

## HDFC

### Performance Highlights

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
NII	2,076	2,116	(1.9)	1,955	6.2
Pre-prov. profit	2,376	2,002	18.7	2,017	17.8
<b>PAT</b>	<b>1,605</b>	<b>1,361</b>	<b>17.9</b>	<b>1,358</b>	<b>18.2</b>

Source: Company, Angel Research

For 2QFY2016, HDFC posted an 18.2% yoy increase in PAT, which is broadly in-line with our expectation. The NII for the quarter grew 6.2% yoy, which is slightly below our expectation due to moderate growth in advances.

#### Loan book growth moderate; Asset quality fairly stable

For 2QFY2016, HDFC's loan book grew by 12.1% yoy, with loans to the individual segment growing by 23% yoy (after adding back loans sold in the preceding 12 months) whereas the corresponding growth in the reported loan book was of 14.0% yoy, which is below our expectation. This is due to greater amount of loans having been sold to HDFC Bank in recent quarters. During the quarter, incremental growth in the loan book came through growth in individual loans, which now constitute almost 69.7% of the total loans portfolio as compared to 68.6% in 2QFY2015.

The spread stood largely stable at 2.32% as compared to 2.29% in September 2014, while the NIM contracted to 3.95% from a slightly higher 4% in September 2014, despite spreads widening. In declining rate environment, as HDFC has large Net Worth, even with constant spreads, NIM's would have a slightly downward bias. Overall, we expect the loan book to grow at a CAGR of 15.0% over FY2015-17E, while the NII growth at a CAGR of 11.6% over the same period.

The company continued to keep its asset quality under check, with gross non-performing assets as a % of total loans rising marginally by 2bp to 0.71% (vs 0.69% in 1QFY2016). The company continues to maintain a 100% Provision Coverage Ratio.

**Outlook and valuation:** HDFC continues to post moderate set of numbers despite sluggish economic environment. Overall, we expect HDFC to post a healthy PAT CAGR of 15.3% over FY2015-17E. The stock has surged significantly from the lows witnessed in the month of August 2015. Currently, HDFC's core business (after adjusting ₹482/share towards the value of its subsidiaries) trades at 4.5x FY2017E ABV, which in our view, offers limited scope for upside from here on.

Hence, we maintain our Neutral rating on the stock.

#### Key financials (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
<b>NII*</b>	<b>6,666</b>	<b>7,631</b>	<b>8,341</b>	<b>9,502</b>
% chg	12.5	14.5	9.3	13.9
<b>Net profit</b>	<b>5,440</b>	<b>5,990</b>	<b>6,466</b>	<b>7,407</b>
% chg	12.2	10.1	8.0	14.5
NIM (%)	3.4	3.4	3.3	3.3
<b>EPS (₹)</b>	<b>34.9</b>	<b>38.0</b>	<b>41.1</b>	<b>47.0</b>
P/E (x)	37.7	34.5	32.0	27.9
P/ABV (x)	7.3	6.7	6.1	5.5
RoA (%)	2.5	2.4	2.3	2.3
RoE (%)	20.5	20.3	19.9	20.8

Source: Company, Angel Research; Note: \* Core NII; CMP as of October 27, 2015.

Please refer to important disclosures at the end of this report

## NEUTRAL

CMP	₹1,275
Target Price	-
Investment Period	-

#### Stock Info

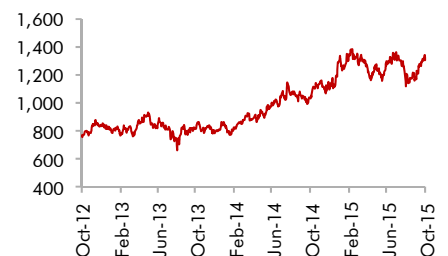
Sector	HFC
Market Cap (₹ cr)	2,01,178
Beta	1.4
52 Week High / Low	1,399/1,030
Avg. Daily Volume	29,42,025
Face Value (₹)	2
BSE Sensex	27,253
Nifty	8,233
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

#### Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	78.2
FII / NRIs / OCBs	9.9
Indian Public / Others	12.0

