

HDFC Bank | BUY

Stable quarter; loan growth a tad soft

HDFC Bank's 20.3% YoY growth in PAT was in-line with estimates driven by a strong fee income and controlled opex ratios. Loan growth at 18.7% YoY, however, lagged our expectations albeit on a high base of 4QFY17. We expect the same to bounce back to recent trends as corporate lending picks up (single digit YoY growth in 4QFY18 vs avg. of 18% seen in first nine months of the year). Slippage ratio was at 1.86% for 4QFY18 vs Average of 2.2% in the past four quarters. Core fees grew a robust 30% YoY and should sustain at healthy rates as against mid-teens growth last few years. With controlled opex (core CI ratio improved by 180bps YoY), core PPOP registered a healthy 24.8% growth. In our view, HDFC Bank remains well placed to further consolidate its leadership position in retail lending in addition to being a key beneficiary of increasing share of private sector banks in corporate loans. We maintain our TP at INR2500 (valuing core bank at 3.8x FY20E P/BV).

Steady operating performance led by retail segment; asset quality in fine shape: Overall loan growth for HDFCB was optically a tad softer than expected (+19% YoY), primarily due to an unfavourable base effect (loan book grew 12% QoQ in 4QFY17). Loan book growth was led by the retail segment (+26% YoY), while growth in the corporate segment was soft (+6% YoY). Within retail loans, growth was led by personal loans / credit cards / business banking (up 43% / 39% / 34% YoY respectively), while auto loans grew by 23% YoY. Management indicated a pickup in competition in the retail space, specifically in unsecured lending (personal loans, credit cards) as competitor banks have renewed their focus in these areas. Non-interest income was steady (+17% YoY), despite MTM treasury losses, as core fee-income growth was robust (+30% YoY). Cost-to-income for the bank continues to be on a declining trend (at 40.6% in 4QFY18, down 120bps YoY). Management indicated headroom for reducing this further. HDFCB's asset quality continues to be in fine shape as slippages trended downwards (down 150bps QoQ) after a one off blip in 3QFY18. On Agri book stress, management believes it has reduced considerably but the segment remains vulnerable and as such, bank will continue to grow cautiously here.

Subsidiaries continue to shine: HDB Financial Services had a strong FY18, with its loan book growing at 35% YoY to INR 436 bn, as its net profit grew to INR 9.5bn (+39% YoY). With 1165 outlets, clear customer segmentation and multiple product lines, HDB Financial is poised to grow further even on a larger base. Net profit for HDFC Securities for FY18 was at INR 3.44bn (+59.5% YoY). Management mentioned that there is no immediate plan of listing any of these subsidiaries. In our SOTP valuation for HDFCB, subsidiaries contribute INR 141 to our TP of INR 2,500.

Capital raise awaiting FinMin approval: HDFC's Bank planned capital raise of INR 240bn is pending approval from the Finance ministry as the bank seeks to raise >INR50bn of foreign capital. As retail growth was strong during the quarter, RWA growth was flat QoQ and the bank's CET1 ratio stood at 12.2%. For the full year FY18, CET1 consumption stood at 59bps.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,500
Upside/(Downside)	28.9%
Previous Price Target	2,500
Change	0.0%

Key Data – HDFCB IN

Current Market Price	INR1,939
Market cap (bn)	INR5,031.9/US\$76.5
Free Float	80%
Shares in issue (mn)	2,562.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,982.9/US\$45.3
52-week range	2,015/1,438
Sensex/Nifty	34,427/10,565
INR/US\$	65.8

