



RESULT UPDATE

19th October 2020

HDFC Bank Ltd.

Provisions front-ended, business momentum healthy

CMP INR 1,204	Target INR 1,427	Potential Upside 18.5%	Market Cap (INR Mn) INR 6,626,455	Recommendation BUY	Sector Banking
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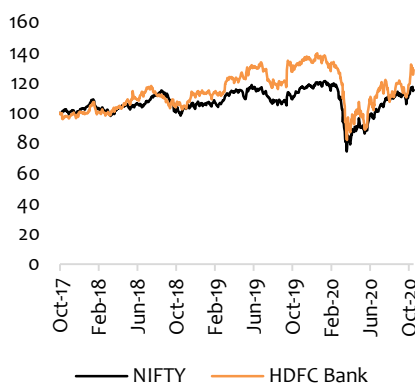
Result Highlights of Q2FY21

- Advances grew 16.8% YoY (+3% QoQ) driven by wholesale loans growing 30% YoY.
- Deposit grew 20.3% YoY (3.4% QoQ) with CASA improving to 41.4%, higher by 190 bps. The C-D ratio fell 950 bps QoQ to 84.5%. The bank maintains its strategy to continue to scale its deposit franchise despite higher liquidity.
- NIMs were lower by 20 bps QoQ to 4.1% driven by the higher share of wholesale book and liquidity.
- The bank's GNPA were lower by 30bps to 1.1% on account of standstill levied by the SC. Ex the same would have been 1.37% and NNPA would have been 0.35% vs 0.1% as reported. The bank has nevertheless provided for the same. The provisions were lower at INR 3,704 Cr as the bank front ended the provisions in the previous quarter. The bank's PCR stood at 195% (after considering all categories of provisions)
- PAT grew steadily by 12.8% QoQ and 18.4% YoY.

MARKET DATA

Shares outs (Mn)	5,503.7
Equity Cap (INR Mn)	1,861,124
Mkt Cap (INR Mn)	6,626,455
52 Wk H/L (INR)	1,304/738
Volume Avg (3m K)	13,251
Face Value (INR)	1
Bloomberg Code	HDFCB IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

Particulars (INR Cr.)	FY 18	FY 19	FY 20	FY 21E	FY 22E
NII	40,095	48,243	56,186	65,249	78,423
PPOP	32,625	39,750	48,750	57,788	67,971
PAT	17,487	21,078	26,257	32,339	38,958
EPS (INR/Share)	33.7	39.2	47.9	58.8	70.8
NIM	4.4%	4.4%	4.4%	4.2%	4.0%
Advances Growth	18.7%	24.5%	21.3%	21.8%	20.6%

Source: Company, KRChoksey Research

Asset Quality pressures on P/L provided for

The bank reported GNPA at 1.01%, lower on account of the Supreme Court standstill on recognition of NPAs. Excluding the same, the GNPA would have been 1.38%. Similarly, reported NNPA were 0.1% against the likely 0.35% and reported PCR was 85% vs likely 75%. Nevertheless, the bank has fully provided for the bad asset quality till date. The bank has provided INR 1,241 Cr as specific provisions and additional INR 1130 Cr for the unrecognized GNPA's. The total provisions degrew 4.8% QoQ to INR 3,704 Cr. The management has assessed the likely bad assets based on the trends and history of likely stress. We believe the bank has provided for the legacy stress and there is unlikely to be any carry forward of stress from the current pool of recognized assets.

Wholesale advances lead the way growing 30% YoY, Liquidity improving

The advances grew 15.8% YoY with wholesale advances growing 30% YoY. This is despite a prepayment by a large corporate. The retail book has grown a mere 2% YoY due to weak consumption and tighter underwriting in autos and unsecured loans amidst weak economic growth. The share of retail: wholesale is 48:52. The bank's deposit grew 20% YoY and C-D rate has fallen 84.5%, lower 950 bps QoQ. The bank is likely to continue to further strengthen its deposit franchise even at the expense of higher liquidity. We believe both the trends on advances and deposit is likely to continue in the near term albeit a seasonal uptick in retail.

