

HDFC Bank

Stable Q1 ; Higher Provisions mar performance

Particulars (₹ cr)	Q1FY20	Q4FY19	% chg (qoq)	Q1FY19	% chg (yoy)
NII	13,294	13,089	1.6	10,814	22.9
Pre-prov. profit	11,147	10,844	2.8	8,648	28.9
PAT	5,568	5,885	(5.4)	4,601	21.0

Source: Company

For Q1FY2020, HDFC Bank has reported a very strong set of operating numbers yet again coupled with stable GNPA/NPA. However, provision for unsecured credit and agri loan spiked, which led to jump in credit cost by 34bps/33.8bps on yoy/qoq basis. Loan growth moderated to 17.1% yoy (~24% in past three quarters) led by moderating auto loans and base effect in the unsecured segment.

Advances growth moderated: Softening of auto loan segment (contributes 28% of retail loans), which grew 9% yoy (flat qoq) led to moderate growth in advances. Personal and credit card loan have reported very healthy growth of 25% and 28% yoy respectively. However, it is slower than historical growth rate of 35% yoy. Deposits grew at 18.5% yoy (3.4% qoq) owing to 22.5% yoy growth in term deposit. CASA mix declined 270bps qoq to 39.7% (42.4% in 4QFY2019).

Core income under pressure, cost/income declines: Total other income grew at healthy rate of 30% yoy led by treasury gains. However, core fees barely grew at 12% primarily owing to plunge in mutual fund distribution fees and decline in disbursement in the unsecured book. Opex grew at 18.9% yoy (flat qoq), primarily led by higher employee expenses (+22.5% yoy). Further, the cost-to-core income ratio declined by 192bps/70bps on yoy/qoq basis to 39%. Management has guided 300bps decline in C/I over the next 3-5 years.

Provisions spiked: During the quarter, the key monitorable was spike in provision expenses i.e. 60%/38% on yoy/qoq basis. This was largely led by (a) agri portfolio, (b) step-up provision towards unsecured loan, (earlier the bank used to take write-off between 150-180 dpd, now provides 100% within 150dpd), (c) contingent provision worth of ₹165cr, and (d) growth in balance sheet size. Ongoing slowdown in auto segment and subdued environment in real estate has impacted the HDB financials. GNPA/NNPA was at 2.3%/1.7% (jump of 50bps/40bps qoq), largely NPA increased in construction finance segment. HDFC Securities' PAT declined by 8% qoq.

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 3.5x of FY21 ABV and its two subsidiaries at ₹147/share. We recommend a Buy on the stock, with a target price of ₹2,620/ share.

Key Performance

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	33,139	40,092	48,243	57,795	68,500
% chg	20.1	21.0	20.3	19.8	18.5
Net profit	14,549	17,486	21,078	24,915	30,149
% chg	18.3	20.2	20.5	18.2	21.0
NIM (%)	4.5	4.4	4.4	4.4	4.4
EPS (₹)	56.8	67.5	77.4	91.2	110.3
P/E (x)	39.9	33.6	29.3	24.9	20.5
P/ABV (x)	6.8	5.6	4.3	3.7	3.2
RoA (%)	1.9	1.8	1.8	1.8	1.9
RoE (%)	18.3	18.2	16.8	15.8	16.5

Source: Company, Angel Research; Note: CMP as of July 23, 2019

BUY

CMP	₹2,264
Target Price	₹2,620

Investment Period	12 Months
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Stock Info

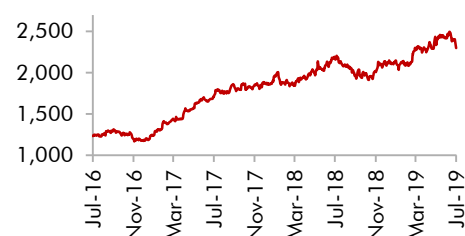
Sector	Banking
Market Cap (₹ cr)	6,27,741
Beta	0.8
52 Week High / Low	2,503/1,885
Avg. Daily Volume	1,91,345
Face Value (₹)	2
BSE Sensex	38,031
Nifty	11,345
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB IN

Shareholding Pattern (%)

Promoters	21.3
MF / Banks / Indian FIs	13.9
FII / NRIs / OCBs	31.4
Indian Public / Others	14.7

Abs. (%)	3m	1yr	3yr
Sensex	(2.6)	3.6	36.8
HDFC Bank	0.8	6.5	86.5

3-Year Price Chart



Source: Company

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Exhibit 1: Quarterly Performance

