March 28, 2012

Rating Matrix

Rating	:	**Hold**
Target	:	₹ 719
Target Period	:	12 months
Potential Upside	:	8%

YoY Growth (%)

(%)	FY11	FY12E	FY13E	FY14E
NII	25.4	22.4	22.0	21.2
PPP	21.6	28.4	27.2	25.5
Net Profit	25.1	17.3	19.0	18.6
EPS	22.4	16.8	14.7	18.6

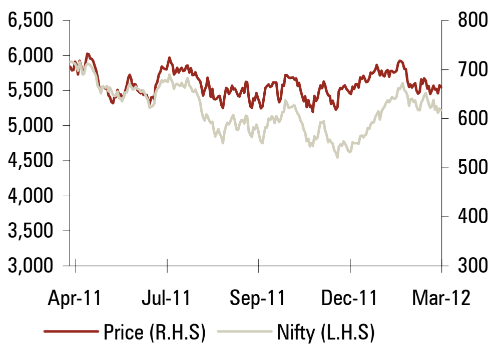
Stock Data

Bloomberg/Reuters Code	HDFC IN/HDFC NS
Sensex	17,257.0
Average volumes (lacs)	51.0
Market Cap (₹ crore)	98,513
52 week H/L	736 / 601
Equity Capital (₹crore)	294.8
Face Value (₹)	2.0
FII Holding (%)	66.2
DII Holding (%)	20.3

Comparable return matrix (%)

Return %	1M	3M	6M	12M
HDFC Ltd	0.5	0.1	4.1	0.6
LIC Housing Finance	7.1	16.8	23.6	27.4
Dewan Housing	-8.8	18.7	4.5	3.6
SBI	0.2	29.6	6.7	-21.4

Price movement



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HDFC Ltd (HDFC)

Never out of gear...

₹ 667

HDFC, the market leader in Indian Housing finance market with ~17% market share is expected to leverage the humungous opportunity presented by the underpenetrated Indian mortgage finance industry. Resilient asset quality and low volatility in spreads has enabled the company to achieve a healthy CAGR of 21% in loans and 23% in net profit over the previous five years. We expect HDFC to continue with its strong asset quality profile and spreads which would enable it to maintain its growth trajectory going ahead. HDFC, through its subsidiaries and associate companies has a presence in the Mutual Fund, Life and general insurance segments which would enable it to cross sell its products and mine its existing customer base across various business verticals thereby adding value to the core business.

India's under-penetrated market to offer long-term growth visibility

Mortgages as a percentage of GDP in India are just 9% compared to developed countries where it is above 80% and China where it is 20%, providing long-term visibility for growth. We expect HDFC's loan book to witness a healthy CAGR of 20% over FY12-14E to ₹ 1995 billion.

Volatility in spreads contained

HDFC has been able to minimise deviation in reported spreads by maintaining it in the range of 2.15% to 2.35% in the past five years despite volatile interest rates owing to its flexible borrowing profile and stable asset-liability management. We expect FY13E calculated adjusted spreads to be stable at 2.9% as compared to 2.83% in FY11.

Seasoned loan portfolio, nil NNPA

HDFC's assets are seasoned and have witnessed various cycles still maintaining resilience with nil NNPA and 0.8% GNPA as on FY11. Going forward, we expect the asset quality to remain strong with GNPA of 0.9% and nil NNPA for FY13E owing to its strong in-house recovery team.

Well established subsidiaries to add to future profit & valuation

HDFC has three major subsidiaries viz. HDFC Standard Life, HDFC Asset Management and HDFC ERGO General Insurance and an associate HDFC Bank all already having a strong foothold and market share in India.

Valuation

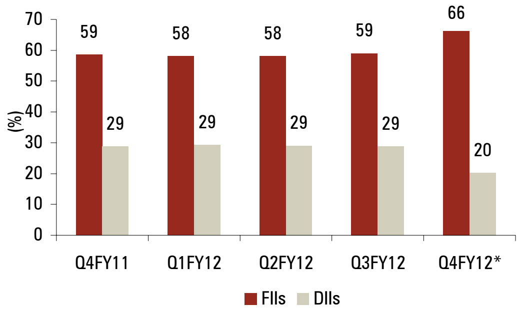
HDFC's consistent track record in earnings and business growth has led to healthy return ratios averaging RoE of 22% and RoA of 2.8% and we expect the same to be maintained. We have valued HDFC on an SOTP basis arriving at a target price of ₹ 719. We initiate with a **HOLD** rating.

Exhibit 1: Key Financials (Standalone)

Year to March	FY10	FY11	FY12E	FY13E	FY14E
Net Profit (₹ crore)	2826.5	3535.0	4148.1	4935.9	5854.5
EPS (₹)	19.7	24.1	28.1	32.3	38.3
Growth (%)	22.7	22.4	16.8	14.7	18.6
P/E (x)	33.9	27.7	23.7	20.7	17.4
Price / Book (x)	6.3	5.7	5.3	4.2	3.8
Price / Adj Book (x)	6.4	5.7	5.3	4.2	3.9
GNPA (%)	0.8	0.8	0.8	0.9	0.9
NNPA (%)	0.1	0.0	0.0	0.0	0.1
RoNA (%)	2.6	2.8	2.8	2.8	2.9
RoE (%)	20.0	21.7	22.9	22.8	22.8

Source: Company, ICICIdirect.com Research

FII & DII holding trend (%)



Source: Company, ICICIdirect.com Research ,
**As on Mar 02,2012*

Q4FY12* Shareholding pattern (%)

Promoter	0.0
Foreign Institutional Investors (FII)	66.2
Domestic Institutional Investors (DII)	20.3
General Public	13.5

*As on March 02, 2012

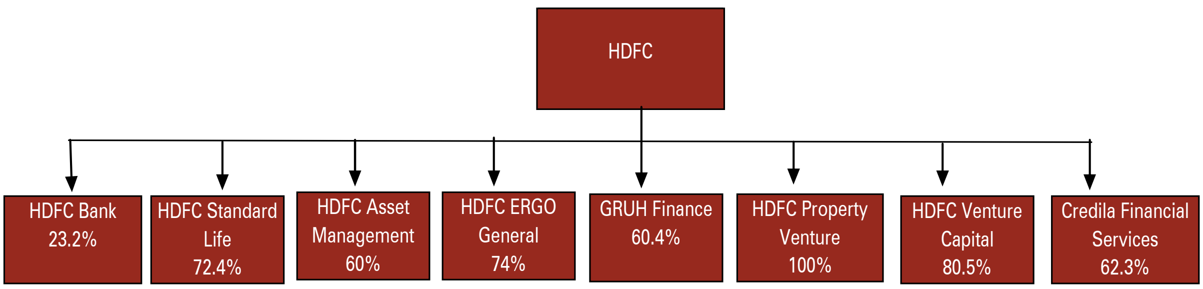
Company Background

Incorporated in 1977 as the first specialised mortgage company in India, HDFC Ltd is now the leading housing finance company in India with ₹ 1322 billion of loans outstanding as on Q3FY12 translating into a market share of ~17.5%. The company, as on FY11, has disbursed ₹ 3025 billion and sanctioned ₹ 3732 billion towards home financing since its inception. The company's core business is to provide loans for purchase or construction of residential houses, home improvement, home extension and short-term bridging loans to individuals. HDFC also provides loans to corporations and real estate developers.

The company has a pan-India network of 304 outlets including 74 outlets belonging to its wholly owned distribution company. The company has financed 3.9 million housing units since its inception. However, over a period of time, HDFC has also emerged as a financial conglomerate with interests beyond mortgages. The company's major subsidiaries and associates include HDFC Bank, HDFC Standard Life Insurance, HDFC AMC, HDFC ERGO General Insurance, Gruh Finance, HDFC Property Ventures, HDFC Venture Capital and Credila Financial Services.

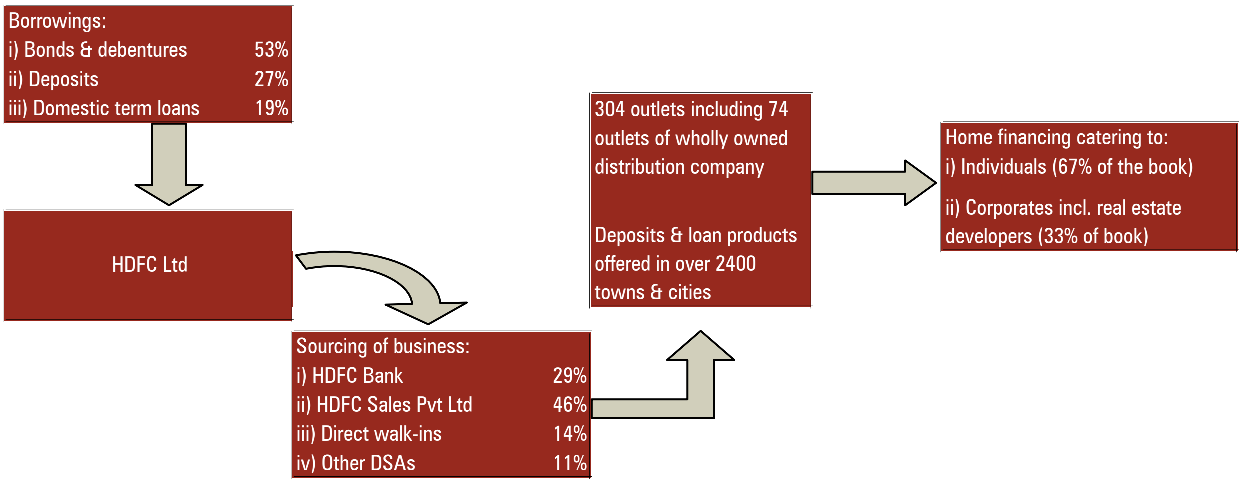
HDFC has a track record of consistent growth in business, strong asset quality, stable margins, excellent operating efficiency, ability to raise funds easily and healthy return ratios, which enable it to command high valuations.

Exhibit 2: HDFC's subsidiaries and associates



Source: Company, ICICIdirect.com Research

Exhibit 3: HDFC core business model (data as on Q3FY12)



Source: Company, ICICIdirect.com Research

Strong and experienced management

Exhibit 4: Management team

Name	Designation	Remarks
Deepak Parekh	Chairman	Mr Parekh joined the company in a senior management position in 1978. He is a pioneer in the Indian housing finance industry. He is a Fellow of the Institute of Chartered Accountants (England & Wales)
Keki Mistry	Vice Chairman & CEO	He has been with the company since 1981. He is a Fellow of the Institute of Chartered Accountants of India. He has been re-appointed as Managing Director (designated as the 'Vice Chairman & Chief Executive Officer') of the company for five years, with effect from November 14, 2010
V Srinivasan Rangan	Executive Director	He joined the company in 1986. He was the senior general manager - Corporate Planning & Finance funtion at head office since 2000. He is an associate member of ICAI and ICWA of India. He has been appointed as ED of the company for five years with effect from Januray 1, 2010.
Renu Sud Karnad	Managing Director	She has been with company since 1978. She is a graduate in law from University of Mumbai and holds a Masters degree in economics from University of Delhi. She has been appointed as the Managing Director of the company for five years with effect from January 1, 2010

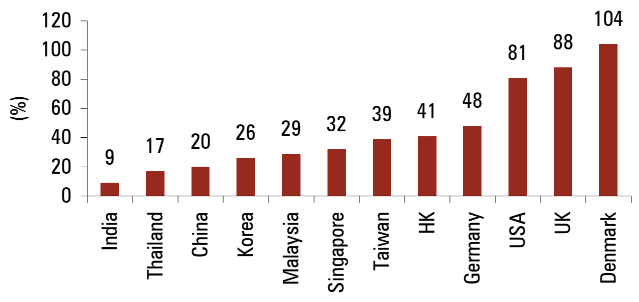
Source: Company, ICICIdirect.com Research

Investment Rationale

Opportunity for mortgage finance industry remains huge….

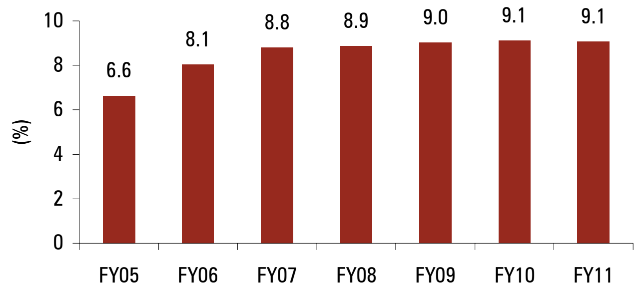
There continues to remain huge potential for growth of the Indian housing finance industry. This is evident from the fact that mortgage as a percentage of India's GDP at 9% remains one of the lowest in the world. The corresponding figure for developed countries like the US and UK stands at 81% and 88%, respectively, while for China it is at 20%.

