

Industry Financial
Bloomberg HDFCB IN
BSE CODE 500180

Strong profitability, despite elevated provisioning

RATING	BUY
CMP	2131
Price Target	2464
Potential Upside	16%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	2219/1830
Mkt Capital (Rs Cr)	579,580
Free float (%)	74%
Avg. Vol 1M (000)	2,114
No. of Shares (Cr)	272
Promoters Pledged %	0%

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3QFY19 Results

NII and PAT both were in line with our expectation. HDFCB reported PAT growth of 20% YoY led by healthy NII and other income growth. NII grew by 22% YoY due to strong loan growth. NIM remained stable at 4.3% QoQ.

Other income grew robust at 27% YoY on account of strong fee income and higher treasury gain. Fee income grew by 23% YoY driven by growth in fees and commissions. Treasury income grew by 83% YoY led by fall in bond yield.

C/I ratio declined at 38.4% v/s 40.4% a year back, although the bank added 138 branches during the quarter. Employee expense grew at 16%, while other expenses grew by 18% YoY.

Advances growth was strong at 24% YoY driven by both corporate and retail advances growth. Portfolio mix comprises of 55% retail and 45% share in corporate segment. Deposits growth was also healthy at 22% due to increase in retail deposits rate.

GNPA ratio increased by 5 bps QoQ and stood at 1.38% due to increase in NPA in the agriculture segment. NNPA ratio was at 0.42%. Slippages were around Rs 4000 Cr as against Rs 3284 Cr a quarter back. Provisions grew at 64% YoY due to the contingent provision of Rs 322 Cr, which the bank has provided during the quarter.

View and Valuation

NIM remained stable and healthier despite rise in cost of fund. Yield has shown improvement due to re-pricing of assets at higher MCLR as well as increase in high yielding assets. Deposits growth has remained healthy despite tight liquidity in the system. Loan book of HDFCB has been growing at an average run rate of 22% in last 8 quarters. Other income remained healthy due to treasury gain. However assets quality showed some stress in agriculture portfolio. Management remained concern about elevated agriculture slippages and pain is likely to increase due to loan waiver announcement. However strong operating income growth is likely to provide cushion for higher credit cost on agri slippages. We largely maintain our estimate and recommend BUY on the stock for the target price of Rs 2464 at 4x BVPS FY20e.

Key Risks to our rating and target

- Significant rise in cost of fund will impact our NIM estimates
- Higher slippages will increase credit cost.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	27592	33139	40095	48301	59514
PPP	21364	25732	32625	39873	48541
PAT	12296	14550	17487	21236	27100
NIM %	4.5	4.4	4.6	4.6	4.7
EPS (Rs)	49	57	67	78	99
EPS growth (%)	19	17	19	16	26
ROE (%)	18.3	17.9	17.9	16.8	17.1
ROA (%)	1.8	1.8	1.8	1.9	2.0
BV	287	349	410	541	616
P/B (X)	3.7	4.1	4.6	3.9	3.4
P/E (x)	22.0	25.4	28.1	27.1	21.5

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3Q FY19 Results Result in-line

Elevated provisioning

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	20,581	21,321	22,549	24,200	25,890	25.8%	7.0%	69,306	80,241	15.8%
Interest Exp.	10,267	10,663	11,735	12,436	13,314	29.7%	7.1%	36,167	40,146	11.0%
NII	10,314	10,658	10,814	11,763	12,577	21.9%	6.9%	33,139	40,095	21.0%
Other Income	3,869	4,229	3,818	4,016	4,921	27.2%	22.5%	12,296	15,220	23.8%
Total Income	14,184	14,886	14,632	15,779	17,498	23.4%	10.9%	45,436	55,315	21.7%
Opex Exp.	5,732	6,051	5,984	6,299	6,719	17.2%	6.7%	19,703	22,690	15.2%
PPP	8,451	8,836	8,648	9,480	10,778	27.5%	13.7%	25,732	32,625	26.8%
Provisions	1,351	1,541	1,629	1,820	2,212	63.6%	21.5%	3,593	5,927	65.0%
PBT	7,100	7,295	7,018	7,660	8,567	20.7%	11.8%	22,139	26,697	20.6%
Tax	2,457	2,495	2,417	2,654	2,981	21%	12.3%	7,589	9,211	21.4%
Net Profit	4,643	4,799	4,601	5,006	5,586	20.3%	11.6%	14,550	17,487	20%

NIM remained stable, C/I ratio improved.

