



Q2FY15- Stable performance

30th Oct, 2014

CMP: Rs. 891
Target Price: Rs. 985
Recommendation: HOLD

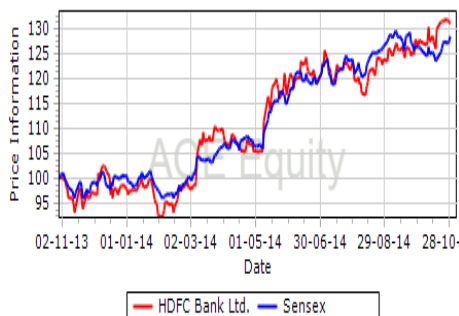
Stock Info

BSE Group	A
BSE Code	500180
NSE Symbol	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
BSE Sensex	27,098
NSE Nifty	8,090

Market Info

Market Capital	Rs. 2,15,223 cr
Equity Capital	Rs. 483 cr
Avg. Trading Vol	24,28,740
52 Wk High/ Low	909/618
Face Value	2

Shareholding Pattern (%)	(30 st Sep 2014)
Promoters	22.5
Domestic Institutions	9.9
Foreign Institutions	33.8
Public & Others	33.8
Govt. Holdings	NA



HDFC Bank reported stable set of numbers. Asset quality, as seen in GNPA's, continues to remain strong. Bank saw sturdy growth with advances and deposits growing by 21.8% and 24.8% YoY respectively. Interest income increased by 17.4% YoY to Rs. 11,848 cr, while on QoQ basis it increased by 5.6%. Interest expenses increased by 12.8% YoY, while on QoQ basis it increased by 4.8% to Rs. 6,337cr. Net interest income increased by 23.1% on YoY basis and 6.6% on QoQ basis to Rs.5,511 cr. Reported net interest margin increased on QoQ basis by 10bps to 4.5%.

Non-interest income was higher by 11.0% YoY to Rs. 2,047. Within this segment, revenues from fees & commissions increased by 13.4% on YoY basis to Rs 1,537cr, foreign exchange & derivatives declined by 55.8% on YoY basis to Rs 222cr (Q2FY14 was exceptional due to huge fluctuations in Re/USD exchange rate), gain on revaluation/ sale of investment was Rs. 95 crs v/s. loss of Rs. 173 crs on YoY basis and miscellaneous income increased by 19.7% on YoY basis to Rs 194cr.

Cost to income ratio increased by 100 bps to 46.3 on qoq basis. Operating cost for the quarter increased by 19.2% YoY to Rs 3,498 crs this is due to increase in staffing resulting from branch expansion (112 branches added during the quarter) and Higher DSA due to increased retail disbursement.

Asset quality continues to remain best in class with bank reporting 1.0% GNPA's and 0.3% NNPA's. Provisioning increased by 18.1% to Rs. 456 crs on YoY basis. However, on QoQ basis it decreased by 5.6%.

Retail loan growth was 17.3% while wholesale loan growth stood at 21.8%. CASA ratio stood at 43.2%.

Outlook: HDFC Bank continues to deliver stable NIMs and strong RoAs which is backed by robust asset quality. Management expects PAT growth to get back to 30% level with improvement in economy. We have valued stock on P/B(x) of 4x on its FY16 adjusted book value of Rs 246 per share and arrived at a target price of Rs. 985. We recommend to 'HOLD' the stock.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	15,811	18,483	22,526	27,950
Operating Profit	11,428	14,360	17,730	22,150
PAT	6,726	8,478	10,460	13,506
EPS (Rs)	28.3	35.3	43.3	56.3
EPS Growth (%)	49%	25%	23%	30%
RoE (%)	20%	21%	22%	24%
P/E (x)	31.5	25.2	20.6	15.8
P/ABV (x)	6.2	5.2	4.4	3.6

