

HDFC Bank, a new-generation bank, is the second largest private sector bank in India. The Bank has a nationwide distribution network of 4,729 branches and 12,259 ATM's in 2,669 cities/towns as of Q2FY18. The bank has grown its balance sheet at a healthy pace of 21% CAGR over FY12-17 maintaining high profit CAGR of 23%.

Key Events

Strong traction in loan growth across segments:

HDFC bank's advances grew at a robust CAGR of 23% over FY12-17 attributed by the strong growth in both retail and wholesale advances. The bank's loan book has healthy mix of retail and wholesale assets (53:47) as of FY17.

Superior retail liability franchise:

HDFC Bank enjoys superior liability franchise as the bank has successfully maintained CASA ratio above 43% over the last five years which benefits it with the lowest cost of funds compared to peers.

Net Interest Margin (NIM) intact:

HDFC Bank has consistently maintained its NIM at a superior level of ~4.5%+ over the last five years even as market yields in the overall economy were falling.

Unmatchable asset quality:

HDFC bank's asset quality continued to remain stable as Gross and Net non-performing asset (NPA) ratios stood at 1.3% ($\uparrow 2$ bps QoQ) and 0.4% ($\downarrow 1$ bp QoQ), respectively as of Q2FY18. Notably, both Gross and Net NPA ratios remained almost unchanged over the last five years.

Robust profitability:

Superior asset quality and faster than systemic credit growth has enabled HDFC Bank to maintain the earnings momentum. As a result, HDFC Bank's net profit has grown at a robust pace of 23% CAGR over FY12-17.

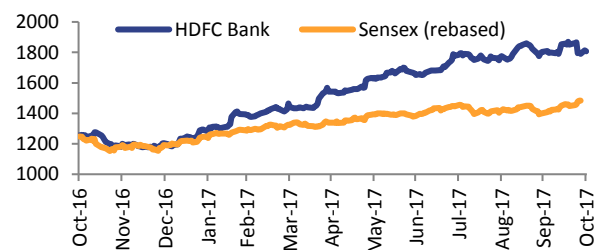
Market Data

CMP (Rs.)	1,846
Face Value (Rs.)	2
52 week H/L (Rs.)	1,877/1,159
Adj. all time High (Rs.)	1,877
Decline from 52WH (%)	1.7
Rise from 52WL (%)	59.3
Beta	1.0
Mkt. Cap (Rs.Cr)	477,398
Enterprise Value (Rs.Cr)	-

Fiscal Year Ended

	FY15	FY16	FY17
NII (Rs.cr)	22,396	27,592	33,139
PPP (Rs.cr)	17,404	21,364	25,732
PAT (Rs.Cr)	10,216	12,296	14,550
EPS (Rs.)	40.8	48.6	56.8
P/E (x)	45.3	38.0	32.5
P/ABV (x)	7.6	6.5	5.4
ROA (%)	1.9	1.9	1.9

One year Price Chart



Shareholding	Sep-17	Jun-17	Diff.
Promoters (%)	25.7	25.9	(0.2)
Public (%)	74.3	74.1	0.2
Others (%)	-	-	-

