

Consistent performance depicts core strength...

HDFC Bank's performance was stable on various parameters like business growth, asset quality and profitability. Business growth continued to show improvement for past three quarters as advances were up 4.7% QoQ, 14% YoY to ₹ 1132837 crore. Loan growth was led by wholesale book, which was up 27.1% YoY while retail book increased 6.7% YoY. Within the retail book auto and home loans have shown a sequential pickup while credit card business trajectory has shown a decline due to RBI's curb on sourcing of new customers. Deposit accretion was healthy at 16.3% YoY and 5% QoQ increase to ₹ 1335060 crore. CASA deposits reported even stronger growth of 27% YoY. As a result, the CASA ratio increased from 43% in the previous quarter and 42.2% in previous year to 46.1% in Q4FY21.

NII growth was decent at 12.6% YoY at ₹ 17120 crore, as NIM declined 10 bps YoY due to excess liquidity. Other income was up 26% YoY, 2% QoQ to ₹ 7593 crore on account of a steep rise in forex income and recoveries. C/I declined from 39.0% to 37.2% YoY but QoQ it was up 110 bps. Provisions stayed elevated at ₹ 4693 crore, as bank parked ₹ 1300 crore as contingent provision in Q4FY21. PAT increased 18.2% YoY to ₹ 8186 crore but was slightly below our estimate due to higher provisions.

GNPA ratio, on a reported basis jumped from 0.81% to 1.32% as standstill classification norms were quashed with defaulting accounts being recognised as NPA. However, as compared to December 2020 proforma GNPA of 1.38%, GNPA ratio fell ~6 bps QoQ while NNPA stayed at similar levels of 0.4%. The bank made provisions worth ₹ 4693 crore, including contingent provisions of ₹ 1300 crore. The bank currently holds floating provisions worth ₹ 1451 crore and contingent provisions of ₹ 5861 crore. Total provisions including specific, general, floating are now at 153% of GNPA as on March 2021. Outstanding contingent provision has declined from ₹ 8656 crore to ₹ 5861 crore QoQ as the bank has utilised ~₹ 3600 crore, worth contingent provisions for proforma NPAs and ₹ 500 crore towards interest on interest refund.

Valuation & Outlook

Focus on business growth with strong revival in retail advances remains positive. Healthy deposit franchise is seen keeping margins at ~4.2%, with a strong recovery in fee based income and steady operational efficiency to support core performance. Robust asset quality performance amid tight underwriting standard and contingency buffer of ~60 bps provide comfort against uncertainties in the current environment. Beefing up technology and enhancing digital capabilities is underway to address outage issues. We broadly maintain our earnings estimate and maintain our **BUY** rating with an unchanged target price of ₹ 1700/share, valuing the core bank at ~3.7x FY23E ABV and adding ₹ 50 in lieu of subsidiaries.



Particulars

Particulars	Amount
Market Capitalisation	₹ 787472 crore
GNPA (Q4FY21)	₹ 15086 crore
NNPA (Q4FY21)	₹ 4554 crore
NIM % (Q4FY21)	4.2
52 week H/L	1650/826
Networth	₹ 203721 crore
Face value	₹ 1
DII holding (%)	21.0
FII holding (%)	39.8

Key Highlights

- GNPA declined from 1.38% to 1.32% (proforma basis) sequentially
- Outstanding contingent provision at ₹ 5861 crore; total provisions at 153% of reported GNPA levels
- Maintain BUY recommendation with unchanged target price of ₹ 1700

Risk to our call

- If second wave of Covid-19 persist for long, then overall business growth and asset quality may get impacted
- Technology issues if take more time for resolution then digital initiatives would be hampered

