

RESULTS REVIEW

HDFC Bank

Growth momentum returns

ACCUMULATE

Analyst

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Nifty: 9,307; Sensex: 29,943

CMP	Rs1,536
Target Price	Rs1,648
Potential Upside/Downside	+7%

Key Stock Data

Sector	Banking
Bloomberg/Reuters	HDFCB IN / HDBK.BO
Shares o/s (mn)	2,563
Market cap. (Rs mn)	3,936,768
Market cap. (US\$ mn)	61,225

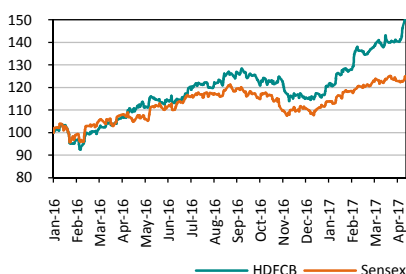
Price Performance

52-week high/low	Rs1,545/1,086
	-1m -3m -12m
Absolute (%)	8 19 41
Rel to Sensex (%)	6 11 24

Shareholding Pattern (%)

Indian Promoters	26.0
Institutions	55.1
Non-Institutions	18.8

Relative to Sensex



Source: AceEquity

Summary

- HDFCB surprised with a stellar, 19.4%YoY loan growth followed by a beat on core earnings and profit. This was a clear leap from a far sober 13.5%YoY loan growth in Q3FY17.
- The cost-income ratio has been trending lower since past few years and a decline in employee headcount is not to be missed (almost same as Q3FY16 with 434 more branches added since).
- There was a jump in NPAs, none of which though related to any deviation in RBI and HDFCB's asset classification per IRACP, which was a notable positive.
- The management, as always, did not leave any specific guidance on growth. The usual equations relative to systemic growth are now redundant. We believe HDFCB is likely to deliver a stronger growth than our existing estimate (revised post Q3FY17 results).

Result Highlights and Investment Rationale

- **Strong comeback after a soft Q3FY17:** While we had expected the Q3FY17 loan growth softness to go away, we did believe the after effects could push the growth rate to settle at softer levels going forward. The Q4FY17 performance clearly showed how HDFCB could surprise on balance sheet momentum. With the old formulas of guiding growth trajectory getting redundant due to the widening gap in systemic and HDFCB loan growth, we are viewing HDFCB as a standalone engine that is likely to fire strongly over next couple of years. However, our earnings estimate have an upside potential since our loan growth assumptions are back ended, similar to FY17 (wherein ~65% incremental growth happened in Q4FY17).
- **Cost-income ratio steadily declining:** Even as HDFCB has been expanding branches (at an uneven pace with 195 branches in FY17 the least since FY11), the headcount trend showed a negative quarterly trend through FY17. We estimate opex to trend at +16.7% CAGR FY17-FY19E vis-à-vis 18% CAGR in trailing five years. The cost-income ratio should drop to 41.5% in FY19E.
- **One-offs in slippages but asset quality stable:** End of forbearance on accounts affected by demonetization created Rs2.45bn GNPA's. The 1.34x YoY increase in stock of GNPA's and a benign GNPA ratio can both be attributed to the recent fast paced loan growth with one-offs contributing ~5bps to the GNPA ratio. We believe HDFCB's asset quality should stay stable going forward.
- **Raise target price to 1,648, change rating to ACCUMULATE:** We value HDFCB 3.65x FY19E ABV Rs452. This includes HDFCB standalone valuation of Rs1,587 (3.6x FY19E ABV after deducting Rs14/share equity investment in subsidiaries and adding Rs12/share dividend), an ad-hoc 2.6x multiple for Rs60bn BV of HDFC Securities and HDB Financial Services (Rs61/share) giving us a total value of Rs1,648/share. Previously, we had valued HDFCB at 3.77x FY18E ABV (one year forward).

Table: Financial snapshot

Y/E:	NII	PAT	EPS	BV	PE	P/BV	ROE	ROA	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(Rs)	(x)	(x)	(%)	(%)	(%)	(%)
FY16	275.9	123.0	48.6	287.5	31.5	5.3	18.3	1.9	0.9	0.3
FY17E	328.9	144.1	56.2	335.9	27.2	4.6	18.2	1.8	1.0	0.3
FY18E	400.4	177.2	69.1	391.0	22.1	3.9	19.0	1.9	1.1	0.3
FY19E	477.0	212.7	83.0	459.7	18.5	3.3	19.4	1.9	1.1	0.3

