FIRST LIGHT

19 January 2022

RESEARCH

HDFC Bank | Target: Rs 1,869 | +22% | BUY

Balanced Growth

SUMMARY

HDFC Bank

- Bank remains reasonably stable during turbulence
- Growth likely to sustain supported by enhanced digital infrastructure
- Maintain BUY on the back strong franchise & profitability. Raise TP from Rs. 1,800 to Rs. 1,869

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.78	8bps	38bps	70bps
India 10Y yield (%)	6.64	6bps	23bps	72bps
USD/INR	74.24	(0.1)	2.4	(1.3)
Brent Crude (US$/bbl)	86.48	0.5	17.6	58.0
Dow	35,912	(0.6)	1.5	16.5
Shanghai	3,542	0.6	(2.5)	(1.5)
Sensex	61,309	0.1	7.5	26.2
India FII (US$ mn)	**14-Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	193.3	312.9	312.9	815.2
FII-E	(347.4)	(184.4)	(184.4)	(3,749.7)

Source: Bloomberg

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COMPANY UPDATE

BUY

TP: Rs 1,869 | ⮝ 22%

HDFC BANK | Banking | 18 January 2022

Balanced Growth

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Momentum to sustain: HDFC Bank continues to grow its Balance Sheet in a sustained manner, albeit the growth rate is likely to have moderated to around 15% on a sustainable basis in our view, as compared to ~ 20% growth which it has experienced over the last 10 years. This is for several reasons which we believe could play out over the medium term, including emergence of economy from the impact of Covid resulting in slower growth and increased digitisation leading to nearly similar advantages that most of the well-run banks and other players would have in terms of reach and offerings, leading to even greater competitive landscape. We believe growth of more than 15% in the medium term would likely be considered robust for an established bank like HDFC Bank. It continues to be one of the key leading players in various retail segments such as personal loans, credit cards and auto loans. Banks also issued ~1.3Mn new cards after restrictions were lifted in August 2021 underscoring strong distribution ability.

Profitability & Capital Adequacy: HDFC Bank's profitability and Capital Adequacy is likely to remain industry leading, just as it has in the medium term, given its ability to manage the franchise, and its risk management. This will likely help maintain its RoE's in 17-19% range, significantly higher than its Cost of Equity. Increasing operating efficiency had led to cost-income ratio to come down from ~44% in FY16 to ~36% in FY21. We forecast slightly lower cost income levels due to continuing efficiencies, further boosted by increased digitisation. We expect total capital to remain in 18-20% range in the medium term, offering adequate headroom for faster growth.

Valuation. We believe that HDFC Bank has ability to generate superior returns on the back of its strong franchise and risk management capabilities. We value its core business at 3.4x Mar'24 P/ABV and add Rs 88 from subsidiaries to arrive at its SOTP valuation of Rs. 1,869 (from Rs. 1,800), hereby maintaining a BUY rating. Worsening of covid induced stress in asset remains one of the key risks to our estimates and valuation.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	HDFCB IN/Rs 1,529
Market cap	US$ 113.7bn
Free float	74%
3M ADV	US$ 125.9mn
52wk high/low	Rs 1,725/Rs 1,342
Promoter/FPI/DII	26%/37%/37%

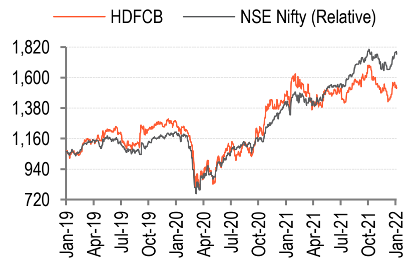
Source: NSE | Price as of 18 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Net interest income	6,48,796	7,39,653	8,47,540
NII growth (%)	15.5	14.0	14.6
Adj. net profit (Rs mn)	3,11,165	3,82,526	4,53,034
EPS (Rs)	56.6	69.2	81.7
Consensus EPS (Rs)	57.7	66.8	91.0
P/E (x)	27.0	22.1	18.7
P/BV (x)	4.1	3.7	3.2
ROA (%)	1.9	2.0	2.1
ROE (%)	16.6	17.6	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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