29 June 2020

Annual Report Update | Sector: Financials

HDFC Bank

BSE SENSEX	S&P CNX
34,962	10,312

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5,483
M.Cap.(INRb)/(USDb)	5909.7 / 76.7
52-Week Range (INR)	1304 / 739
1, 6, 12 Rel. Per (%)	5/0/-1
12M Avg Val (INR M)	12707
Free float (%)	78.8

Financials Snapshot (INR b)

Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	657.9	749.0
OP	487.5	565.1	636.3
NP	262.6	271.9	311.2
NIM (%)	4.2	4.2	4.1
EPS (INR)	48.0	49.6	56.7
EPS Gr. (%)	21.2	3.2	14.5
BV/Sh. (INR)	311.8	351.8	398.3
ABV/Sh. (INR)	300.3	335.5	381.2
Ratios			
RoE (%)	16.4	14.9	15.1
RoA (%)	1.9	1.7	1.6
Payout (%)	24.8	19.4	18.0
Valuations			
P/E(X)	22.4	21.7	19
P/BV (X)	3.5	3.1	2.7
P/ABV (X)	3.6	3.2	2.8
Div. Yield (%)	1.1	0.9	1.0

CMP: INR1,076 TP: INR1,250 (+17%) Buy

RoRWA expansion underscores inherently strong profitability

Higher ESOP grant to retain talent; CEO's transition remains key event

- **HDFCB's Annual Report underscores structural improvement in the bank's profitability, driven by a 20bp increase in RoRWA, higher than a 7bp improvement witnessed in RoA. For FY20, NII/PPoP grew by 17%/23% while PAT grew by 25% YoY to INR263b with the bank reporting a RoE of 16.4%.**
- **The bank has gained market share across multiple digital channels, with 17% market share in POS terminals, ~8%/~29% share in debit/credit card spend, and a credit card base of 14.5m (25.1% share). ~95% of transactions happen digitally, owing to which the bank has shown continuous improvement in its cost ratios.**
- **On the asset quality front, agri slippages stood elevated and segmental GNPA in the priority sector increased to 4.3% v/s 1.3% for the bank. The bank further witnessed a GNPA increase in the Services segment at 1.4% v/s 1.1% in FY19. Furthermore, the concentration of the top four NPA accounts increased to ~10% v/s 6.5% in FY19.**
- **In FY20, RWA density improved 560bp, driven by a reduction in risk weights on personal loans (to 100% from 125%) and focused lending to better rated corporate/retail customers. The concentration of the top 20 advances increased 100bp to 11.6% on higher growth in wholesale assets, and the concentration of the top 20 depositors improved ~210bp to 4%.**
- **We note that attrition among the top employees (salaries of >INR10m) has increased over the past two years, with ~10% of such employees leaving the bank in FY20 after an average of ~14 years of service. This remains a key monitorable as the bank would also soon witness a CEO change.**
- **We expect HDFCB to deliver strong business growth, led by improved digital offerings. On the asset quality front, although slippages are likely to remain elevated, impacted by COVID-19, strong provisioning buffers should limit the overall impact on earnings. The CEO's succession remains an important observable in the near term. Maintain Buy, with TP of INR1,250 (3.0x FY22E ABV).**

Strong focus on digitalization; operating leverage continues to surprise positively

HDFCB has garnered major market share across multiple digital channels, with 17% market share in POS terminals, ~8%/~29% share in debit/credit card spends, and a credit card base of 14.5m (25.1% share). ~95% of transactions happen digitally, owing to which the bank has shown continuous improvement in its cost ratios and business productivity. Thus, over the past five years, the C/I and cost-to-asset ratios have improved by 592bp to 38.6% and 36bp to 2.0%, respectively. This improvement came despite the addition of ~1400 branches and ~41k employees over the similar period.

Improvement in RoRWA reflects adequate risk pricing

Over the long term, we note that besides a 44bp improvement in RoA over FY10–20, RoRWA improved by ~56bp to ~2.6%. Furthermore, in FY20, RoRWA improved by 20bp, much higher than a 7bp improvement reported in RoA. This indicates: a) profitability has improved on the back of multiple levers (higher fee income and lower opex) rather than simply on higher balance sheet risk and b) the bank has been able to adequately price incremental risk on its unsecured book and earn a higher return on the same.

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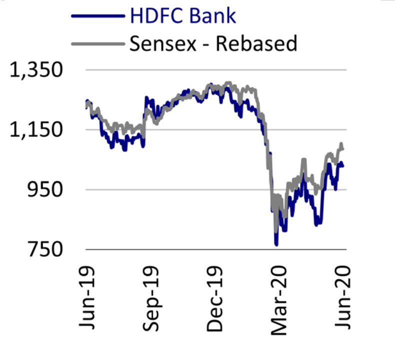
Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	21.2	21.3	21.4
DII	17.9	17.1	13.4
FII	48.6	49.6	50.5
Others	12.4	12.0	14.7

FII Includes depository receipts

Stock Performance (1-year)



RWA density improves 560bp; deposit concentration improves further

Over the past few years, RWA / Total Assets have stood higher for HDFCB v/s peers, largely due to the bank's high exposure to unsecured loans. However, in FY20, RWA density improved 560bp, driven by a reduction in risk weights on unsecured personal loans to 100% from 125% and focused lending to better rated corporate/retail customers. The concentration of the top 20 advances increased 100bp to 11.6% on higher growth in wholesale assets, and the concentration of the top 20 depositors improved ~210bp to 4%.

Attrition among top management remains high; upcoming CEO transition a noteworthy event

We note that attrition among the top paid employees who earned salaries of more than INR10m has increased over the past two years. ~10% of such employees who had served the bank for an average of ~14 years left the organization in FY20. Of 19 such employees, three held positions of Group/Business Head. Thus, overall attrition remains important given that the bank is witnessing the exit of a CEO who has been at the helm for ~25 years.

Agri NPAs stay elevated; concentration of top four NPAs increases to ~10%

The bank has witnessed a spike in its agri slippages over the past few years, which has kept overall slippages higher. Thus, agri GNPA stood higher at 3.4% in FY20 (average of 3.5% over FY18–20), while overall GNPA was controlled. The bank also witnessed a spike in the Services segment, with GNPA at 1.4% v/s 1.1% in FY19. Furthermore, the concentration of the top four NPA accounts increased to ~10% v/s 6.5% in FY19. However, the bank has strengthened its balance sheet with a strong PCR at ~72%; along with a high provisioning buffer, this should keep credit cost in check.

Subsidiaries: HDB's performance takes a breather; Securities business gains momentum

- **HDFCB Financials:** Affected by the ongoing NBFC crisis and COVID-19 outbreak, the performance of HDB Financials was impacted in FY20, with AUM growth moderating to 6% v/s an average of ~30% over the past five years. On the other hand, PAT reported decline of ~13% YoY to INR10b. Asset quality deteriorated with an increase in GNPA/NNPA to 3.9%/3.2% in FY20 v/s 1.8%/1.3% in FY19. Near-term performance is likely to remain muted given the challenging macro environment, while asset quality may continue to remain under pressure as stage 2 assets have increased ~64% YoY.
- **HDFC Securities**: The performance of HDFC Securities picked up with revenue and PAT posting healthy 12% YoY and 16% YoY growth to INR8.6b (revenues declined in FY19) and INR3.8b, respectively. The company has a customer base of 2.4m with ~0.8m transacting customers, the third highest among broking houses; moreover, customers accessing the services digitally increased to 79% v/s 68% in FY19. Owing to improved operating leverage, steady growth in new customers, and better market conditions, we expect the company to report a strong earnings trend over the next few years and gain momentum.

Valuation and view

HDFCB has delivered strong growth despite economic activity being impacted due to the COVID-19 outbreak. Moderation in retail credit due to consumption slowdown is being compensated well by the Wholesale segment, which is driving overall loan growth. On the asset quality front, slippages are likely to remain elevated due to the COVID-19 disruption, which could keep credit cost higher; however, higher provisioning buffers should limit the overall impact on earnings. Furthermore, a strong liability franchise would support margins, while higher liquidity levels would enable the bank to ride the current crisis and gain higher market share. We estimate the loan book / PAT to grow at a CAGR of 16%/9% over FY20–22. The CEO's succession, though, remains an important event in the near term. Maintain Buy, with TP of INR1,250 (3.0x FY22E ABV).

Exhibit 1: SOTP-based pricing

	Stake (%)	Total Value INR b	Total Value USD b	Value Per Share INR	% of Total Value	Rationale
HDFC Bank		**6,340.0**	**89.1**	**1,156**	**92.5**	**3.0x FY22E ABV**
HDB Financial Services	97.3	524.2	7.4	96	7.6	4.5x FY22E Net worth
HDFC Securities	95.5	117.5	1.7	21	1.7	22x FY22E PAT
Total Value of Subs		**641.7**	**9.0**	**117**	**9.4**	
Less: 20% holding Disc		128.3	1.8	23	1.9	
Value of Subs (Post Holding Disc)		**513.3**	**7.2**	**94**	**7.5**	
Target Price		**6,853.4**	**96.3**	**1,250**		

Renewed focus on semi-urban and rural lending

Wholesale Banking: The key growth engine in FY20

- HDFCB has delivered a loan book CAGR of 22% over the past five years, significantly ahead of systemic loan growth, which has resulted in significant market share gains. HDFCB witnessed 21% YoY growth in FY20, with the market share expanding ~120bp to 9.6%. HDFCB has an industry-leading position in almost every aspect of retail banking, primarily attributed to its technology adoption.
- Renewed focus on driving rural and semi-urban lending would aid business growth, with ~50% of branches having footprint in semi-urban and rural locations. Furthermore, SME loans have also witnessed a boost with the digitization of the application process, which has reduced the turnaround time (TAT).
- Growth in the Retail segment has moderated, reflecting slowdown in consumption. While the share of unsecured personal and credit card loans has increased over the past few years, the bank's credit monitoring framework remains robust, helping it maintain strong control on delinquencies. The bank has 50%+ market share in the Credit Card business and aims to double its outstanding card base over the next three years.
- HDFCB has built a Wholesale business by offering the entire range of banking support, such as Payments, Tax Solutions, Government Business, Trade Finance Services, and Cash Management Solutions. This has resulted in a pickup in the wholesale book, which has compensated well for the moderation witnessed in retail loan growth. Overall, the bank reported 21% YoY growth in advances, led by 29% YoY growth in wholesale advances; conversely, retail loan growth moderated to ~15% YoY.

Retail Banking

- **Auto:** HDFCB continues to lead in Auto loans, with a strong presence in Passenger, CV, and 2W financing. The Auto loan market has de-grown by ~15% over the last two years; nevertheless, HDFCB was able to report a ~6% CAGR during this period, led by new customer acquisitions in the interiors of the country.
- **Personal Loans:** The portfolio reflected a strong growth trend at a 29% CAGR over the last decade, surpassing the milestone of INR1t to reach INR1.16t. ~80% of loans were to employees of top-rated corporates with reasonably high disposable incomes.
- **Credit Cards:** The bank is the largest credit card issuer in the country, with a card base of 14.5m, and forms ~6% of the overall portfolio. The bank has also issued co-branded cards to tap new markets and expand its presence in existing markets. The co-branded card with IOC helps expand its reach in the semi-urban and rural locations, the co-branded card with Indigo covers the huge Aviation market, while the one with Walmart helps cater to the SME segment.
- **Home Loans:** In FY20, the bank originated INR23.5b worth of home loans every month (~INR280b during the year), while purchasing INR242b from HDFC Ltd as direct assignment of loans.

