

Stable quarter; Overhang of RBI ban continues

- HDFC Bank reported in-line NII and PPOP growth of 13% and 20% YoY respectively. PAT growth at 18% was impacted by higher contingent provisions of Rs 13bn including Rs 5bn towards compound interest waiver.
- Annualized slippages trended lower and were in line with expectations at 1.66% (ex of pro forma slippages in previous quarters). **The bank added another Rs8bn to its standard provisioning buffers**, which continue to stand at over 0.6% of advances. Restructured portfolio stood at 0.6% of loans.
- NIM at 4.2% was tad below expectations led by sequentially higher investment book and surplus liquidity, even as improved cost of funds aided NIM.
- Lack of clarity over the timeline of RBI embargo on digital launches and new credit card issuance remains a key overhang over the near term.**
- The bank's subsidiary, HDB Financial, reported a 200 bps sequential decline in GNPA to 3.9% (vs pro forma numbers reported last quarter).
- Sequential loan growth of 4.7% was well distributed between retail and corporate. Key growth drivers for retail were business banking, home, PL and agri loans.
- Rising CASA share in deposits with CASA ratio at 46% against 43% a quarter ago, have been aiding the bank's CoF. **CASA deposits grew at 27% YoY and 13% QoQ. The bank acquired over 2.5mn corporate salary relationships during the year.**
- Large unutilized contingent provision buffers, along with strong capital position and exposure to top end customers across segments continue to provide significant comfort to earnings profile despite overhang of the RBI ban. **Improving operating metrics and lower tax rates remain key levers for improvement in normalized RoAs, which should inch higher by 20 bps to ~2.1%.** Marginally tweaking our forward estimates, **we maintain our BUY recommendation on the stock with a SOTP-based TP of Rs1800 (Rs 1,750 earlier), implying 3.7x FY23E P/ABV. The stock currently trades at 2.9x Sep-22E ABV.**

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net interest income	171,202	152,041	12.6	163,176	4.9
Other income	75,939	60,326	25.9	74,432	2.0
Total Net Income	247,141	212,366	16.4	237,608	4.0
Operating expenses	91,813	82,778	10.9	85,748	7.1
Pre-provision profits	155,328	129,588	19.9	151,860	2.3
Provisions	46,937	37,845	24.0	34,141	37.5
Tax expense	26,526	22,466	18.1	30,136	(12.0)
Reported Net Profit	81,865	69,277	18.2	87,583	(6.5)
			(bps)		(bps)
Advances growth (%)	14.0	21.3	(727)	15.6	(163)
NIM (%)	0.0	0.0	0	0.0	0
RoA (%)	2.0	2.0	2	2.2	(20)
RoE (%)	17.5	17.0	51	19.1	(166)
Gross NPA (%)	1.3	1.3	6	0.8	51

CMP	Rs 1,429
Target / Upside	Rs 1,800 / 26%
NIFTY	14,618

Scrip Details

Equity / FV	Rs 5,513mn / Rs 1
Market Cap	Rs 7,834bn
	USD 105bn
52-week High/Low	Rs 1,641/ 826
Avg. Volume (no)	10,154,200
Bloom Code	HDFCB IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	(4)	57
Rel to NIFTY (%)	(3)	(4)	3

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	26.1	26.0	26.0
MF/Banks/FIs	18.5	18.8	21.2
FIs	37.0	37.4	39.8
Public / Others	55.0	54.8	52.4

Valuation (x)

	FY21A	FY22E	FY23E
P/E	25.3	19.7	16.5
P/ABV	4.0	3.4	2.9
ROAA	1.9	2.1	2.1
ROAE	16.6	18.1	18.5

Estimates (Rs mn)

	FY21A	FY22E	FY23E
NII	648,796	764,521	904,713
PPOP	573,619	646,549	784,660
PAT	311,165	399,380	477,713
Adj BV	361.3	421.7	498.0

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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	171,202	170,468	0.4	
Operating Profit	155,328	148,424	4.7	
PAT	81,865	87,364	(6.3)	High contingent provisions including those made towards compound interest waiver

