

HDFC Ltd (HDFC)

₹ 829

WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY14E).....	Unchanged
EPS (FY15E).....	Unchanged
RATING.....	Unchanged

NIM shrinks; developer loan quality in stress...

HDFC's Q1FY13 PAT of ₹ 1173 crore was largely in line with Street estimates. However, it was below our estimate owing to lower than expected NII growth as NIMs were slightly under pressure. Still, momentum in the individual loan book remained robust with steady asset quality, thus defying growth concerns on account of rising competition from banks and overall decline in home loans growth across the industry. Other income growth was healthy at 17% YoY despite negligible trading profits as it was led largely by strong growth in dividend income (36% YoY to ₹ 217 crore). We largely maintain our standalone estimates of 19% and 20% CAGR in loans and profits over FY13-15E. We maintain HOLD.

Advances book tilts further towards individual loan portfolio

As stated above, the individual loan book (excluding loan sold) maintained its strong traction of 24% YoY (6% QoQ) while the total loan book increased 19% YoY to ₹ 176993 crore. The entire incremental loans of ₹ 6946 crore during the quarter were from the individual loan category, thus resulting in increasing its proportion to 67% (up 150 bps QoQ). Owing to increase in the lower yielding individual loans and a QoQ decline in developer loans, calculated margins witnessed pressure and contracted ~100 bps QoQ to 3.0%. Reported NIM came in at 3.9%. Reported spreads were stable at 2.3%, with spread on the retail book rising 5 bps QoQ to 2.01% compared to 12 bps fall in spreads on the developer book. The GNPA ratio was stable at 0.77%. Provisions remain adequate at ₹ 1800 crore.

NIMs to stabilise in a range, asset quality stable but competition growing

HDFC is growing mainly from the individual portfolio with steady spreads and asset quality QoQ. It maintains its guidance for loan growth at 18-20% going ahead, but tough competition from large PSU banks may warrant pricing cuts or some hit on growth. Adequate provisioning provides comfort against any adverse accretion in NPA.

Maintain HOLD

Healthy return ratios (RoE > 20%, RoA ~2.7%) over FY13-15E remain key strengths. We maintain our SOTP based TP of ₹ 860 valuing the standalone lending business at 3.0x FY15E core ABV, giving ₹ 560/share of HDFC and ~₹ 300 for subsidiaries with a **HOLD** rating on the stock.

Exhibit 1: Financial Performance

₹ Crore	Q1FY14	Q1FY14E	Q1FY13	Q4FY14	YoY Gr(%)	QoQ Gr.(%)
NII	1713.3	1713.3	1258.2	1899.4	36.2	-9.8
Non Interest income	310.7	310.7	295.9	338.5	5.0	-8.2
Total Income	2023.9	2023.9	1554.1	2237.9	30.2	-9.6
PBT	1808.1	1808.1	1379.9	2099.7	31.0	-13.9
PAT	1300.4	1300.4	1001.9	1555.2	29.8	-16.4

Source: Company Quarterly Presentation, ICICIdirect.com Research

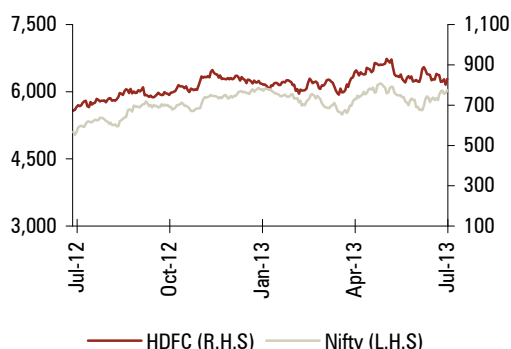
Rating matrix	
Rating	: Hold
Target	: ₹ 860
Target Period	: 12 months
Potential Upside	: 3%

Key Financials				
₹ crore	FY12	FY13	FY14E	FY15E
NII	4,998	5,927	7,286	8,734
PPP	5,746	6,718	8,179	9,775
PAT	4,123	4,848	5,795	6,955