Wholesale Banking

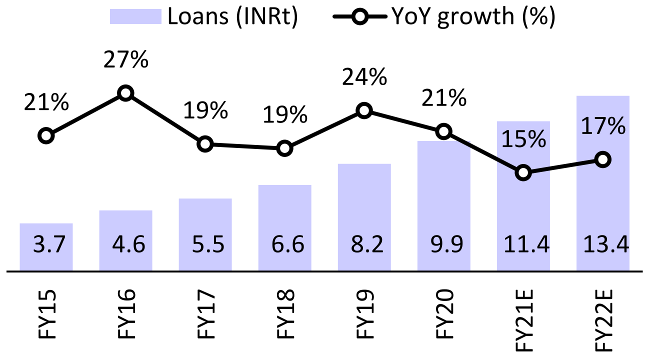
Wholesale Banking was the key growth engine in FY20 with ~29% YoY growth and compensated well for the moderation in retail loan growth. The segment focuses on institutional customers, such as the Governments, Large and Emerging Corporates, and SMEs; it has offerings such as working capital and term loans; supply chain financing; and trade credit, cash management, foreign exchange, and investment banking services.

- **Corporate Banking**, which focuses on large, well-rated companies, continues to be the biggest contributor to Wholesale Banking. The business was able to capitalize on the trend of large companies preferring to deal with fewer banks. The bank has deepened its existing relationships as well as gained market share by leveraging its wide product offerings, and has a total loan portfolio of INR2.4t (+57% YoY).
- **Emerging Corporates Group**, which focuses on the mid-market segment, also witnessed strong traction. It continues to have a diversified portfolio, with a presence in more than 50 cities in India.
- **Government Business** has helped the bank sustain its focus on tax collections; the segment collected direct tax of over INR3t and indirect tax of INR39.2b in FY20 as well as GST of INR1.8t.

Agriculture and MSME

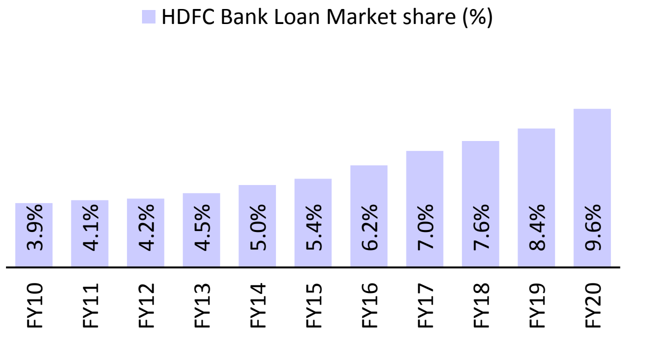
- **Agri:** Bank credit to Agriculture & Allied activities stood at INR1.46t (+14% YoY). The key to the bank's success in this market has been its ability to tap the opportunities through: a) a wide product range b) quicker turnaround time, and c) digital solutions.
- The bank has covered ~125k villages under the Kisan Gold Card for farm loans, 460k rural customers' needs have been met under the 'Har Gaon Hamara' program, and ~1.2m Kisan Dhan Vikas Kendra accounts were set up; the bank aims to cover ~0.8m dairy farmers under the 'Milk-to-Money' program over the next two to three years.
- Furthermore, HDFCB is working toward building a digital capability that would sanction working capital loans to MSMEs based on deep technology integration and AI-led credit risk modeling.
- The bank has launched a new digital payment solution **'SmartHub',** specially designed for self-employed and small businesses, enabling the customer to instantly open an account and become a merchant.
- Advances to the MSME segment stood at INR1.6t (+23% YoY), with loans to micro-enterprises at INR664b.

Exhibit 2: Loan growth at 21% YoY for FY20



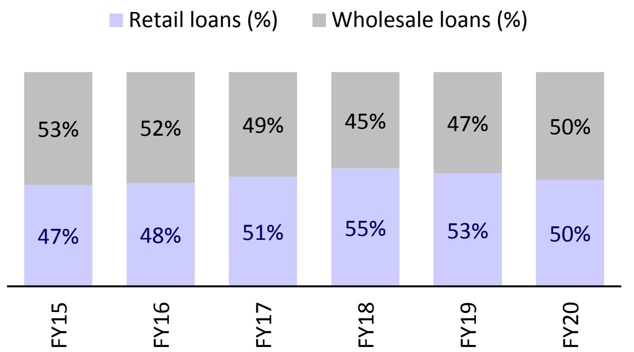
Source: MOFSL, Company

Exhibit 3: HDFC's loan market share (%) expands ~120bp



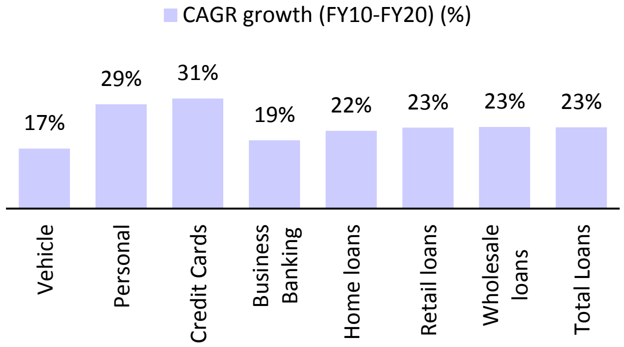
Source: MOFSL, Company

Exhibit 4: Loan mix remains well-balanced



Source: MOFSL, Company

Exhibit 5: Loan growth CAGR across segments

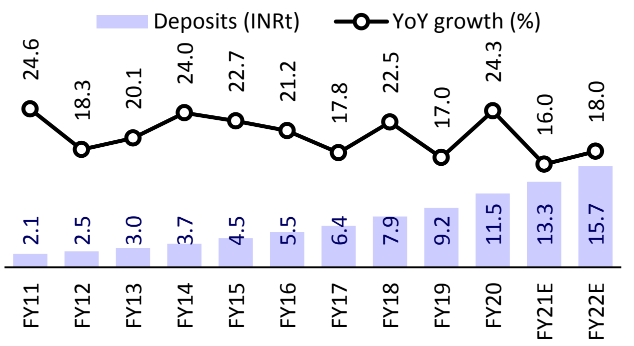


Source: MOFSL, Company

Strong funding profile; deposit market share improves further

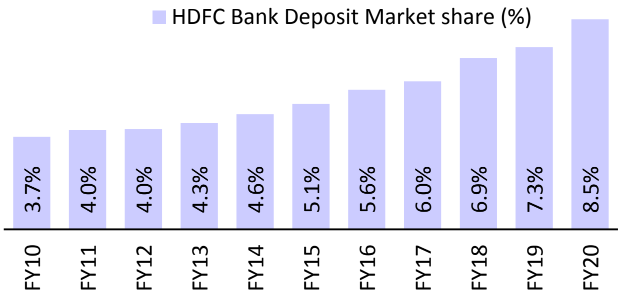
HDFCB continues to see strong growth in deposits, further aided by a shift in depositors' confidence toward large banks from small and medium banks; as a result, the bank reported growth of 24% YoY (+7.5% QoQ) in 4QFY20. Overall, the bank has witnessed robust growth at a 21% CAGR over the past decade, which has helped the bank maintain a robust liability franchise. The bank saw market share gains of ~120bp to 8.5% in FY20. Growth in deposits was led by growth in both term deposits and CASA deposits by 24.6% YoY and 23.9% YoY, respectively. Overall, the bank's CASA ratio stood at 42.2% (+270bp QoQ).

Exhibit 6: Deposit traction remains robust at 21% CAGR over past decade (+24% YoY in FY20)…



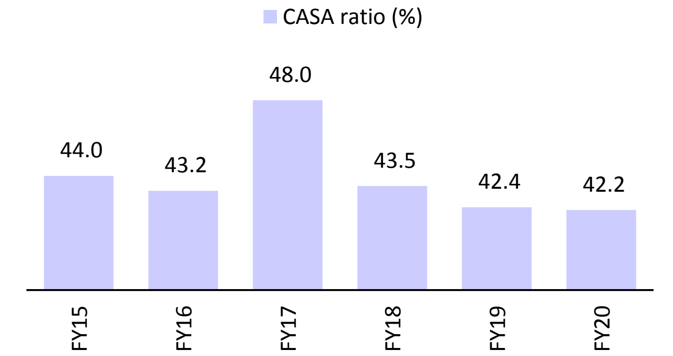
Source: MOFSL, Company

Exhibit 7: …resulting consistent market share gains to 8.5% in FY20 (+120bp in FY20) from ~3.7% in FY10



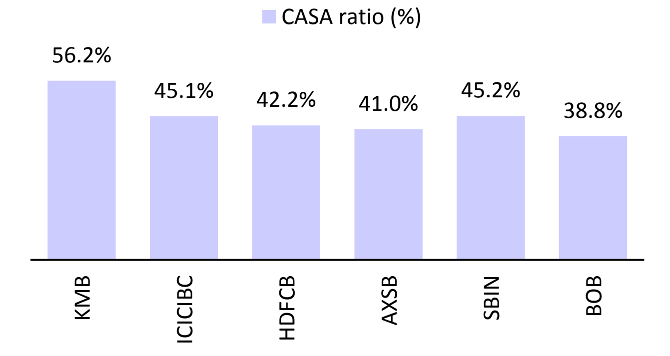
Source: MOFSL, Company

Exhibit 8: CASA ratio remains strong at 42.2%



Source: MOFSL, Company

Exhibit 9: CASA ratio across peers



Source: MOFSL, Company

Margins to witness some pressure; reduction in SA/TD rates to offset some impact

HDFCB has lowered its SA rate to 3.25% and reduced its TD rates by ~190bp

- With credit demand negligible during the lockdown and surplus liquidity available in the system, banks have been carrying excess liquidity in their balance sheets to ride out the crisis. However, this excess liquidity is likely to put pressure on the margin trajectory.
- Moreover, a sharp reduction in the repo rate announced by the RBI has resulted in moderation in yield under externally benchmark-based price regime loans and the MCLR cut announced by the banks. HDFCB has reduced its one-year MCLR to 7.65% (50bp cut since Mar'20).
- However, HDFCB has also lowered its SA rate to 3.25%. The bank has further lowered its peak term deposit (TD) rate by 190bp to 5.5%. We believe this reduction in SA/TD rates would support some amount of margin pressure. Overall, we expect HDFCB to face margin pressure, but a strong liability franchise would help offset this to a certain extent.

