

BUY

TP: Rs 1,800 | ▲ 26%

HDFC BANK

| Banking

| 17 April 2021

Asset quality stable despite NPA recognition

HDFC Bank's (HDFCB) Q4FY21 PAT was in line at Rs 82bn (+18% YoY) and asset quality was stable with GNPA ratio at ~1.3% despite the SC vacating its stay on NPA recognition. The restructured book was manageable at Rs 65bn (0.6% of loans). The bank has an adequate provision buffer and the Rs 13bn contingent provision made in Q4 is precautionary. Retail demand resolution and bounce rates have been improving steadily since Oct'20 and retail asset traction is returning to pre-Covid levels. Maintain BUY, Mar'22 TP unchanged at Rs 1,800.

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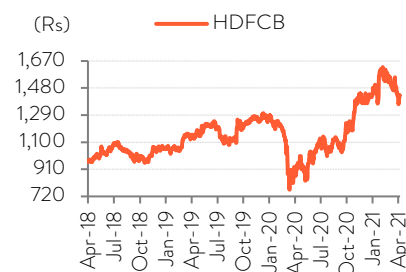
Headline NPAs stable: HDFCB's GNPA ratio remained largely stable at 1.32% (proforma 1.38% in Q3) given that the slippage ratio stood at ~1.7% (vs. 1.8% in Q3). The bank used contingent provisions worth Rs 36bn towards these slippages and set aside a further Rs 5bn towards reversal of interest-on-interest, as per regulatory guidelines. NPAs in the wholesale book were marginal and a large portion of these may be upgraded once a Covid resolution plan is implemented.

Ticker/Price	HDFCB IN/Rs 1,429
Market cap	US\$ 105.5bn
Shares o/s	5,490mn
3M ADV	US\$ 205.5mn
52wk high/low	Rs 1,641/Rs 826
Promoter/FPI/DII	26%/37%/37%

Source: NSE

Retail demand resolution and cheque bounce rates improving: Retail demand resolution and cheque bounce rates continued to improve in Q4, though the latter has deteriorated marginally in April. States such as Maharashtra, Madhya Pradesh, Punjab and Telangana are showing higher stress. SME loans form ~20% of the overall portfolio and delinquency levels across buckets in this segment are now closer to pre-Covid levels.

STOCK PERFORMANCE



Source: NSE

Retail growth gradually picking up: Demand in the retail secured/unsecured segments has normalised with disbursements growing at 21% YoY/6% QoQ in Q4. Segments such as auto, housing and personal loans are showing good traction. The bank has disbursed loans worth Rs 265bn under ECLGS 1 & 2.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	482,432	561,863	648,796	765,703	920,305
NII growth (%)	20.3	16.5	15.5	18.0	20.2
Adj. net profit (Rs mn)	210,782	262,573	311,165	373,592	448,710
EPS (Rs)	39.6	48.0	56.6	67.8	81.4
P/E (x)	36.0	29.7	25.2	21.1	17.6
P/BV (x)	5.2	4.6	3.9	3.4	3.0
ROA (%)	1.8	1.9	1.9	2.0	2.0
ROE (%)	16.5	16.4	16.6	17.2	18.2

