

19 October 2010

MF Global Quarterly Report

# HDFC Ltd

| In line

BFSI | HFC

HDFC IN: **NEUTRAL**

RS 724

Disbursement growth is on expected lines driven by pick up in corporate disbursement. The loan portfolio (inclusive of sell down) has increased by 24% yoy. This along with improvement in spread has lead to strong NII growth. The disbursement growth for the full year is expected to be ~25% with spread in the range of 2.20%-2.25%. HDFC Ltd's housing business is trading at 5.3x 1-yr forward ABVPS, which is 32% premium to its historic median valuation of 4x. We see limited scope for multiple expansion from current level given stable return ratio over FY10-12e. The Return on asset is expected to remain stable at 2.7% over FY10-12E. Hence we maintain Neutral rating on the stock.

- » **Strong NII growth:** HDFC reported 25% yoy growth in net interest income driven by yoy improvement in spread and buoyant disbursement. The loan portfolio inclusive of sell down has also increased by 24% yoy. Spread increased to 2.34% from the level of 2.2%. Spreads are expected to stabilize at 2.25% level with the rise in cost of fund. Disbursement during the quarter increased by 27% to Rs173bn yoy whereas approvals increased by 29% yoy to Rs208bn.
- » **Stable PAT growth:** PAT increased by 22% to Rs8.05bn in line with estimates. During quarter, the bank booked trading income to the tune of Rs0.6bn.
- » **Improvement in asset quality:** Asset quality has shown consistent improvement with GNPA declining to 0.86% compared to 0.95% year ago. HDFC carries a coverage ratio of 77% which is almost double the regulatory requirement.

## TARGET RS 686 (-5%)

### STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

### COMPANY DATA

O/S SHARES :	1460MN
MARKET CAP (RS) :	1058BN
MARKET CAP (USD) :	23.9BN
52 - WK HI/LO (RS) :	780 / 460
AVG. DAILY VOL. (3MTH) :	3.5MN
FACE VALUE (RS) :	10

### SHARE HOLDING PATTERN, %

FII / NRI :	74.5
FI / MF :	13.3
NON PROMOTER CORP. HOLDINGS :	1.5
PUBLIC & OTHERS :	10.7

### PRICE PERFORMANCE, %

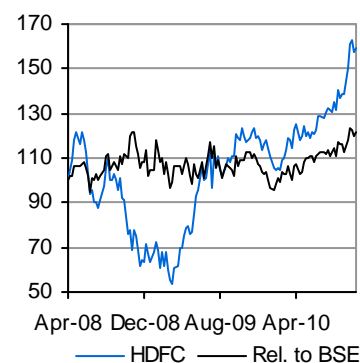
	1MTH	3MTH	1YR
ABS	5.9	19.9	28.9
REL TO BSE	3.0	7.6	12.5

### VALUATION SUMMARY

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
PRE-PROV ROE (%)	31.7	26.1	28.0	28.6	29.7
PRE-PROV ROA (%)	3.9	3.7	3.8	3.8	3.9
NET PROFIT	24,362	22,823	28,249	32,872	39,288
% GROWTH	26.4	17.4	23.8	16.4	19.5
EPS (RS)	17.2	16.0	19.7	22.7	27.1
ADJ BVPS (RS)	83.1	91.8	105.0	120.4	137.9
ROE (%)	22.2	18.2	19.9	20.0	20.8
P/E (X)	42.2	45.1	36.8	32.0	26.7
ADJ. P/BV (X)	8.7	7.9	6.9	6.0	5.3

Source: Company, MF Global India Research Estimates

### PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

## Q2FY11 RESULTS

(RS MN)	Q2FY11	Q2FY10	YOY GWTH	H2FY11	H2FY10	YOY GWTH
INTEREST ON LOANS	26143	24408	7.1	51293	49539	3.5
OTHER INTEREST INCOME	2829	3367	-16.0	5419	6237	-13.1
<b>OPERATING INCOME</b>	<b>28972</b>	<b>27776</b>	<b>4.3</b>	<b>56711</b>	<b>55776</b>	<b>1.7</b>
FEES AND OTHER CHARGES	681	673	1.2	915	1114	-17.9
OTHER INCOME	47	54	-12.6	95	103	-7.1
<b>TOTAL INCOME</b>	<b>29700</b>	<b>28502</b>	<b>4.2</b>	<b>57722</b>	<b>56993</b>	<b>1.3</b>
INTEREST EXPENDED	16727	18193	-8.1	33757	37701	-10.5
PAYMENT TO EMPLOYEES	470	329	42.9	921	754	22.2
OTHER EXPENSES	976	667	46.3	1658	1265	31.1
DEPRECIATION	44	45	-1.1	84	84	-0.1
<b>TOTAL EXPENDITURE</b>	<b>18216</b>	<b>19233</b>	<b>-5.3</b>	<b>36420</b>	<b>39804</b>	<b>-8.5</b>
<b>OPERATING INCOME BEFORE PROV</b>	<b>11484</b>	<b>9270</b>	<b>23.9</b>	<b>21302</b>	<b>17189</b>	<b>23.9</b>
PROVISIONS & CONTINGENCIES	150	140	7.1	300	260	15.4
PROVISION FOR TAXES	3260	2490	30.9	5980	4640	28.9
<b>NET PROFIT</b>	<b>8074</b>	<b>6640</b>	<b>21.6</b>	<b>15022</b>	<b>12289</b>	<b>22.2</b>

