investor's eye

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Index

Housing Development Finance Corporation

Evergreen

Stock Update

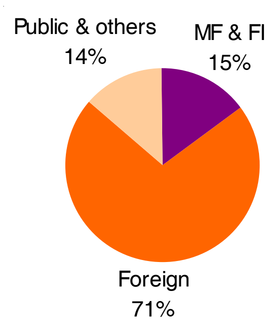
A steady performance

Buy; CMP: Rs678

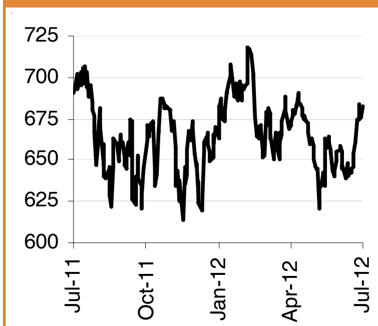
Company details

Price target:	Rs785
Market cap:	Rs100,762 cr
52-week high/low:	Rs726/ 601
NSE volume: (no. of shares)	39.8 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (no. of shares)	148.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.8	3.3	1.5	-2.8
Relative to Sensex	0.0	0.2	-7.9	2.4

Result highlights

- HDFC's Q1FY2013 results were broadly in line with our estimates as its net profit grew by 18.6% year on year (YoY; down 24.4% sequentially) to Rs1,002 crore driven by a strong growth in the net interest income (NII) and a higher dividend income (up 21% YoY).
- The NII increased by 19.1% YoY; down 25.2% sequentially to Rs1,304 crore. This was led by a strong growth in the loans and stable interest spreads.
- During Q1FY2013 the overall loans expanded by a strong 23% YoY (by 19% excluding the loans sold). The individual loans were up 29% YoY (up 23% excluding the loans sold) while the interest spreads remained stable at 2.27%.
- The loan approvals saw a growth of 17% compared with the 20% growth in FY2012 whereas the disbursements grew by 20% during the quarter.
- However, the gross non-performing assets (NPAs) expanded slightly on a quarter-on-quarter (Q-o-Q) basis as the gross NPAs (GNPAs) were at 0.79% vs 0.74% in Q4FY2012 (based on six-month overdue, the GNPAs stood at 0.49% vs 0.44% in Q4FY2012). The outstanding provisions including the standard asset provisions on the balance sheet stood at Rs1,711 crore as against the GNPAs of Rs1,190 crore.

Valuation

HDFC continues to grow its book at a healthy rate despite a challenging environment. The growth is aided by a strong distribution network (metro and non-metro regions both) and competitive pricing of products. We expect the loan book to expand at a compounded annual growth rate (CAGR) of 20% over FY2012-14 leading to a growth of 19% (CAGR) in the earnings. We maintain our Buy recommendation on HDFC with a sum-of-the-parts (SOTP) based price target of Rs785 (valuing the subsidiaries and investments at Rs235 per share).

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Interest earned	1,304.2	3609.8	-63.9	4,682.3	-72.1
Interest expense	3,388.2	2514.9	34.7	2,938.9	15.3
Net interest income	1,304.2	1094.8	19.1	1,743.4	-25.2
Other income	249.9	211.8	18.0	208.7	19.7
Net total income	1,554.1	1306.7	18.9	1,952.1	-20.4
Operating expenses	134.2	113.2	18.6	103.0	30.3
Operating profit	1,419.9	1193.5	19.0	1,849.1	-23.2
PBT	1,379.9	1175.5	17.4	1,824.1	-24.4
TAX	378.0	331	14.2	498.0	-24.1
PAT	1,001.9	844.5	18.6	1,326.1	-24.4
Interest spread (%)	2.3	2.3		2.3	0.0
GNPA (%)	0.8	0.8		0.7	

NII growth remains healthy

HDFC's NII growth for Q1FY2013 was in line with our estimate as the NII grew by 19% YoY to Rs1,304 crore. The growth in the NII was led by a strong growth in the advances and stable interest spreads. The interest spreads remained stable at 2.27% even though the margin declined sequentially by 90 basis points to 4.0%. Going ahead, the dual home loans of about Rs20,000 crore—likely to be repriced in FY2013—may support the interest spread during the year.

