

July 23, 2018

# HDFC Bank

## Q1FY19 Result Update

### Marginal deposit growth; healthy term deposit growth; lower CASA

Deposits grew 2% QoQ to 8057.85bn backed by healthy 5% QoQ growth in term deposits to 4698.32bn and 2% QoQ de-growth in CASA to 3359.53bn. This reduced CASA from 43.5% to 41.7%. Term deposits are of relatively longer horizon and have lock-in facility enabling funding of mid-to-long term loans.

### Robust growth in advances on the back of home loans, personal loans...

Advances grew 8% QoQ to 7086.49bn on the back of 8% QoQ growth in personal loans, 21% QoQ growth in home loans and 6% QoQ growth in each credit card, CV and 2W respectively. Resultant, CD ratio moved up from 83% in Q4FY18 to 87% in Q1FY19.

### NIMs contracted by 10bps..

Net interest margin contracted to 4.2% in Q1FY19 due to a) lower yield on advances (fall from 10.34% in Q4FY18 to 10.18%) due to higher disbursement in low-yield segments such as home loans; b) low realizable yield on investments (fall from 7.11% to 7.09%) and; c) 14bps uptick in cost of funds to 5.11%.

### Cost to income ratio marginally up to 40.9% due to lower base of total operating income

Net interest income grew 1% QoQ to 108.14bn while non-interest income de-grew 10% QoQ due to 5% QoQ fall in fees/commissions and incremental loss of 260cr due to revaluation of investments given noted escalation in 10yr Gov yields from 7.4% (31<sup>st</sup> March'18) to 7.9% (30<sup>th</sup> June'18). This resulted in 2% QoQ fall in total operating income to 146.32bn. Cost to income rose 2bps to 40.9%.

### Stable asset quality

Gross NPA came at 95.39bn (rose by 11% QoQ on 8% QoQ growth in advances). GNPA% lifted to 1.33% from 1.3% in Q4FY18. Net NPA came at 29.07bn (rose by 12% QoQ given provisioning of 69.5% v/s 69.8% in Q4FY18). NNPA% was 0.41% v/s 0.40% in Q4FY18.

### Capital adequacy...adequate

CAR reported at 14.6% (v/s regulatory requirement of 11.025%). Tier I came at 13.1%. CET I was reported at 12.1%.

### Valuations

PAT de-grew 4% QoQ to 46.01bn. This lowered ROAA% to 1.7% from 1.9% in Q4FY18 and ROAE% to 17.2% from 18.5%. Balance sheet growth was robust, while lower yields & MTM losses shrunk P&L. Stock is trading at FY20E P/ABV of 4.3x, we assign neutral rating and value stock at P/ABV of 4.7x implying an upside potential of 9% and a target price of INR 2385.

| (INR Crores)            | FY16       | FY17       | FY18       | FY19E      | FY20E      |
|-------------------------|------------|------------|------------|------------|------------|
| Net interest income     | 27,591.5   | 33,139.2   | 40,094.9   | 50,935.6   | 60,974.0   |
| <b>Growth%</b>          | <b>23%</b> | <b>20%</b> | <b>21%</b> | <b>27%</b> | <b>20%</b> |
| Pre-provisioning profit | 21,363.5   | 25,732.4   | 32,624.8   | 40,801.7   | 49,518.8   |
| <b>Growth%</b>          | <b>23%</b> | <b>20%</b> | <b>27%</b> | <b>25%</b> | <b>21%</b> |
| Adjusted PAT            | 12,296.2   | 14,549.6   | 17,486.7   | 22,353.7   | 27,384.0   |
| <b>Growth%</b>          | <b>20%</b> | <b>18%</b> | <b>20%</b> | <b>28%</b> | <b>23%</b> |
| EPS (INR)               | 48.6       | 56.8       | 67.4       | 85.8       | 105.2      |
| BVPS (INR)              | 287.5      | 349.1      | 409.6      | 458.5      | 522.9      |
| ABVPS (INR)             | 282.2      | 341.9      | 399.6      | 445.0      | 507.5      |
| P/B (x)                 | 3.9        | 4.4        | 4.8        | 4.8        | 4.2        |
| P/ABV (x)               | 4.0        | 4.5        | 4.9        | 4.9        | 4.3        |

