

HDFC

Performance Highlights

Particulars (₹ cr)	2QFY13	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)
NII	1,634	1,527	7.0	1,387	17.8
Pre-prov. profit	1,588	1,420	11.8	1355	17.2
PAT	1,151	1,002	14.9	971	18.6

Source: Company, Angel Research;

For 2QFY2013, HDFC's standalone net profit grew by 18.6% yoy to ₹1,151cr. Sustained spreads as well as asset quality were the positives from the results. **We maintain our Neutral view on the stock.**

Loan growth remains healthy: For 2QFY2013, HDFC's loan book grew by a healthy 22.2% yoy, with loans to the individual segment growing by 23.8% yoy. HDFC has been incrementally growing its individual loan book much faster than its corporate book over the last six months in order to improve its margins and non-interest income such as processing fees. Including loans sold, around 80% loans over the last six months have been disbursed to the individual segment. The asset quality continued to be strong with the gross NPA ratio at 0.77%, lower than the 0.82% reported in 2QFY2012. HDFC continued to maintain a 100% provision-coverage ratio (PCR) for 2QFY2013, similar to 1QFY2013. Its net interest income (NII) rose by a healthy 17.8% yoy to ₹1,634cr. HDFC's pace of deposit accretion has accelerated over the last year growing by 33.0% yoy compared to overall loan fund growth of 6.2% yoy, which is expected to sustain healthy NII growth going ahead. For 2QFY2013, the bank's profits on sale of investments were higher by 8.3% yoy at ₹94cr. Other income was higher by 48.8% yoy at ₹8cr.

Outlook and valuation: At the current market price, HDFC's core business (after adjusting ₹246/share towards the value of its subsidiaries) is trading at 4.1x FY2014E ABV of ₹123.5 (including subsidiaries, the stock is trading at 4.2x FY2014E ABV of ₹176.9). We expect HDFC to post a healthy PAT CAGR of 18.5% over FY2012–14E. However, considering that the stock is currently trading at 4.5x one-year forward P/ABV and at a 51.2% premium to the Sensex in P/E terms (compared to an average of 37.8% since FY2006), we consider the stock to be fully valued and, hence, **recommend Neutral on the stock.**

Key financials (standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
NII	4,247	4,998	5,818	6,871
% chg	25.4	17.7	16.4	18.1
Net profit	3,535	4,123	4,828	5,791
% chg	25.1	16.6	17.1	20.0
NIM (%)	3.6	3.6	3.5	3.5
EPS (₹)	24.1	27.9	31.5	37.8
P/E (x)	31.1	26.9	23.8	19.8
P/ABV (x)	6.4	5.8	4.8	4.2
RoA (%)	2.9	2.7	2.7	2.6
RoE (%)	21.7	22.7	22.4	22.6

Source: Company, Angel Research

NEUTRAL

CMP	₹750
Target Price	-
Investment Period	-

Stock Info

Sector	NBFC
Market Cap (₹ cr)	115,570
Beta	1.0
52 Week High / Low	794/601
Avg. Daily Volume	358,493
Face Value (₹)	2
BSE Sensex	18,793
Nifty	5,717
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian Fls	18.0
FII / NRIs / OCBs	68.9
Indian Public / Others	13.1

Abs. (%)	3m	1yr	3yr
Sensex	9.6	12.0	11.9
HDFC	10.9	18.3	40.2

Vaibhav Agrawal

022 – 3935 7800 Ext: 6808

vaibhav.agrawal@angelbroking.com

Varun Varma

022 – 3935 7800 Ext: 6847

varun.varma@angelbroking.com

Sourabh Taparia

022 – 3935 7800 Ext: 6872

sourabh.taparia@angelbroking.com

Exhibit 1: Quarterly performance (standalone)

