

**Asset quality deteriorated; Management is hopeful on recovery**

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**CMP: INR 1,522**

**Rating: Accumulate**

**Target Price: INR 1,721**

**Stock Info**

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	553
Mkt Cap (INR Cr)	8,41,332
52w H/L (INR)	1522 / 993
Avg Yearly Vol (in 000')	10,292

**Shareholding Pattern %**

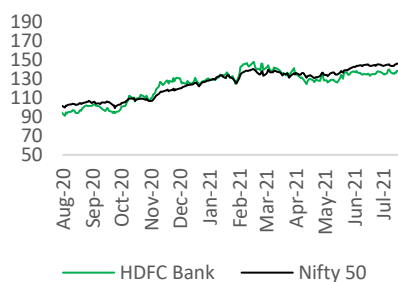
(As on June, 2021)

Promoters	25.9
FII	39.4
DII	21.5
Public & Others	13.3

**Stock Performance (%)**

	3m	6m	12m
HDFC Bank	6.7	19.1	43.3
Nifty 50	8.9	10.3	48.3

**HDFC Bank Vs Nifty**



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**HDFC Bank during Q1FY22 has reported 16% YoY growth in profit at INR 7,730 cr was lower than our estimate of INR 8,137 cr. Miss in profit was largely on account of weaker NII growth and higher provisioning. NII for the quarter grew by 9% YoY/-0.6% QoQ to INR 17,009 cr vs. our estimate of INR 17,785 cr. NII growth was lower due to contraction in margins due to lower growth in high yielding segment. NIM of the bank contracted by 10bps QoQ at 4.1%. Operating profit for the quarter increased by 18% YoY to INR 15,137 cr vs. our estimate of INR 15,199 cr. Other income for the quarter grew by 54% YoY to INR 6,289 cr due to lower base of last year. However, it has contracted by 17% on a sequential basis due to lower business activity. Provisions for the quarter stood at INR 4,831 cr as against INR 4,694 cr in Q4FY21. The bank carries cumulative (floating + contingent) provision of INR 8,047 cr (0.7% of loans).**

**NIMs for the quarter stood at multi quarter low:** NIM of the bank contracted by 10bps QoQ at 4.1%. Contraction in the margin was on account of lower growth in high yielding products, interest reversal on account of NPA. Yield on advances decreased to 8.3% (-50bps QoQ) due to high growth in corporate segment. Lower yielding asset mix, lower card fee income and interest reversal has an impact of 6% YoY on NII.

**Corporate book growth remained strong:** Overall advances grew by 14% YoY driven by corporate book growth of 18% YoY and retail portfolio growth of 10% YoY. Retail portfolio registered a decline of 1% on a sequential basis due to lower disbursements. Within retail, gold loans grew by 30% YoY, housing loan was up by 15% YoY. Liability franchise of the bank remained strong with CASA growth of 28% YoY/-0.6% QoQ. CASA ratio of the bank contracted marginally from 46.1% to 45.5% QoQ. The CASA increase was significantly led by strong growth in saving deposits by 30% YoY followed by 24% YoY growth in current deposits.

**Asset quality deteriorated:** Covid 2.0 has disrupted the business activities for close to two thirds of the quarter, leading to a decrease in the efficiency in collection, and a higher level of provisions. As a result, GNPA ratio of the bank increased by 15bps QoQ to 1.5% while NNPA increased by 8bps QoQ to 0.5%. Slippage ratio for the quarter stood at 2.54% vs. 1.66% on QoQ basis. In absolute term, Slippage for the quarter stood at INR 7,300 cr vs. 4,700 cr QoQ. Restructuring book of the bank increased to 80bps vs 60 bps QoQ. Credit cost for Q1FY22 was at 1.67% vs. 1.64% QoQ. Management has stated that, recovery has seen in collections and disbursements in June and July as covid impact subsides.

**Valuation & View:** Covid 2.0 has impacted the bank's operation resulting into spike in slippages. However, it remained pretty much under control. With the easing of lockdown and decline in covid cases, business activity has started picking up and bounce rates also holding up well. We believe, bank should bounce back from Q2FY22 onwards as normalisation starts. We continue to maintain our positive stance on HDFC Bank due to its best-in-class deposit franchise, well cushioned balance sheet, comfortable capital level and expect growth rate to bounce back. We cut our earnings estimates by 3%/1% for FY22/23E and maintain our Accumulate rating on the stock with a revised target price of INR 1,721 (earlier INR 1,683), valuing the bank at 3.7x FY23E P/ABV.

Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
NII	48,243	56,186	64,880	74,885	83,905
PPOP	39,750	48,750	57,362	63,988	73,185
PAT	21,078	26,257	31,117	34,989	43,094
BVPS (INR / Share)	273.9	311.8	369.5	417.1	475.8
NIM (%)	4.4%	4.2%	4.1%	4.1%	4.0%
RoA (%)	1.8%	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.5%	16.4%	16.6%	16.1%	17.5%
P/ABV (x)	5.7	5.0	4.2	3.7	3.3

## Q1FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Interest Income	30,483	30,424	30,378	0.2%	0.3%
Interest Expense	13,474	13,303	14,713	1.3%	-8.4%
<b>Net Interest Income</b>	<b>17,009</b>	<b>17,120</b>	<b>15,665</b>	<b>-0.6%</b>	<b>8.6%</b>
Non Interest Income	6,289	7,594	4,075	-17.2%	54.3%
<b>Total Income</b>	<b>23,297</b>	<b>24,714</b>	<b>19,741</b>	<b>-5.7%</b>	<b>18.0%</b>
Employee Costs	2,766	2,679	2,513	3.2%	10.0%
Other Operating Expenses	5,395	6,502	4,398	-17.0%	22.7%
Operating Expenses	8,160	9,181	6,911	-11.1%	18.1%
<b>Pre-Provision Profit</b>	<b>15,137</b>	<b>15,533</b>	<b>12,829</b>	<b>-2.5%</b>	<b>18.0%</b>
Provisions	4,831	4,694	3,892	2.9%	24.1%
<b>Profit Before Tax</b>	<b>10,306</b>	<b>10,839</b>	<b>8,938</b>	<b>-4.9%</b>	<b>15.3%</b>
Tax Expense	2,577	2,653	2,279	-2.9%	13.0%
<b>Net Profit</b>	<b>7,730</b>	<b>8,187</b>	<b>6,659</b>	<b>-5.6%</b>	<b>16.1%</b>
<b>Balance Sheet Analysis</b>					
Deposits	13,45,829	13,35,060	11,89,387	0.8%	13.2%
CASA Deposits	6,11,801	6,15,682	4,77,435	-0.6%	28.1%
CASA (%)	45.5%	46.1%	40.1%	-66bps	532bps
Advances	11,47,652	11,32,837	10,03,299	1.3%	14.4%
Total Assets	17,53,941	17,46,871	15,45,103	0.4%	13.5%
Capital Adequacy Ratio (%)	19.1%	18.8%	18.9%	30bps	20bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	8.3%	8.8%	9.6%	-50bps	-135bps
Yield on Avg Interest Earning Assets (%)	7.2%	7.4%	8.2%	-21bps	-103bps
Cost of Funds (%)	3.7%	3.7%	4.5%	-6bps	-87bps
NIM (%)	4.1%	4.2%	4.3%	-10bps	-20bps
<b>Asset Quality</b>					
Gross NPA	17,099	15,086	13,773	13.34%	24.14%
Net NPA	5,486	4,555	3,280	20.44%	67.25%
GNPA (%)	1.5%	1.3%	1.4%	15bps	11bps
NNPA (%)	0.5%	0.4%	0.3%	8bps	15bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	35.0%	37.2%	35.0%	-212bps	2bps
C/D Ratio (%)	85.3%	84.9%	84.4%	42bps	92bps
RoA (%) (annualized)	1.76%	1.87%	1.72%	-11bps	4bps

Source: Arianth Research, Company Filings

## Key Concall Highlights

- During the quarter bank has opened 1.64 mn new liability accounts.
- Restructuring as per the RBI resolution framework for Covid is at 0.8% of the advances.
- Slippages ratio for the quarter stood at 2.54% (vs. 1.66% in Q4FY21). Slippage ratio (Ex-agri) stood at 2.2% vs. 1.61% QoQ.
- Total provisions (Specific, floating, contingency, general provisioning) is 146% of GNPA's.
- Recoveries amounted to 14bps compared to 26bps in Q4FY21.
- Fee and commission income reduced by 23% on a sequential basis due to impact on retail business activities.
- Covid 2.0 has been less severe in terms of financial impact as against the first wave. Covid 2.0 has disrupted business activity closer to 2/3<sup>rd</sup> of the quarter, leading to drop in collection efficiency and higher provisions.
- Cheque bounce rate/demand resolution has severely impacted in Apr/May'21. However, with the easing of lockdown restrictions, collection activity and disbursements started picking up in June/July.
- Bounce rate for 0 dpd has reverted back to pre covid level in June. Bounce rates is showing sign of recovery. Higher recovery is expected in Q2FY22.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial reported profit of INR 131 cr vs. INR 233 cr YoY. As on Q1FY22, GNPA of the company increased sharply to 7.75% vs. 3.89% QoQ due to higher stress owing to Covid 2.0.
- The Bank's total capital adequacy ratio (CAR) as per Basel III guidelines was at 19.1% as on June 30, 2021.

