

## Healthy operational performance justifies premium

NII came in at ₹ 14173 crore led by healthy growth in advances. Margins were steady at 4.2% due to slower growth in high yielding book & higher accretion in term deposit. Other income growth continued to remain robust at 35.5% YoY to ₹ 6669 crore, led by 24% YoY growth in fee income & treasury income of ₹ 940 crore. Led by healthy growth in NII and other income, PPP came in at ₹ 12945 crore, up 20% YoY. However, provisions continued to remain elevated at ₹ 3043 crore, consisting of ~₹ 2884 crore of specific provision. Healthy operational performance coupled with reduction in tax rate led to healthy 32.8% YoY growth in earnings to ₹ 7416 crore.

Advances growth came in healthy at 19.9% YoY to ₹ 936030 crore. Traction in the retail book remained slower at 14% YoY, primarily led by subdued growth in the auto book while growth in unsecured book (personal and credit cards) was healthy at ~25% YoY. Corporate book grew at a faster rate at 27% YoY, offsetting a moderation in retail book. Deposit growth was healthy at 25% YoY to ₹ 1067433 crore, led by strong growth of ~28% YoY in term deposit. CASA saw higher growth compared to the previous quarter leading to ~20 bps uptick in CASA ratio sequentially to 39.5%.

Asset quality continued to remain steady with GNPA at ₹ 13427 crore and GNPA ratio at 1.42%, up 4 bps QoQ. Marginal pressure was witnessed in the auto book, though currently it is not a major concern. Overall slippages came in at ₹ 3839 crore with ₹1500 crore being lumpy, ₹ 700 crore from a stressed corporate and 60-65% slippages came from agri book.

Among large subsidiaries, for HDB Financial, growth continues to remain slower, as AUM grew ~15% YoY to ₹ 59178 crore. Stage 3 GNPA ratio remained steady at ~3%, led by pressure in commercial vehicle segment.

## To maintain advances growth with adequate asset mix

The bank has been stepping up advances growth in the corporate as well as non-auto retail portfolio in order to maintain advances growth of 20% YoY. Accordingly, we upgrade our advances & deposit estimates to ~20%, 21% & 21%, 22% for FY20E and for FY21E to ₹ 983066, 1184790 crore, ₹ 1116849, ₹ 1358369 crore, respectively.

## Valuation & Outlook

Due to its focus, the bank has been able to maintain its leadership in retail loans with a slew of festive treats offer. Further, they have also stepped up corporate loans to offset the slowdown in the auto sector. The selection of the new MD continues to remain an overhang on the stock. The bank continues to remain a portfolio stock and maintains premium valuations. Accordingly, we maintain our **BUY** recommendation with a revised target price of ₹ 1550 (earlier ₹ 1440) valuing the bank at ~20x FY22E EPS (3.7x FY22E ABV) and include ₹ 75 per share for HDB Financial Services.



### Particulars

Particulars	Amount
Market Capitalisation	₹ 690105 crore
GNPA (Q3FY20)	₹ 13427 crore
NNPA (Q3FY20)	₹ 4468 crore
NIM % (Q3FY20)	4.2
52 week H/L	1304/1011
Networth	₹ 163591 crore
Face value	₹ 2
DII holding (%)	20.9
FII holding (%)	37.9

### Key Highlights

- Earning outperformance largely attributable to robust other income growth
- Recovery includes ~₹ 200 crore as recovery from resolution of NCLT case
- Maintain our BUY recommendation with revised target price of ₹ 1550 (earlier ₹ 1440)