NIM remained stable at 4.30% both on YoY and QoQ basis. NII grew at 22% YoY, which is the highest over the last four quarters led by increase in yield due to the rising MCLR rates. Cost of fund is continuously on increasing trend due to lower CASA ratio.

C/I ratio improved by 201 bps YoY at 38.4% led by higher income growth than the opex growth. Employee cost grew by 16% YoY, while other operating expenses grew by 18% YoY. The bank has added 1518 employees and 138 branches during the quarter.

Loan growth remained robust.

Overall Advances grew by 24%/4% on YoY/QoQ driven by both retail and corporate book. Retail loan growth remained strong at 25% YoY led by personal loans, home loans and credit card business. Mix of retail and wholesale remained same in the ratio 55:45 as in Q2FY19. Banking business portfolio growth has been slowed down at 19% YoY (earlier + 46% in Q3FY18). Home loan growth increased by 36% YoY due to portfolio buyout of approx Rs 6200 Cr from its subsidiary HDFC Ltd. Unsecured retail book growth continues to register healthy at 33% YoY growth and constitutes about 17% of the total book. Personal loans and credit card both grew at 33% YoY. CV/CE loan also picked up well at 27% YoY benefiting due to increase in demand. Loan against property segment has been slowed down due to the competition in the market. Going forward this portfolio is expected to gain share from the NBFC's as they are facing liquidity issues.

Deposits registered healthy growth of 22%/2% on YoY/QoQ basis. CASA grew by 13% YoY and declined by 1% QoQ. Growth in term deposits of 29% YoY was mainly on account of increasing deposits rate in the system. Share of CASA ratio stood at 40.7% v/s 43.9% a year back. Current account grew by 10% YoY, whereas saving account grew by 13%.

Slippages were elevated.

Slippages were elevated during the quarter and stood at around Rs 3999 Cr V/s Rs 3284 Cr in Q2FY19. Slippages ratio was at 2.04% and excluding agriculture segment it is about 1.1%. GNPA/NNPA ratio was increased by 5 bps/2 bps at 1.38%/0.42% due to stress in agriculture portfolio. Going forward management expects spike of NPA in agriculture portfolio of which impact will be seen after Q4FY19. Management expects some write off from the agriculture book, but till now no write off has been done. Floating provisions remained stable at Rs 1451 Cr. PCR stood at 70%.

Other Highlights

Fee income grew by 23% YoY driven by mainly from growth of 27% in fees & commissions. While overall other income grew robust at 27% YoY. Treasury gain increased by 83% YoY due to fall in bond yield.

CAR ratio increased to 17.3% from 17.1% a quarter back. Tier 1 ratio stood at 15.8%.

