

# HDFC Bank

Refer to important disclosures at the end of this report

## Growth accelerates, but higher restructuring a tad disappointing

- HDFCB reported a slight miss on profits at Rs88bn (est: Rs89bn) in Q2FY22, mainly due to lower NIMs (4.1%), higher staff expenses and accelerated contingent provisions (Rs12bn). The headline NPA ratio improved by 12bps qoq to 1.4% due to lower slippages and better recoveries, but higher restructuring at 1.7% of loans (mainly in PL) was slightly disappointing.
- Credit growth improved to 15.5% yoy/4.5% qoq due to better traction in retail loans (up 13% yoy) and commercial loans (up 28% yoy). Wholesale loan growth moderated to 6% yoy, but the bank sees improving growth opportunities in the corporate segment. It expects NIM to improve in H2FY22 as retail growth accelerates led by strong demand and receding risk aversion.
- On-time Recovery (OTR) has improved to pre-Covid levels at 97.5%, leading to moderate net slippages. HDFCB has adopted liberal restructuring (borrower-wise) in the retail segment, but expects a low relapse rate (10-20bps of overall loans). It carries reasonably healthy contingent + floating provisions at 0.8% of loans, which should keep incremental LLP in check.
- We believe growth acceleration and the lifting of an embargo on the credit card business are positive factors, while further relief on Digital 2.0 initiatives is awaited. Retain Buy with a revised TP of Rs2,050 (valuing core bank at 3.5x Dec'23E ABV and subs at Rs65/share), given its ability to deliver superior return ratios across cycles.

**Growth is normalizing and should accelerate further as economy opens up:** Retail credit growth improved to 13% yoy, driven by healthy growth in home, auto, PL and payment products (including cards). HDFCB expects further acceleration in retail growth on the back of strong pent-up demand as economy opens up and onset of the festive season. According to management, the commercial and rural business remains on track to achieve ~25% yoy growth in FY22, aided by market share gains in semi-urban and rural areas with improved customer acquisition and a plan in place for a deeper geographical penetration. HDFCB continues to focus on gaining market share in the corporate segment to drive scale and long-term fee business, but it could be margin-dilutive in the interim, partly offset by strong growth in the SME portfolio. Pressure on margins was evident during, which in Q2, despite a strong growth in CASA (up 29% yoy) and retail acceleration remained low at 4.1% (stable qoq).. However, management expects some improvement in NIMs as retail/SME growth accelerates.

**NPAs down, but restructuring surges; healthy provisioning buffer comforting:** HDFCB's GNPA ratio improved by 12bps qoq to 1.35% due to a relatively lower fresh NPA formation (1.8% vs. 2.5% in Q1). Its subsidiary HDB Financial Services too reported a 200bps qoq improvement in GNPA to 6.1% from 7.8% in Q1FY22. However, the restructuring pool for the bank surged sharply qoq to Rs203bn (1.7% of loans vs. 0.68% in Q1), mainly led by liberal restructuring in PL book, but it expects a low relapse rate (0.1%-0.2% of overall loans). As a prudent strategy, HDFCB made additional Rs12bn provisions in Q2 and now carries a contingent + floating buffer of Rs92bn (0.8% of loans).

**Outlook and valuations:** We believe that growth acceleration and the lifting of the embargo on the credit card business are positive; however, lower margins and higher restructuring in Q2 were a tad disappointing. We trim our earnings estimates for FY22/FY23 by 1%, factoring in softness in the margin and higher opex. We believe 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 Rs2,050, valuing the core bank now at 3.5x Dec'23E P/ABV and subs at Rs65/share. **Key risks:** Delay in 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	1,014,739	1,195,582	1,420,487
Net profit	262,570	311,162	369,587	443,015	531,048
EPS (Rs)	48.0	56.6	66.9	80.0	95.9
ABV (Rs)	308.0	364.3	423.6	494.3	581.0
RoA (%)	1.9	1.9	2.0	2.0	2.0
RoE (%)	16.4	16.6	16.7	17.1	17.5
PE (x)	35.1	29.8	25.2	21.1	17.6
P/ABV	5.3	4.5	3.8	3.3	2.8

