

HDFC BANK

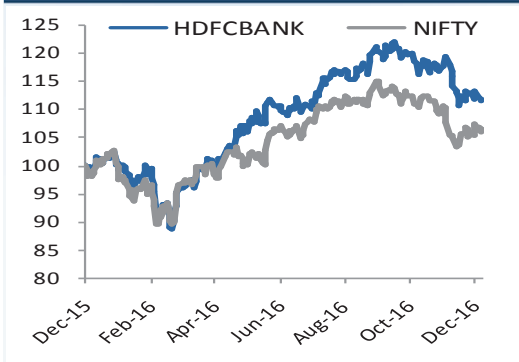
Result Update	
CMP	1176
Target Price	1400
Previous Target Price	1400
Upside	19%
Change from Previous	0%

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	1318/928
Mkt Capital (Rs Cr)	300373
Av. Volume (,000)	950
Nifty	8153

Stock Performance			
	1Month	3 Month	1Year
Absolute	(2.9)	12.5	8.7
Rel.to Nifty	(3.9)	5.4	6.1

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoters	26.4	26.3	26.2
Public	73.6	73.7	73.8
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0

Company Vs NIFTY



DEEPAK KUMAR

Deepak.kumar@narnolia.com

Demonetization to provide long term benefits

After the AQR review, banking system is again grappling with the new challenges in the form of demonetization. In near term the operation of the banks has got hampered due to spurt in cash management activity. This has no doubt impacted the lending activities of the banks during the demonetization period. But this demonetization move may come up with huge opportunities for the banks in long run in the form of spurt in low cost of funds and expectation of higher trading gains.

With the strong fundamentals and efficient management, HDFC Bank has the ability to overcome the tough time of the industry. Aggressive on digital mode, leadership in credit card business and wide network presence will help HDFC bank to surpass the peers in this demonetization move.

Result Highlights 2Q FY17

HDFC BANK reported 20% YoY growth in its PAT to Rs 3455 Cr backed by 20% growth in NII. NIM was stable to 4.20% YoY. Non Fund based Income grew by 14% YoY due to surge in profit from sale of investment. Cost to Income ratio improved marginally to 44.7% against 45.4% a year back. Operating profit grew by 19% YoY. Provisions and contingencies grew by 10% YoY to Rs 749 Cr but sequentially it declined by 14%. Assets Quality stabilizes with marginal improvement in GNPA at 1.02% against 1.04% QoQ. Advances grew by 18% YoY to Rs 494418 Cr. Deposits grew by 17% YoY led by 19% growth in CASA. SA grew by 22% whereas CA grew by 13% YoY. CASA was maintained at 40% level of the total deposits.

Assets Quality Stabilizes

GNPA declined marginally to 1.02% against 1.04% on 2Q FY17 but it increased by 11 bps YoY. NNPA was at 0.30% against 0.32% on 2Q FY16. Gross slippages during the quarter were Rs 1440 against Rs 1761 Cr QoQ. Recovery & Upgrades were Rs 764 Cr in this quarter. Restructured assets were maintained at 0.10% of the gross advances of the bank. Provisions for the quarter grew by 10% YoY. Specific provision was at 71% against 73% a year back. Floating provisions outstanding is Rs 1240 Cr. Management highlighted that the assets quality on retail book remained stable.

Stable NIM

NIM was stable at 4.2% YoY but sequentially NIM declined by 20 bps from 4.4%. This decline in NIM was resulted due to excess liquid investment which was kept for the FCNR redemption and some part of it may be attributed to the MCLR regime. However NIM remained within the guided range of 4%-4.3%. Going further management is confident to maintain the NIM within the guided range.

Moderate Core Fee Growth

Other Income grew by 14% YoY to Rs 2901 Cr backed by income from sale of investments which increased by 75% YoY to Rs 284 Cr. Fee & commission income grew by 13% YoY to Rs 2104 Cr. Barring FX& Derivatives, total other income grew by 17% YoY. FX & Derivatives income for the quarter was Rs 295 Cr registering negative growth of 8% YoY.

