



Decent performance; merger remains near term focus

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 ~82% of AUM
- Stake in subsidiaries in insurance, asset management business aids value

Q3FY23 Results: HDFC reported a modest performance.

- Loan growth at 11.8% YoY wherein individual loans were up 18% YoY
- NII up 15.7% YoY, NIMs up 10 bps to 3.5% owing to lag in rate transmission
- Provisions lower QoQ, YoY; PAT up 13.2% YoY at ₹ 3691 crore
- GNPA up 5 bps QoQ to 1.49%. R/s book flat QoQ at 0.7% of loans

What should investors do? HDFC Ltd's share price has grown ~50% in the past five years. Healthy demand outlook coupled with strong market positioning and strong fundamentals bodes well. Merger related uncertainty remains near term overhang.

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

Target Price and Valuation: We maintain our multiple at ~1.8x FY25E core ABV and ₹ 1414 (15% discount) for subsidiaries and revise our TP from ₹ 2850 to ₹ 3150.

Key triggers for future price performance:

- Continued strong demand across segments (affordable & high value) and geographies (metro, non-metros) augurs well for business growth
- Healthy pipeline in non-individual segment to aid growth as well as margins
- Benefit of transmission of interest rates to keep margins steady in near term
- Healthy provision buffer and steady collection to keep credit costs lower
- Merger expected to be completed by June/July 2023; slew of approvals awaited

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 ₹ 1100

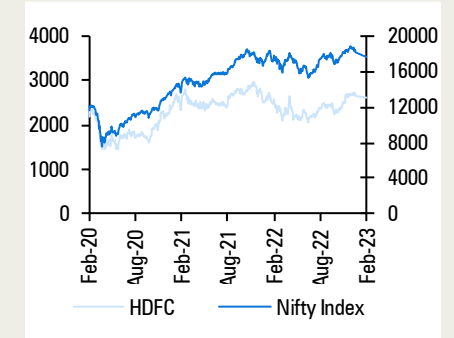
Particulars

Particulars	Amount
Market Capitalisation	₹ 492313 crore
52 week H/L	2855 / 2026
Networth	₹ 129239 crore
Face value	₹ 2
DII holding	21.6
FII Holding	67.2

Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	-	-	-	-	-
FII	72.1	69.2	67.8	67.8	67.2
DII	16.6	19.0	21.0	20.9	21.6
Others	11.3	11.8	11.2	11.3	11.2

Price Chart



Recent Event & Key risks

- GNPA up 5 bps QoQ to 1.49%; Restructured book at 0.7% of loans
- **Key Risk:** 1) Impact on demand with rate moving northward 2) Uncertainty in merger related developments

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	12,748	14,970	17,119	14%	19,173	23,059	26,701	16%
PPP	26,264	17,763	19,178	11%	21,784	25,878	29,603	16%
PAT	17,770	12,027	13,742	13%	15,719	18,256	20,877	15%
ABV (₹)	497.4	603.0	663.3		750.0	845.1	959.5	
P/E	24.2	37.2	32.7		28.6	24.8	21.7	
P/ABV	5.0	4.1	3.7		3.3	2.9	2.6	
RoA	3.6	2.2	2.3		2.3	2.3	2.3	
RoE	21.7	12.3	12.0		12.3	12.6	12.7	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Operating performance modest; NIMs up 10 bps QoQ

- Net interest income grew 15.7% YoY and 4.3% QoQ as margins expanded 10 bps QoQ at 3.5% led by transmission of interest rate. Despite higher dividend income, other income declined 3.3% YoY, 61.2% QoQ to ₹ 713 crore
- Opex growth came in higher at 19.4% YoY. This is attributable to up fronting of staffing expenses. Hence, C/I ratio was up at 10.3% vs. 9.7% in Q3FY22 and 9.1% in Q2FY23. Provisions declined 21.8% QoQ, 5.9% YoY to ₹ 370 crore, resulting in a further decline in credit cost at 0.22%. PAT for the quarter was up 13.2% YoY and de grew 17.1% QoQ to ₹ 3691 crore (which is largely in line with estimates)
- Asset quality was largely steady as GNPA ratio was at 1.49% vs. 1.44% QoQ led by healthy collection efficiency, which was at 99% for individual segment. GNPA in the individual segment was at 0.86% vs. 0.91% in Q2FY23 while in non-individual segment GNPA came in at 3.89% vs. 3.99% in Q2FY23. HDFC Ltd carried a total provision of ₹ 13,274 crore. The provisions carried as a percentage of the exposure at default (EAD) was steady at 2.21%
- Credit growth was a bit slower at 11.8% YoY to ~₹ 6.02 lakh crore. Growth in the individual segment was healthy at 18% YoY (AUM basis); forming 82% of total gross AUM, led by growth across segments. The growth in individual loan book, after adding back loans sold in the preceding 12 months was 26%

