HDB FINANCIAL SERVICES LIMITED

Brand that matters

WWW.HDBFS.COM

Report Date: November 18,2020
Report Number: Annual/2020/01

ISIN: INE756I01012
Status: Unlisted EQ
Face Value: ₹10 per share
Market Capitalisation: ₹670.7 Bn

Shareholding Pattern
Total Shares : 785700306
Promoter Group
HDFC Bank
95.53%
Non Promoter Group
Employee, NRI And Individual Shareholders
4.47%

HDB Financial Services Limited, incorporated in 2007, is the 6th largest non-deposit taking NBFC in India. It is a wholly owned subsidiary of HDFC bank, with almost 95% shares are held by the HDFC Bank. The Company has 1468 branches across 1070 cities in India. The company complements the parent's product portfolio and distribution network, and supports collection activities for the retail portfolio. It receives operational and managerial support from HDFC Bank, with regard to formulation of credit policies, portfolio monitoring and collection practices, if required. Presence of senior functional executives from HDFC Bank on HDB Finance board, ensures adequate supervision over its performance.

Retail Financing segment The Company also has strong presence in retail financing segment. The overall assets under management (AUM) stood at Rs 58,431 crore as on March 31, 2020 registering a growth of 5% y-o-y as on March 31, 2020, from Rs 55,425 crore a year ago. Apart from the lending business,

Fee and Commission based service : HDB Finance is also engaged in the distribution of general and life insurance products for HDFC Ergo General Insurance Company and HDFC Standard Life Insurance Company, respectively. The company also runs BPO services that undertake collection services, back office and sales support functions under a contract with HDFC Bank.

Healthy Capital Adequacy: Capitalisation remains healthy, as reflected in Tier-1 capital adequacy ratio (CAR) of 14.0%, and overall CAR of 19.4% as on March 31, 2020. Net worth expanded to around Rs.8,018 cr. as on March 31, 2020 from Rs. 7,178 cr. as on March 31, 2019, while gearing stood stable at ~6.2 times. Cushion for asset side risks was adequate, as reflected in net worth coverage for net non-performing assets (NPAs) at around 4.4 times as on March 31, 2020. While capital generation remains comfortable, the capital profile is also aided by periodic infusion by HDFC Bank

Covid 19 impact: As per the rating rationale of CRISIL dated June 30, 2020, HDB has offered moratorium to its borrowers and around 30% of their borrower's in terms of value. The Company has on the prudent basis provided for higher impairment of financial Instruments (expected credit loss) amounting to Rs.1,615 cr.as on September 30,2020.

