

Industry	Financial
Bloomberg	HDFC IN
BSE CODE	500010

Consistent Loan Growth with rising stress in the Non-Individual Segment

RATING	HOLD
CMP	2177
Price Target	2217
Potential Upside	2%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	2357/1646
Mkt Capital (Rs Cr)	376495
Free float (%)	100%
Avg. Vol 1M (,000)	2995
No. of Shares (Cr)	173
Promoters Pledged %	

Fig in Rs Cr

	FY18	FY19	FY20E
NII	11457	12867	16195
PPP	14054	17437	16924
PAT	9632	11302	11538
NIM %	2.7	2.6	2.9
EPS (Rs)	56	66	67
EPS	-14	17	2
ROE (%)	13.5	14.0	13.2
ROA (%)	2.2	2.3	2.1
BV	449	490	528
P/B (X)	4.4	4.4	4.1
P/E (x)	35.2	33.2	32.5

Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com

+91-22-62701205

Sweta Padhi

Shweta.padhi@narnolia.com

1QFY20 Result Update

- NII has grown at a healthy rate of 12% YoY driven by 13% growth in the loan asset. Other income has grown at a strong rate basically on the back of profit on sale of GRUH holdings amounting to Rs 1894 Cr. The C/I ratio excluding profit on sale of investment stands improved at 15.83% from 16.94%. PAT has shown a robust growth of 46% YoY.
- AUM growth is maintained at the rate of 13% YoY. The growth was mainly driven by individual, construction finance & LRD book at the rate of 16%, 4% & 13% respectively while the corporate book has declined by 6%. Share of securitization assets stood at 12% as at 1QFY20.
- GNPA as per NHB has increased to 1.29% from 1.18% sequentially. GNPA as per NHB norms stood at Rs 5315 Cr. PCR has remained stable at 29% QoQ. Management has done Rs 890 Cr provision in 1QFY20 with extra provision amounting to Rs 570 Cr pertaining to GRUH sale.

Loan Book Growth Remains Healthy

AUM has grown at 13% YoY on the back of robust growth in the individual segment. 92% of the incremental disbursement was contributed by individual segment. The share of Individual segment stood at 74%, corporate stood at 5%, construction finance stood at 12% and LRD stood at 9%. The incremental growth has been mainly in the individual segment; management cautiously grows its non individual book.

Marginal spike in the Non Individual Loan

GNPA as per NHB has increased to 1.29% from 1.18% sequentially. GNPA as per NHB norms stood at Rs 5315 Cr while stage 3 stood at Rs 6228 Cr. Stage 3 coverage has increased from 44% to 46% QoQ while coverage of stage 1 & 2 declined from 84 bps to 75 bps sequentially. Total provision stood at Rs 6470 Cr while regular provision stood at Rs 3366 Cr. Management has provided Rs 130 Cr on the airline default of Rs 420 Cr and Rs 140 Cr is set aside for the subvention portfolio. HDFC has received payment of 2 corporate accounts amounting to Rs 1800 Cr from real estate group and Rs 740 Cr from large infrastructure group.

Margins Has Remained Stable

NIM has remained stable at 3.30% while spreads has declined sequentially from 2.30% to 2.25%. The decline was more on the back of decrease in spreads in non individual loan from 3.17% to 3.07% QoQ while spreads in individual it stood stable at 1.91%. Management has declined its share of CP and expects a rate cut transmission with higher share of bank term loans.

View and Valuation

HDFC's loan growth remains unrestrained on the back continuous gain in market shares, taking advantage of limited competition due to liquidity stress. Management cautiously grows in non-individual segment due to rising stress. Higher share of investment book is burdening the margins. Management has declined its PLR rate by 10 bps this quarter, It has reduced its share of CP portfolio and increased its share of bank borrowings thus going ahead we expect rate cuts benefit to get comprehended in the margins. Management has maintained asset quality at stable state though the developers segment is getting affected due lack of liquidity availability and slow down in sale. Management has already made additional provision of Rs 570 Cr from the GRUH gains & Rs 130 Cr provision in the defaulted airline exposure of Rs 420 Cr. We remain cautious of the rising delinquency in the non individual segment, we maintain HOLD in the stock. We value the stock at 4x FY20 at Rs 2217.

