

HDFC

Performance Highlights

Particulars (₹ cr)	1QFY12	4QFY11	% chg (qoq)	1QFY11	% chg (yoy)
NII	998	1,303	(23.4)	897	11.3
Pre-prov. profit	1,194	1,579	(24.4)	982	21.6
PAT	845	1,142	(26.0)	695	21.6

Source: Company, Angel Research

For 1QFY2012, HDFC's standalone net profit grew by healthy 21.6% yoy (down 26.0% qoq). Although the spreads for 1QFY2012 witnessed a marginal decline, the asset quality continued to be stable. **We recommend Neutral on the stock.**

Strong sequential loan growth, asset quality remains stable: For 1QFY2012, HDFC's loan book grew strongly by 22.2% yoy and 6.0% qoq to ₹124,168cr. Approvals grew by 22.0% yoy to ₹19,500cr, while disbursements grew by 20.0% yoy to ₹13,000cr. On a qoq basis, approvals declined by 12.1%, while disbursements witnessed a decline of 29.6% mainly because of seasonality and a high base. The bank's NII increased modestly by 11.3% yoy, as rising interest rates increased the cost of funds for the company. The spread on loans over the cost of borrowings stood at 2.30% for 1QFY2012 compared to 2.34% for 1QFY2011. The asset quality continued to be stable during 1QFY2012, with gross NPA ratio rising by 6bp sequentially to 0.83%. On a six-month overdue basis, the gross NPA ratio stood at 0.55%.

Outlook and valuation: At the CMP, HDFC's core business (after adjusting ₹225/share towards value of the subsidiaries) is trading at 4.53x FY2013E ABV of ₹107.5 (including subsidiaries, the stock is trading at 4.46x FY2013E ABV of ₹159.7). We expect HDFC to post a healthy PAT CAGR of 17.8% over FY2011–13E. However, considering that the stock is currently trading at 5.2x one-year forward P/ABV (compared to its median of 4.6x over the last five years) and at a 61.4% earnings premium to the Sensex (compared to an average of 43.1% over the last five years), we consider the stock to be richly 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	5,055	6,146
% chg	10.9	25.4	19.0	21.6
Net profit	2,826	3,535	4,099	4,904
% chg	23.8	25.1	16.0	19.6
NIM (%)	3.4	3.6	3.6	3.7
EPS (₹)	19.7	24.1	27.9	32.2
P/E (x)	36.2	29.5	25.5	22.1
P/ABV (x)	6.7	6.0	5.5	4.5
RoA (%)	2.6	2.9	2.8	2.8
RoE (%)	20.0	21.7	22.6	22.7

Source: Company, Angel Research

NEUTRAL

CMP	₹712
Target Price	-

Investment Period	12 months
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Stock Info

Sector	NBFC
Market Cap (₹ cr)	104,463
Beta	1.2
52 Week High / Low	780/576
Avg. Daily Volume	298,129
Face Value (₹)	2
BSE Sensex	18,858
Nifty	5,661
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian FIs	14.3
FII / NRIs / OCBs	73.3
Indian Public / Others	12.4

Abs. (%)	3m	1yr	3yr
Sensex	(3.1)	6.8	41.3
HDFC	0.4	21.3	77.0

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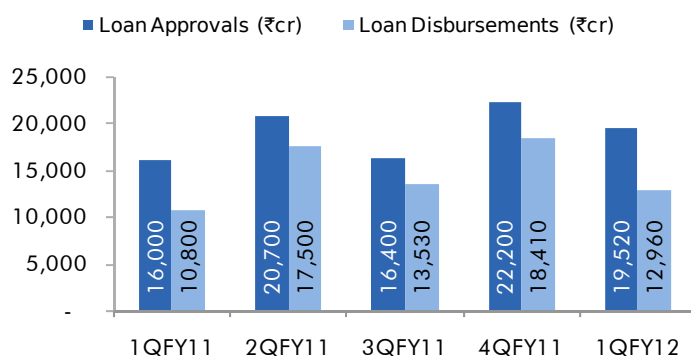
Exhibit 1: 1QFY2012 performance