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	48,243	56,186	64,880	74,383	85,620	15%
PPP	39,750	48,750	57,362	64,265	74,885	14%
PAT	21,078	26,257	31,117	36,584	42,886	17%
ABV (₹)	268.0	305.4	361.3	402.1	442.2	
P/E	36.9	29.8	25.3	21.5	18.4	
P/ABV	5.3	4.7	4.0	3.6	3.2	
RoA	1.8	1.9	1.9	1.9	2.0	
RoE	16.5	16.4	16.6	17.0	17.9	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	17,120.2	16,901.0	15,204.1	12.6	16,317.6	4.9	Modest growth due to YoY NIM decline
NIM (%)	4.2	4.1	4.3	-10 bps	4.2	0 bps	High liquidity on balance sheet lead to yearly 10 bps decline but QoQ margin is steady
Other Income	7,593.9	7,062.4	6,032.6	25.9	7,443.2	2.0	Largely driven by forex and recoveries
Net Total Income	24,714.1	23,963.4	21,236.6	16.4	23,760.8	4.0	
Staff cost	2,678.9	2,673.1	2,498.3	7.2	2,630.1	1.9	C/I ratio likely to reach 38-39% levels
Other Operating Expenses	6,502.4	6,184.1	5,779.6	12.5	5,944.7	9.4	
PPP	15,532.8	15,106.1	12,958.8	19.9	15,186.0	2.3	
Provision	4,693.7	3,396.0	3,784.5	24.0	3,414.1	37.5	Elevated levels as bank continues to park contingent provisions worth ₹1400 crore
PBT	10,839.1	11,710.1	9,174.3	18.1	11,771.9	-7.9	
Tax	2,652.6	3,009.5	2,246.6	18.1	3,013.6	-12.0	
PAT	8,186.5	8,700.6	6,927.7	18.2	8,758.3	-6.5	Healthy growth despite elevated provisions but tad below our estimates
Key Metrics							
GNPA	15,086	9,476	12,650	19.3	8,826	70.9	Sharp rise in reported NPAs as standstill classification norms have been quashed
NNPA	4,555	1,416	3,542	28.6	1,016	348.3	
Advances	1,132,837	1,132,000	993,703	14.0	1,082,324	4.7	Loan growth driven by corporate book
Deposits	1,335,060	1,335,000	1,147,502	16.3	1,271,124	5.0	Healthy accretion with CASA rising by 27% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	73,700.0	74,383.1	0.9	84,508.2	85,620.4	1.3
Pre Provision Profit	63,955.7	64,265.4	0.5	18,365.1	17,320.1	-5.7
NIM calculated (%)	4.2	4.2	5 bps	4.2	4.3	5 bps
PAT	35,993.4	36,583.7	1.6	41,942.1	42,885.8	2.2
ABV (₹)	401.7	402.1	0.1	446.7	442.2	-1.0

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	21.3	14.0	17.1	17.4	17.3	17.4
Deposit Growth (%)	24.3	16.3	16.9	17.3	17.6	17.7
CASA ratio (%)	42.2	44.6	44.2	43.0	41.2	40.1
NIM Calculated (%)	4.2	4.2	4.2	4.3	4.2	4.2
Cost to income ratio (%)	38.6	36.3	37.0	36.4	36.6	35.7
GNPA (₹ crore)	12,650	15,086	20,127	24,487	24,270.1	28,668.9
NNPA (₹ crore)	3,542	4,555	4,839	7,610	5,342.8	4,982.9
Slippage ratio (%)	1.8	1.4	1.1	1.0	1.0	1.0
Credit cost (%)	1.0	1.3	1.1	1.1	1.1	1.1

Source: Company, ICICI Direct Research

Conference Call Highlights

Asset quality & moratorium

- GNPA excluding agri segment was at 1.2%
- Restructuring under RBI resolution for Covid-19 is at ~60 bps
- Recoveries were at ~25 bps vs. ~24 bps QoQ
- Check bounce rate improved in March 2021 but saw some dip in April due to lockdowns and reached around January levels
- States like Maharashtra, Punjab, Telangana have seen some stress
- Write-off for the quarter was at ₹ 3500 crore
- Fresh slippages for Q4FY21 were at ₹ 4600 crore i.e. slippage ratio at 1.66% vs. 1.86% (proforma) QoQ
- The bank is in the process of finalising various stress tests in the wake of a second Covid-19 wave
- Average rating for corporate portfolio is at 4.2 in the internal scale (wherein 1 is the best and 10 is the worst). If rated externally, 62% of incremental is rated AA and above

