

BSE SENSEX	S&P CNX
34,465	10,564
Bloomberg	HDFCB IN
Equity Shares (m)	2,595
M.Cap.(INRb)/(USDb)	5089 / 79
52-Week Range (INR)	2014 / 1450
1, 6, 12 Rel. Per (%)	2/0/17
Avg Val, INRm	2780.0
Free float (%)	79.1

Financials & Valuations (INR b)

Y/E MARCH	2018	2019E	2020E
NII	400.9	464.8	568.4
OP	326.2	391.6	487.3
NP	174.9	210.6	257.0
NIM (%)	4.4	4.2	4.3
EPS (INR)	67.8	79.3	94.5
EPS Gr. (%)	19.4	16.9	19.3
BV/Sh. (INR)	409.6	527.9	604.4
ABV/Sh. (INR)	385.9	500.0	570.6
RoE (%)	17.9	16.9	16.7
RoA (%)	1.8	1.8	1.8

Valuations

P/E(X)	28.9	24.7	20.7
P/BV (X)	4.8	3.7	3.2
P/ABV (X)	5.1	3.9	3.4
Div. Yield (%)	0.8	0.8	0.9

CMP: INR1,961 TP: INR2,400(+22%)
Buy

Steady quarter; fee growth surprises positively

- HDFCB reported 24% YoY core PPOP growth (in-line; 21% PPOP growth on muted capital gains of INR220m), led by steady revenue growth and controlled opex. However, higher provisions (INR15.4b, 15% miss owing to a contingent provision towards an agri account) resulted in 20% YoY PAT growth.
- Loans grew 19% YoY (+3% QoQ) to INR6.58t. Incremental growth in the quarter was driven by retail loans (6.0%/30% QoQ/YoY), resulting in an increase in its loan mix share to 69.7%. Post 4 quarters of trailing loan growth, deposits grew faster than advances at 22.5% YoY to INR7.89t, bringing down credit deposit ratio to 83% (90% in 3QFY18).
- Other income reported robust 23% YoY growth to INR42.3b (12% beat), led by 32% YoY growth in fees and commissions, while treasury gains were muted at INR0.22b vs INR1.8b in 4QFY17. Total core other income grew 29% YoY. Opex grew 16% YoY to INR60.6b (5% miss), partly offsetting the other income beat; cost to core income declined 46bp QoQ to 40.7%
- CASA deposits grew 12% YoY, but term deposits registered a robust 33% YoY growth, leading to CASA ratio declining 50bp QoQ to 43.5%. Reported NIM was stable at 4.3%
- GNPL increased by 5% QoQ, but the bank improved its PCR to 69.8% (66% in 3Q), leading to 6% decline in NNPA.

Valuation and view: HDFCB has been consistently gaining market share across most products in the retail segment (personal loans, business banking, credit cards and auto loans), and the upcoming capital raise will enable it to sustain this growth momentum. Operating expenses have been under control, and significant digital initiatives have led to a consistent decline in the C/I ratio to ~40%. **We have built in INR240b of capital raise in FY19 and arrive at a TP of INR2,400 at 4.0x Mar-20E ABV for the bank. Maintain Buy.**

Quarterly Performance

	FY17				FY18E				(INR m)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18	4QFY18E V/S our Est
Net Interest Income	77,814	79,936	83,091	90,551	93,707	97,521	103,143	106,577	331,392	400,949	107,179 -0.6
% Change (Y-o-Y)	21.8	19.6	17.6	21.5	20.4	22.0	24.1	17.7	20.1	21.0	18.4 -0.7
Other Income	28,066	29,010	31,427	34,463	35,167	36,059	38,692	42,286	122,965	152,203	37,641 12.3
Total Income	105,881	108,945	114,518	125,014	128,874	133,580	141,835	148,863	454,357	553,152	144,819 2.8
Operating Expenses	47,689	48,700	48,425	52,220	53,675	55,401	57,322	60,506	197,033	226,904	57,758 4.8
Operating Profit	58,192	60,246	66,093	72,794	75,199	78,179	84,513	88,357	257,324	326,248	87,061 1.5
% Change (Y-o-Y)	20.0	19.5	15.2	26.9	29.2	29.8	27.9	21.4	20.4	26.8	19.6 1.8
Core Operating Profit	55,423	57,411	62,107	70,990	71,885	74,620	81,919	88,137	220,859	306,408	87,061 1.2
Provisions	8,667	7,490	7,158	12,618	15,588	14,762	13,514	15,411	35,933	59,275	13,451 14.6
Profit before Tax	49,525	52,756	58,935	60,176	59,612	63,417	70,999	72,946	221,391	266,973	73,609 -0.9
Tax	17,136	18,202	20,281	20,275	20,673	21,907	24,573	24,953	75,894	92,106	25,182 -0.9
Net Profit	32,389	34,553	38,653	39,901	38,938	41,510	46,426	47,993	145,496	174,868	48,427 -0.9
% Change (Y-o-Y)	20.2	20.4	15.1	18.3	20.2	20.1	20.1	20.3	18.3	20.2	21.4 -1.1
Operating Parameters											
Deposit Growth (%)	18.5	16.7	21.1	17.8	17.0	16.5	10.1	22.5	17.8	22.5	16.2 6.3
Loan Growth (%)	23.2	18.1	13.4	19.4	23.4	22.3	27.5	18.7	19.4	18.7	21.5 -2.8
Deposit (INR b)	5,738	5,917	6,347	6,436	6,714	6,893	6,990	7,888	6,436	7,888	7,479 5.5
Loan (INR b)	4,706	4,944	4,950	5,546	5,810	6,049	6,312	6,583	5,546	6,583	6,738 -2.3
Asset Quality											
Gross NPA (INR B)	49.2	50.7	52.3	58.9	72.4	77.0	82.3	86.1	58.9	86.1	88.4 -2.6
Gross NPA (%)	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.3	1.1	1.3	1.3 0.0
Net NPA (INR B)	14.9	14.9	15.6	18.4	25.3	26.0	27.7	26.0	18.4	26.0	30.6 -15.1
Net NPA (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.4	0.5 -0.1
PCR	69.7	70.6	70.1	68.7	65.1	66.3	66.3	69.8	68.7	69.8	65.3 4.5

