

HDFC Bank

Refer to important disclosures at the end of this report

Transforming into techno-bank; sustaining management premium to be key

CMP: Rs 1,044
as of (September 26, 2020)TP: Rs 1,300 (■)
12 months

Rating: BUY (■)

Upside: 24.5 %

- HDFCB has built a strong retail-cum-corporate bank with market share gain across businesses, which the designate MD intends to strengthen by focusing on techno-banking, capturing B2B/B2C ecosystem and gaining market share at a pace faster than the past.
- The retail business is now at 80% of the pre-Covid level and should benefit from its strong urban presence with agri doing well. The bank has a high share of the corporate book built around working capital and >AA corporates, where the deal pipeline is also building up well. The bank is well-capitalized, courtesy of higher internal returns v/s RWA growth.
- Retail collection efficiency is ~80-90% across products. The bank believes that NPAs may not cross the peak seen post-GFC at 2% (2010). Reducing cost ratios and better operating level should continue to support superior RoAs of 1.8-2%.
- We retain Buy/OW stance in EAP with a TP of Rs1,300 (based on 2.8x core bank Sep P/ABV + Subs value of Rs53), given its strong stress management capability and superior return ratios. Amid a spate of recent management churn and events, new top management will have an uphill task maintaining its historic management premium.

Stepped-up techno-banking platform to accelerate market share gain: The bank has doubled its customer base to ~56mn over five years and targets 80-90mn customers (with focus on mid/upper income segment) in 2-3 years backed by strong digital capabilities. Its virtual RM platform has done well during the pandemic and plans to introduce new technology platforms, including Stack (One stop shop for all products/services) and Customer One View, which should improve customer experience/acquisition, cross-selling and accelerate market share gains. Cost ratios have improved to low 40s from high 40s, which should gradually move toward mid-30s, led by the next level of techno-banking and better returns from its urban investments.

Growth trends picking up, though BAU still some time away: The bank has been clocking much superior credit growth (>19-20% yoy) than the system led by high corporate growth and thus leading to a high corporate loan share of ~53% (Q1FY21). This has been on the back of capturing wallet share in captive, highly-rated corporates and gaining market share from weak competition. With elongated working capital cycle even in good corporates, we believe that HDFCB should post better corporate growth. The retail business is at 80% of the pre-Covid level and the bank should benefit from the festive season with possibly BAU by the year end.

Collection efficiency improving; restructuring to be in low single digit: Retail collection efficiency across products is ~80-90%, up from 65-70% in Q1. The bank believes that NPAs may not cross the peak seen post GFC at 2% (2010), though we prefer to remain little cautious amid Covid-19. The bank has higher exposure to the trader segment, where disruption is high. However, the overall restructuring rate will be lower (around low single digits) for HDFCB, given its practice of recognizing stress upfront and low share of the mortgage book.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 6\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	658,691	794,471	878,968	1,007,536	1,184,233
Net profit	210,778	262,570	294,492	358,951	429,083
EPS (Rs)	39.6	48.0	53.7	65.5	78.3
ABV (Rs)	276.6	308.0	354.8	414.0	484.7
RoA (%)	1.8	1.9	1.8	1.9	2.0
RoE (%)	16.8	16.4	15.9	16.6	17.0
PE (x)	26.3	21.7	19.4	15.9	13.3
P/ABV	3.6	3.2	2.8	2.4	2.0

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	53.7	65.5
Consensus	49.3	62.8
Mean Consensus TP (12M)	Rs 1,278	

Stock Details

Bloomberg Code	HDFCB IN
Face Value (Rs)	1
Shares outstanding (mn)	5,503
52 Week H/L	1,306 / 739
M Cap (Rs bn/USD bn)	5,745 / 78.05
Daily Avg Volume (nos.)	14,537,540
Daily Avg Turnover (US\$ mn)	213.2

Shareholding Pattern Jun '20

Promoters	21.2%
FIIIs	30.1%
DIIIs	17.8%
Public and Others	30.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	1	22	(16)
Rel. to Nifty	(3)	(6)	(8)	(13)

