

## Steady operation, resilience on asset quality...

HDFC Bank posted a stable and steady performance on an overall basis considering the fact that the overall business environment was impacted by the Covid-19 pandemic. Loan book during the quarter increased 15.8% YoY, 3.5% QoQ to ₹ 10.38 lakh crore. Growth in the retail segment remained tepid, up 5.3% YoY and 2.1% QoQ but growth in the corporate segment continued to remain healthy at 26.8% YoY, 4.7% QoQ.

On liabilities, the bank witnessed healthy deposit accretion at 20.3% YoY and 3.4% QoQ to ₹ 12.3 lakh crore, mainly driven by higher traction in CASA deposits at 27.5% YoY to ₹ 511451 crore. As a result of higher CASA trajectory, CASA ratio increased 233 bps YoY, 150 bps QoQ to 41.6%.

NII grew 16.7% YoY, 0.7% QoQ to ₹ 157763 crore, led by ~20 bps QoQ decline in margin to 4.1%. As a result of excess liquidity, there was a negative 15 bps impact of NIM. Recovery in core fee based remained healthy (owing to lockdown fee income was lower by ~₹ 800 crore) while opex continued to remain in control with CI ratio at 36.8%.

GNPA declined 28 bps QoQ to 1.08%; NNPA came down 16 bps QoQ to 0.17%. Even on a standstill asset classification basis, asset quality remained largely stable with GNPA, NNPA at 1.37%, 0.35%, respectively. Outstanding contingent provision was at ₹ 6304 crore (~75 bps of loans).

## Early signs of recovery visible; repayment trend encouraging

During the quarter, though the retail segment that forms a sizable part of HDFC Bank's business saw tepid growth of 2.1% QoQ, early signs of recovery and softening of Covid-19 impact is visible. Enquiries in the auto and home loan segment have almost reached pre-Covid levels indicating at a revival of demand. Demand resolution or collection in retail moratorium book has reached 97% and is expected to reach 99% in the next few months. According to the bank's internal assessment, 30 day dpd stress in SME portfolio is down to 3% (from earlier estimate of 9%).

## Valuation & Outlook

Digital initiatives and strong festive tie-ups are seen propelling retail credit growth ahead. This, coupled with healthy traction in corporate disbursement is seen keeping business momentum ahead of industry. Improvement in collection at 97% and contingent provision at ~75 bps of advances provides cushion from high volatility in asset quality and earnings. Though the management refrained from providing indication on restructuring, improving collection is seen keeping the quantum not meaningful. Adequate capital with CaR at 19.1% and healthy internal accrual and operational efficiency provide confidence on future business and earnings growth. Thus, we remain positive on the bank and maintain our **BUY** rating with a revised target price of ₹ 1450/share, valuing the core bank at ~3.7x FY22E ABV and adding ₹ 50 in lieu of subsidiaries.



### Particulars

Particulars	Amount
Market Capitalisation	₹ 659894 crore
GNPA (Q2FY21)	₹ 11305 crore
NNPA (Q2FY21)	₹ 1756 crore
NIM % (Q1FY21)	4.1
52 week H/L	1304/739
Networth	₹ 170986 crore
Face value	₹ 1
DII holding (%)	21.7
FII holding (%)	36.7

### Key Highlights

- On standstill asset classification, asset quality remained stable with GNPA at 1.37%
- Outstanding contingent provision at ₹ 6304 crore; total provisions at 195% of reported GNPA levels
- Collection or demand resolution improved to 97% in September 2020
- Maintain BUY recommendation with revised target price of ₹ 1450