Particulars (₹ cr)	2QFY13	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)	1HFY2013	1HFY2012	% chg
Income from operations	5,175	4,915	5.3	4,077	26.9	9,482	7,367	28.7
Interest expensed	3,541	3,388	4.5	2,691	31.6	6,930	5,205	33.1
NII	1,634	1,527	7.0	1,387	17.8	2,552	2,162	18.1
Non-interest income	102	28	269.1	92	10.6	738	624	18.3
Operating income	1,736	1,554	11.7	1,479	17.4	3,290	2,785	18.1
Operating expenses	148	134	10.1	124	19.2	282	237	18.9
Pre-prov. profit	1,588	1,420	11.8	1,355	17.2	3,008	2,548	18.0
Provisions & cont.	40	40	0.0	17	135.3	80	35	128.6
PBT	1,548	1,380	12.2	1,338	15.7	2,928	2,513	16.5
Prov. for taxes	397	378	5.0	367	8.2	775	698	11.0
PAT	1,151	1,002	14.9	971	18.6	2,153	1,815	18.6
EPS (₹)	7.5	6.7	11.1	6.6	13.4	14.0	12.3	13.5
Cost-to-income ratio (%)	8.5	8.6		8.4		8.6	8.5	
Effective tax rate (%)	25.6	27.4		27.4		26.5	27.8	
Net NPA (%)	-	-		-		-	-	

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – Actual vs Angel estimates

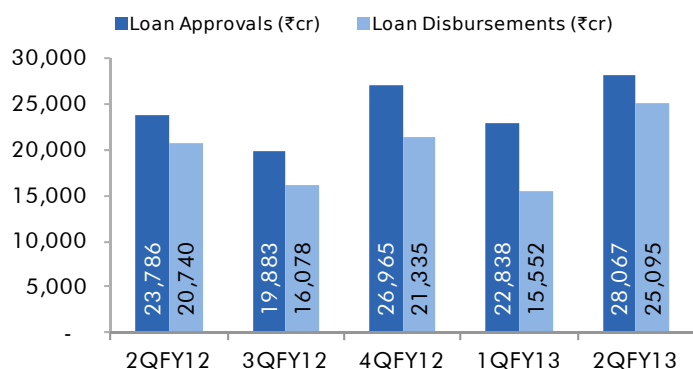
Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income*	1,634	1,685	(3.0)
Non-interest income	102	58	76.0
Operating income	1,736	1,743	(0.4)
Operating expenses	148	146	1.4
Pre-prov. profit	1,588	1,597	(0.6)
Provisions & cont.	40	36	12.0
PBT	1,548	1,562	(0.9)
Prov. for taxes	397	443	(10.4)
PAT	1,151	1,118	2.9

Source: Company, Angel Research; Note*Core NII

Loan growth healthy; outlook remains strong

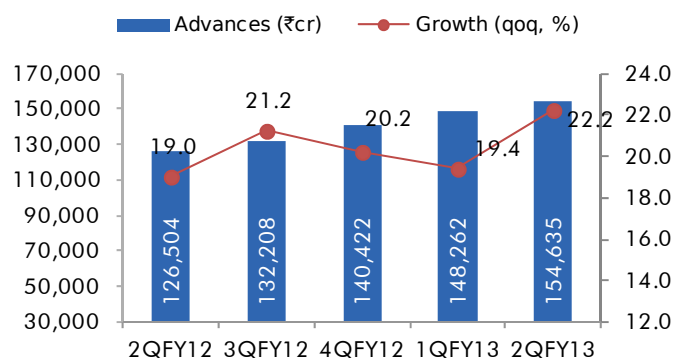
For 2QFY2013, HDFC's loan book grew by a healthy 22.2% yoy, with loans to the individual segment growing by 23.8% yoy. HDFC has been incrementally growing its individual loan book much faster than its corporate loan book over the last six months in order to improve its margins and non-interest income such as processing fees. Including loans sold, around 80% loans over the last six months have been disbursed to the individual segment. We have factored in a loan growth of 20% for FY2013.

