

BSE SENSEX

37,688

S&P CNX

11,095

CMP: INR1,041
TP: INR1,280 (+23%)
Buy


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Bloomberg	HDFCB IN
Equity Shares (m)	5,490
M.Cap.(INRb)/(USDb)	5726.9 / 73.3
52-Week Range (INR)	1304 / 739
1, 6, 12 Rel. Per (%)	-8/-8/-8
12M Avg Val (INR M)	13571
Free float (%)	78.8

Financials & Valuation (INR b)

Y/E MARCH	FY20	FY21E	FY22E
NII	561.9	646.2	733.9
OP	487.5	563.3	656.8
NP	262.6	301.5	357.3
NIM (%)	4.2	4.1	4.1
EPS (INR)	48.0	55.0	65.2
EPS Gr. (%)	21.2	14.4	18.5
BV/Sh. (INR)	311.8	357.2	412.1
ABV/Sh. (INR)	300.3	341.9	396.6

Ratios

RoE (%)	16.4	16.4	16.9
RoA (%)	1.9	1.8	1.9
Payout (%)	24.8	17.5	15.7

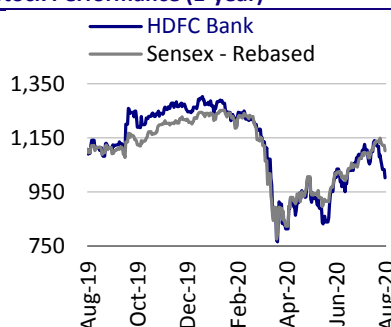
Valuations

P/E(X)	21.6	18.9	16.0
P/BV (X)	3.3	2.9	2.5
P/ABV (X)	3.5	3.0	2.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	21.2	21.2	21.3
DII	18.0	17.9	13.9
FII	48.8	48.6	50.2
Others	12.0	12.4	14.7

FII Includes depository receipts

Stock Performance (1-year)

RBI approves appointment of new MD & CEO
Addresses key overhang; investors to re-focus on business performance

- The RBI has approved the appointment of Mr Sashidhar Jagdishan as MD & CEO of the bank for a period of three years, effective from 27th Oct'20, after Mr Puri's term ends on 26th Oct'20.
- HDFC Bank (HDFCB)'s stock price has been under pressure due to concerns around the succession and the recent attrition in the top management. The RBI's approval thus addresses a major overhang on the stock's performance as Mr Jagdishan has been with the bank for the past 24 years.
- He has held various positions in the bank in key functions such as Finance, HR, Legal, and Administration; thus, succession by an internal candidate augurs well to boost investor confidence and continue the impeccable performance the bank has witnessed under the leadership of Mr Puri.
- Although some concerns remain around top-level attrition, we believe this appointment addresses a key overhang. With the system challenged by the impact of the COVID-19 outbreak, we believe large banks are relatively better placed to tide over this crisis. Thus, we remain positive on HDFCB, and maintain Buy, with TP of INR1,280 (3.0x FY22E ABV).

RBI approval addresses key overhang

The RBI has approved the appointment of Mr Sashidhar Jagdishan as MD & CEO of the bank for a period of three years, effective from 27th Oct'20, after Mr Puri's term ends on 26th Oct'20. This addresses a key overhang on the stock's performance. Mr Jagdishan has been associated with the bank since 1996 and has played a critical role in supporting the bank's growth trajectory. He was appointed as Business Head – Finance in 1999 and later as Chief Financial Officer in 2008. He has diversified experience across various functions and is currently the Group Head of Finance, Human Resources, Legal & Secretarial, Administration, Infrastructure, Corporate Communications, Corporate Social Responsibility & the Strategic Change Agent of the Bank. Sashi has overall experience of 30 years. Prior to joining the bank, he was a Senior Officer in the Country Financial Control Division of Deutsche Bank, AG, Mumbai.

Stellar business performance under Mr Aditya Puri's leadership

Over the past 26 years, under the leadership of Mr Aditya Puri, HDFCB has grown to become the largest private bank in India, with systemic market share of ~9.8% in advances and 8.3% in deposits, and market capitalization at INR5.7t. The bank has achieved this through a robust 29% earnings CAGR over the past two decades, placing it among the best in the industry. Among segments, HDFCB has also emerged as the market leader in Credit Cards Outstanding (25% as of FY20), Vehicle Loans (~21%), and so forth. Furthermore, it has garnered major market share across multiple digital channels, with 17% market share in POS terminals, ~8%/~29% share in debit/credit card spends, etc.

