

BSE SENSEX 55,792
S&P CNX 16,615

CMP: INR1,515 **TP: INR1,800 (+19%)** **Buy**

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Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5,527
M.Cap.(INRb)/(USDb)	8380.3 / 112.7
52-Week Range (INR)	1650 / 1021
1, 6, 12 Rel. Per (%)	-5/-12/0
12M Avg Val (INR M)	13792
Free float (%)	78.9

Financials Snapshot (INR b)

Y/E March	FY21	FY22E	FY23E
NII	648.8	738.1	878.9
OP	573.6	659.6	778.9
NP	311.2	364.9	437.3
NIM (%)	4.1	4.1	4.2
EPS (INR)	56.6	66.2	79.3
EPS Gr. (%)	17.8	16.9	19.9
BV/Sh. (INR)	369.5	424.4	491.7
ABV/Sh. (INR)	356.8	408.8	473.4

Ratios

RoE (%)	16.6	16.7	17.3
RoA (%)	1.9	1.9	2.0

Valuations

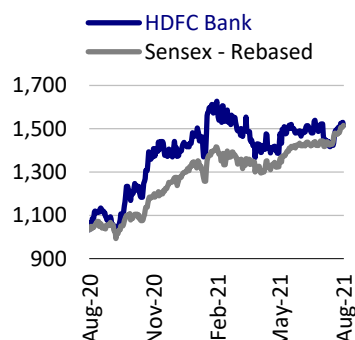
P/E(X)	26.8	22.9	19.1
P/BV (X)	4.1	3.6	3.1
P/ABV (X)	4.2	3.7	3.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	21.1	21.1	21.2
DII	17.6	17.3	18.0
FII	50.7	51.0	48.8
Others	10.7	10.6	12.0

FII Includes depository receipts

Stock Performance (1-year)



RBI lifts restriction for sourcing of new credit cards

Positive development for the bank; will boost profitability & support retail growth

- **As per media reports**, the Reserve Bank of India (RBI) have partially lifted the restrictions placed on HDFC Bank in Dec'20 and have allowed the bank to source new credit cards. However, the restrictions on new digital application launches will continue. The RBI move addresses the key overhang as HDFC Bank is the largest credit card issuer in the country and credit card segment is the key to bank's overall profitability.
- During recent quarters the bank has reported moderation in fee income/NII, affected by RBI's restriction on credit cards sourcing as this segment contributes ~25%-33% of the total fee income for the bank.
- HDFC Bank had nearly lost ~0.6m cards since the date of embargo. On the other hand, ICICIB/SBICARD/AXSB almost added ~1.3m/~0.75m/~0.3m new cards over the similar period. Therefore, other players such as ICICIB/ SBI Cards have sharply ramped up their incremental market share at ~49%/~28% during this period.
- Overall, lifting of RBI restrictions before the beginning of festive season is a positive development as HDFC Bank has usually been aggressive during festive season and offers various discounts on consumer products.
- **Valuation and view:** HDFC Bank has underperformed and has been range bound over last couple of months owing to pressure on NII growth and margins. The lifting of these RBI restrictions thus addresses the key overhang. Further, we also expect growth trends to revive in retail especially in unsecured lending segment in coming quarters. Overall, the bank continues to make additional contingent provisions to further strengthen its balance Sheet against any potential COVID-19 impact and thus expects stress formation to remain under control. We maintain Buy rating with a TP of INR1,800 per share (3.5x FY23E ABV).

Quick Recap of RBI restrictions placed last year on HDFCB

The RBI had issued an order in Dec'20 and temporarily stopped all digital launches of HDFC Bank planned under Digital 2.0 including sourcing of new credit cards. The RBI took this action as a consequence of multiple incidents of outages in net banking/payment facilities over the past few years. Further, the regulator also appointed an external firm in Feb'21 for conducting a third party digital audit. Subsequently, post the audit, final report was submitted to the RBI.

Impact of the RBI restriction- HDFCB lost ~559k cards since date of embargo

- HDFC Bank is the largest credit card issuer in the country with a card base of 14.8m as on June'21. **However, the bank has lost ~0.6m cards since the embargo.** On the other hand, ICICIB/SBICARD/AXSB almost added ~1.3m/~0.75m/~0.3m new cards over the similar period. Therefore, other players such as ICICIB/ SBI Cards have sharply ramped up their incremental market share at ~49%/~28%.
- HDFC Bank's fee income/NII moderated recently, impacted by the RBI restriction on credit cards sourcing as this segment contributes ~25%-33% of the total fee income for the bank.