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 1,687 as of (October 16, 2021)	Rs 2,050 (▲) 12 months
<b>Rating</b>	<b>Upside</b>
BUY (■)	21.5 %

### Change in Estimates

EPS Chg FY22E/FY23E (%)	(0.8)/(1.1)
Target Price change (%)	10.8
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	66.9	80.0
Consensus	66.2	79.3
Mean Consensus TP (12M)	Rs 1,827	

### Stock Details

Bloomberg Code	HDFCB IN
Face Value (Rs)	1
Shares outstanding (mn)	5,537
52 Week H/L	1,789 / 1,164
M Cap (Rs bn/USD bn)	9,344 / 124.16
Daily Avg Volume (nos.)	6,674,366
Daily Avg Turnover (US\$ mn)	135.6

### Shareholding Pattern Jun '21

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

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	9	13	20	39
<b>Rel. to Nifty</b>	3	(3)	(5)	(9)

### Relative price chart



Source: Bloomberg

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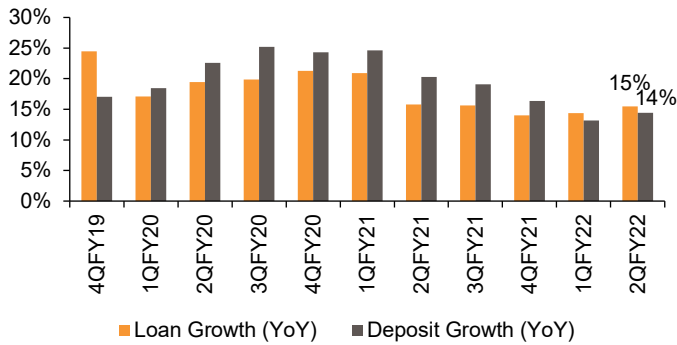
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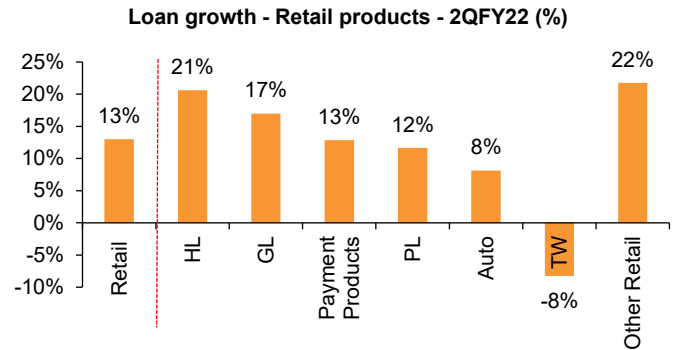
## Story in Charts

