



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Result update@ Dalal & Broacha

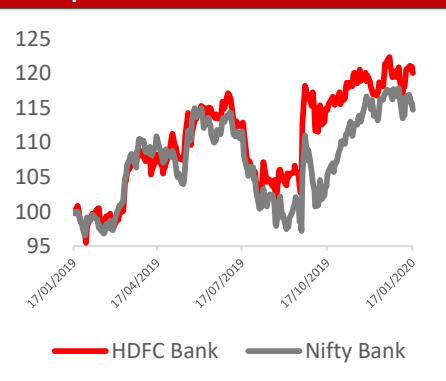
BUY

Current Price	1278
52 Week Range	1012/1304
Target Price	1406
Upside (%)	10

Key Share Data

Market Cap (Rs.bn)	6998.82
Market Cap (US\$ bn)	98.57
No of o/s shares (Mn)	102.82
Face Value	1
BSE Code	500180
NSE Code	HDFCBANK
Bloomberg	HDFCB

Price performance



% Shareholding	Dec-19	Sept-19
Promoter	26.2	26.2
FII	37.9	37.6
DII	21.1	21.3
Others	14.8	14.9
Total	100	100

HDFC Bank (HDFCB) reported its Q3FY20 performance which beat our estimates on the profitability front

- **NII** came in at INR 142 Bn, +4.9% QoQ / +12.7% YoY and 1% below our est.
- **Other Income** came in at INR 67 Bn, +19.3% QoQ / +35.5% YoY and 15% above our est.
- **PPOP** came in at INR 129 Bn, +10.7% QoQ / +20.1% YoY and 5% above our est.
- **Provisions** came in at INR 30 Bn, +12.7% QoQ / +37.6% YoY and 10% above our est.
- **PAT** came in at INR 74 Bn, +16.9% QoQ / +32.8% YoY and 4% above our est.
- **EPS** stood at INR 13.5 vs INR 11.6 / INR 10.3 in Q2FY20 / Q3FY19 respectively.

Financial Highlights

- HDFCB has shown strong credit growth of 19.9% YoY/4.4% QoQ in Q3FY20. Out of which, domestic advances grew by 20.9% YoY, mainly driven by wholesale loan growth of 29.3% YoY, while retail loans grew slower at 14.1%. In retail, loan growth was mainly driven by credit cards (29% yoy), home loans (19% yoy), personal loans (23% yoy) & business banking loans (14% yoy). However, Auto (inc. 2W/CV-CE) loans were worst affected by economic slowdown, with growth at just 1.3% YoY. The loan mix remains stable at 52% retail & 48% wholesale loans.
- Deposits growth during the quarter came in at 25% YoY, driven by term deposits which grew by 27.7% YoY. Bank continue to garner granular deposits, with retail term constitutes about 78% of total deposits. Furthermore, CASA growth was improved at 21.5% YoY. Bank also seems to continue to maintain excess liquidity with LCR standing at 140%, which also tends to hold back NII. Bank's strategy is to maintain higher than usual liquidity position to capitalize immense opportunities in the marketplace.
- Bank's asset quality slightly worsened during the quarter, with GNPA at 1.42% (up by 4 bps QoQ) and NNPA at 0.48% (up by 5 bps QoQ). But adjusted for the Agri NPAs, the GNPA stood at ~ 1.2% (vs 1.1% in Q3'19). In absolute terms, GNPA's increased by 7% QoQ to Rs 134.27 Bn and NNPA's increased by 18% QoQ to Rs 44.68 Bn in Q3FY20. The one disappointment was declined in PCR to 67% (from 70%). Bank saw core slippages of Rs 38.4 Bn during the quarter (higher than Rs 37.1 Bn in Q2FY20). Given the current macro environment and in order to make balance sheet more resilient, bank has created an additional contingent provision of Rs 7 Bn, primarily relating to certain corporate accounts. The core credit cost ratio, i.e., specific loan loss ratio excluding one-offs, was stable at 0.92% Vs 0.90% QoQ and 0.88% YoY. Besides, the core credit cost ratios net of recovery and excluding one-offs were stable at 0.66% Vs 0.68% QoQ and 0.69% YoY.
- Bank's strong profitability was supported by higher other income (19%QoQ/36% YoY), aided by sharp rise in miscellaneous income, including recoveries & dividend (stood at Rs 9.4 Bn Vs Rs 4.03 Bn in Q3FY19). Fees and commissions, which accounted for two-third of the other income, grew by 24% to Rs 45.3 Bn. Meanwhile, the bank's operational efficiency remained strong, with cost to income ratio falling by 51 bps YoY/ 88 bps QoQ to 37.9%, backed by higher net income (NII + other income) growth of 19% vs opex growth of 18% in Q3FY20.

Valuation and outlook

During the quarter, the bank's numbers were largely in line on operational basis, but asset quality weakened along with deterioration in provision coverage ratio. Given the ample buffers against stressed loans, we expect asset quality to revert back to its normal levels in next few quarters. We believe that bank's strong balance sheet, better liability franchise and higher capital adequacy would allow bank to deliver strong sustainable performance and capitalize on emerging opportunities. At CMP the stock trades at 4.2x its FY20E ABV and 3.6x its FY21E ABV. We value HDFCB at FY21E P/ABV multiple of 4x to arrive at target price of Rs 1406/ share and maintain BUY rating on the stock.

