

HDFC BANK

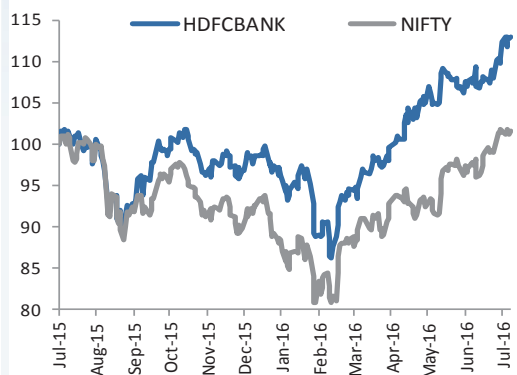
Result Update	
CMP	1231
Target Price	1400
Previous Target Price	-
Upside	14%
Change from Previous	-

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	1,240/928
Mkt Capital (Rs Cr)	231012
Av. Volume (,000)	181
Nifty	8541

Stock Performance			
	1Month	3 Month	1Year
Absolute	6.0	12.1	13.1
Rel.to Nifty	0.4	12.0	5.9

Share Holding Pattern-%			
	1QFY17	4QFY16	3QFY17
Promoters	26.3	26.4	26.5
Public	73.7	73.6	73.5
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0

Company Vs NIFTY



Earnings Maintained

HDFC BANK reported 20% YoY growth in its PAT to Rs 3239 Cr backed by 22% growth in NII. NIM improved by 10 Bps to 4.40% against 4.30% as on 1Q FY16. Other Income picked up by 14% YoY due to surge in profit from sale of investment. This led to the pre-provisioning profit to Rs 5819 Cr, a growth of 20% YoY. Provisions and contingencies grew by 19% YoY to Rs 867 Cr. Assets Quality deteriorated marginally with GNPA at 1.04% from 0.94% a quarter back. Advances grew by 23% YoY to Rs 470622 Cr. Deposits grew by 19% YoY led by 19% growth in CASA. SA grew by 22% whereas CA grew by 14% YoY. Casa was maintained at 40% level of the total deposits. During the quarter bank opened only 21 new branches to 4541. The C/I ratio of the bank was 45% against 45.4% a year back.

Assets Quality slip marginally, Provisions surged

Sequentially GNPA increased to 1.04% from 0.94%, it increased by 9 bps from 0.95% YoY. NNPA was at 0.32% against 0.28% on 4Q FY16. Gross Slippages grew by 26% YoY to Rs 1761 Cr. Contribution to the net slippages was divided equally among business banking (SME), Agriculture and retail & others. Restructured Loans were 0.10% of the gross advances of the bank. Provisions surged to Rs 867 Cr, growth of 19% YoY. It grew by 31% QoQ. Specific loan loss provisions were Rs 832 cr against Rs 557 Cr on 1Q FY16, a growth of 49% YoY. The surge in provisions might be due to ageing of NPA and marginal increase in bad loan.

Strong Loan growth led by retail growth

Advances grew by 23% YoY backed by 25% Growth in domestic retail growth (as per internal classification). The retail growth was backed by healthy growth in unsecured loan i.e, personal loan and credit card grew by 41% and 26% respectively. The contribution of unsecured loan has increased to 21% of the retail loan. The growth in auto and CV segment slowed down to 19% due weak Auto sales number in June. Gold loan business saw some traction and grew by 15% YoY due to hike in gold prices and push in strategy. Retail and wholesale contribution was in the ratio of 53:47 as per internal classification. Wholesale loan grew by 23% YoY.

NIM Improved, CASA Stable

NIM improved by 10 bps to 4.4% against 4.3% on 1Q FY16. Strong retail loan growth led by high share of unsecured loan book (consist higher yield) with recent deposit rate cut and CASA growth of 19% helped the NIM to expand. Saving deposits grew by 22% YoY and current deposits grew by 14% YoY led the CASA ratio stable at 40%.

Core Fee Income growth slows down

Fee income excluding the FX & Derivatives grew by just 15% YoY and including the FX & Derivatives it grew by only 11%. The total other income grew by 14% led by strong trading income growth to Rs 277 Cr against Rs 162 Cr. The contribution fee & commission income in total net income declined to 18.7% against 19.35% a year back.