Relative price chart



Source: Bloomberg

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Anand Dama

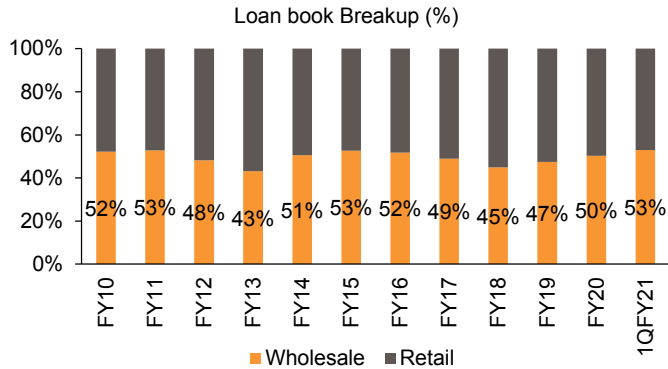
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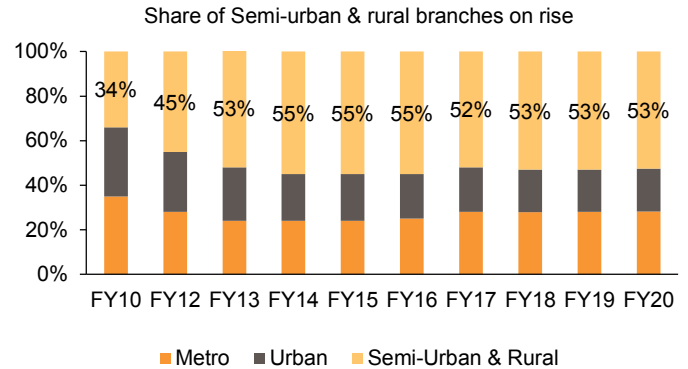
Story in charts

Exhibit 1: Wholesale loan share stands high at 53% due to bank's conscious focus on better quality corporate growth



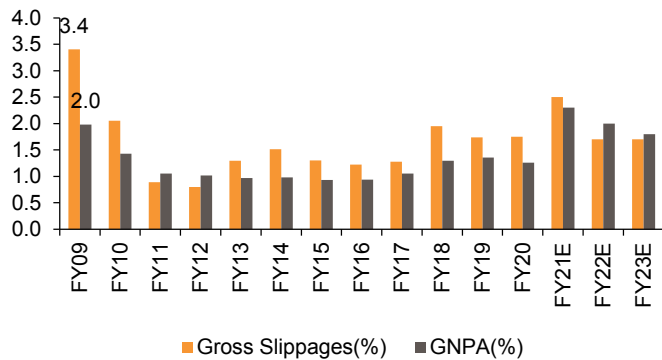
Source: Company, Emkay Research

Exhibit 2: Branch profile tilting toward rural (Semi-urban + Rural)



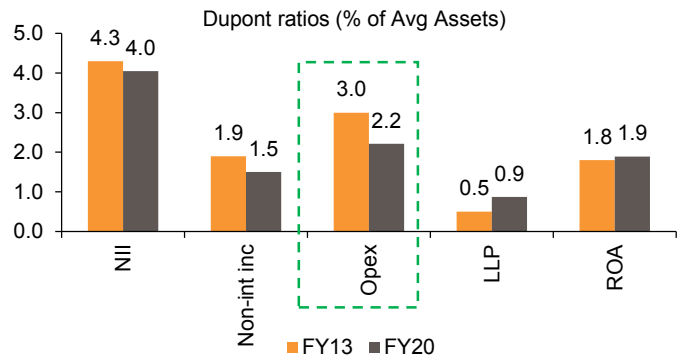
Source: Company, Emkay Research

Exhibit 3: Well-managed asset quality across cycles



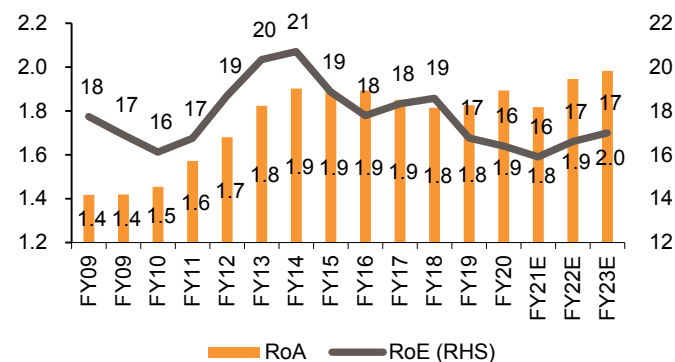
Source: Company, Emkay Research

Exhibit 4: Meaningful improvement in cost since FY13, largely offsetting fall in fees and LLP to clock better RoA



