

## RETAIL EQUITY RESEARCH

## HDFC Bank

## Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN SENSEX: 27,850

BUY

Rating as per Large cap

12months investment period

CMP Rs1285 TARGET Rs1417 RETURN 10%

30<sup>th</sup> January 2017

## Steady performance on all fronts..

HDFC Bank is the second largest private sector bank in India. The Bank has a nationwide distribution network of 4,555 branches and 12,087 ATM's in 2,597 cities/towns.

- Net interest income (NII)/net profit increased by 18%/15% YoY (in line with our expectation) despite marginal decline of 4 bps YoY in net interest margin (NIM) to 4.6%.
- Advances grew at a healthy pace of 18% YoY led by strong growth in domestic retail advances (↑22% YoY).
- Asset quality remained broadly stable with Gross non-performing assets (GNPA) ratio at 1.1% and Net NPA (NNPA) ratio at 0.3%.
- We expect NII and net profit to increase at a healthy CAGR of 18% and 19%, respectively over FY16-19E supported by 17% CAGR in advances.
- HDFC Bank is best placed among peers given its higher than system credit growth with best in-class asset quality and superior return ratios. We maintain BUY rating on the stock with a TP of Rs1,417 (3.2x FY19E P/ABV).

## Business growth intact

Advances increased by 18% YoY mainly driven by retail segment (↑22% YoY). All the retail segments delivered high double digit growth barring gold loans. Thus, proportion of retail segment increased to 55% (↑269 bps YoY) in the total domestic loan book. On liabilities side, demonetization led to strong CASA flow (+37% YoY) especially led by savings account (SA) growth of 38% YoY. Hence, CASA ratio improved 500bps QoQ to 45%. Although FCNR deposits redemption had material impact on both sides of the balance sheet, the bank continued to report healthy business growth of 17% YoY. Going forward, we expect the bank to continue to outpace the industry growth rate (11-12%) and factor 17%/14% CAGR in advances/deposits over FY16-19E supported by the bank's robust retail franchise.

## Strong operating performance

HDFC Bank's NII increased at a strong pace of 18% YoY (in line with our expectation) on the back of strong retail loan growth across segments. However, NIM declined marginally by 4 bps YoY to 4.6% due to excess liquidity on the balance sheet post demonetization. Other income increased at a moderate pace of 9% YoY due to decline in ATM and merchant fees. Hence, net profit increased by 15% YoY. We expect NII and net profit to grow at a healthy CAGR of 18% and 19%, respectively over FY16-19E supported by stable NIM of 4.7% and credit cost of 0.7%.

## Stable asset quality

Asset quality remained broadly stable as Gross NPA/Net NPA increased marginally by 3/2 bps to 1.1%/0.3%. However, if the bank had not received the benefit of RBI dispensation of additional 90 days for NPL classification, Gross NPA would have been higher by 3-5 bps. Overall, the bank has maintained robust asset quality over all these years given the higher share of working capital and retail financing in the total loan book. Moreover, the bank's provision coverage ratio (PCR) of ~70% provides comfort. Hence, we don't expect any negative surprises on asset quality front over near to medium term.

## Outlook &amp; Valuation

Given the bank's higher credit growth (17% CAGR over FY16-19E), best in-class asset quality (Gross NPA of 1.2% by FY19E) and superior return ratios (RoE of 19% and RoA of 2.2%), we expect the bank to continue to command premium valuation over its peers. Further, we believe that HDFC Bank is best placed to garner additional market share in both retail assets and liabilities given its strong retail franchise. Hence, we maintain a BUY rating on the stock with revised target price of Rs1,417 (3.2x FY19E P/ABV). We have largely maintained our estimates for FY17-18E and introduced FY19E estimates.

