



## **Housing Development Finance Corporation Ltd.**

**Date:** 24-June-2020

### **OVERVIEW**

**Recommendation:**

**Valuation:**

**Current Market Price:** 1797.75

**Time Horizon:** 5 years

**About the company:**

Housing Development Finance Corporation Limited (HDFC Ltd.) was established with the primary objective of meeting a social need of encouraging home ownership by providing long-term finance to households. The principle business of the company is providing finance to individuals, corporates, developers and co-operative societies for the purchase, construction, development and repair of houses, apartments and commercial property in India.

It was founded in 1977 as the first specialised mortgage company in India. HDFC was promoted by the Industrial Credit and Investment Corporation of India (ICICI). In 2000, HDFC Asset Management company launched its mutual fund schemes. In the same year, IRDA granted registration to HDFC Standard Life Insurance, as the first private sector life insurance company in India.

HDFC's distribution network spans 396 outlets (including 109 offices of HDFC's distribution company HDFC Sales Private Limited) which cater to approx. 2,400 towns and cities spread across India. To cater to Non-Resident Indians, HDFC has offices in London, Singapore and Dubai and service associates in Middle East countries. In addition, HDFC covers over 90 locations through its outreach programmes.



**Pros:**

- Rising net cash flow and cash from the overall operating activity of the business.
- Book value per share has been increasing over the last 2 years.
- Growth in operating profit with a steady increase in the operating margins (YoY)
- Growth in net profit with increasing profit margin (QoQ)
- Company with zero promoter pledge

**Cons:**

- Growing costs in long term projects (YoY)
- High debt company
- Revenue has been declining every quarter from the past 2 quarters



## **ECONOMIC MOAT**

**Company History:** 1977

**Company Management**

**MD: Renu Sud Karnad**

**Chairman: Deepak S Parekh**

**Vice Chairman and CEO : Keki M Mistry**

Brand Leadership in various segments:

<b>Name of Subsidiary</b>	<b>Segment</b>	<b>Position in the segment</b>
HDFC Bank	Private Bank	<b>01</b>
HDFC Standard Life Insurance Company	Life Insurance	<b>03</b>
HDFC Asset Management Company	AMC's	<b>02</b>
HDFC ERGO General Insurance Company	General Insurance	<b>01/02</b>
HDFC Property Fund	Real Estate Fund	<b>01</b>
HDFC Red	Real Estate	-
HDFC Credila Financial Services	NBFC- Educational Loans	<b>01</b>
GRUH Finance	Housing Finance	<b>06</b>



## **Competitive Moat of HDFC :**

Since HDFC's primary business apart from the subsidiaries and the shares it owns in them is Housing Finance and mortgaging, our economic moat for HDFC is their market position in Housing Finance segment as well as the economic drivers of this sector :

- Favourable Demographics: 66% of India's population is below 35 years of age, hence large potential for home loans can be expected.
- Nuclear Households: Rise in the number of households with a shift towards nuclear families.
- Urbanisation: Currently 32% of the Indian population reside in cities, however this has been estimated to be 50% by 2030, which again is a positive.
- Interest Rates: The net disposable income in India of earning people has been rising and hence it offers increased affordability for housing finance as well as the interest rates on house loans are more affordable
- 83% of HDFC's mortgages are sourced by themselves or their affiliates.
- Best affordability in 2.5 decades. Government support towards housing has helped improve affordability



## **TAKE ON HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC)**

HDFC has spread its wings all across various segments and markets and it owns a good majority or a decent amount in most of its associations and subsidiaries. Almost all of its subsidiaries and companies it parents have already been leading the market in their respective segments,

The best cases are HDFC Bank which is #1 in the private banking segment as well as HDFC Asset Management Company, HDFC Ergo General Insurance, etc.

HDFC also 100% owns HDFC Credila, which is a specialised educational loan dedicated provider in India, again #1 in the educational loan segment.

Apart from holding a good amount of these subsidiaries, HDFC has been very successful in its own operations as well. It is the leading Housing finance and mortgaging company in India.

