Equity Research

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BSE Sensex: 48832

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Q4FY21 results review, TP and earnings revision

Banking

Target price Rs1,818

Earnings revision

(%)	FY21E	FY22E
PAT	↑ 4.7	↑ 7.9

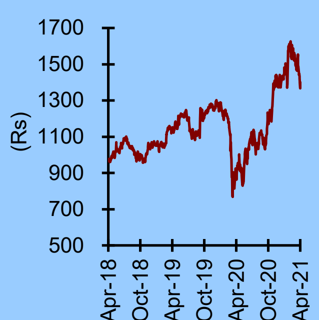
Target price revision
Rs1,818 from Rs1,730

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	26.0	26.0	26.0
Institutional investors	60.1	60.8	60.8
MFs and others	14.0	13.4	13.0
FIs/Banks	0.0	0.1	0.0
Insurance Cos.	8.5	7.8	7.7
FPI	37.6	39.5	40.1
Others	13.9	13.2	13.2

Source: BSE

Price chart



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INDIA

ICICI Securities

HDFC Bank

BUY
Maintained

Resilience and consistency displayed to its core

Rs1,429

HDFC Bank concluded FY21 – a year of pandemic and business disruption – with 19% earnings growth (almost similar to past 5-year average), 1.32% GNPAs (lower than pre-pandemic levels), 0.6% restructuring, 1.7% slippage run-rate, 1.5% credit cost (including 30bps contingency buffer), 14% advance growth, and 16% deposit growth. That's indeed commendable and what gives us further confidence in the franchise, are: 1) precautionary credit reserve of 60bps still exists; 2) best-in-class deposit franchise (<4% deposit cost) supporting 4.2% NIMs; 3) beefing-up of resources (123 branches added) to boost retail growth (from 6.7% in FY21); and 4) enhancing technology capabilities to address outage issues. We revise earnings by 5%/8% for FY22/23E and maintain BUY with a revised target price of Rs1,818 (valuing the bank at 3.7x FY23E P/ABV). Key risks: 1) recent technology outage further defers visibility on credit card rollout ban; 2) the second wave of Covid, if prolonged, can weigh on credit cost or growth.

- **How we read Q4FY21 earnings:** 1) ***GNPAs settling at 1.32% surprised the most***; slippages too were contained at 1.66% (similar run-rate as for 9MFY21); 2) ***Credit cost at 1.65%, albeit relatively higher than the 9MFY21 figure of 1.4%,*** is in line with our FY21 expectations of 1.5%; 3) ***Provisioning includes Rs13bn*** of contingency buffer (Rs8bn credit reserves and Rs5bn interest on interest reversal); with this it carries ***cumulative credit-related contingency + floating buffer of 60bps***; 4) ***NII growth moderated*** a tad to 13% with NIMs remaining steady at 4.2%; 5) ***advance growth*** on a higher base and due to corporate repayments settled at 14% (lower than recent past averages); 6) ***core fee income regained its lost momentum (up 20% YoY)*** further supported by higher forex income and recoveries; 7) ***HDB Financial Services with IGAAP NPA of 3.9% (vs. proforma stage-3 of 5.9% in Q3) and credit cost of 4%*** (down from >5.5% in Q3FY21) reported a profit of Rs2.8bn (FY21 RoA of <1%).
- **Read-through for other banks on a few aspects:** 1) HDFC Bank, despite its resilient asset quality performance in FY21 and existing contingency buffer, built further buffer in Q4FY21 (albeit marginal, of 8bps). Management highlighted that it is precautionary in nature rather than anticipatory (of stress outlook) due to Covid second wave. We believe, other banks too would create intermediate disruption buffers (against expectations of their utilisation). 2) Impact of waiving interest on interest for loans above Rs20mn has led to provisioning of Rs5bn (though IBA's methodology for calculation is awaited). This is equivalent to 5bps of advances for 48% of the corporate book. We can extrapolate a similar trend for other banks to gauge NIM impact.
- **Enhancing technology capabilities to resolve outage issues:** HDFC Bank highlighted that last month's (March) outages were intermittent due to server hardware failure. It is building up technological capabilities on the core system: setting higher standards, enhancing security, migrating to cloud for resilience, card management and activation, etc. Bank has demarcated various initiatives for the shorter term as well as medium-to-longer term and will effectively address the risk of outage issues.

Market Cap	Rs7875bn/US$105.6bn
Reuters/Bloomberg	HDBK.BO/HDFCB IN
Shares Outstanding (mn)	5,512.8
52-week Range (Rs)	1627/831
Free Float (%)	74.0
FII (%)	40.1
Daily Volume (US$'000)	210,153
Absolute Return 3m (%)	(2.6)
Absolute Return 12m (%)	62.4
Sensex Return 3m (%)	(0.3)
Sensex Return 12m (%)	61.3

Year to Mar	FY20	FY21E	FY22E	FY23E
NII (Rs bn)	562	649	757	891
Net Profit (Rs bn)	263	311	377	457
EPS (Rs)	47.9	56.4	68.3	83.0
% Change YoY	23.7	17.9	21.1	21.4
P/E (x)	29.8	25.3	20.9	17.2
P/BV (x)	4.6	3.9	3.4	2.9
P/ABV (x)	4.7	3.9	3.4	3.0
GNPA (%)	1.3	1.3	1.3	1.3
RoA (%)	1.9	1.9	2.0	2.1
RoE (%)	16.4	16.6	17.3	18.2

- **FY21 GNPAs at 1.32% a big surprise:** GNPA, with slippages of 1.66% and higher write-offs at Rs35bn, settled at 1.32% (lower than pre-Covid levels). It is even lower than prudently accelerated proforma GNPAs of 1.38% in Q3FY21. Despite the pandemic and economic disruption, slippages for FY21 settled at 1.66% -- quite a positive surprise (we anticipated >2.5%).

- **Provisioning however elevated due to further contingency build-up:** Overall provisioning cost came in higher at 1.65% (though relatively higher than the 9MFY21 run-rate of 1.4%, it is in line with our FY21 expectations of 1.5%). Provisioning includes Rs13bn of contingency buffer comprising Rs8bn credit reserves and Rs5bn interest on interest reversal. With this, the bank carries cumulative credit-related contingency + floating buffer of 60bps (comprising floating provisions of Rs14.5bn and contingency provisions of Rs58.6bn). It has dipped into Rs36bn of contingency provisions (of Rs86.6bn as of Q3FY21) for proforma slippages of 9MFY21. Management highlighted that contingency buffer is precautionary in nature rather than anticipatory. Despite the second wave of Covid, we expect the resilient performance on asset quality to be displayed in coming quarters too and we estimate credit cost to settle at ~1.3%/1.2% for FY22E/FY23E.

