

May 10, 2011

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Rating	Accumulate
Price	Rs661
Target Price	Rs790
Implied Upside	19.5%
Sensex	18,513

(Prices as on May 10, 2011)
Trading data

Market Cap. (Rs bn)	969.0
Shares o/s (m)	1,466.9
3M Avg. Daily value (Rs m)	2235.1

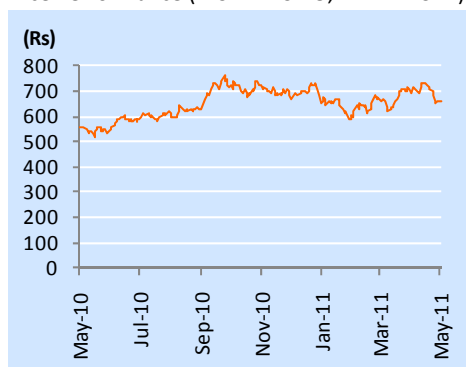
Major shareholders

Promoters	0.00%
Foreign	58.63%
Domestic Inst.	28.75%
Public & Other	12.62%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.0)	(8.9)	18.4
Relative	(2.2)	2.4	11.6

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



Source: Bloomberg

■ **Healthy NII growth; spreads remain stable:** HDFC reported PAT of Rs11.4bn, up 23.3% YoY and 28.2% QoQ, higher than our as well as street expectations on account of Rs1.3bn profit from sale of investments (v/s Rs0.45bn in Q4FY10) during the quarter. NII for the quarter at Rs13.0bn grew 15.5% YoY and 26.8% QoQ on account of healthy 19.6% YoY and 7.4% QoQ loan growth coupled with largely stable spreads on a QoQ basis. HDFC has increased its Retail Prime Lending rate by ~125bps between period December 2010 and March 2011, which helped the company to maintain its spreads. HDFC's asset quality remains the best in class as its gross non performing loans declined to 0.77% from 0.85% in the previous quarter. Despite higher provisioning required towards the dual rate home loans, the company still holds excess provisions to the tune of ~Rs3.1bn on its balance sheet.

■ **Business growth remained healthy; loan mix shifts towards non-retail segment:** Approvals and disbursements during the quarter grew by healthy 35% and 36% QoQ, respectively, although the YoY growth looks muted (due to high base). Disbursements, during the quarter, in the non-retail segment seem to be higher as the mix of the outstanding loan book has slightly skewed towards the corporate segment. Rising interest rates and property prices led to moderation in the pace of growth of approvals and disbursements for full year FY11 to 24% and 20% respectively as against 29% and 25% YoY growth recorded during the nine month period ended December 2010 respectively. Outstanding loan book grew by 20% YoY, however, adjusting for Rs43.8bn worth loans sold during past 12-months the growth stood higher at 24% YoY.

Key Financials (Y/e March)	2010	2011E	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	49,119	58,759	72,011
PAT (Rs m)	28,265	35,350	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	9.0	9.5	10.0

Source: Company Data; PL Research

Profitability & valuation	2010	2011E	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)*	33.6	27.6	22.8	19.4
P/BV (x)*	6.2	5.6	4.8	3.7
P/ABV (x)*	6.2	5.6	4.8	3.7
Net dividend yield (%)	1.0	1.1	1.1	1.2

Source: Company Data; PL Research

* Refer Page 4

- Valuations and Outlook:** Steep increase in interest rates, with no signs of cooling off in the near term could likely impact HDFC both on spreads as well as volume front. We believe withdrawal of teaser loans from banks and increase in the savings bank rate augurs well for HDFC as it should likely ease the overall competitive pressure. We observe that in the past few quarters the share of non-core income for HDFC has risen as the company regularly books profits on its investment book (which could be for building provision cushion or for maintaining better capital adequacy). However, 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 22.8x and 19.4x its FY12E and FY13E core EPS. We maintain our **'Accumulate'** rating with a 15-month forward SOTP target price of Rs790.

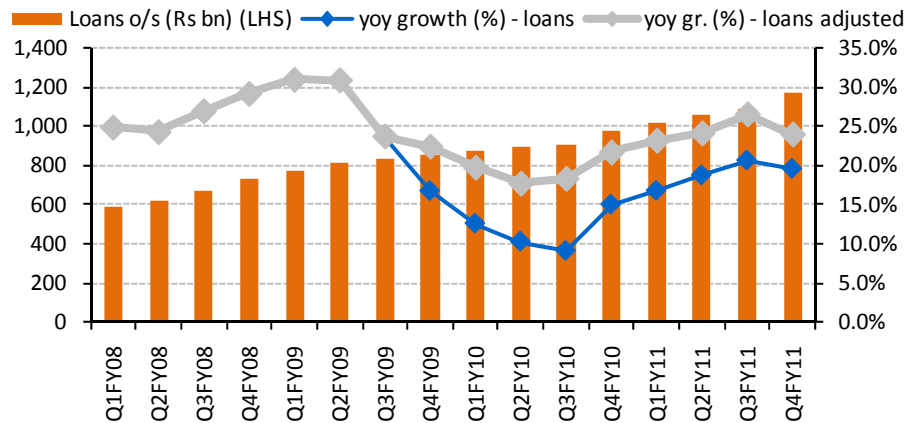
Exhibit 1: Q4FY11 Result Overview (Rs m)

