

HDFC Bank Ltd.



HDFC Bank Ltd

An otherwise stable performance distorted by MTM losses

CMP INR 2169	Target INR 2627	Potential Upside 21%	Market Cap (INR Mn) 5,788,992	Recommendation BUY	Sector BFSI
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Result highlights

Advances at INR 7086 bn grew 22% yoy/8% qoq, led by strong growth in retail (26% yoy) while growth in corporate advances was 18% yoy. NII growth lagged credit growth, growing 15% yoy to INR 108 bn. NIMs (calc) stood at 4.2%, contracting ~20 bps qoq. NIMs during the quarter were impacted by multiple headwinds – generally low yields on the investment book, lower support from CASA as TD grew at a higher pace and to some extent reversals on the agri portfolio on account of seasonally high NPAs due to loan waivers. Deposits book, which has grown at 21% yoy on average in last 2 quarters, has been acquired at higher rates leading to NIM compression. Non-interest income at INR 38.2 bn has lagged historical performance/growth rates (avg 23% yoy growth in 5 quarters upto Q4FY18) largely on account of INR 3.9 bn worth of MTM loss on the corporate bond portfolio (MD = 1.6). The bank has not opted for RBI's dispensation of spreading of losses over multiple quarters. Opex at INR 59.8 bn grew by 11% yoy/-1% qoq, resulting in a stable cost structure. Credit costs at 63 bps were more or less in line with expectations. The bank reported a PAT of INR 46 bn, +18% yoy/-4% qoq. GNPA's, deteriorating slightly by 2 bps sequentially, remained within comfortable levels; impacted by agri slippages.

MARKET DATA

Shares outs (Mn)	2643
EquityCap (INR Mn)	5287
Mkt Cap (INR Mn)	5788992
52 Wk H/L (INR)	2219/1685
Volume Avg (3m K)	2718.3
Face Value (INR)	2
Bloomberg Code	HDFCB IN

KEY FINANCIALS

Particulars (INR Bn)	FY15	FY16	FY17	FY18	FY19E	FY20E
NII	484.7	602.2	693.1	802.4	982.5	1,184.4
PPOP	174.0	213.6	257.3	326.2	372.9	479.4
PAT	102.2	123.0	146.1	174.9	213.1	276.1
EPS (INR)	40.8	48.6	57.0	67.4	78.4	101.6
BVPS (INR)	247.4	287.5	349.1	409.6	539.6	617.6
ABVPS (INR)	243.8	282.2	341.9	398.4	526.8	604.1
P/ABV (x)	4.2	3.8	4.2	5.4	4.1	3.6

Source: Company, KRChoksey Research

Credit growth in-line with expectations; margins to do catching up

Total advances at INR 7086 bn grew by 22% yoy/8% qoq, led by 26% yoy growth in retail and 18% yoy growth in the corporate book. Within the retail portfolio, personal loans and 2-wheelers grew at 40% yoy, followed by 32% growth in credit cards and 29% growth in business banking. Auto loans, which have had a stable share of around 20-22% in the total book, grew by 18% yoy. Home loans grew by 14% yoy/21% qoq as the bank bought loans from HDFC post 3-4 quarters of deferment on account of GST-related uncertainty/issues (Q3/4FY18 saw de-growth qoq in the home loans portfolio). Overall, share of retail advances continues to increase (at 54%, +200 bps yoy) despite the increasing competition in the segment amidst lack of corporate lending opportunities.

In light of recent commentary on SME assets being overvalued, the bank said although it is currently cautious on the segment but would still like to pursue growth. Business banking (SME lending) has grown at an average of 38% over the last 8 quarters which is share increasing from 12% as of sep'16 to 14% as of Jun'18.

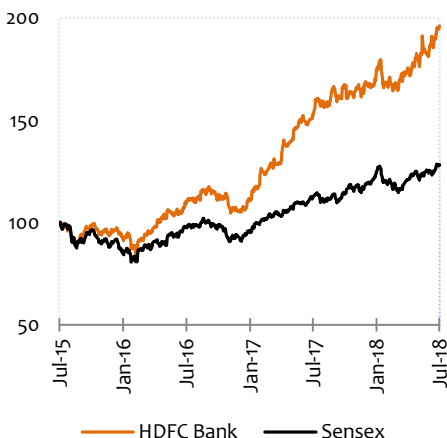
We are building in 22% CAGR in advances over FY18-20E.

