

HDFC Ltd (HDFC)

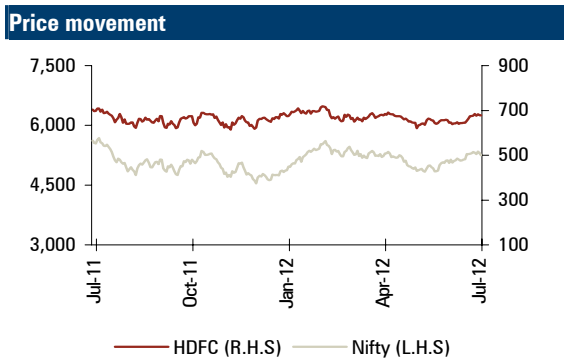
₹ 676

Rating matrix	
Rating	: Hold
Target	: ₹ 719
Target Period	: 12 months
Potential Upside	: 6%

Key Financials				
₹ crore	FY11	FY12	FY13E	FY14E
NII	4247	4998	5940	7580
PPP	4937	5746	6666	8287
PAT	3535	4123	4732	5874

Valuation summary				
	FY11	FY12	FY13E	FY14E
Net Profit (₹ crore)	3535.0	4122.6	4732.0	5874.3
EPS (₹)	24.1	27.9	30.9	38.4
Growth (%)	22.4	15.8	10.7	24.1
P/E (x)	28.1	24.3	21.9	17.7
Price / Book (x)	5.7	5.4	4.4	3.9
ABV (Rs)	118.1	124.5	154.6	171.3
Price / Adj Book (x)	5.7	5.4	4.4	4.0
GNPA (%)	0.8	0.8	0.9	0.9
NNPA (%)	0.0	0.0	0.1	0.1
RoNA (%)	2.8	2.7	2.6	2.7
RoE (%)	21.7	22.7	21.9	23.0

Stock data	
Market Capitalisation	₹ 100717 crore
GNPA (Q1FY13)	₹ 1190 crore
NNPA (Q1FY12)	Nil
NIM (Q1FY12) (reported)	4.0%
52 week H/L	726/601
Equity capital	₹ 295.4 crore
Face value	₹ 2
DII Holding (%)	19.5
FII Holding (%)	66.7



Analyst's name	
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WHAT'S CHANGED...

PRICE TARGET Unchanged
EPS (FY13E) Changed from ₹ 30.4 to ₹30.9
EPS (FY14E) Unchanged
RATING Unchanged

Individual loans drive growth...

HDFC maintained its healthy performance with Q1FY13 PAT up 19% YoY, which was largely in line with estimates. Traction in NII continued to be strong. Advances (net-of loans sold) growth was in line at 19.4% YoY primarily driven by strong traction in individual loans, thus shrugging off concerns of a slowdown in the individual loans category on account of competition and high interest rates. Reported spreads were stable sequentially. Cost-to-income came in higher compared to the last three quarters. GNPA increased QoQ but asset quality continues to be robust. We expect loans to grow at 20% and profits to witness CAGR of 19% over FY12-14E.

NIM moderates while asset quality remains stable in Q4FY12

NII rose 26% YoY to ₹ 1258 crore mainly led by advances (net-of loans sold) growth of 19.4% to ₹ 148262 crore. Advances inclusive of loan sold rose by 23% YoY with the individual loan book (including loans sold) increasing 29% (23% net of loans sold). Calculated NIM moderated QoQ to 3.1% (I-direct estimate at 3.2%) owing to a decline in yields (though aided by an increase in yields on conversion of the teaser loan portfolio into floating rates) and rise in cost of funds. Treasury gains were lower at ₹ 20 crore vs. ₹ 79 crore in Q4FY12. The cost-to-income ratio stood at 8.6% vs. 5.3% in Q4FY12. Provisioning increased 60% QoQ to ₹ 40 crore owing to a slight deterioration in asset quality (GNPA ratio at 0.79% vs. 0.74% in Q4FY12). PAT came in at ₹ 1001.9 crore.

