

HDFC Ltd (HDFC)

₹ 658

Rating matrix

Rating	:	Hold
Target	:	₹ 719
Target Period	:	12 months
Potential Upside	:	9%

Key Financials

₹ crore	FY11	FY12	FY13E	FY14E
NII	4247	4998	5963	7755
PPP	4937	5745	6568	8335
PAT	3535	4123	4647	5893

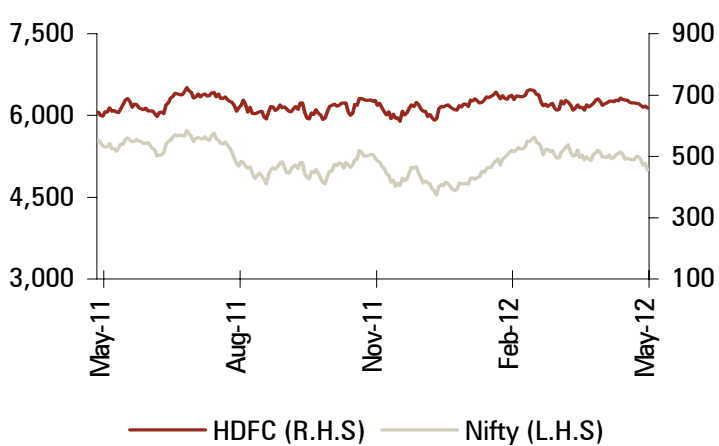
Valuation summary

	FY11	FY12	FY13E	FY14E
Net Profit (₹ crore)	3535.0	4122.6	4647.4	5893.1
EPS (₹)	24.1	28.0	30.4	38.5
Growth (%)	22.4	16.1	8.7	26.8
P/E (x)	28.5	24.6	22.6	17.8
Price / Book (x)	5.8	5.5	4.4	4.0
ABV (Rs)	83.1	91.8	105.0	118.0
Price / Adj Book (x)	5.8	5.5	4.4	4.0
GNPA (%)	0.8	0.8	0.8	0.9
NNPA (%)	0.0	0.0	0.1	0.2
RoNA (%)	2.8	2.8	2.7	2.9
RoE (%)	21.7	22.8	21.6	23.2

Stock data

Market Capitalisation	₹ 97038 crore
GNPA (Q4FY12)	₹ 1069 crore
NNPA (Q4FY12)	Nil
NIM (Q4FY12)	4.4%
52 week H/L	732/600
Equity capital	₹ 294.8 crore
Face value	₹ 2
DII Holding (%)	20.1
FII Holding (%)	65.8

Price movement



Analyst's name

Kajal Gandhi
kajal.gandhi@icicisecurities.com
Vasant Lohiya
vasant.lohiya@icicisecurities.com
Jaymin Trivedi
jaymin.trivedi@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY13E)	Changed from ₹ 32.7 to ₹30.4
EPS (FY14E)	Introducing at ₹38.5
RATING	Unchanged

NIM surprises positively to boost profits...

HDFC's Q4FY12 PAT of ₹ 1326 crore, up 16% YoY and 35% QoQ, was above our and consensus estimates mainly on the back of a healthy sequential core performance.

- NII increased 45% QoQ to ₹ 1681 crore (our estimate: ₹ 1480 crore) while operating expenses were lower at ₹ 1030 crore in Q4FY12 vs. ₹ 1119 crore in Q3FY12 that resulted in 37% QoQ operating profit growth
- NIM increased by more than 100 bps sequentially to 4.4% in Q4FY12 due to 9% QoQ sequential growth in corporate loans and better funding management. However we expect contraction in spreads in next quarter due to sharp term loans increase in Q4FY12.
- Non interest income came in lower at ₹ 271 crore declining by 23% YoY and 11% QoQ mainly due to a 41% YoY fall in treasury income to ₹ 79 crore vs. ₹ 134 crore last year
- Advances (net-of loans sold) grew 20% YoY to ₹ 1404 billion as on Q4FY12. Individual loans grew 21% YoY to ₹ 887.7 billion while corporate loans increased 19% YoY to ₹ 501.9 billion
- Cost-to-income at 5.3% in Q4FY12 remained stable
- Asset quality continued to be robust. On a sequential basis, absolute GNPA declined to ₹ 1069 crore from ₹ 1109 crore and the ratio improved to 0.74% from 0.82%. Total provisioning were at ₹ 1671 crore as against regulatory requirement of ₹ 1402 crore
- We expect both loans and profits to grow at 20% CAGR over FY12-14E

