

Industry
Bloomberg
BSE CODE

Financial
HDFCB IN
500180

Growth Remain Intact with marginal blip in asset quality

RATING	BUY
CMP	1278
Price Target	1486
Potential Upside	16%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1304/1011
Mkt Capital (Rs Cr)	699,891
Free float (%)	74.00%
Avg. Vol 1M (,000)	5,289
No. of Shares (Cr)	547
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	48243	55538	66644
PPP	39750	48351	57246
PAT	21078	26754	35354
NIM %	4.6	4.3	4.3
EPS (Rs)	39	49	64
EPS growth (%)	15	26	32
ROE (%)	16	17	19
ROA (%)	1.8	2.0	2.2
BV	274	312	363
P/B (X)	4.1	4.1	3.5
P/E (x)	29	26	20

3QFY20 Result Update

- NII growth during the quarter moderated to 13% as per our expectation due to fall in NIM by 10 bps on account of banks strategy to maintain healthy LCR. However excess liquidity also resulted in higher trading gain for the quarter. Fee income growth picked up to 24% YoY. PAT growth was 33% YoY.
- Slippages spiked to Rs 5339 Cr vs Rs 3714 sequentially on account of Rs 1500 Cr lumpy slippages as a one-offs and agri slippages. GNPA increased to 1.42% while the NNPA stood at 0.48%. Provisions grew by 38% on account of incremental stress.
- Advance during the quarter grew by 20%/YoY/4% QoQ with domestic advances growing by 21%/5% On YoY/QoQ basis. Deposits during the quarter grew strong by 25.2% YoY with CASA Deposits growing by 21.5% YoY.

NII growth Moderated

NII grew by 13% YoY with NIM at 4.2%. The growth was affected primarily on 10 bps reduction in NIM YoY on account of bank strategy to maintain strong liquidity ratio to cater to the loan demand. The cost to income ratio during the quarter stood at 38% with the employee expenses growing by 25% YoY and other operating expense growing by 15% YoY. The other income grew by 35% YoY and fee income grew by 25% YoY with fee and commission income growing by 24% and FX and derivative income growing by 32%. PPP grew by 20% while lower tax benefit resulted in 33% rise in PAT.

Steady Advance/Strong Deposit Growth

Advance grew by 20%/YoY/4% QoQ with domestic advances growing by 21%/5% On YoY/QoQ basis. The retail advance growth was subdued to 14% while the corporate book grew by 27% YoY. The growth in retail advance was on account of credit card which grew by 29% YoY and personal loan segment which grew by 23% YoY. CV/CE segment slowed down to 4% YoY. During the quarter Bank purchased loans aggregating to Rs 4258 Cr through the direct assignment route under the home loan arrangement. Deposits grew strong by 25.2% YoY with CASA Deposits growing by 21.5% YoY while the term deposits grew by 28% YoY which has helped bank to maintain LCR of above 140%.

Asset quality moderately affected

The asset quality during the quarter were moderately affected with the GNPA at 1.42% (1.2% excluding the Agri segment GNPA) while the NNPA at 0.48%. The core slippages during the quarter stood at Rs 3839 Cr v Rs 3714 last quarter and Rs 3290 in Q3FY19. The one off + agri slippages constitutes around Rs 1500 Cr of which agri is around 60-65%. Management said that the provisions during the quarter include one off worth Rs 700 Cr for certain corporate accounts as well as accelerated provisions for some accounts. The floating Provisions for quarter stood Rs 1451 Cr and contingent provisions of Rs 1457 Cr stable. Management said that the unsecured exposures are holding out rather well. Management has seen improvement in delinquencies in the credit card segment. However the CV segment would need some time to improve.

View and Valuation

Despite the base, HDFC Bank continues to grow around 20% way ahead of industry growth of around 7-8%. It continues to market share, however the growth was primarily driven by wholesale segment during last few quarters while retail growth has been muted due to pressure in auto and rural industry. Bank is looking to further increase its branches and network expansion through BCs and CSC initiatives which would to keep growth track intact. The asset quality during the quarter was moderately affected primarily on account of one off corporate account but things are expected to get back to normal. NIM is likely to remain stable with upward bias in the medium term. Succession planning progress will be closely watched going ahead. We maintain our positive view on HDFCBANK with the previous target price of Rs 1486 at 4.1x BV FY21e. BUY.

