

Delivers across most parameters, yet again

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Healthy loan mix, skewed in favour of retail loans, continues to lend support to margins

BL Research Bureau:

BL Research Bureau Consistency can be boring. But at a time when markets are assigning a premium to earnings predictability it is no doubt welcome. HDFC Bank, which reported yet another quarter of steady performance across all parameters, has well justified the hefty premium it commands *vis-à-vis* peers in the banking space.

From healthy growth in loans and stable margins to low loan delinquency, the bank's performance has not seen any notable deviation from its past record. The bank has also been more or less untouched by the RBI's assessment of the stress accounts in the banking system.

Migrating to the new lending norms is also likely to have minimal impact on the bank's earnings, given its higher share of fixed loans and well-matched asset-liability portfolio.

The latest December quarter results show that loan growth, which was at a steady 20-22 per cent through most of last fiscal, continues to be strong, growing 25.7 per cent over the same period last year.

The loan growth has been healthy across both retail and corporate segments. A larger portion of the bank's lending to the corporate segment relates to working capital financing, which pegs the risk lower than that of ICICI Bank and Axis Bank, which have a higher exposure to troubled sectors, such as power and infrastructure. All segments within retail were firing in the December quarter. HDFC Bank's key segments — auto and business banking — delivered 24-26 per cent year-on-year growth.

Stable margins

Steady loan growth aside, HDFC Bank's margins have also been within a narrow 4.3-4.5 range in recent quarters. In keeping with the past trend, the bank's net interest margin (NIM) for the December quarter stood at 4.3 per cent.

Healthy loan mix, which is skewed in favour of high-margin retail loans (53 per cent), continues to lend support to margins.

HDFC Bank is also well placed to safeguard its margins under the new lending norms which will come into effect from April. The new method for arriving at the benchmark lending rate will require banks to calculate the cost of funds based on the latest rates offered on deposits or borrowings.

The concern for the banking system as a whole is that banks' margins could come under pressure as the decrease in lending rates would be higher than the decrease in overall funding cost.

But for HDFC Bank, a chunk of its loans, about 70 per cent, are fixed loans. Hence, they are not pegged to the benchmark rate. The management stated that while about 75 per cent of its corporate loans are working capital in nature and are re-priced within a year, they are well matched with deposits of similar tenure.

Hence, the interest rate risk or impact on earnings on account of holding assets and liabilities across different maturity or re-pricing dates is minimal.

No nasty surprises

A sudden spike in bad loans has been another parameter that has turned banking stocks jittery in recent quarters.

Add to this the RBI's intensive asset quality review, wherein it has asked banks to declare certain accounts as non-performing assets (NPAs) and make necessary provisionings for these have not gone down too well with the market.

Axis Bank that recently declared its results, added about Rs. 1,000 crore to bad loans according to the RBI's directive.

But HDFC Bank's asset quality has remained stable even in the December quarter.

The RBI's directive has had negligible impact on its asset quality. The bank's gross NPAs stood at 0.97 per cent of loans, within its past range of 0.9-1 per cent.

Migrating to the new lending norms is likely to have minimal impact on the bank's earnings, given its higher share of fixed loans and well-matched asset-liability portfolio

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