

Retail Equity Research

HDFC Bank

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 40,544

BUY

 12M Investment Period Rating as per Large cap
 CMP Rs. 1,224 TARGET Rs. 1,420 RETURN 16% ↑
 (Closing: 20-10-20)

KEY CHANGES:
TARGET ↑
RATING ↔
EARNINGS ↑

Profits soar higher as asset quality stabilises

HDFC Bank was incorporated in August 1994. It provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- During Q2FY21, HDFC Bank witnessed further recovery as loans and advances went up 15.8% YoY (+3.5% QoQ), while deposits grew 20.3% YoY (+3.4% QoQ). Operating profit before provisions improved 18.1% YoY (+7.7% QoQ). Core Net interest margin (NIM) stood at 4.1%.
- Capital Adequacy Ratio improved to 19.1% (vs. 17.5% in Q2FY20).
- Proforma GNPA/NNPA ratio (adjusted for borrowings not recognised as NPA) stood at 1.37%/0.35% as against 1.36%/0.33% in Q1FY21.
- Pickup in retail borrowings on the back of upcoming festive season to rally growth in the coming months. We retain our BUY on the stock with an upgraded target price of Rs. 1.420 based on 3.5x FY22E BVPS.

HDFC Bank continues to deliver strong performance

Q2FY21 Net interest income was up 16.7% YoY to Rs. 15,776cr, aided by continued growth in loans and advances amounting to Rs. 1,038,34cr (+15.8% YoY). Meanwhile, deposits grew 20.3% YoY to Rs. 1,229,310cr, as time deposits registered a 15.7% YoY growth, and CASA went up 27.5% YoY. Other income saw a recovery, increasing to Rs. 6,092cr (+9.0% YoY) owing to gain on sale of investments of R. 1,016cr. Cost to income ratio stood at 36.8% compared to 38.8% in Q2FY20 as operating expenses grew at a comparatively lower pace (+8.8% YoY). Provisions (incl. contingencies worth Rs. 2,300 towards proforma NPA) increased 37.1% YoY to Rs. 3,704cr. Despite this, PAT rose 18.4% YoY to Rs. 7,513cr (+18.4% YoY).

Key concall highlights

- Liquidity coverage ratio during Q2FY21 improved to 153% vs. 140% in Q1FY21.
- Bank is in the process of identifying additional 100 branches by the end of FY21.
- Domestic loan mix as per Basel II norms for Retail – Wholesale stood at 48:52.
- Though Bank has made necessary provisions, certain accounts for the quarter have not been declared as NPAs owing to an interim order by the Supreme Court.
- Bank has launched Festive Treats, a 45-day promotional program with several offers for its customers, to drive growth.
- As of June 30, Bank's total branch count stood at 5,430 along with 15,292 ATMs.

Aditya Puri retires; Sashidar Jagdishan picks up reins

HDFC Bank's MD & CEO Aditya Puri retired leaving a lasting legacy, Q2FY21 being the last quarter for the Bank with him at its helm. Under his leadership, Bank had a stellar run with profits rising multi-fold from Rs. 80 lakh in 1994-95 (when he took over as its MD & CEO) to Rs. 26,257cr in 2019-20. Post RBI's approval, the Bank officially appointed Mr. Sashidar Jagdishan, one of its long time veterans, as Puri's successor to take it forward, effective October 27.

Outlook & valuation

Asset quality has remained steady, and is expected to improve in the coming months. Even as retail loan growth slowed down expectedly, the wholesale loan portfolio improved drastically. Banking on the upcoming festive season to reflect positively on HDFC Bank's earnings in the near term. Reiterating our BUY rating, we value the stock at 3.5x FY22E BVPS with a revised target price of Rs. 1,420.

