

Sector: Banks & Finance
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 2,297	
Price Target: Rs. 2,750	↔

↑ Upgrade ↔ No change ↓ Downgrade

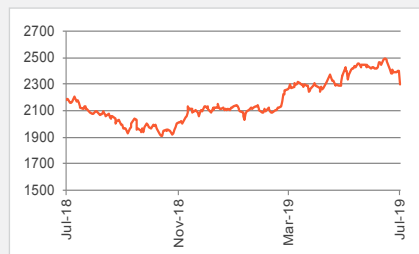
Company details

Market cap:	Rs.6,28,546 cr
52-week high/low:	Rs.2,503/1,884
NSE volume: (No of shares)	31.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	215 cr

Shareholding (%)

Promoters	26.2
FII	38.6
DII	16.5
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	4.2	12.2	9.3
Relative to Sensex	0.1	5.8	5.7	2.5

Sharekhan Research, Bloomberg

HDFC Bank posted mixed Q1FY2020 results with reasonably strong operating parameters, but softening of NIM and higher provisions moderated the performance. Net interest income (NII) grew by 22.9% y-o-y and operating profit grew by 28.9% y-o-y. However, provisions increased by 60.4% y-o-y and 38.3% q-o-q, as management chose to be conservative and made higher contingent (for agri/unsecured book) provisions. Notably, core cost-to-income ratio (Calc. C/I) for HDFC Bank further improved to 39% (contracted by 193 BPS y-o-y), indicating efficient cost management as well as still accruing benefits of digitisation. Management does not expect a significant change in business mix over the next 3-5 years and has guided to improve C/I ratio by ~300 BPS over the same period. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 2,750.

Key positives

- Core cost-to-income ratio (Calc. C/I) further improved to 39%, indicating efficient cost management as well as benefits of digitisation.
- Structural drivers are in place for the bank to look for market share gains, aided by operational efficiencies and best-in-class asset quality.

Key negatives

- Domestic retail loan growth has moderated, reflecting slowing consumption demand and cautious stance on the unsecured loan book will be key monitorable.
- Provisions for the quarter jumped by 60.4% y-o-y and 38.3% q-o-q due to higher contingent provisions of Rs. 165 crore (mainly on account of agri/unsecured book).

Our Call

Valuation – HDFC Bank currently trades at 3.3x its FY2021E BVPS, which we believe is attractive for a bank with its strengths and consistency. While a cautious stance with rise in forward provision resulted in marginal impact for Q1, we believe management's decision to be pragmatic is positive considering present times. HDFC Bank's prudential provisioning will help facilitate a steady earnings growth trajectory, which will be positive. We maintain our Buy rating on the stock with an unchanged PT of Rs. 2,750.

Key Risks

Rise in NPAs in unsecured and other retail banking segment.

Valuation	Rs cr			
Particulars	FY18	FY19	FY20E	FY21E
Net interest income (Rs cr)	40,095	48,243	59,247	72,931
Net profit (Rs cr)	17,487	21,078	25,457	32,182
EPS (Rs)	67.4	77.4	93.5	118.2
EPS growth (%)	18.7	14.9	20.8	26.4
PE (x)	34.0	29.6	24.5	19.4
Book value (Rs/share)	409.5	544.6	612.7	701.2
P/BV (x)	5.6	4.2	3.7	3.3
RoE (%)	17.9	16.5	16.1	17.9
RoA (%)	1.8	1.8	1.9	2.0