PPOP grew 18% YoY as fee line improves

The bank may have earned lesser fees by INR 700 Cr due to the weaker business momentum in the pandemic, it nevertheless recorded 9% YoY and 49% QoQ (on a low base) growth in other income. A part of the same has been contributed by monetization of investment gains. The NIM were lower by 20 bps QoQ due to the higher liquidity and higher share of low yielding wholesale book. However the C/I inched up to 36.8% from 35% last quarter. This is on account of improved business momentum. We expect the opex to rise as costs related to higher distribution in the festive season and other normalization of expenses. The bank has deferred to meet its rationalization of cost target in the medium term.

MARKET INFO

SENSEX	40,431
NIFTY	11,873

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	June-20	March-20
Promoters	26.02	26.10	26.14
FIIIs	37.43	37.04	36.68
DIIIs	23.9	22.09	21.97
Others	12.65	14.77	15.21
Total	100.00	100.00	100.00

18.1%

NII CAGR between FY20 and FY22E

21.8%

PAT CAGR between FY20 and FY22E

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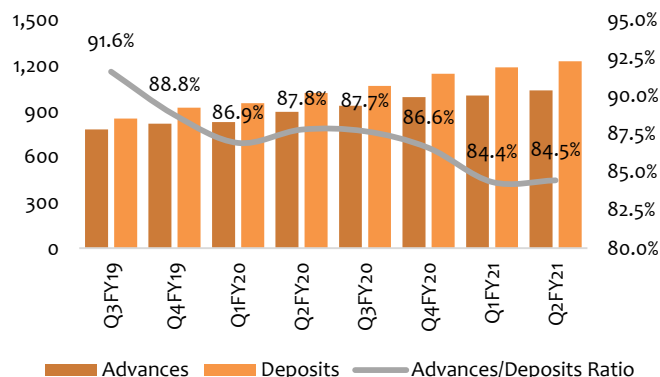
Key Concall Highlights:

(i) The bank has not recognized GNPA on account of the standstill by the Supreme Court. Had it recognized the same, GNPA would be 1.37% vs 1.01%; NNPA at 0.35% vs 0.1%; slippages at 1.98% vs 0.8%; Provisions INR 2371 Cr vs INR 1241 Cr; GNPA ex agri at 1.2% vs 0.9%. The bank has nevertheless provided for the likely GNPA. (ii) Demand resolution (CE) is at 95.5% And is likely to be at 97% by Oct end vs Pre-covid level of 99%; Non moratorium demand resolution is 99% (iii) LCR is 163% with excess liquidity of INR 106,000 Cr (iv) 104 branches added in Q2, 117 in Q1, 100 branches being finalized to launch and another 100 are in the planning stage. (v) 1.2 mn new customer additions and 1.8 mn new liability account additions. Merchant acquisition at 97% of last year momentum. (vi) The bank is set to launch festive treats 2.0 before the festive season for the auto and retail segment at 10x the scale of last year. (vii) Momentum: Unsecured likely to be pre-covid in Oct, LAP and WC at pre-Covid level, MFI to see full scale recovery in 90 days BB and SME growing at high single digit (viii) The bank is launching a digital platform for autos (ix) In wholesale, 75% of external rated portfolio are AAA or AA and 93% is A and above; Based on internal sourcing, unsecured exposure is ranked at 3.5 and Secured at 4.7 – 4.8 implying 55% lower PD. (x) Versus a likely 9% stress assessed in SME in March, the same is now 3% (xi) HDB: Provided an additional INR 300 Cr. as provision, PBT growth at 10% excluding the provisions; LCR at 214% and CAR at 19%+

