

HDFC

Performance Highlights

Particulars (₹ cr)	1QFY14	4QFY13	% chg (qoq)	1QFY13	% chg (yoy)
NII	1,794	2,121	(15.5)	1,527	17.5
Pre-prov. profit	1,638	2,125	(22.9)	1,420	15.4
PAT	1,173	1,555	(24.6)	1,002	17.1

Source: Company, Angel Research

HDFC reported a standalone earnings growth of 17.1% yoy for 1QFY2014, which was lower than our expectations, primarily on account of nil profit on sale of investments reported by the company vs. our expectation of around ₹70cr on that front. Healthy loan book growth and stability witnessed on the spreads as well as on the asset quality front, were the key highlights of the results.

Loan book growth remains healthy: For 1QFY2014, HDFC's loan book grew by a healthy 19.4% yoy, with loans to the individual segment growing by 31% yoy (after adding back sold loans) and 24% (excluding sold back). HDFC has been incrementally growing its individual loan book, much faster than its corporate loan book, over the past one year. During the quarter, incremental growth in the loan book (including loan sold) came entirely through growth in individual loans, which now constitute 67% of the total loan book. The spreads stood largely stable at 2.29% for 1QFY2014 as compared to 2.30% for the entire FY2013, while the reported NIM came in at 3.9% as compared to 4.2% for the entire FY2013 and 4.0% for 1QFY2013. Asset quality continues to remain strong for the company, as its gross NPA ratio came in at 0.77%, as against 0.74% reported in 4QFY2013 and 0.75% in 3QFY2013. The company continues to maintain a 100% PCR. Going ahead the NIM is 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 loan book growing at above industry CAGR of 20.0% over FY2013-15E, we expect the company to sustain healthy NII CAGR of 18.9% over the same period.

Outlook and valuation: 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. We expect HDFC to post a healthy PAT CAGR of 17.9% over FY2013-15E. At CMP, HDFC's core business (after adjusting ₹311/share towards the value of its subsidiaries) is trading at 3.3x FY2015E ABV. **We recommend an Accumulate rating on the stock, with a target price of ₹867.**

Key financials (standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014E	FY2015E
NII*	4,998	5,927	6,898	8,365
% chg	17.7	18.6	16.4	21.3
Net profit	4,123	4,895	5,572	6,734
% chg	16.6	18.7	13.8	20.8
NIM (%)	3.6	3.6	3.5	3.5
EPS (₹)	27.9	31.7	36.0	43.5
P/E (x)	28.8	25.4	22.3	18.5
P/ABV (x)	6.2	5.0	4.5	4.0
RoA (%)	2.7	2.7	2.6	2.6
RoE (%)	22.7	22.2	21.1	23.0

Source: Company, Angel Research; Note* Core NII

ACCUMULATE

CMP	₹804
Target Price	₹867

Investment Period	12 months
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Stock Info

Sector	HFC
Market Cap (₹ cr)	124,874
Beta	1.0
52 Week High / Low	931/670
Avg. Daily Volume	171,374
Face Value (₹)	2
BSE Sensex	20,150
Nifty	6,029
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	13
FII / NRIs / OCBs	73.8
Indian Public / Others	13.2

Abs. (%)	3m	1yr	3yr
Sensex	6.0	16.6	12.4
HDFC	(1.9)	15.9	31.7

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Exhibit 1: Quarterly performance (standalone)