Key risk to our rating and target

- Succession planning
- Slowing economy growth will impact the pace of HDFCB growth.

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3Q FY20 Results

Pat Above estimates

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	25,890	26,333	27,392	28,166	29,370	13.4%	4.3%	80,241	98,972	23.3%
Interest Exp.	13,314	13,244	14,097	14,651	15,197	14.1%	3.7%	40,146	50,729	26.4%
NII	12,577	13,089	13,294	13,515	14,173	12.7%	4.9%	40,095	48,243	20.3%
Other Income	4,921	4,871	4,970	5,589	6,669	35.5%	19.3%	15,220	17,626	15.8%
Total Income	17,498	17,961	18,265	19,104	20,842	19.1%	9.1%	55,315	65,869	19.1%
Ope Exp.	6,719	7,117	7,117	7,406	7,897	17.5%	6.6%	22,690	26,119	15.1%
PPP	10,778	10,844	11,147	11,698	12,945	20.1%	10.7%	32,625	39,750	21.8%
Provisions	2,212	1,889	2,614	2,701	3,044	37.6%	12.7%	5,927	7,550	27.4%
PBT	8,567	8,954	8,534	8,997	9,902	15.6%	10.1%	26,697	32,200	20.6%
Tax	2,981	3,069	2,965	2,652	2,485	-17%	-6.3%	9,211	11,122	20.7%
Net Profit	5,586	5,885	5,568	6,345	7,416	32.8%	16.9%	17,487	21,078	21%

Concall Highlights

- The core slippages during the quarter stood at Rs 3839 Cr v Rs 3714 last quarter and Rs 3290 in Q3FY19. The one off + agri slippages constitutes around Rs 1500 Cr of which agri is around 60-65%.
- The provisions during the quarter include one off worth Rs 700 Cr for an certain corporate accounts as well as accelerated provisions for some accounts.
- The gross stage 3 for HDB financial has gone up due to Commercial vehicle segment.
- The reduction in the RWA was on account of certain initiatives also the impact of mix of assets. The bank said assessment of better market risk has also helped the bank also the ratings were improved during the quarter and favorable lending mix to low rated public sectors like power and transport.
- Management said it as per its strategy it is looking to maintain healthy LCR ratio thus increasing it to 140% from 133% in Q3FY20 which will help to cater loan growth but will impact NIM by 10 to 20 bps.
- On the CEO search management said that they are in board meeting there has been agreement for search firm which would help the bank in the search. The management expects it would finalize various candidates around July for RBI approval. The search firm would look at both internal and external candidates.
- Management said that its strategy to open branches is on track and have targeted around 600 for the year and quite a few branches will open during the quarter.
- Management said that the unsecured exposures are holding out rather well. The unsecured exposure mainly included personal loans which are entire towards salaried segment. Management has seen improvement in delinquencies in the credit card segment.
- Most retail book has shown favorable trend in terms of risk and expects the same trend to continue going ahead. Vintage residual book is adequality provided and management don't see any concern. The Only going concern is on commercial vehicle and to some extent in commercial equipment.
- On SMA2 portfolio management said it has been stable for some time and have not seen much growth in it.
- The fee income growth was on because of the spends on the credit cards and debit card which has led to the growth, another reason is third party distribution where the yields has been better for new products.
- The payment product would contribute around 30-35% to fee income and core retail asset and liability product 35%, third party between 15-20% and wholesale is balance.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.9	39.9	38.4	39.6	39.0	38.8	38	-0.51	-0.88
Empl. Cost/ Tot. Exp. %	30.3	30.3	29.3	29.1	31.2	31.8	31	1.80	-0.71
Other Exp/Tot. Exp.%	69.7	69.7	70.7	70.9	68.8	68.2	69	-1.80	0.71
Provision/PPP %	18.8	19.2	20.5	17.4	23.4	23.1	24	2.99	0.42
Provision/Avg. Adv. %	1.0	1.0	1.2	0.9	1.3	1.3	1	0.17	0.08
Tax Rate %	34.4	34.7	34.8	34.3	34.8	29.5	25	-9.70	-4.38
Int Exp./Int Inc. (%)	52.0	51.4	51.4	50.3	51.5	52.0	52	0.32	-0.27
Other Inc./Net Inc. %	26.1	25.4	28.1	27.1	27.2	29.3	32	3.88	2.74
PAT/ Net Income %	31.4	31.7	31.9	32.8	30.5	33.2	36	3.66	2.37
PAT Growth %	18.2	20.6	20.3	22.6	21.0	26.8	33	12.46	6.02
NII Growth % (YoY)	15.4	20.6	21.9	22.8	22.9	14.9	13	-9.24	-2.20
Op. Profit Growth YoY %	15.0	21.3	27.5	22.7	28.9	23.4	20	-7.43	-3.29
RoE %	17.2	16.4	15.9	16.1	14.6	16.3	19	2.63	2.28
RoA %	1.7	1.8	1.9	2.0	1.8	2.0	2	0.32	0.22

