

Business remains strong and steady



HDFC Bank has reported a steady performance in a challenging macro environment. Its operating performance remained stable, supported by steady business growth and better cost control.

Best in class asset quality, marginal stress, adequate coverage and strong capital position makes the bank resilient to any upcoming economic storm.

- **NII came in at INR 163.18 Bn**, +3.4% QoQ / +15.1% YoY and 0.4% above our est.
- **Other Income came in at INR 74.43 Bn**, 22.2% QoQ / 11.6% YoY and 11% below our est.
- **PPOP came in at INR 151.86 Bn**, 9.9% QoQ / 17.3% YoY and 4.6% above our est.
- **Provisions came in at INR 34.14 Bn**, -7.8% QoQ / +12.2% YoY and -8% below our est.
- **PAT came in at INR 87.58 Bn**, 16.6% QoQ/ 18.1% YoY and 8% above our est.
- **EPS stood at INR 15.9 vs INR 13.6 / INR 13.4 in QoQ / YoY respectively.**

Financial Highlights

- Despite the macro headwinds driven by COVID-19, HDFCB has shown healthy credit growth of 15.6% YoY in Q3FY21. Out of which, domestic advances grew by 14.9% YoY, mainly driven by wholesale loan growth of 25.5% YoY, while retail loans grew slower at 5.2% YoY. Management highlighted that the weighted average rating of the book on an internal scale (ranges from 1-10 with 1 being highest rated corporates and 7 corresponding to an external 'A' rating) is currently at 4.37.
- On liabilities, Deposits grew by 19.1% YoY/3.4% QoQ in Q3FY21 led by CASA growth of 29.6% YoY/6.9% QoQ taking CASA ratio at 43% (Vs 39.5% YoY). Continued focus on strong deposits franchise helped the bank in the maintaining LCR of 146%, well above the regulatory requirement. Bank's capital adequacy ratio stood at 18.9% (vs 18.5% YoY/ 19.1% QoQ), of which Tier I capital was 17.6% (vs 17.1% YoY/ 17.7% QoQ). With strong liability franchise and fixed rate nature of the book, we believe the bank could maintain profitability despite near-term pressure on margins as it maintains a high liquidity ratio to sail through the crisis.

Y/E Mar (Rs Bn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
NII	482	562	644	736	857
Adjusted net profit	211	263	309	368	441
Networth	1492	1710	1987	2275	2622
EPS (Rs)	39	48	56	67	80
growth (%)		23.7	17.5	19.1	19.8
P/E (x)	38	31	26	22	18
P/BV (x)	5.4	4.7	4.0	3.5	3.1
P/Adj BV (x)	5.5	4.8	4.2	3.7	3.2
C/D Ratio	89	87	86	87	87
RoA (%)	1.8	1.9	1.9	2.0	2.1
RoE (%)	16.5	16.4	16.7	17.3	18.0

Source: Dalal & Broacha Research

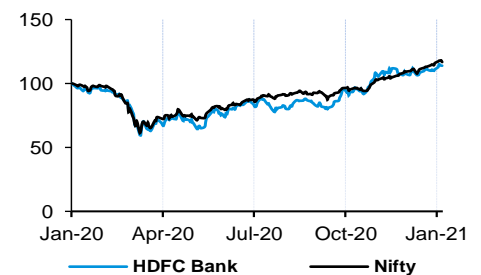
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	1620	11

Market data

Current price	Rs	1,466
Market Cap (Rs.Bn)	(Rs Bn)	8078
Market Cap (US\$ Mn)	(US\$ Mn)	110416
Face Value	Rs	1
52 Weeks High/Low	Rs	1494/739
Average Daily Volume	('000)	6374
BSE Code		500180
Bloomberg		HDFCB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	26.00	26.02
Public	74.00	73.98
Others	0.00	0.00
Total	100	100

Source: BSE

Avinash Tanawade
(022) 67141449

avinash.tanawade@dalal-broacha.com

- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 27 bps at 0.8% and NNPA's down by 8 bps to 0.09% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 1.38% and NNPA would have been 0.40% as per the proforma approach (recognition of NPA using analytical models). Bank held floating provisions of Rs 14.51 Bn and contingent provisions of Rs 86.56 Bn as on Dec 31, 2020. 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.
- The bank's operational efficiency remained strong, with cost to income ratio falling by 180 bps YoY to 36.1%, backed by higher net income (NII + other income) growth of 11.6% vs opex growth of 8.6% in Q3FY21. We believe this ratio is not sustainable at the current level and expected it (CIR) to be around 38-39% in the near to medium term. Operating expenses were lower primarily due to lower loan origination & sales volumes.

Valuation and outlook

With better capital adequacy and healthy provisioning buffer, 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. On the asset quality front, slippages are likely to pick up during 2HFY21 due to the COVID-19 disruption, which could keep credit costs elevated. However, we believe its loan book quality across segments is significantly stronger than the rest of the industry, which should hold it in comparatively better stead. **At CMP the stock trades at 3.7x its FY22E ABV and 3.2x its FY23E ABV. We have maintained a 'Accumulate' rating on HDFC Bank with a price target of Rs 1620, valuing the stock at 3.5x FY23E P/ABV.**

Highlights of the Conference Call

Rural economy is rapidly evolving

- Bank is providing cost effective digital services in semi-urban & Rural areas
- Bank has signed up ~1.6 lakh village entrepreneurs, out of which 1.02 lakh on boarded as Business Facilitators (BFs) and 13.5 K Business Correspondents (BCs). These people will be representatives appointed by banks to act as their agent and provide banking services in remote locations.

