

## RETAIL EQUITY RESEARCH

# HDFC Bank

### Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN SENSEX: 35,592

## BUY

Rating as per Large Cap 12 month investment period

CMP Rs. 2,058 TARGET Rs. 2,345 RETURN 14% 30<sup>th</sup> January, 2019

### On a strong footing...

HDFC Bank is the second largest private sector bank in India. The Bank has a nationwide distribution network of 4,963 branches and 13,160 ATM's in 2,727 cities/towns.

- Loan growth momentum continued to remain strong (↑24% YoY) driven by 24% YoY growth in retail and 23% YoY growth in non-retail loans.
- NII grew at a healthy pace of 22% YoY (in line with our expectation) backed by advances growth and stable NIM (4.8%).
- Asset quality continues to remain stable with Gross non-performing assets (GNPA) ratio at 1.4% and Net NPA (NNPA) ratio at 0.4%.
- We expect NII/PAT to grow at a CAGR of 19%/21% over FY18-21E on the back of 20% growth in loans coupled with improving operating efficiency.
- HDFC Bank continues to be one of our top picks in the sector considering its robust retail presence, stable margin, healthy asset quality and superior deposit franchise. Hence, we continue maintain BUY rating on the stock with a revised upward TP of Rs2,345 (3.6x FY21E P/ABV).

#### Strong loan growth across segments

Loan growth momentum continued to remain strong (↑24% YoY) driven by 24% YoY growth in retail and 23% YoY growth in non-retail loans. Within Retail, home loans (↑36% YoY), personal loans and credit cards (↑33% YoY each) witnessed robust growth, while growth in gold loan (flat YoY) and auto (↑14% YoY) was relatively weak. We believe that the bank is well placed to harness both retail & expected corporate pick-up given the credit squeeze to NBFCs and consolidation of PSU Banks. Hence, we project HDFC bank's advances to grow at a CAGR of 20% over FY18-21E. On the liabilities front, while total deposits witnessed a healthy growth of 22% YoY, CASA growth lagged at 13% YoY resulting in moderation of CASA ratio to 40.7% (↓322 bps YoY).

#### Steady operating performance

Net interest income (NII) continued to grow at a healthy pace of 22% YoY (in line with our expectation) backed by advances growth and stable net interest margin (NIM). NIM declined marginally by 6 bps YoY to 4.8%. Despite of facing intense pricing pressure, we expect NIM to sustain around current level over FY18-20E given the bank's increasing focus on high yielding retail assets. Pre-provision profit grew at a robust pace of 28% YoY largely owing to strong other income growth (↑27% YoY) and contained cost (↑17% YoY). Higher growth in other income was the result of treasury gains of Rs470cr as compared to loss of Rs33cr in Q2FY19. Provisions went up by 64% YoY primarily owing to management's decision to take contingent provision of Rs320cr in anticipation of higher stress on recently announced farm loan waiver. As a result, net profit increased by 20% YoY. Going forward, we expect NII and net profit to grow at a strong CAGR of 19% and 21%, respectively over FY18-21E on the back of healthy credit growth coupled with improving operating efficiency.

#### Asset quality benign

HDFC Bank's asset quality continues to remain broadly stable with gross slippage ratio of 2.1% (ex-agriculture of 1.7%) as against 1.8% in Q2FY19. Gross and Net non-performing asset (NPA) ratios increased by 5 bps and 2 bps sequentially to 1.4% and 0.4%, respectively. Provision coverage ratio (PCR) declined by 36 bps QoQ to 69.6%. Notably, the bank is carrying floating provision (including contingent provision made in Q3FY19) of Rs1,770cr. Besides, it has reported virtually NIL divergences as per RBI's risk-based supervision for FY18. HDFC Bank has non-material IL&FS exposure and the bank remains watchful of its NBFC exposure and sees no stress currently. Hence, we don't expect any major negative surprises on the asset quality front over near to medium term.

