

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HDFCB IN
Equity Shares (m)	5,538
M.Cap.(INRb)/(USD\$)	8564.4 / 115.5
52-Week Range (INR)	1724 / 1342
1, 6, 12 Rel. Per (%)	-3/-13/-18
12M Avg Val (INR M)	11771

## Financials & Valuations (INR b)

Y/E	FY22E	FY23E	FY24E
NII	725	857	1,017
OP	651	766	908
NP	368	444	533
NIM (%)	4.0	4.2	4.3
EPS (INR)	66.7	80.5	96.7
EPS Gr. (%)	17.8	20.8	20.1
BV/Sh. (INR)	425	493	578
ABV/Sh. (INR)	411	477	559

## Ratios

RoE (%)	16.8	17.5	18.1
RoA (%)	2.0	2.0	2.1

## Valuations

P/E(X)	23.2	19.2	16.0
P/BV (X)	3.6	3.1	2.7
P/ABV (X)	3.8	3.2	2.8

## Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	21.0	21.0	21.2
DII	18.8	18.5	17.7
FII	49.1	49.7	50.7
Others	11.1	10.8	10.5

FII Includes depository receipts

**CMP: INR1,545 TP: INR2,000 (+29%)**

**Buy**

## Earnings in line; Balance Sheet strengthens further

### Outlook on asset quality steady

- HDFCB reported an in line quarter, with NII/PPOP growth of 13%/10.5% YoY. PAT grew 18% YoY to INR103.4b (in line). Profitability stood stronger despite the bank creating additional provisions of INR9b, taking the total buffer to ~INR86.4b (~70bp of loans).
- The bank witnessed a healthy pickup in business as loans grew 5.2% QoQ. The Retail segment grew 13.3% YoY, while Commercial and Rural Banking rose at a robust 29.4%. CASA deposits grew 24.6% YoY and the mix now stands at 47.1% (+30bp QoQ).
- On the asset quality front, GNPA/NNPA ratio improved by 9bp/3bp QoQ to 1.26%/0.37%, with slippages at INR46b (1.6% of loans). The restructured book moderated to ~1.4% of loans (v/s 1.5% in 2QFY22). The management said the net impact of the restructured book on NPAs is likely to be 10-20bp. Healthy provision coverage, along with a contingent provision buffer, provides comfort on asset quality.
- We estimate ~20% PAT CAGR over FY22-24E, with RoA/RoE at 2.1%/18% for FY24E. **HDFCB remain one of our preferred top Buys in the sector.**

### Loan book grows by ~5% QoQ; NIM stable at 4.1% – expect trends to improve

- Strong recovery in Retail loans, along with robust trends in Commercial and Rural loans, resulted in a 13% YoY pick-up in NII growth v/s 8.5% YoY in 1QFY22. Core NIM stood flat QoQ at 4.1%. However, we expect trends to improve in coming quarters.
- Other income grew 10% YoY to INR81.8b (in line). This was led by robust forex income (69% YoY growth) and healthy treasury gains of INR10.5b (INR6.7b in 2QFY22) even as core fee growth stood muted at 2% YoY on lower credit utilization and lower revolve rate, waivers in card segment.
- Opex grew ~15% YoY, with C/I ratio at 37% (flat QoQ). Core PPOP grew 11.7% YoY. NII/PPOP/PAT grew ~11%/14%/17% YoY in 9MFY22.
- Loans grew ~16.5% YoY, led by a robust 29.4% growth in Commercial and Rural loans, while Retail/Wholesale advances grew 13.3%/7.5%. On a QoQ basis, Retail loans witnessed a strong recovery at 4.7%. Commercial and Rural loans grew 6.1%, while the Corporate book grew 4.4% QoQ. Deposits grew ~14% YoY, led by CASA growth of ~25%. CASA ratio increased by 30bp QoQ to 47.1%.
- On the asset quality front, GNPA/NNPA ratio improved by 9bp/3bp QoQ to 1.26%/0.37%, with slippages moderating to ~INR46b (1.6% of loans). PCR stood stable ~71%. Restructured book declined to ~INR175b (~1.4% of loans) v/s 1.5% in 2QFY22.

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- **Subsidiary performance – HDFC Securities continues to shine:** HDFC Securities reported a strong performance. Total revenue/PAT rose 58% YoY each to INR2.58b. HDB Financial Services reported flattish trends in loans at INR604.8b (INR600b in 2QFY22), while revenue grew 15% YoY. PAT stood at INR3.04b v/s a loss last year and a profit of INR1.92b in 2QFY22. GS-3 assets stood at 6.05% (broadly flat QoQ), while CAR/Tier I stood healthy at 20.3%/14.9%.

#### Highlights from the management commentary

- Cheque bounce rates have improved and are back or slightly better than pre-COVID levels, with the improvement continuing in Jan'22. Demand resolution stood at 97-98% – similar or higher than pre-COVID levels.
- Of the total restructuring book, ~40% is secured. Within the unsecured book, around two-third of the book is towards the Salaried segment.
- The net impact of restructuring on potential NPAs is likely to be 10-20bp.

#### Valuation and view

HDFCB continues to deliver strong business growth v/s its peers, resulting in market share gains. This was led by a healthy pickup in the Retail segment, while growth in Commercial and Rural Banking remains robust. Earnings were in line, despite additional contingent provisions. Asset quality ratios have improved, while the restructured book too moderated to ~1.4% of loans. Healthy provisioning coverage and a contingent provision buffer provide comfort on asset quality. Pick up in loan growth, particularly Retail, would aid NII and margin, which would drive profitability in the coming quarters. We estimate HDFCB to deliver ~20% PAT CAGR over FY22-24E, with a RoA/RoE of 2.1%/18.1% in FY24E. **We maintain our Buy rating with a TP of INR2k (3.6x Sep'23E ABV + INR119 from its subsidiaries).**

#### Quarterly performance

(INR b)

