

October 22, 2018

HDFC Bank

Q2FY19 Result Update

Deposit growth driven by CA growth

Deposits grew 3.4% QoQ to 8333.6bn driven by CA growth of 5.3% QoQ at 1151.3bn, SA growth of 3.5% QoQ at 2345.7bn and term deposit growth of 2.9% QoQ at 4836.7bn. CASA ratio improved from 41.7% in Q1FY19 to 42% in current quarter.

Advances driven primarily by corporate book

Advances grew 6.0% QoQ to 7508.4bn due to 30% QoQ corporate book growth at 4264.9bn. However, retail book witnessed 15% QoQ drop at 3243.5bn. Consequently, contribution of corporate book improved from 46% in Q1FY19 to 57% in current quarter.

Personal loans, auto loans, 2-W loans denting retail book

Personal-loans/auto-loans/SME/home-loan/gold-cards/2-W is 19%/21%/14%/12%/10%/2% of retail book. Personal-loans/auto-loans/SME/home-loan/gold-cards/2-W de-grew 22%/11%/13%/9%/6%/25%.

NIM expansion led by yield expansion

NIM came at 4.37% as oppose to 4.2% in Q1FY19. Yield on advances came at 10.32% as oppose to 10.18% in Q1FY19. Cost of funds expanded from 5.11% in Q1FY19 to 5.23% in Q2FY19. Within advance book, 30-35% of the book is floating rate while 65-70% of the book is fixed rate.

Operational efficiency due to economies of scale

Operating expenses grew 5% QoQ to 6299cr, while total operating income grew 8% QoQ to 15779cr. Consequently, cost to income ratio improved from 40.9% in Q1FY19 to 39.9% in current quarter. Total operating income was driven by 9%/5% QoQ growth in net interest income/non-interest income. Within, core fee income grew 26% YoY better than loan growth. Due to strong growth in credit cards issuance, better insurance distribution income, retail loan disbursals and the cash management business.

Valuations

PAT grew 9% QoQ to 50.05bn. This increased ROAA% to 1.8% from 1.7% in Q1FY19. However, ROAE% to 16.4% from 17.2%. Balance sheet growth was robust, NIM expansion aided bottom line. Stock is trading at FY20E P/ABV of 3.9x, we assign strong buy rating and value stock at P/ABV of 4.5x implying an upside potential of 16% and a target price of INR 2284.

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	33,139.2	40,094.9	47,342.3	55,474.5	66,871.2
Growth%	20%	21%	18%	17%	21%
Pre-provisioning profit	25,732.4	32,624.8	39,796.2	47,837.9	57,724.4
Growth%	20%	27%	22%	20%	21%
Adjusted PAT	14,549.6	17,486.7	21,174.7	26,283.0	31,424.1
Growth%	18%	20%	21%	24%	20%
EPS (INR)	56.8	68.2	77.9	96.7	115.6
BVPS (INR)	349.1	414.8	449.7	522.3	609.0
ABVPS (INR)	341.9	404.7	436.8	507.5	592.7
P/B (x)	4.4	4.7	4.4	3.8	3.2
P/ABV (x)	4.5	4.9	4.5	3.9	3.3

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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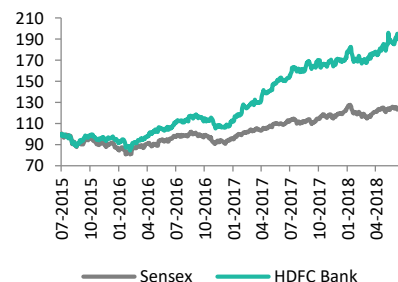
STRONG BUY*



Market Data	
Industry	BFSI
Sensex	34,315
Nifty	10,303
Bloomberg Code	HDFCB
Eq. Cap. (INR Crores)	543
Face Value (INR)	2
52-w L/H	1757/2220
Market Cap (INR Crores)	534672

Valuation Data	FY18A	FY19E	FY20E
NIM	4.2%	4.0%	4.0%
Book value	450	522	609
Adj BV	437	507	593
ROAA	1.9%	2.0%	2.0%
ROAE	18.4%	20.1%	20.9%

HDFC Bank Vs SENSEX



	Shareholding Pattern		
	Sept'18	Jun'18	Sept'17
Promoters	26.6	25.5	25.9
FIIs	39.2	40.9	42.0
MF	12.2	11.6	10.5
Retail	11.2	11.1	10.8
Others	10.9	10.9	10.8
	100.0	100.0	100.0



Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest on Advances/Bills	18827.68	15355.75	17390.73	23%	8%
Interest on Investment	5042.24	4006.46	4589.29	26%	10%
Interest on bal. with RBI & Others	93.58	106.49	332.38	-12%	-72%
Other Interest	236.06	201.58	236.58	17%	0%
INTEREST EARNED	24199.56	19670.28	22548.98	23%	7%
Net-Interest Income (NII)	11763.41	9752.07	10813.57	21%	9%
Other Income	4015.59	3605.9	3818.06	11%	5%
Total Income	15779	13357.97	14631.63	18%	8%
Operating Expenses	6299.05	5540.05	5983.88	14%	5%
Pre-Provisional Profits	9479.95	7817.92	8647.75	21%	10%
Provisions & Contingencies	1819.96	1476.19	1629.37	23%	12%
PBT	7659.99	6341.73	7018.38	21%	9%
Provision for Taxes	2654.26	2190.7	2416.94	21%	10%
Adjusted Net Profit	5005.73	4151.03	4601.44	21%	9%

Source: Company, NSPL Research

- Bank's total operating income grew 18% YoY from 13357cr in Q2FY18 & 8% QoQ from 14631cr in Q1FY19 to 15779cr in this quarter on back of 21% YoY growth in net interest income propelled by 24% YoY growth in advances.
- Bank's Net Interest Income grew 21% YoY from 9752cr in Q2FY18 & 9% QoQ from 10813cr in Q1FY19 to 11763cr in this quarter. Although, yield on advances contracted from 10.36% in Q2FY18 to 10.32% in Q2FY19, yield on investments contracted from 7.02% in Q2FY18 to 7.01% in Q2FY19 whereas cost of funds rose from 5.12% in Q2FY18 to 5.23% in Q2FY19.
- Bank's quarterly cost to income ratio contracted by 160bps YoY to 39.9% due to digitalization.
- Bank's quarterly pre-provisioning profit grew 21% YoY from 7817cr in Q2FY18 & 10% QoQ from 8647cr in Q1FY19 to 9480cr in this quarter.
- Bank's net profits came at 5006cr in this quarter.
- Gross NPA ratio came at 1.33% (v/s 1.26% in Q2FY18) and NNPA came at 0.40% (v/s 0.43% in Q2FY18). Provision coverage ratio was 70% (v/s 66.3% in Q2FY18).

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q	Comment
Deposits	833,364	689,346	805,785	21%	3%	CASA went down from 43.0% in Q2FY18 to 42% in Q2FY19 due to muted 18% growth in CA, 18% growth in SA & 23% growth in term deposits.
Borrowings	142,719	101,531	121,024	41%	18%	-
Investments	300,086	240,279	275,679	25%	9%	
Advances	750,838	604,867	708,649	24%	6%	
Total Assets	1,169,898	933,637	1,080,409	25%	8%	Backed by robust growth in investments & advances.

Source: Company, NSPL Research

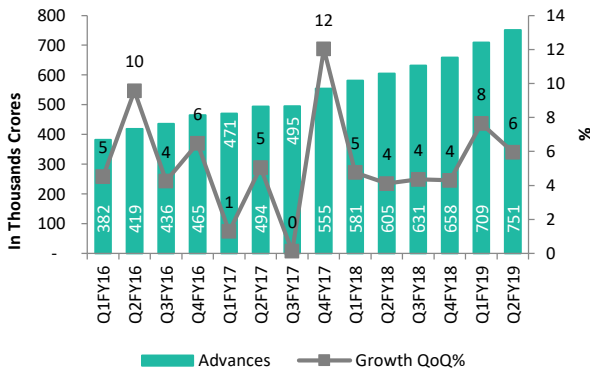


Conference Call Highlights

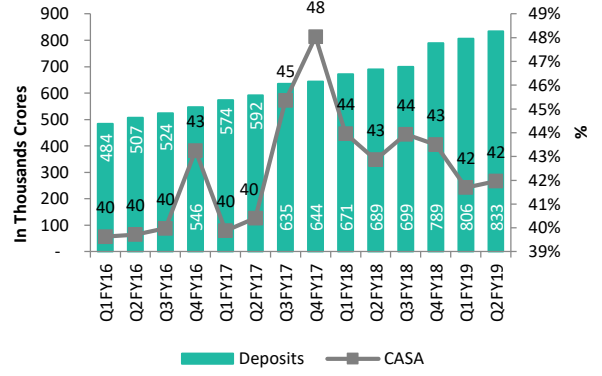
1. Recently, bank raised 23,590cr through preferential allotment (QIP and ADR).
2. Liquidity: adequately liquid. LCR was 118% as oppose to the regulatory minimum of 90% as of Q2FY19. Also bank mentioned that liquidity would be a priority, even if it translates into margin impact. Bank to continue its strategy of funding long term assets through deposits and other long term funding.
3. Watch-list: no significant corporate exposure.
4. Floating provisions of 1451cr. Total provisions were 117% of GNPA.
5. Exposure to NBFCs: NBFC rating profile is good with ~85% of the portfolio having the highest internal rating. A majority exposure within NBFC is towards housing and retail segments.
6. Advance book:~30-35% of the book is floating rate while 65-70% of the book is fixed rate. The weighted average duration of retail loans in the portfolio is 1.5-2 years. Within retail book, auto loans reported 11% de-growth. Bank expects to witness pressure in auto book.
7. Non-interest income: Core fee income grew 26% YoY better than loan growth. Due to strong growth in credit cards issuance, better insurance distribution income, retail loan disbursals and the cash management business.
8. Real estate exposure: mainly in the LAP and LRD. However, construction finance is relatively small portion. Management mentioned that it had always been cautious in regard to real estate exposure.
9. Tie-up and Outlet: there are 4825 banking outlets. Also, bank has tied up with 9 insurers of which 3 are in life insurance. 53% branches in semi-rural and rural areas.
10. Slippages came at 1.78% (or 3285cr)
11. Deposits: retail deposit industry growing at 8%, whereas HDFCB growing at 21%. Bank is focused to growing its retail deposits.



