

Steady operations; business to pick up from here on...

About the stock: HDFC Ltd is the largest NBFC engaged in housing finance business. It has demonstrated a consistent performance in terms of both business growth as well as asset quality.

- Individual loans contribute ~78% of AUM
- Stake in subsidiaries in insurance and asset management business aid value

Q1FY22 Results: HDFC Ltd reported a steady performance amid the second wave.

- Moderation in advances growth at 7.5% YoY; individual book up 14.5% YoY
- NII up 22% YoY; margin up ~20 bps QoQ, 60 bps YoY
- GNPA up 26 bps QoQ to 2.24%; individual GNPA up 38 bps at 1.37%

What should investors do? HDFC Ltd's share price has grown ~80% over the past five years. Market leadership, funding advantage and adequate capital lead us to remain positive on fundamentals.

- We retain our BUY rating on the stock

Target Price and Valuation: We value HDFC Ltd at ~2.4x FY23E core ABV and ₹ 1499 for subsidiaries to arrive at a target price of ₹ 3100 per share.

Key triggers for future price performance:

- Anticipated pick up in business growth led by market leadership
- Funding advantage and adequate capital to aid growth & earnings
- Healthy provision buffer & improvement in collection to aid asset quality

Alternate Stock Idea: Apart from HDFC Ltd, in our coverage we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 900



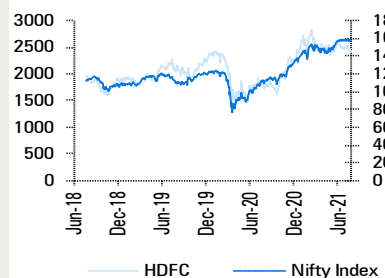
Particulars

Particulars	Amount
Market Capitalisation	₹ 444675 crore
GNPA (Q1FY22)	2.4%
NIM (Q1FY22) (reported)	3.7%
52 week H/L	2895 /1623
Networth (Eq+Res)	₹ 86921 crore
Face value	₹ 2

Shareholding pattern

in %	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	-	-	-	-
FII	70.0	72.0	72.8	72.2
DII	18.5	17.1	16.1	16.5
Others	11.6	10.9	11.1	11.3

Price Chart



Recent Event & Key risks

- GNPA increases 26 bps QoQ to 2.24%; individual GNPA ratio up 38 bps to 1.37%
- Key Risk:** (i) Higher slippages from non-individual book (ii) persistent impact of pandemic

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Key Financial Summary

₹ crore	FY19	FY20	FY21	3 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	11,624	12,941	14,157	10%	16,552	19,745	18%
PPP	14,054	26,264	17,763	12%	20,513	23,838	16%
PAT	9,632	17,770	12,027	13%	13,647	15,857	15%
ABV (₹)	449.4	497.4	602.1		631.9	664.6	
P/E	44.0	24.0	41.1		32.6	28.0	
P/ABV	5.5	4.9	4.1		3.9	3.7	
RoA	2.2	3.6	2.0		2.3	2.4	
RoE	14.4	21.7	11.1		12.3	13.5	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Relatively healthy performance amid pandemic

- HDFC Ltd posted a healthy operational performance with NII growth of 22% YoY to ₹ 4146 crore, driven by 3.7% margin expansion, up ~20 bps QoQ, ~60 bps YoY
- Other income came in at ₹ 995 crore, down 45% YoY, owing to higher profit from sale of investment in Q1FY21. Excluding this, other income has increased ~29% YoY
- Opex came in higher at ₹ 550 crore, due to stock option related expense. The bank has made provisions worth ₹ 686 crore during the quarter including Covid-19 provisions, taking cumulative Covid related buffer to ₹ 1017 crore
- Asset quality witnessed an increase in GNPA of ~26 bps QoQ to 2.24%, primarily attributed to ~38 bps QoQ increase in individual GNPA to 1.37%. GNPA in non-individual book was at 4.87%, up ~10 bps QoQ. Collection efficiency was at 98.3% in Q21FY22 vs. 98% in Q4FY21
- Restructured loan increased ~10 bps QoQ to 0.9% of AUM (₹ 4482 crore). Of this, 38% are individual loans while 62% come from non-individual book, which is made of one large single account under resolution frame work
- AUM growth trajectory has moderated further at 7.5% YoY to ₹ 500490 crore. AUM growth was driven by 14.5% growth in individual portfolio led by strong demand for home amid lower interest rates and softer property prices. Among non-individual book, corporate segment (comprising 6% of AUM) and LRD (6% of AUM) remained muted. However, the company remained cautious on the construction finance segment (10% of AUM) and continued to gradually de-grow the book. Majority of incremental loans in Q1FY22 have been contributed by individual segment, which now accounts for ~78% of the overall portfolio
- The corporation sold loans worth ₹ 23093 crore in the preceding 12 months versus ₹ 18273 crore YoY

