AXIS SECURITIES

Result Update
17th Jan 2022

HDFC Bank
Banking

Buy
Target Price
1985

Stable Quarter; Maintain BUY

HDFC Bank's (HDFCB) Q3FY22 earnings performance was stable, albeit with marginal lags. Loan growth (up 16.5% YoY) and asset quality performance (G/NNPAs at 1.3/0.4%) continued tosupport overall earnings with NII growth of 13% YoY/4.3% QoQ and lower provisions (down 12.3%/23.7% YoY/QoQ). However, core operating performance lagged, up 11.7%/3.9% YoY/QoQ as fee income was lower than expected (up 2%/2.6% YoY/QoQ).We believe accelerated growth expected in retail/commercial/rural will lead to improved margins going ahead (NIM ~4.1% in Q3FY22). Restructuring stood at ~137bps with a marginal impact of ~10-20bps expected. Subsequently, credit costs are expected in the range of 100-120 bps.

The management commentary was highly positive on growth pick-up in Retail/Rural/SME/Commercial segments. Demand resolutions are nearly back to pre-Covid levels. Subsidiaries earning performance has pickedup too. Commenting on the recent RBI discussion paper proposed for payment products, if the RBI were to reduce the MDR rates in future on credit cards, the bank will try to balance it out by reducing spends on marketing or reducing cashback.

We believe earnings visibility for the bank is strong with i) Improving loan mix and strong CASA leading to an uptick in NIM, ii) Pick-up in fee income and iii)Stable asset quality to support normalization in credit costs. HDFCB is trading at attractive valuations of ~3.1x P/ABV FY23E, which is at a discount to its five-year average. It remains one of the resilient stocks in the sector and we maintain a BUY on the stock with a revised target price of Rs 1985/share (SOTP basis core book at 3.5x FY24E and Rs 70 Subsidiary Value).

Result Highlights

- **Business growth:**Advances grew 16.5%/5.2% YoY/QoQ to Rs 12,609 Bn, driven by Commercial and Rural Banking (up 29% YoY) and Retail (up 13% YoY). The wholesale book grew 7.5% YoY. Deposits growth remained healthy at 13.8%2.8%YoY/QoQ to Rs 14,459 Bn. CASA deposits grew 24.6% YoY resulting in the CASA ratio improving to 47.1% from 41.6% YoY.
- **Operational performance:**NIM remained stable at ~4.1%. Non-interest income grew 9.9%/10.6% YoY/QoQ. Fee income growth (up 2%/2.6% YoY/QoQ) was lower than expected on account of fee waivers. Core PPOP growth slowed to 11.7%/3.9% YoY/QoQ to Rs 157 Bn. C-Iratio remained flattish at 37% QoQ.
- **Asset quality:**Asset quality improved further with G/NNPAs at 1.26%/0.37%, down 9/3bps QoQ.Subsequently, provisions were lower by 12.3%/23.7%YoY/QoQ aiding PAT growth of 18.1%/17.1% YoY/QoQ.

Key Concall Takeaways

Asset quality

- Slippages for Q3FY22 stood at Rs 46 Bn with a slippage ratio (annualised) of ~1.5% vs ~1.8% QoQ. Recovery and write-off came in at ~ Rs 24 Bn and Rs 22 bn.
- Credit cost is expected to be at ~100-120bps going ahead.
- Total restructuring done is Rs 172.7 Bn (137bps) and has additional 28bps exposure to the similar borrowers but has not termed it as restructured. Out of this, ~40% are secured while the rest is unsecured. Within the unsecured book, ~2/3rd are salaried. Slippage from the restructured book is expected at 10-20bps over the repayment period.

