

BSE SENSEX	S&P CNX
32,607	10,208
Bloomberg	HDFCB IN
Equity Shares (m)	2,562.5
M.Cap.(INRb)/(USDb)	4,779 / 73.5
52-Week Range (INR)	1877 / 1159
1, 6, 12 Rel. Per (%)	0/12/32
Avg Val, INRm	2821
Free float (%)	78.9

Financials & Valuations (INR b)

Y/E MARCH	2018E	2019E	2020E
NII	407.0	481.0	580.0
OP	329.3	395.2	485.2
NP	176.1	217.0	270.1
NIM (%)	4.6	4.5	4.5
EPS (INR)	68.7	84.7	105.4
EPS Gr. (%)	21.0	23.2	24.5
BV/Sh. (INR)	381.4	449.8	537.2
ABV/Sh. (INR)	357.3	421.8	503.7
RoE (%)	18.8	20.4	21.4
RoA (%)	1.9	1.9	2.0
Valuations			
P/E(X)	27.1	22.0	17.7
P/BV (X)	4.9	4.1	3.5
P/ABV (X)	5.2	4.4	3.7
Div. Yield (%)	0.8	0.9	1.0

CMP: INR1,865 TP: INR2,150(+15%)

Buy

Robust PPOp growth; operating leverage will continue to aid earnings

- HDFC Bank (HDFCB) reported strong 30% YoY growth in PPOp (~4% beat), led by steady revenue growth and controlled opex. However, higher provisions (HDFCB made contingent provisions toward one large account that underwent 5:25 restructuring in Feb-16) resulted in 20% YoY growth in PAT.
- Loans grew 22% YoY/4% QoQ to INR6.05t. Incremental growth in the quarter was driven by retail loans (+29% YoY/7% QoQ), resulting in an increase in its loan mix share to 55%. Business banking, personal loans and credit card continue to report strong growth within the retail segment.
- Fee income growth stood at 24% YoY, which coupled with strong FX income and treasury gains of INR3.84b, resulted in 24% YoY growth in other income.
- CASA deposits held flat on a sequential basis, while term deposits grew 4.7% QoQ. CASA ratio thus moderated 110bp QoQ to 42.9% (48% in 4QFY17 – after demonetization).
- Asset quality remained largely stable; however, the bank made contingent provisions of INR4b toward an account that underwent restructuring in Feb-16 and remains standard in the books. Provisioning coverage ratio thus improved 119bp QoQ to 66.3%.

Valuation and view: HDFCB has been consistently gaining market share across most products in the retail segment (personal loans, business banking, credit cards and auto loans), and appears well poised to maintain this traction. Operating expenses have been under control and resulted in a consistent decline in the C/I ratio to ~42%. With Tier-1 capital of 13.3%, strong sourcing/distribution capability and significant digitization initiatives, the bank is well placed to benefit from the expected pick-up in the economic growth cycle. **We arrive at an SOTP based valuation of INR2,150 for the bank (4.4x Sept-19E BV for the bank at INR2,050 compared to our earlier valuation of INR1,900 for the standalone bank at 4x Jun-19E BV, and INR100 for subsidiaries) and maintain Buy.**

Quarterly Performance

	FY17				FY18E				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	4Q	FY17	FY18	
Interest Income	1,65,160	1,70,699	1,76,056	1,81,144	1,86,687	1,96,703	2,05,989	2,23,155	6,93,060	8,12,534
Interest Expense	87,346	90,764	92,965	90,593	92,980	99,182	1,02,419	1,10,954	3,61,667	4,05,534
Net Interest Income	77,814	79,936	83,091	90,551	93,707	97,521	1,03,570	1,12,201	3,31,392	4,07,000
% Change (Y-o-Y)	21.8	19.6	17.6	21.5	20.4	22.0	24.6	23.9	20.1	22.8
Other Income	28,066	29,010	31,427	34,463	35,167	36,059	36,640	39,693	1,22,965	1,47,558
Net Income	1,05,881	1,08,945	1,14,518	1,25,014	1,28,874	1,33,580	1,40,210	1,51,894	4,54,357	5,54,558
Operating Expenses	47,689	48,700	48,425	52,220	53,675	55,401	55,754	60,400	1,97,033	2,25,230
Operating Profit	58,192	60,246	66,093	72,794	75,199	78,179	84,456	91,494	2,57,324	3,29,328
% Change (Y-o-Y)	20.0	19.5	15.2	26.9	29.2	29.8	27.8	25.7	20.4	28.0
Other Provisions	8,667	7,490	7,158	12,618	15,588	14,762	14,472	15,678	35,933	60,500
Profit before Tax	49,525	52,756	58,935	60,176	59,612	63,417	69,984	75,816	2,21,391	2,68,828
Tax Provisions	17,136	18,202	20,281	20,275	20,673	21,907	24,079	26,086	75,894	92,746
Net Profit	32,389	34,553	38,653	39,901	38,938	41,510	45,904	49,730	1,45,496	1,76,082
% Change (Y-o-Y)	20.2	20.4	15.1	18.3	20.2	20.1	18.8	24.6	18.3	21.0
Operating Parameters										
NIM (Reported,%)*	4.4	4.2	4.1	4.3	4.4	4.3			4.3	4.2
NIM (Cal, %) #	4.7	4.5	4.6	4.8	4.7	4.8	4.8	5.0	4.6	4.6
Deposit Growth (%)	18.5	16.7	21.1	17.8	17.0	16.5	14.2	18.1	17.8	18.1
Loan Growth (%)	23.2	18.1	13.4	19.4	23.4	22.3	29.1	21.5	19.4	21.5
CD Ratio (%)	82.0	83.6	78.0	86.2	86.5	87.7	88.2	88.6	86.2	88.6
CASA Ratio (%)	39.9	40.4	45.4	48.0					48.0	44.6
Asset Quality										
Gross NPA (INR B)	49.2	50.7	52.3	58.9	72.4	77.0	81.8	86.6	58.9	86.6
Gross NPA (%)	1.0	1.0	1.1	1.1	1.2	1.3	0.0	1.3	1.1	1.3

E: MOSL Estimates; * Reported on total assets; # Cal. on interest earning assets

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Exhibit 1: Quarterly performance: In line with est.

