

## Consistent performance justifies premium...

NII was at ₹ 13515 crore on the back of healthy growth in advances. Margins came off ~10 bps QoQ to 4.2%, owing to maintenance of higher liquidity coverage ratio (LCR) and higher accretion in term deposit. Other income growth remained robust at 39% YoY to ₹ 5587 crore, led by 23% YoY growth in fee income and treasury income. Higher distribution of insurance products offset yield pressure from the mutual fund business. Provisions remained elevated at ~30 bps of advances to ₹ 2700 crore, including ₹ 663 crore of contingent provision. As beneficiary of a reduction in tax rate, the bank reported PAT at ₹ 6345 crore, up 27% YoY, after adjusting for DTA. Overall, asset quality stayed steady with GNPA at ₹ 12508 crore and GNPA ratio at 1.38%. The bank holds floating provision at ₹ 1450 crore.

Advances growth came in healthy at 19.5% YoY to ₹ 896983 crore. Traction in retail book stayed slower at 14.7% YoY, primarily led by subdued growth in auto book. Unsecured book (personal, credit cards) continued to grow at ~25% YoY, contributing to growth in retail book. Corporate book grew at a faster rate at 24.9% YoY, offsetting a moderation in retail book. Deposits growth continue to remain healthy at 22.6% YoY to ₹ 1021615 crore, led by strong growth of ~28% YoY in term deposit. CASA growth continues to moderate as CASA ratio declined 43 bps QoQ to 39.3%.

Among large subsidiaries, for by HDB Financial, pressure on growth and margins continue in Q2FY20, as earning growth on a sequential basis de-grew 4% to ₹ 213 crore. AUM growth moderated further at 16% YoY to ₹ 58454 crore. GNPA ratio witnessed a sharp jump of ~110 bps to 3.4%, led by a change in NPA recognition to daily basis.

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

The bank is well placed to harness both retail & expected corporate pick-up. However, on the back of cautious lending approach by the bank, we marginally cut our credit, deposit growth estimates to ~19%, 20% CAGR in FY19-21E to ₹ 1161495 crore, ₹ 1343941 crore, respectively. Factoring in a benefit of reduction in tax rate and higher provision, we have not made a substantial revision in our earnings estimate, which is expected to grow at 21% CAGR in FY19-21E to ₹ 30915 crore.

### Valuation & Outlook

Given the general economic slowdown, near term pressure is evident. However, considering the focus on balance sheet growth maintaining superior asset quality, the bank is well poised to deliver consistently with margin leadership & robust return ratios. The bank remains a portfolio stock with premium valuations. Accordingly, we maintain our **BUY** rating with a revised target price of ₹ 1440 valuing bank at ~24x FY21E EPS (3.9x FY21E ABV) and include ₹ 75 per share for HDB Financial Services.



#### Particulars

Particulars	Amount
Market Capitalisation	₹ 678921 crore
GNPA (Q2FY20)	₹ 12508 crore
NNPA (Q2FY20)	₹ 3791 crore
NIM % (Q2FY20)	4.2
52 week H/L	1352/1106
Networth	₹ 155091 crore
Face value	₹ 2
DII holding (%)	17.7
FII holding (%)	41.0

#### Key Highlights

- Despite slowdown, advances growth trajectory maintained through selective lending
- Asset quality broadly stable with floating provision of ₹ 1450 crore
- Maintain our BUY recommendation with a revised target price of ₹ 1440 (earlier ₹ 1400)