RBI's approval of bank's first choice assuages concerns of potential deterioration in asset quality

HDFCB has maintained a stable asset quality track record over the past two decades through rigorous risk management practices and following high-quality governance standards. The average 10 years GNPA stood at ~1.1%, while NNPA was at 0.3%. Furthermore, the bank continues to prudently build contingent provisions to further strengthen the balance sheet. In the COVID-19 crisis, despite having higher Unsecured and Vehicle portfolios, the moratorium book stands at 9% of total loans (one of the lowest among peers). Despite having a high mix of Unsecured business (16.6%), strong growth in Wholesale (38%) and lending toward SME/Business Banking, the RBI approving the bank's first choice (internal candidate) reduces concerns of potential deterioration in asset quality.

High attrition in top management; continuity remains critical

HDFCB has witnessed several top-level exits over the past few years. We note that among the top paid employees, ~10% exited the organization in FY20, following an average of ~14 years of service with the bank. Among 19 such employees, three held positions of Group/Business Head. Although the appointment of a new MD & CEO removes a key overhang, continuity in the top management team remains critical for sustained business performance.

Valuation and view

HDFCB's stock price has been under pressure owing to concerns around the succession and the recent attrition in the top management. Thus, the RBI approving the appointment of Mr Sashidhar Jagdishan as new MD & CEO addresses a key overhang. Moreover, succession by an internal candidate augurs well to boost investor confidence and continue the immaculate performance experienced by the bank under the leadership of Mr Puri. We expect HDFCB's strong liability franchise and the fixed-rate nature of the book to support margins even as the bank maintains higher liquidity to navigate through the crisis. On the asset quality front, slippages are likely to pick up in 2HFY21 due to the COVID-19-led disruption, which could keep credit costs elevated. However, higher provisioning buffers should limit the overall impact on earnings. We estimate RoA/RoE of 1.9%/16.9% in FY22, and maintain **Buy**, with TP of INR1,280 (3.0x FY22E ABV).



Mr Sashidhar Jagdishan joined the bank in 1996 as Manager in the Finance function. He was appointed as Business Head – Finance in 1999 and later as Chief Financial Officer in 2008. Sashi has played a critical role in supporting the bank's growth trajectory. He has led the Finance function and played a pivotal role in aligning the organization to achieve its strategic objectives over the years. He currently serves as Group Head of Finance, Human Resources, Legal & Secretarial, Administration, Infrastructure, Corporate Communications, Corporate Social Responsibility & the Strategic Change Agent of the Bank. Sashi has overall experience of 30 years. Prior to joining the bank, he held the position of Senior Officer in the Country Financial Control Division of Deutsche Bank, AG, Mumbai. He has completed his graduation in Science, with a specialization in Physics, and is also a Chartered Accountant. He holds a Master's degree in Economics of Money, Banking & Finance from the University of Sheffield, UK.

Exhibit 1: Attrition among top-paid employees increases in past two years

	FY17	FY18	FY19	FY20
Employees with salary >INR10m who left the organization	5	7	25	19
As a % of total employees with salary >INR10m	5%	5%	12%	10%
Year of service with HDFC Bank	14	11	13	14
Group/Business head left during the year	3	5	5	3

Source: MOFSL, Company

Exhibit 2: Top management that exited organization over FY17–20

	Designation
Abhay Aima*	Group Head Equities, Private Banking, Third Party Products, NRI & International Consumer Business
Ashok Khanna*	Group Head Secured Loans (Vehicles)
Nitin Chugh	Group Head Digital Banking
Rajesh Kumar	Group Head Retail Credit and Risk
Munish Mittal*	Chief Investment Officer
Ravi Narayanan	Group Head Branch Banking & Retail Trade FX
Philip Mathew	Chief People Officer
Navin Puri	Country Head Branch Banking
K Balasubramanian	Group head - Corporate Banking
Aseem Dhru	Group head - Business Banking, commodity finance, rural Banking & agriculture lending
Nitin Rao	Senior EVP – Private Banking Group and Third Party Products
Rajender Sehgal	Country Head of FIG, Govt. Business, PSUs, Custodial Services MFI & MD's Representative

