

Slippages contained; COVID buffers remain unutilized

- HDFC Bank reported in-line NII growth of 15% YoY, though higher PPOP growth of 17% YoY benefitted from elevated treasury gains and superior fee lines. NIM improved by ~10 bps QoQ to 4.2%.
- Pro forma slippages and gross NPA remained below expectations at 1.86% (annualized) and 1.38% (stable QoQ) respectively. Loan restructuring is expected to be at 0.5% of advances, mostly from retail segment, part of which is also included in pro forma NPAs.
- Additional contingent provisions of ~Rs24bn were made during 3QFY21, mainly towards pro forma slippages. Pro forma credit costs stood at 116 bps for the quarter.
- Total excess provision buffers including floating and contingent provisions at ~Rs69bn or 0.6% of advances (ex of those made against pro forma NPAs over last two quarters) remains largely unutilized.
- Sequential loan growth was broad based, with both retail and corporate segments growing at ~4% each. Total ECLGS disbursements (including 1.0 and 2.0) stood at ~2% of bank's net advances.
- Management remained optimistic on asset quality trends with superior bureau scores of new acquisitions relative to industry, improving SMA-1 portfolio over the last few months (for >5cr exposures), and further reduction in anticipated stress for the SME book (at 2.75% from 3% earlier).
- Lowering our slippages and credit cost estimates and factoring in higher fee income, earnings have been revised upwards by 17%/12% for FY21E/22E. Unutilized contingent provisions at 0.6% of loans along with strong capital position and exposure to top end customers across segments provide significant comfort to earnings profile. **We maintain our BUY recommendation on the stock with a SOTP-based TP of Rs1,750 (from Rs 1,650 earlier), implying 3.8x Dec-22E P/ABV. The stock currently trades at 3.2x Sep-22E ABV.**

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Net interest income	163,176	141,729	15.1	157,764	3.4
Other income	74,432	66,693	11.6	60,925	22.2
Total Net Income	237,608	208,422	14.0	218,688	8.7
Operating expenses	85,748	78,968	8.6	80,551	6.5
Pre-provision profits	151,860	129,454	17.3	138,138	9.9
Provisions	34,141	30,436	12.2	37,035	(7.8)
Tax expense	30,136	24,854	21.3	25,972	16.0
Reported Net Profit	87,583	74,165	18.1	75,131	16.6
			(bps)		(bps)
Advances	15.6	19.9	(423)	15.8	(13)
NIM (%)	0.0	0.0	0	0.0	0
RoA	2.2	2.2	(5)	1.9	29
RoE	19.1	19.0	17	16.8	231
Gross NPA (%)	0.8	1.4	(61)	1.1	(27)

CMP	Rs 1,467
Target / Upside	Rs 1,750 / 19%
NIFTY	14,434

Scrip Details

Equity / FV	Rs 5,483mn / Rs 1
Market Cap	Rs 8,042bn
	USD 110bn
52-week High/Low	Rs 1,497/ 739
Avg. Volume (no)	10,944,200
Bloom Code	HDFCB IN

Price Performance	1M	3M	12M
Absolute (%)	2	22	15
Rel to NIFTY (%)	(3)	0	(2)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	26.1	26.0	26.0
MF/Banks/FIs	18.5	18.8	21.7
FIIIs	37.0	37.4	39.4
Public / Others	55.0	54.8	51.9

Valuation (x)

	FY21E	FY22E	FY23E
P/E	27.9	21.7	17.2
P/ABV	4.3	3.7	3.1
ROAA	1.8	2.0	2.1
ROAE	15.8	17.7	19.1

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	644,110	763,272	905,668
PPOP	533,107	626,014	762,241
PAT	287,755	370,591	468,378
Adj BV	342.5	397.3	473.2

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Other Important Highlights

- HDB financial reported loan growth of 1.7% YoY and a net loss of Rs 443mn during the quarter owing to higher prudential provisions. Pro-forma GNPA ratio stood at 5.9% (vs 5.1% in 2QFY21). Disbursements were however up 9% QoQ and management believes it is well poised to take advantage of recent traction.
- The bank saw good uptake in CASA with ~2mn liability accounts opened in the quarter. Digital KYC has helped in 20% / 15% growth in SA and CA accounts, and the facility is slated to be extended to retail asset customers in the future.
- The bank increasingly focusing on open sourcing of unsecured loans, mostly from government sources where its gaining a higher market share in the high income groups.

