

**HDFC Bank Result Synopsis****Reduce****CMP: Rs.554****Target: Rs. 514**

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**Q412 Net Profits surge 30% driven by NII growth and steep fall in provisions. NIMs improve QoQ, Asset quality holds, performance in line with expectations.**

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HDFC bank reported net profit growth of 27% at Rs.1453cr which was largely in line with expectations. The bank has shown marked improvement in core operations with NII growing 19% to Rs.3388cr compared to weak 12% growth posted in Q312. Net profit recorded an increase of 30.4% at Rs.1453cr. HDFCBK continued to grow its lending book at a faster pace compared to industry, at 22% compared to 17% growth for the sector. Deposits grew 18.3%YoY while CASA deposits grew 9% on account of the high base effect (one-offs of ~Rs.4000cr seen in current a/c last year). However adjusting for the same, the CASA deposit growth is an anemic 12%YoY compared to 27%YoY growth seen in FY11. NIMs grew 10bps QoQ to 4.2% on account of sharp 8% QoQ rise in CASA deposits. Asset quality continues to remain steady with Gross NPAs ratio at 1.02% (vs.1.05%LY) and Net NPA ratio at 0.2% while restructured loans account for 0.4% of gross advances.

Thus considering the weakness developing in accrual of core CASA deposits, profitability driven by lower provisions and high valuations (3.2x-1yr Fwd ABV) we have a Reduce rating on the stock.

**Advances growth robust, NIIs growth a positive surprise, NIMs improve QoQ**

HDFCBK reported robust 22% growth in advances to Rs.1.95lk cr which is significantly higher than industry growth of 17%YoY. NII grew Rs.3388cr, up 19.3% driven by the sharp advances growth and higher yields on advances as the bank's focus on improving retail loan book has helped in improving yields on advances. Despite the mediocre growth in the CASA deposits, HDFCBK managed hold on to NIMs at 4.2% while improving 10bps sequentially.

**Deposit growth healthy, CASA disappoints**

Deposits grew 18.3% YoY to 2.46lk cr which is faster than the pace seen in the sector. Deposit growth was powered by term deposits, up 29%YoY, given the attractiveness in term deposit rates. CASA deposits however were the biggest disappointment with demand deposits growing mere 12%YoY (adj. for one-offs last year) to Rs.1.19lk cr, resulting in CASA ratio declining to 48.4% compared to 51% seen last year. Savings deposits grew 16.6% to Rs.73,998cr while current deposits rose 6%(adj.) to Rs.45408cr. The bank carried a one off current a/c deposits of ~Rs.4000cr last year. Core total deposit growth stood at 20.6%.

**Operating costs rise on wages, branch additions, C/I deteriorates**

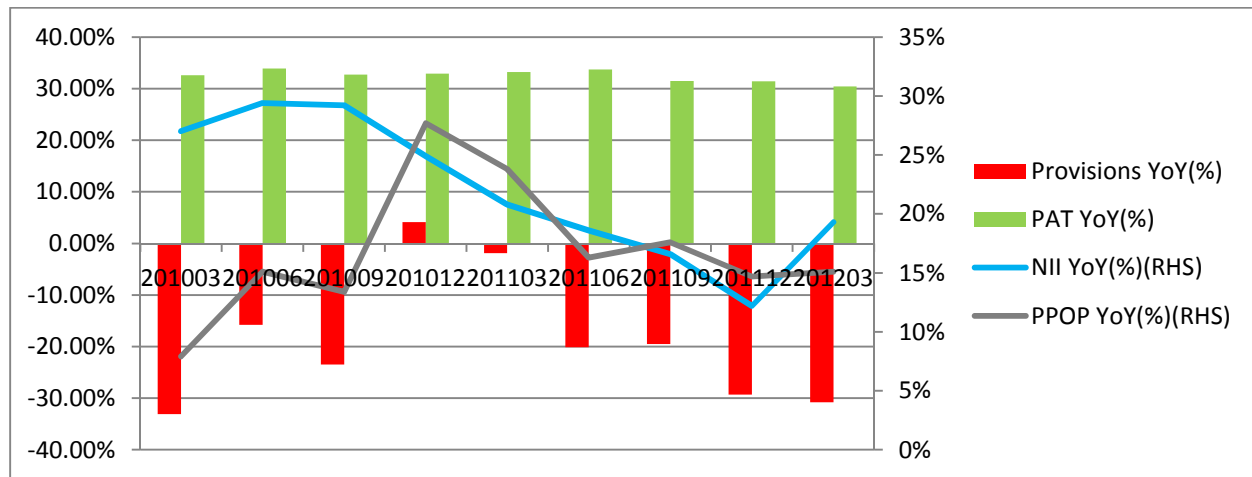
Operating expenses grew 23.5% to Rs.2467cr on account of wages and sharp year end ramp-up in branch additions during the quarter. Staff expenses rose 26.6% to Rs.928.4cr while other expenses grew 21.6% to Rs.1538cr. HDFCBK added 343branches and 1803 ATMs sequentially, thus expanding the network to 2544 and 8913 respectively. Consequently, C/I ratio deteriorated to 51% vs. 49% last year as moderation in other income growth failed to cushion the rise in opex.