NII at INR 108.1 bn, +15% yoy/+1% qoq (NII growth at 16-qtr low), was impacted by 20 bps compression in NIM (qoq) most of which is attributable to multiple factors such as accelerated growth in TDs, reversals on agri portfolio and low yields on investments. Additionally, 21% qoq growth in the low yielding home portfolio also added to NIM pressure (overall yield on advances contracted by 16 bps qoq). The bank continues to guide for 4-4.4% NIMs going forward. However, increasing retail competitive intensity and recent acceleration in high cost deposits could lead to NIM pressure in near term. Repositioning focus towards regaining CA momentum similar to that between Mar'15 – Sep'17 (averaging 24% growth yoy) would be instrumental in recovering NIMs.

SA position comfortable, CA impacted by low system liquidity

SA deposits grew by 17% yoy while CA deposits grew by 7%, impacted by low system liquidity. Continued strong accretion in TDs (+25% yoy; +33% yoy in Q4FY18) led to reduction in CASA % further leading to some NIM pressure. Given the muted growth in CA and low CA opportunities in rural/semi-urban areas, the management has outlined it as a focus area going forward.

SHARE PRICE PERFORMANCE

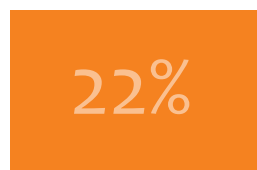


MARKET INFO

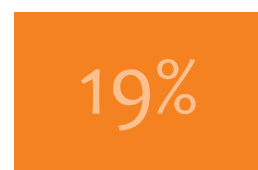
SENSEX	36719
NIFTY	11085

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	20.86	20.93	20.97
FII's	33.44	33.06	33.17
DII's	11.91	12.25	12.1
Others	33.8	33.77	33.75
Total	100	100	100



Advances CAGR FY18-20E



NII CAGR FY18-20E

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Slight deterioration but overall still comfortable on the asset quality

GNPAs at INR 95.4 bn grew by 31.7% yoy/10.8% qoq, NNPA at INR 29.1 bn grew by 15% yoy/11.8% qoq. GNPA forming 1.33% of the portfolio increased by 3 bps qoq, while NNPA at 0.41% inched up 1 bps qoq. PCR stands at 69.5%. Of the total slippages worth INR 35.5 bn, a substantial chunk was on account of agri slippages. As of Q1FY19, agri NPA stood at INR 21 bn (vs. 15 bn in Q1FY18). The slippage ratio stood at 2.1%; 1.67% ex-agri slippages.

The bank has also seen increase in SME NPAs however most of these cases have been restricted to certain/specific sectors/geography and are not necessarily solely cases of assets overvaluation (which is a growing concern). While the bank remains cautious on business banking/SME, it would continue to grow it.

We estimate GNPA of 1.1-1.2% and NNPA of 0.4% over FY19-20 .

Other key highlights:

- The investment banking division is growing well, catering to mid and large corporates. The bank is currently investing in building the team size.
- Immediate impact of axle norms is more likely to be on demand rather on asset quality.
- Large part of the fee income growth is on the retail side. Third party distribution is quite strong.
- The bank has not availed of SME NPA dispensation.

VALUATION

We expect credit growth to remain strong, comfortably outpacing the industry average. We expect NII CAGR of 19% and earnings CAGR of 26% over FY18-20E and estimate ROE of 17-18% over FY19/20. **Post factoring in capital raise of INR 240 bn in FY19 (of which INR 85 bn has been raised in July 2018), we value the bank at 4.4x FY20E ABV, translating into value per share of INR 2,627. Maintain BUY.**

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Income Statement (INR Mn)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest income	2,25,490	1,86,687	2,13,211	20.8%	5.8%
Interest expense	1,17,354	92,980	1,06,634	26.2%	10.1%
Net interest income	1,08,136	93,707	1,06,577	15.4%	1.5%
Noninterest income	38,181	35,167	42,286	8.6%	-9.7%
Total income	1,46,316	1,28,874	1,48,863	13.5%	-1.7%
- Employee costs	18,105	16,575	17,412	9.2%	4.0%
- Other operating expenses	41,734	37,100	43,094	12.5%	-3.2%
Operating expenses	59,839	53,675	60,506	11.5%	-1.1%
Pre-provision profit	86,478	75,199	88,357	15.0%	-2.1%
Provisions	16,294	15,588	15,411	4.5%	5.7%
Profit before tax	70,184	59,612	72,946	17.7%	-3.8%
Tax expense	24,169	20,673	24,953	16.9%	-3.1%
Net profit	46,014	38,938	47,993	18.2%	-4.1%

