

HDFC

Performance Highlights

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
NII	2,116	2,461	(14.0)	1813	16.7
Pre-prov. profit	2,002	2,703	(25.9)	1960	2.2
PAT	1,361	1,862	(26.9)	1345	1.2

Source: Company, Angel Research

For 1QFY2016, HDFC has reported a PAT (standalone basis) growth of a mere 1.2% yoy to ₹1,361cr. This is due to lower dividend income, as dividend from HDFC Bank would be recorded in 2QFY2016, while in the previous year, dividend was received in 1QFY2015. Adjusted to dividend and profit on sale of investment, PAT grew at a healthy pace of 23.2% yoy.

Loan book growth and Asset quality remain steady

For 1QFY2016, HDFC's loan book grew by 13.7% yoy, with loans to the individual segment growing by 23% yoy (after adding sold loans) and 15% yoy (excluding sold loans). The individual loan book has been consistently outpacing the corporate book over the past few quarters. During the quarter, incremental growth in the loan book (including loans sold) came through growth in individual loans and now constitute almost 69% of total loans as compared to 68.1% in 1QFY2015. The spread stood largely stable at 2.31% for 1QFY2016 as compared to 2.32% for the entire FY2015, while the NIM came in at 3.8% as against 4.0% for the entire FY2015 and 3.8% in 1QFY2015. NIM is facing modest pressure on back of higher incremental lending to individuals (spreads are lower for individual loans as compared to non-individual loans). However, with expectations of loan book growth at a CAGR of 19.5% over FY2015-17E, we expect the company to sustain healthy NII CAGR of 17% over the same period.

Asset quality continues to remain steady for the company, as its gross NPA ratio came in at 0.69% vs 0.67% in 4QFY2015. The Gross NPA ratio of individual loans went up to 0.53% as against 0.51% in 4QFY2015 due to seasonal effect, while the Gross NPA ratio of non-individual loans portfolio went up by 3bp qoq to 1.04%. The company continues to maintain a 100% PCR.

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 15.3% over FY2015-17E. HDFC's core business (after adjusting ₹480/share towards the value of its subsidiaries) trades at 4.1x FY2017E ABV, which in our view offers limited scope for upside here on. Hence, **we maintain our Neutral rating on the stock.**

Key financials (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII*	6,666	7,631	8,866	10,449
% chg	12.5	14.5	16.2	17.9
Net profit	5,440	5,990	6,764	7,969
% chg	12.2	10.1	12.9	17.8
NIM (%)	3.4	3.4	3.4	3.4
EPS (₹)	34.9	38.0	43.0	50.6
P/E (x)	36.1	33.0	29.3	24.8
P/ABV (x)	7.0	6.4	5.8	5.2
RoA (%)	2.5	2.4	2.3	2.3
RoE (%)	20.5	20.3	20.8	22.1

Source: Company, Angel Research; Note: * Core NII; CMP as of August 13, 2015

NEUTRAL

CMP ₹1,257
 Target Price -

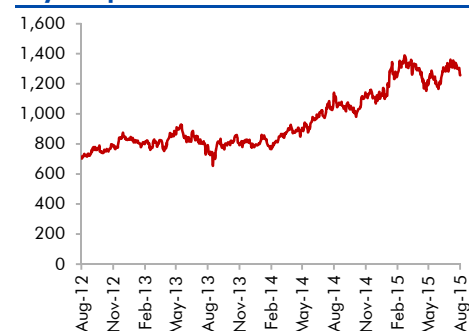
Investment Period -

Stock Info	
Sector	HFC
Market Cap (₹ cr)	1,98,160
Beta	1.4
52 Week High / Low	1399/975
Avg. Daily Volume	1,52,395
Face Value (₹)	2
BSE Sensex	27,550
Nifty	8,356
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian Fls	9.5
FII / NRIs / OCBs	78.8
Indian Public / Others	11.7

Abs. (%)	3m	1yr	3yr
Sensex	1.1	6.3	56.2
HDFC	3.1	10.2	75.7

3-year price chart



Source: Company, Angel Research

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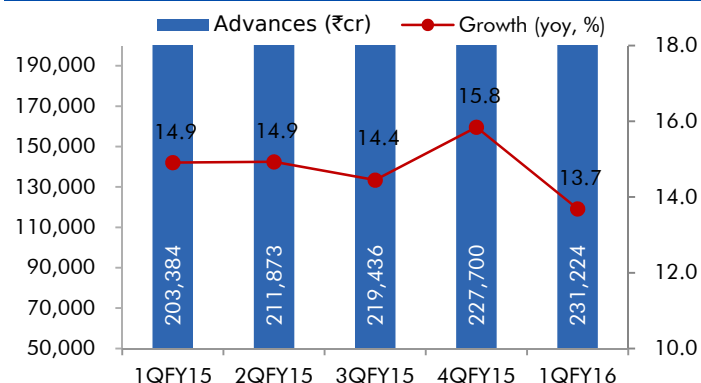
Exhibit 1: Quarterly performance (standalone)