Q3FY23: Conference Call Highlights

- NIM to be in the range of 3.3-3.5%. CI ratio to remain in single digits. Strong pipeline of construction finance loans
- Operating performance was impacted by interest rate transmission lag, loss of fair value of investments, higher CI ratio (staff & legal expenses). Benefit of transmission lag will be seen in the coming quarter as CoF will remain unchanged
- From Q2FY23 to Q3FY23, net accretion to retail deposits was ₹ 5750 crore
- External borrowing limit of \$1.5 bn per year has been fully utilised by the company in the current year
- AUM mix: individual loans – 82%, construction finance – 8%. LRD – 6%, corporate loans – 4% of total loan book
- Incremental loan book growth is entirely from individual loan segment. Under ECLGS, total disbursement amount was at ₹ 1876 crore
- Individual loan approvals for 9MFY23 increased 21% YoY; individual loan disbursements grew 23% YoY. Due to holiday period in October-November 2022, monthly disbursements were marginally lower MoM but returned to normal trajectory in December 2022. Individual disbursements for the quarter were ₹ 40000 crore
- Prepayments on retail loans amounted to 10.7% of the opening loan book (in line with historic range of 10-12%)
- Outstanding loans under OTR 1 and OTR 2 was at ₹ 4085 crore (0.7% of loan book). Total 98% of the OTR loan was in individual segment
- Stage 1 – 94.5%, Stage 2 – 3.7% and stage 3 – 1.6% of total loans
- During the quarter, charged P&L account ₹ 370 crore towards provisions

- Bonds to the tune of ₹ 118000 crore can be classified as infra bonds (maturity of seven years and above). Total SLR was at ₹ 56000 crore. Total ₹ 420000 crore book eligible for priority sector lending
- The final hearing from NCLT is scheduled on February 3, 2023. Clarification from RBI on various dispensations is still awaited

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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
HDFC (HDFC)	2,695	3,150	Buy	4,923	66.7	75.8	86.7	100.0	40.4	35.6	31.1	26.9	4.5	4.1	3.6	3.2	12.3	12.0	12.3	12.6
Bajaj Finserv (BAFINS)	1,337	1,625	Buy	2,130	35.2	52.7	43.1	56.5	37.9	25.4	31.0	23.7	3.0	2.6	4.5	3.8	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	6,010	7,250	Buy	3,639	73.6	116.8	198.5	229.7	81.7	51.5	30.3	26.2	10.1	8.5	6.9	5.7	12.8	17.5	24.2	22.9

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	1.8x FY25E Core Mortgage ABV	100.00	1,736
HDFC Bank	3.1x FY24E ABV	19.04	1,111
HDFC AMC	27.8x FY24E EPS	52.59	136
HDFC Life Insurance	2.9x FY24E EV	48.66	304
HDFC ERGO		50.50	100
Bandhan Bank	2,1x FY24 ABV	4.95	13
Value per share			3,400
Discount @ 15%			250
Value per share for HDFC Ltd			3,150

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	4,840	4,932	4,182	15.7	4,639	4.3	Growth aided by healthy growth & uptick in margins
Reported NIM (%)	3.5	3.4	3.6	-10 bps	3.4	10 bps	Yet to see full benefit of interest rate transmission
Other Income	713	1,100	737	-3.3	1,837	-61.2	
Net Total Income	5,553	6,032	4,919	12.9	6,476	-14.3	
Staff cost	235	217	173	35.3	267	-12.1	
Other Operating Expenses	336	356	304	10.4	322	4.3	Frontloading staffing expense led to uptick in CI ratio at 10.3%
PPP	4,982	5,459	4,441	12.2	5,887	-15.4	
Provision	370	498	393	-5.9	473	-21.8	Credit cost declined at 0.22%
PBT	4,612	4,961	4,048	13.9	5,414	-14.8	
Tax Outgo	921	1,091	787	17.0	960	-4.0	
PAT	3,691	3,870	3,261	13.2	4,454	-17.1	Healthy business traction and margins aid earnings
Key Metrics							
GNPA	87,774	85,503	12,199	619.5	83,826	4.7	
Loans	602,355	622,539	538,994	11.8	595,269	1.2	Growth driven by Individual loans, which was up 18% YoY
Borrowings	543,664	562,353	489,002	11.2	529,034	2.8	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