Exhibit 5: India - under-penetrated mortgage finance market



Source: Company Presentation, ICICIdirect.com Research

Exhibit 6: Trends in India's mortgage as a percentage of GDP

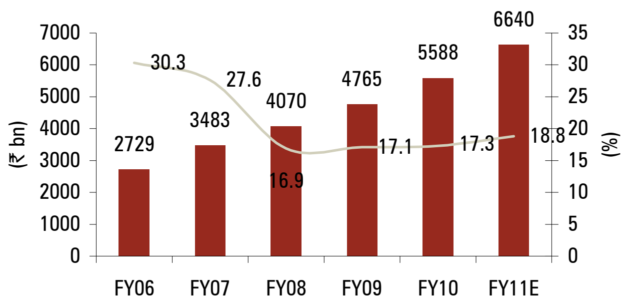


Source: Company, CSO, ICICIdirect.com Research

Size and market share dynamics of housing finance industry in India

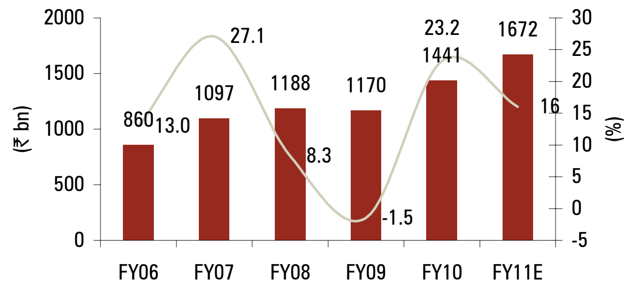
The size of the Indian housing finance industry in terms of loan outstanding and loan disbursement is ₹ 6640 billion and ₹ 1672 billion, respectively, as on FY11. The five year CAGR in loan outstanding and disbursements has been healthy at 19.5% and 14%, respectively. The industry is quite competitive with 53 registered housing finance companies (HFCs) and various scheduled commercial banks (SCBs). However, the top five or six players like HDFC Ltd, SBI, ICICI Bank, LIC Housing Finance, Dewan Housing Finance and ICICI Home Finance account for more than 50% (refer Exhibit 9). The share of SCBs has increased from 31% in FY00 to 64% as on FY07 mainly on the back of their increased focus on the home finance business, access to low-cost deposits and wider reach. However, HFCs have been able to improve their share to 51% as on FY11 from 36% as on FY07 (refer Exhibit 10) mainly due to their dedicated business line, improved service level and banks going slow on housing finance during the slowdown of FY08-09.

Exhibit 7: Industry loan grows at healthy CAGR of 19.5%...



Source: CRISIL Research, ICICIdirect.com Research

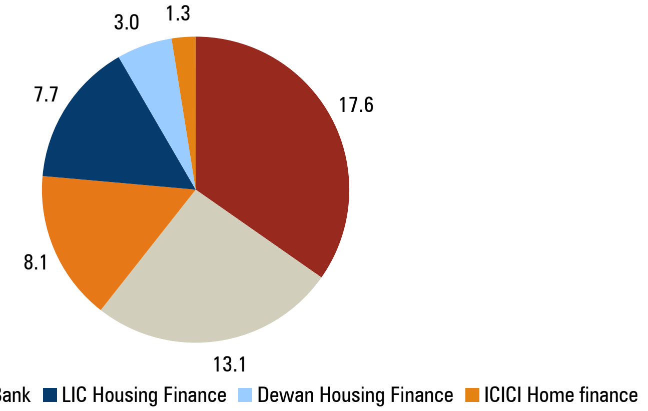
Exhibit 8: ...while disbursements witness 14% CAGR over FY06-11



Source: CRISIL Research, ICICIdirect.com Research

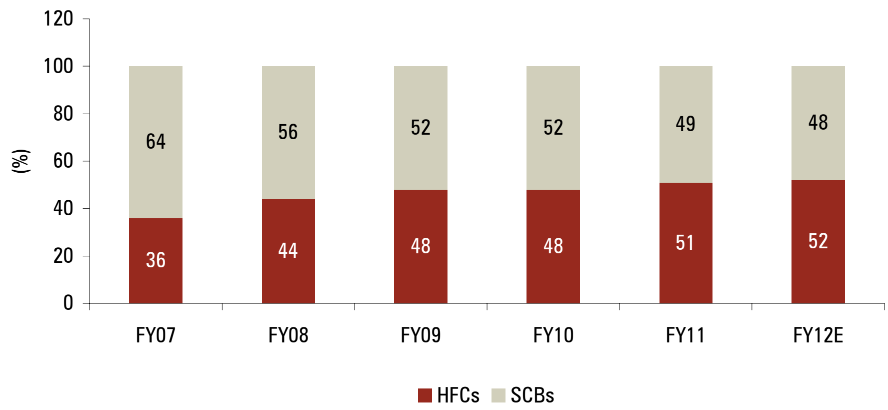
HFCs have managed to increase their share to 51% as on FY11 from 36% in FY07

Exhibit 9: With 17.6% market share as on FY11, HDFC leads housing finance business in India



Source: Company, ICICIdirect.com Research

Exhibit 10: Trends in HFCs and SCBs disbursements market share



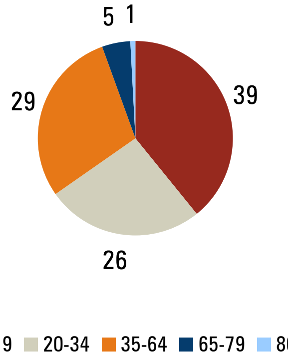
Source: CRISIL Research, ICICIdirect.com Research

Major structural drivers of housing finance industry in India remain intact...

The major drivers of the housing finance industry in India as stated below remain intact:-

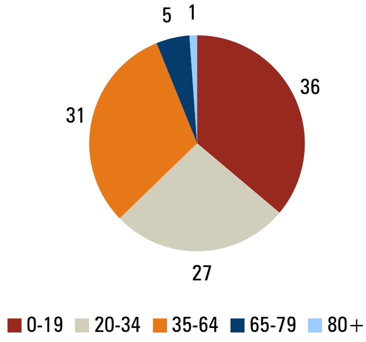
- Large population with a favourable demographic profile wherein 65% of the population is below 35 years
- Rising and high disposable income with high propensity to spend on assets like real estate for shelter as well as for investments
- Increasing urbanisation — currently only 31% of the population resides in urban areas
- Nuclearisation of families leading to higher demand for houses
- Due to demand-supply mismatch, the total housing shortage is ~88 million as on FY11, of which urban housing shortage is 28.9 million (as per Crisil Research)
- Tax incentives available in the form of deduction of interest and principal repayments, which results into lower effective interest rates borne by the borrower
- Improved affordability (refer Exhibit 14)

Exhibit 11: Demographic profile as on FY11



Source: Ministry of Home Affairs, ICICIdirect.com Research

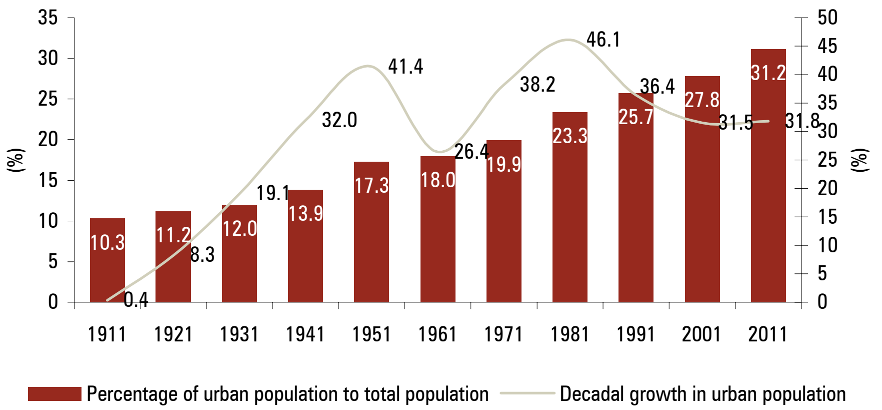
Exhibit 12: Demographic profile as on FY16E



Source: Ministry of Home Affairs, ICICIdirect.com Research

Total ~75% of HFC's business comes from urban areas. With urbanisation set to witness a rising trend reaching 34% by FY16 (as per Crisil Research) of total population, we believe the penetration opportunity for HFCs remains strong

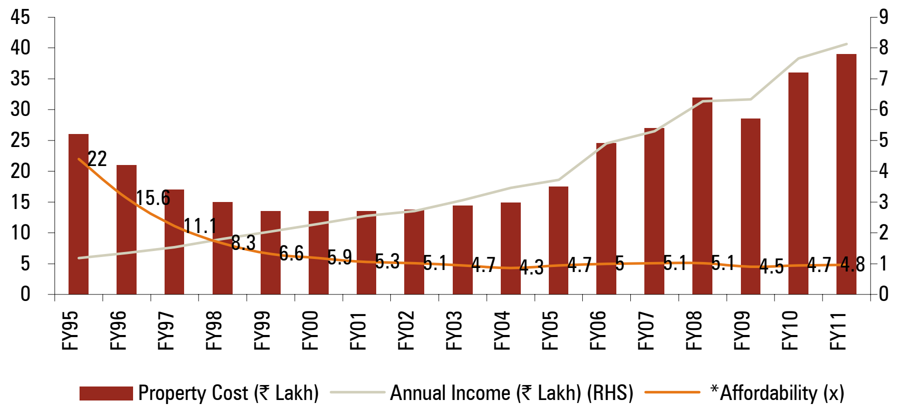
Exhibit 13: Urbanisation trends in India



Source: NHB, ICICIdirect.com Research

Despite rising property prices over the last decade, the affordability of the Indian household has improved owing to rising income and propensity to spend

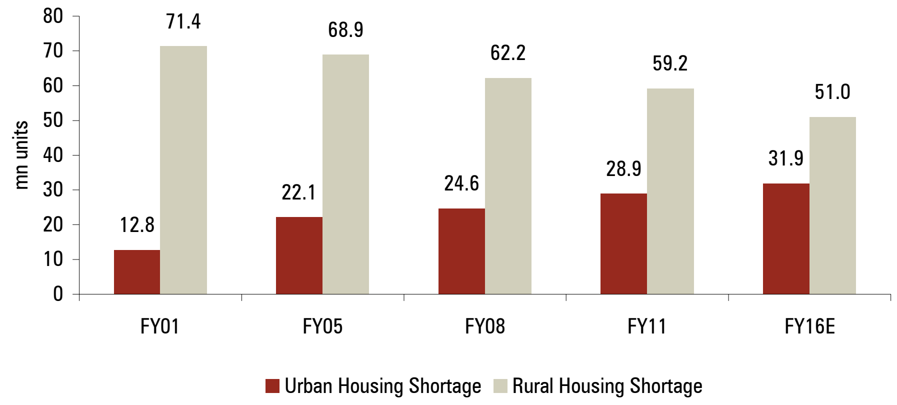
Exhibit 14: Rising income and affordability



Source: Company presentation, ICICIdirect.com Research
** Affordability equals property prices divided by annual income*

With the urban population set to rise to 34% by FY16E, the urban housing shortage will increase to 31.9 million units

Exhibit 15: Trends in urban and rural housing shortage



Source: CRISIL Research, ICICIdirect.com Research

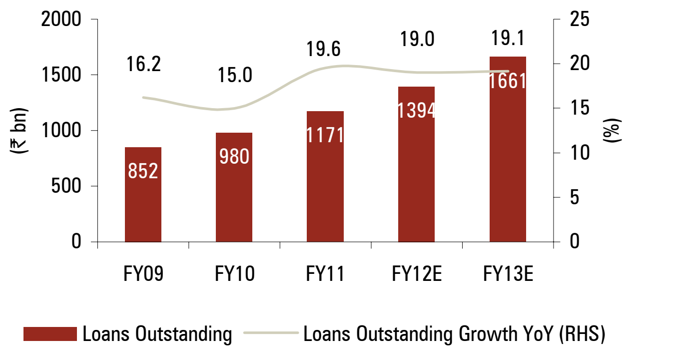
Housing finance industry is expected to witness CAGR of ~17% over FY12-14E to ₹ 10780 billion

All the above factors make us believe that despite some slowdown in the economy the demand for housing, housing finance and the business potential of the housing finance industry per se remains strong and is visible as the market is under penetrated. The growth for HFCs during FY11-12E is expected to be slower than the previous year mainly due to higher property prices and interest rates along with a slowdown in the economy. With interest rates peaking, the housing finance industry is expected to witness a CAGR of ~17% (as per Crisil Research) over FY12-14E to ₹ 10780 billion.

