

# HDFC Ltd (HDFC)

₹ 821

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹750 to ₹763
EPS (FY14E) .....	Unchanged
EPS (FY15E) .....	Unchanged
RATING .....	Unchanged

## Spreads contract, NPAs see uptick...

HDFC's Q2FY14 results were largely in line with our estimates. Credit growth of 19% YoY and spread contracted QoQ leading to flat net interest income (NII) sequentially and 12.7% growth YoY. On the asset quality front, a single large corporate account was liable for ~₹ 100 crore QoQ rise in GNPA to ₹ 1473 crore. It was already declared NPA in Q1FY14 but HDFC's o/s to the same company in all other projects were also classified NPA in Q2 as per NHB regulations. In total, ~₹ 460 crore NPA was due to this account against which the company holds adequate collateral. However, provisions were on the lower side at ₹ 15 crore as NHB reduced the provisioning on standard commercial real estate –Residential housing. This released provisioning is being spread over three quarters (~₹ 45 crore each) starting Q2FY14. Overall, steady performance with 12.2% PAT CAGR over FY13-15E is expected. We maintain HOLD.

### Credit growth in line, other income growth flattish YoY

Credit growth of 19% YoY to ₹ 184886 crore (up by ₹ 7893 crore) was led by individual loans, which grew 25.5% YoY to ₹ 124749 crore (up by ₹ 6320 crore QoQ). NIM was maintained at 4.1% as HDFC took a base rate hike of 25 bps. However, spreads declined from 2.29% to 2.24% QoQ. NII was hit by ~₹ 50 crore due to interest income reversal on the corporate account classified as NPA. Other income growth was flattish as dividend income from HDFC Bank was received in Q1FY14 itself.

### Rising competition in home loans and volatile CoF impact NIM for FY14

HDFC funds half of its borrowings from bonds and commercial papers, wherein the cost has increased post the interest rate hike by RBI. On the other hand, competition in the home loan space may restrict HDFC from passing on the entire cost to borrowers, thereby impacting its spread and NIM. Overall, asset quality may continue to remain stable but may witness some spike in corporate loan portfolio (31.4% of loan book).

### Maintain HOLD

HDFC may continue to command rich valuations due to a steady performance across the economic cycles. Healthy return ratios (RoE > 20%, RoA ~2.5%) over FY13-15E remain key strengths. We value the standalone business at 2.6x FY15E ABV (₹ 480/share) and subsidiaries (₹ 283/share) higher due to HDFC Bank, with TP of ₹ 763. Maintain HOLD.

### Exhibit 1: Financial Performance

₹ Crore	Q2FY14	Q2FY14E	Q2FY13	Q1FY14	YoY Gr(%)	QoQ Gr.(%)
NII	1458.5	1503.6	1294.2	1456.5	12.7	0.1
Non Interest income	449.9	343.7	441.7	345.1	1.9	30.3
Total Income	1908.3	1847.2	1735.8	1801.6	9.9	5.9
PBT	1721.3	1633.2	1548.2	1608.1	11.2	7.0
PAT	1266.3	1158.9	1151.2	1173.1	10.0	7.9

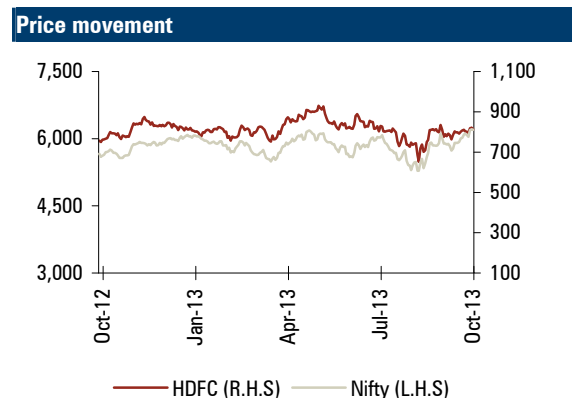
Source: Company Quarterly Presentation, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Hold</b>
Target	: ₹ 763
Target Period	: 12 months
Potential Upside	: -7%

Key Financials				
₹ crore	FY12	FY13	FY14E	FY15E
NII	4,998	5,927	6,490	7,618
PPP	5,746	6,718	7,370	8,577
PAT	4,123	4,848	5,313	6,103

