



HDFC Bank

BSE SENSEX 32,246
S&P CNX 9,966

CMP: INR1,735 TP: INR2,000(+15%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	HDFCB IN
Equity Shares (m)	2,553
M.Cap.(INRb)/(USDb)	4445 / 66.6
52-Week Range (INR)	1318 / 929
1, 6, 12 Rel. Per (%)	2/5/11
Avg Val, INRm	1782
Free float (%)	78.7

Financials & Valuations (INR b)

Y/E MARCH	2018E	2019E	2020E
NII	400.9	479.4	576.0
OP	321.7	387.3	464.5
NP	174.8	210.4	253.6
NIM (%)	4.7	4.6	4.5
EPS (INR)	68.2	82.1	99.0
EPS Gr. (%)	20.2	20.4	20.5
BV/Sh. (INR)	388.2	451.2	527.1
ABV/Sh. (INR)	381.7	447.8	522.4
RoE (%)	18.8	19.6	20.2
RoA (%)	1.8	1.8	1.8
Payout (%)	23.4	23.4	23.4
Valuations			
P/E(X)	25.4	21.1	17.5
P/BV (X)	4.5	3.8	3.3
P/ABV (X)	4.5	3.9	3.3
Div. Yield (%)	0.8	0.9	1.1

Quarterly Performance

	FY17				FY18E				FY17	FY18
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	1,65,160	1,70,699	1,76,056	1,81,144	1,86,687	1,96,034	2,06,186	2,17,296	6,93,060	8,06,203
Interest Expense	87,346	90,764	92,965	90,593	92,980	98,094	1,03,489	1,10,778	3,61,667	4,05,341
Net Interest Income	77,814	79,936	83,091	90,551	93,707	97,940	1,02,697	1,06,518	3,31,392	4,00,863
% Change (Y-o-Y)	21.8	19.6	17.6	21.5	20.4	22.5	23.6	17.6	20.1	21.0
Other Income	28,066	29,010	31,427	34,463	35,167	34,019	36,199	41,393	1,22,965	1,46,777
Net Income	1,05,881	1,08,945	1,14,518	1,25,014	1,28,874	1,31,959	1,38,896	1,47,911	4,54,357	5,47,640
Operating Expenses	47,689	48,700	48,425	52,220	53,675	55,725	57,177	59,389	1,97,033	2,25,965
Operating Profit	58,192	60,246	66,093	72,794	75,199	76,234	81,719	88,522	2,57,324	3,21,675
% Change (Y-o-Y)	20.0	19.5	15.2	26.9	29.2	26.5	23.6	21.6	20.4	25.0
Other Provisions	8,667	7,490	7,158	12,618	15,588	12,750	10,800	15,609	35,933	54,747
Profit before Tax	49,525	52,756	58,935	60,176	59,612	63,484	70,919	72,912	2,21,391	2,66,928
Tax Provisions	17,136	18,202	20,281	20,275	20,673	21,902	24,467	25,047	75,894	92,090
Net Profit	32,389	34,553	38,653	39,901	38,938	41,582	46,452	47,865	1,45,496	1,74,838
% Change (Y-o-Y)	20.2	20.4	15.1	18.3	20.2	20.3	20.2	20.0	18.3	20.2
Operating Parameters										
NIM (Reported, %)*	4.4	4.2	4.1	4.3					4.3	4.2
NIM (Cal, %)#	4.7	4.5	4.6	4.8	4.7	4.6	4.6	4.6	4.6	4.6
Deposit Growth (%)	18.5	16.7	21.1	17.8	17.0	18.0	16.1	22.0	17.8	22.0
Loan Growth (%)	23.2	18.1	13.4	19.4	23.4	25.7	31.9	22.0	19.4	22.0
CD Ratio (%)	82.0	83.6	78.0	86.2	86.5	89.0	88.6	86.2	86.2	86.2
CASA Ratio (%)	39.9	40.4	45.4	48.0				0.0	48.0	46.0
Asset Quality										
OSRL (INR B)	4.7	4.9	5.0	3.3	0.0	0.0	0.0	0.0	3.3	
OSRL (%)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	
Gross NPA (INR B)	49.2	50.7	52.3	58.9	72.4	81.4	90.4	94.7	58.9	94.7
Gross NPA (%)	1.0	1.0	1.1	1.1	1.2	1.3	1.4	1.4	1.1	1.4

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Exhibit 1: Quarterly Performance: In-line

Y/E March	1QFY18A	1QFY18E	V/S our Est	Comments
Interest Income	1,86,687	1,87,133	0	
Interest Expense	92,980	94,217	-1	
Net Interest Income	93,707	92,916	1	In line
% Change (Y-o-Y)	20	19		
Other Income	35,167	31,568	11	Beat led by strong fee income growth
Net Income	1,28,874	1,24,484	4	
Operating Expenses	53,675	54,326	-1	in line
Operating Profit	75,199	70,158	7	beat led by stronger than expected fee income growth
% Change (Y-o-Y)	29	21		
Other Provisions	15,588	12,200	28	provisions significantly higher than expected
Profit before Tax	59,612	57,958	3	
Tax Provisions	20,673	19,416	6	
Net Profit	38,938	38,542	1	In line; higher operating profits offset by miss on provisions
% Change (Y-o-Y)	20	19		

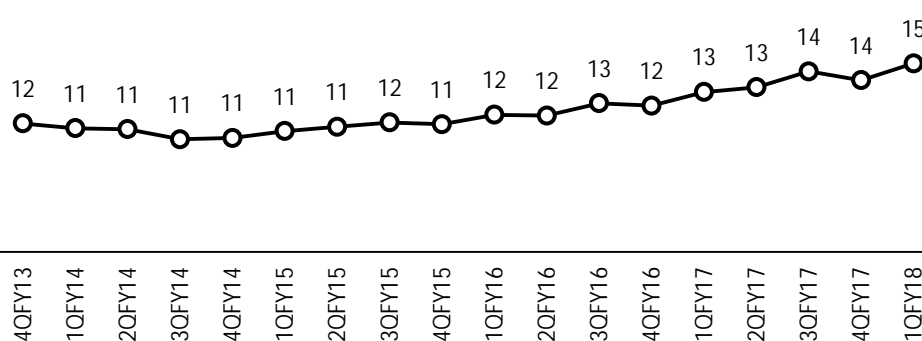
Source: MOSL, Company

Growth was led by retail loans, which increased 25% YoY, driven by working capital loans

Retail loan growth remains healthy, share of retail picks up

- n Loan book grew 5% QoQ and 23% YoY to INR5.81t. Deposits grew 4%/17% QoQ/YoY to INR6.7t. CD ratio stood at 86.5%, stable QoQ
- n Incremental growth in the quarter was driven by retail loans (75% incremental share, retail loan share at 66.1% of book compared to 65.7% in 4QFY17). In retail loans (+3.5% QoQ and 25% YoY), the main drivers were business banking and personal loans (up 8%/11% QoQ and 27%/37% YoY).
- n After a pickup in 4QFY17, corporate book experienced relatively muted 2.7% QoQ growth in 1QFY18, but YoY growth picked up at 17%.