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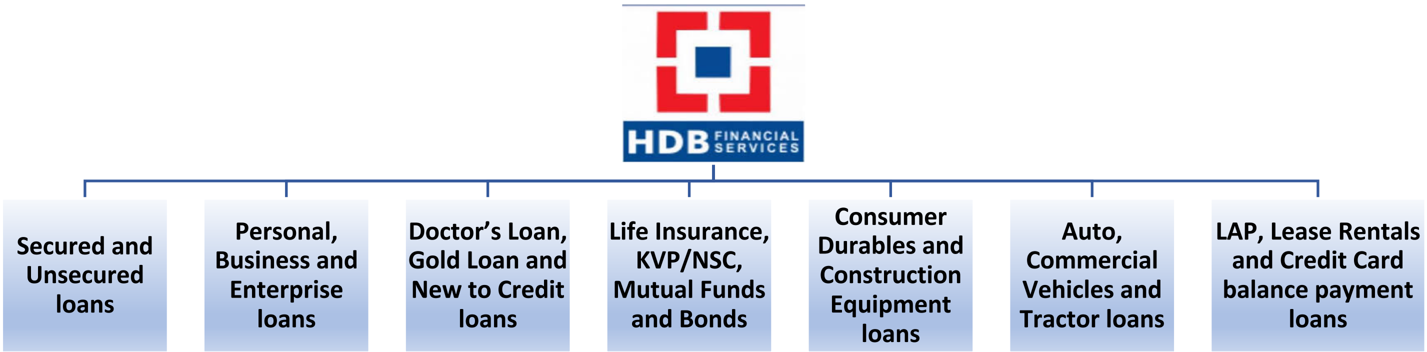
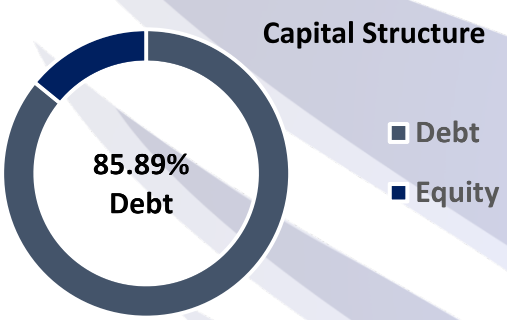
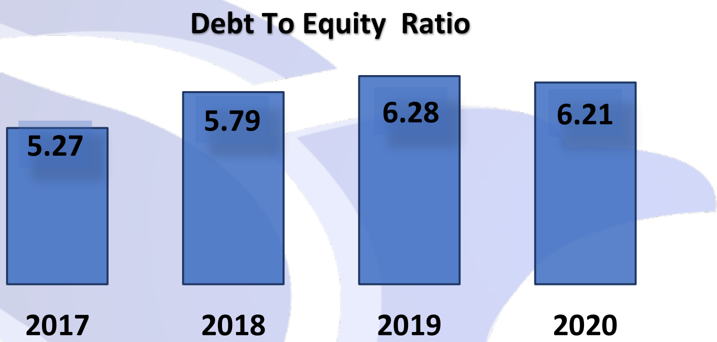