Source: Company; Sharekhan estimates

Mixed operating performance, but positives well in place: HDFC Bank posted mixed Q4FY2019 results with continued strong growth in most operating parameters and stable margins; however, higher provisions and lower growth moderated the performance. Asset quality remained stable sequentially on percentage basis, which is a positive. During the quarter, NII grew by 22.9% y-o-y to Rs. 13,294.3 crore, largely in line with expectations. This is in the backdrop of advances growth slowing a tad to 17.1% y-o-y (sluggish as compared to the past few quarters). Non-interest income growth was strong and increased by 30.2% y-o-y to Rs. 4,970 crore, but fee income performance was slower at 12% y-o-y, mainly as the bank's retail book growth was slower. NIM for the quarter softened a tad at 4.3% (4.4% in Q4FY2019), indicating some pricing pressure. However, given the strong retail (read CASA plus retail-term deposits) business of HDFC Bank and benefits of high share of fixed rate retail loans, we believe the impact on NIM will be limited. Notably, core cost-to-income ratio (Calc. C/I) for HDFC Bank further improved to 39%, and contracted by 193 BPS y-o-y, indicating efficient cost management as well as benefits of digitisation. Provisions for the quarter jumped by 60.4% y-o-y and 38.3% q-o-q due to contingent provisions of Rs. 165 crore and higher provisions for agri loan book. As a result of strong topline growth and well-maintained costs, net profit for the quarter increased by 21% y-o-y to Rs. 5,568.2 crore, but was below our estimates.

Loan book momentum slows, but stable asset quality is a positive: HDFC Bank witnessed slower (by a tad) loan book traction, as advances grew by 17.1% y-o-y on account of a 19.6% y-o-y increase in its domestic corporate book and 16.5% growth in its retail portfolio. While retail lending has comparatively grown slower during the quarter, we believe the bank is calibrating its incremental growth in the retail segment, so as to optimise its credit cost margins mix. Deposit growth for the quarter stood at 18.5% y-o-y, while CASA growth stood at 12.8% y-o-y to 39.7%. CASA is crucial in helping the bank maintain lower cost of funds and, thus, sustain/improve margins and also for retail business growth. Notably, asset quality during the quarter remained stable sequentially as GNPA% stood at 1.4% (up 4 BPS q-o-q), while net NPA% stood at 0.4% (up 4 BPS q-o-q). Slippages for Q1FY2020 improved to Rs. 4,225 crore as against Rs. 3,577 crore for Q4FY2019. The bank continues to hold floating provisions worth Rs. 1,451 crore as of Q1FY2020.

Results

Particulars	Rs cr				
	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Interest income	27,391.6	22,549.0	21.5	26,333.3	4.0
Interest expense	14,097.3	11,735.4	20.1	13,243.8	6.4
Net interest income	13,294.3	10,813.6	22.9	13,089.5	1.6
Non-interest income	4,970.3	3,818.1	30.2	4,871.2	2.0
Net total income	18,264.5	14,631.6	24.8	17,960.7	1.7
Operating expenses	7,117.3	5,983.9	18.9	7,117.1	0.0
Pre-provisioning profit	11,147.2	8,647.8	28.9	10,843.6	2.8
Provisions	2,613.7	1,629.4	60.4	1,889.2	38.3
Profit before tax	8,533.6	7,018.4	21.6	8,954.4	-4.7
Tax	2,965.4	2,416.9	22.7	3,069.3	-3.4
Profit after tax	5,568.2	4,601.4	21.0	5,885.1	-5.4

Asset Quality

Gross NPA (%)	1.4	1.3	7 bps	1.4	4 bps
Net NPA (%)	0.4	0.4	2 bps	0.4	4 bps

Source: Company; Sharekhan Research

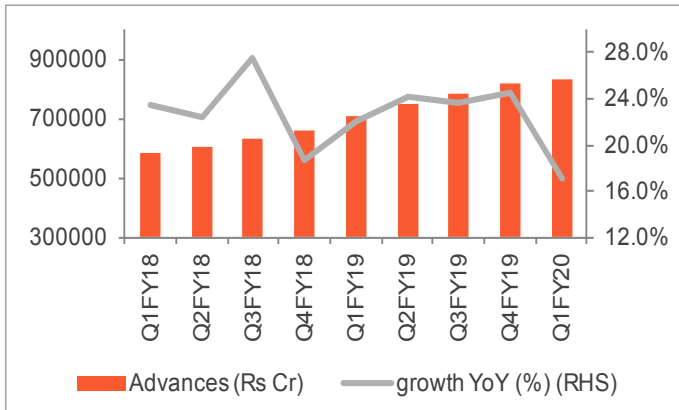
Loan Mix (%)

