

HDFC

2Q FY12: Strong operating performance

- HDFC's net profit at Rs9.7bn was up 20% yoy and 15% qoq. Operating performance remains strong with healthy loan growth, stable spreads and sound asset quality.
- While core was in line, higher-than-expected trading gains explained why actual net profit was above our estimate.
- Strong loan growth (25% yoy before sell-downs), strong disbursement (19% yoy), sequential improvement to calculated spreads and asset quality were key highlights
- To meet new NHB guidelines, HDFC has drawn Rs2.6bn net of tax from Sec 29 reserves. This impact has not come through the P/L account.
- We maintain Underperform on rich valuations.

Strong loan growth. Loans grew 20% yoy and 3% qoq after sell-downs. Before sell-downs to HDFC Bank, loans grew 25% yoy and 2% qoq. Disbursements grew 19% yoy and 22% qoq. The strong sequential pick up in disbursements in 2Q is seasonal and happens every year.

Calculated spread moves up sequentially in 2Q. Spread calculated from the balance sheet averages has moved up to 2.25% in 2Q FY12 from a low of 1.7% in 1Q FY12 and is now in line with the FY11 spread of 2.3%. The sequential recovery in spreads is largely due to higher lending rates and partly due to some easing in incremental cost of funds during the quarter.

Stable asset quality. Asset quality remains sound with gross NPLs at a low 0.82%. HDFC has met new NHB provisioning norms by drawing down on Sec 29 reserves. The draw down net of deferred tax is Rs2.6bn.

Trading gains, dividends and cost to income. HDFC reported higher-than-expected trading gains of Rs870m in 2Q FY12 against Rs163m in 1Q FY12 and Rs590m in 2Q FY11. Yoy growth in dividend income was also strong due to part payment of HDFC Bank dividend. Cost to income ratio remained stable yoy at 8.4%.

UNDERPERFORM (unchanged)

PRICE as at 14 October 2011 **Rs666.80** PRICE TARGET **Rs640.00**

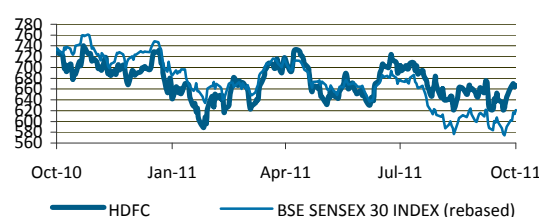
Bloomberg code HDFC IN **Reuters code** HDFC.BO
Market cap Rs957,212m (US\$19,527m) **12 month range** Rs589.15 - 739.70

EPS est change 2012E - 2013E -

Year end: March	2010	2011	2012E	2013E
Total revenues (Rsm)	42,978	53,181	59,387	71,144
PPOP (Rsm)	39,740	49,370	55,190	66,502
Attributable profit (Rsm)	28,265	35,350	40,772	48,558
EPS (Diluted) (Rs)	19.69	24.10	27.80	33.10
EPS growth (%)	22.7	22.4	15.3	19.1
Book value/share (Rs)	105.87	118.05	133.65	151.98
Dividend/share (Rs)	7.20	9.00	10.84	12.91
Return on equity (%)	19.95	21.74	22.09	23.18
Return on assets (%)	2.59	2.76	2.69	2.71
Net interest margin (%)	3.07	3.32	3.10	3.10
Gross NPL ratio (%)	0.96	0.77	0.80	0.80
Credit cost % avg. loans (bps)	6	6	6	6
Tier 1 Capital Ratio (%)	12.8	12.2	12.3	12.0
Loan growth (%)	15.0	19.2	20.0	20.0
PER (x)	24.8	27.7	24.0	20.1
PBR (x)	5.1	5.6	5.0	4.4
Dividend yield (%)	1.5	1.3	1.6	1.9

Source: Company, Standard Chartered Research estimates

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	3	-5	-9
Relative to Index	1	3	7
Relative to Sector	-	-	-
Major shareholder	Citigroup (8.8%)		
Free float	92%		
Average turnover (US\$)	34,781,137		

Source: Company, Bloomberg

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**Fig 1 – Income statement**

