

Slippages causing minor hiccups; core business growing mammoth

CMP: Rs 1,255

Rating: HOLD

Target Price: Rs 1,370

Stock Info

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)	6,88,681
52w H/L (Rs)	1,011 / 1,305
Avg Yearly Vol (in 000')	1,175

Shareholding Pattern %

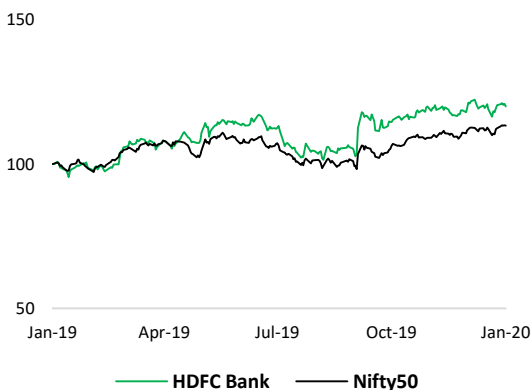
(As on Dec, 2019)

Promoters	26.18
FII	37.92
DII	21.07
Public & Others	14.83

Stock Performance (%)

	3m	6m	12m
HDFC Bank	4.8	6.6	19.9
Nifty	6.6	5.7	13.3

HDFC Bank Vs Nifty



Research Analyst: Anmol Das
Email: anmol.das@arihantcapital.com
Ph- 022 67114865

HDFC Bank's performance enhanced further in Q3FY20 with Net Interest Income increasing by +12.7% YoY/+4.9% QoQ, PPOP increasing by +20.1% YoY/+10.75.6% QoQ and Net Income increasing by +32.8% YoY/+16.9% QoQ, benefitting from the corporate tax rate cut. However, provisions increased significantly by 37.6% annually to Rs 3,044 Cr against last year's Rs 2,212 Cr which was caused by addition of a one-off Corporate Account of Rs 700 Cr. On the business front, the bank did well with +19.9% YoY/+4.4% QoQ growth in the loan book and +25.2% YoY/+4.5% QoQ in the deposits. The advances growth was driven primarily by the substantial growth in the personal loans, credit cards, home loans and business banking segments of the retail segment of the bank while the corporate book grew by a staggering 31.9% YoY/3.9% QoQ during the quarter. Overall, the bank's business growth came fastest among its peers in the industry. The deposit growth was robust with the massive growth in the term deposits (+27.7% YoY) and current account deposits (+28.6% YoY).

Key Highlights of Q3 FY20:

NIMs and yields fell marginally during the quarter: NIMs remained stable at 4.2% while the overall yield on average advances came down to 10.2% due to huge competition among the private banks for higher retail book expansion. The bank's total operating expenses increased by only 17.5% YoY during the quarter due to the festival season's increased selling expenses.

CASA came down marginally hitting the cost of funds marginally: Cost of Funds came down to 5.3% as the bank as a result of the falling interest rates subsequently till the last quarter. Of the other income part, the core fee income grew by 24% YoY during the quarter and constituted two-thirds of the other income.

One-off slippage attracting asset quality concerns: The bank's slippages spiked during the quarter to Rs 5,339 Cr, which included a one-off corporate slippage of Rs 700 Cr and some stress from the agricultural segment. Provisions increased by 37.6% YoY for the bank with both GNPA/NNPA increasing 5bps/6bps on sequential as well as annual basis.

Valuation & View

HDFC Bank's core banking business grew sharply in contrast to the sector's reeling growth. The bank increased the branch outlets to 5,345 by adding 31 branches during the quarter. However, improved spread has led to the bank's RoA stand at 2.2% (annualized) for Q3FY20. HDFC Bank is currently trading at a P/adj. BV of 4.7 for FY19. Moving forward, we assign a P/adj. BV of 4.1x for FY21E ABVPS of Rs 334 per share to arrive at a Target Price of Rs 1,370 per share and maintain HOLD rating with an upside of 9.1% over CMP.

