

CMP: Rs 2281

Rating: HOLD

Target Price: Rs 2389

Stock Info

INDEX	
BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	547
Mkt Cap (Rs cr.)	6,27,740
52w H/L (Rs)	2503/1884
Weekly Avg Vol (BSE+NSE)	27,84,780

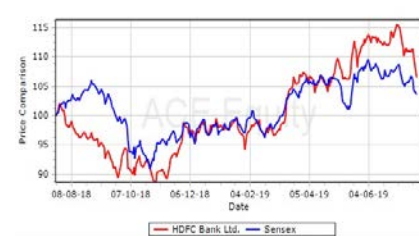
Shareholding Pattern	%
(As on March, 2019)	
Promoters	26.5
FII	38.7
DII	16.4
Public & Others	18.4

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
HDFC Bank	1.3	7.6	4.9
SENSEX	-1.6	4.4	3.6

Source: ACE Equity, Arihant Research

HDFC BANK v/s SENSEX



Source: ACE Equity, Arihant Research

Q1FY20 Result Highlights:

- HDFC Bank PAT grew by 21% YoY to Rs 5568 cr supported by healthy credit growth of 17% YoY. Higher NII growth (+23% YoY), strong Non-interest income (+30% YoY) and modest (19% YoY) rise in OPEX, resulting into pre-provisioning profit growth of 29% YoY to Rs 11147 cr.
- Total Advances grew by 17% YoY to Rs 8.29 tn, driven by the Corporate & Retail advances growth of 19% YoY/16% YoY respectively. Loan growth was moderated during the quarter mainly due to sequential decline in corporate lending and muted growth in vehicle portfolio.
- Core NIM stood at 4.3% (-10bps QoQ/+20 bps YoY). CASA ratio dipped to 39.7% from 42.4% QoQ, primarily driven by customers shifting from SA to term deposits owing to higher TD rates.
- Other income during the quarter grew by 30% YoY to Rs 4970 cr, driven by treasury gain of Rs 212 cr (loss of Rs 283 cr in Q1FY19) and core-fee income growth of 12% YoY.
- The GNPA's and NNPA's ratio inched up marginally by 4bps QoQ to 1.4%/0.43% due to Agri stress. The bank has taken cautious approach and increased provisioning on unsecured lending.

Management commentary

- Provisions were higher during the quarter on account of (a) Rs 165 cr contingent provisioning (b) Rs 85 cr provision towards NBFC/HFC sector and (c) increased provisioning towards unsecured lending.
- Management has taken cautious approach on lending to NBFC/HFC sector. Corporate loan growth was impacted as short term loan (related to NCLT) disbursement in Q4FY19 run off. Excluding vehicle finance other consumer business is doing well.
- Slippage during the quarter was Rs 4225 cr at 2.03%. Ex-Agri, slippages were at 1.04%.
- Ex-Mutual fund income, fee income grew by 15% YoY. Core fee income was supported by payment business (Cards) as volume increased during the quarter.
- Management is not looking to change its business mix over 3-5 year horizon and intends to improve the C/I ratio by 300 bps over the same period.

Valuation and View

HDFC bank's operating performance continued to remain strong but business growth saw moderation, indicating a weakness in the economy and relatively banks cautious approach. We continue to maintain our positive stance given its superior return ratios, strong operating efficiency and resilient business model. We have cut our credit growth estimates for FY20/FY21 by 2%, factoring in slowdown across space. At CMP of Rs 2281, stock is trading at 3.9x/3.4x P/ABV to its FY20/FY21E. We have valued the stock on P/ABV of 3.6(x) to its FY21E ABV of Rs 664 per share and arrived at a fair value of Rs 2389 per share. We maintain our 'Hold' rating on the stock.

Q1FY20 Financial Snapshot:

Particulars (Rs Cr.)	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Interest Earned	27392	22549	21%	26333	4%
Interest Expended	14097	11735	20%	13244	6%
NII	13294	10814	23%	13089	2%
Operating Profit	11147	8648	29%	10844	3%
Provisions and Contingencies	2614	1629	60%	1889	38%
PBT	8534	7018	22%	8954	-5%
Tax provisions	2965	2417	23%	3069	-3%
Profit After Tax	5568	4601	21%	5885	-5%
BVPS	570	413	38%	548	4%
EPS	20.4	17.7		21.6	
Return on Assets (not annualised)	0.5	0.4		0.5	

