

## HDFC

### Performance Highlights

Particulars (₹ cr)	2QFY14	1QFY14	% chg (qoq)	2QFY13	% chg (yoy)
NII	1,458	1,456	0.1	1294	12.7
Pre-prov. profit	1,736	1,638	6.0	1588	9.3
PAT	1,266	1,173	7.9	1151	10.0

Source: Company, Angel Research

HDFC reported an in-line standalone earnings performance for the quarter. Earnings at the PBT level, adjusted for dividends and sale of investments, grew at a healthy pace of 16.2%, in-line with expectations. Healthy loan book growth and stability witnessed on the asset quality front were the key highlights from the results.

**Loan book growth remains healthy:** For 1QFY2014, HDFC's loan book grew by a healthy 19.2% yoy, with loans to the individual segment growing by 29% yoy (after adding back sold loans) and 25.5% yoy (excluding sold back loans). HDFC has been incrementally growing its individual loan book, much faster than its corporate loan book, over the past 4-5 quarters. During the quarter, incremental growth in the loan book (including loans sold) came majorly through growth in individual loans, which now constitute 68% of the total loan book. The spreads were marginally down by 5bp at 2.24% for 1HFY2014 as compared to 2.29% for 1QFY2014, while the reported NIM came in at 4.1% as compared to 3.9% for 1QFY2014 and 4.2% for 2QFY2013. Asset quality continues to remain strong for the company, as its gross NPA ratio came in at 0.79%, as against 0.77% in 1QFY2014 and 0.74% in 4QFY2013. The company continues to maintain a 100% PCR. Going ahead, the NIMs are likely to continue facing modest pressures on back of higher incremental lending to individuals (individual loans have lower spreads compared to non-individual loans). However, with expectations of loan book growth at a CAGR of 19% over FY2013-15E, the earnings for the company (adjusting for dividends and profit on sale of investments) are expected to grow at around 17% CAGR over the same period.

**Outlook and valuation:** Overall, we expect HDFC to post a healthy PAT CAGR of 16.1% over FY2013-15E. Given the challenging macro developments, we believe within the BFSI space, defensive names like HDFC may not underperform the rest of the sector in spite of its rich valuations. At CMP, HDFC's core business (after adjusting ₹328/share towards the value of its subsidiaries) is trading at 3.3x FY2015E ABV. **We recommend a Neutral rating on the stock.**

#### Key financials (standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014E	FY2015E
NII*	4,998	5,927	6,926	8,118
% chg	17.7	18.6	16.8	17.2
Net profit	4,123	4,848	5,585	6,531
% chg	16.6	17.6	15.2	16.9
NIM (%)	3.6	3.6	3.5	3.4
EPS (₹)	27.9	31.4	35.9	42.0
P/E (x)	29.4	26.2	22.8	19.5
P/ABV (x)	6.4	5.1	4.6	4.1
RoA (%)	2.7	2.6	2.6	2.5
RoE (%)	22.7	22.0	21.1	22.2

Source: Company, Angel Research; Note: \* Core NII; CMP as of October 21, 2013

## NEUTRAL

CMP	₹820
Target Price	-
Investment Period	-

#### Stock Info

Sector	HFC
Market Cap (₹ cr)	127,843
Beta	1.0
52 Week High / Low	931/632
Avg. Daily Volume	227,541
Face Value (₹)	2
BSE Sensex	20,894
Nifty	6,205
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

#### Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	13.8
FII / NRIs / OCBs	73.3
Indian Public / Others	12.9

Abs. (%)	3m	1yr	3yr
Sensex	3.7	11.8	3.1
HDFC	2.1	9.1	16.5

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**Exhibit 1: Quarterly performance (standalone)**

