

CMP: Rs 1229

Rating: HOLD

Target Price: Rs 1370

Stock Info

INDEX	
BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs cr.)	547
Mkt Cap (Rs cr.)	6,72,466
52w H/L (Rs)	1285/942
Weekly Avg Vol (BSE+NSE)	56,35,140

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	26.2
FII	37.6
DII	21.3
Public & Others	14.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
HDFC Bank	2.3	7.4	24.5
SENSEX	1.0	0.4	14.5

Source: ACE Equity, Arihant Research

HDFC BANK v/s SENSEX



Source: ACE Equity, Arihant Research

Q2FY20 Result Highlights:

- HDFC Bank PAT grew by 27% YoY to Rs 6345 cr supported by healthy credit growth of 19% YoY. However, NII growth of the bank moderated to 15% YoY to Rs 13,515 cr.
- Superior NII growth (+15% YoY), strong Non-interest income growth (+39% YoY) and modest (18% YoY) rise in OPEX, resulted into pre-provisioning profit growth of 23% YoY to Rs 11,698 cr. Core NIM declined by 10bps QoQ to 4.2%, mainly due to higher deposit growth.
- Total Advances grew by 19% YoY/8% QoQ to Rs 8.97 tn, driven by the corporate loans while retail loan growth moderated. Retail loan growth moderated primarily due to weak growth in Auto loans, which constitutes ~17% of the total loan book. Loan growth of 19% YoY and 8% QoQ, was mainly led by 31%YoY rise in corporate loans. Management has clarified that the corporate portfolio is well-diversified and it does not depend on a large transactions.
- Other income of the bank continued to be robust. Other income during the quarter grew by 39% YoY to Rs 5589 cr, driven by foreign exchange gain of 31% and core fee income growth of 23% YoY.
- Headline asset quality of the bank remained stable with GNPA/NNPA at 1.38%/0.42% vs. 1.40%/0.43% QoQ. Overall, slippages ratio was contained at 1.8% vs. 2% in previous quarter. Retail delinquencies are under well control while some stress seen on CV portfolio.

Management commentary

- On home loan segment, the bank continued to see robust origination from HDFC Ltd. and there is no price disadvantage faced by the company.
- The early indicators in the newer portfolio are looking up for growth in coming quarters. The bank is better placed historically compared with the industry.
- The vehicle loan growth was lowest at ~2% YoY due to weak underlying demand.
- Altico exposure: The bank has an exposure to Altico, and has equivalent security to set off the exposure.
- The tax rate for the quarter stood at 29.5% as there was one off impact due to DTA. The effective tax rate from next quarter will be ~25.17%.

Valuation and View

HDFC Bank continued to report good results amidst challenging environment. The bank is relatively better placed in terms of healthy credit growth, lower stress in stressed assets and strong balance sheet. We continue to maintain our positive stance on the stock given by its superior return ratios, strong operating efficiency and resilient business model. We have revised our estimates, factoring in revised tax rate. At CMP of Rs 1229, stock is trading at 4.1x/3.7x P/ABV to its FY20/FY21E. We have valued the stock on P/ABV of 4.1x to its FY21E ABV of Rs 334 per share and arrived at a fair value of Rs 1370 per share. We continue to maintain our 'Hold' rating on the stock.

Q1FY20 Financial Snapshot:

Particulars (Rs Cr.)	Q2 FY20	Q2 FY19	YoY	Q1 FY20	QoQ
Interest Earned	28166	24200	16%	27392	3%
Interest Expended	14651	12436	18%	14097	4%
NII	13515	11763	15%	13294	2%
Operating Profit	11698	9480	23%	11147	5%
Provisions and Contingencies	2701	1820	48%	2614	3%
PBT	8997	7660	17%	8534	5%
Tax provisions	2652	2654	0%	2965	-11%
Profit After Tax	6345	5006	27%	5568	14%
EPS	11.6	9.4		10.2	

