

# Stock Update

Consistent with quality

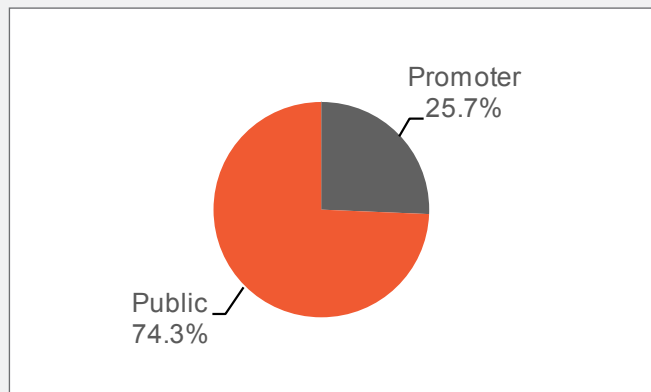
## HDFC Bank

Reco: Buy | CMP: Rs1,951

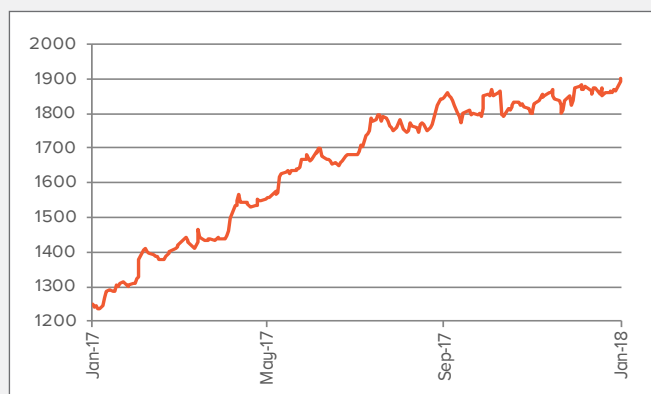
### Company details

Price target:	Rs2,300
Market cap:	Rs505,385 cr
52-week high/low:	Rs1,959/1,231
NSE volume: (No of shares)	15.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	157.39 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	3.5	14.9	56.7
Relative to Sensex	-1.9	-4.5	3.0	19.6

### Key points

- ♦ **Strong operational performance:** The operational performance of HDFC Bank was yet again strong and in line with expectations in Q3FY18. Net interest income (NII) grew by 24% YoY to Rs.10,314 crore, while non-interest income jumped by 23% YoY to Rs.3,869 crore. Healthy growth in non-interest income (OI) was fueled by robust 30% YoY uptick in core fee income (74.2% of OI) and 43% YoY growth in trading and Forex profit. HDFC Bank saw robust 27.5% YoY and 4.4% QoQ growth in its advances led by Personal loans (10.6% of Advances, up 43.8% YoY), credit cards (5.3% of Advances, up 42% YoY) and auto loans (11.6% of Advances, up 25% YoY). Loan mix between retail and wholesale was maintained at 55% and 45%, respectively. Deposits increased by 10.1% YoY, with CASA deposits comprising 43.9% of the deposits. Core Net interest margin (NIM) during Q3FY2018 was stable sequentially at 4.3%. HDFC Bank provisions, however, surged by 89% YoY during the quarter, but were down 8% on sequential basis. As the bank had taken full provision for NPAs (due to the divergence) in Q2 FY18 itself, there was no residual provision requirement on the same. Consequently, net profit increased by 20.1% YoY during the quarter to Rs.4,652 crore, in line with our estimates.
- ♦ **Stable asset quality performance; positive for equity raising plan:** The strong asset quality of HDFC Bank, stable through cycles has been the key feature of the bank's performance. And during Q3 FY2018, HDFC Bank saw stable asset quality as GNPA ratio and NNPA ratio during the quarter stood at 1.29% and 0.44% up by a whisker sequentially, by 3BPS and 1 BPS respectively. HDFC Bank was in discussions with RBI for the classification of a large project loan, but had to subsequently classify the account as NPA. In this context, we believe, that HDFC Bank has performed satisfactorily on the asset quality front. The Bank's total Capital Adequacy Ratio (CAR) was at 15.5% (minimum requirement is 10.25% which includes 1.25% of CCB) with Tier-I CAR at 13.6% is sufficient. However, considering the pace of growth and the resultant capital burn, stabilization of asset quality will be a positive for its capital raising plan.
- ♦ **Outlook – Overall consistent performance:** 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. The upcoming equity raising would be seen positive coming at attractive valuation, would be book value accretive and provide adequate growth capital to the bank.
- ♦ **Valuation:** At 3.3x FY2020E and 3.8x FY2019E ABV, we find valuation for HDFC Bank reasonable for a bank that has been consistent, well managed in difficult times and has bright growth prospects. We maintain our Buy rating on HDFC Bank with a revised price target of Rs.2,300.

## Results

					Rs cr
Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Interest income	20,581.0	17,605.6	16.9	19,670.3	4.6
Interest expense	10,266.9	9,296.5	10.4	9,918.2	3.5
Net interest income	10,314.0	8,309.1	24.1	9,752.1	5.8
Non-interest income	3,869.2	3,142.7	23.1	3,605.9	7.3
Net total income	14,183.2	11,451.8	23.9	13,358.0	6.2
Operating expenses	5,732.2	4,842.5	18.4	5,540.1	3.5
- Employee expenses	1,691.3	1,688.6	0.2	1,715.8	-1.4
- Other operating expenses	4,041.0	3,153.9	28.1	3,824.3	5.7
Pre-provisioning profit	8,451.0	6,609.3	27.9	7,817.9	8.1
Provisions	1,351.4	715.8	88.8	1,476.2	-8.5
Profit before tax	7,099.6	5,893.5	20.5	6,341.7	11.9
Tax	2,457.3	2,028.1	21.2	2,190.7	12.2
Profit after tax	4,642.3	3,865.3	20.1	4,151.0	11.8
<b>Asset quality</b>					
Gross NPLs	8,234.9	5,232.3	57.4	7,702.8	6.9
- Gross NPLs (%)	1.29	1.05	24 bps	1.26	3 bps
Net NPLs	2,773.7	1,564.3	77.3	2,596.8	6.8
- Net NPLs (%)	0.44	0.32	12 bps	0.43	1 bps
<b>Capital adequacy (%)</b>					
CAR	15.50	15.90	-40 bps	15.10	40 bps
Tier I	13.60	13.80	-20 bps	13.30	30 bps
<b>Key reported ratios (%)</b>					
NIM	4.30	4.10	20 bps	4.30	0 bps
CASA	43.91	45.36	-142 bps	42.86	107 bps

## Profit and loss statement

					Rs cr
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	123,302	139,437	159,027
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	1,061,410	1,271,772	1,526,497
<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	59,600	53,993	45,939
Total assets	740,796	863,840	1,061,410	1,271,772	1,526,497

Key ratios					Rs cr
Particulars	FY16	FY17	FY18E	FY19E	FY20E
<b>Per share data (Rs)</b>					
Earnings	48.6	56.8	65.8	80.2	97.3
Dividend	9.5	11.0	12.8	15.6	19.0
Book value	287.2	348.9	458.9	519.0	592.0
Adj. book value	282.0	341.7	452.5	508.4	576.1
<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	9.0	8.9	9.4
<b>Return ratios (%)</b>					
RoE	18.3	17.9	16.6	16.4	17.5
RoA	1.8	1.8	1.8	1.8	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	40.1	34.4	29.6	24.3	20.0
P/BV	6.8	5.6	4.3	3.8	3.3
P/ABV	6.9	5.7	4.3	3.8	3.4

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