Source: Company, DART

Exhibit 2: Change in Estimates

	Previous		Revised		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Oper. Revenues	1,025,301	1,223,314	1,025,969	1,220,992	0.1	(0.2)
Pre Provision Profits	649,151	790,741	646,549	784,660	(0.4)	(0.8)
PAT	387,907	489,708	399,380	477,713	3	(2.4)

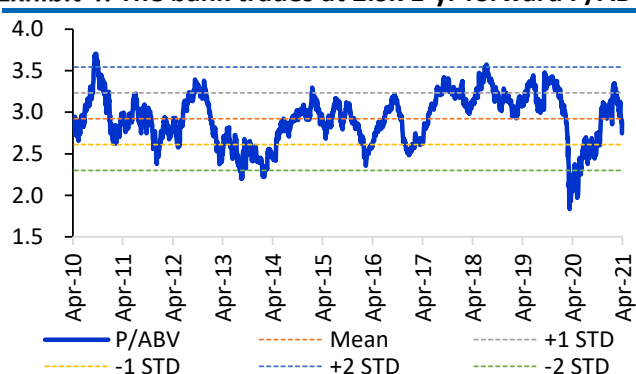
Source: Company, DART

Exhibit 3: SOTP Valuation

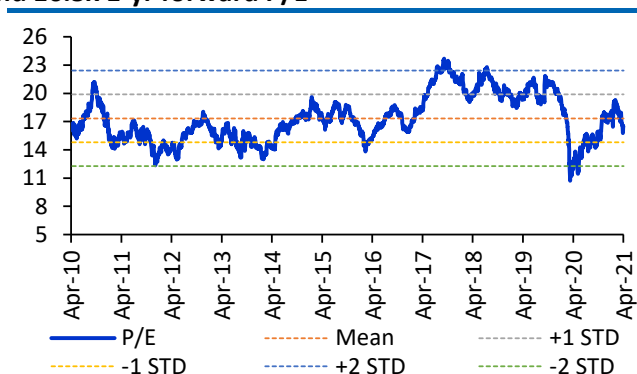
Particulars	Per Share Value (Rs)	Methodology
HFDC Bank	1,764	3.5x FY22E ABV
HDB Financial	36	2x FY22E ABV
HDFC Securities	13	15x FY22E EPS
Value of Subs. & Investments	49	
Holdco. Discount	15%	
Value of Bank	1,800	

Source: Company, DART

Exhibit 4: The bank trades at 2.9x 1-yr forward P/ABV and 16.5x 1-yr forward P/E

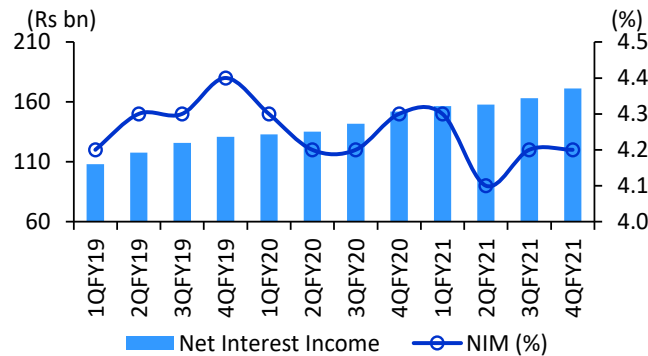


Source: DART, Company



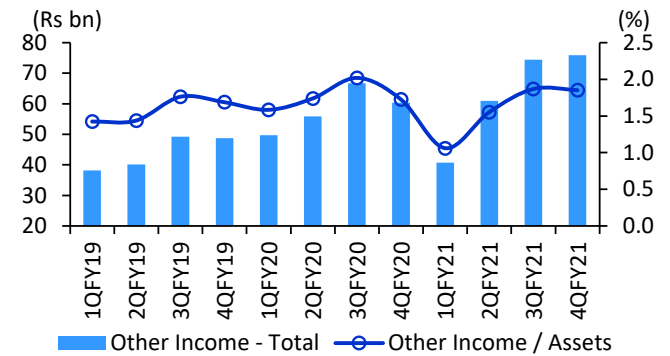
Source: DART, Company

Exhibit 5: Despite rising retail share, NIM were stable QoQ led by surplus liquidity



