

Business remains strong and steady



Notwithstanding the macro headwinds, HDFC Bank (HDFCB) has reported a stable set of numbers for the quarter ended March 31, 2021. Bank's numbers were below our estimates on the profitability front due to higher provisions, though operating performance was better than our estimates. With the second wave of Covid-19 there has been some uptick in cheque bounces in the first half of April 2021. However, we draw comfort from the bank's prudent provision policy, with total provisions (comprising specific, floating, contingent and general provisions) were 153% of the GNPA's as on March 31, 2021.

- NII came in at INR 171.20 Bn, +4.9% QoQ / +12.6% YoY and 2% above our est.
- Net Income came in at INR 247.14 Bn, 4.0% QoQ / +16.4% YoY and 5% above our est.
- PPOP came in at INR 155.33 Bn, 2.3% QoQ / +19.9% YoY and 5% above our est.
- Provisions came in at INR 46.94 Bn, 37.5% QoQ / 24% YoY and 29% above our est.
- PAT came in at INR 81.87 Bn, -6.5% QoQ / +18.2% YoY and 2% above our est.
- EPS stood at INR 14.9 vs INR 15.9 / INR 12.6 in Q3FY21 / Q4FY20 respectively.

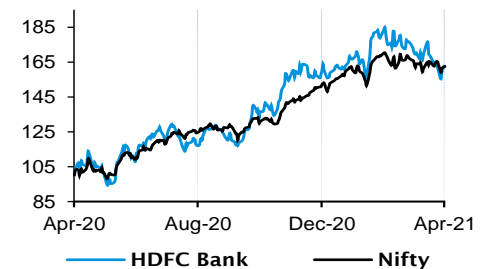
Rating	TP (Rs)	Up/Dn (%)
BUY	1643	15

Market data

Current price	Rs	1,428
Market Cap (Rs.Bn)	(Rs Bn)	7635
Market Cap (US \$ Mn)	(US \$ Mn)	102004
Face Value	Rs	1
52 Weeks High/Low	Rs	1650/826
Average Daily Volume	('000)	17499
BSE Code		500180
Bloomberg		HDFCB:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	25.97	26.00
FII	39.79	39.35
DII	21.23	21.70
Others	13.01	12.95
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs Bn)	FY19	FY20	FY21E	FY22E	FY23E
NII	482	562	649	751	873
Adjusted net profit	211	263	311	370	429
Networth	1492	1710	2037	2327	2665
Adj BVPS	268	305	361	411	469
EPS (Rs)	39	48	56	67	78
growth (%)	15	24	18	19	16
P/ABV (x)	5.4	4.7	4.0	3.5	3.0
P/E (x)	37	30	25	21	18
C/D Ratio	89	87	85	86	87
RoA (%)	1.8	1.9	1.9	2.0	2.0
RoE (%)	16.5	16.4	16.6	16.9	17.2

Source: Dalal & Broacha Research

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Other Financial Highlights

- **Asset Quality:** Bank's asset quality remained largely stable during the quarter, with GNPA & NNPA stood at 1.32% & 0.40% as against 1.38% & 0.40% on a proforma basis in the previous quarter. **The bank has reported a slippage ratio stood at ~1.7% (vs. 1.8% in Q3FY21). The bank used contingent provisions worth Rs 36 Bn towards these slippages and set aside a further Rs 5 Bn towards interest on interest revers.** Bounce rates and collection efficiency have improved month on month over Oct-Mar 2020. However, bounce rates rose in the first half of April 2021 and are now back to Jan 2021 levels. In line with the guidance, the bank's restructured book was manageable at Rs 65bn (0.6% of loans), mostly come from the retail segment.
- **Sturdy loan growth:** Despite the macro headwinds driven by COVID-19, HDFCB has shown healthy credit growth of 14% YoY in Q4FY21. Out of which, domestic advances grew by 14.1% YoY, mainly driven by wholesale loan growth of 21.7% YoY, while retail loans grew slower at 6.7% YoY. **Overall, retail growth was largely dominated by secured lending products like housing, business banking, gold loans, etc. However, growth in the credit card portfolio in little lower (up 2% QoQ / 12% YoY), given the ban on the bank for sourcing new credit card customers, it is using the existing base to drive growth.** Also, personal loans increased by a mere 3% YoY as the bank was slow towards unsecured lending.
- **Strong liability franchise:** Deposits grew by 16.3% YoY/ 5.0% QoQ in Q4FY21 led by CASA growth of 27% YoY taking CASA ratio at 46.1% (Vs 42.2% YoY). Continued focus on strong deposits franchise helped the bank in the maintaining LCR of 138%. **The bank opened about 2 Mn new liability relationships and about 7 Mn liability relationships during FY21, reflecting the strength of its brand. Bank's capital adequacy ratio stood at 18.8% (vs 18.5% YoY), of which Tier I capital was 17.6% (vs 17.2% YoY).** With strong liability franchise, 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.

