

HDFC Bank

Robust profitability

BUY

Apr 18' 2022

- HDFC Bank (HDFCB) reported a strong growth in profitability at 22.8% YoY in Q4FY22 on the back of sharp reduction in provisioning cost led by decline in slippages. Though NIM declined 10 bps sequentially to 4.2% as NII growth reduced to 3-quarter low of 10.2% YoY amidst rising exposure to low yielding better rated corporates. Meanwhile fee income rebounded sharply from last quarter blow growing 10.9% YoY led by strong retail fee due to robust assets growth.
- Slippages rate declined to 1.3% (v/s 1.6% in Q3FY22). Led by sharp decline in slippages, GNPA reduced by 9bps QoQ to 1.17% in Q4FY22. Net restructured book (NRA) was 114 bps of book at Rs157 bn (declined from 1.4% in the previous quarter). Mgmt expects slippages from NRA book to remain within manageable range with possible impact of 10-20 bps on NPAs.
- Credit cost was reported at 96 bps (94 bps in Q3FY22) as the lender made an additional Rs10 bn of contingent provisions during the quarter. Total provision (including standard, contingent, general and floating) stood at 182% of GNPA (172% in Q3FY22), thereby indicating strong provisioning buffer to immunize BS from assets quality risks. With the likely low slippages from the restructuring pool, high provisioning buffer and decline in credit cost (to 96 bps from 164 bps in same quarter of previous fiscal), we expect stable assets quality and strong profitability going forward.
- Loan growth picked to 7-quarter high of 20.8% YoY in Q4FY22 (16.5% YoY in Q3FY22) led by robust growth in CRB/corporate book. Strong focus on enhancing liability franchise (the bank added 563 branches during quarter) and reviving economic activity to boost the retail credit growth. With the revitalizing vehicles finance & payment business, sequential build up of momentum in the retail credit to ease pressure on yield and boost margin. Overall, profitability trend is expected to remain strong with RoE over 16% during FY23-24E.
- We maintain 'Buy' rating on stock with target price of Rs1,960 valuing standalone business at Rs1,890 (P/ABV 3.4x FY24E) + value of subsidiaries.

NII growth declines; low provisioning boosts profitability

NII growth slowed down to 10.2% YoY after reviving to 13% YoY in the previous quarter. Due to pandemic, the bank turned cautious on retail and has been focusing more on disbursement to better rated low yielding corporates assets. Though it put pressure on margin due to contained yield. NIM reduced by 10 bps QoQ to 4.2% in Q4FY22. Fee income revived 12.1% YoY (2.0% YoY in Q3FY22) due to high retail fee income led by healthy growth in the retail assets. Mgmt expects C/I ratio can increase in the near term but will ease to mid-30 level in the medium term. P&C declined by -29.4% YoY to Rs33 bn which includes core loan loss provision of Rs17.8 bn and contingent provisions of Rs10 bn. Net profit grew by 22.8% YoY to Rs100 bn in Q4FY22.

Advances grows at 20.8% YoY in Q4FY22

Credit grew by 20.8% YoY & 5.0% QoQ led by strong growth in CRB at 42.5% YoY and corporate book at 19.9% YoY. As per the mgmt, the bank is finding strong disbursement opportunities for corp lending which are low on opex and credit cost. Retail book grew by 19% YoY & 5.1% QoQ on the back of strong growth in home (24.7% YoY), personal loans (20.8% YoY) and LAP (25% YoY).

Rating Matrix

CMP	Rs1,465
Rating	Buy
Target Price	Rs1,960
Upside Potential	33.8%
52 week H/L	Rs1,724/1,292
Face value	Rs1
Mar. Cap.	Rs8,123 bn
Category	Large Cap
Sector	Banking

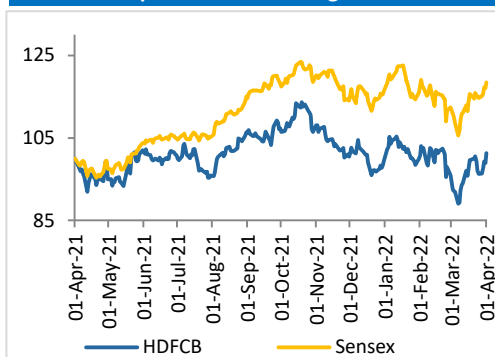
Shareholding Pattern

Particulars	Mar'22	Dec'21	Sep'21	Jun'21	Mar'21
Promoters	25.8%	25.8%	25.8%	25.8%	25.9%
FPIs	35.6%	37.5%	38.2%	38.2%	39.4%
MFs	16.3%	15.0%	14.5%	14.5%	13.7%
Insti.	60.2%	60.4%	60.9%	60.8%	60.9%
Non. Inst.	13.9%	13.6%	13.2%	13.3%	13.1%