Valuation

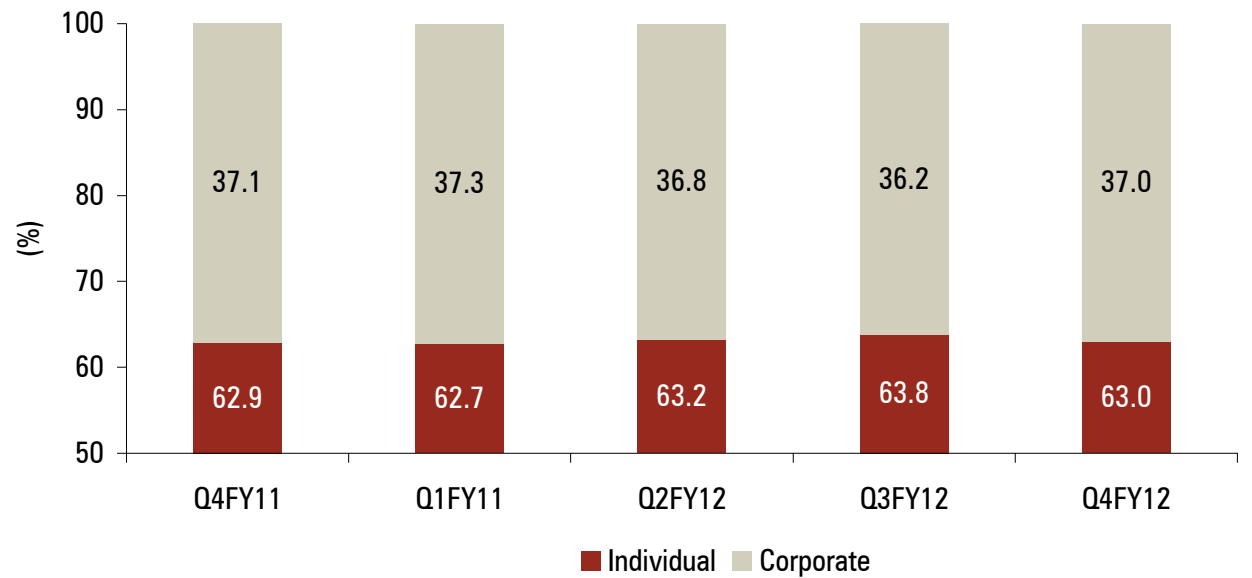
HDFC's consistent track record in earnings and business growth continued in Q4FY12. We expect earnings trajectory to be strong on the back of a healthy increase in loans, stable annual spreads, solid asset quality and better operating efficiency. Factoring in a healthy RoE and RoA of 22% and 2.8%, respectively, over FY12-14E, we value standalone lending business at 3.1x FY13E core ABV giving ₹ 464 per share of HDFC. We have kept valuations of subsidiaries unchanged. We maintain our SOTP based target price of ₹ 719 and our **HOLD** rating on the stock.

Exhibit 1: Financial Performance

₹ Crore	Q4FY12	Q4FY12E	Q4FY11	Q3FY12	YoY Gr(%)	QoQ Gr.(%)
NII	1680.8	1480.0	1302.7	1155.7	29.0	45.4
Non Interest income	271.3	313.7	352.2	304.3	-23.0	-10.8
Total Income	1952.1	1793.7	1654.9	1460.0	18.0	33.7
PBT	1824.2	1628.1	1554.0	1328.2	17.4	37.3
PAT	1326.2	1152.6	1142.0	981.2	16.1	35.2

