

HDFC Bank Limited

Industry	Financial
Bloomberg	HDFCB IN
BSE CODE	500180

Stable Performance but DTA Write off set lower tax Benefit

RATING	BUY
CMP	1229
Price Target	1466
Potential Upside	19%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1285/942
Mkt Capital (Rs Cr)	672,466
Free float (%)	74.00%
Avg. Vol 1M (,000)	8,629
No. of Shares (Cr)	547
Promoters Pledged %	

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	48243	55503	65035
PPP	39750	47229	55123
PAT	21078	26257	33116
NIM %	4.6	4.3	4.2
EPS (Rs)	39	48	59
EPS growth	15	23	25
ROE (%)	16	16	18
ROA (%)	1.8	1.9	2.0
BV	274	309	355
P/B (X)	4.1	4.0	3.5
P/E (x)	29	26	21

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2QFY20 Result Update

- NII during the quarter grew by 15% YoY driven by advance growth of 19.5%/5% on YoY/QoQ basis and stable net interest margin for the quarter of 4.2%. Provisions remain high growing by 48%/3% YoY/QoQ. PAT grew by 27% YoY driven by higher other income growth of 39% YoY and lower cost to income ratio of 39%. The PAT growth was impacted on account of deferred tax asset write off of approximately Rs 1200 Cr.
- Advance during the quarter grew by 19.5% YoY/8% QoQ with domestic advances growing by 21%. The domestic advance mix between retail and wholesale was 52:48. The deposits grew by 23% YoY/7% QoQ with term deposits growing by 28% YoY. The CASA Ratio stood at 39.3%.
- The GNPA during the quarter stood at 1.38% (1.2% excluding the agri segment GNPA) while the NNPA stood at 0.42%.

NII growth Moderated

The NII during the quarter grew by 15% YoY with NIM at 4.2%. The NII growth was affected primarily on account on bank strategy to maintain strong liquidity ratio to cater to the loan demand. Had the bank kept the LCR at around 115% the NII would have grown by 19% YoY and adjusted NIM would have been 4.3%. The cost to income ratio during the quarter stood at 39% with the other employee expenses growing by 23% YoY and other operating expense growing by 15% YoY. The other income during the quarter grew by 39% YoY.

Steady Advance/Deposit Growth

Advance during the quarter grew by 19.5%YoY/8% QoQ with domestic advances growing by 21%/8% On YoY/QoQ basis. During the quarter the Bank purchased loans aggregating Rs 7160 Cr through the direct assignment route under the home loan arrangement with Housing Development Finance Corporation Limited. The corporate advances grew by 24.9% YoY while retail advance growth remain moderated to 15% YoY. The retail advance growth was primarily on account of credit card segment which grew by 28% YoY and Home loan segment grew by 25% YoY. However, auto segment given current scenario grew by only 1%. The deposits grew by 23% YoY/7% QoQ with term deposits growing by 28% YoY. The CASA grew by 14%/6% On YoY/ QoQ basis.

Stable Asset quality

The asset quality during the quarter were stable with The GNPA at 1.38 % (1.2% excluding the Agri segment GNPA) while the NNPA at 0.42%. The core slippage during the quarter stood at Rs 3714 Cr while the reductions stood at Rs 2903 Cr with write off Rs 1589 Cr. Provisions for quarter stood Rs 2701 Cr with specific loan loss provisions of Rs 2,038 Cr and general provisions and other provisions of Rs 662 Cr. The Management said that delinquency in the personal loan book is fairly stable. The early indicators of the newer portfolio are trending better. In the secured loan book, the denominator effect had played large role in delinquency however early indicators are stable

View and Valuation

Loan growth during the quarter picked up sequentially mainly from wholesale segment. The growth in the retail loan book slowed down due to sluggish auto sales. However festive season is expected to boost the growth. Focus on branch expansion with increased employee base will strengthen the network to support the retail growth. The assets quality has remained largely stable with credit cost excluding Agri being at 0.91%. The bank is looking to increase its Liquidity coverage which might impact NIM to 10-15 bps going forward however it would be offset by corporate tax benefits. We largely maintain our estimates with previous target price of Rs 1466 at 4.1x BV FY21e and Recommend BUY.