Risks to our view: Weaker than anticipated economic recovery trends could adversely impact growth and asset quality; any impact of recent embargo by RBI on issuance of new credit cards/digital launches on loan growth.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	163,176	162,652	0.3	
Operating Profit	151,860	141,956	7.0	High treasury gains and better fee lines
PAT	87,583	86,169	1.6	

Source: Company, DART

Exhibit 2: Change in Estimates

	Previous			Revised			Change %		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Oper. Revenues	856,787	996,898	1,192,096	860,194	1,002,164	1,194,814	0.4	0.5	0.2
Pre Provision Profits	529,700	620,748	759,524	533,107	626,014	762,241	0.6	0.8	0.4
PAT	262,471	346,607	473,392	287,755	370,591	468,378	9.6	6.9	(1.1)

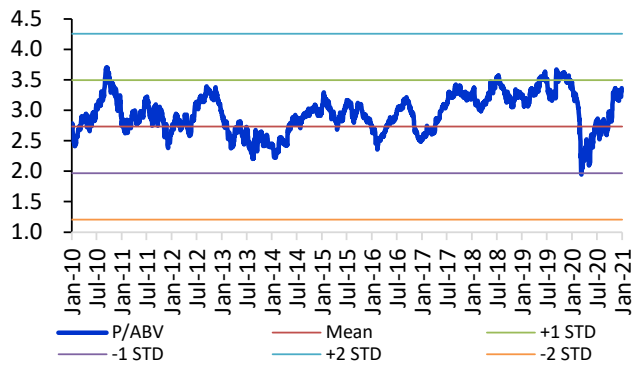
Source: Company, DART

Exhibit 3: SOTP Valuation

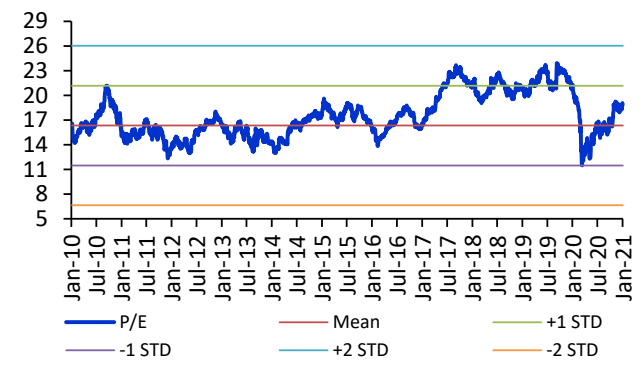
Particulars	Per Share Value (Rs)	Methodology
HFDC Bank	1,697	3.7x FY22E ABV
HDB Financial	47	2.5x FY22E ABV
HDFC Securities	13	15x FY22E EPS
Value of Subs. & Investments	60	
Holdco. Discount	15%	
Value of Bank	1,750	

