



Rating
Buy

Company
HDFC

Date
19 July 2013

Asia
India

Banking / Finance
Banks

Reuters
HDFC.BO

Bloomberg
HDFC IN

Exchange
BSE

Ticker
HDFC

Results

Price at 19 Jul 2013 (INR)	803.50
Price target - 12mth (INR)	960.00
52-week range (INR)	927.85 - 670.50
BSE 30	20,128

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1QFY14: Individual loans drive overall growth, spreads stable

Anchor for uncertain times; Buy with a target price of INR 960

1QFY14 net profit was ~3% below consensus estimates and ~6% below DB estimates, primarily on account of no trading gains. Incremental loan growth during the quarter was entirely driven by retail loans, which put some pressure on yields. However, we expect non-retail loans to grow from 2QFY14 as cheaper funds from mutual funds become unavailable to developers. Retail mortgage loan demand continues to be strong. We believe that at present the natural investor preference would be for a quality mortgage lender while asset quality concerns elsewhere are rising. Coupled with stable loan growth and stable spreads, this should sustain premium valuations for HDFC.

Retail book drives growth, no profit on sale of investments booked

Net profit was INR 11.7bn, +17% YoY and -25% QoQ. Loan growth was healthy at 19% YoY, driven largely by individual loans (+24% YoY) while non-individual growth was slow (+11% YoY). Approvals and disbursements rose 17% YoY, driven by the individual book, which was up 25% YoY. Spreads were largely flat at 2.3%. NPL rose 14% QoQ to INR 13.7bn, driven by a single non-individual account of ~INR 3bn. Consolidated PAT was up 34% YoY.

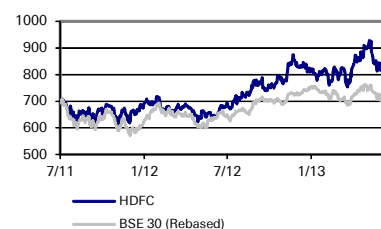
Liabilities mix should keep funding costs low; non-retail book to grow from 2Q

Its diversified liabilities mix allows HDFC to adapt to prevailing liquidity and interest rate conditions. The share of term loans in total liabilities has declined from a peak of 37% in 4QFY11 to only 8% now. With some of the PSU banks having already cut their base rates, HDFC could look to increase bank borrowings from here on. During 1QFY14 non-individual loans did not grow as HDFC was being cautious and mutual funds were willing to fund developers at rates as low as ~12%. Recent liquidity tightness means that MFs may no longer be able to provide cheap funding, which could lead to some growth in non-individual loans from 2Q. Individual loan demand remains robust.

SOTP-based valuation; high property prices the key risk

We value HDFC using the SOTP method (page 9). The key downside risk is property prices staying high and affecting demand.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.7	-1.9	15.9
BSE 30	4.6	5.8	16.5

Source: Deutsche Bank

Stock data

Market cap (INRm)	1,242,490
Market cap (USDm)	20,849
Shares outstanding (m)	1,546.3
Major shareholders	Aberdeen (6.68%)
Free float (%)	87
Avg daily value traded (USDm)	45.2

Source: Deutsche Bank

Forecasts And Ratios

Year End Mar 31	2012A	2013A	2014E	2015E	2016E
Provisioning (INRm)	800	1,450	1,977	2,355	2,844
Pre-prov profit (INRm)	57,454	67,178	78,277	92,921	108,339
Net profit (INRm)	41,224	48,483	55,699	66,113	77,012
EPS (INR)	28.01	32.07	36.02	42.75	49.80
EPS growth (%)	16.2	14.5	12.3	18.7	16.5
PER (x)	23.9	23.1	22.3	18.8	16.1
Price/book (x)	5.23	5.11	4.49	4.02	3.57
Yield (net) (%)	1.6	1.7	1.7	2.0	2.4
ROE (%)	22.7	22.0	21.2	22.6	23.4

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 19 July 2013

Running the numbers

Asia

India

Banks

HDFC

Reuters: HDFC.BO

Bloomberg: HDFC IN

Buy

Price (19 Jul 13) INR 803.50

Target Price INR 960.00

52 Week range INR 670.50 - 927.85

Market Cap (m) INRm 1,242,490
USDm 20,849

Company Profile

Housing Development Financing Corporation (HDFC) is the largest standalone mortgage financier in India, depending mainly on wholesale funding. The company provides long-term housing loans to middle-income individuals, as well as to corporations. HDFC also provides construction finance to real estate developers, and rental securitisation-based financing. In addition, HDFC owns majority stakes in life and non-life insurance and asset management businesses, as well as a minority, but meaningful, 22% in HDFC Bank, which it founded in the early 1990s.