Strength in asset quality with profitability holds key

HDFC expects to grow its loan book by 18-20% in FY13. The company expects other metros and Tier II cities to be key growth areas as Mumbai (12% of total) has already slowed down in FY12. Asset quality continues to be robust providing comfort on any spike in provisions. Consistent profits and healthy RoE and RoA of 22% and 2.7%, respectively, over FY12-14E remain key strengths of the company.

Rich valuations to stay

We have valued the standalone lending business at 3.1x FY13E core ABV giving ₹ 464 per share of HDFC. We maintain our SOTP based target price of ₹ 719 and our HOLD rating on the stock.

Exhibit 1: Financial Performance

₹ Crore	Q1FY13	Q1FY13E	Q1FY12	Q4FY12	YoY Gr(%)	QoQ Gr.(%)
NII	1258.2	1294.7	998.2	1680.8	26.0	-25.1
Non Interest income	295.9	299.7	308.5	271.3	-4.1	9.1
Total Income	1554.1	1594.4	1306.7	1952.1	18.9	-20.4
PBT	1379.9	1456.2	1175.5	1824.2	17.4	-24.4
PAT	1001.9	1063.1	844.5	1326.2	18.6	-24.5

Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 2: Assumptions

(Year-end March)	FY11	FY12	FY13E	FY14E
Disbursements (% growth)	19.6	17.9	18.1	18.2
Housing loans outstanding (% growth)	19.2	20.2	19.6	20.2
Loan Mix				
-Individual (%)	62.9	63.0	62.8	62.7
-Corporate (%)	36.0	33.0	35.8	35.9
Funding Mix				
-Bonds & Debentures (%)	42.0	44.7	45.0	45.3
-Deposits (%)	21.0	26.1	26.6	27.3
-Term loans (%)	36.0	29.3	28.4	27.4

Source: Company, ICICIdirect.com Research

Takeaways from Annual General Meeting (AGM)

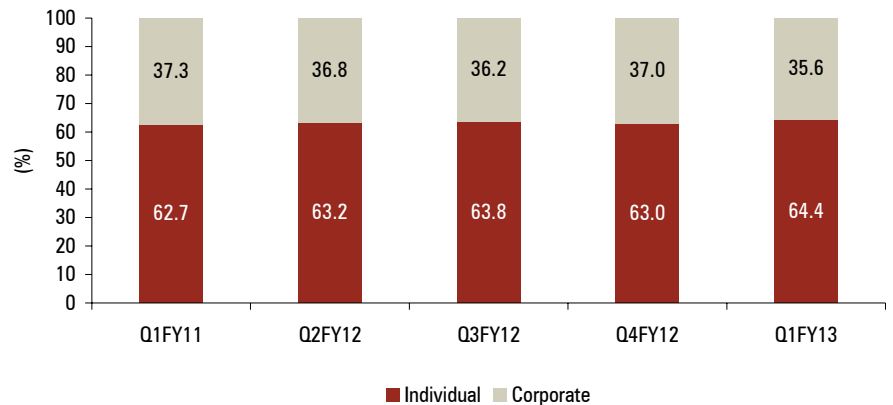
We attended the AGM of HDFC, where the management answered various shareholder queries and indicated growth at 18-20% in loans and 30% growth in deposits. HDFC had 14,100 individual borrowers in FY12. The average ticket size of the loan is ₹ 19.5 lakh.

Prepayments increased from 11% to 13% in FY12.

On warrants conversion, they said that 16% has been done. Even on full conversion, equity capital will only grow by ₹ 9 crore.

The management indicated there are no plans for any acquisitions in the near term.

