

HDFC Ltd (HDFC)

₹ 885

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 792 to ₹ 860
EPS (FY14E)	Unchanged
EPS (FY15E)	Introducing at ₹ 45
RATING	Unchanged

Growth, quality intact; margin improves...

HDFC reported a healthy quarter on both the core operating front as well as the balance sheet front with growth, asset quality staying intact. Q4FY13 earnings of ₹ 1555 crore were ~7.7% higher than our estimates largely on account of better-than-expected NII performance (owing to improved NIMs) and healthy other income growth (25% YoY). Traction in loan book, particularly the retail book, remains strong at 25% YoY, not yet reflecting any impact of increased competition from banks. Asset quality remains benign. GNPA's declined by ₹ 25 crore QoQ to ₹ 1199 crore. Full year FY13 PAT increased 17.6% YoY to ₹ 4848 crore. We maintain our standalone estimates of 19% and 20% CAGR in loan and profit over FY13-15E. We maintain HOLD with a revised target price of ₹ 860.

Lower CoF due to drop in wholesale rates help improve margin

HDFC has managed its liabilities profile well. Borrowings via term loans have declined from 29% of the total a year ago to 11% now while the proportion of bonds and CPs has risen to 56% in a falling wholesale rate environment. This has helped it to reduce CoFs further in Q4FY13 and, consequently, improve NIMs. Full year NIM was at 4.2% vs. 9MFY13 NIM of 4.1%. Individual loan book inclusive of loans sold rose sharply by 31% YoY while net of loans sold the book grew 25% to ₹ 111321 crore. The non-individual book also witnessed a healthy rise of 6% QoQ. Other income growth was mainly led by robust fee income growth (47% YoY) and strong dividend income.

Margins stabilise in range, asset quality stable but competition growing

HDFC is growing mainly from the individual portfolio with steady spreads and asset quality QoQ. The bank has maintained its guidance on loan growth at 18-20%, going ahead. However, tough competition from large PSU banks may warrant pricing cuts or some hit on growth in spite of the housing finance pie growing on an overall basis. Adequate provisioning provides comfort against any adverse accretion in NPA.

Maintain HOLD, revise our target price higher

Healthy return ratios (RoE > 20%, RoA ~2.7%) over FY13-15E remain key strengths of the company. We have revised our SOTP based target price higher to ₹ 860 (₹ 792 earlier) as we roll over to FY15E, valuing the standalone lending business at 3.0x FY15E core ABV, giving ₹ 560/share to HDFC and ~₹ 300 for subsidiaries. We maintain our HOLD rating.

Exhibit 1: Financial Performance

₹ Crore	Q4FY13	Q4FY13E	Q4FY12	Q3FY13	YoY Gr(%)	QoQ Gr.(%)
NII	1899.4	1817.9	1680.8	1475.7	13.0	28.7
Non Interest income	338.5	279.7	271.3	253.2	24.8	33.7
Total Income	2237.9	2097.6	1952.1	1728.9	14.6	29.4
PBT	2099.7	1943.8	1824.2	1545.1	15.1	35.9
PAT	1555.2	1442.5	1326.2	1140.1	17.3	36.4

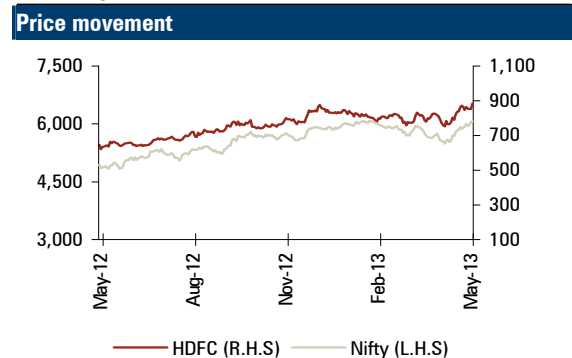
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 860
Target Period	: 12 months
Potential Upside	: -3%

Key Financials				
₹ crore	FY12	FY13	FY14E	FY15E
NII	4,998	5,928	7,280	8,725
PPP	5,746	6,719	8,219	9,789
PAT	4,123	4,848	5,824	6,965

