

HDFC Bank

Refer to important disclosures at the end of this report

Q1 disrupted but guides for faster normalization as unlocking accelerates

- HDFCB reported a miss on PAT at Rs77bn (up 16% yoy) vs. est. of Rs80bn, as higher NPA formation (GNPA up 15bps qoq to 1.5%) weighed on margins/provisions, partly offset by higher forex income. Among the subsidiaries, HDFC Securities reported strong profitability, reflecting the buoyancy in the market, while HDB Financial Services saw asset-quality pressure.
- Credit growth remained moderate at 14% yoy, mainly due to continued retail drag, accentuated by Covid-induced lockdown and card suspension. However, the bank has guided for faster normalization after unlocking, subject to no 3rd Covid wave. As a strategy, the bank will continue to capture corporate market share but has built a strong SME portfolio to offset margin pressure.
- The bank has managed the first Covid wave well, but the GNPA ratio shot up to a decadal-high of 1.5% in Q1, reflecting accumulated Covid-induced stress in the retail portfolio and the impact of the health scare on collection teams' mobility. The bank expects collections to improve with better mobility after unlocking, while we believe that it could use the contingent provision buffer (0.7% of loans) to moderate LLP in H2, leading to better profitability.
- We retain Buy with a TP of Rs1,850 (valuing core bank at 3.5x Jun'23E ABV and subs at Rs65/share) given its proven track record in managing asset quality across cycles and delivering superior return ratios. RBI special tech audit is over and clarity on lifting card business suspension should be imminent, which otherwise remains a key overhang on the stock.

Growth slips amid pandemic but guides for strong pent-up demand: Retail growth remains sub-par at 9% yoy due to the Covid-induced demand disruption, conscious stance in VF/PL and the continued suspension of new card business by the RBI. The bank remains hopeful of lifting of the card suspension by the RBI, after which it would look at accelerated growth and regain market share, driven by aggressive offerings. It also expects strong pent-up demand in the retail segment as the signs are already visible after unlocking in vehicle sales, and it would look at regaining its market dominance. The bank continues to gain market share from PSBs on the corporate front to drive scale and long-term fee business, but it could be margin-dilutive in the interim, which was partly manifested in the recent margin weakness. To partly offset the margin pressure, the bank is strategically building a strong SME portfolio (already at 21% of loans) and could see support from a re-acceleration in retail growth as the pandemic effect recedes.

Asset quality slips but buffers in place to limit credit cost: HDFCB's GNPA ratio slipped to a decadal-high of 1.47%, mainly due to elevated stress in the retail/agri portfolios and lower collections due to limited team mobility. Its subsidiary HDB Financial Services too reported a jump in GNPA to 7.8% from 3.9% in Q4FY21. The bank's restructured book has increased to Rs78bn (0.7% of loans vs. 0.6% in Q4) and potentially can inch up further with some more restructuring expected before Sep-end. It expects NPA formation/collection efficiency to normalize soon with unlocking, unless there is an aggressive 3rd Covid wave. Thus, as a prudent strategy, HDFCB further shored up contingent buffers in Q1 instead of consuming them, which now stand Rs80bn (0.7% of loans), including floating provisions.

Outlook and valuations: The bank had far better asset-quality outcome during the first wave and should be able to bounce back from the second wave as well, given its strong collection mechanism. We trim our earnings estimates for FY22/FY23 by 1%, factoring in the margin softness given changing portfolio mix, but the bank should still be able to deliver superior 2% RoA/17-18% RoE over FY22-24E. We retain Buy/OW stance in EAP with a TP of Rs1,850, valuing the core bank now at 3.5x Jun'23E P/ABV and subs at Rs65/share. **Key risks:** Delay in lifting of the credit card business suspension by the RBI and growth/asset quality normalization in case of an extended Covid wave.