*Resigned post FY20

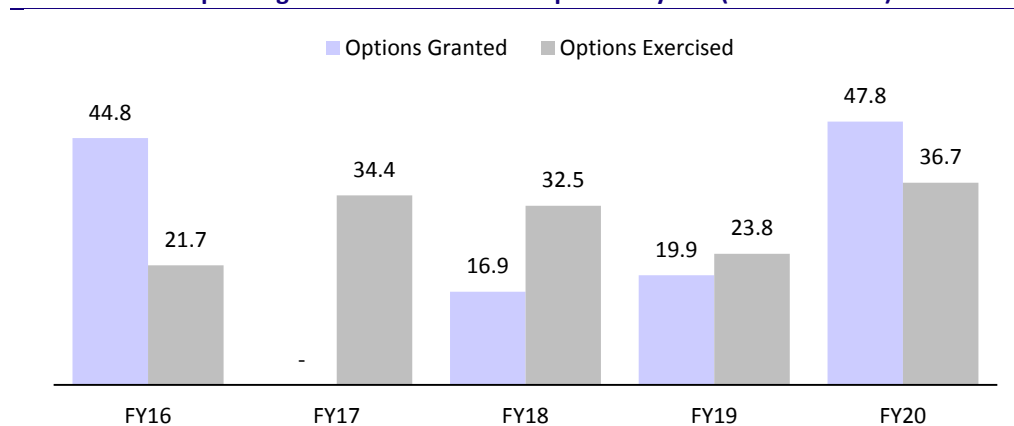
Source: MOFSL, Company

Exhibit 3: New top management appointments in FY20

	Designation
Arup Rakshit	Group Head – Treasury – Sales, Analytics and Overseas
Raveesh Bhatia	Group Head – Corporate Banking North
Anjani Rathor	Group Head - Digital Banking

Source: MOFSL, Company

The face value of the stock was split from INR2 per share to INR1 per share post FY19. However, adjusted for splits, the stock option granted remains high in FY20.

Exhibit 4: Stock options granted and exercised in past five years (nos. in million)

*No options were granted in FY17

Source: MOFSL, Company

Exhibit 5: HDFCB's profitability remains strong over last two decades; PAT grows at 29% CAGR over FY01–FY20

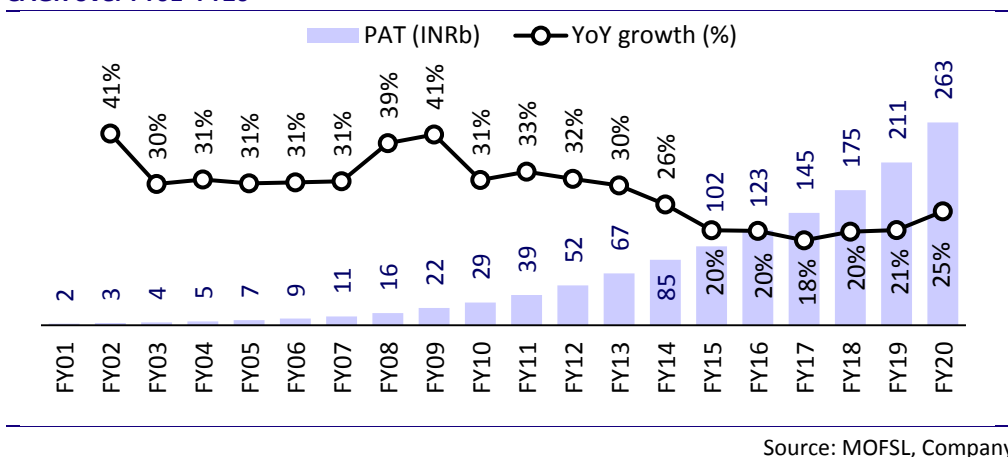


Exhibit 6: HDFCB reflects stellar business performance, with Advances posting 32% CAGR over FY01–1QFY21

