**Retail Equity Research**



**HDFC Bank**

## Banking

**BSE CODE: 500180**

**Bloomberg CODE: HDFCB:IN**

**NSE CODE: HDFCBANK SENSEX: 39,059**

25th October, 2019 Q2FY20 RESULT UPDATE

BUY

|  |  |
| --- | --- |
| CMP\* (Rs) | 1,278 |
| Upside/ (Downside) (%) | 17 |
| Bloomberg Ticker | HDFCB IN |
| Market Cap. (Rs bn) | 6,992 |
| Free Float (%) | 79 |
| Shares O/S (mn) | 5,471 |

Target Price: Rs 1,500

**KEY CHANGES: TARGET ** **RATING ** **EARNINGS **

# Company Proﬁle

HDFC Bank Limited (the Bank), incorporated on August 30, 1994, is a holding company. HDFCB is the amongst the largest private sector bank in India, with a market share of ~9.6% in system loans as of FY20. It has a unique franchise in the banking sector, with a loan portfolio of ~Rs 9.9trn (as of March 2020), a strong national network of 5,130 branches spread across urban and rural markets, a high-quality deposit franchise, well- diversiﬁed revenue mix, strong asset quality, and consistent ﬁnancial performance. The bank caters for the mass and aﬄuent customers in deposit and transactional banking services. It oﬀers a wide range of products across its wholesale and retail banking franchises. HDFCB is among the top three players in auto loans, personal loans, commercial vehicles, cash management, and supply chain management. It originates home loans on behalf of its parent, HDFC Ltd

# KEY HIGHLIGHTS

**Company Data** Market Cap (cr) Rs. 679.141 Outstanding Shares (cr) 547

Free Float 74.0%

Dividend Yield 0.7%

52 week high Rs. 1,285

52 week low Rs. 942

6m average volume (cr) 0.9

Beta 1.0

Face value Rs. 1

## Shareholding% Q4FY19 Q1FY20 Q2FY20

Promoters 26.5 26.3 26.2

|  |  |  |  |
| --- | --- | --- | --- |
| Fll’s | 38.7 | 38.6 | 37.6 |
| MFs/Insti | 16.6 | 17.1 | 21.3 |
| Public | 10.9 | 11.0 | 11.5 |
| Others | 7.3 | 7.0 | 3.4 |
| Total | 100.0 | 100.0 | 100.0 |
| **Price Performance 3 Months 6 Month 1 Year**  Absolute Return 9.9% 11.5% 26.1% | | | |
| Absolute Sensex | 2.8% | 1.3% | 15.4% |
| Relative Return\* | 7.1% | 10.2% | 10.7% |

**REVENUE DRIVER**

FX &

**EXPENSES**

Proposed

Commission, Exchange, Brokerage,

11.8%

Income, 1.2%

Interest from Investments, 17.5%

Interest from Advances, 66.5%

Derivative Income, 1.5%

Other Interest

Transfer to Reserve 8%

Provisions 7%

Tax 10%

Dividend & Tax thereon 4%

Interest Expense 47%

14%

12%

10%

8%

6%

4%

**Retail Loan Book (%)**

Operating Expense 24%

Auto Personal Home Business Kisan Credit CVCE

Others

Two

\*over or under performance to benchmark index

1,400

HDFCB

Sensex Rebased

1,200

1,000

800

Oct-18 Jan-19 Apr-19 Jul-19 Oct-19

Source: Company

## Research Analyst

2%

0

Q1FY19

Q2FY19

01

Q3FY19

Q4FY19

Q1FY20

Q2FY20

Q3FY20

Q4FY20

Gold/Others Loans

**Mr. Akhilesh Sharma** [**akhileshks@factsheetinc.com**](mailto:akhileshks@factsheetinc.com)

**Mr. Mukeshkumar Patil** [**mukeshkumar@factsheetinc.com**](mailto:mukeshkumar@factsheetinc.com)



**Result Update | HDFC Bank**

**FINANCIAL HIGHLIGHTS**

**Key Highlights / Comments**

**FACTSHEET INC**

**Proﬁt After Tax**

(` Crore

21,078

17,487

12,206

14,550

8,476 10,216

5,167

6,726

2,040 3,926

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

**Dividend Per Share** (`) /

**Earning Per Share** (`)

78.6

48.8

57.2

67.5

35.5

42.1

**Earning Per Share**

13.6

2.4

17.0

3.3

22.1

28.5

4.3

5.5

6.9

8.0

9.5

11.0

13.0

15.0

**Dividend Per Share**

**Balance Sheet Size**

(` Crore)

863,840

1,063,934

1,244,541

**Advances**

(` Crore)

554,508

651,200

819,401

2017 2018 2019

**Deposits**

(` Crore)

2017 2018 2019

**Savings Deposits**

(` Crore)

02

643,640

788,771

923,141

193,579

223,810

248,700

(` Crore)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| **Retail Assets**  (` Crore) |  |  | **Net Interest Margin** |  |  |
|  |  | 432,687 | 4.3% | 4.3% | 4.3% |
|  | 576,167 |  |  |  |  |

