

HDFC Ltd

Rs 678

Strong retail business led to steady core performance

ACCUMULATE

HDFC delivered another consistent operating performance with PAT of Rs1002 crore growing by 18.6% y-o-y & down 24.4% q-o-q in line with our expectation. Core PAT (excluding capital gains) increased 18.5% y-o-y & down 22.2% q-o-q. NII grew 19.1% y-o-y & down 25.2% q-o-q to Rs 1304 crore led by healthy loan (including loan sold) growth 23.4% y-o-y. Lending spreads have been stable ~ 2.27% reflecting healthy pricing power. Loan book excluding loan sold grew by 5.2% q-o-q supported by strong growth in retail loan book (7.5% Q-o-Q). Approvals and disbursements growth were 17% & 20% respectively reflecting improvement in housing loan demand. Unrealized gains increased 9.0% q-o-q to Rs181per share owing to interim rally in bond and equity market.

Healthy NII growth led by steady loan growth & stable spreads: NII grew impressively 19.1% Y-o-Y to Rs 1,304 crore driven by steady loan book growth (19.4% y-o-y) & stable spreads. Lending spreads have been stable at 2.27% during the quarter. Loan book incl. sell- downs grew by 23.4% y-o-y to Rs 1,53,240 crore. We believe HDFC continues to maintain spread in the range of 2.2% -2.3%, going forward. We model in 20.7% CAGR in loan book over FY12-14 driven by retail and wholesale business.

Sharp decline in trading gains sequentially: Trading gains were Rs20 crore vs Rs79 crore in Q4FY12, dented profitability. Unrealized gains increased 9% q-o-q to Rs 27,000 crore.

Strong growth in retail loans supported loan book growth: Loan book adjusting for sell downs grew by 23.4% y-o-y to Rs 1,53,240 crore while growth excl. sold loans pegged at 19.4% y-o-y to Rs 1,48,262 crore. HDFC has sold Rs4,978 crore in the last year; off balance sheet book stood at Rs13872crore. Retail loan largely contributed to loan book growth during the quarter. Retail loans mix has increased 100bps Q-o-Q to 64%. Corporate loan mix stood at 35% at end of Q1FY13.

Asset quality remained best in class: Broadly asset quality continued to be fairly strong despite of tough macro environment. Gross NPAs (90 days) stood at 79bps vs. 74bps in Q4FY12. The company has provisions to the tune of ~1.15% of total loan book, largely in line with regulatory requirements. The management has indicated that large portion of teaser loan portfolio would convert into normal housing loans in FY13 which will create additional cushion to loan provisions.

Valuation & Outlook

HDFC delivered another consistent healthy core performance in the challenging quarter. Business growth continued to be ~ 20% y-o-y while asset quality remains pristine. We expect HDFC to deliver 20.0% CAGR in core earnings on the back of strong loan growth, stable spreads and steady credit cost over FY12-FY14. Market leadership in housing finance sector, superior underwriting standards, stable spreads, well diversified borrowing profile and unlocking value of subsidiaries are key value drivers for the stock in medium term. At Rs 678, the stock is trading at 4.2x FY14 book value and 17.1x FY14 earnings, closer to fair valuation. RoA and RoE continue to remain at superior levels ~ 2.7% and 24.4% respectively in FY14. We have fine tuned our FY13 & FY14 earnings estimates factoring lower trading gains. We believe wholesale funded entities would see cyclical gains in term of lower cost of funds, better growth prospects and re-rating in valuation multiple in falling interest rate environment. **Hence, we maintain ACCUMULATE rating on the stock with target price of Rs741.**

Key Financials

Rs in crore	FY11	FY12	FY13E	FY14E
Net interest income	4465	5318	6524	7756
Net Profits	3535	4123	4952	5839
EPS	24.1	27.9	33.5	39.5
BVPS	118	129	149	175
PE (x)	28.1	24.3	20.2	17.1
PB (x)	5.7	5.3	4.5	3.9
Core P/B (x)	7.8	6.6	5.4	4.2
Dividend yield (x)	1.5%	1.7%	1.9%	2.1%

