

Industry
Bloomberg
BSE CODE

Financial
HDFC IN
500010

Steady Growth With Asset Quality Concerns

RATING	NEUTRAL
CMP	2396
Price Target	2559
Potential Upside	7%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	2499/1822
Mkt Capital (Rs Cr)	422781
Free float (%)	100%
Avg. Vol 1M (,000)	151
No. of Shares (Cr)	173
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	11457	12734	14427
PPP	14054	26036	15804
PAT	9632	18049	11004
NIM %	2.7	2.6	2.6
EPS (Rs)	56	105	64
EPS growth (%)	-14	87	-39
ROE (%)	13.5	21.4	11.7
ROA (%)	2.2	3.7	2.0
BV	449	529	564
P/B (X)	4.4	4.5	4.2
P/E (x)	35.2	22.9	37.5

3QFY20 Result Update

- NII has grown at a rate of 9% while AUM growth standing at 14%. PAT has grown at the rate of 296% on account of IND-AS regulation of accounting gain on GRUH conversion to Bandhan.
- NIM stands steady at stood at 3.3% with spreads at 2.27%. Individuals carry a spread of 1.93% while non-individual stood at 3.14%.
- With the IND-AS regulation, HDFC has to accrued Rs 9020 Cr on the conversion of GRUH shares into Bandhan.
- AUM growth stood at 14%. Individual segment loans grew by 16% while disbursement grew by 13%.
- During the quarter HDFC has sold the loan of Rs 4258 Cr while in the last 12 Months loan book amounting to Rs 21066 Cr. Added the loan book sold the growth would have been in the range of 24% YoY. Up to Rs 63679 Cr is the total amount of loan sold by HDFC but it continues to services those loans.
- Focus remains on affordable housing with 36% of the home loans in number while 18% in value terms were disbursed during the quarter. Almost Rs 9400 Cr of the amount is to the borrower is EWS & lower-income category.
- The average ticket size in the lower-income category is Rs 17.6 Lakh and EWS is Rs 10.20 Lakh. The total average ticket size is Rs 26.9 Lakh declining sequentially in the last couple of quarters.
- The share of Individual loans stood at 76%, construction finance stood at 11%, LRD constitutes 8% & corporate book is 5%. 81% of the loan was to individuals while 19% were to non-individuals.
- NPA stood at 1.36% v/s 1.33%. The GNPA in the individual segment stood at 75 bps v/s 73 bps QoQ while non-individual loan stood at 2.91% v.s 2.87% QoQ.
- Total provision stood at Rs 9934 Cr against the regulatory requirement of Rs 3624 Cr.
- Management remains cautious in non-individual loans. There is a marginal pick up in the quarter.
- The difference between market price & carrying cost of listed investment is RS 233608 Cr.
- Capital adequacy stood at 18.6% out of which Tier 1 stood at 17.3%. (not taking cognizance of the GRUH gain).

View and Valuation

HDFC has been able to maintain steady AUM growth in the 14-15% range with increased focus in the affordable segment. The ticket size has been declining steadily in the last few quarters showing management incremental focus on the affordable segment. HDFC is cautiously growing its higher ticket size non-individual segment. Management has been providing on a higher basis with almost double the provision than the regulatory requirement. The NPA in the corporate segment has increased sequentially and we maintain our cautious stance with stress in the real estate segment. We value the stock at 4.5X at FY21e at 2559. We maintain NEUTRAL.