#### Outlook & Valuation

HDFC Bank delivered steady performance in Q3FY19. HDFC Bank continues to be one of our top picks in the sector considering its robust retail presence, stable margin, healthy asset quality and superior deposit franchise. Besides, the bank has consistently reported strong earnings irrespective of macro-economic environment. We expect the bank to maintain superior return ratios with RoE of ~18% and RoA of ~2% over FY18-20E. As a result, the bank will continue to enjoy valuation premium. Hence, we continue to maintain BUY rating on the stock with a revised upward target price (TP) of Rs2,345 (3.6x FY21E P/ABV) as we rollover our valuation multiple to FY21E.

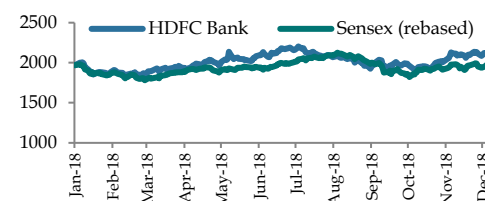
#### Company Data

Market Cap (cr)	Rs. 559,902
Outstanding Shares (cr)	272.0
Free Float	74%
Dividend Yield	0.6
52 week high	Rs. 2,219
52 week low	Rs. 1,830
6m average volume (cr)	0.8
Beta	1.0
Face value	Rs. 2

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	25.5	26.6	26.5
FII's	40.9	39.2	38.7
MFs/Insti	14.6	15.2	16.0
Public	19.1	19.1	18.8
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	7.0%	-1.0%	2.9%
Absolute Sensex	4.5%	-8.1%	-1.9%
Relative Return*	2.5%	7.1%	4.8%

\*over or under performance to benchmark index



Standalone (Rs.cr)	FY19E	FY20E	FY21E
Net Interest Income	48,032	57,264	68,217
Growth (%)	20%	19%	19%
NIM (%)	4.6	4.7	4.7
Pre Pro Profit	39,664	47,926	58,312
Growth (%)	22%	21%	22%
Net Profit	21,191	25,568	31,115
Growth (%)	21%	21%	22%
EPS	77.9	94.0	114.4
Growth (%)	16%	21%	22%
P/E	26.4	21.9	18.0
P/BV	4.2	3.6	3.1
P/ABV	4.3	3.7	3.2
RoE (%)	17.7	17.7	18.4
RoA (%)	1.9	1.9	2.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
Interest Income	25,890	20,581	25.8	24,200	7.0
Interest on advances	20,306	16,157	25.7	18,828	7.9
Income on Investments	5,319	4,100	29.7	5,042	5.5
Others	265	324	(18.3)	330	(19.6)
Interest Expense	13,314	10,267	29.7	12,436	7.1
<b>Net Interest Income</b>	<b>12,577</b>	<b>10,314</b>	<b>21.9</b>	<b>11,763</b>	<b>6.9</b>
Non-Interest Income	4,921	3,869	27.2	4,016	22.5
Total Net Income	17,498	14,184	23.4	15,779	10.9
Operating Expenses	6,719	5,732	17.2	6,299	6.7
Employee Cost	1,968	1,691	16.3	1,909	3.1
Other Operating Exp.	4,752	4,041	17.6	4,390	8.2
Total Income	30,811	24,450	26.0	28,215	9.2
Total Expenditure	20,033	15,999	25.2	18,735	6.9
<b>Pre-Provisioning profit</b>	<b>10,778</b>	<b>8,451</b>	<b>27.5</b>	<b>9,480</b>	<b>13.7</b>
Provisions	2,212	1,351	63.6	1,820	21.5
Profit Before Tax	8,567	7,100	20.7	7,660	11.8
Tax	2,981	2,457	21.3	2,654	12.3
<b>Net Profit</b>	<b>5,586</b>	<b>4,643</b>	<b>20.3</b>	<b>5,006</b>	<b>11.6</b>
EPS - Diluted (Rs)	20.5	17.9	14.6	18.4	11.5

