

Impressive strategy amid tough times...

The bank reported steady asset quality with sequential fall in GNPA at ₹ 12650 crore & ~16 bps reduction in GNPA ratio to 1.26%. Excluding moratorium provided by RBI, GNPA would have been up 10 bps at 1.36%, still prudent. Till now only low single digit proportion availed moratorium and it can rise. Slippages were ₹ 3150 crore (~0.3% of advances).

Provision continued to remain elevated at ~38 bps of advances to ₹ 3784.5 crore, led by contingent provision of ~₹ 1550 crore for Covid-19. As of March 2020, the bank has outstanding floating provision at ₹ 1451 crore and contingent provision at ₹ 2996 crore enabling it to weather the near term provisions. For the quarter, high credit cost led earnings traction to moderate at 17.7% YoY to ₹ 6927.6 crore.

Growth in advances remained healthy at 21.3% YoY, 6.2% QoQ to ₹ 993703 crore, primarily led by higher traction in corporate segment at 28.7% YoY. Traction in retail segment remained moderate at 14.6% YoY, due to muted disbursement in auto segment that contributed ~12.5% of advances. Unsecured retail segment (personal loan & credit card), contributing ~17.4% of advances, continued to witness healthy growth at 24% YoY, though the pace seen moderate compared to previous run rate.

Deposit growth was healthy at 24.3% YoY, 7.5% QoQ to ₹ 1147502 crore. Being beneficiaries of flight of deposits from private sector peers, traction in saving deposits saw higher traction at 24.8% YoY, 11.7% QoQ to ₹ 310377 crore. This led to ~272 bps QoQ improvement in CASA ratio at 42.2%.

Operational performance stayed steady with PPP growth at ~20% YoY to ₹ 12958 crore, led by 16.2% YoY growth in NII. Slowdown in other income was at 23.8% YoY to ₹ 6032.6 crore, impacted by shutdown in the quarter. Higher traction in relatively low yield corporate book was offset by healthy accretion in low cost deposit, keeping margins broadly stable at 4.3%.

Retail to witness slowdown, wholesale to be growth driver

The bank has been stepping up advances growth in corporate, retail portfolio to moderate led by Covid-19 caution, apart from auto and credit cards moderation seen already. It has also maintained cautious stance towards its MFI portfolio worth ₹ 8500. Moderate growth at 20% supported by adequate liquidity from deposits and provisions under control. Expect bank to deliver 20% CAGR in earnings in FY21E-22E to ₹ 38178 crore.

Valuation & Outlook

The bank has shortlisted two internal and one external candidates. However, till its leadership is finalised, overhang on the stock would remain despite strong earnings and outlook. The bank continues to remain a portfolio stock and maintains premium valuations. Accordingly, we maintain **BUY** and maintain target price at ₹ 1100 valuing the bank at ~ 15x FY22E EPS (2.74x FY22E ABV). We include ₹ 75 per share for HDB Financial Services.

Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	40,095	48,243	56,187	62,784	73,769	15%
PPP	32,630	39,750	48,750	56,126	67,474	19%
PAT	17,487	21,078	26,258	31,312	38,178	22%
ABV (₹)	199.8	267.1	305.4	332.4	373.2	
P/E	22.8	19.8	16.0	13.4	11.0	
P/ABV	3.8	2.9	2.5	2.3	2.1	
RoA	1.8	1.8	1.9	1.9	2.0	
RoE	17.9	16.5	16.4	17.1	18.4	



Particulars

Particulars	Amount
Market Capitalisation	₹ 499198 crore
GNPA (Q4FY 20)	₹12650 crore
NNPA (Q4FY 20)	₹3542 crore
NIM % (Q4FY 20)	4.3
52 week H/L	1304/739
Networth	₹170986 crore
Face value	₹1
DII holding (%)	21.7
FII holding (%)	36.7

Key Highlights

- Provisions elevated at ~38 bps of advances led by contingent provisioning of ₹1550 crore.
- Higher traction in low yield corporate book offset by increased CASA deposits kept NIMS stable at 4.3%
- Maintain our BUY recommendation with target price of ₹ 1100

