



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

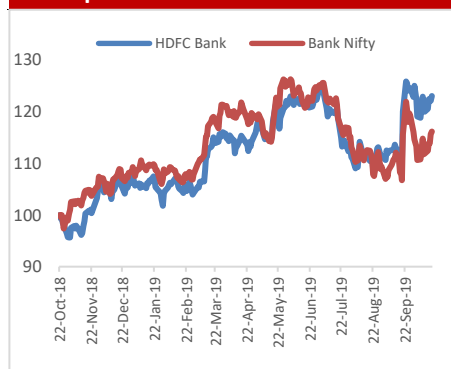
BUY

Current Price (Rs)	1230
52 Week Range	1285/942
Target Price (Rs)	1401
Upside (%)	14

Key Share Data

Market Cap (Rs.bn)	6725
Market Cap (US\$ mn)	94527
No of o/s shares (mn)	5471
Face Value	1
Monthly Avg. vol (BSE+NSE) Nos'000	9823
BSE Code	500180
NSE Code	HDFCBANK
Bloomberg	HDFCB:IN

Price performance



% Shareholding	Sep-19	Jun-19
Promoter	26.2	26.3
DII	21.3	17.1
FII	37.6	38.6
Others	14.9	18.0
Total	100	100

HDFC Bank (HDFCB) has delivered a decent set of numbers for the quarter ended September 2019, with stable asset quality (NNPA at 0.42%), better business growth (Advances up by 19.5% YoY/ Deposits up by 22.6% YoY) and higher other income (up by 39.2% YoY/ 12.4% QoQ). Bank's operational efficiency remained strong, with cost to income ratio falling by 213 bps YoY/ 86 bps QoQ to 38.8%, backed by higher net income (NII + other income) growth of 21% vs opex growth of 18% in Q2FY20. Bank has reported NII growth of 14.9% YoY/1.7% QoQ at Rs 135.15 Bn, PPOP growth of 23.4% YoY/4.9% QoQ at Rs 116.98 Cr and PAT growth of 26.8% YoY/ 14.0% QoQ at Rs 63.45 Bn. With these strong numbers, HDFCB demonstrated that it can deliver consistent performance even in such challenging environment.

Robust credit growth at 19.5% YoY: HDFCB has shown strong credit growth of 19.5% YoY in Q2FY20. Out of which, domestic advances grew by 20.7% YoY, mainly driven by wholesale loan growth of 27.9% YoY, while retail loans grew slower at 14.7% YoY with management pointing to a general economic slowdown. According to the management, incremental corporate credit growth was from the across industry, across ticket size and tenors. In retail, loan growth was mainly driven by credit cards (28% yoy), home loans (25% yoy), personal loans (22% yoy) & business banking loans (16% yoy). However, Auto (inc. 2W/CV-CE) loans (regulatory classification) were worst affected by economic slowdown, with growth at just 3.1% YoY. The loan mix remains stable at 52% retail & 48% wholesale loans.

On the liability side, deposits growth during the quarter came in at 22.6% YoY, driven by term deposits which grew by 28.3% YoY. While CASA growth was slower at 14.7%, granular deposits continues to remain a core strategy of bank, with retail term deposits, which constitutes about 72% of total deposits, grew by 24% YoY. Bank also seems to continue to maintain excess liquidity with LCR standing at 133%, 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.

Stable asset quality (net NPA at 0.42%): HDFCB's asset quality remains stable, with GNPA's sequentially up 2 bps at 1.38% and NNPA's up by 3 bps to 0.42% in Q2FY20. In absolute terms, GNPA's and NNPA's rose 6% QoQ each in July-September quarter. Bank saw slippages of Rs 37.1 Bn during the quarter (lower than Rs 42.3 Bn in Q1FY20), while, write-offs stood at Rs 15.9 Bn. Given the current macro environment and in order to make balance sheet more resilient, bank has created an additional contingent provision of Rs 6.63 Bn. According to management, contingent provisions made in the quarter were precautionary in nature and not anticipatory. Due to a spike in the provisions, credit cost came in at 1.19% vs 1.24% in the previous quarter. Ex-Agri GNPA stands at 0.92% vs 0.93% QoQ. Total provisions (Including specific provisions, general provisions and floating provisions) were 114% of the GNPA's as on September 30, 2019.

Valuation and outlook

We believe that bank's best in class asset quality, strong 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 4.0x its FY20E ABV and 3.5x its FY19E ABV. We value HDFCB at FY21E P/ABV multiple of 4x to arrive at target price of Rs 1401/ share and maintain BUY rating on the stock.

