

HDFC Ltd. (HDFC IN)

Underlying Profitability Improving

Key Takeaway

HDFC reported NII growth of 12%, supported by fee income (46%), trading profit (33%) and dividends (32%). Impact of below line adjustment for ZCBs has come off and will trend lower, resulting in higher adjusted PAT growth than reported numbers. Subsidiaries are profitable and growing at a pace faster than the parent. It's all guns blazing for now. Raise PT to Rs865, but retain at Hold given steep headline valuation of 4.9x Q1FY15 book.

Adjusted PAT growth better. HDFC has not made any below line adjustment for provisions (which in itself was not necessarily bad), and the impact of ZCBs is incrementally diminishing as outstanding ZCBs remains flat at Rs50bn and base profitability is growing at a steady 18-19%. As a result, adjusted NII growth for Q4FY13/FY13 was 13.6%/20.7%, while that for adjusted PAT was 26.6%/34.1% respectively. We expect adjusted PAT to grow at a higher pace (20.6% and 19.3% in FY14-15) than reported PAT growth expectation of 18.2% and 17.5% in FY14-15 respectively.

Subsidiaries growing at a faster pace, no recapitalisation pressure. While the standalone entity reported FY13 PAT growth of 17.6%, consolidated PAT was up 21.6% (partly driven by HDFC Life, which had reported two quarters of losses in FY12, hence a lower base). MCEV for HDFC Life is up 22% in FY13 and is driving valuations higher. Management also confirmed that at the current pace of growth both its life and general insurance business will remain profitable and won't require capital infusions over next twelve months.

Share of individual loans rising, and so is provision buffer. The share of individual loans is at 65.5% from ~62% few quarters back, reversing a falling trend in the last 4-5 years, an area that has been repeatedly questioned, but is being addressed now. Separately, HDFC carries 16bps of free provision (exceeding regulatory requirements) and will add another 17bps in Q1FY14 as it reverses the provisions for dual rate home loans. Management has guided to keep these as excess provisions and not route it back to equity.

Valuation/Risks

HDFC trades at 4.9x Q1FY15 book (standalone / headline) and 24.5x 12 month rolling earnings. These are at a premium to its 5 year average multiple of 4.5x book and 23.2x earnings respectively. That said, in a tough operating environment, money will tend to flow towards quality stocks with good management at the helm, as reflected in our Hold recommendation. **Upside risk:** Fall in real-estate prices and higher volumes. **Downside risk:** Soft wage growth, weak volumes and rising delinquencies.

INR	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	
BV/Share	159.25	162.00	171.98	175.00	186.34	190.20	--	--
P/B		5.5x		5.1x		4.7x		
EPS								
FY Mar	30.38	31.45	34.91	35.59	38.99	40.19	--	--
FY P/E		28.1x		24.9x		22.0x		

HOLD

Price target INR865.00
(from INR815.00)
Price INR885.00

Financial Summary

Net Debt (MM): NA

Market Data

52 Week Range: INR895.00 - INR610.50

Market Cap. (MM): INR1,364,085.9

Shares Out. (MM): 1,541.3

Float (MM): 1,455.5

Avg. Daily Vol.: 2,665,006

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Price Performance

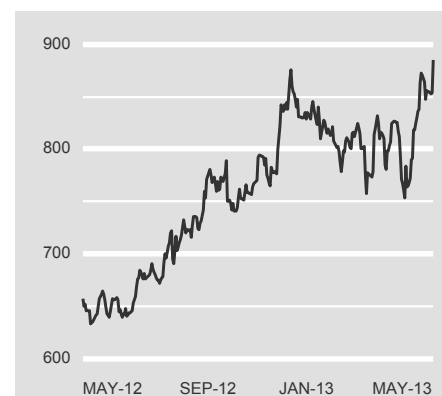


Exhibit 1: Blended valuation

Methodology	Weight	Valuation
BVPS reported (Q1FY15E)		182.3
P/BV multiple		4.78x
Value of reported book per share	33%	290
Earnings per share (12m to Q1FY15E)		36.6
P/E multiple		23.00x
Value per share	33%	281
SOTP	33%	291
Blended value per share (rounded)		865

Source: Jefferies

Marginal tweak in estimates

We tweaked our estimates mainly to factor in improvement in NIMs for 2/5bps over the next two years, offset by a softer non-interest income mostly driven by lower investment related gains. We also marginally lowered the expense ratio to factor in the year end seasonality and largely left credit costs where they were around 7-8bps over next two years. Our adjusted net profit forecast is down, owing to tweak in the outstanding ZCBs remaining around Rs48-50bn over the course to FY14, compared to our earlier estimate of a lower number. On a fully adjusted basis, we expect PAT growth to be 20.6% for FY14 and 19.3% in FY15 respectively, higher than the unadjusted PAT growth expected at 18.2% and 17.5% for FY14-15 respectively.

