

HDFC (Housing Development Finance Corporation)

4Q13 results: strong growth in retail segment

HDFC reported steady in-line 4Q results – PAT of Rs 15.6bn, up 17% y/y. Loan growth was strong at 21% y/y led primarily by the retail book growing at 25% y/y. HDFC has maintained growth despite competition, primarily because of its improved distribution and focus on smaller towns. Spreads were strong, mainly in the wholesale segment, due to a decline in the short-term borrowing rates from February onwards. We raise estimates by 1-2% from lower funding costs going forward - our PT is raised by 6% to Rs925 and we maintain OW.

- **Strong loan growth.** The retail loan book maintained its momentum of the last few quarters at 25% y/y. This is despite heightened competition from banks (especially SBI) - we believe HDFC's strong growth is sustained by its focus on smaller towns and lower ticket-sizes, where the demand tends to be less cyclical. Improved distribution, especially with HDFC Bank's wider branch network should also have helped. The wholesale book growth was relatively muted at 13% - in line with the management decision to focus more strongly on retail.
- **Margins improve.** Reported spreads improved q/q partly from seasonal factors (declining NPLs in 4Q drive interest writebacks) and partly due to declining short-term borrowing rates. The lower rates have sustained and should more than offset loan pricing pressures – we think FY14 margins could improve, driven by a better funding environment. The funding mix continues to move towards bonds, despite a small year-end jump in bank borrowings.

Long-term fundamentals intact. HDFC has faced some pressures in recent years from higher general provisioning and the abolition of prepayment penalties - but that has been largely offset by the deeper distribution and, in the recent past, an improved funding environment. We expect ROEs to continuously rise from here through to the mid-20s as leverage improves - the rich valuations are supported by that. Our PT increase is driven by an improved growth outlook, given the strength in the retail business.

Housing Development Finance Corporation (HDFC) (Reuters: HDFC.BO, Bloomberg: HDFC IN)

Rs in mn, year-end Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Operating Profit (Rs mn)	45,772	54,754	64,722	80,279	98,077
Net Profit (Rs mn)	35,350	41,226	48,498	58,541	71,118
Cash EPS (Rs)	24.10	27.91	31.66	38.22	46.43
Fully Diluted EPS (Rs)	21.65	26.08	29.90	36.46	44.67
DPS (Rs)	9.00	11.00	12.85	15.52	18.85
EPS growth (%)	22.4%	15.8%	13.4%	20.7%	21.5%
ROE	19.5%	21.2%	20.7%	20.7%	22.2%
P/E (x)	36.7	31.7	28.0	23.2	19.1
BVPS (Rs)	118.05	128.76	164.42	187.12	214.70
P/BV (x)	7.5	6.9	5.4	4.7	4.1
Dividend Yield	1.0%	1.2%	1.5%	1.8%	2.1%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Overweight

HDFC.BO, HDFC IN

Price: Rs885.00

▲ **Price Target: Rs925.00**
Previous: Rs870.00

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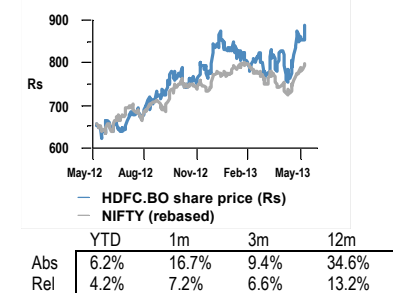
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Price Performance



Company Data

52-week Range (Rs)	895.00-610.50
Market Cap (Rs mn)	1,307,101
Market Cap (\$ mn)	24,141
Shares O/S (mn)	1,477
Fiscal Year End	Mar
Price (Rs)	885.00
Date Of Price	08 May 13
3M - Avg daily value (Rs mn)	2,149.24
3M - Avg daily value (\$ mn)	39.7
3M - Avg daily volume (mn)	2.67
NIFTY	6069.30
Exchange Rate	54.14

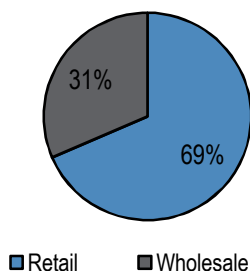
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Company Description

HDFC is the largest mortgage finance company in India with a loan book of ~US\$27bn with average incremental loan size of ~Rs1.9mn. HDFC also has stake in HDFC Bank (23%) and investments in Life Insurance (HDFC Standard Life - 72%), General Insurance (HDFC Ergo - 74%) and HDFC Asset management (60%).