Steady growth in retail loans, new approvals slowing

Despite concerns of slowing credit growth HDFC's loan book grew at a healthy rate of 19.4% YoY (up 23% excluding the loans sold). Unlike in Q4FY2012, this time the loan growth was driven by the retail segment, which grew by 23% YoY (up 29% excluding the loans sold). The corporate loans grew by 13.8% YoY and by 1.6% quarter on quarter (QoQ). However, the loan approvals grew by 17% as against by 20% in FY2012 while the disbursements grew by 20% during the quarter. The company has been planning to sustain the growth in book by increasing the focus on new geographies and the non-metro regions.

Non-interest income up 18%, muted growth in fee income

Led by a 21% Y-o-Y growth in the dividend income the non-interest income grew by 18% YoY and by 19.7% QoQ. However, the fee income grew by 7.7% YoY (up 2.9% QoQ) due to slower approvals and the scrapping of the prepayment charges. The income from the sale of investments grew by 24.5% YoY (down 74.4% QoQ).

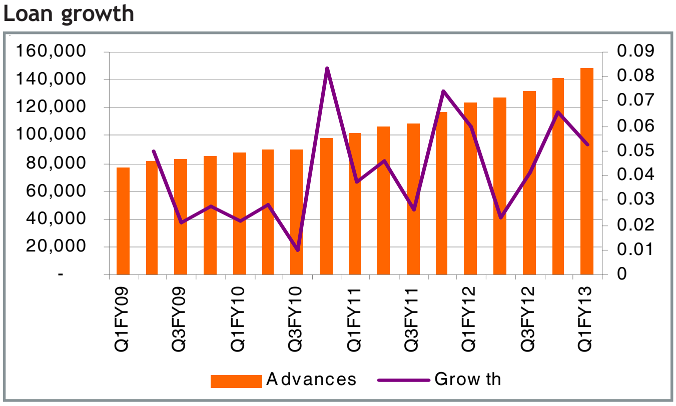
Asset quality remains healthy

The GNPAs inched up marginally QoQ to 0.79% vs 0.74% in Q4FY2012 (on a 90-day basis). Based on six-month overdue, the GNPAs were 0.48% vs 0.44% in Q4FY2012. The provisions increased to Rs40 crore from Rs18 crore in Q1FY2012. HDFC continues to carry surplus provisions as it has provisions of Rs1,711 crore against NPAs of Rs1,190 crore.

Valuations

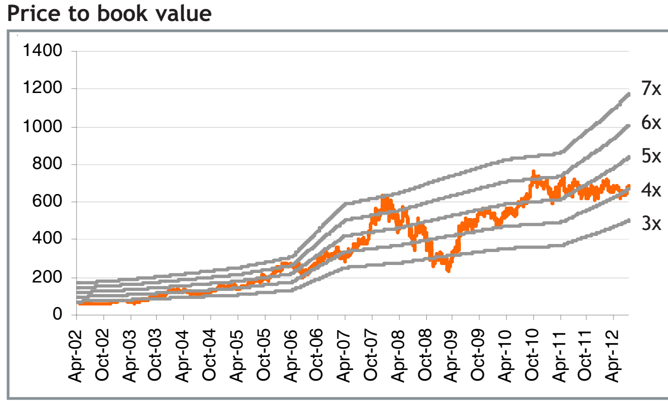
HDFC continues to grow its disbursements at a healthy rate despite a challenging environment. This is on account of its strong distribution network (metro and non-metro regions both) and competitive pricing of products over and above a diversified liability base. The asset quality is also expected to remain strong led by strong risk management. We expect the loan book to expand at a CAGR of 20% over FY2012-14 leading to a growth of 19% (CAGR) in the earnings. Going ahead, as the operating environment improves the performance of the subsidiaries (insurance, asset management etc) should also improve, boosting the overall valuations and leading to a re-rating of the stock. We maintain our Buy rating on HDFC with an SOTP based price target of Rs785 (valuing the subsidiaries and investments at Rs235 per share).