- **Demand resolution and recovery trend is improving:** Retail demand resolution (amount collected as a percentage of amount demanded) has improved steadily since October and has reached pre-Covid levels in almost all segments. Cheque bounce rate from October to March has also been gravitating towards pre-Covid levels. However, in April, it has increased back to January levels. Resolution run-rate of bounce cases is also tracking towards pre-Covid levels across segments. Surprisingly, even in such a non-conducive environment, recoveries have been a pleasant surprise –30% higher (15% in Q3FY21) than pre-Covid levels.

- **Restructuring at 0.6% of advances:** Management highlighted, over and above the 50bps of restructuring as of Q3FY21, there were more restructuring requests in the pipeline. In line with the guidance, HDFC Bank has disclosed restructuring of Rs65bn (0.57% of advances) – almost 85% of it flowing from the retail segment.

- **Corporate as well as retail to aid robust growth in FY22E:** For FY21, the corporate book expanded 22% YoY while retail growth was modest at 7%. However, retail momentum is looking up (8.8% in H2FY21) and extrapolation of this trend suggests >15% growth going forward. Bank is also beefing up resources to support the growth momentum - it recently announced plans to raise debt securities of Rs500bn, added 123 branches in Q4FY21, is investing into technology, focusing on semi-urban/rural areas, with average LCR at 138%. Given retail:corporate mix at 47:53, we believe the bank is poised for credit growth of 18%/20% in FY22E/FY23E respectively.

  In retail, gold loans continue to shine with 8% QoQ / 33% YoY growth and the bank is further sizing up its distribution network in this segment, given strong demand. Buyout of the home loan portfolio from HDFC has supported 11% growth in housing loans. Furthermore, loans against securities was up 11% QoQ / 2% YoY, Kisan Gold cards up 12% QoQ / 11% YoY and business banking up 8% QoQ / 11% YoY. On unsecured lending, the credit card portfolio was up 2% QoQ / 12% YoY; given the ban on the bank for sourcing new credit card customers, it is churning the existing base to drive growth. Also, personal loans, which have the highest share in retail portfolio at ~23%, increased by a mere 3% YoY as the bank was slow towards unsecured lending.

  Overall, for FY21, retail growth was largely dominated by secured lending products like housing, business banking, gold loans, etc. With the overall economy on revival path and normalising, we believe retail unsecured lending (namely personal loans and credit cards, which form 35% of total retail credit) is also likely to resume its growth trajectory after the slight pause in FY21. Bank highlighted that retail assets momentum is getting back to pre-Covid levels as resilience of the middle class is coming back.

- **NIMs draw comfort from lower deposit cost:** With 32bps QoQ improvement in cost of deposits (interest expenses being down 3% QoQ / 9% YoY), margins were steady at 4.2%. This was despite 10-15bps impact on margins, due to excess liquidity levels. Bank has created a buffer of Rs5bn towards interest on interest reversal on loans above Rs2mn though it is currently routed through provisions. Had this been adjusted through interest income, margins would have been lower by ~15bps.

  HDFC Bank has been consistently guiding for 4.0-4.5% margins for past several years and, as a policy, asset pricing is based on similar mark-up over deposit cost. Given consistency in NIM profile and stable liability franchise, we expect margins to remain at similar levels (4.1%) in FY22E as well.

- **Fee income sees strong rebound; opex up as businesses resume:** Fee income growth was up 19% YoY in Q4FY21 while it ended the year on a flat note. Core fee income regained the entire lost momentum – up 20% YoY. Treasury profits came in lower at Rs6.5bn (compared to Rs32bn in 9MFY21) as the bank monetised some gains and was reflected in interest on investments. Forex and derivative income also came in higher at Rs8.8bn (compared to average quarterly run-rate of Rs5.3bn) and recovery income too was higher at Rs10.4bn. Retail constitutes 94% of the fee income while the corporate proportion is 6%.

  Opex (ex-employee costs), on the contrary, rose 9% QoQ which was largely attributed to full-fledged business activity and is also in line with the Q4 trend over the past few years. For FY21, opex was up 7%. As a result, 'cost to income' after touching lows of 35% in Q1 retraced to 37.2%. With increased investments in building franchise, promotions, technology spend, etc., the bank expects cost/income to inch-up in the interim to 38-39% and later move towards its medium term target of 35%.

- **Distressed retail sell-down continues in Q4FY21 as well:** Management highlighted that in recent quarters, it has been witnessing growing interest from market participants to buy distressed retail assets. Hence, for Q4FY21, the bank sold retail assets worth Rs10bn, since the bank believed that there is economic value disposing off now, rather than recovering on its own at a later stage.

- **HDB Financial Services (HDB) back in black; FY21 RoA <1%:** Asset quality saw a sharp improvement with I-GAAP GNPAs at 3.9% *vs* proforma stage-3 assets of 5.9% in Q3FY21, while credit cost too was relatively lower at Rs6bn (annualised run-rate of ~4%) *vs* Rs8bn QoQ. On growth, AUM reached Rs613bn, up 15% YoY, while disbursements were up 32% YoY and 15% QoQ. Overall, for the quarter, HDB reported PAT of Rs 2.8bn *vs* a loss of Rs443mn QoQ. It ended FY21 with a PAT of Rs5bn, translating to <1% RoA. It maintains enough liquidity with LCR at 265%.

HDFC Bank - Conference call key takeaways

Q4FY21 earnings call takeaways

Contingency buffer is precautionary and not anticipatory; it already has enough buffer on balance sheet. Looking at very robust growth in retail – beef up resources to ensure growth.