Growth momentum to continue as market leader….

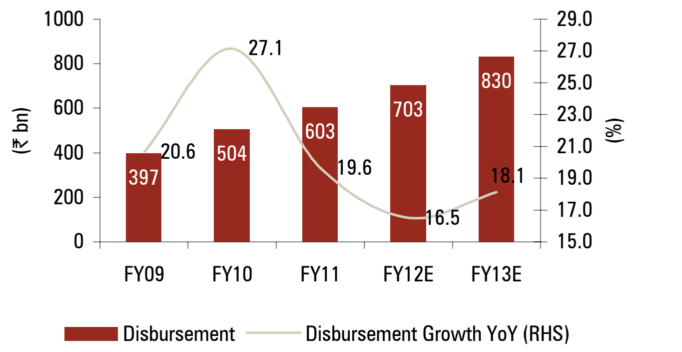
HDFC Ltd is a leading company in the Indian housing finance industry with a market share of 17.6% in loans outstanding and 36% in loan disbursements as on FY11. The company's loan book as on Q3FY12 stood at ₹ 1322 billion with 3.9 million housing units financed since inception. Loans have grown at a healthy CAGR of 21% over FY06-11, which is above the industry growth of 19.5% over the same period. Despite the economic slowdown in FY08-09, increasing competition from banks and other HFCs and volatile interest rate cycles, the company has been able to maintain its share. We expect HDFC's loan portfolio to witness growth at a CAGR of 20% over FY12-14E to ₹ 1995 billion.

Exhibit 16: Trends in HDFC's loan outstanding



Source: Company, ICICIdirect.com Research

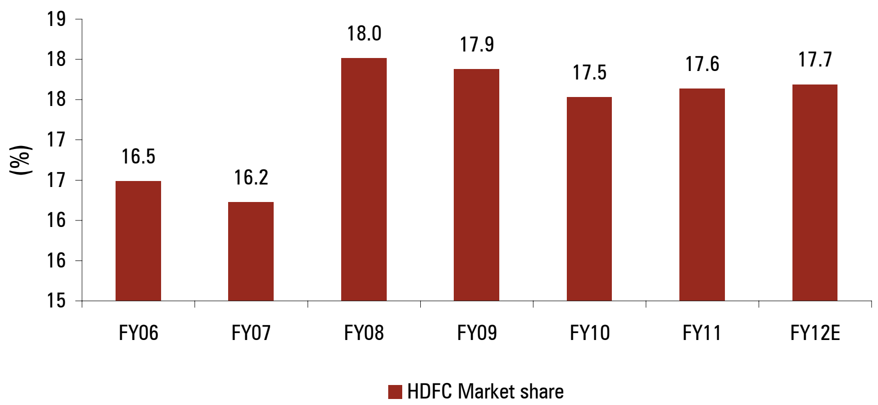
Exhibit 17: Trends in HDFC's disbursements



Source: Company, ICICIdirect.com Research

We expect HDFC to maintain its market leading share, going forward

Exhibit 18: HDFC's market share trend over FY06-11



Source: Company, CRISIL Research, ICICIdirect.com Research

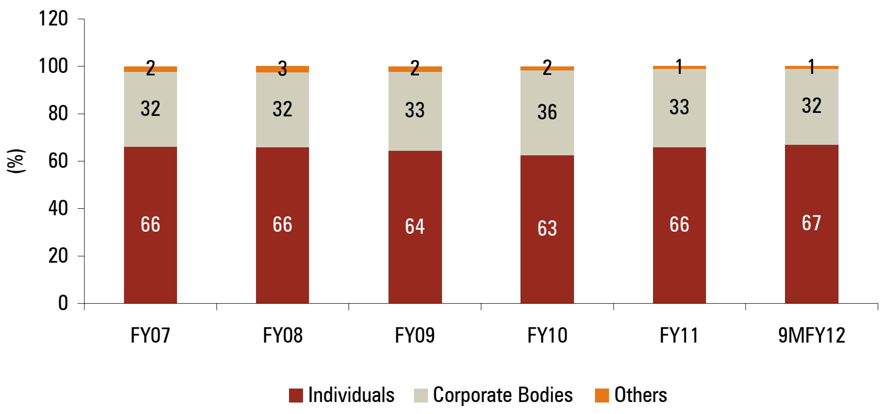
Diversified loan book supports margins

HDFC has always maintained a diversified loan book with loans to individuals comprising 66% and loans to corporates comprising 33% of total loans as on FY11. Loans to individuals amounting to ₹ 773 billion are mainly (>90%) towards salaried employees while the balance is to professionals. Loans to corporates to the tune of ₹ 386 billion as on FY11 includes loans given to companies for purchase of commercial properties, rental discounting and also includes loans to real estate developers, which comprises ~12% of total loans. HDFC has guided that, going forward, it will maintain a loan mix structure of 65% individual and the balance corporate loans.

Loans to individuals have slightly lower yields than loans to corporates, which is compensated by lower delinquencies in the individual loan portfolio wherein the chances of default are lower as the property financed is the primary security. Further, in India, majorly property is purchased for personal use and not for speculation and early repayments is also higher.

The management has indicated that individuals and corporates loan mix of 65:35 will be maintained, going forward

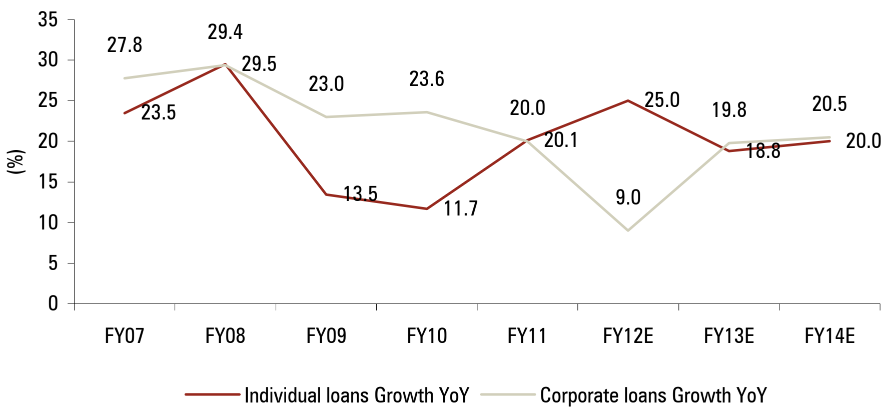
Exhibit 19: HDFC's loan mix – mainly skewed towards individual housing loans



Source: Company, ICICIdirect.com Research

The individual loan portfolio has witnessed a healthy CAGR of 19% over FY06-11 while the corporate loan portfolio has grown at a strong rate of 25% over the same period. We are factoring in a CAGR of 20% for both individuals and corporate loan portfolio over FY12-14E to ₹ 1995 billion.

Exhibit 20: Trend in growth rates of individual and corporate loans



Source: Company, ICICIdirect.com Research

We expect HDFC to grow higher than industry loan growth

The management has indicated that major growth will come from the Delhi NCR region and Chennai. Growth from Mumbai has slowed down due to higher prices and project delays. We expect HDFC's loan portfolio to witness a CAGR of 20% over FY12-14E to ₹ 1995 billion above the forecasted industry growth of ~17% (as per Crisil Research) owing to its strong franchise, brand pedigree, in-house model, efficient service level, dedicated business, stable and experienced management (average tenor of senior management in HDFC over 25 years), deep understanding of the mortgage market in India and peaking of interest rates and property prices.

HDFC sells loan to banks as they need to meet priority sector credit targets. Accordingly HDFC has sold ₹ 13484 crore as on Q3FY12 and includes loans sold to HDFC bank also.

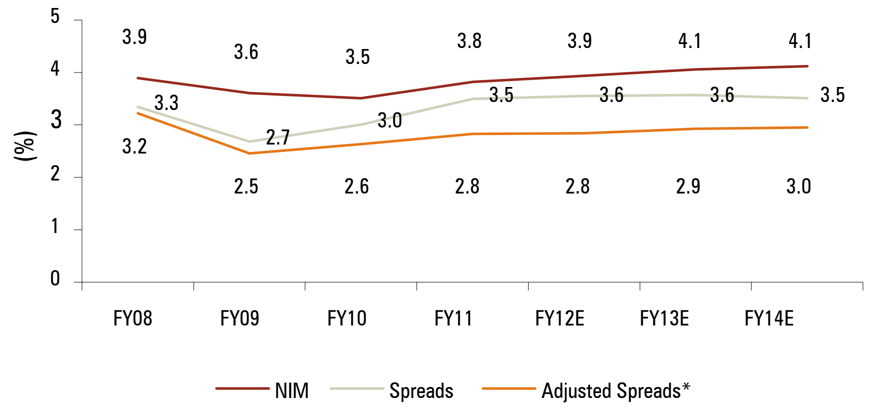
Such visibility in business growth in an uncertain environment makes HDFC a preferred bet.

Healthy margins to remain stable…

Spreads have remained healthy despite a volatile interest rate environment in the past

HDFC has a healthy track record of sustaining spreads and NIMs above 2% and 3.5%, respectively, across volatile interest rate cycles. One of the key reasons apart from flexible borrowing profile, higher credit rating and stable asset-liability management (ALM) is ~1.5-1.6% spread earned on loans sold to banks.

Exhibit 21: Trends in NIMs and spreads



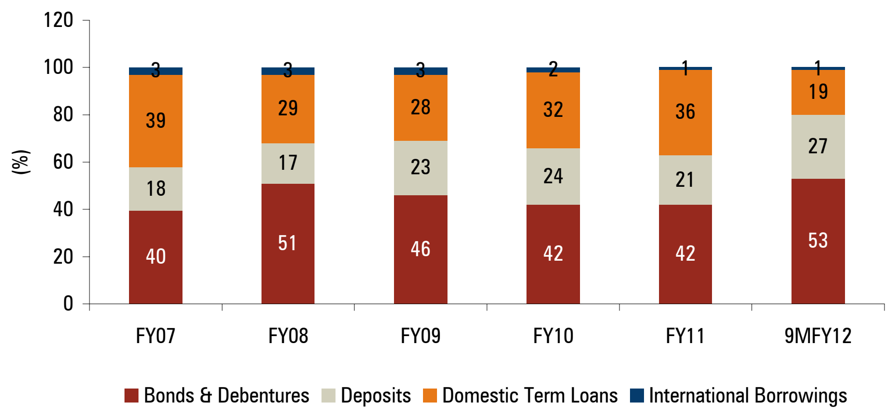
Source: Company, ICICIdirect.com Research,
**Adjusted spreads are after considering redemption premium on ZCBs and interest earned on loans sold.*

As on 9MFY12, the proportion of bonds and debentures increased to 53% from 42% as on FY11 while the proportion of domestic term loans declined to 19% as against 36% as on FY11.

HDFC's funding profile of ₹ 1154 billion as on FY11 is diversified with bonds and debentures comprising 42% and domestic term loans comprising 36% while deposits account for 21%. However, over the past six quarters, banks have raised their base rates by ~250-300 bps after the RBI increased policy rates by 375 bps. Consequently, HDFC has adopted the strategy of raising more of low cost wholesale funds than going for bank term loans. As on 9MFY12, the proportion of bonds and debentures increased to 53% from 42% as on FY11 while the proportion of domestic term loans declined to 19% as against 36% as on FY11. We have factored in a growth of 17% CAGR in borrowings over FY12-14E, with major concentration towards wholesale borrowings.

With peaking of interest rates, HDFC's wholesale funded nature augurs well for its margins

Exhibit 22: Trends in HDFC's borrowing mix



Source: Company, ICICIdirect.com Research

This flexibility and diversification in the borrowing mix enables HDFC to raise funds easily to suit its need and also at lower rates compared to its peers owing to its strong brand pedigree, size and credit rating.

