

Sector	Finance
Recommendation	BUY
Upside	25%

HDFC Ltd. | CMP ₹2550-2580 | Target: ₹3210

Stock Data

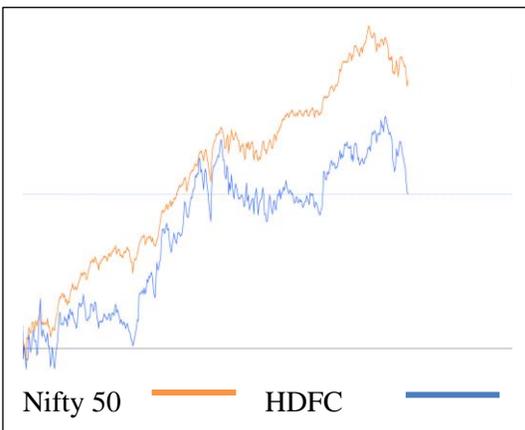
Sensex	56319
52 Week h/l (₹)	3021/2354
Market cap (₹ Cr)	460,170
BSE code	500010
NSE code	HDFC
FV (₹)	2.0
Div. yield (%)	0.91%

Shareholding Pattern

	Mar-21	Jun-21	Sep-21
FII+DII	88.91	88.69	88.80
Government	0.22	0.14	0.14
Public	0.88	11.18	11.06

Source: www.bseindia.com

Share Price Data



Profile

HDFC is India's premier financier in mortgage lending. As at FY21 end, HDFC's outstanding AUM stood at ~Rs5.7tn. HDFC offers loans to retail and corporate customers. About 77% of its loan book comprises of retail loans and the rest of 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

Key Highlights of 2QFY22: a) Spreads were stable QoQ at 2.29%; b) GS3% declined 10bps QoQ to 2.5%; c) Restructured loans increased 50bps QoQ 1.4%. Of the total restructured loans, ~63% is towards the individual segment. One large account constitutes ~35% of restructured loans and Company expects 50% repayment in the near term from this account; d) ATS for the quarter stood at Rs3.27m (+15% YoY); e) ECL% marginally declined, by 8bps QoQ to 2.56%.

Well placed to capitalise the favourable real estate market: HDFC is our preferred sector-pick owing to its ability to gain market share despite competitive pressures. The real estate market saw a swift turnaround in TTM, with broad-based recovery in demand. Given strong demand in the high-end segment in major metros, disbursement growth is likely to be a function of both, volume & ATS. Considering its strong capitalisation, control on cost of funds, lean cost structure and low credit cost, we expect HDFC to report healthy Core ROAA/ROAE of ~2.3%/14%.

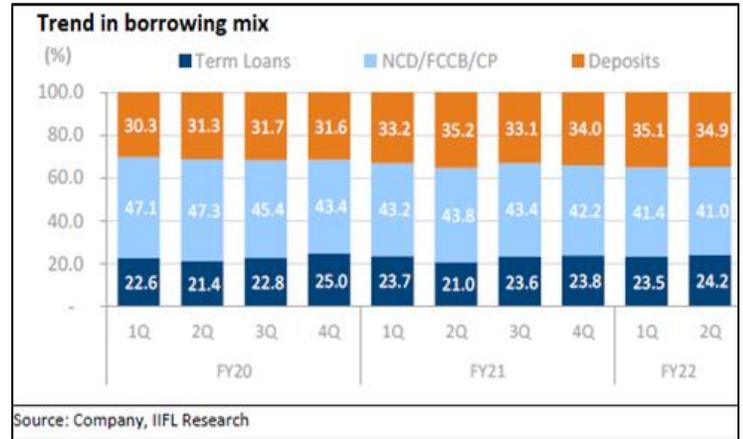
Strong growth in AUM: AUM growth of 10.5% YoY and margin expansion of 11bps to 3.2% have driven the 14.1% NII growth. On a sequential basis, NII was flat as the 4% QoQ AUM growth was offset by a ~8bps drop in spreads to 3.2%. Assignment income also dropped by 20%/52% YoY/QoQ to Rs1.3bn during the quarter.

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Retail Disbursement see strong growth: Retail Disbursements continue to see strong growth, up 80% YoY in 2QFY22. On a consolidated basis, disbursements have grown at 44% YoY. AUM growth continues to be driven by individual loans, up 15.7%/4.0% YoY/QoQ. Non-Individual book declined for the second quarter in a row, down 4.8% on a YoY basis. HDFC has gained market share in the retail segment. While the industry has grown at 9%, HDFC's AUM has seen 16% YoY growth.

Improvement in Asset Quality: HDFC's GNPA declined 11bps QoQ to 2.5% compared with 2.6% in 1QFY22. While retail GNPA improved by ~8bps QoQ to 1.28%, stage 2 loans, on the other hand, improved by ~40bps QoQ to 6.2% despite the ~50bps increase in restructured loans being classified under stage 2. Management expects credit cost to trend lower in 2HFY22, provided there is no impact of a potential third COVID wave. On a longer time frame, management does not expect any material change to the credit cost ratios. Collection efficiency in the restructured book continues to be reasonable.



Strong traction in disbursement: HDFC is receiving strong traction in demand. October 2021 saw the highest ever non-quarter ending-month disbursements. Also, it witnessed the second-highest monthly disbursements ever. Demand has been strong in Tier II towns as well as in urban areas like Delhi and Mumbai. Construction finance disbursements may also start picking up 4-5 quarters from now, on the back of strong retail demand. Improving affordability is driving the demand. Since the last 3-4 years, while income levels have improved by ~30%, property prices have been largely stagnant, thereby improving affordability. Disbursement growth was 80% YoY in the individual loan segment and at ~44% YoY on overall disbursements.

Risks

New Covid wave: Lockdowns related to new wave of covid due to increase in new omicron variant cases could have an impact on the asset quality of the company.

Outlook & Valuation:

HDFC's 2QFY22 earnings were largely in-line. Core operating performance was good, with healthy individual AUM growth of 15.7% YoY, stable spreads (2.29%) and improving asset quality outlook. Risk appetite is improving for the non- Individual segment which should support NIMs in ensuing quarters. We largely maintain earnings estimates and expect Core PAT CAGR of ~15% for FY22-24. Core ROA is likely to be healthy at ~2%. We largely maintain earnings estimate, as the business is moving on expected lines. Overall, we expect the company to report ~14% AUM CAGR over FY22-24ii, with a marginal increase in share of the non-individual segment. We bake in largely-stable spreads (~2.3%) and credit costs (~40bps) for this period. Thus, we recommend a buy on the stock with a long-term target of ₹3210.

Financial Summary

Consolidated (INR in bn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Net Interest Income	137.2	161.6	178.5	203.6	232.7
Total Assets Growth (%)	14.2	8.3	12.5	12.7	13.3
Net Interest margin (%)	2.7	2.9	3.0	3.0	3.0
Reported Net profit	177.7	120.3	138.1	159.4	184.0
ROE (%)	20.8	11.8	12.1	12.9	13.5
Cost to Income ratio (%)	10.7	10.9	10.7	8.9	8.8
Gross NPL Ratio (%)	2.0	2.4	2.0	1.7	1.6
Total Prov/ Avg loans (%)	1.4	0.6	0.4	0.4	0.4

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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