

# Stock Update

Scores on most counts, some niggles though on asset quality

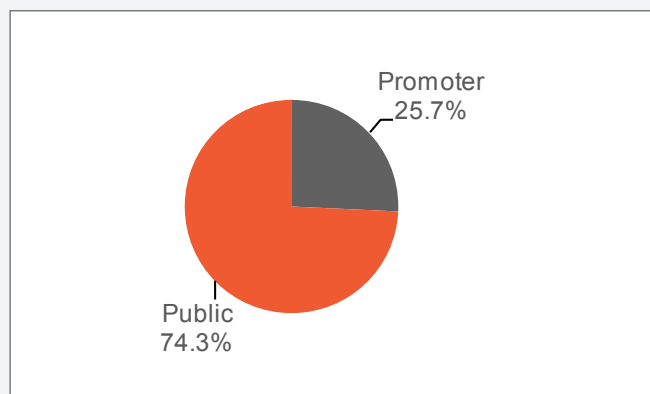
## HDFC Bank

Reco: Buy | CMP: Rs1,865

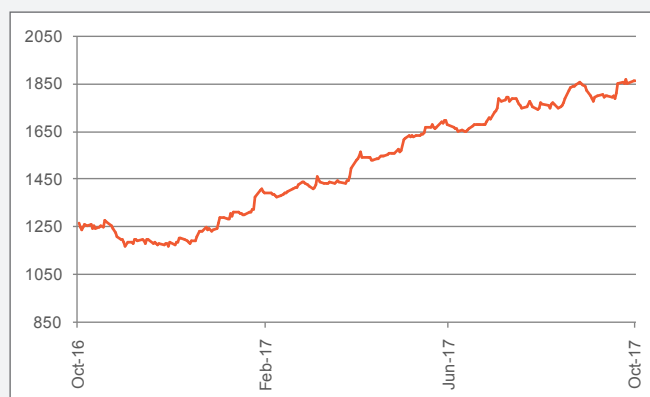
### Company details

Price target:	Rs2,100
Market cap:	Rs481,954 cr
52-week high/low:	Rs1,876/1,559
NSE volume: (No of shares)	13.9 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	204.08 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	9.4	25.3	47.6
Relative to Sensex	0.3	7.6	12.2	25.9

### Key points

- ♦ **Strong operational performance:** For Q2FY2018, operational performance of HDFC Bank was yet again strong and in line with expectations. Net interest income (NII) grew by 22.0% YoY to Rs.9,752.1 crore, while non-interest income jumped by 24.3% YoY to Rs.3,605.9 crore. Healthy growth in non-interest income (OI) was fueled by robust 24.2% YoY uptick in core fee income (72.5% of OI) and 30.2% YoY growth in treasury profit. Net interest margin (NIM) during Q2FY2018 increased by 10BPS YoY to 4.3%. However, on a sequential basis, it showed a contraction of 10BPS. HDFC Bank provisions, however, surged by 97.1% YoY during the quarter as the bank saw a 68% YoY increase in specific loan loss provisions and 2.7x YoY increase in general provisions. Notably, HDFC Bank made increased loan loss provision on a project loan (which was standard category) on its books. Consequently, net profit increased by 20.1% YoY during the quarter to Rs.4,151.0 crore, in line with our estimates.
- ♦ **Stable asset quality:** During Q2FY2018, HDFC Bank saw stable asset quality as GNPA ratio and NNPA ratio during the quarter stood at 1.26% and 0.43% as against 1.24% and 0.44% QoQ, respectively. Provisions for the quarter stood at Rs.1,476.2 crore (NPA provisions: Rs.1,078.8 crore; general and other: Rs.397.4 crore). HDFC Bank is in discussions with RBI for classification of a large project loan, which (in all likelihood) has been classified as NPA by other private banks. HDFC Bank has adequate contingent provision for this account. If the RBI decides to classify the account as NPA, it can result in rise in NPA for HDFC Bank and, hence, could be an overhang on the stock in the near term.
- ♦ **Outlook – Notwithstanding Asset quality niggles, overall consistent performance as usual:** HDFC Bank has continued its trend of steady performance on most business parameters. By virtue of its consistency, loan book traction and strength in retail banking, we expect HDFC Bank to maintain its premium valuation in the private banking space. In the near term, RBI's decision on the said account classification will have an overhang on the stock and will be keenly watched.
- ♦ **Valuation:** At 3.6x FY2020E and 4.2x FY2019E ABV, we find valuation for HDFC Bank reasonable. We introduce FY2020E earnings estimates and maintain our Buy rating on HDFC Bank with a revised price target of Rs.2,100.