Concall Highlights

- Gross slippages ratio for the quarter stood at 2.04% (in absolute terms slippages is approx Rs 4000 Cr) and excluding agriculture segment GNPA ratio is about 1.1%. Going forward management expects spike of NPA in agri portfolio of which impact will be seen after Q4FY19.
- Management expects some write off from the agriculture book, but till now no write off has been done.
- During the quarter the bank has provided contingent provision of Rs 322 Cr primarily on account of anticipated losses, which is expected to arrive from loan waivers on agriculture portfolio.
- Management sees bit of slowdown in the 2 wheeler and 4 wheeler segment due to slow down in sales significantly.
- Loan against property segment has also shown slow down due to the competition in the market. Going forward this portfolio is expected to gain share from the NBFC's as they are facing some issues.
- Deposits growth was strong at 22% due to increase in retail deposits rate especially in around 1-2 year buckets.
- The bank added 138 branches during the quarter in both semi urban and urban region.
- During the quarter the bank bought home loans of approx Rs 6200 Cr from the HDFC Ltd. Other than home loans, the bank has not done any portfolio buyout.
- The bank has very negligible exposure to the IL&FS and SPV's.
- The bank is cautious about the NBFC and HFC exposure and will be very selective for the fresh exposure going forward.
- Credit card business comprises roughly of around 25-30% of the total fee income.
- Management expects the stage 2 provision to be slightly higher under INDAS as compared to Indian GAAP and stage 1 and 2 provisions will remain stable as per the RBI guidelines.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	41.6	41.5	40.4	40.6	40.9	39.9	38.4	-2.01	-1.52
Empl. Cost/ Tot. Exp. %	30.9	31.0	29.5	28.8	30.3	30.3	29.3	-0.22	-1.03
Other Exp/Tot. Exp.%	69.1	69.0	70.5	71.2	69.7	69.7	70.7	0.22	1.03
Provision/PPP %	20.7	18.9	16.0	17.4	18.8	19.2	20.5	4.53	1.32
Provision/Avg.	1.1	1.0	0.9	1.0	1.0	1.0	1.2	0.28	0.16
Tax Rate %	34.7	34.5	34.6	34.2	34.4	34.7	34.8	0.19	0.15
Int Exp./Int Inc. (%)	49.8	50.4	49.9	50.0	52.0	51.4	51.4	1.54	0.03
Other Inc./Net Inc. %	27.3	27.0	27.3	28.4	26.1	25.4	28.1	0.84	2.67
PAT/ Net Income %	30.2	31.1	32.7	32.2	31.4	31.7	31.9	-0.81	0.20
PAT Growth %	20.2	20.1	20.1	20.3	18.2	20.6	20.3	0.21	-0.27
NII Growth %	20.4	22.0	24.1	17.7	15.4	20.6	21.9	-2.20	1.31
Op. Profit	29.2	29.8	27.9	21.4	15.0	21.3	27.5	-0.33	6.28
RoE %	17.0	17.5	18.9	18.5	17.2	16.4	15.9	-2.90	-0.40
RoA %	1.8	1.8	2.0	1.9	1.7	1.8	1.9	-0.06	0.13

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	9.5	9.6	9.7	9.6	9.7	9.8	10.1	11.21	1.60
Cost of Funds	5.0	5.1	5.1	5.0	5.2	5.2	5.5	6.58	1.57
NIM	4.4	4.3	4.3	4.3	4.2	4.3	4.3	3.90	-0.40

Exhibit: Yield and Cost

Both yield and cost increased.

■ Yield On Earning Assets % ■ Cost of Fund %

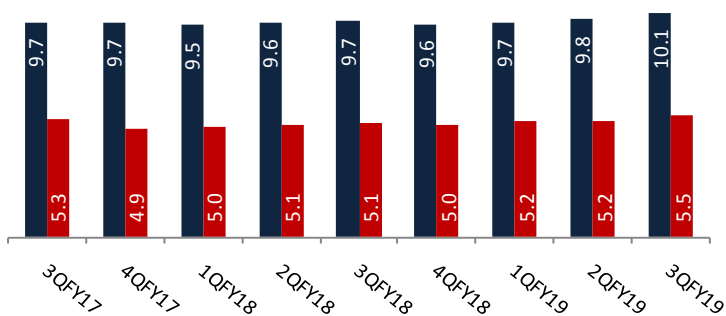
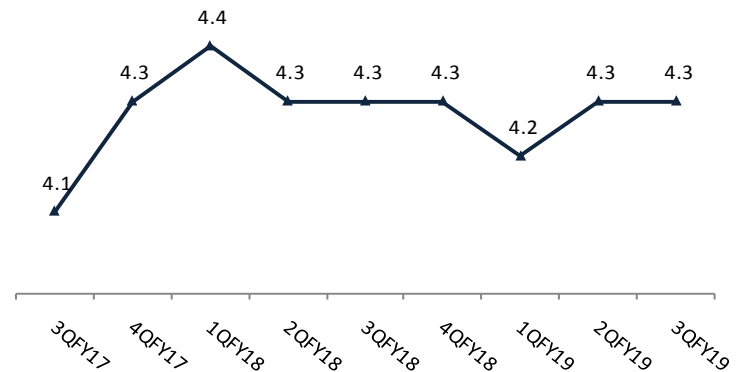


Exhibit: Net Interest Margin

NIM remained stable.

