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Rating	Accumulate
Price	Rs803
Target Price	Rs850
Implied Upside	5.9%
Sensex	20,150
Nifty	6,029

(Prices as on July 19, 2013)
Trading data

Market Cap. (Rs bn)	1,186.3
Shares o/s (m)	1,477.0
3M Avg. Daily value (Rs m)	2825.2

Major shareholders

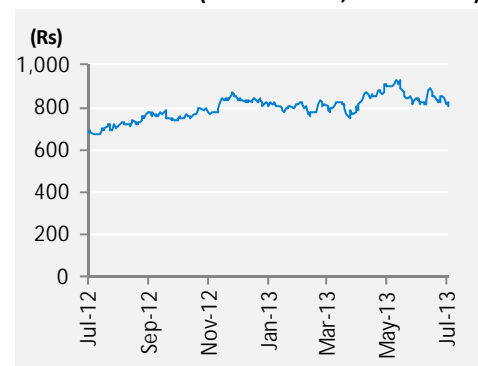
Promoters	0.00%
Foreign	73.64%
Domestic Inst.	13.03%
Public & Other	13.33%

Stock Performance

(%)	1M	6M	12M
Absolute	(4.7)	(2.4)	15.8
Relative	(9.4)	(2.9)	(0.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	36.8	36.7	0.2
2015	44.5	43.0	3.3

Price Performance (RIC: HDFC.BO, BB: HDFC IN)


Source: Bloomberg

HDFC reported an in-line quarter adjusted for capital gains. Builder book contracted QoQ and NPAs inched up marginally. However, robust growth in the individual book continues to offset builder book slowdown. Margins have held up fine but if the recent RBI tightening sustains, it could lead to some pressure on HDFC's resilient spreads considering the asset mix change. Valuations now at 3x Sep-14 book look reasonable but liquidity + slowdown risks underpin our 'Accumulate' rating.

- Growth – Largely Individual mortgages driven; Builder book:** HDFC reported ~20% YoY loan growth with 100% of incremental growth coming from the individual book in Q1FY14. Builder book growth has moderated to ~10% YoY, with a QoQ contraction which is "Risk" prudent in this environment though it will impact spreads as share of non-individual book is down to 33% from peak of 37% in FY12. There has been ~20bps of NPA accretion in the builder book but overall NPA levels are very much under check.
- Spreads fine in Q1FY14 but could be under pressure if tight liquidity sustains:** Reported spreads was flat YoY as favourable wholesale funding environment in Q1FY14 netted off negative impact of the asset mix (lower share of non-individual loans). Incremental funding was largely bonds/deposits with share of bank funding coming down to <10% now. But with the recent RBI tightening, bond yields have inched up 50-60bps reducing incremental mortgage spreads and with share of individual loans inching up, there could be some pressure on spreads if the tightening sustains – Management in our last meeting highlighted larger proportion of sell-downs to minimise the impact on NII growth.
- ROE improvement to only be gradual; See near-term risks + No catalysts** Assuming minor contraction in margins, we expect adjusted ROEs to inch up from 23.5% to ~24.5% in FY16 largely linked to leveraging up, post the FY13 warrant conversion. **We do not see any near-term catalysts with sustainability of tight liquidity being a key risk and hence, we maintain our Neutral stance.**

Key Financials (Y/e March)	2012	2013	2014E	2015E
Net interest income (Rs m)	49,765	57,988	70,433	86,294
Growth (%)	20.4	16.5	21.5	22.5
Non-interest income (Rs m)	12,210	14,579	15,621	16,749
Operating Profit (Rs m)	57,456	67,178	79,927	96,091
PAT (Rs m)	41,226	48,483	56,870	68,741
EPS (Rs)	27.9	31.4	36.8	44.5
Growth (%)	15.8	12.3	17.3	20.9
Net DPS (Rs)	12.5	12.5	14.7	17.7

Profitability & valuation	2012	2013	2014E	2015E
Spreads / Margins (%)	3.2	3.2	3.3	3.3
RoAE (%)	22.7	22.0	21.3	22.5
RoAA (%)	2.7	2.7	2.6	2.6
P/E (x)	28.8	25.6	21.8	18.1
P/BV (x)	6.2	5.0	4.4	3.8
P/ABV (x)	6.2	5.0	4.4	3.8
Net dividend yield (%)	1.6	1.6	1.8	2.2

Source: Company Data; PL Research

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Exhibit 1: Q1FY14 Financials : STABLE; a tilt towards individual loans is credit positive