	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
<b>Net interest income</b>	<b>156.7</b>	<b>157.8</b>	<b>163.2</b>	<b>171.2</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>193.5</b>	<b>648.8</b>	<b>724.9</b>	<b>185.6</b>	<b>-0.6</b>
Change (YoY %)	17.8	16.7	15.1	12.6	8.6	12.1	13.0	13.1	15.5	11.7	13.7	
Other Income	40.8	60.9	74.4	75.9	62.9	74.0	81.8	83.7	252.0	302.5	81.5	0.5
<b>Total Income</b>	<b>197.4</b>	<b>218.7</b>	<b>237.6</b>	<b>247.1</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>277.3</b>	<b>900.8</b>	<b>1,027.4</b>	<b>267.1</b>	<b>-0.3</b>
Operating expenses	69.1	80.6	85.7	91.8	81.6	92.8	98.5	103.6	327.2	376.5	97.4	1.1
<b>Operating profit</b>	<b>128.3</b>	<b>138.1</b>	<b>151.9</b>	<b>155.3</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>173.7</b>	<b>573.6</b>	<b>650.9</b>	<b>169.6</b>	<b>-1.1</b>
Change (YoY %)	15.1	18.1	17.3	19.9	18.0	14.4	10.5	11.8	17.7	13.5	11.7	
Provisions	38.9	37.0	34.1	46.9	48.3	39.2	29.9	42.3	157.0	159.7	32.6	-8.2
<b>Profit before Tax</b>	<b>89.4</b>	<b>101.1</b>	<b>117.7</b>	<b>108.4</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>131.5</b>	<b>416.6</b>	<b>491.2</b>	<b>137.0</b>	<b>0.6</b>
Tax	22.8	26.0	30.1	26.5	25.8	30.5	34.4	33.0	105.4	123.6	34.6	-0.5
<b>Net profit</b>	<b>66.6</b>	<b>75.1</b>	<b>87.6</b>	<b>81.9</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>98.5</b>	<b>311.2</b>	<b>367.5</b>	<b>102.5</b>	<b>0.9</b>
Change (YoY %)	19.6	18.4	18.1	18.2	16.1	17.6	18.1	20.3	18.5	18.1	17.0	
<b>Operating parameters</b>												
Deposit	11,894	12,293	12,711	13,351	13,458	14,063	14,459	15,126	13,351	15,126	14,460	0.0
Loan	10,033	10,383	10,823	11,328	11,477	11,988	12,609	13,039	11,328	13,039	12,600	0.1
Deposit growth (%)	24.6	20.3	19.1	16.3	13.2	14.4	13.8	13.3	16.3	13.3	13.8	0.0
Loan growth (%)	20.9	15.8	15.6	14.0	14.4	15.5	16.5	15.1	14.0	15.1	16.4	0.1
<b>Asset quality</b>												
Gross NPA (%)	1.4	1.1	0.8	1.3	1.5	1.4	1.3	1.3	1.3	1.3	1.3	-0.1
Net NPA (%)	0.3	0.2	0.1	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.0
PCR (%)	76.2	84.5	88.5	69.8	67.9	70.9	70.8	70.8	69.8	70.8	71.0	-0.2

## Quarterly snapshot

	FY20				FY21				FY22			Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
<b>Profit &amp; Loss (INR b)</b>													
<b>Interest income</b>	<b>273.9</b>	<b>281.7</b>	<b>293.7</b>	<b>298.9</b>	<b>303.8</b>	<b>299.8</b>	<b>300.8</b>	<b>304.2</b>	<b>304.8</b>	<b>313.5</b>	<b>324.7</b>	<b>8</b>	<b>4</b>
Loans	218.0	225.1	234.2	240.4	240.4	234.0	235.8	238.1	235.9	241.1	249.0	6	3
Investments	52.5	50.9	52.0	50.9	56.0	56.2	58.3	61.7	64.9	64.5	65.3	12	1
Others	3.4	5.6	7.4	7.5	7.4	9.5	6.7	4.5	4.0	7.9	10.5	57	33
<b>Interest expenses</b>	<b>141.0</b>	<b>146.5</b>	<b>152.0</b>	<b>146.8</b>	<b>147.1</b>	<b>142.0</b>	<b>137.6</b>	<b>133.0</b>	<b>134.7</b>	<b>136.7</b>	<b>140.2</b>	<b>2</b>	<b>3</b>
<b>Net interest income</b>	<b>132.9</b>	<b>135.2</b>	<b>141.7</b>	<b>152.0</b>	<b>156.7</b>	<b>157.8</b>	<b>163.2</b>	<b>171.2</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>13</b>	<b>4</b>
<b>Other income</b>	<b>49.7</b>	<b>55.9</b>	<b>66.7</b>	<b>60.3</b>	<b>40.8</b>	<b>60.9</b>	<b>74.4</b>	<b>75.9</b>	<b>62.9</b>	<b>74.0</b>	<b>81.8</b>	<b>10</b>	<b>11</b>
Trading profit	2.1	4.8	6.8	5.7	10.9	10.2	11.1	6.6	6.0	6.8	10.5	-6	55
Exchange profit	5.8	5.5	5.3	5.0	4.4	5.6	5.6	8.8	12.0	8.7	9.5	69	9
Others (excl. non-core)	41.8	45.6	54.7	49.7	25.5	45.2	57.7	60.6	44.9	58.6	61.9	7	6
<b>Total income</b>	<b>182.6</b>	<b>191.0</b>	<b>208.4</b>	<b>212.4</b>	<b>197.4</b>	<b>218.7</b>	<b>237.6</b>	<b>247.1</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>12</b>	<b>6</b>
<b>Operating expenses</b>	<b>71.2</b>	<b>74.1</b>	<b>79.0</b>	<b>82.8</b>	<b>69.1</b>	<b>80.6</b>	<b>85.7</b>	<b>91.8</b>	<b>81.6</b>	<b>92.8</b>	<b>98.5</b>	<b>15</b>	<b>6</b>
Employee	22.2	23.6	24.5	25.0	25.1	25.4	26.3	26.8	27.7	29.7	31.5	20	6
Others	49.0	50.5	54.4	57.8	44.0	55.1	59.4	65.0	53.9	63.1	67.0	13	6
<b>Operating profit</b>	<b>111.5</b>	<b>117.0</b>	<b>129.5</b>	<b>129.6</b>	<b>128.3</b>	<b>138.1</b>	<b>151.9</b>	<b>155.3</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>10</b>	<b>6</b>
<b>Core operating profit</b>	<b>109.4</b>	<b>112.2</b>	<b>122.7</b>	<b>123.9</b>	<b>117.4</b>	<b>128.0</b>	<b>140.8</b>	<b>148.8</b>	<b>145.4</b>	<b>151.3</b>	<b>157.3</b>	<b>12</b>	<b>4</b>
Provisions	26.1	27.0	30.4	37.8	38.9	37.0	34.1	46.9	48.3	39.2	29.9	-12	-24
<b>PBT</b>	<b>85.3</b>	<b>90.0</b>	<b>99.0</b>	<b>91.7</b>	<b>89.4</b>	<b>101.1</b>	<b>117.7</b>	<b>108.4</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>17</b>	<b>16</b>
Taxes	29.7	26.5	24.9	22.5	22.8	26.0	30.1	26.5	25.8	30.5	34.4	14	13
<b>PAT</b>	<b>55.7</b>	<b>63.4</b>	<b>74.2</b>	<b>69.3</b>	<b>66.6</b>	<b>75.1</b>	<b>87.6</b>	<b>81.9</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>18</b>	<b>17</b>
<b>Balance Sheet (INR b)</b>													
Deposits	9,546	10,216	10,674	11,475	11,894	12,293	12,711	13,351	13,458	14,063	14,459	14	3
Loans	8,297	8,970	9,360	9,937	10,033	10,383	10,823	11,328	11,477	11,988	12,609	16	5
<b>Asset quality (INR b)</b>													
GNPA	117.7	125.1	134.3	126.5	137.7	113.0	88.3	150.9	171.0	163.5	160.1	81	-2
NNPA	35.7	37.9	44.7	35.4	32.8	17.6	10.2	45.5	54.9	47.6	46.8	360	-2
<b>Ratios</b>	<b>FY20</b>				<b>FY21</b>				<b>FY22</b>			<b>Change (bp)</b>	
<b>Asset quality ratios (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	1.4	1.4	1.4	1.3	1.4	1.1	0.8	1.3	1.5	1.4	1.3	45	-9
NNPA	0.4	0.4	0.5	0.4	0.3	0.2	0.1	0.4	0.5	0.4	0.4	28	-3
PCR (Calc.)	69.7	69.7	66.7	72.0	76.2	84.5	88.5	69.8	67.9	70.9	70.8	-1,769	-11
Slippages	2.1	1.8	2.4	1.3	1.2	2.0	1.9	1.7	2.5	1.8	1.6	-186	-185
<b>Business ratios (%)</b>													
Fees-to-total income	22.9	23.9	26.2	23.4	12.9	20.6	24.3	24.5	19.3	23.4	23.2	-105	-11
Cost-to-core income	39.4	39.8	39.2	40.0	37.1	38.6	37.9	38.2	36.0	38.0	38.5	66	50
Tax rate	34.8	29.5	25.1	24.5	25.5	25.7	25.6	24.5	25.0	25.7	25.0	-64	-70
CASA (reported)	39.7	39.3	39.5	42.2	40.1	41.6	43.0	46.1	45.5	46.8	47.1	410	30
Loans/Deposits	86.9	87.8	87.7	86.6	84.4	84.5	85.1	84.9	85.3	85.2	87.2	205	196
<b>Profitability ratios (%)</b>													
Yield on loans	10.6	10.4	10.2	10.0	9.6	9.2	8.9	8.6	8.3	8.2	8.1	-80	-12
Yield on Investments	7.1	6.7	6.7	5.8	5.8	5.7	5.6	5.7	5.9	6.1	6.2	59	17
Yield on funds	9.8	9.7	9.6	9.1	8.8	8.5	8.2	7.9	7.7	7.8	7.9	-29	3
Cost of funds	5.4	5.4	5.3	4.7	4.5	4.3	4.0	3.7	3.7	3.6	3.5	-48	-9
Spreads	4.4	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.1	4.2	4.4	20	12
Margin	4.3	4.2	4.2	4.3	4.3	4.1	4.2	4.2	4.1	4.1	4.1	-10	0
RoA	1.8	2.0	2.2	2.0	1.8	1.9	2.2	2.0	1.8	2.0	2.2	4	24
RoE	14.6	16.3	18.6	16.6	15.3	16.5	18.4	16.4	14.9	16.4	18.5	8	206
<b>Other details</b>													
Branches	4,990	5,314	5,345	5,416	5,326	5,430	5,485	5,608	5,653	5,686	5,779	294	93
ATMs	13,727	13,514	14,533	14,901	14,996	15,292	15,541	16,087	16,291	16,642	17,238	1,697	596
Employees	104,154	111,208	113,981	116,971	115,822	117,082	117,560	120,093	123,473	129,341	134,412	16,852	5,071