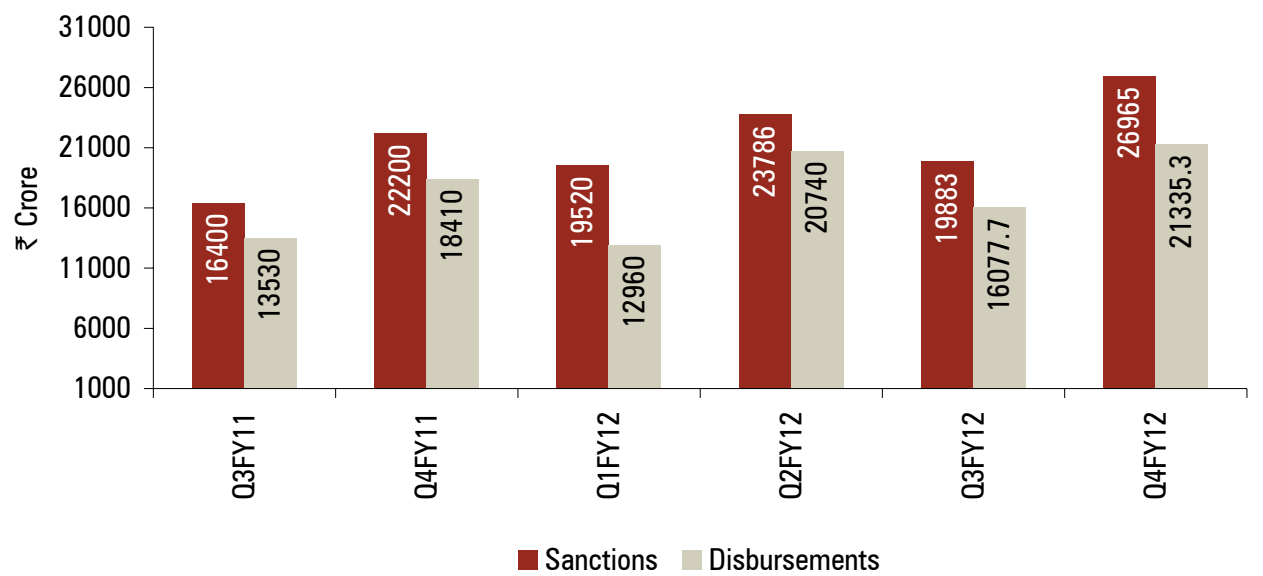
Source: Company Quarterly Presentation, ICICIdirect.com Research

Exhibit 2: Sequential change in loan mix leads to more than 100 bps rise in NIM



Source: Company, ICICIdirect.com Research

Exhibit 3: Sanctions and disbursements during the year grew 20% and 18%, respectively



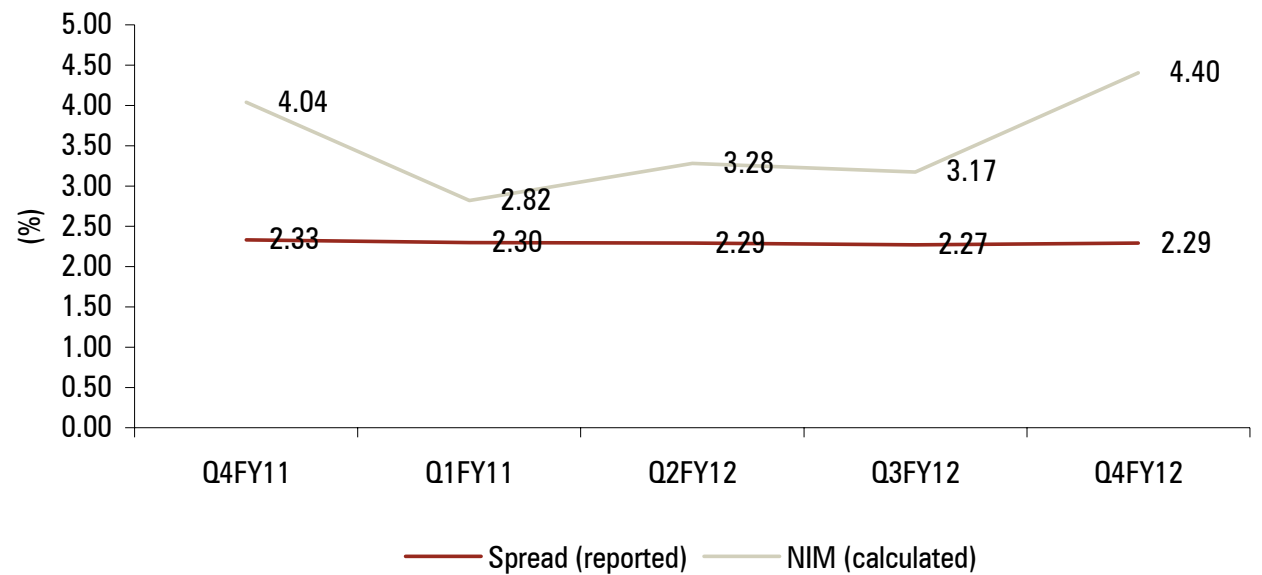
Source: Company, ICICIdirect.com Research

