



## Housing Development Finance Corporation

Evergreen

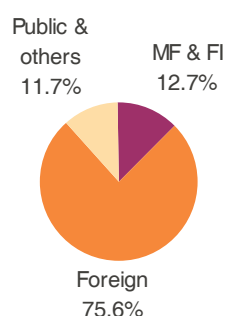
Price target revised to Rs2,805

Buy; CMP: Rs1,878

### Company details

Price target:	Rs2,805
Market cap:	Rs53,379 cr
52 week high/low:	Rs3257/1600
NSE volume: (No of shares)	10.7 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	28.4 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	-5.6	-27.4	-27.5
Relative to Sensex	9.2	23.5	18.6	34.3

### Result highlights

- Housing Development and Finance Corporation (HDFC) reported a bottom line of Rs534.2 crore in Q2FY2009, indicating a growth of 32.4% year on year (yoy) after excluding the exceptional items. The profit after tax (PAT) was marginally above our estimate of Rs508 crore.
- The net interest income for the quarter came in at Rs746.1 crore (vs the estimate Rs741 crore), up 21.1% yoy buoyed by a healthy growth in the loan disbursements. Importantly, the year-on-year (y-o-y) growth in the loan disbursements has moderated compared with that of the previous quarter.
- The calculated net interest margin (NIM) for the quarter stood at 3.41%, indicating a contraction of ~9 basis points. However, the NIM expanded by 28 basis points sequentially as the company had passed on the higher cost of funds by hiking its lending rates.
- Notably, the other operating income jumped up by 129% yoy to Rs111.7 crore buoyed by a significant increase in the dividend income and the income from mutual fund investments.
- The operating expenses were up by 20.4% yoy to Rs99.1 crore primarily driven by a significant increase in the other expenses (up 26.3% yoy) and the staff expenses (up 10.9% yoy). The cost to income ratio for the quarter has improved to 11.5% from 12.3% a year ago.
- Loan approvals for H1FY2008 stood at Rs24,180 crore, up 27.6% yoy from Rs18,948 crore a year ago. In line, the disbursements amounted to Rs17,788 crore from Rs14,275 crore a year ago, indicating a growth of 24.6% yoy. For Q2FY2009, the growth in the approvals and the disbursements has moderated to 26.2% and 22.6% respectively, compared with those of the previous quarter.
- While we maintain our estimates for the core business, we are lowering our price target to factor in the contraction in the valuation multiple assigned to the life

### Results table

	Rs (cr)						
Particulars	Q2FY09	Q2FY08	% yoy	% qoq	H1FY09	H1FY08	% yoy
Net interest income	746.1	616.1	21.1	14.5	1397.7	1095.1	27.6
Other operating income	111.7	48.8	129.1	19.4	205.3	151.6	35.4
Other Income	5.5	3.9	40.8	6.8	10.6	7.3	44.8
Net total income	863.3	668.8	29.1	15.1	1613.6	1254.0	28.7
Operating expenses	99.1	82.3	20.4	2.4	195.8	158.9	23.3
Operating profit	764.3	586.4	30.3	16.9	1417.8	1095.2	29.5
Depreciation	4.3	4.0	7.0	16.6	8.0	7.7	3.2
PBT	760.0	582.4	30.5	16.9	1409.8	1087.5	29.6
Extraordinary items	0.0	313.3			0.0	313.3	
Provision for taxes	225.8	249.3	-9.4	24.2	407.5	381.5	6.8
Net profit (reported)	534.2	646.4	-17.4	14.1	1002.3	1019.2	-1.7
Net profit (ex-exceptionals)	534.2	403.4	32.4	14.1	1002.3	776.3	29.1

insurance business and the asset management business.

At the current market price of Rs1,878 the stock trades at 21.6x FY2009E earnings per share (EPS) and 3.9x 2009E book value (BV) per share. We maintain our Buy recommendation on the stock with a revised price target of Rs2,805.

### NIM expands sequentially

Based on our calculations the NIM for Q2FY2009 came in at 3.4%, which indicates an improvement of 31 basis points on a sequential basis. The sequential improvement in the NIM and the spreads is primarily driven by the aggressive lending rate hike done by the bank during the quarter. However the NIM has come under pressure on a y-o-y basis owing to the rising cost of funds. As evident in the table below, the spreads have contracted marginally by 8 basis points to 3.4%. The leadership in the mortgage space offers HDFC the ability to pass on the higher cost of funds to the customers.

