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Rating	Accumulate
Price	Rs714
Target Price	Rs790
Implied Upside	10.9%
Sensex	18,858

(Prices as on July 08, 2011)
Trading data

Market Cap. (Rs bn)	1,047.7
Shares o/s (m)	1,466.9
3M Avg. Daily value (Rs m)	2194.5

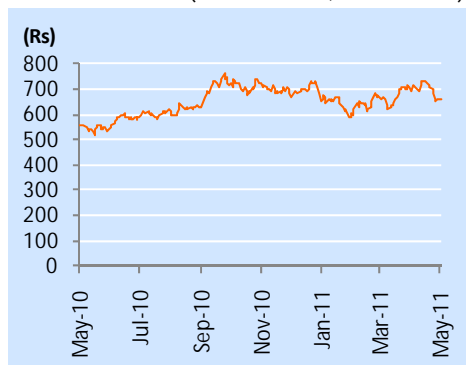
Major shareholders

Promoters	0.00%
Foreign	58.12%
Domestic Inst.	29.26%
Public & Other	12.62%

Stock Performance

(%)	1M	6M	12M
Absolute	8.5	4.4	21.4
Relative	6.0	8.7	14.6

Price Performance (RIC: HDFC.BO, BB: HDFC IN)



Source: Bloomberg

■ **Bottom line growth driven by higher noninterest income; reported spreads remain stable:** HDFC reported PAT of Rs8.4bn, up 21.6% YoY but down 26.0% QoQ, tad lower than our expectations on account of lower than expected NII growth during the quarter. NII for the quarter at Rs9.9bn grew 11.3% YoY but declined by 23.4% QoQ. Persistent increase in banks lending rates in last six months resulted into a steep 18% QoQ increase in interest expenses, while income reversals resulted into a marginal 2.3% QoQ increase in the interest income during the quarter. However, reported spreads remained stable at 2.3%. Non-interest income grew by 68.5% YoY on account of Rs966mn (up 1.5x YoY) income from surplus deployed in cash management schemes of mutual funds. Asset quality continued to improve on a YoY basis as gross NPAs improved to 0.83% as compared with 0.89% a year ago, although marginally higher on a QoQ (0.77% in Q4FY11) basis due to seasonal nature of the business.

■ **Business growth remained healthy; loan mix steady:** Approvals and disbursals during the quarter grew by healthy 22.0% and 20.0% YoY, respectively. Outstanding loan book grew by 22.2% YoY, however, adjusting for Rs31.2bn worth loans sold during past 12-months the growth stood higher at 25% YoY. The loan mix during the quarter remained steady with individual and corporate loans constituting 63% and 36% of the loan book respectively.

■ **Valuations and Outlook:** Steep increase in interest rates, with no signs of cooling off in the near term and high property prices in major metro cities could likely impact HDFC both on spreads as well as volume front. We expect HDFC to record earnings CAGR of 21.0% during the period FY11-13E. For our valuation purposes we have reduced non core earnings and dividends from subsidiaries to arrive at a fair value for its core business. At CMP, the stock trades at 21.2x and 16.8x its FY12E and FY13E core EPS. We maintain our **'Accumulate'** rating with an SOTP based target price of Rs790.

Key Financials (Y/e March)	2010	2011	2012E	2013E
Net interest income (Rs m)	34,658	43,082	50,847	65,891
Growth (%)	11.3	24.3	18.0	29.6
Non-interest income (Rs m)	8,877	10,229	12,557	11,485
Operating Profit (Rs m)	39,514	48,868	58,759	72,011
PAT (Rs m)	28,265	35,099	42,493	51,764
EPS (Rs)	19.7	23.9	29.0	34.0
Growth (%)	22.7	22.4	20.2	17.4
Net DPS (Rs)	6.5	7.0	7.5	8.0

Source: Company Data; PL Research

Profitability & valuation	2010	2011	2012E	2013E
Spreads / Margins (%)	3.3	3.5	3.4	3.4
RoAE (%)	20.0	21.6	22.6	21.9
RoAA (%)	2.7	2.9	2.9	2.7
P/E (x)*	36.3	29.8	24.7	21.0
P/BV (x)*	6.7	6.1	5.2	4.0
P/ABV (x)*	6.7	6.1	5.2	4.0
Net dividend yield (%)	0.9	1.0	1.1	1.1

