

Rating	BUY		
Price	Rs978		
Target price	Rs1100		
Implied upside	13%		
Sensex	23300		
Nifty	7100		
Trading data			
Market cap	2609.6		
Shares o/s	2506.5		
3M Avg daily value	1386.3		
Major shareholders			
Promoters	21.60%		
Foreign	39.78%		
Domestic inst	13.73%		
public & other	25.08%		
Stock performance			
%	1m	6m	12m
Absolute	-3.1	-6	-0.2
Relative	2.2	6.9	16.2
How we differ from consensus			
EPS	PL	Cons	%diff
2017	60.2	61.4	-1.9
2018	75.2	76.3	-1.4

HDFC Bank reported steady quarter as loan growth continues to report healthy traction while net earnings grew 20% YoY on expected lines. Revenue growth was broadly in-line though margin expansion by 10bp QoQ surprised positively, despite bank cutting base rate sharply (40bp in past four months). GNPL/NNPL increased by 11%/21% QoQ to Rs42.5 bn and Rs12.6bn respectively however there are no pending accounts to take care of as part of RBI's balance sheet clean up drive. HDFCB remains one of the top-picks for us and we maintain 'BUY' with a revised PT of Rs1,300 (from Rs1,200) based on 3.8x Sep-2017E ABV.

Revenue growth broadly in-line: HDFCB delivered ~21% YoY growth in total revenues at Rs99.4 bn (PLe: Rs100.7 bn) led by steady 24% YoY growth in NII though other income growth remains slightly tepid (weaker third-party income) at 13% YoY. Core other income also grew similar 21% YoY. NII growth was boosted by 10bp QoQ expansion in margins despite bank base rate cut. HDFCB opened 54 branches and added 1,203 employees during the quarter. Over past one year HDFCB has added ~8,400 employees yet commendably the cost-ratios remain stable over 9MFY16 (down 310bp QoQ for 3QFY16)

Loan growth remains healthy; wholesale – retail mix remains stable: Overall loan growth stood at ~26% YoY (4.3% QoQ) led by healthy growth in both retail and wholesale portfolio. Within wholesale, growth was largely on account of working capital loans while growth in the retail portfolio was led by strong traction in CV loans, personal loans, two-wheeler, credit cards and other retail segment. The mix of retail increased marginally to 49.2%. HDFCB indicated healthy growth trends on underlying improvement in product segments where it is gaining market share and benefitting from increased distribution presence

Asset quality deteriorates a little; outlook stable: Asset quality reported slight blip with GNPL/NNPL increasing by 11%/21% QoQ to Rs42.5 bn and Rs12.6bn respectively however there are no pending accounts to take care of as part of RBI's balance sheet clean up drive. Coverage ratio also thus declined by 250bp QoQ though floating provisions remain stable at ~Rs16bn. O/s restructured assets remain tiny at 0.1% of total loans. HDFCB remains one of our top-picks and we revise PT to Rs1,300 (from Rs1,200) based on 3.8x Sep-2017E ABV.

Key financial	2015	2016	2017	2018e
Net interest income	223957	273105	332998	402477
Growth %	21.2	21.9	21.9	20.9
Operating profit	174045	210469	262597	328323
PAT	102159	122744	150814	188497
EPS	41.7	49	60.2	75.2
Growth %	17.4	17.6	22.9	25
Net DPS	8	9	10.5	12
Profitability & valuation				
NIM %	4.14	4.18	4.19	4.15
RoAE %	19.4	18.4	19.5	20.7
ROAA %	1.89	1.88	1.9	1.95
P/BV	4.2	3.6	3.1	2.6
P/ABV	4.5	3.9	3.3	2.8
PE	25	21.3	17.3	13.8
Net dividend yield %	0.8	0.9	1	1.2