(Rs m)	2Q FY12	1Q FY12	2Q FY11	%y-y	%q-q
Interest Income	36,693	33,298	26,143	40.4	10.2
Interest expense	26,905	25,149	17,176	56.6	7.0
Net Interest Income on housing loans	9,788	8,149	8,967	9.2	20.1
Other interest	1,848	1,833	1,228	50.4	0.8
Total net interest income	11,636	9,982	10,195	14.1	16.6
Total non interest income	3,098	3,038	2,284	35.6	2.0
Fees and other charges	789	573	681	15.9	37.7
Dividend	629	1,322	229	175.3	-52.4
Sale of investment	869	163	590	47.4	434.3
Others	811	980	786	3.3	-17.2
Total operating income	14,734	13,020	12,479	18.1	13.2
Non operating income	52	47	47	10.4	11.6
Expenses	1,409	1,311	1,191	18.3	7.5
Staff expenses	526	528	470	12.0	-0.3
Depreciation	48	45	44	9.5	8.3
Other expenses	835	739	678	23.3	13.0
PBT	13,377	11,755	11,335	18.0	13.8
Tax	3,670	3,310	3,260	12.6	10.9
PAT	9,707	8,445	8,075	20.2	14.9
Tax rate	27	28	29	-133 bps	-72 bps

Source: Company data

Fig 2 – Other key details

	2Q FY12	1Q FY12	2Q FY11	%y-y	%q-q
Approvals (Rs bn)	238	233	208	14.3	2.1
Disbursements (Rs bn)	205	169	173	18.2	21.3
Outstanding (Rs bn)	1,270	1,242	1,063	19.5	2.3
Gross NPAs (Rs mn)	10,630	10,382	9,393	13.2	2.4
Gross NPL ratio (%)	0.82	0.83	0.86	-4 bps	-1 bps
CAR (%)	13.8	13.8	14.1	-30 bps	0 bps
Tier I (%)	11.7	12.2	13.0	-130 bps	-50 bps

Source: Company data

Fig 3 – Calculated margins

%	2Q FY12	1Q FY12	2Q FY11	FY11
Yield on loans	12.6	11.8	9.8	10.5
Yield on loans including loans sold off	11.4	10.7	10.0	9.5
Cost of funds	9.2	9.0	6.9	7.1
Spread on housing loans	3.4	2.8	2.9	3.3
Spread on housing loans including loans sold off	2.2	1.7	3.1	2.3

Source: Company data and Standard Chartered Research estimates

**Fig 4 – Balance sheet**

(Rs m)	2Q FY12	1Q FY12	2Q FY11	%y-y	%q-q
Sharecapital	2,944	2,940	2,920	0.8	0.2
Reserves	183,971	177,761	168,887	8.9	3.5
Term loans	323,243	414,279	350,043	-7.7	-22.0
Bonds/debentures/CPs	610,505	515,905	472,897	29.1	18.3
Deposits	317,281	305,004	268,810	18.0	4.0
Total liabilities and shareholders funds	1,437,943	1,415,888	1,263,557	13.8	1.6
Loans	1,269,924	1,241,677	1,062,875	19.5	2.3
Individuals	802,680	778,860	682,635	17.6	3.1
Corporate bodies	451,442	448,233	365,227	23.6	0.7
Others	15,802	14,585	15,014	5.3	8.3
Loans sold down	131,690	118,028	102,939	27.9	11.6
Total loans including loans sold off	1,401,614	1,359,705	1,165,814	20.2	3.1
Investments	149,804	173,282	175,590	-14.7	-13.5
Deferred tax	5,805	4,651	3,110	86.6	24.8
Current assets	78,208	66,302	66,425	17.7	18.0
Current liabilities	68,144	72,373	46,671	46.0	-5.8
Fixed assets	2,346	2,349	2,228	5.3	-0.1
Total assets	1,437,942	1,415,888	1,263,557	13.8	1.6