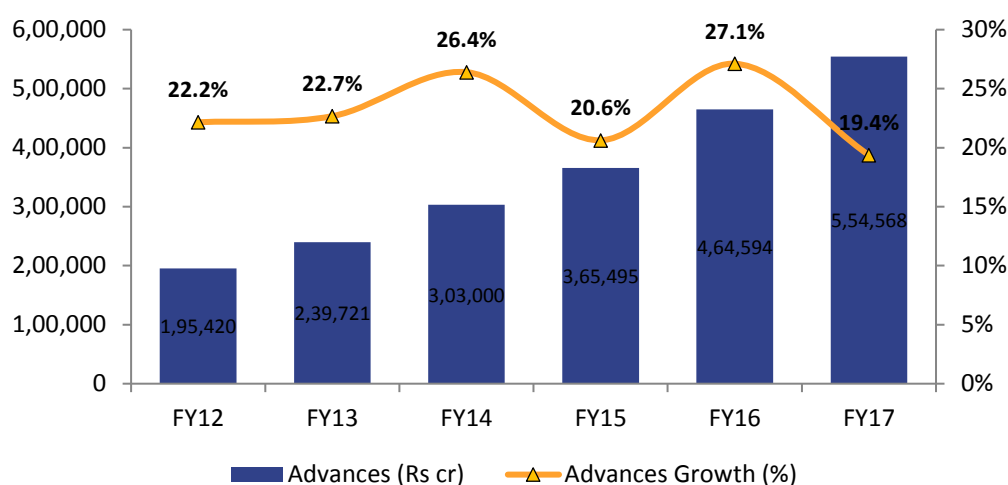
HDFC Bank - Company Overview

HDFC Bank, a new-generation bank, is the second largest private sector bank in India. The Bank has a nationwide distribution network of 4,729 branches and 12,259 ATM's in 2,669 cities/towns as of Q2FY18. The bank has grown its balance sheet at a healthy pace of 21% CAGR over FY12-17 maintaining high profit CAGR of 23%.

Strong traction in loan growth across segments

HDFC bank's advances grew at a robust CAGR of 23% over FY12-17 attributed by the strong growth in both retail and wholesale advances. The bank's loan book has healthy mix of retail and wholesale assets (53:47) as of FY17.

Advances grew at a CAGR of 23% over FY12-17

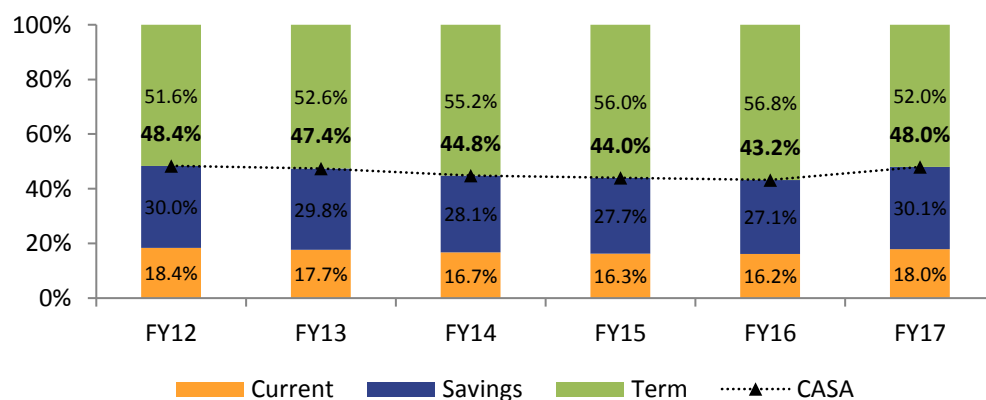


Source: Company, In-house research

Superior retail liability franchise

HDFC Bank enjoys superior liability franchise and scores one of the highest CASA ratio in the financial space. The bank has successfully maintained CASA ratio above 43% over the last five years which benefits it with the lowest cost of funds compared to peers.

CASA ratio is one of the best in the industry

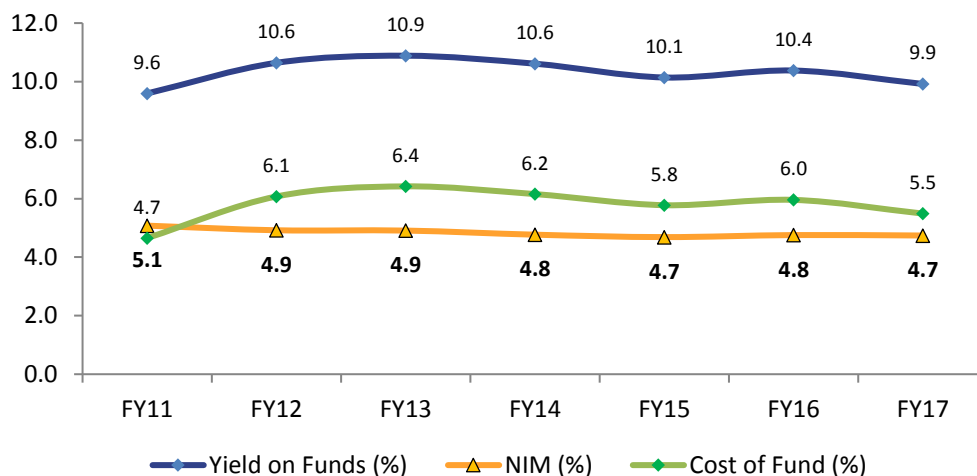


Source: Company, In-house research

Net Interest Margin (NIM) intact

HDFC Bank has consistently maintained its NIM at a superior level of ~4.5%+ over the last five years even as market yields in the overall economy were falling. The higher proportion of retail loans in the bank's portfolio has aided in maintaining the net interest margins.