Exhibit 3: Proportion of individual portfolio rises to 64.4% owing to strong growth



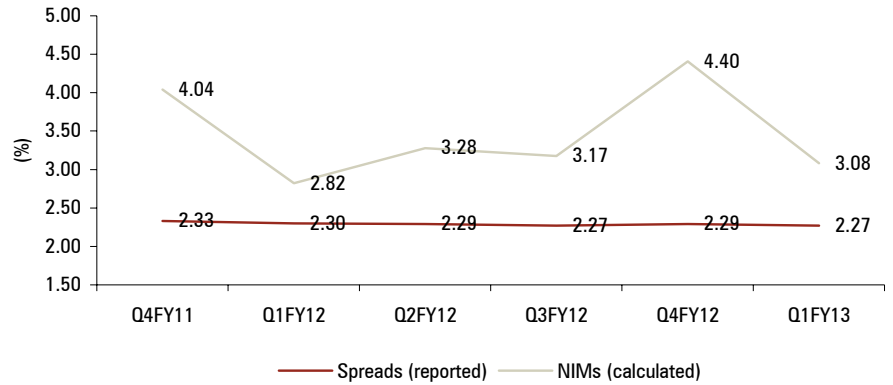
Source: Company, ICICIdirect.com Research

During the quarter, the loan book grew by ₹ 7,387.7 crore of which ₹ 6,635.1 crore, representing 90% of the incremental loan book, was on account of the increase in the individual loan book leading to strong growth and increasing the proportion to 64.4% as on Q1FY13.

The loan portfolio grew 19.4% YoY and 5.6% QoQ to ₹ 1483 billion. However, within the same, the individual portfolio grew 23% YoY to ₹ 954.1 billion whereas the corporate loan portfolio grew at a slower rate by 14% YoY to ₹ 510 billion. We have factored in loan growth of 19.6% for FY13E

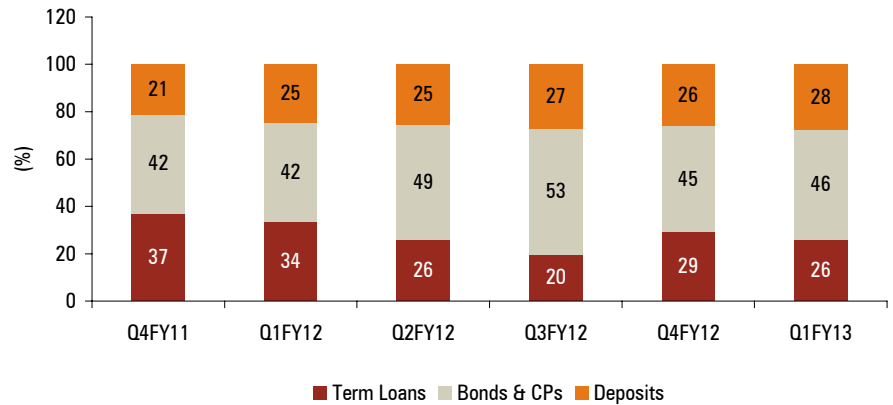
The calculated NIM decreased to 3.1% from 4.4% in Q4FY12 largely due to slower growth in high yielding corporate loans and strong growth in the individual loan book. Further, a 74 bps rise in CoF due to quarter-end borrowing in Q4FY12 having full cost in Q1FY13 and moderate decline in asset quality also led to a fall in margins. However, margins were aided by increase in yields on conversion of teaser loan portfolio into floating rates during Q1FY13

Exhibit 4: Steady reported spreads



Source: Company, ICICIdirect.com Research

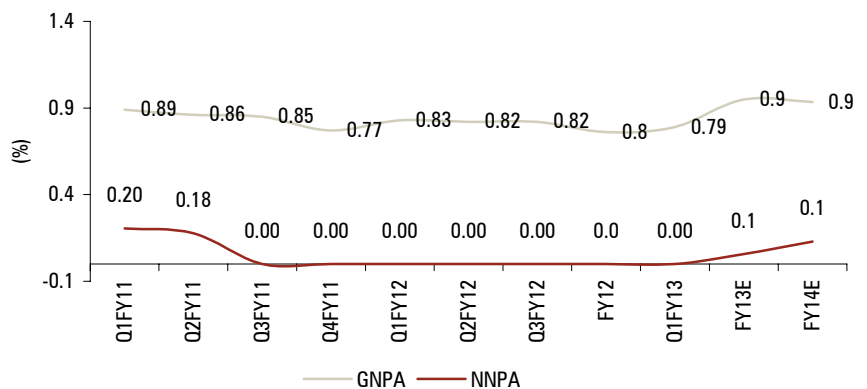
Exhibit 5: Proportion of term loans decline to 26% in Q1FY13



