

## Healthy operational performance...

HDFC Bank reported a healthy performance in line with our estimates, supported by an improvement in margins to 4.4% from 4.3%. NII came in healthy at ~21% YoY to ₹ 13089 crore while operating profit came in strong at ₹ 10778 crore, up 28% YoY, above our estimate of ₹ 10844 crore. Healthy operating performance & contained provisions kept earnings growth strong at ₹ 5885 crore, up 22.6% YoY, in line with our estimate of ~₹ 5879 crore.

Advances growth remained strong at 24.5% YoY at ₹ 819401 crore, led by 31.7% YoY growth in corporate segment forming 46% of loan book. Higher growth in corporate segment was contributed by demand for working capital including NCLT financing. Reduction in pace of growth of unsecured retail portfolio (credit cards, personal loans) kept growth in retail segment lower at 19% YoY though it still remains leader in credit cards (1.24 crore credit cards as on February 2019). Deposits growth was at 17% YoY at ₹ 923141 crore. Higher growth was seen in current account at 19.5% YoY aided by some corporate inflows while growth in saving deposits moderated further to 11% YoY, partly led by migration to term deposit. CASA was at 42.38%, down 112 bps YoY and up 166 bps QoQ.

For HDB Financial, pressure on growth and margins are seen receding with an improvement in Q4FY19. AUM growth came in healthy at 23.6% YoY to ₹ 54709 crore. Accordingly, earning growth remained healthy at 23.6% at ₹ 1153 crore. GNPA for FY19 was at 1.8% while NNPA was at 1.3%.

## Play on core earnings, rural expansion, operating leverage

The bank is well placed to harness both retail & expected corporate pick-up. Expect credit, deposit growth at ~21%, 19% CAGR in FY19-21E to ₹ 1201346 crore, ₹ 1299115 crore, respectively. The bank has a strong liability franchise with CASA of 48% (in FY05-17) (FY19 at 42.38%) while retail term deposit comprises more than ~80% of deposit. CASA & fee-based income from cross-selling continues to grow. With a seasoned portfolio, factoring one off corporate pressure & divergence, GNPA, NNPA are seen stable at ~1.2%, 0.4%, respectively. We expect NIM at ~4.4-4.6% and expect PAT growth consistency to stay with 23.9% CAGR in FY19-21E to ₹ 32356 crore

## Valuation & Outlook

Considering the healthy balance sheet growth, superior asset quality & management (overhang of near-term leadership change to stay), the bank is well poised to deliver consistently with margin leadership & robust return ratios. The bank remains a portfolio stock with premium valuations. We revise our estimates to ~20% CAGR in NII, ~24% in PAT in FY19-21E. We upgrade our target price to ₹ 2700 valuing at ~21x FY21E EPS (3.6x FY21E ABV) and include ₹ 150 per share for HDB Financial Services. We maintain our **BUY** recommendation.



### Particulars

Particulars	Amount
Market Capitalisation	₹ 620573 crore
GNPA (Q4FY19)	₹ 11224 crore
NNPA (Q4FY19)	₹ 3214 crore
NIM % (Q4FY19)	4.4
52 week H/L	2332/1884
Networth	₹ 149206 crore
Face value	₹ 2
DII holding (%)	16.4
FII holding (%)	38.7

### Key Highlights

- Improving margins & healthy credit growth to drive healthy operational performance
- Premium valuation to continue led by healthy balance sheet growth, superior asset quality
- Maintain our BUY recommendation with a revised target price of ₹ 2700

