

## HDFC Bank

### Performance Highlights

Particulars (₹ cr)	3QFY17	2QFY17	% chg (qoq)	3QFY16	% chg (yoy)
NII	8,309	7,994	3.9	7,069	17.6
Pre-prov. profit	6,609	6,025	9.7	5,736	15.2
<b>PAT</b>	<b>3,865</b>	<b>3,455</b>	<b>11.9</b>	<b>3,357</b>	<b>15.1</b>

Source: Company, Angel Research

HDFC Bank's results for the quarter were broadly in line with expectations. While PAT growth of 15% YoY looks lower when compared to the historical trend of HDFC Bank, given the slow down due to demonetisation the results by HDFC can be considered decent enough.

**Advances growth moderated further, but in line with expectations:** Domestic loan books grew by 17.5% YoY, with retail loans growing by 17.9% YoY. However repayment of overseas loans to the tune of \$ 2 Bn linked to FCNR deposit impacted the overall loan growth which was 13.4% YoY. There is visible sign of moderation in the loan growth, as the growth rate has moderated from 20%+ for several quarters. We believe for HDFC Bank now the medium term loan growth would be 17-18% YoY.

**Deposit growth remained strong, backed by high CASA growth:** During the quarter the bank saw redemption of \$3 Bn worth of FCNR linked deposits and despite this the overall deposit grew by 21.1% YoY, 7.3% QoQ. Backed by demonetization the CASA growth were strong up 37.4% YoY, 20.4% QoQ and CASA ratio surged to 45.4% vs 40.4% QoQ.

**CASA growth to help in lower cost of funds and stable NIM going ahead:** During the quarter NIM further contracted by 10 bps QoQ to 4.1%, after a 20 bps drop in 2QFY17. However we feel lower cost funds backed by high CASA ratio should help in stable NIM here onwards. Despite the recent drop HDFC Bank continues to have one of the best NIM in the industry.

**Continues to have one of the best asset quality:** What is worth noting is that this quarter again HDFC Bank has been able to maintain a stable set of asset quality with GNPA at 1.05% vs 1.02% QoQ and NNPA at 0.32% vs 0.30% QoQ and we don't see this worsening in the near term. Credit cost for the bank continues to be under control and with improving macro scenario and lower interest rates it is likely to remain stable in the medium term.

**Outlook and valuation:** While HDFC Bank's growth has moderated from its historical levels, it still remains much higher than the industry rate and asset quality has been the best in class. While in the near term the stock might range bound, well capitalized balance sheet and superior return ratios should result in investors sticking to the stock in the long run. At the current market price, the bank is trading at 3.2x FY2017E ABV. **We Maintain ACCUMULATE rating, on the stock, with a target price of ₹1,375.**

#### Key financials (standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	22,329	27,592	33,290	40,010
% chg	20.8	23.6	20.7	20.2
Net profit	10,150	12,296	14,584	16,915
% chg	19.7	21.2	18.6	16.0
NIM (%)	4.4	4.5	4.6	4.8
EPS (₹)	40.5	48.6	57.1	66.2
P/E (x)	31.4	26.1	22.3	19.2
P/ABV (x)	5.2	4.5	3.9	3.2
RoA (%)	1.9	1.9	1.9	1.8
RoE (%)	19.2	18.3	18.4	18.1

Source: Company, Angel Research; Note: CMP as of January 30, 2017

## ACCUMULATE

CMP	₹1,285
Target Price	₹1,375

Investment Period	12 Months
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#### Stock Info

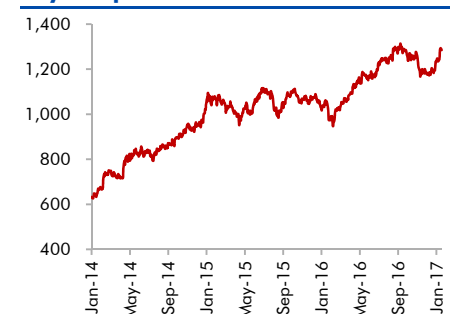
Sector	Banks
Market Cap (₹ cr)	328,327
Beta	0.8
52 Week High / Low	1318/929
Avg. Daily Volume	136,732
Face Value (₹)	2
BSE Sensex	27,850
Nifty	8,633
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB@IN

