

HDFC Bank

BUY

Stable Asset quality; Need to watch for RBI clearance

Summary

HDFC Bank's reported stable GNPA at 1.32% vs 1.38% QoQ while NNPA at 0.4% (0.4% QoQ). However, annualized slippages remain at 1.66% vs 1.86% QoQ. Restructuring under RBI resolution framework stood at 57bps of advances; led by personal loans. Post outages issue, RBI asked HDFC bank to stop launches of new digital business and stops issuing new credit cards. Thus, need to watch for RBI clearance as bank had submitted the plan. Advances saw a growth of 14% YoY vs 15.6% YoY in Q3FY21 led by wholesale loans (21.7% growth) and retail loan growth of 6.7% however wholesale and Retail mix stood at 53:47 vs 50:50 (FY20). Deposits saw a growth of 16% led by CASA growth of 27%. Profitability (PBT growth) remain stable while provision seen an uptick; PAT remain stable at 18%. NII grew by 13% YoY against a loan growth of 14% YoY. PPop grew by 20% YoY as cost to income ratio improved (37% vs 39% YoY); fee income grew by 20% YoY vs 10% YoY (Q3FY21). As overall economy continues to improve, we believe that HDFCB would see the best revival in growth within the sector. We have largely retained our estimates and maintain BUY with the target price of Rs.1,740 based on P/Bv of 3.6x FY23.

Key Highlights and Investment Rationale

- Moderate Credit growth while deposit growth declined:** HDFCB reported moderate credit growth of 14% YoY (4.7% QoQ) as compared to 15.6% YoY (Q3FY21). However, it seems to be the highest among its peers and company continue to gain market share. Domestic Corporate and retail book growth remains stable at 22% YoY and 7% YoY respectively. Retail loans affected by lower disbursements in vehicle loan portfolio due to cautious approach however; gold loans continue to saw strong growth of 33% (26% in Q2FY21). Deposits growth seen decline at 16% YoY (5% QoQ); CASA deposits grew by 27% resulted CASA ratio at 46.1% vs 42.2% YoY.
- GNPA remains stable; restructuring at 60bps:** As Supreme court allowed to classified NPA, Bank Asset quality improved sequentially with GNPA at 1.32% vs 1.38% (proforma) QoQ; NNPA remain stable at 0.4%. Core Credit cost comes in at 0.24% vs 0.26% QoQ (0.77% YoY). Bank annualized slippages stood at 1.66% vs 1.86% (proforma) in Q3FY21. Bank restructuring advances stands at 60bps of advances which include fewer corporate cases and largely on request basis.
- Outlook:** HDFC Bank continues to command highest market share amongst private banks. We believe HDFCB to traverse through these tough times and will gain market share led by strong leadership position across segments, large distribution, digital focus and strong capital adequacy. We remain structurally positive on HDFCB given its superior credit underwriting, structurally better NIM and the ability to maintain higher RoA among its peers.

Q4FY21 Result Review

TP	Rs1,740
CMP	Rs1,428
Potential upside / downside	22%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	66.7	80.6
Consensus	68.1	-
% difference	(2.1)	-

Shareholding Pattern (%)

Promoters	26.0
FII	39.8
DII	16.6
Public	17.6

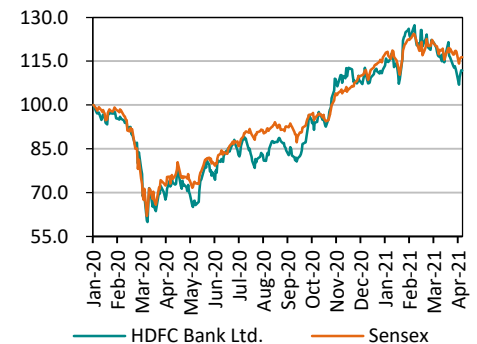
Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.5)	(2.6)	56.9
Rel to Sensex	(2.5)	(2.2)	2.3