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Exhibit 1: Quarterly Snapshot

Profit and Loss (INR m)	FY17				FY18				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
Net Interest Income	77,814	79,936	83,091	90,551	93,707	97,521	1,03,143	1,06,577	18	3
Other Income	28,066	29,010	31,427	34,463	35,167	36,059	38,692	42,286	23	9
Trading profits	2,769	2,835	3,986	1,804	3,314	3,559	2,594	220	-88	-92
Exchange Profits	3,145	2,950	2,972	3,567	2,968	3,840	4,262	4,164	17	-2
Others (Ex non core)	22,152	23,225	24,469	29,092	28,885	28,660	31,836	37,902	30	19
Total Income	1,05,881	1,08,945	1,14,518	1,25,014	1,28,874	1,33,580	1,41,835	1,48,863	19	5
Operating Expenses	47,689	48,700	48,425	52,220	53,675	55,401	57,322	60,506	16	6
Employee	15,852	16,572	16,886	15,527	16,575	17,158	16,913	17,412	12	3
Others	31,837	32,128	31,539	36,693	37,100	38,243	40,410	43,094	17	7
Operating Profits	58,192	60,246	66,093	72,794	75,199	78,179	84,513	88,357	21	5
Core Operating Profits	55,423	57,411	62,107	70,990	71,885	74,620	81,919	88,137	24	8
Provisions	8,667	7,490	7,158	12,618	15,588	14,762	13,514	15,411	22	14
PBT	49,525	52,756	58,935	60,176	59,612	63,417	70,999	72,946	21	3
Taxes	17,136	18,202	20,281	20,275	20,673	21,907	24,573	24,953	23	2
PAT	32,389	34,553	38,653	39,901	38,938	41,510	46,426	47,993	20	3
Balance Sheet										
Deposits (INR b)	5,738	5,917	6,347	6,436	6,714	6,893	6,990	7,888	23	13
Loans (INR b)	4,706	4,944	4,950	5,546	5,810	6,049	6,312	6,583	19	4
Asset Quality										
GNPA	49,209	50,690	52,323	58,857	72,429	77,028	82,349	86,090	46	5
NNPA	14,934	14,889	15,643	18,440	25,282	25,968	27,737	26,010	41	-6
Ratios (%)	FY17				FY18				Change (bp)	
Asset Quality Ratios	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
GNPA (%)	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.3	25	1
NNPA (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	7	-4
PCR (Calculated, %)	69.7	70.6	70.1	68.7	65.1	66.3	66.3	69.8	112	347
Slippage (%)	2.1	1.4	1.8	1.5	2.6	2.0	1.5	1.5	2	-1
Business Ratios										
Fees to Total Income	20.9	21.3	21.4	23.3	22.4	21.5	22.4	25.5	219	302
Cost to Core Income	46.2	45.9	43.8	42.4	42.7	42.6	41.2	40.7	-168	-46
Tax Rate	34.6	34.5	34.4	33.7	34.7	34.5	34.6	34.2	51	-40
CASA (Reported)	39.9	40.0	45.0	48.0	44.0	42.9	44.0	43.5	-450	-50
Loan/Deposit	82.0	83.6	78.0	86.2	86.5	87.7	90.3	83.5	-270	-684
Profitability Ratios										
Yield on loans	10.7	10.7	10.7	10.3	10.2	10.6	10.5	10.3	4	-12
Yield On Investments	8.2	7.4	7.3	7.6	7.2	7.0	6.9	7.1	-47	18
Yield on funds	10.0	9.7	9.7	9.6	9.3	9.6	9.6	9.7	10	3
Cost of funds	5.6	5.5	5.4	5.1	5.0	5.3	5.2	5.0	-11	-18
Spreads	4.3	4.2	4.3	4.5	4.3	4.3	4.5	4.7	22	21
Margins	4.4	4.2	4.1	4.3	4.4	4.3	4.3	4.3	0	0
RoA	1.8	1.8	1.9	1.9	1.8	1.9	2.0	1.9	2	-9
RoE	17.4	17.6	18.7	18.3	17.0	17.5	18.9	18.5	22	-34
Margins (%)	4.4	4.2	4.1	4.3	4.4	4.3	4.3	4.3	0	0

Source: MOSL, Company

Exhibit 2: Quarterly performance: PAT in line with estimates

Y/E March	4QFY18A	4QFY18E	V/S our Est	Comments
Interest Income	2,13,211	2,12,850	0	
Interest Expense	1,06,634	1,05,671	1	
Net Interest Income	1,06,577	1,07,179	-1	
% Change (Y-o-Y)	18	18		
Other Income	42,286	37,641	12	Stronger than expected fees and commission income
Total Income	1,48,863	1,44,819	3	
Operating Expenses	60,506	57,758	5	Opex slightly higher than expected
Operating Profit	88,357	87,061	1	
% Change (Y-o-Y)	21	20		
Provisions	15,411	13,451	15	Provisions were higher than expected
Profit before Tax	72,946	73,609	-1	
Tax	24,953	25,182	-1	
Net Profit	47,993	48,427	-1	In line; higher other income offset by miss on provisions
% Change (Y-o-Y)	20	21		

Source: MOSL, Company

Growth was led by retail loans, which grew 6% QoQ, driven by business banking, credit cards and personal loans.