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### Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
NII	40,095	48,243	56,186	63,573	74,683	15%
PPP	32,625	39,750	48,750	53,777	62,263	13%
PAT	17,487	21,078	26,257	28,703	34,715	15%
ABV (₹)	199.8	268.0	305.4	343.5	380.6	
P/E	32.7	28.5	23.0	21.1	17.4	
P/ABV	5.5	4.1	3.6	3.2	2.9	
RoA	1.8	1.8	1.9	1.8	1.9	
RoE	17.9	16.5	16.4	15.7	17.0	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	15,776	15,915	13,515	16.7	15,665	0.7	NII continues to remain steady on the back of healthy credit growth
NIM (%)	4.1	4.3	4.2	10 bps	4.3	-4.7	Higher liquidity impacted NIM by 15 bps
Other Income	6,092	6,055	5,589	9.0	4,075	49.5	Slowdown in fee income impacted by shutdown during the quarter.
Net Total Income	21,869	21,970	19,104	14.5	19,741	10.8	
Staff cost	2,542	2,638	2,355	8.0	2,513	1.2	
Other Operating Expenses	5,513	5,556	5,051	9.1	4,398	25.3	
PPP	13,813.8	13,776.3	11,698.1	18.1	12,829	7.7	PPP growth driven by healthy topline and lower opex
Provision	3,703.5	3,836.9	2,700.7	37.1	3,891.5	-4.8	The bank has made contingent provisions of ₹ 2300 crore
PBT	10,110.3	9,939.4	8,997.4	12.4	8,937.8	13.1	
Tax	2,597.2	2,584.2	2,652.4	-2.1	2,279.1	14.0	
PAT	7,513.1	7,355.1	6,345.0	18.4	6,658.6	12.8	Higher provisions arrested PAT growth

Key Metrics

GNPA	11,304.6	14,373.5	12,508.2	-9.6	13,773.5	-17.9	Excluding moratorium provided by RBI, GNPA would be 10 bps higher at 1.36%
NNPA	1,756.1	3,580.0	3,791.0	-53.7	3,280.0	-46.5	
Advances	10,38,335	10,37,000	8,96,984	15.8	10,03,291	3.5	Healthy traction in corporate book at 26.8% YoY led advances growth rate at 15.8% YoY
Deposits	12,29,310	12,29,000	10,21,615	20.3	11,89,387	3.4	CASA ratio improved ~150 bps QoQ to 41.6%, led by higher accretion in savings deposit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comment
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Net Interest Income	62,456.5	63,572.7	1.8	73,656.7	74,682.9	1.4	
Pre Provision Profit	52,326.9	15,248.5	-70.9	60,895.3	15,665.9	-74.3	
NIM calculated (%)	4.0	4.1	7 bps	4.1	4.2	9 bps	
PAT	29,713.7	28,703.5	-3.4	37,698.4	34,715.0	-7.9	
ABV (₹)	336.7	343.5	2.0	366.4	380.6	3.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	24.5	21.3	15.2	17.3	15.2	20.0
Deposit Growth (%)	17.0	24.3	14.4	18.2	17.5	18.2
CASA ratio (%)	42.4	42.2	42.4	41.0	41.5	40.1
NIM Calculated (%)	4.4	4.2	4.1	4.2	4.0	4.1
Cost to income ratio (%)	39.7	38.6	39.5	39.2	40.4	40.3
GNPA (₹ crore)	11,224	12,650	20,546	24,307	22,263.1	26,108.4
NNPA (₹ crore)	3,215	3,542	5,588	5,400	10,110.4	15,694.3
Slippage ratio (%)	1.8	1.8	1.4	1.0	1.6	1.0
Credit cost (%)	0.9	1.0	1.3	1.1	1.0	0.7

Source: Company, ICICI Direct Research

## Conference Call Highlights

### Asset quality & moratorium

- GNPA on a standstill asset classification basis remained largely stable at 1.37% vs. 1.36% QoQ, 1.38% YoY
- Anticipated stressed MSME indicated at 9% in Q4FY20 has declined to ~3% of MSME portfolio
- Demand resolution in retail moratorium book to reach 99% in the next few months
- Collection in retail non-moratorium book is at 99% i.e. pre Covid level while moratorium retail book has touched 95% resolution, which is expected to touch 97% in October 2020

### Business growth and outlook

- Overall loan book growth was at 15.8% YoY, led by healthy 26.8% rise in the corporate book. Growth in retail book remained modest at 5.3% YoY
- The bank has launched Festive Treat, a 45 day campaign offering wide range of offers to make most of the festive season. Disbursement in retail segment for Q2FY21 were at 80-85% of prior year and more than 2.5x of June quarter disbursement
- Enquiries on a monthly basis in auto and home loan segment have reached pre-Covid levels while even other segments like gold have shown an improvement. The bank is planning to launch digital lending platform specifically dedicated for auto lending

