

Mixed quarter; outlook remains optimistic

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

- Individual loans contribute ~79% of AUM
- Stake in subsidiaries in insurance and asset management business add value

Q1FY23 Results: HDFC reported a mixed performance

- Loan growth at 16.1% YoY wherein individual loans were up 19% YoY
- NII up 6.3% YoY, NIMs down by 10 bps QoQ at 3.4%
- Provisions lower YoY; thus, PAT up 22.3% YoY at ₹ 3669 crore
- GNPA down 13 bps QoQ to 1.78%. R/s book flat QoQ at 0.77% of loans

What should investors do? HDFC Ltd's share price has grown ~1.3x in past five years. Its market positioning with healthy demand outlook & strong fundamentals bodes well. However, merger related uncertainty is expected to keep price in a range.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value HDFC Ltd at ~2x FY24E core ABV and ₹ 1340 (post 15% discount) for subsidiaries and assign a target price of ₹ 2800/share.

Key triggers for future price performance:

- Strong demand outlook in both affordable & higher end income group augers well for business growth
- Quarterly reset of back book to enable transmission of yields with a lag; margins to retrace and remain steady
- Healthy provision buffer & steady collection to keep provision low
- Merger related clarification and approval could lead to near term volatility

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 ₹ 970



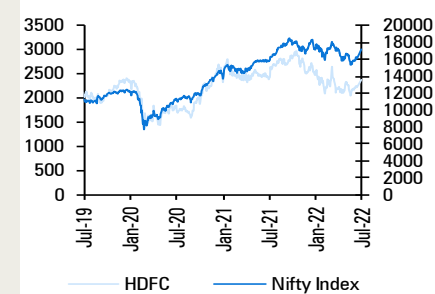
Particulars

Particulars	Amount
Market Capitalisation	₹ 431679 crore
52 week H/L	3021 / 2026
Networth	₹ 118341 crore
Face value	₹ 2
DII holding	21.0
FII Holding	67.8

Shareholding pattern

in %	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	-	-	-	-	-
FII	72.2	72.0	72.1	69.2	67.8
DII	16.5	16.9	16.6	19.0	21.0
Others	11.3	11.2	11.3	11.8	11.2

Price Chart



Recent Event & Key risks

- GNPA down 13 bps QoQ to 1.78%; Restructured book at 0.77% of loans
- **Key Risk:** 1) Rising competition on liabilities side 2) uncertainty in merger related approvals

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	12,748	14,970	17,119	14%	19,619	23,690	18%
PPP	26,264	17,763	19,178	11%	22,660	26,889	18%
PAT	17,770	12,027	13,742	13%	15,276	18,307	15%
ABV (₹)	497.4	603.0	663.3		671.7	723.4	
P/E	23.2	35.7	31.4		28.2	23.6	
P/ABV	4.8	3.9	3.6		3.5	3.3	
RoA	3.6	2.2	2.3		2.2	2.4	
RoE	21.7	12.3	12.0		12.6	14.5	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Interest rate transmission lag impacted NII and margins

- HDFC Ltd posted mixed set of numbers with NII growth of 6.3% YoY and largely flat QoQ due to fall in margins. NIMs were down by 10 bps QoQ at 3.4%, led by lag in transmission of increasing rates. Other income was up ~29% YoY & 10% QoQ to ₹ 1285 crore, led by income earned on assignment of loans and fees & commission income.
- Opex growth came higher at 32.3% YoY; attributable to building of resources. Thus, C/I ratio stood at 10.3% during the quarter. Provisions grew 28.2% QoQ & down 25% YoY to ₹ 514 crore. As a result, PAT was up 22.3% YoY to ₹ 3669 crore.
- Asset quality further improved as GNPA ratio declined from 1.91% to 1.78% QoQ led by healthy collection efficiency which stood at 99% for individual segment. GNPA in individual segment was at 0.98% while in non-individual segment was at 4.44%. HDFC Ltd carried a total provision of ₹ 13,328 crore; equivalent to 2.3% of exposure at default (EAD)
- Credit growth gathered further momentum as it was up 16.1% YoY to ~₹ 5.81 lakh crore. Growth in individual segment was healthy at 19% YoY (AUM basis); forming 79% of total gross AUM. The growth in individual loan book, after adding back loans sold in the preceding 12 months was 28%.

