

Healthy growth despite slowdown; higher provisioning to continue

CMP: Rs 1,103

Rating: ACCUMULATE

Target Price: Rs 1,257

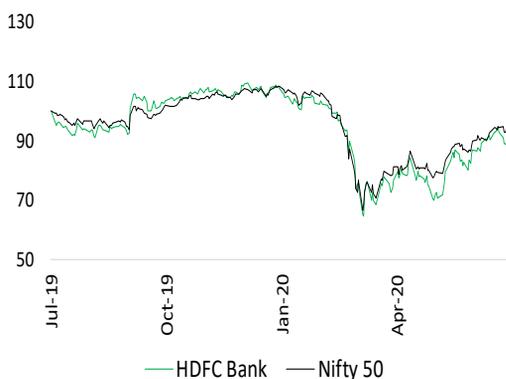
Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (Rs)	1
Equity Capital (Rs Cr)	549
Mkt Cap (Rs Cr)	6,03,079
52w H/L (Rs)	1,305 / 738
Avg Yearly Vol (in 000')	8,692

Shareholding Pattern %

(As on June, 2020)

Promoters	26.1
FII	37.0
DII	22.1
Public & Others	14.8



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HDFC Bank posted much better than expected Q1FY21 results with Net Interest Income stood at Rs 15,665 Cr increasing by +17.8% YoY/+3.0% QoQ, PPOP stood at Rs 12,829 Cr increasing by +15.1% YoY/down 1.0% QoQ and Net Profit stood at Rs 6,659 Cr, increasing by +19.6% YoY/down 3.9% QoQ. The bank made provisions of Rs 3,892 Cr for Q1FY21 against Rs 3,784 Cr Q4FY20, with Rs 1,000 Cr as contingent provisioning for Covid-19 impact which is in excess of RBI guidelines. On the business front, the bank's loan book grew by +20.9% YoY/+1.0% QoQ to Rs 10.03 lakh Cr while deposits grew smoothly by +24.6% YoY/+3.7% QoQ to Rs 11.89 lakh Cr on account of the bank's strong customer loyalty and changed consumption behaviour. The advances growth was driven primarily by the substantial growth in the corporate lending at +37.6% YoY while retail lending growth slowed to +7.2% YoY owing to the bank's strict credit lending measures.

Key Highlights of Q1 FY21:

NIMs remained stable & flat while yields & costs came down: NIMs remained stable at 4.3% while the overall yield on average advances came down to 9.6% (down by 34 bps QoQ) due to decreased interest rates by RBI. The bank's total operating expenses decreased by 2.9%YoY/16.5% QoQ due to nation-wide lockdown for the first 2 months of the quarter while Cost to Income ratio came down to 35.0% .

CASA came down as term deposits increased significantly: Cost of Funds came down to 4.5% as a result of the falling interest rates. CASA stood at 40.1% with term deposits rising by 23.7% YoY.

Asset Quality fell on gross levels but improved in net figures: The bank's GNPA/NNPA changed marginally to 1.36%/0.33% against last quarters 1.26%/0.36%. Without the agricultural sector stress the GNPA stood at 1.2%. The bank provided Rs 3,892 Cr provisioning during the quarter, which included approximately, Rs 1,000 Cr as contingent provisioning for Covid-19 impact, way above RBI stipulated guidelines, and increasing its core credit cost to 1.08% for the quarter against 0.77% in the previous quarter.

Valuation & View

HDFC Bank's branch operations kept operating smoothly despite the lockdown. However, the bank's branch count fell by 90 branches during the quarter over previous quarter standing at a total of 5,326 branches. The bank is expected to witness robust growth of deposits in the subsequent quarters while the pandemic induced change in consumption behavior will impact the fee & commission income as it impacted by around Rs 2,000 Cr in this quarter. Considering the macro-economic slowdown, we have revised our estimates for the bank's growth in the near term with loan book growth at below 10% for FY21. We assign a P/Adj. BV multiple of 3.5 for FY22 ABVPS of Rs 359 for a target price of Rs 1,257 per share and recommend ACCUMULATE rating on the stock.