Key Risks to our rating and target

- Pressure on real estate can slow down the growth.
- Further deterioration on the non individual account will increase the Credit cost.

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1QFY20 Results Above Expectations

Healthy Growth

Fig in Rs Cr

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	9,102	9,638	10,233	10,321	10,818	18.9%	4.8%	33,122	39,294	18.6%
Interest Exp.	6,353	7,045	7,259	7,182	7,739	21.8%	7.8%	23,498	27,838	18.5%
NII	2,749	2,594	2,975	3,139	3,079	12.0%	-1.9%	9,624	11,457	19.0%
Other Income	971	1,732	544	1,402	2,357	142.7%	68.1%	8,086	4,662	-42.3%
Total Income	3,720	4,326	3,519	4,541	5,436	46.1%	19.7%	17,710	16,119	-9.0%
Opex Exp.	630	436	534	452	561	-11.0%	24.1%	2,405	2,065	-14.1%
PPP	3,090	3,890	2,985	4,089	4,875	57.8%	19.2%	15,305	14,054	-8.2%
Provisions	20	401	116	398	890	44.1777	123.6%	2,115	935	-55.8%
PBT	3,070	3,489	2,869	3,691	3,985	29.8%	8.0%	13,190	13,119	-0.5%
Tax	880	1,022	755	829	782	-11%	-5.7%	2,230	3,486	56.3%
Extra Items	-	-	-	-	-			-	-	
Net Profit	2,190	2,467	2,114	2,862	3,203	46.3%	11.9%	10,959	9,632	-12%

Audio Interaction

- Management says the main issue in the system is the rising in risk averseness. Banks are with surplus liquidity but they are not transferring the fund to NBFCs which in turn should pass it on to income generating business which would led to rise in consumption, this is affecting the slowdown in different sectors.
- With lower liquidity developers are increasing depending on sale for further growth. Thus the slowdown in sales is affecting construction.
- HDFC has taken PLR rate cut of 10 bps which is done keeping in the mind the rate cut on the cost front management expects spreads to remain unaffected. Management expects a 25 bps rate cut by RBI going ahead.
- Investment book stands increase by Rs 10500 Cr which has led to NIM pressure.
- Dividend income of Rs 718 Cr pertaining to HDFC Bank & GRUH will come in Q2FY20.
- Focus remains on affordable housing with 35% of the loan & 17% in term of value are in economically weaker section.
- The average ticket size stood at Rs 27.8 Lakh with Rs 10.2 Lakh to economically weaker section and Rs 17.5 Lakh to lower income section.
- 92% of incremental disbursement is to individual segment, with limited competition in the system due to liquidity issue management expects strong growth traction in the segment.
- The HDFC ERGO and Apollo Munich deal to get done by this year only.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	8.3	18.1	16.9	10.1	15.2	10.0	10.3	-6.62	0.36
Empl. Cost/ Tot. Exp. %	57.8	60.3	51.5	29.3	26.6	27.1	27.7	-23.75	0.60
Other Exp/Tot. Exp.%	13.9	16.5	21.7	35.9	26.9	35.1	31.9	10.17	-3.25
Provision/PPP %	23.2	8.7	0.6	10.3	3.9	9.7	18.3	17.62	8.52
Tax Rate %	9.4	13.3	28.7	29.3	26.3	22.5	19.6	-9.04	-2.85
Int Exp./Int Inc. (%)	70.7	69.2	69.8	73.1	70.9	69.6	71.5	1.74	1.95
PPP/ Net Income %	91.7	81.9	83.1	89.9	84.8	90.0	89.7	6.62	-0.36
PAT/ Net Income %	63.8	64.8	58.9	57.0	60.1	63.0	58.9	0.05	-4.09
NII Growth % (YoY)	(4.4)	(7.0)	20.9	16.0	20.8	18.4	12.0	-8.84	-6.37
PPP Growth YoY %	187.6	(7.7)	41.3	46.6	(60.8)	43.5	57.8	16.44	14.32
PAT Growth %	211.5	10.4	53.7	24.7	(60.1)	26.8	46.3	-7.48	19.46

