

Housing Development Finance Corporation

Rs 1756
Consistency to continue

BSE Sensex: 36,227

Nifty-50: 10,930

FINANCIALS: STANDALONE

	NIH.	OTHER INC.	NET TOT INC	OP. EXP.	OPERATING PROFITS	PROV. & CONT.	PBT	EO	PBT AFTER EO	TAX	PAT	EPS* (RS)	ADJ. BV (RS)
1703(12)	11214.86	1048.54	12263.4	836.76	11426.64	700	10726.64	0	10726.64	3284	7442.64	44.4	247.8
1803(12)	12572.1	422.79	12994.89	957.79	12037.1	455	11582.1	3681.59	15263.69	3100	12163.69	56.5	364.4
1903(12P)&	14939.82	443.83	15383.64	1239.28	14144.36	267.36	13876.99	0	13876.99	4162.22	9714.78	57.5	405.3

* Annualized on current equity of Rs 338.77 crore. Face Value: Rs 2 per share. Figures in crore. (P): Projections. &: as per new accounting standards
Source: Capitaline Databases

Housing Development Finance Corporation Limited (HDFC Ltd.) was established in 1977 with the primary objective of meeting a social need of encouraging home ownership by providing long-term finance to households. Over the last three and a half decades, HDFC has turned the concept of housing finance for the growing middle class in India into a world-class enterprise with excellent reputation for professionalism, integrity and impeccable service.

HDFC's unrelenting focus on Corporate Governance, high standards of ethics and clarity of vision, percolate through the organization. Trust, Integrity, Transparency and Professional Service are the important pillars of the brand HDFC and most importantly, people - both employees and customers - are its brand ambassadors.

HDFC's wide product range includes loans for purchase and construction of a residential unit, purchase of plot, home improvement loans, home extension loans, non-residential premises loans for professionals and loan against property, while its flexible repayment options include Step Up Repayment Facility (SURF) and Flexible Loan Installment Plan (FLIP).

Over the years, HDFC has emerged as a financial conglomerate with its presence in the entire gamut of financial services including banking, insurance (life and non-life), asset management, real estate venture capital and more recently education loans.

Today, HDFC is recognised as one of the Best Managed Companies in India and is a model housing finance company for developing countries with nascent housing finance markets. HDFC has undertaken several consultancy assignments in various countries across Asia, Africa and East Europe to support and establish their housing finance institutions.

Quarter performance boosted by dividend from HDFC Bank in Q1 against Q2 last year

In accordance with the notifications issued by the Ministry of Corporate Affairs and National Housing Bank, the Corporation has adopted the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS) notified under Section 133 of the Companies Act, 2013 with effect from April 1, 2018.

For the quarter ended June 2018, the Corporation has adopted Ind AS for its standalone financials. The comparative Statement of Profit and Loss for the quarter ended June 30, 2017 is based on the erstwhile Indian Generally Accepted Accounting Principles (Previous GAAP). This has been restated to meet Ind AS requirements.

HDFC registered a 20% rise in standalone Interest income to Rs 9940.66 crore in the quarter ended June 2018. A 10% rise in interest expenses to Rs 6352.68 crore saw net



STOCK DATA

BSE Code	:	500010
BSE Group	:	A
NSE Code	:	HDFC
Bloomberg	:	HDFC IN
Reuters	:	HDFC.BO
Par Value	:	Rs 2
52-week High/Low	:	Rs 2051/Rs 1638
Sector	:	Finance

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 75.62
Institutions	: 13.59
Govt Holding	: 0.18
Corporate Holding	: 1.09
Promoters	: 0
Public & Others	: 9.53
Total:	: 100

* as on 30/6/2018
Source: Capitaline Databases

interest income (NII) grew 42% to Rs 3587.98 crore.

Other income grew 4% to Rs 11.325 crore, which took total income up 42% to Rs 3599.30 crore.

Operating expenses grew 46% to Rs 509.60 crore, after which OP grew 41% to Rs 3089.70 crore. Provision and contingencies fell 88% to Rs 19.70 crore after which PBT grew 52% to Rs 3070 crore. As tax expenses grew 47% to Rs 880 crore, net profit grew 54% to Rs 2190 crore.

For the quarter ended June 30, 2018, the Corporation received dividend of Rs 511 crore from HDFC Bank Limited, while in the previous year, dividend from HDFC Bank was received in the second quarter.

Spread and margin

The spread on loans over the cost of borrowings for the quarter ended June 2018 stood at 2.28%.

The spread on the individual loan book was 1.91% and on the non-individual book was 3.14%. Net Interest Margin stood at 3.5%.

Focus on Affordable Housing

In support of the government's flagship scheme, 'Housing For All', the Corporation has increased its efforts towards loans to the Economically Weaker Section (EWS) and Low Income Group (LIG).

During the quarter ended June 30, 2018, 37% of home loans approved in volume terms and 19% in value terms have been to customers from the EWS and LIG segment.

The Corporation on an average has been approving around 8,300 loans on a monthly basis to the EWS and LIG segment, with monthly such average approvals at approximately Rs 1,346 crore.

The average home loan to the EWS and LIG segment stood at Rs 10.1 lac and Rs 17.6 lac respectively.

HDFC has been recognised by the Ministry of Housing and Urban Affairs for its contribution towards the Pradhan Mantri Awas Yojana's Credit Linked Subsidy Scheme (CLSS) for the second consecutive year. On July 29, 2018, the Honourable Prime Minister, Shri Narendra Modi presented an award to the Corporation for being the best performing primary lending institution in the EWS & LIG segment and the second best in the MIG segment of the CLSS.