Particulars (INR Cr)	FY19	FY20	FY21E	FY22E
NII	48,243	56,186	59,127	63,150
PPOP	39,750	48,750	48,435	51,832
PAT	21,078	26,257	19,739	22,553
EPS (INR / Share)	38.7	47.9	36.0	41.1
BVPS (INR / Share)	273.9	311.8	338.8	369.7
NIM (%)	4.4%	4.3%	3.9%	3.7%
Advances Growth YoY (%)	24.5%	21.3%	8.0%	12.0%
Deposits Growth	17.0%	24.3%	10.0%	13.0%
P/ABV (x)	4.1	3.6	3.3	3.1

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement (INR Cr.)	Q1 FY21	Q4 FY20	Q1 FY20	Q-o-Q	Y-o-Y
Interest Income	30,378	29,885	27,392	1.6%	10.9%
Interest Expense	14,713	14,681	14,097	0.2%	4.4%
Net Interest Income	15,665	15,204	13,294	3.0%	17.8%
Non Interest Income	4,075	6,033	4,970	-32.4%	-18.0%
Total Income	19,741	21,237	18,265	-7.0%	8.1%
Employee Costs	2,513	2,498	2,217	0.6%	13.4%
Other Operating Expenses	4,398	5,780	4,900	-23.9%	-10.2%
Operating Expenses	6,911	8,278	7,117	-16.5%	-2.9%
Pre-Provision Profit	12,829	12,959	11,147	-1.0%	15.1%
Provisions	3,892	3,784	2,614	2.8%	48.9%
Profit Before Tax	8,938	9,174	8,534	-2.6%	4.7%
Tax Expense	2,279	2,247	2,965	1.4%	-23.1%
Net Profit	6,659	6,928	5,568	-3.9%	19.6%
Balance Sheet Analysis					
Deposits	1,189,387	1,147,502	954,554	3.7%	24.6%
CASA Deposits	477,435	484,625	379,001	-1.5%	26.0%
CASA (%)	40.1%	42.2%	39.7%	-209bps	44bps
Advances	1,003,299	993,703	829,730	1.0%	20.9%
Total Assets	1,545,103	1,530,511	1,265,253	1.0%	22.1%
Capital Adequacy Ratio (%)	18.9%	18.5%	16.9%	40bps	200bps
Spread Analysis					
Yield on Avg Advances (%)	9.6%	10.0%	10.6%	-34bps	-95bps
Yield on Avg Interest Earning Assets (%)	8.2%	8.5%	9.1%	-27bps	-92bps
Cost of Funds (%)	4.5%	4.7%	5.4%	-22bps	-85bps
NIM (%)	4.30%	4.31%	4.42%	-1bps	-12bps
Asset Quality					
Gross NPA	13,773	12,650	11,769	8.88%	17.03%
Net NPA	3,280	3,542	3,567	-7.41%	-8.05%
GNPA (%)	1.36%	1.26%	1.42%	10bps	-6bps
NNPA (%)	0.33%	0.36%	0.43%	-3bps	-10bps
Key Ratios					
Cost to Income Ratio (%)	35.0%	39.0%	39.0%	-397bps	-396bps
C/D Ratio (%)	84.4%	86.6%	86.9%	-224bps	-257bps
RoA (%) (annualized)	1.72%	1.81%	1.76%	-9bps	-4bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 – Key Concall Highlights

- HDFC bank's management attributed Covid-19 to have induced macro-economic slowdown impact its business growth.
- The bank said they will return the money in case of Altico Capital as directed by RBI.
- Through phone-banking and tele sales, 50% of its workforce is able to work from home.
- For Aditya Puri's successor, the bank has provided the name of the candidate to RBI and is awaiting their nod. The management also referred that the successor has been with the bank for long, thereby signalling of an internal employee of the bank to take up the charge.
- About 9% of the bank's portfolio is under moratorium, out of which 90% are from moratorium 1st, i.e. before 31st May 2020.
- Regarding the vehicle lending business' probe for misconduct, the bank re-assured of no bearing on its portfolio but personal misconduct on the part of some employees.
- On the business front:
 - a) The bank acquired 1.2 million liability customers which is 80% of the pre-covid levels.
 - b) Payment business has bounced back to 70% of the January levels in June. New Credit card acquisition has fell by 87% and spending has fallen by 48%.
 - c) The bank has restricted most of fresh consumer lending and expect them to pick-up by Sept 2020.
 - d) Corporate collections in April were 45% of April 2019, increased by 47% over April 2020 and were higher by 38% in June over May 2020.

Under the impact of Covid-19, the bank readily provided with some operational insights:

- a) Approximately 70% of the disbursements during the quarter including rollover were less than 1 year maturity.
- b) Operating Expenses reductions were on account of reduction in sales volume and originations. However, the bank is focussed to reduce its operational costs over the next 3-5 years.
- c) Annualized slippages stood at 1.2% which the bank recognizes higher than usual as per its internal analytics.

