

**BUY**

TP: Rs 1,800 | ▲ 23%

**HDFC BANK**

| Banking

| 16 January 2021

## Sailing steady in a storm

**HDFC Bank's (HDFCB) Q3FY21 PAT of Rs 88bn (+18% YoY) was led by strong 17% growth in operating profit. Headline NPA was stable and various asset quality metrics such as demand resolution (97%) and cheque bounce rates point towards normalisation. The bank's vulnerable SME portfolio estimate has reduced further to 2.3%. Retail disbursements across products picked up sharply on festive demand. We raise our TP to Rs 1,800 (vs. Rs 1,400) as we hike FY21-FY23 EPS 4-15%, roll to Mar'23 valuations and now value the core book at 3.7x P/BV.**

Vikesh Mehta

research@bobcaps.in

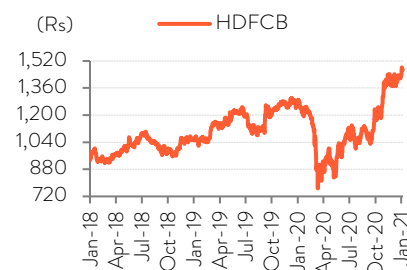
**Improvement in key asset quality metrics:** HDFCB's proforma GNPA ratio was stable at 1.4%. The bank sold some retail assets in Q3 while its restructured book remained manageable at 0.5%. Demand resolution increased to 97% in Q3 vs. 95% in Q2 (and 98% pre-Covid). Cheque bounce rates are improving MoM and are around pre-Covid levels across products whereas bounce resolution rates are better than before. The SME portfolio is showing encouraging trends with MoM improvement in +30dpd and the bank's estimate of its vulnerable portfolio has declined to 2.3% of loans (vs. 3%/9% in Q2/Q1).

Ticker/Price	HDFCB IN/Rs 1,467
Market cap	US\$ 110.2bn
Shares o/s	5,490mn
3M ADV	US\$ 203.0mn
52wk high/low	Rs 1,497/Rs 739
Promoter/FPI/DII	26%/37%/37%

Source: NSE

**Retail disbursements show strong traction:** Loan growth at 16% YoY continued to beat the industry and was backed by ~27% growth in wholesale assets. Retail assets grew 4% QoQ while disbursements grew 40% propelled by strong festive demand. Disbursements across the wholesale and retail portfolios are back to pre-Covid levels. The bank sourced ~2mn liability customers in Q3 (vs. 1.8mn in Q2) and does not expect the RBI's incremental credit card sourcing restriction to have a large impact on CASA or customer acquisition.

## STOCK PERFORMANCE



Source: NSE

**Maintain BUY:** We raise FY21-FY23 EPS 4-15% to adjust for lower operating expense and credit cost assumptions. We value the core book at 3.7x P/BV (vs. 3.2x earlier) and roll over to a new Mar'22 SOTP- based TP of Rs 1,800.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	482,432	561,863	654,507	772,610	927,576
NII growth (%)	20.3	16.5	16.5	18.0	20.1
Adj. net profit (Rs mn)	210,782	262,573	309,555	381,447	461,024
EPS (Rs)	39.6	48.0	56.5	69.6	84.1
P/E (x)	37.0	30.5	26.0	21.1	17.4
P/BV (x)	5.4	4.7	4.1	3.6	3.1
ROA (%)	1.8	1.9	1.9	2.0	2.0
ROE (%)	16.5	16.4	16.9	18.2	19.1