Quarterly Snapshot (Q4FY22)

Particulars	(Rs bn)	YoY	QoQ
NII	188.7	10.2%	2.3%
Other Income	76.4	0.6%	-6.7%
Total Income	265.1	7.3%	-0.4%
OPEX	101.5	10.6%	3.1%
PPOP	163.6	5.3%	-2.5%
PAT	100.6	22.8%	-2.8%
Advances	13,688.2	20.8%	8.6%
Deposits	15,592.2	16.8%	7.8%
GNPA	161.4	7.0%	0.8%
Slippages	40.0	-14.9%	-13.0%

Relative Capital Market Strength



Key Financials (Rs bn)

Particulars	FY20	FY21	FY22	FY23E	FY24E
NII	561.9	648.8	720.1	904.2	1,053.3
Gr. (%)	16.5%	15.5%	11.0%	25.6%	16.5%
NIM	4.2%	4.1%	3.9%	4.2%	4.2%
PPOP	487.5	573.6	640.8	760.4	867.7
A.PAT	262.6	311.2	369.6	429.7	495.6
Eq./As. (%)	11.2%	11.7%	11.6%	11.7%	11.6%
RoE (%)	16.4%	16.6%	16.7%	16.6%	16.6%
CASA(%)	42.2%	46.1%	48.2%	49.2%	49.5%
GNPA (%)	1.3%	1.3%	1.5%	1.4%	1.4%
P/ABV (x)		4.1	3.5	3.0	2.6

Five Quarters at a Glance

Q4FY22 Key result highlights

NII growth declines due to pressure on the yield.

NIM declines 10 bps QoQ to 4.2%.

Fee income revived strongly compared to the previous quarter.

C/I ratio increased due to higher spending on tech, advertisement and reviving retail segment.

