

HDFC Bank

Other income aids top-line; credit costs, slippages elevated

Particulars (₹ cr)	Q3FY20	Q2FY20	% chg (qoq)	Q3FY19	% chg (yoy)
NII	14,173	13,515	4.9	12,577	12.7
Pre-prov. profit	12,945	11,698	10.7	10,779	20.1
PAT	7,416	6,345	16.9	5,586	32.8

Source: Company

For 3QFY2020, HDFC Bank's PAT surged 33% yoy led by 20% yoy increase in pre-provision profit and higher other income coupled with tax benefits, which supported profitability. Loan book continued to grow at 20% yoy supported by wholesale book, however, NII growth was subdued at 13% (higher balance sheet liquidity). On asset quality front, headline asset quality remained stable however; slippages and credit costs remained elevated. Deposits grew at 25% yoy (4.5% qoq) owing to 28.6% yoy growth in term CA deposit. CASA mix improved 24bps qoq to 39.5% (40.7% in 3QFY2019).

Loan growth strong led by pick up in corporate loan book: Softening of auto loan segment (contributes 25% of retail loans), which grew 2.3% yoy led to moderate growth in advances. Credit card and personal loans reported healthy growth of 28.6% yoy and 23.3% yoy, respectively. Wholesale loans grew by 26.6%, while retail loans moderated to 14.1% yoy. Despite heavy advertisement during festive season, retail growth remained moderate.

Non-interest income grew strong, cost/income declined: Total other income grew at a healthy rate of 35.5% yoy led by healthy core fee income. Core fee income grew by 24.1% yoy owing to sustained growth in payment-related fees (~35% of total) and improvement in fees from third-party products (improvement in yield). The management said that retail accounts for ~93% of fee income, while treasury gains and one-off recovery from the resolution of a NCLT matter also supported other income. From last four quarters, the bank's C/I is consistently in a declining trend, and for Q3FY2020, CI declined 50bps/87bps on yoy/qoq basis to 37.9% on the back of 18% yoy growth in operating expenses and revenue growth of 19% yoy. Management has guided for 300bps decline in C/I over the next 3-5 years.

Asset quality disappoints; slippages, credit costs higher: In absolute terms, GNPA went up by ₹919cr, up 7.3% qoq and stood at 1.42%, NPA increased by ₹677cr, up 17% qoq. The provision coverage ratio for the quarter declined ~300bps to 67% even after taking ~37% growth in provisions. Gross slippages remained high at ₹5,300cr (2.4% annual slippages), this was largely driven by slippages in agriculture portfolio and one-off corporate slippages. However, core slippages were at 1.7%. Management gave positive commentary on retail asset quality while sounded a bit concerned about CV/CE portfolio owing to the weak underlying macro environment. The credit cost ratio remained high at 1.3%.

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 Hold on the stock, with a target price of ₹1,390/ share.

Key Performance

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E	FY22E
NII	40,092	48,243	55,893	66,462	79,499
% chg	21.0	20.3	15.9	18.9	19.6
Net profit	17,486	21,078	26,291	31,456	38,101
% chg	20.2	20.5	24.7	19.6	21.1
NIM (%)	4.4	4.4	4.3	4.3	4.3
EPS (₹)	33.8	38.7	48.0	57.4	69.6
P/E (x)	37.3	32.6	26.2	21.9	18.1
P/ABV (x)	6.2	4.8	4.1	3.5	3.1
RoA (%)	1.8	1.8	1.9	1.9	2.0
RoE (%)	18.2	16.8	16.7	17.2	18.0

Source: Company, Angel Research; Note: CMP as of Jan 20, 2019

Please refer to important disclosures at the end of this report

HOLD

CMP	₹1,255
Target Price	₹1,390

Investment Period	12 Months
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Stock Info