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	8.9	8.9	8.9	8.8	8.9	9.1	8.8	9.07	-0.30
Cost Of Funds	7.8	7.5	7.5	8.0	8.6	8.6	8.2	8.60	-0.43
Spreads	1.2	1.4	1.5	0.8	0.2	0.4	0.6	0.47	0.13
NIM	3.2	3.4	2.8	2.5	2.8	2.9	2.7	2.76	-0.14

Exhibit: Yield and Cost

Yield and Cost both has increased

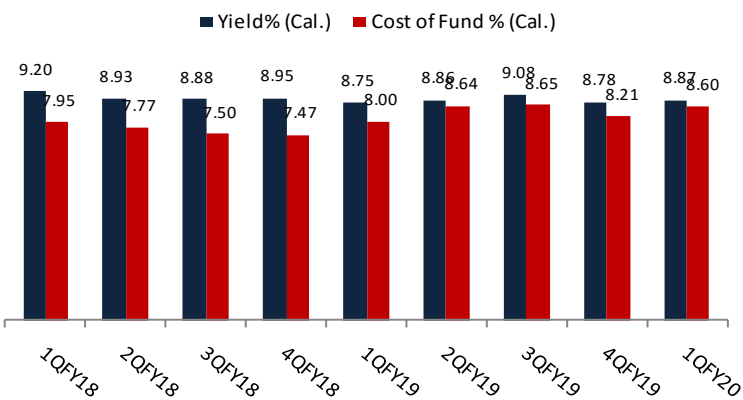
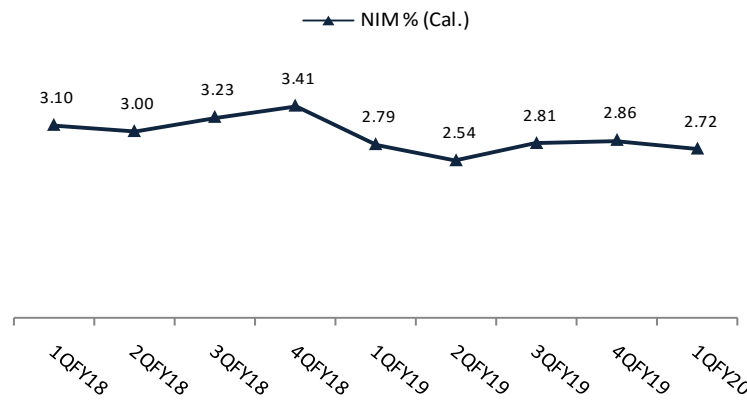


Exhibit: Net Interest Margin

NIM has declined sequentially



Asset & Borrowings Growth Trend

Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
AUM	355731	368217	384200	399511	419503	430200	441022	461913	475933
Growth YoY %	18	18	18	18	18	17	15	15	13
Borrowings	286195	300300	307978	320656	332526	340636	354728	365266	373629
Growth YoY %	16	18	17	14	16	13	15	14	12

Disbursement Break Up

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Individual	72	72	72	73	72	73	74	74	74
Non-Individual	28	28	28	27	28	27	26	26	26