#### ANALYST

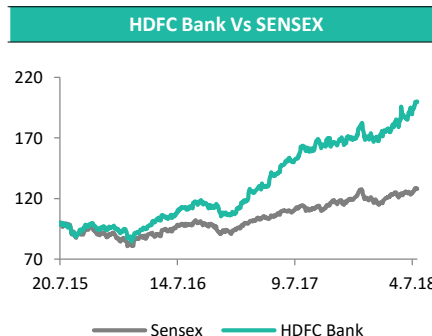
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# NEUTRAL

| Downside Scenario | Current Price | Price Target | Upside Scenario |
|-------------------|---------------|--------------|-----------------|
|                   | 2189          | 2385         |                 |
|                   |               | 9% ▲         |                 |

| Stock Details     |           |
|-------------------|-----------|
| Industry          | BFSI      |
| Sensex            | 36,351    |
| Nifty             | 10,957    |
| Bloomberg Code    | HDFCB     |
| Eq. Cap. (Rs. Cr) | 521       |
| Face Value (Rs.)  | 2         |
| 52-w L/H          | 1681/2220 |
| Market Cap (Cr)   | 5,70,337  |

| Valuation Data |       |       |       |
|----------------|-------|-------|-------|
|                | FY18A | FY19E | FY20E |
| NIM            | 4.4%  | 4.5%  | 4.4%  |
| Book value     | 410   | 459   | 523   |
| Adj BV         | 400   | 445   | 507   |
| ROAA           | 1.8%  | 1.9%  | 1.9%  |
| ROAE           | 18.2% | 20.6% | 22.0% |



| Shareholding Pattern |        |        |        |
|----------------------|--------|--------|--------|
|                      | Jun'18 | Mar'18 | Jun'17 |
| Promoters            | 25.5   | 25.6   | 25.9   |
| FII's                | 40.9   | 40.4   | 42.0   |
| MF                   | 11.6   | 12.1   | 10.5   |
| Retail               | 11.1   | 11.0   | 10.8   |
| Others               | 10.9   | 10.9   | 10.8   |
|                      | 100.0  | 100.0  | 100.0  |

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## Q1FY19 Result Analysis

| (INR Crores)                       | Q1FY19       | Q1FY18       | Q4FY18       | Y-o-Y      | Q-o-Q      |
|------------------------------------|--------------|--------------|--------------|------------|------------|
| Interest on Advances/Bills         | 17391        | 14486        | 16663        | 20%        | 4%         |
| Interest on Investment             | 4589         | 3893         | 4223         | 18%        | 9%         |
| Interest on bal. with RBI & Others | 332          | 108.2        | 196.81       | 207%       | 69%        |
| Other Interest                     | 237          | 181.49       | 238.26       | 30%        | -1%        |
| <b>INTEREST EARNED</b>             | <b>22549</b> | <b>18669</b> | <b>21321</b> | <b>21%</b> | <b>6%</b>  |
| <b>Net-Interest Income (NII)</b>   | <b>10814</b> | <b>9371</b>  | <b>10658</b> | <b>15%</b> | <b>1%</b>  |
| Other Income                       | 3818         | 3517         | 4229         | 9%         | -10%       |
| <b>Total Income</b>                | <b>14632</b> | <b>12887</b> | <b>14886</b> | <b>14%</b> | <b>-2%</b> |
| Operating Expenses                 | 5984         | 5367         | 6051         | 11%        | -1%        |
| <b>Pre-Provisional Profits</b>     | <b>8648</b>  | <b>7520</b>  | <b>8836</b>  | <b>15%</b> | <b>-2%</b> |
| Provisions & Contingencies         | 1629         | 1559         | 1541         | 5%         | 6%         |
| <b>PBT</b>                         | <b>7018</b>  | <b>5961</b>  | <b>7295</b>  | <b>18%</b> | <b>-4%</b> |
| Provision for Taxes                | 2417         | 2067         | 2495         | 17%        | -3%        |
| <b>Adjusted Net Profit</b>         | <b>4601</b>  | <b>3894</b>  | <b>4799</b>  | <b>18%</b> | <b>-4%</b> |