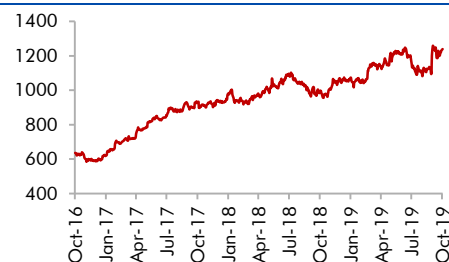
Sector	Banking
Market Cap (₹ cr)	6,87,312
Beta	1.1
52 Week High / Low	1306/1011
Avg. Daily Volume	7,32,922
Face Value (₹)	1
BSE Sensex	41,529
Nifty	12,225
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB IN

Shareholding Pattern (%)

Promoters	21.3
MF / Banks / Indian FIs	17.1
FII / NRIs / OCBs	30.8
Indian Public / Others	12.0

Abs. (%)	3m	1yr	3yr
Sensex	6.6	13.5	53.6
HDFC Bank	1.3	16.9	102.9

3-Year Price Chart



Source: Company

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Exhibit 1: Quarterly Performance

Particulars (₹ cr)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% YoY	% QoQ
Interest earned	24,200	25,890	26,333	27,392	28,166	29,370	13.4	4.3
- on Advances / Bills	18,828	20,306	21,019	21,805	22,514	23,425	15.4	4.0
- on investments	5,042	5,319	5,047	5,248	5,092	5,203	(2.2)	2.2
- on balance with RBI & others	94	98	112	175	416	608	519.2	46.1
- on others	236	167	155	164	144	134	(19.8)	(7.3)
Interest Expended	12,436	13,314	13,244	14,097	14,651	15,197	14.1	3.7
Net Interest Income	11,763	12,577	13,089	13,294	13,515	14,173	12.7	4.9
Other income	4,016	4,921	4,871	4,970	5,589	6,669	35.5	19.3
- Fee & commission income	3,296	3,647	3,692	3,552	4,055	4,527	24.1	11.6
- Treasury income	(33)	474	229	212	481	677	42.7	40.7
- Forex & derivative income	420	398	403	577	552	526	32.2	(4.7)
Others	333	403	547	630	502	940	133.6	87.3
C/1%	39.9	38.4	39.6	39.0	38.8	37.9	(51.3)bp	(87.7)bp
Operating income	15,779	17,498	17,961	18,264	19,104	20,842	19.1	9.1
Operating expenses	6,299	6,719	7,117	7,117	7,406	7,897	17.5	6.6
- Employee expenses	1,909	1,968	2,074	2,217	2,355	2,455	24.8	4.2
- Other Opex	4,390	4,752	5,043	4,900	5,051	5,442	14.5	7.7
Pre-provision Profit	9,480	10,779	10,844	11,147	11,698	12,945	20.1	10.7
Provisions & Contingencies	1,820	2,212	1,889	2,614	2,701	3,044	37.6	12.7
PBT	7,660	8,567	8,954	8,533	8,998	9,902	15.6	10.1
Provision for Tax	2,654	2,981	3,069	2,965	2,652	2,485	(16.6)	(6.3)
PAT	5,006	5,586	5,885	5,568	6,345	7,416	32.8	16.9
Effective Tax Rate (%)	35	35	34	35	29	25	(969.7)bp	(437.9)bp

Liability Profile

Advance	7,50,838	7,80,951	8,19,401	8,29,730	8,96,984	9,36,030	19.9	4.4
Deposit	8,33,364	8,52,502	9,23,141	9,54,554	10,21,615	10,67,433	25.2	4.5
Term deposit	5,05,418	5,31,943	5,31,943	5,75,553	6,20,379	6,45,606	21.4	4.1
CA	1,15,131	1,11,905	1,42,498	1,25,663	1,36,791	1,43,900	28.6	5.2
SA	2,34,568	2,35,179	2,48,700	2,53,338	2,64,445	2,77,928	18.2	5.1
CASA	3,49,699	3,47,084	3,91,198	3,79,001	4,01,236	4,21,828	21.5	5.1
CASA%	42.0	40.7	42.4	39.7	39.3	39.5	(119.6)bp	24.3bp
CA%	13.8	13.1	15.4	13.2	13.4	13.5	35.4bp	9.1bp
SA%	28.1	27.6	26.9	26.5	25.9	26.0	(155)bp	15.2bp
C/D	90.1	91.6	88.8	86.9	87.8	87.7	(391.7)bp	(11.1)bp
NIM (Reported)%	4.3	4.3	4.4	4.3	4.2	4.2	(10)bp	0bp