Exhibit 2: Income statement (Rs mn)

Profit & Loss	New		Old		% change	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net interest income	75,494	90,062	75,003	87,922	0.7%	2.4%
Non interest income	10,830	10,954	10,979	11,522	-1.4%	-4.9%
Gross revenue	86,323	101,016	85,982	99,444	0.4%	1.6%
Operating expense	(6,367)	(7,305)	(6,669)	(7,814)	-4.5%	-6.5%
Pre provision profit	79,957	93,711	79,313	91,630	0.8%	2.3%
Loan loss charges	(1,614)	(1,764)	(1,839)	(1,733)	-12.2%	1.8%
Profit before tax	78,343	91,948	77,474	89,897	1.1%	2.3%
Tax	(21,051)	(24,629)	(20,988)	(24,221)	0.3%	1.7%
Net profit	57,292	67,319	56,486	65,676	1.4%	2.5%
Net profit (adj)	53,193	63,479	53,534	62,954	-0.6%	0.8%

Source: Jefferies estimates

Exhibit 3: Key ratios

Key ratios	FY14E	FY15E	FY13E	FY14E	FY14E	FY15E
EPS diluted (Rs)	35.59	40.19	34.91	38.99	2.0%	3.1%
BVPS (reported)	175.04	190.16	171.98	186.34	1.8%	2.1%
BVPS (adj for unrealised gains)	384.89	411.99	382.63	388.77	0.6%	6.0%
RoAA	2.63%	2.58%	2.58%	2.49%	0.05%	0.09%
RoAE	20.65%	21.44%	20.43%	21.11%	0.22%	0.33%
RoAE (core mortgage)	27.38%	27.50%	27.61%	27.54%	-0.23%	-0.03%
NIM (reported)	4.27%	4.25%	4.25%	4.20%	0.02%	0.05%
Spread	2.28%	2.30%	2.27%	2.28%	0.01%	0.02%
Expense ratio	7.38%	7.23%	7.76%	7.86%	-0.38%	-0.63%
Provision/Avg IEAs	0.08%	0.07%	0.09%	0.07%	-0.01%	0.00%
Gross NPA ratio	0.70%	0.70%	0.70%	0.70%	0.00%	0.00%
Tier 1 ratio	12.77%	11.94%	12.50%	11.44%	0.27%	0.50%
CRAR ratio	15.53%	14.89%	15.46%	14.50%	0.07%	0.39%

Source: Jefferies estimates

Standalone earnings – summary

The hallmark of the earnings is the steady growth in loan book (24.4% grossing up for sell down), cost of fund management, and no incremental delinquency in either the individual or corporate segment (58 bps and 91bps respectively). There was no below the line adjustment for provisions in FY13, and even as the dual-rate home loans will see a reversal of provisions to the extent of Rs2.7bn in Q1FY14, management indicated that these will continue to remain as free provisions and will not be routed through the income statement in to the shareholders' equity.

Typical year end seasonality of better recoveries was pronounced, while funding costs were managed by moving into term loans. Credit cost was back to 6bps, again related to seasonality reflecting in lower provisioning. The implication of below line adjustment for ZCB is gradually diminishing, while there was no below line provision adjustment for the current quarter or year. Thus the reported NII is overstated by 11%/5.1% for FY13/Q4FY13 compared to 15.4%/6.7% for FY12/Q4FY12. Thus the adjusted PAT is overstated by 9.9% for FY13, compared to 25.4% in FY12, resulting in 34% growth in adjusted PAT for FY13 and 26.6% for Q4FY13.

