

HDFC

Performance Highlights

Particulars (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
NII	1,164	998	16.6	1020	14.1
Pre-prov. profit	1,355	1,194	13.5	1149	17.9
PAT	971	845	14.9	808	20.2

Source: Company, Angel Research

For 2QFY2012, HDFC's standalone net profit grew by healthy 20.2% yoy (up 14.9% qoq). Asset quality continued to be stable, although spreads for 1HFY2012 witnessed a marginal decline. **We recommend Neutral on the stock.**

Another consistent quarter: For 2QFY2012, HDFC's loan book grew by healthy 19.5% yoy and 2.3% qoq to ₹126,992cr. Approvals in 2QFY2012 stood at ₹24,426cr (up 18% yoy), while disbursements stood at ₹20,825cr (up 19.0% yoy). HDFC's asset quality continued to be stable during 2QFY2012, with gross NPA ratio falling by 4bp yoy to 0.82%. During 2QFY2012, an amount of ₹255cr was utilized from the additional reserve to meet the additional provisions consequent to changes in provisioning norms mainly on standard assets (0.4% standard provisioning required on housing loans as well). The spread on loans over the cost of borrowings stood at 2.29% for 1HFY2012 compared to 2.34% for 1HFY2011. Other income increased by 35.1% yoy (up 2.1% qoq) to ₹315cr, driven by a 175.3% yoy increase in dividend income (₹63cr) and a 47.4% yoy increase in profits on sale of investments (₹87cr).

Outlook and valuation: At the CMP, HDFC's core business (after adjusting ₹225/share towards value of the subsidiaries) is trading at 4.2x FY2013E ABV of ₹106.9 (including subsidiaries, the stock is also trading at 4.2x FY2013E ABV of ₹159.0). We expect HDFC to post a healthy PAT CAGR of 15.9% over FY2011-13E. However, considering that the stock is currently trading at 4.6x one-year forward P/ABV (the same as its median of 4.6x over the last five years) and at a 61.7% premium to the Sensex in P/E terms (compared to an average of 37.7% over the last five years), we consider the stock to be fully valued at its CMP and, **hence, recommend Neutral on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
NII	3,388	4,247	4,889	5,844
% chg	10.9	25.4	15.1	19.5
Net profit	2,826	3,535	4,072	4,751
% chg	23.8	25.1	15.2	16.7
NIM (%)	3.4	3.6	3.5	3.5
EPS (₹)	19.7	24.1	27.8	31.2
P/E (x)	34.2	27.9	24.2	21.5
P/ABV (x)	6.4	5.7	5.2	4.2
RoA (%)	2.6	2.9	2.8	2.7
RoE (%)	20.0	21.7	22.5	22.0

Source: Company, Angel Research

NEUTRAL

CMP	₹673
Target Price	-

Investment Period	-
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Stock Info

Sector	NBFC
Market Cap (₹ cr)	99,054
Beta	1.2
52 Week High / Low	750/582
Avg. Daily Volume	153,580
Face Value (₹)	2
BSE Sensex	17,025
Nifty	5,118
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	14.1
FII / NRIs / OCBs	73.4
Indian Public / Others	12.5

Abs. (%)	3m	1yr	3yr
Sensex	(8.3)	(15.6)	70.7
HDFC	(3.0)	(7.1)	89.3

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Exhibit 1: 2QFY2012 performance

Particulars (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Interest earned	3,854	3,513	9.7	2,737	40.8
Interest expenses	2,691	2,515	7.0	1,718	56.6
Net interest income	1,164	998	16.6	1,020	14.1
Non-interest income	315	308	2.1	233	35.1
Operating income	1,479	1,307	13.2	1,253	18.0
Operating expenses	124	113	9.5	104	19.0
Pre-prov. profit	1,355	1,194	13.5	1,149	17.9
Provisions & cont.	17	18	(5.6)	15	13.3
PBT	1,338	1,176	13.8	1,134	18.0
Prov. for taxes	367	331	10.9	326	12.6
PAT	971	845	14.9	808	20.2
EPS (₹)	6.6	5.7	14.8	5.5	19.2
Cost-to-income ratio (%)	8.4	8.7		8.3	
Effective tax rate (%)	27.4	28.2		28.8	
Net NPA (%)	100.0	100.0		79.5	

