

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HDFCB IN
Equity Shares (m)	5,508
M.Cap.(INRb)/(USD\$)	7874.7 / 105.9
52-Week Range (INR)	1650 / 826
1, 6, 12 Rel. Per (%)	-3/-3/3
12M Avg Val (INR M)	16454

Financials & Valuations (INR b)

Y/E	FY21	FY22E	FY23E
NII	648.8	786.0	929.5
OP	573.6	675.0	798.8
NP	311.2	372.5	455.1
NIM (%)	4.1	4.3	4.4
EPS (INR)	56.6	67.6	82.6
EPS Gr. (%)	17.8	19.4	22.2
BV/Sh. (INR)	369.5	426.9	498.6
ABV/Sh. (INR)	355.9	411.2	480.5

Ratios

RoE (%)	16.6	17.0	17.8
RoA (%)	1.9	2.0	2.1

Valuations

P/E(X)	25.2	21.1	17.3
P/BV (X)	3.9	3.3	2.9
P/ABV (X)	4.0	3.5	3.0

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	21.1	21.2	21.2
DII	17.3	17.7	17.9
FII	51.0	50.7	48.6
Others	10.6	10.5	12.4

FII Includes depository receipts

CMP: INR1,428 TP: INR1,800 (+26%) Buy

Business momentum steady; operating performance undergoing swift normalization

Asset quality stable; restructured book in check at 0.6% of loans

- HDFC Bank (HDFCB) reported a healthy quarter, with advances growth driven by both Corporate and continued revival in the Retail segment. Operating performance remained steady, led by robust business growth, stable margins, and controlled opex. However, the bank made additional provisions of INR13b, resulting in a PAT miss.
- Asset quality remained stable, while total restructuring stood at 0.6% of loans. The GNPA ratio improved 6bp QoQ to 1.32% (v/s a proforma GNPA ratio of 1.38%) and NNPA ratio was stable at 0.4%. PCR held steady at ~70%.
- We marginally cut our estimates for FY22/FY23 by 2%/4% and estimate an earnings CAGR of 20% over FY21–23E. **Maintain Buy.**

Asset quality steady; business momentum gaining traction

- HDFCB reported PAT growth of ~18% YoY to ~INR81.9b, below estimates (MOFSL: INR86.9b), affected by higher provisions (37% QoQ increase) – as the bank made additional contingent provisions of INR13b. However, PPOP growth was in line with our estimates. **For FY21, NII/PPOP/PAT growth came in at 15.5%/17.7%/18.5% YoY.**
- NII grew 12.6% YoY, with margins stable QoQ at 4.2%. Fee income growth came in robust at ~20% YoY, led by continued revival in retail asset growth. FX-related fees also remained strong (56% QoQ growth). Treasury gains moderated to INR6.5b (41% QoQ decline), resulting in growth of ~26% YoY in other income. Opex grew 11% YoY (in-line), with the C/I ratio coming in at 37.2% (v/s 39% in FY20). Overall, PPOP growth was robust at 20% YoY (in-line).
- Loans were up ~14% YoY, driven by robust growth in corporate loans (+21.7% YoY). On the other hand, the company reported retail loan growth of 6.7% YoY (+4.5% QoQ). Among the retail segments, strong sequential growth trends were seen in Home Loans (5.4% QoQ) and Gold Loans (7.8% QoQ). Also, Auto Loans /Personal Loans grew ~3% QoQ each and the Credit Cards portfolio 2% QoQ, impacted by RBI restrictions on the sourcing of new credit cards.
- Deposits increased ~16% YoY (+5% QoQ), led by CASA growth of 27% YoY (+13% QoQ); TD growth moderated to 8.5% YoY. Overall, the CASA ratio improved to 46.1% (v/s 43.0% in 3QFY21).
- Asset quality came in stable, with the GNPA ratio improving 6bp QoQ to 1.32% (v/s 1.38% proforma), while the NNPA ratio was stable QoQ at 0.4%. Thus, PCR stood at ~70%. The annualized slippage ratio stood at 1.66% (~INR46b) v/s 1.86% in 3QFY21 and 1.2% in 4QFY20. Overall, restructuring under the RBI resolution framework for COVID-19 stood at ~0.6% of advances – largely toward retail assets, on which the bank carries provisions at 10%. The bank has provided ~INR5b toward interest on interest waivers.

- HDFCB currently holds o/s floating provisions of INR14.5b (stable QoQ) and contingent provisions of INR58.6b (v/s INR86.6b in 3QFY21).
- **Subs** – HDB Financials reported PAT of INR2.85b in 4QFY21 v/s INR3.42b in 4QFY20. The GNPA ratio stood at 3.9% v/s 5.9% proforma as of 3QFY21. HDFC Securities reported PAT of INR2.53b for 4QFY21 v/s INR1.57b in 4QFY20.

Highlights from management commentary

- **The bank continues to make progress and strengthen its technological capabilities. The digital audit is in the final stages, and an update would be announced in due course.**
- Wholesale/SME grew 10% QoQ and mid-sized corporates 9.2% QoQ; large corporates increase at a modest 3.5–4% QoQ, impacted by prepayments.
- **SME:** Delinquencies are near pre-COVID levels, with 7+ DpD being 10–15bp away and 60+ DpD being less than 5bp away from pre-COVID levels.
- **Retail:** Check bounce rates were improving up to Mar'21. **However, bounce rates have increased in April, returning to Jan'21 levels.** Maharashtra, Madhya Pradesh, Punjab, and Telangana are seeing higher check bounce rates.