Key Risks to our rating and target

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

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Consistent Growth

3QFY20 Results

In Line With Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	10,233	10,321	10,818	10,852	11,009	7.6%	1.4%	33,122	39,294	18.6%
Interest Exp.	7,259	7,182	7,739	7,831	7,770	7.0%	-0.8%	23,498	27,838	18.5%
NII	2,975	3,139	3,079	3,021	3,240	8.9%	7.2%	9,624	11,457	19.0%
Other Income	544	1,402	2,357	2,822	9,471	1641.1%	235.6%	8,086	4,662	-42.3%
Total Income	3,519	4,541	5,436	5,844	12,711	261.2%	117.5%	17,710	16,119	-9.0%
Ope Exp.	534	452	561	559	572	7.2%	2.4%	2,405	2,065	-14.1%
PPP	2,985	4,089	4,875	5,285	12,138	306.7%	129.7%	15,305	14,054	-8.2%
Provisions	116	398	890	754	2,995	2481.9%	297%	2,115	935	-55.8%
PBT	2,869	3,691	3,985	4,530	9,143	218.7%	101.8%	13,190	13,119	-0.5%
Tax	755	829	782	569	771	2%	35.5%	2,230	3,486	56.3%
Extra Items	-	-	-	-	-			-	-	
Net Profit	2,114	2,862	3,203	3,962	8,373	296.1%	111.3%	10,959	9,632	-12%

Exhibit: AUM Growth %

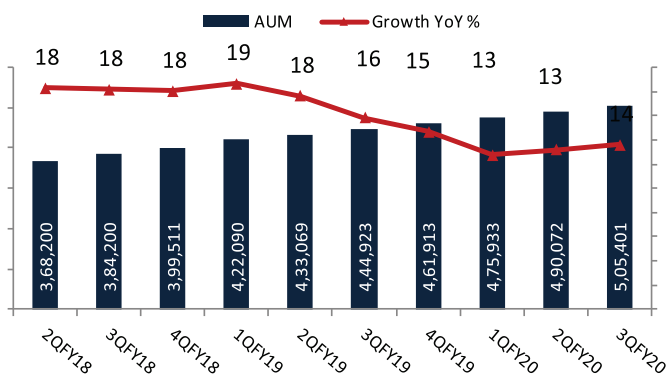


Exhibit: AUM Mix

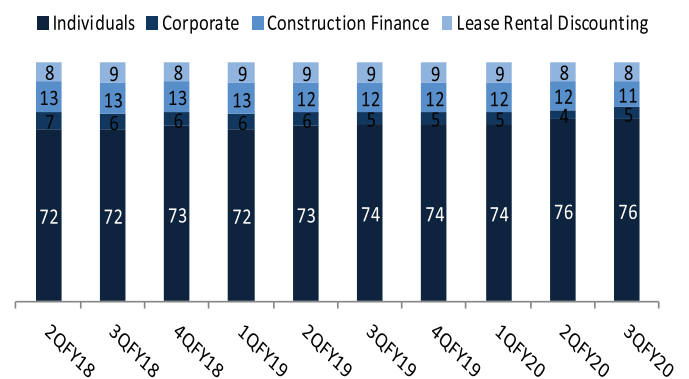


Exhibit: Asset Quality

Asset Quality has Deteriorated

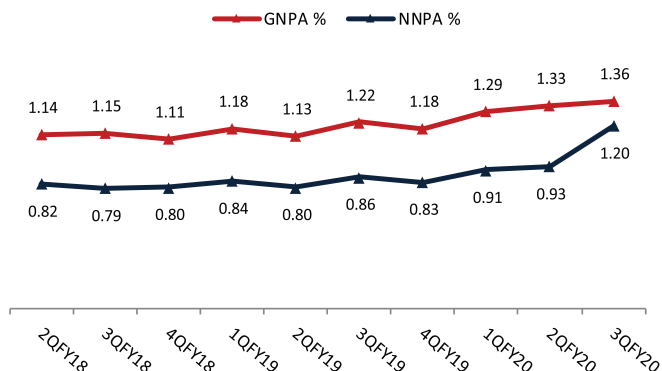
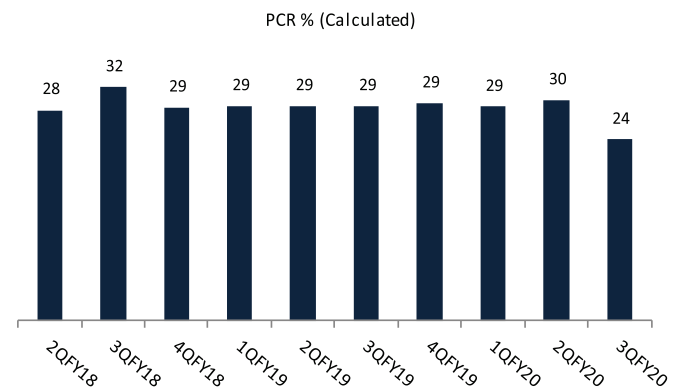


