



Economy News

- ▶ Keen to prevent a downgrade of India's sovereign rating by Standard & Poor's (S&P), which could trigger an exodus of foreign investors, PM Manmohan Singh has told the Congress party there is no option but to raise diesel prices by at least Rs 5 a litre after the Presidential election. The current diesel subsidy is Rs 9.13 per litre sold. (BS)
- ▶ In an attempt to soothe investors, the Centre is expected to further dilute the general anti avoidance rules (GAAR) on tax evasion issues when the rules are finally approved by the PMO. Senior government officials told TOI that even the watered down GAAR draft, which has been circulated for public comments, has failed to pass muster with foreign institutional investors who remain jittery about the proposal. (ET)
- ▶ The monsoon has revived significantly in the past week and accelerated crop planting, but the government is anxiously monitoring the situation as crop yields may still be lower and economists warn that food prices can rise sharply if rainfall weakens again. However, rainfall has been uneven. (ET)
- ▶ The Department of Telecommunications (DoT) has sent, to the Empowered Group of Ministers (EGoM) on telecom a fresh timetable for selection of an auctioneer for the 2G spectrum auction, for approval tomorrow.
- ▶ Based on the the revised schedule, DoT will now have nine days instead of 22 to complete the auction process, which has to be completed by August 31 according to a Supreme Court order. (BS)

Corporate News

- ▶ In what comes as a ray of hope for a smooth settlement in the ongoing alleged visa fraud case against Infosys, Kenneth Mendelsohn, the attorney of **Infosys'** US-based employee Jack Palmer, has said his client would opt for mediation with an open mind, with no preconditions. Earlier, the federal court had ordered counsels of both sides to negotiate an agreement on July 24 before the trial next month. (BS)
- ▶ General Motors (GM), the world's second largest auto maker, is taking a U-turn on outsourcing. At the receiving end could be IT vendors such as **TCS, Wipro, Mphasis, HP (EDS)** and Capgemini. The company, which outsources 90% of its IT requirement, is planning to slash this to merely 10% the next three years. (BS)
- ▶ **Mahindra Satyam** is in discussions to acquire an aerospace engineering firm in Europe. The acquisition is part of a larger plan by the company to improve its offerings in engineering services, and in the healthcare and financial services verticals. It is likely to finalise the transaction in a couple of months, (ET)
- ▶ **Reliance Power** has tied up loans of \$ 1.1 billion (over Rs 60bn) from three Chinese lenders for its upcoming 3,960 MW Sasan ultra mega power project in Madhya Pradesh. The State Council of Government of China has granted the final approval for Chinese banks to finance the Sasan project. (BL)
- ▶ **BEML** has promised to work in joint venture with Coal India Ltd and Damodar Valley Corporation to reopen the closed mining machinery facility of Mining and Allied Machinery Corporation (MAMC) in Durgapur. It had previously wanted to pull out of the proposed JV. (BL)
- ▶ HDFC will find a buyer for the debt-laden Kingfisher Airlines' non-core assets - Kingfisher House in Mumbai and the promoters' villa in Goa. The consortium of 17 banks has agreed to **Kingfisher Airlines** roping in HDFC to do the valuation of these two properties and also find a buyer. (BL)
- ▶ PE firm Carlyle on Wednesday bought a 9.96% holding in Hyderabad-based IT firm **Infotech Enterprises** in the open market for Rs 2.1bn. (ET)

Equity

	11 Jul 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,489	(0.7)	3.7	0.9
NIFTY Index	5,306	(0.7)	3.7	0.6
BANKEX Index	12,322	(0.3)	5.5	2.9
BSET Index	5,674	(0.2)	0.3	(4.2)
BSETCG INDEX	10,239	0.4	7.8	2.8
BSEOIL INDEX	8,006	(1.0)	3.0	0.8
CNXMcap Index	7,473	(0.3)	5.6	(2.3)
BSESMCAP INDEX	6,789	(0.2)	6.8	(0.8)
World Indices				
Dow Jones	12,605	(0.4)	0.2	(2.9)
Nasdaq	2,888	(0.5)	1.6	(5.5)
FTSE	5,664	0.0	3.5	(0.8)
NIKKEI	8,851	(0.1)	2.7	(8.0)
HANGSENG	19,420	0.1	1.3	(6.0)

Value traded (Rs cr)

	11 Jul 12	% Chg - Day
Cash BSE	2,043	5.8
Cash NSE	10,105	6.2
Derivatives	87,626	(12.7)

Net inflows (Rs cr)

