

HDFC Bank Limited

BUY

CMP Rs1,467

Target Rs1,870

Upside 27.5%

Upgrading earnings estimates again, now building 20% CAGR over FY20-23 - Valuation will get a lift; upgrade 12m TP to Rs1,870

We are revising FY21/22/23 earnings estimates by 10%/3%/4% respectively and ABV estimates by 1.5-2% for these years, after having upgraded these numbers even towards the end of November in our collection feedback report. Earnings revisions thus could be sharper for the consensus. The stand-alone bank trades at 2.8x P/ABV and 16x P/E on FY23 estimates, adjusted for the valuation of its holdings in HDB Financial and HDFC Securities. Valuation is palatable and can move higher as it stands just above the long-term mean on 1-yr rolling fwd. basis and the probability of 20% earnings CAGR over FY20-23 has improved substantially. Also, the bank trades at significant discount to KMB despite better growth delivery.

Multiple positives to take home

Multiple positives to pay heed to viz. a) loan growth momentum near normalized (across products), b) persistent substantial SA accretion aiding margins, c) fee trajectory back on track, d) core PPOP margin at multi-quarter high, e) lower-than-expected Covid stress (restructuring + proforma NPL) and f) lower credit cost run-rate than H1 FY21. Management is confident of sustaining growth (gradual market share gains) in retail, SME and Corp. segments and the risk profile of the new acquisitions across products is significantly better than the industry; pointing towards robust asset quality performance even in future. For the bank, the impact of Covid is behind, there is no new risk on the anvil and the balance sheet is stronger than ever with high capitalization (16.8% Tier-1 ratio) and provisioning buffer (90-100 bps of advances). The only monitorable remains the performance of HDB Financial which reported a small loss in the quarter due to spike in delinquencies (GNPL at 5.9%) and upfront provisions taken.

Management Commentary

Retail Assets growth

- ✓ Strong growth momentum in Q3 FY21 with disbursements up 40% qoq – bank confident of continuing traction in Q4.
- ✓ Q3 FY21 disbursements surpassed pre-Covid run-rate, and in December it was 20% higher yoy.
- ✓ HL, Auto, Gold Loan, LAP, Unsecured and WC (Retail SME) driving growth.
- ✓ Card sales was up 20%+ qoq and spends were much higher.
- ✓ In auto and 2w, the bank is ahead of pre-Covid traction - PL is on same level - BL and others are lagging as market not conducive and bank's caution.

Exhibit 1: Financial Summary

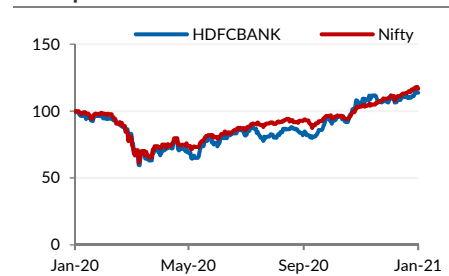
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	794,470	904,053	1,044,596	1,238,870
PPOP	487,495	566,380	649,519	774,654
Net profit	262,573	316,034	397,714	474,498
yoy growth (%)	24.6	20.4	25.8	19.3
EPS (Rs)	47.9	57.6	72.5	86.5
Adj.BVPS (Rs)	305.4	352.5	414.2	488.4
P/E (x)	30.5	25.3	20.1	16.9
P/adj.BV (x)	4.8	4.1	3.5	3.0
ROE (%)	16.4	17.1	18.5	18.8
ROA (%)	1.9	1.9	2.1	2.1

Source: Company, YES Sec – Research

Stock data (as on January 15, 2021)

Nifty	14,434
52 Week h/l (Rs)	1497 / 739
Market cap (Rs/USD mn)	8077805 / 110554
Outstanding Shares (mn)	5,508
6m Avg t/o (Rs mn):	14,368
Div yield (%):	-
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



	1M	3M	1Y
Absolute return	5.4%	25.4%	14.2%

Shareholding pattern

Promoter	26.0%
FII+DII	60.8%
Others	12.9%

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- ✓ CB sores of new customers acquisition across all products substantially better than the industry - about 50% better in unsecured products, 30% better in secured products and 2x better in CV financing.
- ✓ MFI biz collection stabilizing and normal disbursements will begin from January.
- ✓ For unsecured products, the bank has increased sourcing from internal customers.

Wholesale Portfolio Growth

- ✓ Growth coming from high-rated public and private sector enterprises.
- ✓ Gross incremental portfolio rating at 4.37 – corresponds to AA and AAA external rating.
- ✓ Around 68% of portfolio below internal rating of 5 - average rating steady at 4.4.
- ✓ Unsecured book better rated than secured portfolio – weighted average rating of 3.4.
- ✓ Collection were higher 11% yoy – December collections higher 20%+ yoy.
- ✓ Wholesale SME OD utilization has normalized.
- ✓ No unusual restructuring and NPL trend in Corporate.

