IDEA2WIN – HDFC Limited

CMP: ₹2,760-2,810; 1-Year Target: ₹3,140

Sector	Banking
Recommendation	BUY
Upside	13%

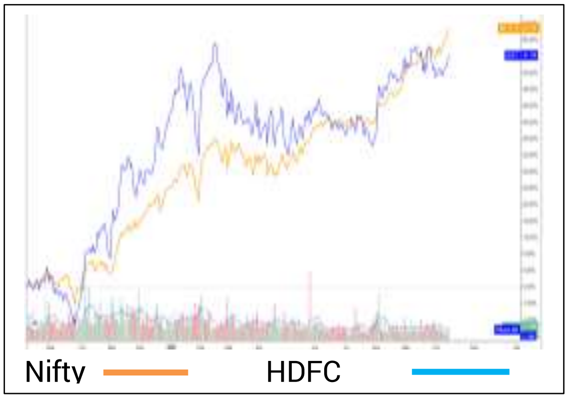
Stock Data	
Sensex	61305
52 Week h/l (₹)	1907/2896
Market cap (` Cr)	5,07,881
BSE code	500010
NSE code	HDFC
FV (₹)	2
Div. yield (%)	0.82

Shareholding Pattern

	Mar-21	Jun-21	Sep-21
FII	72.78	72.22	71.95
DII	16.13	16.47	16.85
Others	11.10	11.32	11.20

Source: www.bseindia.com

Share Price Trend



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18th October, 2021

Profile

HDFC is India's premier financier in mortgage lending. As at FY21 end, HDFC's outstanding AUM stood at ~Rs 5.7tn. HDFC offers loans to retail and corporate customers. About 77% of its loan book comprises retail loans and the rest comprises commercial real estate loans, lease rental discounting, etc. HDFC's conservative underwriting practices reflect in its low NPAs and credit losses. Since inception, it has written off only 0.04% of cumulative loan disbursements. As of FY21, HDFC GNPA stood at 1.98%. Despite increasing competition, HDFC's market leadership and profitability have remained intact, endorsing its strong competitive position.

Investment Rationale

Demand continues to surprise positively: Better affordability driven by stagnant prices, improving income levels and low interest rates has led to an uptick in demand for affordable as well as high-end properties. Incentives by state governments are also facilitating demand. While rates may have bottomed out, it may be 2-3 quarters before the RBI starts increasing rates. The non-individual segment too may see improvement in demand, with builders targeting to add commercial properties.

Stable asset quality outlook with positive bias: Across financials, we are seeing collections improving on MoM basis, with HDFC also witnessing the same trend. We do not expect any new stress addition; however, a shift is likely within the stress pool bucket. HDFC already has sufficient provision cover and expects credit costs to moderate from hereon. HDFC may look to continuing with the COVID buffer for a couple of quarters, before starting to utilise it. Collection efficiencies have continued to improve on MoM basis from the June level of 98.5%.

Margins to be stable despite competitive pressure: Liquidity in the system continues to be robust. In the ensuing months, the RBI is likely to reduce the same. HDFC believes the rates have bottomed out at this level. While no near-term changes are expected, it could move up by ~150-200bps over the medium term. Incremental borrowing cost remains low and HDFC stays confident of maintaining spreads/margins despite competitive pressures from banks.

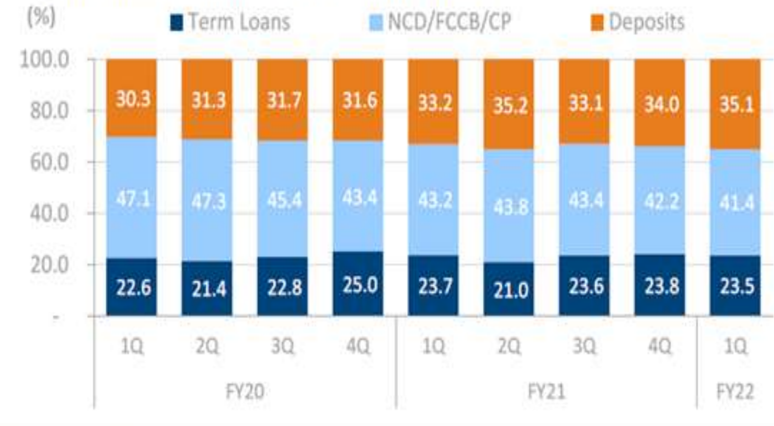
Gaining market share in a highly competitive environment