### Operational performance

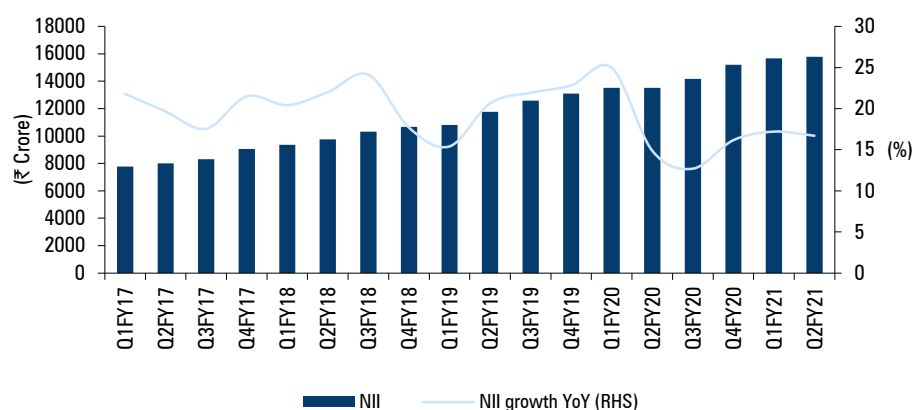
- Net interest margin declined ~20 bps to 4.1% QoQ, mainly on account of 15 bps negative impact of excess liquidity
- Cost-to-income ratio increased 180 bps on a sequentially to 36.8% while on a yearly basis it saw a drop of 200 bps. In the near-term, spending is expected to increase due to sales and promotional activities

### Others

- Retail contributes 91% while wholesale provides 9% of fee-based income
- Added 11937 business correspondent over the past year and 5589 during the quarter. Over 1000 employees were added during the quarter
- Total 1.8 million customer acquisition during the quarter. Also, 1550 new customers in wholesale SME segment were added during the quarter and disbursement in value terms was around 2.5x of the previous quarter
- Expect full scale recovery in MFI segment in the next 90 days
- Incremental lending to corporate is at average internal rating of 4.4 (can be considered equivalent to AA rating)
- On external rating basis, 75% of loans to corporate are rated AA and 93% if borrowers rated A are included

