

BSE SENSEX

38,337

S&P CNX

11,419

CMP: INR2,376 TP: INR2,750 (+16%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2019 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	HDFCB IN
Equity Shares (m)	2,723
M.Cap.(INRb)/(USDb)	6493 / 94.3
52-Week Range (INR)	2503 / 1884
1, 6, 12 Rel. Per (%)	0/6/3
12M Avg Val (INR M)	6842
Free float (%)	78.7

Financials & Valuations (INR b)

Y/E MARCH	FY19	FY20E	FY21E
NII	482.4	570.6	670.4
OP	397.5	488.0	579.2
NP	210.8	252.7	305.3
NIM (%)	4.4	4.4	4.4
EPS (INR)	79.3	92.8	112.1
EPS Gr. (%)	16.9	17.0	20.8
BV/Sh. (INR)	547.9	616.6	709.4
ABV/Sh. (INR)	525.6	590.0	678.2
RoE (%)	16.5	15.9	16.9
RoA (%)	1.8	1.9	1.9
Payout (%)	22.8	25.9	17.2

Valuations

P/E(X)	30.0	25.6	21.2
P/BV (X)	4.3	3.9	3.3
P/ABV (X)	4.5	4.0	3.5
Div. Yield (%)	0.8	1.0	0.8

In-line performance; prudential provisioning to facilitate steady earnings growth

- HDFCB reported 1QFY20 PAT of INR55.7b (+21% YoY, in-line). The bank stepped up provisions on the unsecured book, created a contingent provision of INR1.6b and additional general provision of INR0.9b toward the NBFC/HFC sector.
- NII grew 23% YoY to INR132.9b (in-line), while margins contracted 10bp QoQ to 4.3%. Core fee income grew 12% YoY to INR35.5b; treasury gain of INR2.1b boosted other income growth to 30% YoY.
- Opex grew ~19% YoY (flat QoQ) despite higher PSLC cost, resulting in healthy PPop growth of ~29% YoY (core PPop up 22% YoY). C/I ratio declined ~70bp QoQ to 39% (70bp improvement in the cost/core income ratio).
- Loan growth moderated to 17% YoY (+1% QoQ) to INR8.3t due to slowdown in auto segment (8.5% YoY v/s 21.1% in 1QFY19). Corporate segment grew by 18% YoY (flat QoQ), whereas retail segment growth slowed down to 16.5% YoY. Deposits growth of 18.5% YoY (+3.4% QoQ) was led by 22.5% YoY growth in term deposits, while CASA grew at 13% YoY (-3% QoQ). CASA mix declined 270bp QoQ to 39.7% (42.4% in 4QFY19).
- Slippages stood at INR42.2b (2.1% annualized) led by higher agri slippages, resulting in ~5% QoQ increase in GNPA, while NNPA rose 11% QoQ. GNPA/NNPA ratio increased by 4bp QoQ to 1.4%/0.4%. Coverage ratio declined to 69.7% (-170bp QoQ).
- **Other highlights: (a)** Tier 1 ratio stood at 15.6%. **(b) Subsidiaries: HDB Financial** - (i) Gross loans grew ~23% to INR563b; it reported PAT of INR2.2b (-3% QoQ). (ii) GNPA/NNPA was at 2.3%/1.7% (+50bp/+40bp). **HDFC Securities** - (i) Reported PAT of INR665m, representing a decline of 8% QoQ.
- **Valuation and view:** HDFCB's operating performance remains strong, although business growth has shown moderation, reflecting weakness in the consumption-linked lending segments and cautious stance on unsecured loans. We lower our growth estimates marginally - expect the bank to deliver 19%/20% loan book/PAT CAGR over FY19-21, led by stable margins and a continued improvement in operating leverage. Maintain Buy with a target price of INR2,750 (3.8x FY21E ABV for the bank).

Quarterly Snapshot

(INRm)

	FY19				FY20E				FY19	FY20E	1Q	V/s our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			FY20E	Est
Net Interest Income	108.1	117.6	125.8	130.9	132.9	137.0	148.4	152.4	482.4	570.6	133	-0.3
% Change (Y-o-Y)	15.4	20.6	21.9	22.8	22.9	16.4	18.0	16.4	20.3	18.3	23.3	-0.4
Other Income	38.2	40.2	49.2	48.7	49.7	52.0	56.4	58.7	176.3	216.8	46	9.0
Total Income	146.3	157.8	175.0	179.6	182.6	189.0	204.7	211.1	658.7	787.4	179	2.0
Operating Expenses	59.8	63.0	67.2	71.2	71.2	72.5	76.4	79.4	261.2	299.4	69	3.3
Operating Profit	86.5	94.8	107.8	108.4	111.5	116.5	128.4	131.6	397.5	488.0	110	1.2
% Change (Y-o-Y)	15.0	21.3	27.5	22.7	28.9	22.9	19.1	21.4	21.8	22.8	27.3	1.6
Provisions	16.3	18.2	22.1	18.9	26.1	24.5	26.6	25.0	75.5	102.3	24	9.4
Profit before Tax	70.2	76.6	85.7	89.5	85.3	92.0	101.8	106.6	322.0	385.7	86	-1.0
Tax	24.2	26.5	29.8	30.7	29.7	31.9	34.6	36.9	111.2	133.1	30	-2.6
Net Profit	46.0	50.1	55.9	58.9	55.7	60.0	67.2	69.7	210.8	252.7	56	-0.1
% Change (Y-o-Y)	18.2	20.6	20.3	22.6	21.0	19.9	20.3	18.5	20.5	19.9	21.2	-0.2
Operating Parameters												
Deposit Growth (%)	20.0	20.9	22.0	17.0	18.5	20.7	20.0	18.0	17.0	18.0	21.0	-2.5
Loan Growth (%)	22.0	24.1	23.7	24.5	17.1	19.5	19.9	19.0	24.5	19.0	22.0	-4.9
Deposit	8,058	8,334	8,525	9,231	9,546	10,062	10,228	10,893	9,231	10,893	9,751	-2.1
Loan	7,086	7,508	7,810	8,194	8,297	8,972	9,362	9,751	8,194	9,751	8,645	-4.0
Asset Quality												
Gross NPA	95.4	101.0	109.0	112.2	117.7	123.3	129.4	135.7	112.2	135.7	115.5	1.9
Gross NPA (%)	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	0.1
Net NPA	29.1	30.3	33.0	32.1	35.7	33.9	36.2	43.3	32.1	43.3	32.3	10.3
Net NPA (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.1
PCR (%)	69.5	70.0	69.7	71.4	69.7	72.5	72.0	68.1	71.4	68.1	72.0	-2.3