Exhibit: AUM Growth %

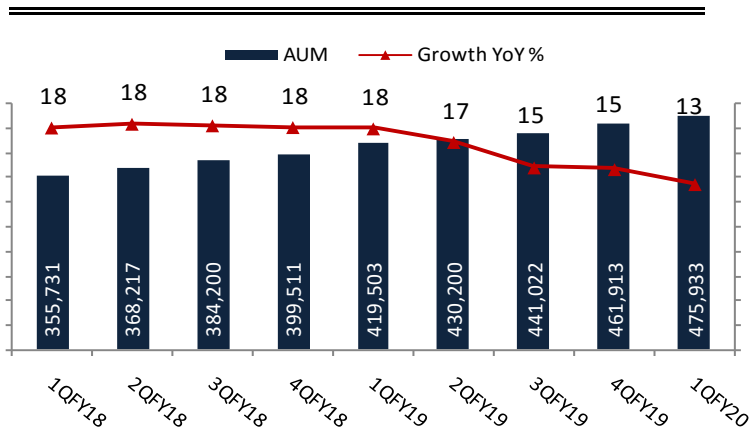
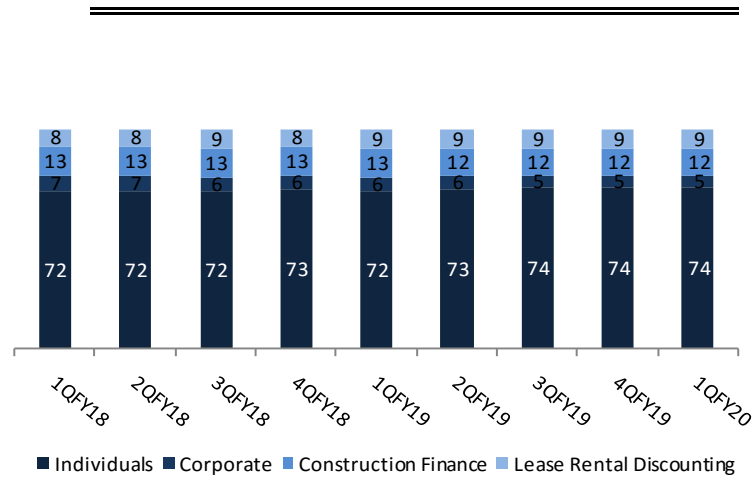


Exhibit: AUM Mix



Asset Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Individual	72	72	72	73	72	73	74	74	74
Corporate	7	7	6	6	6	6	5	5	5
Construction Finance	13	13	13	13	13	12	12	12	12
Lease Rental Discounting	8	8	9	8	9	9	9	9	9

Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	3,937	4,019	4,409	4,278	4,731	4,777	5,315	1,296	538
GNPA %	1.2	1.1	1.2	1.1	1.2	1.2	1.3	0.2	0.1
NNPA	2,695	2,861	3,130	3,037	3,359	3,374	3,779	918	405
NNPA %	0.8	0.8	0.8	0.8	0.9	0.8	0.9	0.1	0.1
Total Specific PCR %	32	29	29	29	29	29	29	0	-