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	15,204	14,788	13,089	16.2	14,173	7.3	NII continues to remain steady on the back of healthy credit growth & stable margins
NIM (%)	4.3	4.2	4.4	10 bps	4.2	2.4	Higher traction in relatively low yield corporate book was offset by healthy accretion in low cost deposit, keeping margins broadly stable
Other Income	6,033	6,372	4,871	23.8	6,669	-9.5	Slowdown in fee income impacted by shutdown during the quarter
Net Total Income	21,237	21,160	17,961	18.2	20,842	1.9	
Staff cost	2,498	2,406	2,074	20.4	2,455	1.8	
Other Operating Expenses	5,780	5,547	5,043	14.6	5,442	6.2	
PPP	12,958.8	13,206.5	10,843.6	19.5	12,945	0.1	PPP growth driven by healthy topline and lower opex
Provision	3,784.5	2,979.1	1,889.2	100.3	3,043.6	24.3	Slippages came in higher at ₹ 3150 crore. Further, the bank has made contingent provisions of ₹ 1550 crore
PBT	9,174.3	10,227.4	8,954.4	2.5	9,901.9	-7.3	
Tax	2,246.6	2,659.1	3,069.3	-26.8	2,485.4	-9.6	
PAT	6,927.7	7,568.3	5,885.1	17.7	7,416.5	-6.6	Higher provisions arrested PAT growth

Key Metrics

GNPA	12,650.0	14,427.3	11,224.2	12.7	13,427.3	-5.8	Excluding moratorium provided by RBI, GNPA would be 10 bps higher at 1.36%
NNPA	3,542.4	5,068.4	3,214.5	10.2	4,468.4	-20.7	
Total Restructured assets	954.0	898.6	786.6	21.3	898.6	6.2	
Advances	993,703	993,030	819,401	21.3	936,030	6.2	Healthy traction in corporate book at 28% YoY led advances growth rate at 21.3% YoY
Deposits	1,147,502	1,146,562	923,141	24.3	1,067,433	7.5	CASA ratio improved ~272 bps QoQ to 42.2%, led by higher accretion in savings deposit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comment
(₹Crore)	Old	New	% Change	Old	New	% Change	
Net Interest Income	62,545.5	62,784.4	0.4	71,349.6	73,768.6	3.4	
Pre Provision Profit	55,634.1	56,125.6	0.9	66,020.3	67,473.8	2.2	
NIM calculated (%)	4.2	4.0	-17 bps	4.0	4.1	4 bps	
PAT	33,284.4	31,312.4	-5.9	40,264.4	38,178.1	-5.2	
ABV (₹)	353.6	332.4	-6.0	393.9	373.2	-5.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current		Earlier			
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	24.5	21.3	16.0	20.0	19.3	21.5
Deposit Growth (%)	17.0	24.3	17.5	18.2	21.6	22.4
CASA ratio (%)	42.4	42.2	41.5	40.1	38.7	37.4
NIM Calculated (%)	4.4	4.2	4.0	4.1	4.2	4.0
Cost to income ratio (%)	39.7	38.6	38.0	37.2	39.1	39.0
GNPA (₹crore)	11,479	12,650	27,520	31,393	17,537.8	21,526.5
NNPA (₹crore)	3,745	3,543	13,796	13,556	4,687.4	6,118.1
Slippage ratio (%)	1.1	0.9	2.0	1.0	0.9	1.0
Credit cost (%)	0.9	1.0	1.2	1.1	0.8	0.8