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Finance (LICHF)	454	475	Hold	229	58.9	65.3	76.0	7.7	6.9	6.0	1.4	1.2	1.1	15.4	15.1	15.9
HDFC (HDFC)	2,460	3,100	Buy	4,440	59.8	75.6	87.8	41.1	32.6	28.0	4.1	3.9	3.7	11.1	12.3	13.5
Bajaj Finserv (BAFINS)	12,950	13,500	Hold	2,027	235.6	300.1	440.5	55.0	43.1	29.4	5.7	5.1	4.3	11.0	12.5	15.9
Bajaj Finance (BAJFI)	5,937	6,900	Buy	3,584	73.5	102.9	131.7	80.8	57.7	45.1	10.0	8.7	6.7	12.1	15.6	16.3
Mahindra & Mahindra Finance	155	160	Reduce	190	2.7	7.2	10.4	57.0	21.6	14.9	1.7	1.4	1.2	2.6	5.7	7.3

Source: Company, ICICI Direct Research

We believe HDFC Ltd deserves premium valuations given its market leadership, consistent performance, prudent asset quality and value accretion from subsidiaries.

Exhibit 2: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2.4x FY23E Core Mortgage ABV	100	1,601
HDFC Bank	3.7x FY23E ABV	19.4	1,066
HDFC AMC	43x FY23E EPS	52.7	196
HDFC Life Insurance	4.5x FY23E EV	50.1	449
HDFC ERGO		50.8	28
Bandhan Bank	Market cap	9.9	26
Value per share			3,366
Discount @ 15%			265
Value per share of HDFC			3,100

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	4,147	4,054	3,392	22.2	3,918	5.8	NII growth driven by margin expansion
Reported NIM (%)	3.7	3.3	3.1	60 bps	3.5	20 bps	NIMs expanded as excess liquidity reduced
Other Income	995	1,065	1,810	-45.1	1,224	-18.7	Profit on sale of investment remains volatile
Net Total Income	5,141	5,119	5,202	-1.2	5,142	0.0	
Staff cost	320	165	160	99.2	138	132.0	Esop related expense adjusted during the quarter
Other Operating Expenses	231	386	236	-2.1	361	-36.0	
PPP	4,591	4,568	4,806	-4.5	4,643	-1.1	
Provision	686	600	1,199	-42.8	719	-4.6	
PBT	3,905	3,968	3,607	8.3	3,924	-0.5	
Tax Outgo	904	913	555	62.8	744	21.5	
PAT	3,001	3,055	3,052	-1.7	3,180	-5.6	Steady operational performance
Key Metrics							
GNPA	10,916	9,897	8,631	26.5	9,609	13.6	Individual GNPA ratio witnessed ~38 bps jump QoQ while non individual GNPA ratio inched up ~10 bps to 4.87%
Loans	500,490	520,844	465,685	7.5	498,298	0.4	Led by 14% YoY growth in Individual loans
Borrowings	438,413	467,847	432,059	1.5	441,365	-0.7	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	16,485	16,552	0.4	19,524.3	19,745	1.1
Pre Provision Profit	20,476	20,513	0.2	23,683.3	23,838	0.7
NIM(%) (calculated)	2.9	2.9	1 bps	3.0	3.0	3 bps
PAT	13,645	13,647	0.0	15,817.5	15,857	0.2