Fiscal year end 31-Mar

Data Per Share

	2011	2012	2013	2014E	2015E	2016E
EPS (stated) (INR)	24.10	28.01	32.07	36.02	42.75	49.80
EPS FD (stated) (INR)	23.38	27.18	31.15	35.01	41.55	48.40
EPS FD (DB adj.) (INR)	23.38	27.18	31.15	35.01	41.55	48.40
Growth rate - EPS (stated) (%)	21.82	16.22	14.52	12.31	18.70	16.48
DPS (INR)	10.46	11.00	12.50	13.85	16.44	19.15
BVPS (stated) (INR)	118.05	128.76	161.67	178.86	200.02	225.28
BVPS (DB adj.) (INR)	118.05	128.76	161.67	178.86	200.02	225.28
Average market cap	935,193	988,773	1,147,936	1,242,490	1,242,490	1,242,490
Shares in Issue (m)	1,467	1,477	1,546	1,546	1,546	1,546

Valuation Ratios & Profitability Measures

	2011	2012	2013	2014E	2015E	2016E
P/E (stated)	26.5	23.9	23.1	22.3	18.8	16.1
P/E FD (stated)	27.3	24.6	23.8	23.0	19.3	16.6
P/E FD (DB adj.)	27.3	24.6	23.8	23.0	19.3	16.6
P/B (stated)	5.9	5.2	5.1	4.5	4.0	3.6
P/B (DB adj.)	5.9	5.2	5.1	4.5	4.0	3.6
ROE (adj.) (%)	na	na	na	na	na	na
ROA (adj.) (%)	2.8	2.7	2.7	2.6	2.6	2.6
Dividend yield(%)	1.6	1.6	1.7	1.7	2.0	2.4
Dividend cover(x)	2.3	2.5	2.6	2.6	2.6	2.6
Payout ratio (%)	37.3	39.4	39.9	38.5	38.5	38.5

Profit & Loss (INRm)

	2011	2012	2013	2014E	2015E	2016E
Net interest revenue	44,646	53,179	61,798	73,857	87,850	102,840
Non interest income	8,535	8,794	10,769	10,703	12,297	13,816
Fees & Commissions	2,204	2,684	2,413	2,849	4,539	5,499
Trading Revenue	3,597	2,702	3,156	2,990	3,072	3,251
Insurance revenue	0	0	0	0	0	0
Dividend income	2,252	3,097	4,807	4,400	4,138	4,417
Other revenue	482	312	394	464	548	649
Total revenue	53,181	61,973	72,567	84,560	100,147	116,656
Total operating costs	3,812	4,519	5,389	6,282	7,226	8,317
Pre-provision profit/(loss)	49,370	57,454	67,178	78,277	92,921	108,339
Bad debt expense	700	800	1,450	1,977	2,355	2,844
Operating Profit	48,670	56,654	65,728	76,300	90,566	105,495
Goodwill	0	0	0	0	0	0
Pre-tax associates	0	0	0	0	0	0
Extraordinary & Other Items	0	0	0	0	0	0
Pre-tax profit	48,670	56,654	65,728	76,300	90,566	105,495
Tax	13,320	15,430	17,245	20,601	24,453	28,484
Minorities	0	0	0	0	0	0
Preference dividends	0	0	0	0	0	0
Stated net profit	35,350	41,224	48,483	55,699	66,113	77,012
DB adj. core earnings	35,350	41,224	48,483	55,699	66,113	77,012

Key Balance Sheet Items (INRm) & Capital Ratios

	2011	2012	2013	2014E	2015E	2016E
Risk-weighted assets	1,041,948	1,149,473	1,335,712	1,570,863	1,874,658	2,266,048
Interest-earning assets	1,319,072	1,591,149	1,887,448	2,230,241	2,670,651	3,240,094
Total loans	1,179,306	1,416,398	1,708,361	2,025,954	2,439,450	2,975,835
Total deposits	243,269	362,928	519,328	571,261	653,273	738,635
Stated shareholders equity	173,165	190,174	250,000	276,587	309,298	348,359
Preference share capital	0	0	0	0	0	0
Tier 1 capital	111,130	127,377	192,823	222,069	258,051	301,018
Tier 1 ratio (%)	12	12	14	14	13	13
Tangible equity/ total assets (%)	12	11	13	12	11	11

