

**HDFC**Bloomberg: **HDFC IN Equity**Recommendation: **HOLD**Reuters: **HDFC.BO****No Change****RESULT UPDATE**

# Too Fast Too Furious

- Healthy 30% YoY growth in NII; 27% growth in reported net profits
- Approvals pick up pace sequentially; augurs well for incremental growth
- Introducing FY12E estimates; building in expansion in FY11E full-year NIMs
- Revising target price to Rs3,150 (from our earlier TP of Rs2,730)
- Board approves 5:1 stock split; likely to stimulate higher retail participation
- Positive tidings priced in; maintain **'HOLD'**

HDFC reported a 27% rise in net profits to Rs9.26bn during Q4FY10 as against Rs7.3bn during the corresponding period last year. For the full year, HDFC reported a net profit of Rs28.3bn, registering a 22% YoY increase over the full year profits of Rs23.1bn during FY09.

**Exhibit 1: Quarterly performance**

Y/E Mar (Rs mn)	Q4FY10	Q4FY09	% chg	FY10	FY09	% chg
Interest income on loans	25,745	27,944	(7.9)	99,790	99,417	0.4
Other interest income	1,132	1,406	(19.5)	4,716	5,552	(15.1)
Interest income	26,877	29,350	(8.4)	104,506	104,969	(0.4)
Interest and finance charges	15,595	20,641	(24.4)	70,631	74,325	(5.0)
<b>Net interest income</b>	<b>11,282</b>	<b>8,709</b>	<b>29.5</b>	<b>33,875</b>	<b>30,644</b>	<b>10.5</b>
Other operating income	1,586	2,067	(23.3)	6,777	5,009	35.3
Profit on sale of investments	454	12	3,782.10	2,094	252	730.0
Other income	70	59	18.6	226	221	1.9
<b>Profit before XO item</b>	<b>12,653</b>	<b>10,228</b>	<b>23.7</b>	<b>39,153</b>	<b>32,465</b>	<b>20.6</b>
XO item	0	0	NM	0	0	NM
PBT	12,653	10,228	23.7	39,153	32,465	20.6
Tax	3,395	2,943	15.4	10,895	9,365	16.3
<b>Net profit</b>	<b>9,258</b>	<b>7,286</b>	<b>27.1</b>	<b>28,258</b>	<b>23,100</b>	<b>22.3</b>
EPS (Rs)	32.2	24.6	31.3	98.9	79	25.1

Source: Company, Ambit Capital research

On the balance sheet front, while approvals and disbursements continued to grow at a robust pace (close to 25% each), the loan book also picked up steam during the quarter, registering a 15% YoY growth to Rs980bn.

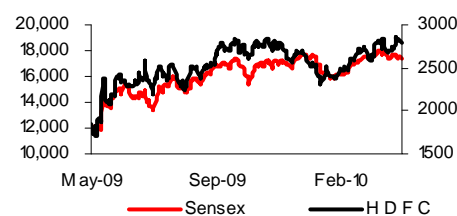
**Valuation and recommendation:** At its CMP of Rs2,820, the stock quotes at 4.8x and 4.2x our FY11E and FY12E standalone ABVPS estimates of Rs585 and Rs673 respectively. Given the steep run-up in the stock over the last 3 months (9% outperformance) and especially over the last month (6% outperformance), we believe that the near-term positives have been priced in. We maintain our **'HOLD'** recommendation on the stock with a revised target price of Rs3,150.

