

# HDFC Bank Ltd.



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Business outlook healthy

CMP INR 1,483	Target INR 1,671	Potential Upside 12.7%	Market Cap (INR Cr) INR 8,16,786	Recommendation ACCUMULATE	Sector Banking
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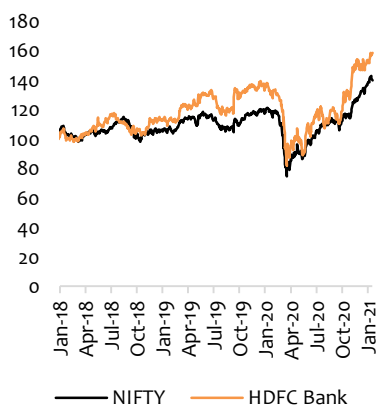
## Result Highlights of Q3FY21:

- PAT grew 18.1% YoY/16.6% QoQ, driven by advance growth of 15.6% YoY growth. NIMs were 4.1%, lower by 19 bps QoQ driven by the liquidity drag.
- Retail assets grew 5.2% YoY and wholesale grew 14.9% YoY
- Deposit grew 19.1% YoY (3.4% QoQ) with CASA improving to 43%, higher by 141bps QoQ driven by healthy customer acquisition. The CD ratio improved slightly at 85.1%. Term deposits grew 12.2% YoY. The incremental deposits were retail deposits.
- Other incomes grew 11.6% YoY/22.2% QoQ driven by trading gains and fees incomes.
- The GNPA were 0.8% on account of the standstill by the SC. Ex the same it was 1.38% - largely at the same levels as the last quarter and year. The core credit costs were 1.25% lower by 16 bps QoQ. CAR was at 18.9% and Tier 1 was 16.8%.

## MARKET DATA

Shares outs (Cr)	550
Equity Cap (INR Cr)	1,95,144
Mkt Cap (INR Cr)	8,16,786
52 Wk H/L (INR)	1,502/738
Volume Avg (3m K)	10,927
Face Value (INR)	1
Bloomberg Code	HDFCB IN

## SHARE PRICE PERFORMANCE



## KEY FINANCIALS

Particulars (INR Crores)	FY19	FY20	FY21E	FY22E	FY23E
NII	48,243	56,186	63,452	74,520	93,143
PPOP	39,750	48,750	56,879	68,000	85,387
PAT	21,078	26,257	32,568	40,882	52,911
EPS	39.2	47.9	59.2	74.3	96.2
NIM	273.9	311.8	355.3	411.0	483.2
Advances Growth	4.4%	4.4%	4.1%	4.0%	4.1%

Source: Company, KRChoksey Research

**Results in line, GNPA momentum steady:** The bank posted a profit growth of 18.1% YoY as its provisions were lower by 7.8% QoQ. The GNPA were 0.81%, Ex SC stay, it would be 57 bps higher at 1.38%. Ex agriculture, the same were steady at 1.2%. While the bank has not recognised NPAs as required by the SC, it has provided for these assets. It restructured 0.5% of its book. It holds 80 bps of its advances as contingency provisions. Its NPA accretions are unlikely to adversely and materially increase its provisions. We therefore believe, the credit costs are likely to normalise. We expect the credit costs at 127 bps of which it has provided ~100 bps.

**NIM at the lower end of its range, share of wholesale rising:** The bank reported a NIM at 4.1% driven by change in asset mix and liquidity drag. The share of wholesale is now 52%. Even within retail, the share of low yielding home loans and MSME loans are higher in incremental lending. While the bank is likely to improve momentum in autos and gold, the higher yielding unsecured book is likely to take some time to witness momentum. The bank's deposit cost has reduced sharply in the year however the downside is likely to remain subdued. We expect the NIMs to remain at the lower end of the range.

**Business Momentum improving, the bank is in a favorable position:** The advances of the bank have outpaced the industry. This has been on account of increase in its share in MSME, home loans and agriculture. It has increased penetration in rural and semi-urban. We expect the advances to grow at CAGR 18% over FY21-23 after growing 16% in FY21. The deposits are expected to grow at CAGR 20% over FY21-23 after a likely growth of 22% in FY21. The acquisition machinery of the bank remains robust. We expect improvement in other incomes as its business momentum grows, albeit in safer assets.

