

HDFC BANK

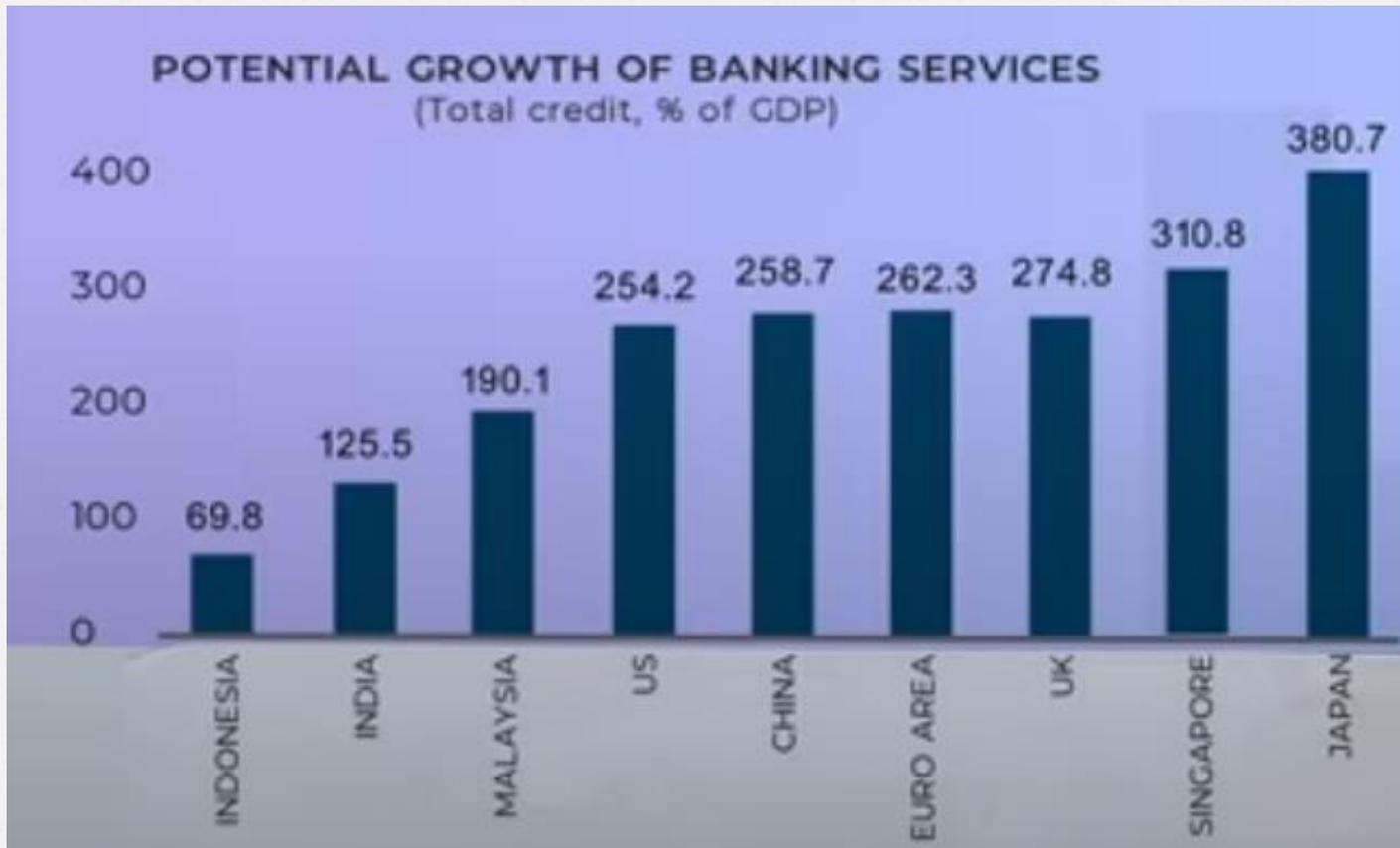
RESEARCH REPORT ON HDFC BANK as on 25 MARCH 2022

With market capitalisation of ₹ 7,89,530 Cr. HDFC Bank Ltd. is one of India's leading private banks and was among the first to receive approval from the Reserve Bank of India (RBI) to set up a private sector bank. With 3.67 crore debit cards, 1.49 crore credit cards and about 21.34 lakh acceptance points, HDFC Bank is among the largest facilitators of cashless payments in the country.

