20th Oct, 2021
Q2FY22 RESULT UPDATE

Retail Equity Research

HDFC Bank

Banking

BSE CODE: 500180	NSE CODE: HDFCBANK
Bloomberg CODE: HDFCB:IN	SENSEX: 61,716

BUY

12 Months Investment Period | Rating as per Large cap

CMP Rs. 1,689 TARGET Rs. 1,931 RETURN 14%
(Closing: 19-10-21)

KEY CHANGES: ***TARGET*** ***RATING*** ***EARNINGS***

Net profit registers double digit growth

HDFC Bank was incorporated in August 1994. It provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- **NII grew 14.3% YoY in Q2FY22, on higher interest income (+5.6% YoY) and lower interest costs (-4.1%). Non-interest income was also up 18.2% YoY. Provisioning rose 6.6% YoY. PAT ended at Rs. 9,120cr (+18.3% YoY).**
- **In Q2FY22, GNPA/NNPA stood at 1.35%/0.40% (vs. 1.47%/0.48% in Q1FY22). Effect of RBI framework restructuring is 150bps of advances.**
- **Although the impact of RBI framework restructuring has a peak potential of 10-20bps on NPAs, bank has taken necessary steps to de-risk Balance Sheet. Given positive outlook, we reiterate our BUY rating and value the stock at 3.9x FY23E BVPS with a revised target price of Rs. 1,931.**

Healthy profit with adequate provisioning

QFY22 interest income rose 5.6% YoY to Rs. 33,520cr on the back of 14.6% YoY increase in income from investments. This was slightly offset by 17.0% YoY decline in interest earned from balances maintained with RBI and other banks. On the other hand, Interest expense were down 4.1% YoY to Rs. 14,415cr, resulting in a healthy Net interest income (NII) growth of 14.3% YoY to Rs. 19,105cr. NIM marginally inched up to 4.65% vs. 4.64% in Q2FY21. Non-interest income grew 18.2% YoY to Rs. 7,916cr, on the back of fees and commission (+25.5% YoY). As a result, pre-provision operating profit increased 15.1% YoY to Rs. 17,036cr. Provisions were set at Rs. 4,713cr (+6.6% YoY). The quarter ended with PAT of Rs. 9,120cr (18.3% YoY; +14.9% QoQ).

Marginal improvement in asset quality

In Q2FY22, GNPA/NNPA stood at 1.35%/0.40% (vs. 1.47%/0.48% in Q1FY22). Total deposits grew by 14.4% YoY on the back of 28.7% YoY growth in CASA deposits. CASA ratio stood at 46.8% (+134bps QoQ). Total advances registered a sequential growth of 4.5% to Rs. 1,249,331cr on the back of strong rural activities (+7.4% QoQ) and upswing in retail business (+5.4% QoQ). It is to be noted that the restructuring under the RBI resolution framework for COVID-19 as of September 2021 stood at 150bps of the total advances. The bank maintains a strong liquidity coverage ratio of 157% with capital adequacy ratio at 20% (vs 19.1% in the previous quarter).

Key concall highlights

- On 21st September 2021, the bank launched its own landing zone using a hybrid multi-cloud strategy for hosting application under its digital umbrella.
- Although the industry level domestic vehicle sales unit declined 37% in the month of September 2021, the bank's incremental auto loans dispersal increased 36% during the same period.

Outlook & valuation

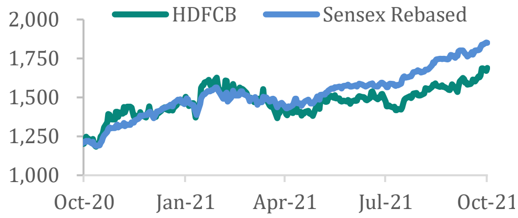
At the ground level, the bank sees positive traction in rural economy which has shown positive signs since a good Rabi season is expected in the next six months and the employment rate is almost reaching pre-COVID levels in September 2021. Although the impact of restructuring shows a potential of 10-20bps on NPAs, adequate efforts has been taken to de-risk the Balance Sheet along with impressive deposits and advances growth seen in the past 2 quarters. Hence, we maintain our BUY rating and value the stock at 3.9x FY23E BVPS with a revised target price of Rs. 1,931.