## MARKET INFO

SENSEX	48,567
NIFTY	14,281

## SHARE HOLDING PATTERN (%)

Particulars	Dec-20	Sep-20	Jun-20
Promoters	26	26.02	26.1
FIIIs	39.35	37.43	37.04
DIIIs	17.41	23.9	22.09
Others	17.24	12.65	14.77
Total	100	100	100

21.1%

NII CAGR between FY21 and FY23E

27.5%

PAT CAGR between FY21 and FY23E

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## Key Concall Highlights:

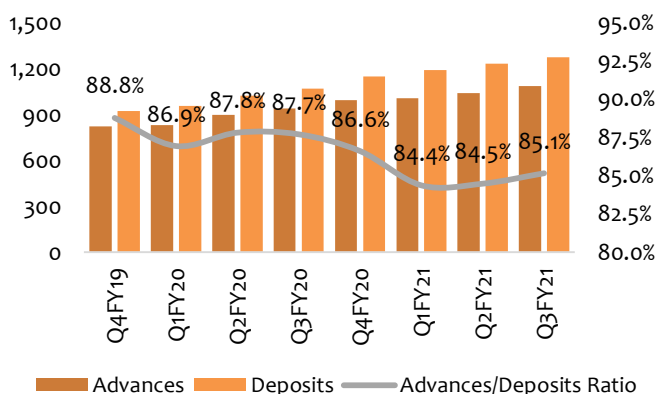
- The bank has a strong customer acquisition with 20% YoY growth in SA registration; 15% YoY in CA. It added 2 mn relations in the quarter, higher by 18% YoY, 9% QoQ
- Retail throughput is higher and inquiries in branches have increased. It is likely to add 100 branches in Q4FY21. 100% of incremental TD were retail
- Slippage were at 1.86% vs 2.13% last year and 1.98% last quarter. GNPA were 0.81%, Ex SC stay, it would be 57 bps higher vs 1.37% last quarter and 1.42% last year. Excluding agriculture, GNPA would be 1.2%
- Restructured book is 0.5% of gross advances.
- Wholesale book has been growing at a steady pace over 2-3 quarters. Incremental book is AA and AAA. Internal rating of unsecured book remains better than secured book due to the caution exercised by the bank.
- Likely stress book in extreme stress scenario in SME is ~2%, lower than earlier expected.
- All other segments of retail have been growing satisfactorily. Home loans have been growing well. Agriculture is growing better than others and is likely to do so. Auto is inching up and is likely to consolidate in Q4.
- It has disbursed INR 22,102.68 Cr in ECLGS 1 for 1,19,599 customer and INR 579.16 Cr across 58 customers over ECLGS 2
- HDB has disbursed loans at the same level as last year and higher by 23% QoQ. AUM is INR 16,176 Cr, NII is INR 1,010 Cr – higher by 1.5% YoY 9.3% QoQ. PPOP is INR 748 Cr – higher by 7.5% YoY. Provisions were INR 800 Cr. It accrued a loss of INR 44 Cr.

## Valuation and view:

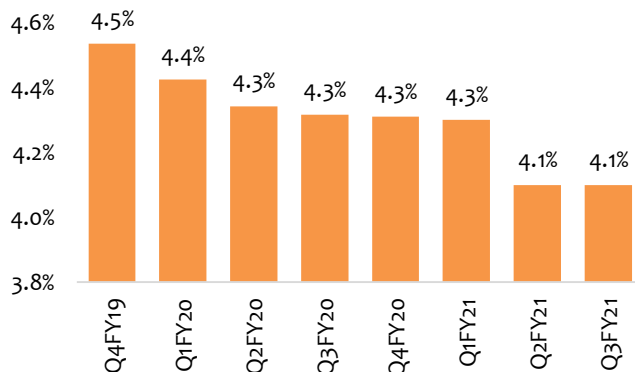
The results were in line with our expectation and we expect its key metrics to normalize. We expect the bank to improve market share, normalize credit costs, have a higher share of safer assets, improving penetration to grow. We don't expect adverse impact on financial performance from hereon, despite its NIMs at the lower end of its range. The share of safer assets is a positive. We expect it to outperform peers.

