

Housing Development Finance Corporation

Reco: Buy

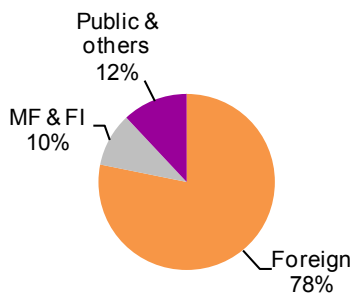
Stake sale gains boost profitability; loan book growth improves

CMP: Rs1,387

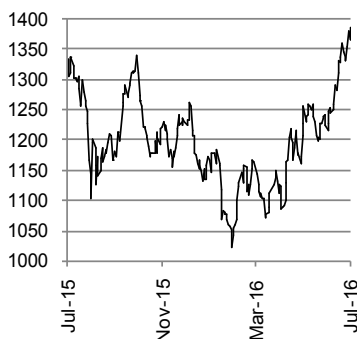
Company details

Price target:	Rs1,550
Market cap:	Rs219,556 cr
52-week high/low:	Rs1,398/1,012
NSE volume: (No of shares)	30.4 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	158.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.0	22.5	17.9	1.9
Relative to Sensex	6.3	13.0	2.1	1.0

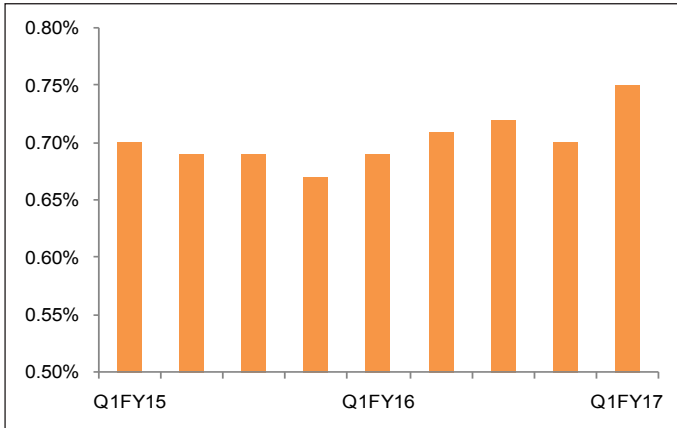
Key points

- PAT jumps by 37.5% YoY:** HDFC has reported better-than-expected results for Q1FY2017, with profit after tax (PAT) of Rs1,871 crore (up 37.5% YoY). The results mainly benefitted from 22.9% stake sale in HDFC Ergo, which resulted in a gain of Rs922 crore (pre-tax), thereby boosting the other income. At Rs2,229.15, the Net Interest Income (NII) rose by 9.4% YoY, while margins remained stable at 3.8% YoY. Provisions during the quarter increased to Rs340 crore (up 580% YoY) owing to one-time additional provisions worth Rs275 crore against standard assets.
- Loan book growth improves; asset quality stable:** During Q1FY2017, the loan book grew by 14.9% YoY, mainly driven by 16.1% YoY growth in individual loans (70% of total advances). Including the loans sold, the growth stood at 25% YoY. The corporate loan book also registered double-digit growth (up 11.6% YoY) after a relatively slower growth in FY2016. Disbursements during the quarter were up by 26% YoY in the individual category while the total AUM growth stood at 16% YoY. The management expects the individual segment to grow by ~17% YoY while the corporate segment is expected to expand by ~15% YoY. Asset quality remained largely stable, with Gross Non Performing Assets (GNPA) coming in at 0.75% versus 0.70% QoQ and is one of the best in the system.
- Valuation and outlook:** HDFC has been one of the most consistent companies over the years. Once again it has demonstrated the strength of its business model by posting stable Q1FY2017 numbers, with one-off income boosting the overall profitability. During the quarter, the advances book growth was better-than-expected and the management has indicated that it foresees even better growth outlook for both, individual as well as developer segments. While the corporate segment growth in Q1FY2017 was relatively slower, an improving economic scenario will see HDFC ramp up this part of the lending book as well in the near term, boosting overall advances growth and core profitability. HDFC has a very competent management team, which has been consistently maintaining one of the best operating metrics in the industry - a key reason for its premium valuations. Considering its dominant position in the housing loan industry, improvement in its loan book and secular growth, we have maintained our Buy rating on the stock and have revised our price target (PT) to Rs1,550.