Exhibit 2: Share of unsecured loans ticked up to 15%



Source: MOSL, Company

29% YoY CASA growth

Reported NIM expands 10bp QoQ; CASA ratio moderates to 44%

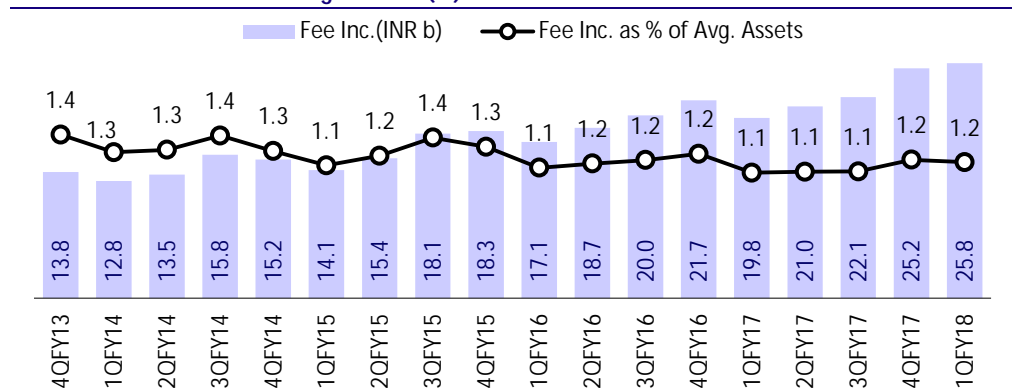
- n NIM (reported) increased 10bp sequentially to 4.4% but was stable YoY.
- n CASA deposits grew -5%/29% QoQ/YoY, driven by 2%/26% SA growth and -12%/34% CA growth. CASA ratio stood at 44%, down from one-off high of 48% in 4QFY17.

Strong fee income led to 25% YoY increase in other income; Fee income was helped by one-off contribution from OMCs

Fee income growth picks up

- n HDFCB reported pick-up in fee income growth to 30% YoY from 16% YoY in the prior quarter. Overall fee income/average assets stayed stable at 1.2%. Fee income had tailwinds from OMCs and exceptionally strong credit card/mutual fund sales.
- n Trading gains came in strong at INR3.3b, up 20% YoY. Forex income declined 6% YoY as hedging costs led to a drag.

Exhibit 3: Fee income/average assets (%) remained stable QoQ



Source: MOSL, Company

Operating expenses well under control, with stable cost to core income ratio

Operating expenses well under control; Asset quality stable

- n Overall opex growth continued to moderate at 13% YoY (3% QoQ). Employee expenses grew 7%/5% QoQ/YoY after a low in 4QFY17.
- n The bank opened 12 new branches in the quarter, taking the total count to 4,727 branches.
- n Cost-to-core income ratio stayed stable QoQ at 43.8%.
- n Asset quality ratios declined slightly with GNPA/NNPA of 1.24%/0.44%, as the bank experienced increased slippages from the agriculture sector, especially crop loans (90% of agri slippages) resulting from farm loan waivers. However, the bank has already provided 50% on the stressed portfolio in this sector.

1QFY18 Conference Call Highlights

P&L related

- n Fee income for the quarter had some one-offs from OMCs (accounted 4.5% of growth), strong credit card growth, and also stronger than usual distribution of mutual funds, adjusting for which fee income growth would be 18-20%.
- n Staffing has been flat from March. Employee expenses trend is expected to be stable from here.
- n Digitization will continue to drive CI ratio downwards.
- n Hedging costs have dragged down FX income (due to more swaps).
- n Total increase in provisions – INR6.92b comprises INR2b of general provisions (additional general provisions have been made for iron and steel std. accounts) and INR4.92b of specific provisions (of which INR3.7b was for agri portfolio).

B/S related

- n Digitization will continue to drive CI ratio downwards.
- n Overseas book stood at INR201b.

- n Home loans grew 15%, they purchased INR25b from HDFC, lower than usual buyback of INR30b.
- n CASA peaked in 4QFY17, but has come down because FD growth has picked up.
- n Experiencing strong working capital demand from SMEs, who are suppliers to large corporates.

Asset quality

- n Total slippages of INR31b (90% of agri slippages are related to crop loans), total reduction of INR17.5b comprised INR4.9b of upgrades, INR7.37b of write-offs and recoveries of INR5.21b.
- n Moral hazard is still not a concern from farm loan waivers. Non-repayments are happening due to lack of clarity among farmers on whether they qualify for waivers or not. Once clarity emerges, repayments should start, especially before the next harvest season.
- n GNPA in agri portfolio is 5%.
- n OSRL stands at 0.1%.
- n The bank has provided 50% of stressed agri portfolio. They hold general provisions of 60-100bp against std. assets in telecom etc.
- n **Details of NCLT accounts exposure** - 1 account classified as NPL and sold off in FY16, and what was not sold has been fully provided for.

Others

- n HDB – INR320b of loan book and AUM of INR350b. PAT for 1QFY18 was INR1.5b due to a large provisioning expense as they moved to 90 days past due to recognition for HDB.
- n CET 1 ratio = 12.44%.

Buy with a target price of
INR2,000 (SOTP based)

Valuation and view

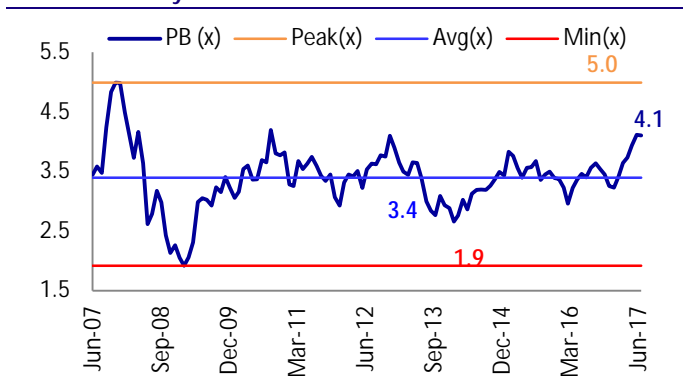
- n Structural drivers in place with (1) CASA ratio of 44%, (2) opportunities' for the significant market share gains (25% of incremental market share in FY17), (3) improving operating efficiency led by digitalization initiatives, (4) expected traction in income due to strong expansion in branch network, and (5) best-in-class asset quality.
- n Post demon strong improvement in retail loan growth is impressive especially when the bank was focused on cutting flab from the system. Retail loan growth is seeing a strong revival with the contribution from high ROE retail products like unsecured personal loans, LAS and Credit cards going up. Despite the moderate growth in underlying assets like Auto, CV and CE loans – HDFCB is seeing the strong loan growth-Indicating a market share gain.
- n Sharp pick in corporate loans is impressive. Helped by strong benefit on the cost of funds bank has been aggressive in gaining market share in the corporate loans. We expect the trend to continue considering the large part of the competition is struggling with its own issues like capitalization, asset quality etc.
- n We have seen some moderation in the investments in branches and ATMs and calibration in workforce. In our view, this is largely to improve the productivity from the existing investments and cutting the flab in the system. Core revenue growth is expected to be healthy at 16%+. This along with improving operating efficiencies which will help overall earnings growth to 18%+ in our view.