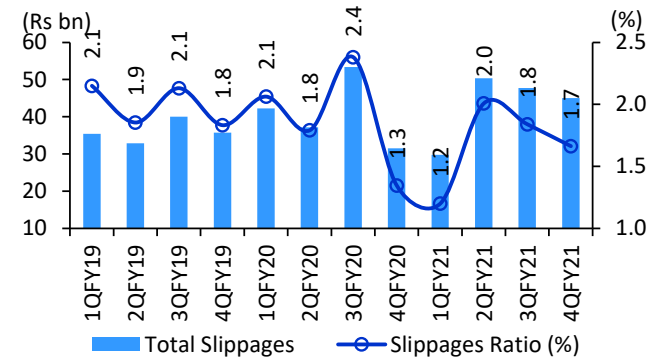
Source: Company, DART

Exhibit 6: Other income aided by retail fees and recoveries even as treasury gains moderate



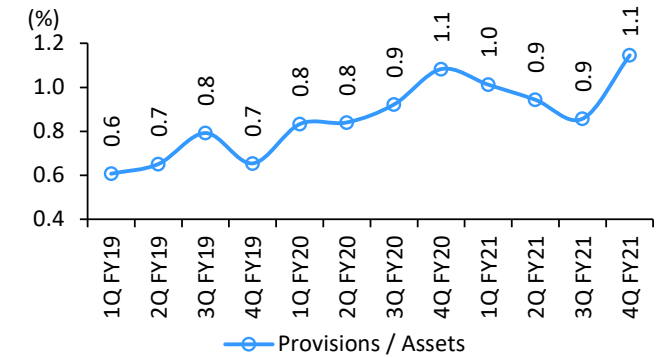
Source: Company, DART

Exhibit 7: Annualized slippages trended lower as anticipated



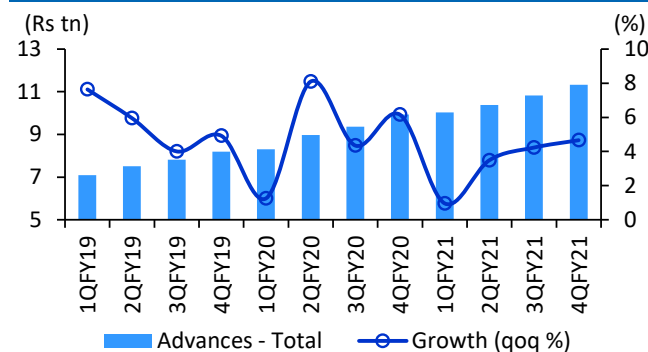
Source: Company, DART

Exhibit 8: Rise in credit costs driven by higher contingency buffers



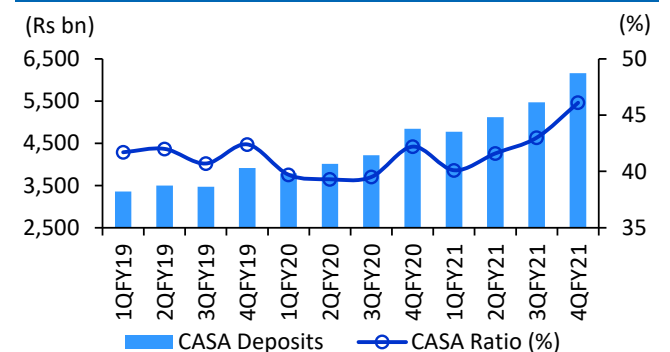
Source: Company, DART

Exhibit 9: Advances growth remains well distributed between retail and wholesale



Source: Company, DART

Exhibit 10: CASA ratio strengthening



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4FY21	Q4FY20	% yoy / bps	Q3FY21	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc.	304,236	298,851	1.8	300,797	1.1	1,208,582	1,148,127	5.3
Interest Expenses	133,034	146,810	(9.4)	137,621	(3.3)	559,787	586,264	(4.5)
Net Interest Income	171,202	152,041	12.6	163,176	4.9	648,796	561,863	15.5
NII to Net Operative Income	69.3	71.6	(232)	68.7	60	72.0	70.7	130
NIM (%)	4.2	4.3	(10)	4.2	-	4.2	4.3	(5)
Fees & commissions	50,233	42,008	19.6	49,749	1.0	161,692	163,337	(1.0)
FX & Derivatives	8,793	5,008	75.6	5,622	56.4	24,385	21,548	13.2
Profit on Sale / Rev of Investments	6,551	5,653	15.9	11,090	(40.9)	38,670	19,345	99.9
Miscellaneous income	10,362	7,657	35.3	7,971	30.0	27,302	28,381	(3.8)
Other Income - Total	75,939	60,326	25.9	74,432	2.0	252,049	232,608	8.4
Other Income to Net Operative Income	30.7	28.4	232	31.3	(60)	28.0	29.3	(130)
Net Operating Revenue	247,141	212,366	16.4	237,608	4.0	900,845	794,471	13.4
Employee Expenses	26,789	24,983	7.2	26,301	1.9	103,648	95,257	8.8
Empl. Cost/Oper. Exps.	10.8	11.8	(92)	11.1	(23)	11.5	12.0	(48)
Other Opex	65,024	57,796	12.5	59,447	9.4	223,578	211,719	5.6
Other Opex/ Assets	0.4	0.4	(2)	0.4	2	1.4	1.5	(16)