On economy

- High frequency data remained robust – consumer durables, industrial output. While tractor sales were lower, overall auto volume was robust.
- GDP to contract 7.5% for full year FY21. Government and regulator have taken several initiatives to boost liquidity and growth.
- Equity capital markets driven global liquidity have been buoyant. Retail participation IPOs has been strong.
- Bank improved its ranking to second place as debt arrangers

Franchise building continues and balance sheet remains resilient

- Gaining market share across the board.
- ***Signed up 1.67L village level entrepreneurs - 15.656k (13.5k in Q3FY21) business correspondents***
- ***Healthcare initiative – reached out to 500 hospitals and has activated funding at hospitals.***
- Average LCR is 138% -excess liquidity impacts NIMs by 10-15bps
- CAR – 18.8% and CET-1 – 16.9%
- Bank has successfully acquired 2.67mn corporate salary accounts
- New approach towards customer engagement – service led need based action

Outage

- Demarcated actions that are short term and some medium-to-long-term oriented (12-18 months).
- March 13th – intermittent issue due to server hardware failure. Backend system monitors it.
- Audit by independent is in final stage and will update more as it hears from the regulator.
- Build capabilities on core system – partnering with OEM. Setting highest standards – recovery time, recovery point, consolidation of data centers.
- Enhancement in security, some monitoring tools and setting higher standards.
- Migration to cloud for resiliency – customer friendly experience.
- Card management, sourcing, activation – investments are continuously made to enhance this. 3/4th of sourcing comes from existing customers of the bank – they all have debit cards and can give instalment or revolving facility on debit cards. Portfolio activation in cards were up.
- Huge confidence and preference of customers and merchants in the bank - 2 mn liability relations through this quarter, issuance spend share was 29-30%, same with receivables.

With respect to collection efficiency and demand resolution

- ***Demand resolution has improved steadily since October – it has reached pre-Covid in all segment***
- Cheque bounce rate from Oct to Mar has been a gravitating towards pre-Covid levels. ***However in April has taken an upward blip (may be back to January level).***
- Bounce resolution – is back on track to pre-Covid levels across segments
- Regionwise - Maharashtra, MP, Telengana showing relatively more stress
- ***Recoveries have been a pleasant surprise – has been 30% (15% in Q3FY21) higher than pre-Covid level.***
- Policy dispensation – cautiously optimistic – good demand in auto financing; self-employed – policy liberalisation has been less
- Personal loans bureau enquiries has not been to the level earlier.
- Sold down retail assets worth Rs10bn – where there is economic value disposing off now rather than recovering on own.
- Higher bureau scores – HDFC Bank's share is either increasing or alteast remaining steady. Both enquiries and incremental disbursements.
- Delinquency difference between the bank and industry remains – its half the market or lower than that.
- Agri held up pretty well and was largely unaffected

On GNPLs and credit cost

- ***Core specific provisioning were Rs31bn, contingency provisions Rs13bn (includes Rs5bn of interest on interest provisions). Contingent provision is precautionary and not anticipatory – more than adequate buffer***
- Potential NPLs were identified on proforma basis – Rs36bn of contingency buffer was utilised towards proforma NPAs as its recognised in this quarter.
- ***Specific, floating, contingency, general provisioning is 153% of GNPAs.***
- ***Core annualised slippages in Q4FY21 is 1.66% - Rs47bn, write off Rs35bn and balance is upgrades and recoveries.***
- GNPLs excluding agri is 1.2%
- Net NPA at 0.4% - same as on proforma basis
- ***Core credit cost is 1.1% (compared to 1.16% in the previous quarter). However, including contingency it is 1.64%***
- ***Recoveries amounted to 25bps compared to 24bps in Q3.***
- Based on current situation – finalizing various stress test as it is excessively conservative, don't want to comment now. Would expect similar level of assistance from government

On restructuring

- ***Restructuring reported is Rs65bn (0.57% of advances)- almost 85% flowing from retail loans***

On operating metrics

- Retail asset momentum – disbursements were up 6% QoQ
- SME, wholesale back to pre-Covid levels

- Corporate banking – higher repayments, general deleveraging sentiment and higher base last year, led to some moderation
- Fees and commission grew 20% YoY – retail constitutes 94% of fee & commission and wholesale constitutes 6%
- Trading income Rs6.5bn – some gains monetized in line with ALCO strategy
- Added 354 branches in FY21 and 123 branches in Q4FY21 itself
- Staff count increased 3300
- Cost to income at 37% - sales, promotional, discretionary spends – will revert to 38-39% in short run as activity levels pick up.
- Bank spends 2% of profits on CSR

On wholesale business underwriting and rating profile

- On incremental portfolio, average rating is 4.24 – considerable scope of deterioration in this.
- 62% is rated AA and above
- Static portfolio has rating of 4.32
- Weighted average rating of top 20 borrower is 2.92
- Unsecured portfolio is weighted at much low level coming at 3.36 (compared to 3.4 in Q3FY21 and 3.5 in Q2FY21).
- Good quarter as NPLs were small and good chunk of stress is already recognised.

On MSME

- In December to March period – return of cashflows into account is reasonable
- 30+ has shown improving trend MoM and FITL in SME book is 0.74-0.75%.
- Restructured accounts not large – merely Rs5.5 bn – Rs2.0-2.5bn were already at some time of delinquency during restructuring.
- SME portfolio diversification – continues to remain highly diversified. All industries except agri (due to PSL) is less than 5%
- ***Delinquency trend has shown improvement across all buckets – DPD 7+/15+/30+/60+ - almost back to pre-Covid level (merely 5-15bps away)***
- Self-funding from SME promoters, family and personal wealth – more of a liquidity (not security) – it has only seen increased outstanding – this is over & above, 80-85% collateralization (has been steady).
- Fairly good ability to manage MSME – June onwards there has been a ***strong bounce back and business receipts into customer accounts have been growing.*** This is line with broader recovery in GST collections.
- Second wave has not yet impacted financial system the one may expect – medical condition and financial condition gap is much wider in second wave.
- Observants as well as enforcement is not as strict as before - Manufacturing, logistics, transportation has continued – so muted level of disruptions
- ECLGS – prominent one in ECLGS 1.0

Growth in Corporate and SME/commercial banking

- Rs6tn – advances as well as investments; YoY 31.1% and large corporates was 41%; wholesale/MSME grew 10% QoQ.

