

HDFC Bank Limited

Industry	Financial
Bloomberg	HDFCB IN
BSE CODE	500180

Provisions continue to Remain High Owing to Stress

RATING	BUY
CMP	2376
Price Target	2799
Potential Upside	18%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	2502/1884
Mkt Capital (Rs Cr)	649,302
Free float (%)	74
Avg. Vol 1M (,000)	2,591
No. of Shares (Cr)	272
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	48243	57230	68921
PPP	39750	47850	56740
PAT	21078	24946	31202
NIM %	4.6	4.4	4.4
EPS (Rs)	77	91	112
EPS growth	15	17	24
ROE (%)	2	2	2
ROA (%)	16.5	15.7	17.2
BV	548	614	698
P/B (X)	4.3	3.9	3.4
P/E (x)	31	26	21

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1QFY20 Result Update

- NII grew by 22.9% YoY driven by NIM which stood at 4.30% v/s 4.40% in Q4FY19 and loan book growth of 17%. Provisions remain elevated and grew by 60%/38% YoY/QoQ. PAT grew by 21% YoY driven by higher other income growth of 30% YoY and lower cost to income ratio of 39.4%.
- Advance growth moderated during the quarter growing by 17.1%/1% on YoY/QoQ basis with retail advance growing at 17%/3% on YoY/QoQ basis and corporate book growing by 18%/-0.38% on YoY/QoQ. Vehicle portfolio grew by 8%/1.5% YoY/QoQ. Deposits grew by 18%/4% on YoY/QoQ Basis with term deposits growing by 22%/8% on YoY/QoQ and CASA growing 13%/-3% on YoY/QoQ Basis.
- GNPA ratio increased by 4bps QoQ to 1.40% while the NNPA stood at 0.43% increasing by 4 bps QoQ. The Slippages during the quarter were Rs 4225 Cr due to higher slippages from agriculture portfolio.

Slowdown in retail loan growth

Advance growth moderated during the quarter growing by 17.1%/1% on YoY/QoQ basis with retail advance growing at 17%/3% on YoY/QoQ basis. As per regulatory classification total vehicle loan book grew by just 8% YoY with auto loans growing at meagre 5%/2% on YoY/QoQ. Business banking/ segment grew by 11%/1% on YoY/QoQ, Kisan Gold card segment growing 11%/-5% on YoY/QoQ basis. Corporate book growing by 18%/-0.38% on YoY/QoQ basis.

Slippages continue to Remain High

The Slippages during the quarter stood at Rs 4225 Cr. The recoveries were 1002 Cr and write off were Rs 2115 Cr. The Asset quality was affected on account of higher stress on agriculture book. GNPA/NNPA both increased by 4 bps to 1.40% and 0.43% respectively. The gross NPA excluding agri was 1.17%. Specific provisions remained elevated due to higher agri slippages. Management also increased provisions rate for certain bucket of unsecured loan owing to slowdown in consumptions and external environment. Management has taken conservative approach with one time impact and will continue at the same rate going ahead. Management stated that there is no problem in the portfolio, it is just conservative approach with the outlook on the environment. There was contingent provisions of Rs 165 Cr as well as management provided Rs 85 Cr of standard provisions on NBFC/HFC portfolio.

Health NII growth/ Stable NIM

NII during the quarter grew strong at 22.9% YoY with NIM at 4.3% marginally down by 10 bps QoQ. Due to slow down in retail assets and increase in higher rated wholesale portfolio, NIM will be impacted but on the other hand increase in unsecured high yield assets and strong liability franchise will offset the margin pressure. Fee income during the quarter grew by 12%/2% on YoY/QoQ basis with rationalizing of growth rate in debit and credit card spend and changes in mutual fund regulation. The cost to income ratio during the quarter stood at 39% with employee expense growing by 22.5% YoY and other expense growing by 17.4% leading to total operating expense growing by 19%.