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### Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	331,392	400,948	482,431	589,972	708,712	21%
PPP	257,324	326,301	397,496	487,771	584,460	21%
PAT	145,496	174,867	210,781	266,744	323,564	24%
ABV (₹)	341.9	399.6	534.1	610.9	702.0	
P/E	40.6	34.2	29.8	23.5	19.4	
P/ABV	6.7	5.8	4.3	3.8	3.3	
RoA	1.8	1.8	1.8	2.0	2.1	
RoE	17.9	17.9	16.5	16.7	17.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	13,089	13,445	10,658	22.8	12,577	4.1	NII growth maintained with healthy credit growth & improving margins
NIM (%)	4.4	4.3	4.3	10 bps	4.3	10 bps	Improvement in CD ratio led to improvement in margins
Other Income	4,871	4,680	4,229	15.2	4,921	-1.0	Rationalisation of MF distribution fees & decline in credit card business kept core fee growth muted sequentially
Net Total Income	17,961	18,125	14,886	20.7	17,498	2.6	
Staff cost	2,074	2,020	1,741	19.1	1,968	5.4	
Other Operating Expenses	5,043	4,999	4,309	17.0	4,752	6.1	
PPP	10,843.6	11,106.1	8,835.7	22.7	10,778.4	0.6	
Provision	1,889.2	2,089.8	1,541.1	22.6	2,211.5	-14.6	Lower slippages & higher reduction led to lower provisions
PBT	8,954.4	9,016.3	7,294.6	22.8	8,566.9	4.5	
Tax	3,069.3	3,137.7	2,495.3	23.0	2,981.0	3.0	
PAT	5,885.1	5,878.6	4,799.3	22.6	5,585.9	5.4	Healthy operational performance & lower provisions led to healthy PAT growth

Key Metrics							
GNPA	11,224.2	11,402.9	8,607.0	30.4	10,902.9	2.9	Slippages came in lower at ₹ 3577 crore vs. ₹ 4000 crore in previous quarter
NNPA	3,214.5	3,421.5	2,601.0	23.6	3,301.5	-2.6	
Total Restructured assets	786.6	749.7	632.0	24.5	749.7	4.9	
Advances	819,401	819,530	658,333	24.5	780,951	4.9	Corporate segment witnessed higher growth of 31.7% YoY; unsecured retail portfolio grew slower
Deposits	923,141	923,095	788,771	17.0	852,502	8.3	CASA ratio declined ~112 bps to 42.38% vs. 43.5% in Q4FY18

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	59,129.0	58,997.2	-0.2	70,437.1	70,871.2	0.6
Pre Provision Profit	48,156.7	48,777.1	1.3	57,490.3	58,446.0	1.7
NIM calculated (%)	4.5	4.5	4 bps	4.5	4.6	11 bps
PAT	26,395.0	26,674.4	1.1	32,168.7	32,356.4	0.6
ABV (₹)	593.6	610.9	2.9	682.9	702.0	2.8

Source: Company, ICICI Direct Research

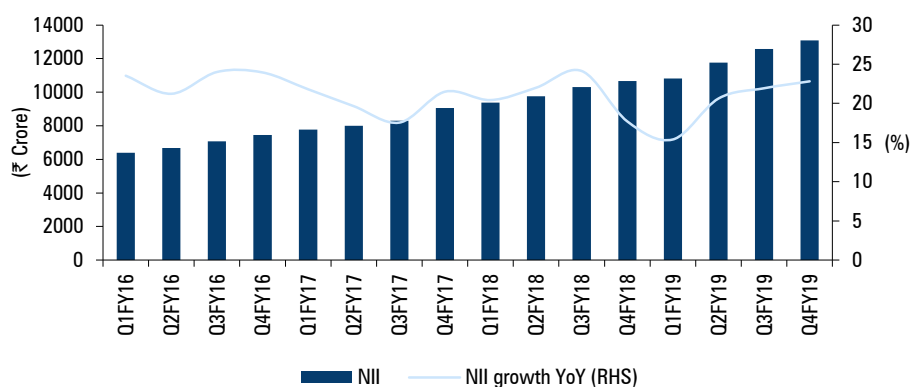
Exhibit 3: Assumption

	Current			Earlier	
	FY18	FY19	FY20E	FY21E	FY20E
Credit growth (%)	18.7	24.5	21.4	20.8	21.0
Deposit Growth (%)	22.5	17.0	18.1	19.2	18.3
CASA ratio (%)	43.5	42.4	42.4	42.0	43.6
NIM Calculated (%)	4.4	4.4	4.5	4.6	4.3
Cost to income ratio (%)	41.0	39.7	38.4	37.8	41.4
GNPA (₹ crore)	8,611	11,479	12,673	14,475	11,596
NNPA (₹ crore)	2,602	3,745	4,171	5,255	1,957
Slippage ratio (%)	1.3	1.1	0.8	0.9	0.8
Credit cost (%)	0.9	0.9	0.8	0.7	0.6