Exhibit 3: Approvals and disbursements – 2QFY2013



Source: Company, Angel Research

Exhibit 4: Loan book growth healthy in 1QFY2013

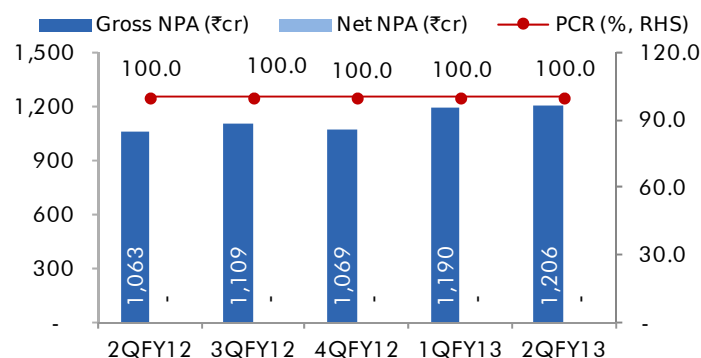


Source: Company, Angel Research

Asset quality remains stable

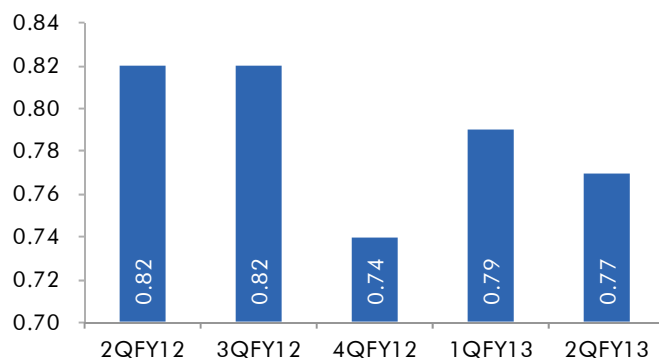
The asset quality continued to be strong with the gross NPA ratio at 0.77%, lower than the 0.82% reported in 2QFY2012. HDFC continued to maintain a 100% PCR for 2QFY2013, as in 1QFY2013.

Exhibit 5: 100% NPA coverage for 1QFY2013



Source: Company, Angel Research

Exhibit 6: Gross NPA ratio remains stable



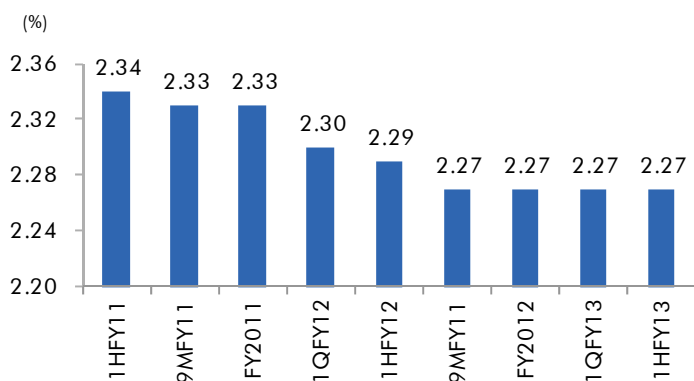
Source: Company, Angel Research

NII growth comes in healthy

HDFC's NII rose by a healthy 17.8% yoy to ₹1,634cr. Its pace of deposit accretion has accelerated over the last year growing by 33.0% yoy compared to overall loan fund growth of 6.2% yoy, which is expected to sustain healthy NII growth going ahead.

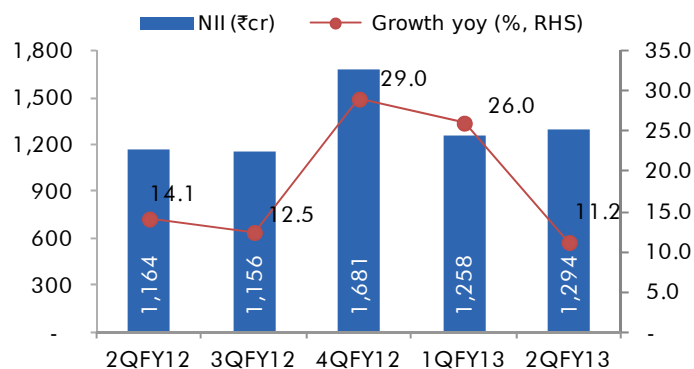
The spread on loans over the cost of borrowings stood at 2.27% for 1HFY2013 compared to 2.29% for 1HFY2012. We expect HDFC to deliver a NII growth of 17.2% CAGR over FY2012-2014E

Exhibit 7: Spread at 2.27% for 1HFY2013



Source: Company, Angel Research

Exhibit 8: NII yoy growth trend



Source: Company, Angel Research

Non-interest income growth moderate

For 2QFY2013, the bank's profits on sale of investments were higher by 8.3% yoy at ₹94cr. Other income was higher by 48.8% yoy at ₹8cr.

