

HDFC Bank

Refer to important disclosures at the end of this report

Accelerated provisions suppress PAT in Q4; constant tech outages remain an irritant

- Despite stable NIMs and higher fees leading to a beat on PPOP, the bank reported slightly lower PAT at Rs81.8bn (up 18% yoy) vs. est. of Rs83bn, mainly due to additional contingent provisions of Rs8bn amid raging second Covid wave and Rs5bn for interest-on-interest waiver.
- Retail credit growth remained subdued at 8% yoy due to the bank's cautious stance and the RBI's suspension of new card acquisition. Corporate growth remains very strong, leading to retail share slipping to 47%. As a strategy, the bank would continue to capture market share in corporate loans and has built a strong SME portfolio (20% of the total portfolio). It expects this to be a strong earnings driver, going forward.
- Reported NPAs were lower qoq at 1.3% vs. 1.4% (pro forma) in Q3, but the bank sees rising incidence of EMI bounces in the system due to localized lockdowns implemented after Covid-19 second wave. The bank remains confident of its superior portfolio quality but as a matter of prudence, it carries a reasonable contingent buffer (Rs68bn; 0.6% of loans) after consuming Rs36bn in Q4, as NPA recognition has begun.
- We maintain Buy on the bank with a TP of Rs1,850 given its cross-cycle best asset-quality, strong franchisee/capital profile, better growth outlook and superior return profile. However, the RBI's suspension of new card acquisition due to continued tech outages remains an overhang on the stock.

Retail growth remains sluggish but is up scaling corporate, SME book to drive growth: Retail credit growth remains sluggish at 8% yoy vs. systemic growth of 9% yoy due to the bank's cautious stance, continued RBI suspension of new card acquisition and part sell-off of the portfolio. We believe retail growth could remain lackluster in the near term, as localized lockdowns due to the raging second Covid wave could delay growth/asset-quality normalization. Corporate growth remains healthy at 22% yoy, as the bank continues to capture market share from PSBs. It expects corporate capex cycle to revive from H2FY22 with early signs of capex visible in select sectors, including auto-ancillary, food industry, pharma and metals. In our view, the rising share of corporate book may be margin-negative in the interim, but it should yield good fees and further bring down the cost ratios for the bank. That said, the bank has also built a healthy SME book (18-20% of portfolio) in which revenue per customer is far higher (>2x) than corporate, and thus should partly offset the pressure on NIMs.

Stable asset quality but prefers to maintain reasonable contingent buffer as asset-quality normalization could be delayed due to second Covid wave: The bank has reported a slight improvement in its GNPA ratio at 1.32% vs. pro forma GNPA ratio of 1.38% in Q3, while its NBFC subsidiary HDB Financial Services also has reported a reduction in GNPA to 3.9% vs. pro forma GNPA of 5.9% in Q3, mainly led by heavy w-offs. After witnessing meaningful improvement in Jun'20-Mar'21 period, the bank is seeing rising incidence of EMI bounces in the system due to localized lockdowns induced by the second Covid wave. HDFC Bank has done stress testing similar to last year and believes that there will be limited asset-quality disruption in its portfolio. However, as a matter of prudence, it has made additional contingent provisions of Rs8bn, and thus carries a reasonable contingent buffer (Rs68bn; 0.6% of loans) after consuming Rs36bn in Q4 toward specific provisions/w-offs.

Outlook and valuations: The RBI's suspension of new card acquisition due to continued tech outages remains an irritant. Management clarified that the net/mobile banking outage in Mar'21 was mainly due to compatibility issues between hardware and software rather than capacity constraints, and that it has already detailed plan to minimize such outages but is awaiting clearance from the RBI. We retain Buy/OW stance in EAP with a TP of Rs1,850, valuing the core bank now at 3.6x FY23E P/ABV and subs at Rs57/share. Key risks: delay in lifting credit card issuance suspension, tail-end asset quality risks and management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	794,471	891,729	1,032,195	1,224,208	1,466,758
Net profit	262,570	312,394	376,007	450,990	530,333
EPS (Rs)	48.0	56.9	68.3	81.9	96.2
ABV (Rs)	308.0	365.4	425.6	497.3	576.0
RoA (%)	1.9	1.9	2.0	2.0	2.0
RoE (%)	16.4	16.7	17.1	17.5	17.7
PE (x)	29.7	25.1	20.9	17.4	14.8
P/ABV	4.6	3.8	3.2	2.8	2.4

