Equity Research
August 18, 2021
BSE Sensex: 55629

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Company update

Banking

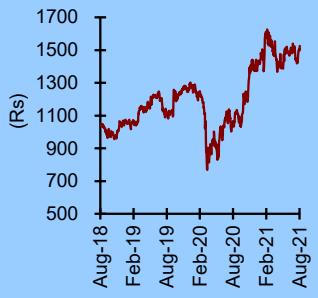
Target price Rs1,818

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	26.0	26.0	25.9
Institutional investors	60.8	60.8	60.9
MFs and others	13.4	13.0	13.7
FIs/Banks	0.1	0.0	0.0
Insurance Cos.	7.8	7.7	7.5
FPI	39.5	40.1	39.7
Others	13.2	13.2	13.2

Source: BSE

Price chart



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INDIA

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HDFC Bank

BUY
Maintained

Restrictions on new credit card issuances lifted, embargo continues on Digital 2.0 offering

Rs1,513

HDFC Bank has informed stock exchanges that the RBI vide its letter dated 17th Aug'21, has relaxed the restriction placed on sourcing of new credit cards. However, restrictions on all new launches of digital business generating activities planned under the bank's *Digital 2.0* initiative will continue till further review by RBI. HDFC Bank in its FY21 annual report highlighted that third-party audit of the bank's IT systems was over and the report was submitted to the regulator. It was awaiting decision from the RBI. With the embargo being there for almost 8 months since 2nd Dec'20 and incremental disclosures on audit being over and report submitted, relaxation of the restriction is an expected and positive development. The stock has underperformed ~15% to bank nifty since Dec'20. Bank has highlighted it is well prepared to gain market share in credit card once the embargo is lifted. Maintain BUY with an unchanged target price of Rs1,818.

RBI has issued an order dated 2nd Dec'20 with regard to certain incidents of outage in the internet banking / mobile banking / payment utilities of the HDFC Bank over the past 2 years, including outages in the bank's internet banking and payment system on 21st Nov'20 due to a power failure in the primary data centre. RBI, vide the order, advised the Bank as follows:

- To stop all digital business generating activities planned under its 'Digital 2.0' and proposed Business generating applications digital also imposed restrictions and
- To stop sourcing of new credit card customers.

However, the embargo has been lifted only partially and there still are restrictions on all new launches of digital business generating activities planned under *Digital 2.0*. Bank will continue to engage with RBI and ensure compliance on all parameters. Lifting of restrictions on Digital 2.0 offerings will provide more confidence.

- *Digital 2.0* essentially was about re-imagining digital platforms providing the customer with a frictionless financial experience. The objective was to move customers from a single transaction to a complete financial solutions journey and thereby, meet all their financial needs – be it pay, save, invest, borrow, shop, trade, insure, or advice.
- Bank has pro-actively partnered with online platform / fintech players to provide value-added benefits to its customers. By deploying data analytics, it intended to maximise the digital impact in terms of context and targeting. This digitally synchronised marketing approach will help it acquire new customers more efficiently.
- It will also enable differentiated experiences through development of new platforms and applications, creation of APIs to enable new user stories and empowering customer interactions through analytics.
- The above transition was expected to result in significant cost efficiencies on the back of automation and reduction in origination costs. Simultaneously, revenue generation opportunities for the bank will also increase.

Market Cap	Rs8,370bn/US$112.7bn
Reuters/Bloomberg	HDBK.BO/HDFCB IN
Shares Outstanding (mn)	5,532.1
52-week Range (Rs)	1650/1021
Free Float (%)	74.1
FII (%)	39.7
Daily Volume (US$'000)	165,992
Absolute Return 3m (%)	2.5
Absolute Return 12m (%)	43.2
Sensex Return 3m (%)	11.5
Sensex Return 12m (%)	45.9

Year to Mar	FY20	FY21	FY22E	FY23E
NII (Rs bn)	562	649	750	877
Net Profit (Rs bn)	263	311	374	450
EPS (Rs)	47.9	56.4	67.7	81.4
% Change YoY	23.7	17.9	20.0	20.2
P/E (x)	31.6	27.0	22.5	18.7
P/BV (x)	4.9	4.1	3.6	3.1
P/ABV (x)	4.9	4.2	3.7	3.2
GNPA (%)	1.3	1.3	1.4	1.4
RoA (%)	1.9	1.9	2.0	2.0
RoE (%)	16.4	16.6	17.1	18.0