If we exclude the benefit the impact is ~50-60bps on NIM which then makes it marginally higher than the peers as compared to reported large gap as perceived now.

Redemption premium charged to securities premium provide fillip to NIM…

HDFC has ~₹ 70 billion of zero coupon bonds (ZCBs) on its balance sheet as on FY11 on which proportionate premium payable on redemption amounting to ₹ 532 crore is charged to securities premium account and not to the profit and loss (P&L) account. HDFC has investments of~₹ 78 billion in its subsidiaries. The proportionate share of the income of subsidiaries does not form part of HDFC's total income. Hence management believes, charging redemption premium to HDFC's P&L account would give a distorted picture. As NIM doesn't adjust the same, its slightly higher than peers. If we exclude the benefit the impact is ~50-60bps on NIM which then makes it marginally higher than the peers as compared to reported large gap as seen now.

We have charged Securities Premium account with ₹ 720 crore of interest at the rate of ~9% on ₹ 80 billion of ZCBs for FY12E and FY13E and adjusted the spreads calculation accordingly. These ZCB's will be continuous funded by fresh ZCBs as and when matured until the management decides to treat the premium separately.
We have calculated HDFC's adjusted spreads after deducting redemption premium on ZCBs and after deducting interest earned at ~1.6% on loans sold (securitised).

On the asset side, as stated above, 66% of the exposure as on FY11 is towards individuals within which ~85-90% loans are on a floating rate basis. In contrast, the entire exposure towards corporates including real estate developers (12% of total loans) is high yielding and on a floating rate basis. Such a lending profile augurs well for the company's margins as it gives the company the ability to pass on interest rate hikes to customers. This is evident from the fact that it has increased its lending rates by 275 bps over the last five or six quarters and maintained business growth of ~20%. HDFC's ALM portfolio is well matched with ~80% of the liabilities and assets on a floating rate basis. As on Q3FY12, HDFC had securitised loans amounting to ₹ 135 billion (9.3% of the loan book) on which ~1.5-1.6% spread is earned over the life of the loan.

We expect HDFC's NIM to rise by 12 bps to 4.1% as on FY13

Going forward, we expect calculated adjusted spreads to remain stable at 2.9% and NIM to increase 12 bps to 4.1% due to rate cuts by the RBI and also due to the fact that housing finance companies should perform better than banks while interest rates decline. Relative to cost of funds, wholesale borrowing by finance firms allows them to adjust price faster giving them a competitive advantage against banks.
Further, in Q1FY13, ~₹ 220 billion of HDFC's teaser loan portfolio will get reset to floating rates, which will be 100-150 bps higher. This will further enhance NIMs.

Exhibit 23: Floating rates (%) charged by HDFC

Particulars	HDFC
< or = ₹ 30 lacs	10.75
> ₹ 30 lacs and < or = ₹ 75 lacs	11.0
> ₹ 75 lacs	11.5

Source: deal4loans.com, ICICIdirect.com Research

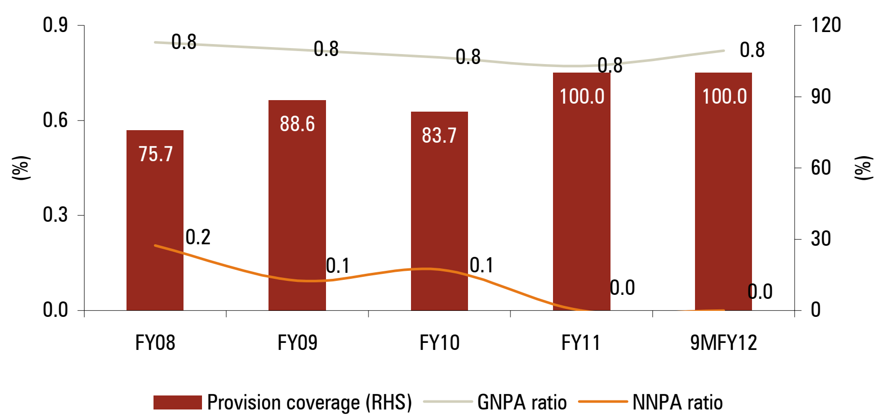
Strong and resilient asset quality

HDFC has one of the best asset quality parameters in the industry. Its GNPA as on Q3FY12 is 0.8% while NNPA was nil on account of 100% provision coverage ratio. Q3FY12 was the 28th consecutive quarter end in which the percentage of non-performing loans has been lower than the corresponding quarter in the previous year. Provisions for contingencies as on FY11 were ₹ 11.24 billion, which was 1.4x the regulatory requirement. Total loan write-offs are merely 0.04% of cumulative disbursements since inception. In Q1FY13, there will be a write-back of ~₹ 300 crore of provisions on teaser loans. The company's credit cost as on FY11 was 0.07%, which was lowest among industry peers. For FY13, we have a slightly conservative credit cost forecast of 0.13%.

HDFC has maintained a healthy asset quality in the past five years with GNPA below 1% and provision coverage ratio above 75%

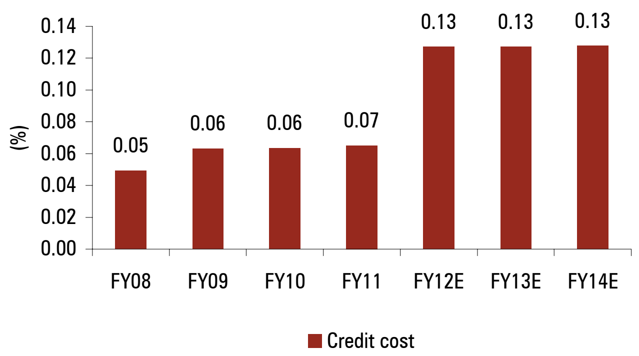
Even during the crisis period of FY08-09, the asset quality did not deteriorate and remained stable at 0.8%.

Exhibit 24: One of the best asset quality in industry



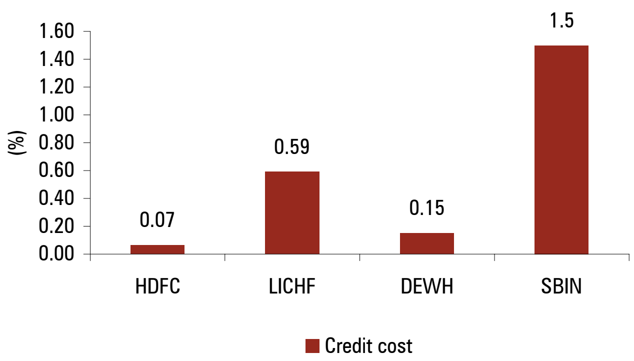
Source: Company, ICICIdirect.com Research

Exhibit 25: Credit cost expected to increase by 6 bps in FY12E



Source: Company, ICICIdirect.com Research

Exhibit 26: Lowest credit cost among peers as on FY11

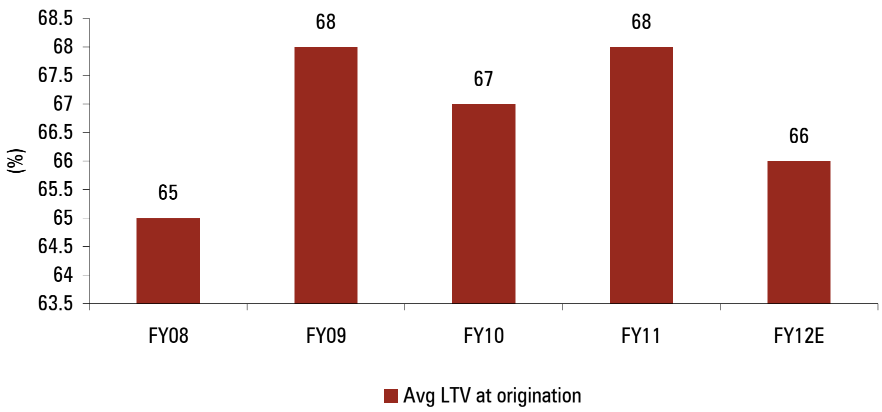


Source: Company, ICICIdirect.com Research

The key factor behind such a strong asset quality is HDFC's conservative lending policies, which enable it to avoid customers defaulting on loans. On an average, it lends only up to 66% of the assessed value of a property/asset.

Average loan-to-value ratio at 66% compared to ~75% by others in the industry

Exhibit 27: Trends in loan-to-value ratio



Source: Company, ICICIdirect.com Research

We expect HDFC's healthy asset quality to remain intact, going forward

HDFC has been able to reduce risk by:

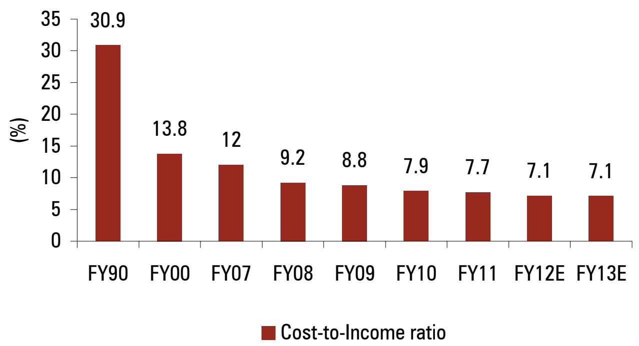
- Preventing aggressive loan growth or going for higher market share so as to maintain margins and asset quality
- Of the total individual loan portfolio (67% of total loans as on Q3FY12), ~90% are salaried employees who are typically buying property for personal use and not for speculation. Also, the instalment to income ratio is lower. In case of most of the customers, post-dated cheques are obtained or deduction at source arrangements is done with employers
- Exposure to real estate developers (12% of the total loan portfolio) is backed by collateral of 2.0x the loan size
- The company has an experienced appraisal team, a strong in–house follow up team and a cash flow based lending system

We expect the asset quality to be healthy, going forward, with GNPA maintained at 0.8% and nil NNPA for FY13E.

Best operating efficiency in the industry…

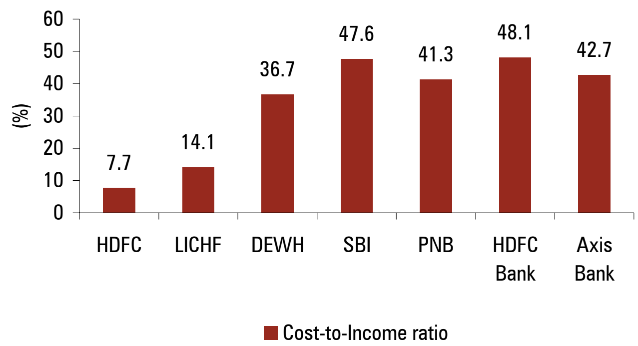
HDFC has the best operating efficiency in the industry with cost-to income ratio at 7.7% as on FY11. Its peers like LIC Housing Finance and Dewan Housing Finance have a cost-to-income ratio of 14% and 46%, respectively while SCB's ratio is ~47%. This is mainly due to the in-house sourcing model of HDFC compared to the DSA based model (90%) of LIC Housing Finance and branch based model of Dewan Housing Finance. Further, the lower employee base of HDFC as compared to other HFCs and banks, enable the company to maintain such low ratios. Another important factor is that HFCs, in general, have low cost of operations as compared to banks owing to lower regulations (refer Exhibit 31) and number of branches to be maintained.

Exhibit 28: Continuously improving operating efficiency



Source: Company, ICICIdirect.com Research

Exhibit 29: No match for HDFC's operating efficiency (FY 11)

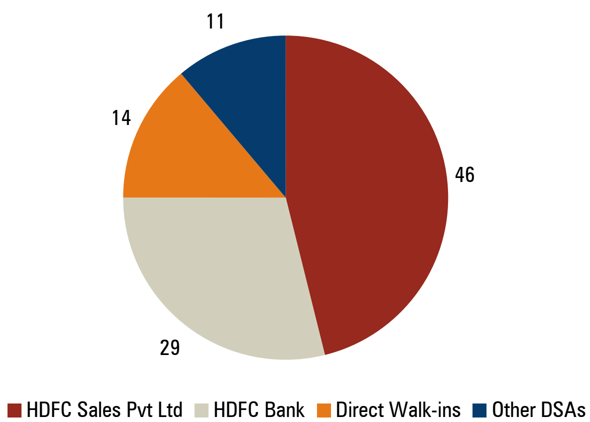


Source: Company, ICICIdirect.com Research

HDFC sources 29% of its loans from HDFC Bank and 46% from its wholly owned subsidiary HDFC Sales Pvt Ltd. HDFC adjusts commission expenses from "fees & other charges" line item as against including in the operating expenses.
For FY11, commission expenses amounting to ₹ 199 crore were netted off from "fees & other charges" under other income. According to our calculations, if we include commission expenses into operating expenses, the cost-to-income ratio rises to ~10.5% as on FY11, which is still below industry peers.