Business Performance (Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
Advances	780,951	631,215	23.7	750,838	4.0
Deposits	852,502	699,026	22.0	833,364	2.3
<b>Business</b>	<b>1,633,453</b>	<b>1,330,241</b>	<b>22.8</b>	<b>1,584,202</b>	<b>3.1</b>
Gross NPA	10,903	8,235	32.4	10,098	8.0
Net NPA	3,302	2,774	19.0	3,028	9.0

Key Ratios (%)	Q3FY19	Q3FY18	YoY bps	Q2FY19	QoQ bps
Net Interest Margin	4.8	4.8	(6)	4.6	14
Cost of Funds	5.5	5.2	30	5.2	23
Yield on Advances	10.6	10.5	15	10.3	29
Yield on Investments	7.3	6.9	40	7.0	33
Yield on Funds	9.8	9.6	17	9.5	30
Cost to Income	38.4	40.4	(201)	39.9	(152)
Credit to Deposit	91.6	90.3	131	90.1	151
CASA	40.7	43.9	(322)	42.0	(125)
Capital Adequacy	17.3	15.5	180	17.1	20
Tier I Capital	15.8	13.6	220	15.6	20
Gross NPA	1.4	1.3	9	1.3	5
Net NPA	0.4	0.4	(2)	0.4	2
Provision Coverage	69.6	65.9	367	69.9	(36)
Credit Cost	1.1	0.9	28	1.0	16
RoE (Ann.)	15.9	18.9	(290)	16.4	(40)
RoA (Ann.)	1.9	2.0	(6)	1.8	13

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net Interest Income	47,838	57,264	48,032	57,264	0.4	0.0
Pre-Provisioning Profit	39,470	47,926	39,664	47,926	0.5	0.0
Net Profit	21,064	25,568	21,191	25,568	0.6	0.0
EPS (Rs)	77.5	94.1	77.9	94.0	0.5	-0.1

Source: Company, Geojit Research

## Standalone Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest Income	69,306	80,241	97,742	114,677	135,999
Interest Expense	36,167	40,146	49,709	57,413	67,782
<b>Net Interest Income</b>	<b>33,139</b>	<b>40,095</b>	<b>48,032</b>	<b>57,264</b>	<b>68,217</b>
% Change	20.1	21.0	19.8	19.2	19.1
Non-Interest Income	12,296	15,220	17,578	20,248	23,415
Net Income	45,436	55,315	65,611	77,512	91,632
Operating Expenses	19,703	22,690	25,947	29,586	33,320
Total Income	81,602	95,462	115,320	134,925	159,414
Total Expenditure	55,870	62,837	75,656	86,999	101,102
<b>Pre-Provisioning Profit</b>	<b>25,732</b>	<b>32,625</b>	<b>39,664</b>	<b>47,926</b>	<b>58,312</b>
% Change	20.4	26.8	21.6	20.8	21.7
Provisions	3,593	5,927	7,310	9,010	11,096
Profit Before Tax	22,139	26,697	32,353	38,916	47,216
Tax	7,589	9,211	11,162	13,348	16,101
Tax Rate (%)	34	35	35	34	34
<b>Net Profit</b>	<b>14,550</b>	<b>17,487</b>	<b>21,191</b>	<b>25,568</b>	<b>31,115</b>
% Change	18.3	20.2	21.2	20.7	21.7
No. of Shares (cr)	256	260	272	272	272
EPS (Rs)	56.8	67.4	77.9	94.0	114.4
% Change	16.7	18.7	15.6	20.7	21.7