Source: Company, Angel Research

Exhibit 2: 2QFY2012 – Actual vs. Angel estimates

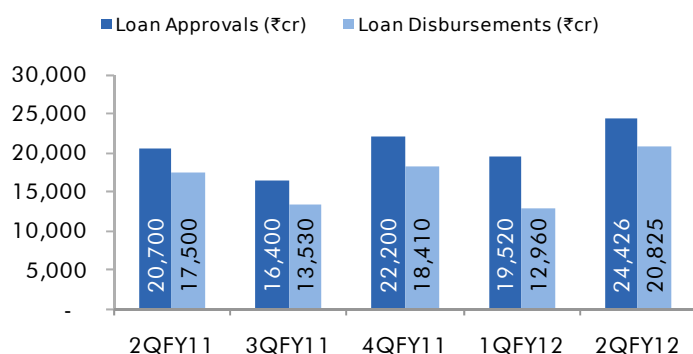
Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	1,164	1,192	(2.4)
Non-interest income	315	283	11.2
Operating income	1,479	1,476	0.2
Operating expenses	124	122	1.3
Pre-prov. profit	1,355	1,353	0.1
Provisions & cont.	17	57	(70.2)
PBT	1,338	1,296	3.2
Prov. for taxes	367	364	0.7
PAT	971	932	4.2

Source: Company, Angel Research

Loan growth healthy; outlook remains strong

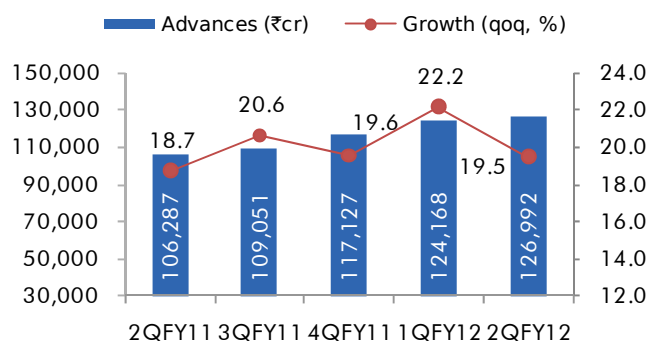
For 2QFY2012, HDFC's loan book grew by healthy 19.5% yoy and 2.3% qoq to ₹126,992cr. Approvals in 2QFY2012 stood at ₹24,426cr (up 18% yoy), while disbursements stood at ₹20,825cr (up 19.0% yoy). We expect approvals and disbursements to continue growing at a similar pace in the coming quarters and have factored in loan growth of 20% for both FY2012 and FY2013.

Exhibit 3: Approvals and disbursements – 2QFY2012



Source: Company, Angel Research

Exhibit 4: Loan book growth healthy in 2QFY2012



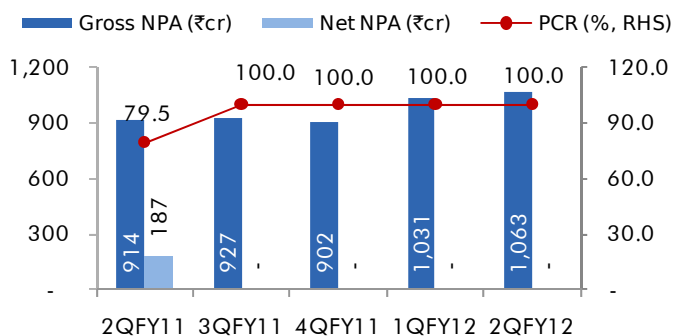
Source: Company, Angel Research

Asset quality remains stable

HDFC's asset quality continued to be stable during 2QFY2012, with gross NPA ratio falling by 4bp yoy to 0.82%. On a six-month overdue basis, gross NPA ratio stood at 0.53%. Gross NPAs increased by 16.3% yoy to ₹1,063cr sequentially to ₹1,031cr during 2QFY2012. HDFC continued to maintain a 100% provision coverage ratio for 2QFY2012, similar to the last quarter.

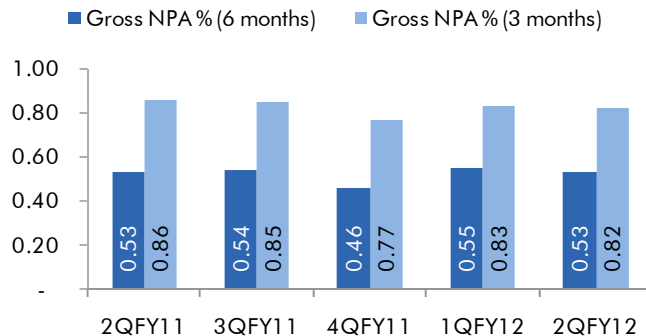
During 2QFY2012, an amount of ₹255cr (net of deferred tax) was utilized from the additional reserve to meet the additional provisions consequent to changes in provisioning norms mainly on standard assets (0.4% standard provisioning required on housing loans as well).

