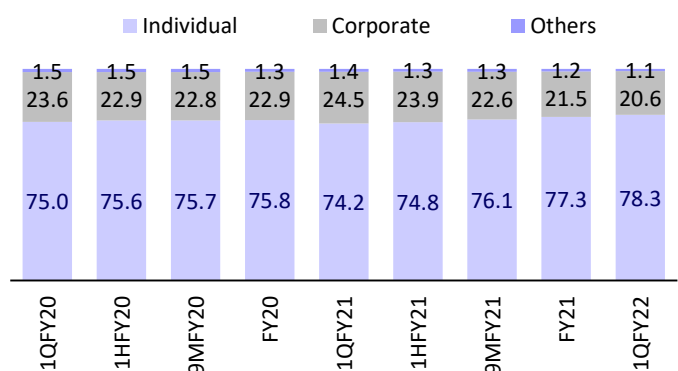
Source: MOFSL, Company

Exhibit 5: AUM growth at 8.0% YoY



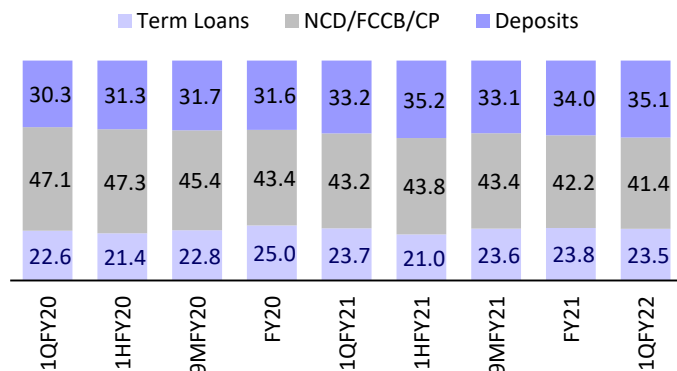
Source: MOFSL, Company

Exhibit 6: Individual loan share up ~104bp QoQ (%)



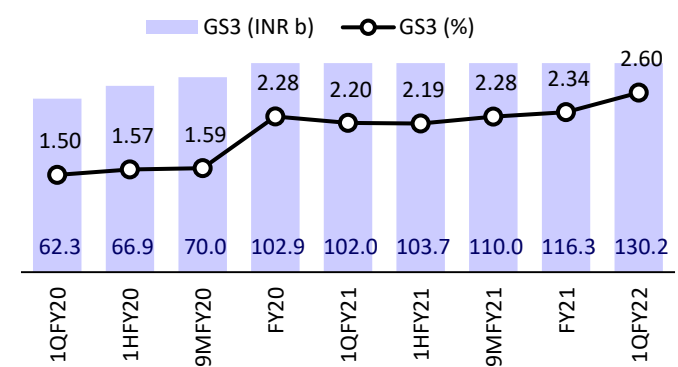
Source: MOFSL, Company, *HL :Home Loans

Exhibit 7: Share of deposits up ~ 188bp YoY (%)



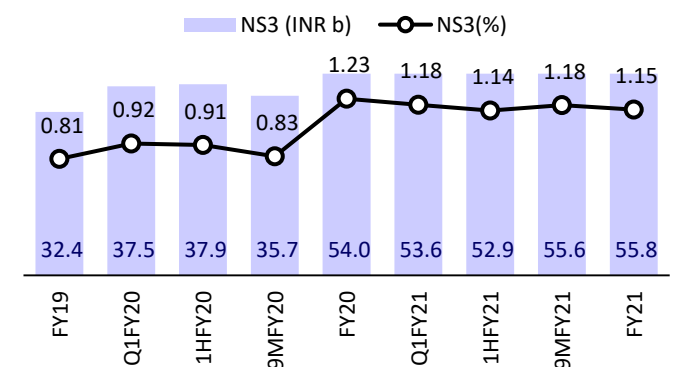
Source: MOFSL, Company

Exhibit 8: GS3 inches up 26bp QoQ (%)...



