



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Jan 08, 2022

31.4

## High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

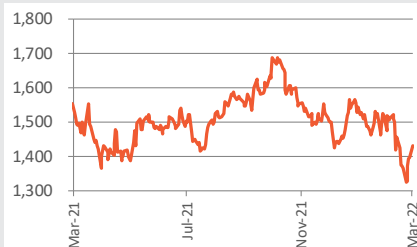
## Company details

Market cap:	Rs. 7,94,338 cr
52-week high/low:	Rs. 1,724 / 1,292
NSE volume: (No of shares)	71.9 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	437.8 cr

## Shareholding (%)

Promoters	25.8
FII	37.5
DII	23.0
Others	13.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-2.8	-4.6	-7.5	-6.3
Relative to Sensex	-2.2	-1.1	-3.8	-17.5

Sharekhan Research, Bloomberg

HDFC Bank  
Digital embargo lifted

Bank	Sharekhan code: HDFCBANK			
Reco/View: Buy	↔	CMP: Rs. 1,442	Price Target: Rs. 1,973	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

## Summary

- HDFC Bank over the weekend communicated through the exchanges that RBI has lifted the restrictions imposed on it, pertaining to new initiatives under digital 2.0. This addresses a key overhang on the stock as the bank was unable to continue its role out of new digital initiatives and there on was losing on market share to its competitors.
- Previously, RBI in December 2020 had barred HDFC Bank to stop all launches of its upcoming digital business-generating activities and sourcing of new credit card customers after repeated outages at its data centre which impacted operations. The curbs were partially lifted in August 2021, where the bank was allowed to issue new credit cards. However, the bar on the digital front continued. Eventually, this has now been removed.
- HDFC bank has further added that it has drawn plans to meet the evolving digital requirements of customers during the embargo period. The bank added 2.1 lakh new credit cards m-o-m in January 2022 and it has 1.6 crore cards outstanding. The bank has demonstrated a healthy traction in the loan book growth driven by retail book aided by pick-up in the unsecured segments and commercial banking segment. With the removal of the digital embargo, we believe the bank is poised to grow its assets with much strong aggression.
- The stock trades at 2.8x/2.4x its FY2023E and FY2024E book value. It has corrected by 20% from the high of Rs. 1,724 which offers a good opportunity at lower levels. Hence, we maintain a Buy with an unchanged price target of Rs. 1,973.

In an announcement to the stock exchanges over the weekend, HDFC Bank stated that the Reserve Bank of India (RBI) has lifted restrictions on its business generation activities under its Digital 2.0 program. The RBI has removed the ban on the issuance of the new credit cards by the bank earlier. With all the restrictions out of the way, the bank is well poised to deliver healthy business growth aided by retail segment and continued traction in the commercial segment. However, the bank been underperforming peers on account of the embargo, its focus on the corporate loan book which partially impacted the overall revenue growth along with slowdown in the fee income growth and outperformance of its subsidiary, HDB Financial Services. In the past decade, the bank had commanded steep valuations than its peers which was primarily on account of superior underwriting skills and a small size loan book. Although, the bank has been delivering best-in-class return ratios and asset quality, its operating performance has deteriorated after the embargo by the RBI. The bank's overall book grew by 14% y-o-y in FY21 vs. 21% in FY20. Its retail loan book moderated to 7% in FY21 versus 15% in FY20. NIM too fell by 10 bps during the restrictions period. Further, the bank has been continuously losing its market share in the credit card business despite the lifting of the ban on issuance of new credit cards (market share of 22.8% in Jan'22 versus 23% in Dec'21).

**Summary of events:** In December 2020, the RBI had asked HDFC Bank to put on hold all new digital launches - products or services including the sourcing of the new credit cards until technical issues due to repeated outages in its online platforms were resolved. The management at that time, had highlighted that the ban has impacted its business and further added that it would take around 12-15 months to complete the technology transformation. It took a set of corrective measures including external auditor for its systems. The external audit was conducted during February to April 2021 and the report was submitted to the regulator. The curbs were partially lifted in August 2021, where the bank was allowed to issue new credit cards. While the restrictions on new card issuances was lifted in eight months, the ban on the digital initiatives were in place for over 14 months.