Source: MOFSL, Company

Exhibit 1: Quarterly Snapshot (INRb)

	FY18				FY19				FY20	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Profit and Loss (INR b)											
Interest Income	186.7	196.7	205.8	213.2	225.5	242.0	258.9	263.3	273.9	21	4
Loans	144.9	153.6	161.6	166.6	173.9	188.3	203.1	210.2	218.0	25	4
Investment	38.9	40.1	41.0	42.2	45.9	50.4	53.2	50.5	52.5	14	4
Others	2.9	3.1	3.2	4.4	5.7	3.3	2.6	2.7	3.4	-40	27
Interest Expenses	93.0	99.2	102.7	106.6	117.4	124.4	133.1	132.4	141.0	20	6
Net Interest Income	93.7	97.5	103.1	106.6	108.1	117.6	125.8	130.9	132.9	23	2
Other Income	35.2	36.1	38.7	42.3	38.2	40.2	49.2	48.7	49.7	30	2
Trading profits	3.3	3.6	2.6	0.2	-2.8	-0.3	4.7	2.3	2.1	-175	-7
Exchange Profits	3.0	3.8	4.3	4.2	5.0	4.2	4.0	4.0	5.8	15	43
Others (Ex non core)	28.9	28.7	31.8	37.9	36.0	36.3	40.5	42.4	41.8	16	-1
Total Income	128.9	133.6	141.8	148.9	146.3	157.8	175.0	179.6	182.6	25	2
Operating Expenses	53.7	55.4	57.3	60.5	59.8	63.0	67.2	71.2	71.2	19	0
Employee	16.6	17.2	16.9	17.4	18.1	19.1	19.7	20.7	22.2	22	7
Others	37.1	38.2	40.4	43.1	41.7	43.9	47.5	50.4	49.0	17	-3
Operating Profits	75.2	78.2	84.5	88.4	86.5	94.8	107.8	108.4	111.5	29	3
Core Operating Profits	71.9	74.6	81.9	88.1	89.3	95.1	103.0	106.1	109.4	22	3
Provisions	15.6	14.8	13.5	15.4	16.3	18.2	22.1	18.9	26.1	60	38
PBT	59.6	63.4	71.0	72.9	70.2	76.6	85.7	89.5	85.3	22	-5
Taxes	20.7	21.9	24.6	25.0	24.2	26.5	29.8	30.7	29.7	23	-3
PAT	38.9	41.5	46.4	48.0	46.0	50.1	55.9	58.9	55.7	21	-5
Balance Sheet (INR b)											
Deposits	6,714	6,893	6,990	7,888	8,058	8,334	8,525	9,231	9,546	18	3
Loans	5,810	6,049	6,312	6,583	7,086	7,508	7,810	8,194	8,297	17	1
Asset Quality (INR b)											
GNPA	72.4	77.0	82.3	86.1	95.4	101.0	109.0	112.2	117.7	23	5
NNPA	25.3	26.0	27.7	26.0	29.1	30.3	33.0	32.1	35.7	23	11
Ratios											
Asset Quality Ratios (%)											
GNPA	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4	7	4
NNPA	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2	4
PCR (Calc.)	65.1	66.3	66.3	69.8	69.5	70.0	69.7	71.4	69.7	17	-167
Slippage	2.6	2.0	1.9	1.8	2.2	1.9	2.1	1.8	0.0	-216	-183
Business Ratios (%)											
Fees to Total Income	22.4	21.5	22.4	25.5	24.6	23.0	23.1	23.6	22.9	-172	-71
Cost to Core Income	42.7	42.6	41.2	40.7	40.1	39.8	39.5	40.1	39.4	-69	-71
Tax Rate	34.7	34.5	34.6	34.2	34.4	34.7	34.8	34.3	34.8	31	47
CASA (Reported)	44.0	42.9	43.9	43.5	41.7	42.0	40.7	42.4	39.7	-200	-270
Loan/Deposit	86.5	87.7	90.3	83.5	87.9	90.1	91.6	88.8	86.9	-102	-184
Profitability Ratios (%)											
Yield on loans	10.2	10.4	10.5	10.3	10.2	10.3	10.6	10.5	10.6	40	7
Yield On Investments	7.2	7.0	6.9	7.1	7.1	7.0	7.3	7.1	7.1	4	5
Yield on funds	9.3	9.6	9.6	9.7	9.6	9.5	9.8	9.7	9.8	22	9
Cost of funds	5.0	5.1	5.2	5.0	5.1	5.2	5.5	5.3	5.4	28	13
Spreads	4.3	4.5	4.5	4.7	4.5	4.3	4.4	4.5	4.4	-6	-4
Margins	4.4	4.3	4.3	4.3	4.2	4.3	4.3	4.4	4.3	10	-10
RoA	1.8	1.9	2.0	1.9	1.8	1.8	2.0	2.0	1.8	8	-20
RoE	17.0	17.5	18.9	18.5	17.2	16.4	15.9	16.1	14.6	-259	-150
Other Details											
Branches	4,727	4,729	4,734	4,715	4,804	4,825	4,963	5,103	5,130	326	27
ATMs	12,220	12,259	NA	12,260	12,808	13,018	13,160	13,160	13,395	587	235
Employees	83,757	NA	86,600	88,253	89,550	94,907	96,425	98,061	104,154	14,604	6,093

