

HDFC

Performance Highlights

Particulars (₹ cr)	1QFY15	4QFY14	% chg (qoq)	1QFY14	% chg (oy)
NII	1,813	2,260	(19.8)	1576	15.0
Pre-prov. profit	1,960	2,383	(17.8)	1638	19.6
PAT	1,345	1,723	(22.0)	1173	14.6

Source: Company, Angel Research

HDFC reported a good set of numbers for 1QFY2015. Its PAT (standalone basis) rose by 15% yoy to ₹1,345cr, aided by a strong growth in operating income (by 18% yoy) and relatively lower growth in operating expenses (ie, of 5% yoy). Other income grew by 41.1% yoy, aided by a 39.3% yoy growth in dividend income and 23.2% yoy growth in fee income. Earnings adjusted for dividends and sale of investments grew by 8.9% yoy, similar to the 9.9% yoy growth in 4QFY2014. However adjusting for deferred tax liability of ₹77cr, provided on Special Reserve as per guidelines of the National Housing Bank (NHB), the yoy growth in core profitability would stand at 17%. Advances grew by 15% yoy, aided by healthy growth in individual advances (by 17% yoy). Asset quality witnessed stability with Gross NPA at 0.7%.

Loan book growth slows; Asset quality remains healthy: For 1QFY2015, HDFC's loan book grew by a moderate 15% yoy, with loans to the individual segment growing by 23% yoy after adding back loans sold in the last 12 months and by 17% yoy excluding sold back loans. HDFC has been incrementally growing its individual loan book, much faster than its corporate loan book, over the past few quarters. During the quarter under review, incremental growth in the loan book (including loans sold) came majorly through growth in individual loans, which now constitute almost 68% of the total loan book as against 66.9% in 1QFY2014. The reported standalone NIM for 1QFY2015 stood at 3.8%. The spread remained steady at 2.29% on a yoy basis, as a dip in spread on individual loans was offset by increase in spread on non individual loans. During 1QFY2015, the asset quality continued to remain strong for the company, as its gross NPA ratio came in at 0.7% (compared to 0.7% in 4QFY2014 and 0.77% in 3QFY2014). The company continues to maintain a 100% PCR. However, with expectations of loan book growth at a CAGR of 18.5% over FY2014-16E, the earnings of the company are expected to grow at a CAGR of 14.1% over the same period.

Outlook and valuation: HDFC continues to post good set of numbers despite sluggish economic environment. Overall, we expect HDFC to post a healthy PAT CAGR of 14.1% over FY2014-16E. The stock has gained in the recent rally and currently, HDFC's core business (after adjusting ₹326/share towards the value of its subsidiaries) trades at 4.3x FY2016E ABV, which in our view, offers limited scope for upside in the stock price, here on. Hence, we maintain our **Neutral rating on the stock.**

Key financials (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E
NII*	5,927	6,666	7,660	8,952
% chg	18.6	12.5	14.9	16.9
Net profit	4,848	5,440	6,052	7,082
% chg	17.6	12.2	11.2	17.0
NIM (%)	3.6	3.5	3.5	3.4
EPS (₹)	31.4	34.9	38.8	45.4
P/E (x)	28.5	25.6	23.0	19.7
P/ABV (x)	5.5	5.0	4.5	4.1
RoA (%)	2.6	2.5	2.4	2.4
RoE (%)	22.0	20.5	20.6	21.8

Source: Company, Angel Research; Note: * Core NII; CMP as of July 22, 2014

NEUTRAL

CMP	₹1,040
Target Price	-
Investment Period	-

Stock Info

Sector	HFC
Market Cap (₹ cr)	1,63,072
Beta	1.3
52 Week High / Low	1045/632
Avg. Daily Volume	1,26,099
Face Value (₹)	2
BSE Sensex	26,025
Nifty	7,768
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	10.7
FII / NRIs / OCBs	77.3
Indian Public / Others	12.0

Abs. (%)	3m	1yr	3yr
Sensex	14.4	29.1	40.9
HDFC	19.0	25.5	49.9

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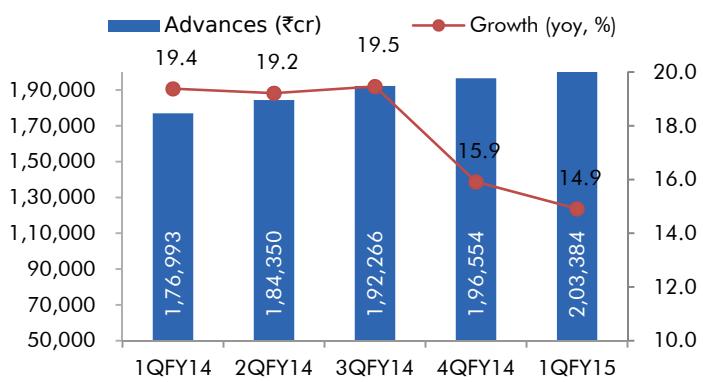
Exhibit 1: Quarterly performance (standalone)