Total Opex	91,813	82,778	10.9	85,748	7.1	327,226	306,975	6.6
Cost to Income Ratio (%)	37.2	39.0	(183)	36.1	106	36.3	38.6	(231)
Pre-Provision Profits	155,328	129,588	19.9	151,860	2.3	573,619	487,496	17.7
Provisions & Contingencies - Total	46,937	37,845	24.0	34,141	37.5	157,029	121,424	29.3
NPA Provisions as % Oper. Income	30.2	29.2	102	22.5	774	27.4	24.9	247
Profit Before Tax	108,391	91,750	18.1	117,719	(7.9)	416,590	366,072	13.8
Tax	26,526	22,466	18.1	30,136	(12.0)	105,425	103,498	1.9
Effective Tax Rate (%)	24.5	24.5	(1)	25.6	(112.8)	25.3	28.3	(297)
Reported Profits	81,865	69,284	18.2	87,583	(6.5)	311,165	262,573	18.5
RoA (%)	2.0	2.0	4	2.2	(20.0)	1.9	2.0	(11)
Basic EPS	14.9	12.6	18.3	15.9	(6.3)	56.6	48.0	17.9

Balance Sheet Analysis	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Net Worth	1,709,860	1,779,547	1,861,124	1,951,443	2,037,208	4.4	19.1
CET1 (%)	16.4	16.7	17.0	16.8	16.9	10	50
Tier 1 (%)	17.2	17.5	17.7	17.6	17.6	-	40
Total CAR (%)	18.5	18.9	19.1	18.9	18.8	(10)	30
RWA - Total	9,947,160	10,107,740	10,374,830	10,917,210	11,311,440	3.6	13.7
Advances - Total	9,937,029	10,032,989	10,383,351	10,823,242	11,328,366	4.7	14.0
Investments	3,918,267	3,793,504	4,139,651	4,143,762	4,437,283	7.1	13.2
Total Assets	15,305,113	15,451,033	16,094,280	16,542,278	17,468,705	5.6	14.1
RoA (%)	1.96	1.76	1.92	2.20	2.00	(20)	4
Deposits	11,475,023	11,893,873	12,293,104	12,711,239	13,350,602	5.0	16.3
Saving Deposit	3,103,770	3,273,580	3,484,320	3,746,390	4,035,000	7.7	30.0
Current Deposit	1,742,480	1,500,770	1,630,190	1,721,808	2,121,820	23.2	21.8
CASA Deposits	4,846,250	4,774,350	5,114,510	5,468,198	6,156,820	12.6	27.0
CASA Ratio (%)	42.2	40.1	41.6	43.0	46.1	310	390
Term Deposits	6,628,773	7,119,523	7,178,594	7,243,041	7,193,782	(0.7)	8.5
Interest Bearing Liabilities - Total	12,921,309	13,057,763	13,618,904	13,912,540	14,705,476	5.7	13.8

