

Retail Equity Research

HDFC Bank

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 47,706

BUY

12M Investment Period Rating as per Large cap
CMP Rs. 1,391 TARGET Rs. 1,653 RETURN 19% ↑
(Closing: 20-04-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Strong Q4 despite higher provisioning

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.

- In Q4FY21, the bank saw a net interest income (NII) of Rs. 18,524cr (+13.9% YoY) as the core Net interest margin (NIM) stood at 4.2%.
- GNPA ratio improved 6bps QoQ to 1.32% and NNPA remained flat as compared to the previous quarter (pro-forma) at 0.40% in Q4FY21.
- The bank's proposal to raise capital (~Rs. 50,000cr) will provide the necessary cushion to protect the balance sheet in the coming quarters.
- With healthy revenue growth and stable asset quality, we upgrade rating to BUY and value the stock at 3.4x FY23E BVPS with a revised target price of Rs. 1,653.

Operating metrics remain steady

Total interest income (comprising of Interest income, Income on investments, Interest on Cash balance with RBI & Others) inched up by 2.6% YoY to Rs. 32,607cr in Q4FY21. Interest expense declined 9.3% YoY and cost to income ratio improved to 37.2% (down 24bps YoY but up 11bps on QoQ basis) which can be attributed to lower spend levels in promotional activities, discretionary spends and investments. As a result, NII rose 13.9% YoY to Rs. 18,524cr aided by 14.0% YoY growth in advances, despite stable NIM QoQ at 4.2%. Non-interest income witnessed robust growth of 27.9% YoY to Rs. 8,303cr in Q4FY21, primarily driven by higher fee and commission income. Pre-provisioning profit registered a healthy growth of 22.4% YoY at Rs. 17,018cr, only partly offset by higher operating expenses (+10.7% YoY). The bank increased its provisioning by 36.4% YoY to Rs. 5,753cr resulting in PAT ending at Rs. 8,444cr (+15.7% YoY).

Marginal improvement in asset quality

CASA ratio stood at 46.1% (+310bps QoQ) with total deposits of Rs. 1,335,060cr (+16.3% YoY). Total advances grew 14.0% YoY to Rs. 1,132,837cr as domestic advances (~97% of total loan portfolio) rose 14.1% YoY. GNPA/NNPA stood at 1.32%/0.40% [vs. 1.38%/0.40% in Q3FY21 (pro-forma)]. With continued focus on protecting the quality of deposits, the bank has maintained a healthy liquidity coverage ratio of 138% with capital adequacy ratio at 18.8% (vs. 18.5% in Q4FY20).

Key concall highlights

- Overall provisions stood at Rs. 4,694cr, inclusive of contingent provisions made to the tune of Rs. 1,300cr, of which Rs. 500cr were set aside to cover the SC directed interest refund to borrowers for the March-August 2020 period.
- GNPA ratio excluding NPAs in agri segment remained flat at 1.2% on QoQ basis.
- During the year, the bank has added 354 branches and 1,100 ATMs. As of 31st March 2021, bank's total branch count stood at 5,608 along with 16,087 ATMs.

Outlook & valuation

Bank has seen signs of recovery in the retail segments with steady growth in both advances and deposits. Stable asset quality is further backed by sufficient provisioning built up over the prior quarters for contingent needs. With healthy revenue growth and sustainable margins, we upgrade our rating to BUY and value the stock at 3.4x FY23E BVPS with a revised target price of Rs. 1,653.

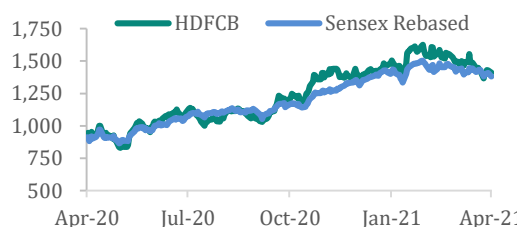
Company Data

Market Cap (cr)	Rs. 767,579
Outstanding Shares (cr)	550
Free Float	79.0%
Dividend Yield	0.0%
52 week high	Rs. 1,650
52 week low	Rs. 826
6m average volume (lacs)	2.4
Beta	1.1
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	26.0	26.0	26.0
FII's	37.4	39.4	39.8
MFs/Insti	22.9	21.7	21.2
Public	11.0	10.6	10.6
Others	2.7	2.3	2.4
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	-6.7%	13.6%	47.0%
Absolute Sensex	-4.2%	17.7%	50.7%
Relative Return*	-2.5%	-4.1%	-3.7%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Net Interest Income	69,305	73,959	89,490
Growth (%)	15.4	6.7	21.0
NIM (%)	4.2	4.3	4.4
Pre-Provision Profit	61,636	66,732	80,434
Net Profit	31,857	36,011	45,396
Growth (%)	16.7	13.0	26.1
Adj. EPS	57.6	65.1	82.1
Growth (%)	16.4	13.0	26.1
BVPS	368.3	420.4	486.1
P/E	25.9	21.4	16.9
P/B	4.1	3.3	2.9
ROE (%)	17.0	16.5	18.1
ROA (%)	1.9	1.9	2.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY2021	FY2020	YoY Growth %
Interest Income	32,607	31,795	2.6	31,852	2.4	1,28,552	1,22,189	5.2
Interest Expense	14,083	15,529	(9.3)	14,523	(3.0)	59,248	62,137	(4.7)
Net Interest Income (NII)	18,524	16,266	13.9	17,329	6.9	69,305	60,052	15.4
Non-Interest Income	8,303	6,492	27.9	7,987	3.9	27,333	24,879	9.9
Total Income	40,909	38,287	6.8	39,839	2.7	1,55,885	1,47,068	6.0
Operating Expenses	9,808	8,860	10.7	9,180	6.8	35,001	33,036	5.9
Total Expenditure	23,891	24,389	(2.0)	23,702	0.8	94,249	95,173	(1.0)
Pre-Provision profit	17,018	13,898	22.4	16,136	5.5	61,636	51,895	18.8
Provisions	5,753	4,217	36.4	4,323	33.1	18,840	13,700	37.5
Profit Before Tax	11,266	9,682	16.4	11,813	(4.6)	42,796	38,195	12.0
Tax	2,821	2,385	18.3	3,053	(7.6)	10,939	10,899	0.4
Net Profit	8,444	7,297	15.7	8,760	(3.6)	31,857	27,296	16.7
Adj. EPS - Diluted (Rs.)	15.2	13.2	15.2	15.8	(3.8)	57.6	49.5	16.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Int. Inc. (NII)	75,109	-	73,959	89,490	(1.5)	-
Pre-Provision Profit	63,712	-	66,732	80,434	4.7	-
Net Profit	34,436	-	36,011	45,396	4.6	-
Adj. EPS (Rs.)	62.6	-	65.1	82.1	4.0	-