Source: Company, KRChoksey Research

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

Target Price (Rs): 741

Potential Upside : 9.2%

Previous TP (Rs): 741

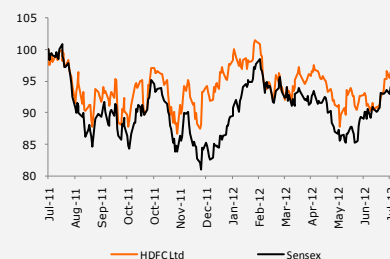
Market Data

Eq. sh. O/S (Cr)	147.3
MCap (Rs crs)	101237
52 Wk H/L (Rs)	726/600
Avg Vol (3m avg)	346252
Fee float (%)	95
Face Value (Rs)	2
Bloomberg Code	HDFC IN

Market Info:

SENSEX	17,489
NIFTY	5,306

Price Performance



Share Holding pattern (%)

Particulars	Jun-12	Mar-12	Chg (%)
Promoters	-	-	-
FII's	66.7	65.8	0.9
Institution s	19.5	20.1	-0.6
Others	13.8	14.1	-0.3
Total	100	100	

Source: BSE

Manish Ostwal

manish.ostwal@krchoksey.com

91-22-6696 5555 Ext 429

www.krchoksey.com

91-22-6696 5203

91-22-6691 9569

Key Highlights

- Pre-provisioning profit went up 19.0% y-o-y & down 23.2% q-o-q to Rs 1420crore. Core profits grew steady pace of 18.5% y-o-y to Rs987 crore.
- HDFC continued to maintain well diversified borrowing profile across product instruments and market segments. Borrowings grew 16.4% y-o-y & 3.4% q-o-q to Rs 1,43,812 crore to support asset growth.
- Schedule repayment rate came down from 10.1% in Q4FY12 to 6.7% in Q1FY13.
- Loans sold during the preceding twelve months amounted to Rs 4,978 crores. Off-balance sheet book stands at Rs13,872crore, showing a growth 18% y-o-y. Interest income includes 1.57% p.a. income generated from the off balance sheet book.
- Loan spread remained stable at 2.27% vs. 2.27% in Q4FY12. Net interest margin stood at 4.0% in Q1FY13.
- The Capital Adequacy Ratio stood at 14.6% whereas Tier I capital stood at 11.8%.
- The unrealized gains on listed investments (excl. the appreciation in the value of the unlisted investments) stood at Rs 27,001 crore against Rs 24,464 crore in Q4FY12, increased 9.0% q-o-q.
- We have fine tuned our FY13 & FY14 earnings estimate factoring slightly lower trading gains.

Earning Revision

Rs in crore	FY13E		Change (%)	FY14E		Change (%)
	Old	New		Old	New	
Net interest income	6516	6524	0.1%	7776	7756	-0.3%
Pre-provision profits	6944	6898	-0.7%	8215	8137	-0.9%
Net Profits	4985	4952	-0.7%	5895	5839	-1.0%

Source: KRChoksey Research

SOTP Valuation

Based on FY13 Estimates	Holding (%)	Value per share	Basis of Valuation
Mortgage business	100%	473	Based on RI Model
HDFC Bank	23%	190	Target Price
Gruh Finance	60%	8.1	Based on Market Price
Life Insurance	72%	43	16x NBAP Multiple
Asset Management business	60%	22	5%age of AUM
Others		20	
Subsidiary/Associate		283	
Adjustment for holding company discount @20%		226	226
Mortgage + subs value per share (Rs)		700	700
Unrealized gains (assumed)		41	
Fair value per share		741	

