

HDFC Bank | Banking

...Digital Initiatives & Partnerships to fuel growth

LKP

While the regulatory changes by RBI is aimed at mitigating systemic risks and facilitating innovation on the digital front, HDFC Bank aims to be at the forefront with a slew of digital initiatives aimed at delivering industry beating growth through market share gains. The focus on new-age technologies like IOT, Cloud & Artificial Intelligence is to enhance credit risk assessment through its superior underwriting process and accelerate customer acquisitions. Its Credit Card share (23% as at September 2021) is likely to improve post lifting of the ban on issue of new cards for almost 8 months. Our Investment Argument is based on Improved Growth Prospects on opening up of the economy, digital adoption to enhance technological architecture and best in class Return on Assets. The bank carries immense growth (secured and unsecured) prospects which will be driven by market share gain as well as partnership with fin-techs (BNPL Loans), providing an effective platform to expand lending opportunities across diverse verticals. Separately, the bank is aiming to grow the mortgage portfolio by leveraging its relationship with HDFC Ltd. Moreover, the bank is working towards Affordable Housing via partnership with HFCs other than HDFC Ltd.

Growth to be driven by digital investments: The management commentary suggests, the bank remains confident of maintaining credit growth at a similar pace on the back of market share gains across different lending segments, with partnerships with fin-tech players. "Digital" is now the buzzword at HDFC Bank. Every service that it offers can be done digitally. The physical form of banking remains, but ~85% of financial transactions initiated by customers are digital. In contrast, the figure is just 8% for banking at branches and 6% for banking through ATMs. The change is evident. The numbers were 40% for digital, 30% for ATMs and 18% for physical form of banking in 2012. In Aug-21, HDFC Bank and Paytm announced a strategic partnership. The partnership is aimed to drive innovative digital solutions for financial transformation in the country by combining their strengths in the banking, lending and digital payments space. Factoring economic recovery, digital adaption and technological enhancement, we believe, the bank's credit to grow at a CAGR of 21% in FY21-24 (10-12% above market growth).

Key Financials (₹ mn)	FY20	FY21	FY22E	FY23E	FY24E
NII	5,61,863	6,48,796	7,60,555	9,04,240	10,86,904
Operating Profit	4,87,495	5,73,618	6,64,486	7,79,368	9,21,975
Reported Profits	2,62,573	3,11,165	3,61,307	4,39,868	5,39,459
Net Worth	17,09,860	20,37,208	23,98,540	28,38,409	33,77,867
Loan & Advances	99,37,029	1,13,28,366	1,34,80,756	1,61,76,907	1,95,74,058
Int. Bearing Liabilities	1,29,21,308	1,47,05,475	1,71,01,005	2,00,05,252	2,36,74,102

Key Ratios (%)	FY20	FY21	FY22E	FY23E	FY24E
NIM's	4.2	4.1	4.1	4.2	4.3
Cost / Income	38.6	36.3	36.3	36.2	36.2
Gross NPA	1.3	1.3	1.3	1.2	1.2
Tier 1	18.1	18.4	14.2	14.3	14.3
Adj. RoA	1.9	1.9	1.9	2.0	2.1
Adj. RoE	16.4	16.6	16.3	16.8	17.4

Rating	Buy
Current Market Price (₹)	1,490
12 M Price Target (₹)	2,104
Potential upside (%)	41

Stock Data	
FV (₹) :	1
Market Cap Full (₹ bn) :	8,253
Market Cap Free Float (₹ bn) :	6,518
52-Week High / Low (₹) :	1,342 / 1,725
2-Year High / Low (₹) :	739 / 1,725
1 Year Avg. Dly Traded Volume (in lakh)	83
BSE Code / NSE Symbol	500180 / HDFCBANK
Bloomberg :	HDFCB IN