Healthy Retail Loan Growth

Advances in this quarter grew by 18% YoY led by strong growth on retail banking. As per the internal classification of the bank, retail loan portfolio grew by 21.7% and corporate loan portfolio grew by 14.3% YoY. Corporate loan growth was low due to some short term loan matured during the quarter which was lent in the March month. As per the Basel 2 classification retail loan and corporate loan mix is 54:46 of the portfolio. Under the retail loan personal loan grew by 39% YoY. Loan against securities grew by 35% YoY. The growth in vehicle loan segment was 19% YoY.

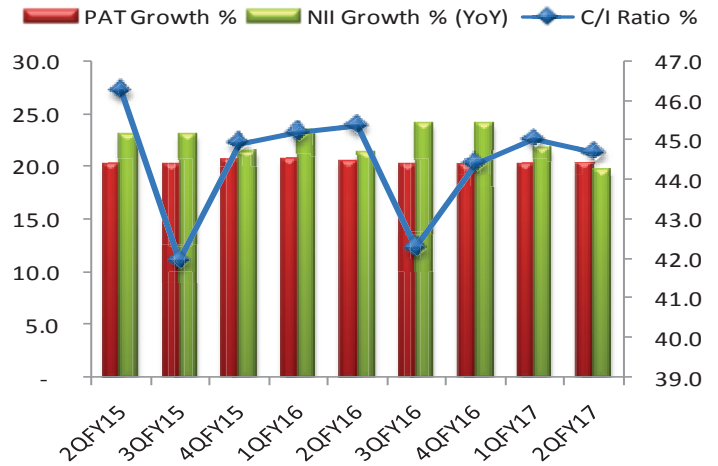
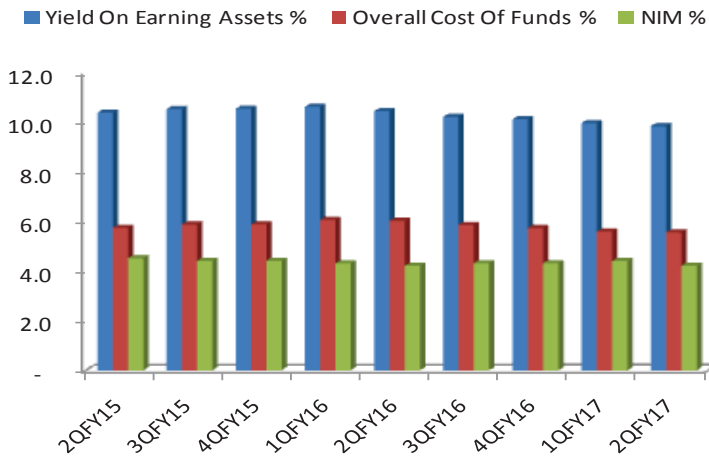
Quarterly Performance

(Rs in Crore)

Financials	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY %	QoQ%
Interest Inc.	11848	12396	13006	14041	14773	15411	15997	16516	17070	16%	3%
Interest Exp.	6337	6696	6993	7652	8092	8343	8543	8735	9076	12%	4%
NII	5511	5700	6013	6389	6681	7069	7453	7781	7994	20%	3%
Other Income	2047	2535	2564	2462	2552	2872	2866	2807	2901	14%	3%
Total Income	7558	8235	8577	8851	9233	9941	10319	10588	10895	18%	3%
Ope Exp.	3498	3456	3855	4001	4190	4205	4584	4769	4870	16%	2%
PPP	4060	4779	4722	4850	5043	5736	5735	5819	6025	19%	4%
Provisions	456	560	577	728	681	654	662	867	749	10%	-14%
PBT	3604	4218	4145	4122	4362	5082	5072	4952	5276	21%	7%
Tax	1223	1424	1338	1426	1492	1725	1698	1714	1820	22%	6%
Net Profit	2381	2795	2807	2696	2869	3357	3374	3239	3455	20%	7%

