

Strong growth outlook; Higher restructuring was bit disappointing

CMP: INR 1,687

Rating: ACCUMULATE

Target Price: INR 1,935

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	550
Mkt Cap (INR Cr)	9,07,616
52w H/L (INR)	1,690 / 1,164
Avg Yearly Vol (in 000')	8,772

Shareholding Pattern %

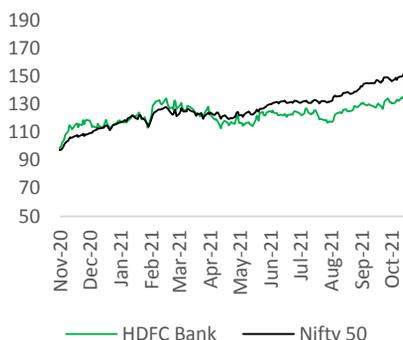
(As on June, 2021)

Promoters	25.9
FII	39.4
DII	21.5
Public & Others	13.2

Stock Performance (%)

	3m	6m	12m
HDFC Bank	9.2	17.1	36.8
Nifty 50	15.7	26.4	53.2

HDFC Bank Vs Nifty



HDFC Bank during Q2FY22 has reported strong 18% YoY growth in profit at INR 8,834 cr was higher than our estimate of INR 8,541 cr. NII for the quarter grew by 12% YoY/4% QoQ to INR 17,684 cr driven by credit growth of 16% YoY. NIM of the bank stood stable at 4.1%. Operating profit for the quarter increased by 14% YoY to INR 15,807 cr was in line with our estimate of INR 15,886 cr. Other income for the quarter grew strongly by 22% YoY/18% QoQ to INR 7,401 cr. Provisions for the quarter decreased sequentially by 19% to INR 3,925 cr. As a prudent strategy, Bank has made INR 1200 cr additional provision in Q2FY22 and carries total cumulative (floating + contingent) provision of INR 9,207 cr (0.8% of loans). Headline NPA ratio improved by 12bps QoQ due to lower slippages and better recoveries but higher restructuring was disappointing.

NIMs stood stable: NIM of the bank stood stable at 4.1%. Yield on advances stood flat at 8.3% QoQ while cost of funds improved by 5 bps QoQ at 3.6%. Bank expects NIM to improve in H2FY22 as retail growth accelerates led by strong demand.

Retail growth started increasing and expect it to accelerate further: Overall advances grew by 16% YoY (vs. 14% YoY in Q1FY22) due to better traction in retail credit growth of 13% YoY and commercial loans (up by 28% YoY). Wholesale loan growth moderated to 6% YoY (vs. 10% YoY in Q1FY22). However, bank sees improving growth opportunities in the corporate segment. Within retail, gold loans grew by 17% YoY, housing loan was up by 21% YoY, PL up by 12% YoY and payment products up by 13% YoY. Liability franchise of the bank remained strong with CASA growth of 29% YoY/8% QoQ. CASA ratio of the bank improved to 46.8% from 45.5% QoQ. The CASA increase was significantly led by strong growth in saving deposits by 30% YoY followed by 26% YoY growth in current deposits.

Asset quality improved but restructuring book has increased: GNPA ratio of the bank improved by 12bps QoQ while NNPA decreased by 8bps QoQ at 0.4% due to lower fresh slippage ratio at 1.8% vs. 2.5% in the previous quarter. In absolute term, Slippage for the quarter stood at INR 5,300 cr vs. INR 7,300 cr QoQ. Restructuring book of the bank increased to 150bps vs 80 bps QoQ mainly led by mainly led restructuring in PL book. Credit cost for Q2FY22 was at 1.30% vs. 1.67% in the previous quarter. Bank's subsidiary HDB Financial Services too reported a 200bps qoq improvement in GNPA ratio at 6.1%.

Valuation & View: HDFC bank has reported good performance during Q2FY22 in terms of business growth and liability profile. However, higher restructuring was tad disappointing but management does not expect more than 10-20 bps GNPA impact from this pool. We believe growth of the bank to accelerate further on the back of strong pent up demand as economy opens up and ongoing festive season. We continue to maintain our positive stance on HDFC Bank due to its best-in-class deposit franchise, market share gaining position, well cushioned balance sheet, comfortable capital level. By tweaking our estimates marginally and rolling our estimates over to FY24E, we maintain our Accumulate rating on the stock with a revised target price of INR 1,935 (earlier INR 1,721), implying 3.6x FY24E P/ABV.

Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
NII	56,186	64,880	74,885	84,467	96,129
PPOP	48,750	57,362	63,993	73,757	85,888
PAT	26,257	31,117	35,928	43,192	52,218
BVPS (INR / Share)	311.8	369.5	418.4	477.2	548.2
NIM (%)	4.2%	4.1%	4.1%	4.0%	4.0%
RoA (%)	1.9%	1.9%	1.9%	2.0%	2.0%
RoE (%)	16.4%	16.6%	16.5%	17.5%	18.5%
P/ABV (x)	5.5	4.7	4.1	3.6	3.1

Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Q2FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Interest Income	31,353	30,483	29,977	2.9%	4.6%
Interest Expense	13,669	13,474	14,201	1.4%	-3.7%
Net Interest Income	17,684	17,009	15,776	4.0%	12.1%
Non Interest Income	7,401	6,289	6,092	17.7%	21.5%
Total Income	25,085	23,297	21,869	7.7%	14.7%
Employee Costs	2,967	2,766	2,542	7.3%	16.7%
Other Operating Expenses	6,311	5,395	5,513	17.0%	14.5%
Operating Expenses	9,278	8,160	8,055	13.7%	15.2%
Pre-Provision Profit	15,807	15,137	13,814	4.4%	14.4%
Provisions	3,925	4,831	3,704	-18.8%	6.0%
Profit Before Tax	11,883	10,306	10,110	15.3%	17.5%
Tax Expense	3,048	2,577	2,597	18.3%	17.4%
Net Profit	8,834	7,730	7,513	14.3%	17.6%
Balance Sheet Analysis					
Deposits	14,06,343	13,45,829	12,29,310	4.5%	14.4%
CASA Deposits	6,58,232	6,11,801	5,11,451	7.6%	28.7%
CASA (%)	46.8%	45.5%	41.6%	135bps	520bps
Advances	11,98,837	11,47,652	10,38,335	4.5%	15.5%
Total Assets	18,44,845	17,53,941	16,09,428	5.2%	14.6%
Capital Adequacy Ratio (%)	20.0%	19.1%	19.1%	90bps	90bps
Spread Analysis					
Yield on Avg Advances (%)	8.3%	8.3%	9.2%	0bps	-94bps
Yield on Avg Interest Earning Assets (%)	7.2%	7.2%	7.9%	2bps	-67bps
Cost of Funds (%)	3.6%	3.7%	4.3%	-5bps	-65bps
NIM (%)	4.1%	4.1%	4.1%	0bps	0bps
Asset Quality					
Gross NPA	16,346	17,099	11,305	-4.4%	44.6%
Net NPA	4,755	5,486	1,756	-13.3%	170.8%
GNPA (%)	1.4%	1.5%	1.1%	-12bps	27bps
NNPA (%)	0.4%	0.5%	0.2%	-8bps	23bps
Key Ratios					
Cost to Income Ratio (%)	37.0%	35.0%	36.8%	196bps	15bps
C/D Ratio (%)	85.2%	85.3%	84.5%	-3bps	78bps
RoA (%) (annualized)	1.9%	1.8%	1.9%	15bps	5bps

Source: Arianth Research, Company Filings

Key Concall Highlights

- Management expect economic activity to improve further with ongoing festive season, vaccination pace and the likely increase in government spending activity. Economic indicators like PMI, GST, collections, variables, etc fared better in Q2FY22.
- Demand resolution for retail portfolio was close to pre-covid levels at 97.5% in Sep'21 (higher than Mar-21).
- Slippages for the quarter stood at 1.8% or INR 5,300 cr.
- Restructuring under the RBI resolution framework for covid-19 as of Q2FY22 stood at 150bps (vs. 80 bps in Q1FY22). This includes 25 bps where borrower's other facility was restructured.
- Bank continues to carry reasonably healthy contingent + floating provisions at 0.8% of loans.
- Stress from ECLGS book is likely to be minimal.
- Collections across most DPD buckets have reverted to pre-covid levels.
- Recovery in consumption & exports will drive higher utilization levels and thus higher growth in wholesale book.
- Employee expenses includes INR 80 cr of charge taken for employee stock options granted.
- Credit Card spending for the bank has grown 36% on a YoY basis, with a sequential growth of 27%.
- Bank is about to open about 400 branches.
- Auto loan disbursal in value terms increased by 36% against domestic vehicle sales units witnessed a drop at an industry level of 37% in Sep'21 due to global supply chain issues affecting the supply of vehicles.
- Commercial and rural banking had shown a growth of 29% YoY/7% QoQ, was aided by continued market share gains.
- Rural banking business had shown ~12% sequential growth led by record disbursements and strong customer acquisition.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial reported profit of INR 192 cr vs INR 89 cr QoQ. As on Q2FY22, GNPA of the company decreased sharply by 200 bps QoQ at 6.1%. Total loan book was INR 60,008 cr as on Q2FY22 as against INR 59,744 cr YoY.
- The Bank's total capital adequacy ratio (CAR) as per Basel III guidelines was at 20% as on Q2FY22 as compared to 19.1% in the previous quarter.