Rs m	Q3FY16	Q3FY15	YOY gr.	Q2FY16	QOQ gr.
Interest income	154111	123958	24.3	147725	4.3
Interest expended	83426	66959	24.6	80916	3.1
Net interest income	70685	56999	24	66809	5.8
Treasury income	3279	2655	23.5	1624	101.9
Other income	28722	25349	13.3	25518	12.6
Total income	99407	82348	20.7	92327	7.7
Operating expenses	42048	34563	21.7	41898	0.4
staff expenses	14313	11325	26.4	14140	1.2
other expenses	27736	23238	19.4	27758	-0.1
opeating profit	57359	47786	20	50429	13.7
core operating profit	54080	45131	19.8	48805	10.8
Total provisions	6539	5604	16.7	6813	-4
Profit before tax	50820	42181	20.5	43616	16.5
Tax	17251	14236	21.2	14922	15.6
profit after tax	33568	27945	20.1	28695	17

Rs m	Q3FY16	Q3FY15	YOY gr.	Q2FY16	QOQ gr.
Balance sheet					
Deposits	5239968	4141283	26.5	5069087	3.4
Advances	4363644	3470880	25.7	4185410	4.3
Gross NPL	42552	34679	22.7	38278	11.2
Net NPL	12606	9037	39.5	10377	21.5
Restructured assets	4406	3506	25.7	4224	4.3
Profitability ratios					
Yield on advances	10.7	11.3	-58	11.2	-43
cost of funds	5.8	6.1	-23	6.1	-30
NIM	4.3	4.4	-10	4.2	10
RoA	2	2.1	-15	1.8	16
RoE	19.1	22.3	-313	17.6	152
Asset quality					
Gross NPL ratio	1	1	-3	0.9	6
Net NPL ratio	0.3	0.3	-1	0.3	4
coverage ratio	70.4	73.9	-357	72.9	-252
Rest.assets/total adv	0.1	0.1	0	0.1	0
Bussiness & other ratios					
Low cost deposit mix	40	40.9	-90	40	0
cost income ratio	42.3	42	33	45.4	-308
Non int inc/ total income	28.9	30.8	-189	27.6	125
Credit deposit ratio	83.3	83.8	-54	82.6	71
CAR	15.9	15.7	20	15.5	40
Tier 1	13.2	12	123	12.8	40

Key Q3FY16 Concall Highlights:

Balance sheet & Outlook

- Loan book – Urban market continues to see higher competition & pricing pressure in urban markets than SU-RU markets. Overseas operations – Currently of the total loans book, 7.5% is overseas loans.
- Retail loans – Higher focus on retail by competitors has put pressure on pricing but better brand & reach has helped gained market share among products. Volume growth has picked in 2W, CV (as were slow growing in in FY15), also have seen other products continuing to do well as well.
- Home loans – Have bought over Rs12bn of home loans which also include non- originated, this could be higher going ahead as historically have been buying back PSL related loans. Car loans – 80% mix of new vehicle is the trend in origination of car loans.
- Corporate loans – Loan growth pre-dominantly are on back of short term working capital requirement and lower of term loans. Have seen some re- financing deals during the quarter.

Margins

- Margins have been in the range of 4-4.3% and likely to continue remain the same going ahead. Transition on MCLR will be easy for the bank with minor issues, but will be difficult to assess the MCLR impact currently as rates will be based on tenor based linking

Fee income/other income

- Fee growth was sluggish on some slowdown in TPD fees on mix change in products & some regulatory changes like commission up-fronting. Also, due to festive season certain fees were waived off which also impacted fee growth.

Opex/Branches/Capacity

- Other opex has been seeing higher growth (1) higher branch additions especially in metro which are expensive than SU-RU. Employee count additions have been higher on higher product introduction in newer branches which requires higher customer facing activity.
- Outlook – Would likely see some moderation in branch additions going ahead and would likely not see the rate of additions seen in last few quarters.

