

## HDFC Bank

### Performance Highlights

Particulars (₹ cr)	Q2FY19	Q1FY19	% chg (qoq)	Q2FY18	% chg (yoy)
<b>NII</b>	11,763	10,814	8.8	9,752	20.6
Pre-prov. profit	9,480	8,648	9.6	7,818	21.3
<b>PAT</b>	5,006	4,601	8.8	4,151	20.6

Source: Company, Angel Research

HDFC Bank delivered steady performance for Q2FY19, with PAT growth of 20.6% yoy. On the operating front, the bank reported 20.6% yoy growth in NII. NIM, at 4.37% was down by 17bps qoq & increased by 10bps yoy. The bank managed to reduce its expenses and brought down the cost/income ratio from 41.5% in Q2FY18 to 39.9% in Q2FY19.

#### Healthy operating profit growth; Asset quality stable

During Q2FY19, the bank's advances grew by 24.1% yoy, of which retail loan book increased 23.3% yoy to constitute 55% of the total advances. The wholesale loans inched up by 25.8% yoy. The net interest income during this period grew by 20.6% yoy, which is not congruent to the advances growth. NIM compress on yoy basis, largely owing to increase in cost of fund, lower growth of CASA and pressure on advance yield. However, NIM inched up 17bps qoq primarily owing to commensurate increase in advance yield compare to cost of fund and capital raising during the quarter. Moreover, a slower rise in opex aided lower cost/income by 160bps yoy to 40.9% in Q1FY19.

Total deposits surged by 20.9% yoy and 3.4% qoq in 12FY19. CASA deposits accounted for 42% of the total deposits.

On asset quality front, the bank continued to maintain strong asset quality with a GNPA/NPA ratio of 1.33%/0.4% of loans. Total slippages for the quarter were ₹3,225cr vs. ₹3,580cr qoq.

**Outlook & Valuation:** Credit growth beat the industry growth rate, driven by strong retail business. The Strong liability franchise and healthy capitalisation provides strong earning visibility. We value the bank's subsidiaries at ₹121/share and the core bank at ₹2,228/share (3.7x FY2020E ABV). We recommend Buy rating on the stock with a target price of ₹2,350/share.

#### Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
<b>NII</b>	27,592	33,139	40,092	47,565	56,268
% chg	23.6	20.1	21.0	18.6	18.3
<b>Net profit</b>	12,296	14,549	17,486	21,153	26,282
% chg	21.2	18.3	20.2	21.0	24.2
NIM (%)	4.5	4.5	4.4	4.3	4.3
<b>EPS (Rs)</b>	48.6	56.8	67.5	77.8	96.7
P/E (x)	40.4	34.6	29.1	25.2	20.3
P/ABV (x)	7.0	6.0	4.9	3.8	3.3
RoA (%)	1.9	1.9	1.8	1.8	1.9
RoE (%)	18.3	18.3	18.2	16.9	16.9

Note – CMP as on 19/10/18

## BUY

CMP	₹1,965
Target Price	₹2,350

Investment Period	12 Months
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#### Stock Info

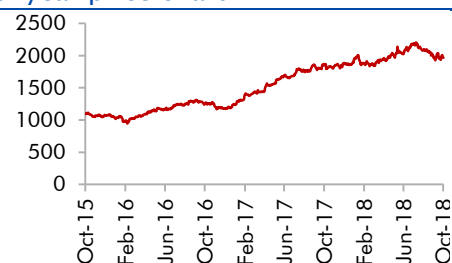
Sector	Banking
Market Cap (₹ cr)	5,34,142
Beta	1.1
52 Week High / Low	2,219/1,685
Avg. Daily Volume	1,59,470
Face Value (₹)	2
BSE Sensex	34,316
Nifty	10,304
Reuters Code	HDBK.NS
Bloomberg Code	HDFCB:IN

#### Shareholding Pattern (%)

Promoters	20.9
MF / Banks / Indian Fls	17.1
FII / NRIs / OCBs	52.0
Indian Public / Others	10.1