295,161

2017 2018 2019 2017 2018 2019

**Return On Capital Capital Adequacy**

18.0%

18.2%

16.3%

14.0%

14.0%

17.1%

2017 2018 2019 2017 2018 2019



**Result Update | HDFC Bank**

**KEY FINANCIAL SUMMARY**

**FACTSHEET INC**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **₹ Cr NII** | **FY15** | **FY16** | **FY17** | **FY18**  40,095 | **FY19**  48,243 | **FY20E**  55,963 | **FY21E**  63,165 | **FY22E**  73,036 | **CAGR (FY19-21E)**  15% |
| **PPP** |  |  |  | 32,630 | 39,750 | 48,263 | 56,254 | 67,706 | 19% |
| **PAT** |  |  |  | 17,487 | 21,078 | 26,837 | 33,712 | 41,472 | 25% |
| **ABV (₹)** |  |  |  | 199.8 | 267.1 | 305.6 | 354.1 | 395.4 |  |
| **P/E** |  |  |  | 38.1 | 33.2 | 26.1 | 20.8 | 16.9 |  |
| **P/ABV** |  |  |  | 6.4 | 4.8 | 4.2 | 3.6 | 3.3 |  |
| **RoA** |  |  |  | 1.8 | 1.8 | 2 | 2.1 | 2.1 |  |
| **RoE** |  |  |  | 17.9 | 16.5 | 16.8 | 18.3 | 19.8 |  |

**Source: Company, FACTSHEET INC Research**

# INDUSTRY OVERIVEW

The Indian banking system consists of 18 public sector banks, 22 private sector banks, 46 foreign banks, 53 regional rural banks, 1,542 urban cooperative banks and 94,384 rural cooperative banks as of September 2019. During FY07–19, deposits grew at a CAGR of 11.11 per cent and reached US$ 1.86 trillion by FY19. Deposits as of Feb 2020, stood at Rs

132.35 lakh crore (US$ 1,893.77 billion). As per the Reserve Bank of India (RBI), India’s banking sector is suﬃciently capitalised and well-regulated. The ﬁnancial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

**SWOT ANALYSIS**

## STRENGTHS

1. HDFC is one of the leading new private sector banks.
2. HDFC bank has over 4500+ branches and over 12000 ATM's, in more than 800 cities in India.
3. Existing CBS across its branches
4. Huge employee base i.e. more than 80,000+ employees
5. HDFC has a large collaborations with corporate for employee salary accounts
6. Acquisitions have boosted the operations of the bank.
7. HDFC bank has been responsible for several CSR activities and has also been recognized with several banking awards
8. It oﬀers several services like online banking, app, mobile banking, NRI services etc.

## OPPORTUNITIES

1. Mobile banking, Internet banking etc. can be a huge boon for HDFC's business
2. Venturing more into rural areas can be done by HDFC 3 Providing more complex products to the ever increasing

demands of the industry.

## WEAKNESSES

1. Rural penetration is low for HDFC as compared to nationalised banks.
2. Competetion from public sector and private sector banks means limites market share growth.

## THREATS

1. Competitors increasing their buiness can adversely aﬀect HDFC's business.
2. New banking licenses and regulations can impact operations. 3 Foreign banks that oﬀer complex products.

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**Result Update | HDFC Bank**

# Exhibit 1:Strong operationally but makes provisions for uncertain times.

**FACTSHEET INC**

1. **NII growth was decent at 16% YoY with some slow down expected in the coming quarters**
2. **Other income was adversely imopacted by COVID-19 to the extent of Rs 4.5bn**
3. **Provisions to the extent of Rs 15.5bn were on account of credit reserves relating to COVID-19 in the form of contigent provisions**
4. **Overall Advances saw decent groeth despite weak macros while deposits grew robustly at 24% YoY**
5. **NIMs had remained steady around 4.3% with a 10bps impact on account of excess liquidity**
6. **Asset quality remained more or less steady with PCR being enhanced to 72%**
7. **CASA groth was decent at 24% YoY supported by strong SA growth.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **(Rs m)** | **Q4FY20** | **Q4FY19** | **YoY gr(%)** | **Q3FY20** | **QoQ gr(%)** |
| Interest income | 2,98,851 | 2,63,333 | 13.5 | 2,93,697 | 1.8 |
| Interest Expended | 1,46,810 | 1,32,438 | 10.9 | 1,51,968 | -3.4 |
| **Net Interest Income (NII)** | **1,52,041** | **1,30,895** | **16.2** | **1,41,729** | **7.3** |
| Treasury income | 5,653 | 2,289 | 147 | 6,765 | -10.4 |
| Other income | 60,326 | 48,712 | 23.8 | 66,693 | -9.5 |
| **Total Income** | **2,12,366** | **1,79,607** | **18.2** | **2,08,422** | **1.9** |
| Operating expenses | 82,778 | 71,171 | 16.3 | 78,968 | 4.8 |
| staﬀ expenses | 24,983 | 20,744 | 20.4 | 24,550 | 1.8 |
| Other expenses | 57,796 | 50,427 | 14.6 | 54,418 | 6.2 |
| **Operating proﬁt** | **1,29,588** | **1,08,436** | **19.5** | **1,29,454** | **0.1** |
| **Core operating proﬁt** | **1,23,935** | **1,06,147** | **16.8** | **1,22,689** | **1** |
| Tax provisions | 37,845 | 18,892 | 100.3 | 30,436 | 24.3 |
| **Proﬁt before tax** | **91,743** | **89,544** | **2.5** | **99,019** | **-7.3** |
| Tax | 22,466 | 30,693 | -26.8 | 24,854 | -9.6 |
| **Proﬁt after tax** | **69,277** | **58,851** | **17.7** | **74,165** | **-6.6** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance sheet (Rs m)** |  | | | |
| Deposits | 1,14,75,020 | 92,31,409 | 24.31,06,74,335 | 7.5 |
| Advances | 99,37,029 | 81,94,012 | 21.3 93,60,295 | 6.2 |
| **Proﬁtability Ratios** |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YoA- Calc | 10 | 11 | -54 | 10 | -26 |
| CoF- Calc | 5 | 5 | -51 | 5 | -55 |
| **NIM Rep** | **4** | **4** | **-10** | **4** | **10** |
| RooA | 2 | 2 | -6 | 2 | -29 |
| RoaE | 17 | 16 | 45 | 19 | -201 |

