

# HDFC Bank Ltd.



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**Asset quality declines with lower collections**

CMP <b>INR 1,471</b>	Target <b>INR 1,720</b>	Potential Upside <b>16.9%</b>	Market Cap (INR Cr) <b>INR 8,13,754</b>	Recommendation <b>BUY</b>	Sector <b>Banks</b>
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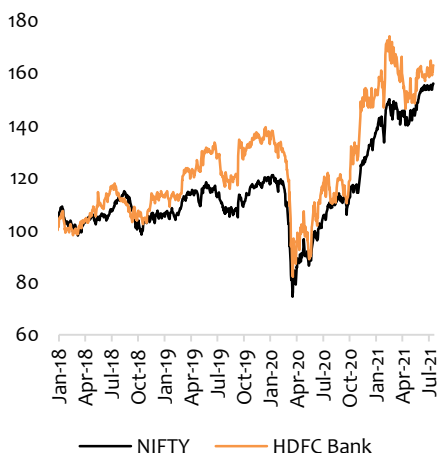
## Result Highlights:

- In Q1FY22, NII grew to INR 17,009 Cr from INR 15,665 Cr in Q1FY21 (8.6% YoY growth) driven by advances growth of 14% YoY. The Bank's continued focus on deposits helped in maintenance of a healthy liquidity coverage ratio at 126%.
- PPOP grew 18% YoY at INR 15,137 Cr in Q1FY22 from INR 12,829 Cr in Q1FY21 driven by other income (non-interest income) growth of 54% YoY at INR 6,289 Cr.
- Provisions for Q1FY22 stood at INR 4,831 Cr, an increase of 24% YoY and 3% QoQ. The GNPA were 1.47% in Q1FY22 vs a comparable 1.32% in Q4FY21. The credit costs was reported at 1.67% in Q1FY22 vs 1.64% in Q4FY21 and 1.54% in Q1FY21.
- In Q1FY22, the retail loans grew by 9.3% YoY while the commercial banking loans grew by 25% YoY and other wholesale loans grew by 10.2% YoY. The overseas advances constituted around 3% to the total advances. On deposit front, CASA grew 28% YoY while term deposits grew 3.1% YoY.
- CAR was at 19.1% in Q1FY22 as against 18.9% in Q4FY21, improvement of 20 bps QoQ.

## MARKET DATA

Shares outs (Cr)	553
Equity Cap (INR Cr)	2,12,488
Mkt Cap (INR Cr)	8,13,754
52 Wk H/L (INR)	1,641/993
Volume Avg (3m K)	7,312
Face Value (INR)	1
Bloomberg Code	HDFCB IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	52,553
NIFTY	15,752

## SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	25.9	26.0	26.0
FIIIs	39.5	39.8	39.4
DIIIs	21.7	21.2	21.6
Others	12.9	13.0	13.0
Total	100.0	100.0	100.0

## KEY FINANCIALS

INR Cr	FY19	FY20	FY21	FY22E	FY23E
NII	48,243	56,186	64,879	74,113	89,499
PPOP	39,750	48,750	57,362	66,769	80,491
PAT	21,078	26,257	31,117	38,182	47,284
EPS (INR / Share)	39.2	47.9	56.5	69.3	85.9
BVPS (INR / Share)	273.9	311.8	369.9	421.9	486.3
NIM (%)	4.4%	4.4%	4.2%	4.2%	4.3%
Advances Growth YoY (%)	24.47%	21.27%	14.00%	16.00%	17.00%