HDFC Bank leveraged its vast geographical reach, technology backbone, automated processes, suite of financial products and quick turnaround times to offer a differentiated service, which has resulted in new customer acquisitions as well as a higher share of the wallet from existing customers.

PEE AAR SECURITIES LTD.

BY: HIMANSHI KHOSLA
(Junior Research Analyst)



This graph shows the total credit given by the country as the percentage of its GDP. This shows India has a great potential to grow in the banking sector.

HISTORY

1994: Housing Development Finance Corporation (HDFC) received an in-principle approval from the RBI to set up a private sector bank. Incorporated in August 1994 as HDFC Bank Limited.

1995: Banking license received in January 1995

First corporate office and branch opened

IPO oversubscribed 55 times Listed on BSE and NSE.

1999: Launched first international debit card in India in association with Visa International.

Began its digital journey by launching online real-time Net Banking.

First ever mega merger in Indian banking industry – Times Bank merged with HDFC Bank.

2000: A Bank with many firsts

1st Bank to launch SMS-based Mobile Banking in India.

2003-2004: First bank in India to offer credit card in over 100 cities.

2008: Merged with Centurion Bank of Punjab in one of the largest mergers in the Indian banking industry.

2010: Launched 40% faster ATMs – first of its kind in Asia

2011: Growing market leadership - Expanded customer base to become market leaders in Auto Loans, Personal Loans and Credit Cards.

2014: Became market leader in issuing credit cards in 2013-14 with 55 Lakh+ cards.

2015: Launched **PayZapp**, India's first 1-click mobile pay solution

Launched 10-second personal loan disbursement in the retail lending space.

2017: Introduced AI

Launched IRA (Interactive Robotic Assistant) and became the first bank in India to introduce a humanoid for customer service.

Introduced EVA chatbot - India's first AI-based chatbot to provide customer service.

2019: Voted no.1 in India by customers in Forbes Worlds Best Banks Survey.

BSE inks pact with the Bank to give a boost to the start-up Platform.

2020: Ranked India's most valuable brand (for the seventh consecutive year) by BrandZ Report

First ever leadership change (new MD & CEO takes over)

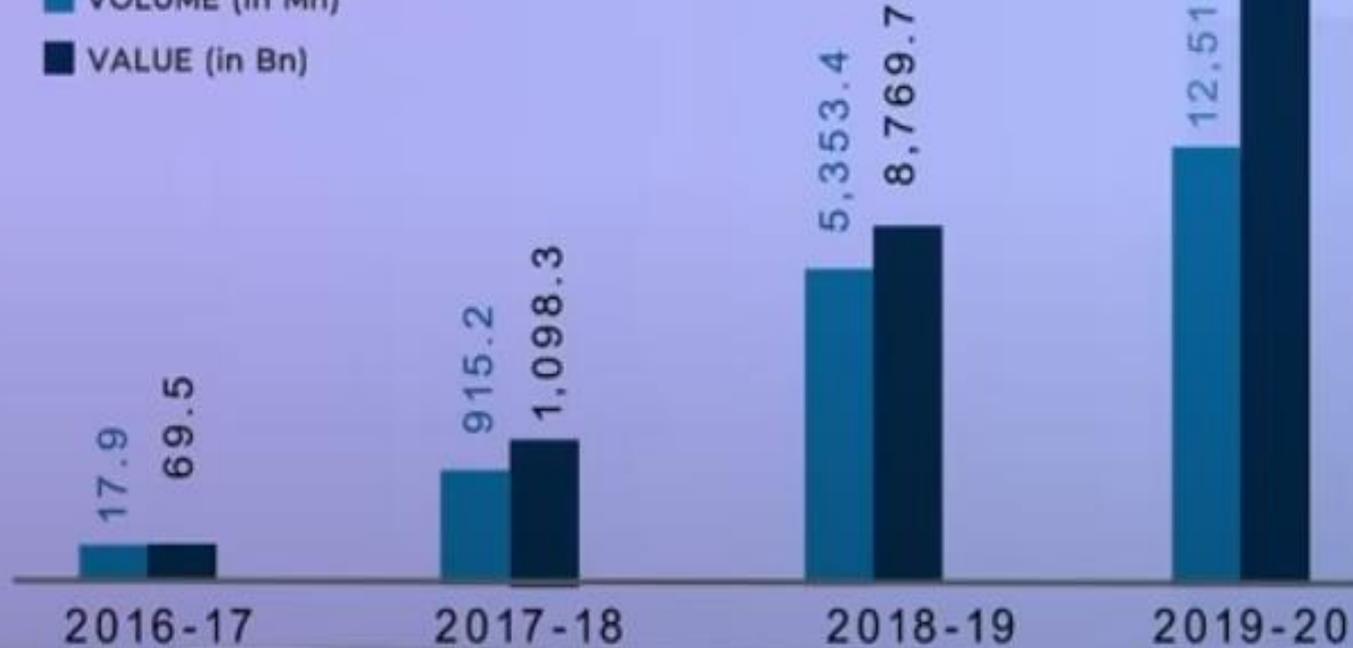
Aditya Puri was the managing director of HDFC Bank, India's largest private sector bank. He assumed this position in September 1994, with a vision to create a "World Class Indian Bank". Puri was the longest-serving head of any private bank in the country.