Exhibit: Provisions

PCR has Declined Sequentially



Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	16.9	10.1	15.2	10.0	10.3	9.6	4.5	-10.67	-5.07
Empl. Cost/ Tot. Exp. %	51.5	29.3	26.6	27.1	27.7	25.9	26.7	0.11	0.81
Other Exp/Tot. Exp.%	21.7	35.9	26.9	35.1	31.9	34.6	31.4	4.43	-3.21
Provision/PPP %	0.6	10.3	3.9	9.7	18.3	14.3	24.7	20.79	10.40
Tax Rate %	28.7	29.3	26.3	22.5	19.6	12.5	8.4	-17.89	-4.12
Int Exp./Int Inc. (%)	69.8	73.1	70.9	69.6	71.5	72.2	70.6	-0.36	-1.59
PPP/ Net Income %	83.1	89.9	84.8	90.0	89.7	90.4	95.5	10.67	5.07
PAT/ Net Income %	58.9	57.0	60.1	63.0	58.9	67.8	65.9	5.80	-1.93
NII Growth % (YoY)	20.9	16.0	20.8	18.4	12.0	16.5	8.9	-11.93	-7.57
PPP Growth YoY %	41.3	46.6	(60.8)	43.5	57.8	35.8	306.7	367.48	270.83
PAT Growth %	53.7	24.7	(60.1)	26.8	46.3	60.6	296.1	356.22	235.51

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances(Calc.)	8.8	8.9	9.1	8.8	8.9	8.7	8.5	9.07	-0.14
Cost Of Funds(Calc.)	8.0	8.6	8.7	8.2	8.6	8.4	8.1	8.60	-0.29
Spreads(Calc.)	2.3	2.3	2.3	2.3	2.3	2.3	2.3	0.47	0.01
NIM (Calc.)	2.8	2.5	2.8	2.9	2.7	2.6	2.7	2.76	0.10

Exhibit: Yield and Cost

Yield and Cost both has decreased

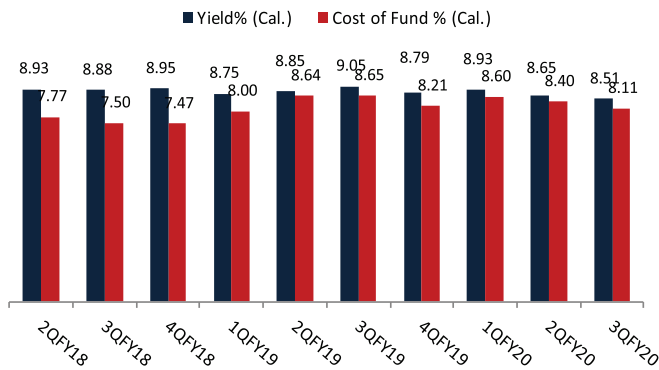
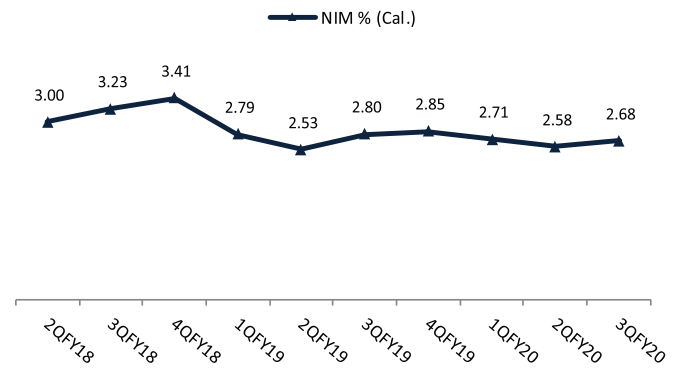


