

Stock Update

Steady performance, as usual

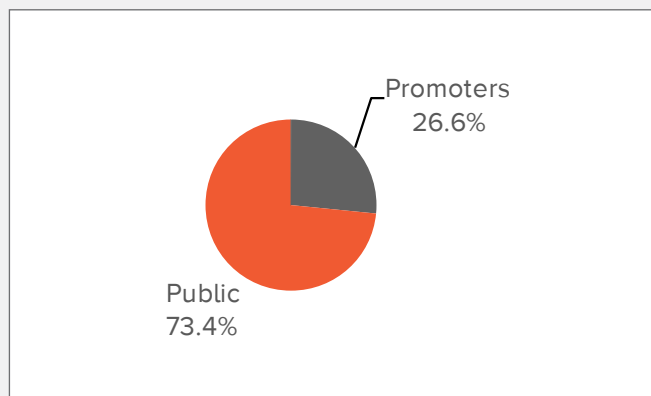
HDFC Bank

Reco: Buy | CMP: Rs2,147

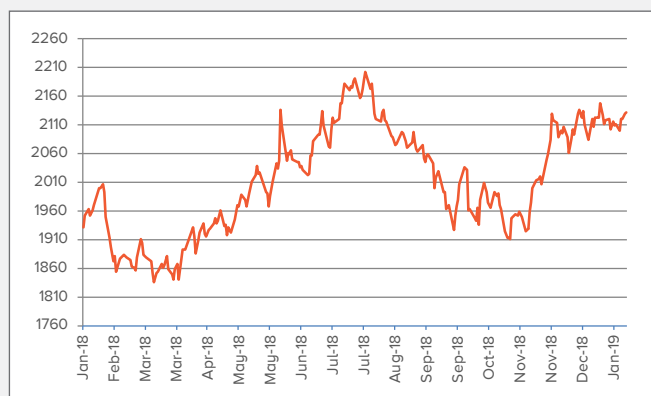
Company details

Price target:	Rs2,650
Market cap:	Rs583,755 cr
52-week high/low:	Rs2219/1830
NSE volume: (No of shares)	29.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	102.71 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	7.9	-2.1	10.8
Relative to Sensex	-0.4	2.9	-2.6	6.0

Key points

- Healthy operating performance:** HDFC Bank posted strong Q3FY2019 results with continued strong advances growth traction and stable NIM. However, there was a slight sequential bump-up on the asset-quality front.

During the quarter, net interest income (NII) of HDFC Bank grew by 21.9% y-o-y to Rs. 12,576 crore, largely in line with our expectations, driven by an average asset growth of 23.7% y-o-y. Non-interest income growth was stronger, up 27.2% y-o-y to Rs. 4,921 crore, helped by strong fee income performance as well as treasury gains in the wake of fall in bond yields. The crucial fee income growth was strong at 26.9% y-o-y, outstripping both interest income and advances growth. Net interest margin (NIM) for the quarter was stable on a sequential basis at 4.3%, helped by strong CASA play as well as business growth.

Notably, the core cost-to-income ratio (C/I) for HDFC Bank further improved to 39.5%, and it contracted by 170 BPS y-o-y and 40 BPS q-o-q to 39.5%, indicating efficient cost management as well as digitalisation benefits. Provisions for the quarter increased by 64% y-o-y, which had seen write-back benefits (of Rs. 4.5 crore) in Q3FY2018 against a general provision of Rs. 476 crore in Q3FY2019. As a result, net profit increased by 20.3% y-o-y to Rs. 5,585.9 crore and was above our estimates.

- Outlook:** HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance. The overall asset-quality picture looks sanguine, and despite share of unsecured lending rising, we believe the risk has been priced in well to ensure stable return ratios. Complementing to its already strong underwriting and assessment capabilities, healthy traction from digital channels is adding to the moat of its business strength. Hence, we opine HDFC Bank's strong operating parameters and consistency are clear stand outs at present times. HDFC Bank's floating provision cushion of Rs. ~1,450 crore and healthy capitalisation levels are further positives.
- Valuation:** HDFC Bank currently trades at 4.1x/3.4x its FY2020E/FY2020E BVPS, which we believe is justified for a bank with its strengths and consistency. We introduce FY2021E

estimates and have accordingly rolled over our price target (PT) to FY2021E. We maintain our Buy rating on the stock with a revised PT of Rs. 2,650.

- ◆ **Loan book momentum continues, asset quality relatively stable:** HDFC Bank witnessed healthy loan book traction as advances grew by 23.7% y-o-y on account of 24.1% y-o-y rise in its corporate book and 24% jump in its retail portfolio. Deposit growth for the quarter stood at 22% y-o-y, while CASA growth stood at 13% y-o-y. On a sequential basis, CASA ratio stood at 40.7%, which is crucial in helping the bank

maintain lower cost of funds and, thus, sustain/improve margins. Going forward, we believe owing to the recent market developments, banks such as HDFC Bank can be beneficiaries of the improved inflows in deposits, which will further support NIM.

Asset quality during the quarter saw small rise as GNPA ratio stood at 1.38% (up by 5 BPS q-o-q), while net NPA increased marginally by 2 BPS q-o-q to 0.42%. The bank continues to hold floating provisions worth Rs. 1,451 crore as of Q3FY2019-end, while PCR stood at 70%.