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#### Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	331,392	400,948	482,431	558,656	634,633	15%
PPP	257,324	326,301	397,496	462,012	516,917	14%
PAT	145,496	174,867	210,781	259,557	309,147	21%
ABV (₹)	171.0	199.8	267.1	303.1	349.3	
P/E	42.3	35.6	31.0	25.2	21.1	
P/ABV	7.0	6.0	4.5	4.0	3.4	
RoA	1.8	1.8	1.8	1.9	1.9	
RoE	17.9	17.9	16.5	16.3	17.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
NII	13,515	13,464	11,763	14.9	13,294	1.7	NII growth slowed led by 10 bps decline in margins
NIM (%)	4.2	4.3	4.3	-10 bps	4.3	-10 bps	Higher liquidity maintained with LCR at 133% impacted margins
Other Income	5,589	5,002	4,016	39.2	4,970	12.4	Healthy core fee income growth of 23% YoY to aid other income
Net Total Income	19,104	18,466	15,779	21.1	18,265	4.6	
Staff cost	2,355	2,215	1,909	23.4	2,217	6.2	
Other Operating Expenses	5,051	5,048	4,390	15.1	4,900	3.1	
PPP	11,698.1	11,202.7	9,479.9	23.4	11,147	4.9	
Provision	2,700.7	2,242.5	1,820.0	48.4	2,613.7	3.3	Slippages came in steady. Bank made contingent provision of ₹ 663 crore
PBT	8,997.4	8,960.2	7,660.0	17.5	8,533.6	5.4	
Tax	2,652.4	2,464.1	2,654.3	-0.1	2,965.4	-10.6	Cut in corporate tax rate adjusted for DTA
PAT	6,345.0	6,496.2	5,005.7	26.8	5,568.2	14.0	PAT trajectory maintained

Key Metrics

GNPA	12,508.2	12,269.0	10,097.7	23.9	11,769.0	6.3	Slippages came in lower QoQ. The management indicated early signs of improvement in incremental asset quality
NNPA	3,791.0	3,867.2	3,028.2	25.2	3,567.2	6.3	
Total Restructured assets	861.1	796.5	720.8	19.5	796.5	8.1	
Advances	896,984	897,000	750,838	19.5	829,730	8.1	Corporate book grew 25% YoY while slowdown in auto kept retail advances growth at 15% YoY
Deposits	1,021,615	1,021,502	833,364	22.6	954,554	7.0	CASA ratio declined ~43 bps QoQ to 39.3%, led by higher accretion in term deposit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Net Interest Income	57,486.5	55,865.6	-2.8	67,949.6	63,463.3	-6.6	
Pre Provision Profit	47,822.2	46,201.2	-3.4	56,178.0	51,691.7	-8.0	
NIM calculated (%)	4.5	4.3	-12 bps	4.5	4.2	-27 bps	Higher dependence on term deposit and liquidity to keep margins under pressure
PAT	29,031.7	25,955.7	-10.6	34,639.7	30,914.7	-10.8	
ABV (₹)	308.3	303.1	-1.7	358.7	349.3	-2.6	

Source: Company, ICICI Direct Research

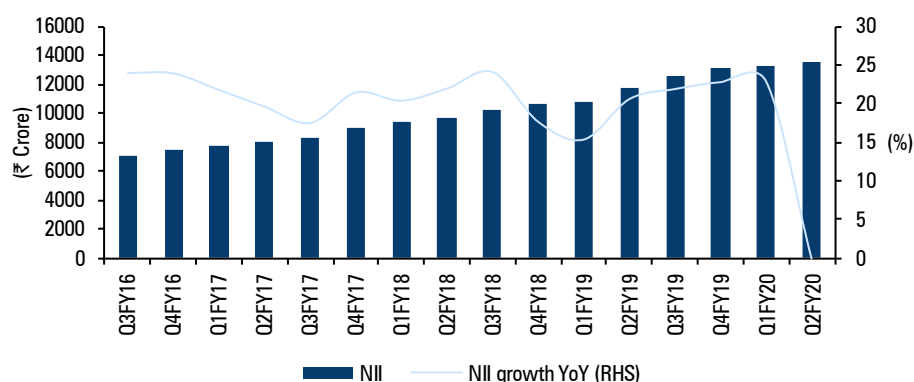
Exhibit 3: Assumption

	Current			Earlier		
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	18.7	24.5	18.5	19.6	19.0	20.8
Deposit Growth (%)	22.5	17.0	20.6	20.8	16.9	19.2
CASA ratio (%)	43.5	42.4	39.8	38.7	41.3	40.9
NIM Calculated (%)	4.4	4.4	4.3	4.2	4.5	4.5
Cost to income ratio (%)	41.0	39.7	39.2	40.2	38.4	38.3
GNPA (₹ crore)	8,611	11,479	14,782	16,524	13,820	15,586.5
NNPA (₹ crore)	2,602	3,745	4,883	4,463	4,510	4,763.2
Slippage ratio (%)	1.3	1.1	1.1	0.9	1.0	0.9
Credit cost (%)	0.9	0.9	1.0	0.9	0.9	0.8