#### Shareholding Pattern (%)

Promoters	21.3
MF / Banks / Indian FIs	18.5
FII / NRIs / OCBs	50.7
Indian Public / Others	9.5

Abs.(%)	3m	1yr	3yr
Sensex	(0.3)	12.0	35.9
HDFCB	2.5	22.5	103.2

#### 3-year price chart



Source: Company, Angel Research

Siddharth Purohit

022 – 3935 7800 Ext: 6872

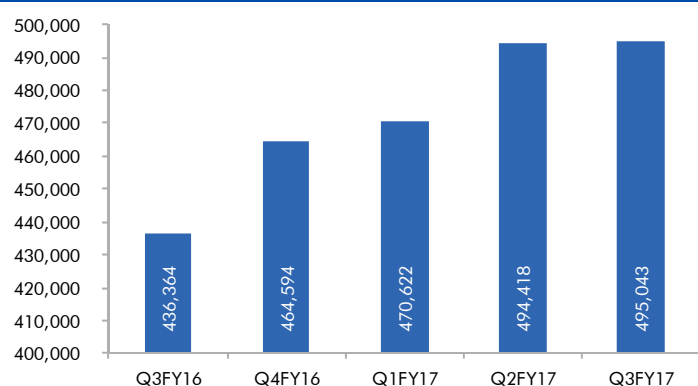
siddharth.purohit@angelbroking.com

**Exhibit 1: 3QFY2017 performance (standalone)**

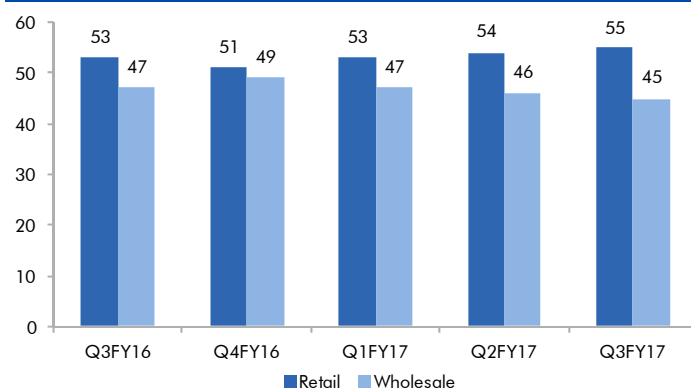
Particulars (₹ cr)	3QFY17	2QFY17	% chg (qoq)	3QFY16	% chg (yoy)	9MFY2017	9MFY2016	% chg
<b>Interest earned</b>	<b>17,606</b>	<b>17,070</b>	<b>3.1</b>	<b>15,411</b>	<b>14.2</b>	<b>51,191</b>	<b>44,225</b>	<b>15.8</b>
- on Advances / Bills	13,176	12,901	2.1	11,483	14.7	38,548	32,879	17.2
- on investments	4,049	3,818	6.1	3,651	10.9	11,676	10,330	13.0
- on balance with RBI & others	187	140	33.8	60	214.0	367	313	17.3
- on others	194	211	(8.1)	217	(10.6)	600	703	-14.6
<b>Interest Expended</b>	<b>9,297</b>	<b>9,076</b>	<b>2.4</b>	<b>8,343</b>	<b>11.4</b>	<b>27,107</b>	<b>24,087</b>	<b>12.5</b>
<b>Net Interest Income</b>	<b>8,309</b>	<b>7,994</b>	<b>3.9</b>	<b>7,069</b>	<b>17.6</b>	<b>24,084</b>	<b>20,138</b>	<b>19.6</b>
