

## HDFC Bank

Reco: Buy

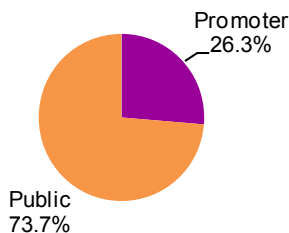
Strong, in-line results, marginal dip in asset quality

CMP: Rs1,228

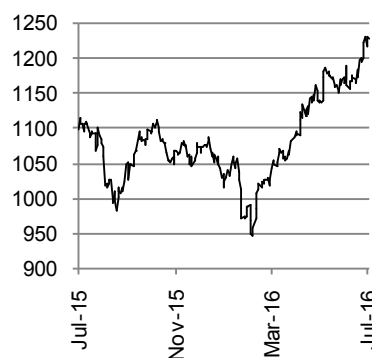
### Company details

Price target:	Rs1,415
Market cap:	Rs311,418 cr
52-week high/low:	Rs1,239/929
NSE volume: (No of shares)	14.3 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	199.2 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	6.0	13.2	22.0	11.4
Relative to Sensex	1.8	4.0	4.0	11.8

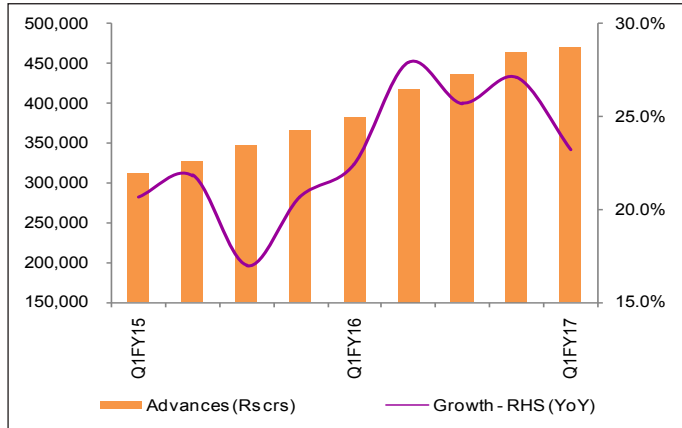
### Key points

- Business growth in-line; NII & fee income growth robust:** HDFC Bank results for Q1FY2017 were in line with estimates on most parameters, except the marginal rise in non-performing assets (NPA). Net interest income (NII) grew by 21.8% YoY to Rs7,781 crore, driven by average assets growth of 20.2% YoY and net interest margin (NIM) of 4.4% (up 10BPS YoY). At Rs2,806 crore, Other Income (OI) grew by 14.0% YoY, with fees & commissions at Rs1,978 crore or 18.7% of net operating income (NII + OI). The cost to income (C/I) ratio for Q1FY2017 stood at 45.0% as against 45.2% for Q1FY2016. We believe that the dip in C/I ratio can partly be attributed to the bank's ~54% of branches being located in the rural & semi urban areas (which are low-cost branches). The total deposits grew by 18.5% YoY with CASA deposits growing by 22.2% YoY. CASA deposits now form 39.9% of the total deposits. We believe this is remarkable, as not only HDFC Bank is taking away market share in advances growth (23.2% YoY), but it is also showing improvement in the already strong CASA ratio.
- Marginal drop in asset quality a blip; higher provisions subdue PAT growth:** NIM improved sequentially (QoQ) to 4.4% from 4.3% in Q4FY2016, as the bank benefitted from strong asset growth and realignment in the advances. HDFC Bank re-balanced its advances mix (Retail: Wholesale at 53:47), giving us reason to believe that there may be more room for higher margins. However, there was a marginal decrease in asset quality, with gross non-performing assets (GNPA) at 1.04%, up 10BPS QoQ and 9BPS YoY. Net non-performing assets (NNPA) were at 0.3%, increasing by 4BPS QoQ. However HDFC Bank's asset quality remains among the best in the sector. Total restructured loans stood at 0.1% of gross advances. As a result of asset stress, provisions increased to Rs866.7 crore (specific loan loss of Rs832 crore, general provision of Rs34.4 crore), impacting the profit after tax (PAT) which came in at Rs3,239 crore, up 20% YoY.
- Valuation & Outlook:** Notwithstanding the marginal deterioration in asset quality, we believe that Q1FY2017 results once again highlight the strong business traction and consistency for HDFC Bank. We believe that HDFC Bank is an enviable business franchise, underpinned by a strong retail deposit & loan franchise, higher NIM and consistent improvement in market share. The stock is available at 3.3x FY18E ABV, which we believe is attractive. We maintain our BUY rating on the stock with a revised price target of Rs1,415.