Key risk to our rating and target

- Slowdown in economy impacting the advance growth
- Stress in the agri segment

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2QFY20 Results

PAT Misses Estimates on account of DTA write Off

										Fig in Rs cr
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	24,200	25,890	26,333	27,392	28,166	16.4%	2.8%	80,241	98,972	23.3%
Interest Exp.	12,436	13,314	13,244	14,097	14,651	17.8%	3.9%	40,146	50,729	26.4%
NII	11,763	12,577	13,089	13,294	13,515	14.9%	1.7%	40,095	48,243	20.3%
Other Income	4,016	4,921	4,871	4,970	5,589	39.2%	12.4%	15,220	17,626	15.8%
Total Income	15,779	17,498	17,961	18,265	19,104	21.1%	4.6%	55,315	65,869	19.1%
Opex	6,299	6,719	7,117	7,117	7,406	17.6%	4.1%	22,690	26,119	15.1%
PPP	9,480	10,778	10,844	11,147	11,698	23.4%	4.9%	32,625	39,750	21.8%
Provisions	1,820	2,212	1,889	2,614	2,701	48.4%	3.3%	5,927	7,550	27.4%
PBT	7,660	8,567	8,954	8,534	8,997	17.5%	5.4%	26,697	32,200	20.6%
Tax	2,654	2,981	3,069	2,965	2,652	0%	-10.6%	9,211	11,122	20.7%
Net Profit	5,006	5,586	5,885	5,568	6,345	26.8%	14.0%	17,487	21,078	21%

Concall Highlights

- The banks average liquidity coverage ratio for the quarter was 133% and bank is looking to maintain strong liquidity ratio in order to cater to loan demand in quarter to come which has affected NIM 10 to 15 bps points adjusted for the Same core NIM would be around 4.3%, had the bank kept LCR around 115% NII would have grew by 19% YoY.
- The bank in order to strengthen the balance sheet had made contingent and general provision Rs 667 Cr given the macro conditions.
- The bank has incorporated the impact of new tax rate. The impact of reduced tax rate was approximately Rs 1650 Cr. The deferred tax was reassessed at current tax rate amounting to Rs 1200 Cr was written down which resulted in net tax benefit of around 450 Cr.
- The credit cost for the quarter stood at 1.19% excluding agri it was 0.93%
- The reduction in RWA of certain retail loan had an beneficial impact on the capital adequacy ratio.
- The core slippage during the quarter stood at Rs 3714 Cr while the write off stood at Rs 1589 Cr.
- Commenting on exposure to Altico bank had exposure and specific security and bank was able to set off the security.
- On HDB financial adopting certain practice of NPA provisions the bank said that it will have daily recognition of NPA and related borrowing of the same borrower if one is delinquent and other is standard they had to be tagged along . The GNPA in HDB financial has increased due to commercial vechile segment
- On listing of HDB financial bank has not taken any decision till now however any decisions taken will be notified to the exchanges.
- The fee income growth was onn account of better yield in insurance business which is due to better product mix offsetting degrowth in mutual fund business.
- The delinquency in the personal loan book is fairly stable. The early indicators of the newer portfolio are trending better. In the secured loan book the denominator effect had played large role in delinquency however early indicators are fairly stable.
- Bank said on the business banking segment that it has healthy opportunities and has better ability to monitor the portfolio. The management does not see it spiking upward or going down. corporate side growth has not been dependent on large transactions and growth was across ticket size and various industries.
- The bank said that competition intensity is quite high but said that bank has advantage of larger distribution and well-oiled machinery aided by spends bank is doing on festive side.
- Bank has chosen Repo rate linkage and believes it will bring incremental MSME volumes.
- Bank said that tax rate was affected on account of the Deferred tax assets however going forward tax rate would be around 25.2% as it has been prescribed by the amendments