Source: Company, Emkay Research

CMP	Target Price
Rs 1,428 as of (April 18, 2021)	Rs 1,850 (■) 12 months
Rating	Upside
BUY (■)	29.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(0.2)/(0.2)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	Buy

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	68.3	81.9
Consensus	69.7	82.3
Mean Consensus TP (12M)	Rs 1,738	

Stock Details

Bloomberg Code	HDFCB IN
Face Value (Rs)	1
Shares outstanding (mn)	5,513
52 Week H/L	1,789 / 826
M Cap (Rs bn/USD bn)	7,875 / 105.91
Daily Avg Volume (nos.)	10,537,040
Daily Avg Turnover (US\$ mn)	213.3

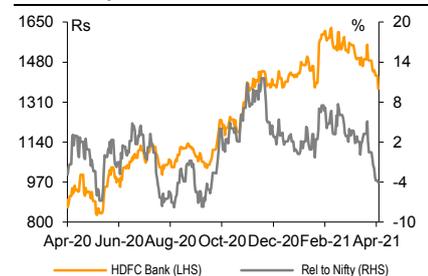
Shareholding Pattern Dec '20

Promoters	21.2%
FIIIs	32.0%
DIIIs	17.5%
Public and Others	29.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(3)	19	62
Rel. to Nifty	(4)	(4)	(4)	-

Relative price chart



Source: Bloomberg

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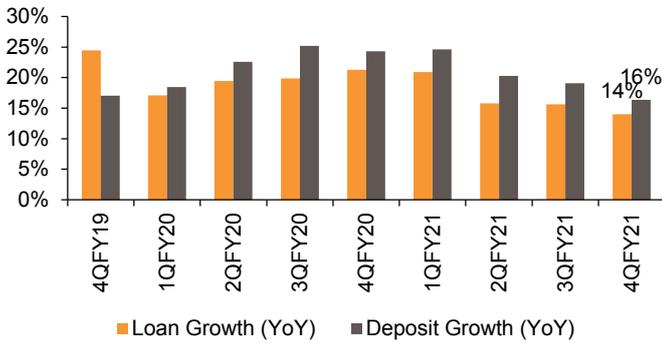
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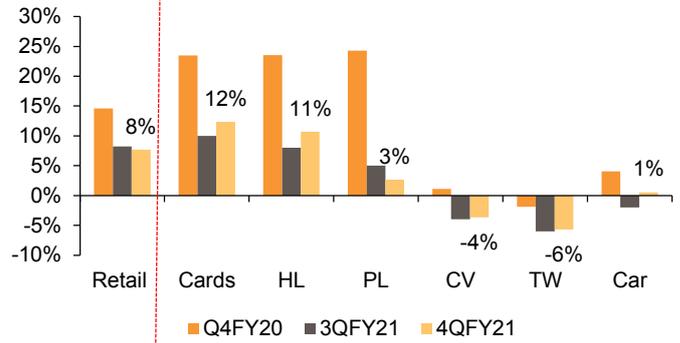
Story in Charts

Exhibit 1: Credit growth has moderated a bit due to continued sluggishness in retail