## Highlights from the management commentary

### Opening remarks

- Activity indicators fared better in 3QFY22, while liquidity remains comfortable.
- The bank has continued to invest in the business. It opened 93 branches in 3QFY22 and 171 branches in 9MFY22. It hired over 5k people in 3QFY22.
- Constant steps are being taken to improve its digital capabilities to enhance the customer's experience, while also launching some new features.
- Around 80% of the new Retail business goes through automated underwriting.
- About 2.4m/6.4m new liability relationships were added in 3Q/9MFY22 v/s 29% in 9MFY21.
- The bank witnessed higher issuances, with the sourcing of ~0.95m cards in 3QFY22. It has sourced ~1.37m cards since RBI lifted the embargo on issuance of new cards.
- Credit/Debit Card spends grew 24%/14%.
- Around 50% of new merchants being on-boarded are from semi urban and rural regions.

### P&L and Balance Sheet related

- Fees, excluding payment products, grew at a strong 17% YoY.
- Credit Card fees are likely to pick up as the revolve rate starts to inch up, which currently stands relatively lower than pre-COVID levels. Credit utilization also stands lower, which is impacting growth in fee income.
- One-third of the book is linked to the repo rate, while the additional mid-single digit book is linked to the T-bill rate. This will result in a pick-up in yields as the interest rate cycle gathers pace.

### Asset quality

- Slippage ratio stood at 1.6%, or ~INR46b, in 3Q v/s 1.8% in 2QFY22. Agri slippages stood at INR10b.
- Total recoveries and upgrades/write-offs stood at INR24b/INR22b.
- Sale of NPAs stood at INR2.6b.
- Cheque bounce rates have improved and are back or slightly better than pre-COVID levels, with the improvement continuing in Jan'22. Demand resolution stood at 97-98% – similar or higher than pre-COVID levels.
- **Total restructuring book at the time of sanction stood at INR220-230b. The net total restructured book stood at INR175b (1.37% of loans) v/s INR184b in Sep'21.**
- Of the total restructuring book, ~40% is secured. Within the unsecured book, around two-third of the book is towards the Salaried segment.
- **The net impact of restructuring on potential NPAs is likely to be 10-20bp.**

### Subsidiary performance – HDB Financial Services

- Disbursements grew 9% QoQ and 11% YoY in 3QFY22.
- HDB Financial continues to hold management overlay provisions of INR9.3b.
- The unsecured portion of Stage 3 loans has a PCR of 84%, while secured Stage 3 assets have a PCR of 41%.

**Loan growth healthy at 16.5% YoY; Retail book picks up sequentially**

- Loan book grew 16.5% YoY (+5.2% QoQ) to ~INR12.6t. Deposits rose 13.8% YoY (+2.8% QoQ) to ~INR14.4t. The CD ratio improved to ~87% (85% in 2QFY22).
- As per its internal classification, Retail loans grew 13.3% YoY (+4.7% QoQ), Commercial and Rural Banking rose 29.4% YoY (+6.1% QoQ), and Wholesale advances increased by 7.5% YoY (+4.4% QoQ).
- The share of Retail loans stood at 39.8%.
- Home loans/LAP grew 4.3%/6.1% QoQ. Personal loans/Credit Card book grew 5.6%/8.1%, while Gold loans grew 1.1% QoQ.
- Auto loans grew 8% YoY (+1.3% QoQ), while 2W loans declined by 11.2% YoY (-4.4% QoQ).

