

HDFC

Performance Highlights

Particulars (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
NII	1,156	1,164	(0.7)	1,028	12.5
Pre-prov. profit	1,348	1,355	(0.5)	1,228	9.8
PAT	981	971	1.1	891	10.1

Source: Company, Angel Research

For 3QFY2012, HDFC's standalone net profit grew by 10.1% yoy, which was below our estimates mainly because of lower gains from investments compared to 3QFY2011. Removing gains from sale of investments, HDFC's operating income increased by healthy 18.2% yoy. **We maintain our Neutral view on the stock.**

Loan growth remains healthy: For 3QFY2012, HDFC's loan book grew by healthy 21.2% yoy and 4.1% qoq to ₹132,208cr. Approvals in 3QFY2012 stood at ₹19,883cr (up 21.2% yoy), while disbursements stood at ₹16,078cr (up 18.8% yoy). The spread on loans over the cost of borrowings stood at 2.27% for 9MFY2012 compared to 2.29% for 1HFY2011. For 3QFY2012, the bank's other income increased marginally by 1.3% yoy to ₹304cr. Profit growth on a yoy basis was lower, mainly because of a dip in treasury income (down 47.4% yoy). HDFC's asset quality continued to be stable during 3QFY2012, with gross NPA ratio falling by 3bp yoy to 0.82%. On a six-month overdue basis, gross NPA ratio stood at 0.53%. Gross NPAs grew by 19.6% yoy to ₹1,109cr. HDFC continued to maintain a 100% provision-coverage ratio for 3QFY2012, similar to 2QFY2012.

Outlook and valuation: At the CMP, HDFC's core business (after adjusting ₹215/share towards the value of its subsidiaries) is trading at 4.4x FY2013E ABV of ₹106.7 (including subsidiaries, the stock is trading at 4.3x FY2013E ABV of ₹158.9). We expect HDFC to post a healthy PAT CAGR of 15.7% over FY2011-13E. However, considering that the stock is currently trading at 4.5x one-year forward P/ABV (only slightly lower than its median of 4.6x over the last five years) and at a 56.5% premium to the Sensex in P/E terms (compared to an average of 37.5% over the last five years), we consider the stock to be fully valued and, hence, recommend Neutral on the stock.

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
NII	3,388	4,247	4,820	5,660
% chg	10.9	25.4	13.5	17.4
Net profit	2,826	3,535	4,064	4,725
% chg	23.8	25.1	15.0	16.3
NIM (%)	3.4	3.6	3.4	3.3
EPS (₹)	19.7	24.1	27.7	31.1
P/E (x)	34.9	28.5	24.8	22.1
P/ABV (x)	6.5	5.8	5.3	4.3
RoA (%)	2.6	2.9	2.7	2.6
RoE (%)	20.0	21.7	22.4	21.9

Source: Company, Angel Research

NEUTRAL

CMP	₹688
Target Price	-
Investment Period	-

Stock Info	
Sector	NBFC
Market Cap (₹ cr)	101,358
Beta	1.0
52 Week High / Low	701/668
Avg. Daily Volume	243,059
Face Value (₹)	2
BSE Sensex	16,073
Nifty	4,831
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	(5.4)	(17.9)	76.0
HDFC	2.5	0.9	112.0

Vaibhav Agrawal

022 – 3935 7800 Ext: 6808

vaibhav.agrawal@angelbroking.com

Shrinivas Bhutda

022 – 3935 7800 Ext: 6845

shrinivas.bhutda@angelbroking.com

Varun Varma

022 – 3935 7800 Ext: 6847

varun.varma@angelbroking.com

Exhibit 1: 3QFY2012 performance

Particulars (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Interest earned	4,168	3,854	8.1	3,020	38.0
Interest expenses	3,012	2,691	12.0	1,993	51.2
Net interest income	1,156	1,164	(0.7)	1,028	12.5
Non-interest income	304	315	(3.4)	301	1.3
Operating income	1,460	1,479	(1.3)	1,328	9.9
Operating expenses	112	124	(9.7)	100	11.5
Pre-prov. profit	1,348	1,355	(0.5)	1,228	9.8
Provisions & cont.	20	17	17.6	15	33.3
PBT	1,328	1,338	(0.7)	1,213	9.5
Prov. for taxes	347	367	(5.4)	322	7.8
PAT	981	971	1.1	891	10.1
EPS (₹)	6.7	6.6	0.9	6.1	9.4
Cost-to-income ratio (%)	7.7	8.4		7.6	
Effective tax rate (%)	26.1	27.4		26.5	
Net NPA (%)	100.0	100.0		100.0	