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### Key Financial Summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-21E)
NII	40,095	48,243	55,963	63,165	73,036	15%
PPP	32,630	39,750	48,263	56,254	67,706	19%
PAT	17,487	21,078	26,837	33,712	41,472	25%
ABV (₹)	199.8	267.1	305.6	354.1	395.4	
P/E	38.1	33.2	26.1	20.8	16.9	
P/ABV	6.4	4.8	4.2	3.6	3.3	
RoA	1.8	1.8	2.0	2.1	2.1	
RoE	17.9	16.5	16.8	18.3	19.8	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
NII	14,173	14,410	12,577	12.7	13,515	4.9	NII continues to remain steady on the back of healthy credit growth & stable margins
NIM (%)	4.2	4.2	4.3	10 bps	4.2	0.0	Slower growth in high yielding auto loans and higher accretion in term deposit
Other Income	6,669	5,775	4,921	35.5	5,589	19.3	Healthy core fee income growth of 24% YoY & treasury income of ₹ 950 crore led to superior other income
Net Total Income	20,842	20,184	17,498	19.1	19,104	9.1	
Staff cost	2,455	2,282	1,968	24.8	2,355	4.2	
Other Operating Expenses	5,442	5,521	4,752	14.5	5,051	7.7	
PPP	12,945.4	12,380.1	10,778.4	20.1	11,698	10.7	PPP beat on back of higher other income
Provision	3,043.6	2,988.8	2,211.5	37.6	2,700.7	12.7	Slippages came in higher at ₹ 3839 crore. Further, the bank has made specific provisions of ₹ 2884 crore
PBT	9,901.9	9,391.3	8,566.9	15.6	8,997.4	10.1	
Tax	2,485.4	2,441.7	2,981.0	-16.6	2,652.4	-6.3	
PAT	7,416.5	6,949.6	5,585.9	32.8	6,345.0	16.9	PAT trajectory maintained largely due to robust other income

**Key Metrics**

GNPA	13,427.3	13,208.2	10,902.9	23.2	12,508.2	7.3	Slippages came in higher at ₹ 3839 crore including ₹ 700 crore from corporate sector
NNPA	4,468.4	4,191.0	3,301.5	35.3	3,791.0	17.9	
Total Restructured assets	898.6	861.1	749.7	19.9	861.1	4.4	
Advances	936,030	934,000	780,951	19.9	896,984	4.4	Corporate book grew 27% YoY while slowdown in auto kept retail advances growth at 14% YoY
Deposits	1,067,433	1,067,500	852,502	25.2	1,021,615	4.5	CASA ratio improved ~20 bps QoQ to 39.5%, led by higher accretion in savings deposit

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20E			FY21E			FY22E	Comment
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Net Interest Income	55,865.5	55,963.3	0.2	63,463.3	63,165.0	-0.5	73,035.6	
Pre Provision Profit	46,201.2	48,262.7	4.5	51,691.7	56,253.5	8.8	67,706.2	
NIM calculated (%)	4.3	4.4	5 bps	4.2	4.2	-1 bps	4.1	Higher dependence on term deposit and liquidity to keep margins under pressure
PAT	25,955.7	26,837.3	3.4	30,914.7	33,711.9	9.0	41,471.9	
ABV (₹)	303.1	305.6	0.8	349.3	354.1	1.4	395.4	

