

## BANKING: Quarterly Update

HDFC's Q2FY15 PAT of Rs13.6bn was in line with estimates with profitability driven by NII of Rs19.5bn. NII grew by 19% YoY, driven by 19% YoY growth in loan book (including sale down) and 5bps improvement in spread to 2.29%. NIM however remained flat at 4% on YoY basis but increased by 20bps sequentially. Dividend income was lower compared to previous year as some dividends were received in Q1. Effective tax also went up (31% as against 27% previously) on account of creation of DTL on special reserves, this along with high provision of Rs350mn (Rs150mn in Q2FY14) resulted in a moderate PAT growth of 7.2% YoY.

### Key highlights for Q2FY15

- NII grew by 19% YoY, in line with the loan book growth of 19% YoY (including sell down). Excluding sell down, the loan book witnessed a growth of 15% YoY with individual segment growing at 16.5% YoY and non individual segment at 11%. Non individual segment is witnessing some traction after moderate growth in last one year.
- Spreads at 2.29% was slightly higher by 5bps on a YoY basis, however remained flat QoQ. Spreads on individual/developer loans stood at 1.97% (1.98% in H1FY14)/2.97% (2.76% for H1FY14). NIMs however increased by 20 bps QoQ to 4% owing to increase in yield on advances.
- Advances (including of sell downs) grew by 19% YoY to Rs 2123 bn; however net of sell downs, the loan book growth was 15% YoY. 81% of the incremental loans were towards the retail segment and consequently the proportion of individual loan book increased marginally to 68.4% from 67.5% year back. HDFC continued to remain cautious towards the developer and lease rental segment.
- On funding side, given the decline in bond price, the NCD/Bond witnessed 28% YoY growth whereas bank loan declined by 25.5% YoY.
- Asset quality remained stable with GNPA (%) at 0.69% as on Q2FY15. Individual GNPA (%) was 0.53% (0.5% as on Q1FY15), while developer GNPA was flat QoQ at 1.02% (1.01% in Q1FY15). Provision coverage (excluding standard provision) remained flat QoQ.

### Outlook and valuation

Driven by stiffer competition in the retail home loan segment and slowdown in the developer segment, we expect HDFC Ltd to witness moderation in loan book growth to ~17% over FY14-16E. Going forward, we expect spreads and NIMs to improve driven by higher spreads on securitization deals with banks other than HDFC Bank and also due to flexibility in borrowing mix. Moreover, we remain sanguine about HDFC's asset quality and ability to deliver stable earnings growth of 15%+ with robust RoA of ~2.7%. At the CMP, HDFC trades at 3.6x FY16E Adj BV (net of investment in subsidiaries and associates). Given the limited upside from current levels, we maintain our Neutral rating on the stock with a revised PT of Rs 990.

## Neutral

HDFC IN | CMP RS 1030

TARGET RS 990 (-3.8%)

### Company Data

O/S SHARES (MN) :	1569
MARKET CAP (RSBN) :	1538
MARKET CAP (USDBN) :	25.5
52 - WK HI/LO (RS) :	1150 / 756
LIQUIDITY 3M (USDMN) :	47.6
FACE VALUE (RS) :	2

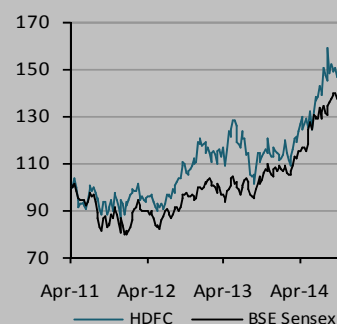
### Share Holding Pattern, %

FII / ADR / OCB / NRI :	77.7
FI / MF / Banks :	10.4
Non Pro Corp Holdings :	2.0
Public & Others :	10.1

### Price Performance, %

	1mth	3mth	1yr
ABS	-3.7	0.5	22.4
REL TO BSE	-0.6	-2.4	-3.9

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Pre-prov ROE (%)	28.5	29.3	30.2
Pre-prov ROA (%)	3.7	3.7	3.8
Net Profit	54,402	62,753	73,406
% growth	12.2	15.4	17.0
EPS (Rs)	34.9	40.2	47.0
Adj BVPS (Rs)	173.9	195.5	222.9
ROE (%)	20.5	21.1	21.8
P/E (x)	30.6	26.6	22.7
Adj P/BV (x)	6.1	5.5	4.8

Source: PhillipCapital India Research Est.