Loan growth



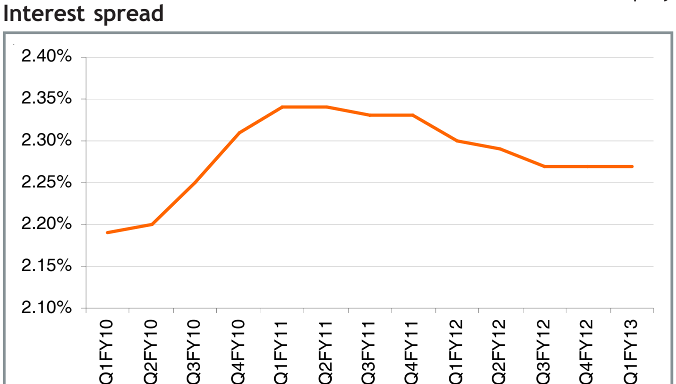
Source: Company

Price to book value



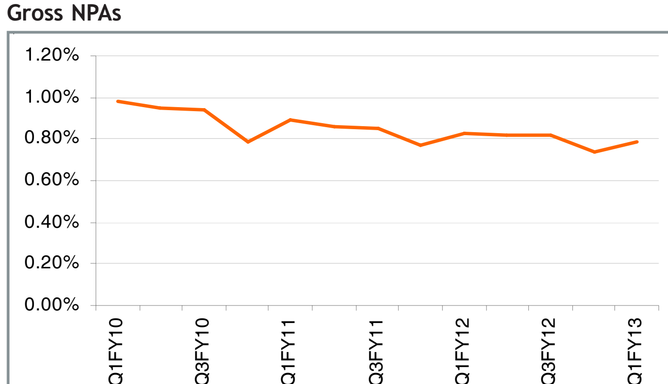
Source: Company

Interest spread



Source: Company

Gross NPAs



Source: Company

Financials

Profit & Loss statement

(Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net interest income	3,388	4,247	4,998	6,110	7,569
Other income	910	1,072	1,199	1,347	1,515
Operating expenses	306	362	431	520	629
Operating profit	3,992	4,957	5,766	6,937	8,454
Depreciation & provision	76	89	101	146	170
PBT	3,916	4,868	5,666	6,791	8,284
Tax	1,090	1,332	1,543	1,902	2,402
PAT before EO	2,826	3,536	4,123	4,890	5,882

Balance sheet

(Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity capital	287	293	295	305	305
Reserves & surplus	14,911	17,023	17,822	23,509	29,783
Networth	15,198	17,317	18,118	23,814	30,088
Borrowings	96,565	115,410	139,128	164,034	194,623
Term Loans	32,137	42,490	40,697	50,627	63,638
Bonds, debentures	41,347	48,296	62,138	68,041	74,505
Deposits	23,081	24,625	36,293	45,366	56,481
Current liabilities & provisions	4,878	6,775	10,275	11,302	12,432
Total liabilities	116,641	139,502	167,520	199,150	237,143
Assets					
Loans	97,967	117,127	140,422	168,506	202,713
Investments	10,727	11,832	12,207	13,672	15,278
Deferred tax asset	286	448	628	722	831
Current assets, loans and advances	7,439	9,861	14,029	15,993	18,072
Net block	222	234	234	257	249
Total assets	116,641	139,502	167,520	199,150	237,143

Key ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Per share data					
EPS	19.7	24.1	27.9	32.0	38.5
BV	105.9	118.1	122.7	156.2	197.3
ABV	84.8	96.6	100.2	133.3	173.2
Spreads (%)					
Yield on funds	9.6	9.2	10.6	10.0	9.65
Cost of funds	7.8	7.1	8.8	8.0	7.8
Net interest margins	3.1	3.3	3.3	3.3	3.5
Operating ratios (%)					
Interest expended/ Interest earned	67.6	64.0	69.1	66.6	65.0
Cost to income	7.1	6.8	7.0	7.0	6.9
Non interest income / Total income	8.0	8.3	6.9	6.9	6.6
Return ratios (%)					
RoE	18.6	20.4	22.8	20.5	19.5
RoA	2.6	2.8	2.7	2.7	2.7
Assets/Equity	7.7	8.1	9.2	8.4	7.9
Growth ratios (%)					
Net interest income	10.9	25.4	17.7	22.2	23.9
PPP	21.5	24.2	16.3	20.3	21.9
PAT	23.8	25.1	16.6	18.6	20.3
Advances	15.0	19.6	19.9	20.0	20.3
Deposits	15.2	19.5	20.6	17.9	18.6
Valuation ratios (%)					
P/E	34.4	28.1	24.3	21.2	17.6
P/BV	6.4	5.7	5.5	4.3	3.4
P/ABV	8.0	7.0	6.8	5.1	3.9