Key Financials (Standalone)

(Rs Bn)	FY21	FY22E	FY23E	FY24E
NII	649	741	884	1,047
PPOP	574	674	801	946
Net Profit	311	369	457	545
EPS (Rs)	56.4	66.9	82.9	98.8
ABV	354.3	415.0	489.9	547.0
P/ABV	4.4	3.7	3.1	2.8
ROAA	1.9	2.0	2.1	2.1
NNPA (%)	0.4	0.4	0.3	0.3

Source: Company, Axis Research

(CMP as of Jan 14, 2022)

CMP (Rs)	1545
Upside /Downside (%)	28.5%
High/Low (Rs)	1724/1342
Market cap (Cr)	8,56,439
Avg. daily vol. (6m) Shrs.	41,88,815
No. of shares (Cr)	553.8

Shareholding (%)

	Dec-21	Sep-21	Jun-21
Promoter	25.8	25.8	25.9
FIIs	37.5	38.2	39.4
MFs / UTI	15.3	14.8	14.0
Banks / FIs	2.9	2.9	3.5
Others	18.5	18.2	17.2

Financial & Valuations

Y/E Mar (Rs. bn)	2022E	2023E	2024E
NII	741	884	1,047
PPOP	674	801	946
Net Profit	369	457	545
EPS (Rs.)	66.9	82.9	98.8
ABV	415.0	489.9	547.0
P/ABV	3.7	3.1	2.8
ROAA	1.96	2.10	2.15
NNPA (%)	0.36	0.28	0.30

Change in Estimates (%)

Y/E Mar	FY22E	FY23E
NII	-0.7	-0.6
PPOP	5.4	5.1
PAT	3.7	3.9

Axis vs Consensus

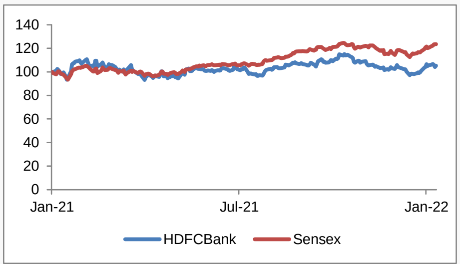
EPS Estimates	2022E	2023E	2024E
Axis	66.9	82.9	98.8
Consensus	66.3	79.5	94.3
Mean Consensus TP (12M)			**1928**

ESG disclosure Score**

Environmental Disclosure core	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

- The bank had made provisions worth Rs 29.9 Bn, down 12.3% YoY and 23.7% QoQ. It included Rs 9 Bn contingent provisions. The bank currently holds floating provisions worth Rs 14.5 Bn and contingent provisions of Rs 86.4 Bn. Overall provisions (including specific, floating, contingent and general provisions) were 172% of the GNPLs.
- The management indicated that the demand resolution is between 97-98% against pre-Covid levels of 98%. Cheque bounce is back to pre-pandemic levels

Loans

- Visible traction was seen in four-wheeler auto loans, home loans and unsecured loans within retail loans. 2W loans de-grew 11.2% YoY and 4.4% QoQ.
- Commercial/SME and rural banking loans grew 29% YoY and 6.1% QoQ. The bank continues to focus on SME segments and intends to become the largest player in the SME segment.
- Corporate loans grew 7.5%/4.5% YoY/QoQ as the bank witnessed higher pre-payments.

Cards business

- The bank had issued 0.95 Mn credit cards during Q3FY22 while spends increased 24% YoY. It has also signed MoU with two large payment banks for the distribution of certain products.
- On the recent RBI discussion paper for payment products, if the RBI were to reduce the MDR rates in future on credit cards, the bank will try to balance it out by reducing spends on marketing or reducing cashback.

Operational Metrics

- HDFCB added 38 branches in Q3FY22 taking the total count to 294 branches over the last twelve months. The total branch count stands at 5,779. 50% of the branches are in semi-urban and rural areas.
- C-I ratio remained flattish at 37% QoQ. C/I ratio could inch up slightly due to tech spends and business expansion

Subsidiaries

- HDB Financial: Net revenues was up 15% YoY to Rs 19.8 Bn. Loans grew by 0.7% YoY to Rs 604.8 Bn. PAT stood at Rs 3 Bn, up 58% QoQ and a loss of Rs 1.5 Bn YoY. Stage 3 loans improved further to 6.05% (6.1% QoQ).CAR remains comfortable at 20.3% (Tier I at 14.9%). LCR is healthy at 222%.
- HDFC Securities: For Q3FY22, HDFC Securities Total income/PAT each grew by 58% YoY to Rs 5.4Bn / Rs 2.6 Bn. It has ~213 branches across the country.

