

### Fared well on key metrics of concern

HDFC bank reported a healthy quarter with a profit growth of 23% YoY contributed by 1) a stellar asset quality and credit costs and 2) steady NIMs. The bank's asset quality improved 2 bps to 1.36%, likely to have been aided by waning stress in agriculture portfolio. Advances for the bank grew 25% and deposits at 17% YoY. We believe the bank is expected to continue to grow at CAGR 25% and improve its return metrics on the back of lower credit costs. We continue to like the franchise and the banks is likely to remain better placed on the key constraints facing the segment i.e. resource mobilization especially via deposits. Maintain Accumulate, valuing the bank at FY21E P/ABV 3.6x.

### A stellar asset quality reduces credit costs

GNPA fell marginally (2 bps) to 1.36% sequentially, likely contributed by waning stress in the agriculture book. The credit costs were 94 bps vs 116 bps sequentially. The Net and gross additions were 34 bps and 179bps vs a sequential 42bps and 209bps respectively. We believe the risks in agriculture book is likely to subside due to 1) reduced political risk post elections and 2) a natural deterrence as access to credit for borrowers reduces after such misadventures. We are factoring a marginally lower GNPA at ~1.3% in the subsequent years.

### Robust advance growth; deposits catch up satisfactorily

It has benefitted from one off opportunity in wholesale; is said to have steered away from low yielding retail loans and has witnessed rationalization in fast growing segments. The deposits growth has been relatively satisfactory as well. Deposit mobilization is one of the key constraints, but the bank plans to raise capital through long term borrowings, which is a positive for its ability to maintain NIMs. One of its peer has successfully raised cheaper funds through similar means recently.

### Maintain Accumulate at 3.6x FY21E P/ABV

We maintain our estimates - factored an Advance and PAT CAGR of 25% over FY19-20E with an improving NIM profile and lower credit costs aiding an improved RoA at ~2.0%.

### Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Interest earned	263,333	213,211	23.5	258,903	1.7
Interest expended	132,438	106,634	24.2	133,135	(0.5)
Net interest income	130,895	106,577	22.8	125,768	4.1
Other income	48,712	42,286	15.2	49,210	(1.0)
Total Net Income	179,607	148,863	20.7	174,978	2.6
Operating expenses	71,171	60,506	17.6	67,193	5.9
Pre-provision profits	108,436	88,357	22.7	107,784	0.6
Provisions	18,892	15,411	22.6	22,115	(14.6)
Tax expense	30,693	24,953	23.0	29,810	3.0
Extraordinary gains					
Reported Net Profit	58,851	47,993	22.6	55,859	5.4
			(bps)		(bps)
Advances	(24.8)			(21.7)	(313)
NIM (%)	4.3	4.3	0	4.3	0
RoA	2.0	2.0	4	1.8	20
RoE	16.1	18.5	(240)	15.9	17
Gross NPA (%)	1.4	1.3	6	1.4	(2)

CMP	₹ 2,294
Target / Upside	₹ 2,550 / 11%
BSE Sensex	39,140
NSE Nifty	11,753

### Scrip Details

Equity / FV	₹ 5,447mn / ₹ 2
Market Cap	₹ 6,238bn
	US\$ 90bn
52-week High/Low	₹ 2,332/₹ 1,860
Avg. Volume (no)	3,289,620
NSE Symbol	HDFCBANK
Bloomberg Code	HDFCB IN

### Shareholding Pattern Mar'19(%)

Promoters	26.6
MF/Banks/FIs	15.4
FIIs	39.2
Public / Others	18.9

### Valuation (x)

	FY19P	FY20E	FY21E
P/E	29.6	22.9	18.9
P/ABV	4.2	3.8	3.3
ROAA	1.8	2.0	2.1
ROAE	16.5	17.2	18.4

### Estimates (₹ mn)

	FY19P	FY20E	FY21E
NII	482,432	583,430	697,783
PPOP	397,497	473,859	565,692
PAT	210,781	272,295	330,889
Adj BV	540.1	604.5	696.4

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## Con call highlights:

