

Recovering Swiftly To Pre-Covid Levels

Steady performance in a challenging environment: HDFCB unsurprisingly reported steady performance in a challenging macro environment. NII growth came in at 16.7% even as NIM came off during the quarter. NIM came off 20 bps QoQ to 4.1 due to excess liquidity and higher growth of low-yielding corporate book. Strong NII growth was driven by 16% loan growth and declining cost of funds.

Other Income bounced back sharply by 49.5% QoQ and 9% YoY led by higher treasury gains. HDFCB has booked some treasury gains to maintain NIM. Sequentially, other components of Non-interest income continue to recover sharply. Fees income which jumped 76% QoQ declined 3% YoY and is yet to hit pre-covid levels. Fee income was hit by lower loan generation fees, due to lower retail loan growth and waiver of fees in some segments due to regulatory mandate. Retail fees contributed 91% of total fee income. Lower growth in expenses (9% YoY) and higher growth in total income (14.5% YoY) led to 18% growth in Pre-provision profit (PPP). PAT came in at Rs. 75,131 Mn registering an in-line growth of 18.1%.

Normalizing swiftly: Trends across segments are indicating swift recovery to normalcy. Collection trends in retail book is encouraging with 97% in moratorium book and 99% in non-moratorium book. In corporate book, collections were higher over last year. Collections in Sep 2020 were up 14.5% YoY. Credit inquiries in Auto and home loans are back to pre-covid levels. Semi-urban and rural is out-pacing urban due to good monsoon. LAP and WC loans are also back to pre-covid levels. Management sounded cautious about MFI book and expects recovery in another 90 days. The bank is set to launch a completely digitized platform for processing of auto loans in coming months which could be a game changer for the industry.

Outlook and Valuation

HDFCB continued to report steady and in-line performance amid challenging environment. Despite prudent approach to NPA risk management the bank was able to maintain profitability. HDFCB continued to provide adequately towards unrecognized stress due to Supreme Court injunction. We believe HDFCB will emerge stronger and unscathed from covid-induced stress and it continues to remain our preferred pick. We recommend a **"BUY"** on the stock with a target price of Rs. 1385 valuing core bank at high multiple of 3.3x and subsidiaries' value of Rs. 45 per share (Exhibit 8).

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	400949	482432	561863	668686	935828
Pre-Provision Profit	326248	397497	487495	544524	798833
PAT	174867	210782	262573	254404	411189
EPS (Rs.)	67.4	77.4	47.9	46.4	75.0
BV (Rs.)	205	274	312	348	406
P/E (x)	17.8	15.5	25.0	25.9	16.0
P/BV (x)	5.9	4.4	3.8	3.5	3.0
ROA (%)	1.9	1.9	2.0	1.5	2.0
ROE (%)	17.9	16.5	16.4	14.1	19.9

Source: Company, Karvy Research

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Recommendation (Rs.)

CMP (as on Sep 19, 2020)	1204
Target Price	1385
Previous Target Price	1323
Upside (%)	15

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	6623983/90285
52-wk High/Low (Rs.)	1306 / 739
3M Avg. daily value (Rs. mn)	13.3
Beta (x)	1.1
Sensex/Nifty	40432 / 11873
O/S Shares (mn)	5503.7
Face Value (Rs.)	1.0

Shareholding Pattern (%)

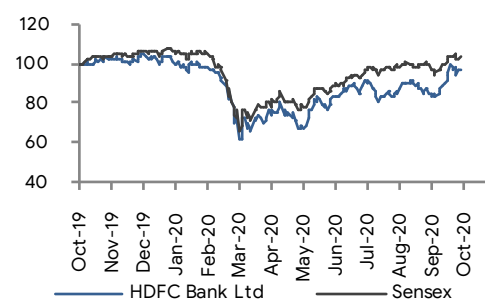
Promoters	21.2
FII	18.6
DII	49.1
Others	11.1

Stock Performance (%)

	1M	3M	6M	12M
Absolute	14	10	32	(2)
Relative to Sensex	9	0	3	(5)

Source: Karvy Research

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Exhibit 2: Q2FY21 Financials