Particulars (INR Cr)	FY17	FY18	FY19	FY20E	FY21E
NII	33,139	40,095	48,243	55,850	64,937
PPOP	25,732	32,625	39,750	45,869	53,964
PAT	14,613	17,487	21,078	23,548	28,516
EPS (INR / Share)	28.5	33.7	38.7	43.1	52.2
BVPS (INR / Share)	174.6	204.8	273.9	303.2	342.3
NIM (%)	4.5%	4.4%	4.4%	4.3%	4.3%
Advances Growth YoY (%)	19.4%	18.7%	24.5%	21.0%	18.0%

Q3 FY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement (INR Cr.)	Q3 FY20	Q2 GY20	Q3 FY19	Q-o-Q	Y-o-Y
Interest income	29,370	28,166	25,890	4.3%	13.4%
Interest expense	15,197	14,651	13,314	3.7%	14.1%
Net interest income	14,173	13,515	12,577	4.9%	12.7%
Non interest income	6,669	5,589	4,921	19.3%	35.5%
Total income	20,842	19,104	17,498	9.1%	19.1%
Employee costs	2,455	2,355	1,968	4.2%	24.8%
Other operating expenses	5,442	5,051	4,752	7.7%	14.5%
Operating expenses	7,897	7,406	6,719	6.6%	17.5%
Pre-provision profit	12,945	11,698	10,778	10.7%	20.1%
Provisions	3,044	2,701	2,212	12.7%	37.6%
Profit before tax	9,902	8,997	8,567	10.1%	15.6%
Tax expense	2,485	2,652	2981	-6.3%	-16.6%
Net profit	7,416	6,345	5,586	16.9%	32.8%
Balance sheet analysis					
Deposits	10,67,433	10,21,615	8,52,502	4.5%	25.2%
CASA Deposits	4,21,828	4,01,236	3,47,084	5.1%	21.5%
CASA (%)	39.5%	39.3%	40.7%	24bps	-120bps
Advances	9,36,030	8,96,984	7,80,951	4.4%	19.9%
Total Assets	13,95,336	13,25,072	11,68,556	5.3%	19.4%
Capital adequacy ratio (%)	18.5%	17.5%	17.3%	100bps	120bps
Spread Analysis					
Yield on avg advances (%)	10.2%	10.4%	10.6%	-21bps	-38bps
Yield on avg interest earning assets (%)	8.9%	9.0%	9.3%	-11bps	-33bps
Cost of funds (%)	5.3%	5.4%	5.5%	-10bps	-16bps
NIM (%)	4.20%	4.20%	4.30%	0bps	-10bps
Asset quality					
Gross NPA	13,427	12,508	10,903	7.35%	23.15%
Net NPA	4,468	3,791	3,302	17.87%	35.34%
GNPA (%)	1.43%	1.38%	1.38%	5bps	5bps
NNPA (%)	0.48%	0.42%	0.42%	6bps	6bps
Key ratios					
Cost to income ratio (%)	37.9%	38.8%	38.4%	-88bps	-51bps
C/D ratio (%)	87.7%	87.8%	91.6%	-11bps	-392bps
RoA (%) (annualized)	2.18%	1.96%	1.91%	22bps	27bps

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 – Key Concall Highlights

- With the CEO of HDFC Bank Aditya Puri to retire in around a year's time, the bank's board stated that it will be hiring a consultancy to search for the successor of the outgoing CEO and will be ready with a name for RBI approval by July 2020.
- The management admitted of slow increase in the number of new opening of branches as the target was to open 600-700 ne branches this year. However, they maintained that the 4rth quarter will see large number of new branches being opened.
- On the business front:
 - a) The management admitted of roughly 60-65% of the new slippages coming from the agricultural segment alone during the quarter.
 - b) The fresh slippages included a one-off corporate slippage of INR 700 Cr during the quarter.
 - c) The total fresh slippage stood at Rs 5,339 Cr for the quarter.
- The bank intends to achieve its target of opening 600 new bank branches during the year and will see significant expansion during the last quarter.