Valuation summary				
	FY12	FY13	FY14E	FY15
Net Profit (₹ crore)	4122.6	4848.4	5823.6	6964.7
EPS (₹)	27.9	31.4	37.7	45.0
Growth (%)	15.8	12.3	20.1	19.6
P/E (x)	31.7	28.2	23.5	19.6
Price / Book (x)	7.1	5.6	5.1	4.5
ABV (Rs)	124.5	157.6	175.2	196.9
Price / Adj Book (x)	7.1	5.6	5.1	4.5
GNPA (%)	0.8	0.7	0.7	0.7
NNPA (%)	0.0	0.0	0.0	0.0
RoNA (%)	2.7	2.7	2.7	2.8
RoE (%)	22.7	22.0	22.1	23.8

Stock data	
Market Capitalisation	₹137809 crore
GNPA (Q4FY13)	₹1199 crore
NNPA (Q4FY13)	Nil
NIM (FY13) (reported)	4.20%
52 week H/L	900/611
Equity capital	₹ 309 crore
Face value	₹ 2
DII Holding (%)	13.2
FII Holding (%)	73.7



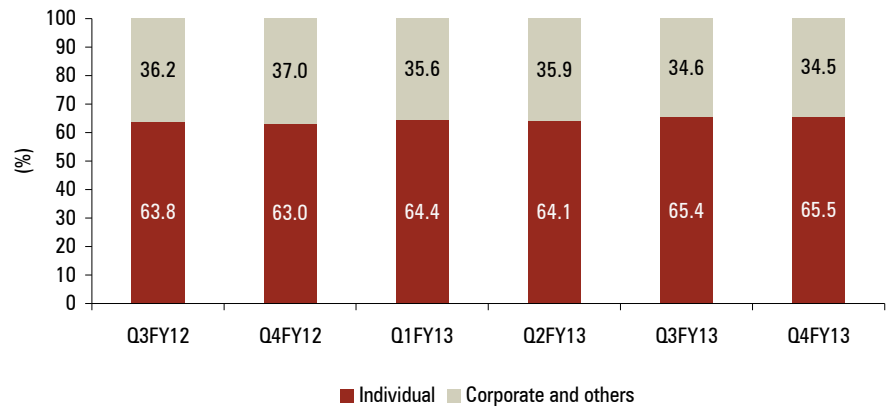
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Exhibit 2: Assumptions

(Year-end March)	FY12	FY13	FY14E	FY15E
Disbursements (% growth)	17.9	16.0	16.0	16.0
Housing loans outstanding (% growth)	20.2	21.1	19.3	19.0
Loan Mix				
-Individual (%)	63.0	65.5	65.4	65.4
-Corporate (%)	35.6	33.5	33.5	33.5
Funding Mix				
-Bonds & Debentures (%)	44.7	56.1	56.0	55.8
-Deposits (%)	26.1	32.7	33.3	33.8
-Term loans (%)	29.3	11.2	10.7	10.4

Source: Company, ICICIdirect.com Research

Exhibit 3: Individual loans maintaining strong traction, corporate book also grows QoQ

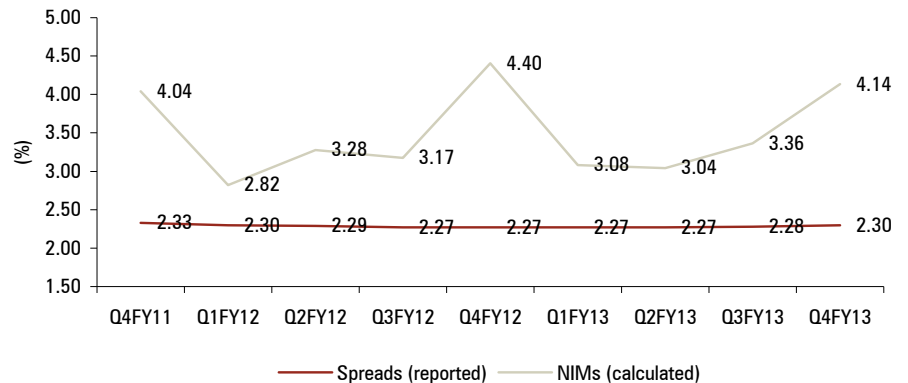


Source: Company, ICICIdirect.com Research

During FY13, 81% of incremental loans were from the individual loan category.

