HDFC BANK

BUY

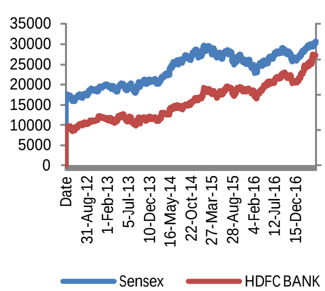
Target Price ₹ 2174	CMP ₹1632	FY20E P/Adj BV 3.9x

Index Details	
Sensex	31080
Nifty	9600
Industry	Financial

Scrip Details	
Mkt Cap (₹cr)	417612.8
BVPS (₹)	357.3
O/s Shares (Cr)	256.8
Av Vol (Lacs)	13.2
52 Week H/L	1640/1144
Div Yield (%)	0.58
FVPS (₹)	2

Shareholding Pattern	
Shareholders	
Promoters (%)	26
Public (%)	74
Total (%)	100

HDFC Bank vs. Sensex



HDFC Bank has demonstrated an exemplary performance of high growth spanning two decades driven by an enviable AUM growth (CAGR of 29.1%), a pan India presence, product innovation, best in class asset quality and consistently high RoE aided by a strong management team with a pool of capable talent. Post the global melt down of 2008, while the Indian economy and particularly its peers have faced many challenges, the Bank has escaped the NPL imbroglio unscathed. Going forth as the Indian economy growth accelerates, we believe that HDFC Bank should be the biggest beneficiary and report numbers consistent with its historical performance.

HDFC Bank is our top pick in the banking space given that:

I. Loan book is all set to double over the period FY2017-21 (CAGR of 19.2%). Over the forecast period of FY17-20 we expect total credit to grow to Rs 9,98,277 crore driven by a 17.7% CAGR growth of its corporate book to Rs 4,59,207.5 crore and 21% CAGR growth of its retail book to Rs 5,39,070 crore. HDFC Bank is uniquely positioned to grab market share from its peers in the corporate lending space driven by its lower NPA levels and balance sheet strength which are the issues that have stymied the growth of PSU Banks. HDFC Bank is expected to maintain its leadership in the retail banking space through product innovation, enhanced cross sell / upsell and leveraging its pan India presence.

II. NIMs are expected to be maintained in the range of 4.2-4.6 over the forecast period notwithstanding the fact that corporate loans typically have lower NIMs.

III. Deposit growth (21.7% CAGR to Rs 11,59,129) crore is expected to keep abreast of the lending book. CASA ratio is expected to marginally dip by 100 bps to 47% by FY20.

Key Financials (₹ in Cr)

Y/E Mar	Net Interest Income	Non Interest Income	PAT	EPS	Adj. BV	RoE (%)	RoA (%)	P/E(x)	P/Adj. BV(x)
2017	35229.6	12877.6	15287.2	61.0	359.2	18.4	1.9	27.1	4.6
2018E	40570.5	14809.3	18354.1	73.2	413.0	18.6	1.9	22.5	4.0
2019E	47923.2	17178.8	22227.3	88.7	478.5	19.5	1.9	18.6	3.4
2020E	55601.8	20270.9	26361.0	105.2	556.9	19.9	1.8	15.7	3.0

STOCK POINTER

IV. **Operational efficiencies are expected to kick in given the pervasive usage of technology, data analytics and slow down in hiring. We expect cost to income ratio to improve by 170 bps to 41.4% by FY20. In our opinion this is commendable as we expect the smaller private banking peers to witness higher cost income ratio given the increasing tilt to grow the retail franchise.**

V. **Its hallmark asset quality is expected to remain robust. However we have built in a 10 bps deterioration to 1.15% for the GNPLs and 2 bps to 0.35% for the NNPLs over the period FY17-20.**

VI. **Return ratios RoA and RoE are expected to improve by 5bps & 144bps to 1.8% and 19.8% respectively by FY20.**

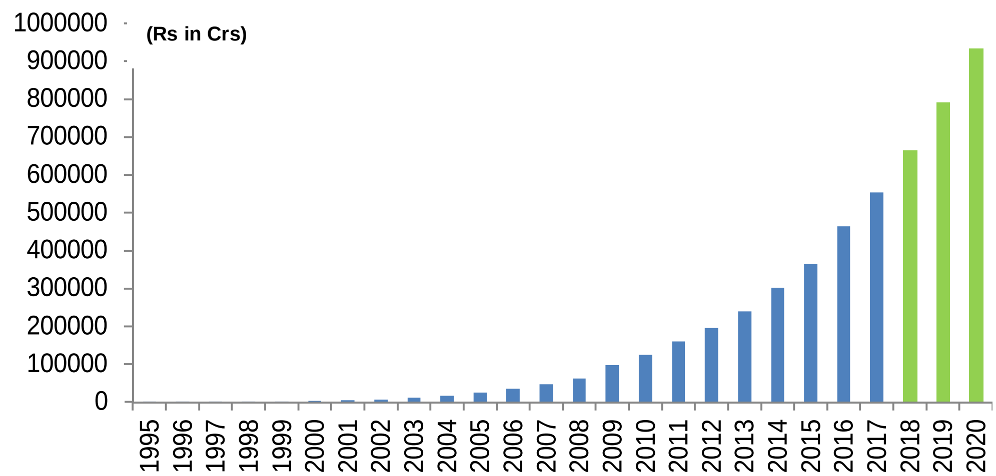
VII. **Earnings are expected to grow at a CAGR of 20% to Rs 26,361 crore by FY20. We initiate with a strong BUY rating for a target of Rs 2174 (3.9X FY20 P/Adj BV) representing an upside of 33.1% from the CMP of Rs 1632 over a period of 30 months.**

❖ Key Investment Highlights

Advances growth to sustain historical trend.

Historically the bank has demonstrated strong growth across all economic cycles.

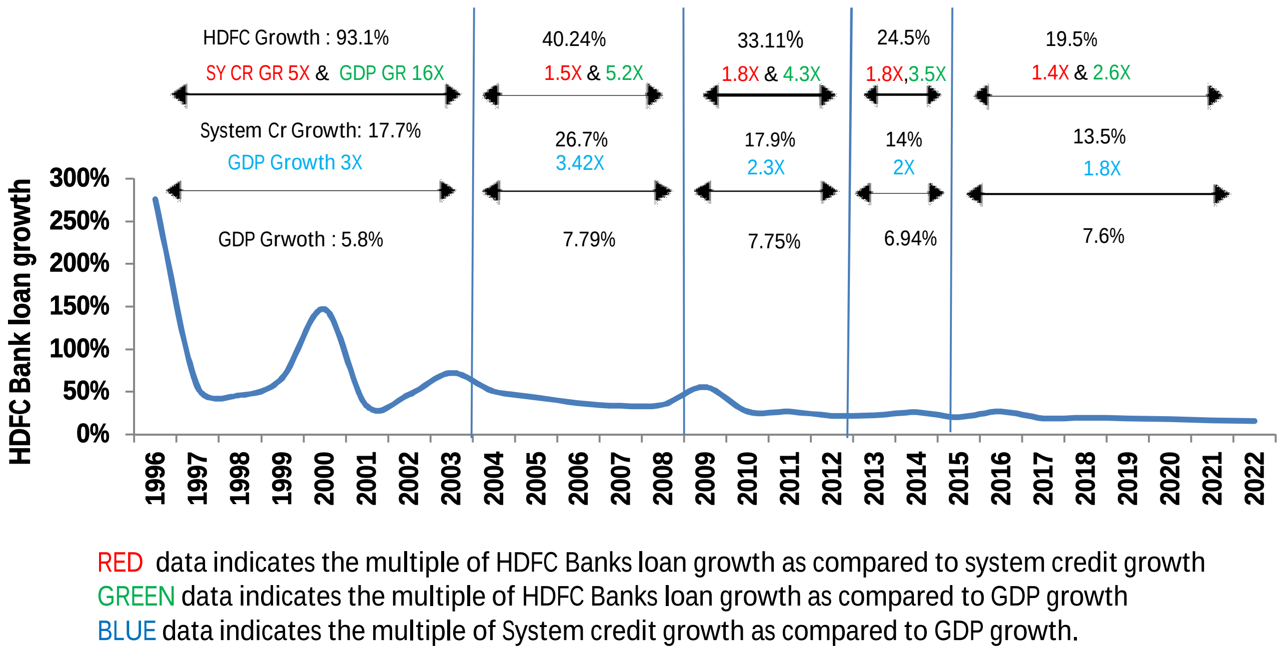
Credit growth momentum to continue over the coming years



Source: Ventura Research, HDFC Bank

As demonstrated in the chart below, across cycles the Bank's advances growth has been 1.5-2.0X the growth in system credit. With the system credit growth ranging between1.8-3.4X the GDP growth, it is not unreasonable to expect HDFC Bank to grow at 18.9 -20% as the GDP is expected to average 7% over the over the forecast period (till FY20)