Abs. (%)	3m	1yr	3yr
Sensex	(5.6)	5.9	25.4
HDFC Bank	(10.1)	6.2	79.3

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly Result Summary**

Particulars (₹ cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	% QoQ	% YoY
<b>Interest earned</b>	<b>18,668</b>	<b>19,670</b>	<b>20,581</b>	<b>21,319</b>	<b>22,549</b>	<b>24,200</b>	<b>7.3</b>	<b>23.0</b>
- on Advances / Bills	14,486	15,356	16,157	16,663	17,391	18,828	8.3	22.6
- on investments	3,892	4,006	4,100	4,222	4,589	5,042	9.9	25.9
- on balance with RBI & others	108	106	112	196	332	94	-71.8	-12.1
- on others	181	202	212	238	237	236	-0.2	17.1
<b>Interest Expended</b>	<b>9,298</b>	<b>9,918</b>	<b>10,267</b>	<b>10,663</b>	<b>11,735</b>	<b>12,436</b>	<b>6.0</b>	<b>25.4</b>
<b>Net Interest Income</b>	<b>9,370</b>	<b>9,752</b>	<b>10,314</b>	<b>10,656</b>	<b>10,814</b>	<b>11,763</b>	<b>8.8</b>	<b>20.6</b>
<b>Other income</b>	<b>3,516</b>	<b>3,606</b>	<b>3,868</b>	<b>4,229</b>	<b>3,818</b>	<b>4,016</b>	<b>5.2</b>	<b>11.4</b>
- Fee & commission income	2,578	2,614	2,872	3,330	3,171	3,296	3.9	26.1
- Treasury income	331	356	259	(22)	(283)	(33)	-88.4	-109.2
- Forex & derivative income	297	384	426	416	500	420	-16.0	9.3
Others	310	252	311	505	431	333	-22.7	32.1
C/I%	42	41.5	40	41	41	39.9	-2.4	-3.7
<b>Operating income</b>	<b>12,886</b>	<b>13,358</b>	<b>14,182</b>	<b>14,885</b>	<b>14,632</b>	<b>15,779</b>	<b>7.8</b>	<b>18.1</b>
<b>Operating expenses</b>	<b>5,367</b>	<b>5,540</b>	<b>5,732</b>	<b>6,050</b>	<b>5,984</b>	<b>6,299</b>	<b>5.3</b>	<b>13.7</b>
- Employee expenses	1,658	1,716	1,691	1,741	1,811	1,909	5.5	11.3
- Other Opex	3,710	3,824	4,041	4,309	4,173	4,390	5.2	14.8
<b>Pre-provision Profit</b>	<b>7,519</b>	<b>7,818</b>	<b>8,450</b>	<b>8,835</b>	<b>8,648</b>	<b>9,480</b>	<b>9.6</b>	<b>21.3</b>
Provisions & Contingencies	1,559	1,476	1,351	1,541	1,629	1,820	11.7	23.3
<b>PBT</b>	<b>5,960</b>	<b>6,342</b>	<b>7,099</b>	<b>7,294</b>	<b>7,018</b>	<b>7,660</b>	<b>9.1</b>	<b>20.8</b>
Provision for Tax	2,067	2,191	2,457	2,495	2,417	2,654	9.8	21.2
<b>PAT</b>	<b>3,893</b>	<b>4,151</b>	<b>4,641</b>	<b>4,799</b>	<b>4,601</b>	<b>5,006</b>	<b>8.8</b>	<b>20.6</b>
Effective Tax Rate (%)	35	35	35	34	34	35		
<b>Balance Sheet</b>								
Advance	5,80,976	6,04,867	6,31,215	6,58,333	7,08,649	7,50,838	6.0	24.1
Investment	2,16,108	2,40,279	2,32,724	2,42,200	2,75,679	3,00,086	8.9	24.9
Borrowing	86,012	1,01,531	1,03,867	1,23,105	1,21,024	1,42,719	17.9	40.6
Deposit	6,71,376	6,89,346	6,99,026	7,88,770	8,05,785	8,33,364	3.4	20.9
CA	1,02,030	97,825	1,01,286	1,19,283	1,09,297	1,15,131	5.3	17.7
SA	1,93,105	1,97,655	2,05,833	2,23,810	2,26,656	2,34,568	3.5	18.7
CASA	2,95,135	2,95,480	3,07,119	3,43,093	3,35,953	3,49,699	4.1	18.3
<b>Profitability</b>								
Advance Yield	10.2	10.4	10.5	10.3	10.18	10.32	14bp	(4)bp
Investemnt Yield	7.2	7.0	6.9	7.1	7.1	7.0	(8)bp	(2)bp
NIM	4.48	4.47	4.60	4.42	4.20	4.37	17bp	(10)bp
COF	5.0	5.1	5.2	5.0	5.11	5.23	12bp	10bp
Spread	5.2	5.2	5.3	5.4	5.1	5.1	2bp	(14)bp
RoA	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>	<b>1.7</b>	<b>1.8</b>	<b>6bp</b>	<b>(4)bp</b>
RoE	<b>16.4</b>	<b>16.9</b>	<b>17.9</b>	<b>18.1</b>	<b>17.2</b>	<b>16.4</b>	<b>(85)bp</b>	<b>(51)bp</b>
<b>Asset Quality</b>								
GNPA	7,243	7,703	8,235	8,607	9,539	10,098	5.9	31.1
GNPA	2,528	2,599	2,774	2,601	2,907	3,028	4.2	16.5
NPA%	1.2	1.3	1.3	1.3	1.3	1.33	(2)bp	7bp
GNPA%	0.44	0.43	0.44	0.40	0.41	0.400	(1)bp	(3)bp
Slippage (%)	2.6	2.0	1.5	1.5	2.0	1.7	(30)bp	(28)bp