Abs. (%)	3m	1yr	3yr
Sensex	(1.1)	1.9	46.2
HDFC	(4.5)	23.1	68.6

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly performance (standalone)**

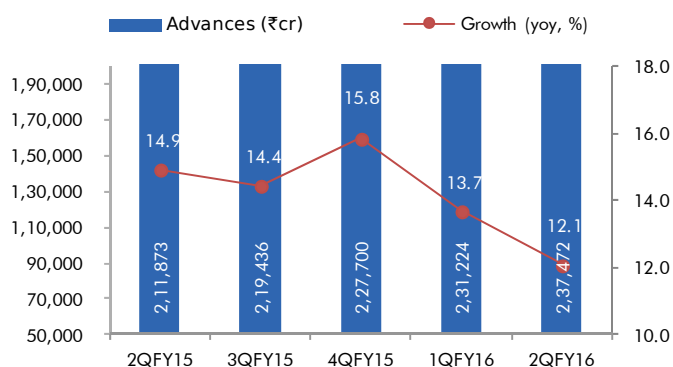
Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	FY2015	FY2014	% chg
Income from operations	6,994	6,980	0.2	6,428	8.8	26,272	23,338	12.6
Interest expensed	4,918	4,863	1.1	4,474	9.9	17,975	16,029	12.1
<b>NII</b>	<b>2,076</b>	<b>2,116</b>	<b>(1.9)</b>	<b>1,955</b>	<b>6.2</b>	<b>8,297</b>	<b>7,309</b>	<b>13.5</b>
Non-interest income	487	89	448.8	242	100.9	1,199	859	39.6
<b>Operating income</b>	<b>2,563</b>	<b>2,205</b>	<b>16.2</b>	<b>2,197</b>	<b>16.7</b>	<b>9,496</b>	<b>8,168</b>	<b>16.3</b>
Operating expenses	187	203	(7.7)	180	3.8	707	628	12.5
<b>Pre-prov. profit</b>	<b>2,376</b>	<b>2,002</b>	<b>18.7</b>	<b>2,017</b>	<b>17.8</b>	<b>8,789</b>	<b>7,540</b>	<b>16.6</b>
Provisions & cont.	52	50	4.0	35	48.6	165	100	65.0
PBT	2,324	1,952	19.0	1,982	17.3	8,624	7,440	15.9
Prov. for taxes	719	591	21.7	624	15.2	2,634	2,000	31.7
<b>PAT</b>	<b>1,605</b>	<b>1,361</b>	<b>17.9</b>	<b>1,358</b>	<b>18.2</b>	<b>5,990</b>	<b>5,440</b>	<b>10.1</b>
EPS (₹)	10.2	8.6	17.7	8.7	17.5	38.0	34.9	9.1
Cost-to-income ratio (%)	7.3	9.2	(190)bp	8.2	(90)bp	7.4	7.7	-
Effective tax rate (%)	30.9	30.3		31.5		30.5	26.9	

Source: Company, Angel Research

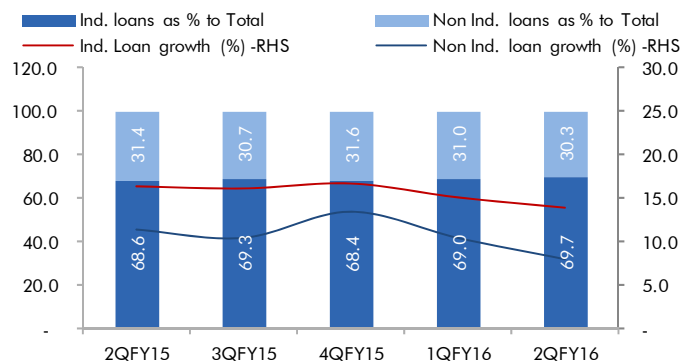
**Moderate growth in retail loan book; corporate growth subdued**

For 2QFY2016, HDFC's loan book grew by 12.1% yoy, with loans to the individual segment growing by 23% yoy (after adding back loans sold in the preceding 12 months) whereas the corresponding growth in the reported loan book was of 14.0% yoy, which is below our expectation. This is due to greater amount of loans having been sold to HDFC Bank in recent quarters. Until the previous quarters, 55% of loans sourced by HDFC Bank for HDFC were bought back by HDFC Bank. However, from this quarter onwards, they have started buying back 70% of its loans thereby having a significant impact on the individual loan growth of HDFC.