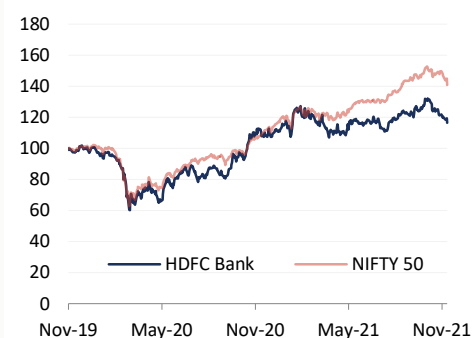
Shareholding Pattern (%)				
	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	25.83	25.89	25.97	26.00
FPIs	38.23	39.39	39.79	39.35
MFs	14.54	13.70	12.98	13.36
Insurance	2.94	3.48	3.62	3.77
Others	18.46	17.54	17.64	17.52

Source: BSE

Price Performance (%)				
(%)	1M	3M	6M	1YR
HDFC Bank	-9.9%	-4.2%	0.9%	4.4%
Nifty 50	-6.8%	2.3%	11.3%	31.1%

* To date / current date : November 26, 2021

HDFC Bank vs Nifty 50



Credit card share likely to improve further: The Bank lost significant market share (200bps drop) during eight months ban on issuing new credit cards. Easing of the ban on new credit cards opens up a high-yielding revenue stream for the bank. During eight months ban, the SBI (19%) and ICICIB's (18%) share in new credit cards issued grew to 29% and 51% respectively. However, after lifting HDFC ban, the new credit card shares decreased for both to 24% and 21% respectively. Moreover, HDFC Bank enjoys a credit card market share of 23% and 30% share in new credit card added. The growth in credit card business is likely to yield higher returns with estimated ROA of 2% +.

Superior underwriting process: As externally rated, nearly 86% of the wholesale portfolio is AA & AAA. Risk assessment is also done internally by scale of HDB - 1 to 10, which has served the bank well over the years. As of Jun-21, the weighted average asset scale of 1 to 10 stood at 4.45 against 4.43 and 4.37 in 4QFY21 and 3QFY21 respectively. Average rating of incremental portfolio was at 4.46. The unsecured book have better underwriting process because of zero collaterals. HDB rating is comparatively better at a scale of 3.36 and secured book is at a scale of 4.57. The credit to Top 20 borrowers are at a scale of 2.12. Around 62% of the incremental portfolio are AA or above. We believe, the conservative risk assessment practice will keep the credit quality in check.

Asset quality concerns are behind but provision buffers likely to stay: The restructuring under RBI resolution framework for covid-19 was approximately 170bps of net advances (mainly in unsecured lending). However, strong contingent buffer will neutralize the stress. OTR has improved to pre-covid levels at 97.5%, leading to lower slippages. The bank expects a low relapse rate (10-20bps of overall loans) from restructuring book. We believe, the bank would continue to carry provision buffers in order to make for a well-protected balance sheet, rather than reversing any loan loss provisions. Along with cumulative provision of ~₹116bn, the bank also held floating provisions of ₹14.5bn and contingent provision of ₹77bn. Total Provision (Specific + Floating + Contingent + General) stood at 163% of GNPLs. The additional (covid + contingent) provision stood at 1.26% of the book; which seems sufficient for 20-30% relapse rate from restructuring (1.7%).

Shuffling its organization structure: HDFC Bank recently announced a re-organization of its organization structure in order to better tap into growth opportunities. Further, the bank has adopted an incentive-driven model to drive growth, and management noted that attrition has reduced meaningfully across divisions.

Outlook and Valuation:

HDFC Bank is expected to outperform the sector led by 1) Strong balance sheet growth, 2) healthy growth in operating income gauged by higher yielding credit card business, 3) much higher provision than regulatory requirement in the balance sheet, 4) strong capital cushion of 17.9% at CET1 level and 5) best in class underwriting and risk management practices. Given these strengths we expect HDFC Bank to remain one of the best among all the lending business. We maintain BUY rating on the bank with a 12M target price of ₹2,104.