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)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Income Statement</b>								
Interest income	300,797	293,697	299,770	2.4	0.3	904,346	849,276	6.5
Interest expense	137,621	151,968	142,006	(9.4)	(3.1)	426,752	439,454	(2.9)
<b>Net interest income</b>	<b>163,176</b>	<b>141,729</b>	<b>157,764</b>	<b>15.1</b>	<b>3.4</b>	<b>477,594</b>	<b>409,822</b>	<b>16.5</b>
Non-interest income	74,432	66,693	60,925	11.6	22.2	176,110	172,283	2.2
<b>Net total income</b>	<b>237,608</b>	<b>208,422</b>	<b>218,688</b>	<b>14.0</b>	<b>8.7</b>	<b>653,704</b>	<b>582,104</b>	<b>12.3</b>
Staff expenses	26,301	24,550	25,424	7.1	3.5	76,859	70,274	9.4
Other operating expenses	59,447	54,418	55,127	9.2	7.8	158,554	153,923	3.0
Operating expenses	85,748	78,968	80,551	8.6	6.5	235,413	224,197	5.0
<b>Pre-provisioning profit</b>	<b>151,860</b>	<b>129,454</b>	<b>138,138</b>	<b>17.3</b>	<b>9.9</b>	<b>418,291</b>	<b>357,907</b>	<b>16.9</b>
Total provisions	34,141	30,436	37,035	12.2	(7.8)	110,092	83,579	31.7
Profit before tax	117,719	99,019	101,103	18.9	16.4	308,199	274,328	12.3
Tax	30,136	24,854	25,972	21.3	16.0	78,899	81,032	(2.6)
<b>Profit after tax</b>	<b>87,583</b>	<b>74,165</b>	<b>75,131</b>	<b>18.1</b>	<b>16.6</b>	<b>229,300</b>	<b>193,296</b>	<b>18.6</b>
<b>Balance Sheet</b>								
Advances	10,823,242	9,360,295	10,383,351	15.6	4.2	10,823,242	9,360,295	15.6
Deposits	12,711,239	10,674,335	12,293,104	19.1	3.4	12,711,239	10,674,335	19.1
CASA ratio (%)	43.0	39.5	41.6	349bps	141bps	43.0	39.5	349bps
<b>Yields and margins (%)</b>								
Net interest margin	4.1	4.2	4.1	(10bps)	0bps	-	-	-
Yield on advances	8.9	10.2	9.2	(133bps)	(28bps)	-	-	-
Cost of funds	4.0	5.3	4.3	(130bps)	(26bps)	-	-	-
<b>Key ratios (%)</b>								
Cost/Income	36.1	37.9	36.8	(180bps)	(75bps)	36.0	38.5	(250bps)
Tax rate	25.6	25.1	25.7	50bps	(9bps)	25.6	29.5	(394bps)
Loan to Deposit ratio	85.1	87.7	84.5	(254bps)	68bps	85.1	87.7	(254bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	17.6	17.1	17.7	50bps	(10bps)	17.6	17.1	50bps
Total CAR	18.9	18.5	19.1	40bps	(20bps)	18.9	18.5	40bps
<b>Asset quality (Rs mn)</b>								
Gross NPAs	88,256	134,273	113,046	(34.3)	(21.9)	88,256	134,273	(34.3)
Net NPAs	10,160	44,684	17,561	(77.3)	(42.1)	10,160	44,684	(77.3)
Gross NPA ratio (%)	0.8	1.4	1.1	(61bps)	(27bps)	0.8	1.4	(61bps)
Net NPA ratio (%)	0.1	0.5	0.2	(39bps)	(8bps)	0.1	0.5	(39bps)
Coverage ratio (%)	88.5	66.7	84.5	2177bps	402bps	88.5	66.7	2177bps

Source: Company, BOBCAPS Research

## Valuation methodology

Risk-reward remains attractive for HDFCB and the stock offers both downside support as well as upside potential in times of uncertain macro conditions, in our view. We like the bank for its healthy provisioning buffers and strong stress management capability, even as its superior profitability merits a premium valuation to peers.

We raise FY21-FY23 EPS estimates by 4-15% to adjust for lower operating expense and credit cost assumptions. Valuing the core book at 3.7x P/BV (vs. 3.2x earlier), we roll over to a new Mar'22 SOTP- based target price of Rs 1,800 (vs. Rs 1,400 earlier). Maintain BUY.