<b>Other income</b>	<b>3,143</b>	<b>2,901</b>	<b>8.3</b>	<b>2,872</b>	<b>9.4</b>	<b>8,850</b>	<b>7,886</b>	<b>12.2</b>
Other income excl. treasury	2,207	2,104	4.9	2,005	10.1	6,289	5,587	12.6
- Fee & commission income	399	284	40.6	277	43.7	907	945	-4.1
- Treasury income	297	295	0.7	328	(9.4)	959	616	55.6
- Forex & derivative income	240	219	9.8	262	(8.4)	696	738	-5.7
<b>Operating income</b>	<b>11,452</b>	<b>10,895</b>	<b>5.1</b>	<b>9,941</b>	<b>15.2</b>	<b>32,934</b>	<b>28,024</b>	<b>17.5</b>
<b>Operating expenses</b>	<b>4,843</b>	<b>4,870</b>	<b>(0.6)</b>	<b>4,205</b>	<b>15.2</b>	<b>14,481</b>	<b>12,395</b>	<b>16.8</b>
- Employee expenses	1,689	1,657	1.9	1,431	18.0	4,931	4,204	17.3
- Other Opex	3,154	3,213	(1.8)	2,774	13.7	9,550	8,191	16.6
<b>Pre-provision Profit</b>	<b>6,609</b>	<b>6,025</b>	<b>9.7</b>	<b>5,736</b>	<b>15.2</b>	<b>18,453</b>	<b>15,629</b>	<b>18.1</b>
Provisions & Contingencies	716	749	(4.4)	654	9.5	2,332	2,063	13.0
<b>PBT</b>	<b>5,893</b>	<b>5,276</b>	<b>11.7</b>	<b>5,082</b>	<b>16.0</b>	<b>16,121</b>	<b>13,565</b>	<b>18.8</b>
Provision for Tax	2,028	1,820	11.4	1,725	17.6	5,562	4,643	19.8
<b>PAT</b>	<b>3,865</b>	<b>3,455</b>	<b>11.9</b>	<b>3,357</b>	<b>15.1</b>	<b>10,559</b>	<b>8,922</b>	<b>18.3</b>
Effective Tax Rate (%)	33	33		34		34.5	34.2	