Exhibit 4: Income statement (Rs mn)

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY	Q3FY13	QoQ
Interest earned	53,906	52,579	2.5%	46,823	15.1%	50,604	6.5%
Interest on loans	50,985	NA	NA	44,594	14.3%	48,433	5.3%
Other Interest	2,407	NA	NA	1,604	50.1%	1,539	56.4%
Surplus from deployment in CMS of MFs	514	NA	NA	626	-17.9%	632	-18.8%
Interest Expended	34,398	34,874	-1.4%	29,389	17.0%	35,215	-2.3%
Interest on loans	2,851	4,143	-31.2%	7,269	-60.8%	3,160	-9.8%
Interest on deposits	12,167	12,743	-4.5%	8,502	43.1%	12,320	-1.2%
Interest on bonds and debentures	19,155	17,849	7.3%	13,457	42.3%	19,508	-1.8%
Other charges	224	139	61.4%	161	39.7%	227	-1.0%
Net interest income	19,508	17,705	10.2%	17,434	11.9%	15,389	26.8%
o/w one-time item	-	-	NA	-	-	-	NA
Net interest income (adjusted)	19,508	17,705	10.2%	17,434	11.9%	15,389	26.8%
Non interest income	2,871	2,937	-2.2%	2,087	37.6%	1,900	51.1%
o/w core fee	879	738	19.1%	600	46.5%	391	124.7%
o/w trading profit (loss)	1,049	1,300	-19.3%	791	32.7%	963	8.9%
o/w dividend	814	819	-0.5%	615	32.4%	452	80.2%
o/w one-time item	-	-	NA	-	-	-	NA
Non interest income (adjusted)	2,871	2,937	-2.2%	2,087	37.6%	1,900	51.1%
Total Revenue	22,379	20,642	8.4%	19,521	14.6%	17,290	29.4%
Total Revenue (adjusted)	22,379	20,642	8.4%	19,521	14.6%	17,290	29.4%
Total Revenue (adjusted) ex. trading profits	21,330	19,342	10.3%	18,730	13.9%	16,326	30.6%
Operating expense	1,132	1,073	5.4%	1,030	9.9%	1,439	-21.3%
Employees cost	590	479	23.2%	497	18.9%	642	-8.0%
Other operating expenses	541	594	-8.9%	533	1.5%	797	-32.0%
o/w one-time item	-	-	NA	-	-	-	NA
Operating expense (adjusted)	1,132	1,073	5.4%	1,030	9.9%	1,439	-21.3%
Pre-provision profit	21,247	19,568	8.6%	18,491	14.9%	15,851	34.0%
Pre-provision profit (adjusted)	21,247	19,568	8.6%	18,491	14.9%	15,851	34.0%
Pre-provision profit (adjusted) ex. trading profits	20,198	18,268	10.6%	17,701	14.1%	14,888	35.7%
Total provisions and contingencies (Net)	250	407	-38.6%	250	0.0%	400	-37.5%
Exceptional items	-	-	NA	-	-	-	NA
Profit/(Loss) before tax	20,997	19,161	9.6%	18,241	15.1%	15,451	35.9%
Tax expense	5,445	5,150	5.7%	4,980	9.3%	4,050	34.4%
Net Profit after Tax	15,552	14,011	11.0%	13,261	17.3%	11,401	36.4%
Extraordinary items (net of tax)	-	-	NA	-	-	-	NA
Net Profit incl. extraordinary items	15,552	14,011	11.0%	13,261	17.3%	11,401	36.4%
Net profit (operating basis)*	14,775	13,060	13.1%	12,687	16.5%	10,690	38.2%
Net profit (adjusted)^A	14,727	13,235	11.3%	11,636	26.6%	10,532	39.8%

Source: Jefferies estimates, company data

Exhibit 5: Per share data

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY	Q3FY13	QoQ
Reported EPS (diluted basis)	9.95	7.60	30.9%	8.84	12.6%	7.29	36.5%
Diluted EPS (operating basis)*	9.45	7.09	33.4%	8.46	11.8%	6.84	38.3%
Book value per share (calculated)	160	133.4	19.9%	127	26.2%	163	-2.1%
Book value per share (adjusted)	159.9	133.4	19.9%	126.8	26.2%	163.4	-2.1%
Diluted shares outstanding (mn)	1,563	1,843	-15.2%	1,500	4.2%	1,564	-0.1%