**Loan book growth:** HDFC Bank's overall loan book witnessed a healthy pick up with retail loans gaining momentum and continued growth in the commercial book. It had taken a conscious decision to de-risk its book during the pandemic and which has thereon helped the wholesale book to grow strongly. The management recently indicated that it intends to revert to faster growth in retail and commercial segment going ahead. However, we foresee a faster recovery in the overall mortgages segment of the sector where the presence of the bank is still quite low (~6% of the book). Further, the sharp increase in the fuel prices and continuing supply constraints for new vehicles may not be favourable for the bank as it has a significant presence. Additionally, the bank has been continuously losing its market share in the credit card business despite the lifting of the ban on issuance of new credit cards (market share of 22.8% in Jan'22 versus 23% in December 2021).

**Best in class asset quality:** The bank's asset quality improved and is now superior among peers. With the competition likely to be strong and willingness to expand its market share in the current environment would be a challenge for the bank.

## Our Call

**Valuation – We maintain our Buy rating with an unchanged price target of Rs. 1,973:** We believe that the bank is on the trajectory of accelerated growth going ahead with the robust advances growth aided by retail and commercial segment and better asset quality in the wake of lifting of all the restrictions. We expect the bank's margin to gradually recover over FY23 coupled with growth in the unsecured book. Further, the bank now has sufficient drivers in terms of asset quality, reasonable provision buffers and appropriate asset mix to drive growth going forward. The bank is well capitalised and can manage asset quality across cycles and deliver superior return ratios and reap opportunities from the revival of the economy going ahead. Hence, we maintain our Buy rating with unchanged price target of Rs. 1,973.

## Key Risks

Any delay in the economic recovery and its impact on the asset quality.

## Valuation

Particulars	FY21	FY22E	FY23E	FY24E
NII	64,880	73,547	87,588	1,00,680
PAT	31,116	36,454	44,283	51,039
EPS (Rs.)	56.4	66.1	80.3	92.6
BVPS (Rs.)	369.5	429.2	509.5	602.1
P/E (x)	25.6	21.8	18.0	15.6
P/B (x)	3.9	3.4	2.8	2.4
RoA (%)	1.9	2.0	2.1	2.2
RoE (%)	16.6	16.6	17.1	16.7

