

CMP : Rs 2148

Rating : HOLD

Target : Rs 2315

STOCK INFO

INDEX	
BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	543
Mkt Cap (Rs cr.)	5,83,754
52w H/L (Rs)	2219/1830
Monthly Avg Vol (BSE+NSE)	21,02,900

SHAREHOLDING PATTERN

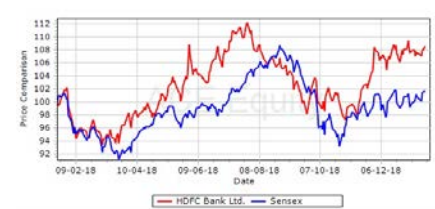
	%
(as on December, 2018)	
Promoters	26.5
FII	38.7
DII	16.2
Public & Others	18.6

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
HDFC Bank	9.2	-2.0	10.0
SENSEX	7.2	-0.4	2.2

Source: ACE Equity, Arihant Research

HDFC Bank v/s SENSEX



Source: ACE Equity, Arihant Research

HDFC Bank reported strong set of numbers in Q3FY19. (a) Profitability growth of 20% YoY at Rs. 5586 cr despite higher provision (including contingent provision of Rs. 322 cr) made during the quarter supported by higher core fee income of 27% at Rs. 3647 cr.

(b) Bank's total advances as on December, 2018 stood at Rs. 780,951 cr, registering a growth of 24% YoY which led to 22% growth in NII at Rs. 12577 cr. while margins remained stable at 4.3%. The domestic loan mix between retail to wholesale composition stood flat at 55:45 QoQ.

(c) Operating performance of the bank remained healthy. Operating profit for the quarter grew by 28% at Rs. 10778 cr while OPEX grew by 17%. Cost-income ratio improved by 150bps QoQ to 38.4%.

(d) Deposits growth of 22% YoY was largely supported by growth in term deposits at 29% YoY while CASA growth was slower at 13% YoY. CASA ratio for the quarter reduced to 40.71% vs 41.96% in Q2FY19.

Asset quality remained under control but agri-book is key issue

Slippages ratio for the quarter came in at 2.04% at Rs. 4000 cr. Ex-agri it was 1.7% which is stable both QoQ and YoY. GNPA/NNPA ratio increased by 5bps/2bps at 1.38%/0.42% sequentially which is largely stable. The bank has made contingent provisions of Rs. 322 cr to cushion itself from the stress which may occur due to farm loan waiver in agri-portfolio. Credit cost maintained at ~0.8%-0.9%. PCR of the bank stood at 70%. The bank held floating provisions of Rs 1451 cr as on Dec 18. Total provisions (comprising specific provisions, general provisions and floating provisions) were 115% of the gross non-performing loans.

NIM (reported) was stable at 4.3% as increase in cost of deposits was offset by increase in yields. The Bank's total Capital Adequacy Ratio (CAR) was at 17.3% as on Q3FY19 vs 15.5% as on Q3FY18.

The bank's distribution network as of Q3FY19 stands at 4,963 banking outlets and 13,160 ATMs as against 4,734 banking outlets and 12,333 ATMs as of Q3FY18. 53% of the branches stay in semi-urban and rural areas. Bank has a target to add ~150-200 branches every year.

Valuation and View:

HDFC Bank has been consistently gaining momentum in the retail product segment (Personal loan, auto loans and business banking). The bank expects business growth momentum to continue at a similar pace. Improving operating efficiency by digitization, best-in class assets quality, lower C-I ratio, healthy CAR and stable NIM despite of rise in cost of funds are the key positives for the stock. We expect credit growth and market share gains trend of the bank to continue.

We have valued the stock on P/ABV of 4.6(x) to its FY20E ABV of Rs 503 per share and arrived at a fair value of Rs. 2315. We have 'HOLD' rating on the stock.

Q3FY19 Concall Highlights:

1. Management highlighted that some stress in agri-sector will be seen in Q1FY20 on account of farm loan waive off scheme. There is lag on growth in agri- commodity book. Some slowdown seen in loan against property segment due to pricing and 2W & 4W segment led to lower sales. Bank is taking selective & cautious approach on NBFC & HFC.
2. Drivers for fee income were: 1) Payments business - Higher income and lower losses on the acquiring business, and 2) Cash management.
3. Bank has almost negligible exposure towards IL&FS.
4. There were no portfolio buyouts in business banking. Rs. 6200 cr worth of home loans was purchased from HDFC Ltd.

