

**Strong Performance with sharp improvement in CASA**

**CMP: Rs 1,467**

**Rating: ACCUMULATE**

**Target Price: Rs 1,647**

**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)	8,07,973
52w H/L (Rs)	1,467 / 739
Avg Yearly Vol (in 000')	14,396

**Shareholding Pattern %**

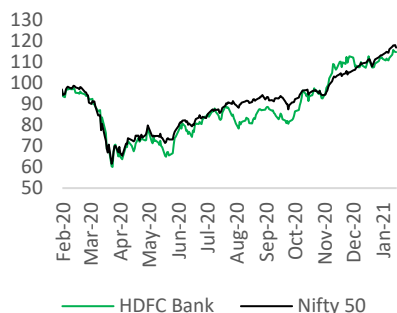
(As on December, 2020)

Promoters	26.0
FII	39.4
DII	21.5
Public & Others	13.2

**Stock Performance (%)**

	3m	6m	12m
HDFC Bank	25.4	39.3	14.2
Nifty 50	23.6	35.9	16.9

**HDFC Bank Vs Nifty**



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**HDFC Bank has posted better than expected Q3FY21 results with strong profitability driven by lower credit cost. Net Interest Income stood at Rs 16,318 Cr, increasing by +15.1% YoY/+3.4% QoQ, PPOP stood at Rs 15,186 Cr, increasing by +17.3% YoY/+9.9% QoQ and Net Profit at Rs 8,758 Cr, grew by +18.1% YoY/+16.6% QoQ. Provisions for the quarter stood at Rs 3,414 Cr as against Rs 3,704 Cr in Q2FY21, with Rs 2,400 Cr of total contingent provisioning for proforma NPA. On business growth front, the bank's loan book grew by +15.6% YoY/+4.2% QoQ to Rs 10.82 lakh Cr while deposits grew strongly by +19.1% YoY/+3.4% QoQ to Rs 12.71 lakh Cr on account of bank's strong customer loyalty. NIM during the quarter improved by 10bps QoQ at 4.2%, largely due to strong growth in low cost deposits. The advances growth was driven primarily by the substantial growth in the corporate lending at +23.5% YoY while retail loan growth slowed to +4% YoY owing to the bank's strict credit lending measures and visible growth in corporate segment.**

**Key Highlights of Q3FY21:**

**NIMs improved sequentially with fall in cost of funds:** Despite having a 15bps excess liquidity impact on margins, NIM improved by 10bps QoQ to 4.2%, largely due to 26bps fall in cost of funds at 4%. Yield on advances came down to 9% (down by 17bps QoQ) due to fall in interest rates and high growth in corporate segment. The bank's total operating expenses increased by 8.6%YoY/6.5% QoQ. Cost to Income ratio decreased by 75bps QoQ to 36.1%, largely due to high growth in other income and lower spend on ads and promotional activities.

**Liability profile of the bank remained strong with strong CASA:** Liability franchise of the bank remained strong with robust CASA growth at 30% YoY/6.9% QoQ. CASA ratio of the bank increased to 43% vs. 41.6% QoQ. The CASA increase was significantly led by strong growth in saving deposits by 34.8% YoY followed by 20% YoY growth in current deposits.

**Asset Quality remained one of the best in the industry:** Due to ruling order of SC, the bank's GNPA/NNPA decreased to 0.81%/0.09% as against 1.08%/0.17% in previous quarter. However, if the bank has classified accounts as NPA after Aug'20, then the bank's GNPA/NNPAs would have been 1.38%/0.4% on proforma basis which is largely stable as compared to previous quarter. The bank's total provision were 260% of reported GNPA or 148% of proforma GNPA as on Dec'20. The bank restructured 0.5% of the advances.

