

# Retail Equity Research

## HDFC Bank

### Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 39,059

**BUY**

12M Investment Period

Rating as per Large cap

CMP Rs 1,241

TARGET Rs 1,412

RETURN 14% ↑

(Closing: 23-10-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

## Strong momentum continues in second quarter

HDFC Bank was incorporated in August 1994. It provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- In Q2FY20, loans and advances grew 19.5% YoY to Rs. 896,984cr, driven by domestic wholesale loans registering 27.4% YoY growth.
- The bank's deposits increased to Rs. 1,021,615cr, +22.6% YoY, backed by time deposit growth of 28.3% YoY and CASA growth of 14.7% YoY.
- Net interest income rose 14.9% YoY to Rs. 13,515cr, driven by asset growth despite marginal decline in NIM (-10bps YoY to 4.2%).
- GNPA/NNPA ratio stood at 1.38%/0.42% in Q2FY20 versus 1.40%/0.43% in Q1FY20.
- We value the bank at 3.9x on FY21E BVPS with an increased target price of Rs. 1,412 while retaining our BUY rating.

## Advances and deposits grow amidst weak market sentiments

In Q2FY20, loans and advances remain on growth trajectory at Rs. 896,984 cr. (+19.5% YoY), with domestic retail loans contributing 52.0% (+14.7% YoY) and domestic wholesale loans contributing 48.0% (+27.4% YoY). Within domestic retail, the personal loan segment contributed 22.2% (+22.4% YoY), while the auto segment growth slowed further (as the sector continues to suffer on sluggish demand) and contributed 17.5% (+0.6% YoY). Deposits grew by 22.6% YoY (highest growth in last 5 quarters) to Rs. 1,021,615cr, supported by very strong growth in time deposits (+28.3% YoY, ~60% contribution) and CASA (+14.7% YoY, ~40% contribution).

## Improved operating performance with cost efficiencies

NIM declined to 4.2% in Q2FY20 (vs 4.3% in Q2FY19). Net interest income grew 14.9% YoY to Rs. 13,515 cr., supported by growth in the asset base. Cost to income ratio for the quarter improved 110bps YoY to 38.8% despite employee expenses up 23.4% YoY (majorly owing to higher headcount). Net profit rose 26.8% YoY to Rs. 6,345cr in Q2FY20, supported by the reduced tax rate (YTD tax-impact of Rs. 1,650cr).

## Key concall highlights

- In Q2FY20, annualized cost slippage ratio improved 10bps YoY and 30bps QoQ to reach 1.7%.
- The bank added 211 banking outlets, to reach a total of 5,314 banking outlets as on 30<sup>th</sup> September 2019, of which 52% are in semi-urban and rural areas.

## Stable asset quality, but provisions continue to rise

The bank's net NPA rose to Rs. 3,791cr and net NPA ratio decreased 1bps QoQ to 0.42% during the quarter. Given the subdued macro-economic conditions, the bank's contingent and general provisions for the quarter rose to Rs. 663cr (vs. Rs. 247cr in 2QFY19).

## Outlook & valuation

The bank's strong network helped in sustaining growth in advances and deposits. The growth in deposits was supported by focus on granular accounts while advances grew despite weak growth in automobile sector. We value the stock at 3.9x FY21E BVPS with an increased target price of Rs. 1,412 and reiterate our BUY recommendation.

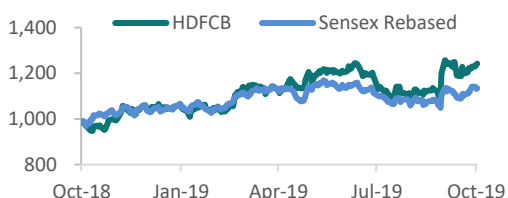
### Company Data

Market Cap (cr)	Rs. 679,141
Outstanding Shares (cr)	547
Free Float	74.0%
Dividend Yield	0.7%
52 week high	Rs. 1,285
52 week low	Rs. 942
6m average volume (cr)	0.9
Beta	1.0
Face value	Rs. 1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	26.5	26.3	26.2
FII's	38.7	38.6	37.6
MFs/Insti	16.6	17.1	21.3
Public	10.9	11.0	11.5
Others	7.3	7.0	3.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.9%	11.5%	26.1%
Absolute Sensex	2.8%	1.3%	15.4%
Relative Return*	7.1%	10.2%	10.7%

