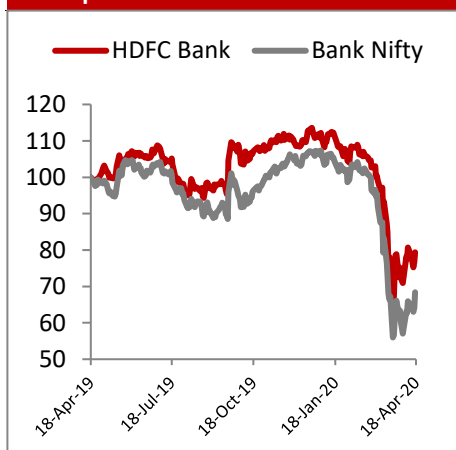



Q4FY20 Result update@ Dalal & Broacha
BUY

Current Price	910
52 Week Range	739/1304
Target Price	1136
Upside (%)	25

Key Share Data

Market Cap (Rs.bn)	4991.98
Market Cap (US\$ bn)	65.35
No of o/s shares (Mn)	5483.29
Face Value	1
BSE Code	500180
NSE Code	HDFCBANK
Bloomberg	HDFCB

Price performance


% Shareholding	Mar-20	Dec-19
Promoters	26.14	26.18
Public	73.86	73.82
Others	0.00	0.00
Total	100	100

Notwithstanding the macro headwinds, HDFC Bank (HDFCB) has reported stable set of numbers for the quarter ended March 31, 2020. Bank's numbers were below our estimates on the profitability front due to higher provisions, though operating performance was largely in line with our estimates.

- NII came in at INR 152 Bn, +7.3% QoQ / +16.2% YoY and 1% above our est.
- Other Income came in at INR 60 Bn, -9.5% QoQ / +23.8% YoY and 3% below our est.
- PPOP came in at INR 130 Bn, +0.1% QoQ / +19.5% YoY and 1% below our est.
- Provisions came in at INR 38 Bn, +24.3% QoQ / +100.3% YoY and 22% above our est.
- PAT came in at INR 69 Bn, -6.6% QoQ / +17.7% YoY and 7% below our est.
- EPS stood at INR 12.6 vs INR 13.5 / INR 10.8 in Q3FY20 / Q4FY19 respectively.

Financial Highlights

- Bank has shown strong credit growth of 21.3% YoY in Q4FY20. Out of which, domestic advances grew by 21.4% YoY, mainly driven by wholesale loan growth of 29.3% YoY, while retail loans grew slower at 14.6% YoY. In retail, loan growth was mainly driven by credit cards (23% YoY), home loans (24% YoY) and personal loans (24% YoY). However, Auto (inc 2W/CV-CE) loans (regulatory classification) were worst affected, with growth at just 2.8% YoY.
- On liabilities, deposits growth was also strong at 24.3% YoY/7.5% QoQ with continued retail deposit traction keeping CASA mix steady at 42.2%. Bank's continued focus on deposits helped in the maintenance of a healthy liquidity coverage ratio at 132%, well above the regulatory requirement.
- Bank's asset quality improved during the quarter, with GNPA at 1.26% (down by 16 bps QoQ) and NNPA at 0.36% (down by 12 bps QoQ). In absolute terms, GNPA's decreased by 6% QoQ and NNPA's decreased by 21% QoQ in Q4FY20. Bank saw core slippages of Rs 31.5 Bn during Q4FY20 (lower than Rs 38.4 Bn in Q3FY20).
- While large part of the bank's retail exposure is towards salaried segments, loans to self-employed & SME are at a higher risk given the lockdown. Therefore, in order to make balance sheet more resilient bank has created a specific provision worth Rs 1918 Cr, while general provisions stood at Rs 1867 Cr. General provisions constitute Rs. 1550 Cr in the form of contingent provisions related to Covid-19.
- Bank's higher profitability was supported by better other income (24% YoY), aided by sharp rise in miscellaneous income, including recoveries & dividend (stood at Rs 7.7 Bn Vs Rs 5.7 Bn in Q4FY19). Fees, which accounted for two-third of the other income, grew by 15% to Rs 42 Bn. Meanwhile, the bank's operational efficiency remained strong, with cost to income ratio falling by 65 bps YoY to 39%, backed by higher net income (NII + other income) growth of 18% vs opex growth of 16% in Q4FY20.