Source: Company, ICICI Direct Research

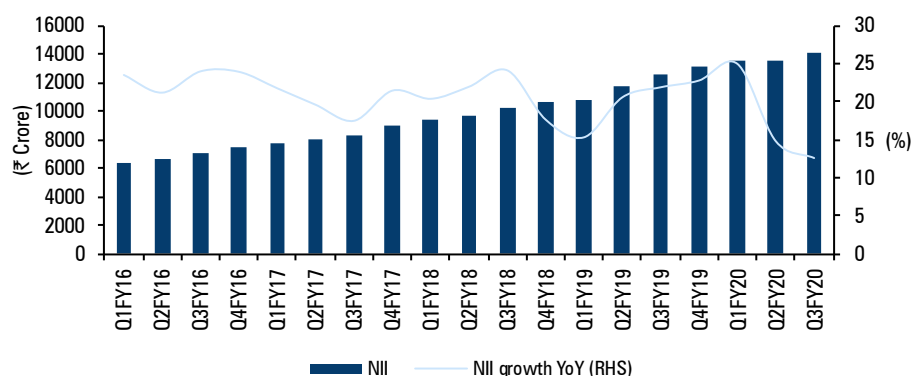
**Exhibit 3: Assumption**

	Current				Earlier	
	FY19	FY20E	FY21E	FY22E	FY20E	FY21E
Credit growth (%)	24.5	20.0	20.5	22.0	19.0	20.8
Deposit Growth (%)	17.0	21.0	21.6	22.4	16.9	19.2
CASA ratio (%)	42.4	40.0	38.7	37.4	41.3	40.9
NIM Calculated (%)	4.4	4.4	4.2	4.1	4.5	4.5
Cost to income ratio (%)	39.7	38.6	38.8	38.4	38.4	38.3
GNPA (₹ crore)	11,479	14,723	17,567	21,614	13,820	15,586.5
NNPA (₹ crore)	3,745	4,209	4,778	6,344	4,510	4,763.2
Slippage ratio (%)	1.1	1.0	1.0	1.0	1.0	0.9
Credit cost (%)	0.9	1.1	0.9	0.8	0.9	0.8

Source: Company, ICICI Direct Research

## Story in Charts

**Exhibit 4: Momentum in NII growth continues**



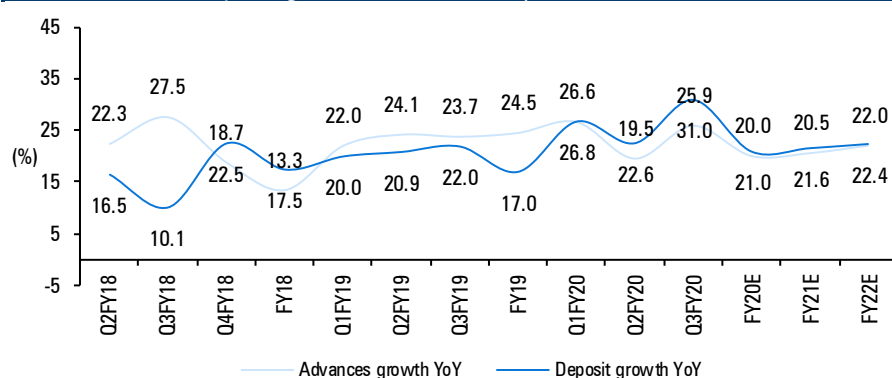
Source: Company, ICICI Direct Research

**Exhibit 5: Breakup of retail credit**

₹ crore	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Auto	69,053	73,057	76,427	77,659	80,336	83,012	80,675	80,784	80,784	83,552
CVCE	20,252	21,403	23,391	24,852	25,508	27,166	28,730	28,490	28,490	28,124
Two wheelers	6,883	7,691	8,672	9,227	9,689	10,095	10,047	9,851	9,851	10,149
Personal loans	60,692	66,817	71,876	77,868	83,426	88,803	92,978	1,02,080	1,02,080	1,09,531
Business Banking	45,528	46,989	54,126	52,050	54,180	55,706	57,035	62,689	62,689	63,255
Loans Against Security	1,604	1,671	1,816	1,748	1,824	1,788	1,881	1,828	1,828	1,812
Credit cards	30,831	33,622	36,115	38,458	40,535	44,839	46,630	52,043	52,043	57,678
Home loans	40,015	38,129	36,257	44,021	47,861	51,786	51,359	60,017	60,017	61,729
Others	44,422	44,929	48,744	49,473	52,947	52,544	56,836	57,543	57,543	58,985
Gold	5,068	5,057	5,065	5,116	5,193	5,161	5,187	5,320	5,320	5,318
Total	3,24,348	3,39,365	3,62,489	3,80,472	4,01,499	4,20,900	4,31,358	4,60,645	4,60,645	4,80,133

Source: Company, ICICI Direct Research

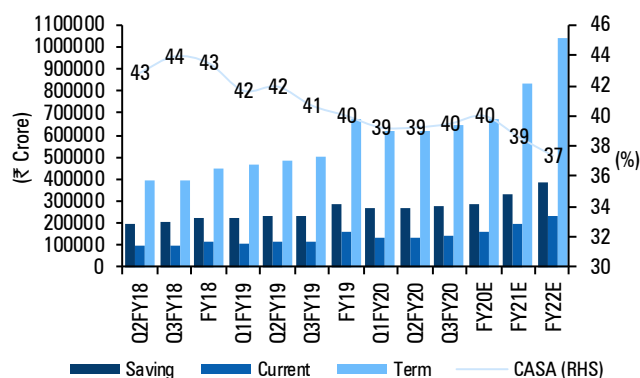
**Exhibit 6: Credit, deposit growth above industry, moderation seen in auto**



