

Business remains strong and steady

HDFC Bank reported its Q2FY22 performance which beat our estimates on the profitability front.

- **NII came in at INR 176.84 Bn**, +4% QoQ / +12.1% YoY and 1% above our est.
- **Other Income came in at INR 74.01 Bn**, +17.7% QoQ / +21.5% YoY and 4% above our est.
- **PPOP came in at INR 158.07 Bn**, +4.4% QoQ / +14.4% YoY and 1% below our est.
- **Provisions came in at INR 39.25 Bn**, -18.8% QoQ / +6% YoY and 17% below our est.
- **PAT came in at INR 88.34 Bn**, +14.3% QoQ / +17.6% YoY and 5% above our est.
- **EPS stood at INR 16.0 vs INR 14.0 / INR 13.7 in Q1FY22 / Q2FY21 respectively.**

Financial Highlights

- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 12 bps at 1.35% and NNPA's down by 8 bps to 0.40%. Core slippage ratio stood at 0.45% (Rs 53 bn) vs 0.64% (Rs 73.61 Bn) QoQ. Demand resolution in overall retail assets stood at 97.5%, which was almost back to pre-covid levels of ~98% and higher than March 2021 level (before second wave of covid-19). PCR stood at 70.9% in Q2FY22 vs 67.9% QoQ/84.5% YoY.
- With strong underwriting standards coupled with top quality customer pool and adequate provisioning buffers, we believe the bank is relatively in a better position when compared to peers in terms of NPA additions and credit costs.
- HDFCB has shown credit growth of 15.5% YoY/4.5% QoQ in Q2FY22. Out of which, Retail loans grew by 12.9%, commercial & rural banking loans grew by 27.6% and other wholesale loans grew by 6.0%. We believe retail growth will accelerate further in coming quarter on the back of strong pent-up demand and onset of the festive season.
- Deposits grew by 14.4% YoY/4.5% QoQ in Q2FY22 led by CASA growth of 28.7% YoY/7.6% QoQ taking CASA ratio at 46.8% (Vs 41.6% YoY).
- Opex stood at Rs. 92.78 Bn, is up by 15.2% YoY and 13.7% QoQ. The YoY increase in opex is driven by 16.7% YoY increase in employee expenses & increase of 14.5% YoY in other expenses. Consequently, Bank's cost to income ratio stood at 37%, up by 15 bps YoY.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	562	649	738	853
PAT	263	311	365	440
Net worth	1710	2037	2323	2670
Adj BVPS	305	361	410	472
EPS (Rs)	48	56	66	80
P/ABV (x)	5.5	4.7	4.1	3.6
P/E (x)	35	30	25	21

Source: Dalal & Broacha Research, Company

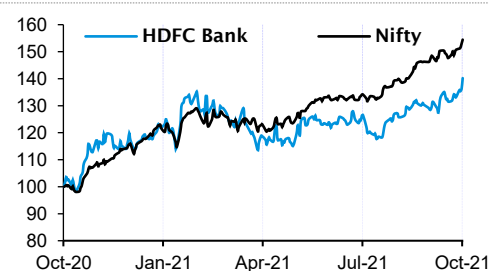
Rating	TP (Rs)	Up/Dn (%)
BUY	1934	15

Market data

Current price	Rs	1686
Market Cap (Rs.Bn)	(Rs Bn)	9336
Market Cap (US\$ Mn)	(US\$ Mn)	124045
Face Value	Rs	1
52 Weeks High/Low	Rs	1690/1164
Average Daily Volume	('000)	6458
BSE Code		500180
Bloomberg		HDFCB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	25.9	26.0
FII	39.4	39.8
DII	21.6	21.2
Others	13.1	13.0
Total	100	100