Key Financials (Rs Mn)

Year	NII	PPOP	PAT	Growth (%)	ROE	ROA	EPS	ABVPS	P/ABVPS
FY19	482	397	211	25	16	1.8	39	268	4.8
FY20	563	477	264	27	16	1.9	48	304	4.2
FY21	662	565	334	21	18	2.1	61	352	3.6



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Profit & Loss Account

Rs Bn	Q3FY20	YOY	QOQ	Q2FY19	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Interest Earned	294	13%	4%	282	274	263	259	242	225
Interest Expended	152	14%	4%	147	141	132	133	124	117
NII	142	13%	5%	135	133	131	126	118	108
Other Income	67	36%	19%	56	50	49	49	40	38
Net Income	208	19%	9%	191	183	180	175	158	146
Operating expenses	79	18%	7%	74	71	71	67	63	60
PPoP	129	20%	11%	117	111	108	108	95	86
Provisions	30	38%	13%	27	26	19	22	18	16
Profit Before Tax	99	16%	10%	90	85	90	86	77	70
Tax	25	-17%	-6%	27	30	31	30	27	24
Net Profit	74	33%	17%	63	56	59	56	50	46

Balance Sheet

Net worth	1636	14%	5%	1558	1556	1492	1430	1372	1077
Deposits	10674	25%	4%	10216	9546	9231	8525	8334	8058
Borrowings	1133	-8%	23%	922	1009	1171	1235	1427	1210
Other liabilities	510	3%	-8%	555	542	551	496	566	459
Total liabilities	13953	19%	5%	13251	12653	12445	11686	11699	10804
Cash & Balances	1024	81%	39%	735	842	813	567	645	515
Investments	3113	11%	1%	3071	2985	2906	2798	3001	2757
Advances	9360	20%	4%	8970	8297	8194	7810	7508	7086
Fixed Assets	43	11%	4%	41	40	40	39	38	36
Other Assets	413	-13%	-5%	433	488	492	473	507	410
Total Assets	13953	19%	5%	13251	12653	12445	11686	11699	10804

Important ratios (%)

Gross NPAs	1.4	4 bps	4 bps	1.4	1.4	1.4	1.4	1.3	1.3
Net NPAs	0.5	5 bps	5 bps	0.4	0.4	0.4	0.4	0.4	0.4
PCR	66.7	(300 bps)	(297 bps)	69.7	69.7	71.4	69.7	70.0	69.5
Cost to income ratio	37.9	(51 bps)	(88 bps)	38.8	39.0	39.6	38.4	39.9	40.9
CASA	39.5	(120 bps)	24 bps	39.3	39.7	42.4	40.7	42.0	41.7
CAR	18.5	120 bps	100 bps	17.5	16.9	17.1	17.3	17.1	14.6

Break-up of Domestic Retail Advances

Auto	836	1%	3%	808	819	807	830	803	777
Personal Loans	1,095	23%	7%	1,021	971	930	888	834	779
Home Loans	617	19%	3%	600	558	514	518	479	440
Business Banking	633	14%	1%	627	577	570	557	542	521
Kisan Gold Card	390	11%	0%	391	367	387	351	361	331
Credit Cards	577	29%	11%	520	495	466	448	405	385
CV/CE	281	4%	-1%	285	292	287	272	255	249
Others	200	15%	8%	184	181	181	174	169	163
Two Wheelers	101	1%	3%	99	101	100	101	97	92
Gold Loans	53	3%	0%	53	52	52	52	52	51
Loans against sec	18	1%	-1%	18	18	19	18	18	17
Total	4,801	14%	4%	4,606	4,432	4,314	4,209	4,015	3,805



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Profit & Loss Account				
Rs Bn	FY18	FY19	FY20E	FY21E
Interest Earned	802	990	1187	1414
Interest Expended	401	507	624	752
NII	401	482	563	662
Other Income	152	176	223	263
Net Income	553	659	786	925
Operating expenses	227	261	309	360
PPoP	326	397	477	565
Provisions	59	76	108	118
Profit Before Tax	267	322	369	446
Tax	92	111	105	113
Net Profit	175	211	264	334

Balance Sheet				
Rs Bn	FY18	FY19	FY20E	FY21E
Net worth	1063	1492	1707	1969
Deposits	7888	9231	11420	13637
Borrowings	1231	1171	1101	1079
Other liabilities	458	551	541	604
Total liabilities	10639	12445	14768	17288
Cash & Balances	1229	813	1159	1243
Investments	2422	2906	3226	3709
Advances	6583	8194	9813	11724
Fixed Assets	36	40	43	46
Other Assets	369	492	527	565
Total Assets	10639	12445	14768	17288

Important ratios				
(%)	FY18	FY19	FY20E	FY21E
Gross NPAs	1.3	1.3	1.5	1.4
Net NPAs	0.4	0.4	0.5	0.4
PCR	69.8	71.4	69.6	73.0
Cost to income ratio	41.0	39.7	39.3	38.9
CASA	43.5	42.4	40.8	41.3
CAR	14.8	17.1	16.4	15.9
Loan to Deposit Ratio	83	89	86	86

Important ratios (%)				
(%)	FY18	FY19	FY20E	FY21E
ROA	1.8	1.8	1.9	2.1
ROE	17.9	16.4	16.5	18.2
Per share (Rs)				
EPS	34	39	48	61
ABVPS	200	268	304	352
P/E	38	33	27	21
P/ABVPS	6.4	4.8	4.2	3.6



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Disclaimer

Dalal & Broacha Stock Broking Pvt. Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or	No



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

merchant banking or brokerage services from the subject company in the past twelve months	
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141439	Midcaps
Mr. Avinash Tanawade	avinash.tanawade@dalal-broacha.com	022 67141449	Banks, NBFCs
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T/Media/Telecom
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Ms. Nidhi Babaria	Nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021
Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092
E-mail: equity.research@dalal-broacha.com