## Story in Charts

Exhibit 4: Steady NII growth continues



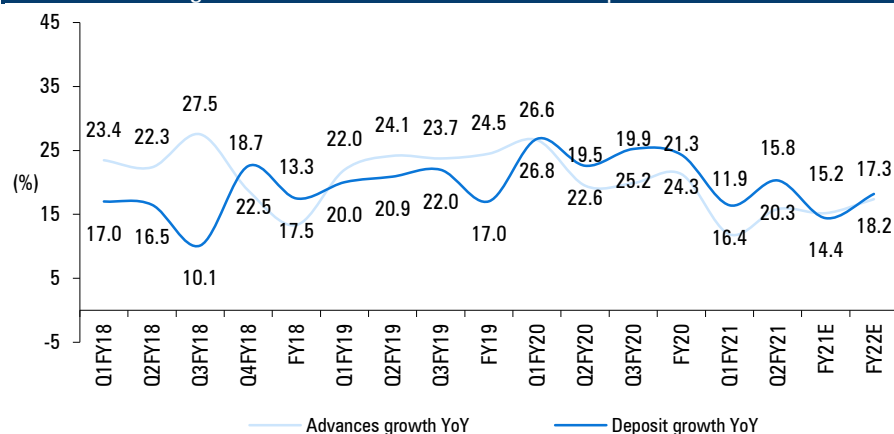
Source: Company, ICICI Direct Research

Exhibit 5: Break-up of retail credit

₹ crore	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Auto	80,336	83,012	80,675	80,784	80,784	83,552	83,935	81,082	79,664
CVCE	25,508	27,166	28,730	28,490	28,490	28,124	29,045	27,801	26,980
Two wheelers	9,689	10,095	10,047	9,851	9,851	10,149	9,855	9,586	9,494
Personal loans	83,426	88,803	92,978	102,080	102,080	109,531	115,557	111,567	112,446
Business Banking	54,180	55,706	57,035	62,689	62,689	63,255	64,124	60,596	63,511
Loans Against Security	1,824	1,788	1,881	1,828	1,828	1,812	1,801	1,501	1,576
Credit cards	40,535	44,839	46,630	52,043	52,043	57,678	57,575	54,698	58,142
Home loans	47,861	51,786	51,359	60,017	60,017	61,729	63,445	62,652	62,847
Others	52,947	52,544	56,836	57,543	57,543	58,985	63,632	59,951	64,304
Gold	5,193	5,161	5,187	5,320	5,320	5,318	5,430	5,571	6,039
Total	401,499	420,900	431,358	460,645	460,645	480,133	494,399	475,005	485,004

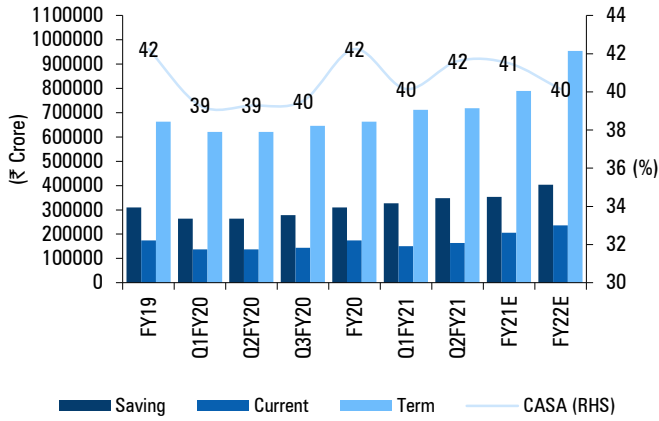
Source: Company, ICICI Direct Research

Exhibit 6: Credit growth witnesses moderation in this quarter



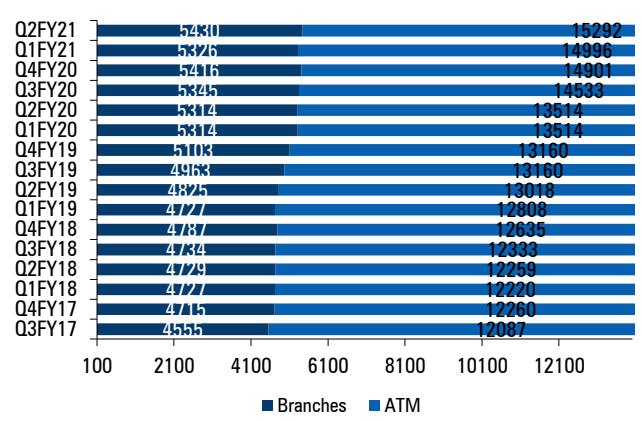
Source: Company, ICICI Direct Research

Exhibit 7: Healthy CASA growth continues...