Valuations and view

HDFCB has delivered steady growth trends in both loans and deposits, with business activity showing signs of healthy revival across retail segments. CASA trends remain robust, enabling improvement in the CASA ratio to 46%. The bank's operating performance remains steady, aided by healthy revenue growth, stable margins, and controlled opex. However, with the resurgence of COVID cases, the bank continues to make additional contingent provisions to further strengthen the balance sheet. Although, overall asset quality remains stable, with total restructuring at 0.6% of loans and NNPA at 0.4%. We moderately cut our estimates for FY22/FY23E and expect a 20% PAT CAGR over FY21–FY23E. **Maintain Buy, with TP of INR1,800 (3.5x FY23E ABV).**

Quarterly performance

	FY20				FY21				FY20	FY21	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Net Interest Income	132.9	135.2	141.7	152.0	156.7	157.8	163.2	171.2	561.9	648.8	173.8	-1.5
% Change (Y-o-Y)	22.9	14.9	12.7	16.2	17.8	16.7	15.1	12.6	16.5	15.5	14.3	
Other Income	49.7	55.9	66.7	60.3	40.8	60.9	74.4	75.9	232.6	252.0	73.9	2.7
Total Income	182.6	191.0	208.4	212.4	197.4	218.7	237.6	247.1	794.5	900.8	247.8	-0.3
Operating Expenses	71.2	74.1	79.0	82.8	69.1	80.6	85.7	91.8	307.0	327.2	92.2	-0.4
Operating Profit	111.5	117.0	129.5	129.6	128.3	138.1	151.9	155.3	487.5	573.6	155.6	-0.2
% Change (Y-o-Y)	28.9	23.4	20.1	19.5	15.1	18.1	17.3	19.9	22.6	17.7	20.0	
Provisions	26.1	27.0	30.4	37.8	38.9	37.0	34.1	46.9	121.4	157.0	38.8	21.0
Profit before Tax	85.3	90.0	99.0	91.7	89.4	101.1	117.7	108.4	366.1	416.6	116.8	-7.2
Tax	29.7	26.5	24.9	22.5	22.8	26.0	30.1	26.5	103.5	105.4	29.9	-11.3
Net Profit	55.7	63.4	74.2	69.3	66.6	75.1	87.6	81.9	262.6	311.2	86.9	-5.8
% Change (Y-o-Y)	21.0	26.8	32.8	17.7	19.6	18.4	18.1	18.2	24.6	18.5	25.4	
Operating Parameters												
Deposit Growth (%)	18.5	22.6	25.2	24.3	24.6	20.3	19.1	16.3	24.3	16.3	16.3	0.0
Loan Growth (%)	17.1	19.5	19.9	21.3	20.9	15.8	15.6	14.0	21.3	14.0	13.9	0.1
Deposit	9,546	10,216	10,674	11,475	11,894	12,293	12,711	13,351	11,475	13,351	13,350	0.0
Loan	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,328	9,937	11,328	11,320	0.1
Asset Quality												
Gross NPA (%)	1.4	1.4	1.4	1.3	1.4	1.1	0.8	1.3	1.3	1.3	1.5	-0.1
Net NPA (%)	0.4	0.4	0.5	0.4	0.3	0.2	0.1	0.4	0.4	0.4	0.5	-0.1
PCR (%)	69.7	69.7	66.7	72.0	76.2	84.5	88.5	69.8	72.0	69.8	67.1	2.7

Quarterly snapshot

	FY19				FY20				FY21				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
Profit & 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	304.2	2	1
Loans	173.9	188.3	203.1	210.2	218.0	225.1	234.2	240.4	240.4	234.0	235.8	238.1	-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	61.7	21	6
Others	5.7	3.3	2.6	2.7	3.4	5.6	7.4	7.5	7.4	9.5	6.7	4.5	-41	-33
Interest Expenses	117.4	124.4	133.1	132.4	141.0	146.5	152.0	146.8	147.1	142.0	137.6	133.0	-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	171.2	13	5
Other Income	38.2	40.2	49.2	48.7	49.7	55.9	66.7	60.3	40.8	60.9	74.4	75.9	26	2
Trading profits	-2.8	-0.3	4.7	2.3	2.1	4.8	6.8	5.7	10.9	10.2	11.1	6.6	16	-41
Exchange Profits	5.0	4.2	4.0	4.0	5.8	5.5	5.3	5.0	4.4	5.6	5.6	8.8	76	56
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	60.6	22	5
Total Income	146.3	157.8	175.0	179.6	182.6	191.0	208.4	212.4	197.4	218.7	237.6	247.1	16	4
Operating Expenses	59.8	63.0	67.2	71.2	71.2	74.1	79.0	82.8	69.1	80.6	85.7	91.8	11	7
Employee	18.1	19.1	19.7	20.7	22.2	23.6	24.5	25.0	25.1	25.4	26.3	26.8	7	2
Others	41.7	43.9	47.5	50.4	49.0	50.5	54.4	57.8	44.0	55.1	59.4	65.0	13	9
Operating Profits	86.5	94.8	107.8	108.4	111.5	117.0	129.5	129.6	128.3	138.1	151.9	155.3	20	2
Core Operating Profit	89.3	95.1	103.0	106.1	109.4	112.2	122.7	123.9	117.4	128.0	140.8	148.8	20	6
Provisions	16.3	18.2	22.1	18.9	26.1	27.0	30.4	37.8	38.9	37.0	34.1	46.9	24	37
PBT	70.2	76.6	85.7	89.5	85.3	90.0	99.0	91.7	89.4	101.1	117.7	108.4	18	-8
Taxes	24.2	26.5	29.8	30.7	29.7	26.5	24.9	22.5	22.8	26.0	30.1	26.5	18	-12
PAT	46.0	50.1	55.9	58.9	55.7	63.4	74.2	69.3	66.6	75.1	87.6	81.9	18	-7
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	13,351	16	5
Loans	7,086	7,508	7,810	8,194	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,328	14	5
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	150.9	19	71
NNPA	29.1	30.3	33.0	32.1	35.7	37.9	44.7	35.4	32.8	17.6	10.2	45.5	29	348
Ratios (%)													Change (bps)	
Asset Quality Ratios	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	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	1.3	6	51
NNPA	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.3	0.2	0.1	0.4	4	31
PCR (Calc.)	69.5	70.0	69.7	71.4	69.7	69.7	66.7	72.0	76.2	84.5	88.5	69.8	-219	-1,868
Slippage	2.2	1.9	2.1	1.8	2.1	1.8	2.4	1.3	1.2	2.0	1.9	0.0	-135	-186
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	24.5	113	23
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	38.2	-188	31
Tax Rate	34.4	34.7	34.8	34.3	34.8	29.5	25.1	24.5	25.5	25.7	25.6	24.5	-2	-113
CASA (Reported)	41.7	42.0	40.7	42.4	39.7	39.3	39.5	42.2	40.1	41.6	43.0	46.1	390	310
Loan/Deposit	87.9	90.1	91.6	88.8	86.9	87.8	87.7	86.6	84.4	84.5	85.1	84.9	-174	-29
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	8.6	-137	-30
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	5.7	-4	12
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	7.9	-116	-24
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	3.7	-103	-28
Spreads	4.5	4.3	4.4	4.5	4.4	4.3	4.3	4.3	4.2	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	4.2	-10	0
RoA	1.8	1.8	2.0	2.0	1.8	2.0	2.2	2.0	1.8	1.9	2.2	2.0	4	-20
RoE	17.2	16.4	15.9	16.1	14.6	16.3	18.6	16.6	15.3	16.5	18.4	16.4	-15	-196
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	5,608	192	123
ATMs	12,808	13,018	13,407	13,160	13,727	13,514	14,533	14,901	14,996	15,292	15,541	16,087	1,186	546
Employees	89,550	94,907	96,425	98,061	104,154	111,208	113,981	116,971	115,822	117,082	117,560	120,093	3,122	2,533



