19 July 2020

1QFY21 Results Update | Sector: Financials

HDFC Bank

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	HDFCB IN
Equity Shares (m)	5,483
M.Cap.(INRb)/(USDb)	6034.6 / 77.7
52-Week Range (INR)	1304 / 739
1, 6, 12 Rel. Per (%)	2/-2/-3
12M Avg Val (INR M)	13206

Financials & Valuations (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)	22.9	20.0	16.9
P/BV (X)	3.5	3.1	2.7
P/ABV (X)	3.7	3.2	2.8
Div. Yield (%)	1.1	0.9	0.9

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

CMP: INR1,099 TP: INR1,280 (+16%) Buy

PAT in line; Internals though seeing changes induced by COVID-19

Management succession key; Moratorium book under control at ~9%

- HDFC Bank (HDFCB) reported mixed trends in advances growth. While corporate growth was robust at ~38% YoY, retail loan growth declined sequentially. Operating performance remained steady, led by strong NII growth and tight control on opex. In contrast, fee income declined sharply due to the economic slowdown. However, higher treasury gains supported other income. Further, the bank has made contingent provisions of INR10b (v/s INR15.5b in 4QFY20), which increased total contingent provisions to INR40b. While slippages were higher, healthy provisioning enabled an improvement in coverage ratio.
- We have fine-tuned our estimates to factor in the current trends and estimate HDFCB to deliver 17% earnings CAGR over FY20-22E. Maintain **Buy**.

Net earnings in line; Fee income pressure compensated by opex control

- HDFCB reported a steady quarter with PAT growth of ~20% YoY (-4% QoQ), supported by NII growth of 18% YoY (+3% QoQ) and controlled opex, which declined 3% YoY (-17% QoQ). The strong NII growth was led by advances, which increased 21% YoY and stable margins of 4.3% QoQ.
- Fee income declined 37% YoY, impacted by the slowdown in economic activity due to the COVID-19 outbreak. While the pandemic led to a decrease in fees/other income by ~INR20b, treasury gains were higher at INR10.9b (+92% QoQ). As a result, other income declined 18% YoY while C/I ratio improved by ~400bp QoQ to 35%. Thus, PPoP grew 15% YoY.
- However, provisions remained elevated at INR38.9b (+49% YoY), as the bank made contingent provisions of INR10b (v/s INR15.5b in 4QFY20).
- Loans grew 21% YoY, led by corporate loans (+38% YoY) while retail loan growth moderated to 7% YoY (declined 4% QoQ). Credit cards/personal loan growth declined 5%/3% QoQ while Auto loans declined 4% QoQ.
- Deposits increased ~25% YoY (~4% QoQ increase), led by TD growth of 24% YoY (7% QoQ increase), while CASA grew 26% YoY. Overall, CASA ratio stood at 40.1% (v/s 42.2% in 4QFY20).
- On the asset quality front, absolute GNPA increased ~9% QoQ as slippages were elevated at 1.2% (annualized). As the bank used an analytical tool to determine slippages, it resulted in a more expedited recognition of NPAs. Thus, GNPA ratio increased 10bp QoQ to ~1.4%. Accelerated provisioning, however, enabled 3bp QoQ decline in NNPA to ~0.3%. This resulted in PCR improving ~420bp QoQ to 76%. HDFCB carries a floating provision of INR14.5b and contingent provision of INR40b.

Highlights from management commentary

- As at Jun'20, 9% of the book is currently under moratorium. 97% customers that availed moratorium are in 0+DPD while 98% customers have received full salary credits.

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- Overall, retail loan originations have plunged ~70% while personal loan origination volumes have declined 86%. Credit card sourcing has dropped 87% while spends have declined 44%. In the vehicle segment, originations decreased 66% (v/s pre-COVID levels); however, tractor/2W portfolio has showed some resilience.
- **CEO change:** Mr. Aditya Puri has hinted at an internal successor.

Valuations and view

HDFCB has been able to deliver its usual earnings growth trajectory. However, the COVID-19 pandemic has induced volatility on certain operating parameters like fee income and opex. This in turn has heavily dented loan origination across retail segments. Overall performance of the bank should remain steady and we expect the bank to offset near-term pressure on other income via tight control over opex. We expect HDFCB's strong liability franchise and fixed rate nature of the book to support margins even as it maintains higher liquidity to navigate through the crisis. On the asset quality front, slippages are likely to pick up during 2HFY21 due to the COVID-19 disruption, which could keep credit costs elevated. However, higher provisioning buffers should limit the overall impact on earnings. CEO succession remains an important event in the near term and a key monitorable. Maintain Buy with revised TP of INR1,280 (3.0x FY22E ABV).

Quarterly performance (INRb)

