

Healthy revival; shifting gears to accelerate growth...

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations.

- Largest private sector bank with loan book of ~₹ 12 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q2FY22 Results: Performance broadly in line with expectations.

- Advances up 15.5% YoY at ₹ 11.9 lakh crore, with deposits up 14.4% YoY
- NII up 12.1% YoY, NIM stable QoQ at 4.1%, C/I up QoQ to 37%
- GNPA improved 12 bps QoQ to 1.35%, R/s up ~90 bps QoQ to ~1.7%
- Gross stage 3 assets for HDB Financial at 6.1% v/s 7.7% QoQ

What should investors do? HDFC Bank's share price has grown by ~2.7x over the past five years.

- We remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value HDFC Bank at ~3.7x FY24E ABV and ₹ 50 for subsidiaries to arrive at a revised target price of ₹ 2000, from ₹1800 earlier.

Key triggers for future price performance:

- Higher specific provision & contingency buffer of 77 bps provide comfort
- Credit demand near pre-Covid level; MSME & retail segment to drive growth
- Strategy to identify and expand segment & geography to aid momentum
- Building up of physical/ digital infra to drive growth led by competitive edge

Alternate Stock Idea: Apart from HDFC Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with target price of ₹ 900

Key Financial Summary

₹ Crore	FY19	FY20	FY21	3 year CAGR (FY18-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
NII	48,243	56,186	64,880	17%	73,842	84,995	98,347	15%
PPP	39,750	48,750	57,362	21%	64,806	74,021	85,661	14%
PAT	21,078	26,257	31,117	21%	36,454	43,817	50,846	18%
ABV (₹)	268.0	305.4	361.3		413.0	476.0	524.2	
P/E	43.5	35.2	29.9		25.5	21.2	18.3	
P/ABV	6.3	5.5	4.7		4.1	3.5	3.2	
RoA	1.8	1.9	1.9		1.9	2.0	2.0	
RoE	16.5	16.4	16.6		16.7	17.4	17.9	



Particulars

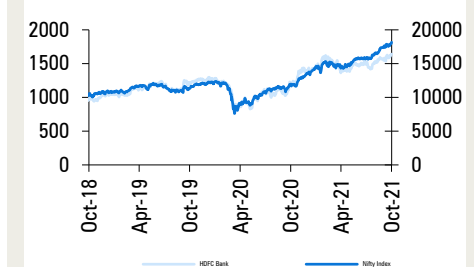
Particulars	Amount
Market Capitalisation	₹ 933559 crore
GNPA	₹ 16346 crore
NNPA	₹ 4755 crore
NIM %	4.1
52 week H/L	1690/1164
Networth	₹ 218710 crore
Face value	₹ 1
DII holding (%)	21.5
FII holding (%)	39.4

** as per latest available data

Shareholding pattern

(in %)	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	26.0	26.0	26.0	25.9
FII	37.4	39.4	39.8	39.4
DII	22.7	21.5	21.0	21.5
Others	13.9	13.2	13.3	13.3

Price Chart



Recent Event & Key risks

- R/s at 1.7% of advances; contingent provision buffer at ~77 bps
- **Key Risk:** 1) Higher slippage from restructured book; 2) Higher business expansion expense

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Healthy revival in performance

- Operating performance was healthy with NII up 12.1% YoY at ₹ 17684 crore on the back of stable NIMs and improvement in loan growth
- Despite benign funding cost NIMs were stable at 4.1% as the bank incrementally focused on secured segments
- Other income was up 21.5% YoY to ₹ 7400 crore, driven by 25.5% YoY & 27.3% QoQ rise in core fee income
- Provisions were at ₹ 3924 crore, down 18.8% sequentially, as a result of improvement in asset quality. The bank currently holds floating provisions worth ₹ 1451 crore and contingent provisions of ₹ 7756 crore
- GNPA and NNPA ratio declined 12 bps and 8 bps sequentially to 1.35% and 0.4%, respectively. The bank witnessed higher restructuring under OTR 2 with total book at ~1.7% of advances
- The management is focused on adding physical & digital capabilities to capture future growth. Optimistic commentary on MSME & retail growth opportunities