Q2FY15 EARNINGS UPDATE- SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	Q2FY15	Q2FY14	YoY	Q1FY15	QoQ	Comments
Interest Earned	11,848	10,093	17.4%	11,220	5.6%	
Interest Expended	6,337	5,617	12.8%	6,048	4.8%	
Net Interest Income	5,511	4,477	23.1%	5,172	6.6%	Healthy NII performance on account of strong loan growth of 22% YoY
Other Income	2,047	1,844	11.0%	1,851	10.6%	Other income growth lower than our estimate of ~ 20% growth
<i>Other income / Net Income (%)</i>	27.1	29.2		26.4		
Total income	7558	6321	19.6%	7022	7.6%	
Employee Expenses	1,167	1,036	12.7%	1,126	3.6%	
Non-Employee expenses	2,331	1,899	22.8%	2,052	13.6%	
Operating Expenses	3,498	2,934	19.2%	3,178	10.1%	Opex higher due to rise in non-employee expenses
<i>Cost-income Ratio (%)</i>	46.3	46.4		45.3		C/I ratio remains stable
Pre-Prov Profits	4,060	3,387	19.9%	3,844	5.6%	
Provisions & Contingencies	456	386	18.1%	483	-5.6%	
PBT	3,604	3,001	20.1%	3,361	7.2%	
Provisions for Tax	1,223	1,018	20.1%	1,128	8.4%	
<i>Effective Tax Rate (%)</i>	33.9	33.9		33.6		
PAT (reported)	2,381	1,982	20.1%	2,233	6.6%	Lower than expected growth
EPS Basic	9.9	8.3		9.3		
EPS Diluted	9.8	8.2		9.2		
GNPA	3,361.7	2,941.7		3,356.2		
NNPA	917.3	767.2		1,007.4		
GNPA (%)	1.0	1.1		1.1		Asset quality stable
NNPA (%)	0.3	0.3		0.3		
Total CAR (%)	15.7	14.6		15.1		
NIM (%)	4.5	4.3		4.4		
Deposits	3,90,682	3,13,011	24.8%	3,72,074	5.0%	Deposit base looks strong
Advances	3,27,273	2,68,617	21.8%	3,12,109	4.9%	Strong loan growth

Source: Company data, Arianth research

Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	35,065	41,136	50,339	62,821
Interest Expenses	19,254	22,653	27,813	33,853
Net Interest Income	15,811	18,483	22,526	28,968
- growth %	29%	17%	22%	29%
Other Income	6,853	7,920	9,653	11,584
Operating Income	22,664	26,402	32,179	40,551
- growth %	21%	16%	22%	26%
Operating Expenses	11,236	12,042	14,449	17,168
- Staff Cost	3,965	4,179	5,013	5,845
- Other Operating Exp.	7,271	7,863	9,436	11,323
Gross Profits	11,428	14,360	17,730	23,384
- growth %	22%	26%	23%	32%
Provisions	1,677	1,588	2,348	2,928
Profit Before Taxes	9,751	12,772	15,382	20,456
Taxes	3,024	4,294	4,922	6,546
Profit After Taxes	6,726	8,478	10,460	13,910
- growth %	30%	26%	23%	33%

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	476	480	483	483
Reserves & Surplus	35,738	42,999	51,026	61,700
Share holders Fund	36,214	43,479	51,508	62,183
Deposits	2,96,247	3,67,337	4,78,625	5,99,250
Borrowings	33,007	39,439	43,383	47,721
Other liabilities & provisions	34,864	41,344	35,713	58,296
Total Liabilities	4,00,332	4,91,600	6,09,229	7,67,451
ASSETS				
Cash on hand & with RBI	14,627	25,346	30,415	36,498
Money at call and short notice	12,653	14,238	15,662	17,228
Advances	2,39,721	3,03,000	3,75,720	4,73,408
Investments	1,11,614	1,20,951	1,48,374	1,85,768
Fixed assets	2,703	2,940	3,381	3,888
Other assets	19,014	25,125	35,677	50,661
Total Assets	4,00,332	4,91,600	6,09,229	7,67,451

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	28.3	35.3	43.3	57.6
Book Value per share	152	181	213	258
Adjusted Book Value	144	172	204	246
Dividend per share	5.5	6.9	8.4	11.2
Asset Quality (%)				
Gross NPAs	1.0%	1.0%	1.0%	0.9%
Net NPAs	0.2%	0.3%	0.3%	0.3%
PCR	79%	72%	69%	68%
Profitability ratios				
RoE	20%	21%	22%	24%
RoA	1.8%	1.9%	1.9%	2.0%
NIM	4.6%	4.4%	4.4%	4.5%
Operating Profit Margin	27%	29%	30%	31%
Net Profit Margin	16%	17%	17%	19%
Cost to Income	50%	46%	45%	42%

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
Yield on advances	12.3%	11.7%	11.6%	11.6%
Yield on investments	7.5%	7.8%	7.8%	7.8%
Cost of deposits	5.9%	5.5%	5.5%	5.4%
Cost of funds	6.4%	6.2%	6.0%	5.8%
Spread	3.7%	3.6%	3.8%	4.0%
Net Interest Income to AWF				
Net Interest Income to AWF	4.7%	4.4%	4.3%	4.5%
Non Interest Income to AWF	2.0%	1.9%	1.9%	1.9%
Operating Profit to AWF	3.4%	3.4%	3.4%	3.4%
Net Profit to AWF	2.0%	2.0%	2.0%	2.0%
Valuation ratios (x)				
P/E	31.5	25.2	20.6	15.5
P/BV	5.9	4.9	4.2	3.5
P/ABV	6.2	5.2	4.4	3.6

Source: Company data, Arian Research

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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