

# HDFC Bank Ltd.



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High Provisions yet

CMP INR 1,412	Target INR 1,720	Potential Upside 21.8%	Market Cap (INR Cr) INR 7,78,404	Recommendation BUY	Sector Banks
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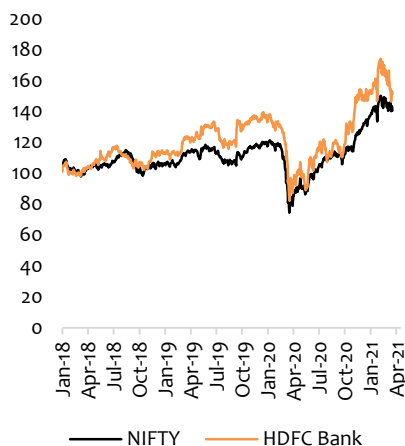
## Result Highlights:

- PAT grew 18.2% YoY but was 6.5% lower QoQ. The provisions remained elevated. The NIMs fell 11 bps YoY but rose 7 bps QoQ.
- Advances grew 14% YoY. Retail assets grew 6.7% YoY and wholesale grew 21.7% YoY
- Deposit grew 16.3% YoY (5% QoQ) with CASA improving to 46.1%, higher by 311bps QoQ. Term deposits grew 9% YoY.
- PPoP grew 19.3% YoY driven by improved NII.
- The GNPA were 1.36% vs a comparable 1.38% last quarter. The credit costs were 1.64% vs 1.25 last quarter and 1.51% last year.
- CAR was at 18.8%.

## MARKET DATA

Shares outs (Cr)	551
Equity Cap (INR Cr)	2,03,720
Mkt Cap (INR Cr)	7,78,404
52 Wk H/L (INR)	1,614/826
Volume Avg (3m K)	9,963
Face Value (INR)	1
Bloomberg Code	HDFCB IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	47,949
NIFTY	14,359

## KEY FINANCIALS

INR Cr	FY19	FY20	FY21	FY22E	FY23E
NII	48,243	56,186	64,879	77,587	95,592
PPOP	39,750	48,750	57,362	70,525	87,200
PAT	21,078	26,257	31,117	40,999	52,316
EPS (INR / Share)	39.2	47.9	56.5	74.4	95.0
BVPS (INR / Share)	273.9	311.8	369.9	425.7	497.0
NIM (%)	4.4%	4.4%	4.2%	4.3%	4.5%
Advances Growth YoY (%)	24.47%	21.27%	14.00%	18.00%	17.00%

Source: Company, KRChoksey Research

## Provisions remained elevated

The provisions remained elevated at INR 4,694 Cr, higher than our expectation. The bank provided additional INR 1,300 Cr as provisions towards contingencies. Overall credit cost rose to 1.64% vs 1.25% last quarter and 1.51% last year.

The asset quality improved to 1.3%, marginally lower than the proforma GNPA of 1.38%. The bank's provision cover including contingencies remain at 153% of GNPA.

## AUM grew at 14%, CASA strong

The AUM grew 14% YoY, with 21% YoY growth in wholesale book and 6.7% YoY growth in retail assets. Deposit outgrew advances – growing 16.3% YoY. CASA remained strong at 46.1% - up 310 bps QoQ/388 bps YoY. Term deposit grew 9% YoY.

Despite the liquidity drag, NIMs rose to 4.2% - higher by 7 bps QoQ. NII grew 12.6% YoY. The other income rose 25% YoY on a low base.

## Expense ratio rose to 37.1%

The expense ratio rose to 37.1%, 106 bps higher sequentially. The operating expenses rose 10.9% YoY, led by a higher opex growing at 12.5% YoY. We expect the cost to rise as activity improve.

## SHARE HOLDING PATTERN (%)

Particulars	Mar-21	Dec-20	Sep-20
Promoters	26.0	26.0	26.0
FIIIs	39.8	39.4	38.4
DIIIs	21.2	21.6	22.9
Others	13	13.0	12.7
Total	100	100	100.00

21.4%

NII CAGR between FY21 and FY23E

29.6%

PAT CAGR between FY21 and FY23E

## ANALYST

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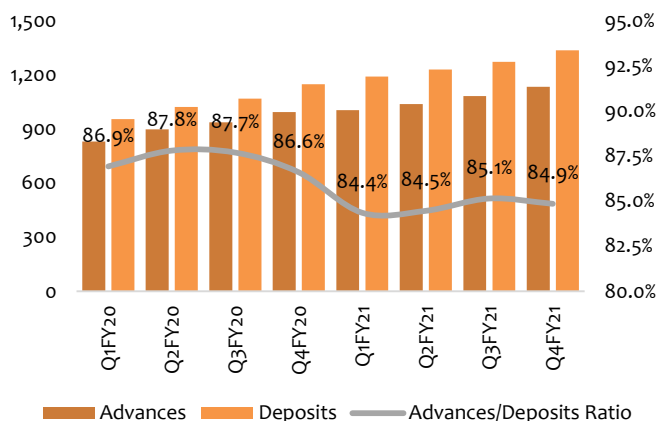
## Key Concall Highlights:

- Expect spend levels to increase. We anticipate the spend levels to increase, driven by sales, promotional activities, discretionary spends and investments.
- Issuance spend continued to show progress that it made in the previous quarter.
- It added 354 branches in the year, 123 branches in the quarter.
- It made Additional provision of INR 1,300 Cr in the quarter after utilising specific provision of INR 3,600 Cr of contingency provision.
- Recoveries were 25 bps of advances.
- Restructuring is INR 550 cr.
- Portfolio remains granular, implying lower risk.
- Retail deposits were 80% of total deposits.
- Wholesale banking grew 26.4% in customer assets.
- New clients acquired grew 6% YoY.
- Cheque bounce in retail was stable till March, It has slightly increased in April.
- 2.5 million corporate salary customers were added during this year.
- It added 354 branches and added 123 branches during the quarter.

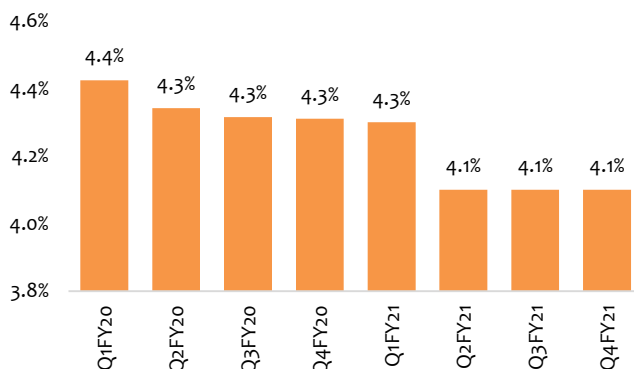
## Valuation and view

The operating income was largely in line with our expectation; however, the credit costs are higher. The impact of the second wave are unknown but the risk remain. While we do expect the credit costs to fall next year, it may remain elevated than otherwise. We expect a healthier advance growth on a relatively lower base and the bank remains well funded. We expect to witness improvement in NIMs. We expect CAGR in NII at 21.4%; PPoP at 23.3% and PAT at 29.66% over FY21-23E. It is currently trading at 2.9x FY23E P/ABV. Since our last update, the shares of HDFC Bank Ltd. has corrected by ~6.6%. **We maintain our target of INR 1,720 per share, implying a P/ABV of 3.5x FY23E P/ABV, an upside of 21.8% over the CMP. Accordingly, we upgrade the rating on the shares of HDFC Bank Ltd. to a BUY.** We expect this valuation to continue for the bank's market position and relatively stronger customer segment.

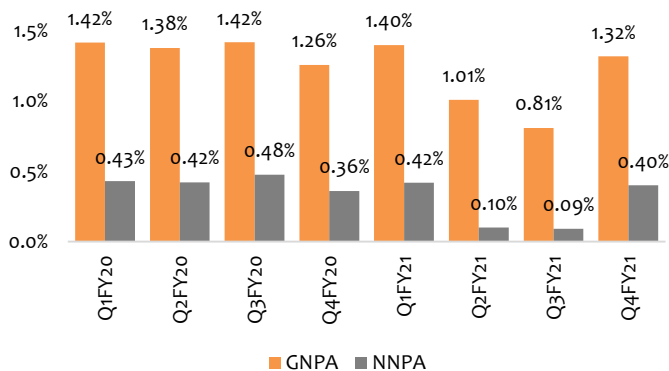
Advance/Deposit: Liquidity Increasing (INR 000' Cr)



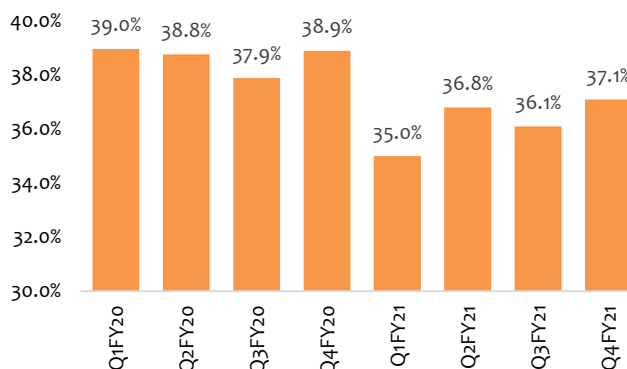
Net Interest Margins



Asset Quality



Cost/Income



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Cr	FY 19	FY 20	FY 21	FY 22E	FY23E
Interest Income	98,972	1,14,813	1,20,858	1,45,028	1,74,056
Interest Expense	50,729	58,626	55,979	67,441	78,464
<b>Net Interest Income</b>	<b>48,243</b>	<b>56,186</b>	<b>64,879</b>	<b>77,587</b>	<b>95,592</b>
Non interest income	17,626	23,261	25,205	30,870	36,259
Operating income	65,869	79,447	90,084	1,08,457	1,31,852
- Employee expense	7,762	9,526	10,365	11,686	13,818
- Other operating expense	18,358	21,172	22,358	26,245	30,834
Operating Expense	26,119	30,698	32,723	37,931	44,652
<b>PPOP</b>	<b>39,750</b>	<b>48,750</b>	<b>57,362</b>	<b>70,525</b>	<b>87,200</b>
Provisions	7,550	12,142	15,703	15,860	17,446
PBT	32,200	36,607	41,659	54,665	69,754
Tax Expense	11,122	10,350	10,542	13,666	17,439
<b>PAT</b>	<b>21,078</b>	<b>26,257</b>	<b>31,117</b>	<b>40,999</b>	<b>52,316</b>
Diluted EPS (INR)	39.20	47.89	56.50	74.44	94.99