Particulars (₹ cr)	2QFY2014	1QFY2014	qoq (%)	2QFY2013	yoy (%)	1HFY2014	1HFY2013	yoy (%)
Income from operations	5,859	5,557	5.4	5,175	13.2	11,416	10,090	13.1
Interest expensed	4,046	3,763	7.5	3,541	14.2	7,809	6,930	12.7
<b>NII</b>	<b>1,814</b>	<b>1,794</b>	<b>1.1</b>	<b>1,634</b>	<b>11.0</b>	<b>3,607</b>	<b>3,160</b>	<b>14.1</b>
Non-interest income	95	8	1,084.9	102	(6.9)	103	129	(20.6)
<b>Operating income</b>	<b>1,908</b>	<b>1,802</b>	<b>5.9</b>	<b>1,736</b>	<b>9.9</b>	<b>3,710</b>	<b>3,290</b>	<b>12.8</b>
Operating expenses	172	164	5.2	148	16.5	336	282	19.0
<b>Pre-prov. profit</b>	<b>1,736</b>	<b>1,638</b>	<b>6.0</b>	<b>1,588</b>	<b>9.3</b>	<b>3,374</b>	<b>3,008</b>	<b>12.2</b>
Provisions & cont.	15	30	(50.0)	40	(62.5)	45	80	(43.8)
PBT	1,721	1,608	7.0	1,548	11.2	3,329	2,928	13.7
Prov. for taxes	455	435	4.6	397	14.6	890	775	14.8
<b>PAT</b>	<b>1,266</b>	<b>1,173</b>	<b>7.9</b>	<b>1,151</b>	<b>10.0</b>	<b>2,439</b>	<b>2,153</b>	<b>13.3</b>
EPS (₹)	8.1	7.5	7.7	7.5	8.6	15.8	14.6	8.2
Cost-to-income ratio (%)	9.0	9.1		8.5		9.0	8.6	
Effective tax rate (%)	26.4	27.1		25.6		26.7	26.5	

Source: Company, Angel Research

**Exhibit 2: 2QFY2014 – Actual vs. Angel estimates**

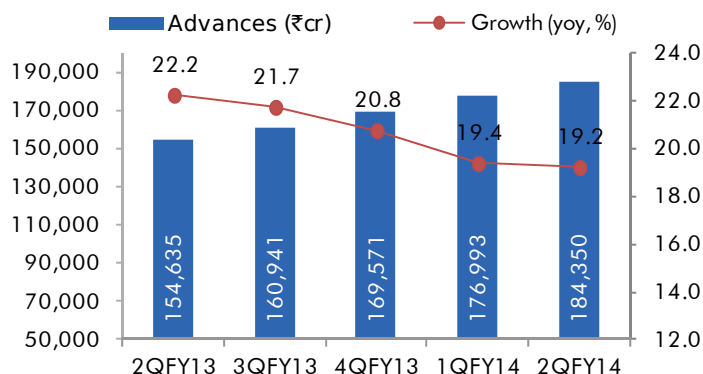
Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	1,814	1,847	(1.8)
Non-interest income	95	94	0.8
<b>Operating income</b>	<b>1,908</b>	<b>1,941</b>	<b>(1.7)</b>
Operating expenses	172	174	(1.3)
<b>Pre-prov. profit</b>	<b>1,736</b>	<b>1,767</b>	<b>(1.7)</b>
Provisions & cont.	15	49	(69.1)
PBT	1,721	1,718	0.2
Prov. for taxes	455	459	(0.8)
<b>PAT</b>	<b>1,266</b>	<b>1,259</b>	<b>0.6</b>

Source: Company, Angel Research

**Loan growth healthy; outlook remains robust**

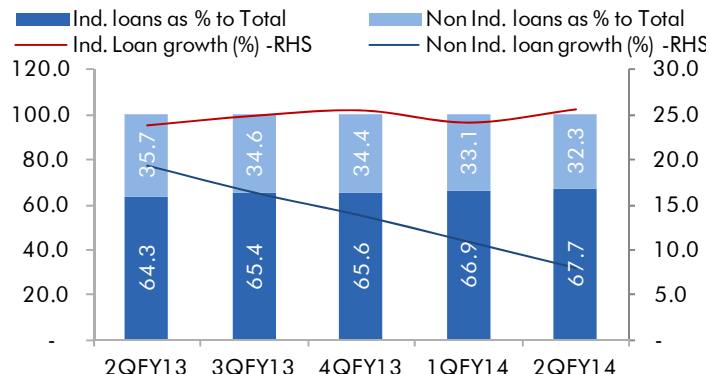
For 1QFY2014, HDFC's loan book grew by a healthy 19.2% yoy, with loans to the individual segment growing by 29% yoy (after adding back sold loans) and 25.5% yoy (excluding sold back loans). HDFC has been incrementally growing its individual loan book, much faster than its corporate loan book, over the past 4-5 quarters. During the quarter, incremental growth in the loan book (including loans sold) came majorly through growth in individual loans, which now constitute 68% of the total loan book. We have factored in a loan book CAGR of 19% over FY2013-15E.