Operating efficiency improved further with C/I ratio of 5.1% in Q4FY13. Calculated NIM improved strongly QoQ to 4.1% from 3.4% owing to a sharp dip of 55 bps in cost of funds (calculated).

Exhibit 4: Margin improvement mainly due to reduction in CoF



Source: Company, ICICIdirect.com Research

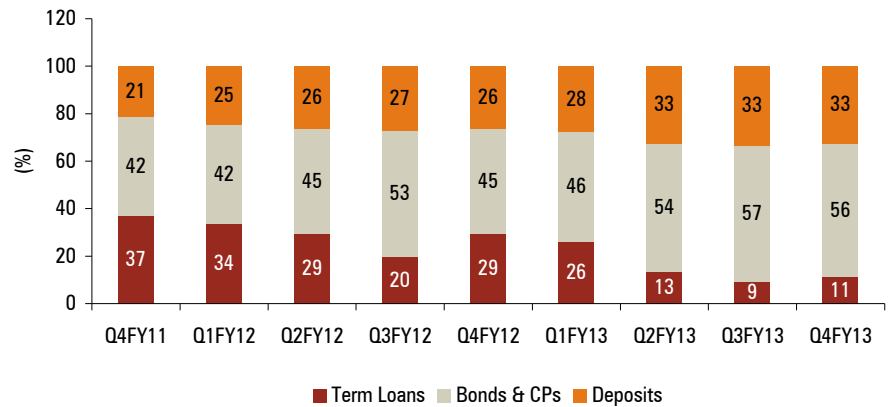
Spreads in individual loans were steady at 1.96% while that in the non individual loan category (corporate loans) improved ~10 bps 2.9% as on Q4FY13.

During Q4FY13, the total loan book (net of loans sold) increased 21% YoY to ₹ 170046 crore while inclusive of loans sold the total book rose 24% YoY. The individual loan book inclusive of loans sold increased 31% YoY (25% YoY excluding loans sold). We have factored in outstanding loan CAGR of 19% over FY13 -15E

Though declining wholesale rates augur well for HDFC with its flexibility in liability management, rising competition may lead to lower yields. Reported NIM is expected to stay at ~4%

HDFC displayed its flexibility in liability management by shedding term loans from banks. Also, the bank increased the proportion of funds raised from bonds and CPs as base rates of banks remained higher than wholesale rates during H2FY13, which are expected to decline further, going forward

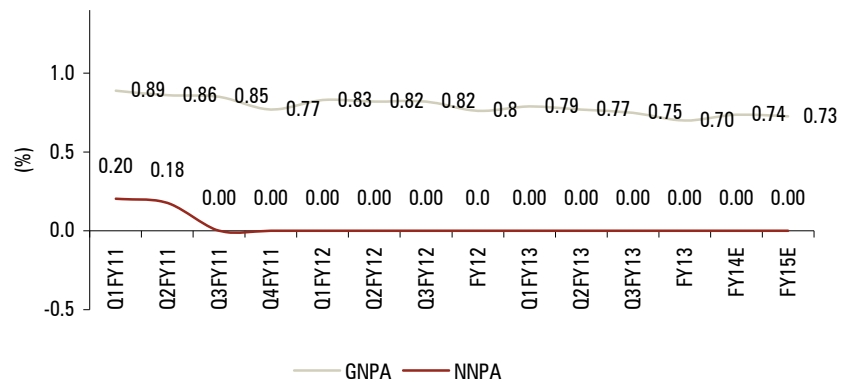
Exhibit 5: Proportion of term loans in borrowing declines to 11% in Q4FY13



Source: Company, ICICIdirect.com Research

Absolute GNPA declined QoQ to ₹ 1199 crore vs. ₹ 1224 crore in Q3FY13 while NNPA continues to be nil as on Q4FY13. Q4FY13 was the 33rd consecutive quarter wherein the percentage of NPA has been lower than the corresponding quarter in the previous year