	10 Jul 12	% Chg	MTD	YTD
FII	636	89.5	6,792	48,872
Mutual Fund	(124)	(67.0)	(1,286)	(7,345)

FII open interest (Rs cr)

	10 Jul 12	% Chg
FII Index Futures	14,408	(0.2)
FII Index Options	42,826	(0.3)
FII Stock Futures	26,209	0.8
FII Stock Options	1,700	30.6

Advances / Declines (BSE)

	11 Jul 12	A	B	T	Total	% total
Advances	69	897	244	1,210	41	
Declines	135	1,247	216	1,598	55	
Unchanged	0	87	25	112	4	

Commodity

	11 Jul 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	85.7	(0.2)	2.8	(17.3)
Gold (US\$/OZ)	1,579.7	(0.1)	(2.4)	(6.1)
Silver (US\$/OZ)	27.2	0.8	(6.7)	(16.8)

Debt / forex market

	11 Jul 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.3	8.3	8.3	8.6
Re/US\$	55.4	55.4	55.7	51.4

Sensex



RESULT UPDATE

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HDFC LTD

PRICE: Rs.678
TARGET PRICE: Rs.720

RECOMMENDATION: ACCUMULATE
FY13E P/E: 20.3x; P/ABV: 4.7x

Q1FY13 results: Core performance largely in line.

- ❑ Net Interest Income (NII) grew 26% on back of 19.4% growth in loan book (23% including loans sell-down) despite marginal (10bps) decline in NIM to 4.0% during Q1FY13. Net profit growth came at 18.6% YoY (Rs.10.02 bn) on back of robust NII growth despite lower other operating income (Rs.2.89 bn; decline of 5% YoY).
- ❑ During Q1FY13, both total approvals and disbursements grew at 17% and 20%, respectively. Overall loan book grew at healthy pace (19.4% YoY; 23% including loans sell-down of Rs.49.8 bn during LTM) - retail loan book grew at 22.5% (29% including sell-down), while corporate segment witnessed moderate growth (13.8% YoY).
- ❑ Its asset quality remained healthy with gross NPA improving to 0.79% at the end of Q1FY13 from 0.83% at the end of Q1FY12. However, consistency lies in the downward secular trajectory, where its gross NPA has declined YoY for last 30 consecutive quarters.
- ❑ HDFC has been consistently delivering earnings growth (23% CAGR during FY06-11); however, FY12 earnings growth was moderate (16.6% YoY) on back of high base (strategic stake sale in IL&FS and Lafarge during H2FY11). We are modeling net income to grow 19.4% YoY during FY13.
- ❑ At CMP, stock is trading reasonable at 3.2x P/ABV, post stripping the value of subsidiaries and investments. We maintain ACCUMULATE rating on the stock with unchanged TP of Rs.720 based on SOTP (core business valued at Rs.485, 3.5x FY13 ABV and Rs.235 for subsidiaries).

Result performance

(Rs bn)	Q1FY13	Q4FY12	Q1FY12	YoY (%)	QoQ (%)
Interest income	46.5	46.2	35.1	32.3	0.6
Interest expenses	33.9	29.4	25.1	34.7	15.3
Net Interest Income	12.6	16.8	10.0	26.0	(25.1)
Other Income	2.8	1.9	2.9		
Total Income	15.3	18.7	12.9	18.9	(18.1)
Operating Expense	1.3	1.0	1.1		
Operating profit	14.0	17.7	11.8		
Loan loss provision	0.4	0.3	0.2		
Profit before tax	13.6	17.5	11.6	17.3	(22.1)
Provisions for taxes	3.7	3.5	3.3		
Profit after tax	9.9	14.0	8.3	18.5	(29.4)
PAT incl. extra-ordinary gains	10.0	14.6	8.4	18.6	(31.2)
EPS	6.7	9.0	5.7		
Cost/Income ratio (%)	8.7	5.5	8.8		
Effective Tax rate (%)	27.5	20.0	28.2		
Disbursements (Rs. bn)	157.0	212.4	130.8	20.0	(26.1)
Mortgaged Loan (Rs. bn)	1,482.6	1,408.8	1,241.7	19.4	5.2

Source: Company

Core operating performance largely in line with our estimates; approval & disbursement continued to be healthy

HDFC Ltd has reported a healthy growth in its core earnings during Q1FY13. Net Interest Income (NII) grew 26% on back of 19.4% growth in loan book (23% including loans sell-down) despite marginal (10bps) decline in NIM to 4.0% during Q1FY13.

Net profit growth came at 18.6% YoY (Rs.10.02 bn) on back of robust NII growth despite lower other operating income (Rs.2.89 bn; decline of 5% YoY).

