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Market Watch

HDFC Bank's assets to show minimal signs of Covid stress

BY SALONI SHUKLA, ET BUREAU | UPDATED: APR 20, 2020, 07.42 AM IST

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Mumbai: HDFC Bank, with a bigger market value than the next two peers combined, may not remain totally untouched by the Covid-19 crisis, but the relatively low vulnerability of its [MSME exposure](#) shouldn't dent its asset quality more than half a percentage point, analysts said.

As India's most valuable lender held a call with analysts after announcing quarterly earnings, the focus was on the MSME exposure, and a stress test at the lender showed that 9% of this portfolio is vulnerable, likely leading to a maximum impact of 50 basis points on the bank's asset quality.

In its stress test, the bank also concluded that the floating provisions plus countercyclical provisioning of ₹4,500 crore, of which ₹1,550 crore is toward Covid-19, were appropriate at this juncture. In a call with analysts, the bank management said that if required, it would utilise the existing buffer provisions built over the last few years.

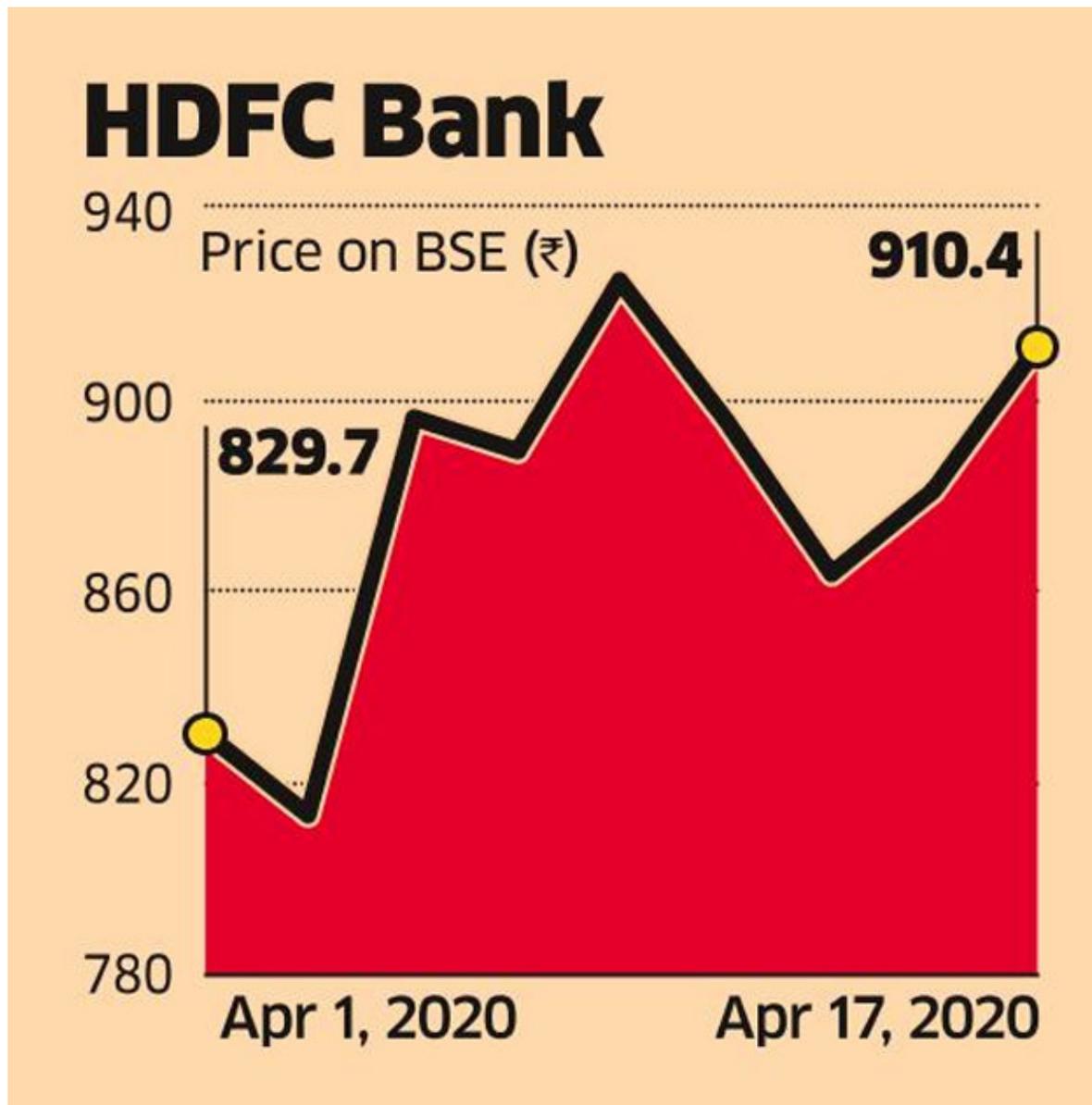
"HDFC Bank is better positioned to weather the storm; however, in times of economic dislocation, it is sensible to remain conservative assessing the multiplier adverse effect of Covid-19," said Sandeep Joshi, banking analyst, ICICI Securities. "We anticipate the bank's loan growth will moderate to 12%, net interest margins contract by 9 basis points due to focus on quality (assets), and credit cost to be elevated at 1.7% in FY21."

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The Mumbai-based bank reported a healthy profit after tax growth of nearly 18% at the end of the March quarter, although the growth in profit declined sequentially by 7%. It also took a ₹450-crore hit on fee income due to the 40-day nationwide [lockdown](#).

The bank's asset quality improved sequentially as gross NPA declined 16 bps, of which 10 bps improvement was due to the 90-day moratorium benefit. Slippages for the quarter came in at ₹3,150 crore; if not for the RBI's relaxation of NPA norms, slippages would have increased by 40bps.

"Business growth remains robust despite economic activity getting impacted due to the Covid-19 outbreak," said Nitin Aggarwal, analyst at Motilal Oswal. "Corporate loan growth remains strong and is driving overall loan growth while retail loan growth remains soft. Although the RBI moratorium supports asset quality, credit cost is expected to stay elevated while provisioning buffers should limit the overall impact on earnings."

Retail customers applying for moratorium were in low single digits and nearly 95-98% were not in default. The bank did a survey and found that customers availed moratorium mainly from a caution perspective rather than from stress building.

During the March quarter, domestic retail loans grew by 14.6%, but the bank's corporate book with incremental lending to relatively superior-profile corporate groups accounted for almost 80% growth in the 'AA' and above categories.

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