Particulars (₹ cr)	1QFY12	4QFY11	% chg (qoq)	1QFY11	% chg (yoy)
Interest earned	3,513	3,433	2.3	2,617	34.3
Interest expenses	2,515	2,130	18.1	1,720	46.3
Net interest income	998	1,303	(23.4)	897	11.3
Non-interest income	308	352	(12.4)	185	66.6
Operating income	1,307	1,655	(21.0)	1,082	20.7
Operating expenses	113	76	49.0	101	12.3
Pre-prov. profit	1,194	1,579	(24.4)	982	21.6
Provisions & cont.	18	25	(28.0)	15	20.0
PBT	1,176	1,554	(24.4)	967	21.6
Prov. for taxes	331	412	(19.7)	272	21.7
PAT	845	1,142	(26.0)	695	21.6
EPS (₹)	5.7	7.8	(26.2)	4.8	20.3
Cost-to-income ratio (%)	8.7	4.6		9.3	
Effective tax rate (%)	28.2	26.5		28.1	
Net NPA (%)	-	100.0		77.0	

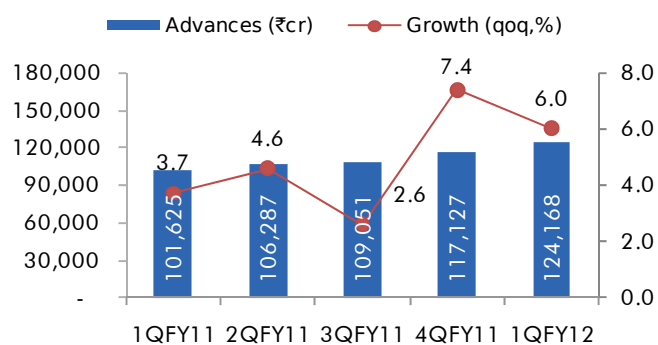
Source: Company, Angel Research

Loan growth healthy; outlook remains strong

For 1QFY2012, HDFC's loan book grew strongly by 22.2% yoy and 6.0% qoq to ₹124,168cr. Approvals grew by 22.0% yoy to ₹19,500cr, while disbursements grew by 20.0% yoy to ₹13,000cr. On a qoq basis, approvals declined by 12.1%, while disbursements witnessed a decline of 29.6% mainly because of seasonality and a high base. We expect approvals and disbursements to scale up in the coming quarters and have factored in loan growth of 20% for both FY2012 and FY2013.

Exhibit 2: Approvals and disbursements – 1QFY2012


Source: Company, Angel Research

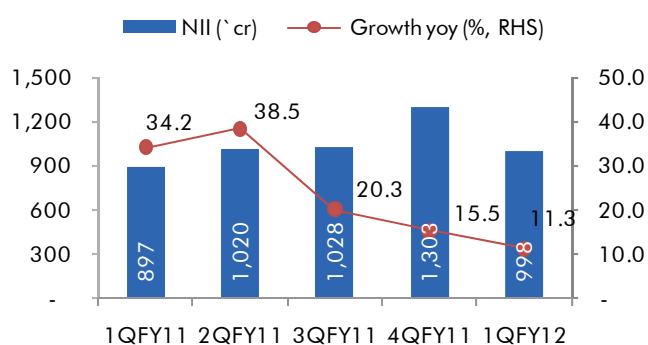
Exhibit 3: Strong sequential growth in advances


