

## HDFC Bank: Excels once again

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## Out Performer

Rs195.15

HDFC Bank has posted a net profit of Rs897mn in Q2FY03, 29.4% higher than the corresponding period in the previous year. Net profit of the bank has grown in line with our expectations. This has been aided by a 33% increase in the bank's net interest income, a 66% increase in fee income and huge treasury profits. The leap in operating income is a reflection of increasing focus on the rapidly growing and high yielding retail lending segment and the Bank's aggressive expansion of the footprint. With this, the Bank's cost to income ratio has increased to 45.4%. In view of its higher trading profits, the Bank has stepped up its provisioning by 118%. We reiterate **Out Performer** call.

	Rs Mn					
	Q1FY02	Q2FY02	Q3FY02	Q4FY02	Q1FY03	Q2FY03
Interest earned	3882.10	4131.90	4395.60	4620.30	4791.60	4817.30
% Change	39.37%	41.08%	35.16%	27.34%	23.43%	16.59%
Int on advances	1460.4	1513.1	1649.4	1616.4	1760	1883.1
Inc from investments	1998.4	2042.5	2194	2404.8	2621.2	2648.1
Int on funds with RBI/banks	421.2	573.9	549.3	595.2	404.7	279.6
Others	2.1	2.4	2.9	3.9	5.7	6.5
Interest Expended	2479.9	2696.7	2794.4	2766.4	2906.7	2904.7
	57.82%	49.60%	41.14%	26.68%	17.21%	7.71%
Net Interest Income	1402.20	1435.20	1601.20	1853.90	1884.90	1912.60
% Change	15.48%	27.44%	25.86%	28.34%	34.42%	33.26%
Non-fund income	672.6	764.9	855.1	1039.9	813.2	1215.1
% Change	52.21%	108.19%	79.87%	82.25%	20.90%	58.86%
Fee based	512.60	474.90	596.10	709.90	771.20	786.00
% Change	41.64%	8.57%	33.83%	44.70%	50.45%	65.51%
G-Sec trading	160	290	259	330	42	426
Net Revenue	2074.80	2200.10	2456.30	2893.80	2698.10	3127.70
% Change	25.28%	47.30%	40.55%	43.61%	30.04%	42.16%
Operating Expenses	935.40	961.60	1096.50	1186.00	1201.80	1420.00
% Change	35.33%	99.54%	20.30%	45.88%	28.48%	47.67%
Salaries	249.7	277.2	289.9	275.6	316.4	333.6
Other operating expenses	685.7	684.4	806.6	910.4	885.4	1086.4
Operating Profit	1139.40	1238.50	1359.80	1707.80	1496.30	1707.70
% Change	18.08%	22.42%	62.64%	42.07%	31.32%	37.88%
Provisions & Contingencies	236.40	167.20	275.80	512.30	346.20	364.00
PBT	903.00	1071.30	1084.00	1195.50	1150.10	1343.70
Tax prov	282.9	377.9	329.5	293.1	326	446.8
Net Profit	620.10	693.40	754.50	902.40	824.10	896.90
% Change	33.79%	6.24%	42.90%	37.69%	32.90%	29.35%

### **Strong growth in high yield customer assets**

HDFC Bank's customer assets have grown by an impressive 44% YoY to Rs11750mn. The high yielding retail loans have shot up by 115% YoY to Rs19730mn. This comprises auto loans portfolio of around Rs10,000mn, personal loans portfolio of Rs2900mn; the remaining is loans against securities (RBI bonds, shares, etc). The high yielding retail loans thus constituted 16.8% of the total customer assets of the Bank in Q2FY03 vis-à-vis 15.4% in Q1FY03 and 11% in Q2FY02. **The net interest margins of the bank thus stand at high 3.2%.**

### **Strong growth in fee income**

The Bank's fee income has increased by an impressive 65% YoY. Both commissions and forex earnings have been on an upswing. Impressive growth in commissions has been aided by distribution of third party products such as mutual funds and increase in the fees on retail loans. Pertinently, commission from retail products now constitutes almost half of Rs567mn commission earned by the Bank in Q2FY03.

### **Treasury profits are a high Rs426mn**

Bank has earned high trading profits in the quarter. It's profit on sale of investments in the quarter stands at a high Rs426mn. This is highly volatile income and to that extent unsustainable. Accordingly, the Bank has stepped up its provisioning by 118% YoY to Rs364mn (Rs326mn for loan assets and general provisioning) in the quarter. Net NPAs of the Bank are amongst the lowest in the sector at 0.7% of the advances.

### **Aggressive expansion of the footprint**

The Bank has been significantly expanding its footprint. In the last six months, it has added 32 branches and 141 ATMs, with about half of it coming in Q2FY03. The Bank's network comprising 203 branches now spans across 102 cities. The Bank is likely to add another 35 odd branches and a few cities to its network in the second half of the year.

Aided by this geographic expansion, superior technology and service orientation the bank has enhanced its customer acquisition and increased penetration levels. The number of retail accounts at 2.8mn have increased 63% YoY; total deposits at Rs196,060mn have risen by 37% and, more importantly, its **savings bank deposits at Rs37150mn have spiked 61%.**

*Cost to income ratio moves up.* The bank's cost to income ratio in the quarter has moved up to 45.4%. This is higher than 43.4% cost to income ratio in FY02 and 44.5% in Q1FY03. This is in line with our estimates of 45.2% cost to income ratio for the bank. This figure has increased as the Bank is spending on expanding its infrastructure as well as on retail loan products including its cards business.

### **We reiterate our Out Performer call**

HDFC Bank is available at 14 x FY03 earnings and 11x FY04 earnings. The Bank has always quoted at a premium to the entire banking sector on account of its sustained out-performance of sector growth rates, superior asset quality and conservative accounting policies. The Bank shall continue to grow at around 30% in the current year too and, any acquisitions by the Bank will catapult it into a much higher growth band. We reiterate our Out Performer call on the stock.

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<b>Stock Ratings</b>	<b>Absolute Returns</b>
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Buy	: > 25%
Out Performer	: 16 - 25%
Market Performer	: 0 - 15%
Under Performer	: < 0%

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