Source: Company Data; PL Research

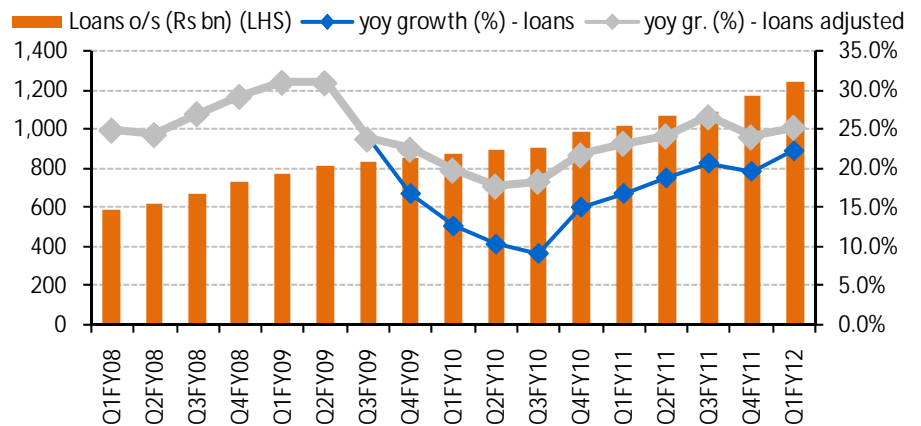
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**Exhibit 1: Q1FY12 Result Overview (Rs m)**

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	QoQ gr. (%)
Total Operating Income	38,169	27,971	36.5	37,741	1.1
Interest Income	35,131	26,168	34.3	34,327	2.3
Interest Expense	25,149	17,196	46.3	21,300	18.1
Net Interest Income	9,982	8,972	11.3	13,027	(23.4)
Non-Interest Income	3,038	1,803	68.5	3,415	(11.0)
Operating Expenses	1,087	968	12.3	707	53.7
<i>% of the Operating Inc</i>	<i>2.85</i>	<i>3.46</i>		<i>1.87</i>	
Provisions & depreciation	225	190	18.2	302	(25.7)
Other income	47	48	(3.1)	107	(56.5)
PBT	11,755	9,666	21.6	15,540	(24.4)
Tax	3,310	2,720	21.7	4,120	(19.7)
<i>Effective Tax Rate (%)</i>	<i>28.2</i>	<i>28.1</i>		<i>26.5</i>	
PAT	8,445	6,946	21.6	11,420	(26.0)
PAT without EO items	8,445	6,946	21.6	11,420	(26.0)
Operating Metrics					
Disbursements	130,800	109,000	20.0	184,053	(28.9)
Approvals	194,428	159,367	22.0	221,531	(12.2)
Investments	173,282	146,582	18.2	118,324	46.4
Loans	1,241,677	1,016,247	22.2	1,171,266	6.0

Source: Company Data, PL Research

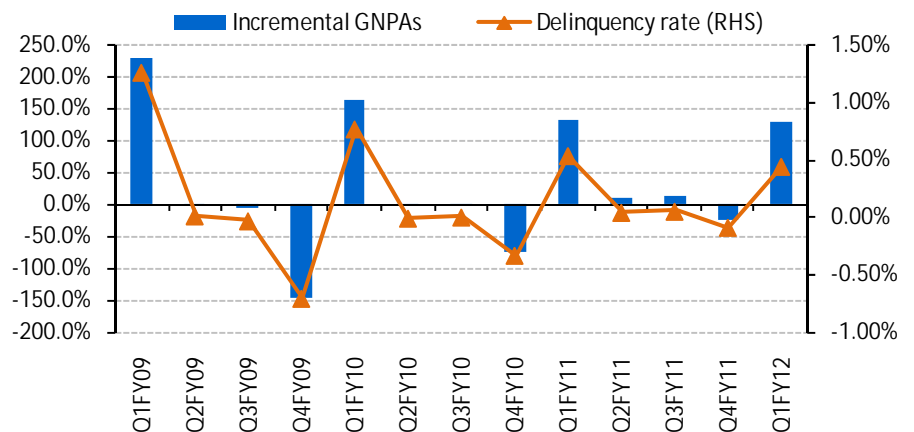
In Q1FY12, loans outstanding grew by 22.2% YoY and 6.0% QoQ. Notably, adjusting for the sale of Rs31.2bn of loans to HDFC Bank in the past 12 months, the overall loan growth would have been higher at 25.3% YoY.

