

HDFC

Performance Highlights

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
NII	2,254	2,076	8.6	2,068	9.0
Pre-prov. profit	2,259	2,376	(4.9)	2,109	7.1
PAT	1,521	1,605	(5.2)	1,425	6.7

Source: Company, Angel Research

HDFC posted a modest 6.7% yoy increase in PAT for 3QFY2016, which is marginally lower than our expectation. The NII for the quarter grew 9.0% yoy, which again is slightly lower than our expectation, due to moderate growth in advances. The company witnessed a pick-up in non-individual loans and hence had to take extra provisions during the quarter. Further it booked lower treasury gains yoy, hence the PAT came in marginally lower than our expectation.

Growth in loan book remained moderate: For 3QFY2016, HDFC's loan book grew by 12.8% yoy, with loans to the individual segment growing by 14.2% yoy (by 23% after adding back loans sold in the preceding 12 months). Non-individual loans also picked up during the quarter. Incremental growth in the loan book came on the back of growth in individual loans as well as non-individual segments. Individual loans inched up marginally, accounting for 70% of the book.

NIM declines: The spread stood largely stable at 2.31% as compared to 2.32% in the quarter ended September 2015, while the NIM contracted by 8bp to 3.85% from 3.93% in 3QFY2015. Softening interest rates and in turn yield will keep the NIM under pressure in the near term. Overall, we expect the loan book to grow at a CAGR of 15.0% and the NII to grow at a CAGR of 11.6% over FY2015-17E.

Asset quality fairly stable: HDFC continued to keep its asset quality under check, with GNPA's as a % of total loans rising marginally by 3bp/1bp yoy/qoq to 0.72%. The company continues to maintain a 100% Provision Coverage Ratio and carries extra provision to the tune of ₹230cr on its book.

Outlook and valuation: HDFC posted a moderate set of numbers for the quarter despite a sluggish economic environment. Overall, we expect HDFC to post a PAT CAGR of 11.2% over FY2015-17E. Currently, HDFC's core business (after adjusting ₹482/share towards the value of its subsidiaries) trades at 3.6x FY2017E ABV. **We maintain our Neutral rating on the stock.**

Key financials (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII*	6,666	7,631	8,341	9,502
% chg	12.5	14.5	9.3	13.9
Net profit	5,440	5,990	6,466	7,407
% chg	12.2	10.1	8.0	14.5
NIM (%)	3.4	3.4	3.3	3.3
EPS (₹)	34.9	38.0	41.1	47.0
P/E (x)	32.9	30.2	28.0	24.4
P/ABV (x)	6.4	5.8	5.3	4.8
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 January 28, 2015.

Please refer to important disclosures at the end of this report

NEUTRAL

CMP	₹1,148
Target Price	-
Investment Period	-

Stock Info

Sector	HFC
Market Cap (₹ cr)	181,270
Beta	1.3
52 Week High / Low	1,399/1,093
Avg. Daily Volume	2,403,329
Face Value (₹)	2
BSE Sensex	24,470
Nifty	7,425
Reuters Code	HDFC.BO
Bloomberg Code	HDFC@IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian FIs	9.8
FII / NRIs / OCBs	78.6
Indian Public / Others	11.6

Abs. (%)	3m	1yr	3yr
Sensex	(9.5)	(17.2)	21.7
HDFC	(9.3)	(14.6)	43.2

3-year price chart



Source: Company, Angel Research

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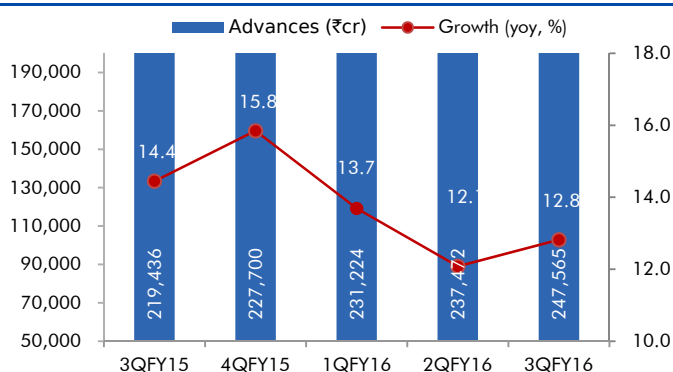
Exhibit 1: Quarterly performance (standalone)