Bajaj Auto

Apple Green

Stock Update

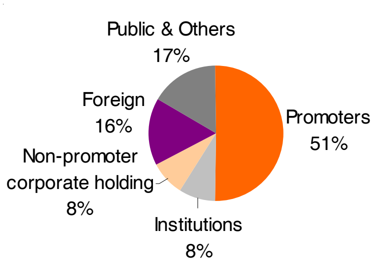
Annual report review

Hold; CMP: Rs1,513

Company details

Price target:	Rs1,690
Market cap:	Rs43,792 cr
52-week high/low:	Rs1839/1351
NSE volume: (no. of shares)	4.7 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (no. of shares)	14.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.7	-4.8	9.7	7.4
Relative to Sensex	-3.0	-7.7	-0.4	13.2

Export growth and margin sustenance: the key achievements of FY2012

Bajaj Auto Ltd (BAL) grew its exports by 31% year on year (YoY) in FY2012; the growth was much higher than the 6.3% year-on-year (Y-o-Y) growth in its domestic business. A strong demand for two-wheelers and three-wheelers from Africa, Latin America and South East Asia helped the exports touch 1.58 million units in the fiscal.

The company maintained its status as the most profitable automotive original equipment manufacturer (OEM) in the country with its operating profit growing by 18% YoY.

Reviving domestic share and sustaining margins: the key goals for FY2013

The management has expressed its dissatisfaction over the company's sluggish performance in the domestic market as well as the loss of its market share to the competition. Thrust on new product launches, increased marketing initiatives and improving delivery are expected to support growth and help BAL outperform the industry.

Outlook: growth environment challenging; maintain Hold

The management has guided for a volume target of 5 million units in FY2013. This reflects a growth of over 15% during the year. Given the challenging macro headwinds in some export markets as well as in the domestic market, we believe that achieving the FY2013 guidance may be difficult. The management is banking on new product launches to boost the market share and growth in FY2013 but given the overall industry growth expectations of 12% for FY2013, the outperformance looks difficult. Our estimates for FY2013 and FY2014 remain unchanged. In view of the adverse demand scenario in H1FY2013 and a likely negative surprise on the margin front in Q1FY2013, we maintain our Hold recommendation on BAL.

Valuations (Rs cr)

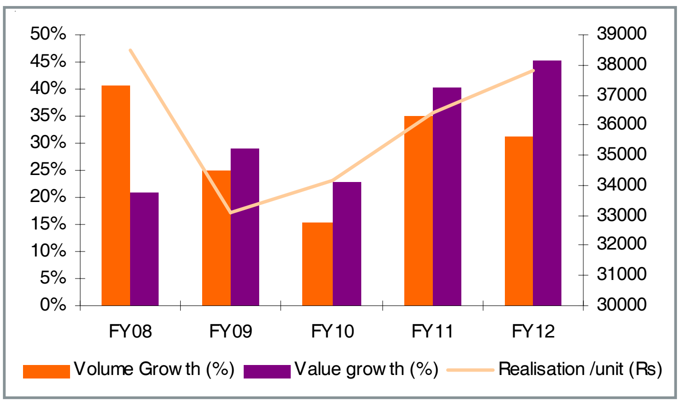
Particulars	FY10	FY11	FY12	FY13E	FY14E
Income	11,921.0	16,398.2	19,529.0	21,780.7	25,379.8
Growth (%)	*35.3*	*37.6*	*19.1*	*11.5*	*16.5*
EBIDTA	2,592.6	3,171.2	3,720.0	4,292.6	5,182.7
OPM (%)	21.7	19.3	19.0	19.7	20.4
PAT	1,814.6	2,615.2	3,138.1	3,308.3	3,928.4
Growth (%)	*110.6*	*44.1*	*20.0*	*5.4*	*18.7*
FD EPS (Rs)	62.7	90.4	108.5	114.4	135.8
P/E (x)	24.1	16.7	14.0	13.2	11.1
P/B (x)	15.0	8.9	7.2	5.5	4.2
EV/EBIDTA (x)	16.1	12.7	10.4	8.1	6.2
RoE (%)	62.0	53.3	51.9	41.4	38.1
RoCE (%)	60.4	66.8	65.9	50.5	48.0
EV/EBIDTA (x)	16.2	12.7	10.4	8.1	6.2