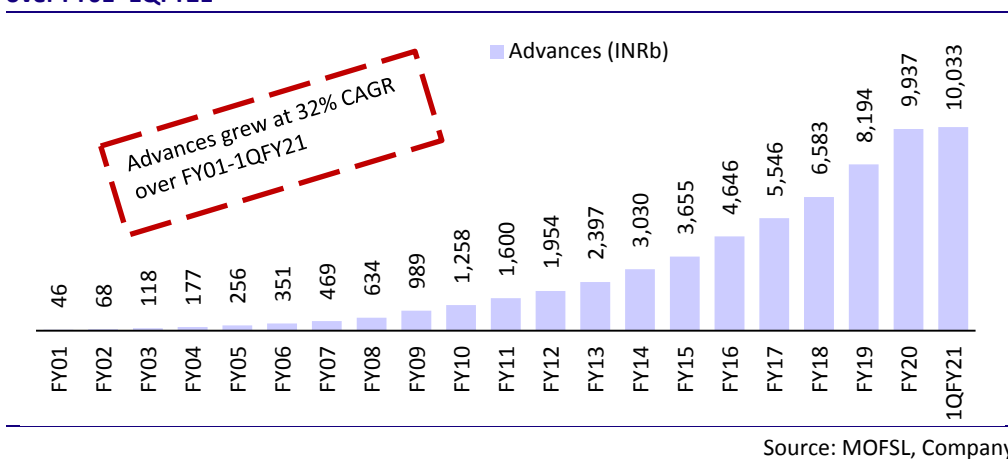


Exhibit 7: Deposits grow at 27% CAGR over FY01–1QFY21

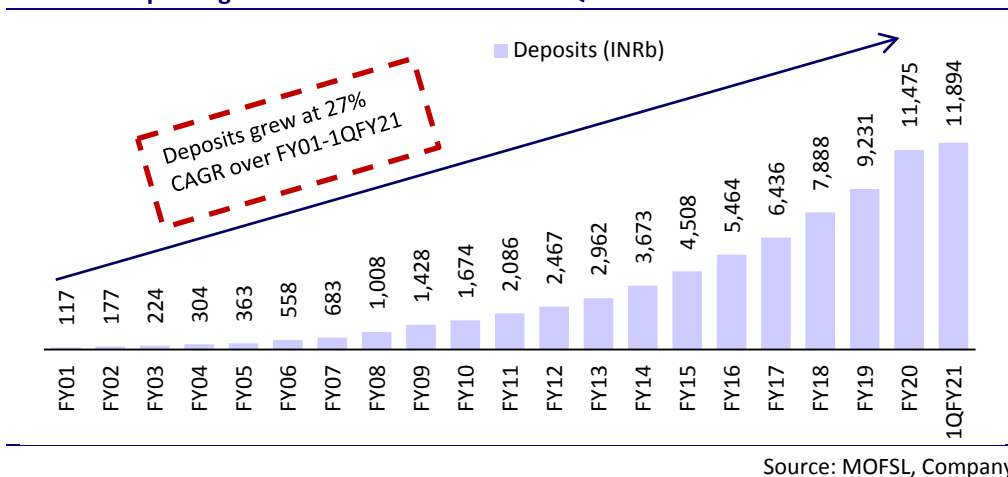
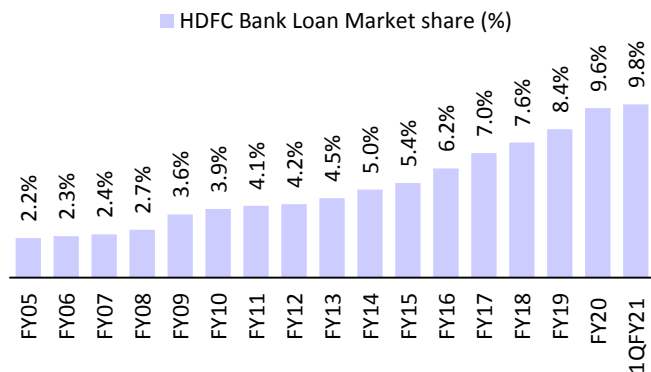
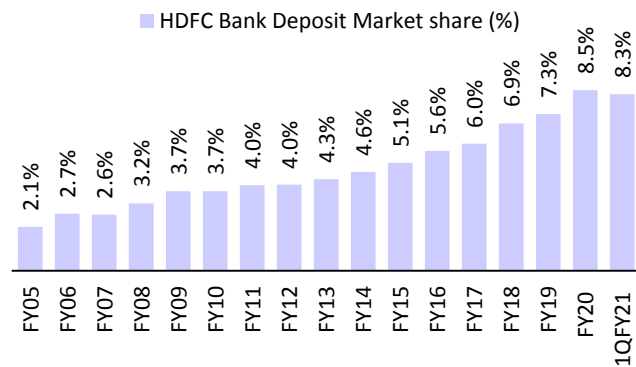
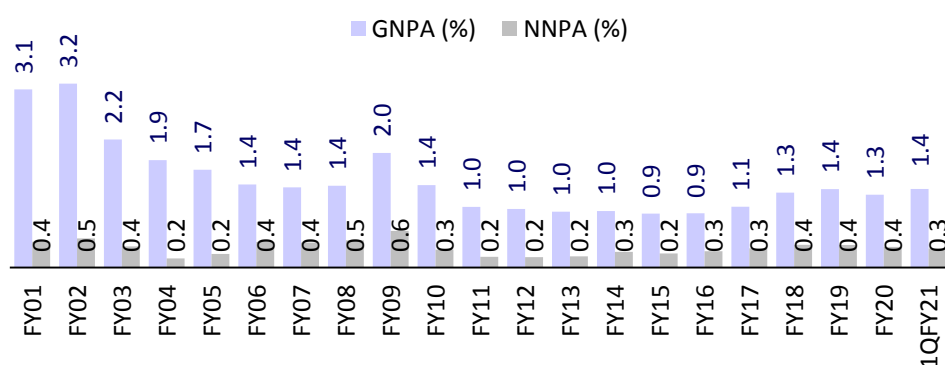