Price Performance

%	1M	6M	12M
Absolute	5.0	4.9	33.8
Relative*	0.4	-1.3	14.0

* To the BSE Sensex

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Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Profit	1,22,962	1,45,497	1,74,868	2,13,423	2,63,678
Net Profit (YoY) (%)	20.4	18.3	20.2	22.0	23.5
Assets (YoY) (%)	20.0	21.9	23.2	17.5	18.9
ROA (%)	1.9	1.9	1.8	1.8	1.9
ROE (%)	18.3	17.9	17.9	16.9	16.8
EPS	48.6	56.8	67.4	78.4	96.9
EPS (YoY) (%)	19.3	16.7	18.7	16.4	23.5
PE (x)	40.3	34.5	29.1	25.0	20.2
BV	287.5	349.1	409.6	538.5	613.2
BV (YoY) (%)	16.2	21.4	17.3	31.5	13.9
P/BV (x)	6.8	5.6	4.8	3.6	3.2

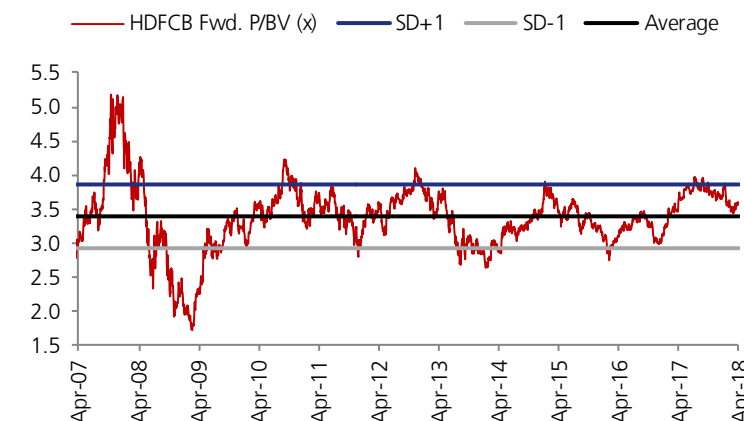
Source: Company data, JM Financial. Note: Valuations as of 21/Apr/2018

