

CMP: Rs 1,199

Rating: ACCUMULATE

Target Price: Rs 1,345

Stock Info

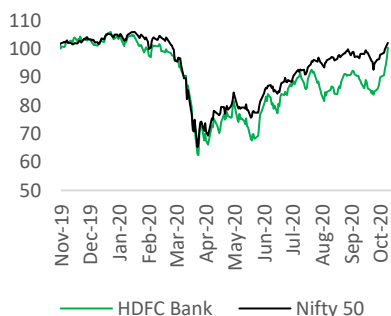
BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	550
Mkt Cap (Rs Cr)	6,60,087
52w H/L (Rs)	1,306 / 739
Avg Yearly Vol (in 000')	13,060

Shareholding Pattern %

(As on September, 2020)

Promoters	26.0
FII	37.4
DII	22.7
Public & Others	13.9

HDFC Bank Vs Nifty



HDFC Bank posted better than expected Q2FY21 results with strong profitability. Net Interest Income stood at Rs 15,776 Cr, increasing by +16.7% YoY/+0.7% QoQ, PPOP stood at Rs 13,814 Cr, increasing by +18.1% YoY/+7.7% QoQ and Net Profit at Rs 7,513 Cr, grew by +18.4% YoY/+13% QoQ. Provisions for the quarter stood at Rs 3,704 Cr as against Rs 3,892 Cr in Q1FY21, with Rs 6,304 Cr of total contingent provisioning for Covid-19 impact which is well in excess of RBI guidelines. On business growth front, the bank's loan book grew by +15.8% YoY/+3.5% QoQ to Rs 10.38 lakh Cr while deposits grew strongly by +20.3% YoY/+3.4% QoQ to Rs 12.29 lakh Cr on account of bank's strong customer loyalty. NIM during the quarter contracted by 20bps QoQ at 4.1%, largely due to increased growth in corporate segment book against the retail book's growth and excess liquidity. The advances growth was driven primarily by the substantial growth in the corporate lending at +27% YoY while retail loan growth slowed to +5% YoY owing to the bank's strict credit lending measures and visible growth in corporate segment.

Key Highlights of Q2FY21:

NIMs fell marginally with fall in cost of funds: NIM contracted marginally to 4.1% largely due to 15bps excess liquidity impact on margins. Overall yield on average advances came down to 9.2% (down by 42 bps QoQ) due to fall in interest rates and high growth in corporate segment. The Cost of Funds decreased by 27bps QoQ to 4.3%. The bank's total operating expenses increased by 8.8%YoY/16.5% QoQ as bank has maintained continuity with employee remunerations and appraisals without any cuts. Cost to Income ratio increased marginally to 36.8%. The bank's branch count increased by 104 branches QoQ to a total of 5,430 branches.

Liability profile of the bank remained strong with strong CASA: Liability franchise of the bank remained strong with strong CASA ratio at 46.1% vs 40.1% QoQ, growing by 27.5% YoY/7% QoQ. The CASA increase was significantly led by strong growth in Savings deposits by 31.8% YoY.

Asset Quality improved vastly owing to ruling order of SC: The bank's GNPA/NNPA decreased to 1.08%/0.17% as against 1.36%/0.33% in previous quarter. However, if the bank has classified accounts as NPA after Aug'20, then the bank's GNPA's/NNPA's would have been 1.37%/0.35% on proforma basis. The bank's total provision were 195% of reported GNPA or 154% of proforma GNPA as on Sept'20.

Valuation & View: HDFC Bank continued with its strong performance despite the challenging environment. The bank's branch operations kept operating smoothly despite the lockdown with management informing of achieving pre-covid run rates. The bank is expected to witness robust growth of deposits in the subsequent quarters owing to the changed behavior of customers preferring increased savings. With the macro-economic environment improving gradually, the bank is expected to focus on its dominance in the rural & sub-urban markets. We revise our estimates upward for the bank's growth in the near term with loan book growth in double digit for FY21. We assign a P/Adj. BV multiple of 3.6x for FY22 ABVPS of Rs 374 for a target price of Rs 1,345 per share and maintain our 'ACCUMULATE' rating on the stock.

Particulars (INR Cr)	FY18	FY19	FY20E	FY21E	FY22E
NII	40,095	48,243	56,186	64,352	72,375
PPOP	32,625	39,750	48,750	54,096	62,595
PAT	17,487	21,078	26,257	23,436	29,583
EPS (INR / Share)	33.7	38.7	47.9	42.7	54.0
BVPS (INR / Share)	204.8	273.9	311.8	343.9	384.3
NIM (%)	4.4%	4.4%	4.2%	4.1%	4.0%
Advances Growth YoY (%)	18.7%	24.5%	21.3%	14.0%	18.0%
Deposits Growth	22.5%	17.0%	24.3%	15.0%	19.0%
P/ABV (x)	5.9	4.5	3.9	3.6	3.2