Y/e March	Q4FY11	Q4FY10	YoY gr. (%)	Q3FY11	FY11	FY10	YoY gr. (%)
Total Operating Income	37,741	28,923	30.5	33,162	128,529	113,383	13.4
Interest Income	34,327	26,877	27.7	30,205	118,070	104,506	13.0
Interest Expense	21,300	15,595	36.6	19,928	75,599	70,631	7.0
Net Interest Income	13,027	11,282	15.5	10,277	42,471	33,875	25.4
Non-Interest Income	3,415	2,046	66.9	2,957	10,459	8,877	17.8
Operating Expenses	707	526	34.4	948	3,620	3,056	18.5
<i>% of the Operating Inc</i>	<i>1.87</i>	<i>1.82</i>		<i>2.86</i>	<i>2.82</i>	<i>2.69</i>	
Provisions & depreciation	302	213	42.1	206	892	762	17.1
Other income	107	70	52.8	49	251	226	11.5
PBT	15,540	12,659	22.8	12,129	48,670	39,160	24.3
Extra ordinary Income (Post tax)	-	-	-	1,360	-	-	-
Tax	4,120	3,395	21.4	3,220	13,320	10,895	22.3
<i>Effective Tax Rate (%)</i>	<i>26.5</i>	<i>26.8</i>		<i>26.5</i>	<i>27.4</i>	<i>27.8</i>	
PAT	11,420	9,264	23.3	8,909	35,350	28,265	25.1
PAT without EO items	11,420	9,264	23.3	7,549	35,350	28,265	25.1
Operating Metrics							
Disbursements	184,053	168,860	9.0	135,344	603,140	504,130	19.6
Approvals	221,531	195,010	13.6	163,727	751,850	606,110	24.0
Investments	118,324	107,275	10.3	145,671	118,324	107,275	10.3
Loans	1,171,266	979,670	19.6	1,090,512	1,171,266	979,670	19.6

Source: Company Data, PL Research

Exhibit 2: Trend in loan growth

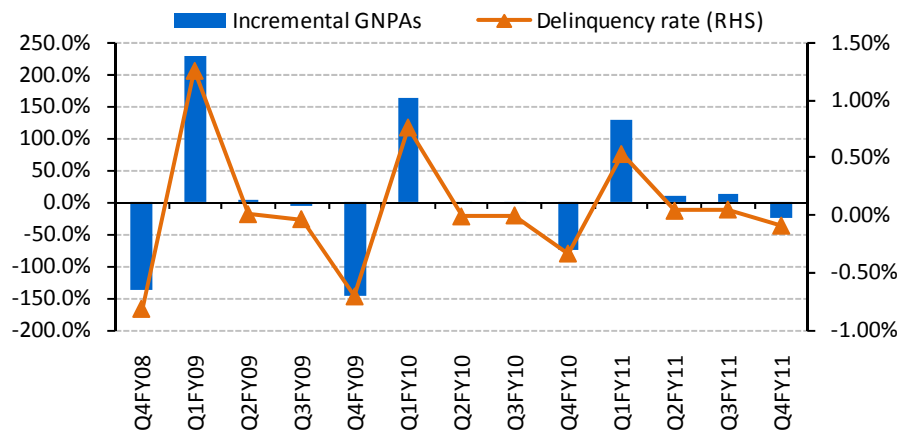
In Q4FY11, loans outstanding grew by 19.6% YoY and 7.4% QoQ. Notably, adjusting for the sale of Rs43.8bn of loans to HDFC Bank in the past 12 months, the overall loan growth would have been higher at 24.0% YoY.



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 in absolute terms declined on a sequential basis, while the delinquencies during the quarter have been at near zero levels.