Change in Estimates (Rs Bn)

	Revised		Old		%Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	741	884	746	890	-0.7	-0.6
PPOP	674	801	640	762	5.4	5.1
PAT	369	457	356	440	3.7	3.9
EPS	66.9	82.9	64.5	79.9	3.8	3.8

Source: Company, Axis Research

Valuation & Outlook

Q3FY22 performance for HDFC Bank was stable.Business growth remains better than the industry average enabling it to gain market share. Fee-income pick-up was marginally disappointing. Asset quality remains amongst the best in the industry-leading to faster normalization in credit costs. The bank's portfolio mix with anincrementally higher-yielding product segment, strong liability franchise, and better-operating profits provide resilience and command premium valuations. We believe the bank trades at attractive valuations and is at a discount to its five-year average P/ABV. We maintain BUY with a revised target price of Rs 1,985 derived using the SOTP method (core bank at 3.5xFY24 ABV + Subsidiaries value Rs 70/-).

HDFC Bank SOTP	Holding(%)	Valuation Methodology	ValuePer Share
HDFC Bank - Parent	100	3.5x FY24E BV	1,914
HDB Financial Services	95.9	2.5x FY23E BV	40
HDFC Securities	97.9	15x FY23E EPS	48
Less: 20% holding discount			18
Net Value of Sub.			70
			1985

Result Update (Standalone) (Rs Mn)

Y/E March	Q3FY22	Q3FY21	% YoY	Q2FY22	% QoQ
Net Interest Income	1,84,435	1,63,176	13.0	1,76,844	4.3
Non Interest Income	81,836	74,432	9.9	74,008	10.6
Operating expenses	98,511	85,748	14.9	92,779	6.2
Staff Cost	31,544	26,301	19.9	29,671	6.3
Pre provision profits	1,67,760	1,51,860	10.5	1,58,073	6.1
Provisions and contingencies	29,940	34,141	-12.3	39,247	-23.7
PBT	1,37,820	1,17,719	17.1	1,18,826	16.0
Provision for Tax	34,398	30,136	14.1	30,483	12.8
PAT	1,03,422	87,583	18.1	88,343	17.1
Deposits (Rs bn)	14,459	12,711	13.8	14,063	2.8
Advances (Rs bn)	12,609	10,823	16.5	11,988	5.2
CD ratio (%)	87	85		85	
NIM (%)	4.1	4.2		4.1	
Cost-Income ratio (%)	37.0	36.1		37.0	
Gross NPAs (%)	1.26	0.81		1.35	
Net NPAs (%)	0.37	0.09		0.40	
Coverage ratio (%)	67.5	88.5		70.9	

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY21	FY22E	FY23E	FY24E
Net Interest Income	648.8	740.8	884.4	1,047.3
Other Income	252.0	326.3	362.3	418.0
Total Income	900.8	1,067.1	1,246.8	1,465.3
Total Operating Exp	327.2	392.8	445.8	518.9
PPOP	573.6	674.3	801.0	946.5
Provisions & Contingencies	157.0	161.8	166.2	190.0
PBT	416.6	512.5	634.8	756.4
Provision for Tax	105.4	143.5	177.7	211.8
PAT	311.2	369.0	457.0	544.6

Source: Company, Axis Securities

Balance Sheet

(Rs Bn)

