

# HDFC Bank (HDFCB IN)

## Business momentum picks-up

### INDIA | BANKING | Quarterly Update

24 April 2015

HDFC Bank reported PAT of Rs 28.1 bn in line with our estimates. It surprised positively on margin and asset quality front, whereas operating cost has picked up as the bank added capacity in urban areas. Anticipating an improvement in business scenario, the bank seem to have been adding capacity in terms of branches as well as manpower, which might keep the cost to income under pressure in short term. The improvement in credit growth for the bank (the bank gained market share as it outpaced the sluggish industry growth with huge margin) has translated into pick up in core fee income. As per the management, the capital raising plans would depend on the outcome of the FIPB decision on foreign holding limit for the bank; however the bank is well capitalized to continue the current level of business momentum.

- NII growth finding traction:** NII growth showed improvement at 23% YoY (+6.6% QoQ) to Rs 55 bn, primarily driven by strong loan growth (20.6% YoY) and stable NIM at 4.4%. The management has guided NIM in the range of 4.1% to 4.5%. However, going forward, trend in NIM would largely be determined by its loan mix.
- Advances growth driven by retail loan segment:** Advances grew 20.6% YoY driven by strong expansion in retail loan book which increased by 21% YoY, while the wholesale loans grew by 17.6% YoY. The primary driver of the retail loans were Auto loans (20.5% YoY), personal loans (26.4% YoY), home loan (25% YoY) and credit cards. The proportion of retail loan in overall loan book from is at 48.1%.
- Non-interest income showing signs of improvement:** Non-interest income increased by 28% YoY led by strong growth in core fee income, (+20.6% YoY to Rs18.4 bn) particularly the distribution fee income. Forex income reported a strong growth of 30.4% YoY due to large chunky flows from corporate customers. Treasury operation reported a gain of Rs2bn against modest Rs 510mn during Q4FY14.
- Operating expenses on rise:** Operating cost increased by only 21.4% YoY to Rs 38.6bn on led by 25% YoY growth in employee expenses, and 19.7% YoY growth in other opex. During the quarter the branch added 355 branches and 611 branches in FY15, thus increasing the cost to income ratio to 46% compared to 43.4% in Q3FY15.
- Asset quality shows improvement:** Slippage during the quarter was on a higher side at Rs17.2bn Vs Rs 11.6bn in Q3FY15, as one corporate loan account worth Rs5.5 bn which was into SMA-2 and was recognized as NPA and subsequently sold to ARC below book value for which the bank provided it against the floating provisions. The bank's exposure to the account was just 1.5%-2% of banking sector exposure. Outstanding floating provision declined from Rs18.3bn in Q4FY14 to Rs15.2bn. The provision coverage ratio including floating provision declined to 118% from 134%. Gross NPA ratio declined by 5bps QoQ to 0.93%, while Net NPA ratio declined 2 bps to 0.26%. The outstanding restructured book stood at 0.1% of advances.

#### Outlook & Valuation

We expect the earnings momentum to continue followed by improvement in RoA, which is expected to improve to 2% by FY17. We expect the bank to deliver a loan book growth of ~20% over FY15-17E. NIMs are likely to remain slightly under pressure due to downward re-pricing of lending rates while fee income growth will remain stable. Going forward, balance sheet growth to drive operating profit. At a CMP of Rs1007, the stock trades at 3.1x FY16E ABVPS of Rs324 vs. 10-year median valuation of 3.5x. Given better earnings visibility, superior return ratio we maintain Buy with a PT of Rs 1135 (3.5x FY17E ABVPS of Rs324).

**BUY (Maintain)**

CMP RS 1007

TARGET RS 1135 (+13%)

**COMPANY DATA**

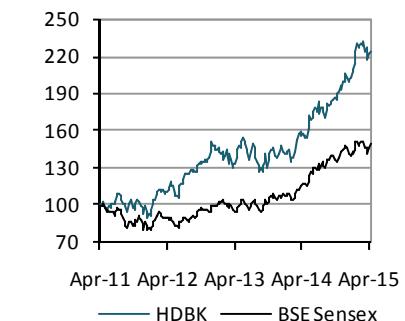
O/S SHARES (MN) :	2506
MARKET CAP (RSBN) :	2514
MARKET CAP (USDBN) :	59.4
52 - WK HI/LO (RS) :	1109 / 711
LIQUIDITY 3M (USDMN) :	53.5
PAR VALUE (RS) :	2