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Q4FY17E	Var. (%)
Interest earned	181,144	159,968	13.2	176,056	2.9	181,310	(0.1)
Interest expended	90,593	85,434	6.0	92,965	(2.6)	96,331	(6.0)
Net interest income	90,551	74,533	21.5	83,091	9.0	84,979	6.6
Non-interest income	34,463	28,659	20.3	31,427	9.7	31,562	9.2
Operating income	125,014	103,192	21.1	114,518	9.2	116,541	7.3
Operating expenses	52,220	45,843	13.9	48,425	7.8	49,530	5.4
- Staff expenses	15,527	14,980	3.7	16,886	(8.1)	0	0.0
Operating profit	72,794	57,349	26.9	66,093	10.1	67,011	8.6
Non-tax provisions	12,618	6,620	90.6	7,158	76.3	8,054	56.7
Profit before tax	60,176	50,729	18.6	58,935	2.1	58,957	2.1
Taxes	20,275	16,982	19.4	20,281	(0.0)	19,751	-
<i>Tax rate (%)</i>	33.7	33.5		34.4		33.5	-
Profit after tax	39,901	33,747	18.2	38,653	3.2	39,206	1.8
Extraordinary inc.	0	0	0.0	0	0.0	0	0.0
Normalised PAT	39,901	33,747	18.2	38,653	3.2	39,206	1.8

Source: Company; IDBI Capital Research

Table: Key balance sheet aggregates

(Rs mn)

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comp.
Business	10,110,182	10,443,770	10,861,485	11,297,479	11,982,079	6.1	18.5	-
Deposits								
Savings	1,478,860	1,527,010	1,599,500	1,866,340	1,935,790	3.7	30.9	30.1
Current	884,250	760,820	791,540	1,012,390	115,574	(88.6)	(86.9)	1.8
Term deposits	3,101,132	3,449,715	3,526,266	3,468,320	3,344,870	(3.6)	7.9	52.0
Total	5,464,242	5,737,545	5,917,306	6,347,046	6,436,397	1.4	17.8	100.0
Advances								
Retail (includes Business Banking)	2,898,330	2,983,150	3,191,380	3,238,270	3,537,560	9.2	22.1	63.8
Non-retail	1,747,610	1,723,075	1,752,798	1,712,163	2,008,122	17.3	14.9	36.2
Total	4,645,940	4,706,225	4,944,178	4,950,433	5,545,682	12.0	19.4	100.0
Total investments	1,638,858	2,063,391	2,066,526	2,360,555	2,144,633	(9.1)	30.9	100.0
Retail assets								
Vehicle loans								
Auto loans	572,810	595,610	644,290	655,450	700,990	6.9	22.4	19.8
CVCE	309,350	314,610	335,610	345,260	379,370	9.9	22.6	10.7
Two wheelers	63,830	66,140	71,180	71,070	73,450	3.3	15.1	2.1
Other retail loans								
Business banking	610,890	604,440	657,940	635,820	711,880	12.0	16.5	20.1
Credit cards	205,200	212,550	213,360	236,730	259,950	9.8	26.7	7.3
Gold loans	45,860	48,760	50,930	48,180	49,250	2.2	7.4	1.4
Home loans	318,600	336,050	335,740	354,230	383,790	8.3	20.5	10.8
Kisan Gold card	229,340	224,030	248,810	238,880	267,420	11.9	16.6	7.6
Loan against securities	18,970	18,860	20,520	22,490	27,980	24.4	47.5	0.8
Personal loans	377,040	410,590	450,240	468,260	505,450	7.9	34.1	14.3
Other retail loans	146,440	151,510	162,760	161,900	178,030	10.0	21.6	5.0
Total	2,898,330	2,983,150	3,191,380	3,238,270	3,537,560	9.2	22.1	100.0
Other income								
CEB	21,724	19,779	21,039	22,068	25,230	14.3	16.1	73.2
Exchange income	2,828	3,145	2,950	2,972	3,567	20.0	26.1	10.4
Trading profits	1,155	2,769	2,835	3,986	1,804	(54.7)	56.2	5.2
Miscellaneous income	2,952	2,373	2,186	2,401	3,862	60.9	30.8	11.2
Total fees	28,659	28,066	29,010	31,427	34,463	9.7	20.3	100.0
Key ratios (%)								
CASA	43.2	39.9	40.4	45.4	31.9	(1,348)bps	(1,138)bps	
CAR (Basel 3)	15.5	15.5	15.4	15.9	14.6	(130)bps	(90)bps	
NIM (reported)	4.3	4.4	4.2	4.1	4.3	20bps	0bps	
Cost-income ratio	44.4	45.0	44.7	42.3	41.8	(52)bps	(265)bps	
GNPAs	0.94	1.04	1.02	1.05	1.05	0bps	11bps	
NNPAs	0.28	0.32	0.30	0.32	0.33	1bps	5bps	
RoA	2.0	2.0	2.0	2.0	1.9	(8)bps	(8)bps	

