Housing Development Finance Corporation Limited (HDFC)

February 9, 2021

CMP: ₹2,747

Target: ₹3,100

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Q3-FY21 Result Update

- Housing Development Finance Corporation Limited's (HDFC) consolidated revenues grew 35.0% year over year (YoY) to ₹3,92,590 million in Q3FY21. On standalone basis, HDFC reported revenues of ₹1,17,070 million, up 3.9% YoY (Ex-fair value gain) . Net interest income grew by 26% YoY to ₹4,680 million in the quarter. Net interest margin (NIM) stood at 3.4%.
- The company reported 26% growth in individual loan disbursements during the quarter ended December 31, 2020 compared to the corresponding quarter of the previous year 16% growth in individual loans (after adding back loans sold in the preceding 12 months)
- Including impact for COVID-19, provisions amounted to ₹5950 million in the reported quarter. Cost to income ratio stood at 8.1% compared to 9.6% in the previous year. Standalone PAT for Q3FY21 stood at ₹29,260 million.
- As of Dec 31, 2020, total loans stood at ₹5,55,210 million, reflecting a growth of 9.3% YoY. Individual loans which comprised 76% of the total loan book, grew 10% YoY. Non-individual loan book gained traction, registering 7% growth YoY.
- The company stated that the demand for home loans continued to remain strong owing to low interest rates, softer property prices, concessional stamp duty rates in certain states and continued fiscal incentives on home loans. The month of December 2020 witnessed the highest ever levels in terms of receipts, approvals and disbursements. During the quarter ended December 31, 2020, individual loan disbursements grew at 26% over the corresponding quarter of the previous year. Growth in home loans was seen in both, the affordable housing segment as well as high-end properties.
- The quarter witnessed improving asset quality on a sequential basis. Gross non-performing loans as at Dec 31, 2020 stood at ₹80,120 million, equivalent to 1.67% of the loan portfolio, down from 1.81% at the end of the previous quarter. The non-performing loans of the individual portfolio stood at 0.79% compared to 0.84% in previous quarter while that of the non-individual portfolio stood at 4.0% as against 4.19% in previous quarter. The provisions carried as a percentage of the Exposure at Default (EAD) is equivalent to 2.56%.
- Reflecting strong capital position, capital adequacy ratio stood at 20.9% and Tier I capital ratio was 19.9%, exceeding the minimum regulatory requirement for the capital adequacy ratio and Tier I capital of 13% and 10% respectively. The company maintains higher levels of liquidity as it continued to raise funds from the capital markets, banks and refinance facilities, apart from having a strong deposit base.

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- To facilitate a like-for-like comparison, after adjusting dividend, profit on sale of investments, fair value adjustments, net gains on loans assigned, charge for employee stock options and provisioning the adjusted profit before tax for the quarter ended September 30, 2020 is ₹3,366 crore compared to ₹2,646 crore in the previous year, reflecting a growth of 27%.
- The company continues to grow strongly given its strong market position in the housing finance sector, healthy spreads, sturdy capital position, conservative provisioning and strength from its subsidiaries. We maintain our **BUY** rating with a revised target price of **₹3,100 per share.**

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Standalone Financials

(In ₹ mn)	Q3-FY21	Q3-FY20	Chg	9M-FY21	9M-FY20	Chg
Operating Income	117,070	202,855	-42.3%	364,526	467,632	-22.0%
Operating Expense	10,795	33,369	-67.6%	34,062	56,791	-40.0%
Operating Profit	106,275	169,486	-37.3%	330,465	410,841	-19.6%
Other Income	93	60	56.2%	157	185	-15.1%
Depreciation	516	421	22.8%	1,222	1,046	16.8%
EBIT	105,852	169,125	-37.4%	329,400	409,980	-19.7%
Interest	68,327	77,696	-12.1%	220,488	233,395	-5.5%
Misc. Items	-	-		0	-	
PBT	37,525	91,430	-59.0%	108,912	176,585	-38.3%
Tax	8,267	7,705		20,437	21,214	
PAT	29,258	83,725	-65.1%	88,475	155,371	-43.1%

Key Metrics	Q3-FY21	Q3-FY20	Chg BPS	9M-FY21	9M-FY20	Chg BPS
NIM	90.8%	83.6%	723	90.7%	87.9%	280
GNPA	25.0%	41.3%	-1628	24.3%	33.2%	-895

