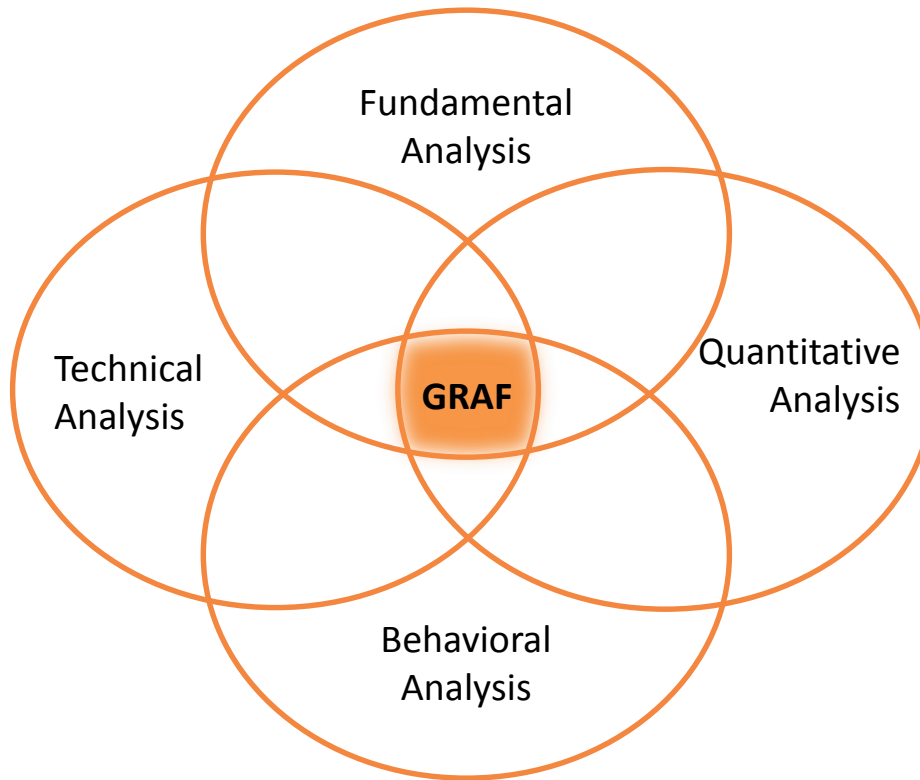




*Built by investors for investors*

# HDFC Ltd.

Nov 2016



Answers to three critical questions while arriving at investment decision:

- Is it a “Good” company?
- Is the “Valuation” right?
- Is the “Timing” right?

*Source: CFA Magazine Article in 2005 by John Bollinger, CFA  
(President of Bollinger Capital Management, Inc.)*

EBV cluster	FY-18	
	Low	High
SOP	739	1,459
P/B (7Y Mov. Avg.)	988	1,755
Historical	845	1,817
TBV	423	
Average	749	1,677
<i>Impact of warrants</i>		<i>102</i>
<b>EBV</b>	<b>750</b>	<b>1,800</b>

- Valuation Band for FY 2018 is INR 750-1800 (*Provisional*)
- Grade: B  
(Overall Business Quality- Ranges from A, B+, B, B- and C; A being best, C being worst)
- Confidence: 1.5  
(Conviction in Valuation- Ranges from 0 to 3, 0 being lowest, 3 being highest)
- Classification: Non Moat (due to leverage)  
(Cost efficiencies leads to above average returns)



Price Band (Mar-18)	Price	Grade	Conf.	Earning Momentum	EE Trend	Earning Surprises	Technical Status
INR 750-1800	1387	B	1.5	Positive	Neutral	1 Positive, 1 In-Line	Neutral

Was looking strong earlier. Demonetization impact led to sharp correction back to its 40 WMA. Although in near term, the home sales (and thus loan volume growth) might dip as a result of Demonetization, it offers good long term growth proposition for Housing Finance companies.