Valuation summary				
	FY12	FY13	FY14E	FY15
Net Profit (₹ crore)	4122.6	4848.3	5794.7	6954.8
EPS (₹)	27.9	31.4	37.5	45.0
Growth (%)	15.8	12.3	19.5	20.0
P/E (x)	29.7	26.5	22.1	18.5
Price / Book (x)	6.7	5.3	4.7	4.2
ABV (Rs)	124.5	157.6	175.1	196.7
Price / Adj Book (x)	6.7	5.3	4.7	4.2
GNPA (%)	0.8	0.7	0.7	0.7
NNPA (%)	0.0	0.0	0.0	0.0
RoNA (%)	2.7	2.7	2.7	2.8
RoE (%)	22.7	22.0	22.0	23.8

Stock data	
Market Capitalisation	₹ 128508 crore
GNPA (Q1FY14)	₹ 1363 crore
NNPA (Q1FY14)	Nil
NIM (Q1FY14) (reported)	3.90%
52 week H/L	931/670
Equity capital	₹ 309 crore
Face value	₹ 2
DII Holding (%)	13.3
FII Holding (%)	73.6

Price movement



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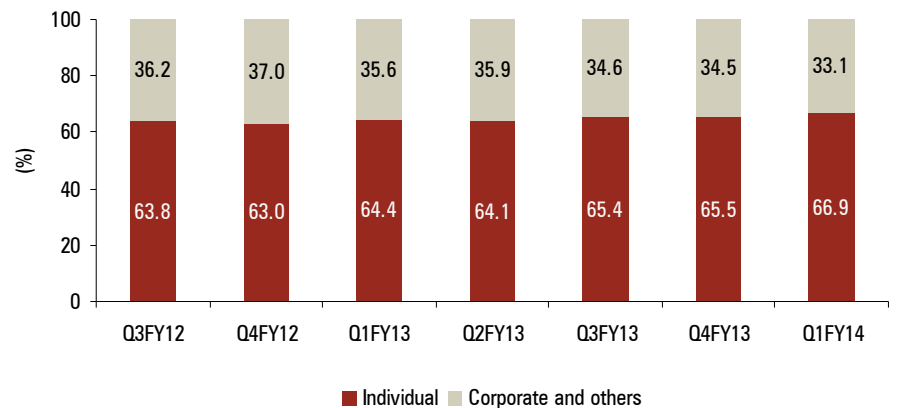
Exhibit 2: Assumptions

(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	19.7	19.0
Loan Mix				
-Individual (%)	63.0	65.5	65.4	65.4
-Corporate (%)	35.6	33.5	33.5	33.5
Funding Mix				
-Bonds & Debentures (%)	44.7	56.1	56.0	55.8
-Deposits (%)	26.1	32.7	33.3	33.8
-Term loans (%)	29.3	11.2	10.7	10.4

Source: Company, ICICIdirect.com Research

Exhibit 3: Retail growth strong, proportion rises 150 bps QoQ to 67%

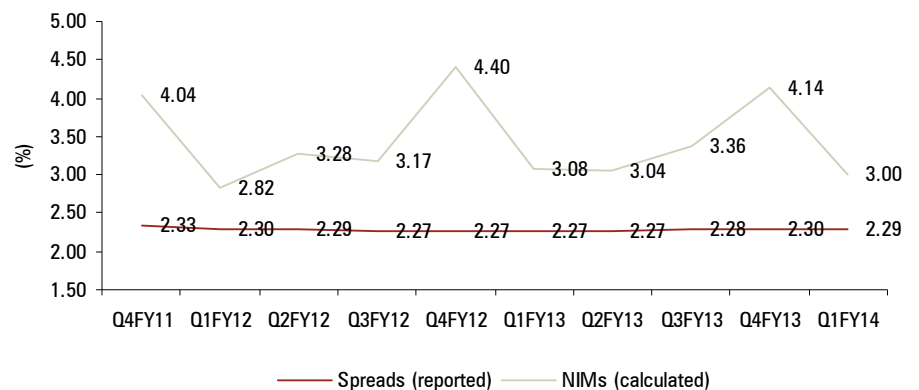
During Q1FY14, the total loan book (net of loans sold) increased 19% YoY to ₹ 176993 crore while inclusive of loans sold the total book rose 20% YoY. Individual loan book momentum stayed strong while the corporate loan book de-grew QoQ. We have factored in outstanding loan CAGR of 19% over FY13-15E