Credit Quality

	2011	2012	2013	2014E	2015E	2016E
Gross NPLs / Total loans (%)	0.8	0.8	0.7	0.9	0.8	0.8
Provisions / NPLs (%)	124.4	113.9	105.5	73.5	61.5	50.8
Bad debt exp/ Avg loans (%)	0.1	0.1	0.1	0.1	0.1	0.1

Growth Rates & Key Ratios

	2011	2012	2013	2014E	2015E	2016E
Growth in net interest income (%)	24.8	19.1	16.2	19.5	18.9	17.1
Growth in fee income (%)	-4.9	21.8	-10.1	18.1	59.3	21.1
Growth in non-interest income (%)	18.5	3.0	22.5	-0.6	14.9	12.4
Growth in revenues (%)	23.7	16.5	17.1	16.5	18.4	16.5
Growth in costs (%)	17.7	18.5	19.3	16.6	15.0	15.1
Pre-provision earnings growth (%)	24.2	16.4	16.9	16.5	18.7	16.6
Growth in bad debts (%)	20.7	14.3	81.3	36.4	19.1	20.7
Growth in RWAs (%)	15.7	10.3	16.2	17.6	19.3	20.9
Growth in loans (%)	19.6	20.1	20.6	18.6	20.4	22.0
Growth in deposits (%)	5.4	49.2	43.1	10.0	14.4	13.1
Loan-to-deposits ratio (%)	484.8	390.3	329.0	354.6	373.4	402.9
Net int. margin (%)	3.9	3.7	3.6	3.6	3.6	3.5
Cost income ratio (%)	7.2	7.3	7.4	7.4	7.2	7.1
Cost asset ratio (%)	0.3	0.3	0.3	0.3	0.3	0.3
Trading income/ Total Rev (%)	6.8	4.4	4.3	3.5	3.1	2.8

Source: Company data, Deutsche Bank estimates

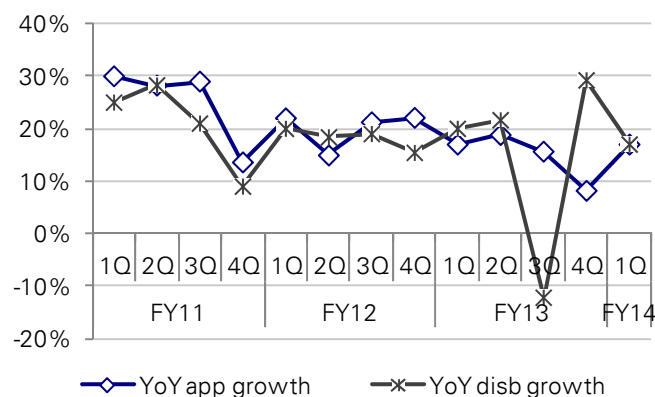


Retail loans drive entire loan growth during 1QFY14

- The entire QoQ increase in loan book during 1QFY14 was driven by individual loans.
- Mutual funds flushed with liquidity were willing to lend to developers at ~12%, a level at which HDFC was not comfortable doing business. Also, HDFC is trying to be a bit cautious in lending to this segment.
- Loan growth remained steady at 19% YoY, with individual loan growth strong (+24% YoY) and non-individual loan growth moderate (+11% YoY).
- Overall sanctions and disbursements were up ~17% YoY. Individual sanctions and disbursements were strong at ~25% YoY.

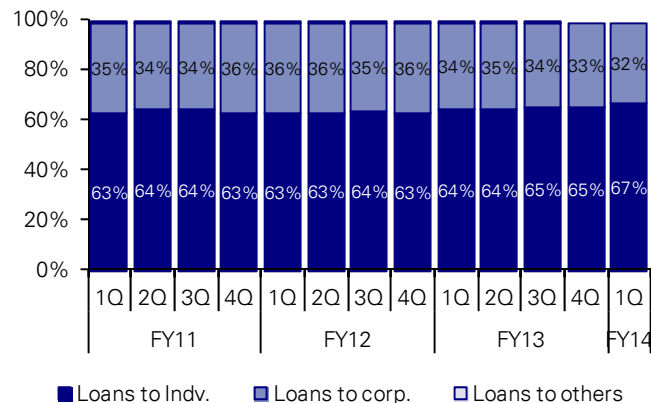
The share of individual loans in total loans has been steadily rising and is now at ~67% of the loan book