**FIG 2 – REVISED ESTIMATES**

Particulars (Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	654,507	772,610	927,576	649,511	760,941	900,462	0.8	1.5	3.0
Pre-provisioning profit	579,317	667,470	788,238	560,896	640,145	754,901	3.3	4.3	4.4
Net Profit	309,555	381,447	461,024	296,368	337,300	401,074	4.4	13.1	14.9
EPS (Rs)	56	70	84	54	62	73	4.4	13.1	14.9

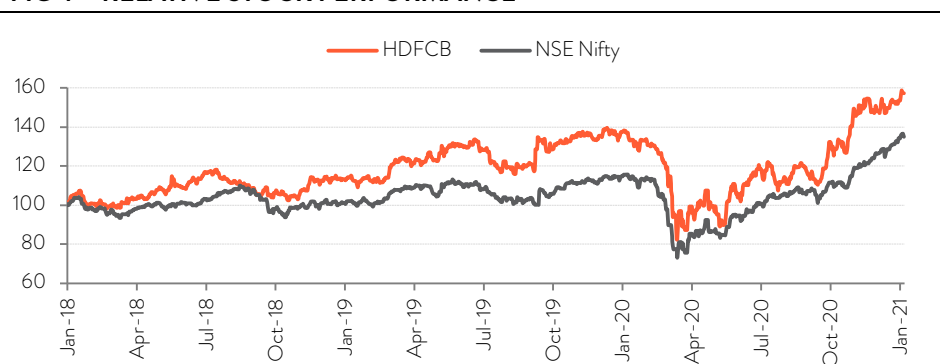
Source: BOBCAPS Research

**FIG 3 – 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	9,414	100	9,414	1,717	95	Valued at 3.7x Mar'23E P/BV on Gordon Growth Model
HDB Financial	332	96	340	62	3	Valued at 3.5x Mar'23E P/BV
HDFC Securities	108	98	117	21	1	Valued at 20x Mar'23E P/E
<b>Sum of Parts</b>			<b>9,871</b>	<b>1,800</b>	<b>100</b>	

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- Asset quality cycle especially unsecured retail turn out to be more severe than anticipated
- Economic slowdown continues and swift recovery doesn't take place as anticipated

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>482,432</b>	<b>561,863</b>	<b>654,507</b>	<b>772,610</b>	<b>927,576</b>
NII growth (%)	20.3	16.5	16.5	18.0	20.1
Non-interest income	176,259	232,608	239,787	266,356	305,153
Total income	658,691	794,471	894,295	1,038,967	1,232,728
Operating expenses	(261,194)	(306,975)	(314,978)	(371,497)	(444,490)
Operating profit	397,497	487,495	579,317	667,470	788,238
Operating profit growth (%)	21.8	22.6	18.8	15.2	18.1
Provisions	(75,501)	(121,424)	(163,248)	(154,773)	(168,582)
PBT	321,997	366,072	416,069	512,697	619,656
Tax	(111,215)	(103,498)	(106,514)	(131,250)	(158,632)
<b>Reported net profit</b>	<b>210,782</b>	<b>262,573</b>	<b>309,555</b>	<b>381,447</b>	<b>461,024</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>210,782</b>	<b>262,573</b>	<b>309,555</b>	<b>381,447</b>	<b>461,024</b>

### 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	1,941,496	2,233,685	2,586,829
Net worth	1,492,064	1,709,860	1,946,980	2,239,168	2,592,312
Deposits	9,231,409	11,475,023	13,538,275	16,078,613	19,240,564
Borrowings	1,207,248	1,490,664	1,672,072	1,869,742	2,122,149
Other liabilities & provisions	514,686	629,565	680,383	776,168	890,027
<b>Total liabilities and equities</b>	<b>12,445,407</b>	<b>15,305,113</b>	<b>17,837,710</b>	<b>20,963,691</b>	<b>24,845,052</b>
Cash & bank balance	813,476	866,187	890,194	915,632	942,612
Investments	2,905,879	3,918,267	4,552,037	5,371,206	6,347,763
Advances	8,194,012	9,937,029	11,526,953	13,601,805	16,322,166
Fixed & Other assets	532,040	583,630	868,526	1,075,047	1,232,511
<b>Total assets</b>	<b>12,445,407</b>	<b>15,305,113</b>	<b>17,837,710</b>	<b>20,963,691</b>	<b>24,845,052</b>
Deposit growth (%)	17.0	24.3	18.0	18.8	19.7
Advances growth (%)	24.5	21.3	16.0	18.0	20.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	39.6	48.0	56.5	69.6	84.1
Dividend per share	7.4	11.9	11.3	13.9	16.8
Book value per share	273.9	311.8	355.1	408.4	472.8

