



Steady Performance!

26<sup>th</sup> October, 2016

**CMP:** Rs. 1250  
**Target Price:** Rs. 1365  
**Recommendation:** HOLD

Stock Info

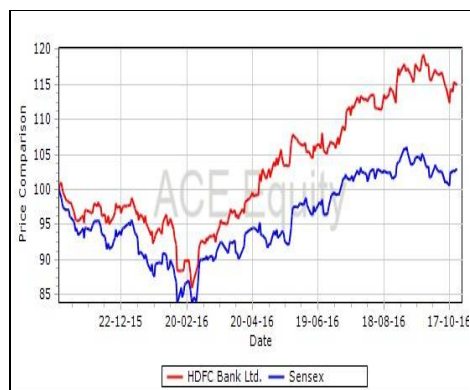
BSE Group	A
BSE Code	500180
NSE Symbol	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
BSE Sensex	28,091
NSE Nifty	8,691

Market Info

Market Capital	Rs. 3,18,306 cr
Equity Capital	Rs. 509 cr
Avg. Trading Vol	14,48,950
52 Wk High/ Low	1318/929
Face Value	2

Shareholding Pattern (%)	(Sep 2016)
Promoters	26.2
Domestic Institutions	14.5
Foreign Institutions	39.4
Public & Others	19.9

Price Vs Sensex Chart



HDFC Bank reported steady set of numbers in line with estimates. Interest income increased by 16% YoY to Rs. 17,070 cr, while on QoQ basis it increased by 3%. Interest expenses increased by 12% YoY, while on QoQ basis it increased by 4% to Rs. 9,076 cr. Net interest income increased by 20% on YoY basis and 3% on QoQ basis to Rs. 7,994 cr. Reported net interest margin stood steady on YoY basis at 4.2. Return on Assets stood at 0.5%.

Non-interest income was higher by 14% YoY to Rs. 2,900 crs. Within this segment, revenues from fees & commissions increased by 13% on YoY basis to Rs 2,104 cr, foreign exchange & derivatives dropped by 8% on YoY basis to Rs 295 cr, gain on revaluation/sale of investment was Rs. 284 crs v/s. Rs. 162 crs on YoY basis and miscellaneous income increased to Rs 219 cr v/s. Rs 201 cr YoY.

Cost to income ratio stood at 44.7% against 45.4% YoY. Operating cost for the quarter increased by 16% YoY to Rs 4,870 cr. The bank added 7 branches this quarter along with 3 ATM's to its network. 54% of the branches stay in semi-urban and rural areas.

Bank saw steady growth with advances and deposits growing by 18% and 17% YoY respectively. Domestic retail to wholesale loans composition stood at 54:46. CASA grew by 19% YoY. CASA ratio improved to 40.4% against 40% in corresponding quarter of previous and 39.9% sequentially.

Asset quality continues to remain strong with improvement in the GNPA. Bank reported GNPA at 1.02% while Net NPA stood at 0.3%. Total restructured loans stood at 0.1% of gross advances. Provisions stood at Rs 749 cr against Rs 681 cr YoY and Rs 867 cr sequentially.

Valuation:

HDFC bank continued to report steady performance. NIM for the year is expected to be in range of 4% - 4.3%. Capital Adequacy for the bank stood at 15.4% with Tier-1 CAR at 13.3%. We have valued stock on P/ABV(x) of 3.6(x) to its FY18E adjusted book value of Rs 384 per share and arrived at a fair value of Rs. 1,365. We have 'HOLD' rating on the stock.

SNAPSHOT				
(Rs Cr.)	FY 15	FY 16	FY 17E	FY 18E
Net Interest Income	22396	27592	33690	41474
Operating Income	31392	38343	46584	56464
Profit After Tax	10216	12296	14883	17974
ROE	19.4	18.3	18.8	19.3
P / EPS (x)	25.1	22.0	21.4	17.9
P / ABV (x)	4.2	3.8	3.8	3.3

Source: Company data, Arihant research

**Q2 FY 17 EARNINGS SNAPSHOT**

Quarterly Results					
(Rs Cr.)	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
Interest Earned	17070	14773	16%	16516	3%
Interest Expended	9076	8092		8735	
NII	7994	6681	20%	7781	3%
Operating Profit	6025	5043		5819	
Provisions and Contingencies	749	681	10%	867	-14%
PBT	5276	4362		4952	
Tax provisions	1820	1492		1714	
Profit After Tax	3455	2869	20%	3239	7%
BVPS	316	271		301	
EPS	13.6	11.5		12.8	
Return on Assets	0.5	0.5		0.5	