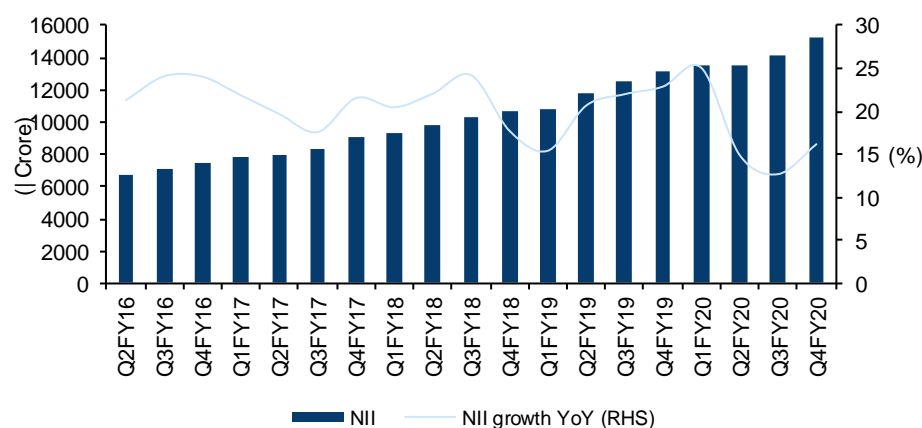
Source: Company, ICICI Direct Research

Conference Call Highlights

- Excess liquidity led NIMs to fall 10 bps to 4.3%
- S&P has reaffirmed the standalone credit rating of the bank at BBB+
- For FY19-20, the bank acquired 63 lakh new liability relationships, up 44% YoY
- Total provisioning for the quarter was ₹ 3784 crore of which ₹ 1550 crore consists of contingent provisions. Outstanding provisions include ₹ 2996 of contingent provisions and ₹ 1451 crore of floating provisions
- Total 93% of the fee income is attributable to retail fee. Also, ₹ 350 crore dent on fee income was lower due to lockdown impact
- Top 20 corporate loan disbursals (by value) breakup- 41.9% towards working capital requirement, 23.6% was capital expenditure, 15.5% was towards acquisition of balance sheet items in the NCLT process, 9.3% for PSL lending. Over 80% of corporate loan disbursals had a tenor of less than a year
- Total 80% of the unsecured portfolio is towards salaried individuals and the balance is self-employed. Two-third of the salaried employees belong to very good entities like AAA rated, government employee, MNC
- Total 9% of the SME portfolio is vulnerable and would find it difficult to meet their payment obligations but 77% of the SME portfolio is collateralised by real estate property. The management has guided that the entire 9% of the vulnerable SME portfolio would not entail default but delinquency levels could increase 0.5% more than the current levels of 1.26%
- Low single digit customers have opted for moratorium. According to the survey conducted by the bank, 95-98% of customers were not in default at the time of making the moratorium application
- The management expects retail loan growth to witness a slowdown in upcoming quarters. However, the wholesale loan book is expected to perform well
- Total 95% of branches of the bank are operational for customers with limited activities while the number of ATMs operational would be ~ 13000
- The outstanding MFI exposure was at ₹ 8500 crore
- HDB Financials AUM grew 6%

