

## Decent performance; NIM trajectory to be watched...

**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 ~81% of AUM
- Stake in subsidiaries in insurance, asset management business aids value

**Q2FY23 Results:** HDFC reported a decent performance.

- Loan growth at 14.3% YoY wherein individual loans were up 20% YoY
- NII up 12.9% YoY, NIMs steady at 3.4% owing to lag in rate transmission
- Provisions lower QoQ, up 4.6% YoY; PAT up 17.8% YoY at ₹ 4454 crore
- GNPA down 34 bps QoQ to 1.44%. R/s book flat QoQ at 0.70% of loans

**What should investors do?** HDFC Ltd's share price has grown ~44% in the past five years. Its market positioning with healthy demand outlook and strong fundamentals bodes well. However, merger related uncertainty is expected to keep the price in a range.

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

**Target Price and Valuation:** We maintain our multiple at ~2x FY24E core ABV and ₹ 1390 (15% discount) for subsidiaries and revise our TP from ₹ 2800 to ₹ 2850.

**Key triggers for future price performance:**

- Continued strong demand across segments (affordable & high value) and geographies (metro and non-metros) augurs well for business growth
- Monthly reset of incremental disbursements to aid transmission of yields at a faster pace. Margins to remain steady in the near term
- Healthy provision buffer and steady collection to keep credit costs lower
- 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 ₹ 1000



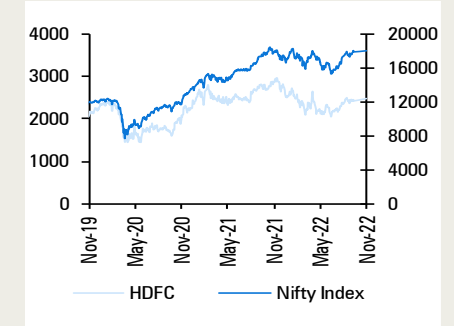
### Particulars

Particulars	Amount
Market Capitalisation	₹ 450333crore
52 week H/L	3021 / 2026
Networth	₹ 123440crore
Face value	₹ 2
DII holding	20.9
FII Holding	67.8

### Shareholding pattern

in %	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	-	-	-	-	-
FII	72.0	72.1	69.2	67.8	67.8
DII	16.9	16.6	19.0	21.0	20.9
Others	11.2	11.3	11.8	11.2	11.3

### Price Chart



### Recent Event & Key risks

- GNPA down 34 bps QoQ to 1.44%; Restructured book at 0.7% of loans
- **Key Risk:** 1) Impact on demand with rate moving northward 2) Uncertainty in merger related developments

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Namolia  
vishal.namolia@icicisecurities.com

Pravin Mule  
pravin.mule@icicisecurities.com

### 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%	19,805	23,359	17%
PPP	26,264	17,763	19,178	11%	22,847	26,558	18%
PAT	17,770	12,027	13,742	13%	16,139	18,778	17%
ABV (₹)	497.4	603.0	663.3		672.2	727.6	
P/E	24.2	37.2	32.7		27.8	23.9	
P/ABV	5.0	4.1	3.7		3.7	3.4	
RoA	3.6	2.2	2.3		2.4	2.4	
RoE	21.7	12.3	12.0		13.3	14.8	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: NIMs remain flat amid lag in interest rate transmission