Figure 1: Approvals and disbursements growth



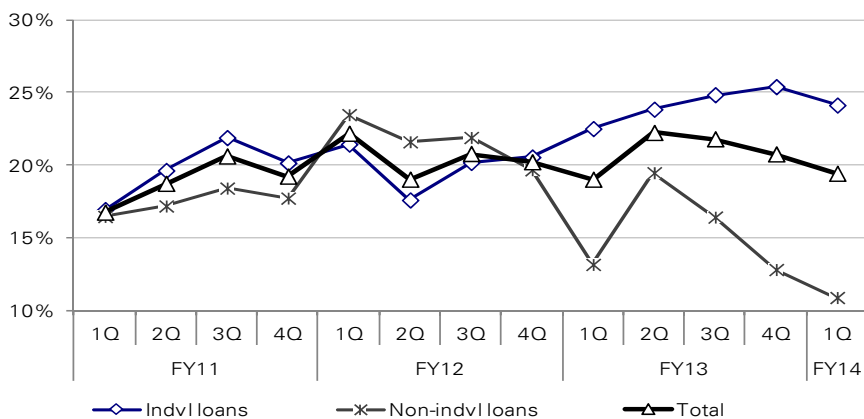
Source: Company data, Deutsche Bank

Figure 2: Loan mix



Source: Company data, Deutsche Bank Deutsche Bank

Figure 3: Loan growth



Source: Company data, Deutsche Bank Deutsche Bank

Incremental loan growth driven by individual loans as HDFC is being cautious on non-individual loans



Margins decline more of a seasonal phenomenon; spreads remain stable

- NIM generally tends to remain low in 1Q every year and this was the case in 1QFY14 as well. However, the decline was larger than we expected as cost of funds was higher than our expectations.
- Also, given that the incremental lending was all to individuals, this suppressed the yields.
- Net interest income at INR 15.2bn was up 17% YoY but down 22% QoQ and was 6% below our estimates.

1QFY14 reported spreads were 2.29%, with individual loan spreads at 2.01% and non-individual loan spreads at 2.82% (down 12bps QoQ)

No treasury income booked during the quarter, dividend income high

- Non-interest income of INR 2.7bn, +12% YoY and -1% QoQ, was largely stable.
- This was driven by strong dividend income at INR 2.2m (+36% YoY, +166% QoQ).
- Fee income remained muted at INR 544m, -12% YoY and -38% QoQ. The weak fee income was due to a higher share of individual loans.

The company did not book any trading gains during the quarter.

One non-individual account led to 17bps QoQ increase in non-individual NPL

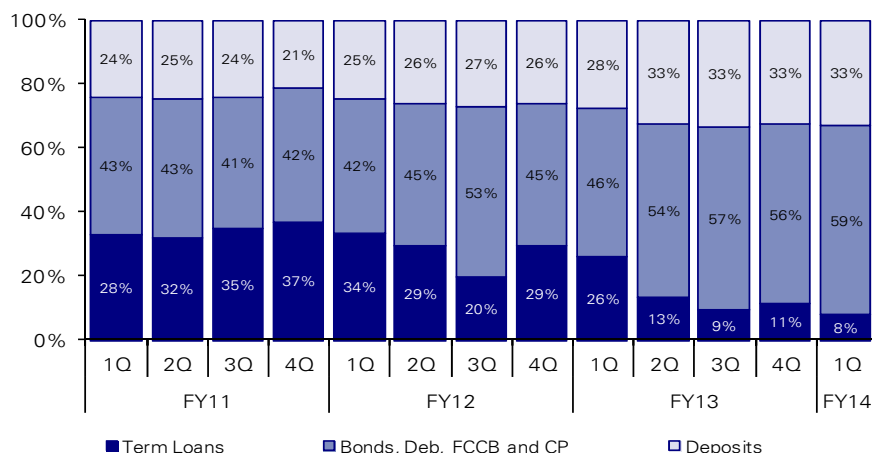
- During 1QFY14 a single account of ~INR 3bn in the non-individual category slipped to NPL, leading to a 17bps QoQ jump in non-individual NPL to 1.08%.
- HDFC maintains that it has more than 2x collateral on this particular loan and is hopeful of recovering its dues by the end of the year.
- Retail asset quality remains robust with NPLs at only 61bps (+3bps QoQ).

Overall NPLs were stable at 77bps (+7bps QoQ)

Share of term loans in total liabilities continues to decline

- The proportion of terms loans in the total liabilities declined during the quarter while that of bonds improved.
- The proportion of term loans is now 8% of the total debt, compared to 11% in 4QFY13.