### Advances

- Growth opportunities in wholesale have been short term opportunities which may not recur and likely to run off in 30 – 60 days. This include opportunities in NCLT financing, driving better utilization of Working capital limits among others.
- As the funding cost has increased, bank has shaved off some growth in low yielding products.
- Focus has been on growing AA and above book that has had an impact on NIMs.
- This has been offset partly by growth in unsecured book.
- There has been some moderation in fast growing segments like Personal Loans and BIL. It the structure of Bank's architecture to pause and see how the portfolio behaves and then ramp up for the second phase.
- The commercial vehicles outlook for the bank is buoyant, but may face slowdown in FY21.
- Auto/2W demand is likely to remain slow as the prices have shot up.
- Home loan buyout from HDFC is strong at a growth of 41% YoY. The bank has completed buying out its entire backlog of FY18.
- The bank competes on WC loans with a strong relationship and customer experience and less on term loans, given the bank MCLR are higher than PSUs.

### Deposits:

- Rates have remained stable, and the focus is now not just on rates but services as well.
- The bank is not competing on the Wholesale bucket because of healthy LCR.
- However, it is likely to focus on longer term retail TD.
- Acquisition and change in relationship in saving is strong, but the movement from saving to time is higher (because of rates) which is fine. The bank is comfortable is it can maintain NIMs and liquidity.

### Other incomes:

- Other incomes have remained sluggish in recent times on account of:
  - Moderating growth in Payments/cards
  - Regulatory impact on MF fees
  - Decline in trade fees by 15 bps since June 2018
  - Modest growth in segments that impact processing fees

### Credit costs:

- Wholesale and agriculture has turned positive is credit costs are benign, retail is currently stable.
- Contingent provisions is currently for agriculture. The bank is comfortable with the extent of provision.

### Resource mobilization:

- The current CD ratio is elevated. If evaluated after considered long term funding it is comfortable.
- The bank is likely to focus on institutional money, long term funding and equity. Inclusive of institutional money and long term money, a ratio of 72-73% is desirable.

### HDB financials:

- Slowdown in property loans, otherwise has witnessed strong growth across segments
- Funding costs has increased but have fared well in NIMs and liquidity.

**Exhibit 1: Quarterly Performance**

(₹ Mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Advances</b>	<b>7,508,381</b>	<b>7,508,381</b>	<b>7,508,381</b>	<b>7,809,512</b>	<b>8,194,012</b>
YoY (%)	19.0	22.0	24.0	23.7	24.5
QoQ (%)	4.0	8.0	6.0	4.0	4.9
<b>Deposits</b>	<b>7,887,706</b>	<b>8,057,853</b>	<b>8,333,641</b>	<b>8,525,019</b>	<b>9,231,409</b>
YoY (%)	10.0	23.0	20.0	22.0	17.0
QoQ (%)	1.0	13.0	2.0	2.3	8.3
<b>Advances Mix (%)</b>					
Wholesale	44.9	46.3	43.7	43.1	44.6
Retail	55.1	53.7	53.5	53.9	52.6
Auto Loans	11.6	11.0	10.7	10.6	9.8
Personal Loans	10.9	11.0	11.1	11.4	11.3
CV/CE	3.6	3.5	3.4	3.5	3.5
Loans against securities	0.3	0.2	0.2	0.2	0.2
2- wheelers	1.3	1.3	1.3	1.3	1.2
Business banking	8.2	7.3	7.2	7.1	7.0
Credit cards	5.5	5.4	5.4	5.7	5.7
Kisan Gold Card	5.3	4.7	4.8	4.5	4.7
Home loans	5.5	6.2	6.4	6.6	6.3
Gold Loans	0.8	0.7	0.7	0.7	0.6
Others	2.1	2.3	2.2	2.2	2.2
<b>Deposits Mix (%)</b>					
- Current deposits	15	14	14	13	15
- Saving deposits	28	28	28	28	27
- Term deposits	57	58	58	59	58
CASA growth YoY	11	14	18	13	14
<b>Contribution ratios (Computed) (%)</b>					
Yield on advances	10.3	10.2	10.3	10.6	10.5
Yields on interest earning assets	8.8	8.8	9.0	9.3	9.1
Yield on investments	7.1	7.1	7.0	7.3	7.1
Cost of funds	5.0	5.1	5.2	5.5	5.3
NIMs	4.4	4.2	4.4	4.5	4.5
<b>Asset quality and capital ratios (%)</b>					
GNPA	1.3	1.3	1.3	1.4	1.4
NNPA	0.4	0.4	0.4	0.4	0.4
PCR	69.8	69.5	69.9	70.0	71.4
NNPA to NW	2.5	2.7	2.5	2.4	2.2
Tier 1	13.2	13.1	14.7	15.8	15.8
CAR	14.8	14.6	17.1	17.3	17.1
CASA	43.5	41.7	41.7	40.7	42.4
Credit – Deposit	83.5	87.9	90.1	91.6	88.8
<b>Dupont as a percentage of average assets (%)</b>					
Interest income	8.5	8.4	8.6	9.0	8.7
Interest expenses	4.2	4.4	4.4	4.5	4.7
Net interest income	4.2	4	4.2	4.5	3.9
Non-interest Income	1.7	1.4	1.4	1.7	1.5
Total expenses	2.4	2.2	2.2	2.4	2.4
- cost to income	40.6	40.9	39.9	38.4	39.6
Provisions	0.6	0.6	0.6	0.6	0.7
Tax	1	0.9	0.9	1.1	0.7
RoA	1.9	1.7	1.8	2.0	1.6
Leverage	9.7	10	9.2	7.9	10.3
RoE	18.5	17.2	16.4	15.9	16.1