The loan portfolio grew 20% YoY and 6% QoQ to ₹ 1404 billion. However, within the same, the individual portfolio grew 27% QoQ to ₹ 887.7 billion whereas the corporate loan portfolio grew faster by 9% QoQ to ₹ 521 billion. We have factored in loan growth of 19% for FY13E

Advances grew at a healthy rate of 6% sequentially to ₹ 1404 billion mainly driven by 9% QoQ growth in high yielding corporate loans, which as of Q4FY12 forms 37% vs. 36.2% in Q3FY12. According to the management, higher loan growth came mainly from Tier II and Tier III cities. Mumbai lagged behind owing to higher prices and interest rates. The average size of individual loans stood at ₹ 19.5 lakh as compared to ₹ 18.6 lakh in FY11. Owing to such a change in the loan mix, the yield on advances increased ~100 bps QoQ. This led to NIM expansion. We have factored in 19% loan growth in FY13.

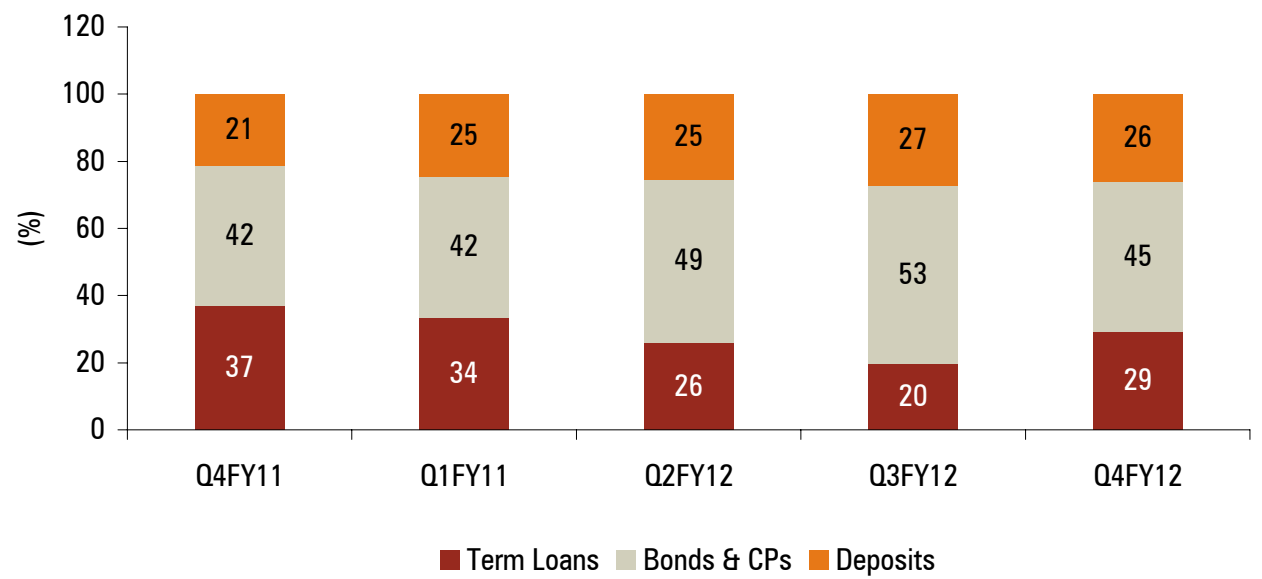
The NIM increased to 4.4% from 3.2% in Q4FY12 aided by higher growth in high yielding corporate loans and better liability management. Improvement in asset quality also led to a rise in NIM. Further, in Q1FY13, ~₹ 220 billion of HDFC's teaser loan portfolio will get reset to floating rates, which will be 100-150 bps higher