Exhibit 10: One-year MCLR rate across banks

One-year MCLR rate (%)	Feb'19	Jun'19	Aug'19	Sep'19	Nov'19	Apr'20	May'20	June'20	Change (bps)
BOB	8.75%	8.70%	8.45%	8.40%	8.30%	8.00%	7.80%	7.65%	-150
PNB	8.55%	8.45%	8.30%	8.30%	8.15%	7.75%	7.75%	7.60%	-125
SBIN	8.55%	8.45%	8.25%	8.15%	8.00%	7.40%	7.25%	7.00%	-150
AXSB	8.90%	8.70%	8.55%	8.45%	8.25%	7.95%	7.80%	7.75%	-170
HDFCB	**8.75%**	**8.70%**	**8.60%**	**8.45%**	**8.30%**	**7.95%**	**7.70%**	**7.65%**	**-190**
ICICIBC	8.80%	8.75%	8.65%	8.55%	8.35%	8.00%	7.75%	7.70%	-200
KMB	9.05%	8.90%	8.75%	8.75%	8.50%	8.10%	7.90%	7.75%	-205
Repo Rate	**6.25%**	**5.75%**	**5.40%**	**5.40%**	**5.15%**	**4.40%**	**4.00%**	**4.00%**	**-225**

Source: MOFSL, Company website

Exhibit 11: SA rates across banks, along with CASA mix

SA rate (%)	Old	Revised	CA Mix	SA Mix	CASA Mix
AXSB	3.25%	3.00%	14.1%	27.1%	41.0%
HDFCB	**3.50%**	**3.25%**	**15.2%**	**27.0%**	**42.2%**
ICICIBC	3.25%	3.00%	13.3%	31.9%	45.1%
BOB*	3.25%	3.25%	6.1%	32.7%	38.8%
SBIN	2.75%	2.70%	7.0%	38.2%	45.2%

*CA, SA and CASA mix as on 3QFY20

Source: Banks, MOFSL

Exhibit 12: TD rates across tenures: Short-tenure TD rates in 2.9–3.5% range, well below repo rate

TD rates (%)	7–14 days	0–3 months	3–9 months	9–15 months	15–36 months
HDFCB	**3.0%**	**4.5%**	**5.0%**	**5.6%**	**5.8%**
AXSB	3.3%	4.5%	5.0%	5.8%	5.8%
ICICIBC	3.3%	4.3%	4.8%	5.6%	5.8%
SBIN	2.9%	3.9%	4.4%	5.1%	5.1%
BOB	3.3%	4.3%	4.9%	5.6%	5.6%

Source: Banks, MOFSL

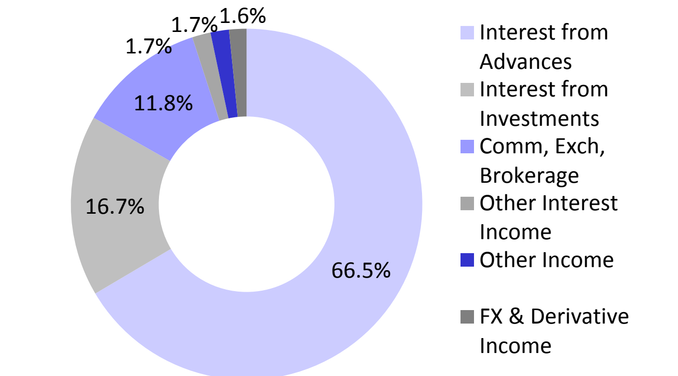
Exhibit 13: One- to three-year peak TD rates across banks

Peak deposit rate (%)	Mar'19	Jun'19	Aug'19	Sep'19	Nov'19	Apr'20	May'20	June'20	Change (bps)
BOB	6.80%	6.80%	6.70%	6.60%	6.40%	5.70%	5.70%	5.30%	-150
PNB	6.75%	6.75%	6.75%	6.60%	6.40%	5.80%	5.75%	5.50%	-125
SBIN	6.80%	6.80%	6.70%	6.70%	6.25%	5.70%	5.30%	5.30%	-150
AXSB	7.50%	7.50%	7.20%	7.00%	6.85%	6.10%	5.80%	5.80%	-170
HDFCB	**7.40%**	**7.40%**	**7.30%**	**7.00%**	**6.85%**	**6.00%**	**5.75%**	**5.50%**	**-190**
ICICIBC	7.50%	7.50%	7.10%	7.00%	6.85%	6.00%	5.75%	5.50%	-200
KMB	7.30%	7.30%	6.90%	6.80%	6.50%	5.80%	5.25%	5.25%	-205
Repo Rate	**6.25%**	**5.75%**	**5.40%**	**5.40%**	**5.15%**	**4.40%**	**4.00%**	**4.00%**	**-225**

Source: MOFSL, Company website

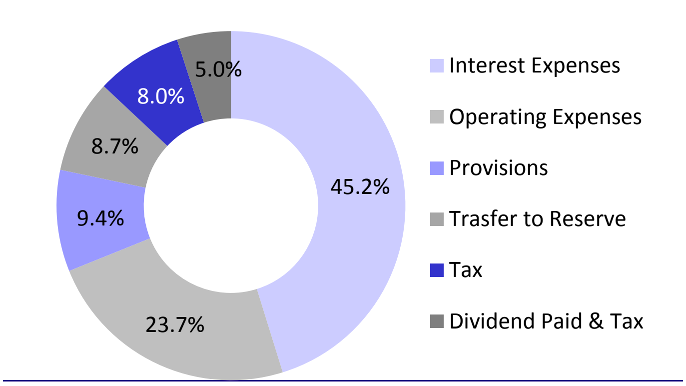
Component-wise breakup of earnings/spend by bank

Exhibit 14: Split of INR earnings



Source: MOFSL, Company

Exhibit 15: Split of INR spend



Source: MOFSL, Company

Segmental profitability remains well-balanced; Retail PBT contributes 34%

Among segments, Retail PBT grew ~10% YoY and contributed ~34% to total profits; this was despite revenue growth coming in at ~21% YoY owing to the bank creating higher provisions, particularly toward the Unsecured Retail and Agri segments. Wholesale revenue growth moderated to 12% YoY, resulting in flattish PBT. The contribution of Wholesale PBT declined to 37% in FY20 from 43% in FY17. In the Treasury segment, revenue grew by 13% YoY, and profitability increased ~3x to INR35b, contributing ~9% of total profits. Profitability from other banking operations improved by 15% YoY and contributed ~20% to total segmental profits.

Exhibit 16: Segmental trends across business segments – Retail reflects improving trends

	Assets				Revenue				PBT			
INR b	**FY17**	**FY18**	**FY19**	**FY20**	**FY17**	**FY18**	**FY19**	**FY20**	**FY17**	**FY18**	**FY19**	**FY20**
Retail	2,958	3,719	4,288	4,843	661	738	892	1,080	84	100	118	129
YoY growth (%)		**26%**	**15%**	**13%**		**12%**	**21%**	**21%**		**18%**	**18%**	**10%**
Wholesale	2,721	2,970	4,087	5,206	326	415	546	611	101	117	142	141
YoY growth (%)		**9%**	**38%**	**27%**		**27%**	**31%**	**12%**		**16%**	**21%**	**-1%**
Treasury	2,634	3,509	3,488	4,572	203	198	236	266	17	15	13	35
YoY growth (%)		**33%**	**-1%**	**31%**		**-2%**	**19%**	**13%**		**-7%**	**-15%**	**165%**
Other Operations	272	376	509	605	90	123	153	190	34	55	68	78
YoY growth (%)		**38%**	**35%**	**19%**		**36%**	**25%**	**24%**		**63%**	**24%**	**15%**

Source: MOFSL, Company

Agri slippages pressured, but high provisioning buffer provides comfort

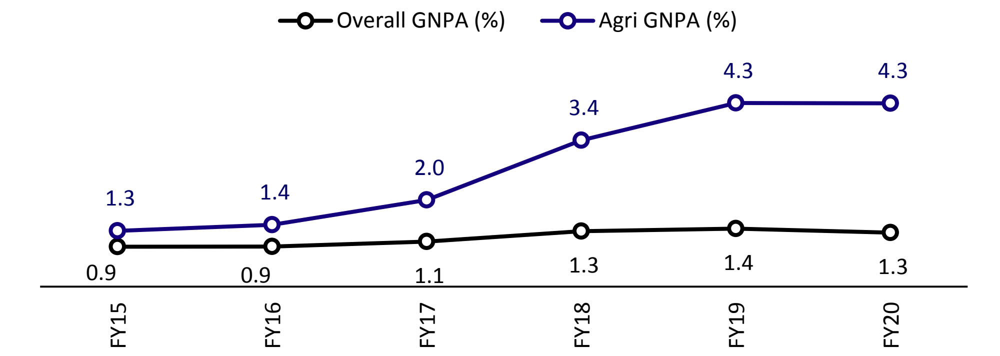
Improvement in RoRWA underscores adequate risk pricing

- Over the past few years, HDFCB's retail loan mix has evolved in favor of unsecured products, with robust growth in the Credit Cards portfolio and unsecured personal loans to ~35% currently from ~18% of the retail book in FY14. However, growth in the Unsecured Credit Card and Personal Loans segments does not have a linear correlation with the bank's risk profile, in our view. This is due to a significant portion of credit cards and personal loans being sold to existing customers post the appraisal of their credit history, which has enabled the bank to maintain control over its delinquencies.
- However, the bank has witnessed a surge in agri slippages over the past few years, which has kept overall slippages higher. We note that Agri GNPA for the priority sector stood higher at 4.3% in FY20 (average of 4.0% over FY18–20), while overall GNPA stood at controlled levels. Overall, the GNPA ratio declined to 1.26% in FY20 v/s 1.36 in FY19, while slippages stood stable at 1.9% (INR175.6b). In FY20, the bank raised its PCR to 72%, resulting in ~21% decline in NPA. The NNPL ratio, thus, improved to ~0.36%.

Accounts where the asset classification benefit has been availed stand at INR10.8b, on which the bank carries a PCR of ~43%

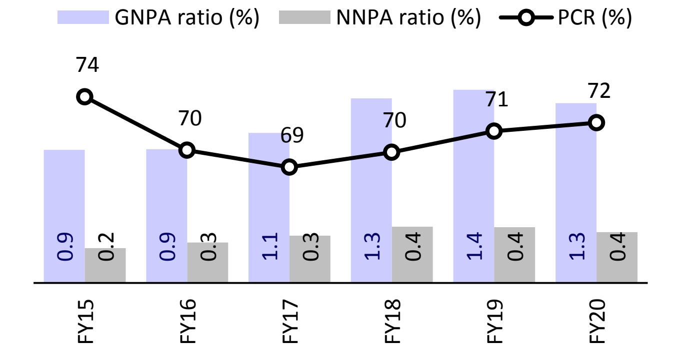
- **Moratorium update:** Accounts for which the asset classification benefit has been availed stand at INR10.8b (term loans: INR6.2b; overdraft: INR4.6b), on which the bank holds a provision of INR4.6b (~43%).
- We believe the COVID-19 outbreak could keep asset quality under pressure, impacted by the Agri and Unsecured Retail segments. We thus expect credit cost to remain elevated, while provisioning buffers should limit the overall impact on earnings. We expect overall estimated credit cost to remain at 1.4–1.5% over FY20–22.