Source: MOFSL, Company

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

Y/E March	1QFY20A	1QFY20E	V/S our Est	Comments
Interest Income	273.9	276.4	-1	
Interest Expense	141.0	143.0	-1	
Net Interest Income	132.9	133.4	0	
% Change (Y-o-Y)	22.9	23.3		
Other Income	49.7	45.6	9	Higher trading gains led to beat on other income
Total Income	182.6	179.0	2	
Operating Expenses	71.2	68.9	3	Higher PSLC fees led to higher opex
Operating Profit	111.5	110.1	1	
% Change (Y-o-Y)	28.9	27.3		
Provisions	26.1	23.9	9	Higher than estimated provisions due to management's cautionary stance
Profit before Tax	85.3	86.2	-1	
Tax	29.7	30.5	-3	
Net Profit	55.7	55.8	0	In line
% Change (Y-o-Y)	21.0	21.2		

Source: Company, MOFSL

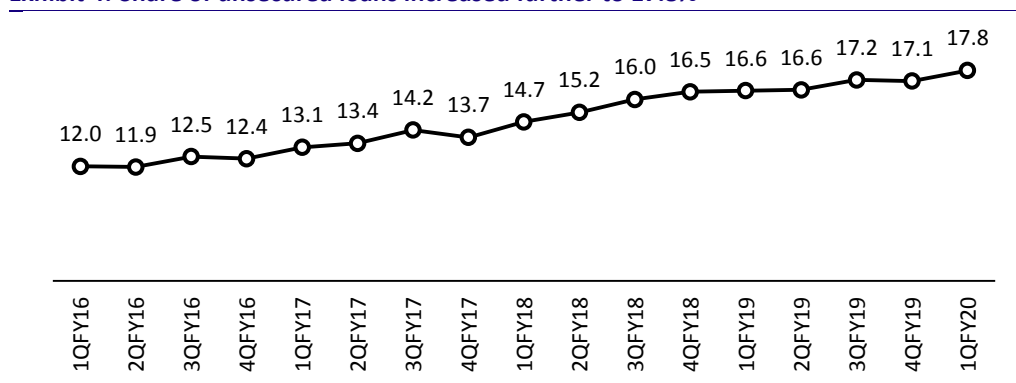
Loan growth moderates; impact of slowing consumption visible

- Loan book grew 1.3%/17.1% QoQ/YoY to INR8.3t. Deposits increased 3.4%/18.5% QoQ/YoY to INR9.5t. CD ratio, thus, moderated to 86.9% (-180bp QoQ).
- Retail loan growth came in at 2.7%/16.5% QoQ/YoY. Thus, the share of retail loans (as per the regulatory classification) increased to 53.4% from 52.6% in 4QFY19. However, as per the internal classification, the share of retail loans increased to 67.3% from 66.8% in 4QFY19.
- Retail loan growth was primarily driven by personal loans (+4.5%/24.8% QoQ/YoY), credit cards (+6.2%/+28.8% YoY) and home loans (8.6%/26.7% QoQ/YoY) due to portfolio buyout of INR72.3b from HDFC Ltd.
- However, loan growth in the auto segment moderated (8.5% YoY v/s 21.1% in 1QFY19) due to slowdown in the auto sector; management further indicated that it would take a couple of quarters for growth to pick up.
- Corporate book grew at 17.8% YoY (-0.4% QoQ) led by repayments during the quarter.

Exhibit 3: Share of retail loans (based on internal classification) increased to 67.3% v/s 66.8% in 4QFY19

INRb	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	% of total
Car Loans	883.2	913.8	920.9	4.3	0.8	11.1
CV loans	471.7	554.3	552.0	17.0	-0.4	6.7
2 wheeler loans	103.2	112.7	113.3	9.8	0.6	1.4
Sub-total - Auto Loans	1,458.1	1,580.8	1,586.2	8.8	0.3	19.1
Personal loans	785.4	938.1	979.9	24.8	4.5	11.8
Business banking	1,095.5	1,250.1	1,261.0	15.1	0.9	15.2
Loan against shares	35.5	36.0	33.5	-5.7	-6.9	0.4
Credit Cards	387.9	466.3	495.2	27.7	6.2	6.0
Home loans	440.4	513.7	557.8	26.7	8.6	6.7
Gold loans	55.3	58.4	59.2	7.1	1.5	0.7
Other Retail	541.5	631.3	608.7	12.4	-3.6	7.3
Retail Total	4,799.6	5,474.7	5,581.5	16.3	1.9	67.3
Corporate and international	2,286.9	2,719.3	2,715.8	18.8	-0.1	32.7
Total loans	7,086.5	8,194.0	8,297.3	17.1	1.3	100.0