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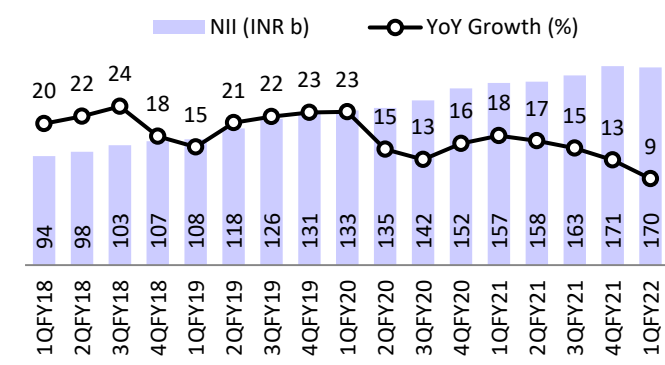
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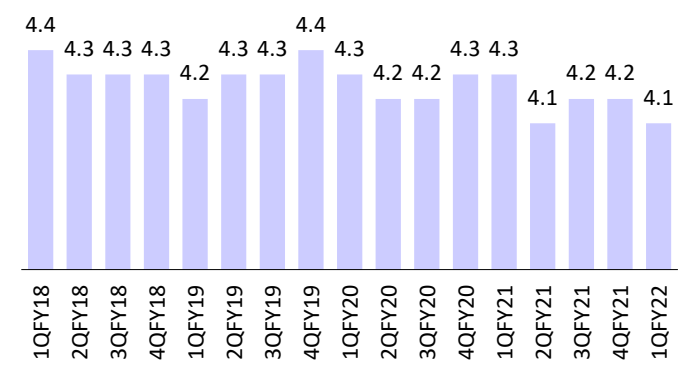
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Lifting of RBI restrictions before festive season augurs well

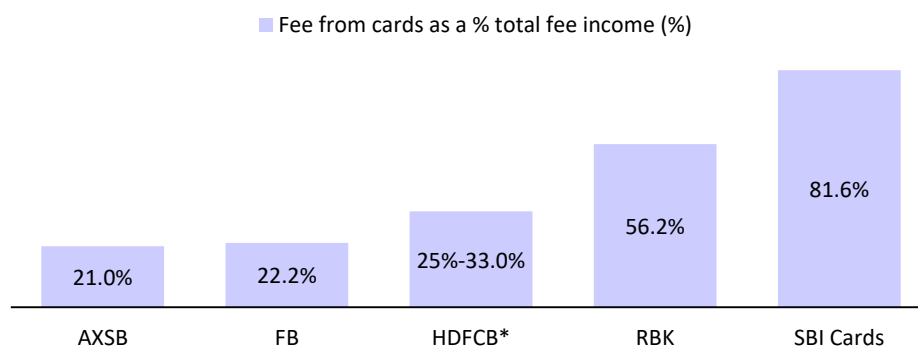
- HDFCB typically adopts an aggressive stance during the festive season and offers various discounts on consumer durable products to drive spends and accelerated growth in consumer durable financing. Therefore, lifting of RBI restrictions before the festive season augurs well and we expect the bank to turn more aggressive on credit cards over the next few months.

Exhibit 1: NII growth decelerated over past few quarters

Source: MOFSL, Company

Exhibit 2: NIM moderates 10bp QoQ to 4.1% in 1QFY22

Source: MOFSL, Company

Exhibit 3: Fee income from cards as % of total fee income across major banks

*As stated in 1QFY22 earnings call

Source: MOSL, Company

Exhibit 4: Net addition in number of cards on a MoM basis since the embargo placed on HDFCB in Dec'20

