

HDFC BANK

Result Update

CMP	1393
Target Price	1460
Previous Target Price	1400
Upside	5%
Change from Previous	4%

Market Data

BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	1450/928
Mkt Capital (Rs Cr)	356836
Av. Volume (,000)	641
Nifty	8897

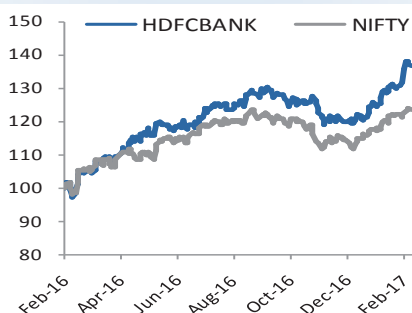
Stock Performance

	1Month	3 Month	1Year
Absolute	8.5	43.7	16.4
Rel.to Nifty	5.4	18.6	7.6

Share Holding Pattern-%

	3QFY17	2QFY17	1QFY17
Promoters	26.1	26.4	26.3
Public	73.9	73.6	73.7
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0

Company Vs NIFTY



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Recent Development and Result Update.

Recently RBI's decision on withdrawal of FPI exposure limit on HDFCBANK has led significant rally in the stock; however heavy buying by FPI, forced RBI to restore the cap as exposure crossed the prescribed limit of 74%. Following this Sebi and RBI are looking at tightening trigger points for foreign portfolio investment limit breach for entire banking sector. However we see this as a one-off event. The fundamentals of HDFCBANK remains intact and has performed significantly better than its peers in the industry.

HDFCBANK reported a stable performance. PAT grew by 15% YoY backed by similar growth in its operating profit. Operating profit growth was supported by stringent control over cost to income ratio and healthy NII growth. C/I ratio was flat YoY to 42%. Total operating expenses grew by 15% YoY. Other income grew by 9% YoY. Provisions for loans grew by 9.5% YoY and it declined by 4.4% QoQ. Net Interest Margin declined by 20 bps YoY to 4.1%. NII grew by 18% YoY, mainly due to moderation in advances growth reflecting the impact of repayment of loans linked to FCNR deposits. Total net advances grew by 13% YoY. Deposit of the bank grew by healthy rate of 21% despite of redemption of FCNR Deposits. CASA ratio spiked to 45% mainly due demonetization event. Sequentially assets quality was stable with GNPA at 1.05% against 1.02%. NNPA was at 0.32% against 0.30% a quarter back.

Domestic Advances growth was backed by Retail Growth.

Advances growth in this quarter moderated to 13% YoY mainly due to repayment in overseas loan linked to FCNR Deposits. The domestic loan portfolio of bank grew by 17.5% YoY while it saw contraction of 41% YoY in overseas loan. Now the domestic loan book constitutes 96% of the advances. Healthy retail loan growth continued in personal loan, credit card, home and LAS which YoY grew by 32%, 20%, 25% and 36% respectively. On the vehicle segment auto, commercial vehicle and two-wheeler grew by 16% each YoY. On sequential basis some of the loan product got impacted due to demonetization. Business banking book contracted by 3% QoQ largely due to huge repayment in demonetization period.

CASA Deposits Spiked

Overall deposits registered a healthy growth of 21% YoY mainly due to demonetization drive. However this strong growth was despite of FCNR redemption of nearly Rs 20000 Cr (US \$3 Bn). CASA deposit grew by 37% YoY backed by 38% and 37% growth in both SA and CA respectively. CASA ratio spiked to 45% against 40% a quarter back. However we expect the most of the CASA deposits to outflow from the bank after the increase in withdrawal limit by RBI and hence expect the CASA at 42% level to sustain.

Stable Assets Quality

Assets quality was broadly stable on sequential basis with GNPA at 1.05% against 1.02% and NNPA at 0.32% against 0.30%. Provision coverage ratio was 70% against 71% 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. We expect the credit cost of 65 bps going forward.