Loan Break up



Source: Company

EPS: J.P. Morgan vs consensus

	J. P. Morgan		Consensus
FY14E	38.2		36.8
FY15E	46.4		43.0

Source: Bloomberg, J.P.Morgan estimates

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
NIMs		
Impact of each 10bps	2.7%	2.7%
Cost to Income		
Impact of each 100bps	1.1%	1.1%
Provisions/Assets		
Impact of each 10bps	0.0%	2.7%

Source: J.P.Morgan estimates

Price target and valuation analysis

Our Mar-14 PT for HDFC of Rs 925 is based on 2 stage Gordon growth model implying 3.5x FY14e book and Rs258/share valuation for the subsidiaries. Our valuations factor in Cost of Equity at 14.0%, Normalised ROE of ~27% and terminal growth of 5%.

HDFC Bank	195
HDFC Standard Life	49
HDFC Asset Management	14
Mortgage Business	659
Fair Value	917
Mar-14 PT	925

Normalised ROE

NIM/Assets	3.7%
Non- interest income/assets	0.4%
Revenues/Assets	4.1%
Costs/Assets	-0.3%
Provisions/Assets	0.0%
Taxes/Assets	-1.1%
ROA	2.7%
ROE	26.9%

Key risk to our Overweight rating and PT is slowdown in the real estate market impacting loan growth.

Table 1: 4Q13 results table

P&L (Rs m)	4Q12	3Q13	4Q13	YoY	QoQ
NII	18,049	15,841	20,322	13%	28%
Other income	681	475	1,008	48%	112%
Net revenues	18,730	16,316	21,330	14%	31%
Opex	1,105	1,439	1,132	2%	-21%
Op. profit	17,626	14,878	20,198	15%	36%
Inv profit	791	963	1,049	33%	9%
PBT	18,241	15,441	20,997	15%	36%
Tax	4,980	4,050	5,445	9%	34%
PAT	13,261	11,391	15,552	17%	37%
NIM	4.83%	3.66%	4.53%	-0.31%	0.86%
Spreads	3.87%	2.31%	3.24%	-0.63%	0.93%
Gross NPL (%)	0.74%	0.75%	0.70%	0.0%	-0.1%
Cost-income	5.9%	8.8%	5.3%	-0.6%	-3.5%
ROE	27.5%	19.8%	24.6%	-2.9%	4.8%
ROA	3.55%	2.63%	3.46%	-0.09%	0.83%
Balance sheet (Rs bn)					
Shareholders' Equity	190	255	250	31%	-2%
Borrowings	1,391	1,489	1,588	14%	7%
Term Loans	407	136	178	-56%	31%
Bonds	621	855	891	43%	4%
Deposits	363	498	519	43%	4%
Loans (on-book)	1,409	1,609	1,700	21%	6%
Retail	888	1,052	1,113	25%	6%
Wholesale	521	557	587	13%	5%
Total loans sold	146	160	170	17%	6%
AUM	1,554	1,770	1,870	20%	6%
Retail AUM	1,033	1,213	1,283	24%	6%

Source: Company reports and J.P. Morgan

JPM Q-Profile

Housing Development Finance Corp. Ltd. (INDIA / Financials)