- Bank's total operating income grew 14% YoY from 12887cr in Q1FY18 & de-grew 2% QoQ from 14886cr in Q4FY18 to 14632cr in this quarter on back of 15% YoY growth in net interest income propelled by 22% YoY growth in advances.
- Bank's Net Interest Income grew 15% YoY from 9371cr in Q1FY18 & 1% QoQ from 10658cr in Q4FY18 to 10814cr in this quarter. Although, yield on advances contracted from 10.21% in Q1FY18 to 10.18% in Q1FY19, yield on investments contracted from 7.23% in Q1FY18 to 7.09% in Q1FY19 whereas cost of funds rose from 5.04% in Q1FY18 to 5.11% in Q1FY19.
- Bank's quarterly cost to income ratio contracted by 70bps YoY to 40.9% due to digitalization.
- Bank's quarterly pre-provisioning profit grew 15% YoY from 7520cr in Q1FY18 & de-grew 2% QoQ from 8836cr in Q4FY18 to 8648cr in this quarter.
- Bank's net profits came at 4601cr in this quarter due to 713cr increase in MTM losses.
- Gross NPA ratio came at 1.33% (v/s 1.24% in Q1FY18) and NNPA came at 0.41% (v/s 0.44% in Q1FY18). Provision coverage ratio was 69.5% (v/s 65.1% in Q1FY18).

| (INR Crores)        | Q1FY19    | Q1FY18  | Q4FY18    | Y-o-Y | Q-o-Q | Comment  |
|---------------------|-----------|---------|-----------|-------|-------|--|
| <b>Deposits</b>     | 805,785   | 671,376 | 788,771   | 20%   | 2%    | CASA went down from 44.0% in Q1FY18 to 41.7% in Q1FY19 due to muted 7% growth in CA, moderate 17% growth in SA & 25% growth in term deposits.              |
| <b>Borrowings</b>   | 121,024   | 86,012  | 123,105   | 41%   | -2%   | -  |
| <b>Investments</b>  | 275,679   | 216,108 | 242,200   | 28%   | 14%   |  |
| <b>Advances</b>     | 708,649   | 580,976 | 658,333   | 22%   | 8%    | 2W portfolio grew 41%YoY, personal loan grew 40%, SME grew 29%, credit card grew 32%, while auto loans & home loan grew at moderate 18% & 14% respectively |
| <b>Total Assets</b> | 1,080,409 | 895,653 | 1,063,934 | 21%   | 2%    | Backed by robust growth in investments & advances.   |

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## Conference Call Highlights

1. Net interest margin came at 4.2%, 10bps lower sequentially. This was due to a) low investment yields b) income reversal in Agricultural portfolio c) higher growth in low yield segments such as home loan backed by one-off acquisition of home loan portfolio d) higher cost of funds from 5.0% in Q4FY18 to 5.1% in Q1FY19 due to 5% QoQ growth in term deposits while SA grew 1% QoQ & CA de-grew 8% QoQ. Bank focused on growing term deposits to stage 7.6% QoQ growth in advances. Term deposits have higher maturities and lock-in facility as compare to CASA. Resultant CASA ratio reduced from 43.5% in Q4FY18 to 41.7% in Q1FY19.
2. Non-interest income came at 3818cr (10% QoQ fall). Fee & commissions contributed 83% to total non-interest income. Commission consisted inflow from 3<sup>rd</sup> party insurance, credit card fees, retail asset fees.
3. Total MTM losses came at 391cr, largely due to corporate bond portfolio. Bank recognized full loss in the quarter & did not avail for 4-quarter-spread facility by RBI due to corporate bond portfolio's modified duration of 1.6 years. Comparatively, Q1FY18 saw gain of 331cr. Adjusting for this fact gives 30% YoY growth in PBT as against reported 18% YoY.
4. Cost to income ratio came at 40.9% as against 41.6% for Q1FY18.
5. Provisions came at 1629.4 cr. Provisions due to loans were 1432.2 cr.
6. CAR was 14.6%, Tier I at 13.1%. CET came at 12.1%. RWA at 8.4 lac crore.
7. Bank made floating provisions of 1451cr. Total provisions including specific provisions, general provisions and floating provisions were 118% of GNPA.
8. Slippage cost came at 2.06%. On absolute basis, slippages were 3548 cr. Agricultural portfolio continue to witness strain. Adjusting for Agri portfolio slippage cost came at 1.67%.
9. Retail book contribution in total loan book went marginally down to 54% from 55% sequentially, while corporate book moved up from 45% to 46%.
10. Board has studied Inter-credit agreement and would finalize whether to participate or not going ahead.
11. Majority of loan book is fixed-rate based. Therefore, bank expects NIM to be in range of 4-4.3%.
12. Bank is aggressively growing its investment banking division due to a) good relationships with corporate b) among top 3 players in loan syndication space.
13. HDFC is betting on brand, customer service to attract customer instead of providing higher interest rates on savings account.
14. Bank has successfully achieved target of bringing cost to income ratio in low 40's. Cost to income ratio was 40.9% (v/s 41.6% in Q1FY18, 45.0% in Q1FY17). Bank attributes success to digitalization. Going forward it expects CI to be in similar matrix.
15. Capital raising update: of 24,000cr, 8500cr has been raised from HDFC via issue of preference shares.
16. Credit card business has been profitable for the bank due to a) market leader in this segment, b) stickiness by providing card mostly to deposit holders ,and c) stable & high asset quality.