Source: Company, Angel Research

Asset quality remains stable

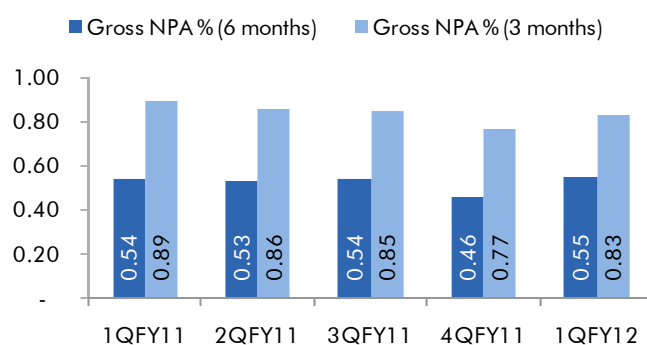
The bank's asset quality continued to be stable during 1QFY2012, with gross NPA ratio rising only by 6bp sequentially to 0.83%. On a six-month overdue basis, the gross NPA ratio stood at 0.55%. Although gross NPAs increased by 14.3% sequentially to ₹1,031cr during 1QFY2012, they were lower than the sequential rise witnessed in 1QFY2011 (up 16.9%) and 1QFY2010 (up 23.6%). HDFC continued to maintain a 100% provision-coverage ratio for 1QFY2012, similar to the last quarter.

Exhibit 4: 100% NPA coverage for 1QFY2012



Source: Company, Angel Research

Exhibit 5: Asset quality remains stable

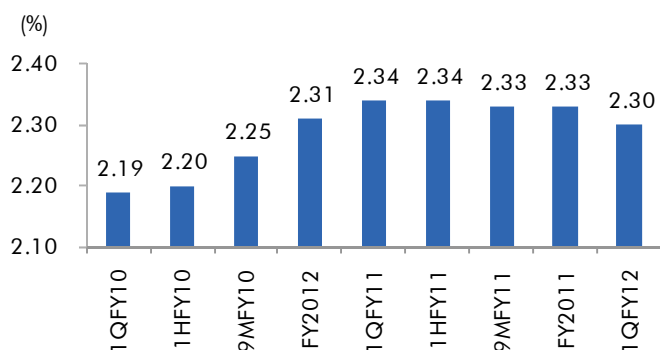


Source: Company, Angel Research

NII remains subdued as spreads see a marginal decline

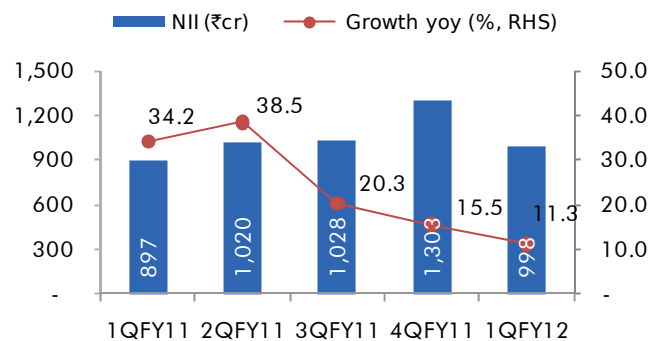
The bank's NII increased modestly by 11.3% yoy, as rising interest rates increased the cost of funds for the company. The spread on loans over the cost of borrowings stood at 2.30% for 1QFY2012 compared to 2.34% for 1QFY2011. We expect HDFC to deliver healthy NII growth of 19.0% and 21.6% for FY2012E and FY2013E, respectively.

Exhibit 6: Spread at 2.30% for 1QFY2012



Source: Company, Angel Research

Exhibit 7: NII yoy growth trend



Source: Company, Angel Research

Strong yoy growth in other income

Other income increased by 66.6% yoy (down 12.4% qoq) to ₹308cr, driven by a 144.9% yoy increase in fee income and a 153.3% yoy increase in earnings from deployment in cash management services of mutual funds. Income from dividends grew by 130.0% qoq to ₹132cr. 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 8: Strong yoy growth in other income

Particulars (₹ cr)	1QFY12	4QFY11	% chg (qoq)	1QFY11	% chg (yoy)
- Surplus from MFs	97	68	41.6	38	153.3
- Dividend Income	132	57	130.0	118	12.0
- Fees & other charges	57	79	(27.0)	23	144.9
- Other operating income	1	4	(62.4)	1	85.1
- Other income	5	11	(56.5)	5	(3.1)
- Profit on sale of investments	16	134	(87.8)	-	NA
Total	308	352	(12.4)	185	66.6