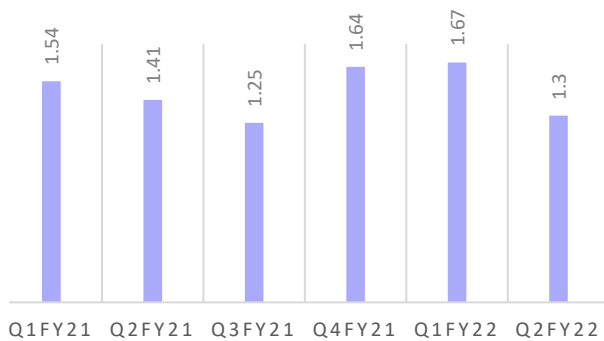
Source: BSE

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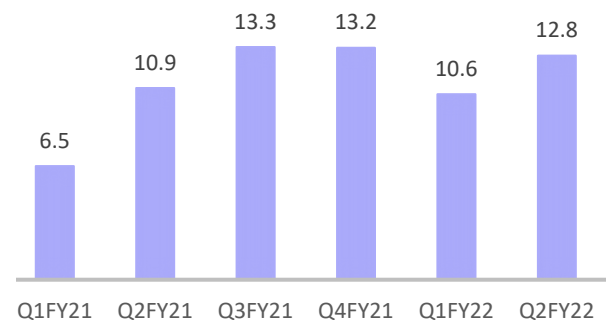
Valuation and outlook

Bank's operating performance was better than our estimates, supported by stable margin, lower Provisions and healthy loan growth. Given the ample buffers against stressed loans, we expect asset quality to revert back to its normal levels in the next few quarters. We believe that the bank's strong balance sheet, better liability franchise and higher capital adequacy would allow the bank to deliver strong sustainable performance and capitalize on emerging opportunities. Furthermore, the bank's well diversified loan mix with a higher share of the salaried segment and better-operating profits provide resilience and command premium valuations. At CMP the stock trades at 4.1x its FY22E ABV and 3.6x its FY23E ABV. **We maintain Accumulate rating with a Price Target of Rs 1934/share, valuing the stock at a target multiple of 4.1x FY23E ABV.**

Credit Cost (%)



Fees as % of total income



Loan Mix

Rs Bn	Q2FY22	YOY	QOQ	Q1FY22	Q2FY21
Personal Loans	1264	11.7%	4.9%	1205	1132
Auto	952	8.1%	3.6%	919	881
Home Loans	758	20.6%	4.9%	722	628
Payment Products	678	12.9%	7.4%	631	601
Loan against Property	544	12.0%	5.3%	517	486
Two Wheelers	97	-8.2%	2.0%	95	106
Gold Loans	81	17.0%	-1.3%	82	69
Other Retail	456	21.8%	10.9%	411	375
Commercial & Rural Banking	3590	28.5%	6.8%	3362	2794
Agriculture	560	21.7%	11.8%	501	460
Wholesale Loans	3124	6.0%	-0.7%	3146	2948
Total	12104	15.5%	4.4%	11592	10478

Cost Ratios as a % to Total Income

Particulars (%)	Q2FY22	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
Interest Earned	80.9	82.9	80.0	80.2	83.1	88.2
Interest Expended	35.3	36.6	35.0	36.7	39.4	42.7
NII	45.6	46.3	45.0	43.5	43.7	45.5
Other Income	19.1	17.1	20.0	19.8	16.9	11.8
Net Income	64.7	63.4	65.0	63.3	60.6	57.3
Employee cost	7.7	7.5	7.0	7.0	7.0	7.3
Other cost	16.3	14.7	17.1	15.8	15.3	12.8
PPoP	40.8	41.2	40.9	40.5	38.3	37.2
Provisions	10.1	13.1	12.3	9.1	10.3	11.3
Profit Before Tax	30.7	28.0	28.5	31.4	28.0	25.9
Tax	7.9	7.0	7.0	8.0	7.2	6.6
Net Profit	22.8	21.0	21.5	23.3	20.8	19.3

Source: Dalal & Broacha Research, Company

Highlights of the Conference Call

Asset quality

- Core slippage ratio stood at 0.45% (Rs 53 bn), while recoveries & upgrades stood at 30 bps (Rs 35 Bn) and write-offs stood at 25 bps (Rs 26 Bn). Sale of NPA stood at Rs 5 Bn.
- The total credit cost ratio for the quarter stood at 1.3% vs 1.67% QoQ and 1.41% YoY.
- Total restructured loans stood at 152 bps of the loan book.
- Recoveries which are recorded as miscellaneous income is ~23 bps as % of gross advances vs 14 bps as % of gross advances for the prior quarter (Q1FY22).
- Demand resolution in overall retail assets stood at 97.5%, which was almost back to pre- covid levels of ~98% and higher than March 2021 level (before second wave of covid-19).
- The bounce resolution has also shown significant improvement and is better than pre- covid levels for most of the products. The recoveries are 10% higher than pre- covid-19 levels.
- An internal assessment of the ECLGS book has shown that there is good robustness and minimal stress.
- An internal assessment of the restructured loans under the RBI's two special windows shows a peak impact of 10-20 bps at any given time.
- Bank held floating provisions of Rs 14.51 Bn and contingent provisions of Rs 77.56 Bn as on Sep-21. Total provisions (comprising specific, floating, contingent and general provisions) were 163% of the gross non-performing loans as on Sep-21.