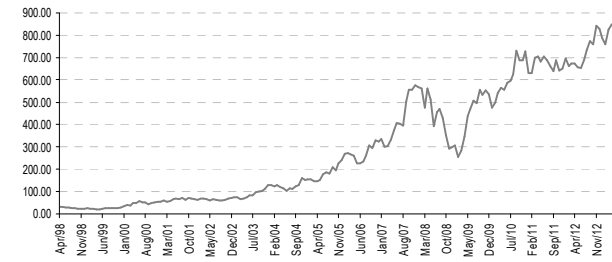
As Of: 02-May-2013

Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

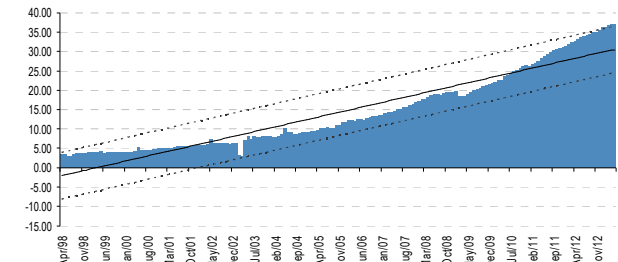
Local Share Price

Current: 847.20



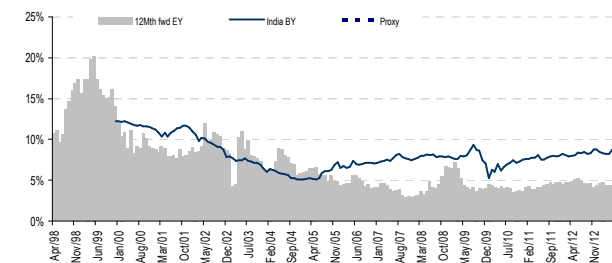
12 Mth Forward EPS

Current: 37.07



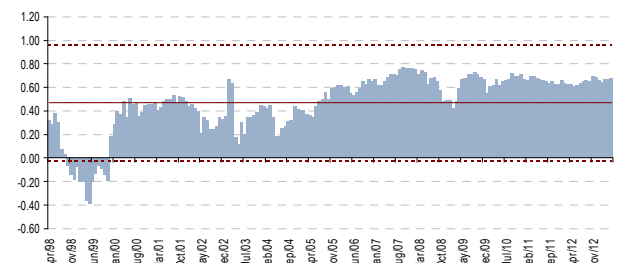
Earnings Yield (& local bond Yield)

Current: 4%



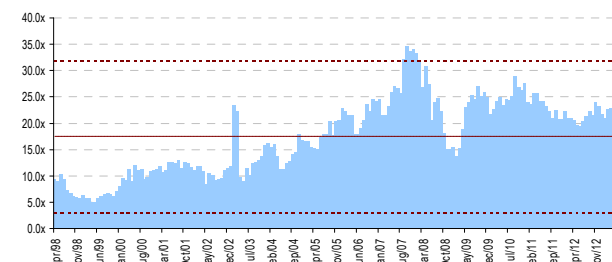
Implied Value Of Growth*

Current: 68.24%



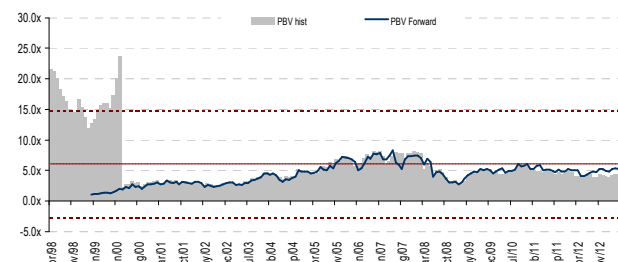
PE (1Yr Forward)