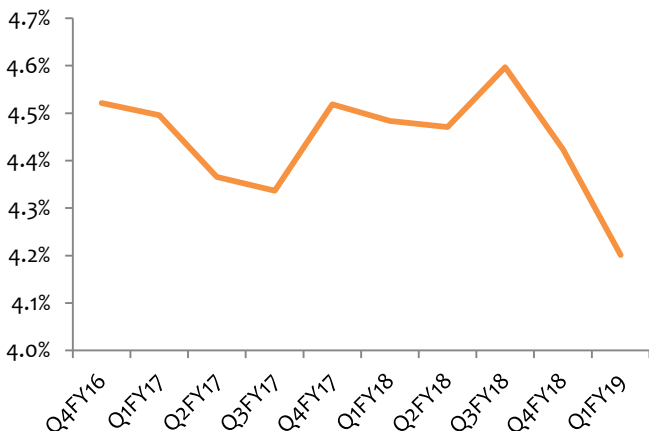
Source: Company, KRChoksey Research

Balance Sheet items	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Deposits	80,57,853	67,13,761	78,87,706	20.0%	2.2%
Borrowings	12,10,243	8,60,117	12,31,050	40.7%	-1.7%
Investments	27,56,787	21,61,083	24,22,002	27.6%	13.8%
Advances	70,86,487	58,09,758	65,83,331	22.0%	7.6%
Total Assets	1,08,04,091	89,56,531	1,06,39,343	20.6%	1.5%

Source: Company, KRChoksey Research

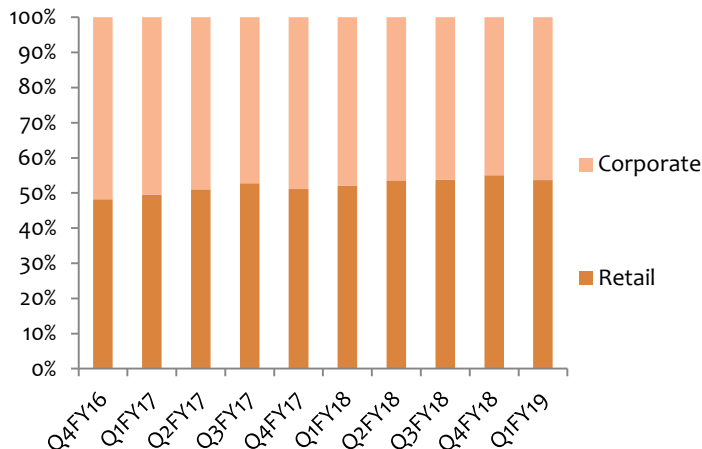
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NIMs to stay within 4.1-4.4%



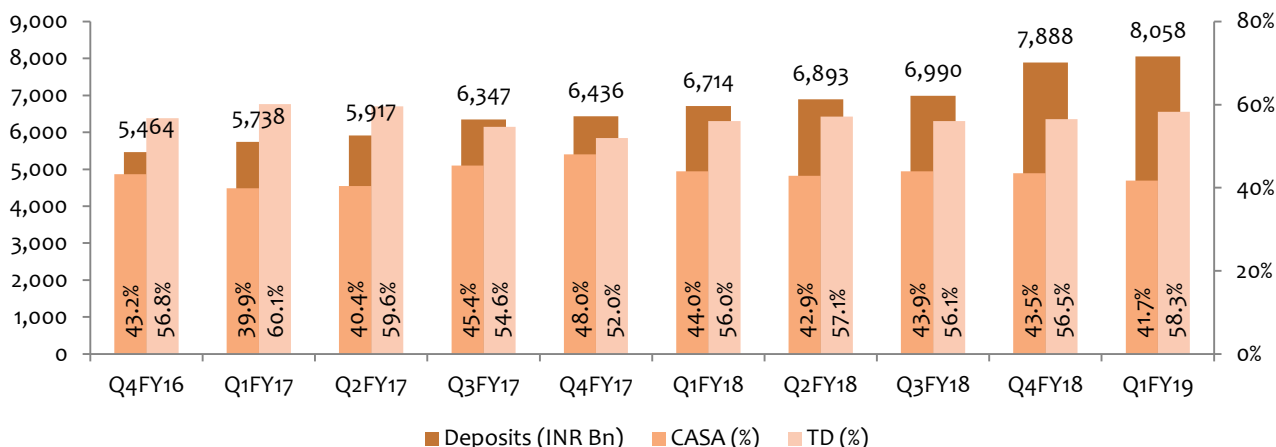
Source: Company, KRChoksey Research

Increasing share of retail supporting NIMs..