` (₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	19,805	19,173	-3.2	23,359.0	23,059	-1.3	26,701
Pre Provision Profit	22,847	21,784	-4.7	26,558.0	25,878	-2.6	29,603
NIM(%) (calculated)	2.9	2.8	-8 bps	3.0	2.9	-6 bps	3.0
PAT	16,139	15,719	-2.6	18,778.0	18,256	-2.8	20,877

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	15.3	15.0	14.8	15.3	15.0
NIM Calculated (%)	2.8	2.9	3.0	2.9	3.0
Cost to income ratio (%)	10.4	9.8	9.6	9.1	8.6
GNPA (₹ crore)	10,858	11,457	12,513	10,858	11,457

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	43,859	53,851	62,762	71,890
Interest Expended	26,739	34,677	39,703	45,189
Net Interest Income	17,119	19,173	23,059	26,701
% growth	14	12	20	16
Non Interest Income	4,132	5,068	5,557	5,955
Net Income	21,251	24,242	28,616	32,656
Employee cost	1,061	1,103	1,214	1,335
Other operating Exp.	1,012	1,354	1,525	1,719
Operating Income	19,178	21,784	25,878	29,603
Provisions	1,932	1,886	2,169	2,490
PBT	17,246	19,898	23,709	27,113
Taxes	3,504	4,179	5,453	6,236
Net Profit (excl bandhan exce	13,742	15,719	18,256	20,877
% growth	14.3	14.4	16.1	14.4
EPS (₹)	75.8	86.7	100.0	114.4

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares	181.3	181.3	182.5	182.5
EPS (₹)	75.8	86.7	100.0	114.4
BV (₹)	663.3	750.0	845.1	959.5
ABV (₹)	663.3	750.0	845.1	959.5
P/E	32.7	28.6	24.8	21.7
P/BV	3.7	3.3	2.9	2.6
P/adj.BV	3.7	3.3	2.9	2.6
Yields & Margins (%)				
Yield on interest earning assets	6.8	7.8	7.9	7.9
Avg. cost on funds	5.7	6.4	6.3	6.3
Net Interest Margins	2.9	2.8	2.9	3.0
Spreads	1.2	1.4	1.6	1.7
Quality and Efficiency				
Cost / Total net income	9.8	10.4	9.8	9.6
GNPA%	1.9	1.7	1.6	1.5
ROE (%)	12.0	12.3	12.6	12.7
ROA (%)	2.3	2.3	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	362.6	362.6	365.0	365.0
Reserves and Surplus	119888.4	135607.6	153863.5	174740.7
Networth	120251.0	135970.3	154228.5	175105.7
Borrowings	499681.1	584450.6	668985.6	769333.4
Other Liabilities & Provisions				
Total	6,40,862	7,43,568	8,51,439	9,78,885
Applications of Funds				
Fixed Assets	3759.7	4135.6	4549.2	5004.1
Investments	68592.2	71478.5	74024.9	76830.1
Advances	554862.0	639795.6	736029.4	844720.6
Other Assets	13648.6	28158.3	36835.7	52330.3
Total	6,40,862	7,43,568	8,51,439	9,78,885

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets				
Advances	12.9	16.0	14.5	15.0
Borrowings	14.3	15.3	15.0	14.8
Total Income	13.2	17.0	14.5	15.0
Net interest income	8.6	21.4	16.1	14.0
Operating expenses	14.4	12.0	20.3	15.8
Operating profit (excl	15.3	18.6	11.4	11.5
Net profit	8.0	15.1	20.3	15.6
Book value	14.3	14.4	16.1	14.4
EPS	10.0	13.1	13.4	13.5
	14.3	14.4	15.4	14.4

Source: Company, ICICI Direct Research

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