HDFC has reported an 84% growth in its Net profit in FY20 as of that of FY 19. This showcases that the company is steadily working on improving its revenue as well as decreasing its costs.

HDFC has a great well balanced, Balance Sheet and it has been steadily increasing its reserves as well as investments. There was a drastic increase in Investments in FY20 compared to FY19 (40%) which is a good sign for the company's future profitability and stability.

Looking at the future of HDFC in response to COVID-19, the company is obviously affected but not as much as various other industries,

Loan approvals and servicing of loans which the company does are still easily available online. When it comes to loan repayment by customers, 97% of loans repaid through electronic mechanisms; 3% of borrowers unable to pay due to the lockdown. This 3% is not a huge number when compared to the loss borne by various other companies due to the lockdown and other impacts of the pandemic.

The organisation has made a great response to the recent crisis, and being one of the market leaders, it has done its bit of social responsibility too.

HDFC Group together contributed Rs 1.50 BN to the Prime Minister's Citizen Assistance & Relief in Emergency Situations Fund (PM-CARES FUND). HDFC, through its Foundation has tied up with partners across 12 states to provide cooked meals and hygiene safety kits for vulnerable sections of society. Also provided PPE kits, masks and ventilators to state government and charitable hospitals treating COVID-19 patients.



Talking about the resumption of Business Over 90% of HDFC offices are now opened for business, following guidelines issued by respective authorities. All staff/visitors following hygiene protocols and social distancing. Staff on a rotational basis follow the Work From Home protocol.

## **FUTURE OUTLOOK OF HDFC**

- Looking at about a 10 year period from today, keeping about 2 years at a slower growth rate compared to the other 8 years due to COVID-19 and its possible impact,
- HDFC is likely to grow at 16% CAGR (10 year period)
- Current estimate for a 10 year CAGR on basis of past data of revenue is at 14.70 %, however with the strong fundamental analysis on the company, we are bullish on this stock growing at a CAGR of 17 %, however,
- Considering a slower growth in the following 1-2 years, a safe CAGR would be **16%** of revenue for a period of 10 years.
- The current revenue of 58,739 crores, at 16% CAGR over a period of 10 years is 2,59,123 CR.
- HDFC is currently valued (market cap) at 5.3X its revenue,
- Hence valuing HDFC at 5.5 X its revenue of 2,59,123 CR after 10 years will bring us to a market cap of 14,25,176 CR (2,59,123\*5.5)
- Hence, one can grow at 4.5 times by the year 2030 in terms of Market Cap



## **Economy and Industry Analysis:**

- The fallout of the Covid-19 pandemic circumstance has built up the way that possessing a house of your own is route better than managing the vulnerabilities of living in a leased/rented settlement. People are also realising the importance of having real estate, as an asset class in their investment basket, as it is a more reliable option and it offers steady returns compared to the highly volatile stock market that comes with heightened risks.
- A recent report by a global consulting firm states that the level of March 2020 residential property sales in China stood at almost 95% when compare to the December 2019 levels. If this bounce back after the lockdown that ended last month in China is an indication of a new trend, the Indian real estate market is also likely to witness a similar scenario after attaining normalcy after the pandemic. This showcases the actual power of Real Estate and Housing sector post Covid-19