Source: Company, ICICI Direct Research

## Story in Charts

Exhibit 4: Momentum in NII growth continues



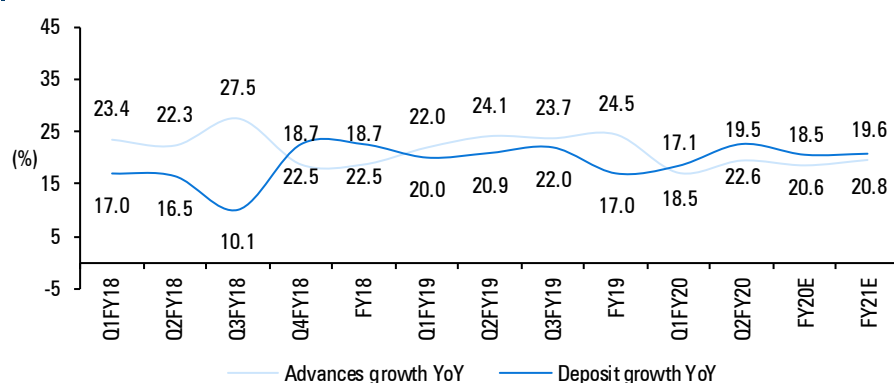
Source: Company, ICICI Direct Research

Exhibit 5: Break-up of retail credit

₹ crore	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Auto	66,011	69,053	73,057	76,427	77,659	80,336	83,012	80,675	81,913	80,784
CVCE	19,706	20,252	21,403	23,391	24,852	25,508	27,166	28,730	29,229	28,490
Two wheelers	6,532	6,883	7,691	8,672	9,227	9,689	10,095	10,047	10,070	9,851
Personal loans	55,539	60,692	66,817	71,876	77,868	83,426	88,803	92,978	97,148	102,080
Business Banking	40,446	45,528	46,989	54,126	52,050	54,180	55,706	57,035	57,720	62,689
Loans Against Security	1,447	1,604	1,671	1,816	1,748	1,824	1,788	1,881	1,780	1,828
Credit cards	29,101	30,831	33,622	36,115	38,458	40,535	44,839	46,630	49,523	52,043
Home loans	38,783	40,015	38,129	36,257	44,021	47,861	51,786	51,359	55,769	60,017
Others	40,274	44,422	44,929	48,744	49,473	52,947	52,544	56,836	54,769	57,543
Gold	4,987	5,068	5,057	5,065	5,116	5,193	5,161	5,187	5,232	5,320
Total	302,826	324,348	339,365	362,489	380,472	401,499	420,900	431,358	443,153	460,645