Company Data	
Market Cap (cr)	Rs. 935,247
Outstanding Shares (cr)	551
Free Float	79.0%
Dividend Yield	0.8%
52 week high	Rs. 1,724
52 week low	Rs. 1,177
6m average volume (lacs)	2.7
Beta	1.1
Face value	Rs. 1

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	26.0	25.9	25.9
FII's	39.8	39.4	38.3
MFs/Insti	21.2	21.6	22.7
Public	10.6	11.0	11.1
Others	2.4	2.1	2.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	14.8%	19.6%	40.4%
Absolute Sensex	17.4%	28.7%	52.6%
Relative Return*	-2.6%	-9.1%	-12.3%

***over or under performance to benchmark index**



Consolidated (cr)	FY21A	FY22E	FY23E
Net Interest Income	69,305	71,559	82,879
Growth (%)	15.4	3.3	15.8
NIM (%)	4.2	4.1	4.0
Pre-Provision Profit	61,636	64,521	75,782
Net Profit	31,857	36,120	43,187
Growth (%)	16.7	13.4	19.6
Adj. EPS	57.6	65.3	78.1
Growth (%)	16.4	13.4	19.6
BVPS	380.5	432.8	495.2
P/E	25.9	25.9	21.6
P/B	3.9	3.9	3.4
ROE (%)	16.7	16.1	16.8
ROA (%)	1.9	1.9	1.9

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Interest Income	33,520	31,742	*5.6*	32,254	*3.9*	65,774	64,094	*2.6*
Interest Expense	14,415	15,033	*(4.1)*	14,219	*1.4*	28,634	30,642	*(6.6)*
Net Interest Income (NII)	**19,105**	**16,709**	*14.3*	**18,035**	*5.9*	**37,140**	**33,452**	*11.0*
Non-Interest Income	7,916	6,696	*18.2*	6,680	*18.5*	14,596	11,043	*32.2*
Total Income	**41,436**	**38,438**	*7.8*	**38,934**	*6.4*	**80,370**	**75,137**	*7.0*
Operating Expenses	9,985	8,607	*16.0*	8,707	*14.7*	18,692	16,014	*16.7*
Total Expenditure	**24,400**	**23,641**	*3.2*	**22,925**	*6.4*	**47,326**	**46,655**	*1.4*
Pre-Provision profit	**17,036**	**14,798**	*15.1*	**16,008**	*6.4*	**33,044**	**28,482**	*16.0*
Provisions	4,713	4,420	*6.6*	5,366	*(12.2)*	10,079	8,765	*15.0*
Profit Before Tax	**12,324**	**10,378**	*18.7*	**10,642**	*15.8*	**22,965**	**19,717**	*16.5*
Tax	3,204	2,666	*20.1*	2,702	*18.6*	5,905	5,065	*16.6*
Net Profit	**9,120**	**7,711**	*18.3*	**7,940**	*14.9*	**17,060**	**14,652**	*16.4*
Adj. EPS - Diluted (Rs.)	16.3	14.0	*16.4*	14.3	*14.0*	30.6	26.6	*15.0*

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	**FY22E**	**FY23E**	**FY22E**	**FY23E**	**FY22E**	**FY23E**
Net Int. Inc. (NII)	**74,797**	**87,314**	**71,559**	**82,879**	***(4.3)***	***(5.1)***
Pre-Provision Profit	67,074	79,309	64,521	75,782	*(3.8)*	*(4.4)*
Net Profit	38,500	45,815	36,120	43,187	*(6.2)*	*(5.7)*
Adj. EPS (Rs.)	**69.6**	**82.8**	**65.3**	**78.1**	***(6.2)***	***(5.7)***

PROFIT & LOSS

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	98,972	122,189	128,552	1,41,204	1,66,394
Interest Exp.	50,729	62,137	59,248	69,646	83,515
Net Int. Income	**48,243**	**60,052**	**69,305**	**71,559**	**82,879**
% Change	20.3	24.5	15.4	3.3	15.8
Non-Int. Income	17,626	24,879	27,333	31,433	36,274
Net Income	**65,869**	**84,931**	**96,638**	**102,991**	**119,153**
Total Income	**116,598**	**147,068**	**155,885**	**172,637**	**202,668**
Operating Exp.	26,119	33,036	35,001	38,470	43,371
Total Exp.	**76,848**	**95,173**	**94,249**	**108,116**	**126,886**
Pre-Prov. Profit	**39,750**	**51,895**	**61,636**	**64,521**	**75,782**
Provisions	7,550	13,700	18,840	16,038	17,813
PBT	32,200	38,195	42,796	48,483	57,969
Tax	11,122	10,899	10,939	12,363	14,782
Tax Rate (%)	34.5	28.5	25.6	25.5	25.5
Net Profit	**21,078**	**27,296**	**31,857**	**36,120**	**43,187**
% Change	20.5	29.5	16.7	13.4	19.6
No. of Shares (cr)	540	551	553	553	553
Adj. EPS (Rs.)	**39.0**	**49.5**	**57.6**	**65.3**	**78.1**
% Change	16.7	26.9	16.4	13.4	19.6
DPS (Rs.)	7.5	0.0	0.0	13.1	15.6