Total ~89% of the business is generated by itself or through its affiliates

Exhibit 30: Business sourcing profile as on Q3FY12



Source: Company, ICICIdirect.com Research

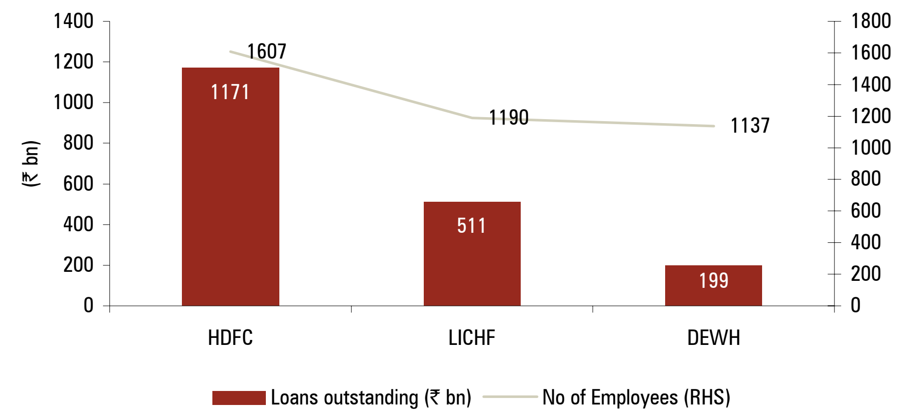
Operating expenses as a percentage of average assets as on FY11 stood at 0.3% as against 0.5% for LIC Housing Finance and 1.6% for Dewan Housing Finance.

Further, in terms of assets per employee and profit per employee, HDFC has observed a sharp improvement. For instance, HDFC's assets per employee have improved from $ 0.5 million in FY90 and $ 4.4 million in FY00 to $ 18.6 million as on FY11. Correspondingly, profits per employee have increased to $ 0.49 million as on FY11 from $ 0.12 million in FY00.

We forecast HDFC's remarkable operating efficiency will continue, going forward

We believe HDFC's cost-to-income ratio would be sustainable and have built in 7.1% for FY13E.

Exhibit 31: Lower employee base of HFCs result into lower cost-to income ratio (FY11)



Source: Company, ICICIdirect.com Research

Lower regulations and operating costs enable HFCs to maintain better operating efficiency compared to banks

Exhibit 32: Structural difference between HDFC Ltd and banks

HDFC Ltd.	Bank
HDFC is mainly Wholesale funded	Banks are funded by mix of borrowings and deposits
No CRR requirement for HFCs	Banks have to maintain 4.75% as CRR
HFCs are required to maintain a SLR of 12.5% in respect of public deposits raised.	Banks have to maintain SLR of 24% of Net demand and Term liabilities (NDTL)
HFCs have no priority sector requirement	Banks must maintain 40% of adjusted bank credit as priority sector requirement
Lower operating cost on account of wholesale funded structure	Higher operating cost on account of maintainance of branches for deposit collection

Source: NHB, RBI, ICICIdirect.com Research

IFRS implementation to increase accounting profits

The management expects implementation of IFRS will enhance standalone accounting profits by 20 to 30% due to following differences between Indian GAAP and IFRS:

1. Under Indian GAAP investments are required to be reflected in the balance sheet at original cost unlike at fair value under IFRS.
2. Under Indian GAAP standalone accounts only reflect dividend paid by the subsidiary/associate companies and not the pro-rata share of profits. Under IFRS there is no concept of standalone financials.
3. Under Indian GAAP insurance companies are required to charge off acquisition costs upfront as against amortising the costs over the life of the policy under IFRS.
4. Commission paid on loan sourced through HDFC bank, HDFC sales private Ltd and other DSA agents are currently charged upfront under Indian GAAP. However under IFRS such commission expenses shall be amortised over the period of loan.
5. Under Indian GAAP interest earned (at the rate of ~1.5-1.6%) on loans sold is recorded every year. However under IFRS the present value of the interest to be earned on loans sold needs to be recorded upfront.

Management expects IFRS to be implemented from April, 2014. However we have not factored in any impact of IFRS in our forecasts.

Subsidiaries add to valuation

HDFC AMC maintains its profitability streak…

HDFC AMC is the largest AMC according to latest AMFI data and has the highest equity proportion in total assets leading to better profitability. In FY11, AUM grew 2% YoY to ₹ 89482 crore in-line with industry AUM. Within the same, equity AUM grew 30% YoY to ₹ 34853 crore from ₹ 26815 crore. It makes an annual profit of ₹ 242 crore (FY11) and is a strong cash flow business.

HDFC AMC is the largest AMC with high equity proportion of 38%.

Higher the equity proportion of AUM, the greater the probability of better valuations since equity AUM provides better margins than the fixed income portfolio. This is mainly because a large part of the fixed income AUM is short-term in nature and remains volatile.

Exhibit 33: Equity proportion in total AUM distinguishes profit and valuation of players

AMC Name	Total AUM (Cr.)	Equity (Cr.)	Debt (Cr.)	Others (Cr.)	Equity as % of total AUM
HDFC Asset Management Company Limited	90150.3	34474.5	42576.5	13099.3	38.2
Reliance Capital Asset Management Limited	83206.1	26460.0	45338.1	11408.0	31.8
ICICI Prudential Asset Management Company Limited	68219.8	14192.3	46214.7	7812.9	20.8
Birla Sunlife Asset Management Company Limited	60575.2	9322.5	42691.1	8561.7	15.4
UTI Asset Management Company Private Limited	58121.9	20982.6	34350.9	2788.4	36.1
SBI Funds Management Private Limited	42174.8	13454.0	25177.7	3543.1	31.9
Franklin Templeton Asset Management (India) Pvt Ltd	31612.0	11890.2	19050.9	670.9	37.6
DSP BlackRock Investment Managers Private Limited	29013.6	9494.1	16895.1	2624.4	32.7
IDFC Asset Management Company Limited	25856.2	3680.8	19948.4	2227.0	14.2
Kotak Mahindra Asset Management Company Limited	24790.4	2613.7	20784.7	1392.1	10.5
Tata Asset Management Limited	19063.2	3986.2	15116.2	-39.2	20.9
Sundaram Asset Management Company Limited	13807.3	6177.4	6427.9	1202.0	44.7
Deutsche Asset Management (India) Private Limited	13373.6	224.7	11785.0	1363.9	1.7
Religare Asset Management Co. Private Limited	11922.2	504.0	11007.9	410.3	4.2
Axis Asset Management Company Ltd.	9087.2	923.4	7035.4	1128.3	10.2

Source: Company, ICICIdirect.com Research

We believe as the equity proportion of the AMC is higher at 38%, the valuation assumed at 5% of AUM is conservative for HDFC. If we analyse past deals, IDFC-Standard Chartered AMC, Nomura-LIC AMC and L&T-Cholamandalam deals were fairly cheap in the range of 1.5-5.7% due to their considerably low equity proportions in total AUM and smaller AUM sizes. The recent Nippon-Reliance AMC deal values the AMC at 6.7% of AUM at 32% equity AUM in total assets of ₹ 82306 crore.

We have valued HDFC AMC at 5% of FY13E AUM

We have assumed a 15% increase in FY13E and FY14E AUM to ₹ 124257 crore. Based on FY13 estimates, we have valued the AMC at 5% of AUM leading to ₹ 21 per share of HDFC.

Exhibit 34: AMC valuation……. Still conservative

	FY2011	FY2012E	FY2013E	FY2014E
AUM avg	89,482.0	93,956.1	108,049.5	124,256.9
Growth (%)	1.6	5.0	15.0	15.0
Multiple - % of AUM	5.0	5.0	5.0	5.0
Value at 5% of AUM	4,474.1	4,697.8	5,402.5	6,212.8
HDFC's stake at 60%	2,684.5	2,818.7	3,241.5	3,727.7
No. of o/s shares	146.7	147.4	152.9	152.9
Value per share of HDFC	18.3	19.1	21.2	24.4

Source: Company, ICICIdirect.com Research

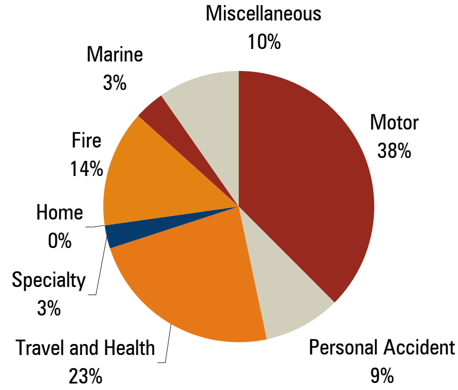
PMS also remains a high profit business for AMC and HDFC has ₹ 6300 crore of assets in the same. We can valu the PMS business at 9% of forward AUM of ₹ 7623 crore, however we have not added the same to the valuation of HDFC.

HDFC ERGO General insurance business – a while to be profitable

The general insurance industry has been suffering from losses for the last couple of years as de-tariffing impacted pricing and motor pool loss provisions also led to increased losses for the companies.

ERGO holds a 26% stake in HDFC General Insurance Co. Industry GWP grew 24% to ₹ 44127 crore in FY11. HDFC ERGO's GWP grew 40% to ₹ 1407 crore. Net retained premium also grew 50% to ₹ 600 crore. On account of motor pool loss provisions, the company made a loss of ₹ 36.4 crore improving from a loss of ₹ 94 crore in FY10.

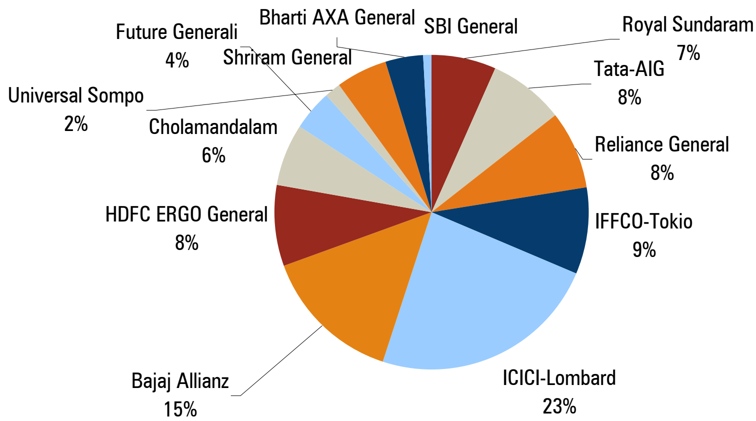
Exhibit 35: Segment-wise premium underwritten by HDFC-ERGO General Insurance



Source: Annual Report, IRDA, ICICIdirect.com Research

HDFC ERGO enjoys a GWP based market share of 3.2% on an overall basis and 7.7% among private players. Private players enjoy 41.7% share in total premium as on 9MFY12. We expect the same to be maintained.

Exhibit 36: Market share of private players in general insurance – 9MFY12 GWP basis



Source: IRDA, ICICIdirect.com Research

We have valued the general insurance business at 1x FY13E net worth

Exhibit 37: General insurance valuation matrix

	FY10	FY11	FY12E	FY13E	FY14E
GWP	1004.6	1407.8	1860.0	2046.0	2250.6
Net Retained premium	400.1	606.4	837.0	920.7	1125.3
GWP growth	-	40.1	32.1	10.0	10.0
Mkt share in total	2.8	3.2	3.8	3.7	3.6
Combined ratio	121.0	99.0	94.0	94.0	95.0
PAT	-94.3	-36.4	-10.0	40.9	45.0
Networth	247.9	423.4	471.4	512.3	557.4
Valuation	-	-	471.4	512.3	557.4
HDFC share-74%	-	-	348.9	379.1	412.4
Multiple on NW	-	-	1.0	1.0	1.0
No. of o/s shares	143.6	146.7	147.4	152.9	152.9
Value per share of HDFC	-	-	**2.4**	**2.5**	**2.7**

Source: IRDA, Company, Annual Report, ICICIdirect.com Research

We have valued the business at 1x net worth as profits cannot be appropriately estimated. We, thereby, assign ₹ 2.5 per share to HDFC's SOTP valuation.