Key trends for 4QFY18

Exhibit 1. HDFC Bank: Result Summary 4Q18

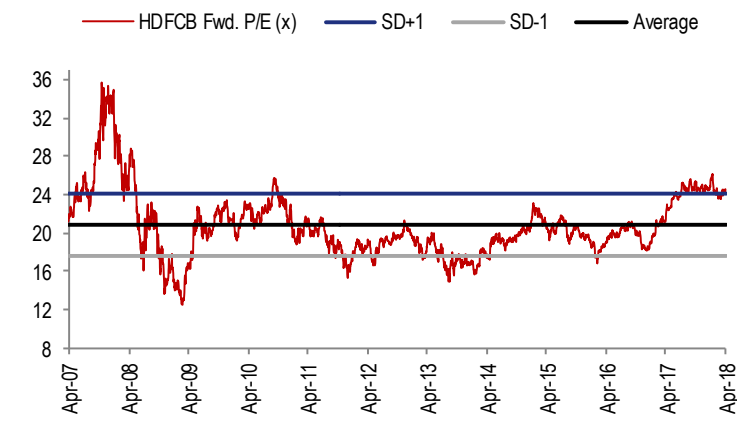
Earnings Table (Rs. mn.)	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
NI	90,551	1,03,143	1,06,577	17.7%	3.3%
Fee based Income	25,230	28,721	33,297	32.0%	15.9%
Forex Income	3,567	4,262	4,164	16.7%	-2.3%
Trading Profits	1,804	2,594	-220	-112.2%	-108.5%
Other Misc Income	3,862	3,115	5,045	30.6%	62.0%
Non-Interest income	34,463	38,692	42,286	22.7%	9.3%
Total Income	1,25,014	1,41,835	1,48,863	19.1%	5.0%
Employee Cost	15,527	16,913	17,412	12.1%	3.0%
Other Operating Expenses	36,693	40,410	43,094	17.4%	6.6%
Total Operating Expenses	52,220	57,322	60,506	15.9%	5.6%
Operating Profit	72,794	84,513	88,357	21.4%	4.5%
Loan Loss Provisions	9,779	13,400	11,320	15.8%	-15.5%
Total Provisions	12,618	13,514	15,411	22.1%	14.0%
PBT	60,176	70,999	72,946	21.2%	2.7%
Tax	20,275	24,573	24,953	23.1%	1.5%
Reported Profit	39,901	46,426	47,993	20.3%	3.4%
Balance sheet (Rs. bn.)					
Deposits	6,436	6,990	7,877	22.4%	12.7%
Net Advances	5,546	6,312	6,583	18.7%	4.3%
Total Assets	8,638	9,491	10,639	23.2%	12.1%
Low-cost Deposits (%)	48.0%	43.9%	43.6%	-4.5%	-0.4%
Loan-Deposit ratio (%)	86.2%	90.3%	83.6%	-2.6%	-6.7%
Key Ratios					
Credit Quality					
Gross NPAs (Rs. mn.)	58,857	82,349	86,070	46.2%	4.5%
Net NPAs (Rs. mn.)	18,440	27,737	26,010	41.1%	-6.2%
Gross NPA (%)	1.1%	1.29%	1.30%	0.24%	0.00%
Net NPA (%)	0.3%	0.44%	0.40%	0.06%	-0.04%
Loan Loss Provisions (%)	1.0%	0.95%	0.85%	-0.14%	-0.10%
Coverage Ratio (%)	68.7%	66.3%	69.8%	1.1%	3.5%
Capital Adequacy					
Tier I (%)	12.8%	13.60%	13.20%	0.4%	-0.4%
CAR (%)	14.6%	15.50%	14.80%	0.2%	-0.7%
Du-pont Analysis					
NI / Assets (%)	4.3%	4.38%	4.24%	-0.05%	-0.15%
Non-Interest Inc. / Assets (%)	1.6%	1.64%	1.68%	0.05%	0.04%
Operating Cost / Assets (%)	2.5%	2.44%	2.40%	-0.06%	-0.03%
Operating Profits / Assets (%)	3.4%	3.59%	3.51%	0.07%	-0.08%
Provisions / Assets (%)	0.6%	0.57%	0.61%	0.02%	0.04%
ROA (%)	1.9%	1.97%	1.91%	0.02%	-0.07%

Exhibit 2. HDFC Bank: One year forward P/BV (x)



Source: Company, JM Financial

Exhibit 3. HDFC Bank: One year forward P/E (x)



Source: Company, JM Financial

Valuations

We value HDFC Bank using 2-stage Gordon Growth model. Our assumptions and target price are given below.

Exhibit 4. HDFC Bank: Valuation Summary

Initial no of years	10
Growth rate for the first 10 years (%)	18%
Payout ratio for the first 10 years (%)	15%
Perpetual growth rate (%)	4%
Perpetual payout ratio (%)	80%
K1	1.84
K2	16.4x
Fully adjusted FY20E BVPS (Rs)	614
Target P/BV (x)	3.8x
Fair value (rounded off)	2,358

Source: Company, JM Financial

We value HDFCB using SOTP method after building a capital raise at INR 1900/sh in the standalone bank and valuing two of its major subsidiaries at INR 141/share.

Exhibit 5. SOTP

HDFC Bank SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
HDFC Bank - Parent	100.0%	3.8x fwd FY20E BV	2,358	94%
HDB Financial Services	95.9%	3.3x FY20E BV	106	4%
HDFC Securities	97.9%	25x FY20 EPS	50	2%
Less: Cost of investments			-15	-1%
Total (Rs.)			2,500	100%

Source: Company, JM Financial

Key quarterly trends

Exhibit 6. HDFC Bank: Gross loan mix as of 4Q18 (as per RBI classification)

Gross Loan Mix (Rs bn) - as per Basel 2	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Domestic Retail	2,837	3,394	3,625	27.8%	6.8%
Domestic wholesale	2,550	2,763	2,806	10.0%	1.6%
Overseas*	200	210	213	6.5%	1.2%
Total Loans (Gross)	5,586	6,367	6,643	18.9%	4.3%

Source: Company, JM Financial* Overseas book assumed to be in similar proportion YoY.