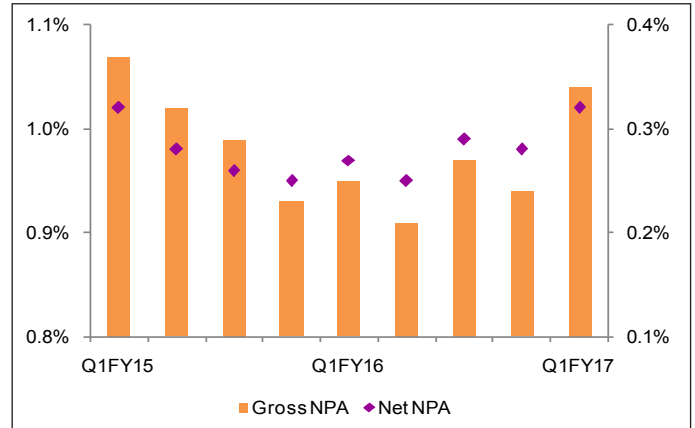
### Results

Particulars	Q1FY17	Q1FY16	YoY %	Q4FY16	Rs cr	QoQ %
Interest income	16,516.0	14,041.1	17.6	15,996.8		3.2
Interest expense	8,734.6	7,652.3	14.1	8,543.4		2.2
Net interest income	7,781.4	6,388.8	21.8	7,453.3		4.4
Non-interest income	2,806.6	2,461.9	14.0	2,865.9		-2.1
Net total income	10,588.1	8,850.7	19.6	10,319.2		2.6
Operating expenses	4,768.9	4,000.8	19.2	4,584.3		4.0
- Employee expenses	1,585.2	1,359.0	16.6	1,498.0		5.8
- Other operating expenses	3,183.7	2,641.8	20.5	3,086.3		3.2
Pre-provisioning profit	5,819.2	4,849.9	20.0	5,734.9		1.5
Provisions	866.7	728.0	19.1	662.5		30.8
Profit before tax	4,952.5	4,121.9	20.1	5,072.5		-2.4
Tax	1,713.6	1,426.2	20.1	1,698.2		0.9
Profit after tax	3,238.9	2,695.7	20.2	3,374.2		-4.0
<b>Asset quality</b>						
Gross NPLs	4,920.9	3,652.2	34.7	4,392.8		12.0
- Gross NPLs (%)	1.04	0.95	9 BPS	0.94		10 BPS
Net NPLs	1,493.4	1,027.7	45.3	1,320.4		13.1
- Net NPLs (%)	0.32	0.27	5 BPS	0.28		4 BPS
<b>Capital adequacy (%)</b>						
CAR	15.50	15.70	-20 BPS	15.50		0 BPS
Tier I	13.30	12.80	50 BPS	13.20		10 BPS
<b>Key reported ratios (%)</b>						
NIM	4.40	4.30	10 BPS	4.30		10 BPS
CASA	39.87	39.63	25 BPS	43.25		-337 BPS

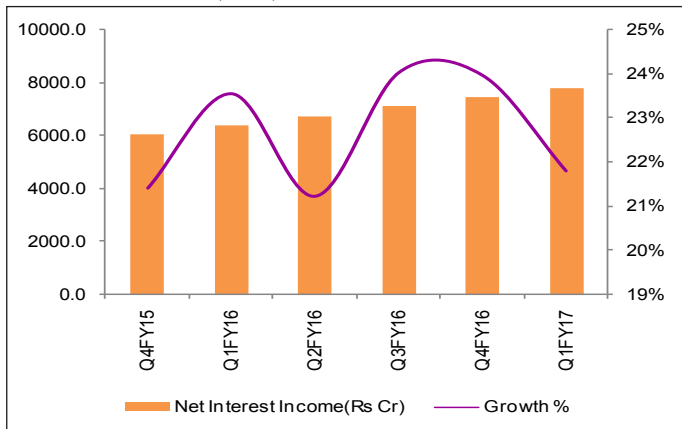
Advances (Rs cr)



