

8 November 2019

HDFC Bank – BUY

CMP :1,255.0
Target Price :1,520.0
Upside : 21%+
Stop Loss :1,090.0 (Closing basis)

Investment Thesis

Recently stock price of HDFC Bank Ltd. (HDFC Bank) corrected by ~8% from Rs.1,350.00 due to slowdown in business growth and higher provisions in the recent quarters.

HDFC Bank is a largest private bank having pan-India presence with its 5,130 branches spreading in 2,764 cities in India. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional / branch banking on the retail side. Its loan book consists of 46% retail and 54% wholesale loans as of June 2019. Retail segment includes lending like vehicle financing, tractors, construction equipment, credit cards, personal loans, home loans, etc. These require a large branch network, strong customer interface and better underwriting skills. HDFC Bank has a pre-eminent presence in the retail banking segment and has been able to maintain a strong and consistent loan book growth, gradually gaining market share. Going forward, economic recovery and improvement in consumer sentiment would be positive growth drivers for the bank's loan growth, which will drive its profitability. We expect, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

HDFC Bank has cautiously slowed some parts of retail banking segment (especially unsecured) to take cognizance of slowing economy and the same also has slowed certain segments of retail (vehicle/business banking). Wholesale loans also saw slower growth on repayments and run-off in short term loans. Hence, overall loan grew only by 17.0% YoY in Q1FY20. On liabilities, bank continues to rely on mobilization of term deposits (TDs) which grew by 22.5% YoY and is also part of core strategy and hence has been cannibalizing the savings growth which grew by 12% YoY.

Financials

- During the past 5 years, Interest Income of HDFC Bank has grown at CAGR of 19.2% while PAT grown at CAGR of 20.0% in same period.

Standal. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Interest Income	6,93,060	8,02,414	9,89,721	11,38,179	13,08,906
NII	3,31,393	4,00,949	4,82,433	5,54,798	6,38,018
% growth	20.1	21.0	20.3	15.0	15.0
PAT	1,45,496	1,74,867	2,10,782	2,42,399	2,78,759
ABV (INR)	340.9	399.6	534.1	585.1	641.0
P/ABV (x)	6.6	5.6	4.2	3.8	3.5
RoE (%)	16.3%	16.5%	14.1%	14.8%	15.6%

- HDFC Bank's NII grew by 22.9% YoY to Rs.13,294mn in Q1FY20 led by 10% YoY improvement in NIM margins at 4.3% in Q1FY20.

Stock Data

Market Cap (Rs. Mn)	61,37,343
Market Cap (\$ Mn)	89,257.5
Shares O/S (in Mn)	2,734.3
Avg. Volume (3 month)	6,142,000
52-Week Range (Rs.)	1,350 / 987.5

Shareholding Pattern

Promoters	26.25%
FII's	38.64%
Institutions	17.08%
Others (incl. body corporate)	18.03%

Performance (%)	1M	6M	1Yr
Absolute	-9.7%	9.1%	3.4%
BSE Bankex	-5.7%	11.4%	6.6%

Key Ratios

Div Yield	0.7%
TTM PE	27.8x
ROE	14.3%
TTM EPS (Rs.)	80.6/-

- Advances growth of HDFC Bank moderated to 17% YoY at Rs.8,297bn, which was dragged by a slowdown in both retail (16% YoY) and corporate book (18% YoY), resulting in a decline in CD ratio at 87% against 89% in Q4FY19.
- HDFC Bank's deposits growth continue to remain healthy at 18.5% YoY to Rs.9,545bn led by strong growth of ~23% YoY in term deposit. CASA growth continued to moderate as CASA ratio declined 267bps QoQ to 39.7%.

Key Business Highlights

- HDFC Bank is one of India's premier banks, both on the domestic and international market which providing a wide range of financial products and services. The bank is now the second largest private sector bank in India with asset size of Rs.8,297bn and market share of ~5% in deposit and loans.
- HDFC Bank caters its customers using multiple distribution channels including a pan-India network of branches, ATMs, phone banking, net banking, mobile banking and SMS based banking.
- As of June 30, 2019, HDFC Bank had a nationwide distribution network of 5,130 branches and 13,395 ATMs in 2,764 cities.