Exhibit 1: Income Statement

FY Ending (₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Interest Income	2,75,915	3,31,392	4,00,949	4,82,432	5,61,863	6,48,796	7,60,555	9,04,240	10,86,904
<i>Growth (yoy %)</i>	23.2	20.1	21.0	20.3	16.5	15.5	17.2	18.9	20.2
NIM (%)	4.4	4.4	4.4	4.4	4.2	4.1	4.1	4.2	4.3
Yield on Advance	10.8	10.2	10.3	10.5	10.1	8.9	8.9	8.9	8.9
Yield on Funds	9.6	9.1	8.7	8.9	8.6	7.6	7.6	7.7	7.7
Cost of Funds (CoF)	5.8	5.4	4.9	5.2	5.0	4.1	4.0	4.0	4.0
Interest Spread	3.8	3.8	3.8	3.7	3.6	3.6	3.6	3.6	3.7
Other Income - Total	1,07,517	1,22,965	1,52,203	1,76,259	2,32,608	2,52,049	2,82,122	3,17,595	3,59,307
<i>Growth (yoy %)</i>	19.5	14.4	23.8	15.8	32.0	8.4	11.9	12.6	13.1
Total Opex	1,69,797	1,97,033	2,26,904	2,61,194	3,06,975	3,27,226	3,78,191	4,42,468	5,24,236
<i>Growth (yoy %)</i>	21.4	16.0	15.2	15.1	17.5	6.6	15.6	17.0	18.5
C/I Ratio	44.3	43.4	41.0	39.7	38.6	36.3	36.3	36.2	36.2
Pre Provision Profits	2,13,635	2,57,324	3,26,248	3,97,497	4,87,495	5,73,618	6,64,486	7,79,368	9,21,975
<i>Growth (yoy %)</i>	22.7	20.4	26.8	21.8	22.6	17.7	15.8	17.3	18.3
Provisions as % PPP	7.1	7.9	10.7	11.5	15.3	17.4	17.4	15.7	13.9
Credit Cost (As % of Op. AUM)	0.6	0.7	0.9	1.0	1.2	1.2	1.2	1.1	0.9
Effective Tax Rate	34.0	34.3	34.5	34.5	28.3	25.3	25.2	25.2	25.2
Reported Profits	1,22,962	1,45,496	1,74,867	2,10,782	2,62,573	3,11,165	3,61,307	4,39,868	5,39,459
<i>Growth (yoy %)</i>	20.4	18.3	20.2	20.5	24.6	18.5	16.1	21.7	22.6
RoA	1.8	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.1
RoE	18.3	17.9	17.9	16.5	16.4	16.6	16.3	16.8	17.4