Source: Company, Angel Research

Exhibit 2: 3QFY2012 – Actual vs. Angel estimates

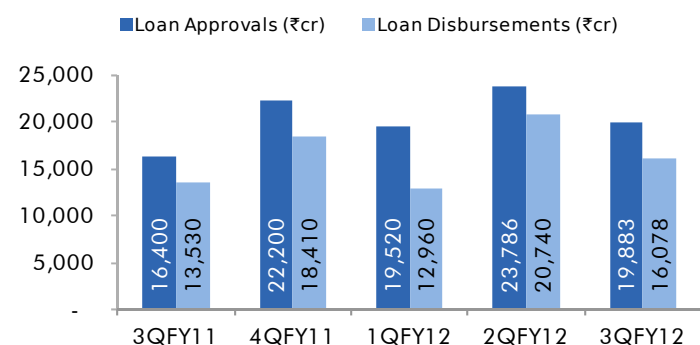
Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	1,156	1,215	(4.9)
Non-interest income	304	339	(10.1)
Operating income	1,460	1,553	(6.0)
Operating expenses	112	110	1.4
Pre-prov. profit	1,348	1,443	(6.6)
Provisions & cont.	20	18	12.5
PBT	1,328	1,425	(6.8)
Prov. for taxes	347	379	(8.3)
PAT	981	1,047	(6.3)

Source: Company, Angel Research

Loan growth healthy; outlook remains strong

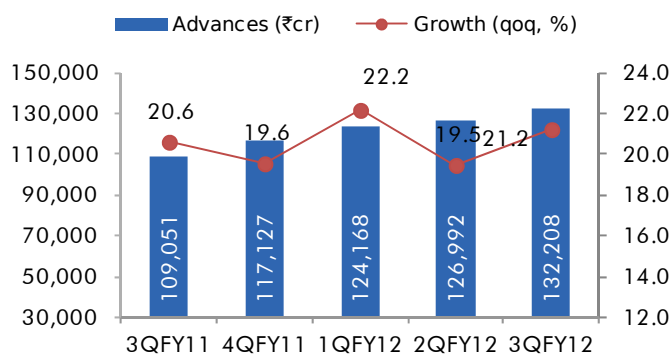
For 3QFY2012, HDFC's loan book grew by healthy 21.2% yoy and 4.1% qoq to ₹132,208cr. Approvals in 3QFY2012 stood at ₹19,883cr (up 21.2% yoy), while disbursements stood at ₹16,078cr (up 18.8% yoy). We expect approvals and disbursements to continue growing at a similar pace in the coming quarters and have factored in loan growth of 20% for FY2013.

Exhibit 3: Approvals and disbursements – 3QFY2012



Source: Company, Angel Research

Exhibit 4: Loan book growth healthy in 3QFY2012

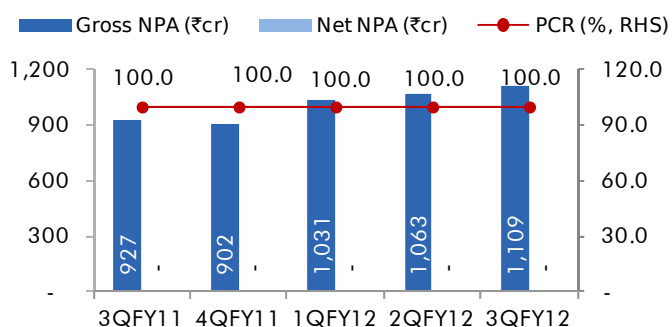


Source: Company, Angel Research

Asset quality remains stable

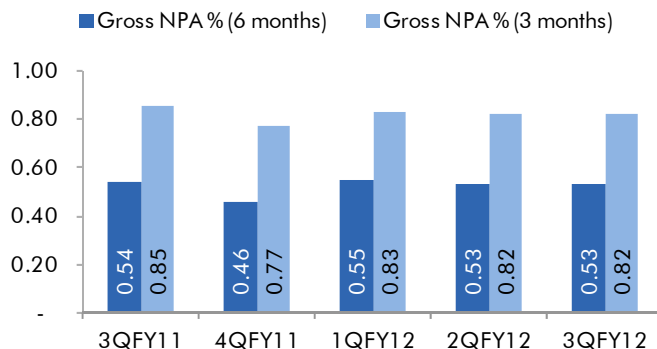
HDFC's asset quality continued to be stable during 3QFY2012, with gross NPA ratio falling by 3bp yoy to 0.82%. On a six-month overdue basis, gross NPA ratio stood at 0.53%. Gross NPAs increased by 19.6% yoy to ₹1,109cr. HDFC continued to maintain a 100% provision-coverage ratio for 3QFY2012, similar to 2QFY2012.

