HDFC Bank

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	HDFCB IN
Equity Shares (m)	5,504
M.Cap.(INRb)/(USDb)	8076.2 / 110.7
52-Week Range (INR)	1494 / 739
1, 6, 12 Rel. Per (%)	-1/3/-3
12M Avg Val (INR M)	16223

Financials & Valuations (INR b)

Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	671.3	798.0
OP	487.5	589.3	691.1
NP	262.6	313.1	379.0
NIM (%)	4.2	4.2	4.3
EPS (INR)	48.0	57.1	69.1
EPS Gr. (%)	21.2	18.8	21.1
BV/Sh. (INR)	311.8	359.3	418.2
ABV/Sh. (INR)	300.3	345.5	401.3
Ratios			
RoE (%)	16.4	17.0	17.8
RoA (%)	1.9	1.9	2.0
Valuations			
P/E(X)	30.5	25.7	21.2
P/BV (X)	4.7	4.1	3.5
P/ABV (X)	4.9	4.2	3.7

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	21.2	21.2	21.3
DII	17.7	18.6	17.1
FII	50.7	49.1	49.6
Others	10.5	11.1	12.0

FII Includes depository receipts

CMP: INR1,466 TP: INR1,720 (+17%) Buy

Steady performance; growth outlook getting stronger

Steady asset quality, with restructured book at 0.5% of loans

- HDFC Bank (HDFCB) reported a strong performance, with advances growth driven by both corporate and revival in the Retail segment. Operating performance remained steady, led by healthy business growth, sequential margin improvement, and cost control. The bank further shored up provisions, providing INR24b toward potential NPAs (not declared due to the SC order) and other contingent provisions.
- Asset quality remained stable, while total restructuring stood at 0.5% of loans. Proforma slippages stood at INR49b; the bank holds a sufficient additional contingent provision buffer to manage the COVID impact.
- We marginally increase our estimates for FY22/FY23 and expect an earnings CAGR of 20% over FY20–23E. **Maintain Buy.**

Asset quality steady; business momentum gaining traction

- HDFCB reported a strong quarter, with PAT growth of ~18% YoY (+17% QoQ), supported by strong NII growth of 15% YoY, higher treasury gains, and controlled opex. Margins improved 10bp QoQ to 4.2%.
- Fee income increased 10% YoY, with card spend improving and an uptick seen in retail asset growth. Treasury gains were higher at INR11.1b (+64% YoY), resulting in other income growth of 12% YoY. Opex grew 9% YoY, with the C/I ratio thus coming in at 36.1% (v/s 36.8% in 2QFY21). Overall, PPoP growth was robust at 17% YoY. For 9MFY21, PPoP/PAT growth stood at 17%/19% YoY.
- Loans grew ~16% YoY, led by an increase in corporate loans (+25.5% YoY), and retail loan growth stood at 5% YoY (+4% QoQ). Disbursement growth across various retail products surpassed pre-COVID levels and was aided by festive demand. Credit card growth improved 9% QoQ, while gold loans grew 11% QoQ.
- Deposits increased ~19% YoY (~3% QoQ), led by CASA growth of 30% YoY (7% QoQ); TD growth stood at 12% YoY. Overall, the CASA ratio improved to 43% (v/s 41.6% in 2QFY21).
- On the asset quality front, the GNPA/NNPA ratio improved 27bp/8bp QoQ to ~0.8%/~0.1%, primarily due to the SC order regarding temporarily halting NPL recognition. However, if not for the SC order, slippages would have been at ~1.9% annualized and the GNPA/NNPA ratio at 1.38%/0.4%. Overall, restructuring under the RBI resolution framework for COVID-19 stood at ~0.5% of advances – largely toward retail assets.
- Overall provisions stood at INR34b (+12% YoY) due to the bank making additional contingent provisions of INR24b toward slippages (not declared NPA due to the SC order).

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Highlights from management commentary

- Overall business activity has reached near pre-COVID levels, with demand resolution in retail improving to 97% levels (98% at pre-COVID levels).
- Stress in the SME portfolio declined further to 2.3% (v/s 3% in 2QFY21 and 9% in 1QFY21) as the credit guarantee scheme provided a much-needed boost to the sector.
- Business activity in Home Loans, Auto, 2W, and LAP surpassed pre-COVID levels.

Valuations and view

HDFCB has delivered strong business growth as the economy continues to recover from the COVID shock. Business activity has picked up, as reflected from the revival in retail loan growth, and disbursements across multiple segments are now higher than pre-COVID levels. The bank's operating performance remains steady, aided by healthy revenue growth, improving margins, and controlled opex. The asset quality impact due to COVID-19 remains under control, with total restructuring at 0.5% of loans and proforma slippages at INR49b (for 3QFY21). The bank holds a sufficient additional contingent provision buffer to manage residual stress. We marginally increase our earnings estimates and expect a 20% PAT CAGR over FY20–FY23E – with ROA/ROE of 2.1%/18.2% for FY23E. **Maintain Buy**, with revised TP of INR1,720 (3.7x Sep'22E ABV).

Quarterly performance **(INR b)**

	FY20				FY21E				FY20	FY21E	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Est
Net Interest Income	**132.9**	**135.2**	**141.7**	**152.0**	**156.7**	**157.8**	**163.2**	**193.7**	**561.9**	**671.3**	**162.8**	**0.2**
% Change (Y-o-Y)	22.9	14.9	12.7	16.2	17.8	16.7	15.1	27.4	16.5	19.5	14.9	
Other Income	49.7	55.9	66.7	60.3	40.8	60.9	74.4	73.9	232.6	250.1	73.1	1.8
Total Income	**182.6**	**191.0**	**208.4**	**212.4**	**197.4**	**218.7**	**237.6**	**267.6**	**794.5**	**921.3**	**236.0**	**0.7**
Operating Expenses	71.2	74.1	79.0	82.8	69.1	80.6	85.7	96.7	307.0	332.1	85.8	-0.1
Operating Profit	**111.5**	**117.0**	**129.5**	**129.6**	**128.3**	**138.1**	**151.9**	**171.0**	**487.5**	**589.3**	**150.2**	**1.1**
% Change (Y-o-Y)	28.9	23.4	20.1	19.5	15.1	18.1	17.3	31.9	22.6	20.9	16.0	
Provisions	26.1	27.0	30.4	37.8	38.9	37.0	34.1	60.7	121.4	170.8	41.7	-18.1
Profit before Tax	**85.3**	**90.0**	**99.0**	**91.7**	**89.4**	**101.1**	**117.7**	**110.2**	**366.1**	**418.4**	**108.5**	**8.5**
Tax	29.7	26.5	24.9	22.5	22.8	26.0	30.1	26.4	103.5	105.3	26.2	15.1
Net Profit	**55.7**	**63.4**	**74.2**	**69.3**	**66.6**	**75.1**	**87.6**	**83.8**	**262.6**	**313.1**	**82.3**	**6.4**
% Change (Y-o-Y)	21.0	26.8	32.8	17.7	19.6	18.4	18.1	21.0	24.6	19.2	11.0	
Operating Parameters												
Deposit Growth (%)	18.5	22.6	25.2	24.3	24.6	20.3	19.1	17.8	24.3	17.8	19.1	0.0
Loan Growth (%)	17.1	19.5	19.9	21.3	20.9	15.8	15.6	15.5	21.3	15.5	15.6	0.0
Deposit	9,546	10,216	10,674	11,475	11,894	12,293	12,711	13,518	11,475	13,518	12,710	0.0
Loan	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,477	9,937	11,477	10,820	0.0
Asset Quality												
Gross NPA (%)	1.4	1.4	1.4	1.3	1.4	1.1	0.8	1.4	1.3	1.4	1.3	-0.5
Net NPA (%)	0.4	0.4	0.5	0.4	0.3	0.2	0.1	0.4	0.4	0.4	0.3	-0.2
PCR (%)	69.7	69.7	66.7	72.0	76.2	84.5	88.5	71.5	72.0	71.5	75.0	13.5