Business

- MSME segment is expected to remain in focus for HDFC Bank and overall banking sector as it offers income to the extent of 2x relative to wholesale lending amid the risk involved
- MSME book was at ~18% of advances in December 2020
- Retail assets disbursement have picked up as they were up 21% YoY and 6% QoQ. Disbursements in auto, 2-W loans at pre-Covid levels

Operational performance

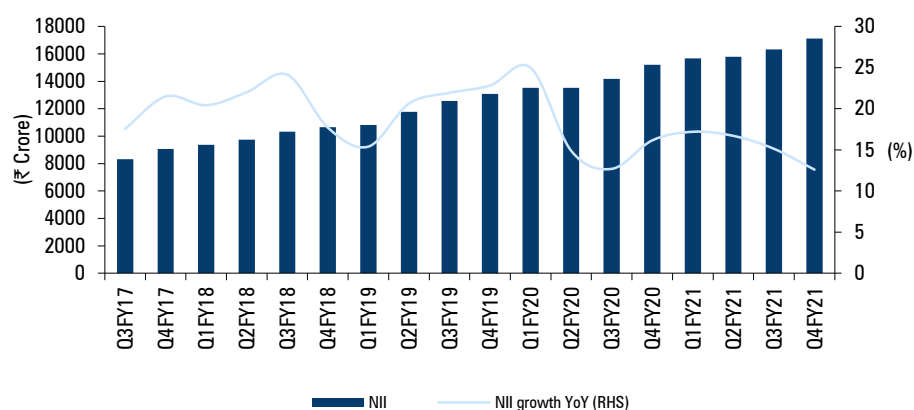
- NIM was negatively impacted by ~10 bps due to excess liquidity
- The bank has adjusted for refund of interest on interest to the tune of ₹ 500 crore during the quarter
- Cost-to-income ratio was up from 36.1% to 37.2% QoQ and is likely to rise to 38-39% due to increased spends with higher business activity
- Outstanding contingent provision has declined from ₹ 8656 crore in Q3FY21 to ₹ 5861 crore in Q4FY21 as the bank utilised provision parked in lieu of proforma NPA

Others

- Outages in March 2021 were due to hardware issue and not related to capacity but technological issues are expected to be sorted in six months
- The bank sold assets worth ₹ 1000 crore in Q4 while such a sale is to continue ahead
- The bank was appointed as IB for four IPOs in Q4FY21

Story in Charts

Exhibit 4: Net interest income trajectory



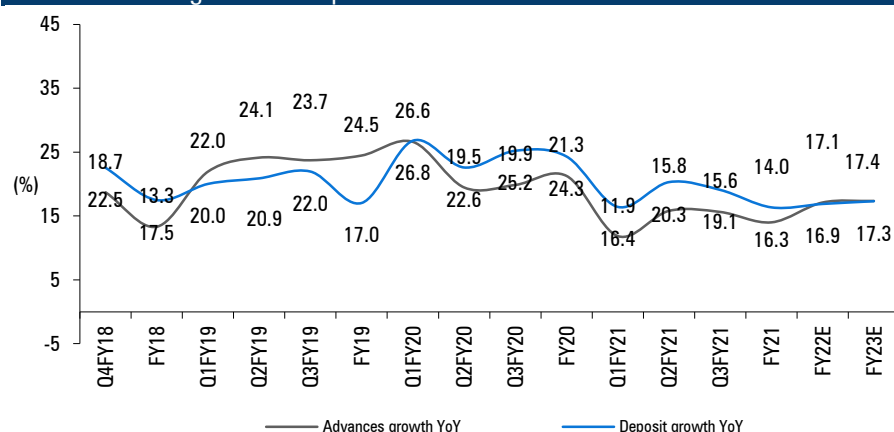
Source: Company, ICICI Direct Research

Exhibit 5: Business banking, auto book gains continued traction; credit card remains subdued amid ban