## Other Income growth moderates, Fee income robust

Other income grew 18.8% to Rs.1492cr but the comfort factor is the sustained robustness seen in Fee income which grew 23.7% to Rs.1237.3 which is fastest in two years. However the loss on revaluation/ sale of investments of Rs.71.5cr compared to profit of Rs.8.6cr seen last year was a drag on the overall other income. Foreign exchange income which accounts for 22% of other income grew 32.5% to Rs.325.2cr.

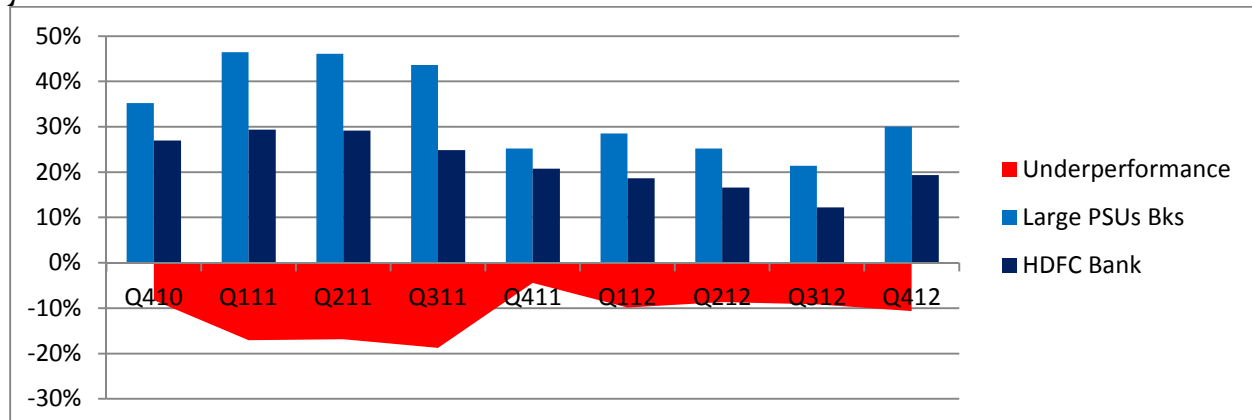
## Net profit up 30.4% as Provisions fall sharply

Net profit grew 30.4%YoY at Rs.1453.08cr which has been the trend over the last two years. However, the PAT growth since Q311 has largely been on account of sharp reduction in Provisions while NII and PPOP growth has decelerated sharply. This certainly is a concern on the quality of profitability and needs to be addressed. Provisions in Q4FY12 were down 31%YoY.