NIM Impacted by Demonetization

NIM declined by 20 bps YoY and 10 bps QoQ to 4.10% reflecting the impact of demonetization. NIM got impacted mostly due to lower loan growth as well as negative carry of interest for fortnight on excess liquidity imposed by RBI. Going forward CASA will have major impact on NIM. However management believes the NIM to range between 4%-4.3%.

Fee Income Moderated

Other income growth moderated to 9% YoY. Fee income registered the 10% growth YoY. The fee income was mainly impacted by the waive-off of card fee during the demonetization period. Management highlighted that the third party distribution fee growth was also muted largely impacted by muted insurance income. However management hopes to recover the same in further quarter. FX & Derivatives income grew by 7% YoY. Treasury gain grew by 22% YoY.

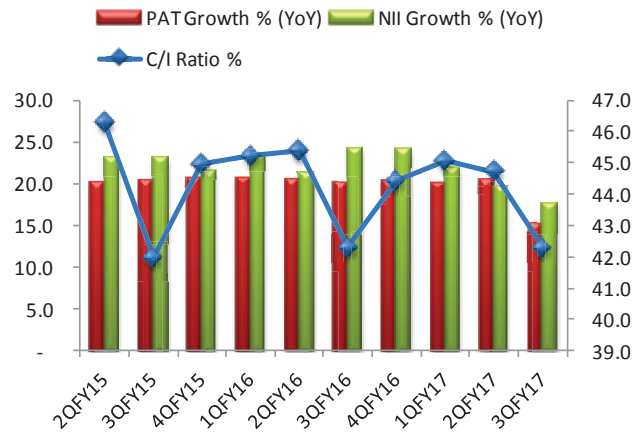
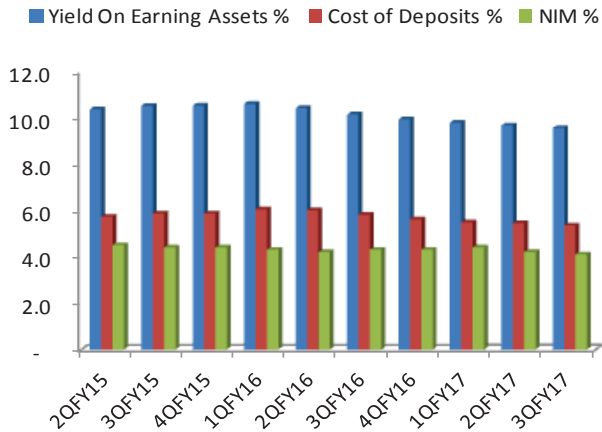
Quarterly Performance

(Rs in Crore)

Financials	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%
Interest Inc.	12396	13006	14041	14773	15411	15997	16516	17070	17606	14%	3%
Interest Exp.	6696	6993	7652	8092	8343	8543	8735	9076	9297	11%	2%
NII	5700	6013	6389	6681	7069	7453	7781	7994	8309	18%	4%
Other Income	2535	2564	2462	2552	2872	2866	2807	2901	3143	9%	8%
Total Income	8235	8577	8851	9233	9941	10319	10588	10895	11452	15%	5%
Ope Exp.	3456	3855	4001	4190	4205	4584	4769	4870	4843	15%	-1%
PPP	4779	4722	4850	5043	5736	5735	5819	6025	6609	15%	10%
Provisions	560	577	728	681	654	662	867	749	716	9%	-4%
PBT	4218	4145	4122	4362	5082	5072	4952	5276	5893	16%	12%
Tax	1424	1338	1426	1492	1725	1698	1714	1820	2028	18%	11%
Net Profit	2795	2807	2696	2869	3357	3374	3239	3455	3865	15%	12%