HDFC Bank outperforms System credit and GDP growth



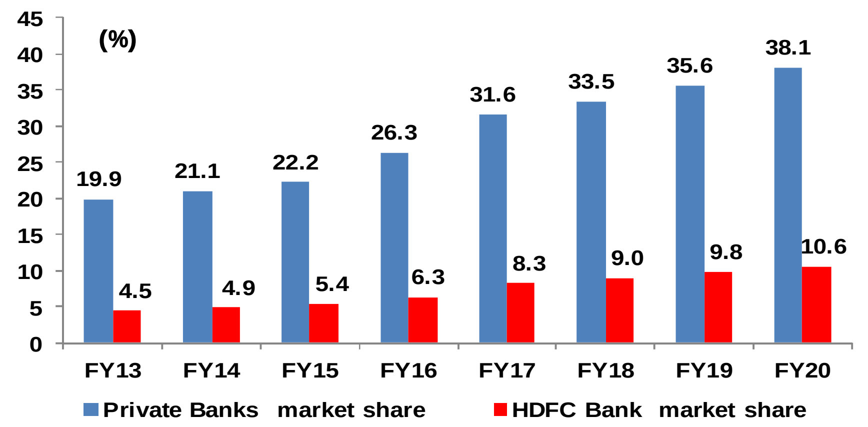
Source: Ventura Research, HDFC Bank, RBI

We expect HFDC Bank despite its size to continue on its high growth trajectory given that

- **Private Banks have been grabbing market share from PSU Banks**

Historically the market share gains for the private sector as a whole have grown at ~120 to 500 bps per annum. In our earlier report dated August 24,2015(https://www.ventura1.com/WebAdmin/quaterly/635763568000282184_Private%20Sector%20Banking%20Report.pdf), we had anticipated an 80 bps p.a. gain in market share. However the actual performance over the last two fiscal years has been over and above our expectations despite an extremely tepid system growth. Going ahead we expect the market share gains to continue at ~150-200 bps p.a. which would translate into a market share range of 36.5-38% of the system credit by FY20 for the private sector banks. We expect HDFC Bank's market share to improve by 230 bps to 10.6% by FY20 from current share of 8.3%

Share of private banks on the rise

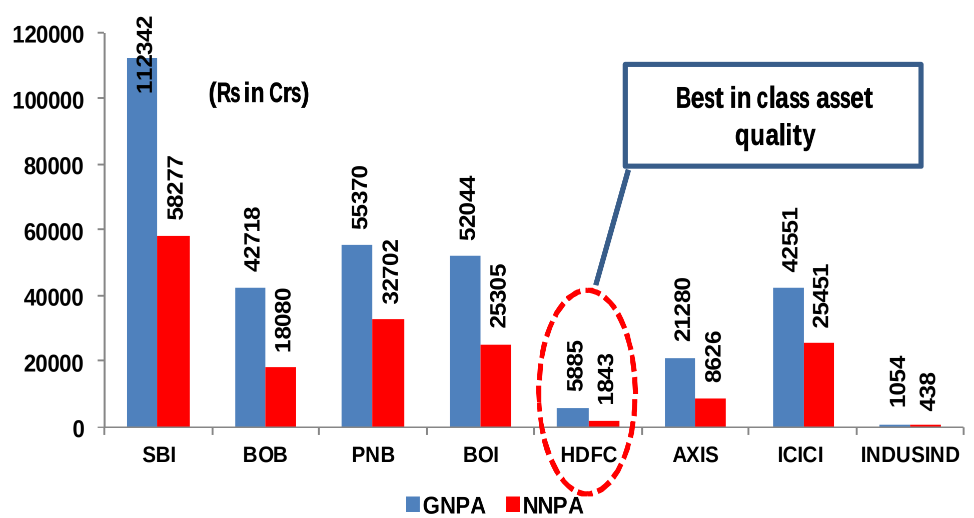


urce: Ventura Research, HDFC Bank

These market share gains can be attributed to the following

- **Benign NPA levels augur well for the growth of private banks**

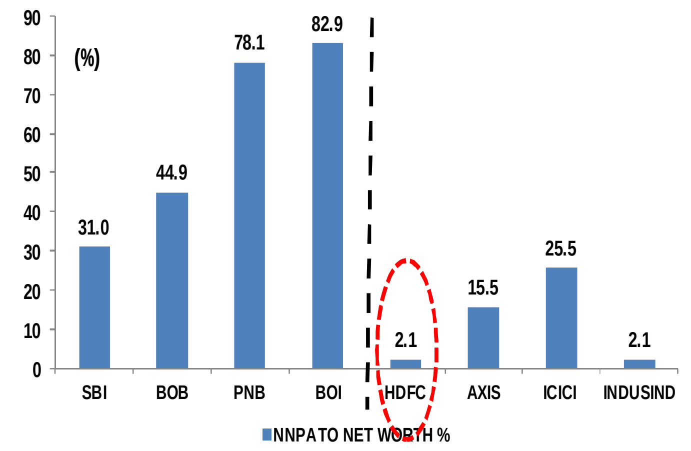
Poor asset quality has impacted PSU Banks viability



Source: Ventura Research, HDFC Bank

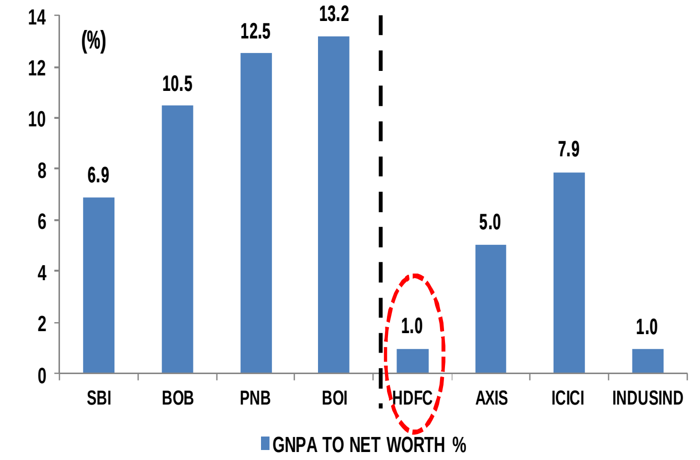
Extremely high stress in corporate asset quality has led to a sharp spurt in NPLs. This has led to higher provisioning resulting in constrained reserves, which has impacted CAR and in turn the lending ability.

Private banks boast of a better NPA to Networth ratio



Source: Ventura Research, HDFC Bank

GNPA as percentage of total advances



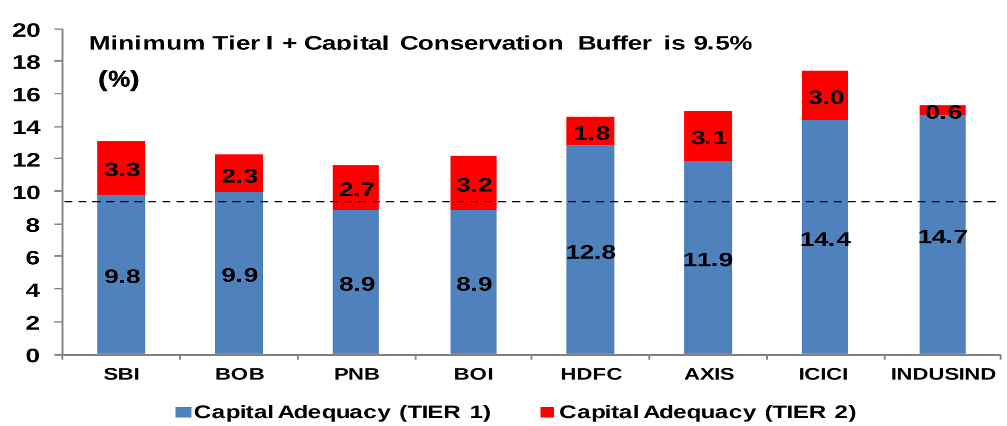
Source: Ventura Research , HDFC Bank

The poor asset quality imbroglio is extremely difficult to resolve and would be at the cost of haircuts leading to substantial losses. This in turn would impact the net worth of banks. Hence there would need to be a substantial time lapse before the profitability of banks is restored and they can grow their books again. HDFC Bank with its remarkably low NPLs is all set to benefit from this.

- **Strong balance sheets of Private sector banks**

  Most PSU banks are struggling with maintaining the minimum Tier I Capital Adequacy which has severely constrained their lending ability. On the other hand private sector banks by virtue of their comfortable capital adequacy have been growing at the expense of their public sector counterparts.

Private Banks outweigh Public banks on balance sheet strength



Source: Ventura Research, HDFC Bank

HDFC Bank is adequately capitalized and will not need to raise funds till FY20, in our view.