Particulars (₹ cr)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% YoY	% QoQ
Interest earned	20,581	21,319	22,549	24,200	25,890	26,333	27,392	21.5	4.0
- on Advances / Bills	16,157	16,663	17,391	18,828	20,306	21,019	21,805	25.4	3.7
- on investments	4,100	4,222	4,589	5,042	5,319	5,047	5,248	14.3	4.0
- on bal with RBI	112	196	332	94	98	112	175	(47.3)	57.1
- on others	212	238	237	236	167	155	164	(30.7)	5.5
Interest Expended	10,267	10,663	11,735	12,436	13,314	13,244	14,097	20.1	6.4
Net Interest Income	10,314	10,656	10,814	11,763	12,577	13,089	13,294	22.9	1.6
Other income	3,868	4,229	3,818	4,016	4,921	4,871	4,970	30.2	2.0
- Fee & comm	2,872	3,330	3,171	3,296	3,647	3,692	3,552	12.0	(3.8)
- Treasury income	259	(22)	(283)	(33)	474	229	212	(174.9)	(7.4)
- Forex & derivative	426	416	500	420	398	403	577	15.4	42.9
Others	311	505	431	333	403	547	630	46.3	15.2
C/1%	40.4	40.6	41	39.9	38.4	39.6	39.0	(192.9)bp	(65.8)bp
Operating income	14,182	14,885	14,632	15,779	17,498	17,961	18,264	24.8	1.7
Operating exp	5,732	6,050	5,984	6,299	6,719	7,117	7,117	18.9	0.0
- Employee exp	1,691	1,741	1,811	1,909	1,968	2,074	2,217	22.5	6.9
- Other Opex	4,041	4,309	4,173	4,390	4,752	5,043	4,900	17.4	(2.8)
Pre-provision Profit	8,450	8,835	8,648	9,480	10,779	10,844	11,147	28.9	2.8
Provisions & Cont	1,351	1,541	1,629	1,820	2,212	1,889	2,614	60.4	38.3
PBT	7,099	7,294	7,018	7,660	8,567	8,954	8,533	21.6	(4.7)
Provision for Tax	2,457	2,495	2,417	2,654	2,981	3,069	2,965	22.7	(3.4)
PAT	4,641	4,799	4,601	5,006	5,586	5,885	5,568	21.0	(5.4)
Effective Tax Rate (%)	35	34	34	35	35	34	35	31.4bp	47.4bp

Balance sheet

Advance	6,31,215	6,58,333	7,08,649	7,50,838	7,80,951	8,19,401	8,29,730	17.1	1.3
Borrowing	1,03,867	1,23,105	1,21,024	1,42,719	1,23,460	1,17,085	1,00,894	(16.6)	(13.8)
Deposit	6,99,026	7,88,770	8,05,785	8,33,364	8,52,502	9,23,141	9,54,554	18.5	3.4
CA	1,01,286	1,19,283	1,09,297	1,15,131	1,11,905	1,42,498	1,25,663	15.0	(11.8)
SA	2,05,833	2,23,810	2,26,656	2,34,568	2,35,179	2,48,700	2,53,338	11.8	1.9
CASA	3,07,119	3,43,093	3,35,953	3,49,699	3,47,084	3,91,198	3,79,001	12.8	(3.1)
CASA%	43.9	43.5	41.7	42.0	40.7	42.4	39.7	(198.8)bp	(267.2)bp
CA%	14.5	15.1	13.6	13.8	13.1	15.4	13.2	(39.9)bp	(227.2)bp
SA%	29.4	28.4	28.1	28.1	27.6	26.9	26.5	(158.9)bp	(40.1)bp
NIM (Reported)%	4.3	4.3	4.2	4.3	4.3	4.4	4.3	10bp	(10)bp

Source: Company

Exhibit 2: Profitability

Particulars (%)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% YoY	% QoQ
Advance Yield	10.5	10.3	10.18	10.32	10.61	10.51	10.58	40bp	7bp
Investment Yield	6.9	7.1	7.1	7.0	7.3	7.1	7.1	3.7bp	4.7bp
NIM	4.60	4.42	4.20	4.37	4.51	4.54	4.42	22.4bp	(11.1)bp
COF	5.2	5.0	5.11	5.23	5.46	5.25	5.38	27.5bp	12.7bp
Spread	5.3	5.4	5.1	5.1	5.1	5.3	5.2	12.4bp	(5.6)bp
RoA	1.97	1.9	1.7	1.8	1.9	1.95	1.79	7.6bp	(15.8)bp
RoE	17.9	18.1	17.2	16.4	15.9	16.1	14.6	(259.3)bp	(150.2)bp