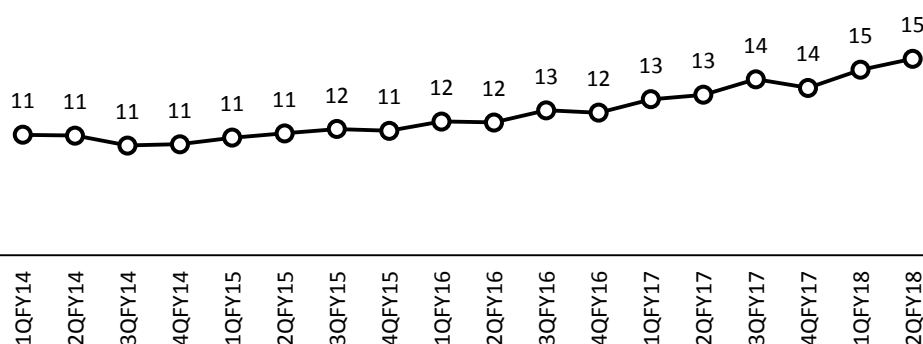
Y/E March	2QFY18A	2QFY18E	V/S our Est	Comments
Interest Income	1,96,703	1,96,034	0	
Interest Expense	99,182	98,373	1	
Net Interest Income	97,521	97,661	0	
% Change (Y-o-Y)	22	22		
Other Income	36,059	33,840	7	Stronger than expected forex income
Net Income	1,33,580	1,31,502	2	
Operating Expenses	55,401	55,942	-1	in line
Operating Profit	78,179	75,559	3	
% Change (Y-o-Y)	30	25		
Other Provisions	14,762	11,000	34	INR4b of contingent provisions led to miss
Profit before Tax	63,417	64,559	-2	
Tax Provisions	21,907	22,273	-2	
Net Profit	41,510	42,286	-2	In line; higher operating profits offset by miss on provisions
% Change (Y-o-Y)	20	22		

Source: MOSL, Company

Growth was led by retail loans, which increased 26% YoY, driven by business banking and personal loans

Retail loan growth remains healthy, share of retail picks up

- Loan book grew 4% QoQ and 22% YoY to INR6.05t. Deposits grew 2.7%/16.5% QoQ/YoY to INR6.9t. CD ratio increased to 88 from 86.5% in 1QFY18
- Incremental growth in the quarter was driven by retail loans (retail loan share at 68.3% of book compared to 66.1% in 1QFY18). In retail loans (+7.6% QoQ and 25.7% YoY), the main drivers were business banking and personal loans (up 9.5%/27.9% QoQ and 9.4%/36.2% YoY).
- Corporate book growth was relatively muted at 15.7% YoY, with a 2.7% QoQ decline

Exhibit 2: Share of unsecured loans continued to tick up

Source: MOSL, Company

24% YoY CASA growth

Reported NIM shrinks 10bp QoQ; CASA ratio moderates to 42.9%

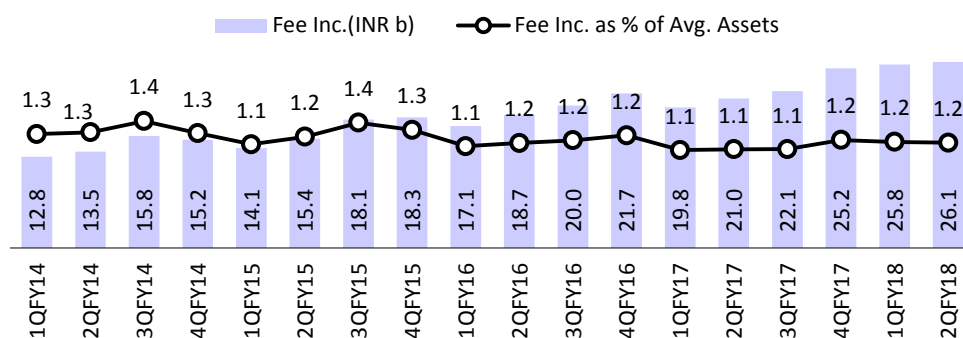
- NIM (reported) declined 10bp sequentially from a high of 4.4% to 4.3% but increased 10bp YoY.
- CASA deposits were flat QoQ but grew 23.6% YoY driven by 23.6% YoY growth in each of SA and CA. CASA ratio stood at 42.9%, marginally down from 44% in 1QFY18

Strong fee income led to 24% YoY increase in other income

Fee income growth picks up

- Fee income recorded robust growth at 24% YoY to INR26.1b, (30% YoY in the prior quarter). Overall fee income / average assets stayed stable at 1.2%. Forex income recorded unusually strong growth of 30% YoY (5.6% YoY decline in 1QFY18)
- Trading gains came in strong at INR 3.6b, up 25.5% YoY.

Exhibit 3: Fee income/ average assets (%) remained stable QoQ



Source: MOSL, Company

Operating expenses well under control with a stable cost to core income ratio

Operating expenses well under control; Asset quality stable

- Overall opex growth continued to moderate at 13.8% YoY (3.2% QoQ), led by strong control in employee expenses (+3.5% QoQ and YoY).
- Total branch count stood at 4.729 branches.
- Cost-to-core income ratio stayed stable QoQ at ~44%.
- Asset quality ratios were stable with GNPA/NNPA of 1.26%/0.40%. The bank provided for INR4b of contingent provisions towards a flexible restructured account, taking up PCR to 66.3%

2QFY18 Conference Call Highlights

P&L related

- The bank made INR7b of provisions for the 5:25 account (~INR4b through P&L and they used INR3b from floating provisions).
- Management guided to revenue growth outpacing expenses growth over the next 2-3 years, leading to a steady decline in the CI ratio.
- The bank experienced 10-15bp reduction in yields due to increased competition in retail, which was partly offset by cost of funds reduction.

B/S related

- Risk weights in credit card/PL portfolio are comparable to those for auto loans. Increase in CC/PL is not contributing to increase in RWA/total assets. Market risk (not credit risk) has increased due to investments.
- Competition has spread across categories of retail (CC/PL/auto/CV) and SME from just auto earlier.
- Overseas advances stand at INR210b.
- Business banking ticket size is in single-digit crores.
- Both disbursements and run-offs are high in segments where dealer dependence is higher (CV, credit cards etc.)

