

BUY

TP: Rs 1,275 | ▲ 16%

HDFC BANK

| Banking

| 18 July 2020

Strong enough to weather the storm

HDFC Bank's (HDFCB) Q1FY21 PAT at ~Rs 67bn was driven by 18% YoY growth in NII and a decline in operating expenses. Loans under moratorium remained low at 9%, with 70% of the customers having paid their overdue amounts. MD Aditya Puri hinted that his successor may be an internal candidate and that management transition should not be a concern. The bank has a strong CET-1 ratio of 16.7% and does not intend to raise capital in the short term. Maintain BUY as we roll forward to a Sep'21 TP of Rs 1,275 (from Rs 1,200).

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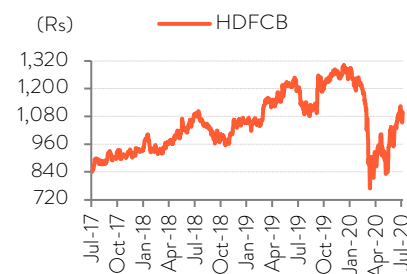
Moratorium portfolio remains in check: HDFCB's moratorium share as of end-June stood at 9% of loans, with 90% of customers flowing in from the first three-month phase of the relief announcement. However, 70% of these customers have paid amounts overdue as of June. The slippage ratio stood at 1.2% which included a 30bps impact from expedited NPA recognition. The bank made contingent provisions worth Rs 10bn in Q1 and has an outstanding floating/contingent provision buffer worth ~Rs 54bn (~0.5% of loans).

Ticker/Price	HDFCB IN/Rs 1,098
Market cap	US\$ 80.5bn
Shares o/s	5,490mn
3M ADV	US\$ 251.3mn
52wk high/low	Rs 1,306/Rs 739
Promoter/FPI/DII	26%/37%/37%

Source: NSE

Retail growth slows: Wholesale loans grew 37% YoY given demand from large domestic conglomerates, entities with international parentage and Navratna-quality PSUs. Retail growth declined 4% QoQ as loan originations plunged 70%. Segment-wise, personal loan originations nosedived 86% due to tightened credit policies, while credit card sourcing/spends dropped 87%/44%. Originations declined 66% for vehicle loans and 15% for gold loans. The bank has disbursed ~Rs 100bn under the emergency credit line guarantee scheme (ECLGS) for MSMEs.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We like HDFCB for its strong processes, risk management practices and stable asset quality. Rolling valuations forward, we move to a Sep'21 TP of Rs 1,275 (vs. Rs 1,200 earlier).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	664,364	765,687	886,619
NII growth (%)	20.3	16.5	18.2	15.3	15.8
Adj. net profit (Rs mn)	210,782	262,573	292,091	318,795	370,239
EPS (Rs)	39.6	48.0	53.3	58.1	67.5
P/E (x)	27.7	22.9	20.6	18.9	16.3
P/BV (x)	4.0	3.5	3.0	2.7	2.4
ROA (%)	1.8	1.9	1.8	1.7	1.7
ROE (%)	16.5	16.4	15.7	15.0	15.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Income Statement					
Interest income	303,780	273,916	298,851	10.9	1.6
Interest expense	147,126	140,973	146,810	4.4	0.2
Net interest income	156,654	132,943	152,041	17.8	3.0
Non-interest income	40,753	49,703	60,326	(18.0)	(32.4)
Net total income	197,407	182,645	212,366	8.1	(7.0)
Staff expenses	25,134	22,174	24,983	13.4	0.6
Other operating expenses	43,980	48,999	57,796	(10.2)	(23.9)
Operating expenses	69,115	71,173	82,778	(2.9)	(16.5)
Pre-provisioning profit	128,293	111,472	129,588	15.1	(1.0)
Total provisions	38,915	26,137	37,845	48.9	2.8
Profit before tax	89,378	85,336	91,743	4.7	(2.6)
Tax	22,791	29,654	22,466	(23.1)	1.4
Profit after tax	66,586	55,682	69,277	19.6	(3.9)
Balance Sheet					
Advances	10,032,989	8,297,298	9,937,029	20.9	1.0
Deposits	11,893,873	9,545,537	11,475,023	24.6	3.7
CASA ratio (%)	40.1	39.7	42.2	44bps	(209bps)
Yields and margins (%)					
Net interest margin	4.3	4.3	4.3	0bps	0bps
Yield on advances	9.6	10.6	10.0	(95bps)	(34bps)
Cost of funds	4.5	5.4	4.7	(85bps)	(22bps)
Key ratios (%)					
Cost/Income	35.0	39.0	39.0	(396bps)	(397bps)
Tax rate	25.5	34.8	24.5	(925bps)	101bps
Loan to Deposit ratio	84.4	86.9	86.6	(257bps)	(224bps)
Capital adequacy ratios (%)					
Tier 1	17.5	15.6	17.2	190bps	30bps
Total CAR	18.9	16.9	18.5	200bps	40bps
Asset quality (Rs mn)					
Gross NPAs	137,735	117,690	126,500	17.0	8.9
Net NPAs	32,800	35,672	35,424	(8.1)	(7.4)
Gross NPA ratio (%)	1.4	1.4	1.3	(4bps)	10bps
Net NPA ratio (%)	0.3	0.4	0.4	(10bps)	(3bps)
Coverage ratio (%)	76.2	69.7	72.0	650bps	419bps