Source: Jefferies estimates, company data

Improvement in spreads and profitability in the quarter, some of it is seasonal

Exhibit 6: Profitability and other metrics

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY (bps)	Q3FY13	QoQ (bps)
ROA	3.28%	2.52%	75.7	3.30%	-1.9	2.50%	77.7
ROE	24.61%	19.14%	547.1	27.53%	-291.2	18.25%	636.3
NIM	4.54%	4.32%	22.1	4.40%	14.0	4.10%	44.0
Spread	2.4%	2.29%	7.3	2.3%	9.0	2.3%	6.0
Non-interest income as % of revenues	12.6%	14.2%	-139.7	10.7%	213.9	11.0%	183.9
Expense ratio	5.1%	5.2%	-14.3	5.3%	-21.7	8.3%	-326.3
Expense ratio (core, ex treasury)	5.3%	5.5%	-24.4	5.5%	-19.1	8.8%	-350.5
Credit cost (all inclusive) as % of average loans (bps)	6.1	9.8	-3.8	7.1	-1.1	10.2	-4.1
Tax Rate - effective	25.9%	26.9%	-94.5	27.3%	-136.8	26.2%	-28.0
Advance / Deposit ratio	326.5%	319.6%	696.6	386.9%	-6,039.5	322.4%	412.3

Source: Jefferies estimates, company data

Asset quality was under check at 70bps of gross NPA. HDFC continues to carry 16bps as excess provision and to this we expect another 17bps to get added in Q1FY14 as provisions associated with dual rate home loan get released

Exhibit 7: Credit quality

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY	Q3FY13	QoQ
Absolute gross NPA (Rs mn)	11,990	12,698	-5.6%	10,690	12.2%	12,240	-2.0%
Absolute net NPA (Rs mn)	7,237	7,217	0.3%	6,161	17.5%	7,166	1.0%
Gross NPA (%)	0.70%	0.74%	-0.7%	0.74%	-	0.75%	-
Net NPA (%)	0.00%	0.00%	-	0.00%	-	0.00%	-
Provision coverage (incl. written off accounts) (%)	39.64%	43.17%	-	42.37%	-	41.46%	-
Provision coverage (%)	39.64%	43.17%	-	42.37%	-	41.46%	-

Source: Jefferies estimates, company data

No pressure on capital

Exhibit 8: Capital and leverage

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY	Q3FY13	QoQ
Total Shareholders Equity to Assets	12.8%	12.5%		11.4%		13.9%	
Tier 1 (%)	13.80%	13.48%		11.70%		14.90%	
CRAR (%)	16.20%	16.15%		14.60%		17.50%	

Source: Jefferies estimates, company data

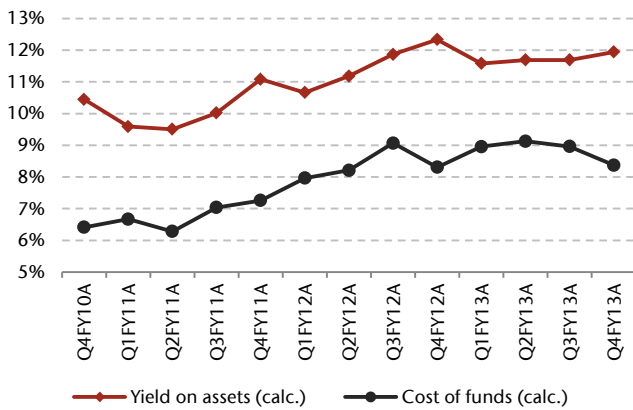
Loan growth continues to be strong even as managing the balance sheet funding is well evident with a movement towards term loans

Exhibit 9: Balance sheet (Rs bn)

Particulars	Q4FY13	Q4FY13E	variance	Q4FY12	YoY	Q3FY13	QoQ
Total Assets (reported)	1,955	1,966	-0.5%	1,675	16.7%	1,838	6.4%
Net worth (reported)	250	246	1.7%	190	31.5%	255	-2.1%
Loans & advances	1,696	1,716	-1.2%	1,404	20.8%	1,604	5.7%
Sell down in last 12 months	52	56	-7.0%	50	4.0%	53	-1.7%
Loans & advances (gross of sell down)	1,747	1,772	-1.4%	1,404	24.4%		
Risk weighted assets	2,122	2,135	-0.6%	1,844	15.1%	1,996	6.3%
Funding	1,588	1,534	3.5%	1,391	14.2%	1,489	6.7%
Term loans	178	307	-41.9%	407	-56.2%	136	30.7%
Deposits	519	537	-3.3%	363	43.1%	498	4.4%
Bonds, CPs, debentures	891	690	29.0%	621	43.3%	855	4.2%