- n Despite pricing pressure, NIMs moderation is expected to be limited due to a) high CASA ratio, b) benefit of falling rate cycle will occur due to high share of fixed rate retail loans (~66% of book) and c) high-yielding retail loans contribution within retail to rise.
- n Over the last 12 years, HDFCB's market share has increased significantly in (1) retail loans, (2) low-cost deposits and (3) profitability, indicating the strength of its franchisee. Strong fundamentals and near-nil stress loans would enable the bank to gain market share. Further, continued strong investment in people and branches indicating management positive outlook on business. RoEs are expected to be the best amongst private banks at ~18-20%. The stock trades at FY19 PBV/PE of 3.8x/21.1x.
- n **We value bank at INR2,000 based on SOTP model.** We roll forward our target price to June 2019 from Mar 2019 earlier. We arrive at an SOTP based valuation for the bank with INR1,900 for the bank (4x June 19 BV) and we value the subsidiaries at INR100, leading to a TP of INR2,000 for the bank and maintain Buy.

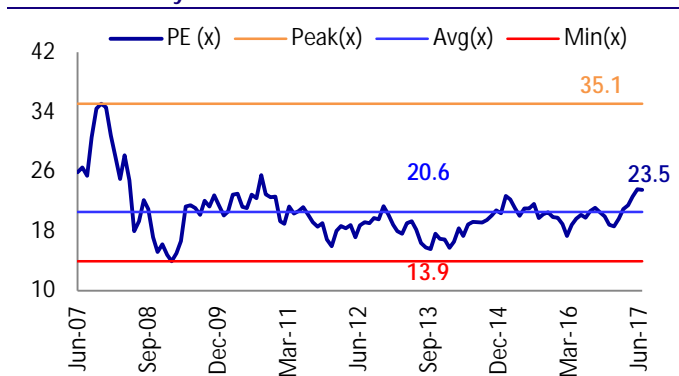
Exhibit 4: We largely maintain our earnings estimates

INR b	Old Estimates			New Estimates			% Change		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	389.1	457.6	555.3	400.9	479.4	576.0	3.0	4.8	3.7
Other Income	140.8	162.6	184.3	146.8	169.3	192.5	4.2	4.2	4.5
Total Income	529.9	620.1	739.5	547.6	648.7	768.5	3.3	4.6	3.9
Operating Expenses	227.9	260.6	307.0	226.0	261.4	304.1	-0.9	0.3	-1.0
Operating Profits	302.0	359.6	432.5	321.7	387.3	464.5	6.5	7.7	7.4
Provisions	41.8	54.8	72.6	54.7	66.0	77.3	30.9	20.6	6.4
PBT	260.2	304.8	359.9	266.9	321.3	387.2	2.6	5.4	7.6
Tax	87.2	100.6	118.8	92.1	110.8	133.6	5.6	10.2	12.5
PAT	173.0	204.2	241.1	174.8	210.4	253.6	1.0	3.0	5.2
Margins (%)	4.52	4.40	4.39	4.66	4.61	4.55			
Credit Cost (%)	0.60	0.65	0.70	0.82	0.80	0.75			
RoA (%)	1.8	1.8	1.7	1.8	1.8	1.8			
RoE (%)	18.7	19.1	19.4	18.8	19.6	20.2			
EPS	68	80	94	68	82	99	0	1	3
BV	388	449	521	388	451	527	2	0	1
ABV	381	440	510	382	448	522	2	0	2

Source: MOSL, Company

Exhibit 5: One year forward P/BV

Source: MOSL, Company

Exhibit 6: One year forward P/E

Source: MOSL, Company

Exhibit 7: DuPont Analysis: Risk adjusted NIMs continue to improve; RoAs close to decadal high (%)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	4.19	4.28	4.14	4.14	4.15	4.13	4.22	4.20	4.16
Core Fee Income	1.37	1.34	1.30	1.23	1.20	1.10	1.12	1.09	1.02
Fee to core Income	24.6	23.9	23.8	22.9	22.4	21.0	21.0	20.6	19.7
Core Income	5.56	5.63	5.44	5.37	5.34	5.23	5.34	5.29	5.18
Operating Expenses	3.02	3.04	2.70	2.59	2.55	2.46	2.38	2.29	2.20
Cost to Core Income	54.3	54.1	49.6	48.1	47.7	47.0	44.5	43.3	42.4
Employee cost	1.11	1.07	0.94	0.88	0.86	0.81	0.76	0.73	0.71
Employee to total exp	36.65	35.29	34.70	33.97	33.58	32.91	32.14	31.95	32.13
Others	1.91	1.97	1.76	1.71	1.69	1.65	1.61	1.56	1.49
Core operating Profits	2.54	2.58	2.74	2.79	2.79	2.77	2.96	3.00	2.99
Non Interest income	1.88	1.86	1.78	1.66	1.62	1.53	1.55	1.48	1.39
Trading and others	0.51	0.51	0.48	0.43	0.42	0.43	0.42	0.40	0.37
Operating Profits	3.05	3.10	3.22	3.22	3.21	3.21	3.39	3.39	3.36
Provisions	0.61	0.45	0.36	0.38	0.41	0.45	0.58	0.58	0.56
NPA	0.35	0.33	0.37	0.32	0.32	0.39	0.53	0.53	0.50
Others	0.26	0.12	-0.01	0.07	0.09	0.06	0.04	0.05	0.06
PBT	2.44	2.64	2.86	2.83	2.80	2.76	2.81	2.82	2.80
Tax	0.76	0.82	0.96	0.94	0.95	0.95	0.97	0.97	0.97
Tax Rate	31.2	31.0	33.6	33.4	34.0	34.3	34.5	34.5	34.5
RoA	1.68	1.82	1.90	1.89	1.85	1.81	1.84	1.84	1.83
Leverage (x)	11.1	11.2	11.2	10.3	9.9	10.1	10.2	10.6	11.0
RoE	18.7	20.3	21.3	19.4	18.3	18.3	18.8	19.6	20.2

