Sharekhan
by BNP PARIBAS

HDFC Bank

Structural drivers in place

Sector: Banks & Finance
Company update

	Change
Reco: **Buy**	↔
CMP: **Rs. 1,200**	
Price Target: **Rs. 1,510**	↑

↑ Upgrade ↔ No change ↓ Downgrade

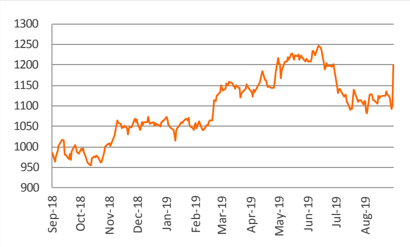
Company details

Market cap:	Rs. 6,56,546 cr
52-week high/low:	Rs. 1,251/942
NSE volume: (No of shares)	31.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	430.1 cr

Shareholding (%)

Promoters	26.2
FII	38.6
DII	16.5
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	-8.6	-2.1	13.2
Relative to Sensex	3.4	-1.4	3.2	15.0

Sharekhan Research, Bloomberg

We believe that structural drivers are in place for HDFC Bank and see its market share gain trajectory to continue. HDFC Bank is well placed to benefit from the slew of stimulus measures announced by the government and the regulator of late. This will likely see better growth opportunities along with less pressure on pricing, with the possibility of improved spreads from Q1 levels. Positive business growth fundamentals would support strong earnings growth and help the company sustain its valuation premium as compared to peers. HDFC Bank continues to be at a strong position with consistent performance buoyed by its ability to grow profitability (but at own pace) and strong underwriting and risk-measurement standards with pricing strength. Considering recent development, we have re-worked our estimates and expect EPS benefit in low teens for HDFC Bank in our revised FY2020E/FY2021E profit estimates. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 1,510.

Positive environmental and business drivers to help: We believe structural drivers are in place for HDFC Bank, which augur well for its long-term growth and profitability. We expect its market share gains trajectory to continue, aided by operational efficiencies and best-in-class asset quality, helped by the weakened competitive environment. HDFC Bank's operating performance remains strong, and we expect growth to pick up in the second half of FY2020 as the bank sees demand improvement due to better monsoons, stimulus measures benefits and its own efforts. Central government slashed effective corporate tax rates to 25.17% for domestic companies, subject to the condition that they will not avail any incentive or exemptions. Though minute details are yet to be out, on a face of it, we believe measures would benefit HDFC Bank in terms of increased net profit for the bank. Accordingly, we have re-worked our estimates and expect EPS benefit in low teens for HDFC Bank in our FY2020E/FY2021E profit estimates.

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. We believe the cut in corporate tax rate would likely benefit HDFC Bank in terms of increased net profit. Accordingly, we have re-worked our estimates and expect EPS benefit in low teens for HDFC Bank in our revised FY2020E/FY2021E profit estimates. We maintain our Buy rating on the stock with a revised PT of Rs. 1,510.

Key Risks

Rise in NPAs in unsecured and other retail banking segment can pose risks to profitability.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E
Net interest income	40,095	48,243	59,247	72,931
Net profit	17,487	21,070	28,863	36,488
EPS (Rs)	33.7	38.7	52.8	66.7
PE (x)	35.6	31.0	22.7	18.0
Book value (Rs/share)	204.8	272.3	309.6	359.6
P/BV (x)	5.9	4.4	3.9	3.3
RoE (%)	17.9	16.5	17.0	18.5
RoA (%)	1.8	1.8	2.1	2.2

Source: Company; Sharekhan estimates

Digitalisation benefits – Sustainable growth, better cost management and risk management: HDFC Bank has been at the forefront of the digital banking initiative, with strong strategic push in terms of initiatives to leverage technology to present cost-effective solutions to rural and semi-urban markets.