- ♦ **Business growth posts good traction:** The banking sector has been struggling with credit growth in the wake of continued economic slowdown, underutilised capacity and weak industrial credit offtake. Against this backdrop, HDFC Bank has seen 22.3% YoY growth in its advances (domestic advances grew by 26.8%), aided by strong growth in business banking (up 44.5% YoY), personal loans (up 35.8% YoY), credit

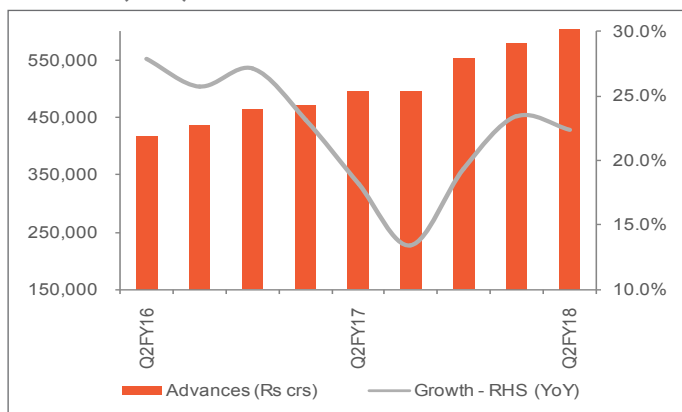
cards (up 44.5% YoY) and auto loans (up 22.3% YoY). Loan mix between retail and wholesale was 55% and 45%, respectively. Deposits increased by 16.5% YoY, driven by strong rise in CASA deposits (up 23.6% YoY). CASA ratio, however, decreased from 43.96% to 42.86% QoQ, which was expected, but notably still remains at healthy levels. CASA mix continued to be strong.

## Results

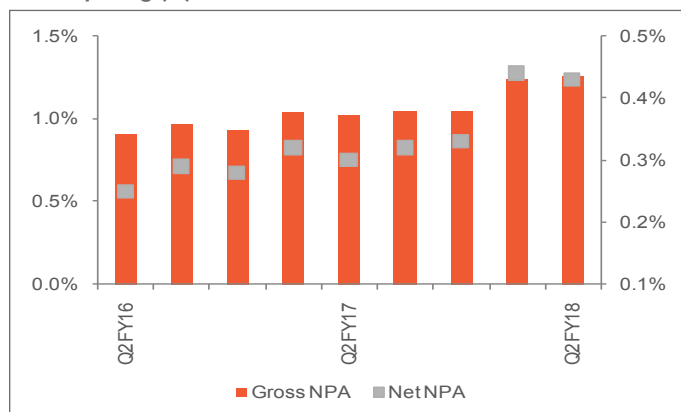
Rs cr

Particulars	Q2FY18	Q2FY17	YoY %	Q1FY18	QoQ %
Interest income	19,670.3	17,069.9	15.2	18,668.7	5.4
Interest expense	9,918.2	9,076.4	9.3	9,298.0	6.7
Net interest income	9,752.1	7,993.6	22.0	9,370.7	4.1
Non-interest income	3,605.9	2,901.0	24.3	3,516.7	2.5
Net total income	13,358.0	10,894.5	22.6	12,887.4	3.7
Operating expenses	5,540.1	4,870.0	13.8	5,367.5	3.2
- Employee expenses	1,715.8	1,657.2	3.5	1,657.5	3.5
- Other operating expenses	3,824.3	3,212.8	19.0	3,710.0	3.1
Pre-provisioning profit	7,817.9	6,024.6	29.8	7,519.9	4.0
Provisions	1,476.2	749.0	97.1	1,558.8	-5.3
Profit before tax	6,341.7	5,275.6	20.2	5,961.2	6.4
Tax	2,190.7	1,820.2	20.4	2,067.3	6.0
Profit after tax	4,151.0	3,455.3	20.1	3,893.8	6.6
<b>Asset quality</b>					
Gross NPLs	7,702.8	5,069.0	52.0	7,242.9	6.3
- Gross NPLs (%)	1.26	1.02	24 bps	1.24	2 bps
Net NPLs	2,596.8	1,488.9	74.4	2,528.2	2.7
- Net NPLs (%)	0.43	0.30	13 bps	0.44	-1 bps
<b>Capital adequacy (%)</b>					
CAR	15.10	15.40	-30 bps	15.60	-50 bps
Tier I	13.30	13.30	0 bps	13.60	-30 bps
<b>Key reported ratios (%)</b>					
NIM	4.30	4.20	10 bps	4.40	-10 bps
CASA	42.86	40.41	246 bps	43.96	-110 bps