Particulars (₹ cr)	1QFY15	4QFY14	% chg (qoq)	1QFY14	% chg (yoY)	FY2014	FY2013	% chg
Income from operations	6,143	6,401	(4.0)	5,340	15.1	23,338	20,316	14.9
Interest expensed	4,331	4,141	4.6	3,763	15.1	16,029	13,891	15.4
NII	1,813	2,260	(19.8)	1,576	15.0	7,309	6,425	13.8
Non-interest income	318	247	28.8	225	41.1	859	831	3.4
Operating income	2,131	2,507	(15.0)	1,802	18.3	8,168	7,257	12.6
Operating expenses	171	124	37.8	164	4.6	628	539	16.5
Pre-prov. profit	1,960	2,383	(17.8)	1,638	19.6	7,540	6,718	12.2
Provisions & cont.	35	30	16.7	30	16.7	100	145	(31.0)
PBT	1,925	2,353	(18.2)	1,608	19.7	7,440	6,573	13.2
Prov. for taxes	580	630	(7.9)	435	33.3	2,000	1,725	16.0
PAT	1,345	1,723	(22.0)	1,173	14.6	5,440	4,848	12.2
EPS (₹)	8.6	11.0	(22.3)	7.5	13.7	34.9	31.4	11.2
Cost-to-income ratio (%)	8.0	5.0		9.1		7.7	7.4	
Effective tax rate (%)	30.1	26.8		27.1		26.9	26.2	

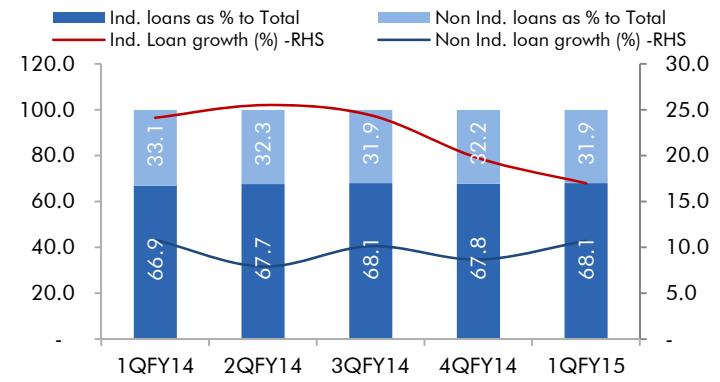
Source: Company, Angel Research

Loan growth slows down

For 1QFY2015, HDFC's loan book grew at a steady pace of 15% yoy, with loans to the individual segment growing by 23% yoy after adding back loans sold in the last 12 months and by 17% yoy excluding sold back loans. HDFC has been incrementally growing its individual loan book, much faster than its corporate loan book, over the past few quarters. During the quarter, incremental growth in the loan book (including loans sold) came majorly through growth in individual loans, which now constitute almost 68% of the total loan book as against 66.9% in 1QFY2014. We have factored in a loan book CAGR of 18.5% over FY2014-16E.

Exhibit 2: Loan book growth slows to 14.9% yoy


Source: Company, Angel Research

Exhibit 3: Individual loans grew healthy at 17.0% yoy


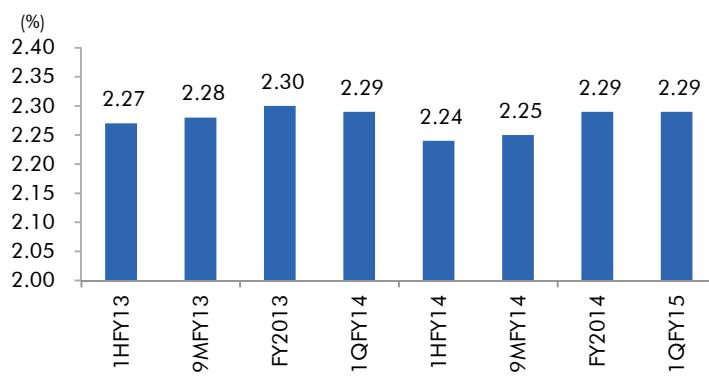
Source: Company, Angel Research

NII growth improves

HDFC's NII rose by 15.0% yoy to ₹1,813cr, aided by a 15% yoy growth in the loan book. The spread remains at 2.3% for 1QFY2015, inspite of contribution from low yielding individual loans (spread of 1.96% as against 2.99% for non individual loans) having increased by 120bp yoy to 68%.