FCNR Deposits

FCNR deposits of HDFC bank will be maturing mainly in December Quarter. The bank will face some contraction in balance sheet due to this redemption of FCNR Deposits. The deposits to the tune of USD 2 Billion will get mature during 3Q FY17.

Concall Highlights

- >> Slippages in the quarter Were Rs 1761 Cr. One third of the net slippages is from business banking (SME), one third from retail and other one third from agriculture.
- >> Assets quality in commercial vehicle has improved YoY.
- >> Used Rs 130 of floating provisions on food credit book.
- >> FCNR Deposits will mature on Oct to Dec quarter. This deposits is of USD 2B and due to this there will be balance sheet contraction.
- >> Investment book is inflated in 1Q FY17 due to some short term investments for the utilization in redemption of FCNR Deposits.
- >> Will grow the book little more than the system growth.
- >> Micro Finance book is Rs 4000 Cr and this business is done by internal staff only.
- >> Gold loan portfolio has picked up due to hike in price of gold and change in strategy . 600-700 branches are doing gold loan business.
- >> Under the personal Loan 50% of the customer is internal customer and in card business 65% of the customer are internal customer.
- >> Losses on unsecured book is on low side.

Quarterly Performance

(Rs in Crore)

Financials	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Interest Income	11220	11848	12396	13006	14041	14773	15411	15997	16516
NII	5172	5511	5700	6013	6389	6681	7069	7453	7781
Other Income	1851	2047	2535	2564	2462	2552	2872	2866	2807
Total Net Income	7022	7558	8235	8577	8851	9233	9941	10319	10588
Operating Exp.	3178	3498	3456	3855	4001	4190	4205	4584	4769
PPP	3844	4060	4779	4722	4850	5043	5736	5735	5819
Provisions	483	456	560	577	728	681	654	662	867
PBT	3361	3604	4218	4145	4122	4362	5082	5072	4952
Tax Provisions	1128	1223	1424	1338	1426	1492	1725	1698	1714
Net Profit	2233	2381	2795	2807	2696	2869	3357	3374	3239

Spread Metrix

Avg. Yield on Adv.%	11.84	11.72	11.84	11.63	11.76	11.58	11.47	11.24	11.15
Avg. Cost of fund%	5.69	5.73	5.86	5.86	6.04	6.01	5.84	5.71	5.58
NIM% (Reported)	4.40	4.50	4.40	4.40	4.30	4.20	4.30	4.30	4.40

Outlook & Valuation:

Earning of HDFC Bank is expected to remain stable with 20%+ growth rate in Net Interest Income led by strong retail loan growth. The high share of unsecured loan will provide the stability to NIM with expected further rates cut in economy but the high risk on unsecured loan may raise the concern over the assets quality. In the near term the stock may remain sideways due to uncertainty around slippage and FCNR redemptions, thus with any dip in the stock, investor should use the opportunity to buy this stock with the target price of Rs 1400.

Other income Break Up

(Rs in Crore)

Other Income	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Fees & Commissions	1406	1537	1807	1835	1713	1869	2005	2172	1978
FX & Derivatives	224	222	253	329	348	320	277	283	315
Profit / (loss) on	25	95	266	196	126	162	328	116	277
Miscellaneous Income	195	194	210	204	275	201	262	295	237
Other Income	1851	2047	2535	2564	2462	2552	2872	2866	2807