	FY20				FY21E				FY20	FY21E	FY21E	V/s our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Est
Net Interest Income	**132.9**	**135.2**	**141.7**	**152.0**	**156.7**	**159.0**	**165.2**	**165.4**	**561.9**	**646.2**	**154**	**1.8**
% Change (Y-o-Y)	22.9	14.9	12.7	16.2	17.8	17.6	16.6	8.8	16.5	15.0	15.8	0.4
Other Income	49.7	55.9	66.7	60.3	40.8	60.1	62.4	81.0	232.6	244.2	61	-33.6
Total Income	**182.6**	**191.0**	**208.4**	**212.4**	**197.4**	**219.0**	**227.6**	**246.4**	**794.5**	**890.4**	**215**	**-8.3**
Operating Expenses	71.2	74.1	79.0	82.8	69.1	79.8	82.4	95.8	307.0	327.1	84	-17.4
Operating Profit	**111.5**	**117.0**	**129.5**	**129.6**	**128.3**	**139.2**	**145.2**	**150.6**	**487.5**	**563.3**	**132**	**-2.6**
% Change (Y-o-Y)	28.9	23.4	20.1	19.5	15.1	19.0	12.1	16.2	22.6	15.6	18.1	1.4
Provisions	26.1	27.0	30.4	37.8	38.9	40.6	41.0	39.9	121.4	160.4	42	-6.3
Profit before Tax	**85.3**	**90.0**	**99.0**	**91.7**	**89.4**	**98.6**	**104.2**	**110.8**	**366.1**	**402.9**	**90**	**-0.8**
Tax	29.7	26.5	24.9	22.5	22.8	24.6	25.4	28.6	103.5	101.4	23	-2.2
Net Profit	**55.7**	**63.4**	**74.2**	**69.3**	**66.6**	**74.0**	**78.8**	**82.1**	**262.6**	**301.5**	**67**	**-0.3**
% Change (Y-o-Y)	21.0	26.8	32.8	17.7	19.6	16.6	6.2	18.5	24.6	14.8	20.0	-2.3
Operating Parameters												
Deposit Growth (%)	18.5	22.6	25.2	24.3	24.6	20.4	19.1	18.0	24.3	18.0	24.6	0.0
Loan Growth (%)	17.1	19.5	19.9	21.3	20.9	15.1	14.4	13.0	21.3	13.0	21.1	-0.2
Deposit	9,546	10,216	10,674	11,475	11,894	12,301	12,714	13,541	11,475	13,541	11,895	0.0
Loan	8,297	8,970	9,360	9,937	10,033	10,325	10,712	11,229	9,937	11,229	10,046	-0.1
Asset Quality												
Gross NPA (%)	1.4	1.4	1.4	1.3	1.4	1.6	1.9	2.1	1.3	2.1	1.3	0.1
Net NPA (%)	0.4	0.4	0.5	0.4	0.3	0.4	0.6	0.5	0.4	0.5	0.4	0.0
PCR (%)	69.7	69.7	66.7	72.0	76.2	73.0	70.3	74.6	72.0	74.6	72.5	3.7

E:MOFSL Estimates

Quarterly snapshot

	FY19				FY20				FY21	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
Profit and Loss (INR b)											
Interest Income	**225.5**	**242.0**	**258.9**	**263.3**	**273.9**	**281.7**	**293.7**	**298.9**	**303.8**	**11**	**2**
Loans	173.9	188.3	203.1	210.2	218.0	225.1	234.2	240.4	240.4	10	0
Investment	45.9	50.4	53.2	50.5	52.5	50.9	52.0	50.9	56.0	7	10
Others	5.7	3.3	2.6	2.7	3.4	5.6	7.4	7.5	7.4	119	-1
Interest Expenses	**117.4**	**124.4**	**133.1**	**132.4**	**141.0**	**146.5**	**152.0**	**146.8**	**147.1**	**4**	**0**
Net Interest Income	**108.1**	**117.6**	**125.8**	**130.9**	**132.9**	**135.2**	**141.7**	**152.0**	**156.7**	**18**	**3**
Other Income	**38.2**	**40.2**	**49.2**	**48.7**	**49.7**	**55.9**	**66.7**	**60.3**	**40.8**	**-18**	**-32**
Trading profits	-2.8	-0.3	4.7	2.3	2.1	4.8	6.8	5.7	10.9	413	92
Exchange Profits	5.0	4.2	4.0	4.0	5.8	5.5	5.3	5.0	4.4	-24	-13
Others (Ex non core)	36.0	36.3	40.5	42.4	41.8	45.6	54.7	49.7	25.5	-39	-49
Total Income	**146.3**	**157.8**	**175.0**	**179.6**	**182.6**	**191.0**	**208.4**	**212.4**	**197.4**	**8**	**-7**
Operating Expenses	**59.8**	**63.0**	**67.2**	**71.2**	**71.2**	**74.1**	**79.0**	**82.8**	**69.1**	**-3**	**-17**
Employee	18.1	19.1	19.7	20.7	22.2	23.6	24.5	25.0	25.1	13	1
Others	41.7	43.9	47.5	50.4	49.0	50.5	54.4	57.8	44.0	-10	-24
Operating Profits	**86.5**	**94.8**	**107.8**	**108.4**	**111.5**	**117.0**	**129.5**	**129.6**	**128.3**	**15**	**-1**
Core Operating Profits	**89.3**	**95.1**	**103.0**	**106.1**	**109.4**	**112.2**	**122.7**	**123.9**	**117.4**	**7**	**-5**
Provisions	16.3	18.2	22.1	18.9	26.1	27.0	30.4	37.8	38.9	49	3
PBT	**70.2**	**76.6**	**85.7**	**89.5**	**85.3**	**90.0**	**99.0**	**91.7**	**89.4**	**5**	**-3**
Taxes	24.2	26.5	29.8	30.7	29.7	26.5	24.9	22.5	22.8	-23	1
PAT	**46.0**	**50.1**	**55.9**	**58.9**	**55.7**	**63.4**	**74.2**	**69.3**	**66.6**	**20**	**-4**
Balance Sheet (INR b)											
Deposits	8,058	8,334	8,525	9,231	9,546	10,216	10,674	11,475	11,894	25	4
Loans	7,086	7,508	7,810	8,194	8,297	8,970	9,360	9,937	10,033	21	1
Asset Quality (INR b)											
GNPA	95.4	101.0	109.0	112.2	117.7	125.1	134.3	126.5	137.7	17	9
NNPA	29.1	30.3	33.0	32.1	35.7	37.9	44.7	35.4	32.8	-8	-7

Quarterly snapshot contd.