Profitability Metrix	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(bps)	QoQ(bps)
Yield On Earning Assets %	10.5	10.5	10.6	10.4	10.1	9.9	9.8	9.7	9.6	-0.58	-0.11
Cost of Deposits %	5.9	5.9	6.0	6.0	5.8	5.6	5.5	5.4	5.3	-0.46	-0.10
NIM %	4.4	4.4	4.3	4.2	4.3	4.3	4.4	4.2	4.1	-0.20	-0.10
Other Income as a % of	30.8	29.9	27.8	27.6	28.9	27.8	26.5	26.6	27.4	-1.45	0.82
C/I Ratio %	42.0	44.9	45.2	45.4	42.3	44.4	45.0	44.7	42.3	-0.01	-2.42
Provision/PPP %	11.7	12.2	15.0	13.5	11.4	11.6	14.9	12.4	10.8	-0.57	-1.60
Tax %	33.8	32.3	34.6	34.2	33.9	33.5	34.6	34.5	34.4	0.47	-0.09
PAT/Total Net Income %	33.9	32.7	30.5	31.1	33.8	32.7	30.6	31.7	33.8	-0.02	2.04
NII Growth % (YoY)	23.0	21.4	23.5	21.2	24.0	24.0	21.8	19.6	17.6	-6.46	-2.10
Opex Growth % (YoY)	19.4	21.4	25.9	19.8	21.7	18.9	19.2	16.2	15.2	-6.49	-1.07
PPP Growth % (YoY)	22.9	24.9	26.2	24.2	20.0	21.5	20.0	19.5	15.2	-4.81	-4.24
PAT Growth % (YoY)	20.2	20.6	20.7	20.5	20.1	20.2	20.2	20.4	15.1	-4.97	-5.27

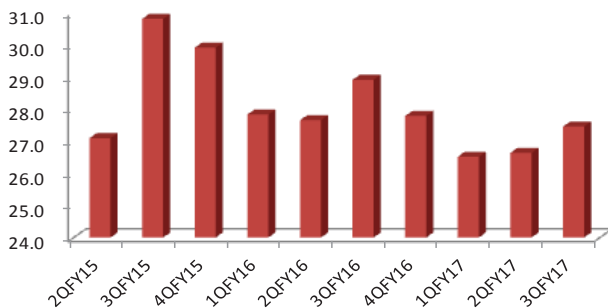
HDFCBANK



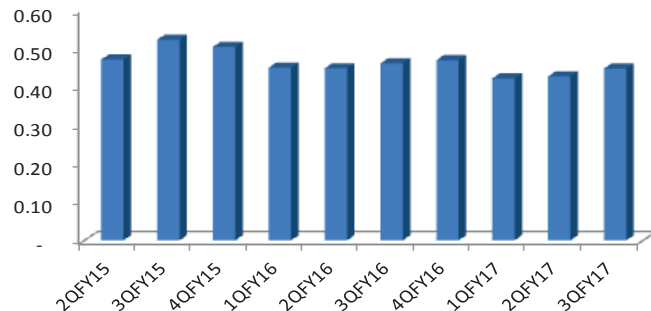
Other income Break Up

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	(Rs in Crore)	
Fees & Commissions	1807	1835	1713	1869	2005	2172	1978	2104	2207	YoY%	QoQ%
FX & Derivatives	253	329	348	320	277	283	315	295	297	7%	1%
Profit / (loss) on Invest.	266	196	126	162	328	116	277	284	399	22%	41%
Miscellaneous Income	210	204	275	201	262	295	237	219	240	-8%	10%
Total Other Income	2535	2564	2462	2552	2872	2866	2807	2901	3143	9%	8%

Other Income/Total Net Income %



Fee Income/ Advances %



Outlook & 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. While 3Q FY17 saw some uneven activities, we expect the operations of banking to come to its normal situation. Despite intense competition, we expect margins of HDFCBANK to sustain in the range of 4%-4.3% backed by normal CASA level of 40% and healthy growth in retail assets. Earning momentum will be maintained with core revenue of 19% plus growth going forward backed by healthy domestic loan growth with higher yield products. We expect RoE of 19% going forward. Recent rally in the stock has led to achieve our previous target price of Rs 1400. However despite this rally we don't think to exit the stock at current levels given its strong fundamentals and recommend must have in the portfolio. Also HDFCBANK has performed much better than its peers in the industry. **We maintain HOLD in this stock with the target price of Rs 1460.**