Source: Company, LKP Research

Exhibit 2: Balance Sheet

FY Ending (₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	5,056	5,125	5,190	5,447	5,483	5,513	5,538	5,538	5,538
<i>Growth (yoy %)</i>	<i>0.9</i>	<i>1.4</i>	<i>1.3</i>	<i>4.9</i>	<i>0.7</i>	<i>0.5</i>	<i>0.4</i>	<i>0.0</i>	<i>0.0</i>
Reserves (ex Reval. Reserve)	7,21,721	8,89,498	10,57,760	14,86,617	17,04,377	20,31,696	23,93,003	28,32,871	33,72,330
Net Worth - Ex Revaluation	7,26,778	8,94,624	10,62,950	14,92,063	17,09,860	20,37,208	23,98,540	28,38,409	33,77,867
<i>Growth (yoy %)</i>	<i>17.2</i>	<i>23.1</i>	<i>18.8</i>	<i>40.4</i>	<i>14.6</i>	<i>19.1</i>	<i>17.7</i>	<i>18.3</i>	<i>19.0</i>
Deposits	54,64,242	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,57,32,925	1,86,04,884	2,20,16,915
<i>Growth (yoy %)</i>	<i>21.2</i>	<i>17.8</i>	<i>22.5</i>	<i>17.0</i>	<i>24.3</i>	<i>16.3</i>	<i>17.8</i>	<i>18.3</i>	<i>18.3</i>
Borrowings	8,49,690	7,40,289	12,31,050	11,70,851	14,46,285	13,54,873	13,68,080	14,00,368	16,57,187
<i>Growth (yoy %)</i>	<i>87.9</i>	<i>-12.9</i>	<i>66.3</i>	<i>-4.9</i>	<i>23.5</i>	<i>-6.3</i>	<i>1.0</i>	<i>2.4</i>	<i>18.3</i>
Interest Bearing Liabilities	63,13,932	71,76,685	91,18,756	1,04,02,261	1,29,21,308	1,47,05,475	1,71,01,005	2,00,05,252	2,36,74,102
<i>Growth (yoy %)</i>	<i>27.3</i>	<i>13.7</i>	<i>27.1</i>	<i>14.1</i>	<i>24.2</i>	<i>13.8</i>	<i>16.3</i>	<i>17.0</i>	<i>18.3</i>
Investments	19,58,363	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	49,49,174	55,70,393	63,28,201
<i>Growth (yoy %)</i>	<i>29.1</i>	<i>9.5</i>	<i>12.9</i>	<i>20.0</i>	<i>34.8</i>	<i>13.2</i>	<i>11.5</i>	<i>12.6</i>	<i>13.6</i>
Loan & Advances	46,45,940	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,34,80,756	1,61,76,907	1,95,74,058
<i>Growth (yoy %)</i>	<i>27.1</i>	<i>19.4</i>	<i>18.7</i>	<i>24.5</i>	<i>21.3</i>	<i>14.0</i>	<i>19.0</i>	<i>20.0</i>	<i>21.0</i>
Total Assets	74,07,961	86,38,402	1,06,39,343	1,24,45,407	1,53,05,113	1,74,68,705	2,03,54,148	2,38,47,241	2,82,00,019
<i>Growth (yoy %)</i>	<i>25.5</i>	<i>16.6</i>	<i>23.2</i>	<i>17.0</i>	<i>23.0</i>	<i>14.1</i>	<i>16.5</i>	<i>17.2</i>	<i>18.3</i>

Source: Company, LKP Research

Exhibit 3: Per Share Data

FY Ending	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Earnings Per Share (₹)	24	28	34	39	48	56	65	79	97
EPS (% YoY)	19.3	16.7	18.7	14.9	23.7	17.9	15.6	21.7	22.6
Book Value (₹)	144	175	205	274	312	370	433	513	610
BVPS (% YoY)	16.2	21.4	17.3	33.8	13.8	18.5	17.2	18.3	19.0

Source: Company, LKP Research

Exhibit 4: Profitability Ratio

FY Ending	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Yield on Advance	10.8	10.2	10.3	10.5	10.1	8.9	8.9	8.9	8.9
Yield on Funds	9.6	9.1	8.7	8.9	8.6	7.6	7.6	7.7	7.7
Cost of Funds (CoF)	5.8	5.4	4.9	5.2	5.0	4.1	4.0	4.0	4.0
Interest Spread	3.8	3.8	3.8	3.7	3.6	3.6	3.6	3.6	3.7
NIM's	4.4	4.4	4.4	4.4	4.2	4.1	4.1	4.2	4.3
C/I Ratio	44.3	43.4	41.0	39.7	38.6	36.3	36.3	36.2	36.2
Provisions as % PPP	7.1	7.9	10.7	11.5	15.3	17.4	17.4	15.7	13.9
Credit Cost (As % of Op. AUM)	0.6	0.7	0.9	1.0	1.2	1.2	1.2	1.1	0.9
Effective Tax Rate	34.0	34.3	34.5	34.5	28.3	25.3	25.2	25.2	25.2
RoA	1.8	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.1
RoE	18.3	17.9	17.9	16.5	16.4	16.6	16.3	16.8	17.4