Story in Charts

Exhibit 4: Momentum in NII growth continues



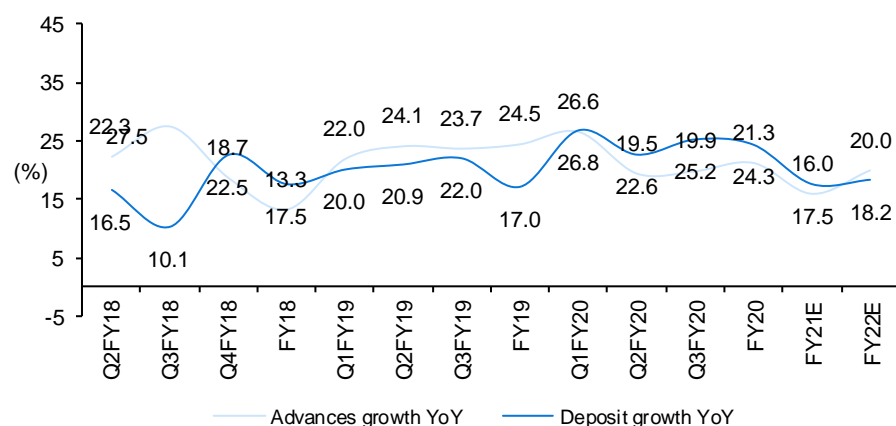
Source: Company, ICICI Direct Research

Exhibit 5: Break-up of retail credit

₹ crore	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Auto	73,057	76,427	77,659	80,336	83,012	80,675	80,784	80,784	83,552	83,935
CV CE	21,403	23,391	24,852	25,508	27,166	28,730	28,490	28,490	28,124	29,045
Two wheelers	7,691	8,672	9,227	9,689	10,095	10,047	9,851	9,851	10,149	9,855
Personal loans	66,817	71,876	77,868	83,426	88,803	92,978	1,02,080	1,02,080	1,09,531	1,15,557
Business Banking	46,989	54,126	52,050	54,180	55,706	57,035	62,689	62,689	63,255	64,124
Loans Against Security	1,671	1,816	1,748	1,824	1,788	1,881	1,828	1,828	1,812	1,801
Credit cards	33,622	36,115	38,458	40,535	44,839	46,630	52,043	52,043	57,678	57,575
Home loans	38,129	36,257	44,021	47,861	51,786	51,359	60,017	60,017	61,729	63,445
Others	44,929	48,744	49,473	52,947	52,544	56,836	57,543	57,543	58,985	63,632
Gold	5,057	5,065	5,116	5,193	5,161	5,187	5,320	5,320	5,318	5,430
Total	3,39,365	3,62,489	3,80,472	4,01,499	4,20,900	4,31,358	4,60,645	4,60,645	4,80,133	4,94,399

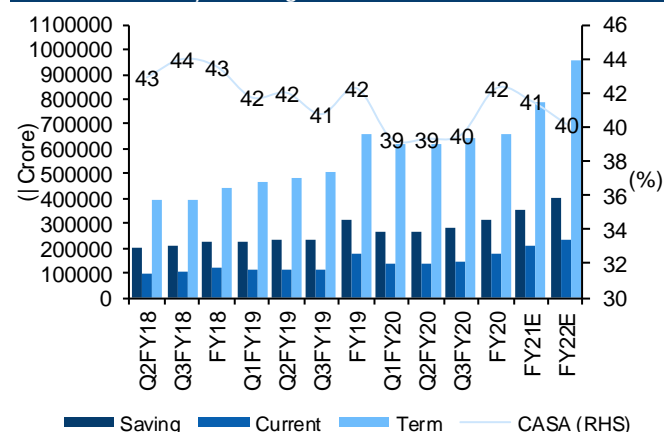
Source: Company, ICICI Direct Research

Exhibit 6: Credit & deposit growth above industry, moderation seen in auto



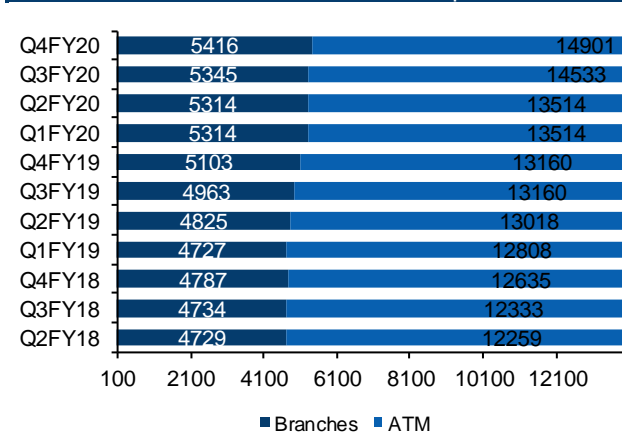
Source: Company, ICICI Direct Research

Exhibit 7: Healthy CASA growth continues...