Figure 4: Liabilities mix



Source: Company data, Deutsche Bank Deutsche Bank

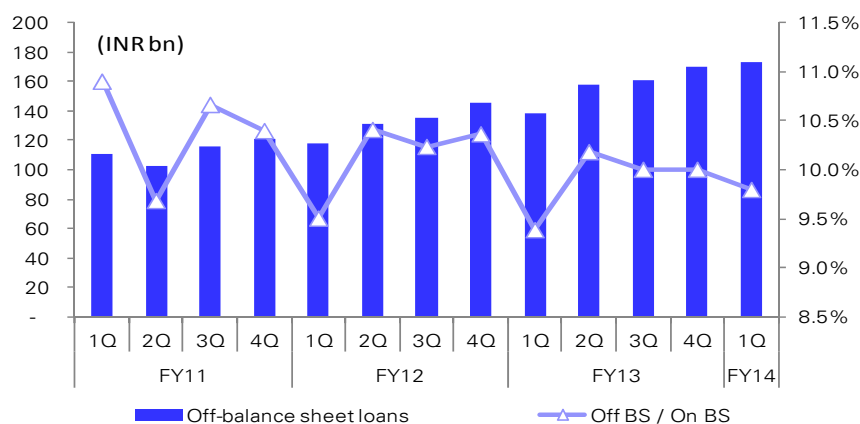
With some of the banks already cutting their base rates, share of bank loans in total liabilities is likely to rise from current levels



HDFC has sold ~INR 63bn loans in last 12 months

- HDFC has sold ~INR 63bn of loans during the last 12 months.
- HDFC accrues residual interest of 1.3% p.a. on the off balance sheet loans, accounted over the life of the loans.

Figure 5: Movement in off balance sheet loans



Source: Company data, Deutsche Bank Deutsche Bank

Outstanding off balance sheet loans are now ~INR 173bn, or ~10% of on balance sheet loans.

Consolidated profit grows by robust 34% YoY

- On a consolidated basis, HDFC reported a net profit of INR 17bn, +34% YoY and -18% QoQ.
- This was driven by a strong improvement in life insurance and asset management businesses.
- The shares of subsidiaries are constantly increasing in the overall consolidated earnings and currently stand at ~25%.

Figure 6: Summary of consolidated earnings

(INR m)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	YoY	QoQ
Net profit (consolidated)	12,759	15,749	17,058	20831.2	17,071	34%	-18%
Segment PBT							
Housing	14,167	13,535	15,946	21,776	14,422	2%	-34%
Life Insurance	119	2,184	1,267	1,502	2,818	2264%	88%
General insurance	320	552	343	604	614	92%	2%
AMC	1,080	1,079	1,145	1,247	1,364	26%	9%
Others	55	724	48	332	105	92%	-68%