View and Valuation

Loan growth of HDFC BANK has got impacted with the slowdown in consumption story of Indian market. Sluggish auto industry and pressure in MSME and agriculture sector is likely to impact the growth going ahead. Further management has turned conservative for unsecured loan and has stepped up the provisioning norm. Coupled with high provisions on agri portfolio is likely to keep provisioning rate at elevated level. Owing to slowdown in retail growth and higher stress in certain segment, we increase our credit cost estimate and cut down PAT estimate for FY20 by 3%. We maintain BUY with the target price of Rs 2799 at 4X BV FY21e

Key risk to our rating and target

- Prolong stress in rural and unsecured segment
- Continued slowdown in consumption story

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1QFY20 Results In-line with expectation

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	22,549	24,200	25,890	26,333	27,392	21.5%	4.0%	80,241	98,972	23.3%
Interest Exp.	11,735	12,436	13,314	13,244	14,097	20.1%	6.4%	40,146	50,729	26.4%
Nil	10,814	11,763	12,577	13,089	13,294	22.9%	1.6%	40,095	48,243	20.3%
Other Income	3,818	4,016	4,921	4,871	4,970	30.2%	2.0%	15,220	17,626	15.8%
Total Income	14,632	15,779	17,498	17,961	18,265	24.8%	1.7%	55,315	65,869	19.1%
Opex Exp.	5,984	6,299	6,719	7,117	7,117	18.9%	0.0%	22,690	26,119	15.1%
PPP	8,648	9,480	10,778	10,844	11,147	28.9%	2.8%	32,625	39,750	21.8%
Provisions	1,629	1,820	2,212	1,889	2,614	60.4%	38.3%	5,927	7,550	27.4%
PBT	7,018	7,660	8,567	8,954	8,534	21.6%	-4.7%	26,697	32,200	20.6%
Tax	2,417	2,654	2,981	3,069	2,965	23%	-3.4%	9,211	11,122	20.7%
Net Profit	4,601	5,006	5,586	5,885	5,568	21.0%	-5.4%	17,487	21,078	21%

Concall Highlights

- Management stated that the stress in agriculture portfolio continue to persist. In the June and December quarter, agri slippages will be high. Provisions were high during the quarter a) due to higher stress in agriculture portfolio, b) increased rate of provisioning on unsecured book, c) growth in balance sheet size, d) additional contingent provisions for pool of accounts in certain sectors.
- Bank provided Rs 86 Cr of standard provisions for NBFC/HFC sector. There was also contingent provisions of Rs 165 Cr during the quarter.
- For unsecured book the bank has step up the rate of provisioning after the delinquencies. Earlier the full provisioning which was provided after 180 days, it has changed to 150 days.
- Management increased provisions rate for certain bucket of unsecured loan owing to slowdown in consumptions and external environment. Management has taken conservative approach with one time impact and will continue at the same rate going ahead. Management stated that there is no problem in the portfolio, it is just conservative approach with the outlook on the environment.
- On unsecured lending management stated that the study conducted across Indian market shows that the customer leverage is increasing, customer frequent borrowing is increasing and ticket size is also increasing.
- Excluding agri and one time impact on unsecured book, the credit cost remain in the same range of last 4-5 quarters.
- The Slippage during the quarter were Rs 4225 Cr at 2.03%. Excluding agriculture, slippages were at 1.4%. The recoveries were 1002 Cr and write off were Rs 2115 Cr.
- Fee and commission income was continued to be impacted by change in fee regulation of mutual fund. Excluding mutual fund income, fee grew by 15% YoY
- For the PSL requirement there was heavy buying of PSLC certificates which impacted the operating expenses. Excluding PSLC, opex grew by 16% YoY.
- Management don't expect change in business mix over 3-5 year horizon and intends to improve C/I ratio by 300 bps over the same period. The drivers would be digitization of process & front end task, improving productivity and digital marketing etc.
- Management still remain cautious on NBFC lending but bank continues to extend credit to NBFC.
- Ex vehicle portfolio, growth in other segment remain stable. Wholesale book growth impacted due to run off of short term loan given to Government, Mutual fund etc. Excluding this the quarter was normal.
- HDB Financial NPL increased mainly from CE/CV portfolio due to assets pricing come down sharply which increased losses on repossessed assets.
- There was MTM gain of Rs 81 Cr.
- Management said that Slowdown in CASA growth was primarily on account of mobilization of customers into term deposit.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.4	40.6	40.9	39.9	38.4	39.6	39.0	-1.93	-0.66
Empl. Cost/ Tot. Exp. %	29.5	28.8	30.3	30.3	29.3	29.1	31.2	0.90	2.01
Other Exp/Tot. Exp.%	70.5	71.2	69.7	69.7	70.7	70.9	68.8	-0.90	-2.01
Provision/PPP %	16.0	17.4	18.8	19.2	20.5	17.4	23.4	4.61	6.02
Provision/Avg.	0.9	1.0	1.0	1.0	1.2	0.9	1.3	0.31	0.32
Tax Rate %	34.6	34.2	34.4	34.7	34.8	34.3	34.8	0.31	0.47
Int Exp./Int Inc. (%)	49.9	50.0	52.0	51.4	51.4	50.3	51.5	-0.58	1.17
Other Inc./Net Inc. %	27.3	28.4	26.1	25.4	28.1	27.1	27.2	1.12	0.09
PAT/ Net Income %	32.7	32.2	31.4	31.7	31.9	32.8	30.5	-0.96	-2.28
PAT Growth %	20.1	20.3	18.2	20.6	20.3	22.6	21.0	2.84	-1.62
NII Growth %	24.1	17.7	15.4	20.6	21.9	22.8	22.9	7.54	0.12
Op. Profit	27.9	21.4	15.0	21.3	27.5	22.7	28.9	13.91	6.18
RoE %	18.9	18.5	17.2	16.4	15.9	16.1	14.6	-2.59	-1.50
RoA %	2.0	1.9	1.7	1.8	1.9	2.0	1.8	0.07	-0.16

