

Commendable quarter amidst tough times

HDFC Bank (HDFCB) reported good performance in Q1FY21 amidst the ongoing Covid-19 macro uncertainty. Robust loan growth at 21%, steady NIMs at 4.3% and improved CI led improvement in PPOP, up 15% while almost flattish QoQ. On expected lines, fee income was lower but treasury gains of Rs 10.9bn supported. G/NNPAs stood at 1.36/0.33% vs 1.26/0.36 QoQ. PCR improved to 76.2% compared to 72/69.7% QoQ/YoY. Provisions remained elevated up 3/49% QoQ/YoY with overall credit costs at 1.54%. Moratorium book stands at 9%, the lowest so far in the sector. Reported PAT was up 20% YoY and down 4% QoQ to Rs 66,586mn. We believe HDFCB remains one of the resilient stocks in the sector and maintain Buy with target price of Rs 1239 (SOTP basis core book at 3x FY22E and Rs 50 Subs. Value).

Key Concall Takeaways

- Moratorium book stands at 9%, lowest in the sector so far. ~70% customers are paying up and in unsecured loans, 98% morat customers have received salary credits and 97% customers are 0-DPD
- Fee income was impacted by Rs 20bn on account of lockdown with adverse impact on retail fees and card spends. Retail constitutes ~89% and wholesale ~11% of fees and commission.
- Advances up 21/1% YoY/QoQ was led by wholesale advances, up 36/6% YoY/QoQ while retail growth was subdued up 7% YoY but down by 3.9% QoQ. Stress testing in SME banking suggests ~5% would face pressure.
- CASA deposits grew by 26% and stood at 40.1% ,up from 39.7% YoY .Time deposits grew by 23.7% over previous year.
- The bank has no capital raising plans.CET1 stands at 16.7% and CAR at 18.9%.
- NIM has been in a stable range historically over the past 10 years between 4.1% and 4.5% and currently stands at 4.3%.
- Cost-to-income (C-I) ratio stood at 35% vs. 39% QoQ. Lower costs in various sales channels, promotional activities and discretionary spend contributed to the C-I improvement but the management expects these kinds of spends to resume in due course of time. The bank had moved its excess sales staff to collections.
- Total credit cost for Q1FY21 stood at 1.54% vs 1.51/1.25% QoQ/YoY

Key Financials (Standalone)

(Rs. bn)	FY19	FY20	FY21E	FY22E
NII	482	562	663	773
PPOP	397	487	577	681
Net Profit	211	263	298	387
EPS (Rs.)	38.7	47.9	54.3	70.6
ABV	261.0	298.4	336.5	396.0
P/ABV	4.2	3.7	3.3	2.8
ROAA	1.8	1.9	1.8	2.1
NNPA (%)	0.39	0.36	0.53	0.35

Source: Company, Axis Research9

(CMP as of Jul 17, 2020)

CMP (Rs)	1099
Upside /Downside (%)	13%
High/Low (Rs)	1304/739
Market cap (Cr)	603464
Avg. daily vol. (6m) Shrs.	80,29,213
No. of shares (Cr)	549.03

Shareholding (%)

	Jun-20	Mar-20	Dec-19
Promoter	21.2	21.2	21.3
FII	30.1	29.8	30.8
MFs / UTI	11.4	12.2	11.7
Banks / FI	0.1	0.1	0.1
Others	37.2	36.7	36.2

Financial & Valuations

Y/E Mar (Rs. bn)	2020	2021E	2022E
NII	562	663	773
PPOP	487	577	681
Net Profit	263	298	387
EPS (Rs.)	47.9	54.3	70.6
ABV	298.4	336.5	396.0
P/ABV	3.7	3.3	2.8
ROAA	1.89	1.84	2.10
NNPA (%)	0.36	0.53	0.35

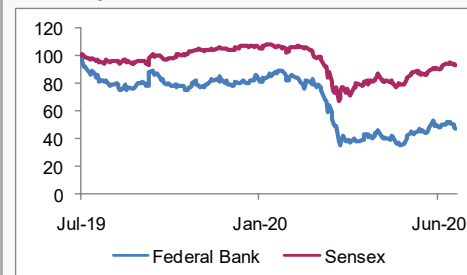
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
NII	0.0	0.0
PPOP	1.2	1.2
PAT	1.7	1.5

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	54.3	70.6
Consensus	63.7	80.9
Mean Consensus TP (12M)	1201.1	

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

● Opening remarks by Mr. Aditya Puri

- ✓ On auto loan business : There was one whistleblower complain and investigation was conducted but there was no conflict of interest or business impact as such. An inquiry was conducted on head of the business, Mr. Ashok Munjal. Personal misconduct, colluding were found and appropriate action was taken.
- ✓ On exits: Mr. Munish Mittal (Group Head IT & Chief Information Officer) had informed the management one year back about his resignation and is pursuing higher studies at Oxford University. Mr. Abhay Aima has been with the bank for 25 years and expressed alternate interests and has retired from the bank early.
- ✓ On Altico case: On directions of the RBI, the bank has returned Rs 2.1bn to Mashreq Bank and becomes pari-passu with other creditors.
- ✓ Increasing customer interactions: During the quarter, bank had doubled customer interactions. 1.2mn liability customers were acquired in Q1FY21 with 13,000 accounts per day
- ✓ The bank has enhanced its digital journey. Around 95% branches are operational.