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	9.7	9.8	10.1	9.7	9.6	9.6	9.3	11.21	1.47
Cost of Funds	5.2	5.2	5.5	5.2	5.4	5.5	5.4	6.58	1.33
NIM	4.2	4.3	4.3	4.4	4.3	4.2	4.2	3.90	-0.50

Exhibit: Yield and Cost

Both Yield and cost of fund went down

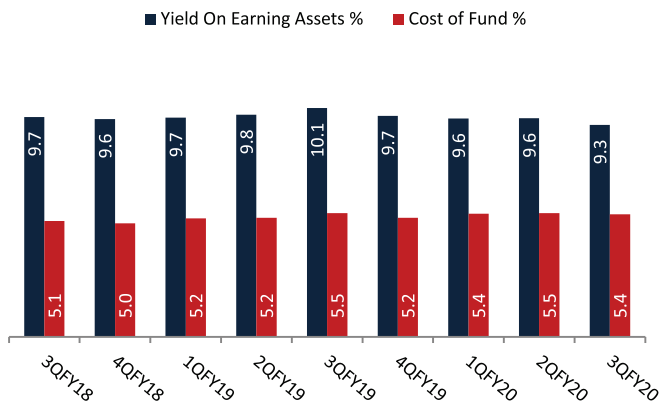
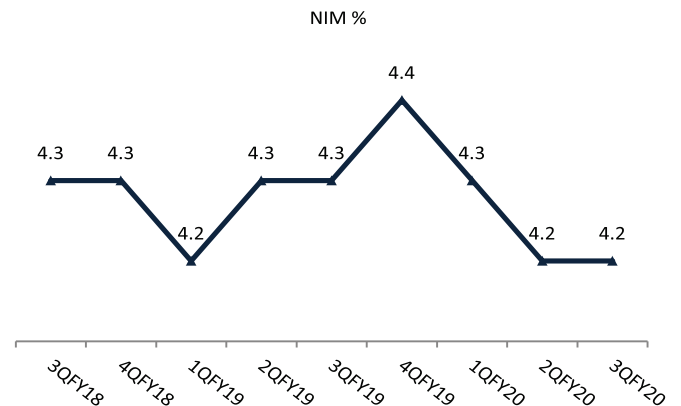


Exhibit: Net Interest Margin

NIM Stable QoQ



Other Income Break Up- Healthy growth in Fee income(YoY)

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Fees & Commissions	2872	3330	3171	3296	3647	3692	3552	4055	4526
FX & Derivatives	426	416	500	420	398	403	577	552	526
Total Fee-Based In.	3298	3746	3671	3715	4045	4095	4128	4606	5052
Growth YoY %	32%	30%	28%	24%	23%	9%	12%	24%	25%
Profit / (loss)on Investments	259	-22	-283	-33	474	229	212	481	676
Miscellaneous Income	311	504	431	333	403	547	630	502	940
Total Other Income	3869	4229	3818	4016	4921	4871	4970	5589	6668
Growth YoY %	23%	23%	9%	11%	27%	15%	30%	39%	35%