Source: Company, DART

Exhibit 4: The bank trades at 3.3x 1-yr forward P/ABV and 18.8x 1-yr forward P/E

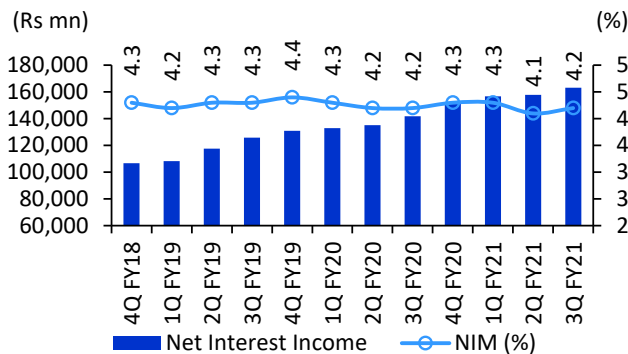


Source: DART, Company



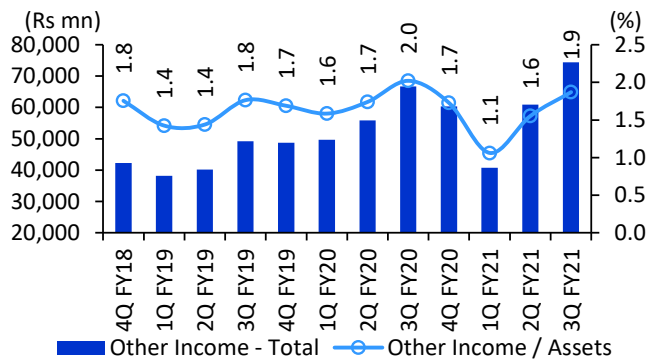
Source: DART, Company

Exhibit 5: NIMs could remain at the lower end of guidance over medium term



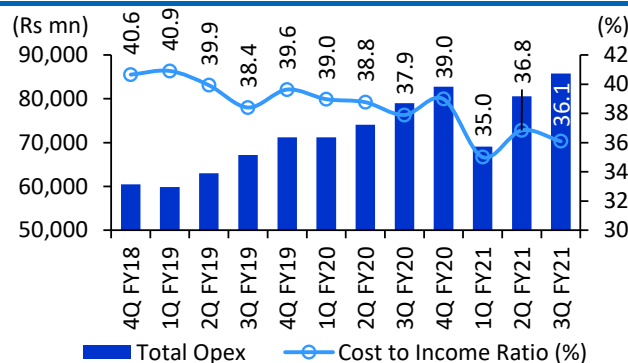
Source: Company, DART

Exhibit 6: Other income aided by retail fees and trading gains



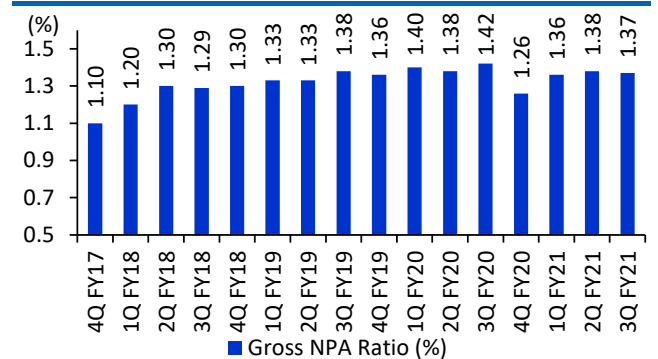
Source: Company, DART

Exhibit 7: Opex to rise as business momentum regains traction and treasury profits normalize