Valuation & Outlook

Bank's operating performance was better than our estimates, supported by stable margin and healthy loan growth. Corporate loan growth compensated for softness in Retail portfolio. 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. **At CMP the stock trades at 3.5x its FY22E ABV and 3.0x its FY23E ABV. We have assigned a 'Buy' rating on HDFC Bank with a price target of Rs 1643, valuing the stock at 3.5x FY23E P/ABV.**

Highlights of the Conference Call

- **Current economic situation-** Showing improvement, almost all parameters back to precovid levels, strong auto sales, double digit growth in exports, record GST collection, strong correlation found with cashflows collection and GST collection.
- **Second wave of covid-** Ran stress tests but cannot exactly determine the impact, economic impact lower than first wave. Have enough provisions and liquidity to tide over. Have entered into partnership with 500 large hospitals to provide funding assistance to patients, already has been implemented in 37 hospitals.
- **Cheque bounce rate and geographical issues-** Cheque bounce rate had reduced from December to March, has seen upward movement in April. Maharashtra, MP, Punjab and Telangana there are collection issues.
- **Loan book quality and growth-** Increasing focus on MSME loans, currently MSME forms 20% of advances book, seeing very strong growth traction in MSME portfolio, have seen robust growth in personal loan and business loan verticals, Large corporate book grew 3.5%-4% even with prepayment done which is credible. Higher beaureu scores loan as a % of total book steadily increasing compared to industry. 27,567 crores worth eclgs loan disbursed.
- **Provisioning and Restructuring-** Restructuring for quarter at 60bps. Total loan loss provisions at INR 6,762 Cr, which includes INR 3600 Cr of proforma specific provision having no impact on P&L. Current quarter provision stood at INR 4694 Cr, which includes interest on interest provision of INR 500 Cr
- **HDB financial Services-** Recovering very strongly, collections back to pre-covid levels.
- **Technology problems-** Third party assessment almost over, continuing to make security enhancements on back side, can compensate lost months in credit card issuance very quickly as have a very strong liability franchise, waiting for final RBI decision once assessment over.

Strong growth in deposits- Bank showed strong growth in deposits, which were granular in nature, corporate salary account acquisitions 34% higher than comparable year

Slippages and recovery- Slippages at INR 4700 crores, 1.66% annualized, write off of INR 3,500 crores balance is upgrades and recovery.