Source: Company, Angel Research

Outlook and valuation

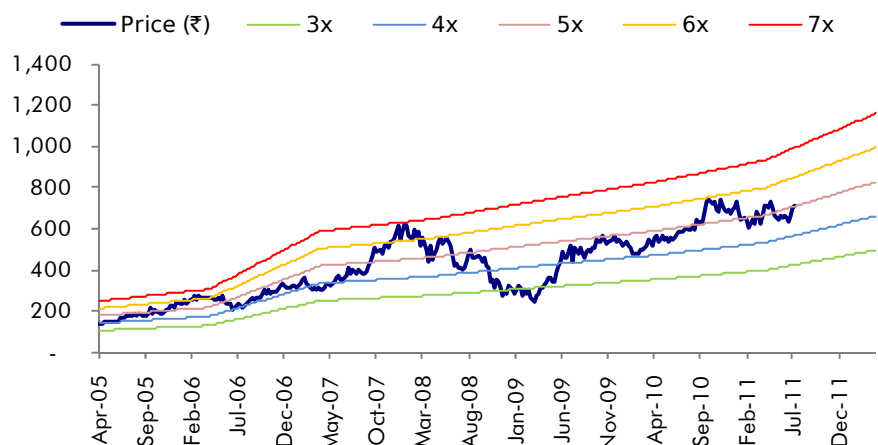
At the CMP, HDFC's core business (after adjusting ₹225/share towards value of the subsidiaries) is trading at 4.53x FY2013E ABV of ₹107.5 (including subsidiaries, the stock is trading at 4.46x FY2013E ABV of ₹159.7). We expect HDFC to post a healthy PAT CAGR of 17.8% over FY2011–13E. However, considering that the stock is currently trading at 5.2x one-year forward P/ABV (compared to its median of 4.6x over the last five years) and at a 61.4% earnings premium to the Sensex (compared to an average of 43.1% over the last five years), we consider the stock to be richly valued at its CMP and, **hence, recommend Neutral on the stock.**

Exhibit 9: Angel EPS forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2012E	27.9	27.8	0.6
FY2013E	32.2	32.8	(1.7)