Source: Company, ICICIdirect.com Research

Exhibit 4: Compression in margins owing to change in loan mix towards retail portfolio

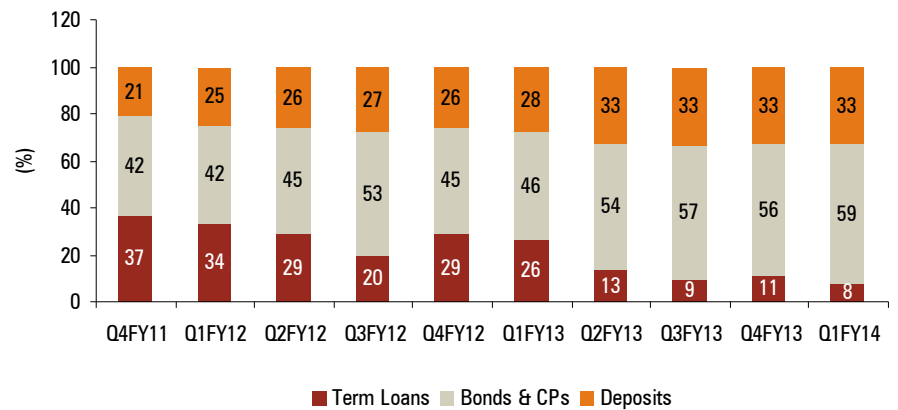
The rise in the proportion of low yielding individual loans results in QoQ margin compression. Reported NIM is expected to stay at ~4%



Source: Company, ICICIdirect.com Research

HDFC displayed its flexibility in liability management by shedding term loans from banks and increasing proportion of funds raised from bonds and CPs as base rates of banks remain higher than wholesale rates during Q1FY14

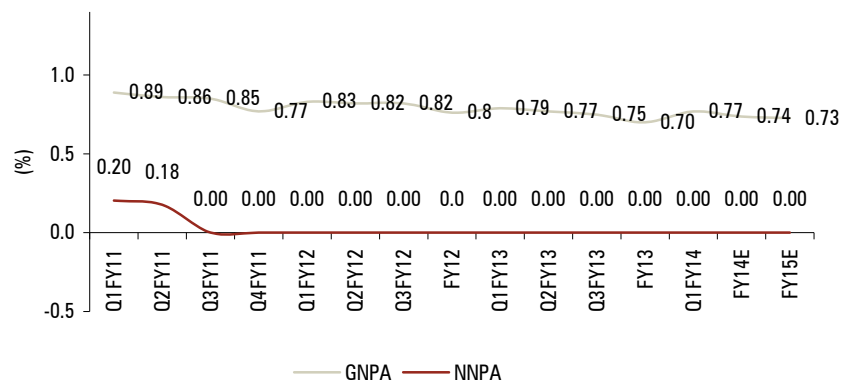
Exhibit 5: Borrowings from bank continue to decline in favour of bonds & CPs



Source: Company, ICICIdirect.com Research

Q1FY14 was the 34th consecutive quarter wherein the percentage of NPA has been lower than the corresponding quarter of the previous year