NII growth supported by healthy loan growth in the individual book – Spreads was largely flat QoQ

Fee income moderates again after lumpy corporate income in Q4FY13

<10% of total funding from bank

Individual book growth strong offsetting slowdown in builder book

Sell downs continue strong – Management could possibly use higher sell downs to offset NIM pressure

Some inch-up in NPAs in builder book but delinquency levels look manageable

Spreads relatively stable

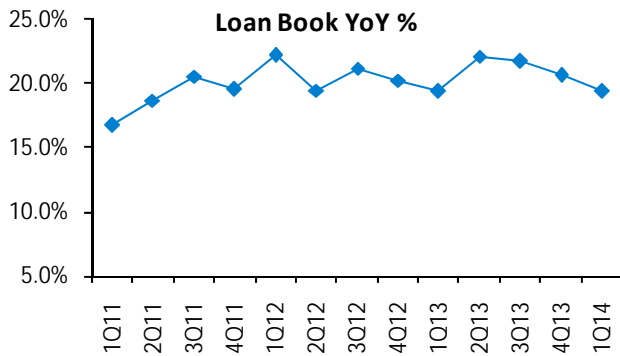
	1Q13	4Q13	1Q14	YoY	QoQ
Net interest income	14,638	20,322	17,382	18.7%	-14.5%
Fees	701	1,008	634	-9.5%	-37.1%
Net revenues	15,339	21,330	18,016	17.5%	-15.5%
Operating expenditure	1,742	1,382	1,935	11.1%	40.1%
Operating profit	13,597	19,948	16,081	18.3%	-19.4%
Investment profit	202	1,049	0	NA	NA
Profit before tax	13,799	21,007	16,091	16.6%	-23.4%
Tax	3,780	5,445	4,350	15.1%	-20.1%
PAT	10,019	15,562	11,741	17.2%	-24.6%
Balance sheet					
	1Q13	4Q13	1Q14	YoY	QoQ
Borrowings					
Term Loans	374,844	178,240	128,190	-65.8%	-28.1%
Bonds	663,838	890,710	967,540	45.7%	8.6%
Deposits	399,434	519,330	536,960	34.4%	3.4%
Total	1,438,116	1,588,280	1,632,690	13.5%	2.8%
Loans					
Individuals	954,129	1,113,210	1,184,291	24.1%	6.4%
Corporates	509,977	569,550	566,198	11.0%	-0.6%
Others	18,517	17,700	19,438	5.0%	9.8%
Total Loans	1,482,623	1,700,460	1,769,928	19.4%	4.1%
Investments	151,825	136,135	171,991	13.3%	26.3%

Source: Company Data, PL Research

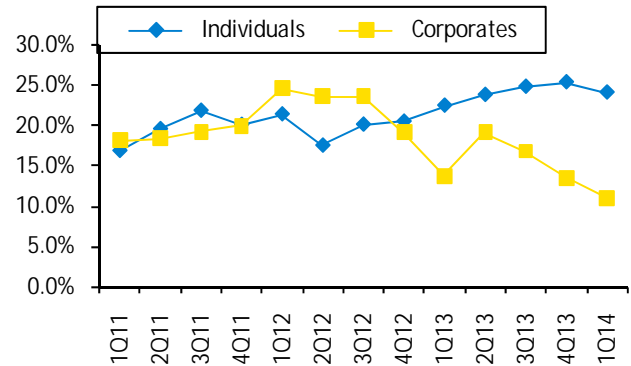
Exhibit 2: Operating Matrix

Operating data	1Q13	4Q13	1Q14	YoY	QoQ
Loans (on B/S)	1,482,623	1,700,460	1,769,930	19.4%	4.1%
Stock of Sell down Loans	138,720	169,640	172,920	24.7%	1.9%
Total AUM	1,621,343	1,870,100	1,942,850	19.8%	3.9%
Gross NPL (%)					
Individual book	0.67%	0.58%	0.61%	-0.06%	0.03%
Builder book	1.00%	0.91%	1.08%	0.08%	0.17%
Calculated NIMs					
Calculated Spreads	2.28%	3.24%	2.30%	0.02%	-0.95%
Individual Spreads (Reported)		1.96%	2.01%		0.05%
Builder Spreads (Reported)		2.94%	2.82%		-0.12%
ROE	20.3%	24.6%	18.3%	-2.0%	-6.4%