## Asset Quality

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Gross NPL (Rs mn) | 1,26,500 | 1,12,242 | 12.7 | 1,34,273 | -5.8 |
| Net NPL (Rs mn) | 35,424 | 32,145 | 10.2 | 44,684 | -20.7 |
| Gross NPL Ratio | 1 | 1 | -10 | 1 | -16 |
| Net NPL Ratio | 1 | 0 | 10 | 1 | 1 |
| Coverage Ratio- Calc | 72 | 71 | 64 | 67 | 528 |

**Business and other Ratios**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Low cost deposit mix | 42 | 42 | -20 | 40 | 270 |
| Cost-income ratio | 39 | 40 | -65 | 38 | 109 |
| Non Int. Inc / Total income | 28 | 27 | 128 | 32 | -359 |
| Credit deposit Ratio | 87 | 89 | -217 | 88 | -109 |
| CAR | 19 | 17 | 140 | 19 | - |
| Tier-1 | 17 | 16 | 140 | 17 | 10 |

Source: Company, PL

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**Result Update | HDFC Bank**

**STORIES IN CHARTS**

**Loan CAGR at 23% over FY10-FY20**

**30**



**25**

**20**

**15**

**4,646 5,546**

**6,583 8,194**

**9,937**

**12,000**

**FACTSHEET INC**

**10,000**

**8,000**

**6,000**

**10**

**5 1,258 1,600 1,954**

**2,397 3,030 3,655**

**4,000**

**2,000**

**0 0**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**Loan (Rs bn) YoY growth (LHS)**

**Source: Company, Axis Securities**

# NIM at +4% ; CASA +40%

**60**

**50**



**40**

**30**

**20**

**10**

**0**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**CASA (%) NIM % (RHS)**

**4.7**

**4.6**

**4.5**

**4.4**

**4.2**

**4.1**

**4.0**

**Source: Company, Axis Securities**

# Asset Quality maintained

**1.6**

**1.4**

**1.2**

**1.0**

**0.8**



**1.4**

**1.1 1.0 1.0 1.0 0.9 0.9 1.1**

**1.3 1.4 1.3**

**0.6**

**0.4**



**0.2**

**0.3**

**0.2 0.2 0.2**

**0.3**

**0.2**

**0.3 0.3 0.4 0.4 0.4**

**0.0 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**GNPA (%) NNPA (%)**

**Source: Company, Axis Securities**

# ROAA & ROAE best in class

**22**



**20 1.7**

**1.8 1.9 1.9 1.8 1.8**

**21.3**

**1.8**

**1.8 1.9**

**2.0**

**1.8**

**18 1.5 1.6**

**16**

**16.7**

**14**

**16.3**

**12**

**18.7**

**20.3**

**19.4 18.3 17.9**

**17.9**

**16.5 16.4**

05

**1.6**

**1.4**

**1.2**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**ROAE (%) (RHS) ROAA (%)**

**Source: Company, Axis Securities**



**Result Update | HDFC Bank**

## Well positioned to mitigate risk across business segments; Retail book to be under pressure in near-term

**FACTSHEET INC**

Instead of just eating up into the market share from other banks, mainly PSU banks, HDFCB has been able to expand the credit pie, with expansion of its network in sub-urban/rural geographies.

This has helped the bank in maintaining uniform growth across its retail and holesale segments.cMaintaining the loan book skewed towards retail has helped the bank to maintain its NIMs at +4% and also sustain its pristine asset quality.