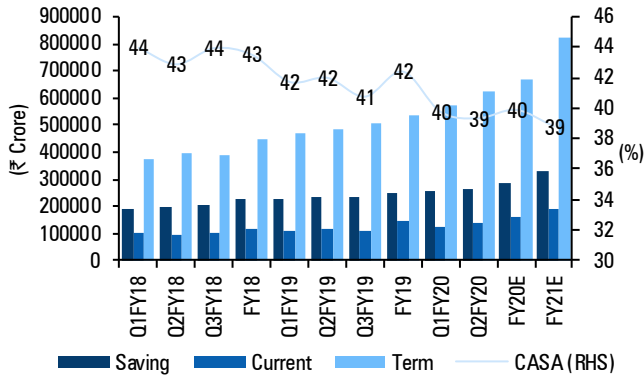
Source: Company, ICICI Direct Research

Exhibit 6: Credit, deposit growth above industry, moderation seen in auto



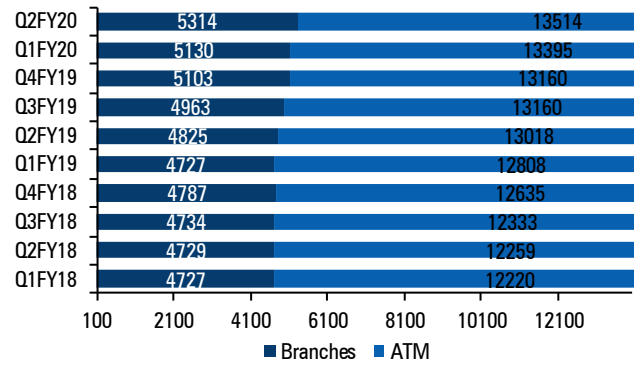
Source: Company, ICICI Direct Research

Exhibit 7: Moderation in CASA continues....



