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HDFC BANK

BUY

24-May-17

INDUSTRY -	BANKING
BSE Code -	500180
NSE Code -	HDFCBANK
NIFTY -	9386

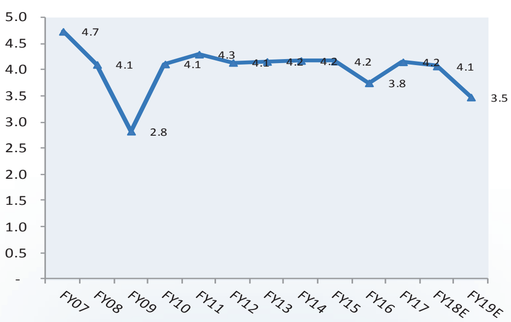
Company Data

CMP	1568
Target Price	**1758**
Previous Target Price	
Upside	**12%**
Change from Previous	
52wk Range H/L	1582/1134
Mkt Capital (Rs Cr)	402344
Av. Volume (,000)	80

Share Holding Pattern %

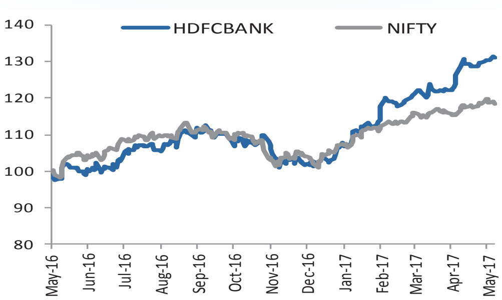
	4QFY17	3QFY17	2QFY17
Promoters	26.0	26.1	26.2
DII	12.9	15.0	14.3
FII	42.1	39.2	39.4
Others	18.9	19.7	20.1

At FY19 B/V, HDFCBANK is trading below its historical trend.



Stock Performance %

	1Mn	1Yr	YTD
Absolute	2.1	37.6	31.0
Rel.to Nifty	1.3	16.4	16.3



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Key Highlights of the report:

☑ HDFCBANK remains one of the best in the industry with stable performance and healthy growth of over 20% CAGR over a long period of time.

☑ Strategically growing the business as per the growth of economy and diversification of portfolio has paid with the finest return ratios in the industry.

☑ Healthy CRAR of 14.6%, Tier I of 12.8% and CASA at 48% level augurs well for strong growth opportunity and gaining the market share from its peers.

☑ HDFCBANK has one of the best assets quality in the banking industry with the GNPA ratio of just 1.05% and PCR at 69%.

☑ Healthy NII growth coupled with strong other income led the profitability to grow by 18% 4Q FY17.

HDFCBANK is currently trading at 3.5x P/B FY19 and we value it (3.9x P/B, EPS growth 20% FY19) at Rs 1758 and recommend BUY.

Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
NII	22,396	27,592	33,139	39,009	45,302
PPP	17,404	21,364	25,732	30,313	35,887
PAT	10,216	12,296	14,550	17,281	20,809
NIM %	4.5	4.5	4.4	4.4	4.3
EPS (Rs)	40.8	48.6	56.8	67.4	81.2
EPS growth (%)	15.3	19.3	16.7	18.8	20.4
ROE (%)	19.4	18.3	17.9	18.3	19.3
ROA (%)	2.0	2.0	1.9	2.0	2.0
BV	245	285	347	386	451
P/B (X)	4.2	3.8	4.2	4.1	3.5
P/E (x)	25.1	22.0	25.4	23.3	19.4

Recent Development : Key Highlights of Result Update

✓ HDFCBANK reported strong growth of 27% in its operating profit backed by cost control and healthy growth in NII and other income. However increased provisioning resulted in 18% PAT growth YoY.

✓ Staff count reduce by 6k in 4Q FY17 and by 10K in latter half part of FY17.

✓ Advances grew with the robust rate of 19.4% YoY and 12% QoQ despite one time hit in previous quarter due to loan repayment linked to FCNR deposits. Domestic loan was even stronger with 23.3% YoY.

