SMART SYNC SERVICES

HDFC Bank Q1FY21

Financial Results & Highlights

Brief Company Introduction

HDFC Bank Ltd. is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has a base of 1,04,154 permanent employees as of 30 June 2019. HDFC Bank is India's largest private sector lender by assets. It is the largest bank in India by market capitalisation as of March 2020.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	34453	32363	6.46%	35918	-4.08%
PBT	8938	8534	4.73%	9174	-2.57%
PAT	6659	5568	19.59%	6928	-3.88%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	36699	34324	6.92%	38287	-4.15%
PBT	9340	8835	5.72%	9682	-3.53%
PAT	6941	5691	21.96%	7297	-4.88%

Detailed Results:

1. The net standalone revenues rose 6.5% YoY in Q1.
2. NII grew 17.8% YoY to Rs 15665 Cr driven by growth in advances of 20.9% YoY and growth in deposits of 24.6% YoY.
3. Other income formed 20.06% of net revenues at Rs 4075 Cr vs Rs 4970 CR last year.
4. The breakup of other income is:
    1. Fees & Commissions: Rs 2231 Cr vs 3552 Cr last year.
    2. FX & Derivatives: Rs 437 Cr vs 577 Cr last year.
    3. Gain on sale/revaluation: Rs 1087 Cr vs Rs 875 Cr last year.
    4. Miscellaneous Income: Rs 321 Cr vs Rs 630 Cr last year.
5. The impact of COVID-19 on other income is estimated to be at Rs 2000 Cr.
6. Operating expenses were down 2.9% YoY. The cost to income was at 35% vs 39% a year ago. Operating expenses were lower primarily due to lower loan origination and sales volumes.
7. Pre-provision Operating Profit grew 15.15 YoY. Provisions and contingencies for the quarter were at Rs 3891.5 Cr
8. Standalone PAT rose 19.6% YoY.
9. Total Balance Sheet size rose 22.1% YoY. Total Deposits rose 24.6% YoY while CASA deposits rose 26% YoY. Time deposits grew 23.7% YoY. The bank maintained an LCR of 140%.
10. Total advances rose by 20.9% YoY with domestic advances rose 21% YoY. Retail advances grew 7.2% YoY while wholesale advances grew 37.6% YoY. Retail to the wholesale mix was at 48:52.

11. The bank maintained a CAR of 18.9%. with Tier I CAR at 17.5%.
12. GNPAs was at 1.36% (1.2% excluding agricultural NPAs) on 30th June 2020. NNPA was at 0.33%.
13. The bank maintained floating provisions of Rs 1451 Cr and contingent provisions of Rs 4002 Cr. Total provisions were at 149% of GNPAs.

Investor Conference Call Details:

1. During the quarter, the bank acquired 1.2 million liability customers.
2. The bank will keep on digitizing current accounts onboarding, video KYC, and so on to supplement its existing digital offering. 95% of bank branches are operational.
3. At the time of the call, the bank had already launched its video KYC on a limited pilot basis. This capability will be scaled up in Q2.
4. Payment business volumes, both acquiring and issuance saw a bounce back to about 70% of Jan 2020 levels in June.
5. Incorporate and wholesale banking, the bank went in for AAA corporates only. Overall, the bank improved the risk rating of its balance sheet by 30 bps to 4.3%.
6. The company has restricted consumer loans until the recovery comes back. The management hopes recovery to come back by September.
7. Retail originations fell by 70% during the quarter, both as a combination of tightening of credit standards as well as some amount of pessimism in the borrowers.
8. Personal loans saw a drop of 86% in originations. Credit cards dropped by 87%, and spends fell by 40%, leading to a book contracting by 4.5% during the quarter.
9. The management has stated that the company has set a goal that to provide frictionless service, benchmarking against an Amazon or a Google, with an enjoyable customer journey across a wide product range and geography in the most convenient manner to the customers.
10. The company is 65th in brand recognition globally, among all global companies.
11. The company has changed its technology from core banking to middleware, to enterprise, and now SaaS to be able to deliver across all channels an Omni-channel experience.
12. The company has added 6,381 business correspondents, managed by Common Service Centres, including 1,002 opened during the quarter. It also has around 200 branches are in various stages of readiness to open in a short time.
13. The annualized slippage in the quarter is at 1.2%.
14. The core credit costs were at 1.08% of advances.
15. Corporate collections in April 2020 was at 45% of last year's level. May collections rose 47% MoM and June increased 38% MoM and was at 94% of last year's June level.
16. An analysis of top 25 disbursements by value in TLTRO 1.0 during the quarter showed that 46.5% was ultimately towards CapEx; 30.2% was towards working capital requirements; 9.5% was for