Source: MOSL, Company

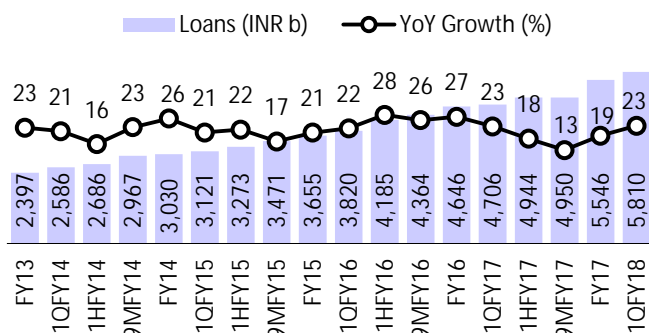
Exhibit 8: Exhibit 8: DuPont Analysis: Robust core operating performance continues (%)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
NII	4.19	4.15	4.20	4.27	4.25	4.14	4.11	4.28	4.26
Fees (ex-forex)	1.12	1.16	1.19	1.24	1.08	1.09	1.09	1.19	1.17
Fees to core Inc	26.8	28.0	28.4	29.1	25.4	26.3	26.6	27.9	27.5
Core Income	5.31	5.30	5.39	5.51	5.33	5.23	5.20	5.47	5.43
Operating Expenses	2.62	2.60	2.50	2.63	2.61	2.52	2.40	2.47	2.44
Cost to Core Inc (%)	49.4	49.0	46.3	47.6	48.9	48.2	46.0	45.1	44.9
Employee Expenses	0.89	0.88	0.85	0.86	0.87	0.86	0.84	0.73	0.75
Other Expenses	1.73	1.72	1.65	1.77	1.74	1.66	1.56	1.74	1.69
Core Oper. Profit	2.69	2.71	2.89	2.89	2.73	2.71	2.81	3.01	2.99
Trading and others	0.49	0.42	0.51	0.40	0.45	0.41	0.46	0.44	0.43
Operating Profit	3.18	3.13	3.40	3.28	3.18	3.12	3.27	3.44	3.42
Provisions	0.48	0.42	0.39	0.38	0.47	0.39	0.35	0.60	0.71
PBT	2.70	2.71	3.02	2.91	2.71	2.73	2.92	2.85	2.71
Tax	0.94	0.93	1.02	0.97	0.94	0.94	1.00	0.96	0.94
Tax Rate	34.6	34.2	33.9	33.5	34.6	34.5	34.4	33.7	34.7
ROA	1.77	1.78	1.99	1.93	1.77	1.79	1.91	1.89	1.77
Leverage (x)	9.6	9.7	9.6	9.7	9.8	9.8	9.8	9.7	9.6
ROE	17.0	17.2	19.1	18.7	17.4	17.6	18.7	18.3	17.0

Source: MOSL, Company

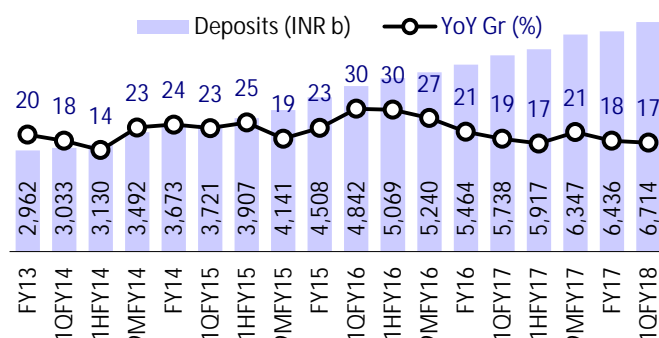
Story in Charts

Exhibit 9: Loans grew 23% YoY (5% QoQ)



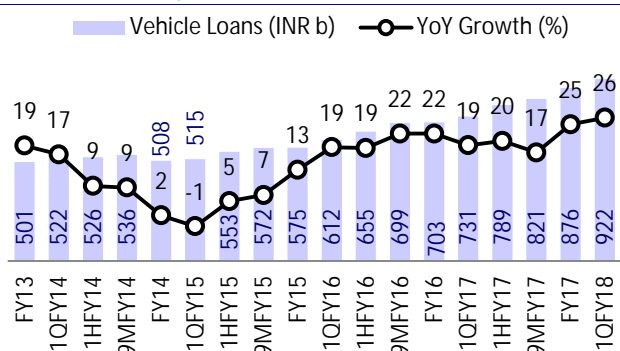
Source: MOSL, Company

Exhibit 10: Deposits registered 17% YoY growth



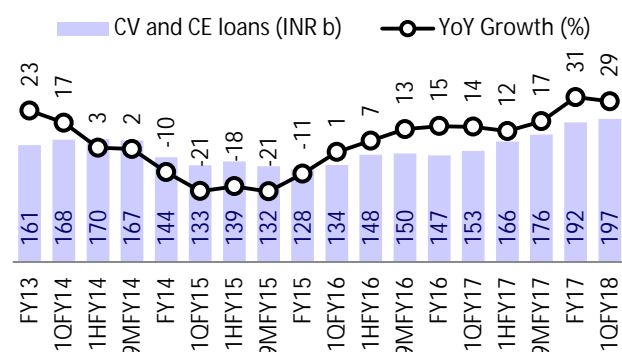
Source: MOSL, Company

Exhibit 11: Healthy traction in vehicle loans



Source: MOSL, Company

Exhibit 12: CV/CE loans grew 29% YoY



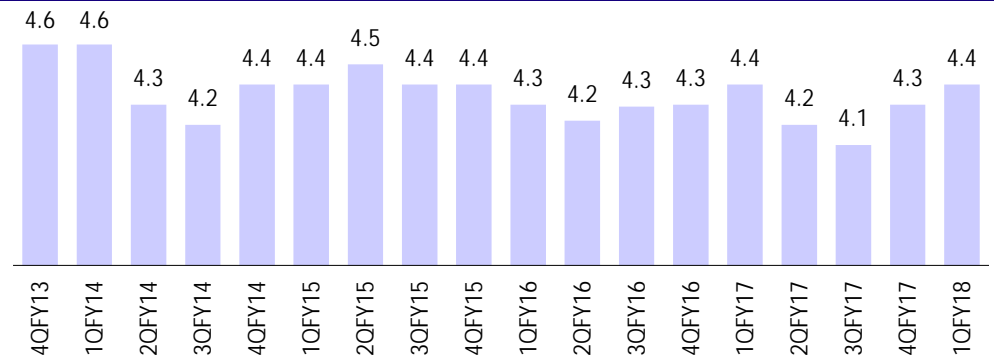
Source: MOSL, Company

Exhibit 13: Share of retail loans (based on internal classification) ticked upwards to 66.1% compared to 65.7% in 4QFY17