Operating expenses

- Bank has added 256 branches and 12,259 people over the last twelve months. Furthermore, Bank is looking to add ~400 branches in next few quarters.
- Technology Cost as % of the revenue stood at 2.7-2.8%.
- Rs 0.8 Bn charge taken for employee stock option in Q2 FY22.

Retail advances

- The bank's retail advances grew by 4.5% QoQ, with four-wheeler auto loans, mortgage loans and unsecured loans achieved new highs. Bank also saw incremental disbursements growth of ~ 50% QoQ/71% YoY in the retail segments.
- During Sep-21, Auto loan book has grown against the tide, with Bank's incremental auto loan disbursements grew by 36% YoY, while the domestic vehicle sales declined by 37% YoY.
- MFI & 2W loan growth will be back to pre-covid in Q3FY21

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Total restructured loans stood at 152 bps of the loan book

Demand resolution in overall retail assets stood at 97.5%, which was almost back to pre- covid levels of ~98% and higher than Mar-21 level (before 2nd wave of covid)

Bank held floating provisions of Rs 14.51 Bn and contingent provisions of Rs 77.56 Bn as on Sep-21.

Technology Cost as % of the revenue stood at 2.7-2.8%.

Bank also saw incremental disbursements growth of ~ 50% QoQ/71% YoY in the retail segments

Credit card Business

- Credit card spends for the bank increased by 36% YoY/27% QoQ in Q2FY22.
- In the last five weeks of Q2FY22, Bank has issued 416 thousand new credit cards.
- Early result of the first 10 days of Oct-21 shows 42% growth in card spends over smiler period of last year.

Credit card spends for the bank increased by 36% YoY/27% QoQ in Q2FY22

Wholesale loan segment

- Cooperates are seeing strong cashflows and also preferred to market instruments for borrowing with a fair degree of prepayments.

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Rural banking

- Rural banking business grew by 12% QoQ, supported by strong customer acquisition through deeper village penetration (currently operates in one lakh villages), crop diversification and focusing small & micro farmers.
- Bank is looking to add one lakh villages in the next 18-20 months

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Liabilities

- Bank has opened ~2.4mn new liability relationships during Q2FY22 (+ 41% YoY/45% QoQ).
- Liquidity remained healthy reflected in the bank's average LCR ratio for the quarter at ~ 123%, ~ \$6 billion surplus over 110% LCR as a floor.

Bank has opened ~2.4mn new liability relationships during Q2FY22 (+ 41% YoY/45% QoQ).

Digital revolution

- During Sep 2021, bank's website received traffic of ~82 Mn visits, up by 24% YoY. Out of which, 60% are through mobile devices.
- UPI transactions by count, both P2P and P2M, in aggregate, have sequentially grown 35% to 0.89 Bn transactions, and over the prior year, it has gone up by 2.2 times.
- For Q2FY22, in terms of the value, Bank's P2P market share is ~ 10% and P2M market share is ~ 15%, it's on the UPI.
- Mobile banking transactions count has seen a growth of 66% YoY in H1FY22.

UPI transactions by count, both P2P and P2M, in aggregate, have sequentially grown 35% to 0.89 Bn transactions, and over the prior year, it has gone up by 2.2 times