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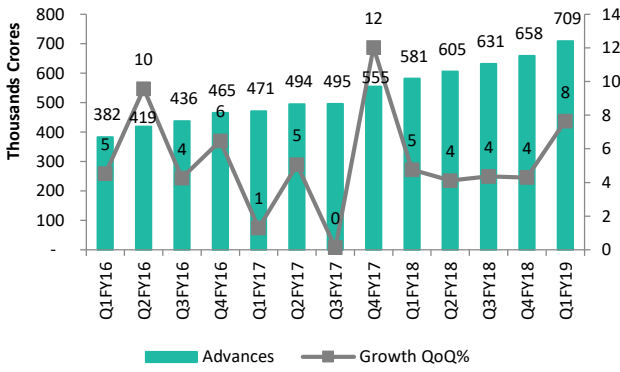
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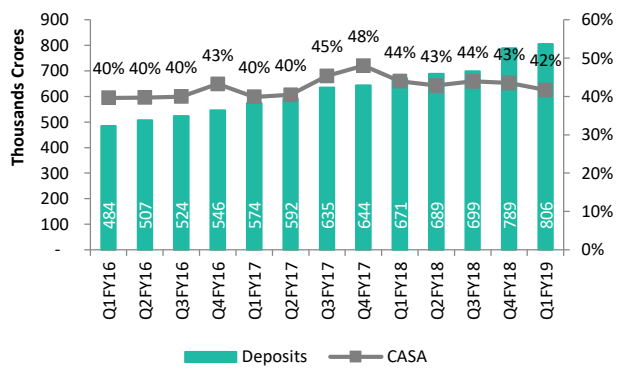
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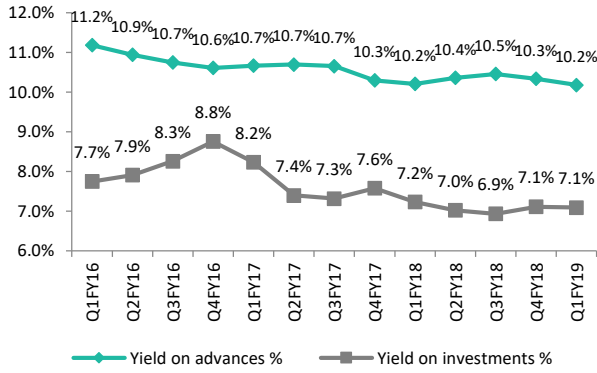
### Advances Profile