Source: Company, ICICIdirect.com Research

The asset quality deteriorated with absolute GNPA at ₹ 1190 crore vs. ₹ 1069 crore QoQ while NNPA was nil as on Q1FY13

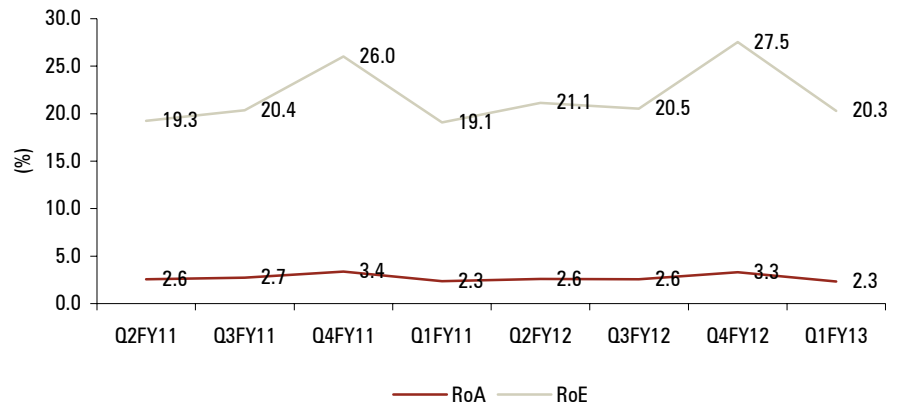
Exhibit 6: Strong asset quality continues though GNPA ratio increases slightly by 5 bps QoQ



Source: Company, ICICIdirect.com Research

The asset quality continues to be healthy though the GNPA ratio witnessed an increase of 5 bps sequentially to 0.79%. Q1FY13 was the 30th consecutive quarter wherein the percentage of NPA has been lower than the corresponding quarter in the previous year. We expect stable asset quality for FY13. Total provisioning stood at ₹ 1711 crore despite GNPA of ₹ 1190 crore as on Q1FY13.

Exhibit 7: Expect return ratios to be healthy with 22% RoE and 2.7% RoA over FY12-14E



Source: Company, ICICIdirect.com Research

Valuation

We have valued the standalone lending business at 3.1x FY13E core ABV giving ₹ 464 per share of HDFC. We maintain our SOTP based target price of ₹ 719 and our **HOLD** rating on the stock.

Exhibit 8: Valuation

Business Segment	FY13E ₹/share
HDFC Ltd	464
HDFC Bank	174
HDFC AMC	19
HDFC Std. Life	47
HDFC ERGO	2
GRUH Finance	9
Unrealised Gains	4
Value per share of HDFC	719

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	₹ Crore			
(Year-end March)	FY11	FY12	FY13E	FY14E
Interest Earned	11807.0	16155.1	17905.9	20832.7
Interest Expended	7559.9	11156.8	11966.2	13253.2
Net Interest Income	4,247.1	4,998.3	5939.6	7579.5
% growth	25.4	17.7	18.8	27.6
Non Interest Income	1071.1	1199.0	1270.5	1344.6
Net Income	5,318.1	6,197.3	7210.1	8924.1
Employee cost	175.5	205.8	259.7	307.2
Other operating Exp.	205.6	246.1	284.2	329.9
Operating Income	4937.0	5746.0	6666.2	8287.0
Provisions	70.0	80.0	166.2	217.9
PBT	4867.0	5666.0	6500.0	8069.1
Taxes	1332.0	1543.0	1768.0	2194.8
Net Profit	3,535.0	4,122.6	4732.0	5874.3
% growth	25.1	16.6	14.8	24.1
EPS (₹)	24.1	27.9	30.9	38.4

