

HDFC Bank

Stable Q2; Moderate NII Led by drop in NIM

Particulars (₹ cr)	Q2FY20	Q1FY20	% chg (qoq)	Q2FY19	% chg (yoy)
NII	13,515	13,294	1.7	11,763	14.9
Pre-prov. profit	11,698	11,147	4.9	9,480	23.4
PAT	6,345	5,568	14.0	5,006	26.8

Source: Company

For Q2FY2020, HDFC Bank yet again reported a very strong set of operating numbers coupled with stable GNPA/NPA. Advances grew by 19.5% yoy, However, NII growth moderated at 15% owing to drop in advance yield and higher growth in term deposits. Deposits grew at 22.6% yoy (7% qoq) owing to 28% yoy growth in term deposit. CASA mix declined 268bps qoq to 39.3% (42% in 4QFY2019).

Loan growth remained strong led by pick up in corporate loan book: Softening of auto loan segment (contributes 27% of retail loans), which grew 2.3% yoy (declined qoq) led to moderate growth in advances. Home loan and credit card loan have reported healthy growth of 25.4% and 28.4% yoy, respectively. Wholesale loan grew by 27.9%, while retail loans moderated to 14.7% yoy.

Non-interest income grew strong, cost/income declined: Total other income grew at a healthy rate of 30% yoy led by healthy core fees income. Core fee income grew by 23% yoy primarily owing to strong traction in insurance business. Higher growth in employee expense was driven by an increase in employee base and higher gratuity related provision. Further, the cost-to-core income ratio declined by 115bps/20bps on yoy/qoq basis to 38.8%. Management has guided 300bps declined in C/I over the next 3-5 years.

Asset quality saw a marginal improvement: In absolute terms, GNPA went up by Rs739cr, up 6.3% qoq and stood at 1.38% (1.40% qoq). PCR stood at 70%, including floating provision PCR at 114% of GNPA. Slippages declined 14%/21% yoy/qoq to ₹3,714cr (1.66% for Q2FY2020, 2.04% for Q1FY2020 and 2.3% for Q2FY19). For HDB Financial Ser, management has adopted best practices viz. (a) it has moved to daily recognition (b) tagging the related borrowers and facility to same classification.

Deferred tax asset: During Q2FY2020, the bank has taken mark down of DTA worth of ₹1,200cr, in line with new corporate taxation. Net benefit to the bank is ₹450cr for 1HFY2020 (₹1,650cr is the actual savings ex-DTA).

Outlook & Valuation: Credit growth beat the industry growth rate driven by strong retail business. The strong liability franchise and healthy capitalisation provides earnings visibility. We value HDFC Bank using SOTP method, valuing standalone banking business at 3.7x of FY2021 ABV and its two subsidiaries at ₹78/share. We recommend a Buy on the stock, with a target price of ₹1,390/ share.

Key Performance

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	33,139	40,092	48,243	57,126	68,121
% chg	20.1	21.0	20.3	18.4	19.2
Net profit	14,549	17,486	21,078	26,640	33,355
% chg	18.3	20.2	20.5	26.4	25.2
NIM (%)	4.5	4.4	4.4	4.4	4.3
EPS (₹)	28.4	33.8	38.7	48.7	61.0
P/E (x)	44.0	37.0	32.3	25.6	20.5
P/ABV (x)	7.5	6.1	4.7	4.2	3.6
RoA (%)	1.9	1.8	1.8	2.0	2.1
RoE (%)	18.3	18.2	16.8	17.2	18.7

Source: Company, Angel Research; Note: CMP as of Oct 22, 2019

BUY

CMP	₹1,241
Target Price	₹1,390

Investment Period	12 Months
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Stock Info

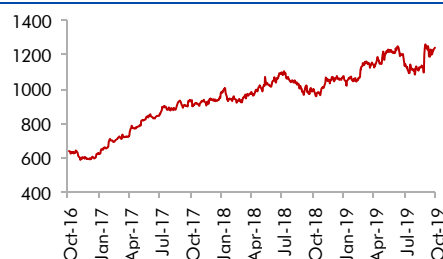
Sector	Banking
Market Cap (₹ cr)	6,77,636
Beta	1.0
52 Week High / Low	1,285/942
Avg. Daily Volume	4,90,342
Face Value (₹)	1
BSE Sensex	39,058
Nifty	11,604
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB IN

Shareholding Pattern (%)

Promoters	16.2
MF / Banks / Indian Fls	22.2
FII / NRIs / OCBs	47.1
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	1.6	13.5	40.1
HDFC Bank	4.3	26.0	62.0

3-Year Price Chart



Source: Company

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Exhibit 1: Quarterly Performance