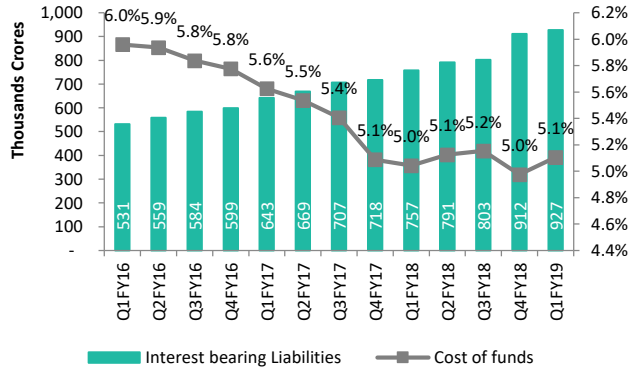
### Deposits Profile



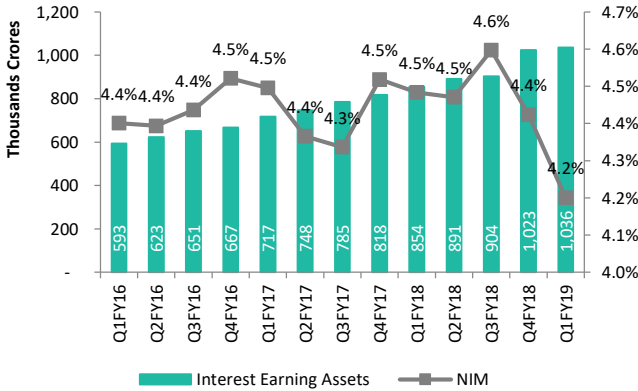
### Yield Profile



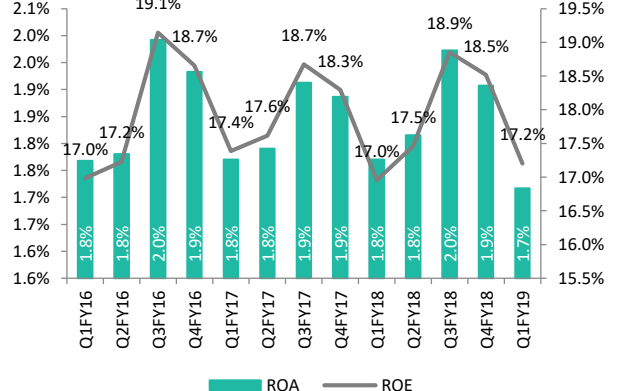
### Interest Bearing Liabilities



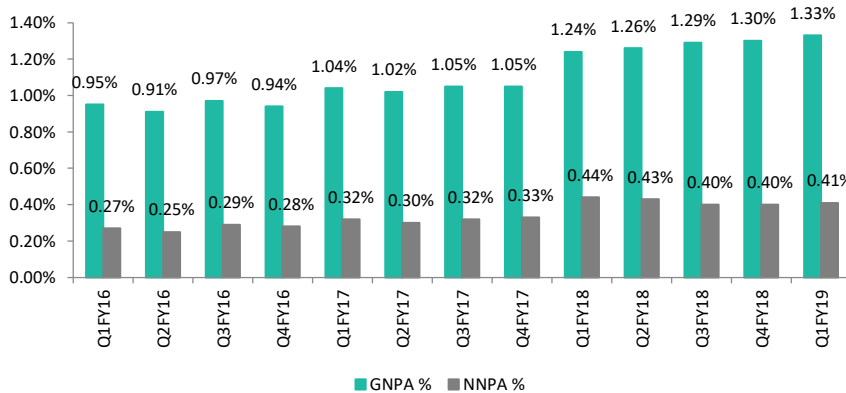
### Interest Earning Assets



### Return Ratios



### Asset Quality



Source: Company, NSPL Research



| Profit & Loss (INR Crores)     | FY16            | FY17            | FY18            | FY19E           | FY20E           |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Interest earned                | 60,221.4        | 69,306.0        | 80,241.4        | 96,760.4        | 116,628.4       |
| Interest expended              | 32,629.9        | 36,166.7        | 40,146.5        | 45,824.8        | 55,654.4        |
| <b>Net interest income</b>     | <b>27,591.5</b> | <b>33,139.2</b> | <b>40,094.9</b> | <b>50,935.6</b> | <b>60,974.0</b> |
| Non-interest income            | 10,751.7        | 12,296.5        | 15,220.3        | 17,546.9        | 21,310.7        |
| <b>Total income</b>            | <b>38,343.2</b> | <b>45,435.7</b> | <b>55,315.2</b> | <b>68,482.4</b> | <b>82,284.7</b> |
| Operating expenses             | 16,979.7        | 19,703.3        | 22,690.4        | 27,680.7        | 32,765.9        |
| <b>Pre-provisioning profit</b> | <b>21,363.5</b> | <b>25,732.4</b> | <b>32,624.8</b> | <b>40,801.7</b> | <b>49,518.8</b> |
| Provisions                     | 2,725.6         | 3,593.3         | 5,927.5         | 6,674.0         | 7,711.2         |
| <b>Profit before tax (PBT)</b> | <b>18,637.9</b> | <b>22,139.1</b> | <b>26,697.3</b> | <b>34,127.8</b> | <b>41,807.6</b> |
| Tax expense                    | 6,341.7         | 7,589.4         | 9,210.6         | 11,774.1        | 14,423.6        |
| <b>Adjusted PAT</b>            | <b>12,296.2</b> | <b>14,549.6</b> | <b>17,486.7</b> | <b>22,353.7</b> | <b>27,384.0</b> |