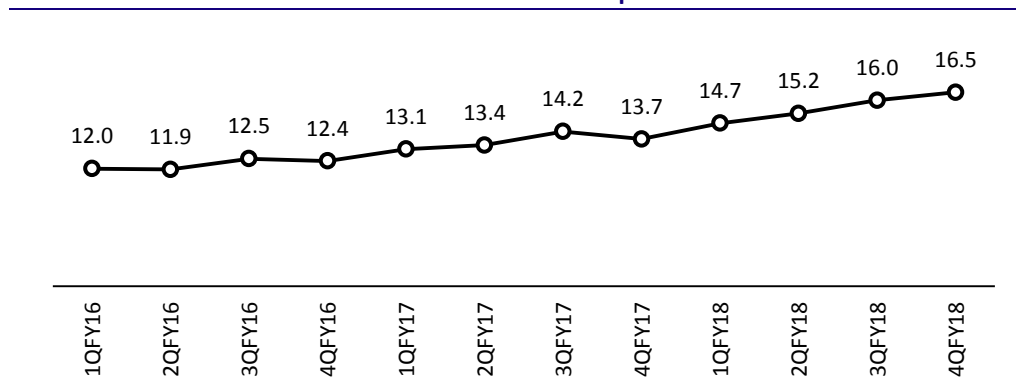
Retail loan growth remains healthy, share of retail book picks up

- Loan book grew 4.3% QoQ and 18.7% YoY to INR6.58t. Deposits grew 12.8%/22.5% QoQ/YoY to INR7.88t. CD ratio decreased to 83.5% from 90.3% in 3QFY18
- Incremental growth in the quarter was driven by retail loans (+6%/30% QoQ/YoY), taking retail loan share to 69.7% (55% as per regulatory classification) of the book compared to 68.6% in 3QFY18. Retail loan growth was driven by business banking (+15.2%/+49.4% QoQ/YoY), personal loans (+7.6%/43.6% QoQ/YoY) and credit cards (+7.4%/+38.9% YoY).
- Competitive intensity has increased on the retail front due to pressure on pricing; however bank expects to keep its market position.
- Corporate book growth was slower than retail at 0.5%/-0.7% QoQ/YoY.

Exhibit 3: Share of retail loans (based on internal classification) ticked up to 69.7% compared to 68.6% in 3QFY18

INRb	3QFY17	2QFY18	3QFY18	4QFY18	YoY (%)	QoQ (%)	% of total
Car Loans	655.5	790.0	825.1	859.7	8.8	4.2	13.1
CV loans	345.3	403.6	425.5	459.4	13.8	8.0	7.0
2 wheeler loans	71.1	85.4	92.2	96.5	13.0	4.6	1.5
Sub-total - Auto Loans	1,071.8	1,279.0	1,342.9	1,415.6	10.7	5.4	21.5
Personal loans	468.3	613.1	674.9	724.4	18.2	7.3	11.0
Business banking	727.2	964.9	1,008.1	1,095.1	13.5	8.6	16.6
Loan against shares	22.5	32.2	34.6	38.7	20.1	11.8	0.6
Credit Cards	236.7	308.3	336.2	361.2	17.1	7.4	5.5
Home loans	354.2	400.3	381.3	362.7	-9.4	-4.9	5.5
Gold loans	48.2	52.5	53.0	54.0	2.8	1.9	0.8
Other Retail	400.8	482.2	497.6	537.4	11.4	8.0	8.2
Retail Total	3,329.7	4,132.5	4,328.6	4,588.9	11.0	6.0	69.7
Corporate and international	1,620.8	1,916.2	1,983.6	1,994.4	4.1	0.5	30.3
Total loans	4,950.4	6,048.7	6,312.1	6,583.3	8.8	4.3	100.0

Source: Company, MOSL

Exhibit 4: Share of unsecured loans continued to inch up

Source: MOSL, Company

11% YoY CASA growth

Reported NIM steady QoQ; CASA ratio decreases slightly to 43.5%

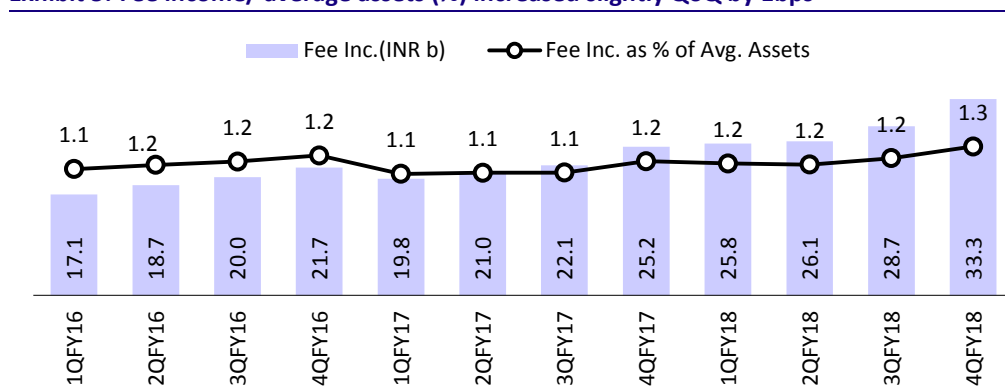
- NIM (reported) was steady QoQ at 4.3%
- CASA deposits grew 11.7%/11% QoQ/YoY driven by 8.7%/15.6% QoQ/YoY growth in SA and 17.8%/3.2% QoQ/YoY growth in CA. Despite increase in CASA deposits, CASA ratio declined by 50bp to 43.5% from 44% in 3QFY18 on account of higher growth in term deposits (13.7%/33.2% QoQ/YoY)