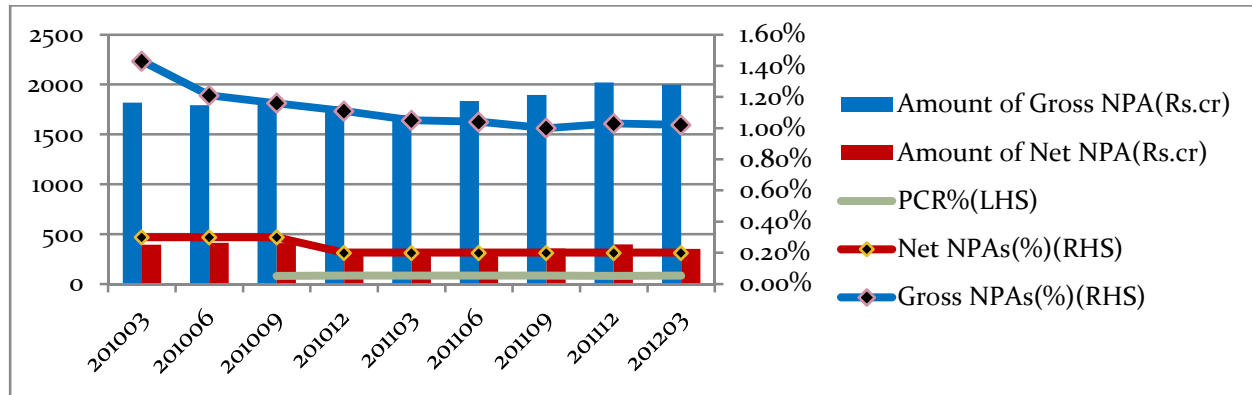
Source: Company, Banham Research

## HDFC Bank has underperformed Large PSU peers on NII and PPoP over last two years.



\*Large PSU: SBI,PNB,BoB / Q412 PSU NII growth estimated vs. HDFCBK actual ; Source: Company, Banham Research

The bank has very successfully managed to maintain asset quality and remains cushioned in terms of provision coverage ratio. Gross NPAs at end of Q412 improved to 1.02% compared to 1.05% last year while Net NPA ratio stands at 0.2%, unchanged from last year. Restructuring loans accounted for 0.4% of gross advances which is amongst the lowest in sector.



## Capital Adequacy

HDFCBK remains well capitalised to fuel future growth. Capital adequacy ratio stood at 16.5% with Tier-1 capital at 11.6%. During the year, equity capital of the bank expanded by Rs.4.1cr and reserves by Rs.526.5cr on account of exercise of ESOPs, with an allotment of 2.05 cr shares.

## View

HDFCBK has successfully performed in terms of outpacing industry growth on advances and deposits as well as managed to hold on to net interest margins and asset quality. However the downward trajectory in pace of growth in NII and PPOP has been cause of concern. The private sector major has been significantly underperforming its large cap PSU peers on NII and to a lesser extent on PPOP.

Though NII growth has managed to pick up in Q412, the underperformance is likely to continue. HDFCBK's ability to further accelerate NII growth will be a key factor to watch out for. PPOP growth has been under pressure as opex continues to rise while NII growth has weakened through the period (Q311-Q412). Robust Fee income growth has helped to alleviate some pressure off PPOP.

The markets seem to be largely ignoring this factor and paying a healthy premium on account of its healthy asset quality, excellent management credentials and consistent delivery of superior net interest margins.

HDFC bank sustained delivery of sustained 30%-plus net profit growth has been driven by declining provisions while core operations have been underperforming.

We expect the bank to report NII and PAT growth of 24% and 26% CAGR over FY12-FY14e. Business is expected to grow 24% while NIMs are likely to sustain given the focus on high yielding retail loan book and healthy low cost deposit base.

The stock is currently trading at 3.2x FY14ABV which we believe factors the positives. In view of possible risks of sustained underperformance of core operations, we expect multiple to move closer to average multiple of 3x 1-yr fwd (over FY05-12), giving us our target price of Rs.514 (downside 8%) and hence would be prudent to book profits. Reduce.