Strong Liability franchise

- Bank's continues focus on retail deposits helped in the maintenance of a healthy liquidity coverage ratio at 146%, well above the regulatory requirement.
- Retail deposits form 80% of total deposits and formed 100% of incremental deposits.
- V-KYC has helped the bank in acquiring better retail liability. Bank has registered 20% YoY growth in SA and 15% YoY growth in CA acquisition. Bank has added more than 2.3 lakh CASA accounts.
- Bank has opened 2 million liability relation during the quarter, up by 18% YoY and 9% QoQ.

Retail branch banking

- With the launch of the video KYC, liability & personal loan customers on boarded through multiple channels. This facility will also be used for Auto loans and card customers in future.
- Bank has launched "Next Best Action", an AIML led analytical tool, for its employees for the better engagement with the customers. This tool allowed the bank's employee to sharper recommendation and improve return on efforts.
- On payment business, bank showed better recover in Q3 over Q2; Card sales volume sequentially up by 32%, while marchland acquisition volume sequentially up by 20% in Q3.

Operating expense

- Cost to income ratio stood at 36.1% vs 37.9% YoY. According to management, this ratio at this level is not sustainable and will bounce back at historical level (38-39%) in upcoming quarters.
- Bank has added 55 branches during the quarter, taking the total to 282 additions for 9MFY21. The bank is looking to add ~ 100 more branches in Q4FY21.
- No of employees has increased by 3579 YoY, taking total staff count to 117,560.

Retail loan segment

- Bank saw strong recovery in retail disbursement, which was even better than pre-Covid levels and reported double digit sequential growth in Q3FY21, supported by better festival season.
- Demand resolution (what is demanded in the month and what is actually collected) stood at 97% for Dec 2020, which was little lower than Pre-Covid level of 98%, but better than 95% in Sep 2020.
- Bank is preparing liability branches for further growth in gold loans.

Wholesale loan segment

- Strong growth momentum continued in wholesale loan segment, which mostly came from well rated public sector and private firms.
- The average internal rating of incremental wholesale loans is 4.37, which corresponds to external ratings of AA / AAA.
- 68% of wholesale loans are rated 5 or better, which corresponds to external ratings of AA.
- 79% of externally rated loans are rated AA or higher and 90% A or higher.
- Weighted average rating of unsecured book is at 3.4, while for secured book it stood at 4.57.
- There is no much difference in the pro forma and actual wholesale GNPA.

SME Book

- FITL for the book is about 0.74-0.75%. The stressed portion in SME book has come from 9% initially to 3% and now to around 2.3%.
- Cash flows in the customers' accounts, which was dipped in the month of April & May, saw strong bounce back from June onwards.
- Normalization return in wholesale SME book, with bank adding more than 2000 new to bank customers in Q3 FY21.

Asset quality

- The bank's Annualised Pro forma slippage ratio stood at 1.86% in Q3, vs 1.98% QoQ/ 2.31% YoY.
- Some stressed retail assets were sold during the quarter. The financial impact of the same was taken during the quarter and no further impact is expected in upcoming quarters.
- The restructuring under RBI resolution framework for COVID-19 was ~0.5% of advances. According to management, there still few accounts in pipeline, but that number is not large.
- As on Q3FY21, Bank held floating provisions of Rs 14.51 Bn and contingent provisions of Rs 86.56 Bn. Total provisions (comprising specific, floating, contingent and general provisions) were 260% of the reported Gross NPAs or 148% of proforma Gross NPAs as on December 31, 2020.
- Total credit costs for the quarter amounted to 1.25%, vs 1.41% QoQ and 1.29%YoY.
- 52% of loans in unsecured segment are above key bureau cut off score compared with 35% for the market. Same for the secured segment is 42% vs 33% for the market.
- Recoveries stood at 24 bps of advances for the quarter, vs 21 bps QoQ and 30 bps YoY.

ECLGS

- The disbursement under ECLGS 1 was Rs 221.03bn.
- The disbursement under ECLGS 2 was Rs 5.79bn.