Exhibit: Asset Quality

Asset Quality has Deteriorated

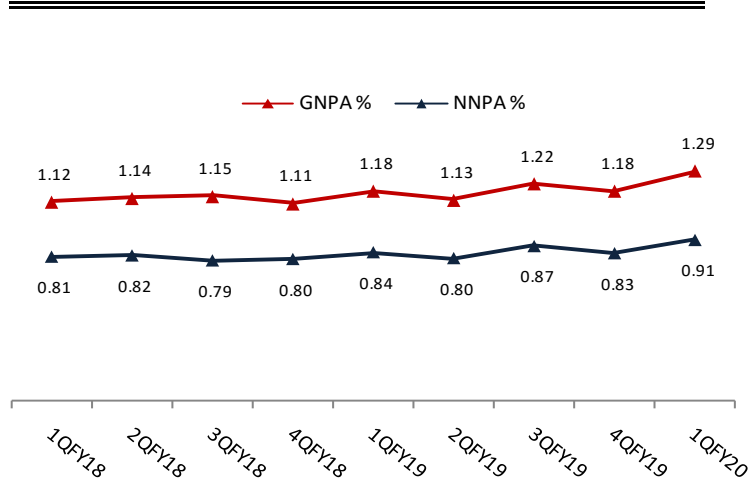


Exhibit: Provisions

PCR has Remained Stable

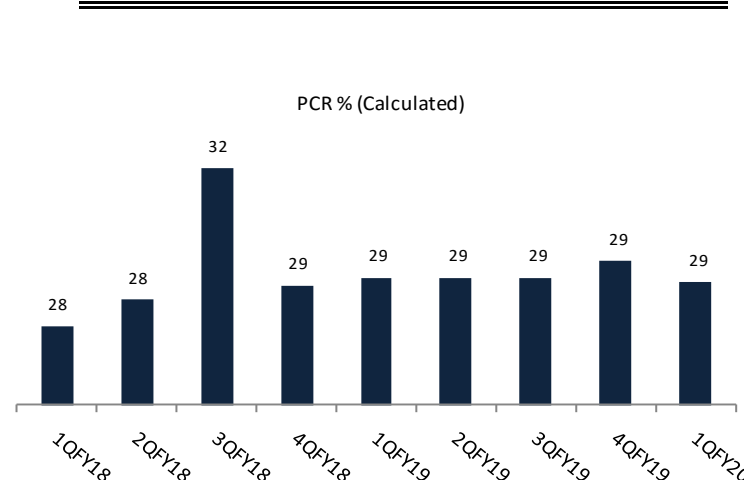


Exhibit: Provision to AUM

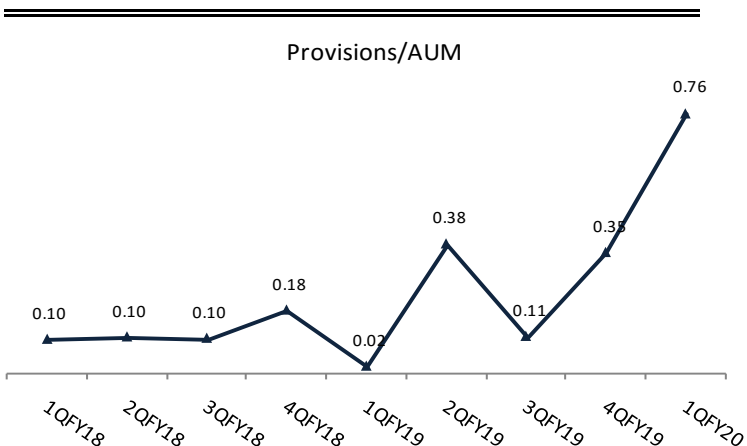
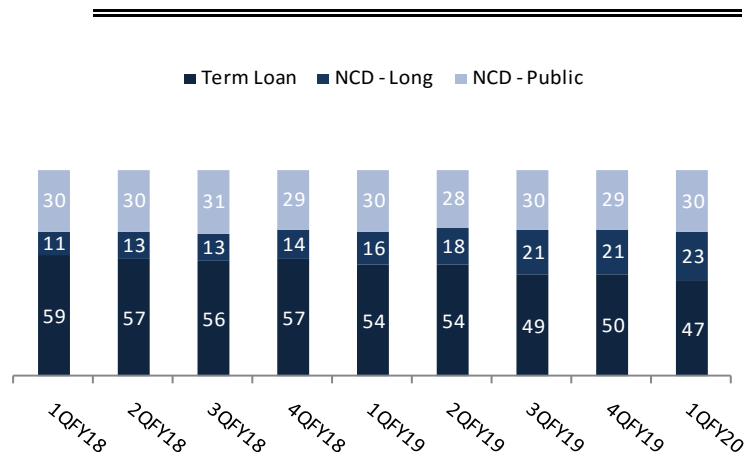


Exhibit: Liability Break Up



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross NPA (Stage 3)	5,145	5,022	5,618	5,743	5,145
Less: ECL Provisions (Stage 3)	2,361	1,946	2,238	2,499	2,361
Net NPA (Stage 3)	2,784	3,076	3,380	3,244	2,784
Coverage Ratio (%) Stage 3	46%	39%	40%	44%	46%
Gross Stage 1 & 2	369459	377429	385548	401389	369459
ECL provision-Stage 1 & 2	2754	3068	2966	3379	2754
Net Stage 1 & 2	366705	374361	382582	398010	366705
ECL provision (%) Stage 1 & 2	0.75%	0.81%	0.77%	0.84%	0.75%

