

HDFC

Performance Highlights

Particulars (₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)
NII	1,258	1,681	(25.1)	998	26.0
Pre-prov. profit	1,420	1,849	(23.2)	1194	19.0
PAT	1,002	1,326	(24.5)	845	18.6

Source: Company, Angel Research

For 1QFY2013, HDFC's standalone net profit grew by 18.6% yoy to ₹1,002cr, which was in-line with our as well as street's estimates. Higher-than-estimated loan growth, 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 1QFY2013, HDFC's loan book grew by healthy 19.4% yoy to ₹148,262cr. Approvals in 1QFY2013 stood at ₹22,838cr (up 17.0% yoy), while disbursements stood at ₹15,552cr (up 20.0% yoy). HDFC's asset quality continued to remain stable during 1QFY2013, with gross NPA ratio falling by 4bp yoy to 0.79%. On a six-month overdue basis, gross NPA ratio stood at 0.49%. Gross NPAs grew by 15.5% yoy to ₹1,190cr. HDFC continued to maintain a 100% provision coverage ratio for 1QFY2013, similar to 4QFY2012. HDFC's net interest income (NII) rose by healthy 26.0% yoy to ₹1,258cr. HDFC's pace of deposit accretion has accelerated over the last year, growing by 31.0% yoy compared to overall loan fund growth of 16.4% yoy, which is expected to sustain healthy NII growth going ahead. For 1QFY2013, the bank's other income decreased by 4.1% yoy to ₹296cr primarily due to lower income from surplus from MFs (down 52.4% yoy). Fee income increased by 7.7% yoy and profit on sale of investments increased by 24.5% yoy. Income from dividends also came in higher by 20.7% yoy.

Outlook and valuation: At the CMP, HDFC's core business (after adjusting ₹232/share towards the value of its subsidiaries) is trading at 3.6x FY2014E ABV of ₹126.9 (including subsidiaries, the stock is trading at 3.8x 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 3.8x one-year forward P/ABV and at a 51.6% premium to the Sensex in P/E terms (compared to an average of 37.9% since FY2006), we consider the stock to be fully valued and, hence, **recommend Neutral on the stock.**

Key financials

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
NII	4,247	4,998	5,841	6,899
% chg	25.4	17.7	16.9	18.1
Net profit	3,535	4,123	4,828	5,792
% 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)	28.1	24.3	21.5	17.9
P/ABV (x)	5.7	5.3	4.3	3.8
RoA (%)	2.9	2.7	2.7	2.7
RoE (%)	21.7	22.7	22.4	22.6

Source: Company, Angel Research

NEUTRAL

CMP	₹678
Target Price	-
Investment Period	-

Stock Info

Sector	HFC
Market Cap (₹ cr)	101,016
Beta	1.1
52 Week High / Low	726/601
Avg. Daily Volume	328,920
Face Value (₹)	2
BSE Sensex	17,489
Nifty	5,306
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	-
MF / Banks / Indian FIs	19.5
FII / NRIs / OCBs	66.9
Indian Public / Others	13.6

Abs. (%)	3m	1yr	3yr
Sensex	0.9	(6.6)	29.5
HDFC	0.2	(4.1)	54.2

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Exhibit 1: Quarterly performance

Particulars (₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)	FY2012	FY2011	% chg
Interest earned	4,646	4,620	0.6	3,513	32.3	16,155	11,807	36.8
Interest expenses	3,388	2,939	15.3	2,515	34.7	11,157	7,560	47.6
NII	1,258	1,681	(25.1)	998	26.0	4,998	4,247	17.7
Non-interest income	296	271	9.1	308	(4.1)	1,199	1,071	12.0
Operating income	1,554	1,952	(20.4)	1,307	18.9	6,198	5,318	16.5
Operating expenses	134	103	30.3	113	18.6	452	381	18.6
Pre-prov. profit	1,420	1,849	(23.2)	1,194	19.0	5,746	4,937	16.4
Provisions & cont.	40	25	60.0	18	122.2	80	70	14.3
PBT	1,380	1,824	(24.4)	1,176	17.4	5,666	4,867	16.4
Prov. for taxes	378	498	(24.1)	331	14.2	1,543	1,332	15.8
PAT	1,002	1,326	(24.5)	845	18.6	4,123	3,535	16.6
EPS (₹)	6.7	9.0	(25.0)	5.7	17.1	27.9	24.1	15.8
Cost-to-income ratio (%)	8.6	5.3		8.7		7.3	7.2	
Effective tax rate (%)	27.4	27.3		28.2		27.2	27.4	
Net NPA (%)	-	-		-		-	-	