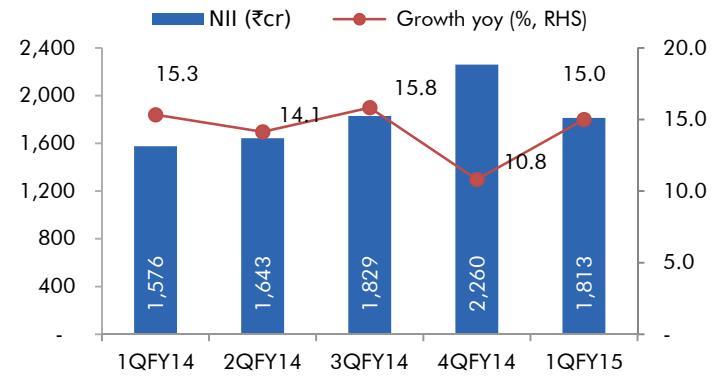
Going ahead, the NIM is likely to continue to face modest pressure on account of higher incremental lending to individuals (individual loans have lower spreads compared to non-individual loans). However, with expectations of loan book growth at a CAGR of 18.5% over FY2014-16E, the core earnings for the company (adjusting for dividends and profit on sale of investments) are expected to grow at a CAGR of around 17.6% over the same period.

Exhibit 5: Spreads at 2.29% for Q1FY2015



Source: Company, Angel Research

Exhibit 6: NII growth improves



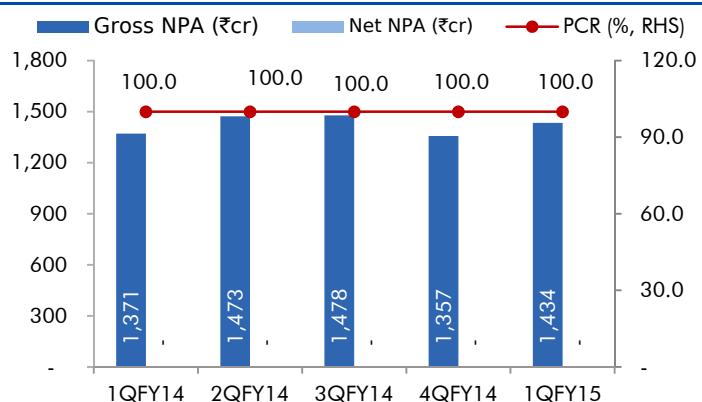
Source: Company, Angel Research

Asset quality remains stable qoq

During 1QFY2015, the asset quality continued to remain strong for the company, as its gross NPA ratio came in at 0.70%, lower as compared to 0.77% in 1QFY2014. The Gross NPA ratio for the individual portfolio increased sequentially by 2bp to 0.55%, while that for the non-individual portfolio remained unchanged at 1.01% in 1QFY2015. HDFC continues to maintain a 100% PCR as well as carries ₹423cr of excess provision over and above the regulatory requirement.

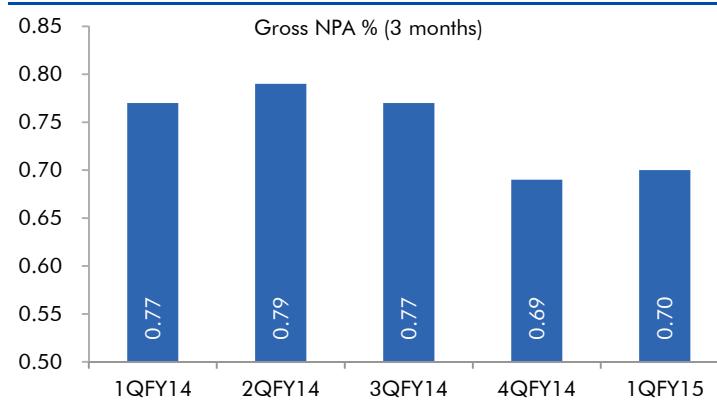
During 1QFY2015, the provisioning expenses for the company came in higher yoy at ₹35cr, as compared to ₹30cr in 1QFY2014 and ₹30cr in 4QFY2014.

Exhibit 7: NPA coverage remains at 100%



Source: Company, Angel Research

Exhibit 8: Gross NPA ratio remains stable



Source: Company, Angel Research

Outlook and valuation

HDFC continues to post good set of numbers despite sluggish economic environment. Overall, we expect HDFC to post a healthy PAT CAGR of 14.1% over FY2014–16E. The stock has gained in the recent rally and currently, HDFC's core business (after adjusting ₹326/share towards the value of its subsidiaries) trades at 4.3x FY2016E ABV, which in our view, offers limited scope for upside in the stock price, here on. Hence, **we maintain our Neutral rating on the stock.**