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 a healthy growth in its loan portfolio, registering a CAGR of 20.9% over FY2006-12. During the period, HDFC's earnings have also witnessed an equally healthy 21.9% CAGR. These have been backed by the company's strong asset quality, low operating costs and ability to keep cost of funds on the lower side.

Even in FY2012, the company was able to clock a 20% yoy loan growth, well ahead of 12% yoy housing credit growth by banks, despite a challenging growth

environment. The loan growth to commercial real estate has been on a declining trend (5.8% yoy as of FY2012 compared to 21.9% yoy as of FY2011) which might prompt HDFC to alter its loan mix further towards the individual loan category (~80% of incremental growth in loan advances in 1HFY2013 were towards individual loan segment) to drive its credit growth. While this is expected to lead to a decline in margins (we have factored in a 16bp decline in margins over FY2012-14E), it would enable HDFC to maintain a similar healthy loan growth trajectory going ahead. Conservatively, we have factored in a loan growth of 20% yoy for FY2013 and 22% yoy for FY2014.

Outlook and valuation

At the current market price, HDFC's core business (after adjusting ₹246/share towards the value of its subsidiaries) is trading at 4.1x FY2014E ABV of ₹123.5 (including subsidiaries, the stock is trading at 4.2x FY2014E ABV of ₹176.9). We expect HDFC to post a healthy PAT CAGR of 18.5% over FY2012-14E. However, considering that the stock is currently trading at 4.5x one-year forward P/ABV and at a 51.2% premium to the Sensex in P/E terms (compared to an average of 37.8% since FY2006), we consider the stock to be fully valued and, hence, **recommend Neutral on the stock.**

Exhibit 9: Angel EPS forecast vs consensus

Year (₹)	Angel forecast	Bloomberg consensus	Var. (%)
FY2013E	31.5	31.9	-1.2
FY2014E	37.8	37.8	0.0

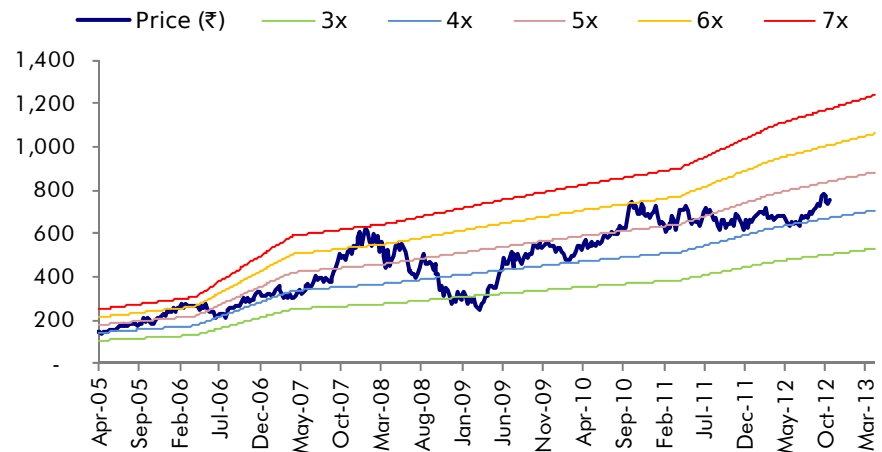
Source: Bloomberg, Angel Research

Exhibit 10: Change in estimates

Particulars (₹ cr)	FY2013			FY2014		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII*	5,841	5,818	(0.4)	6,899	6,871	(0.4)
Non-interest income	1,499	1,518	1.3	1,906	1,930	1.3
Operating income	7,340	7,336	(0.0)	8,805	8,802	(0.0)
Operating expenses	533	533	-	619	619	-
Pre-prov. profit	6,806	6,803	(0.1)	8,187	8,183	(0.0)
Provisions & cont.	167	167	-	216	216	-
PBT	6,640	6,636	(0.1)	7,971	7,967	(0.0)
Prov. for taxes	1,811	1,808	(0.2)	2,179	2,176	(0.1)
PAT	4,828	4,828	(0.0)	5,792	5,791	(0.0)