Exhibit 5: 100% NPA coverage for 3QFY2012



Source: Company, Angel Research

Exhibit 6: Asset quality remains stable

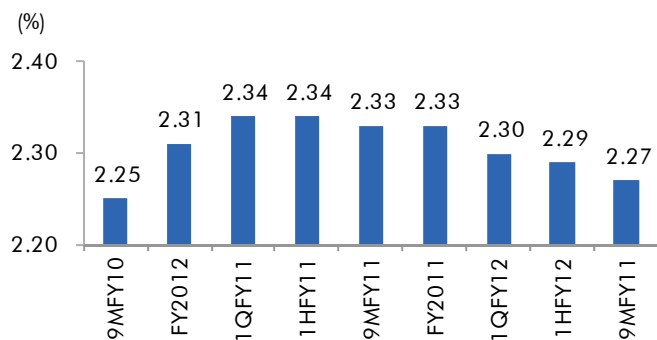


Source: Company, Angel Research

NII remains subdued as spreads see a marginal decline

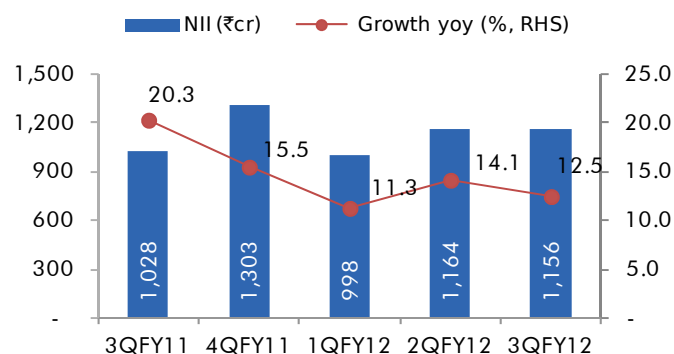
HDFC's NII increased by 12.5% yoy, as high interest rates kept cost of funds elevated for the company. The spread on loans over the cost of borrowings stood at 2.27% for 9MFY2012 compared to 2.29% for 1HFY2011. We expect HDFC to deliver NII growth of 13.5% and 17.4% for FY2012 and FY2013, respectively.

Exhibit 7: Spread at 2.27% for 9MFY2012



Source: Company, Angel Research

Exhibit 8: NII yoy growth trend



Source: Company, Angel Research

Lower treasury income keeps other income flat

For 3QFY2012, other income for HDFC increased marginally by 1.3% yoy to ₹304cr. While growth in dividend income (97.5% yoy) and profits from deployment in MFs (74.6%) was strong, it was negated by the dip in treasury income (down 47.4% yoy).

Exhibit 9: Treasury income lower for 3QFY2012

Particulars (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
- Surplus from MFs	81	80	0.9	46	74.6
- Dividend Income	53	63	(15.7)	27	97.5
- Fees & other charges	72	79	(8.6)	50	43.3
- Other operating income	5	1	361.0	5	6.9
- Other income	5	5	(1.6)	5	5.3
- Profit on sale of investments	88	87	1.3	167	(47.4)
Total	304	315	(3.4)	301	1.3

Source: Company, Angel Research

Investment arguments

Robust loan sourcing and appraisal

The housing finance industry is a keenly competitive segment with banks having a significant presence. However, large housing finance companies, like HDFC, with a dedicated focus on the segment leading to robust loan-sourcing and appraisal as well as high credit rating enabling competitive cost of funds should be able to withstand competition from banks, even going forward. The company also has one of the most well-regarded top managements in the industry as well as a well-established conservative risk management philosophy.

Consistency in performance

HDFC has witnessed healthy growth in its loan portfolio, registering a CAGR of 21.1% over FY2006-11. During the period, HDFC's earnings have also witnessed an equally healthy 18.8% CAGR. This has been backed by the company's strong asset quality, low operating costs and ability to keep cost of funds on the lower side. We expect HDFC's loan book to continue growing at 20% over FY2011-13, resulting in earnings growth of 15.7% and an average core RoE of 36.5% over the same period.