**Recommendation**

<b>CMP:</b>	Rs2,823
<b>Target Price</b>	Rs3,150
Previous TP:	Rs2,730
Upside/ Downside- (%)	12%
<b>ABVPS (FY11E): Rs</b>	585
% change from previous	4.5

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	1.0	18.1	52.5	5.5
Rel. to Sensex	5.7	8.8	8.0	7.5

**Performance (%)****Stock Information**

Mkt cap:	Rs810,855mn/US\$18,211mn
52-wk H/L (Rs):	2,882 / 1,572
Avg. daily vol. BSE (mn):	1
Beta (x):	1.0
BSE Sensex:	17,137
Nifty:	5,149

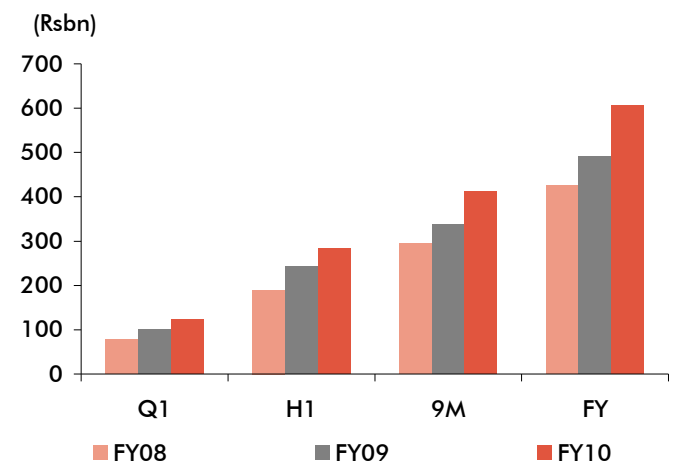
Source: Bloomberg, Ambit Capital research

Analyst contact

**Krishnan ASV**Tel. : + 91-(022) 3043 3205  
vkrishnan@ambitcapital.com**Poonam Saney**Tel. : + (022) 3043 3216  
poonamsaney@ambitcapital.com

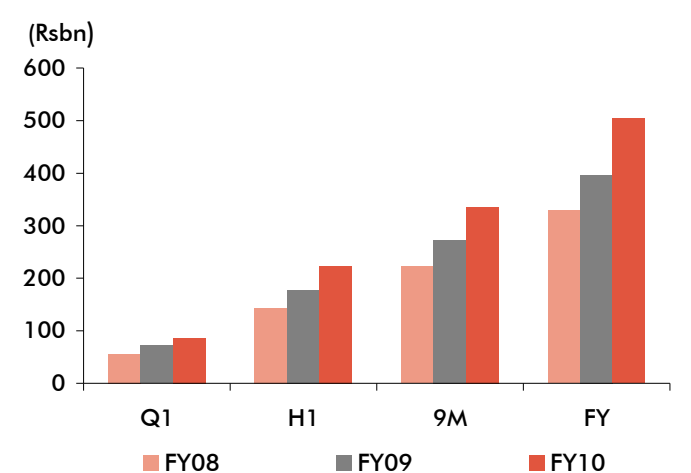
**Approvals pick up pace - augurs well for growth:** HDFC's growth outlook (from the core mortgage lending business) during FY10 has been an overhang on the stock, especially since the time PSU banks were coerced during December 2008 into offering home loans at subsidized rates (single-digit rates). Given the differential in interest rates offered by PSU banks (as part of the limited period scheme) and HDFC, we were skeptical about the incremental growth in HDFC's loan book. However, the pace of growth in approvals/disbursements has picked up ahead of our expectations.