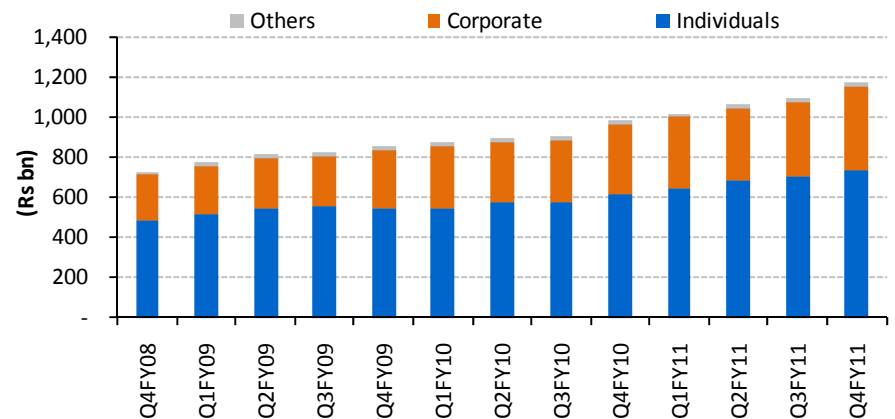


Source: Company Data, PL Research

Exhibit 4: Trend in loan book composition

On a YoY basis, both individual as well as the corporate loan segment witnessed a healthy 20% growth. However, sequentially the corporate loan book grew strongly by 12.9% higher compared with the 5.0% growth seen in the individual loan book.

Consequently, the proportion of the corporate loans in the overall loan mix inched up to 36% from ~34% in the previous quarter.



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 Rs194 and Rs234 per share, reduced from CMP for value given to its subsidiaries for FY12 and FY13, respectively.

**Income Statement (Rs m)**

Y/e March	2010	2011E	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>	11.3	24.3	18.0	29.6
Non interest income	8,877	10,229	12,557	11,485
<i>Growth (%)</i>	74.6	15.2	22.8	(8.5)
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	49,119	58,759	72,011
<i>Growth (%)</i>	18.1	35.2	119.1	(37.4)
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>	27.8	27.5	27.4	27.4
PAT	28,265	35,350	42,493	51,764
<i>Growth (%)</i>	20.7	24.2	21.1	21.8

Balance Sheet (Rs m)

Y/e March	2010	2011E	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>	15.7	13.9	16.7	34.3
Loan funds	820,805	907,854	1,230,416	1,622,831
<i>Growth (%)</i>	16.5	10.6	35.5	31.9
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>	15.0	19.6	25.1	31.5
Net current assets	25,607	30,859	45,369	70,100
Investments	107,275	118,324	131,977	174,454
<i>Growth (%)</i>	2.5	10.3	11.5	32.2
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	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Int. Inc. / Operating Inc.	26,168	27,371	30,205	34,327
Income from securitization	—	—	—	—
Interest Expenses	17,196	17,176	19,928	21,300
Net Interest Income	8,972	10,195	10,277	13,027
<i>Growth</i>	34.2	38.4	20.3	15.5
Noninterest income	1,852	2,332	3,006	3,522
Net operating income	10,824	12,527	13,282	16,549
<i>Growth</i>	22.1	23.6	25.5	23.5
Operating expenditure	968	997	948	707
PPP	9,856	11,530	12,334	15,842
<i>Growth</i>	23.8	23.8	26.2	23.1
Provision	190	194	206	302
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	9,666	11,335	12,129	15,540
Tax	2,720	3,260	3,220	4,120
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	28.1	28.8	26.5	26.5
PAT	6,946	8,075	8,909	11,420
<i>Growth</i>	23.0	21.6	32.7	23.3

Key Ratios

Y/e March	2010	2011E	2012E	2013E
CMP (Rs)	661	661	661	661
Eq. Shrs. O/s. (m)	1,436	1,467	1,467	1,522
Market Cap (Rs m)	969,034	969,034	969,034	1,005,214
Market Cap to AUM (%)	0.9	0.7	0.6	0.5
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)*	33.6	27.6	22.8	19.4
P/BV (x)*	6.2	5.6	4.8	3.7
P/ABV (x)*	6.2	5.6	4.8	3.7
DPS (Rs)	6.5	7.0	7.5	8.0
Dividend Yield (%)	1.0	1.1	1.1	1.2

Profitability (%)

Y/e March	2010	2011E	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

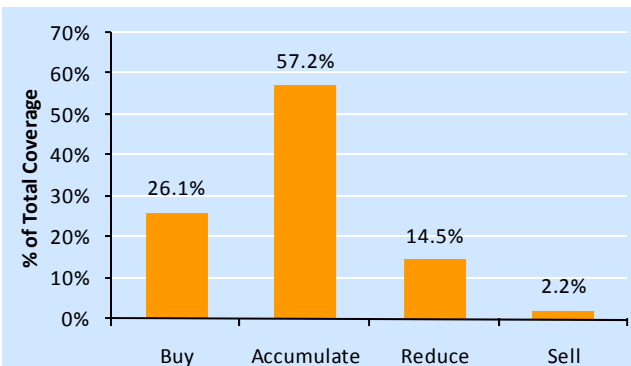
Source: Company Data, PL Research. *Refer Page 4

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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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