Q1FY23: Conference Call Highlights

- Individual loan disbursements grew 66% YoY. Housing disbursements constitute 93% of individual disbursements. HDFC Bank accounts for ~30% of business and sourcing loans from less than 3000 branches. Individual loan disbursements were ₹ 42000 crore.
- Housing loan demand was in affordable & mid-high income groups. Strong demand for home loans and healthy pipeline of construction finance loans, LRD. Expect non-individual loans to grow in double digit in coming quarters.
- ECLGS 1.0, 2.0 and 3.0 outstanding was at ₹ 217 crore. OTR 1 & 2 was ₹ 4407 crore (0.77 % of loans). 98% of OTR is in individual loan book.
- Prepayments in retail loans on annualised basis was 10.2% (normal range of 10-12%) of the opening loan book.
- In Q1FY23, the transmission lag had material impact on NII growth. After adjusting one-time impact of transmission lag, NII growth is 16% YoY. NII and margins to normalise in coming quarters. Spreads on individual loans – 1.91% and non-individual loans 3.45%.
- Yields, based on external rates, gets repriced within 3 months of rate hike. Repricing on incremental loans on monthly reset.
- Due to volatile market, gain on fair value investment was just ₹ 8 crore vs 402 crore in Q1FY22.
- Annualised credit cost for the quarter was 33 bps vs 50 bps in Q1FY22. ₹ 400 crore write offs during the quarter. Restructuring book flat QoQ at 0.77%. LCR at 71% vs 60% of regulatory requirement.
- Capital infusion of ₹ 2000 crore (translating to 49% stake) in HDFC Life undertaken as solvency ratio came down to 176% due to acquisition of Exide Life. Further, infusion will depend on regulatory approval.
- Update on merger – Awaiting approval from CCI. Only loan against shares which is <1% will not qualify as banks' loan post-merger.

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap		EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)		(₹ bn)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	
HDFC (HDFC)	2,379	2,800	Buy	4,316	66.7	75.8	84.3	101.0	35.7	31.4	28.2	23.6	3.9	3.6	3.5	3.3	12.3	12.0	12.6	14.5	
Bajaj Finserv (BAFINS)	15,039	18,900	Buy	2,395	176.2	263.5	424.1	526.0	85.4	57.1	35.5	28.6	6.8	5.9	5.1	4.3	8.3	11.1	15.5	16.4	
Bajaj Finance (BAJFI)	7,208	8,500	Buy	4,364	73.6	116.7	168.5	221.7	98.0	61.8	42.8	32.5	12.1	10.2	8.6	6.4	12.8	17.4	21.0	21.6	

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	2x FY24E Core Mortgage ABV	100.00	1,460
HDFC Bank	3x FY24E ABV	19.10	963
HDFC AMC	27.5x FY24E EPS	52.59	136
HDFC Life Insurance	2.9x FY24E EV	47.79	353
HDFC ERGO		50.50	110
Bandhan Bank	2,2x FY24 ABV	4.95	15
Value per share			3,036
Discount @ 15%			236
Value per share for HDFC Ltd			2,800

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	4,447	4,350	4,147	7.2	4,369	1.8	Modest performance due to lower margins
Reported NIM (%)	3.4	3.5	3.7	-30 bps	3.5	-10 bps	Interest rate transmission lag impacted NIMs
Other Income	1,246	1,481	995	25.3	1,169	6.6	
Net Total Income	5,693	5,831	5,141	10.7	5,538	2.8	
Staff cost	283	166	320	-11.4	227	25.0	
Other Operating Expenses	306	370	231	32.3	349	-12.4	Opex have been upfronted leading a higher C/I ratio
PPP	5,104	5,296	4,591	11.2	4,963	2.8	
Provision	514	848	686	-25.1	401	28.2	YoY fall in provisions led by improved asset quality
PBT	4,590	4,448	3,905	17.5	4,562	0.6	
Tax Outgo	921	978	904	1.9	922	-0.1	
PAT	3,669	3,469	3,001	22.3	3,639	0.8	Weak top line resulted in sequential flat earnings
Key Metrics							
GNPA	10,105	9,824	10,916	-7.4	10,598	-4.6	
Loans	5,81,040	5,70,559	5,00,490	16.1	5,68,363	2.2	Growth driven by Individual loans
Borrowings	5,17,452	5,04,175	4,38,413	18.0	4,99,681	3.6	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	19,541	19,619	0.4	23,425.0	23,690	1.1
Pre Provision Profit	22,644	22,660	0.1	26,779.0	26,889	0.4
NIM(%) (calculated)	3.0	2.9	-11 bps	3.1	3.0	-8 bps
PAT	15,320	15,276	-0.3	18,167.0	18,307	0.8

