

**RESULT ANALYSIS**
**HDFC Ltd.**
**Buy**
**Share Data**

Market Cap	Rs. 788.7 bn
Price	Rs. 2,904.35
BSE Sensex	20,216.72
Reuters	HDFC.BO
Bloomberg	HDFC IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	3,195/1,397.1
Shares Outstanding	271.6 mn

**Growing – as always**

HDFC had another good quarter where in the results were in line with our estimates. Net profit registered a yoy growth of 75.6% to Rs. 6.5 bn primarily due to profit on sale of investments in Intelenet, aided by a 65% rise in net interest income. The loan approvals increased 29% yoy to Rs. 189.5 mn, while the loan disbursements rose 27% to Rs. 142.8 bn.

During the quarter, the Company raised its stake in HDFC AMC by 9.9% for a consideration of Rs. 1.8 bn. HDFC also raised Rs. 31.1 bn through a preferential allotment to Carlyle Group and Citigroup, which will help it in improving margins in the near term. In addition, HDFC made a strategic divesture of 26% in its general insurance business to ERGO international of Germany.

We maintain our positive outlook on HDFC based on its consistent performance, diversified business model, and recent capital infusion. Based on SOTP valuation, we maintain our Buy rating on the stock.

**Valuation Ratios (Standalone)**

Year to 31 March	2008E	2009E
EPS (Rs.)	68.7	82.5
+/- (%)	17.7%	20.0%
PER (x)	42.2x	35.2x
P / PPP (x)	30.3x	25.6x
P / ABV (x)	7.7x	6.8x

**Shareholding Pattern (%)**

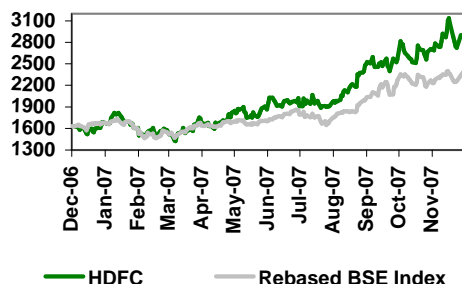
Promoter	0
FII's	64
Institutions	23
Public & Others	13

**Result Highlights**
**Mortgage business**

HDFC continued to grow its balance sheet with a 29% yoy increase in loan approvals to Rs. 189.5 bn. Loan disbursements during the same period witnessed a 27% rise to Rs. 142.8 bn. While loans to individuals accounted

**Key Figures (Standalone)**

Quarterly Data	2Q'07	1Q'08	2Q'08	YoY%	QoQ%	1H'07	1H'08	YoY%
(Figures in Rs mn, except per share data)								
Net Interest Income	5,331	5,818	6,649	24.7%	14.3%	9,444	12,467	32.0%
Total Net Income	5,426	5,853	6,688	23.2%	14.3%	9,568	12,540	31.1%
Pre-Prov Operating Profit	4,751	5,130	5,944	25.1%	15.9%	8,279	11,075	33.8%
<b>Net Profit</b>	<b>3,680</b>	<b>3,728</b>	<b>6,464</b>	<b>75.6%</b>	<b>73.4%</b>	<b>6,648</b>	<b>10,192</b>	<b>53.3%</b>
Int.expense to int. income (%)	63.2%	68.2%	64.8%	-	-	64.5%	66.4%	-
Cost to total net income (%)	12.4%	12.3%	11.1%	-	-	13.5%	11.7%	-
<b>Per Share Data (Rs.)</b>								
EPS	13.7	13.7	22.8	66.5%	66.2%	24.8	36.6	47.5%
PPP per share	17.7	18.9	21.0	18.6%	11.0%	30.9	39.7	28.7%
Adj. book value per share	205.7	234.2	242.4	17.9%	3.5%	205.7	242.4	17.9%

**Relative Performance**


for 68% of the total loans, corporate bodies received 30% of the total disbursements. The Company succeeded in maintaining a healthy asset quality with a net NPL ratio at 0.84%.

Net interest income increased 65% yoy to Rs. 6.2 bn, led by a strong growth in the loan book and higher return on loans. While the loan portfolio registered a 24% yoy increase to Rs. 634.5 bn, spread of the Company improved to 2.27% on account of the recent capital infusion.

***Sale of Intelenet boosted net profit***

Net profit increased 75.6% yoy to Rs. 6.5 bn, led by profit on sale of investments in Intelenet, coupled with a 65% increase in NII. This was, however, offset by a 140% rise in provisions and tax expenses which increased sharply by 144.2% yoy to Rs. 2.5 bn.

***Insurance business***

The life insurance business of HDFC continued to grow with a 79% growth in total premium in the first half of the financial year. The total sum assured by the Company was Rs. 85 bn, covering 5,00,000 new lives. In terms of effective premium, HDFC Life Insurance now has an 8.3% market share among private insurance companies.

***New partner for General Insurance business***

The general insurance business got a boost by the divestiture of 26% stake to ERGO International of Germany. HDFC will not only be utilising the expertise of the Company, but will also fuel its expansion plans via the sum received post-acquisition. The gross written premium stands at Rs. 2 bn at the end of the second quarter.

***Asset management business***

***Increased its stake in AMC to 60%***

HDFC raised its stake in the mutual fund business by acquiring 9.9% from its partner, Standard Life for a consideration of Rs. 1.8 bn, thus valuing the Company at Rs. 18.4 bn. HDFC, now having a 60% stake in the mutual fund business has assets under management of Rs. 528 bn at the end of September.