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current			Earlier		
	FY20	FY21	FY22E	FY21	FY22E	FY23E
Credit growth (%)	8.2	10.3	11.9	14.3	10.3	13.7
NIM Calculated (%)	2.7	2.7	2.9	3.0	2.7	2.9
Cost to income ratio (%)	5.4	9.2	8.7	8.3	9.2	8.6
GNPA (₹ crore)	8,706	9,782	10,596	11,150	9,782	10,033
NNPA (₹ crore)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	39,461	43,942	42,772	51,974	59,958
Interest Expended	27,838	31,001	28,615	35,422	40,213
Net Interest Income	11,624	12,941	14,157	16,552	19,745
% growth	21	11	9	17	19
Non Interest Income	3,917	14,821	5,404	5,912	6,232
Net Income	15,540	27,762	19,561	22,463	25,977
Employee cost	717	593	914	960	1,027
Other operating Exp.	770	905	884	991	1,112
Operating Income	14,054	26,264	17,763	20,513	23,838
Provisions	935	5,913	2,948	2,195	2,554
PBT	13,119	20,351	14,815	18,318	21,285
Exceptional gain	-	-	-	-	-
Taxes	3,486	2,581	2,788	4,671	5,428
Net Profit (excl bandhan exceptio	9,632	17,770	12,027	13,647	15,857
% growth	-12.1	84.5	-32.3	13.5	16.2
EPS (₹)	56.0	102.6	59.8	75.6	87.8

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	172.1	173.2	180.4	180.6	180.6
EPS (₹)	56.0	102.6	59.8	75.6	87.8
BV (₹)	449.4	497.4	602.1	631.9	664.6
ABV (₹)	449.4	497.4	602.1	631.9	664.6
P/E	44.0	24.0	41.1	32.6	28.0
P/BV	5.5	4.9	4.1	3.9	3.7
P/adj.BV	5.5	4.9	4.1	3.9	3.7
Yields & Margins (%)					
Yield on interest earning assets	9.2	9.1	9.0	9.0	9.1
Avg. cost on funds	8.1	7.9	6.7	7.5	7.5
Net Interest Margins	2.8	2.7	2.7	2.9	3.0
Spreads	1.5	1.2	2.3	1.5	1.6
Quality and Efficiency					
Cost / Total net income	9.6	5.4	9.2	8.7	8.3
GNPA%	1.2	2.0	2.0	2.0	1.8
NNPA%	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.4	21.7	11.1	12.3	13.5
ROA (%)	2.2	3.6	2.0	2.3	2.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	344.3	346.4	360.8	361.2	361.2
Reserves and Surplus	77011.2	85811.7	108255.5	113745.6	119644.0
Networth	77355.5	86158.1	108616.3	114106.8	120005.2
Borrowings	366214.4	419101.6	441365.0	501052.6	568843.9
Other Liabilities & Provisions	15207.1	18833.3	17559.2	19829.1	22446.1
Total	4,58,777	5,24,093	5,67,541	6,34,988	7,11,295
Applications of Funds					
Fixed Assets	972.0	1884.5	1827.0	2009.7	2210.7
Investments	47836.1	64944.4	68636.8	69874.2	74851.4
Advances	406607.1	439943.8	485296.0	543213.7	620877.7
Other Assets	3361.8	17320.4	11780.7	19890.9	13355.4
Total	4,58,777	5,24,093	5,67,541	6,34,988	7,11,295

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios (%)					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	16.1	14.6	7.6	11.9	12.0
Advances	13.4	8.2	10.3	11.9	14.3
Borrowings	14.5	14.4	5.3	13.5	13.5
Total Income	23.6	35.5	-18.0	20.0	14.3
Net interest income	20.6	11.3	9.4	16.9	19.3
Operating expenses	-22.0	0.8	20.0	8.5	9.6
Operating profit (excl trading)	50.8	105.6	-21.8	40.9	37.7
Net profit	-12.1	84.5	-39.3	26.5	16.2
Book value	37.4	11.4	26.1	5.1	5.2
EPS	(14.4)	83.3	(41.7)	26.4	16.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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