Source: Company, Angel Research

Exhibit 2: 1QFY2013 – Actual vs. Angel estimates

Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	1,258	1,276	(1.4)
Non-interest income	296	292	1.5
Operating income	1,554	1,568	(0.9)
Operating expenses	134	146	(8.0)
Pre-prov. profit	1,420	1,422	(0.1)
Provisions & cont.	40	39	1.3
PBT	1,380	1,383	(0.2)
Prov. for taxes	378	369	2.4
PAT	1,002	1,014	(1.1)

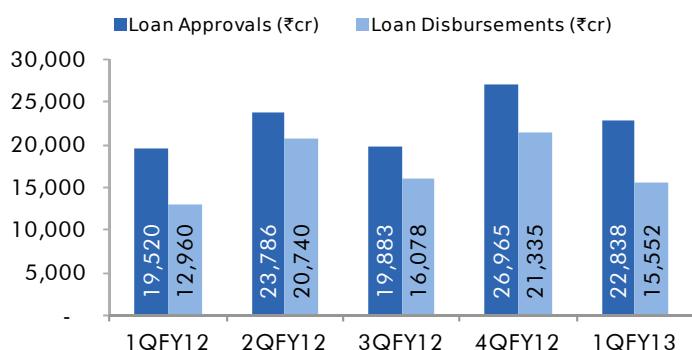
Source: Company, Angel Research

Loan growth healthy; outlook remains strong

For 1QFY2013, HDFC's loan book grew by healthy 19.4% yoy (~23% yoy including loans sold) to ₹148,262cr. Approvals in 1QFY2013 stood at ₹22,838cr (up 17.0% yoy), while disbursements stood at ₹15,552cr (up 20.0% yoy).

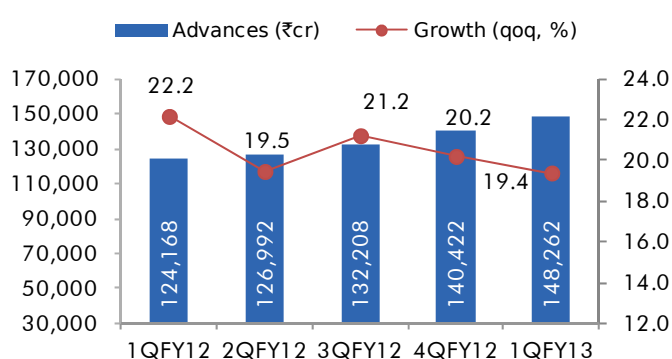
The individual loan book grew by 22.5% yoy (~29% yoy including loans sold) to ₹95,413cr (64.4% of overall loan book), while growth in non individual book was relatively subdued at 14.2% yoy (₹52,849cr as of 1QFY2013). On an incremental basis, ~90% of the increase in loans outstanding in 1QFY2013 was on account of loans towards the individual segment. We have factored in loan growth of 20% for FY2013.