# Exhibit 3: Retail/Wholesale mix skewed towards retail

**55**

**57**

**45**

**49 51**

**43**

**53**

**47**

**48 52**

**51 49**

**55**

**53**

**45**

**47**

**51 49**

**60**

**50**

**40**

**30**

**20**

**10**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **0 FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** | **FY20P** |
|  |  |  | **Retail** | **Corporate** |  |  |  |  |

**Source: Company, Axis Securities**

## Market share gains expected to continue

Over FY10-FY20, HDFCB loan book has grown at a CAGR of 23%. During this period, it has steadily grown its loans/deposits market share to ~9.6%/ 8.5% of the system from ~3.9/3.7%, driven by steady branch addition (up ~3x from 1,725 in FY10 to 5,130 in FY20), improving employee productivity (business/employee up ~4x), and eﬀective use of technology to gain distribution eﬃciency (cost-to-income ratio decreased ~900bp to 39.6%).

# Exhibit 1: HDFCB consistently improving credit/deposit market share

**12.0**

**10.2**

**8.0**

**6.0**

**4.0**

**2.0**

**0.0**

**3.9**

**3.7 4.1 4.0 4.2 4.2 4.6 4.4 5.0 4.8**

**5.6**

**5.3**

**6.4 5.9**

**7.0**

**6.0**

**7.6**

**6.9**

**8.4**

**7.3**

**9.6**

**8.5**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**Credit Market Share (%) Deposit Market Share (%)**

**Source: RBI, Company, Axis Securities**

At ~6%, credit growth in the system for March 2020 is at a multi-decade low. HDFCB has consistently outdone the system credit growth and grew at 21% for FY20 largely led by corporate banking (+29% YoY), while retail loan growth was soft at 15% YoY largely a result of greater draw downs by highly-rated entities and an increased demand for working capital from these entities.

# Exhibit 2: Advances growth superior to system credit growth

**30.0**

**25.0**

**20.0**

**15.0**

**10.0**

**5.0**

**0.0**

**13.5**

**27.3**

**21.5**

**27.1**

**17.0**

**22.2**

**14.1**

**22.7**

**14.3**

**26.4**

**9.2**

**20.6**

**10.9**

**27.1**

**8.3**

**19.4**

**9.8**

**18.7**

**12.9**

**24.5**

**6.2**

**21.3**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P**

**System Credit growth (%) HDFCB LOan growth (%) Source: RBI, Company, Axis Securities**

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**Result Update | HDFC Bank**

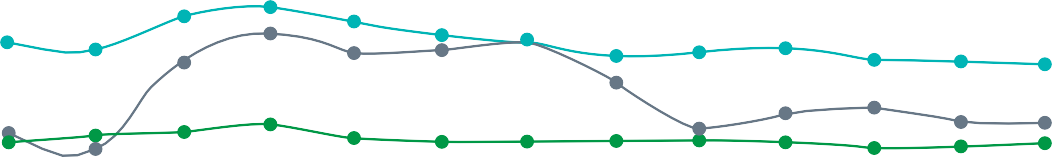
We expect that HDFCB will continue to gain from the ﬂight to safety sentiment especially through corporate and PSU liabilities and this should aid the asset side as well. We believe its loan book quality across segments is signiﬁcantly stronger than the rest of the industry, which should hold it in comparatively better stead. We expect loan growth in FY21/22E to taper down to 14/18%, impacted by slower growth in retail book amidst Covid 19 led disruption though it should still be better than the overall system growth.

**FACTSHEET INC**

**Benign funding costs and time-tested growth strategy will help maintain stable margins** HDFCB has judiciously shaped its asset growth strategy in sync with the built up of its liability portfolio. Strong liability franchise has helped insulate HDFCB from margin pressures. Yields have been down but so have funding costs and hence NIMs are likely to steady. LCR in Q4FY20 increased to 132% with bank maintaining excess liquidity of Rs500bn, which led to an additional liquidity-related drag of ~10bps on NIM. Management expects margins to remain within the 4.1-4.5% range, given the loan mix between wholesale and retail remains ~50:50. We expect margin to be stable at 4.3/4.4 over FY21/FY22 though there could marginal pressure due to higher liquidity and loan mix derisking