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

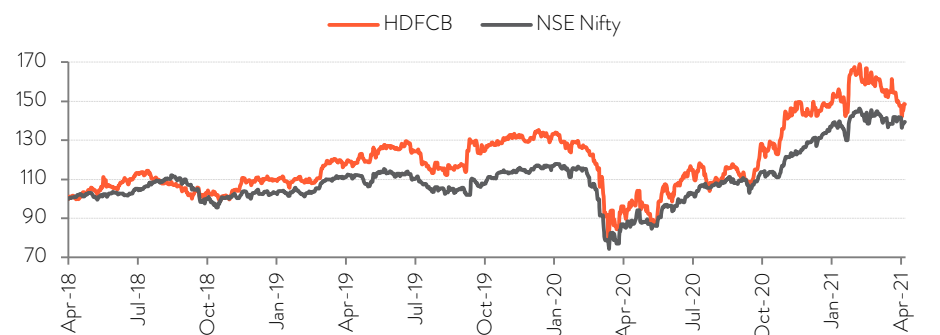
(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	3,04,236	2,98,851	3,00,797	1.8	1.1	12,08,582	11,48,127	5.3
Interest expense	1,33,034	1,46,810	1,37,621	(9.4)	(3.3)	5,59,787	5,86,264	(4.5)
Net interest income	1,71,202	1,52,041	1,63,176	12.6	4.9	6,48,796	5,61,863	15.5
Non-interest income	75,939	60,326	74,432	25.9	2.0	2,52,049	2,32,608	8.4
Net total income	2,47,141	2,12,366	2,37,608	16.4	4.0	9,00,845	7,94,471	13.4
Staff expenses	26,789	24,983	26,301	7.2	1.9	1,03,648	95,257	8.8
Other operating expenses	65,024	57,796	59,447	12.5	9.4	2,23,578	2,11,719	5.6
Operating expenses	91,813	82,778	85,748	10.9	7.1	3,27,226	3,06,975	6.6
Pre-provisioning profit	1,55,328	1,29,588	1,51,860	19.9	2.3	5,73,618	4,87,496	17.7
Total provisions	46,937	37,845	34,141	24.0	37.5	1,57,029	1,21,424	29.3
Profit before tax	1,08,391	91,743	1,17,719	18.1	(7.9)	4,16,590	3,66,072	13.8
Tax	26,526	22,466	30,136	18.1	(12.0)	1,05,425	1,03,498	1.9
Profit after tax	81,865	69,277	87,583	18.2	(6.5)	3,11,165	2,62,573	18.5
Balance Sheet								
Advances	1,13,28,366	99,37,029	1,08,23,242	14.0	4.7	1,13,28,366	99,37,029	14.0
Deposits	1,33,50,602	1,14,75,023	1,27,11,239	16.3	5.0	1,33,50,602	1,14,75,023	16.3
CASA ratio (%)	46.1	42.2	43	388bps	310bps	46.1	42.2	388bps
Yields and margins (%)								
Net interest margin	4.2	4.3	4.1	(10bps)	10bps			
Yield on advances	8.6	10	8.9	(137bps)	(30bps)			
Cost of funds	3.7	4.7	4	(103bps)	(28bps)			
Key ratios (%)								
Cost/Income	37.2	39	36.1	(183bps)	106bps	36.3	38.6	(231bps)
Tax rate	24.5	24.5	25.6	(2bps)	(113bps)	25.3	28.3	(297bps)
Loan to Deposit ratio	84.9	86.6	85.1	(174bps)	(29bps)	84.9	86.6	(174bps)
Capital adequacy ratios (%)								
Tier 1	17.6	17.2	17.6	40bps	0bps	17.6	17.2	40bps
Total CAR	18.8	18.5	18.9	30bps	(10bps)	18.8	18.5	30bps
Asset quality (Rs mn)								
Gross NPAs	1,50,860	1,26,500	88,256	19.3	70.9	1,50,860	1,26,500	19.3
Net NPAs	45,548	35,424	10,160	28.6	348.3	45,548	35,424	28.6
Gross NPA ratio (%)	1.3	1.3	0.8	6bps	51bps	1.3	1.3	6bps
Net NPA ratio (%)	0.4	0.4	0.1	4bps	31bps	0.4	0.4	4bps
Coverage ratio (%)	69.8	72	88.5	(219bps)	(1,868bps)	69.8	72	(219bps)

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, while its superior profitability merits a premium valuation to peers. Valuing the core book at an unchanged 3.7x one-year forward P/BV, we maintain our Mar'22 SOTP- based target price of Rs 1,800. Retain BUY.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- The asset quality cycle, especially in the unsecured retail segment, could prove to be more severe than anticipated.
- A continued economic slowdown would affect our expectations of a swift recovery.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	482,432	561,863	648,796	765,703	920,305
NII growth (%)	20.3	16.5	15.5	18.0	20.2
Non-interest income	176,259	232,608	252,049	266,659	298,236
Total income	658,691	794,471	900,845	1,032,362	1,218,541
Operating expenses	(261,194)	(306,975)	(327,226)	(368,047)	(432,338)
Operating profit	397,497	487,495	573,618	664,315	786,203
Operating profit growth (%)	21.8	22.6	17.7	15.8	18.3
Provisions	(75,501)	(121,424)	(157,029)	(162,175)	(183,099)
PBT	321,997	366,072	416,590	502,140	603,104
Tax	(111,215)	(103,498)	(105,425)	(128,548)	(154,395)
Reported net profit	210,782	262,573	311,165	373,592	448,710
Adjustments	0	0	0	0	0
Adjusted net profit	210,782	262,573	311,165	373,592	448,710

