

Stock Update

Consistent strong performance

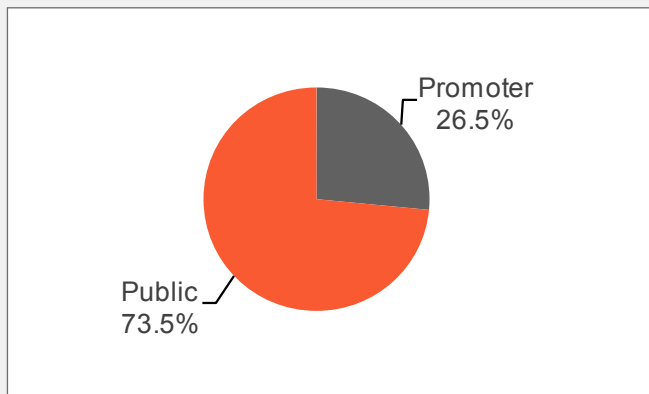
HDFC Bank

Reco: Buy | CMP: Rs2,268

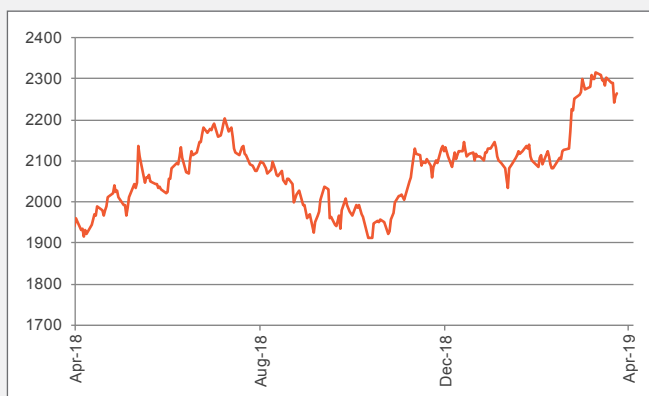
Company details

Price target:	Rs2,750
Market cap:	Rs617,714 cr
52-week high/low:	Rs2,332 / 1,884
NSE volume: (No of shares)	30.9 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	214.10 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	7.7	16.2	19.4
Relative to Sensex	-1.3	-0.1	2.8	3.4

Key points

- ♦ **Strong operating performance:** HDFC Bank (HDFCB) posted strong Q4FY2019 results with continued strong advances growth traction and sequential improvement in NIMs as well, made more attractive as the bank also saw a sequential improvement on the asset-quality front.

During the quarter, net interest income (NII) of HDFC Bank grew by 22.8% y-o-y to Rs. 13,089 crore, which was marginally below expectations. This is in the backdrop of the bank's strong advances growth of 24.5% y-o-y (sustained over a period). The non-interest income growth was decent and was up 15.2% y-o-y to Rs. 4,871 crore, wherein the fee income performance was slower at 10.9% y-o-y, mainly as the bank chose to have a calibrated retail book growth and also due to base effect. The Net interest margin (NIM) for the quarter improved by 10 BPS on a sequential basis to 4.4%, indicating some return of pricing power for banks (seen in the strong interest income) as well as benefits from sound asset quality and strong business growth. Notably, the core cost-to-income ratio (Calc. C/I) for HDFC Bank further improved to 39.6%, and it contracted by 102 BPS y-o-y, indicating efficient cost management as well as benefits of digitisation. Provisions for the quarter declined by 14.6% q-o-q, due to lower loan loss provisions and general provisions, but was up by 22.6% y-o-y. Notably, the management has indicated that the provisions cost may persist at the present range (new normal), due to a shift of the bank's business mix. As a result of the strong topline growth and well maintained costs, net profit for the quarter increased by 22.6% y-o-y to Rs. 5,885.1 crore and was above our estimates.

- ♦ **Loan book momentum continues, asset quality improved marginally:** HDFC Bank witnessed healthy loan book traction as advances grew by 24.5% y-o-y on account of a rise of 31.9% y-o-y in its domestic corporate book and a 19% growth in its retail portfolio. While the retail lending has comparatively grown slower during the quarter, we believe that the bank is calibrating its incremental growth in the retail segment, so as to optimize its credit cost-margins mix.

Deposit growth for the quarter stood at 17% y-o-y, while CASA growth stood at 14% y-o-y. On a sequential basis, CASA ratio stood at 42.4%, which is crucial in helping the bank maintain lower cost of funds and, thus, sustain/improve margins. The bank's continuing focus on deposits helped in the maintenance of a healthy liquidity

coverage ratio at 118%, well above the regulatory requirement. While CASA is important, there is significant competition for the retail term deposits as well, which we believe is also crucial monitorable going forward.

Notably, the asset quality during the quarter saw sequential improvement as GNPA ratio stood at 1.36% (down by 2 BPS q-o-q), while net NPA improved by 3 BPS q-o-q to 0.39%. Slippages for Q4FY19 reduced and stood at Rs 3577 crore as against Rs 4000 crore for Q3FY19. The bank continues to hold floating provisions worth Rs. 1,451 crore as of Q4FY2019-end, while PCR stood at 71% and these are a source of additional comfort for investors.