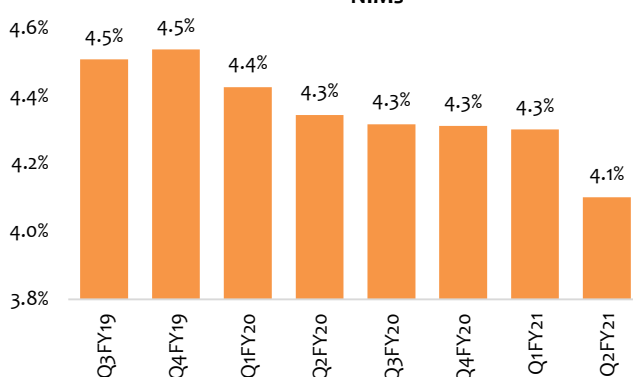
Valuation and view

The result was in line with our expectation and we are convinced that the bank is well provided for the stress in its legacy book on account of the pandemic. We expect the sequential credit costs to fall hereon. We expect the advance growth at ~20% in FY21 and FY22 driven by the festive demand in the next quarter coupled with the growth in wholesale book. The bank is well funded with surplus liquidity and favorable C-D ratios. While the share of low yielding book is rising, next quarter is likely to provide reprieve on the NIMs. We expect NII growth of 16%/20%; PPOP at ~18% and PAT at 23%/20% in FY21/22 respectively. It is currently trading at 2.8x FY22E P/ABV. **With the lower adverse probability of higher credit costs, healthy liquidity to chase growth, wholesale and retail both growing satisfactorily and inexpensive growth resources, we believe the bank is likely to fare well ahead of peers. We expect the premium in valuation to continue. We maintain our target of INR 1,427 per share, an upside of 18.5% over the CMP; implying a P/B multiple of 3.5x to FY22E ABV of INR 402. Accordingly, we reiterate our “BUY” rating on the shares of HDFC Bank.**

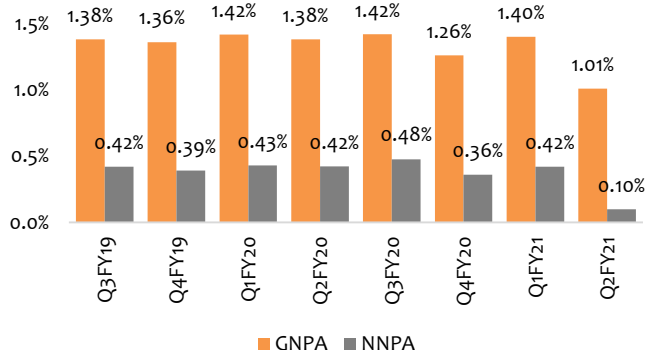
Advance/Deposit: Liquidity Increasing (INR 000' Cr)



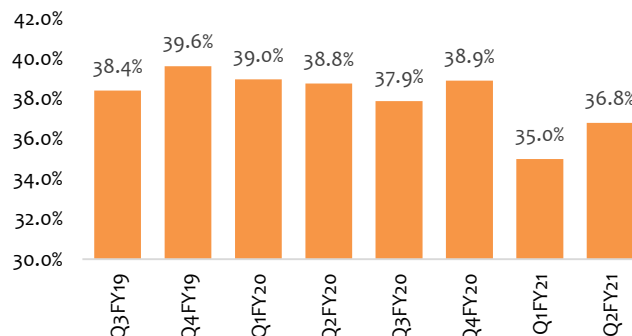
NIM: Liquidity and higher wholesale book dent NIMs



Asset Quality optically lower due to standstill by the SC



Cost/Income: Business Momentum increases C/I



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
Interest Income	80,241	98,972	1,14,813	1,27,380	1,66,364
Interest Expense	40,146	50,729	58,626	62,131	87,941
Net Interest Income	40,095	48,243	56,186	65,249	78,423
Non interest income	15,220	17,626	23,261	28,652	33,375
Operating income	55,315	65,869	79,447	93,902	1,11,798
- Employee expense	6,806	7,762	9,526	12,563	12,301
- Other operating expense	15,885	18,358	21,172	23,551	31,525
Operating Expense	22,690	26,119	30,698	36,114	43,826
PPOP	32,625	39,750	48,750	57,788	67,971
Provisions	5,927	7,550	12,142	14,571	16,028
PBT	26,697	32,200	36,607	43,217	51,944
Tax Expense	9,211	11,122	10,350	10,878	12,986
PAT	17,487	21,078	26,257	32,339	38,958
Diluted EPS (INR)	33.69	39.20	47.89	58.80	70.83

Forecast is based on merged financials of BFIL; Historical numbers are not comparable

