

Good Performance; Asset quality trend was better

CMP: INR 1,545

Rating: Buy

Target Price: INR 1,910

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	554
Mkt Cap (INR Cr)	8,56,439
52w H/L (INR)	1,724 / 1,342
Avg Yearly Vol (in 000')	7,496

Shareholding Pattern %

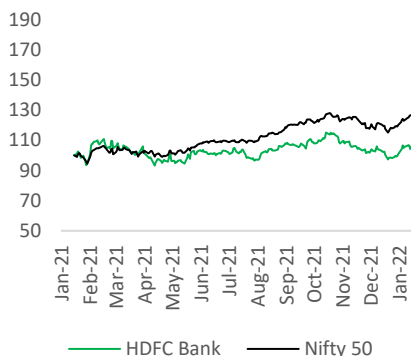
(As on June, 2021)

Promoters	25.8
FII	37.4
DII	23.0
Public & Others	13.8

Stock Performance (%)

	1m	3m	12m
HDFC Bank	2.8	-8.4	5.2
Nifty 50	5.4	-0.5	25.1

HDFC Bank Vs Nifty



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HDFC Bank during Q3FY22 has reported strong 18% YoY growth in profit at INR 10,342 cr was higher than our estimate of INR 9,972 cr. NII for the quarter grew by 13% YoY/4% QoQ to INR 18,443 cr driven by credit growth of 16.5% YoY. NIM of the bank stood stable at 4.1%. Operating profit growth for the quarter moderated to 11% YoY to INR 16,776 cr was higher than our estimate of INR 16,524 cr. Moderation in operating profit growth was due to lower fee income growth. Other income growth for the quarter moderated at 10% YoY/11% QoQ to INR 8,184 cr. Provisions for the quarter decreased sequentially by 24% to INR 2,994 cr. As a prudent strategy, Bank has made INR 900 cr contingent provision and carries total cumulative (floating + contingent) provision of INR 10,087 cr (0.8% of loans). Headline NPA ratio improved by 9bps QoQ due to lower slippages and better recoveries.

NIMs stood stable: NIM of the bank stood stable at 4.1%. Yield on advances stood flat at 8.3% QoQ while cost of funds improved further by 9 bps QoQ at 3.5%. Other income growth for the quarter moderated to 10% YoY vs 21% YoY in Q2FY22, largely due to disappointment on fee income at 2% YoY.

Advances growth continue to be driven by Retail and Commercial & Rural banking (CRB): Overall advances grew by 16.5% YoY (vs. 16% YoY in Q2FY22) due to better traction in retail credit growth of 13% YoY and commercial loans which was up by 29% YoY. Wholesale loan growth improved further to 7.5 YoY (vs. 6% YoY in Q2FY22). Within retail, Home loans grew by 19% YoY, LAP was up by 16% YoY, PL up by 15% YoY and payment products up by 11% YoY. Management indicated that Retail and CRB growth will continue to remain strong. Liability franchise of the bank remained strong with CASA growth of 25% YoY/4% QoQ. CASA ratio of the bank improved to 47.1% from 46.8% QoQ. The CASA increase was significantly led by strong growth in saving deposits by 26% YoY followed by 25% YoY growth in current deposits.

Asset quality improved but restructuring book has increased: GNPA ratio of the bank improved by 9bps QoQ at 1.3% while NNPA decreased by 3bps QoQ at 0.4% due to lower fresh slippage ratio at 1.5% vs. 1.8% in the previous quarter. In absolute term, Slippage for the quarter stood at INR 4,600 cr vs. INR 5,300 cr QoQ. Restructuring book of the bank stood at 137bps vs 150 bps QoQ. Credit cost for Q2FY22 was at 0.9% vs. 1.3% in the previous quarter. Bank's subsidiary HDB Financial Services reported stage 3 assets of 6% vs 6.1% QoQ.

Valuation & View: HDFC bank has reported good performance during Q3FY22 in terms of business growth and asset quality. However, lower operating growth was bit disappointing which was mainly due to lower fee income. Bank continue to build digital capabilities to capture the growth. Asset quality performance was better in terms of lower credit cost and negligible restructuring. We continue to maintain our positive stance on HDFC Bank due to its best-in-class deposit franchise, accelerating growth position, well cushioned balance sheet and comfortable capital level. We tweak our estimates marginally and upgrade our rating on the stock to Buy from Accumulate with a revised TP of INR 1,910 (earlier INR 1,935), implying 3.6x FY24E P/ABV.