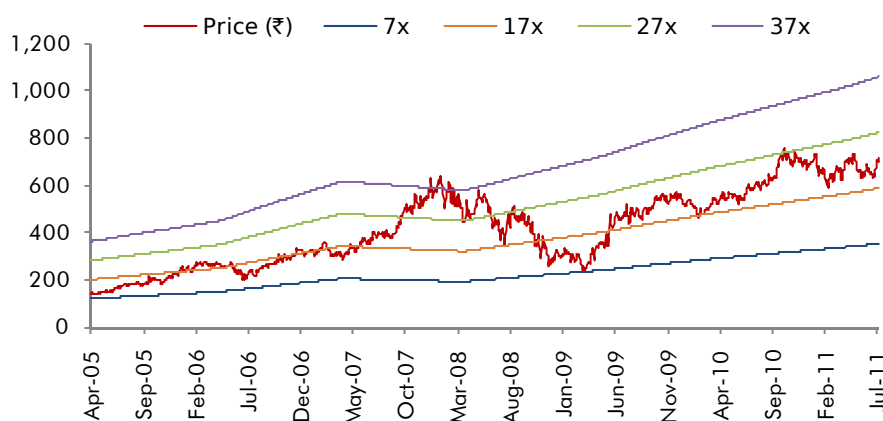
Source: Bloomberg, Angel Research

Exhibit 10: P/ABV band



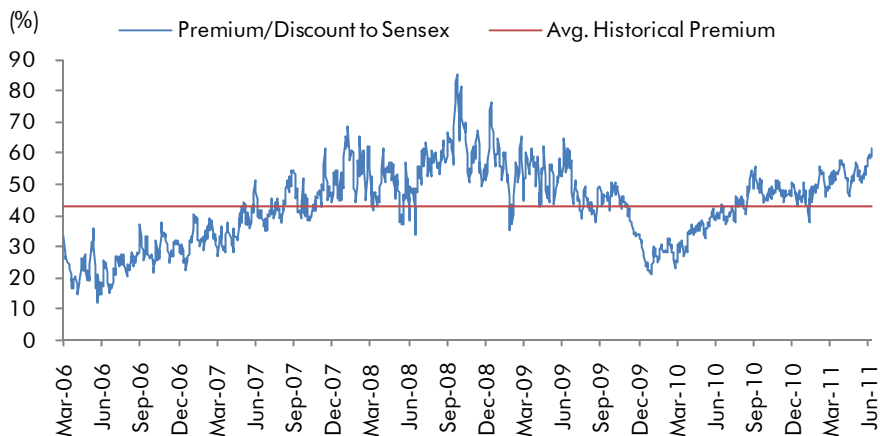
Source: Bloomberg, Angel Research;

Exhibit 11: P/E band



Source: Bloomberg, Angel Research

Exhibit 12: HDFC – Premium/Discount to the Sensex



Source: Bloomberg, Angel Research

Income statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Nil	2,599	3,054	3,388	4,247	5,055	6,146
- YoY Growth (%)	58.4	17.5	10.9	25.4	19.0	21.6
Other Income	1,090	531	910	1,071	1,120	1,246
- YoY Growth (%)	85.2	(51.3)	71.3	17.7	4.6	11.2
Operating Income	3,689	3,585	4,298	5,318	6,175	7,393
- YoY Growth (%)	65.5	(2.8)	19.9	23.7	16.1	19.7
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	5,729	6,857
- YoY Growth (%)	70.2	(4.0)	21.6	24.2	16.1	19.7
Prov. & Cont.	32	50	58	70	84	99
- YoY Growth (%)	(2.5)	56.3	16.0	20.7	19.4	18.9
Profit Before Tax	3,374	3,219	3,916	4,867	5,646	6,758
- YoY Growth (%)	71.4	(4.6)	21.7	24.3	16.0	19.7
Prov. for Taxation	937	937	1,090	1,332	1,547	1,854
- 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	4,099	4,904
- YoY Growth (%)	55.1	(6.3)	23.8	25.1	16.0	19.6

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	18,649	23,992
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	8,386	9,987
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	3.6	3.7
Cost to Income Ratio	7.7	8.8	7.5	7.2	7.2	7.2
RoA	3.3	2.4	2.6	2.9	2.8	2.8
RoE	27.8	18.2	20.0	21.7	22.6	22.7
Asset Quality (%)						
Gross NPAs	0.85	0.82	0.80	0.77	0.80	0.80
Net NPAs	0.21	0.09	0.13	-	0.08	0.08
Provision Coverage	75.7	88.6	83.7	100.0	90.0	90.0
Per Share Data (₹)						
EPS	17.2	16.0	19.7	24.1	27.9	32.2
ABVPS (75% cover.)	84.1	92.4	105.9	118.1	129.1	159.7
DPS	5.0	6.0	7.2	9.0	10.4	12.1
Valuation Ratios						
PER (x)	41.5	44.4	36.2	29.5	25.5	22.1
P/ABVPS (x)	8.5	7.7	6.7	6.0	5.5	4.5
DuPont Analysis[#]						
NII	3.6	3.4	3.3	3.5	3.5	3.5
(-) Prov. Exp.	0.0	0.1	0.1	0.1	0.1	0.1
Adj. NII	3.5	3.3	3.2	3.5	3.4	3.5
Treasury	0.2	0.0	0.2	0.3	0.2	0.1
Int. Sens. Inc.	3.7	3.4	3.4	3.8	3.6	3.6
Other Inc.	1.3	0.4	0.6	0.5	0.5	0.5
Op. Inc.	5.0	3.8	4.0	4.3	4.1	4.1
Opex	0.4	0.4	0.3	0.3	0.3	0.3
PBT	4.6	3.5	3.7	4.0	3.8	3.8
Taxes	1.3	1.0	1.1	1.1	1.1	1.1
RoA	3.3	2.4	2.6	2.9	2.8	2.8
Leverage	11.0	9.6	12.0	14.2	14.2	12.7
RoE	36.4	23.2	31.6	40.8	39.3	35.1

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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