SME Portfolio Trends

- ✓ Cash flows into customer's accounts has been improving from June – now stands higher 15% compared to February (pre-Covid).
- ✓ 30+ dpd improving m-o-m since September - FITL at 0.5-0.7% of the portfolio.
- ✓ Stress test results - initial estimate of 9% in June, then 3% in Sept and now further lowered to 2.3%.
- ✓ Utilization of loan facilities holding steady in early 70%.
- ✓ Delinquency trend qoq has shown improvement across all buckets – good resolutions and recoveries witnessed.
- ✓ Collateral coverage at 85%.
- ✓ Behavioral score of the portfolio gravitating towards the pre-Covid days.
- ✓ Bank has disbursed Rs220bn under ECLGS 1.0.

Asset Quality – Collection, Restructuring/NPLs and Credit Cost

- ✓ Demand resolution was 95% in September, which moved to 97% in December – 98% was pre-Covid level, and this will be attained soon.
- ✓ Cheque bounce trends improving m-o-m since September – now closer to pre-Covid level – improvement seen across products.
- ✓ Collection resolution also improving – bounce resolution better than pre-Covid times – in older buckets, it yet to catch-up.
- ✓ Recoveries in w/off cases 15% better than pre-Covid times.
- ✓ Restructured assets at 0.5% of book – majority of it is Retail – will not see any meaningful addition in Q4.
- ✓ Restructuring was done based on customers request and not based on bank's view of these loans – the latter is reflected in proforma NPL reported - thus some restructured assets could be a part of it.

NIMs, Fees and Cost/Income

- ✓ Cost/income to revert to 38-39% in short term – will come down though over the longer term.
- ✓ Interest reversals on proforma NPLs reflected in P&L.

HDB Financial Services

- ✓ Disbursements were higher 20% qoq.
- ✓ Provisions at Rs8.2bn which is mainly GP – no benefits of standstill taken in P&L.
- ✓ Gross and Net NPLs at 2.7% and 1.7% respectively on reported basis - on proforma basis, the GNPL is at 5.9% v/s 2.9% as of last year.
- ✓ Strong capital adequacy at 19.5%.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Interest Income	300,797	299,770	0.3	293,697	2.4
Interest expended	(137,621)	(142,006)	(3.1)	(151,968)	(9.4)
Net Interest Income	163,176	157,764	3.4	141,729	15.1
Other income	74,432	60,925	22.2	66,693	11.6
Total Income	237,608	218,688	8.7	208,422	14.0
Operating expenses	(85,748)	(80,551)	6.5	(78,968)	8.6
PPOP	151,860	138,138	9.9	129,454	17.3
Provisions	(34,141)	(37,035)	(7.8)	(30,436)	12.2
PBT	117,719	101,103	16.4	99,019	18.9
Tax	(30,136)	(25,972)	16.0	(24,854)	21.3
PAT	87,583	75,131	16.6	74,165	18.1

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Advances	10,823,242	10,383,351	4.2	9,360,295	15.6
Retail loans	5,048,940	4,850,030	4.1	4,801,330	5.2
Corp loans	5,774,302	5,533,321	4.4	4,558,965	26.7
Deposits	12,711,239	12,293,104	3.4	10,674,335	19.1
CA	1,721,080	1,778,590	(3.2)	1,439,000	19.6
SA	3,746,390	3,484,320	7.5	2,779,280	34.8
Others	7,243,769	7,030,194	3.0	6,456,055	12.2
Investments	4,143,762	4,139,651	0.1	3,112,941	33.1
Borrowings	1,201,302	1,325,801	(9.4)	1,132,772	6.0
RWA	10,917,210	10,374,830	5.2	9,509,760	14.8

Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	4.2	4.1	0.1	4.2	-
Yield on advances*	8.9	9.2	(0.3)	10.2	(1.3)
Yield on funds*	7.6	7.9	(0.2)	8.9	(1.3)
Cost of funds*	4.0	4.3	(0.3)	5.3	(1.3)
CASA	43.0	42.8	0.2	39.5	3.5
C/D	85.1	84.5	0.7	87.7	(2.5)
Non-interest income	31.3	27.9	3.5	32.0	(0.7)
Cost to Income	36.1	36.8	(0.7)	37.9	(1.8)
Prov. /Avg. Adv.	1.3	1.5	(0.2)	1.3	(0.0)
RoE	18.0	16.1	1.8	18.1	(0.2)
RoA	2.2	1.9	0.3	2.2	-
CAR	18.9	19.1	(0.2)	18.5	0.4
Gross NPA	0.8	1.1	(0.3)	1.4	(0.6)
Net NPA	0.1	0.2	(0.1)	0.5	(0.4)

