

January 21, 2008

Rating	Outperformer
Price	Rs2,820
Target Price	Rs3,175
Implied Upside	12.6%
Sensex	19,014

(Prices as on January 18, 2008)

Trading Data

Market Cap. (Rs bn)	761.3
Shares o/s (m)	270.0
Free Float	89.3%
Avg. Daily Vol ('000)	255.0
Avg. Daily Value (Rs m)	685.4

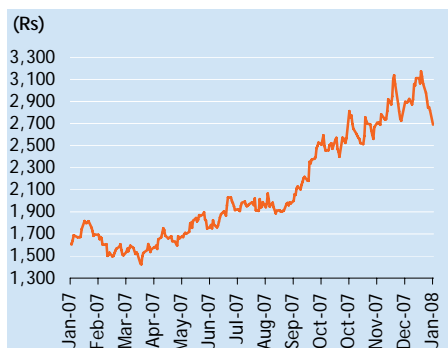
Major Shareholders

Promoters	—
Foreign	79.3%
Domestic Inst.	9.5%
Public & Others	11.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.3)	36.2	67.5
Relative	4.7	20.8	40.9

Price Performance (RIC: HDFC.BO, BB: HDFC IN)



Source: Bloomberg

HDFC

One-time profitability boosts earnings

- **NII growth beat expectations:** HDFC posted 53% YoY growth in its net interest income for 9MFY08 to Rs18.2bn, against our expectation of Rs17.9bn. Growth was backed by 27% YoY growth in advance book to Rs670bn.
- **One-time profit booking boost earnings:** During the quarter, HDFC booked profit of Rs1,209m from sale of 7.15% stake in its life insurance arm. It also booked profit from the partial stake sale in CAMS for Rs1,034bn. One-time booking of profit increased PAT by 82.5% YoY to Rs6.5bn.
- **Healthy growth in approvals & disbursement:** Approvals and disbursement during the quarter increased by 31.4% and 29.5% respectively. For 9MFY08, balance sheet grew by 58% to Rs259bn; similarly, loan book at the end of the quarter was Rs192bn, YoY growth of 48%.
- **Restructuring in subsidiaries:** HDFC acquired 9.9% in its asset management company, thereby increasing its stake to 60%. It offloaded 7.15% in the life insurance arm and 26% in the general insurance business to Standard life and ERGO respectively.
- **Valuation:** We maintain Outperformer rating on the stock with a price target of Rs3,175, of which 35% value accrues from holding in subsidiaries and associates.

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Net interest income	17,651	25,064	31,673	38,515
<i>Growth (%)</i>	25.8	42.0	26.4	21.6
Non interest income	4,436	7,863	7,026	7,713
Operating profit	19,928	30,294	35,740	42,636
PAT	15,704	23,387	26,149	31,181
EPS (Rs)	62.9	81.6	91.3	108.9
<i>Growth (%)</i>	24.8	29.7	11.8	19.2
Net DPS (Rs)	22.0	24.0	25.0	25.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
<i>NIM (%)</i>	3.2	3.6	3.6	3.5
<i>RoE (%)</i>	31.3	24.1	18.5	18.4
<i>RoAA (%)</i>	2.8	3.1	2.8	2.7
P / BV (x)	14.2	8.8	5.7	4.8
PE (x)	44.8	34.5	30.9	25.9
<i>Net dividend yield (%)</i>	0.8	0.9	0.9	0.9

Source: Company Data; PL Research

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Highlights

Robust operating income

Total income during the quarter increased by 47.8% YoY to Rs21.5bn. NII grew 62.4% YoY on the back of 27% YoY increase in advance book to Rs669bn. High growth in non-interest income was led by one-time profit booking from stake sale in CAMS. It also reported an extraordinary income of Rs1,209m by diluting 7.15% stake in its life insurance arm to Standard Life at a predetermined rate.

Healthy growth in assets; quality remains stable

With high growth in its advances book, HDFC has been able to maintain its asset quality during the quarter. Its 90-day overdue assets were down to 1.12% as compared to 1.26% during the same period last year. Its six-month overdue was down to 0.81% as compared to 0.99% for 9MFY07.

Valuation

HDFC is trading at 5.7x and 4.8x its book value for FY09E and FY10E respectively. Considering HDFC's mortgage business growing at a healthy pace and high growth deriving from its subsidiaries and associates, we maintain Outperformer rating on the stock with a target price of Rs3,175, 35% of which accrues from its subsidiaries and associates.

Valuation table

(Per share)

Y/e March	FY10E
Mortgage lending business (3.5x FY10E BV)	2,066.4
Life insurance (16x FY10E NBAP margin)	420.1
General insurance (14x FY10E profits)	10.0
Asset management (5x FY10E AUM)	101.8
HDFC Bank (23.3% of our price target of Rs1,810 for HDFC Bank)	522.0
Other investments (book value + market value)	54.7
Fair value per share	3,175

Source: PL Research



Q3 FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9M FY08	9MFY07	YoY gr. (%)
Total operating income	21,504	14,546	47.8	21,995	61,774	41,470	49.0
Interest income	19,874	13,610	46.0	18,504	56,045	38,525	45.5
Interest expense	13,160	9,475	38.9	12,220	37,831	26,626	42.1
Net interest income	6,715	4,135	62.4	6,284	18,214	11,899	53.1
Non-interest income	1,629	936	74.1	3,492	5,729	2,945	94.5
Operating expenses	725	621	16.7	743	2,191	1,910	14.7
<i>% of the operating inc</i>	<i>3.4</i>	<i>4.3</i>		<i>3.4</i>	<i>3.5</i>	<i>4.6</i>	
Provisions	60	40	50.0	120	260	180	44.4
Other income	44	39	11.2	39	117	163	(28.1)
PBT	7,602	4,450	70.8	8,951	21,609	12,917	67.3
Extraordinary income	1,209	-		-	-	-	
Tax	2,323	893	160.0	2,493	6,138	2,713	126.2
<i>ETR (%)</i>	<i>30.5</i>	<i>20.1</i>		<i>27.9</i>	<i>28.4</i>	<i>21.0</i>	
PAT	6,489	3,557	82.5	6,458	15,472	10,203	51.6



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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