Key Stock Data

Bloomberg / Reuters	HDFCB IN/HDBK.BO
Sector	Bank
Shares o/s (mn)	5,513
Market cap. (Rs mn)	7,874,726
Market cap. (US\$ mn)	105,907
3-m daily avgTrd value (Rs mn)	5,983.2
52-week high / low	Rs1,650/826
Sensex / Nifty	48,832 / 14,618

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	482,431	561,862	648,795	743,693	866,467
Net Profit	210,780	262,573	311,165	367,959	444,109
EPS (Rs)	38.7	47.9	56.4	66.7	80.6
ABV (Rs)	270.7	308.0	363.9	419.3	479.2
PER (x)	36.9	29.8	25.3	21.4	17.7
P/ABV (x)	5.3	4.6	3.9	3.4	3.0
ROE (%)	16.5	16.4	16.6	16.8	17.6
ROA (%)	1.8	1.9	1.9	2.0	2.1
GNPA (%)	1.4	1.3	1.3	1.5	1.5
NNPA (%)	0.4	0.4	0.4	0.4	0.5
CAR (%)	14.6	17.1	18.8	19.0	18.7

Source: Company; IDBI Capital Research

Conference Call Highlights

Wholesale banking

- Rating scale- Avg. rating of incremental portfolio is 4.24 while the externally rate portfolio stands at 62% of that is rated AA & above. Weighted average of top 20 borrowers is 2.92 while unsecured exposure rated as 3.36 as against average secured rating of 4.57.
- Since Dec- Mar, Return of cash flow coming back at healthy rate while resumption in cash flow of 30+ had come down.
- Restructured accounts stands at Rs5.5bn within that Rs2-2.5bn were in delinquencies.
- Delinquencies trend in all buckets level are back to pre-covid level (60+- 5-7bps lower than pre-covid level).
- Collateral coverage stood in range of 80-85%.
- Large corporate grew by 3.4-3.5%, SME grew at 10% QoQ, mid- corporate grew by 9.2% QoQ.
- Expect private/corporate capex to pick up in 2HFY22.
- CASA for wholesale banking up by 15.3% YoY and 30.8% QoQ.
- MSME stood at 18% (Rs 2tn) of overall book till Q3FY21.
- **ECLGS**- As on 5th Apr 2021 disbursed 120,311 customers under ECLGS 1.0 and 2.0 amounting to Rs265.44bn.

Retail Banking

- Demand resolution remains at pre-covid level.
- Cheque bounces in April seen upward trend compared to March.
- Maharashtra, MP, Punjab, Telangana states seeing problems that impacted demand resolution.
- Recoveries were 30% over pre-covid level.
- Expect salaried customer won't get impacted of second wave.
- Seeing healthy trend in Auto and housing segment and robust growth in personal and business loans and also on retail and SME segment.

Outage issues-

- Recent issue on net and mobile banking was affected due to sever hardware component failure while backend system monitored and cleared the issue.
- Audit by independent third parties is in final stages and will update soon.
- Continue to focus on design and development as on-going process while also working on migration to clouds for resiliency.

Credit cards

- Impact of non-issuance of cards is on new employees in corporate and new corporates on boarding etc. while loss of customers can be gain within few quarters as stoppage been lifted.
- About 3/4th outsourcing come from existing customers.

Other Highlights

- Added 2mn liability relationship in Q4FY21 and 7mn in FY21 as well as acquired 2.5mn corporate salary customers in FY21.
- Liquidity remains strong while LCR stood at 138% and maintain access surplus of Rs800bn.
- Added 354 branches in FY21 and 123 branches in Q4FY21.
- Restructuring stands at 60bps of advances while Loan loss provision stood at Rs67.6bn within that 36.0bn includes pro-forma slippages of Q3FY21.
- Total provision in Q4FY21 stood at Rs46.9bn which includes Rs13bn of additional provisions and Rs5bn for interest on interest provisions.
- Recoveries accounted to 25bps of gross advances vs 24bps QoQ and 21bps YoY.
- Annualised slippages were 1.66% vs 1.86% QoQ and write-off was Rs35bn.
- Bank is testing various stress tests on account of second covid wave.

