

BSE SENSEX	S&P CNX
36,387	10,907
Bloomberg	HDFCB IN
Equity Shares (m)	2,717
M.Cap.(INRb)/(USDb)	5795.8 / 81.5
52-Week Range (INR)	2219 / 1830
1, 6, 12 Rel. Per (%)	0/-2/7
12M Avg Val (INR M)	5288
Free float (%)	78.6

Financials & Valuations (INR b)

Y/E MARCH	FY18	FY19E	FY20E	FY21E
NII	400.9	477.1	589.5	719.9
OP	326.2	394.4	497.4	619.8
NP	174.9	211.4	259.4	323.9
NIM (%)	4.4	4.2	4.3	4.3
EPS (INR)	67.8	79.8	95.9	119.7
EPS Gr. (%)	19.4	17.6	20.2	24.9
BV/Sh. (INR)	409.6	543.1	620.9	721.4
ABV/Sh. (INR)	387.8	517.6	589.5	681.6
RoE (%)	17.9	16.7	16.5	17.8
RoA (%)	1.8	1.8	1.8	1.8
Payout (%)	23.1	20.7	18.8	16.1
Valuations				
P/E(X)	31.4	26.7	22.2	17.8
P/BV (X)	5.2	3.9	3.4	3.0
P/ABV (X)	5.5	4.1	3.6	3.1
Div. Yield (%)	0.7	0.8	0.8	0.9

CMP: INR2,131
TP: INR2,500(+17%)
Buy

Steady performance continues; contingent provisions to insulate earnings against any impending stress

- Healthy loan growth and improved other income helped HDFCB to report strong 3QFY19 PAT of INR55.9b (20% YoY) in line with our estimates. NII grew by 22% YoY to INR125.7b (in line) while margins were stable at 4.3%. Over 9MFY19, PPOP grew by 21.5% while PAT grew by 19.7%.
- Core fee income grew by 27% YoY to INR36.5b led by healthy payments/cash management fees. Treasury gain of INR4.74b v/s loss of INR0.33b in 2QFY19 boosted other income growth by 27% YOY to INR49.2b.
- Opex grew 17% YoY/7% QoQ (higher than estimate by 5%) and resulted in PPOP growth of 27.5% YoY (26% YoY growth in core PPOP). Cost-income ratio improved 150bp QoQ to 38.4% (40bp improvement in core cost-income ratio).
- Loans grew 24% YoY (+4% QoQ) to INR7.8t. The growth was driven by retail segment (4.8%/24% QoQ/YoY) – mainly personal loans, credit cards and home loans. Deposits growth of 22% YoY (+2.3% QoQ) was largely supported by growth in term deposits at 29% YOY while CASA growth was modest at 13% YOY. CASA mix, thus, reduced to 40.7% (42% in 2QFY19).
- Slippages stood at INR40b (2.04% annualized, 1.7% excluding Agri slippages) leading to 8% QoQ increase in GNPA while NNPA increased 9% QoQ to INR33b. GNPA/NNPA ratio increased by 5bp/2bp at 1.4%/0.4%. The bank made contingent provisions of INR3.2b to insulate itself against any stress in the agri portfolio in view of the impending general elections/recent waivers.

Valuation and view: HDFCB has been consistently gaining market share across retail product segments (personal loans, business banking, credit cards and auto loans). Strong capitalization and liquidity levels should enable HDFCB to sustain this growth momentum over the next few years. Operating expenses have been under control and digital initiatives have aided consistent decline in the C/I ratio. We maintain our Buy rating with TP of INR2,500 (3.7x Sep-20E ABV of the bank).

Quarterly Snapshot

	FY18				FY19E				FY18	FY19E	3Q V/s our	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			FY19E	Est
NII	93,707	97,521	1,03,143	1,06,577	1,08,136	1,17,634	1,25,768	1,25,522	4,00,949	4,77,059	1,24,178	1.3
% Change (Y-o-Y)	20.4	22.0	24.1	17.7	15.4	20.6	21.9	17.8	21.0	19.0	20.4	1.5
Other Income	35,167	36,059	38,692	42,286	38,181	40,156	49,210	45,204	1,52,203	1,72,750	44,932	9.5
Total Income	1,28,874	1,33,580	1,41,835	1,48,863	1,46,316	1,57,790	1,74,978	1,70,726	5,53,152	6,49,810	1,69,111	3.5
Operating Expenses	53,675	55,401	57,322	60,506	59,839	62,991	67,193	65,350	2,26,904	2,55,373	63,818	5.3
Operating Profit	75,199	78,179	84,513	88,357	86,478	94,800	1,07,784	1,05,376	3,26,248	3,94,437	1,05,293	2.4
% Change (Y-o-Y)	29.2	29.8	27.9	21.4	15.0	21.3	27.5	19.3	26.8	20.9	24.6	2.9
Provisions	15,588	14,762	13,514	15,411	16,294	18,200	22,115	15,049	59,275	71,658	19,186	15.3
Profit before Tax	59,612	63,417	70,999	72,946	70,184	76,600	85,669	90,327	2,66,973	3,22,779	86,107	-0.5
Tax	20,673	21,907	24,573	24,953	24,169	26,543	29,810	30,836	92,106	1,11,359	29,707	0.3
Net Profit	38,938	41,510	46,426	47,993	46,014	50,057	55,859	59,490	1,74,867	2,11,420	56,400	-1.0
% Change (Y-o-Y)	20.2	20.1	20.1	20.3	18.2	20.6	20.3	24.0	20.2	20.9	21.5	-1.2
Operating Parameter												
Deposit Growth (%)	17.0	16.5	10.1	22.5	20.0	20.9	22.0	21.0	22.5	21.0	24.4	-2.4
Loan Growth (%)	23.4	22.3	27.5	18.7	22.0	24.1	23.7	23.4	18.7	23.4	25.0	-1.3
Deposit (INR b)	6,714	6,893	6,990	7,888	8,058	8,334	8,525	9,544	7,888	9,544	8,695	-2.0
Loan (INR b)	5,810	6,049	6,312	6,583	7,086	7,508	7,810	8,124	6,583	8,124	7,893	-1.1
Asset Quality												
Gross NPA (INR B)	72.4	77.0	82.3	86.1	95.4	101.0	109.0	107.8	86.1	107.8	105.9	3.0
Gross NPA (%)	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.3	1.3	1.3	1.3	0.0
Net NPA (INR B)	25.3	26.0	27.7	26.0	29.1	30.3	33.0	30.4	26.0	30.4	31.2	5.7
Net NPA (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.0
PCR	65.1	66.3	66.3	69.8	69.5	70.0	69.7	71.8	69.8	71.8	70.5	-0.8