- Despite unscheduled repayments of 8-10% in wholesale customer asset segment.
- NIMs have expanded or stable in each customer group – loans versus bond opportunity was well leveraged
- MSME book has crossed Rs2tn in Dec '20. One-fifth of overall advances of bank – earnings is 2.2x in MSME – hence if opex and credit cost is managed well, it is earnings accretive
- Wholesale SME segment – 25-30% growth across all segments. Acquired 2.5k new customers – 60% YoY increase.
- Capex picking up in many sectors (largely PSU sectors) and PLI led industries supported growth. Infra, pharma, metals and commodities supported corporate banking growth.
- Support of customers old and new have been strong – large and mid-corporates in last 3 days – executed fresh limit releases that increased 93% YoY; CASA for wholesale banking was up 15% YoY (25% on average basis).
- Corporate salary acquisition – 34% higher YoY – strong endorsement from corporates.
- ECLGS disbursements under both the scheme were - Rs265.34bn
- Yield management across corporate book – need to execute early

Growth in retail assets

- ***Retail assets momentum getting back to pre-Covid levels. Resilience of middle class is coming back***
- Housing and auto going strong; also in personal loans and business banking etc; pharma in retail segment is showing good demand – 25-30% growth; chemicals in Gujarat is looking buoyant
- ***Looking at very robust growth in retail – beef up resources to ensure growth.***
- Will run with extra micro-management keeping external environment in mind
- Focused on expansion in certain business and look at market share rise in few segments

HDB Financial

- Supplyside shock has impacted self-employed segment.
- Disbursements were up 32% YoY/15% QoQ – all business loans continued growth momentum. LAP and business loans
- ***AUM reached Rs613bn – 15.4% YoY.***
- PPoP was Rs9.89bn
- Core credit cost has reached pre-Covid levels with reserves
- ***Stage-3 assets were down to 3.9% (from 5.9% proforma in Q3FY21) – consequently credit cost came in at Rs6bn (compared to Rs8.2bn in Q3FY21) – run-rate of 4% plus. As compared to loss in Q3FY21, it reported profit of Rs2.8bn (full year profit at 5bn equivalent to <1% RoA)***
- ***LCR at 265%***

Q3FY21 earnings call takeaways

On economy

- Tailwind of festive season provided good economic relief. Economic recovery to further gather pace in Q4 – rural to perform better than urban.
- GDP growth to turn marginally positive at 0.5% and recovery to 1% in Q4FY21. Expects GDP growth of -7-8% for full year FY21.
- Systemic liquidity remains high – central deficit to raise to 7.6% of GDP. Combined Center + state is expected to be 12.3% of GDP.
- Association with CSC is helping in making inroads in semi-urban and rural economy – 13.5k business correspondents

With respect to collection efficiency and demand resolution

- Demand resolution is amount demanded during the month and collected during the month.
- ***For retail portfolio - In September – 95% demand resolution and has improved to 97% in December (similar to October) – pre-Covid it was 98% plus.***
- Cheque bounce rate improving MoM and once again gravitating to pre-Covid levels.
- Collection resolution (cases that have bounced) is also improving MoM – and is better than Pre-Covid (except for higher bucker where it is not above Pre-Covid)
- In agriculture segment, things are getting better than historical levels.
- Recoveries have been a pleasant surprise – has been 15% higher than pre-Covid level.

On restructuring

- ***Restructured assets at 0.5% of advances*** – predominantly retail – some documentation pending pipeline might get executed in January but not a significant number at all.
- Customers who have applied were accepted to a larger extent – it was done on customers' request and what they wanted and not bank's view on how asset would perform. Hence there would be some overlap with proforma NPL.
- Distressed asset sales – do examine if sale can provide better return than its own recovery – in recent quarters growing seeing interest from participants to buy retail distressed assets – and the bank has sold down some retail assets.
- Bureau scores on new acquisitions across all products – is much higher than the industry average. In unsecured it is 45 whereas rest of the market would be 35 and in secured it is 43 vis-à-vis 33% as industry average.

On GNPLs and credit cost

- ***GNPLs due to SC's interim order of not tagging standard accounts as NPL, declined QoQ to 0.81% (from 1.08%).***
- Had bank recognised those accounts on prudent basis as well as accelerated recognition using analytical models, still GNPLs would have been flat at 1.38%.
- ***Annualised proforma slippage ratio at 1.67% for 9MFY21 and in Q3FY21 was Rs49bn (1.86%)***
- GNPLs excluding agri would have been 0.8% and on proforma basis at 1.2%.
- Credit cost came in line with expectations at Rs34bn (1.3%) with Rs24bn created towards contingency buffer and Rs6.9bn being specific provisions – this contingency provisioning will be reversed to specific provisioning once court order is lifted.
- ***Total credit cost for Q3FY21 was 1.25% (compared to 1.4% for Q2FY21)***
- ***With this, bank now carries floating provisions of Rs14.5bn and contingency provisions of Rs86.6bn – cumulatively ~90bps of advances.***
- Specific loan loss provisions would have been higher 1.16% (compared to 0.91% in Q2FY21).

On wholesale business underwriting and rating profile

- Wholesale is reasonable large and continues to grow well.
- Growth coming from well rated public and private enterprises and achieved the growth with no dilution of credit standards
- Internal rating scale – more universal adoption - mapping on this than external rating – ***average has been 4.37 – incremental portfolio also coming at this average – this corresponds to AA and AAA rating. Marginal improvement to steady.***
- 68% is rated HDB -5 and above
- 79% (75% earlier) of externally rated portfolio are AAA and AA ***and 90% plus if we include A as well.***
- Unsecured portfolio is weighted at much low level coming at 3.4 (3.5 in Q2FY21).
- Not much difference in reported and proforma GNPLs in wholesale book.

On MSME

- Fairly good ability to manage MSME – June onwards there has been a strong bounce back and ***business receipts into customer accounts have been growing (receipts 14-15% higher than February numbers).*** This is line with broader recovery in GST collections.
- 30+ has shown improving trend MoM and FITL in SME book is 0.74-0.75%.
- ***Stress test on this book which initially suggested 9% would be under stress – came down to 3% in Q2FY21 and today only 2.3% is expected to be vulnerable.***

- Utilization of limits has been fairly stable at low 70%.
- SME portfolio diversification – continues to remain highly diversified. All industries except agri (due to PSL) is less than 5%
- Delinquency trend has shown improvement across all buckets
- Self-funding from SME promoters, family and personal wealth – more of a liquidity (not security) – it has only seen increased outstanding – this is over & above, 85% collateralization (has been steady).