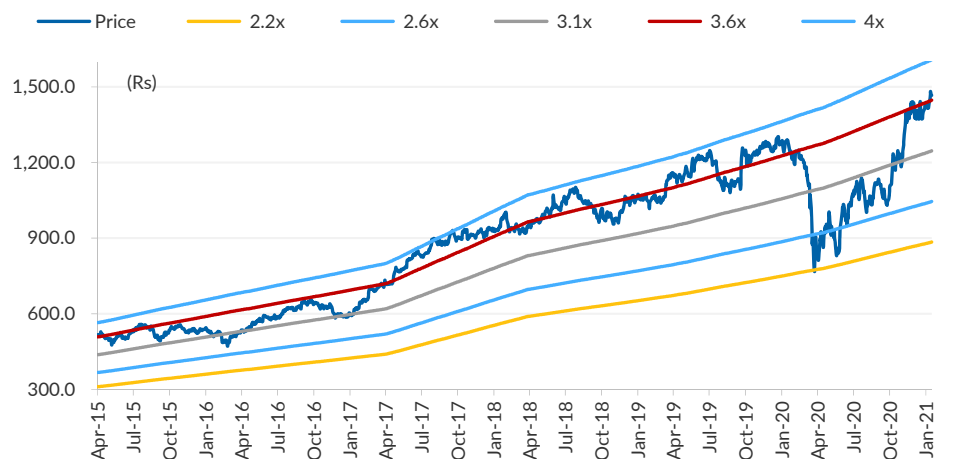
Source: Company, YES Sec - Research; *Calculated

Exhibit 5: Retail Loan Mix

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Auto Loans	818,800	796,640	2.8	835,520	(2.0)
CV/CE	271,150	269,800	0.5	281,240	(3.6)
Two Wheelers	95,040	94,940	0.1	101,490	(6.4)
Personal Loans	1,152,750	1,124,460	2.5	1,095,310	5.2
Business Banking	658,330	635,110	3.7	632,550	4.1
LAS	16,510	15,760	4.8	18,120	(8.9)
Credit Cards	633,320	581,420	8.9	576,780	9.8
Home Loans	666,440	628,470	6.0	617,290	8.0
Gold	66,960	60,390	10.9	53,180	25.9
Others	669,640	643,040	4.1	589,850	13.5
Total	5,048,940	4,850,030	4.1	4,801,330	5.2

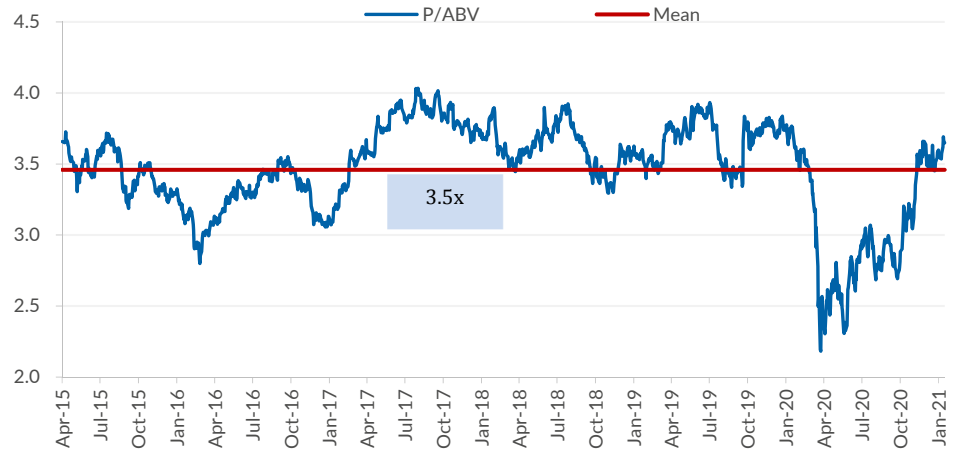
Source: Company, YES Sec - Research

Exhibit 6: 1-year rolling P/ABV band



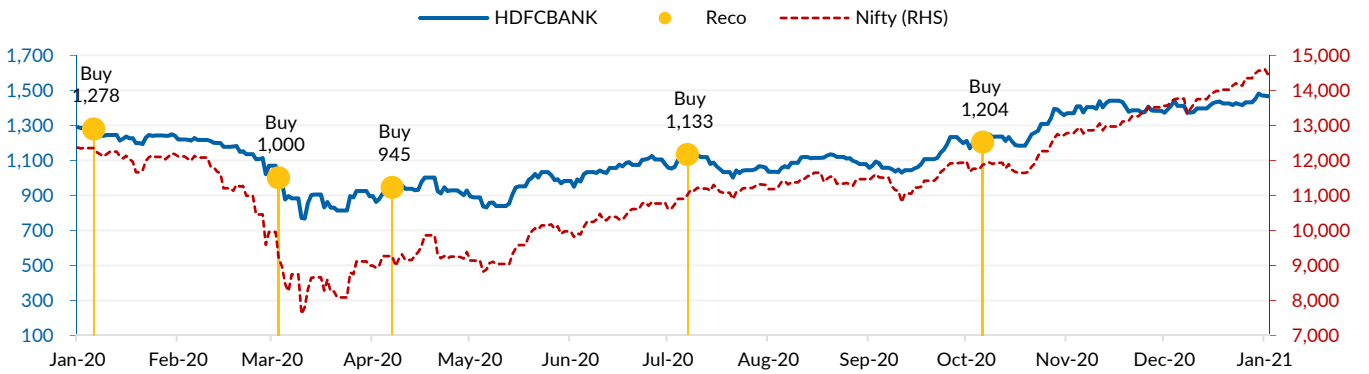
Source: Company, YES Sec - Research

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

Recommendation Tracker



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