Q2FY22 Earnings Conference Call highlights

- Opened 45 branches in Q2FY22. Plan to add more 150 branches in near term
- Tech spends at ~7-8% of opex and ~2.5-2.7% of revenues
- Credit card spends up 36% YoY and 27% QoQ; growth at 42% for first 10 days of October 2021. Card addition continues to remain robust
- The bank is positioned to capture the opportunities in emerging growth segment on BNPL through enhanced product offering & segmented sales and marketing
- Strong customer acquisition seen in 1 lakh villages over next 18-24 months, focused on small and marginal farmers
- Expand footprints to 100 cities by FY22 end for mid-corporate segment
- Recoveries in the portfolio have been 10% higher than pre-Covid levels
- Bank restructured ₹ 17400 crore of exposure under OTR 2 of which ~20-25 bps slipped (as slippages, write off or payment). Overlap with OTR 1 at ~22-23 bps
- Slippages moderated at ~₹ 5300 crore (1.8% of advances). Recoveries & upgrades were ₹ 3500 crore ~30 bps, write-offs were at ₹ 2600 crore ~25 bps, sale of NPA was at ₹ 500 crore

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
Axis Bank (AXIBAN)	802	900	Buy	2459	21.5	46.0	58.2	37.3	17.4	13.8	2.6	2.3	2.0	0.7	1.4	1.6	7.1	13.0	14.5		
City Union (CITUNI)	171	200	Buy	126	8.8	9.3	11.7	19.4	18.4	14.7	2.7	2.3	2.0	1.3	1.2	1.4	11.9	11.3	12.4		
Federal Bank (FEDBAN)	93	100	Buy	195	8.0	9.5	12.0	11.7	9.8	7.7	1.3	1.2	1.1	0.8	0.9	1.0	10.4	11.8	13.4		
HDFC Bank (HDFBAN)	1,685	2,000	Buy	9335	56.4	66.1	79.5	29.9	25.5	21.2	4.7	4.1	3.5	1.9	1.9	2.0	16.6	16.7	17.4		
IndusInd Bank (INDBA)	1,209	1,150	Buy	936	36.7	69.1	76.1	33.0	17.5	15.9	2.2	2.1	2.1	0.8	1.4	1.4	7.3	12.1	12.8		
Kotak Bank (KOTMAH)	2,016	2,040	Buy	3998	35.1	43.9	55.7	57.4	45.9	36.2	6.5	5.8	5.0	1.9	2.1	2.4	12.4	12.8	14.2		
CSB Bank (CSBBAN)	319	380	Buy	55	12.6	18.3	25.5	25.3	17.5	12.5	3.0	2.6	2.2	0.1	1.0	1.2	10.5	13.6	16.4		
Bandhan (BANBAN)	322	310	Hold	519	13.7	19.0	29.5	23.5	16.9	10.9	3.6	3.1	2.4	2.1	2.5	3.2	13.5	16.3	21.1		
IDFC First (IDFBAN)	49	60	Buy	306	0.8	0.6	2.9	61.5	83.0	16.8	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3		

Source: Company, ICICI Direct Research

We believe HDFC Bank trades at a premium to its peers owing to superior return ratios and consistency over long time frame, which is expected to continue ahead.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
NII	17,684.4	17,183.0	15,776.4	12.1	17,009.0	4.0	Stable margins and loan pick up aids NII growth
NIM (%)	4.1	4.1	4.1	0 bps	4.1	0 bps	
Other Income	7,400.8	6,355.5	6,092.5	21.5	6,288.5	17.7	Other income boosted by 25.5% YoY rise in fee income
Net Total Income	25,085.2	23,538.6	21,868.8	14.7	23,297.5	7.7	
Staff cost	2,967.1	2,720.3	2,542.4	16.7	2,765.6	7.3	
Other Operating Expenses	6,310.8	5,788.3	5,512.7	14.5	5,394.9	17.0	Opex rise with increased business activity, branch and employee addition
PPP	15,807.3	15,029.9	13,813.8	14.4	15,137.0	4.4	
Provision	3,924.7	3,351.6	3,703.5	6.0	4,830.8	-18.8	Credit cost decline QoQ due to with improving stress scenario as compared to previous quarter
PBT	11,882.6	11,678.3	10,110.3	17.5	10,306.2	15.3	
Tax	3,048.3	3,001.3	2,597.2	17.4	2,576.6	18.3	
PAT	8,834.3	8,677.0	7,513.1	17.6	7,729.6	14.3	Lower credit cost and better credit pick up helps bottomline