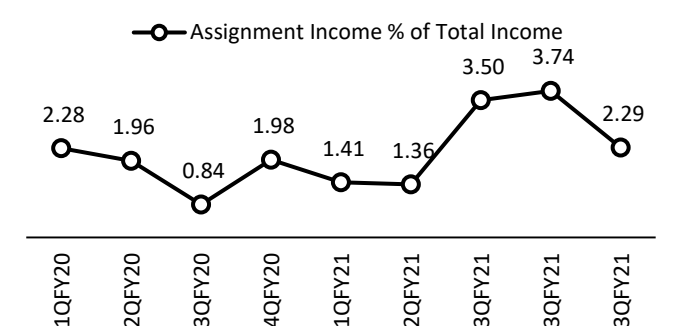
Source: MOFSL, Company

Exhibit 9: ...and NS3 by 23bp QoQ



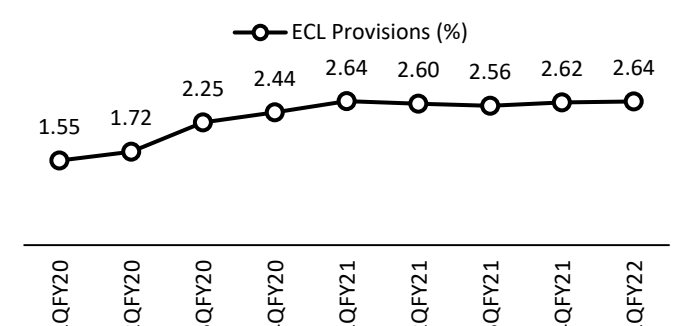
Source: MOFSL, Company

Exhibit 10: Assignment income trend (%)



Source: MOFSL, Company

Exhibit 11: Outstanding provisions at 2.6% of loans



Source: MOFSL, Company

Financials and valuation

Income statement (INR b)									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	281	309	331	393	437	436	445	523	611
Interest Expended	194	209	235	278	310	286	271	333	397
Net Interest Income	87	100	96	114	127	150	173	190	214
Change (%)	8.8	14.5	-3.2	18.7	11.4	17.4	15.8	9.7	12.8
Assignment income	0	0	5	9	10	12	14	17	20
Net Income (including assignment income)	87	100	102	123	137	162	187	208	235
Change (%)	8.8	14.5	2.2	21.0	11.5	17.8	15.8	10.9	13.2
Other core operating income	4	3	2	3	3	3	3	3	4
Core Income	91	103	104	126	140	164	190	211	238
Change (%)	9.5	13.5	0.9	21.4	11.1	17.4	15.6	10.9	13.1
Operating Expenses	8	8	19	15	15	18	19	19	22
Change (%)	7.4	10.3	127.6	-22.0	0.8	20.0	7.5	-0.1	12.4
% of core income	8.4	8.1	18.3	11.8	10.7	10.9	10.2	9.2	9.1
Core operating profits	83	95	85	111	125	146	171	192	217
Change (%)	9.7	13.8	-10.3	31.1	12.5	17.0	16.7	12.1	13.1
Provisions/write offs	7	7	21	9	59	29	24	26	28
Core PBT	76	88	64	102	66	117	147	166	188
Change (%)	2.5	15.3	-27.3	59.9	-35.2	77.1	25.9	12.4	13.6
Profit on sale/MTM on Invt.	16	10	57	18	126	24	11	14	16
Dividend Income	8	9	11	11	11	7	12	14	17
One off exp/prov	-5	-3	-17	-4	-43	-9	0	0	0
Miscellaneous Income	1	1	0	0	0	0	0	0	0
PBT	97	105	115	127	160	139	171	194	221
Tax	30	33	22	35	26	28	34	39	44
Tax Rate (%)	31.2	31.4	19.3	27.4	16.1	20.0	20.0	20.0	20.0
Reported PAT	66	72	93	92	135	111	137	155	177
Change (%)	10.9	7.9	29.8	-1.0	46.0	-17.3	22.9	13.7	14.0
PAT adjusted for EO*	66	74	68	87	96	107	128	144	164
Change (%)	8.9	12.2	-8.7	29.0	10.5	11.1	19.5	12.8	13.9
Proposed Dividend	31	29	41	43	44	41	52	59	67