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	15.3	15.0	15.7	15.8
NIM Calculated (%)	2.9	3.0	3.0	3.1
Cost to income ratio (%)	9.1	8.5	9.0	8.4
GNPA (₹ crore)	10,858	11,457	11,142	12,132

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	43,749	43,585	43,859	53,664	62,690
Interest Expended	31,001	28,615	26,739	34,045	38,999
Net Interest Income	12,748	14,970	17,119	19,619	23,690
% growth	10	17	14	15	21
Non Interest Income	15,014	4,591	4,132	5,258	5,633
Net Income	27,762	19,561	21,251	24,877	29,324
Employee cost	593	914	1,061	1,114	1,192
Other operating Exp.	905	884	1,012	1,103	1,243
Operating Income	26,264	17,763	19,178	22,660	26,889
Provisions	5,913	2,948	1,932	2,156	2,479
PBT	20,351	14,815	17,246	20,505	24,410
Exceptional gain	-	-	-	-	1
Taxes	2,581	2,788	3,504	5,229	6,103
Net Profit (excl bandhan	17,770	12,027	13,742	15,276	18,307
% growth	84.5	-32.3	14.3	11.2	19.8

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	173.2	180.4	181.3	181.3	181.3
EPS (₹)	102.6	66.7	75.8	84.3	101.0
BV (₹)	497.4	603.0	663.3	671.7	723.4
ABV (₹)	497.4	603.0	663.3	671.7	723.4
P/E	23.2	35.7	31.4	28.2	23.6
P/BV	4.8	3.9	3.6	3.5	3.3
P/adj.BV	4.8	3.9	3.6	3.5	3.3
Yields & Margins (%)					
Yield on interest earning assets	8.4	7.5	6.8	7.8	7.9
Avg. cost on funds	7.9	6.7	5.7	6.3	6.3
Net Interest Margins	2.7	2.8	2.9	2.9	3.0
Spreads	0.5	0.8	1.2	1.5	1.6
Quality and Efficiency					
Cost / Total net income	5.4	9.2	9.8	9.1	8.5
GNPA%	2.0	2.0	1.9	1.7	1.6
ROE (%)	21.7	12.3	12.0	12.6	14.5
ROA (%)	3.6	2.2	2.3	2.2	2.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	346.4	360.8	362.6	362.6	362.6
Reserves and Surplus	85811.7	108421.9	119888.4	121416.0	130787.8
Networth	86158.1	108782.7	120251.0	121778.6	131150.4
Borrowings	419101.6	441365.0	499681.1	584450.6	656454.8
Other Liabilities & Provisi	18833.3	17450.9	20930.3	23120.6	28228.3
Total	5,24,093	5,67,599	6,40,862	7,29,350	8,15,834
Applications of Funds					
Fixed Assets	1876.5	1827.0	3759.7	4135.6	4549.2
Investments	64944.4	68636.8	68592.2	71478.5	72877.8
Advances	439943.8	485296.0	554862.0	639795.6	736029.4
Other Assets	13902.7	11838.8	13648.6	13940.0	2377.1
Total	5,20,667	5,67,599	6,40,862	7,29,350	8,15,833

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios (%)					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	14.2	8.3	12.9	13.8	11.9
Advances	8.2	10.3	14.3	15.3	15.0
Borrowings	14.4	5.3	13.2	17.0	12.3
Total Income	35.5	-18.0	8.6	21.4	16.1
Net interest income	9.7	17.4	14.4	14.6	20.8
Operating expenses	0.8	20.0	15.3	6.9	9.8
Operating profit (excl	105.6	-21.8	8.0	19.8	20.1
Net profit	84.5	-32.3	14.3	11.2	19.8
Book value	11.4	26.3	10.0	1.3	7.7
EPS	83.3	(35.0)	14.3	11.2	19.8

Source: Company, ICICI Direct Research

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