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	9.7	9.6	9.7	9.8	10.1	9.7	9.6	11.21	1.42
Cost of Funds	5.1	5.0	5.2	5.2	5.5	5.2	5.4	6.58	1.34
NIM	4.3	4.3	4.2	4.3	4.3	4.4	4.3	3.90	-0.40

Exhibit: Yield and Cost

stable yield and cost of fund increased

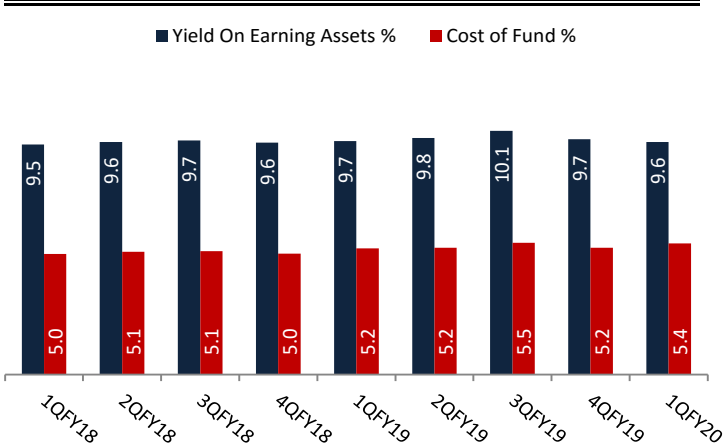
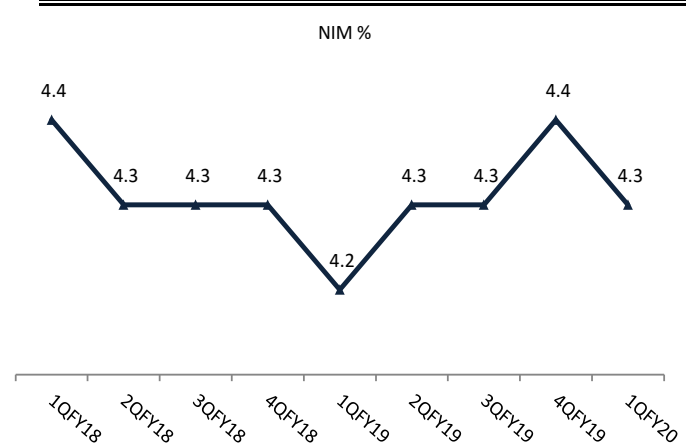


Exhibit: Net Interest Margin

NIM remains stable.