Particulars (₹ cr)	1QFY14	4QFY13	% chg (qoq)	1QFY13	% chg (yoy)	FY2013	FY2012	% chg
Income from operations	5,557	5,561	(0.1)	4,915	13.1	20,797	17,063	21.9
Interest expensed	3,763	3,440	9.4	3,388	11.1	13,891	11,157	24.5
NII	1,794	2,121	(15.5)	1,527	17.5	6,906	5,906	16.9
Non-interest income	8	117	(93.1)	28	(71.0)	351	292	20.3
Operating income	1,802	2,238	(19.5)	1,554	15.9	7,257	6,198	17.1
Operating expenses	164	113	44.5	134	21.8	539	452	19.3
Pre-prov. profit	1,638	2,125	(22.9)	1,420	15.4	6,718	5,746	16.9
Provisions & cont.	30	25	20.0	40	(25.0)	145	80	81.3
PBT	1,608	2,100	(23.4)	1,380	16.5	6,573	5,666	16.0
Prov. for taxes	435	545	(20.1)	378	15.1	1,725	1,543	11.8
PAT	1,173	1,555	(24.6)	1,002	17.1	4,848	4,123	17.6
EPS (₹)	7.6	10.1	(24.8)	6.8	11.8	31.5	28.0	12.5
Cost-to-income ratio (%)	9.1	5.1		8.6		7.4	7.3	
Effective tax rate (%)	27.1	25.9		27.4		26.2	27.2	

Source: Company, Angel Research

Exhibit 2: 1QFY2014 – Actual vs Angel estimates

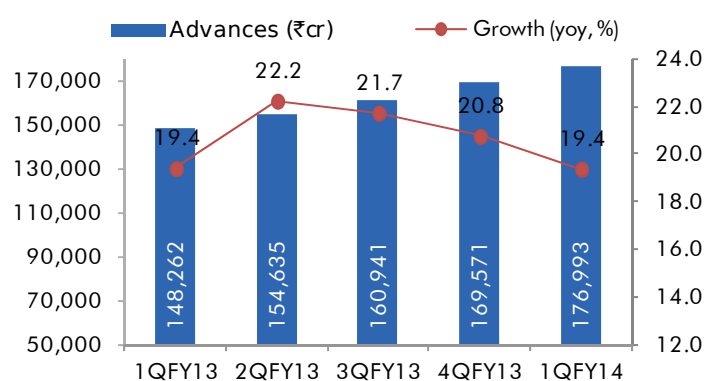
Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	1,794	1,824	(1.7)
Non-interest income	8	80	(90.0)
Operating income	1,802	1,904	(5.4)
Operating expenses	164	157	4.1
Pre-prov. profit	1,638	1,747	(6.3)
Provisions & cont.	30	52	(41.9)
PBT	1,608	1,696	(5.2)
Prov. for taxes	435	461	(5.7)
PAT	1,173	1,235	(5.0)

Source: Company, Angel Research

Loan growth healthy; outlook remains robust

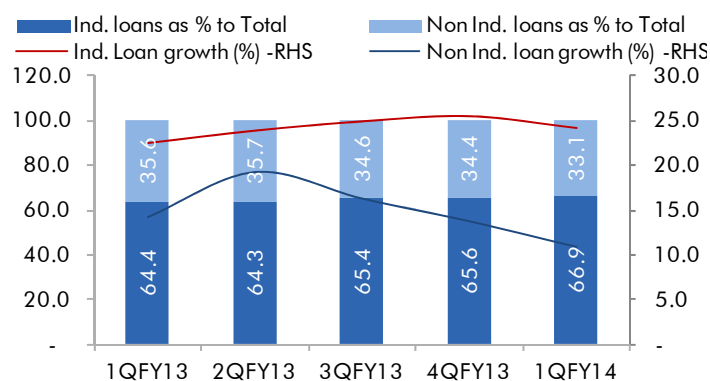
For 1QFY2014, HDFC's loan book grew by a healthy 19.4% yoy, with loans to the individual segment growing by 31% yoy (after adding back sold loans) and 24% (excluding sold back). HDFC has been incrementally growing its individual loan book much faster than its corporate loan book over the last one year. During the quarter, incremental growth in the loan book (including loans sold) came entirely through growth in individual loans. Individual loans now constitute 67% of the total loan book. We have factored in a loan book CAGR of 20% over FY2013-15E.