**Exhibit 1: Share of Retail loans stood ~40% in 3QFY22**

INR b	3QFY21	2QFY22	3QFY22	YoY (%)	QoQ (%)	As a percentage of total
Auto loans	892.8	952.0	964.3	8.0	1.3	7.6
Two-Wheeler loans	104.7	97.1	92.9	-11.2	-4.4	0.7
Personal loans	1,159.6	1,263.6	1,334.0	15.0	5.6	10.5
Payment products	659.5	677.8	733.1	11.2	8.1	5.8
Home loans	666.1	757.5	789.9	18.6	4.3	6.2
Gold loans	76.4	81.1	82.0	7.4	1.1	0.6
LAP	498.2	544.3	577.4	15.9	6.1	4.5
Other Retail	407.8	456.0	484.1	18.7	6.1	3.8
<b>Retail total</b>	<b>4,464.9</b>	<b>4,829.4</b>	<b>5,057.5</b>	<b>13.3</b>	<b>4.7</b>	<b>39.8</b>
Commercial and Rural Banking	2,948.2	3,590.2	3,842.0	30.3	7.0	30.2
Agriculture	452.8	560.0	560.3	23.7	0.0	4.4
Corporate and other wholesale	3,034.8	3,124.2	3,261.8	7.5	4.4	25.6
<b>Total loans</b>	<b>10,900.8</b>	<b>12,103.9</b>	<b>12,721.6</b>	<b>16.7</b>	<b>5.1</b>	<b>100.0</b>

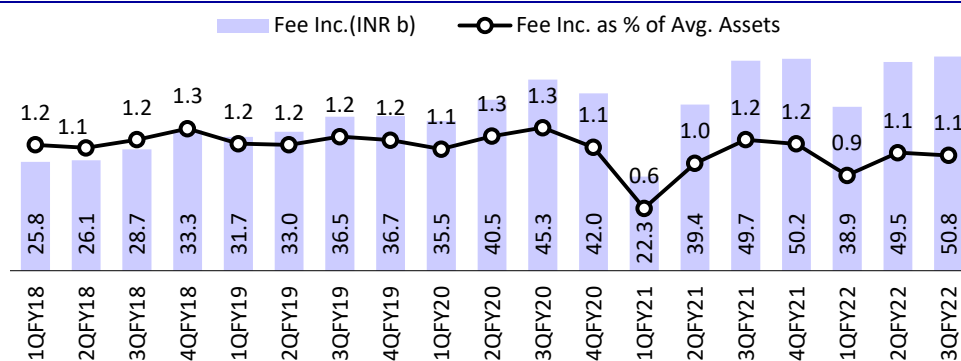
CASA/term deposits grew  
~25%/~6% YoY

**NIM flat QoQ at 4.1%, CASA ratio improves marginally to 47.1%**

- Reported NIM stood flat QoQ at 4.1%.
- CASA deposits grew 24.6% YoY (+3.5% QoQ), driven by 25.7% YoY/4.1% QoQ growth in SA deposits. CA deposits grew 22.1% YoY (+2.1% QoQ).
- Term deposits grew 5.6% YoY (+2.2% QoQ), resulting in the CASA ratio expanding to 47.1% v/s 46.8% in 2QFY22.

**Modest growth in core fee income, fee income-to-average assets stood at 1.1% of total assets**

- Core fee income grew modestly (up 2% YoY and 2.6% QoQ) at INR50.8b dragged by lower credit utilization and lower revolve rate, waivers in card segment. Fee income/average assets stood stable at 1.1% in 3QFY22.
- Total other income grew 9.9% YoY (+10.6% QoQ) supported by other non-interest income, which grew by 22% QoQ, and treasury gains, which stood at INR10.5b (+55% QoQ).
- Overall opex grew 14.9% YoY (+6.2% QoQ). The cost-to-core income ratio increased by 50bp QoQ to 38.5%. C/I ratio stood flat QoQ at 37%.

**Exhibit 2: Fee income-to-assets (%) stood stable at 1.1%**

Source: MOFSL, Company

PCR healthy ~71% in  
3QFY22

### Asset quality ratios improve QoQ, contingent provisions provide comfort

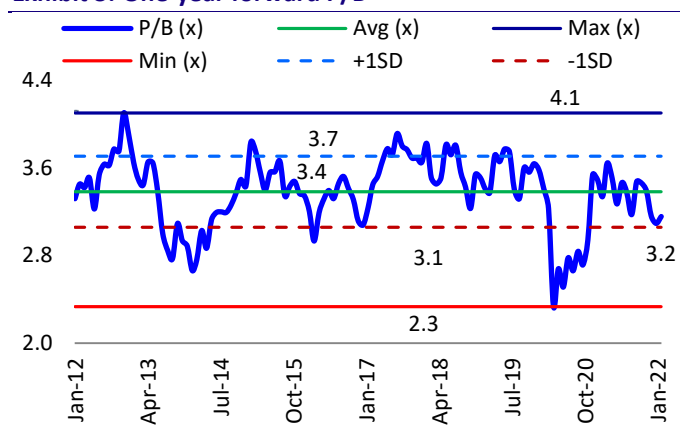
- Asset quality continues to witness a sequential improvement, with GNPA/NNPA ratio declining by 9bp/3bp QoQ to 1.26%/0.37%. This was led by a moderation in slippages (1.6%) and improved collections, which stood almost at pre-COVID levels or better in some segments. The coverage ratio stood healthy ~71%. Absolute GNPA/NNPA declined by 2% QoQ each to ~INR160b/~INR47b.
- The bank continues to carry a floating provision of INR14.5b and holds a contingent provision of INR86.4b.
- Total restructuring under the RBI resolution framework for COVID-19 related stress stood ~INR175b (~1.4% of advances).