Asset Quality

Particulars	Q2 FY20	Q2 FY19	YoY	Q1 FY20	QoQ
Gross NPAs %	1.38	1.33		1.40	
Net NPAs %	0.42	0.40		0.43	

Growth

Particulars (Rs Cr.)	Q2 FY20	Q2 FY19	YoY	Q1 FY20	QoQ
Advances	896984	750838	19%	829730	8%
C-D ratio (%)	87.8	90.1		86.9	
Deposits	1021615	833364	23%	954554	7%
CASA %	39.3	42.0		39.7	
CASA	401236	349699	15%	379001	6%

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

Particulars (Rs in bn)	Sep-19	Sep-18	Jun-19	YoY	QoQ	% of Credit
Auto loans	907.5	919.2	920.9	-1%	-1%	10.1
CV/CE loans	542.7	495.5	552.0	10%	-2%	6.1
2W Wheeler loans	112.3	112.9	113.3	-1%	-1%	1.3
Total Auto Loans	1562.5	1527.6	1586.2	2%	-1%	17.4
Personal Loans	1028.6	841.5	979.9	22%	5%	11.5
Home Loans	600.3	478.8	557.8	25%	8%	6.7
Business Banking	1365.8	1170.4	1261.0	17%	8%	15.2
Kisan Gold Card	409.3	370.7	385.6	10%	6%	4.6
Credit Cards	520.4	405.4	495.2	28%	5%	5.8
Others	228.2	210.2	223.1	9%	2%	2.5
Gold Loans	60.9	57.0	59.2	7%	3%	0.7
Loans against Securities	32.5	35.8	33.5	-9%	-3%	0.4
Total Retail Loans	5808.5	5097.2	5581.5	14%	4%	64.8
Corporate Loans	3161.3	2411.1	2715.8	31%	16%	35.2
Total Advances	8969.8	7508.4	8297.3	19%	8%	100.0

Income Statement			
Particulars (Rs Cr.)	FY 19	FY 20E	FY 21E
Interest Earned	98972	114808	134325
Interest Expended	50729	59860	70036
Net Interest Income	48243	54948	64289
Other Income	17626	20446	23717
Operating Income	65869	75394	88006
Operating Expenses	26119	29776	33945
Employee Cost	7762	8227	8721
Profit before provision & tax	39750	45617	54061
Provisions and Contingencies	7550	10516	13802
Profit Before Tax	32200	35101	40259
Provision for tax	11122	8845	10145
Profit After Tax	21078	26256	30114

Balance Sheet			
Particulars (Rs Cr.)	FY 19	FY 20E	FY 21E
Share Capital	545	547	547
Total Reserves	148662	169110	192734
Deposits	923141	1089306	1285381
Borrowings	117085	122939	129087
Other Liabilities & provisions	55108	58244	64526
Total Liabilities	1244541	1440146	1672276
Cash and balance with RBI	46764	51440	56584
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	55809	61258
Total Assets	1244541	1440146	1672276

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	24.6	14.7
Liquidity			
C-D Ratio	88.8	88.8	89.5
CASA	42.4	40.0	40.0
Capital Adequacy	17.1	18.2	18.2
Efficiency			
Cost Income Ratio	39.7	39.5	38.6
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	11.9	11.7
Yield on Investments	7.2	7.4	7.8
Cost of Funds	5.7	5.6	5.7
Cost of Deposits	5.9	5.9	5.8
NIM	4.4%	4.3%	4.3%
Interest Spread	6.4	6.2	6.0
Profitability			
ROE	16.5	16.5	16.6
Earnings Per Share (Rs)	38.7	48.0	55.1
Dividend Per Share (Rs)	5.2	8.5	9.5
Adj. BVPS (Rs)	264.4	296.7	334.1
Valuation			
P / EPS (x)	31.8	25.6	22.3
P / ABV (x)	4.6	4.1	3.7

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Stock Rating Scale

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

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