Exhibit 3: Loan book growth healthy at 19.4% yoy



Source: Company, Angel Research

Exhibit 4: Individual loan growth higher at 24% yoy

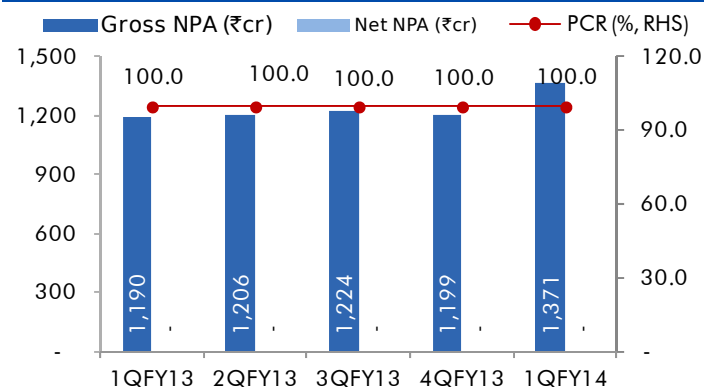


Source: Company, Angel Research

Asset quality remains stable

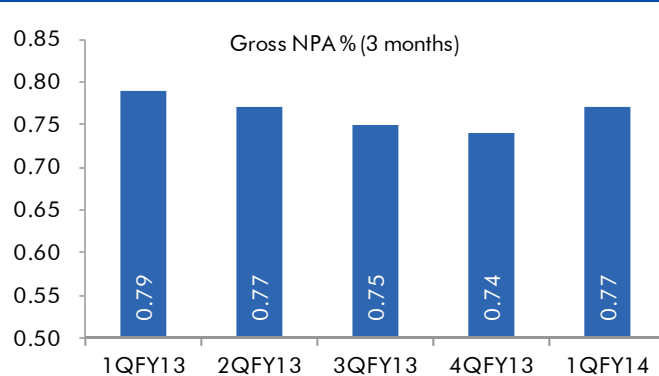
During 1QFY2014, the asset quality for HDFC remained strong with the gross NPA ratio at 0.77%, marginally higher as compared to 0.74% reported in 4QFY2013 and 0.75% in 3QFY2013. The gross NPA ratio for the individual portfolio stood at 0.61% (0.58% as of 4QFY2013), while that for the non-individual portfolio stood at 1.08% (0.92% as of 4QFY2013). As of 1QFY2014, HDFC continues to maintain a 100% PCR. In fact, the company carries ₹475cr of excess provision over and above the regulatory requirement of ₹1,326cr.