HDB financial

- Business and collection efficiency reach at pre-covid level in Q4FY21.
- Disbursement in Q4FY21 was up 15% QoQ and 32% YoY.
- GNPA stood at 3.9% vs 3.5% YoY and 5.9% QoQ.

Exhibit 1: Quarterly Snapshot

(Rs mn)

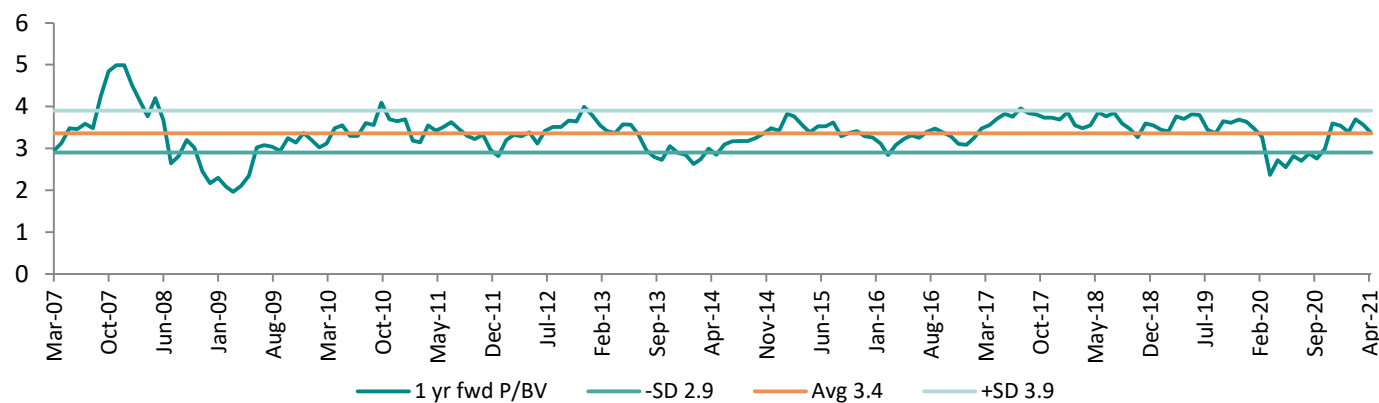
Year-end: March	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Interest Income	304,236	298,851	300,797	1.8	1.1
Interest Expenses	133,034	146,810	137,621	(9.4)	(3.3)
Net Interest Income	171,202	152,041	163,176	12.6	4.9
NIM Calc.(%)	4.4	4.6	4.4	(18 bps)	1 bps
Non-Interest Income	75,939	60,326	74,432	25.9	2.0
Operating Income	247,141	212,367	237,608	16.4	4.0
Staff Cost	26,789	24,983	26,301	7.2	1.9
Other Op Exp	65,024	57,796	59,447	12.5	9.4
Total Operating Expenses	91,813	82,779	85,748	10.9	7.1
<i>Cost to Income (%)</i>	<i>37.2</i>	<i>39.0</i>	<i>36.1</i>	<i>(183 bps)</i>	<i>106 bps</i>
Operating Profit	155,328	129,588	151,860	19.9	2.3
Provisions	46,937	37,845	34,141	24.0	37.5
PBT	108,391	91,743	117,719	18.1	(7.9)
Tax	26,526	22,466	30,136	18.1	(12.0)
<i>-effective tax rate</i>	<i>24.5</i>	<i>24.5</i>	<i>25.6</i>	<i>(2 bps)</i>	<i>(113 bps)</i>
PAT	81,865	69,277	87,583	18.2	(6.5)
EPS (Rs)	29.7	25.3	31.8	17.5	(6.6)
BV (Rs)	739.1	623.7	708.6	18.5	4.3
Deposits	13,350,602	11,475,023	12,711,239	16.3	5.0
Advances	11,328,366	99,37,029	10,823,242	14.0	4.7