Source: Company, Angel Research

Exhibit 2: Profitability

Profitability Ratios	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% YoY	% QoQ
Advance Yield	10.32	10.61	10.51	10.58	10.43	10.22	(38.2)bp	(20.7)bp
Investment Yield	7.0	7.3	7.1	7.1	6.7	6.7	(60.8)bp	0.5bp
NIM	4.37	4.51	4.54	4.42	4.34	4.32	(19.1)bp	(2.7)bp
COF	5.23	5.46	5.25	5.38	5.40	5.30	(15.8)bp	(10.5)bp
Spread	5.1	5.1	5.3	5.2	5.0	4.9	(22.4)bp	(10.3)bp
RoA	1.8	1.9	1.95	1.79	2.03	2.29	38bp	26.4bp
RoE	16.4	15.9	16.1	14.6	16.3	18.6	263bp	227.8bp

Exhibit 3: Advance trend

Particulars (₹ cr)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% YoY	% QoQ
Auto	91,920	93,023	91,383	92,086	90,748	92,205	(0.9)	1.6
Two Wheelers	11,290	11,369	11,271	11,334	11,232	11,255	(1.0)	0.2
CV/CE	49,548	52,880	55,429	55,200	54,272	54,771	3.6	0.9
Sub-total - Auto Loans	1,52,758	1,57,272	1,58,083	1,58,620	1,56,252	1,58,231	0.6	1.3
Personal Loans	84,145	89,550	93,806	97,986	1,02,861	1,10,174	23.0	7.1
Home Loans	47,875	51,799	51,372	55,781	60,029	61,741	19.2	2.9
Business Banking	1,17,039	1,20,429	1,25,014	1,26,099	1,36,578	1,42,599	18.4	4.4
Kisan Gold Card	37,068	36,349	40,362	38,556	40,929	40,916	12.6	(0.0)
Credit Cards	40,535	44,839	46,630	49,523	52,043	57,678	28.6	10.8
Others	21,023	22,403	22,771	22,310	22,824	26,812	19.7	17.5
Gold Loans	5,701	5,760	5,838	5,924	6,086	6,119	6.2	0.5
Loans against securities	3,580	3,455	3,598	3,350	3,252	3,208	(7.1)	(1.4)
Total Retail Advances	5,09,724	5,31,856	5,47,474	5,58,149	5,80,854	6,07,478	14.2	4.6
Corporate & International	2,41,114	2,49,095	2,71,927	2,71,581	3,16,130	3,28,552	31.9	3.9
Total loans	7,50,838	7,80,951	8,19,401	8,29,730	8,96,984	9,36,030	19.9	4.4
Retail	68	68	67	67	65	65	(320.4)bp	14.3bp
Corporate	32	32	33	33	35	35	320.4bp	(14.3)bp

Company, Angel Research

Exhibit 4: GNPA/NPA stable, Bank took contingent provision worth of ₹700Cr

Particular	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% YoY	% QoQ
GNPA	10,098	10,903	11,224	11,769	12,508	13,427	23.2	7.3
GNPA	3,028	3,302	3,215	3,567	3,791	4,468	35.3	17.9
GNPA%	1.33	1.38	1.36	1.40	1.38	1.42	4bp	4bp
NPA%	0.40	0.42	0.39	0.43	0.42	0.48	6bp	6bp
Slippage (%) Annl	2.3	2.0	1.75	2.04	1.66	1.64	(40.8)bp	(1.6)bp
Slippages	4,333	4,000	3,580	4,225	3,714	3,839	(4.0)	3.4
Credit Cost (%)	0.97	1.13	0.92	1.26	1.20	1.30	16.8bp	9.6bp
Provision Calc	69.92	69.57	71.32	69.29	69.57	66.20	(336.8)bp	(336.8)bp