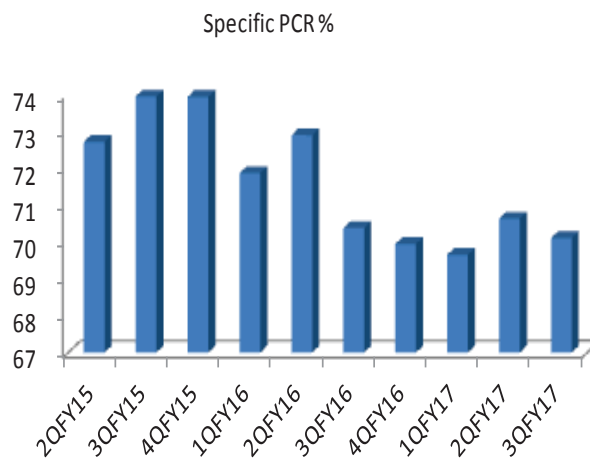
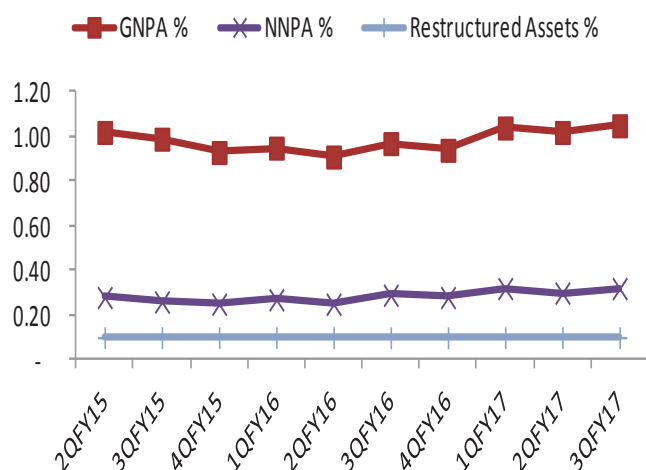
Concall Highlights:

- >> Around Rs 13000 Cr (US \$2 Bn) of overseas loan got repayment linked to FCNR Deposits.
- >> Around Rs 20000 Cr (US \$3 Bn) FCNR Deposits got redemption during the quarter.
- >> Domestic loan book is now at 96% of the portfolio. While it grew by 17% YoY.
- >> Due to demonetization bank witnessed higher repayment and prepayment in Overdraft and cash credit facility which affected the loan growth. There was slightly muted disbursement on retail lending.
- >> Decline in NIM was due to various factor including the impact of negative carry of interest on excess liquidity imposed by RBI during the quarter to some extent. However management expect the NIM in the range of 4-4.3% going forward.
- >> Other expenses was lower as commission to dealer got impacted due to muted retail loan disbursement. There was also reduction in staff number.
- >> Fee income was impacted due to waive off of fee on card business. Also third party fee was muted mainly due to lower insurance business fee.

Assets Quality Performance

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY Ch.	QoQ Ch.
GNPA (Rs)	3468	3438	3652	3828	4255	4393	4921	5069	5232	23%	3%
GNPA %	0.99	0.93	0.95	0.91	0.97	0.94	1.04	1.02	1.05	0.08	0.03
NNPA (Rs)	904	896	1028	1038	1261	1320	1493	1489	1564	24%	5%
NNPA %	0.26	0.25	0.27	0.25	0.29	0.28	0.32	0.30	0.32	0.03	0.02
Slippages (Rs)	1164	1720	1390	1300	1551	1700	1761	1440	1948*	26%	35%
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 %	74	74	72	73	70	70	70	71	70	-0.27	-0.53

*3Q FY17 Slippage is Basel disclosure number and hence may not be comparable.