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.6	40.9	39.9	38.4	39.6	39.0	38.8	-1.15	-0.20
Empl. Cost/ Tot. Exp. %	28.8	30.3	30.3	29.3	29.1	31.2	31.8	1.49	0.65
Other Exp/Tot. Exp.%	71.2	69.7	69.7	70.7	70.9	68.8	68.2	-1.49	-0.65
Provision/PPP %	17.4	18.8	19.2	20.5	17.4	23.4	23.1	3.89	-0.36
Provision/Avg.	1.0	1.0	1.0	1.2	0.9	1.3	1.3	0.25	-0.02
Tax Rate %	34.2	34.4	34.7	34.8	34.3	34.8	29.5	-5.17	-5.27
Int Exp./Int Inc. (%)	50.0	52.0	51.4	51.4	50.3	51.5	52.0	0.63	0.55
Other Inc./Net Inc. %	28.4	26.1	25.4	28.1	27.1	27.2	29.3	3.81	2.04
PAT/ Net Income %	32.2	31.4	31.7	31.9	32.8	30.5	33.2	1.49	2.73
PAT Growth %	20.3	18.2	20.6	20.3	22.6	21.0	26.8	6.16	5.75
NII Growth %	17.7	15.4	20.6	21.9	22.8	22.9	14.9	-5.73	-8.05
Op. Profit	21.4	15.0	21.3	27.5	22.7	28.9	23.4	2.14	-5.51
RoE %	18.5	17.2	16.4	15.9	16.1	14.6	16.3	-0.05	1.69
RoA %	1.9	1.7	1.8	1.9	2.0	1.8	2.0	0.23	0.23

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	9.6	9.7	9.8	10.1	9.7	9.6	9.6	11.21	1.12
Cost of Funds	5.0	5.2	5.2	5.5	5.2	5.4	5.5	6.58	1.12
NIM	4.3	4.2	4.3	4.3	4.4	4.3	4.2	3.90	-0.40

Exhibit: Yield and Cost

stable yield and cost of fund increased

■ Yield On Earning Assets % ■ Cost of Fund %

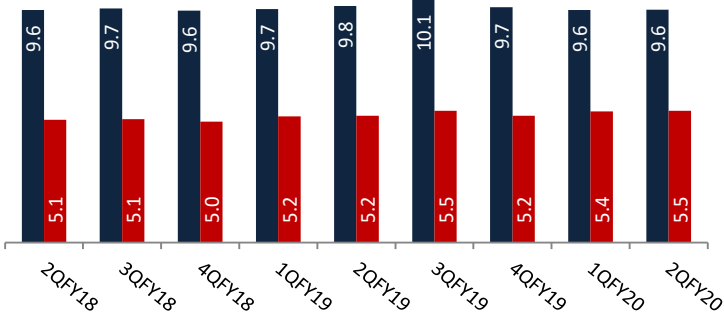


Exhibit: Net Interest Margin

NIM falls

NIM %

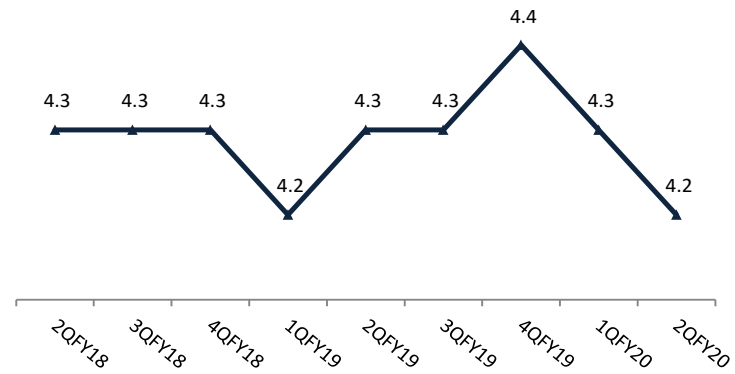


Fig in Rs cr

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

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fees & Commissions	2614	2872	3330	3171	3296	3647	3692	3552	4055
FX & Derivatives	384	426	416	500	420	398	403	577	552
Total Fee-Based In.	2998	3298	3746	3671	3715	4045	4095	4128	4606
Growth YoY %	25	32	30	28	24	23	9	12	24
Profit / (loss) on Investments	356	259	-22	-283	-33	474	229	212	481
Miscellaneous Income	252	311	504	431	333	403	547	630	502
Total Other Income	608	571	482	148	300	877	776	842	983
Growth YoY %	24	23	23	9	11	27	15	30	39