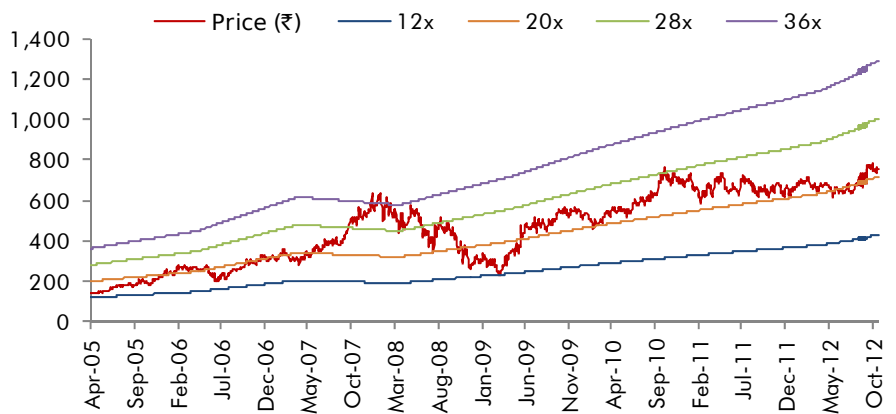
Source: Angel Research; Note* Core NII

Exhibit 11: P/ABV band



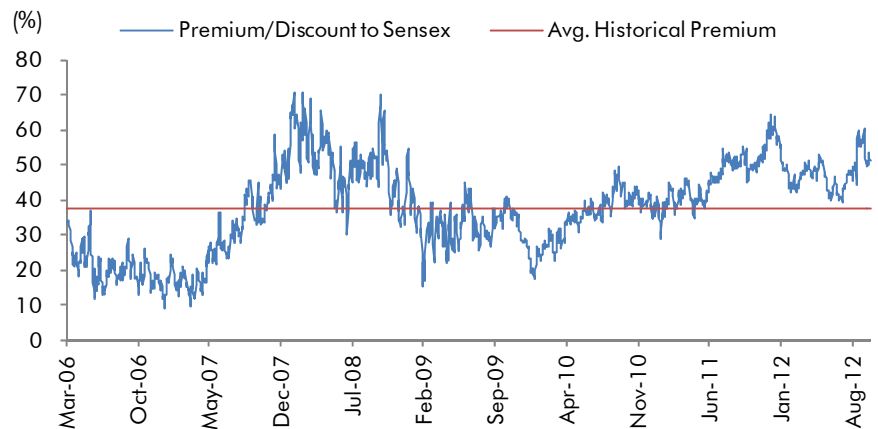
Source: Bloomberg, Angel Research;

Exhibit 12: P/E band



Source: Bloomberg, Angel Research

Exhibit 13: HDFC – Premium/Discount to the Sensex



Source: Bloomberg, Angel Research

Company Background

HDFC is India's leading housing finance company, with a balance sheet size of over ₹1.6lakh cr. The company's primary business is to provide loans for the purchase or construction of residential houses. HDFC's distribution network spans 318 outlets, covering more than 90 locations across India. From its origins as a specialized mortgage company, HDFC has grown into a financial conglomerate with market leading group companies in banking, asset management and insurance.