Export growth and margin sustenance: the key achievements of FY2012

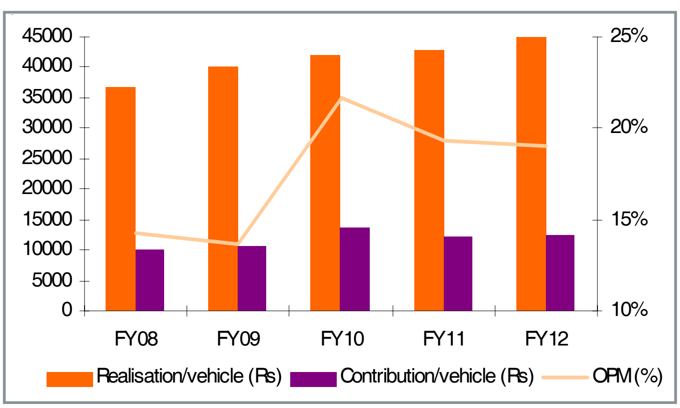
The company grew its exports by 31% YoY in FY2012; the growth was much higher than the 6.3% Y-o-Y growth in its domestic business. A strong demand for two-wheelers and three-wheelers from Africa, Latin America and South East Asia helped the exports touch 1.58 million units in the fiscal.

The company maintained its status as the most profitable automotive OEM in the country with its operating profit growing by 18% YoY. It also recorded the highest ever sales, exports and profits in FY2012.

BAL export performance



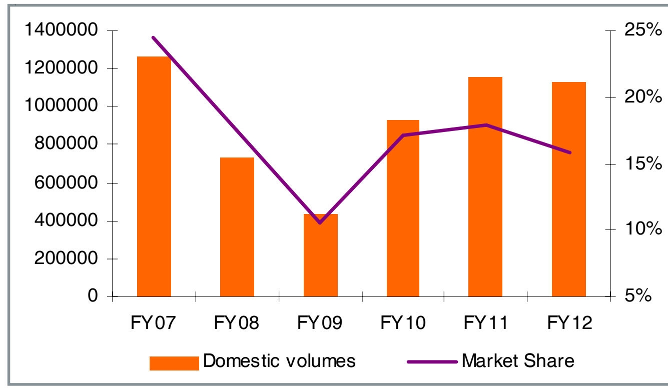
BAL realisation, contribution/unit and OPM trend



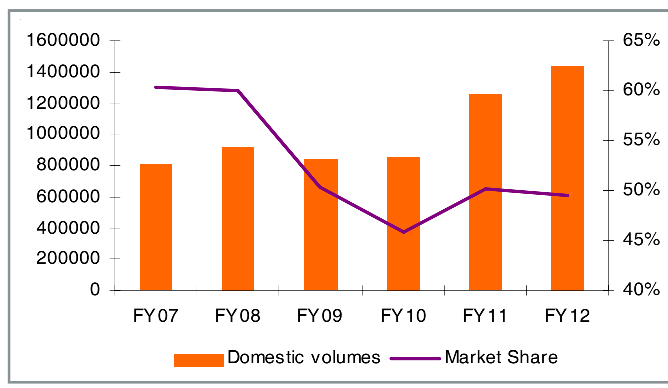
Reviving domestic share and sustaining margins: the key goals for FY2013

The management expressed its dissatisfaction over the company's sluggish performance in the domestic market as well as the loss of its market share to the competition. Honda Motorcycle and Scooter India (HMSI) has emerged as a strong threat to the incumbents post-split with Hero MotoCorp. HMSI's strong thrust on the premium segment poses new challenges to BAL, which has expressed concerns over the moderation in its domestic growth during H2FY2012. The standard commuter segment has been growing faster than the mid and premium segments, reflecting customers' conservatism in the current inflationary scenario. In the base market the market leader, Hero MotoCorp has a huge edge over Bajaj Auto.

