

BANKING: Quarterly Update

Moderation in top line growth (NII growth of 11.1% YoY to Rs 18.14 bn) coupled with lower non-interest income (lower dividends and profit on sale of investments) resulted in a moderate PAT growth of 10% YoY to Rs 12.66 bn (in line with estimates). There was also provision release of Rs 458 mn (on account of lower provisioning requirements for standard Commercial Real Estate – Residential Housing loans) of which Rs 150 mn was reversed in Q2FY14 and balance will be reversed in next two quarters.

Advances grew by 22% YoY (including loans sold) to Rs 1.84 trn driven by continued buoyancy in the individual loans. Individual loans grew by 26% YoY (29% YoY including loans sold down). Total disbursement in Q2 remained flat YoY at Rs206bn largely (91%) driven by individual loan segment. Q2FY14 spread declined by 9 bps QoQ to 2.20% (H1FY14 spread stands at 2.24%) due to increase in funding costs and increasing proportion of retail book (now 70% of the loan book). However NIM showed improvement on QoQ basis (NIM in H2FY14 of 4.2% Vs Q1FY14 NIM of 3.9%) on account of income booked on redemption of investment in mutual funds.

Given the sharp increase in funding costs during the quarter, HDFC Ltd utilized bank funding for incremental growth instead of raising funds via debentures. In order to compensate for rise in funding cost; HDFC Ltd has increased base rate by 25bps; which according to the management would take the spread back to ~2.25% level in next quarter from Q2FY14 level of 2.20%.

Asset quality was stable with GNPA's increasing by 2 bps QoQ to 0.79%. While asset quality in retail improved with a 2 bps QoQ decline in GNPA's, the incremental slippage was on account of fresh loans to one corporate account (already NPA). HDFC continues to carry excess provision on its balance sheet for general and standard asset provisions to the tune of Rs 4.93 bn.

Outlook and valuation

Driven by stiffer competition in the retail home loan segment, we expect HDFC Ltd to witness moderation in loan book growth to ~18% over FY14-15E. Over the last few quarters, the incremental growth has come from retail segment and from regions like Chennai, Bangalore, NCR and Hyderabad due to which incremental spreads have been declining. However, going forward we expect that the growth will likely pick up in the developer segment, which will enable the HFC to cushion the decline in spreads.

Moreover, we remain sanguine about HDFC's asset quality and ability to deliver robust RoA of ~2.5%. Given limited upside from current levels, we maintain our Neutral rating on the stock with a PT of Rs 825.

Neutral

HDFC IN | CMP RS 820

TARGET RS 825 (+1%)

Company Data

O/S SHARES (MN) :	1558
MARKET CAP (RSBN) :	1278
MARKET CAP (USDBN) :	20.8
52 - WK HI/LO (RS) :	931 / 632
LIQUIDITY 3M (USDMN) :	62.1
FACE VALUE (RS) :	2

Share Holding Pattern, %

FII / ADR / OCB / NRI :	74.1
FI / MF / Banks :	12.7
Non Pro Corp Holdings :	2.8
Public & Others :	10.3

Price Performance, %

	1mth	3mth	1yr
ABS	1.6	2.1	9.1
REL TO BSE	-1.6	-1.6	-2.8

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY13	FY14E	FY15E
Pre-prov ROE (%)	30.5	29.2	29.9
Pre-prov ROA (%)	3.9	3.8	3.7
Net Profit	48,483	55,490	64,163
% growth	17.6	14.5	15.6
EPS (Rs)	31.4	35.9	41.5
Adj BVPS (Rs)	157.0	175.8	198.2
ROE (%)	22.0	20.9	21.5
P/E (x)	26.2	22.9	19.8
Adj P/BV (x)	5.2	4.7	4.1

Source: PhillipCapital India Research Est.