We roll forward our estimates and have factored CAGR of 17.5% in advances, 19.5% in deposits, 21% in NII and 28% growth in profits driven by lower credit costs. We expect an ROA of 2.2% by FY23, improving from 1.9% in FY21. We value the bank at 3.5x FY23E P/ABV, implying 4.1x FY22E P/ABV. We maintain our “ACCUMULATE” rating at a target price of INR 1,671 with an upside of 12.7% from CMP.

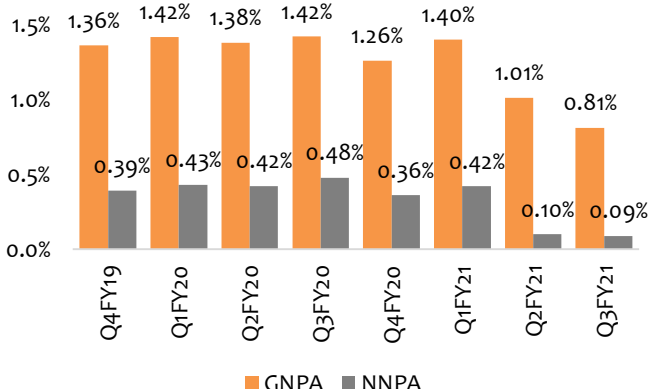
Advance/Deposit: (INR 000' Cr)



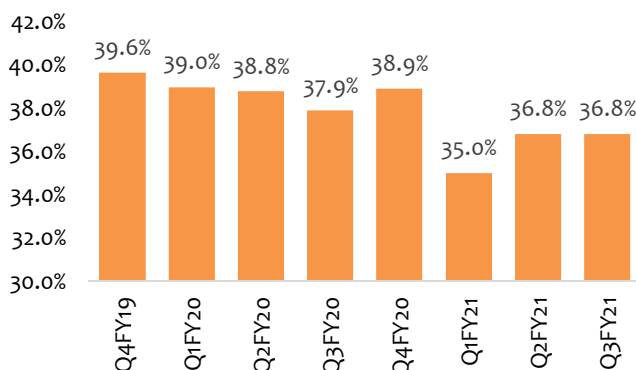
Net Interest Margins



Asset Quality



Cost/Income



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Crores	FY 19	FY 20	FY 21E	FY 22E	FY23E
Interest Income	98,972	1,14,813	1,24,769	1,51,675	1,82,249
Interest Expense	50,729	58,626	61,317	77,155	89,106
<b>Net Interest Income</b>	<b>48,243</b>	<b>56,186</b>	<b>63,452</b>	<b>74,520</b>	<b>93,143</b>
Non interest income	17,626	23,261	27,903	31,411	36,895
Operating income	65,869	79,447	91,355	1,05,931	1,30,038
- Employee expense	7,762	9,526	10,924	11,686	13,818
- Other operating expense	18,358	21,172	23,551	26,245	30,834
Operating Expense	26,119	30,698	34,475	37,931	44,652
<b>PPOP</b>	<b>39,750</b>	<b>48,750</b>	<b>56,879</b>	<b>68,000</b>	<b>85,387</b>
Provisions	7,550	12,142	13,357	13,490	14,839
PBT	32,200	36,607	43,523	54,510	70,547
Tax Expense	11,122	10,350	10,955	13,627	17,637
<b>PAT</b>	<b>21,078</b>	<b>26,257</b>	<b>32,568</b>	<b>40,882</b>	<b>52,911</b>
Diluted EPS (INR)	39.20	47.89	59.21	74.33	96.20

Forecast is based on merged financials of BFIL; Historical numbers are not comparable