Exhibit: Fee Income/Advances %

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

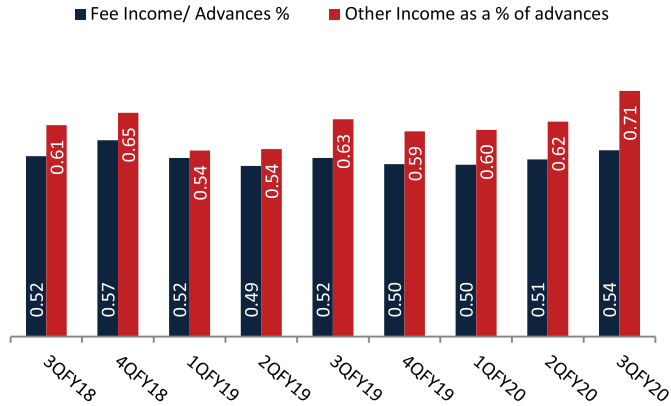
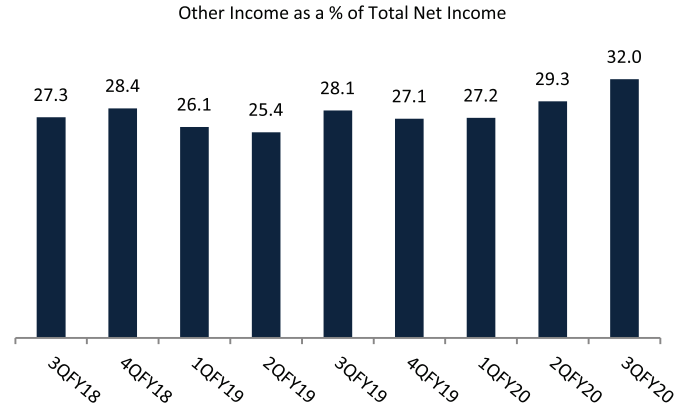


Exhibit: Other Income/ Total Income %

Healthy Other income growth



Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	9,539	10,098	10,903	11,224	11,769	12,580	13,427	23%	7%
GNPA %	1.3	1.3	1.4	1.4	1.4	1.4	1.4	0.04	0.04
NNPA (Rs in Cr)	2,907	3,028	3,302	3,215	3,567	3,791	4,468	35%	18%
NNPA %	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.06	0.06
Slippages (Rs in Cr)	3,548	3,284	3,999	3,577	4,225	3,714	5,339	34%	44%
Specific PCR %	69.5	70.0	69.7	71.4	69.7	69.9	64.2	-1.13	-1.27

Exhibit: Asset Quality

asset quality affected

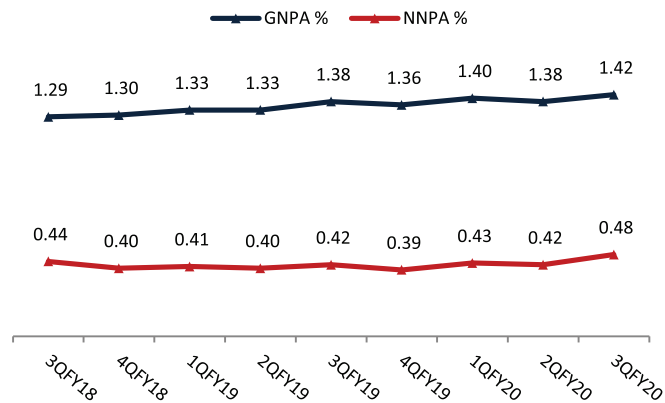


Exhibit: Provisions

PCR went down.