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)	FY2015	FY2014	% chg
Income from operations	6,980	7,044	(0.9)	6,143	13.6	26,272	23,338	12.6
Interest expensed	4,863	4,583	6.1	4,331	12.3	17,975	16,029	12.1
NII	2,116	2,461	(14.0)	1,813	16.7	8,297	7,309	13.5
Non-interest income	89	412	(78.5)	318	(72.1)	1,199	859	39.6
Operating income	2,205	2,873	(23.3)	2,131	3.5	9,496	8,168	16.3
Operating expenses	203	170	19.3	171	18.6	707	628	12.5
Pre-prov. profit	2,002	2,703	(25.9)	1,960	2.2	8,789	7,540	16.6
Provisions & cont.	50	50	-	35	42.9	165	100	65.0
PBT	1,952	2,653	(26.4)	1,925	1.4	8,624	7,440	15.9
Prov. for taxes	591	791	(25.3)	580	1.9	2,634	2,000	31.7
PAT	1,361	1,862	(26.9)	1,345	1.2	5,990	5,440	10.1
EPS (₹)	8.6	11.8	(26.9)	8.6	0.7	38.0	34.9	9.1
Cost-to-income ratio (%)	9.2	5.9	328bp	8.0	117bp	7.4	7.7	
Effective tax rate (%)	30.3	29.8		30.1		30.5	26.9	

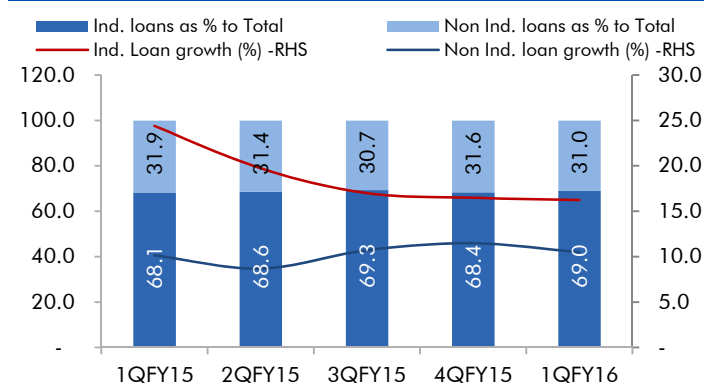
Source: Company, Angel Research

Healthy growth in retail loan book drives total loan book growth

For 1QFY2016, HDFC's loan book grew by 13.7% yoy, with loans to the individual segment growing by 23% yoy (after adding sold loans) and 15% yoy (excluding sold loans). The individual loan book has been consistently outpacing the corporate book over the past few quarters. During the quarter, incremental growth in the loan book (including loans sold) came through growth in individual loans and now constitute almost 69% of total loans as compared to 68.1% in 1QFY2015. We have factored in a loan book CAGR of 19.5% over FY2015-17E.

Exhibit 2: Loan book growth steady


Source: Company, Angel Research

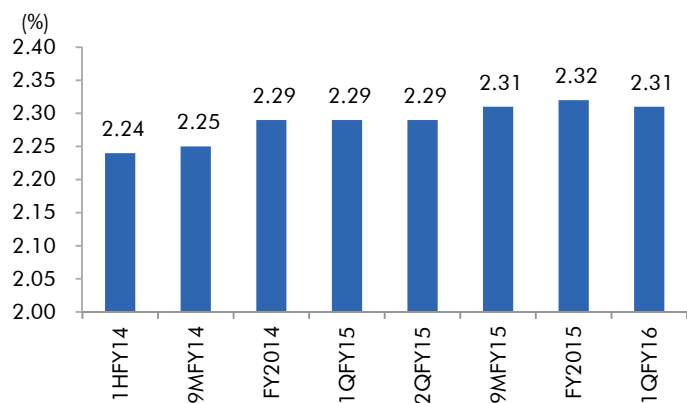
Exhibit 3: Individual loans grew healthy at 15.2% yoy