Particulars (INR Cr)	FY21	FY22E	FY23E	FY24E
NII	64,880	74,885	84,467	96,129
PPOP	57,362	62,098	71,540	83,296
PAT	31,117	34,518	41,543	50,289
BVPS (INR / Share)	369.5	416.5	473.0	541.4
NIM (%)	4.1%	4.1%	4.0%	4.0%
RoA (%)	1.9%	1.8%	1.9%	2.0%
RoE (%)	16.6%	15.9%	16.9%	18.0%
P/ABV (x)	4.3	3.8	3.3	2.9

Q3FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Interest Income	32,468	31,353	30,080	3.6%	7.9%
Interest Expense	14,025	13,669	13,762	2.6%	1.9%
Net Interest Income	18,443	17,684	16,318	4.3%	13.0%
Non Interest Income	8,184	7,401	7,443	10.6%	9.9%
Total Income	26,627	25,085	23,761	6.1%	12.1%
Employee Costs	3,154	2,967	2,630	6.3%	19.9%
Other Operating Expenses	6,697	6,311	5,945	6.1%	12.6%
Operating Expenses	9,851	9,278	8,575	6.2%	14.9%
Pre-Provision Profit	16,776	15,807	15,186	6.1%	10.5%
Provisions	2,994	3,925	3,414	-23.7%	-12.3%
Profit Before Tax	13,782	11,883	11,772	16.0%	17.1%
Tax Expense	3,440	3,048	3014	12.8%	14.1%
Net Profit	10,342	8,834	8,758	17.1%	18.1%
Balance Sheet Analysis					
Deposits	14,45,918	14,06,343	12,71,124	2.8%	13.8%
CASA Deposits	6,81,224	6,58,232	5,46,747	3.5%	24.6%
CASA (%)	47.1%	46.8%	43.0%	31bps	410bps
Advances	12,60,863	11,98,837	10,82,324	5.2%	16.5%
Total Assets	19,38,286	18,44,845	16,54,228	5.1%	17.2%
Capital Adequacy Ratio (%)	19.5%	20.0%	18.9%	-50bps	60bps
Spread Analysis					
Yield on Avg Advances (%)	8.3%	8.3%	9.0%	0bps	-78bps
Yield on Avg Interest Earning Assets (%)	7.1%	7.2%	7.6%	-5bps	-47bps
Cost of Funds (%)	3.5%	3.6%	4.0%	-9bps	-48bps
NIM (%)	4.1%	4.1%	4.2%	0bps	-10bps
Asset Quality					
Gross NPA	16,014	16,346	8,826	-2.0%	81.4%
Net NPA	4,677	4,755	1,016	-1.6%	360.3%
GNPA (%)	1.3%	1.4%	0.8%	-9bps	45bps
NNPA (%)	0.4%	0.4%	0.1%	-3bps	28bps
Key Ratios					
Cost to Income Ratio (%)	37.0%	37.0%	36.1%	1bps	91bps
C/D Ratio (%)	87.2%	85.2%	85.1%	196bps	205bps
RoA (%) (annualized)	2.1%	1.9%	2.1%	22bps	2bps

Source: Arianth Research, Company Filings

Key Concall Highlights

- Cheque bounce rate has back to the pre-covid level or trending better than.
- Advances grew by 16.5% YoY reaching new heights driven through relationship management, digital offering and breadth of products. New liability relationships added during the quarter remained at an all time high.
- Continued focus on deposits helped in the maintenance of a healthy liquidity coverage ratio at 123%, well above the regulatory requirement, which positions the Bank favorably to capitalise on growth opportunities.
- Slippages for the quarter stood at 1.5% or INR 4,600 cr.
- Company has issued 9.5 lakh credit cards. The credit card spends increased by 24% YoY and Debit card spends by 14% YoY.
- Management signed MOU with 2 large payments banks for distributing the certain products.
- Retail asset banking has shown growth of 4.9% QoQ and 13.3% on YoY basis on account of positive QoQ growth in personal loans, home loans, LAP and other retail products.
- Commercial and Rural banking segment has shown growth of 6% QoQ and 29% YoY capturing strong economic activities and market share gains.
- OPEX increased by 15% YoY as bank has added 93 branches and 596 ATMs during the quarter. Also, employee count of the bank increased by 5,071 on QoQ basis.
- Core annualized slippage ratio stood at 1.6% i.e. INR 4,600 cr. Recoveries and upgrades for the quarter was at INR 2,400 cr and write offs stood at INR 2,200 cr.
- Credit cost expected to be in the range of 100-120 bps.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial reported profit of INR 304 cr vs INR 192 cr QoQ. As on Q3FY22, GNPA of the company stood at 6.05% vs. 6.1% QoQ. Total loan book was INR 60,478 cr as on Q3FY22 as against INR 60,068 cr YoY. As on Dec'21, HDB Financial has 1,328 branches across 965 cities / towns.