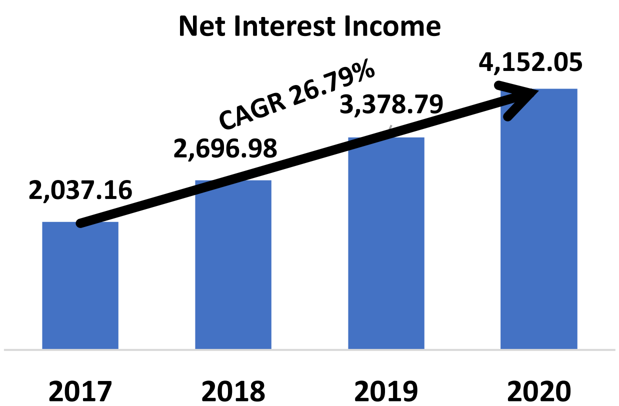
Financial Dashboard

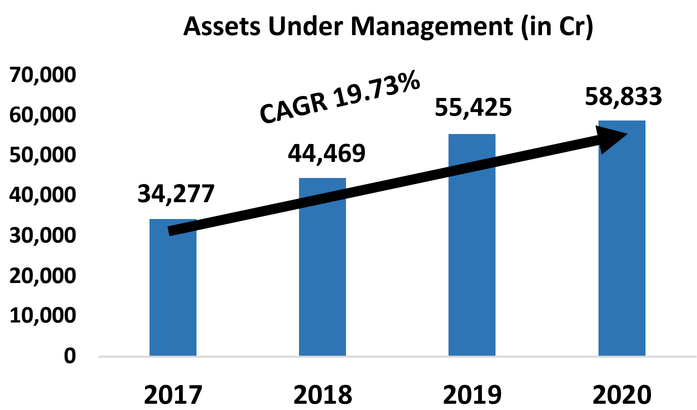


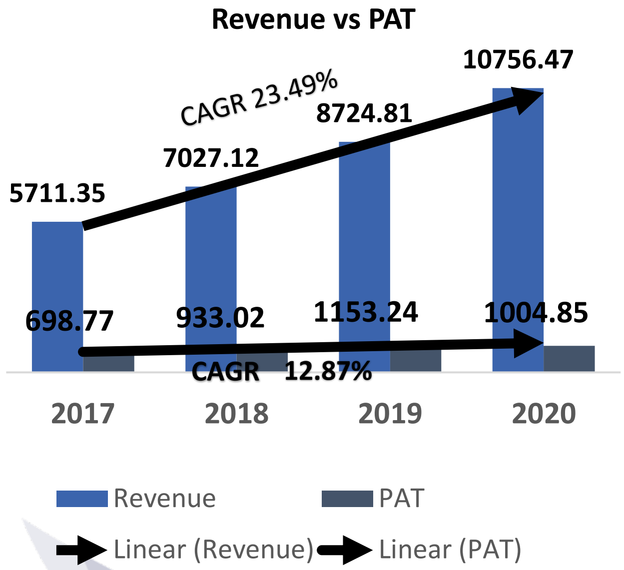


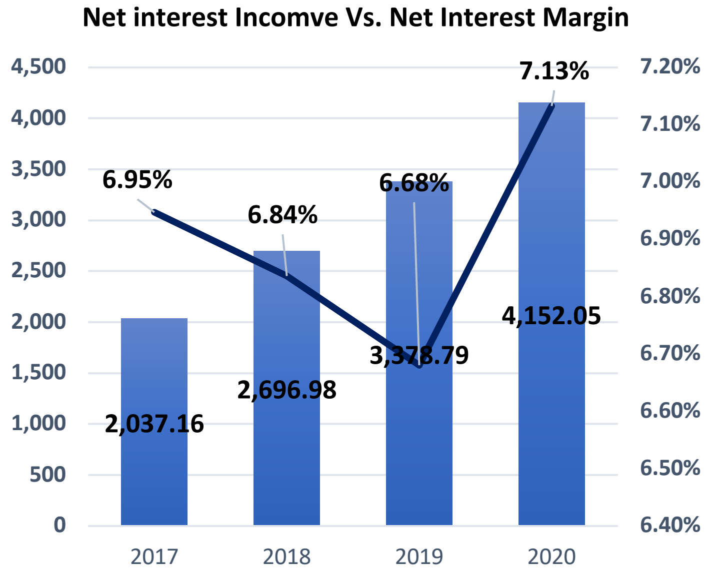
The Company has an improved debt to equity ratio of 6.21 as on 31st March, 2020 as against 6.28s as on 31st March, 2019.

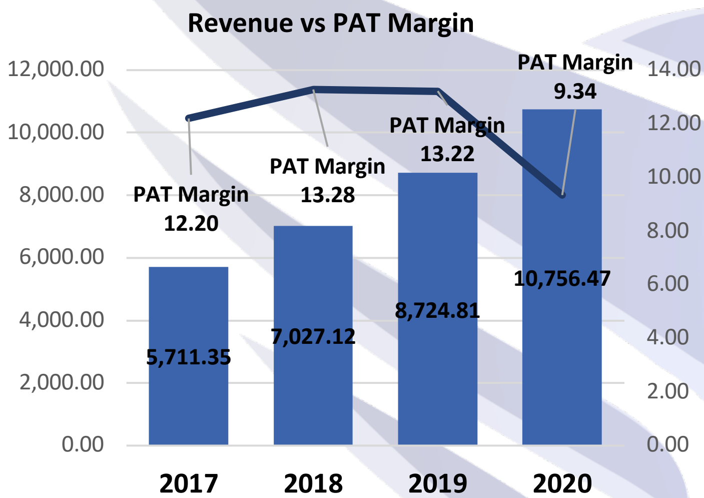
Credit Rating: The Companies debt instruments have been rated by the leading rating agency of the Country, CRISIL. The CRISIL has assigned AAA/Stable ratings to its perpetual bond issue. This is the only NBFC in India, whose perpetual bonds have been able to fetch AAA rating on a consistent basis. CRISIL also has kept its ratings unchanged to AAA on the debt instruments and bank facilities from the previous years.