Highlights from management commentary

Opening remarks

- High-frequency data remained strong for the most part of 4QFY21.
- Tractor sales were slower, but overall auto growth posted a strong uptick. Exports were reported in the double digits.
- The RBI's measures are supporting overall growth and recovery. We expect private capex to pick up from 2HFY22.
- Pre-COVID levels are likely to be achieved by the end of the current calendar year.
- The Business Correspondent BC Model is being ramped up; it is gaining traction in terms of lending and garnering deposits, including CASA.
- Card spends have been picking up; however, they stood lower than 3QFY21 levels as volumes were higher due to the festive season.
- The bank continues to make progress and strengthen its technological capabilities. The audit is in the final stages, and an update would be announced in due course.

P&L and balance sheet related

- ~2m new liability relationships were established in 4QFY21 and ~7m in FY21.
- ~2.5m corporate salary accounts were acquired (35% higher than the last year).
- The bank continues to keep excess liquidity (INR800b) and LCR of ~138%, which is impacting margins by 10–15 bps.
- Retail fees form ~94% of the total fees.
- Retail deposits form ~80% of the total deposits.
- It maintains a medium- to long-term C/I ratio guidance of ~35%.

Business growth trends across segments

Corporate/Wholesale Banking

- Growth in Mid-sized Corporates and SMEs were robust, while the Corporate segment was also strong despite reporting some prepayments.
- Wholesale/SME grew 10% QoQ, mid-sized corporates 9.2% QoQ, and large corporates 3.5–4% QoQ.
- Growth in corporates was despite higher prepayments of 8–10% of total customer assets in this segment.
- NIMs expanded / came in stable for most segments, led by moderation in cost of funds.
- The MSME book exceeded INR2t – this was one of the earnings drivers for the bank.
- CASA for wholesale was up 15% YoY (+30% QoQ); on an average basis, it was up 25% YoY.
- New clients acquired in Wholesale SME were 6% higher v/s last year.
- ECLGS disbursements stood at INR265.34b, with the bulk toward ECLGS 1.

Retail

- Retail asset momentum picked up, with disbursements rising 21% YoY (+6% QoQ).
- **Cards** – The bank could make up for the loss of customers – as more than 75% are liability customers; thus, cards could gain traction when the sourcing starts.

- Auto Loans is seeing improved demand, along with Home Loans and Gold Loans.
- Inquiries in personal loans are still lower v/s pre-COVID levels.
- Growth prospects appear robust for FY22, although the rise in COVID cases is a monitorable.

Asset quality

- The annualized slippage ratio stood at 1.66% (~INR46b) v/s 1.86% in 3QFY21 and 1.2% in 4QFY20.
- GNPA ex-Agri stood at 1.2% v/s 1.2% in 3QFY21 and 1.1% in 4QFY20.
- The bank has provided ~INR5b toward interest on interest waivers.
- The core credit cost ratio stood at 1.1% for 4QFY21 v/s 1.6% in 3QFY21 and 0.77% in 4QFY20.
- Recoveries comprised ~25bp of gross advances.
- The second wave of COVID is yet to impact financials and remains a key monitorable.
- Write-offs stood at INR35b.

Asset quality trends across segments

Corporate Banking

- The average rating of incremental lending is ~4.24 on a scale of 1–10. The external rated portfolio of 62% is rated AA and above.
- On a total basis, the rating stood at 4.57. The unsecured book had a rating of 3.36.

SME & Business Banking

- Cash flows have improved significantly since Dec'20.
- The 30+ DPD book has declined – the bulk of which has been due to repayments and minimal due to restructuring.
- INR5.5b restructuring was done, of which a large portion was non-delinquent.
- Delinquencies are near pre-COVID levels, with 7+ DPD 10–15bp away from normal levels and 60+ DPD less than 5bp away from pre-COVID levels.
- The collateral level stood at 80–85% at the portfolio level.
- ECLGS 2 and 3 are for stressed sectors, while ECLGS 1 is toward standard entities (granted after assessing business models and cash flows). Thus, there could be some stress in ECLGS 2 and 3, but the bank's disbursement has been much lower in these schemes.

Retail

- Demand resolution has been steadily improving since Oct and reached normalized levels across products, barring one or two.
- Check bounce rates were improving up to March'21. However, they have increased in April, returning to ~Jan'21 levels. The bank would remain cautious about this going ahead.
- Maharashtra, Madhya Pradesh, Punjab, and Telangana are seeing higher check bounce rates.
- Recoveries have been 30% higher v/s pre-COVID levels.
- Recoveries from the bounced portfolio have reached pre-COVID levels.

- The bank sold retail loans worth INR10b and would look to continue doing so based on the set parameters.
- Credit scores of bank customers across products have been stable / higher than industry levels.

Subs performance – HDB Financials

- Disbursements were up 15% QoQ, with LAP being the largest contributor.

