

Stable margins to off-set higher provisioning cost

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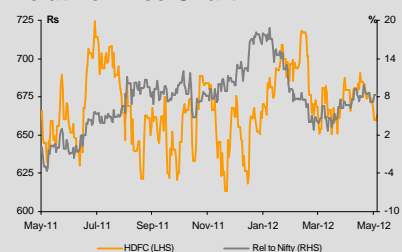
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs664	Rs700
EPS change FY13E/14E (%)	+10/-
Target Price change (%)	NA
Nifty	5,114
Sensex	16,913

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(5)	(3)	(0)
Rel. to Nifty	2	(1)	0	8

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Financial Services
Bloomberg	HDFC@IN
Equity Capital (Rs mn)	2955
Face Value(Rs)	2
No of shares o/s (mn)	1478
52 Week H/L	732/601
Market Cap (Rs bn/USD mn)	980/18,511
Daily Avg Volume (No of sh)	5584711
Daily Avg Turnover (US\$m)	70.4

Shareholding Pattern (%)

	Mar-12	Dec-11	Sep-11
Promoters	0.0	0.0	0.0
FII/NRI	70.8	71.2	74.1
Institutions	15.4	15.5	13.8
Private Corp	2.9	2.8	1.7
Public	11.0	10.5	10.5

Source: Capitaline

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- HDFC Q4FY12 NII at Rs16.8bn/ PAT at Rs13.3bn – ahead of estimates. Healthy loan growth, qoq rise in adjusted NIM and stable asset quality were key +ve
- Rise in NIM aided by a) 67bps qoq increase in yield on-adv and b) funding via liquid invst. Term loans (+63% qoq) were raised in fag end of qtr; cost pressure to emerge in Q1FY13
- Asset quality remains comfortable; cumulative provisioning at 1.2% of loans on B/s. Addln provisioning to be routed via P&L and thereby factoring 50bps of credit cost for FY13-14E
- Stable margins would off-set higher credit cost and thereby protect RoA at 2.5% levels. Current valuations leave minimal room for upside. Maintain HOLD with target price of Rs700

Results ahead of estimates; +ve surprised on NIM front

HDFC Q4FY12 NII at Rs16.8bn / reported PAT at Rs13.3bn – were significantly ahead of our / street estimates. Even adjusted PAT at Rs12.7bn (+22% yoy) was ahead of our estimates. The NII growth quarter was aided by healthy broad based loan growth and ~100bps+ sequential improvement in calculated NIM to 4.2%. Adjusted NIM (calc) came in at 3.9% (89bps qoq) and were aided by a) 67bps qoq increase in yield on advances and b) 36bps qoq decline in overall cost of funds, as large part of funding was routed through liquid investments. Term loans albeit up 63% qoq were raised in the fag end of the quarter and (calc. cost of deposits remained flat sequentially at 9.6%) and hence cost pressures will flow in Q1FY13. Operating profit at Rs17.7bn was up 23% yoy (41% qoq). Asset quality continues to remain stable with GNPA at 0.77% and cumulative provisioning at Rs16.7bn against regulatory requirement of Rs14bn.

On the balance sheet front: Loan growth at 20% yoy (7% qoq) remained broad based. Growth in sanctions / disbursements too remained healthy at 20% yoy / 18% yoy respectively. On the liabilities front, a large part of incremental borrowings was in nature of term loans from banks.

Yield Analysis

%	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY bps	QoQ bps
Yield on advances	12.1	11.6	12.3	12.9	13.5	139	67
Yield on total assets	10.9	10.4	10.9	11.6	12.4	150	78
Yield on earning funds	10.2	9.8	10.3	11.0	11.5	131	53
Cost of borrowings	7.5	8.2	8.6	9.6	8.6	105	-99
Cost of funds	6.3	7.0	7.2	7.9	7.3	98	-61
Spread	3.2	2.0	2.2	2.0	3.5	31	150
Spread (reported)	2.3	2.3	2.3	2.3	2.3	-6	0
NIM	3.9	2.8	3.1	3.0	4.2	32	114