Current: 22.9x



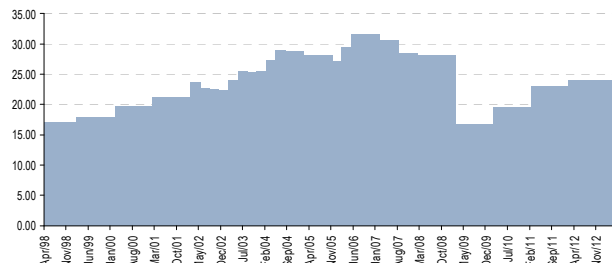
Price/Book Value

Current: 4.3x



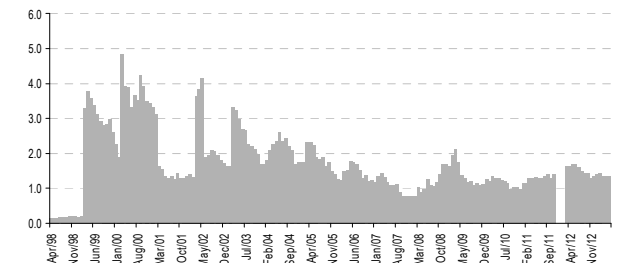
ROE (Trailing)

Current: 23.95



Dividend Yield (Trailing)

Current: 1.34



Summary

Housing Development Finance Corp. Ltd.		SEDOL		6171900		As Of:		2-May-13			
INDIA						Local Price:		847.20			
Financials						EPS:		37.07			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	22.85x	4.95	34.61	17.92	17.46	31.80	3.12	-78%	51%	-22%	-24%
P/BV (Trailing)	4.29x	2.17	23.69	4.58	6.08	14.83	-2.67	-50%	452%	7%	42%
Dividend Yield (Trailing)	1.34	0.00	4.85	1.45	1.71	3.58	-0.16	-100%	261%	8%	27%
ROE (Trailing)	23.95	16.65	31.61	23.00	23.51	32.69	14.33	-30%	32%	-4%	-2%
Implied Value of Growth	68.2%	-0.39	0.77	0.52	0.47	0.97	-0.02	-157%	13%	-24%	-31%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

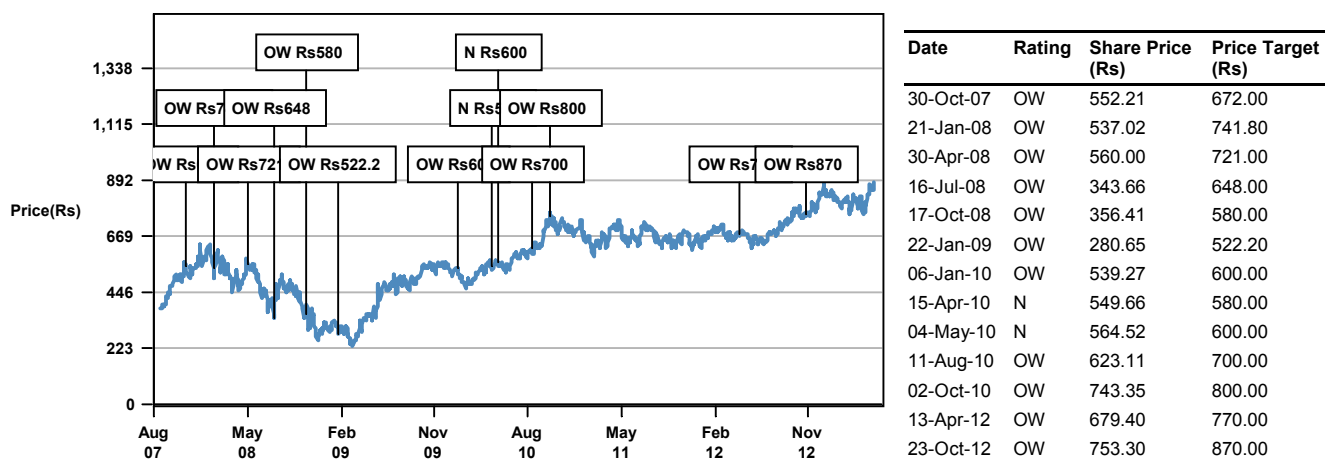
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HDFC (Housing Development Finance Corporation) (HDFC.BO, HDFC IN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Oct 30, 2007.

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