

HDFC Bank Ltd.



RESULT UPDATE

22nd July, 2019

HDFC Bank Ltd.

Mild hiccup not to derail the bank's propensity towards retail

CMP INR 2,297	Target INR 2,683	Potential Upside 16.8%	Market Cap (INR Mn) INR 6,277,925	Recommendation BUY	Sector Banking
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Result Highlights of Q1 FY20

- Advances grew 17.1% YoY (+1.3% QoQ) in line with our expectations. Vehicle loans increased just 8.3% YoY due to low auto sales volumes
- NII at INR 13,294 Cr. is up 22.9% YoY/ (+1.6% QoQ). NIMs estimated at 4.42% have expanded by 22 bps YoY/ (down 11 bps sequentially) while Non-Interest Income was 2% higher on sequential basis (+30.2% YoY).
- Deposit mobilization was however buoyant with growth of 18.5% YoY/3.4% QoQ. CASA at 39.7% has declined 267 bps sequentially (down 199 bps YoY). Overall, C/D ratio has improved to 86.9% in Q1FY20.
- PPOP at INR 11,147 Cr. increased by 28.9% YoY/2.8% QoQ on back of NIM expansion and control over operating expenses. C/I ratio improved to 39% in Q1FY20 (vs. 40.9% same quarter last year and 39.6% in Q4FY19).
- Overall, the bank has posted a steady balance sheet growth with slight deterioration in their asset quality metrics.
- Board declared a special interim dividend of INR 5.0 per share to commemorate 25 years of bank operations.

MARKET DATA

Shares outs (Mn)	2,733
Equity Cap (INR Mn)	1,556,380
Mkt Cap (INR Mn)	6,277,925
52 Wk H/L (INR)	2503/1885
Volume Avg (3m K)	2,390
Face Value (INR)	2
Bloomberg Code	HDFCB IN

KEY FINANCIALS

Particulars (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
NII	33,139	40,095	48,243	55,850	64,937
PPOP	25,732	32,625	39,750	45,869	53,964
PAT	14,613	17,487	21,078	23,548	28,516
EPS	57.03	67.38	77.90	86.17	104.35
NIM	4.46%	4.35%	4.36%	4.33%	4.27%
Advances Growth	19.37%	18.71%	24.47%	21.00%	18.00%

Source: Company, KRChoksey Research

Core business growth intact despite a slowdown in consumption

The advances grew by 17.1% YoY/1.3% QoQ due to a consumption slowdown in the economy. The retail loan book grew 16% YoY led by credit cards (+28% YoY), personal loans (+25% YoY) and home loans (+27% YoY) while wholesale loans grew 19% YoY. The slowdown in retail segment could be attributed to low growth in vehicle financing (~28% of domestics retail advances) as the vehicle loan segment(ex-CV's) was impacted by the slowdown in auto sales volume. The wholesale loan book growth slowed down due to run off short term loan given to government, mutual fund in the previous quarter. Retail to wholesale ratio stood at 54:46. CASA ratio declined to 39.7% (42.4% QoQ) particularly with funds of SA balances moving to term deposits. The savings account deposits grew at 12% YoY while current account grew at 15%.

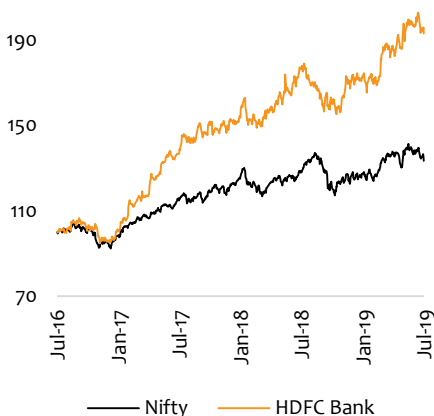
Double digit growth in PPOP well supported by NIM, other income and cost efficiencies

During Q1 FY20, HDFC Bank's PPOP increased 28.9% YoY/ 2.8% QoQ to INR 11,147 Cr primarily led by increase in NII by 22.9% YoY/1.6% QoQ. Estimated NIMs stood at 4.42% (increase of 22 bps YoY/ -11 bps QoQ). Fee Income comprising 71.5% of other income grew at 12% YoY (-3.8% QoQ) which was impacted due to regulatory changes concerning mutual fund payouts. Total income at INR 18,265 Cr. is up 24.8% YoY/1.7% QoQ. C/I ratio saw an improvement and declined to 39.0% as against 40.9% YoY in Q1FY19 indicated improved cost efficiencies. Overall, Net profit grew by 21% YoY to INR 5,568 crore.