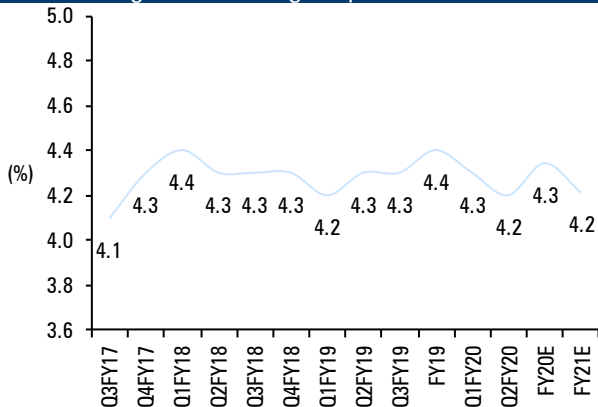
Source: Company, ICICI Direct Research

Exhibit 8: Continued focus on branch expansion



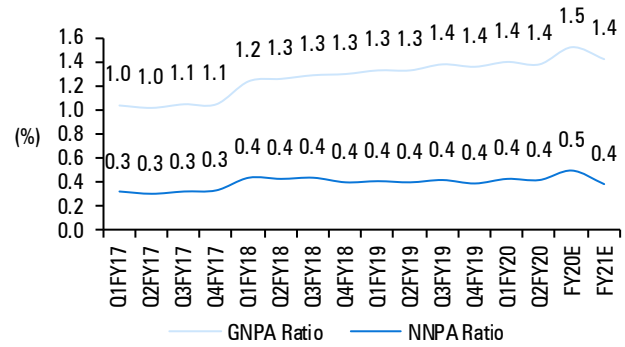
Source: Company, ICICI Direct Research

Exhibit 9: Margin to see marginal pressure ahead



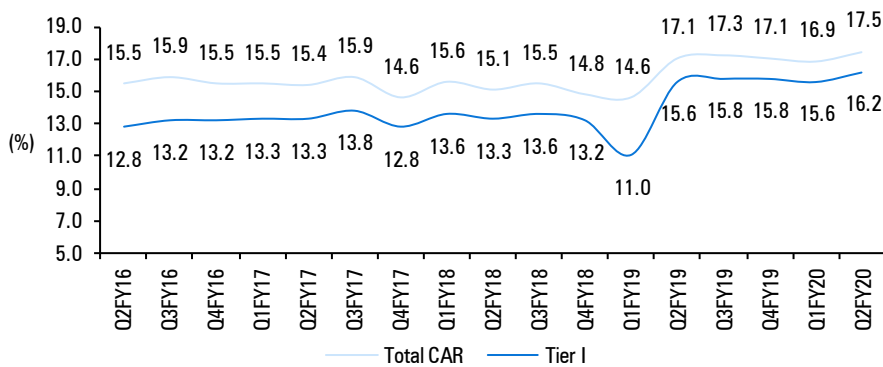
Source: Company, ICICI Direct Research

Exhibit 10: Best in class asset quality maintained



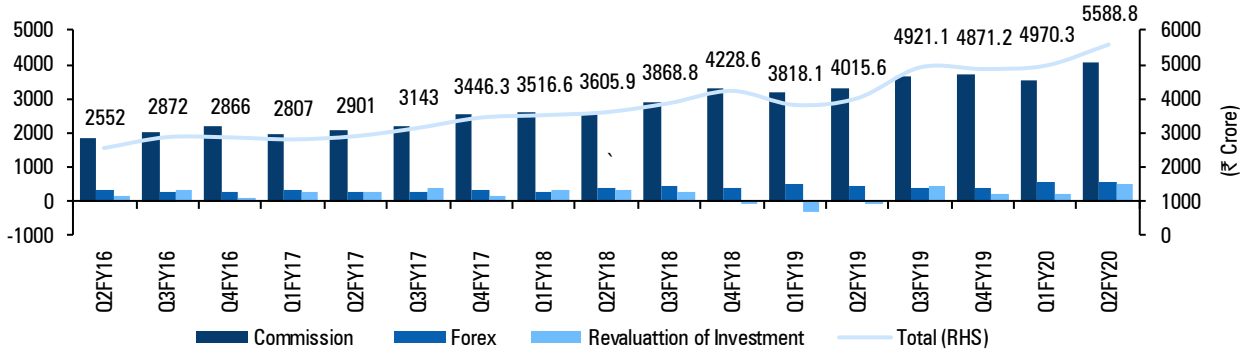
Source: Company, ICICI Direct Research

Exhibit 11: Adequately capitalised for future growth



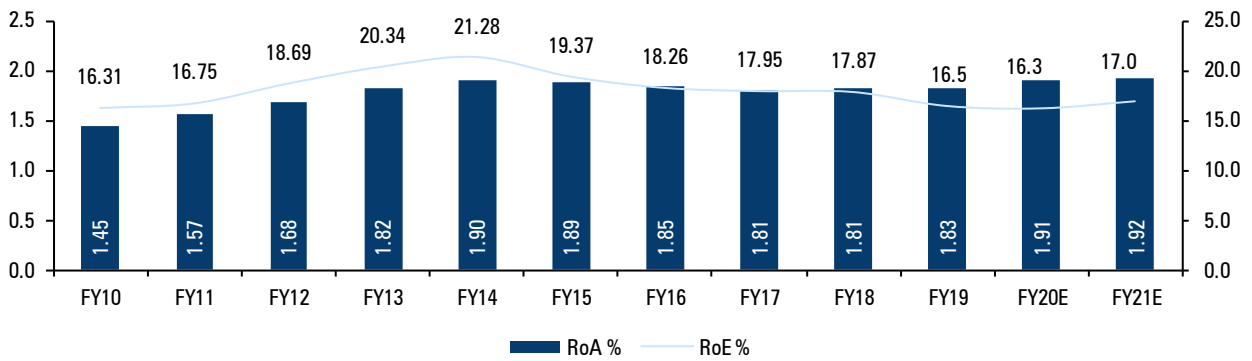
Source: Company, ICICI Direct Research

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



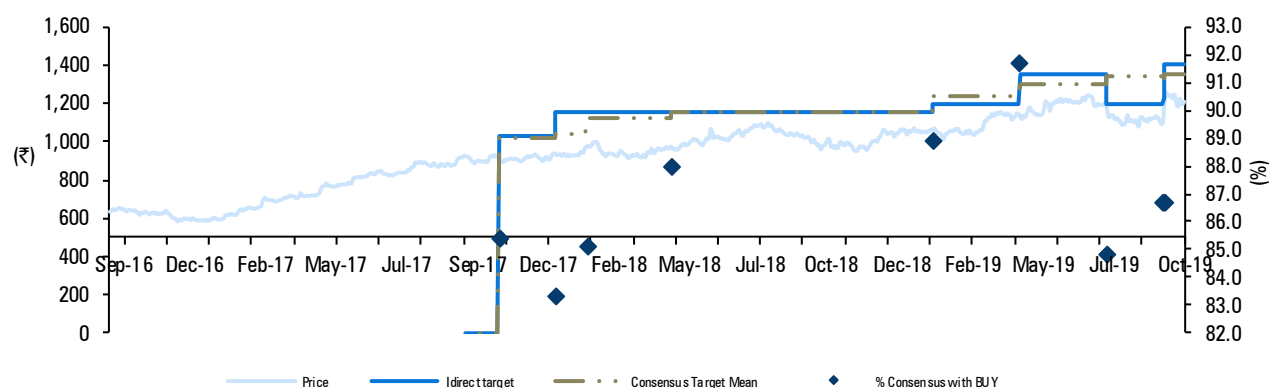
Source: Company, ICICI Direct Research

Exhibit 13: Return ratio trend to continue unabated



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	Position Change	Change (m)
1	Housing Development Finance Corporation Ltd	30-06-2019	10.64%	582.31M	-29.78M
2	Capital Research Global Investors	31-08-2019	5.91%	323.58M	+144.28M
3	Capital World Investors	30-06-2019	2.06%	112.45M	+0.27M
4	SBI Funds Management Pvt. Ltd.	30-06-2019	1.17%	64.27M	+3.89M
5	Life Insurance Corporation of India	30-06-2019	1.02%	55.82M	0
6	Reliance Nippon Life Asset Management Limited	30-09-2019	1.01%	55.42M	+27.49M
7	ICICI Prudential Asset Management Co. Ltd.	30-09-2019	0.94%	51.22M	+0.52M
8	Vontobel Asset Management, Inc.	31-08-2019	0.86%	46.79M	+23.26M
9	UTI Asset Management Co. Ltd.	30-09-2019	0.77%	42.39M	+21.21M
10	Fidelity International	31-08-2019	0.74%	40.50M	-0.18M

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Capital Research Global Investors	+2,249.43M	+144M	Housing Development Finance Corporation Ltd	-1,056M	-29.78M