Source: DART, Company

**Profit and Loss Account (₹ Mn)**

Particulars	FY18A	FY19P	FY20E	FY21E
Interest Income	802,414	989,721	1,170,489	1,411,767
Interest expenses	401,465	507,288	587,059	713,984
<b>Net interest income</b>	<b>400,949</b>	<b>482,432</b>	<b>583,430</b>	<b>697,783</b>
Other incomes	152,203	176,259	218,445	258,452
Total expenses	226,904	261,194	328,017	390,543
- Employee cost	68,057	77,618	86,499	96,350
- Other	158,846	183,576	241,518	294,192
<b>Pre provisioning profit</b>	<b>326,248</b>	<b>397,497</b>	<b>473,859</b>	<b>565,692</b>
Provisions	59,275	75,501	61,291	64,346
Profit before taxes	266,973	321,996	412,568	501,346
Tax provision	92,106	111,215	140,273	170,458
Profit after tax	174,867	210,781	272,295	330,889
<b>Adjusted profit</b>	<b>174,867</b>	<b>210,781</b>	<b>272,295</b>	<b>330,889</b>

**Balance Sheet (₹ Mn)**

Particulars	FY18A	FY19P	FY20E	FY21E
<b>Sources of Funds</b>				
Equity Capital	5,190	5,447	5,447	5,447
Reserves & Surplus	1,057,760	1,486,617	1,663,452	1,919,177
Minority Interest	0	0	0	0
Net worth	1,062,950	1,492,063	1,668,898	1,924,624
Borrowings	1,231,050	1,170,851	1,299,645	2,144,414
- Deposits	7,887,706	9,231,410	10,757,743	12,471,849
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	457,637	551,083	684,967	856,088
<b>Total Liabilities</b>	<b>10,639,343</b>	<b>12,445,408</b>	<b>14,411,253</b>	<b>17,396,974</b>
<b>Application of Funds</b>				
Cash and balances with RBI	1,229,151	813,476	723,443	730,813
Investments	2,422,002	2,905,879	2,994,581	3,491,711
Advances	6,583,331	8,194,012	10,239,062	12,697,248
Fixed assets	36,072	40,300	45,579	53,238
Other current assets, loans and advances	368,787	491,740	408,588	423,965
<b>Total Assets</b>	<b>10,639,343</b>	<b>12,445,408</b>	<b>14,411,253</b>	<b>17,396,974</b>