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY16E	FY17E	FY18E	FY19E
Operating income	383	453	544	646
<i>growth (%)</i>	<i>45.2</i>	<i>18.1</i>	<i>20.2</i>	<i>18.7</i>
Operating expenses	(170)	(197)	(229)	(268)
-Employee expenses	(57)	(64)	(71)	(81)
Operating profit	214	256	315	378
<i>growth (%)</i>	<i>22.7</i>	<i>19.8</i>	<i>23.1</i>	<i>19.9</i>
Provision	(27)	(37)	(46)	(55)
PBT	186	219	269	323
Taxes	(63)	(75)	(92)	(110)
Net profit	123	144	177	213
Adjusted net profit	123	144	177	213
Shares o/s (mnos)	2,528.2	2,562.5	2,562.5	2,562.5

Balance Sheet

(Rs bn)

Year-end: March	FY16E	FY17E	FY18E	FY19E
Networth	727	861	1,002	1,178
Deposits	5,464	6,436	7,716	9,264
Borrowings	530	1,019	1,099	1,112
Other liabilities	367	374	398	432
Total Liabilities & Equity	7,088	8,690	10,215	11,985
Cash & Bank with RBI	301	373	482	573
Investments	1,776	2,126	2,470	2,872
Advances	4,646	5,808	6,862	8,116
Balances with other banks	89	89	89	89
Fixed and other assets	277	293	313	336
Total assets	7,088	8,690	10,215	11,985

Growth

(%)

Year-end: March	FY16E	FY17E	FY18E	FY19E
Deposits	21.2	17.8	19.9	20.1
Advances	27.1	25.0	18.1	18.3
Total Assets	20.0	22.6	17.6	17.3
NII	23.2	19.2	21.7	19.1
Other Income	19.5	15.1	16.0	17.5
Net Profit	20.4	17.2	22.9	20.0

Spreads

(%)

Year-end: March	FY16E	FY17E	FY18E	FY19E
NII/Avg Total Assets	4.2	4.2	4.2	4.3
NII/AvgInt Earning Assets	4.5	4.4	4.4	4.5
CASA	43.2	48.0	45.0	45.0

Solvency

(%)

Year-end: March	FY16E	FY17E	FY18E	FY19E
Credit-Deposit Ratio	85.0	90.2	88.9	87.6
GNPA Ratio	0.9	1.0	1.1	1.1
NNPA Ratio	0.3	0.3	0.3	0.3
CAR Ratio	15.6	14.6	14.0	13.6
Tier 1 Ratio	12.5	12.0	11.9	11.9

Valuations

Year-end: March	FY16E	FY17E	FY18E	FY19E
P/E (x)	31.5	27.2	22.1	18.5
P/BV (x)	5.3	4.6	3.9	3.3
Book Value/share (Rs)	287.5	335.9	391.0	459.7
EPS (Rs)	48.6	56.2	69.1	83.0
ROA (%)	1.9	1.8	1.9	1.9
ROE (%)	18.3	18.2	19.0	19.4

Source: Company; IDBI Capital Research

RoAA decomposition

(%)

Year-end: March	FY16	FY17E	FY18E	FY19E
Interest earned	9.27	8.73	8.34	8.27
Interest expended	5.02	4.56	4.11	3.97
Net interest income	4.25	4.17	4.24	4.29
Other income	1.65	1.57	1.52	1.52
-Fee and misc. income	1.35	1.26	1.21	1.21
-Forex income	0.19	0.16	0.16	0.16
-Treasury income	0.12	0.14	0.14	0.15
Operating income	5.90	5.74	5.76	5.81
Operating expenses	2.61	2.49	2.42	2.41
-Staff cost	0.88	0.82	0.75	0.73
-Other operating expense	1.63	1.60	1.60	1.62
-Depreciation	0.11	0.08	0.07	0.07
Pre-provision profits (PPP)	3.29	3.24	3.33	3.40
Provisions	0.42	0.46	0.48	0.49
Profit before taxes	2.87	2.78	2.85	2.90
Taxes	0.98	0.95	0.98	0.99
Profit after taxes	1.89	1.83	1.87	1.91

Source: Company; IDBI Capital Research



Notes

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Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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