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY19	FY20	FY21E	FY22E	FY23E
NII	4.18	4.05	3.96	3.99	4.03
Fees	1.49	1.54	1.30	1.31	1.32
Other Income	0.03	0.14	0.24	0.23	0.22
Net Revenue	5.71	5.73	5.50	5.52	5.58
Op.Exp	2.26	2.21	2.00	2.04	2.11
Op.Profit	3.44	3.51	3.50	3.48	3.47
Provisions	0.65	0.88	0.96	0.84	0.70
PBT	2.79	2.64	2.54	2.64	2.76
Tax	0.96	0.75	0.64	0.66	0.70
ROA	1.83	1.89	1.90	1.97	2.07
Leverage (x)	9.04	8.67	8.75	8.50	8.49
ROE	16.50	16.40	16.61	16.77	17.55

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	561,862	648,795	743,693	866,467
Fee Income	213,006	213,379	243,560	284,002
Treasury Gains	19,602	38,670	42,533	47,769
Operating Income	794,470	900,844	1,029,787	1,198,238
Operating expenses	(306,975)	(327,226)	(380,822)	(453,627)
Employee expenses	(95,257)	(103,648)	(112,907)	(127,025)
Other expenses	(211,718)	(223,578)	(267,916)	(326,602)
Pre-Provision Profit	487,495	573,618	648,964	744,611
Provision	(121,424)	(157,028)	(157,238)	(151,120)
Loan loss Provisions	(90,833)	(69,670)	(146,136)	(142,001)
Other Provisions	(30,591)	(87,358)	(11,102)	(9,119)
PBT	366,071	416,590	491,726	593,491
Taxes	(103,498)	(105,425)	(123,768)	(149,382)
Net profit	262,573	311,165	367,959	444,109

Balance Sheet

(Rsmn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	5,483	5,513	5,513	5,513
Reserves	1,704,377	2,031,695	2,346,081	2,703,847
Networth	1,709,860	2,037,208	2,351,594	2,709,360
Deposits	11,475,023	13,350,602	15,219,782	17,564,754
Borrowings	1,446,286	1,354,873	1,466,153	1,808,568
Total Liab. & Equity	15,305,113	17,468,705	19,851,348	23,114,997
Cash & Bank with RBI	866,187	1,194,704	1,205,055	1,421,965
Investments	3,918,267	4,437,283	5,014,541	5,600,784
Advances	9,937,029	11,328,366	13,027,621	15,372,593
Other Assets	539,311	459,259	551,111	661,333
Total assets	15,305,113	17,468,705	19,851,348	23,114,997

Source: Company; IDBI Capital Research

Growth

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
Growth				
Deposits	24.3	16.3	14.0	15.4
Advances	21.3	14.0	15.0	18.0
NII	16.5	15.5	14.6	16.5
Pre-Provision Profit	22.6	17.7	13.1	14.7
Net Profit	24.6	18.5	18.3	20.7
Spreads				
Yield on Assets	9.0	7.9	7.9	7.9
Cost of Funds	5.0	4.1	4.1	4.0
NIM	4.4	4.3	4.3	4.3
CASA	42.2	46.1	46.0	47.0
Operating Efficiency				
Cost-to-Income	38.6	36.3	37.0	37.9
Cost-to-Assets	2.2	2.0	2.0	2.1
Asset Quality				
GNPA	1.3	1.3	1.5	1.5
NNPA	0.4	0.4	0.4	0.5
Provision Coverage	72.0	69.8	73.0	65.4
Credit Cost	1.0	1.3	1.2	1.0
Capital Adequacy				
CAR	17.1	18.8	19.0	18.7
Tier I	15.6	17.6	17.6	17.2
Valuation				
EPS	47.9	56.4	66.7	80.6
ABV	308.0	363.9	419.3	479.2
P/E	29.8	25.3	21.4	17.7
P/ABV	4.6	3.9	3.4	3.0
ROE	16.4	16.6	16.8	17.6
ROA	1.9	1.9	2.0	2.1
RORWA	2.7	2.9	2.8	2.7



Notes

Dealing

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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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