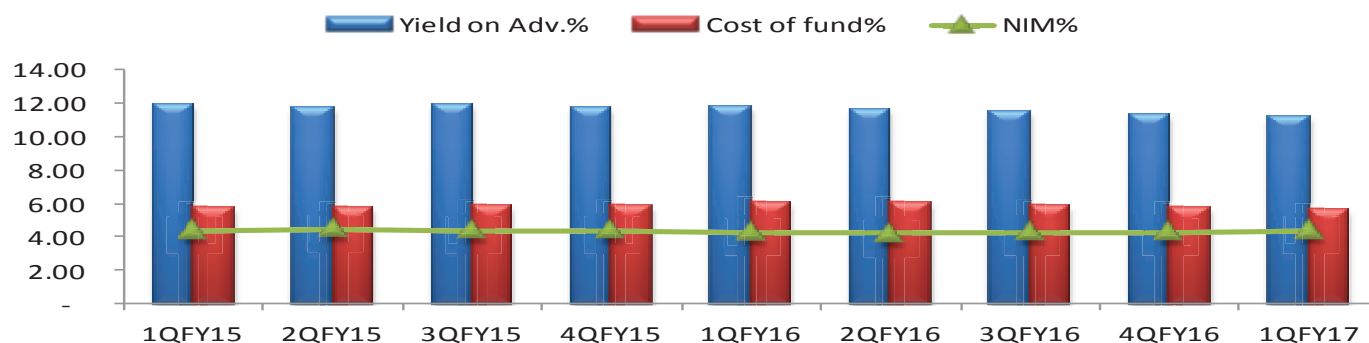
Operating Metrix

Operating Metrix	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Deposit Growth %	23	25	19	23	30	30	27	21	19
Loan Growth %	21	22	17	21	22	28	26	27	23
CASA Ratio %	43	43	41	44	40	40	40	43	40
CD Ratio%	84	84	84	81	79	83	83	85	82
C/I Ratio%	45	46	42	45	45	45	42	44	45
Tax Rate %	34	34	34	32	35	34	34	33	35

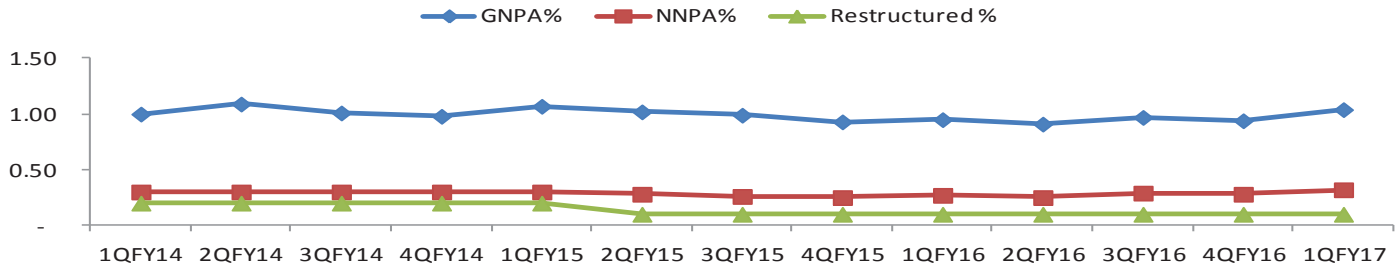
Assets Quality Metrix

GNPA (Rs in Cr)	3356	3362	3468	3438	3652	3828	4255	4393	4921
GNPA %	1.07	1.02	0.99	0.93	0.95	0.91	0.97	0.94	1.04
NNPA%	0.30	0.28	0.26	0.25	0.27	0.25	0.29	0.28	0.32
PCR%	70	73	74	74	72	73	70	70	70
OS Restructured %	0.20	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