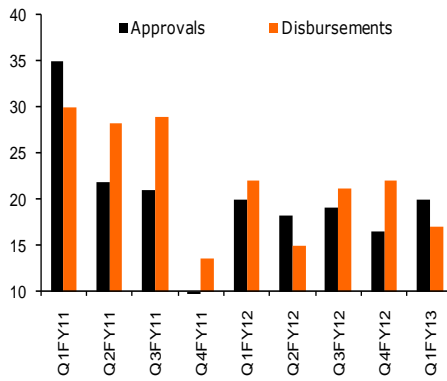
Source: KRChoksey Research

Q1FY13 – Result Analysis

Rs in crore	Q1FY13	Q1FY12	Q4FY12	Y-o-Y	Q-o-Q
Interest income	4,692	3,610	4,682	30.0%	0.2%
Interest expenses	3,388	2,515	2,939	34.7%	15.3%
Net interest income	1,304	1,095	1,743	19.1%	-25.2%
Non interest income	250	212	209	18.0%	19.7%
- Fee income	62	57	60	7.7%	2.9%
- Trading gains	20	16	79	24.5%	-74.4%
Operating income	1,554	1,307	1,952	18.9%	-20.4%
Operating expenses	134	113	103	18.6%	30.3%
Pre-provision profits	1,420	1,194	1,849	19.0%	-23.2%
Provisions	40	18	25	122.2%	60.0%
Profit before tax	1,380	1,176	1,824	17.4%	-24.4%
Tax	378	331	498	14.2%	-24.1%
Net Profit	1,002	845	1,326	18.6%	-24.4%
Adjusted PAT	987	833	1,269	18.5%	-22.2%
Balance sheet					
Net worth	20,466	18,070	19,018	13.3%	7.6%
Borrowings	143,812	123,519	139,128	16.4%	3.4%
Total Liabilities	164,277	141,589	158,145	16.0%	3.9%
Loans	148,262	124,168	140,875	19.4%	5.2%
- Retail	95,413	77,886	88,778	22.5%	7.5%
- Corporate loans	50,998	44,823	50,190	13.8%	1.6%
- Others	1,852	1,458	1,908	27.0%	-2.9%
Investments	15,182	17,328	12,207	-12.4%	24.4%
Total Assets	164,277	141,589	158,145	16.0%	3.9%
Business growth					
Approvals	22,748	19,443	27,046	17.0%	-15.9%
Disbursements	16,889	14,075	21,242	20.0%	-20.5%
Loan sold	4,978	3,123	4,978	59.4%	0.0%
Loan book incl loan sold	153,240	127,291	145,853	23.4%	5.1%
Spread analysis					
Spread - reported	2.27%	2.30%	2.27%	0 bps	-3 bps
Yield on avg loans	11.6%	10.5%	12.3%	-65 bps	111 bps
Cost of funds	9.6%	8.4%	8.8%	75 bps	116 bps
Spread	2.1%	2.1%	3.5%	-140 bps	-5 bps
Asset quality					
NPL (90 days overdue)	0.79%	0.83%	0.74%	5 bps	-4 bps
NPL (six months past due)	0.49%	0.55%	0.44%	5 bps	-6 bps
Provision for Contingencies	1367	979	1218	39.7%	12.2%
Provision / outstanding loans	1.15%	0.94%	1.19%	-3 bps	21 bps
Capital Adequacy ratios					
Tier I	11.8%	12.2%	11.7%	10 bps	-40 bps
Tier II	2.8%	1.6%	2.9%	-10 bps	120 bps
CAR	14.6%	13.8%	14.6%	0 bps	80 bps

Source: Company, KRChoksey Research

Exhibit 1: Approval and sanction trend



Approvals and disbursements grew to 17% y-o-y & 20% y-o-y respectively reflecting improvement in housing loan demand sequentially

Exhibit 2: Loan book growth – Segment wise

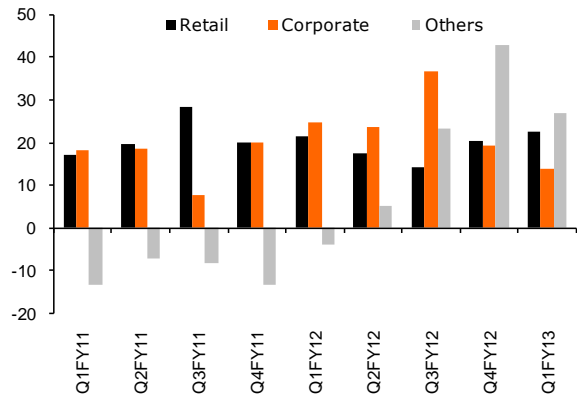
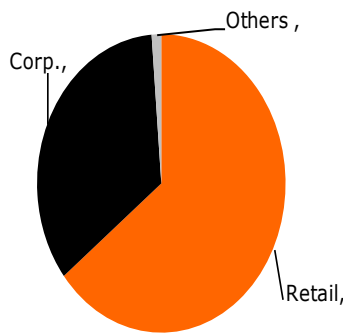


Exhibit 3: Loan mix – Outstanding basis



Retail loans contribute 64% of outstanding loan book.

