

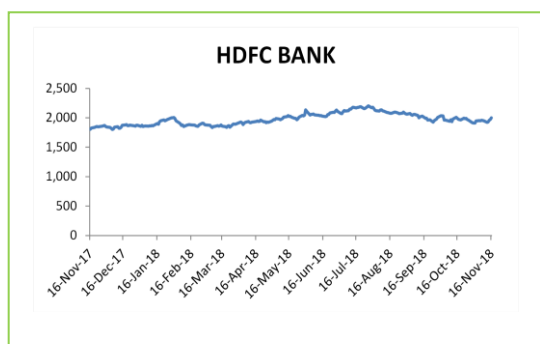
November 19, 2018

Rating:	BUY
Ticker:	HDFCBANK
CMP:	Rs. 2014
Target:	Rs. 2260
Upside:	12%

Key Stock Data	
Sector	Banks
No. of shares	271.5 Crs
FV (Rs)	2
MCAP (Rs)	5,43,254 Crs
MCAP (\$)	7545 Crs

Key Financials (Rs. in Crs)			
Y/E March	FY18 A	FY19 E	FY20 E
Revenue	95462	114615	137538
PAT	17486	20631	23381
NII	40095	47337	55384
EPS /sh.	67.8	80	90.4
BV /sh.	392	456	532
P/BV (x)	5.11	4.39	3.77
PE (x)	29.55	25.04	22.17

Shareholding Pattern	
Promoters	26.57
FIIIs	39.63%
DIIIs	15.04%
Others	18.76%



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HDFC Bank Ltd. – HDFCBANK

2QFY19 Result Update

The bank reported decent set of 2QFY19 number on all counts both on a yearly as well as on a quarterly basis. The total income of the bank grew by 21% Y-o-Y and 7% Q-o-Q to Rs. 28,215 Crs in 2QFY19 as against Rs.23,276 Crs in 2QFY18. PAT grew by robust 9% Q-o-Q and 21% Y-o-Y to Rs.5005 Crs in 2QFY19 as against Rs. 4151 Crs in 2QFY18. GNPA remained flat on a sequential basis and on a yearly basis increased nominally by 7 bps at 1.33% in 2QFY19 as against 1.26x in 2QFY18. NNPA too remained flat on a sequential basis at 0.4% and decreased by 2 bps on a yearly basis at 0.4% in 2QFY19 as against 0.43% in 2QFY18.

Continuation of stable asset Quality

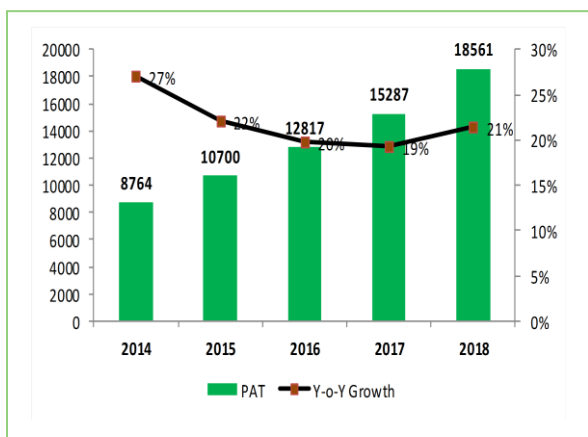
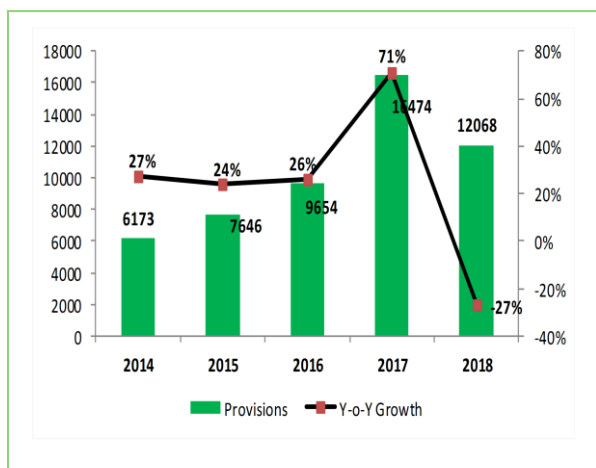
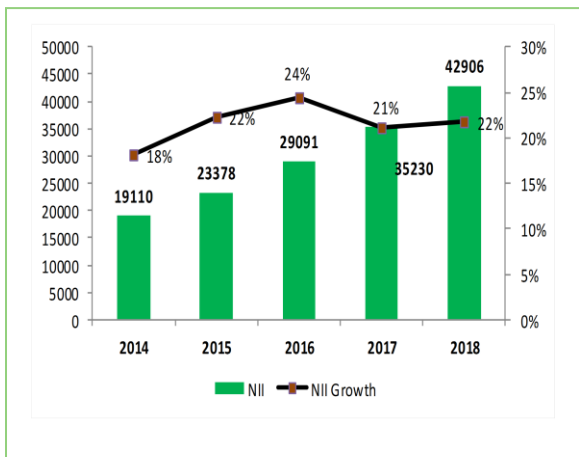
HDFC Bank's asset quality has been stable with GNPA stable at 1.91% for 2QFY19 as against 2.14% in 2QFY18. NNPA also stood stable at 0.73% in 2QFY19 as against 1.08% in 2QFY18. The management stated that HDFC bank normally experiences seasonality with NPA on their Agri book. During the harvest season, they get relief, this quarter being one of those. Currently, the farm loan waiver impact is continuing and HDFCB has this portfolio under watch. On their NBFC exposure, the management stated that they have a very well rated portfolio with 85% of the total portfolio rated the highest quality as per HDFC's internal rating methodology.