**Exhibit 3: Loan book growth healthy at 19.2% yoy**



Source: Company, Angel Research

**Exhibit 4: Individual loan grew at a strong 24% yoy**



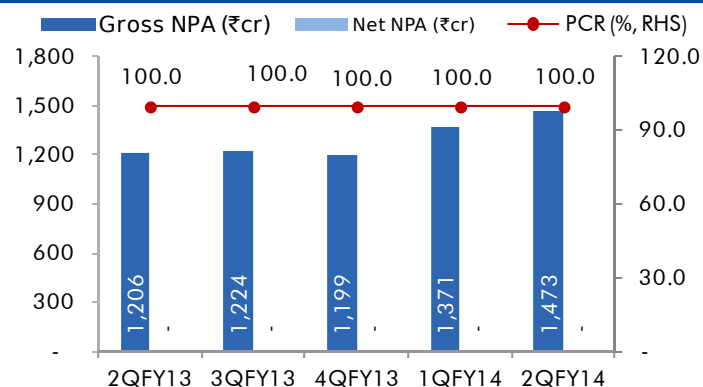
Source: Company, Angel Research

### Asset quality remains stable

During 2QFY2014, the asset quality for HDFC remained strong with the gross NPA ratio at 0.79%, marginally higher as compared to 0.77% reported in 1QFY2014 and 0.77% reported in 2QFY2013. Gross NPA ratio for the individual portfolio declined sequentially to 0.59% from 0.61% in 1QFY2014, while that for the non-individual portfolio increased to 1.19% from 1.08% in 1QFY2014 (primarily due to a single corporate account, which the Management expects to recover by year end). HDFC continues to maintain a 100% PCR. In fact, the company carries ₹493cr of excess provision over and above the regulatory requirement of ₹1,318cr.

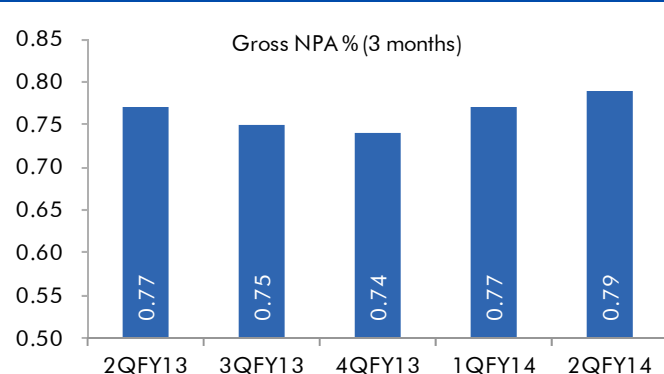
During 2QFY2014, the provisioning expenses for the company came in lower at ₹15cr, as compared to ₹40cr in 2QFY2013 and ₹30cr in 1QFY2014. During the quarter, NHB lowered the provisioning requirement on standard loans to commercial real estate developing residential properties, which led to a release of ₹46cr of standard asset provisions. The company has decided to utilize the release of provisioning proportionately over three quarters beginning 2QFY2014 by making lower provisions.

