

HDFC Bank (HDFCB IN)

Rating: BUY | CMP: Rs2,189 | TP: Rs2,492

July 22, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	2,492		2,251	
NII (Rs. m)	4,85,330	5,79,006	4,78,842	5,73,698
% Chng.			(0.1)	(1.2)
Op. Profit (Rs. m)	4,04,782	4,78,636	3,87,477	4,60,334
% Chng.			0.8	(0.4)
EPS (Rs.)	85.7	104.4	81.4	98.1
% Chng.			(1.7)	(3.9)

Key Financials

	FY17	FY18	FY19E	FY20E
NII (Rs bn)	331	401	478	567
Op. Profit (Rs bn)	257	326	390	459
PAT (Rs bn)	145	175	212	255
EPS (Rs.)	57.2	67.8	80.1	94.3
Gr. (%)	17.0	18.6	18.1	17.8
DPS (Rs.)	-	10.9	12.7	16.0
Yield (%)	-	0.5	0.6	0.7
NIM (%)	4.4	4.4	4.3	4.3
RoAE (%)	17.9	17.9	16.7	16.2
RoAA (%)	1.8	1.8	1.8	1.9
P/BV (x)	6.3	5.3	4.0	3.5
P/ABV (x)	6.7	5.6	4.2	3.7
PE (x)	38.3	32.3	27.3	23.2

Key Data

HDBK.BO | HDFCB IN

52-W High / Low	Rs.2,220 / Rs.1,685
Sensex / Nifty	36,351 / 10,957
Market Cap	Rs.5,701bn/ \$ 82,690m
Shares Outstanding	2,604m
3M Avg. Daily Value	Rs.10876.59m

Shareholding Pattern (%)

Promoter's	25.49
Foreign	40.86
Domestic Institution	15.10
Public & Others	18.55
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	6.5	12.1	27.9
Relative	3.7	9.1	11.8

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Slower earnings but should bounce back

Quick Pointers

- Margin pressure was seen dropping NIMs 20bps QoQ to 4.1%, but management maintains NIMs to be in their comfort range of 4.1-4.3%
- Strong term deposit growth of 25% YoY led to lower CASA mix and higher cost of funding

HDFCB saw a marginal blip in earnings growing at only 18% YoY to Rs46.0bn (PLe: Rs47.1bn) mainly on back of margin pressure which fell by 20bps QoQ and MTM loss on investments. While margin pressure is being faced by all BFSI companies as yields rising with a lag in increase of cost of funds, HDFC bank has been able to continue its good fee income growth and strong opex control which grew by mere 11.5% YoY. Bank in the last few years has continued to invest in technology and improve productivity and efficiency (by TAT) which has led to C/I reducing to 40% in Q1FY19 from 45% in Q1FY17. Bank has already raised capital of Rs85.0bn from its promoter bank HDFC Ltd and will shortly do Rs150bn preferential allotments which help further augment capital for loan growth of 20-22% and improve liquidity for the bank. We have factored the capital raise of Rs250.0bn in our estimates for FY19E, which has led to increase in ABV by 18/15% for FY19/FY20E. Retain BUY with increased TP of Rs2,492 (from Rs2,251) based on 4.2x Mar-20 ABV.

- Slower top line growth hurt operating performance:** NII grew 15% YoY as margins dropped 20bps QoQ to 4.1% on back of loan growth towards lower yielding assets, higher TD growth flowing through higher cost of funds and some reversals from Agri slippages. While fee income growth of 22% continues tracking business growth, lower treasury gains (MTM losses) led to much slower other income. Strong control on opex led to PPOP growth of 15% YoY and adjusting to treasury impact, growth was 24% YoY.
- Margins to improve as loan book repricing starts:** Large part of loan book being on fixed rate basis has led to lagged rise in yield on assets post raising MCLR in last 6 months. The gap between deposits & loan growth was higher and they had to resort to term deposits which has led to increase in cost of funds and we expect going forward will see lower TD growth and focus on CASA growth.
- Loan growth momentum continued at steady pace but CASA was slower:** Loans grew by 22% YoY as most of loan segments continued to grow well especially unsecured, CVs/2W and home loans (buying back home loans backlog from HDFC). **On liabilities**, CASA mix dropped to 41% of deposits as CA weaker on seasonality and bank chose to grow its TDs at 25% YoY.
- Agri portfolio still troubling:** Overall asset quality was largely stable with GNPA/NNPA at 130bps/40bps respectively and PCR being maintained at 69-70%, but bank continue to face challenges in the Agri portfolio with higher slippages with some being seasonal leading to slightly higher credit cost, although, the asset quality ratios still are at reasonable ratio.

