

## Profit gets a boost from sale of investments

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*Steady growth in retail loans isa positive*

BL Research Bureau:

But for the profit on sale of investments in HDFC Life and a one-time provisioning (as an additional buffer and not on account of any regulatory requirement), market leader HDFC's March quarter results did not deviate much from its performance in recent quarters.

Steady growth in retail loans, some pick-up in corporate loans and good asset quality remained the highlights of the results. In the latest March quarter, the company's 8 per cent growth in core net interest income was led by 16 per cent growth in retail loans (net of loans sold to HDFC Bank).

However, growth in the high-margin, non-retail segment remained subdued at 9 per cent.

This segment has shown a marginal pick-up in the last two quarters (against an 8 per cent growth in the September quarter), and now accounts for 30 per cent of the loan portfolio.

However, the spread on loans (return on loans less cost of borrowings) has dipped to 2.29 per cent, from 2.32 per cent last year. Net interest margin has hence, fallen marginally to 3.9 per cent as on March 2016, from 4 per cent in the previous year.

Due to the moderation in overall growth in the housing finance space, HDFC's retail loans too grew at a slightly lower pace than that seen in the previous year. But the growth is nonetheless healthy, thanks to strong demand from the mid-income group and first-time home buyers.

HDFC continues to maintain good asset quality. The gross non-performing assets (GNPAs) in the March quarter stood at 0.7 per cent of loans — 0.51 per cent in the retail segment and 1.12 per cent in the non-retail segment.

### **Non-core business**

HDFC's insurance subsidiaries can add value to the company's core business value. In August last year, HDFC agreed to sell its 9 per cent stake in HDFC Life to its foreign partner, Standard Life, for a consideration of about Rs. 1,706 crore. The profit for the March quarter and FY16 fiscal includes profit on sale of this investment to the tune of Rs. 1,513 crore. This has contributed to a 31 per cent jump in the March quarter consolidated profit over the same period last year.

The total deal consideration pegs the value of the life insurance business at about Rs. 19,000 crore. This is nearly twice the embedded value of the life insurance business (as of March 2016). Embedded value is a measure used to value a life insurance business which, among other parameters, takes into account future earnings of the company.

Recently, the initial public offer (IPO) process was initiated by HDFC Standard Life, wherein the parent HDFC, would offload 10 per cent of its stake in the insurance company. This can help unlock value in the insurance subsidiary.

### ***On firm ground***

***Healthy demand from first-time home buyers***

***Stable asset quality***

***Insurance subsidiaries can unlock value***

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