Exhibit 7. HDFC Bank: Domestic retail loan mix (as per RBI classification)

Retail Loans Mix (Rs bn) - As per Basel 2	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Car Loans	621	731	764	23.2%	4.6%
2 wheeler loans	63	77	87	37.9%	12.8%
CTG loans (CV+CE)	192	214	234	21.7%	9.3%
Sub-total - Auto Loans	876	1,022	1,085	23.9%	6.2%
Personal loans	501	668	719	43.6%	7.6%
Credit Cards	260	336	361	38.9%	7.4%
Business Banking	362	470	541	49.4%	15.2%
LAS	15	17	18	24.3%	8.7%
Home Loans	384	381	363	-5.5%	-4.9%
Gold Loans	48	51	51	5.5%	0.2%
Kisan Gold Card	283	311	347	22.7%	11.6%
Other Retail	109	139	141	28.8%	1.6%
Retail Loans Total	2,837	3,394	3,625	27.8%	6.8%
Car Loans	21.9%	21.5%	21.1%	-0.8%	-0.4%
2 wheeler loans	2.2%	2.3%	2.4%	0.2%	0.1%
CTG loans (CV+CE)	6.8%	6.3%	6.5%	-0.3%	0.1%
Sub-total - Auto Loans	30.9%	30.1%	29.9%	-0.9%	-0.2%
Personal loans	17.6%	19.7%	19.8%	2.2%	0.1%
Credit Cards	9.2%	9.9%	10.0%	0.8%	0.1%
Business Banking	12.8%	13.8%	14.9%	2.2%	1.1%
LAS	0.5%	0.5%	0.5%	0.0%	0.0%
Home Loans	13.5%	11.2%	10.0%	-3.5%	-1.2%
Gold Loans	1.7%	1.5%	1.4%	-0.3%	-0.1%
Kisan Gold Card	10.0%	9.2%	9.6%	-0.4%	0.4%
Other Retail	3.9%	4.1%	3.9%	0.0%	-0.2%
Retail Loans Total	100%	100%	100%		

Source: Company, JM Financial

Exhibit 8. HDFC Bank: Gross loan mix (as per internal classification)

Gross Loan Mix (Rs bn) - as per internal classification	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Domestic Retail	3,644	4,329	4,584	25.8%	5.9%
Domestic wholesale	1,743	1,828	1,846	5.9%	1.0%
Overseas*	200	210	213	6.5%	1.2%
Total Loans (Gross)	5,586	6,367	6,643	18.9%	4.3%

Source: Company, JM Financial* Overseas loan book assumed to be in similar proportion YoY.

Exhibit 9. HDFC Bank: Domestic retail loan mix (as per internal classification)