Source: Company data, Deutsche Bank



Figure 7: 1QFY14 – Income statement and balance sheet

INR m	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	YoY	QoQ	DBe	Actual vs. DBe
<i>Interest on loans</i>	44,012	46,024	48,433	50,985	50,351	14.4%	-1.2%		
<i>Other interest</i>	2,452	2,332	1,539	2,407	1,847	-24.7%	-23.3%		
<i>Surplus from Deployment in CMS</i>	460	918	632	514	646	40.5%	25.8%		
Total Interest Income	46,924	49,273	50,604	53,906	52,844	12.6%	-2.0%	55,464	-4.7%
Interest Expenses	33,882	35,414	35,215	34,398	37,633	11.1%	9.4%	37,295	0.9%
Net Interest Income	13,042	13,859	15,389	19,508	15,211	16.6%	-22.0%	16,122	-5.7%
<i>Dividend income</i>	1,596	1,945	452	814	2,171	36.1%	166.6%		
<i>Fees & other charges</i>	618	525	391	879	544	-11.9%	-38.1%		
<i>Profit on sale of investments</i>	202	941	963	1,048	0	-100.0%	-100.0%		
<i>Other operating income</i>	10	10	10	13	10	4.1%	-18.4%		
<i>Other income</i>	74	78	84	116	80	8.7%	-31.2%	81	-1.7%
Total Non-interest Income	2,435	3,431	1,827	2,767	2,736	12.3%	-1.1%	81	3260.4%
Operating Income	15,477	17,291	17,216	22,275	17,946	16.0%	-19.4%	16,203	10.8%
<i>Staff expenses</i>	609	621	642	590	744	22.2%	26.0%		
<i>Other expenses</i>	733	856	797	541	891	21.5%	64.6%		
Operating Expenses	1,342	1,477	1,439	1,132	1,635	21.8%	44.5%	1,718	-4.8%
Pre-provision operating profit	14,135	15,814	15,777	21,143	16,311	15.4%	-22.9%	14,485	12.6%
Provisions and Contingencies	400	400	400	250	300	-25.0%	20.0%		
Profit before tax (PBT)	13,799	15,481	15,451	20,997	16,081	16.5%	-23.4%	16,871	-4.7%
Taxes	3,780	3,970	4,050	5,445	4,350	15.1%	-20.1%	4,387	-0.8%
Net profit	10,019	11,511	11,401	15,552	11,731	17.1%	-24.6%	12,485	-6.0%
BALANCE SHEET									
Sanctions	227,480	282,963	229,557	292,600	266,152	17%	-9%		
Disbursements	156,384	252,178	141,438	274,520	182,969	17%	-33%		
EQUITY AND LIABILITIES									
<i>Share Capital</i>	2,977	3,078	3,082	3,093	3,108	4%	1%		
<i>Reserves and Surplus</i>	201,678	241,191	252,399	246,907	260,987	29%	6%		
Net worth	204,656	244,269	255,481	250,000	264,096	29%	6%		
<i>Long-term borrowings</i>	791,961	851,795	851,829	915,002	918,379	15%	0%		
<i>Short-term borrowings</i>	648,186	633,977	634,336	688,231	725,298	12%	5%		
Total Borrowings	1,440,147	1,485,773	1,486,165	1,603,233	1,643,677	14%	3%		
<i>Other current liabilities</i>	82,173	61,563	77,017	85,929	96,386	25%	12%		
<i>Other liabilities</i>	19,782	14,767	19,037	16,146	18,519	24%	15%		
TOTAL EQUITY AND LIABILITIES	1,746,758	1,806,371	1,837,699	1,955,308	2,022,678	16%	3%		
Total fixed assets	2,350	2,367	2,380	2,379	2,405	2%	1%		
<i>Non-current investments</i>	120,964	120,384	124,722	125,319	127,126	5%	1%		
<i>Current investments</i>	30,861	29,858	21,058	10,816	44,865	45%	315%		
Total investments	151,825	150,241	145,780	136,135	171,991	13%	26%		
<i>Long-term loans and advances</i>	1,351,596	1,399,814	1,472,162	1,534,484	1,598,988	21%	4%		
<i>Short-term loans and advances</i>	188,901	191,914	172,916	203,999	202,975	-4%	-1%		
Total loans	1,540,497	1,591,728	1,645,078	1,738,483	1,801,963	17%	4%		
<i>Deferred tax assets (Net)</i>	6,282	6,552	6,692	6,314	6,354	-1%	1%		
<i>Other non current assets</i>	9,344	11,869	2,386	7,798	5,528	-41%	-29%		
<i>Other current assets</i>	36,461	43,615	35,382	64,199	34,437	-6%	-46%		
TOTAL ASSETS	1,746,758	1,806,371	1,837,699	1,955,308	2,022,678	16%	3%		