Exhibit 17: Bank witnesses spike in agri slippages, resulting in higher GNPA in Agri segment (priority sector)



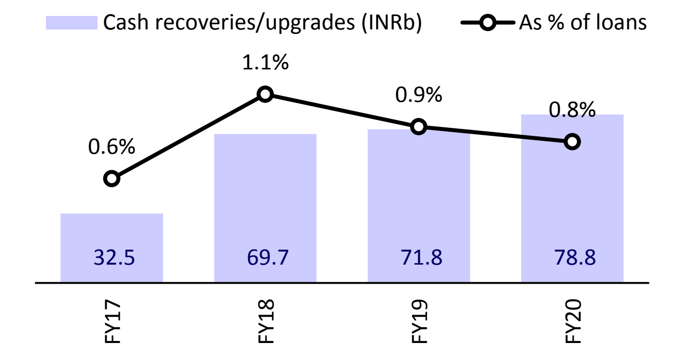
Source: Company, MOFSL

Exhibit 18: Coverage ratio improves by ~300bp over past three years to ~72%



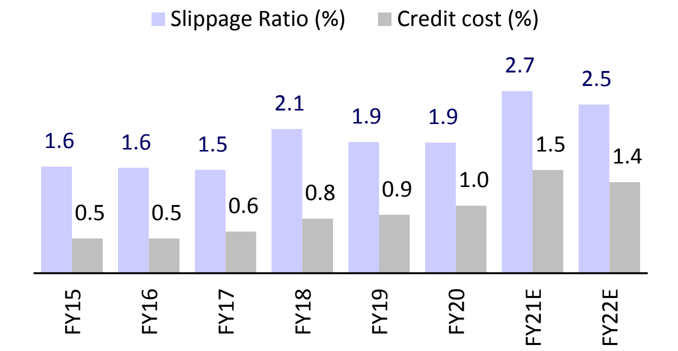
Source: Company, MOFSL

Exhibit 19: Cash recoveries and upgrades have been stable, resulting in stable GNPA ratio



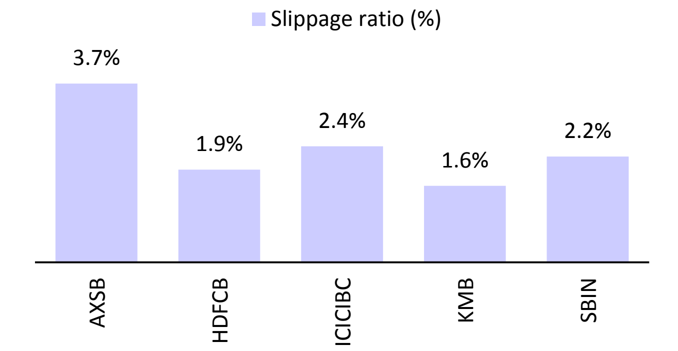
Source: Company, MOFSL

Exhibit 20: Slippage ratio remains stable at ~1.9%, while credit cost increases marginally to ~1%



Source: Company, MOFSL

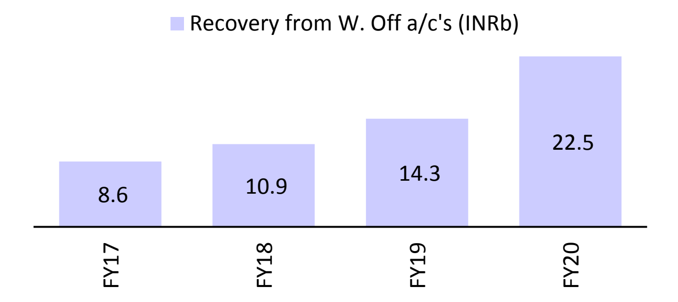
Exhibit 21: Slippage ratio remains lowest among large banks



Source: Company, MOFSL

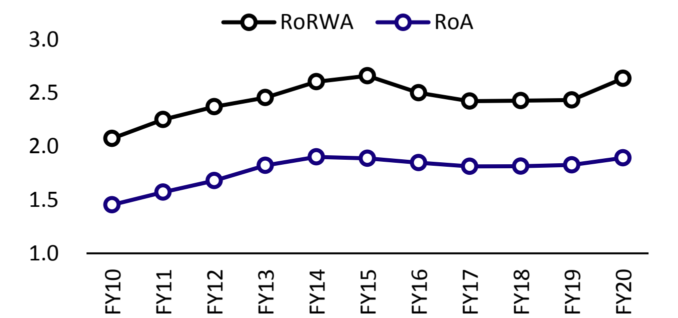
- We note that, over the long term, besides improvement witnessed in RoA (44bp over FY10–20), the bank's RoRWA increased by ~56bp to ~2.6% during this period. Furthermore, RoRWA improved by 20bp in FY20, much higher than a mere 7bp improvement seen in RoA. This indicates that: a) **profitability has improved on the back of multiple levers** (higher fee income and lower opex) rather than simply on higher balance sheet risk and b) **the bank is able to adequately price incremental risk** in the unsecured portfolio and earn a higher return on the same.

Exhibit 22: Recoveries from write-offs trend higher and stand at INR22.5b in FY20



Source: Company, MOFSL

Exhibit 23: RoRWA increases by 20bp in FY20 v/s mere 7bp increase in RoA



Source: Company, MOFSL

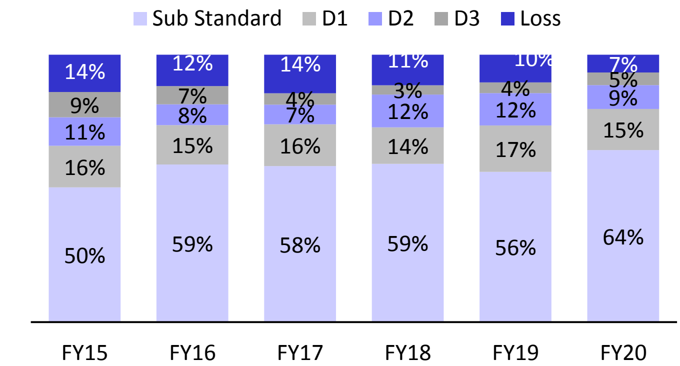
Share of 'Sub-Standard' NPLs increases; concentration of top four NPA accounts rises to ~10%

- The proportion of Sub-Standard assets increased to 64% in FY20 from 56% in FY19, while the mix of Loss and D-3 assets combined declined to ~11% v/s ~15% in FY18. Although this reflects the requirement of higher aging provisions, it could be offset by the higher standard asset/contingent provisions carried by the bank as of FY20.

The mix of Sub-Standard assets increased to ~64% v/s ~56% in FY19

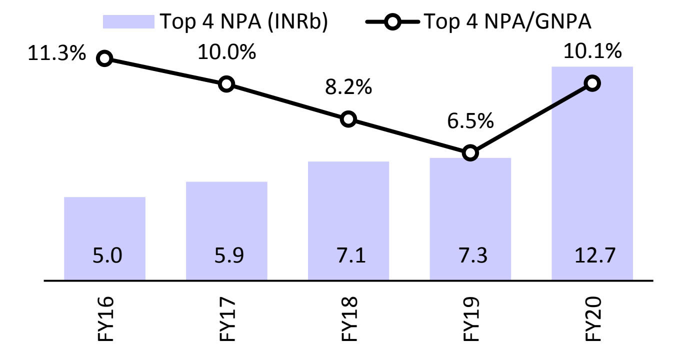
- Furthermore, the concentration of the top four NPA accounts increased sharply to ~10% v/s 6.5% in FY19, after three years of consecutive decline. Moreover, GNPAs in the priority sector increased by ~10bp, led by a 26bp increase in the Services sector and 17bp increase in personal loans. However, GNPA in the non-priority sector improved by 14bp, led by an increase in the Agri segment by ~180bp to 0.3% in FY20 v/s 2.1% in FY19.

Exhibit 24: Higher proportion of Sub-Standard assets reflects higher aging provision requirement; could be offset by higher standard asset/contingent provisions



Source: Company, MOFSL

Exhibit 25: Concentration of top four NPA A/Cs increases sharply to ~10% of gross NPA v/s 6.5% in FY19



Source: Company, MOFSL

Exhibit 26: GNPAs in priority sector witness increase, led by Services/Personal segment; GNPA in non-priority sector improves on improvement in Agri segment

	FY17		FY18		FY19		FY20	
INR b	**O/s advances**	**GNPA (%)**	**O/s advances**	**GNPA (%)**	**O/s advances**	**GNPA (%)**	**O/s advances**	**GNPA (%)**
Priority Sector								
Agriculture	632	2.0%	735	3.4%	743	4.3%	823	4.3%
Industry	262	1.8%	284	1.7%	336	0.9%	433	0.9%
Services	524	1.3%	530	1.9%	833	1.5%	1,005	1.7%
Personal loans	224	0.1%	205	0.1%	296	0.1%	322	0.3%
Total (A)	**1,641**	**1.5%**	**1,754**	**2.3%**	**2,207**	**2.1%**	**2,583**	**2.2%**
Non-Priority Sector								
Agriculture	69	1.1%	141	1.1%	86	2.1%	231	0.3%
Industry	1,274	1.0%	1,411	1.3%	2,015	1.1%	2,746	1.0%
Services	1,279	0.8%	1,558	0.7%	1,834	1.0%	1,901	1.2%
Personal loans	1,322	0.8%	1,777	0.8%	2,132	1.0%	2,566	0.7%
Total (B)	**3,945**	**0.9%**	**4,888**	**0.9%**	**6,067**	**1.1%**	**7,444**	**0.9%**
Total (A+B)	**5,586**	**1.0%**	**6,643**	**1.3%**	**8,273**	**1.4%**	**10,027**	**1.3%**

Source: Company, MOFSL,

- **Higher provisioning buffer provides comfort:** The bank held a floating provision of ~INR14.5b and had a total standard assets provision of INR44.4b as of FY20. Furthermore, the bank had a contingent provision of INR30b. **Additionally, the**

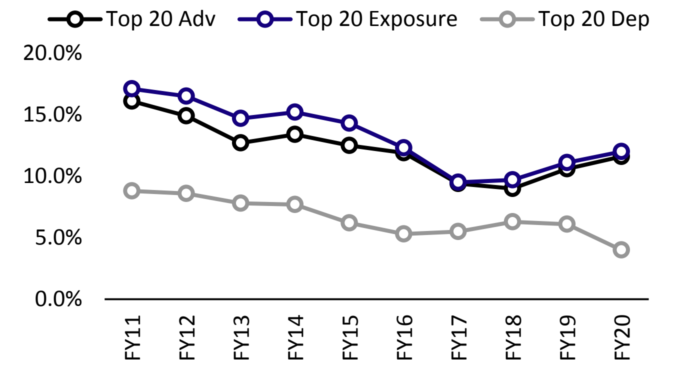
SR book stood at INR4.4b in FY20, with the bank carrying a contingent provision of INR1.9b toward the same.

- **Sensitive sector exposure**: Commercial Real Estate exposure for the bank stands at INR423b in FY20 v/s INR351b in FY19, and corresponds to ~4.3% of total loans; exposure toward the capital markets declined to INR190b.

RWA density improves 560bp; deposit concentration improves to 4%

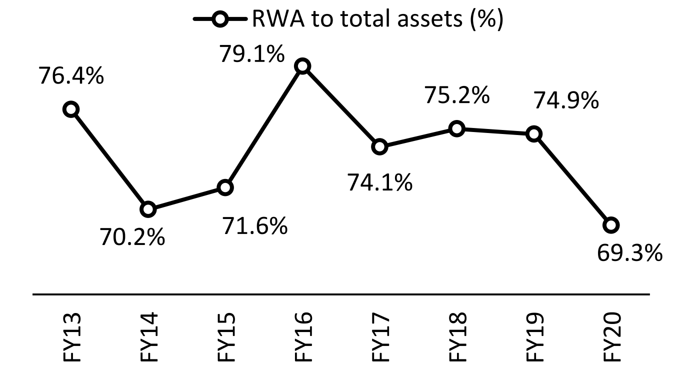
In FY20, HDFCB had a Tier-1 ratio of 17.2% (CET 1 of 16.4%), while the total CAR stood at 18.5%. The bank's focused lending to better rated corporates and retail customers resulted in an improvement in RWA density by ~560bp to ~69% v/s ~75% in FY19. Furthermore, the concentration of the top 20 advances/exposures increased by 100bp/90bp to 11.6%/12.0% during the year. On the liability side, the concentration of the top 20 depositors improved ~210bp to 4.0%.

