

Good business performance amidst tough times

Amidst Covid-19 headwinds, HDFC Bank (HDFCB) continues to gain market share, visible from the bank's business performance update for the quarter ended September 2020. Slowdown in growth from the previous run-rate of +20% was on expected lines. Growth reported in Advances/Deposits stood at 15.6/20.3% YoY and 3.4/3.3% QoQ. Overall business grew by 18.1% YoY and 3.3% QoQ. CD ratio stood at 84.4% compared to 87.8%YoY on better traction in Deposits. CASA was up 28.6/8.1% YoY/QoQ leading CASA ratio improvement to 42% from 40.1/39.3% QoQ/YoY. Given its superior business model, bank's resilience across cycles will play out positively. We believe bank has the ability to capitalise on any opportunities in the current macro uncertainties and maintain its growth without comprising on quality. We maintain BUY with target price of Rs 1,239 (SOTP basis core book at 3x FY22E and Rs 50 Subs. Value).

Key Highlights

- Advances was up 15.6% YoY and 3% QoQ to Rs 10,370bn. In Q1FY21, advances was up 21/1% YoY/QoQ led largely by wholesale advances. We believe that the bank's selective lending parameters and strong risk management will keep operating performance steady and help in maintaining margins. NIM has been in a stable range historically over the past 10 years between 4.1% and 4.5%
- Deposits was up 20.3/3.3% YoY/QoQ compared to 24.6/3.7% YoY/QoQ growth in the previous quarter to Rs 12,290bn.
- CASA was up 28.6/8.1% YoY/QoQ. CASA ratio improved to 42% from 40.1/39.3% QoQ/YoY.
- Overall business grew by 18.1/3.3% YoY/QoQ to 22,660bn compared to 22.9/2.4% YoY/QoQ in June '20 quarter. There has been improvement on a sequential basis reflecting pick-up in business activities since the lock-down started.
- Direct assignments were down 57.7% YoY and up 119.9% QoQ.

Key Financials (Standalone)

(Rs. bn)	FY19	FY20	FY21E	FY22E
NII	482	562	663	773
PPOP	397	487	577	681
Net Profit	211	263	298	387
EPS (Rs.)	38.7	47.9	54.3	70.6
ABV	261.0	298.4	336.5	396.0
P/ABV	4.3	3.7	3.3	2.8
ROAA	1.8	1.9	1.8	2.1
NNPA (%)	0.39	0.36	0.53	0.35

Source: Company, Axis Research9

(CMP as of Oct 5, 2020)

CMP (Rs)	1114
Upside /Downside (%)	11%
High/Low (Rs)	1304/739
Market cap (Cr)	613195
Avg. daily vol. (6m) Shrs.	67,87,598
No. of shares (Cr)	550.37

Shareholding (%)

	Jun-20	Mar-20	Dec-19
Promoter	21.2	21.2	21.3
FIs	30.1	29.8	30.8
MFs / UTI	11.4	12.2	11.7
Banks / FIs	0.1	0.1	0.1
Others	37.2	36.7	36.2

Financial & Valuations

Y/E Mar (Rs. bn)	2020	2021E	2022E
NII	562	663	773
PPOP	487	577	681
Net Profit	263	298	387
EPS (Rs.)	47.9	54.3	70.6
ABV	298.4	336.5	396.0
P/ABV	3.7	3.3	2.8
ROAA	1.89	1.84	2.10
NNPA (%)	0.36	0.53	0.35

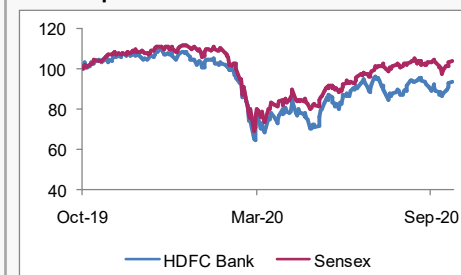
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
NII	0.0	0.0
PPOP	0.0	0.0
PAT	0.0	0.0

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	54.3	70.6
Consensus	63.7	80.9
Mean Consensus TP (12M)	1201.1	

Relative performance



Source: Capitaline, Axis Securities

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Financials (Standalone)