Profitability Metrix

Ratios	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY(bps)	QoQ(bps)
Yield On Earning Asset %	10.4	10.5	10.5	10.6	10.4	10.2	10.1	9.9	9.8	(0.06)	(0.13)
Overall Cost Of Funds %	5.7	5.9	5.9	6.0	6.0	5.8	5.7	5.6	5.5	(0.08)	(0.04)
NIM %	4.5	4.4	4.4	4.3	4.2	4.3	4.3	4.4	4.2	-	(0.20)
NII Growth % (YoY)	23.1	23.0	21.4	23.5	21.2	24.0	24.0	21.8	19.6		
Other Inc./Tot. Net Inc.%	37.1	44.5	42.6	38.5	38.2	40.6	38.5	36.1	36.3	(0.05)	0.22
C/I Ratio %	46.3	42.0	44.9	45.2	45.4	42.3	44.4	45.0	44.7	(0.01)	(0.34)
Empl. Cost/ Tot. Exp. %	33.4	32.8	34.4	34.0	33.7	34.0	32.7	33.2	34.0	0.01	0.79
Other Exp/Tot. Exp.%	66.6	67.2	65.6	66.0	66.3	66.0	67.3	66.8	66.0	(0.00)	(0.79)
PPP Grpwth % (YoY)	19.9	22.9	24.9	26.2	24.2	20.0	21.5	20.0	19.5		
Provision/PPP %	11.2	11.7	12.2	15.0	13.5	11.4	11.6	14.9	12.4	(0.08)	(2.46)
Tax %	33.9	33.8	32.3	34.6	34.2	33.9	33.5	34.6	34.5	0.01	(0.10)
PAT Growth %	20.1	20.2	20.6	20.7	20.5	20.1	20.2	20.2	20.4		

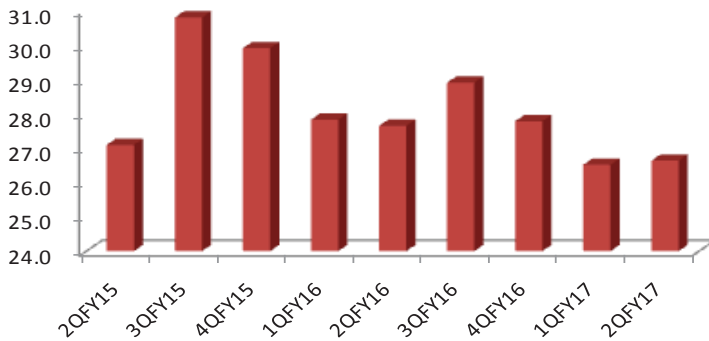


Other income Break Up

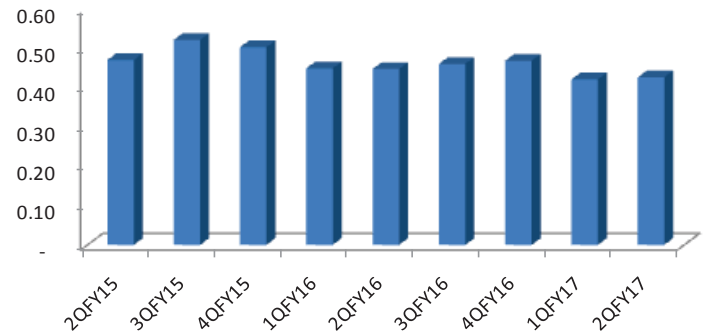
(Rs in Crore)

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY%	QoQ%
Fees & Commissions	1537	1807	1835	1713	1869	2005	2172	1978	2104	13%	6%
FX & Derivatives	222	253	329	348	320	277	283	315	295	-8%	-6%
Profit / (loss) on Invest.	95	266	196	126	162	328	116	277	284	75%	2%
Miscellaneous Income	194	210	204	275	201	262	295	237	219	9%	-8%
Total Other Income	2047	2535	2564	2462	2552	2872	2866	2807	2901	14%	3%

Other Income/Total Net Income %



Fee Income/ Advances %



Outlook & Valuation:

HDFC Bank is one of the leading banks in the industry with the strong fundamentals, best in assets quality, adequate capital, steady loan growth and consistency in profitability growth. Where some of its peers in large cap are struggling with the deteriorating assets quality, HDFC Bank is well poised to take the advantage from improving macroeconomic scenario. While in the short term there may be hiccups in the lending activity due to demonetization drive and this has led to uncertainty over the earnings during this period, but the long term growth and profitability remain intact for the bank. One of the huge benefits from the demonetization drive will arise in the form of shoot in CASA ratio which will help the bank to cut the rates further to drive the demand. Strategy of the management to focus on high yield products will help the bank to maintain the NIMs apart from the expected benefits from spurt in CASA (due to demonetization). **We expect the RoE of 19% and maintain 'BUY' rating on this stock with our previous target price of Rs 1400.**