Source: Company, KRChoksey Research  
**Elevated slippages**

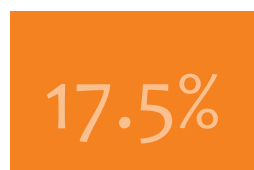
Slippages increased at 2.54% in Q1FY22 as against 1.66% in Q4FY21 and 1.2% in Q1FY21. Collections during the quarter were hurt by the second wave of covid-19, which resulted in a substantial deterioration in asset quality, particularly on the retail front, during the months of April and May-21. The asset quality worsened during the quarter, with the GNPA/NNPA ratio at 1.47%/0.48% (+15 bps/ + 8 bps QoQ) as a result of lower collection and an increase in slippages. The provision was INR 4,831 crores, with the bank holding a floating provision of INR 1,451 crores in Q1FY22. As of June 30, 2021, the total contingent provisions amounted at INR 6,596 crores. According to the RBI guideline, restructuring stands at 80bps, with most of the retail restructuring flowing to the unsecured portfolio. We expect that asset quality will be under pressure in the short term. We anticipate that the floating provisions will keep credit costs under control and have a modest impact on profitability.

## AUM grew at 14%; CASA strong

HDFC Bank reported a 14% YoY growth in Q1FY22 at INR 11,47,652 Cr. The growth was led by a 25% YoY increase in commercial and rural banking loans. The credit card business saw a sharp decline with RBI restrictions. Deposits for Q1FY22 saw a growth of 13% YoY at INR 13,45,829 Cr from INR 11,89,387 Cr. CASA growth continues to be robust at 28% YoY. We expect a substantial pickup in H2FY22E due to the economy's opening, hence we estimate loans to increase by 16%/17.0% in FY22E/FY23E. The liability franchise is expected to remain strong, with significant support on the CASA deposit front, which will boost a healthy margin outlook.

## Operating performance moderates

NIMs were lower by 15 bps QoQ in Q1FY22 due to lower yielding asset mix and reversals on slippages. The fee income saw a 74% YoY growth at INR 6,289 Cr on low base of Q1FY21 but declined 23% QoQ due to lower core income fee. The core fee income was impacted because third-party product sales were drastically reduced. HDFC Bank reported PPOP growth of 18% YoY in Q1FY22 on the back of improvement in the cost to income ratio which stood at 35.0%. We expect the cost-to-income ratio to be 36-37% with increase in the level of economic activity.



NII CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

## ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576  
[www.krchoksey.com](http://www.krchoksey.com)

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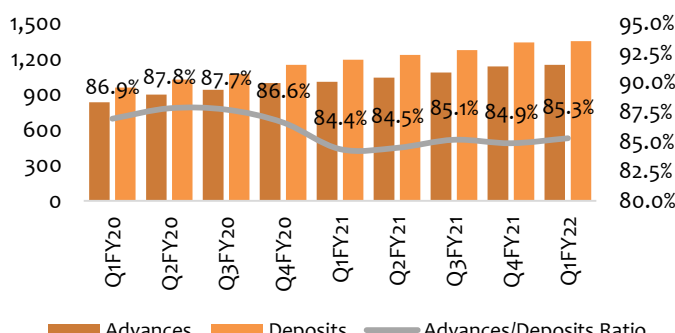
## Key Concall Highlights:

- In Q1FY22, SME portfolio utilization saw a consistent standing at 70-75% despite Covid-19 related problems. The GNPA remained rangebound for this portfolio while the incremental NPA saw a sequential decline.
- Higher net interest reversal, low yielding asset mix, and lower credit card revolving balances have an influence on NII during Q1FY22.
- The bank anticipates the cost-to-income ratio to climb to 38-39% in the near term as economic activity rebounds but has maintained its long-term guidance of 35%.
- In Q1FY22, branch opening was hampered. As the economy picks up, it aims to open 150 new branches in the coming quarters.
- HDFC Bank sees corporate deleveraging happening in a few sectors.
- The restructuring stands at 80 bps in Q1FY22, and few more approvals of restructuring are expected in Q2FY22E.
- AAA/AA loan book contributes ~80% of the total corporate book as of 30<sup>th</sup> June 2021.
- Wholesale lending growth is mostly driven by PSUs. The corporate deleverage increased the paydown rate during the quarter.
- The bank has guided for a strong growth outlook for the wholesale portfolio, owing to increased economic activity by large corporates and improved earnings in SME businesses.
- During Q1FY22, Transportation finance business was flattish on sequential basis but is seeing signs of improvement since Jun-21.
- In Q1FY22, the ECLGS disbursement for 1.0 stood at INR 300 bn while for 2.0 & 3.0 was at INR 30 bn together.
- Spending per card was 1.4x the industry average during Q1FY22.