Source: Company, ICICI Direct Research

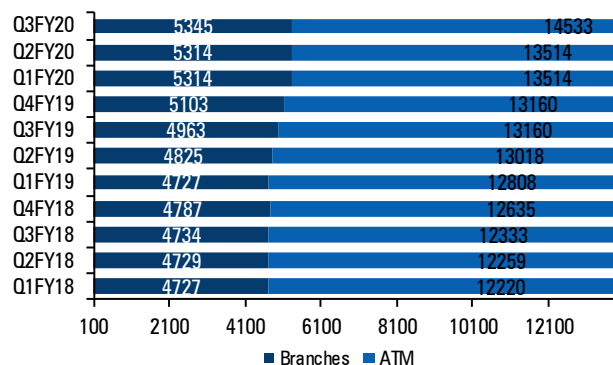
Overall slippages came in at ₹ 3839 crore with ₹1500 crore being lumpy, ₹ 600-700 crore from a stressed corporate and 60-65% slippages came from agri book. The bank holds floating provision at ₹ 1450 crore.

**Exhibit 7: CASA ratio inches up ~20 bps QoQ...**



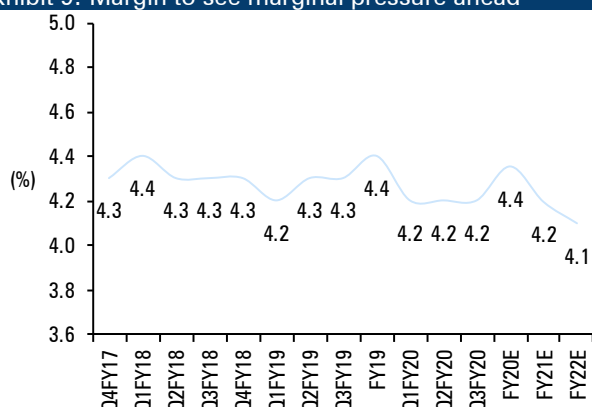
Source: Company, ICICI Direct Research

**Exhibit 8: Continued focus on branch expansion**



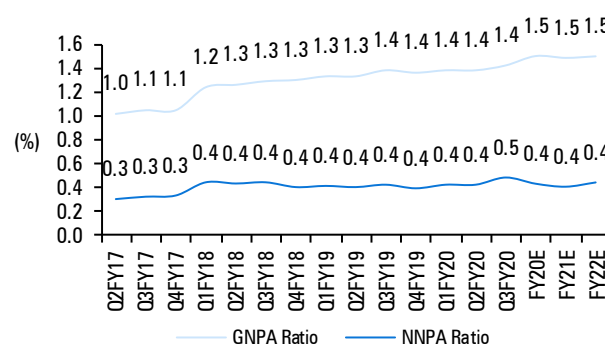
Source: Company, ICICI Direct Research

**Exhibit 9: Margin to see marginal pressure ahead**



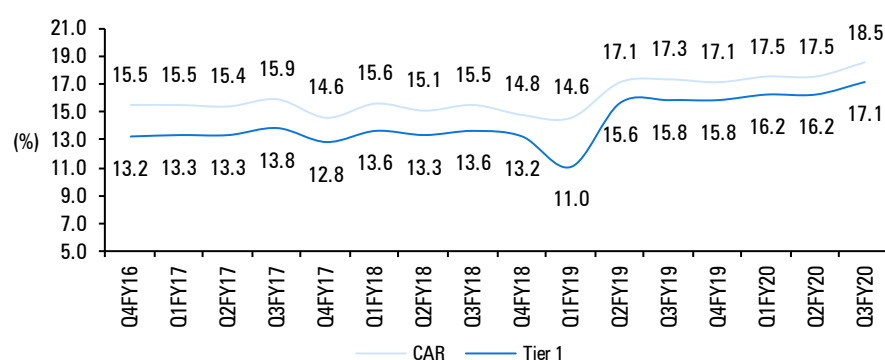
Source: Company, ICICI Direct Research

**Exhibit 10: Best in class asset quality maintained**



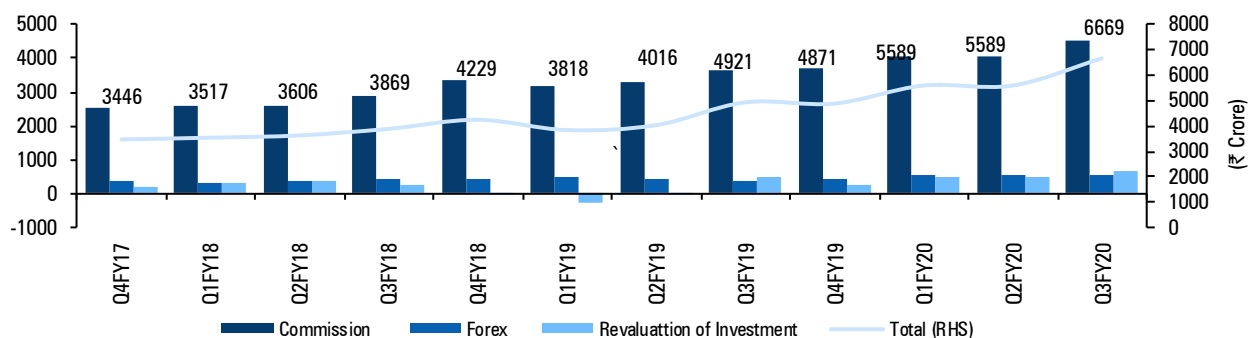
Source: Company, ICICI Direct Research

**Exhibit 11: Adequately capitalised for future growth**



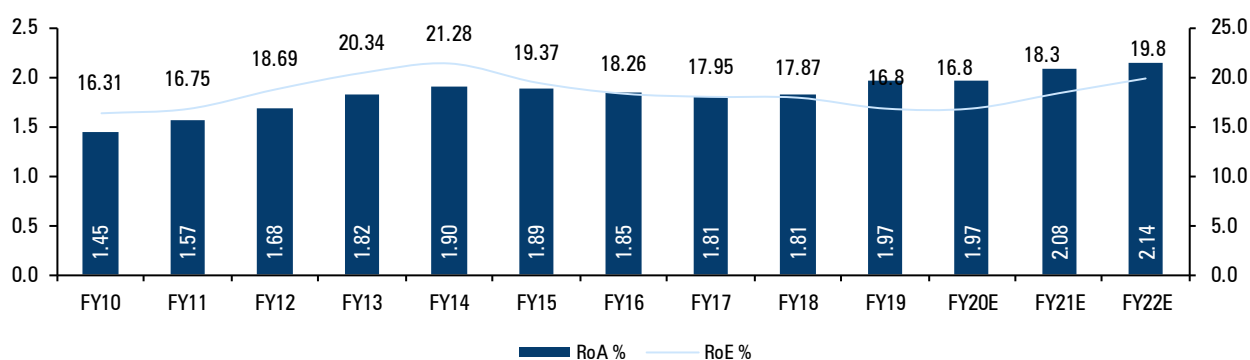
Source: Company, ICICI Direct Research

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



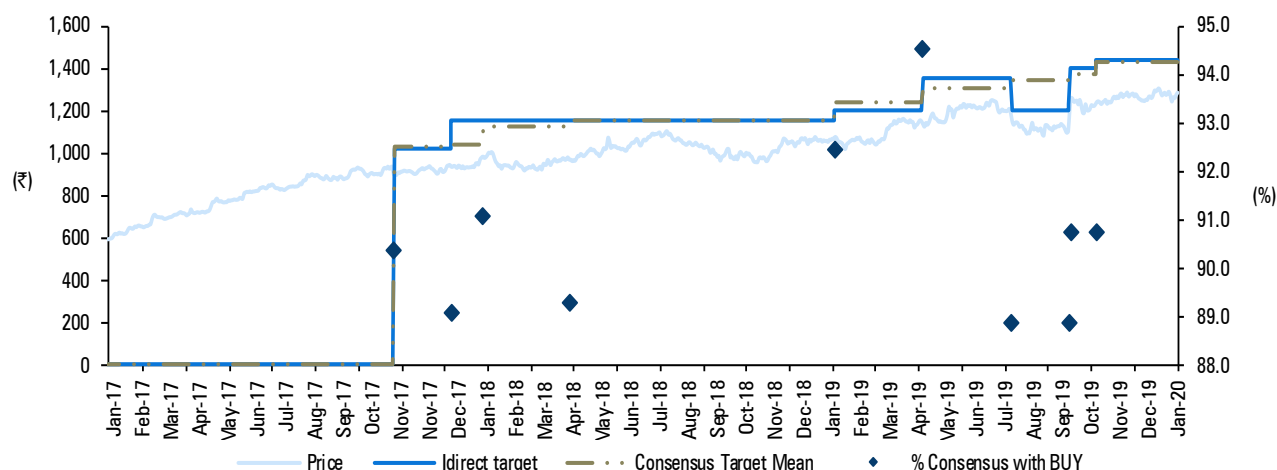
Source: Company, ICICI Direct Research

**Exhibit 13: Return ratio trend to stay abated**



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	30-06-2019	15.79	864.62M	+864.62M
2	CAPITAL GROUP COMPAN	31-10-2019	6.97	381.76M	-13.82M