Source: Company, Angel Research

**Advances growth moderated further, but in line with expectations:** Domestic loan books grew by 17.5% YoY, with retail loans growing by 17.9% YoY. However repayment of overseas loans to the tune of \$ 2 Bn linked to FCNR deposit impacted the overall loan growth which was 13.4% YoY. There is visible sign of moderation in the loan growth, as the growth rate has moderated from 20%+ for several quarters. However, the lower interest rates across products will now help in incremental demand picking up in a gradual way. Though credit growth has moderated for HDFC Bank from its historical highs, it still is best placed to capture the upcoming demand in the retail space. The bank continues to be a formidable player in the personal loans segment, further home loans and credit cards segment also grew quite strong during the quarter.

**Exhibit 2: Advances growth moderated (₹ cr)**


Source: Company, Angel Research

**Exhibit 3: Retail continues to drive the growth (%)**


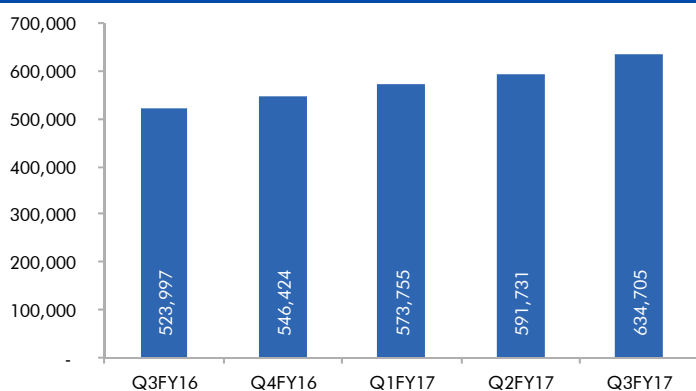
Source: Company, Angel Research

**Exhibit 4: Break Up Of Domestic Retail Bank**

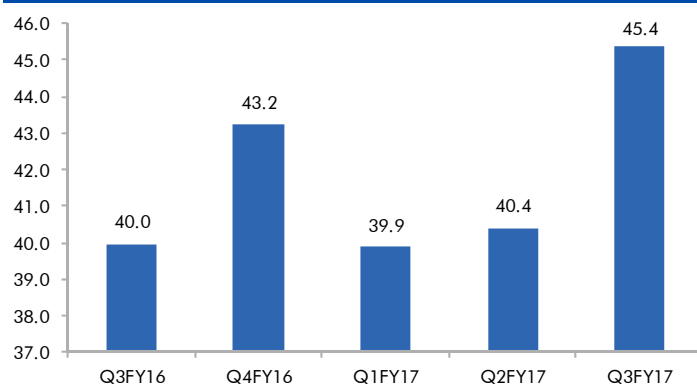
(₹ Cr)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	% YoY	% QoQ
Auto	56,321	57,281	59,561	64,429	65,545	16.4%	1.7%
Personal Loans	35,494	37,704	41,059	45,024	46,826	31.9%	4.0%
Home Loans	28,435	31,860	33,605	33,574	35,423	24.6%	5.5%
Business Banking	59,603	61,089	60,444	65,794	63,582	6.7%	-3.4%
Kisan Gold Card	20,095	22,934	22,403	24,881	23,888	18.9%	-4.0%
Credit Cards	19,689	20,520	21,255	21,336	23,673	20.2%	11.0%
CV/CE	29,768	30,935	31,461	33,561	34,526	16.0%	2.9%
Others	13,344	14,644	15,151	16,276	16,190	21.3%	-0.5%
Two Wheelers	6,107	6,383	6,614	7,118	7,107	16.4%	-0.2%
Gold Loans	4,400	4,586	4,876	5,093	4,818	9.5%	-5.4%
Loan Against Securities	1,656	1,897	1,886	2,052	2,249	35.8%	9.6%
<b>Total</b>	<b>274,912</b>	<b>289,833</b>	<b>298,315</b>	<b>319,138</b>	<b>323,827</b>	<b>17.8%</b>	<b>1.5%</b>

Source: Company, Angel Research

**Deposit growth remained strong, backed by high CASA growth:** During the quarter the bank saw redemption of \$3 Bn worth of FCNR linked deposits and despite this the overall deposit grew by 21.1% YoY, 7.3% QoQ. Without considering the redemption the growth in deposit would have been over 25% YoY. Backed by demonetization the CASA growth were strong up 37.4% YoY, 20.4% QoQ and CASA ratio surged to 45.4% vs 40.4% QoQ. While in the coming quarters there could be some outflow of deposits from CASA to the term deposits, despite this the CASA ratio of the bank would still be one of the highest in the industry.

**Exhibit 5: Deposit growth trend (₹ cr)**


Source: Company, Angel Research, Note: \*adjusting for FCNR (B) deposits

**Exhibit 6: CASA ratio jumped sharply QoQ (%)**


Source: Company, Angel Research

Other income for the bank saw moderation during the quarter growing by only 9.4% YoY. The core fee income also moderated, growing by only 9.4% YoY, which can be attributed to the relatively lower growth in the loan book.