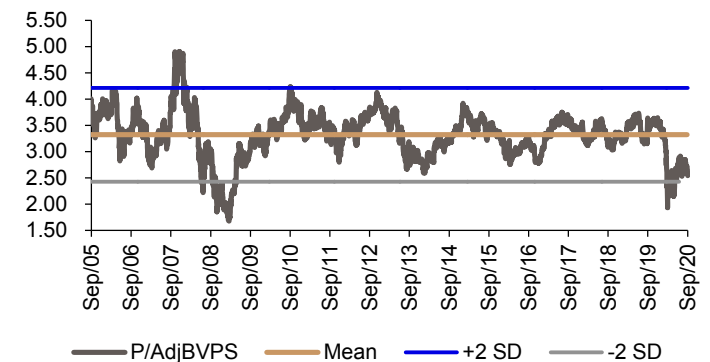
Source: Company, Emkay Research

Exhibit 5: Bank to sustain superior return ratios



Source: Company, Emkay Research

Exhibit 6: The stock trades at 2.6x, 1-year forward ABV vs. 5-year avg of 3.2x



Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	645,346	747,753	882,827
Other income	176,259	232,608	233,622	259,783	301,406
Fee income	138,055	163,337	169,870	195,351	230,514
Net income	658,691	794,471	878,968	1,007,536	1,184,233
Operating expenses	261,194	306,975	320,515	369,598	433,547
Pre provision profit	397,497	487,495	558,454	637,938	750,686
PPP excl treasury	393,628	468,152	537,175	620,916	732,813
Provisions	75,501	121,424	164,744	158,053	177,042
Profit before tax	321,996	366,072	393,709	479,885	573,644
Tax	111,215	103,498	99,215	120,931	144,558
Tax rate	35	28	25	25	25
Profit after tax	210,781	262,573	294,495	358,954	429,086

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	5,447	5,483	5,483	5,483	5,483
Reserves	1,486,617	1,704,377	1,987,906	2,324,928	2,715,633
Net worth	1,492,063	1,709,860	1,993,389	2,330,411	2,721,116
Deposits	9,231,409	11,475,023	13,308,016	15,684,291	18,753,873
Borrowings	889,031	1,446,285	1,301,657	1,171,491	1,288,640
Total liabilities	12,445,407	15,305,112	17,104,238	19,792,568	23,512,077
Cash and bank	467,636	722,051	758,154	796,061	835,865
Investments	2,905,879	3,918,267	4,227,300	4,773,598	5,562,700
Loans	8,194,012	9,937,029	11,238,778	13,130,024	15,784,180
Others	491,740	539,311	607,204	697,827	750,036
Total assets	12,445,407	15,305,113	17,104,238	19,792,568	23,512,077

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	4.4	4.2	4.2	4.2	4.2
Non-II/avg assets	1.5	1.7	1.4	1.4	1.4
Fee income/avg assets	1.2	1.2	1.0	1.1	1.1
Opex/avg assets	2.3	2.2	2.0	2.0	2.0
Provisions/avg assets	0.7	0.9	1.0	0.9	0.8
PBT/avg assets	2.8	2.6	2.4	2.6	2.6
Tax/avg assets	1.0	0.7	0.6	0.7	0.7
RoA	1.8	1.9	1.8	1.9	2.0
RoAE	16.8	16.4	15.9	16.6	17.0
GNPA (%)	1.4	1.3	2.3	2.0	1.8
NNPA (%)	0.4	0.4	0.6	0.6	0.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	39.6	48.0	53.7	65.5	78.3
BVPS	280.5	312.9	363.6	425.0	496.3
ABVPS	276.6	308.0	354.8	414.0	484.7
DPS	7.7	2.5	2.0	4.0	7.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	26.3	21.7	19.4	15.9	13.3
P/BV	3.8	3.4	2.9	2.5	2.2
P/ABV	3.6	3.2	2.8	2.4	2.0
P/PPOP	13.6	11.1	9.7	8.5	7.2
Dividend Yield (%)	0.7	0.2	0.2	0.4	0.7

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	20.3	16.5	14.9	15.9	18.1
PPOP	21.8	22.6	14.6	14.2	17.7
PAT	20.5	24.6	12.2	21.9	19.5
Loans	24.5	21.3	13.1	16.8	20.2

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	132,943	135,150	141,729	152,041	156,654
NIM(%)	4.3	4.2	4.2	4.3	4.3
PPOP	111,472	116,980	129,454	129,589	128,293
PAT	55,682	63,449	74,165	69,278	66,586
EPS (Rs)	10.19	11.60	13.54	12.63	12.13

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	21.3	21.3	21.3	21.2	21.2
FIIIs	31.4	30.6	30.8	29.8	30.1
DIIIs	13.7	17.1	17.0	17.7	17.8
Public and Others	33.6	31.1	31.0	31.3	30.9