Asset quality

- They are yet to hear from regulator on final asset classification on the 5:25 account; meanwhile, have made contingent provisions.
- Crop loan repayments are timed with crop cycles. The bank has seen improvement in waivers, but not meaningful.
- Management is comfortable with asset quality in credit card and PL, yields price in excess credit costs.
- The bank used INR3b of floating provisions during the quarter, and has another INR10b of floating provisions.
- Movement in NPA: Slippages – INR24.73b, recoveries and upgrades – INR12.5b, write-offs – INR7.61b.

Others

- Government business is a growth area for them in terms of liabilities.
- More and more SMEs are joining organized financing with GST, which opens up a wider market for banks.

Valuation and view

Buy with a target price of
INR2,150 (SOTP based)

- Structural drivers in place with (1) CASA ratio of ~43%, (2) opportunities' for the significant market share gains (25% of incremental market share in FY17), (3) improving operating efficiency led by digitalization initiatives, (4) expected traction in income due to strong expansion in branch network, and (5) best-in-class asset quality.
- Post demon strong improvement in retail loan growth is impressive especially when the bank was focused on cutting flab from the system. Retail loan growth is seeing a strong revival with the contribution from high ROE retail products like unsecured personal loans, LAS and Credit cards going up. Despite the moderate growth in underlying assets like Auto, CV and CE loans – HDFCB is seeing the strong loan growth-Indicating a market share gain.
- Sharp pick in corporate loans is impressive. Helped by strong benefit on the cost of funds bank has been aggressive in gaining market share in the corporate loans. We expect the trend to continue considering the large part of the competition is struggling with its own issues like capitalization, asset quality etc.
- We have seen some moderation in the investments in branches and ATMs and calibration in workforce. In our view, this is largely to improve the productivity from the existing investments and cutting the flab in the system. Core revenue growth is expected to be healthy at 16%+. This along with improving operating efficiencies which will help overall earnings growth to 18%+ in our view.
- Despite pricing pressure, NIMs moderation is expected to be limited due to a) high CASA ratio, b) benefit of falling rate cycle will occur due to high share of fixed rate retail loans (~68% of book) and c) high-yielding retail loans contribution within retail to rise.
- Over the last 12 years, HDFCB's market share has increased significantly in (1) retail loans, (2) low-cost deposits and (3) profitability, indicating the strength of its franchisee. Strong fundamentals and near-nil stress loans would enable the bank to gain market share. Further, continued strong investment in people and branches indicating management positive outlook on business. RoEs are

expected to be the best amongst private banks at ~18-21%. The stock trades at FY19 PBV/PE of 4.1x/22.0x.

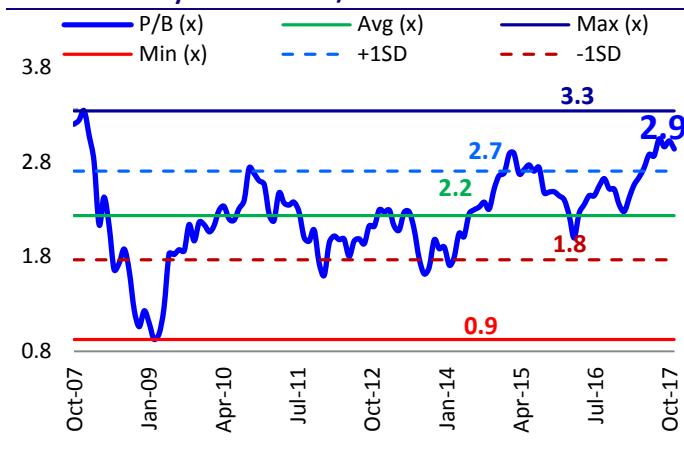
- **We value bank at INR2,150 based on SOTP model.** We roll forward our target price to Sept 2019 from Jun 2019 earlier. We arrive at an SOTP based valuation for the bank with INR2,050 for the bank (4.4x Sept 19 BV) and we value the subsidiaries at INR100, leading to a TP of INR2,150 for the bank and maintain Buy.

Exhibit 4: We largely maintain our earnings estimates

INR b	Old Estimates			New Estimates			% Change		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	400.9	479.4	576.0	407.0	481.0	580.0	1.5	0.3	0.7
Other Income	146.7	170.3	194.0	147.6	175.6	207.2	0.6	3.1	6.8
Total Income	547.5	649.7	770.0	554.6	656.6	787.2	1.3	1.1	2.2
Operating Expenses	226.0	260.7	303.2	225.2	261.5	302.0	-0.3	0.3	-0.4
Operating Profits	321.6	389.0	466.8	329.3	395.2	485.2	2.4	1.6	3.9
Provisions	54.7	66.0	77.3	60.5	63.9	72.8	10.5	-3.2	-5.8
PBT	266.8	323.0	389.5	268.8	331.2	412.4	0.8	2.6	5.9
Tax	92.1	111.4	134.4	92.7	114.3	142.3	0.8	2.6	5.9
PAT	174.8	211.6	255.1	176.1	217.0	270.1	0.8	2.6	5.9
Margins (%)	4.66	4.61	4.55	4.57	4.52	4.52			
Credit Cost (%)	0.82	0.80	0.75	0.95	0.85	0.82			
RoA (%)	1.8	1.9	1.8	1.9	1.9	2.0			
RoE (%)	18.8	19.7	20.3	18.8	20.4	21.4			
EPS	68	83	100	69	85	105	0	1	3
BV	388	451	528	381	450	537	2	-2	0
ABV	382	448	523	357	422	504	2	-6	-6