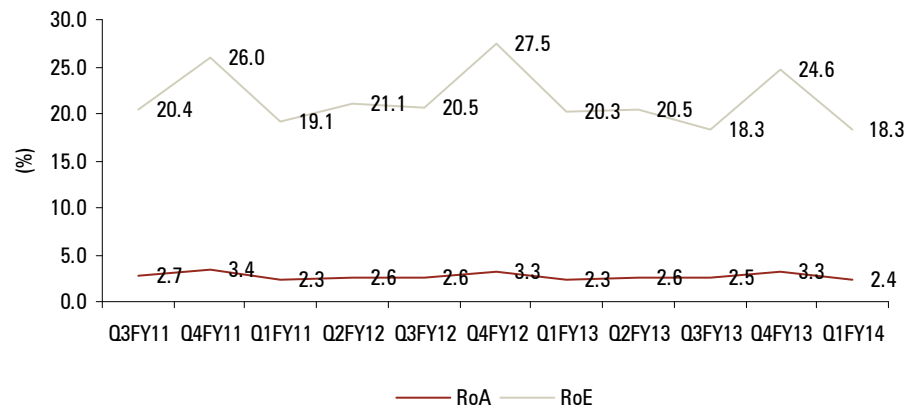
Exhibit 6: Asset quality steady



Source: Company, ICICIdirect.com Research

The GNPA in the individual portfolio was largely steady QoQ at 0.61% (0.58% in Q4FY13). The non individual book witnessed deterioration in asset quality as GNPA ratio rose 17 bps sequentially to 1.08%. We expect stable asset quality for FY14.

Exhibit 7: Expect return ratios to be healthy with 20%plus RoE, 2.7% RoA over FY13-15E



Source: Company, ICICIdirect.com Research

Exhibit 8: Consolidated overview

Particulars	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Q1FY13	Growth (%)	
						YoY	QoQ
REVENUES							
Revenue from Operations	8525	11184	10220	10499	7495	14	-24
Housing	5563	5883	5417	5199	5090	9	-5
Life Insurance	2223	4562	4137	4599	1853	20	-51
General Insurance	446	411	384	364	297	50	8
Asset Management	237	244	212	203	192	23	-3
Others	57	84	71	134	62	-9	-32
Net Revenue from Operations	8483	11043	10139	10462	7277	17	-23
Profit/Loss Before Interest and Tax	1932	2546	1875	1807	1574	23	-24
Housing	1442	2178	1591	1354	1415	2	-34
Life Insurance	282	150	127	218	12	2264	88
General Insurance	61	60	34	55	32	92	2
Asset Management	136	125	114	108	108	26	9
Others	11	33	8	72	7	55	-68
PBT	1928	2451	1823	1778	1416	36	-21

Source: Company, ICICIdirect.com Research

Consolidated profits grew strongly by 34% YoY to ₹ 1707 crore. HDFC Life reported a PBT of ₹ 282 crore compared to ₹ 12 crore in Q1FY13. HDFC AMC also reported a healthy performance with PBT growth of 26% YoY to ₹ 136 crore.

Valuation

Healthy return ratios (RoE > 20%, RoA ~2.7%) over FY13-15E remain key strengths. We maintain our SOTP based target price of ₹ 860 valuing the standalone lending business at 3.0x FY15E core ABV, giving ₹ 560/share of HDFC and ~₹ 300 for subsidiaries. We maintain our **HOLD** recommendation on the stock.

Exhibit 9: Valuation

Business Segment	FY15E ₹/share
HDFC Ltd	561
HDFC Bank	200
HDFC AMC	26
HDFC Std. Life	48
HDFC ERGO	2
GRUH Finance	18
Unrealised Gains	4
Value per share of HDFC	860

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	21247.0	24604.3
Interest Expended	11156.8	13890.9	13961.3	15869.9
Net Interest Income	4,998.3	5927.5	7285.7	8734.4
% growth	17.7	18.6	22.9	19.9
Non Interest Income	1199.0	1329.3	1501.0	1717.2
Net Income	6,197.3	7256.7	8786.8	10451.7
Employee cost	205.8	246.2	276.5	315.8
Other operating Exp.	246.1	292.7	331.4	360.9
Operating Income	5746.0	6717.8	8178.9	9774.9
Provisions	80.0	145.0	219.2	221.7
PBT	5666.0	6572.8	7959.8	9553.2
Taxes	1543.0	1724.5	2165.1	2598.5
Net Profit	4,122.6	4848.3	5794.7	6954.8
% growth	16.6	17.6	19.5	20.0
EPS (₹)	27.9	31.4	37.5	45.0