### Valuation and view

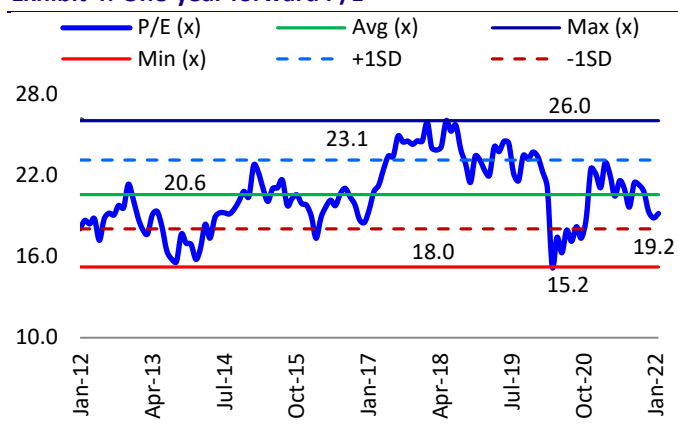
- HDFCB delivered a healthy growth in advances in 3QFY22, led by strong sequential trends in Retail loans. The growth was also led by Commercial and Rural Banking, while Wholesale advances saw modest healthy trends. We expect a strong uptick over 2HFY22 and thus estimate loans to grow by 15.1%/17% in FY22E/FY23E. Deposit growth remains strong, led by CASA, which would support the margin trajectory.
- Its fee income stood stable over 3QFY22 and we expect the momentum to pick up. Strong cost control, led by further digitalization, is likely to drive an overall improvement in return ratios. Margin stood stable. We expect a gradual increase in margin on account of lower cost of funds and a strong and granular liability franchise.
- Strong capitalization and liquidity levels should help HDFCB sustain its growth momentum over the next few years. This renders the bank better placed to tide over the crisis and gain incremental market share.
- Asset quality continues to witness an improvement over 3QFY22, led by lower slippages. GNPA/NNPA moderated to 1.26%/0.37%. Restructuring book declined to ~INR175b (1.4% of total loans). Moreover, PCR stood healthy ~71%, which, along with a floating provision of INR14.5b and contingent provision of INR86.4b, would keep credit cost in check and limit the impact on profitability. We expect NNPA to remain at 0.4% in FY22E-24E.



- Buy with a TP of INR2k/share:** HDFCB continues to deliver strong business growth v/s its peers, resulting in market share gains. This was led by a healthy pickup in the Retail segment, while growth in Commercial and Rural Banking remains robust. Earnings were in line, despite additional contingent provisions. Asset quality ratios have improved, while the restructured book too moderated to ~1.4% of loans. Healthy provisioning coverage and a contingent provision buffer provide comfort on asset quality. Pick up in loan growth, particularly Retail, would aid NII and margin, which would drive profitability in the coming quarters. We estimate HDFCB to deliver ~20% PAT CAGR over FY22-24E, with a RoA/RoE of 2.1%/18.1% in FY24E. **We maintain our Buy rating with a TP of INR2k (3.6x Sep'23E ABV + INR119 from its subsidiaries).**