Exhibit 4: Sharp up-tick in margins sequentially



Source: Company, ICICIdirect.com Research

Exhibit 5: Proportion of term loans increases to 29%

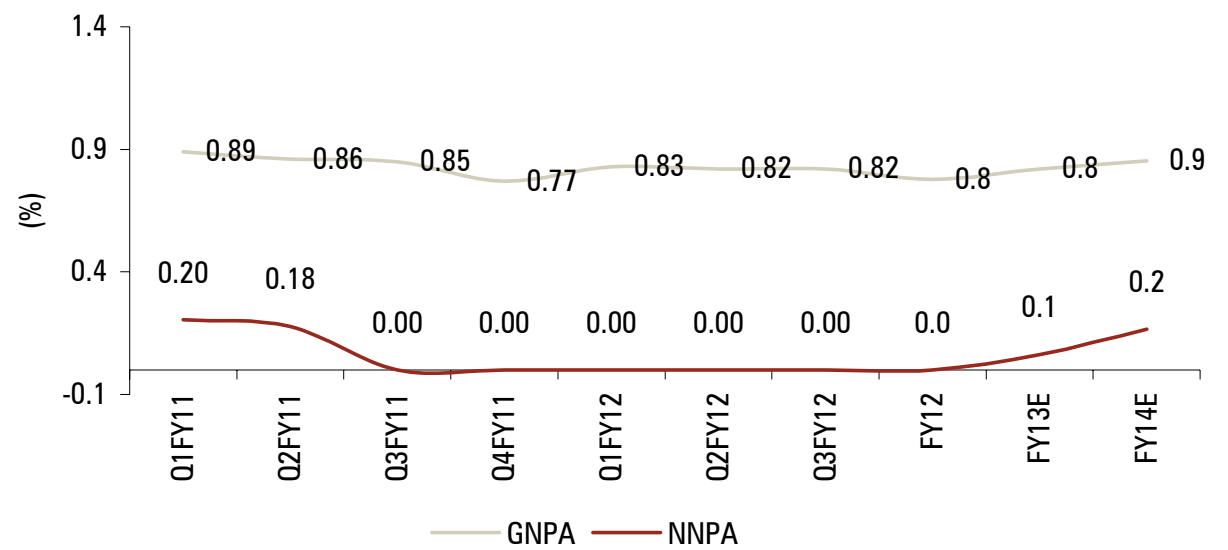


Source: Company, ICICIdirect.com Research

During Q4FY12, on account of tight liquidity in the system and consequent higher rates in the market the company relied on term loans from banks for funding. Loans from banks increased by 63% QoQ leading to the proportion rising to 29% vs. 20% in Q3FY12. Such flexibility in the funding profile has further aided in NIM expansion during Q4FY12.