Research Analyst: **Nitin Aggarwal** (Nitin.Aggarwal@MotilalOswal.com); +91 22 3982 5540 | **Parth Gutka** (Parth.Gutka@motilaloswal.com); +91 22 6129 1567

Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +91 22 3982 5415 | **Himanshu Taluja** (Himanshu.Taluja@motilaloswal.com); +91 22 3846 2495

Yash Agarwal (Yash.Agarwal@motilaloswal.com); +91 22 3846 6693

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Quarterly Snapshot

	FY17				FY18				FY19			Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
P& Loss (INR m)													
Net Interest Income	77,814	79,936	83,091	90,551	93,707	97,521	1,03,143	1,06,577	1,08,136	1,17,634	1,25,768	22	7
Other Income	28,066	29,010	31,427	34,463	35,167	36,059	38,692	42,286	38,181	40,156	49,210	27	23
Trading profits	2,769	2,835	3,986	1,804	3,314	3,559	2,594	220	-2,832	-328	4,740	83	NM
Exchange Profits	3,145	2,950	2,972	3,567	2,968	3,840	4,262	4,164	4,996	4,198	3,977	-7	-5
Others	22,152	23,225	24,469	29,092	28,885	28,660	31,836	37,902	36,017	36,286	40,493	27	12
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	1,46,316	1,57,790	1,74,978	23	11
Operating Expenses	47,689	48,700	48,425	52,220	53,675	55,401	57,322	60,506	59,839	62,991	67,193	17	7
Employee	15,852	16,572	16,886	15,527	16,575	17,158	16,913	17,412	18,105	19,092	19,676	16	3
Others	31,837	32,128	31,539	36,693	37,100	38,243	40,410	43,094	41,734	43,898	47,517	18	8
Operating Profits	58,192	60,246	66,093	72,794	75,199	78,179	84,513	88,357	86,478	94,800	1,07,784	28	14
Core Operating Profits	55,423	57,411	62,107	70,990	71,885	74,620	81,919	88,137	89,310	95,128	1,03,044	26	8
Provisions	8,667	7,490	7,158	12,618	15,588	14,762	13,514	15,411	16,294	18,200	22,115	64	22
PBT	49,525	52,756	58,935	60,176	59,612	63,417	70,999	72,946	70,184	76,600	85,669	21	12
Taxes	17,136	18,202	20,281	20,275	20,673	21,907	24,573	24,953	24,169	26,543	29,810	21	12
PAT	32,389	34,553	38,653	39,901	38,938	41,510	46,426	47,993	46,014	50,057	55,859	20	12
Balance Sheet													
Deposits (INR b)	5,738	5,917	6,347	6,436	6,714	6,893	6,990	7,888	8,058	8,334	8,525	22	2
Loans (INR b)	4,706	4,944	4,950	5,546	5,810	6,049	6,312	6,583	7,086	7,508	7,810	24	4
Asset Quality													
GNPA	49,209	50,690	52,323	58,857	72,429	77,028	82,349	86,090	95,386	1,00,977	1,09,029	32	8
NNPA	14,934	14,889	15,643	18,440	25,282	25,968	27,737	26,010	29,071	30,282	33,015	19	9
Ratios (%)	FY17				FY18				FY19			Change (bps)	
Asset Quality Ratios	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
GNPA (%)	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.4	9	5
NNPA (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-2	2
PCR (Calculated, %)	69.7	70.6	70.1	68.7	65.1	66.3	66.3	69.8	69.5	70.0	69.7	340	-29
Slippage (%)	2.1	1.4	1.8	1.5	2.6	2.0	1.9	1.8	2.2	1.9	2.1	23	28
Business Ratios													
Fees to Total Income	20.9	21.3	21.4	23.3	22.4	21.5	22.4	25.5	24.6	23.0	23.1	70	15
Cost to Core Income	46.2	45.9	43.8	42.4	42.7	42.6	41.2	40.7	40.1	39.8	39.5	-170	-37
Tax Rate	34.6	34.5	34.4	33.7	34.7	34.5	34.6	34.2	34.4	34.7	34.8	19	15
CASA (Reported)	39.9	40.0	45.0	48.0	44.0	42.9	43.9	43.5	41.7	42.0	40.7	-320	-130
Loan/Deposit	82.0	83.6	78.0	86.2	86.5	87.7	90.3	83.5	87.9	90.1	91.6	131	151
Profitability Ratios													
Yield on loans	10.7	10.7	10.7	10.3	10.2	10.4	10.5	10.3	10.2	10.3	10.6	15	29
Yield On Investments	8.2	7.4	7.3	7.6	7.2	7.0	6.9	7.1	7.1	7.0	7.3	40	33
Yield on funds	10.0	9.7	9.7	9.6	9.3	9.6	9.6	9.7	9.6	9.5	9.8	17	30
Cost of funds	5.6	5.5	5.4	5.1	5.0	5.1	5.2	5.0	5.1	5.2	5.5	30	23
Spreads	4.3	4.2	4.3	4.5	4.3	4.5	4.5	4.7	4.5	4.3	4.4	-13	7
Margins	4.4	4.2	4.1	4.3	4.4	4.3	4.3	4.3	4.2	4.3	4.3	0	0
RoA	1.8	1.8	1.9	1.9	1.8	1.9	2.0	1.9	1.8	1.8	2.0	-4	12
RoE	17.4	17.6	18.7	18.3	17.0	17.5	18.9	18.5	17.2	16.4	15.9	-290	-40
Margins (%)	4.4	4.2	4.1	4.3	4.4	4.3	4.3	4.3	4.2	4.3	4.3	0	0