Income statement (standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Nil	3,054	3,388	4,247	4,998	5,818	6,871
- YoY Growth (%)	17.5	10.9	25.4	17.7	16.4	18.1
Other Income	531	910	1,071	1,199	1,518	1,930
- YoY Growth (%)	(51.3)	71.3	17.7	12.0	26.6	27.1
Operating Income	3,585	4,298	5,318	6,198	7,336	8,802
- YoY Growth (%)	(2.8)	19.9	23.7	16.5	18.4	20.0
Operating Expenses	316	324	381	452	533	619
- YoY Growth (%)	11.4	2.4	17.7	18.6	18.0	16.0
Pre - Provision Profit	3,269	3,974	4,937	5,746	6,803	8,183
- YoY Growth (%)	(4.0)	21.6	24.2	16.4	18.4	20.3
Prov. & Cont.	50	58	70	80	167	216
- YoY Growth (%)	56.3	16.0	20.7	14.3	108.4	29.5
Profit Before Tax	3,219	3,916	4,867	5,666	6,636	7,967
- YoY Growth (%)	(4.6)	21.7	24.3	16.4	17.1	20.1
Prov. for Taxation	937	1,090	1,332	1,543	1,808	2,176
- as a % of PBT	29.1	27.8	27.4	27.2	27.2	27.3
PAT	2,283	2,826	3,535	4,123	4,828	5,791
- YoY Growth (%)	(6.3)	23.8	25.1	16.6	17.1	20.0

Balance sheet (standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Share Capital	284	287	293	295	306	306
Reserve & Surplus	12,853	14,911	17,023	18,722	23,844	26,787
Loan Funds	83,856	96,565	115,112	139,128	164,702	199,676
- Growth (%)	21.3	15.2	19.2	20.9	18.4	21.2
Other Liabilities & Provisions	4,663	4,878	6,814	9,375	10,536	13,367
Total Liabilities	101,657	116,641	139,242	167,520	199,388	240,137
Investments	10,469	10,727	11,832	12,207	13,019	12,890
Advances	85,198	97,967	116,806	140,422	168,506	205,577
- Growth (%)	16.2	15.0	19.2	20.2	20.0	22.0
Fixed Assets	203	222	234	234	274	332
Other Assets	5,787	7,725	10,370	14,657	17,589	21,337
Total Assets	101,657	116,641	139,242	167,520	199,388	240,137

Ratio analysis (standalone)

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
Profitability ratios (%)						
NIMs	3.5	3.4	3.6	3.6	3.5	3.5
Cost to Income Ratio	8.8	7.5	7.2	7.3	7.3	7.0
RoA	2.4	2.6	2.9	2.7	2.7	2.6
RoE	18.2	20.0	21.7	22.7	22.4	22.6
Asset Quality (%)						
Gross NPAs	0.82	0.80	0.77	0.76	0.70	0.65
Net NPAs	0.09	0.13	-	-	-	-
Provision Coverage	88.6	83.7	100.0	100.0	100.0	100.0
Per Share Data (₹)						
EPS	16.0	19.7	24.1	27.9	31.5	37.8
ABVPS (75% cover.)	92.4	105.9	118.1	128.8	157.7	176.9
DPS	6.0	7.2	9.0	11.0	12.4	15.0
Valuation Ratios						
PER (x)	46.8	38.1	31.1	26.9	23.8	19.8
P/ABVPS (x)	8.1	7.1	6.4	5.8	4.8	4.2
DuPont Analysis[#]						
NII	3.4	3.3	3.5	3.4	3.3	3.25
(-) Prov. Exp.	0.1	0.1	0.1	0.1	0.1	0.10
Adj. NII	3.3	3.2	3.5	3.4	3.2	3.15
Treasury	0.0	0.2	0.3	0.2	0.2	0.16
Int. Sens. Inc.	3.4	3.4	3.8	3.6	3.4	3.31
Other Inc.	0.4	0.6	0.5	0.5	0.6	0.66
Op. Inc.	3.8	4.0	4.3	4.1	4.0	3.97
Opex	0.4	0.3	0.3	0.3	0.3	0.29
PBT	3.5	3.7	4.0	3.8	3.7	3.68
Taxes	1.0	1.1	1.1	1.1	1.0	1.03
RoA	2.4	2.6	2.9	2.7	2.7	2.65
Leverage	9.6	12.0	14.2	14.4	13.1	12.1
RoE	23.2	31.6	40.8	39.3	34.8	32.1

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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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%)