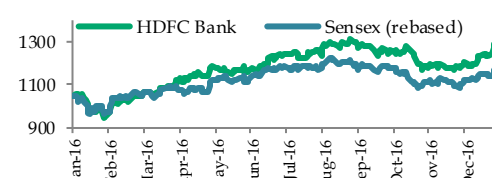
## Company Data

Market Cap (Rs cr)	328,327
Outstanding Shares (cr)	256
Free Float	74%
Dividend Yield	0.7%
52 week high	Rs1,318
52 week low	Rs929
6m average volume (cr)	0.2
Beta	0.7
Face value	Rs2

Shareholding %	Q1 FY17	Q2 FY17	Q3 FY17
Promoters	26.3	26.2	26.1
FII's	39.6	39.4	39.2
MFs/Insti	13.8	14.3	15.0
Public & Others	20.3	20.1	19.7
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	2.5%	3.1%	22.5%
Absolute Sensex	-3.3%	-2.8%	9.6%
Relative Return*	5.8%	5.9%	12.9%

\*over or under performance to benchmark index



Y.E Mar (Rscr)	FY17E	FY18E	FY19E
Net Interest Income	32,893	38,838	45,566
Growth (%)	19%	18%	17%
NIM (%)	4.8	4.7	4.8
Pre Pro Profit	25,397	30,025	35,607
Growth (%)	19%	18%	19%
Net Profit	14,638	17,341	20,529
Growth (%)	19%	18%	18%
EPS	57.3	67.9	80.3
Growth (%)	18%	18%	18%
P/E	22.4	18.9	16.0
P/BV	4.0	3.4	2.9
P/ABV	4.1	3.5	3.0
RoE (%)	18.8	19.0	19.2
RoA (%)	1.9	2.0	2.1



## Quarterly Financials (Standalone) Profit & Loss Account

(Rs cr)	Q3FY17	Q3FY16	YoY Growth %	Q2FY17	QoQ Growth %
Interest Income	17,606	15,411	14.2	17,070	3.1
Interest on advances	13,176	11,483	14.7	12,901	2.1
Income on Investments	4,049	3,651	10.9	3,818	6.1
Others	381	276	37.8	351	8.6
Interest Expense	9,297	8,343	11.4	9,076	2.4
<b>Net Interest Income</b>	<b>8,309</b>	<b>7,069</b>	<b>17.6</b>	<b>7,994</b>	<b>3.9</b>
Non-Interest Income	3,143	2,872	9.4	2,901	8.3
<b>Total Net Income</b>	<b>11,452</b>	<b>9,941</b>	<b>15.2</b>	<b>10,895</b>	<b>5.1</b>
Operating Expenses	4,843	4,205	15.2	4,870	(0.6)
Employee Cost	1,689	1,431	18.0	1,657	1.9
Other Operating Exp.	3,154	2,774	13.7	3,213	(1.8)
<b>Total Income</b>	<b>20,748</b>	<b>18,283</b>	<b>13.5</b>	<b>19,971</b>	<b>3.9</b>
<b>Total Expenditure</b>	<b>14,139</b>	<b>12,547</b>	<b>12.7</b>	<b>13,946</b>	<b>1.4</b>
<b>Pre-Provisioning profit</b>	<b>6,609</b>	<b>5,736</b>	<b>15.2</b>	<b>6,025</b>	<b>9.7</b>
Provisions	716	654	9.5	749	(4.4)
<b>Profit Before Tax</b>	<b>5,893</b>	<b>5,082</b>	<b>16.0</b>	<b>5,276</b>	<b>11.7</b>
Tax	2,028	1,725	17.6	1,820	11.4
<b>Net Profit</b>	<b>3,865</b>	<b>3,357</b>	<b>15.1</b>	<b>3,455</b>	<b>11.9</b>
EPS - Diluted (Rs)	15.1	13.3	13.8	13.6	11.4

(Rs cr)	Q3FY17	Q3FY16	YoY Growth %	Q2FY17	QoQ Growth %
Advances	494,418	418,541	18.1	470,622	5.1
Deposits	591,731	506,909	16.7	573,755	3.1
<b>Total Business</b>	<b>1,086,148</b>	<b>925,450</b>	<b>17.4</b>	<b>1,044,377</b>	<b>4.0</b>
Gross NPA	5,232	4,255	23.0	5,069	3.2
Net NPA	1,564	1,261	24.1	1,489	5.1

