

Steady Outlook

 25th Oct, 2017

CMP: Rs. 1795
Target Price: Rs. 1880
Recommendation: NEUTRAL

Stock Info

BSE Group	A
BSE Code	500180
NSE Symbol	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
BSE Sensex	33,042
NSE Nifty	10,295

Market Info

Market Capital	Rs. 4,63,698 cr
Equity Capital	Rs. 515 cr
Avg. Trading Vol.	19,64,510
52 Wk High/ Low	1879/1158
Face Value	2

Shareholding Pattern (%)

Promoters	25.73
Domestic Institutions	14.24
Foreign Institutions	41.51
Public & Others	18.52

Price Vs Sensex Chart



HDFC Bank reported steady set of numbers. Interest Income increased by 15% YoY to Rs. 19,670 cr, while on QoQ basis it increased by 5%. Interest Expenses increased by 9% YoY, while on QoQ basis it increased by 7% to Rs. 9,916 cr. Net Interest Income increased by 22% on YoY basis and 4% on QoQ basis to Rs. 9,725 cr. Reported Net Interest Margin stood steady at 4.3% on QoQ basis.

Non-Interest revenue was higher by 24% QoQ to Rs. 3,605 crs. Within this segment, revenues from fees & commissions increased to Rs 2,614 crs. Foreign exchange & derivatives revenue stood at Rs. 384 cr & sale of investment was Rs. 355 cr v/s. Rs. 283 crs on YoY basis.

Cost to Income increased to 42.6% against corresponding quarter of previous year. Operating cost for the quarter increased by 14% YoY to Rs 5,540 cr. The bank added 2 branches this quarter to its network. 52% of the branches stay in semi-urban and rural areas.

Bank saw strong growth with advances which grew by 22% while the deposits grew by 16% YoY. Domestic retail to wholesale loans composition stood at 55:45. CASA grew by 24% YoY. CASA ratio decreased to 43% against 44% in corresponding quarter of previous year.

Asset quality saw a deterioration this quarter. Bank reported GNPA at 1.26% while Net NPA stood at 0.43% against 1.02% and 0.30% respectively. Provisions stood at Rs 1,476 cr against Rs 749 cr YoY and Rs 1,559 cr sequentially. The Bank had participated in a project loan (where the Bank had a 2.3% share) which underwent flexible structuring under the 5:25 regulatory framework as approved by the Joint Lenders Forum (JLF) in February 2016. The Bank is in ongoing discussions and correspondence with the regulator in relation to certain observations made on the implementation of the JLF-approved flexible structuring scheme.

NIM for the quarter stood at 4.3%. Capital Adequacy for the bank stood at 15.1% with Tier-1 CAR at 13.3%. The Return on Assets for the quarter stood at 0.47%

Valuation:

HDFC bank continued to report balanced performance. We have valued stock on P/ABV(x) of 4.1(x) to its FY19E adjusted book value of Rs 458 per share and arrived at a fair value of Rs. 1,880. We have 'NEUTRAL' rating on the stock.

SNAPSHOT			
(Rs Cr.)	FY 17	FY 18E	FY 19E
Net Interest Income	33139	41176	48064
Operating Income	45436	55313	64350
Profit After Tax	14550	17858	20318
ROE	17.9	18.4	17.9
P / EPS (x)	26.3	26.0	23.1
P / ABV (x)	4.4	4.5	3.9

Q2 FY18 Earnings Snapshot:

Quarterly Results					
(Rs Cr.)	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Interest Earned	19670	17070	15%	18669	5%
Interest Expended	9916	9076	9%	9298	7%
NII	9752	7994	22%	9371	4%
Operating Profit	7818	6025		7520	
Provisions and Contingencies	1476	749	97%	1559	-5%
PBT	6341	5276		5961	
Tax provisions	2191	1820		2067	
Profit After Tax	4151	3455	20%	3894	7%
BVPS	346	316		366	
EPS	16.1	13.6		15.2	
Return on Assets	0.5	0.5		0.5	

Asset Quality					
	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Gross NPAs %	1.3	1.0		1.2	
Net NPAs %	0.4	0.3		0.4	

Growth					
(Rs Cr.)	Q2 FY18	Q2 FY17	YoY	Q1 FY18	QoQ
Advances	604867	494418	22%	580976	4%
C-D ratio	87.7	83.6		86.5	
Deposits	689346	591731	16%	671376	3%
CASA %	42.9	40.4		44.0	
CASA	295480	239104	24%	295135	0%

Income Statement

(Rs Cr.)	FY 17	FY 18E	FY 19E
Interest Earned	69306	83277	99083
Interest Expended	36167	42101	51019
Net Interest Income	33139	41176	48064
Other Income	12296	14137	16286
Fee Income	8812	10089	11552
Treasury Income	1131	1209	1457
Operating Income	45436	55313	64350
Operating Expenses	19703	24061	28304
Employee Cost	6484	7833	8921
Profit before provision & tax	25732	31252	36047
Provisions and Contingencies	3593	4194	4788
Profit Before Tax	22139	27058	31259
Provision for tax	7589	9200	10941
Profit After Tax	14550	17858	20318

Balance Sheet

(Rs Cr.)	FY 17	FY 18E	FY 19E
Share Capital	513	517	523
Total Reserves	88950	103984	121802
Deposits	643640	772082	928331
Borrowings	74029	82912	95349
Other Liabilities & provisions	56709	48115	51386
Total Liabilities	863840	1007610	1197391
Cash and balance with RBI	37897	39769	47214
Balances with banks & money at call	11055	12585	17206
Investments	214463	241862	291328
Advances	554568	671835	801961
Fixed Assets	3671	3994	4309
Other Assets	42230	37610	35418
Total Assets	863840	1007610	1197391

Ratio Analysis

%	FY 17	FY 18E	FY 19E
Asset Quality			
Gross NPA	1.1	1.0	1.1
Net NPA	0.3	0.3	0.3
PCR	70.3	70.7	70.2
Growth			
Advances Growth	19.4	21.1	19.4
Deposit growth	17.8	20.0	20.2
Net Profit Growth	18.3	22.7	13.8
Liquidity			
C-D Ratio	86.2	87.0	86.4
CASA	48.0	47.8	47.8
Capital Adequacy	15.3	15.3	15.7
Efficiency			
Cost Income Ratio	43.4	43.5	44.0
Operating Costs to Assets	2.3	2.4	2.4

Spread Analysis

%	FY 17	FY 18E	FY 19E
Spread Analysis			
Yield on Advances	12.5	12.4	12.4
Yield on Investments	8.5	8.4	8.3
Cost of Funds	5.0	4.9	5.0
Cost of Deposits	5.0	4.9	4.9
NIM	4.1	4.3	4.2
Interest Spread	7.5	7.5	7.4
Profitability			
ROE	17.9	18.4	17.9
Earnings Per Share (Rs)	56.8	69.1	77.7
Dividend Per Share (Rs)	0.0	13.5	15.2
Adj. BVPS (Rs)	342.2	396.8	458.4
Valuation			
P / EPS (x)	26.3	26.0	23.1
P / ABV (x)	4.4	4.5	3.9

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