Q3FY19 Quarterly Snapshot:

Quarterly Results					
(Rs Cr.)	Q3 FY19	Q3 FY18	YoY	Q2 FY19	QoQ
Interest Earned	25890	20581	26%	24200	7%
Interest Expended	13314	10267	30%	12436	7%
NII	12577	10314	22%	11763	7%
Operating Profit	10778	8451	28%	9480	14%
Provisions and Contingencies	2212	1351	64%	1820	22%
PBT	8567	7100		7660	
Tax provisions	2981	2457		2654	
Profit After Tax	5586	4643	20%	5006	12%
BVPS	526	390		505	
EPS	20.6	17.9		18.7	
Return on Assets (not annualised)	0.5	0.5		0.5	

Asset Quality					
	Q3 FY19	Q3 FY18	BPS	Q2 FY19	BPS
Gross NPAs %	1.38	1.29	9	1.33	5
Net NPAs %	0.42	0.44	-2	0.40	2

Growth					
(Rs Cr.)	Q3 FY19	Q3 FY18	YoY	Q2 FY19	QoQ
Advances	780951	631215	24%	750838	4%
C-D ratio	92	90		90	
Deposits	852501	699026	22%	833364	2%
CASA %	40.7	43.9		42.0	
CASA	347084	307119	13%	349699	-1%

Income Statement			
(Rs Cr.)	FY 18	FY 19E	FY 20E
Interest Earned	80241	99499	117409
Interest Expended	40146	51388	59610
Net Interest Income	40095	48112	57800
Other Income	15220	17808	21547
Fee Income	10959	12822	15514
Treasury Income	913	1068	1293
Operating Income	55315	65920	79347
Operating Expenses	22690	26094	29747
Employee Cost	6806	7214	7647
Profit before provision & tax	32625	39826	49600
Provisions and Contingencies	5927	7773	10516
Profit Before Tax	26697	32052	39084
Provision for tax	9211	10898	13679
Profit After Tax	17487	21155	25404

Balance Sheet			
(Rs Cr.)	FY 18	FY 19E	FY 20E
Share Capital	519	543	543
Total Reserves	105776	123758	143559
Deposits	788771	914853	1083918
Borrowings	123105	167588	219457
Other Liabilities & provisions	45764	59228	71074
Total Liabilities	1063934	1265970	1518551
Cash and balance with RBI	104670	109904	141397
Balances with banks & money at call	18245	20981	25178
Investments	242200	280952	331524
Advances	658333	809750	971700
Fixed Assets	3607	3815	4130
Other Assets	36879	40567	44623
Total Assets	1063934	1265970	1518551

Ratio Analysis			
%	FY 18	FY 19E	FY 20E
Asset Quality			
Gross NPA	1.3	1.4	1.4
Net NPA	0.4	0.4	0.4
PCR	69.2	70.0	71.8
Growth			
Advances Growth	18.7	23.0	20.0
Deposit growth	22.5	16.0	18.5
Net Profit Growth	20.2	21.0	20.1
Liquidity			
C-D Ratio	83.5	88.5	89.6
CASA	28.4	48.0	48.0
Capital Adequacy	17.9	18.1	18.2
Efficiency			
Cost Income Ratio	41.0	39.6	37.5
Operating Costs to Assets	2.1	2.1	2.0

Spread Analysis			
%	FY 18	FY 19E	FY 20E
Spread Analysis			
Yield on Advances	12.2	12.3	12.1
Yield on Investments	7.1	7.5	7.5
Cost of Funds	5.1	5.4	5.2
Cost of Deposits	5.3	6.0	6.0
NIM	4.3	4.3	4.3
Interest Spread	7.1	6.9	6.9
Profitability			
ROE	17.9	18.3	18.9
Earnings Per Share (Rs)	67.4	77.9	93.6
Dividend Per Share (Rs)	13.0	10.5	10.5
Adj. BVPS (Rs)	401.9	438.7	503.2
Valuation			
P / EPS (x)	31.9	27.6	23.0
P / ABV (x)	5.3	4.9	4.3

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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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