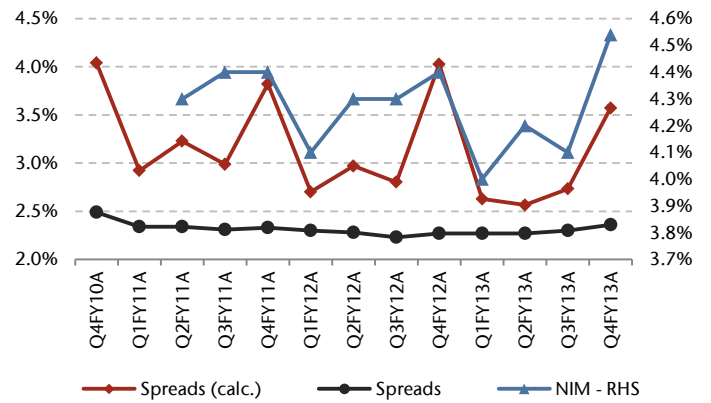
Source: Jefferies estimates, company data

Exhibit 10: Spreads benefited from lower cost of funds ...



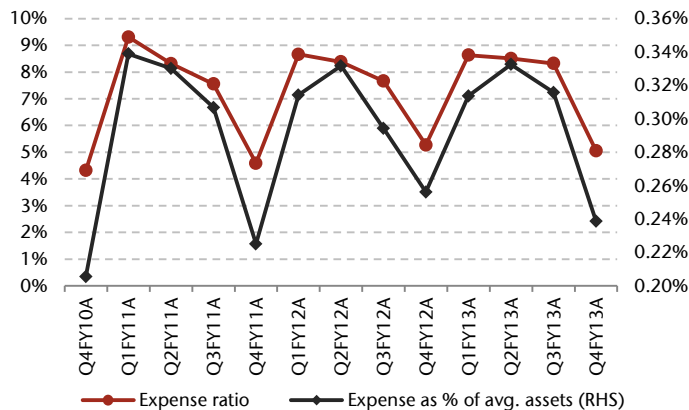
Source: Jefferies, company data

Exhibit 11: ... helped push up NIMs for the quarter as well



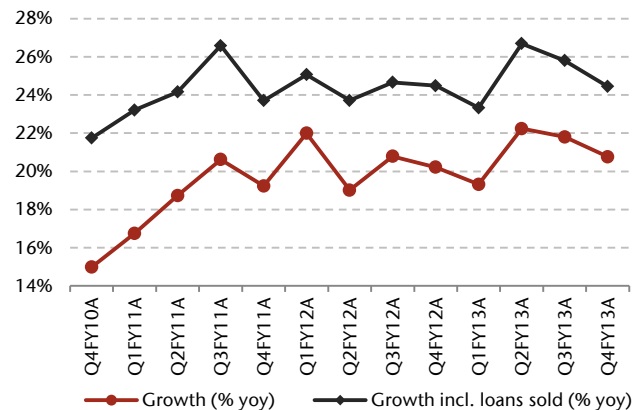
Source: Jefferies, company data

Exhibit 12: Expense ratio saw seasonal improvement



Source: Jefferies, company data

Exhibit 13: Loan growth continues to be healthy



Source: Jefferies, company data

Exhibit 14: Share of individual loan saw 10bps improvement over previous quarter and is a positive trend (Rs bn)

Particulars	Q4FY13A	% share	% yoy	% qoq	Q4FY12A	% share	Q3FY13A	% share
AuM	1700.46	100.0%	20.7%	5.7%	1408.75	100.0%	1609.41	100.0%
Individual	1113.21	65.5%	25.4%	5.8%	887.78	63.0%	1052.37	65.4%
Corporate	569.55	33.5%	13.5%	5.6%	501.90	35.6%	539.35	33.5%
Others	17.70	1.0%	-7.2%	0.0%	19.07	1.4%	17.69	1.1%