● Moratorium - Of the 9% moratorium customers, 97% are zero DPD, 98% are receiving salary. 70% have paid their June installment under Morat-1. Around 90% of morat-2 coming from morat-1.

● Corporate segment

- ✓ Focus is on enterprises which have strong liquidity access through markets and banks, government holding procurement or are part of large conglomerate and to pandemic resistant businesses. These include both PSUs/Private and MNCs.
- ✓ In Apr'20, corporate collections were 45% of Apr'19, in May, it was 47% over April 20, and in June, it was 38% over May and 94% of Jun'19.
- ✓ In Jun'20, all industries showed positive trends. NBFCs saw 66% increase in collection in June over May, Oil and gas – 36%, cement and steel – 36%, utilities ~50% and auto/ancillaries 100%+.
- ✓ On a total basis on its balance sheet, bank improved the risk rating 30 basis points to 4.3.
- ✓ Restricted consumer loans, The bank also participated in TLTRO 1.0 to support corporates where it was constrained by GBL limits. It also provided liquidity to the mutual funds segment through purchase of assets under RBI scheme

● Retail segment

- ✓ - Retail origination fell 70% during the quarter; personal loans down 86% due to tightened filters; credit cards – origination down by 87%, spends down 40%.
- ✓ -Overall Vehicle origination fell; 2W/ tractors back to 75% of pre COVID-19 level. 5% of PL portfolio is in companies where salary cut is 20% or more.
- ✓ -Check bounce rate has improved and is closer to historical levels. 2W and tractors are already at pre COVID-19 levels, Auto loans at 60-70% and personal loans and business loans at 30-40%.

● SME

- ✓ -Book is largely self-funded (100% in May, 108% in June) due to strong CASA flows. 68%
- ✓ -NTB customers are <Rs 10 mn ticket size.
- ✓ -New clients acquired in Q1 – 533 (1,500 in Q4) mostly in North and South Collateral cover for NTB customers – 89% cases have > 100%, (77% in Jun'19)
- ✓ -Emergency credit lines – of the Rs 200 bn eligible, it has disbursed Rs 100 bn to 57K customers. Previously done stress tests indicate 9-11% may face difficulty in meeting obligation. This is down by 50% in the current scenario.

● On Payments business

- ✓ Payment business volumes, both acquiring and issuance, in June '20 saw a bounce back to about 70% of January '20 levels. Strong tractions are seen on the categories such as daily essentials, medical expenses through home delivery

Change in FY22 Estimates

(Rs bn)

(in bn)	Revised		Old		%Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	663	773	663	773	0.0	0.0
PPOP	577	681	570	673	1.2	1.2
PAT	298	387	293	381	1.7	1.5
EPS	54.3	70.6	53.4	69.5	1.7	1.5

Source: Company, Axis Research

Valuation & Outlook

As macro concerns loom large on Covid-19 headwind, we expect loan growth at ~14/18% in FY21/FY22E with retail book slowdown, slower fee income growth, higher provisioning but partly offset by cost rationalization. Prov/Avg. Advances will go up to 1.5% in FY21 but normalize to 1.2% in FY22E. We expect HDFCB to report lower ROAA/ROAE at 1.8%/16% in FY21, but normalize to 2.1./18% by FY22E. Given its superior business model, bank's resilience across cycles will play out positively. We believe bank has the ability to capitalise on any opportunities in the current macro uncertainties and maintain its growth without comprising on quality. We maintain BUY with target price of Rs 1,239 derived using the SOTP method (core bank at 3x FY22 ABV + Subsidiaries value Rs 50/-).