**Valuation & View:** HDFC Bank continued with its strong performance despite the challenging environment. With the macro-economic environment improving gradually, the bank is expected to focus on its dominance in the rural & sub-urban markets. We raise our earnings estimates significantly by 36% and 19% for FY21-22E driven by low credit cost assumptions and introduce FY23E. HDFC Bank remain our top pick in banking sector on the back of its strong balance sheet growth which provides cushion against stress, comfortable capital position and gaining market share. We assign a P/Adj. BV multiple of 3.7x for FY23E ABVPS of Rs 445 for a target price of Rs 1,647 per share and maintain our 'ACCUMULATE' rating on the stock.

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E	FY23E
NII	48,243	56,186	64,501	69,818	76,452
PPOP	39,750	48,750	56,678	60,887	68,119
PAT	21,078	26,257	31,779	35,119	41,009
EPS (INR / Share)	38.7	47.9	58.0	64.0	74.8
BVPS (INR / Share)	273.9	311.8	355.3	403.3	459.4
NIM (%)	4.4%	4.2%	4.1%	3.8%	3.7%
RoA (%)	1.8%	1.9%	1.9%	1.8%	1.8%
RoE (%)	16.5%	16.4%	17.4%	16.9%	17.3%
P/ABV (x)	5.5	4.8	4.2	3.7	3.3

## Q3 FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement (INR Cr.)	Q3 FY21	Q2 FY21	Q3 FY20	Q-o-Q	Y-o-Y
Interest Income	30,080	29,977	29,370	0.3%	2.4%
Interest Expense	13,762	14,201	15,197	-3.1%	-9.4%
<b>Net Interest Income</b>	<b>16,318</b>	<b>15,776</b>	<b>14,173</b>	3.4%	15.1%
Non Interest Income	7,443	6,092	6,669	22.2%	11.6%
<b>Total Income</b>	<b>23,761</b>	<b>21,869</b>	<b>20,842</b>	8.7%	14.0%
Employee Costs	2,630	2,542	2,455	3.5%	7.1%
Other Operating Expenses	5,945	5,513	5,442	7.8%	9.2%
Operating Expenses	8,575	8,055	7,897	6.5%	8.6%
<b>Pre-Provision Profit</b>	<b>15,186</b>	<b>13,814</b>	<b>12,945</b>	9.9%	17.3%
Provisions	3,414	3,704	3,044	-7.8%	12.2%
<b>Profit Before Tax</b>	<b>11,772</b>	<b>10,110</b>	<b>9,902</b>	16.4%	18.9%
Tax Expense	3,014	2,597	2,485	16.0%	21.3%
<b>Net Profit</b>	<b>8,758</b>	<b>7,513</b>	<b>7,416</b>	16.6%	18.1%
<b>Balance Sheet Analysis</b>					
Deposits	12,71,124	12,29,310	10,67,433	3.4%	19.1%
CASA Deposits	5,46,747	5,11,451	4,21,828	6.9%	29.6%
CASA (%)	43.0%	41.6%	39.5%	141bps	349bps
Advances	10,82,324	10,38,335	9,36,030	4.2%	15.6%
Total Assets	16,54,228	16,09,428	13,95,336	2.8%	18.6%
Capital Adequacy Ratio (%)	18.9%	19.1%	18.5%	-20bps	40bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	9.0%	9.2%	10.2%	-17bps	-118bps
Yield on Avg Interest Earning Assets (%)	7.6%	7.9%	8.9%	-25bps	-133bps
Cost of Funds (%)	4.0%	4.3%	5.3%	-26bps	-130bps
NIM (%)	4.20%	4.10%	4.32%	10bps	-12bps
<b>Asset Quality</b>					
Gross NPA	8,826	11,305	13,427	-21.93%	-34.27%
Net NPA	1,016	1,756	4,468	-42.14%	-77.26%
GNPA (%)	0.81%	1.08%	1.42%	-27bps	-61bps
NNPA (%)	0.09%	0.17%	0.48%	-8bps	-38bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	36.1%	36.8%	37.9%	-75bps	-180bps
C/D Ratio (%)	85.1%	84.5%	87.7%	68bps	-254bps
RoA (%) (annualized)	2.12%	1.87%	2.13%	25bps	-1bps