Domestic Retail Loans Mix (Rs bn) - As per internal classification	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Car Loans	701	825	860	22.6%	4.2%
2 wheeler loans	73	92	96	31.4%	4.6%
CTG loans (CV+CE)	379	425	459	21.1%	8.0%
Sub-total - Auto Loans	1,154	1,343	1,416	22.7%	5.4%
Personal loans	505	675	724	43.3%	7.3%
Credit Cards	260	336	361	38.9%	7.4%
Business Banking	818	1,008	1,095	33.9%	8.6%
LAS	28	35	39	38.2%	11.8%
Home Loans	384	381	363	-5.5%	-4.9%
Gold Loans	49	53	54	9.6%	1.9%
Kisan Gold Card	288	317	355	23.1%	12.0%
Other Retail	157	181	178	13.3%	-1.5%
Domestic Retail loans	3,644	4,329	4,584	25.8%	5.9%
Car Loans	19.2%	19.1%	18.8%	-0.5%	-0.3%
2 wheeler loans	2.0%	2.1%	2.1%	0.1%	0.0%
CTG loans (CV+CE)	10.4%	9.8%	10.0%	-0.4%	0.2%
Sub-total - Auto Loans	31.7%	31.0%	30.9%	-0.8%	-0.1%
Personal loans	13.9%	15.6%	15.8%	1.9%	0.2%
Credit Cards	7.1%	7.8%	7.9%	0.7%	0.1%
Business Banking	22.4%	23.3%	23.9%	1.4%	0.6%
LAS	0.8%	0.8%	0.8%	0.1%	0.0%
Home Loans	10.5%	8.8%	7.9%	-2.6%	-0.9%
Gold Loans	1.4%	1.2%	1.2%	-0.2%	0.0%
Kisan Gold Card	7.9%	7.3%	7.7%	-0.2%	0.4%
Other Retail	4.3%	4.2%	3.9%	-0.4%	-0.3%
Domestic Retail loans	100%	100%	100%		

Source: Company, JM Financial

Exhibit 10. HDFC Bank: Fee income split

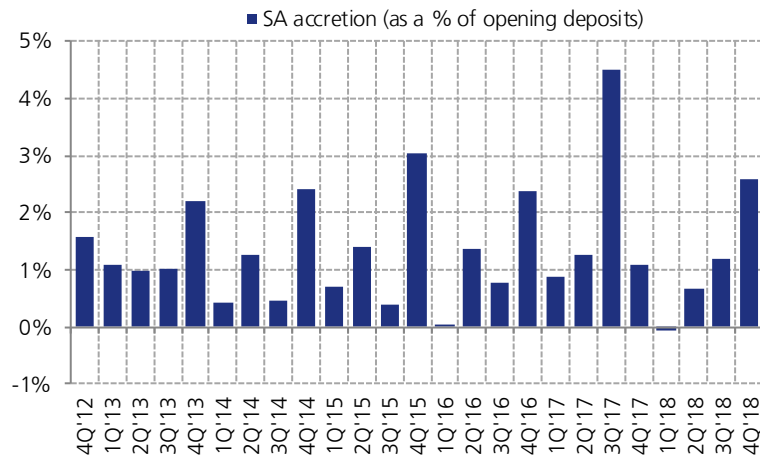
Fee Income Composition (Rs mn)	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Fees and commissions	25,230	28,721	33,297	32.0%	15.9%
Forex and derivatives	3,567	4,262	4,164	16.7%	-2.3%
Trading gains/losses	1,804	2,594	-220	-112.2%	-108.5%
Miscellaneous inc	3,862	3,115	5,045	30.6%	62.0%
Total	34,463	38,692	42,286	22.7%	9.3%
Fees and commissions	73.2%	74.2%	78.7%	5.5%	4.5%
Forex and derivatives	10.4%	11.0%	9.8%	-0.5%	-1.2%
Trading gains/losses	5.2%	6.7%	-0.5%	-5.8%	-7.2%
Miscellaneous inc	11.2%	8.1%	11.9%	0.7%	3.9%
Total	100.0%	100.0%	100.0%		