Source: Company, ICICI Direct Research

## Story in Charts

Exhibit 4: Momentum in NII growth continues



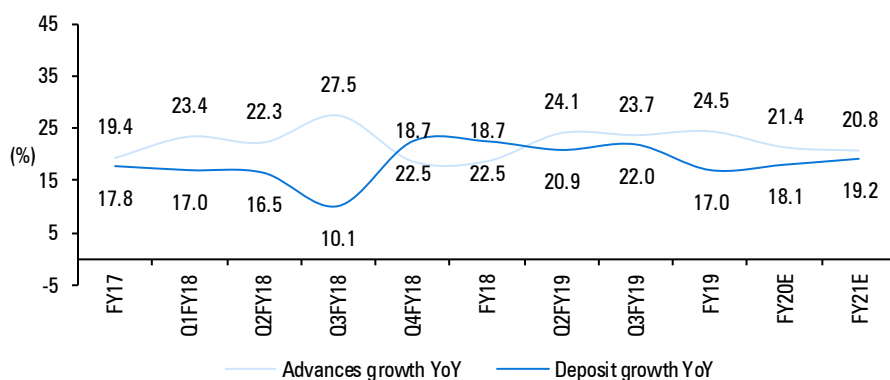
Source: Company, ICICI Direct Research

Exhibit 5: Break-up of retail credit

₹ crore	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Auto	58,449	62,052	66,011	69,053	73,057	76,427	77,659	80,336	83,012	80,675
CVCE	17,563	19,221	19,706	20,252	21,403	23,391	24,852	25,508	27,166	28,730
Two Wheelers	6,114	6,290	6,532	6,883	7,691	8,672	9,227	9,689	10,095	10,047
Personal Loans	46,454	50,067	55,539	60,692	66,817	71,876	77,868	83,426	88,803	92,978
Business Banking	32,129	36,235	40,446	45,528	46,989	54,126	52,050	54,180	55,706	57,035
Loans against Securities	1,271	1,461	1,447	1,604	1,671	1,816	1,748	1,824	1,788	1,881
Credit Cards	23,673	25,995	29,101	30,831	33,622	36,115	38,458	40,535	44,839	46,630
Home Loans	35,408	38,365	38,783	40,015	38,129	36,257	44,021	47,861	51,786	51,359
Others	40,025	43,980	45,261	49,490	49,986	53,809	54,589	58,140	57,705	62,023
<b>Total</b>	<b>261,086</b>	<b>283,666</b>	<b>302,826</b>	<b>324,348</b>	<b>339,365</b>	<b>362,489</b>	<b>380,472</b>	<b>401,499</b>	<b>420,900</b>	<b>431,358</b>