Key Financials (Rs Bn)

Year	NII	PPOP	PAT	RoA	EPS	ABVPS	P/AB
FY20	56,186	48,750	26,257	1.9	48	305	3.0
FY21E	64,101	56,183	30,461	1.8	54	341	2.7
FY22E	74,814	65,994	36,654	1.9	65	392	2.3



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Highlights of the Conference Call

Operational Activities

- 95% of the branches are operational though for limited activities.
- Equipped with the right and appropriate tools, the team members working from home and from branches started to reach out to customers, and they have been making 200,000 customer engagements on a daily basis.
- On the wholesale front, Bank is 100% work from home with full technology enablement to handle internal processes and client management. Given its processes, including credit approval process, which are largely digital, Bank is now attuned to handling transactions and approvals digitally with adequate indemnities and checks in place.
- In business banking, each RM has had his or her client base, called his or her client base. More than 35,000 customers have been called and feedback taken from clients on general well-being, impact and severity on their business because of COVID-19, including discussion on any additional requirements of the customer.
- RMs, jointly with credit team, are doing review of customers for better customer servicing and tracking. They are also regularly communicating and using digital route to collate information from customers for preparing CAMs, credit appraisal memos, or call memos.
- Average LCR for the quarter at 132%, which is Rs 50,000 Cr of surplus or approximately \$6.5 billion. The excess liquidity position of the bank impacts current NIM by ~10 bps. However, the drag was offset by some investment gains in the form of trading gains.
- The lockdown has impacted various aspects of fees and commission by around Rs. 350 Cr.
- Card spends saw March average lower than Jan & Feb by around 21%. The second half of March was particularly impacted where the average spend was 35% lower compared to Jan & Feb.
- PPOP grew to 19.5%. Adjusted for the COVID impact, that would have been at 22%.

Asset quality

- Slippages were at Rs 3150 Cr (1.3%) vs QoQ Rs. 5339 Cr (2.3%) & YoY Rs. 3577 Cr (1.7%). (Q3FY20 slippages include one offs as well as agri slippages of ~Rs. 1500 Cr). Slippages would have been higher by about 40 bps had the moratorium not been provided.
- Bank made higher provisioning in the quarter, which included credit reserves in light of Covid-19 in the form of contingent reserves totalling Rs 1,550 Cr. Hence, contingent provisions & floating provisions in the balance sheet stood at Rs 4400 Cr. Total provisions (comprising specific, floating, contingent and general provisions) were 142% of the GNPA as on March 31, 2020.
- In Unsecured Portfolio, delinquency Level for the bank is at 40-50% of the market levels. This is due to the banks proprietary scorecard which is a part of its underwriting process.
- Under worst stress test scenarios, 9% of the SME portfolio may find it difficult to service their obligations (upon excluding the moratorium scenario). Because of this 9% in worst scenarios, NPA in SME bucket will increase by about 0.5%.

Loan book strength

Corporate segment

- Bank has mostly restricted its corporate accounts to A rated ones and this strategy has worked well for last 25 years. Worst rated corporates to whom the bank would lend would have a rating of HDB7 out of the banks scale of HDB 1 to 10. A rating of HDB 7 would map to a credit rating of 'A'. The weighted avg. no. stands at 4.4 vs 4.6 YoY.
- Top 20 disbursements by value during the quarter, shows that 41.9% was towards working capital requirements, 23.6% was ultimately towards capital expenditure, 15.5% was balance sheet borrowing for acquisition of assets, including in the NCLT process, 9.3% was towards on-lending for PSL purposes, and the balance, 9.7%, comprised of other reasons, including availing existing line for building liquidity buffer.
- Over 80% of the Q4 disbursements, including rollovers, were assets with less than one-year maturity.
- Over 92% of the book or the incremental book came from the top 30% of the rating scale.

