

HDFC BANK

BANKS & FINANCIAL SERVICES

30 OCT 2017

Quarterly Update

BUY

Target Price: Rs 2,150

Strong growth across the board

HDFC Bank's Q2FY18 PAT at Rs 41.5 bn was marginally ahead of our estimate, backed by strong NII growth and well managed operating expenses. GNPA ratio was stable at 1.3% but on receiving certain observations by RBI, the bank prudently created contingent provision worth ~Rs 7 bn towards a project loan that was restructured under 5:25 earlier. The account remains standard with HDFCB.

Loan growth remained strong at 22.3% with retail and wholesale segments growing 21.6% and 23.6% respectively. HDFCB's cost/income ratio at 41.5% continued to tread lower with the management aiming to bring it closer to 40% going forward. We remain constructive on HDFC Bank's asset quality and do not foresee any significant deterioration either in retail or wholesale book.

CMP : Rs 1,865
Potential Upside : 15%

MARKET DATA

No. of Shares : 2,581 mn
Free Float : 79%
Market Cap : Rs 4,815 bn
52-week High / Low : Rs 1,877 / Rs 1,159
Avg. Daily vol. (6mth) : 1.5 mn shares
Bloomberg Code : HDFCB IB Equity
Promoters Holding : 21%
FII / DII : 34% / 12%

Q2FY18 highlights: (a) Strong corporate loan growth was driven by working capital and medium term loans which aided HDFCB to gain market share across segments, especially in the emerging corporates business; (b) HDFCB had share of 2.3% in the project loan consortium and management alluded that the provisions created were in line with the regulatory requirement (had the account been classified as NPA). The bank utilized floating provisions worth Rs 3 bn towards the account and has outstanding floating provisions worth ~ Rs 10 bn; (c) CASA ratio declined 110 bps QoQ to 42.9% as CA deposits declined by 4% QoQ on run-down of IPO-related float built up in Q1.

Maintain BUY with revised TP of Rs 2,150 (15% upside from CMP): HDFC Bank is one of our preferred picks among banks. We raise our target multiple to 4.6x (4.3x earlier) to arrive at revised TP of Rs 2,150 (Rs 2,000 earlier) to factor in high growth rate, conservative stance on bad assets, no legacy issues and top quartile return ratios. Expansion in fee income will be a driver for return ratios while gaining market share along with significant retail presence. At CMP of Rs 1,865, the stock trades at 4.7/4x FY18E/FY19E P/ABV of Rs 396/Rs 463.

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs bn)	123	145	173	209
EPS (Rs)	49	57	67	81
EPS chg (%)	19.3	16.7	18.8	20.8
Book value (Rs)	287	349	403	471
Adj. BV (Rs)	284	345	396	463
PE (x)	38.3	32.8	27.7	22.9
P/ABV (x)	6.6	5.4	4.7	4.0
RoE (%)	18.3	17.9	17.9	18.7
RoA (%)	1.8	1.8	1.8	1.9
Net NPA (%)	0.3	0.3	0.4	0.4

Source: Company, Axis Capital

Key drivers

(%)	Q4FY17	Q1FY18	Q2FY18
Loan growth (YoY)	19	23	22
NIM	4.3	4.4	4.3
CASA	48	44	43
GNPA ratio	1.1	1.2	1.3

Price performance

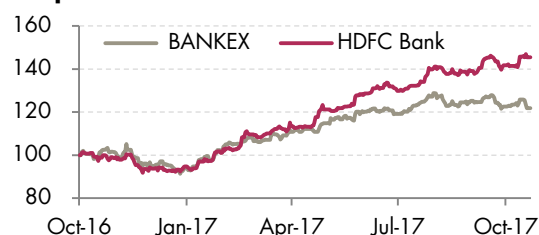
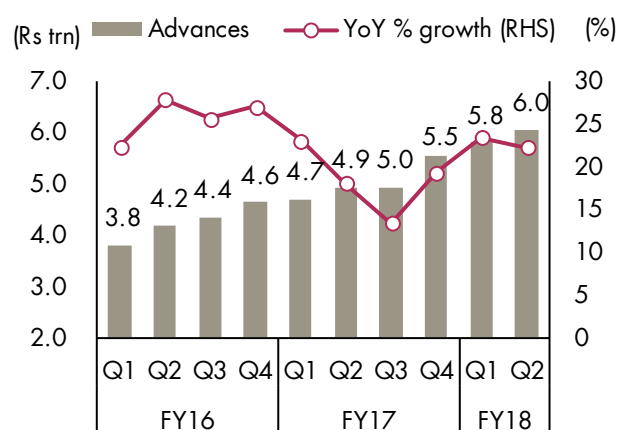