Key Financials

Income Statement (Rs Crores)	FY 17	FY 18	FY 19	FY 20E	FY 21E
Interest Income	69,306	80,241	98,972	1,19,756	1,41,312
Interest Expense	36,167	40,146	50,729	63,906	76,375
Net Interest Income	33,139	40,095	48,243	55,850	64,937
Non interest income	12,296	15,220	17,626	19,832	23,616
Operating income	45,436	55,315	65,869	75,682	88,553
- Employee expense	6,484	6,806	7,762	9,241	10,041
- Other operating expense	13,220	15,885	18,358	20,572	24,548
Operating Expense	19,703	22,690	26,119	29,813	34,589
PPOP	25,732	32,625	39,750	45,869	53,964
Provisions	3,530	5,927	7,550	9,815	10,306
PBT	22,203	26,697	32,200	36,054	43,659
Tax Expense	7,589	9,211	11,122	12,505	15,143
PAT	14,613	17,487	21,078	23,548	28,516
Diluted EPS (INR)	28.51	33.69	39.20	43.08	52.17

Balance Sheet (Rs Crores)	FY17	FY18	FY19	FY20E	FY21E
Source of Funds					
Share capital	513	519	545	547	547
Reserves & Surplus	88,950	1,05,776	1,48,662	1,65,146	1,86,532
Net-worth	89,462	1,06,295	1,49,206	1,65,692	1,87,079
Borrowings	74,029	1,23,105	1,17,085	1,34,648	1,61,577
Deposits	6,43,640	7,88,771	9,23,141	11,07,769	13,18,245
Other liabilities & provisions	56,709	45,764	55,108	82,777	99,586
Total Equity & Liabilities	8,63,840	10,63,934	12,44,541	14,90,886	17,66,488
Uses of Funds					
Cash & bank balances	48,952	1,22,915	81,348	55,419	66,772
Cash in hand	4,264	69,531	5,638	6,068	8,044
Balance w/ RBI	33,633	35,140	41,126	49,351	58,728
Balance w/ banks & others	11,055	18,245	34,584	40,987	48,775
Net investments	2,14,463	2,42,200	2,90,588	3,44,195	4,15,961
Loans & advances	5,54,568	6,58,333	8,19,401	9,91,475	11,69,941
Fixed assets	3,627	3,607	4,030	4,093	4,156
Other assets	42,230	36,879	49,174	54,716	60,883
Total Assets	8,63,840	10,63,934	12,44,540	14,90,886	17,66,488

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
Growth Rates					
Advances (%)	19.4%	18.7%	24.5%	21.0%	18.0%
Deposits (%)	17.8%	22.5%	17.0%	20.0%	19.0%
Total assets (%)	21.9%	23.2%	17.0%	19.8%	18.5%
NII (%)	20.1%	21.0%	20.3%	15.8%	16.3%
Pre-provisioning profit (%)	20.5%	26.8%	21.8%	15.4%	17.6%
PAT (%)	18.8%	19.7%	20.5%	11.7%	21.1%
B/S Ratios					
Credit/Deposit (%)	86.2%	83.5%	88.8%	89.5%	88.7%
CASA (%)	48.0%	43.5%	42.4%	42.1%	42.2%
Advances/Total assets (%)	64.2%	61.9%	65.8%	66.5%	66.2%
Leverage - Total Assets to Equity	9.7	10.0	8.3	9.0	9.4
Operating efficiency					
Cost/income (%)	43.4%	41.0%	39.7%	39.4%	39.1%
Opex/total assets (%)	2.3%	2.1%	2.1%	2.1%	2.0%
Opex/total interest earning assets	2.7%	2.5%	2.4%	2.3%	2.3%
Profitability					
NIM (%)	4.5%	4.4%	4.4%	4.3%	4.3%
RoA (%)	1.9%	1.8%	1.8%	1.7%	1.8%
RoE (%)	18.0%	17.9%	16.5%	15.0%	16.2%
Asset quality					
Gross NPA (%)	1.1%	1.3%	1.4%	1.4%	1.5%
Net NPA (%)	0.3%	0.1%	0.4%	0.4%	0.4%
PCR (%)	68.7%	96.2%	71.4%	75.0%	75.0%
Slippage (%)	1.5%	1.5%	1.4%	1.3%	1.2%
Credit cost (%)	0.6%	0.9%	0.6%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	28.5	33.7	39.2	43.1	52.2
BVPS (INR)	174.6	204.8	273.9	303.2	342.3
ABVPS (INR)	171.0	204.2	268.0	296.6	334.0
P/E (x)	50.6	37.9	33.0	29.7	24.5
P/BV (x)	8.3	6.2	4.7	4.2	3.7
P/ABV (x)	8.4	6.3	4.8	4.3	3.8

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	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% to -12%
SELL	<-12%

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