Sashidhar Jagdishan has been appointed as the new Chief Executive Officer and Managing Director of HDFC Bank in 2020. He joined the bank as a manager in 1996, and later become the CFO in 2008.

GROWING ACCEPTANCE OF DIGITAL PAYMENTS IN INDIA

(UPI Based payments)

■ VOLUME (in Mn)
■ VALUE (in Bn)



UNPARALLELED REACH

HDFC Bank has built a robust delivery network comprising Banking Outlets, ATMs and Cash Deposit and Withdrawal Machines (CDMs) and merchants. Banking outlets comprise branches and fixed point Business Correspondents (BCs). This presence across India enables the bank to serve customers better.

Total Banking Outlets*

21,360

Total Branches*

5,608[^]

Total Business Correspondents (BCs)*

15,756

Total ATMs + cash deposit and withdrawal machines*

16,087



BUSINESS AREA



BUSINESS AREA

HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional / branch banking on the retail side. The bank has three key business segments: Wholesale Banking, Treasury and Retail Banking.

Wholesale Banking- The Bank's target market is primarily **large, blue-chip manufacturing companies in the Indian corporate sector** and to a lesser extent, **small & mid-sized corporates** and agri-based businesses.

For these customers, the Bank provides a wide range of commercial and transactional banking services, including working capital finance, trade services, transactional services, cash management, etc. The bank is also a leading provider of structured solutions, which combine cash management services with vendor and distributor finance for facilitating superior supply chain management for its corporate customers.

Based on its superior product delivery / service levels and strong customer orientation, the Bank has made significant inroads into the banking consortia of a number of leading Indian corporates including multinationals, companies from the domestic business houses and prime public sector companies. It is recognised as a **leading provider of cash management and transactional banking solutions to corporate customers, mutual funds, stock exchange members and banks.**

Treasury-: Within this business, the bank has three main product areas - Foreign Exchange and Derivatives, Local Currency Money Market & Debt Securities, and Equities. With the liberalisation of the financial markets in India, corporates need more sophisticated risk management information, advice and product structures. These and fine pricing on various treasury products are provided through the bank's Treasury team.

To comply with statutory reserve requirements, the bank is required to hold 25% of its deposits in government securities. The Treasury business is responsible for managing the returns and market risk on this investment portfolio.

Retail Banking: Target customers includes **Individual borrowers, Salaried and professional borrowers, MSME, Self help groups, etc.**

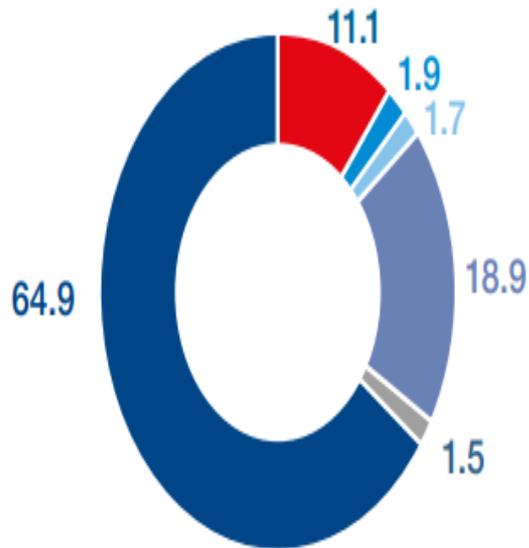
The objective of the Retail Bank is to provide its target market customers a full range of financial products and banking services, giving the customer a one-stop window for all his/her banking requirements. The products are backed by world-class service and delivered to customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking.