Source: Company; Sharekhan estimates

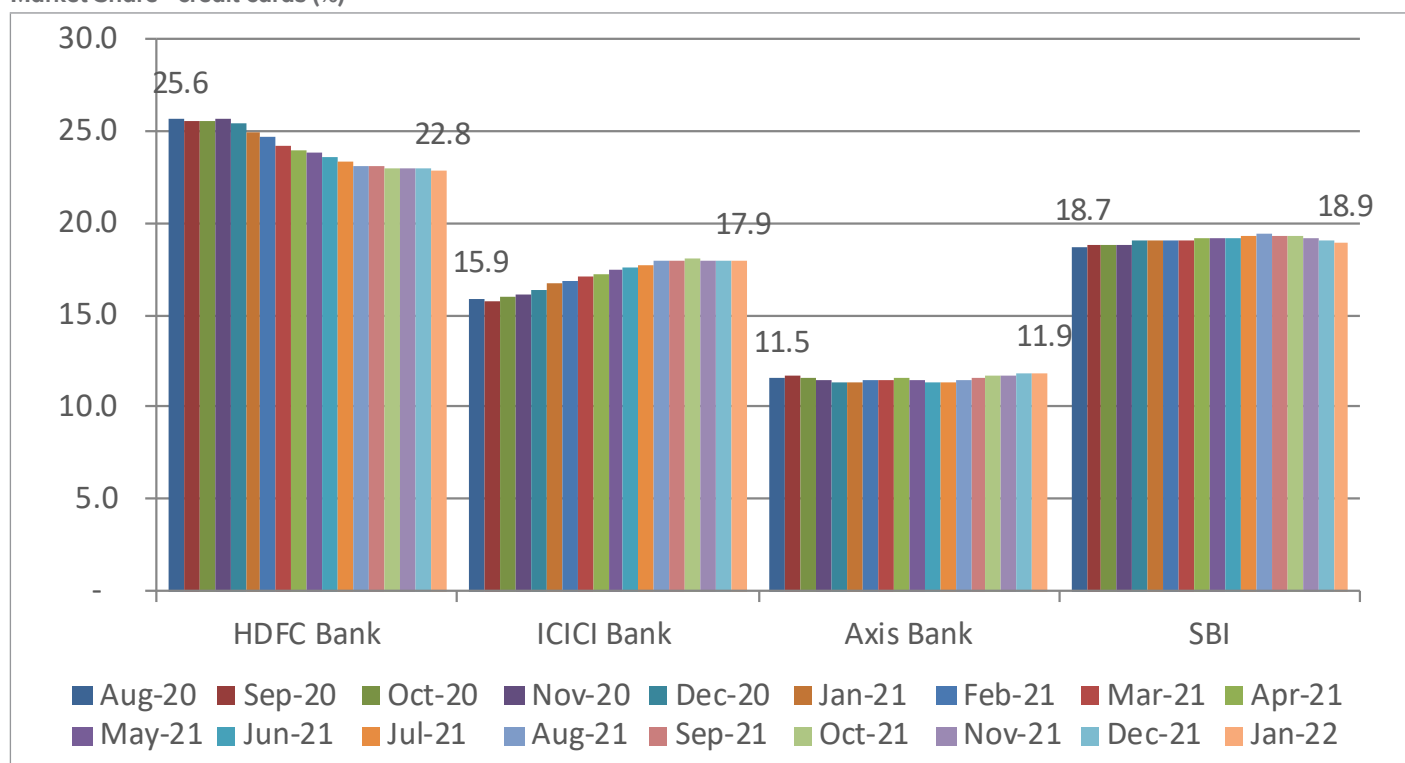
## Charts

### Segment-wise mix (%)

%	FY16	FY17	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22
<b>Retail</b>	<b>42.8</b>	<b>44.6</b>	<b>46.8</b>	<b>45.7</b>	<b>43.3</b>	<b>40.3</b>	<b>39.2</b>	<b>40.4</b>	<b>40.0</b>
Home Loans	6.9	6.9	5.5	6.3	6.4	6.2	6.3	6.3	6.3
Kisan Gold Card	4.8	4.7	5.3	4.7	4.4	4.2	4.1	4.7	4.4
<b>Unsecured</b>									
Credit Cards	4.4	4.7	5.5	5.7	5.8	5.7	5.3	5.7	5.8
Personal Loans	8.0	9.0	10.9	11.3	11.6	10.5	10.4	10.5	10.6
<b>Vehicle Loans</b>									
Auto	10.8	11.2	11.6	9.8	8.4	7.4	7.3	7.9	7.6
CV/CE	3.2	3.5	3.6	3.5	2.9	2.5	2.4		
Two Wheelers	1.2	1.1	1.3	1.2	1.0	0.8	0.7	0.8	0.7
Gold Loans	1.0	0.9	0.8	0.6	0.5	0.6	0.6	0.7	0.7
Loans against securities	0.3	0.3	0.3	0.2	0.2	0.2	0.2	-	-
Others	2.3	2.3	2.1	2.2	2.0	2.2	1.9	3.8	3.8
<b>Business Banking</b>	<b>5.4</b>	<b>6.5</b>	<b>8.2</b>	<b>7.0</b>	<b>6.5</b>	<b>6.3</b>	<b>6.4</b>	<b>4.5</b>	<b>4.6</b>
<b>Domestic Corporate</b>	<b>44.3</b>	<b>45.3</b>	<b>41.9</b>	<b>44.4</b>	<b>47.4</b>	<b>50.7</b>	<b>51.4</b>	<b>51.5</b>	<b>52.0</b>

Source: Company; Sharekhan Research

### Market Share - credit cards (%)



Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Green shoots of credit growth, stronger banks placed better

System-level credit off take grew modest by 7.89% y-o-y in the fortnight ending February 11, 2022 showing that credit growth held strong after the festive season. On the other hand, deposits continue to hold strong which rose by 9.11%, which indicate a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succor in terms of easy availability of funds and lower cost of funds for banks and financials. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as an economic recovery. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are better placed to take-off once the situation normalises.