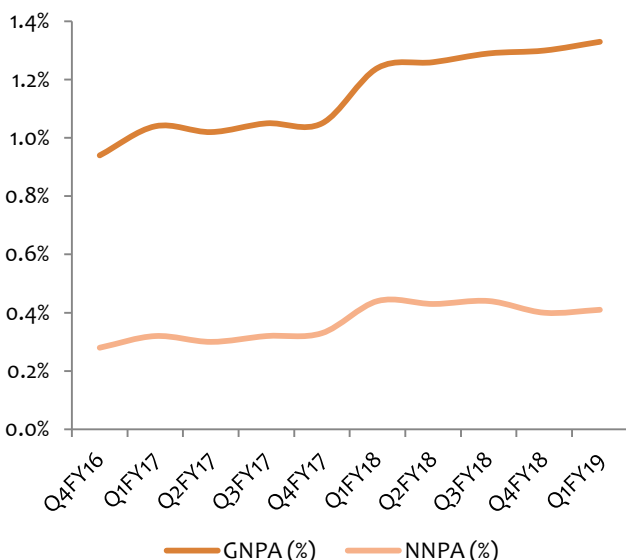
Source: Company, KRChoksey Research

High cost deposit accretion continues..



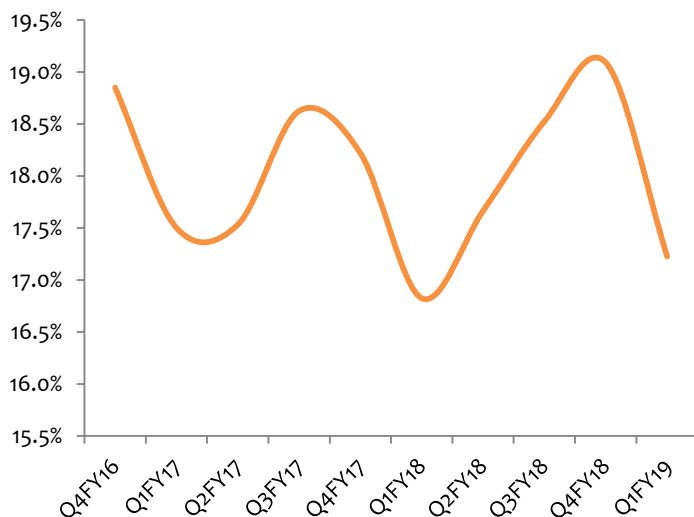
Source: Company, KRChoksey Research

Asset quality was stable



Source: Company, KRChoksey Research

ROE dips..