Other Income Break Up- Healthy growth in FX&Derivatives (YoY)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Fees & Commissions	2578	2614	2872	3330	3171	3296	3647	3692	3552
FX & Derivatives	297	384	426	416	500	420	398	403	577
Total Fee-Based In.	2875	2998	3298	3746	3671	3715	4045	4095	4128
Growth YoY %	25	25	32	30	28	24	23	9	12
Profit / (loss) on Investments	331	356	259	-22	-283	-33	474	229	212
Miscellaneous Income	310	252	311	504	431	333	403	547	630
Total Other Income	3517	3606	3869	4229	3818	4016	4921	4871	4970
Growth YoY %	25	24	23	23	9	11	27	15	30

Exhibit: Fee Income/Advances %

Fee income/Other income as a % of total advances increased

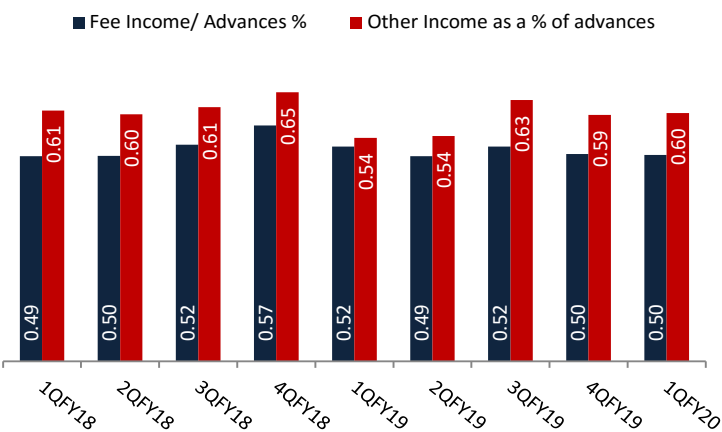
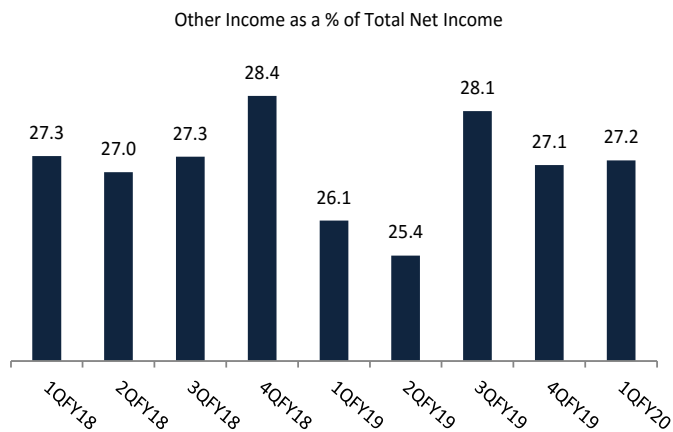


Exhibit: Other Income/ Total Income %

Stable growth in other income



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	8,235	8,607	9,539	10,098	10,903	11,224	11,769	23%	5%
GNPA %	1.3	1.3	1.3	1.3	1.4	1.4	1.4	0.07	0.04
NNPA (Rs in Cr)	2,774	2,601	2,907	3,028	3,302	3,215	3,567	23%	11%
NNPA %	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.02	0.04
Slippages (Rs in Cr)	4,588	2,790	3,548	3,284	3,999	3,577	4,225	19%	18%
Specific PCR %	66.3	69.8	69.5	70.0	69.7	71.4	69.7	0.17	-1.67

Exhibit: Asset Quality

Assets quality affected

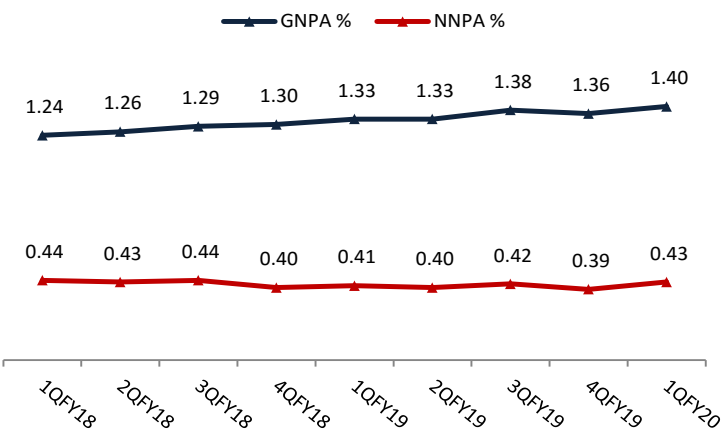


Exhibit: Provisions

PCR remained stable..