Exhibit: Net Interest Margin

NIM has Improved sequentially



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
AUM	384200	399511	422090	433069	444923	461913	475933	490072	505401
Growth YoY %	18	18	19	18	16	15	13	13	14
Borrowings	307978	320656	332526	340636	354728	365266	373629	388976	395128
Growth YoY %	17	14	16	13	15	14	12	14	11

AUM Break Up

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Individual	72	73	72	73	74	74	74	76	76
Non-Individual	28	27	28	27	26	26	26	24	24

Exhibit: Provision to AUM

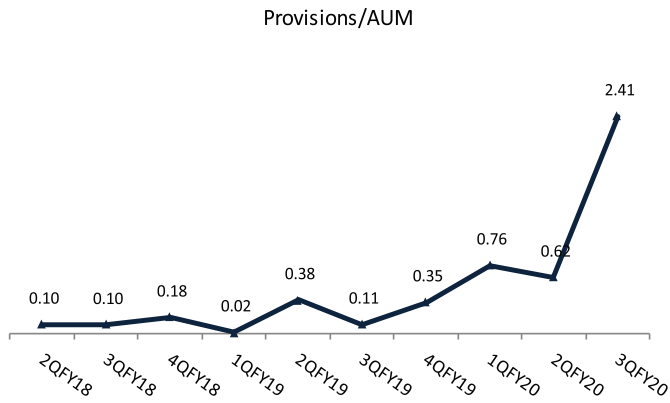
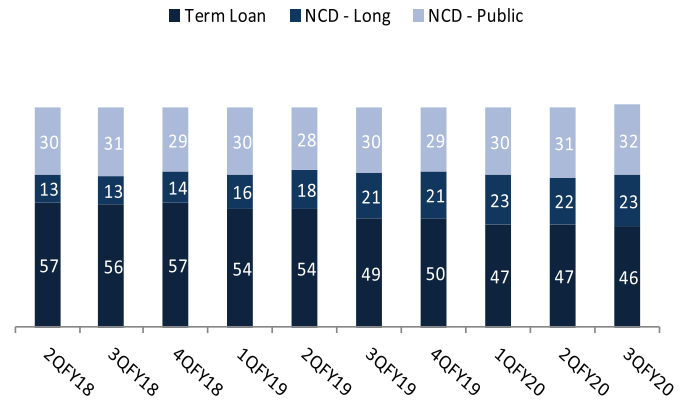


Exhibit: Liability Break Up



Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross NPA (Stage 3)	5,145	5,022	5,618	5,743	6,228	6,685	6,996
Less: ECL Provisions (Stage 3)	2,361	1,946	2,238	2,499	2,476	2,891	3,431
Net NPA (Stage 3)	2,784	3,076	3,380	3,244	3,752	3,794	3,565
Coverage Ratio (%) Stage 3	46%	39%	40%	44%	40%	43%	49%
Gross Stage 1 & 2	369459	377429	385548	401389	410096	419706	433968
ECL provision-Stage 1 & 2	2754	3068	2966	3379	3994	4422	6503
Net Stage 1 & 2	366705	374361	382582	398010	406102	415284	427465
ECL provision (%) Stage 1 & 2	0.75%	0.81%	0.77%	0.84%	0.97%	1.05%	1.50%

GNPA segmentwise

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Individual	0.66	0.66	0.68	0.70	0.72	0.73	0.75
Non-Individual	2.32	2.18	2.46	2.34	2.68	2.87	2.91
Total Provision	5,115	5,014	5,204	5,878	6,470	7,313	9,934
Regulatory Provision	3,006	2,951	3,068	3,220	3,366	3,559	3,624