**SHARE HOLDING PATTERN, %**

PROMOTERS :	21.7
FII / NRI :	51.7
FI / MF :	9.7
NON PROMOTER CORP. HOLDINGS :	8.6
PUBLIC & OTHERS :	8.2

**PRICE PERFORMANCE, %**

	1MTH	3MTH	1YR
ABS	-5.0	-1.7	40.0
REL TO BSE	-3.1	2.3	18.2

**PRICE VS. SENSEX**


Source: Phillip Capital India Research

**KEY FINANCIALS**

Rs mn	FY15	FY16E	FY17E
Pre-prov ROE (%)	33.0	30.8	31.9
Pre-prov ROA (%)	3.4	3.3	3.3
Net Profit	1,02,159	1,20,821	1,45,211
% growth	20.5	18.3	20.2
EPS (Rs)	40.8	48.2	57.9
Adj BVPS (Rs)	244.9	280.5	324.4
ROE (%)	19.4	18.2	19.0
P/E (x)	24.7	20.9	17.4
Adj P/BV (x)	4.1	3.6	3.1

Source: PhillipCapital India Research Est.

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**Result Update**

(Rs mn)	Q4FY15	Q4FY14	YoY growth	Q3FY15	QoQ growth
Interest Earned	1,30,064	1,07,886	20.6	1,23,958	4.9
Interest Expended	69,932	58,359	19.8	66,959	4.4
<b>Net interest income</b>	<b>60,132</b>	<b>49,526</b>	<b>21.4</b>	<b>56,999</b>	<b>5.5</b>
<b>Net interest margins</b>	<b>4.4</b>	<b>4.4</b>	<b>0.0</b>	<b>4.4</b>	<b>0.0</b>
Non interest income	25,638	20,014	28.1	25,349	1.1
<b>Total Income</b>	<b>85,769</b>	<b>69,541</b>	<b>23.3</b>	<b>82,348</b>	<b>4.2</b>
Total operating expenses	38,550	31,747	21.4	34,563	11.5
Payroll costs	13,256	10,612	24.9	11,325	17.0
Others	25,294	21,135	19.7	23,238	8.8
<b>Pre-provision Profit</b>	<b>47,220</b>	<b>37,793</b>	<b>24.9</b>	<b>47,786</b>	<b>-1.2</b>
Provisions & Contingencies	5767	2861	101.5	5604	2.9
% Operating income	12.2	7.6	4.6	11.7	0.5
<b>PBT</b>	<b>41,453</b>	<b>34,932</b>	<b>18.7</b>	<b>42,181</b>	<b>-1.7</b>
Provision for Taxes	13,384	11,667	14.7	14,236	-6.0
% of PBT	32.3	33.4	-1.1	33.8	-1.5
<b>Net Profit</b>	<b>28,069</b>	<b>23,265</b>	<b>20.6</b>	<b>27,945</b>	<b>0.4</b>
Equity	5,013	4,798	4.5	4,835	3.7
<b>EPS, Rs</b>	<b>56.0</b>	<b>48.5</b>	<b>15.5</b>	<b>57.8</b>	<b>-3.1</b>
Advances	36,54,950	30,30,003	20.6	34,70,880	5.3
Deposits	45,07,960	36,73,370	22.7	41,41,283	8.9
Advances / Deposits (%)	81.1	82.5	-1.4	83.8	-3.3
Gross NPAs	34384	29893	15.0	34679	-0.9
Gross NPAs (%)	0.90	1.00	-0.1	1.00	-0.1
Net NPAs	8963	8200	9.3	9037	-0.8
Net NPAs (%)	0.20	0.30	-0.1	0.30	-0.1
CAR – Total	13.7	11.8	1.9	12.0	1.7

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Interest on Loans	90,368	1,07,056	1,23,115	1,41,582
Interest on Investments	4,118	5,835	6,127	6,433
Others	4,11,355	4,84,699	5,66,116	6,72,264
Total Interest Earned	2,26,529	2,60,742	3,02,029	3,57,696
Total Interest Expended	1,84,826	2,23,957	2,64,087	3,14,568
Net Interest Income	79,196	89,963	1,02,396	1,17,239
Total non interest income	2,64,023	3,13,920	3,66,482	4,31,808
Total Income	41,790	47,510	54,636	63,924
Personnel Expenses	78,632	92,366	1,07,078	1,24,169
Other Expenses	1,20,422	1,39,876	1,61,714	1,88,093
Total Op expenses	1,43,601	1,74,045	2,04,768	2,43,715
Net Inc (Loss) before prov	90,368	1,07,056	1,23,115	1,41,582
Provision for NPAs	16,326	21,558	25,438	27,982
Provision for Invst deprn	-2,659	-800	-1,000	-1,000
Net Inc (Loss) before tax	1,27,721	1,53,287	1,80,330	2,16,733
Provision for Income Tax	42,937	51,128	59,509	71,522
<b>Net Profit</b>	<b>84,784</b>	<b>1,02,159</b>	<b>1,20,821</b>	<b>1,45,211</b>