Source: Company

**Exhibit 2: Total Retail loans – as per internal classification**

Particular (₹ cr)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	% QoQ	% YoY
Auto	73,746	78,999	82,510	85,974	88,320	91,920	4.1	16.4
Personal Loans	56,067	61,313	67,490	72,442	78,542	84,145	7.1	37.2
Home Loans	38,797	40,029	38,130	36,265	44,036	47,875	8.7	19.6
Business Banking	88,088	96,485	1,00,810	1,09,507	1,09,551	1,17,039	6.8	21.3
Kisan Gold Card	28,132	31,729	31,307	35,497	33,783	37,068	9.7	16.8
Credit Cards	29,101	30,831	33,622	36,115	38,792	40,535	4.5	31.5
CV/CE	38,450	40,361	42,548	45,939	47,167	49,548	5.0	22.8
Others	15,906	16,493	18,061	53,288	20,362	21,023	3.2	27.5
Two Wheelers	7,724	8,535	9,220	9,648	10,324	11,290	9.4	32.3
Gold Loans	5,130	5,251	5,299	5,399	5,529	5,701	3.1	8.6
Loans against securities	2,956	3,219	3,458	3,866	3,552	3,580	0.8	11.2
<b>Total Retail Advances</b>	<b>3,84,097</b>	<b>4,13,245</b>	<b>4,32,455</b>	<b>4,93,940</b>	<b>4,79,958</b>	<b>5,09,724</b>	<b>6.2</b>	<b>23.3</b>
Corporate & International	1,96,879	1,91,622	1,98,755	1,64,393	2,28,691	2,41,114	5.4	25.8
<b>Total loans</b>	<b>5,80,976</b>	<b>6,04,867</b>	<b>6,31,210</b>	<b>6,58,333</b>	<b>7,08,649</b>	<b>7,50,838</b>	<b>6.0</b>	<b>24.1</b>

Source: Company

**Outlook & Valuation:** Credit growth beat the industry growth rate, driven by strong retail business. The Strong liability franchise and healthy capitalisation provides strong earning visibility. We value the bank's subsidiaries at ₹121/share and the core bank at ₹2,228/share (3.7x FY2020E ABV). We recommend Buy rating on the stock with a target price of ₹2,350/share.

**Exhibit 3:**

Particulars	%Valuation	Methodology	Value/share (₹)
Value of HDFC Bank standalone	100	3.7x FY20E ABV	2229
Subsidiaries			
HDB Fin	96%	4x FY20E ABV	111
HDFC Sec	98%	25x of FY20 PAT	40
Total subsidiaries' value @ 20% discount			121
<b>Fair value per share</b>			<b>2350</b>

Source: Company

### Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Interest Income</b>	<b>27,592</b>	<b>33,139</b>	<b>40,092</b>	<b>47,565</b>	<b>56,268</b>
- YoY Growth (%)	23.6	20.1	21.0	18.6	18.3
<b>Other Income</b>	<b>10,752</b>	<b>12,296</b>	<b>15,221</b>	<b>16,939</b>	<b>20,793</b>
- YoY Growth (%)	19.5	14.4	23.8	11.3	22.7
<b>Operating Income</b>	<b>38,343</b>	<b>45,435</b>	<b>55,313</b>	<b>64,504</b>	<b>77,061</b>
- YoY Growth (%)	22.4	18.5	21.7	16.6	19.5
<b>Operating Expenses</b>	<b>16,980</b>	<b>19,703</b>	<b>22,690</b>	<b>25,998</b>	<b>30,990</b>
- YoY Growth (%)	21.4	16.0	15.2	14.6	19.2
<b>Pre - Provision Profit</b>	<b>21,364</b>	<b>25,732</b>	<b>32,623</b>	<b>38,506</b>	<b>46,071</b>
- YoY Growth (%)	23.2	20.4	26.8	18.0	19.6
<b>Prov. &amp; Cont.</b>	<b>2,726</b>	<b>3,593</b>	<b>5,927</b>	<b>6,596</b>	<b>6,845</b>
- YoY Growth (%)	31.3	31.8	65.0	11.3	3.8
<b>Profit Before Tax</b>	<b>18,638</b>	<b>22,139</b>	<b>26,696</b>	<b>31,910</b>	<b>39,226</b>
- YoY Growth (%)	22.1	18.8	20.6	19.5	22.9
<b>Prov. for Taxation</b>	<b>6,342</b>	<b>7,589</b>	<b>9,210</b>	<b>10,758</b>	<b>12,945</b>
- as a % of PBT	34.0	34.3	34.5	33.7	33.0
<b>PAT</b>	<b>12,296</b>	<b>14,549</b>	<b>17,486</b>	<b>21,153</b>	<b>26,282</b>
- YoY Growth (%)	21.2	18.3	20.2	21.0	24.2