Strong fee income led to 23% YoY increase in other income

Fee income growth picks up, opex under control

- Core fee income recorded robust growth at 32% YoY to INR33.3b, (30% YoY in the prior quarter). Overall fee income / average assets increased to 1.3% (1.2% in 3QFY18). Forex income grew at 16.7% YoY (43.4% YoY in 3QFY18)
- Total other income grew 9.3%/22.7% QoQ/YoY growth even as trading gains declined to INR 0.2b, down 88% YoY.
- Overall opex growth continued to moderate at 15.9% YoY (5.6% QoQ), led by strong control in employee expenses (3% QoQ and 12.1% YoY). Cost-to-core income ratio declined 46bp QoQ to 40.7%.

Operating expenses well under control, with 46bp QoQ decline in cost to core income ratio

Exhibit 5: Fee income/ average assets (%) increased slightly QoQ by 1bps

Source: MOSL, Company

Asset quality stable, improvement in PCR

- Fresh slippages during the quarter came in at 1.72% (INR27.9b) in the current quarter; upgrades/recoveries/write-offs came in at INR8.07b/INR8.8b/INR7.2b, leading to 4.5% QoQ increase in GNPA to INR86.1b
- Asset quality ratios were stable with GNPA/NNPA of 1.3%/0.4%. PCR improved to ~70%.



4QFY18 conference call highlights

P&L related

- Fee growth picked up mainly on account of third party distribution products (MF's and Insurance), processing fees and credit card fees.
- Will be able to sustain NIM in the range of ~4-4.4%.
- Higher digitalization led to muted employee expense growth
- Contingent provision for agriculture sector has been made out of the other provision.
- Miscellaneous income has been driven by increase in dividend income from its subsidiaries.

B/S related

- Corporate growth has been healthy and will remain focused on growing our wholesale loans (Corporate, SME and MSME)
- Deposit growth was lagging from loan growth in previous quarters which has picked up in the current quarter which drove the normalization of Credit Deposit ratio.
- Will focus on increasing loan and deposit annually at the current growth rate.
- Moving up of deposit rates has led to increase in Deposits balance. As at Q4FY18 total retail deposits stood at 73% (as compared to 77% in Q3FY18)
- Competitive intensity has been increased on the retail front, but HDFC bank stands at a good market position.

Asset quality

- Slippages @ 1.72% (INR27.9b) for Q4FY18
- Total reduction of INR24.17b of which write offs INR7.2b, recovery INR8.8b and up gradation INR8.07b
- SMA1 and SMA2 book has been fairly stable over the past 3-4 quarters.

Others

- Awaiting the government approval after the shareholders' approval for Capital raise plan. No immediate plan to raise capital raising for subsidiaries.
- The subsidiaries are at a fairly good position to grow.
- Overall liquidity situation has been slightly tighter and resulted in higher deposit rate.

Valuation and view

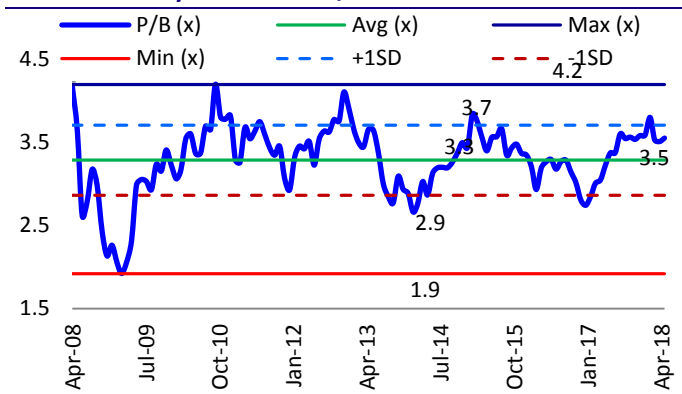
- Structural drivers in place with (1) CASA ratio of 43.5%, (2) opportunities' for the significant market share gains, (3) improving operating efficiency led by digitalization initiatives, (4) expected traction in income due to strong expansion in branch network, and (5) best-in-class asset quality.
- 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

Buy with a target price of
INR2,400 (4.0x Mar 20 ABV)
after building in capital
raise of INR240b in FY19

growth in underlying assets like Auto, CV and CE loans – HDFCB is seeing the strong loan growth-Indicating a market share gain.

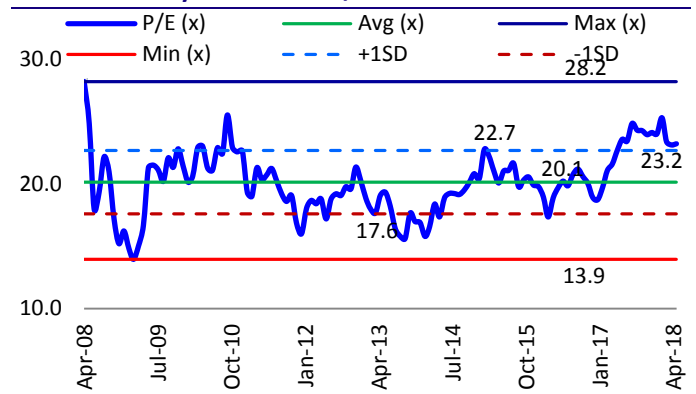
- Helped by strong benefit on the cost of funds bank has been aggressive in gaining market share in retail/corporate loans. We expect the trend to continue considering the large part of the competition is struggling with its own issues like capitalization, asset quality etc.
- We have seen some moderation 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. PPoP growth is expected to be healthy at 22%+ and PAT growth is expected to be 21%.
- Despite pricing pressure, NIMs moderation is expected to be limited due to a) high CASA ratio, b) benefit of high share of fixed rate retail loans (~70% of book) and c) high-yielding retail loans contribution within retail to rise.
- 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 ~17% (muted on capital raise). The stock trades at FY19 PBV/PE of 3.7x/24.7x.
- **We value the bank at INR2,400 after building in capital raise of INR240b.** We build in capital raise of INR240b in FY19 and arrive at a TP of INR2,400 (4.0x Mar 20 ABV for core bank) and maintain Buy