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 came through growth in individual loans which now constitute almost 69.7% of the total loans portfolio as compared to 68.6% in 2QFY2015. We expect individual loan growth to be subdued for FY2016 as well as single-digit corporate book growth.

**Exhibit 2: Loan book grows at a moderate pace**


Source: Company, Angel Research

**Exhibit 3: Individual loans grew at 14.0% yoy**


Source: Company, Angel Research

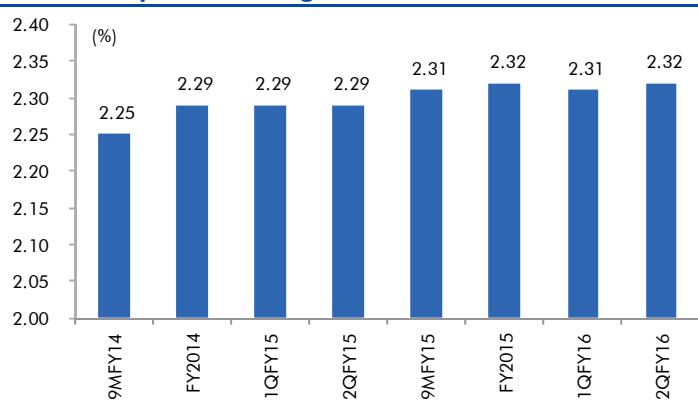
### NII growth weakens

The spread stood largely stable at 2.32% as compared to 2.29% in September 2014, while the NIM contracted to 3.95% from a slightly higher 4% in September 2014, despite spreads widening. In declining rate environment, as HDFC has large Net Worth, even with constant spreads, NIM's would have a slightly downward bias. Overall, we expect the loan book to grow at a CAGR of 15.0% over FY2015-17E, while the NII growth at a moderate CAGR of 11.6% over the same period.

### Dividend received from HDFC Bank boosted other income

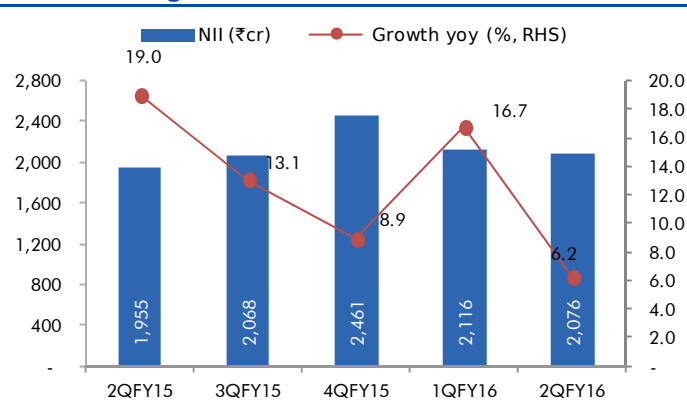
Non-interest income for the company came in at INR 486.6cr as compared to INR 242.2cr in 2QFY2015. The increase is attributed to the dividend income from HDFC Bank, which in FY 2015 was received in first quarter, whereas in FY 2016, it has been received in this quarter. PBT level earnings, adjusted for dividends and sale of investments grew by 4.3% yoy which was below expectations.