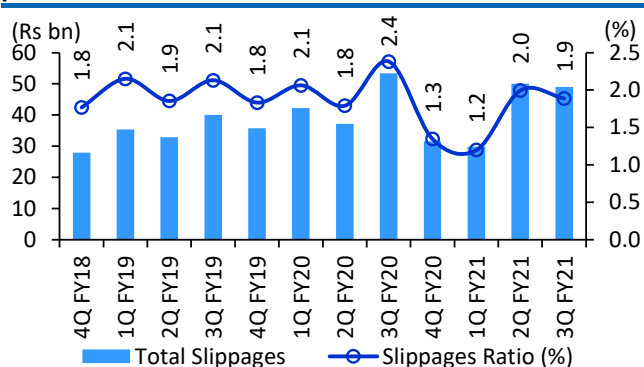
Source: Company, DART

Exhibit 8: Asset quality - pro forma gross NPAs remain contained



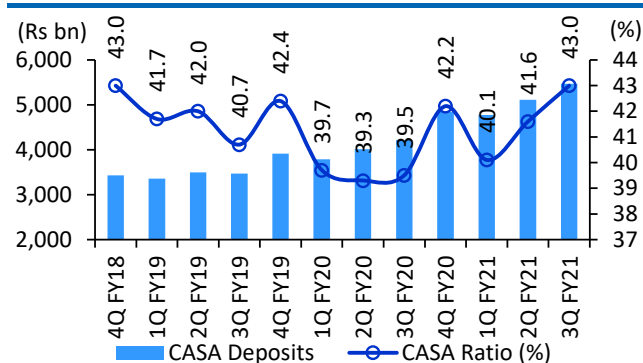
Source: Company, DART

Exhibit 9: Pro-forma slippages surprise on the positive and remain contained



Source: Company, DART

Exhibit 10: Strengthening CASA ratio



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q3FY21	Q3FY20	% yoy / bps	Q2FY20	% qoq / bps	9MFY21	9MFY20	% yoy / bps
Interest Inc.	300,797	293,697	2.4	299,770	0.3	904,346	849,276	6.5
Interest Expenses	137,621	151,968	(9.4)	142,006	(3.1)	426,752	439,454	(2.9)
Net Interest Income	163,176	141,729	15.1	157,764	3.4	477,594	409,822	16.5
NII to Net Operative Income	68.7	68.0	67	72.1	(347)	73.1	70.4	266
NIM (%)	4.2	4.2	-	4.1	10	4.2	4.2	-
Fees & commissions	49,749	45,268	9.9	39,403	26.3	111,459	121,329	(8.1)
FX & Derivatives	5,622	5,256	7.0	5,604	0.3	15,592	16,540	(5.7)
Profit on Sale / Rev of Investments	11,090	6,765	63.9	10,162	9.1	32,119	13,692	134.6
Miscellaneous income	7,971	9,404	(15.2)	5,756	38.5	16,940	20,724	(18.3)
Other Income - Total	74,432	66,693	11.6	60,925	22.2	176,110	172,283	2.2
Other Income to Net Operative Income	31.3	32.0	(67)	27.9	347	26.9	29.6	(266)
Net Operating Revenue	237,608	208,422	14.0	218,688	8.7	653,704	582,104	12.3
Employee Expenses	26,301	24,550	7.1	25,424	3.5	76,859	70,274	9.4
Empl. Cost/Oper. Exps.	11.1	11.8	(71)	11.6	(56)	11.8	12.1	(31)
Other Opex	59,447	54,418	9.2	55,127	7.8	158,554	153,923	3.0
Other Opex/ Assets	0.4	0.4	(4)	0.4	2	1.0	1.2	(17)
Total Opex	85,748	78,968	8.6	80,551	6.5	235,413	224,197	5.0
Cost to Income Ratio (%)	36.1	37.9	(180)	36.8	(75)	36.0	38.5	(250)
Pre-Provision Profits	151,860	129,454	17.3	138,138	9.9	418,291	357,907	16.9
Provisions & Contingencies - Total	34,141	30,436	12.2	37,035	(7.8)	110,092	83,579	31.7
NPA Provisions as % Oper. Income	22.5	23.5	(103)	26.8	(433)	26.3	23.4	297
Profit Before Tax	117,719	99,026	18.9	101,103	16.4	308,199	274,350	12.3
Tax	30,136	24,854	21.3	25,972	16.0	78,899	81,032	(2.6)
Effective Tax Rate (%)	25.6	25.1	50	25.7	(8.8)	25.6	29.5	(394)
Reported Profits	87,583	74,172	18.1	75,131	16.6	229,300	193,318	18.6
RoA (%)	2.2	2.2	-	1.9	28.0	1.9	2.0	(10)
Basic EPS	15.9	13.5	17.8	13.7	16.1	41.7	45.5	(8.3)

Balance Sheet Analysis	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Net Worth	1,635,908	1,709,860	1,779,547	1,861,124	1,951,443	4.9	19.3
CET1 (%)	16.2	16.4	16.7	17.0	16.8	(20)	60
Tier 1 (%)	17.1	17.2	17.5	17.7	17.6	(10)	50
Total CAR (%)	18.5	18.5	18.9	19.1	18.9	(20)	40
RWA - Total	9,509,760	9,947,160	10,107,740	10,374,830	10,917,210	5.2	14.8
Advances - Total	9,360,295	9,937,029	10,032,989	10,383,351	10,823,242	4.2	15.6
Investments	3,112,941	3,918,267	3,793,504	4,139,651	4,143,762	0.1	33.1
Total Assets	13,953,356	15,305,113	15,451,033	16,094,280	16,542,278	2.8	18.6
RoA (%)	2.20	1.96	1.76	1.92	2.20	28	-
Deposits	10,674,335	11,475,023	11,893,873	12,293,104	12,711,239	3.4	19.1
Saving Deposit	2,779,280	3,103,770	3,273,580	3,484,320	3,746,390	7.5	34.8
Current Deposit	1,439,000	1,742,480	1,500,770	1,630,190	1,721,808	5.6	19.7
CASA Deposits	4,218,280	4,846,250	4,774,350	5,114,510	5,468,198	6.9	29.6
CASA Ratio (%)	39.5	42.2	40.1	41.6	43.0	140	350
Term Deposits	6,456,055	6,628,773	7,119,523	7,178,594	7,243,041	0.9	12.2
Interest Bearing Liabilities - Total	11,807,107	12,921,309	13,057,763	13,618,904	13,912,540	2.2	17.8

