

HDFC Bank

Performance Highlights

Particulars (₹ cr)	4QFY17	3QFY17	% chg (qoq)	4QFY16	% chg (yoy)
NII	9,055	8,309	9.0	7,453	21.5
Pre-prov. profit	7,279	6,609	10.1	5,735	26.9
PAT	3,990	3,865	3.2	3,374	18.3

Source: Company, Angel Research

HDFC Bank reported a satisfactory set of results for the quarter. PAT growth of 18% YoY was backed by renewed momentum in loan growth and improvement in NIM QoQ, with stable asset quality.

Advances growth picked up again during the quarter: After some moderation in credit growth in Q3, the bank's business started picking up in Q4 with 19.4% growth. Domestic loan book grew by 23.7%. In Q3 the bank's loan book growth had moderated to 13.4%. The slowdown in the loan growth in Q3 was due to repayment of overseas loans to the tune of \$ 2 Bn linked to FCNR deposit. HDFC bank's ability to push business growth post domestication shows the strength in its business model and we believe it will be able to deliver 18-20% CAGR in loan book over FY17-19.

CASA growth helped in lower cost of funds and improved NIM during the quarter: Deposit growth was strong 17.8% with strong accretion to CASA base which went up to 48% vs 45.3% QoQ. Strong growth in low cost deposit helped NIM further expanding to 4.3%. We expect some moderation in NIM going ahead; however HDFC Bank will continue to have one of the best margins among Indian banks. Overall we expect deposit to report 17% CAGR over FY17-19.

No sign of stress in asset quality, a big positive: Asset quality of the bank remained largely stable with GNPA's at 1.05% and NNPA's at 0.33%. The bank has highlighted that there was no divergence observed by RBI for FY16 with respect to NPAs. While there was a rise in provisions, part of this can be attributed to general growth in business and to the Rs 250 cr worth of NPA which were due in Q3, but the bank had used the RBI's dispensation and not accounted that as NPA. However, from pure operational point of view the credit cost of HDFC Bank remains under control.

Outlook and valuation: After some moderation in business growth HDFC Bank is back with strong momentum during the quarter. We believe strong internal capital generation will drive 20% earnings CAGR over FY17-19, which will be backed by stable NIM and moderating credit cost. At the current market price, the bank is trading at 3.3x FY2019E ABV. **We Maintain ACCUMULATE rating, on the stock, with a target price of ₹1,650.**

Key financials (standalone)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
NII	27,592	33,139	40,298	45,762
% chg	23.6	20.1	21.6	13.6
Net profit	12,296	14,549	17,857	20,971
% chg	21.2	18.3	22.7	17.4
NIM (%)	4.5	4.5	4.5	4.4
EPS (₹)	48.6	56.8	69.7	81.8
P/E (x)	31.5	27.0	22.0	18.7
P/ABV (x)	5.4	4.6	4.0	3.3
RoA (%)	1.9	1.9	1.9	1.9
RoE (%)	18.3	18.3	19.2	19.0

Source: Company, Angel Research; Note: CMP as of April 24, 2017

ACCUMULATE

CMP	₹1,533
Target Price	₹1,650

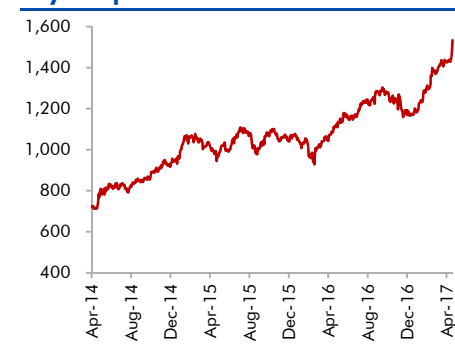
Investment Period	12 Months
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Stock Info	
Sector	Banks
Market Cap (₹ cr)	392,774
Beta	0.8
52 Week High / Low	1538/1085
Avg. Daily Volume	136,732
Face Value (₹)	2
BSE Sensex	29,656
Nifty	9,218
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB@IN

Shareholding Pattern (%)	
Promoters	21.2
MF / Banks / Indian FIs	16.3
FII / NRIs / OCBs	53.1
Indian Public / Others	9.5