Source: MOSL, Company

Exhibit 2: Quarterly performance — PAT largely in line with estimates

Y/E March	3QFY19A	3QFY19E	V/S our Est	Comments
Interest Income	258,903	255,342	1	
Interest Expense	133,135	131,164	2	
Net Interest Income	125,768	124,178	1	Robust loan growth & stable margins
% Change (Y-o-Y)	22	20		
Other Income	49,210	44,932	10	Treasury profits boosted other income
Total Income	174,978	169,111	3	
Operating Expenses	67,193	63,818	5	opex slightly higher-than-expected
Operating Profit	107,784	105,293	2	
% Change (Y-o-Y)	28	25		
Provisions	22,115	19,186	15	Provisions were higher-than-expected due to contingent provisions
Profit before Tax	85,669	86,107	-1	
Tax	29,810	29,707	0	
Net Profit	55,859	56,400	-1	In line; beat on other income offset by miss on provisions
% Change (Y-o-Y)	20	21		

Source: Company, MOSL

Growth was led by retail loans, which grew 24% YoY, driven by credit cards, personal loans and home loans

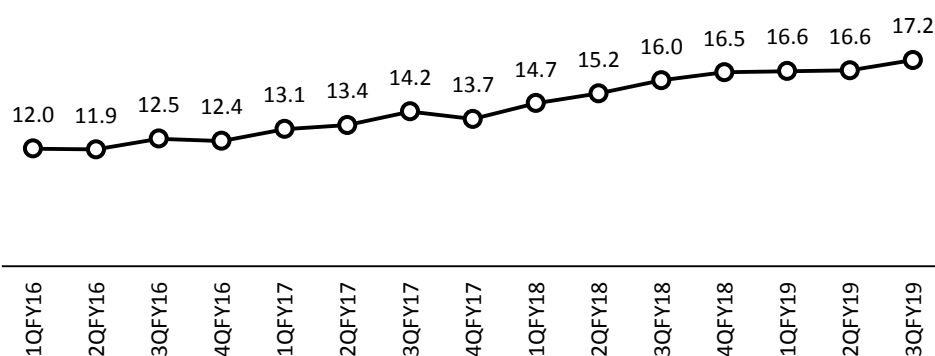
Loan book driven by growth in both retail and corporate book

- Loan book grew 4%/24% QoQ/YoY to INR7.8t. Deposits grew 2.3%/22% QoQ/YoY to INR8.5t. CD ratio, thus, inched up to 91.6% (+151bp QoQ).
- Incremental growth in the quarter was driven by retail loans (4.8%/24% QoQ/YoY), taking the retail loan share to 68.1% (53.9% as per regulatory classification) of the book compared to 67.9% in 2QFY19. Retail loan growth was driven by personal loans (+6.4%/32.9% QoQ/YoY), credit cards (+10.6%/+33.4% YoY) and home loans (+8.2%/35.8% QoQ/YoY) due to portfolio buyout of INR62b from HDFC Ltd.
- Corporate book grew at 3.1%/23.4% QoQ/YoY.