Exhibit 27: Concentration of top 20 advances/exposures increases, while that of deposits declines to ~4%



Source: MOFSL, Company

Exhibit 28: RWA density improves to ~69% after witnessing stable trend at ~75% over past few years



Source: MOFSL, Company

Building strong digital prowess; market share improves across products

Market share is 17% in POS terminals, 25.1% in credit cards, and 3.9% in debit cards

- The bank has initiated Digital 2.0 with a focus on re-imagining its digital platforms, providing the customer with a frictionless financial experience. The objective is to move the customer from a single transaction to a complete financial solutions journey, thereby meeting all their financial needs. Be it under the Pay, Save, Invest, Borrow, Shop, Trade, Insure, or Advice category, the bank offers the whole range of its financial experience on a platform / at a place of the customer's choice.
- HDFCB has garnered major market share across multiple digital channels, such as **17% market share in POS terminals,** with nearly 1.8m merchant acceptance points across the country; **7.9% in debit card spend, with a total of 32.1m debit cards (3.9%); and 28.8% in credit card spend, with a total of 14.5m credit cards (25.1%).**
- The bank has launched a fully digital account opening process, through which a new customer can open an account within just a few minutes. The asset and card customers' journeys are also being re-imagined, and the bank aims to make them more contextual, real-time, predictive, and frictionless.
- The banks provides the widest range of solutions to the central and state governments across departments, such as transit (metro, bus, waterways, etc.), tolls (national and state highways), FASTag, government disbursals, and

payments (subsidies, direct benefit transfers, eNam, etc.). The bank is also providing end-to-end digital transaction solutions in smart cities. It has recently been awarded the coveted Pune Metro project.

- APIs allow for the seamless and secure exchange of information between bank systems and others. This enables the bank to make its products and services available outside of its platforms to all its merchants and on platforms that customers prefer (ecommerce sites, messaging apps, modern trade POS, etc.).
- The bank is developing numerous APIs to cater to the entire spectrum of its customers' financial needs, i.e., Pay, Save, Borrow, Invest, Insure, and Shop. APIs for card issuances were launched to expand the market with new partnerships for open-market customer sourcing. The bank's API stack is best-in-class and contains real-time credit and verification algorithms to provide an instant soft-approval to an open-market customer.

Key digital innovations

- **My Account My Choice:** CASA customers can now choose any account number of their choice during opening an account; ~66k+ accounts were activated with a book balance of over INR50b.
- **Card-less cash withdrawal:** Customers can withdraw cash from HDFC Bank ATMs without an ATM card; ~65m withdrawals were registered through 21k+ transactions.
- **WhatsApp banking:** HDFC Bank has an official account on WhatsApp for customer servicing, banking, acquisition, and communication. ~6.4m requests were served and have an active user base of ~1m.

Exhibit 29: Market share in o/s credit cards

Market Share (%)	FY15	FY16	FY17	FY18	FY19	FY20
HDFCB	28.3	29.7	28.6	28.5	26.5	25.1
SBIN	15.0	14.8	15.3	16.7	17.6	18.3
ICICIBC	15.8	14.9	14.3	13.3	14.1	15.8
AXSB	8.2	9.8	11.2	12.0	12.7	12.1
RBL	0.4	0.6	0.9	2.1	3.6	4.6

Source: MOFSL, Company

Exhibit 30: Market share in credit card spend

Market Share (%)	FY15	FY16	FY17	FY18	FY19	FY20
HDFCB	30.0	30.6	29.4	28.6	28.0	28.8
SBIN	11.1	12.0	13.2	16.6	17.1	17.8
ICICIBC	11.2	10.9	10.9	11.1	11.1	12.2
AXSB	7.1	7.5	8.7	9.6	10.2	10.4
RBL	0.3	0.4	0.9	1.5	2.7	4.0

Source: MOFSL, Company

Exhibit 31: Market share in o/s debit cards

Market Share (%)	FY15	FY16	FY17	FY18	FY19	FY20
SBIN	29.0	28.6	33.3	32.3	34.2	33.6
BOB	4.6	4.9	5.1	6.0	6.6	6.5
ICICIBC	5.0	4.9	4.3	4.8	4.8	5.6
BOI	4.9	5.3	5.5	6.2	6.5	4.8
HDFCB	3.9	3.5	2.8	2.8	2.9	3.9

Source: MOFSL, Company

Exhibit 32: Market share in debit card spend

Market Share (%)	FY15	FY16	FY17	FY18	FY19	FY20
SBIN	31.8	31.5	31.0	39.8	37.5	35.5
HDFCB	8.4	8.3	8.1	7.3	7.6	7.9
ICICIBC	9.1	8.4	7.8	7.0	6.9	7.5
AXSB	6.4	5.8	5.5	5.0	5.2	5.7
BOB	2.9	3.1	3.1	3.0	3.1	4.5

Source: MOFSL, Company

Exhibit 33: Market share in POS terminals

POS – Market Share (%)	FY15	FY16	FY17	FY18	FY19	FY20
RBK	0.0%	0.1%	3.2%	13.1%	18.6%	25.5%
SBI Cards	17.8%	21.8%	20.1%	20.2%	15.5%	13.1%
AXSB	22.1%	19.0%	17.1%	16.0%	13.6%	10.2%
HDFCB	**21.7%**	**20.4%**	**17.0%**	**12.9%**	**13.2%**	**17.0%**
ICICIBC	19.7%	14.5%	12.1%	10.4%	10.5%	9.4%
KMB	0.0%	0.0%	0.0%	0.2%	0.7%	0.7%

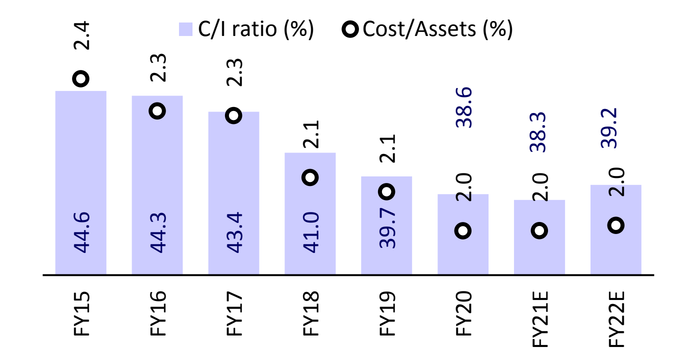
Source: MOFSL, Company

Operating leverage continues to improve

Digitization has helped reduce sourcing cost

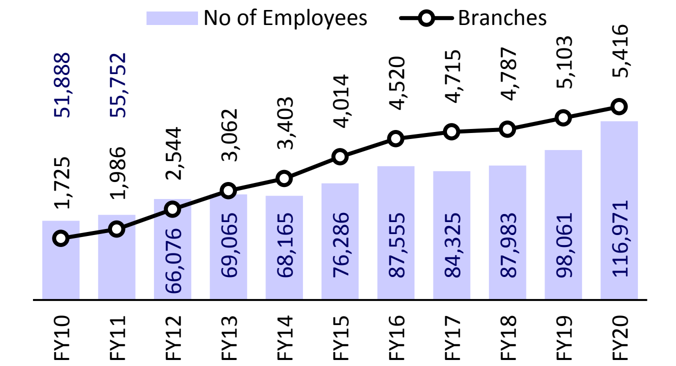
- HDFCB has reported steady improvement in operating costs, which has enabled it to maintain healthy earnings growth. Over the past five years, the C/I and cost-to-asset ratios have thus improved by 592bp and 36bp to current levels of 38.6% and 2.0%, respectively. This improvement has come despite the addition of ~1400 branches and ~41k employees over the similar period.
- HDFCB's opex strategy is centered on: a) increasing operating efficiency, b) the efficient use of digital technology, thereby increasing customer convenience and ease, and c) competing against disruptive technology.
- **Process automation has helped reduce sourcing costs:** HDFCB pioneered the concept of online personal loans and has been witnessing strong traction in 10-Second Personal Loans, Digital Loan against Shares, and Loan against Mutual Funds, and continues to drive value through its digital platforms, increasing penetration in its internal customer base. ~95.1% of transactions happen digitally, enabling the bank to reduce cost materially.
- Thus, we expect continued improvement in operating leverage as: a) employee/branch growth remains controlled, b) branch productivity improves further, and, most importantly, c) the use of technology further drives down expenses. The bank has further guided for an improvement of ~500bp in its C/I ratio over the next five years.

Exhibit 34: Cost ratios witness significant improvement of 600bp over past five years…



Source: Company, MOFSL

Exhibit 35: …despite banks continuing to add employees and branches

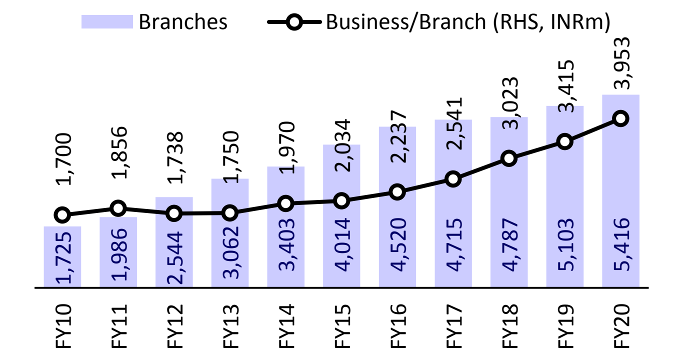


Source: Company, MOFSL

Business productivity improves; SA per branch rises to INR573m in FY20 v/s INR487m in FY19

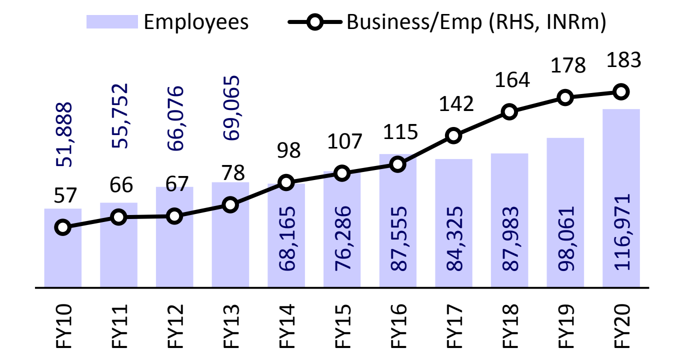
HDFCB has been focusing on improving branch productivity by leveraging technology. HDFCB's business per branch improved to INR3.9b in FY20 from INR3.0b in FY18; business per employee also bettered to INR183m in FY20 from INR164m in FY18. Furthermore, SA per branch of HDFCB improved to INR573m in FY20 v/s INR487m in FY19, indicating higher productivity and operational efficiency at the branch level. With ~52% of its branches concentrated in the semi-urban and urban regions, HDFCB has been able to improve its business productivity.