Exhibit 3: Approvals and disbursements – 1QFY2013



Source: Company, Angel Research

Exhibit 4: Loan book growth healthy in 1QFY2013

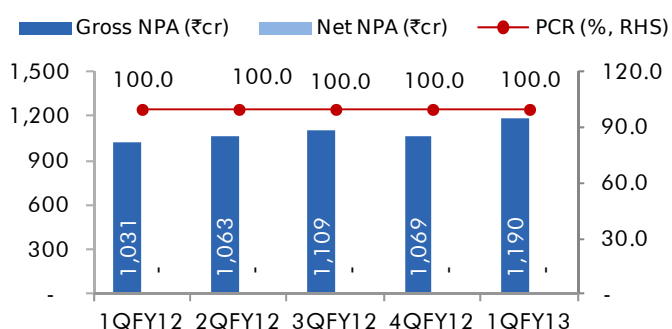


Source: Company, Angel Research

Asset quality remains stable

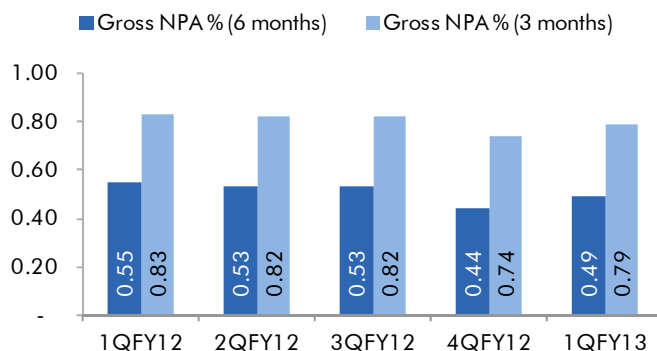
HDFC's asset quality continued to remain stable during 1QFY2013, with gross NPA ratio falling by 4bp yoy to 0.79%. On a six-month overdue basis, gross NPA ratio stood at 0.49%. Gross NPAs grew by 15.5% yoy to ₹1,190cr. HDFC continued to maintain a 100% provision coverage ratio for 1QFY2013, similar to 4QFY2012.

Exhibit 5: 100% NPA coverage for 1QFY2013



Source: Company, Angel Research

Exhibit 6: Asset quality remains stable



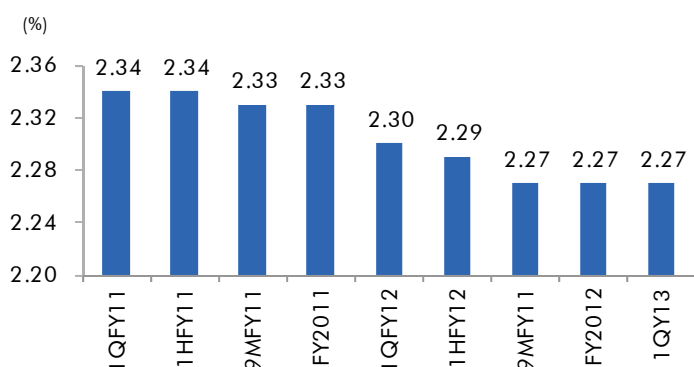
Source: Company, Angel Research

NII growth comes in healthy

HDFC's NII rose by healthy 26.0% yoy to ₹1,258cr. HDFC's pace of deposit accretion has accelerated over the last year, growing by 31.0% yoy compared to overall loan fund growth of 16.4% yoy, which is expected to sustain healthy NII growth going ahead.

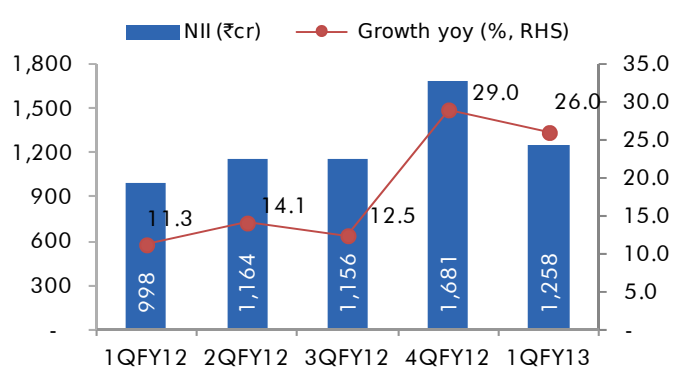
The spread on loans over the cost of borrowings stood at 2.27% for 1QFY2013 compared to 2.30% for FY2011. We expect HDFC's NII to post a 17.5% CAGR over FY2012-14E

Exhibit 7: Spread at 2.27% for 1QFY2013



Source: Company, Angel Research

Exhibit 8: NII growth trend



Source: Company, Angel Research

Non-interest income remains moderate

For 1QFY2013, the bank's other income decreased by 4.1% yoy to ₹296cr primarily due to lower income from surplus from MFs (down 52.4% yoy). Fee income increased by 7.7% yoy and profit on sale of investments increased by 24.5% yoy. Income from dividends was also higher by 20.7% yoy.