Ratios	FY19				FY20				FY21	Change (bps)	
Asset Quality Ratios (%)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
GNPA	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.4	-4	10
NNPA	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.3	-10	-3
PCR (Calc.)	69.5	70.0	69.7	71.4	69.7	69.7	66.7	72.0	76.2	650	419
Slippage	2.2	1.9	2.1	1.8	2.1	1.8	2.4	1.3	1.2	-206	-135
Business Ratios (%)											
Fees to Total Income	24.6	23.0	23.1	23.6	22.9	23.9	26.2	23.4	12.9	-997	-1,046
Cost to Core Income	40.1	39.8	39.5	40.1	39.4	39.8	39.2	40.0	37.1	-237	-299
Tax Rate	34.4	34.7	34.8	34.3	34.8	29.5	25.1	24.5	25.5	-925	101
CASA (Reported)	41.7	42.0	40.7	42.4	39.7	39.3	39.5	42.2	40.1	40	-210
Loan/Deposit	87.9	90.1	91.6	88.8	86.9	87.8	87.7	86.6	84.4	-257	-224
Profitability Ratios (%)											
Yield on loans	10.2	10.3	10.6	10.5	10.6	10.4	10.2	10.0	9.6	-95	-34
Yield On Investments	7.1	7.0	7.3	7.1	7.1	6.7	6.7	5.8	5.8	-132	1
Yield on funds	9.6	9.5	9.8	9.7	9.8	9.7	9.6	9.1	8.8	-101	-30
Cost of funds	5.1	5.2	5.5	5.3	5.4	5.4	5.3	4.7	4.5	-85	-22
Spreads	4.5	4.3	4.4	4.5	4.4	4.3	4.3	4.3	4.2	-16	-8
Margins	4.2	4.3	4.3	4.4	4.3	4.2	4.2	4.3	4.3	0	0
RoA	1.8	1.8	2.0	2.0	1.8	2.0	2.2	2.0	1.8	-8	-20
RoE	17.2	16.4	15.9	16.1	14.6	16.3	18.6	16.6	15.3	65	-130
Other Details											
Branches	4,804	4,825	4,963	5,103	4,990	5,314	5,345	5,416	5,326	336	-90
ATMs	12,808	13,018	13,407	13,160	13,727	13,514	14,533	14,901	14,996	1,269	95
Employees	89,550	94,907	96,425	98,061	104,154	111,208	113,981	116,971	115,822	11,668	-1,149

CONFERENCE CALL

Highlights of management commentary

Opening remarks by Mr. Aditya Puri (MD & CEO)

- Mr. Munish Mittal (Chief Information Officer) moved from the bank to pursue higher studies in a foreign university.
- Mr. Abhay Aima (Group Head – Private Banking) has taken an early retirement to pursue his personal interests.
- Based on Internal Audit (vehicle dealer financing), some personal misconduct was observed by a few employees. The bank has taken appropriate action against these employees
- Payment business – The bank has witnessed strong bounce-back and reached ~70% of Jan'20 levels with higher spends on online education
- Corporate banking – Focus is on AAA rated corporates. The SME business has witnessed some sequential decline. On the retail side, origination volumes have declined ~70%. Credit card spends have also declined sharply over 1QFY21.
- Loan origination volumes in vehicle financing have seen a steep decline, while tractor/2W loans are showing better trends.
- The bank has already put in place a strategy to overcome the current harsh environment in every aspect. These include delinquency levels, technology, business growth, distribution, etc.
- HDFCB has 51% of its branches in semi-urban and rural India.
- Succession planning – Mr. Puri has hinted at an internal successor.

P&L and balance sheet related

- Of the total fees, retail forms 89%, while wholesale constitutes 11%. However, retail loan originations have declined sharply, and thus, have impacted fee income.
- Recoveries witnessed an impact of ~INR3b due to the lockdown.
- C/I ratio has declined due to lower discretionary spends, advertisement costs, etc. However, once the situation normalizes, these expenses are likely to pick up.
- **9% of the total portfolio is currently under moratorium as at Jun'20.**
- 97% customers availing moratorium are in 0+DPD while 98% customers have received full salary credits. Moratorium was availed to preserve liquidity.
- Further, 70% customers that have availed moratorium 1.0 have cleared their dues while ~90% customers that have availed moratorium 2.0 are from moratorium 1.0.
- The bank believes contingent provisions are sufficient to manage the stress.
- The bank has sufficient cushion and **believe a capital raise is not required in the near term.**

Business growth trends across segments

Corporate/wholesale banking portfolio

- Corporate banking portfolio is benefiting from strong disbursement to public sector companies, MNC, corporates, etc. It also participated in TLTRO 1.0.
- Strong growth is coming from Power, Material, Consumer, etc.
- In terms of **collection trends**, corporate collections stood at 45%/50% in Apr/May'20 (v/s Apr/May'19); however, it has improved to 94% in Jun'20.

Sector wise, all industries showed positive collection trend in Jun'20 – NBFCs reflected 66% increase while Auto ancillaries exhibited 100% increase over May'20 levels.

- **Top disbursements**: 48% toward capex, 33% toward working capital, 9% toward other market participants while 6% toward lending for PSL, etc.
- Corporate CASA grew 25% while corporate fixed deposits grew 14% YoY.

SME & Business Banking Portfolio

- The bank is doing business on the basis of granular portfolio and geographical spread while the risk is mitigated through self-funding and high collateral value.
- ~68% of the incremental disbursement has ticket size less than INR10m.
- 89% of new-to-credit customers have collateral cover in excess of 100%.
- Credit Guarantee Scheme: Total eligible customers (pre-approved) stood at 30k with loan value of INR200b, of which disbursements were in excess of INR100b.