Abs. (%)	3m	1yr	3yr
Sensex	8.3	15.5	29.6
HDFCB	22.6	34.0	111.9

3-year price chart



Source: Company, Angel Research

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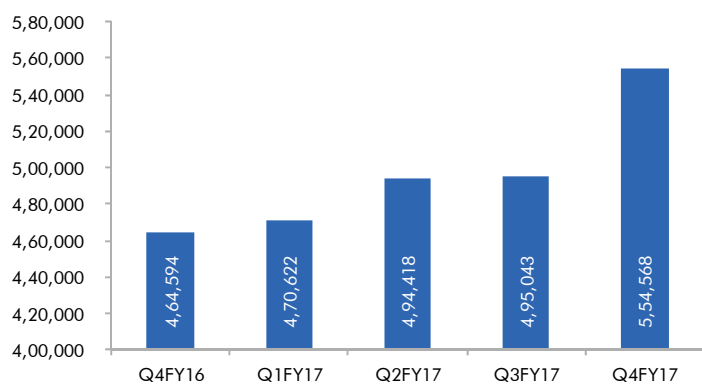
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Exhibit 1: 4QFY2017 performance (standalone)

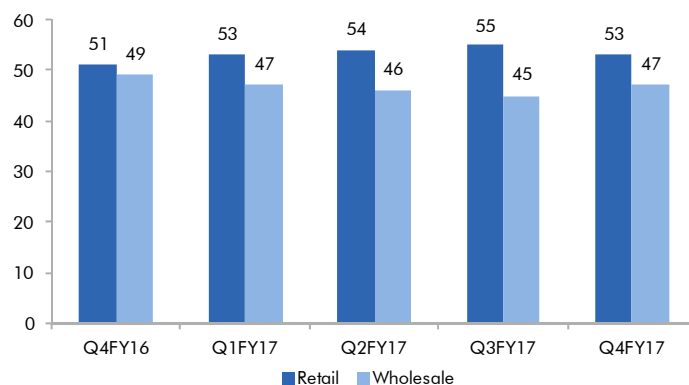
Particulars (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	% QoQ	% YoY
Interest earned	14,041	14,773	15,411	15,997	16,516	17,070	17,606	18,114	2.9%	13.2%
- on Advances / Bills	10,447	10,948	11,483	11,949	12,471	12,901	13,176	13,507	2.5%	13.0%
- on investments	3,281	3,398	3,651	3,790	3,809	3,818	4,049	4,268	5.4%	12.6%
- on balance with RBI & others	78	175	60	49	40	140	187	165	-11.6%	237.8%
- on others	234	252	217	209	196	211	194	174	-10.2%	-16.9%
Interest Expended	7,652	8,092	8,343	8,543	8,735	9,076	9,297	9,059	-2.6%	6.0%
Net Interest Income	6,389	6,681	7,069	7,453	7,781	7,994	8,309	9,055	9.0%	21.5%
Other income	2,462	2,552	2,872	2,866	2,807	2,901	3,143	3,446	9.7%	20.3%
- Fee & commission income	1,713	1,869	2,005	2,172	1,978	2,104	2,207	2,523	14.3%	16.1%
- Treasury income	126	162	328	116	277	284	399	180	-54.7%	56.2%
- Forex & derivative income	348	320	277	283	315	295	297	357	20.0%	26.1%
- Others	275	201	262	295	237	219	240	386	60.9%	30.8%
Operating income	8,851	9,233	9,941	10,319	10,588	10,895	11,452	12,501	9.2%	21.1%
Operating expenses	4,001	4,190	4,205	4,584	4,769	4,870	4,843	5,222	7.8%	13.9%
- Employee expenses	1,359	1,414	1,431	1,498	1,585	1,657	1,689	1,553	-8.1%	3.7%
- Other Opex	2,642	2,776	2,774	3,086	3,184	3,213	3,154	3,669	16.3%	18.9%
Pre-provision Profit	4,850	5,043	5,736	5,735	5,819	6,025	6,609	7,279	10.1%	26.9%
Provisions & Contingencies	728	681	654	662	867	749	716	1,262	76.3%	90.5%
PBT	4,122	4,362	5,082	5,072	4,952	5,276	5,893	6,018	2.1%	18.6%
Provision for Tax	1,426	1,492	1,725	1,698	1,714	1,820	2,028	2,028	0.0%	19.4%
PAT	2,696	2,869	3,357	3,374	3,239	3,455	3,865	3,990	3.2%	18.3%
Effective Tax Rate (%)	34.6	34.2	33.9	33.5	34.6	34.5	34.4	33.7		