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Result Update

(Rs mn)	Q2FY14	Q2FY13	YoY Growth
Interest on loans	52299	46024	13.6
Other interest income	2742	2332	17.6
Total interest income	55041	48355	13.8
Interest expended	40457	35414	14.2
Net Interest Income	18140	16339	11.0
Spread	2.24	2.27	0.0
Profit on sale of investments	868	941	-7.8
Other income	3641	3476	4.8
Total income	19094	17358	10.0
Payment to employees	672	621	8.2
Other expenses	953	800	19.2
Depreciation	95	56	69.2
Total expenditure	1720	1477	16.5
Operating income before provisions	17374	15881	9.4
Provisions and contingencies	150	400	-62.5
Profit before tax	17224	15481	11.3
Provision for taxes	4550	3970	14.6
Net Profit	12664	11511	10.0
Loan book	1848860	1546350	19.6
Borrowings	1732840	1474370	17.5
Gross NPAs (%)	0.79	0.77	0.0
CAR Tier I	16.50	14.10	2.4
CAR Tier II	2.50	2.60	-0.1
CAR – Total	19.00	16.70	2.3

Source: Company, PhillipCapital India Research

Sum-of-the-Parts valuation

Subsidiary	Stake	Business Valuation		Valuation	
		Rs bn	per share	Valuation Criteria	
HDFC Parent (housing finance)	100%	773	522	3.5x FY15 Core book of Rs149	
HDFC Bank	22.8%	1545	228	Valuing at 3.5x FY15 ABVPS of Rs 217	
HDFC AMC	60.0%	37	15	3% of FY15E AUM Rs 1236 bn	
Gruh Finance Ltd	60.4%	30	13	3x FY15e ABV of Rs 7.6 bn	
HDFC Ergo General Insurance	74.0%	5	3	2x FY15E Book value	
HDFC Standard Life Insurance	72.4%	70	35	15x FY15E NBAP of Rs 4.6 bn	
HDFC Venture Capital	80.5%	4	2	Discounted Cash flow	
Total			817		
Gains in listed Equity Investments		12	8	valued at 20% discount to current market price	
Fair Value			825		

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Interest on Loans	153,544	189,453	217,871	250,551
Interest on Investments	3,198	2,523	3,028	3,634
Others	8,007	8,731	9,167	9,625
Total Interest Earned	164,749	200,707	230,066	263,811
Total Interest Expended	111,568	138,909	157,643	180,628
Net Interest Income	53,181	61,798	72,424	83,182
Total non interest income	8,794	10,769	11,475	13,054
Total Income	61,975	72,567	83,899	96,237
Personnel Expenses	2,058	2,462	2,831	3,256
Other Expenses	2,461	2,927	3,533	3,956
Total Op expenses	4,519	5,389	6,364	7,212
Net Inc (Loss) before prov	57,456	67,178	77,534	89,025
Provision and contingencies	800	1,450	1,520	1,130
Net Inc (Loss) before tax	56,656	65,728	76,014	87,895
Provision for Income Tax	15,430	17,245	20,524	23,732
Net Profit	41,226	48,483	55,490	64,163

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Assets				
Cash & Bal with RBI	54,729	57,511	58,722	59,939
Loans, Adv & Int accrued	1,404,217	1,700,460	2,027,799	2,404,463
Investments	122,070	136,135	135,396	140,311
Fixed Assets (Net)	2,340	2,379	2,498	2,623
Other assets	85,563	52,508	50,351	48,311
Deferred tax assets	6,282	6,314	2,305	2,315
Total Assets	1,675,199	1,955,308	2,277,072	2,657,962
Liabilities				
Share capital	2,954	3,093	3,093	3,093
Reserves and Surplus	187,222	246,907	277,078	313,209
Subordinated debt	34,750	34,750	44,750	54,750
Borrowing	1,359,564	1,553,531	1,854,671	2,184,455
Other liabilities	49,980	72,855	51,899	55,854
Provisions and contingencies	40,730	44,172	45,572	46,572
Total Liabilities	1,675,199	1,955,308	2,277,072	2,657,962