Exhibit 9: Lower income from surplus from MFs

Particulars (₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)
- Surplus from MFs	46	63	(26.5)	97	(52.4)
- Dividend Income	160	62	159.4	132	20.7
- Fees & other charges	62	60	2.9	57	7.7
- Other operating income	1	2	(46.7)	1	(28.5)
- Other income	7	6	16.2	5	57.6
- Profit on sale of investments	20	79	(74.4)	16	24.5
Total	296	271	9.1	308	(4.1)

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, such as 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 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 20.9% over FY2006-12. During the period, HDFC's earnings have also witnessed an equally healthy 21.9% 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.

Even in FY2012, the company was able to post 20% yoy loan growth, well ahead of 12% yoy housing credit growth by banks, despite a challenging growth environment. 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 (~90% of incremental growth in loan advances in 1QFY2012 was towards the individual loan segment) to drive its credit growth. While this is expected to lead to a decline in margins (we have factored in a 15bp 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 loan growth of 20% yoy for FY2013.

Outlook and valuation

At the CMP, HDFC's core business (after adjusting ₹232/share towards the value of its subsidiaries) is trading at 3.6x FY2014E ABV of ₹126.9 (including subsidiaries, the stock is trading at 3.8x 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 3.8x one-year forward P/ABV and at a 51.6% premium to the Sensex in P/E terms (compared to an average of 37.9% since FY2006), 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. (%)
FY2013E	31.5	32.2	(2.1)
FY2014E	37.8	38.3	(1.3)

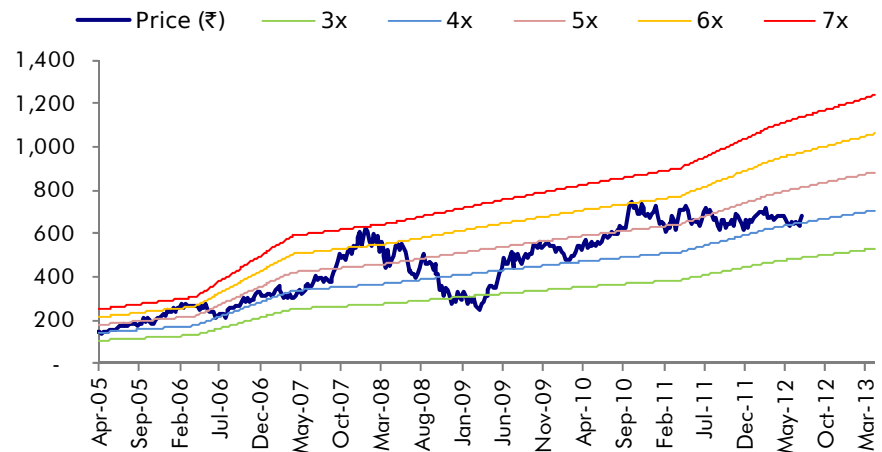
Source: Bloomberg, Angel Research

Exhibit 11: Change in estimates

Particulars (₹ cr)	FY2013			FY2014		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII	5,902	5,841	(1.0)	7,030	6,899	(1.9)
Non-interest income	1,458	1,499	2.8	1,793	1,906	6.3
Operating income	7,360	7,340	(0.3)	8,823	8,805	(0.2)
Operating expenses	551	533	(3.3)	651	619	(4.9)
Pre-prov. profit	6,809	6,806	(0.0)	8,173	8,187	0.2
Provisions & cont.	184	167	(9.5)	220	216	(1.6)
PBT	6,624	6,640	0.2	7,953	7,971	0.2
Prov. for taxes	1,807	1,811	0.2	2,174	2,179	0.2
PAT	4,817	4,828	0.2	5,779	5,792	0.2