3	SBI FUNDS MANAGEMENT	31-12-2019	2.81	153.69M	+3.90M
4	50 SBI-ETF NIFTY	30-06-2019	2.35	128.54M	+19.83M
5	LIFE INSURANCE CORP	30-06-2019	2.04	111.63M	+2.96M
6	FIL LIMITED	14-01-2020	1.22	66.84M	-5.93M
7	ICICI PRUDENTIAL LIF	30-06-2019	1.07	58.72M	-2.78M
8	HDFC ASSET MANAGEMEN	31-12-2019	1.05	57.26M	-3.94M
9	RELIANCE CAPITAL TRU	31-12-2019	1.03	56.54M	-0.71M
10	REPUBLIC OF SINGAPOR	43646	1.01	55.56255	55.56255

Source: Reuters, ICICI Direct Research

**Exhibit 16: Shareholding Pattern**

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	26.5	26.5	26.3	26.3	26.2
FII	38.7	38.7	38.6	41.0	37.9
DII	16.0	16.4	16.9	17.7	20.9
Others	18.8	18.4	18.3	15.1	15.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Interest Earned	98972	115895	136539	162280	
Interest Expended	50729	59932	73374	89245	
NII	48243	55963	63165	73036	
Growth (%)	20.3	16.0	12.9	15.6	
Non Interest Income	17626	22662	28758	36837	
Fees and advisory	13806	17947	23331	30331	
Treasury Income	387	464	557	669	
Other income	3433	4251	4870	5837	
Total Income	65869	78626	91923	109872	
Employee cost	7762	8735	10003	11501	
Other operating Exp.	18358	21628	25667	30665	
Gross Profit	39750	48263	56254	67706	
Provisions	7550	10989	11003	12039	
PBT	32199	37274	45251	55667	
Taxes	11121	10437	11539	14195	
Net Profit	21078	26837	33712	41472	
Growth (%)	20.5	27.3	25.6	23.0	
EPS	38.7	49.3	61.9	76.1	