Source: Arianth Research, Company Filings

## Key Concall Highlights

- During the quarter bank has opened 2 mn new liability accounts.
- Restructuring as per the RBI resolution framework for Covid is at 0.5% of the advances. Restructuring has been done on the basis of customer request. Corporate segment have few restructuring cases.
- Of the SME portfolio, 2.3% of the portfolio remains at stressed levels by the end of Dec 2020 as against 9% as calculated by the bank's internal risk simulation stated at the end of March 2020.
- By December end, the bank has met 97% of the demand resolution (of retail portfolio and intends to bring it back to 98% (as it was Pre-Covid levels). Collection resolution is improving on month on month basis.
- CTI ratio is expected to increase going forward with increase in spends on promotional and distribution activities.
- The bank has added 55 branches during the quarter and another 100 branch expected to be open by the end of the year.
- During the quarter bank has sold some stressed assets in retail portfolio.
- In retail book there was double digit sequential growth in disbursements.
- Disbursements under ECLGS 1.0 are Rs 22103 cr and under ECLGS 2.0 (for stressed sector), the bank has disbursed Rs 579 cr.
- Gold loan franchise witnessing good growth. The bank is eyeing a physical distribution with liability franchise to grow the gold book going forward. Gold book during the quarter grew by 26% YoY/11% QoQ.
- Normal run rate of business is expected to resume from January in microfinance business.
- 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 1.38%/0.40% (vs. 1.37%/0.35% in Q2FY21) for the quarter which is stable on a sequential basis.
- On the Portfolio front, 90% of externally rated portfolio remains rated A & above along with more than 67% of the overall portfolio remained rated AA & above in wholesale portfolio. There is not much difference between actual and proforma GNPA numbers.

## Break-up of Domestic Retail Advances

in Cr.	Q3FY21	Q2FY21	Q3FY20	QoQ	YoY
Auto	81,880	79,664	83,552	2.8%	-2.0%
Personal Loans	1,15,275	1,12,446	1,09,531	2.5%	5.2%
Home Loans	66,644	62,847	61,729	6.0%	8.0%
Business Banking	65,833	63,511	63,255	3.7%	4.1%
Kisan Gold card	42,648	43,536	38,974	-2.0%	9.4%
Credit Cards	63,332	58,142	57,678	8.9%	9.8%
CV/CE	27,115	26,980	28,124	0.5%	-3.6%
Others	24,316	20,768	20,011	17.1%	21.5%
Two Wheelers	9,504	9,494	10,149	0.1%	-6.4%
Gold Loans	6,696	6,039	5,318	10.9%	25.9%
Loans against securities	1,651	1,576	1,812	4.8%	-8.9%
<b>Total</b>	<b>5,04,897</b>	<b>4,85,004</b>	<b>4,80,134</b>	<b>4.1%</b>	<b>5.2%</b>

## Key Financials

INR Crores	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	98,972	1,14,813	1,27,998	1,44,102	1,62,623
Interest Expense	50,729	58,626	63,497	74,284	86,170
<b>Net Interest Income</b>	<b>48,243</b>	<b>56,186</b>	<b>64,501</b>	<b>69,818</b>	<b>76,452</b>
Non interest income	17,626	23,261	25,005	27,308	31,772
Operating income	65,869	79,447	89,506	97,126	1,08,224
- Employee expense	7,762	9,526	10,215	11,090	12,038
- Other operating expense	18,358	21,172	22,614	25,150	28,067
Operating Expense	26,119	30,698	32,828	36,240	40,105
<b>PPOP</b>	<b>39,750</b>	<b>48,750</b>	<b>56,678</b>	<b>60,887</b>	<b>68,119</b>
Provisions	7,550	12,142	13,964	13,684	13,000
PBT	32,200	36,607	42,714	47,202	55,119
Tax Expense	11,122	10,350	10,935	12,084	14,111
<b>PAT</b>	<b>21,078</b>	<b>26,257</b>	<b>31,779</b>	<b>35,119</b>	<b>41,009</b>
EPS (INR)	39.20	47.89	57.96	64.05	74.79