# Exhibit 5: NIM to remain in stable range

**14**



**12**

**10**

**8**

**6**

**4 4.4 4.5**

**2**

**4.5 4.6 4.4**

**4.4 4.4 4.4 4.4 4.4 4.3 4.3 4.4**

**7.0**

**6.0**

**5.0**

**4.0**

**3.0**

**0**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P FY21E FY22E**

**Yield on Advances (RHS) Cost of Deposits NIM**

**2.0**

**Source: Company, Axis Securities**

# Exhibit 6: CASA share to improve

**60 52.0 52.7 48.4 47.4**



**50**

**40**

**30**

**20**

**10**

**0**

**44.8 44.0 43.2**

**48.0**

**43.5 42.4 42.2 42.3 42.2**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P FY21E FY22E**

**CASA (%) CA (%) SA (%)**

**Source: Company, Axis Securities**

# Exhibit 8: Free income/Non-interest income to avg. assets to come down by 10 bps in FY21E

**2.0**

**1.8**

**1.6**

**1.9**



**1.7**

**1.9 1.9**

**1.8**

**1.7**

**1.6 1.5 1.6 1.5**

**1.7**

**1.6 1.6**

**1.4**

**1.2**

**1.0**

**0.8**

**1.4 1.4 1.4 1.4**

**1.3 1.2**

**1.2 1.1**

**1.2 1.2 1.2**

**1.1 1.2**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P FY21E FY22E**

**Free Income (% to avg. assets) Other Income (% to avg. assets)**

07

**Source: Company, Axis Securities**



**Result Update | HDFC Bank**

Asset quality to be largely stable though marginal uptick in FY21 expected

**FACTSHEET INC**

HDFCB has been increasing its provisioning over the past few quarters in FY20 as a pre-emptive measure against macro slowdown. While the covid-19 outbreak and its economic impact is unknowable currently due to lockdown uncertainty, we believe the higher provisioning buﬀer would certainly help cushion the NPA impact going forward. Post setting aside Rs15.5bn during Q4FY20, contingent provisions outstanding now stand at ~Rs30bn, up nearly 100% since last year. Stepping up provisions in anticipation of stress and using higher proﬁtability to accelerate provisioning has been generally followed by the bank.

HDFCB highlighted that the delinquency trend in the unsecured portfolio remains well in control, given that >60% of credit card loans and >50% of personal loans are disbursed to existing customers with a strong credit history. HDFCB’s focus on extending these unsecured products largely to salaried customers also helps it in maintaining healthy asset quality.

# Exhibit 11: GNPA/NNPA (%) under pressure in FY21E; stable by FY22E

**2.0**

**1.6**

**78.4 82.5 82.4 79.9**

**72.6 73.9**



**69.9 68.7 69.8 71.4 72.0**

**1.9**

**75.2**

**100**

**80**

**1.2**

**0.8**

**1.4**

**1.1 1.0 1.0 1.0 0.9 0.9 1.1**

**1.3 1.4 1.3 71.5 1.4 60**

**40**

**0.4**

**0.0**



**0.3**

**0.2 0.2 0.2 0.3 0.2 0.3**

**0.3 0.4 0.4 0.4**

**0.5**

**0.4 20**

**0**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P FY21E FY22E GNPA (%) NNPA (%) PCR (%) (RHS)**

08

**Source: Company, Axis Securities**

During the 2008-09 cycle, bank’s GNPAs crossed the 2% mark. In the current crisis, where cash ﬂows will be impacted quite substantially across the economy, we expect that NPAs will increase. At the same time, the bank has been in the process of tightening credit ﬁlters across its segments. Delinquency rates for the bank have been ~40% lower than the market, the reason for which can be attributed to proprietary risk assessment and underwriting tools that rely less on bureau scores and lay more emphasis on internally developed scorecards. We expect provisioning to average advances to increase to 1.5% in FY21E with higher slippages (~2.3%) and GNPA at 1.9% on account of Covid headwinds. However, we expect improvement in FY22 to come through with prov/avg. advances at 1.2% and lower slippages at 1.8%.