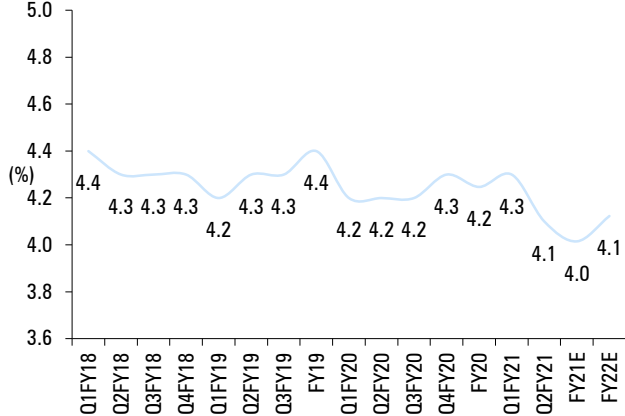
Source: Company, ICICI Direct Research

Exhibit 8: Branch addition to continue ahead



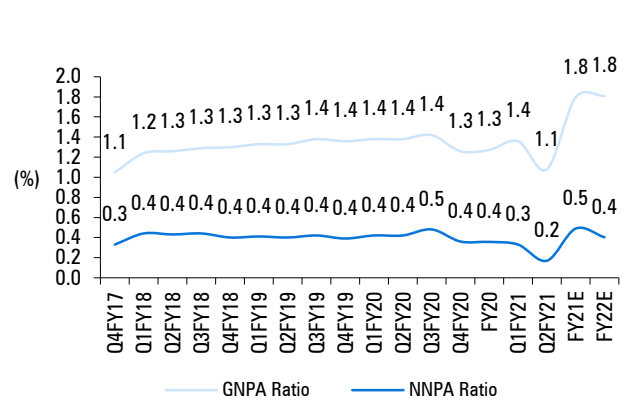
Source: Company, ICICI Direct Research

Exhibit 9: Margin to see marginal pressure ahead



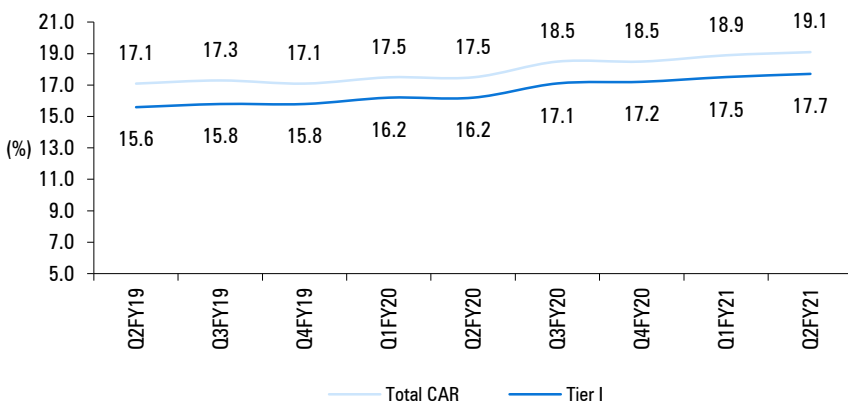
Source: Company, ICICI Direct Research

Exhibit 10: Proforma GNPA is at 1.37%



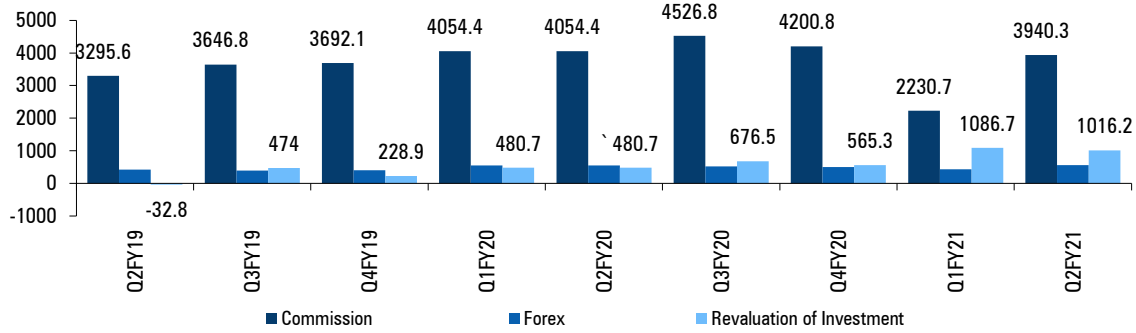
Source: Company, ICICI Direct Research

Exhibit 11: Adequately capitalised for future growth



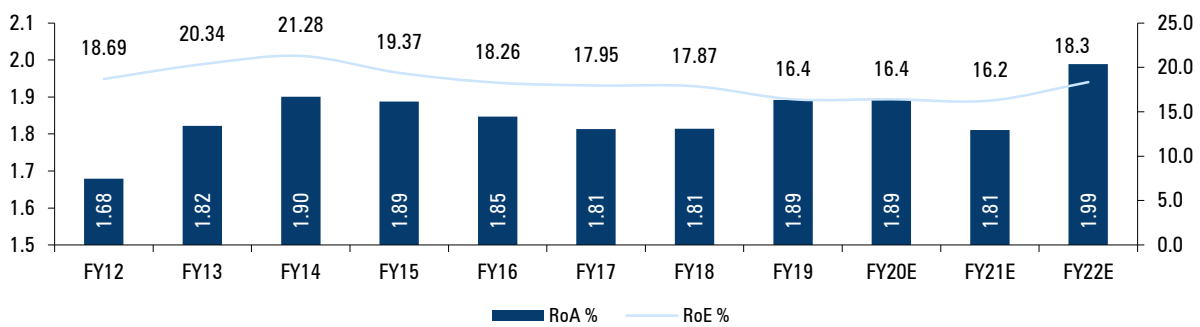
Source: Company, ICICI Direct Research

Exhibit 12: Core fee income picking up



Source: Company, ICICI Direct Research

Exhibit 13: Return ratios trend to remain strong



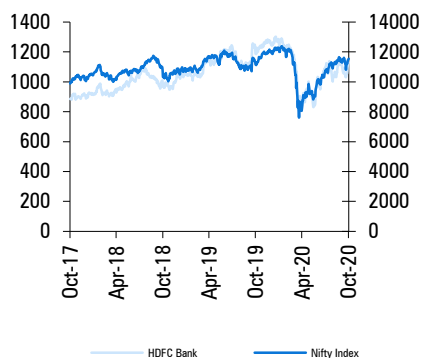
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	26.3	26.3	26.2	26.1	26.1
F II	38.6	41.0	37.9	36.7	37.0
D II	16.9	17.7	20.9	21.7	21.9
Others	18.2	15.0	15.0	15.4	15.0

Source: Company, ICICI Direct Research

Exhibit 15: Price Chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	98972	114813	129702	150798
Interest Expended	50729	58626	66129	76115
NII	48243	56186	63573	74683
Growth (%)	20.3	16.5	13.1	17.5
Non Interest Income	17626	23261	25315	27752
Fees and advisory	13806	16334	16987	18686
Treasury Income	402	2636	3164	3797
Other income	3418	4291	5164	5270
Total Income	65869	79447	88887	102435
Employee cost	7762	9526	11674	12769
Other operating Exp.	18358	21172	23437	27404