₹ crore	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Auto	80,675	80,784	80,784	83,552	83,935	81,082	79,664	81,800	84,392
CVCE	28,730	28,490	28,490	28,124	29,045	27,801	26,980	27,115	27,977
Two wheelers	10,047	9,851	9,851	10,149	9,855	9,586	9,494	9,504	9,293
Personal loans	92,978	1,02,080	1,02,080	1,09,531	1,15,557	1,11,567	1,12,446	1,15,275	1,18,627
Business Banking	57,035	62,689	62,689	63,255	64,124	60,596	63,511	65,833	70,919
LAS	1,881	1,828	1,828	1,812	1,801	1,501	1,576	1,651	1,838
Credit cards	46,630	52,043	52,043	57,678	57,575	54,698	58,142	63,332	64,674
Home loans	51,359	60,017	60,017	61,729	63,445	62,652	62,847	66,644	70,210
Others	56,836	57,543	57,543	58,985	63,632	59,951	64,304	66,964	72,435
Gold	5,187	5,320	5,320	5,318	5,430	5,571	6,039	6,696	7,221
Total	4,31,358	4,60,645	4,60,645	4,80,133	4,94,399	4,75,005	4,85,004	5,04,897	5,27,586

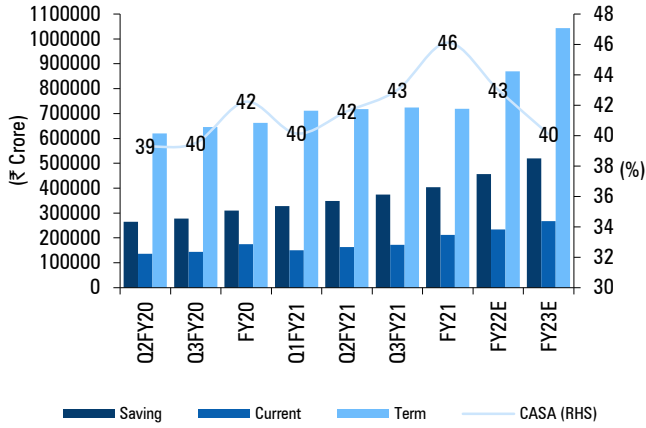