Note: FY20 include profits tied with stake sale of GRUH Finance and related Fair Value gain of ₹ 90,198 million.
Source: Company, Anand Rathi Research

Housing Development Finance Corporation Limited (HDFC)

Standalone Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Operating Income	433,481	496,199	496,199	542,345
Operating Expense	301,927	382,647	333,039	363,533
Operating Profit	131,553	113,552	163,160	178,813
Other Income	300	244	298	325
Depreciation	665	1,477	1,086	1,187
Earnings before misc.item	131,188	112,319	162,372	177,951
Misc. items	-	91,190	-	-
PBT	131,188	203,509	162,372	177,951
Tax	34,863	25,813	43,191	47,335
PAT	96,325	177,697	119,181	130,616

Margins	FY-19	FY-20	FY-21E	FY-22E
Operating Margin %	30.3%	22.9%	32.9%	33.0%
Net Margin %	22.2%	35.8%	24.0%	24.1%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	14,424	13,558	116,629	116,629
Reserves & Surplus	759,131	848,022	967,203	1,097,820
Totat Shareholder's Funds	773,555	861,581	1,083,832	1,214,448
Long-Term Liabilities	2,990,213	3,458,399	3,458,399	3,458,399
Other Long-term Liabilities	2,429	2,984	3,003	3,082
Deferred Tax Liability	(8,309)	(15,679)	(15,679)	(15,679)
Short-term Liabilities	821,580	917,972	905,397	989,599
Total	**4,579,466**	**5,225,256**	**5,434,951**	**5,649,849**
Assets				
Loans	4,007,297	4,399,099	4,399,099	4,808,215
Net Fixed Assets	6,513	13,490	8,325	8,189
Long-Term L&A	39,809	14,070	14,070	14,070
Non Current Investments	311,489	418,153	439,060	461,013
Other Non-Current Assets	14,431	45,716	45,716	45,716
Current Asset	199,927	334,730	528,682	312,646
Total	**4,579,466**	**5,225,256**	**5,434,951**	**5,649,849**

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	53.5	98.7	66.2	72.6
P/E (x)	51.3	27.8	41.5	37.9
P/B (x)	6.4	5.7	4.6	4.1
ROE	12.5%	20.6%	11.0%	10.8%

Note: FY20 include profits tied with stake sale of GRUH Finance and related Fair Value gain of ₹ 90,198 million.

Source: Company, Anand Rathi Research

Housing Development Finance Corporation Limited (HDFC)

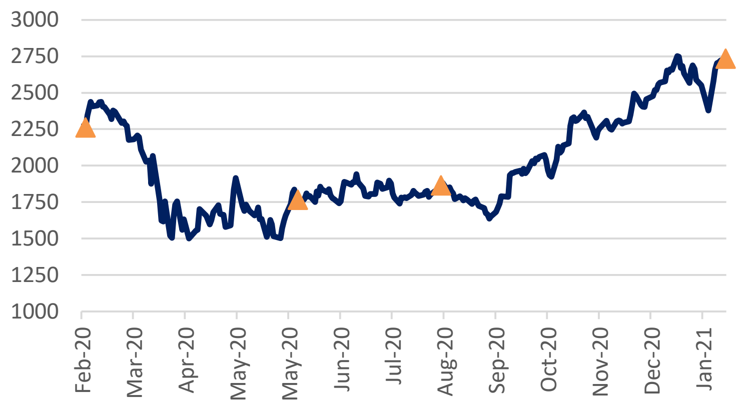
Key Risks:

- Stiff competition in the housing finance sector could weigh on pricing as players become aggressive. This in turn may lower HDFC's market share.
- Slowdown in the economy could affect the overall housing finance industry adversely.
- Any increase in cost of funding is likely to put pressure on margins.

Housing Development Finance Corporation Limited (HDFC)

Rating and Target Price history:

HDFC rating history & price chart



Source: Bloomberg, Anand Rathi Research

HDFC rating details

Date	Rating	Target Price (₹)	Share Price (₹)
14-Aug-2019	BUY	2,539	2,118
11-Nov-2019	BUY	2,539	2,235
3-Feb-2020	BUY	2,539	2,260
6-Jun-2020	BUY	2,215	1,767
27-Aug-2020	BUY	2,215	1,864
9-Feb-2021	BUY	3,100	2,747

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