Exhibit 4: Incremental Loan mix Y-o-Y

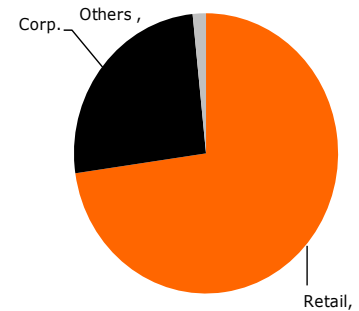
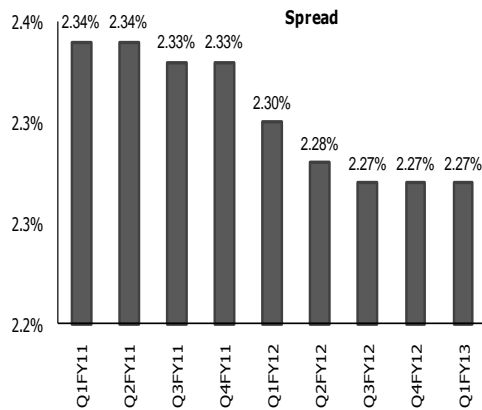


Exhibit 5: Stable spread both y-o-y and q-o-q basis



Spread remained stable at 2.27% q-o-q, reflecting reasonable pricing power of the company in a rising interest rate environment.

Asset quality remains impeccable both y-o-y and sequential basis.

Exhibit 6: Improving asset quality trend

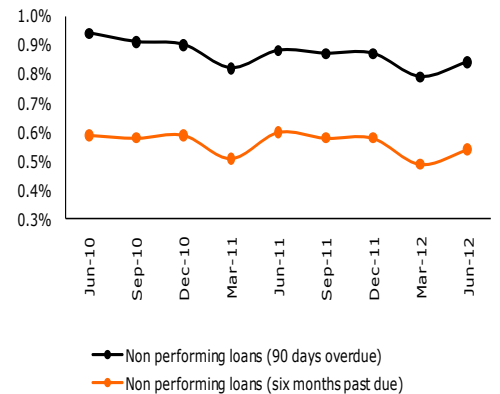
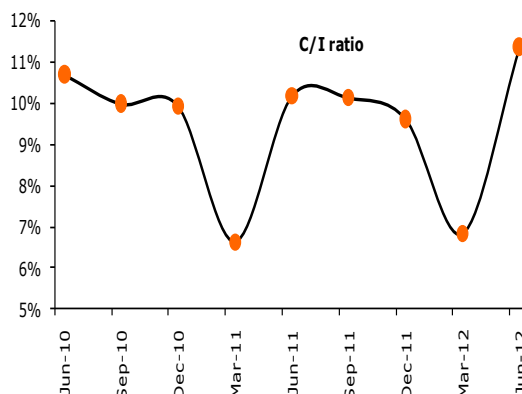


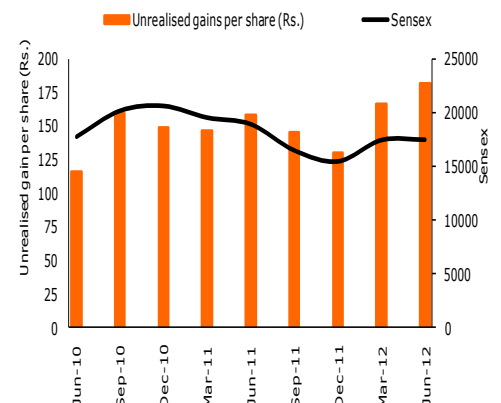
Exhibit 7: Improvement in cost to income ratio with market trends



Cost to income increased to 11.4% v/s 6.8% in Q4FY12.

Unrealized gains on listed equities stand at Rs 27,001 crore, 9.0% q-o-q

Exhibit 8: Unrealized gains corrected in line



Source: Company, KRChoksey Research

Financials**Income Statement**

Rs in crore	FY11	FY12	FY13E	FY14E
Interest earned	12025	16475	19227	22507
Interest expenses	7560	11157	12703	14751
Net Interest Income	4465	5318	6524	7756
-- Trading gains	854	879	930	1062
Non interest income	360	270	200	250
Operating income	5318	6198	7454	8818
Operating expenses	176	206	249	301
-Employee costs	206	246	307	379
-Other operating expenses	381	452	556	681
Pre-provision profits	4937	5746	6898	8137
Provisions	70	80	93	113
PBT	4867	5666	6805	8025
Provision for taxes	1332	1543	1853	2185
Net profit	3535	4123	4952	5839
Dividend (Inc. tax)	1534	1728	1901	2074
Core Operating profits	4577	5475	6698	7887
Core PAT	3274	3926	4806	5657