Movement of NPA (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Gross Advances	10,039,659	10,127,544	10,467,222	10,895,753	11,428,788	4.9	13.8
Gross NPA	126,500	137,735	113,046	88,256	150,860	70.9	19.3
Gross NPA Ratio (%)	1.26	1.36	1.08	0.81	1.32	51	6
PCR - Calculated (%)	72.0	76.2	84.5	88.5	69.8	(1,868)	(219)
Net Advances	9,839,889	9,939,273	10,329,882	11,288,778	11,387,050	0.9	15.7
Net NPA	35,424	32,800	17,561	10,160	45,548	348.3	28.6
Net NPAs Ratio (%)	0.36	0.33	0.17	0.09	0.40	31	4
Reported Profits	69,284	66,593	75,131	87,583	81,865	(6.5)	18.2
RoA (%)	1.96	1.76	1.92	2.20	2.00	(20)	4

Loan Book Analysis (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Auto	839,350	810,820	796,640	818,800	843,920	3	1
Personal loans	1,155,570	1,115,670	1,124,460	1,152,750	1,186,270	3	3
Home	634,450	626,520	628,470	666,440	702,100	5	11
KGC	433,010	400,240	435,360	426,480	478,680	12	11
CC	575,750	546,980	581,420	633,320	646,740	2	12
CV/CE	290,450	278,010	269,800	271,150	279,770	3	-4
Others	203,310	199,450	207,680	243,160	245,640	1	21
Two Wheelers	98,550	95,680	94,940	95,040	92,930	(2)	(6)
Gold Loans	54,300	55,710	60,390	66,960	72,210	8	33
LAS	18,010	15,010	15,760	16,510	18,380	11	2
Total Retail	4,944,010	4,750,050	4,850,040	5,048,970	5,275,860	4.5	7
Retail (ex-business banking)	4,302,770	4,144,090	4,214,930	4,390,640	4,566,670	4.0	6
Business banking	641,240	605,960	635,110	658,330	709,190	7.7	11
Corporate	4,351,779	4,676,979	4,898,201	5,115,942	5,343,316	4.4	23
Total advances	9,937,029	10,032,989	10,383,351	10,823,242	11,328,366	4.7	14

Conference Call Highlights

Asset Quality –

- ~Rs 36bn of contingent provisions made towards pro-forma NPAs have been utilized against specific provisions on recognised NPAs
- GNPA ex-agri stood at 1.2%; Restructuring stood at 60bps
- Rs 13bn of contingent provisions made during the quarter includes ~Rs 5bn related to reversal of interest on interest
- Credit cost for Q4 stood at 1.01%; while slippages stood at 1.66% (annualized)
- Recoveries stood at 25bps of gross advances vs 24/21bps for Q3FY21/Q4FY20
- Share in high Bureau scores remains superior vs industry
- Agri book has held up well and remains unaffected by the pandemic

Wholesale portfolio –

- NPAs have been small and should come down further once restructuring processes are completed.
- The bank now has ~Rs 6tn of customer assets (including investments) a ~26% YoY growth. Large corporates assets growth at ~41.8% YoY / 4% QoQ provided strong earnings momentum.