GNPA segmentwise

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
>> Individual	0.7	0.7	0.7	0.7	0.7
>>Non-Individual	2.32	2.18	2.46	2.34	2.68
GNPA NHB norms	4,409	4,278	4,731	4,777	5,315
NNPA NHB norms	1.2	1.1	1.2	1.2	1.3

Exhibit: Spreads on segment basis

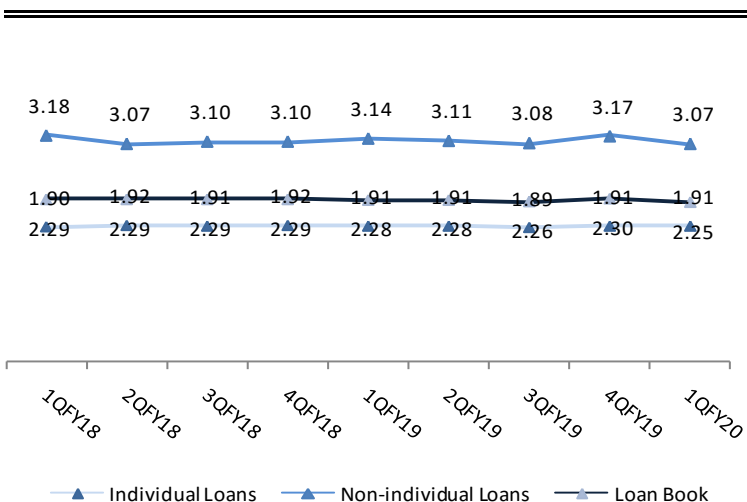
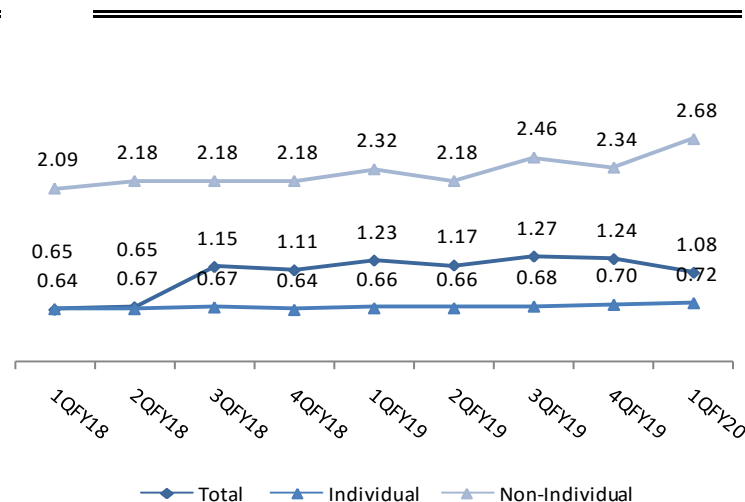


Exhibit: GNPA on segment basis



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	312	315	316	318	335	344	344	344
>> Equity Capital	312	315	316	318	335	344	344	344
>> Preference Capital								
Reserves & Surplus	27,643	30,655	33,754	39,277	64,930	77,011	83,975	90,555
Networth	27,955	30,970	34,070	39,594	65,265	77,355	84,320	90,899
Change (%)	13	11	10	16	65	19	9	8
Total Borrowings	184300	208600	238200	280534	320656	365266	423978	484674
Change (%)	16	13	14	18	14	14	16	14
Provisions	2,231	2,437	1,613	2,339	183	210	231	254
Other Liabilities	11,271	11,945	14,869	14,839	12,806	15,947	17,541	19,295
Total Liabilities	225757	253952	288753	337306	398910	458778	526069	595123
Investments	13,913	14,294	15,345	20,410	30,717	46,240	56,371	58,678
Loans	201313	232231	263853	307099	357381	400760	456229	522382
Change (%)	16	15	14	16	16	12	14	15
Fixed Assets	280	677	665	642	1,040	973	1,021	1,072
Other Assets	2,535	3,385	3,585	2,836	8,287	9,208	10,129	10,636
Cash Balances	7,716	3,365	5,305	6,319	1,485	1,596	2,319	2,355
Total Assets	225757	253952	288753	337306	398910	458778	526069	595123

