

HDFC Ltd**Rs 650****Consistent performer; continues to trade at premium valuation****BUY**

HDFC delivered consistent operating performance with PAT of Rs1326 crore growing by 16.1% y-o-y & 35.1% q-o-q in line with our expectation. Core PAT (excluding capital gains) increased 21.5% y-o-y & 38.5% q-o-q. NII grew 27.2% y-o-y & 41.0% q-o-q to Rs 1,743 crore led by healthy loan (including loan sold) growth 24.1% y-o-y. Lending spreads have been stable ~ 2.27% reflecting healthy pricing power. Loan book excluding loan sold grew by 6.2% q-o-q led strong growth in retail loan book. On Full year basis, Approvals and disbursements growth were 19.9% & 18.3% respectively reflecting improvement in housing loan demand. Unrealized gains increased 27.6% q-o-q to Rs166per share owing to strong rally in equity market.

Strong NII growth led by healthy loan growth & stable spreads: NII grew strongly 27.2% y-o-y & 41.0% q-o-q to Rs 1,743 crore driven by healthy loan book growth & stable spreads. Lending spreads have been stable at 2.27% during the quarter. Loan book incl. sell-downs grew by 24.1% y-o-y to Rs 1,45,400 crore. We believe HDFC continues to maintain spread in the range of 2.2% -2.3%, going forward. We model in 19.4% CAGR in loan book over FY12-14 driven by retail and wholesale business.

Steady trading gains sequentially: Trading gains were Rs79 crore due to favorable market condition. Unrealized gains increased 27.6% q-o-q to Rs 24,464 crore.

Loan growth led by retail loans: Loan book adjusting for sell downs grew by 24.1% y-o-y to Rs 1,45,400 crore while growth excl. sold loans pegged at 19.9% y-o-y to Rs 1,40,422 crore. HDFC has sold Rs4,978 crore in the last year; off balance sheet book stood at Rs14,556 crore. Retail loan largely contributed to loan book growth during the quarter. Retail loans mix has been stable at 64% Q4FY12. Corporate loan mix stood at 36% at end of Q4FY12.

Asset quality remained strong: Broadly asset quality continued to be strong despite tough macro environment. Gross NPAs (90 days) stood at 74bps vs. 82bps in Q3FY12. The company has contingent provision of Rs 1218 crore required under the prudential norms. The management has indicated that large portion of teaser loan portfolio would convert into normal housing loans in FY13 which will create additional cushion to loan provisions.

Valuation & Outlook

HDFC delivered strong core performance in challenging quarter. Business growth continued to be ~ 20% y-o-y while asset quality remains best in class. We expect HDFC to deliver 17.6% CAGR in core earnings on the back of strong loan growth, stable margin and steady credit cost over FY12-FY14. Market leadership in housing finance sector, superior underwriting standards, stable spreads, well diversified borrowing profile and unlocking value of subsidiaries are key value drivers for the stock. At Rs 650, the stock is trading at 4.2x FY13 book value and 19.5x FY13 earnings. RoA and RoE continue to remain at superior levels ~ 2.7% and 23.6% respectively in FY13. We have maintained our FY13 earnings estimates & introduced FY14 earnings estimate. We believe wholesale funded entities would see cyclical gains in term of lower cost of funds, better growth prospects and re-rating in valuation multiple in rate easing cycle. **The stock has outperformed the market by 2% in last three months, reflecting resilient earning's performance in uncertain macro environment. Hence, we maintain BUY rating on the stock with revised target price of Rs770.**

Key Financials

Rs in crore	FY11	FY12	FY13E	FY14E
Net interest income	4446	5452	6440	7767
Net Profits	3535	4257	4930	5889
EPS	24.1	28.8	33.4	39.9
BVPS	118	129	154	180
PE (x)	27.0	22.6	19.5	16.3
PB (x)	5.5	5.0	4.2	3.6
Core P/B (x)	7.2	6.0	4.8	3.7
Dividend yield (x)	1.6%	1.8%	2.0%	2.2%

