

CMP: Rs 2269

Rating: HOLD

Target Price: Rs 2441

Stock Info

INDEX	
BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	2
Equity Capital (Rs cr.)	545
Mkt Cap (Rs cr.)	6,17,714
52w H/L (Rs)	2332/1884
Weekly Avg Vol (BSE+NSE)	28,17,530

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	6.2	13.8	15.7
SENSEX	6.0	13.2	12.2

Source: ACE Equity, Arihant Research

HDFC BANK v/s SENSEX



Source: ACE Equity, Arihant Research

Q4FY19 Highlights:

- HDFC Bank PAT grew by 23% YoY to Rs 5885 cr supported by strong loan growth and improved margins. NII for the quarter rose by 23% YoY to Rs 13089 cr while the margin improved by 10bps QoQ/YoY to 4.4% from 4.3%.
- OPEX rose by ~18% YoY, resulting in pre-provisioning profit growth of 23% YoY to Rs 10844 cr. Cost to Income ratio rose by 122bps QoQ to 39.6%, while the core cost-to-income ratio was up by 60bps QoQ to 40.1%.
- Advances grew by 24.5% YoY to Rs 8.19 lakh cr, driven by the corporate portfolio growth of 31.2% YoY, while retail loan book grew by 19% YoY driven by credit card, home loan and personal loan segment. Deposits growth of 17% YoY was largely supported by 19% YoY growth in term deposits, while CASA grew by 14% YoY (+13% QoQ). CASA ratio, improved to 42.4% from 40.7% in 3QFY19. Term deposits mainly constituted of granular retail deposits. The domestic loan mix classification between retail and wholesale stood at 54:46.
- Other income for the quarter grew by 27% YoY to Rs 4871 cr, supported by treasury gain of Rs 229 cr and core-fee income growth of 11% yoy.
- GNPA's and NNPA's on a QoQ basis remained almost stable at 1.4% and 0.4% respectively. The Capital adequacy ratio is at a healthy level of 17.1%. PCR improved to 71.3% up 176bps QoQ.

Management commentary

- Slippage for the quarter came in at Rs 3577 cr vs Rs 3990 cr in Q3FY19. Bank continues to maintain contingent provision for Agri book.
- Corporate loan growth picked up, due to short-term funding and NCLT resolution cases. The bank's main focus is on working capital loans in corporate segment.
- Mutual fund distribution fees declined sharply and expect this trend likely to continue over the next few quarters due to change in regulatory guidelines.
- The bank remains cautious on NBFCs exposure while in MFI they are seeing reversal of demon effect.
- **Outlook for CV segment:** Bank has been growing faster than the peer banks and the outlook is buoyant for FY20 due to anticipated pre-buying owing to implementation of BSVI norm, which will be effective from Apr 1, 2020.

Valuation and View

Overall, **HDFC Bank** continued its outperformance on all parameters and delivered healthy loan growth of +20% with strong operational efficiency. It is consistently gaining momentum in the retail segment across various products. We expect growth momentum will continue to sustain and expect it will report PAT CAGR of 20% over FY19-21E with stable asset quality. At CMP of Rs 2269, stock is trading at 3.3x P/ABV to its FY21E. We have valued the stock on P/ABV of 3.5(x) to its FY21E ABV of Rs 697 per share and arrived at a fair value of Rs 2441 per share. We continue to maintain our '**Hold**' rating on the stock.

Q4FY19 Financial Snapshot:

Particulars (Rs Cr.)	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
Interest Earned	26333	21321	24%	25890	2%
Interest Expended	13244	10663	24%	13314	-1%
NII	13089	10658	23%	12577	4%
Operating Profit	10844	8836	23%	10778	1%
Provisions and Contingencies	1889	1541	23%	2212	-15%
PBT	8954	7295	23%	8567	5%
Tax provisions	3069	2495	23%	2981	3%
Profit After Tax	5885	4799	23%	5586	5%
BVPS	548	410	34%	526	4%
EPS	21.6	18.5		20.6	
Return on Assets (not annualised)	0.5	0.5		0.5	

Asset Quality

Particulars	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
Gross NPAs %	1.36	1.30	6 bps	1.38	-2 bps
Net NPAs %	0.39	0.40	-1 bps	0.42	-3 bps

Growth

Particulars (Rs Cr.)	Q4 FY19	Q4 FY18	YoY	Q3 FY19	QoQ
Advances	819401	658333	24%	780951	5%
C-D ratio (%)	88.8	83.5		91.6	
Deposits	923141	788771	17%	852501	8%
CASA %	42.4	43.5		40.7	
CASA	391198	343093	14%	347084	13%

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	545	545
Total Reserves	148662	172448	200039
Deposits	923141	1093737	1295860
Borrowings	117085	153299	200738
Other Liabilities & provisions	55108	66629	79955
Total Liabilities	1244541	1486657	1777137
Cash and balance with RBI	46764	60577	78259
Balances with banks & money at call	34584	41501	49801
Investments	290588	342894	404615
Advances	819401	983281	1179938
Fixed Assets	3986	4312	4614
Other Assets	49174	54091	59911
Total Assets	1244541	1486657	1777137

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	20.0	20.0
Deposit growth	17.0	18.5	18.5
Net Profit Growth	20.5	18.6	20.5
Liquidity			
C-D Ratio	88.8	89.9	91.1
CASA	48.0	48.0	48.0
Capital Adequacy	17.1	18.2	18.2
Efficiency			
Cost Income Ratio	39.7	37.8	36.1
Operating Costs to Assets	2.1	2.0	1.9

Spread Analysis			
%	FY 19	FY 20E	FY 21E
Spread Analysis			
Yield on Advances	12.1	11.9	11.7
Yield on Investments	7.2	7.2	7.2
Cost of Funds	5.6	5.4	5.2
Cost of Deposits	5.9	5.8	5.7
NIM	4.3	4.3	4.3
Interest Spread	6.5	6.4	6.4
Profitability			
ROE	16.5	15.5	16.1
Earnings Per Share (Rs)	77.4	91.8	110.6
Dividend Per Share (Rs)	10.5	10.5	10.5
Adj. BVPS (Rs)	528.8	607.8	697.4
Valuation			
P / EPS (x)	29.3	24.7	20.5
P / ABV (x)	4.3	3.7	3.3

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

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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