The bank has been investing in technological infrastructure and instead going slow on physical network addition. This strategy is stood well in terms of better cost management (C/I down since the past few quarters). We believe digital banking is likely to continue providing operating leverage benefits with reduced human cost and more process-driven business.

We opine HDFC Bank will continue to see compounding benefits as its digitalisation, semi-urban and rural market penetration strategy witness further pick up and gain traction. Management has been exploring innovative solutions such as mobile POS App, business and technological tie-ups with global search and social networking giants to offer banking payment and other solutions, among others.

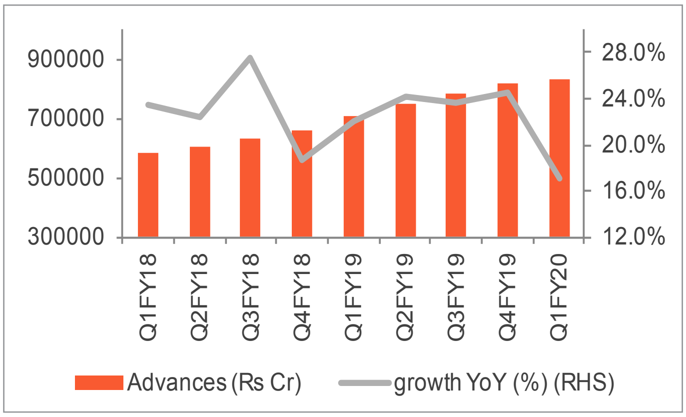
These initiatives may take time to meaningfully manifest, we believe our crucial and important growth drivers for the bank.

Growth may be moderate, but in the right direction: While near-term challenges continue, the long-term road map continues to be attractive for the bank, and we expect the loan growth trajectory to range between 18-20% for HDFC Bank. HDFC Bank has been gaining market share consistently, which appears to sustain as competition from other peers, especially PSU banks and NBFCs, has weakened significantly.

During Q1FY2020, 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 at a slower rate 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.