Domestic corporate loan book saw some traction with gain in market share from other banks.

Tier I capital of bank declined to 12.8% against 13.2% on FY16 due to increase in risk weighted assets.

Slippages ratio was 1.5% in which around Rs 250 Cr was related to RBI dispensation. Provision coverage ratio was 69% against 70% QoQ.

Stellar operating profit performance backed by healthy topline and cost control.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	15,997	16,516	17,070	17,606	18,114	13.2%	2.9%	60,221	69,306	15.1%
Interest Exp.	8,543	8,735	9,076	9,297	9,059	6.0%	-2.6%	32,630	36,167	10.8%
NII	7,453	7,781	7,994	8,309	9,055	21.5%	9.0%	27,592	33,139	20.1%
Other Income	2,866	2,807	2,901	3,143	3,446	20.3%	9.7%	10,752	12,296	14.4%
Total Income	10,319	10,588	10,895	11,452	12,501	21.1%	9.2%	38,343	45,436	18.5%
Ope Exp.	4,584	4,769	4,870	4,843	5,222	13.9%	7.8%	16,980	19,703	16.0%
PPP	5,735	5,819	6,025	6,609	7,279	26.9%	10.1%	21,364	25,732	20.4%
Provisions	662	867	749	716	1,262	90.5%	76.3%	2,726	3,593	31.8%
PBT	5,072	4,952	5,276	5,893	6,018	18.6%	2.1%	18,638	22,139	18.8%
Tax	1,698	1,714	1,820	2,028	2,028	19.4%	0.0%	6,342	7,589	19.7%
Net Profit	3,374	3,239	3,455	3,865	3,990	18.3%	3.2%	12,296	14,550	18.3%

Operating profit remained healthy despite tumultuous last quarter.

- ✓ HDFCBANK reported strong growth of 27% in its operating profit backed by cost control and healthy growth in NII and other income. However increased provisioning resulted in 18% PAT growth YoY.
- ✓ NII grew by 21.5% YoY due to strong loan growth and NIM expansion of 20 bps QoQ to 4.3%. NIM expansion was mainly benefitted from spike in CASA ratio during demonetization period.
- ✓ Other income grew by 20.3% of which fee income registered growth of 17% YoY, whereas profit on sale of investment saw 56% of growth YoY. Recovery from written-off accounts was strong this quarter with 31% YoY growth.
- ✓ Cost to income ratio declined to 41.8% against 44.4% a year back. Employee cost increased by just 3% YoY whereas it declined by 8% QoQ on the back of reduction in staff count by 6k in 4Q FY17. As a whole in the latter half of the year it reduced around 10k employee. However management continuous to invest in digital strategy to improve productivity. Overall operating expenses grew by only 14% YoY.
- ✓ Provision increased by 90% YoY due to increase in standard assets provisioning and on account of NPA that received RBI dispensation in 3Q FY17.

C/I Ratio declined due to staff reduction.