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Wholesale	48%	46%	46%	45%	46%	47%	46%	47%	54%
Retail	52%	54%	54%	55%	54%	53%	54%	53%	46%
Auto	22%	21%	22%	21%	20%	20%	20%	19%	20%
CV/CE	7%	6%	6%	6%	7%	6%	6%	7%	7%
Personal Loans	18%	19%	20%	20%	20%	21%	21%	22%	20%
business banking	13%	14%	14%	15%	14%	13%	13%	13%	14%
Mortgage Loan	13%	12%	11%	10%	12%	12%	12%	12%	12%
credit cards	10%	10%	10%	10%	10%	10%	11%	11%	10%
Loan against securities	0%	0%	0%	1%	0%	0%	0%	0%	0%
2wheelers	2%	2%	2%	2%	2%	2%	2%	2%	2%
Gold Loans	2%	2%	1%	1%	1%	1%	1%	1%	1%
Others	4%	4%	4%	4%	4%	4%	4%	4%	4%
Kisan gold card	9%	10%	9%	10%	9%	9%	8%	9%	9%

Source: Company; Sharekhan Research

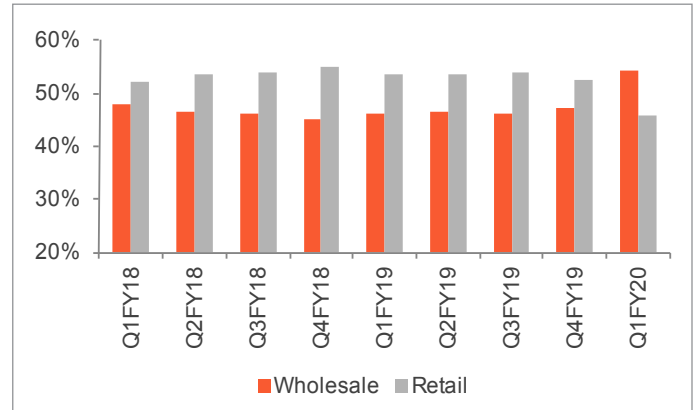
Financials in charts

Advances trend



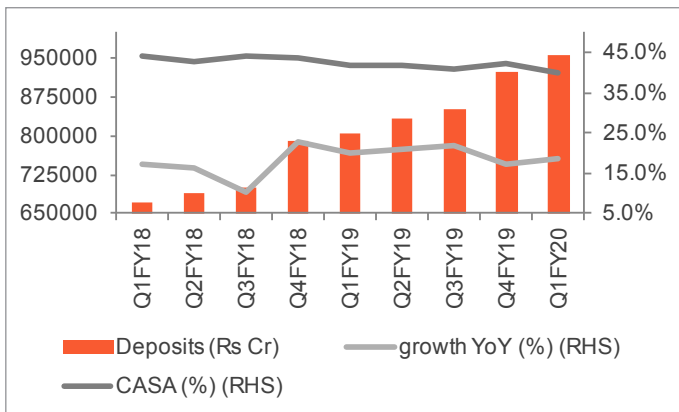
Source: Company, Sharekhan Research

Loan Mix



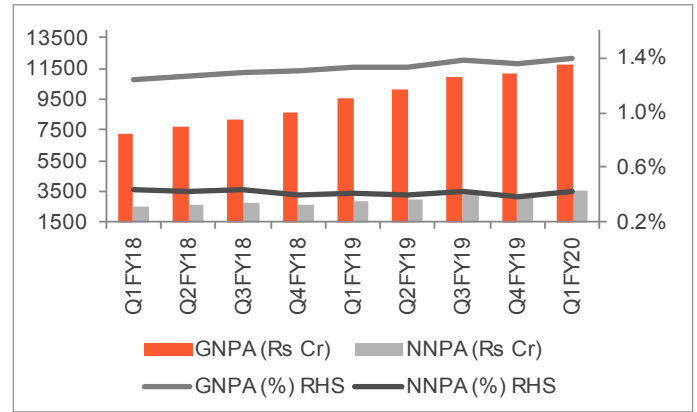
Source: Company, Sharekhan Research

Deposits trend



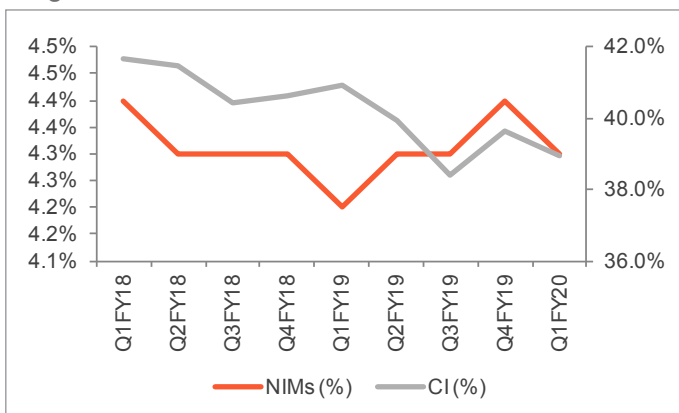
Source: Company, Sharekhan Research

Asset Quality Movement



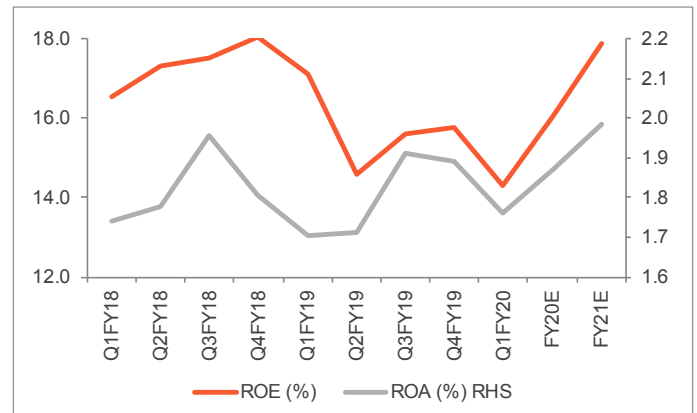
Source: Company, Sharekhan Research

Margins and Cost to Income



Source: Company, Sharekhan Research

Return Ratios



Source: Company, Sharekhan estimate

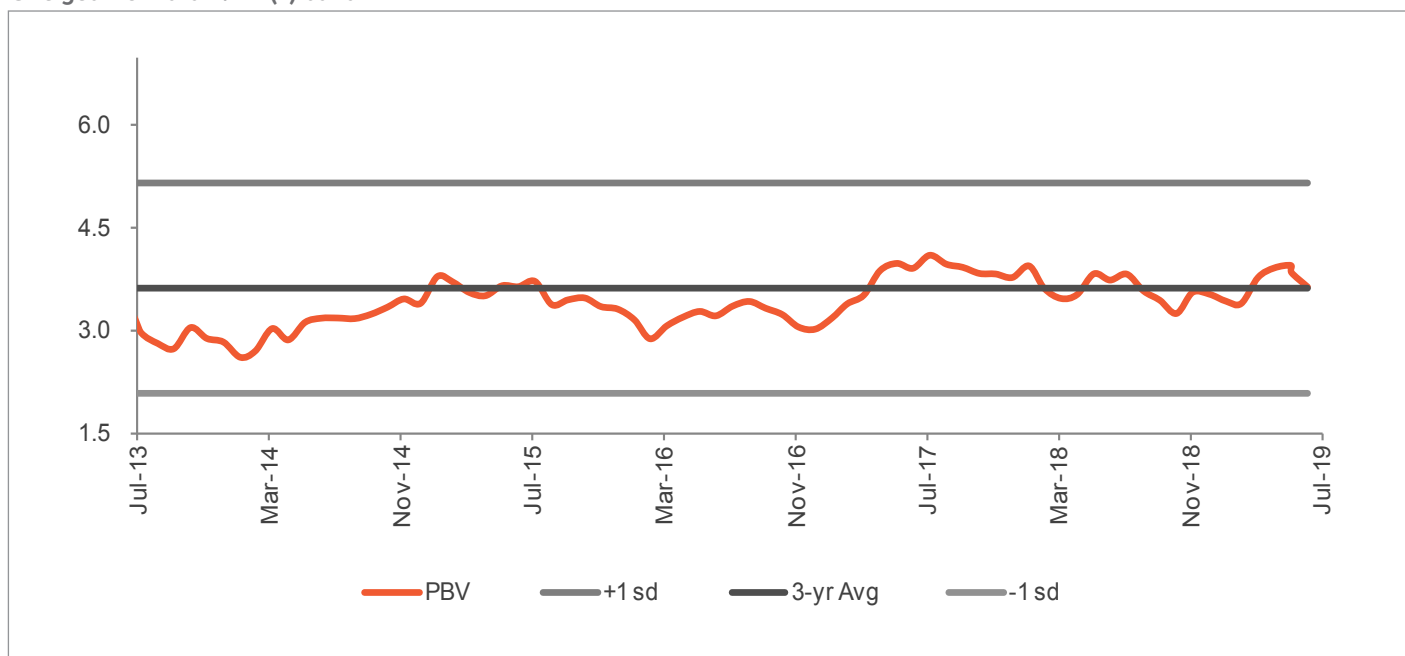
Outlook