Source: Company, MOFSL

Exhibit 4: Share of unsecured loans increased further to 17.8%

Source: MOFSL, Company

CASA grew by ~13% YoY, while term deposits growth remained healthy at ~23% YoY

Reported NIM shrank 10bp QoQ; CASA ratio moderated 270bp to 39.7%

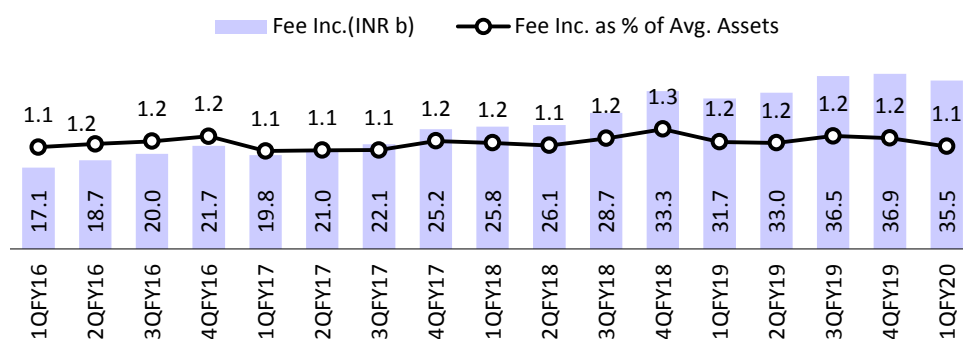
- Reported NIM shrank by 10bp QoQ to 4.3% due to slightly elevated cost of deposits in the preceding quarters.
- CASA deposit growth moderated further to 12.8% YoY (-3.1% QoQ) driven by 15%/12% YoY growth in CA/SA deposits. CA deposits declined 12% QoQ, leading to a 270bp decline in the CASA ratio to 39.7%
- Term deposits grew at 8.2%/22.5% QoQ/YoY, higher than overall deposits.

Core fee income growth remains muted, opex growth marginally higher than usual run-rate

- Core fee income grew by just 12% YoY to INR35.5b, mainly due to a sharp decline in mutual fund distribution fees and slowdown in disbursements in the unsecured book. Management indicated for pick-up in fee income growth going further led by higher life insurance policies sold in the current quarter.
- Fee income/average assets came in at 1.1% as on 1QFY20 (1.22% in 4QFY19)
- Total other income grew at 30.2% YoY led by treasury gains of INR2.1b and higher securities & FX trading income (+15.4% YoY).

- Overall opex grew at 18.9% YoY (flat QoQ), led by higher employee expenses (+22.5% YoY) and higher PSLC cost. The bank added 6,093 employees during the quarter. However, the cost-to-core income ratio declined by 70bp to 39.4%.

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



Source: MOFSL, Company

Fresh slippages came in at 2.03% (annualized)

Slippages slightly on higher side led by agri; management's conservative stance led to higher credit cost

- Fresh slippages came in at INR42.3b (2.03% annualized), whereas slippages excl. agri segment stood at 1.4%. Bank wrote INR21b of loans, which led to a decline in PCR from 71.4% in 4QFY19 to 69.7% in 1QFY20.
- Absolute GNPA/NNPA increased 4.9%/11% QoQ to ~INR118b/INR36b. GNPA/NNPA ratio increased by 5bp QoQ.
- Credit cost for the quarter increased 30bp QoQ to 1.32% as the bank followed a conservative approach and stepped up provisioning on unsecured book. The bank further created a contingent provision of INR1.6b and additional general provision of INR0.9b toward the NBFC/HFC sector. It also created higher provisions on the agri portfolio.



1QFY20 conference call highlights

Balance sheet and profit & loss

- Fee income impacted as change in regulations in mutual funds resulted in lower MF fees.
- Key drivers of fee income (excl. mutual funds) are retail assets, increasing volumes in life insurance products, cards issuance (both debit & credit cards), and third-party distribution fees.
- The bank bought PSLC certificates during the quarter to meet PSLC guidelines.
- MTM gains on bond portfolio of INR0.8b.
- The bank is looking to diversify funding towards increasing institutional funding as well. Overall, it increased focus toward garnering deposits.
- Drivers to C/I ratio improvement will be the business mix strategy (retail: wholesale mix will continue to be 55:45), increased focus on digitalization to improve business productivity.
- Vehicle industry has seen a bit of slowdown over the last few quarters. This reflected in the bank's vehicle segment growth.

- Growth in personal loans is due to increasing customer leveraging, increasing ticket size and also increasing growth from the semi-urban areas. Personal loan is typically offered to salaried customers.
- The unsecured business loan book is INR150b. Around 5%-6% of total loans linked to external benchmark.
- ~53% of branches in urban & semi urban regions.
- The bank hired few freshers in the risk underwriting team and undergoing various trainings.
- HDB Financials: Increase in NPL mainly in the construction equipment segment. Also, cost of funds has gone up which led to a contraction in margins by 30-40bp.