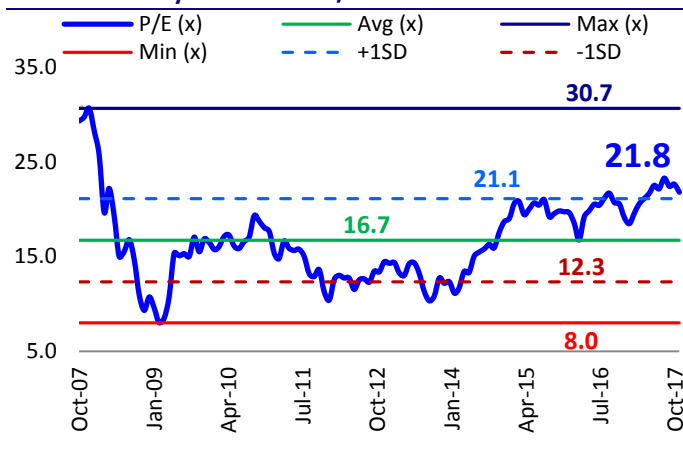
Source: MOSL, Company

Exhibit 5: One year forward P/BV



Source: MOSL, Company

Exhibit 6: One year forward P/E



Source: MOSL, Company

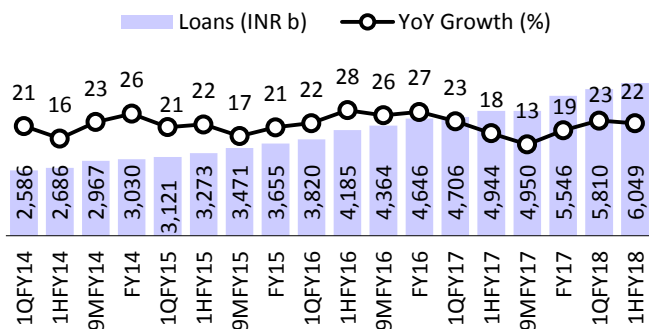
Exhibit 7: DuPont Analysis: Risk adjusted NIMs continue to improve; RoAs close to decadal high (%)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	4.19	4.28	4.14	4.14	4.15	4.13	4.31	4.26	4.26
Core Fee Income	1.37	1.34	1.30	1.23	1.20	1.10	1.20	1.23	1.19
Trading and others	0.51	0.51	0.48	0.43	0.42	0.43	0.36	0.33	0.33
Non Interest income	1.88	1.86	1.78	1.66	1.62	1.53	1.56	1.56	1.52
Total Income	5.56	5.63	5.44	5.37	5.34	5.23	5.87	5.82	5.78
Operating Expenses	3.02	3.04	2.70	2.59	2.55	2.46	2.38	2.32	2.22
Employee cost	1.11	1.07	0.94	0.88	0.86	0.81	0.74	0.70	0.66
Others	1.91	1.97	1.76	1.71	1.69	1.65	1.65	1.61	1.55
Operating Profits	3.05	3.10	3.22	3.22	3.21	3.21	3.49	3.50	3.56
Core operating Profits	2.54	2.58	2.74	2.79	2.79	2.77	3.13	3.17	3.23
Provisions	0.61	0.45	0.36	0.38	0.41	0.45	0.64	0.57	0.53
PBT	2.44	2.64	2.86	2.83	2.80	2.76	2.85	2.94	3.03
Tax	0.76	0.82	0.96	0.94	0.95	0.95	0.98	1.01	1.04
RoA	1.68	1.82	1.90	1.89	1.85	1.81	1.86	1.92	1.98
Leverage (x)	11.1	11.2	11.2	10.3	9.9	10.1	10.3	10.6	10.8
RoE	18.7	20.3	21.3	19.4	18.3	18.3	19.2	20.4	21.4

Source: MOSL, Company

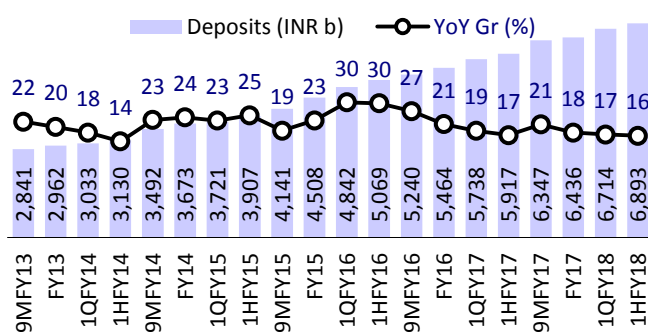
Story in Charts

Exhibit 8: Loans grew 22% YoY (4% QoQ)



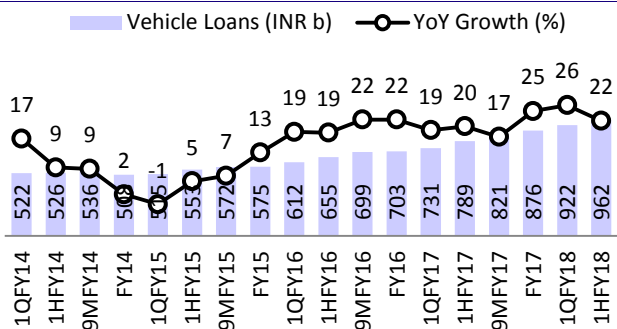
Source: MOSL, Company

Exhibit 9: Deposits registered 16% YoY growth



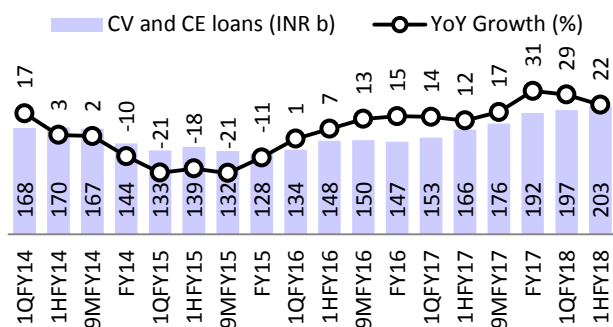
Source: MOSL, Company

Exhibit 10: Healthy traction in vehicle loans



Source: MOSL, Company

Exhibit 11: CV/CE loans grew 22% YoY



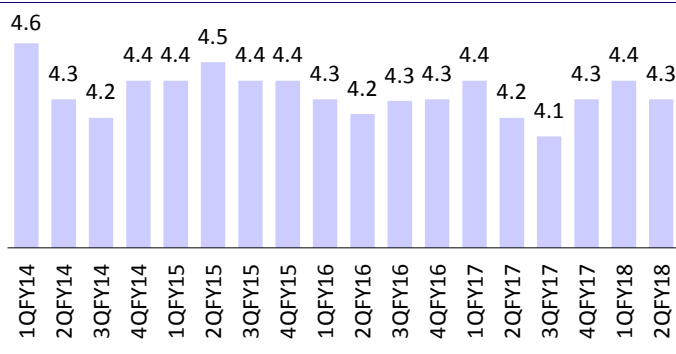
Source: MOSL, Company

Exhibit 12: Share of retail loans (based on internal classification) ticked lower to 68.3% compared to 66.1% in 4QFY17