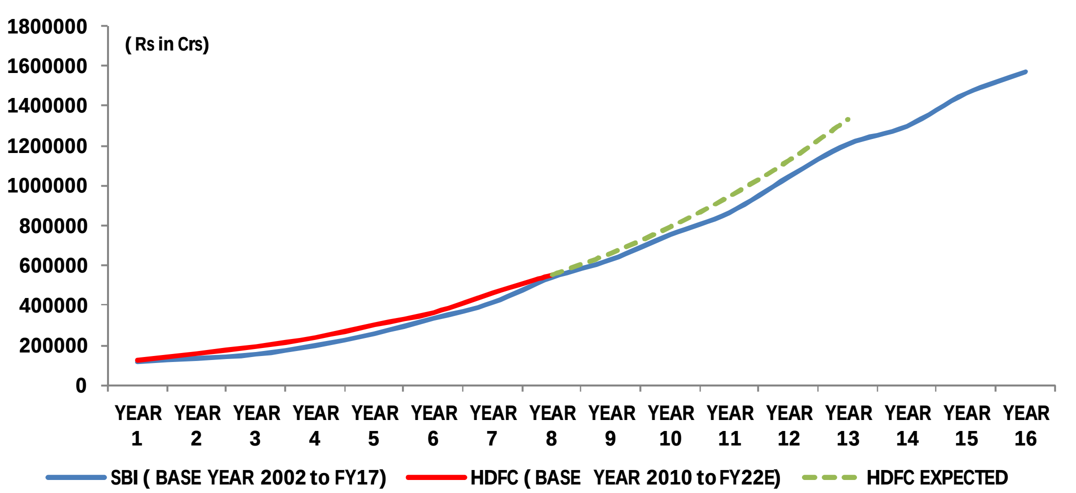
- **Corporate governance issues**
  Issues of collusion and graft have virtually paralyzed the decision taking ability of PSUs which has led to virtually choking off any new sanctions. Further, legacy bad debts and the subsequent redressal/action plans have led to a better part of productive time being allocated to recovery of bad debts rather than focusing on business growth. This has delayed project approvals and hence disbursements. The Private Banks have no such issues impacting them and have made the most of the opportunity presented by the imbroglio affecting the PSU Banks

- **Service Quality and faster turnaround times**
  Today's fast paced world requires service qualities of the highest levels with short turnaround times. PSUs by virtue of their 'babu mentality' have been slow in becoming more professional and catering to the needs of the modern customer. This has enabled Private Banks to wean away customers with the promise of a much better service quotient and hence cannibalize the customer pool of the PSU Banks.

HDFC Bank's growth path closely mirrors the growth trajectory of SBI (standalone)

We have chosen Year 1 as the point in time where both banks - HDFC Bank (Rs 1,25,000crore in FY2010) and SBI (Rs 1,20,000 in FY2002) had a similar book size. It is interesting to note that the growth trajectory of HDFC Bank's advances has closely mirrored that of SBI.

HDFC Bank mirrors SBI's growth trajectory



Source: Ventura Research, HDFC Bank, SBI

We believe that concern of a slowdown in growth are unfounded and as demonstrated in the exhibit above, there exist ample evidence to suggest that the robust pace of growth is expected to continue as Indian economy accelerates.

HDFC Bank & State Bank of India- Like to like comparison

Not only has HDFC Bank outperformed SBI on a like to like period, but the performance of HDFC Bank has been outstanding on all parameters

HDFC Bank & SBI - Like to like comparision

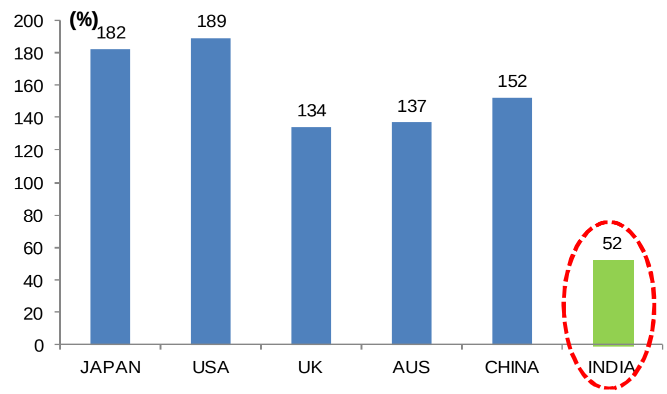
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Fiscal Year	SBI	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	HDFC	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			
Advances (Rs in 000 Cr)	SBI	120.8	137.8	157.9	202.4	261.6	337.3	416.8	542.5	631.9	756.7	867.6	1,045.6	1,209.8	1,300.0	1,463.7	1,571.1
	% Growth		*14.0*	*14.6*	*28.1*	*29.3*	*28.9*	*23.5*	*30.2*	*16.5*	*19.8*	*14.7*	*20.5*	*15.7*	*7.5*	*12.6*	*7.3*
	HDFC	125.8	160.0	195.4	239.7	303.0	365.5	464.6	554.6	662.7	793.3	945.6	1,122.4	1,327.8			
	% Growth		*27.1*	*22.2*	*22.7*	*26.4*	*20.6*	*27.1*	*19.4*	*19.5*	*19.7*	*19.2*	*18.7*	*18.3*			
PAT (Rs in Crs)	SBI	2,431.6	3,105.0	3,681.0	4,304.5	4,406.7	4,541.3	6,729.1	9,121.2	9,166.1	8,264.5	11,707.3	14,105.0	10,891.2	13,101.6	9,950.7	10,484.0
	% Growth		*27.7*	*18.6*	*16.9*	*2.4*	*3.1*	*48.2*	*35.5*	*0.5*	*-9.8*	*41.7*	*20.5*	*-22.8*	*20.3*	*-24.0*	*5.4*
	HDFC	2,948.7	3,926.4	5,167.1	6,726.3	8,478.4	10,215.9	12,296.2	14,549.7	17,468.6	21,154.9	25,089.1	28,564.7	32,879.4			
	% Growth		*33.2*	*31.6*	*30.2*	*26.0*	*20.5*	*20.4*	*18.3*	*20.1*	*21.1*	*18.6*	*13.9*	*15.1*			
RoA(%)	SBI	0.7	0.9	0.9	1.0	0.9	0.9	1.0	1.1	0.9	0.7	0.9	1.0	0.7	0.7	0.5	0.4
	HDFC	1.5	1.6	1.7	1.8	1.9	1.9	1.9	2.1	2.0	2.0	2.0	1.7	1.7			
RoE(%)	SBI	17.0	19.2	19.7	19.4	17.0	15.4	16.8	17.1	14.8	12.6	15.7	15.4	10.0	10.6	7.3	7.0
	HDFC	16.3	16.8	18.7	20.3	21.3	19.4	18.3	18.4	18.6	19.5	19.8	19.4	19.3			
NIM(%)	SBI	2.7	2.8	2.9	3.2	3.3	2.8	2.5	2.3	2.3	2.8	3.4	2.9	2.8	2.8	2.7	2.8
	HDFC	3.9	4.1	4.1	4.2	4.0	4.1	4.1	4.7	4.6	4.4	4.2	4.1	4.1			
COF(%)	SBI	7.4	6.9	5.8	4.8	4.9	4.7	5.4	5.2	5.2	4.6	5.4	5.5	5.5	5.5	5.5	5.1
	HDFC	4.3	4.2	5.5	5.9	5.6	5.3	5.4	5.3	5.5	5.5	5.5	5.5	5.5			
C/I (%)	SBI	54.4	50.5	49.2	47.8	50.9	54.2	49.0	46.6	52.6	47.6	45.2	48.5	52.7	49.0	49.1	47.8
	HDFC	48.0	48.1	49.7	49.6	45.6	44.6	44.3	43.1	42.8	42.5	41.4	41.4	41.2			
CAR (%)	SBI	13.4	13.5	13.5	12.5	11.9	12.3	12.6	14.3	13.4	12.0	13.9	12.9	13.0	12.8	13.9	13.1
	HDFC	17.4	16.2	16.5	16.8	16.1	16.8	15.5	14.6	16.7	15.8	15.2	15.0	14.9			
TIER I (%)	SBI	9.2	8.8	8.3	8.0	9.4	8.0	8.5	9.4	9.5	7.8	9.8	9.5	10.0	10.1	10.4	10.4
TIER I (%)	HDFC	13.3	12.2	11.6	11.1	11.8	13.7	13.2	12.8	12.8	12.0	11.4	11.1	10.9			
GNPA (%)	SBI	9.3	6.9	7.8	6.2	3.9	2.9	2.6	1.9	2.0	3.1	4.4	4.8	5.0	4.3	6.4	7.2
	HDFC	1.4	1.1	1.0	1.0	1.0	0.9	0.9	1.1	1.0	1.1	1.2	1.2	1.2			
NNPA (%)	SBI	5.6	3.1	3.5	2.7	1.9	1.6	1.8	1.8	1.7	1.6	1.8	2.1	2.6	2.1	3.8	3.7
	HDFC	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4			
BV (Rs)	SBI*	28.9	32.7	38.4	45.7	52.5	59.5	77.6	91.3	103.9	102.3	125.1	144.6	158.4	172.0	186.0	196.0
	HDFC	94.5	110.0	128.7	154.0	184.1	252.0	296.4	366.2	421.8	489.7	570.2	662.0	767.5			
ABV (Rs)	SBI	27.3	30.8	36.3	43.2	49.6	56.1	77.7	91.3	103.9	102.3	125.1	144.6	158.4	147.0	138.0	141.0
	HDFC	92.7	108.7	127.2	152.0	180.7	248.4	291.2	359.2	413.3	479.0	557.4	646.7	749.5			
Business / Employee(Cr)	SBI	1.9	2.1	2.3	2.8	3.2	4.1	5.3	6.2	7.2	7.6	8.9	9.8	11.7	13.5	15.4	17.3
	HDFC	5.7	6.6	6.7	7.8	9.8	10.7	11.5	12.4	13.7	15.1	16.5	18.1	19.9			
Profit/ Employee(Cr)	SBI	0.01	0.02	0.02	0.02	0.02	0.02	0.04	0.05	0.04	0.04	0.05	0.06	0.05	0.06	0.05	0.05
	HDFC	0.06	0.07	0.08	0.1	0.12	0.1	0.15	0.17	0.19	0.21	0.22	0.23	0.22			
Business/ Branch(cr)	SBI	43.1	47.8	52.4	62.2	69.4	83.0	92.9	111.3	113.6	123.4	133.9	151.8	164.1	176.1	190.3	210.6
	HDFC	170.0	185.6	173.8	175.0	197.0	203.4	223.7	254.1	292.7	337.5	388.4	446.2	512.0			
Profit/ Branch(cr)	SBI	0.3	0.3	0.4	0.5	0.5	0.5	0.7	0.8	0.7	0.6	0.8	1.0	0.7	0.8	0.6	0.6
	HDFC	1.7	2.0	2.0	2.2	2.5	2.5	2.7	3.1	3.5	4.1	4.6	5.0	5.5			