Break-up of Advances

in Cr.	Q3FY22	Q2FY22	Q3FY21	QoQ	YoY
Personal Loans	1,33,399	1,26,358	1,15,963	6%	15%
Auto	96,426	95,195	89,277	1%	8%
Home Loans	78,992	75,754	66,609	4%	19%
Payment Products	73,305	67,783	65,945	8%	11%
LAP	57,736	54,426	49,817	6%	16%
Two Wheelers Loan	9,288	9,713	10,465	-4%	-11%
Gold Loans	8,198	8,109	7,636	1%	7%
Other Retail Loans	48,407	45,604	40,782	6%	19%
Commercial & Rural Banking	3,84,195	3,59,020	2,94,815	7%	30%
Agriculture	56,031	56,004	45,284	0%	24%
Corporates	3,26,182	3,12,423	3,03,483	4%	7%
Total	12,72,159	12,10,389	10,90,076	5%	17%

Key Financials

INR Cr	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	1,14,813	1,20,858	1,35,505	1,52,910	1,73,661
Interest Expense	58,626	55,979	60,619	68,443	77,532
Net Interest Income	56,186	64,880	74,885	84,467	96,129
Non interest income	23,261	25,205	24,538	28,507	33,152
Operating income	79,447	90,084	99,423	1,12,973	1,29,281
- Employee expense	9,526	10,365	11,434	12,449	13,550
- Other operating expense	21,172	22,358	25,891	28,983	32,436
Operating Expense	30,698	32,723	37,325	41,433	45,986
PPOP	48,750	57,362	62,098	71,540	83,296
Provisions	12,142	15,703	15,703	15,703	15,703
PBT	36,607	41,659	46,395	55,838	67,593
Tax Expense	10,350	10,542	11,877	14,294	17,304
PAT	26,257	31,117	34,518	41,543	50,289
EPS (INR)	47.89	56.44	62.61	75.36	91.22

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

Balance Sheet (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Source of Funds					
Share capital	548	551	551	551	551
Reserves & Surplus	1,70,438	2,03,170	2,29,058	2,60,215	2,97,932
Net-worth	1,70,986	2,03,721	2,29,609	2,60,767	2,98,484
Borrowings	1,44,629	1,35,487	1,62,585	1,95,102	2,34,122
Deposits	11,47,502	13,35,060	15,48,670	17,96,457	20,83,890
Other liabilities & provisions	67,394	72,602	87,345	1,05,083	1,26,422
Total Equity & Liabilities	15,30,511	17,46,871	20,28,209	23,57,408	27,42,917
Uses of Funds					
Cash & bank balances	86,619	1,19,470	1,40,310	1,63,288	1,89,776
Net investments	3,91,827	4,43,728	5,00,750	5,65,098	6,37,716
Loans & advances	9,93,703	11,32,837	13,02,762	15,04,690	17,45,441
Fixed assets	4,432	4,909	4,508	4,587	4,666
Other assets	53,931	45,926	79,880	1,19,745	1,65,319
Total Assets	15,30,511	17,46,871	20,28,209	23,57,408	27,42,917

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

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
Growth Rates					
Advances (%)	21.3%	14.0%	15.0%	15.5%	16.0%
Deposits (%)	24.3%	16.3%	16.0%	16.0%	16.0%
Total assets (%)	23.0%	14.1%	16.1%	16.2%	16.4%
NII (%)	16.5%	15.5%	15.4%	12.8%	13.8%
Pre-provisioning profit (%)	22.6%	17.7%	8.3%	15.2%	16.4%
PAT (%)	24.6%	18.5%	10.9%	20.4%	21.1%
B/S Ratios					
Credit/Deposit (%)	86.6%	84.9%	84.1%	83.8%	83.8%
CASA (%)	42.2%	46.1%	47.4%	48.8%	50.2%
Advances/Total assets (%)	64.9%	64.8%	64.2%	63.8%	63.6%
Leverage - Total Assets to Equity	9.0	8.6	8.8	9.0	9.2
CAR (%)	17.1%	15.8%	17.5%	16.4%	16.1%
Operating efficiency					
Cost/income (%)	38.6%	36.3%	37.5%	36.7%	35.6%
Opex/total assets (%)	2.0%	1.9%	1.8%	1.8%	1.7%
Opex/total interest earning assets	2.3%	2.1%	2.1%	2.0%	1.9%
Profitability					
NIM (%)	4.2%	4.1%	4.1%	4.0%	4.0%
RoA (%)	1.9%	1.9%	1.8%	1.9%	2.0%
RoE (%)	16.4%	16.6%	15.9%	16.9%	18.0%
Asset quality					
Gross NPA (%)	1.3%	1.3%	1.5%	1.4%	1.3%
Net NPA (%)	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	75.0%	75.0%	75.0%	75.0%	75.0%
Per share data / Valuation					
EPS (INR)	47.9	56.4	62.6	75.4	91.2
BVPS (INR)	311.8	369.5	416.5	473.0	541.4
ABVPS (INR)	305.3	361.3	407.5	463.6	530.7
P/E (x)	32.3	27.4	24.7	20.5	16.9
P/BV (x)	5.0	4.2	3.7	3.3	2.9
P/ABV (x)	5.1	4.3	3.8	3.3	2.9

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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