Provisioning declined significantly

Net profit rose 23% YoY

Advances growth picked up to 7-quarter high

Assets quality improves

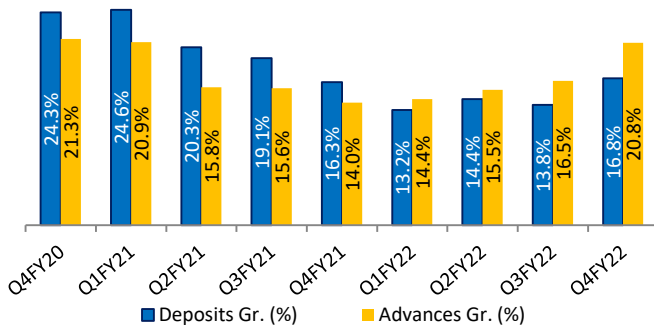
Particulars (Rs cr)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY	QoQ
Interest Earned	30,424	30,483	31,353	32,468	33,449	9.9%	3.0%
Interest Expended	13,303	13,474	13,669	14,025	14,576	9.6%	3.0%
NII	17,120	17,009	17,684	18,443	18,873	10.2%	2.3%
Other Income	7,594	6,289	7,401	8,184	7,637	0.6%	-6.7%
Fees & commissions	5,023	3,885	4,946	5,075	5,630	12.1%	10.9%
Total Income	24,714	23,297	25,085	26,627	26,510	7.3%	-0.4%
OPEX	9,181	8,160	9,278	9,851	10,153	10.6%	3.1%
PPOP	15,533	15,137	15,807	16,776	16,357	5.3%	-2.5%
P&C	4,694	4,831	3,925	2,994	3,312	-29.4%	10.6%
PBT	10,839	10,306	11,883	13,782	13,045	20.3%	-5.3%
Tax	2,653	2,577	3,048	3,440	2,989	12.7%	-13.1%
Net Profit	8,187	7,730	8,834	10,342	10,055	22.8%	-2.8%
Dil. EPS (Rs)	14.7	13.9	15.9	18.5	18.0	22.4%	-2.7%
Balance Sheet items/ratios							
Deposits	13,35,060	13,45,829	14,06,343	14,45,918	15,59,217	16.8%	7.8%
CA Deposits	2,12,182	1,85,669	2,05,851	2,10,195	2,39,311	12.8%	13.9%
SB Deposits	4,03,500	4,26,132	4,52,381	4,71,029	5,11,739	26.8%	8.6%
CASA	6,15,682	6,11,801	6,58,232	6,81,224	7,51,050	22.0%	10.3%
Term Deposits	7,19,378	7,34,028	7,48,111	7,64,694	8,08,167	12.3%	5.7%
Advances	11,32,837	11,47,652	11,98,837	12,60,863	13,68,821	20.8%	8.6%
C/D Ratio (%)	84.9%	85.3%	85.2%	87.2%	87.8%		
CASA Share (%)	46.1%	45.5%	46.8%	47.1%	48.2%		
CAR(%)	18.8%	19.1%	20.0%	19.5%	18.9%		
Tier I (%)	17.6%	17.9%	18.7%	18.4%	17.9%		
CET I (%)	16.9%	17.2%	17.4%	17.1%	16.7%		
Operating ratios							
NIM(%)	4.2%	4.3%	4.3%	4.3%	4.2%		
C/I (%)	37.2%	35.0%	37.0%	37.0%	38.3%		
Tax Rate (%)	24.5%	25.0%	25.7%	25.0%	22.9%		
Assets Quality							
Gross NPAs	15,086	17,099	16,346	16,014	16,141	7.0%	0.8%
Net NPAs	4,555	5,486	4,755	4,677	4,408	-3.2%	-5.8%
GNPA (%)	1.32%	1.47%	1.35%	1.26%	1.17%		
NNPA (%)	0.40%	0.48%	0.40%	0.37%	0.32%		
Coverage Ratio(%)	69.8%	67.9%	70.9%	70.8%	72.7%		
RoA(%) (average) - not annualized	0.50%	0.45%	0.50%	0.56%	0.52%		
Slippages							
Gross slippages	4700	7300	5300	4600	4000	-14.9%	-13.0%
Network							
Branches	5,608	5,653	5,686	5,779	6,342		
ATMs	16,087	16,291	16,642	17,238	18,130		
Business per branch (Rs cr)	440	441	458	468	462	4.9%	-1.4%

Source: Choice Broking Research

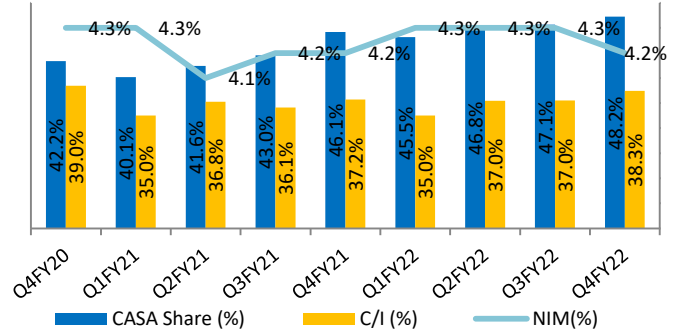
Gross Advances Book

Particulars	Q4FY21	Q2FY22	Q3FY22	Q4FY22	YoY	QoQ
Personal Loans	1,160	1,264	1,334	1,401	20.8%	5.0%
Auto	893	952	964	1,005	12.5%	4.2%
Home Loans	666	758	790	831	24.7%	5.1%
Payment Products	659	678	733	768	16.4%	4.7%
Loan against Property	498	544	577	622	25.0%	7.8%
Two Wheelers	105	97	93	93	-11.2%	0.0%
Gold Loans	76	81	82	84	9.4%	1.9%
Other Retail	408	456	484	515	26.2%	6.3%
CRB (ex Agri)	2,948	3,590	3,842	4,202	42.5%	9.4%
Agriculture	453	560	560	645	42.5%	15.2%
Corporates & Other Wholesale	3,035	3,124	3,262	3,640	19.9%	11.6%
Total	10,901	12,104	12,722	13,805	26.6%	8.5%
Retail	4,465	4,829	5,058	5,318	19.1%	5.1%
CRB	3,401	4,150	4,402	4,847	42.5%	10.1%
Advances Mix						
Share of Retail (%)	41%	40%	40%	39%		
Share of CRB (%)	31%	34%	35%	35%		
Share of corporates	28%	26%	26%	26%		