Key Ratios (%)	Q3FY17	Q3FY16	YoY bps	Q2FY17	QoQ bps
NIM	4.6	4.7	(4)	4.6	0
Cost of Fund	5.4	5.8	(43)	5.5	(13)
Yield on Advances	10.7	10.7	(9)	10.7	(4)
Yield on Investment*	7.3	8.3	(94)	7.4	(8)
Yield on Fund	9.8	10.2	(37)	9.9	(8)
Cost to Income*	42.3	42.3	(1)	44.7	(242)
Credit to Deposit*	83.6	82.6	99	82.0	153
CASA	45.4	40.0	538	40.4	495
CAR	15.9	15.9	0	15.4	50
Tier I Capital	13.8	12.0	180	13.3	50
GNPA	1.1	1.0	8	1.0	3
NNPA	0.3	0.3	3	0.3	2
Provision Coverage	69.5	70.1	(58)	70.6	(106)
Credit Cost*	0.6	0.6	(5)	0.6	(6)
ROE (Ann.)	18.7	19.1	(47)	17.6	106
ROA (Ann.)	1.9	2.0	(8)	1.8	12

Source: Company, Geojit BNP Paribas Research

Year/Rscr	Old estimates		New estimates		Change %	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
NII	33,160	39,559	32,893	38,838	-0.8	-1.8
PPP	25,412	30,393	25,397	30,025	-0.1	-1.2
PAT	14,522	17,405	14,638	17,341	0.8	-0.4
EPS	57.3	68.7	57.3	67.9	0.0	-1.2



## Standalone Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	48,470	60,221	69,508	79,646	90,885
Interest Expense	26,074	32,630	36,615	40,808	45,319
<b>Net Interest Income</b>	<b>22,396</b>	<b>27,592</b>	<b>32,893</b>	<b>38,838</b>	<b>45,566</b>
% Change	21.2	23.2	19.2	18.1	17.3
Non-Interest Income	8,996	10,752	12,140	13,952	16,137
<b>Net Income</b>	<b>31,392</b>	<b>38,343</b>	<b>45,033</b>	<b>52,790</b>	<b>61,703</b>
Operating Expenses	13,988	16,980	19,636	22,765	26,096
<b>Total Income</b>	<b>57,466</b>	<b>70,973</b>	<b>81,648</b>	<b>93,598</b>	<b>107,022</b>
<b>Total Expenditure</b>	<b>40,062</b>	<b>49,610</b>	<b>56,251</b>	<b>63,573</b>	<b>71,414</b>
<b>Pre-Prov. Profit</b>	<b>17,404</b>	<b>21,364</b>	<b>25,397</b>	<b>30,025</b>	<b>35,608</b>
% Change	21.2	22.7	18.9	18.2	18.6
Provisions	2,076	2,726	3,222	3,755	4,507
<b>Profit Before Tax</b>	<b>15,329</b>	<b>18,638</b>	<b>22,175</b>	<b>26,270</b>	<b>31,101</b>
Tax	5,113	6,342	7,537	8,929	10,571
Tax Rate (%)	33	34	34	34	34
<b>Net Profit</b>	<b>10,216</b>	<b>12,296</b>	<b>14,638</b>	<b>17,341</b>	<b>20,529</b>
% Change	20.5	20.4	19.0	18.5	18.4
No. of Shares (cr)	251	253	256	256	0
EPS (Rs)	40.8	48.6	57.3	67.9	80.3
% Change	15.3	19.3	17.8	18.5	18.4