Asset quality metrics deteriorated moderately as bank turned cautious

Asset quality deteriorated slightly with gross NPAs increasing 4.9% QoQ to INR 11,769 crores (at 1.4% of advances) and Net NPA stood at 0.4%. Provisioning increased 60% YoY (38% QoQ) while PCR stood at ~70% levels. The high provisioning was related to external factors and not any bank specific exposure to large accounts. Management attributed high provisions to a conservative stance taken in light of a consumption slowdown and stepped up the provisioning rates. Management stated that there no major risks to its housing portfolio. Capital adequacy ratio stood at 16.9% (14.6% YoY) well above the regulatory requirement of 11.075%.

SHARE PRICE PERFORMANCE

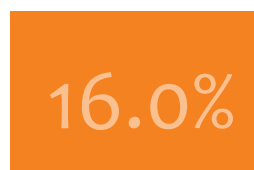


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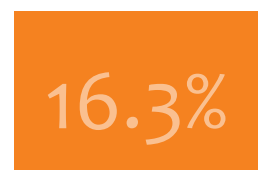
SENSEX	38,031
NIFTY	11,337

SHARE HOLDING PATTERN (%)

Particulars	Jun-19	Mar-19	Dec-18
Promoters	26.25	26.50	26.54
FIIIs	38.64	38.71	38.70
DIIIs	17.06	16.60	16.16
Others	18.05	18.19	18.60
Total	100	100	100



NII CAGR between FY19 and FY21E



PAT CAGR between FY19 and FY21E

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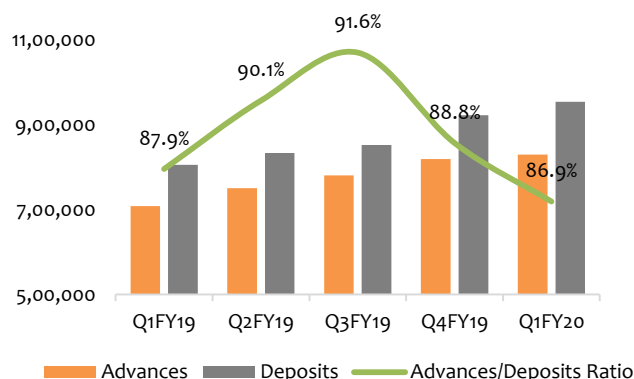
HDFC Bank Ltd.

Key Concall Highlights: (i) Provisioning increased sharply due to factors such as stress in agriculture portfolio (arises mainly during June and December quarters), creation of additional contingent provisions, stepping up of rate of provision in the unsecured book wherein early provisioning will be done in 150 days (instead of 180 days previously) (ii) The slippage during the quarter in absolute terms was INR 4,225 crores for the quarter (iii) The bank is looking to lower the Credit Deposit (CD) ratio and push up the deposit mobilization to other avenues like Institutional funding, Infrastructure bonds, sub debts etc. The management has also planned strategies to step up its new customer acquisitions (iv) The management has also guided to bring down the Cost to Income (CI ratio) by 300-400 bps over 3-5 years by digitizing its processes and digital marketing, and expects the business mix between retail and wholesale (55:45) to remain the same over the that period (v) Slowdown in CASA growth was due to shifting of customers into term deposit (vi) The wholesale book growth was impacted due to run off short term loan given to Government, MFs etc. (vii) Excluding the vehicle segment, the growth in other segment remained stable. The moderation in auto financing is in line with the slowdown in auto sales (viii) 1QFY20 recoveries were INR 1,002 crore and write-offs stood at INR 2,115 crore (ix) Bank provided INR 86 crore of standard provisions for NBFC and HFC sector in Q1FY20; there was also a contingent provision of INR 165 crore during the quarter (x) The volumes of life insurance products and on issuance of products (credit & debit cards) have shown growth this quarter (xi) Excluding agri exposure and one-time impact on unsecured book, the credit cost remained broadly in line with historical range (xii) Fees and commission were impacted by changes in regulations concerning mutual fund commission payouts (xiii) Regarding the budget proposal to not charge the MDR (Merchant Discount rates) on fees, the bank stated that any impact on the segment will be clarified only after the notifications are issued.