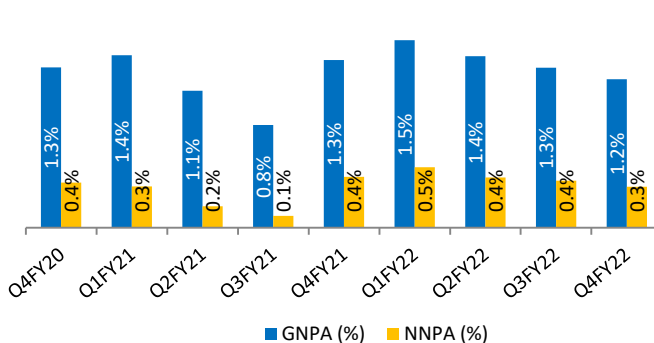
Advances grows at robust pace



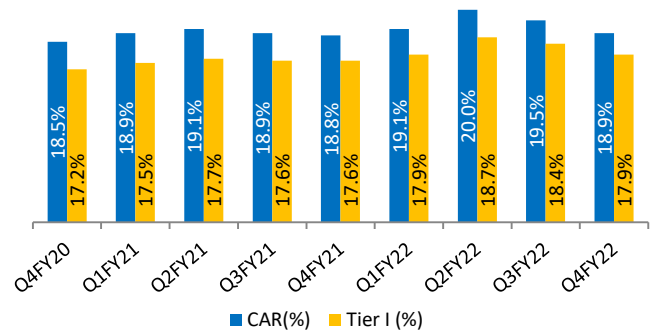
Trend in CASA, C/I and NIM



Assets quality improves



HDFCB remains adequately capitalized

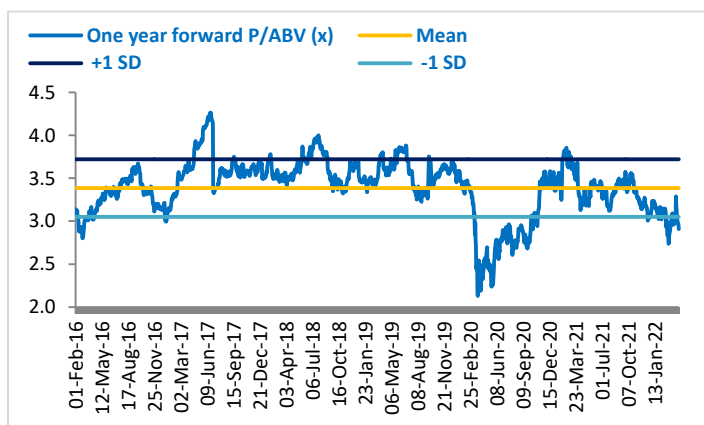


Source: Choice Broking Research

Valuation & View

- With the likely low slippages from the restructuring pool, high provisioning buffer and decline in credit cost (to 96 bps from 164 bps in same quarter of previous fiscal), we expect stable assets quality and strong profitability going forward.
- Loan growth picked to 7-quarter high of 20.8% YoY in Q4FY22 (16.5% YoY in Q3FY22) led by strong growth in CRB/corporate book. Strong focus on enhancing liability franchise (the bank added 563 branched during quarter) and reviving economic activity to boost the retail credit growth.
- We maintain 'Buy' rating on stock with target price of Rs1,960 valuing standalone business at Rs1,890 (five year avg. IY forward P/ABV 3.4x FY24E) + value of subsidiaries of Rs70 (after 20% holding discount).

P/ABV Valuation	FY20	FY21	FY22	FY23E	FY24E
Adjusted BVPS (Rs)	304.5	359.3	421.9	483.7	556.2
Valuation Parameters					
P/ABV (x)	3.4				



Source: Choice Broking Research

Q4FY22 Mgmt Con-call Highlights:

- Slippages ratio (annualized) was 1.3% of Rs40 bn in Q4FY22 as compared to 1.6% in the previous quarter. R&U was Rs21 bn and write-off was Rs17 bn.
- Credit cost was 96 bps (includes impact of 30 bps from the contingent provisions) v/s credit cost of 94 bps in previous quarter and 1.64% in the same quarter of previous fiscal.
- Restructured assets stood at 114 bps of book at Rs157 bn. Mgmt expects maximum 10-20 bps impact on assets quality from this book.
- Contingency provision stood at Rs97 bn, floating provisions at Rs14.5 bn and general provisions was Rs66 bn. Total provision (including standard, contingent, general and floating) stood at 182% of GNPA's (172% in Q3FY22).
- Floating and contingencies provisions aggregating to Rs110 bn.