# Exhibit 12: Higher Provisioning/Slippages in FY21 amidst Covid Crisis; normalize by FY22E

**3.0**

**2.5**



**2.7**

**2.3**

**2.1**

**2.3**

**1.9**

**1.1**

**1.6**

**1.9**

**2.0**

**1.6**

**1.8**

**1.5**

**1.5**

**1.0**

**1.3**

**1.3**

**1.5**

**1.1**

**0.8**

**1.0**

**1.2**

**0.6**

**0.6**

**0.7**

**0.7**

**1.0**

**2.0**

**1.5**

**1.0**

**0.5**

**0.0**

**FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20P FY21E FY22E**

**Provision (% of Avg. Advances) Slippage (%)**

**Source: Company, Axis Securities**



**Result Update | HDFC Bank**

# PEER ANALYSIS

**FACTSHEET INC**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Exibit 19: FACTSHEET INC coverage universe (BFSI)** | | | | | | |
| **Sector/Company**   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Bank of Barodra | 49 | 65 | Hold | 22,756 | 1.8 | -0.4 | -1.9 27.5 | | NA | NA 0.6 | | 0.7 | 0.6 0.1 | | 0.0 | -0.1 0.9 | | -1.2 | -2.5 | | State Bank of India | 186 | 250 | Buy | 1,66,310 | 1.0 | 16.8 | 24.2 | 192.1 | 11.1 | 7.7 | 1.3 | 1.1 | 1.0 | 0.0 | 0.4 | 0.6 | 0.5 | 7.6 | 11.0 | | Indian Bank | 46 | 50 | Hold | 2,810 | 6.7 | -27.2 | 8.5 | 6.9 | -1.7 | 5.4 | 0.6 | 0.3 | 0.3 | 0.1 | -0.8 | 0.2 | 1.7 | -11.6 | 3.5 | | Axis Bank | 392 | 500 | Buy | 1,10,439 | 18.2 | 18.2 | 32.1 | 21.6 | 21.5 | 12.2 | 1.8 | 1.5 | 1.4 | 0.6 | 0.6 | 0.9 | 7.2 | 6.5 | 9.8 | | City Union Bank | 118 | 171 | Buy | 8,711 | 9.3 | 8.7 | 10.1 | 12.7 | 13.6 | 11.7 | 2.1 | 1.9 | 1.6 | 1.6 | 1.4 | 1.4 | 15.3 | 12.6 | 13.0 | | Development | 81 | 92 | Hold | 2,524 | 10.5 | 13.0 | 13.5 | 7.7 | 6.3 | 6.0 | 0.9 | 0.9 | 0.8 | 1.0 | 1.1 | 1.0 | 12.2 | 13.3 | 12.2 | | Fedreal Bank | 42 | 47 | Hold | 8,355 | 6.3 | 7.7 | 7.9 | 6.7 | 5.4 | 5.3 | 0.7 | 0.7 | 0.6 | 0.8 | 0.9 | 0.8 | 9.8 | 11.0 | 10.4 | | HDFC Bank | 910 | 1100 | Buy | 4,99,198 | 38.7 | 47.9 | 57.1 | 23.5 | 19.0 | 15.9 | 3.4 | 3.0 | 2.6 | 1.8 | 1.9 | 1.9 | 16.5 | 16.4 | 17.4 | | Indusland Bank | 396 | 400 | Hold | 27,461 | 60.9 | 55.8 | 82.0 | 6.5 | 7.1 | 4.8 | 1.0 | 0.8 | 0.7 | 1.6 | 1.2 | 1.6 | 14.5 | 10.1 | 13.4 | | **CMP TP Rating M Cap**  **(Rs) (Rs) (Rs. Cr.)** | **EPS(Rs)** | **P/E (x)** | **P/ABV (x)** | **RoA (%)** | **RoE (%)** |
| **FY19 FY20E FY21E** | **FY19 FY20E FY21E** | **FY19 FY20E FY21E** | **FY19 FY20E FY21E** | **FY19 FY20E FY21E** |

(BANBAR) (STABAN) (INDIBA) (UTIBAN) (CITUNI)

Credit Bank (DCB) (FEDBAN) (HDFBAN) (INDBA)

# INVESTENT THESIS

In a slow credit environment amidst Covid 19 disruption and on a high asset base, HDFCB can continue to improve its credit market share in a ‘ﬂight to safety’ sentiment. HDFCB has continuously used digitization to reduce operating expenses and increase cross-sell of fee products, helping improve operating leverage and ROAA/ROAE. Continued digital initiatives are expected to drive further improvement in operating leverage and help improve proﬁtability as the bank focuses on protecting its balance sheet.

We expect HDFCB to record 16% loan book CAGR and 21% PAT CAGR over FY20-22E, with ROAA/ROAE of 2.1/18.2% in FY22E. NIMs are expected to improve 10bps to 4.36% as funding costs remain benign for the bank. While fee income growth could be under pressure in the near-term the strong control on operating leverage will continue driving a steady improvement in the return ratios (18bp improvement in ROAA over FY20-22E).

The bank has shortlisted two internal and one external candidate. However, till its leadership is ﬁnalized, overhang on the stock would remain despite strong earnings and outlook. The bank continues to remain a portfolio stock and maintains premium valuations.

# We arrive at a target price of Rs 1,233 (3x FY22E core ABV and Rs 50 for subsidiaries post hold co. discount). We INITIATE on HDFCB with a BUY rating.

HDFC Bank- Parent 100.00% 3x FY22E BV 1,182

**SOTP Table**

**Holding (%)**

**Valuation Methodology**

**Value Per Share**

HDB Financial Services 95.90% 2.0x FY22E BV 46

HDFC Securities 97.90% 10x FY22E EPS 17

Less: Hold Co Discount @20% 13

## Total 1233

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**Result Update | HDFC Bank**

**Income statement (Rs. M)**

**FACTSHEET INC**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Y/e Mar** | **FY19** | **FY20** | **FY21E** | **FY22E** |  |
| Int. Earned from Adv. | 7,75,441 | 9,17,879 | 10,47,711 | 12,09,515 |
| Int. Earned from invt. | 1,99,975 | 2,06,333 | 2,76,479 | 3,45,288 |
| Others | 14,304 | 23,915 | 19,834 | 19,178 |
| Total Interest expense | 9,89,720 | 11,48,127 | 13,44,023 | 15,73,981 |
| Interest expense | 5,07,288 | 5,86,264 | 6,96,401 | 8,14,965 |
| Net Interest expense | 4,82,432 | 5,61,863 | 6,47,622 | 7,59,017 |
| Growth(%) | 19.1 | 20.6 | 13.7 | 16.0 |
| Non Interest income | 1,76,259 | 2,32,611 | 2,55,872 | 2,89,135 | |
| Net total Income | 6,58,690 | 7,94,474 | 9,03,494 | 10,48,152 | |
| Growth(%) | 22.1 | 18.4 | 15.9 | 16.5 | |
| Employee expenses | 77,618 | 95,257 | 1,11,450 | 1,30,954 | |
| Other expenses | 1,72,175 | 1,99,278 | 2,31,163 | 2,70,461 | |
| Operating Expenses | 2,61,194 | 3,06,975 | 3,56,331 | 4,16,779 | |
| **Operating Proﬁt** | **3,97,497** | **4,87,498** | **5,47,163** | **6,31,371** | |
| Growth(%) | 21.8 | 22.6 | 12.2 | 15.4 | |
| NPA Provisions | 63,941 | 92,529 | 1,37,578 | 1,26,746 | |
| Total Provisions | 75,501 | 1,21,424 | 1,55,445 | 1,48,395 | |
| **PBT** | **3,21,996** | **3,66,074** | **3,91,718** | **4,82,978** | |
| Tax Provisions | 1,11,215 | 1,03,498 | 98,595 | 1,21,566 | |
| Eﬀective tax rate (%) 34.5 | | 28.3 | 25.2 | 25.2 |  |
| **PAT 2,10,781** | | **2,62,576** | **2,93,123** | **3,61,412** |  |
| Growth(%) 20.5 | | 24.6 | 11.6 | 23.3 |  |