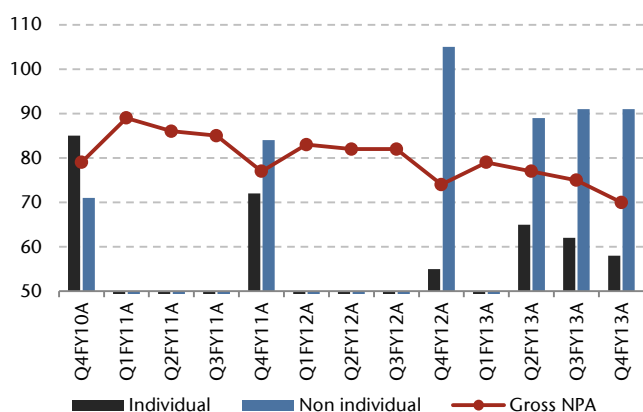
Source: Jefferies, company data

Exhibit 15: Incremental funding for the quarter via term loans which were available at lower cost

Particulars	Q4FY13A	% share	% yoy	% qoq	Q4FY12A	% share	Q3FY13A	% share
Funds	1,588	100%	14.2%	6.7%	1,391	100%	1,489	100%
Term loans	178	11.2%	-56.2%	30.7%	407	29.3%	136	9.2%
Deposits	519	32.7%	43.1%	4.4%	363	26.1%	498	33.4%
Bonds, debentures, CPs	891	56.1%	43.3%	4.2%	621	44.7%	855	57.4%

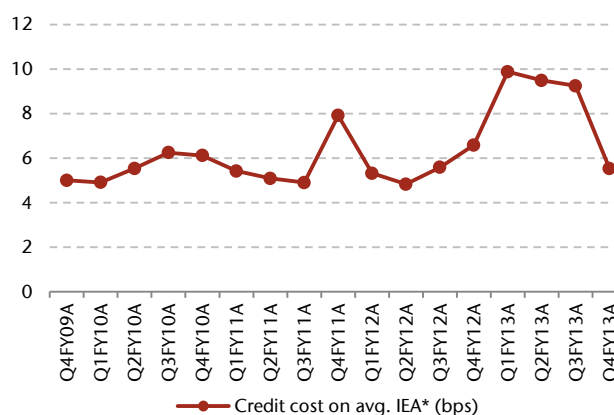
Source: Jefferies, company data

Exhibit 16: NPAs for individual loans were lower



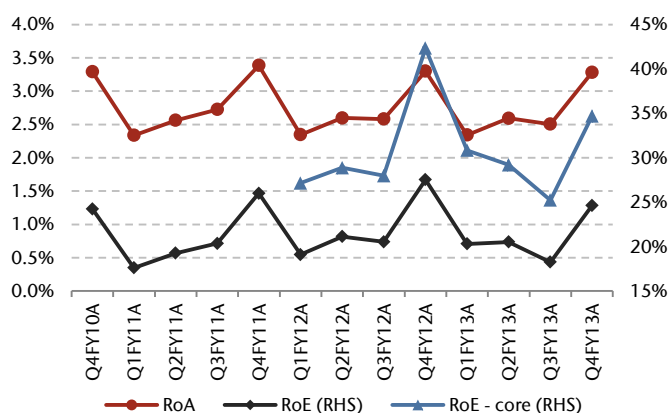
Source: Jefferies, company data

Exhibit 17: Seasonal improvement in credit cost



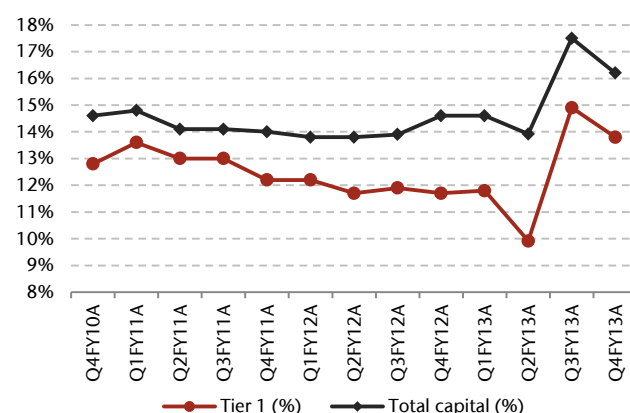
Source: Jefferies, company data

Exhibit 18: Profitability ratios are stable at higher levels



Source: Jefferies, company data

Exhibit 19: HDFC remains adequately capitalised



Source: Jefferies, company data

Financial statement (standalone entity)