Retail portfolio

- Overall, retail loan originations fell ~70% with personal loan origination volumes declining 86%. Credit card sourcing declined 87% while spends dropped 44%. In the vehicle segment, originations plunged 66% (v/s pre-COVID levels) while tractors/2Ws portfolios showed some resilience.
- Tractor segment grew 26% QoQ.
- Gold loans' portfolio also grew during the quarter.

Asset Quality

- Core Credit Cost ratio stood at 1.08% (v/s 0.77% in 4QFY20) while total credit cost during 1QFY21 stood at 1.54%.

Asset quality trends across segments

Corporate banking

- Bulk of the wholesale growth has come from large high-rated conglomerates, strong international parentage and public sector entities.
- 86% of the external rated portfolio is AAA or AA rated.
- Unsecured corporate portfolio – There is ~55% less probability of default compared to secured portfolio.

SME & Business Banking Portfolio

- ~9-11% of the portfolio/customers could face difficulties in servicing their liabilities. However, overall impact could be less than 50% of our estimates.
- Analysis of portfolio's cash flow trends – Cash flows in Apr'20 were down at 47% (v/s Mar'20 levels) while Jun'20 reflects 13% increase (v/s Apr'20 levels).
- Recent trends reflect improving cash flows of portfolio companies.
- Self-funding ratio is an indicator of the personal wealth/savings of customers and reflects the liquidity of borrowers. It has gone up during 1QFY21.
- Overall collateral value is ~87% of the total loan portfolio.

Retail portfolio

- Incremental loans are witnessing lower delinquencies.
- Policy change in retail loans has largely led to moderation in growth.

- Early warning signs reflect largely stable asset quality with small hiccups.
- On the collection front, ~20k additional resources were deployed for collections.
- Auto loans are at 60-70% of pre-COVID levels while tractor/2W portfolio remains resilient.

Unsecured portfolio

- Personal loan portfolio is largely toward salaried individuals with majority borrowers from high-rated corporates. Also, there is good concentration from government undertakings.
- Moratorium 1.0 was largely availed due to caution as 98% of such customers received full salary credits.
- Overall, 5% of personal loan borrowers witnessed salary cuts.
- Personal loans and business banking volumes are currently at 30-40% of pre-COVID levels.

Key Exhibits

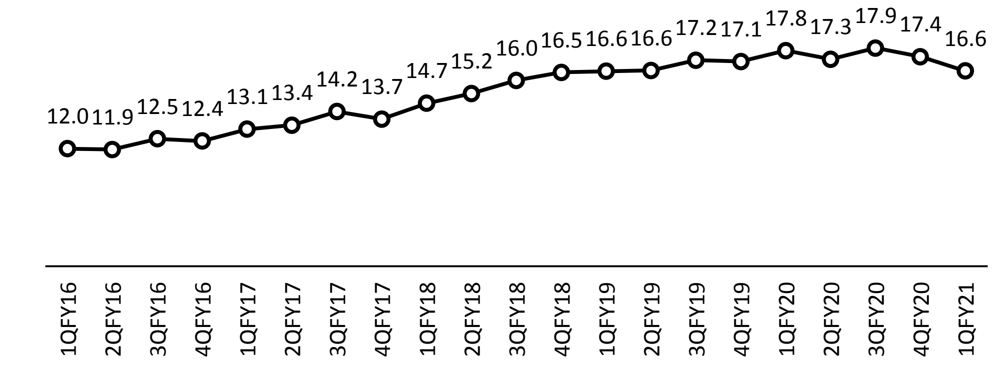
Loan growth strong at 20.9% YoY; wholesale book grew ~37% YoY

- Loan book grew 20.9% YoY (+1.0% QoQ) to INR10t. Deposits grew 3.7%/24.6% QoQ/YoY to INR11.9t. CD ratio stood at 84.4% (-224bp QoQ).
- Retail loan growth moderated to 7.2% YoY (decline of 3.0% QoQ) while domestic wholesale advances were robust at 37.6% (+~6% QoQ). The share of retail loans (as per Basel) moderated to 47.3% (v/s 49.8% in 4QFY20).
- Credit cards/personal loan growth declined 5%/3% QoQ while Auto loans declined 4% QoQ.
- Loan growth in Auto segment witnessed decline of 2.3% YoY (-3.6% QoQ) due to continued slowdown in the sector and weak demand.

Exhibit 1: Share of retail loans stood at 47.3% in 1QFY21 v/s 49.8% in 4QFY20

INRb	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	% of total
Car Loans	819.1	839.4	810.8	-1.0	-3.4	8.1
CV loans	292.3	290.5	278.0	-4.9	-4.3	2.8
2 wheeler loans	100.7	98.6	95.7	-5.0	-2.9	1.0
Sub-total - Auto Loans	**1,212.1**	**1,228.4**	**1,184.5**	**-2.3**	**-3.6**	**11.8**
Personal loans	971.5	1,155.6	1,115.7	14.8	-3.5	11.1
Business banking	577.2	641.2	606.0	5.0	-5.5	6.0
Loan against shares	17.8	18.0	15.0	-15.7	-16.7	0.1
Credit Cards	495.2	575.8	547.0	10.4	-5.0	5.5
Home loans	557.7	634.5	626.5	12.3	-1.2	6.2
Gold loans	52.3	54.3	55.7	6.5	2.6	0.6
Other Retail	547.7	636.3	599.7	9.5	-5.8	6.0
Retail Total	**4,431.5**	**4,944.0**	**4,750.1**	**7.2**	**-3.9**	**47.3**
Corporate and international	3,865.8	4,993.0	5,282.9	36.7	5.8	52.7
Total loans	**8,297.3**	**9,937.0**	**10,033.0**	**20.9**	**1.0**	**100.0**

Exhibit 2: Share of unsecured loans declines to 16.6%



Source: MOSL, Company

CASA grew ~26% YoY while term deposits grew ~24% YoY.