Exhibit 6: One-year forward P/BV



Source: MOSL, Company

Exhibit 7: One-year forward P/E



Source: MOSL, Company

Exhibit 8: We largely maintain our PAT estimates

INR b	Old Estimates		New Estimates		% Change	
	FY19	FY20	FY19	FY20	FY19	FY20
Net Interest Income	484.7	588.8	464.8	568.4	-4.1	-3.5
Other Income	175.6	207.2	185.7	222.8	5.7	7.5
Total Income	660.3	796.0	650.5	791.3	-1.5	-0.6
Operating Expenses	259.6	299.9	258.9	303.9	-0.3	1.3
Operating Profits	400.7	496.1	391.6	487.3	-2.3	-1.8
Provisions	65.1	76.6	70.1	95.0	7.6	24.0
PBT	335.6	419.5	321.5	392.3	-4.2	-6.5
Tax	115.8	144.7	110.9	135.4	-4.2	-6.5
PAT	219.8	274.8	210.6	257.0	-4.2	-6.5
Loans	8,342	10,219	8,104	9,895	-2.8	-3.2
Deposits	8,930	10,645	9,426	11,236	5.6	5.6
Margins (%)	4.49	4.53	4.19	4.29		
Credit Cost (%)	0.85	0.82	0.94	1.05		
RoA (%)	1.9	2.0	1.8	1.8	-6.2	-8.6
RoE (%)	16.2	17.6	16.9	16.7	4.3	-5.1
EPS	82	102	79	95	-3	-8
BV	539	624	528	604	-2	-3
ABV	513	594	500	571	-2	-4

Source: MOSL, Company

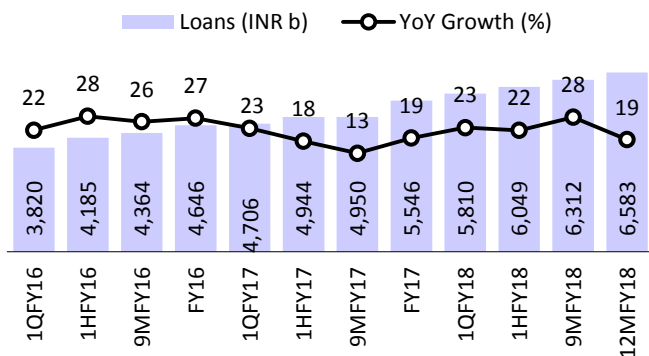
Exhibit 9: DuPont Analysis: Improvement in operating leverage to lead to higher profitability (%)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	4.28	4.14	4.14	4.25	4.21	4.16	3.97	4.02
Core Fee Income	1.3	1.3	1.2	1.2	1.1	1.2	1.27	1.25
Trading and others	0.5	0.5	0.4	0.4	0.4	0.4	0.32	0.32
Non Interest income	1.9	1.8	1.7	1.7	1.6	1.6	1.58	1.57
Total Income	5.63	5.44	5.37	5.48	5.33	5.74	5.55	5.59
Operating Expenses	3.04	2.70	2.59	2.61	2.51	2.35	2.21	2.15
Employee cost	1.07	0.94	0.88	0.88	0.82	0.71	0.66	0.63
Others	1.97	1.76	1.71	1.74	1.68	1.65	1.55	1.52
Operating Profits	3.10	3.22	3.22	3.29	3.27	3.38	3.34	3.44
Core operating Profits	2.58	2.74	2.79	2.86	2.83	3.03	3.02	3.12
Provisions	0.45	0.36	0.38	0.42	0.46	0.61	0.60	0.67
PBT	2.64	2.86	2.83	2.87	2.82	2.77	2.74	2.77
Tax	0.82	0.96	0.94	0.98	0.97	0.96	0.95	0.96
RoA	1.82	1.90	1.89	1.89	1.85	1.81	1.80	1.82
Leverage (x)	11.2	11.2	10.3	9.6	9.7	9.8	9.4	9.2
RoE	20.3	21.3	19.4	18.3	17.9	17.9	16.9	16.7

Source: MOSL, Company

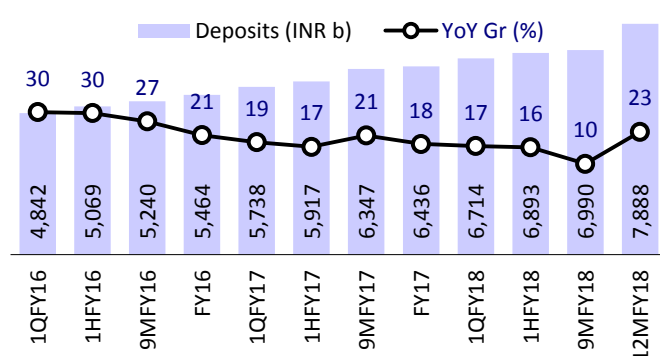
Story in Charts

Exhibit 10: Loans grew 19% YoY (4% QoQ)