Asset Quality					
	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
Gross NPAs %	1.0	0.9		1.0	
Net NPAs %	0.3	0.3		0.3	

Growth					
(Rs Cr.)	Q2 FY 17	Q2 FY 16	YoY	Q1 FY 17	QoQ
Advances	494418	418541	18%	470622	5%
C-D ratio	83.6	82.6		82.0	
Deposits	591731	506909	17%	573755	3%
CASA %	40.4	40.0		39.9	
CASA	239104	201333	19%	228783	5%

Source: Company data, Arianth research



Income Statement				
(Rs Cr.)	FY 15	FY 16	FY 17E	FY 18E
Interest Earned	48470	60221	71674	86819
Interest Expended	26074	32630	37984	45345
<b>Net Interest Income</b>	<b>22396</b>	<b>27592</b>	<b>33690</b>	<b>41474</b>
Other Income	8996	10752	12894	14991
Fee Income	6584	7759	9000	10801
Treasury Income	526	749	1165	1202
<b>Operating Income</b>	<b>31392</b>	<b>38343</b>	<b>46584</b>	<b>56464</b>
Operating Expenses	13988	16980	20598	24619
Employee Cost	4751	5702	6760	7833
<b>Profit before provision &amp; tax</b>	<b>17404</b>	<b>21364</b>	<b>25986</b>	<b>31846</b>
Provisions and Contingencies	2075	2726	3089	4194
<b>Profit Before Tax</b>	<b>15329</b>	<b>18638</b>	<b>22897</b>	<b>27652</b>
Provision for tax	5114	6342	8014	9678
<b>Profit After Tax</b>	<b>10216</b>	<b>12296</b>	<b>14883</b>	<b>17974</b>

Balance Sheet				
(Rs Cr.)	FY 15	FY 16	FY 17E	FY 18E
Share Capital	501	506	510	515
Total Reserves	61508	72172	84946	100260
Deposits	450796	546424	651373	781433
Borrowings	45214	53018	71575	80164
Other Liabilities & provisions	32484	36725	43279	45077
<b>Total Liabilities</b>	<b>590503</b>	<b>708846</b>	<b>851683</b>	<b>1007449</b>
Cash and balance with RBI	27510	30058	33354	40268
Balances with banks & money at call	8821	8861	8839	8953
Investments	151642	163886	211763	240348
Advances	365495	464594	557861	677398
Fixed Assets	3166	3387	3694	4016
Other Assets	33913	38104	36216	36510
<b>Total Assets</b>	<b>590503</b>	<b>708846</b>	<b>851683</b>	<b>1007449</b>

Ratio Analysis				
%	FY 15	FY 16	FY 17E	FY 18E
<b>Asset Quality</b>				
Gross NPA	0.9	0.9	1.1	1.0
Net NPA	0.3	0.3	0.3	0.3
PCR	73.1	70.2	70.3	70.7
<b>Growth</b>				
Advances Growth	20.6	27.1	20.1	21.4
Deposit growth	22.7	21.2	19.2	20.0
Net Profit Growth	20.5	20.4	21.0	20.8
<b>Liquidity</b>				
C-D Ratio	81.1	85.0	85.6	86.7
CASA	44.0	43.2	42.3	41.7
Capital Adequacy	16.8	15.5	15.3	15.3
<b>Efficiency</b>				
Cost Income Ratio	44.6	44.3	44.2	43.6
Operating Costs to Assets	2.4	2.4	2.4	2.4

Spread Analysis				
%	FY 15	FY 16	FY 17E	FY 18E
<b>Spread Analysis</b>				
Yield on Advances	13.3	13.0	12.8	12.8
Yield on Investments	6.8	9.1	8.8	9.0
Cost of Funds	5.3	5.4	5.3	5.3
Cost of Deposits	5.2	5.3	5.2	5.3
NIM	4.0	4.1	4.1	4.3
Interest Spread	8.0	7.5	7.6	7.6
<b>Profitability</b>				
ROE	19.4	18.3	18.8	19.3
Earnings Per Share (Rs)	40.8	48.6	58.3	69.8
Dividend Per Share (Rs)	8.0	9.5	11.4	13.6
Adj. BVPS (Rs)	243.8	282.2	328.0	383.5
<b>Valuation</b>				
P / EPS (x)	25.1	22.0	21.4	17.9
P / ABV (x)	4.2	3.8	3.8	3.3

Source: Company data, Arianth research

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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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