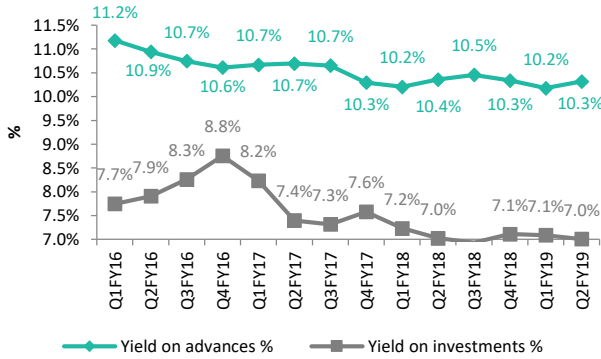
Advances Profile



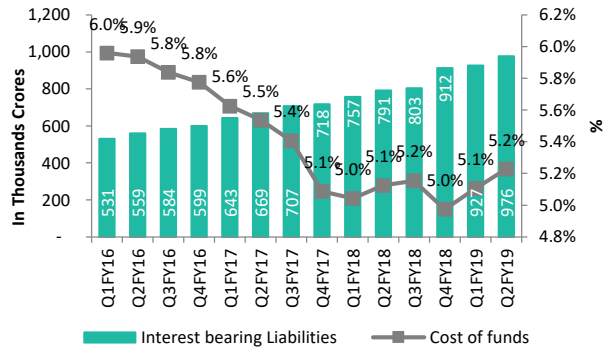
Deposits Profile



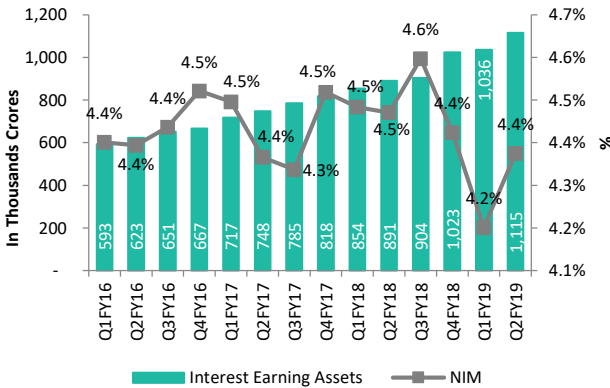
Yield Profile



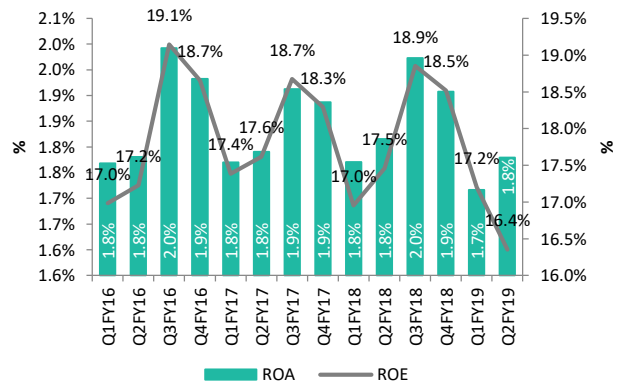
Interest Bearing Liabilities



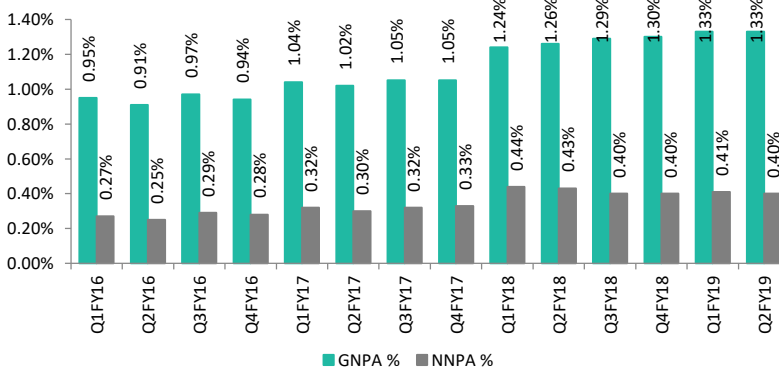
Interest Earning Assets



Return Ratios



Asset Quality



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Interest earned	69,306.0	80,241.4	95,191.4	113,587.6	137,187.9
Interest expended	36,166.7	40,146.5	47,849.2	58,113.0	70,316.8
Net interest income	33,139.2	40,094.9	47,342.3	55,474.5	66,871.2
Non-interest income	12,296.5	15,220.3	16,845.1	20,458.6	24,754.9
Total income	45,435.7	55,315.2	64,187.4	75,933.1	91,626.1
Operating expenses	19,703.3	22,690.4	24,391.2	28,095.3	33,901.7
Pre-provisioning profit	25,732.4	32,624.8	39,796.2	47,837.9	57,724.4
Provisions	3,593.3	5,927.5	7,468.4	7,711.2	9,748.7
Profit before tax (PBT)	22,139.1	26,697.3	32,327.8	40,126.6	47,975.7
Tax expense	7,589.4	9,210.6	11,153.1	13,843.7	16,551.6
Adjusted PAT	14,549.6	17,486.7	21,174.7	26,283.0	31,424.1

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Capital	512.5	519.0	543.4	543.4	543.4
Shareholder's Fund	89462.4	106295.0	122200.5	141912.7	165480.8
Deposits	643639.7	788770.6	945615.0	1144194.2	1384474.9
Borrowings	74028.9	123105.0	111248.8	121150.0	154735.4
Cash & Balances with RBI	48952.1	122915.1	74916.4	90648.9	124309.8
Investments	214463.3	242200.2	274693.6	312738.6	378413.7
Advances	554568.2	658333.1	803166.4	971831.3	1175915.9
Total Assets	863840.2	1063934.3	1198755.8	1429163.7	1742097.6