Exhibit 5: 100% NPA coverage for 2QFY2012



Source: Company, Angel Research

Exhibit 6: Asset quality remains stable

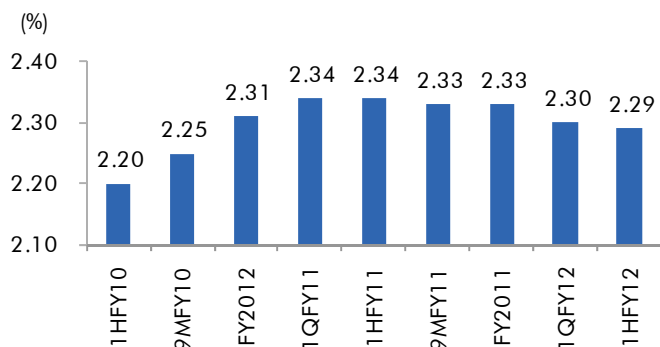


Source: Company, Angel Research

NII remains subdued as spreads see a marginal decline

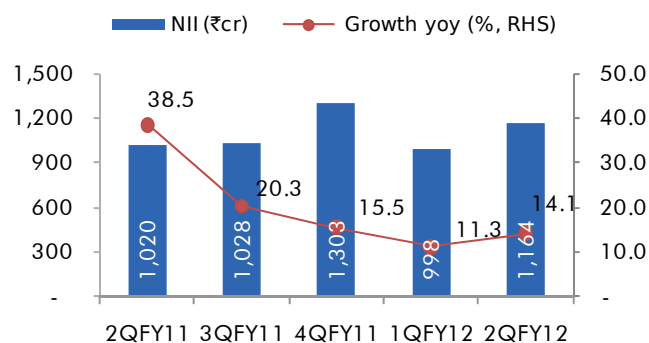
HDFC's NII increased by 14.1% yoy, as rising interest rates increased the cost of funds for the company. The spread on loans over the cost of borrowings stood at 2.29% for 1HFY2012 compared to 2.34% for 1HFY2011. We expect HDFC to deliver NII growth of 15.1% and 19.5% for FY2012E and FY2013E, respectively.

Exhibit 7: Spread at 2.29% for 1HFY2012



Source: Company, Angel Research

Exhibit 8: NII yoy growth trend



Source: Company, Angel Research

Strong yoy growth in other income

Other income increased by 35.1% yoy (up 2.1% qoq) to ₹315cr, driven by a 175.3% yoy increase in dividend income (₹63cr) and a 47.4% yoy increase in profits on sale of investments (₹87cr). Income from fees and other charges grew by 15.9% yoy to ₹79cr. On the back of a strong loan growth outlook, we expect core fee income to register growth of 22.0% and 20.0% for FY2012 and FY2013, respectively.

Exhibit 9: Strong yoy growth in other income

Particulars (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
- Surplus from MFs	80	97	(17.3)	65	23.1
- Dividend Income	63	132	(52.4)	23	175.3
- Fees and other charges	79	57	37.7	68	15.9
- Other operating income	1	1	(13.9)	14	(91.3)
- Other income	5	5	11.6	5	10.4
- Profit on sale of investments	87	16	434.3	59	47.4
Total	315	308	2.1	233	35.1

Source: Company, Angel Research

Outlook and valuation

At the CMP, HDFC's core business (after adjusting ₹225/share towards value of the subsidiaries) is trading at 4.2x FY2013E ABV of ₹106.9 (including subsidiaries, the stock is also trading at 4.2x FY2013E ABV of ₹159.0). We expect HDFC to post a healthy PAT CAGR of 15.9% over FY2011–13E. However, considering that the stock is currently trading at 4.6x one-year forward P/ABV (the same as its median of 4.6x over the last five years) and at a 61.7% premium to the Sensex in P/E terms (compared to an average of 37.7% over the last five years), we consider the stock to be fully valued at its CMP and, **hence, recommend Neutral on the stock.**

Exhibit 10: Angel EPS forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2012E	27.8	28.0	(0.8)
FY2013E	31.2	32.9	(5.1)