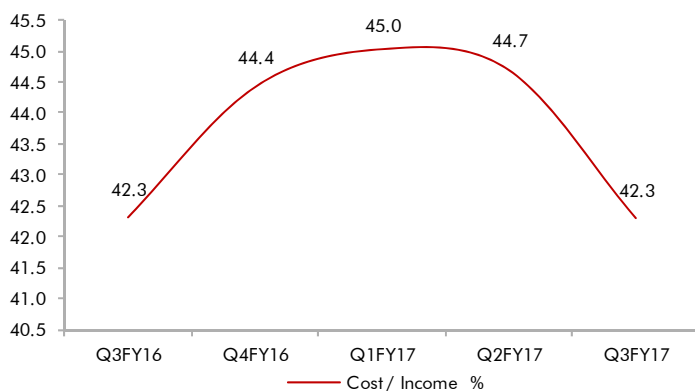
**Exhibit 7: Other Income**

(₹ Cr)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	% YoY	% QoQ
Fees Income	2,005	2,172	1,978	2,104	2,207	10.1%	4.9%
Forex	277	283	315	295	297	7.1%	0.7%
Profit on sale of investments	328	116	277	284	399	21.6%	40.6%
NPA Recovery	262	295	237	219	240	(8.4%)	9.8%
<b>Other Income</b>	<b>2,872</b>	<b>2,866</b>	<b>2,807</b>	<b>2,901</b>	<b>3,143</b>	<b>9.4%</b>	<b>8.3%</b>
Fee Income as % of Other Income	70%	76%	70%	73%	70%		

Source: Company, Angel Research

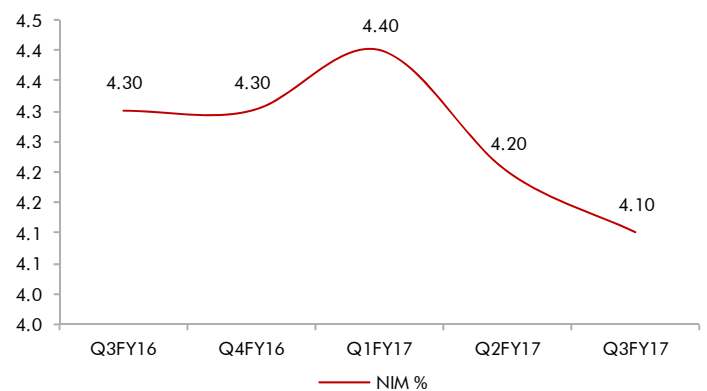
**CASA growth and stable cost/ income ratio to help in lower cost of funds and stable NIM going ahead:** During the quarter NIM further contracted by 10 bps QoQ to 4.1%, after a 20 bps drop in 2QFY17. However we feel lower cost funds backed by high CASA ratio should help in stable NIM here onwards. Despite the recent drop HDFC Bank continues to have one of the best NIM in the industry. Banks across the board have reduced the lending rates and have so far gone for reduction in term deposit rates. However, with surplus deposits in their hand now there is a possibility of cut in rates offered on the saving bank accounts as well. HDFC having a very high CASA ratio could benefit out of this, which should help it protect its NIM going ahead.

**Exhibit 8: Cost/ Income remains under control**



Source: Company, Angel Research

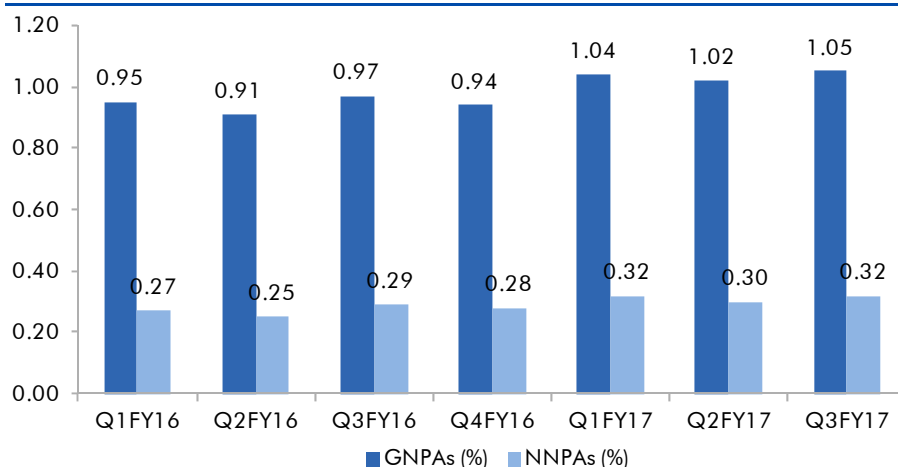
**Exhibit 9: NIM likely to stabilise going ahead**