(Rs. Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ %	YoY %
Net Interest Income	135150	141729	152041	156654	157764	0.7	16.7
Non Interest Income	55887	66693	60326	40753	60925	49.5	9.0
Treasury Gain	4807	6765	5653	10867	10162	(6.5)	111.4
Fee	40545	45268	42008	22307	39403	76.6	(2.8)
Fx	5517	5256	5008	4366	5604	28.4	1.6
Others	5020	9404	7657	3213	5756	79.1	14.7
Total Income	191038	208422	212366	197407	218688	10.8	14.5
Operating Expenses	74057	78968	82778	69115	80551	16.5	8.8
Staff Cost	23551	24550	24983	25134	25424	1.2	8.0
Other Opex	50506	54418	57796	43980	55127	25.3	9.1
Operating Profit	116981	129454	129588	128293	138138	7.7	18.1
Other Provisions	27007	30436	37845	38915	37035	(4.8)	37.1
Profit Before Tax	89974	99019	91743	89378	101103	13.1	12.4
Tax Expenses	26524	24854	22466	22791	25972	14.0	(2.1)
Net Profit	63450	74165	69277	66586	75131	12.8	18.4

Source: Company, Karvy Research

Loan growth bucks industry trend:

HDFCB's loan book grew 16% YoY and 3.5% QoQ driven largely by strong growth in corporate book. While corporate loans grew at 25.4%, retail book growth moderated to 7%. 70% of disbursements in corporate book during the quarter were with maturity of less than one year. Share of Retail in loan book declined to 48% from 51% in Q1FY21. Within retail book, some segments including personal loans, credit cards and gold loans recorded double digit growth. Total unsecured loan portfolio was up at 10.7% YoY. While total auto loan book continues to de-grow – down 2.5% YoY.

Exhibit 3: Advances growth led by strong growth in corporate loans

(Rs. Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Advances	8969838	9360295	9937029	10032989	10383351
YoY Growth (%)	19.5	19.9	21.3	20.9	15.8
Corporate Book	4305522	4492942	4769774	4916164	5399343
YoY Growth (%)	27.4	27.8	26.5	28.8	25.4
Retail Book	4664316	4867354	5167255	5116824	4984009
YoY Growth (%)	12.9	13.3	16.8	14.2	6.9
Loan Mix					
Corporate (%)	48.0	48.0	48.0	49.0	52.0
Retail (%)	52.0	52.0	52.0	51.0	48.0

Source: Company, Karvy Research

Exhibit 4: Trend in retail loans across segments

(Rs. Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ %	YoY %
Home Loans	600170	617290	634450	626520	628470	0.3	4.7
Business Banking	626890	632550	641240	605960	635110	4.8	1.3
Kisan Gold Card	390970	389740	433010	400240	435360	8.8	11.4
Credit Cards	520430	576780	575750	546980	581420	6.3	11.7
CV/CE	284900	281240	290450	278010	269800	(3.0)	(5.3)
Others	184460	200110	203310	199450	207680	4.1	12.6
Two Wheelers	98510	101490	98550	95680	94940	(0.8)	(3.6)
Gold Loans	53200	53180	54300	55710	60390	8.4	13.5
Loans against securities	18280	18120	18010	15010	15760	5.0	(13.8)
Total-Retail	4606450	4801340	4944010	4750050	4850040	2.1	5.3
Unsecured Retail Book	1541230	1672090	1731320	1662650	1705880	2.6	10.7
Total Auto Loans	1191250	1218250	1228350	1184510	1161380	(2.0)	(2.5)

Source: Company, Karvy Research

Deposit growth led by strong CASA build-up:

HDFCB's deposits grew 20%, below normal run rate due to moderation in term deposits growth rate. However, CASA build up continued momentum post aberration during Q1FY21 due to lockdown impact. CASA growth at 28% is highest in past five quarters. CASA ratio stands at 41.6% and continues to improve and is back above 40% levels.