Source: Company data



Year end: Mar	2009	2010	2011	2012E	2013E
Income statement (Rsm)					
Interest income	99,310	99,790	112,446	144,944	173,933
Interest expenses	(74,324)	(70,631)	(75,599)	(103,465)	(124,159)
Net interest income	24,986	29,159	36,846	41,479	49,774
Net fees	1,149	2,317	2,204	2,644	3,173
FX/dealing income	234	2,094	3,597	3,000	4,000
Other	9,483	9,408	10,534	12,264	14,197
Non-interest income	10,866	13,818	16,335	17,908	21,370
Total revenue	35,852	42,978	53,181	59,387	71,144
Staff expenses	(1,386)	(1,467)	(1,755)	(1,913)	(2,085)
Premise expenses	-	-	-	-	-
Depreciation	(175)	(182)	(192)	(180)	(180)
Other	(1,601)	(1,589)	(1,864)	(2,104)	(2,377)
Operating expenses	(3,162)	(3,238)	(3,812)	(4,197)	(4,642)
Preprovision operating profit	32,690	39,740	49,370	55,190	66,502
Loans loss provisions	(500)	(580)	(700)	(773)	(928)
Other provisions	0	0	0	0	0
Total provisions	(500)	(580)	(700)	(773)	(928)
Operating profit	32,190	39,160	48,670	54,417	65,574
Goodwill amortization	0	0	0	0	0
Net disposal profit	-	-	-	-	-
Associates	-	-	-	-	-
Exceptional items	0	0	0	0	0
Other non-operating income	0	0	0	0	0
Pre-tax profit	32,190	39,160	48,670	54,417	65,574
Tax	(9,365)	(10,895)	(13,320)	(13,645)	(17,017)
Minority interests and prefs	0	0	0	(0)	0
Net profit	22,825	28,265	35,350	40,772	48,558
Dividends	(8,534)	(10,336)	(13,202)	(15,901)	(18,937)
Retained earnings	14,292	17,929	22,148	24,871	29,620
Per share data (Rs)					
EPS	16.05	19.69	24.10	27.80	33.10
DPS	6.00	7.20	9.00	10.84	12.91
BVPS	92.37	105.87	118.05	133.65	151.98
Growth rates (%)					
Loans	16.3	15.0	19.2	20.0	20.0
Total assets	20.4	14.7	19.6	17.4	19.0
Deposits	71.5	19.1	6.7	nm	-
Shareholders' funds	10.0	15.7	13.9	13.2	13.7
Revenue	17.4	19.9	23.7	11.7	19.8
Expense	11.3	2.4	17.7	10.1	10.6
Net profit	-6.3	23.8	25.1	15.3	19.1
Operating ratios (%)					
Non-int income / revenue	30.3	32.2	30.7	30.2	30.0
Cost / income	8.8	7.5	7.2	7.1	6.5
Effective tax rate	29.1	27.8	27.4	25.1	26.0
Dividend payout ratio	37.4	36.6	37.3	39.0	39.0
Rates and margins (%)					
Net interest margin	2.81	3.07	3.32	3.10	3.10
Yield on earning assets	12.50	10.69	10.35	11.15	11.16
Funding cost	9.72	7.83	7.13	8.15	8.15
Net interest spread	2.81	3.07	3.32	3.10	3.10
Decomposition of Returns (%)					
Net int inc/Avg assets	2.69	2.67	2.88	2.73	2.77
Non-int inc/Avg assets	1.17	1.27	1.28	1.18	1.19
Revenue/Avg Assets	3.85	3.94	4.15	3.92	3.97
Expenses/Avg assets	-0.34	-0.30	-0.30	-0.28	-0.26
PPOP/Avg assets	3.51	3.64	3.85	3.64	3.71
Loan Provisions/Avg assets	-0.05	-0.05	-0.05	-0.05	-0.05
Other Provisions/Avg assets	0.00	0.00	0.00	0.00	0.00
Non-operatings/Avg assets	0.00	0.00	0.00	0.00	0.00
Pre-tax/Avg assets	3.46	3.59	3.80	3.59	3.65
Tax/Avg assets	-1.01	-1.00	-1.04	-0.90	-0.95
Minorities/Avg assets	0.00	0.00	0.00	0.00	0.00
ROAA	2.45	2.59	2.76	2.69	2.71
Avg assets/Avg equity (x)	7.4	7.7	7.9	8.2	8.6
ROAE	18.20	19.95	21.74	22.09	23.18
Avg RWA/Avg assets	84.36	79.72	76.59	77.00	77.00
ROARWA	2.91	3.25	3.60	3.49	3.51