Particulars (₹ Cr)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% YoY	% QoQ
Interest earned	22,549	24,200	25,890	26,333	27,392	28,166	16.4	2.8
- on Advances / Bills	17,391	18,828	20,306	21,019	21,805	22,514	19.6	3.3
- on investments	4,589	5,042	5,319	5,047	5,248	5,092	1.0	(3.0)
- on balance with RBI & others	332	94	98	112	175	416	345.0	137.7
- on others	237	236	167	155	164	144	(38.9)	(12.0)
Interest Expended	11,735	12,436	13,314	13,244	14,097	14,651	17.8	3.9
Net Interest Income	10,814	11,763	12,577	13,089	13,294	13,515	14.9	1.7
Other income	3,818	4,016	4,921	4,871	4,970	5,589	39.2	12.5
- Fee & commission income	3,171	3,296	3,647	3,692	3,552	4,055	23.0	14.2
- Treasury income	(283)	(33)	474	229	212	481	(1,565.5)	126.7
- Forex & derivative income	500	420	398	403	577	552	31.4	(4.3)
- Others	431	333	403	547	630	502	50.8	(20.3)
C/1%	41	39.9	38.4	39.6	39.0	38.8	(115.5)bp	(20.3)bp
Operating income	14,632	15,779	17,498	17,961	18,264	19,104	21.1	4.6
Operating expenses	5,984	6,299	6,719	7,117	7,117	7,406	17.6	4.1
- Employee expenses	1,811	1,909	1,968	2,074	2,217	2,355	23.4	6.2
- Other Opex	4,173	4,390	4,752	5,043	4,900	5,051	15.1	3.1
Pre-provision Profit	8,648	9,480	10,779	10,844	11,147	11,698	23.4	4.9
Provisions & Contingencies	1,629	1,820	2,212	1,889	2,614	2,701	48.4	3.3
PBT	7,018	7,660	8,567	8,954	8,533	8,998	17.5	5.4
Provision for Tax	2,417	2,654	2,981	3,069	2,965	2,652	(0.1)	(10.6)
PAT	4,601	5,006	5,586	5,885	5,568	6,345	26.8	14.0
Effective Tax Rate (%)	34	35	35	34	35	29	(517.2)bp	(527.1)bp

Liability Profile

Advance	7,08,649	7,50,838	7,80,951	8,19,401	8,29,730	8,96,984	19.5	8.1
Yield Asst	10,35,821	11,15,400	11,17,423	11,91,337	12,12,401	12,77,609	14.5	5.4
Investment	2,75,679	3,00,086	2,79,753	2,90,588	2,98,503	3,07,148	2.4	2.9
Borrowing	1,21,024	1,42,719	1,23,460	1,17,085	1,00,894	92,236	(35.4)	(8.6)
Deposit	8,05,785	8,33,364	8,52,502	9,23,141	9,54,554	10,21,615	22.6	7.0
CA	1,09,297	1,15,131	1,11,905	1,42,498	1,25,663	1,36,791	18.8	8.9
SA	2,26,656	2,34,568	2,35,179	2,48,700	2,53,338	2,64,445	12.7	4.4
CASA	3,35,953	3,49,699	3,47,084	3,91,198	3,79,001	4,01,236	14.7	5.9
CASA%	41.7	42.0	40.7	42.4	39.7	39.3	(268.8)bp	(43)bp
CA%	13.6	13.8	13.1	15.4	13.2	13.4	(42.6)bp	22.5bp
SA%	28.1	28.1	27.6	26.9	26.5	25.9	(226.2)bp	(65.5)bp
NIM (Reported)%	4.2	4.3	4.3	4.4	4.3	4.2	(10)bp	(10)bp

Source: Company

Exhibit 2: Profitability

Particular (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% YoY	% QoQ
Advance Yield	10.18	10.32	10.61	10.51	10.58	10.43	11.1bp	(14.7)bp
Investment Yield	7.1	7.0	7.3	7.1	7.1	6.7	(28)bp	(40.1)bp
NIM	4.20	4.37	4.51	4.54	4.42	4.34	(3.2)bp	(8.2)bp
COF	5.11	5.23	5.46	5.25	5.38	5.40	17.5bp	2.2bp
Spread	5.1	5.1	5.1	5.3	5.2	5.0	(6.4)bp	(16.8)bp
RoA	1.7	1.8	1.9	1.95	1.79	2.03	24.7bp	23.3bp
RoE	17.2	16.4	15.9	16.1	14.6	16.3	(5.1)bp	168.9bp