Break-up of Advances

in Cr.	Q2FY22	Q1FY22	Q2FY21	QoQ	YoY
Personal Loans	1,26,358	1,20,466	1,13,168	5%	12%
Auto	95,195	91,910	88,059	4%	8%
Home Loans	75,754	72,235	62,808	5%	21%
Payment Products	67,783	63,092	60,052	7%	13%
LAP	54,426	51,696	48,611	5%	12%
Two Wheelers Loan	9,713	9,526	10,585	2%	-8%
Gold Loans	8,109	8,213	6,933	-1%	17%
Other Retail Loans	45,604	41,137	37,455	11%	22%
Commercial & Rural Banking	3,59,020	3,36,228	2,79,371	7%	29%
Agriculture	56,004	50,105	46,004	12%	22%
Corporates & Other Wholesale	3,12,423	3,14,621	2,94,767	-1%	6%
Total	12,10,389	11,59,229	10,47,813	4%	16%

Key Financials

INR Cr	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	1,14,813	1,20,858	1,35,505	1,52,910	1,73,661
Interest Expense	58,626	55,979	60,619	68,443	77,532
Net Interest Income	56,186	64,880	74,885	84,467	96,129
Non interest income	23,261	25,205	26,433	30,723	35,745
Operating income	79,447	90,084	1,01,318	1,15,189	1,31,874
- Employee expense	9,526	10,365	11,434	12,449	13,550
- Other operating expense	21,172	22,358	25,891	28,983	32,436
Operating Expense	30,698	32,723	37,325	41,433	45,986
PPOP	48,750	57,362	63,993	73,757	85,888
Provisions	12,142	15,703	15,703	15,703	15,703
PBT	36,607	41,659	48,290	58,054	70,186
Tax Expense	10,350	10,542	12,362	14,862	17,967
PAT	26,257	31,117	35,928	43,192	52,218
EPS (INR)	47.89	56.44	65.17	78.35	94.72

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Source of Funds					
Share capital	548	551	551	551	551
Reserves & Surplus	1,70,438	2,03,170	2,30,115	2,62,509	3,01,673
Net-worth	1,70,986	2,03,721	2,30,667	2,63,061	3,02,224
Borrowings	1,44,629	1,35,487	1,62,585	1,95,102	2,34,122
Deposits	11,47,502	13,35,060	15,48,670	17,96,457	20,83,890
Other liabilities & provisions	67,394	72,602	87,345	1,05,083	1,26,422
Total Equity & Liabilities	15,30,511	17,46,871	20,29,267	23,59,702	27,46,658
Uses of Funds					
Cash & bank balances	86,619	1,19,470	1,40,310	1,63,288	1,89,776
Net investments	3,91,827	4,43,728	5,00,750	5,65,098	6,37,716
Loans & advances	9,93,703	11,32,837	13,02,762	15,04,690	17,45,441
Fixed assets	4,432	4,909	4,508	4,587	4,666
Other assets	53,931	45,926	80,937	1,22,039	1,69,060
Total Assets	15,30,511	17,46,871	20,29,267	23,59,702	27,46,658

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
Growth Rates					
Advances (%)	21.3%	14.0%	15.0%	15.5%	16.0%
Deposits (%)	24.3%	16.3%	16.0%	16.0%	16.0%
Total assets (%)	23.0%	14.1%	16.2%	16.3%	16.4%
NII (%)	16.5%	15.5%	15.4%	12.8%	13.8%
Pre-provisioning profit (%)	22.6%	17.7%	11.6%	15.3%	16.4%
PAT (%)	24.6%	18.5%	15.5%	20.2%	20.9%
B/S Ratios					
Credit/Deposit (%)	86.6%	84.9%	84.1%	83.8%	83.8%
CASA (%)	42.2%	46.1%	47.4%	48.8%	50.2%
Advances/Total assets (%)	64.9%	64.8%	64.2%	63.8%	63.5%
Leverage - Total Assets to Equity	9.0	8.6	8.8	9.0	9.1
CAR (%)	17.1%	15.8%	17.5%	16.6%	16.3%
Operating efficiency					
Cost/income (%)	38.6%	36.3%	36.8%	36.0%	34.9%
Opex/total assets (%)	2.0%	1.9%	1.8%	1.8%	1.7%
Opex/total interest earning assets	2.3%	2.1%	2.1%	2.0%	1.9%
Profitability					
NIM (%)	4.2%	4.1%	4.1%	4.0%	4.0%
RoA (%)	1.9%	1.9%	1.9%	2.0%	2.0%
RoE (%)	16.4%	16.6%	16.5%	17.5%	18.5%
Asset quality					
Gross NPA (%)	1.3%	1.3%	1.5%	1.4%	1.3%
Net NPA (%)	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	75.0%	75.0%	75.0%	75.0%	75.0%
Per share data / Valuation					
EPS (INR)	47.9	56.4	65.2	78.3	94.7
BVPS (INR)	311.8	369.5	418.4	477.2	548.2
ABVPS (INR)	305.3	361.3	409.5	467.8	537.5
P/E (x)	35.2	29.9	25.9	21.5	17.8
P/BV (x)	5.4	4.6	4.0	3.5	3.1
P/ABV (x)	5.5	4.7	4.1	3.6	3.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880