Asset quality

- The bank made general provisions of INR0.9b for standard advances toward NBFC/HFCs, etc.
- Also, created contingent provisions of INR1.7b toward a few accounts (across various sectors).
- Increase in provisions mainly due to (i) agri portfolio, (ii) increased provisions towards unsecured loan book, (iii) additional contingent provisions made towards a few accounts, and (iv) growing balance sheet size.
- The bank stepped up provisions on unsecured loan book across NPA buckets and expects the similar approach going forward.
- Slippages of INR42.3b (2.0% of advances). Excluding agri, slippage ratio is 1.4%.
- The bank continues to have caution approach toward NBFC segment and evaluates their liquidity position. However, it continues to lend to good companies.
- During the quarter, recoveries stood at ~INR10b and write-offs at ~INR21b.

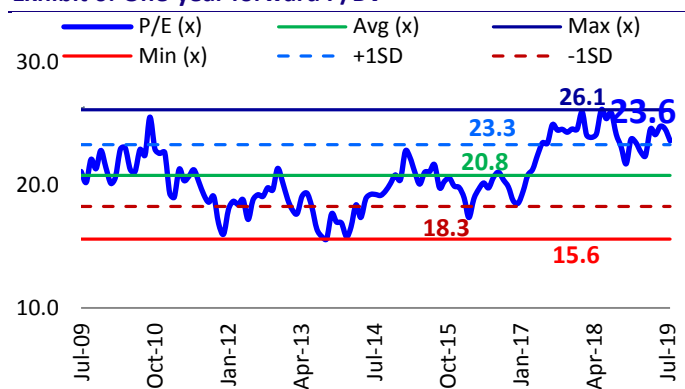
Buy with a target price of
INR2,750 (3.8x FY21E ABV
for the bank)

Valuation and view

- Structural drivers are in place with (1) opportunities for significant market share gains, (2) improving operating efficiency led by digitalization initiatives, (3) expected traction in income due to strong expansion in branch network and (4) best-in-class asset quality.
- Post demon, the 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 the contribution from high RoE retail products like unsecured personal loans, LAS and credit cards going up.
- Helped by strong benefit on cost of funds, the bank has been aggressive in gaining market share in retail/corporate loans. We expect the trend to continue considering that many competitors are struggling with their own issues like capitalization, asset quality, etc.
- We have seen some pickup in the investments in branches and ATMs and calibration in workforce to maintain healthy deposit growth. The C/I of the bank is continuously improving due to productivity from existing investments. PPOp growth is expected to be healthy at 21% and PAT growth is estimated at 20% over FY19-21.

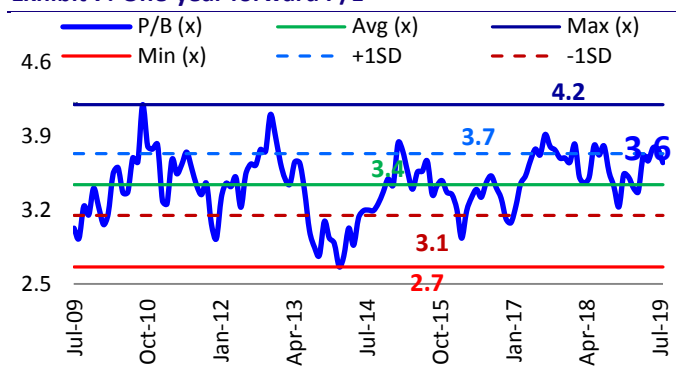
- Despite pricing pressure, NIMs moderation is expected to be limited due to (a) high CASA ratio, (b) benefit of high share of fixed rate retail loans and (c) likelihood of a rise in high-yielding retail loans contribution within retail.
- HDFCB's operating performance remains strong, although business growth has shown moderation, reflecting weakness in the consumption-linked lending segments and cautious stance on unsecured loans. We lower our growth estimates marginally – expect the bank to deliver 19%/20% loan book/PAT CAGR over FY19-21, led by stable margins and a continued improvement in operating leverage. We maintain our **Buy** rating with a target price of INR2,750 (3.8x FY21E ABV for the bank).

Exhibit 6: One-year forward P/BV



Source: MOFSL, Company

Exhibit 7: One-year forward P/E



Source: MOFSL, Company

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

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.0	9.3	8.8	8.3	8.6	8.6	8.6
Interest Expense	4.8	5.0	4.6	4.2	4.4	4.4	4.3
Net Interest Income	4.14	4.25	4.21	4.16	4.18	4.23	4.23
Core Fee Income	1.23	1.23	1.12	1.31	1.34	1.36	1.40
Trading and others	0.43	0.43	0.44	0.27	0.18	0.24	0.23
Non Interest income	1.66	1.65	1.56	1.58	1.53	1.61	1.63
Total Income	5.37	5.48	5.33	5.74	5.71	5.84	5.86
Operating Expenses	2.59	2.61	2.51	2.35	2.26	2.22	2.20
Employee cost	0.88	0.88	0.82	0.71	0.67	0.66	0.64
Others	1.71	1.74	1.68	1.65	1.59	1.56	1.56
Operating Profits	3.22	3.29	3.27	3.38	3.44	3.62	3.65
Core operating Profits	2.79	2.86	2.83	3.11	3.26	3.37	3.42
Provisions	0.38	0.42	0.46	0.61	0.65	0.76	0.71
PBT	2.83	2.87	2.82	2.77	2.79	2.86	2.94
Tax	0.94	0.98	0.97	0.96	0.96	0.99	1.01
RoA	1.89	1.89	1.85	1.81	1.83	1.87	1.93
Leverage (x)	10.3	9.6	9.7	9.8	9.0	8.5	8.8
RoE	19.4	18.3	17.9	17.9	16.5	15.9	16.9