Exhibit 36: Business/branch consistently improves to INR3.9b per branch



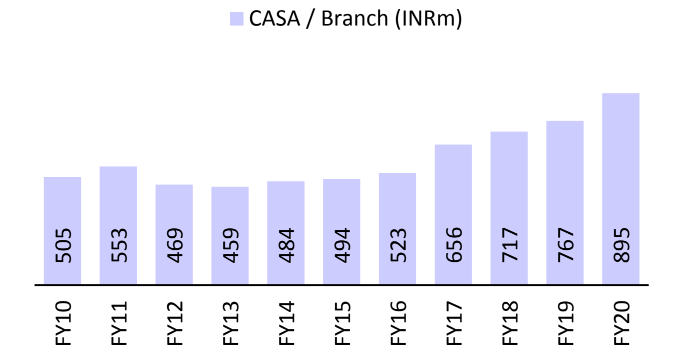
Source: Company, MOFSL

Exhibit 37: Business/employee improves to INR183m v/s INR98m in FY14



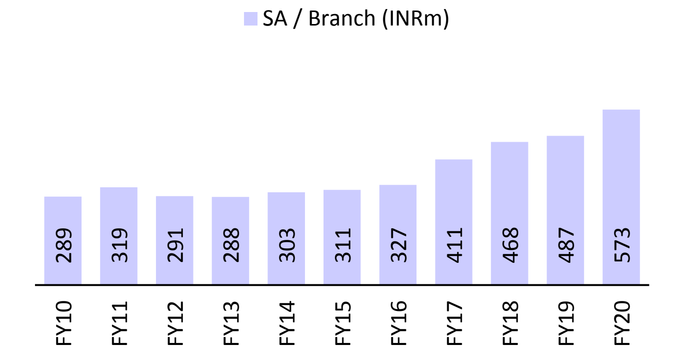
Source: Company, MOFSL

Exhibit 38: CASA/branch reflects improving trend…



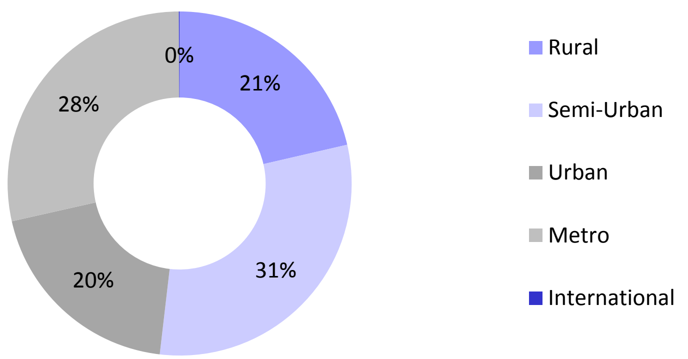
Source: Company, MOFSL

Exhibit 39: …and SA/branch also improves considerably



Source: Company, MOFSL

Exhibit 40: Region-wise split of branches: 52% of branches in rural and semi-urban



Source: Company, MOFSL

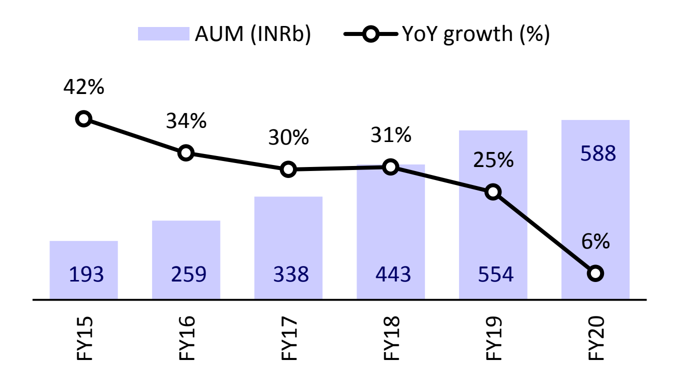
Subs: HDB's performance takes a breather; Securities business gains momentum

HDB Financials – Business performance remains weak; asset quality comes under pressure

HDB PAT grew at a CAGR of 24% over FY15–20

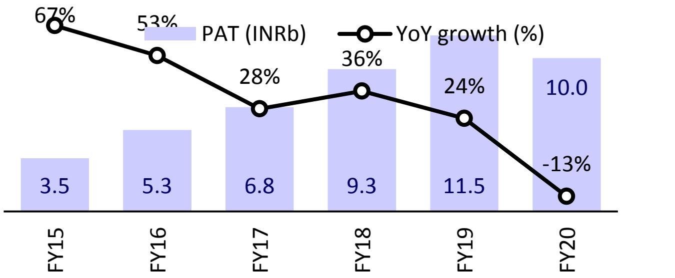
HDB Financials had total AUM of INR588b as of FY20 and was delivering healthy return ratios up to FY19. However, performance was impacted in FY20 due to the ongoing NBFC crisis and COVID-19 outbreak. AUM growth moderated to 6% in FY20 v/s an average of ~30% over the past five years, while PAT registered decline of ~13% YoY to INR10b. NII grew ~23% YoY to INR41.5b. The company witnessed deterioration in asset quality, resulting in an increase in GNPA/NNPA to 3.9%/3.2% in FY20 v/s 1.8%/1.3% in FY19. For FY20, the company reported RoA/RoE of 1.7%/13.2%. Although HDB Financial remains well-capitalized with Tier I/CAR of 14.0%/19.4%, near-term performance is likely to remain muted given the challenging macro environment, while asset quality may continue to remain under pressure, impacting return ratios.

Exhibit 41: AUM growth moderates sharply to 6% YoY…



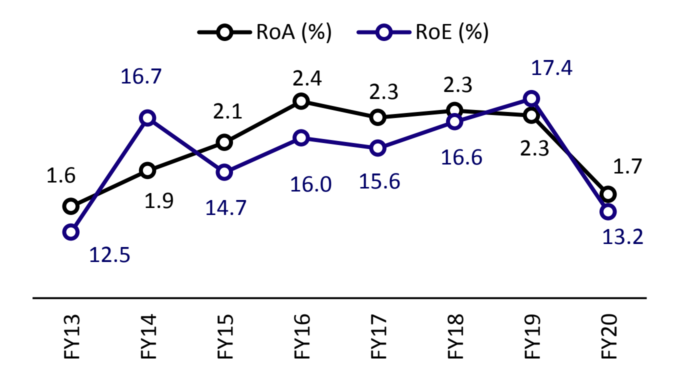
Source: MOFSL, Company

Exhibit 42: …while PAT registers decline of 13% YoY



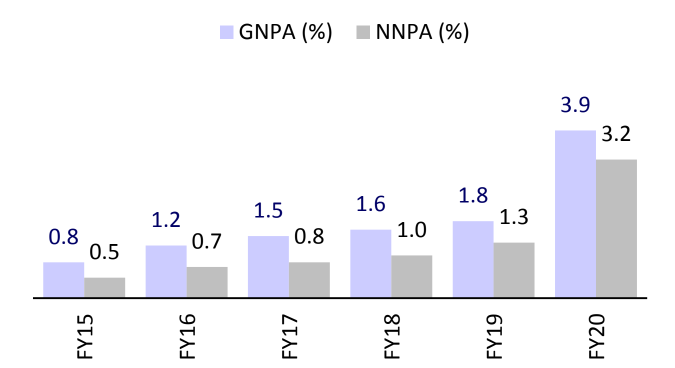
Source: MOFSL, Company

Exhibit 43: Return ratios suppressed in FY20…



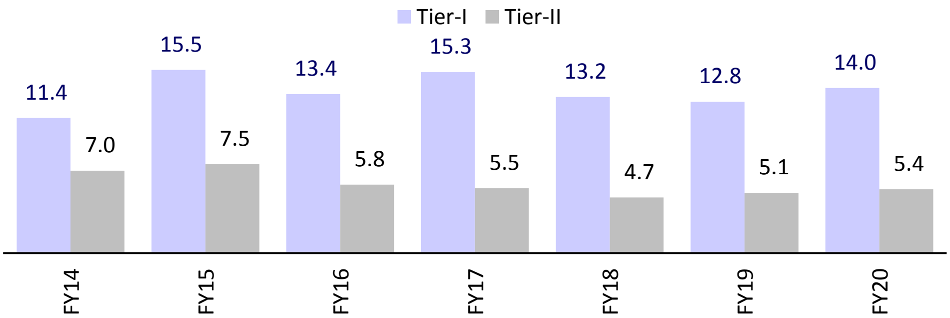
Source: MOFSL, Company

Exhibit 44: …as asset quality deteriorates in FY20



Source: MOFSL, Company

Exhibit 45: Capitalization level remains strong, with total CAR at 19.4%



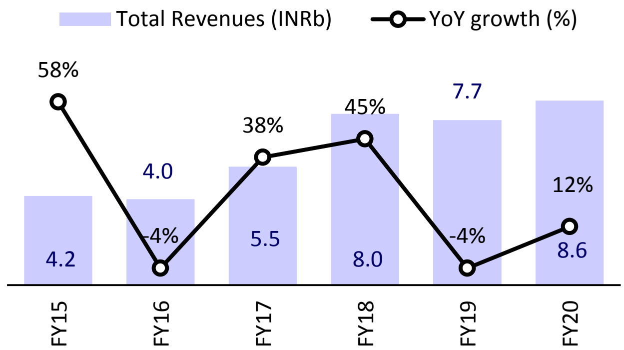
Source: MOFSL , Company

HDFC Securities – Business performance modest; gaining swift momentum

PAT grew at a CAGR of 18% over FY15–20

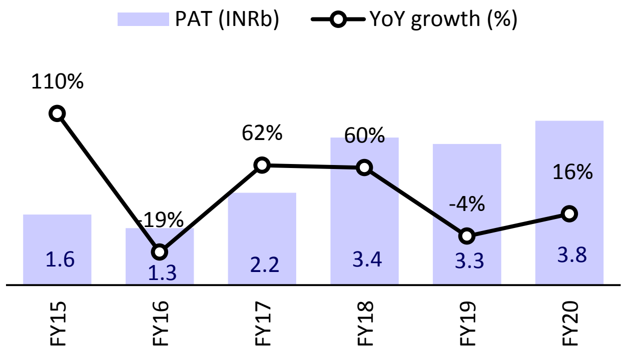
HDFC Securities has grown its revenue/PAT at 16%/18% CAGR over FY15–20. Revenue/Earnings growth has picked up over the past few years, aided by rising share of financial savings and the increasing formalization of the economy. HDFC Securities expanded its presence to 262 branches across 161 cities in FY20 from 194 branches in 150 cities in FY13. The company, after reporting negative growth in FY19, showed a 12% YoY growth in FY20 to INR8.6b. Conversely, PAT grew by 16% YoY to INR3.8b. RoE expanded to ~32% v/s 22% in FY16. The company has a customer base of 2.4m, with ~0.8m transacting customers, the third highest among broking houses. The focus on digitization continued, with customers accessing services digitally increasing to 79% v/s 68% in FY19. For the mobile app, this increased to 50% v/s 37%. Owing to improved operating leverage, steady growth in new customers, and better market conditions, we expect the company to report a strong earnings trend over the next few years and gain momentum.

Exhibit 46: Total income grew 12% YoY in FY20…



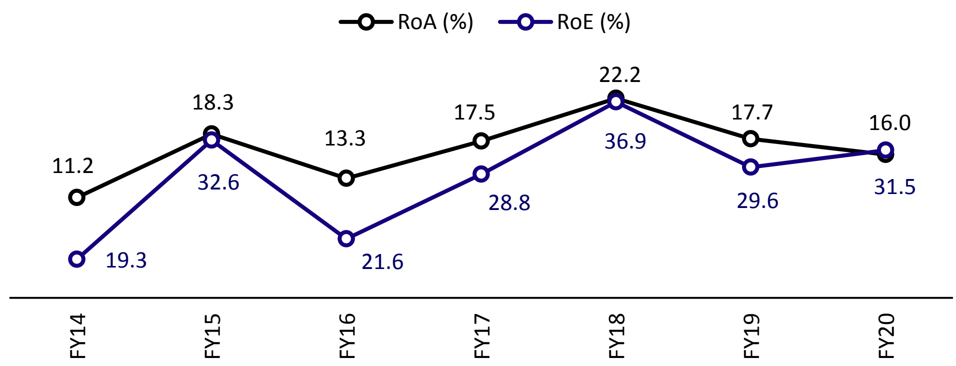
Source: MOFSL, Company

Exhibit 47: … while PAT growth was healthy at 16% YoY



Source: MOFSL, Company

Exhibit 48: Return ratios remain strong for HDFC Securities, with RoE at ~32% for FY20



Source: MOFSL , Company

Other highlights from Annual Report

- **Contingent liabilities** for the bank grew ~10% in FY20 (4% CAGR over FY16–20), resulting in decline in the proportion of total assets to ~74% v/s 120% in FY16 (82% in FY19).