PROFIT & LOSS

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	98,972	1,22,189	128,552	142,057	168,993
Interest Exp.	50,729	62,137	59,248	68,098	79,503
Net Int. Income	48,243	60,052	69,305	73,959	89,490
% Change	20.3	24.5	15.4	6.7	21.0
Non-Int. Income	17,626	24,879	27,333	31,433	36,274
Net Income	65,869	84,931	96,638	105,392	125,764
Total Income	116,598	147,068	155,885	173,490	205,267
Operating Exp.	26,119	33,036	35,001	38,660	45,331
Total Exp.	76,848	95,173	94,249	106,758	124,834
Pre-Prov. Profit	39,750	51,895	61,636	66,732	80,434
Provisions	7,550	13,700	18,840	18,394	19,499
PBT	32,200	38,195	42,796	48,338	60,934
Tax	11,122	10,899	10,939	12,326	15,538
Tax Rate (%)	34.5	28.5	25.6	25.5	25.5
Net Profit	21,078	27,296	31,857	36,011	45,396
% Change	20.5	29.5	16.7	13.0	26.1
No. of Shares (cr)	540	551	553	553	553
Adj. EPS (Rs.)	39.0	49.5	57.6	65.1	82.1
% Change	16.7	26.9	16.4	13.0	26.1
DPS (Rs.)	7.5	0.0	0.0	13.0	16.4

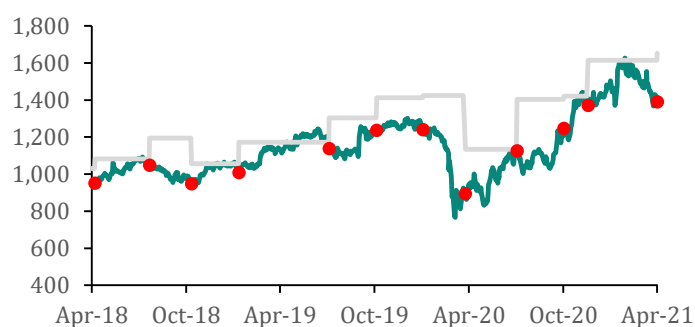
BALANCE SHEET

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	81,348	86,619	119,470	123,518	84,642
Investments	293,116	391,827	443,728	519,757	618,917
Advances	819,401	993,703	1,132,837	1,319,755	1,569,002
Fixed Assets	4,030	4,432	4,909	5,450	6,065
Other Assets	46,646	53,931	45,926	39,224	33,598
Total Assets	1,244,541	1,530,511	1,746,871	2,007,705	2,312,225
Capital	545	548	551	551	551
Reserves & Surplus	148,662	170,438	203,170	231,979	268,296
Deposits	923,141	1,147,502	1,335,060	1,548,670	1,807,145
Borrowings	117,085	144,629	135,487	148,111	151,389
Other Liabilities	55,108	67,394	72,602	78,394	84,844
Total Liabilities	1,244,541	1,530,511	1,746,871	2,007,705	2,312,225
BVPS (Rs.)	276.1	310.1	368.3	420.4	486.1
% Change	35.9	12.3	18.8	14.1	15.6

RATIOS

Y.E Mar (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Valuation					
P/E (x)	29.2	17.4	25.9	21.4	16.9
P/BV (x)	4.1	2.8	4.1	3.3	2.9
Div. Yield (%)	0.7	0.0	0.0	0.9	1.2
Profitab. & Return (%)					
Yield on Advances	10.5	10.9	9.6	9.6	9.7
Cost of Deposits	5.2	5.3	4.3	4.3	4.4
Spread	5.3	5.6	5.3	5.3	5.3
NIM	4.3	4.3	4.2	4.3	4.4
ROE	16.5	17.0	17.0	16.5	18.1
ROA	1.8	2.0	1.9	1.9	2.1
Capital Adequacy (%)					
CAR	17.1	18.5	18.8	19.4	19.5
Tier I	15.8	17.2	17.6	18.2	18.4
Tier II	1.3	1.3	1.2	1.2	1.1
Asset Quality (%)					
GNPA	1.4	1.3	1.3	1.5	1.5
NNPA	0.4	0.4	0.4	0.5	0.5
Operating Ratios (%)					
Credit/ Deposit	88.8	86.6	84.9	85.2	86.8
Cost/ Income	39.7	38.9	36.2	36.7	36.0
CASA	42.4	42.2	46.1	40.5	40.5

Recommendation Summary



Dates	Rating	Target
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
21-Oct-20	BUY	1,420
5-Jan-21	HOLD	1,529
22-Apr-21	BUY	1,653

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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