

HDFC Bank

Performance Highlights

Particulars (₹ cr)	Q3FY19	Q2FY19	% chg (qoq)	Q3FY18	% chg (yoy)
NII	12,577	11,763	6.9	10,314	21.9
Pre-prov. profit	10,779	9,480	13.7	8,450	27.6
PAT	5,586	5,006	11.6	4,641	20.3

Source: Company, Angel Research

HDFC Bank delivered steady performance for Q3FY2019, with PAT growth of 20.3% yoy. Pre-provision profit grew at healthy rate largely owing to strong other income growth (up 27.2% yoy) and contained cost (up mere 17.2% yoy). NIM was stable at 4.3%, as increase in COF was offset by increase in yield. However, provisions went up primarily owing to stress in agri portfolio and slippages. The slippages for Q3FY2019 were at 2% though ex-agri at 1.7%. The bank managed to reduce its expenses and brought down the cost/income ratio from 40.4% in Q3FY2018 to 38.4% in Q3FY2019.

Healthy operating profit growth; NIM stable

During Q3FY2019, the bank's advances grew by 23.7% yoy, with retail and wholesale (including overseas) growing at 23% yoy and 26% yoy respectively. The net interest income during this period grew by 21.9% yoy, led by advances growth and stable NIM. Core fees income grew by 27% yoy to ₹3,650cr supported by healthy payment/cash management fees. Total other income also grew at healthy rate of 27.2% with Treasury gain of ₹474cr vs. loss of ₹33cr in 2QFY2019.

Total deposits surged by 22% yoy and 2.3% qoq in Q3FY19. CASA deposits accounted for 40.7% of the total deposits.

On the asset quality front, provision cost went up primarily owing to management decision to take contingent provision of ₹320cr in anticipation of higher stress on recently announced farm loan waiver. Annualised fresh slippages for Q3FY2019 were at elevated level of 2% (ex-agri 1.7%), which led to an increase in GNPA /NPA by 8%/9% qoq to 1.38%/0.42%.

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 3.3x of FY21 ABV and its two subsidiaries at ₹146/share. We recommend a Buy on the stock, with a target price of ₹2,500.

Key financials (Standalone)

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
NII	33,139	40,092	47,942	58,609	70,301
% chg	20.1	21.0	19.6	22.3	19.9
Net profit	14,549	17,486	20,990	25,798	31,106
% chg	18.3	20.2	20.0	22.9	20.6
NIM (%)	4.5	4.4	4.4	4.5	4.4
EPS (Rs)	56.8	67.5	78.5	96.5	116.3
P/E (x)	37.8	31.8	27.3	22.2	18.4
P/ABV (x)	6.4	5.3	4.0	3.5	3.0
RoA (%)	1.9	1.8	1.8	1.8	1.9
RoE (%)	18.3	18.2	16.7	16.6	17.4

Note: CMP as of January 21, 2019

BUY

CMP	₹2,145
Target Price	₹2,500

Investment Period 12 Months

Stock Info

Sector	Banking
Market Cap (₹ cr)	5,79,332
Beta	1.2
52 Week High / Low	2,219/1,830
Avg. Daily Volume	3,70,042
Face Value (₹)	2
BSE Sensex	36,578
Nifty	10,961
Reuters Code	HDBK.NS
Bloomberg Code	HDFCB:IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	14.5
FII / NRIs / OCBs	74.9
Indian Public / Others	10.6