Reliance Nippon Life Asset Management Limited	+477.61M	+27.49M	Morgan Stanley Investment Management Ltd. (UK)	-84.40M	-2.38M
Vontobel Asset Management, Inc.	+362.57M	+23.26M	CPP Investment Board	-79.14M	-2.36M
UTI Asset Management Co. Ltd.	+368.52M	+21.21M	Nordea Funds Oy	-73.73M	-2.25M
Schroder Investment Management (Hong Kong) Ltd.	+312.58M	+17.64M	ICICI Prudential Life Insurance Company Ltd.	-40.48M	-1.14M

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	26.6	26.5	26.5	26.3	26.3
FII	39.2	38.7	38.7	38.6	41.0
DII	14.9	16.0	16.4	16.9	17.7
Others	19.4	18.8	18.4	18.3	15.1

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	115751	135940
Interest Expended	40146	50729	59885	72476
Nil	40095	48243	55866	63463
Growth (%)	21.0	20.3	15.8	13.6
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	76014	86513
Employee cost	6804	7762	8496	9991
Other operating Exp.	15883	18358	21317	24830
Gross Profit	32630	39750	46201	51692
Provisions	6026	7550	10152	10196
PBT	26604	32199	36050	41496
Taxes	9117	11121	10094	10582
Net Profit	17487	21078	25956	30915
Growth (%)	20.2	20.5	23.1	19.1
EPS	33.7	38.7	47.7	56.8

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	519.0	544.7	544.7	544.7
EPS (₹)	33.7	38.7	47.7	56.8
BV (₹)	204.8	273.9	312.1	357.5
ABV (₹)	199.8	267.1	303.1	349.3
P/E	35.6	31.0	25.2	21.1
P/BV	5.9	4.4	3.8	3.4
P/ABV	6.0	4.5	4.0	3.4
Yields & Margins (%)				
Net Interest Margins	4.4	4.4	4.3	4.2
Yield on avg earning assets	8.8	9.0	9.0	9.0
Avg. cost on funds	4.9	5.2	5.3	5.3
Avg. cost of deposits	4.8	5.1	5.2	5.3
Yield on average advances	10.3	10.5	10.4	10.3
Quality and Efficiency (%)				
Cost / Total net income	41.0	39.7	39.2	40.2
Credit/Deposit ratio	83.5	88.8	87.3	86.4
GNPA	1.3	1.4	1.5	1.4
NNPA	0.4	0.5	0.5	0.4
ROE	17.9	16.5	16.3	17.0
ROA	1.8	1.8	1.9	1.9