Source: Company, KRChoksey Research

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Key figures/ratios - Quarterly trend (INR Bn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Spread Analysis - Calculated										
Yield on avg advances	10.6%	10.7%	10.7%	10.7%	10.3%	10.2%	10.4%	10.5%	10.3%	10.2%
Yield on avg investments	8.8%	8.2%	7.4%	7.3%	7.6%	7.2%	7.0%	6.9%	7.1%	7.1%
Yield on interest earning assets	9.7%	9.5%	9.3%	9.2%	9.0%	8.9%	9.0%	9.2%	8.8%	8.8%
Cost of funds	5.8%	5.6%	5.5%	5.4%	5.1%	5.0%	5.1%	5.2%	5.0%	5.1%
NIM	4.5%	4.5%	4.4%	4.3%	4.5%	4.5%	4.5%	4.6%	4.4%	4.2%
Operational efficiency										
Cost/income ratio (%)	44.4%	45.0%	44.7%	42.3%	41.8%	41.6%	41.5%	40.4%	40.6%	40.9%
Cost/asset ratio (%)	2.6%	2.6%	2.5%	2.4%	2.5%	2.4%	2.4%	2.4%	2.4%	2.2%
Profitability										
RoA (%)	1.9%	1.8%	1.8%	1.9%	1.9%	1.8%	1.8%	2.0%	1.9%	1.7%
RoE (%)	18.8%	17.5%	17.5%	18.6%	18.2%	16.8%	17.7%	18.5%	19.1%	17.2%
Capital										
CAR (%)	15.5%	15.5%	15.4%	15.9%	14.6%	15.6%	15.1%	15.5%	14.8%	14.6%
Leverage (x)	9.8	9.9	9.8	9.7	9.7	9.5	9.7	9.4	10.0	10.0
Asset quality										
GNPA (%)	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%	1.3%	1.3%	1.3%	1.3%
NNPA (%)	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	69.9%	69.7%	70.6%	70.1%	68.7%	65.1%	66.3%	66.3%	69.8%	69.5%
Credit costs (%)	0.4%	0.5%	0.4%	0.4%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%
Asset/credit composition										
Auto Loans	22.4%	22.4%	22.4%	22.4%	21.9%	21.8%	21.3%	21.5%	21.1%	20.4%
growth, yoy (%)	23.9%	20.1%	22.8%	17.5%	23.6%	26.5%	22.3%	25.0%	23.2%	17.6%
Personal Loans	16.6%	17.4%	17.7%	17.8%	17.6%	18.3%	18.7%	19.7%	19.8%	20.5%
growth, yoy (%)	44.1%	40.5%	40.2%	32.5%	34.6%	37.2%	35.8%	43.8%	43.6%	40.2%
CVs	6.6%	6.6%	6.6%	6.7%	6.8%	6.5%	6.2%	6.3%	6.5%	6.5%
growth, yoy (%)	14.8%	14.5%	12.2%	17.5%	30.9%	28.6%	22.0%	21.9%	21.7%	26.1%
Loans against securities	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
growth, yoy (%)	-8.4%	23.1%	16.9%	12.6%	17.8%	20.0%	27.3%	31.5%	24.3%	20.8%
2- wheelers	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%	2.1%	2.3%	2.4%	2.4%
growth, yoy (%)	29.4%	26.3%	23.1%	17.3%	16.9%	17.7%	18.2%	25.8%	37.9%	41.3%
Business banking	11.3%	11.0%	12.5%	12.3%	12.8%	13.4%	14.0%	13.8%	14.9%	13.7%
growth, yoy (%)	34.3%	6.6%	15.5%	19.3%	43.3%	58.0%	44.5%	46.3%	49.4%	28.7%
Credit cards	9.2%	9.1%	8.5%	9.1%	9.2%	9.6%	9.5%	9.9%	10.0%	10.1%
growth, yoy (%)	27.0%	26.0%	18.5%	20.2%	26.7%	36.9%	44.5%	42.0%	38.9%	32.2%
Home loans	14.2%	14.4%	13.3%	13.6%	13.5%	12.8%	12.3%	11.2%	10.0%	11.6%
growth, yoy (%)	32.0%	24.9%	17.8%	24.6%	20.5%	15.5%	19.2%	7.7%	-5.5%	13.5%
Gold loans	2.0%	2.1%	2.0%	1.8%	1.7%	1.6%	1.6%	1.5%	1.4%	1.3%
growth, yoy (%)	11.7%	13.7%	16.5%	8.0%	5.9%	3.8%	0.9%	7.4%	5.5%	2.6%
Kisan Gold cards	10.0%	9.4%	9.7%	9.0%	9.2%	9.1%	9.6%	9.2%	9.6%	8.7%
growth, yoy (%)	38.8%	31.8%	27.1%	19.0%	16.4%	26.1%	27.3%	32.4%	32.6%	19.7%
Others	4.8%	4.8%	4.6%	4.5%	4.6%	4.2%	4.1%	4.1%	3.9%	4.3%
growth, yoy (%)	21.6%	46.6%	34.8%	23.0%	21.1%	13.5%	14.0%	17.0%	8.0%	29.7%
Domestic retail advances	2,241	2,331	2,524	2,611	2,837	3,028	3,243	3,394	3,625	3,805
growth, yoy (%)	29.7%	24.5%	23.5%	21.5%	26.6%	29.9%	28.5%	30.0%	27.8%	25.6%
Share in total (%)	48.2%	49.5%	51.1%	52.7%	51.2%	52.1%	53.6%	53.8%	55.1%	53.7%
Corporate advances	2,405	2,376	2,420	2,340	2,709	2,781	2,805	2,918	2,958	3,282
growth, yoy (%)	24.8%	22.0%	13.0%	5.6%	12.7%	17.1%	15.9%	24.7%	9.2%	18.0%
Share in total (%)	51.8%	50.5%	48.9%	47.3%	48.8%	47.9%	46.4%	46.2%	44.9%	46.3%
Deposits composition										
CA	884	761	792	1,012	1,156	1,020	978	1,013	1,193	1,093
growth, yoy (%)	20.2%	13.7%	13.4%	36.7%	30.7%	34.1%	23.6%	0.0%	3.2%	7.1%
share in total (%)	16.2%	13.3%	13.4%	16.0%	18.0%	15.2%	14.2%	14.5%	15.1%	13.6%
SA	1,479	1,527	1,600	1,866	1,936	1,931	1,977	2,058	2,238	2,267
growth, yoy (%)	18.4%	22.2%	21.6%	37.8%	30.9%	26.5%	23.6%	10.3%	15.6%	17.4%
share in total (%)	27.1%	26.6%	27.0%	29.4%	30.1%	28.8%	28.7%	29.4%	28.4%	28.1%
CASA	2,363	2,288	2,391	2,879	3,092	2,951	2,955	3,071	3,431	3,360
growth, yoy (%)	19.1%	19.2%	18.8%	37.4%	30.8%	29.0%	23.6%	6.7%	11.0%	13.8%
share in total (%)	43.2%	39.9%	40.4%	45.4%	48.0%	44.0%	42.9%	43.9%	43.5%	41.7%
TD	3,101	3,450	3,526	3,468	3,345	3,762	3,939	3,919	4,457	4,698
growth, yoy (%)	22.9%	18.0%	15.4%	10.3%	7.9%	9.1%	11.7%	13.0%	33.2%	24.9%
share in total (%)	56.8%	60.1%	59.6%	54.6%	52.0%	56.0%	57.1%	56.1%	56.5%	58.3%