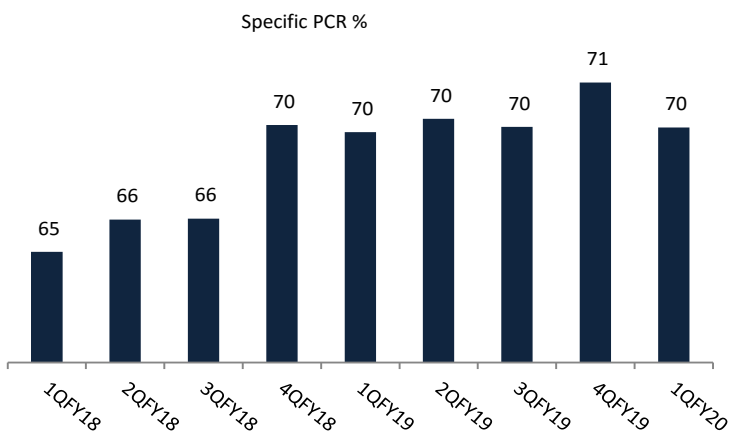


Exhibit: Advances Performance

Advances growth remained moderated

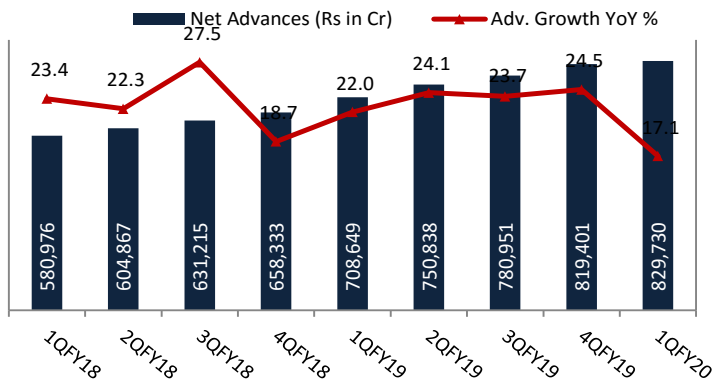


Exhibit: Advances Breakup%

Strong contribution from personal loan segment

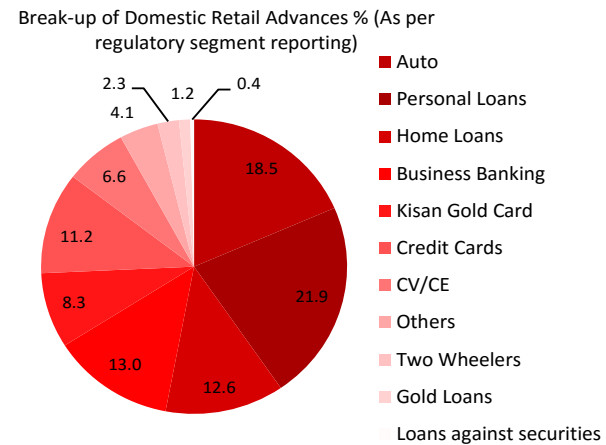


Exhibit: Deposits Performance