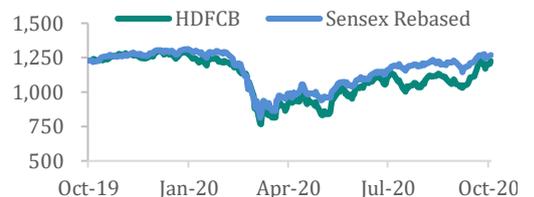
Company Data

Market Cap (cr)	Rs. 671,327
Outstanding Shares (cr)	548
Free Float	74.0%
Dividend Yield	0.0%
52 week high	Rs. 1,304
52 week low	Rs. 739
6m average volume (lacs)	7.8
Beta	0.9
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	26.1	26.1	26.0
FII's	36.7	37.0	37.4
MFs/Insti	22.0	22.1	22.9
Public	11.3	11.0	11.0
Others	3.9	3.8	2.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.1%	29.4%	-0.4%
Absolute Sensex	8.4%	28.1%	3.2%
Relative Return*	-0.3%	1.3%	-3.6%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	56,186	65,365	75,729
Growth (%)	16.5	16.3	15.9
NIM (%)	4.3	4.3	4.2
Pre-Provision Profit	48,750	56,001	64,193
Net Profit	26,257	28,620	34,794
Growth (%)	24.6	9.0	21.6
Adj. EPS	47.7	52.0	63.2
Growth (%)	22.3	9.0	21.6
BVPS	310.6	353.3	403.8
P/E	18.1	23.5	19.4
P/B	2.8	3.5	3.0
ROE (%)	16.4	15.7	16.7
ROA (%)	1.9	1.7	1.8

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Interest Income	29,977	28,166	6.4	30,378	(1.3)	60,355	55,558	8.6
Interest Expense	14,201	14,651	(3.1)	14,713	(3.5)	28,913	28,749	0.6
Net Interest Income (NII)	15,776	13,515	16.7	15,665	0.7	31,442	26,809	17.3
Non-Interest Income	6,092	5,589	9.0	4,075	49.5	10,168	10,559	(3.7)
Total Income	36,069	33,755	6.9	34,453	4.7	70,523	66,117	6.7
Operating Expenses	8,055	7,406	8.8	6,911	16.5	14,967	14,523	3.1
Total Expenditure	22,256	22,057	0.9	21,624	2.9	43,880	43,272	1.4
Pre-Provision profit	13,814	11,698	18.1	12,829	7.7	26,643	22,845	16.6
Provisions	3,704	2,701	37.1	3,892	(4.8)	7,595	5,314	42.9
Profit Before Tax	10,110	8,997	12.4	8,938	13.1	19,048	17,531	8.7
Tax	2,597	2,652	(2.1)	2,279	14.0	4,876	5,618	(13.2)
Net Profit	7,513	6,345	18.4	6,659	12.8	14,172	11,913	19.0
Adj. EPS - Diluted (Rs.)	13.6	11.5	18.3	12.1	12.4	25.7	21.6	19.0

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Int. Inc. (NII)	62,974	74,224	65,365	75,729	3.8	2.0
Pre-Provision Profit	54,273	63,300	56,001	64,193	3.2	1.4
Net Profit	27,424	34,598	28,620	34,794	4.4	0.6
Adj. EPS (Rs.)	49.8	62.9	52.0	63.2	4.4	0.6

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	80,241	98,972	114,813	133,872	159,053
Interest Exp.	40,146	50,729	58,626	68,506	83,325
Net Int. Income	40,095	48,243	56,186	65,365	75,729
% Change	21.0	20.3	16.5	16.3	15.9
Non-Int. Income	15,220	17,626	23,261	26,750	30,762
Net Income	55,315	65,869	79,447	92,115	106,491
Total Income	95,462	116,598	138,073	160,622	189,816
Operating Exp.	22,690	26,119	30,698	36,114	42,298
Total Exp.	62,837	76,848	89,324	104,620	125,623
Pre-Prov. Profit	32,625	39,750	48,750	56,001	64,193
Provisions	5,927	7,550	12,142	17,585	17,490
PBT	26,697	32,200	36,607	38,417	46,704
Tax	9,211	11,122	10,350	9,796	11,909
Tax Rate (%)	34.5	34.5	28.3	25.5	25.5
Net Profit	17,487	21,078	26,257	28,620	34,794
% Change	20.2	20.5	24.6	9.0	21.6
No. of Shares (cr)	523	540	550	550	550
Adj. EPS (Rs.)	33.4	39.0	47.7	52.0	63.2
% Change	18.5	16.7	22.3	9.0	21.6
DPS (Rs.)	6.5	7.5	0.0	9.4	12.6