Exhibit 1: Core operating performance decent with some hiccups

(Rs m)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Interest income	225,490	186,687	20.8	213,211	5.8
Interest Expended	117,354	92,980	26.2	106,634	10.1
Net interest income (NII)	108,136	93,707	15.4	106,577	1.5
- Treasury income	(2,832)	3,314	(185.5)	220	(1,387.3)
Other income	38,181	35,167	8.6	42,286	(9.7)
Total income	146,316	128,874	13.5	148,863	(1.7)
Operating expenses	59,839	53,675	11.5	60,506	(1.1)
-Staff expenses	18,105	16,575	9.2	17,412	4.0
-Other expenses	41,734	37,100	12.5	43,094	(3.2)
Operating profit	86,478	75,199	15.0	88,357	(2.1)
Core operating profit	89,310	71,885	24.2	88,137	1.3
Total provisions	16,294	15,588	4.5	15,411	5.7
Profit before tax	70,184	59,612	17.7	72,946	(3.8)
Tax	24,169	20,673	16.9	24,953	(3.1)
Profit after tax	46,014	38,938	18.2	47,993	(4.1)
Balance sheet (Rs m)					
Deposits	8,057,853	6,713,761	20.0	7,887,706	2.2
Advances	7,086,487	5,809,758	22.0	6,583,331	7.6
Profitability ratios					
YoA - Calc	10.2	10.2	(3)	10.3	(16)
CoF - Calc	5.1	5.0	6	5.0	13
NIM - Rep	4.2	4.4	(20)	4.3	(10)
RoaA	1.7	1.8	(5)	1.9	(19)
RoaE	17.2	17.0	25	18.5	(131)
Asset Quality					
Gross NPL (Rs mn)	95,386	72,429	31.7	86,070	10.8
Net NPL (Rs mn)	29,071	25,282	15.0	26,010	11.8
Gross NPL ratio	1.3	1.3	8	1.3	3
Net NPL ratio	0.4	0.4	(3)	0.4	1
Coverage ratio - Calc	69.5	65.1	443	69.8	(26)
Business & Other Ratios					
Low-cost deposit mix	41.7	44.0	(230)	43.5	(180)
Cost-income ratio	40.9	41.6	(75)	40.6	25
Non int. inc / total income	26.1	27.3	(119)	28.4	(231)
Credit deposit ratio	87.9	86.5	141	83.5	448
CAR	14.6	15.6	(100)	14.8	(20)
Tier-I	13.1	13.6	(50)	13.2	(10)

Source: Company, PL

NII growth was slower with pressure on margins on back of higher cost of funds

Fee income continued to see good growth but trading losses lead to lower other income

Strong control on opex has helped better PPOP

Credit cost remained high on some slips from Agri portfolio

Margins came off sharply on incremental loan mix towards lower yielding loans and higher cost of funds as bank saw higher growth in TDs

Overall asset quality remained stable, however agri portfolio is volatile

PCR Ratio improved back to its 70% levels. Holds floating provision of Rs14.5bn

CASA mix came off as bank continue to grow its term deposit faster and on weaker CA growth

Key Q1FY19 Concall Highlights

Balance sheet & Outlook

- **Loan book** – Loan growth was strong at 22% YoY led by retail assets. Along With retail assets, CVs, unsecured segment and home loan growth was strong. Bank bought back log of loans from HDFC Ltd. Business banking piece continued to grow at decent pace but was down sequentially (on seasonality). CV axle loan norms is unlikely to hurt demand immediately but clarity sets in demand environment will be more evident but do not see any asset quality issues.
- **Deposits** – Bank continued to grow its TDs much higher than deposit growth of 20% leading to lower CASA, while CASA growth of 14% YoY was slow on back of de-growth sequentially in CA portfolio. Bank would focus on CASA improvement especially on the CA side but will slightly keep growing deposit higher.