Growth in Corporate and SME/commercial banking

- Continue to track better on business origination front.
- Collections of large corporates through its cash management were up 11% YoY (in December itself it was higher 20% YoY)
- ***Customer assets – corporate banking – mid single digit growth QoQ – YoY growth remained more than 40%.***
- ***Business banking high single digit QoQ and high teens YoY***
- Market share shift – adherence to institutionalize process – full suite of products.
- ***20% ECLGS with various modifications has helped stabilize MSME segment – in ECLGS 1.0 was dominant as it was general (Rs221bn) but in ECLGS 2.0 as it was for stressed sectors (Rs5.79bn across 58 customers)***
- First half will be support from government initiatives and capex

Growth in retail assets

- ***Retail advances grew by 5% YoY and 4.3% QoQ***
- Retail assets momentum getting back to pre-Covid levels – ***disbursements were flat YoY and up 40% sequential.***
- 11 sub-segments in total – this quarter as well is mirroring double digit growth on disbursements – December to December as well seeing double digit growth
- Home loan also seeing substantial growth – stamp duty relaxation in some state and low interest rates supporting the growth
- Gold loan – sizing up distribution network
- Auto loans – started inching on growth path
- On unsecured – increased sourcing from internal customer and government employee contribution is now double digit.
- In MFI – deliberately taken cautious and guarded path – however with improving collections will resume operations Jan onwards

On NIMs

- Net interest income maintained momentum of 15% growth and core NIMs improved to 4.2% (from 4.1%).

- NIMs – how does it deal with in ALCO – whatever time period chose, it is always between 4.0-4.5% - settled at center of the range at 4.1-4.2% and should be very much in that range.
- Assets are priced based on cost of funds and operates within this band.

On liability franchise

- Sustained efforts on customer acquisition – 20% growth in savings account acquisition, 15% growth in current account customers. Added 2mn new liability relationship during the quarter.
- Liability and personal loan accounts are on-boarded online.
- Retail constituted 80% of total deposits and 100% of incremental deposits.
- CASA ratio is 43%
- CD ratio at 85%

On technology outage

- Several action plan relating to strengthening of disaster recovery plans – some are long term (12-18 months) but there are many immediate action plans that might take 10-12 weeks.
- RBI would regularly inspect the progress.
- In terms of card accounts – liability acquisition is not hindered (2mn opened in Q3 compared to 1.8mn in Q2, 1.6mn in Q1

HDB Financial

- ***Disbursements were flat YoY/23% QoQ***
- ***Provisions were Rs8.2bn and reported a loss of Rs443mn. No benefit of standstill taken in P&L.***
- Has given impact of Supreme Court order and held status as standard. Stage-3 assets 2.7% - proforma would have been 5.9% (5.1% in Q2FY21)
- CAR of 19.5%

On RBI's ownership and corporate structure guidelines

- Still in working paper form where in suggestions had to be given. Not a final guideline as yet.

Other highlights

- Staff count – 1,17,560 – addition of 3.5k in last one year
- Bank generated net capital of 40 bps
- Interest reversed on proforma slippages
- LCR at 146%
- CAR 18.9%; CET-1 at 16.8%
- Venturing into gold, MFI, car loans and few more new products.

Table 1: Q4FY21 result review

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	% Change YoY	Q3FY21	% Change QoQ
Net Interest Income	**1,71,202**	**1,52,041**	**13**	**1,63,176**	**5**
% Growth	*13*	*16*		*15*	*(17)*
Fee income	50,233	42,008	20	49,749	1
Add: Other income	25,706	18,318	40	24,683	4
Total Net Income	**2,47,141**	**2,12,366**	**16**	**2,37,608**	**4**
% Growth	16	18		14	
Less: Operating Expenses	91,813	82,778	11	85,748	7
Pre-provision operating profit	**1,55,328**	**1,29,588**	**20**	**1,51,860**	**2**
PBT	1,08,391	91,743	18	1,17,719	(8)
Less: taxes	26,526	22,466	18	30,136	(12)
PAT	**81,865**	**69,277**	**18**	**87,583**	**(7)**
% Growth	18	18		18	
Balance sheet (Rs mn)					
Particulars					
Advances	1,13,28,366	99,37,029	14	1,08,23,242	5
Deposits	1,33,50,602	1,14,75,023	16	1,27,11,239	5
Asset quality					
Gross NPL	1,50,860	1,26,500	19	1,50,361	0
Net NPL	45,548	35,424	29	45,155	1
Gross NPL ratio (Change bps)	1.32	1.26	6	1.38	(6)
Net NPL ratio (Change bps)	0.40	0.36	4	0.40	-
Credit cost (Change bps)	1.7	1.6	13	1.29	41
Coverage ratio (Change bps)	70	72	(219)	70	(16)
Business ratio			**Change bps**		**Change bps**
RoAA	1.9	1.9	3	2.1	(22)
RoAE	16.4	16.6	(15)	18.4	(196)
CASA	46.1	42.2	388	43.0	310
Credit / Deposit Ratio	86	87	(175)	86	(33)
Cost-Income ratio	37.2	39.0	(183)	36.1	106
Earnings ratios					
Yield on advances (calc)	8.6	10.0	(137)	8.9	(30)
Cost of deposits (calc)	4.1	5.3	(122)	4.4	(32)
NIM (reported)	4.2	4.3	(10)	4.2	-

Source: Company data, I-Sec research

Table 2: Credit cost higher due to specific as well as contingency provisioning

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Specific & General	22.3	28.9	14.0	10.1	33.9
Contingency	15.5	10.0	23.0	24.0	13.0
Total	**37.8**	**38.9**	**37.0**	**34.1**	**46.9**

Source: Company data, I-Sec research

Table 3: Contingency buffer, post Rs 41bn utilization towards proforma slippages at 60bps (alongwith floating provisions)

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Floating	15	15	15	15	15
Contingency	30	40	63	87	59
Specifc & General	135	156	143	128	158
Total	**180**	**211**	**220**	**229**	**231**
% of advances	**1.81%**	**2.10%**	**2.12%**	**2.12%**	**2.04%**

Source: Company data, I-Sec research

Table 4: Retail growth at 7% for FY21, though up 9% in H2FY21

(Rs bn, year ending March 31)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Home loans	617	634	627	628	666	702
Auto Loans	836	839	811	797	819	844
Personal Loans	1,095	1,156	1,116	1,124	1,153	1,186
CVs/CE	281	290	278	270	271	280
Loan Against Securities	18	18	15	16	17	18
2-Wheelers	101	99	96	95	95	93
Business Banking	633	641	606	635	658	709
Credit Cards	577	576	547	581	633	647
Gold Loans	53	54	56	60	67	72
Kisan Gold cards	390	433	400	435	426	479
Others	200	203	199	208	243	246
Total Retail Loan Book	**4,801**	**4,944**	**4,750**	**4,850**	**5,049**	**5,276**

Source: Company data, I-Sec research

Table 5: Secured products like gold loans, business banking and housing drive retail credit growth