Exhibit 2: Trend in loan growth


Source: Company Data, PL Research

Exhibit 3: Trend in incremental GNPA's and delinquency rate

Asset quality continues to remain among the best in the industry. Gross NPAs continued to decline on a YoY as they stood at 0.83% v/s 0.89% a year ago. Gross NPAs increased on a QoQ basis, however, that is due to the seasonal nature of business.

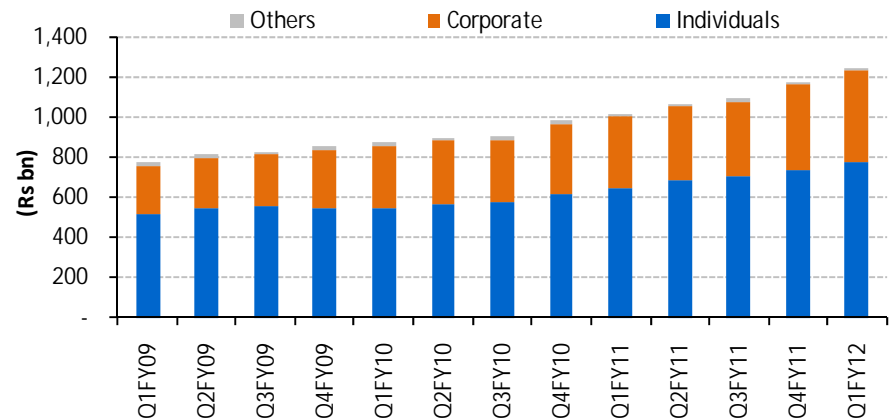


Source: Company Data, PL Research

Exhibit 4: Trend in loan book composition

The loan mix during the quarter remained steady with individual and corporate loans constituting 63% and 36% of the loan book respectively.

During the quarter, the individual and corporate loan book grew by 21.4% and 24.6% YoY respectively.



Source: Company Data, PL Research

**Exhibit 5: SOTP Valuation (FY13E)**

Business	Basis	Rs / share
HDFC - mortgage	18x FY13E core EPS*	556
Life insurance	Appraisal Value	35
Asset management	5% of AUMs	16
HDFC - Bank	based on our TP of Rs2,675	167
Others	(Venture, Gen Ins. GRUH etc)	15
Per Share Value		790

Source: PL Research

* Core EPS calculated after reducing expected dividend income & income from sale of investments of Rs4.5 per share for FY12 and Rs3.1 for FY13 and a 15% holding company discount

* Adjusted for Rs195 and Rs236 per share, reduced from CMP for value given to its subsidiaries for FY12 and FY13, respectively.

Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Int. Inc. / Opt. Inc.	104,506	118,070	154,330	188,537
Interest Expenses	69,848	74,988	103,482	122,646
Net interest income	34,658	43,082	50,847	65,891
<i>Growth (%)</i>	<i>11.3</i>	<i>24.3</i>	<i>18.0</i>	<i>29.6</i>
Non interest income	8,877	10,229	12,557	11,485
<i>Growth (%)</i>	<i>74.6</i>	<i>15.2</i>	<i>22.8</i>	<i>(8.5)</i>
Net operating income	43,535	53,310	63,405	77,376
Expenditure				
Employees	1,467	1,755	2,006	2,234
Other expenses	2,372	2,475	2,417	2,896
Depreciation	182	212	223	234
Total expenditure	4,021	4,443	4,645	5,364
PPP	39,514	48,868	58,759	72,011
<i>Growth (%)</i>	<i>18.1</i>	<i>35.2</i>	<i>119.1</i>	<i>(37.4)</i>
Provision	580	700	755	943
Profit before tax	39,160	48,419	58,505	71,268
Tax	10,895	13,320	16,011	19,504
<i>Effective tax rate (%)</i>	<i>27.8</i>	<i>27.5</i>	<i>27.4</i>	<i>27.4</i>
PAT	28,265	35,099	42,493	51,764
<i>Growth (%)</i>	<i>20.7</i>	<i>24.2</i>	<i>21.1</i>	<i>21.8</i>

Balance Sheet (Rs m)