**Balance Sheet (Rs. M) Y/e Mar FY19 FY20 FY21E FY22E**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Face value | 1 | 1 | 1 | 1 |
| No. of equity shares | 5447 | 5483 | 5483 | 5483 |
| Equity | 5447 | 5483 | 5483 | 5483 |
| Networth | 14,92,064 | 17,09,860 | 19,42,667 | 22,32,796 |

Growth(%) 40.4 14.6 13.6 14.9

Adj. Networthto NNPAs 32,145 35,424 54,737 44,444

Deposits 92,31,4091,14,75,0201,36,55,2721,62,49,776

Growth(%) 17 24.3 19 19

CASA Deposits 39,11,981 48,46,250 57,21,560 68,57,405

% of total deposits 42.4 42.2 41.9 42.2

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Total Liabilities** | | **1,24,45,407** | **1,53,05,110 1,78,40,784 2,09,06,998** | | | | | |
| Net Advances | | 81,94,012 | 99,37,0291,12,28,8431,29,13,169 | | | | | |
| Growth(%) | | 24.5 | 21.3 | | | 13 | 15 | |
| Investments | 29,05,879 | | | 39,18,267 | 49,37,211 51,22,208 | | |
| **TotalAssets** | **1,24,45,407** | | | **1,53,05,113** | **1,78,40,784 2,09,06,998** | | |

Growth(%) 17 23 16.6 17.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Cost-Income Ratio (%) | 37.9 | 38.6 | 39.4 | 39.8 |
| C-D Ratio (%) | 88.8 | 86.6 | 82.2 | 79.5 |
| Business per Emp. (Rs m) 178 183 | | | | 209 | 240 |
| Proﬁt per Emp. (Rs Lacs) 21 22 | | | | 25 | 30 |
| Business per branch (Rs m) 3415 3953 | | | | 4294 | 4703 |
| Proﬁt per Branch (Rs m) 41 48 | | | | 51 | 58 |

**Asset Quality**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Y/e Mar** | **FY19** | **FY20** | **FY21E** | **FY22E** | |
| Gross NPA's (Rs m) | 1,12,242 | 1,26,500 | 1,89,583 | 1,55,575 | |
| Net NPAs (Rs m) | 32,145 | 35,424 | 54,737 | 44,444 | |
| **Gr.NPAstoGrossAdv.(%)** | **1.4** | **1.3** | **1.7** | **1.2** | |
| **Net NPAsto Net Adv.(%)** | **0.4** | **0.4** | **0.5** | **0.3** | |
| **NPA coverage %** | **71.4** | **72** | **71.1** | **71.4** | |
| **Proﬁtability (%)**  **Y/e Mar** | **FY19** | **FY20 FY21E FY22E** | | | |
| NIM | 4.4 | 4.2 | 4.1 | 4.1 |  |
| RoAA | 1.8 | 1.9 | 1.8 | 1.9 |  |
| RoAE | 16.5 | 16.4 | 16.1 | 17.3 |  |
| Tier I | 15.8 | 17.2 | 17.2 | 17.4 |  |
| CRAR | 17.1 | 18.5 | 18.8 | 18.8 |  |

