

Mortgage king HDFC in market to shine up subsidiaries

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Last Published: Tue, Dec 26 2017. 08 23 AM IST

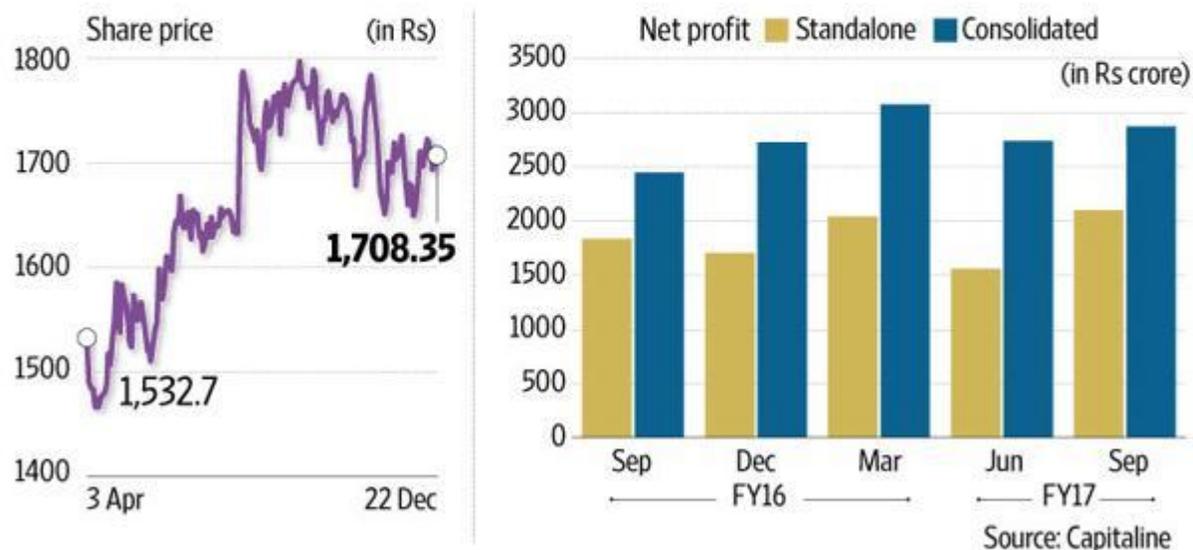
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HDFC's mammoth fund raising will be channelled into subsidiaries, a reason why its shares haven't surged on the news.



HDFC's fundraising will be channelled into subsidiaries, including the crown jewel HDFC Bank, a reason why its shares haven't surged on the news. Graphic: Naveen Kumar Saini/Mint

India's largest mortgage lender Housing Development Finance Co. Ltd (HDFC) is in the market to raise money, not for its core lending operations, but mainly to remain invested in its most richly valued subsidiary, HDFC Bank Ltd, besides entering into newer businesses.

The mortgage lender will use Rs8,500 crore out of the Rs13,000 crore it intends to raise to subscribe to HDFC Bank's preferential allotment. HDFC wants to keep its stake in the private lender at the current 21%, if not increase it. Indeed, it makes sense for the parent to hold on to its arm given that unrealized profit from the stake is a huge Rs96,000 crore.

The remaining proceeds would be used to step up its health insurance presence through its general insurance arm. Insurance, both life and non-life, has gathered steam lately with the push from the government and the flurry of listings

by insurers over the past one year. HDFC's own life insurance arm HDFC Standard Life listed at a hefty premium and is among the better performers in insurance stocks.

While the recent listings of general insurers tell a rather dull story, HDFC Ergo General Insurance's valuation has already jumped since the last deal in 2016, wherein HDFC sold 23% stake to its foreign partner, valuing the insurer at around Rs4,900 crore.

However, of all these plans, the most interesting for investors would be HDFC's foray into acquiring stressed real estate assets.

The mortgage lender views this as an extension of its core competence. Given its stellar record in financing the housing market, analysts feel managing stress in the sector seems a logical extension and could bump up the group's valuations.

For HDFC's stock, the fund-raising plan hardly caused a ripple since funds would flow to subsidiaries and not the core business.

The stock has lost steam over the last three months but still trades at a rich 6 times its estimated book value for the current fiscal.

Its mortgage business performance holds the key for investors to continue justifying the valuation. And the mortgage king's renewed focus on affordable housing will help.

First Published: Tue, Dec 26 2017. 07 38 AM IST