Key Financials (Rs in Bn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	P/B (X)
FY19	482	20	397	22	211	21	268	4.6
FY20	567	17	462	16	264	25	304	4.0
FY21	665	17	537	16	323	23	350	3.5

Profit & Loss Account								
Rs Bn	Q2FY20	YOY	QOQ	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Interest Earned	282	16%	3%	274	263	259	242	225
Interest Expended	147	18%	4%	141	132	133	124	117
NII	135	15%	2%	133	131	126	118	108
Other Income	56	39%	12%	50	49	49	40	38
Net Income	191	21%	5%	183	180	175	158	146
Operating expenses	74	18%	4%	71	71	67	63	60
PPoP	117	23%	5%	111	108	108	95	86
Provisions	27	48%	3%	26	19	22	18	16
Profit Before Tax	90	17%	5%	85	90	86	77	70
Tax	27	0%	-11%	30	31	30	27	24
Net Profit	63	27%	14%	56	59	56	50	46
Balance Sheet								
Net worth	1558	14%	0%	1556	1492	1430	1372	1077
Deposits	10216	23%	7%	9546	9231	8525	8334	8058
Borrowings	922	-35%	-9%	1009	1171	1235	1427	1210
Other liabilities	555	-2%	2%	542	551	496	566	459
Total liabilities	13251	13%	5%	12653	12445	11686	11699	10804
Cash & Balances	735	14%	-13%	842	813	567	645	515
Investments	3071	2%	3%	2985	2906	2798	3001	2757
Advances	8970	19%	8%	8297	8194	7810	7508	7086
Fixed Assets	41	8%	2%	40	40	39	38	36
Other Assets	433	-14%	-11%	488	492	473	507	410
Total Assets	13251	13%	5%	12653	12445	11686	11699	10804
Important ratios (%)								
Gross NPAs	1.4	5 bps	2 bps	1.4	1.4	1.4	1.3	1.3
Net NPAs	0.4	2 bps	3 bps	0.4	0.4	0.4	0.4	0.4
PCR	69.7	(32 bps)	-	69.7	71.4	69.7	70.0	69.5
Cost to income ratio	38.8	(115 bps)	(20 bps)	39.0	39.6	38.4	39.9	40.9
CASA	39.3	(269 bps)	(43 bps)	39.7	42.4	40.7	42.0	41.7
CAR	17.5	40 bps	60 bps	16.9	17.1	17.3	17.1	14.6
Break-up of Domestic Retail Advances								
Auto	808	1%	-1%	819	807	830	803	777
Personal Loans	1,021	22%	5%	971	930	888	834	779
Home Loans	600	25%	8%	558	514	518	479	440
Business Banking	627	16%	9%	577	570	557	542	521
Kisan Gold Card	391	8%	7%	367	387	351	361	331
Credit Cards	520	28%	5%	495	466	448	405	385
CV/CE	285	12%	-3%	292	287	272	255	249
Others	184	9%	2%	181	181	174	169	163
Two Wheelers	99	2%	-2%	101	100	101	97	92
Gold Loans	53	2%	2%	52	52	52	52	51
Loans against sec	18	0%	3%	18	19	18	18	17
Total	4,606	15%	4%	4,432	4,314	4,209	4,015	3,805



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Profit & Loss Account				
Rs Bn	FY18	FY19	FY20E	FY21E
Interest Earned	802	990	1179	1395
Interest Expended	401	507	612	731
NII	401	482	567	665
Other Income	152	176	207	235
Net Income	553	659	774	900
Operating expenses	227	261	312	363
PPoP	326	397	462	537
Provisions	59	76	96	104
Profit Before Tax	267	322	366	432
Tax	92	111	102	109
Net Profit	175	211	264	323

Balance Sheet				
Rs Bn	FY18	FY19	FY20E	FY21E
Net worth	1063	1492	1707	1961
Deposits	7888	9231	10978	13030
Borrowings	1231	1171	1240	1364
Other liabilities	458	551	585	697
Total liabilities	10639	12445	14510	17051
Cash & Balances	1229	813	944	1086
Investments	2422	2906	3226	3709
Advances	6583	8194	9669	11487
Fixed Assets	36	40	43	46
Other Assets	369	492	629	721
Total Assets	10639	12445	14510	17051

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	40.3	40.4
CASA	43.5	42.4	41.4	42.0
CAR	14.8	17.1	16.7	16.1
Loan to Deposit Ratio	83	89	88	88

Important ratios				
(%)	FY18	FY19	FY20E	FY21E
ROA	1.8	1.8	2.0	2.0
ROE	17.9	16.5	16.5	17.6
Per share (Rs)				
EPS	34	39	48	59
ABVPS	200	268	304	350
P/E	36	32	26	21
P/ABVPS	6.2	4.6	4.0	3.5



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