Exhibit 3: Share of retail loans (based on internal classification) stood at 68.1%

INRb	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	% of total
Car Loans	825.1	919.2	930.2	12.7	1.2	11.9
CV loans	425.5	495.5	528.8	24.3	6.7	6.8
2 wheeler loans	92.2	112.9	113.7	23.3	0.7	1.5
Sub-total - Auto Loans	1,342.9	1,527.6	1,572.7	17.1	3.0	20.1
Personal loans	674.9	841.5	895.5	32.7	6.4	11.5
Business banking	1,008.1	1,170.4	1,204.3	19.5	2.9	15.4
Loan against shares	34.6	35.8	34.6	-0.1	-3.5	0.4
Credit Cards	336.2	405.4	448.4	33.4	10.6	5.7
Home loans	381.3	478.8	518.0	35.8	8.2	6.6
Gold loans	53.0	57.0	57.6	8.7	1.0	0.7
Other Retail	497.6	580.9	587.5	18.1	1.1	7.5
Retail Total	4,328.6	5,097.2	5,318.6	22.9	4.3	68.1
Corporate and international	1,983.6	2,411.1	2,491.0	25.6	3.3	31.9
Total loans	6,312.1	7,508.4	7,809.5	23.7	4.0	100.0

Source: Company, MOSL

Exhibit 4: Share of unsecured loans continued to inch up

Source: MOSL, Company

CASA grew by 13% YoY while term deposits grew healthy at 29% YoY

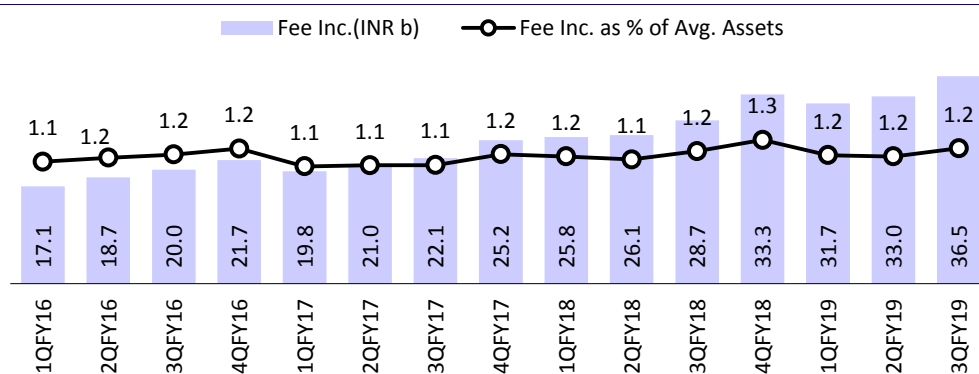
Reported NIM stable QoQ; while CASA ratio declined to 40.7%

- NIM (reported) was stable at 4.3% as increase in cost of deposits was offset by increase in yields.
- CASA deposits grew 13% YoY (decline -0.7% QoQ) driven by de-growth of -2.8%/10.5% QoQ/YoY growth in CA while SA growth remained muted (0.3%/14.3% QoQ/YoY). Thus, CASA ratio decreased by 130bp to 40.7% from 42.0% in 2QFY19.

Strong fee income growth of 27% YoY and treasury profits led to increase in other income

Core fee income growth picks up, opex remains under control

- Core fee income recorded robust growth at 27% YoY to INR36.5b driven largely by the credit cards business (25-30% of total fees). Overall fee income / average assets came in at 1.25% as on 3QFY19.
- The bank recorded treasury gains of INR4.7b v/s loss of INR0.33b in 2QFY19. Total other income grew 22.5%/27.2% QoQ/YoY.
- Overall, opex growth continued to moderate at 17.2% YoY (6.7% QoQ), led by controlled employee expenses (3.1% QoQ and 16.3% YoY). Cost-to-core income ratio declined 37bp QoQ to 39.5%.

Exhibit 5: Fee income/ average assets (%) remains stable sequentially

Source: MOSL, Company

Fresh slippages came in at 2.04% (annualized), while it was 1.71% excluding Agri portfolio.

Asset quality stable excluding Agri portfolio

- Fresh slippages came in at 2.04% (INR40b) leading to 8% QoQ increase in GNPA to INR109b while NNPA increased 9% QoQ to INR33b.
- Asset quality has been stable in other portfolios while some deterioration was observed in agri portfolio, and therefore the GNPA/NNPA ratios increased to 1.38%/0.42%. PCR was stable at ~70%.



3QFY19 conference call highlights

Balance sheet and Profit & loss

- Bank is experiencing some slowdown in 2w and 4w due to the underlying sales going down. LAP segment also witnessed some slowdown because the pricing was below expected levels, however, with NBFCs losing market share, management expects pricing power to return.
- **Business banking:** Small ticket sizes are growing in a granular fashion and are stable while large ticket sizes (agri commodity) are not growing much.
- Drivers for fee income were:
 - 1) Payments business - Higher income and lower losses on the acquiring business, and
 - 2) Cash management
- Focus on building granular term deposits and increasing the retail 1-2 year bucket.
- Yields are moving up, hence, margins are stable despite increase in cost of deposits.
- IT expenses comprise ~3-4% of net revenue.
- Target to add ~150-200 branches every year. The bulk of the branches added in the current quarter were in semi-urban and urban areas.
- There were no portfolio buyouts in business banking. ~INR62b worth of home loans was purchased from HDFC Ltd.
- Bank has almost negligible exposure towards IL&FS.
- Open for exposure to NBFCs and HFCs, however, maintaining caution.
- There has been no material change in the total NBFC exposure.
- Debit card comprises ~7% of total fees while credit card comprises ~25%-30%. Credit card has witnessed significant change in its contribution towards fee income.

Asset Quality

- Slippages came in at INR40b, which is ~2.04% annualized (ex- agri it was 1.7%).
- Credit cost is maintained at ~0.8%-0.9%.
- GNPLs ex- agri is 1.1%, which are stable YoY and QoQ.
- Bank expects some spike in the agri book (Jun'19 onwards) on account of recent farm loan waivers, hence, it is maintaining a conservative stance. As a result, bank has made contingent provisions of INR3.22b.