Quarterly snapshot

	FY19				FY20				FY21			Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
Profit and Loss (INR b)													
Interest Income	**225.5**	**242.0**	**258.9**	**263.3**	**273.9**	**281.7**	**293.7**	**298.9**	**303.8**	**299.8**	**300.8**	**2**	**0**
Loans	173.9	188.3	203.1	210.2	218.0	225.1	234.2	240.4	240.4	234.0	235.8	1	1
Investment	45.9	50.4	53.2	50.5	52.5	50.9	52.0	50.9	56.0	56.2	58.3	12	4
Others	5.7	3.3	2.6	2.7	3.4	5.6	7.4	7.5	7.4	9.5	6.7	-10	-30
Interest Expenses	**117.4**	**124.4**	**133.1**	**132.4**	**141.0**	**146.5**	**152.0**	**146.8**	**147.1**	**142.0**	**137.6**	**-9**	**-3**
Net Interest Income	**108.1**	**117.6**	**125.8**	**130.9**	**132.9**	**135.2**	**141.7**	**152.0**	**156.7**	**157.8**	**163.2**	**15**	**3**
Other Income	**38.2**	**40.2**	**49.2**	**48.7**	**49.7**	**55.9**	**66.7**	**60.3**	**40.8**	**60.9**	**74.4**	**12**	**22**
Trading profits	-2.8	-0.3	4.7	2.3	2.1	4.8	6.8	5.7	10.9	10.2	11.1	64	9
Exchange Profits	5.0	4.2	4.0	4.0	5.8	5.5	5.3	5.0	4.4	5.6	5.6	7	0
Others (Ex non-core)	36.0	36.3	40.5	42.4	41.8	45.6	54.7	49.7	25.5	45.2	57.7	6	28
Total Income	**146.3**	**157.8**	**175.0**	**179.6**	**182.6**	**191.0**	**208.4**	**212.4**	**197.4**	**218.7**	**237.6**	**14**	**9**
Operating Expenses	**59.8**	**63.0**	**67.2**	**71.2**	**71.2**	**74.1**	**79.0**	**82.8**	**69.1**	**80.6**	**85.7**	**9**	**6**
Employee	18.1	19.1	19.7	20.7	22.2	23.6	24.5	25.0	25.1	25.4	26.3	7	3
Others	41.7	43.9	47.5	50.4	49.0	50.5	54.4	57.8	44.0	55.1	59.4	9	8
Operating Profits	**86.5**	**94.8**	**107.8**	**108.4**	**111.5**	**117.0**	**129.5**	**129.6**	**128.3**	**138.1**	**151.9**	**17**	**10**
Core Operating Profits	**89.3**	**95.1**	**103.0**	**106.1**	**109.4**	**112.2**	**122.7**	**123.9**	**117.4**	**128.0**	**140.8**	**15**	**10**
Provisions	16.3	18.2	22.1	18.9	26.1	27.0	30.4	37.8	38.9	37.0	34.1	12	-8
PBT	**70.2**	**76.6**	**85.7**	**89.5**	**85.3**	**90.0**	**99.0**	**91.7**	**89.4**	**101.1**	**117.7**	**19**	**16**
Taxes	24.2	26.5	29.8	30.7	29.7	26.5	24.9	22.5	22.8	26.0	30.1	21	16
PAT	**46.0**	**50.1**	**55.9**	**58.9**	**55.7**	**63.4**	**74.2**	**69.3**	**66.6**	**75.1**	**87.6**	**18**	**17**
Balance Sheet (INR b)													
Deposits	8,058	8,334	8,525	9,231	9,546	10,216	10,674	11,475	11,894	12,293	12,711	19	3
Loans	7,086	7,508	7,810	8,194	8,297	8,970	9,360	9,937	10,033	10,383	10,823	16	4
Asset Quality (INR b)													
GNPA	95.4	101.0	109.0	112.2	117.7	125.1	134.3	126.5	137.7	113.0	88.3	-34	-22
NNPA	29.1	30.3	33.0	32.1	35.7	37.9	44.7	35.4	32.8	17.6	10.2	-77	-42
Ratios	**FY19**				**FY20**				**FY21**			**Change (bps)**	
Asset Quality Ratios %	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**YoY**	**QoQ**
GNPA	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.4	1.1	0.8	-61	-27
NNPA	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.3	0.2	0.1	-39	-8
PCR (Calc.)	69.5	70.0	69.7	71.4	69.7	69.7	66.7	72.0	76.2	84.5	88.5	2,177	402
Slippage	2.2	1.9	2.1	1.8	2.1	1.8	2.4	1.3	1.2	2.0	1.9	-52	-12
Business Ratios (%)													
Fees to Total Income	24.6	23.0	23.1	23.6	22.9	23.9	26.2	23.4	12.9	20.6	24.3	-194	364
Cost to Core Income	40.1	39.8	39.5	40.1	39.4	39.8	39.2	40.0	37.1	38.6	37.9	-130	-77
Tax Rate	34.4	34.7	34.8	34.3	34.8	29.5	25.1	24.5	25.5	25.7	25.6	50	-9
CASA (Reported)	41.7	42.0	40.7	42.4	39.7	39.3	39.5	42.2	40.1	41.6	43.0	350	140
Loan/Deposit	87.9	90.1	91.6	88.8	86.9	87.8	87.7	86.6	84.4	84.5	85.1	-254	68
Profitability Ratios (%)													
Yield on loans	10.2	10.3	10.6	10.5	10.6	10.4	10.2	10.0	9.6	9.2	8.9	-133	-28
Yield On Investments	7.1	7.0	7.3	7.1	7.1	6.7	6.7	5.8	5.8	5.7	5.6	-110	-3
Yield on funds	9.6	9.5	9.8	9.7	9.8	9.7	9.6	9.1	8.8	8.5	8.2	-142	-30
Cost of funds	5.1	5.2	5.5	5.3	5.4	5.4	5.3	4.7	4.5	4.3	4.0	-130	-26
Spreads	4.5	4.3	4.4	4.5	4.4	4.3	4.3	4.3	4.2	4.2	4.2	-13	-4
Margins	4.2	4.3	4.3	4.4	4.3	4.2	4.2	4.3	4.3	4.1	4.2	0	10
RoA	1.8	1.8	2.0	2.0	1.8	2.0	2.2	2.0	1.8	1.9	2.2	0	28
RoE	17.2	16.4	15.9	16.1	14.6	16.3	18.6	16.6	15.3	16.5	18.4	-20	187
Other Details													
Branches	4,804	4,825	4,963	5,103	4,990	5,314	5,345	5,416	5,326	5,430	5,485	140	55
ATMs	12,808	13,018	13,407	13,160	13,727	13,514	14,533	14,901	14,996	15,292	15,541	1,008	249
Employees	89,550	94,907	96,425	98,061	104,154	111,208	113,981	116,971	115,822	117,082	117,560	3,579	478