The HDFC Bank Preferred program for high net worth individuals, the HDFC Bank Plus and the Investment Advisory Services programs have been designed keeping in mind needs of customers who seek distinct financial solutions, information and advice on various investment avenues.

The Bank also has a wide array of retail loan products including **Auto Loans, Loans against marketable securities, Personal Loans, Home loans, current account, Fixed and recurring deposits and Loans for Two-wheelers.** It is also a leading provider of Depository Participant (DP) services for retail customers, providing customers the facility to hold their investments in electronic form.

RUPEE EARNED

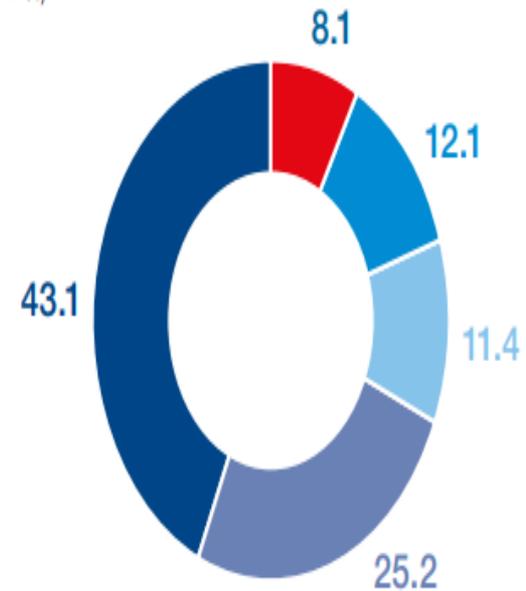
(FY21%)



- Commission, Exchange, Brokerage
- Other Interest Income
- FX & Derivative Income
- Income from Investments
- Others
- Interest from Advances

RUPEE SPENT

(FY21%)



- Tax
- Provisions
- Transfer to Reserve