Movement of NPA (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Gross Advances	9,455,810	10,039,659	10,127,544	10,467,222	10,895,753	4.1	15.2
Gross NPA	134,273	126,500	137,735	113,046	88,256	(21.9)	(34.3)
Gross NPA Ratio (%)	1.42	1.26	1.36	1.08	0.81	(27)	(61)
PCR - Calculated (%)	66.7	72.0	76.2	84.5	88.5	402	2,177
Net Advances	9,309,063	9,839,889	9,939,273	10,329,882	11,288,778	9.3	21.3
Net NPA	44,684	35,424	32,800	17,561	10,160	(42.1)	(77.3)
Net NPAs Ratio (%)	0.48	0.36	0.33	0.17	0.09	(8)	(39)
Reported Profits	74,172	69,284	66,593	75,131	87,583	16.6	18.1
RoA (%)	2.20	1.96	1.76	1.92	2.20	28	-

Loan Book Analysis (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Auto	835,520	839,350	810,820	796,640	818,800	(2)	3
Personal loans	1,095,310	1,155,570	1,115,670	1,124,460	1,152,750	5	3
Home	617,290	634,450	626,520	628,470	666,440	8	6
KGC	389,740	433,010	400,240	435,360	436,480	12	0
CC	576,780	575,750	546,980	581,420	633,320	10	9
CV/CE	281,240	290,450	278,010	269,800	271,150	(4)	1
Others	200,110	203,310	199,450	207,680	243,160	22	17
Two Wheelers	101,490	98,550	95,680	94,940	95,040	(6)	0
Gold Loans	53,180	54,300	55,710	60,390	66,960	26	11
LAS	18,120	18,010	15,010	15,760	16,510	(9)	5
Total Retail	4,801,340	4,944,010	4,750,050	4,850,040	5,048,970	5	4
Retail (ex-business banking)	4,168,790	4,302,770	4,144,090	4,214,930	4,390,640	5	4
Business banking	632,550	641,240	605,960	635,110	658,330	4	4
Corporate	3,926,405	4,351,779	4,676,979	4,898,201	5,115,942	30	4
Total advances	9,360,295	9,937,029	10,032,989	10,383,351	10,823,242	16	4

Conference Call Highlights

- The bank saw good uptake in CASA with ~2mn liability accounts opened in the quarter
- Digital KYC has helped in 20% / 15% growth in SA and CA accounts, and the facility is slated to be extended to retail asset customers in the future.
- 146% avg LCR maintained during the quarter, impacting NIM by 15bps but offset by trading gains
- Fee income comprises ~94% of retail fees
- 282 branches added in the year, 100 more branches to be opened in Q4
- The management expects opex levels and C/I to increase as business momentum regains, but should revert to lower levels in the long term
- Retail deposits constitute 80% of total deposits and 100% of incremental deposits
- Net capital of 40bps / 140bps generated during the quarter / 9M respectively
- Asset Quality –
 - 67% of portfolio is externally rated at AA and above (50% between AA and AAA)
 - Slippages (including pro-forma) at 1.86% for the qtr, 1.67% for 9M
 - Specific provisions would have been at Rs 31.7bn if pro-forma slippages were to be included.
 - Credit cost reported stood at 25bps vs 1.16% (+91bps) on a pro-forma basis
 - Recoveries (included in miscellaneous income) were ~24bps of assets during the current quarter vs ~30bps in the last year and ~21bps in the previous quarter
 - With growing interest by some market participants on asset purchase, the bank has sold some assets in the retail space. However, the quantum is not significant.
 - Compared to industry levels, bureau scores of new acquisitions are higher than industry levels. Eg in the unsecured portfolio, ~52% of portfolio is above the cut off scores of the bureau vs 25% for the market. In secured products, bank's cut off level is at 42% vs 33% of the market. In CV, the factor is 2x relative to industry.
- **SME book:**
 - Cash flows had slipped in April and May, but have seen a strong bounce back. Levels stood 14-15% higher than inflows in Feb and thereby indicate good recovery
 - 30+ DPD has shown an improving trend MoM
 - FITL at 0.74% - 0.75% of loans remains low
 - Stress tests also being conducted – 2-3% expected to be vulnerable
 - Delinquency trend QoQ has shown improvement across all buckets and bank expects good recoveries
 - Avg utilizations steady at ~70% levels
 - Self-funding ratio has improved as customers have maintained higher balances and stood between 70-80% levels.

