

Resilient Performance

CMP: INR 1,429

Rating: ACCUMULATE

Target Price: INR 1,683

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	550
Mkt Cap (INR Cr)	7,87,473
52w H/L (INR)	1,650 / 826
Avg Yearly Vol (in 000')	13,347

Shareholding Pattern %

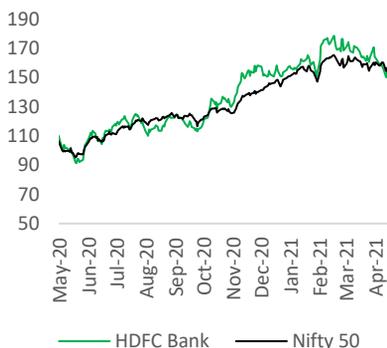
(As on March, 2021)

Promoters	26.0
FII	39.8
DII	21.0
Public & Others	13.3

Stock Performance (%)

	3m	6m	12m
HDFC Bank	-2.6	19.1	62.4
Nifty 50	1.3	24.3	62.6

HDFC Bank Vs Nifty



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HDFC Bank has posted good performance during Q4FY21 results with stable asset quality. In Q4FY21, there was a beat on NII and operating profit front but profit came in lower than our estimates due to contingency provision of INR 1300 cr made by the bank. Net interest income stood at INR 17,120 cr, increasing by +13% YoY/+5% QoQ as compared to our estimate of INR 16,742 cr. Operating profit for the quarter grew by 20% YoY/2.3% QoQ to INR 15,533 cr vs. our estimate of INR 14,849 cr. Profit for the quarter grew by 18% YoY to INR 8,187 cr against our estimate of INR 8,849 cr. Provisions for the quarter stood at INR 4,694 cr as against INR 3,414 cr in Q3FY21. Provisions includes INR 1300 cr of contingency buffer comprising of INR 800 cr towards additional contingent provisions and INR 500 cr on interest on interest reversal. With this the bank carries cumulative (floating + contingent) provision of INR 6,812 cr (0.6% of loans). On business growth front, the bank's loan book grew by +14% YoY/+5% QoQ to INR 11.32 lakh cr while deposits grew strongly by +16% YoY/+5% QoQ to INR 13.35 lakh cr on account of bank's strong customer loyalty. The advances growth was primarily driven by corporate lending at +22% YoY while retail loan growth stood at +7% YoY.

NIMs remained stable due to lower cost of funds : Despite having a 10-15bps excess liquidity impact on margins, NIM remained stable at 4.2%, largely due to 28bps fall in cost of funds at 3.7%. Yield on advances decreased to 8.8% (down by 27bps QoQ) due to fall in interest rates and high growth in corporate segment. The bank has made a buffer of INR 500 cr towards interest on interest reversal on loans above INR 2 cr and it is routed through provisions. If this had been adjusted through interest income, margins would have been lower by ~15 bps.

Corporate book growth remained strong: Overall advances grew by 14% YoY driven by corporate book growth of 22% YoY and retail portfolio growth of 7% YoY. In retail, gold loans continue to shine with 33% YoY/8% QoQ growth, housing loan was up by 11% YoY. Liability franchise of the bank remained strong with strong CASA growth of 27% YoY/13% QoQ. CASA ratio of the bank increased sharply from 43% to 46% on QoQ basis. The CASA increase was significantly led by strong growth in saving deposits by 30% YoY followed by 22% YoY growth in current deposits.

Strong outcome on asset quality: GNPA ratio of the bank improved marginally with reported GNPA at 1.32% vs. proforma GNPA of 1.38% in Q3FY21. Total credit cost for Q4FY21 was 1.64% including 1.1% of specific credit cost and 0.54% of contingency provisions. Restructuring was low at 0.6% of advances.

Valuation & View: HDFC Bank continued with its strong performance despite the challenging environment. With strong asset quality outcome, best-in-class deposit franchise, well cushioned balance sheet, comfortable capital level and gaining market share position, we maintain our positive outlook on the bank. We revise our earnings by 3%/6% for FY22/23E and maintain our Accumulate rating on the stock with a revised target price of INR 1,683 (earlier INR 1,647), valuing the bank at 3.6x FY23E P/ABV. But we would like to keep an eye on current wave of covid and its impact specially on SME and retail going forward. The RBI's suspension of new card acquisition due to tech outages remains an overhang for the near term.