Guidance/Others

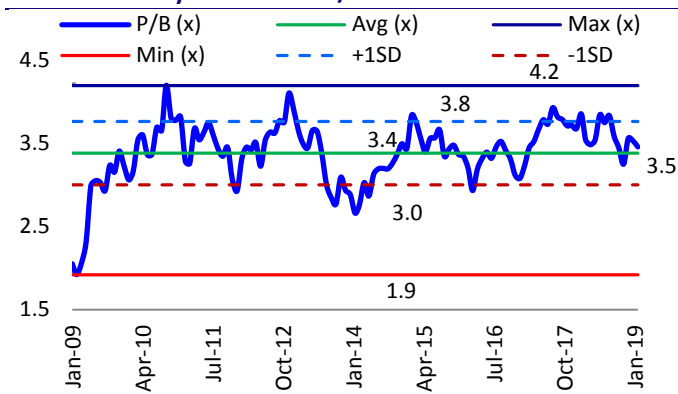
- Subsidiaries: Margins are slightly under pressure, which currently are at ~6.5%.
- INDAS provisions: Stage 1 & Stage 3 are adequately provided, and hence, the bank does not expect much difference. However, Stage 2 might have slightly higher provisions under INDAS.

Buy with a target price of
INR2,500 (3.7x Sep-20E
ABV)

Valuation and view

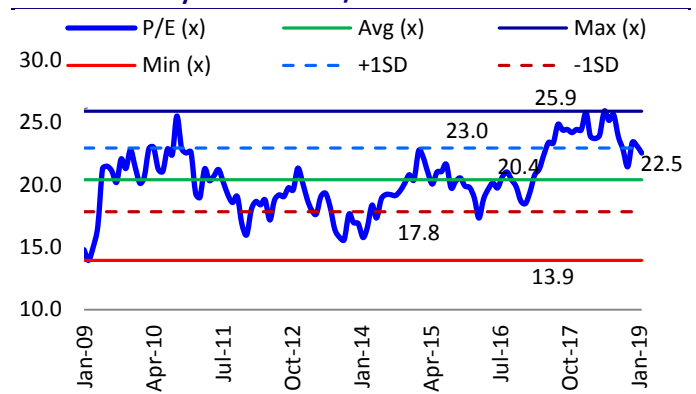
- Structural drivers are in place with (1) CASA ratio above 40%, (2) opportunities for significant market share gains, (3) improving operating efficiency led by digitalization initiatives, (4) expected traction in income due to strong expansion in branch network, and (5) best-in-class asset quality.
- Post demonetization, 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 contribution from high ROE retail products like unsecured personal loans, LAS and Credit cards. HDFCB is seeing strong loan growth, indicating market share gains.
- 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 a large part of the competition is struggling with its own issues like capitalization, asset quality, etc.
- We have seen some pick-up in investments in branches and ATMs; calibration in workforce should maintain healthy deposit growth. The C/I of the bank is continuously improving due to productivity from existing investments. The PPop growth is expected to be healthy at 24%+ and PAT growth is expected at 23% over FY18-21E.
- Despite pricing pressure, NIMs moderation is expected to be limited due to (a) high CASA ratio above 40%, (b) benefit of high share of fixed rate retail loans, and (c) high-yielding retail loans contribution rising within retail.
- HDFCB has been consistently gaining market share across retail product segments (personal loans, business banking, credit cards and auto loans) and strong capitalization and liquidity levels will enable it to sustain this growth momentum over the next few years. Operating expenses have been under control and digital initiatives have aided consistent decline in the C/I ratio. We maintain our Buy rating with TP of INR2,500 (3.7x Sep-20E ABV of the bank).

Exhibit 6: One-year forward P/BV



Source: MOSL, Company

Exhibit 7: One-year forward P/E



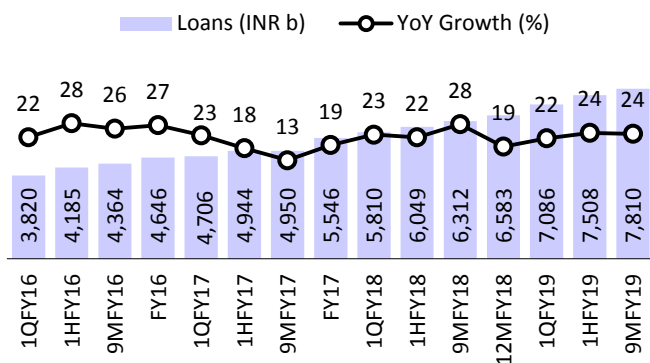
Source: MOSL, Company

Exhibit 8: DuPont Analysis — Improvement in operating leverage to lead to higher profitability (%)