Source: Company, KRChoksey Research

Target Price (Rs): 770

Potential Upside : 18.4%

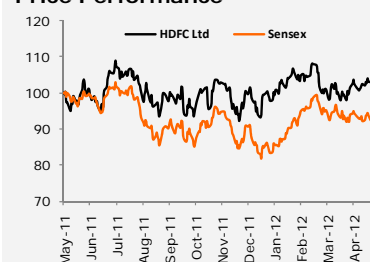
Previous TP (Rs): 782

Market Data	
Eq. sh. O/S (Cr)	147.3
MCap (Rs crs)	95873
52 Wk H/L (Rs)	732/601
Avg Vol (3m avg)	346252
Fee float (%)	95
Face Value (Rs)	2
Bloomberg Code	HDFC IN

Market Info:

SENSEX	16,546
NIFTY	5000

Price Performance



Share Holding pattern (%)

Particulars	Mar-12	Dec-11	Chg (%)
Promoters	-	-	-
FII's	65.8	66.2	-0.4
Institutions	20.1	20.3	-0.2
Others	14.1	13.5	0.6
Total	100	100	0

Source: BSE

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Key Highlights

- Pre-provisioning profit went up 17.1% y-o-y & 37.2% q-o-q to Rs 1849 crore. Core profits grew impressively by 21.5% y-o-y & 38.5% on q-o-q to Rs1,269 crore.
- HDFC continued to maintain well diversified borrowing profile across product instruments and market segments. Borrowings grew 20.6% y-o-y & 9.5% q-o-q to Rs 1,39,128 crore to support asset growth.
- Loans sold during the preceding twelve months amounted to Rs 4,978 crores. Off-balance sheet book stands at Rs14,556 crore, showing a growth 20% y-o-y. Interest income includes 1.53% p.a. income generated from the off balance sheet book.
- Loan spread remained stable at 2.27% vs. 2.27% in Q3FY12. Net interest margin stood at 4.4% in FY12.
- The Capital Adequacy Ratio stood at 14.6% whereas Tier I capital stood at 11.7%.
- The unrealized gains on listed investments (excl. the appreciation in the value of the unlisted investments) stood at Rs 24,464 crore against Rs 19,139 crore in Q3FY12, increased 27.6% q-o-q.

Earning Revision

Rs in crore	FY12e		Change	FY14e		Change
	Old	New	(%)	Old	New	(%)
Net interest income	6548	6440	-1.6%	-	7767	-
Pre-provision profits	6842	6868	0.4%	-	8206	-
Net Profits	4928	4930	0.0%	-	5889	-

Source: KRChoksey Research

SOTP Valuation

Based on FY13 Estimates	Holding (%)	Value per share	Basis of Valuation
Mortgage business	100%	496	Based on RI Model
HDFC Bank	23%	190	Target Price
Gruh Finance	60%	8	Based on Market Price
Life Insurance	72%	52	16x NBAP Multiple
Asset Management business	60%	21	5%age of AUM
Others		20	
Subsidiary/Associate		292	
Adjustment for holding company discount @20%		233	
Mortgage + subs value per share (Rs)		729	
Unrealized gains (assumed)		41	
Fair value per share		770	

