

## Moderation in retail growth; margins aid performance

**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 ~83% of AUM
- Stake in subsidiaries in insurance, asset management business aids value

**Q4FY23 Results:** HDFC reported a modest performance.

- Loan growth at 9.2% YoY wherein individual loans were up 16% YoY
- NII up 22.3% YoY, NIMs up 10 bps to 3.6% led by revision on yields
- Provisions up QoQ, YoY; PAT up 22.2% YoY at ₹ 4426 crore
- GNPA down 31 bps QoQ to 1.18%. Credit cost steady at 25 bps QoQ

**What should investors do?** HDFC Ltd's share price has grown ~1.5x in the past five years. Healthy demand outlook coupled with strong market positioning and fundamental bodes well. Merger with bank is seen providing further opportunity.

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

**Target Price and Valuation:** We maintain our multiple at ~1.9x FY25E core ABV and ₹ 1442 (15% discount) for subsidiaries and revise our TP from ₹ 3150 to ₹ 3200.

**Key triggers for future price performance:**

- Moderation seen in growth in retail segment in recent quarters. However, continued strong demand across segments (affordable & high value) and geographies (metro, non-metros) augurs well for business growth ahead
- Increased presence and customer base, post-merger, expected to aid business growth on both assets and liabilities
- Run down in non-individual to comply with banking regulations; book seen to stabilise
- Clarity on regulatory approval and global indices to put fundamentals back in focus

**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



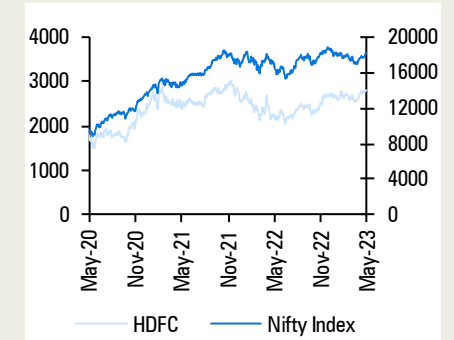
### Particulars

Particulars	Amount
Market Capitalisation	₹ 498430 crore
52 week H/L	2867 / 2026
Networth	₹ 133984 crore
Face value	₹ 2
DII holding	22.4
FII Holding	66.2

### Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	-	-	-	-	-
FII	69.2	67.8	67.8	67.2	66.2
DII	19.0	21.0	20.9	21.6	22.4
Others	11.8	11.2	11.3	11.2	11.5

### Price Chart



### Recent Event & Key risks

- GNPA down 31 bps QoQ to 1.18%

**Key Risk:** 1) Impact of elevated rates on business growth 2) Volatility in margins to impact earnings

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	12,748	14,970	17,119	19,248	15%	21,114	23,730	11%
PPP	26,264	17,763	19,178	21,809	-6%	23,955	26,544	10%
PAT	17,770	12,027	13,742	16,239	-3%	17,346	19,157	9%
ABV (₹)	497.4	603.0	663.3	730.3		829.2	934.2	
P/E	26.5	40.8	35.9	30.8		28.6	25.9	
P/ABV	5.5	4.5	4.1	3.7		3.3	2.9	
RoA	3.6	2.2	2.3	2.4		2.2	2.1	
RoE	21.7	12.3	12.0	12.8		12.2	11.9	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Modest performance with slower growth; NIMs up 10 bps

- HDFC Ltd posted further moderation in business growth, though the operational performance remained steady
- Net interest income grew 22.3% YoY and 9.9% QoQ as margins expanded 10 bps QoQ at 3.6% led by transmission of interest rate though business growth witnessed moderation at 9.2% YoY. Other income remained flattish on a YoY basis at ₹ 1186 crore
- Opex growth came in higher at 16.7% YoY, attributable to continued investment in distribution infrastructure. Hence, C/I ratio up at 10.3% vs. 9.3% in Q4FY22, though it remained steady compared to 10.3% in Q3FY23. Provisions increased 9.2% YoY and 18.4% QoQ to ₹ 438 crore, i.e. ~25 bps on loans. Net profit for the quarter was up 22.2% YoY and 19.9% QoQ to ₹ 4426 crore (higher than our estimates)
- Asset quality was largely steady as GNPA ratio was at 1.18% vs. 1.49% QoQ led by healthy collection efficiency, which was at 99% for the individual segment. GNPA in the individual segment was at 0.75% vs. 0.86% in Q3FY23 while in the non-individual segment GNPA came in at 2.9% vs. 3.89% in Q3FY23. HDFC Ltd carried a total provision of ₹ 12145 crore. Provisions carried as a percentage of exposure at default (EAD) was steady at 1.96%
- Credit growth was a bit slower at 9.2% YoY to ~₹ 6.2 lakh crore. Growth in the individual segment was healthy at 15.7% YoY (AUM basis); forming 83% of total gross AUM. However, on maturity, certain non-individual exposures have been run down to ensure compliance with banking norms in lieu of the impending merger with HDFC Bank. The growth in individual loan book, after adding back loans sold in the preceding 12 months was 24%