Source: Company, JM Financial

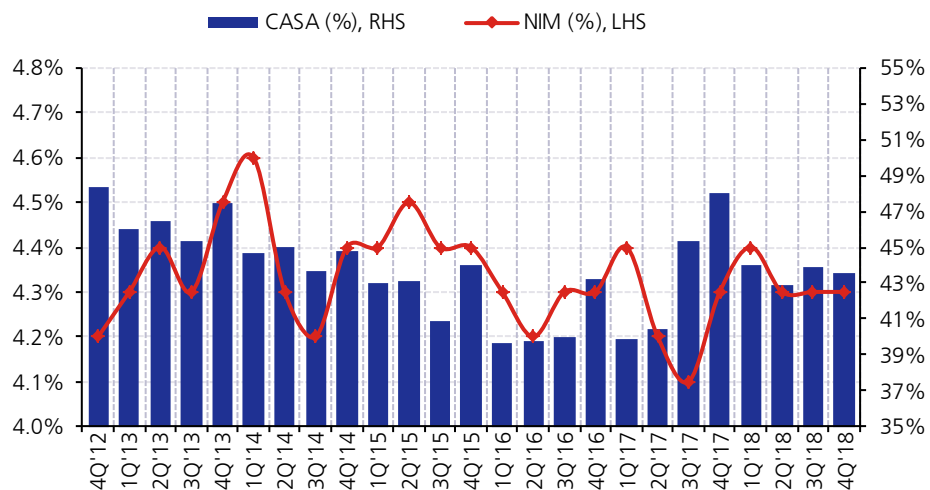
Exhibit 11. HDFC Bank: Deposit composition

Deposits Composition (Rs bn)	4Q17	3Q18	4Q18	YoY (%)	QoQ (%)
Current	1,156	1,013	1,193	3.2%	17.8%
Saving	1,936	2,058	2,238	15.6%	8.7%
Time	3,345	3,919	4,446	32.9%	13.4%
Total Deposits	6,436	6,990	7,877	22.4%	12.7%
Current	18.0%	14.5%	15.1%	-2.8%	0.7%
Saving	30.1%	29.4%	28.4%	-1.7%	-1.0%
CASA	48.0%	43.9%	43.6%	-4.5%	-0.4%
Time	52.0%	56.1%	56.4%	4.5%	0.4%
Total	100%	100%	100%		

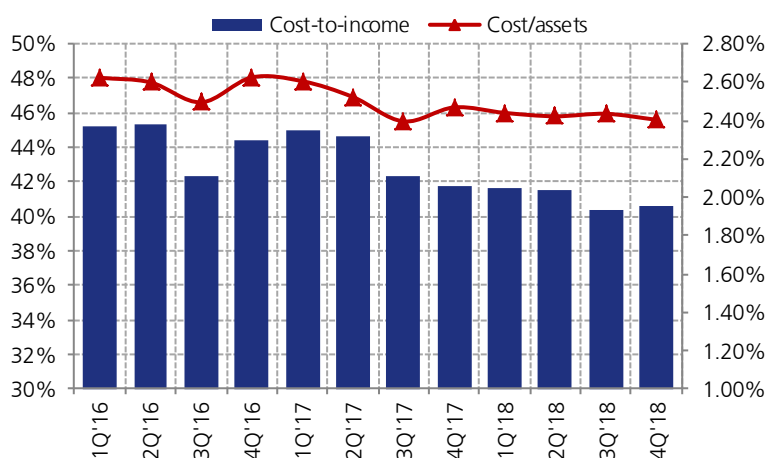
Source: Company, JM Financial

Exhibit 12. HDFC Bank: SA accretion (%)

Source: Company, JM Financial

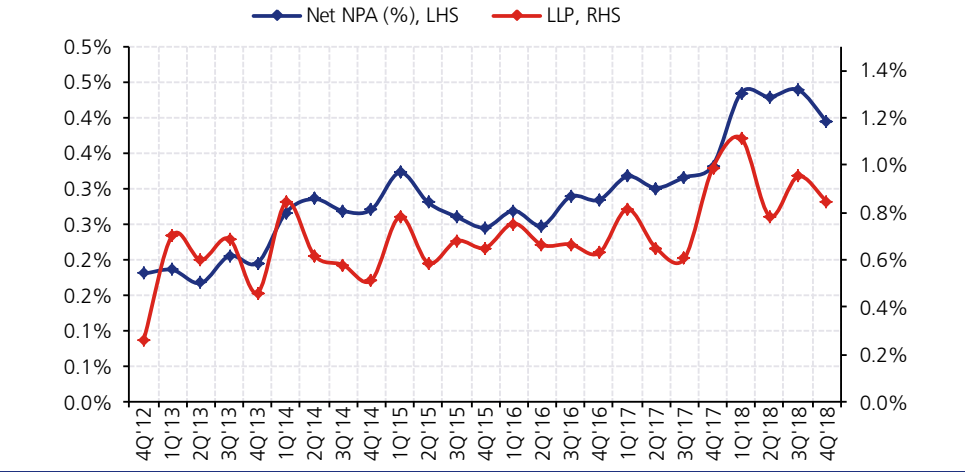
Exhibit 13. HDFC Bank: Trends for CASA and NIM