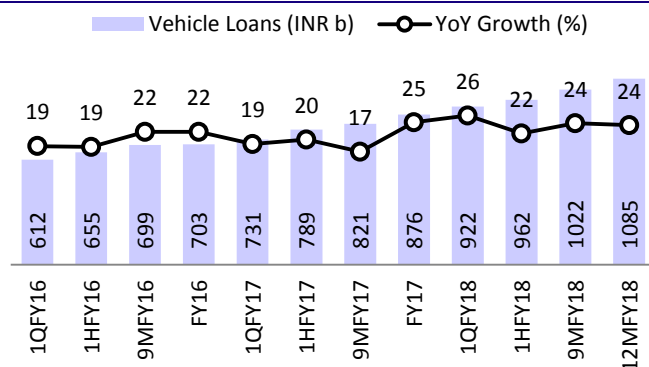
Source: MOSL, Company

Exhibit 11: Deposits registered 23% YoY growth



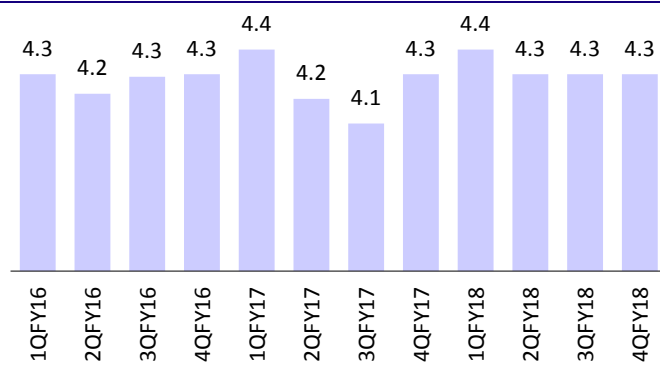
Source: MOSL, Company

Exhibit 12: Healthy traction in vehicle loans (24% YoY)



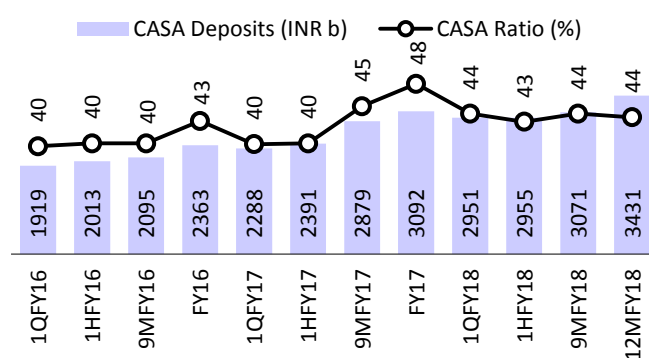
Source: MOSL, Company

Exhibit 13: NIMs stayed steady QoQ at 4.3%



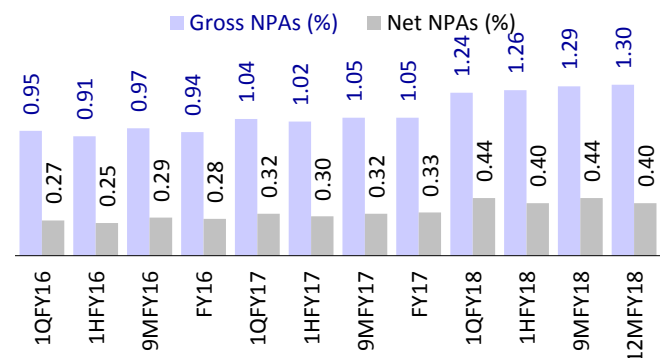
Source: MOSL, Company

Exhibit 14: CASA ratio declined by 50bp to 43.5%



Source: MOSL, Company

Exhibit 15: GNPA was stable (+1bp QoQ) at 1.3%



Source: MOSL, Company

Exhibit 16: Valuation metrics

Val summary	Rating	Mkt. Cap (INRb)	CMP (INR)	TP (INR)	Upside (%)	ABV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)		P/ABV (x)	
						FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Private Banks																	
ICICIBC*	Buy	1,855	283	370	31	136	157	1.29	1.59	11.1	14.3	9.9	7.0	1.1	1.0	1.3	1.1
HDFCB	Buy	5,215	1,960	2,400	22	513	594	1.9	2.0	16.2	17.6	23.9	19.2	3.6	3.1	3.8	3.3
AXSB	Buy	1,320	507	650	28	265	301	0.8	1.3	9.0	14.3	20.5	11.5	1.8	1.6	1.9	1.7
KMB*	Buy	2,200	1,163	1,302	12	278	330	1.8	1.8	13.5	14.9	28.0	21.5	4.0	3.4	4.2	3.5
YES	Buy	726	309	382	24	128	153	1.7	1.7	19.1	20.8	13.2	10.2	2.3	2.0	2.4	2.0
IIB	Buy	1,101	1,817	2,150	18	449	577	2.2	2.3	20.6	20.6	20.8	17.0	4.0	3.1	4.0	3.1
IDFCB	Neutral	168	49	65	34	44	46	0.8	0.9	6.9	7.8	15.1	12.6	1.0	1.0	1.1	1.1
FB	Buy	190	97	124	28	62	69	0.9	0.9	10.2	11.7	14.3	11.4	1.4	1.3	1.6	1.4
DCBB	Neutral	61	195	175	-10	89	99	0.9	0.9	11.1	11.7	20.0	16.9	2.1	1.9	2.2	2.0
JKBK	Buy	33	58	100	72	85	97	0.6	0.7	9.9	12.9	5.8	4.0	0.6	0.5	0.7	0.6
SIB	Buy	48	26	38	46	26	31	0.9	1.0	13.7	15.7	6.3	4.9	0.9	0.7	1.0	0.8
EQUITAS	Buy	52	150	185	23	70	78	1.7	1.9	10.0	13.6	21.3	14.1	2.0	1.8	2.2	1.9
RBK	Buy	211	510	628	23	169	193	1.3	1.3	13.2	15.8	23.4	17.4	2.9	2.6	3.0	2.6
PSU Banks																	
SBIN*	Buy	2,203	242	362	50	163	198	0.3	0.7	5.7	12.5	7.5	4.1	0.5	0.5	0.9	0.7
PNB	Buy	266	94	160	70	112	137	0.0	0.4	0.0	7.7	NA	6.5	0.6	0.5	0.8	0.7
BOI	Neutral	219	103	112	9	132	174	0.2	0.3	3.0	5.5	16.2	8.5	0.6	0.5	0.8	0.6
BOB	Buy	384	144	185	28	121	141	0.3	0.5	5.0	8.4	16.2	9.2	0.9	0.8	1.2	1.0
CBK	Neutral	202	261	280	7	314	403	0.2	0.6	4.1	10.8	11.9	4.3	0.6	0.5	0.8	0.6
UNBK	Neutral	116	92	104	13	143	160	0.2	0.4	3.4	7.0	12.2	5.4	0.4	0.4	0.6	0.6
INBK	Buy	150	305	371	21	314	351	0.7	0.7	12.3	12.7	7.3	6.4	0.9	0.8	1.0	0.9