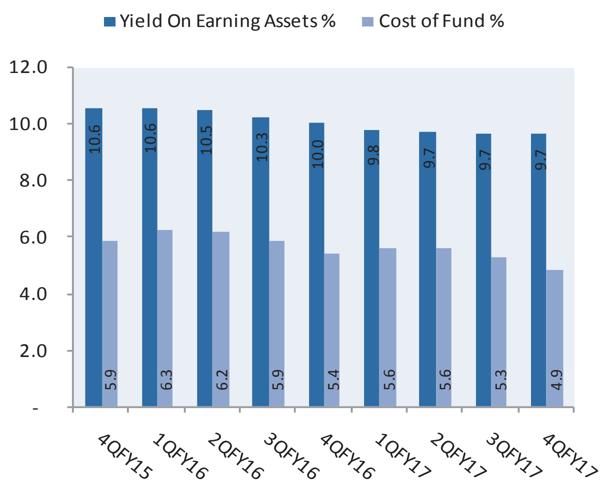
Profitability Metrix	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	44.4	45.0	44.7	42.3	41.8	-2.65	-0.52	46.4	45.6	-0.83
Empl. Cost/ Tot. Exp. %	32.7	33.2	34.0	34.9	29.7	-2.94	-5.14	33.6	32.9	-0.68
Other Exp/Tot. Exp.%	67.3	66.8	66.0	65.1	70.3	2.94	5.14	66.4	67.1	0.68
Provision/PPP %	11.6	14.9	12.4	10.8	17.3	5.78	6.50	12.8	14.0	1.21
Provision/Avg. Advances	0.6	0.7	0.6	0.6	1.0	0.37	0.38	0.7	0.7	0.05
Tax Rate %	33.5	34.6	34.5	34.4	33.7	0.21	-0.72	34.0	34.3	0.25
Int Exp./Int Inc. (%)	53.4	52.9	53.2	52.8	50.0	-3.40	-2.79	54.2	52.2	-2.00
Other Inc./Net Inc. %	27.8	26.5	26.6	27.4	27.6	-0.21	0.12	28.0	27.1	-0.98
PAT/ Net Income %	32.7	30.6	31.7	33.8	31.9	-0.78	-1.84	32.1	32.0	-0.05
PAT Growth %	20.2	20.2	20.4	15.1	18.3	-1.96	3.10	20.4	18.3	-2.04
NII Growth % (YoY)	24.0	21.8	19.6	17.6	21.5	-2.46	3.94	23.2	20.1	-3.09
Operating Profit Growth	21.5	20.0	19.5	15.2	26.9	5.48	11.70	22.7	20.4	-2.30
RoE %	18.7	17.4	17.6	18.7	18.3	-0.36	-0.38	18.3	17.9	-0.31
RoA %	1.9	1.7	1.8	1.9	1.9	0.01	-0.03	2.0	1.9	-0.04

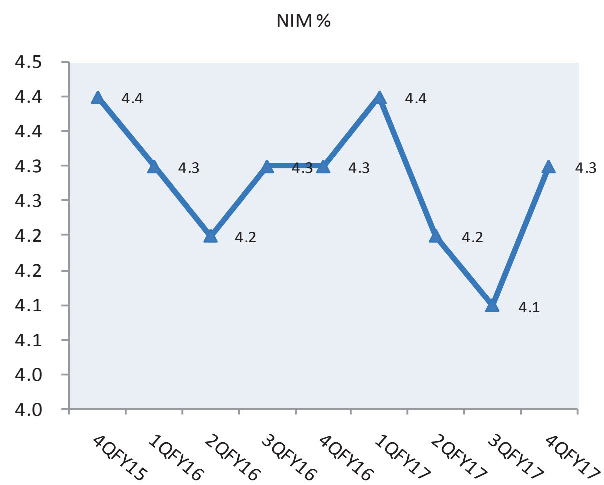
NIM expanded, benefitting from declining cost

- ✓ NIM improved from 4.1% a quarter back to 4.3% benefitted from increased CASA level. NIM remained at the higher range of guidance given by management.
- ✓ Intensive competition in retail lending has resulted in NIM pressure but strategically mix of loan portfolio and improved CASA has helped HDFCBANK to maintain its margin.
- ✓ Going forward we margin to sustain at current level due to improvement in CASA level despite reduction in yields due to MCLR.

Margin Performance

Margin %	*4QFY16*	*1QFY17*	*2QFY17*	*3QFY17*	*4QFY17*	*YoY(+/-)*	*QoQ(+/-)*	*FY16*	*FY17*	*YoY %*
Yield (Total Assets)	10.0	9.8	9.7	9.7	9.7	***-0.38***	***-0.01***	9.7	9.2	***-0.47***
Cost Of Funds	5.4	5.6	5.6	5.3	4.9	***-0.55***	***-0.45***	5.6	5.2	***-0.44***
NIM	4.3	4.4	4.2	4.1	4.3	***0.00***	***0.20***	4.5	4.4	***-0.03***