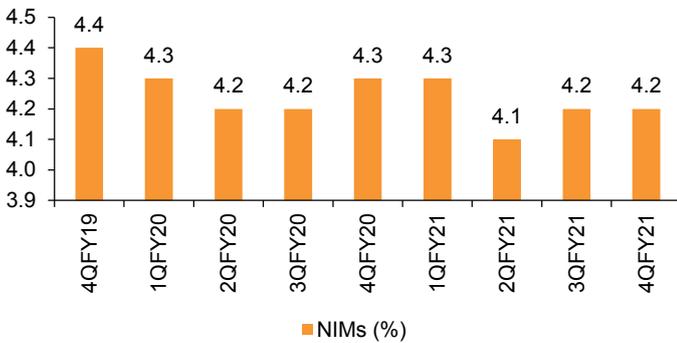
Source: Company, Emkay Research

Exhibit 2: Retail loan growth is dragged mainly by CV, Auto and PL



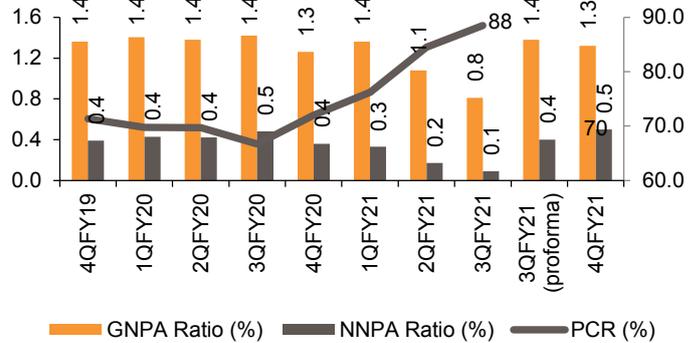
Source: Company, Emkay Research

Exhibit 3: NIMs remained stable mainly due to lower CoF



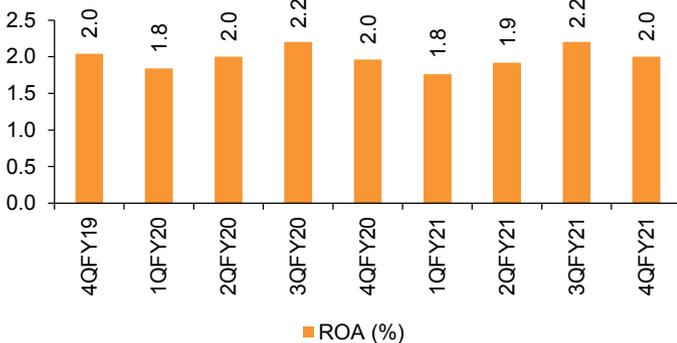
Source: Company, Emkay Research

Exhibit 4: Bank recognized fresh slippages of Rs46bn (Rs1.6%) in Q4 in addition to loans under SC stay



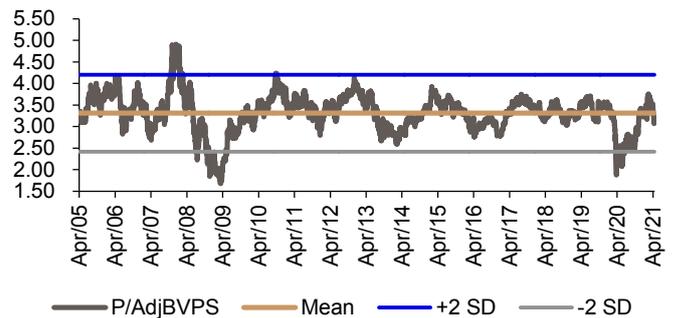
Source: Company, Emkay Research

Exhibit 5: Healthy RoA trajectory, mainly on strong fees and contained cost ratios



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 3.2x; 1-year forward ABV, adjusted for subsidiaries' valuation



Source: Bloomberg, Emkay Research

Exhibit 7: Actual vs. estimates (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	247,141	238,025	241,821	4%	2%	Stable margin, higher fee led to a beat
PPOP	155,328	147,478	148,741	5%	4%	Better net income supported PPOP
PAT	81,865	83,097	84,360	-1%	-3%	Higher LLP led to a miss

Source: Company, Emkay Research

Exhibit 8: Quarterly summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21A	FY22E	YoY (%)
Interest Earned	298,851	303,780	299,770	300,797	304,236	2	1	1,208,582	1,416,588	17
Interest Exp	146,810	147,126	142,006	137,621	133,034	-9	-3	559,787	636,249	14
Net Interest Income	152,041	156,654	157,764	163,176	171,202	13	5	648,796	780,339	20
Global NIMs (reported)	4.30	4.30	4.10	4.20	4.20	-10bps	0bps	4.11	4.28	17bps
Non-interest Income	60,326	40,753	60,925	74,432	75,939	26	2	252,049	270,844	7
Operating Expenses	82,778	69,114	80,551	85,748	91,813	11	7	327,226	386,261	18
Pre Provisioning Profit	129,589	128,293	138,138	151,860	155,328	20	2	573,619	664,921	16
Provision & Contingencies	37,845	38,915	37,035	34,141	46,937	24	37	157,029	162,234	3
PBT	91,744	89,378	101,103	117,719	108,391	18	-8	416,590	502,687	21
Income Tax Expense (Gain)	22,466	22,791	25,972	30,136	26,526	18	-12	105,425	126,677	20
Net Profit/(Loss)	69,278	66,586	75,131	87,583	81,865	18	-7	311,166	376,010	21
Gross NPA (%)	1.26	1.36	1.08	0.81	1.32	6bps	51bps	1.32	1.36	4bps
Net NPA (%)	0.36	0.33	0.17	0.09	0.50	14bps	41bps	0.40	0.34	-6bps
Deposits (Rs bn)	11,475	11,894	12,293	12,711	13,351	16	5	13,351	15,732	18
Net Advances (Rs bn)	9,937	10,033	10,383	10,823	11,328	14	5	11,328	13,467	19