CONFERENCE CALL

Highlights from management commentary

Opening remarks

- Macroeconomic indicators reflect improving trends; expect this to continue over 4QFY21. Furthermore, rural growth is picking up at a faster pace.
- The debt capital markets have witnessed good activity.
- The bank opened ~2m new liability accounts during the quarter.
- Credit card spend volumes were up 22% YoY.
- The bank's avg. LCR for the quarter stood at 146%.

P&L and balance sheet related

- The bank expects the C/I ratio to revert to 38–39% v/s the current levels of 36%. However, this is likely to improve in the medium-to-long term.
- Total disbursements under the ECLGS 1.0 scheme stood at ~INR221b, while in 2.0 they stood at ~INR5.8b (50 customers).
- On the RBI's restrictions on new sourcing of credit cards – no meaningful impact was seen on CASA/customer acquisitions. Overall, expect it to take 10–12 weeks to resolve the issue with the RBI.
- NIMs are likely to remain in the range of 4.1–4.5%.

Business growth trends across segments

Corporate/Wholesale banking portfolio

- 3QFY21 collections were higher by 11% YoY.
- For Dec'20, collections were up 20% YoY.
- New customer acquisitions increased 30% YoY.

Retail portfolio

- The bank witnessed double-digit growth in disbursements in retail assets during the quarter.
- The bank saw robust trends in LAP, 2W, Auto, and Home Loans. Growth in these segments surpassed pre-COVID levels.
- Gold loans are seeing unprecedented growth trends. Therefore, a strong focus remains on this segment.
- In the unsecured portfolio, the bank has increased sourcing from internal customers.
- The bank remains cautious in the MFI segment.

Asset quality

- The proforma annualized slippage ratio for the quarter was at 1.86% (v/s 1.98% last quarter).
- Proforma GNPAs, excluding the Agri segment, would be at 1.2%.
- Total restructuring under the RBI framework stood at 0.5% of loans, predominantly from retail assets.
- Overall, the bank does not foresee any meaningful corporate restructuring requests in 4QFY21E.

Asset quality trends across segments

Corporate banking

- The portfolio is growing well, with most of the growth coming from well-rated corporates and public sector undertakings.
- Avg. borrower grade is at 4.4%. This essentially includes AA-rated borrowers.
- 67% of the portfolio is rated AA & above, as per the external grade rating. Furthermore, 90%+ of the portfolio is rated A & above.

SME & Business Banking portfolio

- The stress test earlier indicated ~9% of the SME book could be under stress in 1QFY21, which declined to 3% in 2QFY21. This has further declined to 2.3% currently.
- The portfolio is highly granular, and the concentration risk is well-balanced, with less than 5% exposure to each business segment.
- Self-funding by SME promoters has increased, reflecting continued strength in the health of the portfolio.
- The portfolio is very well-collateralized.
- Inflows in SME accounts mirror the recovery in economic growth.

Retail portfolio

- Overall business activity has reached near pre-COVID levels, with demand resolution in retail improving to 97% levels (98% at pre-COVID levels).
- Check bounce rates are improving and are near pre-COVID levels.
- The Agri sector is holding up well for the bank.
- Recoveries from write-off accounts are also showing improving trends.
- A lot of the retail restructuring is based on customer requests. It is not reflective of the bank's assessment of that particular portfolio.
- The bank sold some of its stressed retail assets during the quarter.
- Incremental retail disbursements (new acquisitions) have stable asset quality trends; remain cautious in certain existing Retail segments.

Subs performance – HDB Financials

- Disbursements in 3QFY21 were close to last year's levels and improved ~22% sequentially.
- The proforma GNPA ratio stands at 5.9%. The company has not taken any standstill benefit on P&L, and provisions were made as per actual ECL requirements.

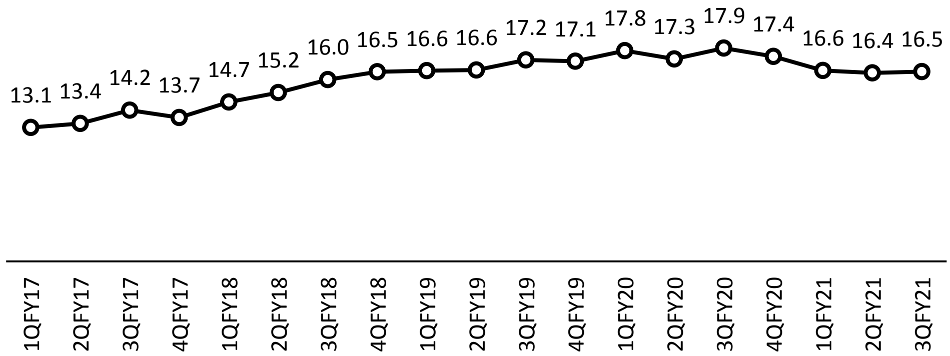
Loan growth strong at 15.6% YoY; wholesale book grows ~27% YoY

- The loan book grew 15.6% YoY (+4.2% QoQ) to INR10.8t. Deposits grew 3.4%/19.1% QoQ/YoY to INR12.7t. The CD ratio increased ~70bp QoQ to 85.1%.
- Retail loan growth remained modest at 5.2% YoY, but picked up 4.1% QoQ. On the other hand, domestic wholesale advances were robust at 26.7% (+4.4% QoQ). The share of retail loans (as per Basel) moderated to 46.6%.
- Credit cards / Home loans grew ~9%/6% QoQ, and business banking / personal loans grew ~4%/~3% QoQ. Gold loans grew ~11% QoQ.
- Loan growth in the Auto segment declined 2.7% YoY, but grew ~2% QoQ on improved demand from the festive season.