Loan Break-up (INR b)	% of loans	1QFY18	1QFY17	YoY Gr (%)	4QFY17	QoQ Gr (%)
Auto	12.7	737	596	23.8	701	5.2
PL	9.7	561	411	36.6	505	10.9
LAS	0.5	30	19	56.7	28	5.6
2Wheeler	1.3	77	66	16.8	73	5.2
CV and CE	6.6	385	315	22.2	379	1.4
CC	5.0	291	213	36.9	260	11.9
Bus. Banking	15.2	881	693	27.1	818	7.7
Home loans	6.7	388	336	15.5	384	1.1
Gold loans	0.9	51	49	5.2	49	4.2
Kissan gold cards	4.8	281	224	25.6	267	5.2
Others	2.7	159	152	5.0	178	-10.7
Retail loans	66.1	3,841	3,072	25.0	3,644	5.4
Corp and International	33.9	1,969	1,634	20.5	1,902	3.5
Total loans	100.0	5,810	4,706	23.4	5,546	4.8

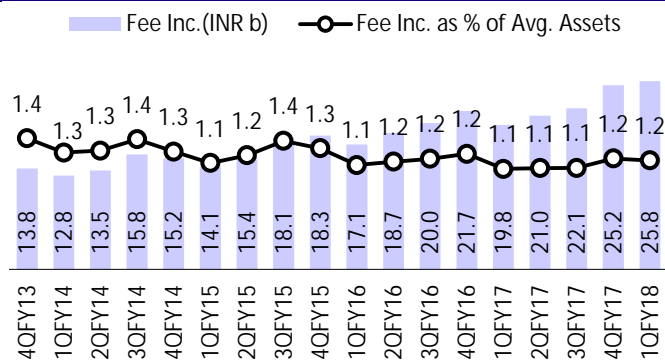
Source: MOSL, Company

Exhibit 14: NIMs increased 10bp QoQ to 4.4%



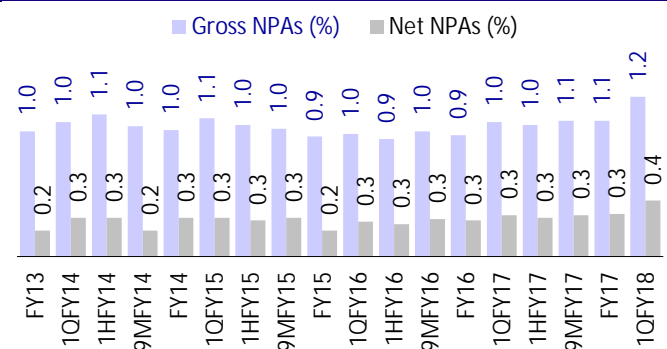
Source: Company, MOSL

Exhibit 15: Quarterly fees/assets (%) remained stable



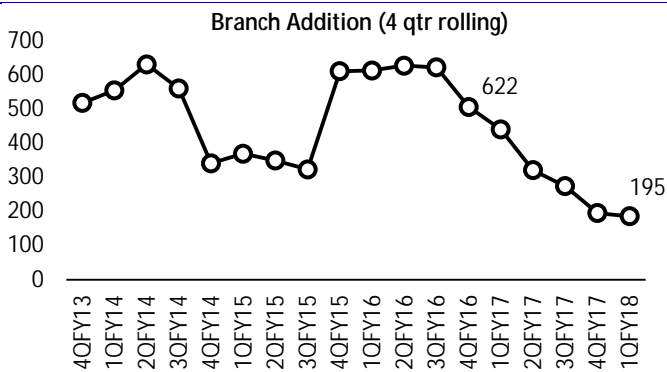
Source: MOSL, Company

Exhibit 16: GNPA increased to 1.24%



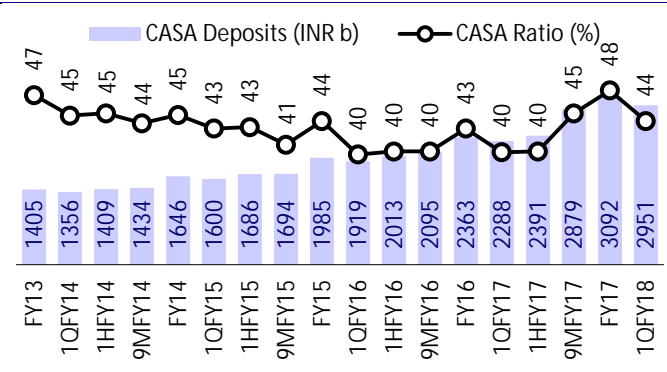
Source: MOSL, Company

Exhibit 17: Added 12 branches during the quarter



Source: MOSL, Company

Exhibit 18: CASA ratio declined to 44%



Source: MOSL, Company

Exhibit 19: Quarterly Snapshot

	FY16				FY17				FY18	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Profit and Loss (INR m)											
Net Interest Income	63,888	66,809	70,685	74,533	77,814	79,936	83,091	90,551	93,707	3	20
Other Income	24,619	25,518	28,722	28,659	28,066	29,010	31,427	34,463	35,167	2	25
Trading profits	1,259	1,624	3,279	1,155	2,769	2,835	3,986	1,804	3,314	84	20
Exchange Profits	3,480	3,196	2,774	2,828	3,145	2,950	2,972	3,567	2,968	-17	-6
Others (Ex non core)	19,880	20,698	22,669	24,676	22,152	23,225	24,469	29,092	28,885	-1	30
Total Income	88,507	92,327	99,407	1,03,192	1,05,881	1,08,945	1,14,518	1,25,014	1,28,874	3	22
Operating Expenses	40,008	41,898	42,048	45,843	47,689	48,700	48,425	52,220	53,675	3	13
Employee	13,590	14,140	14,313	14,980	15,852	16,572	16,886	15,527	16,575	7	5
Others	26,418	27,758	27,736	30,863	31,837	32,128	31,539	36,693	37,100	1	17
Operating Profits	48,499	50,429	57,359	57,349	58,192	60,246	66,093	72,794	75,199	3	29
Provisions	7,280	6,813	6,539	6,625	8,667	7,490	7,158	12,618	15,588	24	80
PBT	41,219	43,616	50,820	50,725	49,525	52,756	58,935	60,176	59,612	-1	20
Taxes	14,262	14,922	17,251	16,982	17,136	18,202	20,281	20,275	20,673	2	21
PAT	26,957	28,695	33,568	33,742	32,389	34,553	38,653	39,901	38,938	-2	20
Asset Quality											
GNPA	38,522	38,278	42,552	43,928	49,209	50,690	52,323	58,857	72,429	23	47
NNPA	10,277	10,377	12,606	13,204	14,934	14,889	15,643	18,440	25,282	37	69
GNPA (%)	1.0	0.9	1.0	0.9	1.0	1.0	1.1	1.1	1.2	19	20
NNPA (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	11	12
PCR (Calculated, %)	73.3	72.9	70.4	69.9	69.7	70.6	70.1	68.7	65.1	-358	-456
Ratios (%)											
Fees to Total Income	22.5	22.4	22.8	23.9	20.9	21.3	21.4	23.3	22.4		
Cost to Core Income	45.9	46.2	43.7	44.9	46.2	45.9	43.8	42.4	42.7		
Tax Rate	34.6	34.2	33.9	33.5	34.6	34.5	34.4	33.7	34.7		
CASA (Reported)	39.6	40.0	40.0	43.0	39.9	40.0	45.0	48.0	44.0		
Loan/Deposit	78.9	82.6	83.3	85.0	82.0	83.6	78.0	86.2	86.5		
RoA	1.8	1.8	2.0	1.9	1.8	1.8	1.9	1.9	1.8		
RoE	17.0	17.2	19.1	18.7	17.4	17.6	18.7	18.3	17.0		
Margins (%) - Calculated											
Yield on loans	11.2	10.9	10.7	10.6	10.7	10.7	10.7	10.3	10.2	-9	-46
Yield On Investments	8.1	7.9	8.3	8.8	8.2	7.4	7.3	7.6	7.2	-35	-100
Yield on funds	10.3	10.1	10.1	10.1	10.0	9.7	9.7	9.6	9.3	-22	-62
Cost of funds	6.0	5.9	5.8	5.8	5.6	5.5	5.4	5.1	5.0	-4	-58
Spreads	4.3	4.2	4.3	4.4	4.3	4.2	4.3	4.5	4.3	-17	-3
Margins	4.7	4.6	4.6	4.7	4.7	4.5	4.6	4.8	4.7	-9	0
Margins (%) - Reported	4.3	4.2	4.3	4.3	4.4	4.2	4.1	4.3	4.4	10	0