HDFC Standard Life gaining on bancassuarnce…

HDFC Life grew its premium income from ₹ 349 billion in FY01 to ₹ 2,916 billion in FY11, resulting in a CAGR of 24% in the past decade.

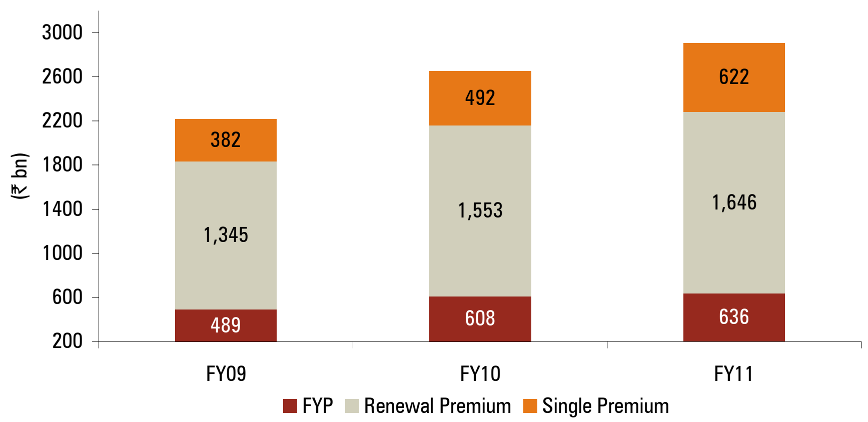
Post September 2010 new regulations, the Indian life insurance industry had to make several adjustments to its products and distribution methods. The focus for most insurers has shifted towards better expense management, a balanced product mix and higher persistency.

HDFC Standard Life has a market share of 12.9% as on FY11 and ranks among the top 5 private life insurers

New business premium (NBP) slowed down considerably declining 7% in 9MFY12. Also, margins contracted for most players from 20% levels to sub 15%. HDFC Standard Life is among the top 5 private life insurers with a market share of 12.9% in FY11.

NBP for HDFC grew 20.7% to ₹ 4059 crore in FY11. In 9MFY12 also, the first year regular premium declined 17% YoY to ₹ 1670 crore. We expect FY12 to end with just 2.6% growth in NBP and forecast around 12-14% growth in the next two years.

Exhibit 38: Industry premium break-up

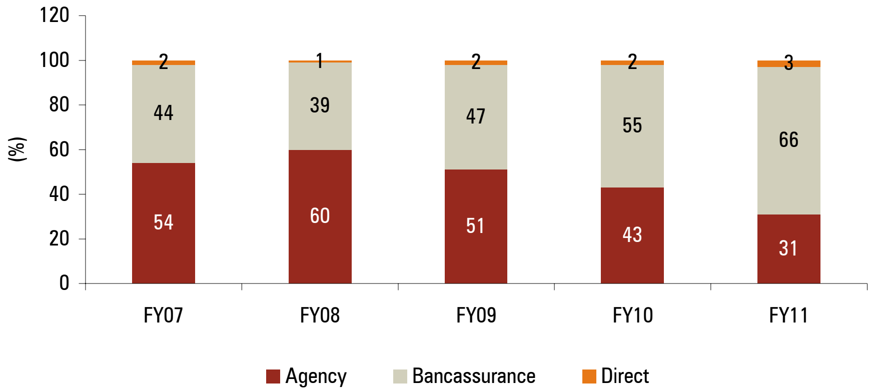


Source: Company, ICICIdirect.com Research

The share of renewal premium has risen to 55% in FY11 from 52% in FY09 for HDFC Standard Life. This should result in better persistency ratios for the company and, hence, future profitability. Till date, HDFC, the parent, has invested ₹ 21 billion in the life business. Its losses have declined to ₹ 99 crore in FY11 from a loss of ₹ 275 crore in FY10 due to increasing share of bancassurance in total distribution.

Life Insurance losses have declined to ₹ 99 crore in FY11 from a loss of ₹ 275 crore in FY10 due to increasing share of bancassurance in total distribution.

Exhibit 39: Rising Bancassurance leading to declining losses



Source: Company, ICICIdirect.com Research

Exhibit 40: HDFC premium and APE growth

₹ Crore	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
NBP	2679.3	2644.0	3364.1	4059.3	4166.7	4740.8	5317.8
Growth (%)	187.5	-1.3	27.2	20.7	2.6	13.8	12.2
Annual premium	4852.3	5505.0	7005.0	9004.1	9606.0	10724.0	11899.3
Single	405.1	311.0	273.6	720.3	727.5	785.7	848.5
Growth (%)	22.1	-23.2	-12.0	163.3	1.0	8.0	8.0
Nonsingle-FYP	2274.2	2333.0	3090.5	3339.1	3439.2	3955.1	4469.3
Growth (%)	76.0	2.6	32.5	8.0	3.0	15.0	13.0
Regular/ Renewal	2173.0	2861.0	3640.9	4944.8	5439.3	5983.2	6581.5
APE	2314.7	2364.1	3117.9	3411.1	3512.0	4033.7	4554.1
Growth (%)	74.6	2.1	31.9	9.4	3.0	14.9	12.9

Source: Company, ICICIdirect.com Research

As on September 30, 2011, the company reported its market consistent embedded value at ₹ 43.5 billion. Also, in 9MFY11, the new business margin (NBAP) on the individual business is pegged at 15.6% (based on loaded acquisition expenses).

We have valued HDFC Standard Life at 14% NBAP margin and 11x multiple + EV basis

We have valued the life business on embedded value (EV) + NBAP basis. EV includes the net worth and value in force (VIF) business. The life business calculated EV comes at ₹ 47.3 billion at end FY12. Hence, at 14% NBAP margin and 11x multiple and adding EV, we have valued the life insurance business at ₹ 10943 crore on FY13E. HDFC's stake at 72.3% comes to ₹ 7922 crore providing ₹ 52 per share of HDFC.

Exhibit 41: Valuation matrix

₹ Crore		FY10	FY11	FY12E	FY13E	FY14E
NBAP margins of						
	13.0	405.3	443.4	456.6	524.4	592.0
	14.0	436.5	477.6	491.7	564.7	637.6
Valuation multiple of						
	10.0	4053.2	4434.4	4565.6	5243.8	5920.4
	12.0	4365.0	4775.5	4916.8	5647.1	6375.8
	11.0	4458.5	4877.8	5022.1	5768.2	6512.4
	14.0	4801.5	5253.1	5408.4	6211.9	7013.3
EV		-	3870.0	4350.0	4731.0	4967.5
HDFC share in EV		-	2801.9	3149.4	3425.2	3596.5
HDFC's share in NBAP - 72.4%		3476.3	3803.2	3915.7	4497.4	5077.7
Total stake value		-	6605.1	7065.1	7922.6	8674.2
No. of o/s shares		143.6	146.7	147.4	152.9	152.9
Value per share of HDFC		24.2	45.0	47.9	51.8	56.7

Source: Company, ICICIdirect.com Research

HDFC Bank akin to HDFC in consistency and profitability

HDFC Bank which is the second largest private lender in India is the associate of HDFC holding 23.2% stake. HDFC Bank has displayed astounding consistency in its performance over the past 5 years with 35% CAGR in both advances and net profit. The loan portfolio as on Q3FY12 stood at ₹ 194 billion. The bank enjoys one of the highest CASA ratio of ~47% enabling it to maintain NIM at ~4%. We expect HDFC Bank to witness 30% CAGR in net profits over FY11-FY13E. We have valued the bank at 3.9x FY13E ABV of ₹140/share. With 23.2% stake, HDFC's interest in HDFC Bank is valued at ₹169/share of HDFC.

Gruh Finance Ltd - a small listed housing finance subsidiary

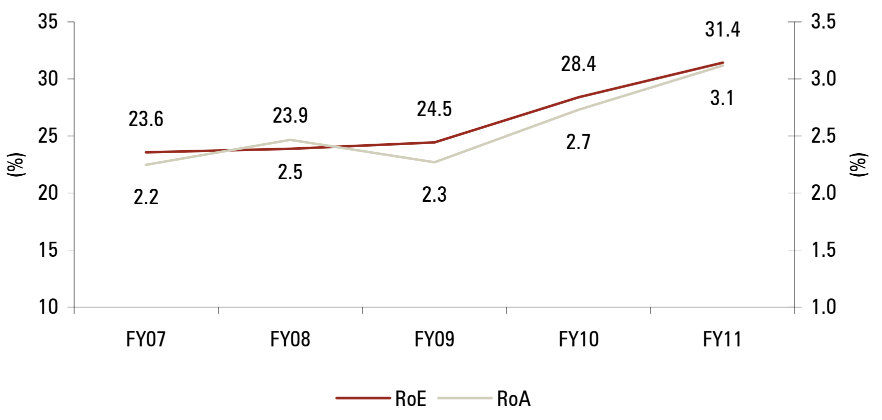
Gruh Finance Ltd is the 60.4% owned subsidiary of HDFC Ltd. The company was incorporated in 1986 and provides financial services mainly for rural housing, construction/upgradation of dwelling units and to developers. It also offers loans to the self employed segment where formal income proofs are not available. The company has a network of 121 offices mainly concentrated in Gujarat, Maharashtra and Karnataka. It is the second listed subsidiary after HDFC Bank.

Gruh Finance has witnessed a healthy CAGR of 24% in the past five years along with strong return ratios

As on Q3FY12, the company's loan portfolio has increased 28% YoY to ₹ 37.6 billion. Over the past five years, the loan book has witnessed a healthy CAGR of 24%. The market share stands at 0.5% as on FY11. The GNPA as on Q3FY12 stood at 0.97% while the NNPA was nil. Net profit has witnessed growth at a CAGR of 25% over FY06-11 to ₹ 0.9 billion. As on 9MFY12, the net profit stood at ₹ 65 crore.

We expect 20% growth in net profit for FY13E to ₹ 104 crore and estimate net worth of ₹ 4.3 billion as on FY13. With HDFC's holding at 60.4%, we assign a value of ₹ 10 per share to HDFC's SOTP valuation.

Exhibit 42: Rising return ratios for Gruh Finance



Source: Company, Capitaline, ICICIdirect.com Research

We have assigned ₹ 4 per share to SOTP valuation for unrealised gains of ₹ 6 billion on quoted equity book (after excluding investments relating to subsidiaries and associates)

Analysing equity investment book and unrealised gains….

HDFC has a quoted equity book of ₹ 61 billion and unquoted equity of ₹ 27 billion as on FY11. Of the above, ₹ 56 billion from the former and ₹ 23 billion from the latter relates to investments in subsidiaries and associates. Hence, this leaves only ₹ 4.9 billion in quoted and ₹ 4.45 billion in unquoted equity, which relates to external investments made by HDFC.

As we have taken HDFC Bank and Gruh Finance's valuations separately based on market prices in the SOTP target, we have assigned only the balance investments for unrealised gains in the quoted book. This has resulted in unrealised gains of just ₹ 6 billion translating to ₹ 4 per share of HDFC. We have ignored unrealised gains on the unquoted equity book.

Foray into education sector- still at nascent stage

Last year, HDFC announced its strategic foray into the Indian education sector under which it intends to provide access to quality yet affordable education spread across nearly every segment over the student's learning life cycle. Such a foray is still in its early stage.

- **Invested in Credila Financial Services, first Indian education loan company**

  Credila is a 62.3% subsidiary of HDFC and is India's first and only fully dedicated educational loan company, providing loans to undergraduate and postgraduate students studying in India and abroad. As on FY11, Credila had disbursed ₹ 190 crore. The average loan amount disbursed is ₹ 7 lakh. Credila capitalises on HDFC's distribution network to source and market education loans. For FY11, it had a loss of ₹ 11.3 crore.

We have not factored HDFC's interest in the education space in our forecasts and valuations considering these businesses are still at their nascent stages.

Risks and concerns

Any major change in management

One of the key reasons for HDFC's consistent performance has been the role of its experienced and strong management. Any major change in the composition of the management and board may result in uncertainty about the future business strategy and performance.