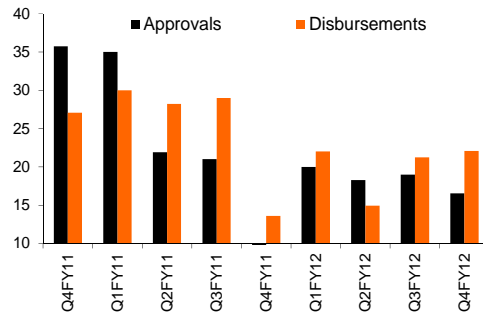
Source: KRChoksey Research

Q4FY12 – Result Analysis

Rs in crore	Q4FY12	Q3FY12	Q4FY11	Y-o-Y	Q-o-Q
Interest income	4,682	4,249	3,501	33.7%	10.2%
Interest expenses	2,939	3,012	2,130	38.0%	-2.4%
Net interest income	1,743	1,236	1,371	27.2%	41.0%
Non interest income	209	224	284	-26.5%	-6.7%
- Fee income	60	72	79	-23.6%	-16.8%
- Trading gains	79	88	134	-40.8%	-10.1%
Operating income	1,952	1,460	1,655	18.0%	33.7%
Operating expenses	103	112	76	35.6%	-7.9%
Pre-provision profits	1,849	1,348	1,579	17.1%	37.2%
Provisions	25	20	25	0.0%	25.0%
Profit before tax	1,824	1,328	1,554	17.4%	37.3%
Tax	498	347	412	20.9%	43.5%
Net Profit	1,326	981	1,142	16.1%	35.1%
Adjusted PAT	1,269	916	1,044	21.5%	38.5%
Balance sheet					
Net worth	19,018	19,525	17,317	9.8%	-2.6%
Borrowings	1,39,128	1,27,096	1,15,410	20.6%	9.5%
Total Liabilities	1,58,145	1,46,622	1,32,727	19.2%	7.9%
Loans	1,40,422	1,32,208	1,17,127	19.9%	6.2%
- Retail	89,537	84,300	73,649	21.6%	6.2%
- Corporate loans	49,029	46,161	42,141	16.3%	6.2%
- Others	1,856	1,747	1,337	38.8%	6.2%
Investments	12,207	13,445	11,832	3.2%	-9.2%
Total Assets	1,58,145	1,46,621	1,32,727	19.2%	7.9%
Business growth					
Approvals	27,046	19,850	22,153	22.1%	36.3%
Disbursements	21,242	16,106	18,225	16.6%	31.9%
Loan sold	4,978	4,221	4,379	13.7%	17.9%
Loan book incl loan sold	1,45,400	1,36,429	1,21,506	24.0%	6.2%
Spread analysis					
Spread - reported	2.27%	2.27%	2.33%	0 bps	-6 bps
Yield on avg loans	12.3%	11.7%	10.9%	58 bps	144 bps
Cost of funds	8.8%	9.6%	7.6%	-72 bps	120 bps
Spread	3.5%	3.0%	3.2%	50 bps	25 bps
Asset quality					
Non performing loans (90 days overdue)	0.74%	0.82%	0.77%	-8 bps	-3 bps
Non performing loans (six months past due)	0.44%	0.53%	0.46%	-9 bps	-2 bps
Provision for Contingencies	1218	1584	1124	8.3%	-23.1%
Provision / outstanding loans	0.87%	1.20%	0.96%	-33 bps	-9 bps
Capital Adequacy ratios					
Tier I	11.7%	11.9%	12.2%	-20 bps	-50 bps
Tier II	2.9%	2.0%	1.8%	90 bps	110 bps
CAR	14.6%	13.9%	14.0%	70 bps	60 bps

Source: Company, KRChoksey Research

Exhibit 1: Approval and sanction trend



Approvals and disbursements grew to 20% y-o-y & 18% y-o-y respectively reflecting improvement in housing loan demand sequentially