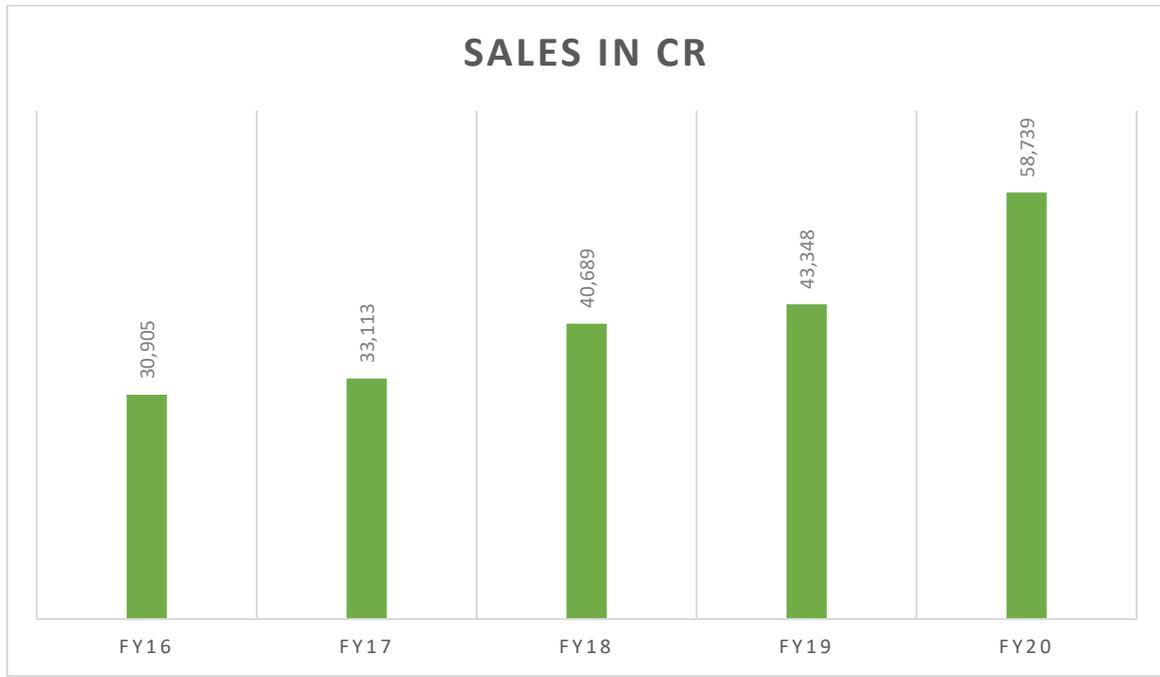
Driving this trend will be the Reserve Bank of India's (RBI) monetary policy decision earlier in March 2020 to slash repo rates by 0.75 basis points (bps). This move by the Indian central bank has made home loans significantly much more attractive to the potential home buyers with an opportunity that cannot be missed. The steep cut has brought interest rates on home loans by public and private sector banks to their lowest, between 7.20% and 8.05%, in over a decade.

- Another benefit of the current home loan interest rate scenario is that a borrower can look at the possibility of going for a fixed rate over a floating one. The latter tends to get volatile and can go north based on monetary policy decisions by the Indian central bank. Banks and other financial institutions typically charge a premium for home loans at fixed rates. So, this option is best availed when overall interest rates are at their lowest. The home loan borrower is able to lock the fixed-rate at a lower level and get rid of the stress arising out of the interest reset practices followed by various lending institutions.