**Exhibit 5: NPA coverage remains at 100%**



Source: Company, Angel Research

**Exhibit 6: Gross NPA ratio stable sequentially**

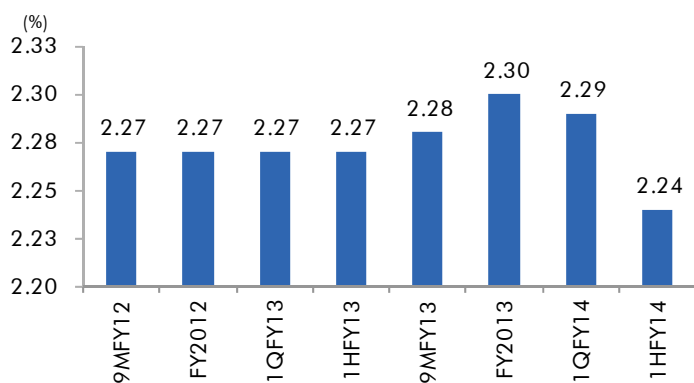


Source: Company, Angel Research

### Moderate NII growth

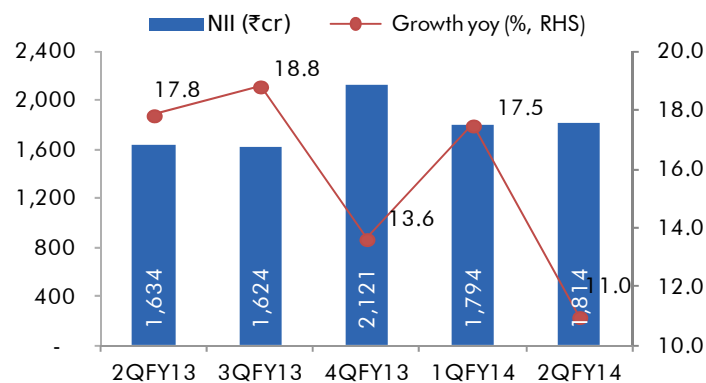
HDFC's NII rose moderately by 11.0% yoy to ₹1,814cr, despite a 19.4% yoy advances growth, primarily as the dividend income was lower on a yoy basis. Adjusting for dividend income, NII grew at 14% yoy. The spreads were marginally down by 5bp at 2.24% for 1HFY2014 as compared to 2.29% for 1QFY2014. Going ahead, the NIM is likely to continue to face modest pressure on account of higher incremental lending to individuals (individual loans have lower spreads compared to non-individual loans). However, with expectations of loan book growth at a CAGR of 19% over FY2013-15E, the earnings for the company (adjusting for dividends and profit on sale of investments) are expected to grow at around 17% CAGR over the same period.

**Exhibit 7: Spreads at 2.24% for 1HFY2014**



Source: Company, Angel Research

**Exhibit 8: NII yoy growth trend**



Source: Company, Angel Research

### Strong growth in MF income and Income from Fee & charges

For 2QFY2014, the company reported ₹87cr as profits on sale of investments, as compared to ₹94cr reported in 2QFY2013. Deployment in CMS of Mutual Funds generated an income of ₹120cr, witnessing a growth of 31.1% yoy. Fees and other charges came higher by 19.7% yoy to ₹63cr during the quarter.

### CAR improves on lowered risk weights on developer loan book

The CAR increased to 19.0% from 16.3% in 1QFY2014 and 16.2% in 4QFY2013 due to reduction in the risk-weights on loans to commercial real estate developing residential properties. The tier-I ratio stood at 16.5% as against 14.0% in 1QFY2014 and 13.8% in 4QFY2013.

## Investment arguments

### Robust loan sourcing and appraisal mechanism

The housing finance industry is a keenly competitive segment with banks having a significant presence. However, large housing finance companies, like HDFC, with a dedicated focus on the segment leading to robust loan-sourcing and appraisal as well as high credit rating enabling competitive cost of funds, should be able to withstand competition from banks, even going forward. The company also has one of the most well regarded top managements in the industry as well as a well established conservative risk management philosophy.

### Consistency in performance

HDFC has witnessed a healthy growth in its loan portfolio, registering a CAGR of 18.8% over FY2009-13. During the period, HDFC's earnings have also witnessed an equally healthy 20.7% CAGR. These have been backed by the company's strong asset quality, low operating costs and ability to keep cost of funds on the lower side.

During the last two years, HDFC has managed to clock a loan book CAGR of above 20%, despite a challenging growth environment. The loan growth to the commercial segment has been on a declining trend (13.5% yoy as of FY2013 compared to 19.1% yoy as of FY2012), which has prompted HDFC to alter its loan mix further towards the individual loan category (~81% of incremental growth in loan book during FY2013 and ~91% of incremental loan book growth in 1HFY2014 came from the individual loan segment) to drive its credit growth. Going ahead, NIMs are likely to face modest pressures on back of higher incremental lending to individuals but HDFC is expected to maintain a similar healthy loan growth trajectory going ahead. We have factored in a loan book CAGR of 19% over FY2013-15E.