Low deposit growth

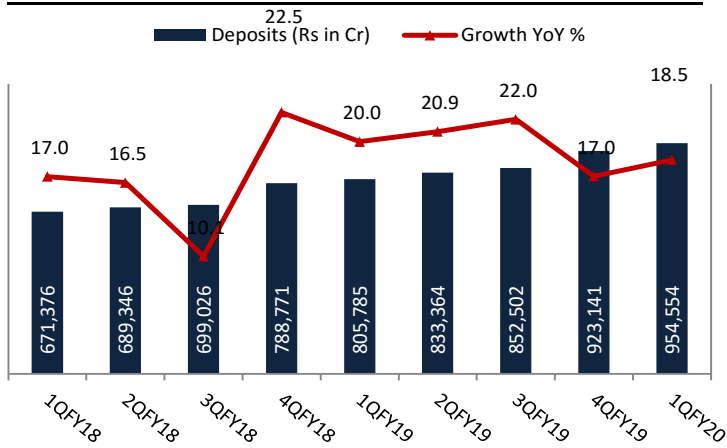


Exhibit: CASA Performance

CASA growth reduced

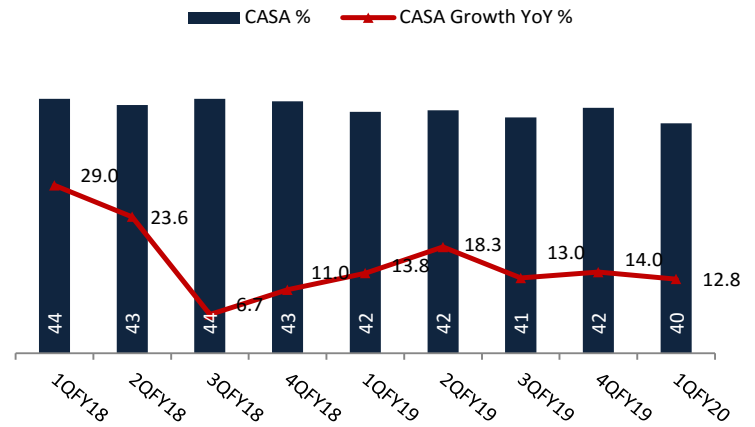


Exhibit: Credit Deposit Ratio

CD ratio falls

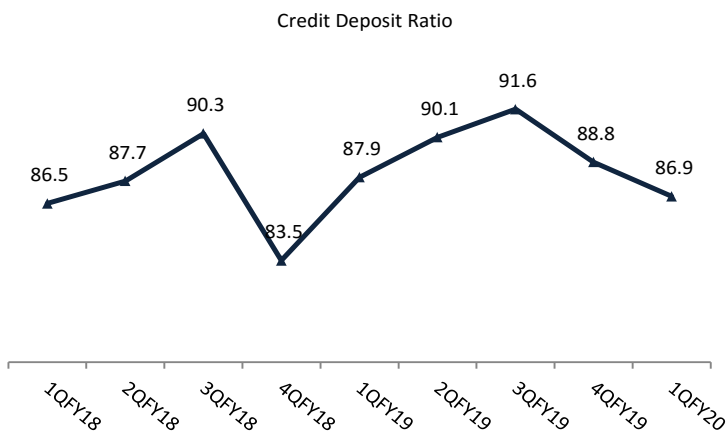
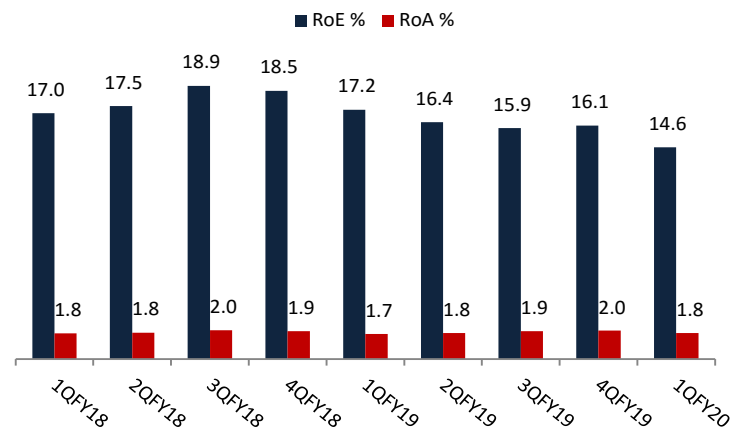