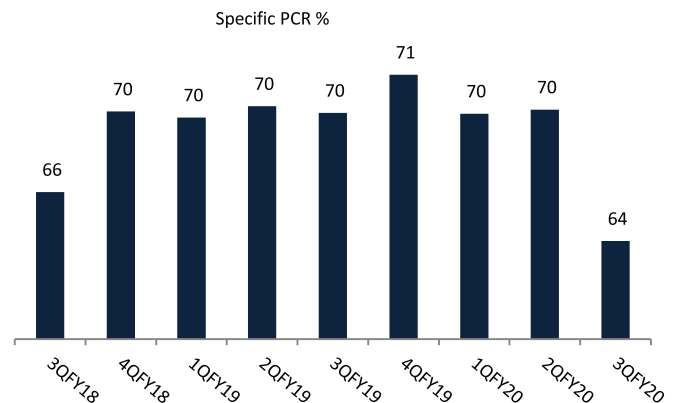


Exhibit: Advances Performance

Advance growth improved

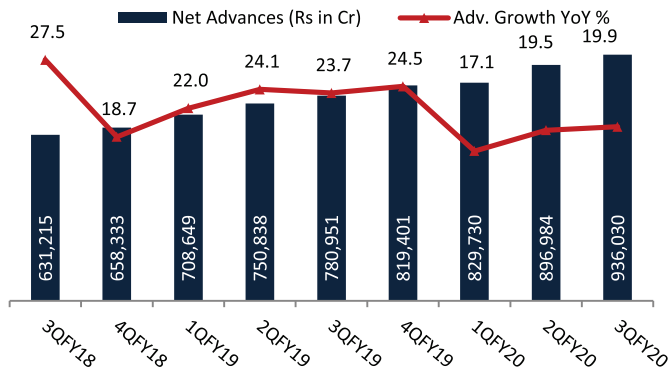


Exhibit: Advances Breakup%

Strong contribution from personal loan segment

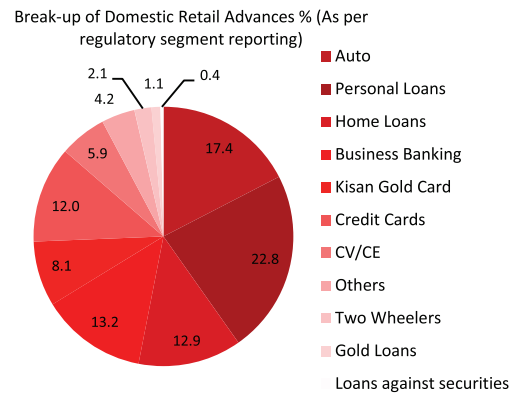


Exhibit: Deposits Performance

Deposit growth increased

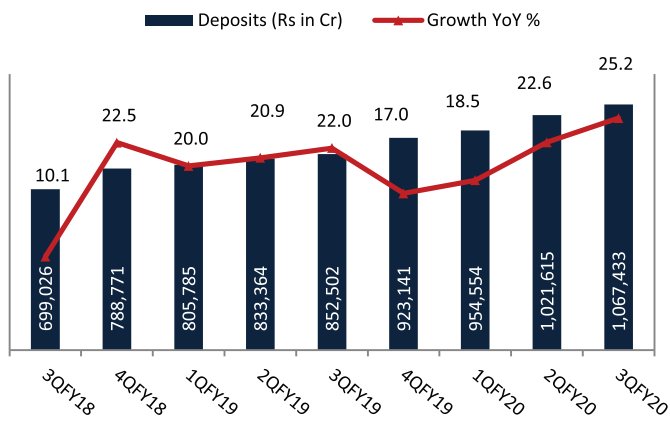


Exhibit: CASA Performance

CASAgrowth improved

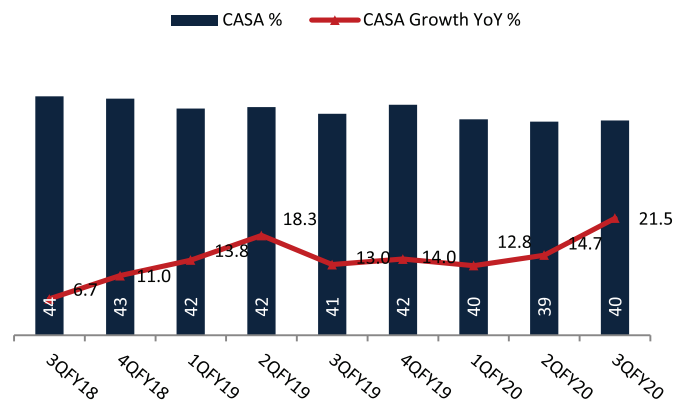


Exhibit: Credit Deposit Ratio

CD ratio falls

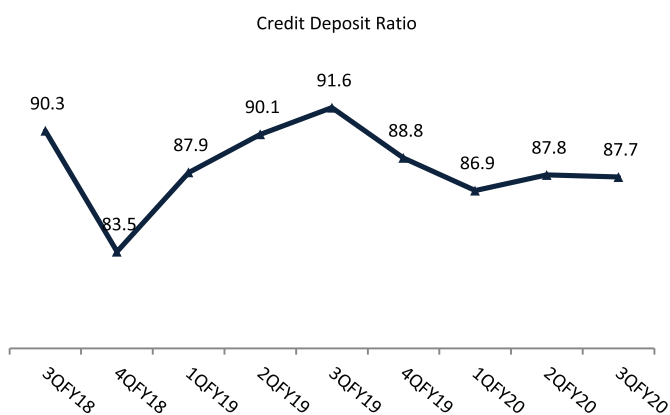
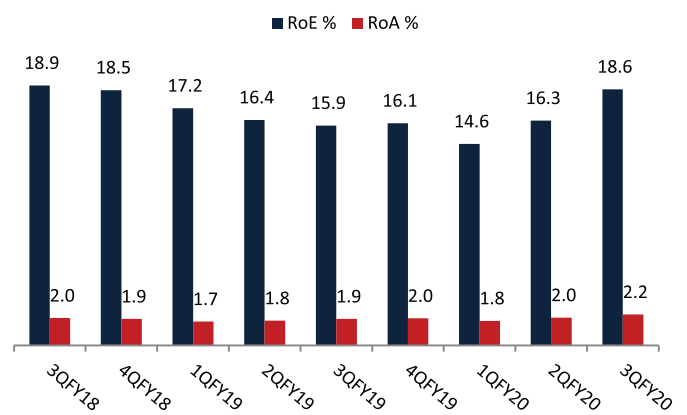


Exhibit: Return Ratios

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	549	549
Equity Capital	480	501	506	513	519	545	549	549
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	42999	61508	72172	88950	105776	148662	170513	198625
Networth	43479	62009	72678	89462	106295	149206	171062	199174
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	107018	152500
Other Liabilities & Prov.	41344	32484	36725	56709	45764	55108	60979	67546
Total Liabilities	491600	590503	740796	863840	1063934	1244541	1482409	1791240
Cash & Bank	39584	36331	38919	48952	122915	81348	87511	121681
Investments	120951	151642	195836	214463	242200	290588	354439	425326
Change (%)	8	25	29	10	13	20	22	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	4232	4443
Other Assets	25125	33913	38104	42230	36879	49174	52946	59852
Total Assets	491600	590503	740796	863840	1063934	1244541	1482409	1791240