Exhibit 11: Average Internal Scale Rating

Type of exposure	Rating
Incremental advances	4.24
Top 20 borrowers	2.92 (weighted average)
Static portfolio	4.33 (o/s advances basis)
Unsecured exposure	3.36
Secured exposure	4.57

Source: Company

SME portfolio –

- The Dec-March period (4 months) witnessed return of cash flows to the bank which have also benefitted the 30+ book (bulk of which was due to repayments vs impact due to restructuring)
- Restructuring stood at ~Rs 5.5bn of which ~Rs 2-2.5bn were under some form of delinquency at the time of restructuring. Few customers have refused to restructure their loans and have preferred/promised to repay
- **Earnings potential of the MSME book (1/5th of the total book) is estimated at ~2-2.5x of large corporate book given the risk profile.** Small and mid SMEs are poised to surpass private sector large corporate book in 12-18 months thus adding an additional earnings pillar for the bank
- Not getting much requests for WCL enhancements

Retail Portfolio –

- Demand resolution improved steadily across all products (apart from SLI) are nearly at pre-COVID levels. Cheque bounces in April however saw an upward tick vs March and are nearer to Jan-21 levels. MH, MP, PB, TL are the major states where bounce levels have witnessed a sharp uptick. However, bounce resolutions are back to pre-COVID levels.
- Recovery trends have improved especially in accounts that were delinquent pre-COVID.
- The bank sold assets worth ~Rs 10bn
- Focus on segmental market share expansion in FY22

HDB Financial –

- Supply side shocks have impacted performance however collections reached pre-covid levels in Q4. All segments continue to grow with LAP and business loans as a major contributor

Exhibit 12: HDB Financial – Key Parameters for the quarter

Particulars	
AUM (Rs bn)	613.6
NII (Rs bn)	12.5
PPoP (Rs bn)	9.89
Provisions (Rs bn)	6.13
PAT (Rs bn)	2.84
GNPA %	3.9
CRAR %	19

Source: Company

Digital Outages / Credit Cards update –

- Intermittent issue due to server-hardware issues. Hardware failure impacted the sessions and logins
- Making good progress in addressing the said problems – security, recovery, optimization of recovery times, infra expansion, etc
- Audit is in final stages and bank is awaiting the final report from the regulator
- The bank is making continuous investments in improving credit card spends for existing customers and expects to make up loss of customers within a short period once the ban is lifted (owing to its pre-approved internal customer base).
- Payments side showed good progress in transactions with a brief revival in the merchant-travel segment, which has now subsided.
- Focus on improving spends across categories like electronics and essential items.

Other Highlights –

- The bank has also tied up with 37 hospitals for patient funding via personal loans/CC
- Opened ~2mn / 7mn relationships during Q4/FY21. ~2.5mn corporate salary relationships acquired during FY21
- Adopted new approach for customer engagement based on service-led requirements
- Digital CASA accretion was helped by Video-KYC which enabled customers to finish the KYC process in ~5 minutes
- Management anticipates opex / CI-ratio to rise as level of activity picks up and the bank starts making investments
- Margin expansion driven largely by lower cost of funding, yield and ALM management

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E
Interest Income	1,148,127	1,208,582	1,431,779	1,730,195
Interest expenses	586,264	559,787	667,259	825,482
Net interest income	561,863	648,796	764,521	904,713
Other incomes	232,608	252,049	261,448	316,279
Total expenses	306,975	327,226	379,420	436,333
- Employee cost	95,257	103,648	122,305	140,650
- Other	211,719	223,578	257,115	295,682
Pre provisioning profit	487,495	573,619	646,549	784,660
Provisions	121,424	157,029	112,904	146,347
Profit before taxes	366,071	416,590	533,646	638,313
Tax provision	103,498	105,425	134,265	160,599
Profit after tax	262,573	311,165	399,380	477,713
Adjusted profit	262,573	311,165	399,380	477,713

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	5,483	5,513	5,513	5,513
Reserves & Surplus	1,704,377	2,031,695	2,370,843	2,788,323
Minority Interest	0	0	0	0
Net worth	1,709,860	2,037,208	2,376,356	2,793,836
Borrowings	1,446,285	1,354,873	1,553,663	2,071,364
- Deposits	11,475,023	13,350,602	15,709,259	18,642,278
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	673,944	726,022	730,033	673,854
Total Liabilities	15,305,113	17,468,705	20,369,311	24,181,333
Application of Funds				
Cash and balances with RBI	866,187	1,194,704	1,377,222	1,529,044
Investments	3,918,267	4,437,283	5,108,775	5,805,912
Advances	9,937,029	11,328,366	13,254,189	16,037,568
Fixed assets	43,877	49,093	55,051	62,513
Other current assets, loans and advances	539,311	459,259	574,074	746,296
Total Assets	15,304,670	17,468,705	20,369,311	24,181,333