- Collateral levels stood at ~87%
- Behavioral scores gravitating towards pre-COVID levels
- Wholesale book:
 - CB and BB continue to track better than anticipated metrics
 - Q3 collections higher YoY by 11%, and were higher by 20% YoY in Dec-20
 - Disbursements and OD utilization moved to positive levels
 - BB saw high single digit QoQ and high teens YoY growth
 - ECLGS schemes have helped stabilize SME businesses
 - Management is optimistic on small businesses for the next fiscal
- **Retail book:**
 - Demand resolution trends inching up towards 97% vs 98.6% during pre-COVID periods
 - Cheque bounce trends have been Improving over Sept levels and gravitating towards pre-COVID levels
 - Collection resolution (of bounce cases) is improving MoM and has been better than pre-COVID levels in recent months. Resolution in higher buckets has been lower than pre-COVID levels but improving nonetheless
 - Agri sector has performed relatively well and there are signs of further improvement
 - Double digit growth in overall retail assets – especially home, LAP, auto and other secured and unsecured assets
 - Gold loan franchise seeing very high growth, Auto loans back on normal growth trajectory
 - Unsecured loans have seen increased traction from internal customers as well as from government sources and the bank has been tilting towards gaining a higher market share in the high income groups
 - MFI – despite deliberate caution, bank has been resuming normal run-rate starting Jan
- **Restructuring** – customers applied as the regulatory environment changed to “on request” basis. Current levels (at 0.5% of book) are not reflective of the bank’s expectations on the same. Restructuring was predominantly in the retail segment, with a few corporate cases.
- **ECLGS disbursements** – Bank was a dominant player during ECLGS 1.0 and disbursed ~Rs 221bn. ECLGS 2.0 was predominantly towards stressed sectors and the bank disbursed ~Rs 5.8bn under the same

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	1,148,127	1,212,311	1,425,059	1,717,968
Interest expenses	586,264	568,200	661,786	812,300
Net interest income	561,863	644,110	763,272	905,668
Other incomes	232,608	216,083	238,892	289,146
Total expenses	306,975	327,087	376,150	432,572
- Employee cost	95,257	104,782	120,500	138,575
- Other	211,719	222,304	255,650	293,998
Pre provisioning profit	487,495	533,107	626,014	762,241
Provisions	121,424	148,613	130,836	136,402
Profit before taxes	366,071	384,494	495,178	625,839
Tax provision	103,498	96,739	124,587	157,461
Profit after tax	262,573	287,755	370,591	468,378
Adjusted profit	262,573	287,755	370,591	468,378

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,483	5,483	5,483	5,483
Reserves & Surplus	1,704,377	1,932,221	2,242,902	2,651,370
Minority Interest	0	0	0	0
Net worth	1,709,860	1,937,705	2,248,385	2,656,853
Borrowings	1,446,285	1,461,364	1,533,578	2,046,618
- Deposits	11,475,023	13,152,272	15,506,181	18,419,559
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	673,944	935,712	889,669	745,026
Total Liabilities	15,305,113	17,487,052	20,177,815	23,868,056
Application of Funds				
Cash and balances with RBI	866,187	1,184,506	1,368,489	1,519,181
Investments	3,918,267	4,564,570	5,108,775	5,805,912
Advances	9,937,029	11,228,843	13,137,746	15,896,672
Fixed assets	43,877	50,719	58,549	66,397
Other current assets, loans and advances	539,311	458,414	504,256	579,894
Total Assets	15,304,670	17,487,052	20,177,815	23,868,056