Note: (*) Shares of SBI were split from Rs 10 to Re 1 in 2014

- **Historical trends for AUM growth to persist over forecast period**

Going forward we foresee no reason why the trend should not continue given that

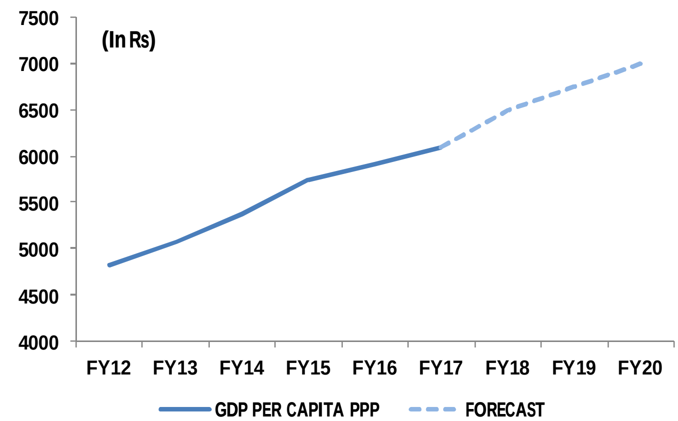
The country is under banked



Domestic Credit in Private sector as % of GDP

Source: Ventura Research, World bank

Purchasing power parity to grow significantly



Source: Ventura Research, World bank

Fastest growing large economy (given our demographic dividend)

Stellar GDP growth to continue

(USD BN $)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
India	9.4	7.7	4.8	4.7	6.5	7.2	7.9	7.1	7.5	7.8
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.6	6.3	6.2
brazil	7.6	4.0	1.9	3.0	0.5	-3.8	-3.6	0.7	2.3	2.5
US	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.2	2.3	2.2
UK	1.9	1.5	1.3	1.9	3.1	2.2	1.8	1.7	1.3	1.8
Japan	4.2	-0.1	1.5	2.0	0.3	1.1	1.0	1.3	1.0	0.7
Germany	4.1	3.7	0.5	0.5	1.6	1.7	1.9	1.7	1.6	1.4
Indonesia	6.4	6.2	6.0	5.6	5.0	4.9	5.0	5.2	5.4	5.4
South Korea	6.5	3.7	2.3	2.9	3.3	2.8	2.8	2.6	2.6	2.7
Australia	2.3	2.7	3.7	2.1	2.8	2.3	2.5	2.5	2.8	2.7

Source: Ventura Research, Bloomberg

Compelling demographic profile

More than 45.6% of India’s population is under the age of 25 years and will be joining the earning pool and hence becoming part of the banking customer in the coming years. Further, Impact of demonetization and GST is expected to bring the parallel economy into the mainstream.

Compelling demographic dividend

Age Structure	% of population	Male	Female
0-14 years	27.7%	18,64,20,229	16,46,11,755
15-24 years	18.0%	1,21,00,09,850	10,69,16,692
25-54 years	40.9%	26,72,03,029	25,10,70,105
55-64 years	7.3%	4,63,98,574	4,61,05,489
65 years +	6.1%	3,65,49,003	4,05,98,872

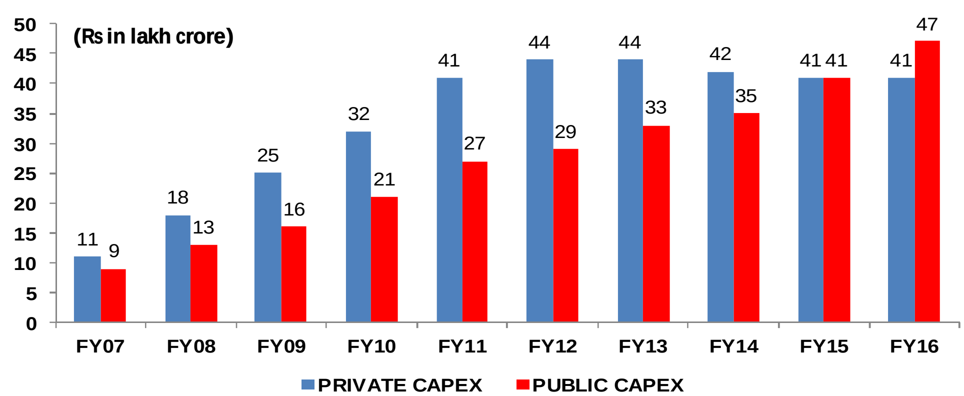
Source: Ventura Research, World fact book(Oct 2016)

HDFC Bank –strong growth on the cards

We expect HDFC Bank to double its lending book to Rs 14,01,801 crore by FY2022 (5 Yr CAGR of 19%). Despite the fact that FY17 was the worst year for bank system credit growth, HDFC Bank has managed to grow its loan book by 20.1%. With government policies expected to accelerate economic growth and invigorate the lackluster capital investment trajectory, we believe HDFC Bank would be a principal player (along with SBI) in meeting corporate credit demand. We expect HDFC Bank to garner a disproportionate share of the capital investment loan demand given that

- The PSU banks which held the roost in this space are stymied for lending (due to reasons quoted elsewhere in the report).
- The primary opportunity is from the large infrastructure projects and capex initiatives of the private sector.
- HDFC Bank's balance sheet strength should ensure adequate availability of funds to support the growth

Private Investment trend waiting for traction

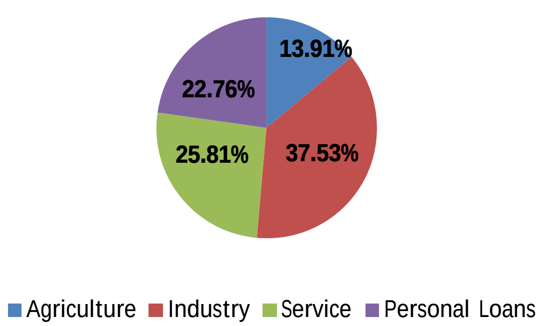


Source: Ventura Research, Bloomberg

HDFC Bank has a fairly diversified lending book which closely mirrors the constituents of the economy

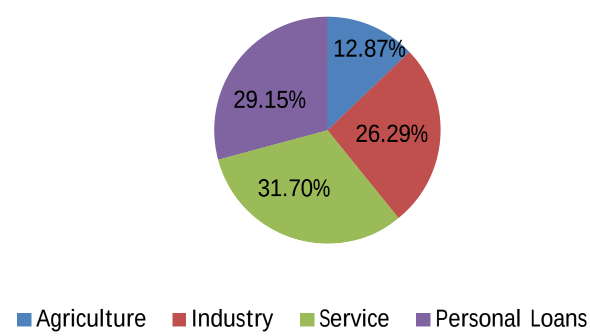
Unlike other private banks which have hugely skewed lending books, HDFC Banks lending is well diversified across all segments of the economy and replicates system credit exposure with minor variations