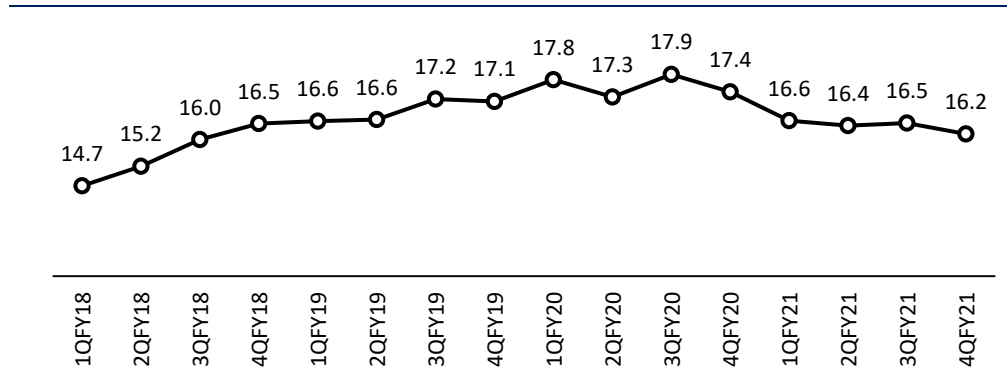
Loan growth healthy at 14% YoY; retail growth picks up sequentially

- The loan book grew 14% YoY (+4.7% QoQ) to INR11.3t. Deposits were up 5.0% QoQ / 16.3% YoY to INR13.3t. The CD ratio was stable at ~85%.
- Retail loan growth remained modest at 6.7% YoY, but picked up 4.5% QoQ. On the other hand, domestic wholesale advances grew 21.7% (+4.8% QoQ). The share of retail loans (as per Basel) stood at 46.6%.
- Business Banking / Home Loans grew ~7.7%/5.4% QoQ; Personal Loans / Credit Cards grew ~3%/~2% QoQ. Gold Loans grew ~8% QoQ.
- Auto Loans grew largely in-line (-1%) YoY, but was up ~2.7% QoQ on improved demand for car loans and CV/CE.

Exhibit 1: Share of retail loans at 46.6% in 4QFY21

INR b	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)	% of total
Car Loans	839.4	818.8	843.9	0.5	3.1	7.4
CV loans	290.5	271.2	279.8	-3.7	3.2	2.5
2 wheeler loans	98.6	95.0	92.9	-5.7	-2.2	0.8
Sub-total - Auto Loans	1,228.4	1,185.0	1,216.6	-1.0	2.7	10.7
Personal loans	1,155.6	1,152.8	1,186.3	2.7	2.9	10.5
Business banking	641.2	658.3	709.2	10.6	7.7	6.3
Loan against shares	18.0	16.5	18.4	2.1	11.3	0.2
Credit Cards	575.8	633.3	646.7	12.3	2.1	5.7
Home loans	634.5	666.4	702.1	10.7	5.4	6.2
Gold loans	54.3	67.0	72.2	33.0	7.8	0.6
Other Retail	636.3	669.6	724.3	13.8	8.2	6.4
Retail Total	4,944.0	5,048.9	5,275.8	6.7	4.5	46.6
Corporate and international	4,993.0	5,774.3	6,052.5	21.2	4.8	53.4
Total loans	9,937.0	10,823.2	11,328.4	14.0	4.7	100.0

Exhibit 2: Share of unsecured loans at ~16.2%



Source: MOFSL, Company

CASA up ~27% YoY and
term deposits ~9% YoY

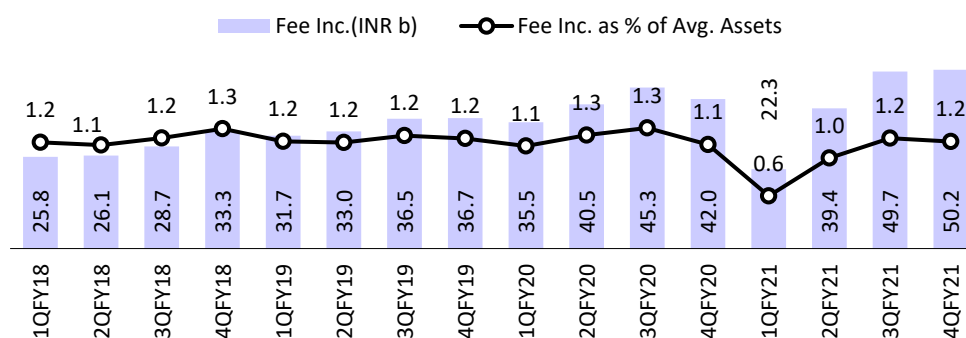
NIM stable at 4.2%; CASA ratio improves 310bp to 46.1%

- Reported NIM was stable QoQ at 4.2%, led by moderation in CoF.
- CASA deposit growth was strong at ~27% YoY (+12.6% QoQ), driven by 30% YoY / 7.7% QoQ growth in SA deposits. CA deposits grew 21.8% YoY / 23.3% QoQ.
- Term deposits grew 8.5% YoY and were flat sequentially (around -1%), resulting in the CASA ratio improving to 46.1% (+310bp QoQ).

Core fee income up 20% YoY (+1% QoQ); fee income to average assets forms 1.2% of total assets

- Core fee income grew 19.6% YoY (+1% QoQ) to INR50.2b.
- Fee income/average assets, thus, stood at 1.2% as of 4QFY21. Total other income grew 25.9% YoY (+2% QoQ), led by a strong uptick in FX fee to 56% QoQ; treasury gains stood at INR6.6b.
- Overall opex grew 10.9% YoY (+7.1 QoQ). The cost-to-core income ratio increased 31bp QoQ to 38.2%. The C/I ratio stood at 37.2% (+106bp QoQ).