Source: Company, Angel Research

NII grows at steady pace

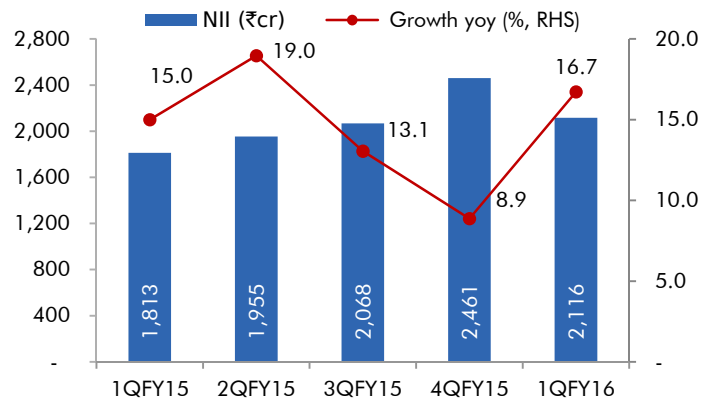
HDFC's NII rose by 16.7% yoy to ₹2,116cr, aided by 13.7% yoy growth in loan book. The spread stood largely stable at 2.31% for 1QFY2016 as compared to 2.32% for the entire FY2015, while the NIM came in at 3.8% as against 4.0% for the entire FY2015 and 3.8% in 1QFY2015. NIM is facing modest pressure, on account of higher incremental lending to individuals. With loan book expected to grow at CAGR of 19.5% over FY2015-17E, we expect the company to sustain healthy NII CAGR of 19.1% over the same period.

Exhibit 4: Spreads at 2.31% for 1QFY2016



Source: Company, Angel Research

Exhibit 5: NII grows at healthy pace

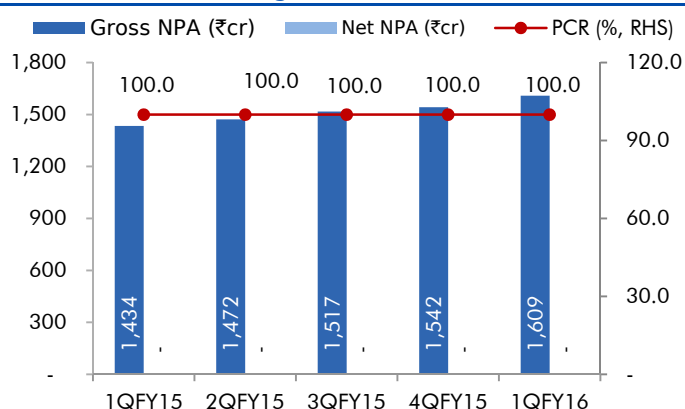


Source: Company, Angel Research

Asset quality remains healthy

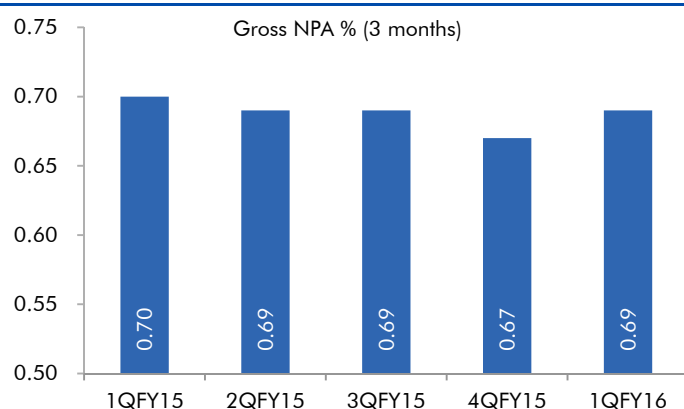
Asset quality continues to remain steady for the company, as its gross NPA ratio came in at 0.69% from 0.67% in 4QFY2015. Gross NPA ratio of individual loans went up to 0.53% as against 0.51% in 4QFY2015 due to seasonal effect, while Gross NPA ratio of non-individual loans portfolio rose by 3bp qoq to 1.04%. The company continues to maintain a 100% PCR. In fact, the company carries ₹340cr of excess provision over and above the regulatory requirement of ₹1,742cr.

Exhibit 4: NPA coverage remains at 100%



Source: Company, Angel Research

Exhibit 5: Gross NPA ratio remains stable



Source: Company, Angel Research

Outlook and valuation

HDFC continued to post good set of numbers despite sluggish economic environment. Overall, we expect HDFC to post a healthy PAT CAGR of 15.3% over FY2015–17E. HDFC's core business (after adjusting ₹480/share towards the value of its subsidiaries) trades at 4.1x FY2017E ABV, which in our view offers limited scope for upside in the stock price from 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 ₹2.6 lakh cr. The company's primary business is to provide loans for the purchase or construction of residential houses. HDFC's distribution network spans 382 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 verticals.