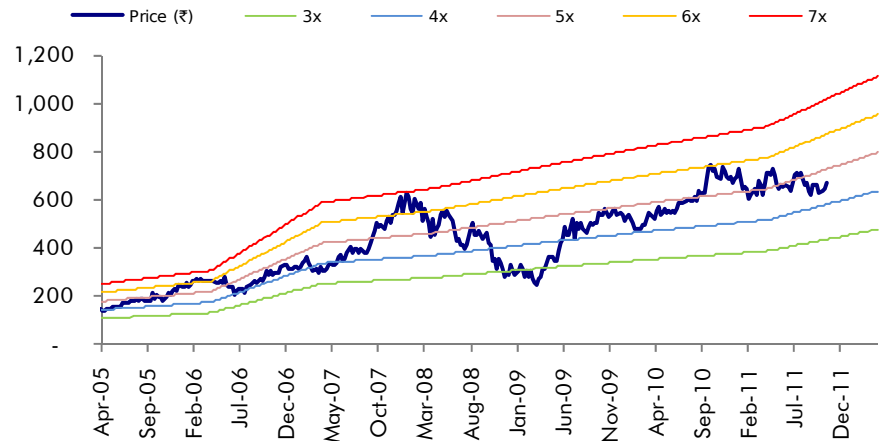
Source: Bloomberg, Angel Research

Exhibit 11: Change in estimates

Particulars (₹ cr)	FY2012			FY2013		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII	5,018	4,889	(2.6)	5,921	5,844	(1.3)
Non-interest income	1,156	1,246	7.8	1,306	1,367	4.6
Operating income	6,174	6,135	(0.6)	7,227	7,210	(0.2)
Operating expenses	446	446	-	535	535	-
Pre-prov. profit	5,728	5,689	(0.7)	6,692	6,675	(0.3)
Provisions & cont.	228	80	(64.8)	203	129	(36.4)
PBT	5,500	5,609	2.0	6,489	6,546	0.9
Prov. for taxes	1,506	1,536	2.0	1,779	1,795	0.9
PAT	3,994	4,072	2.0	4,710	4,751	0.9

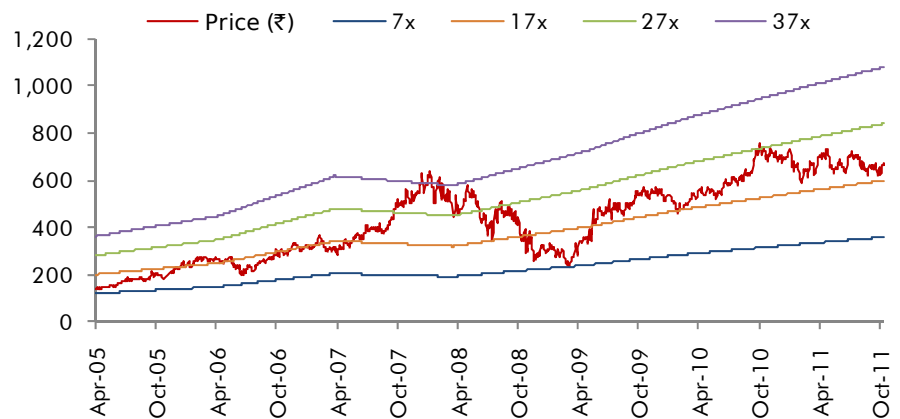
Source: Angel Research

Exhibit 12: P/ABV* band



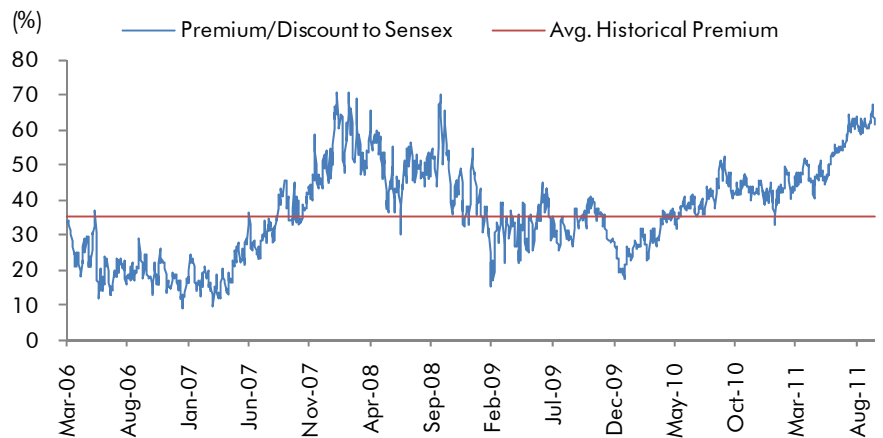
Source: Bloomberg, Angel Research; Note: * Before adjusting for subsidiaries