Please refer to important disclosures at the end of this report

Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Interest Income	2,75,915	3,31,392	4,00,949	4,82,432	5,61,862	6,48,796	7,50,015	8,77,362
% Growth	23	20	21	20	16	15	16	17
Fee income	77,590	88,116	1,13,939	1,38,055	1,63,337	1,61,692	2,00,498	2,40,598
Add: Other income	29,927	34,849	38,264	38,203	69,273	90,357	91,049	96,844
Total Net Income	**3,83,432**	**4,54,357**	**5,53,152**	**6,58,691**	**7,94,473**	**9,00,845**	**10,41,562**	**12,14,804**
% Growth	22	18	22	19	21	13	16	17
Less: Operating Expenses	(1,69,797)	(1,97,033)	(2,26,904)	(2,61,194)	(3,06,975)	(3,27,226)	(3,82,855)	(4,40,283)
Pre-provision operating profit	**2,13,635**	**2,57,324**	**3,26,248**	**3,97,497**	**4,87,497**	**5,73,618**	**6,58,707**	**7,74,521**
NPA Provisions	**(21,336)**	**(31,453)**	**(49,104)**	**(63,941)**	**(90,893)**	**(46,716)**	**(1,41,663)**	**(1,53,806)**
Other provisions	(5,920)	(4,480)	(10,171)	(11,560)	(30,531)	(1,10,312)	(16,802)	(19,563)
PBT	**1,86,379**	**2,21,391**	**2,66,973**	**3,21,997**	**3,66,074**	**4,16,590**	**5,00,242**	**6,01,153**
Less: taxes	(63,417)	(75,894)	(92,106)	(1,11,215)	(1,03,498)	(1,05,425)	(1,25,911)	(1,51,310)
PAT	**1,22,962**	**1,45,496**	**1,74,867**	**2,10,782**	**2,62,575**	**3,11,166**	**3,74,331**	**4,49,843**
% Growth	20	18	20	21	25	19	20	20

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Capital	5,056	5,125	5,190	5,447	5,483	5,513	5,527	5,527
Reserve & Surplus	7,21,721	8,89,498	10,57,760	14,86,617	17,04,377	20,31,695	23,22,813	26,72,655
Deposits	54,64,242	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,56,20,205	1,87,44,245
Borrowings	5,29,485	7,39,588	10,19,980	11,70,851	14,46,285	13,54,873	15,23,953	17,11,820
Other liabilities	3,67,951	5,67,793	6,68,707	5,51,083	6,73,944	7,26,022	7,40,542	7,55,353
Total liabilities	**70,88,456**	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,02,13,039**	**2,38,89,601**
Cash & Bank Balances	3,89,188	4,89,521	12,29,151	8,13,476	8,66,187	11,94,704	11,34,922	12,90,572
Investment	16,38,858	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	51,02,875	58,68,307
Advances	46,45,940	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,33,52,019	1,60,24,753
Fixed Assets	33,432	36,267	36,072	40,300	44,319	49,093	53,740	58,013
Other Assets	3,81,038	4,22,298	3,68,787	4,91,740	5,39,311	4,59,259	5,69,482	6,47,956
Total Assets	**70,88,456**	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,02,13,039**	**2,38,89,601**
% Growth	20.0	21.9	23.2	17.0	23.0	14.1	15.7	18.2