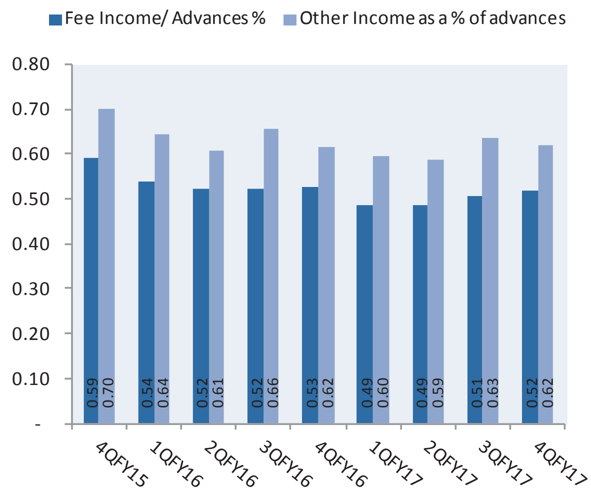




Other Income growth remained healthy

- ✓ Other income grew by 20% YoY given the pickup in fee income. Core fee income grew by 16.1% YoY, Forex and derivatives segment grew by 26.1%.
- ✓ Due to increase in G-Sec bond yield of around 18 bps during the quarter trading gain declined by more than 50% QoQ as per the expectation.

Other Income Break Up	*4QFY16*	*1QFY17*	*2QFY17*	*3QFY17*	*4QFY17*	*YoY(+/-)*	*QoQ(+/-)*	*FY16*	*FY17*	*YoY(+/-)*
Fees & Commissions	2,172	1,978	2,104	2,207	2,523	***16.1%***	***14.3%***	7,759	8,812	***13.6%***
FX & Derivatives	283	315	295	297	357	***26.1%***	***20.0%***	1,228	1,263	***2.9%***
Profit / (loss) on	116	277	284	399	180	***56.2%***	***-54.7%***	732	1,139	***55.7%***
Miscellaneous Income	295	237	219	240	386	***30.8%***	***60.9%***	1,033	1,082	***4.7%***
Other Income	**2,866**	**2,807**	**2,901**	**3,143**	**3,446**	**20.3%**	**9.7%**	**10,752**	**12,297**	**14.4%**



Healthy Balance sheet growth

- ✓ Advances grew with the robust rate of 19.4% YoY and 12% QoQ despite one time hit in previous quarter due to loan repayment linked to FCNR deposits. Domestic loan was even stronger with 23.3% YoY.
- ✓ Advances growth was backed by healthy growth in retail assets which grew by 27% YoY as per regulatory classification. However HDFCBANK also saw pick up in its domestic corporate lending by 20% YoY due to gain in market share from other banks.
- ✓ Strong retail assets growth was spread over the book with 35% in personal loan, 43% in business banking, 27% credit cards, 20% home loan, 24% auto loan and 31% CV/CE segment.
- ✓ Vehicle segment growth (auto, cv/ce, 2wheeler) picked upto 25% growth this year. Whereas, unsecured loan contributed 32% growth in overall book. Share of unsecured loan is at 13.7% against 12.4% a year back.
- ✓ As per the regulatory classification, domestic retail loan book constitute 53% and wholesale segment is 47% against 51% and 49% a year back.

- ✓ It is notable that the deposits were impacted in 3Q FY17 due to FCNR redemption; however HDFCBANK saw tremendous growth in deposits of 14% QoQ and 18% YoY.
- ✓ CASA registered healthy growth of 31% YoY backed by strong growth in both SA and CA of 31% eventually. This increase in CASA was mainly attributed to demonetization exercise. CASA ratio now stands at 48% from 45% in 3Q FY17.

