

### How does our one year outlook change?

- Retain our negative outlook on HDFC. While we see some of the challenges on margins alleviating for HFCs due to potential decrease in funding costs and minimal headroom available to further cut rates on the lending side, larger challenges on the demand front continue to persist driven by elevated realty prices and a continued build up in unsold inventory. Expect the competitive landscape to remain intense with banks remaining aggressive (estimate sub 10% yoy credit growth in other sectors for FY16). Incrementally, we expect either a) lowering of credit screens by market participants in a bid to garner growth thereby hurting loan book quality or b) weak growth numbers; a lose-lose proposition for investors in our opinion. **We value the business on a SOTP basis at Rs. 1,172 and maintain a SELL rating.**
- Retain our FY16E growth expectations of 14%. Expect growth to be driven by retail book with 17% growth post sell-down of portfolio to HDFC Bank. Corporate book should continue to grow lower than retail book at ~10% given the weak macro.
- Expect NIMs to remain steady at 3.3% for FY16 given the wholesale borrowing profile on the liabilities side; however yield pressures on the asset side should limit margin expansion.
- Do not factor in any further deterioration in the builder loan book in the near term. Estimate GNPA's at 0.7% for FY16, flat yoy.

### How does our 3 year Outlook change?

- Demand outlook remains weak especially in the metros. With meaningful uptick in wage inflation some time away we expect demand for housing to remain subdued for a couple of years.
- Lower growth opportunity in the corporate segment for banks going into FY16, good credit performance of housing loans in the economic downturn, higher liquidity and newer funding avenues for banks to fund housing segment should mean higher competition from banks further reducing profitability of the business.
- Value unlocking in insurance business can happen over the next couple of years. However weakening core business remains our key concern.

1QFY16 Update				31 Jul, 2015	
Promoters	0.0			Bloomberg	HDFC IN
Institutions	88.43			Shares o/s	1,576mn
Public	11.7			Market Cap	Rs. 2,111bn
	1m	3m	12m	52-wk High-Low	Rs. 1,402-975
HDFC	3%	14%	23%	3m Avg. Daily Vol	Rs. 3,394mn
Sensex	0%	3%	6%	Index	NIFTY
Bankex	1%	1%	20%		

### Key estimate revision

	FY16E			FY17E		
	Old	New	Change	Old	New	Change
NII	90,645	89,980	-1%	1,01,875	102,552	1%
NIM%	3.27%	3.26%	-1bps	3.22%	3.27%	5bps
PAT	67,485	65,576	-3%	76,044	75,475	-1%
ROA%	2.26%	2.20%	-6bps	2.23%	2.24%	1bps
ABV	211	210	-1%	236	235	-1%
EPS	43	42	-3%	48	48	0%

All figures in Rs. mn, except EPS & ABV, which is in Rs.

### Financial summary

Year	NII (Rs. mn)	PAT(Rs. mn)	ROE (%)	ROA (%)	ABV (Rs.)	P/ABV(x)
FY15	79,951	59,901	20.3%	2.3%	190	7.0
FY16E	89,980	65,576	20.1%	2.2%	210	6.3
FY17E	102,552	75,475	20.8%	2.2%	235	5.7
FY18E	116,286	85,278	20.9%	2.3%	264	5.0
FY19E	132,636	97,284	21.0%	2.3%	300	4.4