NIM %



Other Income Break Up- smart growth in FX & Derivatives income

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Fees & Commissions	2207	2523	2578	2614	2872	3330	3171	3296	3647
FX & Derivatives	297	357	297	384	426	416	500	420	398
Total Fee-Based In.	2504	2880	2875	2998	3298	3746	3671	3715	4045
Growth YoY %	10	17	25	25	32	30	28	24	23
Profit / (loss) on Investment.	399	180	331	356	259	-22	-283	33	474
Miscellaneous Income Includ	240	386	310	252	311	504	431	333	403
Total Other Income	3143	3446	3517	3606	3869	4229	3818	4081	4921
Growth YoY %	9	20	25	24	23	23	9	11	27

Exhibit: Fee Income/Advances %

Fee income as a % of total advances increased.

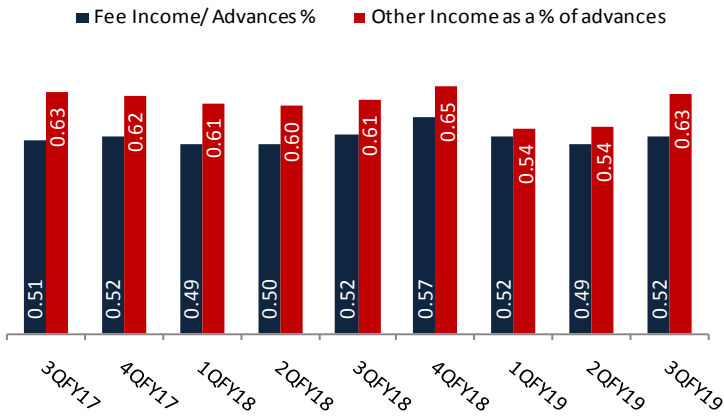
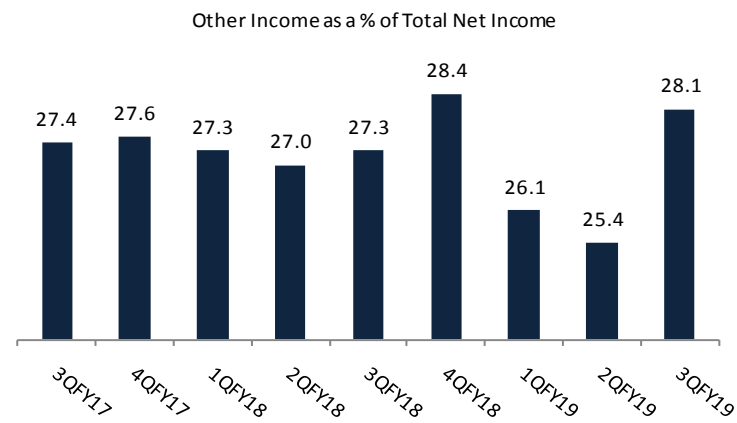


Exhibit: Other Income/ Total Income %

Strong growth in other income.



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	7,243	7,703	8,235	8,607	9,539	10,098	10,903	32%	8%
GNPA %	1.2	1.3	1.3	1.3	1.3	1.3	1.4	0.09	0.05
NNPA (Rs in Cr)	2,528	2,597	2,774	2,601	2,907	3,028	3,302	19%	9%
NNPA %	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-0.02	0.02
Slippages (Rs in Cr)	3,100	2,473	4,588	2,790	3,548	3,284	3,999	-13%	22%
Specific PCR %	65.1	66.3	66.3	69.8	69.5	70.0	69.7	3.40	-0.29

Exhibit: Asset Quality

Assets quality was impacted.