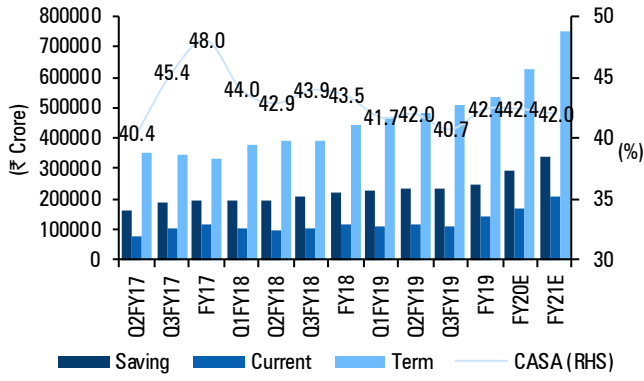
Source: Company, ICICI Direct Research

Exhibit 6: Credit & deposit growth continue to remain above industry



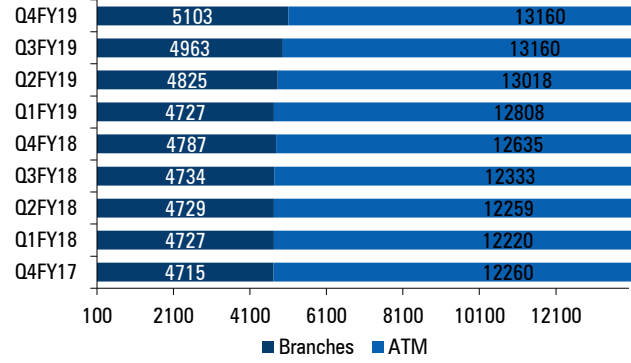
Source: Company, ICICI Direct Research

Exhibit 7: CASA ratio at 42.38%



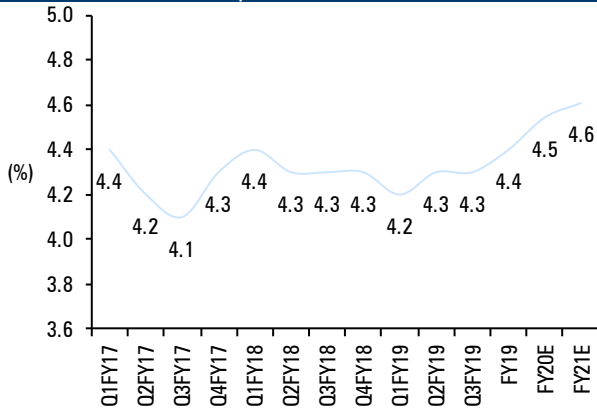
Source: Company, ICICI Direct Research

Exhibit 8: Branch expansion to keep CASA steady



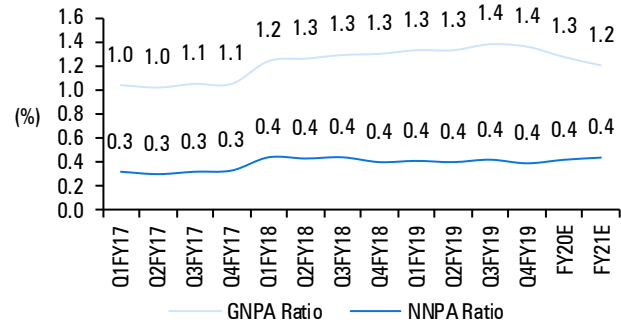
Source: Company, ICICI Direct Research

Exhibit 9: Consistent improvement witnessed in NIM



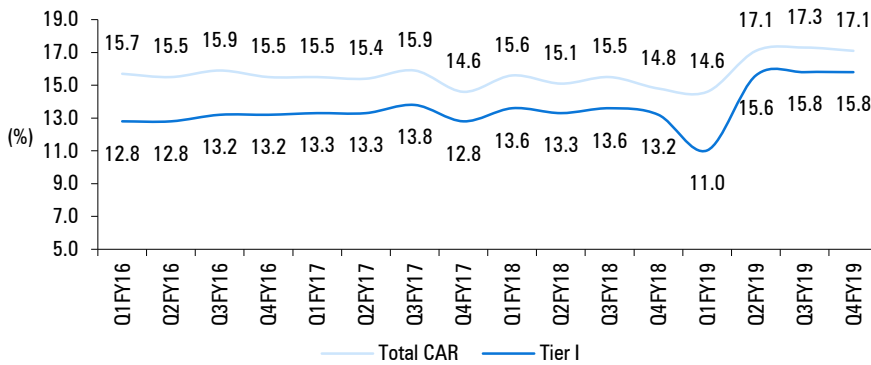
Source: Company, ICICI Direct Research

Exhibit 10: Best in class asset quality maintained



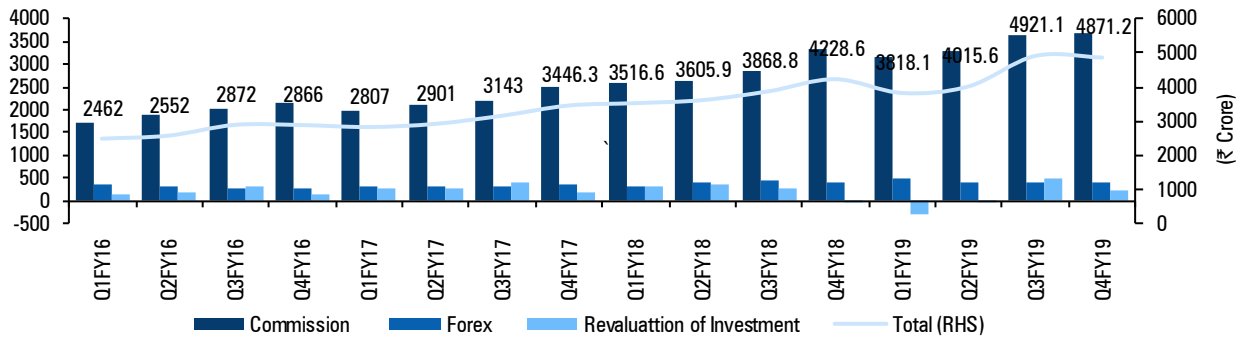
Source: Company, ICICI Direct Research

Exhibit 11: Adequately capitalised for future growth



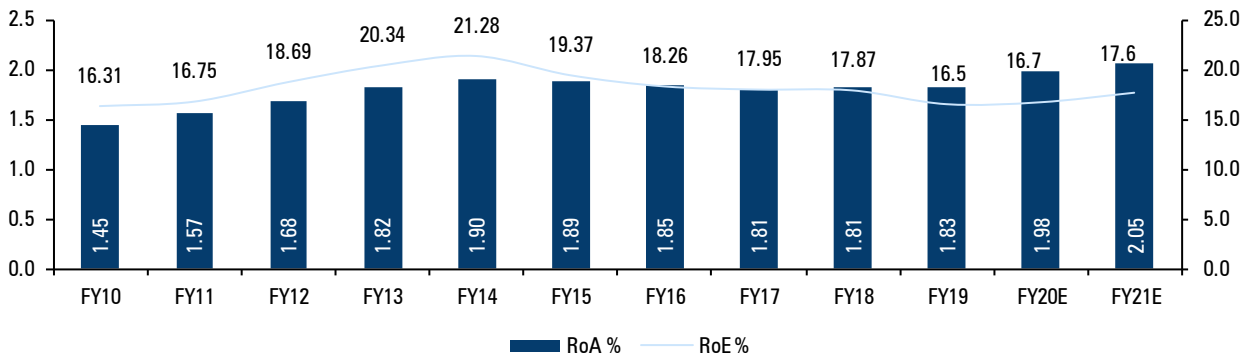
Source: Company, ICICI Direct Research

Exhibit 12: Non-interest income contributes ~27% of total income



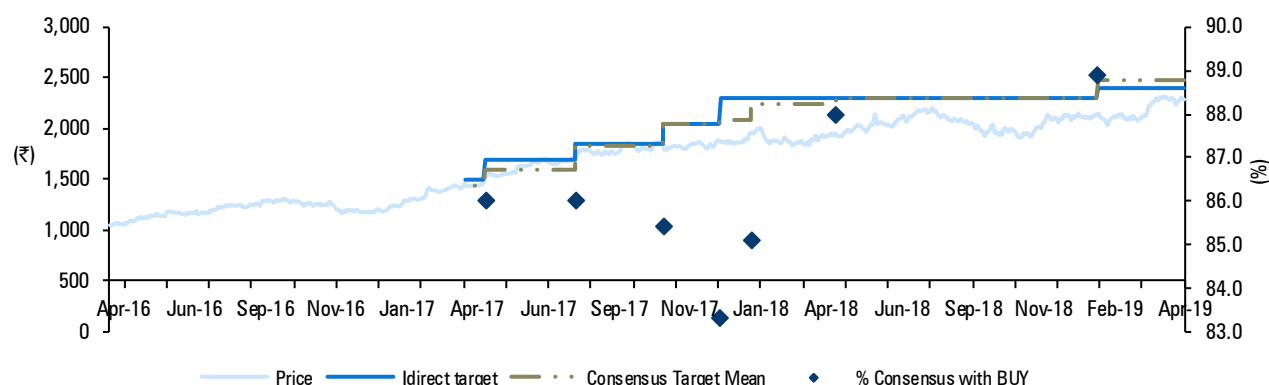
Source: Company, ICICI Direct Research

Exhibit 13: Return ratio to trend upwards



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Latest Filing Date	% O/S	Position	Change (m)	
1	Housing Development Finance Corporation Ltd	31-12-2018	21.38%	582.31M	0
2	Capital Research Global Investors	31-12-2018	6.47%	176.27M	-11.23M