BAL volume and market share of motorcycles <125cc volumes



BAL volume and market share of motorcycles 125cc and above



FY2013 to see aggressive product launches in motorcycle segment

Thrust on new product launches, increased marketing initiatives and improving delivery are expected to support growth and help BAL outperform the industry.

The company launched *Pulsar NS*, its premium offering, to enhance its presence in the premium segment. *Pulsar NS* has a completely new triple spark ignition engine and a new vehicle platform. From the international stable, *KTM Duke 200* was launched in January 2012 and *Ninja 650R* was launched earlier, in June 2011. The slew of premium offerings is aimed at fortifying its market share in the premium motorcycle segment.

In the commuter segment, several products and market initiatives have been planned for FY2013. Recently, the company launched *Discover ST* (Sports Tourer).

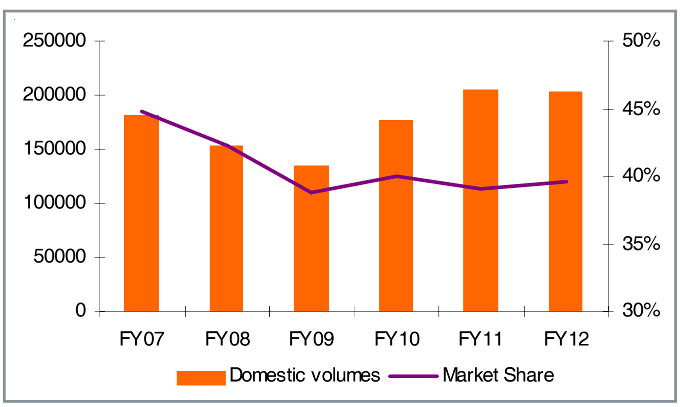
Three-wheelers enter a weak spot

During FY2012, three-wheeler sales for the company declined by 1.3% to 2.09 lakh units. Their sales were affected by price hikes, hardening interest rates and political inaction on several fronts. The three-wheeler industry is facing a threat from the small four-wheeler commercial vehicles as consumers look to upgrade on the back of better economies and safety features.

In the export markets, a steep hike in duty by Sri Lanka also affected the demand for its three-wheelers strongly. The company sells around 10,000 units of three-wheelers and a comparable number of motorcycles every month in Sri Lanka.

The three-wheeler segment hit a rough patch in FY2012 with a marginal fall in sales. The company is increasing efforts to increase the market share of its diesel vehicles, to promote alternative fuel in states like Gujarat (compressed natural gas), Andhra Pradesh (liquefied petroleum gas [LPG]) and Karnataka (LPG).

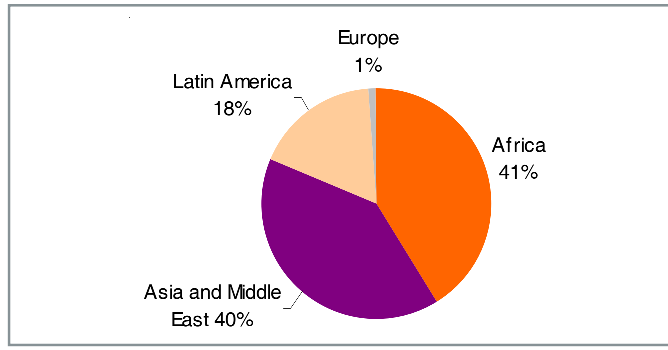
BAL volume and market share of three-wheelers



Exports continue to see sustained growth but a few regulatory challenges cropping up

In FY2012, the company saw its exports growing by 30% to 1.2 million units. *Boxer* is the largest selling motorcycle brand in Africa and contributes 41% to the company's exports. BAL launched 150cc *Boxer* in Africa in FY2012. Similarly, *Boxer* 150cc and Pulsar 135cc were launched in the Philippines in the same year. The Latin American markets continue to do well with a strong growth in *Pulsar*. Asia and the Middle East together make up for 40% of BAL's annual exports. However, the company is facing regulatory challenges in the key export market of Sri Lanka due to a steep hike in duties in that country. The company sells around 10,000 units of two-wheelers a month in Sri Lanka and has undertaken price cuts to the tune of 5-14% for two-wheelers and that of 10% for three-wheelers to reinstate demand.