### Outlook and valuation

Overall, we expect HDFC to post a healthy PAT CAGR of 16.1% over FY2013-15E. Given the challenging macro developments, we believe within the BFSI space, a defensive stock like HDFC may not underperform the rest of the sector in spite of its rich valuations. At CMP, HDFC's core business (after adjusting ₹328/share towards the value of its subsidiaries) is trading at 3.3x FY2015E ABV. **We recommend a Neutral rating on the stock.**

#### Exhibit 9: Angel EPS forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2014E	35.9	36.3	(1.0)
FY2015E	42.0	42.6	(1.4)

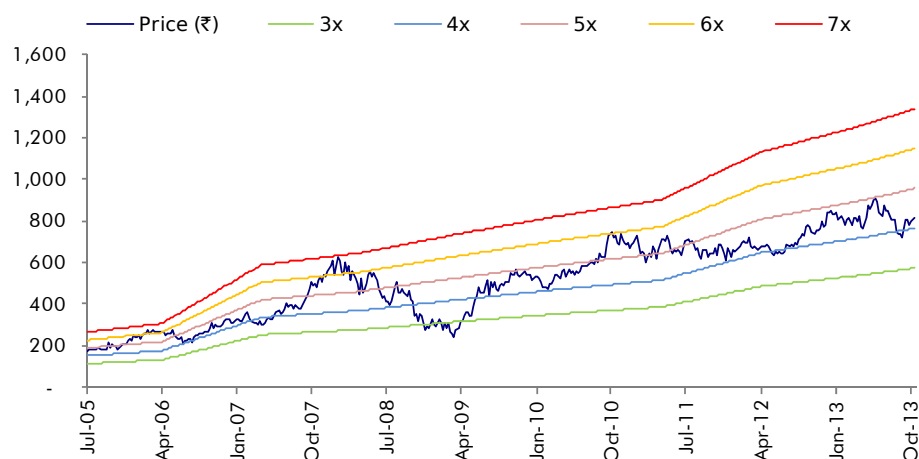
Source: Bloomberg, Angel Research

**Exhibit 10: Change in estimates**

Particulars (₹ cr)	FY2014E			FY2015E		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII*	6,974	6,926	(0.7)	8,274	8,118	(1.9)
Non-interest income	1,317	1,380	4.8	1,555	1,644	5.7
<b>Operating income</b>	<b>8,291</b>	<b>8,306</b>	<b>0.2</b>	<b>9,829</b>	<b>9,762</b>	<b>(0.7)</b>
Operating expenses	657	655	(0.3)	789	780	(1.2)
<b>Pre-prov. profit</b>	<b>7,634</b>	<b>7,651</b>	<b>0.2</b>	<b>9,041</b>	<b>8,982</b>	<b>(0.6)</b>
Provisions & cont.	139	101	(27.4)	156	157	0.6
<b>PBT</b>	<b>7,495</b>	<b>7,550</b>	<b>0.7</b>	<b>8,885</b>	<b>8,825</b>	<b>(0.7)</b>
Prov. for taxes	1,950	1,965	0.8	2,310	2,294	(0.7)
<b>PAT</b>	<b>5,545</b>	<b>5,585</b>	<b>0.7</b>	<b>6,574</b>	<b>6,531</b>	<b>(0.7)</b>