Source: Company, ICICI Direct Research

Exhibit 6: Credit growth to improve amid economic revival ahead



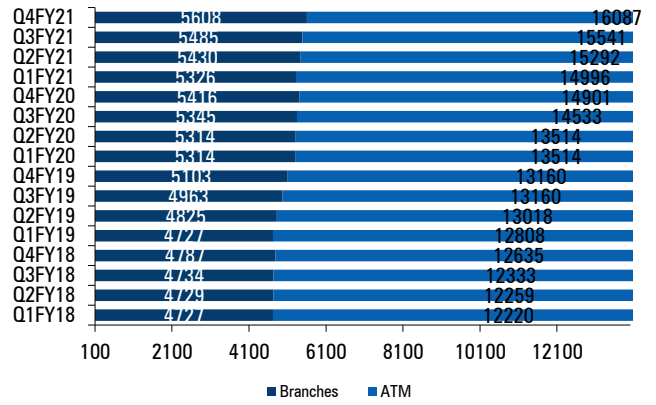
Source: Company, ICICI Direct Research

Exhibit 7: Healthy CASA pickup



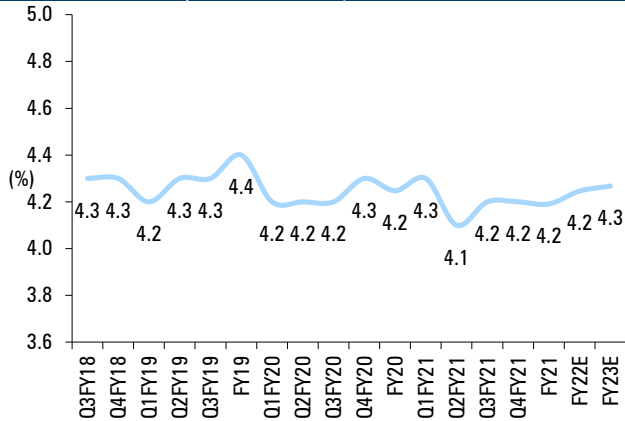
Source: Company, ICICI Direct Research

Exhibit 8: Branch addition trend



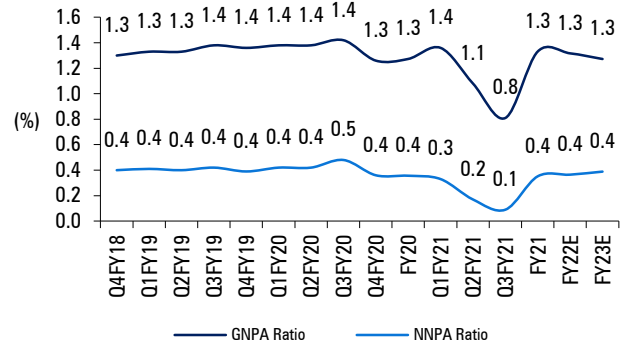
Source: Company, ICICI Direct Research

Exhibit 9: Healthy CASA to keep NIMs stable



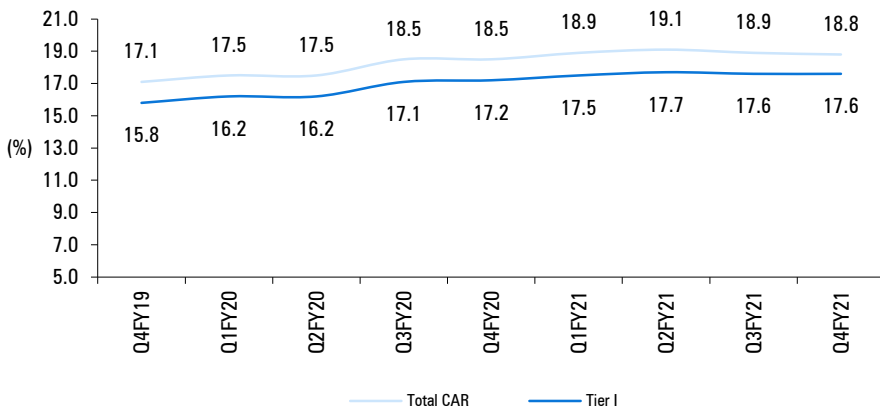
Source: Company, ICICI Direct Research

Exhibit 10: Spike in reported NPA numbers



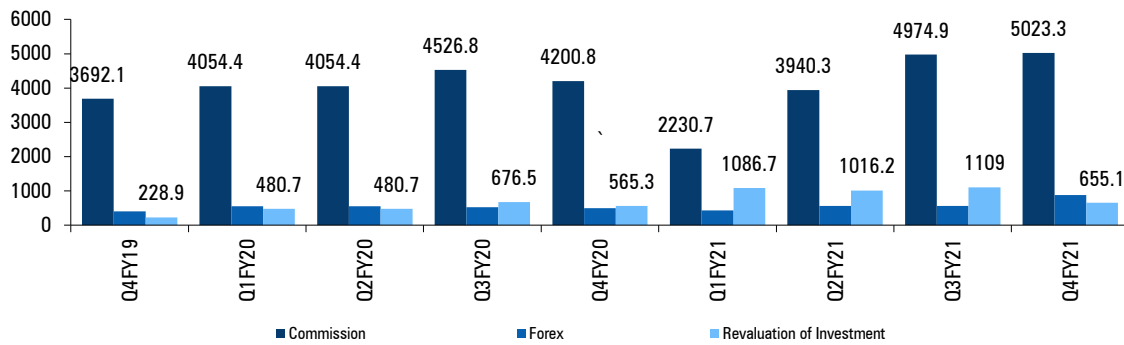
Source: Company, ICICI Direct Research

Exhibit 11: Well capitalised to push growth



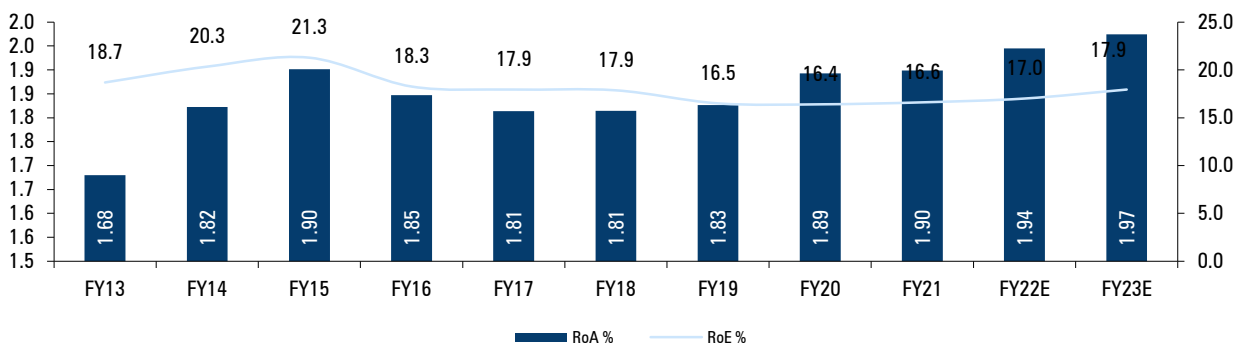
Source: Company, ICICI Direct Research

Exhibit 12: Other income profile



Source: Company, ICICI Direct Research

Exhibit 13: RoA to continue at ~2%