NIM remains broadly stable over the years

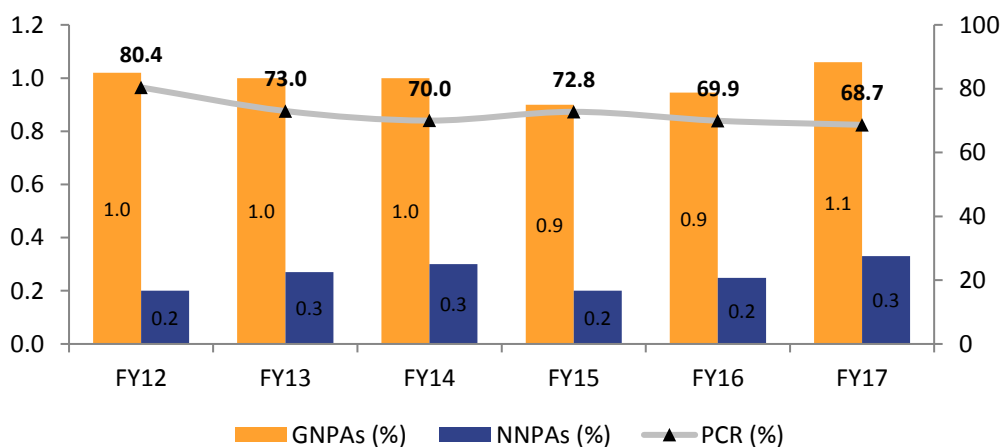


Source: Company, In-house research

Unmatchable asset quality

HDFC bank's asset quality trend continues to be relatively stronger than peers despite challenging macro environment largely due to stringent credit origination practices, relentless monitoring system and adequate provisioning. Notably, the bank's asset quality continued to remain stable as Gross and Net non-performing asset (NPA) ratios stood at 1.3% (↑2 bps QoQ) and 0.4% (↓1 bp QoQ), respectively as of Q2FY18. Notably, both Gross and Net NPA ratios remained almost unchanged over the last five years.

Best in-class asset quality

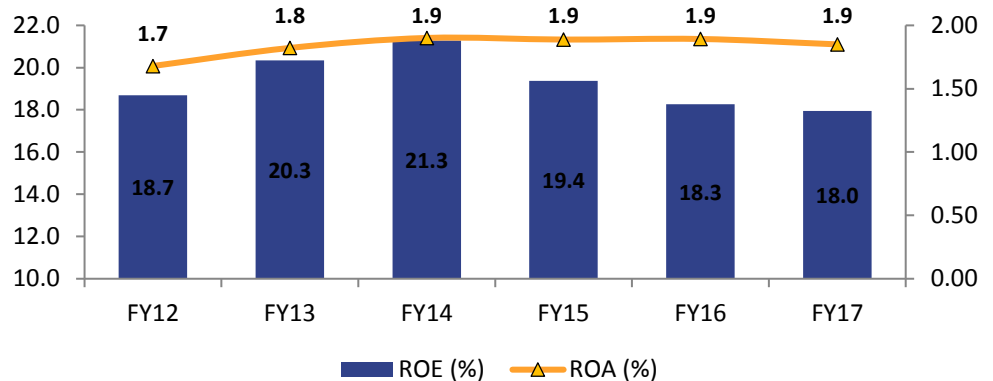


Source: Company, In-house research

Robust profitability

Superior asset quality and faster than systemic credit growth has enabled HDFC Bank to maintain the earnings momentum. As a result, HDFC Bank's net profit has grown at a robust pace of 23% CAGR over FY12-17. As a result, the bank has consistently maintained its RoE and RoA in the range of ~18-21% and 1.8-1.9%, respectively over the last five years.