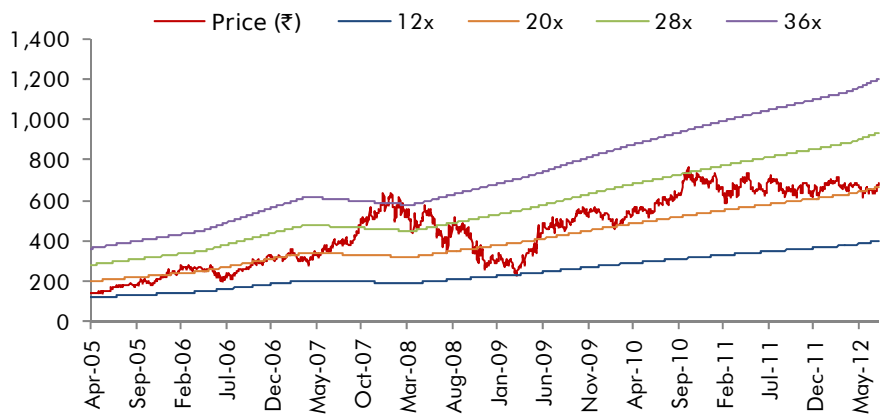
Source: Angel Research

Exhibit 12: P/ABV band



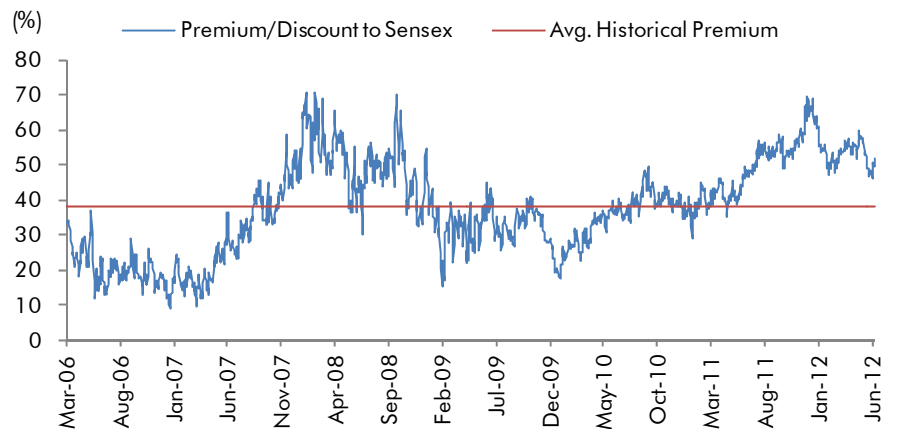
Source: Bloomberg, Angel Research;

Exhibit 13: P/E band



Source: Bloomberg, Angel Research

Exhibit 14: HDFC – Premium/Discount to the Sensex



Source: Bloomberg, Angel Research

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

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
NII	3,054	3,388	4,247	4,998	5,841	6,899
- YoY Growth (%)	17.5	10.9	25.4	17.7	16.9	18.1
Other Income	531	910	1,071	1,199	1,499	1,906
- YoY Growth (%)	(51.3)	71.3	17.7	12.0	25.0	27.1
Operating Income	3,585	4,298	5,318	6,198	7,340	8,805
- 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	6,806	8,187
- YoY Growth (%)	(4.0)	21.6	24.2	16.4	18.5	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	6,640	7,971
- YoY Growth (%)	(4.6)	21.7	24.3	16.4	17.2	20.0
Prov. for Taxation	937	1,090	1,332	1,543	1,811	2,179
- as a % of PBT	29.1	27.8	27.4	27.2	27.3	27.3
PAT	2,283	2,826	3,535	4,123	4,828	5,792
- YoY Growth (%)	(6.3)	23.8	25.1	16.6	17.1	20.0

Balance sheet

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	23,848	26,796
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	10,532	13,358
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

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	2.7
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	12.5	15.0
Valuation Ratios						
PER (x)	42.3	34.5	28.1	24.3	21.5	17.9
P/ABVPS (x)	7.3	6.4	5.7	5.3	4.3	3.8
DuPont Analysis[#]						
NII	3.4	3.3	3.5	3.4	3.3	3.26
(-) 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	3.16
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	3.32
Other Inc.	0.4	0.6	0.5	0.5	0.6	0.65
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	2.7
Leverage	9.6	12.0	14.2	14.4	13.1	12.1
RoE	23.2	31.6	40.8	39.3	34.8	32.2

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%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	