Source: Company, Angel Research

Advances growth picked up again during the quarter: After some moderation in credit growth in Q3, the banks business started picking up in Q4FY17 with 19.4% YoY growth, which was backed by 22.1% growth in retail loan book. Within the retail loan book auto segment reported a healthy growth of 22.4% and personal loans segment where HDFC bank has a strong market share grew by 34% YoY. Credit cards another area of focus for the bank also had a healthy growth of 26.7%. Domestic loan book grew by 23.7%. In Q3 the bank's loan book growth had moderated to 13.4%, where in the domestic loan book had grown by 17.5%. The slowdown in the loan growth in Q3 was due to repayment of overseas loans to the tune of \$ 2 Bn linked to FCNR deposit. HDFC bank's ability to push business growth post domentisation shows the strength in its business model and we believe it will be able to deliver 18-20% CAGR in loan book over FY17-19

Exhibit 2: Advances growth picked up again (₹ cr)


Source: Company, Angel Research

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


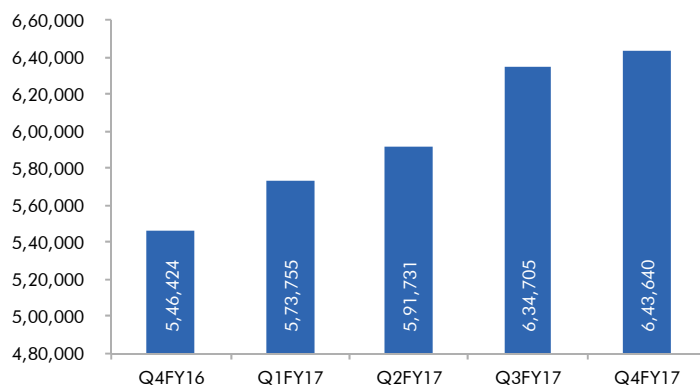
Source: Company, Angel Research

Exhibit 4: Break Up Of Domestic Retail Book

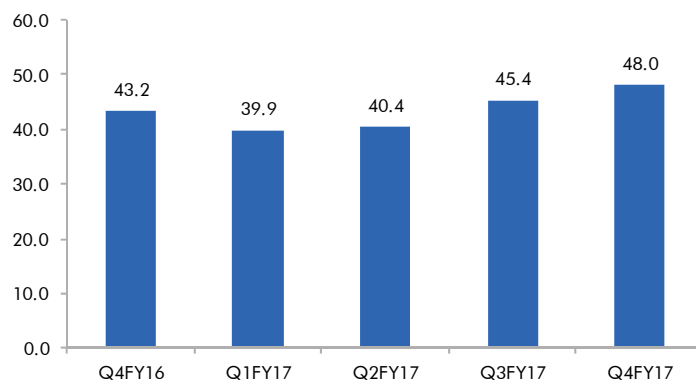
Break Up Of Domestic Retail Bank (Rs Cr)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	% YoY	% QoQ
Auto	57,281	59,561	64,429	65,545	70,099	22.4%	6.9%
Personal Loans	37,704	41,059	45,024	46,826	50,545	34.1%	7.9%
Home Loans	31,860	33,605	33,574	35,423	38,379	20.5%	8.3%
Business Banking	61,089	60,444	65,794	63,582	71,188	16.5%	12.0%
Kisan Gold Card	22,934	22,403	24,881	23,888	26,742	16.6%	11.9%
Credit Cards	20,520	21,255	21,336	23,673	25,995	26.7%	9.8%
CV/CE	30,935	31,461	33,561	34,526	37,937	22.6%	9.9%
Others	14,644	15,151	16,276	16,190	17,803	21.6%	10.0%
Two Wheelers	6,383	6,614	7,118	7,107	7,345	15.1%	3.3%
Gold Loans	4,586	4,876	5,093	4,818	4,925	7.4%	2.2%
Loan Against Securities	1,897	1,886	2,052	2,249	2,798	47.5%	24.4%
Total	2,89,833	2,98,315	3,19,138	3,23,827	3,53,756	22.1%	9.2%