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	5,447	5,483	5,513	5,513	5,513
Reserves & surplus	1,486,617	1,704,377	2,031,695	2,296,012	2,613,474
Net worth	1,492,064	1,709,860	2,037,208	2,301,525	2,618,987
Deposits	9,231,409	11,475,023	13,350,60	15,860,515	18,985,03
Borrowings	1,207,248	1,490,664	1,427,851	1,596,214	1,810,328
Other liabilities & provisions	514,686	629,565	653,044	744,728	853,870
Total liabilities and equities	12,445,40	15,305,113	17,468,70	20,502,98	24,268,22
Cash & bank balance	813,476	866,187	1,194,704	1,225,860	1,258,749
Investments	2,905,879	3,918,267	4,437,283	5,233,502	6,182,517
Advances	8,194,012	9,937,029	11,328,366	13,367,472	16,040,96
Fixed & Other assets	532,040	583,630	508,352	676,148	785,989
Total assets	12,445,40	15,305,113	17,468,70	20,502,98	24,268,22
Deposit growth (%)	17.0	24.3	16.3	18.8	19.7
Advances growth (%)	24.5	21.3	14.0	18.0	20.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	39.6	48.0	56.6	67.8	81.4
Dividend per share	7.4	11.9	0.0	16.9	20.3
Book value per share	273.9	311.8	369.5	417.5	475.1

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	36.0	29.7	25.2	21.1	17.6
P/BV	5.2	4.6	3.9	3.4	3.0
Dividend yield (%)	0.5	0.8	0.0	1.2	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	4.2	4.0	4.0	4.0	4.1
Non-interest income	1.5	1.7	1.5	1.4	1.3
Operating expenses	2.3	2.2	2.0	1.9	1.9
Pre-provisioning profit	3.4	3.5	3.5	3.5	3.5
Provisions	0.7	0.9	1.0	0.9	0.8
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	8.7	8.8	9.1
ROE	16.5	16.4	16.6	17.2	18.2

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	20.3	16.5	15.5	18.0	20.2
Pre-provisioning profit	21.8	22.6	17.7	15.8	18.3
EPS	16.9	21.2	17.8	19.7	20.1
Profitability & Return ratios (%)					
Net interest margin	4.4	4.2	4.1	4.2	4.2
Fees / Avg. assets	1.2	1.2	1.0	1.0	1.0
Cost-Income	39.7	38.6	36.3	35.7	35.5
ROE	16.5	16.4	16.6	17.2	18.2
ROA	1.8	1.9	1.9	2.0	2.0
Asset quality (%)					
GNPA	1.4	1.3	1.3	1.1	1.0
NNPA	0.4	0.4	0.4	0.3	0.2
Provision coverage	71.4	72.0	69.8	72.3	75.5
Ratios (%)					
Credit-Deposit	88.8	86.6	84.9	84.3	84.5
Investment-Deposit	31.5	34.1	33.2	33.0	32.6
CAR	17.1	18.5	18.8	18.1	17.4
Tier-1	15.8	17.2	17.6	17.0	16.4

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

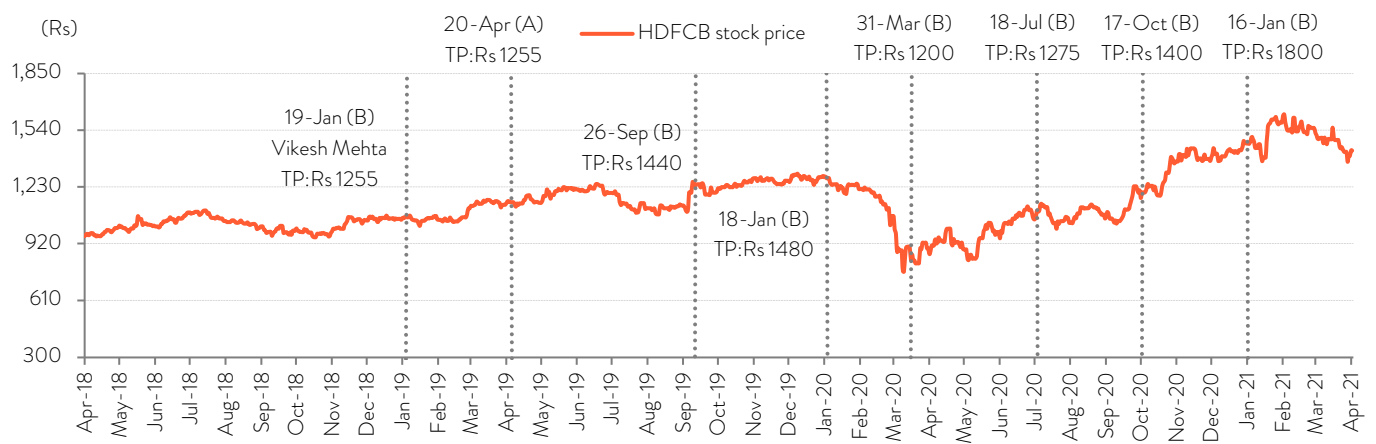
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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