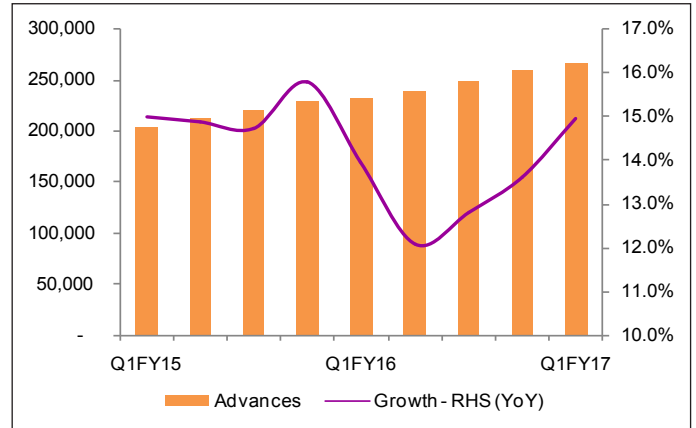
Results

Particulars	Q1FY17	Q1FY16	YoY %	Q4FY16	Rs cr QoQ %
Interest earned	7,355.3	6,863.0	7.2	7,193.8	2.2
Interest expended	5,126.2	4,824.5	6.3	4,724.5	8.5
Net interest income	2,229	2,039	9.4	2,469	-9.7
Non-interest income	1,175	264	344.7	1,887	-37.7
Net total income	3,404	2,303	47.8	4,356	-21.9
Operating expenses	364	301	21.2	169	115.8
Pre-provisioning profit	3,040	2,002	51.8	4,187	-27.4
Provisions	340	50	580.0	545	-37.6
Profit before tax	2,700	1,952	38.3	3,642	-25.9
Tax	829	591	40.3	1,035	-19.9
Profit after tax	1,871	1,361	37.5	2,607	-28.2
Key items					
Loans	265,731	231,224	14.9	259,224	2.5
Investments	19,228	14,959	28.5	15,345	25.3
Borrowings	247,353	210,557	17.5	238,193	3.8
Spread (%)	2.26	2.31	-5 bps	2.29	-3 bps
Gross NPA %	0.75	0.69	6 bps	0.70	5 bps

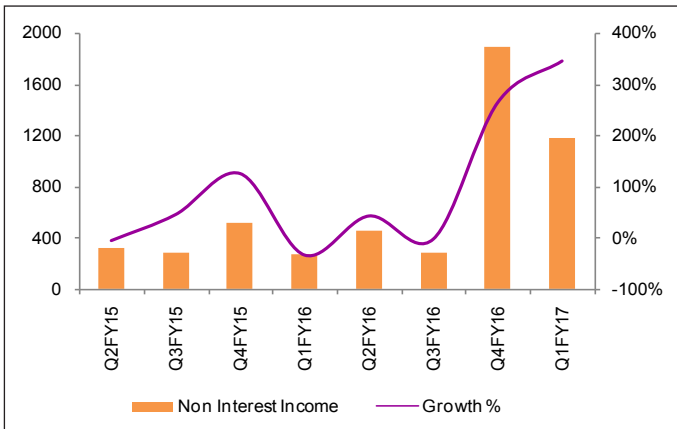
Gross NPA (%)



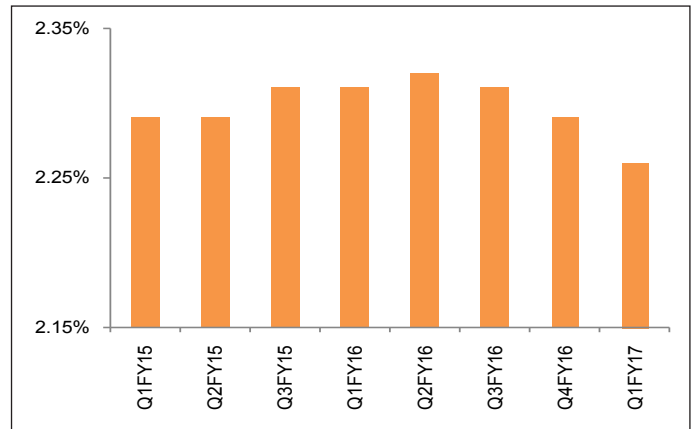
Advances (Rs cr)



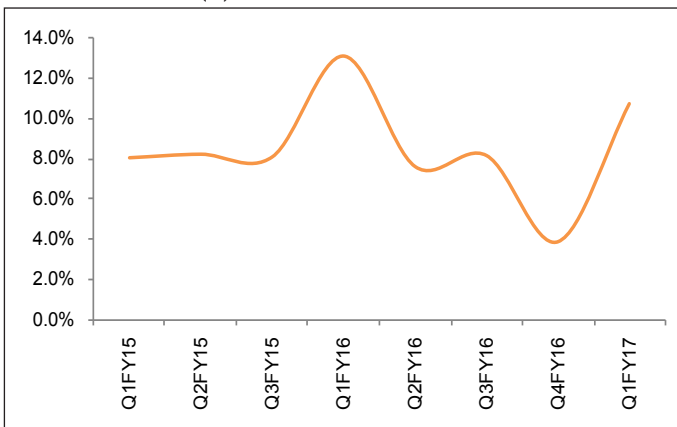
Non-interest income (Rs cr)