Source: Company, KRChoksey Research

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Exhibit 2: Balance Sheet

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Source of Funds					
Share capital	519	545	548	550	550
Reserves & Surplus	1,05,776	1,48,662	1,70,438	1,94,692	2,23,910
Networth	1,06,295	1,49,206	1,70,986	1,95,242	2,24,460
Borrowings	1,23,105	1,17,085	1,44,629	1,63,866	2,42,985
Deposits	7,88,771	9,23,141	11,47,502	13,99,953	16,72,944
Other liabilities & provisions	45,764	55,108	67,394	69,202	1,12,717
Total Equity & Liabilities	10,63,934	12,44,540	15,30,511	18,28,263	21,45,308
Uses of Funds					
Balance w/ RBI	1,04,670	46,764	72,205	69,298	82,811
Balance w/ banks & others	18,245	34,584	14,414	23,799	28,440
Net investments	2,42,200	2,90,588	3,91,827	5,28,966	6,92,945
Loans & advances	6,58,333	8,19,401	9,93,703	12,10,330	14,59,658
Fixed assets	3,607	4,030	4,432	4,765	5,014
Other assets	36,879	49,174	53,931	60,403	67,047
Total Assets	10,63,934	12,44,540	15,30,511	18,28,263	22,53,105

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Exhibit 3: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
Growth Rates					
Advances (%)	18.7%	24.5%	21.3%	21.8%	20.6%
Deposits (%)	22.5%	17.0%	24.3%	22.0%	19.5%
Total assets (%)	23.2%	17.0%	23.0%	19.5%	23.2%
NII (%)	21.0%	20.3%	16.5%	16.1%	20.2%
Pre-provisioning profit (%)	26.8%	21.8%	22.6%	18.5%	17.6%
PAT (%)	19.7%	20.5%	24.6%	23.2%	20.5%
B/S Ratios					
Credit/Deposit (%)	83.5%	88.8%	86.6%	86.5%	87.3%
CASA (%)	43.5%	42.4%	42.2%	41.0%	40.2%
Advances/Total assets (%)	61.9%	65.8%	64.9%	66.2%	64.8%
Leverage - Total Assets to Equity	10.0	8.3	8.95	9.36	10.04
Operating efficiency					
Cost/income (%)	41.0%	39.7%	38.6%	38.5%	39.2%
Opex/total assets (%)	2.1%	2.1%	2.0%	2.0%	1.9%
Opex/total interest earning assets	2.5%	2.4%	2.4%	2.3%	2.3%
Profitability					
NIM (%)	4.4%	4.4%	4.4%	4.2%	4.0%
RoA (%)	1.8%	1.8%	1.9%	1.9%	1.9%
RoE (%)	17.9%	16.5%	16.4%	17.7%	18.6%
Asset quality					
Gross NPA (%)	1.3%	1.4%	1.26%	1.43%	1.49%
Net NPA (%)	0.4%	0.4%	0.36%	0.42%	0.43%
PCR (%)	69.8%	71.4%	96.0%	85.0%	85.0%
Slippage (%)	2.3%	2.2%	2.2%	2.3%	2.2%
Credit cost (%)	0.98%	1.02%	0.80%	1.32%	1.20%
Per share data / Valuation					
EPS (INR)	33.7	39.2	47.9	58.8	70.8
BVPS (INR)	204.8	273.9	311.8	355.0	408.1
ABVPS (INR)	199.8	268.0	305.4	350.2	402.1
P/E (x)	33.2	28.9	23.3	19.0	15.8
P/BV (x)	5.5	4.1	3.6	3.1	2.7
P/ABV (x)	5.6	4.2	3.66	3.2	2.8

Source: Company, KRChoksey Research

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HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-Oct-20	1,204	1,427	BUY	Buy	More than 15%
21-Jul-20	1,133	1,427	BUY	Accumulate	5% – 15%
4-Jun-20	1,002	1,265	BUY	Hold	0 – 5%
21-Apr-20	919	1,265	BUY	Reduce	-5% – 0
20-Jan-20	1,278	1,541	BUY	Sell	Less than – 5%

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