During Q1FY13, both total approvals and disbursements grew at 17% and 20%, respectively. Overall loan book grew at healthy pace (19.4% YoY; 23% including loans sell-down of Rs.49.8 bn during LTM) - retail loan book grew at 22.5% (29% including sell-down), while corporate segment witnessed moderate growth (13.8% YoY).

Unlike Q4FY12, when HDFC had reduced the dependence on bonds & debentures due to spike in wholesale rates, it has now increased the share of deposits (27.8%; 170 bps improvement QoQ) and bonds (46.2%; 150 bps improvement QoQ), while term loans de-grew 9.5% YoY (7.9% QoQ) in Q1FY13.

HDFC Ltd is better placed vis-à-vis peers, with small towns continuing to drive demand. We believe favorable trends like rising urbanization and India's demographic dividend will continue to drive demand for mortgages in the near foreseeable future, as focus segment is less prone to cyclicalities. We have modelled ~18% loan growth during FY13 in the prevailing uncertain macro-economic environment; however, we believe things are likely to improve as we are on the downward trajectory of the interest rate cycle.

Spread remained stable QoQ; warrants conversion during August 12 is likely to provide free float, potential to support the margin during FY13.

Spread remained stable QoQ at 2.27% during Q1FY13. Although there are fears of some pressure on its spread, we believe with some softening in incremental cost of funds, its spread is likely to be in the range of 2.2-2.3% during FY13E.

We opine that warrants conversion during August 12 (54 mn warrants @Rs.600 conversion price) is likely to provide free float, potential to support the margin during FY13. Its spread is likely to be protected from cost of funds side with southward movement in yields (10 Yr G Sec yield came down from almost 9.0% to 8.5-8.6% levels by FY12 end and further lower to close at 8.17% at the end of Q1FY13). At the same time yield on assets will get support from higher spread on corporate loans as most banks are averse of lending to these players along with change in competitive landscape for retail segments where most of the banks (competitive landscape has turned positive for HDFC Ltd) have withdrawn their teaser-rate products.

Asset quality has continued to improve - gross NPA declined YoY for last 30 consecutive quarters.

Its asset quality remained healthy with gross NPA improving to 0.79% at the end of Q1FY13 from 0.83% at the end of Q1FY12. However, consistency lies in the downward secular trajectory, where its gross NPA has declined YoY for last 30 consecutive quarters.

Based on a 180-days overdue basis, the non-performing loans at the end of Q1FY13 stood at 0.49% of the loan portfolio as against 0.44%, a quarter earlier. It is carrying a provision of Rs.17.11 bn, out of which Rs.3.44 bn on account of non-performing loans and rest Rs.13.67 bn mainly comprises general provisioning on standard loans, including Dual Rate Home Loans (likely to be written back at the end of April 2013).

Valuation and recommendation

HDFC has been consistently delivering earnings growth (23% CAGR during FY06-11); however, FY12 earnings growth was moderate (16.6% YoY) on back of high base (strategic stake sale in IL&FS and Lafarge during H2FY11). We are modeling net income to grow 19.4% YoY during FY13.

We maintain ACCUMULATE rating on HDFC with a price target of Rs.720

At CMP, stock is trading reasonable at 3.2x P/ABV, post stripping the value of subsidiaries and investments. We maintain **ACCUMULATE** rating on the stock with unchanged TP of Rs.720 based on SOTP (core business valued at Rs.485, 3.5x FY13 ABV and Rs.235 for subsidiaries).

Summary Table

(Rs bn)	2010	2011	2012	2013E
Int. Income	109.0	122.7	167.9	194.8
Int. expenses	70.6	75.6	111.6	129.4
NII	38.3	47.1	56.4	65.3
Growth (%)	12	23	20	16
Non-Int Income	4.6	6.1	5.6	6.9
Total Income	43.0	53.2	62.0	72.3
Operating Profit	39.7	49.4	57.5	67.3
PAT	28.3	35.3	41.2	49.2
Growth (%)	24.0	25.1	16.6	19.4
GNPA - 90 Days (%)	0.8	0.8	0.7	0.8
NNPA - 90 Days (%)	0.5	0.5	0.5	0.5
Spreads (%)	2.2	2.2	2.2	2.2
RoA (%)	2.7	2.9	2.9	3.0
RoE (%)	20.0	21.7	22.7	24.2
Divi. Payout (%)	36.0	9.0	11.0	12.0
EPS (Rs)	19.7	24.1	27.9	33.3
BV (Rs)	105.9	118.1	128.8	146.8
Adj. BV (Rs)	101.0	111.9	121.5	138.4
P/E (x)	34.5	28.1	24.3	20.3
P/ABV (x)	6.5	5.7	5.3	4.7