Gross Profit	39750	48750	53777	62263
Provisions	7550	12142	15248	15666
PBT	32200	36607	38528	46597
Taxes	11121	10350	9825	11882
Net Profit	21078	26257	28703	34715
Growth (%)	20.5	24.6	9.3	20.9
EPS	38.7	47.9	52.3	63.3

Source: Company, ICICI Direct Research

Exhibit 17: 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	52.3	63.3
BV (₹)	273.9	311.8	353.7	390.4
ABV (₹)	268.0	305.4	343.5	380.6
P/E	28.5	23.0	21.1	17.4
P/BV	4.0	3.5	3.1	2.8
P/ABV	4.1	3.6	3.2	2.9
Yields & Margins (%)				
Net Interest Margins	4.4	4.2	4.1	4.2
Yield on avg earning assets	9.0	8.7	8.3	8.5
Avg. cost on funds	5.2	5.0	4.8	4.8
Avg. cost of deposits	4.8	4.9	4.7	4.8
Yield on average advances	10.5	10.1	9.8	9.9
Quality and Efficiency (%)				
Cost / Total net income	39.7	38.6	39.5	39.2
Credit/Deposit ratio	88.8	86.6	87.2	86.6
GNPA	1.4	1.27	1.80	1.81
NNPA	0.4	0.36	0.49	0.40
ROE	16.5	16.4	15.7	17.0
ROA	1.8	1.9	1.8	1.9

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	545	548	548	548
Reserves and Surplus	148662	170438	193400	213535
Networth	149206	170986	193949	214084
Deposits	923141	1147502	1312836	1551609
Borrowings	117085	144629	138190	149130
Other Liabilities & Provisions	55108	67394	69722	77373
Total	1244541	1530511	1714696	1992196
Applications of Funds				
Fixed Assets	4030	4432	4842	5009
Investments	293116	391827	424527	463390
Advances	819401	993703	1144424	1342947
Other Assets	46646	53931	49871	84870
Cash with RBI & call money	81348	86619	91032	95981
Total	1244541	1530511	1714696	1992196