Exhibit 3: As per internal business classification

Particular	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% YoY	% QoQ
Auto	88,320	91,920	93,023	91,383	92,086	90,748	(1.3)	(1.5)
Two Wheelers	10,324	11,290	11,369	11,271	11,334	11,232	(0.5)	(0.9)
CV/CE	47,167	49,548	52,880	55,429	55,200	54,272	9.5	(1.7)
Sub-total - Auto Loans	1,45,811	1,52,758	1,57,272	1,58,083	1,58,620	1,56,252	2.3	(1.5)
Personal Loans	78,542	84,145	89,550	93,806	97,986	1,02,861	22.2	5.0
Home Loans	44,036	47,875	51,799	51,372	55,781	60,029	25.4	7.6
Business Banking	1,09,551	1,17,039	1,20,429	1,25,014	1,26,099	1,36,578	16.7	8.3
Kisan Gold Card	33,783	37,068	36,349	40,362	38,556	40,929	10.4	6.2
Credit Cards	38,792	40,535	44,839	46,630	49,523	52,043	28.4	5.1
Others	20,362	21,023	22,403	22,771	22,310	22,824	8.6	2.3
Gold Loans	5,529	5,701	5,760	5,838	5,924	6,086	6.8	2.7
Loans against securities	3,552	3,580	3,455	3,598	3,350	3,252	(9.2)	(2.9)
Total Retail Advances	4,79,958	5,09,724	5,31,856	5,47,474	5,58,149	5,80,854	14.0	4.1
Corporate & International	2,28,691	2,41,114	2,49,095	2,71,927	2,71,581	3,16,130	31.1	16.4
Total loans	7,08,649	7,50,838	7,80,951	8,19,401	8,29,730	8,96,984	19.5	8.1
Retail	68	68	68	67	67	65	(313.1)bp	(251.2)bp
Corporate	32	32	32	33	33	35	313.1bp	251.2bp

Exhibit 4: GNPA/NPA stable, Bank took contingent provision worth of ₹600Cr

Particular	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% YoY	% QoQ
GNPA	9,539	10,098	10,903	11,224	11,769	12,508	23.9	6.3
GNPA	2,907	3,028	3,302	3,215	3,567	3,791	25.2	6.3
GNPA%	1.3	1.33	1.38	1.36	1.40	1.38	5bp	(2)bp
NPA%	0.41	0.40	0.42	0.39	0.43	0.42	2bp	(1)bp
Slippage (%) Annl	2.0	2.3	2.0	1.75	2.04	1.66	(65.2)bp	(38.1)bp
Slippages	3,580	4,333	4,000	3,580	4,225	3,714	(14.3)	(12.1)
Credit Cost (%)	0.92	0.97	1.13	0.92	1.26	1.20	23.5bp	(5.6)bp
Provision Calc	69.52	69.92	69.57	71.32	69.29	69.57	(36)bp	28bp

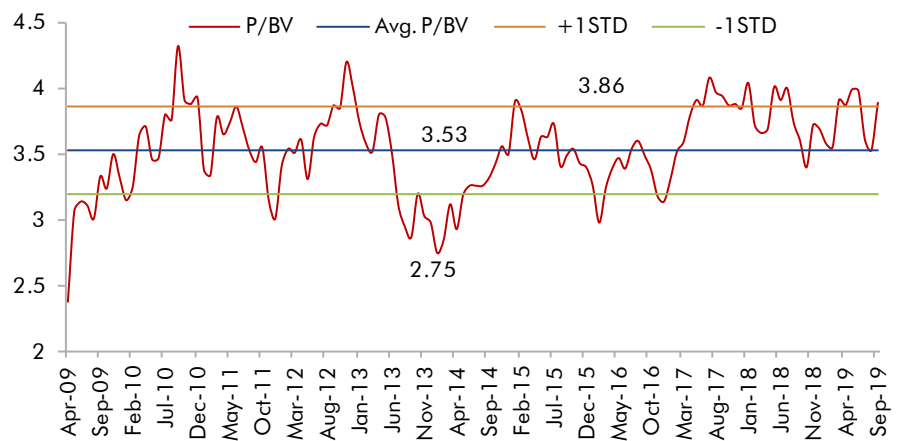
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Exhibit 5: Valuation Summary

Particulars	%	Valuation Methodology	Value/share (₹)
Value of HDFC Bank standalone	100	3.7x FY21E ABV	1326
Subsidiaries			
HDB Fin	96%	3.5x FY21E ABV	67
HDFC Sec	98%	15x of FY21 PAT	11
Less: Cost of investments			(7)
Fair value per share			1390

Source: Company

Exhibit 6: One year forward P/ BV (x)



Source: Company

Income Statement (Standalone)