Exhibit 2: Loan book growth – Segment wise

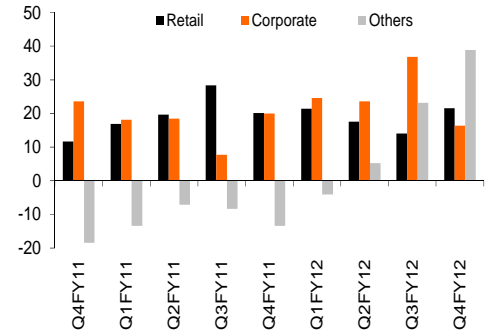


Exhibit 3: Loan mix – Outstanding basis

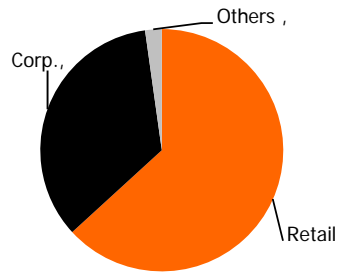
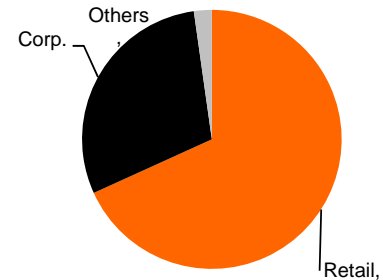
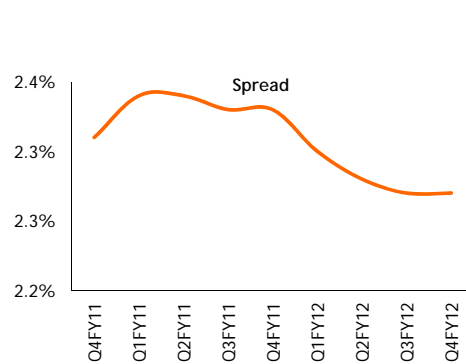


Exhibit 4: Incremental Loan mix Y-o-Y



Retail loans contribute 64% of outstanding loan book.

Exhibit 5: Stable spread both y-o-y and q-o-q basis



Spread remained stable at 2.27% q-o-q, reflecting reasonable pricing power of the company in a rising interest rate environment.

Asset quality remains impeccable both y-o-y and sequential basis.

Exhibit 6: Improving asset quality trend

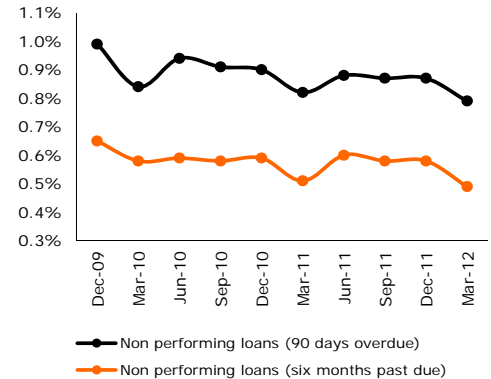
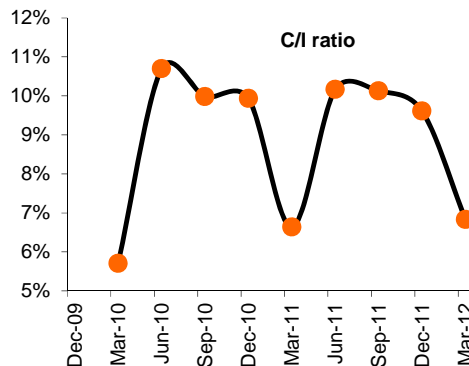


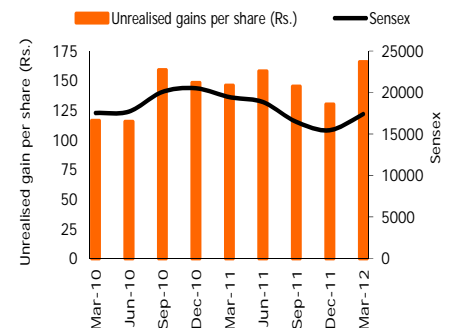
Exhibit 7: Improvement in cost to income ratio with market trends



Cost to income improved to 9.6% v/s 10.1% in Q2FY12.

Unrealized gains on listed equities stand at Rs 24,464 crore, 27.6% q-o-q

Exhibit 8: Unrealized gains corrected in line



Source: Company, KRChoksey Research

Financials

Income Statement

Rs in crore	FY11	FY12	FY13E	FY14E
Interest earned	12006	14567	19159	22541
Interest expenses	7560	9115	12719	14774
Net Interest Income	4446	5452	6440	7767
-- Trading gains	872	880	984	1119
Non interest income	220	268	379	454
Operating income	360	270	250	300
Operating expenses	5318	6332	7424	8886
-Employee costs	176	206	249	301
-Other operating expenses	206	246	307	379
Pre-provision profits	381	452	556	681
Provisions	4937	5880	6868	8206
PBT	70	80	93	113
Provision for taxes	4867	5800	6775	8093
Net profit	1332	1543	1845	2204
Dividend (Inc. tax)	3535	4257	4930	5889
Core Operating profits	1534	1728	1901	2074
Core PAT	4577	5610	6618	7906