Valuation

- HDFC Bank is among the top performing banks in the country having deep roots in the retail segment. Despite the general slowdown in credit growth, the bank continues to report strong growth in advances from retail products. Under the strategy to focus on the retail segment, it has opened close to 900 branches in the last two years. HDFC Bank targets to open ~90% of branches outside metro and semi-urban areas to increase its rural revenue share from 15% to 35% over next 5 years. The bank is also expanding its digital banking network as it leads to 20-25% cost savings. For HDFC Bank, digital usage has already increased from 10% in FY04 to ~50% in FY19, while branch transactions have reduced to ~15% in FY19 from 27% in FY04.
- Backed by a CASA ratio of 40%+ and a higher retail deposits, HDFC Bank's cost of funds remains among the lowest in the system, helping it to maintain higher net interest margin (NIM) at around 4.3-4.4%. In addition, the bank's loan book growth is driven by high-yielding retail products such as personal loans, vehicle loans, credit cards, mortgages, etc., mostly to own customers, which also positively impacts NIMs. We expect this stability to remain as retail loans continue to be in the high interest segment and growth is mainly happening in the same for all banks.
- HDFC Bank has been maintaining near impeccable asset quality, with its NPA ratios consistently been among the lowest versus comparable peers. Given the bank's stringent credit appraisal procedures and insignificant exposure to troubled sectors, it is expected to maintain robust asset quality.
- With largest private bank having pan-India presence, able to maintain a strong and consistent loan book growth, continues to rely on mobilization of term deposits, targets to open ~90% of branches outside big cities to increase its rural revenue share and strongest asset quality, we value HDFC Bank at 4.7x FY21E ABV of Rs.321.0 to arrive at target price of Rs.1,520.00, an upside of ~21%.

Risk & Concern

- Deterioration of macro environment can result in higher slippages and slow down business growth.
- Any spike in short-term rates can create headwinds for margins of HDFC Bank.
- New banking license allotted by the RBI may increase competition for HDFC Bank.

Graphs & Charts

Figure 1: Interest Income Trend

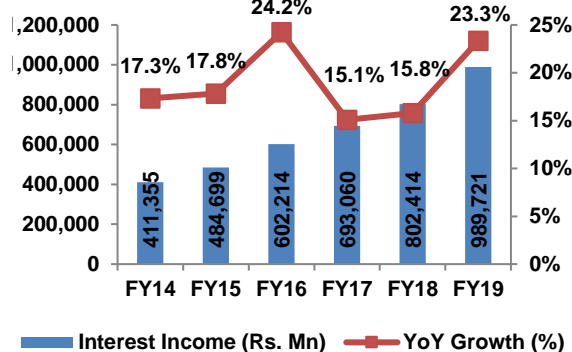


Figure 2: Net Interest Income Trend

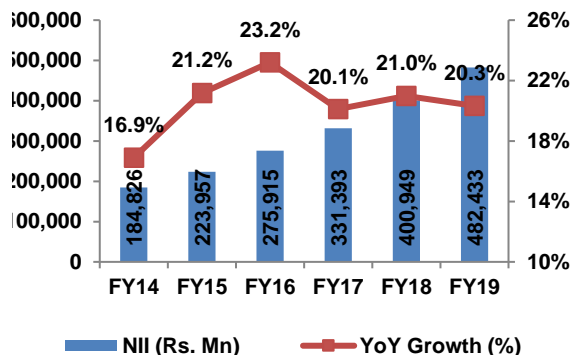


Figure 3: PAT Trend

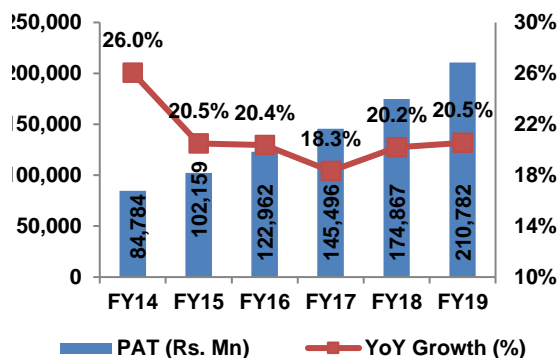
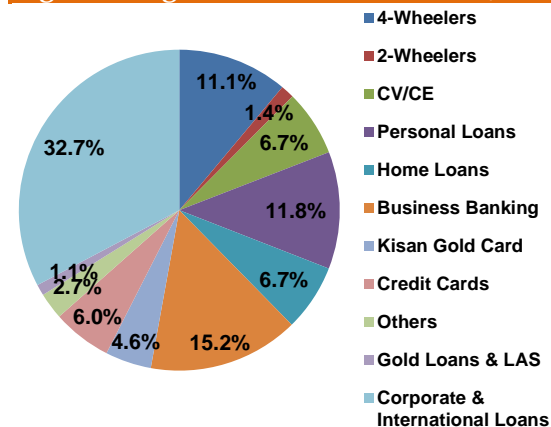


Figure 4: Segment-wise Advances (Q1FY20)



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