Exhibit 5: Sustained growth in CASA led to Deposits build up

(Rs. Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Deposits	10216149	10674335	11475023	11893873	12293104
YoY Growth (%)	22.6	25.2	24.3	24.6	20.3
CA	1367910	1439000	1742480	1500770	1630190
SA	2644450	2779280	3103770	3273580	3484320
CASA	4012360	4218280	4846250	4774350	5114510
YoY Growth (%)	14.7	21.5	23.9	26.0	27.5
CASA %	39.3	39.5	42.2	40.1	41.6

Source: Company, Karvy Research

Supreme Court injunction masks asset quality ratios:

Supreme Court's dispensation on recognition of NPAs post Aug 31 has masked asset quality ratios for the bank. GNPA came in at 1.08 vs 1.36 during Q1FY21. In absolute terms, GNPA's declined 18% QoQ. NNPA's were at 0.17 and NNPA's declined 47% QoQ in absolute terms. However, had there been no freeze on NPA recognition, using bank's pro-forma approach, actual GNPA's for the quarter would have been 1.37% vs reported 1.08% and 1.36% QoQ. NNPA ratio as per pro-forma approach stand at 0.35% vs reported number of 0.17 and 0.33 during Q1FY21. The annualized slippage ratio for the quarter stood at 0.8% and as per pro-form approach slippages stand at 0.2%. Credit costs (calculated) stand at 1.43%.

Exhibit 6: Lower NPAs due to freeze on NPA recognition by Supreme Court

(Rs. Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	QoQ %	YoY %
Gross NPA	125082	134273	126500	137735	113046	(17.9)	(9.6)
Net NPA	37910	44684	35424	32800	17561	(46.5)	(53.7)
Gross NPA (%)	1.4	1.4	1.3	1.4	1.1	(0.3)	(0.3)
Net NPA (%)	0.4	0.5	0.4	0.3	0.2	(0.2)	(0.3)
Coverage Ratio (%)	69.7	66.7	72.0	76.2	84.5	8.3	14.8
Credit Costs (%) (Cal)	1.2	1.3	1.5	1.6	1.4	(0.1)	0.2

Source: Company, Karvy Research

Growth not at the price of risk:

Management commentary on future trend of asset quality is comforting and reinstates our belief that HDFCB's strong underwriting capabilities, prudent risk management approach and reliable customer profile would enable it to come unscathed out of the crisis. Management re-iterated that it has never compromised on risk management as it achieved industry-leading credit growth. It said that average borrower's grade as per internal rating system stands at 4.4 on scale of 1-10 with 10 being riskiest. This corresponds to AA rating as per external rating standards. As per external rating grades, 75% of borrowers are rated AA and 93% of borrowers are rated A+.

On unsecured portfolio, average grading stands at 3.5% and the unsecured portfolio has 55% lower probability of default when compared to overall loan book, thanks to large customer base of salaried class from top rated corporates. When it comes to SME book, which is perceived to be vulnerable, government's credit guarantee scheme has significantly reduced stress on the book. Post the announcement of the scheme, the stress in the SME book came down to 3% when compared to 9%/5% during April/July 2020 respectively.

Sufficient risk absorption capacity:

HDFCB has made additional contingent provisions of Rs. 2300 Cr during the quarter including Rs. 1130 Cr towards specific loan loss provisions. With this, total contingency provisions stand at Rs. 4000 Cr - 2.2% of loans. This has taken the total provision coverage ratio to 84%. Provision coverage ratio comprising all provisions including specific, general, floating and contingent provisions stand at 195% of GNPA's vs 149% during Q1FY21.

Exhibit 7: Strong Capital Buffers

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
CAR (%)	17.5	18.5	18.5	18.9	19.1
Tier I (%)	16.2	17.1	17.2	17.5	17.7
CET (%)	15.3	16.2	16.4	16.7	17.0
RWA (Rs. Mn)	9633210	9509760	9947160	10107740	10374830

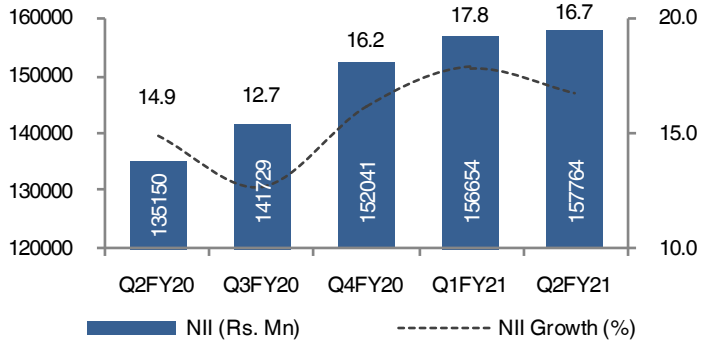
Source: Company, Karvy Research

Exhibit 8: HDFC Bank SOTP

Subsidiary	Holding (%)	Basis	Per share	% of TP
HDFC Bank - Standalone	100	3.3x FY22E BV	1339.8	96.8
HDB Financial Services	95.3	2.5x FY22E BV	40.6	2.9
HDFC Securities	96.5	11x FY22E EPS	9.1	0.7
Less Holding Cost		10.0 %	(5.0)	
Total (INR)			1384.5	100