Business banking or SME business

- Approximately 85% of the cases in this quarter, which were disbursed, had a production cover in excess of 100%. About 60% to 65% of the book is classified for priority sector lending purposes.
- Granularity was maintained with approximately 2/3 of the disbursements under wholesale SME segment being for amounts less than One crore.
- 77% of the SME Portfolio is collateralized by real estate property.



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Unsecured Portfolio

- 80% of unsecured portfolio is towards salaried individuals. Out of which, 67% of the salaried base belongs to well-regarded big companies, while the remaining 33% has a delinquency level which is 9 bps higher than the rest of the portfolio.
- 20% of the unsecured portfolio which is towards self-employed segment has delinquency levels which are similar to the overall for the bank.

Other important highlights

- Low single digit customer has applied for moratorium. In retail, 95%-98% of the customer was not in default in the time of moratorium application. According to survey by HDFC Bank moratorium is taken only for cautious approach by customer rather than stress.
- The retail advance growth is expected to be slower during the next couple of quarter and wholesale advances are expected to grow above industry average.
- Card spends saw March average lower than January & February by around 21%. The second half of March was particularly impacted where the average spend was 35% lower compared to January and February.
- The outside MFI exposure is about Rs 8500 Cr.

Valuation and outlook

With \$5 billion in cash and nearly 80% of its loans given to high-rated companies, HDFC Bank is in better position to withstand upcoming economic storm. The bank is sitting on excess liquidity led by strong deposit growth, a stance that the bank has adopted since 2018 (which was then criticized) as it believes that systemic liquidity risks still remain high. Although uncertainty about duration of the lockdown will keep the stock volatile in the near term, we see attractive risk reward given a robust balance sheet, better liability franchise long-term growth potential. At CMP the stock trades at 2.7x its FY21E ABV and 2.3x its FY22E ABV. We value HDFCB at FY22E P/ABV multiple of 2.9x to arrive at target price of Rs 1136/ share and maintain BUY rating on the stock.