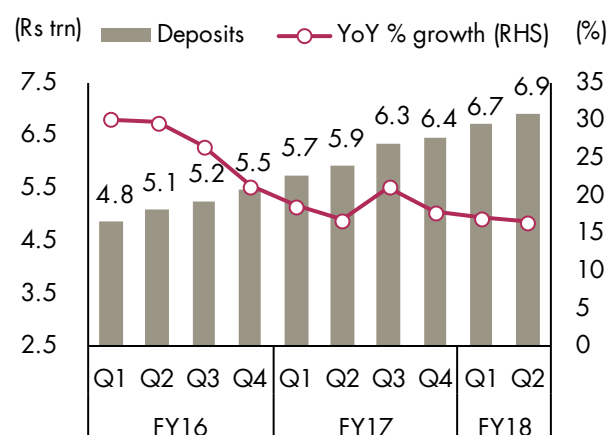
Exhibit 1: Composition of loans with detailed break-up of retail loans

(%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Auto	11.0	11.4	10.8	11.1	11.4	11.8	11.2	11.4	11.4
CV	3.5	3.4	3.2	3.3	3.4	3.5	3.5	3.4	3.3
2W	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
PL	7.6	8.0	8.0	8.6	9.0	9.4	9.0	9.6	10.0
BB	6.5	6.2	5.4	5.4	6.4	6.5	6.5	7.0	7.5
LAS	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
CC	4.3	4.5	4.4	4.5	4.3	4.8	4.7	5.0	5.1
HL	6.8	6.5	6.9	7.1	6.8	7.2	6.9	6.7	6.6
GL	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.8
Kisan Gold Card	4.6	4.5	4.8	4.7	4.9	4.7	4.7	4.8	5.1
Others	2.1	2.2	2.3	2.4	2.4	2.4	2.3	2.2	2.2
Total Retail Credit	48.8	49.2	48.2	49.5	51.1	52.7	51.2	52.1	53.6
Large corp.	51.2	50.8	51.8	50.5	48.9	47.3	48.8	47.9	46.4
Total Loans	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

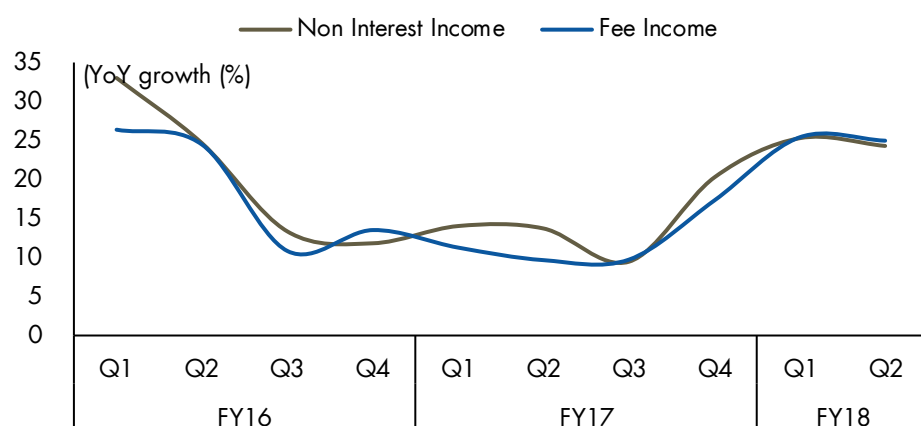
Exhibit 2: Loan growth seems to be on recovery after a blip during demonetization