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### Result Update

(Rs mn)	Q2FY15	Q2FY14	YoY growth	Q1FY14	QoQ growth
Interest on loans	60708	52299	16.1	57896	4.9
Other interest income	3577	4598	-22.2	3539	1.1
Total interest income	64285	56897	13.0	61435	4.6
Interest expended	44739	40457	10.6	43305	3.3
<b>Net Interest Income</b>	<b>19546</b>	<b>16441</b>	<b>18.9</b>	<b>18130</b>	<b>7.8</b>
<b>NIM</b>	<b>4.00</b>	<b>4.00</b>	<b>0.0</b>	<b>4.00</b>	<b>0.0</b>
Profit on sale of investments	1027	868	18.4	9	
Other income	1395	1785	-21.9	3169	-56.0
Total income	21968	19094	15.1	21307	3.1
Payment to employees	788	672	17.3	849	-7.1
Other expenses	898	953	-5.8	928	-3.2
Depreciation	116	95	22.2	-66	-276.3
Total expenditure	1803	1720	4.8	1711	5.4
<b>Operating income before provisions</b>	<b>20166</b>	<b>17374</b>	<b>16.1</b>	<b>19597</b>	<b>2.9</b>
Provisions and contingencies	350	150	133.3	350	0.0
Profit before tax	19816	17224	15.1	19247	3.0
Provision for taxes	6240	4550	37.1	5800	7.6
<b>Net Profit</b>	<b>13576</b>	<b>12674</b>	<b>7.1</b>	<b>13447</b>	<b>1.0</b>
Loan book	2123440	1848860	14.9	2033840	4.4
Borrowings	1952762	1732840	12.7	1879200	3.9
Gross NPAs (%)	0.69	0.79	-0.1	0.70	0.0
CAR Tier I	15.70	16.50	-0.8	15.60	0.1
CAR Tier II	2.20	2.50	-0.3	2.30	-0.1
CAR – Total	17.90	19.00	-1.1	17.90	0.0

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%	914	611	3.5x FY16e Core Adj BV of Rs 175	
HDFC Bank	22.8%	1806	262	Valuing at 3x FY16E ABVPS of Rs 248	
HDFC AMC	60.0%	42	16	3% of FY16E AUM Rs 1359 bn	
Gruh Finance Ltd	60.4%	37	15	4x FY16E ABV	
HDFC Ergo General Insurance	74.0%	21	11	2x FY16E Book value	
HDFC Standard Life Insurance	72.4%	141	70	15x FY16E NBAP + FY16E Embedded Value	
HDFC Venture Capital	80.5%	4	2	Discounted Cash flow	
Total			987		
Gains in listed Equity Investments		2	1	valued at 20% discount to current market price	
Fair Value			<b>990</b>		

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Interest on Loans	189,453	218,727	251,535	294,297
Interest on Investments	2,523	3,374	4,049	4,656
Others	8,731	8,223	8,634	9,066
Total Interest Earned	200,707	230,323	264,218	308,018
Total Interest Expended	138,909	160,294	182,800	212,200
Net Interest Income	61,798	70,030	81,419	95,818
Total non interest income	10,769	11,653	12,936	14,388
Total Income	72,567	81,683	94,355	110,206
Personnel Expenses	2,462	2,792	3,211	3,692
Other Expenses	2,927	3,489	4,131	4,758
Total Op expenses	5,389	6,281	7,342	8,450
Net Inc (Loss) before prov	67,178	75,402	87,013	101,756
Provision and contingencies	1,450	1,000	1,050	1,200
Net Inc (Loss) before tax	65,728	74,402	85,963	100,556
Provision for Income Tax	17,245	20,000	23,210	27,150
<b>Net Profit</b>	<b>48,483</b>	<b>54,402</b>	<b>62,753</b>	<b>73,406</b>

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Assets</b>				
Cash & Bal with RBI	57,511	77,155	84,911	93,461
Loans, Adv & Int accrued	1,700,460	1,971,000	2,245,545	2,636,215
Investments	136,135	139,127	144,291	157,307
Fixed Assets (Net)	2,379	2,805	3,085	3,394
Other assets	52,508	61,189	64,043	67,246
Deferred tax assets	6,314	6,299	6,299	6,299
<b>Total Assets</b>	<b>1,955,308</b>	<b>2,257,574</b>	<b>2,548,174</b>	<b>2,963,920</b>
<b>Liabilities</b>				
Share capital	3,093	3,121	3,121	3,121
Reserves and Surplus	246,907	276,431	311,808	356,012
Subordinated debt	34,750	34,750	42,250	47,250
Borrowing	1,553,531	1,805,405	2,117,659	2,459,969
Other liabilities	72,855	94,501	31,747	54,779
Provisions and contingencies	44,172	40,540	41,590	42,790
<b>Total Liabilities</b>	<b>1,955,308</b>	<b>2,257,574</b>	<b>2,548,174</b>	<b>2,963,920</b>