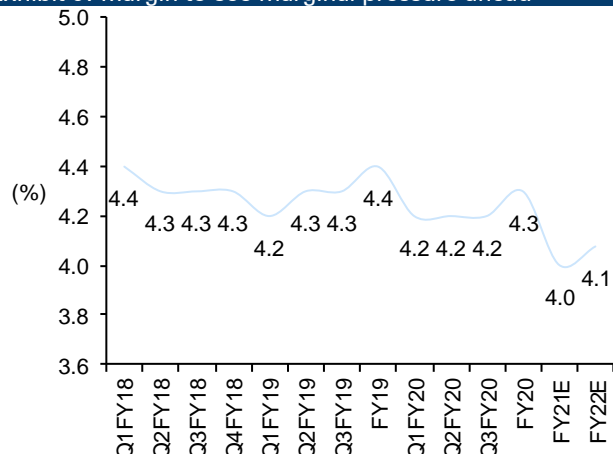
Source: Company, ICICI Direct Research

Exhibit 8: Continued focus on branch expansion



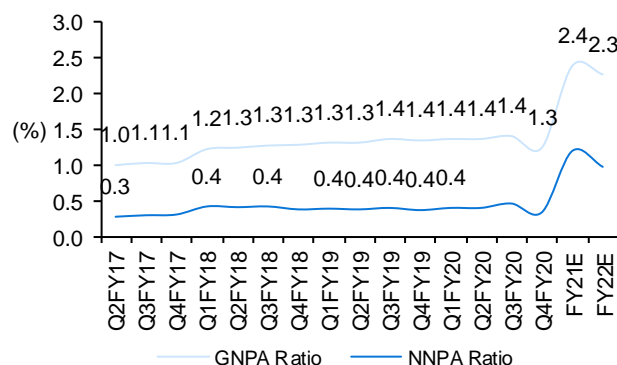
Source: Company, ICICI Direct Research

Exhibit 9: Margin to see marginal pressure ahead



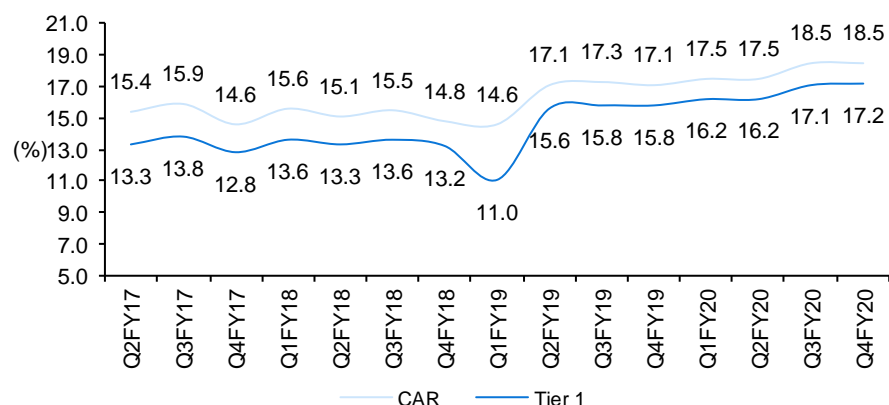
Source: Company, ICICI Direct Research

Exhibit 10: Best in class asset quality maintained



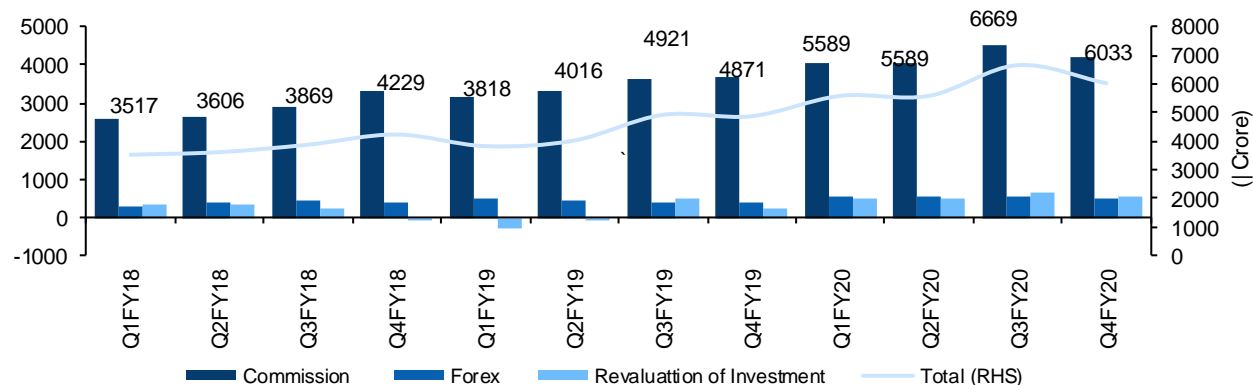
Source: Company, ICICI Direct Research

Exhibit 11: Adequately capitalised for future growth



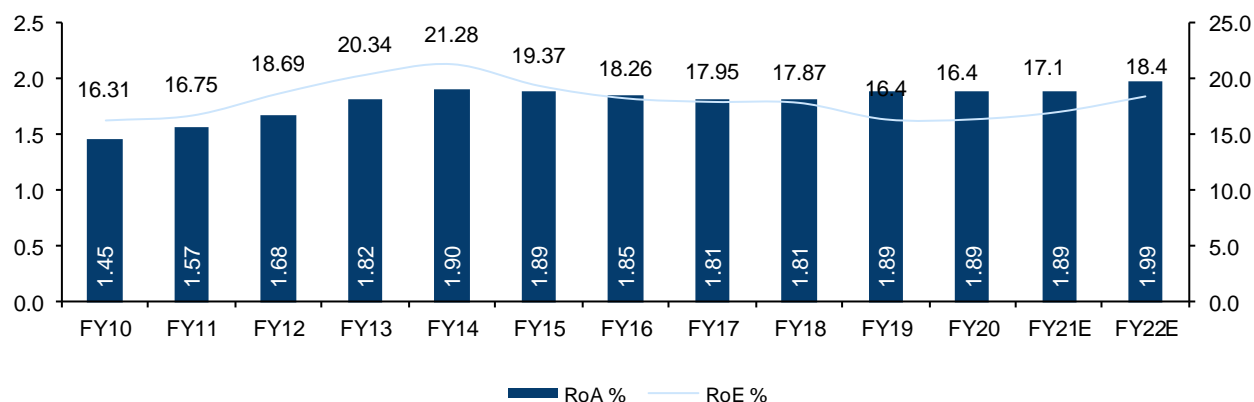
Source: Company, ICICI Direct Research

Exhibit 12: Non-interest income contributes ~28% of total income



Source: Company, ICICI Direct Research

Exhibit 13: Return ratios trend to remain strong



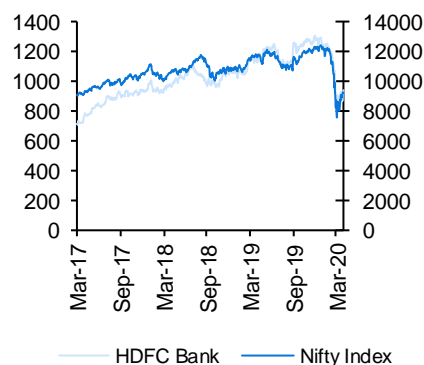
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	27	26	26	26	26
FII	39	39	41	38	37
DII	16	17	18	21	22
Others	18	18	15	15	15

Source: Company, ICICI Direct Research

Exhibit 15: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	98972	114813	131877	155026
Interest Expended	50729	58625	69093	81257
NII	48243	56187	62784	73769