Source: Company, Angel Research

Deposit growth too was strong during the quarter: Deposit growth was strong 17.8% with strong accretion to CASA base which went up to 48% vs 45.3% QoQ. In absolute terms CASA addition was ₹21,280 cr growing by 30.8% YoY, 7% QoQ. Strong growth in low cost deposit helped NIM further expanding to 4.3% up 20 bps QoQ. We expect some moderation in NIM going ahead; however HDFC Bank will continue to have one of the best margins among Indian banks. Overall we expect deposit to report 17% CAGR over FY17-19.

Exhibit 5: Deposit growth trend (₹ cr)


Source: Company, Angel Research,

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


Source: Company, Angel Research

Other income for the bank also picked up during the quarter growing by 20.3% YoY. Fee income grew by 16.1% YoY and formed 73% of the non operating income. However, treasury income was lower QoQ. NPA recovery witnessed improvement QoQ.

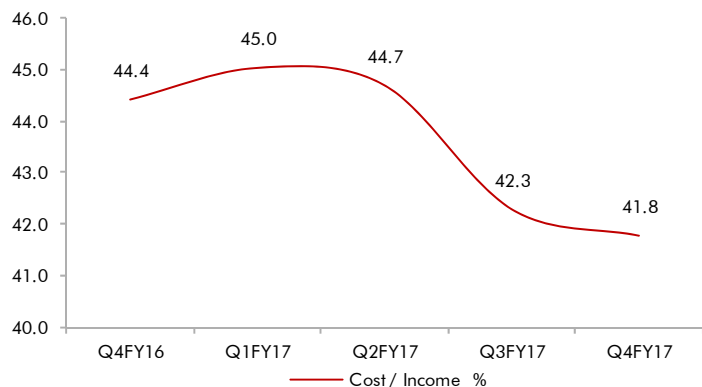
Exhibit 7: Other Income Bifurcation

Other Income (₹ Cr)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	% YoY	% QoQ
Fees Income	2,172	1,978	2,104	2,207	2,523	16.1%	14.3%
Forex	283	315	295	297	357	26.1%	20.0%
Profit on sale of investments	116	277	284	399	180	56.2%	-54.7%
NPA Recovery	295	237	219	240	386	30.8%	60.9%
Other Income	2,866	2,807	2,901	3,143	3,446	20.3%	9.7%
Fee Income as % of Other Income	76%	70%	73%	70%	73%		

Source: Company, Angel Research

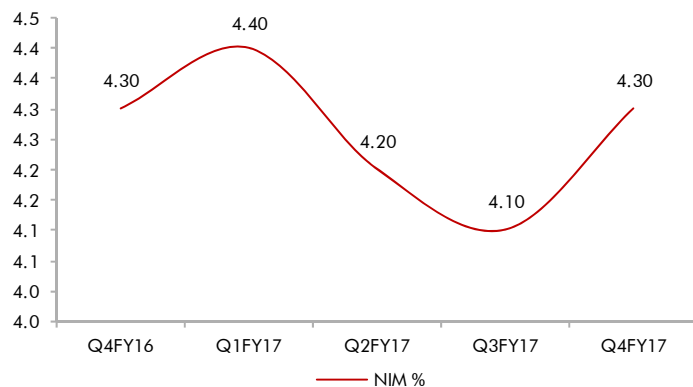
CASA growth to help in lower cost of funds and stable NIM going ahead: During the quarter HDFC bank witnessed sharp surge in its low cost deposit base and CASA ratio went up by 270 bps QoQ to 48% and this has helped in lower cost of funds and improvement in NIM. On a sequential basis NIM has expanded from 4.10% to 4.3%. While NIM may not significantly improve from here on, HDFC is likely to continue to have a strong retail book for many years to come and this should help it enjoy similar NIM in the coming years.