Source: Company, KRChoksey Research

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Amounts in INR Million

Income Statement	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
Interest income	4,84,699	6,02,214	6,93,060	8,02,414	9,82,542	11,84,404
Interest expense	2,60,742	3,26,299	3,61,667	4,01,465	5,23,504	6,18,061
Net interest income	2,23,957	2,75,915	3,31,392	4,00,949	4,59,038	5,66,343
Non interest income	89,964	1,07,517	1,22,965	1,52,203	1,71,811	2,27,397
Total income	3,13,920	3,83,432	4,54,357	5,53,152	6,30,849	7,93,740
Operating expenses	1,39,875	1,69,797	1,97,033	2,26,904	2,57,991	3,14,335
Employee costs	4,53,796	57,022	64,837	68,057	86,632	1,12,167
Other operating expenses	92,366	1,12,775	1,32,197	1,58,846	1,71,359	2,02,168
Pre-provision profit	1,74,045	2,13,635	2,57,324	3,26,248	3,72,859	4,79,404
Provisions	20,750	27,256	35,298	59,275	47,467	57,913
Profit before tax	1,53,295	1,86,379	2,22,025	2,66,973	3,25,392	4,21,492
Tax expense	51,136	63,417	75,894	92,106	1,12,260	1,45,415
Net profit	1,02,159	1,22,962	1,46,131	1,74,868	2,13,132	2,76,077

Source: Company, KRChoksey Research

Balance sheet	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS						
Share capital	5,013	5,056	5,125	5,190	5,435	5,435
Reserves & surplus	6,15,081	7,21,721	8,89,498	10,57,760	14,61,077	16,72,944
Shareholders' funds	6,20,094	7,26,778	8,94,624	10,62,950	14,66,512	16,78,379
Borrowings	4,52,136	5,30,185	7,40,289	12,31,050	10,46,392	11,51,031
Deposits	45,07,956	54,64,242	64,36,397	78,87,706	92,28,616	1,10,74,340
Other liabilities & provisions	3,24,845	3,67,251	5,67,093	4,57,637	5,27,291	5,79,994
TOTAL LIABILITIES & EQUITY	59,05,031	70,88,456	86,38,402	1,06,39,343	1,22,68,811	1,44,83,744
USES OF FUNDS						
Cash and cash equivalent	3,63,315	3,89,188	4,89,521	12,29,151	9,33,936	8,79,303
Investments	16,64,599	16,38,858	21,44,633	24,22,002	28,60,871	33,22,302
Advances	36,54,950	46,45,940	55,45,682	65,83,331	80,31,664	97,98,630
Fixed & other assets	2,22,166	4,14,470	4,58,566	4,04,859	4,42,341	4,83,510
TOTAL ASSETS	59,05,031	70,88,456	86,38,402	1,06,39,343	1,22,68,811	1,44,83,744