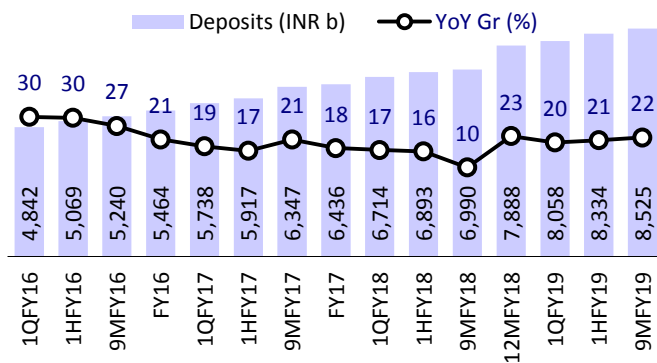
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	4.14	4.25	4.21	4.16	4.02	4.07	4.10
Core Fee Income	1.2	1.2	1.1	1.3	1.17	1.09	1.06
Trading and others	0.4	0.4	0.4	0.3	0.29	0.28	0.26
Non-Interest income	1.7	1.7	1.6	1.6	1.46	1.37	1.32
Total Income	5.37	5.48	5.33	5.74	5.48	5.45	5.43
Operating Expenses	2.59	2.61	2.51	2.35	2.15	2.01	1.89
Employee cost	0.88	0.88	0.82	0.71	0.64	0.58	0.54
Others	1.71	1.74	1.68	1.65	1.51	1.42	1.35
Operating Profits	3.22	3.29	3.27	3.38	3.33	3.44	3.53
Core operating Profits	2.79	2.86	2.83	3.11	3.04	3.16	3.27
Provisions	0.38	0.42	0.46	0.61	0.60	0.70	0.71
PBT	2.83	2.87	2.82	2.77	2.72	2.74	2.82
Tax	0.94	0.98	0.97	0.96	0.94	0.94	0.97
RoA	1.89	1.89	1.85	1.81	1.78	1.79	1.85
Leverage (x)	10.3	9.6	9.7	9.8	9.4	9.2	9.7
RoE	19.4	18.3	17.9	17.9	16.7	16.5	17.8

Source: MOSL, Company

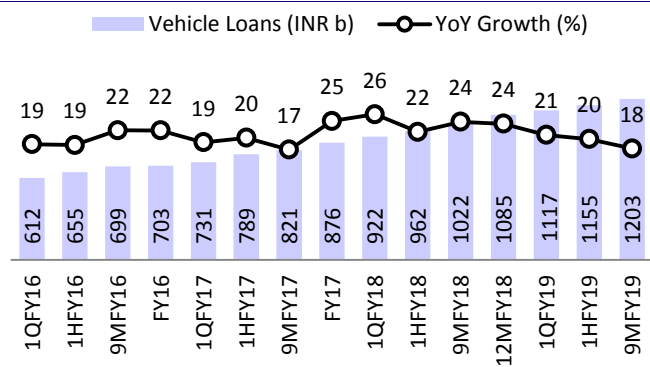
Story in Charts

Exhibit 9: Loans grew 24% YoY (4% QoQ)