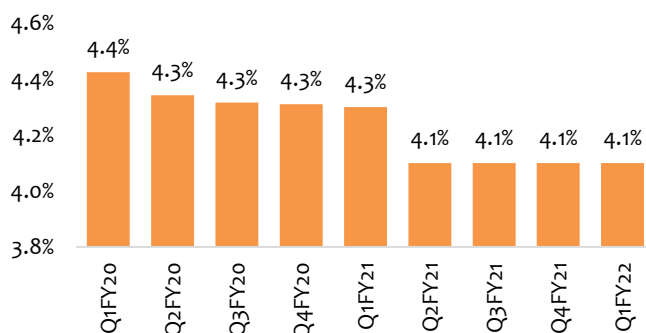
## Valuation and view

The operating income was slightly lower than our expectation in Q1FY22. The credit costs during Q1FY22 were higher owing to disruption due to second wave of Covid-19. The impact of the second wave on the business was severe. We do expect the credit costs to fall next year, it may remain elevated for H1FY22E. We expect a healthier advance growth with improvement in the economic activity and the bank remains well funded. We expect to witness improvement in NIMs in medium to long term. In near term, lifting of the restrictions by RBI needs to be watched out which can act as a positive trigger for the bank. We expect CAGR in NII at 17.5%; PPOP at 18.5% and PAT at 23.3% over FY21-23E. Since our last update, the shares of HDFC Bank Ltd. has declined minorly by ~2% and is currently trading at 3.1x FY23E P/ABV. **We maintain our target price of INR 1,720 per share, implying a P/ABV of 3.6x FY23E P/ABV, an upside of 16.9% over the CMP. Accordingly, we reiterate our BUY rating on the shares of HDFC Bank Ltd.** We expect this valuation to continue for the bank's market position and relatively stronger customer segment. We are also positive on the bank's overall outlook considering a healthy operating performance, strong brand equity and improvement on asset quality front.

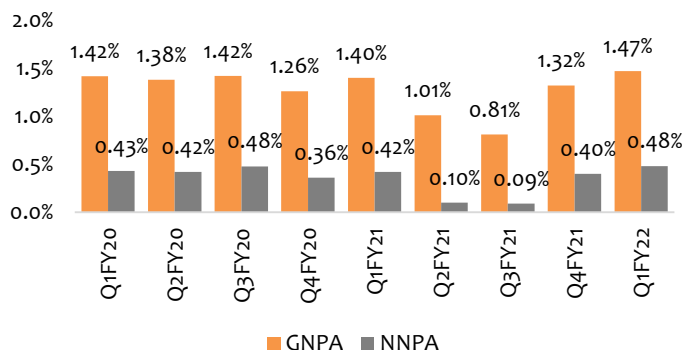
Advance/Deposit: Liquidity Increasing (INR 000' Cr)



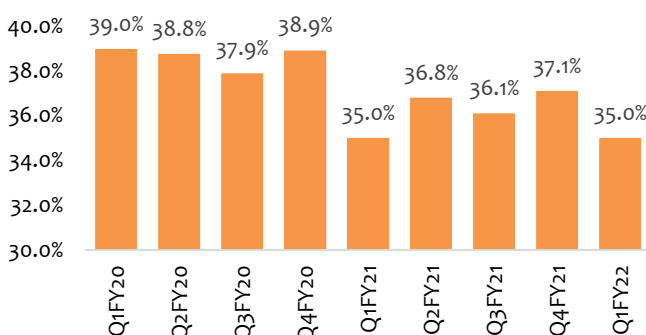
Net Interest Margins



Asset Quality



Cost/Income



Source: Company, KRChoksey Research

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Parvati Rai, [head-research@krchoksey.com](mailto:head-research@krchoksey.com), +91-22-6696 5413