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	115,481	137,307
Interest expended	22,653	26,074	32,630	36,167	40,146	50,729	59,944	70,662
Net Interest Income	18,483	22,396	27,592	33,139	40,095	48,243	55,538	66,644
Change (%)	17	21	23	20	21	20	15	20
Other Income	7,920	8,996	10,752	12,296	15,220	17,626	22,931	25,376
Change (%)	16	14	20	14	24	16	30	11
Core Fee Income	7,136	7,612	8,987	10,075	12,917	15,526	18,703	21,538
Treasury Income	110	582	732	1,139	925	387	1,705	2,238
Others	673	802	1,033	1,082	1,378	1,713	2,524	1,600
Total Net Income	26,402	31,392	38,343	45,436	55,315	65,869	78,469	92,021
Operating Expenses	12,042	13,988	16,980	19,703	22,690	26,119	30,118	34,775
Change (%)	7	16	21	16	15	15	15	15
Employee Expenses	4,179	4,751	5,702	6,484	6,806	7,762	9,458	10,946
Pre-provisioning Profit	14,360	17,404	21,364	25,732	32,625	39,750	48,351	57,246
Change (%)	26	21	23	20	27	22	22	18
Provisions	1,588	2,076	2,726	3,593	5,927	7,550	10,997	10,000
Change (%)	-5	31	31	32	65	27	46	-9
PBT	12,772	15,329	18,638	22,139	26,697	32,200	37,354	47,246
Tax	4,294	5,113	6,342	7,589	9,211	11,122	10,600	11,892
Profit After Tax	8,478	10,216	12,296	14,550	17,487	21,078	26,754	35,354
Change (%)	26	20	20	18	20	21	27	32

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	31	31
CRAR (%)	16.1	16.8	15.5	14.6	14.8	17.1	16.7	16.1
Tier 1 (%)	11.8	13.7	13.2	12.8	13.2	15.8	15.2	14.7
Tier 2 (%)	4.3	3.1	2.3	1.8	1.6	1.3	1.4	1.4