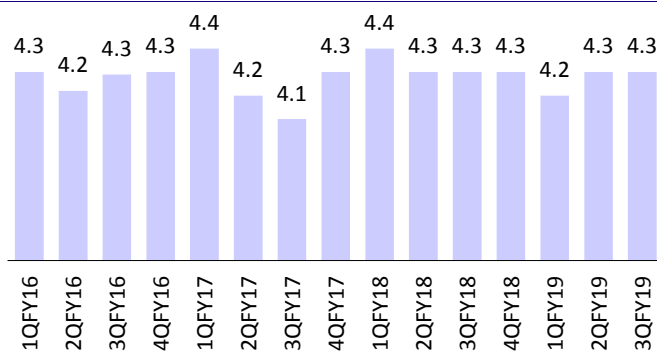
Source: MOSL, Company

Exhibit 10: Deposits registered 22% YoY growth


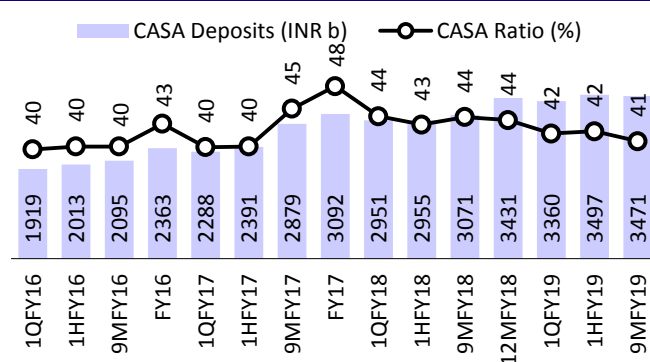
Source: MOSL, Company

Exhibit 11: Vehicle loans grew by 18% YoY


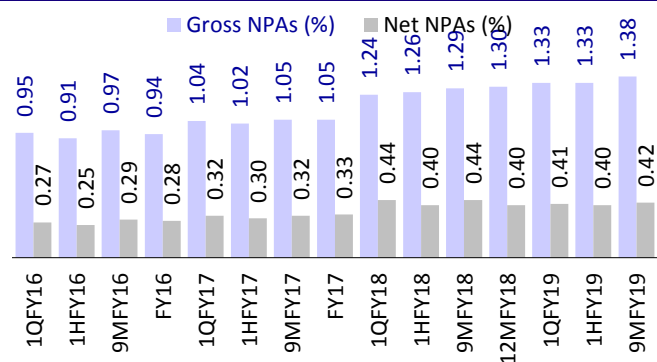
Source: MOSL, Company

Exhibit 12: NIMs stable at 4.3%


Source: MOSL, Company

Exhibit 13: CASA ratio declined to 40.7%


Source: MOSL, Company

Exhibit 14: Asset quality ratios (Ex-agri) largely stable


Source: MOSL, Company

Financials and Valuations

Income Statement								(INRb)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	411.4	484.7	602.2	693.1	802.4	991.4	1,232.7	1,499.2
Interest Expense	226.5	260.7	326.3	361.7	401.5	514.4	643.2	779.3
Net Interest Income	184.8	224.0	275.9	331.4	400.9	477.1	589.5	719.9
Growth (%)	16.9	21.2	23.2	20.1	21.0	19.0	23.6	22.1
Non-Interest Income	79.2	90.0	107.5	123.0	152.2	172.8	198.7	232.4
Total Income	264.0	313.9	383.4	454.4	553.2	649.8	788.1	952.3
Growth (%)	16.5	18.9	22.1	18.5	21.7	17.5	21.3	20.8
Operating Expenses	120.4	139.9	169.8	197.0	226.9	255.4	290.7	332.5
Pre Provision Profits	143.6	174.0	213.6	257.3	326.2	394.4	497.4	619.8
Growth (%)	25.7	21.2	22.7	20.4	26.8	20.9	26.1	24.6
Core PPP	122.2	150.3	184.5	220.9	311.0	370.3	468.0	586.2
Growth (%)	15.6	19.6	22.1	18.0	-25.5	19.1	26.4	25.3
Provisions (excl. tax)	15.9	20.8	27.3	35.9	59.3	71.7	101.4	125.4
PBT	127.7	153.3	186.4	221.4	267.0	322.8	396.0	494.5
Tax	42.9	51.1	63.4	75.9	92.1	111.4	136.6	170.6
Tax Rate (%)	33.6	33.4	34.0	34.3	34.5	34.5	34.5	34.5
PAT	84.8	102.2	123.0	145.5	174.9	211.4	259.4	323.9
Growth (%)	26.0	20.5	20.4	18.3	20.2	20.9	22.7	24.9

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	4.8	5.0	5.1	5.1	5.2	5.4	5.4	5.4
Reserves & Surplus	430.0	615.1	721.7	855.6	1,057.8	1,464.3	1,674.8	1,946.6
Net Worth	434.8	620.1	726.8	860.7	1,063.0	1,469.7	1,680.2	1,952.0
Deposits	3,673.4	4,508.0	5,464.2	6,436.4	7,887.7	9,544.1	11,691.6	14,263.7
Growth (%)	24.0	22.7	21.2	17.8	22.5	21.0	22.5	22.0
of which CASA Dep.	1,646.2	1,984.9	2,363.1	3,091.5	3,430.9	4,170.8	5,308.0	6,632.6
Growth (%)	17.2	20.6	19.1	30.8	11.0	21.6	27.3	25.0
Borrowings	394.4	452.1	849.7	740.3	1,231.0	1,504.0	1,799.3	2,167.2
Other Liabilities & Prov.	413.4	324.8	367.3	601.0	457.6	562.9	692.4	851.6
Total Liabilities	4,916.0	5,905.0	7,408.0	8,638.4	10,639.3	13,080.7	15,863.5	19,234.5
Current Assets	395.8	363.3	389.2	489.5	1,229.2	1,392.1	1,564.9	1,906.0
Investments	1,209.5	1,516.4	1,958.4	2,144.6	2,422.0	3,027.5	3,723.8	4,617.5
Growth (%)	8.4	25.4	29.1	9.5	12.9	25.0	23.0	24.0
Loans	3,030.0	3,655.0	4,645.9	5,545.7	6,583.3	8,123.8	9,911.1	12,151.0
Growth (%)	26.4	20.6	27.1	19.4	18.7	23.4	22.0	22.6
Fixed Assets	29.4	31.2	33.4	36.3	36.1	39.3	43.6	48.0
Other Assets	251.2	339.1	381.0	422.3	368.8	498.0	620.0	512.0
Total Assets	4,916.0	5,905.0	7,408.0	8,638.4	10,639.3	13,080.7	15,863.5	19,234.5

Asset Quality

Y/E March	2014	2015	2016	2017	FY18	FY19E	FY20E	FY21E
GNPA	29.9	34.4	43.9	58.9	86.1	107.8	126.3	162.3
NNPA	8.2	9.0	13.2	18.4	26.0	30.4	37.7	49.6
GNPA Ratio	1.0	0.9	0.9	1.1	1.3	1.3	1.3	1.3
NNPA Ratio	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4
Slippage Ratio	1.93	1.58	1.56	1.53	2.14	1.70	1.70	1.70
Credit Cost	0.60	0.52	0.51	0.62	0.81	0.85	1.00	1.00
PCR (Excl. Tech. write off)	72.6	73.9	69.9	68.7	69.8	71.8	70.2	69.4

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	10.3	10.1	10.1	9.6	9.4	9.6	9.7	9.6
Avg. Yield on loans	11.7	11.1	10.8	10.2	10.3	10.7	10.8	10.7
Avg. Yield on Inv.	7.8	7.2	8.1	7.8	7.2	7.3	7.4	7.4
Avg. Cost-Int. Bear. Liab.	6.2	5.8	6.0	5.5	4.9	5.1	5.2	5.2
Avg. Cost of Deposits	5.7	5.7	5.9	5.3	4.6	5.0	5.1	5.0
Interest Spread	4.1	4.3	4.3	4.2	4.5	4.5	4.5	4.4
Net Interest Margin	4.6	4.6	4.6	4.6	4.4	4.2	4.3	4.3