Income statement

Year end 31 March (Rs mn)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Net interest income	35,773	44,646	53,181	61,798	75,494	90,062
Non interest income	7,204	8,535	8,794	10,769	10,830	10,954
Fee income	2,317	2,204	2,684	2,413	2,833	3,150
Trading income	2,094	3,597	2,702	3,156	3,000	2,800
Gross revenue	42,978	53,181	61,975	72,567	86,323	101,016
Operating expense	(3,238)	(3,812)	(4,519)	(5,389)	(6,367)	(7,305)
Pre provision operating profit	39,740	49,370	57,456	67,178	79,957	93,711
Provisions and contingencies	(580)	(700)	(800)	(1,450)	(1,614)	(1,764)
Profit before tax	39,160	48,670	56,656	65,728	78,343	91,948
Tax	(10,895)	(13,320)	(15,430)	(17,245)	(21,051)	(24,629)
Profit before minorities/associate income	28,265	35,350	41,226	48,483	57,292	67,319
Minority interest	0	0	0	0	0	0
Income from associate (equity method)	0	0	0	0	0	0
Net profit	28,265	35,350	41,226	48,483	57,292	67,319
Net profit (adj.)	26,341	27,043	32,876	44,103	53,193	63,479

Source: Jefferies estimates, company data

Balance sheet

Year end 31 March (Rs bn)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Loans	980	1,168	1,404	1,696	2,052	2,462
Investments	107	118	122	136	159	184
Total assets	1,166	1,392	1,675	1,955	2,366	2,839
Total funds	966	1,151	1,391	1,588	1,979	2,395
Term loans	321	425	407	178	84	197
Deposits	231	243	363	519	607	687
Bonds, debentures, CPs	413	483	621	891	1,288	1,511
Common equity	152	173	190	250	282	318
Common equity (adjusted)	150	165	182	246	278	315
Risk-weighted assets (RWA)	1,279	1,533	1,844	2,122	2,568	3,081

Source: Jefferies estimates, company data

Per share data

Year end 31 March (Rs)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Shares (mn)	1,430	1,462	1,474	1,523	1,609	1,674
Diluted shares (mn)	1,474	1,494	1,497	1,542	1,610	1,675
EPS - reported	19.76	24.18	27.97	31.84	36.09	40.76
EPS - diluted	19.18	23.66	27.54	31.45	35.59	40.19
BVPS	105.8	118.0	129.0	162.0	175.0	190.2
BVPS (adj for unrealised gain) - reported	222.0	264.0	294.0	360.0	384.9	412.0
BVPS (core)	51.2	58.5	67.9	107.3	121.4	138.8
BVPS (standalone)	116.5	259.1	289.3	362.9	382.3	409.7
Dividend	7.20	9.00	11.00	12.50	13.80	15.80

Source: Jefferies estimates, company data

Profitability and other metrics

Year end 31 March	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
ROA	2.59%	2.71%	2.66%	2.64%	2.63%	2.58%
ROE	19.20%	20.59%	21.90%	20.32%	20.65%	21.44%
ROE (core)	29.26%	28.90%	31.04%	28.35%	27.38%	27.50%
NIM	0.00%	4.40%	4.35%	4.21%	4.27%	4.25%
NIM - calculated	3.48%	3.66%	3.64%	3.54%	3.62%	3.59%
Spread	2.31%	2.33%	2.27%	2.30%	2.28%	2.30%
Expense ratio	7.5%	7.2%	7.3%	7.4%	7.4%	7.2%
Credit cost as % of avg. interest earning assets (bps)	5.6	5.7	5.5	8.3	7.7	7.0

Source: Jefferies estimates, company data

Asset quality

Year end 31 March (Rs mn)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Gross NPA	0.79%	0.77%	0.74%	0.70%	0.70%	0.70%
Provision coverage (%)	42.19%	35.45%	42.37%	39.64%	44.33%	47.18%

Source: Jefferies estimates, company data

Capital and leverage

Year end 31 March (%)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Total common equity as % of assets	13.0%	12.4%	11.4%	12.8%	11.9%	11.2%
Tier 1	12.8%	12.2%	11.7%	13.8%	12.8%	11.9%
CRAR	14.6%	14.0%	14.6%	16.2%	15.5%	14.9%