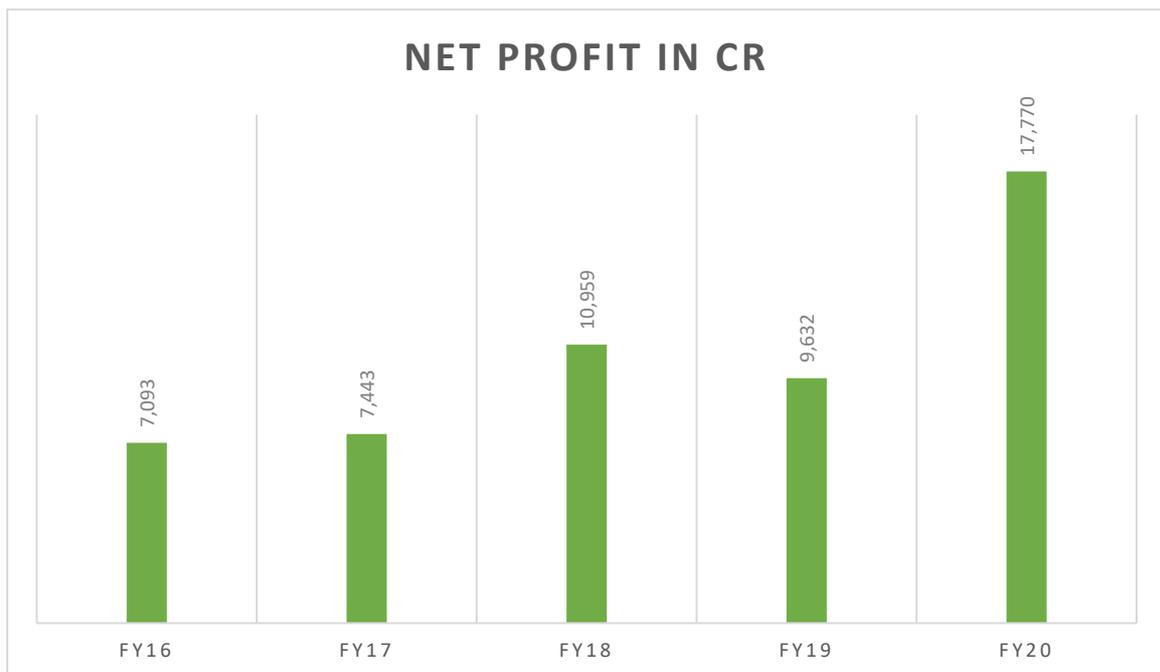


# FINANCIAL HIGHLIGHTS

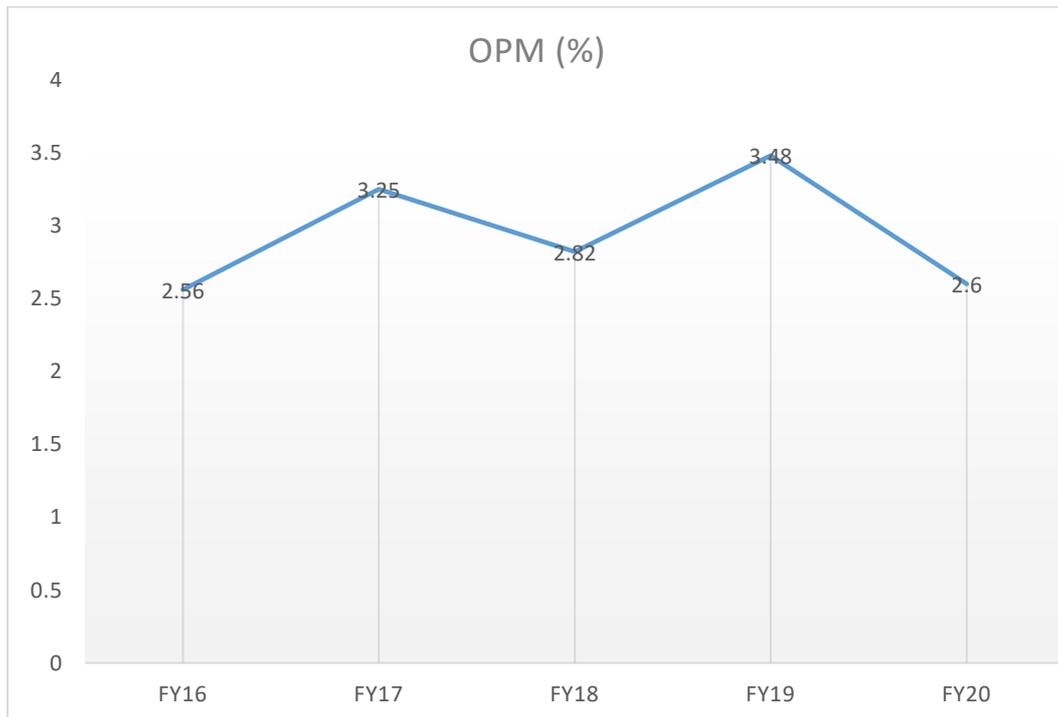
## Sales Growth



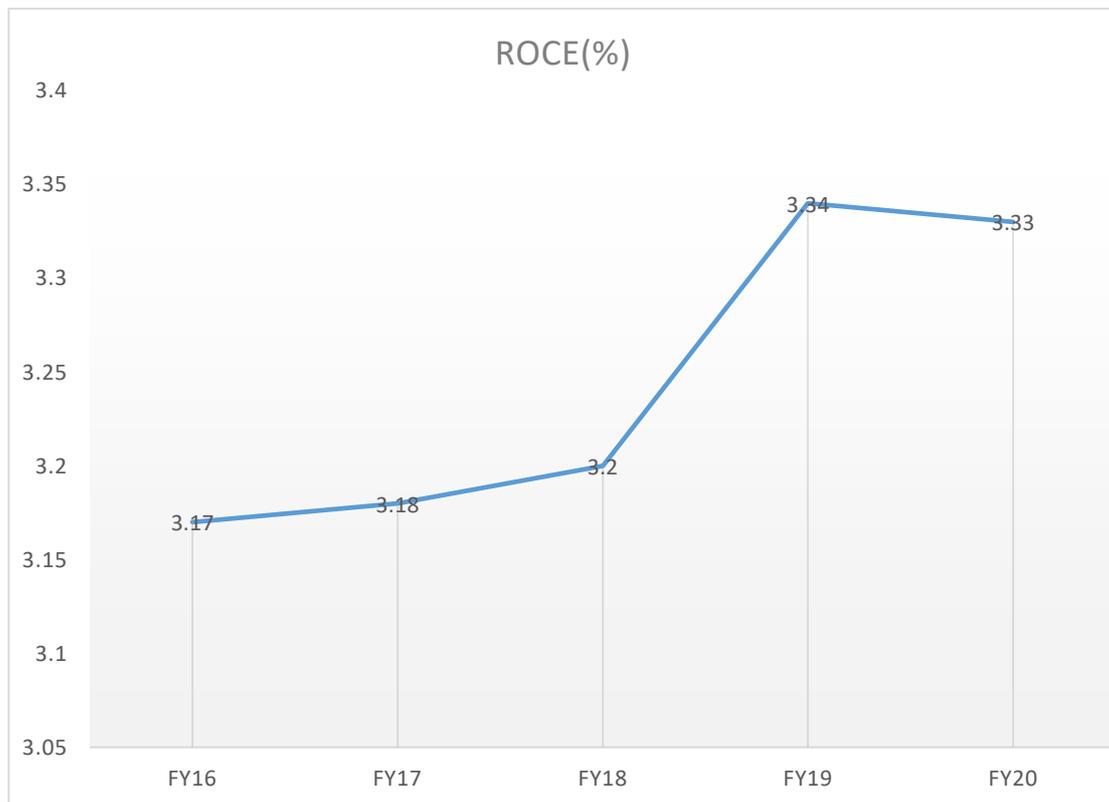
## Profit Growth



## Operating Profit Margins (%)



## Return on capital employed (%)



## Dividend Policy

- For the year ending March 2020 Housing Development Finance Corporation has declared an equity dividend of 1050.00% amounting to Rs 21 per share. At the current share price of Rs 1752.45 this results in a dividend yield of 1.2%.
- The company has a good dividend track report and has consistently declared dividends for the last 5 years.

Announcement Date	Effective Date	Dividend Type	Dividend (%)	Remarks
26-05-2020	09-07-2020	Final	1050.00	Rs.21.0000 per share(1050%)Dividend
13-05-2019	19-07-2019		875.00	Rs.17.5000 per share(875%)Final Dividend
13-05-2019	19-07-2019	Final	875.00	Rs.17.5000 per share(875%)Final Dividend
06-03-2019	15-03-2019	Interim	175.00	Rs.3.5000 per share(175%)Interim Dividend
30-04-2018	19-07-2018	Final	825.00	Rs.16.5000 per share(825%)Final Dividend
13-03-2018	22-03-2018	Interim	175.00	Rs.3.5000 per share(175%)Interim Dividend
04-05-2017	14-07-2017	Final	750.00	Rs.15.0000 per share(750%)Final Dividend
01-03-2017	09-03-2017	Interim	150.00	Rs.3.0000 per share(150%)Interim Dividend.