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	FY2015	FY2014	% chg
Income from operations	7,124	6,994	1.9	6,656	7.0	26,272	23,338	12.6
Interest expensed	4,869	4,918	(1.0)	4,588	6.1	17,975	16,029	12.1
NII	2,254	2,076	8.6	2,068	9.0	8,297	7,309	13.5
Non-interest income	204	487	(58.0)	227	(10.0)	1,199	859	39.6
Operating income	2,459	2,563	(4.1)	2,295	7.1	9,496	8,168	16.3
Operating expenses	200	187	6.9	185	8.0	707	628	12.5
Pre-prov. profit	2,259	2,376	(4.9)	2,109	7.1	8,789	7,540	16.6
Provisions & cont.	68	52	30.8	45	51.1	165	100	65.0
PBT	2,191	2,324	(5.7)	2,064	6.1	8,624	7,440	15.9
Prov. for taxes	670	719	(6.8)	639	4.9	2,634	2,000	31.7
PAT	1,521	1,605	(5.2)	1,425	6.7	5,990	5,440	10.1
EPS (₹)	96.2	10.2	846.2	9.1	961.3	38.0	34.9	9.1
Cost-to-income ratio (%)	8.1	7.3	83bp	8.1	7bp	7.4	7.7	
Effective tax rate (%)	30.6	30.9		31.0		30.5	26.9	

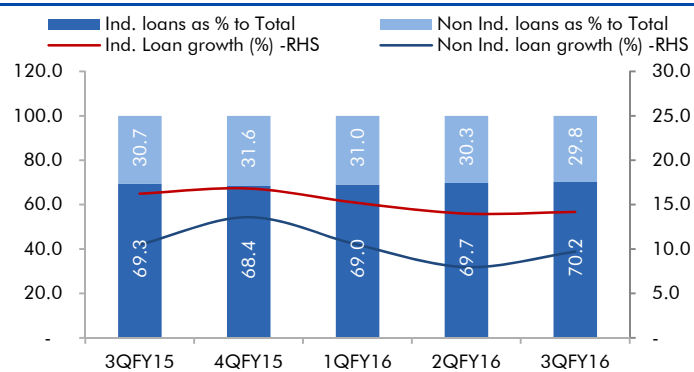
Source: Company, Angel Research

Growth in Loan book remained moderate

For 3QFY2016, HDFC's loan book grew by 12.8% yoy, with loans to the individual segment growing by 14.2% yoy (by 23% after adding back loans sold in the preceding 12 months). Non-individual loans also picked up during the quarter. Incremental growth in the loan book came on the back of growth in individual loans as well as non-individual segments. Individual loans inched up marginally, accounting for 70% of the book.

Exhibit 2: Loan book grows at a moderate pace


Source: Company, Angel Research

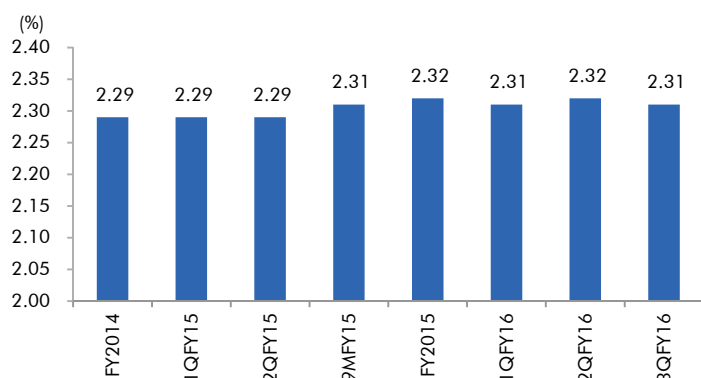
Exhibit 3: Individual loans grew at 14% yoy


Source: Company, Angel Research

NIM declines yoy

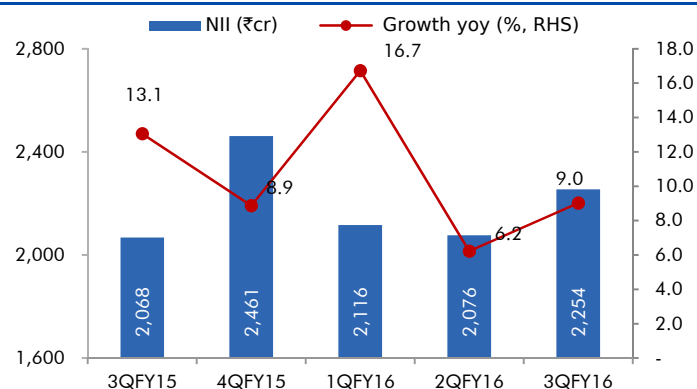
The spread stood largely stable at 2.31% as compared to 2.32% in the quarter ended September 2015, while the NIM contracted by 8bp to 3.85% from 3.93% in 3QFY2015. Softening interest rates and in turn yield will keep the NIM under pressure in the near term. Overall, we expect the loan book to grow at a CAGR of 15.0% and the NII to grow at a CAGR of 11.6% over FY2015-17E.