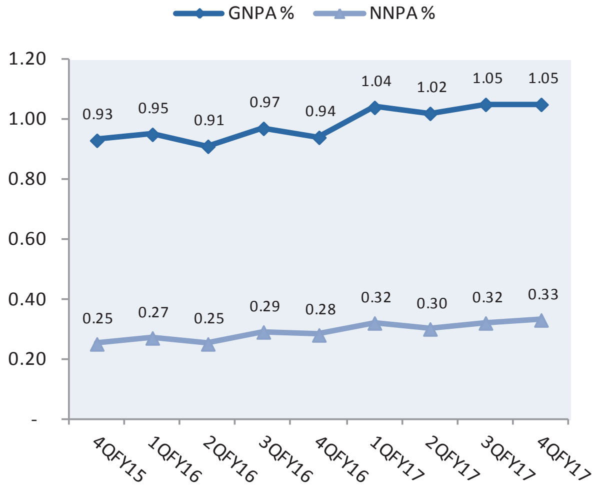
Stable Assets Quality

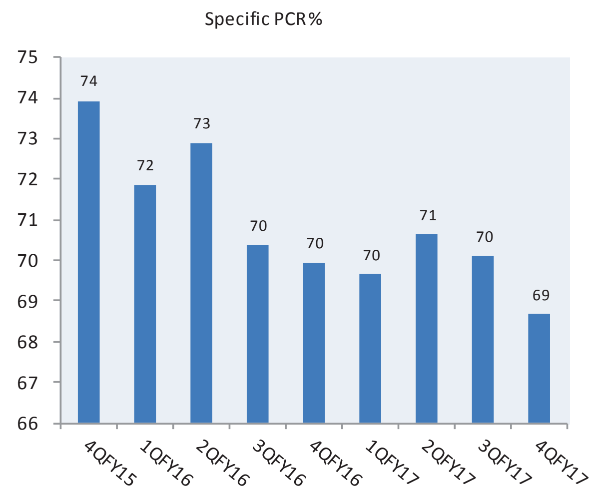
Assets quality remains intact for HDFCBANK this quarter. GNPA was flat on sequential basis with 1.05% and NNPA was 0.33% against 0.32%.

Slippages ratio was 1.5% in which around Rs 250 Cr was related to RBI dispensation. Provision coverage ratio was 69% against 70% QoQ.

Assets quality of HDFCBANK remains one of the best in the industry. Going forward we are less concerned about the assets quality given its portfolio mix towards secured retail loans and better rated corporate loan.

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs)	4,393	4,921	5,069	5,232	5,886	***34.0%***	***12.5%***	4,393	5,886	***34.0%***
GNPA %	0.9	1.0	1.0	1.1	1.1	***0.11***	***0.00***	0.9	1.1	***0.11***
NNPA (Rs)	1,320	1,493	1,489	1,564	1,844	***39.7%***	***17.9%***	1,320	1,844	***39.7%***
NNPA %	0.3	0.3	0.3	0.3	0.3	***0.05***	***0.01***	0.3	0.3	***0.05***
Slippages (Rs)	1,700	1,761	1,440	1,700	2,100	***23.5%***	***23.5%***	5,941	7,001	***17.8%***
Restructured Assets %	0.1	0.1	0.1	0.1	0.1	***0.00***	***0.00***	0.1	0.1	***0.00***
Specific PCR %	69.9	69.7	70.6	70.1	68.7	***-1.27***	***-1.43***	69.9	68.7	***-1.27***





Concall Highlights

- ✓ Provisons spiked due to incremental provisions on NPA related to dispensation provided by RBI in last quarter.Standard assets provisioning also increased due strong assets growth.
- ✓ Will open 100 to 200 branch per year going forward as against 300-400 earlier.
- ✓ Corporate loan picked up in the quarter. Gaining market share from both public as well as private banks.
- ✓ The bank managed recoveries from about 25% of accounts that benefited from RBI dispensation in the prior quarter.
- ✓ Slippage was at 1.5% excluding RBI dispensation of Rs 245 Cr.
- ✓ Floating Provisions were Rs 1248 Cr as on 4Q FY17.
- ✓ No ARC sale in this quarter.
- ✓ CASA ratio was higher due to some traction from capital market.