Net Addition (Nos. in 000)	FY19	FY20	FY21	Nov-20	Dec-20	Jan-21	Feb-21	Mar'21	Apr'21	May'21	Jun'21
HDFCB	1,800.5	2,012.7	486.2	213.4	-78.0	-54.0	-57.0	-212.0	-66.4	-61.0	-30.1
SBI Cards	2,013.1	2,276.1	1,274.1	146.7	194.6	151.5	99.6	80.4	105.7	30.1	86.8
ICICIB	1,648.2	2,465.0	1,473.7	209.0	201.0	266.1	198.5	208.3	142.6	146.0	161.3
AXSB	1,473.5	1,025.9	159.6	-17.9	-12.3	65.5	98.8	109.0	56.5	-73.9	8.6
CITI	39.2	83.0	-160.1	-5.5	-37.6	-39.9	-8.5	-12.1	-11.8	-10.8	-7.1
RBK	915.1	966.2	280.4	74.7	-36.5	28.5	41.4	70.0	43.7	27.2	42.6
KMB	540.3	321.5	85.6	10.6	11.2	14.3	21.8	30.7	-103.4	7.8	41.5
AMEX	277.0	232.0	-160.8	10.0	-17.3	-31.9	-4.2	-26.8	-21.6	-15.8	-12.2
SCB	37.0	159.9	27.1	4.3	3.1	12.5	10.4	13.9	-4.4	-19.4	-18.5
IIB	280.8	291.9	173.9	25.6	22.7	35.5	-33.5	21.5	19.4	13.8	8.1
Total Industry	9,603.7	10,656.5	4304.0	693.2	284.2	700.7	549.3	401.9	211.3	133.0	422.0

Source: MOFSL, RBI

Exhibit 5: HDFCB lost ~559k cards since embargo...

Addition (Nos. 000)	2 Yr.	1 Yr.	9M	Nov' 20*	6M	3M	1M
SBI Cards	3,223	1,442	1,035	749	554	223	87
ICICIBC	3,823	1,967	1,761	1,324	1,123	450	161
HDFCB	2,037	257	-151	-559	-481	-158	-30
AXSB	889	325	263	252	264	-9	9
RBK	1,056	465	361	217	253	113	43
KMB	215	40	41	24	13	-54	41
IIB	411	217	139	88	65	41	8
AMEX	-55	-162	-131	-130	-112	-50	-12
CITI	-114	-135	-135	-128	-90	-30	-7
SCB	132	24	-0	-2	-5	-42	-18
Industry	13,167	5,526	4,121	2,702	2,418	766	422

*Date of embargo

Source: MOFSL, RBI

Exhibit 6: ... losing incremental market share of ~21%

Incremental Mkt. Share (%)	2 Yr.	1 Yr.	9M	Nov' 20*	6M	3M	1M
SBI Cards	24.5	26.1	25.1	27.7	22.9	29.0	20.6
ICICIBC	29.0	35.6	42.7	49.0	46.4	58.7	38.2
HDFCB	15.5	4.7	-3.7	-20.7	-19.9	-20.6	-7.1
AXSB	6.8	5.9	6.4	9.3	10.9	-1.2	2.0
RBK	8.0	8.4	8.8	8.0	10.5	14.8	10.1
KMB	1.6	0.7	1.0	0.9	0.5	-7.1	9.8
IIB	3.1	3.9	3.4	3.2	2.7	5.4	1.9
AMEX	-0.4	-2.9	-3.2	-4.8	-4.7	-6.5	-2.9
CITI	-0.9	-2.4	-3.3	-4.7	-3.7	-3.9	-1.7
SCB	1.0	0.4	0.0	-0.1	-0.2	-5.5	-4.4

*Date of embargo

Source: MOFSL, RBI

Exhibit 7: Credit cards spends across industry on a MoM basis since the embargo in Dec'20