**Exhibit 3: One-year forward P/B**

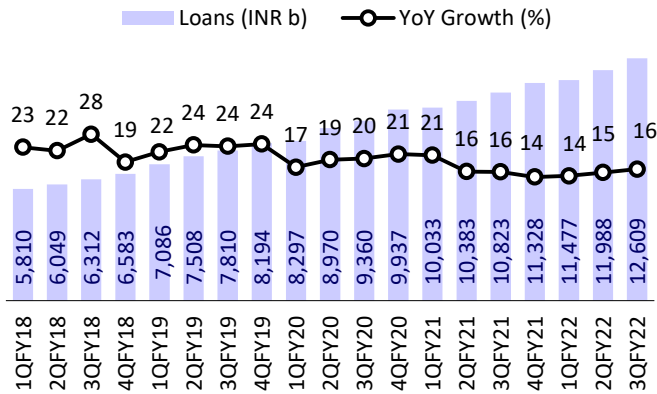
Source: MOFSL, Company

**Exhibit 4: One-year forward P/E**

Source: MOFSL, Company

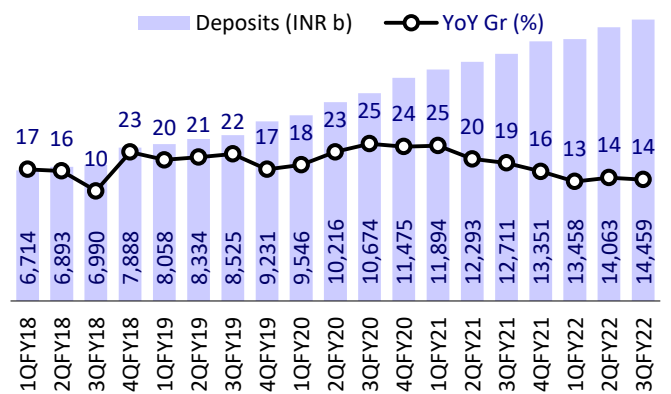
## Story in charts

**Exhibit 5: Loan book grew ~16.5% YoY (+5.2% QoQ)**



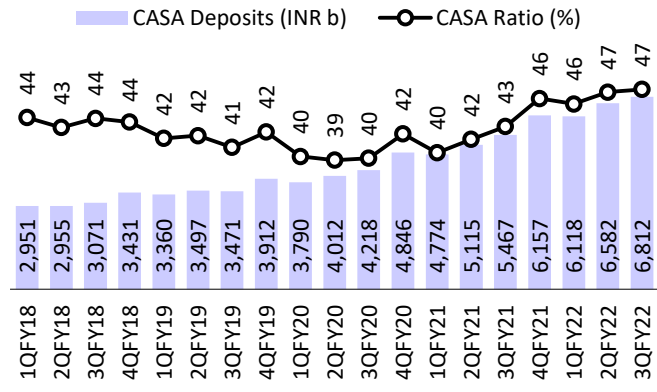
Source: MOFSL, Company

**Exhibit 6: Deposits strong at 13.8% YoY (+2.8% QoQ)**



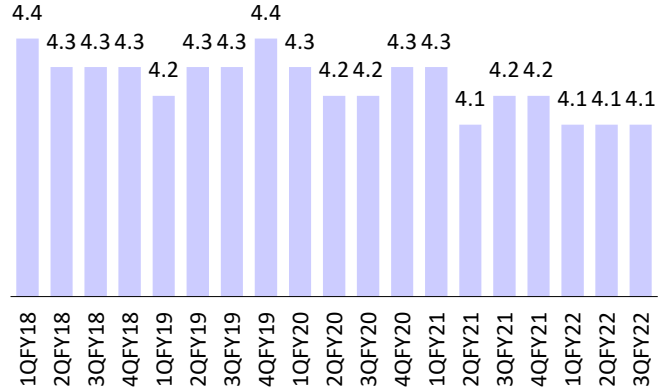
Source: MOFSL, Company

**Exhibit 7: CASA ratio stood at 47.1% (v/s 46.8% in 2QFY22)**



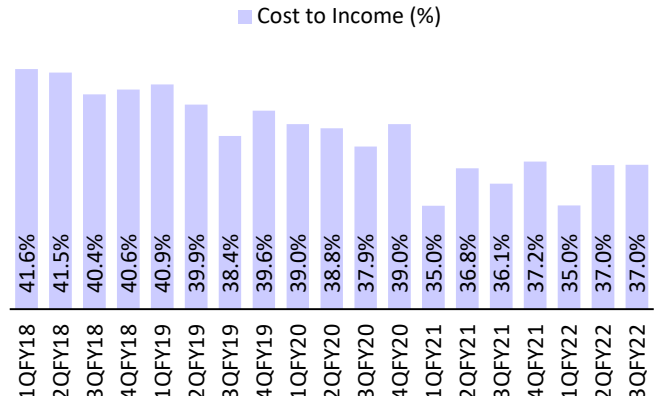
Source: MOFSL, Company

**Exhibit 8: NIM stood stable QoQ at 4.1%**



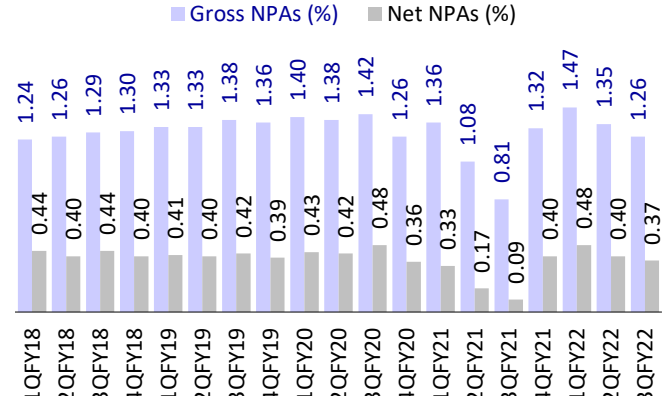
Source: MOFSL, Company

**Exhibit 9: C/I ratio stable at 37% in 3QFY22**



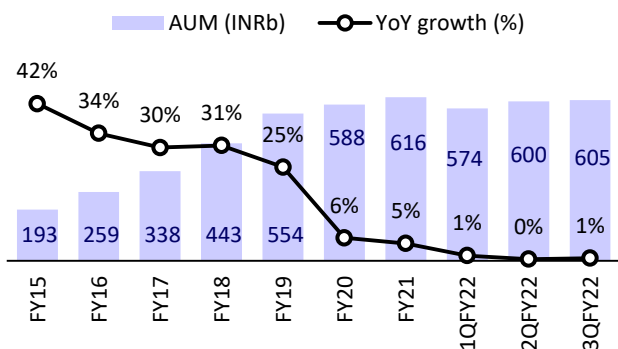
Source: MOFSL, Company

**Exhibit 10: GNPA/NNPA moderates by 9bp/3bp to 1.26%/0.37%; PCR stable ~71%**

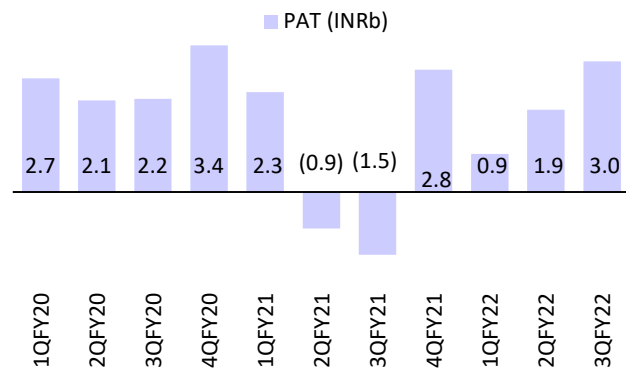


Source: MOFSL, Company

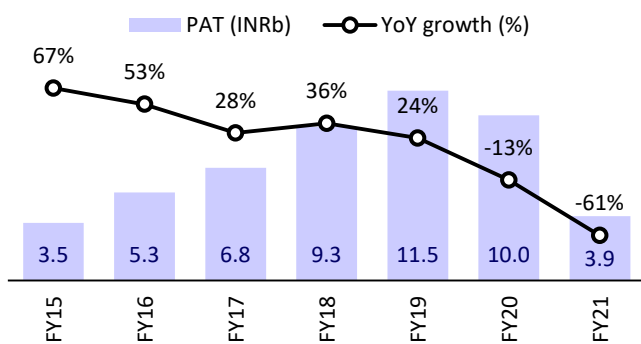


**Exhibit 11: HDB Financial Services' AUM broadly flat YoY in 3QFY22**

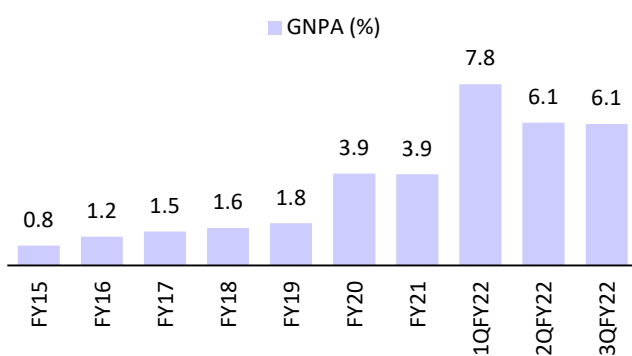
Source: MOFSL, Company

**Exhibit 12: HDB Financial posts a PAT of INR3b in 3QFY22**

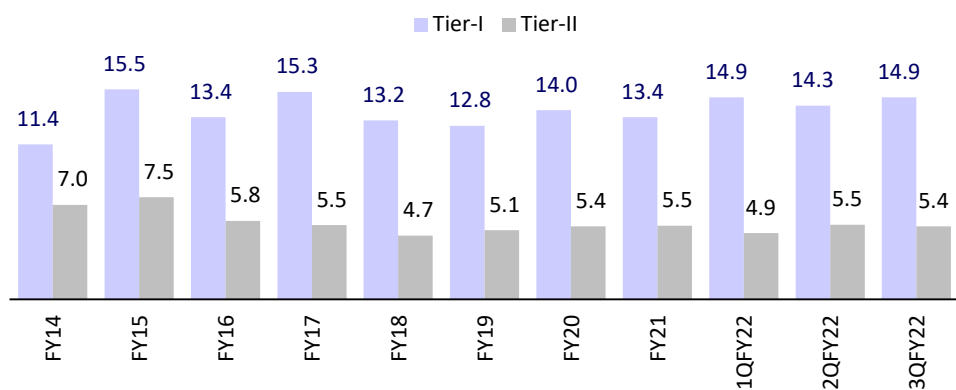
Source: MOFSL, Company

**Exhibit 13: HDB Financial's PAT declines over FY21, impacted by higher provisions**

Source: MOFSL, Company

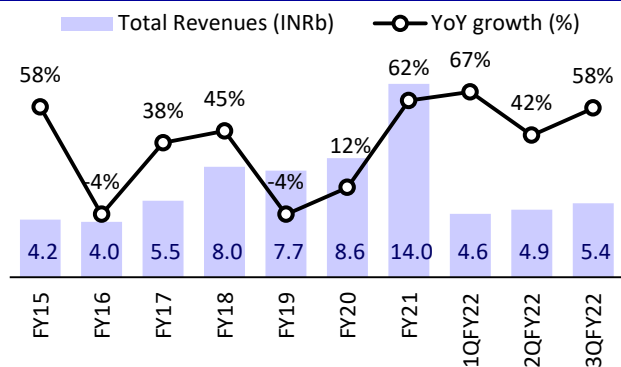
**Exhibit 14: GNPA ratio improves 5bp QoQ to 6.05%**