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
11-Jul	Acclaim Ind	Narendra Kumar Ranga	B	35,000	28.5
11-Jul	Acclaim Ind	Abhishek Mehta	S	200,000	28.6
11-Jul	Arcadia Merc	Mukesh Singhvi HUF	B	59,100	9.4
11-Jul	Arvind Intl-\$	Manjari Chirag Kamdar	S	100,000	15.1
11-Jul	Croitre Inds	Mahan Trading Pvt Ltd	B	32,400	76.3
11-Jul	Croitre Inds	Ketan Bhupendrakumar Shah	S	32,000	76.5
11-Jul	Excel Info	Akshay H Kothari	B	171,216	24.7
11-Jul	Finalysis Cred	Pankaj J Dave	B	30,000	66.0
11-Jul	Finalysis Cred	Sagar Sadanand Kadam	B	30,000	66.5
11-Jul	Finalysis Cred	Pankaj Jayantilal Dave	B	60,000	66.3
11-Jul	Gemini Comm	Acg Associated Capsules Pvt Ltd	S	610,000	14.5
11-Jul	Gujarat Cotex	Chandrika Chandulal Mehta	B	40,000	7.0
11-Jul	Gujarat Cotex	Pradipbhai R Raithatha	S	56,505	7.0
11-Jul	IFL Promoters	Sanjeev Bhandari	B	100,000	5.7
11-Jul	IFL Promoters	Reeta Singhal	B	50,000	5.6
11-Jul	IFL Promoters	Pawan Kumar Singhal	B	50,000	5.7
11-Jul	IFL Promoters	North India Securities Pvt Ltd	S	200,000	5.7
11-Jul	Infotech Enter	First Carlyle Ventures Mauritius	B	3,400,599	190.0
11-Jul	Infotech Enter	Kotak India Focus Fund	S	1,500,000	190.0
11-Jul	Inventure Gth	Nitin Babaji Palande	B	180,000	49.9
11-Jul	Inventure Gth	Parameshwari Infraprojects Pvt Ltd	S	200,000	49.9
11-Jul	Kanchan Intl	Mahan Trading Pvt Ltd	B	20,000	61.8
11-Jul	Kanchan Intl	Ramchand Tahikandas Chhetija	S	20,001	61.8
11-Jul	Kilburn Engr	Urmila Doshi	B	126,430	28.0
11-Jul	Magna Colors	Dattaji Dhondaji Jagtap	S	78,000	21.2
11-Jul	Mathew Easow	Jaideep Halwasiya	B	78,000	79.0
11-Jul	Mathew Easow	Ashwin Shantilal Mehta	S	78,057	79.0
11-Jul	Nexsoft Info	Honnavalli Gopalakrishna Jaishree	S	63,000	9.5
11-Jul	Ortin Lab-\$	Sumit Sunil Sadh	S	24,002	23.0
11-Jul	Parichay Invest	Ashlesh Gunvantbhai Shah	S	6,700	231.6
11-Jul	Parikh Herbals	Som Arora	B	50,000	345.1
11-Jul	Prakash Constro	Anuj Premkumar Agarwal	B	100,000	99.0
11-Jul	Prakash Constro	Groove Finance & Investment Pvt Ltd	B	116,321	100.0
11-Jul	Prakash Constro	Nitin Babaji Palande	S	100,000	100.0
11-Jul	Santowin Corp	Atharv Business Pvt Ltd	B	515,000	8.1
11-Jul	Santowin Corp	Babulal Bhagwandas Khandelwal	S	502,675	8.0
11-Jul	Shreychem	Jayesh Kacha	B	44,000	56.8
11-Jul	Shreychem	Mamtaben Sevaram Tirathwani	B	35,325	56.8
11-Jul	Shreychem	Togadiya Haresbhai Madhabhai	B	35,594	59.6
11-Jul	Shreychem	Sevaram Anandram Tirthwani	S	44,717	64.2
11-Jul	Shreychem	Hemchand Lakhamshi Nagda	S	38,000	63.6
11-Jul	Vaishnavi	Sai Nithisha Parvathaneni	B	141,173	5.2

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
L&T	1,436	1.3	3.3	1.7
Infosys	2,471	0.5	1.8	2.1
Kotak Mahindra	607	1.3	1.0	1.0
Losers				
ITC	253	(2.0)	(8.8)	4.9
Reliance Ind	726	(1.9)	(7.5)	2.7
Tata Motors	241	(2.1)	(2.9)	8.7

Source: Bloomberg

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