Overall lending operation was impressive

Total individual loan disbursements grew by 17%. The average size of individual loans stood at Rs 26.7 lac.

On Assets under Management (AUM) basis, the growth in the individual loan book was 18% and the non-individual loan book was 17%. The growth in the total loan book was 18%.

As at June 30, 2018, individual loans comprise 72% of the AUM. As at June 30, 2018, the loan book stood at Rs 371,988 crore against Rs 3,13,573 crore in the previous year.

During the quarter, the Corporation sold individual loans amounting to Rs 9,714 crore (PY: Rs 2,922 crore). All the loans assigned during the quarter were to HDFC Bank pursuant to the buyback option embedded in the home loan arrangement

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between the Corporation and HDFC Bank. Income on these loans will continue to be recognised over the life of the loan.

The increase in the amount of loans assigned to HDFC Bank was due to the fact that no loan assignments were done to HDFC Bank since August 2017. Thus, the entire loan assignments during the quarter ended June 2018 pertained to the backlog under the arrangement. Total loans sold during the preceding twelve months was Rs 13,245 crore as against Rs 13,841 crore in the previous year.

As at June 30, 2018, the outstanding amount in respect of individual loans sold was Rs 46,810 crore.

HDFC continues to service these loans and is entitled to the residual income on the loans sold. The residual income on the individual loans sold stood at 1.25% per annum and is being recognised over the life of the loans.

The growth in the individual loan book, after adding back loans sold in the preceding 12 months was 25% (19% net of loans sold).

The non-individual loan book grew at 18%.

The growth in the total loan book after adding back loans sold was 23% (19% net of loans sold).

Low NPAs

Under Ind AS, the Corporation's assets have been classified as follows based on Exposure at Default:

·Stage 1: Performing Assets

·Stage 2: Under Performing Assets

·Stage 3: (a) Performing but identified as assets having some degree of stress; (b): Non-Performing Assets

Under Ind AS, asset classification and provisioning moves from the 'rule based', incurred losses model to the Expected Credit Loss (ECL) model of providing for expected future credit losses. Thus, loan loss provisions are made on the basis of the Corporation's historical loss experience, future expected credit loss and after factoring in various macro-economic parameters.

As per NHB norms, the gross non-performing loans as at June 2018 stood at Rs 4,409 crore. This is equivalent to 1.18% of the loan portfolio. The non-performing loans of the individual portfolio stood at 0.66% while that of the non-individual portfolio stood at 2.32%.

As per National Housing Bank norms, the Corporation is required to carry a total provision of Rs 3,006 crore. As against this, the balance in the Provisions and Loan Losses Account as at June 2018 stood at Rs 4,758 crore. This is equivalent to 1.27% of the loan portfolio.

Unaccounted gains on listed investments stands at Rs 1,68,000 crore

As at June 2018, the unaccounted gains on listed investments in subsidiary and associate companies amounted to Rs 1,68,000 crore.

Healthy CAR

HDFC's capital adequacy ratio stood at 16.3%, of which Tier I capital was 15.0% and Tier II capital was 1.3%. As per the regulatory norms, the minimum requirement for the capital adequacy ratio and Tier I capital is 12% and 6% respectively.

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Wide distribution network

HDFC's distribution network spans 491 outlets which include 159 offices of HDFC's distribution company, HDFC Sales Private Limited (HSPL). HDFC covers additional locations through its outreach programmes. Distribution channels form an integral part of the distribution network with home loans being distributed through HSPL, HDFC Bank Limited and third party direct selling associates.

To cater to non-resident Indians, HDFC has offices in London, Dubai and Singapore and service associates in the Middle East.

Healthy Book Value

Standalone Book Value per share stands at Rs 378.7 per share at end June 2018.

Robust outlook

The growth outlook remains robust, with smaller towns continuing to drive demand. HDFC operates mainly in the lower-ticket, owner-operator market where demand cycles tend to be less cyclical. The large metro market (especially Mumbai) has been slow, but Tier 2 and Tier 3 cities still see robust demand.

Valuation

For FY 2019 we expect the company to register EPS of Rs 57.5. At current market price of Rs 1756, the share trades at 30.7 times expected FY 2019 earnings.

Projected adjusted book value (net of NPA and 10% of restructured advances) for FY 2019 works out to Rs 405.3. Thus price/Adj. BV for FY 2019 works out to 4.4.

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HDFC: STANDALONE RESULTS

	1806 (3)&	1706 (3)&	VAR. (%)	1803 (12)	1703 (12)	VAR. (%)
Income	9940.66	8279.10	20	34807.1	32111.06	8
Interest Exp.	6352.68	5754.28	10	22235	20896.2	6
NII	3587.98	2524.82	42	12572.1	11214.86	12
Other Inc.	11.32	10.88	4	422.79	1048.54	-60
Total Inc.	3599.30	2535.70	42	12994.89	12263.4	6
Op. Exp.	509.60	349.72	46	957.79	836.76	14
OP	3089.70	2185.98	41	12037.1	11426.64	5
Prov. & Cont.	19.70	163.63	-88	455.00	700.00	-35
PBT	3070.00	2022.35	52	11582.1	10726.64	8
EO	0.00	0.00	--	3681.59	0.00	--
PBT after Eo	3070.00	2022.35	52	15263.69	10726.64	42
Tax	880.00	597.88	47	3100	3284	-6
PAT	2190.00	1424.47	54	12163.69	7442.64	63
EPS*(Rs)	#	#		56.5	44.4	

* on current equity of Rs 338.77; Face Value: Rs 2 per share. #: EPS cannot be annualize due to seasonality of business
Figures in crore. &: as per new accounting standards. Source: Capitaline Databases