System credit- sector wise



Source: Ventura Research ,RBI

HDFC bank credit- sector wise

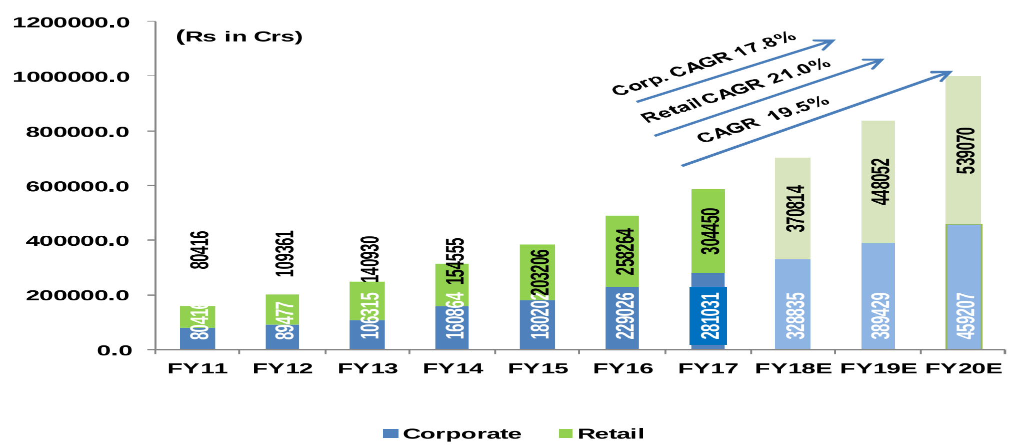


Source: Ventura Research, HDFC Bank

HDFC Bank's portfolio is well balanced across both corporate and retail segments

This ensures that slowdown in either segment does not impact growth and the Bank can double its efforts across either segment to maintain growth rates. This has been commendably demonstrated across all business cycles.

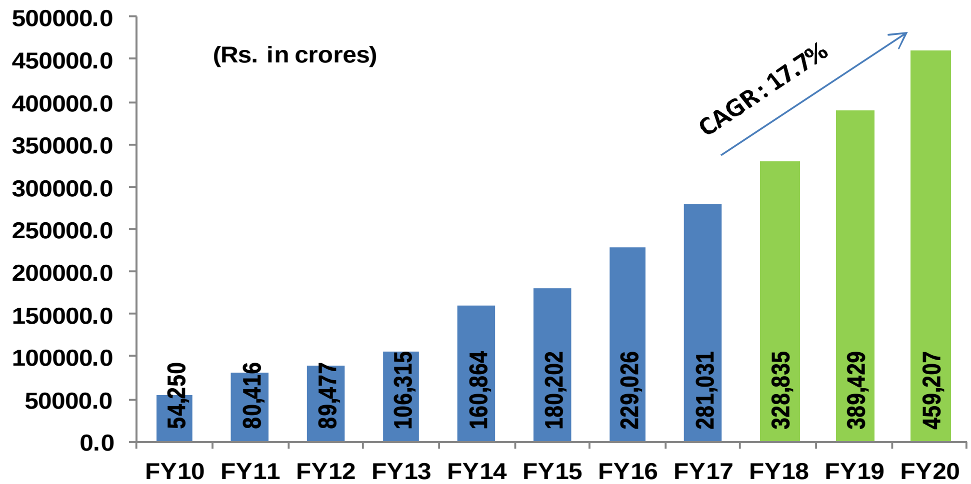
Envious balance of loan portfolio



Source: Ventura Research, HDFC Bank

Corporate advances expected to pick up going forward

Overall development to aid corporate lending

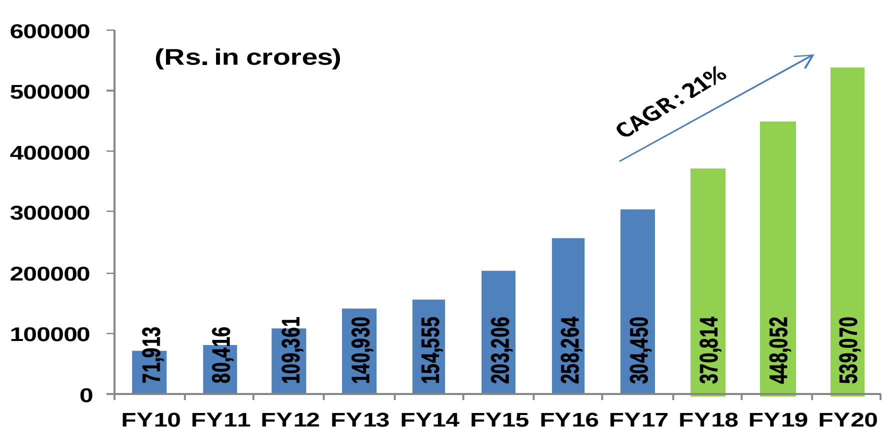


Source: Ventura Research, HDFC Bank

Historically when economic cycles have picked up, the share of corporate lending has always spiked. We expect the same to happen over the period FY17-20 especially given the fact that PSU Bank participation is expected to be minimal and HDFC Bank is the only player in the private sector which can participate given its understanding of sectors and balance sheet strength. We expect corporate lending to grow at a CAGR of 17.7% to Rs 459207 crore by FY20. However we have maintained status quo in terms of growth expectation (given the fact that evidence is lacking for any growth pick up in capital investments) and remains an upside risks to our estimates.

Retail Banking to maintain a steady growth trajectory.

Retail lending growth to persist

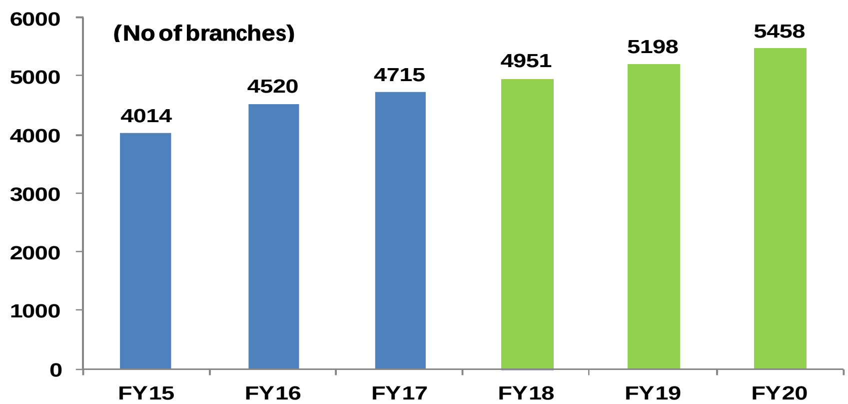


Source: Ventura Research, HDFC Bank

Historically retail lending has grown at a CAGR of 22.9% over the period FY10-FY17. Going forth we expect retail loans to grow ata CAGR of 21% to Rs 5,39,070 crore over the period FY17-20. The key drivers of this growth are

- Extensive use of data analytics to provide users with custom tailored loans based on the customer's banking behavior.
- Enhanced cross sales initiatives given the fact that the large customer base is still underpenetrated from a cross sell point of view
- Technology and product initiatives provide greater platform interface to customers and TAT
- Branches are being provided with increasing decision making authority which lowers TAT
- Wide branch network to support growth

Pan India distribution network

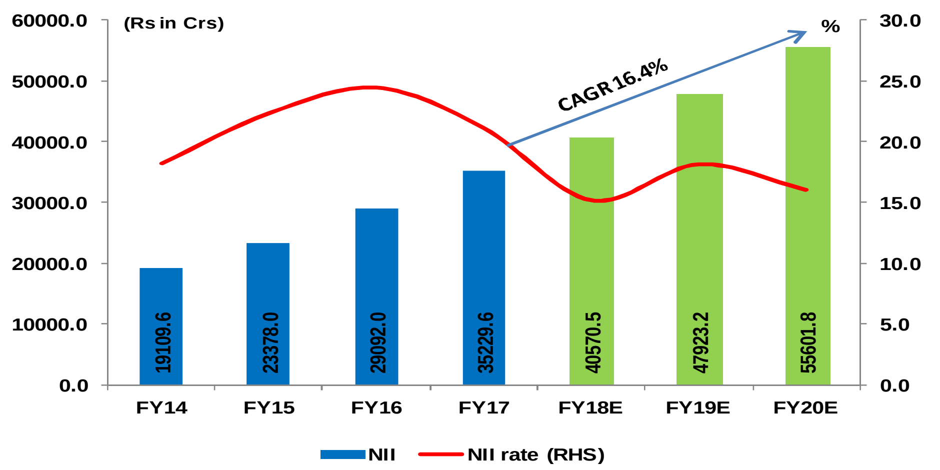


Source: Ventura Research, HDFC Bank

Net interest income(NII) to grow in line with loan book growth.

Historically NII has grown at a CAGR of 22.6% to Rs 35,229 crore over the period FY14-17. Going forth we expect NII to grow at a CAGR of 16.4% to Rs 55,601.8 crore by FY20.