Asset Quality

- Slippages – Bank witnessed slippages of Rs15.5bn (net slippage: Rs 0.42bn). Have seen slippages from some pockets of Agri & SME. Also, some slippages were seen from credit card receivables as it has under gone some regulatory changes on recognition

- Currently holding Rs16bn as floating provisions (unchanged from last quarter).v Also, currently do not have any SDR asset or 5/25 refinancing
- Outlook – Do not any see any corporate falling into NPA in near term.
- Others Capital consumption – Have seen increase of one-off release of provisions byv 40bps in CAR on revised regulatory guidelines on affordable housing and capital released on securitization assets. Bank will be likely facing 50-60bps burn of capital burn per annum

Loan composition	Q3FY16	Q3FY15	Yoyo gr .%	Q2FY16	QOQ gr.%
Car loans	497550	400140	24.3	460090	8.1
CV loans	149500	132120	13.2	147990	1
2 wheeler loans	52130	39590	31.7	47300	10.2
sub total auto loans	699180	571850	22.3	655380	6.7
personal loans	350710	248040	41.4	318810	10
business banking	269360	213400	26.2	272880	-1.3
loan against shares	11290	11940	-5.4	10780	4.7
credit cards	196890	153640	28.2	180000	9.4
home loans	284190	199770	42.3	284380	-0.1
Gold loans	43610	39010	11.8	43090	1.2
other retail	293490	210690	39.3	278780	5.3
Retail loans	2148720	1648340	30.4	2044100	5.1
non retail loans	2214924	1822540	21.5	2141310	3.4
Total advances	4363644	3470880	25.7	4185410	4.3

Rs mn	Old estimates		Revised estimates		% Change		New
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY18E
Net interest income	270554	329540	273105	332998	0.9	1	402477
operating profit	214436	266674	210469	262597	-1.8	-1.5	328323
net profit	125431	155802	122744	150814	-2.1	-3.2	188498
EPS Rs	50	62.2	49	60.2	-2.1	-3.2	75.2
ABVPS Rs	271.2	317.4	268.3	313.8	-1.1	-1.1	370.2
price target Rs	1200		1300				
Recommendation	BUY		BUY				

Exhibit 10: We increase HDFCB TP to Rs1,300 (from Rs1,200) as we roll our valuations to Sep-17 with a multiple of 3.8x and retain as our top pick in the sector

Calculation and upside	
Fair price EVA	1198
Fair price p/ABV	1316
Average of the two	1300
Target P/ABV	3.8
TargetP/E	19.2
Current price Rs	1041
Upside %	24.80%
Dividend yield %	1.00%
Total return %	25.90%

RoA decomposition	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Interest income	9.06	9.5	9.22	8.96	9.07	8.95	8.89
Interest expended	4.87	5.22	5.08	4.82	4.87	4.73	4.68
Net interest income	4.19	4.28	4.14	4.14	4.19	4.22	4.21
Treasury income	0.38	0.28	0.32	0.29	0.32	0.32	0.33
Other income	1.5	1.57	1.46	1.38	1.28	1.24	1.18
Total income	6.07	6.14	5.92	5.8	5.8	5.78	5.71
Employee expenses	1.11	1.07	0.94	0.88	0.82	0.77	0.68
Other operating expenses	1.91	1.97	1.76	1.71	1.65	1.6	1.51
Operating profit	3.05	3.1	3.22	3.22	3.32	3.41	3.52
Tax	0.76	0.82	0.96	0.94	0.96	0.98	1.01
Loan loss provisions	0.61	0.45	0.36	0.38	0.42	0.44	0.45
Net profit	1.68	1.82	1.9	1.89	1.94	1.99	2.06

Income statement				
Y/E march	2015	2016E	2017E	2018E
Int.Earned from adv	371808	452558	550842	666788
Int.Earned from invt	107056	133556	152146	181623
others	5835	5762	7530	9245
Total interest income	484699	591876	710518	857656
Interest expense	260742	318772	377520	455180
NII	223957	273105	332998	402477
Growth %	21.2	21.9	21.9	20.9
Treasury income	5260	0	0	0
NTNII	84704	104538	123354	145558
Non interest income	89964	104538	123354	145558