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	23,032	25,970	28,070	30,850	33,122	39,294	44,758	50,881
Interest expended	16,029	17,975	19,375	20,896	23,498	27,838	31,891	34,686
Net Interest Income	7,003	7,995	8,695	9,954	9,624	11,457	12,867	16,195
Change (%)	13	14	9	14	(3)	19	12	26
Other Income	1,165	1,855	3,309	2,812	8,086	4,662	6,750	3,028
Change (%)	8	59	78	(15)	188	(42)	45	(55)
Total Net Income	8,168	9,850	12,004	12,766	17,710	16,119	19,617	19,223
Change (%)	13	21	22	6	39	(9)	22	(2)
Operating Expenses	628	1,061	1,181	1,339	2,405	2,065	2,180	2,300
Change (%)	17	69	11	13	80	(14)	6	5
>> Employee Expenses	279	328	349	389	1,372	717	645	810
Change (%)	13	18	6	11	253	(48)	(10)	26
>> Other Expenses	230	263	271	306	384	596	732	750
Pre-provisioning Profit	7,540	8,789	10,823	11,427	15,305	14,054	17,437	16,924
Change (%)	12	17	23	6	34	(8)	24	(3)
Provisions	100	165	715	700	2,115	935	2,357	1,118
Change (%)	(31)	65	333	(2)	202	(56)	152	(53)
PBT	7,440	8,624	10,108	10,727	13,190	13,119	15,080	15,805
Tax	2,000	2,634	3,015	3,284	2,230	3,486	3,778	4,267
Profit After Tax	5,440	5,990	7,093	7,443	10,959	9,632	11,302	11,538
Change (%)	12	10	18	5	47	(12)	17	2
Adjusted Profit After Tax	5,440	5,990	7,093	7,443	10,959	9,632	11,302	11,538
Change (%)	12	10	18	5	47	(12)	17	2

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	217800	253300	291531	338500	399511	461913	526581	602935
>> Off-Book AUM	16,487	21,069	27,678	31,401	42,130	61,153	70,352	80,553
AUM Growth (%)	16.5	16.3	15.1	16.1	18.0	15.6	14.0	14.5
Borrowing Growth (%)	16.1	13.2	14.2	17.8	14.3	13.9	16.1	14.3
Loan/Borrowing (%)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
CRAR (%)	18	16	17	15	19	19	1	1
>> Tier 1 (%)	15.4	12.5	13.2	11.8	17.3	17.6	-	-
>> Tier 2 (%)	2.5	3.6	3.4	2.7	1.9	1.6	1.3	1.1
Debt/Equity(x)	109.2	111.3	110.8	109.5	111.5	109.7	107.6	107.8

Assets Quality Metrics

Gross NPA (Rs)	1,357	1,542	1,833	2,378	4,019	4,777	6,487	7,959
Gross NPA (%)	0.7	0.7	0.7	0.8	1.1	118.0	1.4	1.5
Net NPA (Rs)	811	1,061	1,267	1,640	2,861	3,374	4,541	5,571
Net NPA (%)	0.4	0.5	0.5	0.6	0.8	0.8	1.0	1.1
Specific Provision Coverage (%)	40	31	31	31	29	29	30	30
Provision/Average Advances (%)	0.0	0.1	0.3	0.2	0.6	0.2	0.5	0.2