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	1,032,195	1,051,182	1.8%	1,224,208	1,234,116	0.8%	1,466,758
PPOP	650,028	664,921	2.3%	765,813	770,919	0.7%	908,215
PAT	376,010	376,010	0.0%	450,993	450,993	0.0%	530,336
EPS (Rs)	68.3	68.2	-0.2%	81.9	81.8	-0.2%	96.2
BV (Rs)	430.8	432.7	0.5%	504.7	504.6	0.0%	585.8

Source: Emkay Research

Exhibit 10: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	14.0	18.9	22.0	20.0
Deposit Growth %	16.3	17.8	21.0	21.1
NIM %	4.1	4.3	4.3	4.3
GNPA %	1.3	1.4	1.4	1.4
Credit Cost %	1.5	1.3	1.1	1.1

Source: Emkay Research

Exhibit 11: Key trends and ratios

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans (Rs bn)	8,195	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,328
YoY growth (%)	24.5	17.1	19.5	19.9	21.3	20.9	15.8	15.6	14.0
QoQ growth (%)	4.9	1.2	8.1	4.4	6.2	1.0	3.5	4.2	4.7
Deposits (Rs bn)	9,231	9,546	10,216	10,674	11,475	11,894	12,293	12,711	13,351
YoY growth (%)	17.0	18.5	22.6	25.2	24.3	24.6	20.3	19.1	16.3
QoQ growth (%)	8.3	3.4	7.0	4.5	7.5	3.7	3.4	3.4	5.0
CA (Rs bn)	1425	1257	1368	1439	1742	1501	1630	1721	2122
SA (Rs bn)	2487	2533	2644	2779	3104	3274	3484	3746	4035
CASA %	42.4	39.7	39.3	39.5	42.2	40.1	41.6	43.0	46.1
CA %	15.4	13.2	13.4	13.5	15.2	12.6	13.3	13.5	15.9
SA %	26.9	26.5	25.9	26.0	27.0	27.5	28.3	29.5	30.2
NIM %	4.4	4.3	4.2	4.2	4.3	4.3	4.1	4.2	4.2
Branches	5,103	5,130	5,314	5,345	5,416	5,326	5,430	5,485	5,608
Asset Quality & Capital Adequacy (%)									
GNPA	1.36	1.40	1.38	1.42	1.26	1.36	1.08	0.81	1.32
NNPA	0.39	0.43	0.42	0.48	0.36	0.33	0.17	0.09	0.50
PCR	71.3	69.4	69.6	66.2	71.4	75.7	84.3	88.9	62.1
CAR	17.1	16.9	17.5	18.5	18.5	18.9	19.1	18.9	18.8
Tier I	15.8	15.6	16.2	17.1	17.2	17.5	17.7	17.6	17.6
ROE Decomposition (%)									
NII	4.3	4.2	4.2	4.2	4.2	4.1	4.0	4.0	4.0
Other Income (Ex Treasury)	1.5	1.5	1.6	1.8	1.5	0.8	1.3	1.6	1.6
Opex	2.4	2.3	2.3	2.3	2.3	1.8	2.0	2.1	2.2
PPOP	3.6	3.6	3.6	3.8	3.5	3.3	3.5	3.7	3.7
Provisioning Cost	0.6	0.8	0.8	0.9	1.0	1.0	0.9	0.8	1.1
PBT	3.0	2.7	2.8	2.9	2.5	2.3	2.6	2.9	2.5
ROA	2.0	1.8	2.0	2.2	1.9	1.7	1.9	2.1	1.9
ROE	15.8	14.3	16.3	18.1	16.2	15.0	16.1	18.0	16.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	561,863	645,479	763,007	920,061	1,119,845
Other income	232,608	246,250	269,188	304,147	346,913
Fee income	163,337	168,237	193,473	228,298	258,900
Net income	794,471	891,729	1,032,195	1,224,208	1,466,758
Operating expenses	306,975	325,960	382,167	458,395	558,542
Pre provision profit	487,495	565,769	650,028	765,813	908,215
PPP excl treasury	468,152	528,048	619,852	741,672	888,416
Provisions	121,424	148,126	147,341	162,881	199,210
Profit before tax	366,072	417,643	502,687	602,932	709,005
Tax	103,498	105,246	126,677	151,939	178,669
Tax rate	28	25	25	25	25
Profit after tax	262,573	312,397	376,010	450,993	530,336