Exhibit 49: Contingent liabilities constitute 74% of total assets

Contingent Liabilities (INR b)	FY16	FY17	FY18	FY19	FY20
Claims not acknowledged as debt	13	12	12	14	**14**
O/s forward exch. contracts	5,291	4,699	4,345	5,562	**6,079**
Guarantees given in India	301	366	449	537	**591**
Guarantees given outside India	31	1	1	1	**1**
Acceptances, Endorsements etc.	318	360	395	476	**440**
Others	2,580	2,741	3,553	3,658	**4,165**
Total	**8,533**	**8,179**	**8,755**	**10,247**	**11,290**
% of total assets	**120%**	**95%**	**82%**	**82%**	**74%**

Source: MOFSL, Company

- **Fraud accounts:** The total number of fraud accounts reported during the year stood at 7,580, with the amount involved at INR2.2b; of this, INR1.7b was the amount that remained net of recoveries/write-offs, for which the bank created 100% provisions.
- **RBI imposes INR20m penalty in FY20:** In FY20, the RBI imposed a penalty of INR10m for non-compliance of directions on KYC/AML standards and INR10m for failure to undertake on-going due diligence in case of 39 current accounts opened for bidding in an IPO.
- **PSLC purchase increased in FY20:** The bank saw an increase in the purchase of PSLCs in the current year as the bank purchased PSLCs worth INR645b v/s INR460b in FY19, while it sold PSLCs worth INR168b v/s INR117b in FY19.

Exhibit 50: PSLC certificate trends across years

INR b	FY17	FY18	FY19	FY20
PSLC bought during the year	32.7	277.7	459.5	645.2
PSLC sold during the year	15.2	7.3	117.8	167.5

Source: MOFSL, Company

- **Provision of reward points:** The bank further carries a total provision of INR7.3b toward both credit card and debit card reward points.

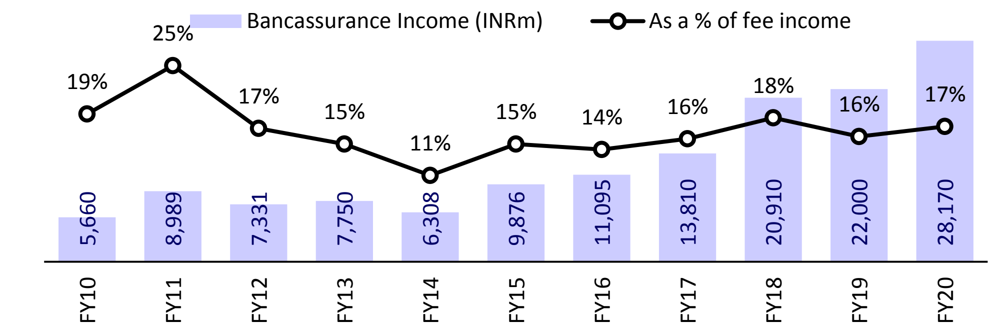
Exhibit 51: Provision for credit card and debit card reward points

INR m	FY15	FY16	FY17	FY18	FY19	FY20
Opening provision	1,509	2,001	3,064	4,312	4,711	6,031
Provision made during the year	1,129	1,795	3,342	2,620	3,876	5,179
Utilization/Write back	638	732	2,094	2,221	2,556	3,869
Closing Provision	**2,001**	**3,064**	**4,312**	**4,711**	**6,031**	**7,342**

Source: MOFSL, Company

- **Bancassurance fee:** This increased 28% YoY to INR28.2b from INR22b in FY19 and forms ~17% of the total fee. It was primarily led by an increase of 48% in life insurance sales to INR21.8b, while fees from mutual declined ~28% YoY, affected by change in regulations.

Exhibit 52: Banca income constitutes ~17% of the total fee income



Source: MOFSL , Company

Bancassurance income was driven by life insurance sales, which grew ~50% YoY

Exhibit 53: Bancassurance fee – Sale of life insurance offset by moderation in mutual funds

Bancassurance Income (INR m)	FY15	FY16	FY17	FY18	FY19	FY20
Sale of Life Insurance	4,540	6,618	7,984	11,923	14,734	21,828
Sale of Non-Life Insurance	1,371	1,561	1,576	2,034	2,227	2,723
Sale of Mutual Fund	3,966	2,917	4,251	6,952	5,040	3,620
Total	**9,876**	**11,095**	**13,810**	**20,910**	**22,000**	**28,170**
Growth YoY (%)	**56.6%**	**12.3%**	**24.5%**	**51.4%**	**5.2%**	**28.0%**

Source: MOFSL, Company

- The bank has opened over 2.5m accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY) and enrolled 3.3m customers in social security schemes since its inception. Furthermore, it has extended loans worth INR81.5b under the Pradhan Mantri Mudra Yojana (PMMY).

Attrition among top management remains high; CEO's transition an important event

- We note that attrition among the top paid employees who earned salaries of more than INR10m has increased over the past two years. ~10% of such employees exited the organization in FY20 after an average of ~14 years of service with HDFCB. Among 19 such employees, three held positions of Group/Business Head.

Exhibit 54: Attrition among top paid employees increases over past two years

	FY17	FY18	FY19	FY20
Employees with salary >INR10m who left the organization	5	7	25	19
As a % of total employees with salary >INR10m	5%	5%	12%	10%
Year of service with HDFC Bank	14	11	13	14
Group/Business head left during the year	3	5	5	3

Source: MOFSL, Company

Exhibit 55: Top management who left the organization

	Designation
Abhay Aima	Group Head Equities, Private Banking, Third Party Products, NRI & International Consumer Business
Ashok Khanna	Group Head Secured Loans (Vehicles)
Nitin Chugh	Group Head Digital Banking
Rajesh Kumar	Group Head Retail Credit and Risk

Source: MOFSL, Company

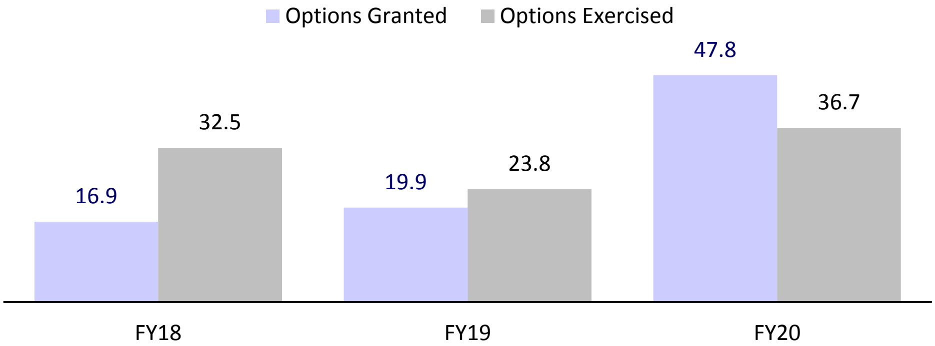
Exhibit 56: New top management appointments

	Designation
Arup Rakshit	Group Head – Treasury – Sales, Analytics and Overseas
Raveesh Bhatia	Group Head – Corporate Banking North
Anjani Rathor	Group Head - Digital Banking

Source: MOFSL, Company

- The remuneration of non-managerial staff increased by ~10.2%, and that of key managerial personnel by 21.1%. The percentage increase in median remuneration was at ~13%.
- Furthermore, the ratio of the remuneration of the MD & CEO to median employees' remuneration was at 282x, while that of the Executive Director was at 128x. The MD & CEO earned remuneration of INR189.2m and the Executive Director of INR86.4m in FY20.
- **ESOP:** The bank granted ~47.8m options in FY20, while the options that were exercised stood at ~36.7m. This stood at a four-year high, with higher options granted and exercised during the year.

Exhibit 57: Stock options granted and exercised in past five years (nos. in million)



Source: MOFSL, Company

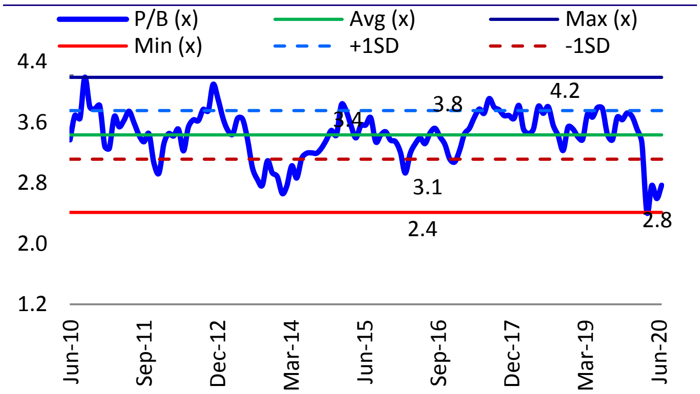
Valuation and view

- Corporate loan growth for HDFCB is picking up and compensating well for the softness in its Retail portfolio (caused by muted growth in the Auto / Credit Cards segment). Among retail assets, growth is witnessed primarily from unsecured personal loans.
- The fee income profile was marginally impacted in the current quarter due to decline witnessed in economic activity on account of COVID-19. However, strong cost control is likely to drive improvement in the bank's return ratios. Besides this, margins have improved sequentially due to decline in cost of funds, aided by a strong/granular liability franchise. As corporate lending picks up, we believe corporate fees would also reflect improving trends as economic activity revives.
- Asset quality also improved, aided by the RBI announcement (17th Apr'20) on NPA relaxation by excluding the moratorium period from the 90-day NPA recognition norm. CV/CE and unsecured retail loans to the Self-Employed segment need to be monitored amid COVID-19, and we expect rising delinquency trends in the near term. PCR increased ~530bp to ~72%, while the bank carries a floating provision of INR14.5b and contingent provision of INR29.9b. Overall, we continue to expect NNPA to remain at 0.5% in FY22E.
- We have seen some pickup in investments in branches/ATMs and calibration in the workforce. Overall, we believe strong capitalization and liquidity levels (surplus liquidity buffer of INR500b) should help HDFCB sustain its growth momentum over the next few years.
- **Buy, with TP of INR1,250:** HDFCB has delivered strong growth despite economic activity being impacted due to the COVID-19 outbreak. Moderation in retail credit due to consumption slowdown was compensated well by the Wholesale segment, which is driving overall loan growth. On the asset quality front, slippages are likely to remain elevated due to COVID-19, which could keep credit cost higher; however, higher provisioning buffers should limit the overall impact on earnings. Furthermore, a strong liability franchise would support margins, while higher liquidity levels would enable the bank to ride the current crisis and gain higher market share. We estimate the loan book / PAT to grow at a CAGR of 16%/9% over FY20–22. The CEO's succession, though, remains an important event in the near term. Maintain Buy, with TP of INR1,250 (3.0x FY22E ABV).