Credit Cards Spends (INR b)	FY19	FY20	FY21	Nov-20	Dec-20	Jan-21	Feb-21	Mar'21	Apr'21	May'21	Jun'21
HDFCB	1,704.2	2,122.8	1,956.3	192.0	197.3	201.5	178.1	211.4	169.1	148.4	175.8
SBI Cards	1,036.0	1,314.5	1,227.9	125.4	121.7	121.8	105.9	132.8	110.6	100.4	122.4
ICICIBC	673.0	900.6	923.3	87.9	93.2	102.3	100.7	119.7	104.8	122.4	119.0
AXSB	620.8	768.3	530.0	53.8	52.1	51.1	52.6	66.3	52.2	43.6	52.1
CITI	532.2	525.6	368.2	36.3	35.5	33.9	30.8	40.0	30.6	25.9	30.3
RBK	164.3	295.4	296.0	28.3	29.6	29.1	28.6	34.3	29.2	26.8	29.9
KMB	165.8	198.9	160.7	15.6	15.4	15.6	14.2	16.5	14.1	13.0	15.1
AMEX	559.1	534.7	233.0	25.2	25.1	24.5	23.3	25.9	19.8	16.7	18.0
SCB	131.4	107.1	95.9	9.1	9.4	9.4	8.8	11.7	9.3	8.0	9.0
IIB	251.4	301.6	260.5	27.4	31.7	32.1	31.5	33.6	24.5	18.6	25.8
Total	6,076.5	7,369.5	6,324.4	625.8	638.5	650.7	603.6	726.9	594.1	550.3	629.6

Source: MOFSL, RBI

Exhibit 8: HDFCB still commands the highest market share despite the embargo...

Credit Cards o/s (Nos. in m)	FY19	FY20	FY21	Nov'20	Jun'21
HDFCB	12.5	14.5	15.0	15.4	14.8
SBI Cards	8.3	10.5	11.8	11.3	12.0
ICICIBC	6.6	9.1	10.6	9.7	11.0
AXSB	6.0	7.0	7.1	6.9	7.1
CITI	2.7	2.8	2.6	2.7	2.6
RBK	1.7	2.7	3.0	2.9	3.1
KMB	2.0	2.3	2.4	2.3	2.4
AMEX	1.5	1.7	1.5	1.6	1.5
SCB	1.3	1.5	1.5	1.4	1.4
IIB	1.1	1.4	1.5	1.5	1.6
Total	47.1	57.7	62.0	60.1	62.8

Source: MOFSL, RBI

Exhibit 9: ... with market share of 23.6% in Jun'21 (lost market share of ~200bp since the embargo)

Cards o/s – Market Share (%)	FY19	FY20	FY21	Nov'20	Jun'21
HDFCB	26.5	25.1	24.2	25.6	23.6
SBI Cards	17.6	18.3	19.1	18.8	19.2
ICICIBC	14.1	15.8	17.1	16.2	17.6
AXSB	12.7	12.1	11.5	11.5	11.4
CITI	5.8	4.8	4.2	4.5	4.1
RBK	3.6	4.6	4.8	4.8	4.9
KMB	4.3	4.0	3.9	3.9	3.8
AMEX	3.1	2.9	2.5	2.7	2.4
SCB	2.7	2.5	2.4	2.4	2.3
IIB	2.3	2.3	2.5	2.5	2.5
Others	7.4	7.5	8.0	7.3	8.4

Source: MOFSL, RBI

Exhibit 10: Credit card spends trends

Credit Cards Spends (INR b)	FY18	FY19	FY20	FY21	1QFY22
HDFCB	1,324	1,704	2,123	1,956	493
SBI Cards	770	1,036	1,315	1,228	333
ICICIBC	515	673	901	923	346
AXSB	443	621	768	530	148
CITI	489	532	526	368	87
RBK	69	164	295	296	86
KMB	108	166	199	161	42
AMEX	462	559	535	233	54
SCB	116	131	107	96	26
IIB	155	251	302	260	69
Total	4,626	6,077	7,369	6,324	1,774

Source: MOFSL, RBI

Exhibit 11: Spends Market share trends

Spends - Market Share (%)	FY18	FY19	FY20	FY21	1QFY22
HDFCB	28.6	28.0	28.8	30.9	27.8
SBI Cards	16.6	17.1	17.8	19.4	18.8
ICICIBC	11.1	11.1	12.2	14.6	19.5
AXSB	9.6	10.2	10.4	8.4	8.3
CITI	10.6	8.8	7.1	5.8	4.9
RBK	1.5	2.7	4.0	4.7	4.8
KMB	2.3	2.7	2.7	2.5	2.4
AMEX	10.0	9.2	7.3	3.7	3.1
SCB	2.5	2.2	1.5	1.5	1.5
IIB	3.4	4.1	4.1	4.1	3.9
Others	3.8	3.9	4.1	4.3	5.0

Source: MOFSL, RBI

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Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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