Source: MOSL, Company

Exhibit 20: Quarterly Snapshot continued

	FY16				FY17				FY18	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Balance Sheet (INR b)											
ESC	5	5	5	5	5	5	5	5	5	0	2
Reserves and Surplus	645	678	715	722	759	800	845	889	937	5	24
Net Worth	650	683	720	727	764	806	850	895	943	5	23
Deposits	4,842	5,069	5,240	5,464	5,738	5,917	6,347	6,436	6,714	4	17
Borrowings+Sub Debt	469	523	600	530	689	770	721	740	860	16	25
Other Liabilities	332	325	319	367	361	395	362	567	440	-22	22
Total Liabilities	6,293	6,600	6,879	7,088	7,551	7,888	8,280	8,638	8,957	4	19
Cash	244	257	268	301	284	286	500	379	362	-4	27
Money at call	143	78	58	89	119	179	41	111	208	88	75
Investments	1,724	1,713	1,823	1,639	2,063	2,067	2,361	2,145	2,161	1	5
Advances	3,820	4,185	4,364	4,646	4,706	4,944	4,950	5,546	5,810	5	23
Total earning assets	5,687	5,976	6,245	6,373	6,888	7,189	7,352	7,801	8,179	5	19
Fixed Assets	32	32	32	33	35	35	35	36	36	-1	3
Other Assets	331	335	333	381	344	377	393	422	380	-10	11
Total Assets	6,293	6,600	6,879	7,088	7,551	7,888	8,280	8,638	8,957	4	19
Loan Break Up (%)											
Retail	49.0	48.8	49.2	48.2	49.5	51.1	52.7	51.2	52.1	97	260
Auto Loans	11.4	11.0	11.4	10.8	11.1	11.4	11.8	11.2	11.4	17	27
Personal Loans	7.5	7.6	8.0	8.0	8.6	9.0	9.4	9.0	9.6	53	96
Loan against securities	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	-1	-1
Two wheeler	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.1	-1	-5
CV & CE	3.5	3.5	3.4	3.2	3.3	3.4	3.5	3.5	3.4	-7	13
Credit Cards	4.4	4.3	4.5	4.4	4.5	4.3	4.8	4.7	5.0	32	49
Business Banking	6.3	6.5	6.2	5.4	5.4	6.4	6.5	6.5	7.0	43	152
Home loans	7.0	6.8	6.5	6.9	7.1	6.8	7.2	6.9	6.7	-24	-46
Gold loans	1.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	-1	-16
Kissan Gold Cards	4.4	4.6	4.5	4.8	4.7	4.9	4.7	4.7	4.8	5	10
Other Retail loans	2.0	2.1	2.2	2.3	2.4	2.4	2.4	2.3	2.2	-18	-19
Corp. & International	51.0	51.2	50.8	51.8	50.5	48.9	47.3	48.8	47.9	-97	-260
Franchise											
Branches	4,101	4,227	4,281	4,520	4,541	4,548	4,555	4,715	4,727	0	4
ATM	11,952	11,666	11,843	12,000	12,013	12,016	12,087	12,260	12,220	0	2