3	Life Insurance Corporation of India	31-12-2018	2.00%	54.34M	+1.63M
4	SBI Funds Management Pvt. Ltd.	31-12-2017	1.57%	42.72M	-0.74M
5	HDFC Asset Management Co., Ltd.	31-03-2019	1.36%	36.93M	+0.05M
6	ICICI Prudential Life Insurance Company Ltd.	31-12-2018	1.13%	30.75M	+0.95M
7	Reliance Nippon Life Asset Management Limited	31-03-2019	1.01%	27.54M	-0.57M
8	Aditya Birla Sun Life AMC Limited	31-03-2019	0.97%	26.44M	-0.04M
9	Vontobel Asset Management, Inc.	28-02-2019	0.93%	25.37M	-0.20M
10	Fidelity International	28-02-2019	0.90%	24.46M	-0.00M

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
BlackRock Asset Management North Asia Limited	+63.00M	+1.88M	Capital Research Global Investors	-342.40M	-11.23M
Life Insurance Corporation of India	+49.78M	+1.63M	ICICI Prudential Asset Management Co. Ltd.	-74.40M	-2.22M
ICICI Prudential Life Insurance Company Ltd.	+28.89M	+0.95M	UBS Asset Management (UK) Ltd.	-52.11M	-1.78M
Nomura Asset Management Singapore Ltd.	+26.81M	+0.88M	Matthews International Capital Management, L.L.C.	-49.91M	-1.64M
Baron Capital Management, Inc.	+26.60M	+0.87M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-48.07M	-1.43M

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	25.6	25.5	26.6	26.5	26.5
FII	40.4	40.9	39.2	38.7	38.7
DII	15.0	14.6	14.9	16.0	16.4
Others	19.0	19.1	19.4	18.8	18.4