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



Source: MOFSL, Company

PCR at ~70% as of 4QFY21

Asset quality ratio steady; contingent provisions provide further comfort

- Asset quality stood broadly stable over 3QFY21 (proforma numbers), with the GNPA/NNPA ratio coming in at 1.32%/0.4%. The bank had reported 3QFY21 proforma GNPA/NNPA ratios of 1.38%/0.4%. The coverage ratio stood at ~70%. Absolute GNPA/NNPA stood at ~INR150.9b/~INR45.5b as of 4QFY21.
- The bank continues to carry a floating provision of INR14.5b and holds a contingent provision of INR58.6b.
- Total restructuring under the RBI resolution framework for COVID-19 stood at INR65.08b (~0.6% of advances), on which the bank carries 10% provisions.

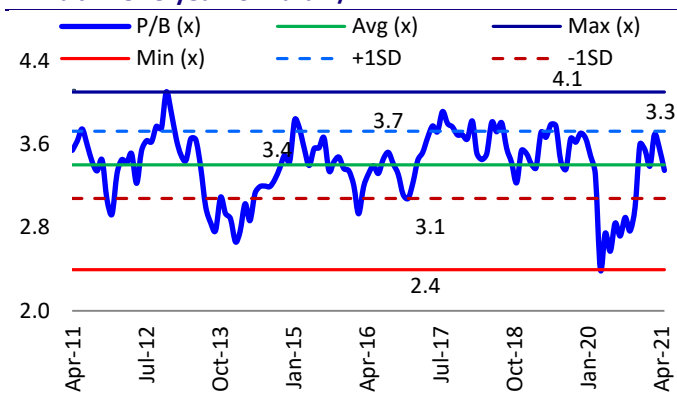
Valuation and view

- HDFCB continues to deliver healthy growth in advances, led by an uptick in retail loans; this is likely to further support fee income. This has been led by improved growth in Vehicle, Home Loans, Business Banking, and Gold Loans. Growth in the wholesale book also remains steady. The bank has reported strong deposit trends, led by robust traction in CASA, which would support the margin trajectory.
- The fee income profile, since being impacted by COVID-19, is picking up gradually and has improved over the past few quarters. Furthermore, strong

cost control, led by further digitalization, is likely to drive overall improvement in the bank's return ratios. Margins have been stable; we expect a marginal increase on account of 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.

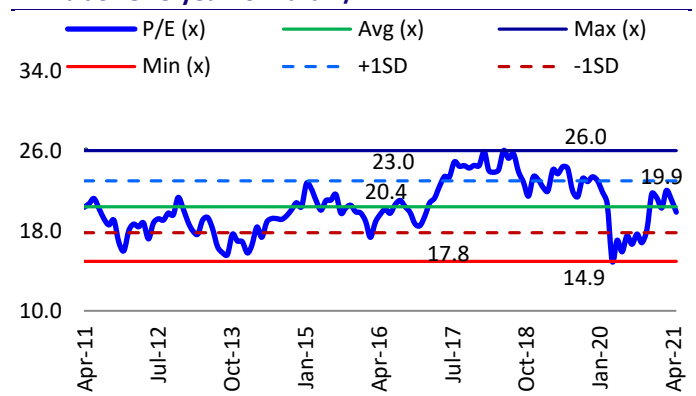
- Furthermore, strong capitalization and liquidity levels should help HDFCB sustain its growth momentum over the next few years. This renders the bank better placed to tide over the crisis and gain incremental market share.
- Asset quality remained steady as the GNPA ratio improved to 1.32% from the proforma levels of 1.38% (reported in Dec'20); NNPA was stable at 0.4%. The restructuring book also remains limited at ~0.6% of total loans. Moreover, PCR stands at ~70%, which – along with a floating provision of INR14.5b and contingent provision of INR58.6b – would keep credit cost in check and limit the impact on profitability. Overall, we expect NNPA to remain at 0.4% in FY22/FY23E.
- **Buy, with Target Price of INR1,800:** HDFCB has delivered steady growth trends in both loans and deposits, with business activity showing signs of healthy revival across retail segments. CASA trends remain robust, enabling improvement in the CASA ratio to 46%. The bank's operating performance remains steady, aided by healthy revenue growth, stable margins, and controlled opex. However, with the resurgence of COVID cases, the bank continues to make additional contingent provisions to further strengthen the balance sheet. Although, overall asset quality remains steady, with total restructuring at 0.6% of loans and NNPA at 0.4%. We moderately cut our estimates for FY22/FY23E and expect a 20% PAT CAGR over FY21–FY23E. **Maintain Buy, with TP of INR1,800 (3.5x FY23E ABV).**

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

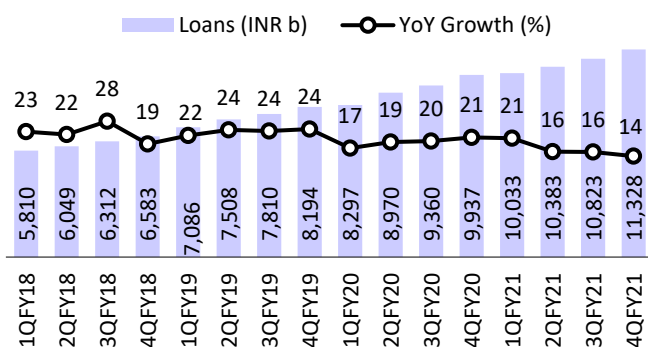
Exhibit 5: One-year forward P/E



Source: MOFSL, Company

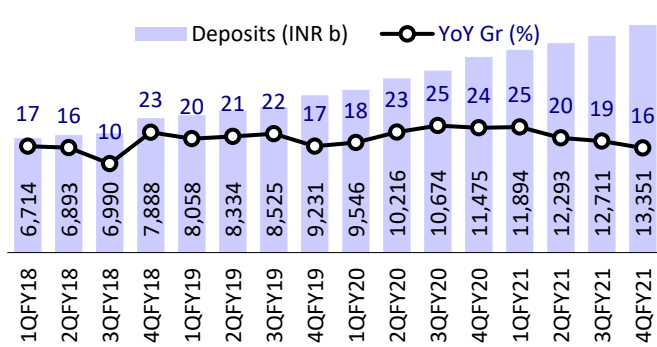
Story in charts

Exhibit 6: Loan growth healthy at ~14% YoY (+4.7% QoQ)