Exhibit: Fee Income/Advances %

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

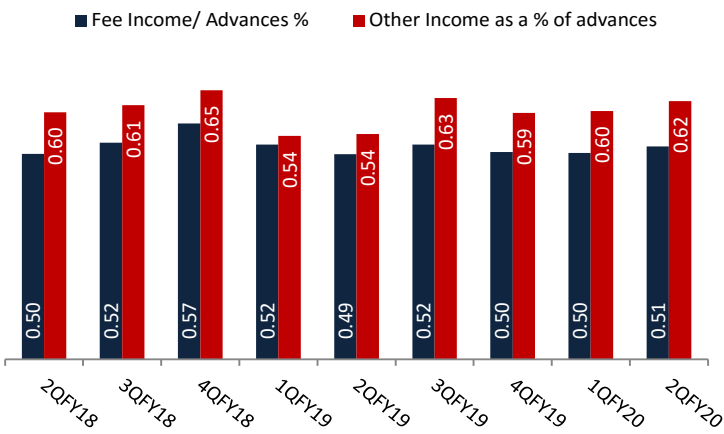
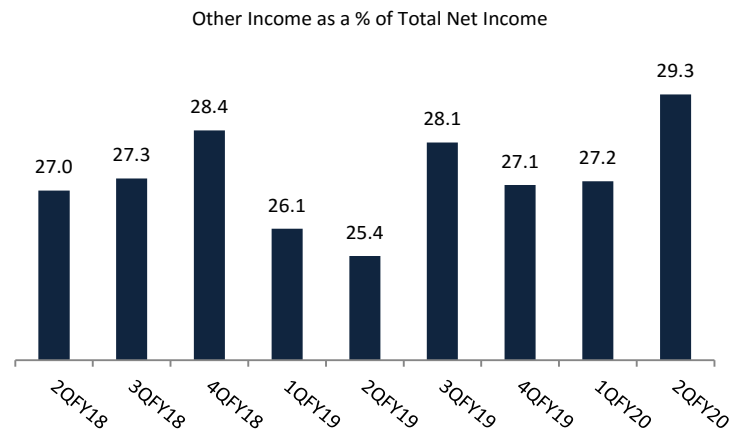


Exhibit: Other Income/ Total Income %

Healthy Other income growth



Asset Quality

Fig in Rs cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	8,607	9,539	10,098	10,903	11,224	11,769	12,580	25%	7%
GNPA %	1.3	1.3	1.3	1.4	1.4	1.4	1.4	0.05	-0.02
NNPA (Rs in Cr)	2,601	2,907	3,028	3,302	3,215	3,567	3,791	25%	6%
NNPA %	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.02	-0.01
Slippages (Rs in Cr)	2,790	3,548	3,284	3,999	3,577	4,225	3,714	13%	-12%
Specific PCR %	69.8	69.5	70.0	69.7	71.4	69.7	69.9	-0.15	0.18

Exhibit: Asset Quality

Stable asset quality

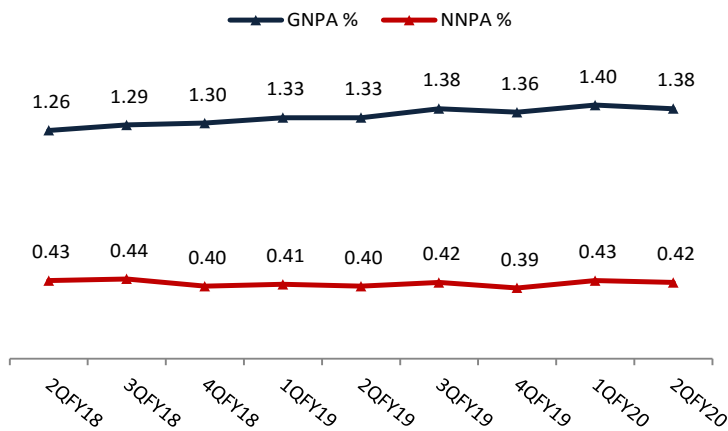


Exhibit: Provisions

PCR remained stable..