Growth (%)	20.3	16.5	11.7	17.5
Non Interest Income	17626	23261	27682	33654
Fees and advisory	13806	18430	22117	26982
Treasury Income	387	580	696	836
Other income	3433	4250	4869	5836
Total Income	65869	79448	90466	107423
Employee cost	7762	9526	10768	12313
Other operating Exp.	18358	21172	23573	27636
Gross Profit	39750	48750	56126	67474
Provisions	7550	12142	14096	16228
PBT	32199	36608	42030	51246
Taxes	11121	10350	10718	13068
Net Profit	21078	26258	31312	38178
Growth (%)	20.5	24.6	19.3	21.9
EPS	38.7	47.9	57.1	69.6

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	544.7	548.3	548.3	548.3
EPS (₹)	38.7	47.9	57.1	69.6
BV (₹)	273.9	311.8	357.5	397.9
ABV (₹)	267.1	305.4	332.4	373.2
P/E	19.8	16.0	13.4	11.0
P/BV	2.8	2.5	2.1	1.9
P/ABV	2.9	2.5	2.3	2.1
Yields & Margins (%)				
Net Interest Margins	4.4	4.2	4.0	4.1
Yield on avg earning	9.0	8.7	8.4	8.6
Avg. cost on funds	5.2	5.0	4.9	5.0
Avg. cost of deposits	5.1	4.9	4.9	4.9
Yield on average advance	10.5	10.1	10.0	10.0
Quality and Efficiency				
Cost / Total net income	39.7	38.6	38.0	37.2
Credit/Deposit ratio	88.8	86.6	85.5	86.8
GNPA	1.4	1.27	2.39	2.27
NNPA	0.5	0.36	1.20	0.98
ROE	16.5	16.4	17.1	18.4
ROA	1.8	1.9	1.9	2.0