Results						Rs cr
Particulars	Q3FY19	Q3FY18	YoY %	Q2FY19	QoQ %	
Interest income	25,889.5	20,581.0	25.8	24,199.6	7.0	
Interest expense	13,313.5	10,266.9	29.7	12,436.2	7.1	
Net interest income	12,576.0	10,314.0	21.9	11,763.4	6.9	
Non-interest income	4,921.0	3,869.2	27.2	4,015.6	22.5	
Net total income	17,497.0	14,183.2	23.4	15,779.0	10.9	
Operating expenses	6,719.3	5,732.2	17.2	6,299.1	6.7	
- Employee expenses	1,967.6	1,691.3	16.3	1,909.2	3.1	
- Other operating expenses	4,751.7	4,041.0	17.6	4,389.8	8.2	
Pre-provisioning profit	10,777.7	8,451.0	27.5	9,480.0	13.7	
Provisions	2,211.5	1,351.4	63.6	1,820.0	21.5	
Profit before tax	8,566.2	7,099.6	20.7	7,660.0	11.8	
Tax	2,981.0	2,457.3	21.3	2,654.3	12.3	
Profit after tax	5,585.1	4,642.3	20.3	5,005.7	11.6	
Asset quality						
Gross NPLs	10,902.9	8,234.9	32.4	10,097.7	8.0	
- Gross NPLs (%)	1.38	1.29	9 bps	1.33	5 bps	
Net NPLs	3,301.5	2,773.7	19.0	3,028.2	9.0	
- Net NPLs (%)	0.42	0.44	-2 bps	0.40	2 bps	

Profit and loss statement						Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E	
Net interest income	33,139	40,095	48,154	57,993	70,798	
Non-interest income	12,296	15,220	17,678	20,670	24,540	
Net total income	45,436	55,315	65,832	78,664	95,338	
Operating expenses	19,703	22,690	26,629	31,903	36,018	
Pre-provisioning profit	25,732	32,625	39,204	46,761	59,320	
Provisions	3,593	5,927	7,228	8,329	10,161	
Profit before tax	22,139	26,697	31,975	38,432	49,159	
Tax	7,589	9,211	10,967	13,067	16,714	
Profit after tax	14,550	17,487	21,008	25,365	32,445	

Balance sheet					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Liabilities					
Networth	89,462	106,295	117,829	136,836	161,148
Deposits	643,640	788,771	938,637	1,135,751	1,374,259
Borrowings	74,029	123,105	85,416	103,353	125,058
Other liabilities & provisions	56,709	45,764	76,327	90,604	108,326
Total liabilities	863,840	1,063,934	1,218,209	1,466,544	1,768,790
Assets					
Cash & balances with RBI	37,897	104,670	50,686	61,331	74,210
Balances with banks & money at call	11,055	18,245	28,159	34,073	41,228
Investments	214,463	242,200	294,557	355,662	429,599
Advances	554,568	658,333	803,166	979,863	1,195,433
Fixed assets	3,627	3,607	3,968	4,365	4,801
Other assets	42,230	36,879	37,673	31,251	23,519
Total assets	863,840	1,063,934	1,218,209	1,466,544	1,768,790

Key ratios					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Per share data (Rs)					
Earnings	56.8	67.4	81.0	97.7	125.0
Dividend	11.0	13.1	15.8	19.1	24.4
Book value	348.9	409.5	454.0	527.2	620.9
Adj. book value	341.7	399.5	438.4	504.9	590.2
Spreads (%)					
Yield on advances	10.2	10.3	10.2	10.1	10.1
Cost of deposits	5.3	4.6	5.1	5.1	5.1
Net interest margins	4.4	4.4	4.4	4.5	4.5
Operating ratios (%)					
Credit / deposit	86.2	83.5	85.6	86.3	87.0
Cost / income	43.4	41.0	40.4	40.6	37.8
CASA	48.0	43.5	43.9	43.5	43.1
Non interest income / total income	27.1	27.5	26.9	26.3	25.7
Assets / Equity (x)	9.9	9.8	10.2	10.5	10.9
Return ratios (%)					
RoE	17.9	17.9	18.7	19.9	21.8
RoA	1.8	1.8	1.8	1.9	2.0
Asset quality (%)					
Gross NPA	1.1	1.3	1.1	1.1	1.1
Net NPA	0.3	0.4	0.3	0.3	0.3
Growth ratios (%)					
Net interest income	20.1	21.0	20.1	20.4	22.1
Pre-provisioning profit	20.5	26.8	20.2	19.3	26.9
Profit after tax	18.3	20.2	20.1	20.7	27.9
Advances	19.4	18.7	22.0	22.0	22.0
Deposits	17.8	22.5	19.0	21.0	21.0
Valuation ratios (x)					
P/E	37.8	31.9	26.5	22.0	17.2
P/BV	6.2	5.2	4.7	4.1	3.5
P/ABV	6.3	5.4	4.9	4.3	3.6
Capital adequacy (%)					
CAR	14.6	14.3	13.3	13.2	12.8
Tier I	12.8	12.9	12.1	12.2	11.9

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