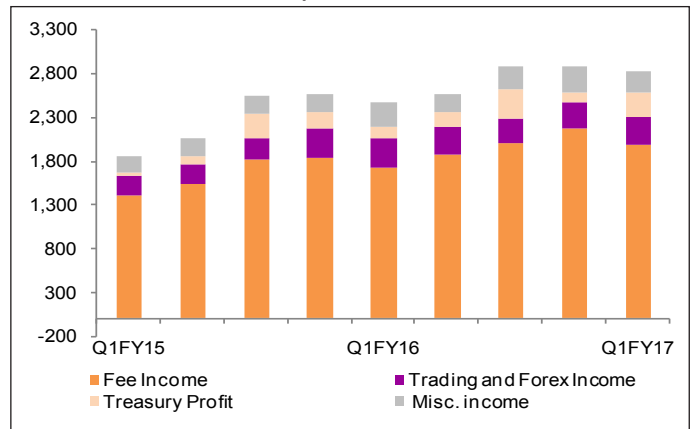
Asset quality (%)



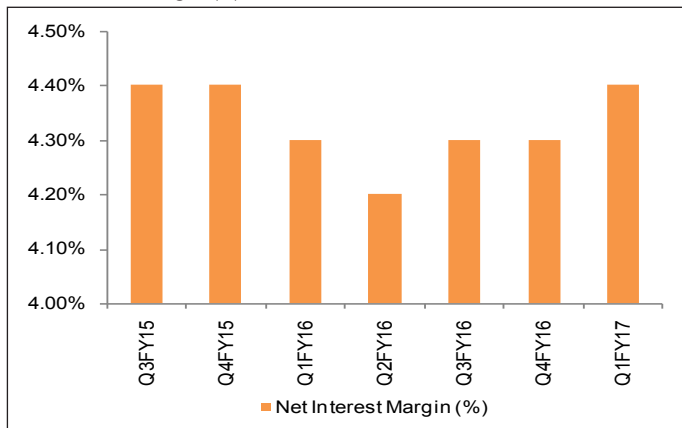
Net interest income (Rs cr)



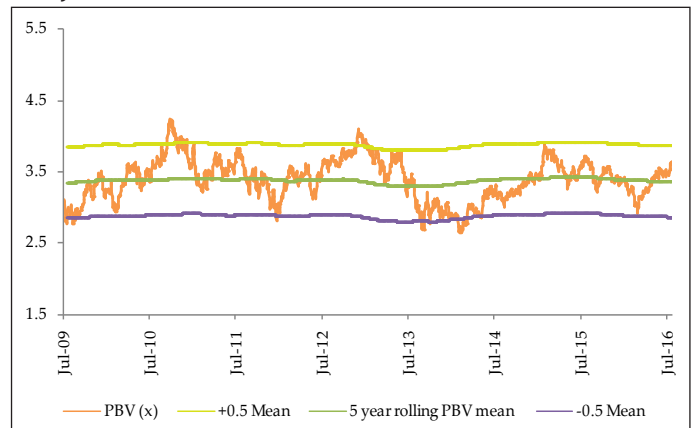
Non-interest income break-up



Net interest margin (%)



One-year forward P/BV SD band



## Profit and loss statement

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	18,482	22,396	27,592	33,239	40,482
Non-interest income	7,920	8,996	10,752	12,222	13,901
Net total income	26,401	31,392	38,343	45,461	54,383
Operating expenses	12,042	13,988	16,980	19,499	22,559
Pre-provisioning profit	14,359	17,404	21,364	25,962	31,824
Provisions	1,587	2,075	2,726	3,429	4,217
Profit before tax	12,772	15,329	18,638	22,533	27,607
Tax	4,294	5,114	6,342	7,549	9,248
Profit after tax	8,477	10,216	12,296	14,984	18,359