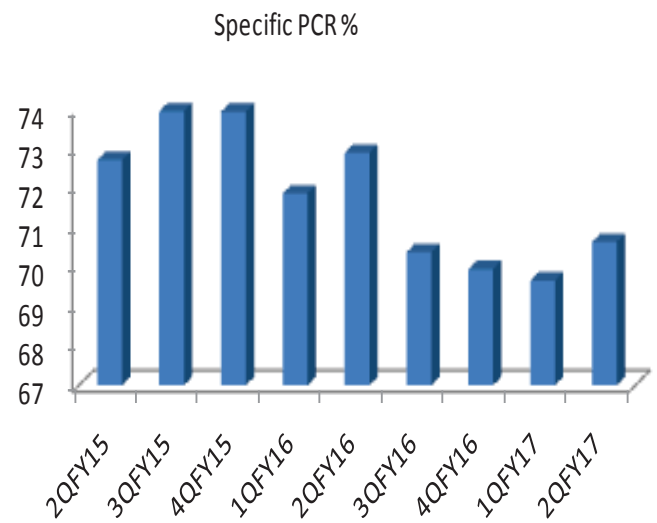
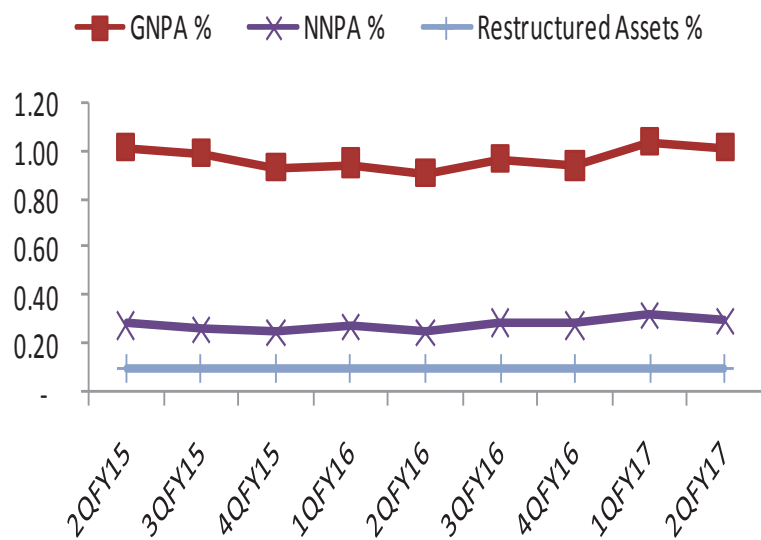
Concall Highlights:

- >> Cost of FCNR deposits will be close to 8.5%.
- >> Sequentially NIM declined by 20 bps out of which close to 10 bps would be due to MCLR and some of it will be due to excess investment for redemption of FCNR deposits.
- >> Margin will broadly remain in the range of 4 to 4.3%.
- >> Advances growth was lower due to lower corporate growth under which some of the short term loan which spiked in the March Quarter has matured in this quarter.
- >> In retail sector there is intensified competition on yields and processing fees.
- >> Floating provisions is Rs 1240 Cr.
- >> Assets Quality on retail side remained stable.
- >> Provision breakup for the quarter was- Rs 641 Cr of NPA provision, Rs 101 Cr for general provisions and rest are others.

- >> Number of employees increased in this quarter. Hiring has been done largely for business banking and retail business.