Valuation summary				
	FY12	FY13	FY14E	FY15E
Net Profit (₹ crore)	4122.6	4848.3	5313.5	6102.8
EPS (₹)	27.9	31.4	34.4	39.5
Growth (%)	15.8	12.3	9.6	14.9
P/E (x)	29.4	26.2	23.9	20.8
Price / Book (x)	6.6	5.2	4.7	4.3
ABV (Rs)	124.5	157.6	173.3	191.8
Price / Adj Book (x)	6.6	5.2	4.7	4.3
GNPA (%)	0.8	0.7	0.7	0.7
NNPA (%)	0.0	0.0	0.0	0.0
RoNA (%)	2.7	2.7	2.5	2.5
RoE (%)	22.7	22.0	20.3	21.3

Stock data	
Market Capitalisation	₹ 126296 crore
GNPA (Q2FY14)	₹ 1473 crore
NNPA (Q2FY14)	Nil
NIM (H1FY14) (reported)	4.1%
52 week H/L	931/632
Equity capital	₹ 312 crore
Face value	₹ 2
DII Holding (%)	13.8
FII Holding (%)	73.1



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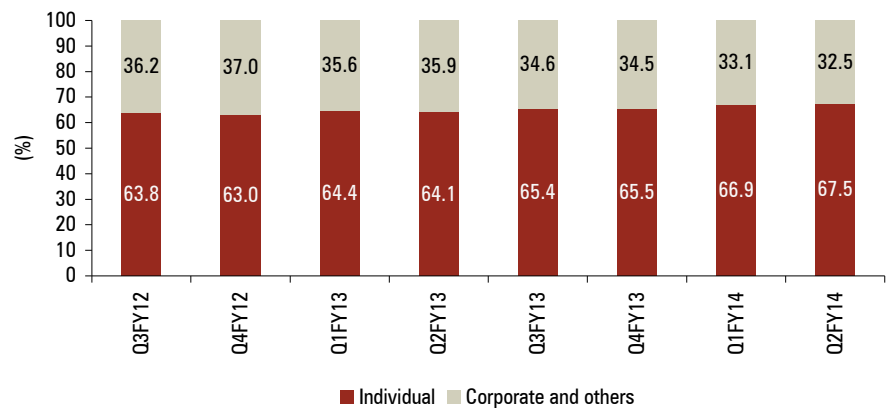
### Exhibit 2: Assumptions

(Year-end March)	FY12	FY13	FY14E	FY15E
Disbursements (% growth)	17.9	16.0	16.0	16.0
Housing loans outstanding (% growth)	20.2	20.8	18.7	17.6
Loan Mix				
-Individual (%)	63.0	65.5	67.8	67.4
-Corporate (%)	35.6	33.5	31.3	31.6
Funding Mix				
-Bonds & Debentures (%)	44.7	56.1	49.7	49.1
-Deposits (%)	26.1	32.7	30.6	31.7
-Term loans (%)	29.3	11.2	19.7	19.2

Source: Company, ICICIdirect.com Research

During Q2FY14, the total loan book increased 19% YoY to ₹ 184886 crore. Individual loan book momentum stayed strong at 25.5% YoY while the corporate loan book growth was modest at 8% YoY. We have factored in outstanding loan CAGR of 19% over FY13 -15E

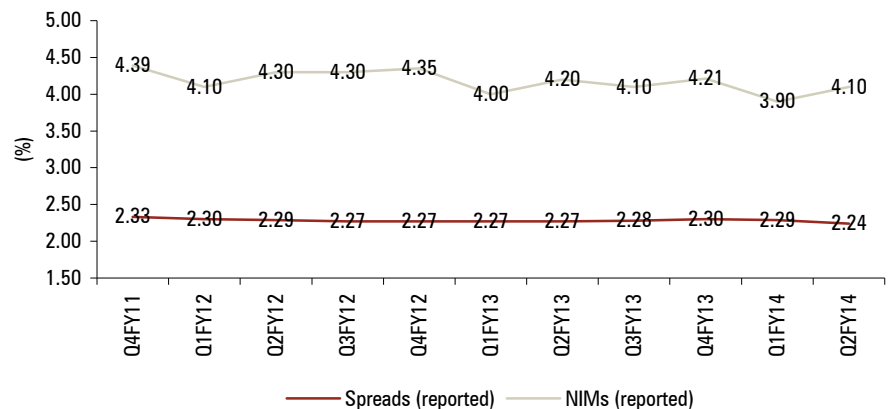
### Exhibit 3: Retail growth continues to remain strong, proportion rises 60 bps QoQ to 67.5%



Source: Company, ICICIdirect.com Research

The NIM has been maintained consistently at ~4%. The management aims to maintain NIM at current levels, going ahead. In Q2FY14, it rose due to profits booked in liquid funds