## Quarterly Financial Results

CMP

Rs. 1335

Target

Rs. 1172

Rating

SELL

## Standalone financial results

Rs. mn\Period	1QFY16	1QFY15	yoy Growth	4QFY15	qoq Growth	FY15	FY16	yoy Growth
Income from Operations	68,986	60,754	13.5%	69,382	-0.6%	259,701	289,541	11.5%
Interest Expended	48,634	43,305	12.3%	45,829	6.1%	179,751	199,561	11.0%
<b>Net Interest Income</b>	<b>20,351</b>	<b>17,449</b>	<b>16.6%</b>	<b>23,553</b>	<b>-13.6%</b>	<b>79,951</b>	<b>89,980</b>	<b>12.5%</b>
Other Income	886	3,859	-77.0%	5,181	-82.9%	15,007	14,577	-2.9%
<b>Total Income</b>	<b>21,238</b>	<b>21,307</b>	<b>-0.3%</b>	<b>28,735</b>	<b>-26.1%</b>	<b>94,958</b>	<b>104,557</b>	<b>10.1%</b>
Operating Expenses	2,029	1,711	18.6%	1,701	19.3%	7,066	8,291	17.3%
<b>Pre-Provision Profit</b>	<b>19,209</b>	<b>19,597</b>	<b>-2.0%</b>	<b>27,034</b>	<b>-28.9%</b>	<b>87,891</b>	<b>96,267</b>	<b>9.5%</b>
Provisions	500	350	42.9%	500	0.0%	1,650	2,660	61.2%
PBT	18,709	19,247	-2.8%	26,534	-29.5%	86,241	93,606	8.5%
<b>PAT</b>	<b>12,799</b>	<b>13,447</b>	<b>-4.8%</b>	<b>18,624</b>	<b>-31.3%</b>	<b>59,901</b>	<b>65,576</b>	<b>9.5%</b>
EPS (Rs.)	8.3	9.1	-9.1%	12.0	-31.3%	34.9	38.0	9.1%
NIM%	3.12%	3.10%	2 bps	3.73%	-61 bps	3.33%	3.26%	7 bps
ROA%	2.00%	2.36%	-36 bps	2.98%	-98 bps	2.50%	2.43%	7 bps
RoAUM % (incl off-B/S)	1.82%	2.16%	-35 bps	2.73%	-91 bps	2.28%	2.20%	8 bps
Gross NPA%	0.7%	0.7%	-1 bps	0.7%	2 bps	0.7%	0.7%	-3 bps
<b>Loan Assets</b>	<b>2,584,890</b>	<b>2,242,394</b>	<b>15.3%</b>	<b>2,528,519</b>	<b>2.2%</b>	<b>2,528,521</b>	<b>2,888,066</b>	<b>14.2%</b>
On B/S Advances	2,307,250	2,033,844	13.4%	2,276,999	1.3%	2,277,001	2,577,862	13.2%
Off B/S Loans	277,640	208,550	33.1%	251,520	10.4%	251,520	310,204	23.3%
Borrowings	2,105,570	1,879,200	12.0%	2,085,990	0.9%	2,085,990	2,323,151	11.4%
Net worth	323,199	292,174	10.6%	309,700	4.4%	309,700	342,962	10.7%

## SOTP

	Value per Share
Core Lending Book at 3.2x FY17E ABV	568
Stake in HDFC Bank at 3.8x FY17E ABV	445
Other Investments	159
<b>Target Price</b>	<b>1,172</b>