Exhibit 58: SOTP-based pricing

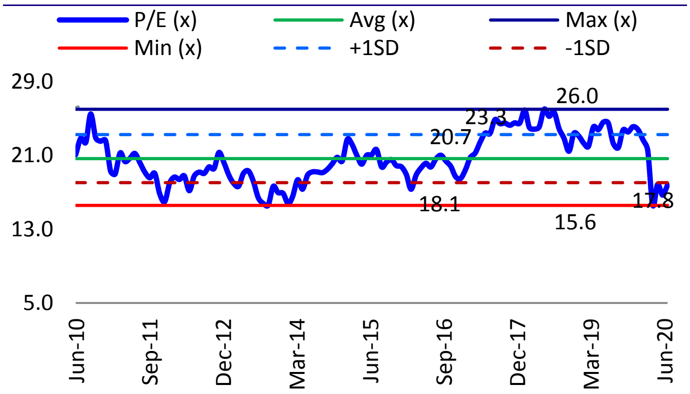
	Stake (%)	Total Value INR b	Total Value USD b	Value Per Share INR	% of Total Value	Rationale
HDFC Bank		**6,340.0**	**89.1**	**1,156**	**92.5**	**3.0x FY22E ABV**
HDB Financial Services	97.3	524.2	7.4	96	7.6	4.5x FY22E Net worth
HDFC Securities	95.5	117.5	1.7	21	1.7	22x FY22E PAT
Total Value of Subs		**641.7**	**9.0**	**117**	**9.4**	
Less: 20% holding Disc		128.3	1.8	23	1.9	
Value of Subs (Post Holding Disc)		**513.3**	**7.2**	**94**	**7.5**	
Target Price		**6,853.4**	**96.3**	**1,250**		

Exhibit 59: One-year forward P/B



Source: MOFSL, Company

Exhibit 60: One-year forward P/E



Source: MOFSL, Company

Exhibit 61: DuPont Analysis: Return ratios to remain modest

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	**4.14**	**4.25**	**4.21**	**4.16**	**4.18**	**4.05**	**4.01**	**3.96**
Core Fee Income	1.23	1.23	1.12	1.31	1.34	1.38	1.25	1.25
Trading and others	0.43	0.43	0.44	0.27	0.19	0.30	0.33	0.32
Non-Interest income	**1.66**	**1.65**	**1.56**	**1.58**	**1.53**	**1.68**	**1.57**	**1.57**
Total Income	**5.37**	**5.48**	**5.33**	**5.74**	**5.71**	**5.73**	**5.59**	**5.54**
Operating Expenses	**2.59**	**2.61**	**2.51**	**2.35**	**2.26**	**2.21**	**2.14**	**2.17**
Employee cost	0.88	0.88	0.82	0.71	0.67	0.69	0.67	0.68
Others	1.71	1.74	1.68	1.65	1.59	1.53	1.47	1.49
Operating Profits	**3.22**	**3.29**	**3.27**	**3.38**	**3.44**	**3.51**	**3.45**	**3.37**
Core operating Profits	**2.79**	**2.86**	**2.83**	**3.11**	**3.26**	**3.22**	**3.12**	**3.04**
Provisions	**0.38**	**0.42**	**0.46**	**0.61**	**0.65**	**0.88**	**1.23**	**1.17**
PBT	**2.83**	**2.87**	**2.82**	**2.77**	**2.79**	**2.64**	**2.22**	**2.20**
Tax	0.94	0.98	0.97	0.96	0.96	0.75	0.56	0.55
RoA	**1.89**	**1.89**	**1.85**	**1.81**	**1.83**	**1.89**	**1.66**	**1.65**
Leverage (x)	10.3	9.6	9.7	9.8	9.0	8.7	9.0	9.2
RoE	**19.4**	**18.3**	**17.9**	**17.9**	**16.5**	**16.4**	**14.9**	**15.1**

Financials and valuations

Income Statement (INR b)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest Income	484.7	602.2	693.1	802.4	989.7	1,148.1	1,367.5	1,565.3
Interest Expense	260.7	326.3	361.7	401.5	507.3	586.3	709.6	816.3
Net Interest Income	**224.0**	**275.9**	**331.4**	**400.9**	**482.4**	**561.9**	**657.9**	**749.0**
Growth (%)	21.2	23.2	20.1	21.0	20.3	16.5	17.1	13.9
Non-Interest Income	90.0	107.5	123.0	152.2	176.3	232.6	258.2	296.9
Total Income	**313.9**	**383.4**	**454.4**	**553.2**	**658.7**	**794.5**	**916.1**	**1,045.9**
Growth (%)	18.9	22.1	18.5	21.7	19.1	20.6	15.3	14.2
Operating Expenses	139.9	169.8	197.0	226.9	261.2	307.0	351.0	409.7
Pre Provision Profits	**174.0**	**213.6**	**257.3**	**326.2**	**397.5**	**487.5**	**565.1**	**636.3**
Growth (%)	21.2	22.7	20.4	26.8	21.8	22.6	15.9	12.6
Core PPP	**150.3**	**184.5**	**220.9**	**311.0**	**380.3**	**465.9**	**532.8**	**598.6**
Growth (%)	23.0	22.7	19.7	40.8	22.3	22.5	14.3	12.3
Provisions (excl. tax)	20.8	27.3	35.9	59.3	75.5	121.4	201.8	220.4
PBT	**153.3**	**186.4**	**221.4**	**267.0**	**322.0**	**366.1**	**363.3**	**415.8**
Tax	51.1	63.4	75.9	92.1	111.2	103.5	91.4	104.7
Tax Rate (%)	33.4	34.0	34.3	34.5	34.5	28.3	25.2	25.2
PAT	**102.2**	**123.0**	**145.5**	**174.9**	**210.8**	**262.6**	**271.9**	**311.2**
Growth (%)	20.5	20.4	18.3	20.2	20.5	24.6	3.5	14.5

Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	5.0	5.1	5.1	5.2	5.4	5.5	5.5	5.5
Reserves & Surplus	615.1	721.7	855.6	1,057.8	1,486.6	1,704.4	1,923.4	2,178.5
Net Worth	**620.1**	**726.8**	**860.7**	**1,063.0**	**1,492.1**	**1,709.9**	**1,928.9**	**2,184.0**
Deposits	4,508.0	5,464.2	6,436.4	7,887.7	9,231.4	11,475.0	13,311.0	15,707.0
Growth (%)	22.7	21.2	17.8	22.5	17.0	24.3	16.0	18.0
of which CASA Dep	1,984.9	2,363.1	3,091.5	3,430.9	3,912.0	4,846.3	5,537.4	6,769.7
Growth (%)	20.6	19.1	30.8	11.0	14.0	23.9	14.3	22.3
Borrowings	452.1	849.7	740.3	1,231.0	1,170.9	1,446.3	1,494.4	1,544.2
Other Liabilities & Prov.	324.8	367.3	601.0	457.6	551.1	673.9	761.6	860.6
Total Liabilities	**5,905.0**	**7,408.0**	**8,638.4**	**10,639.3**	**12,445.4**	**15,305.1**	**17,495.9**	**20,295.7**
Current Assets	363.3	389.2	489.5	1,229.2	813.5	866.2	1,199.2	1,380.1
Investments	1,516.4	1,958.4	2,144.6	2,422.0	2,931.2	3,918.3	4,231.7	4,739.5
Growth (%)	25.4	29.1	9.5	12.9	21.0	33.7	8.0	12.0
Loans	3,655.0	4,645.9	5,545.7	6,583.3	8,194.0	9,937.0	11,427.6	13,370.3
Growth (%)	20.6	27.1	19.4	18.7	24.5	21.3	15.0	17.0
Fixed Assets	31.2	33.4	36.3	36.1	40.3	44.3	48.8	53.6
Total Assets	**5,905.0**	**7,408.0**	**8,638.4**	**10,639.3**	**12,445.4**	**15,305.1**	**17,495.9**	**20,295.7**

Asset Quality

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
GNPA	34.4	43.9	58.9	86.1	112.2	126.5	256.8	263.7
NNPA	9.0	13.2	18.4	26.0	32.1	35.4	68.7	67.6
GNPA Ratio	0.9	0.9	1.1	1.3	1.4	1.3	2.2	1.9
NNPA Ratio	0.2	0.3	0.3	0.4	0.4	0.4	0.6	0.5
Slippage Ratio	1.6	1.6	1.5	2.1	1.9	1.9	2.7	2.5
Credit Cost	0.5	0.5	0.6	0.8	0.9	1.0	1.5	1.4
PCR (Excl. Tech. write off)	73.9	69.9	68.7	69.8	71.4	72.0	73.3	74.4

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	**10.1**	**10.1**	**9.6**	**9.4**	**9.6**	**9.0**	**9.1**	**9.0**
Avg. Yield on loans	11.1	10.8	10.2	10.3	10.5	10.1	10.0	10.0
Avg. Yield on Inv.	7.2	8.1	7.8	7.2	7.6	6.1	7.0	7.0
Avg. Cost-Int. Bear. Liabilities	**5.8**	**6.0**	**5.5**	**4.9**	**5.2**	**5.0**	**5.1**	**5.1**
Avg. Cost of Deposits	5.7	5.9	5.3	4.6	4.8	4.9	4.9	4.9
Interest Spread	**4.3**	**4.3**	**4.2**	**4.5**	**4.4**	**4.0**	**4.0**	**3.9**
Net Interest Margin	**4.6**	**4.6**	**4.6**	**4.4**	**4.4**	**4.2**	**4.2**	**4.1**
Capitalization Ratios (%)								
CAR	16.8	15.5	14.6	14.8	17.1	18.5	17.9	17.4
Tier I	13.7	13.2	12.8	13.3	15.8	17.2	16.8	16.4
Tier II	3.1	2.3	1.8	1.6	1.3	1.3	1.1	1.0
Business and Efficiency Ratios (%)								
Loans/Deposit	81.1	85.0	86.2	83.5	88.8	86.6	85.9	85.1
CASA Ratio	44.0	43.2	48.0	43.5	42.4	42.2	41.6	43.1
Cost/Assets	2.4	2.3	2.3	2.1	2.1	2.0	2.0	2.0
Cost/Total Income	44.6	44.3	43.4	41.0	39.7	38.6	38.3	39.2
Cost/Core Income	47.0	46.7	45.8	42.2	40.7	39.7	39.7	40.6
Int. Expense/Int. Income	53.8	54.2	52.2	50.0	51.3	51.1	51.9	52.1
Fee Income/Total Income	24.4	23.6	21.8	22.8	23.5	24.1	22.3	22.5
Non Int. Inc./Total Income	28.7	28.0	27.1	27.5	26.8	29.3	28.2	28.4
Emp. Cost/Total Expense	34.0	33.6	32.9	30.0	29.7	31.0	31.2	31.3
Investment/Deposit	33.6	35.8	33.3	30.7	31.8	34.1	31.8	30.2

Valuation

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
RoE	19.4	18.3	17.9	17.9	16.5	16.4	14.9	15.1
RoA	1.9	1.8	1.8	1.8	1.8	1.9	1.7	1.6
RoRWA	2.7	2.5	2.4	2.4	2.4	2.6	2.4	2.4
Book Value (INR)	123.7	143.7	167.9	204.8	273.9	311.8	351.8	398.3
Growth (%)	36.5	16.2	16.9	22.0	33.8	13.8	12.8	13.2
Price-BV (x)			**6.4**	**5.3**	**3.9**	**3.5**	**3.1**	**2.7**
Adjusted BV (INR)	122.4	141.8	165.4	193.9	262.8	300.3	335.5	381.2
Price-ABV (x)			**6.5**	**5.6**	**4.1**	**3.6**	**3.2**	**2.8**
EPS (INR)	20.4	24.3	28.4	33.9	39.6	48.0	49.6	56.7
Growth (%)	15.3	19.3	16.7	19.4	16.9	21.2	3.2	14.5
Price-Earnings (x)			**37.9**	**31.7**	**27.2**	**22.4**	**21.7**	**19**
Dividend Per Share (INR)	4.0	4.8	5.5	7.8	9.0	11.9	9.6	10.2
Dividend Yield (%)			**0.5**	**0.7**	**0.8**	**1.1**	**0.9**	**1.0**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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