Margins/Pricing/Yields

- Margins dropped by 20bps QoQ on higher growth in the quarter in lower yielding segments like home loans, higher reliance on TDs to manage liquidity and close the gap on loan & deposit growth and interest reversals on agri slippages. **Outlook** – Bank maintains NIMs range of 4.1-4.3% YoY as CASA mix improves, loan mix adjust and loan book repricing starts.

Fee income/Opex

- **Fees** – Fee growth continues from TPP distribution, credit cards/payment related fees and some from the retail assets linked fees.
- **Opex** – Opex was very much under control and has been managed by better productivity and efficiency led by digital initiatives, also newly opened branches sourcing better in same cost structure.

Asset quality

- Slippages were marginally higher than trends at Rs35.5bn with some large chunk coming from Agri portfolio (some seasonality). Slippages rate with Agri portfolio was at 2.16% in Q1FY19 and without the agri slippages was at 1.7%.
- **Credit cost/Provisions** –Credit cost remained at the 70bps annualized of loans but retained its PCR of 70%. Bank continues to maintain Rs14.5bn of floating provisions

Capital

- Bank has raised Rs85.0bn of capital from HDFC Ltd on preferentially and in due course will raise equity through various instruments of Rs155.0bn helping it improve its Tier-1 capital.

Bank bought home loans from HDFC Ltd which led to sharper loan growth

Cars loans were slower but 2W and CV loans grew strong, while unsecured growth was also robust

Business banking momentum has continued at steady pace as bank has not seen too much of big problems of asset quality as yet

Exhibit 2: Retail continues to drive growth but non retail loans also catch up

Loan Composition (Rs m)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Car Loans	775,690	660,110	17.5	764,270	1.5
CV loans	248,520	197,060	26.1	233,910	6.2
2 wheeler loans	92,270	65,320	41.3	86,720	6.4
Sub-total - Auto Loans	1,116,480	922,490	21.0	1,084,900	2.9
Personal loans	778,680	555,390	40.2	718,760	8.3
Business banking	520,500	404,460	28.7	541,260	(3.8)
Loan against shares	17,480	14,470	20.8	18,160	(3.7)
Credit Cards	384,580	291,010	32.2	361,150	6.5
Home loans	440,210	387,830	13.5	362,570	21.4
Gold Loans	51,160	49,870	2.6	50,650	1.0
Other Retail	494,730	402,740	22.8	487,440	1.5
Retail Loans	3,803,820	3,028,260	25.6	3,624,890	4.9
Non Retail Loans	3,282,667	2,781,498	18.0	2,958,441	11.0
Total Advances	7,086,487	5,809,758	22.0	6,583,331	7.6