APPROVALS	208,451	161,590	29.0
DISBUREMENTS	173,406	136,540	27.0
NPAS (%) - 3 MONTHS OVERDUE	0.86	0.95	-0.09
NPAS (%) - 6 MONTHS OVERDUE	0.53	0.60	-0.07
CAR - TIER I	13.00	13.40	-0.40
CAR - TIER II	1.10	1.50	-0.40
CAR - TOTAL	14.10	14.90	-0.80

Source: Company, MF Global India Research

## SUM-OF-THE-PARTS VALUATION

SUBSIDIARY	STAKE	BUSINESS VALUATION		VALUATION	VALUATION CRITERIA
		RS BN	PER SHARE	PER SHARE	
HDFC PARENT (HOUSING FINANCE)	100%	621	428		EXCESS RETURN METHOD
HDFC BANK	23.4%	1117	180		VALUING AT 3.7X FY12 ABVPS OF RS609
HDFC AMC	60.0%	38	16		3% OF FY12E AUM RS 1276BN
GRUH FINANCE LTD	61.9%	8	3		2X FY12E ABV OF RS3.4BN
HDFC ERGO GENERAL INSURANCE	74.0%	5	3		2X FY12E BOOK VALUE
HDFC STANDARD LIFE INSURANCE	72.6%	101	50		15X FY12E NBAP OF RS 6.7BN
HDFC VENTURE CAPITAL	80.5%	4	2		DISCOUNTED CASH FLOW
<b>TOTAL</b>			<b>682</b>		
GAINS IN LISTED EQUITY INVESTMENTS		7	5		VALUED AT 40% DISCOUNT TO CURRENT MARKET PRICE
<b>FAIR VALUE</b>			<b>686</b>		

Source: MF Global India Research

## Financials

### INCOME STATEMENT

RS MN	FY08	FY09	FY10	FY11E	FY12E
INTEREST ON LOANS	72,541	99,310	99,790	121,744	147,310
INTEREST ON INVESTMENTS	1,118	1,580	1,898	2,373	2,848
OTHERS	5,299	5,550	4,716	5,423	5,966
TOTAL INTEREST EARNED	78,958	106,440	106,404	129,540	156,123
TOTAL INTEREST EXPENDED	51,100	73,728	69,848	86,093	104,174
NET INTEREST INCOME	27,858	32,712	36,557	43,447	51,949
TOTAL NON INTEREST INCOME	3,003	3,734	7,189	8,008	9,328
TOTAL INCOME	30,861	36,446	43,745	51,455	61,277
PERSONNEL EXPENSES	1,178	1,386	1,467	1,642	1,889
OTHER EXPENSES	1,990	2,372	2,554	2,913	3,253
TOTAL OP EXPENSES	3,168	3,758	4,021	4,556	5,141
NET INC (LOSS) BEFORE PROV	27,692	32,688	39,724	46,899	56,135
PROVISION FOR NPAS	221	262	410	500	700
PROVISION FOR INVST DEPRN	99	238	170	100	100
NET INC (LOSS) BEFORE TAX	33,735	32,188	39,144	46,299	55,335
PROVISION FOR INCOME TAX	9,373	9,365	10,895	13,427	16,047
NET PROFIT	24,362	22,823	28,249	32,872	39,288