Income statement (standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
NII*	4,998	5,927	6,666	7,631	8,866	10,449
- YoY Growth (%)	17.7	18.6	12.5	14.5	16.2	17.9
Other Income	1,199	1,329	1,503	1,865	2,017	2,350
- YoY Growth (%)	12.0	10.8	13.0	24.1	8.1	16.5
Operating Income	6,198	7,257	8,168	9,496	10,883	12,799
- YoY Growth (%)	16.5	17.1	12.6	16.3	14.6	17.6
Operating Expenses	452	539	628	707	848	1,018
- YoY Growth (%)	18.6	19.3	16.5	12.5	20.0	20.0
Pre - Provision Profit	5,746	6,718	7,540	8,789	10,035	11,781
- YoY Growth (%)	16.4	16.9	12.2	16.6	14.2	17.4
Prov. & Cont.	80	145	100	165	203	203
- YoY Growth (%)	14.3	81.3	(31.0)	65.0	23.3	(0.1)
Profit Before Tax	5,666	6,573	7,440	8,624	9,832	11,578
- YoY Growth (%)	16.4	16.0	13.2	15.9	14.0	17.8
Prov. for Taxation	1,543	1,725	2,000	2,634	3,067	3,609
- as a % of PBT	27.2	26.2	26.9	30.5	31.2	31.2
PAT	4,123	4,848	5,440	5,990	6,764	7,969
- YoY Growth (%)	16.6	17.6	12.2	10.1	12.9	17.8

Note: *Core NII

Balance sheet (standalone)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Share Capital	295	309	312	315	315	315
Reserve & Surplus	18,722	24,691	27,643	30,655	33,811	37,524
Loan Funds	1,39,128	1,58,828	1,84,298	2,08,694	2,49,495	2,96,899
- Growth (%)	20.9	14.2	16.0	13.2	19.6	19.0
Other Liabilities & Prov.	9,375	11,703	13,504	14,383	19,585	24,510
Total Liabilities	1,67,520	1,95,531	2,25,757	2,54,047	3,03,206	3,59,248
Investments	12,207	13,613	13,804	14,294	15,503	16,881
Advances	1,40,422	1,69,571	1,96,554	2,27,700	2,73,240	3,25,156
- Growth (%)	20.2	20.8	15.9	15.8	20.0	19.0
Fixed Assets	234	238	276	677	812	966
Other Assets	14,657	12,109	15,123	11,376	13,651	16,244
Total Assets	1,67,520	1,95,531	2,25,757	2,54,047	3,03,206	3,59,248

Ratio analysis (standalone)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)						
NIMs	3.6	3.6	3.4	3.4	3.4	3.4
Cost to Income Ratio	7.3	7.4	7.7	7.4	7.8	8.0
RoA	2.7	2.6	2.5	2.4	2.3	2.3
RoE	22.7	22.0	20.5	20.3	20.8	22.1
Asset Quality (%)						
Gross NPAs	0.76	0.71	0.69	0.68	0.70	0.70
Net NPAs	-	-	-	-	-	-
Provision Coverage	100.0	100.0	100.0	100.0	100.0	100.0
Per Share Data (₹)						
EPS	27.9	31.4	34.9	38.0	43.0	50.6
ABVPS (75% cover.)	128.8	161.7	179.1	196.7	216.7	240.3
DPS	11.0	12.5	14.0	15.1	16.9	19.9
Valuation Ratios						
PER (x)	45.0	40.1	36.1	33.0	29.3	24.8
P/ABVPS (x)	9.8	7.8	7.0	6.4	5.8	5.2
DuPont Analysis[#]						
NII	3.4	3.4	3.3	3.3	3.3	3.2
(-) Prov. Exp.	0.1	0.1	0.0	0.1	0.1	0.1
Adj. NII	3.4	3.3	3.2	3.2	3.2	3.2
Treasury	0.2	0.2	0.1	0.2	0.1	0.1
Int. Sens. Inc.	3.6	3.5	3.4	3.4	3.3	3.3
Other Inc.	0.5	0.4	0.5	0.4	0.4	0.4
Op. Inc.	4.1	3.9	3.8	3.9	3.8	3.7
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	3.8	3.6	3.5	3.6	3.5	3.4
Taxes	1.1	1.0	1.0	1.1	1.1	1.1
RoA	2.7	2.6	2.5	2.4	2.3	2.3
Leverage	14.4	12.6	11.1	10.9	11.1	11.6
RoE	39.3	33.2	28.1	26.3	25.9	26.7

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 (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

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