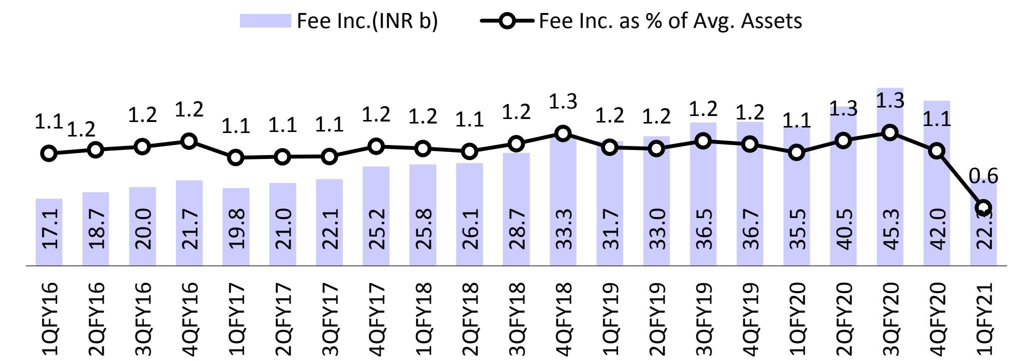
Reported NIM stable at 4.3%; CASA ratio moderated 210bp to 40.1%

- Reported NIM was stable at 4.3%, aided by improvement in cost of funds.
- CASA deposit growth stood at 26% YoY (-1.5% QoQ), driven by 29.2%/5.5% YoY/QoQ growth in SA deposits. CA deposits grew 19.4% YoY, but declined 13.9% QoQ.
- Term deposits growth was strong at 23.7%/7.4% YoY/QoQ. Sequential growth in term deposits was higher than overall deposits growth, which resulted in CASA ratio moderating to 40.1% (-210bp QoQ).

Core fee income declines 37% YoY; Fee income to average assets forms 0.6% of total assets

- Core fee income declined 37% YoY (-47% QoQ) to INR22.3b, affected by slowdown in economic activity, which has led to a decrease in retail loan origination, sale of third-party products, use of credit/debit cards by customers and waiver of certain fees. As a result, fees/other income were lower by approximately INR20b.
- Fee income/average assets, thus, moderated to 0.6% as at 1QFY21 (1.1% in 4QFY20). Total other income, however, was supported by higher treasury gains of INR10.9b, which grew ~92% QoQ.
- Overall opex declined 2.9% YoY (-16.5 QoQ), led by lower operating expenses, which declined ~24% QoQ. Cost-to-core income ratio, thus, moderated by 300bp to 37.1%. C/I ratio stood at 35% (-400bp QoQ).

Exhibit 3: Fee income to assets (%) declined sharply to 0.6% due to impact of COVID-19



Source: MOSL, Company

Fresh slippages came in at 1.2% (annualized),

Expedited recognition results in an increase in GNPA while higher provisions resulted in moderation in NNPA

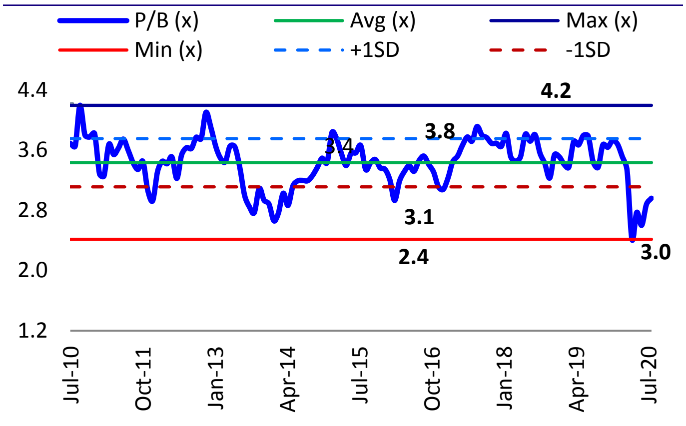
- GNPA witnessed sequential increase as the bank used its analytical models to determine slippages, resulting in a more expedited recognition of NPAs. However, accelerated corresponding specific provisions resulted in a decline in NNPA.
- Fresh slippages for the quarter stood elevated at 1.2% (annualized), which implies total slippages of ~INR30b. PCR improved ~420bp sequentially to 76.2%.
- Absolute GNPA increased 8.9% QoQ to ~INR138b while NNPA declined 7.4% QoQ to INR33b. GNPA ratio, thus, increased 10bp QoQ to 1.36% while NNPA declined 3bp QoQ to 0.33%.
- The bank continues to carry a floating provision of INR14.5b and holds a contingent provision of INR40b.

Valuation view

- Corporate loan growth for HDFCB is picking up and compensating well for the softness in its retail portfolio (caused by muted growth in the vehicle segment/credit cards). Among retail assets, growth is coming primarily from unsecured personal loans.
- Fee income profile has been impacted in the current quarter due to decline in economic activity on account of the COVID-19 crisis. However, strong cost controls are likely to drive an improvement in the bank's return ratios. Besides, margins have held stable due to decline in cost of funds, aided by strong and granular liability franchise. As corporate lending picks up with economic activity reviving, we believe corporate fees would also reflect the improving trends.
- GNPA witnessed sequential increase as the bank used its analytical models to determine slippages, resulting in a more expedited recognition of NPAs. However, accelerated corresponding specific provisions resulted in a decline in NNPA. CV/CE and unsecured retail loans to the self-employed segment needs to be monitored amidst COVID-19 and we expect rising delinquency trends in the near term. PCR increased ~420bp QoQ to ~76% while the bank carries a floating provision of INR14.5b and contingent provision of INR40.0b. Overall, we continue to expect NNPA to remain at 0.4% in FY22E.
- We have seen some moderation in branches while employee count also declined slightly. Overall, we believe that strong capitalization and liquidity levels (surplus liquidity buffer of INR700b) should help HDFCB to sustain its growth momentum over the next few years.
- **Buy with a target price of INR1,280:** HDFCB has been able to deliver usual earnings growth trajectory however COVID-19 has induced volatility on certain operating parameters like Fee income, Opex and caused heavy dent on loan origination across retail segments. We expect overall performance to remain steady though other income is likely to remain under pressure in the near term and bank continues to offset this by reining control on opex. We expect HDFCB's strong liability franchise and fixed rate nature of the book to support margins even as it maintains higher liquidity to navigate through the crisis. On the asset quality front, slippages are likely to pick-up during 2HFY21 due to COVID-19 disruption which can keep credit costs elevated however higher