Profit & Loss

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
Net Interest Income	482.4	561.9	663.2	773.5
Other Income	176.3	232.6	260.3	298.5
Total Income	658.7	794.5	923.5	1,071.9
Total Operating Exp	261.2	307.0	346.2	390.7
PPOP	397.5	487.5	577.3	681.3
Provisions & Contingencies	75.5	121.4	163.6	143.9
PBT	322.0	366.1	413.7	537.3
Provision for Tax	111.2	103.5	115.8	150.5
PAT	210.8	262.6	297.9	386.9

Source: Company, Axis Securities

Balance Sheet

(Rs bn)

Y/E March	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS				
Share Capital	5.4	5.5	5.5	5.5
Reserves	1,486.6	1,704.4	1,938.4	2,251.8
Shareholder's Funds	1,492.1	1,709.9	1,943.9	2,257.3
Total Deposits	9,231.4	11,475.0	12,759.1	14,972.7
Borrowings	1,170.9	1,446.3	1,552.5	1,723.9
Other Liabilities & Provisions	551.1	673.9	743.3	819.8
Total Liabilities	12,445.4	15,305.1	16,998.7	19,773.7
APPLICATION OF FUNDS				
Cash & Bank Balance	813.5	866.2	683.4	685.0
Investments	2,905.9	3,918.3	4,316.0	4,946.2
Advances	8,194.0	9,937.0	11,355.2	13,430.0
Fixed Assets	40.3	44.3	48.8	53.6
Other Assets	491.7	539.3	595.4	658.8
Total Assets	12,445.4	15,305.1	16,998.7	19,773.7

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
VALUATION RATIOS				
EPS	38.7	47.9	54.3	70.6
Earnings Growth (%)	14.9	23.7	13.5	29.9
Adj. BVPS	261	298	336	396
ROAA (%)	1.83	1.89	1.84	2.10
ROAE (%)	16.5	16.4	16.3	18.4
P/E (x)	28.8	23.3	20.5	15.8
P/ABV (x)	4.3	3.7	3.3	2.8
Div Yield (%)	1.3	0.2	1.8	2.1
PROFITABILITY				
Yield on Advances (%)	10.5	10.1	10.0	9.9
Yield on Investment (%)	7.5	6.0	5.9	5.8
Cost of Funds (%)	5.2	5.0	4.9	4.8
Cost of Deposits (%)	4.8	4.9	4.7	4.7
NIM (%)	4.39	4.25	4.29	4.36
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.3	2.2	2.1	2.1
Cost-Income Ratio (Excl Treasury)	39.9	39.6	38.4	37.3
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	24.5	21.3	14.3	18.3
Deposit Growth (%)	17.0	24.3	11.2	17.3
C/D Ratio (%)	88.8	86.6	89.0	89.7
Equity/Assets (%)	12.0	11.2	11.4	11.4
Equity/Advances (%)	18.2	17.2	17.1	16.8
CASA (%)	42.4	42.2	42.3	43.2
Tier 1 CAR (%)	15.8	17.2	16.6	16.7
ASSET QUALITY				
Gross NPLs (Rs bn)	112.2	126.5	212.9	191.6
Net NPLs (Rs bn)	32.1	35.4	60.7	47.4
Gross NPLs (%)	1.37	1.27	1.87	1.43
Net NPLs (%)	0.39	0.36	0.53	0.35
Coverage Ratio (%)	71.4	72.0	71.5	75.2
Provisions/Avg. Adv(%)	1.02	1.34	1.54	1.16
ROAA TREE (%)				
Net Interest Income	4.18	4.05	4.11	4.21
Non Interest Income	1.53	1.68	1.61	1.62
Operating Cost	2.26	2.21	2.14	2.12
Provisions	0.65	0.88	1.01	0.78
Tax	0.96	0.75	0.72	0.82
ROAA	1.83	1.89	1.84	2.10
Leverage (x)	9.0	8.7	8.8	8.8
ROAE	16.5	16.4	16.3	18.4

Source: Company, Axis Securities

About the analyst**Analyst:** Siji Philip**Contact Details:** siji.philip@axissecurities.in**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC sector**Disclosures:**

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HOLD	Between 10% and -10%
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