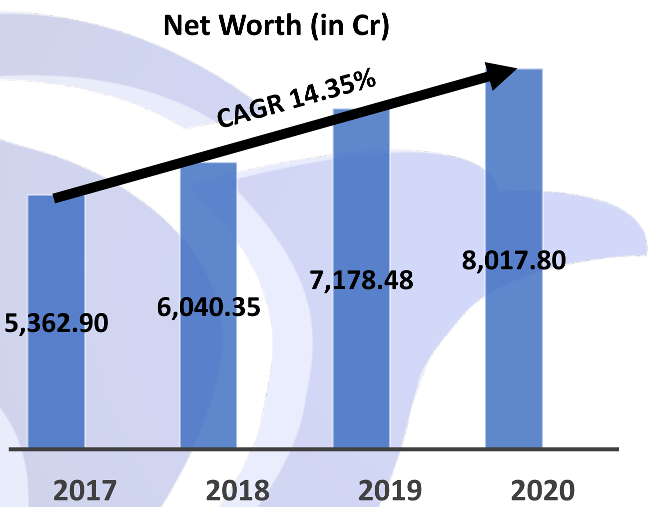


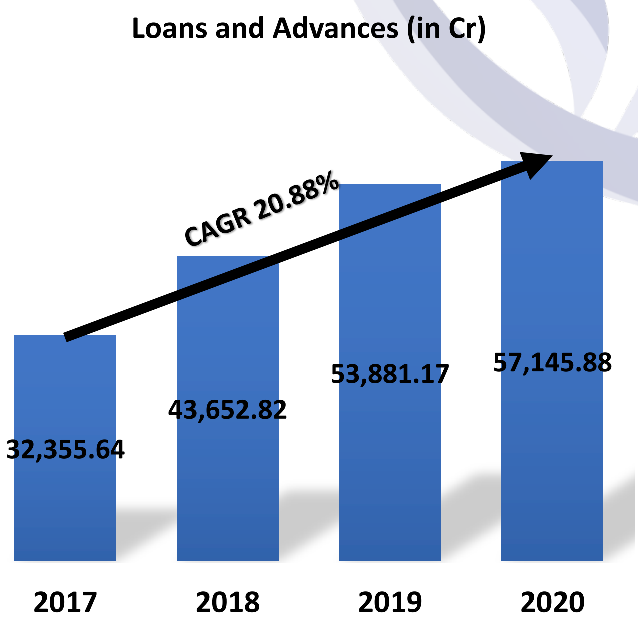


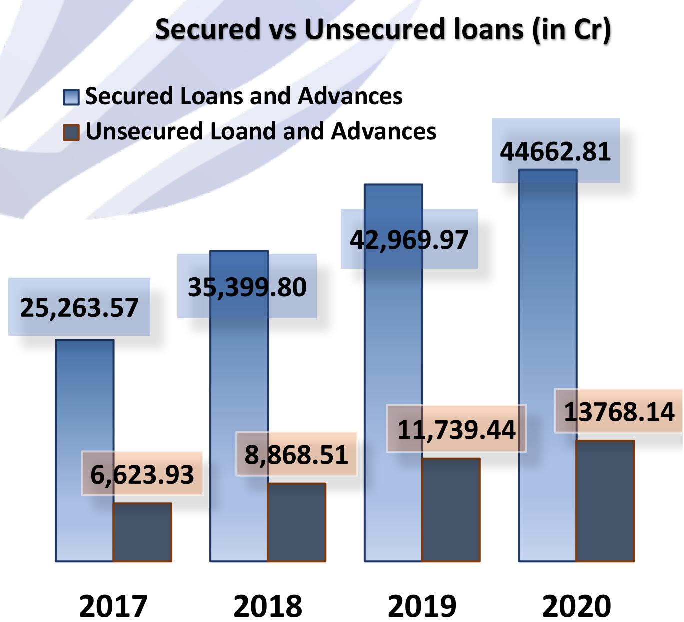

Revenue vs PAT
CAGR 23.49%
5711.35
7027.12
8724.81
10756.47
698.77
933.02
1153.24
1004.85
CAGR 12.87%
2017
2018
2019
2020
Revenue
PAT
Linear (Revenue)
Linear (PAT)