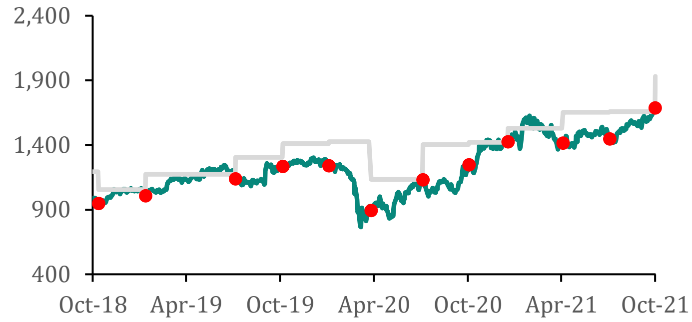
BALANCE SHEET

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	81,348	86,619	121,273	1,34,638	1,90,607
Investments	293,116	391,827	438,823	5,13,325	6,10,857
Advances	819,401	993,703	1,185,284	13,80,855	15,87,984
Fixed Assets	4,030	4,432	5,100	5,881	6,796
Other Assets	46,646	53,931	49,028	60,322	55,140
Total Assets	**1,244,541**	**1,530,511**	**1,799,507**	**2,095,021**	**2,451,383**
Capital	545	548	551	554	554
Reserves & Surplus	148,662	170,438	209,892	2,38,788	2,73,337
Deposits	923,141	1,147,502	1,333,721	15,47,116	18,04,429
Borrowings	117,085	144,629	177,697	2,18,912	2,69,326
Other Liabilities	55,108	67,394	77,646	89,651	1,03,737
Total Liabilities	**1,244,541**	**1,530,511**	**1,799,507**	**2,095,021**	**2,451,383**
BVPS (Rs.)	**276.1**	**310.1**	**380.5**	**432.8**	**495.2**
% Change	35.9	12.3	22.7	13.7	14.4

RATIOS

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Valuation					
P/E (x)	29.2	17.4	25.9	25.9	21.6
P/BV (x)	4.1	2.8	3.9	3.9	3.4
Div. Yield (%)	0.7	0.0	0.0	0.8	0.9
Profitab. & Return (%)					
Yield on Advances	10.5	10.9	9.4	9.2	9.3
Cost of Deposits	5.2	5.3	4.2	4.3	4.4
Spread	5.3	5.6	5.2	4.9	4.9
NIM	4.3	4.3	4.2	4.1	4.0
ROE	16.5	17.0	16.7	16.1	16.8
ROA	1.8	2.0	1.9	1.9	1.9
Capital Adequacy (%)					
CAR	17.1	18.5	18.8	20.0	19.5
Tier I	15.8	17.2	17.6	18.8	18.5
Tier II	1.3	1.3	1.2	1.2	1.0
Asset Quality (%)					
GNPA	1.4	1.3	1.3	1.5	1.5
NNPA	0.4	0.4	0.4	0.5	0.5
Operating Ratios (%)					
Credit/ Deposit	88.8	86.6	88.9	89.3	88.0
Cost/ Income	39.7	38.9	36.2	37.4	36.4
CASA	42.4	42.2	46.2	40.5	40.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
30-Oct-18	BUY	1,056
30-Jan-19	BUY	1,173
24-Jul-19	BUY	1,304
24-Oct-19	BUY	1,412
22-Jan-20	BUY	1,425
13-Apr-20	BUY	1,134
23-Jul-20	BUY	1,403
21-Oct-20	BUY	1,420
05-Jan-21	HOLD	1,529
22-Apr-21	BUY	1,653
22-Jul-21	BUY	1,658
20-Oct-21	BUY	1,931

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.
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Not rated: The analyst has no investment opinion on the stock.

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