## Balance sheet

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
<b>Liabilities</b>					
Networth	43,479	62,009	72,678	84,129	98,281
Deposits	367,337	450,796	546,424	669,370	823,325
Borrowings	39,439	45,214	53,018	75,251	74,923
Other liabilities & provisions	41,344	32,484	36,725	54,208	68,530
<b>Total liabilities</b>	<b>491,599</b>	<b>590,503</b>	<b>708,846</b>	<b>882,958</b>	<b>1,065,059</b>
<b>Assets</b>					
Cash & balances with RBI	25,346	27,510	30,058	35,477	44,460
Balances with banks & money at call	14,238	8,821	8,861	19,412	24,700
Investments	120,951	166,460	163,886	216,862	257,894
Advances	303,000	365,495	464,594	571,451	702,884
Fixed assets	2,940	3,122	3,343	3,677	4,045
Other assets	25,125	19,095	38,104	36,080	31,076
<b>Total assets</b>	<b>491,600</b>	<b>590,503</b>	<b>708,846</b>	<b>882,958</b>	<b>1,065,059</b>

## Key ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
<b>Per share data (Rs)</b>					
Earnings	35.3	40.8	48.6	59.3	72.6
Dividend	6.8	8.0	9.5	11.9	14.2
Book value	181.2	247.2	287.2	332.5	388.5
Adj. book value	177.8	243.6	282.0	325.3	377.6
<b>Spreads (%)</b>					
Yield on advances	11.7	11.1	10.8	10.8	10.7
Cost of deposits	5.7	5.7	5.9	5.7	5.6
Net interest margins	4.4	4.4	4.5	4.4	4.4
<b>Operating ratios (%)</b>					
Credit / deposit	82.5	81.1	85.0	85.4	85.4
Cost / income	45.6	44.6	44.3	42.9	41.5
CASA	44.8	44.0	43.2	42.1	41.7
Non-interest income / total income	30.0	28.7	28.0	26.9	25.6
Assets / Equity (x)	11.2	10.3	9.6	10.2	10.7
<b>Return ratios (%)</b>					
RoE	21.3	19.4	18.3	19.1	20.1
RoA	1.7	1.7	1.9	1.9	1.9
<b>Asset quality (%)</b>					
Gross NPA	1.0	0.9	0.9	0.9	0.8
Net NPA	0.3	0.2	0.3	0.3	0.2
<b>Growth ratios (%)</b>					
Net interest income	16.9	21.2	23.2	20.5	21.8
Pre-provisioning profit	25.7	21.2	22.7	21.5	22.6
Profit after tax	26.0	20.5	20.4	21.9	22.5
Advances	26.4	20.6	27.1	23.0	23.0
Deposits	24.0	22.7	21.2	22.5	23.0
<b>Valuation ratios (x)</b>					
P/E	34.8	30.1	25.3	20.7	16.9
P/BV	6.8	5.0	4.3	3.7	3.2
P/ABV	6.9	5.0	4.4	3.8	3.3
<b>Capital adequacy (%)</b>					
CAR	16.1	17.0	15.5	14.8	13.9
Tier I	11.8	13.6	13.2	12.8	12.3

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai - 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: BSE - INB/INF/INE011073351; NSE - INB/INF/INE231073330; MSEI: INB/INF-261073333, CD - INE261073330; DP-NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662; Mutual Fund-ARN 20669; Commodity trading through Sharekhan Commodities Pvt. Ltd.: MCX-10080 ; (MCX/TCM/CORP/0425) ; NCDEX-00132 ; (NCDEX/TCM/CORP/0142) ; NCDEX SPOT-NCDEXSPOT/116/CO/11/20626 ; For any complaints email at [igc@sharekhan.com](mailto:igc@sharekhan.com) ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and Do's & Don'ts by MCX & NCDEX and the T & C on [www.sharekhan.com](http://www.sharekhan.com) before investing.

#### Disclaimer

This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. Kindly note that this document is based on technical analysis by studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. (Technical specific) This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed 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, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-6115000; For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)