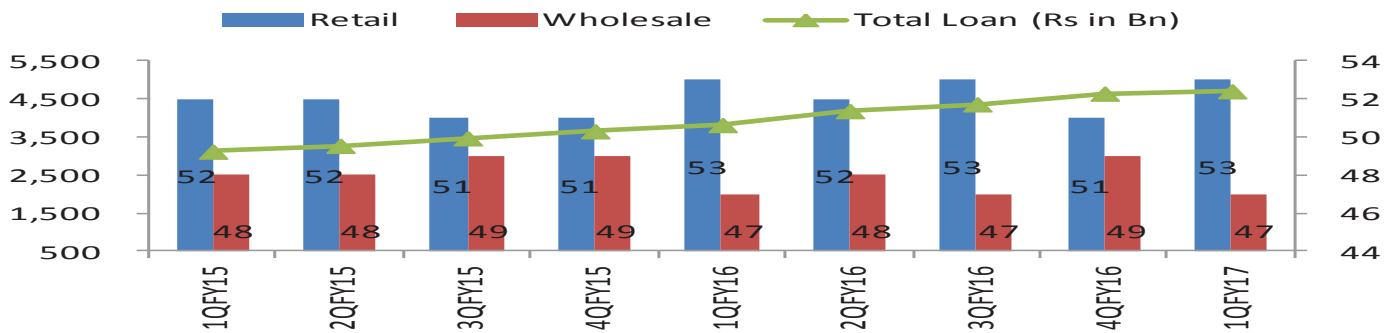
Stable NIM



Assets Quality



Loan Book Composition



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

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Auto	21.4	21.7	21.4	20.7	21.0	20.5	20.5	19.8	20.0
Personal Loans	11.4	11.5	11.7	11.5	12.2	12.4	12.9	13.0	13.8
Home Loans	10.3	9.6	9.4	10.7	11.3	10.9	10.3	11.0	11.3
Business Banking	22.6	22.9	22.9	22.1	21.3	21.9	21.7	21.1	20.3
Kisan Gold Card	5.9	6.4	6.4	7.2	7.1	7.5	7.3	7.9	7.5
Credit Cards	7.0	6.9	7.2	7.2	7.1	6.9	7.2	7.1	7.1
CV/CE	12.3	12.1	11.7	11.1	11.1	11.0	10.8	10.7	10.5
Others	4.4	4.2	4.5	4.9	4.5	4.6	4.9	5.1	5.1
Two Wheelers	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Gold Loans	2.0	1.9	1.8	1.8	1.8	1.7	1.6	1.6	1.6
Loans against securities	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.6
Retail Adv (Rs in Bn)	1,894	2,028	2,129	2,257	2,389	2,622	2,749	2,898	2,983

Financials Snap Shot

INCOME STATEMENT (Standalone)

(Rs in Crore)

	FY14	FY15	FY16	FY17E
Interest / discount on advances / bills	31,687	37,181	44,828	54,070
Income on Investments	9,037	10,706	14,120	16,035
Intt. on bal.with RBI & other inter-bank Funds	356	517	362	237
Others	56	66	912	947
Total Interest Income	41,136	48,470	60,221	71,289
Total Interest expended	22,653	26,074	32,630	38,042
Net Interest Income	18,483	22,396	27,592	33,246
Other Income	7,920	8,996	10,752	12,777
Total Income	26,402	31,392	38,343	46,023
Total Operating Expenses	12,042	13,988	16,980	20,729
Pre Provisioning Profit	14,360	17,404	21,364	25,294
Provisions (other than tax) and Contingencies	1,588	2,076	2,726	3,353
Profit Before Tax	12,772	15,329	18,638	21,941
Tax	4,294	5,113	6,342	7,592
Net Profit attributable to the group	8,478	10,216	12,296	14,350

Source: Eastwind/Company

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 Reserve Bank of India	25346	27510	30058	36221
Balances with Banks and Money at Call & Short No	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

Source: Eastwind/Company

RATIOS

Business Ratios	FY14	FY15	FY16	FY17E
Credit-Deposit(%)	82.5	81.1	85.0	85.0
CASA %	45.0	44.0	43.0	42.0
Efficiency Ratios				
Employ. Cost as a % of Total exp. (%)	34.7	34.0	33.6	33.0
Other Exp./Total exp. (%)	65.3	66.0	66.4	67.0
Cost Income Ratio (%)	45.6	44.6	44.3	45.0
Spread Analysis As Calculated				
Yield on Advances (%)	12.2	11.8	11.5	11.2
Yield on Investments (%)	8.6	8.7	8.9	8.7
Yield on Earning Assets (%)	10.4	10.4	10.3	10.0
Cost of Deposits (%)	5.7	5.7	5.9	5.4
Cost of Funnd (%)	6.0	5.8	5.9	5.7
Interest Spread (%)	4.5	4.6	4.4	4.4
NIM (%)	4.4	4.4	4.3	4.3
Profitability Ratio				
RoE %	21.3	19.4	18.3	18.9
RoA %	1.9	1.9	1.9	1.9
Interest Expended / Interest 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	
NNPA (%)	0.30	0.25	0.28	
PCR (%)	73	74	70	
Os. 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	

Source: Eastwind/Company