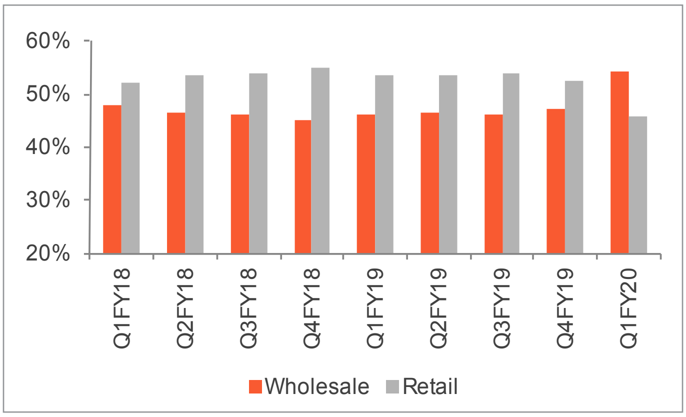
Financials in charts

Advances trend



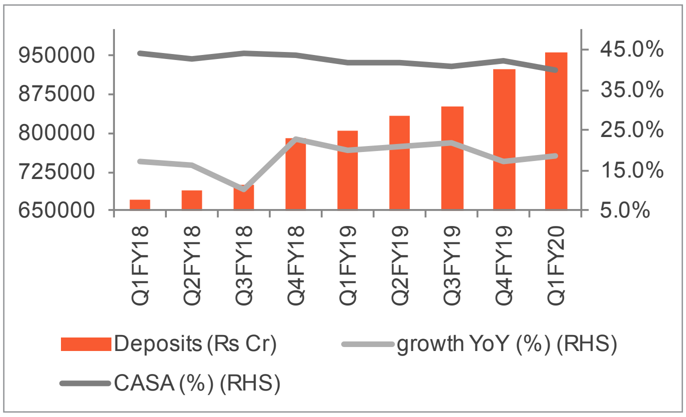
Source: Company, Sharekhan Research

Loan Mix



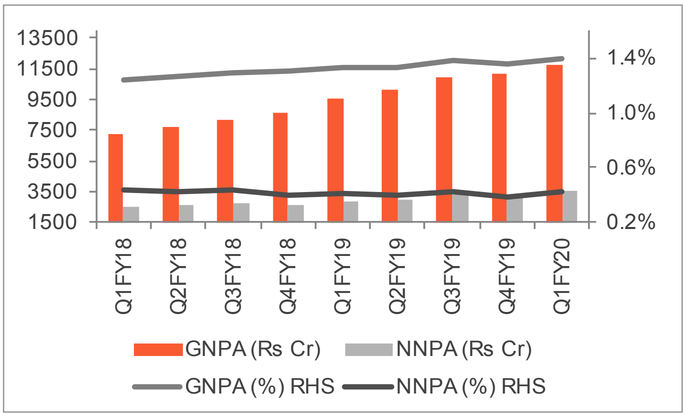
Source: Company, Sharekhan Research

Deposits trend



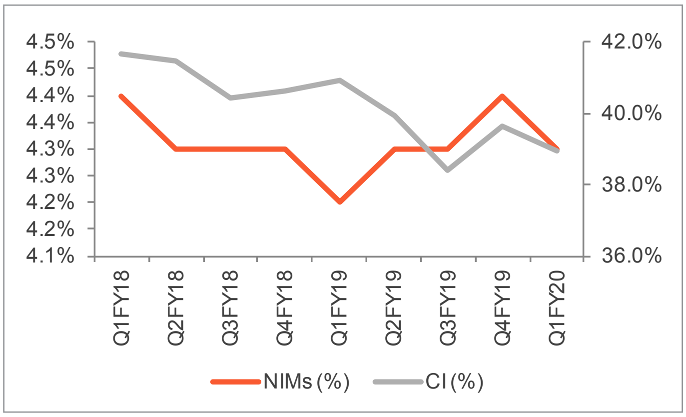
Source: Company, Sharekhan Research

Asset Quality Movement



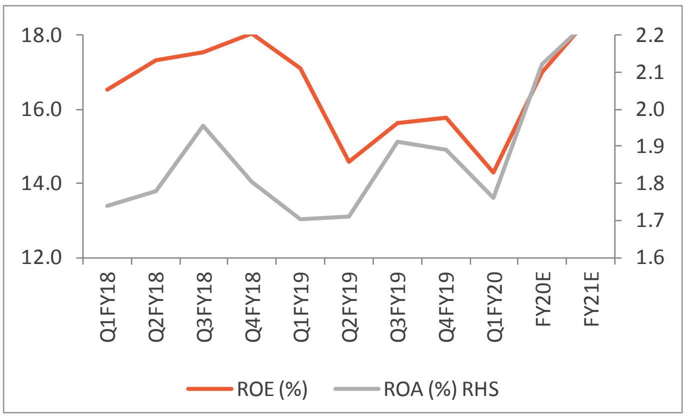
Source: Company, Sharekhan Research

Margins and Cost to Income



Source: Company, Sharekhan Research

Return Ratios



Source: Company, Sharekhan estimate

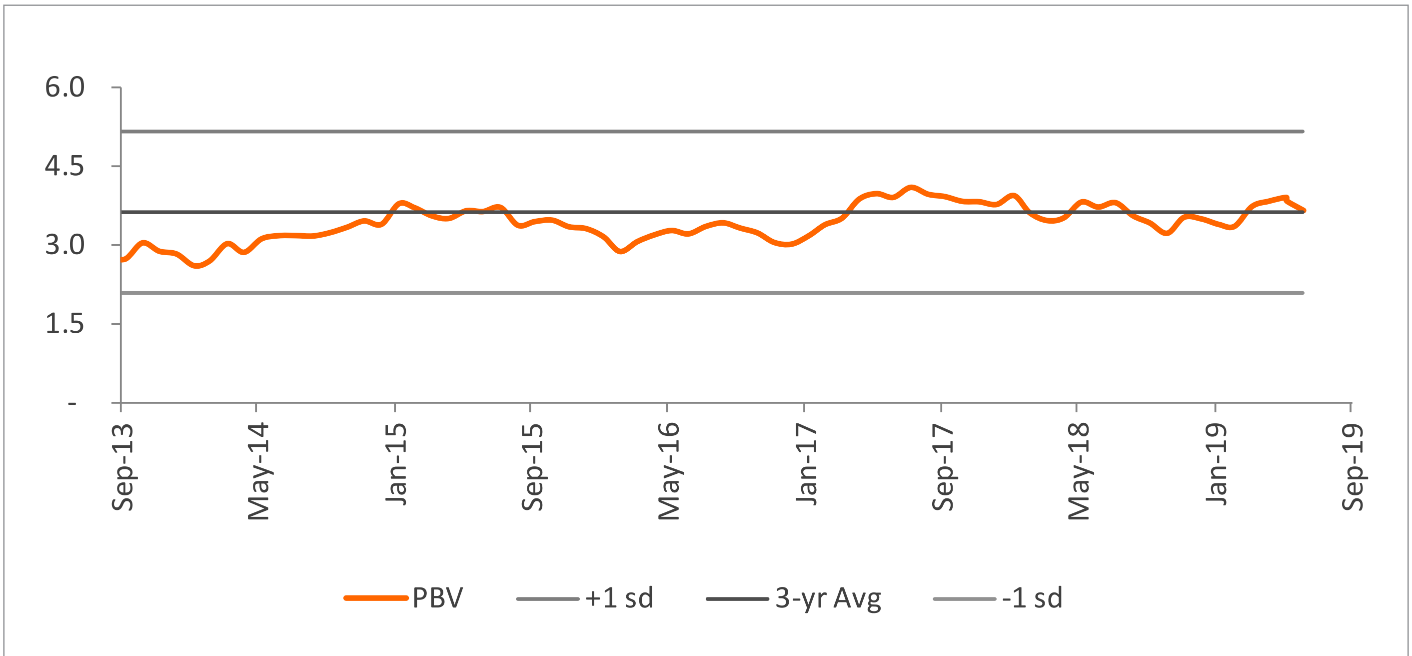
Outlook

Structural drivers are in place for the bank helping it achieve market share gains, aided by operational efficiencies and best-in-class asset quality. HDFC Bank's operating performance remains strong, and we expect growth to pick up in the second half of FY2020 as the bank sees demand improvement due to better monsoons, stimulus measures benefits and its own efforts. Notably, the franchise continues to be one of the best managed and strongest business models 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 believe the cut in corporate tax rate would likely benefit HDFC Bank in terms of increased net profit. Accordingly, we have re-worked our estimates and expect EPS benefit in low teens for HDFC Bank in our revised FY2020E/FY2021E profit estimates. Therefore, we maintain our Buy rating on the stock with a revised PT of Rs. 1,510.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HDFC Bank	1,200	3.9	3.3	22.7	18.0	2.1	2.2	17.0	18.5
Axis Bank	681	2.5	2.2	32.5	19.3	0.6	0.9	7.8	12.1
ICICI Bank	417	2.4	2.2	26.5	19.4	0.9	1.1	9.0	11.5
Kotak Mahindra Bank	1,539	5.9	5.3	52.2	43.7	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. Over the years, under credit / interest rate cycles, HDFC Bank has been able to not only sustain its business growth, but also been able to maintain its asset quality along with improving margins, which is indicative of the strong business franchise strength and leadership qualities. We believe that Relatively high margins (compared with its peers), strong branch network and better asset quality make HDFC Bank a attractive business with a scope for expansion in its valuations bolstered by its consistency and strong balance sheet quality.

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 Jagdhishan	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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