Exhibit 1: Share of retail loans stood at 46.6% in 3QFY21

INRb	3QFY20	2QFY21	3QFY21	YoY (%)	QoQ (%)	% of total
Car Loans	835.5	796.6	818.8	-2.0	2.8	7.6
CV loans	281.2	269.8	271.2	-3.6	0.5	2.5
2 wheeler loans	101.5	94.9	95.0	-6.4	0.1	0.9
Sub-total - Auto Loans	**1,218.3**	**1,161.4**	**1,185.0**	**-2.7**	**2.0**	**10.9**
Personal loans	1,095.3	1,124.5	1,152.8	5.2	2.5	10.7
Business banking	632.6	635.1	658.3	4.1	3.7	6.1
Loan against shares	18.1	15.8	16.5	-8.9	4.8	0.2
Credit Cards	576.8	581.4	633.3	9.8	8.9	5.9
Home loans	617.3	628.5	666.4	8.0	6.0	6.2
Gold loans	53.2	60.4	67.0	25.9	10.9	0.6
Other Retail	589.9	643.0	669.6	13.5	4.1	6.2
Retail Total	**4,801.3**	**4,850.0**	**5,048.9**	**5.2**	**4.1**	**46.6**
Corporate and international	4,559.0	5,533.3	5,774.3	26.7	4.4	53.4
Total loans	**9,360.3**	**10,383.4**	**10,823.2**	**15.6**	**4.2**	**100.0**

Exhibit 2: Share of unsecured loans was stable at ~16.5%



Source: MOSL, Company

CASA grew ~30% YoY, and term deposits ~12% YoY

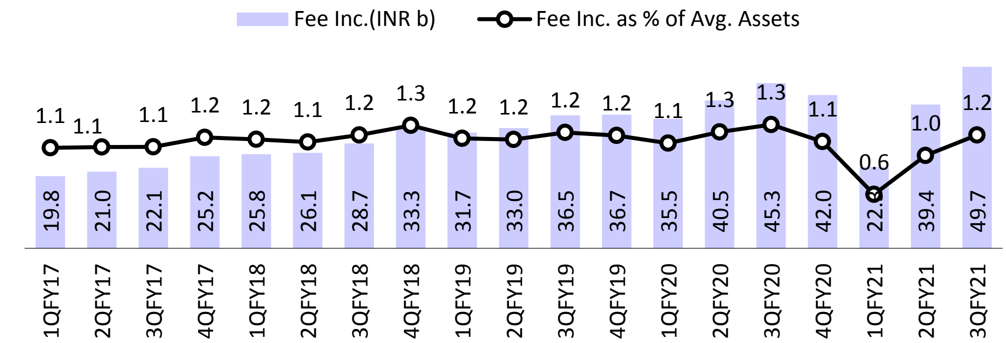
Reported NIM expands 10bp QoQ to 4.2%; CASA ratio improves 140bp to 43%

- Reported NIM improved 10bp QoQ to 4.2%, impacted by moderation in CoF.
- CASA deposit growth was strong at ~30% YoY (+7% QoQ), driven by 34.8%/7.5% YoY/QoQ growth in SA deposits. CA deposits grew 19.6%/5.6% YoY/QoQ.
- Term deposits grew 12.2% YoY. Sequential growth in term deposits stood at ~1%, which resulted in the CASA ratio improving to 43% (+140bp QoQ).

Core fee income up 26% QoQ (+10% YoY); fee income to average assets forms 1.2% of total assets

- Core fee income grew 26% QoQ (+10% QoQ) to INR49.7b, supported by the festive season. This led to improvement in retail loan origination, sales of third-party products, and the use of credit/debit cards by customers.
- Fee income/average assets, thus, had improved to 1.2% as of 3QFY21 (1.0% in 2QFY21). Total other income, however, was supported by higher treasury gains of INR11.1b (up ~64% YoY).
- Overall opex grew 8.6% YoY (+6.5 QoQ). The cost-to-core income ratio, thus, increased 77bp QoQ to 37.9%. The C/I ratio stood at 36.1% (+75bp QoQ).

Exhibit 3: Fee income to assets (%) improved to 1.2%



Source: MOSL, Company

PCR improved to 88.5%

Asset quality ratio improves, aided by SC dispensation – stable on like-to-like basis; PCR improves to 88.5%

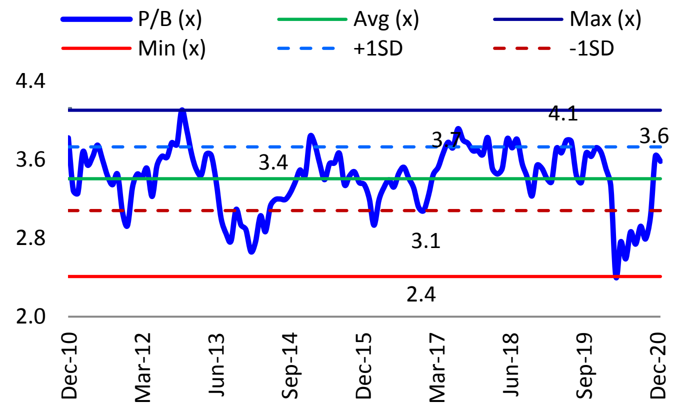
- Asset quality ratios declined sequentially, aided by the SC stay order on NPA recognition. However, if not for the dispensation, GNPA/NNPA would have been ~1.38%/0.40% – stable YoY/QoQ on a like-to-like basis.
- Absolute GNPA declined 21.9% QoQ to ~INR88b, and NNPA declined 42.1% QoQ to ~INR10b. The GNPA ratio, thus, declined 27bp QoQ to 0.81% and NNPA declined 8bp QoQ to 0.09%. PCR improved ~400bp sequentially to 88.5%.
- The bank continues to carry a floating provision of INR14.5b and holds a contingent provision of INR87b.

