

Retail Equity Research

HDFC Bank

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 37,872

BUY

12M Investment Period

Rating as per Large cap

CMP Rs. 1,126

TARGET Rs. 1,403

RETURN 25% ↑

(Closing: 22-07-20)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↓

Strong quarter; Unhindered by pandemic

HDFC Bank was incorporated in August 1994. It provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- During Q1FY21, loans and advances grew 20.9% YoY, while deposits also increased 24.6% YoY. Operating profit before provisions rose 15.1% YoY to Rs. 12,829cr. Net interest margin (NIM) stood at 4.3%.
- Capital Adequacy Ratio improved to 18.9% (vs. 16.9% in Q1FY20).
- GNPA/NNPA ratio stood at 1.36%/0.33% during the quarter as against 1.26%/0.36% in Q4FY20.
- HDFC Bank continues to deliver strong results even in tough times. We reiterate our BUY on the stock with an upgraded target price of Rs. 1,403 based on 3.5x FY22E BVPS.

Better-than-expected growth across top-line and bottom-line

Q1FY21 Net interest income rose 17.8% YoY to Rs. 15,665cr, backed by further strong growth in loans and advances amounting to Rs. 1,003,299cr (+20.9% YoY). On the other hand, customer deposits also grew 24.6% YoY to Rs. 1,189,387cr, with time deposits witnessing a 23.7% YoY growth, and CASA growing by 26.0% YoY. The bank's contribution from other income was impacted by the slowdown in economic activity as there was a decline in retail loan origination, sale of third party products, use of credit/debit cards, collections and waivers of certain fees. However, this was partially offset by the decline in operating expenses, as cost to income ratio stood at 35.0% compared to 39.4% in Q1FY20. PAT grew 19.6% YoY to Rs. 6,659cr despite a hefty increase in provisions (Rs. 3,892cr, +48.9% YoY) made during the quarter.

Key concall highlights

- Having conducted an investigation into alleged malpractices, management said to have found no conflict of interest issues, nor does it expect any impact on the Bank's loan portfolio.
- During Q1FY21, Loan moratorium granted stood at just 9% of the loan book.
- Domestic loan mix as per Basel II norms for Retail – Wholesale stood at 48:52.
- Provision coverage ratio (ex. Contingent provisions) stood at 76% as against 72% in the prior quarter and 70% in the same period previous year.
- 95% of HDFC Bank's branches remain operational currently.
- As of June 30, Bank's total branch count stood at 5,326 along with 14,996 ATMs (vs. 4,990 branches and 13,727 ATMs in the prior year period).

Bank finalises list of names of successors to Mr. Puri - sent to RBI

Bank has put forward names of three eligible candidates to RBI for the position of MD & CEO post retirement of Mr. Aditya Puri in October. Included among the names are two of Bank's veterans - Mr. Sashidhar Jagdishan and Mr. Kaizad Bharucha - both of whom have spent over 25 years with the bank, while the third, external candidate being Citi Commercial Bank's current CEO, Mr. Sunil Garg.

Outlook & valuation

Strong governance and equally strong asset quality has always been the hallmark of HDFC Bank setting it apart from its peers. Bank is expected to build up further on its growth momentum from current levels. We value the stock at 3.5x FY22E BVPS (equivalent to 3-year average forward P/BV multiple) with a revised target price of Rs. 1,403 and reiterate our BUY rating on the stock.

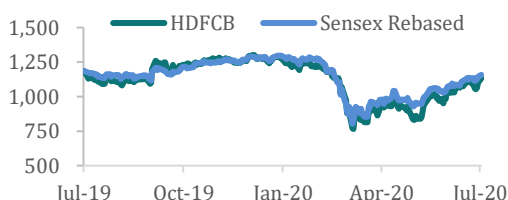
Company Data

Market Cap (cr)	Rs. 627,121
Outstanding Shares (cr)	550
Free Float	74.0%
Dividend Yield	0.0%
52 week high	Rs. 1,304
52 week low	Rs. 739
6m average volume (lacs)	8.5
Beta	0.9
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	26.2	26.1	26.1
FII's	37.9	36.7	37.0
MFs/Insti	21.1	22.0	22.1
Public	11.2	11.3	11.0
Others	3.7	3.9	3.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	23.8%	-8.4%	-3.9%
Absolute Sensex	23.8%	-8.2%	-1.1%
Relative Return*	0.0%	-0.2%	-2.8%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	56,186	62,974	74,224
Growth (%)	16.5	12.1	17.9
NIM (%)	4.5	4.2	4.2
Pre-Provision Profit	48,750	54,273	63,300
Net Profit	26,257	27,424	34,598
Growth (%)	24.6	4.4	26.2
Adj. EPS	47.7	49.8	62.9
Growth (%)	22.3	4.4	26.2
BVPS	310.6	350.5	400.8
P/E	18.1	22.9	18.1
P/B	2.8	3.3	2.8
ROE (%)	16.4	15.1	16.7
ROA (%)	1.9	1.7	1.8