Source: Company, JM Financial

Exhibit 14. HDFC Bank: Trends in cost ratios

Source: Company, JM Financial

Exhibit 15. HDFC Bank: Net NPA and LLP trends



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss					(INR bn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Interest Income	276	331	401	480	573
Profit on Investments	7	11	9	7	7
Exchange Income	12	13	15	18	21
Fee & Other Income	88	99	128	147	174
Non-Interest Income	108	123	152	172	202
Total Income	383	454	553	652	775
Operating Expenses	170	197	227	263	302
Pre-provisioning Profits	214	257	326	389	474
Loan-Loss Provisions	26	35	52	57	66
Provisions on Investments	0	0	0	0	0
Others Provisions	1	1	8	9	9
Total Provisions	27	36	59	66	74
PBT	186	221	267	323	400
Tax	63	76	92	110	136
PAT (Pre-Extraordinaries)	123	145	175	213	264
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	123	145	175	213	264
Dividend paid	29	33	39	51	60
Retained Profits	94	113	135	162	203

Source: Company, JM Financial

Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Growth (YoY) (%)					
Deposits	21.2%	17.8%	22.5%	21.0%	21.0%
Advances	27.1%	19.4%	18.7%	23.0%	23.0%
Total Assets	20.0%	21.9%	23.2%	17.5%	18.9%
NII	23.2%	20.1%	21.0%	19.7%	19.5%
Non-interest Income	19.5%	14.4%	23.8%	12.9%	17.6%
Operating Expenses	21.4%	16.0%	15.2%	15.8%	14.8%
Operating Profits	22.7%	20.4%	26.8%	19.2%	21.8%
Core Operating profit	22.6%	19.2%	28.9%	20.5%	22.1%
Provisions	31.4%	31.8%	65.0%	10.7%	13.3%
Reported PAT	20.4%	18.3%	20.2%	22.0%	23.5%
Yields / Margins (%)					
Interest Spread	3.7%	3.7%	3.7%	3.8%	3.9%
NIM	4.4%	4.4%	4.3%	4.3%	4.4%
Profitability (%)					
Non-IR to Income	28.0%	27.1%	27.5%	26.4%	26.1%
Cost to Income	44.3%	43.4%	41.0%	40.3%	38.9%
ROA	1.9%	1.9%	1.8%	1.8%	1.9%
ROE	18.3%	17.9%	17.9%	16.9%	16.8%
Assets Quality (%)					
Slippages	1.6%	1.5%	2.3%	1.8%	1.6%
Gross NPA	0.9%	1.1%	1.3%	1.2%	1.2%
Net NPAs	0.3%	0.3%	0.4%	0.4%	0.4%
Provision Coverage	69.9%	68.7%	69.8%	70.0%	70.0%
Specific LLP	0.5%	0.6%	0.8%	0.7%	0.6%
Net NPAs / Networth	1.8%	2.1%	2.4%	2.0%	2.2%
Capital Adequacy (%)					
Tier I	13.2%	12.8%	13.3%	15.4%	14.8%
CAR	15.5%	14.6%	15.0%	16.7%	16.0%