## Break-up of Domestic Retail Advances

in Cr.	Q1FY22	Q4FY21	Q1FY21	QoQ	YoY
Auto	83,795	84,392	81,082	-1%	3%
Personal Loans	1,19,834	1,18,627	1,11,567	1%	7%
Home Loans	72,266	70,210	62,652	3%	15%
Business Banking	73,498	70,919	60,596	4%	21%
Kisan Gold card	46,868	47,868	40,024	-2%	17%
Credit Cards	60,429	64,674	54,698	-7%	10%
CV/CE	27,100	27,977	27,801	-3%	-3%
Others	22,093	24,564	19,945	-10%	11%
Two Wheelers	8,587	9,293	9,568	-8%	-10%
Gold Loans	7,231	7,221	5,571	0%	30%
Loans against securities	1,788	1,838	1,501	-3%	19%
<b>Total</b>	<b>5,23,489</b>	<b>5,27,583</b>	<b>4,75,005</b>	<b>-1%</b>	<b>10%</b>

## Key Financials

INR Crores	FY 19	FY 20	FY 21	FY 22E	FY 23E
Interest Income	98,972	1,14,813	1,20,858	1,35,505	1,52,348
Interest Expense	50,729	58,626	55,979	60,619	68,443
<b>Net Interest Income</b>	<b>48,243</b>	<b>56,186</b>	<b>64,880</b>	<b>74,885</b>	<b>83,905</b>
Non interest income	17,626	23,261	25,205	26,428	30,712
Operating income	65,869	79,447	90,084	1,01,313	1,14,618
- Employee expense	7,762	9,526	10,365	11,434	12,449
- Other operating expense	18,358	21,172	22,358	25,891	28,983
Operating Expense	26,119	30,698	32,723	37,325	41,433
<b>PPOP</b>	<b>39,750</b>	<b>48,750</b>	<b>57,362</b>	<b>63,988</b>	<b>73,185</b>
Provisions	7,550	12,142	15,703	16,959	15,263
PBT	32,200	36,607	41,659	47,029	57,922
Tax Expense	11,122	10,350	10,542	12,039	14,828
<b>PAT</b>	<b>21,078</b>	<b>26,257</b>	<b>31,117</b>	<b>34,989</b>	<b>43,094</b>
Diluted EPS (INR)	39.20	47.89	56.44	63.47	78.17

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (INR Crores)	FY19	FY20	FY21	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	545	548	551	551	551
Reserves & Surplus	1,48,662	1,70,438	2,03,170	2,29,412	2,61,732
Networth	1,49,206	1,70,986	2,03,721	2,29,963	2,62,283
Borrowings	1,17,085	1,44,629	1,35,487	1,62,585	1,95,102
Deposits	9,23,141	11,47,502	13,35,060	15,48,670	17,96,457
Other liabilities & provisions	55,108	67,394	72,602	87,345	1,05,083
<b>Total Equity &amp; Liabilities</b>	<b>12,44,541</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>20,28,563</b>	<b>23,58,925</b>
<b>Uses of Funds</b>					
Cash & bank balances	81,348	86,619	1,19,470	1,40,310	1,63,288
Net investments	2,90,588	3,91,827	4,43,728	5,00,750	5,65,098
Loans & advances	8,19,401	9,93,703	11,32,837	13,02,762	14,98,176
Fixed assets	4,030	4,432	4,909	4,508	4,587
Other assets	49,174	53,931	45,926	80,233	1,27,775
<b>Total Assets</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>20,28,563</b>	<b>23,58,925</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
<b>Growth Rates</b>					
Advances (%)	24.5%	21.3%	14.0%	15.0%	15.0%
Deposits (%)	17.0%	24.3%	16.3%	16.0%	16.0%
Total assets (%)	17.0%	23.0%	14.1%	16.1%	16.3%
NII (%)	20.3%	16.5%	15.5%	15.4%	12.0%
Pre-provisioning profit (%)	21.8%	22.6%	17.7%	11.6%	14.4%
PAT (%)	20.5%	24.6%	18.5%	12.4%	23.2%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.8%	86.6%	84.9%	84.1%	83.4%
CASA (%)	42.4%	42.2%	46.1%	47.4%	48.8%
Advances/Total assets (%)	65.8%	64.9%	64.8%	64.2%	63.5%
Leverage - Total Assets to Equity	8.3	9.0	8.6	8.8	9.0
CAR (%)	14.8%	17.1%	15.8%	17.5%	16.5%
<b>Operating efficiency</b>					
Cost/income (%)	39.7%	38.6%	36.3%	36.8%	36.1%
Opex/total assets (%)	2.1%	2.0%	1.9%	1.8%	1.8%
Opex/total interest earning assets	2.4%	2.3%	2.1%	2.1%	2.0%
<b>Profitability</b>					
NIM (%)	4.4%	4.2%	4.1%	4.1%	4.0%
RoA (%)	1.8%	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.5%	16.4%	16.6%	16.1%	17.5%
<b>Asset quality</b>					
Gross NPA (%)	1.4%	1.3%	1.3%	1.6%	1.5%
Net NPA (%)	0.4%	0.4%	0.4%	0.5%	0.4%
PCR (%)	71.4%	75.0%	75.0%	75.0%	75.0%
<b>Per share data / Valuation</b>					
EPS (INR)	39.2	47.9	56.4	63.5	78.2
BVPS (INR)	273.9	311.8	369.5	417.1	475.8
ABVPS (INR)	268.0	305.3	361.3	407.7	465.3
P/E (x)	39.3	31.8	27.0	24.0	19.5
P/BV (x)	5.6	4.9	4.1	3.6	3.2
P/ABV (x)	5.7	5.0	4.2	3.7	3.3

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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