**Exhibit 1: Overall credit growth picks up, driven by acceleration in retail and commercial banking segment**



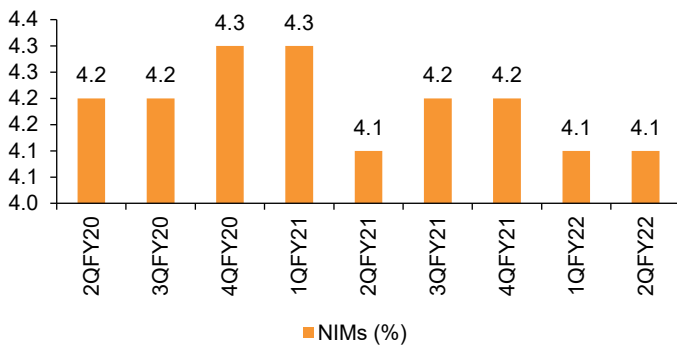
Source: Company, Emkay Research

**Exhibit 2: HL, Auto, PL and cards lead to improved momentum in retail**



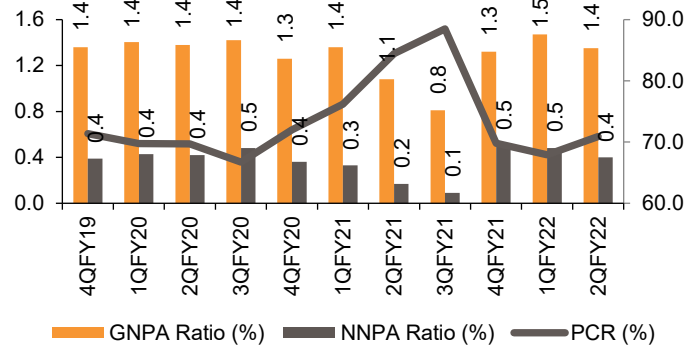
Source: Company, Emkay Research

**Exhibit 3: Higher portfolio mix toward corporate / secured retail keeps margin under pressure**



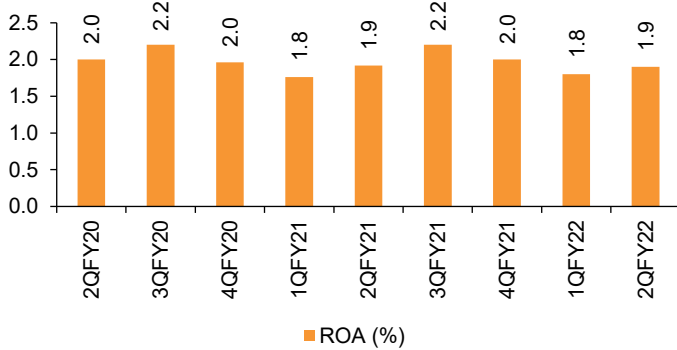
Source: Company, Emkay Research

**Exhibit 4: Slippages deferred via restructuring and better recoveries led to a 12bps improvement in GNPA**



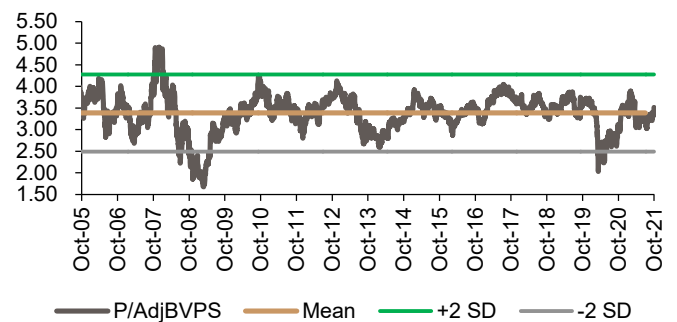
Source: Company, Emkay Research

**Exhibit 5: Stable margins, better non-interest income drive RoA for the quarter**



Source: Company, Emkay Research

**Exhibit 6: The stock currently trades at 3.5x – 1-year forward ABV**



Source: Company, Emkay Research

**Exhibit 7: Actual vs. Estimates (Q2FY22)**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	250,852	248,177	240,799	1%	4%	Stable margin and non-int. income led to in-line numbers
PPOP	158,073	156,815	149,437	1%	6%	Higher staff expense offset by other opex led to in-line numbers
PAT	88,343	89,212	81,834	-1%	8%	Higher LLP led to a miss