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Valuation				
No. of Equity Shares	544.7	544.7	544.7	544.7
EPS (₹)	38.7	49.3	61.9	76.1
BV (₹)	273.9	313.4	362.9	407.0
ABV (₹)	267.1	305.6	354.1	395.4
P/E	33.2	26.1	20.8	16.9
P/BV	4.7	4.1	3.5	3.2
P/ABV	4.8	4.2	3.6	3.3
Yields & Margins (%)				
Net Interest Margins	4.4	4.4	4.2	4.1
Yield on avg earning assets	9.0	9.0	9.1	9.1
Avg. cost on funds	5.2	5.3	5.4	0.0
Avg. cost of deposits	5.1	5.2	5.3	5.4
Yield on average advances	10.5	10.4	10.3	10.3
Quality and Efficiency (%)				
Cost / Total net income	39.7	38.6	38.8	38.4
Credit/Deposit ratio	88.8	88.0	87.2	86.9
GNPA	1.4	1.50	1.48	1.50
NNPA	0.5	0.43	0.40	0.44
ROE	16.5	16.8	18.3	19.8
ROA	1.8	2.0	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Sources of Funds					
Capital	545	545	545	545	
Reserves and Surplus	148662	170131	197101	221155	
Networth	149206	170676	197646	221699	
Deposits	923141	1116849	1358369	1663160	
Borrowings	117085	125887	135479	145911	
Other Liabilities & Provisions	55108	62333	70700	80412	
Total	1244541	1475745	1762193	2111182	
Applications of Funds					
Fixed Assets	4030	4209	4414	4649	
Investments	290588	317275	349938	388374	
Advances	819401	983066	1184790	1445386	
Other Assets	49174	81988	124773	163999	
Cash with RBI & call money	81348	89207	98277	108774	
Total	1244541	1475745	1762193	2111182	