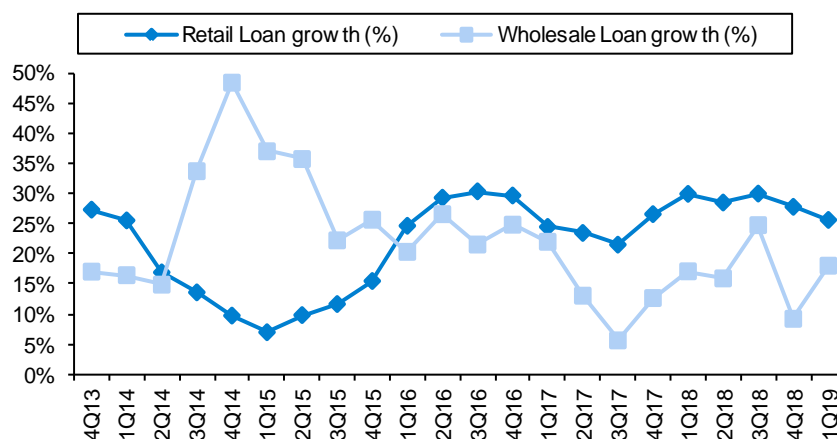
Source: Company, PL

Exhibit 3: Loan book composition as per internal classification

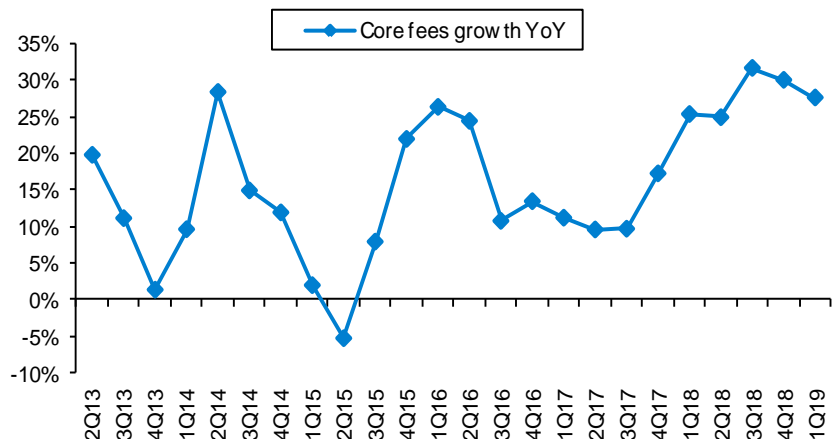
Loan Composition (Rs m)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
Car Loans	883,200	737,460	19.8	859,740	2.7
CV loans	471,670	384,500	22.7	459,390	2.7
2 wheeler loans	103,240	77,240	33.7	96,480	7.0
Sub-total - Auto Loans	1,458,110	1,199,200	21.6	1,415,610	3.0
Personal loans	785,420	560,670	40.1	724,420	8.4
Business banking	1,095,510	880,880	24.4	1,095,070	0.0
Loan against shares	35,520	29,560	20.2	38,660	(8.1)
Credit Cards	387,920	291,010	33.3	361,150	7.4
Home loans	440,360	387,970	13.5	362,650	21.4
Gold loans	55,290	51,300	7.8	53,990	2.4
Other Retail	541,450	440,380	23.0	532,880	1.6
Retail Total	4,799,580	3,840,970	25.0	4,584,430	4.7

Source: Company, PL

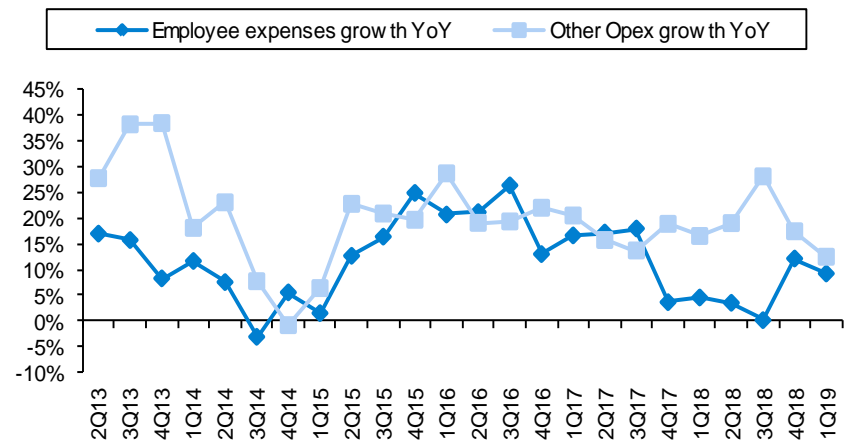
Exhibit 4: Retail loan continues to be strong and at steady rate