Total income	574663	696414	833872	1003214
Growth %	17.1	21.2	19.7	20.3
Operating expense	139875	167173	193755	219712
operating profit	174045	210469	262597	328323
Growth %	21.2	20.9	24.8	25
NPA Provisions	17236	22832	30046	37927
investment provisions	-38	-34	-31	-28
Total provsions	20758	24494	34091	42720
PBT	153287	185975	228506	285603
Tax provisions	51128	63232	77692	97106
Effective tax rate	33.4	34	34	34
PAT	102159	122744	150814	188497
Growth %	20.5	20.1	22.9	25

Balance sheet				
Y/E March	2015	2016E	2017E	2018E
par value	2	2	2	2
No. of equity shares	2506	2506	2506	2506
Equity	5013	5013	5013	5013
Networth	620094	718375	834825	987122
Adj. networth	611131	709347	823451	972402
deposits	4507956	5504215	678697	8306917
Growth	22.7	22.1	23.3	22.4
Low cost deposits	1984921	2520930	3162601	3912558
% of total deposits	44	45.8	46.6	47.1
Total liabilities	5905031	7154513	8742533	10636486
Net advances	3654950	4499244	5516073	6718577
Growth	20.6	23.1	22.6	21.8
Investments	1664599	1820904	2201301	2663361
Total assets	5905031	7154513	8742533	10636486

Quarterly financials				
Y/E march	Q4FY15	Q3FY15	Q2FY16	Q3FY16
Interest income	130064	140411	147725	154111
Interest expense	69932	76523	80916	83426
Net interest income	60132	63888	66809	70685
Non interest income	25638	24619	25518	28722
CEB	18348	17130	18689	20048
Trasury	1961	1259	1624	3279
Net total income	85769	88507	92327	99407
operating expenses	38550	40008	41898	42048
employee expenses	13256	13590	14140	14313

other expenses	25294	26418	27758	27736
operating profit	47220	48499	50429	57359
core operating profit	45259	47240	48805	54080
provisions	5767	7280	6813	6539
Loan loss provisions	1185	5575	4844	6015
investment depreciation	0	0	0	0
Profit before tax	41453	41219	43616	50820
Tax	13384	14262	14922	17251
PAT before eo	28069	26957	28695	33568
extraordinary item	0	0	0	0
PAT	28069	26957	28695	33568

Key Ratios				
Y/E march	2015	2016E	2017E	2018E
CMP	1041	1041	1041	1041
Equity shares	2506	2506	2506	2506
Market cap	2609638	2609638	2609638	2609638
m/cap to aum	44.2	36.5	29.8	24.5
EPS	41.7	49	60.2	75.2
Book value	247	286	333	394
Adj BV	233	268	314	370
P/E	25	21.3	17.3	13.8
P/BV	4.2	3.6	3.1	2.6
P/ABV	4.5	3.9	3.3	2.8
DPS	8	9	10.5	12
Dividend yield	0.8	0.9	1	1.2

Profitability				
Y/e march	2015	2016E	2017E	2018E
NIM	4.1	4.2	4.2	4.2
RoAA	1.9	1.9	1.9	1.9
ROAE	19.4	18.4	19.5	20.7
Efficiency				
Y/E march	2015	2016e	2017e	2018E
cost income ratio	44.6	44.3	42.5	40.1
C D Ratio	81.1	81.7	81.3	80.9
Business per emp	112	128	143	159

profit per emp	14	15.7	17.6	20
business branch	659	721	807	895
profit per branch	8	9	10	11

Asset Quality				
Y/e march	2015	2016e	2017e	2018E
Gross NPAs	34384	42565	48825	59995
Net NPAs	8963	12730	11373	14720
Gr NPAs to gross adv	0.9	0.9	0.9	0.9
Net NPAs to net adv	0.2	0.3	0.2	0.2
NPA Coverage	73.9	70.1	76.7	75.5