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	900,843	1,020,999	1,214,959	1,444,265
Net profit	262,570	311,162	372,327	447,037	534,664
EPS (Rs)	48.0	56.6	67.5	80.9	96.7
ABV (Rs)	308.0	364.3	425.2	493.4	572.8
RoA (%)	1.9	1.9	2.0	2.0	2.0
RoE (%)	16.4	16.6	16.9	17.3	17.8
PE (x)	31.7	26.9	22.6	18.8	15.7
P/ABV	4.7	4.0	3.4	2.9	2.5

Source: Company, Emkay Research

CMP	Target Price
Rs 1,522 as of (July 17, 2021)	Rs 1,850 (■) 12 months
Rating	Upside
BUY (■)	21.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-(1)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	67.5	80.9
Consensus	67.8	81.2
Mean Consensus TP (12M)	Rs 1,748	

Stock Details

Bloomberg Code	HDFCB IN
Face Value (Rs)	1
Shares outstanding (mn)	5,527
52 Week H/L	1,789 / 993
M Cap (Rs bn/USD bn)	8,414 / 112.84
Daily Avg Volume (nos.)	7,805,207
Daily Avg Turnover (US\$ mn)	152.7

Shareholding Pattern Jun '21

Promoters	21.1%
FIIIs	32.1%
DIIIs	17.5%
Public and Others	29.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	7	4	43
Rel. to Nifty	2	(2)	(6)	(3)

Relative price chart



Source: Bloomberg

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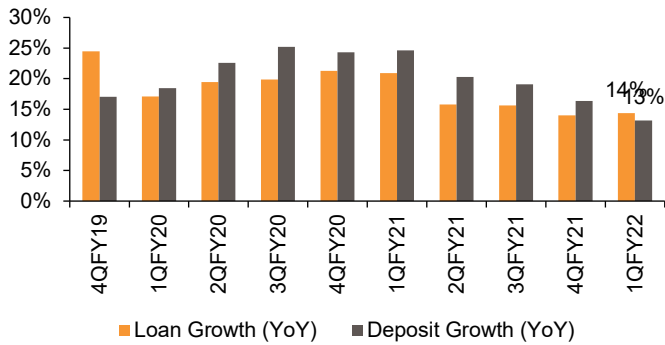
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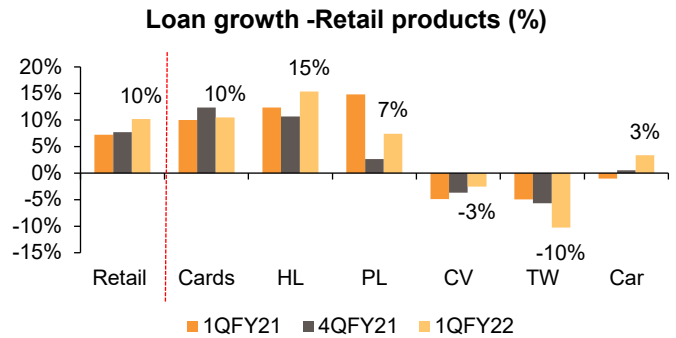
Story in Charts

Exhibit 1: Overall credit growth remains moderate due to continued sluggishness in its retail book



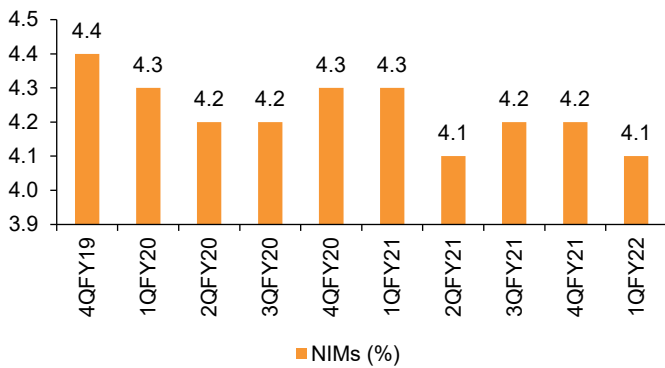
Source: Company, Emkay Research

Exhibit 2: HDFCB remains conscious in VF portfolio, while business suspension and reduction in revolver share hurt card book