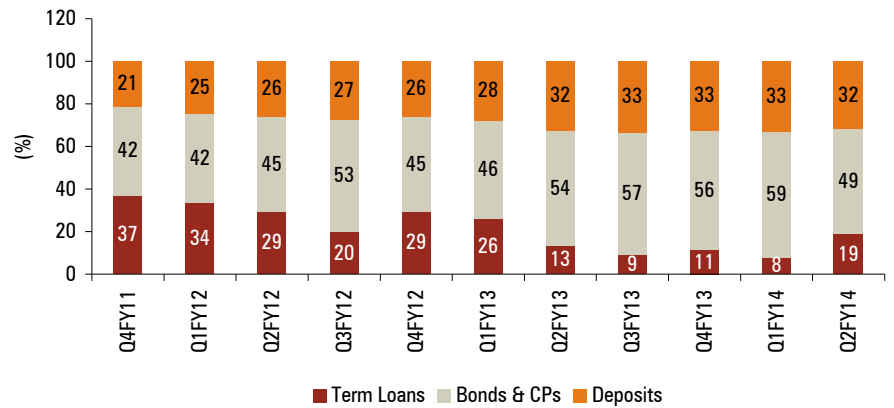
### Exhibit 4: NIM maintained at healthy levels on consistent basis



Source: Company, ICICIdirect.com Research

HDFC has tilted its portfolio more towards term loans in Q2FY14 and reduced its proportion of bonds and commercial paper as the wholesale borrowing cost had increased during Q2FY14

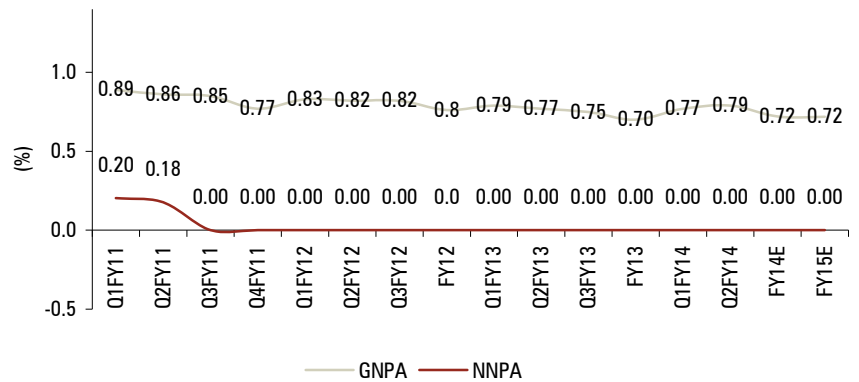
**Exhibit 5: Borrowings from bank increase in Q2FY14 as cost of bonds & CPs rise**



Source: Company, ICICIdirect.com Research

Asset quality witnessed a mild uptick as the GNPA ratio rose from 77 bps to 79 bps in Q2FY14 but still remains manageable

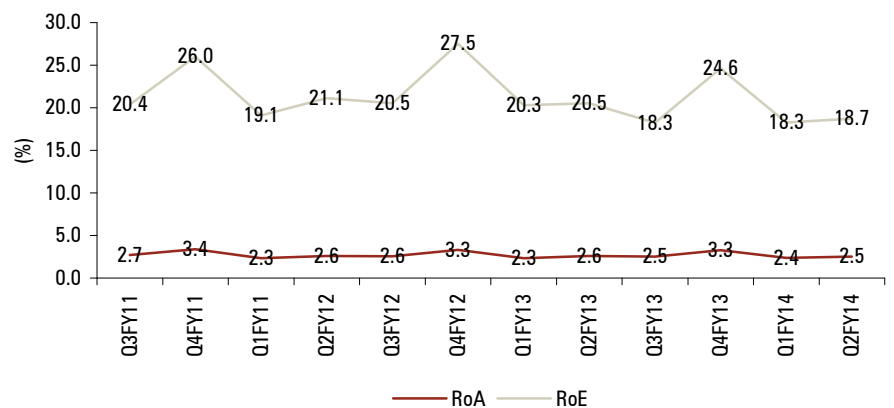
**Exhibit 6: Asset quality steady**



Source: Company, ICICIdirect.com Research

GNPA in the individual portfolio was largely steady QoQ at 0.59% (0.61% in Q1FY14). The non-individual book witnessed a deterioration in asset quality as the GNPA ratio rose 11 bps sequentially to 1.19%. We expect stable asset quality, going ahead.