Exhibit 8: Cost/ Income remains under control



Source: Company, Angel Research

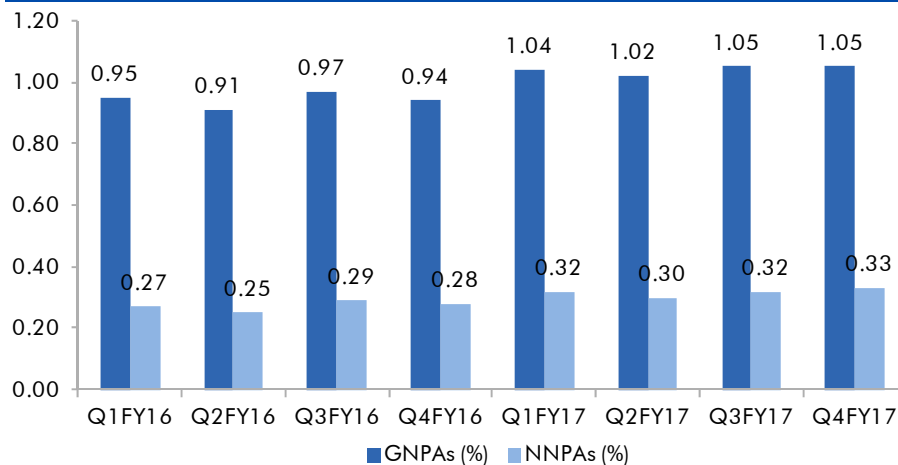
Exhibit 9: NIM got a further push



Source: Company, Angel Research

No sign of stress on asset quality: Asset quality of the bank remained largely stable with GNPA's at 1.05% and NNPA's at 0.33%. The bank has highlighted that there was no divergence observed by RBI for FY16 with respect to NPAs. While there was a rise in provisions part of this can be attributed to general growth in business and to the ₹250 cr worth of NPA which were due in Q3, but the bank had used the RBI's dispensation and not accounted that as NPA. However, from pure operational point of view the credit cost of HDFC Bank remains under control. We have factored in credit cost of 60 bps for FY18 and FY19 in our model. HDFC Bank's historical track record and ability to sail through economic down turn without compromising on its credit quality gives us comfort that credit cost will not materially rise in the near term.

Exhibit 10: GNPA's & NNPA's trend



Source: Company, Angel Research

Outlook & Valuation

After some moderation in business growth HDFC Bank is back with strong momentum during the quarter. We believe strong internal capital generation will drive 20% earnings CAGR over FY17-19, which will be backed by stable NIM and moderating credit cost. HDFC Bank has always traded at a premium to other banks in India, because of its best in class asset quality, superior NIM and sustainable growth. We believe the bank will continue to attract premium valuations going ahead as well. At the current market price, the bank is trading at 3.3x FY2019E ABV. **We Maintain ACCUMULATE rating, on the stock, with a target price of ₹1,650.**

Company Background

HDFC Bank is the second-largest private sector bank in India with a pan-India network of over 4,715 branches and nearly 12,260 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. The management has time and again reiterated that in the retail loan space it will continue to have strong market share in the coming years as well.