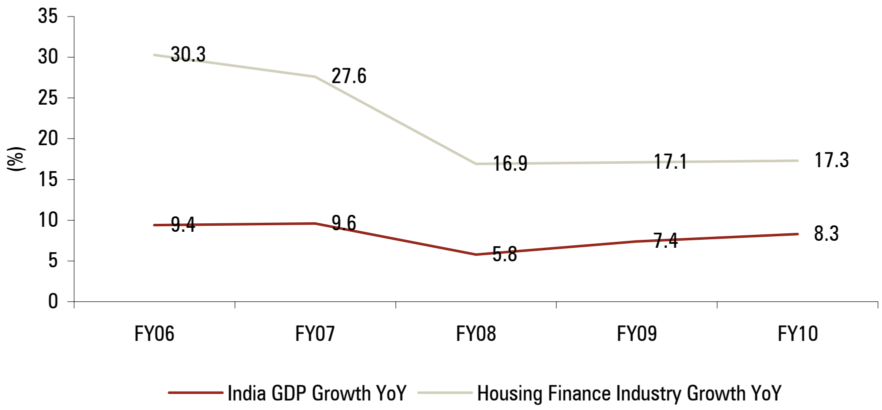
Rise in competition

As stated above, the housing finance industry in India is very competitive with 53 registered HFCs and various SCBs. Any rise in competition, mainly from SCBs as witnessed in FY09 wherein they became very aggressive in terms of pricing by introducing teaser loans, may result in HDFC losing market share. This, in turn, could lead to lower loan growth than our estimates.

Sustainable economic slowdown may impact business growth

Another risk to our estimates could be a sustainable slowdown in the economy, which could affect the growth of the housing finance industry adversely. Apart from affecting growth, a slowdown in the economy could also affect the re-payment ability of borrowers. This could lead to a higher-than-expected increase in delinquencies for the company.

Exhibit 43: Housing loans industry growth follows GDP growth



Source: Bloomberg, ICICIdirect.com Research

Risk to margins

Any further increase in the cost of funding and the inability to pass on such hikes to customers may result into lower margins than expected.

Moderation in performance of subsidiaries owing to stringent regulations

Any stringent regulations in relation to HDFC's key subsidiaries (HDFC Standard Life) as we saw in the general insurance and asset management business and a sustainable slowdown in the economy could impact their business and earnings growth. This could adversely affect HDFC's valuations.

NHB regulations may impact profitability

In the last 15-16 months, National Housing Bank (NHB) came out with various amendments. This was related to the loan-to-value (LTV) ratio, risk weights and provisioning requirements in relation to housing as well as non-housing loans and scrapping of pre-payment penalty on pre-closure of housing loans on a floating rate basis and also on fixed rate bases subject to certain conditions. However, such amendments did not affect HDFC much as the company was well within the requirement.

NHB in October, 2011 came out with a circular asking HFCs to charge uniform rates of interest to old and new borrowers in the floating loan portfolio with the same credit/risk profile. In February, 2012 NHB cleared that HFCs should apply uniform rates of interest to all individual borrowers with the same credit/risk profile and who have availed housing loans on a floating rate basis after the date of the Circular in October, 2011. As regards the existing customers of HFCs as on the date of Circular dated October 19, 2011, NHB has stated that the matter is under examination.

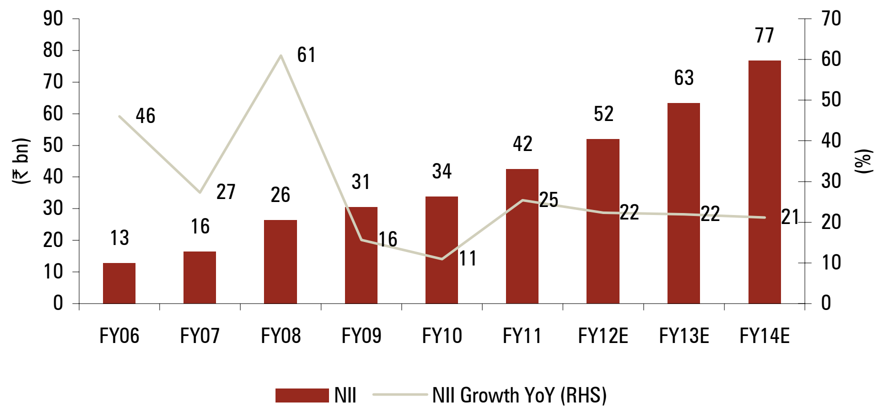
Financials

Net interest income (NII) to rise at 24.5% CAGR in FY12-14E

Over the past five years, HDFC's NII has witnessed a strong CAGR of 27% on account of healthy growth at 21% CAGR in loans outstanding and stable spreads or NIM. Going forward, we expect HDFC's NII to witness a CAGR of 24.5% to ₹ 77 billion over FY12-14E led by 20% CAGR in loans over the next two years. Further, we believe that interest rates have peaked and large wholesale borrowing by housing finance firms allows them to adjust price faster giving them a competitive advantage against banks as rates decline. Since HDFC is more than 75% wholesale funded, a declining interest rate environment augurs well for the company. We believe that HDFC's healthy NIM of ~3.8- 4% would be sustainable, going forward.

We expect NII to witness a CAGR of 24.5% over FY12-14E supported by healthy growth at 20% CAGR in loans and stable margins

Exhibit 44: NII to grow consistently with NIM maintained



Source: Company, ICICIdirect.com Research

Non interest income to grow moderately

HDFC's non-interest income increased at a healthy CAGR of 37% in the past 3 years to ₹ 10.7 billion as on FY11. Excluding profit on sale of investments also, core non-interest income increased at 37% CAGR. Major component of non interest income are dividends amounting to ₹ 2.5 billion, income from deployment in cash management schemes of mutual funds of ₹ 2.6 billion and profit on sale of investments of ₹ 1.9 billion (down 16% YoY) as on 9MFY12. For 9MFY12 total non-interest income grew 29% YoY to ₹ 9.3 billion. Non interest income forms 18% of net total income. We estimate non-interest income excluding profit on sale of investments to expand at moderate rate of 9% CAGR over FY12-14E.

Exhibit 45: Profit on sale of investments declined 15.5% YoY

₹ billion	FY09	FY10	FY11	9MFY12	9MFY11	YoY Growth (%)*
Dividend Income	2.0	2.3	2.3	2.5	1.7	47.9
Fees & other charges	1.1	2.3	2.2	2.1	1.4	46.9
Income from leasing	0.2	0.2	0.2	0.1	0.2	-58.9
Misc. income	0.2	0.2	0.3	0.2	0.1	4.1
Profit on sale of investments	0.2	2.1	3.6	1.9	2.3	-15.5
Surplus from deployment in CMS of MFs	1.6	1.9	2.2	2.6	1.5	72.3
Total	**5.3**	**9.1**	**10.7**	**9.3**	**7.2**	**29.1**

Source: Company, ICICIdirect.com Research

PAT to grow at 19% CAGR during FY12-14E driven by healthy business fundamentals and improvement in leverage

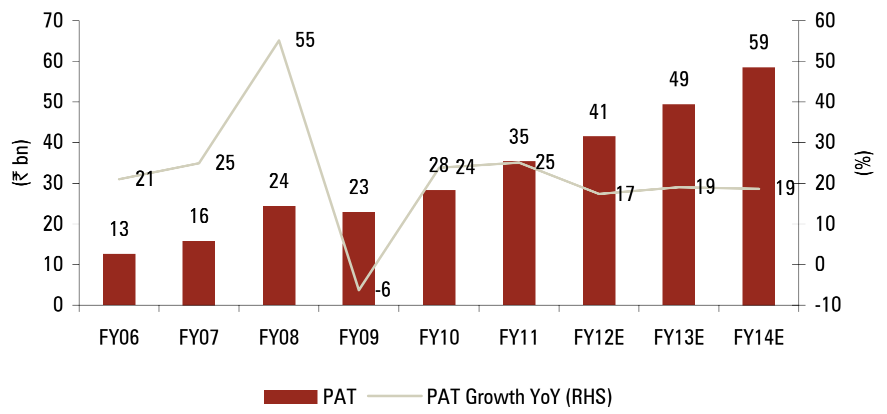
Profit growth to continue to be sanguine

We expect a healthy CAGR of 19% to ₹ 59 billion in profit for HDFC over the next two years on the back of 24.5% CAGR in NII and healthy operating efficiency. Profits have witnessed a strong CAGR of 23% in the past five years. For 9MFY12, the net profit grew by 17% y-o-y to ₹ 27.9 billion.

We expect credit cost to remain largely stable, which will further enhance the profitability. HDFC's provisioning expenses have always been comfortably higher than regulatory requirements. Provisions for contingencies as on FY11 were ₹ 11.2 billion, which was 1.4x the regulatory requirement. We have not factored in the write-back of provisions on teaser loans, expected to be around ₹ 300 crore which can enhance profitability.

However, increase in NIMs or spreads in relation to teaser loan portfolio getting reset to current floating rates (up by 150-200 bps) in Q1FY13 is factored in our estimates.

Exhibit 46: Trends in profitability growth remain robust



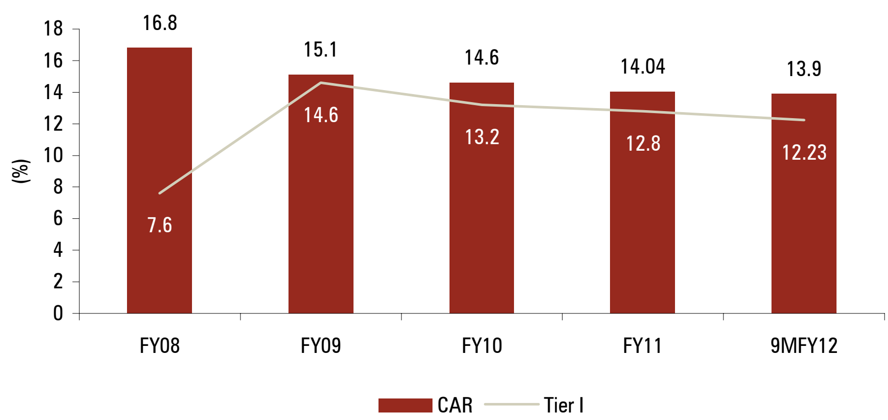
Source: Company, ICICIdirect.com Research

HDFC warrants due for conversion by August 2012 is currently trading at ₹ 77 and gives the right to buy one HDFC share at ₹ 600.

Comfortable capital adequacy ratio

HDFC has a comfortable capital adequacy ratio of 13.9% with Tier I capital at 12.2% as on Q3FY12, which is above the regulatory requirement of 12% for HFCs. For FY13E, we have factored in a conversion of warrants expected in August 2012 at ₹ 600 per share, which would lead to ~3.5% dilution.

Exhibit 47: Trends in capital adequacy ratio



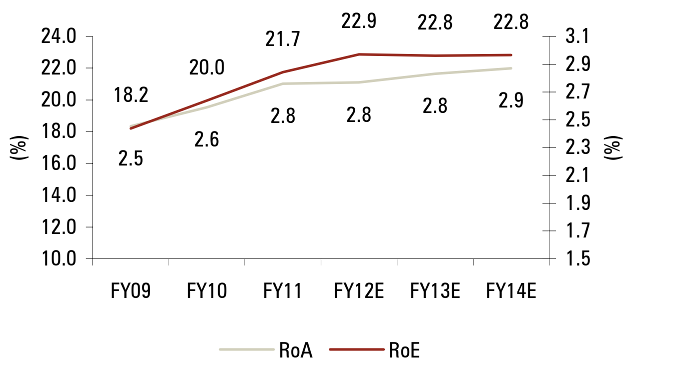
Source: Company, ICICIdirect.com Research

Healthy returns ratios

We expect return ratios to remain healthy at 22.8% RoE and 2.8% RoA for FY13E

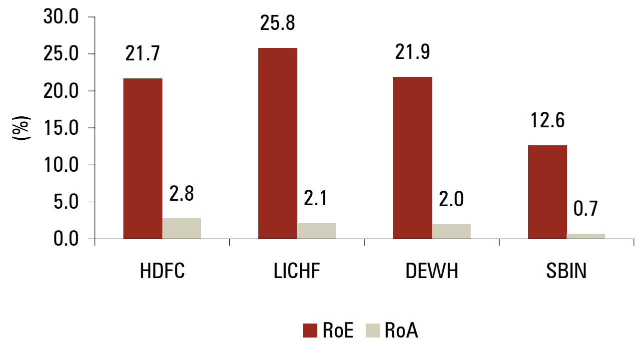
HDFC has reported excellent return ratios in the past as compared to peers on the back of consistent and healthy growth in loans, impeccable margins, improving asset quality and stellar operating efficiency. We believe HDFC's strong fundamental parameters will remain intact going forward and, hence, expect healthy RoE of 22.8% and RoA of 2.8% for FY13E.