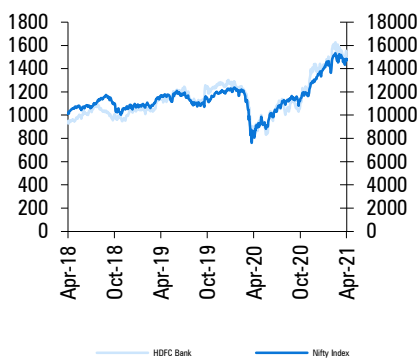
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sept-20	Dec-20	Mar-21
Promoter	26.1	26.1	26.0	26.0	26.0
FII	36.7	37.0	37.4	39.4	39.8
DII	21.7	21.9	22.7	21.5	21.0
Others	15.4	15.0	13.9	13.2	13.3

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Interest Earned	114813	120858	146476	169985
Interest Expended	58626	55979	72093	84365
NII	56186	64880	74383	85620
Growth (%)	16.5	15.5	14.6	15.1
Non Interest Income	23261	25205	27684	32187
Fees and advisory	16334	16170	19081	22516
Treasury Income	2636	2900	3480	4176
Other income	4291	6134	5123	5496
Total Income	79447	90084	102068	117808
Employee cost	9526	10365	12793	14123
Other operating Exp.	21172	22358	25009	28800
Gross Profit	48750	57362	64265	74885
Provisions	12142	15703	15160	17320
PBT	36607	41659	49106	57565
Taxes	10350	10542	12522	14679
Net Profit	26257	31117	36584	42886
Growth (%)	24.6	18.5	17.6	17.2
EPS	47.9	56.4	66.4	77.8