Source: Company, Angel Research

**HDFC bank continues to have one of the best asset quality:** What is worth noting is that this quarter again HDFC Bank has been able to maintain a stable set of asset quality with GNPA's at 1.05% vs 1.02% QoQ and NNPA's at 0.32% vs 0.30% QoQ and we don't see this worsening in the near term. Credit cost for the bank continues to be under control and with improving macro scenario and lower interest rates it is likely to remain stable in the medium term. HDFC Bank's slippages has remained under control in the range of 150 bps-160 bps annualized, the bank has also been able to contain its credit cost in the range of 50-60 bps and hence we believe in the near term there is no real threat to its asset quality.

#### Exhibit 10: GNPA's & NNPA's trend



Source: Company, Angel Research

### Outlook & Valuation

While HDFC Bank's growth has moderated from its historical levels, it still remains much higher than the industry rate and asset quality has been the best in class. While in the near term the stock might range bound, well capitalized balance sheet and superior return ratios should result in investors sticking to the stock in the long run. At the current market price, the bank is trading at 3.2x FY2017E ABV. **We Maintain ACCUMULATE rating, on the stock, with a target price of ₹1,375.**

### Company Background

HDFC Bank is the second-largest private sector bank in India with a pan-India network of over 4,555 branches and nearly 12,087 ATMs. HDFC has been a leader in the retail lending space in India and has consistently outpaced the industry growth rate. Huge and increasing branch network has enabled the bank in gaining a strong market share in the retail loans in India. This has also ensured a higher share of low cost deposits (CASA) for the bank.

**Income statement**

Y/E March (₹ cr)	FY14	FY15	FY16E	FY17E	FY18E
<b>Net Interest Income</b>	<b>18,483</b>	<b>22,329</b>	<b>27,592</b>	<b>33,290</b>	<b>40,010</b>
- YoY Growth (%)	16.9	20.8	23.6	20.7	20.2
<b>Other Income</b>	<b>7,920</b>	<b>8,996</b>	<b>10,752</b>	<b>11,939</b>	<b>13,621</b>
- YoY Growth (%)	15.6	13.6	19.5	11.0	14.1
<b>Operating Income</b>	<b>26,402</b>	<b>31,326</b>	<b>38,343</b>	<b>45,228</b>	<b>53,630</b>
- YoY Growth (%)	16.5	18.6	22.4	18.0	18.6
<b>Operating Expenses</b>	<b>12,042</b>	<b>13,988</b>	<b>16,980</b>	<b>19,943</b>	<b>23,692</b>
- YoY Growth (%)	7.2	16.2	21.4	17.5	18.8
<b>Pre - Provision Profit</b>	<b>14,360</b>	<b>17,338</b>	<b>21,364</b>	<b>25,285</b>	<b>29,938</b>
- YoY Growth (%)	25.7	20.7	23.2	18.4	18.4
<b>Prov. &amp; Cont.</b>	<b>1,588</b>	<b>2,076</b>	<b>2,726</b>	<b>3,163</b>	<b>3,143</b>
- YoY Growth (%)	(5.3)	30.7	31.3	16.1	(0.6)
<b>Profit Before Tax</b>	<b>12,772</b>	<b>15,262</b>	<b>18,638</b>	<b>22,122</b>	<b>26,795</b>
- YoY Growth (%)	31.0	19.5	22.1	18.7	21.1
<b>Prov. for Taxation</b>	<b>4,294</b>	<b>5,113</b>	<b>6,342</b>	<b>7,538</b>	<b>9,880</b>
- as a % of PBT	33.6	33.5	34.0	34.1	36.9
<b>PAT</b>	<b>8,478</b>	<b>10,150</b>	<b>12,296</b>	<b>14,584</b>	<b>16,915</b>
- YoY Growth (%)	26.0	19.7	21.2	18.6	16.0