BAL region-wise export volume break-up



International businesses to leap-frog with KTM turn-around

BAL has 47.18% ownership in KTM Powersports AG, Austria (KTM). KTM sold 81,200 motorcycle units, achieved a profit of 526.8 million euros and a profit of 20.8 million euros in CY2011. KTM Duke 125cc is the first jointly developed product manufactured at Chakan and was launched in 2011.

Installed capacity to go up by 25% by March 2013

The company indicated in its annual report that the installed capacity would increase from 5.1 million units currently to 6.36 million units by March 2013. Such a large increase of 25% has taken us by surprise as the volume guidance stands at 15% for FY2013.

The company would launch the four-wheeler RE60 in H2FY2013. RE60 would be manufactured at its Waluj plant and not Chakan as planned earlier.

Plant wise production capacity

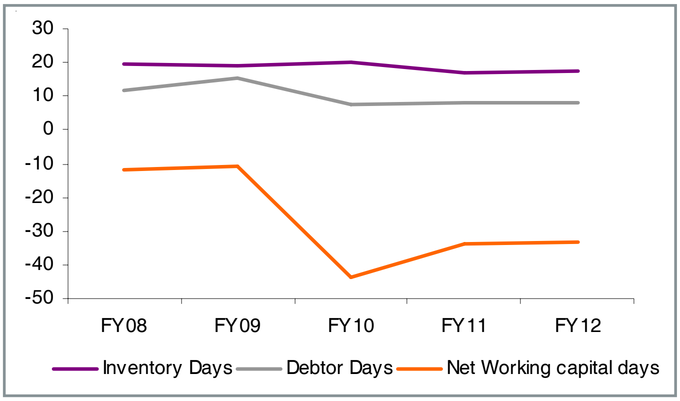
Plant location	Capacity (units)	Products
Waluj, Maharashtra	1,500,000	Boxer, Platina and Discover
Waluj, Maharashtra	600,000	Three Wheelers
Chakan, Maharashtra	1,200,000	Pulsar, Avenger, Ninja, KTM
Pantnagar, Uttarakhand	1,800,000	Platina, Discover and Boxer
Overall capacity	5,100,000	

Stable cash flows; return ratios unlikely to change significantly

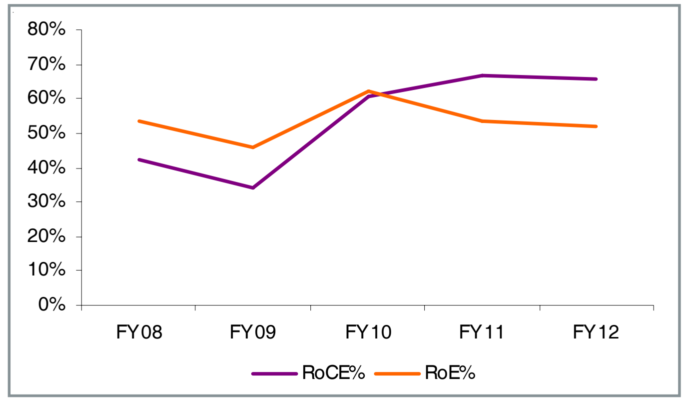
BAL is a zero-debt company and generates large cash as its capex requirements are marginal. Its products generate the best operating profit margin (OPM; at around 20%) amongst the automotive OEMs in the country. The business does not consume working capital, nor does the company maintain a large inventory to support growth. The business generated a cash profit of Rs113 per share in FY2012. The balance sheet has cash and liquid investments worth Rs5,451 crore as on March 31, 2012, ie Rs188 per share.

We do not expect any large changes in the way business is conducted, nor any major deviations in the RoE and RoCE.

BAL working capital (no. of days)



BAL return ratios



Outlook: growth environment challenging; maintain Hold

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Sharekhan Stock Idea

Evergreen

GlaxoSmithKline Consumer Healthcare
Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Oil India
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
Kewal Kiran Clothing
Mcleod Russel India
NIIT Technologies
Orbit Corporation
Polaris Financial Technology
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects

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