

Retail Equity Research (South India Focus)

HDFC Bank Ltd.

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 37,983

BUY

12M Investment Period

Rating as per Large cap

CMP Rs 2,264 **TARGET** Rs 2,608 **RETURN** 15% ↑
(Closing: 23-07-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Strong performance continues

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 Q1FY20, loans and advances grew 17.1% YoY, with domestic wholesale loans registering 19.6% YoY growth.
- The bank's deposit base increased 18.5% YoY, aided by term deposit growth of 22.5% YoY and CASA growth of 12.8% YoY.
- Net interest income recorded strong growth of 22.9% YoY helped by asset growth and improved Net Interest Margin (+10bps YoY to 4.3%).
- GNPA/NNPA ratio stood at 1.40%/0.43% in Q1FY20 versus 1.36%/0.39% in Q4FY19.
- We value the bank at 3.6x on FY21E BVPS with a target price of Rs. 2,608 and we retain our BUY rating.

Resilient growth in advances and deposits

In Q1FY20, the growth momentum of loans and advances continued (+17.1% YoY), with domestic retail loans contributing 54.0% (+16.5% YoY) and domestic wholesale loans contributing 46.0% (+19.6% YoY). Within domestic retail, the personal loan segment made the highest contribution of 21.9% (+25.0% YoY), while the auto segment witnessed tepid growth (owing to the sluggish auto sector) and contributed 18.5% (+5.5% YoY). Deposits grew 18.5% YoY, supported by robust growth in term deposits (+22.5% YoY) and CASA (+12.8%).

Healthy operating performance

NIM rose to 4.3% in Q1FY20 (vs 4.2% in Q1FY19). Net interest income continued to grow at a healthy pace of 22.9% YoY, supported by growth in the asset base. Cost to income ratio for the quarter improved 70bps to 39.4%. Net profit for the same period rose 21.0% YoY to Rs. 5,568cr.

Key concall highlights

- Bank continued to create contingent provisions for the pool of accounts in certain sectors, with net additional provisions of Rs. 165cr this quarter. Floating provision stood at Rs. 1,451cr as on June 2019
- In Q1FY20, slippage stood at 2.03%, excluding agriculture core slippage of 1.40%

Stable asset quality, but a sharp rise in provisions

The bank's net NPA reached Rs. 3,567cr and net NPA ratio increased 4bps QoQ to 0.43% during the quarter. Provisions rose sharply at 61.8% YoY, majorly driven by stress from the agricultural sector and a step-up in provision for unsecured loans, amongst other reasons.

Outlook & valuation

Company registered strong and consistent growth in advances and deposits, along with a rise in net interest income. We expect the bank to continue to perform strongly in FY20-21E despite challenging macroeconomic factors. We value the stock at 3.6x FY21E BVPS with a target price of Rs. 2,608 and reiterate our BUY recommendation.

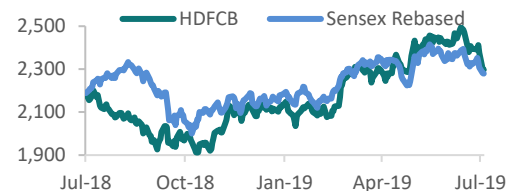
Company Data

Market Cap (cr)	Rs. 612,829
Outstanding Shares (cr)	271
Free Float	74.0%
Dividend Yield	0.7%
52 week high	Rs. 2,503
52 week low	Rs. 1,884
6m average volume (cr)	0.3
Beta	0.8
Face value	Rs. 2

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	26.5	26.5	26.3
FII's	38.7	38.7	38.6
MFs/Insti	16.2	16.6	17.1
Public	11.2	10.9	11.0
Others	7.4	7.3	7.0
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.8%	7.5%	5.0%
Absolute Sensex	-1.5%	5.2%	3.4%
Relative Return*	2.3%	2.3%	1.5%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	48,243	58,049	66,263
Growth (%)	20.3	20.3	14.1
NIM (%)	4.8	4.9	4.9
Pre-Provision Profit	39,750	48,330	55,471
Net Profit	21,078	26,201	29,805
Growth (%)	20.5	24.3	13.8
Adj. EPS	77.9	96.8	110.1
Growth (%)	16.5	24.3	13.8
BVPS	551	633	724
P/E	29.6	23.4	20.6
P/B	4.2	3.6	3.1
ROE (%)	16.5	16.3	16.2
ROA (%)	1.8	2.0	1.9

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Interest Income	27,392	22,549	21.5	26,333	4.0
Interest Expense	14,097	11,735	20.1	13,244	6.4
Net Interest Income (NII)	13,294	10,814	22.9	13,089	1.6
Non-Interest Income	4,970	3,818	30.2	4,871	2.0
Total Income	32,362	26,367	22.7	31,204	3.7
Operating Expenses	7,117	5,984	18.9	7,117	0.0
Total Expenditure	21,215	17,719	19.7	20,361	4.2
Pre-Provision profit	11,147	8,648	28.9	10,844	2.8
Provisions	2,614	1,629	60.4	1,889	38.3
Profit Before Tax	8,534	7,018	21.6	8,954	(4.7)
Tax	2,965	2,417	22.7	3,069	(3.4)
Net Profit	5,568	4,601	21.0	5,885	(5.4)
EPS - Diluted (Rs.)	20.2	17.5	15.4	21.4	(5.6)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	57,264	-	58,049	66,263	1.4	-
Pre-Provision Profit	47,926	-	48,330	55,471	0.8	-
Net Profit	25,568	-	26,201	29,805	2.5	-
EPS (Rs.)	94.1	-	96.8	110.1	2.9	-