Source: Company data, Deutsche Bank



Figure 8: Key ratios and other data

(INR m)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	YoY	QoQ
Loans Calculations							
Reported Loans	1,482,623	1,551,280	1,609,413	1,700,460	1,769,930	19%	4%
Loans sold down (cumulative)	138,720	157,480	160,490	169,640	172,920	25%	2%
Loans under management	1,621,343	1,708,760	1,769,903	1,870,100	1,942,850	20%	4%
Loans sold over last 4 qtrs (trailing)	49,780	56,300	52,640	51,750	63,100	27%	22%
Liabilities mix							
Term Loans	374,844	197,240	136,400	178,240	128,190	-66%	-28%
Bonds & Debentures	663,838	798,040	854,670	890,710	967,540	46%	9%
Deposits	399,434	482,620	497,631	519,330	536,960	34%	3%
Loan mix							
Individual loans	954,129	994,012	1,052,372	1,113,210	1,184,290	24%	6%
Corporate loans	509,977	537,633	539,349	569,550	566,200	11%	-1%
Other loans	18,517	19,635	17,692	17,700	19,440	5%	10%
Key margin components							
Spread (reported) (YTD)	2.27%	2.27%	2.28%	2.30%	2.29%	0.02%	-0.01%
Individual spreads (reported) (YTD)	0.00%	1.96%	1.95%	1.96%	2.01%	2.01%	0.05%
Non-individual spreads (reported) (YTD)	0.00%	2.72%	2.79%	2.94%	2.82%	2.82%	-0.12%
Yield on loans (calculated)	12.60%	12.51%	12.39%	12.67%	11.78%	-0.84%	-0.89%
Cost of funds (calculated)	9.58%	9.72%	9.50%	8.94%	9.35%	-0.23%	0.40%
Key Ratios							
Cost / Income	8.7%	8.5%	8.4%	5.1%	9.1%	0.44%	4.03%
Fees / Total Operating Income	4.0%	3.0%	2.3%	3.9%	3.0%	-0.96%	-0.92%
RoE (Calculated)	20.6%	22.1%	20.4%	26.1%	18.5%	-2.12%	-7.56%
RoA (Calculated)	2.6%	2.9%	2.7%	3.6%	2.6%	-0.01%	-0.98%
Asset Quality							
NPLs (reported)	11,900	12,060	12,240	11,990	13,710	15%	14%
NPLs (90 days overdue)	0.79%	0.77%	0.75%	0.70%	0.77%	-0.02%	0.07%
<i>o/w Individual loans</i>	<i>0.00%</i>	<i>0.65%</i>	<i>0.62%</i>	<i>0.58%</i>	<i>0.61%</i>	<i>-0.06%</i>	<i>0.03%</i>
<i>o/w Non Individual loans</i>	<i>0.00%</i>	<i>0.89%</i>	<i>0.91%</i>	<i>0.91%</i>	<i>1.08%</i>	<i>0.08%</i>	<i>0.17%</i>
Provisions for contingencies	17,110	17,480	17,832	17,923	18,006	5%	0%
Capital adequacy ratios							
Tier-1	11.8%	14.1%	14.9%	13.8%	14.0%	2.20%	0.20%
Tier-2	2.8%	2.6%	2.6%	2.4%	2.3%	-0.50%	-0.10%
CAR	14.6%	16.7%	17.5%	16.2%	16.3%	1.70%	0.10%

Source: Company data, Deutsche Bank



Figure 9: HDFC consolidated income statement

(INR m)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	YoY	QoQ
Revenue from Operations	51,230	54,235	55,384	59,475.6	58,399	14%	-2%
Premium Income from Insurance business	20,073	29,713	30,065	46,652	22,905	14%	-51%
Other Operating Income from Insurance Business	2,282	19,533	2,158	2,695.9	3,378	48%	25%
Profit on Sale of Investments	222	1,015	1,019	1,528.2	65	-71%	-96%
Other Income	77	125	108	77.1	80	4%	4%
Total income	73,885	104,621	88,733	110,428.8	84,829	15%	-23%
Finance Cost	34,486	36,709	36,272	35,489.3	38,837	13%	9%
Employee Benefits Expenses	1,284	1,309	1,356	1,331.6	1,518	18%	14%
Other Expenses	1,254	1,481	1,431	1,389.2	1,592	27%	15%
Claims paid pertaining to Insurance Business	8,815	11,963	14,178	17,257.1	15,160	72%	-12%
Commission and operating expenses pertaining to Insurance Business	4,600	-	5,738	6,927.3	4,512	-2%	-35%
Other Expenses pertaining to Insurance Business	8,693	34,823	10,926	23,254.6	3,441	-60%	-85%
Depreciation	128	132	135	146.9	90	-30%	-39%
Total expenses	59,260	86,416	70,036	85,796	65,150	10%	-24%
Pre-provision operating profits	14,625	18,205	18,696	24,632.8	19,678	35%	-20%
Provision for Contingencies	468	429	461	127.3	399	-15%	213%
Profit Before Tax	14,157	17,776	18,235	24,505.5	19,279	36%	-21%
Tax Expense	4,283	4,613	4,693	6,431.7	5,144	20%	-20%
Net Profit (before associates and MI)	9,874	13,163	13,542	18,073.8	14,136	43%	-22%
Share of profit of minority interest	3,320	3,635	4,329	3,877.9	4,268	29%	10%
Net share of profit from Associates	436	1,049	813	1,120.5	1,333	206%	19%
Profit post minority and associates	12,759	15,749	17,058	20,831.2	17,071	34%	-18%
Segment PBT							
Housing	14,167	13,535	15,946	21,776	14,422	2%	-34%
Life Insurance	119	2,184	1,267	1,502	2,818	2264%	88%
General insurance	320	552	343	604	614	92%	2%
AMC	1,080	1,079	1,145	1,247	1,364	26%	9%
Others	55	724	48	332	105	92%	-68%

Source: Company data, Deutsche Bank



Valuation and risks

- Our SOTP-based target price for HDFC is INR 960.
- We value HDFC's core mortgage business using the two-stage regular income model. Assumptions for the model: income CAGR of 17%, dividend payout of 50%, cost of equity = 14.46% (Deutsche Bank estimate), terminal growth rate = 5% (nominal growth rate for developed countries). This gives us a March 2014E based value of INR 574, which results in a target FY14E P/BV of 4.6x for the core mortgage business.
- The life business is valued on appraisal value (i.e., new business plus embedded value), asset management business at 5% of AUM, stake in HDFC Bank at its target price, unrealised gains (excluding HDFC Bank) at market price and the rest on P/B.