Exhibit 48: Healthy returns ratios - HDFC



Source: Company, ICICIdirect.com Research

Exhibit 49: Higher returns ratios as compared to banks (FY11)



Source: Company, ICICIdirect.com Research

Valuations

On the back of its strong brand equity, stable and experienced management, consistent track record in earnings and business growth, stable asset quality and attractive return ratios, HDFC has commanded premium valuations over the years. We believe that with the housing finance market still under-penetrated, long term visible and sustainable growth potential exists for HDFC. Its market leadership with over 17% share should be expected to remain stable.

We expect earnings to grow at 19% CAGR over FY12-14E on the back of a healthy increase in loans, stable spreads (calculated 2.9%), solid asset quality (factored in conservative credit cost of 0.13% in FY13) and best in class operating efficiency. We expect RoE of 22.8% and RoA of 2.8% for FY13E.

Currently, the investments (mainly subsidiaries and associates) contribute 28% to consolidated profit but the management expects the share to go up significantly in the next five years and also provide opportunities for value unlocking.

At the CMP of ₹ 667, the stock is trading at 21x FY13E Standalone EPS and 4.2x P/BV of its FY13E adjusted book value (ABV).

Excluding the valuation of subsidiaries and associates of ~₹ 230 per share of HDFC based on FY12E, the standalone housing finance business is trading at 3.6x FY12E core ABV. We have valued the standalone lending business at 3.1x FY13E core ABV and14.8x FY13E core EPS giving ₹ 464 per share of HDFC.

Exhibit 50: Core business RoE and ABV

(Year-end March)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Core RoE (%)	17.1	19.1	20.9	22.8	21.0	22.6
Core Mortgage ABV	87.8	97.0	109.9	119.6	149.8	165.6

Source: Company, ICICIdirect.com Research

We have valued HDFC on an SOTP basis and arrived at a target price of ₹ 719/share.

Valuing the subsidiaries post 10% discount at ₹ 255 per share for FY13E, We have arrived at an SOTP target price of ₹ 719 per share. We are initiating coverage on the stock with a **HOLD** rating.

Exhibit 51: SOTP valuation table

Company	Basis of valuation	HDFC's stake (%)	Value of stake (₹ bn)	% Discount	Valuation post discount (₹ bn)	FY13E Value per share
HDFC Ltd	3.1x FY13E Core Mortgage ABV	100	710	0	710	464.4
HDFC Bank	3.9x FY13E ABV	23.2	295	10	266	173.8
HDFC AMC	5% of MF AUM	60	32	10	29	19.1
HDFC Std. Life	EV + NBAP	72.4	79	10	71	46.6
HDFC ERGO	1x FY13E NW	74	4	10	3	2.2
GRUH Finance	6x FY13E NW	60.4	16	10	14	9.2
Unrealised Gains	On quoted equity book excl. subsidiaries/ associates	100	6	0	6	4.0
	Value Per Share of HDFC Ltd (₹)					**719**

Source: Company, ICICIdirect.com Research

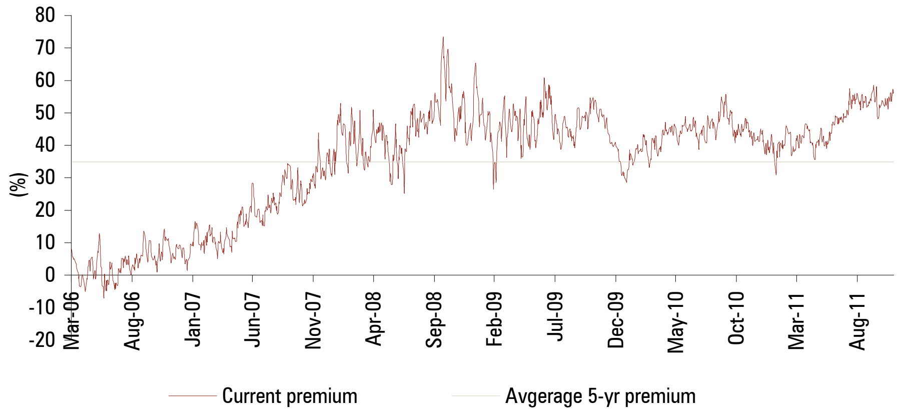
Exhibit 52: Peer comparison - Valuations

	CMP (₹)	M.Cap (₹ cr)	PE (x)			P/BV (x)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E
HDFC	667	98513	27.7	23.7	20.7	5.7	5.3	4.2
LIC Housing Fin.	261	13169	12.7	13.3	10.3	3.0	2.3	2.0
Dewan Housing Fin.	231	2703	10.1	7.7	5.7	1.6	1.3	1.1
SBI	2130	135242	16.4	13.6	10.4	2.4	2.1	1.8

Source: Company, Bloomberg, ICICIdirect.com Research

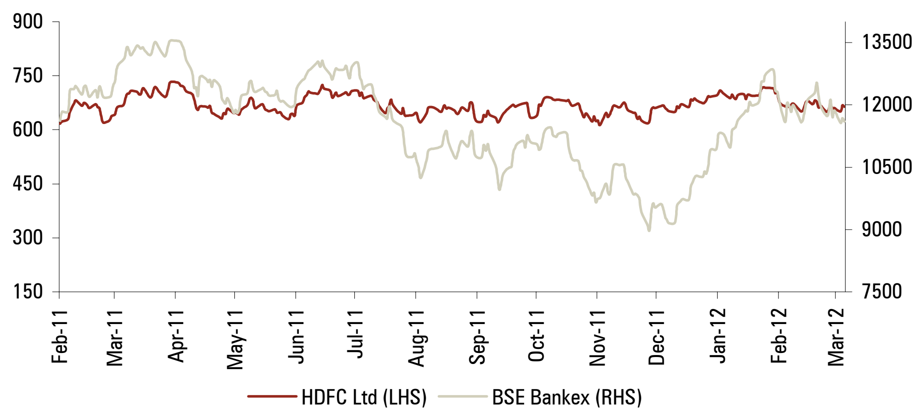
HDFC has outperformed Sensex in returns and has traded at a premium of 25-35% to Sensex even post crisis.

Exhibit 53: HDFC – Premium/Discount to Sensex PE



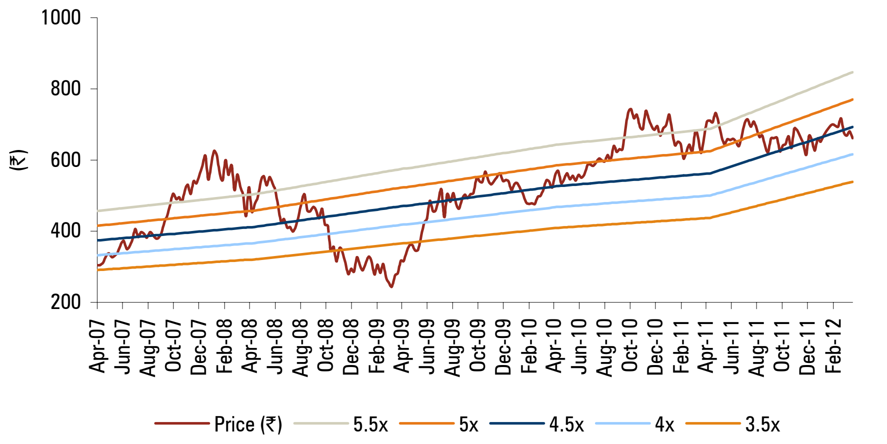
Source: Company, ICICIdirect.com Research

Exhibit 54: HDFC share price vs. BSE Bankex



Source: Bloomberg, ICICIdirect.com Research

Exhibit 55: One year forward P/ABV band



Source: Company, ICICIdirect.com Research

Financial Scorecard (Standalone)

Exhibit 56: Profit and Loss

₹ Crore

(Year-end March)	FY10	FY11	FY12E	FY13E	FY14E
Interest Earned	10450.6	11807.0	14704.6	17186.0	20198.7
Interest Expended	7063.1	7559.9	9507.7	10848.1	12517.8
Net Interest Income	3387.5	4,247.1	5,196.9	6337.9	7680.9
% growth	10.9	25.4	22.4	22.0	21.2
Non Interest Income	910.2	1071.1	1130.4	1190.1	1244.1
Net Income	4297.8	5,318.1	6,327.3	7528.1	8924.9
Employee cost	146.7	175.5	208.5	254.8	301.4
Other operating Exp.	177.1	205.6	242.1	280.3	326.1
Operating Income	3974.0	4937.0	5876.7	6993.0	8297.5
Provisions	58.0	70.0	163.1	194.3	233.5
PBT	3916.0	4867.0	5713.7	6798.7	8064.0
Taxes	1089.5	1332.0	1565.5	1862.8	2209.5
Net Profit	2826.5	3,535.0	4,148.1	4935.9	5854.5
% growth	23.8	25.1	17.3	19.0	18.6
EPS (₹)	19.7	24.1	28.1	32.3	38.3

Source: Company, ICICIdirect.com Research

Exhibit 57: Balance sheet

₹ Crore

(Year-end March)	FY10	FY11	FY12E	FY13E	FY14E
Sources of Funds					
Capital	287.1	293.4	294.8	305.8	305.8
Reserves and Surplus	14910.6	17023.1	18666.2	24033.4	26648.9
Networth	15197.7	17316.5	18961.0	24339.2	26954.6
Secured Loans	63605.7	81641.5	95972.5	112181.1	130888.5
Unsecured Loans	32959.7	33769.0	38869.6	44887.6	54064.8
Other Liabilities & Provisions	4878.5	6775.1	6064.5	6684.1	7392.4
Total	116641.4	139502.1	159867.6	188091.9	219300.3
Applications of Funds					
Fixed Assets	222.1	234.0	551.2	557.4	567.0
Investments	10727.4	11832.4	12204.1	12886.8	13079.4
Advances	97967.0	117126.6	139373.0	166051.0	199539.7
Other Assets	7439.2	9861.0	7739.3	8596.6	6114.3
Total	116355.7	139054.0	159867.6	188091.9	219300.3

Source: Company, ICICIdirect.com Research

Exhibit 58: Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E	FY14E
Valuation					
No. of Equity Shares	143.6	146.7	147.4	152.9	152.9
EPS (Rs.)	19.7	24.1	28.1	32.3	38.3
BV (Rs.)	105.9	118.0	126.2	157.3	174.8
BV-ADJ (Rs.)	105.0	118.0	126.2	157.1	173.2
P/E	33.9	27.7	23.7	20.7	17.4
P/BV	6.3	5.7	5.3	4.2	3.8
P/adj.BV	6.4	5.7	5.3	4.2	3.9
Yields & Margins					
Yield on interest earning assets	10.8	10.6	11.2	11.0	10.8
Avg. cost on funds	7.8	7.1	7.6	7.4	7.3
Net Interest Margins	3.5	3.8	3.9	4.1	4.1
Spreads	3.0	3.5	3.6	3.6	3.5
Adjusted spreads *	2.6	2.8	2.8	2.9	3.0
Quality and Efficiency					
Cost / Total net income	7.5	7.2	7.1	7.1	7.0
GNPA%	0.8	0.8	0.8	0.9	0.9
NNPA%	0.1	0.0	0.0	0.0	0.1
RONW (%)	20.0	21.7	22.9	22.8	22.8
ROA (%)	2.6	2.8	2.8	2.8	2.9

*Source: Company, ICICIdirect.com Research, * Adjusted Spreads is after deducting redemption premium on ZCBs and interest earned on Loans sold.*

Exhibit 59: Growth ratios

(Year-end March)	FY10	FY11	FY12E	FY13E	FY14E
Total assets	14.7	19.6	14.9	17.6	16.5
Advances	15.0	19.6	19.0	19.1	20.2
Secured Loans	15.3	28.4	17.6	16.9	16.7
Total Income	3.1	13.4	23.0	16.0	16.7
Net interest income	10.9	25.4	22.4	22.0	21.2
Operating expenses	2.4	17.7	18.2	18.8	17.3
Operating profit (excl trading)	16.1	21.6	28.4	27.2	25.5
Net profit	23.8	25.1	17.3	19.0	18.6
Book value	15.7	13.9	7.4	29.3	11.1
EPS	22.7	22.4	16.8	14.7	18.6

Source: Company, ICICIdirect.com Research

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