HDFC Bank's operating performance remains strong, even while the present quarter saw moderation in business growth (reflecting consumption-linked demand), and its own cautious stance on unsecured loans. However, the franchise continues to be one of the best and strongest banks and needs to be seen with a long-term perspective. Overall asset-quality picture looks sanguine, with its calibrated growth and already strong underwriting and assessment capabilities, with healthy digitalisation benefits adding to the moat of its business strength. HDFC Bank's floating provision cushion of Rs. 1,450 crore and comfortable capitalisation levels (Tier 1 at 15.6%, CET-1 at 14.8%) are further positives. We believe structural drivers are in place for the bank to look for market share gains, aided by operational efficiencies and best-in-class asset quality.

Valuation

HDFC Bank currently trades at 3.3x 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 an unchanged PT of Rs. 2,750.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HDFC Bank	2,297	3.7	3.3	24.5	19.4	1.9	2.0	16.1	17.9
Axis Bank	728	2.7	2.4	34.7	20.6	0.6	0.9	7.8	12.1
ICICI Bank	412	2.4	2.2	26.2	19.2	0.9	1.1	9.0	11.5
Kotak Mahindra Bank	1,454	5.6	5.0	49.3	41.3	1.7	1.7	12.2	12.8

Source: Company, Sharekhan Research

About company

HDFC Bank is a largest private bank having pan-India presence (5,130 branches as of June 2019). The bank has been designated by the RBI as a Domestic Systemically Important Bank (D-SIB), which means that its continued functioning is critical for the economy. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional / branch banking on the retail side. Its loan book consists of 46% retail and 54% wholesale loans as of June 2019. As a business entity, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