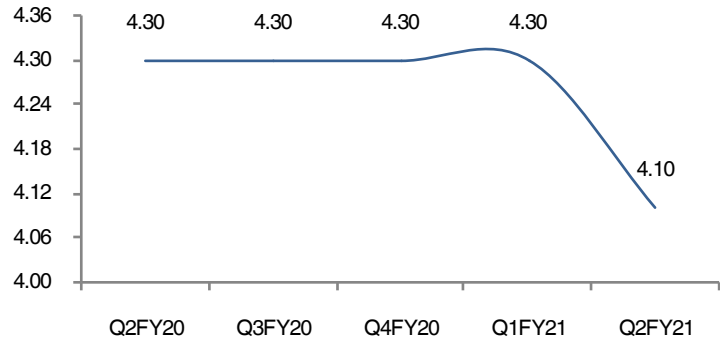
Source: Karvy Research

Exhibit 9: NII Growth - Led by Strong growth in Advances



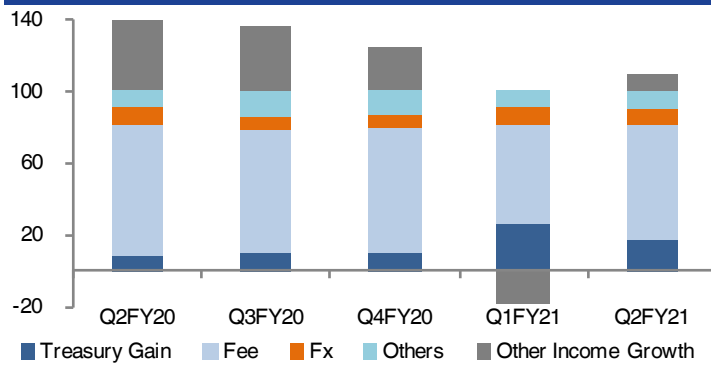
Source: Company, Karvy Research

Exhibit 10: NIM Came off due to surplus liquidity



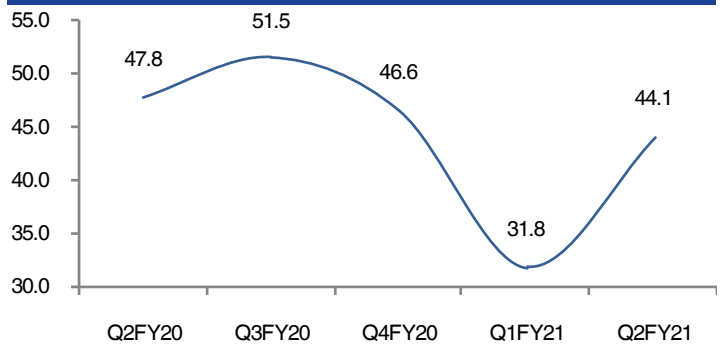
Source: Company, Karvy Research

Exhibit 11: Other Income Growth driven by strong recovery in Fee Income (%)