Source: Company, BOBCAPS Research

Valuation methodology

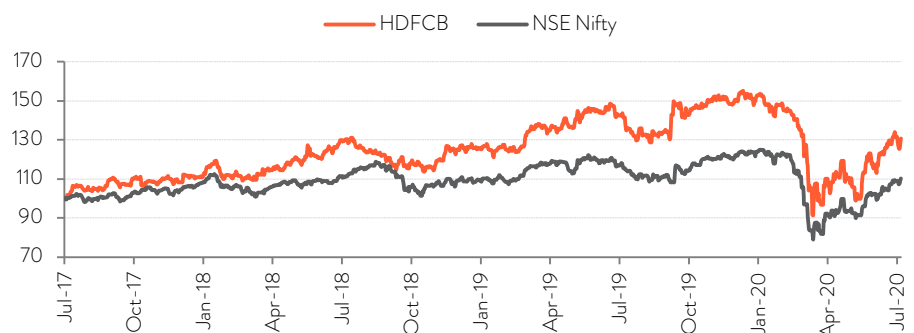
We like HDFCB for its strong processes, risk management practices and stable asset quality. We largely retain our estimates for FY21-FY22 and introduce forecasts for FY23. Rolling valuations forward, we move to a Sep'21 target price of Rs 1,275 (vs. Rs 1,200 earlier). Our target price is derived using the SOTP method. We continue to value the core book at 2.8x Sep'22E P/BV, based on a two-stage Gordon Growth Model. Our SOTP model also includes the value of the bank's NBFC and broking businesses. Maintain BUY.

FIG 2 – SOTP VALUATION

Sum of Parts	Company Value (Rs bn)	Stake in Company (%)	Value for HDFCB (Rs bn)	Per Share (Rs)	Contribution to TP (%)	Comments
Core Business	6,687	100	6,687	1,220	96	Valued at 2.8x Sep'22E P/BV on Gordon Growth Model
HDB Financial	237	96	243	44	3	Valued at 2.5x Sep'22E P/BV
HDFC Securities	54	98	59	11	1	Valued at 10x Sep'22E P/E
Sum of Parts			6,989	1,275	100	

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Economic slowdown:** Prolonged Covid-related disruptions will affect our loan growth and asset quality assumptions.
- Leadership risk:** The bank will witness a change at the helm after three decades, with MD & CEO Aditya Puri retiring in Oct'20. While we continue to believe that HDFCB's process-driven business will hold it in good stead, the stock could be negatively affected should there be a slew of senior management exits during the transition phase.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	664,364	765,687	886,619
NII growth (%)	20.3	16.5	18.2	15.3	15.8
Non-interest income	176,259	232,608	239,787	266,356	305,153
Total income	658,691	794,471	904,152	1,032,043	1,191,771
Operating expenses	(261,194)	(306,975)	(343,663)	(404,428)	(463,899)
Operating profit	397,497	487,495	560,488	627,615	727,872
Operating profit growth (%)	21.8	22.6	15.0	12.0	16.0
Provisions	(75,501)	(121,424)	(167,893)	(199,127)	(230,238)
PBT	321,997	366,072	392,595	428,488	497,633
Tax	(111,215)	(103,498)	(100,504)	(109,693)	(127,394)
Reported net profit	210,782	262,573	292,091	318,795	370,239
Adjustments	0	0	0	0	0
Adjusted net profit	210,782	262,573	292,091	318,795	370,239

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	5,447	5,483	5,483	5,483	5,483
Reserves & surplus	1,486,617	1,704,377	1,996,468	2,240,665	2,524,268
Net worth	1,492,064	1,709,860	2,001,951	2,246,148	2,529,751
Deposits	9,231,409	11,475,023	13,269,732	15,532,653	18,182,576
Borrowings	1,207,248	1,490,664	1,723,989	1,984,276	2,286,382
Other liabilities & provisions	514,686	629,565	680,383	776,168	890,027
Total liabilities and equities	12,445,407	15,305,113	17,676,055	20,539,246	23,888,736
Cash & bank balance	813,476	866,187	890,194	915,632	942,612
Investments	2,905,879	3,918,267	4,422,821	5,068,841	5,814,049
Advances	8,194,012	9,937,029	11,427,583	13,255,996	15,575,796
Fixed & Other assets	532,040	583,630	935,458	1,298,776	1,556,279
Total assets	12,445,407	15,305,113	17,676,055	20,539,246	23,888,736
Deposit growth (%)	17.0	24.3	15.6	17.1	17.1
Advances growth (%)	24.5	21.3	15.0	16.0	17.5