**Exhibit 4: Spreads strong at 2.32% for 2QFY2016**



Source: Company, Angel Research

**Exhibit 5: NII growth weakens**

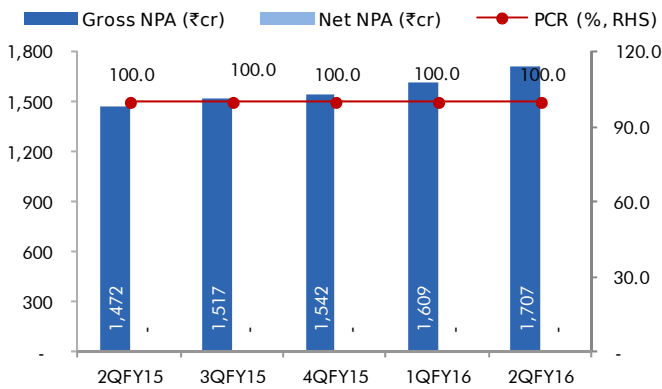


Source: Company, Angel Research

### Asset quality remains fairly stable

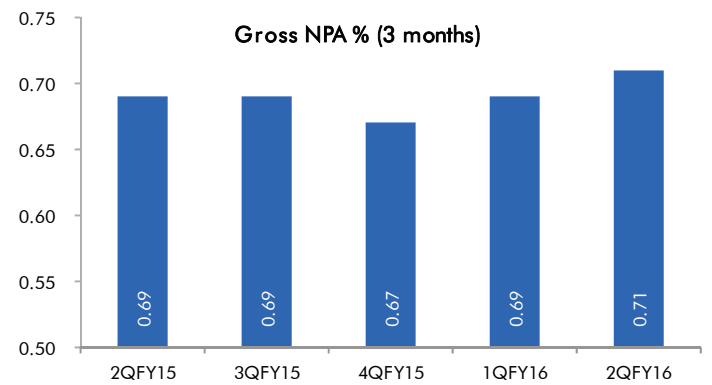
Asset quality continues to remain fairly stable for the company, as its gross non-performing assets as a % of total loans increased 2bp to 0.71% (vs 0.69% in 1QFY2016). The Gross NPA ratio for individual loans went up to 0.53% as against 0.51% in 1QFY2016, while the Gross NPA ratio for the non-individual loans portfolio went up by 3bp qoq to 1.04%. The company continues to maintain a 100% Provision Coverage Ratio. In fact, the company carries ₹330cr of excess provision over and above the regulatory requirement of ₹1,797cr.

**Exhibit 6: NPA coverage remains at 100%**



Source: Company, Angel Research

**Exhibit 7: 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 15.3% over FY2015–17E. The stock has surged significantly from the lows witnessed in the month of August 2015. Currently, HDFC's core business (after adjusting ₹482/share towards the value of its subsidiaries) trades at 4.5x FY2017E ABV, which in our view, offers limited scope for upside 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 392 outlets, covering more than 2,400 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
<b>NII*</b>	<b>4,998</b>	<b>5,927</b>	<b>6,666</b>	<b>7,631</b>	<b>8,341</b>	<b>9,502</b>
- YoY Growth (%)	17.7	18.6	12.5	14.5	9.3	13.9
<b>Other Income</b>	<b>1,199</b>	<b>1,329</b>	<b>1,503</b>	<b>1,865</b>	<b>2,017</b>	<b>2,350</b>
- YoY Growth (%)	12.0	10.8	13.0	24.1	8.1	16.5
<b>Operating Income</b>	<b>6,198</b>	<b>7,257</b>	<b>8,168</b>	<b>9,496</b>	<b>10,358</b>	<b>11,852</b>
- YoY Growth (%)	16.5	17.1	12.6	16.3	9.1	14.4
<b>Operating Expenses</b>	<b>452</b>	<b>539</b>	<b>628</b>	<b>707</b>	<b>795</b>	<b>898</b>
- YoY Growth (%)	18.6	19.3	16.5	12.5	12.5	13.0
<b>Pre - Provision Profit</b>	<b>5,746</b>	<b>6,718</b>	<b>7,540</b>	<b>8,789</b>	<b>9,563</b>	<b>10,954</b>
- YoY Growth (%)	16.4	16.9	12.2	16.6	8.8	14.5
<b>Prov. &amp; Cont.</b>	<b>80</b>	<b>145</b>	<b>100</b>	<b>165</b>	<b>175</b>	<b>213</b>
- YoY Growth (%)	14.3	81.3	(31.0)	65.0	6.1	21.6
<b>Profit Before Tax</b>	<b>5,666</b>	<b>6,573</b>	<b>7,440</b>	<b>8,624</b>	<b>9,388</b>	<b>10,741</b>
- YoY Growth (%)	16.4	16.0	13.2	15.9	8.9	14.4
<b>Prov. for Taxation</b>	<b>1,543</b>	<b>1,725</b>	<b>2,000</b>	<b>2,634</b>	<b>2,922</b>	<b>3,334</b>
- as a % of PBT	27.2	26.2	26.9	30.5	31.1	31.0
<b>PAT</b>	<b>4,123</b>	<b>4,848</b>	<b>5,440</b>	<b>5,990</b>	<b>6,466</b>	<b>7,407</b>
- YoY Growth (%)	16.6	17.6	12.2	10.1	8.0	14.5