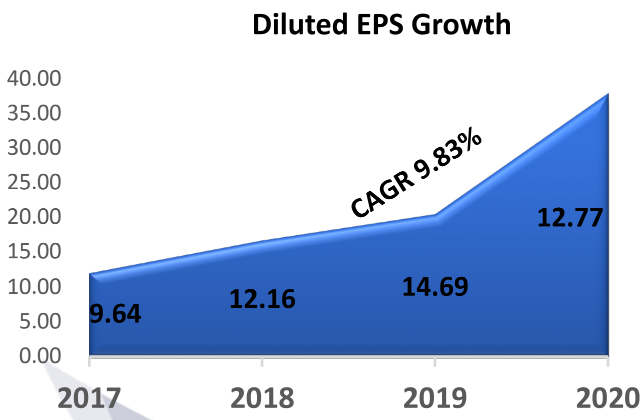

Net interest Incomve Vs. Net Interest Margin
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
7.20%
7.10%
7.00%
6.90%
6.80%
6.70%
6.60%
6.50%
6.40%
6.95%
6.84%
6.68%
7.13%
2,037.16
2,696.98
3,378.79
4,152.05
2017
2018
2019
2020

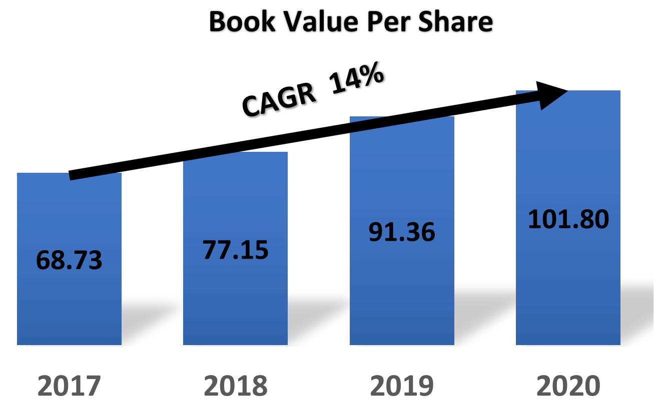

Revenue vs PAT Margin
12,000.00
10,000.00
8,000.00
6,000.00
4,000.00
2,000.00
0.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
PAT Margin
12.20
PAT Margin
13.28
PAT Margin
13.22
PAT Margin
9.34
5,711.35
7,027.12
8,724.81
10,756.47
2017
2018
2019
2020

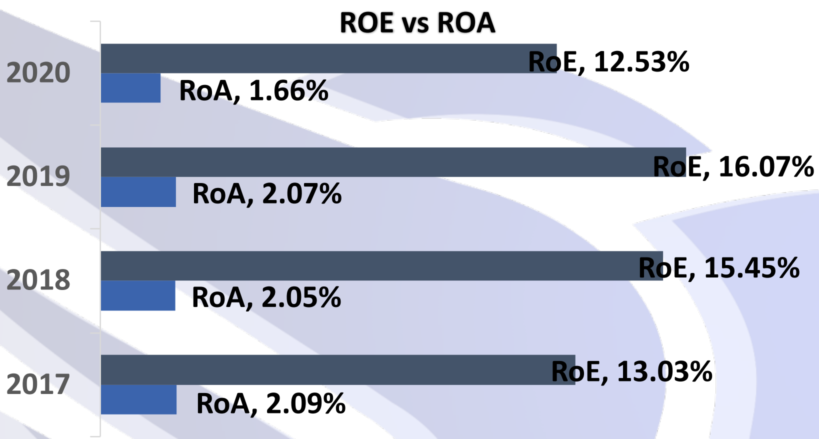

Net Worth (in Cr)
CAGR 14.35%
5,362.90
6,040.35
7,178.48
8,017.80
2017
2018
2019
2020