Source: Company, KRChoksey Research

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## Exhibit 2: Balance Sheet

INR Crores	FY19	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	545	548	550	550	550
Reserves & Surplus	1,48,662	1,70,438	1,94,864	2,25,526	2,65,208
Networth	1,49,206	1,70,986	1,95,414	2,26,076	2,65,758
Borrowings	1,17,085	1,44,629	1,63,866	1,53,668	1,38,301
Deposits	9,23,141	11,47,502	13,99,953	16,72,944	19,99,168
Other liabilities & provisions	55,108	67,394	73,774	1,01,828	1,94,034
<b>Total Equity &amp; Liabilities</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>18,33,006</b>	<b>21,54,515</b>	<b>25,97,261</b>
<b>Uses of Funds</b>					
Balance w/ RBI	46,764	72,205	69,298	16,562	19,792
Balance w/ banks & others	34,584	14,414	69,998	16,729	9,996
Net investments	2,90,588	3,91,827	5,28,966	6,92,945	9,07,759
Loans & advances	8,19,401	9,93,703	11,52,695	13,60,181	15,91,411
Fixed assets	4,030	4,432	4,765	5,014	5,264
Other assets	49,174	53,931	76,582	79,645	82,831
<b>Total Assets</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>18,33,006</b>	<b>21,54,515</b>	<b>25,97,261</b>

Source: Company, KRChoksey Research

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## Exhibit 3: Ratio Analysis

Key Ratio	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth Rates</b>					
Advances (%)	24.5%	21.3%	16.0%	18.0%	17.0%
Deposits (%)	17.0%	24.3%	22.0%	19.5%	19.5%
Total assets (%)	17.0%	23.0%	19.8%	17.5%	20.5%
NII (%)	20.3%	16.5%	12.9%	17.4%	25.0%
Pre-provisioning profit (%)	21.8%	22.6%	16.7%	19.6%	25.6%
PAT (%)	20.5%	24.6%	24.0%	25.5%	29.4%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.8%	86.6%	82.3%	81.3%	79.6%
CASA (%)	42.4%	42.2%	41.0%	40.2%	39.3%
Advances/Total assets (%)	65.8%	64.9%	62.9%	63.1%	61.3%
Leverage - Total Assets to Equity	8.3	8.95	9.38	9.53	9.77
<b>Operating efficiency</b>					
Cost/income (%)	39.7%	38.6%	37.7%	35.8%	34.3%
Opex/total assets (%)	2.1%	2.0%	1.9%	1.8%	1.7%
Opex/total interest earning assets	2.4%	2.4%	2.2%	2.0%	2.0%
<b>Profitability</b>					
NIM (%)	4.4%	4.4%	4.1%	4.0%	4.1%
RoA (%)	1.8%	1.9%	1.9%	2.1%	2.2%
RoE (%)	16.5%	16.4%	17.8%	19.4%	21.5%
<b>Asset quality</b>					
Gross NPA (%)	1.4%	1.3%	1.4%	1.3%	1.3%
Net NPA (%)	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	71.4%	96.0%	85.0%	85.0%	85.0%
Slippage (%)	2.2%	2.2%	1.9%	1.8%	1.8%
Credit cost (%)	1.0%	0.8%	1.2%	1.1%	1.0%
<b>Per share data / Valuation</b>					
EPS (INR)	39.2	47.9	59.2	74.3	96.2
BVPS (INR)	273.9	311.8	355.3	411.0	483.2
ABVPS (INR)	268.0	305.4	350.9	406.0	477.5
P/E (x)	38.2	30.9	25.0	19.9	15.4
P/BV (x)	5.4	4.7	4.2	3.6	3.1
P/ABV (x)	5.5	4.8	4.2	3.6	3.1

Source: Company, KRChoksey Research

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HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-Jan-21	1,483	1,671	ACCUMULATE	Buy	More than 15%
15-Dec-20	1,383	1,510	ACCUMULATE	Accumulate	5% – 15%
19-Oct-20	1,204	1,427	BUY	Hold	0 – 5%
21-Jul-20	1,133	1,427	BUY	Reduce	-5% – 0
04-Jun-20	1,002	1,265	BUY	Sell	Less than – 5%

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