Exhibit 13: P/E band*



Source: Bloomberg, Angel Research; Note: * Before adjusting for subsidiaries

Exhibit 14: HDFC – Premium/Discount to the Sensex*



Source: Bloomberg, Angel Research, Note: * Before adjusting for subsidiaries

Income statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Nil	2,599	3,054	3,388	4,247	4,889	5,844
- YoY Growth (%)	58.4	17.5	10.9	25.4	15.1	19.5
Other Income	1,090	531	910	1,071	1,246	1,367
- YoY Growth (%)	85.2	(51.3)	71.3	17.7	16.4	9.7
Operating Income	3,689	3,585	4,298	5,318	6,135	7,210
- YoY Growth (%)	65.5	(2.8)	19.9	23.7	15.4	17.5
Operating Expenses	284	316	324	381	446	535
- YoY Growth (%)	24.1	11.4	2.4	17.7	17.0	20.0
Pre-provision Profit	3,406	3,269	3,974	4,937	5,689	6,675
- YoY Growth (%)	70.2	(4.0)	21.6	24.2	15.2	17.3
Prov. & Cont.	32	50	58	70	80	129
- YoY Growth (%)	(2.5)	56.3	16.0	20.7	15.0	60.7
Profit Before Tax	3,374	3,219	3,916	4,867	5,609	6,546
- YoY Growth (%)	71.4	(4.6)	21.7	24.3	15.2	16.7
Prov. for Taxation	937	937	1,090	1,332	1,536	1,795
- as a % of PBT	27.8	29.1	27.8	27.4	27.4	27.4
PAT	2,436	2,283	2,826	3,535	4,072	4,751
- YoY Growth (%)	55.1	(6.3)	23.8	25.1	15.2	16.7

Balance sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Share Capital	284	284	287	293	293	304
Reserve & Surplus	11,663	12,853	14,911	17,023	18,634	23,892
Loan Funds	69,151	83,856	96,565	115,410	138,488	163,109
- Growth (%)	20.9	21.3	15.2	19.5	20.0	17.8
Other Liabilities & Provisions	3,322	4,663	4,878	6,775	8,401	10,087
Total Liabilities	84,421	101,657	116,641	139,502	165,816	197,392
Investments	6,915	10,469	10,727	11,832	12,619	13,564
Advances	73,328	85,198	97,967	117,127	140,552	168,662
- Growth (%)	29.8	16.2	15.0	19.6	20.0	20.0
Fixed Assets	208	203	222	234	274	320
Other Assets	3,969	5,787	7,725	10,309	12,371	14,845
Total Assets	84,421	101,657	116,641	139,502	165,816	197,392

Ratio analysis

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Profitability ratios (%)						
NIMs	3.8	3.5	3.4	3.6	3.5	3.5
Cost to Income Ratio	7.7	8.8	7.5	7.2	7.3	7.4
RoA	3.3	2.4	2.6	2.9	2.8	2.7
RoE	27.8	18.2	20.0	21.7	22.5	22.0
Asset Quality (%)						
Gross NPAs	0.85	0.82	0.80	0.77	0.80	0.80
Net NPAs	0.21	0.09	0.13	-	-	-
Provision Coverage	75.7	88.6	83.7	100.0	100.0	100.0
Per Share Data (₹)						
EPS	17.2	16.0	19.7	24.1	27.8	31.2
ABVPS (75% cover.)	84.1	92.4	105.9	118.1	129.0	159.0
DPS	5.0	6.0	7.2	9.0	10.4	11.7
Valuation Ratios						
PER (x)	39.2	41.9	34.2	27.9	24.2	21.5
P/ABVPS (x)	8.0	7.3	6.4	5.7	5.2	4.2
DuPont Analysis[#]						
NII	3.6	3.4	3.3	3.5	3.4	3.4
(-) Prov. Exp.	0.0	0.1	0.1	0.1	0.1	0.1
Adj. NII	3.5	3.3	3.2	3.5	3.3	3.3
Treasury	0.2	0.0	0.2	0.3	0.2	0.2
Int. Sens. Inc.	3.7	3.4	3.4	3.8	3.6	3.5
Other Inc.	1.3	0.4	0.6	0.5	0.6	0.6
Op. Inc.	5.0	3.8	4.0	4.3	4.1	4.0
Opex	0.4	0.4	0.3	0.3	0.3	0.3
PBT	4.6	3.5	3.7	4.0	3.8	3.7
Taxes	1.3	1.0	1.1	1.1	1.1	1.0
RoA	3.3	2.4	2.6	2.9	2.8	2.7
Leverage	11.0	9.6	12.0	14.2	14.2	12.7
RoE	36.4	23.2	31.6	40.8	39.1	34.1

Note: [#] Core RoEs excluding income and investments in subsidiaries

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Disclosure of Interest Statement	HDFC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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