- ◆ **Outlook:** HDFC Bank has delivered a strong performance yet again with attractive margins performance and conservative asset-quality

performance. The overall asset-quality picture looks sanguine, and despite the share of unsecured lending rising, we believe that the risk has been priced in well to ensure stable return ratios. Complementing its already strong underwriting and assessment capabilities, healthy traction from digital channels is adding to the moat of its business strength. Hence, we opine that HDFC Bank's strong operating parameters and consistency clearly stand out at present. HDFC Bank's floating provision cushion of Rs. 1,450 crore and comfortable capitalization levels (Tier 1 at 15.81%, CET-1 at 14.9%) are further positives.

- ◆ **Valuation:** HDFC Bank currently trades at 3.5x its FY2021E BVPS, which we believe is attractive for a bank with its strengths and consistency. We maintain our Buy rating on the stock with a revised PT of Rs 2750.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Interest income	26,333.3	21,321.1	23.5	25,889.5	1.7
Interest expense	13,243.8	10,663.4	24.2	13,313.5	-0.5
Net interest income	13,089.5	10,657.7	22.8	12,576.0	4.1
Non-interest income	4,871.2	4,228.6	15.2	4,921.0	-1.0
Net total income	17,960.7	14,886.3	20.7	17,497.0	2.6
Operating expenses	7,117.1	6,050.6	17.6	6,719.3	5.9
- Employee cost	2,074.4	1,741.2	19.1	1,967.6	5.4
- Other Costs	5,042.7	4,309.4	17.0	4,751.7	6.1
Pre-provisioning profit	10,843.6	8,835.7	22.7	10,777.7	0.6
Provisions	1,889.2	1,541.1	22.6	2,211.5	-14.6
Profit before tax	8,954.4	7,294.6	22.8	8,566.2	4.5
Tax	3,069.3	2,495.3	23.0	2,981.0	3.0
Profit after tax	5,885.1	4,799.3	22.6	5,585.1	5.4
Asset Quality					
Gross NPAs	11,224.2	8,607.0	30.4	10,902.9	2.9
-Gross NPA (%)	1.4	1.3	6 bps	1.4	-2 bps
Net NPAs	3,214.5	2,601.0	23.6	3,301.5	-2.6
-Net NPA (%)	0.4	0.4	-1 bps	0.4	-3 bps
Key reported ratios (%)					
NIM (%)	4.4	4.3	10 bps	4.3	10 bps
CASA (%)	42.4	43.5	-110 bps	40.7	170 bps

Profit and loss statement

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Net interest income	33,139	40,095	48,243	59,466	72,560
Non-interest income	12,296	15,220	17,626	20,112	23,540
Net total income	45,436	55,315	65,868	79,578	96,100
Operating expenses	19,703	22,690	26,119	31,713	36,001
Pre-provisioning profit	25,732	32,625	39,749	47,866	60,099
Provisions	3,593	5,927	7,550	9,458	11,539
Profit before tax	22,139	26,697	32,199	38,408	48,560
Tax	7,589	9,211	11,122	13,059	16,510
Profit after tax	14,550	17,487	21,077	25,349	32,050

Balance sheet					Rs cr
Particulars	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Networth	89,462	106,295	149,206	152,173	176,188
Deposits	643,640	788,771	923,141	1,135,751	1,374,259
Borrowings	74,029	123,105	117,085	103,353	125,058
Other liabilities & provisions	56,709	45,764	55,108	90,633	108,373
Total liabilities	863,840	1,063,934	1,244,541	1,481,910	1,783,877
Assets					
Cash & balances with RBI	37,897	104,670	46,764	61,331	74,210
Balances with banks & money at call	11,055	18,245	34,584	34,073	41,228
Investments	214,463	242,200	290,588	355,662	429,599
Advances	554,568	658,333	819,401	995,572	1,214,598
Fixed assets	3,627	3,607	4,030	4,365	4,801
Other assets	42,230	36,879	49,174	30,907	19,440
Total assets	863,840	1,063,934	1,244,541	1,481,910	1,783,877

Key ratios					Rs cr
Particulars	FY17	FY18	FY19	FY20E	FY21E
Per share data (Rs)					
Earnings	56.8	67.4	77.5	93.2	117.8
Dividend	11.0	0.0	15.1	18.2	23.0
Book value	348.9	409.5	548.4	559.3	647.6
Adj. book value	341.7	399.5	533.6	537.8	618.0
Spreads (%)					
Yield on advances	10.2	10.3	10.3	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	4.6
Operating ratios (%)					
Credit / deposit	86.2	83.5	87.3	87.7	88.4
Cost / income	43.4	41.0	39.7	39.9	37.5
CASA	48.0	43.5	43.9	43.5	43.1
Non interest income / total income	27.1	27.5	26.8	25.3	24.5
Assets / Equity (x)	9.9	9.8	9.0	9.0	9.9
Return ratios (%)					
RoE	17.9	17.9	16.5	16.8	19.5
RoA	1.8	1.8	1.8	1.9	2.0
Asset quality (%)					
Gross NPA	1.1	1.3	1.0	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	20.3	23.3	22.0
Pre-provisioning profit	20.5	26.8	21.8	20.4	25.6
Profit after tax	18.3	20.2	20.5	20.3	26.4
Advances	19.4	18.7	24.5	21.5	22.0
Deposits	17.8	22.5	17.0	23.0	21.0
Valuation ratios (x)					
P/E	40.3	34.0	29.6	24.6	19.4
P/BV	6.6	5.6	4.2	4.1	3.5
Capital adequacy (%)					
CAR	14.6	14.8	17.1	14.6	13.9
Tier I	12.8	13.2	15.8	13.4	13.0

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