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	80241	98972	117528	139694
Interest Expended	40146	50729	58531	68823
NII	40095	48243	58997	70871
Growth (%)	21.0	20.3	22.3	20.1
Non Interest Income	15222	17626	20149	23049
Fees and advisory	11367	13806	15876	18258
Treasury Income	927	387	399	410
Other income	2927	3433	3874	4381
Total Income	55316	65869	79146	93920
Employee cost	6804	7762	9052	10644
Other operating Exp.	15883	18358	21317	24830
Gross Profit	32630	39750	48777	58446
Provisions	6026	7550	8053	9047
PBT	26604	32199	40724	49399
Taxes	9117	11121	14050	17043
Net Profit	17487	21078	26674	32356
Growth (%)	20.2	20.5	26.6	21.3
EPS	67.4	77.4	97.9	118.8

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	259.5	272.3	272.3	272.3
EPS (₹)	67.4	77.4	97.9	118.8
BV (₹)	409.6	547.9	626.2	721.3
ABV (₹)	399.6	534.1	610.9	702.0
P/E	34.2	29.8	23.5	19.4
P/BV	5.6	4.2	3.7	3.2
P/ABV	5.8	4.3	3.8	3.3
Yields & Margins (%)				
Net Interest Margins	4.4	4.4	4.5	4.6
Yield on avg earning assets	8.8	9.0	9.1	9.1
Avg. cost on funds	4.9	5.2	5.2	5.2
Avg. cost of deposits	4.8	5.1	5.1	5.1
Yield on average advances	10.3	10.5	10.4	10.3
Quality and Efficiency (%)				
Cost / Total net income	41.0	39.7	38.4	37.8
Credit/Deposit ratio	83.5	88.8	91.3	92.5
GNPA	1.3	1.4	1.3	1.2
NNPA	0.4	0.5	0.4	0.4
ROE	17.9	16.5	16.7	17.6
ROA	1.8	1.8	2.0	2.1