Outlook and valuation

At the CMP, HDFC's core business (after adjusting ₹215/share towards the value of its subsidiaries) is trading at 4.4x FY2013E ABV of ₹106.7 (including subsidiaries, the stock is trading at 4.3x FY2013E ABV of ₹158.9). We expect HDFC to post a healthy PAT CAGR of 15.7% over FY2011-13E. However, considering that the stock is currently trading at 4.5x one-year forward P/ABV (only slightly lower than its median of 4.6x over the last five years) and at a 56.5% premium to the Sensex in P/E terms (compared to an average of 37.5% over the last five years), we consider the stock to be fully valued and, hence, recommend Neutral on the stock.

Exhibit 10: Angel EPS forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2012E	27.7	27.8	(0.4)
FY2013E	31.1	32.8	(5.3)

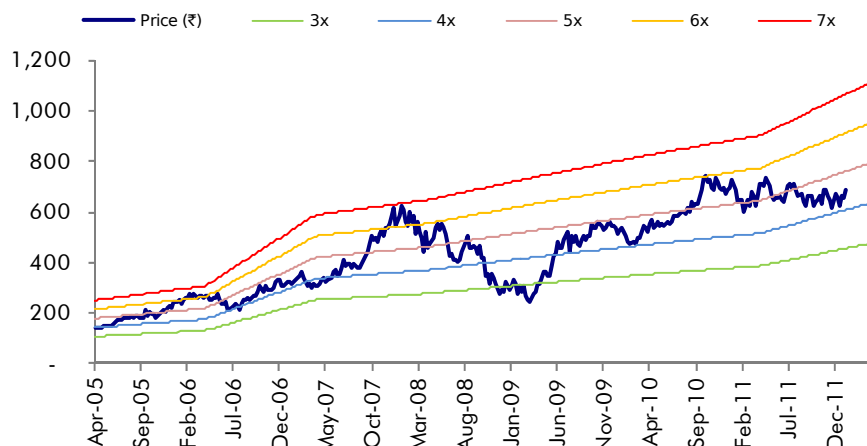
Source: Bloomberg, Angel Research

Exhibit 11: Change in estimates

Particulars (₹ cr)	FY2012			FY2013		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII	4,992	4,820	(3.5)	5,844	5,660	(3.1)
Non-interest income	1,254	1,293	3.1	1,376	1,531	11.3
Operating income	6,247	6,112	(2.1)	7,220	7,192	(0.4)
Operating expenses	446	438	(1.7)	535	526	(1.7)
Pre-prov. profit	5,801	5,674	(2.2)	6,685	6,666	(0.3)
Provisions & cont.	85	78	(8.1)	152	156	2.8
PBT	5,716	5,596	(2.1)	6,533	6,510	(0.4)
Prov. for taxes	1,566	1,533	(2.1)	1,791	1,785	(0.4)
PAT	4,150	4,064	(2.1)	4,742	4,725	(0.4)