Net interest income

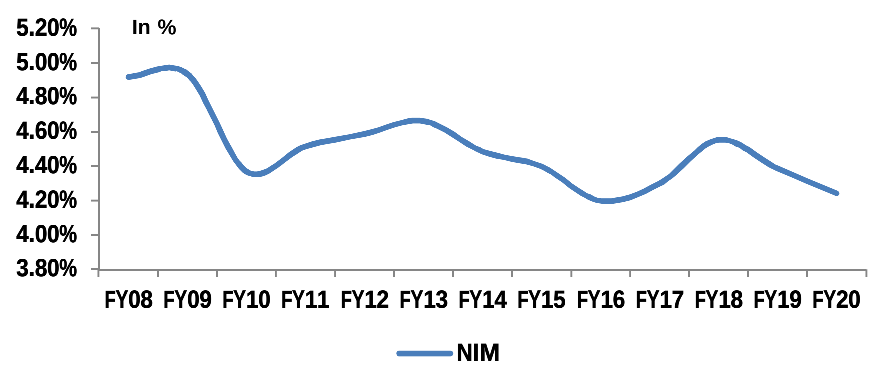


Source: Ventura Research, HDFC Bank

NIMs to be maintained

Typically the corporate clients of HDFC Bank have a high credit score and hence yields on the corporate lending book have been traditionally low. Despite this the NIMs of HDFC Bank have been remarkably steady across all business cycles. However erring on the side of caution we have modeled gradually reducing NIMs to 4.2% by FY20

Net interest margin to be maintained over 4%



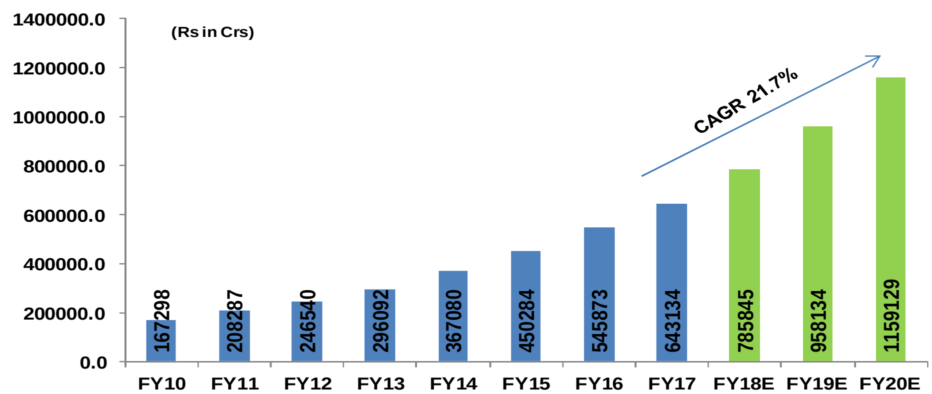
Source: Ventura Research, HDFC Bank

Deposit growth to keep pace with that of advances

Going forward we expect deposits to grow at a CAGR of 21.7% to Rs 11,59,129 crore by FY20. CASA deposits which have grown at 24% CAGR to Rs 3,09,153 crore in FY17 are expected to scale to Rs 5,44,791 crore by FY20

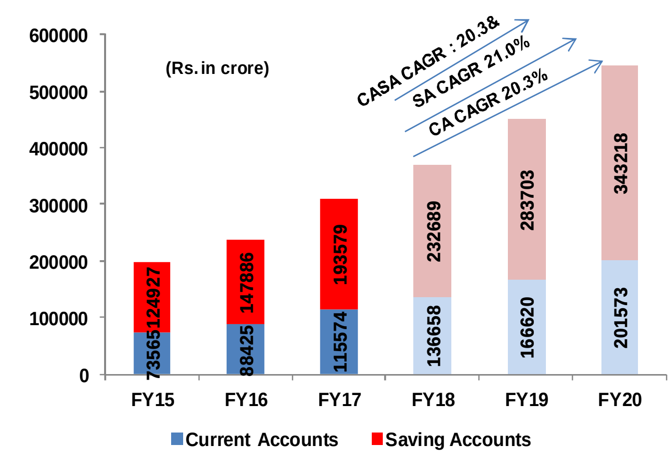
(3 year CAGR of 20.1%). CASA ratio spiked sharply in FY17 to 48% post demonetization and is expected to remain elevated.

Deposits to grow at robust rate



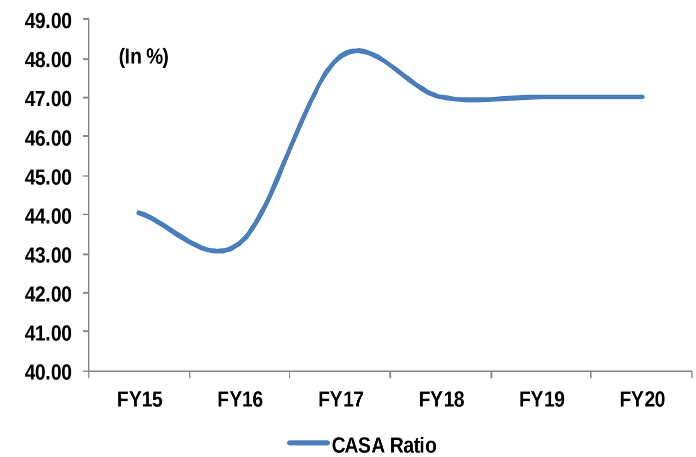
Source: Ventura Research, HDFC Bank

CASA continue to grow at a robust rate



Source: Ventura Research, HDFC Bank

CASA ratio

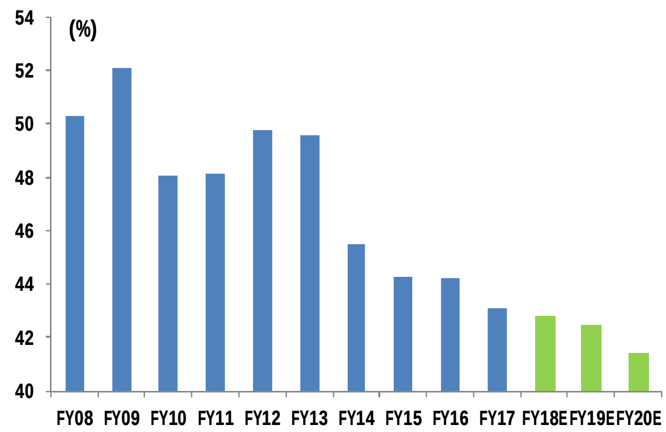


Source: Ventura Research, HDFC Bank

Cost efficiency to improve with technological advancement

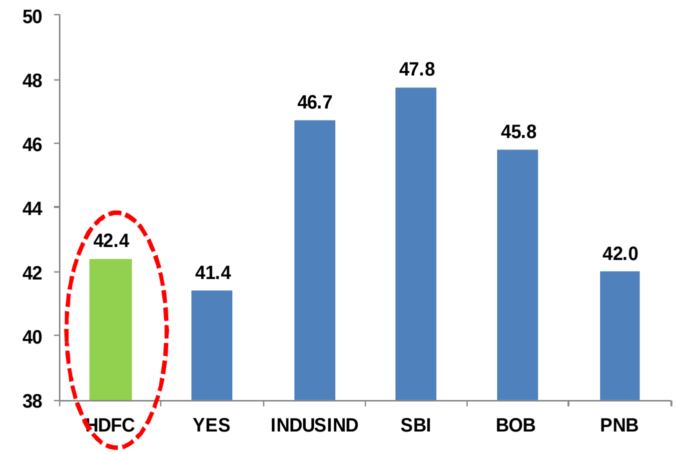
Automation, productivity and lower staffing is expected to help maintain operating costs. With the Bank having established its pan India foot print the next driver of profitability is to improve the operating efficiency (which has been on since FY13). The Bank has been able to better its cost-to-income ratio by 620 bps to 43.4% over the period FY13-17. Going forward pervasiveness of technology and extended reliance on data analytics is expected to improve efficiency leading to additional improvements in the metric by a further 200 bps to 41.4% by FY20

C/I ratio improves with advancement



Source: Ventura Research, HDFC Bank

C/I ratio among the best



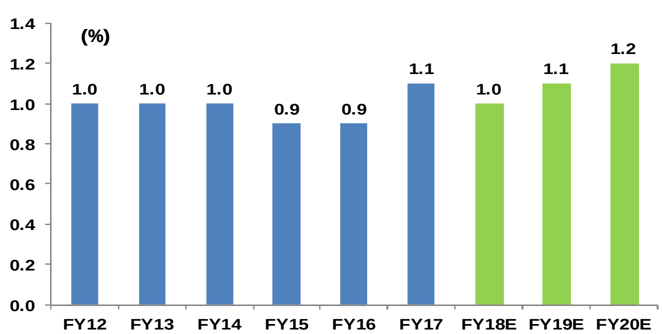
Source: Ventura Research, HDFC Bank

Here we anticipate that the other private Banks as they expand their footprint will have to incur higher expenditure to build their retail books and hence their C/I ratio is expected to deteriorate. HDFC on the other hand due to an already established presence and a huge customer base will benefit as it grows its revenue accruing from cross sell and up sell to existing clients.