Valuation and view

- Corporate loan growth for HDFCB remains strong and is compensating well for the softness in its retail portfolio – which is gradually picking up, led by improved growth in Vehicle / Credit Cards. Among retail assets, growth is further picking up for business banking and gold loans.
- The fee income profile has been impacted due to decline in economic activity on account of the COVID-19 crisis. However, it has improved sequentially over the past few quarters. Furthermore, strong cost controls, led by further digitalization, are likely to drive overall improvement in the bank's return ratios. Margins have improved in the current quarter; expect a marginal increase, aided by lower cost of funds and a strong and granular liability franchise. As lending picks up with the revival in economic activity, we believe fees would reflect improving trends going ahead.
- Asset quality ratios declined sequentially, aided by the SC stay order on NPA recognition. However, if not for the dispensation, GNPA/NNPA would have been ~1.38%/0.40% – stable YoY/QoQ on a like-to-like basis. The bank intends to use its analytical models to determine slippages, resulting in a more expedited recognition of NPAs. The restructuring book also remains limited at ~0.5% of total loans. Moreover, PCR increased ~400bp QoQ to ~88%, which – along with a floating provision of INR14.5b and contingent provision of INR87b – should keep credit cost under control. Overall, we expect NNPA to remain at 0.5% in FY22E.
- Furthermore, strong capitalization and liquidity levels should help HDFCB sustain its growth momentum over the next few years.

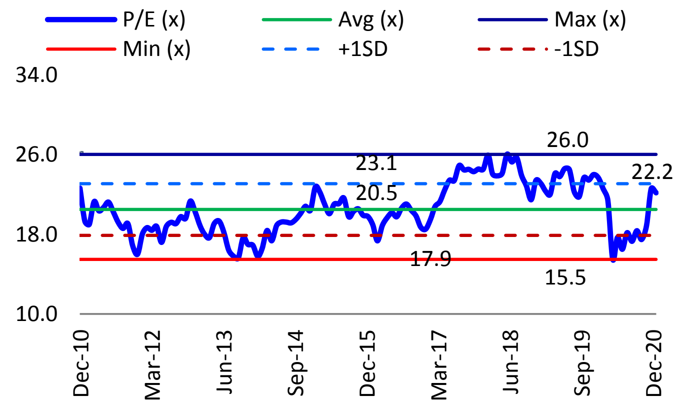
- **Buy, with Target Price of INR1,720:** HDFCB has delivered strong business growth as the economy continues to recover from the COVID shock. Business activity has picked up, as reflected from the revival in retail loan growth, and disbursements across many segments are now higher than pre-COVID levels. The bank's operating performance remains steady, aided by healthy revenue growth, improving margins, and controlled opex. The asset quality impact due to COVID-19 remains under control, with total restructuring at 0.5% of loans and proforma slippages at INR49b (for 3QFY21). The bank holds a sufficient additional contingent provision buffer to manage the residual stress. We marginally increase our earnings estimates and expect a 20% PAT CAGR over FY20–FY23 – with ROA/ROE at 2.1%/18.2% for FY23E. **Maintain Buy**, with revised TP of INR1,720 (3.7x Sep'22E ABV).

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

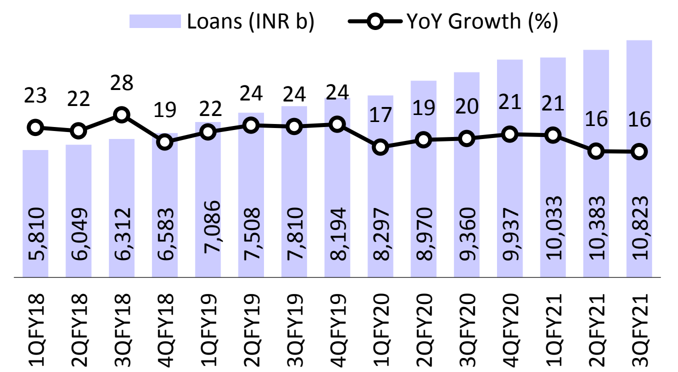
Exhibit 5: One-year forward P/E



Source: MOFSL, Company

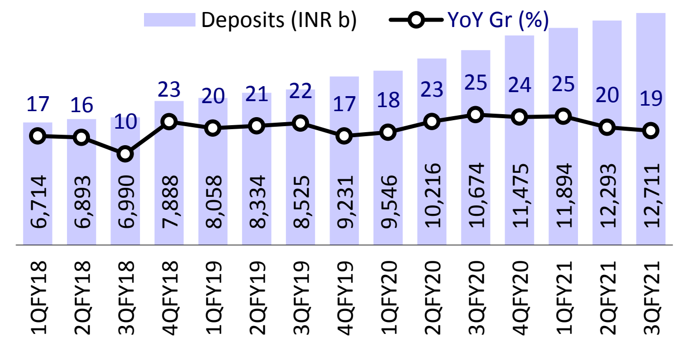
Story in charts

Exhibit 6: Loan growth strong at ~15.6% YoY (+4.2% QoQ)



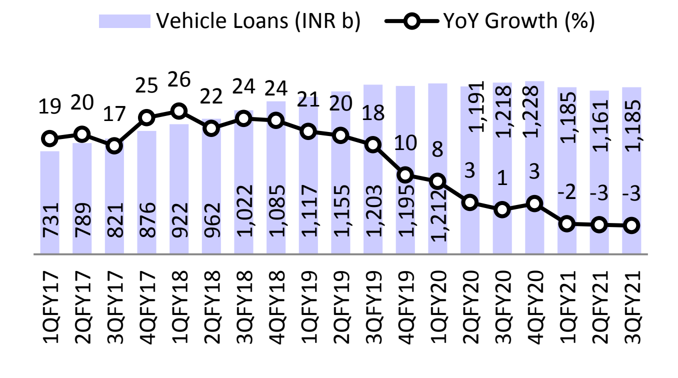
Source: MOFSL, Company

Exhibit 7: Deposits robust at 19% YoY (3.4% QoQ)



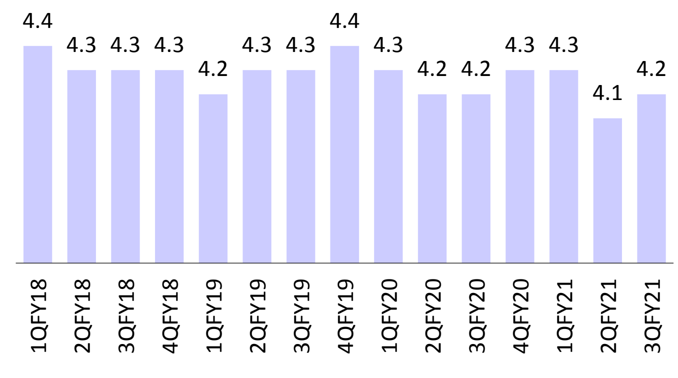
Source: MOFSL, Company

Exhibit 8: Vehicle loan growth picked up sequentially by ~2% QoQ, but declined 2.7% YoY