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E	FY23E
NII	48,243	56,186	64,880	74,885	83,905
PPOP	39,750	48,750	57,362	63,994	73,200
PAT	21,078	26,257	31,117	36,162	43,584
BVPS (INR / Share)	273.9	311.8	369.5	418.7	478.0
NIM (%)	4.4%	4.2%	4.1%	4.1%	4.0%
RoA (%)	1.8%	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.5%	16.4%	16.6%	16.6%	17.6%
P/ABV (x)	5.3	4.7	4.0	3.5	3.1

Q4FY21 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Interest Income	30,424	30,080	29,885	1.1%	1.8%
Interest Expense	13,303	13,762	14,681	-3.3%	-9.4%
Net Interest Income	17,120	16,318	15,204	4.9%	12.6%
Non Interest Income	7,594	7,443	6,033	2.0%	25.9%
Total Income	24,714	23,761	21,237	4.0%	16.4%
Employee Costs	2,679	2,630	2,498	1.9%	7.2%
Other Operating Expenses	6,502	5,945	5,780	9.4%	12.5%
Operating Expenses	9,181	8,575	8,278	7.1%	10.9%
Pre-Provision Profit	15,533	15,186	12,959	2.3%	19.9%
Provisions	4,694	3,414	3,784	37.5%	24.0%
Profit Before Tax	10,839	11,772	9,174	-7.9%	18.1%
Tax Expense	2,653	3,014	2,247	-12.0%	18.1%
Net Profit	8,187	8,758	6,928	-6.5%	18.2%
Balance Sheet Analysis					
Deposits	13,35,060	12,71,124	11,47,502	5.0%	16.3%
CASA Deposits	6,15,682	5,46,747	4,84,625	12.6%	27.0%
CASA (%)	46.1%	43.0%	42.2%	310bps	388bps
Advances	11,32,837	10,82,324	9,93,703	4.7%	14.0%
Total Assets	17,46,871	16,54,228	15,30,511	5.6%	14.1%
Capital Adequacy Ratio (%)	18.8%	18.9%	18.5%	-10bps	30bps
Spread Analysis					
Yield on Avg Advances (%)	8.8%	9.0%	10.0%	-27bps	-119bps
Yield on Avg Interest Earning Assets (%)	7.4%	7.6%	8.5%	-23bps	-109bps
Cost of Funds (%)	3.7%	4.0%	4.7%	-28bps	-103bps
NIM (%)	4.2%	4.2%	4.3%	0bps	-11bps
Asset Quality					
Gross NPA	15,086	8,826	12,650	70.94%	19.26%
Net NPA	4,555	1,016	3,542	348.31%	28.58%
GNPA (%)	1.3%	0.8%	1.3%	51bps	6bps
NNPA (%)	0.4%	0.1%	0.4%	31bps	5bps
Key Ratios					
Cost to Income Ratio (%)	37.2%	36.1%	39.0%	106bps	-183bps
C/D Ratio (%)	84.9%	85.1%	86.6%	-29bps	-174bps
RoA (%) (annualized)	1.87%	2.12%	1.81%	-24bps	6bps

Source: Arianth Research, Company Filings

Key Concall Highlights

- During the quarter bank has opened 2 mn new liability accounts.
- Restructuring as per the RBI resolution framework for Covid is at 0.6% of the advances. Total restructuring is at INR 6,508 cr (Personal loans at INR 5,456 cr, Corporate at INR 445 cr and others at INR 608 cr).
- Slippages ratio for the quarter stood at 1.66% (vs. 1.86% last quarter on proforma basis).
- During the quarter, the bank has utilised INR 3600 cr provisions created in the previous quarter on proforma NPA.
- Total provisions (Specific, floating, contingency, general provisioning) is 153% of GNPA.
- Recoveries amounted to 25bps compared to 24bps in Q3FY21.
- GNPA excluding agri stood at 1.2%.
- Write-offs during the quarter amounted to INR 3500 cr
- Demand resolution has improved steadily since October'20 and it has reached pre-Covid in all segment.
- Cheque bounce rate from Oct'20 to Mar'21 has been improving. However, the trend has reversed a tad in April'21 due to second wave of Covid cases.
- Maharashtra, MP, Punjab and Telangana are showing some signs of stress.
- The average rating of incremental wholesale loans based on the bank's internal rating scale of 1-10 (1 is the best and 10 is the worst), is 4.24 while that of the outstanding book is 4.32 indicating that new loans which are coming to the book are of better quality.
- 62% of wholesale loans are rated AA and above, with a higher proportion of AAA.
- The average rating of the unsecured book is 3.36 which is better than 4.57 for the secured book.
- The bank has disbursed INR 26,534 cr under ECLGS. Most of the disbursements was towards ECLGS 1.0 where the risk of delinquency is low.
- The bank's focus is on improving infrastructure framework and security. The bank has partnered with tech companies for faster migration of the issues.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial is back to the profit with reported profit of INR 285 cr vs. loss of INR 44 cr in the previous quarter. GNPA ratio declined to 3.9% vs. proforma GNPA of 5.9% in previous quarter. AUM grew by 5% YoY to INR 58,947 cr.