Assets Quality Performance

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY Ch.	QoQ Ch.
GNPA (Rs)	3362	3468	3438	3652	3828	4255	4393	4921	5069	32%	3%
GNPA %	1.02	0.99	0.93	0.95	0.91	0.97	0.94	1.04	1.02	0.11	-0.02
NNPA (Rs)	917	904	896	1028	1038	1261	1320	1493	1489	43%	0%
NNPA %	0.28	0.26	0.25	0.27	0.25	0.29	0.28	0.32	0.30	0.05	-0.02
Slippages (Rs)	1030	1164	1720	1390	1300	1551	1700	1761	1440	11%	-18%
Restructured Assets %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	0.00
Specific PCR %	73	74	74	72	73	70	70	70	71	-2.26	0.98

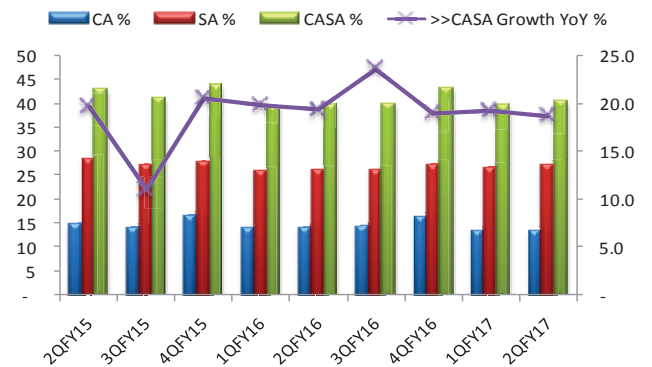
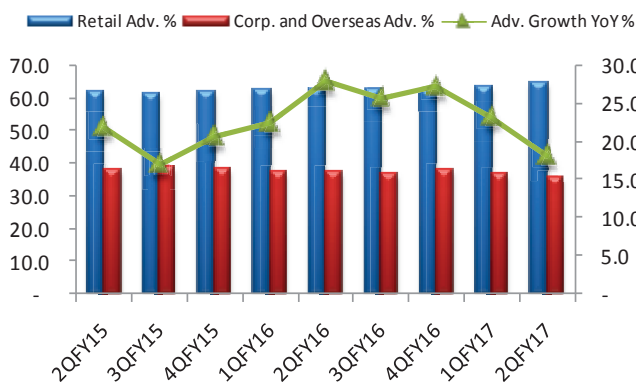


Advances	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Net Advances (Rs in Cr)	327273	347088	365495	382010	418541	436364	464594	470622	494418
Advances Growth YoY %	21.84	16.97	20.63	22.40	27.89	25.72	27.11	23.20	18.13
>> Growth QoQ %	4.86	6.05	5.30	4.52	9.56	4.26	6.47	1.30	5.06

Break-up of Advances % (As per internal business classification)

Advances Break Up %	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Auto	13.46	13.14	12.79	13.11	12.81	12.91	12.33	12.66	13.03
Personal Loans	7.13	7.20	7.12	7.61	7.75	8.13	8.12	8.72	9.11
Home Loans	5.98	5.76	6.60	7.04	6.81	6.52	6.86	7.14	6.79
Business Banking	14.22	14.05	13.65	13.34	13.74	13.66	13.15	12.84	13.31
Kisan Gold Card	3.95	3.95	4.45	4.42	4.67	4.61	4.94	4.76	5.03
Credit Cards	4.28	4.43	4.42	4.41	4.30	4.51	4.42	4.52	4.32
CV/CE	7.48	7.19	6.83	6.93	6.92	6.82	6.66	6.68	6.79
Others	2.61	2.78	3.02	2.81	2.88	3.06	3.15	3.22	3.29
Two Wheelers	1.37	1.37	1.38	1.38	1.38	1.40	1.37	1.41	1.44
Gold Loans	1.18	1.13	1.11	1.11	1.04	1.01	0.99	1.04	1.03
Loans against securities	0.33	0.35	0.37	0.35	0.36	0.38	0.41	0.40	0.42
Total Retail Advances	61.98	61.33	61.75	62.53	62.66	63.00	62.38	63.39	64.55
Corp. and Overseas Advda.	38.02	38.67	38.25	37.47	37.34	37.00	37.62	36.61	35.45