Company, Angel Research

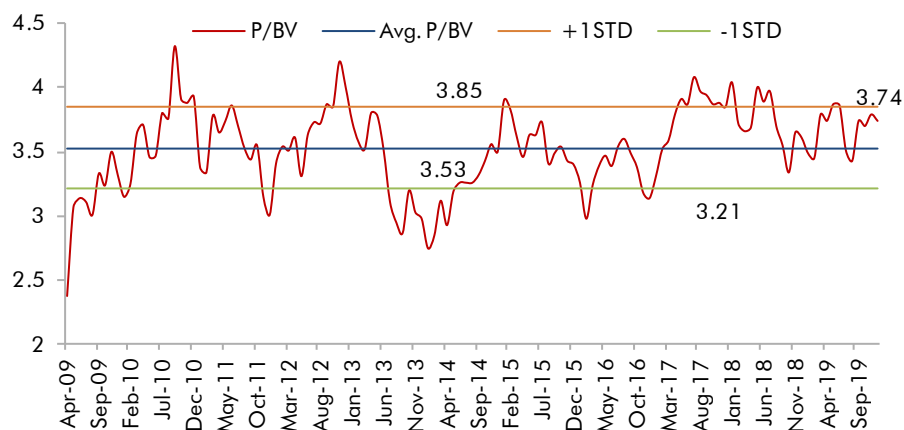
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Exhibit 5: Valuation Summary

Particulars	%	Valuation Methodology	Value/share (₹)
Value of HDFC Bank standalone	100	3.7x FY21E ABV	1316
Subsidiaries			
HDB Fin	96%	3.5x FY21E ABV	65
HDFC Sec	98%	15x of FY21 PAT	11
Less: Cost of investments			(7)
Fair value per share			1390

Source: Company, Angel Research

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



Source: Company, Angel Research

Income Statement (Standalone)

Y/E March (₹ cr)	FY18	FY19E	FY20E	FY21E	FY22E
Net Interest Income	40,092	48,243	55,893	66,462	79,499
- YoY Growth (%)	21.0	20.3	15.9	18.9	19.6
Other Income	15,221	17,626	23,203	25,870	30,771
- YoY Growth (%)	23.8	15.8	31.6	11.5	18.9
Operating Income	55,313	65,869	79,096	92,333	1,10,270
- YoY Growth (%)	21.7	19.1	20.1	16.7	19.4
Operating Expenses	22,690	26,119	30,806	36,513	43,339
- YoY Growth (%)	15.2	15.1	17.9	18.5	18.7
Pre - Provision Profit	32,623	39,750	48,290	55,819	66,930
- YoY Growth (%)	26.8	21.8	21.5	15.6	19.9
Prov. & Cont.	5,927	7,550	11,554	13,782	16,013
- YoY Growth (%)	65.0	27.4	53.0	19.3	16.2
Profit Before Tax	26,696	32,200	36,736	42,037	50,917
- YoY Growth (%)	20.6	20.6	14.1	14.4	21.1
Prov. for Taxation	9,210	11,122	10,445	10,581	12,816
- as a % of PBT	34.5	34.5	28.4	25.2	25.2
PAT	17,486	21,078	26,291	31,456	38,101
- YoY Growth (%)	20.2	20.5	24.7	19.6	21.1

Balance sheet (Standalone)