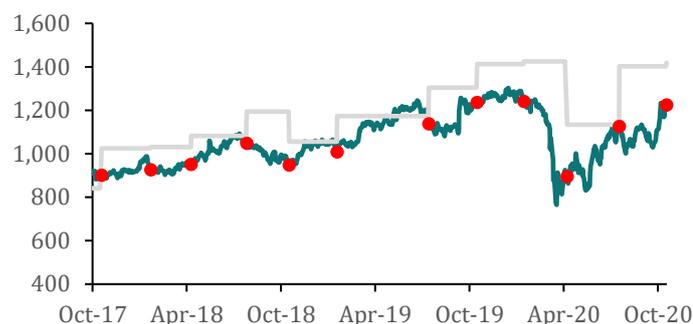
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	122,915	81,348	86,619	111,282	110,986
Investments	242,200	293,116	391,827	493,474	609,351
Advances	658,333	819,401	993,703	1,137,790	1,325,525
Fixed Assets	3,607	4,030	4,432	4,885	5,397
Other Assets	36,879	46,646	53,931	62,489	72,561
Total Assets	1,063,934	1,244,541	1,530,511	1,809,919	2,123,820
Capital	519	545	548	550	550
Reserves & Surplus	105,776	148,662	170,438	193,906	221,742
Deposits	788,771	923,141	1,147,502	1,342,578	1,557,390
Borrowings	123,105	117,085	144,629	190,297	242,724
Other Liabilities	45,764	55,108	67,394	82,588	101,414
Total Liabilities	1,063,934	1,244,541	1,530,511	1,809,919	2,123,820
BVPS (Rs.)	203.2	276.1	310.6	353.3	403.8
% Change	17.1	35.9	12.5	13.7	14.3

RATIOS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	27.9	29.2	18.1	23.5	19.4
P/BV (x)	4.6	4.1	2.8	3.5	3.0
Div. Yield (%)	0.7	0.7	0.0	0.8	1.0
Profitab. & Return (%)					
Yield on Advances	10.3	10.5	10.1	9.9	10.0
Cost of Deposits	4.9	5.2	5.0	4.9	5.0
Spread	5.4	5.3	5.1	5.0	5.0
NIM	4.3	4.3	4.3	4.3	4.2
ROE	17.9	16.5	16.4	15.7	16.7
ROA	1.8	1.8	1.9	1.7	1.8
Capital Adequacy (%)					
CAR	14.8	17.1	18.5	18.0	18.1
Tier I	13.2	15.8	17.2	16.9	17.0
Tier II	1.6	1.3	1.3	1.1	1.1
Asset Quality (%)					
GNPA	1.3	1.4	1.3	1.5	1.6
NNPA	0.4	0.4	0.4	0.4	0.5
Operating Ratios (%)					
Credit/ Deposit	83.5	88.8	86.6	84.7	85.1
Cost/ Income	41.0	39.7	38.6	39.2	39.7
CASA	43.5	42.4	42.2	40.5	40.5

Recommendation Summary



Dates	Rating	Target
30-Oct-18	BUY	1,056
30-Jan-19	BUY	1,173
24-Jul-19	BUY	1,304
24-Oct-19	BUY	1,412
22-Jan-20	BUY	1,425
13-Apr-20	BUY	1,134
23-Jul-20	BUY	1,403
21-Oct-20	BUY	1,420

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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