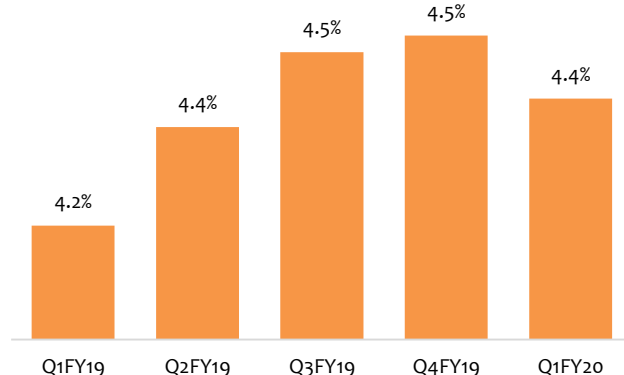
Valuation and view

Q1FY20 results was a mixed bag with steady loan book growth (in a challenging macro economic scenario marked up consumption slowdown) and improved cost discipline but deteriorating asset quality metrics. We expect HDFC Bank to deliver NII growth of average 16% YoY in FY20E/FY21E on back of its expanding retail franchisee (as of June 30, 2019, the bank had 5,130/13,395 outlets/ATM's compared to 4,804/12,808 in Q1FY19). Access to CASA deposits should keep CoF low at 5-5.5% in forecast despite the recent shift towards term deposits while Asset yields are expected to improve on back of pricing power on high yield retail loans. Higher fee and processing income should support the overall operating income growth. C/I is expected to remain under check as the bank maintains a cost discipline while asset quality metrics are forecast to be stable with Cost of Funds to average 0.6% , PCR at 75% and Net NPA to remain under 0.5% in the forecast period. HDFC Bank shares are currently trading at a P/B multiple of 3.8x/3.4x on adj: FY20E/FY21E book value and we expect the premium valuation of the bank to continue on back of its high ROE, industry leading asset quality metrics and expanding retail franchisee which supports high margin lending opportunities along with benefits of low funding costs. We apply a P/B multiple of ~4.5x to the FY20 adj. BVPS of INR 593 to arrive at a target price of INR 2,683 per share, an upside of 16.8% over the CMP. Accordingly, we reiterate our **"Buy"** rating.

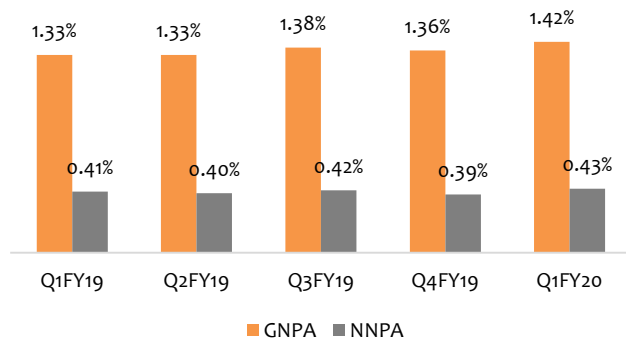
Advances & Deposits trend: Liquidity Increasing



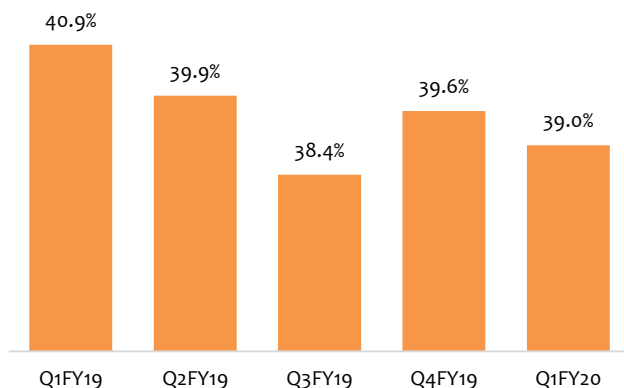
NIMs remain stable well above 4% each quarter



Asset Quality remains of highest standards in the Industry



Cost/Income trending lower



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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY 17	FY 18	FY 19	FY 20E	FY 21E
Interest Income	69,306	80,241	98,972	1,19,756	1,41,312
Interest Expense	36,167	40,146	50,729	63,906	76,375
Net Interest Income	33,139	40,095	48,243	55,850	64,937
Non interest income	12,296	15,220	17,626	19,832	23,616
Operating income	45,436	55,315	65,869	75,682	88,553
- Employee expense	6,484	6,806	7,762	9,241	10,041
- Other operating expense	13,220	15,885	18,358	20,572	24,548
Operating Expense	19,703	22,690	26,119	29,813	34,589
PPOP	25,732	32,625	39,750	45,869	53,964
Provisions	3,530	5,927	7,550	9,815	10,306
PBT	22,203	26,697	32,200	36,054	43,659
Tax Expense	7,589	9,211	11,122	12,505	15,143
PAT	14,613	17,487	21,078	23,548	28,516
Diluted EPS (INR)	57.03	67.38	77.90	86.17	104.35