**Exhibit 7: Expect return ratios to be healthy**



Source: Company, ICICIdirect.com Research

**Exhibit 8: Consolidated overview**

Particulars	Q2FY14	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Growth (%)	
						YoY	QoQ
<b>REVENUES</b>							
Revenue from Operations	10250	8525	11184	10220	8719	18	20
Housing	6199	5563	5883	5417	5285	17	11
Life Insurance	3187	2223	4562	4137	2819	13	43
General Insurance	463	446	411	384	364	27	4
Asset Management	346	237	244	212	203	70	46
Others	56	57	84	71	48	18	-1
Net Revenue from Operations	9983	8483	11043	10139	8682	15	18
Profit/Loss Before Interest and Tax	2276	1932	2546	1875	1807	26	18
Housing	1777	1442	2178	1591	1354	31	23
Life Insurance	154	282	150	127	218	-29	-45
General Insurance	75	61	60	34	55	36	22
Asset Management	258	136	125	114	108	140	89
Others	12	11	33	8	72	-84	13
<b>PBT</b>	<b>2054</b>	<b>1928</b>	<b>2451</b>	<b>1823</b>	<b>1778</b>	<b>16</b>	<b>7</b>

Source: Company, ICICIdirect.com Research

Consolidated profits grew strongly by 20% YoY to ₹ 1891 crore. HDFC AMC reported a healthy performance with PBT growth of 140% YoY and 89% QoQ to ₹ 136 crore.

## Valuation

HDFC is expected to command rich valuations due to a steady performance across economic cycles. Healthy return ratios (RoE > 20%, RoA ~2.5%) over FY13-15E remain key strengths. We have valued the standalone business at 2.6x FY15E ABV (₹ 480/share) and added the value of subsidiaries (₹ 283/share) to arrive at the target price of ₹ 763. We maintain our **HOLD** recommendation on the stock.

### Exhibit 9: Valuation

Business Segment	FY15E ₹/share
HDFC Ltd	480
HDFC Bank	192
HDFC AMC	25
HDFC Std. Life	45
HDFC ERGO	2
GRUH Finance	16
Unrealised Gains	4
Value per share of HDFC	763

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

	₹ Crore			
(Year-end March)	FY12	FY13	FY14E	FY15E
Interest Earned	16155.1	19818.4	21990.7	24919.2
Interest Expended	11156.8	13890.9	15500.7	17301.3
<b>Net Interest Income</b>	<b>4,998.3</b>	<b>5927.5</b>	<b>6490.0</b>	<b>7617.9</b>
% growth	17.7	18.6	9.5	17.4
Non Interest Income	1199.0	1329.3	1512.1	1655.5
<b>Net Income</b>	<b>6,197.3</b>	<b>7256.7</b>	<b>8002.0</b>	<b>9273.4</b>
Employee cost	205.8	246.2	284.3	318.6
Other operating Exp.	246.1	292.7	347.9	377.4
Operating Income	5746.0	6717.8	7369.8	8577.4
Provisions	80.0	145.0	135.8	217.3
PBT	5666.0	6572.8	7234.0	8360.1
Taxes	1543.0	1724.5	1920.5	2257.2
<b>Net Profit</b>	<b>4,122.6</b>	<b>4848.3</b>	<b>5313.5</b>	<b>6102.8</b>
% growth	16.6	17.6	9.6	14.9
<b>EPS (₹)</b>	<b>27.9</b>	<b>31.4</b>	<b>34.4</b>	<b>39.5</b>

Source: Company, ICICIdirect.com Research

### Key ratios

(Year-end March)	FY12	FY13	FY14E	FY15E
<b>Valuation</b>				
No. of Equity Shares	147.7	154.6	154.6	154.6
EPS (Rs.)	27.9	31.4	34.4	39.5
BV (Rs.)	124.5	157.6	173.3	191.8
BV-ADJ (Rs.)	124.5	157.6	173.3	191.8
P/E	29.4	26.2	23.9	20.8
P/BV	6.6	5.2	4.7	4.3
P/adj.BV	6.6	5.2	4.7	4.3
<b>Yields &amp; Margins</b>				
Yield on interest earning assets	12.2	12.4	11.5	11.1
Avg. cost on funds	8.8	9.3	9.0	8.5
Net Interest Margins	3.8	3.7	3.4	3.4
Spreads	3.4	3.0	2.5	2.6
Adjusted spreads *	2.9	2.6	2.0	2.1
<b>Quality and Efficiency</b>				
Cost / Total net income	7.3	7.4	7.9	7.5
GNPA%	0.8	0.7	0.7	0.7
NNPA%	0.0	0.0	0.0	0.0
RONW (%)	22.7	22.0	20.3	21.3
ROA (%)	2.7	2.7	2.5	2.5

