Flash Note

HDFC Bank

Refer to important disclosures at the end of this report

In-line business momentum; asset quality and management transition key monitorables

CMP: Rs 1,114	TP: Rs 1,300 (■)	Rating: BUY (■)	Upside: 16.7 %
as of (October 5, 2020)	12 months		

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Business Update – Q2FY21

- Credit growth was healthy at 3% qoq/16% yoy (1% qoq/21% yoy in Q1) to Rs10,370bn, largely in line with our expectation. Overall growth seems to be better than the industry, primarily due to a pick-up in retail loans as indicated by our channel checks, and continued momentum in corporate loans (mainly working capital).
- Mortgage loan portfolio buyout (Retention) from HDFCL was up at Rs30.3bn vs. Rs13.8bn in Q1FY21 but still lower than Rs71.5bn in Q2FY19. We believe that low portfolio buyout could be partly due to lower PSL requirement with moderation in the bank's overall growth.
- Deposit growth has moderated a bit – up 3% qoq/20% yoy to Rs12,290bn, but the CASA ratio has improved qoq to 42% as incremental qoq deposit growth of Rs396bn has been largely through CASA deposits and thus, should support margins.

Our view: Overall business momentum for HDFCB remains healthy compared to the industry, but we believe that the asset quality trend and management transition will be the key things to watch out for in the near-to-medium term. Currently, we have a Buy rating on the stock with a TP of Rs1300, given its strong stress management capability across cycles and superior return ratios.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-Banks

Exhibit 1: Business Update – 2QFY21

(Rs bn)	2QFY21	2QFY20	YoY	1QFY21	QoQ
Loans	10,370	8,970	16%	10,033	3%
-Portfolio Buyout	30	72	-58%	14	120%
Deposits	12,290	10,216	20%	11,894	3%
-CASA	5,162	4,012	29%	4,774	8%

Source: Company, Emkay Research

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)	28.1	23.2	20.7	17.0	14.2
P/ABV	3.6	3.2	2.8	2.4	2.0

Source: Company, Emkay Research

Emkay Rating Distribution

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

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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