% change are in bp

Source: MOSL, Company

Exhibit 21: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICI* [*]	Buy	303	30.0	15.6	17.9	13.7	11.1	146.6	159.2	1.46	1.25	1.23	1.23	9.4	10.1
HDFCB	Buy	1,735	67.9	67.1	79.4	25.8	21.9	387	448	4.48	3.87	1.81	1.78	18.2	19.0
AXSB	Neutral	534	20.1	23.8	40.3	22.5	13.3	245	278	2.18	1.92	0.87	1.23	10.1	15.4
KMB*	Buy	992	28.5	32.4	41.0	30.6	24.2	232	272	4.27	3.64	1.84	1.99	15.0	16.3
YES	Buy	1,593	11.2	90.7	114.6	17.6	13.9	541	632	2.94	2.52	1.75	1.80	18.0	19.5
IIB	Buy	1,553	14.5	61.9	76.8	25.1	20.2	383	446	4.06	3.48	1.90	1.95	17.3	18.5
IDFC Bk	Neutral	60	3.2	3.5	4.2	17.2	14.5	46	49	1.32	1.23	0.93	0.91	7.9	8.8
FB	Buy	117	3.1	5.5	6.8	21.5	17.2	62	68	1.88	1.73	0.83	0.85	10.2	10.5
DCBB	Neutral	196	0.9	8.4	10.4	23.4	18.8	83	93	2.35	2.11	0.95	0.96	11.4	11.8
JKBK	Neutral	91	0.7	4.0	8.2	22.9	11.1	114	120	0.80	0.76	0.39	0.43	5.8	7.0
SIB	Buy	29	0.6	2.9	3.7	10.2	7.9	28	30	1.06	0.97	0.65	0.74	10.8	12.7
Equitas	Buy	168	0.9	4.8	7.4	34.7	22.6	70	77	2.38	2.17	1.66	2.16	7.1	10.1
RBL	Under Review	526	3.1	18.0	23.7	29.2	22.2	160	180	3.28	2.92	1.34	1.35	13.6	13.9
Private Aggregate															
SBIN (cons)*	Buy	294	39.0	17.9	23.3	14.7	11.1	230	249	1.14	1.04	0.44	0.50	8.7	10.0
PNB	Buy	161	5.2	10.3	14.5	15.7	11.1	187	199	0.86	0.81	0.29	0.37	5.6	7.5
BOI	Neutral	160	2.5	13.7	22.0	11.7	7.3	233	255	0.69	0.63	0.22	0.33	6.1	9.0
BOB	Buy	164	5.8	18.4	22.5	8.9	7.3	162	179	1.01	0.92	0.59	0.66	11.9	13.2
CBK	Neutral	353	3.0	30.1	47.0	11.7	7.5	498	540	0.71	0.65	0.29	0.41	6.2	9.1
UNBK	Neutral	157	1.7	24.6	34.5	6.4	4.6	315	345	0.50	0.46	0.37	0.47	8.1	10.5
OBC	Neutral	153	0.8	17.1	21.4	8.9	7.1	382	404	0.40	0.38	0.22	0.26	4.6	5.4
INBK	Buy	322	2.5	34.4	38.3	9.4	8.4	327	357	0.98	0.90	0.73	0.72	10.9	11.2
Public Aggregate															
Banks Aggregate															
HDFC*	Under Review	1,635	40.2	39.2	44.2	24.5	19.6	228	285	4.23	3.04	1.79	1.82	18.3	17.4
LICHF	Neutral	742	5.8	47.9	53.8	15.5	13.8	252	295	2.95	2.52	1.64	1.63	20.6	19.7
IHFL	Buy	1,155	7.5	88.9	113.9	13.0	10.1	325	372	3.56	3.11	3.40	3.46	29.0	32.7
GRHF	Neutral	467	2.7	9.9	12.1	47.0	38.7	33	40	14.08	11.55	2.43	2.43	33.0	32.8
REPCO	Buy	781	0.8	35.8	42.5	21.8	18.4	214	253	3.64	3.09	2.25	2.21	18.1	18.2
DEWH	Buy	456	2.2	37.7	47.1	12.1	9.7	282	321	1.62	1.42	1.25	1.33	14.1	15.6
Housing Finance															
RECL	Neutral	181	5.6	35.0	40.4	5.2	4.5	196	227	0.92	0.80	3.10	3.12	19.1	19.1
POWF	Neutral	128	5.3	27.2	30.2	4.7	4.2	169	191	0.75	0.67	2.76	2.72	17.0	16.8
Infra Finance															
SHTF	Buy	964	3.4	78.5	98.5	12.3	9.8	564	646	1.71	1.49	2.60	2.91	14.7	16.3
MMFS	Buy	364	3.1	13.6	16.4	26.8	22.2	123	132	2.97	2.75	1.68	1.74	11.4	12.8
BAF	Buy	1,598	13.8	47.6	62.9	33.6	25.4	216	270	7.39	5.92	3.51	3.51	24.3	25.9
CIFC	Buy	1,129	2.8	55.0	66.4	20.5	17.0	322	380	3.51	2.97	2.74	2.78	18.5	18.9
SCUF	Buy	2,319	2.4	132.8	171.2	17.5	13.5	874	1,019	2.65	2.28	3.63	3.96	16.2	18.1
MUTH	Buy	462	2.8	41.0	43.3	11.3	10.7	189	217	2.44	2.13	4.99	4.61	23.2	21.4
SKSM	Neutral	785	1.7	41.3	53.0	19.0	14.8	219	272	3.59	2.89	4.49	4.26	20.9	21.6
Asset Finance															
NBFC Aggregate															
Financials															

Source: MOSL, Company

Financials and valuations

Income Statement								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	3,50,649	4,11,355	4,84,699	6,02,214	6,93,060	8,06,203	9,52,889	11,38,631
Interest Expense	1,92,538	2,26,529	2,60,742	3,26,299	3,61,667	4,05,341	4,73,519	5,62,635
Net Interest Income	1,58,111	1,84,826	2,23,957	2,75,915	3,31,392	4,00,863	4,79,370	5,75,996
Change (%)	22.7	16.9	21.2	23.2	20.1	21.0	19.6	20.2
Non Interest Income	68,526	79,196	89,964	1,07,517	1,22,965	1,46,777	1,69,328	1,92,550
Net Income	2,26,637	2,64,023	3,13,920	3,83,432	4,54,357	5,47,640	6,48,698	7,68,546
Change (%)	21.4	16.5	18.9	22.1	18.5	20.5	18.5	18.5
Operating Expenses	1,12,361	1,20,422	1,39,875	1,69,797	1,97,033	2,25,965	2,61,394	3,04,052
Pre Provision Profits	1,14,276	1,43,601	1,74,045	2,13,635	2,57,324	3,21,675	3,87,304	4,64,494
Change (%)	21.7	25.7	21.2	22.7	20.4	25.0	20.4	19.9
Provisions (excl tax)	16,770	15,880	20,758	27,256	35,933	54,747	66,034	77,259
PBT	97,506	1,27,721	1,53,287	1,86,379	2,21,391	2,66,928	3,21,271	3,87,235
Tax	30,249	42,937	51,128	63,417	75,894	92,090	1,10,838	1,33,596
Tax Rate (%)	31.0	33.6	33.4	34.0	34.3	34.5	34.5	34.5
PAT	67,257	84,784	1,02,159	1,22,962	1,45,496	1,74,838	2,10,432	2,53,639
Change (%)	30.2	26.1	20.5	20.4	18.3	20.2	20.4	20.5
Equity Dividend (Incl tax)	15,360	19,275	24,142	28,790	33,927	40,737	49,031	59,098
Core PPP*	97,607	1,22,227	1,50,348	1,84,470	2,20,859	2,79,221	3,39,218	4,13,011
Change (%)	22.9	25.2	23.0	22.7	19.7	26.4	21.5	21.8

*Core PPP is (NII+Fee income-Opex)