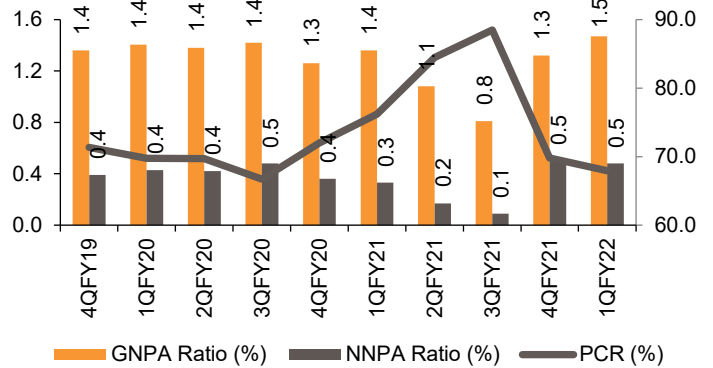
Source: Company, Emkay Research

Exhibit 3: Changing portfolio mix toward corporate, higher NPA formation and adjustment of interest waiver hurt margins



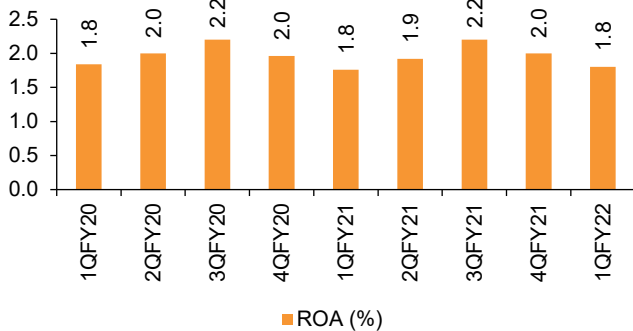
Source: Company, Emkay Research

Exhibit 4: NPA resurgence driven by Covid-induced disruption but it should moderate with accelerating unlocking of the economy



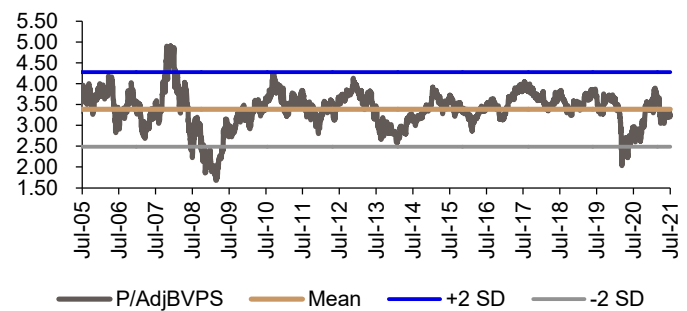
Source: Company, Emkay Research

Exhibit 5: Lower margins, higher credit cost depress RoA



Source: Emkay Research, Company

Exhibit 6: The stock currently trades at 3.2x 1-year forward ABV



Source: Emkay Research, Company

Exhibit 7: Actual vs. Estimates (Q1FY22)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	232,975	223,674	235,421	4%	-1%	Lower NIMs, but higher forex income led to a beat
PPOP	151,370	144,381	152,152	5%	-1%	Better net income supported PPOP
PAT	77,296	79,700	82,026	-3%	-6%	Higher LLP led to a miss