Despite diversified lending HDFC Bank has skillfully navigated the NPA terrain

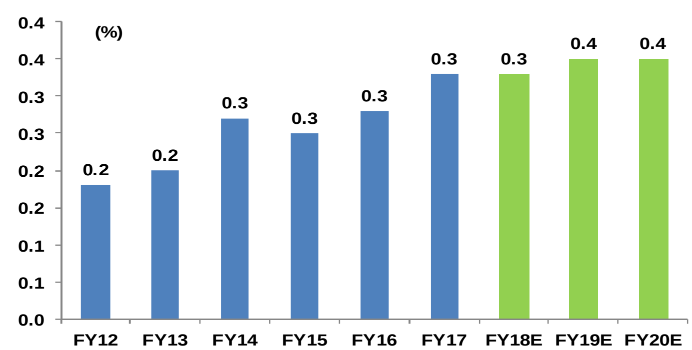
What is creditable about the Bank is that despite the diversified lending profile it has escaped the NPA dragnet. This lends credence to the fact that the Bank is extremely adept at understanding the lending profile of its prospective customers to whom they choose to lend. Considering the fact that across cycles the Bank has demonstrated alacrity in managing its NPA levels it inspires confidence and can be extrapolated to maintain asset quality over the forecast period.

GNPA



Source: Ventura Research, HDFC Bank

NNPA

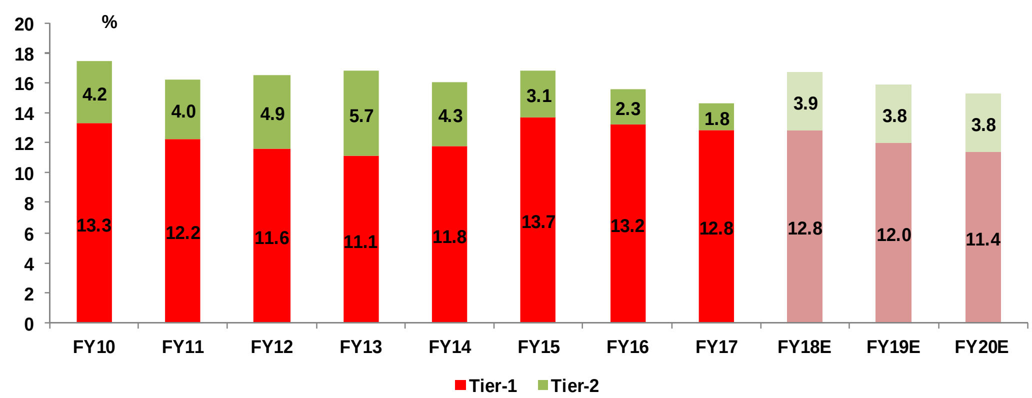


Source: Ventura Research, HDFC Bank

Capital adequacy

Capital levels are adequate to cater to growth till FY20. Tier I stands at a comfortable 12.8% and the Bank is expected to resort to capital infusion only in FY20.

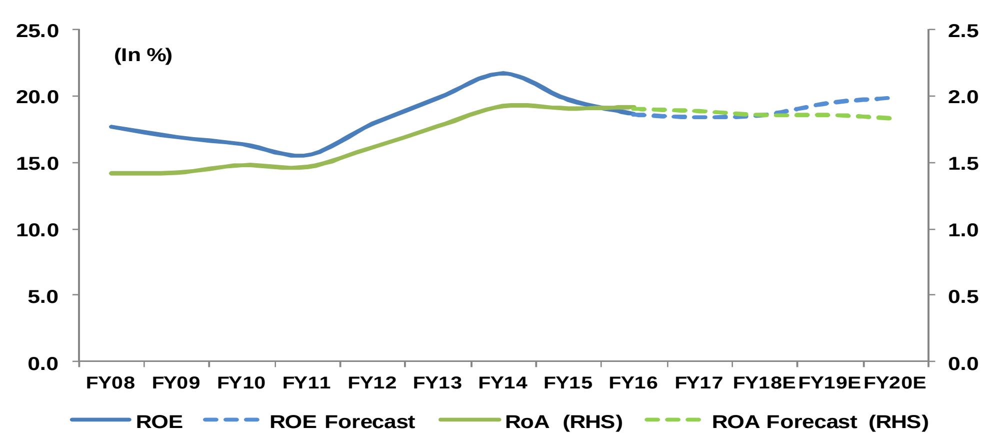
Capital adequacy is comfortable



Source: Ventura Research, HDFC Bank

Return ratios are expected to improve further as the bank betters its efficiency and continues its stellar growth

Return ratios to improve further



Source: Ventura Research, HDFC Bank

❖ Financial Performance

Quarterly Financial Performance (Rs in Crore)

	Q4FY17	Q4FY16	FY17	FY16
Interest Earned	18114.4	15996.8	73271.2	63161.0
Interest Expended	9059.3	8543.4	38041.6	34069.6
Net interest income	**9055.1**	**7453.3**	**35229.6**	**29091.4**
Growth %	21.5%		21.1%	
Other Income	3446.3	2865.9	12877.6	11211.7
Total Income	**12501.4**	**10319.2**	**48107.2**	**40303.1**
Growth %	21.1%		19.4%	
Operating Expenses	5222.0	4584.3	20751.1	17831.9
Operating Profit before Prov.& Cont.	**7279.4**	**5734.9**	**27356.2**	**22471.2**
Growth %	26.9%		21.7%	
Exceptional Items	0.0	0.0	0.0	0.0
Provisions and Contingencies	1261.8	662.5	3990.8	2960.8
PBT	**6017.6**	**5072.5**	**23365.4**	**19510.4**
Tax	2027.5	1698.2	8078.1	6341.7
Profit After Tax	**3990.1**	**3374.2**	**15287.2**	**13168.7**
Growth %	18.3%		16.1%	

Source: Ventura Research, HDFC Bank

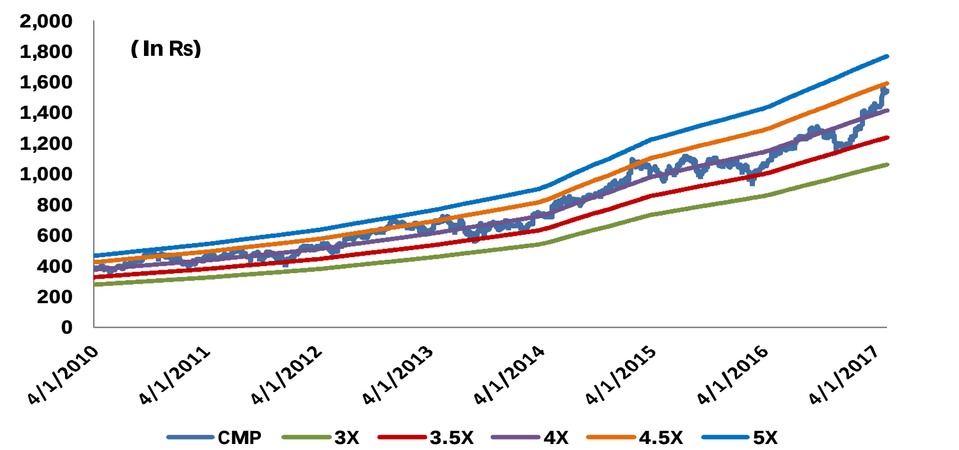
HDFC Bank's Q4FY17 results were driven by a robust growth in advances which further resulted into higher net interest income. Asset quality continues to be stable.

- Advances grew to Rs.5,85,481 crore as on 31st March 2017, an increase of 20.2% over March 31,2016 and 18.2% over December 31,2016. Both the retail and wholesale segments have reported stellar growth.
- Deposits grew at a healthy rate of 17.8% on YOY basis with strong accretion to CASA base which went up to 48% vs 45.3% QoQ. In absolute terms CASA addition was Rs.21,280 cr growing by 30.8% YoY, 7% QoQ. Strong growth in low cost deposit helped NIM further expanding to 4.3% up 20 bps QoQ.
- Asset quality was also stable during the quarter. Loan slippage was modest at 1.5% . GNPAs at 1.1% and NNPAs at 0.33%.
- HDFC Bank's net interest income or NII grew 21.5% in 4QFY17 as compared to 4QFY16,driven by credit growth of 20.2%. While on YOY basis it registered a growth of 14% from Rs. 29092 crore to Rs.33139 crore.