Key Financials

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Interest Income	80,241	98,972	114,813	123,998	138,877
Interest Expense	40,146	50,729	58,626	64,870	75,727
Net Interest Income	40,095	48,243	56,186	59,127	63,150
Non interest income	15,220	17,626	23,261	23,441	26,372
Operating income	55,315	65,869	79,447	82,568	89,522
- Employee expense	6,806	7,762	9,526	10,215	11,090
- Other operating expense	15,885	18,358	21,172	23,918	26,601
Operating Expense	22,690	26,119	30,698	34,133	37,691
PPOP	32,625	39,750	48,750	48,435	51,832
Provisions	5,927	7,550	12,142	18,214	17,303
PBT	26,697	32,200	36,607	30,221	34,529
Tax Expense	9,211	11,122	10,350	10,482	11,976
PAT	17,487	21,078	26,257	19,739	22,553
EPS (INR)	33.69	39.20	47.89	36.00	41.13

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
Source of Funds					
Share capital	519	545	548	548	548
Reserves & Surplus	105,776	148,662	170,438	185,242	202,156
Net-worth	106,295	149,206	170,986	185,790	202,705
Borrowings	123,105	117,085	144,629	173,554	208,265
Deposits	788,771	923,141	1,147,502	1,262,253	1,426,345
Other liabilities & provisions	45,764	55,108	67,394	81,080	97,545
Total Equity & Liabilities	1,063,934	1,244,541	1,530,511	1,702,677	1,934,860
Uses of Funds					
Cash & bank balances	122,915	81,348	57,189	64,277	73,761
Cash in hand	69,531	5,638	6,068	8,044	10,217
Balance w/ RBI	35,140	41,126	51,121	56,233	63,544
Balance w/ banks & others	18,245	34,584	14,414	46,703	52,775
Net investments	242,200	290,588	391,827	473,524	572,257
Loans & advances	658,333	819,401	993,703	1,073,199	1,201,983
Fixed assets	3,607	4,030	4,432	4,309	4,372
Other assets	36,879	49,174	53,931	60,009	66,772
Total Assets	1,063,934	1,244,540	1,530,511	1,702,677	1,934,860

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
Growth Rates					
Advances (%)	18.7%	24.5%	21.3%	8.0%	12.0%
Deposits (%)	22.5%	17.0%	24.3%	10.0%	13.0%
Total assets (%)	23.2%	17.0%	23.0%	11.2%	13.6%
NII (%)	21.0%	20.3%	16.5%	5.2%	6.8%
Pre-provisioning profit (%)	26.8%	21.8%	22.6%	-0.6%	7.0%
PAT (%)	19.7%	20.5%	24.6%	-24.8%	14.3%
B/S Ratios					
Credit/Deposit (%)	83.5%	88.8%	86.6%	85.0%	84.3%
CASA (%)	43.5%	42.4%	42.2%	45.8%	48.3%
Advances/Total assets (%)	61.9%	65.8%	64.9%	63.0%	62.1%
Leverage - Total Assets to Equity (x)	10.0	8.3	9.0	9.2	9.5
Operating efficiency					
Cost/income (%)	41.0%	39.7%	38.6%	41.3%	42.1%
Opex/total assets (%)	2.1%	2.1%	2.0%	2.0%	2.0%
Opex/total interest earning assets	2.5%	2.4%	2.3%	2.2%	2.2%
Profitability					
NIM (%)	4.4%	4.4%	4.3%	3.9%	3.7%
RoA (%)	1.8%	1.8%	1.9%	1.2%	1.2%
RoE (%)	17.9%	16.5%	16.4%	11.1%	11.6%
Asset quality					
Gross NPA (%)	1.3%	1.4%	1.4%	1.7%	1.9%
Net NPA (%)	0.1%	0.4%	0.4%	0.5%	0.5%
PCR (%)	96.2%	71.4%	75.0%	75.0%	75.0%
Slippage (%)	1.5%	1.4%	1.3%	1.2%	1.2%
Credit cost (%)	0.9%	0.6%	0.6%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	33.7	39.2	47.9	36.0	41.1
BVPS (INR)	204.8	273.9	311.8	338.8	369.7
ABVPS (INR)	204.2	268.0	305.3	330.5	359.2
P/E (x)	32.7	28.5	23.0	30.6	26.8
P/BV (x)	5.4	4.0	3.5	3.3	3.0
P/ABV (x)	5.4	4.1	3.6	3.3	3.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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