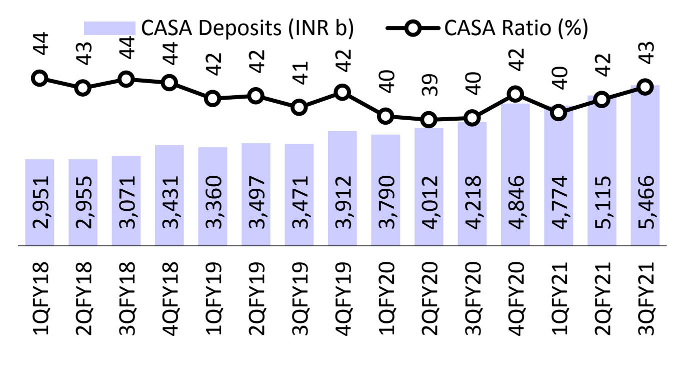
Source: MOFSL, Company

Exhibit 9: NIM improved 10bp QoQ to 4.2%



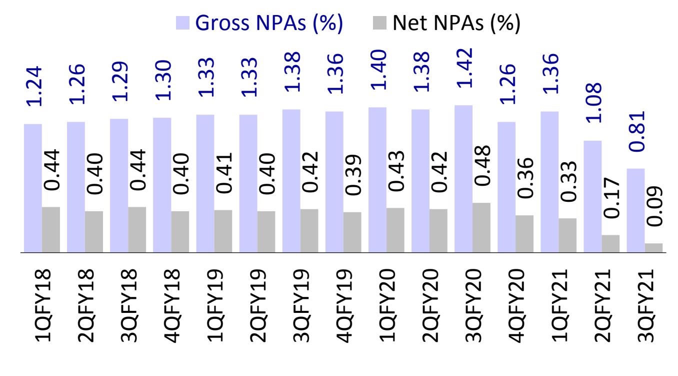
Source: MOFSL, Company

Exhibit 10: CASA ratio improved ~140bp QoQ to 43%



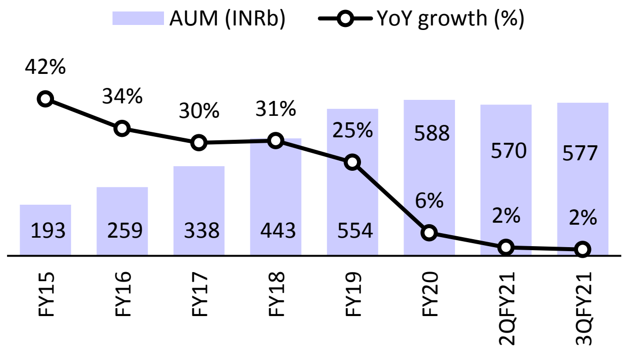
Source: MOFSL, Company

Exhibit 11: GNPA/NNPA declined to 0.81%/0.09%, aided by SC stay order on NPA recognition



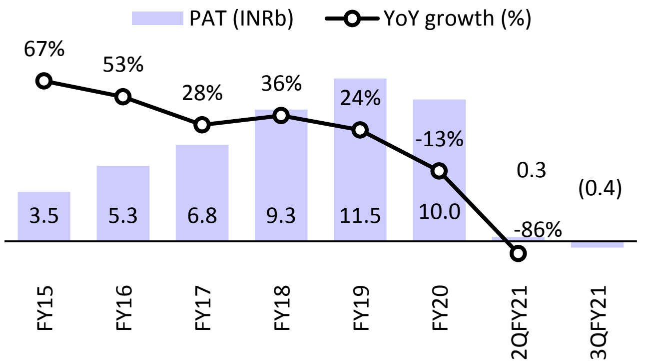
Source: MOFSL, Company

Exhibit 12: HDB Financials – AUM growth remained modest at ~2% YoY in 3QFY21…



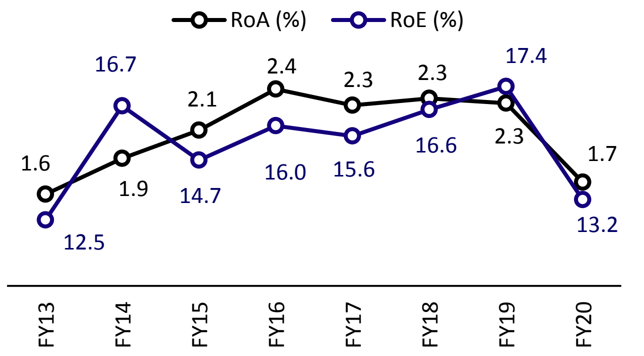
Source: MOFSL, Company

Exhibit 13: …but reported loss of INR443m, led by higher provisions



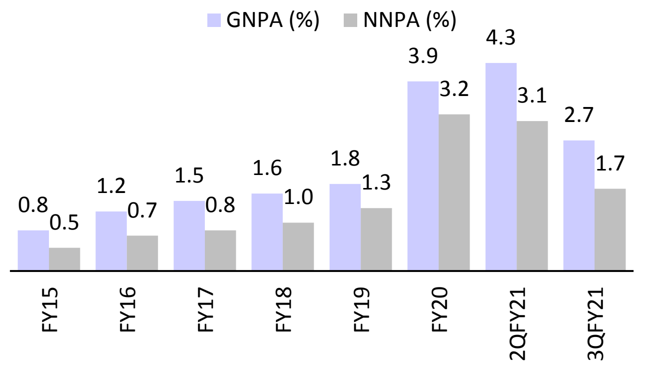
Source: MOFSL, Company

Exhibit 14: Return ratios remain suppressed for HDB Financials…



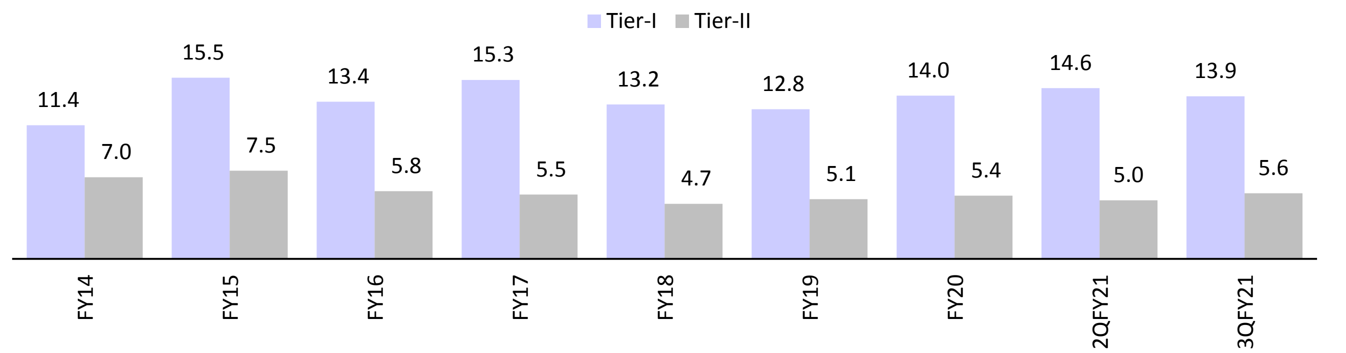
Source: MOFSL, Company

Exhibit 15: …as asset quality has deteriorated over the past few quarters; proforma GNPA stands at 5.9%