E – Estimates, P – Provisional

### Important Ratios

Particulars	FY18A	FY19P	FY20E	FY21E
<b>(A) Margins (%)</b>				
Yield on advances	10.4	10.5	10.3	10.2
Yields on interest earning assets	8.7	9.0	9.1	9.2
Yield on investments	7.1	7.5	7.1	7.1
Costs of funds	4.9	5.2	5.2	5.4
Cost of deposits	4.6	4.9	4.9	5.0
NIMs	4.4	4.4	4.5	4.5
<b>(B) Asset quality and capital ratios (%)</b>				
GNPA	1.3	1.4	1.3	1.3
NNPA	0.4	0.4	0.3	0.3
PCR	69.8	71.4	75.0	75.0
Slippages	0.4	0.4	0.3	0.3
NNPA to NW	2.4	2.2	2.1	2.2
CASA	43.5	42.4	40.7	38.6
CAR	14.8	17.1	16.1	15.4
Tier 1	13.2	15.8	15.0	14.5
Credit - Deposit	83.5	88.8	95.2	101.8
<b>(C) Dupont as a percentage of average assets</b>				
Interest income	8.3	8.6	8.7	8.9
Interest expenses	4.2	4.4	4.4	4.5
Net interest income	4.2	4.2	4.3	4.4
Non interest Income	1.6	1.5	1.6	1.6
Total expenses	2.4	2.3	2.4	2.5
- cost to income	41.0	39.7	40.9	40.8
Provisions	0.6	0.7	0.5	0.4
Tax	1.0	1.0	1.0	1.1
RoA	1.8	1.8	2.0	2.1
Leverage	8.6	7.0	7.2	7.6
RoE	17.9	16.5	17.2	18.4
RoRwa	2.2	2.2	2.5	2.5
<b>(D) Measures of Investments</b>				
EPS - adjusted	67.4	77.4	100.0	121.5
BV	409.6	547.9	612.8	706.7
ABV	403.0	540.1	604.5	696.4
DPS	13.1	15.0	19.6	23.0
Dividend payout ratio	19.4	19.4	19.6	18.9
<b>(E) Growth Ratios (%)</b>				
Net interest income	21.0	20.3	20.9	19.6
PPoP	26.8	21.8	19.2	19.4
Adj PAT	20.2	20.5	29.2	21.5
Advances	18.7	24.5	25.0	24.0
Total borrowings	66.3	(4.9)	11.0	65.0
Total assets	23.2	17.0	15.8	20.7
<b>(F) Valuation Ratios</b>				
Market Cap (₹ mn)	6,237,581	6,237,581	6,237,581	6,237,581
CMP (₹)	2294	2294	2294	2294
P/E (x)	34.0	29.6	22.9	18.9
P/BV (x)	5.6	4.2	3.7	3.2
P/ABV (x)	5.7	4.2	3.8	3.3
Div Yield (%)	0.6	0.7	0.9	1.0

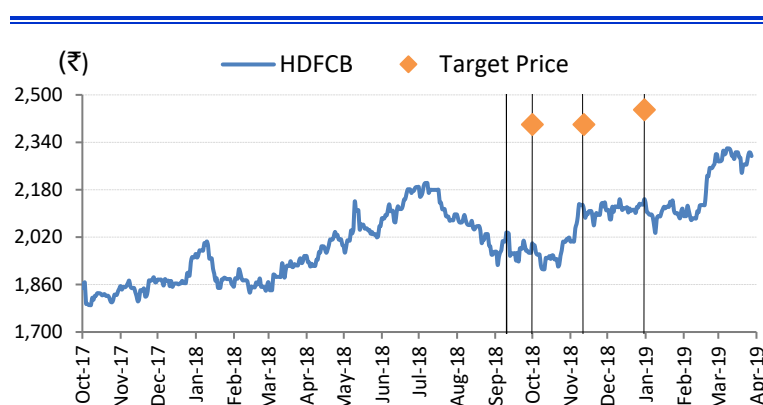
E – Estimates, P - Provisional

## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Oct-18	Buy	2,400	1,999
Dec-18	Accumulate	2,400	2,113
Jan-19	Accumulate	2,450	2,148

\*Price as on recommendation date

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Member: BSE Limited and National Stock Exchange of India Limited.

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