### Q4FY23: Conference Call Highlights

- Total ~93% of incremental disbursement is to individual loan segment
- Total ₹ 18000 crore of loans allowed to mature to align with banking regulations ahead of merger
- Proportion of business sourced: HDFC Sales - Sourced 51% of business, HDFC Bank – 31%, DSA – 16%
- Outstanding loans under OTR 1 and OTR 2 was at ₹ 3889 crore (0.6% of loan book). Total 98% of the OTR loan was in the individual segment. ECLGS book was at ₹ 1883 crore (0.3% of loans)
- Charged ₹ 438 crore towards provisions
- G-sec holding was at ₹ 64000 crore; regulatory requirement is estimated at ~₹ 1 lakh crore. LCR calculated from a banking perspective was at 75-80%
- Esop cost at ₹ 205 crore for FY23
- Total ~₹ 10,000-15,000 crore borrowing mature every month. However, ~70% of borrowing maturing gets renewed
- Tenure of borrowings: NCD- 100 months, Bank loans – 15 months (10-12 months on a stock basis), ECB – 42-43 months, Deposits – 3-3.5 years
- Deposits constitute ~16% of borrowing. Focus remains on increasing proportion of individual borrowing as it is more stable in nature

## Peer comparison

### Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)					
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E
Can Fin Homes (CANHOM)	644	730	Buy	85	35.4	46.2	55.3	67.5	18.2	13.9	11.6	9.5	2.9	2.4	2.0	1.7	16.6	18.3	18.5	19.0
HDFC (HDFC)	2,695	3,200	Buy	4,984	75.8	88.5	95.0	105.0	35.6	30.4	28.4	25.7	4.1	3.7	3.3	2.9	12.0	12.8	12.2	11.9
Bajaj Finserv (BAFINS)	1,360	1,600	Buy	2,188	52.8	38.5	49.3	59.4	25.8	35.3	27.6	22.9	2.7	4.7	4.0	3.4	11.2	14.1	15.6	16.1
Bajaj Finance (BAJFI)	6,414	7,250	Buy	3,885	116.8	195.4	240.0	298.3	54.9	32.8	26.7	21.5	9.0	7.1	5.9	4.8	17.5	23.9	23.9	23.5

Source: Company, ICICI Direct Research

### Exhibit 2: SOTP valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Ltd	1.9x FY25E Core Mortgage ABV	100.00	1,758
HDFC Bank	2.9x FY25E ABV	19.04	1,140
HDFC AMC	25x FY25E EPS	52.59	124
HDFC Life Insurance	2.2x FY25E EV	48.66	321
HDFC ERGO		50.50	100
Bandhan Bank	1.9x FY25 ABV	4.95	12
Value per share			3,455
Discount @ 15%			254
<b>Value per share for HDFC Ltd</b>			<b>3,200</b>

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	5,321	5,024	4,352	22.3	4,840	9.9	Growth aided by healthy growth in individual segment and uptick in margins
Reported NIM (%)	3.6	3.5	3.5	10 bps	3.5	10 bps	Margin improvement attributable to revision in yields
Other Income	1,186	970	1,169	1.5	713	66.4	
Net Total Income	6,507	5,994	5,521	17.9	5,553	17.2	
Staff cost	240	261	227	6.1	235	2.3	
Other Operating Expenses	431	383	349	23.6	336	28.2	CI ratio remains steady QoQ at 10.3%
	671.0	644.0	575.2	16.7	570.8		
PPP	5,836	5,350	4,945	18.0	4,982	17.2	
Provision	438	391	401	9.2	370	18.4	Credit cost steady at 0.25%
PBT	5,398	4,959	4,544	18.8	4,612	17.1	
Tax Outgo	973	1,091	922	5.5	921	5.6	
PAT	4,426	3,868	3,622	22.2	3,691	19.9	Healthy business traction and margins aid earnings
Key Metrics							
GNPA	8,760	10,307	9,655	-9.3	8,777	-0.2	
Loans	620,507	651,060	568,363	9.2	602,355	3.0	Individual growth at 17% YoY on AUM basis
Borrowings	568,222	567,138	499,681	13.7	543,664	4.5	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