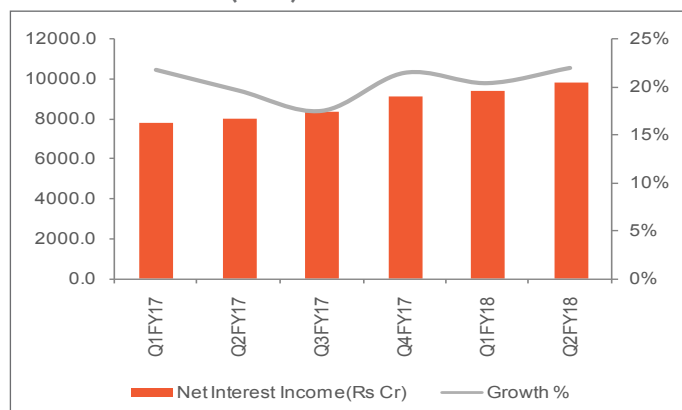
Advances (Rs cr)



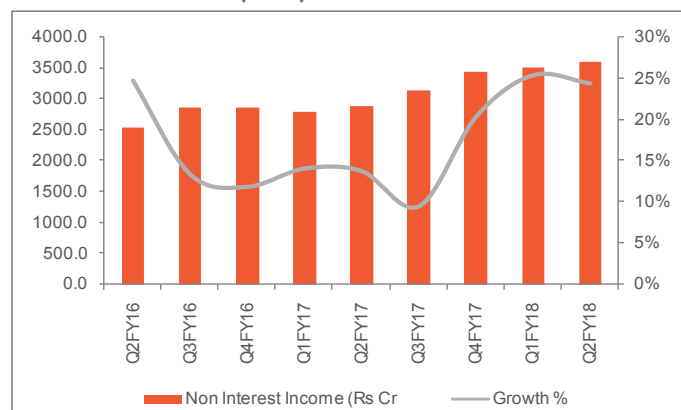
Asset quality (%)



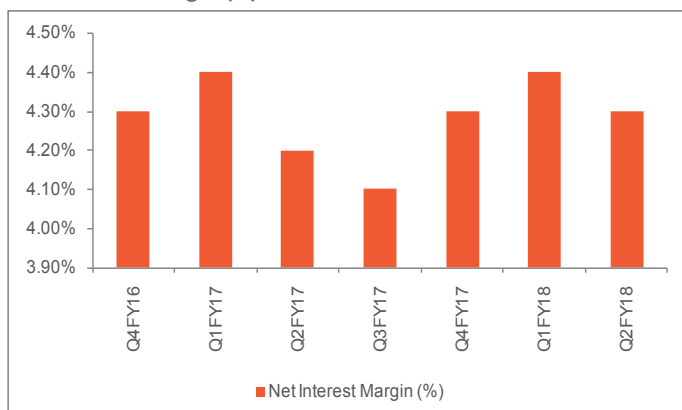
Net interest income (Rs cr)



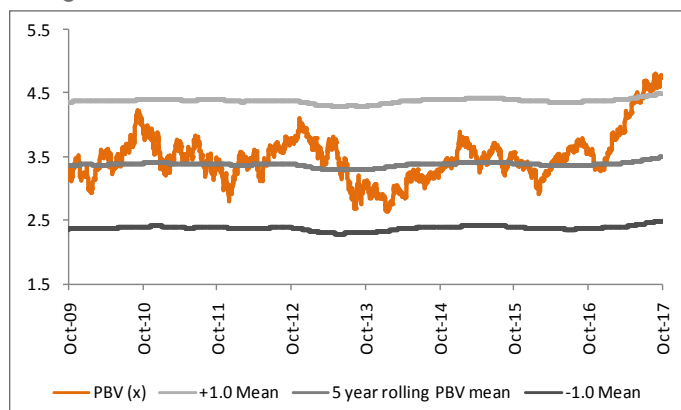
Non-interest income (Rs cr)