Source: Company, ICICI Direct Research

Exhibit 19: Key ratio (%)				
(Year-end March)	FY19E	FY20	FY21E	FY22E
Total assets	17.0	23.0	12.0	16.2
Advances	24.5	21.3	15.2	17.3
Deposits	17.0	24.3	14.4	18.2
Total Income	22.1	18.4	12.3	15.2
Net interest income	20.3	16.5	13.1	17.5
Operating expenses	15.1	17.5	14.4	14.4
Operating profit	21.8	22.6	10.3	15.8
Net profit	20.5	24.6	9.3	20.9
Net worth	40.4	14.6	13.4	10.4
EPS	14.9	23.7	9.3	20.9

Source: Company, ICICI Direct Research

**Exhibit 20: ICICI Direct coverage universe (BFSI)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	42	52	Hold	19,244.0	1.2	1.8	5.8	35.6	NA	NA	0.5	0.5	0.4	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	1,68,701	16.2	15.3	26.1	11.8	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	58	70	Hold	6,765	-27.2	8.5	13.0	-2.1	6.8	4.4	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	453	530	Buy	1,33,804	5.8	10.6	25.6	78.5	42.7	17.7	1.7	1.7	1.6	0.2	0.3	0.7	2.1	3.5	8.0
City Union Bank (CITUNI)	143	130	Hold	10,400	6.5	7.5	9.7	22.1	19.0	14.7	2.4	2.2	1.9	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	80	90	Hold	2,484	10.9	9.8	13.5	7.3	8.2	5.9	0.9	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,417	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,199	1,450	Buy	6,59,894	47.9	52.3	63.3	25.0	22.9	18.9	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	617	580	Hold	46,673	63.7	33.7	52.2	9.7	18.3	11.8	1.3	1.2	1.1	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,070	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,329	1,600	Buy	2,59,771	31.1	26.0	32.1	42.8	51.0	41.4	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	311	400	Hold	50,202	18.1	17.7	25.2	17.2	17.5	12.3	3.4	3.1	2.6	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	32	34	Buy	18,066	-4.6	0.7	2.1	NA	46.1	14.7	1.0	1.1	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7
HDFC (HDFC)	1,947	1,770	Buy	3,49,323	103.1	42.5	57.5	18.9	45.8	33.9	3.9	3.3	3.2	3.6	1.4	1.7	21.7	8.0	9.7
Mahindra & Mahindra Financial	128	160	Hold	15,753	14.7	14.7	14.7	8.7	8.7	8.7	1.1	1.7	1.5	1.3	1.2	1.6	8.1	6.8	7.3
Bajaj Finserv (BAFINS)	5,885	6,400	Hold	92,379	211.6	247.6	298.0	27.8	23.8	19.7	3.0	2.7	2.3	1.4	1.3	1.2	12.2	11.8	12.6
Bajaj Finance (BAJFI)	3,332	3,050	Hold	2,00,758	87.7	78.3	99.3	38.0	42.6	33.5	6.2	5.7	5.1	3.7	2.7	2.9	20.2	13.6	15.2
LIC Housing Finance (LICHF)	283	345	Buy	15,170	46.5	59.0	66.1	6.1	4.8	4.3	1.0	1.0	0.9	1.1	1.2	1.2	13.8	15.5	15.6
SBI Life Insurance (SBILIF)	826	1,000	Buy	82,624	14.2	16.2	19.8	58.0	51.0	41.6	3.1	2.7	2.4	0.8	0.8	0.9	14.6	14.5	15.6
HDFC AMC	2,325	3,000	Buy	49,520	59.2	58.8	67.5	39.2	39.5	34.4	12.3	10.6	9.2	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	270	364	Buy	16,854	6.7	8.8	10.9	40.1	30.8	24.8	6.2	5.9	5.5	0.2	0.2	0.2	15.5	19.0	22.1
MCX	1,730	1,800	Buy	8,825	46.4	39.7	47.8	37.3	43.6	36.2	6.5	6.2	5.8	8.7	7.0	7.8	17.4	14.3	16.3

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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