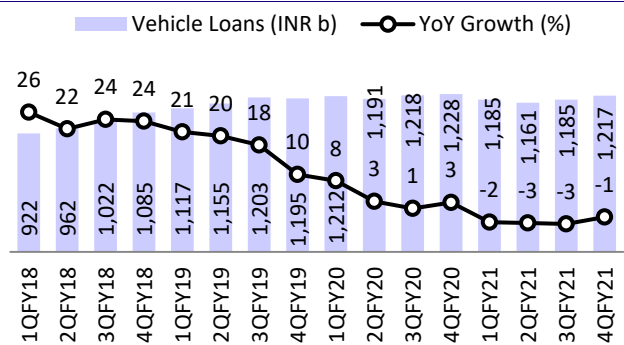
Source: MOFSL, Company

Exhibit 7: Deposits strong at 16% YoY (5.0% QoQ)



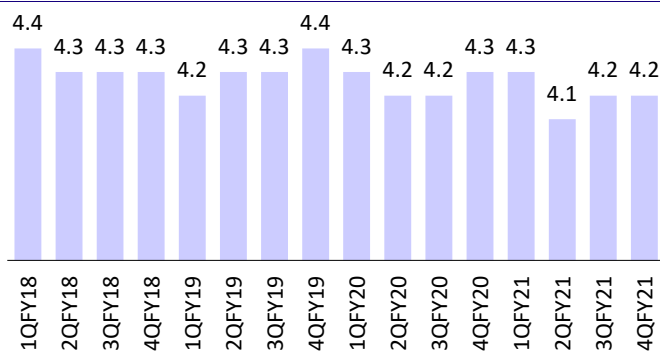
Source: MOFSL, Company

Exhibit 8: Vehicle loan growth up sequentially by ~3%



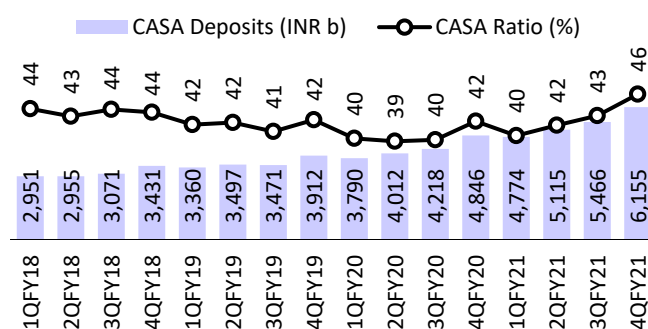
Source: MOFSL, Company

Exhibit 9: NIM stable QoQ at 4.2%



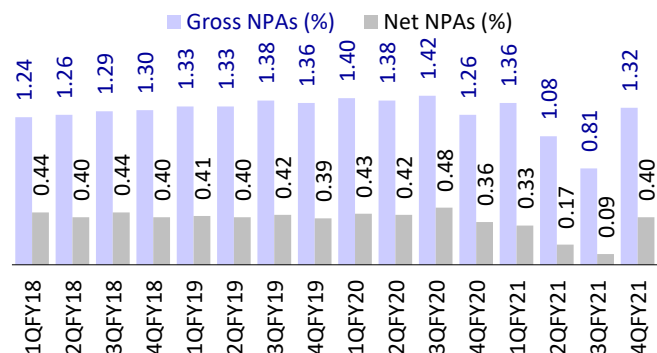
Source: MOFSL, Company

Exhibit 10: CASA ratio improves ~310bp QoQ to 46.1%

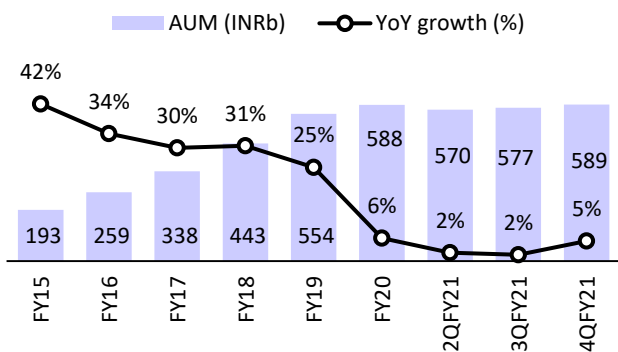


Source: MOFSL, Company

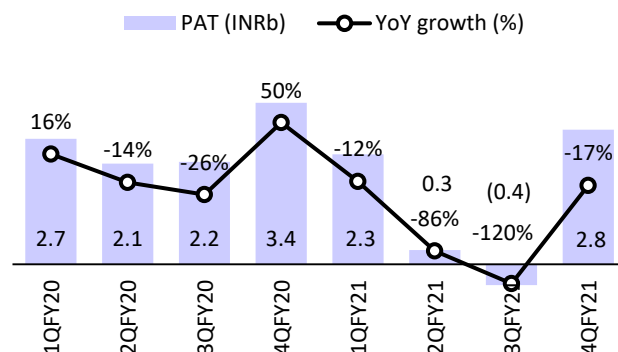
Exhibit 11: GNPA/NNPA at 1.32%/0.4% v/s proforma GNPA/NNPA of 1.38%/0.4%



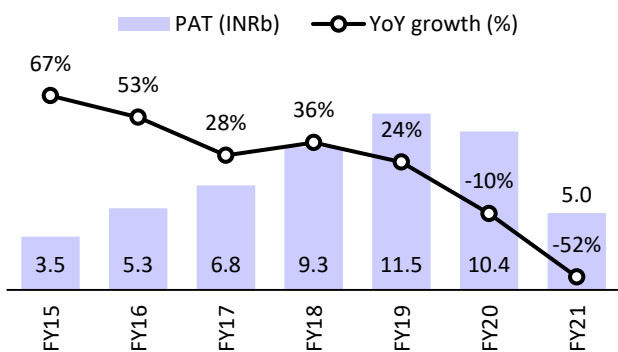
Source: MOFSL, Company

Exhibit 12: HDB Financials – AUM grows ~5% YoY in 4QFY21

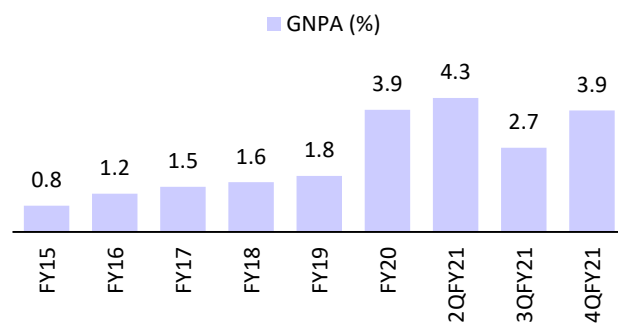
Source: MOFSL, Company

Exhibit 13: HDB reports PAT of INR2.8b on pick-up in revenue growth and lower provisions