Source: Company, ICICIdirect.com Research

Balance sheet

	₹ Crore			
(Year-end March)	FY11	FY12	FY13E	FY14E
Sources of Funds				
Capital	293.4	295.4	306.3	306.3
Reserves and Surplus	17023.1	18722.2	23973.2	26600.0
Networth	17316.5	19017.6	24279.6	26906.4
Secured Loans	81641.5	95927.2	107760.6	126087.8
Unsecured Loans	33470.8	43200.2	55085.6	66030.3
Other Liabilities & Provisions	6813.6	9375.0	10249.0	11207.3
Total	139242.4	167520.0	197374.7	230231.8
Applications of Funds				
Fixed Assets	234.0	234.0	561.3	570.2
Investments	11832.4	12207.0	11977.7	12189.1
Advances	116806.2	140421.7	167883.8	201765.8
Other Assets	10369.8	14657.3	16952.0	15706.8
Total	139242.3	167520.0	197374.7	230231.8

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12	FY13E	FY14E
Valuation				
No. of Equity Shares	146.7	147.7	153.2	153.2
EPS (Rs.)	24.1	27.9	30.9	38.4
BV (Rs.)	118.1	124.5	155.2	173.0
BV-ADJ (Rs.)	118.1	124.5	154.6	171.3
P/E	28.1	24.3	21.9	17.7
P/BV	5.7	5.4	4.4	3.9
P/adj.BV	5.7	5.4	4.4	4.0
Yields & Margins				
Yield on interest earning assets	10.6	12.2	11.3	11.0
Avg. cost on funds	7.1	8.8	7.9	7.5
Net Interest Margins	3.8	3.8	3.7	4.0
Spreads	3.5	3.4	3.4	3.6
Adjusted spreads *	2.8	2.9	2.7	3.0
Quality and Efficiency				
Cost / Total net income	7.2	7.3	7.5	7.1
GNPA%	0.8	0.8	0.9	0.9
NNPA%	0.0	0.0	0.1	0.1
RONW (%)	21.7	22.7	21.9	23.0
ROA (%)	2.8	2.7	2.6	2.7

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

Growth ratios

	(% growth)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Total assets	19.4	20.3	17.8	16.6
Advances	19.2	20.2	19.6	20.2
Borrowings	19.2	20.9	17.0	18.0
Total Income	13.4	34.8	10.5	15.6
Net interest income	25.4	17.7	18.8	27.6
Operating expenses	17.7	18.6	20.4	17.1
Operating profit (excl trading)	21.6	25.5	21.7	29.6
Net profit	25.1	16.6	14.8	24.1
Book value	13.9	6.2	29.3	11.5
EPS	22.4	15.8	10.7	24.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Auto & Auto ancillary																			
IDFC (IDFC)	137	140	Hold	20,830	10.2	12.1	15.6	13.3	11.3	8.8	1.7	1.5	1.3	2.8	2.8	3.1	13.2	14.0	15.9
LIC Housing Finance (LICHF)	269	250	Hold	13,507	18.1	24.1	29.8	14.9	11.2	9.0	2.4	2.0	1.7	1.5	1.7	1.7	18.6	19.7	20.6
Reliance Capital (RELCAP)	366	381	Hold	8,941	18.5	25.6	23.1	19.8	14.3	15.9	0.8	0.7	0.7	1.5	1.8	1.5	4.6	5.2	4.5
HDFC (HDFC)	676	719	Hold	100,717	27.9	30.9	38.4	24.2	21.9	17.6	5.4	4.4	3.9	2.7	2.6	2.7	22.7	21.9	23.0

Source: Company, ICICIdirect.com Research

Exhibit 9: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
28-Mar-12	Initiating coverage	667	719	Hold
4-Apr-12	Q4FY12 Result Preview	687	719	Hold
9-May-12	Q4FY12 Result Update	658	719	Hold
5-Jul-12	Q1FY13 Result Preview	676	719	Hold

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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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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