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Valuation				
No. of Equity Shares	548.3	551.3	551.3	551.3
EPS (₹)	47.9	56.4	66.4	77.8
BV (₹)	311.8	369.5	410.9	456.0
ABV (₹)	305.4	361.3	402.1	442.2
P/E	29.8	25.3	21.5	18.4
P/BV	4.6	3.9	3.5	3.1
P/ABV	4.7	4.0	3.6	3.2
Yields & Margins (%)				
Net Interest Margins	4.2	4.2	4.2	4.3
Yield on avg earning assets	8.7	7.8	8.4	8.5
Avg. cost on funds	5.0	4.0	4.5	4.6
Avg. cost of deposits	4.9	4.5	4.4	4.5
Yield on average advances	10.1	9.7	9.7	9.8
Quality and Efficiency (%)				
Cost / Total net income	38.6	36.3	37.0	36.4
Credit/Deposit ratio	86.6	84.9	85.0	85.0
GNPA	1.3	1.3	1.3	1.3
NNPA	0.4	0.4	0.4	0.4
ROE	16.4	16.6	17.0	17.9
ROA	1.9	1.9	1.9	2.0

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Capital	548	551	551	551
Reserves and Surplus	170438	203170	225984	250858
Networth	170986	203721	226536	251409
Deposits	1147502	1335060	1560485	1830602
Borrowings	144629	135487	149130	161091
Other Liabilities & Provision:	67394	72602	78825	85877
Total	1530511	1746870	2014976	2328980
Applications of Funds				
Fixed Assets	4432	4909	5366	5838
Investments	391827	443728	440470	480894
Advances	993703	1132837	1326699	1556922
Other Assets	53931	45926	131314	167860
Cash with RBI & call mone	86619	119470	111127	117466
Total	1530511	1746870	2014976	2328980

Source: Company, ICICI Direct Research

Exhibit 19: Key ratio (%)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total assets	23.0	14.1	15.3	15.6
Advances	21.3	14.0	17.1	17.4
Deposits	24.3	16.3	16.9	17.3
Total Income	18.4	5.8	19.2	16.1
Net interest income	16.5	15.5	14.6	15.1
Operating expenses	17.5	6.6	15.5	13.5
Operating profit	22.6	17.7	12.0	16.5
Net profit	24.6	18.5	17.6	17.2
Net worth	14.6	19.1	11.2	11.0
EPS	23.7	17.9	17.6	17.2

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
SBI (STABAN)	334	410	Buy	3033	20.0	28.1	30.5	17	11.9	11.0	1.5	1.3	1.2	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	103	180	Buy	174	16.9	29.1	45.5	6.1	3.5	2.3	0.6	0.6	0.5	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	669	800	Buy	2051	25.2	47.7	58.7	26.5	14.0	11.4	2.4	2.0	1.7	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	162	200	Buy	116	10.0	10.0	10.0	16.2	16.2	16.2	2.4	2.1	2.1	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	91	130	Hold	28	11.0	14.0	16.0	8.2	6.5	5.7	0.9	0.8	0.7	0.9	1.1	1.1	10.4	11.8	12.0
Federal Bank (FEDBAN)	76	90	Buy	152	7.7	7.9	10.0	9.8	9.7	7.6	1.2	1.1	1.0	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1,428	1,700	Buy	7875	56.4	66.4	77.8	25.3	21.5	18.4	4.0	3.6	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	865	1,050	Buy	669	36.8	56.5	66.5	23.5	15.3	13.0	1.7	1.7	1.6	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	25	25	Hold	22	7.5	10.4	0.0	3.3	2.4		0.4	0.3	1.0	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,765	2,040	Buy	3471	23.5	27.2	33.7	75.2	64.8	52.4	8.8	7.8	6.9	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	322	370	Hold	562	14.7	24.7	31.4	21.9	13.0	10.3	3.7	2.9	2.3	2.3	3.2	3.3	15.0	21.9	22.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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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