Quarterly (Rs.cr)	Q412	Q411	YoY
<b>NII</b>	<b>3388</b>	<b>2839</b>	<b>19%</b>
Other Income	1492	1256	19%
Operating Inc	4880	4095	19%
<b>Operating Exp</b>	<b>2467</b>	<b>1998</b>	<b>23%</b>
C/I	51%	49%	
PPOP	2413	2097	15%
Provisions	298	431	-31%
PBT	2115	1666	27%
Tax	662	551	20%
<b>PAT</b>	<b>1453</b>	<b>1115</b>	<b>30%</b>

Asset Quality	Q412	Q312	Q212	Q112	Q411
Gross NPA%	1.02	1.03	1.00	1.04	1.05
Net NPA%	0.2	0.2	0.2	0.20	0.2
PCR%	82.4	80.3	81.3	83.0	82.5
Advances%	22	22	20	20	27
Deposits%	18	21	18	15	25
Business%	20	21	19	17	26
NIMs%	4.2	4.10	4.10	4.20	4.20
CASA%	48.4	47.70	47.30	49.10	51
Branches	2544	2201	2150	2111	1986
ATMs	8913	7110	6520	5998	5471

All figures in Rs.cr

Profit & Loss	FY10	FY11	FY12	FY13e	FY14e
<b>NII</b>	<b>8386</b>	<b>10543</b>	<b>12297</b>	<b>15260</b>	<b>18794</b>
Other Income	3983	4335	5243	6502	8063
Total Opex	5940	7153	8590	10664	13160
<b>PPOP</b>	<b>6430</b>	<b>7725</b>	<b>8950</b>	<b>11099</b>	<b>13697</b>
Provisions	2140	1906	1437	1509	1660
PBT	4290	5819	7513	9590	1237
Tax	1341	1893	2346	3069	3852
<b>PAT</b>	<b>2949</b>	<b>3926</b>	<b>5167</b>	<b>6521</b>	<b>8185</b>
EPS	12.88	16.88	22.02	27.79	34.88

Balance sheet	FY10	FY11	FY12	FY13e	FY14e
<b><u>Sources of Funds</u></b>					
Share Capital	425	458	469	469	469
Reserves & Surplus	21062	24911	29455	34340	40344
Esops O/s	2.91	2.91	0	0	0
<b>Deposits</b>	<b>167404</b>	<b>208586</b>	<b>246706</b>	<b>303449</b>	<b>373242</b>
Borrowings	12916	14394	23847	28616	32908
Other Liabilities	20616	28993	37432	46790	55680
<b>Total Liabilities</b>	<b>222459</b>	<b>277353</b>	<b>337910</b>	<b>413664</b>	<b>502643</b>
<b><u>Application of Funds</u></b>					
Cash and Bal with RBI	15483	25101	14991	15471	16528
Bal. with Bks and money at call	14459	4568	5947	4810	5076
Investments	58608	70929	97483	121854	151099
<b>Advances</b>	<b>125831</b>	<b>159983</b>	<b>195420</b>	<b>242321</b>	<b>300478</b>
Net Block	2123	2171	2347	2582	2840
Other Assets	5955	14601	21722	26357	26623
<b>Total</b>	<b>222459</b>	<b>277353</b>	<b>337910</b>	<b>413664</b>	<b>502643</b>

Key Figures	FY10	FY11	FY12	FY13e	FY14e
<b>EPS</b>	12.88	16.88	22.02	27.79	34.88
<b>BV</b>	94.02	109.09	127.52	148.33	173.92
<b>ABV</b>	92.32	107.83	126.02	146.20	171.47
<b>NIMs</b>	4.3%	4.4%	4.3%	4.4%	4.4%
<b>GNPA</b>	1.4%	1.1%	1.0%	1.0%	1.0%
<b>NNPA</b>	0.3%	0.2%	0.2%	0.2%	0.2%

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**RATINGS**

Buy	Accumulate	Neutral	Reduce	Sell
>15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

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