(%, year ending March 31)

(YoY %)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Home loans	19	24	12	5	8	11
Auto Loans	1	4	(1)	(1)	(2)	1
Personal Loans	23	24	15	10	5	3
CVs/CE	4	1	(5)	(5)	(4)	(4)
Loan Against Securities	1	(4)	(16)	(14)	(9)	2
2-Wheelers	1	(2)	(5)	(4)	(6)	(6)
Business Banking	14	12	5	1	4	11
Credit Cards	29	23	10	12	10	12
Gold Loans	3	5	6	14	26	33
Kisan Gold cards	11	12	9	11	9	11
Others	15	12	10	13	22	21
Total	**14**	**15**	**7**	**5**	**5**	**7**

Source: Company data, I-Sec research

Table 6: Fee income rebounds sharply, up 20% YoY

(Rs mn, year ending March 31)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Fees & Commission Income	45,268	42,008	22,307	39,403	49,749	50,233
Forex & derivatives	5,256	5,008	4,366	5,604	5,622	8,793
Gain on sale/revaluation of invts	6,765	5,653	10,867	10,162	11,090	6,551
Misc. income, incl. recoveries	9,404	7,657	3,213	5,756	7,971	10,362
Total	**66,693**	**60,326**	**40,753**	**60,925**	**74,432**	**75,939**

Source: Company data, I-Sec research

Chart 1: Retail growth picking up momentum QoQ; corporate repayments continued in Q4FY21

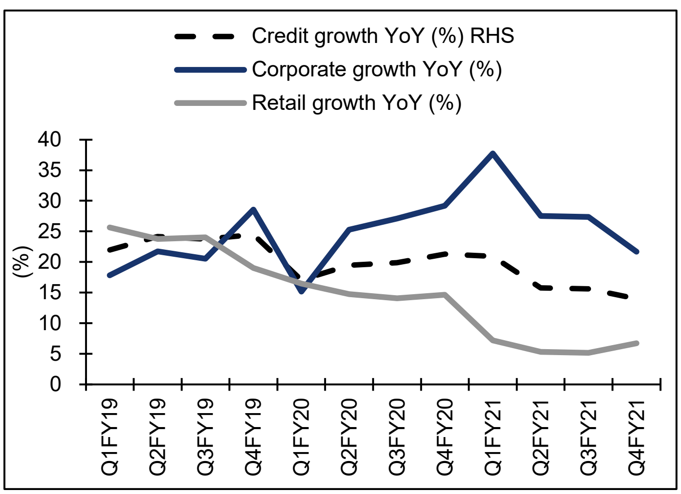


Chart 2: Deposit growth range-bound; CASA ratio highest in 16 quarters

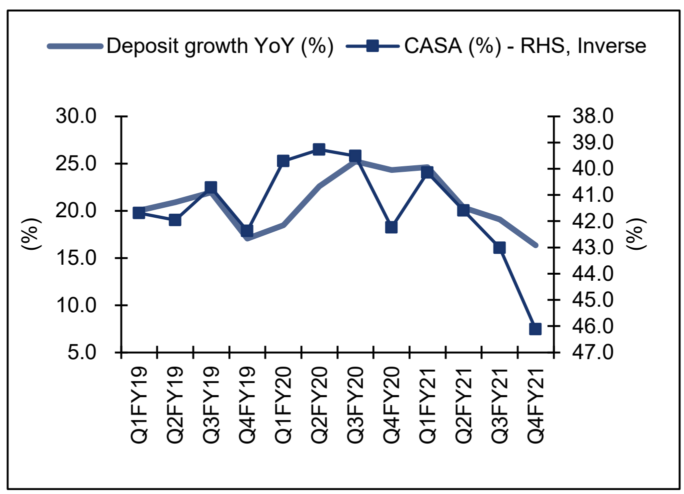


Chart 3: NIMs draw support from deposit cost benefit and investment gains

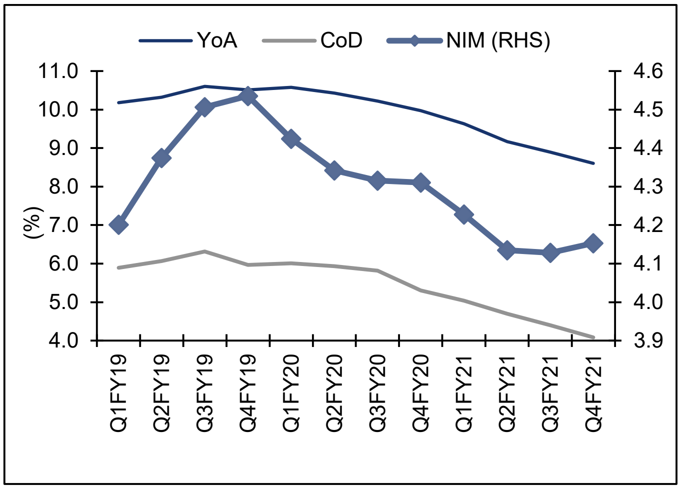


Chart 4: Revival in activity levels resulted in elevated opex cost

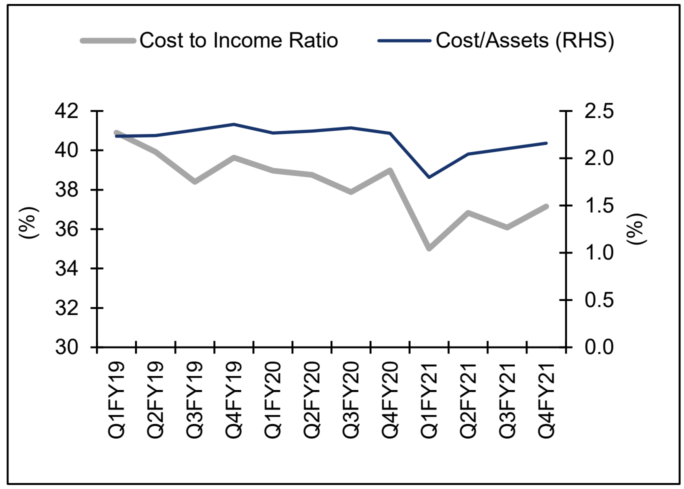


Chart 5: GNPAs contained at 1.32%; contingency buffer build up leads to higher credit cost