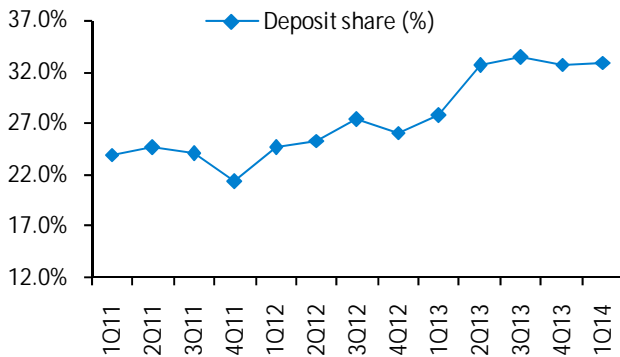
Source: Company Data, PL Research

Exhibit 3: Continues to remain strong


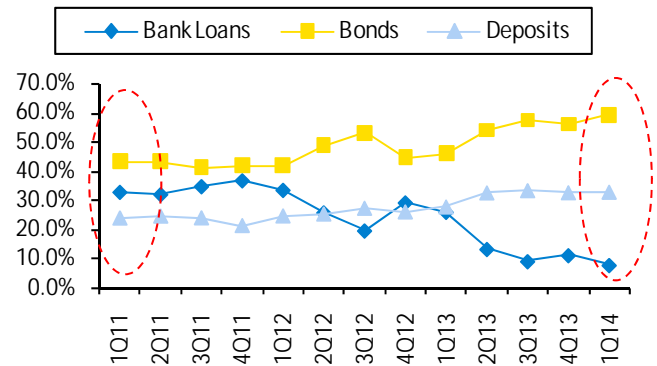
Source: Company Data, PL Research

Exhibit 4: Retail growth remains strong; corporate seen moderating


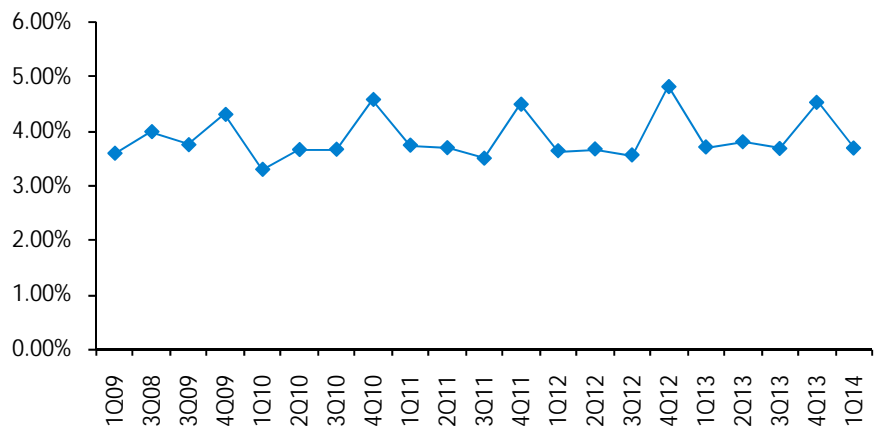
Source: Company Data, PL Research

Exhibit 5: Funding from deposits have been increasing


Source: Company Data, PL Research

Exhibit 6: Bank funding down to <10% of borrowing


Source: Company Data, PL Research

Exhibit 7: NIMs remain stable but recent RBI measures could pressure liquidity and lead to some squeeze in NIMs


Source: Company Data, PL Research

Expect ROE improvement to be gradual post the warrant conversion in FY13

	2009	2010	2011	2012	2013	2014	2015	2016
Reported PAT	22,825	28,265	35,350	41,226	48,483	56,870	68,741	80,374
Dividends	1,957	2,327	2,252	3,097	4,807	5,287	5,816	6,398
Adjustment for Zero Coupon	431	1,924	5,321	4,851	3,800	2,700	2,700	2,700
Adjusted PAT	20,580	24,649	29,532	34,880	41,131	49,773	61,116	72,168
% growth	-13%	20%	20%	18%	18%	21%	23%	18%

Subsidiary Stake

HDFC Life	72.4%	72.6%	72.4%	72.4%	72.4%	72.4%	72.4%	72.4%
HDFC Bank	19.4%	23.7%	23.4%	23.1%	22.8%	22.8%	22.8%	22.8%
Gruh Finance	61.5%	61.4%	60.7%	60.4%	59.7%	59.7%	59.7%	59.7%
HDFC General insurance	74.0%	74.0%	74.0%	74.0%	73.9%	73.9%	73.9%	73.9%
HDFC AMC	60.0%	60.0%	60.0%	59.9%	59.8%	59.8%	59.8%	59.8%
Others	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Subsidiary performance