Exhibit 5: NPA coverage remains at 100%



Source: Company, Angel Research

Exhibit 6: Gross NPA ratio stable sequentially

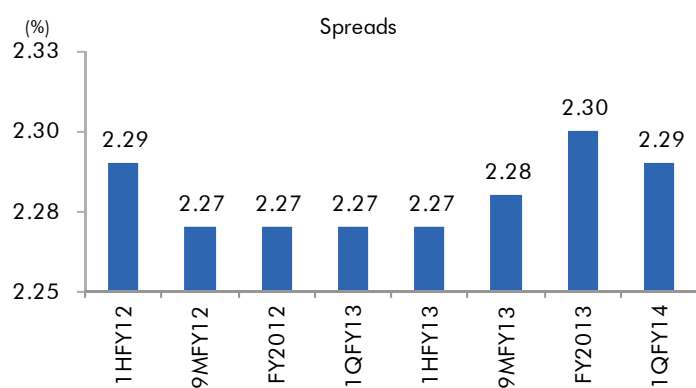


Source: Company, Angel Research

Healthy NII growth

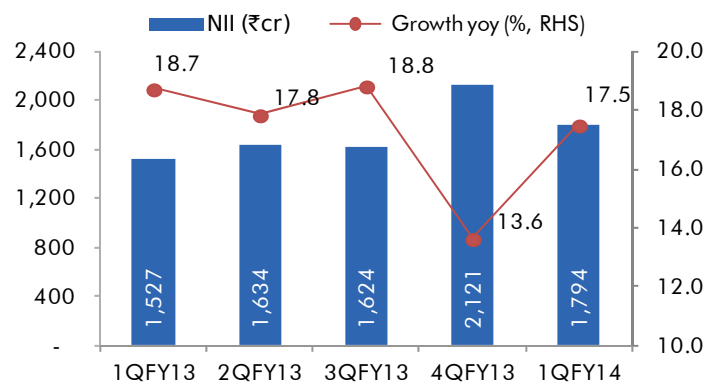
HDFC's NII rose by a healthy 17.5% yoy to ₹1,794cr, marginally lower than the 19.4% yoy advance growth. The spreads stood largely stable at 2.29% for 1QFY2014 as compared to 2.30% for the entire FY2013, while the reported net interest margin came in at 3.9% during the quarter as compared to 4.2% for the entire FY2013 and 4.0% for 1QFY2013. 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 the loan book growing at an above industry CAGR of 20.0% over FY2013-15E, we expect the company to sustain a healthy NII CAGR of 18.9% over the same period.

Exhibit 7: Spread at 2.30% for FY2013



Source: Company, Angel Research

Exhibit 8: NII yoy growth trend



Source: Company, Angel Research

Strong growth in Dividend and MF income

For 1QFY2014, the company reported nil profits on sale of investments, as compared to ₹105cr reported in 4QFY2013 and ₹20cr reported in 1QFY2013. Dividend income for the company during the quarter came in at ₹217cr, witnessing an increase of 36.1% yoy. Deployment in CMS of Mutual Funds generated an income of ₹65cr, witnessing a growth of 40.5% yoy. Fees and other charges came declined by 11.9% yoy to ₹54cr during the quarter.

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 17.3% 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 entire incremental loan book growth in 1QFY2014 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 20% over FY2013-15E.

Outlook and valuation

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. We expect HDFC to post a healthy PAT CAGR of 17.9% over FY2013-15E. At CMP, HDFC's core business (after adjusting ₹311/share towards the value of its subsidiaries) is trading at 3.3x FY2015E ABV. **We recommend an Accumulate rating on the stock, with a target price of ₹867.**

Exhibit 9: Angel EPS forecast vs. consensus

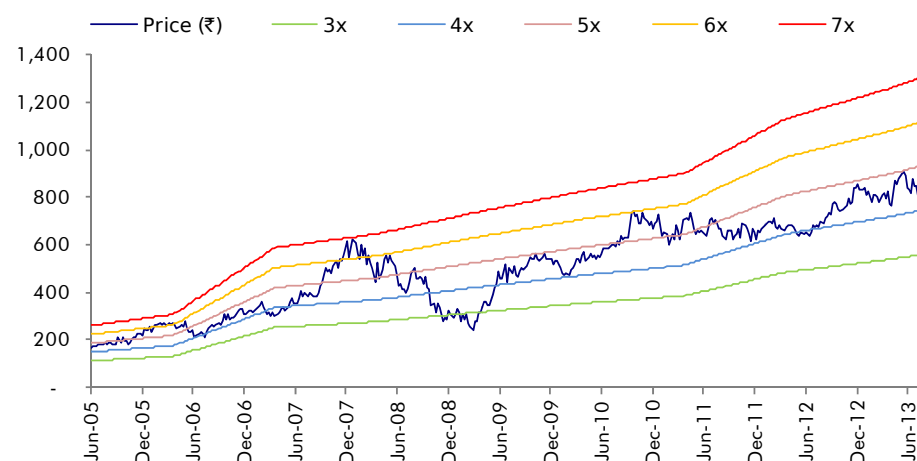
Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2014E	36.0	36.9	(2.3)
FY2015E	43.5	43.3	0.6