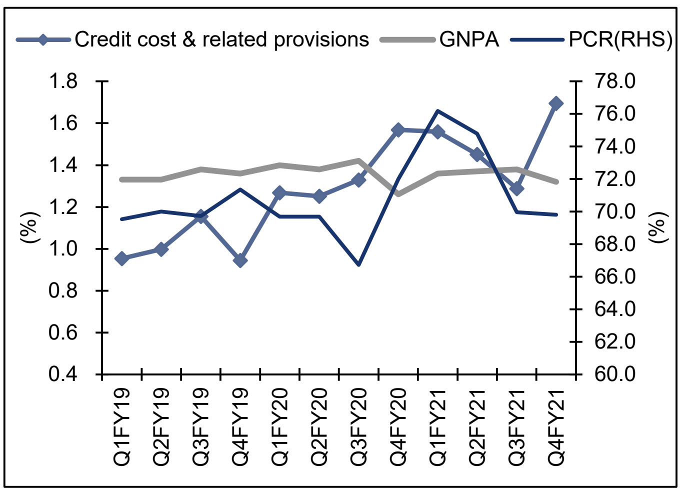


Chart 6: Credit cost tad higher due to buffer creation and provision towards interest reversal

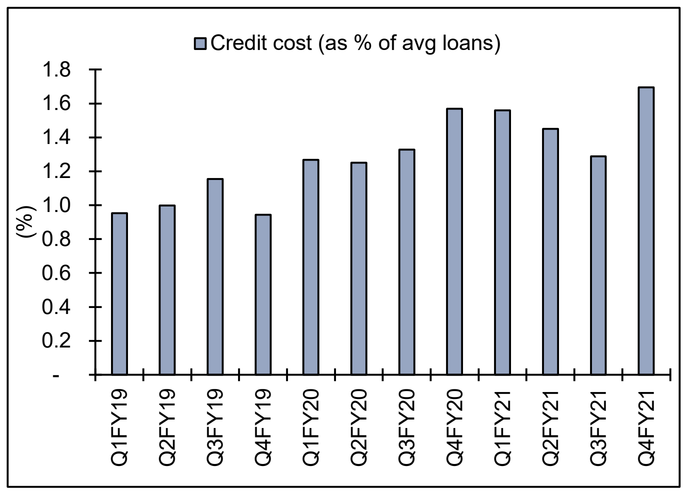


Chart 7: Return ratio continues to be in the range of 1.7-2.2% despite challenges

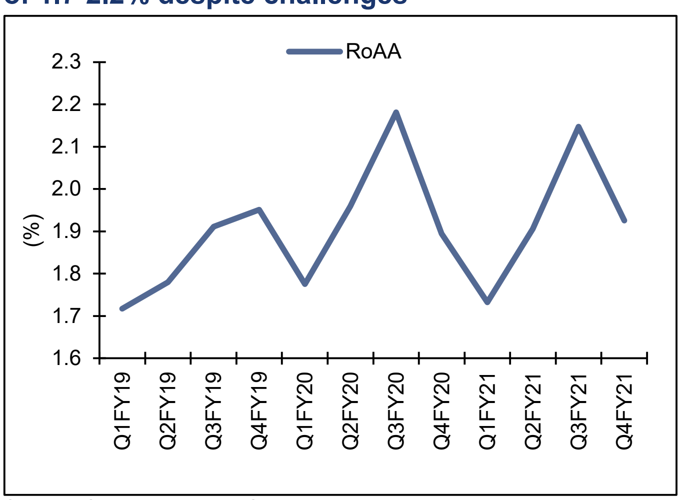
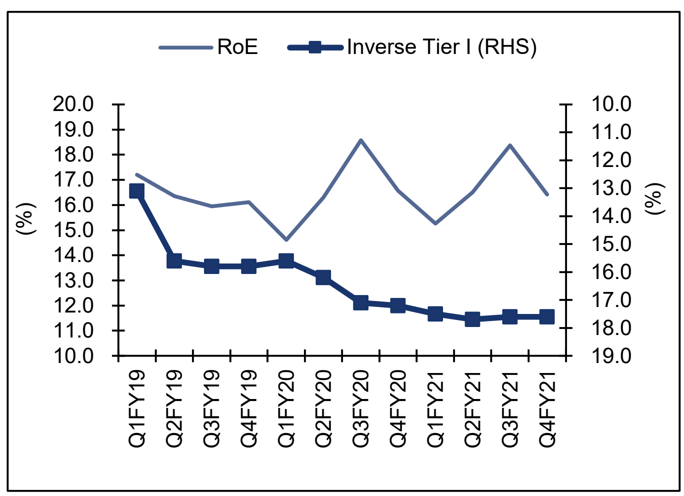


Chart 8: Comfortable on capital, while RoE continues to be robust



Source: Company data, I-Sec research

Financial summary

Table 7: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	2,75,915	3,31,392	4,00,949	4,82,432	5,61,862	6,48,796	7,56,523	8,91,349
% Growth	23	20	21	20	16	15	17	18
Fee income	77,590	88,116	1,13,939	1,38,055	1,63,337	1,61,692	1,97,264	2,36,717
Add: Other income	29,927	34,849	38,264	38,203	69,273	90,357	91,049	96,844
Total Net Income	**3,83,432**	**4,54,357**	**5,53,152**	**6,58,691**	**7,94,473**	**9,00,845**	**10,44,837**	**12,24,910**
% Growth	22	18	22	19	21	13	16	17
Less: Operating Expenses	(1,69,797)	(1,97,033)	(2,26,904)	(2,61,194)	(3,06,975)	(3,27,226)	(3,82,855)	(4,40,283)
Pre-provision operating profit	**2,13,635**	**2,57,324**	**3,26,248**	**3,97,497**	**4,87,497**	**5,73,618**	**6,61,982**	**7,84,628**
NPA Provisions	**(21,336)**	**(31,453)**	**(49,104)**	**(63,941)**	**(90,893)**	**(46,716)**	**(1,41,663)**	**(1,53,806)**
Other provisions	(5,920)	(4,480)	(10,171)	(11,560)	(30,531)	(1,10,312)	(16,844)	(19,541)
PBT	**1,86,379**	**2,21,391**	**2,66,973**	**3,21,997**	**3,66,074**	**4,16,590**	**5,03,474**	**6,11,281**
Less: taxes	(63,417)	(75,894)	(92,106)	(1,11,215)	(1,03,498)	(1,05,425)	(1,26,724)	(1,53,859)
PAT	**1,22,962**	**1,45,496**	**1,74,867**	**2,10,782**	**2,62,575**	**3,11,166**	**3,76,750**	**4,57,421**
% Growth	20	18	20	21	25	19	21	21