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY12	FY13	FY14E	FY15E
Valuation				
No. of Equity Shares	147.7	154.6	154.6	154.6
EPS (Rs.)	27.9	31.4	37.5	45.0
BV (Rs.)	124.5	157.6	175.1	196.7
BV-ADJ (Rs.)	124.5	157.6	175.1	196.7
P/E	29.7	26.5	22.1	18.5
P/BV	6.7	5.3	4.7	4.2
P/adj.BV	6.7	5.3	4.7	4.2
Yields & Margins				
Yield on interest earning assets	12.2	12.4	11.1	10.8
Avg. cost on funds	8.8	9.3	8.0	7.6
Net Interest Margins	3.8	3.7	3.8	3.8
Spreads	3.4	3.0	3.1	3.1
Adjusted spreads *	2.9	2.6	2.5	2.7
Quality and Efficiency				
Cost / Total net income	7.3	7.4	6.9	6.5
GNPA%	0.8	0.7	0.7	0.7
NNPA%	0.0	0.0	0.0	0.0
RONW (%)	22.7	22.0	22.0	23.8
ROA (%)	2.7	2.7	2.7	2.8

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
Sources of Funds				
Capital	295.4	309.3	309.3	309.3
Reserves and Surplus	18722.2	24690.7	27272.2	30514.8
Networth	19017.6	25000.0	27581.4	30824.1
Secured Loans	95927.2	90871.8	112236.2	133023.0
Unsecured Loans	43200.2	67956.3	77372.4	92318.8
Other Liabilities & Provisions	9375.0	11702.6	12776.5	14049.1
Total	167520.0	195530.7	229966.6	270214.9
Applications of Funds				
Fixed Assets	234.0	237.9	245.3	256.4
Investments	12207.0	13613.5	13155.1	14070.8
Advances	140421.7	169570.7	202920.1	241474.9
Other Assets	14657.3	12108.7	13646.1	14412.8
Total	167520.0	195530.7	229966.6	270214.9

Source: Company, ICICIdirect.com Research

Growth ratios

(Year-end March)	FY12	FY13	FY14E	FY15E
(% growth)				
Total assets	20.3	16.7	17.6	17.5
Advances	20.2	20.8	19.7	19.0
Borrowings	20.9	14.2	19.4	18.8
Total Income	34.8	21.9	7.6	15.7
Net interest income	17.7	18.6	22.9	19.9
Operating expenses	18.6	19.3	12.8	11.3
Operating profit (excl trading)	25.5	22.7	27.7	23.8
Net profit	16.6	17.6	19.5	20.0
Book value	6.2	32.5	11.1	12.3
EPS	15.8	12.3	19.5	20.0

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 ₹ 176993 crore as on Q1FY14. 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
23-Oct-12	Q2FY13 Result Update	751	792	Hold
8-Jan-13	Q3FY13 Result Preview	838	792	Hold
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

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)	125	173	Buy	18,857	12.4	13.5	15.6	10.1	9.2	8.0	1.5	1.3	1.2	3.1	3.0	2.8	14.8	14.8	15.1
LIC Housing Finance (LICHF)	209	290	Buy	10,537	20.3	29.4	38.8	10.3	7.1	5.4	1.6	1.4	1.1	0.4	0.4	0.4	1.4	1.7	1.8
Reliance Capital (RELCAP)	377	466	Buy	9,262	33.0	26.7	30.3	11.4	14.1	12.4	0.9	0.9	0.8	2.0	1.4	1.4	6.8	5.3	5.8
HDFC (HDFC)	829	860	Hold	127,504	31.4	38.2	45.5	26.4	21.7	18.2	5.3	4.7	4.2	2.7	2.8	2.8	22.0	22.4	24.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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