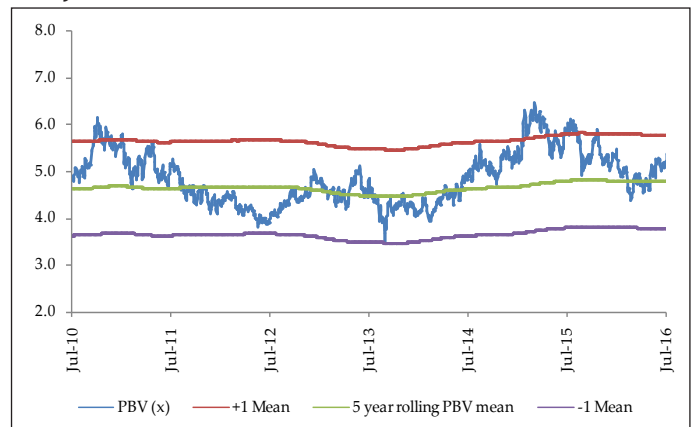
Interest spreads (%)



Cost-income ratio (%)



One-year forward P/BV SD band



Profit and loss statement

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	6,803	7,631	8,388	9,357	10,511
Non-interest income	1,503	1,865	3,195	2,674	3,011
Net total income	8,306	9,496	11,582	12,031	13,521
Operating expenses	734	677	705	782	868
Pre-provisioning profit	7,572	8,819	10,877	11,248	12,653
Provisions	132	195	769	334	378
Profit before tax	7,440	8,624	10,108	10,915	12,274
Tax	2,000	2,634	3,015	3,220	3,621
Profit after tax	5,440	5,990	7,093	7,695	8,653

Balance sheet

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Equity Capital	312	315	316	316	316
Reserves & Surplus	27,643	30,655	33,805	38,124	43,031
Networth	27,955	30,970	34,121	38,440	43,347
Borrowings	184,298	208,599	238,193	282,776	336,326
Term Loans	32,952	26,194	42,678	55,055	71,020
Bonds, Debentures	94,768	116,317	120,845	142,597	168,265
Deposits	56,578	66,088	74,670	85,124	97,041
Current Liabilities & Provisions	13,504	14,383	16,439	9,542	5,435
Total liabilities	225,757	253,952	288,753	330,757	385,108
Assets					
Loans	196,554	228,181	259,224	298,108	348,786
Investments	13,913	14,294	15,345	15,729	16,122
Deferred tax asset	630	0	0	0	0
Current assets, Loans and advances	14,380	10,799	13,519	16,223	19,467
Net block	280	677	665	698	733
Total assets	225,757	253,952	288,753	330,757	385,108

Key ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
Per share data (Rs)					
Earnings	34.8	38.0	44.9	48.7	54.7
Book Value	179.1	196.7	216.0	243.3	274.4
Dividend	14.0	13.0	17.0	18.3	20.3
Spreads (%)					
Yield on funds	10.8	10.6	10.1	9.8	9.8
Cost of funds	9.3	9.2	8.7	8.5	8.3
Net interest margins	3.2	3.2	3.1	3.0	3.1
Operating ratios (%)					
Interest expended/ Interest earned	70.0	70.2	69.8	70.2	70.8
Cost to income	8.8	7.1	6.1	6.5	6.4
Non interest income / Total income	6.2	6.8	10.3	7.9	7.7
Assets/Equity (x)	8.1	8.2	8.5	8.6	8.9
Return ratios (%)					
RoE	19.5	19.3	20.8	20.5	20.1
RoA	2.6	2.50	2.6	2.5	2.4
Growth Ratios (%)					
Net interest income	11.6	12.2	9.9	11.6	12.3
PPP	12.3	16.5	23.3	3.4	12.5
PAT	12.2	10.1	18.4	8.5	12.5
Advances	15.9	16.1	13.6	15.0	17.0
Deposits	16.0	13.2	14.2	18.7	18.9
Valuation ratios (%)					
P/E	39.8	36.5	30.9	28.5	25.4
P/BV	7.7	7.1	6.4	5.7	5.1

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