Source: MOFSL, Company

**Exhibit 15: HDB Financial – capitalization levels strong, with a total CAR of 20.3%**

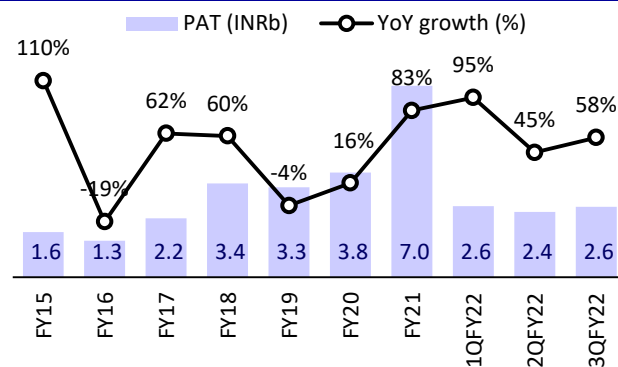
Source: MOFSL, Company

Exhibit 16: Total income from HDFC Securities rises 58%...



Source: MOFSL, Company

Exhibit 17: ...with PAT up 58% YoY to INR2.6b in 3QFY22



Source: MOFSL, Company

Exhibit 18: DuPont Analysis – return ratios to improve steadily

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest income	8.81	8.32	8.57	8.27	7.38	7.3	7.4	7.4
Interest expense	4.60	4.17	4.40	4.23	3.42	3.5	3.4	3.4
<b>Net interest income</b>	<b>4.21</b>	<b>4.16</b>	<b>4.18</b>	<b>4.05</b>	<b>3.96</b>	<b>3.86</b>	<b>3.95</b>	<b>4.00</b>
Core fee income	1.12	1.31	1.34	1.38	1.15	1.18	1.23	1.24
Trading and others	0.44	0.27	0.19	0.30	0.39	0.43	0.42	0.40
<b>Non-interest income</b>	<b>1.56</b>	<b>1.58</b>	<b>1.53</b>	<b>1.68</b>	<b>1.54</b>	<b>1.61</b>	<b>1.64</b>	<b>1.64</b>
<b>Total income</b>	<b>5.33</b>	<b>5.74</b>	<b>5.71</b>	<b>5.73</b>	<b>5.50</b>	<b>5.47</b>	<b>5.59</b>	<b>5.64</b>
<b>Operating expenses</b>	<b>2.51</b>	<b>2.35</b>	<b>2.26</b>	<b>2.21</b>	<b>2.00</b>	<b>2.01</b>	<b>2.06</b>	<b>2.07</b>
Employee cost	0.82	0.71	0.67	0.69	0.63	0.62	0.63	0.63
Others	1.68	1.65	1.59	1.53	1.36	1.38	1.43	1.44
<b>Operating profit</b>	<b>3.27</b>	<b>3.38</b>	<b>3.44</b>	<b>3.51</b>	<b>3.50</b>	<b>3.47</b>	<b>3.53</b>	<b>3.57</b>
<b>Core operating profit</b>	<b>2.83</b>	<b>3.11</b>	<b>3.26</b>	<b>3.22</b>	<b>3.11</b>	<b>3.04</b>	<b>3.11</b>	<b>3.17</b>
<b>Provisions</b>	<b>0.46</b>	<b>0.61</b>	<b>0.65</b>	<b>0.88</b>	<b>0.96</b>	<b>0.85</b>	<b>0.80</b>	<b>0.77</b>
<b>PBT</b>	<b>2.82</b>	<b>2.77</b>	<b>2.79</b>	<b>2.64</b>	<b>2.54</b>	<b>2.62</b>	<b>2.73</b>	<b>2.80</b>
Tax	0.97	0.96	0.96	0.75	0.64	0.66	0.69	0.71
<b>RoA</b>	<b>1.85</b>	<b>1.81</b>	<b>1.83</b>	<b>1.89</b>	<b>1.90</b>	<b>1.96</b>	<b>2.04</b>	<b>2.10</b>
Leverage (x)	9.7	9.8	9.0	8.7	8.7	8.6	8.6	8.6
<b>RoE</b>	<b>17.9</b>	<b>17.9</b>	<b>16.5</b>	<b>16.4</b>	<b>16.6</b>	<b>16.8</b>	<b>17.5</b>	<b>18.1</b>

## Financials and valuations

Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	693.1	802.4	989.7	1,148.1	1,208.6	1,377.9	1,596.6	1,887.2
Interest Expense	361.7	401.5	507.3	586.3	559.8	653.0	739.4	870.2
<b>Net Interest Income</b>	<b>331.4</b>	<b>400.9</b>	<b>482.4</b>	<b>561.9</b>	<b>648.8</b>	<b>724.9</b>	<b>857.2</b>	<b>1,017.0</b>
Growth (%)	20.1	21.0	20.3	16.5	15.5	11.7	18.2	18.6
Non-Interest Income	123.0	152.2	176.3	232.6	252.0	302.5	356.9	417.6
<b>Total Income</b>	<b>454.4</b>	<b>553.2</b>	<b>658.7</b>	<b>794.5</b>	<b>900.8</b>	<b>1,027.4</b>	<b>1,214.1</b>	<b>1,434.6</b>
Growth (%)	18.5	21.7	19.1	20.6	13.4	14.0	18.2	18.2
Operating Expenses	197.0	226.9	261.2	307.0	327.2	376.5	448.0	526.1
<b>Pre-Provision Profit</b>	<b>257.3</b>	<b>326.2</b>	<b>397.5</b>	<b>487.5</b>	<b>573.6</b>	<b>650.9</b>	<b>766.0</b>	<b>908.5</b>
Growth (%)	20.4	26.8	21.8	22.6	17.7	13.5	17.7	18.6
Provisions (excl. tax)	35.9	59.3	75.5	121.4	157.0	159.7	172.7	195.7
<b>PBT</b>	<b>221.4</b>	<b>267.0</b>	<b>322.0</b>	<b>366.1</b>	<b>416.6</b>	<b>491.2</b>	<b>593.4</b>	<b>712.7</b>
Tax	75.9	92.1	111.2	103.5	105.4	123.6	149.4	179.4
Tax Rate (%)	34.3	34.5	34.5	28.3	25.3	25.2	25.2	25.2
<b>PAT</b>	<b>145.5</b>	<b>174.9</b>	<b>210.8</b>	<b>262.6</b>	<b>311.2</b>	<b>367.5</b>	<b>444.0</b>	<b>533.4</b>
Growth (%)	18.3	20.2	20.5	24.6	18.5	18.1	20.8	20.1