Exhibit: Spreads on segment basis

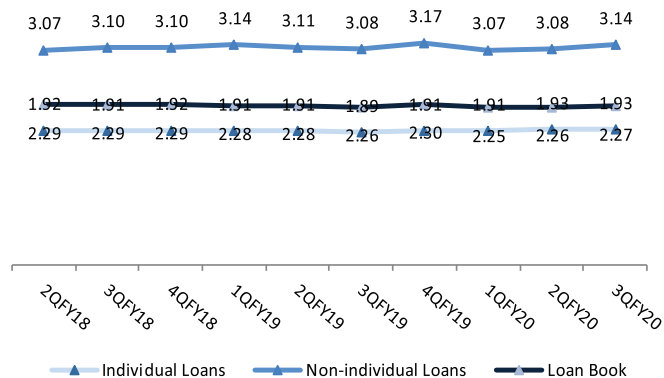
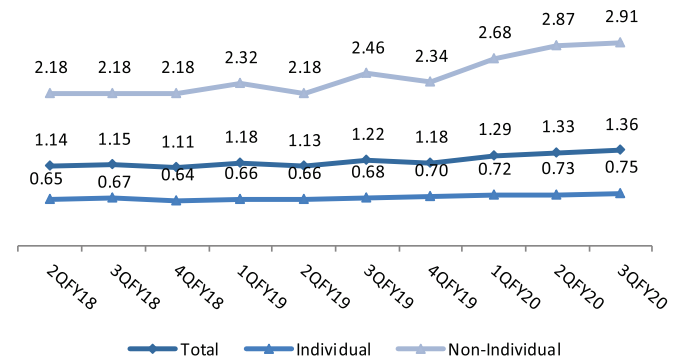


Exhibit: GNPA on segment basis



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	90722	96768
Networth	27,955	30,970	34,070	39,594	65,265	77,355	91066	97112
Change (%)	13	11	10	16	65	19	18	7
Total Borrowings	184300	208600	238200	280534	320656	365266	414255	468108
Change (%)	16	13	14	18	14	14	13	13
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	523093	584769
Investments	13,913	14,294	15,345	20,410	30,717	46,240	55,875	59,044
Loans	201313	232231	263853	307099	357381	400727	445742	503689
Change (%)	16	15	14	16	16	12	11	13
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	9,241	10,165	10,674
Cash Balances	7,716	3,365	5,305	6,319	1,485	1,596	10,289	10,290
Total Assets	225757	253952	288753	337306	398910	458778	523093	584769

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	44,231	49,947
Interest expended	16,029	17,975	19,375	20,896	23,498	27,838	31,498	35,521
Net Interest Income	7,003	7,995	8,695	9,954	9,624	11,457	12,734	14,427
Change (%)	13	14	9	14	(3)	19	11	13
Other Income	1,165	1,855	3,309	2,812	8,086	4,662	15,504	3,536
Change (%)	8	59	78	(15)	188	(42)	233	(77)
Total Net Income	8,168	9,850	12,004	12,766	17,710	16,119	28,238	17,963
Change (%)	13	21	22	6	39	(9)	75	(36)
Operating Expenses	628	1,061	1,181	1,339	2,405	2,065	2,202	2,158
Change (%)	17	69	11	13	80	(14)	7	(2)
Employee Expenses	279	328	349	389	1,372	717	623	721
Change (%)	13	18	6	11	253	(48)	(13)	16
Other Expenses	230	263	271	306	384	596	717	701
Pre-provisioning Profit	7,540	8,789	10,823	11,427	15,305	14,054	26,036	15,804
Change (%)	12	17	23	6	34	(8)	85	(39)
Provisions	100	165	715	700	2,115	935	5,024	1,109
Change (%)	(31)	65	333	(2)	202	(56)	437	(78)
PBT	7,440	8,624	10,108	10,727	13,190	13,119	21,012	14,695
Tax	2,000	2,634	3,015	3,284	2,230	3,486	2,963	3,691
Profit After Tax	5,440	5,990	7,093	7,443	10,959	9,632	18,049	11,004
Change (%)	12	10	18	5	47	(12)	87	(39)
Adjusted Profit After Tax	5,440	5,990	7,093	7,443	10,959	9,632	18,049	11,004
Change (%)	12	10	18	5	47	(12)	87	(39)

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	521962	589817
Off-Book AUM	16,487	21,069	27,678	31,401	42,130	61,186	76,219	86,128
AUM Growth (%)	16.5	16.3	15.1	16.1	18.0	15.6	13.0	13.0
Borrowing Growth (%)	16.1	13.2	14.2	17.8	14.3	13.9	13.4	13.0
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	21	20
Tier 1 (%)	15.4	12.5	13.2	11.8	17.3	17.6	19.8	18.9
Tier 2 (%)	2.5	3.6	3.4	2.7	1.9	1.6	1.3	1.2
Debt/Equity(x)	109.2	111.3	110.8	109.5	111.5	109.7	107.6	107.6