Source: Company, Emkay Research, calculated based on average quarterly balances,

Valuation table

Y/E March 31	Net income (Rs mn)	Net profit (Rs mn)	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/E (x)	P/ABV (x)
FY11	49,584	35,350	22.0	118.1	2.5	19.9	30.2	5.6
FY12A	59,273	41,232	26.6	127.2	2.6	21.6	25.0	5.2
FY13E	69,599	47,605	29.8	176.1	2.5	19.7	22.2	3.8
FY14E	81,386	55,449	35.0	187.6	2.5	19.0	19.0	3.5

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	13,027	9,982	11,636	11,557	16,808	29.0	45.4	49,983	45,221	10.5
Other Income	2,186	2,922	2,282	2,164	1,922	-12.1	-11.2	9,290	7,966	16.6
Net Income	15,213	12,904	13,917	13,721	18,730	23.1	36.5	59,273	53,187	11.4
Total Operating Exp	707	1,087	1,191	1,065	971	37.3	-8.8	4,313	3,379	27.6
As % Of Net Income	4.6	8.4	8.6	7.8	5.2			7.3	6.4	
Employee Expenses	384	528	526	508	497	29.4	-2.3	2,058	1,689	21.9
As % Of Net Income	2.5	4.1	3.8	3.7	2.7			3.5	3.2	
Other Expenses	250	412	529	424	365	46.2	-14.0	1,730	1,284	34.7
As % Of Net Income	1.6	3.2	3.8	3.1	1.9			2.9	2.4	
Operating Profit	14,454	11,773	12,678	12,603	17,701	22.5	40.5	54,754	49,619	10.3
As % Of Net Income	95.0	91.2	91.1	91.8	94.5			92.4	93.3	
Provisions	250	180	170	200	250	NA	25.0	800	800	0.0
PBT	15,540	11,755	13,377	13,283	18,241	17.4	37.3	56,656	52,080	8.8
Total Tax	4,120	3,310	3,670	3,470	4,980	20.9	43.5	15,430	14,220	8.5
Adjusted PAT	10,438	8,328	9,077	9,162	12,687	21.5	38.5	39,254	36,879	6.4
Extra Ordinary Items	-1,336	-163	-869	-880	-791			-2,702	-3,261	
Reported PAT	11,420	8,445	9,707	9,813	13,261	16.1	35.1	41,226	36,459	13.1
Reported EPS	7.1	5.7	6.2	6.2	8.6	20.9	38.5	21.0	17.1	22.5

Source: Company, Emkay Research

Loan growth remain broad based; growth pegged at 19% CAGR for FY12-14E

Loan growth at 20.3% yoy (7% qoq) remained broad based across all segments and was aided by the HDFCs' increasing penetration into smaller cities. Despite higher property prices and relatively higher interest rates growth in individual loan portfolio continued to remain healthy at 21% yoy (5% qoq). While growth rates have eased in larger cities (Delhi, Mumbai, Kolkatta), mgmt attributed for higher growth in smaller – tier II / tier III cities. The average ticket size has increased to ~Rs2mn vs ~Rs1.6mn in FY11. Growth in corporate loan portfolio too remained healthy at 19% yoy (9% qoq). We have factored 19% CAGR in disbursements / loans over FY12-14E. Repayment rate at sub-10% also provides comfort.

... and attributed for sequential rise in NIM; loan re-pricing will cushion NIMs in FY13

Q4FY12 NIM (calc) at 4.2% was up 114bps qoq. Even after adjusting for one-off expenses towards cross currency in Q3, calc. NIM at 3.9% were up 89bps qoq. The NIM expansion was driven by a) 9% sequential rise in high yielding developer loans and b) funding through liquid investments. Corporate loans are typically seasonal in nature (3-6months) and hence their benefit to the margin expansion will ease over next two quarters. This however would be offset by ~Rs200bn of teaser loan portfolio (24% of individual loans) set for re-pricing beginning Q1FY13.