- HDFC Ltd posted a decent set of numbers with net interest income growth of 12.9% YoY and 4.3% QoQ as margins were steady QoQ and declined 20 bps YoY amid a lag in rate transmission. Excluding impact of lag in transmission of rate hike and benefit of lower swap rates last year, NII should have grown at 16% in line with AUM growth
- Other income was up ~19% YoY and 47.5% QoQ to ₹ 1837 crore, led by strong dividend income during the quarter
- Opex growth came in higher at 29% YoY. This is attributable to building of resources. C/I ratio was at 9.1% during the quarter. Provisions declined 8% QoQ and were up 4.6% YoY to ₹ 473 crore. Net profit for the quarter was up 17.8% YoY and 21.4% QoQ to ₹ 4454 crore
- Asset quality further improved as GNPA ratio declined from 1.78% to 1.44% QoQ led by healthy collection efficiency, which was at 99% for individual segment. GNPA in the individual segment was at 0.91% vs. 0.98% in Q1FY23 while in non-individual segment GNPA came in at 3.99% vs. 4.44% in Q1FY23. HDFC Ltd carried a total provision of ₹ 13,146 crore. The provisions carried as a percentage of the exposure at default (EAD) is equivalent to 2.21% vs. 2.30% in the previous quarter
- Credit growth was healthy as it was up 14.3% YoY to ~₹ 5.95 lakh crore. Growth in the individual segment was healthy at 20% YoY (AUM basis); forming 81% of total gross AUM, led by growth across segments including high, medium and low ticket size. The growth in individual loan book, after adding back loans sold in the preceding 12 months was 28%

### Q2FY23: Conference Call Highlights

- Lag in transmission in response to rate hike impacted NIM. Borrowing cost has increased faster than lending rates impacting NII growth. The same should regularise in H2FY23 (with an impact of 10-12 bps). Excluding impact of lag in transmission of rate hike and benefit of lower swap rates last year, NII should have grown at 16%, in line with AUM growth
- Shift of loans repricing from quarterly to monthly reset is under way on incremental disbursement
- Prepayment at 10.3% of opening loan book, which is steady compared to the trajectory seen earlier
- Incremental CoF – 7% (for September 2022)
- Growth in H1FY23 largely through individual segment. Growth remained broad based including metros and non-metros. ATS increase led by faster increase in demand for high value loans. Expect non-individual segment to witness growth in H2FY23
- Credit cost is targeted to normalise further as resolution is undertaken in lieu of stressed assets. OTR 1 & 2 - ₹ 4244 crore. Total 98% of OTR loans were from individual category
- Total 83% business sourced through directly and associates
- On regulatory tier 1 capital, RoE was at 16.3% as of H1FY23
- Introduced Sapphire deposit in October 2022 and garnered ₹ 5000 crore in three to four weeks
- SLR investment was at ₹ 45000 crore, LCR -79%
- Restructured book was 70 bps of total loan book

## 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	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC (HDFC)	2,478	2,850	Buy	4,503	66.7	75.8	89.0	103.6	37.2	32.7	27.8	23.9	4.1	3.7	3.7	3.4	12.3	12.0	13.3	14.8
Bajaj Finserv (BAFINS)	1,699	1,850	Hold	2,707	35.2	52.7	43.1	56.5	48.2	32.2	39.4	30.1	3.9	3.4	5.7	4.8	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7,342	8,650	Buy	4,445	73.6	116.7	190.5	226.4	99.8	62.9	38.5	32.4	12.3	10.3	8.5	6.4	12.8	17.4	23.4	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	1,459
HDFC Bank	3.1x FY24E ABV	19.04	1,019
HDFC AMC	27.8x FY24E EPS	52.59	134
HDFC Life Insurance	2.9x FY24E EV	48.66	360
HDFC ERGO		50.50	110
Bandhan Bank	2.1x FY24 ABV	4.95	13
Value per share			3,095
Discount @ 15%			245
<b>Value per share for HDFC Ltd</b>			<b>2,850</b>

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	4,639	4,781	4,109	12.9	4,447	4.3	Growth aided by steady margins
Reported NIM (%)	3.4	3.7	3.6	-20 bps	3.4	0 bps	Yet to see full benefit of interest rate transmission
Other Income	1,837	1,839	1,544	18.9	1,246	47.5	
Net Total Income	6,476	6,620	5,653	14.6	5,693	13.8	
Staff cost	267	314	280	-4.7	283	-5.7	
Other Operating Expenses	322	325	250	29.0	306	5.5	C/I ratio at 9.1% vs. 9.4% in Q2FY22
PPP	5,887	5,982	5,123	14.9	5,104	15.3	
Provision	473	564	452	4.6	514	-8.0	Credit cost at 0.31% vs. 0.40% a year ago
PBT	5,414	5,418	4,671	15.9	4,590	18.0	
Tax Outgo	960	1,192	891	7.8	921	4.2	
PAT	4,454	4,226	3,781	17.8	3,669	21.4	Decent earnings growth led by steady margins and healthy business traction
Key Metrics							
GNPA	838	9,134	10,149	-91.7	10,105	-91.7	
Loans	595,269	593,709	520,798	14.3	581,040	2.4	Growth driven by Individual loans which was up 20% YoY
Borrowings	529,034	536,775	462,737	14.3	517,452	2.2	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