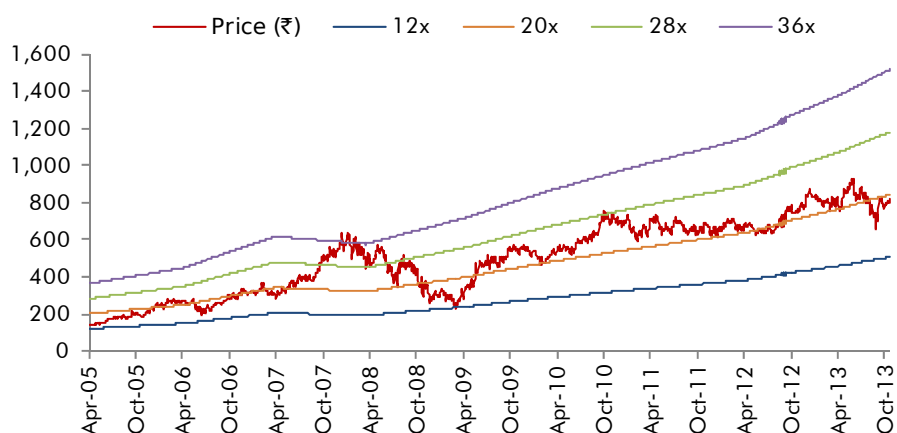
Source: Angel Research; Note\* Core NII

**Exhibit 11: P/ABV band**



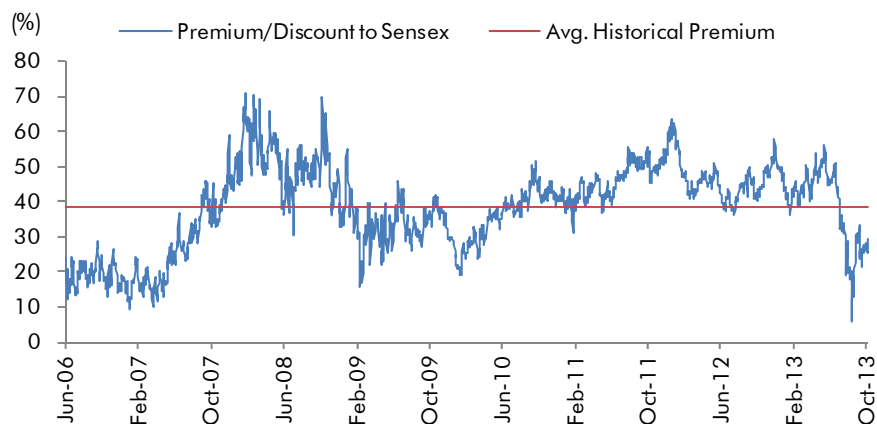
Source: Bloomberg, Angel Research;

**Exhibit 12: P/E band**



Source: Bloomberg, Angel Research

**Exhibit 13: HDFC – Premium/Discount to the Sensex**



Source: Bloomberg, Angel Research

**Company Background**

HDFC is India's leading housing finance company, with a balance sheet size of over ₹2.1 lakh cr. The company's primary business is to provide loans for the purchase or construction of residential houses. HDFC's distribution network spans 348 outlets, covering more than 2400 towns and cities across India. HDFC also has representative offices in London, Dubai and Singapore and service associates in Kuwait, Oman, Qatar, Sharjah, Abu Dhabi and Saudi Arabia to cater to NRIs. From its origins as a specialized mortgage company, HDFC has grown into a financial conglomerate with market leading group companies in banking, asset management and insurance.

**Income statement (standalone)**

Y/E March (₹ cr)	FY10	FY11	FY12	FY13	FY14E	FY15E
<b>NII*</b>	<b>3,388</b>	<b>4,247</b>	<b>4,998</b>	<b>5,927</b>	<b>6,926</b>	<b>8,118</b>
- YoY Growth (%)	10.9	25.4	17.7	18.6	16.8	17.2
<b>Other Income</b>	<b>910</b>	<b>1,071</b>	<b>1,199</b>	<b>1,329</b>	<b>1,380</b>	<b>1,644</b>
- YoY Growth (%)	71.3	17.7	12.0	10.8	3.9	19.1
<b>Operating Income</b>	<b>4,298</b>	<b>5,318</b>	<b>6,198</b>	<b>7,257</b>	<b>8,306</b>	<b>9,762</b>
- YoY Growth (%)	19.9	23.7	16.5	17.1	14.5	17.5
<b>Operating Expenses</b>	<b>324</b>	<b>381</b>	<b>452</b>	<b>539</b>	<b>655</b>	<b>780</b>
- YoY Growth (%)	2.4	17.7	18.6	19.3	21.6	19.0
<b>Pre - Provision Profit</b>	<b>3,974</b>	<b>4,937</b>	<b>5,746</b>	<b>6,718</b>	<b>7,651</b>	<b>8,982</b>
- YoY Growth (%)	21.6	24.2	16.4	16.9	13.9	17.4
<b>Prov. &amp; Cont.</b>	<b>58</b>	<b>70</b>	<b>80</b>	<b>145</b>	<b>101</b>	<b>157</b>
- YoY Growth (%)	16.0	20.7	14.3	81.3	(30.5)	55.4
<b>Profit Before Tax</b>	<b>3,916</b>	<b>4,867</b>	<b>5,666</b>	<b>6,573</b>	<b>7,550</b>	<b>8,825</b>
- YoY Growth (%)	21.7	24.3	16.4	16.0	14.9	16.9
<b>Prov. for Taxation</b>	<b>1,090</b>	<b>1,332</b>	<b>1,543</b>	<b>1,725</b>	<b>1,965</b>	<b>2,294</b>
- as a % of PBT	27.8	27.4	27.2	26.2	26.0	26.0
<b>PAT</b>	<b>2,826</b>	<b>3,535</b>	<b>4,123</b>	<b>4,848</b>	<b>5,585</b>	<b>6,531</b>
- YoY Growth (%)	23.8	25.1	16.6	17.6	15.2	16.9