Source: Jefferies estimates, company data

Growth in key parameters

Year end 31 March (% yoy)	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Net interest income	11.4%	24.8%	19.1%	16.2%	22.2%	19.3%
Non interest income	92.9%	18.5%	3.0%	22.5%	0.6%	1.1%
Gross revenue	19.9%	23.7%	16.5%	17.1%	19.0%	17.0%
Operating expense	2.4%	17.7%	18.6%	19.3%	18.1%	14.7%
Pre provision profit	21.6%	24.2%	16.4%	16.9%	19.0%	17.2%
Loan loss provisions	16.0%	20.7%	14.3%	81.3%	11.3%	9.3%
Net profit	23.8%	25.1%	16.6%	17.6%	18.2%	17.5%
Net profit (adjusted)	24.2%	2.7%	21.6%	34.1%	20.6%	19.3%
Loans and Advances	15.0%	19.2%	20.2%	20.8%	21.0%	20.0%
Investments	2.5%	10.3%	3.2%	11.5%	16.9%	15.6%
Total funds	15.2%	19.2%	20.9%	14.2%	24.6%	21.0%
Term loans	26.7%	32.2%	-4.2%	-56.2%	-53.1%	135.7%
Deposits	19.1%	5.4%	49.2%	43.1%	17.0%	13.1%
Bonds, debentures, CPs	5.7%	16.8%	28.7%	43.3%	44.6%	17.3%
Total assets	14.7%	19.5%	20.3%	16.7%	21.0%	20.0%

Source: Jefferies estimates, company data

Company Description

Housing Development Finance Corporation Limited (HDFC Ltd.) was established in 1977 with the primary objective of meeting a social need of encouraging home ownership by providing long-term finance to households. HDFC has turned the concept of housing finance for the growing middle class in India into a world-class enterprise with excellent reputation for professionalism, integrity and impeccable service. It also has offices in Dubai, London and Singapore and service associates in the Middle East region, to provide housing loans and property advisory services to Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs). Over the years, HDFC has emerged as a financial conglomerate with its presence in the entire gamut of financial services including banking, insurance (life and non-life), asset management, real estate venture capital and more recently education loans.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.

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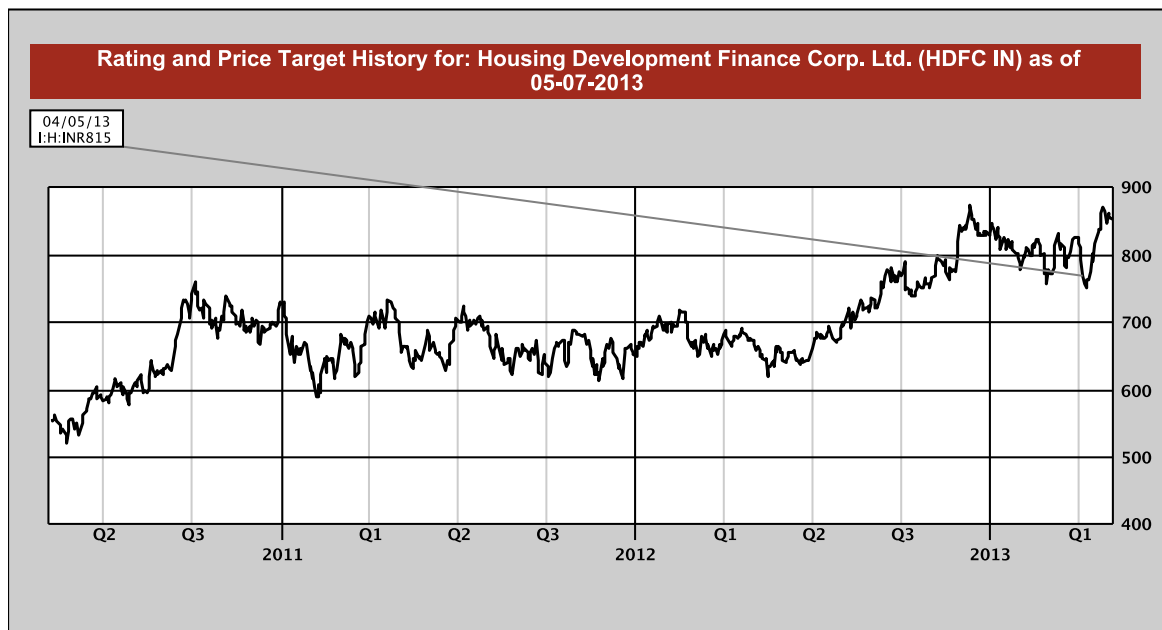
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Other Companies Mentioned in This Report

- Housing Development Finance Corp. Ltd. (HDFC IN: INR885.00, HOLD)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	740	45.23%	88	11.89%
UNDERPERFORM	129	7.89%	2	1.55%

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