**Balance Sheet**

Y/E March (₹ cr)	FY14	FY15	FY16E	FY17E	FY18E
Share Capital	480	501	506	511	511
Reserves & Surplus	42,999	61,508	72,172	85,088	1,01,111
Net Worth	43,479	62,009	72,678	85,599	1,01,622
Deposits	3,67,337	4,50,796	5,46,424	6,60,093	7,53,795
- Growth (%)	24.0	22.7	21.2	20.8	14.2
Borrowings	39,439	45,214	53,018	66,009	75,379
Other Liab & Prov.	41,344	32,484	36,725	44,226	50,504
<b>Total Liabilities</b>	<b>4,91,600</b>	<b>5,90,503</b>	<b>7,08,846</b>	<b>8,55,927</b>	<b>9,81,300</b>
Cash balances	25,346	27,510	30,058	36,305	41,459
Bank balances	14,238	8,821	8,861	10,561	12,061
Investments	1,20,951	1,51,642	1,63,886	1,98,028	2,26,138
Advances	3,03,000	3,65,495	4,64,594	5,27,221	6,28,692
- Growth (%)	26.4	20.6	27.1	13.5	19.2
Fixed Assets	2,940	3,122	3,343	4,093	4,674
Other Assets	25,125	33,913	38,104	79,719	68,276
<b>Total Assets</b>	<b>4,91,600</b>	<b>5,90,503</b>	<b>7,08,846</b>	<b>8,55,927</b>	<b>9,81,300</b>

**Ratio Analysis (standalone)**

Y/E March	FY14	FY15	FY16E	FY17E	FY18E
<b>Profitability Ratios (%)</b>					
NIMs	4.4	4.4	4.5	4.6	4.8
Cost to Income Ratio	45.6	44.7	44.3	44.1	44.2
RoA	1.9	1.9	1.9	1.9	1.8
RoE	21.3	19.2	18.3	18.4	18.1
<b>B/S ratios (%)</b>					
CASA Ratio	45.0	44.0	43.2	45.0	45.0
Credit/Deposit Ratio	82.5	81.1	85.0	79.9	83.4
CAR	16.1	16.8	15.5	15.3	15.9
- Tier I	0.0	13.7	13.2	13.4	14.2
<b>Asset Quality (%)</b>					
Gross NPAs	1.0	0.9	0.9	1.0	1.0
Net NPAs	0.3	0.2	0.3	0.3	0.3
Slippages	1.9	1.6	1.6	1.5	1.5
Loan Loss Prov./Avg. Assets	0.5	0.6	0.6	0.6	0.5
Provision Coverage	75	74	70	74	74
<b>Per Share Data (₹)</b>					
EPS	35.3	40.5	48.6	57.1	66.2
ABVPS	181	247	287	335	398
DPS	5.7	8.0	9.5	11.5	13.5
<b>Valuation Ratios</b>					
PER (x)	35.9	31.4	26.1	22.3	19.2
P/ABVPS (x)	7.1	5.2	4.5	3.9	3.2
Dividend Yield	0.4	0.6	0.7	0.9	1.1
<b>DuPont Analysis (%)</b>					
NII	4.1	4.1	4.2	4.3	4.4
Non Interest Income	1.8	1.7	1.7	1.5	1.5
Total Revenues	5.9	5.8	5.9	5.8	5.8
Operating Cost	2.7	2.6	2.6	2.5	2.6
PPP	3.2	3.2	3.3	3.2	3.3
Total Provisions	0.4	0.4	0.4	0.4	0.3
PreTax Profit	2.9	2.8	2.9	2.8	2.9
Tax	1.0	0.9	1.0	1.0	1.1
ROA	1.9	1.9	1.9	1.9	1.8
Leverage	11.2	10.3	9.6	9.9	9.8
<b>RoE (%)</b>	<b>21.3</b>	<b>19.2</b>	<b>18.3</b>	<b>18.4</b>	<b>18.1</b>



Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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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 (&gt; 15%)

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

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