Exhibit 8: HDFC loan market share trends over the years

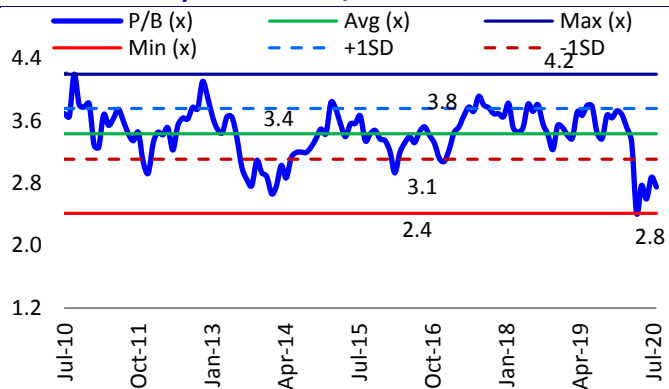
Source: MOFSL, Company

Exhibit 9: Deposit market share trends

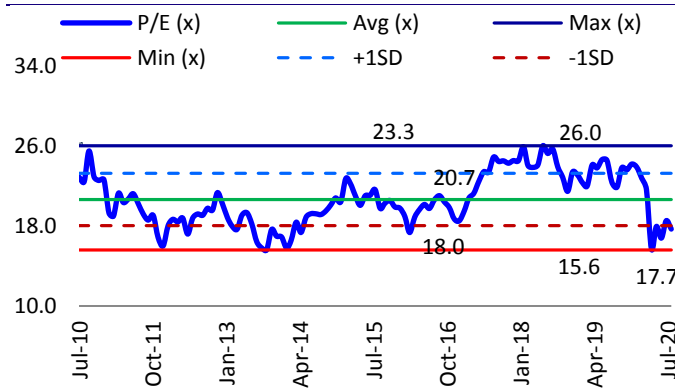
Source: MOFSL, Company

Exhibit 10: Asset quality performance over the years; avg. 10 years GNPA stands at 1.1%