Source: Company, PhillipCapital India Research

Valuation Ratios

	FY12	FY13	FY14E	FY15E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	31.6	30.5	29.2	29.9
RoAE (%)	22.7	22.0	20.9	21.5
Pre-provision Operating ROA (%)	3.7	3.7	3.7	3.6
RoAB (%)	2.8	2.8	2.7	2.7
EPS (Rs.)	27.9	31.4	35.9	41.5
Dividend per share (Rs.)	11.0	12.5	14.0	15.5
Book Value (Rs.)	128.8	161.7	181.2	204.5
Adj BV (Rs.)	124.6	157.0	175.8	198.2

Revenue Analysis

Interest income on IBA (%)	11.3	11.6	11.2	10.9
Interest cost on IBL (%)	8.8	9.3	9.0	8.7
NIM on IBA / AWF (%)	3.6	3.6	3.5	3.4
Core fee Inc / AWF (%)	0.2	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	4.6	4.5	3.1	2.7
Op.Exp / TI (%)	7.6	7.8	7.8	7.7
Op.Exp / AWF (%)	0.3	0.3	0.3	0.3
Employee exps / Op exps (%)	45.5	45.7	44.5	45.1
Tax / Pre-tax earnings (%)	27.2	26.2	27.0	27.0

Asset Quality

GNPAs / Gr Adv (%)	0.8	0.7	0.7	0.7
NNPAs / Net Adv (%)	0.4	0.4	0.4	0.4

Growth Ratio

Loans (%)	20.2	21.1	19.3	18.6
Investments (%)	3.2	11.5	(0.5)	3.6
Deposits (%)	21.3	14.3	19.4	17.8
Networth (%)	9.8	31.5	12.1	12.9
Net Int Income (%)	19.1	16.2	17.2	14.9
Non-fund based income (%)	23.4	25.0	17.9	17.6
Non-Int Exp (%)	18.6	19.3	18.1	13.3
Profit Before Tax (%)	16.4	16.0	15.6	15.6
Net profit (%)	16.6	17.6	14.5	15.6

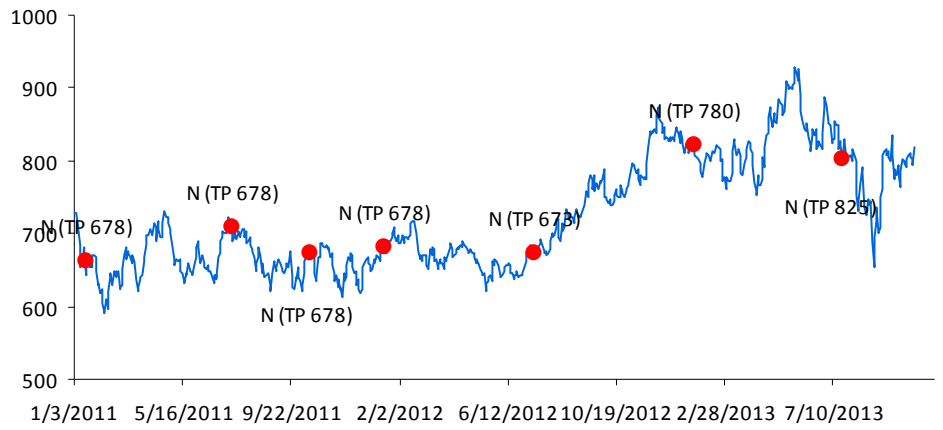
Asset / Liability Profile

Avg Adv / Avg Dep (%)	416.9	348.1	328.5	345.7
Avg Invst / Avg Dep (%)	39.3	29.2	24.1	21.7
Incr Adv / Deposits (%)	99.0	152.7	108.7	114.2
Avg Cash / Avg Dep (%)	19.0	12.7	10.3	9.3

Capital Adequacy Ratio:

Tier I (%)	14.6	14.7	13.7	12.8
Tier I (%)	11.6	12.7	11.9	11.2
Internal Capital Generation rate (%)	33.2	35.7	30.9	31.5
NNPAs to Equity (%)	3.2	2.9	3.0	3.1

Recommendation Chart



Source: PhillipCapital India Research

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