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	33,661	37,092
Loan Funds	1,39,128	1,58,828	1,84,298	2,08,694	2,33,413	2,76,726
- Growth (%)	20.9	14.2	16.0	13.2	11.8	18.6
Other Liabilities & Prov.	9,375	11,703	13,504	14,383	16,153	18,962
<b>Total Liabilities</b>	<b>1,67,520</b>	<b>1,95,531</b>	<b>2,25,757</b>	<b>2,54,047</b>	<b>2,83,542</b>	<b>3,33,095</b>
Investments	12,207	13,613	13,804	14,294	15,020	16,238
Advances	1,40,422	1,69,571	1,96,554	2,27,700	2,55,024	3,00,928
- Growth (%)	20.2	20.8	15.9	15.8	12.0	18.0
Fixed Assets	234	238	276	677	758	894
Other Assets	14,657	12,109	15,123	11,376	12,741	15,034
<b>Total Assets</b>	<b>1,67,520</b>	<b>1,95,531</b>	<b>2,25,757</b>	<b>2,54,047</b>	<b>2,83,542</b>	<b>3,33,095</b>

**Ratio analysis (standalone)**

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Profitability ratios (%)</b>						
NIMs	3.6	3.6	3.4	3.4	3.3	3.6
Cost to Income Ratio	7.3	7.4	7.7	7.4	7.7	7.3
RoA	2.7	2.6	2.5	2.4	2.3	2.7
RoE	22.7	22.0	20.5	20.3	19.9	22.7
<b>Asset Quality (%)</b>						
Gross NPAs	0.76	0.71	0.69	0.68	0.70	0.76
Net NPAs	-	-	-	-	-	-
Provision Coverage	100.0	100.0	100.0	100.0	100.0	100.0
<b>Per Share Data (₹)</b>						
EPS	27.9	31.4	34.9	38.0	41.1	27.9
ABVPS (75% cover.)	128.8	161.7	179.1	196.7	215.8	128.8
DPS	11.0	12.5	14.0	15.1	16.1	11.0
<b>Valuation Ratios</b>						
PER (x)	45.7	40.7	36.6	33.5	31.1	45.7
P/ABVPS (x)	9.9	7.9	7.1	6.5	5.9	9.9
<b>DuPont Analysis<sup>#</sup></b>						
NII	3.4	3.4	3.3	3.3	3.2	3.4
(-) Prov. Exp.	0.1	0.1	0.0	0.1	0.1	0.1
Adj. NII	3.4	3.3	3.2	3.2	3.1	3.4
Treasury	0.2	0.2	0.1	0.2	0.1	0.2
Int. Sens. Inc.	3.6	3.5	3.4	3.4	3.3	3.6
Other Inc.	0.5	0.4	0.5	0.4	0.5	0.5
Op. Inc.	4.1	3.9	3.8	3.9	3.7	4.1
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	3.8	3.6	3.5	3.6	3.4	3.8
Taxes	1.1	1.0	1.0	1.1	1.1	1.1
<b>RoA</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>2.7</b>
Leverage	14.4	12.6	11.1	10.9	10.8	14.4
<b>RoE</b>	<b>39.3</b>	<b>33.2</b>	<b>28.1</b>	<b>26.3</b>	<b>24.7</b>	<b>39.3</b>

Note: <sup>#</sup> 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)