Source: Company, MF Global India Research Estimates

### BALANCE SHEET

RS MN	FY08	FY09	FY10	FY11E	FY12E
<b>ASSETS</b>					
CASH & CASH EQUIVALENTS	7,777	15,918	50,515	40,315	41,168
ADVANCES	729,979	851,981	979,670	1,175,573	1,410,658
INVESTMENTS	69,698	105,541	107,629	114,587	120,255
FIXED ASSETS (NET)	2,085	2,034	2,221	2,332	2,449
CURRENT ASSETS, LOANS & ADVANCES	33,747	39,790	23,876	22,777	21,734
DEFERRED TAX ASSETS	1,466	2,158	2,857	2,285	2,285
TOTAL ASSETS	844,753	1,017,422	1,166,768	1,357,869	1,598,548
<b>LIABILITIES</b>					
SHARE CAPITAL	2,840	2,844	2,871	2,902	2,902
RESERVES AND SURPLUS	116,633	128,529	149,106	173,439	199,148
DEBT	13,750	13,750	18,750	13,750	13,750
INTERNATIONAL BORROWING	14,899	15,984	17,356	19,959	22,754
FCCB	5,163	5,576	4,285	0	0
DOMESTIC TERM LOANS	175,829	210,821	286,763	332,645	382,542
BONDS & DEBENTURES	368,908	398,683	407,687	513,686	652,381
DEPOSITS	112,963	193,747	230,811	258,509	288,237
OTHER NON+INTEREST BEARING LIABILITIES	28,517	40,419	42,229	35,459	28,513
PROVISIONS FOR CONTINGENCIES	4,703	6,215	6,556	7,056	7,756
PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS	548	853	364	464	564
TOTAL LIABILITIES	844,753	1,017,422	1,166,768	1,357,869	1,598,548

Source: Company, MF Global India Research Estimates

**PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS**

	FY08	FY09	FY10	FY11E	FY12E
<b>EARNINGS AND VALUATION RATIOS</b>					
PRE-PROVISION OPERATING ROAE (%)	31.7	26.1	28.0	28.6	29.7
ROAE (%)	22.2	18.2	19.9	20.0	20.8
PRE-PROVISION OPERATING ROA (%)	3.7	3.5	3.6	3.7	3.8
ROAB (%)	2.7	2.6	2.7	2.7	2.7
EPS (RS.)	17.2	16.0	19.7	22.7	27.1
DIVIDEND PER SHARE (RS.)	(5.0)	(6.0)	(7.2)	(7.6)	(8.0)
BOOK VALUE (RS.)	84.1	92.4	105.9	121.5	139.2
ADJ BV (RS.)	83.1	91.8	105.0	120.4	137.9
<b>REVENUE ANALYSIS</b>					
INTEREST INCOME ON IBA (%)	11.1	12.0	10.1	10.5	10.8
INTEREST COST ON IBL (%)	8.1	9.6	7.7	8.2	8.3
NIM ON IBA / AWF (%)	3.9	3.7	3.5	3.5	3.6
CORE FEE INC / AWF (%)	0.1	0.1	0.2	0.3	0.3
PORTFOLIO GAINS / TOTAL INC (%)	4.5	0.7	5.0	3.0	2.1
OP.EXP / TI (%)	10.7	10.4	9.7	9.1	8.6
OP.EXP / AWF (%)	0.4	0.4	0.4	0.4	0.4
EMPLOYEE EXPS / OP EXPS (%)	37.2	36.9	36.5	36.1	36.7
TAX / PRE-TAX EARNINGS (%)	27.8	29.1	27.8	29.0	29.0
<b>ASSET QUALITY</b>					
GNPAS / GR ADV (%)	0.8	0.8	0.8	0.7	0.7
NNPAS / NET ADV (%)	0.2	0.1	0.1	0.1	0.1
<b>GROWTH RATIO</b>					
LOANS (%)	29.2	16.7	15.0	20.0	20.0
INVESTMENTS (%)	88.1	51.4	2.0	6.5	4.9
DEPOSITS (%)	21.4	21.7	14.8	18.8	19.7
NETWORTH (%)	115.2	10.0	15.7	16.0	14.6
NET INT INCOME (%)	65.4	17.4	11.8	18.8	19.6
NON-FUND BASED INCOME (%)	(26.6)	108.5	46.3	27.7	24.1
NON-INT EXP (%)	15.5	18.6	7.0	13.3	12.9
PROFIT BEFORE TAX (%)	42.2	17.6	21.6	18.3	19.5
NET PROFIT (%)	26.4	17.4	23.8	16.4	19.5
<b>CAPITAL ADEQUACY RATIO:</b>					
TIER I (%)	14.6	13.2	12.8	12.4	11.8
INTERNAL CAPITAL GENERATION RATE (%)	56.7	26.2	29.4	28.9	28.9
NNPAS TO EQUITY (%)	1.2	0.6	0.8	0.9	1.0
<b>CORE BUSINESS</b>					
NETWORTH, RS MN	8470	9369	10814	12867	15035
PAT, RS MN	1757	2055	2405	2864	3470
ROE, %	28.0	23.0	23.8	24.2	24.9
ADJUSTED BVPS, RS	59.6	65.9	75.3	88.7	103.6

Source: Company, MF Global India Research Estimates

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**RECOMMENDATION HISTORY**

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	673	612	15 <sup>TH</sup> JULY 2010

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#### Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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