Source: Company, Axis Capital

Exhibit 3: Trend in deposits accretion, growth


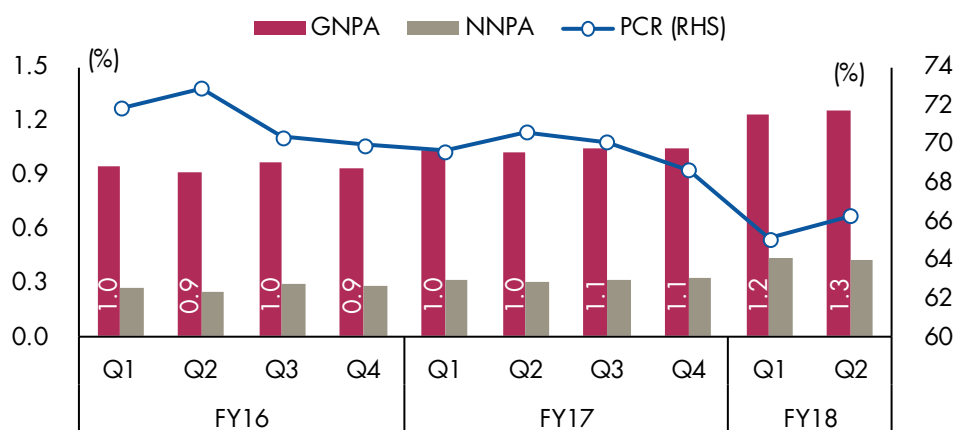
Source: Company, Axis Capital

Exhibit 4: Trend in non-interest income and core fee income



Source: Company, Axis Capital

Exhibit 5: Stable asset quality



Source: Company, Axis Capital

Exhibit 6: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% chg	Jun-17	% chg	Mar-18E	Mar-17	% chg
Interest income	196,703	170,699	15	186,687	5	805,213	693,060	16
Interest expended	99,182	90,764	9	92,980	7	409,606	361,667	13
Net interest income	97,521	79,936	22	93,707	4	395,607	331,392	19
Non-interest income	36,059	29,010	24	35,167	3	141,839	122,965	15
Net income	133,580	108,945	23	128,874	4	537,446	454,357	18
Operating expenses	55,401	48,700	14	53,675	3	224,339	197,033	14
Operating profit	78,179	60,246	30	75,199	4	313,107	257,324	22
Provision & Contingencies	14,762	7,490	97	15,588	(5)	51,270	35,933	43
PBT	63,417	52,756	20	59,612	6	261,837	221,391	18
Tax	21,907	18,202	20	20,673	6	89,025	75,894	17
Net profit	41,510	34,553	20	38,938	7	172,813	145,496	19
Yields & Margins (%)								
Yield on advances	10.4	10.7	(0.3)	10.2	0.2	10.0	10.2	(0.2)
Cost of funds	5.1	5.5	(0.4)	5.0	0.1	5.2	5.4	(0.2)
Net interest margin	4.3	4.2	10 bps	4.4	(10) bps	4.4	4.4	3 bps
Cost to income ratio	41.5	44.7	(323) bps	41.6	(18) bps	41.7	43.4	(162) bps
Asset quality								
Gross NPAs (Rs bn)	77.0	50.7	52.0	72.4	6.3	90.1	58.9	53.1
Gross NPAs (%)	1.3	1.0	24 bps	1.2	2 bps	1.3	1.1	26 bps
Net NPAs (Rs bn)	26.0	14.9	74.4	25.3	2.7	27.0	18.4	46.6
Net NPAs (%)	0.4	0.3	13 bps	0.4	(1) bps	0.4	0.3	6 bps
Provisioning coverage (%)	66.3	70.6	(434) bps	65.1	119 bps	70.0	68.7	133 bps
Capital (%)								
Tier-I	13.3	13.3	0 bps	13.6	(30) bps	12.0	12.8	(83) bps
CAR	15.1	15.4	(30) bps	15.6	(50) bps	13.8	14.6	(75) bps
Balance sheet (Rs bn)								
Advances	6,049	4,944	22	5,810	4.1	6,808	5,546	22.8
Deposits	6,893	5,917	16	6,714	2.7	7,693	6,436	19.5
CASA (%)	42.9	40.4	246 bps	44.0	(110) bps	46.5	48.0	(151) bps

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	602	693	805	955
Interest expended	(326)	(362)	(410)	(492)
Net interest income	276	331	396	463
Non interest income	108	123	142	169
Net income	383	454	537	632
Operating expenses	(170)	(197)	(224)	(262)
Staff expenses	(57)	(65)	(69)	(75)
Other operating expenses	(113)	(132)	(155)	(187)
Operating profit	214	257	313	370
Provisions & contingencies	(27)	(36)	(51)	(54)
Pre-tax profit	186	221	262	316
Tax expense	(63)	(76)	(89)	(108)
Profit after tax	123	145	173	209
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	123	145	173	209

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	7,408	8,638	10,319	12,254
Cash & Balances with RBI	389	490	556	637
Investments	1,958	2,145	2,453	2,771
Advances	4,646	5,546	6,808	8,306
Fixed assets	33	36	37	36
Other assets	381	422	465	506
Total liabilities	7,408	8,638	10,319	12,254
Equity capital	5	5	5	5
Preference capital	-	-	-	-
Reserves & surplus	722	889	1,028	1,201
Networth	727	895	1,033	1,206
Borrowings	850	740	866	980
Deposits	5,464	6,436	7,693	9,290
Other liabilities & prov.	367	567	728	779

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	49	57	67	81
BV (Rs.)	287	349	403	471
Adj. BV (Rs.)	284	345	396	463
DPS (Rs.)	10	-	12	12
Dividend payout (%)	20	-	17	15
Yields & Margins (%)				
Yield on advances	10.8	10.2	10.0	9.8
Cost of deposit	5.9	5.3	5.2	5.2
Net interest margin	4.4	4.4	4.4	4.3
Asset quality (%)				
Gross NPAs	0.9	1.1	1.3	1.3
Net NPAs	0.3	0.3	0.4	0.4
Credit cost	0.6	0.7	0.8	0.6
Provisioning coverage	69.9	68.7	70.0	72.0
Capital (%)				
Tier-I	13.2	12.8	12.0	11.4
CAR	15.5	14.6	13.8	13.0
Efficiency (%)				
ROA	1.8	1.8	1.8	1.9
ROE	18.3	17.9	17.9	18.7
Cost to income	44	43	42	41
CASA	43	48	47	46
Effective tax rate	34	34	34	34
Growth (%)				
Net interest income	23	20	19	17
Fee income	18	12	17	21
Operating expenses	21	16	14	17
Profit after tax	20	18	19	21
Advances	27	19	23	22
Deposits	21	18	20	21
Total assets	25	17	19	19

Source: Company, Axis Capital

Note: Dividend for FY17 will reflect in FY18 due to change in reporting method as per regulations

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Research Team

Sr. No	Name	Designation	E-mail
1	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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