- Market share of the bank in industry credit increased to 11% in FY22 from 7% five years ago
- Wholesale credit is growing faster than retail.
- Corporates are providing good credit growth opportunities due to low OPEX and low credit cost.
- In the retail segment, vehicles finance and card business are growing below average. Meanwhile both the segments are gradually improving.
- Wholesale credit growth was led by the sectors include telecom, PSU, selected manufacturing segments and NBFCs. Demand from the above-mentioned sectors and low prepayment rate compared to previous quarter leading to wholesale growth. Low operating cost and credit cost also benefitting the wholesale segment.
- 54% of the wholesale book is floating and 46% is the fixed rate book. 30% of the floating book is linked to repo rate.
- As per the mgmt, bank considers OPEX and credit cost for selecting the assets for the disbursement in order to sustain the profitability.
- Retail assets and liabilities accounts for 40% of total fee, third party products of 25%, cards at 30%, wholesale of 5-7%.
- Credit card revolve rate stood 70-80% of the pre-covid level.
- Liquidity coverage ratio was healthy at 112 per cent, well above the regulatory requirement
- Yield on commercial loan is 8% and for agri portfolio at 9-10%.
- Loan mix tilted towards wholesale weighed on margin.
- C/I ratio rose to 38% due to higher spend on technology, picking up retail business and promotional activities.
- Mgmt expects C/I ratio can increase in the near term but eased to mid-30 level in the medium term.

Financial statements (Standalone, Rs bn)