View and Valuation

We continue to like HDFC Bank given its strong fundamentals, steady loan growth, adequate capital, best in assets quality, strong branch network and intensive digitalization initiatives. With all levers set, HDFCBANK is poised for strong business growth from the expected upturn in economy. Continuation of strong loan growth has resulted in gain of market share from its peers. Due to intensive investment in digitalization and slow down in employee expenses, we expect productivity to improve further and hence will result in cost reduction. Increase in CASA during demonetization period will help NIM to sustain at current levels despite reduction in rates due to MCLR. With the healthy capitalization ratio of Tier 1 at 12.8% we expect RoE in the range of 19%-19.5% and RoA of 2% in FY19. **HDFCBANK is currently trading at 3.5x P/B FY19 and we value it (3.9x P/B, EPS growth 20% FY19) at Rs 1758 and recommend BUY.**

Advances Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Net Advances (Rs in Cr)	365,495	382,010	418,541	436,364	464,594	470,622	494,418	495,043	554,568
Adv. Growth YoY %	20.6	22.4	27.9	25.7	27.1	23.2	18.1	13.4	19.4
>> Growth QoQ %	5.3	4.5	9.6	4.3	6.5	1.3	5.1	0.1	12.0

Advances Breakup %(as per regulatory)

Retail Advances	47.3	49.0	48.8	49.2	48.2	49.5	51.1	52.7	51.2
Corporate Domestic	45.4	43.1	43.7	43.9	45.8	43.9	42.2	43.7	46.0
Overseas Loan	7.3	7.9	7.5	6.9	6.0	6.6	6.7	3.6	2.9

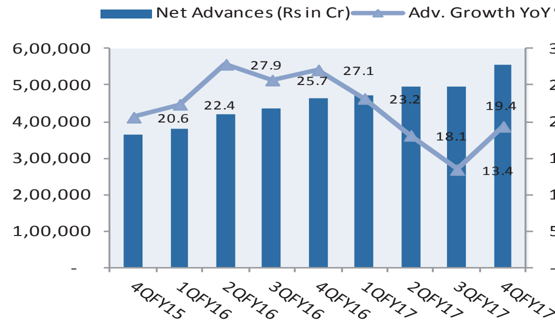
Break-up of Domestic Retail Advances % (As per regulatory segment reporting)

Auto	23.4	23.2	22.5	23.2	22.4	22.4	22.4	22.4	21.9
Personal Loans	14.9	15.4	15.6	16.3	16.6	17.4	17.7	17.8	17.6
Home Loans	14.0	14.4	13.9	13.2	14.2	14.4	13.3	13.6	13.5
Business Banking	10.9	12.8	13.3	12.5	11.3	11.0	12.5	12.3	12.8
Kisan Gold Card	9.4	8.9	9.4	9.2	10.0	9.4	9.7	9.0	9.2
Credit Cards	9.3	9.0	8.8	9.2	9.2	9.1	8.5	9.1	9.2
CV/CE	7.4	7.1	7.2	7.0	6.6	6.6	6.6	6.7	6.8
Others	5.1	4.0	4.2	4.5	4.8	4.8	4.6	4.5	4.6
Two Wheelers	2.4	2.3	2.3	2.4	2.4	2.4	2.3	2.3	2.2
Gold Loans	2.3	2.3	2.1	2.0	2.0	2.1	2.0	1.8	1.7
Loans against securities	0.8	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5

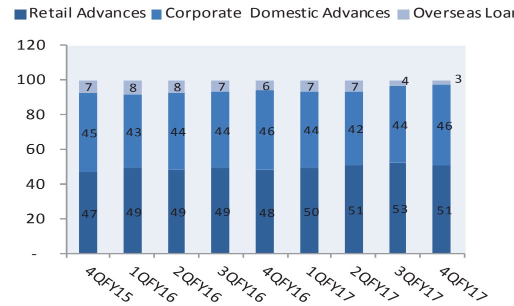
Deposits Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Deposits (Rs in Cr)	450,796	484,175	506,909	523,997	546,424	573,755	591,731	634,705	643,640
Growth YoY %	22.7	30.1	29.7	26.5	21.2	18.5	16.7	21.1	17.8
>> Growth QoQ %	8.9	7.4	4.7	3.4	4.3	5.0	3.1	7.3	1.4
CA % (of Deposits)	16	14	14	14	16	13	13	16	18
SA % (of Deposits)	27.7	25.8	25.9	25.8	27.1	26.6	27.0	29.4	30.1
CASA %	44.0	39.6	39.7	40.0	43.2	39.9	40.4	45.4	48.0
CASA Growth YoY %	20.6	19.9	19.4	23.7	19.1	19.2	18.8	37.4	30.8
>> Growth QoQ %	17.2	(3.3)	4.9	4.0	12.8	(3.2)	4.5	20.4	7.4
Credit Deposit Ratio	81.1	78.9	82.6	83.3	85.0	82.0	83.6	78.0	86.2