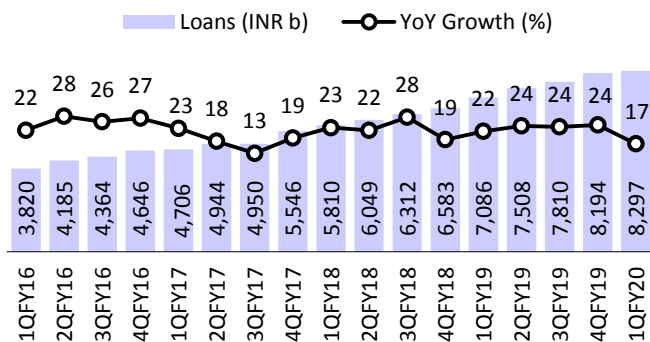
Source: MOFSL, Company

Exhibit 9: Change in estimates: We slightly change our PAT estimates by -2%/-3% for FY20/21

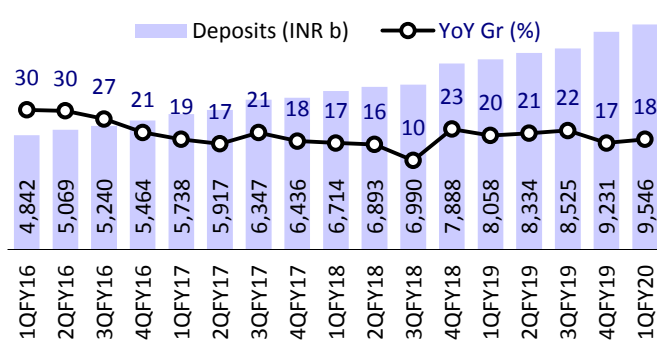
INR b	Old Estimates		New Estimates		Change (%/bps)	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Interest Income	592.8	717.7	570.6	670.4	-3.7	-6.6
Other Income	202.7	235.1	216.8	258.0	7.0	9.7
Total Income	795.5	952.9	787.4	928.3	-1.0	-2.6
Operating Expenses	299.5	343.4	299.4	349.1	0.0	1.7
Operating Profits	496.0	609.5	488.0	579.2	-1.6	-5.0
Provisions	103.6	128.6	102.3	113.2	-1.3	-12.0
PBT	392.4	480.9	385.7	466.0	-1.7	-3.1
Tax	135.4	165.9	133.1	160.8	-1.7	-3.1
PAT	257.0	315.0	252.7	305.3	-1.7	-3.1
Loans	9,997	12,256	9,751	11,701	-2.5	-4.5
Deposits	11,308	13,796	10,893	12,963	-3.7	-6.0
Margins (%)	4.4	4.3	4.4	4.4	2.9	15.1
Credit Cost (%)	1.00	0.99	1.05	0.96	5.5	-3.3
RoA (%)	1.85	1.86	1.87	1.93	2.3	6.9
RoE (%)	16.1	17.2	15.9	16.9	-17.0	-29.5
EPS	94	116	93	112	-1.7	-3.1
BV	624	721	617	709	-1.2	-1.6
ABV	597	688	590	678	-1.3	-1.4

Source: MOFSL, Company

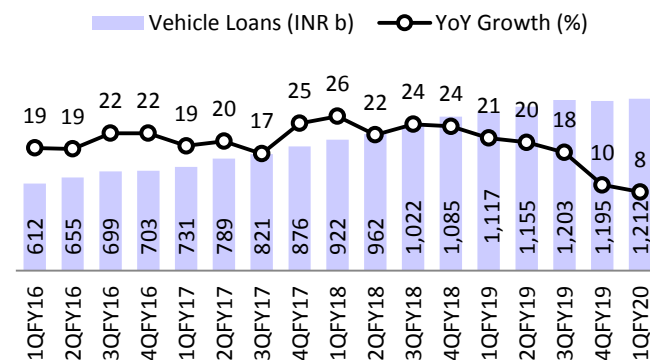
Story in Charts

Exhibit 10: Loan growth moderated to 17% YoY (1% QoQ)


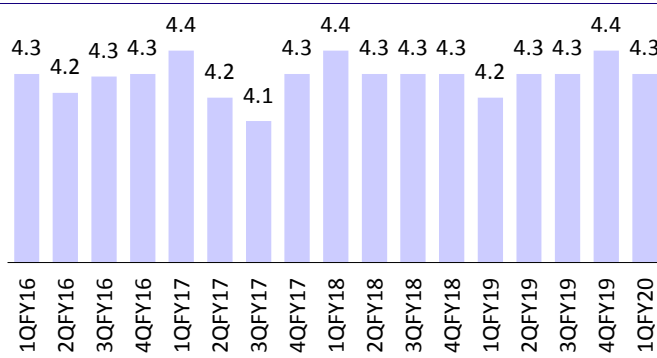
Source: MOFSL, Company

Exhibit 11: Deposits grew 18% YoY


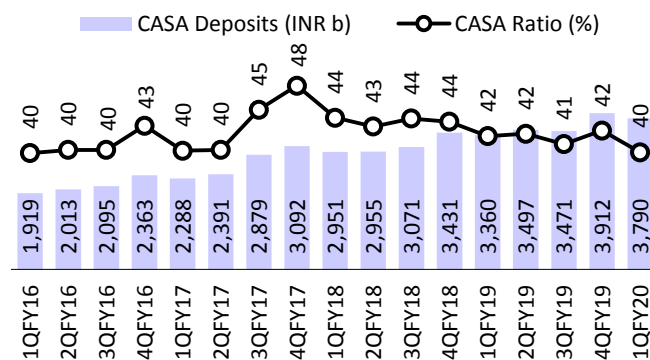
Source: MOFSL, Company

Exhibit 12: Vehicle loan growth moderated further to 8% YoY; slowest in past 17 quarters