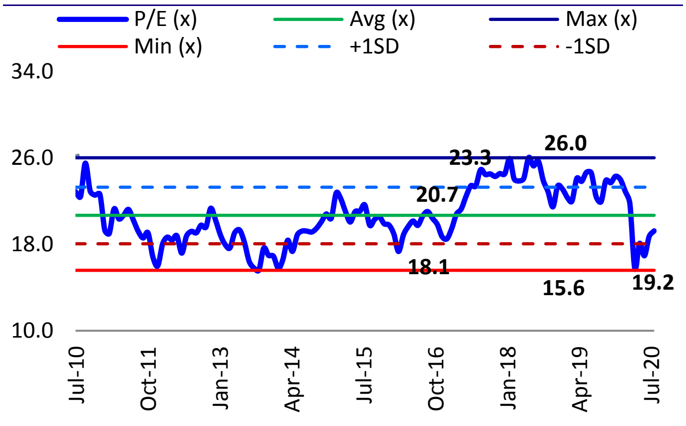
provisioning buffers should limit the overall impact on earnings. CEO succession remains an important event in the near term and a key monitorable. Maintain **Buy** with revised TP of INR1,280 (3.0x FY22E ABV).

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

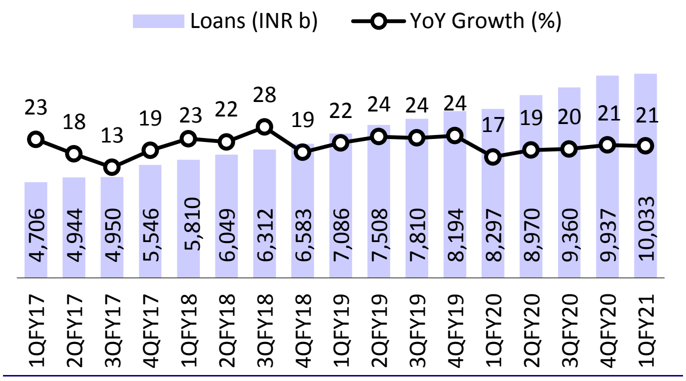
Exhibit 5: One-year forward P/E



Source: MOFSL, Company

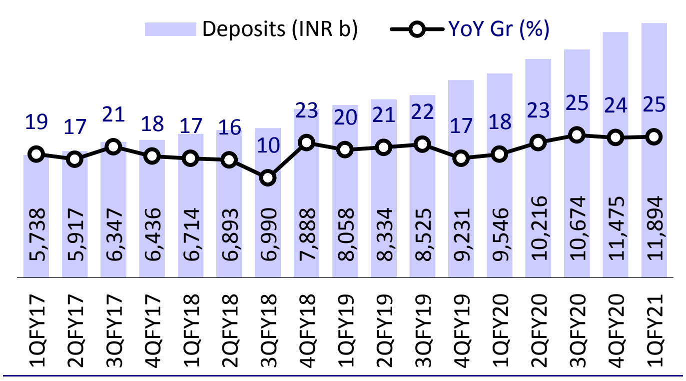
Story in Charts

Exhibit 6: Loan growth strong at 21% YoY (+1% QoQ)



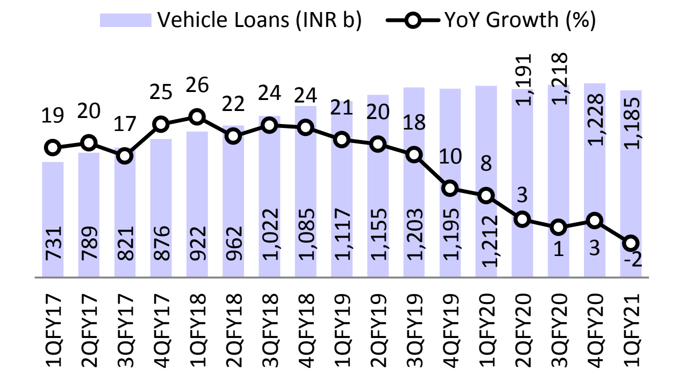
Source: MOFSL, Company

Exhibit 7: Deposits robust at 25% YoY (3.7% QoQ)



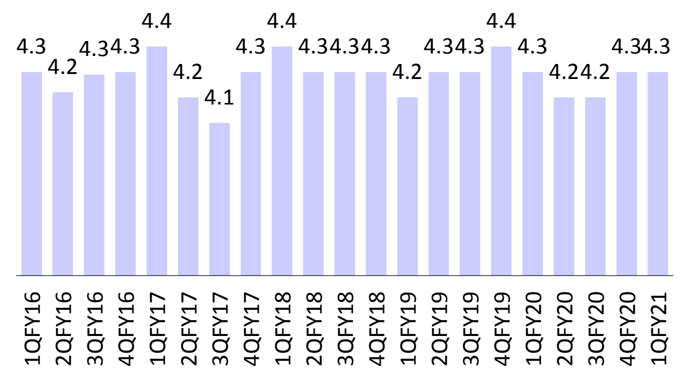
Source: MOFSL, Company

Exhibit 8: Vehicle loan growth remains under pressure and declined 2.3% YoY (-3.6% QoQ)