Deposits	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Deposits (Rs in Cr)	390682	414128	450796	484175	506909	523997	546424	573755	591731
>> Growth YoY %	24.81	18.59	22.72	30.13	29.75	26.53	21.21	18.50	16.73
>> Growth QoQ %	5.00	6.00	8.85	7.40	4.70	3.37	4.28	5.00	3.13
CA %	14.80	13.79	16.32	13.82	13.77	14.13	16.18	13.26	13.38
SA %	28.36	27.11	27.71	25.81	25.95	25.85	27.06	26.61	27.03
CASA %	43.16	40.90	44.03	39.63	39.72	39.98	43.25	39.87	40.41
>>CASA Growth YoY %	19.71	11.00	20.58	19.92	19.41	23.67	19.05	19.24	18.76
>> Growth QoQ %	5.39	0.46	17.18	-3.34	4.94	4.04	12.81	-3.19	4.51
Credit Deposit Ratio%	83.77	83.81	81.08	78.90	82.57	83.28	85.02	82.03	83.55



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	(Rs in Crore)								
	FY14	FY15	FY16	FY17E	Business Ratios	FY14	FY15	FY16	FY17E
Int./disc. on advances / bills	31,687	37,181	44,828	54,070	Credit-Deposit(%)	82.5	81.1	85.0	85.0
Income on Investments	9,037	10,706	14,120	16,035	CASA %	45.0	44.0	43.0	42.0
Int. on bal.with RBI	356	517	362	237	Efficiency Ratios				
Others	56	66	912	947	Emp. Cost as a % of Total Inco. (%)	34.7	34.0	33.6	33.0
Total Interest Income	41,136	48,470	60,221	71,289	Other Exp./Total Inco. (%)	65.3	66.0	66.4	67.0
Total Interest expended	22,653	26,074	32,630	38,042	Cost Income Ratio (%)	45.6	44.6	44.3	45.0
Net Interest Income	18,483	22,396	27,592	33,246	Spread Analysis As Calculated				
Other Income	7,920	8,996	10,752	12,777	Yield on Advances (%)	12.2	11.8	11.5	11.2
Total Income	26,402	31,392	38,343	46,023	Yield on Investments (%)	8.6	8.7	8.9	8.7
Total Operating Expenses	12,042	13,988	16,980	20,729	Yield on Earning Assets (%)	10.4	10.4	10.3	10.0
Pre Provisioning Profit				14,360	Cost of Deposits (%)	5.7	5.7	5.9	5.4
Provisions and Contingencies	1,588	2,076	2,726	3,353	Cost of Fund (%)	6.0	5.8	5.9	5.7
Profit Before Tax	12,772	15,329	18,638	21,941	Interest Spread (%)	4.5	4.6	4.4	4.4
Tax	4,294	5,113	6,342	7,592	NIM (%)	4.4	4.4	4.3	4.3
PAT	8,478	10,216	12,296	14,350	Profitability Ratio				
					RoE %	21.3	19.4	18.3	18.9
					RoA %	1.9	1.9	1.9	1.9
					Int. Expended / Int. Earned (%)	55.1	53.8	54.2	53.4
					Provisions/PPP (%)	11.1	11.9	12.8	13.3
					Other Income/Net Income (%)	30.0	28.7	28.0	27.8
					Tax Rate (%)	33.6	33.4	34.0	34.6
					Asset Quality Ratio				
					GNPA (%)	0.98	0.93	0.94	
					GNPA(Rs)	2989	3438	4393	
					NNPA (%)	0.30	0.25	0.28	
					NNPA (Rs)	820	896	1320	
					PCR (%)	73	74	70	
					Os. Std. Restr. Assets (%)	0.20	0.10	0.10	
					Capital Adequacy Ratio				
					Capital Adequacy Ratio (%)	16.1	16.8	15.5	
					Tier I Capital (%)	11.8	13.7	13.2	
					Tier II Capital (%)	4.3	3.1	2.3	

BALANCE SHEET				
	(Rs in Crore)			
	FY14	FY15	FY16	FY17E
Capital	480	501	506	506
Reserves & Surplus	42999	61508	72172	83556
Deposits	367337	450796	546424	661363
Borrowings	39439	45214	53018	60971
Other Liabilities & Provisions	41344	32484	36725	38561
Total Capital & Liabilities	491600	590503	708846	844957
Cash & Balances with RBI	25346	27510	30058	36221
Bal. with Bank&Money at Call	14238	8821	8861	13768
Investments	120951	166460	163886	180274
Advances	303000	365495	464594	562159
Fixed Assets	2940	3122	3343	3677
Other Assets	25125	19095	38104	48858
Total Assets	491600	590503	708846	844957