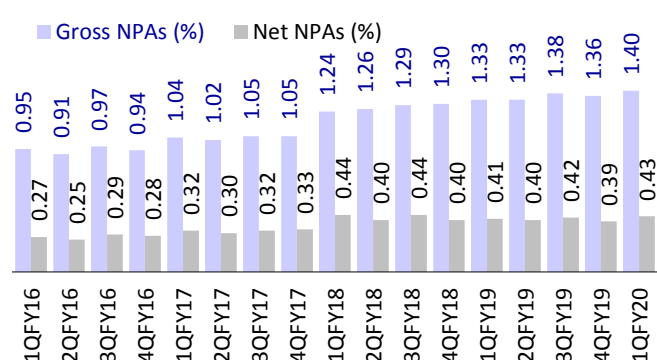
Source: MOFSL, Company

Exhibit 13: NIM shrank 10bp QoQ to 4.3%


Source: MOFSL, Company

Exhibit 14: CASA ratio declined 270bp QoQ to 39.7%


Source: MOFSL, Company

Exhibit 15: GNPA/NNPA ratios increase 4bp/4bp QoQ


Source: MOFSL, Company

Financials and Valuations

Income Statement							(INRb)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	411.4	484.7	602.2	693.1	802.4	989.7	1,164.8	1,357.2
Interest Expense	226.5	260.7	326.3	361.7	401.5	507.3	594.1	686.8
Net Interest Income	184.8	224.0	275.9	331.4	400.9	482.4	570.6	670.4
Growth (%)	16.9	21.2	23.2	20.1	21.0	20.3	18.3	17.5
Non Interest Income	79.2	90.0	107.5	123.0	152.2	176.3	216.8	258.0
Total Income	264.0	313.9	383.4	454.4	553.2	658.7	787.4	928.3
Growth (%)	16.5	18.9	22.1	18.5	21.7	19.1	19.5	17.9
Operating Expenses	120.4	139.9	169.8	197.0	226.9	261.2	299.4	349.1
Pre Provision Profits	143.6	174.0	213.6	257.3	326.2	397.5	488.0	579.2
Growth (%)	25.7	21.2	22.7	20.4	26.8	21.8	22.8	18.7
Core PPP	122.2	150.3	184.5	220.9	311.0	380.3	459.4	547.5
Growth (%)	25.2	23.0	22.7	19.7	40.8	22.3	20.8	19.2
Provisions (excl tax)	15.9	20.8	27.3	35.9	59.3	75.5	102.3	113.2
PBT	127.7	153.3	186.4	221.4	267.0	322.0	385.7	466.0
Tax	42.9	51.1	63.4	75.9	92.1	111.2	133.1	160.8
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	210.8	252.7	305.3
Growth (%)	26.0	20.5	20.4	18.3	20.2	20.5	19.9	20.8

Balance Sheet								
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	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	1,486.6	1,673.7	1,926.5
Net Worth	434.8	620.1	726.8	860.7	1,063.0	1,492.1	1,679.2	1,932.0
Deposits	3,673.4	4,508.0	5,464.2	6,436.4	7,887.7	9,231.4	10,893.1	12,962.7
Growth (%)	24.0	22.7	21.2	17.8	22.5	17.0	18.0	19.0
of which CASA Dep	1,646.2	1,984.9	2,363.1	3,091.5	3,430.9	3,912.0	4,487.9	5,418.4
Growth (%)	17.2	20.6	19.1	30.8	11.0	14.0	14.7	20.7
Borrowings	394.4	452.1	849.7	740.3	1,231.0	1,170.9	1,304.1	1,476.5
Other Liabilities & Prov.	413.4	324.8	367.3	601.0	457.6	551.1	661.3	793.6
Total Liabilities	4,916.0	5,905.0	7,408.0	8,638.4	10,639.3	12,445.4	14,537.7	17,164.8
Current Assets	395.8	363.3	389.2	489.5	1,229.2	813.5	951.4	1,097.4
Investments	1,209.5	1,516.4	1,958.4	2,144.6	2,422.0	2,905.9	3,196.5	3,612.0
Growth (%)	8.4	25.4	29.1	9.5	12.9	20.0	10.0	13.0
Loans	3,030.0	3,655.0	4,645.9	5,545.7	6,583.3	8,194.0	9,750.9	11,701.0
Growth (%)	26.4	20.6	27.1	19.4	18.7	24.5	19.0	20.0
Fixed Assets	29.4	31.2	33.4	36.3	36.1	40.3	44.7	49.2
Total Assets	4,916.0	5,905.0	7,408.0	8,638.4	10,639.3	12,445.4	14,537.7	17,164.8

Asset Quality								
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
GNPA	29.9	34.4	43.9	58.9	86.1	112.2	135.7	157.9
NNPA	8.2	9.0	13.2	18.4	26.0	32.1	43.3	53.5
GNPA Ratio	1.0	0.9	0.9	1.1	1.3	1.4	1.4	1.3
NNPA Ratio	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.5
Slippage Ratio	1.9	1.6	1.6	1.5	2.1	1.9	1.8	1.7
Credit Cost	0.6	0.5	0.5	0.6	0.8	0.9	1.1	1.0
PCR (Excl Tech. write off)	72.6	73.9	69.9	68.7	69.8	71.4	68.1	66.1