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	39.6	48.0	53.3	58.1	67.5
Dividend per share	7.4	11.9	0.0	11.6	0.0
Book value per share	273.9	311.8	365.1	409.6	461.4

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	27.7	22.9	20.6	18.9	16.3
P/BV	4.0	3.5	3.0	2.7	2.4
Dividend yield (%)	0.7	1.1	0.0	1.1	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	4.2	4.0	4.0	4.0	4.0
Non-interest income	1.5	1.7	1.5	1.4	1.4
Operating expenses	2.3	2.2	2.1	2.1	2.1
Pre-provisioning profit	3.4	3.5	3.4	3.3	3.3
Provisions	0.7	0.9	1.0	1.0	1.0
PBT	2.8	2.6	2.4	2.2	2.2
Tax	1.0	0.7	0.6	0.6	0.6
ROA	1.8	1.9	1.8	1.7	1.7
Leverage (x)	9.0	8.7	8.9	9.0	9.3
ROE	16.5	16.4	15.7	15.0	15.5

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	20.3	16.5	18.2	15.3	15.8
Pre-provisioning profit	21.8	22.6	15.0	12.0	16.0
EPS	16.9	21.2	10.9	9.1	16.1
Profitability & Return ratios (%)					
Net interest margin	4.4	4.2	4.2	4.3	4.3
Fees / Avg. assets	1.2	1.2	1.0	1.0	1.0
Cost-Income	39.7	38.6	38.0	39.2	38.9
ROE	16.5	16.4	15.7	15.0	15.5
ROA	1.8	1.9	1.8	1.7	1.7
Asset quality (%)					
GNPA	1.4	1.3	1.9	1.8	1.8
NNPA	0.4	0.4	0.5	0.4	0.4
Provision coverage	71.4	72.0	73.5	76.6	77.1
Ratios (%)					
Credit-Deposit	88.8	86.6	86.1	85.3	85.7
Investment-Deposit	31.5	34.1	33.3	32.6	32.0
CAR	17.1	18.5	18.9	18.5	17.8
Tier-1	15.8	17.2	17.7	17.4	16.8

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

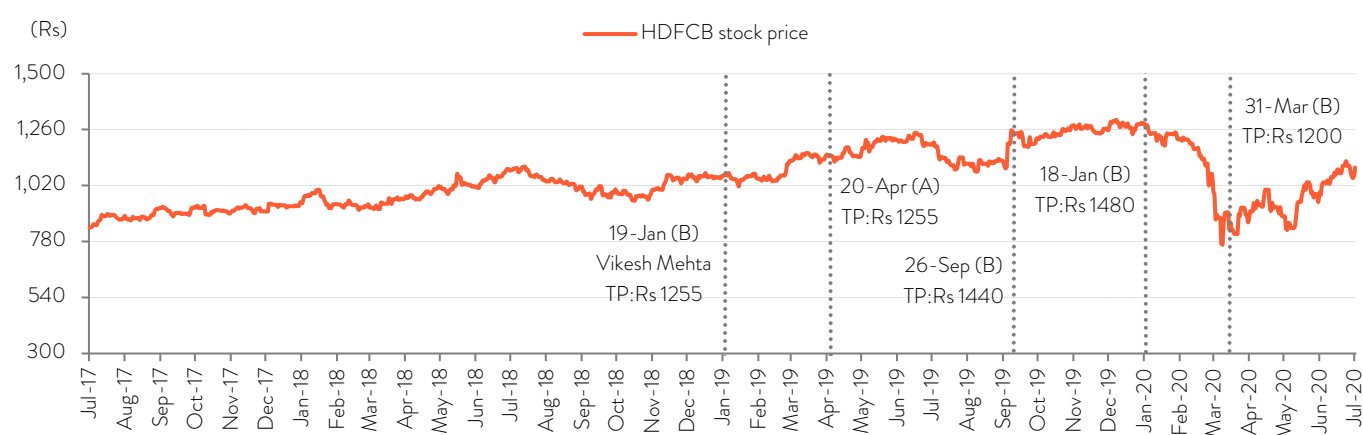
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: HDFC BANK (HDFCB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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