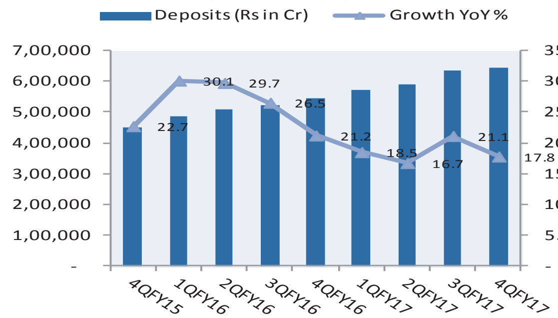
Advances Growth remained healthy



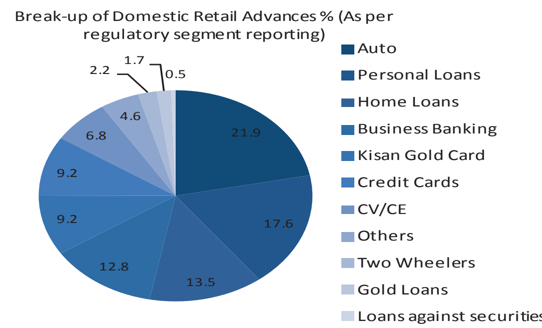
Continuous Decline in Overseas Loan



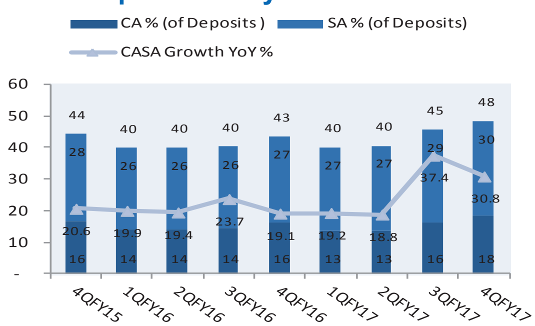
Healthy deposit growth



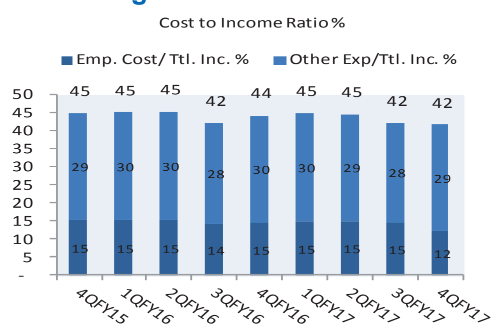
Diversified Retail Assets



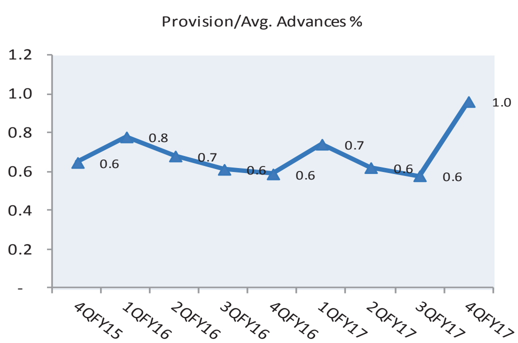
CASA spiked led by demonetization



Stringent control on C/I ratio



Provisions spiked in current quarter



Heatlhy RoE and PAT growth