Y/E March (₹ cr)	FY18	FY19E	FY20E	FY21E	FY22E
Share Capital	518	545	548	548	548
Reserves & Surplus	1,05,776	1,43,882	1,70,005	1,95,374	2,26,106
Net Worth	1,06,294	1,44,427	1,70,553	1,95,921	2,26,653
Deposits	7,88,770	9,23,141	11,26,232	13,51,478	16,21,774
- Growth (%)	22.5	17.0	22.0	20.0	20.0
Borrowings	1,23,105	1,17,085	1,01,361	1,35,148	1,62,177
Other Liab & Prov.	45,764	55,108	67,574	81,089	97,306
Total Liabilities	10,63,933	12,39,761	14,65,719	17,63,636	21,07,911
Cash balances	1,04,670	46,764	90,099	94,603	97,306
Bank balances	18,244	34,584	11,262	21,624	25,948
Investments	2,42,200	2,90,588	3,37,870	4,05,443	4,86,532
Advances	6,58,333	8,19,401	9,83,281	11,79,938	14,15,925
- Growth (%)	18.7	24.5	20.0	20.0	20.0
Fixed Assets	3,607	4,030	4,525	8,379	10,055
Other Assets	36,879	44,395	38,683	53,649	72,144
Total Assets	10,63,933	12,39,761	14,65,719	17,63,636	21,07,911
- Growth (%)	23.6	16.5	18.2	20.3	19.5

Ratio analysis (Standalone)

Y/E March	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Profitability Ratios (%)						
NIMs	4.46	4.35	4.36	4.28	4.25	4.27
Cost to Income Ratio	43.4	41.0	39.7	38.9	39.5	39.3
RoA	1.9	1.8	1.8	1.9	1.9	2.0
RoE	18.3	18.2	16.8	16.7	17.2	18.0
B/S ratios (%)						
CASA Ratio	48.0	43.5	42.4	45.0	45.0	45.0
Credit/Deposit Ratio	86.2	83.5	88.8	87.3	87.3	87.3
Asset Quality (%)						
Gross NPAs	1.1	1.3	1.3	1.4	1.4	1.4
Net NPAs	0.3	0.4	0.4	0.5	0.5	0.4
Slippages	1.5	1.5	2.2	2.0	2.0	2.0
Loan Loss Prov./Avg. Assets	0.6	0.9	0.9	1.2	1.2	1.1
Provision Coverage	69	69	69	66	67	71
Per Share Data (₹)						
EPS	28.4	33.8	38.7	48.0	57.4	69.6
BVPS	168	205	265	311	358	414
ABVPS	167	204	263	310	356	410
DPS	5.5	6.5	7.5	8.5	9.5	11.5
Valuation Ratios						
PER (x)	44.4	37.3	32.6	26.2	21.9	18.1
P/BVPS (x)	7.49	6.14	4.75	4.05	3.52	3.04
P/ABVPS (x)	7.54	6.19	4.78	4.07	3.54	3.08
Dividend Yield	0.4	0.5	0.6	0.7	0.8	0.9
DuPont Analysis (%)						
	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Interest Income	8.83	8.34	8.59	8.55	8.51	8.57
Interest Expenses	4.61	4.17	4.40	4.42	4.39	4.46
NII	4.22	4.17	4.19	4.13	4.12	4.11
Non Interest Income	1.57	1.58	1.53	1.72	1.60	1.59
Total Revenues	5.79	5.75	5.72	5.85	5.72	5.70
Operating Cost	2.51	2.36	2.27	2.28	2.26	2.24
PPP	3.28	3.39	3.45	3.57	3.46	3.46
Total Provisions	0.46	0.62	0.66	0.85	0.85	0.83
PreTax Profit	2.82	2.77	2.80	2.72	2.60	2.63
Tax	0.97	0.96	0.97	0.77	0.66	0.66
ROA	1.85	1.82	1.83	1.94	1.95	1.97
Leverage	9.88	10.00	9.19	8.59	8.81	9.16
RoE (%)	18.32	18.17	16.81	16.69	17.17	18.03

Valuation done on closing price of 21/01/2020

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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

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

**Ratings (Based on Expected Returns:
over 12 months investment period)**
Buy (> 15%)
Accumulate (5% to 15%)
Neutral (-5 to 5%)
Reduce (-5% to -15%)
Sell (< -15%)
Hold (Fresh purchase not recommended)