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	37.0	30.5	26.0	21.1	17.4
P/BV	5.4	4.7	4.1	3.6	3.1
Dividend yield (%)	0.5	0.8	0.8	0.9	1.1

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	4.2	4.0	3.9	4.0	4.0
Non-interest income	1.5	1.7	1.4	1.4	1.3
Operating expenses	2.3	2.2	1.9	1.9	1.9
Pre-provisioning profit	3.4	3.5	3.5	3.4	3.4
Provisions	0.7	0.9	1.0	0.8	0.7
PBT	2.8	2.6	2.5	2.6	2.7
Tax	1.0	0.7	0.6	0.7	0.7
ROA	1.8	1.9	1.9	2.0	2.0
Leverage (x)	9.0	8.7	9.1	9.3	9.5
ROE	16.5	16.4	16.9	18.2	19.1

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	20.3	16.5	16.5	18.0	20.1
Pre-provisioning profit	21.8	22.6	18.8	15.2	18.1
EPS	16.9	21.2	17.5	23.2	20.9
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.4	4.2	4.1	4.2	4.3
Fees / Avg. assets	1.2	1.2	1.0	1.0	1.0
Cost-Income	39.7	38.6	35.2	35.8	36.1
ROE	16.5	16.4	16.9	18.2	19.1
ROA	1.8	1.9	1.9	2.0	2.0
<b>Asset quality (%)</b>					
GNPA	1.4	1.3	1.9	1.8	1.7
NNPA	0.4	0.4	0.5	0.6	0.8
Provision coverage	71.4	72.0	72.3	66.6	56.0
<b>Ratios (%)</b>					
Credit-Deposit	88.8	86.6	85.1	84.6	84.8
Investment-Deposit	31.5	34.1	33.6	33.4	33.0
CAR	17.1	18.5	18.2	18.0	17.5
Tier-1	15.8	17.2	17.1	17.0	16.6

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

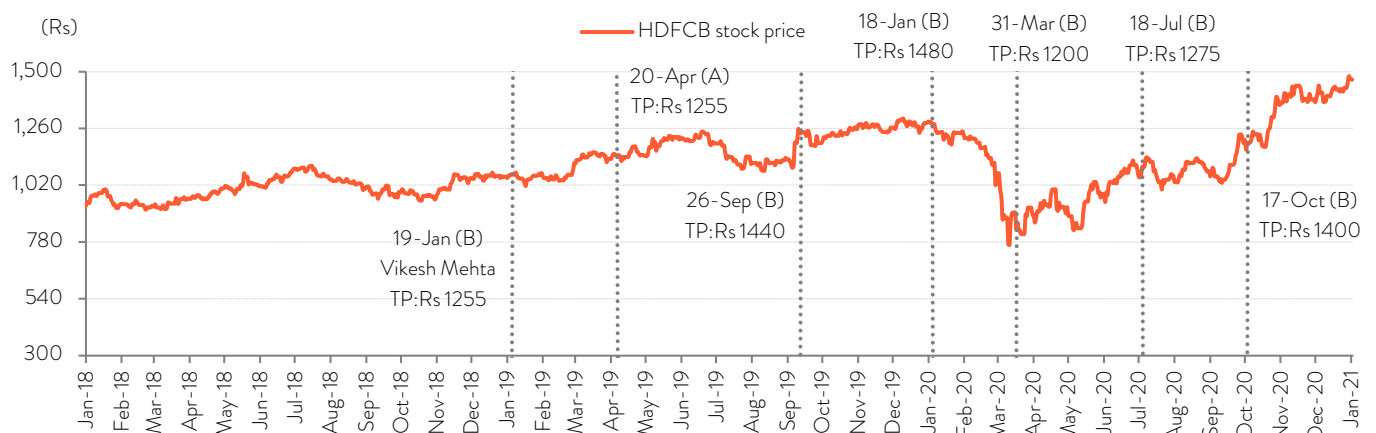
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): HDFC BANK (HDFCB IN)



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

### Rating distribution

As of 31 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.