Spread Analysis

	FY11	FY12	FY13E	FY14E
Yield on housing loans	10.3%	10.3%	11.3%	11.0%
Cost of borrowings	7.1%	7.1%	8.4%	8.1%
Spread	3.1%	3.1%	3.0%	2.9%
Net interest margin	3.6%	3.6%	3.5%	3.5%

Core ratios

	FY10	FY11	FY12E	FY13E
Cost to income	2.8%	2.8%	2.7%	2.7%
RoAA	21.7%	23.4%	23.6%	23.9%
RoAE	2.9%	2.9%	2.8%	2.8%
Core RoA	41.1%	41.0%	37.6%	35.2%
Core RoE	2.8%	2.8%	2.7%	2.7%

Per Share Data

Per share data	FY11	FY12	FY13E	FY14E
EPS (Rs)	24.1	28.8	33.4	39.9
DPS (Rs)	10	12	13	14
BVPS (Rs)	118	129	154	180
Adj. BVPS (Rs)	60.6	71.7	96.9	122.8
PE (x)	27.6	23.0	19.9	16.7
PB (x)	5.6	5.2	4.3	3.7
Core P/B (x)	7.5	6.2	4.9	3.8
Core P/E (x)	18.2	15.2	13.1	10.8
Dividend yield (%)	1.6%	1.8%	1.9%	2.1%

Source: KRChoksey Research

Balance Sheet

Rs in crore	FY11	FY12	FY13E	FY14E
Equity capital	293	295	295	295
Reserve and Surplus	17023	18722	22447	26263
Net worth	17317	19018	22743	26558
Borrowings	115410	140166	164489	200290
CL and provisions	6775	8336	9351	10974
Total	139502	167520	196583	237822
Loans	117127	140422	169576	206485
Investments	11832	12207	12207	12207
Deferred tax assets	448	628	628	628
Current assets	9861	14029	13932	18257
Fixed assets	234	234	240	246
Total	139502	167520	196583	237822

DuPont Analysis

	FY11	FY12	FY13E	FY14E
Interest income	9.4%	9.5%	10.5%	10.4%
Interest expense	5.9%	5.9%	7.0%	6.8%
Net interest income	3.5%	3.6%	3.5%	3.6%
Non interest income	0.7%	0.6%	0.5%	0.5%
- trading gains	0.3%	0.2%	0.1%	0.1%
Operating income	4.2%	4.1%	4.1%	4.1%
Operating expenses	0.3%	0.3%	0.3%	0.3%
Pre- provision profits	3.9%	3.8%	3.8%	3.8%
Provisions	0.1%	0.1%	0.1%	0.1%
Profit before tax	3.8%	3.8%	3.7%	3.7%
Tax expense	1.0%	1.0%	1.0%	1.0%
Net profit	2.8%	2.8%	2.7%	2.7%
Adjusted PAT	2.6%	2.6%	2.6%	2.6%

Growth ratios

	FY11	FY12	FY13E	FY14E
Approvals	24%	20%	20%	20%
Disbursement	20%	18%	17%	17%
Loan growth	17%	20%	20%	0%
Net interest income	28%	23%	18%	21%
Non interest income	7%	1%	12%	14%
Pre- provision profits	24%	19%	17%	19%
Net profits	25%	20%	16%	19%

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HDFC Ltd			
Date	Recom	CMP (Rs)	TP (Rs)
09-May-12	BUY	650	770
4-Apr-12	BUY	675	782
12-Jan-12	BUY	688	783
5-Jan-12	BUY	666	787
17-Oct-11	BUY	673	785
4-Oct-11	BUY	634	796
11-Jul-11	HOLD	712	796
11-May-11	BUY	662	760
14-Jan-11	BUY	642	744

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

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