Exhibit: Return Ratios

Return ratio profile reduced.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	480	501	506	513	519	545	551	558
>> Equity Capital	480	501	506	513	519	545	551	558
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	42999	61508	72172	88950	105776	148662	168706	193955
Networth	43479	62009	72678	89462	106295	149206	169257	194513
Deposits	367337	450796	546424	643640	788771	923141	1143350	1372020
Change (%)	24	23	21	18	23	17	24	20
>> CASA Deposits	164621	198492	236311	309153	343093	391198	457340	548808
Change (%)	17	21	19	31	11	14	17	20
Borrowings	39439	45214	84969	74029	123105	117085	128170	153803
Other Liabilities & Prov.	41344	32484	36725	56709	45764	55108	58801	61908
Total Liabilities	491600	590503	740796	863840	1063934	1244541	1499578	1782245
Cash & Bank	39584	36331	38919	48952	122915	81348	96418	103034
Investments	120951	151642	195836	214463	242200	290588	365872	439046
Change (%)	8	25	29	10	13	20	26	20
Advances	303000	365495	464594	554568	658333	819401	983281	1179937
Change (%)	26	21	27	19	19	24	20	20
Fixed Assets	2940	3122	3343	3627	3607	4030	4130	4419
Other Assets	25125	33913	38104	42230	36879	49174	49877	55808
Total Assets	491600	590503	740796	863840	1063934	1244541	1499578	1782245

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	41,136	48,470	60,221	69,306	80,241	98,972	115,868	137,696
Interest expended	22,653	26,074	32,630	36,167	40,146	50,729	58,638	68,774
Net Interest Income	18,483	22,396	27,592	33,139	40,095	48,243	57,230	68,921
Change (%)	17	21	23	20	21	20	19	20
Other Income	7,920	8,996	10,752	12,296	15,220	17,626	20,878	24,238
Change (%)	16	14	20	14	24	16	18	16
>> Core Fee Income	7,136	7,612	8,987	10,075	12,917	15,526	17,902	21,970
>> Treasury Income	110	582	732	1,139	925	387	1,121	668
>> Others	673	802	1,033	1,082	1,378	1,713	1,855	1,600
Total Net Income	26,402	31,392	38,343	45,436	55,315	65,869	78,107	93,159
Operating Expenses	12,042	13,988	16,980	19,703	22,690	26,119	30,257	36,420
Change (%)	7	16	21	16	15	15	16	20
>> Employee Expenses	4,179	4,751	5,702	6,484	6,806	7,762	9,399	11,179
Pre-provisioning Profit	14,360	17,404	21,364	25,732	32,625	39,750	47,850	56,740
Change (%)	26	21	23	20	27	22	20	19
Provisions	1,588	2,076	2,726	3,593	5,927	7,550	9,701	9,023
Change (%)	-5	31	31	32	65	27	28	-7
PBT	12,772	15,329	18,638	22,139	26,697	32,200	38,149	31,202
Tax	4,294	5,113	6,342	7,589	9,211	11,122	13,203	16,514
Profit After Tax	8,478	10,216	12,296	14,550	17,487	21,078	24,946	31,202
Change (%)	26	20	20	18	20	21	18	25

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	26	21	27	19	19	24	20	20
Deposit Growth (%)	24	23	21	18	23	17	24	20
C/D Ratio (%)	82	81	85	86	83	89	86	86
CASA (%)	45	44	43	48	43	42	40	40
Investment/Deposit (%)	33	34	36	33	31	31	32	32
CRAR (%)	16.1	16.8	15.5	14.6	14.8	17.1	16.8	16.3
>> Tier 1 (%)	11.8	13.7	13.2	12.8	13.2	15.8	15.0	14.6
>> Tier 2 (%)	4.3	3.1	2.3	1.8	1.6	1.3	1.7	1.7

Assets Quality Metrics

Gross NPA (Rs)	2,989	3,438	4,393	5,886	8,607	11,224	14,191	16,984
Gross NPA (%)	1.0	0.9	0.9	1.1	1.3	1.4	1.4	1.4
Net NPA (Rs)	820	896	1,320	1,844	2,601	3,215	3,973	5,095
Net NPA (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Slippages (%)	1.5	1.4	1.3	1.3	2.0	1.8	1.6	1.4
Provision Coverage (%)	73	74	70	69	70	71	72	70
Provision/Average Advances (%)	0.6	0.6	0.7	0.7	1.0	1.0	1.1	0.8