Exhibit 6: Pristine asset quality continues in Q4FY12

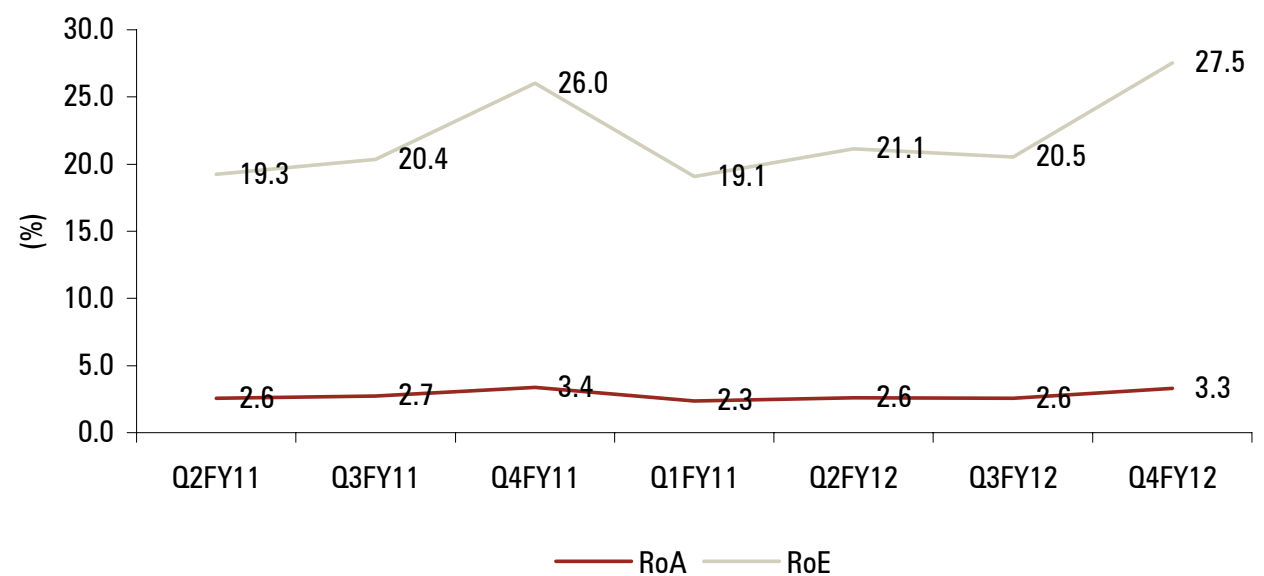
The asset quality improved with GNPA at ₹ 1069 crore vs. ₹ 1109 crore QoQ while NNPA was nil as on Q4FY12



Source: Company, ICICIdirect.com Research

Asset quality continues to be healthy with GNPA declining 4% QoQ on an absolute basis while the GNPA ratio was at 0.74% as against 0.82% in Q3FY12. Q4FY12 was the 29th consecutive quarter wherein percentage of NPA has been lower than the corresponding quarter in the previous year. We expect stable asset quality for FY13.

Exhibit 7: Expect return ratios to be healthy with 22% RoE and 2.8% RoA over FY12-14E



Source: Company, ICICIdirect.com Research

Performance of subsidiaries

- HDFC Standard Life's gross premium income stood at ₹ 10202 crore as compared to ₹ 9004 crore last year, recording a growth of 13% YoY. The company reported its maiden profit of ₹ 271 crore in FY12.
- HDFC AMC's average AUM as on FY12 stood at ₹ 98607 crore. The company reported profits of ₹ 269 crore in FY12.
- HDFC ERGO's Gross Written Premium (excluding cessions from motor pool) grew 44% YoY to ₹ 1874 crore compared to industry growth of 24% in FY12.

Valuation

HDFC's consistent track record in earnings and business growth continued in Q4FY12 along with stable asset quality. We expect earnings to grow at 20% CAGR over FY12-14E on the back of a healthy increase in loans, stable spreads, solid asset quality and best in class operating efficiency. Factoring in a healthy RoE and RoA of 22% and 2.8%, respectively, over FY12-14E, we have valued the standalone lending business at 3.1x FY13E core ABV giving ₹ 464 per share of HDFC. We have kept valuations of subsidiaries unchanged. We maintain our SOTP based target price of ₹ 719 and our HOLD rating on the stock.

Exhibit 8: Valuation Table

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	16154.9	17906.0	20832.8
Interest Expended	7559.9	11160.6	11942.9	13077.5
Net Interest Income	4,247.1	4,998.3	5963.1	7755.3
% growth	25.4	17.7	19.3	30.1
Non Interest Income	1071.1	1199.0	1144.5	1213.2
Net Income	5,318.1	6,197.3	7107.6	8968.4
Employee cost	175.5	212.5	259.7	307.2
Other operating Exp.	205.6	242.1	280.3	326.1
Operating Income	4937.0	5746.0	6567.6	8335.1
Provisions	70.0	84.5	166.2	217.9
PBT	4867.0	5661.5	6401.4	8117.2
Taxes	1332.0	1548.0	1754.0	2224.1
Net Profit	3,535.0	4,122.6	4647.4	5893.1
% growth	25.1	16.6	12.7	26.8
EPS (₹)	24.1	28.0	30.4	38.5