Other highlights

- NII to RWA ratio stood at ~6%
- Retail fees form ~93% of the total fees

NII to RWA ratio stood at ~6%

Financials

Profit & Loss Account								
Rs Bn	Q2FY22	YOY	QOQ	Q1FY22	Q4FY21	Q3FY21	Q2FY21	Q1FY21
Interest Earned	314	4.6%	2.9%	305	304	301	300	304
Interest Expended	137	-3.7%	1.4%	135	133	138	142	147
NII	177	12.1%	4.0%	170	171	163	158	157
Other Income	74	21.5%	17.7%	63	76	74	61	41
Net Income	251	14.7%	7.7%	233	247	238	219	197
Operating expenses	93	15.2%	13.7%	82	92	86	81	69
PPoP	158	14.4%	4.4%	151	155	152	138	128
Provisions	39	6.0%	-18.8%	48	47	34	37	39
Profit Before Tax	119	17.5%	15.3%	103	108	118	101	89
Tax	30	17.4%	18.3%	26	27	30	26	23
Net Profit	88	17.6%	14.3%	77	82	88	75	67
Balance Sheet								
Net worth	2187	17.5%	2.9%	2125	2037	1951	1861	1780
Deposits	14063	14.4%	4.5%	13458	13351	12711	12293	11894
Borrowings	1498	13.0%	14.1%	1313	1355	1201	1326	1164
Other liabilities	700	13.9%	8.7%	643	726	678	614	614
Total liabilities	18448	14.6%	5.2%	17539	17469	16542	16094	15451
Cash & Balances	1693	56.7%	41.1%	1200	1195	1054	1080	1096
Investments	4163	0.6%	-4.5%	4361	4437	4144	4140	3794
Advances	11988	15.5%	4.5%	11477	11328	10823	10383	10033
Fixed Assets	52	14.8%	4.4%	50	49	48	46	45
Other Assets	552	23.9%	22.2%	452	459	473	445	483
Total Assets	18448	14.6%	5.2%	17539	17469	16542	16094	15451
Important ratios (%)								
Gross NPAs	1.4	27bps	-12bps	1.5	1.3	0.8	1.1	1.4
Net NPAs	0.4	23bps	-8bps	0.5	0.4	0.1	0.2	0.3
PCR	70.9	-1356bps	299bps	67.9	69.8	88.5	84.5	76.2
Cost to income ratio	37.0	15bps	196bps	35.0	37.2	36.1	36.8	35.0
CASA	46.8	520bps	135bps	45.5	46.1	43.0	41.6	40.1
CAR	20.0	90bps	90bps	19.1	18.8	18.9	19.1	18.9

Source: Dalal & Broacha Research, Company

Exhibit 1:

Profit & Loss Account				
Rs in Bn	FY20	FY21	FY22E	FY23E
Interest Earned	1148	1209	1390	1676
Interest expended	586	560	652	823
NII	562	649	738	853
Other Income	233	252	292	335
Net Income	794	901	1030	1188
Operating Exp	307	327	371	438
PPOP	487	574	659	750
Provisions	121	157	170	162
PBT	366	417	488	588
Tax	103	105	123	148
PAT	263	311	365	440

Exhibit 2:

Balance Sheet				
Rs in Bn	FY20	FY21	FY22E	FY23E
CAPITAL & LIABILITIES				
Capital	5.5	5.5	5.5	5.5
Reserves & Surplus	1704	2032	2318	2664
Deposits	11475	13351	15466	18165
Borrowings	1446	1355	1290	1379
Other Liabilities	674	726	753	785
TOTAL	15305	17469	19832	22999
ASSETS				
Cash & Balances	866	1195	1009	989
Investments	3918	4437	4989	5643
Advances	9937	11328	13269	15750
Fixed Assets	44	49	53	58
Other Assets	539	459	511	559
TOTAL	15305	17469	19832	22999

Exhibit 3:

Ratios (%)	FY20	FY21	FY22E	FY23E
Growth				
NII	16.5	15.5	13.7	15.6
PPOP	22.6	17.7	14.8	13.9
Net profit	24.6	18.5	17.3	20.5
Deposits	24.3	16.3	15.8	17.5
Advances	21.3	14.0	17.1	18.7
Returns				
ROA	1.9	1.9	2.0	2.1
ROE	16.4	16.6	16.7	17.6
Efficiency				
C/I Ratio	38.6	36.3	36.1	36.9
CASA	42.2	46.1	46.5	46.9

Source: Dalal & Broacha Research, Company

Exhibit 4:

Ratios (%)	FY20	FY21	FY22E	FY23E
Per Share				
BV (Rs)	312	370	421	484
ABV (Rs)	305	361	410	472
EPS (Rs)	48	56	66	80
Valuation				
P/BV (x)	5.4	4.6	4.0	3.5
P/ABV (x)	5.5	4.7	4.1	3.6
P/EPS (x)	35	30	25	21
Asset quality				
GNPA	1.3	1.3	1.4	1.3
NNPA	0.4	0.4	0.5	0.4
PCR	72.0	69.8	68.5	67.1

Source: Dalal & Broacha Research, Company

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