Capitalisation Ratios (%)

CAR	16.1	16.8	15.5	14.6	14.8	16.9	15.3	14.4
Tier I	11.8	13.7	13.2	12.8	13.3	15.6	14.3	13.6
Tier II	4.3	3.1	2.3	1.8	1.6	1.3	1.0	0.8

Asset-Liability Profile (%)

Loans/Deposit	82.5	81.1	85.0	86.2	83.5	85.1	84.8	85.2
CASA Ratio	44.8	44.0	43.2	48.0	43.5	43.7	45.4	46.5
Cost/Assets	2.4	2.4	2.3	2.3	2.1	2.0	1.8	1.7
Cost/Total Income	45.6	44.6	44.3	43.4	41.0	39.3	36.9	34.9
Cost/Core Income	45.8	47.0	46.7	45.8	42.2	40.8	38.3	36.2
Int. Expense/Int. Income	55.1	53.8	54.2	52.2	50.0	51.9	52.2	52.0
Fee Income/Total Income	27.2	24.4	23.6	21.8	22.8	21.3	20.0	19.6
Non Int. Inc./Total Income	30.0	28.7	28.0	27.1	27.5	26.6	25.2	24.4
Emp. Cost/Total Expense	34.7	34.0	33.6	32.9	30.0	29.8	29.1	28.8
Investment/Deposit	32.9	33.6	35.8	33.3	30.7	31.7	31.9	32.4

Valuation

RoE	21.3	19.4	18.3	17.9	17.9	16.7	16.5	17.8
RoA	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8
RoRWA	2.6	2.7	2.5	2.4	2.4	2.3	2.3	2.3
Book Value (INR)	181	247	287	336	410	543	621	721
Growth (%)	19.2	36.5	16.2	16.9	22.0	32.6	14.3	16.2
Price-BV (x)				6.3	5.2	3.9	3.4	3.0
Adjusted BV (INR)	179	245	284	331	388	518	589	682
Price-ABV (x)				6.4	5.5	4.1	3.6	3.1
EPS (INR)	35.3	40.8	48.6	56.8	67.8	79.8	95.9	119.7
Growth (%)	25.0	15.3	19.3	16.7	19.4	17.6	20.2	24.9
Price-Earnings (x)				37.5	31.4	26.7	22.2	17.8
Dividend Per Share (INR)	6.9	8.0	9.5	11.0	15.7	16.5	18.1	19.3
Dividend Yield (%)				0.5	0.7	0.8	0.8	0.9

E: MOSL Estimates

Corporate profile

Company description

HDFC Bank was amongst the ten private sector banks 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. The bank is now the largest private sector bank in India with asset size of INR11.7t+ and market share of ~7% in deposit and loans respectively. As on December 30, 2018, the bank had a network of 4,963 branches and 13,160 ATMs spread across the country.

Exhibit 1: Sensex rebased

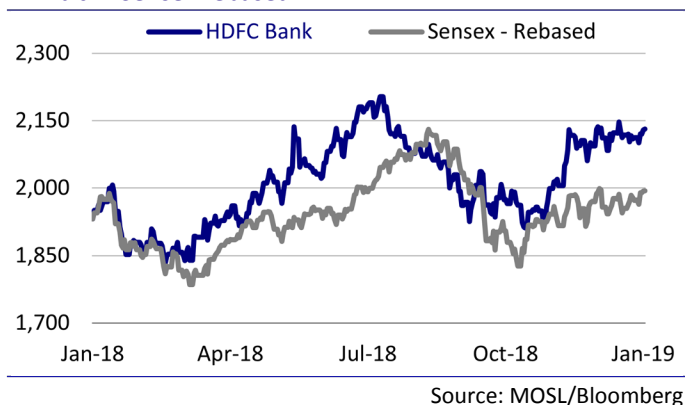


Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	21.4	21.4	21.0
DII	13.0	12.4	12.2
FII	50.5	51.0	51.4
Others	15.0	15.2	15.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Europacific Growth Fund	4.1
LIC of India	2.0
SBI-ETF NIFTY 50	2.0
ICICI Prudential Life Insurance Company Ltd	1.1
HDFC TRUSTEE COMPANY LTD- A/c HDFC HYBRID	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyamala Gopinath	Chairperson
Aditya Puri	Managing Director
Kaizad Bharucha	Executive Director
Sanjay Dongre	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Srikanth Nadhamuni	Bobby Parikh
Keki Mistry	Malay Patel
Partho S Datta	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 (%)
FY19	79.8	78.9	1.1
FY20	95.9	96.8	-1.0
FY21	119.7	118.2	1.3

Source: Bloomberg

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

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL)* is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and BSE Limited (BSE). Multi Commodity Exchange of India (MCX) & National Commodity & Derivatives Exchange Ltd. (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at <http://online.reports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

MOSL, its associates, Research Analyst or their relative may have any financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

- managed or co-managed public offering of securities from subject company of this research report,
- received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Terms & Conditions:

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement

HDFC Bank

No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act") and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisers Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details of group entities: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100.Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. * Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products

*MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f. August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. The existing registration no(s) of MOSL would be used until receipt of new MOFSL registration numbers.