Assets Quality Metrics								
Gross NPA (Rs)	2,989	3,438	4,393	5,886	8,607	11,224	14,156	13,839
Gross NPA (%)	1.0	0.9	0.9	1.1	1.3	1.4	1.4	1.2
Net NPA(Rs)	820	896	1,320	1,844	2,601	3,215	5,015	5,055
Net NPA (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.4
Slippages (%)	1.9	1.7	1.6	1.5	2.3	2.2	1.8	1.4
Provision Coverage (%)	73	74	70	69	70	71	65	63
Provision/Average Advances (%)	0.6	0.6	0.7	0.7	1.0	1.0	1.2	0.9

Margin Metrics								
Yield On Advances (%)	11.7	11.1	10.8	10.2	10.3	10.5	10.2	10.2
Yield On Investment (%)	7.8	7.9	8.1	7.8	7.1	7.5	6.5	6.6
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	4.8
Cost Of Funds (%)	5.8	5.5	5.6	5.1	4.7	5.0	5.1	4.9
Spread (%)	4.1	4.2	4.1	4.1	4.4	4.3	3.9	4.0
NIM (%)	4.5	4.5	4.5	4.4	4.6	4.6	4.3	4.3

Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	55.1	53.8	54.2	52.2	50.0	51.3	51.9	51.5
Fee Income/NII (%)	38.6	34.0	32.6	30.4	32.2	32.2	33.7	32.3
Cost to Income (%)	45.6	44.6	44.3	43.4	41.0	39.7	38.4	37.8
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	28.4	25.2

Valuation Ratio Metrics								
EPS (Rs)	17.7	20.4	24.3	28.4	33.7	38.7	48.8	64.4
Change (%)	25.0	15.3	19.3	16.7	18.7	15	26.0	32.1
ROAE (%)	21.3	19.4	18.3	17.9	17.9	16.5	16.7	19.1
ROAA (%)	1.9	1.9	1.8	1.8	1.8	1.8	2.0	2.2
Dividend Payout (%)	19.4	19.6	19.5	19.4	19.3	19.4	22.6	18.6
Dividend yield (%)	0.9	0.8	0.9	0.8	0.7	0.7	0.9	0.9
Book Value (Rs)	90.6	123.7	143.7	174.6	204.8	273.9	311.8	363.0
Change (%)	19	37	16	21	17	34	14	16
P/B (X)	4.1	4.1	3.7	4.1	4.6	4.1	4.1	3.5
P/E (X)	21.2	25.1	22.0	25.4	28.1	29.3	26.4	20.0

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.0	9.0	8.6	8.3	8.6	8.5	8.4
Interest expended	4.8	4.9	4.5	4.2	4.4	4.4	4.3
Net Interest Income	4.1	4.1	4.1	4.2	4.2	4.1	4.1
Non-Fund Based Income	1.7	1.6	1.5	1.6	1.5	1.7	1.6
Core Fee Income	1.4	1.4	1.3	1.3	1.3	1.4	1.3
Trading and Other Income	0.3	0.3	0.3	0.2	0.2	0.3	0.2
Core Operating Income	5.5	5.5	5.4	5.5	5.5	5.4	5.4
Total Income	5.8	5.8	5.7	5.7	5.7	5.8	5.6
Total Operating Expenses	2.6	2.6	2.5	2.4	2.3	2.2	2.1
Employee Expenses	0.9	0.9	0.8	0.7	0.7	0.7	0.7
Other Expenses	1.7	1.7	1.6	1.6	1.6	1.5	1.5
Operating Profit	3.2	3.2	3.2	3.4	3.4	3.5	3.5
Provisions	0.4	0.4	0.4	0.6	0.7	0.8	0.6
Others	-	-	-	-	-	-	-
PBT	2.8	2.8	2.8	2.8	2.8	2.7	2.9
Tax	0.9	1.0	0.9	1.0	1.0	0.8	0.7
PAT/RoAA	1.9	1.8	1.8	1.8	1.8	2.0	2.2
Equity Multiplier (x)	10.3	9.9	9.9	9.8	9.0	8.5	8.8
ROAE	19.4	18.3	17.9	17.9	16.5	16.7	19.1

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