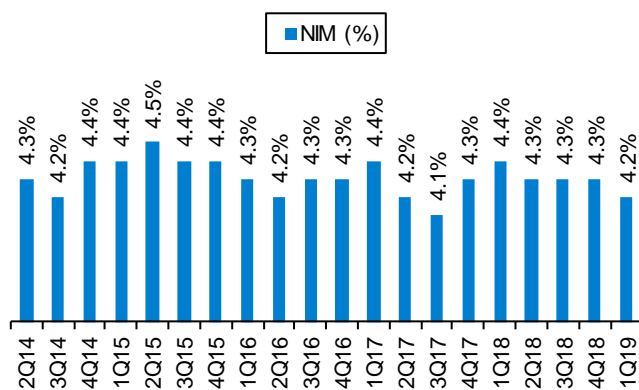
Source: Company, PL

Exhibit 5: Core fees continued to grow slightly better than loan asset growth


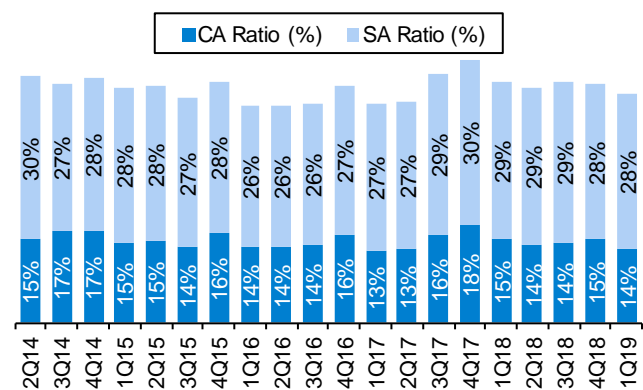
Source: Company, PL

Exhibit 6: Opex control led by productivity has been helping lower C/I


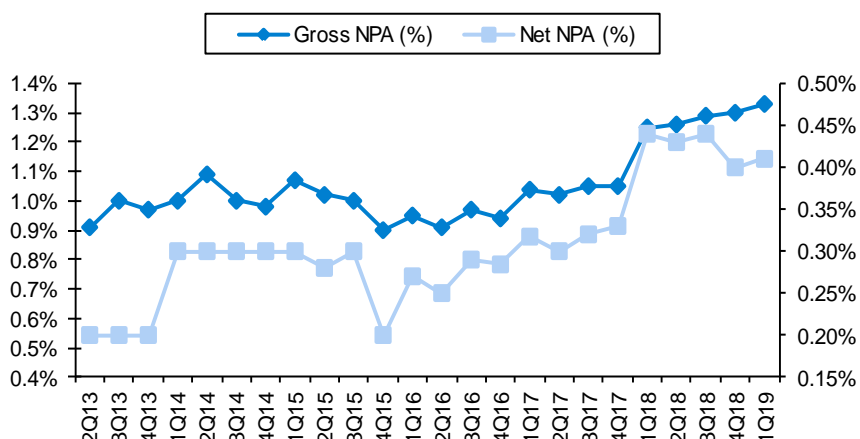
Source: Company, PL

Exhibit 7: Margins saw pressure sequentially


Source: Company, PL

Exhibit 8: CASA mix came off as TDs growth was higher


Source: Company, PL

Exhibit 9: No large worries on asset quality


Source: Company Data, PL Research

Exhibit 10: We increase our TP to Rs2,492 (from Rs2,251) as we factor in capital raise

PT calculation and upside	
Fair price – EVA	2,482
Fair price - P/ABV	2,501
Average of the two	2,492
Target P/ABV	4.2
Target P/E	26.4
Current price, Rs	2190
Upside (%)	13.8%
Dividend yield (%)	0.7%
Total return (%)	14.4%

Source: Company Data, PL Research

Exhibit 11: Change in earnings estimates – We tweak margins & credit cost

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net interest income	478,842	573,698	478,417	566,633	(0.1)	(1.2)
Operating profit	387,477	460,334	390,481	458,654	0.8	(0.4)
Net profit	211,309	254,619	212,240	255,146	0.4	0.2
EPS (Rs)	81.4	98.1	80.1	94.3	(1.7)	(3.9)
ABVPS (Rs)	441.7	517.7	519.2	594.1	17.6	14.8
Price target (Rs)	2,251		2,492		10.7	
Recommendation	BUY		BUY			

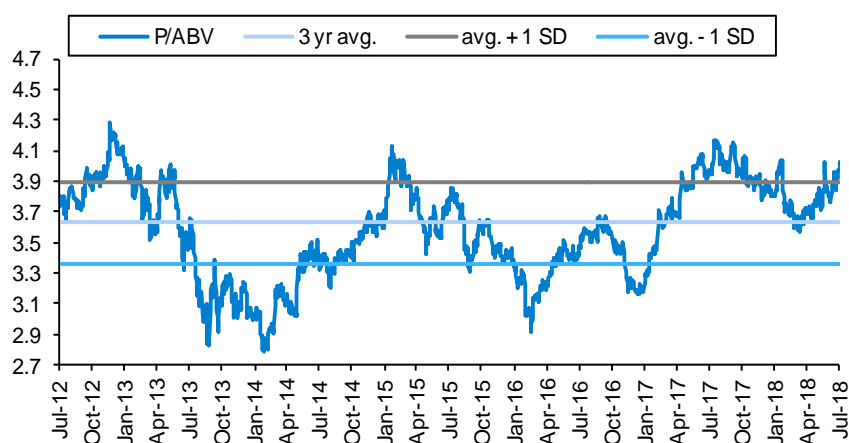
Source: Company Data, PL Research

Exhibit 12: ROEs to come off post capital raise but ROAs to climb back to 1.9% by FY20