HDFC has gained market share in the last few quarters. While industry housing-loans have been growing at 9-10%, HDFC growth has been higher at 14-15%. While larger players like SBIN, ICICIB and AXSB are growing faster than industry, growth has been at the cost of smaller players which have evacuated the market. The lower rates being marketed by some peers are applicable only for the top 1-2% of the customers. While competition does exist, there is no material pressure on margins.

Technology and Fin-Tech

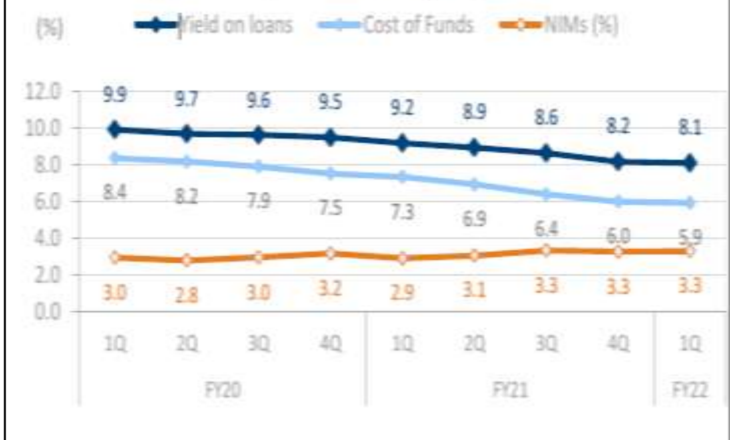
Competition from Fin-Tech is mainly for personal loans, vehicle loans, etc. In the housing segment, physical presence is of much importance. HDFC has had a few tie-ups with Fin-techs for distribution of some products; however, such partnerships have not materially scaled up.

HDFC has a well-diversified liability profile



Source: Company, IIFL Research

Net interest margin has broadly been stable for the past 3 quarters



Source: Company, IIFL Research

Risks

Covid-19 third wave- If there is a third wave of covid-19 in India, the company would see an increased slippages which could have an adverse impact on their results of operation.

Outlook & Valuation:

The management of HDFC Limited indicated a robust growth outlook driven by strong momentum in the retail segment – in both, affordable and high-end homes. Non-individual loans too may see a meaningful pick up over the near-to-medium term given the better visibility in project completions and improved demand. Collection efficiencies continue to show improvement on MoM basis. While there may still be a shift in buckets, the overall stress pool is unlikely to increase. In our view, Credit costs are likely to moderate hereon, with excess provisioning maintained.

HDFC is our preferred pick owing to its ability to gain market share despite competitive pressures. The Real Estate market saw a swift turnaround in TTM, with x`broad-based recovery in demand. Considering its strong capitalisation, control on COF, lean cost structure and low credit cost, we expect HDFC to report healthy Core ROAA/ROAE of ~2/13% in FY24ii. We maintain BUY on the stock, with a TP of Rs3,140/share.

Financial Summary

Consolidated (INR in bn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Pre-Provision operating Income	125.2	146.5	167.3	192.9	221.6
YoY growth (%)		17.0	14.2	15.3	14.9
PAT	177.7	120.3	138.6	161.6	186.6
PAT growth (%)		-32.3	15.2	16.6	15.5
ROE (%)	20.8%	11.8	12.1	13.1	13.7
P/B (x)	4.4	3.5	2.8	2.2	1.6

DISCLAIMER

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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