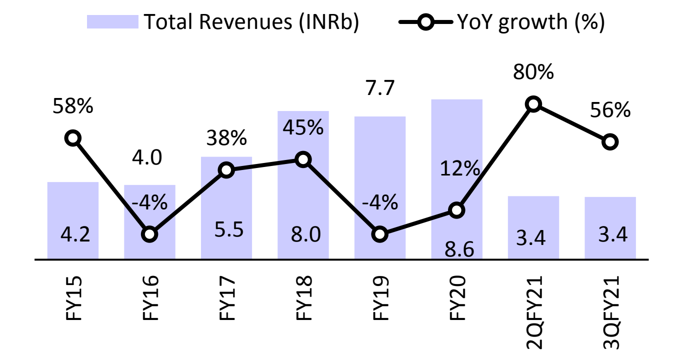
Source: MOFSL, Company

Exhibit 16: HDB Financials – capitalization levels remain strong, with total CAR at 19.5%



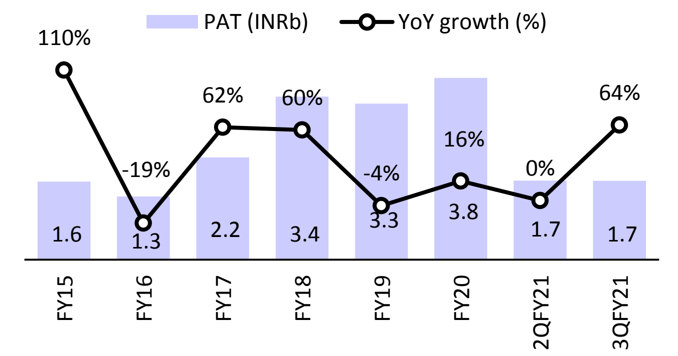
Source: MOFSL , Company

Exhibit 17: HDFC Securities – total income grew 56% YoY in 3QFY21…



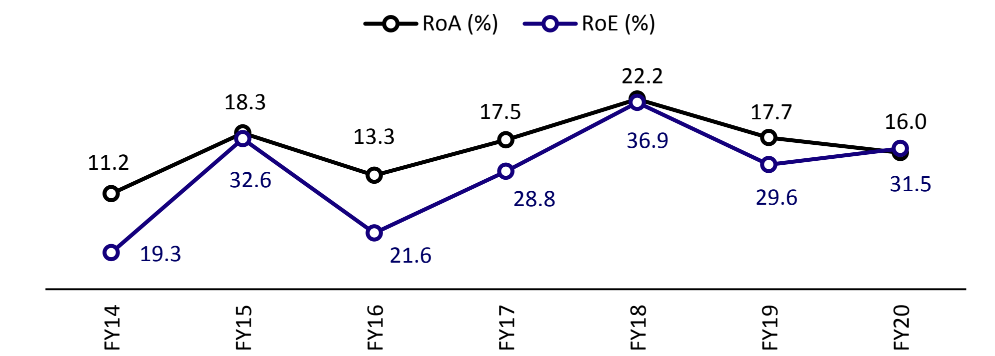
Source: MOFSL, Company

Exhibit 18: …while PAT growth was healthy at 64% YoY to INR1.7b



Source: MOFSL, Company

Exhibit 19: Return ratios remain strong for HDFC Securities, with RoE at ~32% for FY20



Source: MOFSL , Company

Exhibit 20: DuPont Analysis – return ratios would improve steadily

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	**4.25**	**4.21**	**4.16**	**4.18**	**4.05**	**4.07**	**4.20**	**4.23**
Core Fee Income	1.23	1.12	1.31	1.34	1.38	1.19	1.21	1.22
Trading and others	0.43	0.44	0.27	0.19	0.30	0.33	0.32	0.32
Non-Interest income	**1.65**	**1.56**	**1.58**	**1.53**	**1.68**	**1.52**	**1.54**	**1.54**
Total Income	**5.48**	**5.33**	**5.74**	**5.71**	**5.73**	**5.59**	**5.73**	**5.77**
Operating Expenses	**2.61**	**2.51**	**2.35**	**2.26**	**2.21**	**2.02**	**2.10**	**2.10**
Employee cost	0.88	0.82	0.71	0.67	0.69	0.64	0.68	0.67
Others	1.74	1.68	1.65	1.59	1.53	1.37	1.42	1.43
Operating Profits	**3.29**	**3.27**	**3.38**	**3.44**	**3.51**	**3.58**	**3.63**	**3.67**
Core operating Profits	**2.86**	**2.83**	**3.11**	**3.26**	**3.22**	**3.25**	**3.31**	**3.34**
Provisions	**0.42**	**0.46**	**0.61**	**0.65**	**0.88**	**1.04**	**0.97**	**0.93**
PBT	**2.87**	**2.82**	**2.77**	**2.79**	**2.64**	**2.54**	**2.66**	**2.74**
Tax	0.98	0.97	0.96	0.96	0.75	0.64	0.67	0.69
RoA	**1.89**	**1.85**	**1.81**	**1.83**	**1.89**	**1.90**	**1.99**	**2.05**
Leverage (x)	9.6	9.7	9.8	9.0	8.7	9.0	8.9	8.9
RoE	**18.3**	**17.9**	**17.9**	**16.5**	**16.4**	**17.0**	**17.8**	**18.2**