RoA decomposition	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	9.50	9.22	8.96	9.27	8.64	8.32	8.55	8.83
Interest expenses	5.22	5.08	4.82	5.02	4.51	4.17	4.44	4.72
Net interest income	4.28	4.14	4.14	4.25	4.13	4.16	4.10	4.11
Treasury income	0.28	0.32	0.29	0.30	0.30	0.25	0.18	0.19
Other Inc. from operations	1.57	1.46	1.38	1.35	1.23	1.33	1.27	1.20
Total income	6.14	5.92	5.80	5.90	5.66	5.74	5.55	5.50
Employee expenses	1.07	0.94	0.88	0.88	0.81	0.71	0.64	0.61
Other operating expenses	1.97	1.76	1.71	1.74	1.65	1.65	1.56	1.56
Operating profit	3.10	3.22	3.22	3.29	3.21	3.38	3.35	3.33
Tax	0.82	0.96	0.94	0.98	0.95	0.96	0.95	0.97
Loan loss provisions	0.45	0.36	0.38	0.42	0.45	0.61	0.57	0.51
RoAA	1.82	1.90	1.89	1.89	1.81	1.81	1.82	1.85
RoAE	20.34	21.28	19.37	18.26	17.95	17.87	16.73	16.18

Source: Company Data, PL Research

Exhibit 13: HDFCB 1 year forward P/ABV trend



Source: Company Data, PL Research

Income Statement (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Int. Earned from Adv.	5,20,553	6,26,618	7,69,275	9,41,638
Int. Earned from invt.	1,59,443	1,62,224	2,08,502	2,56,780
Others	13,064	13,572	19,029	17,913
Total Interest Income	6,93,060	8,02,414	9,96,806	12,16,331
Interest Expenses	3,61,667	4,01,465	5,18,388	6,49,698
Net Interest Income	3,31,392	4,00,949	4,78,417	5,66,633
Growth(%)	18.5	21.7	17.0	17.0
Non Interest Income	1,22,965	1,52,203	1,68,945	1,90,908
Net Total Income	4,54,357	5,53,152	6,47,363	7,57,541
Growth(%)	15.0	17.0	22.1	20.7
Employee Expenses	64,837	68,057	74,863	83,472
Other Expenses	1,23,866	1,49,783	1,76,744	2,08,558
Operating Expenses	1,97,033	2,26,904	2,56,881	2,98,887
Operating Profit	2,57,324	3,26,248	3,90,481	4,58,654
Growth(%)	20.5	26.8	19.7	17.5
NPA Provision	31,453	49,104	55,053	58,292
Total Provisions	35,933	59,275	66,945	69,712
PBT	2,21,391	2,66,973	3,23,536	3,88,943
Tax Provision	75,894	92,106	1,11,296	1,33,796
Effective tax rate (%)	34.3	34.5	34.4	34.4
PAT	1,45,496	1,74,867	2,12,240	2,55,146
Growth(%)	18.3	20.2	21.4	20.2

Balance Sheet (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Face value	2	2	2	2
No. of equity shares	2,563	2,595	2,705	2,705
Equity	5,125	5,190	5,411	5,411
Networth	8,94,624	10,62,950	14,74,519	16,78,566
Growth(%)	23.1	18.8	38.7	13.8
Adj. Networth to NNPA's	18,440	26,010	31,431	33,378
Deposits	64,36,397	78,87,706	93,07,494	1,09,82,842
Growth(%)	17.8	22.5	18.0	18.0
CASA Deposits	30,91,525	34,30,928	39,46,377	46,89,674
% of total deposits	48.0	43.5	42.4	42.7
Total Liabilities	86,38,402	1,06,39,343	1,26,89,886	1,48,65,681
Net Advances	55,45,682	65,83,331	80,97,497	98,38,459
Growth(%)	19.4	18.7	23.0	21.5
Investments	21,44,633	24,22,002	33,50,671	37,38,423
Total Assets	86,38,402	1,06,39,343	1,26,84,584	1,48,54,425
Growth (%)	16.6	23.2	19.2	17.1