#### Yield analysis (%)

Particulars	Q2FY2009	Q2FY2008	yoy bps
Yield on assets	11.6	10.9	72
Cost of funds	9.4	7.8	159
NIM	3.4	3.5	-8

### Loan approvals up 26% yoy

HDFC reported loan approvals of Rs24,180 crore for H1FY2009, indicating a strong growth of 27.6% yoy. In line, the disbursals grew by 24.6% yoy to Rs17,788. For Q2FY2009, the growth in the approvals and the disbursals has moderated to 26.2% and 22.6% respectively. However, the moderation is largely in line with our expectation considering the falling housing demand as interest rates and real estate prices remain at higher levels. Moreover, the management has consciously slowed down the lending to commercial real estate segment, considering the current situation. On a positive note, the current situation will help HDFC garner further market share in the home mortgage space as leading banks are going slow on lending to this segment with a view to rebalance their loan books.

### Loan disbursals moderate to 23%

In line with the strong but moderating growth in loan approvals, the loan disbursal growth too is healthy but lower compared with that of the previous quarter. During Q2FY2009, the company disbursed loans of Rs10,584 crore, indicating a healthy growth of 22.6% yoy though lower than the 27.6% y-o-y growth during Q1FY2009.

### Approvals and disbursements

Rs (cr)

	Q1FY09	Q2FY09	% yoy	% qoq	H1FY09	% yoy
Approvals	9,996	14,184	26.2	41.9	24,180	27.6
Disbursements	7,204	10,584	22.6	46.9	17,788	24.6

### Advances break-up

Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy
Individuals	54728	41874	30.7
Corporate bodies	24509	18594	31.8
Others	1955	1552	26.0
<b>Total</b>	<b>81192</b>	<b>62020</b>	<b>30.9</b>

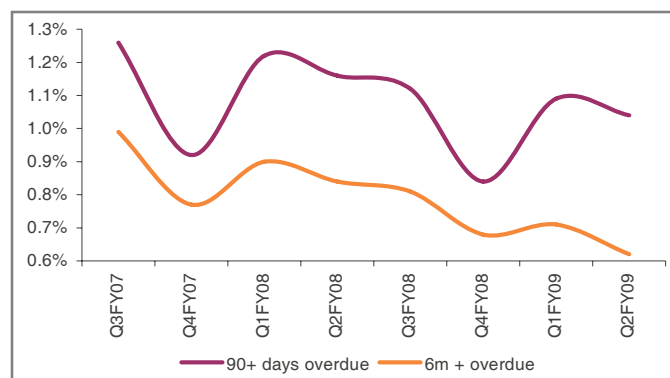
### Robust growth in non-interest income

The other operating income jumped up by 129% yoy to Rs111.7 crore. The growth can be traced to a significant increase in the dividend income. The dividend income surged up by three times and reached Rs49.2 crore, while the income from mutual fund investments grew to Rs24.6 crore (up 12% yoy). Consequently, the net total income growth stood healthy at 29.1% yoy to Rs863.3 crore.

### Asset quality improves further

HDFC has been able to register further improvement in its asset quality. On a +90 days overdue basis, the non-performing loans stood at 1.04% as compared with 1.16% during the corresponding quarter of the last year and 1.09% for the previous quarter. In line, on a six-month overdue basis, the non-performing loans stood at 0.62% as against 0.84% during the corresponding period of the last year and 0.71% for the previous quarter.

#### Trend in loans overdue



### Unrealised gains down 20.6% yoy

HDFC's unrealised gains on listed investments stood at Rs9,022.4 crore at the end of Q2FY2009, indicating a decrease of 20.6% yoy. However the same was 23.5% above the unrealised gains of Rs7,305.1 crore at end of Q1FY2009. The ongoing deterioration in the equity markets may make it difficult for the company to realise attractive gains from its investments.

## Capital adequacy strong at 15.2%

HDFC's capital adequacy ratio stood at 15.2% at the end of Q2FY2009, down from 17% a year ago, but well above the regulatory requirements.

## Valuation

While we maintain our estimates for the core business, we are lowering our price target to factor in the contraction in the valuation multiple assigned to the life insurance and the asset management business. At the current market price of Rs1,878 the stock trades at 21.6x FY2009E EPS and 3.9x 2009E BV per share. We maintain our Buy recommendation on the stock with a revised price target of Rs2,805.

## Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Adj net profit (Rs cr)	1257.3	1572.8	1944.2	2475.0	2898.9
Shares in issue (cr)	25.0	25.3	28.4	28.4	28.4
EPS (Rs)	50.4	62.2	68.4	87.1	102.1
EPS (Rs) - diluted	47.4	62.2	68.4	87.1	102.1
EPS growth (%)	21.1	23.4	10.1	27.3	17.1
PE (x)	37.3	30.2	27.4	21.6	18.4
BV (Rs/share)	179.0	219.4	420.6	476.2	544.3
P/BV (x)	10.5	8.6	4.5	3.9	3.5
Adj BV (Rs/share)*	142.2	176.4	324.6	371.3	544.3
P/ABV (x)	13.2	10.6	5.8	5.1	3.5
RONW (%)	30.1	31.2	21.4	19.4	20.0

\*Adjusted for value of investments in subsidiaries per share

The author doesn't hold any investment in any of the companies mentioned in the article.

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