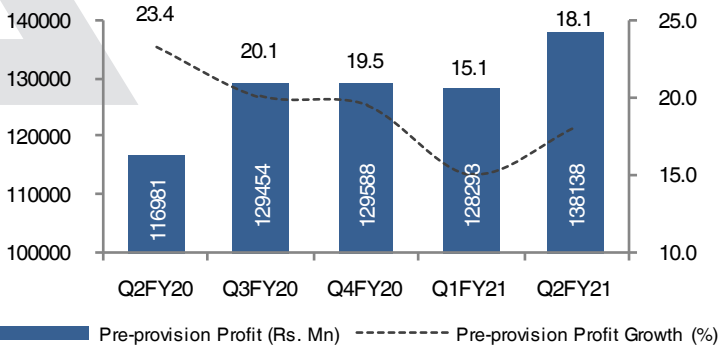
Source: Company, Karvy Research

Exhibit 12: Other Income as a % of PPP



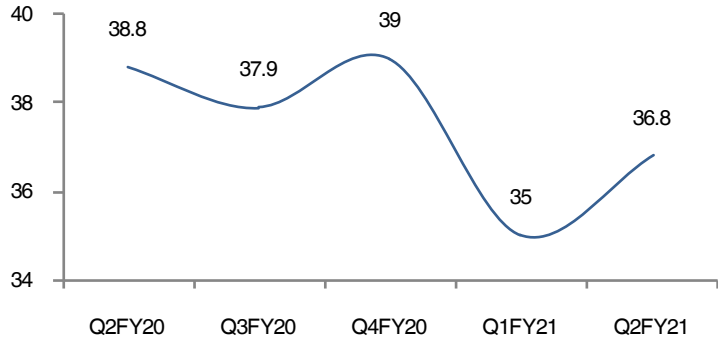
Source: Company, Karvy Research

Exhibit 13: Pre-provision Profit Growth



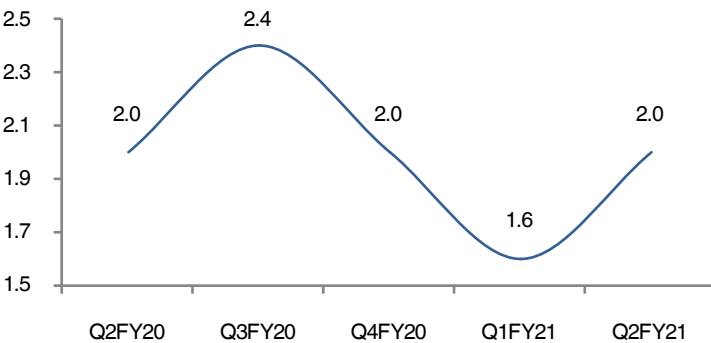
Source: Company, Karvy Research

Exhibit 14: Cost-to-Income - On its way to normal run rate



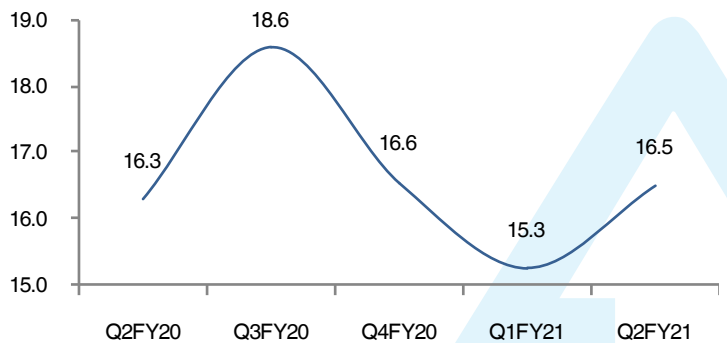
Source: Company, Karvy Research

Exhibit 15: RoA (Annualized, %) - Recovering smartly



Source: Company, Karvy Research

Exhibit 16: RoE (%) - Getting back to normal



Source: Company, Karvy Research

Financials

Exhibit 17: Profit & Loss

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	802414	989721	1148127	1354916	1762491
Interest expense	401465	507288	586264	686230	826663
Net interest income	400949	482432	561863	668686	935828
Fees	141386	172238	206243	226074	267695
Investment Profit	10817	4021	26365	4300	5126
Net Revenue	553152	658691	794471	899060	1208649
Operating Expense	226904	261194	306975	354536	409816
-Employee Exp	68057	77618	95257	110498	128177
-Other Exp	158846	183576	211719	244038	281639
Pre-provision Profit	326248	397497	487495	544524	798833
Provisions	59275	75501	121424	156121	171064
PBT	266973	321997	366072	388403	627769
Taxes	92106	111215	103498	133999	216580
PAT	174867	210782	262573	254404	411189