Asset Quality

Y/e Mar	FY17	FY18	FY19E	FY20E
Gross NPAs (Rs m)	58,857	86,070	1,01,499	1,12,691
Net NPAs (Rs m)	18,440	26,010	31,431	33,378
Gr. NPAs to Gross Adv.(%)	1.1	1.3	1.3	1.1
Net NPAs to Net Adv. (%)	0.3	0.4	0.4	0.3
NPA Coverage %	68.7	69.8	69.0	70.4

Profitability (%)

Y/e Mar	FY17	FY18	FY19E	FY20E
NIM	4.4	4.4	4.3	4.3
RoAA	1.8	1.8	1.8	1.9
RoAE	17.9	17.9	16.7	16.2
Tier I	12.8	13.3	14.8	13.6
CRAR	14.6	14.8	16.9	15.4

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Interest Income	1,96,703	2,05,813	2,13,211	2,25,490
Interest Expenses	99,182	1,02,669	1,06,634	1,17,354
Net Interest Income	97,521	1,03,143	1,06,577	1,08,136
YoY growth (%)	9.3	10.4	17.7	26.2
CEB	26,140	28,721	33,297	31,710
Treasury	3,559	2,594	220	(2,832)
Non Interest Income	36,059	38,691	42,726	38,181
Total Income	2,32,762	2,44,504	2,55,937	2,63,670
Employee Expenses	17,158	16,913	17,412	18,105
Other expenses	38,243	40,410	43,094	41,734
Operating Expenses	55,401	57,322	60,506	59,839
Operating Profit	78,179	84,512	88,797	86,478
YoY growth (%)	29.8	27.9	22.0	15.0
Core Operating Profits	74,620	81,918	88,577	89,310
NPA Provision	10,788	11,487	11,325	14,322
Others Provisions	14,762	13,514	15,411	16,294
Total Provisions	14,762	13,514	15,411	16,294
Profit Before Tax	63,417	70,998	73,386	70,184
Tax	21,907	24,573	24,953	24,169
PAT	41,510	46,425	48,433	46,014
YoY growth (%)	20.1	20.1	21.4	18.2
Deposits	68,93,459	69,90,264	78,87,706	80,57,853
YoY growth (%)	16.5	10.1	22.5	20.0
Advances	60,48,669	63,12,147	65,83,331	70,86,487
YoY growth (%)	22.3	27.5	18.7	22.0

Key Ratios

Y/e Mar	FY17	FY18	FY19E	FY20E
CMP (Rs)	2,189	2,189	2,189	2,189
EPS (Rs)	57.2	67.8	80.1	94.3
Book Value (Rs)	349	410	545	620
Adj. BV (70%)(Rs)	329	388	519	594
P/E (x)	38.3	32.3	27.3	23.2
P/BV (x)	6.3	5.3	4.0	3.5
P/ABV (x)	6.7	5.6	4.2	3.7
DPS (Rs)	-	10.9	12.7	16.0
Dividend Payout Ratio (%)	0.0	19.4	19.2	20.0
Dividend Yield (%)	-	0.5	0.6	0.7

Efficiency

Y/e Mar	FY17	FY18	FY19E	FY20E
Cost-Income Ratio (%)	43.4	41.0	39.7	39.5
C-D Ratio (%)	86.2	83.5	87.0	89.6
Business per Emp. (Rs m)	143	164	194	227
Profit per Emp. (Rs lacs)	17	20	24	28
Business per Branch (Rs m)	2,541	3,023	3,398	3,799
Profit per Branch (Rs m)	31	37	41	47

Du-Pont

Y/e Mar	FY17	FY18	FY19E	FY20E
NII	4.13	4.16	4.10	4.11
Total Income	5.66	5.74	5.55	5.50
Operating Expenses	2.46	2.35	2.20	2.17
PPoP	3.21	3.38	3.35	3.33
Total provisions	0.45	0.61	0.57	0.51
RoAA	1.81	1.81	1.82	1.85
RoAE	17.95	17.87	16.73	16.18

Source: Company Data, PL Research

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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