❖ **Valuation**

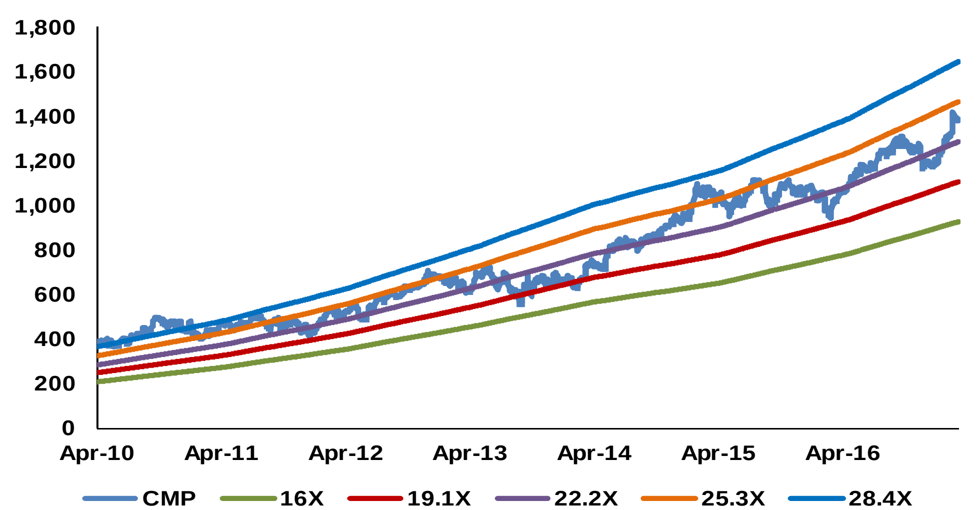
We initiate a coverage on HDFC Bank with a BUY with a price objective of Rs 2174 (4.0XFY20 P/Adj BV) representing a potential upside of 33.1% over in the next 30 months. Currently the stock is trading at 3.0X FY20 P/Adj BV.

P/BV



Source: Ventura Research, HDFC Bank

P/E



Source: Ventura Research, HDFC Bank

Peer comparison

Y/E March	NII (Cr)	PAT (Cr)	RoE (%)	RoA (%)	P/E(x)	P/BV(x)
HDFC Bank						
2016	29,092	12,817	18.6	1.9	30.6	5.2
2017	35,230	15,287	18.4	1.9	27.1	4.5
2018E	40,571	18,354	18.6	1.9	22.5	3.9
2019E	47,923	22,227	19.5	1.9	18.6	3.4
Yes Bank						
2016	4,567	2,534	19.9	1.7	26.8	5.0
2017	6,060	2,870	15.3	1.8	34.0	3.4
2018E	7,430	3,650	16.7	1.9	26.7	2.9
2019E	9,110	4,440	17.7	1.9	21.9	2.4
Kotak Mahindra Bank						
2016	9,279	3,456	12.7	1.8	47.9	4.7
2017	10,538	4,728	13.5	1.9	35.2	4.5
2018E	12,304	5,764	14.3	2.0	29.1	3.9
2019E	14,529	7,115	15.4	2.1	23.6	3.4
IndusInd Bank						
2016	4,369	2,285	16.1	1.8	37.0	4.8
2017	5,934	2,868	15.0	1.8	29.6	4.1
2018E	7,118	3,656	16.6	1.9	23.2	3.6
2019E	8,566	4,472	17.6	1.9	19.0	3.1
RBL Bank						
2016	819	293	11.2	1.0	65.0	6.4
2017	1,420	489	13.4	1.1	44.7	5.1
2018E	2,008	748	15.9	1.3	29.3	4.3
2019E	2,824	1,080	19.2	1.4	20.3	3.6
ICICI Bank						
2016	24,970	10,179	11.4	1.1	17.0	1.8
2017	26,170	6,600	11.7	1.2	16.0	1.7
2018E	29,960	13,350	12.0	1.2	15.3	1.6
2019E	34,890	17,210	14.3	1.3	11.6	1.5
Axis Bank						
2016	17,065	8,349	16.9	1.7	14.8	2.3
2017	18,402	4,766	8.3	1.1	36.5	2.2
2018E	22,132	9,095	14.3	2.3	12.4	1.9
2019E	26,455	13,260	16.5	2.6	9.3	1.7

Source: Ventura Research, HDFC Bank, Bloomberg

❖ Financials & Projections

Y/E March (` crore)	FY17	FY18E	FY19E	FY20E
Income Statement				
Interest Income	73,271.2	86,137.3	103,588.2	123,289.1
Interest Expense	38,041.6	45,566.8	55,664.9	67,687.3
Net Interest Income	35,229.6	40,570.5	47,923.2	55,601.8
YoY change (%)	*21.1*	*15.2*	*18.1*	*16.0*
Non Interest Income	12,877.6	14,809.3	17,178.8	20,270.9
Total Net Income	48,107.2	55,379.8	65,102.0	75,872.7
Total Operating Expenses	20,751.1	23,722.5	27,655.6	31,439.6
Pre Provision profit	27,356.2	31,657.4	37,446.4	44,433.1
YoY change (%)	*21.7*	*15.7*	*18.3*	*18.7*
Provisions for expenses	3,990.8	3,848.1	3,768.7	4,492.2
Profit Before Tax	23,365.4	27,809.3	33,677.7	39,940.9
YoY change (%)	*19.8*	*19.0*	*21.1*	*18.6*
Taxes	8,078.1	9,455.2	11,450.4	13,579.9
Net profit	15,287.2	18,354.1	22,227.3	26,361.0
YoY change (%)	*19.3*	*20.1*	*21.1*	*18.6*
Balance Sheet				
Cash & Balances with RBI	37,910.6	47,870.8	58,423.3	70,928.3
Inter bank borrrowing	11,400.6	14,289.8	17,439.8	21,172.6
Investments	210,777.1	259,964.9	315,889.0	381,502.7
Loan and Advances	585,481.0	699,649.8	837,480.8	998,277.1
Other Assets	46,774.9	62,509.9	78,800.3	96,423.9
Total Assets	892,344.2	1,084,285.2	1,308,033.2	1,568,304.6
Deposits	643,134.3	785,845.2	958,134.0	1,159,129.4
Demand	115,574.0	136,658.5	166,619.5	201,572.6
Savings	193,579.0	232,688.8	283,703.5	343,218.2
Term	334,486.0	416,498.0	507,811.0	614,338.6
Borrowings	98,415.6	127,787.9	157,554.7	192,743.6
Other Liability	58,708.9	64,678.9	69,342.1	73,233.5
Equity	512.5	512.5	512.5	512.5
Reserves	91,281.4	105,134.1	122,123.5	142,279.2
Minority Interst	291.4	326.4	366.4	406.4
Total Liabilities	892,344.2	1,084,285.2	1,308,033.2	1,568,304.6
Dupont Analysis				
% of Average Assets				
Net Interest Income	4.3	4.1	4.0	3.9
Non Interest Income	1.6	1.5	1.4	1.4
Net Income	5.9	5.6	5.4	5.3
Operating Expenses	2.6	2.4	2.3	2.2
Operating Profit	3.4	3.2	3.1	3.1
Provisions & Contingencies	0.5	0.4	0.3	0.3
Taxes	1.0	1.0	1.0	0.9
Avg.Assets / Avg.Equity (x)	1,593.7	1,928.4	2,333.9	2,806.1

Y/E March (` crore)	FY17	FY18E	FY19E	FY20E
Ratio Analysis				
Efficiency Ratio (%)				
Int Expended / Int Earned	51.9	52.9	53.7	54.9
Int Income / Total Funds	8.2	7.9	7.9	7.9
NII / Total Income	40.9	40.2	39.7	38.7
Other Inc. / Total Income	14.9	14.7	14.2	14.1
Ope. Exp. / Total Income	24.1	23.5	22.9	21.9
Net Profit / Total Funds	1.7	1.7	1.7	1.7
Credit / Deposit	91.0	89.0	87.4	86.1
Investment / Deposit	32.8	33.1	33.0	32.9
NIM	4.7	4.6	4.4	4.2
Solvency				
Gross NPA (Rs. Cr)	5,632.0	6,425.7	8,454.2	10,555.6
Net NPA (Rs. Cr)	1,770.1	2,120.5	2,690.0	3,212.6
Gross NPA (%)	1.1	1.0	1.1	1.2
Net NPA (%)	0.3	0.3	0.4	0.4
Capital Adequacy Ratio (%)	14.6	16.7	15.8	15.2
Tier I Capital (%)	12.8	12.8	12.0	11.4
Tier II Capital (%)	1.8	3.9	3.8	3.8
Per Share Data (`)				
EPS	61.0	73.2	88.7	105.2
Dividend Per Share	12.2	14.6	17.7	21.0
Book Value	366.2	421.5	489.3	569.7
Adj Book Value of Share	359.2	413.0	478.5	556.9
Valuation Ratio				
Price/Earnings (x)	27.1	22.5	18.6	15.7
Price/Book Value (x)	4.5	3.9	3.4	2.9
Price/Adj.Book Value (x)	4.6	4.0	3.4	3.0
Return Ratio				
RoAA (%)	1.9	1.9	1.9	1.8
RoAE (%)	18.4	18.6	19.5	19.9
Growth Ratio (%)				
Interest Income	16.0	17.6	20.3	19.0
Interest Expenses	11.7	19.8	22.2	21.6
Other Income	14.9	15.0	16.0	18.0
Total Income	15.8	17.2	19.6	18.9
Net profit	19.3	20.1	21.1	18.6
Deposits	17.8	22.2	21.9	21.0
Advances	20.2	19.5	19.7	19.2

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