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Q2 FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement (INR Cr.)	Q2 FY21	Q1 FY21	Q2 FY20	Q-o-Q	Y-o-Y
Interest Income	29,977	30,378	28,166	-1.3%	6.4%
Interest Expense	14,201	14,713	14,651	-3.5%	-3.1%
Net Interest Income	15,776	15,665	13,515	0.7%	16.7%
Non Interest Income	6,092	4,075	5,589	49.5%	9.0%
Total Income	21,869	19,741	19,104	10.8%	14.5%
Employee Costs	2,542	2,513	2,355	1.2%	8.0%
Other Operating Expenses	5,513	4,398	5,051	25.3%	9.1%
Operating Expenses	8,055	6,911	7,406	16.5%	8.8%
Pre-Provision Profit	13,814	12,829	11,698	7.7%	18.1%
Provisions	3,704	3,892	2,701	-4.8%	37.1%
Profit Before Tax	10,110	8,938	8,997	13.1%	12.4%
Tax Expense	2,597	2,279	2,652	14.0%	-2.1%
Net Profit	7,513	6,659	6,345	12.8%	18.4%
Balance Sheet Analysis					
Deposits	12,29,310	11,89,387	10,21,615	3.4%	20.3%
CASA Deposits	5,11,451	4,77,435	4,01,236	7.1%	27.5%
CASA (%)	41.6%	40.1%	39.3%	146bps	233bps
Advances	10,38,335	10,03,299	8,96,984	3.5%	15.8%
Total Assets	16,09,428	15,45,103	13,25,072	4.2%	21.5%
Capital Adequacy Ratio (%)	19.1%	18.9%	17.5%	20bps	160bps
Spread Analysis					
Yield on Avg Advances (%)	9.2%	9.6%	10.4%	-42bps	-122bps
Yield on Avg Interest Earning Assets (%)	7.9%	8.2%	9.0%	-34bps	-119bps
Cost of Funds (%)	4.3%	4.5%	5.4%	-27bps	-114bps
NIM (%)	4.10%	4.30%	4.34%	-20bps	-24bps
Asset Quality					
Gross NPA	11,305	13,773	12,508	-17.92%	-9.62%
Net NPA	1,756	3,280	3,791	-46.46%	-53.68%
GNPA (%)	1.08%	1.36%	1.38%	-28bps	-30bps
NNPA (%)	0.17%	0.33%	0.42%	-16bps	-25bps
Key Ratios					
Cost to Income Ratio (%)	36.8%	35.0%	38.8%	182bps	-193bps
C/D Ratio (%)	84.5%	84.4%	87.8%	11bps	-334bps
RoA (%) (annualized)	1.87%	1.72%	1.92%	14bps	-5bps

Source: Arianth Research, Company Filings

Key Concall Highlights

- The board of directors has approved the appointment of Mr Sashidhar Jagdishan as an Additional Director and MD & CEO of bank for a period of 3 years from Oct 27, 2020, as approved by RBI.
- Management attributed Rs 1,451 Cr of floating provisions and Rs 6,304 Cr of contingent provisions as on September 2020. The provisions comprised of 195% of reported GNPA's and 154% of proforma GNPA's by Sept 30, 2020. Management believes that they have sufficient provisioning buffer for future contingencies.
- Due to the SC's public interest litigation regarding the accounts which were not classified as NPA till August 31, 2020 shall not be declared as NPA till further order, the bank's NPA levels remained low. However, if the default accounts has been considered as NPAs, the GNPA/NNPA levels would have been 1.37%/0.35% for the quarter which is stable on a sequential basis.
- Management attributed the high growth in the corporate banking segment during the quarter. Collection in corporate book was up by 41% QoQ and for the month of September it was 14.5% YoY. Disbursement in September month in wholesales SME book was at all time high.
- On the Portfolio front, 93% of externally rated portfolio remains rated A & above along with more than 75% of the overall portfolio remained rated AA & above.
- In the unsecured portfolio, management informed of 65% of the portfolio at a better position than rest of the portfolio with improving cash-flows.
- Of the SME portfolio, 3% of the portfolio remains at stressed levels by the end of Sept 2020 as against 9% as calculated by the bank's internal risk simulation stated at the end of March 2020.
- By September end, the bank met 95% of the demand resolution of retail portfolio and intends to bring it back to 99% (as it was Pre-Covid levels).
- Management stated that they are not seeing enough restructuring request as of now but the timeframe is till Dec'20, actual figures need to be seen.
- The bank has added 104 branches during the quarter and 100 branches are in process of readiness with a plan of opening another 100 branches by the end of this year.
- CTI ratio is expected to increase going forward with increase in spends on promotional and distribution activities.
- During the quarter bank has opened 1.8 mn liability accounts.
- Acknowledging healthy economic activities across rural and sub-urban India, the management briefed of development of digital platform within 90 days to address the potential growth of 2-wheelers and tractors for rural and sub-urban markets in line with the 10 second loan product, the bank has been offering the customers over the past few years on its internet banking platform.
- Management expressed underperformance of auto segment growth even before the Covid pandemic but major signs of improvement seen over last several months on an incremental basis.