₹ Crore	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	19,619	19,805	0.9	23,690.4	23,359	-1.4
Pre Provision Profit	22,660	22,847	0.8	26,889.4	26,558	-1.2
NIM(%) (calculated)	2.9	2.9	3 bps	3.0	3.0	-4 bps
PAT	15,276	16,139	5.7	18,306.6	18,778	2.6

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	15.3	15.0	15.3	15.0
NIM Calculated (%)	2.9	3.0	2.9	3.0
Cost to income ratio (%)	9.1	8.6	9.1	8.5
GNPA (₹ crore)	10,858	11,457	10,858	11,457

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	53,851	62,762
Interest Expended	31,001	28,615	26,739	34,045	39,403
Net Interest Income	12,748	14,970	17,119	19,805	23,359
% growth	10	17	14	16	18
Non Interest Income	15,014	4,591	4,132	5,258	5,633
Net Income	27,762	19,561	21,251	25,063	28,992
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	22,847	26,558
Provisions	5,913	2,948	1,932	1,886	2,169
PBT	20,351	14,815	17,246	20,960	24,388
Exceptional gain	-	-	-	-	1
Taxes	2,581	2,788	3,504	4,821	5,609
Net Profit (excl bandhan	17,770	12,027	13,742	16,139	18,778
% growth	84.5	-32.3	14.3	17.4	16.3
EPS (₹)	102.6	66.7	75.8	89.0	103.6

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	89.0	103.6
BV (₹)	497.4	603.0	663.3	672.2	727.6
ABV (₹)	497.4	603.0	663.3	672.2	727.6
P/E	24.2	37.2	32.7	27.8	23.9
P/BV	5.0	4.1	3.7	3.7	3.4
P/adj.BV	5.0	4.1	3.7	3.7	3.4
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	1.6	1.6
Quality and Efficiency					
Cost / Total net income	5.4	9.2	9.8	9.1	8.6
GNPA%	2.0	2.0	1.9	1.7	1.6
ROE (%)	21.7	12.3	12.0	13.3	14.8
ROA (%)	3.6	2.2	2.3	2.4	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	121502.3	131548.7
Networth	86158.1	108782.7	120251.0	121864.9	131911.3
Borrowings	419101.6	441365.0	499681.1	584450.6	668985.6
Other Liabilities & Provisi	18833.3	17450.9	20930.3	23172.4	28256.6
Total	5,24,093	5,67,599	6,40,862	7,29,488	8,29,153
Applications of Funds					
Fixed Assets	1876.5	1827.0	3759.7	4135.6	4549.2
Investments	64944.4	68636.8	68592.2	71478.5	74024.9
Advances	439943.8	485296.0	554862.0	639795.6	736029.4
Other Assets	13902.7	11838.8	13648.6	14078.2	14549.9
Total	5,20,667	5,67,599	6,40,862	7,29,488	8,29,153

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	13.7
Advances	8.2	10.3	14.3	15.3	15.0
Borrowings	14.4	5.3	13.2	17.0	14.5
Total Income	35.5	-18.0	8.6	21.8	15.8
Net interest income	9.7	17.4	14.4	15.7	17.9
Operating expenses	0.8	20.0	15.3	6.9	9.8
Operating profit (excl	105.6	-21.8	8.0	20.8	17.6
Net profit	84.5	-32.3	14.3	17.4	16.4
Book value	11.4	26.3	10.0	1.3	8.2
EPS	83.3	(35.0)	14.3	17.4	16.4

Source: Company, ICICI Direct Research

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**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

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