Source: Company, JM Financial

Balance Sheet						(INR bn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Equity Capital	5	5	5	5	5	
Reserves & Surplus	722	889	1,058	1,460	1,663	
Deposits	5,464	6,436	7,888	9,544	11,548	
Borrowings	530	740	1,231	1,104	1,223	
Other Liabilities	367	567	458	389	428	
Total Liabilities	7,088	8,638	10,639	12,502	14,868	
Investments	1,639	2,145	2,422	2,952	3,418	
Net Advances	4,646	5,546	6,583	8,097	9,960	
Cash & Equivalents	526	608	1,229	852	917	
Fixed Assets	33	36	36	39	41	
Other Assets	244	303	369	561	531	
Total Assets	7,088	8,638	10,639	12,502	14,868	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
NII / Assets	4.2%	4.2%	4.2%	4.1%	4.2%
Other Income / Assets	1.7%	1.6%	1.6%	1.5%	1.5%
Total Income / Assets	5.9%	5.8%	5.7%	5.6%	5.7%
Cost / Assets	2.6%	2.5%	2.4%	2.3%	2.2%
PBP / Assets	3.3%	3.3%	3.4%	3.4%	3.5%
Provisions / Assets	0.4%	0.5%	0.6%	0.6%	0.5%
PBT / Assets	2.9%	2.8%	2.8%	2.8%	2.9%
Tax rate	34.0%	34.3%	34.5%	34.0%	34.0%
ROA	1.9%	1.9%	1.8%	1.8%	1.9%
RoRWAs	2.6%	2.5%	2.4%	2.5%	2.6%
Leverage	9.6	9.7	9.8	9.2	8.7
ROE	18.3%	17.9%	17.9%	16.9%	16.8%

Source: Company, JM Financial

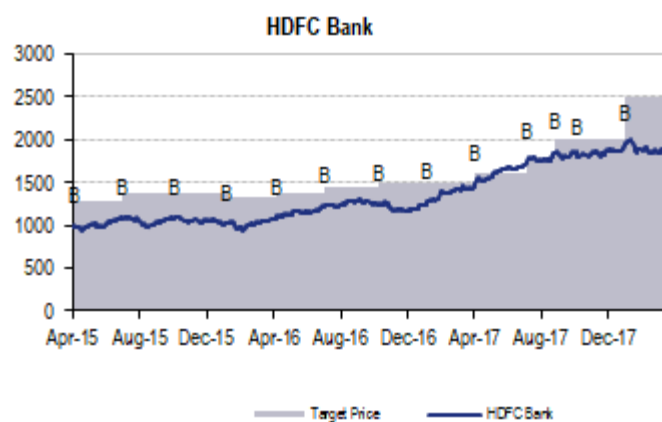
Valuations					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shares in Issue	2,528.2	2,562.5	2,595.1	2,721.2	2,721.2
EPS (INR)	48.6	56.8	67.4	78.4	96.9
EPS (YoY) (%)	19.3	16.7	18.7	16.4	23.5
PER (x)	40.3	34.5	29.1	25.0	20.2
BV (INR)	287	349	410	539	613
BV (YoY) (%)	16.2	21.4	17.3	31.5	13.9
DPS (INR)	11.5	12.9	15.2	18.7	22.2
Div. yield (%)	0.6	0.7	0.8	1.0	1.1

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
24-Apr-15	Buy	1,275	
22-Jul-15	Buy	1,375	7.8
23-Oct-15	Buy	1,375	0.0
25-Jan-16	Buy	1,325	-3.6
25-Apr-16	Buy	1,375	3.8
22-Jul-16	Buy	1,450	5.5
27-Oct-16	Buy	1,500	3.4
25-Jan-17	Buy	1,492	-0.5
21-Apr-17	Buy	1,600	7.2
25-Jul-17	Buy	1,800	12.5
15-Sep-17	Buy	2,000	11.1
25-Oct-17	Buy	2,000	0.0
21-Jan-18	Buy	2,500	25.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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