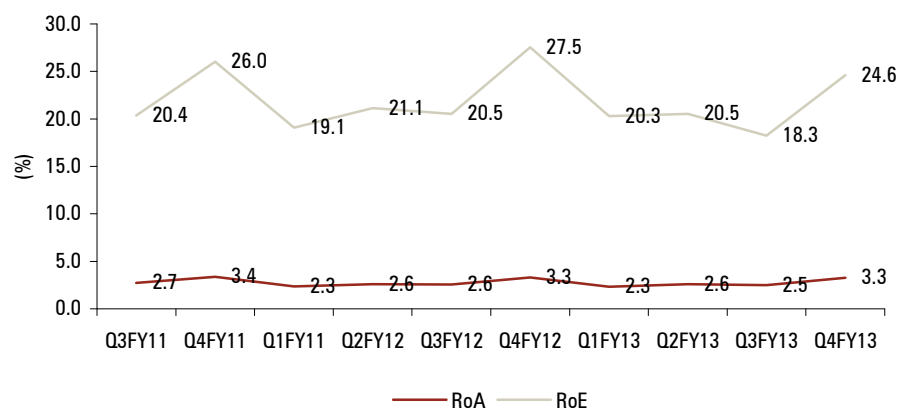
Exhibit 6: Asset quality intact with GNPA ratio improving 5 bps QoQ



Source: Company, ICICIdirect.com Research

GNPA in the individual portfolio stood at 0.58% (0.62% in Q3FY13) while that in the non-individual portfolio stood at 0.91% (flat sequentially). We expect stable asset quality for FY14.

Exhibit 7: Expect return ratios to be healthy with 20% plus RoE, 2.7% RoA over FY13-15E



Source: Company, ICICIdirect.com Research

Consolidated profit grew 22% QoQ to ₹ 2083 crore from ₹ 1706 crore. Full year FY13 consolidated PAT also rose ~22% YoY to ₹ 6640 crore. HDFC Life reported a profit of ₹ 451 crore for the year ended March 31, 2013 as against ₹ 271 crore in the previous year while HDFC AMC reported a PAT of ₹ 319 crore as against ₹ 269.14 crore.

Valuation

Healthy return ratios (RoE > 20%, RoA ~2.7%) over FY13-15E remain key strengths. We have revised our SOTP based target price higher to ₹ 860 (₹ 792 earlier) as we roll over to FY15E, valuing the standalone lending business at 3.0x FY15E core ABV, giving ₹ 560/share to HDFC and ~₹ 300 for subsidiaries. We maintain our **HOLD** rating on the stock.

Exhibit 8: Valuation

Business Segment	FY15E ₹/share
HDFC Ltd	560
HDFC Bank	200
HDFC AMC	28
HDFC Std. Life	48
HDFC ERGO	2
GRUH Finance	18
Unrealised Gains	4
Value per share of HDFC	861

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	₹ Crore			
(Year-end March)	FY12	FY13	FY14E	FY15E
Interest Earned	16155.1	19818.4	21064.7	24417.2
Interest Expended	11156.8	13890.8	13784.7	15692.5
Net Interest Income	4,998.3	5927.5	7280.0	8724.7
% growth	17.7	18.6	22.8	19.8
Non Interest Income	1199.0	1329.3	1501.0	1717.2
Net Income	6,197.3	7256.8	8781.1	10441.9
Employee cost	205.8	246.8	276.7	315.3
Other operating Exp.	246.1	291.4	285.8	338.1
Operating Income	5746.0	6718.6	8218.6	9788.6
Provisions	80.0	144.5	219.2	221.7
PBT	5666.0	6574.0	7999.4	9566.9
Taxes	1543.0	1725.7	2175.8	2602.2
Net Profit	4,122.6	4848.4	5823.6	6964.7
% growth	16.6	17.6	20.1	19.6
EPS (₹)	27.9	31.4	37.7	45.0

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY12	FY13	FY14E	FY15E
Valuation				
No. of Equity Shares	147.7	154.6	154.6	154.6
EPS (Rs.)	27.9	31.4	37.7	45.0
BV (Rs.)	124.5	157.6	175.2	196.9
BV-ADJ (Rs.)	124.5	157.6	175.2	196.9
P/E	31.7	28.2	23.5	19.6
P/BV	7.1	5.6	5.1	4.5
P/adj.BV	7.1	5.6	5.1	4.5
Yields & Margins				
Yield on interest earning assets	12.2	12.4	11.0	10.8
Avg. cost on funds	8.8	9.3	7.9	7.6
Net Interest Margins	3.8	3.7	3.8	3.8
Spreads	3.4	3.1	3.1	3.2
Adjusted spreads *	2.9	2.5	2.6	2.7
Quality and Efficiency				
Cost / Total net income	7.3	7.4	6.4	6.3
GNPA%	0.8	0.7	0.7	0.7
NNPA%	0.0	0.0	0.0	0.0
RONW (%)	22.7	22.0	22.1	23.8
ROA (%)	2.7	2.7	2.7	2.8