Source: MOSL, Company

Financials and Valuations

Income Statement

	(INR m)							
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Interest Income	3,50,649	4,11,355	4,84,699	6,02,214	6,93,060	8,02,414	9,72,233	11,75,417
Interest Expense	1,92,538	2,26,529	2,60,742	3,26,299	3,61,667	4,01,465	5,07,385	6,06,993
Net Interest Income	1,58,111	1,84,826	2,23,957	2,75,915	3,31,392	4,00,949	4,64,848	5,68,425
Growth (%)	22.7	16.9	21.2	23.2	20.1	21.0	15.9	22.3
Non Interest Income	68,526	79,196	89,964	1,07,517	1,22,965	1,52,203	1,85,688	2,22,825
Total Income	2,26,637	2,64,023	3,13,920	3,83,432	4,54,357	5,53,152	6,50,536	7,91,250
Growth (%)	21.4	16.5	18.9	22.1	18.5	21.7	17.6	21.6
Operating Expenses	1,12,361	1,20,422	1,39,875	1,69,797	1,97,033	2,26,904	2,58,944	3,03,915
Pre Provision Profits	1,14,276	1,43,601	1,74,045	2,13,635	2,57,324	3,26,248	3,91,592	4,87,335
Growth (%)	21.7	25.7	21.2	22.7	20.4	26.8	20.0	24.4
Core PPP	97,607	1,22,227	1,50,348	1,84,470	2,20,859	3,06,408	3,67,592	4,58,340
Growth (%)	22.9	25.2	23.0	22.7	19.7	38.7	20.0	24.7
Provisions (excl tax)	16,770	15,880	20,758	27,256	35,933	59,275	70,079	94,995
PBT	97,506	1,27,721	1,53,287	1,86,379	2,21,391	2,66,973	3,21,513	3,92,340
Tax	30,249	42,937	51,128	63,417	75,894	92,106	1,10,922	1,35,357
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	1,74,868	2,10,591	2,56,983
Growth (%)	30.2	26.1	20.5	20.4	18.3	20.2	20.4	22.0

Balance Sheet

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	4,759	4,798	5,013	5,056	5,125	5,190	5,436	5,436
Reserves & Surplus	3,57,383	4,29,988	6,15,081	7,21,721	8,55,571	10,57,760	14,29,597	16,37,506
Net Worth	3,62,141	4,34,786	6,20,094	7,26,778	8,60,696	10,62,950	14,35,033	16,42,943
Deposits	29,62,470	36,73,375	45,07,956	54,64,242	64,36,397	78,87,706	94,25,809	1,12,35,565
Growth (%)	20.1	24.0	22.7	21.2	17.8	22.5	19.5	19.2
of which CASA Dep	14,05,215	16,46,214	19,84,921	23,63,108	30,91,525	33,52,275	41,19,079	51,00,946
Growth (%)	17.7	17.2	20.6	19.1	30.8	8.4	22.9	23.8
Borrowings	3,30,066	3,94,390	4,52,136	8,49,690	7,40,289	12,31,050	13,74,543	19,28,352
Other Liabilities & Prov.	3,48,642	4,13,444	3,24,845	3,67,251	6,01,020	4,57,637	5,62,893	6,92,359
Total Liabilities	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,06,39,343	1,27,98,278	1,54,99,217
Current Assets	2,72,802	3,95,836	3,63,315	3,89,188	4,89,521	12,29,151	9,72,032	11,32,097
Investments	11,16,136	12,09,511	15,16,418	19,58,363	21,44,633	24,22,002	29,54,843	35,45,812
Growth (%)	14.5	8.4	25.4	29.1	9.5	12.9	22.0	20.0
Loans	23,97,206	30,30,003	36,54,950	46,45,940	55,45,682	65,83,331	81,04,080	98,95,082
Growth (%)	22.7	26.4	20.6	27.1	19.4	18.7	23.1	22.1
Fixed Assets	27,031	29,399	31,217	33,432	36,267	36,072	43,485	48,268
Other Assets	1,90,144	2,51,246	3,39,131	3,81,038	4,22,298	3,68,787	7,23,839	8,77,959
Total Assets	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,06,39,343	1,27,98,278	1,54,99,217