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

Balance Sheet (INR Crores)	FY19	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	545	548	548	548	548
Reserves & Surplus	1,48,662	1,70,438	1,94,272	2,20,611	2,51,368
Net-worth	1,49,206	1,70,986	1,94,821	2,21,159	2,51,916
Borrowings	1,17,085	1,44,629	1,73,554	2,08,265	2,49,918
Deposits	9,23,141	11,47,502	13,54,053	15,70,701	18,22,013
Other liabilities & provisions	55,108	67,394	81,080	97,545	1,17,353
<b>Total Equity &amp; Liabilities</b>	<b>12,44,541</b>	<b>15,30,511</b>	<b>18,03,508</b>	<b>20,97,671</b>	<b>24,41,201</b>
<b>Uses of Funds</b>					
Cash & bank balances	81,348	86,619	1,21,920	1,42,107	1,65,372
- Cash in hand	5,638	9,208	11,497	14,016	16,787
- Balance w/ RBI	41,126	62,997	60,323	69,975	81,171
- Balance w/ banks & others	34,584	14,414	50,100	58,116	67,414
Net investments	2,90,588	3,91,827	4,37,085	4,93,252	5,56,638
Loans & advances	8,19,401	9,93,703	11,32,821	13,02,744	14,98,156
Fixed assets	4,030	4,432	4,309	4,372	4,435
Other assets	49,174	53,931	1,07,372	1,55,195	2,16,600
<b>Total Assets</b>	<b>12,44,540</b>	<b>15,30,511</b>	<b>18,03,508</b>	<b>20,97,671</b>	<b>24,41,201</b>

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

Key Ratio	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth Rates</b>					
Advances (%)	24.5%	21.3%	14.0%	15.0%	15.0%
Deposits (%)	17.0%	24.3%	18.0%	16.0%	16.0%
Total assets (%)	17.0%	23.0%	17.8%	16.3%	16.4%
NII (%)	20.3%	16.5%	14.8%	8.2%	9.5%
Pre-provisioning profit (%)	21.8%	22.6%	16.3%	7.4%	11.9%
PAT (%)	20.5%	24.6%	21.0%	10.5%	16.8%
<b>B/S Ratios</b>					
Credit/Deposit (%)	88.8%	86.6%	83.7%	82.9%	82.2%
CASA (%)	42.4%	42.2%	42.7%	43.9%	45.1%
Advances/Total assets (%)	65.8%	64.9%	62.8%	62.1%	61.4%
Leverage - Total Assets to Equity (x)	8.3	9.0	9.3	9.5	9.7
<b>Operating efficiency</b>					
Cost/income (%)	39.7%	38.6%	36.7%	37.3%	37.1%
Opex/total assets (%)	2.1%	2.0%	1.8%	1.7%	1.6%
Opex/total interest earning assets	2.4%	2.3%	2.1%	2.0%	1.9%
<b>Profitability</b>					
NIM (%)	4.4%	4.2%	4.1%	3.8%	3.7%
RoA (%)	1.8%	1.9%	1.9%	1.8%	1.8%
RoE (%)	16.5%	16.4%	17.4%	16.9%	17.3%
<b>Asset quality</b>					
Gross NPA (%)	1.4%	1.4%	1.6%	1.8%	2.1%
Net NPA (%)	0.4%	0.4%	0.5%	0.5%	0.6%
PCR (%)	71.4%	75.0%	75.0%	75.0%	75.0%
Slippage (%)	1.4%	1.3%	1.2%	1.2%	1.2%
Credit cost (%)	0.6%	0.6%	0.6%	0.6%	0.6%
<b>Per share data / Valuation</b>					
EPS (INR)	39.2	47.9	58.0	64.0	74.8
BVPS (INR)	273.9	311.8	355.3	403.3	459.4
ABVPS (INR)	268.0	305.3	347.0	392.5	445.1
P/E (x)	37.9	30.6	25.3	22.9	19.6
P/BV (x)	5.4	4.7	4.1	3.6	3.2
P/ABV (x)	5.5	4.8	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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