Source: MOFSL, Company

Exhibit 11: One-year forward P/B

Source: MOFSL, Company

Exhibit 12: One-year forward P/E

Source: MOFSL, Company

Exhibit 13: DuPont Analysis – Return ratios to remain stable

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	4.14	4.25	4.21	4.16	4.18	4.05	3.92	3.82
Core Fee Income	1.23	1.23	1.12	1.31	1.34	1.38	1.15	1.28
Trading and others	0.43	0.43	0.44	0.27	0.19	0.30	0.33	0.32
Non-Interest income	1.66	1.65	1.56	1.58	1.53	1.68	1.48	1.60
Total Income	5.37	5.48	5.33	5.74	5.71	5.73	5.40	5.42
Operating Expenses	2.59	2.61	2.51	2.35	2.26	2.21	1.98	2.00
Employee cost	0.88	0.88	0.82	0.71	0.67	0.69	0.64	0.62
Others	1.71	1.74	1.68	1.65	1.59	1.53	1.35	1.38
Operating Profits	3.22	3.29	3.27	3.38	3.44	3.51	3.42	3.42
Core operating Profits	2.79	2.86	2.83	3.11	3.26	3.22	3.09	3.10
Provisions	0.38	0.42	0.46	0.61	0.65	0.88	0.97	0.93
PBT	2.83	2.87	2.82	2.77	2.79	2.64	2.44	2.48
Tax	0.94	0.98	0.97	0.96	0.96	0.75	0.62	0.63
RoA	1.89	1.89	1.85	1.81	1.83	1.89	1.83	1.86
Leverage (x)	10.3	9.6	9.7	9.8	9.0	8.7	9.0	9.1
RoE	19.4	18.3	17.9	17.9	16.5	16.4	16.4	16.9

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest Income	484.7	602.2	693.1	802.4	989.7	1,148.1	1,319.5	1,481.5
Interest Expense	260.7	326.3	361.7	401.5	507.3	586.3	673.3	747.7
Net Interest Income	224.0	275.9	331.4	400.9	482.4	561.9	646.2	733.9
Growth (%)	21.2	23.2	20.1	21.0	20.3	16.5	15.0	13.6
Non-Interest Income	90.0	107.5	123.0	152.2	176.3	232.6	244.2	307.7
Total Income	313.9	383.4	454.4	553.2	658.7	794.5	890.4	1,041.6
Growth (%)	18.9	22.1	18.5	21.7	19.1	20.6	12.1	17.0
Operating Expenses	139.9	169.8	197.0	226.9	261.2	307.0	327.1	384.8
Pre Provision Profits	174.0	213.6	257.3	326.2	397.5	487.5	563.3	656.8
Growth (%)	21.2	22.7	20.4	26.8	21.8	22.6	15.6	16.6
Core PPP	150.3	184.5	220.9	311.0	380.3	465.9	531.0	618.9
Growth (%)	23.0	22.7	19.7	40.8	22.3	22.5	14.0	16.6
Provisions (excl. tax)	20.8	27.3	35.9	59.3	75.5	121.4	160.4	179.3
PBT	153.3	186.4	221.4	267.0	322.0	366.1	402.9	477.5
Tax	51.1	63.4	75.9	92.1	111.2	103.5	101.4	120.2
Tax Rate (%)	33.4	34.0	34.3	34.5	34.5	28.3	25.2	25.2
PAT	102.2	123.0	145.5	174.9	210.8	262.6	301.5	357.3
Growth (%)	20.5	20.4	18.3	20.2	20.5	24.6	14.8	18.5
Balance Sheet								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	5.0	5.1	5.1	5.2	5.4	5.5	5.5	5.5
Reserves & Surplus	615.1	721.7	855.6	1,057.8	1,486.6	1,704.4	1,953.1	2,254.3
Net Worth	620.1	726.8	860.7	1,063.0	1,492.1	1,709.9	1,958.6	2,259.8
Deposits	4,508.0	5,464.2	6,436.4	7,887.7	9,231.4	11,475.0	13,540.5	16,248.6
Growth (%)	22.7	21.2	17.8	22.5	17.0	24.3	18.0	20.0
of which CASA Dep	1,984.9	2,363.1	3,091.5	3,430.9	3,912.0	4,846.3	5,605.8	6,808.2
Growth (%)	20.6	19.1	30.8	11.0	14.0	23.9	15.7	21.4
Borrowings	452.1	849.7	740.3	1,231.0	1,170.9	1,446.3	1,397.4	1,433.1
Other Liabilities & Prov.	324.8	367.3	601.0	457.6	551.1	673.9	761.6	860.6
Total Liabilities	5,905.0	7,408.0	8,638.4	10,639.3	12,445.4	15,305.1	17,658.1	20,802.1
Current Assets	363.3	389.2	489.5	1,229.2	813.5	866.2	1,210.0	1,414.5
Investments	1,516.4	1,958.4	2,144.6	2,422.0	2,931.2	3,918.3	4,329.7	4,849.2
Growth (%)	25.4	29.1	9.5	12.9	21.0	33.7	10.5	12.0
Loans	3,655.0	4,645.9	5,545.7	6,583.3	8,194.0	9,937.0	11,228.8	13,137.7
Growth (%)	20.6	27.1	19.4	18.7	24.5	21.3	13.0	17.0
Fixed Assets	31.2	33.4	36.3	36.1	40.3	44.3	48.8	53.6
Total Assets	5,905.0	7,408.0	8,638.4	10,639.3	12,445.4	15,305.1	17,658.1	20,802.1
Asset Quality								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
GNPA	34.4	43.9	58.9	86.1	112.2	126.5	235.1	303.7
NNPA	9.0	13.2	18.4	26.0	32.1	35.4	59.6	53.7
GNPA Ratio	0.9	0.9	1.1	1.3	1.4	1.3	2.1	2.3
NNPA Ratio	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.4
Slippage Ratio	1.6	1.6	1.5	2.1	1.9	1.9	2.7	2.3
Credit Cost	0.5	0.5	0.6	0.8	0.9	1.0	1.5	1.4
PCR (Excl. Tech. write off)	73.9	69.9	68.7	69.8	71.4	72.0	74.6	82.3