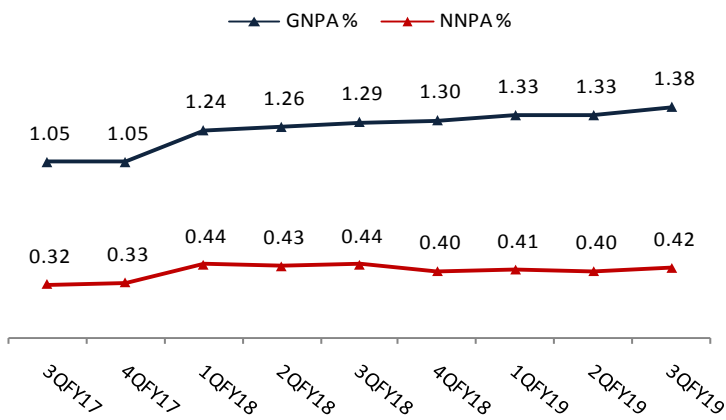


Exhibit: Provisions

PCR remained stable..

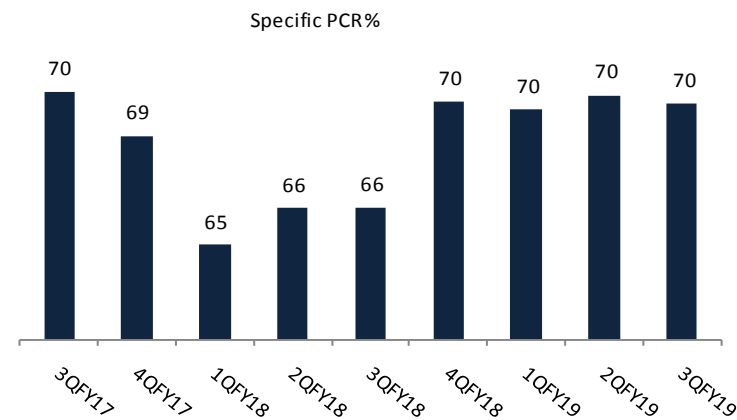


Exhibit: Advances Performance

Advances growth remained strong.

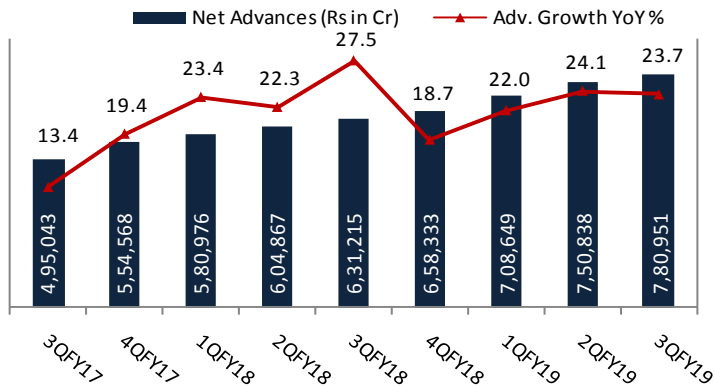


Exhibit: Advances Breakup%

Break-up of Domestic Retail Advances % (As per regulatory segment reporting)

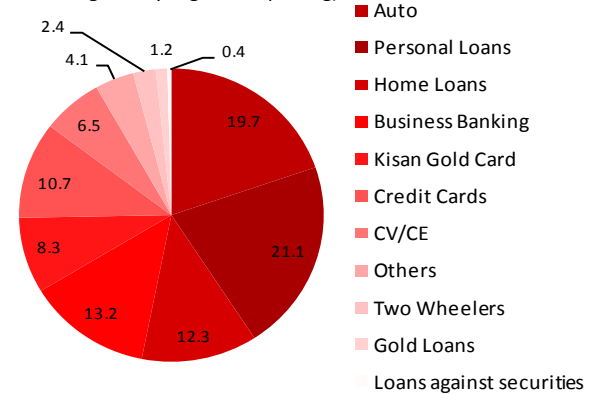


Exhibit: Deposits Performance

Deposits on improving trend..

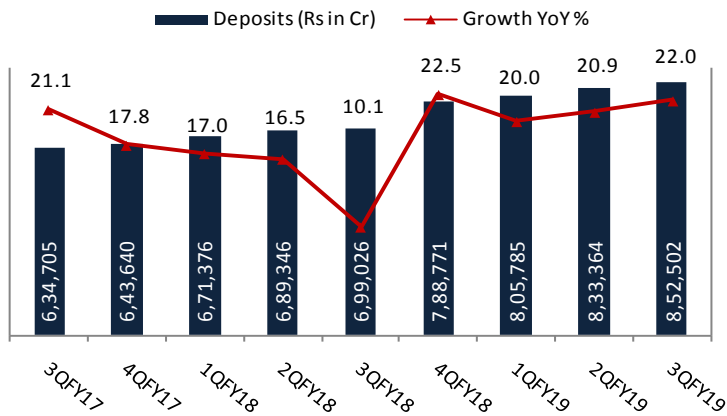


Exhibit: CASA Performance

CASA growth declines.