*(Core PBT +Dividend Income+Other income) adjusted for applicable tax

Balance sheet (INR b)									
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Capital	3	3	3	3	3	4	4	4	4
Reserves and Surplus (Ex OCI)	357	433	652	774	928	1,096	1,180	1,277	1,423
Net Worth (Ex OCI)	360	436	655	778	932	1,099	1,184	1,280	1,427
Other Comprehensive Income	0	-2	-3	-4	-70	-53	-53	-53	-53
Net Worth (Incl OCI)	360	434	653	774	862	1,046	1,131	1,227	1,374
Borrowings	2,376	2,794	3,197	3,662	4,191	4,414	5,023	5,709	6,509
Change (%)	13.9	17.6	14.4	14.5	14.4	5.3	13.8	13.7	14.0
Other liabilities	142	124	139	152	188	216	238	261	287
Total Liabilities	2,879	3,352	3,989	4,588	5,241	5,676	6,391	7,198	8,170
Loans	2,592	2,989	3,628	4,066	4,509	4,853	5,519	6,274	7,152
Change (%)	13.6	15.3	21.4	12.1	10.9	7.6	13.7	13.7	14.0
Investments	153	202	307	462	649	686	721	757	795
Change (%)	7.4	31.5	52.2	50.5	40.4	5.7	5.0	5.0	5.0
Net Fixed Assets	7	10	10	10	22	22	24	27	29
Other assets	144	150	43	50	60	115	127	141	194
Total Assets	2,897	3,352	3,989	4,588	5,241	5,676	6,391	7,198	8,170

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)									
Avg Yield on Hsg Loans	11.0	10.5	9.6	9.7	9.7	8.7	8.1	8.4	8.6
Avg. Yield on Funds	11.0	10.5	9.4	9.5	9.4	8.5	7.9	8.2	8.4
Avg. Cost of funds	8.7	8.1	7.8	8.1	7.9	6.7	5.8	6.2	6.5
Interest Spread on loans	2.3	2.5	1.7	1.6	1.8	2.1	2.3	2.2	2.1
Net Interest Margin	3.4	3.4	2.7	2.8	2.7	2.9	3.1	3.0	2.9

Profitability Ratios (%)

RoAE	20.9	18.7	20.2	13.5	21.7	12.6	12.6	13.2	13.6
Core ROE	20.7	19.7	12.6	13.0	13.1	12.7	12.8	13.0	13.2
RoA	2.42	2.37	1.84	2.03	1.96	1.96	2.12	2.12	2.14
Core ROA	2.02	2.04	1.61	1.84	1.80	1.87	1.97	1.96	1.96

Efficiency Ratios (%)

Int. Expended/Int.Earned	69.0	67.7	70.9	70.9	70.9	65.7	61.0	63.6	64.9
Op. Exps./Net Income	6.6	6.8	11.1	9.6	5.4	9.2	9.0	8.1	8.0
Empl. Cost/Op. Exps.	46.0	46.5	72.0	48.2	39.6	50.8	48.5	41.2	40.4

Asset Quality (INR m)

Gross NPAs	19	24	41	48	89	97.6	95.4	98.2	1,05,486.0
Gross NPAs to Adv. (%)	0.7	0.8	1.1	1.2	2.0	2.0	1.7	1.6	1.5
Net NPAs	13	16	29	34	66	68.3	66.8	68.7	73,840.2
Net NPAs to Adv. (%)	0.5	0.6	0.8	0.8	1.5	1.4	1.2	1.1	1.0

VALUATION	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (INR)	227.7	274.7	391.1	451.7	537.9	609.3	656.3	709.7	783.6
Price-BV (x)				5.5	4.6	4.0	3.8	3.5	3.1
Adjusted BV* (INR)	176.6	220.1	340.2	352.4	399.0	475.9	522.9	576.3	651.5
Adj Price-ABV (x)				4.6	3.6	2.7	2.1	1.6	0.0
Adjusted EPS (INR)#	33.7	39.1	34.5	44.4	49.2	54.5	63.7	71.6	80.6
Adjusted EPS Growth YoY	8.2	15.9	-11.7	28.7	10.8	10.8	16.9	12.4	12.6
Adj Price-Adj EPS (x)				36.2	28.9	23.5	17.4	12.6	0.0
Dividend per share (INR)	17.0	18.0	20.0	21.0	21.0	23.0	28.8	32.7	37.0
Dividend yield (%)				0.9	0.9	0.9	1.2	1.3	1.5

E: MOSL Estimates;

* BV is adj. by ded. invt in Subs/Asso. from NW

Adjusted EPS is adjusting for dividend from key ventures and one-offs

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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