Outlook & Valuations

HDFCB has been consistently gaining market share across retail product and the recent capital raise should enable it to sustain this growth momentum. At CMP, the stock is trading at 3.77x FY20E P/BV and we would like to allot a multiple of 4.25x P/BV on account of its sustainable growth rate. We feel it is trading at very sustainable valuation at CMP, hence we maintain BUY on the stock with target price of Rs.2260

Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	2QFY19	1QFY18	2QFY18	Q/Q	Y/Y	FY2018
Revenue	28215	26367	23276	7%	21%	95462
PAT	5005	4601	4151	9%	21%	17486
NII	11763	10813	9752	9%	21%	40095
GNPA (%)	1.33	1.33	1.26	NA	7 Bps	1.3
NNPA (%)	0.40	0.41	0.43	(1 bp)	(2 bps)	0.40
ROA (%)	0.46	0.44	0.47	2 bps	(1 bp)	1.93



1. Growth momentum to continue. .

HDFC Bank’s NII (Net interest income)increased by 20.6% Y-o-Y to Rs. 11,763 Crs in 2QFY19 as against Rs. 9,752 Crs in 2QFY18. loan book grew at constant rate of 24% Y-o-Y to Rs7,50,800 Crs, with equal traction in retail and wholesale books. The bank expects business growth momentum to continue at a similar pace with the recent capital raising providing further cushion. In wholesale banking, the focus on business banking and emerging enterprises will continue. Management continues to see healthy traction in its other retail products like personal, auto and credit card loans. The bank continued to witness a sharp rise in its CASA deposits. CASA Deposits grew by 18.3% with savings account deposits growing by 18.7% over the previous year to reach Rs. 2,34,568 Crs and current account deposits growing by 17.7% over the previous year to reach Rs. 1,15,131 Crore. The bank maintains a healthy liquidity coverage ratio (LCR) of 118%, which will ensure that there is no need for aggressive growth in high cost bulk deposits.

2. Stable NIMs

HDFCB reported a healthy NIM on a sequential basis with an improvement in its margins of 10bps to 4.30% as on 2QFY19. The increase is primarily due to the capital raised by the bank in the previous quarter. The bank raised its MCLR over the last six months, which should ease yield pressure in the coming quarters. This, coupled with the granularity in overall deposit base, provides it further comfort on the margin front. HDFC Bank raised a total equity capital amounting to Rs 23,590 Crs, via preferential allotment to HDFC Limited, Rs. 27775 Crs to qualified institutional placement and the remaining quantum from American Depository Receipts. This allowed HDFC Bank to not bid aggressively for bulk deposits during the quarter. CASA growth also picked up to 18.3% Y-o-Y. Within CASA, current account deposits growth accelerated encouragingly to 17.7% as against 7% Y-o-Y in 1QFY19. Overall, since yield on assets grew at a pace similar to cost of funds, adjusted for impact of equity capital raise.

November 19, 2018

HDFC Bank is a Mumbai-based regional private sector bank.

It was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector

The Bank's distribution network was at 4787 branches in 2691 cities.

HDFC Bank's ATM network can be accessed by all domestic and international Visa / MasterCard, Visa Electron / Maestro, Plus / Cirrus and American Express Credit / Charge cardholders

We estimate earnings CAGR of more than 20% over FY19–20E with potential ROE improvement of more than 10%.

At At CMP, the stock is trading at 3.77x FY20E P/BV and we would like to allot a multiple of 4.25x P/BV on account of its sustainable growth rate.

Company Background

HDFC (Housing Development Finance Corporation Limited) Bank is headquartered in Mumbai. The HDFC was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. As of March 31, 2015, the Bank's distribution network was at 4,787 branches in 2,691 cities. All branches are linked on an online real-time basis. The Bank also has a network of 11,766 ATMs across India. HDFC Bank's ATM network can be accessed by all domestic and international Visa / MasterCard, Visa Electron / Maestro, Plus / Cirrus and American Express Credit / Charge cardholders

Risk & Concerns

- Any lumpy delinquencies from the corporate loan book could harden the credit cost estimates, hence concluding in lower return ratios.
- Lower-than-expected loan growth could distort estimates.
- High dependence on the NRI segment exposes HDFC Bank to regulatory risks.

Outlook & Valuations

HDFCB has been consistently gaining market share across retail product segments (personal loans, business banking, credit cards and auto loans), and the recent capital raise should enable it to sustain this growth momentum. Operating expenses have been under control and several digital initiatives have led to a consistent decline in the C/I ratio. At CMP, the stock is trading at 3.77x FY20E P/BV and we would like to allot a multiple of 4.25x P/BV on account of its sustainable growth rate. We feel it is trading at very sustainable valuation at CMP, hence we maintain BUY on the stock with target price of Rs.2260

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Analyst Stock Rating	
Ratings	Expected absolute returns over 12 months
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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