Financials and Valuations

Asset Quality

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
GNPA (INR m)	23,346	29,893	34,384	43,928	58,857	86,070	1,05,220	1,33,471
NNPA (INR m)	4,690	8,200	8,963	13,204	18,440	26,010	32,875	40,557
GNPA Ratio	1.0	1.0	0.9	0.9	1.1	1.3	1.3	1.3
NNPA Ratio	0.2	0.3	0.2	0.3	0.3	0.4	0.4	0.4
Slippage Ratio	1.61	1.93	1.58	1.56	1.53	1.65	1.55	1.60
Credit Cost	0.57	0.60	0.52	0.51	0.62	0.90	0.94	1.05
PCR (Excl Tech. write off)	79.9	72.6	73.9	69.9	68.7	69.8	68.8	69.6

E: MOSL Estimates

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	10.6	10.3	10.1	10.1	9.6	9.4	9.5	9.4
Avg. Yield on loans	12.3	11.7	11.1	10.8	10.2	10.3	10.4	10.3
Avg. Yield on Invt	7.5	7.8	7.2	8.1	7.8	7.2	7.5	7.5
Avg. Cost-Int. Bear. Liab.	6.4	6.2	5.8	5.8	5.4	4.9	5.1	5.1
Avg. Cost of Deposits	6.0	5.7	5.7	5.9	5.3	5.2	5.3	5.2
Interest Spread	4.2	4.1	4.3	4.3	4.2	4.5	4.4	4.3
Net Interest Margin	4.8	4.6	4.6	4.6	4.6	4.4	4.2	4.3

Capitalisation Ratios (%)

CAR	16.8	16.1	16.8	15.5	14.6	14.7	16.0	14.7
Tier I	11.1	11.8	13.7	13.2	12.8	13.2	14.8	13.7
Tier II	5.7	4.3	3.1	2.3	1.8	1.5	1.2	0.9

Asset-Liability Profile (%)

Loans/Deposit	80.9	82.5	81.1	85.0	86.2	83.5	86.0	88.1
CASA Ratio	47.4	44.8	44.0	43.2	48.0	42.5	43.7	45.4
Cost/Assets	2.8	2.4	2.4	2.3	2.3	2.1	2.0	2.0
Cost/Total Income	49.6	45.6	44.6	44.3	43.4	41.0	39.8	38.4
Cost/Core Income	49.9	45.8	47.0	46.7	45.8	42.5	41.3	39.9
Int. Expense/Int.Income	54.9	55.1	53.8	54.2	52.2	50.0	52.2	51.6
Fee Income/Total Income	27.3	27.2	24.4	23.6	21.8	21.4	22.8	22.4
Non Int. Inc./Total Income	30.2	30.0	28.7	28.0	27.1	27.5	28.5	28.2
Empl. Cost/Total Expense	35.3	34.7	34.0	33.6	32.9	30.0	30.0	29.1
Investment/Deposit	37.7	32.9	33.6	35.8	33.3	30.7	31.3	31.6

Valuation

RoE	20.3	21.3	19.4	18.3	17.9	17.9	16.9	16.7
RoA	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.8
RoRWA	2.5	2.6	2.7	2.5	2.4	2.5	2.4	2.3
Book Value (INR)	152	181	247	287	336	410	528	604
Growth (%)	19.4	19.2	36.5	16.2	16.9	22.0	28.9	14.5
Price-BV (x)					5.8	4.8	3.7	3.2
Adjusted BV (INR)	151	179	245	284	331	386	500	571
Price-ABV (x)					5.9	5.1	3.9	3.4
EPS (INR)	28.3	35.3	40.8	48.6	56.8	67.8	79.3	94.5
Growth (%)	28.4	25.0	15.3	19.3	16.7	19.4	16.9	19.3
Price-Earnings (x)					34.5	28.9	24.7	20.7
Dividend Per Sh (INR)	5.5	6.9	8.0	9.5	11.0	15.5	16.5	18.1
Dividend Yield (%)					0.6	0.8	0.8	0.9

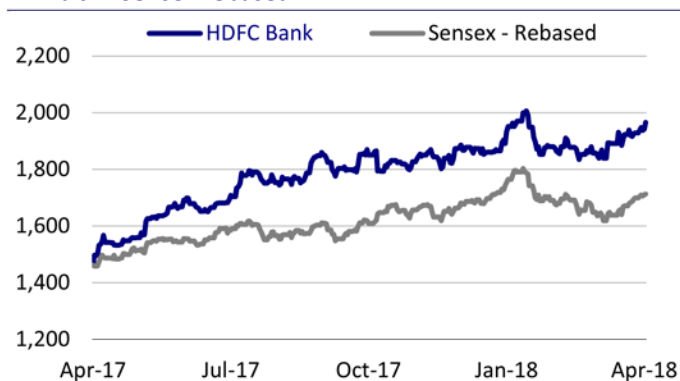
E: MOSL Estimates

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 (%)

	Mar-18	Dec-17	Mar-17
Promoter	20.9	21.0	21.2
DII	12.4	12.2	10.7
FII	51.3	51.4	52.8
Others	15.4	15.4	15.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Europacific Growth Fund	3.8
LIC of India	2.0
SBI-ETF NIFTY 50	1.7
HDFC Trustee Company Limited A/c HDFC Balanced Fund	1.3
ICICI Prudential Life Insurance Company Limited	1.2

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	67.8	67.4	0.6
FY19	79.3	82.6	-4.0
FY20	94.5	100.5	-6.0

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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