supporting other banks and market participants with liquidity through participatory certificates and secondary purchases; 7.5% comprised of other reasons, including availing existing lines for building liquidity buffers; and the balance, 6.3%, was towards on lending for PSL purposes.

17. The bank saw a significant increase in electronic straight-through processing transactions in its collections and payments businesses from 86% in June 2019 to 94% in June 2020.
18. Average Corporate CASA grew 37% YoY and average corporate FDs grew 31% YoY.
19. 86% of the externally rated portfolio is either AAA or AA in the corporate lending space.
20. In terms of historical trends of delinquency, there is a 55% lower probability of default in the unsecured wholesale book than there is in the secured wholesale book.
21. 68% of the new-to-bank disbursements had a ticket size of less than Rs 1 Cr in the wholesale SME lending space.
22. The bank acquired 533 new SME customers in Q1. Collateral cover for the new-to-bank disbursements for 89% of the cases was greater than 100%.
23. In gold loans, originations fell 15% but the book was up by 3% at the same time.
24. The unsecured portfolio primarily consists of the personal loan, the business loan, and the credit card. The personal loans are given entirely to salaried individuals only. For customers in the moratorium portfolio, 98% of them continue to receive salary credits and 97% are 0 DPD customers.
25. Auto loans are moving to 60-70% of pre-COVID levels.
26. The management has stated that the bank will remain cautious and maintain tight filters for unsecured loans despite a massive fall in originations in this segment.
27. The bank is comfortable with 4.7% of the 9% high-risk assets. It has thus created further contingent provisions for the remaining 4.3%.
28. The management maintains that the bank has excellent capital adequacy and a great portfolio and it does not need to raise any external capital at the moment.
29. The management maintains that the bank will continue to maintain NIMs at 4.1-4.5% band. This is mainly due to its robust risk-based price methodology which ensures that ensures that the bank knows what is the minimum return that it needs to get from each and every product, net of cost, and net of expenses.
30. The management remains confident of the succession planning for the top posts within the bank.
31. From the first moratorium customers, 70% of them paid up their June installments.
32. The bank has kept both Moratorium 1 & 2 as opt-in only.
33. Retail to wholesale fees remains at close to 90:10.
34. The management maintains that the bank is not chasing growth and will only do business as long as the bank's credit criteria are met.

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Analyst Views:

HDFC Bank is the biggest bank in the country by market capitalization. It has deservedly earned its stellar reputation over the years. The bank has performed well in the first quarter of FY21 with more than 22% growth in Balance Sheet and advances. It is a testament to the bank's brand image that the bank saw deposits and advances growth even in times of COVID-19.

The management has assured that the bank has adapted to the new normal due to the COVID-19 disruption and that its balance sheet and customer set are resilient enough to weather the uncertainty ahead. It maintains that 98% of customers under moratorium have not seen any decline in salaries and thus the bank is safe from any negative surprises coming from the moratorium ends. It remains to be seen how the whole COVID-19 scenario pans out and how it changes consumer behaviour especially for the banking industry going forward. Nonetheless, given the bank's resilient customer set, strong liquidity profile, and enduring brand image, HDFC Bank remains an indispensable banking stock for every investor, more so because of the recent correction in valuation.