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	545	548	548	548
Reserves and Surplus	148662	170438	195488	217631
Net worth	149206	170986	196036	218179
Deposits	923141	1147502	1348392	1594405
Borrowings	117085	144628	156816	170107
Other Liabilities & Provision	55108	67394	76165	86314
Total	1244541	1530510	1777409	2069006
Applications of Funds				
Fixed Assets	4030	4433	4643	4906
Investments	290588	391826	426404	465016
Advances	819401	993703	1152696	1383235
Other Assets	49174	53931	98234	110216
Cash with RBI & call moni	81348	86617	95432	105634
Total	1244541	1530510	1777409	2069006

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios (%)				
(Year-end March)	FY19E	FY20	FY21E	FY22E
Total assets	17.0	23.0	16.1	16.4
Advances	24.5	21.3	16.0	20.0
Deposits	17.0	24.3	17.5	18.2
Total Income	22.1	18.4	15.6	18.3
Net interest income	20.3	16.5	11.7	17.5
Operating expenses	15.1	17.5	11.9	16.3
Operating profit	21.8	22.6	15.1	20.2
Net profit	20.5	24.6	19.3	21.9
Net worth	40.4	14.6	14.7	11.3
EPS	14.9	23.7	19.3	21.9

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Bank of Baroda (BANBAR)	49	65	Hold	22,756.3	1.8	-0.4	-1.9	27.5	NA	NA	0.6	0.7	0.6	0.1	0.0	-0.1	0.9	-1.2	-2.5
State Bank of India (STABAN)	186	250	Buy	1,66,310	1.0	16.8	24.2	192.1	11.1	7.7	1.3	1.1	1.0	0.0	0.4	0.6	0.5	7.6	11.0
Indian Bank (INDIBA)	46	50	Hold	2,810	6.7	-27.2	8.5	6.9	-1.7	5.4	0.6	0.3	0.3	0.1	-0.8	0.2	1.7	-11.6	3.5
Axis Bank (UTIBAN)	392	500	Buy	1,10,439	18.2	18.2	32.1	21.6	21.5	12.2	1.8	1.5	1.4	0.6	0.6	0.9	7.2	6.5	9.8
City Union Bank (CITUNI)	118	171	Buy	8,711	9.3	8.7	10.1	12.7	13.6	11.7	2.1	1.9	1.6	1.6	1.4	1.4	15.3	12.6	13.0
Development Credit Bank (DCB)	81	92	Hold	2,524	10.5	13.0	13.5	7.7	6.3	6.0	0.9	0.9	0.8	1.0	1.1	1.0	12.2	13.3	12.2
Federal Bank (FEDBAN)	42	47	Hold	8,355	6.3	7.7	7.9	6.7	5.4	5.3	0.7	0.7	0.6	0.8	0.9	0.8	9.8	11.0	10.4
HDFC Bank (HDFBAN)	910	1,100	Buy	4,99,198	38.7	47.9	57.1	23.5	19.0	15.9	3.4	3.0	2.6	1.8	1.9	1.9	16.5	16.4	17.4
Indusind Bank (INDBA)	396	400	Hold	27,461	60.9	55.8	82.0	6.5	7.1	4.8	1.0	0.8	0.7	1.6	1.2	1.6	14.5	10.1	13.4
Jammu & Kashmir Bank (JAMKAS)	12	12	Sell	671	8.3	-13.0	0.0	1.4	NA	NA	0.2	0.2	0.2	0.5	-0.7	0.0	7.0	-10.1	-0.1
Kotak Mahindra Bank (KOTMAH)	1,196	1,700	Buy	2,28,664	25.5	29.9	29.0	46.9	40.0	41.2	5.5	4.9	4.4	1.7	1.7	1.4	12.1	12.5	10.8
Bandhan Bank (BANBAN)	191	260	Buy	30,740	16.4	18.6	23.3	11.7	10.3	8.2	2.1	2.3	1.8	3.9	4.1	3.7	19.0	23.5	23.3
IDFC First (IDFBAN)	21	29	Buy	10,221	-3.4	-5.7	1.1	NA	NA	19.3	0.6	0.7	0.7	-1.1	-1.6	0.3	-9.8	-15.9	3.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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