- Operating Expense
- Interest Expense

Monetary policy of RBI

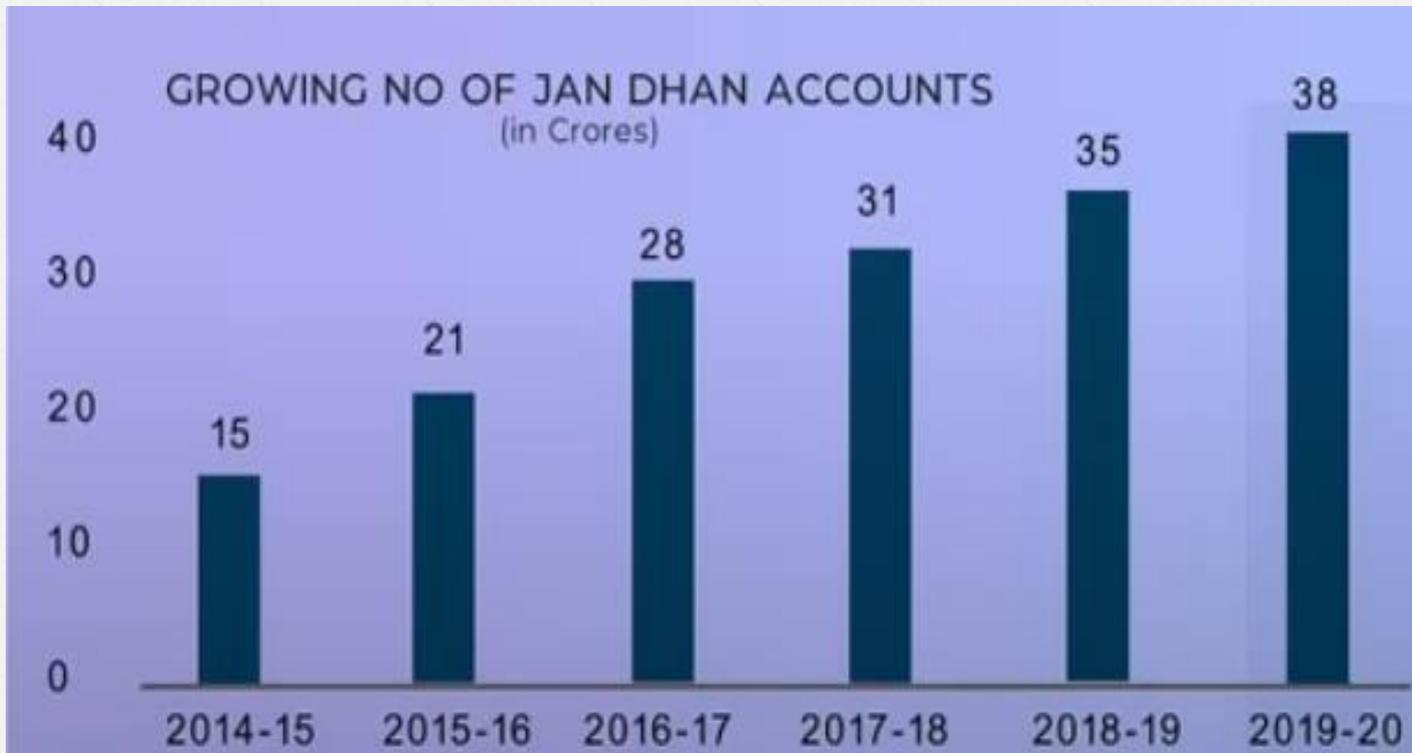
On the monetary policy side, the RBI also took a number of steps to provide liquidity and enhance credit flow in the system. The RBI delivered a total rate cut (repo) of 115 basis points (bps) since February 2020, taking the repo rate down to 4.0 per cent. The central bank also took a slew of measures to address liquidity constraints such as the announcement of the moratorium, liquidity infusion through TLTRO (Targeted Long Term Repo Operations) for NBFCs (500 billion), liquidity facility of 500 billion for mutual funds, liquidity support of 500 billion for all India financial institutions and a cut in the CRR (Cash Reserve Ratio) by 100 bps to 3 per cent. These measures helped anchor borrowing costs in the economy, support credit growth and cushioned the impact of the disruptions in the financial market.