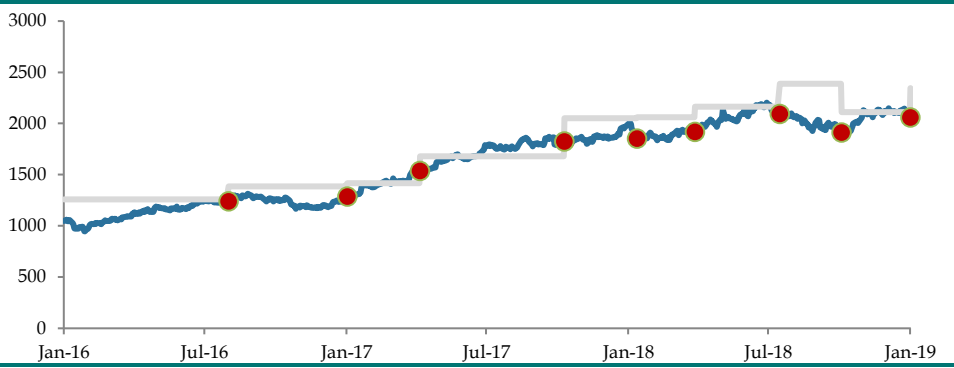
### Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Liabilities</b>					
Capital	513	519	544	544	544
Reserves & Surplus	88,950	105,776	133,278	154,885	181,768
Deposits	643,640	788,771	923,406	1082,097	1269,284
Borrowings	74,029	123,105	109,810	124,188	168,365
Other Liabilities & Provisions	56,709	45,764	47,005	56,406	67,687
<b>Total Liabilities</b>	<b>863,840</b>	<b>1063,934</b>	<b>1214,043</b>	<b>1418,120</b>	<b>1687,647</b>
<b>Assets</b>					
Cash & Balances	48,952	122,915	125,427	146,983	172,408
Investments	214,463	242,200	253,937	270,524	317,321
Advances	554,568	658,333	790,000	948,000	1137,600
Fixed Assets	3,627	3,607	3,588	3,568	3,549
Other Assets	42,230	36,879	41,092	49,045	56,769
<b>Total Assets</b>	<b>863,840</b>	<b>1063,934</b>	<b>1214,043</b>	<b>1418,120</b>	<b>1687,647</b>

### Ratios

Y.E March (Rs)	FY17A	FY18A	FY19E	FY20E	FY21E
EPS	56.8	67.4	77.9	94.0	114.4
DPS	0.0	13.1	13.6	14.6	15.6
BV	349.1	409.6	492.1	571.5	670.4
ABV	341.9	399.6	479.1	554.5	648.9
<b>Valuation (%)</b>					
P/E	36.2	30.5	26.4	21.9	18.0
P/BV	5.9	5.0	4.2	3.6	3.1
P/ABV	6.0	5.2	4.3	3.7	3.2
Div. Yield	0.0	0.6	0.7	0.7	0.8
<b>Spreads (%)</b>					
Yield on Advances	10.2	10.3	10.6	10.6	10.6
Yield on Investments	8.4	7.1	7.8	7.4	7.4
Yield on Funds	9.9	9.6	10.1	10.1	10.2
Cost of Funds	5.5	4.9	5.1	5.1	5.1
<b>Capital (%)</b>					
CAR	14.6	14.8	16.1	15.8	15.3
Tier I	12.8	13.3	14.7	14.6	14.4
Tier II	1.8	1.6	1.4	1.2	0.9
<b>Asset (%)</b>					
GNPA	1.1	1.3	1.5	1.5	1.5
NNPA	0.3	0.4	0.4	0.5	0.5
PCR	68.7	69.8	69.1	66.4	65.8
<b>Management (%)</b>					
Credit/ Deposit	86.2	83.5	85.6	87.6	89.6
Cost/ Income	43.4	41.0	39.5	38.2	36.4
CASA	48.0	43.5	42.1	40.7	39.3
<b>Earnings (%)</b>					
NIM	4.7	4.8	4.6	4.7	4.7
ROE	17.9	17.9	17.7	17.7	18.4
ROA	1.8	1.8	1.9	1.9	2.0

### Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
19 January 2016	BUY	1,259
29 August 2016	BUY	1,387
30 January 2017	BUY	1,417
04 May 2017	BUY	1,681
06 November 2017	BUY	2,050
08 February 2018	BUY	2,060
26 April 2018	BUY	2,163
10 August 2018	BUY	2,388
30 October 2018	BUY	2,112
30 January 2019	BUY	2,345

\*Initiating Coverage

### Investment Rating Criteria

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

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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

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