

Steady core performance

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Profit on sale of investments boosts earnings

BL Research Bureau:

Housing Development Finance Corporation (HDFC) delivered a steady performance in the June quarter if the profit on sale of investments in HDFC ERGO and a one-time provisioning that impacted earnings are excluded.

Healthy growth in retail loans, marginally higher traction in corporate loans and stable asset quality remained the key highlights of the results. In the latest June quarter, the company's 9.3 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). This has been due to the steady growth in demand for residential space from the mid-income group and favourable demographics.

HDFC's average loan size is about Rs. 25.3 lakh and hence, the target segment is customers who are middle-income salaried employees, and first-time home buyers. Growth in the high-margin non-retail segment, which has been impacted by the overall slowdown in the market, inched up to 12 per cent year-on-year, from 9 per cent in the March quarter. This segment has shown a marginal pick-up in recent quarters.

However, the spread on loans (return on loans less cost of borrowings) has dipped to 2.26 per cent, from 2.31 per cent last year and 2.29 per cent in March 2016. Net interest margin has fallen marginally to 3.8 per cent from 3.9 per cent in March.

HDFC continues to maintain good asset quality. The gross non-performing assets (GNPA) in the June quarter stood at 0.75 per cent of loans — 0.59 per cent in the retail segment and 1.11 per cent in non-retail.

Non-core biz adding value

HDFC's insurance subsidiaries have been adding value to the company's core business. During the June quarter, HDFC concluded the 23 per cent stake sale in its general insurance business — HDFC ERGO — to its joint venture partner — ERGO Insurance Group.

The profit on sale of such investments, of Rs. 922 crore, has boosted earnings. According to the agreement, at Rs. 90.9 a share, the value of the general insurance business works out to about Rs. 4,900 crore.

Recently, the company's life insurance subsidiary — HDFC Standard Life — was in the news as it entered into an agreement with Max Financial Services to explore possible merger of Max Life and Max Financial Services into HDFC Life.

The merger of the two players will take the combined entity to the top of the pecking order in the private life insurance space. HDFC Life can be valued based on its 9 per cent stake sale to its foreign partner last year, which works out to about Rs. 19,000 crore. Any future unlocking from HDFC's insurance subsidiaries will be a huge trigger for the stock.

Healthy growth in retail loans, marginally higher traction in corporate loans and stable asset quality are the key highlights of the results

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