\*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	48,243	57,676	68,413
Growth (%)	20.3	19.6	18.6
NIM (%)	4.8	4.8	4.8
Pre-Provision Profit	39,750	48,085	57,480
Net Profit	21,078	26,826	33,105
Growth (%)	20.5	27.3	23.4
Adj. EPS	38.9	49.0	60.5
Growth (%)	16.5	26.0	23.4
BVPS	275.6	312.3	362.0
P/E	29.6	25.3	20.5
P/B	4.2	4.0	3.4
ROE (%)	16.5	16.8	18.0
ROA (%)	1.8	2.0	2.1

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	28,166	24,200	16.4	27,392	2.8	55,558	46,749	18.8
Interest Expense	14,651	12,436	17.8	14,097	3.9	28,749	24,172	18.9
<b>Net Interest Income (NII)</b>	<b>13,515</b>	<b>11,763</b>	<b>14.9</b>	<b>13,294</b>	<b>1.7</b>	<b>26,809</b>	<b>22,577</b>	<b>18.7</b>
Non-Interest Income	5,589	4,016	39.2	4,970	12.4	10,559	7,834	34.8
<b>Total Income</b>	<b>33,755</b>	<b>28,215</b>	<b>19.6</b>	<b>32,362</b>	<b>4.3</b>	<b>66,117</b>	<b>54,582</b>	<b>21.1</b>
Operating Expenses	7,406	6,299	17.6	7,117	4.1	14,523	12,283	18.2
<b>Total Expenditure</b>	<b>22,057</b>	<b>18,735</b>	<b>17.7</b>	<b>21,215</b>	<b>4.0</b>	<b>43,272</b>	<b>36,454</b>	<b>18.7</b>
<b>Pre-Provision profit</b>	<b>11,698</b>	<b>9,480</b>	<b>23.4</b>	<b>11,147</b>	<b>4.9</b>	<b>22,845</b>	<b>18,128</b>	<b>26.0</b>
Provisions	2,701	1,820	48.4	2,614	3.3	5,314	3,449	54.1
<b>Profit Before Tax</b>	<b>8,997</b>	<b>7,660</b>	<b>17.5</b>	<b>8,534</b>	<b>5.4</b>	<b>17,531</b>	<b>14,678</b>	<b>19.4</b>
Tax	2,652	2,654	(0.1)	2,965	(10.6)	5,618	5,071	10.8
<b>Net Profit</b>	<b>6,345</b>	<b>5,006</b>	<b>26.8</b>	<b>5,568</b>	<b>14.0</b>	<b>11,913</b>	<b>9,607</b>	<b>24.0</b>
EPS - Diluted (Rs.)	11.5	9.3	23.7	10.1	13.9	21.6	18.1	19.7

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>Net Interest Income (NII)</b>	<b>58,049</b>	<b>66,263</b>	<b>57,676</b>	<b>68,413</b>	<b>(0.6)</b>	<b>3.2</b>
Pre-Provision Profit	48,330	55,471	48,085	57,480	(0.5)	3.6
Net Profit	26,201	29,805	26,826	33,105	2.4	11.1
<b>EPS (Rs.)</b>	<b>48.4</b>	<b>55.05</b>	<b>49.0</b>	<b>60.5</b>	<b>1.3</b>	<b>9.9</b>

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	69,306	80,241	98,972	116,847	138,354
Interest Exp.	36,167	40,146	50,729	59,171	69,941
<b>Net Int. Income</b>	<b>33,139</b>	<b>40,095</b>	<b>48,243</b>	<b>57,676</b>	<b>68,413</b>
% Change	20.1	21.0	20.3	19.6	18.6
Non-Int. Income	12,296	15,220	17,626	20,925	24,797
<b>Net Income</b>	<b>45,436</b>	<b>55,315</b>	<b>65,869</b>	<b>78,602</b>	<b>93,210</b>
<b>Total Income</b>	<b>81,602</b>	<b>95,462</b>	<b>116,598</b>	<b>137,773</b>	<b>163,151</b>
Operating Exp.	19,703	22,690	26,119	30,517	35,730
<b>Total Exp.</b>	<b>55,870</b>	<b>62,837</b>	<b>76,848</b>	<b>89,687</b>	<b>105,670</b>
<b>Pre-Prov. Profit</b>	<b>25,732</b>	<b>32,625</b>	<b>39,750</b>	<b>48,085</b>	<b>57,480</b>
Provisions	3,593	5,927	7,550	10,593	13,043
PBT	22,139	26,697	32,200	37,493	44,437
Tax	7,589	9,211	11,122	10,667	11,331
Tax Rate (%)	34.3	34.5	34.5	28.5	25.5
<b>Net Profit</b>	<b>14,550</b>	<b>17,487</b>	<b>21,078</b>	<b>26,826</b>	<b>33,105</b>
% Change	18.3	20.2	20.5	27.3	23.4
No. of Shares (cr)	516	523	541	547	547
<b>Adj. EPS (Rs)</b>	<b>28.2</b>	<b>33.4</b>	<b>38.9</b>	<b>49.0</b>	<b>60.5</b>
% Change	16.9	18.5	16.5	26.0	23.4
DPS (Rs)	5.5	6.5	7.5	9.6	10.8