Business Headwinds (market concerns)	What we are focusing on
<p>Demonetization impact on real estate sector is expected to be significant, and thus expected to adversely effect loan book growth of housing finance companies in near term.</p>	<p>Temporary factor, with a better positioning for housing finance companies in the wake of shift to white channel financing.</p>
<p>Non-Individual book makes up for nearly 1/4<sup>th</sup> of their loan book. With real estate manufacturers coming under stress, this might see deterioration in growth and asset quality.</p>	<p>For likes of HDFC, which largely focuses on salaried class as customer base for their loan book (~85-90%), 'Cash' portion might not be that significant in transactions and thus the demand deceleration for them could be minimal.</p>
<p>IRDA expressing reservations about mega (and complex) merger plan between HDFC and Max Healthcare.</p>	<p>Despite the roadblock, listing of insurance arm, if it goes through can help improve sentiment in terms of value unlocking initiatives.</p>

Investment rationale here is: A strong and well entrenched franchise in housing finance market with proven efficiency in operations and prudence shown in asset quality, available at a discount to fair value and thus warrants some sizeable portfolio exposure, despite some near term headwinds.

Demonetization impact might adversely impact the sector in near term, but the long term growth potential remains intact (in-fact tilts favorable for likes of HDFC).

## What about Company and its Quality?

<b>Name</b>	<b>HDFC Ltd.</b>
Sector	NBFC (Housing Fin.)
Market Cap Category	Large-Frontline
Liquidity	Liquid
Grade and Classification	B, Non-Moat
Intrinsic Value Growth	20.1% (in TBV)



## What about Price-Valuation?

Price/Fair Value	0.96
Reward/Risk	1.2 times
<u>Price/Tangible Book Value</u> (-2SD to Mean used)	2.9 (quoting near -2 SD levels- FY 2018)
Dividend Yield	1.6% (2018)



## What about Portfolio Allocation?

Target Allocation (Full Weight)	8%
Suggested Allocation	5%
Entry Price	1,225-1,250 (@ FV)
Additions @	Low end of val.

## What about Mr. Market?

Action Set-up	No Set-up
Technical Chart	Neutral
Earnings Momentum	Positive
Earnings Trend	Neutral



- EBV: *Estimated Business Value as per Multi-Act.*
- Grade: *Overall quality of the business (Range is A, B+, B, B- and C; A is best, C being the worst)*
- Confidence: *Conviction in the valuation (Ranges from 0 to 3; Higher the better)*
- EE: *Earnings Estimates of analysts covering the stock.*
- Earnings Surprise: *Earnings surprises in last 2 quarters vis-à-vis analyst estimates on the street.*
- Moat/Non-Moat: *Moat reflects competitive advantage of the business which enable it to earn returns, higher than cost of equity across the market cycles.*
- RR- Reward to Risk Ratio: *Upside divided by Downside; based on Current Price, EBV high and EBV low.*
- Prov= *Provisional EBV for that year.*



- Setup 1: As per MA, a stock is technically a Set up 1 when it is close to the low end of EBV as per MA and 11 WMA cuts the 40 WMA from below and 40 WMA is moving up. It represents Buy indicator.
- Setup 2: As per MA, a stock is technically a Set up 2 when it is towards (or above) the high end of the EBV as per MA and 11 WMA cuts the 40 WMA from above and 40 WMA is moving down. It represents as Sell indicator.
- Setup 3: As per MA, a stock is technically a Set up 3 when 40 WMA is going down and market price 30% below 40 WMA and towards EBV low end and stock is technically expected to revert back to 40 WMA. Technically it is a buy at 11 WMA and Sell at 40 WMA.
- Setup 4: As per MA, a stock is technically a Set up 4 when 40 WMA is going up and market price is 40% above 40 WMA and towards EBV high end and stock is technically expected to revert back to the 40 WMA. Technically it is a Sell at 11 WMA.
- Strong Stock: As per MA, a stock is technically strong if 40 WMA is moving up at least for 3 weeks and no contrary signal by 11 WMA
- Weak stock: As per MA, a stock is technically weak if 40 WMA is going down at least for 3 weeks and no contrary signal by 11 WMA.
- WMA: Weekly Moving Average.

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