Balance Sheet								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	5.1	5.2	5.4	5.5	5.5	5.5	5.5	5.5
Reserves and Surplus	855.6	1,057.8	1,486.6	1,704.4	2,031.7	2,336.6	2,714.3	3,181.3
Net Worth	860.7	1,063.0	1,492.1	1,709.9	2,037.2	2,342.1	2,719.8	3,186.9
Deposits	6,436.4	7,887.7	9,231.4	11,475.0	13,350.6	15,126.2	17,697.7	20,954.1
Growth (%)	17.8	22.5	17.0	24.3	16.3	13.3	17.0	18.4
of which CASA Dep.	3,091.5	3,430.9	3,912.0	4,846.3	6,156.8	6,958.1	8,123.2	9,659.8
Growth (%)	30.8	11.0	14.0	23.9	27.0	13.0	16.7	18.9
Borrowings	740.3	1,231.0	1,170.9	1,446.3	1,354.9	1,808.5	2,030.3	2,367.7
Other Liabilities and Prov.	601.0	457.6	551.1	673.9	726.0	805.9	902.6	992.8
Total Liabilities	8,638.4	10,639.3	12,445.4	15,305.1	17,468.7	20,082.7	23,350.4	27,501.5
Current Assets	489.5	1,229.2	813.5	866.2	1,194.7	1,490.3	1,538.8	1,725.8
Investments	2,144.6	2,422.0	2,931.2	3,918.3	4,437.3	4,570.4	5,256.0	6,096.9
Growth (%)	9.5	12.9	21.0	33.7	13.2	3.0	15.0	16.0
Loans	5,545.7	6,583.3	8,194.0	9,937.0	11,328.4	13,038.9	15,255.6	18,047.3
Growth (%)	19.4	18.7	24.5	21.3	14.0	15.1	17.0	18.3
Fixed Assets	36.3	36.1	40.3	44.3	49.1	54.5	61.0	68.4
Total Assets	8,638.4	10,639.3	12,445.4	15,305.1	17,468.7	20,082.7	23,350.4	27,501.5

Asset Quality								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
GNPA	58.9	86.1	112.2	126.5	150.9	174.0	219.8	255.1
NNPA	18.4	26.0	32.1	35.4	45.5	50.9	63.6	74.6
GNPA Ratio	1.1	1.3	1.4	1.3	1.3	1.3	1.4	1.4
NNPA Ratio	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Slippage Ratio	1.5	2.1	1.9	1.9	1.5	1.8	1.8	1.7
Credit Cost	0.6	0.8	0.9	1.0	1.1	1.2	1.2	1.1
PCR (Excl. Tech. write off)	68.7	69.8	71.4	72.0	69.8	70.8	71.1	70.7

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield on Earning Assets</b>	<b>9.6</b>	<b>9.4</b>	<b>9.6</b>	<b>9.0</b>	<b>8.1</b>	<b>8.1</b>	<b>8.2</b>	<b>8.3</b>
Avg. Yield on loans	10.2	10.3	10.5	10.1	8.9	8.9	9.0	9.1
Avg. Yield on Inv.	7.8	7.2	7.6	6.1	5.6	6.2	6.3	6.3
<b>Avg. Cost of Int. Bear. Liabilities</b>	<b>5.5</b>	<b>4.9</b>	<b>5.2</b>	<b>5.0</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>	<b>4.0</b>
Avg. Cost of Deposits	5.3	4.6	4.8	4.9	4.0	3.9	3.8	3.8
<b>Interest Spread</b>	<b>4.2</b>	<b>4.5</b>	<b>4.4</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>
<b>Net Interest Margin</b>	<b>4.6</b>	<b>4.4</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>

### Capitalization Ratios (%)

CAR	14.6	14.8	17.1	18.3	18.5	18.9	18.3	17.7
Tier I	12.8	13.3	15.8	17.0	17.3	17.8	17.4	16.9
Tier II	1.8	1.6	1.3	1.2	1.2	1.1	0.9	0.8

### Business and Efficiency Ratios (%)

Loans/Deposit	86.2	83.5	88.8	86.6	84.9	86.2	86.2	86.1
CASA Ratio	48.0	43.5	42.4	42.2	46.1	46.0	45.9	46.1
Cost/Assets	2.3	2.1	2.1	2.0	1.9	1.9	1.9	1.9
Cost/Total Income	43.4	41.0	39.7	38.6	36.3	36.6	36.9	36.7
Cost/Core Income	45.8	42.2	40.7	39.7	37.3	38.0	38.3	38.0
Int. Expense/Int. Income	52.2	50.0	51.3	51.1	46.3	47.4	46.3	46.1
Fee Income/Total Income	21.8	22.8	23.5	24.1	20.9	21.6	22.0	22.0
Non Int. Inc./Total Income	27.1	27.5	26.8	29.3	28.0	29.4	29.4	29.1
Emp. Cost/Total Expense	32.9	30.0	29.7	31.0	31.7	31.1	30.6	30.5
Investment/Deposit	33.3	30.7	31.8	34.1	33.2	30.2	29.7	29.1

### Valuation

RoE	17.9	17.9	16.5	16.4	16.6	16.8	17.5	18.1
RoA	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.1
RoRWA	2.4	2.4	2.4	2.6	2.8	2.9	3.0	3.0
Book Value (INR)	167.9	204.8	273.9	311.8	369.5	424.9	493.4	578.1
Growth (%)	16.9	22.0	33.8	13.8	18.5	15.0	16.1	17.2
<b>Price-to-BV (x)</b>	<b>9.2</b>	<b>7.5</b>	<b>5.6</b>	<b>5.0</b>	<b>4.2</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>
Adjusted BV (INR)	165.4	193.9	262.8	300.3	356.8	411.2	477.1	559.1
<b>Price-to-ABV (x)</b>	<b>9.3</b>	<b>8.0</b>	<b>5.9</b>	<b>5.1</b>	<b>4.3</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>
EPS (INR)	28.4	33.9	39.6	48.0	56.6	66.7	80.5	96.7
Growth (%)	16.7	19.4	16.9	21.2	17.8	17.8	20.8	20.1
<b>Price-to-Earnings (x)</b>	<b>54.4</b>	<b>45.6</b>	<b>39.0</b>	<b>32.2</b>	<b>27.3</b>	<b>23.2</b>	<b>19.2</b>	<b>16.0</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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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