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	10.1	9.1	9.2	9.3
Yields on interest earning assets	8.6	7.6	7.8	8.0
Yield on investments	6.0	5.2	5.5	6.0
Costs of funds	5.0	4.1	4.2	4.3
Cost of deposits	4.9	4.1	4.1	4.3
NIMs	4.2	4.1	4.2	4.2
(B) Asset quality and capital ratios (%)				
GNPA	1.3	1.8	1.8	1.6
NNPA	0.4	0.5	0.5	0.4
PCR	72.0	70.0	71.0	75.0
Slippages	2.1	2.0	2.1	1.8
NNPA to NW	2.1	3.1	3.1	2.3
CASA	42.4	44.0	44.0	44.0
CAR	18.5	16.9	17.3	17.1
Tier 1	17.2	15.7	16.2	16.1
Credit - Deposit	86.6	85.4	84.7	86.3
(C) Dupont as a percentage of average assets				
Interest income	8.3	7.4	7.6	7.8
Interest expenses	4.2	3.5	3.5	3.7
Net interest income	4.0	3.9	4.1	4.1
Non interest Income	1.7	1.3	1.3	1.3
Total expenses	2.2	2.0	2.0	2.0
- cost to income	38.6	38.0	37.5	36.2
Provisions	0.9	0.9	0.7	0.6
Tax	0.7	0.6	0.7	0.7
RoA	1.9	1.8	2.0	2.1
Leverage	9.0	9.0	9.0	9.0
RoE	16.4	15.8	17.7	19.1
RoRwa	2.6	2.3	2.7	2.9
(D) Measures of Investments				
EPS - adjusted	47.9	52.5	67.6	85.4
BV	311.8	353.4	410.0	484.5
ABV	305.4	342.5	397.3	473.2
DPS	0.0	9.0	9.0	9.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	16.5	14.6	18.5	18.7
PPoP	22.6	9.4	17.4	21.8
Adj PAT	24.6	9.6	28.8	26.4
Advances	21.3	13.0	17.0	21.0
Total borrowings	23.5	1.0	4.9	33.5
Total assets	23.0	14.3	15.4	18.3
(F) Valuation Ratios				
Market Cap (Rs. mn)	8,042,082	8,042,082	8,042,082	8,042,082
CMP (Rs.)	1467	1467	1467	1467
P/E (x)	30.6	27.9	21.7	17.2
P/BV (x)	4.7	4.2	3.6	3.0
P/ABV (x)	4.8	4.3	3.7	3.1
Div Yield (%)	0.0	0.6	0.6	0.6

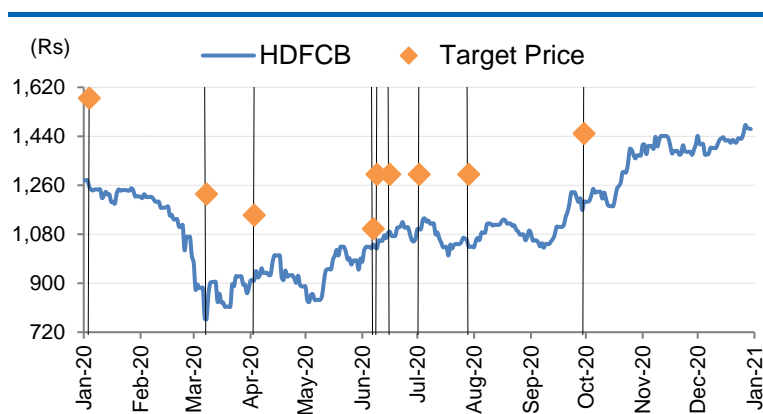
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Buy	1,580	1,255
Mar-20	Buy	1,228	768
Apr-20	Buy	1,150	910
Jun-20	Buy	1,100	1,042
Jun-20	Buy	1,300	1,029
Jul-20	Buy	1,300	1,089
Jul-20	BUY	1,300	1,098
Aug-20	BUY	1,300	1,034
Oct-20	Buy	1,650	1,199

*Price as on recommendation date

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