Source: Company, Standard Chartered Research estimates

Year end: Mar	2009	2010	2011	2012E	2013E
Balance sheet (Rsm)					
Cash & central bank	-	-	-	-	-
Due from other banks	-	-	-	-	-
Investment securities	-	-	-	-	-
Gross customer loans	859,009	987,901	1,177,956	1,413,953	1,696,743
Loan loss reserve	(7,028)	(8,232)	(6,689)	(8,433)	(10,120)
Other loan adjustments	-	-	-	-	-
Net loans	851,981	979,670	1,171,266	1,405,519	1,686,623
Goodwill	-	-	-	-	-
Other	164,588	186,744	223,755	232,886	263,584
Total assets	1,016,569	1,166,414	1,395,021	1,638,406	1,950,207
RWA					
Customer deposits	193,747	230,811	246,251	0	0
Due to fin. institutions	-	-	-	-	-
Debt outstanding	0	0	0	0	0
Other	691,449	783,626	975,605	1,442,363	1,727,275
Total liabilities	885,195	1,014,438	1,221,856	1,442,363	1,727,275
Minority interest and pref	0	0	0	0	0
Paid-in cap. and shr. prem.	2,844	2,871	2,934	2,934	2,934
Accumulated earnings	128,529	149,106	170,231	193,109	219,998
Revaluation reserves	-	-	-	-	-
Other reserves	(0)	0	0	0	0
Shareholders' funds	131,374	151,977	173,165	196,043	222,932
Balance sheet ratios (%)					
Core Tier 1	13.2	12.8	12.2	12.3	12.0
Total CAR	15.1	14.6	14.0	13.7	13.4
Loans/ deposits	443.4	428.0	478.4	nm	nm
AIEA / assets	85.6	87.6	85.2	86.1	86.4
AIEA / AIBL	113.7	113.3	112.1	111.1	110.7
Net loans / assets	83.8	84.0	84.0	85.8	86.5
Loan book breakdown (%)					
Corporate	33	36	36	36	36
SME loans	-	-	-	-	-
Mortgages	64	62	62	62	62
Other consumer loans	-	-	-	-	-
Others / offshore	3	2	2	2	2
Asset quality					
NPLs (Rsm)	7,829	9,500	9,039	11,244	13,493
NPL ratio (%)	0.91	0.96	0.77	0.80	0.80
New net NPLs (% beg loans)	0.00	0.00	0.00	0.00	0.00
Credit Cost (bps)	6	6	6	6	6
Reserves / loans (%)	0.82	0.83	0.57	0.60	0.60
Reserve coverage (%)	89.8	86.6	74.0	75.0	75.0
Operating statistics					
Staff	1,490	1,505	1,607	1,607	1,607
Branches	267	279	289	289	289
Deposits per branch	726	827	852	0	0
Economic performance (EVA perspective)					
Economic credit cost (bps)	-13	-7	21	-7	-5
Economic profit (Rsm)	24,345	29,468	33,808	42,516	50,244
Economic equity (Rsm)	138,402	160,208	179,855	204,476	233,052
Economic ROA (%)	2.62	2.70	2.64	2.80	2.80
Economic ROE (%)	18.49	19.74	19.88	22.12	22.97
Adj. BVPS (EE/Share)	97.31	111.60	122.61	139.40	158.88



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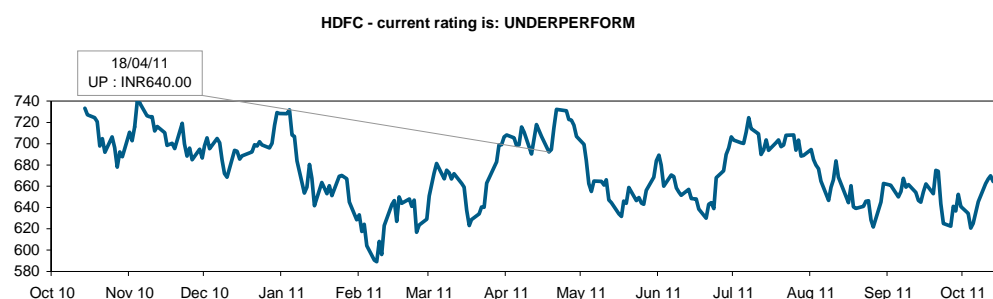
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Company HDFC

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	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
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IN-LINE	30.3%	11.9%
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As of 30 September 2011

Research Recommendation

Terminology	Definitions
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