Break-up of Domestic Retail Advances

in Cr.	Q4FY21	Q3FY21	Q4FY20	QoQ	YoY
Auto	84,392	81,880	83,935	3%	1%
Personal Loans	1,18,627	1,15,275	1,15,557	3%	3%
Home Loans	70,210	66,644	63,445	5%	11%
Business Banking	70,919	65,833	64,124	8%	11%
Kisan Gold card	47,868	42,648	43,301	12%	11%
Credit Cards	64,674	63,332	57,575	2%	12%
CV/CE	27,977	27,115	29,045	3%	-4%
Others	24,564	24,316	20,331	1%	21%
Two Wheelers	9,293	9,504	9,855	-2%	-6%
Gold Loans	7,221	6,696	5,430	8%	33%
Loans against securities	1,838	1,651	1,801	11%	2%
Total	5,27,586	5,04,897	4,94,401	4%	7%

Key Financials

INR Cr	FY19	FY20	FY21	FY22E	FY23E
Interest Income	98,972	1,14,813	1,20,858	1,35,505	1,52,348
Interest Expense	50,729	58,626	55,979	60,619	68,443
Net Interest Income	48,243	56,186	64,880	74,885	83,905
Non interest income	17,626	23,261	25,205	26,434	30,727
Operating income	65,869	79,447	90,084	1,01,320	1,14,632
- Employee expense	7,762	9,526	10,365	11,434	12,449
- Other operating expense	18,358	21,172	22,358	25,891	28,983
Operating Expense	26,119	30,698	32,723	37,325	41,433
PPOP	39,750	48,750	57,362	63,994	73,200
Provisions	7,550	12,142	15,703	15,389	14,619
PBT	32,200	36,607	41,659	48,605	58,580
Tax Expense	11,122	10,350	10,542	12,443	14,997
PAT	21,078	26,257	31,117	36,162	43,584
EPS (INR)	39.20	47.89	56.44	65.60	79.06

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Source of Funds					
Share capital	545	548	551	551	551
Reserves & Surplus	1,48,662	1,70,438	2,03,170	2,30,291	2,62,979
Net-worth	1,49,206	1,70,986	2,03,721	2,30,843	2,63,530
Borrowings	1,17,085	1,44,629	1,35,487	1,62,585	1,95,102
Deposits	9,23,141	11,47,502	13,35,060	15,48,670	17,96,457
Other liabilities & provisions	55,108	67,394	72,602	87,345	1,05,083
Total Equity & Liabilities	12,44,541	15,30,511	17,46,871	20,29,443	23,60,172
Uses of Funds					
Cash & bank balances	81,348	86,619	1,19,470	1,40,310	1,63,288
Net investments	2,90,588	3,91,827	4,43,728	5,00,750	5,65,098
Loans & advances	8,19,401	9,93,703	11,32,837	13,02,762	14,98,176
Fixed assets	4,030	4,432	4,909	4,508	4,587
Other assets	49,174	53,931	45,926	81,113	1,29,022
Total Assets	12,44,540	15,30,511	17,46,871	20,29,443	23,60,172

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
Growth Rates					
Advances (%)	24.5%	21.3%	14.0%	15.0%	15.0%
Deposits (%)	17.0%	24.3%	16.3%	16.0%	16.0%
Total assets (%)	17.0%	23.0%	14.1%	16.2%	16.3%
NII (%)	20.3%	16.5%	15.5%	15.4%	12.0%
Pre-provisioning profit (%)	21.8%	22.6%	17.7%	11.6%	14.4%
PAT (%)	20.5%	24.6%	18.5%	16.2%	20.5%
B/S Ratios					
Credit/Deposit (%)	88.8%	86.6%	84.9%	84.1%	83.4%
CASA (%)	42.4%	42.2%	46.1%	47.4%	48.8%
Advances/Total assets (%)	65.8%	64.9%	64.8%	64.2%	63.5%
Leverage - Total Assets to Equity	8.3	9.0	8.6	8.8	9.0
CAR (%)	14.8%	17.1%	15.8%	17.5%	16.6%
Operating efficiency					
Cost/income (%)	39.7%	38.6%	36.3%	36.8%	36.1%
Opex/total assets (%)	2.1%	2.0%	1.9%	1.8%	1.8%
Opex/total interest earning assets	2.4%	2.3%	2.1%	2.1%	2.0%
Profitability					
NIM (%)	4.4%	4.2%	4.1%	4.1%	4.0%
RoA (%)	1.8%	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.5%	16.4%	16.6%	16.6%	17.6%
Asset quality					
Gross NPA (%)	1.4%	1.3%	1.3%	1.5%	1.5%
Net NPA (%)	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	71.4%	75.0%	75.0%	75.0%	75.0%
Per share data / Valuation					
EPS (INR)	39.2	47.9	56.4	65.6	79.1
BVPS (INR)	273.9	311.8	369.5	418.7	478.0
ABVPS (INR)	268.0	305.3	361.3	409.8	467.5
P/E (x)	36.9	29.8	25.3	21.8	18.1
P/BV (x)	5.2	4.6	3.9	3.4	3.0
P/ABV (x)	5.3	4.7	4.0	3.5	3.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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