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Assets	3,95,836	3,63,315	3,90,301	4,25,033
Cash & Bal with RBI	30,30,003	36,54,950	43,85,940	53,46,699
Loans, Adv & Int accrued	12,55,460	16,64,600	19,00,418	22,46,856
Investments	29,399	31,217	37,461	44,953
Fixed Assets (Net)	2,05,297	1,90,949	2,17,682	2,48,157
Other assets	49,15,995	59,05,031	69,31,802	83,11,698
<b>Total Assets</b>	<b>3,95,836</b>	<b>3,63,315</b>	<b>3,90,301</b>	<b>4,25,033</b>
Liabilities	4,798	5,013	5,013	5,013
Share capital	4,29,988	6,15,081	7,05,111	8,15,133
Reserves and Surplus	2,000	2,000	2,000	2,000
Hybrid Capital	1,63,868	1,80,254	1,98,280	2,18,108
Debt	2,28,522	2,69,881	2,96,869	3,41,400
Borrowing	36,99,293	45,36,467	54,51,672	66,44,633
Total Deposits	3,87,526	2,96,334	2,72,857	2,85,412
Other liab incld prov	49,15,995	59,05,031	69,31,802	83,11,698
<b>Total Liabilities</b>	<b>4,798</b>	<b>5,013</b>	<b>5,013</b>	<b>5,013</b>

Source: Company, PhillipCapital India Research Estimates

### Valuation Ratios

	FY14	FY15	FY16e	FY17e
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	36.0	33.0	30.8	31.9
RoAE (%)	21.3	19.4	18.2	19.0
Pre-provision Operating ROA (%)	3.2	3.2	3.2	3.2
RoAB (%)	1.99	1.97	1.96	1.98
EPS (Rs.)	35.3	40.8	48.2	57.9
Dividend per share (Rs.)	6.9	8.5	10.5	12.0
Book Value (Rs.)	181.2	247.4	283.3	327.2
Adj BV (Rs.)	178.8	244.9	280.5	324.4
<b>Revenue Analysis</b>				
Interest income on IBA (%)	9.7	9.4	9.2	9.1
Interest cost on IBL (%)	6.1	5.7	5.5	5.4
NIM on IBA / AWF (%)	4.3	4.3	4.3	4.3
Core fee Inc / AWF (%)	1.7	1.5	1.4	1.4
Portfolio gains / Total Inc (%)	0.4	1.9	1.4	1.1
Op.Exp / TI (%)	45.8	45.4	44.7	44.0
Op.Exp / AWF (%)	2.8	2.7	2.6	2.6
Employee exps / Op exps (%)	34.7	34.0	33.8	34.0
Tax / Pre-tax earnings (%)	33.6	33.4	33.0	33.0
<b>Asset Quality</b>				
GNPAs / Gr Adv (%)	1.0	0.9	0.8	0.7
NNPAs / Net Adv (%)	0.3	0.2	0.2	0.2
<b>Growth Ratio</b>				
Loans (%)	26.4	20.6	20.0	21.9
Investments (%)	8.7	32.6	14.2	18.2
Deposits (%)	22.3	22.6	20.2	21.9
Networth (%)	20.1	42.6	14.5	15.5
Net Int Income (%)	16.9	21.2	17.9	19.1
Non-fund based income (%)	16.6	7.8	15.7	15.8
Non-Int Exp (%)	7.2	16.2	15.6	16.3
Profit Before Tax (%)	31.0	20.0	17.6	20.2
Net profit (%)	26.0	20.5	18.3	20.2
<b>Asset / Liability Profile</b>				
Avg CASA/ Deposits (%)	45.4	44.1	43.3	42.5
Avg Adv / Avg Dep (%)	79.9	80.4	79.8	79.9
Avg Invst / Avg Dep (%)	35.9	35.5	35.7	34.3
Incr Adv / Deposits (%)	93.9	74.6	79.9	80.5
Avg Cash / Avg Dep (%)	9.9	9.2	7.5	6.7
<b>Capital Adequacy Ratio:</b>				
Tier I (%)	11.7	13.7	13.0	12.5
Internal Capital Generation rate (%)	18.9	18.6	15.2	16.2
NNPAs to Equity (%)	1.9	1.4	1.4	1.2

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