Net interest margin (%)



One-year forward P/BV SD band



Profit and loss statement

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net interest income	27,592	33,139	40,229	49,392	58,838
Non-interest income	10,752	12,296	13,915	16,053	19,053
Net total income	38,343	45,436	54,144	65,445	77,891
Operating expenses	16,980	19,703	22,925	26,994	31,174
Pre-provisioning profit	21,364	25,732	31,219	38,452	46,717
Provisions	2,726	3,593	4,638	5,825	7,107
Profit before tax	18,638	22,139	26,581	32,626	39,610
Tax	6,342	7,589	8,905	11,093	13,467
Profit after tax	12,296	14,550	17,676	21,533	26,143

## Balance sheet

Rs cr

Particulars	FY16	FY17	FY18E	FY19E	FY20E
<b>Liabilities</b>					
Networth	72,678	89,462	99,683	116,282	136,435
Deposits	546,424	643,640	791,677	957,929	1,159,094
Borrowings	84,969	74,029	72,043	87,172	105,478
Other liabilities & provisions	36,725	56,709	74,389	87,234	102,898
Total liabilities	740,796	863,840	1,037,791	1,248,616	1,503,904
<b>Assets</b>					
Cash & balances with RBI	30,058	37,897	42,751	51,728	62,591
Balances with banks & money at call	8,861	11,055	23,750	28,738	34,773
Investments	195,836	214,463	249,201	300,739	363,101
Advances	464,594	554,568	682,119	832,185	1,015,266
Fixed assets	3,343	3,627	3,989	4,388	4,827
Other assets	38,104	42,230	35,981	30,837	23,347
Total assets	740,796	863,840	1,037,791	1,248,616	1,503,904

## Key ratios

Particulars	FY16	FY17	FY18E	FY19E	FY20E
<b>Per share data (Rs)</b>					
Earnings	48.6	56.8	69.0	84.0	102.0
Dividend	9.5	11.0	13.5	16.4	19.9
Book value	287.2	348.9	388.8	453.6	532.2
Adj. book value	282.0	341.7	382.0	442.4	515.6
<b>Spreads (%)</b>					
Yield on advances	10.8	10.2	10.0	10.1	10.0
Cost of deposits	5.9	5.3	5.1	5.1	5.1
Net interest margins	4.4	4.4	4.5	4.5	4.4
<b>Operating ratios (%)</b>					
Credit / deposit	85.0	86.2	86.2	86.9	87.6
Cost / income	44.3	43.4	42.3	41.2	40.0
CASA	43.2	48.0	46.9	46.5	46.1
Non interest income / total income	28.0	27.1	25.7	24.5	24.5
Assets / Equity (x)	9.9	9.9	10.1	10.6	10.9
<b>Return ratios (%)</b>					
RoE	18.3	17.9	18.7	19.9	20.7
RoA	1.8	1.8	1.9	1.9	1.9
<b>Asset quality (%)</b>					
Gross NPA	0.9	1.1	1.0	0.8	0.8
Net NPA	0.3	0.3	0.3	0.3	0.2
<b>Growth ratios (%)</b>					
Net interest income	23.2	20.1	21.4	22.8	19.1
Pre-provisioning profit	22.7	20.5	21.3	23.2	21.5
Profit after tax	20.4	18.3	21.5	21.8	21.4
Advances	27.1	19.4	23.0	22.0	22.0
Deposits	21.2	17.8	23.0	21.0	21.0
<b>Valuation ratios (x)</b>					
P/E	38.3	32.8	27.0	22.2	18.3
P/BV	6.5	5.3	4.8	4.1	3.5
P/ABV	6.6	5.5	4.9	4.2	3.6
<b>Capital adequacy (%)</b>					
CAR	15.5	14.6	14.3	13.7	11.2
Tier I	13.2	12.8	12.8	12.4	10.2

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