**Quarterly ﬁnancials (Rs. M)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Y/e Mar** | **Q1FY19** | **Q2FY20** | **Q3FY21E** | **Q4FY22E** |
| Interest Income | 2,73,916 | 2,81,663 | 2,93,697 | 2,98,851 |
| Interest expense | 1,40,973 | 1,46,512 | 1,51,968 | 1,46,810 |
| Net Interest expense | 1,32,943 | 1,35,150 | 1,41,729 | 1,52,041 |
| YoY growth (%) | 20.1 | 17.8 | 14.1 | 10.9 |
| CEB | 35,516 | 40,545 | 45,268 | 42,008 |
| Treasury | - | - | - | - |
| Non Interest income | 49,703 | 55,887 | 66,693 | 60,326 |
| **Total Income** | **3,23,618** | **3,37,550** | **3,60,390** | **3,59,176** |
| Employee Expenses | 22,174 | 23,551 | 24,550 | 24,983 |
| Other expenses | 48,999 | 50,506 | 78,968 | 82,778 |
| Operating Expenses | 71,173 | 74,057 | 78,968 | 82,778 |
| **Operating Proﬁt** | **1,11,472** | **1,16,981** | **1,29,454** | **1,29,588** |
| YoY growth (%) | 28.9 | 23.4 | 20.1 | 19.5 |
| Core operating proﬁt | 1,09,352 | 1,12,174 | 1,22,689 | 1,23,935 |
| NPA Provisions | 24,135 | 20,380 | 28,836 | 19,178 |
| Other provisions | 26,137 | 27,007 | 30,436 | 37,845 |
| Total Provisions | 26,137 | 27,007 | 30,436 | 37,845 |
| **Proﬁt Before Tax** | **85,336** | **89,974** | **99,019** | **91,743** |
| Tax | 29,654 | 26,524 | 24,854 | 22,466 |
| **PAT** | **66,682** | **63,450** | **74,165** | **69,277** |
| YoY growth (%) | 21 | 26.8 | 32.8 | 17.7 |
| **Deposits** | **95,45,537** | **1,02,16,149** | **1,06,74,335** | **1,14,75,020** |
| YoY growth (%) | 18.5 | 22.6 | 25.2 | 24.3 |
| **Advances** | **82,97,298** | **89,69,838** | **93,60,295 99,37,029** | |

YoY growth (%) 17.1 19.5 19.9 21.3

**Key Ratios**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Y/e Mar** | **FY19** | **FY20** | **FY21E** | **FY22E** |
| CMP (Rs) | 910 | 910 | 910 | 910 |
| EPS (Rs) | 39.6 | 48 | 53.5 | 65.9 |
| Book Value (Rs) | 274 | 312 | 354 | 407 |
| Adj BV (70%)(Rs) | 263 | 298 | 335 | 387 |
| P/E (x) | 23 | 18.9 | 17 | 13.8 |
| P/BV (x) | 3.3 | 2.9 | 2.6 | 2.2 |
| P/ABV (x) | 3.5 | 3.1 | 2.7 | 2.4 |
| DPS (Rs) | 6.2 | 9.5 | 11 | 13 |
| Dividend Payout Ratio (%) | 19.2 | 23.7 | 20.6 | 19.7 |
| Dividend Yield (%) | 0.7 | 1 | 1.2 | 1.4 |

**Eﬃciency Y/e Mar FY19 FY20 FY21E FY22E**

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**Du-Pont Y/e Mar FY19 FY20 FY21E FY22E**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NII | 4.18 | 4.05 | 3.91 | 3.92 |
| Total Income | 5.71 | 5.73 | 5.45 | 5.41 |
| Operating Expenses | 2.26 | 2.21 | 2.15 | 2.15 |
| PPoP | 3.44 | 3.51 | 3.3 | 3.26 |
| Total Provisions | 0.65 | 0.88 | 0.94 | 0.77 |
| RoAA | 1.83 | 1.89 | 1.77 | 1.87 |
| RoAE | 16.5 | 16.4 | 16.05 | 17.31 |

Source: Company Data, PL Research Source: Company Data, PL Research



**FACTSHEET INC**

**Result Update | HDFC Bank**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ANALYST CONSENSUS** | | | | |
| **SN** | **Company Name** | **Rating** | **TP (Rs)** | **Share Price (Rs)** |
| 1  2 | Axis Bank  Bandhan Bank | BUY  Subscribe | 609  - | 419  - |
| 3 | Bank of Barodra | BUY | 83 | 50 |
| 4 | Bank of India | Reduce | 58 | 70 |
| 5 | Federal | BUY | 73 | 41 |
| 6 | HDFC | BUY | 1406 | 1278 |
| 7 | HDFC Bank | BUY | 1124 | 895 |
| 8 | HDFC Life Insurance Company | Hold | 579 | 616 |
| 9 | ICICI Bank | BUY | 509 | 331 |
| 10 | ICICI Prudential Life Insurance Company Accumulate | | 529 | 498 |

## Investment Rating Criteria

**Large Cap Stocks; Mid Cap and Small Cap**

|  |  |  |  |
| --- | --- | --- | --- |
| Buy | - Upside is above 10% | Buy | - Upside is above 15 % |
| Hold | - Upside is between 0% - 10% | Accumulate | - Upside is between 10% - 15% |
| Reduce | - Downside is more than 0% | Hold | - Upside is between 0% - 15% |
| Neutral | - Not Applicable | Reduce/Sell | - Downside is more than 0% |
|  |  | Neutral | - Not Applicable |

To satisfy regulatory requirements, we attribute "Accumulate" as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise speciﬁed. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price ﬂuctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral - The analyst has no investment opinion on the stock under review.

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**Result Update | HDFC Bank**

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**FACTSHEET INC**

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**Result Update | HDFC Bank**

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