| Balance Sheet (INR Crores) | FY16      | FY17      | FY18        | FY19E       | FY20E       |
|----------------------------|-----------|-----------|-------------|-------------|-------------|
| Capital                    | 505.6     | 512.5     | 519.0       | 520.8       | 520.8       |
| Shareholder's Fund         | 72,677.8  | 89,462.4  | 106,295.0   | 119,411.9   | 136,177.2   |
| Deposits                   | 546,424.2 | 643,639.7 | 788,770.6   | 962,300.2   | 1,164,383.2 |
| Borrowings                 | 53,018.5  | 74,028.9  | 123,105.0   | 150,188.1   | 181,727.6   |
| Cash & Balances with RBI   | 38,918.8  | 48,952.1  | 122,915.1   | 149,956.4   | 181,447.2   |
| Investments                | 163,885.8 | 214,463.3 | 242,200.2   | 295,484.3   | 357,536.0   |
| Advances                   | 464,594.0 | 554,568.2 | 658,333.1   | 803,166.4   | 971,831.3   |
| Total Assets               | 708,845.6 | 863,840.2 | 1,063,934.3 | 1,297,999.9 | 1,570,579.8 |

| RATIOS                      | FY16  | FY17  | FY18  | FY19E | FY20E |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Growth rates</b>         |       |       |       |       |       |
| Advances (%)                | 27.1% | 19.4% | 18.7% | 22.0% | 21.0% |
| Deposits (%)                | 21.2% | 17.8% | 22.5% | 22.0% | 21.0% |
| Total assets (%)            | 20.0% | 21.9% | 23.2% | 22.0% | 21.0% |
| NII (%)                     | 23.2% | 20.1% | 21.0% | 27.0% | 19.7% |
| Pre-provisioning profit (%) | 22.7% | 20.5% | 26.8% | 25.1% | 21.4% |
| PAT (%)                     | 20.4% | 18.3% | 20.2% | 27.8% | 22.5% |

| Balance sheet ratios      | FY16  | FY17  | FY18  | FY19E | FY20E |
|---------------------------|-------|-------|-------|-------|-------|
| Credit/Deposit (%)        | 85.0% | 86.2% | 83.5% | 83.5% | 83.5% |
| CASA (%)                  | 43.2% | 48.0% | 44.0% | 45.0% | 46.0% |
| Advances/Total assets (%) | 65.5% | 64.2% | 61.9% | 61.9% | 61.9% |
| Leverage (x)              | 9.8x  | 9.7x  | 10.0x | 10.9x | 11.5x |

| Operating efficiency                   | FY16  | FY17  | FY18  | FY19E | FY20E |
|--|-------|-------|-------|-------|-------|
| Cost/income (%)                        | 44.3% | 43.4% | 41.0% | 40.4% | 39.8% |
| Opex/total assets (%)                  | 2.4%  | 2.3%  | 2.1%  | 2.1%  | 2.1%  |
| Opex/total interest earning assets (%) | 2.5%  | 2.4%  | 2.2%  | 2.2%  | 2.2%  |

| Profitability | FY16  | FY17  | FY18  | FY19E | FY20E |
|---------------|-------|-------|-------|-------|-------|
| NIM (%)       | 4.5%  | 4.5%  | 4.4%  | 4.5%  | 4.4%  |
| RoA (%)       | 1.9%  | 1.9%  | 1.8%  | 1.9%  | 1.9%  |
| RoE (%)       | 18.5% | 17.9% | 18.2% | 20.6% | 22.0% |

| Asset quality | FY16  | FY17  | FY18  | FY19E | FY20E |
|---------------|-------|-------|-------|-------|-------|
| Gross NPA (%) | 0.9%  | 1.1%  | 1.3%  | 1.4%  | 1.3%  |
| Net NPA (%)   | 0.3%  | 0.3%  | 0.4%  | 0.4%  | 0.4%  |
| PCR (%)       | 69.9% | 68.7% | 69.8% | 68.7% | 68.7% |
| Slippage (%)  | 0.3%  | 0.3%  | 0.5%  | 0.4%  | 0.2%  |

| Per share data / Valuation | FY16  | FY17  | FY18  | FY19E | FY20E |
|----------------------------|-------|-------|-------|-------|-------|
| EPS (Rs.)                  | 48.6  | 56.8  | 67.4  | 85.8  | 105.2 |
| BV (Rs.)                   | 287.5 | 349.1 | 409.6 | 458.5 | 522.9 |
| ABV (Rs.)                  | 282.2 | 341.9 | 399.6 | 445.0 | 507.5 |
| P/BV (x)                   | 3.9x  | 4.4x  | 4.8x  | 4.8x  | 4.2x  |
| P/ABV (x)                  | 4.0x  | 4.5x  | 4.9x  | 4.9x  | 4.3x  |

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