Y/E March	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS				
Share Capital	5.5	5.5	5.5	5.5
Reserves	2,031.7	2,368.6	2,777.5	3,104.3
Shareholder's Funds	2,037.2	2,374.1	2,783.0	3,109.8
Total Deposits	13,350.6	15,325.7	17,954.3	21,285.7
Borrowings	1,354.9	1,584.5	1,759.3	1,970.6
Other Liabilities & Provisions	726.0	819.8	904.2	997.4
Total Liabilities	17,468.7	20,104.2	23,400.8	27,363.5
APPLICATION OF FUNDS				
Cash & Bank Balance	1,194.7	896.4	886.4	943.9
Investments	4,437.3	5,184.2	5,950.9	6,692.6
Advances	11,328.4	13,310.8	15,773.3	18,849.1
Fixed Assets	49.1	54.0	59.4	65.3
Other Assets	459.3	658.8	730.7	812.5
Total Assets	17,468.7	20,104.2	23,400.8	27,363.5

Source: Company, Axis Securities

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Ratio Analysis (%)

Y/E March	FY21	FY22E	FY23E	FY24E
VALUATION RATIOS				
EPS	56.4	66.9	82.9	98.8
Earnings Growth (%)	17.9%	18.6%	24%	19%
BVPS	370	431	505	564
Adj. BVPS	354	415	490	547
ROAA (%)	1.9	2.0	2.1	2.1
ROAE (%)	16.6	16.7	17.7	18.5
P/E (x)	27.4	23.1	18.1	15.2
P/ABV (x)	4.4	3.7	3.1	2.8
Dividend Yield (%)	0.4	0.6	1.0	1.0
PROFITABILITY				
Yield on Advances (%)	8.9	8.9	9.1	9.2
Yield on Investment (%)	5.6	5.4	5.3	5.2
Cost of Funds (%)	4.1	4.0	4.1	4.1
Cost of Deposits (%)	4.0	4.1	4.3	4.4
NIM (%)	4.2	4.1	4.2	4.3
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.1	2.0	2.0
Cost-Income Ratio (%)	37.5	37.9	36.8	35.4
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	14.0	17.5	18.5	19.5
Deposit Growth (%)	16.3	14.8	17.2	18.6
C/D Ratio (%)	84.9	86.9	87.9	88.6
Equity/Assets (%)	11.7	11.8	11.9	11.4
Equity/Advances (%)	18.0	17.8	17.6	16.5
CASA (%)	46.1	48.3	48.1	48.0
Tier 1 CAR (%)	17.0	17.4	17.6	16.9
ASSET QUALITY				
Gross NPLs (Rs bn)	150.9	173.5	186.2	225.0
Net NPLs (Rs bn)	45.5	48.1	43.8	56.1
Gross NPLs (%)	1.33	1.30	1.18	1.19
Net NPLs (%)	0.40	0.36	0.28	0.30
Coverage Ratio (%)	69.8	72.3	76.5	75.1
Provisions/Avg. Adv(%)	1.48	1.31	1.14	1.10
ROAA TREE (%)				
Net Interest Income	3.96	3.94	4.07	4.13
Non Interest Income	1.54	1.74	1.67	1.65
Operating Cost	2.00	2.09	2.05	2.04
Provisions	0.96	0.86	0.76	0.75
Tax	0.64	0.76	0.82	0.83
ROAA	1.90	1.96	2.10	2.15
Leverage (x)	8.7	8.5	8.4	8.6
ROAE	16.6	16.7	17.7	18.5

Source: Company, Axis Securities

HDFC Bank PriceChart and Recommendation History

Date	Reco	TP	Research
28-Feb-20	BUY	1,296	Pick of the week
29-Apr-20	BUY	1,233	Initiating Coverage
08-Jun-20	BUY	1,137	Pick of the week
20-Jul-20	BUY	1,239	Result Update
06-Oct-20	BUY	1,239	Company Update
19-Oct-20	BUY	1,458	Result Update
18-Jan-21	BUY	1,710	Result Update
19-Apr-21	BUY	1,785	Result Update
06-Jul-21	BUY	1,785	Company Update
16-Jul-21	BUY	1,720	Result Update
05-Oct-21	BUY	1,770	Company Update
18-Oct-21	BUY	1,935	Result Update
17-Jan-22	BUY	1,985	Result Update

Source: Axis Securities

About the analyst

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Sector:BFSI

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