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	519	545	545	545
Reserves and Surplus	105776	148662	170001	195886
Networth	106295	149206	170546	196431
Deposits	788771	923141	1089871	1299115
Borrowings	123105	117085	125887	135698
Other Liabilities & Provisions	45763	55108	62333	70700
Total	1063934	1244541	1448637	1701945
Applications of Funds				
Fixed Assets	3607	4030	4209	4414
Investments	242200	290588	330505	370860
Advances	658334	819401	994792	1201346
Other Assets	36878	49174	29923	27047
Cash with RBI & call money	122915	81348	89207	98277
Total	1063934	1244541	1448637	1701945

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total assets				
Total assets	23.2	17.0	16.4	17.5
Advances	18.7	24.5	21.4	20.8
Deposits	22.5	17.0	18.1	19.2
Total Income	17.0	22.1	18.1	18.2
Net interest income	21.0	20.3	22.3	20.1
Operating expenses	15.1	15.1	16.3	16.8
Operating profit	26.8	21.8	22.7	19.8
Net profit	20.2	20.5	26.6	21.3
Net worth	18.8	40.4	14.3	15.2
EPS	18.7	14.9	26.6	21.3

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (IT)

Sector / Company	CMP			M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	
Bank of Baroda (BANBAR)	130	140	Buy	34,418	-9.2	19.6	-14.2	6.6	1.1	0.8	-0.3	0.6	-5.8	11.4						
State Bank of India (STABAN)	319	385	Buy	284,695	-7.3	17.3	-43.5	18.5	2.6	2.0	-0.2	0.4	-3.0	6.5						
Indian Bank (INDIBA)	277	300	Buy	13,321	26.2	16.9	30.6	10.6	16.4	9.1	1.1	1.3	1.2	0.5	0.3	0.5	7.1	4.4	7.7	
Axis Bank (AXIBAN)	781	825	Buy	200,748	-1.0	37.5	-762.6	20.8	4.3	3.1	0.0	1.1	0.0	1.1						
City Union Bank (CITUNI)	201	225	Buy	14,789	8.9	10.4	22.6	19.4	3.6	2.9	1.6	1.6	15.5	14.8						
DCB Bank (DCB)	205	250	Buy	6,341	7.8	10.5	13.5	26.1	19.5	15.2	2.6	2.3	2.0	0.9	1.0	1.1	10.9	12.1	13.8	
Federal Bank (FEDBAN)	94	110	Buy	18,588	4.5	8.0	21.0	11.7	1.7	1.4	0.7	0.9	8.2	11.2						
HDFC Bank (HDFBAN)	2,303	2,700	Buy	627,123	67.4	97.0	34.2	23.7	5.9	3.9	1.8	2.0	18.1	17.1						
IndusInd Bank (INDBA)	1,821	1,860	Buy	109,755	60.1	106.1	30.3	17.2	4.7	3.3	1.8	2.1	16.2	20.6						
Jammu & Kashmir Bk(JAMKAS)	54	52	Buy	2,985	3.6	8.9	14.7	6.0	1.0	0.9	0.2	0.5	3.4	7.5						
Kotak Mahindra Bank (KOTMAH)	1,341	1,400	Hold	255,820	21.4	33.0	62.6	40.6	7.1	5.9	1.7	1.8	12.5	14.4						
Yes Bank (YESBAN)	276	300	Buy	63,918																
Bandhan Bank (BANBAN)	522	575	Buy	62,321	11.3	21.9	24.5	12.6	3.6	2.5	3.6	4.0	19.5	21.1						

Source: Company, ICICI Direct Research



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Sell: -10% or more;



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