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios					(%)
(Year-end March)	FY19E	FY20E	FY21E	FY22E	
Total assets	17.0	18.6	19.4	19.8	
Advances	24.5	20.0	20.5	22.0	
Deposits	17.0	21.0	21.6	22.4	
Total Income	22.1	18.8	19.3	20.5	
Net interest income	20.3	16.0	12.9	15.6	
Operating expenses	15.1	16.2	17.5	18.2	
Operating profit	21.8	21.4	16.6	20.4	
Net profit	20.5	27.3	25.6	23.0	
Net worth	40.4	14.4	15.8	12.2	
EPS	14.9	27.3	25.6	23.0	

Source: Company, ICICI Direct Research

**Exhibit 21: ICICI Direct coverage universe (BFSI)**

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
BoB (BANBAR)	96	130	Buy	443	1.8	5.0	18.0	53.6	19.1	5.3	1.2	1.0	0.8	0.1	0.2	0.6	0.9	2.9	9.4
SBI (STABAN)	315	400	Buy	2814	1.0	18.4	31.1	325.1	17	10.1	2.2	1.7	1.5	0.0	0.5	0.7	0.5	8.5	12.5
Indian Bank (INDIBA)	102	130	Buy	62	6.7	21.7	40.1	15.2	4.7	2.5	0.5	0.4	0.4	0.1	0.3	0.6	1.7	5.3	9.3
Axis Bank (AXIBAN)	730	865	Buy	2057	18.2	21.3	49.0	40	34.2	14.9	3.4	2.6	2.3	0.6	0.7	1.4	0.6	0.7	1.4
City Union (CITUNI)	240	240	Buy	177	9.3	10.4	12.0	25.9	23.1	20.0	4.1	3.5	3.0	1.6	1.6	1.6	15.3	14.8	14.8
DCB Bank (DCB)	201	220	Buy	62	10.5	12.6	16.7	19.1	15.9	12.0	2.3	2.1	1.8	1.0	1.0	1.2	12.2	12.9	14.8
HDFC Bank (HDFBAN)	1,261	1,550	Buy	6907	38.7	49.3	61.9	32.6	25.6	20.4	4.7	4.1	3.6	1.8	2.0	2.1	16.5	16.8	18.3
IndusInd Bank (INDBA)	1,343	1,700	Buy	931	60.9	80.3	107.5	22.0	16.7	12.5	3.2	2.6	2.2	1.6	1.8	2.1	14.5	16.4	18.4
J&K (JAMKAS)	30	48	Hold	16	8.3	9.4	14.5	3.5	3.1	2.0	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0
Kotak Bank (KOTMAH)	1,681	1,700	Hold	3213	25.5	33.7	39.8	65.9	49.9	42.3	7.8	6.9	6.0	1.7	1.9	1.9	12.1	14.0	14.4
Bandhan (BANBAN)	483	650	Buy	778	16.4	21.4	27.1	2.4	1.8	1.4	0.4	0.4	0.4	3.9	4.6	4.1	19.0	26.5	25.9
IDFC First (IDFBAN)	43	54	Buy	207	-3.4	-2.3	1.1	-12.6	-18.8	38.4	1.2	1.3	1.3	-1.1	-0.6	0.3	-9.8	-6.2	3.1

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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