Source: Company, KRChoksey Research

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HDFC Bank Ltd

Key ratios	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
Growth rates						
Advances (%)	20.6%	27.1%	19.4%	18.7%	22.0%	22.0%
Deposits (%)	22.7%	21.2%	17.8%	22.5%	17.0%	20.0%
Total assets (%)	20.1%	20.0%	21.9%	23.2%	15.3%	18.1%
NII (%)	21.2%	23.2%	20.1%	21.0%	14.5%	23.4%
Pre-provisioning profit (%)	21.2%	22.7%	20.5%	26.8%	14.3%	28.6%
PAT (%)	20.5%	20.4%	18.8%	19.7%	21.9%	29.5%
Balance sheet ratios						
Credit/Deposit (%)	81.1%	85.0%	86.2%	83.5%	87.0%	88.5%
CASA (%)	44.0%	43.2%	48.0%	43.5%	44.4%	44.1%
Advances/Total assets (%)	61.9%	65.5%	64.2%	61.9%	65.5%	67.7%
Leverage (x)	9.5	9.8	9.7	10.0	8.4	8.6
CAR (%)	16.8%	15.5%	14.6%	14.3%	16.9%	16.2%
CAR - Tier I (%)	13.7%	13.2%	12.8%	12.9%	15.6%	15.2%
Operating efficiency						
Cost/income (%)	44.6%	44.3%	43.4%	41.0%	40.9%	39.6%
Opex/total assets (%)	2.4%	2.4%	2.3%	2.1%	2.1%	2.2%
Opex/total interest earning assets (%)	2.7%	2.7%	2.7%	2.5%	2.3%	2.4%
Profitability						
NIM (%)	4.3%	4.5%	4.5%	4.4%	4.2%	4.4%
RoA (%)	1.9%	1.9%	1.9%	1.8%	1.9%	2.1%
RoE (%)	19.4%	18.3%	18.0%	17.9%	16.9%	17.6%
Asset quality						
Gross NPA (%)	0.9%	0.9%	1.1%	1.3%	1.2%	1.1%
Net NPA (%)	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%
PCR (%)	73.9%	69.9%	68.7%	66.2%	65.0%	65.0%
Slippage (%)	1.6%	1.6%	1.5%	1.5%	1.2%	1.0%
Credit cost (%)	0.5%	0.5%	0.6%	0.9%	0.6%	0.6%
Per share data / Valuation						
EPS (INR)	40.8	48.6	57.0	67.4	78.4	101.6
BV (INR)	247.4	287.5	349.1	409.6	539.6	617.6
ABV (INR)	243.8	282.2	341.9	398.4	526.8	604.1
P/E (x)	25.1	22.0	25.3	32.2	27.7	21.3
P/BV (x)	4.1	3.7	4.1	5.3	4.0	3.5
P/ABV (x)	4.2	3.8	4.2	5.4	4.1	3.6

Source: Company, KRChoksey Research

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HDFC Bank Ltd

HDFC Bank Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-Jul-18	2,169	2,627	BUY	Buy	More than 15%
23-Apr-18	1,937	2,346	BUY		
22-Jan-18	1,975	2,288	BUY	Accumulate	5% - 15%
25-Oct-17	1,795	2,046	ACCUMULATE	Hold	0 – 5%
25-Jul-17	1,736	2,016	BUY		
25-Jan-17	1,280	1,457	BUY	Reduce	-5% – 0
26-Oct-16	1,240	1,457	BUY	Sell	Less than -5%
22-Jul-16	1,223	1,420	BUY		
27-Jan-16	1,037	1,260	BUY		
23-Oct-15	1,094	1,260	BUY		
25-Apr-15	1,007	1,200	BUY		
13-Apr-15	1,043	1,200	BUY		
17-Feb-15	1,067	1,200	ACCUMULATE		
7-Jan-15	942	993	ACCUMULATE		

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