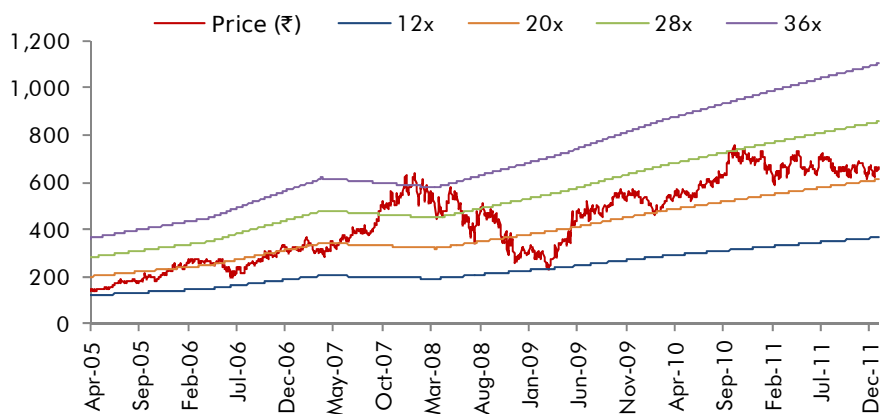
Source: Angel Research

Exhibit 12: P/ABV band



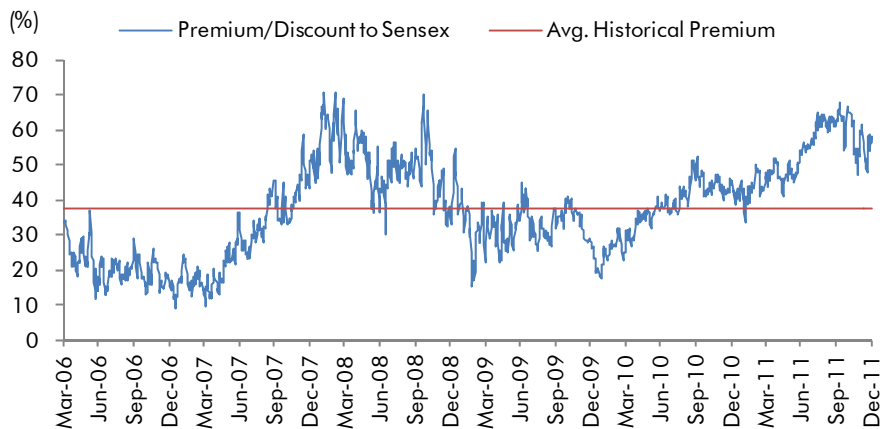
Source: Bloomberg, Angel Research;

Exhibit 13: P/E band



Source: Bloomberg, Angel Research

Exhibit 14: 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	4,820	5,660
- YoY Growth (%)	58.4	17.5	10.9	25.4	13.5	17.4
Other Income	1,090	531	910	1,071	1,293	1,531
- YoY Growth (%)	85.2	(51.3)	71.3	17.7	20.7	18.5
Operating Income	3,689	3,585	4,298	5,318	6,112	7,192
- YoY Growth (%)	65.5	(2.8)	19.9	23.7	14.9	17.7
Operating Expenses	284	316	324	381	438	526
- YoY Growth (%)	24.1	11.4	2.4	17.7	15.0	20.0
Pre - Provision Profit	3,406	3,269	3,974	4,937	5,674	6,666
- YoY Growth (%)	70.2	(4.0)	21.6	24.2	14.9	17.5
Prov. & Cont.	32	50	58	70	78	156
- YoY Growth (%)	(2.5)	56.3	16.0	20.7	11.1	100.6
Profit Before Tax	3,374	3,219	3,916	4,867	5,596	6,510
- YoY Growth (%)	71.4	(4.6)	21.7	24.3	15.0	16.3
Prov. for Taxation	937	937	1,090	1,332	1,533	1,785
- 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	4,064	4,725
- YoY Growth (%)	55.1	(6.3)	23.8	25.1	15.0	16.3

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	18,629	23,872
Loan Funds	69,151	83,856	96,565	115,410	139,642	164,468
- Growth (%)	20.9	21.3	15.2	19.5	21.0	17.8
Other Liabilities & Provisions	3,322	4,663	4,878	6,775	8,567	10,326
Total Liabilities	84,421	101,657	116,641	139,502	167,131	198,970
Investments	6,915	10,469	10,727	11,832	12,658	13,611
Advances	73,328	85,198	97,967	117,127	141,723	170,068
- Growth (%)	29.8	16.2	15.0	19.6	21.0	20.0
Fixed Assets	208	203	222	234	276	323
Other Assets	3,969	5,787	7,725	10,309	12,474	14,969
Total Assets	84,421	101,657	116,641	139,502	167,131	198,970

Ratio analysis

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Profitability ratios (%)						
NIMs	3.8	3.5	3.4	3.6	3.4	3.3
Cost to Income Ratio	7.7	8.8	7.5	7.2	7.2	7.3
RoA	3.3	2.4	2.6	2.9	2.7	2.6
RoE	27.8	18.2	20.0	21.7	22.4	21.9
Asset Quality (%)						
Gross NPAs	0.85	0.82	0.80	0.77	0.75	0.77
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	27.7	31.1
ABVPS (75% cover.)	84.1	92.4	105.9	118.1	129.0	158.9
DPS	5.0	6.0	7.2	9.0	10.4	11.6
Valuation Ratios						
PER (x)	40.1	42.8	34.9	28.5	24.8	22.1
P/ABVPS (x)	8.2	7.4	6.5	5.8	5.3	4.3
DuPont Analysis[#]						
NII	3.6	3.4	3.3	3.5	3.3	3.2
(-) 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	3.1
Treasury	0.2	0.0	0.2	0.3	0.2	0.2
Int. Sens. Inc.	3.7	3.4	3.4	3.8	3.5	3.3
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	2.7	2.6
Leverage	11.0	9.6	12.0	14.2	14.3	12.9
RoE	36.4	23.2	31.6	40.8	39.0	34.0

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

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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	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%)