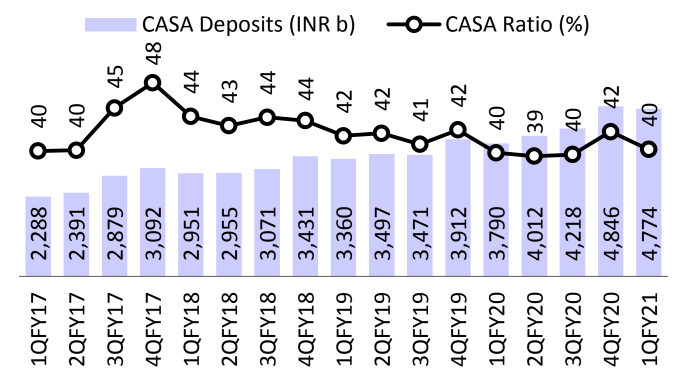
Source: MOFSL, Company

Exhibit 9: NIM stable QoQ at 4.3%



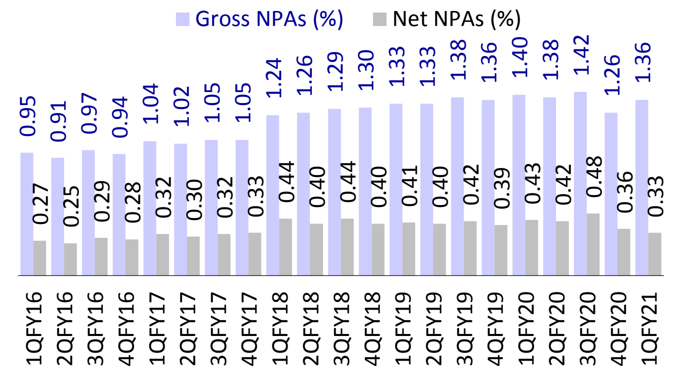
Source: MOFSL, Company

Exhibit 10: CASA ratio moderated ~210bp QoQ to 40.1%



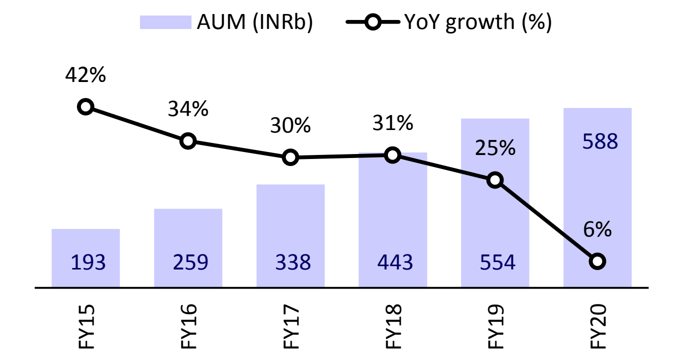
Source: MOFSL, Company

Exhibit 11: GNPA increased 10bp while NNPA improved 3bp



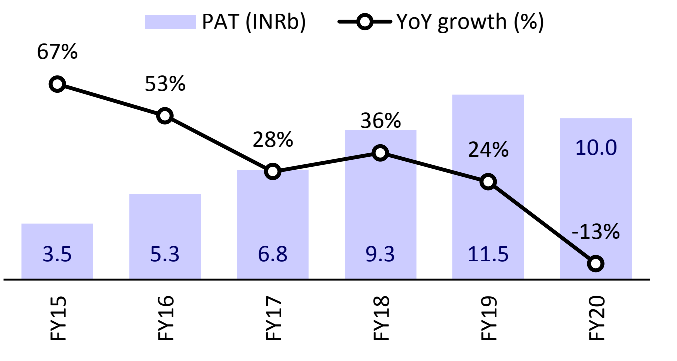
Source: MOFSL, Company

Exhibit 12: HDB Financials – AUM growth moderated sharply to 6% YoY in FY20…



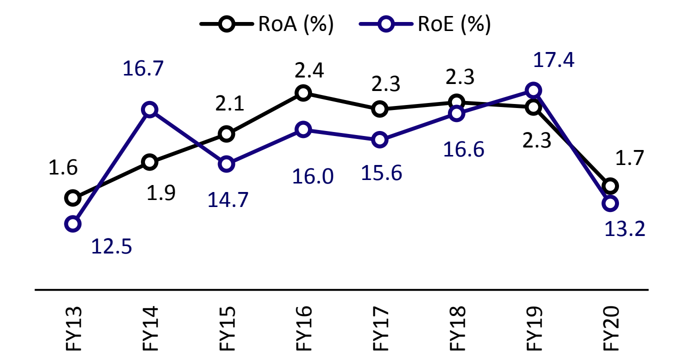
Source: MOFSL, Company

Exhibit 13: …while PAT registered decline of 13% YoY to INR10b



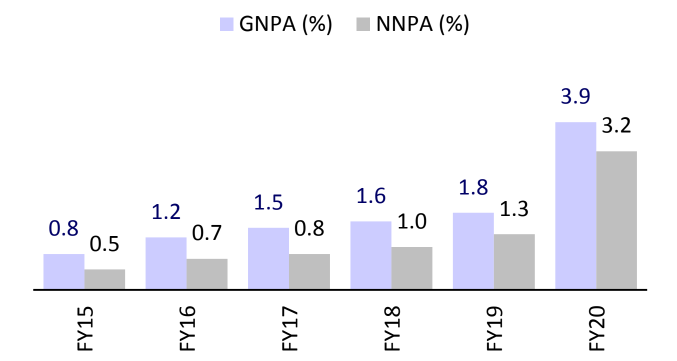
Source: MOFSL, Company

Exhibit 14: Return ratios suppressed in FY20 for HDB Financials…



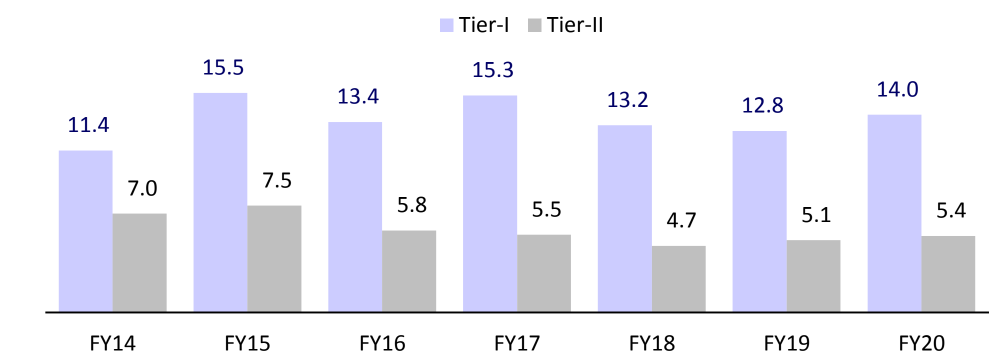
Source: MOFSL, Company

Exhibit 15: …as asset quality deteriorated in FY20



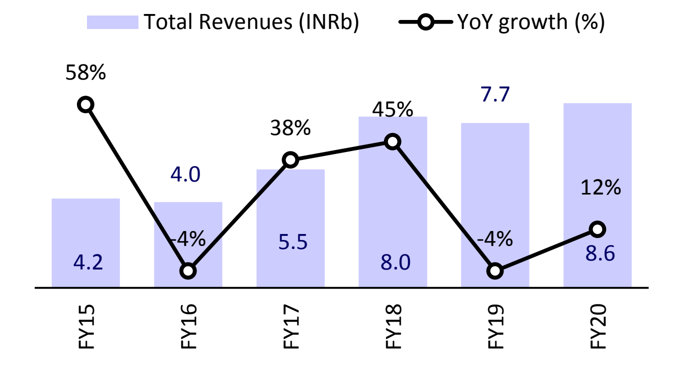
Source: MOFSL, Company

Exhibit 16: HDB Financials – Capitalization level remains strong with total CAR at 19.4%



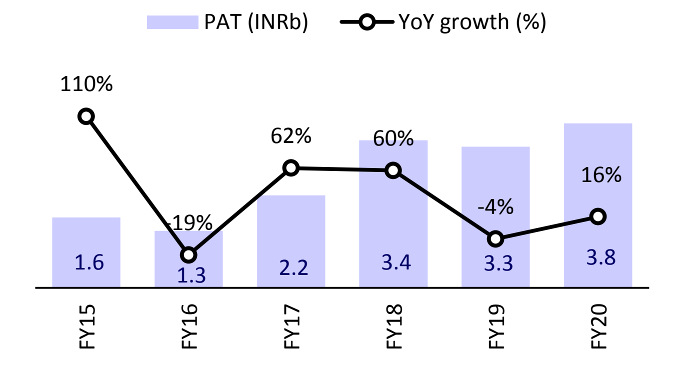