Source: Emkay Research, Company

Exhibit 8: Quarterly Summary

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY21A	FY22E	YoY (%)
Interest Earned	303,780	299,770	300,797	304,236	304,830	0	0	1,208,582	1,332,351	10
Interest Exp	147,126	142,006	137,621	133,034	134,740	-8	1	559,786	595,234	6
Net Interest Income	156,654	157,764	163,176	171,202	170,090	9	-1	648,795	737,117	14
Global NIMs (reported)	4.30	4.10	4.20	4.20	4.10	-20bps	-10bps	4.11	4.07	-4bps
Non-interest Income	40,753	60,925	74,432	75,939	62,885	54	-17	252,048	283,882	13
Operating Expenses	69,114	80,551	85,748	91,813	81,604	18	-11	327,225	376,020	15
Pre Provisioning Profit	128,293	138,138	151,860	155,328	151,370	18	-3	573,619	644,979	12
Provision & Contingencies	38,915	37,035	34,141	46,937	48,308	24	3	157,029	147,212	-6
PBT	89,378	101,103	117,719	108,391	103,062	15	-5	416,590	497,767	19
Income Tax Expense (Gain)	22,791	25,972	30,136	26,526	25,766	13	-3	105,425	125,437	19
Net Profit/(Loss)	66,586	75,131	87,583	81,865	77,296	16	-6	311,165	372,330	20
Gross NPA (%)	1.36	1.08	0.81	1.32	1.47	11bps	15bps	1.32	1.38	6bps
Net NPA (%)	0.33	0.17	0.09	0.50	0.48	15bps	-2bps	0.40	0.35	-5bps
Deposits (Rs in bn)	11,894	12,293	12,711	13,351	13,458	13	1	13,351	15,661	17
Net Advances (Rs in bn)	10,033	10,383	10,823	11,328	11,477	14	1	11,328	13,239	17

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	1,051,182	1,020,999	-2.9%	1,234,116	1,214,959	-1.6%	1,466,758	1,444,265	-1.5%
PPOP	664,921	644,979	-3.0%	770,919	772,062	0.1%	908,215	907,173	-0.1%
PAT	376,010	372,330	-1.0%	450,993	447,040	-0.9%	530,336	534,667	0.8%
EPS (Rs)	68.2	67.5	-1.1%	81.8	80.9	-1.1%	96.2	96.7	0.6%
BV (Rs)	432.7	431.5	-0.3%	504.6	501.8	-0.5%	585.6	583.6	-0.3%

Source: Emkay Research

Exhibit 10: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	14.0	16.9	22.0	20.0
Deposit Growth %	16.3	17.3	20.4	19.9
NIM %	4.1	4.1	4.2	4.2
GNPA %	1.3	1.4	1.4	1.5
Credit Cost %	1.5	1.2	1.1	1.0

Source: Emkay Research

Exhibit 11: Key ratios and trends

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Loans (Rs bn)	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,328	11,477
YoY growth (%)	17.1	19.5	19.9	21.3	20.9	15.8	15.6	14.0	14.4
QoQ growth (%)	1.2	8.1	4.4	6.2	1.0	3.5	4.2	4.7	1.3
Deposits (Rs bn)	9,546	10,216	10,674	11,475	11,894	12,293	12,711	13,351	13,458
YoY growth (%)	18.5	22.6	25.2	24.3	24.6	20.3	19.1	16.3	13.2
QoQ growth (%)	3.4	7.0	4.5	7.5	3.7	3.4	3.4	5.0	0.8
CA (Rs bn)	1257	1368	1439	1742	1501	1630	1721	2122	1857
SA (Rs bn)	2533	2644	2779	3104	3274	3484	3746	4035	4261
CASA %	39.7	39.3	39.5	42.2	40.1	41.6	43.0	46.1	45.5
CA %	13.2	13.4	13.5	15.2	12.6	13.3	13.5	15.9	13.8
SA %	26.5	25.9	26.0	27.0	27.5	28.3	29.5	30.2	31.7
NIM %	4.3	4.2	4.2	4.3	4.3	4.1	4.2	4.2	4.1
Branches	5,130	5,314	5,345	5,416	5,326	5,430	5,485	5,608	5,653
Asset Quality & Capital Adequacy (%)									
GNPA	1.40	1.38	1.42	1.26	1.36	1.08	0.81	1.32	1.47
NNPA	0.43	0.42	0.48	0.36	0.33	0.17	0.09	0.50	0.48
PCR	69.4	69.6	66.2	71.4	75.7	84.3	88.9	62.1	67.3
CAR	16.9	17.5	18.5	18.5	18.9	19.1	18.9	18.8	19.1
Tier I	15.6	16.2	17.1	17.2	17.5	17.7	17.6	17.6	17.9
ROE Decomposition (%)									
NII	4.2	4.2	4.2	4.2	4.1	4.0	4.0	4.0	3.9
Other Income (Ex Treasury)	1.5	1.6	1.8	1.5	0.8	1.3	1.6	1.6	1.3
Opex	2.3	2.3	2.3	2.3	1.8	2.0	2.1	2.2	1.9
PPOP	3.6	3.6	3.8	3.5	3.3	3.5	3.7	3.7	3.5
Provisioning Cost	0.8	0.8	0.9	1.0	1.0	0.9	0.8	1.1	1.1
PBT	2.7	2.8	2.9	2.5	2.3	2.6	2.9	2.5	2.4
ROA	1.8	2.0	2.2	1.9	1.7	1.9	2.1	1.9	1.8
ROE	14.3	16.3	18.1	16.2	15.0	16.1	18.0	16.1	14.6