	% of loans	2Q FY18	2Q FY17	YoY Gr (%)	1Q FY18	QoQ Gr
Auto	13.1	790	644	22.6	737	7.1
PL	10.1	613	450	36.2	561	9.4
LAS	0.5	32	21	56.9	30	8.9
2Wheeler	1.4	85	71	19.9	77	10.5
CV and CE	6.7	404	336	20.3	385	5.0
CC	5.1	308	213	44.5	291	5.9
Bus. Banking	16.0	965	754	27.9	881	9.5
Home loans	6.6	400	336	19.2	388	3.2
Gold loans	0.9	53	51	3.1	51	2.4
Kissan gold cards	5.2	317	261	21.4	281	12.8
Others	2.7	165	150	9.7	159	3.7
Retail loans	68.3	4132	3288	25.7	3841	7.6
Corp & International	31.7	1916	1657	15.7	1969	-2.7
Total loans	100.0	6049	4944	22.3	5810	4.1

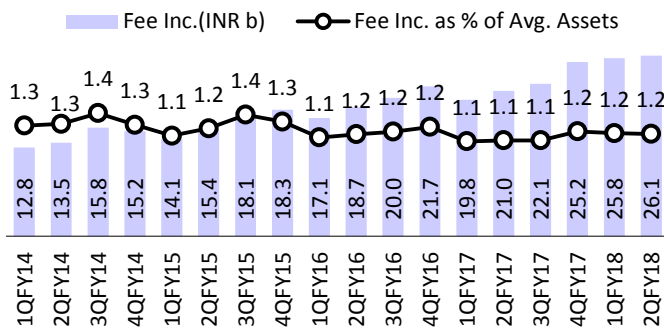
Source: MOSL, Company

Exhibit 13: NIMs declined 10bp QoQ to 4.3%



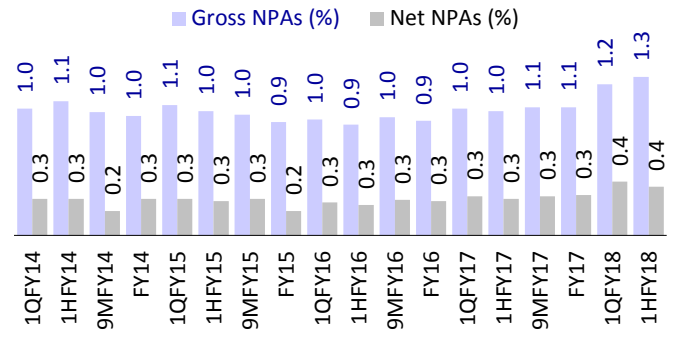
Source: MOSL, Company

Exhibit 14: Quarterly fees/assets (%) remained stable



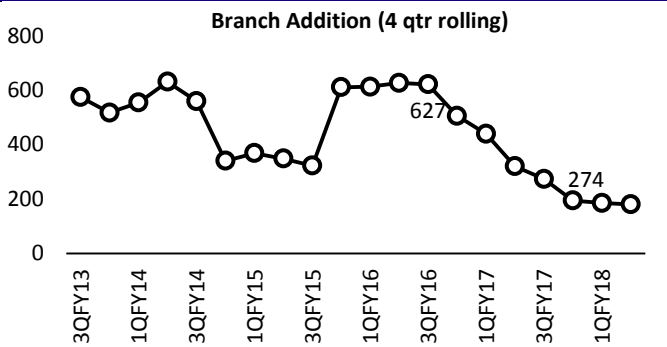
Source: MOSL, Company

Exhibit 15: GNPA was stable to 1.26%



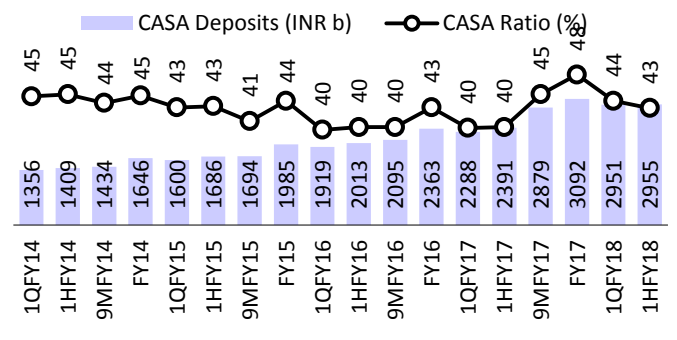
Source: MOSL, Company

Exhibit 16: Added 2 branches during the quarter



Source: MOSL, Company

Exhibit 17: CASA ratio declined to 43%



Source: MOSL, Company

Exhibit 18: Quarterly Snapshot

	FY16				FY17				FY18		Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	QoQ	YoY
Profit and Loss (INR m)												
Net Interest Income	63,888	66,809	70,685	74,533	77,814	79,936	83,091	90,551	93,707	97,521	4	22
Other Income	24,619	25,518	28,722	28,659	28,066	29,010	31,427	34,463	35,167	36,059	3	24
Trading profits	1,259	1,624	3,279	1,155	2,769	2,835	3,986	1,804	3,314	3,559	7	26
Exchange Profits	3,480	3,196	2,774	2,828	3,145	2,950	2,972	3,567	2,968	3,840	29	30
Others (Ex non core)	19,880	20,698	22,669	24,676	22,152	23,225	24,469	29,092	28,885	28,660	-1	23
Total Income	88,507	92,327	99,407	1,03,192	1,05,881	1,08,945	1,14,518	1,25,014	1,28,874	1,33,580	4	23
Operating Expenses	40,008	41,898	42,048	45,843	47,689	48,700	48,425	52,220	53,675	55,401	3	14
Employee	13,590	14,140	14,313	14,980	15,852	16,572	16,886	15,527	16,575	17,158	4	4
Others	26,418	27,758	27,736	30,863	31,837	32,128	31,539	36,693	37,100	38,243	3	19
Operating Profits	48,499	50,429	57,359	57,349	58,192	60,246	66,093	72,794	75,199	78,179	4	30
Provisions	7,280	6,813	6,539	6,625	8,667	7,490	7,158	12,618	15,588	14,762	-5	97
PBT	41,219	43,616	50,820	50,725	49,525	52,756	58,935	60,176	59,612	63,417	6	20
Taxes	14,262	14,922	17,251	16,982	17,136	18,202	20,281	20,275	20,673	21,907	6	20
PAT	26,957	28,695	33,568	33,742	32,389	34,553	38,653	39,901	38,938	41,510	7	20
Asset Quality												
GNPA	38,522	38,278	42,552	43,928	49,209	50,690	52,323	58,857	72,429	77,028	6	52
NNPA	10,277	10,377	12,606	13,204	14,934	14,889	15,643	18,440	25,282	25,968	3	74
GNPA (%)	1.0	0.9	1.0	0.9	1.0	1.0	1.1	1.1	1.2	1.3	2	24
NNPA (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	-4	10
PCR (Calculated, %)	73.3	72.9	70.4	69.9	69.7	70.6	70.1	68.7	65.1	66.3	119	-434
Slippage (%)	1.8	1.6	2.0	1.4	2.1	1.4	1.8	1.5	2.6	2.0		
Ratios (%)												
Fees to Total Income	22.5	22.4	22.8	23.9	20.9	21.3	21.4	23.3	22.4	21.5		
Cost to Core Income	45.9	46.2	43.7	44.9	46.2	45.9	43.8	42.4	42.7	42.6		
Tax Rate	34.6	34.2	33.9	33.5	34.6	34.5	34.4	33.7	34.7	34.5		
CASA (Reported)	39.6	40.0	40.0	43.0	39.9	40.0	45.0	48.0	44.0	42.9		
Loan/Deposit	78.9	82.6	83.3	85.0	82.0	83.6	78.0	86.2	86.5	87.7		
RoA	1.8	1.8	2.0	1.9	1.8	1.8	1.9	1.9	1.8	1.9		