Spread Analysis

	FY11	FY12	FY13E	FY14E
Yield on housing loans	10.3%	10.3%	11.3%	11.0%
Cost of borrowings	7.1%	7.1%	8.4%	8.1%
Spread	3.2%	3.1%	3.0%	2.9%
Net interest margin	3.7%	3.7%	3.5%	3.5%

Core ratios

	FY11	FY12	FY13E	FY14E
Cost to income	7.2%	7.3%	7.5%	7.7%
RoAA	2.8%	2.7%	2.7%	2.7%
RoAE	21.7%	22.7%	24.1%	24.4%
Core RoA	2.9%	2.8%	2.8%	2.7%
Core RoE	41.1%	39.7%	39.1%	36.3%

Per Share Data

Per share data	FY11	FY12	FY13E	FY14E
EPS (Rs)	24.1	27.9	33.5	39.5
DPS (Rs)	10	12	13	14
BVPS (Rs)	118	129	149	175
Adj. BVPS (Rs)	60.6	70.0	90.7	116.2
PE (x)	28.1	24.3	20.2	17.1
PB (x)	5.7	5.3	4.5	3.9
Core P/B (x)	7.8	6.6	5.4	4.2
Core P/E (x)	19.1	16.6	13.8	11.6
Dividend yield (%)	1.5%	1.7%	1.9%	2.1%

Source: KRChoksey Research

Balance Sheet

Rs in crore	FY11	FY12	FY13E	FY14E
Equity capital	293	295	295	295
Reserve and Surplus	17023	18722	21773	25539
Net worth	17317	19018	22069	25834
Borrowings	115112	139128	165142	199084
CL and provisions	6814	9375	10416	12364
Total	139242	167520	197627	237282
Loans	117127	140875	170250	205242
Investments	11832	12207	12207	12207
Deferred tax assets	448	628	628	628
Current assets	9601	13576	14303	18960
Fixed assets	234	234	240	246
Total	139242	167520	197627	237282

DuPont Analysis

	FY11	FY12	FY13E	FY14E
Interest income	9.4%	10.7%	10.5%	10.4%
Interest expense	5.9%	7.3%	7.0%	6.8%
Net interest income	3.5%	3.5%	3.6%	3.6%
Non interest income	0.7%	0.6%	0.5%	0.5%
- trading gains	0.3%	0.2%	0.1%	0.1%
Operating income	4.2%	4.0%	4.1%	4.1%
Operating expenses	0.3%	0.3%	0.3%	0.3%
Pre- provision profits	3.9%	3.7%	3.8%	3.7%
Provisions	0.1%	0.1%	0.1%	0.1%
Profit before tax	3.8%	3.7%	3.7%	3.7%
Tax expense	1.0%	1.0%	1.0%	1.0%
Net profit	2.8%	2.7%	2.7%	2.7%
Adjusted PAT	2.6%	2.6%	2.6%	2.6%

Growth ratios

	FY11	FY12	FY13E	FY14E
Approvals	24%	20%	19%	19%
Disbursement	20%	18%	18%	19%
Loan growth	17%	20%	20%	0%
Net interest income	25%	19%	23%	19%
Non interest income	18%	3%	6%	14%
Pre- provision profits	24%	16%	20%	18%
Net profits	25%	17%	20%	18%

Rajiv Choksey	Director	rajiv.choksey@krchoksey.com	+91-22-6696 5555
Anuj Choksey	Head-Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Kunal Dalal	Head-Institutional Research	kunal.dalal@krchoksey.com	+91-22-6696 5574

HDFC Ltd			
Date	Recom	CMP (Rs)	TP (Rs)
12-Jul-12	BUY	678	741
7-Jul-12	BUY	684	741
12-Jan-12	BUY	650	770
4-Apr-12	BUY	675	782
12-Jan-12	BUY	688	783
5-Jan-12	BUY	666	787
17-Oct-11	BUY	673	785
4-Oct-11	BUY	634	796
11-Jul-11	HOLD	712	796

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 - 5%
Reduce	-5% - 0
Sell	Less than -5%

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.
Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai – 400 058.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.