



Company Name	: HDFC BANK
BSE Code	: 500180
Time Duration	: 2 years
CMP	: ₹829.70 (as on 01 Apr., 2020)
Target Price	: ₹1165

Our upstream pick for the month of April is HDFC Bank. It is country's one of the leading and largest business group and is called-Housing Development Finance Corporation (HDFC). It is the largest private bank of the country, offering various banking services such as retail loans, corporate loans etc. The bank has a wide range of commercial and transactional banking services in various industries and operates via strong ATM network, net banking, phone banking, mobile banking etc. Its business horizon stands at 5,345 banking touch points, with more than 14 thousand ATMs.

Strong operational performance

The bank has shown a very strong operational growth in the recent years. At a time when the banking industry faced its worst phase, in terms of asset quality, HDFC Bank has reported a gross NPA ratio of 1.42 per cent, at the end of the third quarter of FY20. The bank has managed to maintain NPA ratio well below the industry average of 3.42 per cent. In addition to this, the loan book growth of 24 per cent, tier 1 capital adequacy ratio at 15.8 per cent and 31 per cent growth in the corporate loans & retail loan growth of 19 per cent, reflects its operational efficiency. Such performance under unfavourable condition, gives it an edge ahead in comparison to its peers.

Healthy financial position

Its advances and the deposits as of end of Q3FY20 grew at 25 per cent and 18 per cent respectively, which is the highest growth rate when compared to the average industry growth. On loan book front, it is well-balanced with 55 to 45 ratio of retail to wholesale loans. The bank's net interest margin (NIM) largely remained flat at 4.3 per cent by the end of Q3FY20 as compared to 4.18 per cent in FY19, owing to its core banking strengths and operational efficiencies. Going ahead, we might see a turnaround in the banking industry that will be led by HDFC Bank.

Low cost funding

For banks, to sustain in the long-run, low cost capital procurement is a very important parameter. The key funding resources is current account and savings account (CASA) of the total deposits. The ratio stood at 40 per cent thus, positively supporting its credit costs. Its credit to deposit ratio, i.e. reflection funds used for lending out of these accounts, stood at 94 per cent. Going ahead, in crunch situations such as now, low cost funding would help to revive swiftly during the economic turnaround. Capital adequacy ratio stood at 17.54 per cent as of December 31, 2019 which is well above the minimum regulatory requirements of 11.075 per cent since FY19.

Financial performance

The net interest income (NII) of the bank for the third quarter of FY20 stood at Rs 14,172.9 crore as against Rs 12,576.8 crore for the same quarter in the last fiscal, showing a growth of 12.70 per cent on YoY basis. The provision and contingencies stood at Rs 3,043 crore as against Rs 2,211.5 crore when compared to the last year. The bank earned a net profit of Rs 7,416.5 crore for the third quarter of FY20 which increased by 18 per cent YoY basis. While NIM stood at 4.3 per cent, the advances and deposits grew by 19.9 per cent and 25.2 per cent, respectively.

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Outlook

The stock is trading at 2.97x of its book value. Looking at its strong asset quality and liquidity position, these valuations reflects its sustainability. The current slowdown may impact this growth parameter due to lower loan recovery and increases the risk of defaults in the current quarter. However, looking at its current valuations, we recommend a BUY on the scrip with a price target of Rs 1,165.

Inc/Exp Statement (Consolidated)

Description	201903	201803	201703	201603	201503
Interest Earned	105160.74	85287.84	73271.35	63161.56	50666.49
Total Income	124107.79	101344.45	86148.99	74373.22	60212.18
Interest Expended	53712.69	42381.48	38041.58	34069.57	27288.46
Operating Profit	42700.34	35035.75	27356.33	22471.76	18346.2
PAT	22445.61	18560.84	15287.4	12817.32	10700.05
Dividend %	750	650	550	475	400
Adj. EPS(Rs)	41	35.66	29.82	25.32	21.32

Quarter On Quarter (Consolidated)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Interest Earned	31200.92	30016.88	3.94	27434.29	13.73
Total Income	38325.7	36130.96	6.07	32722.77	17.12
Interest Expended	16073.27	15558.44	3.31	14062.52	14.3
Operating Profit	13727.08	12520.19	9.64	11516.21	19.2
PAT	7659.96	6648.8	15.21	5897.87	29.88
OPM%	44	41.71	5.49	41.98	4.81
PATM%	24.55	22.15	10.84	21.5	14.19
Adj. EPS(Rs)	13.99	12.13	15.33	10.85	28.94

Stock vs. Index



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