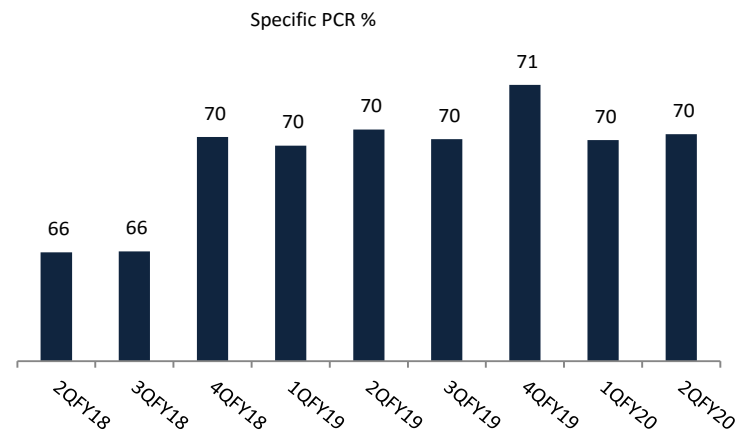


Exhibit: Advances Performance

advance growth improved

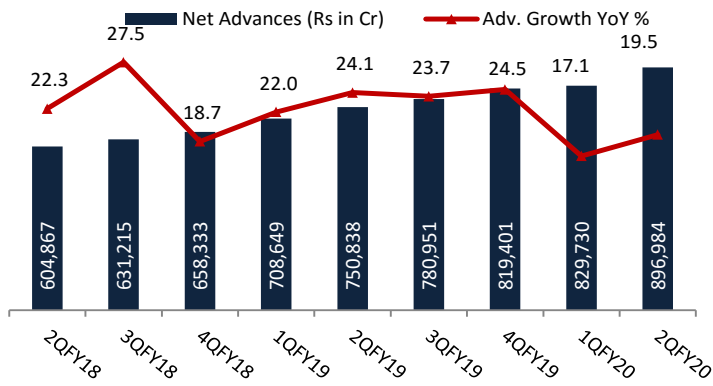


Exhibit: Advances Breakup%

Strong contribution from personal loan segment

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

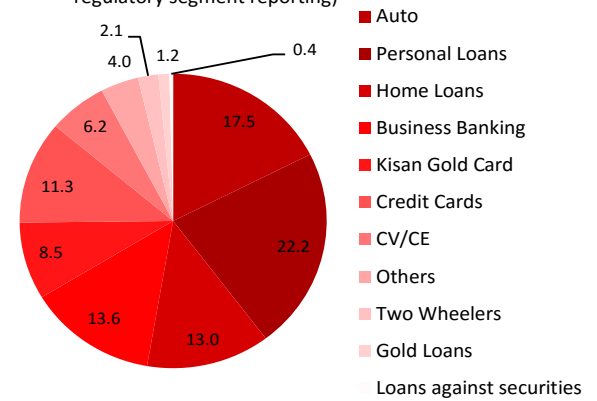


Exhibit: Deposits Performance

Deposit growth increased

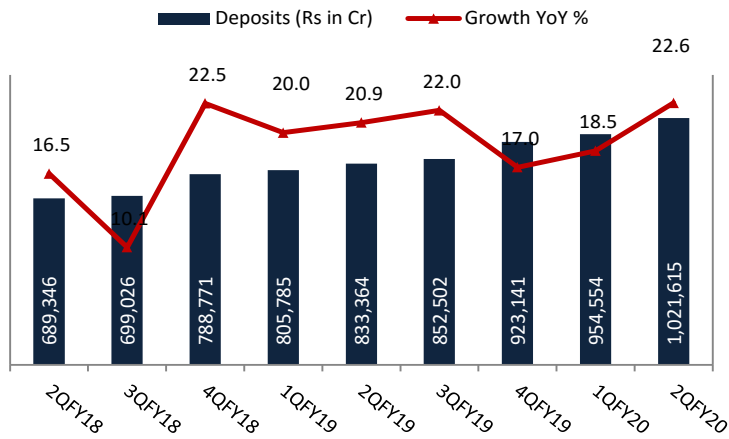


Exhibit: CASA Performance

CASA growth improved

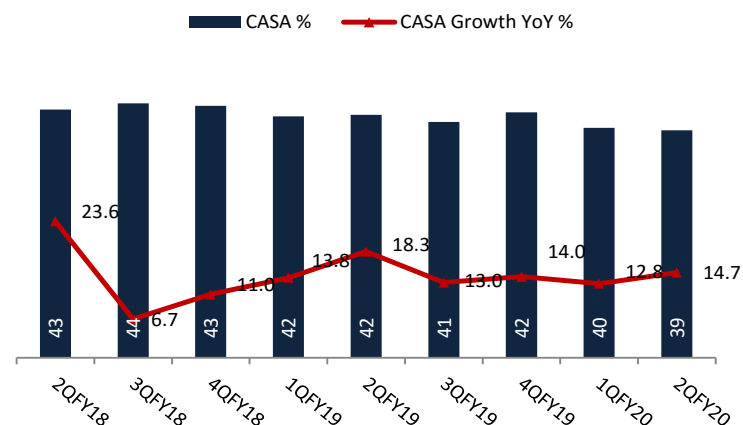


Exhibit: Credit Deposit Ratio

CD ratio falls

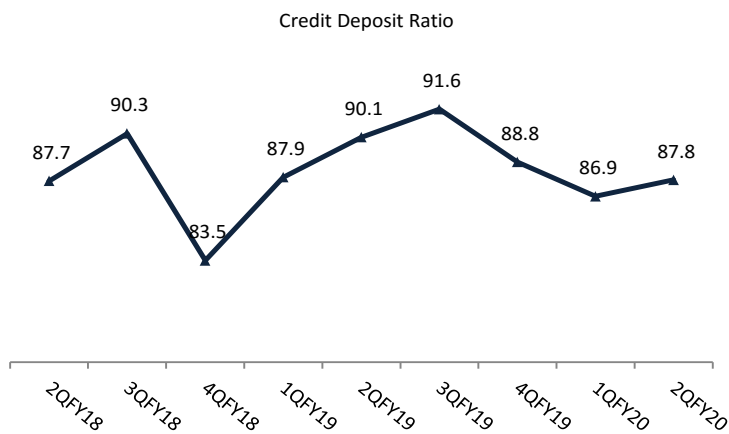