Abs. (%)	3m	1yr	3yr
Sensex	6.1	1.6	48.9
HDFC Bank	7.4	9.3	108.3

3-year price chart



Source: Company, Angel Research

Jaikishan Parmar

Research Analyst

022 – 39357600 Ext: 6810

Jaikishan.parmar@angelbroking.com

Exhibit 1: Quarterly Result

Particulars (₹ cr)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	% QoQ	% YoY
Interest earned	19,670	20,581	21,319	22,549	24,200	25,890	7.0	25.8
- on Advances / Bills	15,356	16,157	16,663	17,391	18,828	20,306	7.9	25.7
- on investments	4,006	4,100	4,222	4,589	5,042	5,319	5.5	29.7
- on balance with RBI & others	106	112	196	332	94	98	5.0	-12.6
- on others	202	212	238	237	236	167	-29.4	-21.4
Interest Expended	9,918	10,267	10,663	11,735	12,436	13,314	7.1	29.7
Net Interest Income	9,752	10,314	10,656	10,814	11,763	12,577	6.9	21.9
Other income	3,606	3,868	4,229	3,818	4,016	4,921	22.5	27.2
- Fee & commission income	2,614	2,872	3,330	3,171	3,296	3,647	10.7	27.0
- Treasury income	356	259	(22)	(283)	(33)	474	-1545.1	83.0
- Forex & derivative income	384	426	416	500	420	398	-5.3	-6.6
Others	252	311	505	431	333	403	20.9	29.5
C/l%	41.5	40.4	41	41	39.9	38.4	-152bp	-202bp
Operating income	13,358	14,182	14,885	14,632	15,779	17,498	10.9	23.4
Operating expenses	5,540	5,732	6,050	5,984	6,299	6,719	6.7	17.2
- Employee expenses	1,716	1,691	1,741	1,811	1,909	1,968	3.1	16.3
- Other Opex	3,824	4,041	4,309	4,173	4,390	4,752	8.2	17.6
Pre-provision Profit	7,818	8,450	8,835	8,648	9,480	10,779	13.7	27.6
Provisions & Contingencies	1,476	1,351	1,541	1,629	1,820	2,212	21.5	63.7
PBT	6,342	7,099	7,294	7,018	7,660	8,567	11.8	20.7
Provision for Tax	2,191	2,457	2,495	2,417	2,654	2,981	12.3	21.3
PAT	4,151	4,641	4,799	4,601	5,006	5,586	11.6	20.3
Liability Profile								
Borrowing	1,01,531	1,03,867	1,23,105	1,21,024	1,42,719	1,23,460	-13.5	18.9
Deposit	6,89,346	6,99,026	7,88,770	8,05,785	8,33,364	8,52,502	2.3	22.0
CA	97,825	1,01,286	1,19,283	1,09,297	1,15,131	1,11,905	-2.8	10.5
SA	1,97,655	2,05,833	2,23,810	2,26,656	2,34,568	2,35,179	0.3	14.3
CASA	2,95,480	3,07,119	3,43,093	3,35,953	3,49,699	3,47,084	-0.7	13.0
CASA%	42.9	43.9	43.5	41.7	42.0	40.7	-125bp	-322bp
CA%	14.2	14.5	15.1	13.6	13.8	13.1	-69bp	-136bp
SA%	28.7	29.4	28.4	28.1	28.1	27.6	-56bp	-186bp
NIM (Reputed)%	4.3	4.3	4.3	4.2	4.3	4.3	0bp	0bp
Branches	4,729	4,734	4,787	4,804	4,825	4,963	2.9	4.8
Profitability Ratios								
Advance Yield	10.4	10.5	10.3	10.18	10.32	10.61	29bp	15bp
Investment Yield	7.0	6.9	7.1	7.1	7.0	7.3	33bp	40bp
NIM	4.47	4.60	4.42	4.20	4.37	4.51	13bp	-9bp
COF	5.1	5.2	5.0	5.11	5.23	5.46	23bp	30bp
Spread	5.2	5.3	5.4	5.1	5.1	5.1	6bp	-15bp
RoA	1.8	2.0	1.9	1.7	1.8	1.9	13bp	-6bp
RoE	16.9	17.9	18.1	17.2	16.4	15.9	-40bp	-196bp

Source: Company

Exhibit 2: Advance growth & Mix (As per internal business classification)