Source: Company

Exhibit 3: Advance detail as per internal classification

Particular (₹ Cr)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% YoY	% QoQ
Auto	82,510	85,974	88,320	91,920	93,023	91,383	92,086	4.3	0.8
Two Wheelers	9,220	9,648	10,324	11,290	11,369	11,271	11,334	9.8	0.6
CV/CE	42,548	45,939	47,167	49,548	52,880	55,429	55,200	17.0	(0.4)
Sub-total - Auto Loans	1,34,278	1,41,561	1,45,811	1,52,758	1,57,272	1,58,083	1,58,620	8.8	0.3
Personal Loans	67,490	72,442	78,542	84,145	89,550	93,806	97,986	24.8	4.5
Home Loans	38,130	36,265	44,036	47,875	51,799	51,372	55,781	26.7	8.6
Business Banking	1,00,810	1,09,507	1,09,551	1,17,039	1,20,429	1,25,014	1,26,099	15.1	0.9
Kisan Gold Card	31,307	35,497	33,783	37,068	36,349	40,362	38,556	14.1	(4.5)
Credit Cards	33,622	36,115	38,792	40,535	44,839	46,630	49,523	27.7	6.2
Others	18,061	17,791	20,362	21,023	22,403	22,771	22,310	9.6	(2.0)
Gold Loans	5,299	5,399	5,529	5,701	5,760	5,838	5,924	7.1	1.5
LAS	3,458	3,866	3,552	3,580	3,455	3,598	3,350	(5.7)	(6.9)
Total Retail Advances	4,32,455	4,58,443	4,79,958	5,09,724	5,31,856	5,47,474	5,58,149	16.3	1.9
Corp& International	1,98,760	1,99,890	2,28,691	2,41,114	2,49,095	2,71,927	2,71,581	18.8	(0.1)
Total loans	6,31,215	6,58,333	7,08,649	7,50,838	7,80,951	8,19,401	8,29,730	17.1	1.3
Retail (%)	69	70	68	68	68	67	67	(46)bp	45.5bp
Corporate (%)	31	30	32	32	32	33	33	46bp	(45.5)bp

Source: Company

Exhibit 4: GNPA/NPA stable however Provision increased due to unsecured loan

Particular	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% YoY	% QoQ
GNPA	8,235	8,607	9,539	10,098	10,903	11,224	11,769	23.4	4.9
GNPA	2,774	2,601	2,907	3,028	3,302	3,215	3,567	22.7	11.0
GNPA%	1.3	1.3	1.3	1.33	1.38	1.36	1.40	5.4bp	4bp
NPA%	0.44	0.40	0.41	0.40	0.42	0.39	0.43	2bp	4bp
Slippage (%) Annl	2.9	1.70	2.0	2.3	2.0	1.75	2.04	1.6bp	28.9bp
Slippages	4,588	2,790	3,580	4,333	4,000	3,580	4,225	18.0	18.0
Credit Cost (%)	0.86	0.94	0.92	0.97	1.13	0.92	1.26	34bp	33.8bp
Provision Calc	66.15	69.47	69.52	69.92	69.57	71.32	69.29	(23.7)bp	(203.8)bp

Source: Company

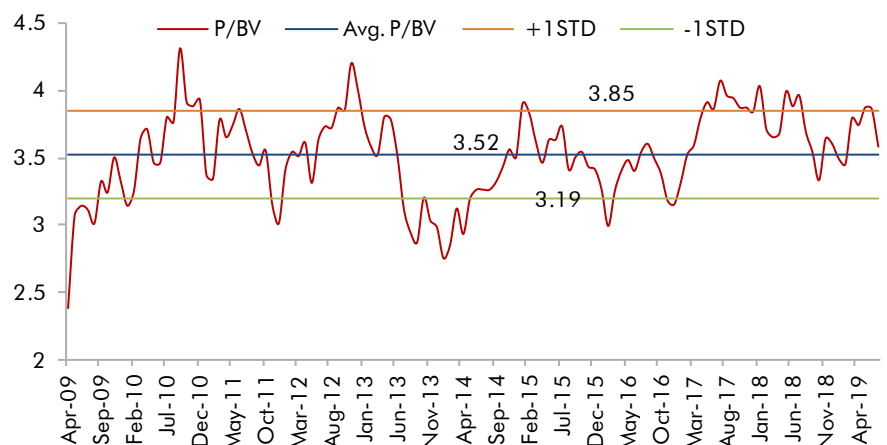
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Exhibit 5: Valuation Summary