Source: Company, Emkay Research

**Exhibit 8: Quarterly Summary**

Rs (mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)	FY21A	FY22E	YoY (%)
Interest Earned	299,770	300,797	304,236	304,830	313,534	5	3	1,208,582	1,303,477	8
Interest Exp	142,006	137,621	133,034	134,740	136,690	-4	1	559,786	576,629	3
Net Interest Income	157,764	163,176	171,202	170,090	176,844	12	4	648,795	726,848	12
Global NIMs (reported)	4.10	4.20	4.20	4.10	4.10	0bps	0bps	4.11	4.04	-7bps
Non-interest Income	60,925	74,432	75,939	62,885	74,008	21	18	252,048	287,892	14
Operating Expenses	80,551	85,748	91,813	81,604	92,779	15	14	327,225	378,341	16
Pre Provisioning Profit	138,138	151,860	155,328	151,370	158,073	14	4	573,619	636,398	11
Provision & Contingencies	37,035	34,141	46,937	48,308	39,247	6	-19	157,029	142,294	-9
PBT	101,103	117,719	108,391	103,062	118,826	18	15	416,590	494,104	19
Income Tax Expense (Gain)	25,972	30,136	26,526	25,766	30,483	17	18	105,425	124,514	18
Net Profit/(Loss)	75,131	87,583	81,865	77,296	88,343	18	14	311,165	369,590	19
Gross NPA (%)	1.08	0.81	1.32	1.47	1.35	27bps	-12bps	1.32	1.38	6bps
Net NPA (%)	0.17	0.09	0.50	0.48	0.40	23bps	-8bps	0.40	0.39	-1bps
Deposits (Rs in bn)	12,293	12,711	13,351	13,458	14,063	14	4	13,351	15,382	15
Net Advances (Rs in bn)	10,383	10,823	11,328	11,477	11,988	15	4	11,328	13,244	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	1,020,999	1,014,739	-0.6%	1,214,959	1,195,582	-1.6%	1,444,265	1,420,487	-1.6%
PPOP	644,979	636,398	-1.3%	772,062	754,235	-2.3%	907,173	901,025	-0.7%
PAT	372,330	369,590	-0.7%	447,040	443,018	-0.9%	534,667	531,051	-0.7%
EPS (Rs)	67.5	66.9	-0.8%	80.9	80.0	-1.1%	96.7	95.9	-0.9%
BV (Rs)	431.5	430.6	-0.2%	501.8	503.6	0.4%	583.6	592.0	1.5%

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	15.2	20.5	20.0
NIM %	4.1	4.0	4.1	4.1
GNPA %	1.3	1.4	1.4	1.4
Credit Cost %	1.5	1.1	1.1	1.0

Source: Emkay Research

**Exhibit 11: Key ratios and trends**

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Loans Rs bn	8,970	9,360	9,937	10,033	10,383	10,823	11,328	11,477	11,988
YoY growth (%)	19.5	19.9	21.3	20.9	15.8	15.6	14.0	14.4	15.5
QoQ growth (%)	8.1	4.4	6.2	1.0	3.5	4.2	4.7	1.3	4.5
Deposits (Rs bn)	10,216	10,674	11,475	11,894	12,293	12,711	13,351	13,458	14,063
YoY growth (%)	22.6	25.2	24.3	24.6	20.3	19.1	16.3	13.2	14.4
QoQ growth (%)	7.0	4.5	7.5	3.7	3.4	3.4	5.0	0.8	4.5
CA (Rs bn)	1368	1439	1742	1501	1630	1721	2122	1857	2059
SA (Rs bn)	2644	2779	3104	3274	3484	3746	4035	4261	4524
CASA %	39.3	39.5	42.2	40.1	41.6	43.0	46.1	45.5	46.8
CA %	13.4	13.5	15.2	12.6	13.3	13.5	15.9	13.8	14.6
SA %	25.9	26.0	27.0	27.5	28.3	29.5	30.2	31.7	32.2
NIM %	4.2	4.2	4.3	4.3	4.1	4.2	4.2	4.1	4.1
Branches	5,314	5,345	5,416	5,326	5,430	5,485	5,608	5,653	5,686
<b>Asset Quality &amp; Capital Adequacy (%)</b>									
GNPA	1.38	1.42	1.26	1.36	1.08	0.81	1.32	1.47	1.35
NNPA	0.42	0.48	0.36	0.33	0.17	0.09	0.50	0.48	0.40
PCR	69.6	66.2	71.4	75.7	84.3	88.9	62.1	67.3	70.4
CAR	17.5	18.5	18.5	18.9	19.1	18.9	18.8	19.1	20.0
Tier I	16.2	17.1	17.2	17.5	17.7	17.6	17.6	17.9	18.7
<b>ROE Decomposition (%)</b>									
NII	4.2	4.2	4.2	4.1	4.0	4.0	4.0	3.9	3.9
Other Income (Ex Treasury)	1.6	1.8	1.5	0.8	1.3	1.6	1.6	1.3	1.5
Opex	2.3	2.3	2.3	1.8	2.0	2.1	2.2	1.9	2.1
PPOP	3.6	3.8	3.5	3.3	3.5	3.7	3.7	3.5	3.5
Provisioning Cost	0.8	0.9	1.0	1.0	0.9	0.8	1.1	1.1	0.9
PBT	2.8	2.9	2.5	2.3	2.6	2.9	2.5	2.4	2.6
ROA	2.0	2.2	1.9	1.7	1.9	2.1	1.9	1.8	2.0
ROE	16.3	18.1	16.2	15.0	16.1	18.0	16.1	14.6	16.2