Particulars (₹ cr)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	% QoQ	% YoY
Auto	78,999	82,510	85,974	88,320	91,920	93,023	1.2	12.7
Two Wheelers	8,535	9,220	9,648	10,324	11,290	11,369	0.7	23.3
CV/CE	40,361	42,548	45,939	47,167	49,548	52,880	6.7	24.3
Sub-total - Auto Loans	1,27,895	1,34,278	1,41,561	1,45,811	1,52,758	1,57,272		
Personal Loans	61,313	67,490	72,442	78,542	84,145	89,550	6.4	32.7
Home Loans	40,029	38,130	36,265	44,036	47,875	51,799	8.2	35.8
Business Banking	96,485	1,00,810	1,09,507	1,09,551	1,17,039	1,20,429	2.9	19.5
Kisan Gold Card	31,729	31,307	35,497	33,783	37,068	36,349	-1.9	16.1
Credit Cards	30,831	33,622	36,115	38,792	40,535	44,839	10.6	33.4
Others	16,493	18,061	17,791	20,362	21,023	22,403	6.6	24.0
Gold Loans	5,251	5,299	5,399	5,529	5,701	5,760	1.0	8.7
Loans against securities	3,219	3,458	3,866	3,552	3,580	3,455	-3.5	-0.1
Total Retail Advances	4,13,245	4,32,455	4,58,443	4,79,958	5,09,724	5,31,856	4.3	23.0
Corporate & International	1,91,622	1,98,760	1,99,890	2,28,691	2,41,114	2,49,095	3.3	25.3
Total loans	6,04,867	6,31,215	6,58,333	7,08,649	7,50,838	7,80,951	4.0	23.7
Retail	68	69	70	68	68	68	22bp	-41bp
Corporate	32	31	30	32	32	32	-22bp	41bp
Loan Mix (%)								
Auto	13.1	13.1	13.1	12.5	12.2	11.9	-33bp	-116bp
Two Wheelers	1.4	1.5	1.5	1.5	1.5	1.5	-5bp	0bp
CV/CE	6.7	6.7	7.0	6.7	6.6	6.8	17bp	3bp
Sub-total - Auto Loans	21.1	21.3	21.5	20.6	20.3	20.1	-21bp	-113bp
Personal Loans	10.1	10.7	11.0	11.1	11.2	11.5	26bp	77bp
Home Loans	6.6	6.0	5.5	6.2	6.4	6.6	26bp	59bp
Business Banking	16.0	16.0	16.6	15.5	15.6	15.4	-17bp	-55bp
Kisan Gold Card	5.2	5.0	5.4	4.8	4.9	4.7	-28bp	-31bp
Credit Cards	5.1	5.3	5.5	5.5	5.4	5.7	34bp	42bp
Others	2.7	2.9	2.7	2.9	2.8	2.9	7bp	1bp
Gold Loans	0.9	0.8	0.8	0.8	0.8	0.7	-2bp	-10bp
Loans against securities	0.5	0.5	0.6	0.5	0.5	0.4	-3bp	-11bp
Total Retail Advances	68.3	68.5	69.6	67.7	67.9	68.1	22bp	-41bp
Corporate & International	31.7	31.5	30.4	32.3	32.1	31.9	-22bp	41bp
Total loans	100.0	100.0	100.0	100.0	100.0	100.0	0bp	0bp
Asset Quality								
GNPA	7,703	8,235	8,607	9,539	10,098	10,903	8.0	32.4
GNPA	2,599	2,774	2,601	2,907	3,028	3,302	9.0	19.0
GNPA%	1.3	1.3	1.3	1.3	1.33	1.38	5bp	8bp
NPA%	0.43	0.44	0.40	0.41	0.400	0.420	2bp	-2bp
Slippage (%)	1.6	2.9	1.7	2.0	2.3	2.0	-26bp	-86bp
Slippages	2,473	4,588	2,790	3,580	4,333	4,000	-7.7	-12.8
Credit Cost (%)	1.0	0.9	0.9	0.9	1.0	1.1	16bp	28bp

Source: Company

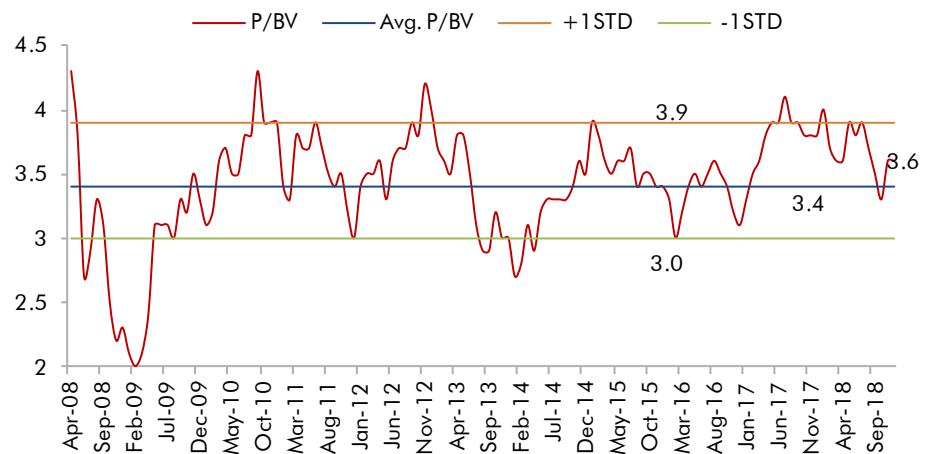
Outlook & Valuation: Credit growth beat the industry growth rate, driven by strong retail business. The strong liability franchise and healthy capitalisation provides earnings visibility. We value HDFC Bank using SOTP method valuing standalone banking business at 3.3x of FY21 ABV and its two subsidiaries at ₹146/share. We recommend a Buy on the stock, with a target price of ₹2,500.