Income Statement (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Interest Income	22,329	27,592	33,139	40,298	45,762
- YoY Growth (%)	20.8	23.6	20.1	21.6	13.6
Other Income	8,996	10,752	12,296	14,476	16,957
- YoY Growth (%)	13.6	19.5	14.4	17.7	17.1
Operating Income	31,326	38,343	45,435	54,773	62,719
- YoY Growth (%)	18.6	22.4	18.5	20.6	14.5
Operating Expenses	13,988	16,980	19,703	24,173	27,038
- YoY Growth (%)	16.2	21.4	16.0	22.7	11.9
Pre - Provision Profit	17,338	21,364	25,732	30,600	35,680
- YoY Growth (%)	20.7	23.2	20.4	18.9	16.6
Prov. & Cont.	2,076	2,726	3,593	3,948	4,381
- YoY Growth (%)	30.7	31.3	31.8	9.9	11.0
Profit Before Tax	15,262	18,638	22,139	26,652	31,299
- YoY Growth (%)	19.5	22.1	18.8	20.4	17.4
Prov. for Taxation	5,113	6,342	7,589	8,795	10,329
- as a % of PBT	33.5	34.0	34.3	33.0	33.0
PAT	10,150	12,296	14,549	17,857	20,971
- YoY Growth (%)	19.7	21.2	18.3	22.7	17.4

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Share Capital	501	506	513	513	513
Reserves & Surplus	61,508	72,172	85,502	99,311	1,20,282
Net Worth	62,009	72,678	86,014	99,824	1,20,794
Deposits	4,50,796	5,46,424	6,43,640	7,52,967	8,74,876
- Growth (%)	22.7	21.2	17.8	17.0	16.2
Borrowings	45,214	53,018	74,029	82,826	96,236
Other Liab & Prov.	32,484	36,725	56,709	60,237	69,990
Total Liabilities	5,90,503	7,08,846	8,60,392	9,95,855	11,61,897
Cash balances	27,510	30,058	37,897	43,672	48,118
Bank balances	8,821	8,861	11,055	12,800	13,998
Investments	1,51,642	1,63,886	2,14,463	2,48,479	2,88,709
Advances	3,65,495	4,64,594	5,54,568	6,61,303	7,73,631
- Growth (%)	20.6	27.1	19.4	19.2	17.0
Fixed Assets	3,122	3,343	3,627	4,668	5,424
Other Assets	33,913	38,104	38,782	24,932	32,017
Total Assets	5,90,503	7,08,846	8,60,392	9,95,855	11,61,897

Ratio Analysis (Standalone)

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Profitability Ratios (%)					
NIMs	4.4	4.5	4.5	4.5	4.4
Cost to Income Ratio	44.7	44.3	43.4	44.1	43.1
RoA	1.9	1.9	1.9	1.9	1.9
RoE	19.2	18.3	18.3	19.2	19.0
B/S ratios (%)					
CASA Ratio	44.0	43.2	48.0	45.0	45.0
Credit/Deposit Ratio	81.1	85.0	86.2	87.8	88.4
CAR	16.8	15.5	14.7	15.4	15.6
- Tier I	13.7	13.2	12.9	13.7	14.2
Asset Quality (%)					
Gross NPAs	0.9	0.9	1.0	1.1	1.1
Net NPAs	0.2	0.3	0.3	0.3	0.3
Slippages	1.6	1.6	1.5	1.5	1.0
Loan Loss Prov./Avg. Assets	0.6	0.6	0.6	0.6	0.6
Provision Coverage	74	70	74	69	69
Per Share Data (₹)					
EPS	40.5	48.6	56.8	69.7	81.8
ABVPS	247	287	336	390	471
DPS	8.0	9.5	11.5	13.5	13.5
Valuation Ratios					
PER (x)	37.9	31.5	27.0	22.0	18.7
P/ABVPS (x)	6.3	5.4	4.6	4.0	3.3
Dividend Yield	0.6	0.7	0.8	1.0	1.0
DuPont Analysis (%)					
NII	4.1	4.2	4.2	4.3	4.2
Non Interest Income	1.7	1.7	1.6	1.6	1.6
Total Revenues	5.8	5.9	5.8	5.9	5.8
Operating Cost	2.6	2.6	2.5	2.6	2.5
PPP	3.2	3.3	3.3	3.3	3.3
Total Provisions	0.4	0.4	0.5	0.4	0.4
PreTax Profit	2.8	2.9	2.8	2.9	2.9
Tax	0.9	1.0	1.0	0.9	1.0
ROA	1.9	1.9	1.9	1.9	1.9
Leverage	10.3	9.6	9.9	10.0	9.8
RoE (%)	19.2	18.3	18.3	19.2	19.0

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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 (> 15%)

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

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