Exhibit 4: Spreads strong at 2.31% for 3QFY2016



Source: Company, Angel Research

Exhibit 5: NII growth trend

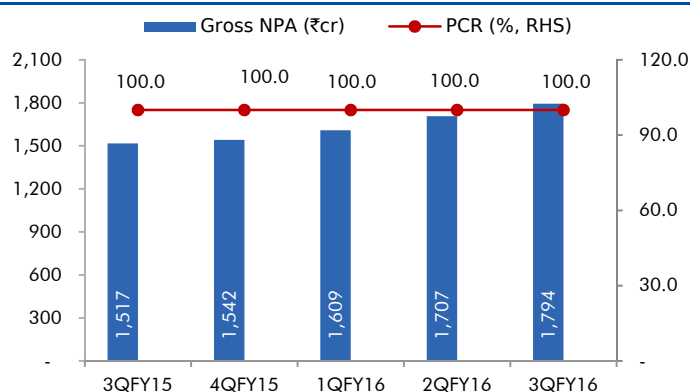


Source: Company, Angel Research

Asset quality fairly stable

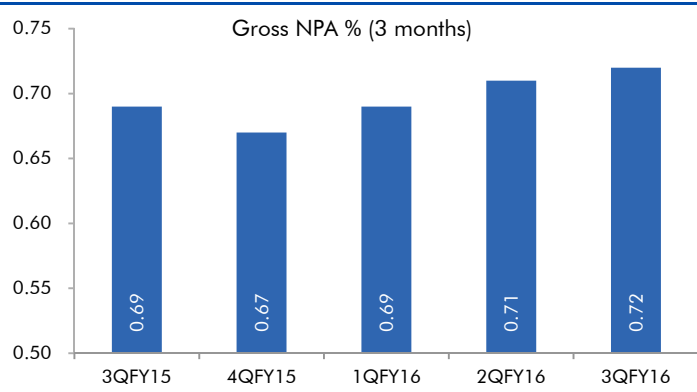
HDFC continued to keep its asset quality under check, with GNPA as a % of total loans rising marginally by 3bp/1bp yoy/qq to 0.72%. The company continues to maintain a 100% Provision Coverage Ratio and carries extra provision to the tune of ₹230cr on its book.

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 posted a moderate set of numbers for the quarter despite a sluggish economic environment. Overall, we expect HDFC to post a PAT CAGR of 11.2% over FY2015–17E. Currently, HDFC's core business (after adjusting ₹482/share towards the value of its subsidiaries) trades at 3.6x FY2017E ABV. 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 ₹2.6lakh 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
NII*	4,998	5,927	6,666	7,631	8,341	9,502
- YoY Growth (%)	17.7	18.6	12.5	14.5	9.3	13.9
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	10,358	11,852
- YoY Growth (%)	16.5	17.1	12.6	16.3	9.1	14.4
Operating Expenses	452	539	628	707	795	898
- YoY Growth (%)	18.6	19.3	16.5	12.5	12.5	13.0
Pre - Provision Profit	5,746	6,718	7,540	8,789	9,563	10,954
- YoY Growth (%)	16.4	16.9	12.2	16.6	8.8	14.5
Prov. & Cont.	80	145	100	165	175	213
- YoY Growth (%)	14.3	81.3	(31.0)	65.0	6.1	21.6
Profit Before Tax	5,666	6,573	7,440	8,624	9,388	10,741
- YoY Growth (%)	16.4	16.0	13.2	15.9	8.9	14.4
Prov. for Taxation	1,543	1,725	2,000	2,634	2,922	3,334
- as a % of PBT	27.2	26.2	26.9	30.5	31.1	31.0
PAT	4,123	4,848	5,440	5,990	6,466	7,407
- 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
Total Liabilities	1,67,520	1,95,531	2,25,757	2,54,047	2,83,542	3,33,095
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
Total Assets	1,67,520	1,95,531	2,25,757	2,54,047	2,83,542	3,33,095

Ratio analysis (standalone)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)						
NIMs	3.6	3.6	3.4	3.4	3.3	3.3
Cost to Income Ratio	7.3	7.4	7.7	7.4	7.7	7.6
RoA	2.7	2.6	2.5	2.4	2.3	2.3
RoE	22.7	22.0	20.5	20.3	19.9	20.8
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	41.1	47.0
ABVPS (75% cover.)	128.8	161.7	179.1	196.7	215.8	237.5
DPS	11.0	12.5	14.0	15.1	16.1	18.4
Valuation Ratios						
PER (x)	41.1	36.6	32.9	30.2	28.0	24.4
P/ABVPS (x)	8.9	7.1	6.4	5.8	5.3	4.8
DuPont Analysis[#]						
NII	3.4	3.4	3.3	3.3	3.2	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	3.1	3.1
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	3.2
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	3.7
Opex	0.3	0.3	0.3	0.3	0.3	0.3
PBT	3.8	3.6	3.5	3.6	3.4	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	10.8	10.9
RoE	39.3	33.2	28.1	26.3	24.7	24.9

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)
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