### ■ Company outlook – Strong fundamentals to continue

We believe structural growth drivers are in place for HDFC Bank, helping it gain market share, aided by operational efficiencies and best-in-class asset quality. Going forward, we see growth outlook improving on credit cost and growth, even though medium-term challenges remain. The bank has built strong provision buffer, which work as a strong bulwark against probable future risks. Notably, the franchise continues to be one of the best-managed and strongest business models and needs to be seen from a long-term perspective. Overall, asset quality looks sanguine, with its calibrated growth and strong underwriting and assessment capabilities and healthy digitalisation benefits adding to the moat of its business strength. HDFC Bank's sufficient buffer of floating provision and contingent provisions along with comfortable capitalisation levels (CAR ratio at 19.5%) are additional positives. We believe HDFC Bank's business quality and franchise strength will help it tide over near-term challenges.

### ■ Valuation – We maintain our Buy rating with an unchanged price target of Rs. 1,973

We believe that the bank is on the trajectory of accelerated growth going ahead with the robust advances growth aided by retail and commercial segment and better asset quality in the wake of lifting of all the restrictions. We expect the bank's margin to gradually recover over FY23 coupled with growth in the unsecured book. Further, the bank now has sufficient drivers in terms of asset quality, reasonable provision buffers and appropriate asset mix to drive growth going forward. The bank is well capitalised and can manage asset quality across cycles and deliver superior return ratios and reap opportunities from the revival of the economy going ahead. Hence, we maintain our Buy rating with an unchanged price target of Rs. 1,973.

#### Peer Comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HDFC Bank	1,442	7,94,088	18.0	15.6	3.4	2.8	16.6	17.1	2.0	2.1
ICICI Bank	698	4,82,337	23.6	21.1	3.0	2.7	13.5	13.7	1.7	1.7
Kotak Mahindra Bank	1,791	3,49,714	44.4	37.9	5.0	4.4	11.9	12.4	2.0	2.0

Source: Company, Sharekhan estimates

## About the company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional/branch banking on the retail side. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

## Investment theme

HDFC Bank is among the top performing banks in the country having strong presence in the retail segment with strong asset quality and best-in-class margins. Not only the bank, but its strong and marquee parentage enjoy arguably the strongest brand recall in the country, which is at a significant competitive advantage in the Indian banking space. Buoyed by a strong brand appeal, impressive corporate governance, and strong management team (consistency in performance and best-in-class granular clientele) has enabled HDFC bank to be a long-term wealth creator for investors, and the above factors still hold true. The bank continues to report consistent margins and advances growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality too, which is indicative of the strong business franchise strength and leadership qualities. We believe the bank has a strong business model and is relatively well placed to tide over near-term challenges.

## Key Risks

Any delay in the economic recovery and its impact on the asset quality.

## Additional Data

### Key management personnel

Mr Sashidhar Jagdishan	Managing Director/CEO
Mr Jimmy Tata	Chief Risk Officer
Mr Srinivasan Vaidyanathan	Group Chief Financial Officer
Mr Vinay Razdan	Chief Human Resources Officer
Mr Ashish Parthasarthy	Treasurer
Ms Ashima Bhat	Head - Finance & Strategy

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	4.4
2	SBI Funds Management Pvt Ltd	3.5
3	LIFE INSURANCE CORPORATION OF INDIA	2.1
4	Morgan Stanley	2.1
5	EUROPACIFIC GROWTH FUND	2.0
6	FMR LLC	1.7
7	FIL Ltd	1.5
8	ICICI PRUDENTIAL Life Insurance Co Ltd	1.3
9	UTI Asset Management Co.	1.2
10	Schroders PLC	1.1

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.