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Profit & Loss Account										
Rs Bn	Q4FY20	YOY	QOQ	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19
Interest Earned	299	13%	2%	294	282	274	263	259	242	225
Interest Expended	147	11%	-3%	152	147	141	132	133	124	117
NII	152	16%	7%	142	135	133	131	126	118	108
Other Income	60	24%	-10%	67	56	50	49	49	40	38
Net Income	212	18%	2%	208	191	183	180	175	158	146
Operating expenses	83	16%	5%	79	74	71	71	67	63	60
PPoP	130	20%	0%	129	117	111	108	108	95	86
Provisions	38	100%	24%	30	27	26	19	22	18	16
Profit Before Tax	92	2%	-7%	99	90	85	90	86	77	70
Tax	22	-27%	-10%	25	27	30	31	30	27	24
Net Profit	69	18%	-7%	74	63	56	59	56	50	46
Balance Sheet										
Net worth	1710	15%	5%	1636	1558	1556	1492	1430	1372	1077
Deposits	11475	24%	8%	10674	10216	9546	9231	8525	8334	8058
Borrowings	1446	24%	28%	1133	922	1009	1171	1235	1427	1210
Other liabilities	674	22%	32%	510	555	542	551	496	566	459
Total liabilities	15305	23%	10%	13953	13251	12653	12445	11686	11699	10804
Cash & Balances	866	6%	-15%	1024	735	842	813	567	645	515
Investments	3918	35%	26%	3113	3071	2985	2906	2798	3001	2757
Advances	9937	21%	6%	9360	8970	8297	8194	7810	7508	7086
Fixed Assets	44	10%	3%	43	41	40	40	39	38	36
Other Assets	539	10%	31%	413	433	488	492	473	507	410
Total Assets	15305	23%	10%	13953	13251	12653	12445	11686	11699	10804
Important ratios (%)										
Gross NPAs	1.3	(16 bps)	(10 bps)	1.4	1.4	1.4	1.4	1.4	1.3	1.3
Net NPAs	0.4	(12 bps)	(4 bps)	0.5	0.4	0.4	0.4	0.4	0.4	0.4
PCR	72.0	528 bps	64 bps	66.7	69.7	69.7	71.4	69.7	70.0	69.5
Cost to income ratio	39.0	109 bps	(65 bps)	37.9	38.8	39.0	39.6	38.4	39.9	40.9
CASA	42.2	272 bps	(14 bps)	39.5	39.3	39.7	42.4	40.7	42.0	41.7
CAR	18.5	-	140 bps	18.5	17.5	16.9	17.1	17.3	17.1	14.6
Break-up of Domestic Retail Advances										
Auto	839	4%	0%	836	808	819	807	830	803	777
Personal Loans	1,156	24%	6%	1,095	1,021	971	930	888	834	779
Home Loans	634	24%	3%	617	600	558	514	518	479	440
Business Banking	641	12%	1%	633	627	577	570	557	542	521
Kisan Gold Card	433	12%	11%	390	391	367	387	351	361	331
Credit Cards	576	23%	0%	577	520	495	466	448	405	385
CV/CE	290	1%	3%	281	285	292	287	272	255	249
Others	203	12%	2%	200	184	181	181	174	169	163
Two Wheelers	99	-2%	-3%	101	99	101	100	101	97	92
Gold Loans	54	5%	2%	53	53	52	52	52	52	51
Loans against sec	18	-4%	-1%	18	18	18	19	18	18	17
Total	4,944	15%	3%	4,801	4,606	4,432	4,314	4,209	4,015	3,805



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Profit & Loss Account				
Rs Bn	FY19	FY20	FY21E	FY22E
Interest Earned	990	1148	1323	1536
Interest Expended	507	586	691	799
NII	482	562	632	737
Other Income	176	233	259	304
Net Income	659	794	891	1041
Operating expenses	261	307	339	393
PPoP	397	487	551	648
Provisions	76	121	152	169
Profit Before Tax	322	366	399	479
Tax	111	103	101	121
Net Profit	211	263	298	358

Balance Sheet				
Rs Bn	FY19	FY20	FY21E	FY22E
Net worth	1492	1710	1939	2213
Deposits	9231	11475	13140	15443
Borrowings	1171	1446	1504	1579
Other liabilities	551	674	753	841
Total liabilities	12445	15305	17336	20077
Cash & Balances	813	866	1068	1028
Investments	2931	3918	4369	5057
Advances	8194	9937	11291	13356
Fixed Assets	41	45	48	52
Other Assets	466	539	560	584
Total Assets	12445	15305	17336	20077

Important ratios				
(%)	FY19	FY20	FY21E	FY22E
Gross NPAs	1.3	1.2	1.9	1.6
Net NPAs	0.4	0.4	0.6	0.5
PCR	71.4	72.0	67.6	70.4
Cost to income ratio	39.7	38.6	38.1	37.7
CASA	42.4	42.2	42.0	41.8
CAR	17.1	18.5	17.7	16.9
Loan to Deposit Ratio	88.8	86.6	85.9	86.5

Important ratios (%)				
(%)	FY19	FY20	FY21E	FY22E
ROA	1.8	1.9	1.8	1.9
ROE	16	16	16	17
Per share (Rs)				
EPS	39	48	54	65
ABVPS	268	305	341	392
P/E	24	19	17	14
P/ABVPS	3.4	3.0	2.7	2.3



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