OPPORTUNITIES

The Government announced a stimulus package of ₹ 20 trillion in five different tranches in FY 2020-21 to provide support to

1) the MSMEs and the NBFCs via a credit guarantee scheme and liquidity support **2)** migrant labourers via direct spending and generating employment via enhanced allocation to MNREGA **3)** small traders, vendors and farmers via loan facilities and **4)** announced structural reforms across sectors like coal, power, agriculture, etc. For the ongoing fiscal year, the Government has budgeted capex at an 18 year high of 2.5 per cent of GDP.

The broad strategy of the Government's stimulus is to remove bottlenecks on the supply side for the smaller and labour intensive firms to set off a 'virtuous cycle' of more viable operations, increased production and employment, and higher incomes that would translate into enhanced demand.



With more and more Jan Dhan accounts opening, more people are coming into the formalized banking sector. They may shift from nationalized banks to private banks in the future.

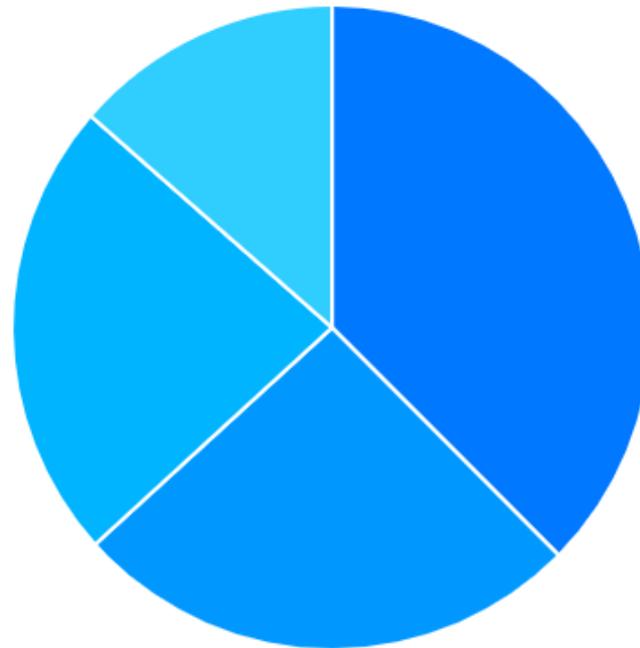
RISKS

Looking at the inflation side, CPI inflation averaged 6.7 per cent in FY21 mainly due to higher food prices on account of COVID led supply disruptions. Inflation eased below RBI's upper band of 6.0 per cent from December 2020 to February 2021. In FY 2020-21, the headline inflation averaged 6.2 per cent, above the RBI's target range of 4 (+/-2) per cent. In FY 2021-22, CPI inflation rose to 6.3 per cent in May-21 from 4.2 per cent in Apr-21, breaching the RBI's upper threshold of 6 per cent for the first time in six months. Apart from higher fuel and food inflation, a large part of this increase was driven by higher core inflation, possibly reflecting the impact of second wave related supply disruptions and a pass through of cost push pressures.

Going forward, we expect inflation to remain above 6 per cent for the next 3 months. For FY 2021-22, we expect the headline inflation to average 6.1% led by higher commodity prices and sticky core inflation.

Shareholding Pattern

Share Holding Pattern



- FII : 37.47%
- Promoters : 25.8%
- DII : 23.13%
- Public : 13.6%
- Others : 0%

Peer Comparison

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.
1.	HDFC Bank	1486.50	22.86	824101.21	0.44	10591.46
2.	ICICI Bank	710.75	22.17	493886.14	0.28	6536.55
3.	Kotak Mah. Bank	1777.10	32.71	352788.44	0.05	3402.74
4.	Axis Bank	725.90	17.62	222777.82	0.00	3956.95
5.	IndusInd Bank	913.40	17.14	70730.17	0.55	1161.27
6.	IDBI Bank	44.75	19.82	48117.00	0.00	612.34
7.	Bandhan Bank	294.95		47525.30	0.34	858.97

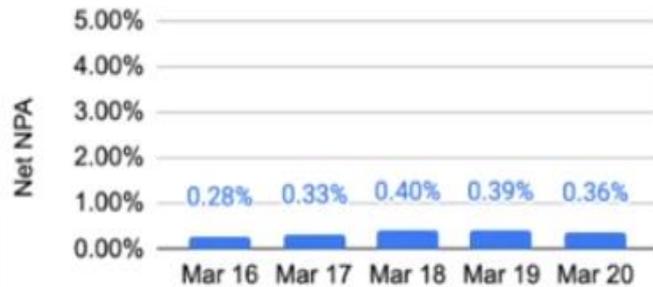
Peer Comparison

S.No.	Name	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	HDFC Bank	20.78	34588.02	8.59	6.31
2.	ICICI Bank	18.89	24314.25	9.46	5.73
3.	Kotak Mah. Bank	30.79	8626.36	6.06	6.49
4.	Axis Bank	200.24	17653.35	12.55	4.84
5.	IndusInd Bank	36.18	7737.49	6.85	5.95
6.	IDBI Bank	55.75	4629.69	1.16	4.45
7.	Bandhan Bank	35.79	3408.66	3.05	7.87