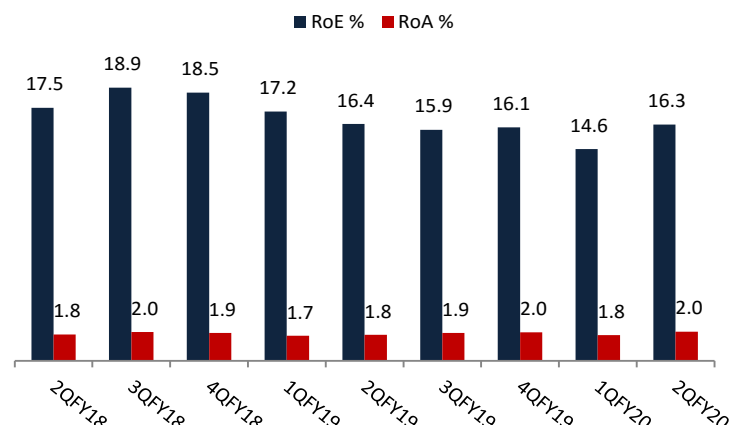


Exhibit: Return Ratios

Return ratio profile improved



Financial Details

Balance Sheet

Fig in Rs cr

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	170016	197179
Networth	43479	62009	72678	89462	106295	149206	170568	197737
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	453910	544692
Change (%)	17	21	19	31	11	14	16	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	1500888	1785469
Cash & Bank	39584	36331	38919	48952	122915	81348	97729	106258
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	1500888	1785469