Margin Metrics

Yield On Advances (%)	11.5	11.3	10.6	10.1	9.2	9.2	9.2	9.1
Cost Of Funds (%)	9.3	9.1	8.7	8.1	7.8	8.1	8.1	7.6
Spread (%)	2.2	2.2	1.9	2.0	1.4	1.1	1.1	1.5
NIM on AUM (%)	3.5	3.4	3.2	3.2	2.6	2.7	2.6	2.9

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	69.6	69.2	69.0	67.7	70.9	70.8	71.3	68.2
Other Income/NII (%)	16.6	23.2	38.1	28.2	84.0	40.7	52.5	18.7
Operating Profit/Net Income (%)	92.3	89.2	90.2	89.5	86.4	87.2	88.9	88.0
Net Profit/Net Income (%)	66.6	60.8	59.1	58.3	61.9	59.8	57.6	60.0
Cost to Income (%)	7.7	10.8	9.8	10.5	13.6	12.8	11.1	12.0
Employee Exp/Net Income (%)	3.4	3.3	2.9	3.0	7.7	4.4	3.3	4.2
Cost on Average Assets (%)	0.3	0.5	0.4	0.4	0.7	0.5	0.4	0.4
Provision/PPP (%)	1.3	1.9	6.6	6.1	13.8	6.7	13.5	6.6
Tax Rate (%)	26.9	30.5	29.8	30.6	16.9	26.6	25.1	27.0

Valuation Ratio Metrics

EPS (Rs)	34.9	38.0	44.9	46.8	65.4	56.0	65.7	67.0
Change (%)	11.2	9.1	18.0	4.3	39.6	(14)	17.3	2.1
ROAE (%)	20.6	20.3	21.8	20.2	20.9	13.5	14.0	13.2
ROAA (%)	2.6	2.5	2.6	2.4	3.0	2.2	2.3	2.1
Dividend Payout (%)	36.9	44.6	44.3	41.0	32.1	42.9	38.4	43.0
Dividend yield (%)	1.5	1.3	1.1	1.1	1.0	0.9	0.8	0.9
DPS	12.5	16.0	16.0	17.0	20.0	21.0	22.0	24.0
Book Value(Rs)	179.1	196.7	215.7	249.2	389.4	449.4	489.8	528.0
Change (%)	12	10	10	16	56	15	9	8
P/B (X)	4.9	6.7	5.1	6.0	4.7	4.4	4.4	4.1
P/E (X)	25.3	34.5	24.6	32.1	27.9	35.2	33.2	32.5

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	10.9	10.8	10.3	9.9	9.0	9.2	9.1	9.1
<i>Interest expended</i>	7.6	7.5	7.1	6.7	6.4	6.5	6.5	6.2
<i>Net Interest Income</i>	3.3	3.3	3.2	3.2	2.6	2.7	2.6	2.9
<i>Non-Fund Based Income</i>	3.9	4.1	4.4	4.1	4.8	3.8	4.0	3.4
<i>Total Income</i>	3.9	4.1	4.4	4.1	4.8	3.8	4.0	3.4
<i>Total Operating Expenses</i>	0.3	0.4	0.4	0.4	0.7	0.5	0.4	0.4
<i>>> Employee Expenses</i>	0.1	0.1	0.1	0.1	0.4	0.2	0.1	0.1
<i>>> Other Expenses</i>	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<i>Operating Profit</i>	3.6	3.7	4.0	3.7	4.2	3.3	3.5	3.0
<i>Provisions</i>	0.0	0.1	0.3	0.2	0.6	0.2	0.5	0.2
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	3.5	3.6	3.7	3.4	3.6	3.1	3.1	2.8
<i>Tax</i>	0.9	1.1	1.1	1.0	0.6	0.8	0.8	0.8
PAT/RoAA	2.6	2.5	2.6	2.4	3.0	2.2	2.3	2.1
<i>Equity Multiplier (x)</i>	8.0	8.1	8.3	8.5	7.0	6.0	6.1	6.4
ROAE	20.6	20.3	21.8	20.2	20.9	13.5	14.0	13.2

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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