Assets Quality Metrics

Gross NPA (Rs)	1,357	1,542	1,833	2,378	4,019	4,777	6,383	7,728
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	4,468	5,410
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	1.0	0.2

Margin Metrics

Yield On Advances (%)	11.5	11.3	10.6	10.1	9.2	9.2	9.1	9.1
Cost Of Funds (%)	9.3	9.1	8.7	8.1	7.8	8.1	8.1	8.1
Spread (%)	2.2	2.2	1.9	2.0	1.4	1.1	1.0	1.0
NIM on AUM (%)	3.5	3.4	3.2	3.2	2.6	2.7	2.6	2.6

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	69.6	69.2	69.0	67.7	70.9	70.8	71.2	71.1
Other Income/NII (%)	16.6	23.2	38.1	28.2	84.0	40.7	121.8	24.5
Operating Profit/Net Income (%)	92.3	89.2	90.2	89.5	86.4	87.2	92.2	88.0
Net Profit/Net Income (%)	66.6	60.8	59.1	58.3	61.9	59.8	63.9	61.3
Cost to Income (%)	7.7	10.8	9.8	10.5	13.6	12.8	7.8	12.0
Employee Exp/Net Income (%)	3.4	3.3	2.9	3.0	7.7	4.4	2.2	4.0
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	19.3	7.0
Tax Rate (%)	26.9	30.5	29.8	30.6	16.9	26.6	14.1	25.1

Valuation Ratio Metrics

EPS (Rs)	34.9	38.0	44.9	46.8	65.4	56.0	104.8	63.9
Change (%)	11.2	9.1	18.0	4.3	39.6	(14)	87.4	(39.0)
ROAE (%)	20.6	20.3	21.8	20.2	20.9	13.5	21.4	11.7
ROAA (%)	2.6	2.5	2.6	2.4	3.0	2.2	3.7	2.0
Dividend Payout (%)	36.9	44.6	44.3	41.0	32.1	42.9	24.0	45.1
Dividend yield (%)	1.5	1.3	1.1	1.1	1.0	0.9	0.8	0.8
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	529.0	564.1
Change (%)	12	10	10	16	56	15	18	7
P/B (X)	4.9	6.7	5.1	6.0	4.7	4.4	4.5	4.2
P/E (X)	25.3	34.5	24.6	32.1	27.9	35.2	22.9	37.5

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	10.9	10.8	10.3	9.9	9.0	9.2	9.0	9.0
Interest expended	7.6	7.5	7.1	6.7	6.4	6.5	6.4	6.4
Net Interest Income	3.3	3.3	3.2	3.2	2.6	2.7	2.6	2.6
Non-Fund Based Income	0.6	0.8	1.2	0.9	2.2	1.1	5.8	3.2
Total Income	3.9	4.1	4.4	4.1	4.8	3.8	5.8	3.2
Total Operating Expenses	0.3	0.4	0.4	0.4	0.7	0.5	0.4	0.4
Employee Expenses	0.1	0.1	0.1	0.1	0.4	0.2	0.1	0.1
Other Expenses	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Operating Profit	3.6	3.7	4.0	3.7	4.2	3.3	5.3	2.9
Provisions	0.0	0.1	0.3	0.2	0.6	0.2	1.0	0.2
Others	-	-	-	-	-	-	-	-
PBT	3.5	3.6	3.7	3.4	3.6	3.1	4.3	2.7
Tax	0.9	1.1	1.1	1.0	0.6	0.8	0.6	0.7
PAT/RoAA	2.6	2.5	2.6	2.4	3.0	2.2	3.7	2.0
Equity Multiplier (x)	8.0	8.1	8.3	8.5	7.0	6.0	5.8	5.9
ROAE	20.6	20.3	21.8	20.2	20.9	13.5	21.4	11.7

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