## COMPETITOR ANALYSIS

Housing Finance Companies as per Market Cap (Highest to lowest)

Company Name	Last Price	% Change	52 week High	52 week Low	Market Cap (Rs. CR)
<a href="#"><u>HDFC</u></a>	1,754.65	0.70	2,499.65	1,473.10	304,363.13
<a href="#"><u>LIC Housing Fin</u></a>	264.95	0.19	586.80	186.00	13,371.05
<a href="#"><u>AAVAS Financier</u></a>	1,322.00	-3.32	2,078.30	845.75	10,354.48
<a href="#"><u>Indiabulls Hsg</u></a>	207.15	-4.34	744.95	81.25	8,857.20
<a href="#"><u>HUDCO</u></a>	34.75	4.04	45.70	18.05	6,956.60
<a href="#"><u>Can Fin Homes</u></a>	337.85	-1.49	519.00	253.55	4,498.61
<a href="#"><u>PNB Housing Fin</u></a>	207.95	-2.10	803.00	146.00	3,497.45

Housing Finance Companies as per Net Profit (Highest to lowest)

Company Name	Last Price	Change	% Change	Net Profit (Rs. cr)
<a href="#"><u>HDFC</u></a>	1,754.65	12.15	0.70	17,769.65
<a href="#"><u>Indiabulls Hsg</u></a>	207.15	-9.40	-4.34	3,729.26
<a href="#"><u>LIC Housing Fin</u></a>	264.95	0.50	0.19	2,401.84
<a href="#"><u>HUDCO</u></a>	34.75	1.35	4.04	1,180.15
<a href="#"><u>PNB Housing Fin</u></a>	207.95	-4.45	-2.10	682.31
<a href="#"><u>Can Fin Homes</u></a>	337.85	-5.10	-1.49	376.12
<a href="#"><u>AAVAS Financier</u></a>	1,322.00	-45.45	-3.32	249.12



# VALUATIONS

## Current Situation:

- Share Price: ₹ 1754.65
- Market Cap: ₹ 3,03,554 Crore
- Total Shares Outstanding: 173 Crore
- Dividend Yield: 1.21 %
- Eps: ₹ 102.59
- *Book Value*: ₹496.70
- *PE Ratio (TTM)*: 16.98
- 1 Year Returns: - 21.87 %

## Per Share Valuations:

- Dividend Per Share: ₹21
- Free-Cashflow Per Share: ₹6.98
- Operating Revenue Per Share: ₹339.13
- Net Profit Per Share: ₹102.59

## Other Valuation Parameters:

- PBIDT Margin: 87.67%
- PBIT Margin: 87.42%
- PBT Margin: 34.64%
- Net Profit Margin: 30.25%
- Return On Equity: 20.62%
- Return On Assets: 3.39%
- Return On Capital Employed 57.97%
- Retain Earnings Ratio 0.00%



## Valuation Matrix:

- The current revenue of 58,739 crores.
- The 5 years revenue growth is estimated at CAGR 12.42% over a period of 5 years
- Being bullish on the stock for a period of 5 years, I estimate a CAGR of 11% for next 2 years (due to COVID) and 14% for the following 3 years.  
i.e. , 58,739 CR compounded at 11% for 2 years, = 72,372 CR, further compounded at 14% for 3 years, i.e. , = 1,07,222 CR.
- HDFC's Market Cap is currently valued at 5.3 X it's revenue
- Hence valuing HDFC at 5.5 X its revenue 1,07,222 after 10 5 years will bring us to a market cap of 5,89,721 CR (1,07,222\*5.5)

Estimated Price Per share in 5 years =  $(5,89,721/173) = 3,408$  (Price per share in 2025)

## **TARGETS**

**Recommendation:** Accumulate with a target of ₹3400 (at ₹5,89,721 crore Market Cap)

**Valuation:** Undervalued

**Current Market Price:** 1754

**Time Horizon:** 5 Years

**Disclaimer:** This report is just an analysis of a listed company and I hereby confirm everything mentioned above to be true to my knowledge. Please contact your financial advisor before acting on the recommendation. The author or the website or anyone associated with it is not responsible for any loss incurred.



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