Forecast is based on merged financials of BFIL; Historical numbers are not comparable
Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 2: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Source of Funds					
Share capital	513	519	545	547	547
Reserves & Surplus	88,950	1,05,776	1,48,662	1,65,146	1,86,532
Networth	89,462	1,06,295	1,49,206	1,65,692	1,87,079
Borrowings	74,029	1,23,105	1,17,085	1,34,648	1,61,577
Deposits	6,43,640	7,88,771	9,23,141	11,07,769	13,18,245
Other liabilities & provisions	56,709	45,764	55,108	82,777	99,586
Total Equity & Liabilities	8,63,840	10,63,934	12,44,541	14,90,886	17,66,488
Uses of Funds					
Cash & bank balances	48,952	1,22,915	81,348	55,419	66,772
Cash in hand	4,264	69,531	5,638	6,068	8,044
Balance w/ RBI	33,633	35,140	41,126	49,351	58,728
Balance w/ banks & others	11,055	18,245	34,584	40,987	48,775
Net investments	2,14,463	2,42,200	2,90,588	3,44,195	4,15,961
Loans & advances	5,54,568	6,58,333	8,19,401	9,91,475	11,69,941
Fixed assets	3,627	3,607	4,030	4,093	4,156
Other assets	42,230	36,879	49,174	54,716	60,883
Total Assets	8,63,840	10,63,934	12,44,540	14,90,886	17,66,488

Forecast is based on merged financials of BFIL; Historical numbers are not comparable

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Exhibit 3: Ratio Analysis

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
Growth Rates					
Advances (%)	19.4%	18.7%	24.5%	21.0%	18.0%
Deposits (%)	17.8%	22.5%	17.0%	20.0%	19.0%
Total assets (%)	21.9%	23.2%	17.0%	19.8%	18.5%
NII (%)	20.1%	21.0%	20.3%	15.8%	16.3%
Pre-provisioning profit (%)	20.5%	26.8%	21.8%	15.4%	17.6%
PAT (%)	18.8%	19.7%	20.5%	11.7%	21.1%
B/S Ratios					
Credit/Deposit (%)	86.2%	83.5%	88.8%	89.5%	88.7%
CASA (%)	48.0%	43.5%	42.4%	42.1%	42.2%
Advances/Total assets (%)	64.2%	61.9%	65.8%	66.5%	66.2%
Leverage - Total Assets to Equity	9.7	10.0	8.3	9.0	9.4
Operating efficiency					
Cost/income (%)	43.4%	41.0%	39.7%	39.4%	39.1%
Opex/total assets (%)	2.3%	2.1%	2.1%	2.1%	2.0%
Opex/total interest earning assets	2.7%	2.5%	2.4%	2.3%	2.3%
Profitability					
NIM (%)	4.5%	4.4%	4.4%	4.3%	4.3%
RoA (%)	1.9%	1.8%	1.8%	1.7%	1.8%
RoE (%)	18.0%	17.9%	16.5%	15.0%	16.2%
Asset quality					
Gross NPA (%)	1.1%	1.3%	1.4%	1.4%	1.5%
Net NPA (%)	0.3%	0.1%	0.4%	0.4%	0.4%
PCR (%)	68.7%	96.2%	71.4%	75.0%	75.0%
Slippage (%)	1.5%	1.5%	1.4%	1.3%	1.2%
Credit cost (%)	0.6%	0.9%	0.6%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	57.0	67.4	77.9	86.2	104.3
BVPS (INR)	349.1	409.6	547.9	606.3	684.6
ABVPS (INR)	341.9	408.3	536.1	593.2	667.9
P/E (x)	25.3	34.1	29.7	26.7	22.0
P/BV (x)	4.1	5.6	4.2	3.8	3.4
P/ABV (x)	4.2	5.6	4.3	3.9	3.4

Source: Company, KRChoksey Research

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HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
22-Jul-19	2,297	2,683	BUY	Buy	More than 15%
22-Apr-19	2,293	2,683	BUY		
22-Oct-18	2,000	2,350	BUY		
23-Jul-18	2,169	2,627	BUY	Accumulate	5% – 15%
23-Apr-18	1,937	2,346	BUY		
22-Jan-18	1,975	2,288	BUY	Hold	0 – 5%
25-Oct-17	1,795	2,046	ACCUMULATE	Reduce	-5% – 0
25-Jul-17	1,736	2,016	BUY		
25-Jan-17	1,280	1,457	BUY	Sell	Less than – 5%

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