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	30,378	27,392	10.9	29,885	1.6
Interest Expense	14,713	14,097	4.4	14,681	0.2
Net Interest Income (NII)	15,665	13,294	17.8	15,204	3.0
Non-Interest Income	4,075	4,970	(18.0)	6,033	(32.4)
Total Income	34,453	32,362	6.5	35,918	(4.1)
Operating Expenses	6,911	7,117	(2.9)	8,278	(16.5)
Total Expenditure	21,624	21,215	1.9	22,959	(5.8)
Pre-Provision profit	12,829	11,147	15.1	12,959	(1.0)
Provisions	3,892	2,614	48.9	3,784	2.8
Profit Before Tax	8,938	8,534	4.7	9,174	(2.6)
Tax	2,279	2,965	(23.1)	2,247	1.4
Net Profit	6,659	5,568	19.6	6,928	(3.9)
Adj. EPS - Diluted (Rs.)	12.1	10.1	19.8	12.6	(4.0)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Int. Inc. (NII)	69,598	82,016	62,974	74,224	(9.5)	(9.5)
Pre-Provision Profit	58,114	69,009	54,273	63,300	(6.6)	(8.3)
Net Profit	33,382	40,683	27,424	34,598	(17.8)	(15.0)
Adj. EPS (Rs.)	61.0	74.4	49.8	62.9	(18.3)	(15.5)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	80,241	98,972	114,813	130,924	156,309
Interest Exp.	40,146	50,729	58,626	67,950	82,085
Net Int. Income	40,095	48,243	56,186	62,974	74,224
% Change	21.0	20.3	16.5	12.1	17.9
Non-Int. Income	15,220	17,626	23,261	26,750	30,762
Net Income	55,315	65,869	79,447	89,724	104,986
Total Income	95,462	116,598	138,073	157,674	187,072
Operating Exp.	22,690	26,119	30,698	35,451	41,687
Total Exp.	62,837	76,848	89,324	103,401	123,772
Pre-Prov. Profit	32,625	39,750	48,750	54,273	63,300
Provisions	5,927	7,550	12,142	17,462	16,860
PBT	26,697	32,200	36,607	36,811	46,440
Tax	9,211	11,122	10,350	9,387	11,842
Tax Rate (%)	34.5	34.5	28.3	25.5	25.5
Net Profit	17,487	21,078	26,257	27,424	34,598
% Change	20.2	20.5	24.6	4.4	26.2
No. of Shares (cr)	523	540	550	550	550
Adj. EPS (Rs.)	33.4	39.0	47.7	49.8	62.9
% Change	18.5	16.7	22.3	4.4	26.2
DPS (Rs.)	6.5	7.5	0.0	10.0	12.6

BALANCE SHEET

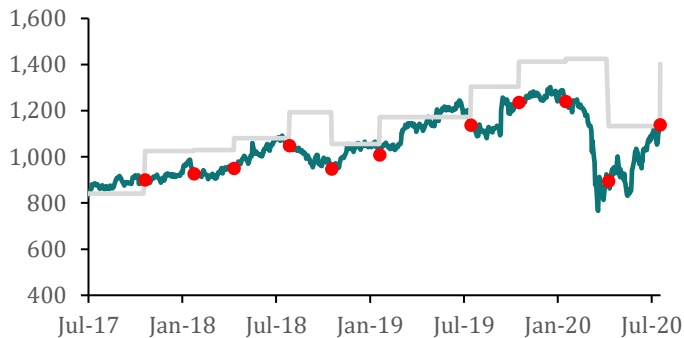
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	122,915	81,348	86,619	101,706	122,498
Investments	242,200	293,116	391,827	493,474	609,351
Advances	658,333	819,401	993,703	1,122,884	1,285,702
Fixed Assets	3,607	4,030	4,432	4,885	5,397
Other Assets	36,879	46,646	53,931	62,489	72,561
Total Assets	1,063,934	1,244,541	1,530,511	1,785,438	2,095,510
Capital	519	545	548	548	548
Reserves & Surplus	105,776	148,662	170,438	192,377	220,055
Deposits	788,771	923,141	1,147,502	1,319,628	1,530,768
Borrowings	123,105	117,085	144,629	190,297	242,724
Other Liabilities	45,764	55,108	67,394	82,588	101,414
Total Liabilities	1,063,934	1,244,541	1,530,511	1,785,438	2,095,510
BVPS (Rs.)	203.2	276.1	310.6	350.5	400.8
% Change	17.1	35.9	12.5	12.8	14.3

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	27.9	29.2	18.1	22.9	18.1
P/BV (x)	4.6	4.1	2.8	3.3	2.8
Div. Yield (%)	0.7	0.7	0.0	0.9	1.1
Profitab. & Return (%)					
Yield on Advances	10.3	10.5	10.1	9.9	10.1
Cost of Deposits	4.9	5.2	5.0	4.9	5.0
Spread	5.4	5.3	5.1	5.0	5.1
NIM	4.3	4.3	4.3	4.2	4.2
ROE	17.9	16.5	16.4	15.1	16.7
ROA	1.8	1.8	1.9	1.7	1.8
Capital Adequacy (%)					
CAR	14.8	17.1	18.5	17.9	18.0
Tier I	13.2	15.8	17.2	16.8	16.9
Tier II	1.6	1.3	1.3	1.1	1.1
Asset Quality (%)					
GNPA	1.3	1.4	1.3	1.5	1.6
NNPA	0.4	0.4	0.4	0.4	0.5
Operating Ratios (%)					
Credit/ Deposit	83.5	88.8	86.6	85.1	84.0
Cost/ Income	41.0	39.7	38.6	39.5	39.7
CASA	43.5	42.4	42.2	40.5	40.5



Recommendation Summary



Dates	Rating	Target
06-Nov-17	BUY	1,025
08-Feb-18	BUY	1,030
26-Apr-18	BUY	1,082
10-Aug-18	BUY	1,194
30-Oct-18	BUY	1,056
30-Jan-19	BUY	1,173
24-Jul-19	BUY	1,304
24-Oct-19	BUY	1,412
22-Jan-20	BUY	1,425
13-Apr-20	BUY	1,134
23-Jul-20	BUY	1,403

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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