P&L

Particulars	FY20	FY21	FY22	FY23E	FY24E	Financial Ratios	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	1,148	1,209	1,278	1,565	1,896	Return / Profitability Ratios (%)					
Growth (%)	16.0%	5.3%	5.7%	22.5%	21.2%	NIM	4.2%	4.1%	3.9%	4.2%	4.23%
Interest Expended	586	560	557	660	842	Yield on advances	10.1%	8.9%	7.9%	8.2%	8.4%
Growth (%)	15.6%	-4.5%	-0.4%	18.5%	27.6%	Yield on investments (ex. trading profit)	6.0%	5.6%	5.8%	6.0%	6.4%
Net Interest Income	562	649	720	904	1,053	EPS (Diluted) (Rs)	47.8	56.1	66.2	76.9	88.7
Net Interest Margin (%)	4.2%	4.1%	3.9%	4.2%	4.2%	RoA	1.9%	1.9%	1.9%	1.9%	1.9%
Other Income	233	252	295	338	391	RoE	16.4%	16.6%	16.7%	16.6%	16.6%
% of Interest Income	20.3%	20.9%	23.1%	21.6%	20.6%	Cost of Deposits	5.0%	3.9%	4.1%	4.7%	4.7%
Total Income	794	901	1,015	1,242	1,444	Operating ratios (%)					
Growth (%)	20.6%	13.4%	12.7%	22.4%	16.2%	Credit to Deposit	86.6%	84.9%	87.8%	89.5%	89.3%
Operating & Other expenses	307	327	374	482	576	Cost to income	38.6%	36.3%	36.9%	38.8%	39.9%
C/I (%)	38.6%	36.3%	36.9%	38.8%	39.9%	CASA	42.2%	46.1%	48.2%	49.2%	49.5%
Pre-Prov. Operating Profit	487	574	641	760	868	Investment / Deposit	34.1%	33.2%	29.2%	30.3%	30.3%
Provisions and contingencies (incl NPA)	121	157	151	179	197	Non interest income / Total income	29.3%	28.0%	29.1%	27.2%	27.0%
P&C % of Advances	1.2%	1.4%	1.1%	1.1%	1.0%	Capitalization Ratios (%)					
Operating Profit before Tax	366	417	490	582	671	Equity / Assets	11.2%	11.7%	11.6%	11.7%	11.6%
Growth (%)	13.7%	13.8%	17.7%	18.6%	15.3%	Loans / Assets	64.9%	64.8%	66.2%	68.7%	68.6%
Pre-tax Margin %	46.1%	46.2%	48.3%	46.8%	46.4%	Investments / Assets	25.6%	25.4%	22.0%	23.3%	23.3%
Tax	103	105	121	152	175	Dividend payout	0.0%	11.6%	10.6%	12.0%	15.0%
% of PBT	28.3%	25.3%	24.6%	26.1%	26.1%	Capital adequacy (%)					
Reported PAT	263	311	370	430	496	Tier-1 CAR	17.2%	17.6%	17.9%	15.3%	15.4%
Net Profit Margin %	33.1%	34.5%	36.4%	34.6%	34.3%	Tier-2 CAR	1.3%	1.2%	1.0%	1.0%	1.0%
Extroinary Income	0	0	0	0	0	CAR (Basel III)	18.5%	18.8%	18.9%	16.3%	16.5%
Adjusted PAT	263	311	370	430	496	Asset Quality ratios (%)					
Growth (%)	24.6%	18.5%	18.8%	16.3%	15.3%	Gross NPA	1.3%	1.3%	1.2%	1.4%	1.4%
						Net NPA	0.4%	0.4%	0.3%	0.5%	0.5%
						Coverage Ratio	72.0%	69.8%	72.7%	65.5%	66.3%
						Slippage Ratio	1.9%	1.2%	1.8%	1.9%	1.9%
						Credit Cost	1.3%	1.1%	1.2%	1.0%	1.0%
						Per Share Data (Rs)					
						EPS (Diluted)	47.8	56.1	66.2	76.9	88.7
						DPS	0.0	6.5	7.0	9.2	13.3
						BVPS	311.0	367.5	429.8	497.5	572.9
						Adjusted BVPS	304.5	359.3	421.9	483.7	556.2
						Valuation ratios (x)					
						P/E (x)	30.7	26.1	22.1	19.0	16.5
						P/BV (x)	4.7	4.0	3.4	2.9	2.6
						P/ABV (x)	4.8	4.1	3.5	3.0	2.6
						Growth ratios (%)					
						Advances	21.3%	14.0%	20.8%	19.5%	15.5%
						Deposits	24.3%	16.3%	16.8%	17.2%	15.7%
						Net interest income	16.5%	15.5%	11.0%	25.6%	16.5%
						Interest income	16.0%	5.3%	5.7%	22.5%	21.2%
						PAT	24.6%	18.5%	18.8%	16.3%	15.3%
Balance Sheet											
Particulars	FY20	FY21	FY22	FY23E	FY24E						
Cash with Banks & RBI	866	1,195	1,523	808	971						
Investments	3,918	4,437	4,555	5,543	6,407						
Advances	9,937	11,328	13,688	16,363	18,895						
Fixed assets	44	49	61	78	79						
Other assets	539	459	858	1,039	1,201						
TOTAL ASSETS	15,305	17,469	20,685	24,007	27,738						
CAPITAL AND LIABILITIES											
Capital	5	6	6	6	6						
Reserves and Surplus	1,704	2,032	2,395	2,774	3,195						
Deposits	11,475	13,351	15,592	18,281	21,149						
Borrowings	1,446	1,355	1,848	1,905	2,202						
Other liabilities and provisions	674	726	844	1,041	1,186						
TOTAL CAPITAL AND LIABILITIES.....	15,305	17,469	20,685	24,007	27,738						

Source: Choice Broking Research

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

Rating Rationale		Coverage History			
		Date	Rating	CMP	Target Price
BUY	Absolute Return >15%	18-Apr-22	Buy	1,465	1,960
Hold	Absolute Return Between 0-15%	04-Apr-22	Buy	1,656	1,960
Reduce	Absolute Return 0 To Negative 10%	21-Jan-22	Buy	1,510	1,960
Sell	Absolute Return > Negative 10%	26-Oct-21	Buy	1,657	1,960
		21-Jul-21	Buy	1,443	1,700
		20-Apr-21	Buy	1,390	1,700

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Choice Equity Broking Pvt. Ltd

Sunil Patodia Tower, J.B. Nagar, Andheri (East), Mumbai 400099



+91-022-6707 9999



www.choiceindia.com



+91-022-6707 9959

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