Key Metrics

GNPA	16,346	17,399	11,305	44.6	17,099	-4.4	Sequential improvement of 12 bps in GNPA while restructured assets stood at ~1.7%
NNPA	4,755	5,586	1,756	170.8	5,486	-13.3	
Advances	11,98,837	11,97,000	10,38,335	15.5	11,47,652	4.5	Loan growth pick up driven by Commercial and Rural
Deposits	14,06,343	14,06,000	12,29,310	14.4	13,45,829	4.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	73,652.1	73,842.1	0.3	84,797.0	84,995.5	0.2	98,347.3
Pre Provision Profit	63,811.5	64,806.1	1.6	73,437.0	74,020.7	0.8	85,660.7
NIM calculated (%)	4.1	4.1	2 bps	4.1	4.1	4 bps	4.2
PAT	36,095.1	36,454.2	1.0	42,782.3	43,817.3	2.4	50,846.3
ABV (₹)	412.1	413.0	0.2	475.0	476.0	0.2	524.2

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	15.8	17.3	17.3	16.9	17.3
Deposit Growth (%)	15.2	16.4	17.5	18.4	17.6
CASA ratio (%)	46.7	46.0	44.9	44.3	43.2
NIM Calculated (%)	4.1	4.1	4.2	4.1	4.1
Cost to income ratio (%)	36.9	36.6	36.3	37.2	36.7
GNPA (₹ crore)	16,398	17,938	21,550	22,169.0	23,992.5
NNPA (₹ crore)	6,100	7,118	9,018	6,380.5	6,976.8
Slippage ratio (%)	1.3	1.3	1.2	1.3	1.2
Credit cost (%)	1.1	0.9	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Interest Earned	120858	139976	161916	188698	
Interest Expended	55979	66134	76920	90350	
NII	64880	73842	84995	98347	
Growth (%)	15.5	13.8	15.1	15.7	
Non Interest Income	25205	28837	31690	36096	
Total Income	90084	102679	116685	134443	
Employee cost	10365	12104	13813	15889	
Other operating Exp.	22358	25769	28852	32894	
Gross Profit	57362	64806	74021	85661	
Provisions	15703	15874	15206	17411	
PBT	41659	48932	58815	68250	
Taxes	10542	12478	14998	17404	
Net Profit	31117	36454	43817	50846	
Growth (%)	18.5	17.2	20.2	16.0	
EPS	56.4	66.1	79.5	92.2	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Valuation					
No. of Equity Shares	551.3	551.3	551.3	551.3	
EPS (₹)	56.4	66.1	79.5	92.2	
BV (₹)	369.5	424.1	488.9	540.5	
ABV (₹)	361.3	413.0	476.0	524.2	
P/E	29.9	25.5	21.2	18.3	
P/BV	4.6	4.0	3.4	3.1	
P/ABV	4.7	4.1	3.5	3.2	
Yields & Margins (%)					
Net Interest Margins	4.1	4.1	4.1	4.2	
Yield on avg earning assets	7.7	7.8	7.9	8.0	
Avg. cost on funds	4.1	4.2	4.2	4.3	
Avg. cost of deposits	4.0	4.1	4.1	4.2	
Yield on average advances	8.9	9.0	9.1	9.2	
Quality and Efficiency (%)					
Cost / Total net income	36.3	36.9	36.6	36.3	
Credit/Deposit ratio	84.9	85.3	85.9	85.8	
GNPA	1.3	1.2	1.2	1.2	
NNPA	0.4	0.5	0.5	0.5	
ROE	16.6	16.7	17.4	17.9	
ROA	1.9	1.9	2.0	2.0	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Sources of Funds					
Capital	551	551	551	551	
Reserves and Surplus	203170	233224	268948	297422	
Networth	203721	233775	269499	297973	
Deposits	1335060	1538476	1791372	2105345	
Borrowings	135487	145754	157136	169782	
Other Liabilities & Provisions	72602	78766	85797	93852	
Total	1746871	1996771	2303805	2666952	
Applications of Funds					
Fixed Assets	4909	5548	5998	6520	
Investments	443728	483003	528783	600363	
Advances	1132837	1312169	1539501	1806273	
Other Assets	45926	69872	95837	111677	
Cash with RBI & call money	119470	126179	133685	142118	
Total	1746871	1996771	2303805	2666952	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total assets	14.1	14.3	15.4	15.8	
Advances	14.0	15.8	17.3	17.3	
Deposits	16.3	15.2	16.4	17.5	
Total Income	5.8	15.6	14.7	16.1	
Net interest income	15.5	13.8	15.1	15.7	
Operating expenses	6.6	15.7	12.7	14.3	
Operating profit	17.7	13.0	14.2	15.7	
Net profit	18.5	17.2	20.2	16.0	
Net worth	19.1	14.8	15.3	10.6	
EPS	17.9	17.2	20.2	16.0	

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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