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Yield on advances	10.1	8.9	9.2	9.3
Yields on interest earning assets	8.6	7.6	7.8	8.0
Yield on investments	6.0	0.6	5.5	6.0
Costs of funds	5.0	4.1	4.2	4.3
Cost of deposits	4.9	3.9	4.1	4.3
NIMs	4.2	4.1	4.2	4.2
(B) Asset quality and capital ratios (%)				
GNPA	1.3	1.3	1.3	1.2
NNPA	0.4	0.4	0.4	0.3
PCR	72.0	70.0	71.0	75.0
Slippages	2.1	1.7	1.9	1.9
NNPA to NW	2.1	2.2	2.2	1.7
CASA	42.4	46.1	46.0	46.0
CAR	18.5	18.8	18.6	18.2
Tier 1	17.2	17.6	17.5	17.2
Credit - Deposit	86.6	84.9	84.4	86.0
(C) Dupont as a percentage of average assets				
Interest income	8.3	7.4	7.6	7.8
Interest expenses	4.2	3.4	3.5	3.7
Net interest income	4.0	4.0	4.0	4.1
Non interest Income	1.7	1.5	1.4	1.4
Total expenses	2.2	2.0	2.0	2.0
- cost to income	38.6	36.3	37.0	35.7
Provisions	0.9	1.0	0.6	0.7
Tax	0.7	0.6	0.7	0.7
RoA	1.9	1.9	2.1	2.1
Leverage	9.0	8.6	8.6	8.7
RoE	16.4	16.6	18.1	18.5
RoRwa	2.6	2.8	3.0	3.0
(D) Measures of Investments				
EPS - adjusted	47.9	56.4	72.4	86.7
BV	311.8	369.5	431.1	506.8
ABV	305.4	361.3	421.7	498.0
DPS	0.0	0.0	9.0	9.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	16.5	15.5	17.8	18.3
PPoP	22.6	17.7	12.7	21.4
Adj PAT	24.6	18.5	28.3	19.6
Advances	21.3	14.0	17.0	21.0
Total borrowings	23.5	(6.3)	14.7	33.3
Total assets	23.0	14.1	16.6	18.7
(F) Valuation Ratios				
Market Cap (Rs. mn)	7,833,717	7,833,717	7,833,717	7,833,717
CMP (Rs.)	1429	1429	1429	1429
P/E (x)	29.8	25.3	19.7	16.5
P/BV (x)	4.6	3.9	3.3	2.8
P/ABV (x)	4.7	4.0	3.4	2.9
Div Yield (%)	0.0	0.0	0.6	0.6

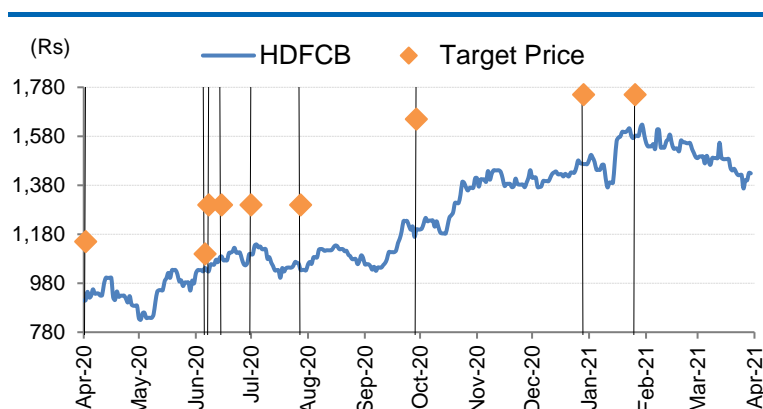
E – Estimates

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.)
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
Jan-21	Buy	1,750	1,467
Feb-21	Buy	1,750	1,582

*Price as on recommendation date

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