Valuation Methodology

HDFC Bank SOTP	Holding (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent	100	3x FY22E BV	1,188
HDB Financial Services	95.9	2.0x FY22E BV	46
HDFC Securities	97.9	10x FY22E EPS	17
Less: 20% holding discount			13
Net Value of Sub.			50
			1239

Result Update (Standalone)

(Rs mn)

Y/E March	Q1FY21	Q1FY20	% YoY	Q4FY20	% QoQ
Net Interest Income	1,56,654	1,32,943	17.8	1,52,041	3.0
Non Interest Income	40,753	49,703	-18.0	60,326	-32.4
Operating expenses	69,115	71,173	-2.9	82,778	-16.5
Staff Cost	25,134	22,174	13.4	24,983	0.6
Pre provision profits	1,28,293	1,11,472	15.1	1,29,588	-1.0
Provisions and contingencies	38,915	26,137	48.9	37,845	2.8
PBT	89,378	85,336	4.7	91,743	-2.6
Provision for Tax	22,791	29,654	-23.1	22,466	1.4
PAT	66,586	55,682	19.6	69,277	-3.9
Deposits (Rs bn)	11,894	9,546	24.6	11,475	3.7
Advances (Rs bn)	10,033	8,297	20.9	9,937	1.0
CD ratio (%)	84	87		87	
NIM (%)	4.3	4.4		4.3	
Cost-Income ratio (%)	35.0	39.0		39.0	
Gross NPAs (%)	1.36	1.40		1.26	
Net NPAs (%)	0.33	0.43		0.36	
Coverage ratio (%)	76.2	69.7		72.0	

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
Net Interest Income	482.4	561.9	663.2	773.5
Other Income	176.3	232.6	260.3	298.5
Total Income	658.7	794.5	923.5	1,071.9
Total Operating Exp	261.2	307.0	346.2	390.7
PPOP	397.5	487.5	577.3	681.3
Provisions & Contingencies	75.5	121.4	163.6	143.9
PBT	322.0	366.1	413.7	537.3
Provision for Tax	111.2	103.5	115.8	150.5
PAT	210.8	262.6	297.9	386.9

Source: Company, Axis Securities

Balance Sheet

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS				
Share Capital	5.4	5.5	5.5	5.5
Reserves	1,486.6	1,704.4	1,938.4	2,251.8
Shareholder's Funds	1,492.1	1,709.9	1,943.9	2,257.3
Total Deposits	9,231.4	11,475.0	12,759.1	14,972.7
Borrowings	1,170.9	1,446.3	1,552.5	1,723.9
Other Liabilities & Provisions	551.1	673.9	743.3	819.8
Total Liabilities	12,445.4	15,305.1	16,998.7	19,773.7
APPLICATION OF FUNDS				
Cash & Bank Balance	813.5	866.2	683.4	685.0
Investments	2,905.9	3,918.3	4,316.0	4,946.2
Advances	8,194.0	9,937.0	11,355.2	13,430.0
Fixed Assets	40.3	44.3	48.8	53.6
Other Assets	491.7	539.3	595.4	658.8
Total Assets	12,445.4	15,305.1	16,998.7	19,773.7

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
VALUATION RATIOS				
EPS	38.7	47.9	54.3	70.6
Earnings Growth (%)	14.9	23.7	13.5	29.9
Adj. BVPS	261	298	336	396
ROAA (%)	1.83	1.89	1.84	2.10
ROAE (%)	16.5	16.4	16.3	18.4
P/E (x)	28.4	23.0	20.2	15.6
P/ABV (x)	4.21	3.68	3.27	2.77
Div Yield (%)	1.4	0.2	1.8	2.1
PROFITABILITY				
Yield on Advances (%)	10.5	10.1	10.0	9.9
Yield on Investment (%)	7.5	6.0	5.9	5.8
Cost of Funds (%)	5.2	5.0	4.9	4.8
Cost of Deposits (%)	4.8	4.9	4.7	4.7
NIM (%)	4.39	4.25	4.29	4.36
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.3	2.2	2.1	2.1
Cost-Income Ratio (Excl Treasury)	39.9	39.6	38.4	37.3
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	24.5	21.3	14.3	18.3
Deposit Growth (%)	17.0	24.3	11.2	17.3
C/D Ratio (%)	88.8	86.6	89.0	89.7
Equity/Assets (%)	12.0	11.2	11.4	11.4
Equity/Advances (%)	18.2	17.2	17.1	16.8
CASA (%)	42.4	42.2	42.3	43.2
Tier 1 CAR (%)	15.8	17.2	16.6	16.7
ASSET QUALITY				
Gross NPLs (Rs bn)	112.2	126.5	212.9	191.6
Net NPLs (Rs bn)	32.1	35.4	60.7	47.4
Gross NPLs (%)	1.37	1.27	1.87	1.43
Net NPLs (%)	0.39	0.36	0.53	0.35
Coverage Ratio (%)	71.4	72.0	71.5	75.2
Provisions/Avg. Adv(%)	1.02	1.34	1.54	1.16
ROAA TREE (%)				
Net Interest Income	4.18	4.05	4.11	4.21
Non Interest Income	1.53	1.68	1.61	1.62
Operating Cost	2.26	2.21	2.14	2.12
Provisions	0.65	0.88	1.01	0.78
Tax	0.96	0.75	0.72	0.82
ROAA	1.83	1.89	1.84	2.10
Leverage (x)	9.0	8.7	8.8	8.8
ROAE	16.5	16.4	16.3	18.4

Source: Company, Axis Securities

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