Company Background

HDFC is India's leading housing finance company, with a balance sheet size of around ₹2.3 lakh cr. The company's primary business is to provide loans for the purchase or construction of residential houses. HDFC's distribution network spans 360 outlets, covering more than 2400 towns and cities across India. HDFC also has representative offices in London, Dubai and Singapore and service associates in Kuwait, Oman, Qatar, Abu Dhabi and Saudi Arabia to cater to NRIs. 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)	FY11	FY12	FY13	FY14	FY15E	FY16E
NII*	4,247	4,998	5,927	6,666	7,660	8,952
- YoY Growth (%)	25.4	17.7	18.6	12.5	14.9	16.9
Other Income	1,071	1,199	1,329	1,503	1,778	2,072
- YoY Growth (%)	17.7	12.0	10.8	13.0	18.3	16.5
Operating Income	5,318	6,198	7,257	8,168	9,438	11,024
- YoY Growth (%)	23.7	16.5	17.1	12.6	15.5	16.8
Operating Expenses	381	452	539	628	691	804
- YoY Growth (%)	17.7	18.6	19.3	16.6	10.0	16.4
Pre - Provision Profit	4,937	5,746	6,718	7,540	8,747	10,220
- YoY Growth (%)	24.2	16.4	16.9	12.2	16.0	16.8
Prov. & Cont.	70	80	145	100	91	96
- YoY Growth (%)	20.7	14.3	81.3	(31.0)	(9.3)	5.5
Profit Before Tax	4,867	5,666	6,573	7,440	8,657	10,124
- YoY Growth (%)	24.3	16.4	16.0	13.2	16.4	16.9
Prov. for Taxation	1,332	1,543	1,725	2,000	2,605	3,042
- as a % of PBT	27.4	27.2	26.2	26.9	30.1	30.1
PAT	3,535	4,123	4,848	5,440	6,052	7,082
- YoY Growth (%)	25.1	16.6	17.6	12.2	11.2	17.0

Note: *Core NII

Balance sheet (standalone)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Share Capital	293	295	309	312	312	312
Reserve & Surplus	17,023	18,722	24,691	27,643	30,482	33,798
Loan Funds	115,112	139,128	158,828	179,574	211,948	255,559
- Growth (%)	19.2	20.9	14.2	13.1	18.0	20.6
Other Liab. & Prov.	6,814	9,375	11,703	18,229	19,975	23,922
Total Liabilities	139,242	167,520	195,531	225,758	262,718	313,591
Investments	11,832	12,207	13,613	13,995	14,954	16,275
Advances	116,806	140,422	169,571	196,554	229,968	275,962
- Growth (%)	19.2	20.2	20.8	15.9	17.0	20.0
Fixed Assets	234	234	238	270	316	379
Other Assets	10,370	14,657	12,109	14,940	17,479	20,975
Total Assets	139,242	167,520	195,531	225,758	262,718	313,591

Ratio analysis (standalone)

Y/E March	FY11	FY12	FY13	FY14	FY15E	FY16E
Profitability ratios (%)						
NIMs	3.6	3.6	3.6	3.5	3.5	3.4
Cost to Income Ratio	7.2	7.3	7.4	7.7	7.3	7.3
RoA	2.9	2.7	2.6	2.5	2.4	2.4
RoE	21.7	22.7	22.0	20.5	20.6	21.8
Asset Quality (%)						
Gross NPAs	0.77	0.76	0.71	0.69	0.70	0.70
Net NPAs	-	-	-	-	-	-
Provision Coverage	100.0	100.0	100.0	100.0	100.0	100.0
Per Share Data (₹)						
EPS	24.1	27.9	31.4	34.9	38.8	45.4
ABVPS (75% cover.)	118.1	128.8	161.7	179.1	197.3	218.6
DPS	9.0	11.0	12.5	14.0	15.5	18.1
Valuation Ratios						
PER (x)	37.0	32.0	28.5	25.6	23.0	19.7
P/ABVPS (x)	7.6	6.9	5.5	5.0	4.5	4.1
DuPont Analysis[#]						
NII	3.5	3.4	3.4	3.3	3.2	3.2
(-) Prov. Exp.	0.1	0.1	0.1	0.0	0.0	0.0
Adj. NII	3.5	3.4	3.3	3.2	3.2	3.2
Treasury	0.3	0.2	0.2	0.1	0.1	0.1
Int. Sens. Inc.	3.8	3.6	3.5	3.4	3.3	3.3
Other Inc.	0.5	0.5	0.4	0.5	0.5	0.5
Op. Inc.	4.3	4.1	3.9	3.8	3.8	3.7
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	4.0	3.8	3.6	3.5	3.5	3.5
Taxes	1.1	1.1	1.0	1.0	1.1	1.1
RoA	2.9	2.7	2.6	2.5	2.4	2.4
Leverage	14.2	14.4	12.6	11.1	11.2	11.6
RoE	40.8	39.3	33.2	28.1	26.9	27.5

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%)