RoE	17.0	17.2	19.1	18.7	17.4	17.6	18.7	18.3	17.0	17.5		
Margins (%) - Calculated												
Yield on loans	11.2	10.9	10.7	10.6	10.7	10.7	10.7	10.3	10.2	10.6	39	-10
Yield On Investments	8.1	7.9	8.3	8.8	8.2	7.4	7.3	7.6	7.2	7.0	-18	-35
Yield on funds	10.3	10.1	10.1	10.1	10.0	9.7	9.7	9.6	9.3	0.0	-935	-970
Cost of funds	6.0	5.9	5.8	5.8	5.6	5.5	5.4	5.1	5.0	5.3	22	-28
Spreads	4.3	4.2	4.3	4.4	4.3	4.2	4.3	4.5	4.3	-5.3	-956	-942
Margins	4.7	4.6	4.6	4.7	4.7	4.5	4.6	4.8	4.7	4.8	-26	-11
Margins (%) - Reported	4.3	4.2	4.3	4.3	4.4	4.2	4.1	4.3	4.4	4.3	43	63

Source: MOSL, Company

Exhibit 19: Valuation metrics

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICIBC*	Buy	266	25.9	14.5	16.6	12.3	9.8	1.22	1.03	1.14	1.15	8.6	9.3
HDFCB	Buy	1,865	73.4	68.2	82.6	27.3	22.6	4.80	4.13	1.84	1.85	18.8	19.7
AXSB	Neutral	452	16.6	18.1	29.9	24.9	15.1	1.84	1.66	0.67	0.97	7.6	11.6
KMB*	Buy	1,068	29.9	32.4	41.0	32.9	26.0	4.60	3.92	1.84	1.99	15.0	16.3
YES	Buy	348	12.4	18.5	22.9	18.9	15.2	3.21	2.75	1.78	1.80	18.3	19.5
IIB	Buy	1,665	15.6	60.9	78.6	27.3	21.2	4.31	3.67	1.82	1.89	16.9	19.0
IDFC Bk	Neutral	57	2.9	2.8	3.2	20.5	17.7	1.26	1.19	0.74	0.71	6.3	6.9
FB	Buy	125	3.3	5.5	6.6	22.5	18.7	1.96	1.80	0.81	0.86	9.6	10.0
DCBB	Neutral	181	0.9	8.5	10.5	21.3	17.3	2.16	1.93	0.98	1.00	11.5	11.8
JKBK	Neutral	74	0.6	3.9	8.3	19.1	9.0	0.66	0.63	0.23	0.44	3.5	7.2
SIB	Buy	32	0.7	1.9	3.8	17.3	8.5	1.18	1.07	0.42	0.75	6.7	12.6
Equitas	Buy	153	0.8	1.7	6.1	89.8	25.2	2.26	2.09	0.58	1.65	2.5	8.6
RBL	Buy	537	3.0	17.2	22.5	31.2	23.9	3.36	3.01	1.28	1.28	13.0	13.3
Private Aggregate													
SBIN (cons)*	Buy	255	32.6	14.6	26.8	15.3	8.2	0.98	0.88	0.36	0.60	7.0	11.4
PNB	Buy	138	4.3	5.8	11.0	23.6	12.5	0.75	0.72	0.17	0.30	3.2	5.9
BOI	Neutral	140	2.2	-11.2	6.6	-12.5	21.3	0.65	0.65	-0.19	0.10	-5.2	3.0
BOB	Buy	143	4.9	9.5	20.8	15.0	6.9	0.90	0.82	0.31	0.61	6.1	12.4
CBK	Neutral	317	2.6	30.1	47.0	10.5	6.7	0.64	0.59	0.29	0.41	6.2	9.1
UNBK	Neutral	131	1.3	9.0	19.1	14.5	6.9	0.43	0.41	0.14	0.27	3.0	6.1
OBC	Neutral	119	0.6	17.1	21.4	7.0	5.6	0.31	0.29	0.22	0.26	4.6	5.4
INBK	Buy	270	1.9	34.4	38.3	7.8	7.0	0.82	0.76	0.73	0.72	10.9	11.2
Public Aggregate													
Banks Aggregate													
HDFC*	Buy	1,723	41.7	39.9	45.4	24.7	19.2	4.31	3.05	1.79	1.81	18.6	17.8
LICHF	Neutral	634	5.1	41.6	48.9	15.2	12.9	2.58	2.23	1.44	1.51	18.2	18.5
IHFL	Buy	1,343	8.7	83.6	105.1	16.1	12.8	4.19	3.69	3.16	3.09	27.6	30.7
PNBHF	Buy	1,446	3.7	48.1	65.1	30.1	22.2	3.93	3.45	1.52	1.48	13.8	16.6
GRHF	Neutral	499	2.8	9.9	12.0	50.6	41.4	15.08	12.37	2.40	2.40	32.8	32.8
REPCO	Buy	649	0.6	33.7	38.4	19.3	16.9	3.05	2.62	2.18	2.14	17.1	16.7
DEWH	Buy	598	2.8	37.6	46.0	15.9	13.0	2.12	1.87	1.23	1.28	14.1	15.3
Housing Finance													
SHTF	Buy	1,118	3.9	80.0	102.4	14.0	10.9	2.00	1.73	2.67	3.06	15.0	16.9
MMFS	Buy	419	3.7	13.9	17.8	30.2	23.6	3.49	3.21	1.73	1.90	12.0	14.2
BAF	Buy	1,826	16.2	45.7	63.7	39.9	28.7	6.41	5.38	3.45	3.55	20.2	20.4
CIFC	Buy	1,179	2.7	56.0	68.1	21.1	17.3	3.63	3.07	2.85	2.94	18.6	19.2
SCUF	Buy	2,120	2.2	118.3	155.3	17.9	13.6	2.47	2.14	3.34	3.84	14.6	16.8
LTFH	Buy	211	5.8	6.8	10.1	30.8	20.8	4.17	3.57	1.61	2.09	14.7	18.5
MUTH	Buy	498	3.1	38.7	44.4	12.9	11.2	2.59	2.20	4.82	4.94	21.8	21.2
CAFL	Buy	743	1.1	32.8	42.4	22.6	17.5	2.82	2.46	1.74	1.80	13.2	15.0
SKSM	Neutral	992	2.2	29.9	54.9	33.2	18.0	4.54	3.65	3.24	4.03	15.1	22.4
Asset Finance													