Source: Company, Karvy Research

Exhibit 18: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	5190	5447	5483	5483	5483
Reserves & Surplus	1057760	1486617	1704377	1902812	2223540
Shareholder's Funds	1062950	1492064	1709860	1908295	2229023
Deposits	7887706	9231409	11475023	13783353	16480979
-Current deposits	1192826	1424978	1742479	2064837	2446832
-Saving deposits	2238102	2487003	3103771	3631412	4248753
-Term deposit	4456779	5319429	6628773	8087103	9785394
Borrowings	1231050	1170851	1868343	2242012	2690414
Other liabilities	457637	583958	708536	834710	1001653
Total liabilities	10639344	12478282	15761763	18768370	22402069
Cash/Equivalent	1229150	813476	866187	2159993	2584034
Advances	6583331	8194012	9937029	11924435	14309321
Investments	2422002	2905879	3918267	4299896	5126118
Fixed Assets	36072	40300	44319	47865	51694
Other assets	368788	524615	995961	336181	330902
Total assets	10639344	12478282	15761763	18768370	22402069

Source: Company, Karvy Research

Exhibit 19: Key Ratios

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
Growth					
NII growth	21.0	20.3	16.5	19.0	40.0
Pre-provision profit growth	26.8	21.8	22.6	11.7	46.7
PAT growth	20.2	20.5	24.6	(3.1)	61.6
Business					
Advance growth	18.7	24.5	21.3	20.0	20.0
Balance Sheet growth	23.2	17.3	26.3	19.1	19.4
Credit/Outsider's Liabilities	72.2	78.8	74.5	74.4	74.6
CASA	43.5	42.4	42.2	41.3	40.6
Operating Efficiency					
Cost-to-income	41.0	39.7	38.6	39.4	33.9
Cost-to-income (Ex Treasury)	41.8	39.9	40.0	39.6	34.1
Cost-to-advances	3.4	3.2	3.1	3.0	2.9
Margin					
Spread	3.8	3.7	3.7	3.5	4.0
NIM	4.4	4.4	4.2	4.0	4.6
Capital adequacy					
Tier-I	13.3	15.8	17.2	13.9	13.6
Asset Quality					
Gross NPA	1.3	1.4	1.3	1.4	1.3
Net NPA	0.4	0.4	0.4	0.5	0.4
Provision coverage	69.8	71.4	72.0	66.2	71.4
Slippage	2.3	2.2	2.1	2.5	2.1
Credit-cost	0.9	1.0	0.9	0.9	0.9
Return					
ROE	17.9	16.5	16.4	14.1	19.9
ROA	1.9	1.9	2.0	1.5	2.0
Per share (Rs.)					
EPS	67.4	77.4	47.9	46.4	75.0
BV	205	274	312	348	406
ABV	200	268	305	337	396
Valuation (x)					
P/E	17.8	15.5	25.0	25.9	16.0
P/BV	5.9	4.4	3.8	3.5	3.0
P/ABV	6.0	4.5	3.9	3.6	3.0

Source: Company, Karvy Research

Exhibit 20: RoAA - Decomposition (%)

YE Mar	FY18	FY19	FY20	FY21E	FY22E
Interest/Discount on advances/Bills	6.8	7.0	6.9	6.5	7.1
Income from Investment	1.8	1.8	1.5	1.5	1.4
Interest on Balances with RBI & Others	0.1	0.1	0.1	0.1	0.1
Others	0.1	0.1	0.0	0.0	0.0
Interest Earned	8.7	8.9	8.6	8.2	8.7
Interest expended	4.4	4.6	4.4	4.1	4.1
NII	4.4	4.4	4.2	4.0	4.6
Other Income	1.7	1.6	1.7	1.4	1.4
- Investment Gains	0.1	0.0	0.2	0.0	0.0
- Fee income	1.2	1.2	1.2	1.1	1.0
Total Income Earned	6.0	5.9	6.0	5.4	6.0
Employee expense	0.7	0.7	0.7	0.7	0.6
Operating Expenses & Administrative Expenses	1.7	1.7	1.6	1.5	1.4
Total op exp	2.5	2.4	2.3	2.1	2.0
Pre Provisioning Profit	3.5	3.6	3.7	3.3	4.0
Provisions & Contingencies	0.6	0.7	0.9	0.9	0.8
PBT	2.9	2.9	2.7	2.3	3.1
Provision for Tax	1.0	1.0	0.8	0.8	1.1
PAT	1.9	1.9	2.0	1.5	2.0
Leverage	6.2	5.5	5.8	6.2	6.4
ROE	17.9	16.5	16.4	14.1	19.9
Leverage (x)	6.2	5.5	5.8	6.2	6.4
Tier-I ratio	13.3	15.8	17.2	13.9	13.6

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
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Hold	: 5-15%
Sell	: < 5%

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