*More money through new fund*

### Key Events

#### *The Real Estate Fund*

HDFC has raised around USD 800 mn after closing its first sponsored real estate fund, making it one of the largest international real estate funds in the country. The Company would be using the money raised from this nine year closed-ended fund to invest in residential, commercial, hospitality and other sectors.

### Outlook

*No full stops for HDFC*

HDFC has a strong, diversified business model which, along with high asset quality will sustain the growth momentum. The Company's recent capital infusion, along with divestiture of stake in general insurance business will ensure more funds to fuel growth. HDFC has also increased its stake in the asset management business to utilize the immense opportunities offered by the mutual fund industry. Further, the Company's unmatched expertise in the mortgage business, along with growth seeking businesses like banking and insurance will enable it to continue to tread on a high growth trajectory.

At the current price of Rs. 2,904.35, the stock is trading at a forward P/AB of 7.9 FY08E and 6.8 FY09E (Standalone).

We have valued HDFC on sum-of-the-parts valuation on account of substantial benefits coming from subsidiaries and associate companies. We have arrived at the value of its investments and subsidiaries in the following manner:

Target Price Calculation		
Company	Value	Basis
HDFC - Main Business	2,125	Based on our revised target PB multiple of 4.0x.
HDFC - Bank	507	Based on our target price of Rs.1,850 for HDFC Bank
HDFC - Life & General Insurance	548	18x NBAP multiple with NBAP margin assumed at 20% and general insurance on target PB multiple of 3x
HDFC - Asset Management	123	10% of AUM
All other Subsidiaries	75	
<b>Total</b>	<b>3,378</b>	

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
<b>Income Statement</b>					<b>Key Ratios</b>				
Interest Income	42,655	58,755	74,179	90,621	<b>Per share data (Rs.)</b>				
Interest Expense	24,911	36,668	46,591	58,123	Shares outstanding (mn)	249.6	253.0	271.0	271.0
<b>Net Interest Income</b>	<b>17,744</b>	<b>22,086</b>	<b>27,588</b>	<b>32,498</b>	Basic EPS	50.4	62.8	73.7	88.4
YoY Growth (%)	23.1%	24.5%	24.9%	17.8%	Diluted EPS	48.6	58.4	68.7	82.5
Other Income	129	208	363	618	Book value per share	179.0	219.4	367.3	424.9
<b>Total Net Income</b>	<b>17,873</b>	<b>22,294</b>	<b>27,952</b>	<b>33,116</b>	Adj. book value per share	179.0	219.4	378.8	424.9
YoY Growth (%)	23.2%	24.7%	25.4%	18.5%	<b>Valuation ratios (x)</b>				
Operating Expense	2,150	2,366	2,723	3,175	P/PPP	46.0x	36.4x	30.3x	25.6x
<b>Pre-Provisioning Profit</b>	<b>15,723</b>	<b>19,928</b>	<b>25,229</b>	<b>29,941</b>	P/E	59.7x	49.7x	42.2x	35.2x
YoY Growth (%)	23.7%	26.7%	26.6%	18.7%	P/B	16.2x	13.2x	7.9x	6.8x
Provisions and Contingencies	150	250	350	455	P/ABV	16.2x	13.2x	7.7x	6.8x
<b>Profit Before Tax</b>	<b>15,573</b>	<b>19,678</b>	<b>24,879</b>	<b>29,486</b>	<b>Performance ratio (%)</b>				
Tax	3,000	3,974	5,473	6,192	ROAA	2.6%	2.6%	2.6%	2.5%
<b>Net Profit</b>	<b>12,573</b>	<b>15,704</b>	<b>19,406</b>	<b>23,294</b>	ROAE	30.1%	31.3%	25.0%	21.7%
YoY Growth (%)	21.3%	24.9%	23.6%	20.0%	<b>Balance Sheet ratios (%)</b>				
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to assets	84.3%	86.2%	84.5%	85.8%
Investments	38,763	36,662	65,992	105,587	Investments to assets	7.3%	5.6%	7.9%	10.4%
YoY Growth (%)	23.8%	-5.4%	80.0%	60.0%	Loans to assets	87.5%	87.2%	83.8%	84.1%
Advances	449,901	565,124	706,405	872,410	Net Worth to assets	8.4%	8.5%	11.9%	11.3%
YoY Growth (%)	24.9%	25.6%	25.0%	23.5%	<b>Profitability ratios (%)</b>				
Fixed Assets (Net)	2,473	2,131	2,077	2,037	Avg. yield on earning assets	8.6%	9.7%	9.7%	9.3%
Other Assets	42,844	51,797	61,877	36,191	Avg. Cost of funds	6.0%	7.1%	7.3%	7.5%
<b>Total Assets</b>	<b>533,982</b>	<b>655,713</b>	<b>836,352</b>	<b>1,016,226</b>	Spread	2.6%	2.7%	2.4%	1.9%
Loans	467,213	571,930	700,615	854,750	<b>Operating ratios (%)</b>				
YoY Growth (%)	27.5%	22.4%	22.5%	22.0%	Operating cost to income	12.0%	10.6%	9.7%	9.6%
Other Liabilities & Provisions	22,085	28,269	36,185	46,317	Operating cost to assets	0.4%	0.4%	0.3%	0.3%
<b>Total Liabilities</b>	<b>489,298</b>	<b>600,199</b>	<b>736,799</b>	<b>901,066</b>	<i>Source: Company data, Indiabulls research</i>				
Share Capital	2,496	2,530	2,715	2,715	<i>Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Company</i>				
Reserves & Surplus	42,188	52,984	96,837	112,444					
<b>Total Equity &amp; Liabilities</b>	<b>533,982</b>	<b>655,713</b>	<b>836,352</b>	<b>1,016,226</b>					

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