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	10.3	10.1	10.1	9.6	9.4	9.6	9.4	9.4
Avg. Yield on loans	11.7	11.1	10.8	10.2	10.3	10.5	10.4	10.3
Avg. Yield on Inv't	7.8	7.2	8.1	7.8	7.2	7.6	7.2	7.0
Avg. Cost-Int. Bear. Liab.	6.2	5.8	6.0	5.5	4.9	5.2	5.3	5.2
Avg. Cost of Deposits	5.7	5.7	5.9	5.3	4.6	4.8	5.0	4.9
Interest Spread	4.1	4.3	4.3	4.2	4.5	4.4	4.2	4.2
Net Interest Margin	4.6	4.6	4.6	4.6	4.4	4.4	4.4	4.4

Capitalisation Ratios (%)

CAR	16.1	16.8	15.5	14.6	14.8	17.1	16.3	15.8
Tier I	11.8	13.7	13.2	12.8	13.3	15.8	15.2	14.8
Tier II	4.3	3.1	2.3	1.8	1.6	1.3	1.2	1.0

Business and Efficiency Ratios (%)

Loans/Deposit	82.5	81.1	85.0	86.2	83.5	88.8	89.5	90.3
CASA Ratio	44.8	44.0	43.2	48.0	43.5	42.4	41.2	41.8
Cost/Assets	2.4	2.4	2.3	2.3	2.1	2.1	2.1	2.0
Cost/Total Income	45.6	44.6	44.3	43.4	41.0	39.7	38.0	37.6
Cost/Core Income	45.8	47.0	46.7	45.8	42.2	40.7	39.5	38.9
Int. Expense/Int.Income	55.1	53.8	54.2	52.2	50.0	51.3	51.0	50.6
Fee Income/Total Income	27.2	24.4	23.6	21.8	22.8	23.5	23.3	23.8
Non Int. Inc./Total Income	30.0	28.7	28.0	27.1	27.5	26.8	27.5	27.8
Empl. Cost/Total Expense	34.7	34.0	33.6	32.9	30.0	29.7	29.6	29.1
Investment/Deposit	32.9	33.6	35.8	33.3	30.7	31.5	29.3	27.9

Valuation

RoE	21.3	19.4	18.3	17.9	17.9	16.5	15.9	16.9
RoA	1.9	1.9	1.8	1.8	1.8	1.8	1.9	1.9
RoRWA	2.6	2.7	2.5	2.4	2.4	2.4	2.5	2.6
Book Value (INR)	181.3	247.4	287.3	335.9	409.6	547.9	616.6	709.4
Growth (%)	19.2	36.5	16.2	16.9	22.0	33.8	12.5	15.1
Price-BV (x)				7.1	5.8	4.3	3.9	3.3
Adjusted BV (INR)	178.9	244.9	283.7	330.8	387.8	525.6	590.0	678.2
Price-ABV (x)				7.2	6.1	4.5	4.0	3.5
EPS (INR)	35.3	40.8	48.6	56.8	67.8	79.3	92.8	112.1
Growth (%)	25.0	15.3	19.3	16.7	19.4	16.9	17.0	20.8
Price-Earnings (x)				41.8	35.0	30.0	25.6	21.2
Dividend Per Sh (INR)	6.9	8.0	9.5	11.0	15.7	18.1	24.1	19.3
Dividend Yield (%)				0.5	0.7	0.8	1.0	0.8

E: MOFSL 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 INR12.6t. As on June 2019, the bank had a network of 5,130 branches and 13,395 ATMs spread across the country.

Exhibit 1: Sensex rebased

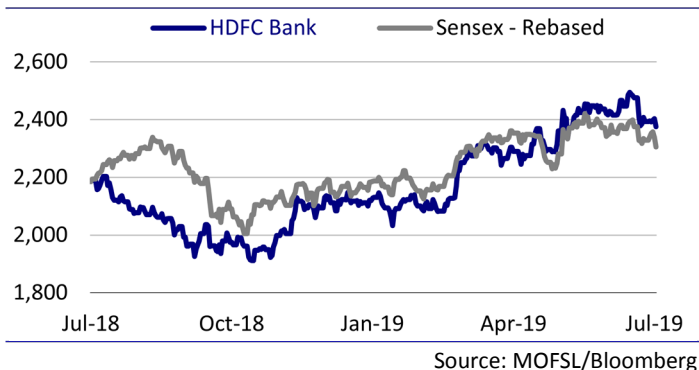


Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	21.4	21.4	20.9
DII	13.4	13.0	12.4
FII	50.5	50.5	51.3
Others	14.7	15.0	15.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
EUROPACIFIC GROWTH FUND	4.1
SBI-ETF NIFTY 50	2.4
LIFE INSURANCE CORPORATION OF INDIA	2.0
ICICI Prudential Life Insurance Company Limited	1.1
HDFC TRUSTEE COMPANY LTD A/c HDFC HYBRID EQUITY FUND	1.0

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	Sanjiv Sachar
Keki Mistry	Malay Patel
Sandeep Parekh	Umesh Chandra Sarangi
MD Ranganath	

*Independent

Exhibit 6: Auditors

Name	Type
MSKA & Associates	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY19	79.3	78.7	0.8
FY20	92.8	94.8	-2.1
FY21	112.1	115.3	-2.8

Source: Bloomberg

NOTES

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 is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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