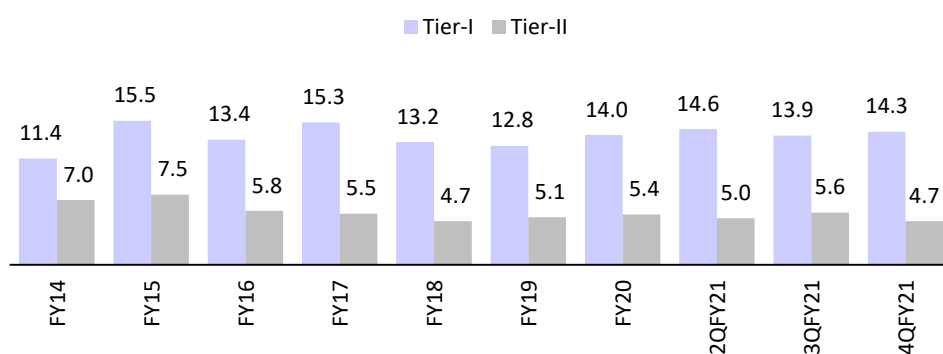
Source: MOFSL, Company

Exhibit 14: PAT declined for HDB Financials over FY21 impacted by higher provisions

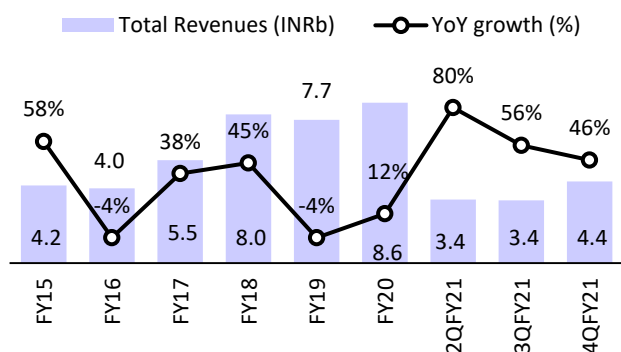
Source: MOFSL, Company

Exhibit 15: Asset quality deteriorated over past few quarters; however improved over 4QFY21 vs pro-forma

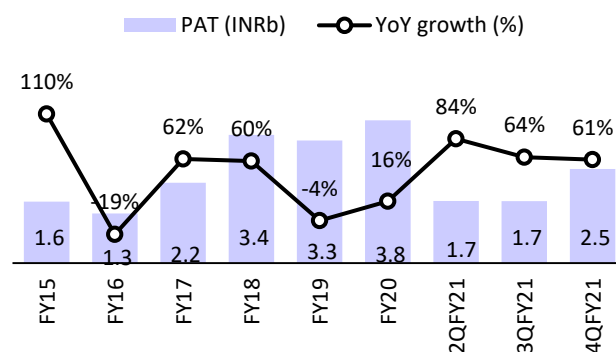
Source: MOFSL, Company

Exhibit 16: HDB Financials – capitalization levels strong, with total CAR at ~19%

Source: MOFSL, Company

Exhibit 17: HDFC Securities – total income up 46% YoY in 4QFY21...

Source: MOFSL, Company

Exhibit 18: ...while PAT growth healthy at 61% YoY to INR2.5b

Source: MOFSL, Company

Exhibit 19: DuPont Analysis – return ratios to improve steadily

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Interest Income	4.25	4.21	4.16	4.18	4.05	3.96	4.18	4.27
Core Fee Income	1.23	1.12	1.31	1.34	1.38	1.21	1.27	1.28
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	1.54	1.59	1.60
Total Income	5.48	5.33	5.74	5.71	5.73	5.50	5.77	5.86
Operating Expenses	2.61	2.51	2.35	2.26	2.21	2.00	2.18	2.20
Employee cost	0.88	0.82	0.71	0.67	0.69	0.63	0.67	0.67
Others	1.74	1.68	1.65	1.59	1.53	1.36	1.52	1.53
Operating Profits	3.29	3.27	3.38	3.44	3.51	3.50	3.59	3.67
Core operating Profits	2.86	2.83	3.11	3.26	3.22	3.17	3.26	3.35
Provisions	0.42	0.46	0.61	0.65	0.88	0.96	0.94	0.87
PBT	2.87	2.82	2.77	2.79	2.64	2.54	2.64	2.79
Tax	0.98	0.97	0.96	0.96	0.75	0.64	0.67	0.70
RoA	1.89	1.85	1.81	1.83	1.89	1.90	1.98	2.09
Leverage (x)	9.6	9.7	9.8	9.0	8.7	8.7	8.6	8.5
RoE	18.3	17.9	17.9	16.5	16.4	16.6	17.0	17.8