Margin Metrics

Yield On Advances (%)	11.7	11.1	10.8	10.2	10.3	10.5	10.3	10.2
Yield On Investment (%)	7.8	7.9	8.1	7.8	7.1	7.5	6.6	6.4
Yield on Earning Assets (%)	9.9	9.7	9.7	9.2	9.2	9.3	9.0	8.9
Cost Of Deposits (%)	5.7	5.7	5.9	5.3	4.6	4.8	4.9	4.7
Cost Of Funds (%)	5.8	5.5	5.6	5.1	4.7	5.0	4.9	4.8
Spread (%)	4.1	4.2	4.1	4.1	4.4	4.3	4.1	4.1
NIM (%)	4.5	4.5	4.5	4.4	4.6	4.6	4.4	4.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	55.1	53.8	54.2	52.2	50.0	51.3	50.6	49.9
Fee Income/NII (%)	38.6	34.0	32.6	30.4	32.2	32.2	31.3	31.9
Cost to Income (%)	45.6	44.6	44.3	43.4	41.0	39.7	38.7	39.1
Cost on Average Assets (%)	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.2
Tax Rate (%)	33.6	33.4	34.0	34.3	34.5	34.5	34.6	52.9

Valuation Ratio Metrics

EPS (Rs)	35.3	40.8	48.6	56.8	67.4	77.4	90.5	111.9
Change (%)	25.0	15.3	19.3	16.7	18.7	15	17.0	23.6
ROAE (%)	21.3	19.4	18.3	17.9	17.9	16.5	15.7	17.2
ROAA (%)	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.9
Dividend Payout (%)	19.4	19.6	19.5	19.4	19.3	19.4	19.9	16.8
Dividend yield (%)	0.9	0.8	0.9	0.8	0.7	0.6	0.8	0.8
Book Value (Rs)	181.2	247.4	287.5	349.1	409.6	547.9	614.2	697.6
Change (%)	19	37	16	21	17	34	12	14
P/B (X)	4.1	4.1	3.7	4.1	4.6	4.3	3.9	3.4
P/E (X)	21.2	25.1	22.0	25.4	28.1	30.7	26.2	21.2

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.0	9.0	8.6	8.3	8.6	8.4	8.4
<i>Interest expended</i>	4.8	4.9	4.5	4.2	4.4	4.3	4.2
<i>Net Interest Income</i>	4.1	4.1	4.1	4.2	4.2	4.2	4.2
<i>Non-Fund Based Income</i>	1.7	1.6	1.5	1.6	1.5	1.5	1.5
>> <i>Core Fee Income</i>	1.4	1.4	1.3	1.3	1.3	1.3	1.3
>> <i>Trading and Other Income</i>	0.3	0.3	0.3	0.2	0.2	0.2	0.1
<i>Core Operating Income</i>	5.5	5.5	5.4	5.5	5.5	5.5	5.5
<i>Total Income</i>	5.8	5.8	5.7	5.7	5.7	5.7	5.7
<i>Total Operating Expenses</i>	2.6	2.6	2.5	2.4	2.3	2.2	2.2
>> <i>Employee Expenses</i>	0.9	0.9	0.8	0.7	0.7	0.7	0.7
>> <i>Other Expenses</i>	1.7	1.7	1.6	1.6	1.6	1.5	1.5
<i>Operating Profit</i>	3.2	3.2	3.2	3.4	3.4	3.5	3.5
<i>Provisions</i>	0.4	0.4	0.4	0.6	0.7	0.7	0.5
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	2.8	2.8	2.8	2.8	2.8	2.8	2.9
<i>Tax</i>	0.9	1.0	0.9	1.0	1.0	1.0	1.0
<i>PAT/RoAA</i>	1.9	1.8	1.8	1.8	1.8	1.8	1.9
<i>Equity Multiplier (x)</i>	10.3	9.9	9.9	9.8	9.0	8.6	9.0
<i>ROAE</i>	19.4	18.3	17.9	17.9	16.5	15.7	17.2

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