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>561,863</b>	<b>648,795</b>	<b>726,848</b>	<b>859,127</b>	<b>1,031,548</b>
<b>Other income</b>	<b>232,608</b>	<b>252,048</b>	<b>287,892</b>	<b>336,455</b>	<b>388,939</b>
Fee income	163,337	161,693	189,181	223,233	267,880
<b>Net income</b>	<b>794,471</b>	<b>900,843</b>	<b>1,014,739</b>	<b>1,195,582</b>	<b>1,420,487</b>
Operating expenses	306,975	327,225	378,341	441,347	519,462
<b>Pre provision profit</b>	<b>487,495</b>	<b>573,619</b>	<b>636,398</b>	<b>754,235</b>	<b>901,025</b>
<b>PPP excl treasury</b>	<b>468,152</b>	<b>534,949</b>	<b>605,462</b>	<b>726,393</b>	<b>875,967</b>
Provisions	121,424	157,029	142,294	161,965	191,063
<b>Profit before tax</b>	<b>366,072</b>	<b>416,590</b>	<b>494,104</b>	<b>592,271</b>	<b>709,962</b>
Tax	103,498	105,425	124,514	149,252	178,910
Tax rate	28	25	25	25	25
<b>Profit after tax</b>	<b>262,573</b>	<b>311,165</b>	<b>369,590</b>	<b>443,018</b>	<b>531,051</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,483	5,513	5,538	5,538	5,538
Reserves	1,704,377	2,031,695	2,373,598	2,783,391	3,272,911
<b>Net worth</b>	<b>1,709,860</b>	<b>2,037,208</b>	<b>2,379,135</b>	<b>2,788,929</b>	<b>3,278,449</b>
Deposits	11,475,023	13,350,601	15,381,565	18,528,662	22,229,243
Borrowings	1,263,965	1,183,602	1,100,750	1,210,825	1,331,908
<b>Total liabilities</b>	<b>15,305,113</b>	<b>17,468,704</b>	<b>19,763,936</b>	<b>23,689,337</b>	<b>28,140,557</b>
Cash and bank	722,051	973,407	1,022,077	1,073,181	1,126,840
Investments	3,918,267	4,437,282	4,599,073	5,306,571	6,178,374
Loans	9,937,029	11,328,366	13,244,223	16,159,876	19,393,117
Others	539,311	459,260	558,660	655,935	775,361
<b>Total assets</b>	<b>15,305,113</b>	<b>17,468,704</b>	<b>19,763,936</b>	<b>23,689,337</b>	<b>28,140,557</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.2	4.1	4.0	4.1	4.1
Non-II/avg assets	1.7	1.5	1.5	1.5	1.5
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	0.7	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	16.7	17.1	17.5
GNPA (%)	1.3	1.3	1.4	1.4	1.4
NNPA (%)	0.4	0.4	0.4	0.4	0.4

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	48.0	56.6	66.9	80.0	95.9
BVPS	312.9	370.5	430.6	503.6	592.0
ABVPS	308.0	364.3	423.6	494.3	581.0
DPS	2.5	6.5	5.0	6.0	7.5

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	35.1	29.8	25.2	21.1	17.6
P/BV	5.5	4.6	4.0	3.4	2.9
P/ABV	5.3	4.5	3.8	3.3	2.8
P/PPOP	18.3	15.7	14.2	12.0	10.0
Dividend Yield (%)	0.1	0.4	0.3	0.4	0.4

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	16.5	15.5	12.0	18.2	20.1
PPOP	22.6	17.7	10.9	18.5	19.5
PAT	24.6	18.5	18.8	19.9	19.9
Loans	21.3	14.0	16.9	22.0	20.0

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
NII	157,764	163,176	171,202	170,090	176,844
NIM (%)	4.1	4.2	4.2	4.1	4.1
PPOP	138,138	151,860	155,328	151,370	158,073
PAT	75,131	87,583	81,865	77,296	88,343
EPS (Rs)	13.65	15.90	14.85	13.99	15.95