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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	1,41,555	1,67,535
Interest Expense	50,729	58,626	55,979	67,441	78,037
<b>Net Interest Income</b>	<b>48,243</b>	<b>56,186</b>	<b>64,879</b>	<b>74,113</b>	<b>89,499</b>
Non interest income	17,626	23,261	25,205	30,587	35,645
Operating income	65,869	79,447	90,084	1,04,700	1,25,143
- 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>66,769</b>	<b>80,491</b>
Provisions	7,550	12,142	15,703	15,860	17,446
PBT	32,200	36,607	41,659	50,909	63,046
Tax Expense	11,122	10,350	10,542	12,727	15,761
<b>PAT</b>	<b>21,078</b>	<b>26,257</b>	<b>31,117</b>	<b>38,182</b>	<b>47,284</b>
Diluted EPS (INR)	39.20	47.89	56.50	69.32	85.85

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	2,31,806	2,67,269
Networth	1,49,206	1,70,986	2,03,720	2,32,356	2,67,820
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	18,82,568
Other liabilities & provisions	55,108	67,394	72,602	21,188	1,09,282
<b>Total Equity &amp; Liabilities</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>19,64,106</b>	<b>23,63,318</b>
<b>Uses of Funds</b>					
Balance w/ RBI	46,764	72,205	97,341	78,972	93,187
Balance w/ banks & others	34,584	14,414	22,130	15,954	9,413
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	13,14,090	15,37,486
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>19,64,106</b>	<b>23,63,318</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%	16.0%	17.0%
Deposits (%)	17.0%	24.3%	16.3%	19.5%	18.0%
Total assets (%)	17.0%	23.0%	14.1%	12.4%	20.3%
NII (%)	20.3%	16.5%	15.5%	14.2%	20.8%
Pre-provisioning profit (%)	21.8%	22.6%	17.7%	16.4%	20.6%
PAT (%)	20.5%	24.6%	18.5%	22.7%	23.8%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.8%	86.6%	84.9%	82.4%	81.7%
CASA (%)	42.4%	42.2%	46.1%	45.2%	44.0%
Advances/Total assets (%)	65.8%	64.9%	64.8%	66.9%	65.1%
Leverage - Total Assets to Equity	8.3	8.95	8.57	8.45	8.82
<b>Operating efficiency</b>					
Cost/income (%)	39.7%	38.6%	36.3%	36.2%	35.7%
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%	4.2%	4.3%
RoA (%)	1.8%	1.9%	1.9%	2.1%	2.2%
RoE (%)	16.5%	16.4%	16.6%	17.5%	18.9%
<b>Asset quality</b>					
Gross NPA (%)	1.4%	1.3%	1.3%	1.5%	1.2%
Net NPA (%)	0.4%	0.4%	0.6%	0.6%	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%	1.5%	1.2%
<b>Per share data / Valuation</b>					
EPS (INR)	39.2	47.9	56.5	69.3	85.9
BVPS (INR)	273.9	311.8	369.9	421.9	486.3
ABVPS (INR)	268.0	305.4	361.6	414.2	477.8
P/E (x)	38.0	30.7	26.0	21.2	17.1
P/BV (x)	5.4	4.7	4.0	3.5	3.0
P/ABV (x)	5.5	4.8	4.1	3.5	3.1

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-Jul-21	1,471	1,720	BUY	Buy	More than 15%
30-Jun-21	1,502	1,720	BUY		
19-April-21	1,412	1,720	BUY	Accumulate	5% – 15%
17-March-21	1,512	1,720	ACCUMULATE		
18-Jan-21	1,483	1,671	ACCUMULATE	Hold	0 – 5%
15-Dec-20	1,383	1,510	ACCUMULATE		
19-Oct-20	1,204	1,427	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

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