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,483	5,504	5,504	5,504	5,513
Reserves	1,704,377	2,016,774	2,365,266	2,772,229	3,223,650
Net worth	1,709,860	2,022,278	2,370,769	2,777,733	3,229,163
Deposits	11,475,023	13,577,154	16,001,003	19,356,109	23,061,540
Borrowings	1,446,285	1,301,657	1,171,491	1,288,640	1,421,007
Total liabilities	15,305,112	17,431,172	20,445,652	24,625,139	29,018,170
Cash and bank	722,051	758,154	796,061	835,865	1,126,841
Investments	3,918,267	4,285,165	4,840,741	5,689,169	6,958,790
Loans	9,937,029	11,487,501	13,692,060	16,725,364	19,703,939
Others	539,311	609,519	700,512	755,095	631,140
Total assets	15,305,113	17,431,172	20,445,652	24,625,139	29,018,170

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.2	4.1	4.2	4.2	4.3
Non-Il/avg assets	1.7	1.5	1.4	1.3	1.3
Fee income/avg assets	1.2	1.0	1.0	1.0	1.0
Opex/avg assets	2.2	2.0	2.0	2.0	2.1
Provisions/avg assets	0.9	0.9	0.8	0.7	0.7
PBT/avg assets	2.6	2.6	2.7	2.7	2.6
Tax/avg assets	0.7	0.6	0.7	0.7	0.7
RoA	1.9	1.9	2.0	2.0	2.0
RoAE	16.4	16.7	17.1	17.5	17.7
GNPA (%)	1.3	1.4	1.4	1.3	1.4
NNPA (%)	0.4	0.2	0.3	0.3	0.4

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	48.0	56.9	68.3	81.9	96.2
BVPS	312.9	368.1	430.8	504.7	585.8
ABVPS	308.0	365.4	425.6	497.3	576.0
DPS	2.5	0.0	5.0	8.0	15.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	29.7	25.1	20.9	17.4	14.8
P/BV	4.6	3.9	3.4	2.9	2.5
P/ABV	4.6	3.8	3.2	2.8	2.4
P/PPOP	15.8	13.7	11.9	10.1	8.5
Dividend Yield (%)	0.2	0.0	0.4	0.6	1.1

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.5	14.9	18.2	20.6	21.7
PPOP	22.6	16.1	14.9	17.8	18.6
PAT	24.6	19.0	20.4	19.9	17.6
Loans	21.3	15.6	19.2	22.2	17.8

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	152,041	156,654	157,764	163,176	171,202
NIM(%)	4.3	4.3	4.1	4.2	4.2
PPOP	129,589	128,293	138,138	151,860	155,328
PAT	69,278	66,586	75,131	87,583	81,865
EPS (Rs)	12.63	12.13	13.65	15.90	14.85

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	21.3	21.2	21.2	21.2	21.2
FIIIs	30.8	29.8	30.1	30.4	32.0
DIIIs	17.0	17.7	17.8	18.4	17.5
Public and Others	31.0	31.3	30.9	30.0	29.4