HDFC Life	-5030	-2752	-990	2710	4515	5869	7337	8437
HDFC Bank	22448	29493	39264	51671	67263	81337	102456	127045
Gruh Finance	503	690	915	1203	1460	1898	2467	3208
HDFC General insurance	-257	-943	-364	-397	1545	1777	2043	2350
HDFC AMC	1291	2084	2422	2691	3190	3509	3860	4246
Others		500	1860	280	-1000	200	500	700
Proportionate income	1601	6478	12070	16223	21526	27539	34463	41965
Calculated consolidated PAT	22181	31126	41602	51103	62656	77312	95579	114133
Reported Consolidated PAT	23100	32410	45280	54630	66400	80012	98279	116833

Reported Standalone Equity	131374	151977	173165	190176	250000	284197	325532	373863
Reported Consolidated Equity	138437	181822	211901	244240	320600	377939	448812	533602

Adjusted ROEs - Consol		19.4%	21.1%	22.4%	22.2%	22.1%	23.1%	23.2%
Reported ROEs - Consol		20.2%	23.0%	24.0%	23.5%	22.9%	23.8%	23.8%

Standalone Equity	131374	151977	173165	190176	250000	284197	325532	373863
Subsidiary investment	33678	76696	79351	79351	79351	79351	79351	79351
Adjusted Standalone Equity	114535	113629	133490	150500	210325	244521	285857	334187

Adjusted Standalone PAT	21632	26139	31563	37253	44180	52876	64483	75826
Adjusted Standalone ROE		22.9%	25.5%	26.2%	24.5%	23.3%	24.3%	24.5%

Adjusted Subsidiary PAT	549	4987	10039	13850	18476	24436	31096	38307
Adjusted Subsidiary Capital	23,903	68,194	78,412	93,740	110,276	133,418	162,956	199,414
Adjusted Subsidiary ROE		10.8%	13.7%	16.1%	18.1%	20.1%	21.0%	21.1%

Source: Company Data, PL Research

Exhibit 8: HDFC SOP of Rs850/share

	Value per share
HDFC Bank	224
HDFC Standard Life	55
HDFC Asset Management	13
Total Subsidiary valuation	292
Mar-14 PT	850
Implied lending business value	558
Lending business valuation	
Net Profit (Sep-14)	62,805
Less dividend income	3886
Adjusted Profit (sep-14)	58,919
Shares	1546
Adj. EPS (Sep-14)	38.1
Implied Sep-14 P/E	14.6
Implied Sep-14 P/B	3.32

Source: PL Research

Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Int. Inc. / Opt. Inc.	161,333	196,897	228,233	272,286
Interest Expenses	111,568	138,909	157,800	185,992
Net interest income	49,765	57,988	70,433	86,294
<i>Growth (%)</i>	<i>20.4</i>	<i>16.5</i>	<i>21.5</i>	<i>22.5</i>
Non interest income	12,210	14,579	15,621	16,749
<i>Growth (%)</i>	<i>3.1</i>	<i>19.4</i>	<i>7.1</i>	<i>7.2</i>
Net operating income	61,975	72,567	86,054	103,043
Expenditure				
Employees	2,058	2,462	2,807	3,171
Other expenses	2,461	2,927	3,320	3,781
Depreciation	—	—	—	—
Total expenditure	4,519	5,389	6,127	6,952
PPP	57,456	67,178	79,927	96,091
<i>Growth (%)</i>	<i>16.4</i>	<i>16.9</i>	<i>19.0</i>	<i>20.2</i>
Provision	800	1,450	1,160	1,276
Other income	—	—	—	—
Exchange Gain / (Loss)	800	1,450	1,160	1,276
Profit before tax	56,656	65,728	78,767	94,815
Tax	15,430	17,245	21,897	26,074
<i>Effective tax rate (%)</i>	<i>27.2</i>	<i>26.2</i>	<i>27.8</i>	<i>27.5</i>
PAT	41,226	48,483	56,870	68,741
<i>Growth (%)</i>	<i>16.6</i>	<i>17.6</i>	<i>17.3</i>	<i>20.9</i>

Balance Sheet (Rs m)