Source: Company, ICICIdirect.com Research, *Adjusted spreads is after deducting redemption premium on zero coupon bonds and interest earned on loans sold

Balance sheet

	₹ Crore			
(Year-end March)	FY12	FY13	FY14E	FY15E
Sources of Funds				
Capital	295.4	309.3	309.3	309.3
Reserves and Surplus	18722.2	24689.8	27287.7	30536.0
Networth	19017.6	24999.1	27597.0	30845.3
Secured Loans	95927.2	94954.0	112166.7	132911.6
Unsecured Loans	43200.2	63874.0	76775.7	92314.1
Other Liabilities & Provisions	9375.0	11702.7	12702.2	13855.5
Total	167520.0	195529.8	229241.6	269926.5
Applications of Funds				
Fixed Assets	234.0	237.9	632.4	640.1
Investments	12207.0	13614.1	12654.5	13462.9
Advances	140421.7	170045.2	202919.2	241473.8
Other Assets	14657.3	11632.6	13035.5	14349.8
Total	167520.0	195529.8	229241.6	269926.5

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Total assets	20.3	16.7	17.2	17.7
Advances	20.2	21.1	19.3	19.0
Borrowings	20.9	14.2	19.0	19.2
Total Income	34.8	21.9	6.7	15.8
Net interest income	17.7	18.6	22.8	19.8
Operating expenses	18.6	19.1	4.5	16.1
Operating profit (excl trading)	25.5	22.7	28.4	23.4
Net profit	16.6	17.6	20.1	19.6
Book value	6.2	32.5	11.2	12.4
EPS	15.8	12.3	20.1	19.6

Source: Company, ICICIdirect.com Research

Company Description

Housing Development Finance Corporation (HDFC) is the market leader in the domestic housing finance market with ~17% market share and loan book of ₹ 17046 crore as on FY13. It enjoys spreads of 2.2-2.3% and margins of ~4%. The corporation's main business is to provide loans for the purchase or construction of residential houses. The company has a pan-India distribution network of 331 outlets, which include 81 offices of HDFC's distribution company, HDFC Sales Pvt Ltd (HSPL). In addition, HDFC covers over 90 locations through its outreach programmes. Distribution channels form an integral part of the distribution network with home loans being distributed through HSPL, HDFC Bank and other third party selling associates. To cater to non-resident Indians, HDFC has offices in London, Dubai and Singapore and service associates in Kuwait, Oman, Qatar, Sharjah, Abu Dhabi and Saudi Arabia – Al Khobar, Jeddah and Riyadh. Its major subsidiaries include HDFC Bank, Gruh Finance, HDFC AMC, HDFC Standard Life and HDFC Ergo.

Exhibit 9: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
12-Jul-12	Q1FY13 Result Update	676	719	Hold
8-Oct-12	Q2FY13 Result Preview	750	719	Hold
23-Oct-12	Q2FY13 Result Update	751	792	Hold
8-Jan-13	Q3FY13 Result Preview	838	792	Hold
21-Jan-13	Q3FY13 Result Update	814	792	Hold
5-Apr-13	Q4FY13 Result Preview	792	792	Hold

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
IDFC (IDFC)	155	173	Buy	23,440	12.1	13.7	15.6	12.8	11.3	9.9	1.8	1.6	1.4	2.8	2.7	2.7	14.1	14.2	14.4
LIC Housing Finance (LICHF)	252	290	Buy	12,702	20.3	25.6	33.2	12.4	9.8	7.6	2.0	1.8	1.5	0.4	0.4	0.4	1.4	1.4	1.6
Reliance Capital (RELCAP)	379	UR	UR	9,316	27.6	27.4	29.1	13.7	13.8	13.0	0.9	0.9	0.8	2.0	1.8	1.7	5.6	5.4	5.5
HDFC (HDFC)	885	860	Hold	136,117	31.4	37.7	45.0	28.2	23.5	19.6	5.6	5.1	4.5	2.7	2.7	2.8	22.0	22.1	23.8

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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