Source: Company, KRChoksey Research

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## Exhibit 2: Balance Sheet

INR Cr	FY19	FY20	FY21	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	545	548	551	551	551
Reserves & Surplus	1,48,662	1,70,438	2,03,170	2,33,919	2,73,156
Networth	1,49,206	1,70,986	2,03,720	2,34,470	2,73,706
Borrowings	1,17,085	1,44,629	1,35,487	1,15,164	1,03,648
Deposits	9,23,141	11,47,502	13,35,060	15,95,397	19,06,499
Other liabilities & provisions	55,108	67,394	72,602	41,732	1,06,093
<b>Total Equity &amp; Liabilities</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>17,46,870</b>	<b>19,86,763</b>	<b>23,89,946</b>
<b>Uses of Funds</b>					
Balance w/ RBI	46,764	72,205	97,341	78,972	94,372
Balance w/ banks & others	34,584	14,414	22,130	15,954	9,532
Net investments	2,90,588	3,91,827	4,43,728	5,81,284	7,61,482
Loans & advances	8,19,401	9,93,703	11,32,837	13,36,747	15,63,994
Fixed assets	4,030	4,432	4,909	5,014	5,264
Other assets	49,174	53,931	45,926	47,763	49,673
<b>Total Assets</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>19,86,763</b>	<b>23,89,946</b>

Source: Company, KRChoksey Research

# HDFC Bank Ltd.

## Exhibit 3: Ratio Analysis

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
<b>Growth Rates</b>					
Advances (%)	24.5%	21.3%	14.0%	18.0%	17.0%
Deposits (%)	17.0%	24.3%	16.3%	19.5%	19.5%
Total assets (%)	17.0%	23.0%	14.1%	13.7%	20.3%
NII (%)	20.3%	16.5%	15.5%	19.6%	23.2%
Pre-provisioning profit (%)	21.8%	22.6%	17.7%	22.9%	23.6%
PAT (%)	20.5%	24.6%	18.5%	31.8%	27.6%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.8%	86.6%	84.9%	83.8%	82.0%
CASA (%)	42.4%	42.2%	46.1%	45.2%	44.2%
Advances/Total assets (%)	65.8%	64.9%	64.8%	67.3%	65.4%
Leverage - Total Assets to Equity	8.3	8.95	8.57	8.47	8.73
<b>Operating efficiency</b>					
Cost/income (%)	39.7%	38.6%	36.3%	35.0%	33.9%
Opex/total assets (%)	2.1%	2.0%	1.9%	1.9%	1.9%
Opex/total interest earning assets	2.4%	2.4%	2.1%	2.1%	2.1%
<b>Profitability</b>					
NIM (%)	4.4%	4.4%	4.2%	4.3%	4.5%
RoA (%)	1.8%	1.9%	1.9%	2.2%	2.4%
RoE (%)	16.5%	16.4%	16.6%	18.7%	20.6%
<b>Asset quality</b>					
Gross NPA (%)	1.4%	1.3%	1.3%	1.3%	1.2%
Net NPA (%)	0.4%	0.4%	0.6%	0.5%	0.5%
PCR (%)	71.4%	96.0%	69.8%	75.0%	75.0%
Slippage (%)	2.2%	2.2%	1.9%	1.8%	1.8%
Credit cost (%)	1.0%	0.8%	1.5%	1.3%	1.2%
<b>Per share data / Valuation</b>					
EPS (INR)	39.2	47.9	56.5	74.4	95.0
BVPS (INR)	273.9	311.8	369.9	425.7	497.0
ABVPS (INR)	268.0	305.4	361.6	418.0	488.3
P/E (x)	36.5	29.5	25.0	19.0	14.9
P/BV (x)	5.2	4.5	3.8	3.3	2.8
P/ABV (x)	5.3	4.6	3.9	3.4	2.9

Source: Company, KRChoksey Research

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HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-April-21	1,412	1,720	BUY	Buy	More than 15%
17-March-21	1,512	1,720	ACCUMULATE	Accumulate	5% – 15%
18-Jan-21	1,483	1,671	ACCUMULATE	Hold	0 – 5%
15-Dec-20	1,383	1,510	ACCUMULATE	Reduce	-5% – 0
19-Oct-20	1,204	1,427	BUY	Sell	Less than – 5%

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