### Balance Sheet

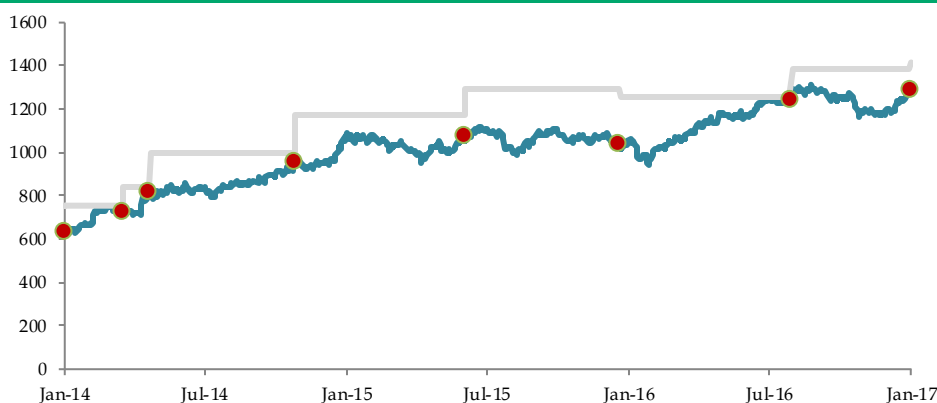
Y.E March (Rs cr)	FY15	FY16	FY17E	FY18E	FY19E
<b>Liabilities</b>					
Capital	501	506	511	511	511
Reserves & Surplus	61,508	72,172	82,493	96,815	114,519
Deposits	450,796	546,424	628,722	709,340	811,591
Borrowings	45,214	53,018	71,255	92,214	118,033
Other Liabilities & Provisions	32,557	36,725	37,594	42,348	47,930
<b>Total Liabilities</b>	<b>590,576</b>	<b>708,846</b>	<b>820,575</b>	<b>941,229</b>	<b>1092,584</b>
<b>Assets</b>					
Cash & Balances	36,331	38,919	37,723	49,654	64,927
Investments	166,460	163,886	224,400	231,716	239,958
Advances	365,495	464,594	525,142	611,961	734,552
Fixed Assets	3,122	3,343	3,571	3,841	4,110
Other Assets	19,168	38,104	29,739	44,057	49,037
<b>Total Assets</b>	<b>590,576</b>	<b>708,846</b>	<b>820,575</b>	<b>941,229</b>	<b>1092,584</b>

### Ratios

Y.E March (Rs)	FY15	FY16	FY17E	FY18E	FY19E
EPS	40.8	48.6	57.3	67.9	80.3
DPS	8.0	9.5	10.0	10.5	11.0
BV	247.4	287.5	324.8	380.9	448.1
ABV	243.8	282.9	317.6	372.5	437.8
<b>Valuation (%)</b>					
P/E	31.5	26.4	22.4	18.9	16.0
P/BV	5.2	4.5	4.0	3.4	2.9
P/ABV	5.3	4.6	4.1	3.5	3.0
Div. Yield	0.6	0.7	0.8	0.8	0.9
<b>Spreads (%)</b>					
Yield on Advances	11.1	10.8	10.6	10.5	10.4
Yield on Investments	7.2	8.5	8.2	8.1	8.1
Yield on Funds	10.1	10.4	10.1	10.0	10.0
Cost of Funds	5.8	6.0	5.6	5.4	5.2
<b>Capital (%)</b>					
CAR	16.8	15.5	15.3	15.4	15.3
Tier I	13.7	13.2	13.3	13.6	13.8
Tier II	3.1	2.3	2.0	1.8	1.5
<b>Asset (%)</b>					
GNPA	0.9	0.9	1.1	1.1	1.2
NNPA	0.2	0.2	0.3	0.3	0.4
PCR	77.8	73.7	67.3	67.7	68.8
<b>Management (%)</b>					
Credit/ Deposit	81.1	85.0	83.5	86.3	90.5
Cost/ Income	44.6	44.3	43.6	43.1	42.2
CASA	44.0	43.2	43.5	43.7	43.9
<b>Earnings (%)</b>					
NIM	4.7	4.8	4.8	4.7	4.8
ROE	19.4	18.3	18.8	19.0	19.2
ROA	1.9	1.9	1.9	2.0	2.1



## Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit BNP Paribas Research

Dates	Rating	Target
30 January 2014	BUY	755
16 April 2014	BUY	837
20 May 2014	BUY	997
25 November 2014	BUY	1171
03 July 2015	BUY	1294
19 January 2016	BUY	1259
29 August 2016	BUY	1387
30 January 2017	BUY	1417

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

### Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

\* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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