Financials

Profit & Loss Account								
Rs Bn	Q4FY21	YOY	QOQ	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20
Interest Earned	304	2%	1%	301	300	304	299	294
Interest Expended	133	-9%	-3%	138	142	147	147	152
NII	171	13%	5%	163	158	157	152	142
Other Income	76	26%	2%	74	61	41	60	67
Net Income	247	16%	4%	238	219	197	212	208
Operating expenses	92	11%	7%	86	81	69	83	79
PPoP	155	20%	2%	152	138	128	130	129
Provisions	47	24%	37%	34	37	39	38	30
Profit Before Tax	108	18%	-8%	118	101	89	92	99
Tax	27	18%	-12%	30	26	23	22	25
Net Profit	82	18%	-7%	88	75	67	69	74
Balance Sheet								
Net worth	2037	19%	4%	1951	1861	1780	1710	1636
Deposits	13351	16%	5%	12711	12293	11894	11475	10674
Borrowings	1355	-6%	13%	1201	1326	1164	1446	1133
Other liabilities	726	8%	7%	678	614	614	674	510
Total liabilities	17469	14%	6%	16542	16094	15451	15305	13953
Cash & Balances	1195	38%	13%	1054	1080	1096	866	1024
Investments	4437	13%	7%	4144	4140	3794	3918	3113
Advances	11328	14%	5%	10823	10383	10033	9937	9360
Fixed Assets	49	11%	3%	48	46	45	44	43
Other Assets	459	-15%	-3%	473	445	483	539	413
Total Assets	17469	14%	6%	16542	16094	15451	15305	13953
Important ratios (%)								
Gross NPAs	1.32	6bps	51bps	0.8	1.1	1.4	1.3	1.4
Net NPAs	0.4	4bps	31bps	0.1	0.2	0.3	0.4	0.5
PCR	69.8	-219bps	-1868bps	88.5	84.5	76.2	72.0	66.7
Cost to income ratio	37.2	-183bps	106bps	36.1	36.8	35.0	39.0	37.9
CASA	46.1	388bps	310bps	43.0	41.6	40.1	42.2	39.5
CAR	18.8	30bps	-10bps	18.9	19.1	18.9	18.5	18.5
Break-up of Domestic Retail Advances								
Auto	844	0.5%	3.1%	819	797	811	839	836
Personal Loans	1,186	2.7%	2.9%	1,153	1,124	1,116	1,156	1,095
Home Loans	702	10.7%	5.4%	666	628	627	634	617
Business Banking	709	10.6%	7.7%	658	635	606	641	633
Kisan Gold Card	479	10.5%	12.2%	426	435	400	433	390
Credit Cards	647	12.3%	2.1%	633	581	547	576	577
CV/CE	280	-3.7%	3.2%	271	270	278	290	281
Others	246	20.8%	1.0%	243	208	199	203	200
Two Wheelers	93	-5.7%	-2.2%	95	95	96	99	101
Gold Loans	72	33.0%	7.8%	67	60	56	54	53
Loans against sec	18	2.1%	11.3%	17	16	15	18	18
Total	5,276	6.7%	4.5%	5,049	4,850	4,750	4,944	4,801

Source: Dalal & Broacha Research, Company

Exhibit 1:

Profit & Loss Account				
Rs in Bn	FY20	FY21	FY22E	FY23E
Interest Earned	1148	1209	1408	1683
Interest expended	586	560	657	810
NII	562	649	751	873
Other Income	233	252	291	338
Net Income	794	901	1042	1211
Operating Exp	307	327	381	446
PPOP	487	574	661	765
Provisions	121	157	167	192
PBT	366	417	494	573
Tax	103	105	125	144
PAT	263	311	370	429

Source: Dalal & Broacha Research, Company

Exhibit 2:

Balance Sheet				
Rs in Bn	FY20	FY21	FY22E	FY23E
CAPITAL & LIABILITIES				
Capital	5	6	6	6
Reserves & Surplus	1704	2032	2322	2659
Deposits	11475	13351	15466	18165
Borrowings	1446	1355	1290	1379
Other Liabilities	674	726	779	846
TOTAL	15305	17469	19862	23054
ASSETS				
Cash & Balances	866	1195	1207	1261
Investments	3918	4437	4836	5463
Advances	9937	11328	13264	15735
Fixed Assets	44	49	53	58
Other Assets	539	459	500	537
TOTAL	15305	17469	19862	23054

Source: Dalal & Broacha Research, Company

Exhibit 3:

Important Ratios (%)				
Ratios (%)	FY20	FY21	FY22E	FY23E
Growth				
NII	16.5	15.5	15.8	16.2
PPOP	22.6	17.7	15.3	15.8
Net profit	24.6	18.5	18.8	15.9
Deposits	24.3	16.3	15.8	17.5
Advances	21.3	14.0	17.1	18.6
Returns				
ROA	1.9	1.9	2.0	2.0
ROE	16.4	16.6	16.9	17.2
Efficiency				
C/I Ratio	39	36	37	37
CASA	42.2	46.1	46.5	46.9

Source: Dalal & Broacha Research, Company

Exhibit 4:

Important Ratios (%)				
Ratios (%)	FY20	FY21	FY22E	FY23E
Per Share				
BV (Rs)	312	370	422	483
ABV (Rs)	305	361	411	469
EPS (Rs)	48	56	67	78
Valuation				
P/BV (x)	4.6	3.9	3.4	3.0
P/ABV (x)	4.7	4.0	3.5	3.0
P/EPS (x)	30	25	21	18
Asset quality				
GNPA	1.3	1.3	1.4	1.3
NNPA	0.4	0.4	0.5	0.5
PCR	72.0	69.8	68.5	63.9

Source: Dalal & Broacha Research, Company

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