Financials

Profit & Loss Account									
Rs Bn	Q3FY 21	YOY	QOQ	Q2FY 21	Q1FY 21	Q4FY 20	Q3FY 20	Q2FY 20	Q1FY 20
Interest Earned	301	2%	0%	300	304	299	294	282	274
Interest Expended	138	-9%	-3%	142	147	147	152	147	141
NII	163	15%	3%	158	157	152	142	135	133
Other Income	74	12%	22%	61	41	60	67	56	50
Net Income	238	14%	9%	219	197	212	208	191	183
Operating expenses	86	9%	6%	81	69	83	79	74	71
PPoP	152	17%	10%	138	128	130	129	117	111
Provisions	34	12%	-8%	37	39	38	30	27	26
Profit Before Tax	118	19%	16%	101	89	92	99	90	85
Tax	30	21%	16%	26	23	22	25	27	30
Net Profit	88	18%	17%	75	67	69	74	63	56
Balance Sheet									
Net worth	1951	19%	5%	1861	1780	1710	1636	1558	1556
Deposits	12711	19%	3%	12293	11894	11475	10674	10216	9546
Borrowings	1201	6%	-9%	1326	1164	1446	1133	922	1009
Other liabilities	678	33%	10%	614	614	674	510	555	542
Total liabilities	16542	19%	3%	16094	15451	15305	13953	13251	12653
Cash & Balances	1054	3%	-2%	1080	1096	866	1024	735	842
Investments	4144	33%	0%	4140	3794	3918	3113	3071	2985
Advances	10823	16%	4%	10383	10033	9937	9360	8970	8297
Fixed Assets	48	11%	5%	46	45	44	43	41	40
Other Assets	473	15%	6%	445	483	539	413	433	488
Total Assets	16542	19%	3%	16094	15451	15305	13953	13251	12653
Important ratios (%)									
Gross NPAs	0.8	(61 bps)	(27 bps)	1.1	1.4	1.3	1.4	1.4	1.4
Net NPAs	0.1	(39 bps)	(8 bps)	0.2	0.3	0.4	0.5	0.4	0.4
PCR	88.5	2177 bps	402 bps	84.5	76.2	72.0	66.7	69.7	69.7
Cost to income ratio	36.1	(180 bps)	(75 bps)	36.8	35.0	39.0	37.9	38.8	39.0
CASA	43.0	349 bps	141 bps	41.6	40.1	42.2	39.5	39.3	39.7
CAR	18.9	40 bps	(20 bps)	19.1	18.9	18.5	18.5	17.5	16.9
Break-up of Domestic Retail Advances									
Auto	819	-2.0%	2.8%	797	811	839	836	808	819
Personal Loans	1,153	5.2%	2.5%	1,124	1,116	1,156	1,095	1,021	971
Home Loans	666	8.0%	6.0%	628	627	634	617	600	558
Business Banking	658	4.1%	3.7%	635	606	641	633	627	577
Kisan Gold Card	426	9.4%	-2.0%	435	400	433	390	391	367
Credit Cards	633	9.8%	8.9%	581	547	576	577	520	495
CV/CE	271	-3.6%	0.5%	270	278	290	281	285	292
Others	243	21.5%	17.1%	208	199	203	200	184	181
Two Wheelers	95	-6.4%	0.1%	95	96	99	101	99	101
Gold Loans	67	25.9%	10.9%	60	56	54	53	53	52
Loans against sec	17	-8.9%	4.8%	16	15	18	18	18	18
Total	5,049	5.2%	4.1%	4,850	4,750	4,944	4,801	4,606	4,432

Source: Dalal & Broacha Research, Company

Exhibit 1:

Profit & Loss Account				
Rs Bn	FY 20	FY 21E	FY 22E	FY 23E
Interest Earned	1148	1259	1429	1714
Interest Expended	586	615	693	857
NII	562	644	736	857
Other Income	233	250	302	359
Net Income	794	894	1038	1216
Operating expenses	307	328	378	437
PPoP	487	566	660	778
Provisions	121	153	168	189
Profit Before Tax	366	412	491	589
Tax	103	104	124	148
Net Profit	263	309	368	441

Source: Dalal & Broacha Research, Company

Exhibit 2:

Balance Sheet				
Rs Bn	FY 20	FY 21E	FY 22E	FY 23E
Net worth	1710	1987	2275	2622
Deposits	11475	13355	15502	18391
Borrowings	1446	1238	1245	1361
Other liabilities	674	691	721	781
Total liabilities	15305	17271	19744	23155
Cash & Balances	866	867	725	869
Investments	3918	4307	4848	5531
Advances	9937	11446	13485	16034
Fixed Assets	45	48	52	57
Other Assets	539	604	634	664
Total Assets	15305	17271	19744	23155

Source: Dalal & Broacha Research, Company

Exhibit 3:

Important ratios				
(%)	FY 20	FY 21E	FY 22E	FY 23E
Gross NPAs	1.2	2.0	1.6	1.4
Net NPAs	0.4	0.8	0.6	0.5
PCR	72.0	63.1	64.4	62.5
Cost to income ratio	38.6	36.7	36.4	36.0
CASA	42.2	42.7	43.1	43.4
CAR	18.5	18.4	17.9	17.1
© Loan to Deposit Ratio	86.6	85.7	87.0	87.2

Source: Dalal & Broacha Research, Company

Exhibit 4:

Important ratios (%)				
(%)	FY 20	FY 21E	FY 22E	FY 23E
ROA	1.9	1.9	2.0	2.1
ROE	16.4	16.7	17.3	18.0
Per share (Rs)				
EPS	48	56	67	80
ABVPS	305	346	401	463
P/E	31	26	22	18
P/ABVPS	4.8	4.2	3.7	3.2

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co- managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com