Investment theme

HDFC Bank is among the top performing banks in the country having deep roots in the retail segment. Despite the general slowdown in credit growth, the bank continues to report strong growth in advances from retail products. Relatively high margins (compared with its peers), strong branch network and better asset quality make HDFC Bank a safe bet with a scope for expansion in its valuations.

Key Risks

- ◆ Rise in NPAs in Unsecured & other retail banking segment
- ◆ Economic activity slowdown

Additional Data

Key management personnel

Mr Aditya Puri	Managing Director
Mr Kaizad Bharucha	Executive Director
Mr Jimmy Tata	Chief Risk Officer
Mr Sashi Jagdishan	Group Chief Financial Officer
Mr Arvind Vohra	Group Head, Retail Branch Banking at HDFC Bank
Mr Arvind Kapil	Group Head - Unsecured Loans, Home, and Mortgage Loans
Ms Ashima Bhat	Group Head - Finance, Administration & Infrastructure

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Housing Development Finance Corp	15.82
2	Capital Group Cos Inc/The	7.08
3	HDFC Investment Ltd	5.49
4	SBI Funds Management Pvt Ltd	2.43
5	50 SBI-ETF NIFTY	1.99
6	Life Insurance Corp of India	1.99
7	FIL Ltd	1.41
8	Schroders PLC	1.17
9	ICICI Prudential Life Insurance Co	1.13
10	HDFC Trustee Co Ltd/India	1.09

Source: Bloomberg

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