Source: Company, PhillipCapital India Research

### Valuation Ratios

	FY13	FY14	FY15E	FY16E
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	30.5	28.5	29.3	30.2
RoAE (%)	22.0	20.5	21.1	21.8
Pre-provision Operating ROA (%)	3.7	3.6	3.6	3.7
RoAB (%)	2.8	2.7	2.7	2.7
EPS (Rs.)	31.4	34.9	40.2	47.0
Dividend per share (Rs.)	(12.5)	(14.0)	(15.0)	(16.0)
Book Value (Rs.)	161.7	179.1	201.8	230.1
Adj BV (Rs.)	157.0	173.9	195.5	222.9

### Revenue Analysis

Interest income on IBA (%)	11.6	11.3	11.3	11.5
Interest cost on IBL (%)	9.3	9.3	9.1	9.1
NIM on IBA / AWF (%)	3.6	3.4	3.5	3.6
Core fee Inc / AWF (%)	0.1	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	4.5	3.1	2.7	2.6
Op.Exp / TI (%)	7.8	7.9	8.0	7.9
Op.Exp / AWF (%)	0.3	0.3	0.3	0.3
Employee exps / Op exps (%)	45.7	44.5	43.7	43.7
Tax / Pre-tax earnings (%)	26.2	26.9	27.0	27.0

### Asset Quality

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

### Growth Ratio

Loans (%)	21.1	15.9	13.9	17.4
Investments (%)	11.5	2.2	3.7	9.0
Deposits (%)	14.3	16.2	17.3	16.2
Networth (%)	31.5	11.8	12.7	14.0
Net Int Income (%)	16.2	13.3	16.3	17.7
Non-fund based income (%)	25.0	20.4	13.9	11.5
Non-Int Exp (%)	19.3	16.5	16.9	15.1
Profit Before Tax (%)	16.0	13.2	15.5	17.0
Net profit (%)	17.6	12.2	15.4	17.0

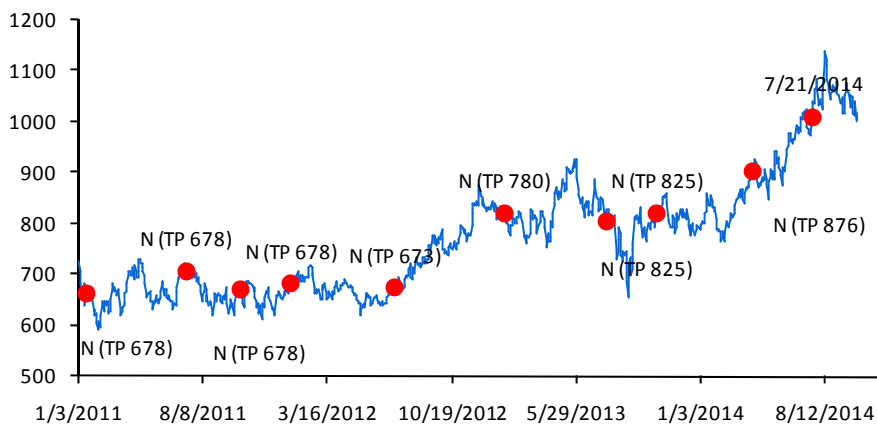
### Asset / Liability Profile

Avg Adv / Avg Dep (%)	348.1	336.0	353.2	372.5
Avg Invst / Avg Dep (%)	29.2	25.4	23.9	23.2
Incr Adv / Deposits (%)	152.7	107.4	87.9	114.1
Avg Cash / Avg Dep (%)	12.7	12.4	13.7	13.7

### Capital Adequacy Ratio:

Tier I (%)	16.4	17.9	18.1	17.7
Tier I (%)	13.9	15.4	15.4	15.1
Internal Capital Generation rate (%)	35.7	30.5	30.8	31.2
NNPAs to Equity (%)	2.9	2.9	3.1	3.2

### Recommendation Chart



Source: PhillipCapital India Research

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