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	169426	194158
Networth	106295	149206	169971	194703
Deposits	788771	923141	1112962	1343941
Borrowings	123105	117085	125887	135698
Other Liabilities & Provisions	45763	55108	62333	70700
Total	1063934	1244541	1471153	1745042
Applications of Funds				
Fixed Assets	3607	4030	4209	4414
Investments	242200	290588	330505	370860
Advances	658334	819401	971340	1161495
Other Assets	36878	49174	75892	109996
Cash with RBI & call money	122915	81348	89207	98277
Total	1063934	1244541	1471153	1745042

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total assets				
Total assets	23.2	17.0	18.2	18.6
Advances	18.7	24.5	18.5	19.6
Deposits	22.5	17.0	20.6	20.8
Total Income	17.0	22.1	16.6	17.0
Net interest income	21.0	20.3	15.8	13.6
Operating expenses	15.1	15.1	14.1	16.8
Operating profit	26.8	21.8	16.2	11.9
Net profit	20.2	20.5	23.1	19.1
Net worth	18.8	40.4	13.9	14.6
EPS	18.7	14.9	23.1	19.1

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Bn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E		
BoB (BANBAR)	88	140	Buy	338	1.8	12.2	23.1	49.1	7.2	3.8	1.1	0.7	0.6	0.1	0.3	0.6	0.9	5.6	9.4		
SBI (STABAN)	254	400	Buy	2268	1.0	26.7	35.9	262.0	10	7.1	1.8	1.4	1.1	0.0	0.7	0.8	0.5	12.1	13.8		
Indian Bank (INDIBA)	112	220	Hold	55	6.7	21.7	40.6	16.7	5.2	2.8	0.5	0.5	0.4	0.1	0.3	0.6	1.7	5.3	9.4		
Axis Bank (AXIBAN)	672	865	Buy	1893	22.2	31.7	49.6	30	21.2	13.5	3.1	2.2	1.9	0.8	1.0	1.4	0.8	1.0	1.4		
City Union (CITUNI)	222	240	Buy	163	9.3	10.4	12.0	23.9	21.3	18.5	3.8	3.2	2.8	1.6	1.6	1.6	15.3	14.8	14.8		
DCB Bank (DCB)	185	260	Buy	57	10.5	14.1	18.1	17.6	13.1	10.2	2.1	1.9	1.6	1.0	1.1	1.2	12.1	14.4	15.8		
Federal Bank (FEDBAN)	84	125	Buy	168	6.3	8.7	10.2	13.5	9.7	8.3	1.4	1.3	1.2	0.8	1.0	1.0	9.8	12.4	13.1		
HDFC Bank (HDFBAN)	1,200	1,440	Buy	6562	38.7	47.7	56.8	31.0	25.2	21.1	4.5	4.0	3.4	1.8	1.9	1.9	16.5	16.3	17.0		
IndusInd Bank (INDBA)	1,206	1,400	Buy	836	60.9	83.4	110.7	19.8	14.5	10.9	2.9	2.3	2.0	1.6	1.9	2.1	14.5	16.8	18.4		
J&K (JAMKAS)	32	48	Hold	18	8.3	9.4	14.5	3.8	3.4	2.2	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0		
Kotak Bank (KOTMAH)	1,582	1,575	Hold	3022	25.5	34.1	41.4	62.1	46.3	38.2	7.3	6.4	5.6	1.7	1.9	1.9	12.1	14.2	14.9		
Yes Bank (YESBAN)	38	UR	Reduce	98	6.2	6.2	8.6	6.2	6.1	4.5	0.4	0.4	0.4	0.4	0.4	0.5	5.4	5.3	6.5		
Bandhan (BANBAN)	555	650	Buy	663	16.4	25.2	33.4	2.3	1.5	1.1	0.4	0.3	0.3	3.9	4.6	4.5	19.0	23.9	25.1		

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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