Loans and Advances (in Cr)
CAGR 20.88%
32,355.64
43,652.82
53,881.17
57,145.88
2017
2018
2019
2020


Secured vs Unsecured loans (in Cr)
Secured Loans and Advances
Unsecured Loand and Advances
25,263.57
35,399.80
42,969.97
44662.81
6,623.93
8,868.51
11,739.44
13768.14
2017
2018
2019
2020







Key Investment Considerations

- The consolidated revenue has grown to ₹ 10,756.47 cr. in FY2020 from ₹ 5,711.35 cr. in FY2017 at a CAGR of 36.20%.
- Its consolidated profit after tax (PAT) has grown to ₹ 1,004.85 crore in FY2020 from ₹ 698.77 crore in FY2017 at a CAGR of 21.50%.
- The net profit margin (NPM) was 9.34% for FY2020 as compared to 13.22% in FY2019 due to 126% increase in Impairment on financial instruments (expected credit loss) on account of Covid-19.
- The diluted EPS has grown to ₹ 12.77 in FY2020 from ₹ 9.64 in FY2017 at a CAGR of 9.83%.
- The Return on Equity (ROE) and Return on Assets (ROA) has moderated to 12.53% and 1.66% respectively, since the PAT has decreased owing to higher expected credit loss on account of Covid-19 impact on the overall NBFC segment and particularly on HDB's business.

Valuation

The company has been valued using P/B(x). The company is currently trading at trailing P/B of 7.86.

As per India Ratings and Research (Ind-Ra), a credit ratings agency in its recent report has maintained a negative outlook for NBFC's in FY2021 on account of the impact of Covid-19 on lending businesses. It is estimated that considering current headwinds in NBFC sectors and heightened NPA expectations and default, the PAT may de-grow by 10% FY 2021 and consequently Net-Worth growth will moderate. The company is however, expected to show a positive growth in FY2022 and hence PAT is estimated to reach the levels of FY2020 and consequent effects have been given in FY 2022 Net-Worth calculation.

₹ (in Crore)

Metrics	FY2020	FY2021E	FY2022E	CAGR
Net worth	8,017.80	8,773.55	9,613.27	9.57%
PAT	1,004.80	904.32	1,004.80	11.11%
Basic EPS (in ₹ per share)	12.78	11.50	12.78	11.11%
Diluted EPS (in ₹ per share)	12.77	11.49	12.77	11.11%
Book Value Per Share (in ₹ per share)	101.80	111.40	122.06	9.57%
P/B Ratio	7.91	7.23	6.60	-8.74%

A-Actuals, E-Expected. The Y-O-Y change depicts % change expected in FY2022 over FY2021.

Future Outlook

Currently, Indian economy along with most global economies is bearing the brunt of Covid 19 pandemic and more particularly NBFC segment. According to India Ratings and Research report, the expected growth in assets of NBFCs will be flattish as the companies are more focussed on increasing collection and tightening the underwriting standards to stabilise the revenue and profits.

As per the report, however, the liquidity and funding environment has improved for better rated NBFCs and HDB Financial Services Ltd is better placed here to capitalise on this, as majority of its instruments are rated AAA by CRSIL/CARE. Also, in the recent past HDB is rated AAA for its NCD program of over ₹ 1,700 cr. In April 2020.

The company has already taken into consideration the impact of moratorium and loan repayment by borrowers on its asset quality due to the impact of Covid-19 on businesses and has made significant provisions for the same. The company has around 92% of its assets under low credit risk which can help the company to maintain higher asset quality and ensure stability of revenue flow. The company has more than 76% of its loans under secured loans backed by tangible assets. The company is also well placed compared to its peers to due to strong parentage, for any liquidity and funding requirements against disruption caused by Covid-19.

The financial position of the company backed by its superior asset quality, improving economic activity and the now that of the economy and businesses is expected to help the company in mitigating the impact of Covid-19 in FY2021 and the company can be expected to grow its loan book and subsequently post higher revenue and profits in FY2022.

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