Y/e March	2010	2011	2012E	2013E
Sources of funds				
Equity	2,871	2,934	2,934	3,043
Reserves & Surplus	149,106	170,231	199,234	235,561
Networth	151,977	173,165	202,168	271,466
<i>Growth (%)</i>	<i>15.7</i>	<i>13.9</i>	<i>16.7</i>	<i>34.3</i>
Loan funds	820,805	907,854	1,230,416	1,622,831
<i>Growth (%)</i>	<i>16.5</i>	<i>10.6</i>	<i>35.5</i>	<i>31.9</i>
Others	144,848	246,251	217,132	286,382
Minority Interest	—	—	—	—
Total	1,114,772	1,322,789	1,644,985	2,175,698
Application of funds				
Net fixed assets	2,221	1,853	2,929	4,769
Advances	979,670	1,171,266	1,464,710	1,926,375
<i>Growth (%)</i>	<i>15.0</i>	<i>19.6</i>	<i>25.1</i>	<i>31.5</i>
Net current assets	25,607	30,859	45,369	70,100
Investments	107,275	118,324	131,977	174,454
<i>Growth (%)</i>	<i>2.5</i>	<i>10.3</i>	<i>11.5</i>	<i>32.2</i>
Deferred tax asset	(2,857)	(4,481)	(4,731)	(4,981)
Total	1,114,772	1,322,789	1,644,985	2,175,698

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Int. Inc. / Operating Inc.	27,371	30,205	34,327	35,131
Income from securitization	—	—	—	—
Interest Expenses	17,176	19,928	21,300	25,149
Net Interest Income	10,195	10,277	13,027	9,982
<i>Growth</i>	<i>38.4</i>	<i>20.3</i>	<i>15.5</i>	<i>11.3</i>
Non interest income	2,332	3,006	3,522	3,085
Net operating income	12,527	13,282	16,549	13,067
<i>Growth</i>	<i>23.6</i>	<i>25.5</i>	<i>23.5</i>	<i>20.7</i>
Operating expenditure	997	948	707	1,087
PPP	11,530	12,334	15,842	11,980
<i>Growth</i>	<i>23.8</i>	<i>26.2</i>	<i>23.1</i>	<i>21.6</i>
Provision	194	206	302	225
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	11,335	12,129	15,540	11,755
Tax	3,260	3,220	4,120	3,310
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>28.8</i>	<i>26.5</i>	<i>26.5</i>	<i>28.2</i>
PAT	8,075	8,909	11,420	8,445
<i>Growth</i>	<i>21.6</i>	<i>32.7</i>	<i>23.3</i>	<i>21.6</i>

Key Ratios

Y/e March	2010	2011	2012E	2013E
CMP (Rs)	714	714	714	714
Eq. Shrs. O/s. (m)	1,436	1,467	1,467	1,522
Market Cap (Rs m)	1,047,700	1,047,700	1,047,700	1,047,700
Market Cap to AUM (%)	93.9	79.2	63.7	48.1
EPS (Rs)	19.7	23.9	29.0	34.0
Book Value (Rs)	105.9	118.0	137.8	178.4
Adjusted Book Value (Rs)	105.9	118.0	137.8	178.4
P/E (x)*	36.3	29.8	24.7	21.0
P/BV (x)*	6.7	6.1	5.2	4.0
P/ABV (x)*	6.7	6.1	5.2	4.0
DPS (Rs)	6.5	7.0	7.5	8.0
Dividend Yield (%)	0.9	1.0	1.1	1.1

Profitability (%)

Y/e March	2010	2011	2012E	2013E
NIM	3.3	3.5	3.4	3.4
RoAA	2.7	2.9	2.9	2.7
RoAE	20.0	21.6	22.6	21.9

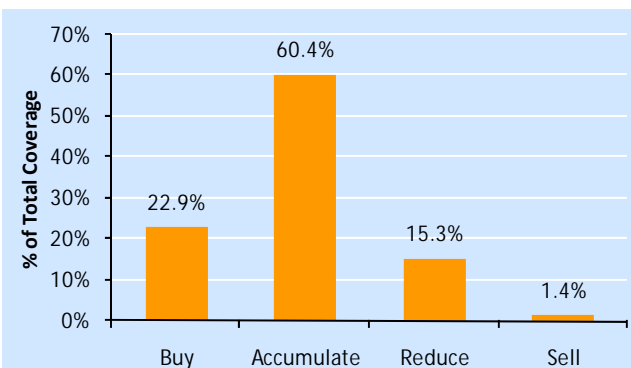
Source: Company Data, PL Research. *Refer Page 4

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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