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Growth rates					
Advances (%)	19.4%	18.7%	22.0%	21.0%	21.0%
Deposits (%)	17.8%	22.5%	19.9%	21.0%	21.0%
Total assets (%)	21.9%	23.2%	12.7%	19.2%	21.9%
NII (%)	20.1%	21.0%	18.1%	17.2%	20.5%
Pre-provisioning profit (%)	20.5%	26.8%	22.0%	20.2%	20.7%
PAT (%)	18.3%	20.2%	21.1%	24.1%	19.6%
Balance sheet ratios					
Credit/Deposit (%)	86.2%	83.5%	84.9%	84.9%	84.9%
CASA (%)	48.0%	44.0%	45.0%	46.0%	46.0%
Advances/Total assets (%)	64.2%	61.9%	67.0%	68.0%	67.5%
Leverage (x)	9.7	10.0	9.8	10.1	10.5
Operating efficiency					
Cost/income (%)	43.4%	41.0%	38.0%	37.0%	37.0%
Opex/total assets (%)	2.3%	2.1%	2.0%	2.0%	1.9%
Opex/total interest earning assets (%)	2.4%	2.2%	2.0%	1.9%	1.9%
Profitability					
NIM (%)	4.5%	4.4%	4.2%	4.0%	4.0%
RoA (%)	1.9%	1.8%	1.9%	2.0%	2.0%
RoE (%)	17.9%	18.2%	18.4%	20.1%	20.9%
Asset quality					
Gross NPA (%)	1.1%	1.3%	1.4%	1.3%	1.2%
Net NPA (%)	0.3%	0.4%	0.4%	0.4%	0.4%
PCR (%)	68.7%	69.8%	68.7%	68.7%	70.0%
Slippage (%)	0.3%	0.5%	0.4%	0.2%	0.2%
Per share data / Valuation					
EPS (Rs.)	56.8	68.2	77.9	96.7	115.6
BV (Rs.)	349.1	414.8	449.7	522.3	609.0
ABV (Rs.)	341.9	404.7	436.8	507.5	592.7
P/BV (x)	4.4	4.7	4.4	3.8	3.2
P/ABV (x)	4.5	4.9	4.5	3.9	3.3

Source: Company, NSPL Research

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HDFC Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 22, 2018	1968	2284	Strong Buy	Buy	5% - 15%
July 23, 2018	2189	2385	Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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