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

### Balance sheet

	₹ Crore			
(Year-end March)	FY12	FY13	FY14E	FY15E
<b>Sources of Funds</b>				
Capital	295.4	309.3	309.3	309.3
Reserves and Surplus	18722.2	24690.7	26997.9	29755.0
Networth	19017.6	25000.0	27307.2	30064.2
Secured Loans	95927.2	90871.8	110715.7	129228.7
Unsecured Loans	43200.2	67956.3	76148.1	90492.0
Other Liabilities & Provisions	9375.0	11702.6	12747.6	13997.9
<b>Total</b>	<b>167520.0</b>	<b>195530.7</b>	<b>226918.5</b>	<b>263782.8</b>
<b>Applications of Funds</b>				
Fixed Assets	234.0	237.9	245.3	256.4
Investments	12207.0	13613.5	13155.1	14070.8
Advances	140421.7	169570.7	201245.1	236754.3
Other Assets	14657.3	12108.7	12273.0	12701.2
<b>Total</b>	<b>167520.0</b>	<b>195530.7</b>	<b>226918.5</b>	<b>263782.8</b>

Source: Company, ICICIdirect.com Research

### Growth ratios

(Year-end March)	FY12	FY13	FY14E	FY15E
(% growth)				
Total assets	20.3	16.7	16.1	16.2
Advances	20.2	20.8	18.7	17.6
Borrowings	20.9	14.2	17.7	17.6
Total Income	34.8	21.9	11.1	13.1
Net interest income	17.7	18.6	9.5	17.4
Operating expenses	18.6	19.3	17.3	10.1
Operating profit (excl trading)	25.5	22.7	15.1	21.1
Net profit	16.6	17.6	9.6	14.9
Book value	6.2	32.5	10.0	10.7
EPS	15.8	12.3	9.6	14.9

Source: Company, ICICIdirect.com Research

## Company Description

Housing Development Finance Corporation (HDFC) is the market leader in the domestic housing finance market with ~17% market share and loan book of ₹ 184886 crore as on Q2FY14. It enjoys spreads of 2.2-2.3% and margins of ~4%. The corporation's main business is to provide loans for the purchase or construction of residential houses. The company has a pan-India distribution network of 331 outlets, which include 81 offices of HDFC's distribution company, HDFC Sales Pvt Ltd (HSPL). In addition, HDFC covers over 90 locations through its outreach programmes. Distribution channels form an integral part of the distribution network with home loans being distributed through HSPL, HDFC Bank and other third party selling associates. To cater to non-resident Indians, HDFC has offices in London, Dubai and Singapore and service associates in Kuwait, Oman, Qatar, Sharjah, Abu Dhabi and Saudi Arabia – Al Khobar, Jeddah and Riyadh. Its major subsidiaries include HDFC Bank, Gruh Finance, HDFC AMC, HDFC Standard Life and HDFC Ergo.

### Exhibit 10: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

### Exhibit 11: Recent Releases

Date	Event	CMP	Target Price	Rating
21-Jan-13	Q3FY13 Result Update	814	792	Hold
5-Apr-13	Q4FY13 Result Preview	792	792	Hold
28-Jun-13	Q4FY13 Result Update	885	860	Hold
5-Jul-13	Q1FY14 Result Preview	852	860	Hold
22-Jul-13	Q1FY14 Result Update	829	860	Hold
7-Oct-13	Q2FY14 Result Preview	802	750	Hold

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 (%)		
					FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
IDFC (IDFC)	101	106	Hold	15,334	12.1	13.5	15.4	8.4	7.5	6.6	1.2	1.1	0.9	2.8	2.7	2.8	14.1	14.1	14.3
LIC Housing Finance (LICHF)	208	160	Sell	10,499	20.3	19.7	22.8	10.3	10.5	9.1	1.6	1.5	1.3	1.4	1.1	1.1	16.3	13.9	14.6
Reliance Capital (RELCAP)	363	375	Hold	8,909	33.0	19.9	25.6	11.0	18.2	14.2	0.9	0.9	0.9	2.1	1.1	1.3	6.9	4.1	5.1
HDFC (HDFC)	821	763	Hold	126,296	31.4	34.4	39.5	26.2	23.9	20.8	5.2	4.7	4.3	2.7	2.5	2.5	22.0	20.3	21.3

Source: Company, ICICIdirect.com Research



## RATING RATIONALE

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Hold: Up to +/-10%;  
Sell: -10% or more;



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## ANALYST CERTIFICATION

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