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income	33,139	40,092	48,243	57,126	68,121
- YoY Growth (%)	20.1	21.0	20.3	18.4	19.2
Other Income	12,296	15,221	17,626	21,100	23,814
- YoY Growth (%)	14.4	23.8	15.8	19.7	12.9
Operating Income	45,435	55,313	65,869	78,226	91,936
- YoY Growth (%)	18.5	21.7	19.1	18.8	17.5
Operating Expenses	19,703	22,690	26,119	30,323	35,545
- YoY Growth (%)	16.0	15.2	15.1	16.1	17.2
Pre - Provision Profit	25,732	32,623	39,750	47,903	56,391
- YoY Growth (%)	20.4	26.8	21.8	20.5	17.7
Prov. & Cont.	3,593	5,927	7,550	10,692	11,817
- YoY Growth (%)	31.8	65.0	27.4	41.6	10.5
Profit Before Tax	22,139	26,696	32,200	37,211	44,574
- YoY Growth (%)	18.8	20.6	20.6	15.6	19.8
Prov. for Taxation	7,589	9,210	11,122	10,571	11,219
- as a % of PBT	34.3	34.5	34.5	28.4	25.2
PAT	14,549	17,486	21,078	26,640	33,355
- YoY Growth (%)	18.3	20.2	20.5	26.4	25.2

Balance sheet (Standalone)

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	513	518	545	547	547
Reserves & Surplus	85,652	1,05,776	1,43,882	1,69,943	1,96,897
Net Worth	86,164	1,06,294	1,44,427	1,70,490	1,97,444
Deposits	6,43,640	7,88,770	9,23,141	11,07,769	13,29,323
- Growth (%)	17.8	22.5	17.0	20.0	20.0
Borrowings	74,029	1,23,105	1,17,085	1,10,777	1,32,932
Other Liab & Prov.	56,709	45,764	55,108	66,466	79,759
Total Liabilities	8,60,542	10,63,933	12,39,761	14,55,502	17,39,459
Cash balances	37,897	1,04,670	46,764	60,927	73,113
Bank balances	11,055	18,244	34,584	17,724	21,269
Investments	2,14,463	2,42,200	2,90,588	3,65,564	4,38,677
Advances	5,54,568	6,58,333	8,19,401	9,83,281	11,79,938
- Growth (%)	19.4	18.7	24.5	20.0	20.0
Fixed Assets	3,627	3,607	4,030	6,868	8,242
Other Assets	38,932	36,879	44,395	21,137	18,220
Total Assets	8,60,542	10,63,933	12,39,761	14,55,502	17,39,459
- Growth (%)	21.4	23.6	16.5	17.4	19.5

Ratio analysis (Standalone)

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability Ratios (%)					
NIMs	4.46	4.35	4.36	4.36	4.34
Cost to Income Ratio	43.4	41.0	39.7	38.8	38.7
RoA	1.9	1.8	1.8	2.0	2.1
RoE	18.3	18.2	16.8	16.9	18.1
B/S ratios (%)					
CASA Ratio	48.0	43.5	42.4	45.0	45.0
Credit/Deposit Ratio	86.2	83.5	88.8	88.8	88.8
Asset Quality (%)					
Gross NPAs	1.1	1.3	1.3	1.3	1.3
Net NPAs	0.3	0.4	0.4	0.4	0.4
Slippages	1.5	1.5	2.2	2.0	2.0
Loan Loss Prov./Avg. Assets	0.6	0.9	0.9	1.1	1.0
Provision Coverage	69	69	69	69	69
Per Share Data (₹)					
EPS	28.4	33.8	38.7	48.7	61.0
BVPS	168	205	265	312	361
ABVPS	167	204	263	309	358
DPS	5.5	6.5	7.5	8.5	10.0
Valuation Ratios					
PER (x)	43.9	36.9	32.2	25.6	20.4
P/BVPS (x)	7.41	6.07	4.70	4.00	3.45
P/ABVPS (x)	7.45	6.11	4.73	4.02	3.47
Dividend Yield	0.4	0.5	0.6	0.7	0.8
DuPont Analysis (%)					
	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8.83	8.34	8.59	8.79	9.04
Interest Expenses	4.61	4.17	4.40	4.55	4.78
NII	4.22	4.17	4.19	4.24	4.26
Non Interest Income	1.57	1.58	1.53	1.57	1.49
Total Revenues	5.79	5.75	5.72	5.80	5.76
Operating Cost	2.51	2.36	2.27	2.25	2.23
PPP	3.28	3.39	3.45	3.55	3.53
Total Provisions	0.46	0.62	0.66	0.79	0.74
PreTax Profit	2.82	2.77	2.80	2.76	2.79
Tax	0.97	0.96	0.97	0.78	0.70
ROA	1.85	1.82	1.83	1.98	2.09
Leverage	9.88	10.00	9.19	8.56	8.68
RoE (%)	18.32	18.17	16.81	16.92	18.13

Valuation done on closing price of 22/10/2019

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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