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Capital	5,056	5,125	5,190	5,447	5,483	5,513	5,513	5,513
Reserve & Surplus	7,21,721	8,89,498	10,57,760	14,86,617	17,04,377	20,31,695	23,24,694	26,80,430
Deposits	54,64,242	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,56,20,205	1,87,44,245
Borrowings	5,29,485	7,39,588	10,19,980	11,70,851	14,46,285	13,54,873	15,23,953	17,11,820
Other liabilities	3,67,951	5,67,793	6,68,707	5,51,083	6,73,944	7,26,022	7,40,542	7,55,353
Total liabilities	**70,88,456**	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,02,14,906**	**2,38,97,362**
Cash & Bank Balances	3,89,188	4,89,521	12,29,151	8,13,476	8,66,187	11,94,704	11,34,922	12,90,572
Investment	16,38,858	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	51,02,875	58,68,307
Advances	46,45,940	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,33,61,939	1,60,29,674
Fixed Assets	33,432	36,267	36,072	40,300	44,319	49,093	53,740	58,013
Other Assets	3,81,038	4,22,298	3,68,787	4,91,740	5,39,311	4,59,259	5,61,429	6,50,796
Total Assets	**70,88,456**	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,02,14,907**	**2,38,97,361**
% Growth	20.0	21.9	23.2	17.0	23.0	14.1	15.7	18.2

Source: Company data, I-Sec research

Table 9: Du Pont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest income	9.3	8.8	8.3	8.6	8.3	7.4	7.4	7.3
Interest expense	(5.0)	(4.6)	(4.2)	(4.4)	(4.2)	(3.4)	(3.4)	(3.3)
NII	**4.2**	**4.2**	**4.2**	**4.2**	**4.0**	**4.0**	**4.0**	**4.0**
Other income	0.5	0.4	0.4	0.3	0.5	0.6	0.5	0.4
Fee income	1.2	1.1	1.2	1.2	1.2	1.0	1.0	1.1
Total income	**5.9**	**5.8**	**5.7**	**5.7**	**5.7**	**5.5**	**5.5**	**5.6**
Operating expenses	(2.6)	(2.5)	(2.4)	(2.3)	(2.2)	(2.0)	(2.0)	(2.0)
Operating profit	**3.3**	**3.3**	**3.4**	**3.4**	**3.5**	**3.5**	**3.5**	**3.6**
NPA provision	**(0.3)**	**(0.4)**	**(0.5)**	**(0.6)**	**(0.7)**	**(0.3)**	**(0.8)**	**(0.7)**
Total provisions	(0.4)	(0.5)	(0.6)	(0.7)	(0.9)	(1.0)	(0.8)	(0.8)
PBT	**2.9**	**2.8**	**2.8**	**2.8**	**2.6**	**2.5**	**2.7**	**2.8**
Tax	(1.0)	(1.0)	(1.0)	(1.0)	(0.7)	(0.6)	(0.7)	(0.7)
PAT	**1.9**	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**2.0**	**2.1**

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	24	28	34	39	48	56	68	83
% Growth	19	17	19	15	24	18	21	21
DPS (Rs)	4.8	5.5	3.2	7.5	9.1	10.7	13.0	15.8
Book Value per share (BVPS) (Rs)	144	175	205	274	312	370	423	487
% Growth	16	21	17	34	14	19	14	15
Adjusted BVPS (Rs)	142	172	202	270	307	363	416	479
% Growth	16	21	17	34	14	18	15	15
Valuations								
Price / Earnings (x)	58.7	50.3	42.4	36.9	29.8	25.3	20.9	17.2
Price / Book (x)	9.9	8.2	7.0	5.2	4.6	3.9	3.4	2.9
Price / Adjusted BV (x)	10.1	8.3	7.1	5.3	4.7	3.9	3.4	3.0
Asset Quality								
Gross NPA (Rs mn)	43,928	58,857	86,070	1,12,242	1,26,500	1,50,860	1,80,224	2,17,838
Gross NPA (%)	0.9	1.1	1.3	1.4	1.3	1.3	1.3	1.3
Net NPA (Rs mn)	13,204	18,440	26,010	32,145	35,424	50,424	50,424	57,424
Net NPA (%)	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
NPA Coverage ratio (%)	70	69	70	71	72	67	72	74
Gross Slippages (%)	1.6	1.5	2.3	2.2	2.1	1.9	1.7	1.7
Credit Cost (%)	0.7	0.7	1.0	1.0	1.3	1.5	1.3	1.2
Net NPL/Net worth	1.8	2.1	2.4	2.2	2.1	2.5	2.2	2.1
Business ratios (%)								
RoAA	1.9	1.9	1.8	1.8	1.9	1.9	2.0	2.1
RoAE	18.3	17.9	17.9	16.5	16.4	16.6	17.3	18.2
Credit Growth	27.1	19.4	18.7	24.5	21.3	14.0	18.0	20.0
Deposits Growth	21.2	17.8	22.5	17.0	24.3	16.3	17.0	20.0
CASA	43.2	48.0	43.5	42.4	42.2	46.1	48.0	49.5
Credit / Deposit Ratio	85.0	86.2	83.5	88.8	86.6	84.9	85.5	85.5
Cost-Income ratio	44.3	43.4	41.0	39.7	38.6	36.3	36.6	35.9
Operating Cost / Avg. Assets	2.6	2.5	2.4	2.3	2.2	2.0	2.0	2.0
Fee Income / Avg Assets	1.2	1.1	1.2	1.2	1.2	1.0	1.0	1.1
Earnings ratios								
Yield on Advances	10.8	10.2	10.3	10.5	10.1	8.9	9.0	8.7
Yield on Earning Assets	9.9	9.3	8.7	8.9	8.6	7.6	7.6	7.5
Cost of Deposits	5.9	5.3	4.6	4.8	4.9	3.9	3.6	3.4
Cost of Funds	6.0	5.5	4.9	5.2	5.0	4.1	4.0	3.8
NIM	4.5	4.5	4.4	4.4	4.2	4.1	4.1	4.2
Capital Adequacy (%)								
RWA (Rs bn)	5,298	6,400	7,574	9,445	11,517	12,998	15,312	18,077
Core Tier-1	15.5	14.6	16.7	18.5	17.6	16.9	16.3	15.7

Source: Company data, I-Sec research

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