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	69,306	80,241	98,972	115,843	134,161
Interest Exp.	36,167	40,146	50,729	57,794	67,898
Net Int. Income	33,139	40,095	48,243	58,049	66,263
% Change	20.1	21.0	20.3	20.3	14.1
Non-Int. Income	12,296	15,220	17,626	20,738	24,208
Net Income	45,436	55,315	65,869	78,787	90,471
Total Income	81,602	95,462	116,598	136,581	158,369
Operating Exp.	19,703	22,690	26,119	30,458	35,000
Total Exp.	55,870	62,837	76,848	88,251	102,898
Pre-Prov. Profit	25,732	32,625	39,750	48,330	55,471
Provisions	3,593	5,927	7,550	8,395	10,006
PBT	22,139	26,697	32,200	39,935	45,465
Tax	7,589	9,211	11,122	13,734	15,661
Tax Rate (%)	34.3	34.5	34.5	34.4	34.4
Net Profit	14,550	17,487	21,078	26,201	29,805
% Change	18.3	20.2	20.5	24.3	13.8
No. of Shares (cr)	258	262	271	271	271
Adj. EPS (Rs)	56.4	66.8	77.9	96.8	110.1
% Change	16.9	18.4	16.5	24.3	13.8
DPS (Rs)	11.0	13.0	15.0	18.6	21.2

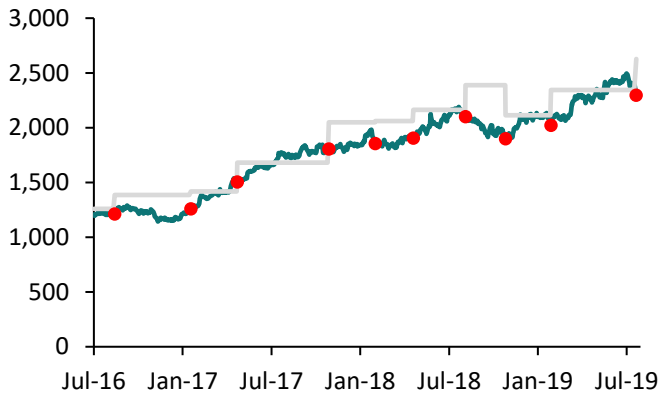
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	48,952	122,915	81,348	109,840	118,000
Investments	214,463	242,200	290,588	319,647	372,247
Advances	554,568	658,333	819,401	948,047	1,128,542
Fixed Assets	3,627	3,607	4,030	4,111	4,203
Other Assets	42,230	36,879	49,174	50,649	52,295
Total Assets	863,840	1,063,934	1,244,541	1,432,294	1,675,287
Capital	513	519	545	545	545
Reserves & Surplus	88,950	105,776	148,662	170,802	195,560
Deposits	643,640	788,771	923,141	1,080,075	1,268,152
Borrowings	74,029	123,105	117,085	124,110	152,425
Other Liabilities	56,709	45,764	55,108	56,762	58,606
Total Liabilities	863,840	1,063,934	1,244,541	1,432,294	1,675,287
BVPS (Rs)	347	406	551	633	724
% Change	21.6	17.1	35.7	14.8	14.4

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	25.1	27.9	29.6	23.4	20.6
P/BV (x)	4.1	4.6	4.2	3.6	3.1
Div. Yield (%)	0.8	0.7	0.7	0.8	0.9
Profitab. & Return (%)					
Yield on Advances	10.2	10.3	10.5	10.5	10.5
Cost of Deposits	5.5	4.9	5.2	5.2	5.2
Spread	4.7	5.4	5.3	5.4	5.3
NIM	4.7	4.8	4.8	4.9	4.9
ROE	17.9	17.9	16.5	16.3	16.2
ROA	1.9	1.8	1.8	2.0	1.9
Capital Adequacy (%)					
CAR	14.6	14.8	17.1	16.9	16.4
Tier I	12.8	13.2	15.8	15.8	15.5
Tier II	1.8	1.6	1.3	1.1	1.0
Asset Quality (%)					
GNPA	1.1	1.3	1.4	1.5	1.6
NNPA	0.3	0.4	0.4	0.5	0.5
Operating Ratios (%)					
Credit/ Deposit	86.2	83.5	88.8	87.8	89.0
Cost/ Income	43.4	41.0	39.7	38.7	38.7
CASA	48.0	43.5	42.4	41.5	41.2

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
19-Jan-16	BUY	1,259
29-Aug-16	BUY	1,387
30-Jan-17	BUY	1,417
04-May-17	BUY	1,681
06-Nov-17	BUY	2,050
08-Feb-18	BUY	2,060
26-Apr-18	BUY	2,163
10-Aug-18	BUY	2,388
30-Oct-18	BUY	2,112
30-Jan-19	BUY	2,345
24-Jul-19	BUY	2,608

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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