Source: Bloomberg, Angel Research

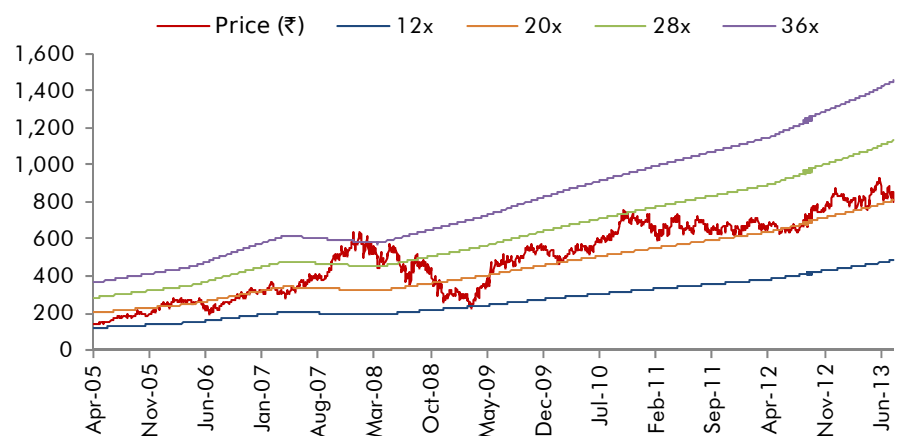
Exhibit 10: Change in estimates

Particulars (₹ cr)	FY2014E			FY2015E		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII*	7,122	6,898	(3.2)	8,612	8,365	(2.9)
Non-interest income	1,557	1,456	(6.5)	1,738	1,721	(1.0)
Operating income	8,679	8,353	(3.8)	10,350	10,087	(2.5)
Operating expenses	641	641	-	770	770	-
Pre-prov. profit	8,038	7,712	(4.1)	9,581	9,317	(2.8)
Provisions & cont.	191	179	(6.3)	241	213	(11.5)
PBT	7,847	7,533	(4.0)	9,340	9,104	(2.5)
Prov. for taxes	2,046	1,960	(4.2)	2,434	2,370	(2.6)
PAT	5,801	5,572	(3.9)	6,906	6,734	(2.5)