Source: MOFSL , Company

Exhibit 17: HDFC Securities – Total income grew 12% YoY in FY20…



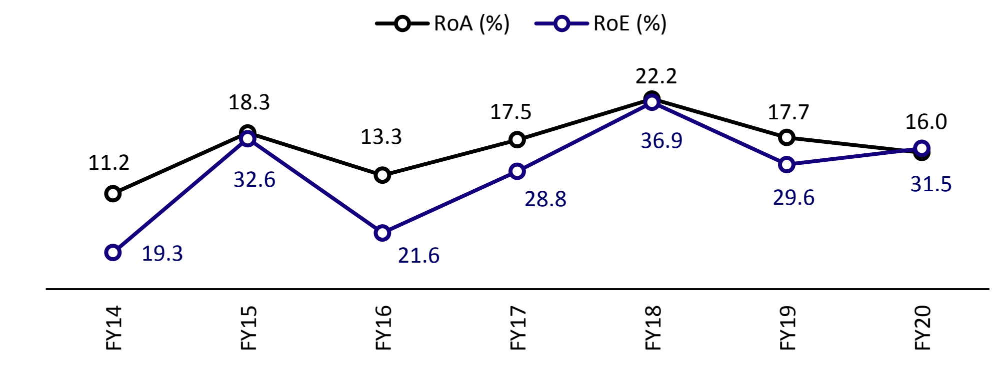
Source: MOFSL, Company

Exhibit 18: … while PAT growth was healthy at 16% YoY to INR3.8b



Source: MOFSL, Company

Exhibit 19: Return ratios remain strong for HDFC Securities, with RoE at ~32% for FY20



Source: MOFSL , Company

Exhibit 20: 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 (INRb)

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

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)			**6.5**	**5.4**	**4.0**	**3.5**	**3.1**	**2.7**
Adjusted BV (INR)	122.4	141.8	165.4	193.9	262.8	300.3	341.9	396.6
Price-ABV (x)			**6.6**	**5.7**	**4.2**	**3.7**	**3.2**	**2.8**
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)			**38.7**	**32.4**	**27.7**	**22.9**	**20.0**	**16.9**
Dividend Per Share (INR)	4.0	4.8	5.5	7.8	9.0	11.9	9.6	10.2
Dividend Yield (%)			**0.5**	**0.7**	**0.8**	**1.1**	**0.9**	**0.9**

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.

Disclosures

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