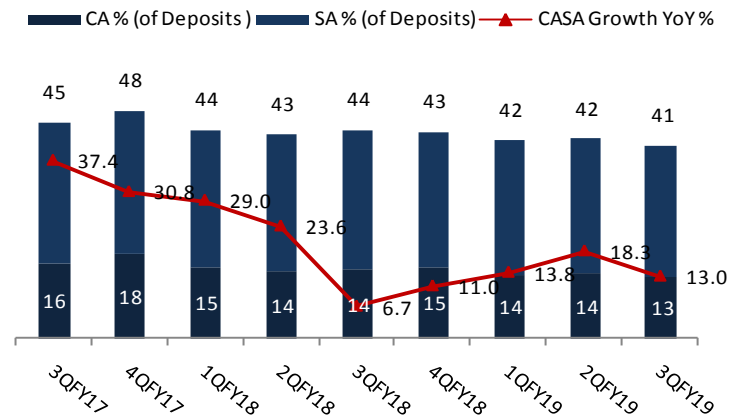


Exhibit: Credit Deposit Ratio

Increasing CD ratio.

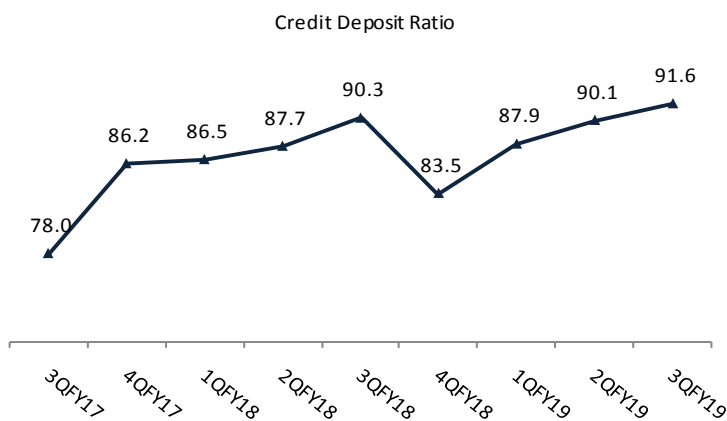
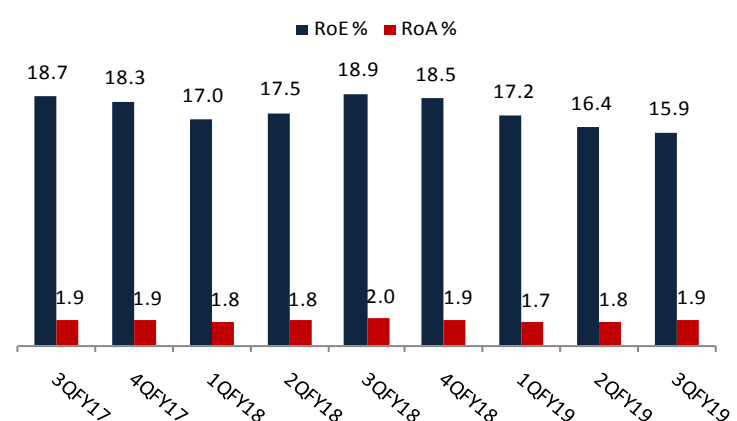