Source: MOSL, Company

Financials and Valuation

Income Statement						(INR Million)		
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	3,50,649	4,11,355	4,84,699	6,02,214	6,93,060	8,12,534	9,48,052	11,36,060
Interest Expense	1,92,538	2,26,529	2,60,742	3,26,299	3,61,667	4,05,534	4,67,034	5,56,084
Net Interest Income	1,58,111	1,84,826	2,23,957	2,75,915	3,31,392	4,07,000	4,81,018	5,79,976
Change (%)	22.7	16.9	21.2	23.2	20.1	22.8	18.2	20.6
Non Interest Income	68,526	79,196	89,964	1,07,517	1,22,965	1,47,558	1,75,594	2,07,201
Net Income	2,26,637	2,64,023	3,13,920	3,83,432	4,54,357	5,54,558	6,56,612	7,87,177
Change (%)	21.4	16.5	18.9	22.1	18.5	22.1	18.4	19.9
Operating Expenses	1,12,361	1,20,422	1,39,875	1,69,797	1,97,033	2,25,230	2,61,462	3,02,021
Pre Provision Profits	1,14,276	1,43,601	1,74,045	2,13,635	2,57,324	3,29,328	3,95,151	4,85,156
Change (%)	21.7	25.7	21.2	22.7	20.4	28.0	20.0	22.8
Provisions (excl tax)	16,770	15,880	20,758	27,256	35,933	60,500	63,906	72,798
PBT	97,506	1,27,721	1,53,287	1,86,379	2,21,391	2,68,828	3,31,245	4,12,358
Tax	30,249	42,937	51,128	63,417	75,894	92,746	1,14,279	1,42,264
Tax Rate (%)	31.0	33.6	33.4	34.0	34.3	34.5	34.5	34.5
PAT	67,257	84,784	1,02,159	1,22,962	1,45,496	1,76,082	2,16,965	2,70,095
Change (%)	30.2	26.1	20.5	20.4	18.3	21.0	23.2	24.5
Equity Dividend (Incl tax)	15,360	19,275	24,142	28,790	33,927	40,722	49,293	59,450
Core PPP*	97,607	1,22,227	1,50,348	1,84,470	2,20,859	3,09,587	3,71,601	4,57,108
Change (%)	22.9	25.2	23.0	22.7	19.7	40.2	20.0	23.0

*Core PPP is (NII+Fee income-Opex)

Balance Sheet

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	4,759	4,798	5,013	5,056	5,125	5,125	5,125	5,125
Reserves & Surplus	3,57,383	4,29,988	6,15,081	7,21,721	8,55,571	9,72,191	11,47,519	13,71,351
Net Worth	3,62,141	4,34,786	6,20,094	7,26,778	8,60,696	9,77,316	11,52,645	13,76,476
Deposits	29,62,470	36,73,375	45,07,956	54,64,242	64,36,397	76,01,384	90,07,640	1,07,55,123
Change (%)	20.1	24.0	22.7	21.2	17.8	18.1	18.5	19.4
of which CASA Dep	14,05,215	16,46,214	19,84,921	23,63,108	30,91,525	33,90,217	40,98,476	50,44,153
Change (%)	17.7	17.2	20.6	19.1	30.8	9.7	20.9	23.1
Borrowings	3,30,066	3,94,390	4,52,136	8,49,690	7,40,289	9,76,769	12,96,400	17,47,754
Other Liabilities & Prov.	3,48,642	4,13,444	3,24,845	3,67,251	6,01,020	6,97,525	8,57,955	10,55,285
Total Liabilities	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,02,52,994	1,23,14,640	1,49,34,637
Current Assets	2,72,802	3,95,836	3,63,315	3,89,188	4,89,521	6,51,940	7,83,107	9,50,219
Investments	11,16,136	12,09,511	15,16,418	19,58,363	21,44,633	23,37,876	28,29,476	35,96,856
Change (%)	14.5	8.4	25.4	29.1	9.5	9.0	21.0	27.1
Loans	23,97,206	30,30,003	36,54,950	46,45,940	55,45,682	67,38,004	80,51,914	95,81,778
Change (%)	22.7	26.4	20.6	27.1	19.4	21.5	19.5	19.0
Fixed Assets	27,031	29,399	31,217	33,432	36,267	39,531	43,089	46,967
Other Assets	1,90,144	2,51,246	3,39,131	3,81,038	4,22,298	4,85,643	6,07,054	7,58,817
Total Assets	40,03,319	49,15,995	59,05,031	74,07,961	86,38,402	1,02,52,994	1,23,14,640	1,49,34,637
Asset Quality								
GNPA (INR m)	23,346	29,893	34,384	43,928	58,857	86,626	97,297	1,07,929
NNPA (INR m)	4,690	8,200	8,963	13,204	18,440	28,404	30,008	30,404
GNPA Ratio	1.0	1.0	0.9	0.9	1.1	1.3	1.2	1.1
NNPA Ratio	0.2	0.3	0.2	0.3	0.3	0.4	0.4	0.3
Slippage Ratio	1.61	1.93	1.58	1.56	1.53	1.65	1.55	1.50
Credit Cost	0.57	0.60	0.52	0.51	0.62	0.95	0.85	0.82
PCR (Excl Tech. write off)	79.9	72.6	73.9	69.9	68.7	74.8	89.9	89.1