Income Statement

Fig in Rs cr

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	115,787	138,466
Interest expended	22,653	26,074	32,630	36,167	40,146	50,729	60,284	73,431
Net Interest Income	18,483	22,396	27,592	33,139	40,095	48,243	55,503	65,035
Change (%)	17	21	23	20	21	20	15	17
Other Income	7,920	8,996	10,752	12,296	15,220	17,626	21,838	25,330
Change (%)	16	14	20	14	24	16	24	16
>> Core Fee Income	7,136	7,612	8,987	10,075	12,917	15,526	18,298	22,084
>> Treasury Income	110	582	732	1,139	925	387	1,559	1,646
>> Others	673	802	1,033	1,082	1,378	1,713	1,982	1,600
Total Net Income	26,402	31,392	38,343	45,436	55,315	65,869	77,341	90,365
Operating Expenses	12,042	13,988	16,980	19,703	22,690	26,119	30,112	35,242
Change (%)	7	16	21	16	15	15	15	17
>> Employee Expenses	4,179	4,751	5,702	6,484	6,806	7,762	9,369	10,844
Pre-provisioning Profit	14,360	17,404	21,364	25,732	32,625	39,750	47,229	55,123
Change (%)	26	21	23	20	27	22	19	17
Provisions	1,588	2,076	2,726	3,593	5,927	7,550	10,445	10,672
Change (%)	-5	31	31	32	65	27	38	2
PBT	12,772	15,329	18,638	22,139	26,697	32,200	36,784	44,450
Tax	4,294	5,113	6,342	7,589	9,211	11,122	10,527	11,335
Profit After Tax	8,478	10,216	12,296	14,550	17,487	21,078	26,257	33,116
Change (%)	26	20	20	18	20	21	25	26

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	16.9	16.5
>> Tier 1 (%)	11.8	13.7	13.2	12.8	13.2	15.8	15.2	14.8
>> 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	14,178	16,992
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	3,970	5,098
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	1.2	1.0

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	6.5
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	5.0	5.0
Cost Of Funds (%)	5.8	5.5	5.6	5.1	4.7	5.0	5.0	5.1
Spread (%)	4.1	4.2	4.1	4.1	4.4	4.3	3.9	3.9
NIM (%)	4.5	4.5	4.5	4.4	4.6	4.6	4.3	4.2

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	55.1	53.8	54.2	52.2	50.0	51.3	52.1	53.0
Fee Income/NII (%)	38.6	34.0	32.6	30.4	32.2	32.2	33.0	34.0
Cost to Income (%)	45.6	44.6	44.3	43.4	41.0	39.7	38.9	39.0
Cost on Average Assets (%)	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.1
Tax Rate (%)	33.6	33.4	34.0	34.3	34.5	34.5	28.6	25.5

Valuation Ratio Metrics

EPS (Rs)	17.7	20.4	24.3	28.4	33.7	38.7	47.6	59.4
Change (%)	25.0	15.3	19.3	16.7	18.7	15	23.1	24.7
ROAE (%)	21.3	19.4	18.3	17.9	17.9	16.5	16.4	18.0
ROAA (%)	1.9	1.9	1.8	1.8	1.8	1.8	1.9	2.0
Dividend Payout (%)	19.4	19.6	19.5	19.4	19.3	19.4	18.9	15.8
Dividend yield (%)	0.9	0.8	0.9	0.8	0.7	0.7	1.5	1.5
Book Value (Rs)	90.6	123.7	143.7	174.6	204.8	273.9	309.5	354.6
Change (%)	19	37	16	21	17	34	13	15
P/B (X)	4.1	4.1	3.7	4.1	4.6	4.1	4.0	3.5
P/E (X)	21.2	25.1	22.0	25.4	28.1	29.3	25.8	20.7

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	4.4	4.5
<i>Net Interest Income</i>	4.1	4.1	4.1	4.2	4.2	4.0	4.0
<i>Non-Fund Based Income</i>	1.7	1.6	1.5	1.6	1.5	1.6	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	0.3	0.2
<i>Core Operating Income</i>	5.5	5.5	5.4	5.5	5.5	5.4	5.3
<i>Total Income</i>	5.8	5.8	5.7	5.7	5.7	5.6	5.5
<i>Total Operating Expenses</i>	2.6	2.6	2.5	2.4	2.3	2.2	2.1
>> <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	3.4	3.4
<i>Provisions</i>	0.4	0.4	0.4	0.6	0.7	0.8	0.6
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	2.8	2.8	2.8	2.8	2.8	2.7	2.7
<i>Tax</i>	0.9	1.0	0.9	1.0	1.0	0.8	0.7
<i>PAT/RoAA</i>	1.9	1.8	1.8	1.8	1.8	1.9	2.0
<i>Equity Multiplier (x)</i>	10.3	9.9	9.9	9.8	9.0	8.6	8.9
<i>ROAE</i>	19.4	18.3	17.9	17.9	16.5	16.4	18.0

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