Peer Comparison

Net NPA

Net NPA



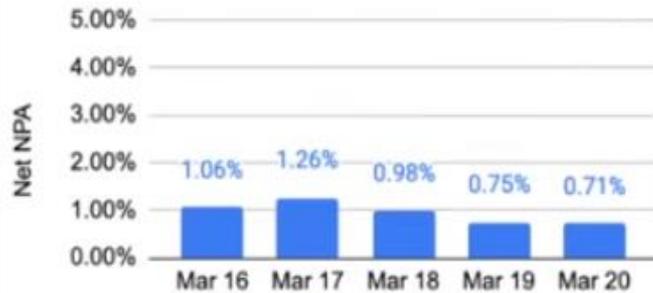
 **HDFC BANK**

Net NPA



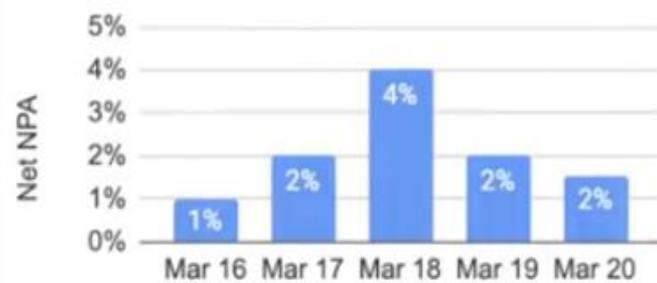
 **ICICI Bank.**

Net NPA



 **kotak**
Kotak Mahindra Bank

Net NPA



 **AXIS BANK**

FINANCIALS



Balance Sheet

As at March 31, 2021

		₹ in '000
	As at 31-Mar-21	As at 31-Mar-20
CAPITAL AND LIABILITIES		
Capital	5,512,776	5,483,286
Reserves and surplus	2,031,695,513	1,704,377,008
Deposits	13,350,602,208	11,475,022,947
Borrowings	1,354,873,236	1,446,285,372
Other liabilities and provisions	726,021,504	673,943,976
Total	17,468,705,237	15,305,112,589
ASSETS		
Cash and balances with Reserve Bank of India	973,407,363	722,051,210
Balances with banks and money at call and short notice	221,296,594	144,135,970
Investments	4,437,282,921	3,918,266,581
Advances	11,328,366,309	9,937,028,781
Fixed assets	49,093,169	44,319,155
Other assets	459,258,881	539,310,892
Total	17,468,705,237	15,305,112,589
Contingent liabilities	9,710,975,961	11,289,534,044
Bills for collection	447,481,440	515,849,020

Profit and Loss Account

For the year ended March 31, 2021

	₹ in '000	
	Year ended 31-Mar-21	Year ended 31-Mar-20
I INCOME		
Interest earned	1,208,582,265	1,148,126,509
Other income	252,048,927	232,608,187
Total	1,460,631,192	1,380,734,696
II EXPENDITURE		
Interest expended	559,786,560	586,263,979
Operating expenses	327,226,301	306,975,289
Provisions and contingencies [Refer Schedule 18 (24)]	262,453,079	224,922,278
Total	1,149,465,940	1,118,161,546
III PROFIT		
Net profit for the year	311,165,252	262,573,150
Balance in the Profit and Loss account brought forward	574,924,020	492,233,022
Total	886,089,272	754,806,172
IV APPROPRIATIONS		
Transfer to Statutory Reserve	77,791,313	65,643,288
Dividend (including tax / cess thereon) pertaining to previous year paid during the year, net of dividend tax credits	-	48,933,585
Interim Dividend (including tax)	-	16,469,504
Transfer to General Reserve	31,116,525	26,257,315
Transfer to Capital Reserve	22,916,842	11,238,460
Transfer to / (from) Investment Reserve Account	616,645	-
Transfer to / (from) Investment Fluctuation Reserve	17,120,000	11,340,000
Balance carried over to Balance Sheet	736,527,947	574,924,020
Total	886,089,272	754,806,172
V EARNINGS PER EQUITY SHARE (Face value ₹ 1 per share)	₹	₹
Basic	56.58	48.01
Diluted	56.32	47.66

Cash Flow Statement

	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Cash from Operating Activity +	17,282	17,214	-62,872	-16,869	42,476
Cash from Investing Activity +	-1,146	-842	-1,503	-1,403	-1,823
Cash from Financing Activity +	-5,893	57,378	23,131	24,394	-7,321
Net Cash Flow	10,242	73,750	-41,244	6,122	33,332

Balance Sheet Analysis

CASA RATIO (Current Account and Savings Account)	
CASA	46.1% of Total deposit
Saving Account	Increased by 30%
Current Account	Increased by 21.8%



As on March 31, 2021, Total Deposits rose by 16.3 per cent to 1,335,060 crore from 1,147,502 crore. Savings Account Deposits grew by 30.0 per cent to 403,500 crore while Current Account Deposits rose by 21.8 per cent to 212,182 crore. Time Deposits stood at 719,378 crore, representing an increase of 8.5 per cent. CASA Deposits accounted for 46.1 per cent of Total deposits.

Profit and Loss account Analysis

Compounded Sales Growth	
10 Years:	20%
5 Years:	15%
3 Years:	15%
TTM:	13.4%

Compounded Profit Growth	
10 Years:	23%
5 Years:	20%
3 Years:	20%
TTM:	17%

The financial performance of Bank during the year ended March 31, 2021, remained healthy with Total Net Revenue (Net Interest Income plus Other Income) rising 13.4 per cent to 90,084.5 crore from 79,447.1 crore in the previous year.