Y/e March	2012	2013	2014E	2015E
Sources of funds				
Equity	2,954	3,093	3,093	3,093
Reserves & Surplus	180,563	240,248	274,445	315,780
Networth	190,176	250,000	284,197	325,532
<i>Growth (%)</i>	<i>9.8</i>	<i>31.5</i>	<i>13.7</i>	<i>14.5</i>
Loan funds	1,028,347	1,068,950	1,273,950	1,598,950
<i>Growth (%)</i>	<i>—</i>	<i>3.9</i>	<i>19.2</i>	<i>25.5</i>
Deposits	362,928	519,330	649,330	759,330
Other Liabilities	93,749	117,028	140,275	163,522
Total	1,675,199	1,955,308	2,347,751	2,847,334
Application of funds				
Net fixed assets	2,340	2,379	2,403	2,409
Advances	1,408,746	1,700,460	2,067,083	2,533,940
<i>Growth (%)</i>	<i>20.3</i>	<i>20.7</i>	<i>21.6</i>	<i>22.6</i>
Net current assets	112,350	138,475	147,495	162,150
Investments	39,205	33,631	38,231	38,231
<i>Growth (%)</i>	<i>87.1</i>	<i>(14.2)</i>	<i>13.7</i>	<i>—</i>
Deferred tax asset	—	—	—	—
Other Assets	112,559	80,362	92,539	110,604
Total	1,675,199	1,955,308	2,347,751	2,847,334

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Int. Inc. / Operating Inc.	51,218	51,056	54,720	55,015
Income from securitization	—	—	—	—
Interest Expenses	35,414	35,215	34,398	37,633
Net Interest Income	15,804	15,841	20,322	17,382
<i>Growth</i>	<i>21.0</i>	<i>22.9</i>	<i>12.6</i>	<i>18.7</i>
Non interest income	1,554	1,449	2,057	634
Net operating income	17,358	17,290	22,379	18,016
<i>Growth</i>	<i>17.4</i>	<i>18.4</i>	<i>14.6</i>	<i>15.9</i>
Operating expenditure	1,877	1,839	1,382	1,935
PPP	15,481	15,451	20,997	16,081
<i>Growth</i>	<i>15.7</i>	<i>16.3</i>	<i>15.1</i>	<i>16.5</i>
Provision	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	15,481	15,451	20,997	16,081
Tax	3,970	4,050	5,445	4,350
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>25.6</i>	<i>26.2</i>	<i>25.9</i>	<i>27.1</i>
PAT	11,511	11,401	15,552	11,731
<i>Growth</i>	<i>18.6</i>	<i>16.2</i>	<i>17.3</i>	<i>17.1</i>

Key Ratios

Y/e March	2012	2013	2014E	2015E
CMP (Rs)	803	803	803	803
Eq. Shrs. O/s. (m)	1,477	1,546	1,546	1,546
Market Cap (Rs m)	1,186,286	1,242,028	1,242,028	1,242,028
Market Cap to AUM (%)	0.7	0.6	0.5	0.4
EPS (Rs)	27.9	31.4	36.8	44.5
Book Value (Rs)	128.8	161.7	183.8	210.5
Adjusted Book Value (Rs)	128.8	161.7	183.8	210.5
P/E (x)	28.8	25.6	21.8	18.1
P/BV (x)	6.2	5.0	4.4	3.8
P/ABV (x)	6.2	5.0	4.4	3.8
DPS (Rs)	12.5	12.5	14.7	17.7
Dividend Yield (%)	1.6	1.6	1.8	2.2

Asset Quality

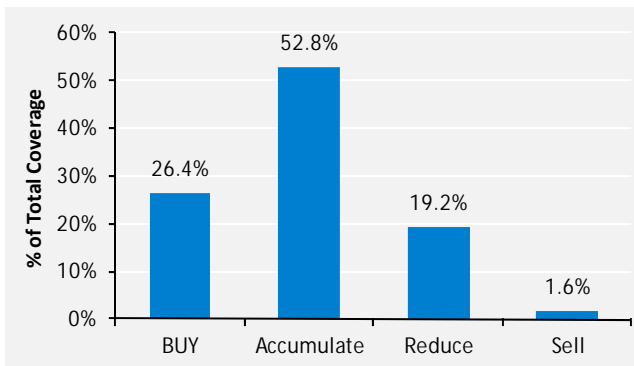
Y/e March	2012	2013	2014E	2015E
Gross NPAs (Rs m)	10,425	11,903	14,470	17,738
Net NPAs (Rs m)	—	—	—	—
Gross NPAs to Gross Adv. (%)	0.7	0.7	0.7	0.7
Net NPAs to Net Adv. (%)	—	—	—	—
NPA Coverage (%)	—	—	—	—

Profitability (%)

Y/e March	2012	2013	2014E	2015E
NIM	3.2	3.2	3.3	3.3
RoAA	2.7	2.7	2.6	2.6
RoAE	22.7	22.0	21.3	22.5

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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