Loan mix – Growth witnessed across all segments

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)
Loan portfolio	1,171,266	1,241,677	1,269,924	1,322,079	1,408,746	20.3	6.6
- Individuals	736,493	778,860	802,680	842,999	887,779	20.5	5.3
- Corporate	421,407	448,233	451,442	461,609	501,896	19.1	8.7
- Others	13,366	14,585	15,802	17,472	19,071	42.7	9.2
% of total	100.0	100.0	100.0	100.0	100.0		
- Individuals	62.9	62.7	63.2	63.8	63.0		
- Corporate	36.0	36.1	35.5	34.9	35.6		
- Others	1.1	1.2	1.2	1.3	1.4		

Source: Company, Emkay Research

Incremental borrowing primarily from term loans; that too at the end of qtr

Unlike Q3FY12, were HDFC had resorted for higher share of bonds / deposits for its borrowing requirement, Q4 witnessed steep 63% qoq increase in borrowings under term loan from banks. The share of term loans (+63% qoq) is up to 29% (20% in Q3). A substantial part of term loan borrowing was during the last fortnight of the quarter and hence the cost pressure will be evident in Q1FY13. However, banks in recent past have resorted to lowering their base rate. Thus an increasing share of term loans will benefit HDFCs borrowing cost as bond yields / deposit rates remain competitive.

Borrowing mix – Increasing reliance on bonds / deposit window

Rs mn	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)
Borrowings	1,151,123	1,235,187	1,251,027	1,270,962	1,391,275	20.9	9.5
- Term loans	424,898	414,279	323,243	249,829	406,966	-4.2	62.9
- Bonds, debentures, FCCB & CPs	482,956	515,905	610,505	673,681	621,381	28.7	-7.8
- Deposits	243,269	305,004	317,280	347,451	362,928	49.2	4.5
% of total	100.0	100.0	100.0	100.0	100.0		
- Term loans	36.9	33.5	25.8	19.7	29.3		
- Bonds, debentures, FCCB & CPs	42.0	41.8	48.8	53.0	44.7		
- Deposits	21.1	24.7	25.4	27.3	26.1		

Source: Company, Emkay Research

Fee income growth remains muted; C/Income remains comfortable

Non-int income at Rs1.9bn (-12% yoy / 11% qoq) was dragged by lower fee income (-17% qoq) and surplus from deployment in cash mgmt. NHB has made it mandatory for NHB to waive away with pre-payment penalty on foreclosure. On other hand, operating cost continues to remain comfortable at Rs971mn (+37% yoy / -9% qoq) and C/inc at 5.2%.

Asset quality remains largely stable; factoring 40bps of provisioning cost

HDFC Q4FY12 results provided comfort in terms of another quarter of sequential decline in GNPA. This is commendable given increasing fears of rising delinquencies in individual home loan segment and HDFC's higher exposure to risky asset class of corporate loans. Following NHB requirement towards higher provisioning norms on loan portfolio including teaser loan book, HDFC carries a cumulative provision of Rs16.7bn (1.2% of total loans) against regulatory requirement of Rs14bn. While mgmt had routed the provisioning requirement through balance sheet in FY12, it has now guided for charging the same in P&L. We have thereby raised our credit cost estimates to 50bps of loans over FY13-14E. The teaser loan provision of ~Rs4bn will be reversed beginning Q1FY13.

Valuations and view

HDFC reported another quarter of steady results viz a) healthy and broad based loan growth b) sequential improvement in margins aided by cost controls and higher share of high yielding assets c) stable asset quality and d) decent return ratios. With sluggish credit growth in FY13, we believe the mortgage space will remain competitive by both banks / HFC's given its nature and spreads. However, a strong brand name and expertise management, cost controls with adequate asset quality controls, we expect HDFC to remain competitive. We have raised our FY13 earnings estimates by 10% factoring in higher yields and stable margins. We expect the mortgage giant to report 19% CAGR in loan portfolio over FY12-14E. Margins are likely to remain stable at 3.2% range and would off-set higher credit cost requirement over FY13-14E thereby protecting RoA at 2.5%. Maintain HOLD with target price of Rs700.