## BALANCE SHEET

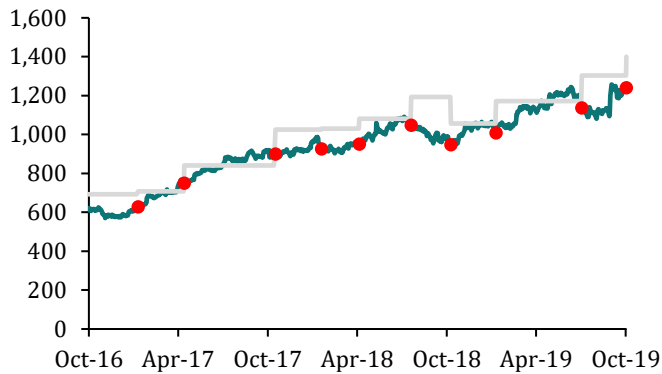
Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	48,952	122,915	81,348	1,00,536	1,21,720
Investments	214,463	242,200	290,588	3,19,647	3,72,247
Advances	554,568	658,333	819,401	9,88,198	11,85,670
Fixed Assets	3,627	3,607	4,030	4,111	4,203
Other Assets	42,230	36,879	49,174	50,649	52,295
<b>Total Assets</b>	<b>863,840</b>	<b>1,063,934</b>	<b>1,244,541</b>	<b>14,63,140</b>	<b>17,36,136</b>
Capital	513	519	545	550	550
Reserves & Surplus	88,950	105,776	148,662	1,70,257	1,97,469
Deposits	643,640	788,771	923,141	11,11,462	13,27,085
Borrowings	74,029	123,105	117,085	1,24,110	1,52,425
Other Liabilities	56,709	45,764	55,108	56,762	58,606
<b>Total Liabilities</b>	<b>863,840</b>	<b>1,063,934</b>	<b>1,244,541</b>	<b>14,63,140</b>	<b>17,36,136</b>
<b>BVPS (Rs)</b>	<b>173.5</b>	<b>203.2</b>	<b>275.6</b>	<b>312.3</b>	<b>362.0</b>
% Change	21.6	17.1	35.7	13.3	15.9

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Valuation</b>					
P/E (x)	25.1	27.9	29.6	25.3	20.5
P/BV (x)	4.1	4.6	4.2	4.0	3.4
Div. Yield (%)	0.8	0.7	0.7	0.8	0.9
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	10.2	10.3	10.5	10.4	10.4
Cost of Deposits	5.5	4.9	5.2	5.2	5.2
Spread	4.7	5.4	5.3	5.2	5.2
NIM	4.7	4.8	4.8	4.8	4.8
ROE	17.9	17.9	16.5	16.8	18.0
ROA	1.9	1.8	1.8	2.0	2.1
<b>Capital Adequacy (%)</b>					
CAR	14.6	14.8	17.1	16.9	16.3
Tier I	12.8	13.2	15.8	15.7	15.4
Tier II	1.8	1.6	1.3	1.2	1.0
<b>Asset Quality (%)</b>					
GNPA	1.1	1.3	1.4	1.5	1.6
NNPA	0.3	0.4	0.4	0.5	0.5
<b>Operating Ratios (%)</b>					
Credit/ Deposit	86.2	83.5	88.8	88.9	89.3
Cost/ Income	43.4	41.0	39.7	38.8	38.3
CASA	48.0	43.5	42.4	41.5	41.2



## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Aug-16	BUY	694
30-Jan-17	BUY	709
04-May-17	BUY	841
06-Nov-17	BUY	1,025
08-Feb-18	BUY	1,030
26-Apr-18	BUY	1,082
10-Aug-18	BUY	1,194
30-Oct-18	BUY	1,056
30-Jan-19	BUY	1,173
24-Jul-19	BUY	1,304
24-Oct-19	BUY	1,412

## Investment Rating Criteria

Large Cap Stocks;		
Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;		
Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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