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12	FY13E	FY14E
Valuation				
No. of Equity Shares	146.7	147.4	152.9	152.9
EPS (Rs.)	24.1	28.0	30.4	38.5
BV (Rs.)	118.0	125.7	155.8	173.4
BV-ADJ (Rs.)	118.0	125.7	155.1	171.2
P/E	28.5	24.6	22.6	17.8
P/BV	5.8	5.5	4.4	4.0
P/adj.BV	5.8	5.5	4.4	4.0
Yields & Margins				
Yield on interest earning assets	10.6	12.1	11.3	11.0
Avg. cost on funds	7.1	8.9	8.2	7.6
Net Interest Margins	3.8	3.8	3.8	4.1
Spreads	3.5	3.3	3.1	3.4
Adjusted spreads *	2.8	2.5	2.5	2.8
Quality and Efficiency				
Cost / Total net income	7.2	7.4	7.6	7.1
GNPA%	0.8	0.8	0.8	0.9
NNPA%	0.0	0.0	0.1	0.2
RONW (%)	21.7	22.8	21.6	23.2
ROA (%)	2.8	2.8	2.7	2.9

Source: Company, ICICIdirect.com Research *

Balance sheet

	₹ Crore			
(Year-end March)	FY11	FY12	FY13E	FY14E
Sources of Funds				
Capital	293.4	295.4	305.8	305.8
Reserves and Surplus	17023.1	18722.2	23796.1	26433.6
Networth	17316.5	19017.6	24101.9	26739.4
Secured Loans	81641.5	95927.2	112181.1	130888.5
Unsecured Loans	33769.0	43200.2	44887.6	54064.8
Other Liabilities & Provisions	6775.1	9375.0	6560.1	7272.5
Total	139502.1	167520.0	187730.6	218965.2
Applications of Funds				
Fixed Assets	234.0	234.0	557.4	567.0
Investments	11832.4	12207.0	11961.2	12172.6
Advances	117126.6	140421.7	167883.8	201765.8
Other Assets	9861.0	14657.3	7328.3	4459.9
Total	139054.0	167520.0	187730.6	218965.2

Source: Company, ICICIdirect.com Research

Growth ratios

	(% growth)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Total assets	19.6	14.7	17.5	16.6
Advances	19.6	20.3	19.2	20.2
Secured Loans	28.4	17.6	16.9	16.7
Total Income	13.4	34.1	10.3	15.7
Net interest income	25.4	17.6	19.4	30.1
Operating expenses	17.7	19.3	18.8	17.3
Operating profit (excl trading)	21.6	23.5	22.0	32.4
Net profit	25.1	16.6	12.7	26.8
Book value	13.9	7.0	28.5	11.3
EPS	22.4	16.1	8.7	26.8

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

					NP (₹ Cr)	EPS (₹)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	118	FY11	1281.0	8.8	13.4	1.5	3.0	14.0
		Target	140	FY12E	1603.5	11.0	10.7	1.4	3.0	13.5
Mcap (₹ Cr)	18626	Upside (%)	18.8	FY13E	1864.0	12.8	9.2	1.3	3.0	14.2
LICHF										
Idirect Code	LICHF	CMP	261	FY12	914.2	18.1	14.4	2.3	1.5	18.6
		Target	250	FY13E	1214.3	24.1	10.8	2.0	1.7	19.7
Mcap (₹ Cr)	13030	Upside (%)	-4.0	FY14E	1503.2	29.8	8.7	1.7	1.7	20.6
Rel Cap										
Idirect Code	RELCAP	CMP	316	FY11	291.2	9.3	34.0	1.0	0.9	3.0
		Target	466	FY12E	565.5	23.3	13.6	1.0	1.9	7.2
Mcap (₹ Cr)	7929	Upside (%)	47.4	FY13E	664.5	27.3	11.6	0.9	2.1	8.0
HDFC										
Idirect Code	HDFC	CMP	658	FY12	4122.6	28.0	23.5	5.2	2.8	22.8
		Target	719	FY13E	4647.4	30.4	21.6	4.2	2.7	21.6
Mcap (₹ Cr)	97038	Upside (%)	9.3	FY14E	5893.1	38.5	17.1	3.8	2.9	23.2

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

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;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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