Exhibit 3: Valuation Summary

Particulars	%	Valuation Methodology	Value/share (₹)
Value of HDFC Bank standalone	100	3.3x FY21E ABV	2354
Subsidiaries			
HDB Fin	96%	3.5x FY21E ABV	123
HDFC Sec	98%	20x of FY21 PAT	37
Less: Cost of investments			(14)
Fair value per share			2500

Source: Company Valuation done on closing price of 21/1/19

Exhibit 4: One year forward P/BV (x)



Source: Company

Income Statement

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	33,139	40,092	47,942	58,609	70,301
- YoY Growth (%)	20.1	21.0	19.6	22.3	19.9
Other Income	12,296	15,221	17,460	20,361	24,715
- YoY Growth (%)	14.4	23.8	14.7	16.6	21.4
Operating Income	45,435	55,313	65,402	78,970	95,016
- YoY Growth (%)	18.5	21.7	18.2	20.7	20.3
Operating Expenses	19,703	22,690	25,897	31,094	37,608
- YoY Growth (%)	16.0	15.2	14.1	20.1	20.9
Pre - Provision Profit	25,732	32,623	39,506	47,876	57,408
- YoY Growth (%)	20.4	26.8	21.1	21.2	19.9
Prov. & Cont.	3,593	5,927	7,608	9,372	10,981
- YoY Growth (%)	31.8	65.0	28.3	23.2	17.2
Profit Before Tax	22,139	26,696	31,898	38,504	46,428
- YoY Growth (%)	18.8	20.6	19.5	20.7	20.6
Prov. for Taxation	7,589	9,210	10,908	12,706	15,321
- as a % of PBT	34.3	34.5	34.2	33.0	33.0
PAT	14,549	17,486	20,990	25,798	31,106
- YoY Growth (%)	18.3	20.2	20.0	22.9	20.6

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	513	518	535	535	535
Reserves & Surplus	85,502	1,05,776	1,43,997	1,65,257	1,91,670
Net Worth	86,014	1,06,294	1,44,532	1,65,792	1,92,205
Deposits	6,43,640	7,88,770	9,30,749	11,16,898	13,40,278
- Growth (%)	17.8	22.5	18.0	20.0	20.0
Borrowings	74,029	1,23,105	1,23,790	1,56,366	1,87,639
Other Liab & Prov.	56,709	45,764	74,460	89,352	1,07,222
Total Liabilities	8,60,392	10,63,933	12,73,530	15,28,408	18,27,344
Cash balances	37,897	1,04,670	51,191	61,429	73,715
Bank balances	11,055	18,244	14,892	17,870	21,444
Investments	2,14,463	2,42,200	3,07,147	3,68,576	4,42,292
Advances	5,54,568	6,58,333	8,03,166	9,79,863	11,95,433
- Growth (%)	19.4	18.7	22.0	22.0	22.0
Fixed Assets	3,627	3,607	5,771	6,925	8,310
Other Assets	38,782	36,879	91,363	93,744	86,150
Total Assets	8,60,392	10,63,933	12,73,530	15,28,408	18,27,344
- Growth (%)	21.4	23.7	19.7	20.0	19.6

Key Ratio

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Profitability Ratios (%)					
NIMs	4.5	4.4	4.4	4.5	4.4
Cost to Income Ratio	43.4	41.0	39.6	39.4	39.6
RoA	1.9	1.8	1.8	1.8	1.9
RoE	18.3	18.2	16.7	16.6	17.4
B/S ratios (%)					
CASA Ratio	48.0	43.5	45.0	45.0	45.0
Credit/Deposit Ratio	86.2	83.5	86.3	87.7	89.2
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	1.0	0.9
Provision Coverage	69	69	69	69	69
Per Share Data (₹)					
EPS	56.8	67.5	78.5	96.5	116.3
BVPS	336	410	540	620	719
ABVPS	334	407	537	616	713
DPS	11.5	13.5	13.5	14.5	15.0
Valuation Ratios					
PER (x)	37.8	31.8	27.3	22.2	18.4
P/BVPS (x)	6.4	5.2	4.0	3.5	3.0
P/ABVPS (x)	6.4	5.3	4.0	3.5	3.0
Dividend Yield	0.5	0.6	0.6	0.7	0.7
DuPont Analysis (%)					
Interest Income	8.83	8.34	8.54	8.81	8.91
Interest Expenses	4.61	4.17	4.44	4.62	4.72
NII	4.22	4.17	4.10	4.18	4.19
Non Interest Income	1.57	1.58	1.49	1.45	1.47
Total Revenues	5.79	5.75	5.60	5.64	5.66
Operating Cost	2.51	2.36	2.22	2.22	2.24
PPP	3.28	3.39	3.38	3.42	3.42
Total Provisions	0.46	0.62	0.65	0.67	0.65
Pre-Tax Profit	2.82	2.77	2.73	2.75	2.77
Tax	0.97	0.96	0.93	0.91	0.91
ROA	1.85	1.82	1.80	1.84	1.85
Leverage	9.89	10.01	9.32	9.03	9.37
RoE (%)	18.34	18.19	16.74	16.63	17.38

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	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)