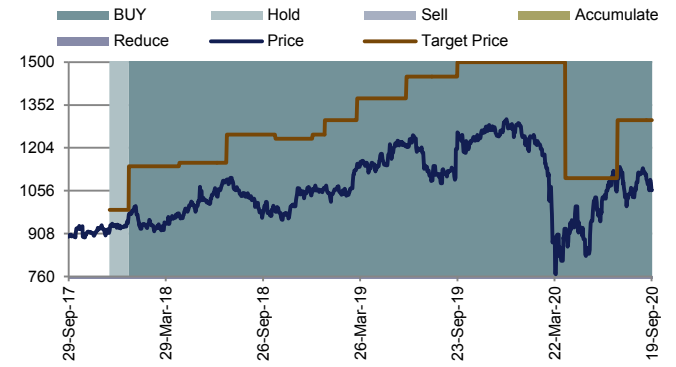
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
17-Jul-20	1,098	1,300	12m	Buy	Anand Dama
18-Apr-20	910	1,100	12m	Buy	Anand Dama
11-Apr-20	925	1,100	12m	Buy	Anand Dama
19-Jan-20	1,278	1,500	12m	Buy	Anand Dama
20-Oct-19	1,229	1,500	12m	Buy	Anand Dama
9-Oct-19	1,228	1,500	12m	Buy	Anand Dama
23-Sep-19	1,257	1,500	12m	Buy	Anand Dama
19-Jul-19	1,188	1,450	12m	Buy	Anand Dama
20-Jun-19	1,213	1,450	12m	Buy	Anand Dama
20-Apr-19	1,147	1,375	12m	Buy	Anand Dama
20-Mar-19	1,150	1,375	12m	Buy	Anand Dama
19-Jan-19	1,065	1,300	12m	Buy	Anand Dama
27-Dec-18	1,053	1,250	12m	Buy	Anand Dama
19-Oct-18	984	1,235	12m	Buy	Jignesh Shial
20-Jul-18	1,095	1,250	12m	Buy	Jignesh Shial
21-May-18	997	1,153	12m	Buy	Ravikant Bhat
23-Apr-18	968	1,153	12m	Buy	Ravikant Bhat
19-Jan-18	976	1,140	12m	Buy	Ravikant Bhat
14-Dec-17	919	990	12m	Hold	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.11	18.11	0.0%	0	100.00
Axis Bank	1.76	1.88	7%	12	10.39
AU Small Finance Bank	0.22	0.02	-93%	-20	0.09
Bandhan Bank	0.31	0.41	35%	11	2.28
Bank of Baroda	0.09	0.00	-100%	-9	0.00
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.16	0.16	1%	0	0.91
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.15	0.15	0%	0	0.84
HDFC Bank	6.98	7.41	6%	43	40.95
ICICI Bank	3.86	4.01	4%	15	22.15
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.49	0.55	11%	6	3.02
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.71	2.17	-20%	-54	11.98
Punjab National Bank	0.06	0.00	-100%	-6	0.00
RBL Bank	0.11	0.13	19%	2	0.74
State Bank of India	1.13	1.20	7%	8	6.65
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

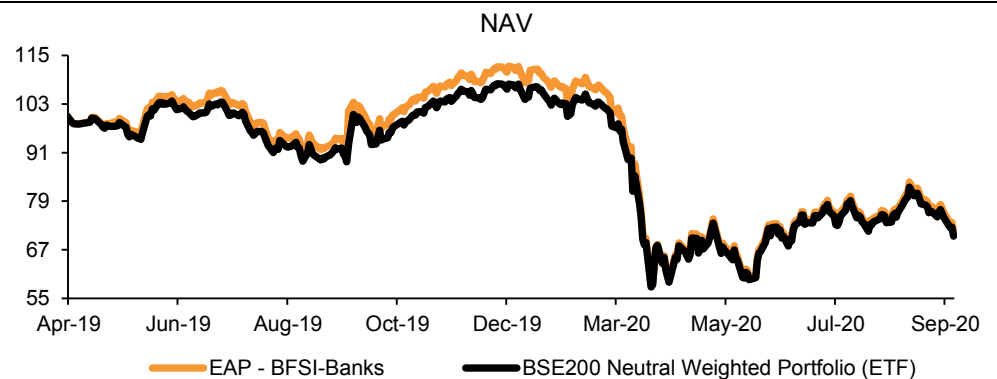
Sector portfolio NAV

	Base					Latest
	01-Apr-19	24-Dec-19	26-Mar-20	25-Jun-20	25-Aug-20	24-Sep-20
EAP - BFSI-Banks	100.0	111.7	67.6	74.0	80.0	71.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	107.6	67.6	73.3	78.9	70.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Sep 2020 01:15:43 (SGT)

Dissemination Date: 28 Sep 2020 01:16:43 (SGT)

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