Asset Quality

Particulars	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Gross NPAs %	1.40	1.33		1.36	
Net NPAs %	0.43	0.41		0.39	

Growth

Particulars (Rs Cr.)	Q1 FY20	Q1 FY19	YoY	Q4 FY19	QoQ
Advances	829730	708649	17%	819401	1%
C-D ratio (%)	86.9	87.9		88.8	
Deposits	954554	805785	18%	923141	3%
CASA %	39.7	41.7		42.4	
CASA	379001	335953	13%	391198	-3%

Break-up of Advances (as per internal business classification)

Particulars (Rs in bn)	Jun-18	Mar-19	Jun-19	YoY	QoQ	% of Total Credit
Auto loans	883.2	913.8	920.9	4%	1%	11.1
CV/CE loans	471.7	554.3	552.0	17%	0%	6.7
2W Wheeler loans	103.2	112.7	113.3	10%	1%	1.4
Total Auto Loans	1458.1	1580.8	1586.2	9%	0%	19.1
Personal Loans	785.4	938.1	979.9	25%	4%	11.8
Home Loans	440.4	513.7	557.8	27%	9%	6.7
Business Banking	1095.5	1250.1	1261.0	15%	1%	15.2
Kisan Gold Card	337.8	403.6	385.6	14%	-4%	4.6
Credit Cards	387.9	466.3	495.2	28%	6%	6.0
Others	203.6	227.7	223.1	10%	-2%	2.7
Gold Loans	55.3	58.4	59.2	7%	1%	0.7
Loans against Securities	35.5	36.0	33.5	-6%	-7%	0.4
Total Retail Loans	4799.6	5474.7	5581.5	16%	2%	67.3
Corporate Loans	2286.9	2719.3	2715.8	19%	0%	32.7
Total Advances	7086.5	8194.0	8297.3	17%	1%	100.0

Income Statement			
Particulars (Rs Cr.)	FY 19	FY 20E	FY 21E
Interest Earned	98972	116787	137809
Interest Expended	50729	58845	68261
Net Interest Income	48243	57942	69548
Other Income	17626	20799	24542
Operating Income	65869	78740	94090
Operating Expenses	26119	29776	33945
Employee Cost	7762	8227	8721
Profit before provision & tax	39750	48964	60145
Provisions and Contingencies	7550	10516	13802
Profit Before Tax	32200	38448	46344
Provision for tax	11122	13457	16220
Profit After Tax	21078	24991	30123

Balance Sheet			
Particulars (Rs Cr.)	FY 19	FY 20E	FY 21E
Share Capital	545	547	547
Total Reserves	148662	167845	191478
Deposits	923141	1089306	1285381
Borrowings	117085	122939	129087
Other Liabilities & provisions	55108	57864	64106
Total Liabilities	1244541	1438501	1670599
Cash and balance with RBI	46764	51513	56664
Balances with banks & money at call	34584	36313	38129
Investments	290588	325458	361259
Advances	819401	966893	1150603
Fixed Assets	3986	4232	4443
Other Assets	49174	54091	59501
Total Assets	1244541	1438501	1670599

Ratio Analysis			
%	FY 19	FY 20E	FY 21E
Asset Quality			
Gross NPA	1.4	1.4	1.4
Net NPA	0.4	0.4	0.4
PCR	70.0	71.8	71.6
Growth			
Advances Growth	24.5	18.0	19.0
Deposit growth	17.0	18.0	18.0
Net Profit Growth	20.5	18.6	20.5
Liquidity			
C-D Ratio	88.8	88.8	89.5
CASA	42.4	42.0	42.0
Capital Adequacy	17.1	18.2	18.2
Efficiency			
Cost Income Ratio	39.7	37.8	36.1
Operating Costs to Assets	2.1	2.1	2.0

Spread Analysis			
%	FY 19	FY 20E	FY 21E
Spread Analysis			
Yield on Advances	12.1	12.1	12.0
Yield on Investments	7.2	7.6	8.0
Cost of Funds	5.7	5.6	5.6
Cost of Deposits	5.9	5.8	5.7
NIM	0.0	4.3	4.3
Interest Spread	6.4	6.5	6.4
Profitability			
ROE	16.5	15.7	16.7
Earnings Per Share (Rs)	77.4	91.4	110.2
Dividend Per Share (Rs)	10.5	17.0	19.0
Adj. BVPS (Rs)	528.8	588.8	663.7
Valuation			
P / EPS (x)	29.2	24.8	20.5
P / ABV (x)	4.3	3.8	3.4

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880