Exhibit: Return Ratios

Return ratio profile declined.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	476	480	501	506	513	519	543	550
>> Equity Capital	476	480	501	506	513	519	543	550
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	35738	42999	61508	72172	88950	105776	146532	168741
Networth	36214	43479	62009	72678	89462	106295	147076	169291
Deposits	296247	367337	450796	546424	643640	788771	892407	1107816
Change (%)	20.1	24.0	22.7	21.2	17.8	22.5	13.1	24.1
>> CASA Deposits	140521	164621	198492	236311	309153	343093	365887	465283
Change (%)	17.7	17.2	20.6	19.1	30.8	11.0	6.6	27.2
Borrowings	33007	39439	45214	84969	74029	123105	143856	158174
Other Liabilities & Prov.	34864	41344	32484	36725	56709	45764	47950	49852
Total Liabilities	400332	491600	590503	740796	863840	1063934	1231289	1485133
Cash & Bank	27280	39584	36331	38919	48952	122915	77597	91657
Investments	111614	120951	151642	195836	214463	242200	303418	376657
Change (%)	14.5	8.4	25.4	29.1	9.5	12.9	25.3	24.1
Advances	239721	303000	365495	464594	554568	658333	803166	963800
Change (%)	22.7	26.4	20.6	27.1	19.4	18.7	22.0	20.0
Fixed Assets	2703	2940	3122	3343	3627	3607	3860	4130
Other Assets	19014	25125	33913	38104	42230	36879	43247	48888
Total Assets	400332	491600	590503	740796	863840	1063934	1231289	1485133

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	35065	41136	48470	60221	69306	80241	99156	120514
Interest expended	19254	22653	26074	32630	36167	40146	50854	61000
Net Interest Income	15811	18483	22396	27592	33139	40095	48301	59514
Change (%)	28.6	16.9	21.2	23.2	20.1	21.0	20.5	23.2
Other Income	6853	7920	8996	10752	12296	15220	17734	20184
Change (%)	30.7	15.6	13.6	19.5	14.4	23.8	16.5	13.8
>> Core Fee Income	6154	7136	7612	8987	10075	12917	15687	17818
>> Treasury Income	161	110	582	732	1139	925	481	792
>> Others	537	673	802	1033	1082	1378	1566	1575
Total Net Income	22664	26402	31392	38343	45436	55315	66036	79699
Operating Expenses	11236	12042	13988	16980	19703	22690	26163	31158
Change (%)	30.8	7.2	16.2	21.4	16.0	15.2	15.3	19.1
>> Employee Expenses	3965	4179	4751	5702	6484	6806	7863	9564
Pre-provisioning Profit	11428	14360	17404	21364	25732	32625	39873	48541
Change (%)	27.7	25.7	21.2	22.7	20.5	26.8	22.2	21.7
Provisions	1677	1588	2076	2726	3593	5927	7443	7154
Change (%)	16.7	-5.3	30.7	31.3	31.8	65.0	25.6	-3.9
PBT	9751	12772	15329	18638	22139	26697	32430	41387
Tax	3024	4294	5113	6342	7589	9211	11194	14287
Profit After Tax	6726	8478	10216	12296	14550	17487	21236	27100
Change (%)	30.2	26.0	20.5	20.4	18.3	20.2	21.4	27.6

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	23	26	21	27	19	19	22	20
Deposit Growth (%)	20	24	23	21	18	23	13	24
C/D Ratio (%)	80.9	82.5	81.1	85.0	86.2	83.5	90.0	87.0
CASA (%)	47.4	44.8	44.0	43.2	48.0	43.5	41.0	42.0
Investment/Deposit (%)	37.7	32.9	33.6	35.8	33.3	30.7	34.0	34.0
CRAR (%)	16.8	16.1	16.8	15.5	14.6	14.8	17.8	16.9
>> Tier 1 (%)	11.1	11.8	13.7	13.2	12.8	13.2	15.5	14.8
>> Tier 2 (%)	5.7	4.3	3.1	2.3	1.8	1.6	2.3	2.1

Assets Quality Metrics

Gross NPA (Rs)	2,335	2,989	3,438	4,393	5,886	8,607	11,202	13,024
Gross NPA (%)	1.0	1.0	0.9	0.9	1.1	1.3	1.4	1.3
Net NPA(Rs)	469	820	896	1,320	1,844	2,601	3,137	3,647
Net NPA (%)	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Slippages (%)	1	2	1	1	1	2	2	1
Provision Coverage (%)	80	73	74	70	69	70	72	72
Provision/Average Advances (%)	0.8	0.6	0.6	0.7	0.7	1.0	1.0	0.8