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	10.6	10.3	10.1	10.1	9.6	9.5	9.3	9.2
Avg. Yield on loans	12.3	11.7	11.1	10.8	10.2	10.3	10.1	10.1
Avg. Yield on Invnt	7.5	7.8	7.2	8.1	7.8	7.9	7.7	7.7
Avg. Cost-Int. Bear. Liab.	6.4	6.2	5.8	5.8	5.4	5.1	4.9	4.9
Avg. Cost of Deposits	6.0	5.7	5.7	5.9	5.3	5.1	4.9	4.8
Interest Spread	4.2	4.1	4.3	4.3	4.2	4.4	4.3	4.3
Net Interest Margin	4.8	4.6	4.6	4.6	4.6	4.6	4.5	4.5

Profitability Ratios (%)

RoE	20.3	21.3	19.4	18.3	18.3	18.8	20.4	21.4
RoA	1.8	1.9	1.9	1.8	1.8	1.9	1.9	2.0
Int. Expense/Int.Income	54.9	55.1	53.8	54.2	52.2	49.9	49.3	48.9
Fee Income/Net Income	27.3	27.2	24.4	23.6	21.8	20.5	21.1	20.6
Non Int. Inc./Net Income	30.2	30.0	28.7	28.0	27.1	26.6	26.7	26.3

Efficiency Ratios (%)

Cost/Income*	49.9	45.8	47.0	46.7	45.8	42.1	41.3	39.8
Empl. Cost/Op. Exps.	35.3	34.7	34.0	33.6	32.9	30.9	30.4	29.9

* ex treasury

Asset-Liability Profile (%)

Loans/Deposit	80.9	82.5	81.1	85.0	86.2	88.6	89.4	89.1
CASA Ratio	47.4	44.8	44.0	43.2	48.0	44.6	45.5	46.9
Investment/Deposit	37.7	32.9	33.6	35.8	33.3	30.8	31.4	33.4
CAR	16.8	16.1	16.8	15.5	14.6	15.7	16.2	16.5
Tier 1	11.1	11.8	13.7	13.2	12.8	14.0	14.8	15.3

Valuation

Book Value (INR)	152	181	247	287	336	381	450	537
Change (%)	19.4	19.2	36.5	16.2	16.9	13.6	17.9	19.4
Price-BV (x)					5.6	4.9	4.1	3.5
Adjusted BV (INR)	151	179	245	284	331	357	422	504
Price-ABV (x)					5.6	5.2	4.4	3.7
EPS (INR)	28.3	35.3	40.8	48.6	56.8	68.7	84.7	105.4
Change (%)	28.4	25.0	15.3	19.3	16.7	21.0	23.2	24.5
Price-Earnings (x)					32.8	27.1	22.0	17.7
Dividend Per Sh (INR)	5.5	6.9	8.0	9.5	11.0	14.4	16.2	18.1
Dividend Yield (%)					0.6	0.8	0.9	1.0

E: MOSL Estimates

Corporate profile

Company description

HDFC Bank was amongst the ten private sector bank which were awarded license post liberalization of 1990s. The bank was incorporated in August 1994 and is promoted by the biggest mortgage lender in the country, HDFC Limited (18.8% stake). The bank is now the second largest private sector bank in India with asset size of INR6t+ and market share of ~5% in deposit and loans respectively. As on March 31, 2017, the bank had a network of 4,715 branches and 12,260 ATMs spread across the country.

Exhibit 1: Sensex rebased

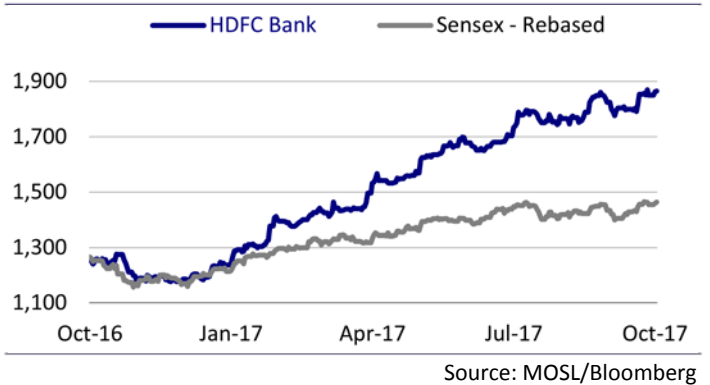


Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	21.0	21.1	21.3
DII	11.6	11.1	11.8
FII	52.2	52.7	50.6
Others	15.1	15.2	16.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Europacific Growth Fund	3.9
LIC of India	2.0
SBI-ETF NIFTY 50	1.5
ICICI Prudential Life Insurance Company Limited	1.2
Capital World Growth and Income Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyamala Gopinath	Chairperson
Aditya Puri	Managing Director
Paresh Sukthankar	Deputy Managing Director
Kaizad Bharucha	Executive Director
Sanjay Dongre	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
A N Roy	Bobby Parikh
K M Mistry	Malay Patel
Partho S Datta	Renu Karnad
Srikanth Nadhamuni	Umesh Chandra Sarangi

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	68.7	68.7	0.0
FY19	84.7	83.5	1.4
FY20	105.4	100.9	4.4

Source: Bloomberg

Disclosures:

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Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudicate violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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