Key Financials**Profit and loss (Rs mn)**

(Year Ending Mar 31)	FY11	FY12A	FY13E	FY14E
Net interest income	42,471	49,983	58,050	67,859
Other income	7,113	9,290	11,549	13,527
Net Income	49,584	59,273	69,599	81,386
Operating expenses	3,620	4,313	5,329	6,231
Depreciation	192	200	207	223
Preprovision profit	45,772	54,760	64,064	74,932
Provisions	700	800	1,402	1,451
Profit before tax	48,670	56,662	65,662	76,481
Tax	13,320	15,430	18,057	21,032
Tax rate	14.8	27.2	27.5	27.5
Reported Profit after tax	35,350	41,232	47,605	55,449

Balance sheet (Rs mn)

(Year Ending Mar 31)	FY11	FY12A	FY13E	FY14E
Equity share capital	2,934	2,954	3,044	3,044
Reserves And Surplus	170,231	187,223	267,864	286,019
Net worth	173,165	190,177	270,908	289,063
Borrowings	1,151,123	1,391,275	1,593,010	1,863,822
Deferred tax liability	-4,481	-6,282	-6,282	-6,282
Current liabilities	71,376	98,277	98,984	98,984
Total liabilities	1,391,183	1,673,448	1,956,620	2,245,586
Net block	2,340	3,215	3,215	3,215
Investments	118,324	122,070	131,166	136,665
Loans	1,171,266	1,408,746	1,689,092	1,979,301
Current assets	99,217	140,291	133,147	126,405
Total assets	1,391,183	1,673,448	1,956,620	2,245,586

As % of assets

(Year Ending Mar 31)	FY11	FY12A	FY13E	FY14E
Yield on assets	9.2	10.5	10.3	10.4
NIM	3.3	3.3	3.2	3.2
Other income	0.6	0.6	0.6	0.6
Net Income	3.9	3.9	3.8	3.9
Operating expenses	0.3	0.3	0.3	0.3
Preprovision profit	3.6	3.6	3.5	3.6
Provisions	0.1	0.1	0.08	0.07
Profit before tax	3.8	3.7	3.6	3.6
RoAA	2.5	2.6	2.5	2.5
Gross NPA (%)	0.8	0.8	0.9	0.9
Net NPA (%)	0.0	0.2	0.2	0.2

Valuations

(Year Ending Mar 31)	FY11	FY12A	FY13E	FY14E
Adj PAT (Rs mn)	32,283	39,266	45,430	53,274
No of shares (mn)	1,467	1,477	1,522	1,522
FDEPS (Rs)	22.0	26.6	29.8	35.0
PER (x)	30.2	25.0	22.2	19.0
Book value (Rs)	118.1	128.8	178.0	189.9
P/BV (Rs)	5.6	5.2	3.7	3.5
Adj book value (Rs)	118.1	127.2	176.1	187.6
P/ABV (Rs)	5.6	5.2	3.8	3.5
P/PPP (x)	21.3	17.9	15.8	13.5
RoE (%)	19.9	21.6	19.7	19.0
Dividend yield (%)	1.4	1.7	1.7	1.7
Core mortgage RoE (%)	41.8	40.8	32.3	28.5

Recommendation History: HDFC Ltd. – HDFC IN

Date	Reports	Reco	CMP	Target
12/01/2012	HDFC Q3FY12 Result Update	Hold	688	700
06/01/2012	India - Housing Finance Sector Report	Hold	665	700

Recent Research Reports

Date	Reports	Reco	CMP	Target
07/05/2012	Allahabad Bank Q4FY12 Result Update	Accumulate	170	185
04/05/2012	Bank of Baroda Q4FY12 Result Update	Accumulate	687	830
04/05/2012	Corporation Bank Q4FY12 Result Update	Accumulate	385	460
30/04/2012	Bank of India Q4FY12 Result Update	Hold	353	340

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