Source: Company, LKP Research

Exhibit 5: Balance Sheet Ratio

FY Ending	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Credit / Deposit	85.0	86.2	83.5	88.8	86.6	84.9	85.7	86.9	88.9
Investment Deposit	35.8	33.3	30.7	31.5	34.1	33.2	31.5	29.9	28.7
CASA	43.8	48.3	43.7	42.6	42.5	46.3	45.0	45.0	45.0

Source: Company, LKP Research

Exhibit 6: Credit Quality

FY Ending	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Slippage Ratio	1.6	1.5	2.3	2.2	2.1	1.6	1.4	1.2	1.1
Gross NPA (Cl Bal)	43,928	58,857	86,070	1,12,242	1,26,500	1,50,860	1,69,475	1,99,132	2,35,028
Net NPA (Cl. Bal.)	13,204	18,440	26,010	32,145	35,424	45,548	49,428	54,004	59,401
Gross NPAs Ratio (%)	0.9	1.1	1.3	1.4	1.3	1.3	1.3	1.2	1.2
Net NPAs Ratio (%)	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
PCR (%)	69.9	68.7	69.8	71.4	72.0	69.8	70.8	72.9	74.7

Source: Company, LKP Research

Exhibit 7: Detailed RoA Tree (%)

FY Ending	FY20	FY21	FY22E	FY23E	FY24E
Yields / Margins					
Yield on Advance	10.1	8.9	8.9	8.9	8.9
Yield on Funds	8.6	7.6	7.6	7.7	7.7
Cost of Funds (CoF)	5.0	4.1	4.0	4.0	4.0
Interest Spread	3.6	3.6	3.6	3.6	3.7
NIM's	4.2	4.1	4.1	4.2	4.3
Interest Income / Assets	8.3	7.4	7.4	7.5	7.6
Interest Exp. / Assets	4.2	3.4	3.4	3.4	3.4
NII / Assets	4.0	4.0	4.0	4.1	4.2
Fee Income / Assets	1.2	1.0	1.0	1.0	1.0
Other Non Core Income / Assets	0.1	0.2	0.2	0.2	0.2
Other Income / Assets	1.7	1.5	1.5	1.4	1.4
Net Operating Income / Assets	5.7	5.5	5.5	5.5	5.6
Operating Ratios					
NII to Net Operative Income	70.7	72.0	72.9	74.0	75.2
Other Income to Net Operative Income	29.3	28.0	27.1	26.0	24.8
Empl. Cost/Oper. Exps.	31.0	31.7	30.8	29.6	28.2
Other Op. Exps./Oper. Exps.	69.0	68.3	69.2	70.4	71.8
C/I Ratio	38.6	36.3	36.3	36.2	36.2
Provisions as % PPP	15.3	17.4	17.4	15.7	13.9
Credit Cost (As % of Op. AUM)	1.2	1.2	1.2	1.1	0.9
Effective Tax Rate	28.3	25.3	25.2	25.2	25.2
Employee Exp. / Assets	0.7	0.6	0.6	0.6	0.6
Other Opex/ Assets	1.5	1.4	1.4	1.4	1.4
Total Opex / Assets	2.2	2.0	2.0	2.0	2.0
Operating Profits / Assets	3.5	3.5	3.5	3.5	3.5
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.5	3.5	3.5	3.5	3.5
Provisions / Assets	0.9	1.0	1.0	0.9	0.8
Profit Before Tax / Assets	2.6	2.5	2.6	2.7	2.8
Tax Expenses / Assets	0.7	0.6	0.6	0.7	0.7
RoA	1.9	1.9	1.9	2.0	2.1
Leverage (x)	9.0	8.6	8.5	8.4	8.3
RoE	16.4	16.6	16.3	16.8	17.4
Adj. RoA	1.9	1.9	1.9	2.0	2.1
Adj. RoE	16.4	16.6	16.3	16.8	17.4

Source: Company, LKP Research

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