Source: Emkay Research, Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	561,863	648,795	737,117	886,687	1,068,552
Other income	232,608	252,048	283,882	328,271	375,713
Fee income	163,337	161,693	187,564	221,325	265,590
Net income	794,471	900,843	1,020,999	1,214,959	1,444,265
Operating expenses	306,975	327,225	376,020	442,897	537,092
Pre provision profit	487,495	573,619	644,979	772,062	907,173
PPP excl treasury	468,152	534,949	614,043	747,313	887,374
Provisions	121,424	157,029	147,212	174,414	192,378
Profit before tax	366,072	416,590	497,767	597,647	714,795
Tax	103,498	105,425	125,437	150,607	180,128
Tax rate	28	25	25	25	25
Profit after tax	262,573	311,165	372,330	447,040	534,667

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,483	5,513	5,527	5,527	5,527
Reserves	1,704,377	2,031,695	2,376,390	2,768,160	3,219,922
Net worth	1,709,860	2,037,208	2,381,917	2,773,687	3,225,449
Deposits	11,475,023	13,350,601	15,660,554	18,861,028	22,620,788
Borrowings	1,263,965	1,183,602	1,025,931	1,128,525	1,241,377
Total liabilities	15,305,113	17,468,704	19,949,421	24,005,284	28,603,556
Cash and bank	722,051	973,407	1,022,077	1,073,181	1,126,840
Investments	3,918,267	4,437,282	4,994,164	5,840,715	6,864,476
Loans	9,937,029	11,328,366	13,238,673	16,151,089	19,379,423
Others	539,311	459,260	525,213	590,257	665,447
Total assets	15,305,113	17,468,704	19,949,421	24,005,284	28,603,556

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.2	4.1	4.1	4.2	4.2
Non-II/avg assets	1.7	1.5	1.5	1.5	1.4
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	2.0
Provisions/avg assets	0.9	1.0	0.8	0.8	0.7
PBT/avg assets	2.6	2.5	2.7	2.7	2.7
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	16.6	16.9	17.3	17.8
GNPA (%)	1.3	1.3	1.4	1.4	1.5
NNPA (%)	0.4	0.4	0.3	0.4	0.4

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	48.0	56.6	67.5	80.9	96.7
BVPS	312.9	370.5	431.5	501.8	583.6
ABVPS	308.0	364.3	425.2	493.4	572.8
DPS	2.5	6.5	5.0	10.0	15.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	31.7	26.9	22.6	18.8	15.7
P/BV	4.9	4.2	3.6	3.1	2.7
P/ABV	4.7	4.0	3.4	2.9	2.5
P/PPOP	16.2	13.8	12.3	10.3	8.8
Dividend Yield (%)	0.2	0.4	0.3	0.7	1.0

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.5	15.5	13.6	20.3	20.5
PPOP	22.6	17.7	12.4	19.7	17.5
PAT	24.6	18.5	19.7	20.1	19.6
Loans	21.3	14.0	16.9	22.0	20.0

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	156,654	157,764	163,176	171,202	170,090
NIM(%)	4.3	4.1	4.2	4.2	4.1
PPOP	128,293	138,138	151,860	155,328	151,370
PAT	66,586	75,131	87,583	81,865	77,296
EPS (Rs)	12.13	13.65	15.90	14.85	13.99

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	21.2	21.2	21.2	21.1	21.1
FIIIs	30.1	30.4	32.0	32.4	32.1
DIIIs	17.8	18.4	17.5	17.1	17.5
Public and Others	30.9	30.0	29.4	29.4	29.4