Return ratios remains robust

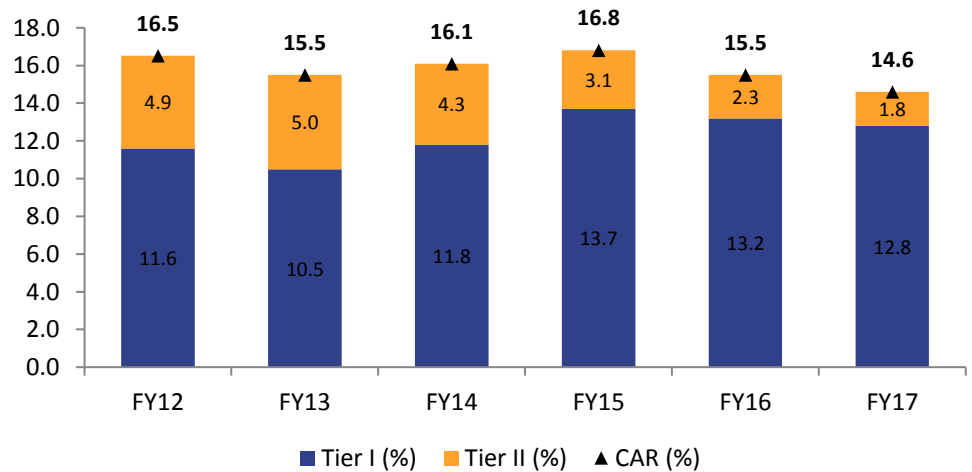


Source: Company, In-house research

Adequately capitalized

The Bank's capital adequacy ratio (CAR) as per Basel III norms continues to remain strong at 14.6% with Tier-I capital ratio of 12.8%.

Well capitalized to support growth momentum



Source: Company, In-house research

Financial Performance

HDFC Bank's net interest income (NII) increased at a robust pace of 22% YoY in Q2FY18 on the back of strong loan growth coupled with 11 bps YoY expansion in NIM to 4.8%. Increase in NIM was on the back of 419 bps YoY improvement in credit/deposit (c/d) ratio. Provisions witnessed a spike of 97% YoY (↓5.3% QoQ) as the bank made additional provisions of Rs700cr for the 5:25 account (Rs400cr through P&L and Rs300cr from floating provisions). Thus, net profit increased at a relatively slower pace of 20% YoY. HDFC Bank continued to outperform on the business front with a strong 22% YoY growth in advances and 16% YoY growth in deposits.

Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Capital	501	506	513
Reserves and Surplus	61,508	72,172	88,950
Deposits	4,50,796	5,46,424	6,43,640
Borrowings	45,214	53,018	74,029
Other Liabilities and Provisions	32,557	36,725	56,709
Total Liabilities	5,90,576	7,08,846	8,63,840
Cash And Balances	36,331	38,919	48,952
Investments	1,66,460	1,63,886	2,14,463
Advances	3,65,495	4,64,594	5,54,568
Fixed Assets	3,122	3,343	3,627
Other Assets	19,168	38,104	42,230
Total Assets	5,90,576	7,08,846	8,63,840

Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	48,470	60,221	69,306
Interest Expense	26,074	32,630	36,167
Net Interest Income	22,396	27,592	33,139
Non Interest Income	8,996	10,752	12,296
Net Income	31,392	38,343	45,436
Operating Expenses	13,988	16,980	19,703
Total Income	57,466	70,973	81,602
Total Expenditure	40,062	49,610	55,870
Pre Provisioning Profit	17,404	21,364	25,732
Provisions	2,076	2,726	3,593
Profit Before Tax	15,329	18,638	22,139
Tax	5,113	6,342	7,589
Net Profit	10,216	12,296	14,550

Key Ratios (Standalone)

	FY15	FY16	FY17
P/E	45.3	38.0	32.5
P/BV	7.5	6.4	5.3
P/ABV	7.6	6.5	5.4
Dividend Yield (%)	0.4	0.5	0.5
CAR (%)	16.8	15.5	14.6
Gross NPA (%)	0.9	0.9	1.1
Net NPA (%)	0.2	0.3	0.3
NIM (%)	4.7	4.8	4.7
RoE (%)	19.4	18.3	17.9
RoA (%)	1.9	1.9	1.9



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.