Source: Angel Research; Note* Core NII

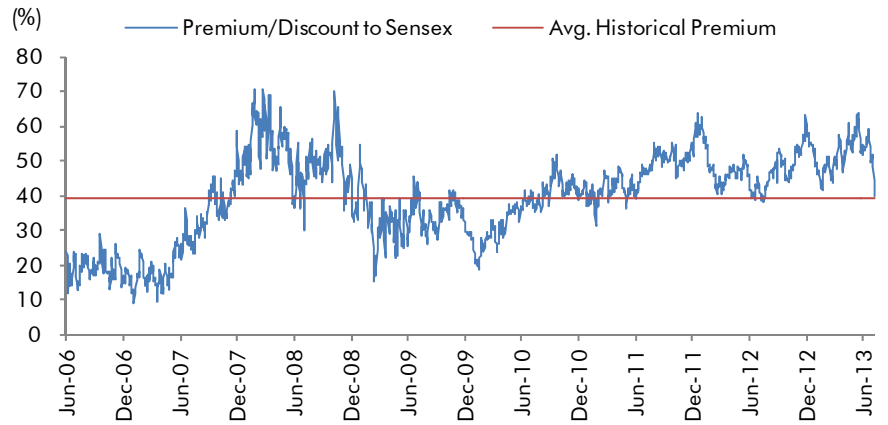
Exhibit 11: P/ABV band


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 ₹2lakh cr. The company's primary business is to provide loans for the purchase or construction of residential houses. HDFC's distribution network spans 331 outlets, covering more than 81 locations across India. 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
NII*	3,388	4,247	4,998	5,927	6,898	8,365
- YoY Growth (%)	10.9	25.4	17.7	18.6	16.4	21.3
Other Income	910	1,071	1,199	1,376	1,456	1,721
- YoY Growth (%)	71.3	17.7	12.0	14.8	5.8	18.3
Operating Income	4,298	5,318	6,198	7,304	8,353	10,087
- YoY Growth (%)	19.9	23.7	16.5	17.8	14.4	20.8
Operating Expenses	324	381	452	539	641	770
- YoY Growth (%)	2.4	17.7	18.6	19.3	19.0	20.0
Pre - Provision Profit	3,974	4,937	5,746	6,765	7,712	9,317
- YoY Growth (%)	21.6	24.2	16.4	17.7	14.0	20.8
Prov. & Cont.	58	70	80	145	179	213
- YoY Growth (%)	16.0	20.7	14.3	81.2	23.6	19.0
Profit Before Tax	3,916	4,867	5,666	6,620	7,533	9,104
- YoY Growth (%)	21.7	24.3	16.4	16.8	13.8	20.9
Prov. for Taxation	1,090	1,332	1,543	1,725	1,960	2,370
- as a % of PBT	27.8	27.4	27.2	26.1	26.0	26.0
PAT	2,826	3,535	4,123	4,895	5,572	6,734
- YoY Growth (%)	23.8	25.1	16.6	18.7	13.8	20.8

Note: *Core NII

Balance sheet (standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13	FY14E	FY15E
Share Capital	287	293	295	309	309	309
Reserve & Surplus	14,911	17,023	18,722	24,691	27,385	30,642
Loan Funds	96,565	115,112	139,128	158,807	192,377	230,852
- Growth (%)	15.2	19.2	20.9	14.1	21.1	20.0
Other Liabilities & Provisions	4,878	6,814	9,375	11,723	10,467	13,198
Total Liabilities	116,641	139,242	167,520	195,531	230,538	275,001
Investments	10,727	11,832	12,207	13,613	12,399	13,235
Advances	97,967	116,806	140,422	169,571	203,485	244,182
- Growth (%)	15.0	19.2	20.2	20.8	20.0	20.0
Fixed Assets	222	234	234	238	282	339
Other Assets	7,725	10,370	14,657	12,109	14,371	17,246
Total Assets	116,641	139,242	167,520	195,531	230,538	275,001

Ratio analysis (standalone)

Y/E March	FY10	FY11	FY12	FY13	FY14E	FY15E
Profitability ratios (%)						
NIMs	3.4	3.6	3.6	3.6	3.5	3.5
Cost to Income Ratio	7.5	7.2	7.3	7.4	7.7	7.6
RoA	2.6	2.9	2.7	2.7	2.6	2.6
RoE	20.0	21.7	22.7	22.2	21.1	23.0
Asset Quality (%)						
Gross NPAs	0.80	0.77	0.76	0.71	0.69	0.67
Net NPAs	0.13	-	-	-	-	-
Provision Coverage	83.7	100.0	100.0	100.0	100.0	100.0
Per Share Data (₹)						
EPS	19.7	24.1	27.9	31.7	36.0	43.5
ABVPS (75% cover.)	105.9	118.1	128.8	161.7	179.1	200.2
DPS	7.2	9.0	11.0	12.5	14.2	17.1
Valuation Ratios						
PER (x)	40.8	33.3	28.8	25.4	22.3	18.5
P/ABVPS (x)	7.6	6.8	6.2	5.0	4.5	4.0
DuPont Analysis[#]						
NII	3.3	3.5	3.4	3.4	3.4	3.4
(-) Prov. Exp.	0.1	0.1	0.1	0.1	0.1	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	3.5
Other Inc.	0.6	0.5	0.5	0.5	0.4	0.4
Op. Inc.	4.0	4.3	4.1	4.0	3.8	3.9
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	3.7	4.0	3.8	3.7	3.5	3.6
Taxes	1.1	1.1	1.1	1.0	1.0	1.0
RoA	2.6	2.9	2.7	2.7	2.6	2.6
Leverage	12.0	14.2	14.4	12.6	11.3	11.6
RoE	31.6	40.8	39.3	33.5	29.0	30.1

Note: [#] 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 (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)