Key Financials

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Interest Income	80,241	98,972	1,14,813	1,30,886	1,54,446
Interest Expense	40,146	50,729	58,626	66,534	82,071
Net Interest Income	40,095	48,243	56,186	64,352	72,375
Non interest income	15,220	17,626	23,261	23,877	27,911
Operating income	55,315	65,869	79,447	88,229	1,00,286
- Employee expense	6,806	7,762	9,526	10,215	11,090
- Other operating expense	15,885	18,358	21,172	23,918	26,601
Operating Expense	22,690	26,119	30,698	34,133	37,691
PPOP	32,625	39,750	48,750	54,096	62,595
Provisions	5,927	7,550	12,142	18,214	17,303
PBT	26,697	32,200	36,607	35,882	45,292
Tax Expense	9,211	11,122	10,350	12,446	15,710
PAT	17,487	21,078	26,257	23,436	29,583
EPS (INR)	33.69	39.20	47.89	42.74	53.95

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

Balance Sheet (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
Source of Funds					
Share capital	519	545	548	548	548
Reserves & Surplus	1,05,776	1,48,662	1,70,438	1,88,015	2,10,202
Net-worth	1,06,295	1,49,206	1,70,986	1,88,563	2,10,750
Borrowings	1,23,105	1,17,085	1,44,629	1,73,554	2,08,265
Deposits	7,88,771	9,23,141	11,47,502	13,19,628	15,70,357
Other liabilities & provisions	45,764	55,108	67,394	81,080	97,545
Total Equity & Liabilities	10,63,934	12,44,541	15,30,511	17,62,825	20,86,917
Uses of Funds					
Cash & bank balances	1,22,915	81,348	86,619	1,19,113	1,42,079
- Cash in hand	69,531	5,638	9,208	11,497	14,016
- Balance w/ RBI	35,140	41,126	62,997	58,789	69,959
- Balance w/ banks & others	18,245	34,584	14,414	48,826	58,103
Net investments	2,42,200	2,90,588	3,91,827	4,37,085	4,93,252
Loans & advances	6,58,333	8,19,401	9,93,703	11,32,821	13,36,729
Fixed assets	3,607	4,030	4,432	4,309	4,372
Other assets	36,879	49,174	53,931	69,498	1,10,485
Total Assets	10,63,934	12,44,540	15,30,511	17,62,825	20,86,917

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

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
Growth Rates					
Advances (%)	18.7%	24.5%	21.3%	14.0%	18.0%
Deposits (%)	22.5%	17.0%	24.3%	15.0%	19.0%
Total assets (%)	23.2%	17.0%	23.0%	15.2%	18.4%
NII (%)	21.0%	20.3%	16.5%	14.5%	12.5%
Pre-provisioning profit (%)	26.8%	21.8%	22.6%	11.0%	15.7%
PAT (%)	19.7%	20.5%	24.6%	-10.7%	26.2%
B/S Ratios					
Credit/Deposit (%)	83.5%	88.8%	86.6%	85.8%	85.1%
CASA (%)	43.5%	42.4%	42.2%	43.8%	43.9%
Advances/Total assets (%)	61.9%	65.8%	64.9%	64.3%	64.1%
Leverage - Total Assets to Equity (x)	10.0	8.3	9.0	9.3	9.9
Operating efficiency					
Cost/income (%)	41.0%	39.7%	38.6%	38.7%	37.6%
Opex/total assets (%)	2.1%	2.1%	2.0%	1.9%	1.8%
Opex/total interest earning assets	2.5%	2.4%	2.3%	2.2%	2.1%
Profitability					
NIM (%)	4.4%	4.4%	4.2%	4.1%	4.0%
RoA (%)	1.8%	1.8%	1.9%	1.4%	1.5%
RoE (%)	17.9%	16.5%	16.4%	13.0%	14.8%
Asset quality					
Gross NPA (%)	1.3%	1.4%	1.4%	1.6%	1.8%
Net NPA (%)	0.1%	0.4%	0.4%	0.5%	0.5%
PCR (%)	96.2%	71.4%	75.0%	75.0%	75.0%
Slippage (%)	1.5%	1.4%	1.3%	1.2%	1.2%
Credit cost (%)	0.9%	0.6%	0.6%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	33.7	39.2	47.9	42.7	54.0
BVPS (INR)	204.8	273.9	311.8	343.9	384.3
ABVPS (INR)	204.2	268.0	305.3	335.6	373.5
P/E (x)	35.6	31.0	25.0	28.1	22.2
P/BV (x)	5.9	4.4	3.8	3.5	3.1
P/ABV (x)	5.9	4.5	3.9	3.6	3.2

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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