Source: Company

### Balance Sheet

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	506	513	518	543	543
Reserves & Surplus	72,172	85,502	1,05,776	1,43,942	1,65,614
Net Worth	72,678	86,014	1,06,294	1,44,486	1,66,157
Deposits	5,46,424	6,43,640	7,88,770	9,30,749	11,16,898
- Growth (%)	21.2	17.8	22.5	18.0	20.0
Borrowings	53,018	74,029	1,23,105	1,23,790	1,56,366
Other Liab & Prov.	36,725	56,709	45,764	74,460	89,352
<b>Total Liabilities</b>	<b>7,08,846</b>	<b>8,60,392</b>	<b>10,63,933</b>	<b>12,73,484</b>	<b>15,28,773</b>
Cash balances	30,058	37,897	1,04,670	51,191	61,429
Bank balances	8,861	11,055	18,244	14,892	17,870
Investments	1,63,886	2,14,463	2,42,200	3,07,147	3,68,576
Advances	4,64,594	5,54,568	6,58,333	8,03,166	9,79,863
- Growth (%)	27.1	19.4	18.7	22.0	22.0
Fixed Assets	3,343	3,627	3,607	5,771	6,925
Other Assets	38,104	38,782	36,879	91,317	94,110
<b>Total Assets</b>	<b>7,08,846</b>	<b>8,60,392</b>	<b>10,63,933</b>	<b>12,73,484</b>	<b>15,28,773</b>
- Growth (%)	20.0	21.4	23.7	19.7	20.0

Source: Company

### Key Ratio

Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability Ratios (%)</b>					
NIMs	4.5	4.5	4.4	4.3	4.3
Cost to Income Ratio	44.3	43.4	41.0	40.3	40.2
RoA	1.9	1.9	1.8	1.8	1.9
RoE	18.3	18.3	18.2	16.9	16.9
<b>B/S ratios (%)</b>					
CASA Ratio	43.2	48.0	43.5	45.0	45.0
Credit/Deposit Ratio	85.0	86.2	83.5	86.3	87.7
CAR	15.5	14.7	17.3	16.7	16.2
- Tier I	13.2	12.9	15.8	15.4	15.1
<b>Asset Quality (%)</b>					
Gross NPAs	0.9	1.1	1.3	1.3	1.3
Net NPAs	0.3	0.3	0.4	0.4	0.4
Slippages	1.6	1.5	1.5	1.0	1.0
Loan Loss Prov./Avg. Assets	0.6	0.6	0.9	0.8	0.7
Provision Coverage	70	69	69	69	69
<b>Per Share Data (₹)</b>					
EPS	48.6	56.8	67.5	77.8	96.7
BVPS	287	336	410	532	612
ABVPS	282	328	400	520	600
DPS	9.5	11.5	13.5	13.5	14.5
<b>Valuation Ratios</b>					
PER (x)	40.4	34.6	29.1	25.2	20.3
P/BVPS (x)	6.8	5.9	4.8	3.7	3.2
P/ABVPS (x)	7.0	6.0	4.9	3.8	3.3
Dividend Yield	0.5	0.6	0.7	0.7	0.7
<b>DuPont Analysis (%)</b>					
Interest Income	9.3	8.8	8.3	8.3	8.2
Interest Expenses	5.0	4.6	4.2	4.2	4.2
<b>NII</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>
Non Interest Income	1.7	1.6	1.6	1.4	1.5
Total Revenues	5.9	5.8	5.7	5.5	5.5
Operating Cost	2.6	2.5	2.4	2.2	2.2
PPP	3.3	3.3	3.4	3.3	3.3
Total Provisions	0.4	0.5	0.6	0.6	0.5
PreTax Profit	2.9	2.8	2.8	2.7	2.8
Tax	1.0	1.0	1.0	0.9	0.9
<b>ROA</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>
Leverage	9.6	9.9	10.0	9.3	9.0
<b>RoE (%)</b>	<b>18.3</b>	<b>18.3</b>	<b>18.2</b>	<b>16.9</b>	<b>16.9</b>

Source: Company

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	HDFC Bank
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)