Source: Company data, I-Sec research

Table 3: DuPont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest income	9.3	8.8	8.3	8.6	8.3	7.4	7.3	7.2
Interest expense	(5.0)	(4.6)	(4.2)	(4.4)	(4.2)	(3.4)	(3.4)	(3.3)
NII	**4.2**	**4.2**	**4.2**	**4.2**	**4.0**	**4.0**	**4.0**	**4.0**
Other income	0.5	0.4	0.4	0.3	0.5	0.6	0.5	0.4
Fee income	1.2	1.1	1.2	1.2	1.2	1.0	1.1	1.1
Total income	**5.9**	**5.8**	**5.7**	**5.7**	**5.7**	**5.5**	**5.5**	**5.5**
Operating expenses	(2.6)	(2.5)	(2.4)	(2.3)	(2.2)	(2.0)	(2.0)	(2.0)
Operating profit	**3.3**	**3.3**	**3.4**	**3.4**	**3.5**	**3.5**	**3.5**	**3.5**
NPA provision	**(0.3)**	**(0.4)**	**(0.5)**	**(0.6)**	**(0.7)**	**(0.3)**	**(0.8)**	**(0.7)**
Total provisions	(0.4)	(0.5)	(0.6)	(0.7)	(0.9)	(1.0)	(0.8)	(0.8)
PBT	**2.9**	**2.8**	**2.8**	**2.8**	**2.6**	**2.5**	**2.7**	**2.7**
Tax	(1.0)	(1.0)	(1.0)	(1.0)	(0.7)	(0.6)	(0.7)	(0.7)
PAT	**1.9**	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**2.0**	**2.0**

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	24	28	34	39	48	56	68	81
% Growth	19	17	19	15	24	18	20	20
DPS (Rs)	4.8	5.5	3.2	7.5	9.1	10.7	12.9	15.5
Book Value per share (BVPS) (Rs)	144	175	205	274	312	370	421	485
% Growth	16	21	17	34	14	19	14	15
Adjusted BVPS (Rs)	142	172	202	270	307	363	414	477
% Growth	16	21	17	34	14	18	14	15
Valuations								
Price / Earnings (x)	62.2	53.3	44.9	39.1	31.6	27.0	22.5	18.7
Price / Book (x)	10.5	8.7	7.4	5.5	4.9	4.1	3.6	3.1
Price / Adjusted BV (x)	10.7	8.8	7.5	5.6	4.9	4.2	3.7	3.2
Asset Quality								
Gross NPA (Rs mn)	43,928	58,857	86,070	1,12,242	1,26,500	1,50,860	1,90,145	2,22,759
Gross NPA (%)	0.9	1.1	1.3	1.4	1.3	1.3	1.4	1.4
Net NPA (Rs mn)	13,204	18,440	26,010	32,145	35,424	50,424	50,424	57,424
Net NPA (%)	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
NPA Coverage ratio (%)	70	69	70	71	72	67	73	74
Gross Slippages (%)	1.6	1.5	2.3	2.2	2.1	1.9	2.0	1.7
Credit Cost (%)	0.7	0.7	1.0	1.0	1.3	1.5	1.3	1.2
Net NPL/Net worth	1.8	2.1	2.4	2.2	2.1	2.5	2.2	2.1
Business ratios (%)								
RoAA	1.9	1.9	1.8	1.8	1.9	1.9	2.0	2.0
RoAE	18.3	17.9	17.9	16.5	16.4	16.6	17.1	18.0
Credit Growth	27.1	19.4	18.7	24.5	21.3	14.0	17.9	20.0
Deposits Growth	21.2	17.8	22.5	17.0	24.3	16.3	17.0	20.0
CASA	43.2	48.0	43.5	42.4	42.2	46.1	48.0	49.5
Credit / Deposit Ratio	85.0	86.2	83.5	88.8	86.6	84.9	85.5	85.5
Cost-Income ratio	44.3	43.4	41.0	39.7	38.6	36.3	36.8	36.2
Operating Cost / Avg. Assets	2.6	2.5	2.4	2.3	2.2	2.0	2.0	2.0
Fee Income / Avg Assets	1.2	1.1	1.2	1.2	1.2	1.0	1.1	1.1
Earnings ratios								
Yield on Advances	10.8	10.2	10.3	10.5	10.1	8.9	8.9	8.6
Yield on Earning Assets	9.9	9.3	8.7	8.9	8.6	7.6	7.6	7.5
Cost of Deposits	5.9	5.3	4.6	4.8	4.9	3.8	3.5	3.4
Cost of Funds	6.0	5.5	4.9	5.2	5.0	4.1	4.0	3.8
NIM	4.5	4.5	4.4	4.4	4.2	4.1	4.1	4.1
Capital Adequacy (%)								
RWA (Rs bn)	5,298	6,400	7,574	9,445	11,517	12,998	15,310	18,070
Core Tier-1	13.2	12.8	14.6	16.5	15.6	16.0	15.5	15.0

Source: Company data, I-Sec research

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