**Exhibit 2: Growth in approvals**



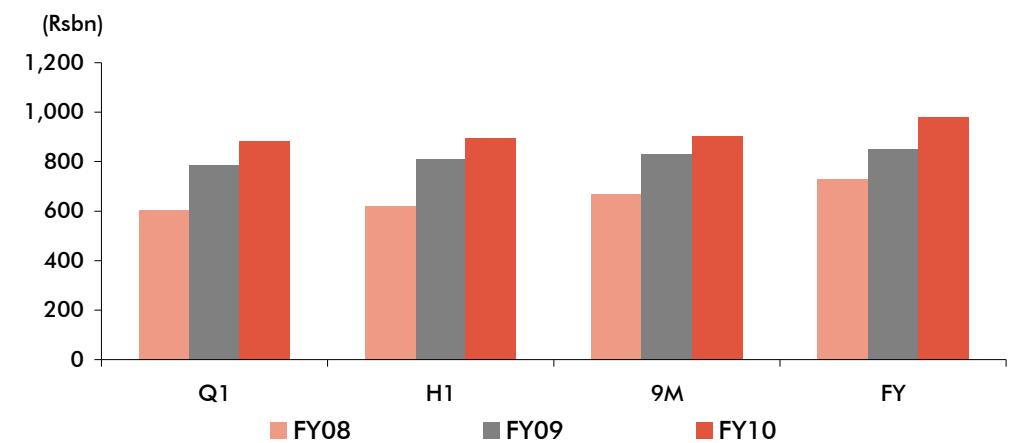
Source: Company, Ambit Capital research

**Exhibit 3: Growth in disbursements**



Source: Company, Ambit Capital research

**Exhibit 4: Growth in loan book**

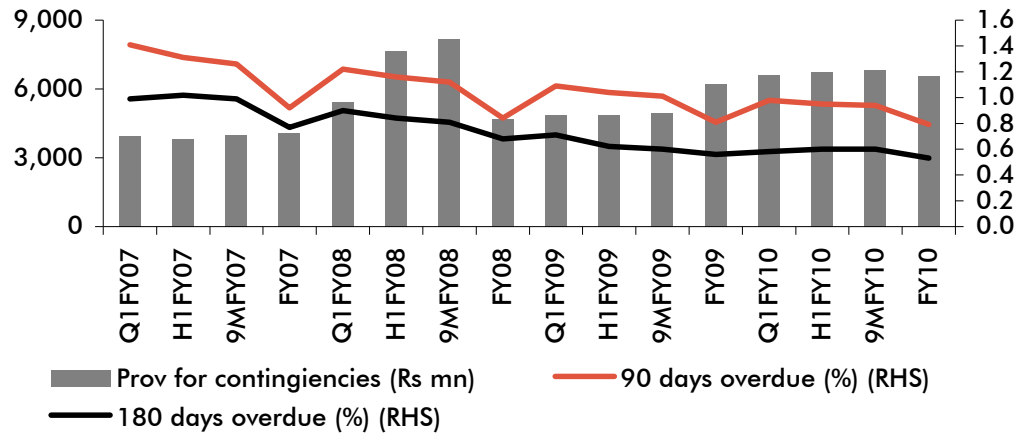


Source: Company, Ambit Capital research

HDFC witnessed its fastest pace of loan book growth for the last 24 months (since the Mar'08 quarter) during Q4FY10. We do not expect HDFC to go overboard in terms of growth and hence, build in sub-20% loan book CAGR over FY10-FY12E. We also expect the core lending business to mirror the up-trend in approvals and disbursements with a lag over the next few months.

**Asset quality uncompromised:** Despite the systemic stress anticipated across the BFSI space, HDFC has been able to marginally improve its asset quality during FY10 as against FY09. Dual rate schemes notwithstanding, we believe that the company would continue to accord a higher priority to maintaining or improving its asset quality further.

**Exhibit 5: Asset quality uncompromised**



Source: Company, Ambit Capital research

**Valuation and recommendation:** At its CMP of Rs2,820, the stock quotes at 4.8x and 4.2x our FY11E and FY12E standalone ABVPS estimates of Rs585 and Rs673 respectively.

Our numbers for FY11E/FY12E factor in the following:

- Likely loss of medium-term market share to PSU banks and aggressive HFCs
- Lag in transmission of higher interest rates and hence, stable full-year margins during FY12E (vis-à-vis FY11E)

Our estimates do not factor in conversion of warrants (issued during FY10) over the period FY10-FY12E.

Given the steep run-up in the stock over the last 3 months (9% outperformance) and especially over the last month (6% outperformance), we believe that near-term positives have been fairly priced in. We maintain our 'HOLD' recommendation with a SOTP-based target price of Rs3,150 (upgraded from our earlier target price of Rs2,730), implying a 12% upside from current levels.