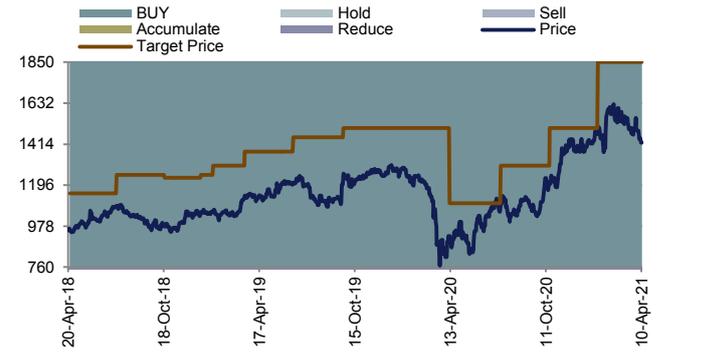
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
5-Apr-21	1,450	1,850	12m	Buy	Anand Dama
20-Jan-21	1,492	1,850	12m	Buy	Anand Dama
17-Jan-21	1,467	1,850	12m	Buy	Anand Dama
6-Jan-21	1,421	1,500	12m	Buy	Anand Dama
18-Oct-20	1,199	1,500	12m	Buy	Anand Dama
5-Oct-20	1,114	1,300	12m	Buy	Anand Dama
27-Aug-20	1,112	1,300	12m	Buy	Anand Dama
17-Jul-20	1,098	1,300	12m	Buy	Anand Dama
18-Apr-20	910	1,100	12m	Buy	Anand Dama
11-Apr-20	925	1,100	12m	Buy	Anand Dama
19-Jan-20	1,278	1,500	12m	Buy	Anand Dama
20-Oct-19	1,229	1,500	12m	Buy	Anand Dama
9-Oct-19	1,228	1,500	12m	Buy	Anand Dama
23-Sep-19	1,257	1,500	12m	Buy	Anand Dama
19-Jul-19	1,185	1,450	12m	Buy	Anand Dama
20-Jun-19	1,210	1,450	12m	Buy	Anand Dama
20-Apr-19	1,137	1,375	12m	Buy	Anand Dama
20-Mar-19	1,140	1,375	12m	Buy	Anand Dama
19-Jan-19	1,056	1,300	12m	Buy	Anand Dama
27-Dec-18	1,044	1,250	12m	Buy	Anand Dama
19-Oct-18	976	1,235	12m	Buy	Jignesh Shial
20-Jul-18	1,085	1,250	12m	Buy	Jignesh Shial
21-May-18	982	1,153	12m	Buy	Ravikant Bhat
23-Apr-18	954	1,153	12m	Buy	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.44	20.40	-0.2%	-3	100.00
Axis Bank	2.14	2.23	4%	9	10.91
AU Small Finance Bank	0.27	0.23	-13%	-3	1.14
Bandhan Bank	0.29	0.34	18%	5	1.66
Bank of Baroda	0.15	0.11	-31%	-5	0.52
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.15	0.22	48%	7	1.05
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	23%	4	1.11
HDFC Bank	7.09	7.22	2%	13	35.31
ICICI Bank	4.83	4.98	3%	15	24.39
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.59	0.67	13%	8	3.29
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.82	2.32	-17%	-49	11.37
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.12	0.12	0%	0	0.57
State Bank of India	1.60	1.74	9%	15	8.53
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.03	NA	3	0.16

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	15-Apr-20	15-Oct-20	14-Jan-21	15-Mar-21	15-Apr-21
EAP - BFSI-Banks	100.0	65.4	81.0	111.2	119.2	110.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	64.7	79.4	109.3	117.1	108.2

*Performance measurement base date 1st April 2019

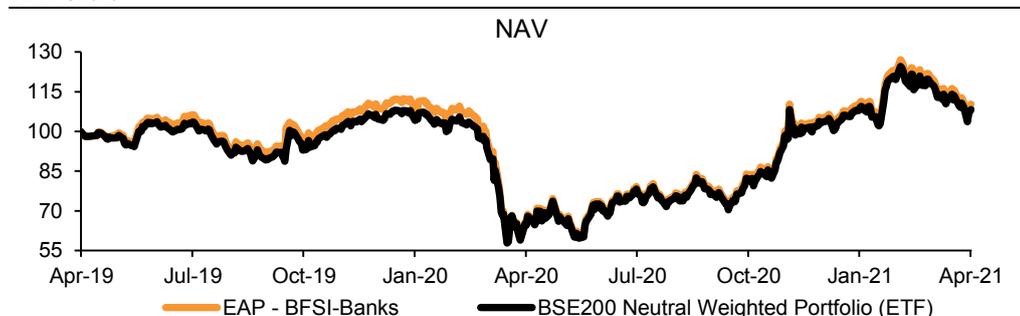
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-7.5%	-0.8%	36.3%	68.6%
BSE200 Neutral Weighted Portfolio (ETF)	-7.6%	-0.9%	36.2%	67.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Apr 2021 11:38:49 (SGT)

Dissemination Date: 18 Apr 2021 11:39:49 (SGT)

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