Financials and valuations

Income Statement

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR b)							
Interest Income	693.1	802.4	989.7	1,148.1	1,315.6	1,490.3	1,707.1
Interest Expense	361.7	401.5	507.3	586.3	644.3	692.2	773.2
Net Interest Income	**331.4**	**400.9**	**482.4**	**561.9**	**671.3**	**798.0**	**933.9**
Growth (%)	20.1	21.0	20.3	16.5	19.5	18.9	17.0
Non Interest Income	123.0	152.2	176.3	232.6	250.1	292.6	339.4
Total Income	**454.4**	**553.2**	**658.7**	**794.5**	**921.3**	**1,090.6**	**1,273.2**
Growth (%)	18.5	21.7	19.1	20.6	16.0	18.4	16.7
Operating Expenses	197.0	226.9	261.2	307.0	332.1	399.5	464.0
Pre Provision Profits	**257.3**	**326.2**	**397.5**	**487.5**	**589.3**	**691.1**	**809.2**
Growth (%)	20.4	26.8	21.8	22.6	20.9	17.3	17.1
Core PPP	**220.9**	**311.0**	**380.3**	**465.9**	**556.8**	**653.0**	**764.4**
Growth (%)	19.7	40.8	22.3	22.5	19.5	17.3	17.0
Provisions (excl. tax)	35.9	59.3	75.5	121.4	170.8	184.5	204.5
PBT	**221.4**	**267.0**	**322.0**	**366.1**	**418.4**	**506.5**	**604.8**
Tax	75.9	92.1	111.2	103.5	105.3	127.5	152.2
Tax Rate (%)	34.3	34.5	34.5	28.3	25.2	25.2	25.2
PAT	**145.5**	**174.9**	**210.8**	**262.6**	**313.1**	**379.0**	**452.5**
Growth (%)	18.3	20.2	20.5	24.6	19.2	21.1	19.4

Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	5.1	5.2	5.4	5.5	5.5	5.5	5.5
Reserves & Surplus	855.6	1,057.8	1,486.6	1,704.4	1,964.7	2,287.6	2,680.8
Net Worth	**860.7**	**1,063.0**	**1,492.1**	**1,709.9**	**1,970.2**	**2,293.1**	**2,686.3**
Deposits	6,436.4	7,887.7	9,231.4	11,475.0	13,517.6	15,815.6	18,662.4
Growth (%)	17.8	22.5	17.0	24.3	17.8	17.0	18.0
of which CASA Dep	3,091.5	3,430.9	3,912.0	4,846.3	5,596.3	6,626.7	7,931.5
Growth (%)	30.8	11.0	14.0	23.9	15.5	18.4	19.7
Borrowings	740.3	1,231.0	1,170.9	1,446.3	1,397.4	1,433.1	1,480.3
Other Liabilities & Prov.	601.0	457.6	551.1	673.9	761.6	845.3	929.9
Total Liabilities	**8,638.4**	**10,639.3**	**12,445.4**	**15,305.1**	**17,646.7**	**20,387.1**	**23,758.8**
Current Assets	489.5	1,229.2	813.5	866.2	1,208.1	1,310.9	1,460.3
Investments	2,144.6	2,422.0	2,931.2	3,918.3	4,329.7	4,935.8	5,676.2
Growth (%)	9.5	12.9	21.0	33.7	10.5	14.0	15.0
Loans	5,545.7	6,583.3	8,194.0	9,937.0	11,477.3	13,543.2	16,116.4
Growth (%)	19.4	18.7	24.5	21.3	15.5	18.0	19.0
Fixed Assets	36.3	36.1	40.3	44.3	48.8	53.6	59.0
Total Assets	**8,638.4**	**10,639.3**	**12,445.4**	**15,305.1**	**17,646.7**	**20,387.1**	**23,758.8**

Asset Quality

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
GNPA	58.9	86.1	112.2	126.5	167.9	233.4	281.8
NNPA	18.4	26.0	32.1	35.4	47.8	63.8	74.3
GNPA Ratio	1.1	1.3	1.4	1.3	1.4	1.7	1.7
NNPA Ratio	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Slippage Ratio	1.5	2.1	1.9	1.9	2.1	2.0	1.9
Credit Cost	0.6	0.8	0.9	1.0	1.5	1.4	1.3
PCR (Excl. Tech. write off)	68.7	69.8	71.4	72.0	71.5	72.7	73.6

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Yield & Cost Ratios (%)							
Avg. Yield-Earning Assets	**9.6**	**9.4**	**9.6**	**9.0**	**8.7**	**8.4**	**8.2**
Avg. Yield on loans	10.2	10.3	10.5	10.1	9.7	9.4	9.2
Avg. Yield on Inv.	7.8	7.2	7.6	6.1	6.5	6.3	6.1
Avg. Cost-Int. Bear. Liabilities	**5.5**	**4.9**	**5.2**	**5.0**	**4.6**	**4.3**	**4.1**
Avg. Cost of Deposits	5.3	4.6	4.8	4.9	4.4	4.1	4.0
Interest Spread	**4.2**	**4.5**	**4.4**	**4.0**	**4.1**	**4.1**	**4.1**
Net Interest Margin	**4.6**	**4.4**	**4.4**	**4.2**	**4.2**	**4.3**	**4.3**
Capitalization Ratios (%)							
CAR	14.6	14.8	17.1	18.5	18.2	17.5	17.0
Tier I	12.8	13.3	15.8	17.2	17.1	16.6	16.2
Tier II	1.8	1.6	1.3	1.3	1.1	0.9	0.8
Business and Efficiency Ratios (%)							
Loans/Deposit	86.2	83.5	88.8	86.6	84.9	85.6	86.4
CASA Ratio	48.0	43.5	42.4	42.2	41.4	41.9	42.5
Cost/Assets	2.3	2.1	2.1	2.0	1.9	2.0	2.0
Cost/Total Income	43.4	41.0	39.7	38.6	36.0	36.6	36.4
Cost/Core Income	45.8	42.2	40.7	39.7	37.4	38.0	37.8
Int. Expense/Int. Income	52.2	50.0	51.3	51.1	49.0	46.4	45.3
Fee Income/Total Income	21.8	22.8	23.5	24.1	21.3	21.2	21.1
Non Int. Inc./Total Income	27.1	27.5	26.8	29.3	27.1	26.8	26.7
Emp. Cost/Total Expense	32.9	30.0	29.7	31.0	31.8	32.3	32.0
Investment/Deposit	33.3	30.7	31.8	34.1	32.0	31.2	30.4

Valuation

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
RoE	17.9	17.9	16.5	16.4	17.0	17.8	18.2
RoA	1.8	1.8	1.8	1.9	1.9	2.0	2.1
RoRWA	2.4	2.4	2.4	2.6	2.8	2.9	2.9
Book Value (INR)	167.9	204.8	273.9	311.8	359.3	418.2	489.9
Growth (%)	16.9	22.0	33.8	13.8	15.2	16.4	17.1
Price-BV (x)	**8.7**	**7.2**	**5.4**	**4.7**	**4.1**	**3.5**	**3.0**
Adjusted BV (INR)	165.4	193.9	262.8	300.3	345.5	401.3	470.3
Price-ABV (x)	**8.9**	**7.6**	**5.6**	**4.9**	**4.2**	**3.7**	**3.1**
EPS (INR)	28.4	33.9	39.6	48.0	57.1	69.1	82.5
Growth (%)	16.7	19.4	16.9	21.2	18.8	21.1	19.4
Price-Earnings (x)	**51.7**	**43.2**	**37.0**	**30.5**	**25.7**	**21.2**	**17.8**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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