Balance Sheet								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	4,759	4,798	5,013	5,056	5,125	5,125	5,125	5,125
Reserves & Surplus	3,57,383	4,29,988	6,15,081	7,21,721	8,55,571	9,89,672	11,51,073	13,45,614
Net Worth	3,62,141	4,34,786	6,20,094	7,26,778	8,60,696	9,94,797	11,56,198	13,50,739
Deposits	29,62,470	36,73,375	45,07,956	54,64,242	64,36,397	78,52,404	96,19,195	1,19,27,801
Change (%)	20.1	24.0	22.7	21.2	17.8	22.0	22.5	24.0
of which CASA Dep	14,05,215	16,46,214	19,84,921	23,63,108	30,91,525	36,13,041	44,07,909	53,77,650
Change (%)	17.7	17.2	20.6	19.1	30.8	16.9	22.0	22.0
Borrowings	3,30,066	3,94,390	4,52,136	8,49,690	7,40,289	8,14,936	8,98,619	9,92,505
Other Liabilities & Prov.	3,48,642	4,13,444	3,24,845	3,67,251	6,01,020	6,91,855	7,97,358	9,19,764
Total Liabilities	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,03,53,992	1,24,71,370	1,51,90,811
Current Assets	2,72,802	3,95,836	3,63,315	3,89,188	4,89,521	5,34,014	6,30,896	7,44,373
Investments	11,16,136	12,09,511	15,16,418	19,58,363	21,44,633	25,30,667	29,86,187	35,23,701
Change (%)	14.5	8.4	25.4	29.1	9.5	18.0	18.0	18.0
Loans	23,97,206	30,30,003	36,54,950	46,45,940	55,45,682	67,65,732	82,54,193	1,02,35,199
Change (%)	22.7	26.4	20.6	27.1	19.4	22.0	22.0	24.0
Fixed Assets	27,031	29,399	31,217	33,432	36,267	37,936	41,605	45,274
Other Assets	1,90,144	2,51,246	3,39,131	3,81,038	4,22,298	4,85,643	5,58,489	6,42,263
Total Assets	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,03,53,992	1,24,71,370	1,51,90,811

Financials and valuations

Asset Quality	(%)							
Y/E March	2013	2014	2015	2016E	2017E	2018E	2016E	2016E
GNPA (INR m)	23,346	29,893	34,384	43,928	58,857	94,742	1,23,469	1,57,443
NNPA (INR m)	4,690	8,200	8,963	13,204	18,440	23,849	12,496	17,134
GNPA Ratio	1.0	1.0	0.9	0.9	1.1	1.4	1.5	1.5
NNPA Ratio	0.2	0.3	0.2	0.3	0.3	0.4	0.2	0.2
Slippage Ratio	1.61	1.93	1.58	1.56	1.53	2.00	1.80	1.80
Credit Cost	0.57	0.60	0.52	0.51	0.62	0.82	0.80	0.75
PCR (Excl Tech. write off)	79.9	72.6	73.9	69.9	68.7	74.8	89.9	89.1

Ratios	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	10.6	10.3	10.1	10.1	9.6	9.4	9.2	9.0
Avg. Yield on loans	12.3	11.7	11.1	10.8	10.2	10.1	9.9	9.6
Avg. Yield on Invnt	7.5	7.8	7.2	8.1	7.8	7.3	7.1	7.1
Avg. Cost-Int. Bear. Liab.	6.4	6.2	5.8	5.8	5.4	5.1	4.9	4.8
Avg. Cost of Deposits	6.0	5.7	5.7	5.9	5.3	5.0	4.8	4.7
Interest Spread	4.2	4.1	4.3	4.3	4.2	4.2	4.2	4.2
Net Interest Margin	4.8	4.6	4.6	4.6	4.6	4.7	4.6	4.5

Profitability Ratios (%)								
RoE	20.3	21.3	19.4	18.3	18.3	18.8	19.6	20.2
RoA	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Int. Expense/Int. Income	54.9	55.1	53.8	54.2	52.2	50.3	49.7	49.4
Fee Income/Net Income	27.3	27.2	24.4	23.6	21.8	21.8	21.5	21.2
Non Int. Inc./Net Income	30.2	30.0	28.7	28.0	27.1	26.8	26.1	25.1

Efficiency Ratios (%)								
Cost/Income*	49.9	45.8	47.0	46.7	45.8	43.5	42.5	41.7
Empl. Cost/Op. Exps.	35.3	34.7	34.0	33.6	32.9	32.1	31.9	32.1
Busi. per Empl. (INR m)	72.4	87.9	102.7	111.3	128.5	147.6	166.1	197.7
NP per Empl. (INR lac)	1.0	1.2	1.4	1.5	1.7	1.9	2.2	2.5

* ex treasury

Asset-Liability Profile (%)								
Loans/Deposit	80.9	82.5	81.1	85.0	86.2	86.2	85.8	85.8
CASA Ratio	47.4	44.8	44.0	43.2	48.0	46.0	45.8	45.1
Investment/Deposit	37.7	32.9	33.6	35.8	33.3	32.2	31.0	29.5
CAR	16.8	16.1	16.8	15.5	14.6	13.7	12.9	12.1
Tier 1	11.1	11.8	13.7	13.2	12.8	12.2	11.6	11.0

Valuation								
Book Value (INR)	152	181	247	287	336	388	451	527.1
Change (%)	19.4	19.2	36.5	16.2	16.9	15.6	16.2	16.8
Price-BV (x)			7.0	6.0	5.2	4.5	3.8	3.3
Adjusted BV (INR)	151	179	245	284	331	382	448	522
Price-ABV (x)			7.1	6.1	5.2	4.5	3.9	3.3
EPS (INR)	28.3	35.3	40.8	48.6	56.8	68.2	82.1	99.0
Change (%)	28.4	25.0	15.3	19.3	16.7	20.2	20.4	20.5
Price-Earnings (x)			42.6	35.7	30.5	25.4	21.1	17.5
Dividend Per Sh (INR)	5.5	6.9	8.0	9.5	11.0	13.6	16.4	19.8
Dividend Yield (%)			0.5	0.5	0.6	0.8	0.9	1.1

E: MOSL Estimates

Corporate profile

Company description

HDFC Bank was amongst the ten private sector bank which were awarded license post liberalization of 1990s. The bank was incorporated in August 1994 and is promoted by the biggest mortgage lender in the country, HDFC Limited (18.8% stake). The bank is now the second largest private sector bank in India with asset size of INR6t+ and market share of ~5% in deposit and loans respectively. As on March 31, 2017, the bank had a network of 4,715 branches and 12,260 ATMs spread across the country.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	21.1	21.2	21.4
DII	11.1	10.7	11.3
FII	52.7	52.8	50.9
Others	15.2	15.3	16.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Europacific Growth Fund	3.9
SBI-ETF NIFTY 50	1.4
Capital World Growth and Income Fund	1.4
ICICI Prudential Life Insurance Company Limited	1.3
Government of Singapore	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyamala Gopinath	Chairperson
Aditya Puri	Managing Director
Paresh Sukthankar	Deputy Managing Director
Kaizad Bharucha	Executive Director
Sanjay Dongre	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
A N Roy	Bobby Parikh
K M Mistry	Malay Patel
Partho S Datta	Renu Karnad
Srikanth Nadhamuni	Umesh Chandra Sarangi

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	68.2	71.0	-3.9
FY19	82.1	84.7	-3.0
FY20	99.0	99.9	-0.9

Source: Bloomberg

NOTES

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