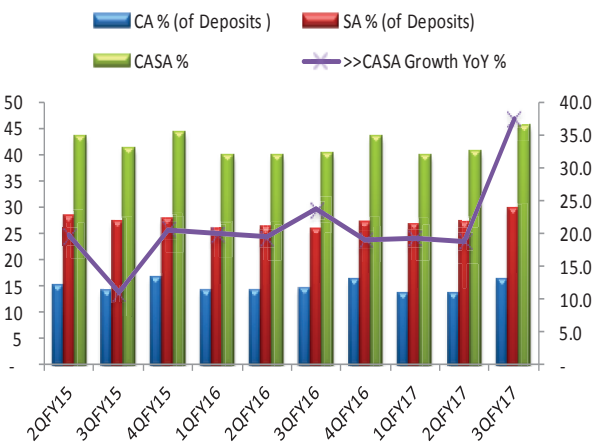
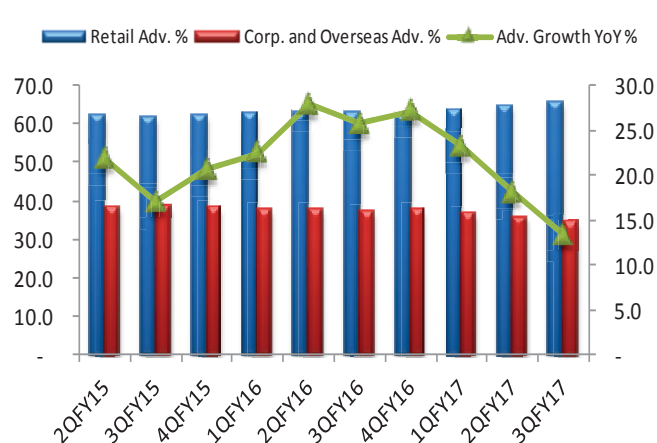


Advances	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Net Advances (Rs in Cr)	347088	365495	382010	418541	436364	464594	470622	494418	495043
Advances Growth YoY %	16.97	20.63	22.40	27.89	25.72	27.11	23.20	18.13	13.45
>> Growth QoQ %	6.05	5.30	4.52	9.56	4.26	6.47	1.30	5.06	0.13

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

Advances Break Up %	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Auto	13.14	12.79	13.11	12.81	12.91	12.33	12.66	13.03	13.24
Personal Loans	7.20	7.12	7.61	7.75	8.13	8.12	8.72	9.11	9.46
Home Loans	5.76	6.60	7.04	6.81	6.52	6.86	7.14	6.79	7.16
Business Banking	14.05	13.65	13.34	13.74	13.66	13.15	12.84	13.31	12.84
Kisan Gold Card	3.95	4.45	4.42	4.67	4.61	4.94	4.76	5.03	4.83
Credit Cards	4.43	4.42	4.41	4.30	4.51	4.42	4.52	4.32	4.78
CV/CE	7.19	6.83	6.93	6.92	6.82	6.66	6.68	6.79	6.97
Others	2.78	3.02	2.81	2.88	3.06	3.15	3.22	3.29	3.27
Two Wheelers	1.37	1.38	1.38	1.38	1.40	1.37	1.41	1.44	1.44
Gold Loans	1.13	1.11	1.11	1.04	1.01	0.99	1.04	1.03	0.97
Loans against securities	0.35	0.37	0.35	0.36	0.38	0.41	0.40	0.42	0.45
Total Retail Advances	61.33	61.75	62.53	62.66	63.00	62.38	63.39	64.55	65.41
Corp. and Overseas Adva.	38.67	38.25	37.47	37.34	37.00	37.62	36.61	35.45	34.59

Deposits	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Deposits (Rs in Cr)	414128	450796	484175	506909	523997	546424	573755	591731	634705
>> Growth YoY %	18.59	22.72	30.13	29.75	26.53	21.21	18.50	16.73	21.13
>> Growth QoQ %	6.00	8.85	7.40	4.70	3.37	4.28	5.00	3.13	7.26
CA %	13.79	16.32	13.82	13.77	14.13	16.18	13.26	13.38	15.95
SA %	27.11	27.71	25.81	25.95	25.85	27.06	26.61	27.03	29.40
CASA %	40.90	44.03	39.63	39.72	39.98	43.25	39.87	40.41	45.36
>>CASA Growth YoY %	11.00	20.58	19.92	19.41	23.67	19.05	19.24	18.76	37.43
>> Growth QoQ %	0.46	17.18	-3.34	4.94	4.04	12.81	-3.19	4.51	20.40
Credit Deposit Ratio%	83.81	81.08	78.90	82.57	83.28	85.02	82.03	83.55	78.00