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
FII	30.1	30.4	32.0	32.4	32.1
DII	17.8	18.6	17.5	17.1	17.5
Public and Others	30.9	29.8	29.4	29.4	29.4

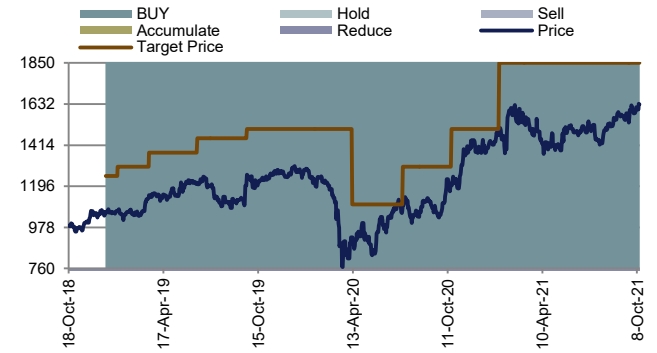
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
5-Oct-21	1,595	1,850	12m	Buy	Anand Dama
18-Jul-21	1,522	1,850	12m	Buy	Anand Dama
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



### Analyst: Anand Dama

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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)
<b>BFSI-Banks</b>	<b>19.68</b>	<b>19.68</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.05	2.15	5%	10	10.92
AU Small Finance Bank	0.26	0.20	-23%	-6	1.01
Bandhan Bank	0.21	0.21	0%	0	1.07
Bank of Baroda	0.15	0.15	-1%	0	0.78
Canara Bank	0.10	0.00	-100%	-10	0.00
City Union Bank	0.12	0.12	1%	0	0.60
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.22
Federal Bank	0.18	0.23	32%	6	1.19
HDFC Bank	6.78	6.92	2%	13	35.13
ICICI Bank	4.66	4.80	3%	14	24.40
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.68	0.78	15%	10	3.95
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.49	2.16	-13%	-32	10.99
Punjab National Bank	0.12	0.00	-100%	-12	0.00
RBL Bank	0.09	0.07	-26%	-2	0.34
State Bank of India	1.75	1.85	6%	10	9.39
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
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

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	13-Oct-20	15-Apr-21	14-Jul-21	13-Sep-21	13-Oct-21
EAP - BFSI-Banks	100.0	82.5	110.3	121.8	125.6	132.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	81.0	108.2	119.2	122.8	129.5

\*Performance measurement base date 1<sup>st</sup> April 2019

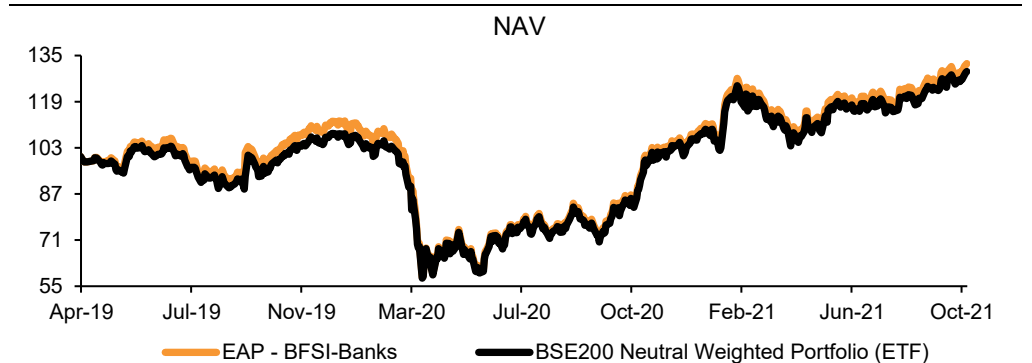
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	5.3%	8.6%	19.9%	60.2%
BSE200 Neutral Weighted Portfolio (ETF)	5.4%	8.6%	19.6%	59.9%

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: 17 Oct 2021 03:37:35 (SGT)

Dissemination Date: 17 Oct 2021 03:38:35 (SGT)

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