₹ Crore	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	23,059	21,114	-8.4	26,701.2	23,730	-11.1
Pre Provision Profit	25,878	23,955	-7.4	29,602.9	26,544	-10.3
NIM(%) (calculated)	2.9	2.9	-4 bps	3.0	2.9	-12 bps
PAT	18,256	17,346	-5.0	20,877.2	19,157	-8.2

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	14.9	14.8	15.0	14.8
NIM Calculated (%)	2.9	2.9	2.9	3.0
Cost to income ratio (%)	10.3	10.5	9.8	9.6
GNPA (₹ crore)	9,138	9,915	11,457	12,513

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	43,859	55,242	59,256	67,146
Interest Expended	26,739	35,995	38,142	43,416
Net Interest Income	17,119	19,248	21,114	23,730
% growth	14	12	10	12
Non Interest Income	4,132	4,981	5,545	5,888
Net Income	21,251	24,229	26,659	29,618
Employee cost	1,061	1,025	1,179	1,356
Other operating Exp.	1,012	1,395	1,525	1,719
Operating Income	19,178	21,809	23,955	26,544
Provisions	1,932	1,795	1,998	2,294
PBT	17,246	20,014	21,957	24,250
Taxes	3,504	3,775	4,611	5,092
Net Profit (excl bandhan exce	13,742	16,239	17,346	19,157
% growth	14.3	18.2	6.8	10.4
EPS (₹)	75.8	88.5	95.0	105.0

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	181.3	183.5	182.5	182.5
EPS (₹)	75.8	88.5	95.0	105.0
BV (₹)	663.3	730.3	829.2	934.2
ABV (₹)	663.3	730.3	829.2	934.2
P/E	35.9	30.8	28.6	25.9
P/BV	4.1	3.7	3.3	2.9
P/adj.BV	4.1	3.7	3.3	2.9
Yields & Margins (%)				
Yield on interest earning assets	6.9	8.1	8.1	8.0
Avg. cost on funds	5.7	6.7	6.3	6.2
Net Interest Margins	2.9	3.0	2.9	2.9
Spreads	1.2	1.3	1.8	1.8
Quality and Efficiency				
Cost / Total net income	9.8	10.1	10.3	10.5
GNPA%	1.9	1.4	1.3	1.2
ROE (%)	12.0	12.8	12.2	11.9
ROA (%)	2.3	2.4	2.2	2.1

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	362.6	366.9	365.0	365.0
Reserves and Surplus	119888.4	133617.8	150963.8	170121.0
Networth	120251.0	133984.7	151328.8	170486.0
Borrowings	4,99,681	568222.0	650256.2	747794.6
Other Liabilities & Provisions	20930.3	24567.8	30295.8	36849.4
Total	6,40,862	7,26,775	8,31,881	9,55,130
Applications of Funds				
Fixed Assets	3759.7	3910.0	4301.0	4731.1
Investments	68592.2	97713.1	104794.8	112684.3
Advances	554862.0	608362.7	699311.4	802910.8
Other Assets	13648.6	16788.8	23473.5	34803.7
Total	6,40,862	7,26,775	8,31,881	9,55,130

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios (%)				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	12.9	13.4	14.5	14.8
Advances	14.3	9.6	14.9	14.8
Borrowings	13.2	13.7	14.4	15.0
Total Income	8.6	25.0	7.5	12.7
Net interest income	14.4	12.4	9.7	12.4
Operating expenses	15.3	16.8	11.7	13.7
Operating profit (excl	8.0	15.3	11.2	12.1
Net profit	14.3	18.2	6.8	10.4
Book value	10.0	11.4	12.9	12.7
EPS	14.3	16.8	7.4	10.4

Source: Company, ICICI Direct Research

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