Financials and valuations

Income Statement						(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest Income	693.1	802.4	989.7	1,148.1	1,208.6	1,448.6	1,675.7
Interest Expense	361.7	401.5	507.3	586.3	559.8	662.6	746.2
Net Interest Income	331.4	400.9	482.4	561.9	648.8	786.0	929.5
Growth (%)	20.1	21.0	20.3	16.5	15.5	21.1	18.3
Non Interest Income	123.0	152.2	176.3	232.6	252.0	299.9	347.9
Total Income	454.4	553.2	658.7	794.5	900.8	1,085.9	1,277.4
Growth (%)	18.5	21.7	19.1	20.6	13.4	20.5	17.6
Operating Expenses	197.0	226.9	261.2	307.0	327.2	410.9	478.6
Pre Provision Profits	257.3	326.2	397.5	487.5	573.6	675.0	798.8
Growth (%)	20.4	26.8	21.8	22.6	17.7	17.7	18.3
Core PPP	220.9	311.0	380.3	465.9	541.4	637.6	754.9
Growth (%)	19.7	40.8	22.3	22.5	16.2	17.8	18.4
Provisions (excl. tax)	35.9	59.3	75.5	121.4	157.0	177.2	190.6
PBT	221.4	267.0	322.0	366.1	416.6	497.9	608.2
Tax	75.9	92.1	111.2	103.5	105.4	125.3	153.1
Tax Rate (%)	34.3	34.5	34.5	28.3	25.3	25.2	25.2
PAT	145.5	174.9	210.8	262.6	311.2	372.5	455.1
Growth (%)	18.3	20.2	20.5	24.6	18.5	19.7	22.2

Balance Sheet							
Y/E March	FY17	FY18	FY19	FY20	FY21	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	2,031.7	2,347.8	2,743.3
Net Worth	860.7	1,063.0	1,492.1	1,709.9	2,037.2	2,353.4	2,748.8
Deposits	6,436.4	7,887.7	9,231.4	11,475.0	13,350.6	15,553.5	18,197.5
Growth (%)	17.8	22.5	17.0	24.3	16.3	16.5	17.0
of which CASA Dep	3,091.5	3,430.9	3,912.0	4,846.3	6,156.8	6,812.4	7,861.3
Growth (%)	30.8	11.0	14.0	23.9	27.0	10.6	15.4
Borrowings	740.3	1,231.0	1,170.9	1,446.3	1,354.9	1,463.8	1,555.6
Other Liabilities & Prov.	601.0	457.6	551.1	673.9	726.0	805.9	886.5
Total Liabilities	8,638.4	10,639.3	12,445.4	15,305.1	17,468.7	20,176.5	23,388.4
Current Assets	489.5	1,229.2	813.5	866.2	1,194.7	1,174.2	1,214.8
Investments	2,144.6	2,422.0	2,931.2	3,918.3	4,437.3	5,147.2	5,919.3
Growth (%)	9.5	12.9	21.0	33.7	13.2	16.0	15.0
Loans	5,545.7	6,583.3	8,194.0	9,937.0	11,328.4	13,254.2	15,693.0
Growth (%)	19.4	18.7	24.5	21.3	14.0	17.0	18.4
Fixed Assets	36.3	36.1	40.3	44.3	49.1	53.5	58.3
Other Assets	422.3	368.8	466.5	539.3	459.3	547.4	503.0
Total Assets	8,638.4	10,639.3	12,445.4	15,305.1	17,468.7	20,176.5	23,388.4

Asset Quality							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
GNPA	58.9	86.1	112.2	126.5	150.9	182.4	214.9
NNPA	18.4	26.0	32.1	35.4	45.5	51.9	59.9
GNPA Ratio	1.1	1.3	1.4	1.3	1.3	1.4	1.4
NNPA Ratio	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Slippage Ratio	1.5	2.1	1.9	1.9	2.1	2.0	1.8
Credit Cost	0.6	0.8	0.9	1.0	1.5	1.4	1.2
PCR (Excl. Tech. write off)	68.7	69.8	71.4	72.0	69.8	71.6	72.1

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Yield & Cost Ratios (%)							
Avg. Yield-Earning Assets	9.6	9.4	9.6	9.0	8.1	8.4	8.2
Avg. Yield on loans	10.2	10.3	10.5	10.1	8.9	9.2	9.1
Avg. Yield on Inv.	7.8	7.2	7.6	6.1	5.6	6.3	6.1
Avg. Cost-Int. Bear. Liabilities	5.5	4.9	5.2	5.0	4.1	4.2	4.1
Avg. Cost of Deposits	5.3	4.6	4.8	4.9	4.3	4.0	3.9
Interest Spread	4.2	4.5	4.4	4.0	4.0	4.2	4.2
Net Interest Margin	4.6	4.4	4.4	4.2	4.1	4.3	4.4

Capitalization Ratios (%)

CAR	14.6	14.8	17.1	18.5	18.8	18.8	18.0
Tier I	12.8	13.3	15.8	17.2	17.6	17.8	17.2
Tier II	1.8	1.6	1.3	1.3	1.2	1.0	0.8

Business and Efficiency Ratios (%)

Loans/Deposit	86.2	83.5	88.8	86.6	84.9	85.2	86.2
CASA Ratio	48.0	43.5	42.4	42.2	46.1	43.8	43.2
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	36.3	37.8	37.5
Cost/Core Income	45.8	42.2	40.7	39.7	37.7	39.2	38.8
Int. Expense/Int. Income	52.2	50.0	51.3	51.1	46.3	45.7	44.5
Fee Income/Total Income	21.8	22.8	23.5	24.1	22.0	22.0	21.8
Non Int. Inc./Total Income	27.1	27.5	26.8	29.3	28.0	27.6	27.2
Emp. Cost/Total Expense	32.9	30.0	29.7	31.0	31.7	30.5	30.4
Investment/Deposit	33.3	30.7	31.8	34.1	33.2	33.1	32.5

Valuation

RoE	17.9	17.9	16.5	16.4	16.6	17.0	17.8
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	3.0	3.0
Book Value (INR)	167.9	204.8	273.9	311.8	369.5	426.9	498.6
Growth (%)	16.9	22.0	33.8	13.8	18.5	15.5	16.8
Price-BV (x)	8.5	7.0	5.2	4.6	3.9	3.3	2.9
Adjusted BV (INR)	165.4	193.9	262.8	300.3	355.9	411.2	480.5
Price-ABV (x)	8.6	7.4	5.4	4.8	4.0	3.5	3.0
EPS (INR)	28.4	33.9	39.6	48.0	56.6	67.6	82.6
Growth (%)	16.7	19.4	16.9	21.2	17.8	19.4	22.2
Price-Earnings (x)	50.3	42.1	36.0	29.7	25.2	21.1	17.3

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

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