Note: \*Core NII

**Balance sheet (standalone)**

Y/E March (₹ cr)	FY10	FY11	FY12	FY13	FY14E	FY15E
Share Capital	287	293	295	309	311	311
Reserve & Surplus	14,911	17,023	18,722	24,691	27,601	30,723
Loan Funds	96,565	115,112	139,128	158,828	188,259	225,355
- Growth (%)	15.2	19.2	20.9	14.2	18.5	19.7
Other Liabilities & Provisions	4,878	6,814	9,375	11,703	14,949	17,083
<b>Total Liabilities</b>	<b>116,641</b>	<b>139,242</b>	<b>167,520</b>	<b>195,531</b>	<b>231,120</b>	<b>273,472</b>
Investments	10,727	11,832	12,207	13,613	14,639	15,859
Advances	97,967	116,806	140,422	169,571	201,789	240,129
- Growth (%)	15.0	19.2	20.2	20.8	19.0	19.0
Fixed Assets	222	234	234	238	283	337
Other Assets	7,725	10,370	14,657	12,109	14,409	17,147
<b>Total Assets</b>	<b>116,641</b>	<b>139,242</b>	<b>167,520</b>	<b>195,531</b>	<b>231,120</b>	<b>273,472</b>



**Ratio analysis (standalone)**

Y/E March	FY10	FY11	FY12	FY13	FY14E	FY15E
<b>Profitability ratios (%)</b>						
NIMs	3.4	3.6	3.6	3.6	3.5	3.4
Cost to Income Ratio	7.5	7.2	7.3	7.4	7.9	8.0
RoA	2.6	2.9	2.7	2.6	2.6	2.5
RoE	20.0	21.7	22.7	22.0	21.1	22.2
<b>Asset Quality (%)</b>						
Gross NPAs	0.80	0.77	0.76	0.71	0.71	0.67
Net NPAs	0.13	-	-	-	-	-
Provision Coverage	83.7	100.0	100.0	100.0	100.0	100.0
<b>Per Share Data (₹)</b>						
EPS	19.7	24.1	27.9	31.4	35.9	42.0
ABVPS (75% cover.)	105.9	118.1	128.8	161.7	179.6	199.7
DPS	7.2	9.0	11.0	12.5	14.3	16.7
<b>Valuation Ratios</b>						
PER (x)	41.7	34.0	29.4	26.2	22.8	19.5
P/ABVPS (x)	7.7	6.9	6.4	5.1	4.6	4.1
<b>DuPont Analysis<sup>#</sup></b>						
NII	3.3	3.5	3.4	3.4	3.4	3.3
(-) Prov. Exp.	0.1	0.1	0.1	0.1	0.0	0.1
Adj. NII	3.2	3.5	3.4	3.3	3.3	3.3
Treasury	0.2	0.3	0.2	0.2	0.1	0.1
Int. Sens. Inc.	3.4	3.8	3.6	3.5	3.4	3.4
Other Inc.	0.6	0.5	0.5	0.4	0.4	0.4
Op. Inc.	4.0	4.3	4.1	3.9	3.8	3.8
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	3.7	4.0	3.8	3.6	3.5	3.5
Taxes	1.1	1.1	1.1	1.0	1.0	0.9
<b>RoA</b>	<b>2.6</b>	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>
Leverage	12.0	14.2	14.4	12.6	11.2	11.5
<b>RoE</b>	<b>31.6</b>	<b>40.8</b>	<b>39.3</b>	<b>33.2</b>	<b>28.8</b>	<b>28.9</b>

Note: <sup>#</sup> Core RoEs excluding income and investments in subsidiaries

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### Disclosure of Interest Statement

	HDFC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

### Ratings (Returns):

Buy (&gt; 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)