Figure 10: SOTP valuation

Business	Total Value	HDFC's stake	Value attributable to HDFC	Per share value of HDFC	% of total value of HDFC	Methodology
HDFC - core lending business	887,886	100.0%	887,886	574	59.8%	Based on residual income model, translates to FY14E P/B of core lending business of 4.6x
HDFC Bank	1,808,358	22.8%	412,844	267	27.8%	Based on our target price for HDFC Bank of INR 760
HDFC Life Insurance	147,356	72.4%	106,686	69	7.2%	Appraisal value
HDFC Asset Management	58,705	59.8%	35,106	23	2.4%	5% of FY14E AUM
Gruh Finance	18,143	59.7%	10,832	7	0.7%	3.0x FY14E P/BV multiple
HDFC General Insurance	10,917	74.0%	8,079	5	0.5%	1.0x FY14E P/BV multiple
Unrealised gains (ex - HDFC Bank)	24,510	100.0%	24,510	16	1.6%	Based on unrealised gains as on 30 June 2013
Target Price				960	100%	

Source: Deutsche Bank

Risks

- Property prices staying high and eventually affecting demand for mortgages - HDFC, unlike banks, is a single-product entity.
- Intermediation costs rising as walk-ins reduce and more business is sourced by individual or corporate agents.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
HDFC	HDFC.BO	803.50 (INR) 19 Jul 13	17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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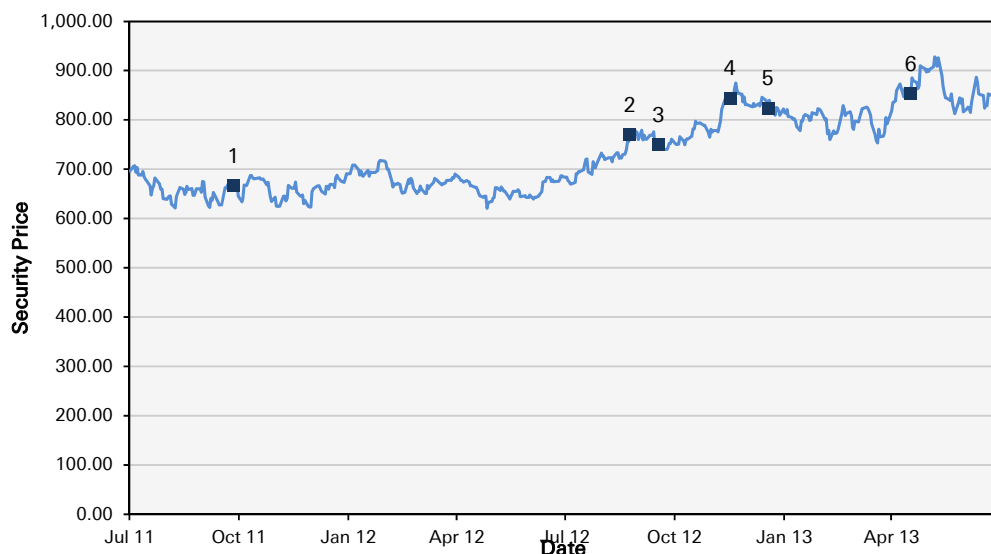
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Historical recommendations and target price: HDFC (HDFC.BO)

(as of 7/19/2013)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

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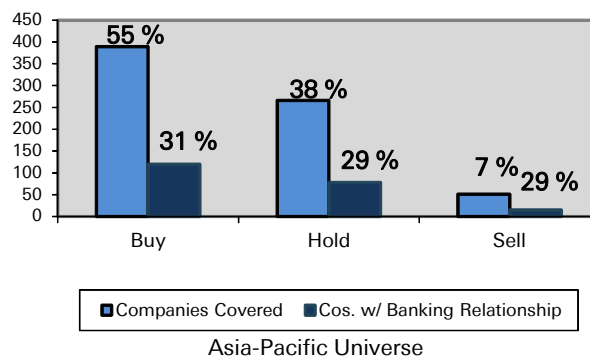
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Equity rating dispersion and banking relationships





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