Source: Company, MOFSL

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	10.1	10.1	9.6	9.4	9.6	9.0	8.8	8.6
Avg. Yield on loans	11.1	10.8	10.2	10.3	10.5	10.1	9.8	9.6
Avg. Yield on Inv.	7.2	8.1	7.8	7.2	7.6	6.1	6.5	6.4
Avg. Cost-Int. Bear. Liabilities	5.8	6.0	5.5	4.9	5.2	5.0	4.8	4.6
Avg. Cost of Deposits	5.7	5.9	5.3	4.6	4.8	4.9	4.6	4.4
Interest Spread	4.3	4.3	4.2	4.5	4.4	4.0	3.9	4.0
Net Interest Margin	4.6	4.6	4.6	4.4	4.4	4.2	4.1	4.1

Capitalization Ratios (%)

CAR	16.8	15.5	14.6	14.8	17.1	18.5	18.5	18.2
Tier I	13.7	13.2	12.8	13.3	15.8	17.2	17.3	17.2
Tier II	3.1	2.3	1.8	1.6	1.3	1.3	1.1	1.0

Business and Efficiency Ratios (%)

Loans/Deposit	81.1	85.0	86.2	83.5	88.8	86.6	82.9	80.9
CASA Ratio	44.0	43.2	48.0	43.5	42.4	42.2	41.4	41.9
Cost/Assets	2.4	2.3	2.3	2.1	2.1	2.0	1.9	1.8
Cost/Total Income	44.6	44.3	43.4	41.0	39.7	38.6	36.7	36.9
Cost/Core Income	47.0	46.7	45.8	42.2	40.7	39.7	38.1	38.3
Int. Expense/Int. Income	53.8	54.2	52.2	50.0	51.3	51.1	51.0	50.5
Fee Income/Total Income	24.4	23.6	21.8	22.8	23.5	24.1	21.4	23.6
Non Int. Inc./Total Income	28.7	28.0	27.1	27.5	26.8	29.3	27.4	29.5
Emp. Cost/Total Expense	34.0	33.6	32.9	30.0	29.7	31.0	32.0	31.0
Investment/Deposit	33.6	35.8	33.3	30.7	31.8	34.1	32.0	29.8

Valuation

RoE	19.4	18.3	17.9	17.9	16.5	16.4	16.4	16.9
RoA	1.9	1.8	1.8	1.8	1.8	1.9	1.8	1.9
RoRWA	2.7	2.5	2.4	2.4	2.4	2.6	2.7	2.8
Book Value (INR)	123.7	143.7	167.9	204.8	273.9	311.8	357.2	412.1
Growth (%)	36.5	16.2	16.9	22.0	33.8	13.8	14.5	15.4
Price-BV (x)			6.2	5.1	3.8	3.3	2.9	2.5
Adjusted BV (INR)	122.4	141.8	165.4	193.9	262.8	300.3	341.9	396.6
Price-ABV (x)			6.3	5.4	4.0	3.5	3.0	2.6
EPS (INR)	20.4	24.3	28.4	33.9	39.6	48.0	55.0	65.2
Growth (%)	15.3	19.3	16.7	19.4	16.9	21.2	14.4	18.5
Price-Earnings (x)			36.6	30.7	26.2	21.6	18.9	16.0

Source: Company, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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