Revenue growth was driven by an increase in both Net Interest Income and Other Income. **Net Interest Income grew by 15.5 per cent to 64,879.6 crore due to acceleration in loan growth coupled with a Net Interest Margin (NIM) of 4.1 per cent.**

Key Ratio Analysis

NET INTEREST MARGIN

(%)

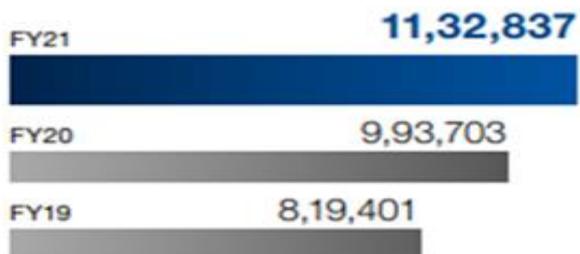


Net interest margin is a measure of the difference between interest paid and interest received, adjusted for the total amount of interest-generating assets held by the bank. Higher the Net interest margin, Better it is. HDFC Bank has a NIM of 4.1% which is good. It has the highest NIM as compared to other banks.

Net Interest Income grew by 15.5 per cent to 64,879.6 crore due to acceleration in loan growth coupled with a Net Interest Margin (NIM) of 4.1 per cent.

ADVANCES

(₹ Crore)



Advances stood at Rs. 1,132,837 crore, an increase of 14.0 per cent.

Domestic Loan Portfolio of Rs. 1,111,510 crore grew by 14.1 per cent over March 31, 2020.

GROSS NPA RATIO

(%)



Gross Non Performing Assets (GNPAs) were at 1.32 per cent of Gross Advances, as against 1.26 per cent in the previous year. Net NPA ratio stood at 0.40 per cent as against 0.36 per cent in the previous year.

COST TO INCOME RATIO

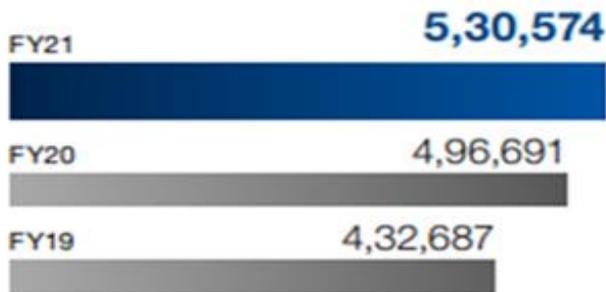
(%)



Operating (Non-Interest) Expenses rose to 32,722.6 crore from 30,697.5 crore. During the year it set up 354 new branches and 1,186 ATMs / Cash Deposit and Withdrawal Machines (CDMs). This, along with higher spend on IT, resulted in higher infrastructure and staffing expenses.

RETAILS ASSETS

(₹ Crore)



Bank's retail assets include all borrower relationships and relationships with small businesses and therefore will include credit cards, auto loans, mortgages, personal loans, and small business loans.

RETURN ON CAPITAL

(%)



Return on Equity

10 Years:	18%
5 Years:	17%
3 Years:	17%
Last Year:	16%

Return on capital employed: HDFC Bank has a consistent ROCE track record. The ROCE is at 16.6 % for the latest year.

Return on Equity (ROE): ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. HDFC Bank has a healthy ROE track record of 16 % for the latest year.

RETURN ON ASSETS

(average) (%)



Return on Assets depends on the bank's Asset Quality, its cost structure and the product mix of the bank.

ROA = Net profit / Total Assets

The return on asset for FY21 is 1.97%. Higher the ROA, better it is for any bank.

Capital Adequacy Ratio (CAR)

As on March 31, 2021, your Bank's total CAR, calculated as per Basel III capital regulations, stood at 18.8 per cent, well above the regulatory minimum requirement of 11.075 per cent.

Conclusion

HDFC is a fundamentally super strong company. It has also shown healthy financial performance consistently over the years.

As India emerges from the impact of the pandemic in 2021, it is expected to be one of the fastest growing economies in the world in FY 2022-23 with GDP growth expected to rise by 11.1 per cent. Growth is likely to be supported by higher capex spending by the Government, recovery in domestic demand and continued monetary policy support from the RBI.

Increase in working population and growing disposable income will raise the demand for banking and related services. India's banking sector is poised for a robust growth as rapidly growing businesses will turn to banks for their credit needs. By 2025, India's fintech market is expected to reach ₹ 6.2 trillion.

Buy HDFC Bank share and hold it for long term.