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	(Rs in Crore)					FY13	FY14	FY15	FY16
	FY13	FY14	FY15	FY16	Business Ratios	FY13	FY14	FY15	FY16
Int./disc. on advances / bills	26,822	31,687	37,181	44,828	Credit-Deposit(%)	80.9	82.5	81.1	85.0
Income on Investments	7,820	9,037	10,706	14,120	CASA %	47.0	45.0	44.0	43.0
Int. on bal.with RBI	282	356	517	362	Efficiency Ratios				
Others	141	56	66	912	Emp. Cost as a % of Total Inco. (%)	17.5	15.8	15.1	14.9
Total Interest Income	35,065	41,136	48,470	60,221	Other Exp./Total Inco. (%)	32.1	29.8	29.4	29.4
Total Interest expended	19,254	22,653	26,074	32,630	Cost Income Ratio (%)	49.6	45.6	44.6	44.3
Net Interest Income	15,811	18,483	22,396	27,592	Spread Analysis As Calculated				
Other Income	6,853	7,920	8,996	10,752	Yield on Advances (%)	12.3	12.2	11.8	11.5
Total Income	22,664	26,402	31,392	38,343	Yield on Investments (%)	8.5	8.6	8.7	8.9
Total Operating Expenses	11,236	12,042	13,988	16,980	Yield on Earning Assets (%)	10.5	10.4	10.4	10.3
Pre Provisioning Profit	11,428	14,360	17,404	21,364	Cost of Deposits (%)	6.0	5.7	5.7	5.9
Provisions and Contingencies	1,677	1,588	2,076	2,726	Cost of Fund (%)	6.4	6.0	5.8	5.9
Profit Before Tax	9,751	12,772	15,329	18,638	Interest Spread (%)	4.1	4.5	4.6	4.4
Tax	3,024	4,294	5,113	6,342	NIM (%)	4.6	4.4	4.4	4.3
PAT	6,726	8,478	10,216	12,296	Profitability Ratio				
					RoE %	20.3	21.3	19.4	18.3
					RoA %	1.8	1.9	1.9	1.9
					Int. Expended / Int. Earned (%)	54.9	55.1	53.8	54.2
					Provisions/PPP (%)	14.7	11.1	11.9	12.8
					Other Income/Net Income (%)	30.2	30.0	28.7	28.0
					Tax Rate (%)	31.0	33.6	33.4	34.0
BALANCE SHEET					Asset Quality Ratio				
	(Rs in Crore)				GNPA (%)	1.01	0.98	0.93	0.94
	FY13	FY14	FY15	FY16	GNPA(Rs)	3018	2989	3438	4393
Capital	476	480	501	506	NNPA (%)	0.30	0.30	0.25	0.28
Reserves & Surplus	35738	42999	61508	72172	NNPA (Rs)	797	820	896	1320
Deposits	296247	367337	450796	546424	PCR (%)	74	73	74	70.0
Borrowings	33007	39439	45214	53018	Os. Std. Restr. Assets (%)	0.20	0.20	0.10	0.10
Other Liabilities & Provisions	34864	41344	32484	36725					
Total Capital & Liabilities	400332	491600	590503	708846	Capital Adequacy Ratio				
					Capital Adequacy Ratio (%)	16.8	16.1	16.8	15.5
Cash & Balances with RBI	14627	25346	27510	30058	Tier I Capital (%)	11.1	11.8	13.7	13.2
Bal. with Bank&Money at Call	12653	14238	8821	8861	Tier II Capital (%)	5.7	4.3	3.1	2.3
Investments	111614	120951	166460	163886					
Advances	239721	303000	365495	464594					
Fixed Assets	2703	2940	3122	3343					
Other Assets	19014	25125	19095	38104					
Total Assets	400332	491600	590503	708846					