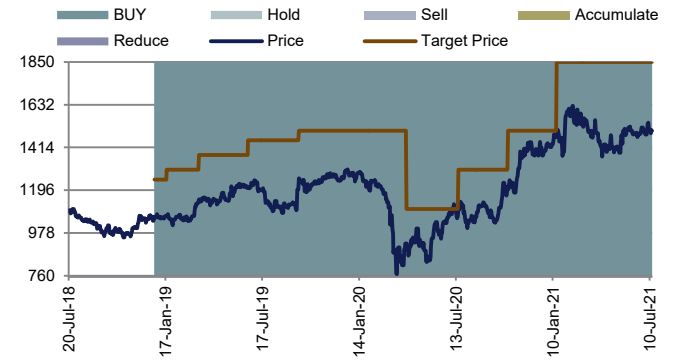
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Apr-21	1,429	1,850	12m	Buy	Anand Dama
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	1,188	1,450	12m	Buy	Anand Dama
20-Jun-19	1,213	1,450	12m	Buy	Anand Dama
20-Apr-19	1,147	1,375	12m	Buy	Anand Dama
20-Mar-19	1,150	1,375	12m	Buy	Anand Dama
19-Jan-19	1,065	1,300	12m	Buy	Anand Dama
27-Dec-18	1,053	1,250	12m	Buy	Anand Dama

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 13 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	20.51	20.51	0.0%	0	100.00
Axis Bank	2.24	2.34	5%	11	11.43
AU Small Finance Bank	0.29	0.21	-29%	-8	1.00
Bandhan Bank	0.25	0.25	0%	0	1.24
Bank of Baroda	0.17	0.15	-14%	-2	0.72
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.13	0.13	0%	0	0.64
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.11
Federal Bank	0.19	0.19	0%	0	0.94
HDFC Bank	6.80	6.90	1%	10	33.65
ICICI Bank	5.06	5.24	4%	18	25.56
Indian Bank	0.00	0.04	NA	4	0.20
Indusind Bank	0.67	0.79	18%	12	3.87
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.51	2.16	-14%	-35	10.54
Punjab National Bank	0.13	0.00	-100%	-13	0.00
RBL Bank	0.12	0.09	-27%	-3	0.42
State Bank of India	1.82	1.99	9%	17	9.68
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.05	0.00	-100%	-5	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

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	16-Jul-20	14-Jan-21	15-Apr-21	15-Jun-21	15-Jul-21
EAP - BFSI-Banks	100.0	74.7	111.2	110.3	120.3	122.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	73.7	109.3	108.2	117.8	120.0

*Performance measurement base date 1st April 2019

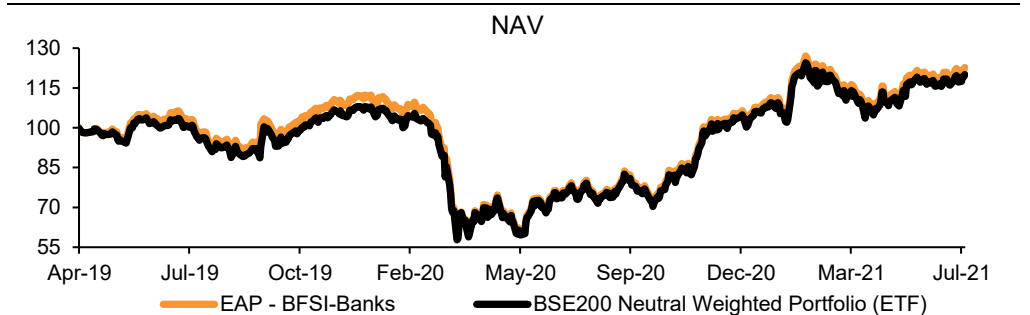
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	2.0%	11.2%	10.3%	64.3%
BSE200 Neutral Weighted Portfolio (ETF)	1.9%	10.9%	9.9%	62.8%

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 Jul 2021 13:34:53 (SGT)

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