**Exhibit 6: Profit and loss**

Y/E Mar (Rsbn)	FY08	FY09	FY10E	FY11E	FY12E
Interest income	78.96	106.44	106.40	130.18	159.95
Interest expense	51.43	74.32	70.63	87.00	107.59
<b>Net Interest Income</b>	<b>27.53</b>	<b>32.12</b>	<b>35.77</b>	<b>43.18</b>	<b>52.36</b>
% Growth	63%	17%	11%	21%	21%
Other operating income	2.81	3.51	6.98	7.25	8.66
Other income	0.20	0.23	0.25	0.28	0.31
Gross operating income	30.53	35.85	43.00	50.71	61.33
Employees expenses	1.18	1.39	1.47	1.70	1.98
Other operational expenses	1.80	2.08	2.15	2.46	2.90
<b>Operating profit</b>	<b>27.55</b>	<b>32.39</b>	<b>39.39</b>	<b>46.54</b>	<b>56.45</b>
% Growth	41%	18%	22%	18%	21%
Tax	9.37	9.37	10.90	13.90	16.87
Loan loss provisions	0.18	0.20	0.20	0.20	0.21
<b>Net profit</b>	<b>18.00</b>	<b>22.83</b>	<b>28.29</b>	<b>32.44</b>	<b>39.37</b>
% Growth	17%	27%	24%	15%	21%

Source: Company, Ambit Capital research

**Exhibit 7: Balance sheet**

Y/E Mar (Rsbn)	FY08	FY09	FY10E	FY11E	FY12E
Capital	2.84	2.84	2.87	2.88	2.88
Reserves and surplus	116.63	128.53	149.23	168.49	194.65
Secured loans	517.37	551.80	630.79	756.95	910.25
Unsecured loans	61.18	93.01	104.00	124.47	149.92
Deposits	112.96	193.75	230.81	276.97	332.37
<b>TOTAL</b>	<b>810.99</b>	<b>969.93</b>	<b>1,117.70</b>	<b>1,329.75</b>	<b>1,590.07</b>
Investments	69.16	104.68	107.27	128.61	154.21
Advances	729.98	851.98	979.67	1,145.72	1,379.28
Net fixed assets	2.06	2.03	2.22	2.39	2.59
Net current assets	8.44	9.08	25.68	50.18	51.14
Deferred tax assets	1.47	2.16	2.86	2.86	2.86
<b>TOTAL</b>	<b>811.11</b>	<b>969.93</b>	<b>1,117.70</b>	<b>1,329.76</b>	<b>1,590.07</b>

Source: Company, Ambit Capital research

**Exhibit 8: Valuation ratios**

Y/E Mar	FY08	FY09	FY10E	FY11E	FY12E
BVPS (Rs)	420.6	461.9	529.8	595.7	685.3
Adj. BVPS (Rs)	416.7	451.6	520.8	585.3	673.2
P/ABVPS (x)	6.8	6.2	5.4	4.8	4.2
EPS (Rs)	68.3	79.5	99.0	112.9	136.7
EPS growth (%)	11.2	16.3	24.6	14.0	21.1
P/E (x)	41.3	35.5	28.5	25.0	20.6

Source: Company, Ambit Capital research

**Exhibit 9: Business ratio**

Y/E Mar	FY08	FY09	FY10	FY11E	FY12E
Debt-Equity(x)	5.8	6.4	6.3	6.8	7.0
RoAA (%)	3.4	2.6	2.7	2.7	2.7
RoE (%)	27.8	18.2	20.0	20.1	21.3
Dividend Yield (%)	0.9	1.1	1.3	1.4	1.4

Source: Company, Ambit Capital research

**Exhibit 10: Asset quality**

Y/E Mar	FY08	FY09	FY10E	FY11E	FY12E
Gross NPA (Rs bn)	4.75	7.30	8.52	9.80	11.46
Gross NPA (%)	0.8	1.0	1.0	1.0	1.0
Net NPA (Rs bn)	1.13	2.92	2.56	2.94	3.44
Net NPA (%)	0.2	0.4	0.3	0.3	0.3

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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#### Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor  
449, Senapati Bapat Marg, Lower  
Parel, Mumbai 400 013, India.  
Phone : +91-22-3043 3000  
Fax : +91-22-3043 3100