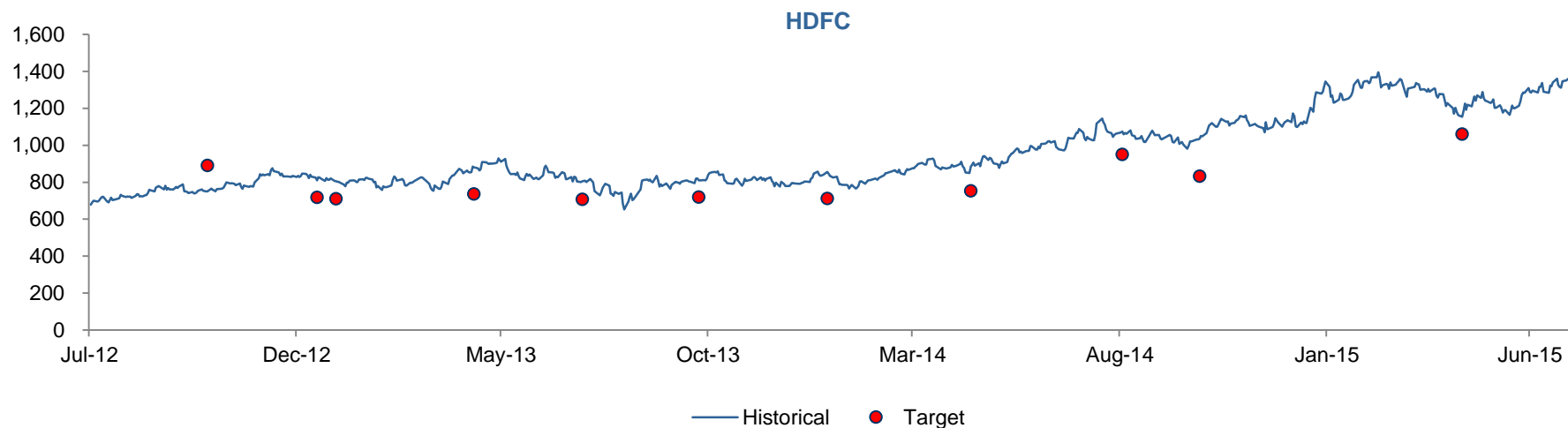
Source: Bloomberg, Spark Research

**Financial Summary**
**CMP**
**Rs. 1335**
**Target**
**Rs. 1172**
**Rating**
**SELL**
**Abridged Financial Statements**

Rs.mn	FY15	FY16E	FY17E	FY18E
<b>Profit &amp; Loss</b>				
Net Interest Income	79,951	89,980	102,552	116,286
Other Income	15,007	14,577	16,745	18,493
Total Income	94,958	104,557	119,297	134,779
Operating Expenses	7,066	8,291	9,003	9,777
Pre-Provisioning Operating Profit	87,891	96,267	110,294	125,002
Provisions	1,650	2,660	2,473	3,176
PBT	86,241	93,606	107,821	121,826
PAT	59,901	65,576	75,475	85,278
<b>Balance Sheet</b>				
Networth	309,700	342,962	383,923	432,851
Paid Up Capital	3,149	3,149	3,149	3,149
Reserves	306,550	339,812	380,773	429,702
Others Capital Instruments				
Borrowings	2,085,990	2,323,151	2,562,398	2,800,545
Total Liabilities & Net worth	2,539,517	2,855,872	3,213,988	3,602,513
Advances	2,277,001	2,577,862	2,918,931	3,288,961
Fixed Assets	6,770	6,770	6,770	6,770
Net Current Assets	112,802	128,846	145,893	164,388
Total Assets	2,539,517	2,855,872	3,213,988	3,602,513
Off Balance Sheet Assets	251,520	310,204	351,246	395,773
Total AUM	2,791,037	3,166,075	3,565,234	3,998,286
Shares outstanding (mn)	1,575	1,575	1,575	1,575
Current market price (Rs.)	1,330	1,330	1,330	1,330
Market capitalization (Rs. mn)	2,056,646	2,056,646	2,056,646	2,056,646
Earnings per share (Rs.)	38.0	41.6	47.9	54.2
Dividend per share (Rs.)	15.0	16.0	17.0	18.0

**Key Metrics**

	FY15	FY16E	FY17E	FY18E
<b>Growth ratios</b>				
ABV per share	9%	10%	12%	13%
Loan Assets	16%	14%	13%	13%
Borrowings	13%	11%	10%	9%
NII	14%	13%	14%	13%
PAT	10%	9%	15%	13%
EPS	9%	9%	15%	13%
<b>Asset-Liability Profile</b>				
Leverage (x)	8.1	8.3	8.4	8.3
Leverage (x) (Incl Off B/S)	8.9	9.1	9.3	9.3
Core Tier 1- CAR	12.3%	13.3%	13.3%	13.4%
<b>Profitability and Efficiency</b>				
Net Interest Margin	3.3%	3.3%	3.3%	3.3%
ROA	2.5%	2.4%	2.5%	2.5%
ROA ( Off + On B/S)	2.3%	2.2%	2.2%	2.3%
ROE	20.3%	20.1%	20.8%	20.9%
<b>Dupont Analysis</b>				
NII/Total Assets	3.0%	3.0%	3.0%	3.1%
TI/Total Assets	3.6%	3.5%	3.5%	3.6%
Opex/Total Assets	0.3%	0.3%	0.3%	0.3%
PPOP/Total Assets	3.3%	3.2%	3.3%	3.3%
Provisions/Total Assets	0.1%	0.1%	0.1%	0.1%
PAT/Total Assets	2.3%	2.2%	2.2%	2.3%
<b>Valuation</b>				
Book Value per share (Rs.)	197	218	244	275
Adj Book Value per share (Rs.)	190	210	235	264
P/ABV (x)	5.5	4.7	4.1	3.5
P/E (x)	35.0	31.9	27.7	24.6



Report Date	CMP (Rs.)	TP (Rs.)	Recommendation
07/May/15	1,163	1,060	Sell
27/Oct/14	1,039	833	Sell
28/Aug/14	1,075	950	Sell
09/May/14	849	753	Sell
23/Jan/14	842	712	Sell
22/Oct/13	824	720	Sell
26/Jul/13	801	707	Sell
09/May/13	880	737	Sell
25/Jan/13	805	710	Sell
11/Jan/13	810	718	Sell

Report Date	CMP (Rs.)	TP (Rs.)	Recommendation
11/Jan/13	810	718	Sell
23/Oct/12	750	891	Buy
26/Jul/12	660	775	Buy
29/May/12	660	763	Buy

Absolute Rating Interpretation	BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
	ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	SELL	Stock expected to fall >10% over a 1-year horizon

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