Margin Metrics

Yield On Advances (%)	12.3	11.7	11.1	10.8	10.2	10.3	10.6	10.7
Yield On Investment (%)	7.5	7.8	7.9	8.1	7.8	7.1	7.4	7.2
Yield on Earning Assets (%)	10.4	9.9	9.7	9.7	9.2	9.2	9.5	9.5
Cost Of Deposits (%)	6.0	5.7	5.7	5.9	5.3	4.6	4.9	5.0
Cost Of Funds (%)	6.0	5.8	5.5	5.6	5.1	4.7	5.1	5.1
Spread (%)	4.4	4.1	4.2	4.1	4.1	4.5	4.4	4.3
NIM (%)	4.7	4.5	4.5	4.5	4.4	4.6	4.6	4.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	54.9	55.1	53.8	54.2	52.2	50.0	51.3	50.6
Fee Income/NII (%)	38.9	38.6	34.0	32.6	30.4	32.2	32.5	29.9
Cost to Income (%)	49.6	45.6	44.6	44.3	43.4	41.0	39.6	39.1
Cost on Average Assets (%)	3.3	2.9	2.8	2.7	2.6	2.6	2.5	2.4
Tax Rate (%)	31.0	33.6	33.4	34.0	34.3	34.5	34.5	34.5

Valuation Ratio Metrics

EPS (Rs)	28.3	35.3	40.8	48.6	56.8	67.4	78.2	98.6
Change (%)	28.4	25.0	15.3	19.3	16.7	19	16.0	26.1
ROAE (%)	20.3	21.3	19.4	18.3	17.9	17.9	16.8	17.1
ROAA (%)	1.8	1.9	1.9	1.8	1.8	1.8	1.9	2.0
Dividend Payout (%)	19.5	19.4	19.6	19.5	19.4	19.3	19.2	18.3
Dividend yield (%)	0.9	0.9	0.8	0.9	0.8	0.7	0.7	0.8
Book Value (Rs)	152.2	181.2	247.4	287.5	349.1	409.6	541.3	615.7
Change (%)	19	19	37	16	21	17	32	14
P/B (X)	4.1	4.1	4.1	3.7	4.1	4.6	3.9	3.4
P/E (X)	22.1	21.2	25.1	22.0	25.4	28.1	27.1	21.5

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	9.2	9.0	9.0	8.6	8.3	8.6	8.9
<i>Interest expended</i>	5.1	4.8	4.9	4.5	4.2	4.4	4.5
<i>Net Interest Income</i>	4.1	4.1	4.1	4.1	4.2	4.2	4.4
<i>Non-Fund Based Income</i>	1.8	1.7	1.6	1.5	1.6	1.5	1.5
>> <i>Core Fee Income</i>	1.6	1.4	1.4	1.3	1.3	1.4	1.3
>> <i>Trading and Other Income</i>	0.2	0.3	0.3	0.3	0.2	0.2	0.2
<i>Core Operating Income</i>	5.7	5.5	5.5	5.4	5.5	5.6	5.7
<i>Total Income</i>	5.9	5.8	5.8	5.7	5.7	5.8	5.9
<i>Total Operating Expenses</i>	2.7	2.6	2.6	2.5	2.4	2.3	2.3
>> <i>Employee Expenses</i>	0.9	0.9	0.9	0.8	0.7	0.7	0.7
>> <i>Other Expenses</i>	1.8	1.7	1.7	1.6	1.6	1.6	1.6
<i>Operating Profit</i>	3.2	3.2	3.2	3.2	3.4	3.5	3.6
<i>Provisions</i>	0.4	0.4	0.4	0.4	0.6	0.6	0.5
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	2.9	2.8	2.8	2.8	2.8	2.8	3.0
<i>Tax</i>	1.0	0.9	1.0	0.9	1.0	1.0	1.1
<i>PAT/RoAA</i>	1.9	1.9	1.8	1.8	1.8	1.9	2.0
<i>Equity Multiplier (x)</i>	11.2	10.3	9.9	9.9	9.8	9.1	8.6
<i>ROAE</i>	21.3	19.4	18.3	17.9	17.9	16.8	17.1

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