Particulars	%	Valuation Methodology	Value/share (₹)
Value of HDFC Bank standalone	100	3.5x FY21E ABV	2488
Subsidiaries			
HDB Fin	96%	3.5x FY21E ABV	126
HDFC Sec	98%	15x of FY21 PAT	21
Less: Cost of investments			(14)
Fair value per share			2620

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	57,795	68,500
- YoY Growth (%)	20.1	21.0	20.3	19.8	18.5
Other Income	12,296	15,221	17,626	20,459	23,793
- YoY Growth (%)	14.4	23.8	15.8	16.1	16.3
Operating Income	45,435	55,313	65,869	78,254	92,293
- YoY Growth (%)	18.5	21.7	19.1	18.8	17.9
Operating Expenses	19,703	22,690	26,119	30,331	35,464
- YoY Growth (%)	16.0	15.2	15.1	16.1	16.9
Pre - Provision Profit	25,732	32,623	39,750	47,923	56,829
- YoY Growth (%)	20.4	26.8	21.8	20.6	18.6
Prov. & Cont.	3,593	5,927	7,550	10,514	11,830
- YoY Growth (%)	31.8	65.0	27.4	39.3	12.5
Profit Before Tax	22,139	26,696	32,200	37,409	44,999
- YoY Growth (%)	18.8	20.6	20.6	16.2	20.3
Prov. for Taxation	7,589	9,210	11,122	12,494	14,850
- as a % of PBT	34.3	34.5	34.5	33.4	33.0
PAT	14,549	17,486	21,078	24,915	30,149
- YoY Growth (%)	18.3	20.2	20.5	18.2	21.0

Balance sheet (Standalone)

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	513	518	545	547	547
Reserves & Surplus	85,502	1,05,776	1,44,360	1,69,802	1,95,155
Net Worth	86,014	1,06,294	1,44,905	1,70,348	1,95,702
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	8,60,392	10,63,933	12,40,239	14,55,361	17,37,716
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	38,782	36,879	44,873	20,995	16,478
Total Assets	8,60,392	10,63,933	12,40,239	14,55,361	17,37,716
- Growth (%)	21.4	23.7	16.6	17.3	19.4

Ratio analysis (Standalone)

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability Ratios (%)					
NIMs	4.46	4.35	4.36	4.41	4.36
Cost to Income Ratio	43.4	41.0	39.7	38.8	38.4
RoA	1.9	1.8	1.8	1.8	1.9
RoE	18.3	18.2	16.8	15.8	16.5
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	56.8	67.5	77.4	91.2	110.3
BVPS	336	410	532	623	716
ABVPS	334	407	528	619	711
DPS	11.5	13.5	13.5	14.5	15.0
Valuation Ratios					
PER (x)	39.9	33.6	29.3	24.9	20.5
P/BVPS (x)	6.8	5.5	4.3	3.6	3.2
P/ABVPS (x)	6.8	5.6	4.3	3.7	3.2
Dividend Yield	0.5	0.6	0.6	0.6	0.7
DuPont Analysis (%)					
	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8.83	8.34	8.59	8.88	9.05
Interest Expenses	4.61	4.17	4.40	4.60	4.76
NII	4.22	4.17	4.19	4.29	4.29
Non Interest Income	1.57	1.58	1.53	1.52	1.49
Total Revenues	5.79	5.75	5.72	5.81	5.78
Operating Cost	2.51	2.36	2.27	2.25	2.22
PPP	3.28	3.39	3.45	3.56	3.56
Total Provisions	0.46	0.62	0.66	0.78	0.74
PreTax Profit	2.82	2.77	2.79	2.78	2.82
Tax	0.97	0.96	0.97	0.93	0.93
ROA	1.85	1.82	1.83	1.85	1.89
Leverage	9.89	10.01	9.17	8.55	8.72
RoE (%)	18.34	18.19	16.78	15.81	16.47

Valuation done on closing price of 23/7/2019

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3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No